Strategic Solutions
Schroder Global Diversified Growth Fund

Schroders

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*Strategic Solutions – Schroder Global Diversified Growth Fund is referred to as STS-Schroder Global Diversified Growth Fund throughout this document.

Overview

Introduction

Growing savings through investing in inflation-beating asset classes is paramount to investors. Traditionally, equities have proven to be the most appropriate investment for achieving significant returns over the longer term.

Unfortunately, the behaviour of the markets over the last few years has reminded us of some important investment lessons:

– equities may or may not deliver attractive growth;

– in a bear market, the influence of global equity markets on one another tends to increase dramatically and a shock can lead to most markets falling at the same time. Consequently, overseas equities may not be the required diversifier to domestic equities.

We have also been reminded about some behavioural aspects of investing:

– individual investors do not like ‘losing money’. The fact that stockmarkets around the world are down in value is not a comfort for seeing lower returns from their investments;

– offering alternatives to traditional equity investments may not be the answer investors are looking for. Too much investment choice can be confusing and leave investors unsure as to which route to take.

In response to these issues Schroders has developed the STS-Schroder Global Diversified Growth Fund.

The fund aims to offer a twofold solution:

– returns comparable to those of equity investments;

– a less volatile investment that is not susceptible to the instability of any one particular asset class.

STS-Schroder Global Diversified Growth Fund

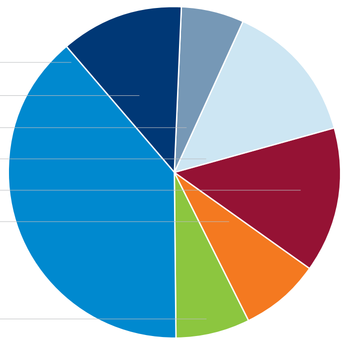
The STS-Schroder Global Diversified Growth Fund is an actively managed investment fund with the goal of achieving an equity like return, but with a significantly lower volatility. How? Through diversification. The broader range of asset classes creates more sources of both return and exposure across which risk is spread.

The fund aims to deliver 5% per annum above inflation over a period of five to seven years whilst carefully managing risk. This results in lower volatility than is typically generated by a pure equity portfolio.

STS-Schroder Global Diversified Growth Fund

The chart below is an example of the asset mix of an average portfolio:

Regional Equities	39%
Global Equities	12%
High Yield Bonds**	6%
Property	14%
Absolute Return (inc Hedge Funds)	14%
Active Currency	8%
Private Equity	0%
Commodities	0%
Cash	7%



**includes Emerging Market Debt
Source: Schroders, 31 August 2006

The STS-Schroder Global Diversified Growth Fund provides a greater balance across other sources of return and risk, including:

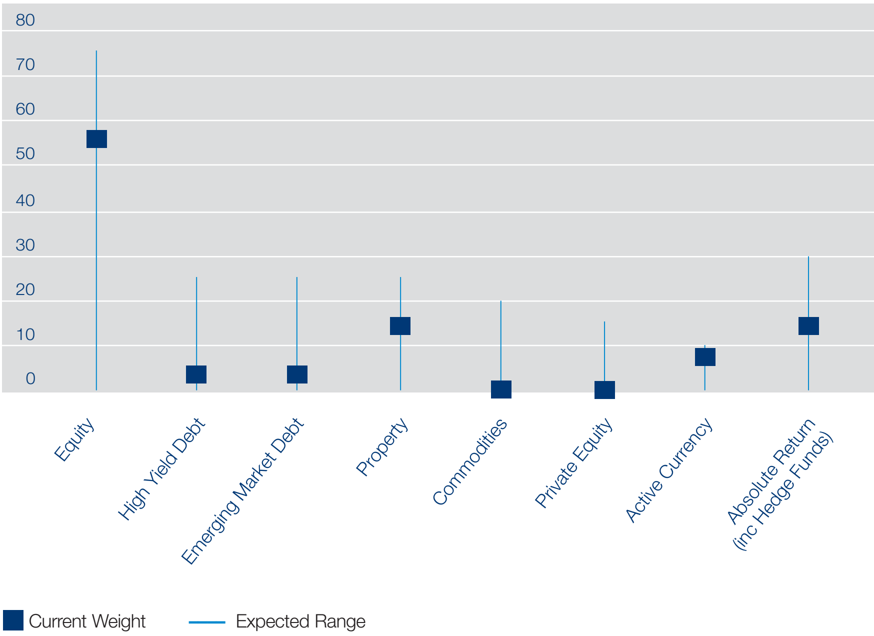
– Currencies
– Private Equity
– High Yield Debt
– Emerging Market Bonds
– Property
– Absolute Return/Hedge Funds
– Commodities

The use of alternative asset classes is an integral characteristic of the fund. It offers diversification benefits since each asset class has only a limited correlation to equity market returns and to each other. Consequently the asset class spread of the STS-Schroder Global Diversified Growth Fund provides stability against potentially volatile and uncertain market conditions.

How is the Fund allocated?

The fund is unconstrained and managed without reference to a static benchmark. Every asset class must earn its own position in the portfolio based on the expected return or risk characteristics. The portfolio will be diversified at all times to achieve the balance of both risk and return. The chart below shows the expected range of different asset class exposures together with the current positioning of the Fund (as at August 2006).

The ranges allow a great deal of freedom in asset allocation. In normal market conditions, it is anticipated that the combination of specialist and unconstrained equity will not exceed 75% of the total assets of the Fund.



Source: Schroders, 31 August 2006

The current weight shows economic exposure, is indicative and may change, subject to market conditions and outlook.
From time to time, cash may be used to position the portfolio defensively.
Cash weightings are not shown in the table above.

Asset allocation example

The Fund has an expected long-term allocation to commodities of approximately 10%. However, between January 1999 and January 2006 commodity prices rose by 326%. Consequently our robust asset allocation process determined that this asset class was overvalued and the weighting to commodities within the Fund was decreased.

How is return generated?

Sources of return

The STS-Schroder Global Diversified Growth Fund has three sources of return:

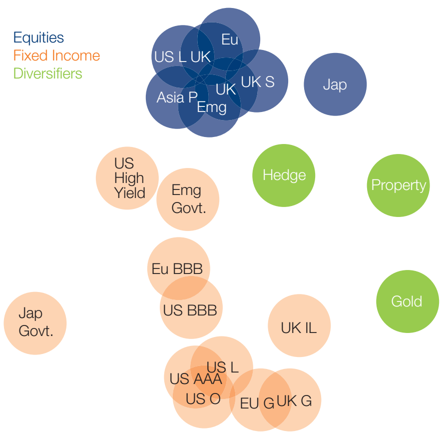
– **Market return (beta):** the Fund has exposure to a wide array of investment categories, including both traditional and 'non-traditional' asset classes as shown on page 4.

– **Active return (alpha):** the Fund benefits from specialised management within the underlying asset classes. By taking active risk we are able to achieve extra return and further diversify the portfolio.

– **Asset allocation:** our disciplined cyclical process enables us to identify attractive markets in every phase. Hence we can actively position the Fund to benefit from good returns and protect against downward risk.

A traditional equity fund is constrained by a benchmark and is therefore primarily dependent on market return and to a lesser degree on active return. However the STS-Schroder Global Diversified Growth Fund is unconstrained and attributes a large part of its total return to active return and asset allocation.

Market return



AAA, BBB: Corporate; G: Government; HY: High Yield; IL: Index-linked

Source: Schroders, for the period Feb 2000 to July 2005

Times have changed and globalisation and economic co-operation have brought the global investment markets closer together. The diagram on the left shows the current correlation between the most important investment categories.

Correlation between investment categories:

From the diagram, we can see that equity (blue) is grouped together since equity markets tend to move in line. Furthermore, bond markets (orange) are increasingly seeing a similar pattern, particularly in the major investment grade markets. Diversifiers (green), however, such as property, gold and hedge strategies, are not highly correlated as can be seen by their position in the diagram.

This is the driver behind seeking out new sources of return that are less linked to each other. The combination of these uncorrelated asset classes is what underpins the performance and low volatility characteristics of the Fund. In uncertain markets, we believe this approach to be preferable to an all-equity strategy.

As well as a range of traditional equity and fixed income investments, the STS-Schroder Global Diversified Growth Fund also includes various additional strategies, as illustrated on page 4. The allocation to each of these asset classes can be actively adjusted over time, based on our expectations for the asset class and our conviction of the view.

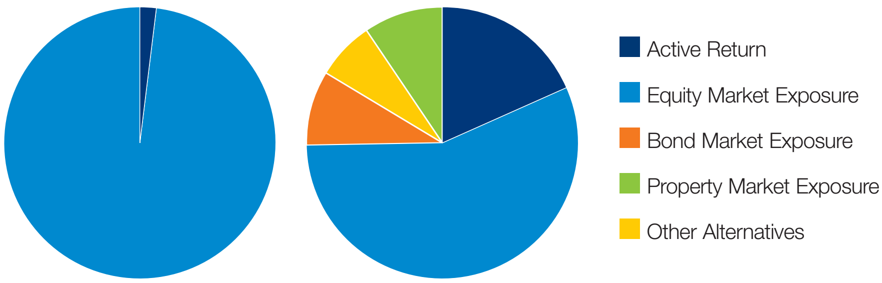
Active return

We believe that we are facing a period of low nominal returns for all major asset classes. In such a climate the extra return that can be generated by active management is crucial. The decision as to whether, and how, an asset class will be actively managed in the fund is determined by the expected reward for taking the active risk.

Extensive and continuously advancing derivative markets mean it is no longer necessary to generate the alpha or active return from the same source as the beta or market return. Consequently, we look to generate alpha in the more inefficient markets, where greater reward for active management is achieved, and remove the market exposure through the use of derivatives.

The pie charts below show the risk and return of a typical equity portfolio versus the STS-Schroder Global Diversified Growth Fund. With the STS-Schroder Global Diversified Growth Fund, the broader range of market exposures creates not only more sources of return, but also more sources of exposure across which risk is spread.

Typical Global Equity portfolio | **STS-Schroder Global Diversified Growth Fund**



Source: Schroders

This equity portfolio is based on 100% QEP Institutional Global Equity Fund, returns as at 12 June 2006.

Asset allocation and portfolio structure

We undertake to ensure that the optimal mix of funds and asset classes is included in our portfolio construction. We use our in-house tool SMART (Schroders Multi-Asset Risk Technology) to model the optimal allocation to assets and active strategies.

This modelling has an explicit focus on the volatility of the overall return relative to inflation. We use SMART to determine the extent of active (alpha) risk and market (beta) risk separately.

This market-leading risk software allows the investment team to understand how the portfolio will perform under a variety of assumptions. SMART is used to blend our long-term forecasts for market returns* from different asset classes with our cyclical views to ensure that the total portfolio is optimally positioned, irrespective of economic climate.

* Based on demographics, likely growth and inflation rates.

Performance overview

Historical return

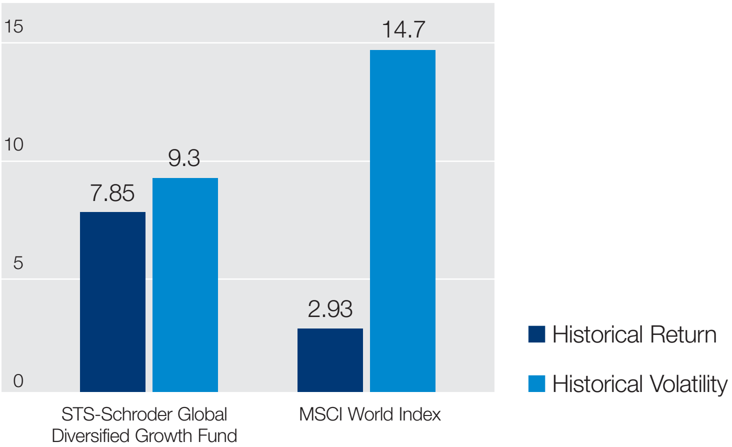
From 2000 to 2005, the markets that diversify the portfolio against equities, such as property, emerging market debt and high yield debt performed well. We have therefore shown both historical and forward looking estimated return profiles.

The chart below shows the back-tested historical performance return and volatility for the STS-Schroder Global Diversified Growth Fund and that of a global equities portfolio (MSCI World Index).

Source: Schroders Multi-Asset Risk Technology, over 5 years, net of fees, as at 12 June 2006, in €.

MSCI World Index, over 5 years, as at 12 June 2006, in €.

The chart is based on returns and asset class volatilities for the period January 2000 to December 2005.

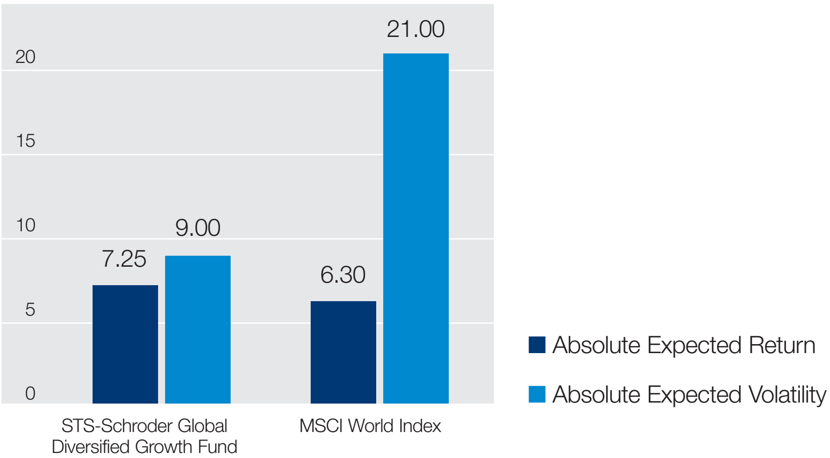


Outlook

Source: Schroders Multi-Asset Risk Technology, over 5 years, net of fees, as at 12 June 2006, in €.

The chart is based on forward looking returns and asset class volatilities for the period June 2006 to June 2011.

This forecast is the result of statistical modelling, based on a number of assumptions. There is no assurance or guarantee that the forecast will be achieved and it should not be considered as a prediction of actual returns that may be realised in the future from the portfolio. Our assumptions may change materially as economic and market conditions change.



The charts show that whilst both the historical and expected return of the STS-Schroder Global Diversified Growth Fund is higher than that of a global equities portfolio, the volatility is significantly lower.

Used indices: MSCI World, IPD Index, Goldman Sachs (GSCI), HFR Index, Lehman Bros Global High Yield. All returns in €.

Source: Schroders as at 31 Dec 2005

Asset Class (% return in €)	2000	2001	Calendar Year 2002	2003	2004	2005
Global Equities	-14.3	-15.8	-18.1	35.6	16.1	9.0
Property	9.4	10.1	4.1	2.9	18.4	22.4
Commodities	60.3	-28.2	11.9	0.9	8.7	43.8
Absolute Return	4.1	2.8	1.0	11.6	6.9	7.5
High Yield Bonds	7.9	7.8	-11.6	10.2	5.0	19.4

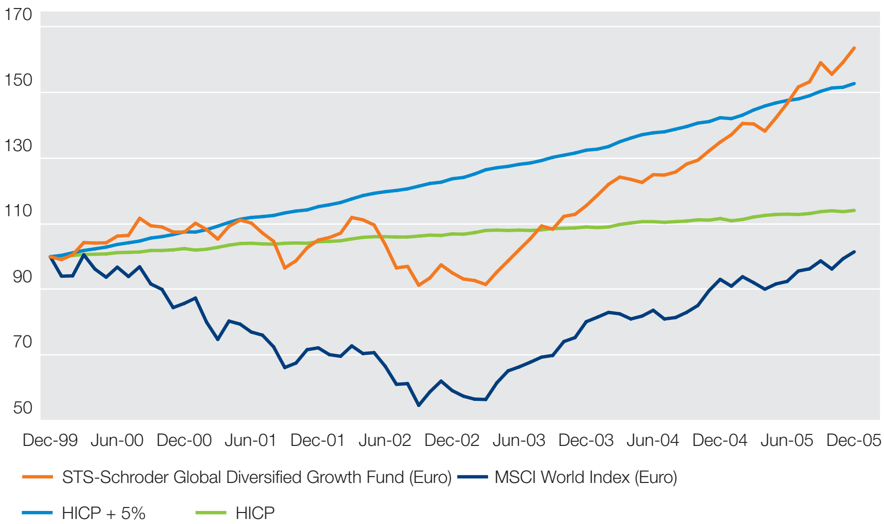
The table above, which shows some of the asset classes included in the STS-Schroder Global Diversified Growth Fund, highlights how combining asset classes can lower the risks of investing and enhance returns. Below we have shown the estimated returns that the STS-Schroder Global Diversified Growth Fund would have delivered over the past six years.

*MSCI World Index, returns in €. Source: Schroders. NB: the STS-Schroder Global Diversified Growth Fund is a new fund (launch date: 19 May 2006), so we have simulated the performance for the strategy for the last six years. Backtesting of portfolios is a useful way to understand how various options would have worked together and is also useful in stress testing portfolios.

Fund (% return in €)	2000	2001	Calendar Year 2002	2003	2004	2005
STS-Schroder Global Diversified Growth Fund	7.5	-2.2	-9.5	21.6	16.8	21.3
Global Equities *	-14.3	-15.8	-18.1	35.6	16.1	9.0

According to these back-tested results, the Fund's significant exposure to equities did not completely escape the effects of the bear market from 2000 to 2002. However, it did substantially reduce the downside that a pure equity fund would have suffered. Being cushioned against the major losses that can occur from time to time for equity investments is a major benefit of the more diversified approach of the STS-Schroder Global Diversified Growth Fund.

This is best demonstrated in the cumulative performance chart for the same period:



Source: Schroders, Thomson Datastream, as at 31 Dec 2005, all returns in €.

*HICP: Harmonised Index of Consumer Prices, in €.

MSCI World is in EUR total return terms.

The back-tested performance shown is hypothetical and no representation is made that the particular combination of assets would have been selected at the commencement date, held for the period shown or the performance achieved.

The Fund may under perform an all-equity strategy in very strong equity markets.

Who is the fund suited to?

The STS-Schroder Global Diversified Growth Fund is suitable for investors seeking long-term equity-like returns but with significantly lower volatility than a pure equity portfolio.

The fund can be incorporated into an existing investment strategy or can be offered as an investment option that brings together a mix of different asset classes into a single packaged solution. In particular, the Fund will appeal to investors who are:

– **looking for exposure to a broad range of asset classes** but are unable to introduce the spread themselves. The STS-Schroder Global Diversified Growth Fund is an actively managed fund that brings together appropriate asset classes into a single packaged fund;

– **concerned about volatility** arising from pure equity investments. The Fund is designed to give a less volatile return than a traditional equity based fund, while generating comparable returns;

– **looking to generate inflation-linked returns**. Increasingly, investors are recognising that the aim of long-term investments is to grow assets in relation to retirement needs that are all subject to inflation.

For these reasons, we believe that this Fund appeals to investors across all ages:

– **for investors just starting out**, the Fund offers strong growth potential allied to the comfort that investment professionals are managing the investment on their behalf;

– **for investors embarking on retirement planning**, the Fund offers a well diversified portfolio against which other investment decisions can be taken, for example whether more or less risk needs to be taken to achieve desired retirement goals;

– **for investors approaching retirement**, the Fund's aim of reducing volatility will provide more clarity regarding expected returns in retirement.

Why choose STS-Schroder Global Diversified Growth Fund?

– Aims to achieve an equity-like return but with a significantly lower long-term risk.

– Offers access to Schroders' expertise across specialist asset classes that are not typically accessible to investors.

– The variety of asset classes and markets offers investors a greater chance of generating value in all market cycles.

Schroders

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