

# Schroder BRIC Fund – Fund Update – June 2007

## Market Background

### Brazil



- Brazil's sovereign credit rating has been upgraded by Standard & Poor's and Fitch Ratings, with the country approaching investment grade status.
- In the first quarter of this year foreign direct investment in Brazil grew by 66% when compared with the same period in 2006.
- Korean car maker Hyundai is planning to build a second vehicle manufacturing plant in Brazil. The new plant is expected to produce around 100,000 vehicles a year.

### Russia



- Russian mining group Norilsk Nickel is bidding to take over Canadian metal miner LionOre. Swiss-based metals group Xstrata is also bidding to acquire the company.
- Russia is to begin talks on joining the Organisation for Economic Co-operation and Development (OECD), the Paris-based group of developed countries.
- Pharmstandard, a Russian generic drug manufacturer, raised US\$880m in an IPO in Moscow and London.

### India



- The Indian government is planning to double the size of its diplomatic corps over the next five years, reflecting the country's increasing engagement in global affairs.
- Indian group United Breweries is acquiring Scottish whisky distiller Whyte & Mackay for US\$834m.
- India's Tata Steel is aiming to become the world's second largest steel manufacturer within five years. The group acquired Anglo-Dutch steel company Corus earlier this year.

### China



- China's trade surplus grew to \$US16.9bn in April. For the first four months of this year, the trade surplus reached US\$63.3bn – an increase of 88% when compared with the same period in 2006.
- China is investing US\$3bn of its huge foreign exchange reserves in US private equity group Blackstone. China has around US\$1.2trillion in foreign exchange reserves – the largest in the world.
- US IT group IBM is planning to increase the size of its workforce in China by at least 10% annually for the next few years.

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## Market Summary

Brazil was the best performer, with positive developments including upgrades to its sovereign credit rating, while local currency strength had a large positive impact on returns in US dollar terms. Economic news over the month included data showing industrial production growing by 3.9% year-on-year in March while Brazil posted a trade surplus of US\$4.2bn in April.

The Chinese and Indian markets also made strong progress. The Chinese market performed well despite the country's central bank continuing to tighten monetary policy, while in other developments the Ministry of Finance raised stamp duty on 'A' and 'B' shares. Economic news included the release of data showing industrial production growing by 17.4% year-on-year in April. In India, data was released showing a year-on-year increase of 12.9% in industrial production in March.

Russia was the weakest performing BRIC market over the month, against a background of weakness in energy stocks, with oil prices falling over the period. Liquidity is also being absorbed by a significant flow of IPOs and other equity issuance (over US\$20bn has been raised year-to-date).

Country






Country	MSCI EM BRIC Gross Index returns by country (US\$%) 1 month to 31 May 2007
Brazil	11.8
China	7.5
India	6.9
Russia	-6.7

\*Source: Schroders, MSCI

## Current Strategy

We continue to expect the global economy to achieve a soft landing in 2007, followed by a reacceleration of growth next year. However, the outlook for monetary policy has changed, as we believe that the US Federal Reserve is now unlikely to reduce rates this year, given recent improvements in US economic data. Against this background we have become more cautious on the short-term outlook for emerging markets, although the long-term case for investing in this asset class remains robust.

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Fund (%)	Index (%)			
19.7	17.1	India		2.6
31.9	29.9	Brazil		2.0
30.7	30.0	China		0.7
22.5	23.1	Russia		-0.6
-4.7	0.0	Cash		-4.7

**Country positions versus MSCI BRIC Gross Index (TR)**

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