Schroder Asia Pacific Fund

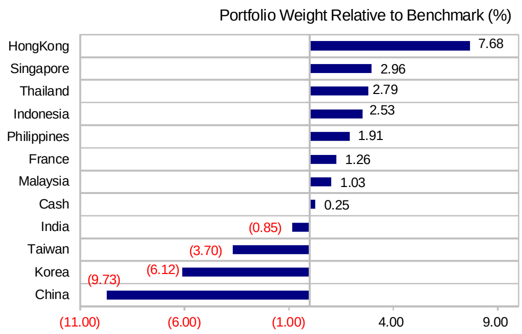
December 2011 — **Quarterly Report**

Total return %

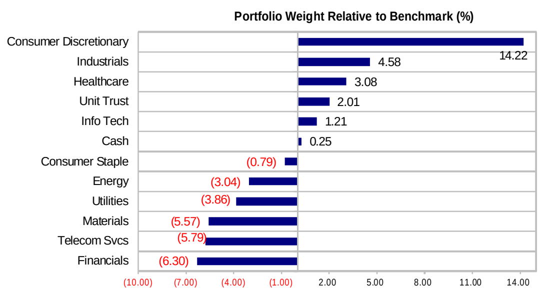
	3 mths	6 mths	1 yr	3 yrs pa	5 yrs pa	10 yrs pa
Schroder Asia Pacific Fund (post-fee)	-0.11	-11.18	-10.95	5.57	-2.91	3.66
MSCI AC Asia (ex Japan) Index	-2.07	-14.51	-17.08	5.28	-2.40	3.67
Relative performance	**1.96**	**3.33**	**6.13**	**0.29**	**-0.51**	**-0.01**

Please refer to www.schroders.com.au for post-tax returns

Regional exposure vs benchmark %



Sector exposure versus the benchmark



Top ten holdings %

Country	Stock	Fund %
Korea	Samsung Electronics	6.15
Taiwan	Taiwan Semiconductor	5.77
Korea	Hyundai Motor Co	5.19
Singapore	Jardine Matheson Hld	4.76
Hong Kong	Swire Pacific	3.96
China	Cnooc Ltd	3.41
Singapore	Jardine Cycle & Car	2.61
Thailand	Kasikornbank Pcl	2.08
Singapore	Keppel Corp Ltd	2.00
Hong Kong	Yue Yuen Indust Hlds	1.87
Total		**38.80**

Unless otherwise stated figures are as at December 2011
Benchmark is the MSCI AC Asia (ex Japan) Index
Please note numbers may not total 100 due to rounding

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Commentary

Equity markets navigated a quarter marked by volatility with the Eurozone crisis and China's slowdown being key issues of concern. Markets rebounded sharply in October on optimism that the European debt crisis could be contained, positive US data and easing worries of a hard landing in China. However these gains were lost on negative macro news reported the following month. Asian markets underperformed global indices over the last quarter of 2011.

Over the quarter, the MSCI AC Asia x Japan Index (-2.07%) underperformed the MSCI World Index (2.00%) in AUD terms.

Malaysia (5.90%), Thailand (5.67%) and China (2.49%) turned in the best performance across the region over the quarter (in AUD terms). In Malaysia, the telecoms, utilities and consumer discretionary sectors fared the best while in Thailand, the equity market benefitted from the strong performances in its consumer discretionary, utilities and energy sectors. The Chinese market was boosted by its financials, industrial and utilities sectors.

Conversely, India (-18.70%), Singapore (-6.17%) and Taiwan (-5.56%) were the weakest performing markets in the region over the quarter (in AUD terms). In India, the dismal performance in its industrial, energy and financial sectors weighed most on market performance. In Singapore, broad market performance was pulled down by the financial, telecoms and consumer staples sectors while in Taiwan, the financial, consumer discretionary and material sectors drove the market's weak performance over the quarter.

Across sectors, the information technology, financial and industrial sectors were the strongest performing while the healthcare and telecoms were the weakest over the quarter.

Performance review

The portfolio outperformed its benchmark over the quarter, mainly attributable to strong selection gains in Korea, Singapore and Hong Kong. The portfolio's underweight allocation to India also contributed strongly to gains. However stock picks in China detracted from performance over the quarter.

In Korea, the overweight in Samsung Electronics was a key contributor as its share price benefitted from impressive 3Q11 results and booming smartphone sales as new product launches helped the company increase market share. In Singapore, the portfolio was rewarded for its overweight position in Jardine Cycle & Carriage, which gained on strong 3Q earnings and healthy results from Astra. Keppel Corp also outperformed on confidence of new rig order momentum unaffected by Eurozone growth concerns. Additionally, the portfolio's overweights in Hong Kong stocks Swire Pacific and Yue Yuen Industrial added significant value to portfolio gains. Yue Yuen outperformed on expectations of a healthy top-line and improving margins, coupled with falling raw material prices and internal production efficiencies. Swire Pacific advanced on expectations that Hong Kong retail rentals could increase due to the turnover rental mechanism, as strong retail sales translate to additional rental income.

In China, China Mengniu suffered a sharp plunge on news that toxins were found in a batch of its milk, negatively impacting performance on account of its overweight position in the portfolio.

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Fund details

APIR code	SCH0006AU
Fund size (AUD)	$20,758,002
Redemption unit price	$0.9796
Fund inception date	April 1995
Buy / sell spread	0.50%/0.50%
Management costs	1.37%
Minimum investment	$50,000
Distribution frequency	Normally twice yearly - June and Dec

Fund objective

To outperform the MSCI AC Asia (ex-Japan) Index over the medium to long term.

Key features

- Strong regional investment presence - recognising that diverse cultural and language barriers exist in the region and require a strong local presence to enable successful investing

- Highly experienced professional investment team of 29 investment professionals with an average of 14 years industry experience*

- Investing in quality businesses with robust business models, good corporate governance and strong management teams to drive shareholder returns

*As at December 2011

Market outlook and strategy

Asian markets continue to trade near fair value. Volatility remains elevated and with it brings more bottom-up opportunities. While we recognise that the global environment remains uncertain, we have been cautiously shedding the more defensive names in favour of strong albeit, higher beta names. The US has continued to surprise on the upside and is providing some encouragement for the markets. Europe remains an issue for Asia and risky assets, and this is tempering a more aggressive stance.

We no longer see inflation as an issue for Asia. Earnings expectations though do remain somewhat elevated for the markets in Asia so there is some further risk of downgrades. Despite markets having priced this in, from a sentiment perspective, this may be negative and add to volatility.

With less risk on the inflationary front, Asian governments have started to provide some stimulus for the markets and this is positive for equities. We expect China to continue to ease but do not expect anything close to what we witnessed in 2008-2009. The ability to loosen policy is just one other reason we favour Asia over developed markets.

China concerns remain although it has sufficient policy levers that can be deployed to avoid a hard landing. The overhang from Local Government Finance Vehicles (LGFV) and the banking sector will remain and keep the stock market subdued.

Asian markets are trading at a higher level than that seen during the 2008 crisis. The first half of 2012 looks mildly optimistic with what might turn into a more difficult summer and late year rally which sounds too much like a repeat of 2011.

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