

Fund portrait

No fear of the unknown: Abdallah Guezour has been achieving high returns in emerging markets with the Schroder ISF Emerging Europe Debt Absolute Return for many years.

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Markets

Global growth prospects continue to improve. This also means that investors are gradually shifting their focus towards the interest rate policy of the central banks.

Page 4


Markets

One spectre is haunting Europe, then two, then three... Europe's politicians will have their hands full coping with the consolidation of their national budgets.

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Special

Risk diversification is without doubt a necessity. But just how is the topic of diversification managed professionally? The Schroder Multi-Asset Fund has the answer.

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Point of view


Ketil Petersen,
Country Head
Nordic Region.

The wind of change

"When the wind of change blows, some people build protective walls, others build windmills", according to an old adage. This can be applied to many different situations in life and before I relate it to the world of investment I would like to welcome you to this first edition of Schroders Expert in the Nordic Region. With this magazine we aim to provide you with input to your life as an Investment Professional and also keep you up-to-date with some of the results of The Wind of Change in Schroders Nordic business. Although we have felt the winds, or even storms, over the past couple of years the solidity and stability of Schroders have become obvious to many. We have taken the opportunity already to welcome two new colleagues in our Stockholm office and we will add a few more before summer. This is one of the ways we are building windmills.

The lack of results at the climate conference held in Copenhagen in December 2009 showed us what can happen when the majority focuses on protective walls. We may begin planning for higher dykes for the North Sea, and build summer resorts by some of the Finnish lakes instead of travelling to Lake Garda in Italy. These are just a few changes we might face in our life time and only few of many reasons to approach climate change from an investment point of view and Schroder ISF Global Climate Change would certainly benefit, if construction companies were to raise the level of the dykes. The fund does not intend to have a green label; it simply endeavours to profit from the changes, which is the original ambition of a fund manager.

The wind of change is also blowing in the fund sector, and not for the first time. The Committee of European Securities Regulators (CESR) is preparing an initiative which will oblige product providers to publish key information on each product. We welcome this initiative, which is likely to remind investors that transparency has always been a real strength of funds compared to other investment forms.

We should thus be smart enough to build windmills rather than protective walls. This is the only way to succeed in satisfying what should always be the top priority for all of us: the needs of our investors.

Welcome to Schroders Expert!

2010: Economic upturn, government budgets facing difficulties

The outlook for 2010 is more optimistic than was anticipated twelve months ago. There are opportunities in equities, commodities and segments of the bond market, but governments need to do their homework now. An analysis by Robert Farago, Head of Asset Allocation - Schroder & Co.



A glance at the crystal ball: confidence in the markets has returned, stock markets made strong gains again last year. But government budgets are in poor shape - the prospects for growth are increasingly dependent on companies again.

A year ago the outlook for the financial markets could scarcely have been worse. The global economy had virtually ground to a halt at the beginning of 2009, fears of the collapse of major banks were still very much alive and deflation was a genuine threat in a number of economies. But the worst fears did not materialise. Measures to prop up the banking system and increase money supply have now restored confidence in the markets. The rebound in economic activity drove up the stock markets too and led to strong performance from equities, corporate bonds and commodities.

What does this mean for 2010? The good news is that the prospect of continued economic recovery and rising corporate profits will present a much more comforting environment. Yet it remains unclear how the governments of developed nations will tackle the double challenge of creating jobs and restoring their own national budgets. These are issues that will overshadow markets for the foreseeable future.

Schroders has increased its growth

forecasts for the new year, with prospects improved across the developed and developing world. For the first half of 2010, growth figures are likely to be high, since these will be compared to those of the previous year, the period of greatest uncertainty since World War II. This will lead to some big numbers for both growth and, to a lesser degree, inflation.

Turning point in consumption

However, the quick increase will probably not last. High levels of unemployment and increasing tax burdens will limit consumer spending. It seems likely that, in hindsight, the crisis will mark a turning point for the trend of the percentage of GDP attributable to consumer spending growing, which has persisted for two generations.

The crisis has left national budgets in a poor state. At some point, probably later this year, the emphasis will shift from promoting growth to reducing deficits. The hopes for growth will be increasingly

placed on corporate activity once again.

The good news is that companies are in a relatively strong shape. Their improved profitability leaves them well positioned to boost capital spending, increase their workforce and stock up their inventories again. It remains to be seen, however, how keen companies are to invest against a backdrop of sluggish consumer and government spending.

Equities more attractive than bonds

Equities appear well supported in the immediate future. Earnings are expected to increase with margins rising back towards historic highs. Valuations on these earnings are attractive. Individuals continue to sit on high cash levels despite interest rates being close to zero, which makes further inflows into equity funds likely.

However, record high margins are likely to revert to a lower mean over time. While this will not be an issue in 2010, investors should be wary of investing at prices that reflect peak earnings.

Caution is advised for government bond markets. Improving growth and rising inflation favour equities over bonds.

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Positive quarters since inception: **95%**

Schroder ISF Emerging Europe Debt Absolute Return*

More on pages 2 and 3

* Source: Schroders. Period: 31 March 2000 to 31 December 2009. Performance is based on the net asset value of share class C EUR hedged, acc. The calculation does not take the initial charge, fees, transaction costs and taxes into account, which would have a negative impact on performance if included. Past performance is not a reliable indicator of future results.

Schroder ISF¹ Emerging Europe Debt Absolute Return

An emergent Europe

Europe is in the process of converging. Bond investors have been benefiting from this trend for almost ten years with a Schroder fund and a consistent active style of management based on the principle of absolute returns.

A long weekend in Prague, Hungarian salami in the supermarket, a Polish school exchange - it all sounds perfectly natural. Yet the Europe of our everyday lives is the result of a peaceful revolution that took place just two decades ago. Eastern European countries have looked towards the West for economic and political guidance ever since the fall of the Iron Curtain. Some countries, such as the Czech Republic, Hungary and Poland, are already members of the European Union (EU) and will probably join the Eurozone before too long. But more distant neighbours, such as the EU candidate Turkey, Russia and Kazakhstan, will, as emerging nations, also benefit from closer links to Europe.

Reforms pay off

Many European emerging economies have implemented structural reforms in recent years and now pursue a disciplined budgetary and monetary policy. This has resulted in lower default rates, stable currencies and considerably improved credit ratings. Investors can profit from this trend with government and corporate bonds from the emerging nations. The Schroder ISF Emerging Europe Debt Absolute Return invests in a universe of around 20 European emerging economies, thereby taking advantage of European convergence since the turn of the century.

The fund employs an investment strategy that covers different stages of economic development with different weightings to limit risk better. The markets of relatively stable economies, such as Bulgaria, the Czech Republic, Hungary, Poland, Slovakia, Turkey and Russia may make up to 20% of the value of the fund. Other countries, such as Croatia or Estonia are limited to 10% or 5% respectively. Corporate bonds make up a maximum of one quarter of the fund's assets.

Analysts' talking point

Decisions on the extent to which individual countries should be included are made on the basis of careful analyses that are discussed on a weekly basis and adjusted if necessary. The quantitative analysis covers six factors, such as growth dynamics, liquidity and competitiveness, which are summarised in an overall rating. However, the research is not only done on the computer screen. The active management policy adopted by Schroders also includes regular meetings with for example, politicians, bankers, journalists and businessmen and women from the target country, with a view to making a qualitative assessment of its economic and political development.

Fund manager Abdallah Guezour manages the Emerging Europe Debt according to the absolute return principle, with the aim of achieving a consistently attractive return without a benchmark index and irrespective of general economic trends. **He takes both foreign and local currency bonds into consideration.**

The latter makes up over 50% of the fund's assets.² Local currency bonds is a rapidly expanding sector, yet it is overlooked by many funds. These bonds offer excellent opportunities for risk diversification. In the past, they have delivered returns that were even more stable than foreign currency bonds, since they tend to be of shorter duration and have lower default rates. But active currency management, as offered by Emerging Europe Debt, is essential for success in this segment.

Impressive performance record

The fund pursues a structured investment process with integrated risk control. The management has sufficient leeway to shift its focus to "opportunistic" areas of growth. The recovery phase after a financial



Fund manager Abdallah Guezour

is a graduate of a French business school and has 14 years' experience investing in emerging market bonds. He joined Schroders in 2000. Abdallah Guezour is now part of the Schroder emerging market debt team covering the regions of Eastern European, the Near East and Africa and is also in charge of developing quantitative models. The team employs the principle of absolute return⁴ to manage assets of around 5.8 billion euros on behalf of private and institutional investors.

crisis, restructuring, or specific company situations may provide such opportunities.

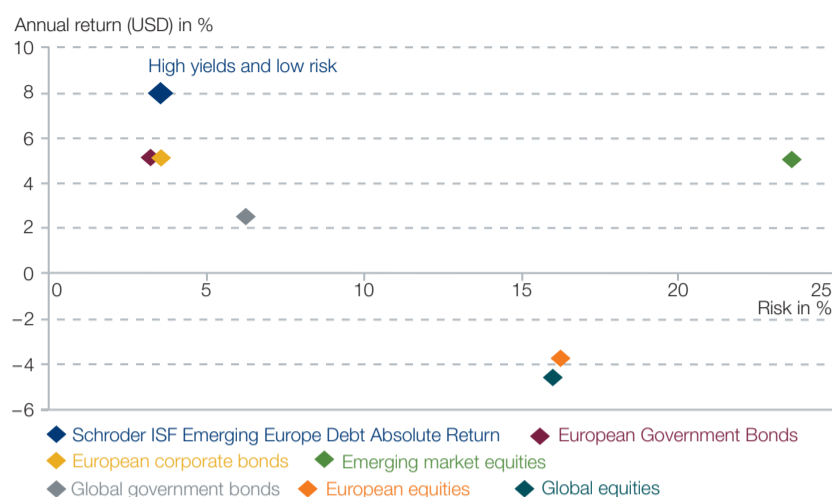
Their success is proof that Abdallah Guezour and his Schroder colleagues are right. Since its inception on 31 March 2000 - at the peak of the dot-com bubble - the Emerging Europe Debt has delivered an average annual return of 6.75%.³ A Sharpe ratio of 0.99 for the same period testifies to its very consistent performance and we are confident that investors will also be able to achieve very attractive returns with this fund in the future. ■

Schroder ISF Emerging Europe Debt Absolute Return ⁵		Reasons to invest	Investment risks
ISIN Code	LU0107768052 (Class A, EUR, Acc.)	➔ Schroder ISF Emerging Europe Debt Absolute Return invests in the most promising bonds from around 20 European emerging nations.	➔ Schroder ISF Emerging Europe Debt Absolute Return invests in countries that have had a volatile environment in the past and are likely to involve higher risks (of a legal, economic and political nature for example) than in developed nations.
Inception Date	31 March 2000	➔ The fund also invests in bonds denominated in local currencies, which considerably broadens its investment universe.	➔ The fund invests in bonds with a low rating, which are likely to be exposed to stronger price fluctuations than high-quality bonds.
Fund Manger	Abdallah Guezour	➔ Active currency management provides opportunities for additional earnings.	➔ The performance of the bond may be adversely affected if the issuer's credit rating is downgraded or defaults result in losses.
Fund size	EUR 171.7m	➔ Emerging market debt has a relatively low correlation to other asset classes which makes them suitable for distributing risk across the entire portfolio.	➔ The fund does not provide a capital guarantee. The possibility of the shares falling below the price at which the investor purchased them and generating losses cannot be ruled out.
Fund Currency	EUR	➔ The fund management invests actively without a benchmark index and is consequently able to weight market sectors and regions freely, depending on the market appraisal.	➔ Investments in debt instruments may be exposed to interest-rate, credit and default risks in addition to exchange-rate risks.
Number of Securities	29 at present	➔ Schroders has an experienced global team for emerging market debt with a longstanding performance record.	
Benchmark Index	–		
Initial Subscription Fee	up to 5.00% of the total subscription amount (5.26315% of the net asset value per share)		
Management Fee	1.50% p.a.		
Minimum Subscription Amount	EUR 1,000		
Morningstar Rating ⁶	★★★★		

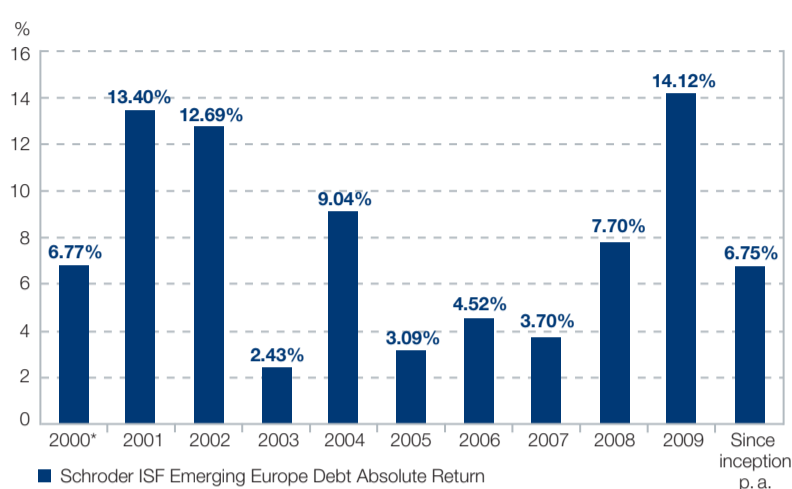
1. Schroder ISF stands for Schroder International Selection Fund throughout the document. 2. Source: Schroders. As at: 31 December 2009. 3. Source: Schroders. As at: 31 December 2009. Performance based on the net asset value of share class C, EUR Acc. The calculation does not take the initial charge, fees, transaction costs and taxes into account, which would have a negative impact on performance if included. Foreign currency investments are subject to currency fluctuation. Past performance is not a reliable indicator of future results. 4. Source: Schroders. As at: 30 September 2009. 5. Source: Schroders. As at: 31 December 2009. 6. Source: Morningstar. As at: 31 December 2009.

Schroder ISF Emerging Europe Debt Absolute Return: Portfolio and Performance

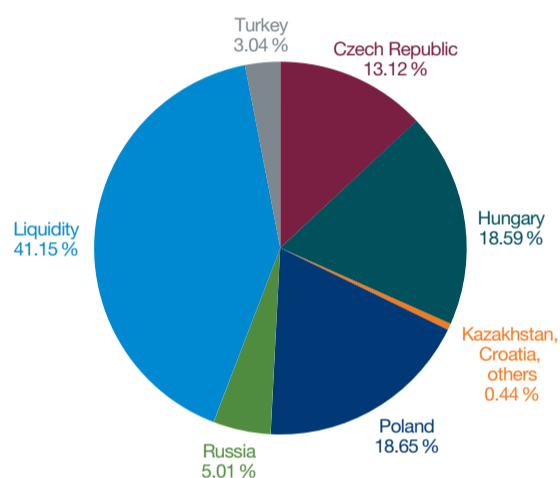
Risk-return matrix: fund vs. comparable markets, 2000–2009¹



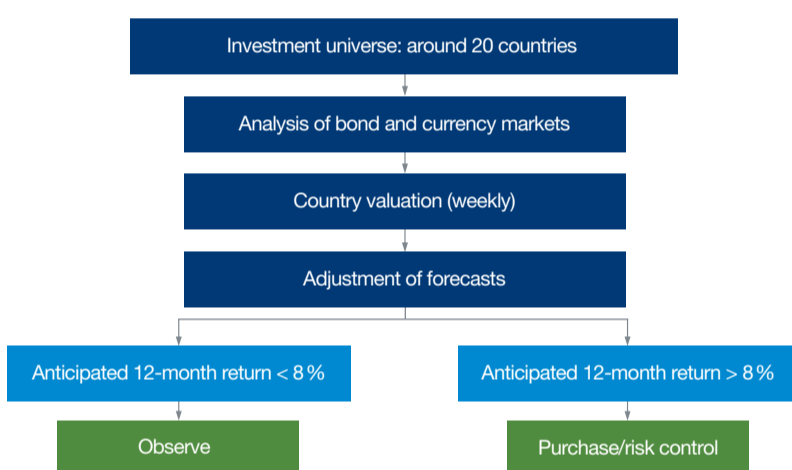
Only positive results since inception in March 2000¹



Regional Asset Allocation²



Investment Process³



1. Source: Schroders, MSCI, Lehman. As at: 31 December 2009. Performance is based on the net asset value of share class C, EUR, Acc. on USD basis (risk-return matrix) and share class A, EUR, Acc. Calculation disregards the initial charge, fees, transaction costs and taxes since their inclusion would have a negative impact on performance. Foreign currency investments are exposed to currency fluctuation. Past performance is not a reliable indicator of future returns.

2. Since inception on 31.03.2000.

3. Source: Schroders. As at: 31 December 2009.

► Continued from page 1

2010: Economic upturn, government budgets facing difficulties

The forecasts for developed **G20 nations** show their government deficits rising to unsustainable levels in the long-term due to the growing burden of providing healthcare and pensions to an aging population. The biggest risk on the horizon is that it will require a crisis before policy is changed sufficiently to address this trend.

Emerging economies with currency potential

Corporate bonds and emerging market bonds continue to offer an attractive yield premium over government bonds of developed nations. However, strong performance in 2009 means that expected returns are lower and risks are correspondingly higher. The currencies of emerging economies offer good opportunities for an increase in value. A significant revaluation of the Chinese currency cannot be completely ruled out since it would be a sensible way to tackle rising inflation pressures. This would trigger gains across currencies of emerging nations.

Stronger economic growth is good for commodity prices. Inventories are high for energy and metals, which could constrain price rises. However, the volatility in prices over the last two years may encourage consumers in emerging nations to maintain higher levels of inventories than in recent years. Agricultural commodities, in particular oilseeds and coffee appear particularly attractive at the present time.

Gold is still a sensible investment

Gold was a clear winner last year, aided by low interest rates and a falling dollar. The dollar rallying in December pushed down the price of gold and this could continue for the time being. Nevertheless, in the absence of a convincing plan to tackle government deficits, gold represents a sensible investment for private individuals -

and for central banks in emerging nations. The price of gold relative to both oil and the Dow Jones Index are not trading at extremes, even after nine consecutive years of gains. ■

Robert Farago, Head of Asset Allocation, Schroder & Co.

Schroders Experticon

The global market for emerging market bonds comprises around 15% foreign currency bonds, mainly denominated in US dollars or euros, and 85% local currency bonds, denominated in the national currency. The global market is worth just under 8 billion US dollars.

G20 is an informal grouping of the 19 leading industrialised nations and emerging nations and the European Union. The Group was formed in 1999. It represents about two thirds of the world's population and 90% of global gross domestic product.

... Future prospects: mainly favourable

The economic forecasts are slightly more confident at the start of the year. An interesting question in 2010 is when will central bankers begin raising interest rates on both sides of the Atlantic?

The prospects for growth are still improving all around the world. Schrodgers forecasts a rise of 2.7% in the global economy in 2010. The forecast was up by half a percentage point over the previous quarter. All the major economic regions are contributing to this upturn, although China continues to race ahead. growth of +9.2% is now expected between Beijing and Canton. In 2010, the USA and the Eurozone will experience relatively modest growth of 2.2% and 1.2% respectively, which is still stronger than previously anticipated.

The road to recovery appears to be mapped out, albeit with potholes along the way. The positive effects of the inventory cycle and higher government spending are likely to end in the middle of 2010. Companies are expected to experience another spurt of growth and use their new profitability to create more jobs. In Europe, Great Britain will be particularly hard hit by the effects of the banking crisis, whereas the euro countries will have to contend with a strong currency.

Commodities drive inflation higher

In 2011 global growth could cross the 3% mark again for the first time since 2007. Schrodgers expects the western industrialised nations to contribute more to the global economy at this point. However, the Eurozone is likely to remain far below 2%.

Inflation is set to surge this year with an expected price increase averaging 2.8% worldwide and 2.7% in the US, but only 0.8% in the Eurozone. This rise will be largely attributable to commodities,

whereas underlying inflation - excluding energy and foodstuffs - remains low in the industrialised nations.

Western central banks are expected to leave interest rates on hold for the time being due to very subdued underlying inflation. In 2010 the Fed and the ECB will be chiefly concerned with beginning the delicate process of exiting the phase of ultra-low interest rates. At present, September 2010 seems a likely date for the first rise in interest rates.

In a historical comparison, interest rates should remain very low well into 2011. This expectation not only reflects the fears about an economy recovery, it also underlines the continuing uncertainty about the state of the banking sector.

The emerging nations are expected to tighten their monetary policy by raising interest rates in 2010. There is, moreover, a distinct possibility that China will revalue its currency in the second half of the year. This would involve decoupling the Chinese yuan from the US dollar and allowing it to appreciate - a move that politicians in Europe and the USA started calling for long ago.

First alternative: strong recovery

As always, Schrodgers' main scenario features two alternative assumptions. In the optimistic scenario, the economic recovery leads to a V-shaped recovery, with a 4.4% increase in global GDP in the current year. A mix of low interest rates, an abundance of liquidity, purchases of securities by the central banks and a relaxed budgetary policy add to this positive trend. Investor confidence is growing against this backdrop, rising

prices on the markets lead to improved balance sheets for the banks, which in turn facilitates lending by the banks.

The downside of the positive scenario is prices rising rapidly. In 2010 global inflation will reach 3.6%. The central banks will respond by raising interest rates several times in quick succession. At the end of 2010, the Fed and ECB base rates will be 3%. At the end of 2011 they will be 4% or more. Cyclical investments will benefit particularly well from the growth spurt. Commodities and emerging market debt will experience a strong rally, but government bonds will face a sell-off.

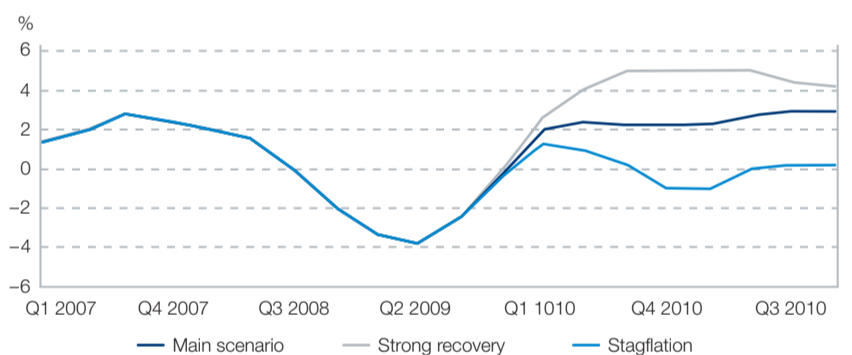
Second alternative: stagflation

The most pessimistic forecast has heavy thunderclouds gathering on the economic horizon again. Rising oil prices and growing public debt push inflation up. Wages soar, unemployment rises, and the wage-price spiral undermines growth - global growth of more than around 1% is out of the question.

Central banks face a dilemma in this scenario. The Fed and the Bank of England are forced to keep interest rates extremely low in the interests of the economy. By contrast, the ECB with its inflation-oriented tendency is likely to pursue the same moderate interest-rate policy, as in the main scenario.

Cyclical investments, equities and certain commodities are likely to be the losers in a stagflation scenario. Gold and inflation-linked bonds will probably benefit from the renewed risk aversion of investors. ■

Main scenario: moderate upturn

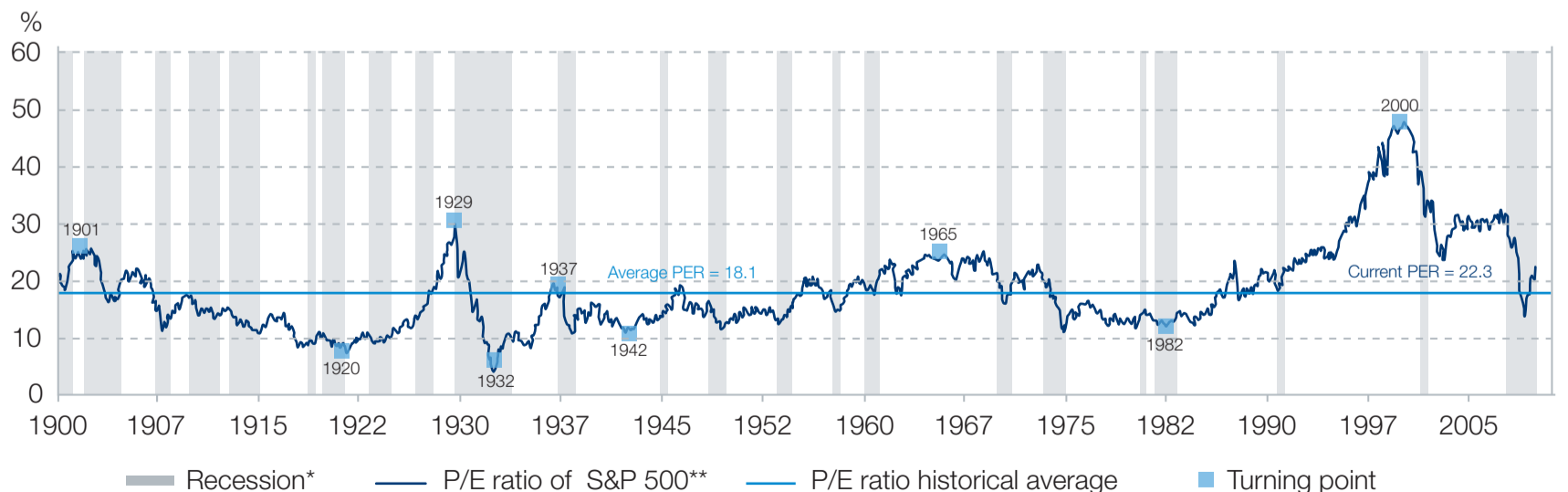


GDP growth in the USA and Schrodgers' forecast. Source: Schrodgers. As at: December 2009.

US equities still reasonably priced

Long-term price-earnings ratio on the American equity market

The tide has turned. 2009 is the sixth year since 1871 in which the US equity market fell by over 20% and was also followed by a rise of over 20%. The most recent case was in 2003. Historically, the upturn continued in four of the five subsequent years, the only exception being 1939 which marked the outbreak of World War II. The current long-term P/E ratio trend is above average, but still reasonable.



* Based on the definition of the National Bureau of Economic Research, Cambridge (NBER). ** Prices of the US Equity Index S&P 500 divided by the average earnings per share in the ten preceding years. Source: Yale University, NBER, Datastream, Schrodgers. As at: 21 December 2009.

Witching hour at the turn of the year

Three ghosts are haunting Europe: the credit crisis, the budget deficit and cuts in public spending. They are a reminder that the consolidation of public budgets will not be an easy process.



Where is the money going? Very few European governments have presented convincing programmes to cut back public spending.

Credit crisis - the ghost of the past

Some people will breathe a sigh of relief when they look back on the last 18 months. Europe and the entire world have experienced the most serious financial crisis since the end of the Great Depression, but the recession has now been consigned to history for most of Europe. The real economy has actually suffered far less than was feared. The Eurozone's GDP fell by 5.1% at the height of the recession, but unemployment rose by a mere 1.7%. The German labour market demonstrated a high degree of flexibility due to short-time working.

However, it is not all sunshine and roses in Germany. At the end of the year, the Federal Bank warned of further challenges for the German financial system. Central bankers see a need to write off between 50 billion and 75 billion euros for book credits. Even Dominique Strauss-Kahn, Director of the **International Monetary Fund (IMF)**, is talking about "massive losses", which are still concealed in the bank balance sheets. According to the Head of the IMF, it will not be possible to return to healthy growth until the banks have purged their balanced sheets.

The liquidity shortage could become a problem in 2010. If new money is not made available in an economic upturn, this would also drive companies that are actually healthy into bankruptcy and evoke the spectre from the past.

Budget deficit - the ghost of the present

Government budgets are saddled with the costs of the bailout packages. The European Commission has calculated that the government debt burden in the Eurozone will increase by 22% between 2007 and 2011. Although Ireland will see a particularly steep increase of around 70%, its healthy finances before

the crisis mean that it is still in a relatively good position today.

By contrast, Standard & Poor's has downgraded its outlook on Spain and Portugal from "stable" to "negative", and Greece is very much in the public eye after its rating was downgraded by several agencies. The debt burden in Athens was 95% of gross domestic product even before the crisis and is set to increase to 135% by 2011, which is way above the **EU convergence criterion** of 60%. The substantial increase in the yield gaps are an indication that the markets are no longer ruling out the risk of default on Greek government bonds. However, Germany and other countries in the Eurozone will most probably come to the aid of Greece in an emergency and prevent a national bankruptcy.

Public spending cutbacks - the ghost of the future

Consolidation of public budgets is an urgent but unpopular task. Despite the threat of downgrades by the rating agencies and increased pressure from interest from debts, European finance ministers have been slow to respond to the challenge so far. Germany has led the way through a self-imposed obligation to present structurally balanced budgets by 2016. However, to date the new coalition has focused more on tax cuts than on spending cuts. The government's draft budget for 2010 includes tax relief totalling around 10 billion euros, but nothing about future budget consolidation. Reductions in spending are expected to be announced after the important state parliament elections in North Rhine-Westphalia in May.

Ireland has promised to reduce its annual budget deficit to 3% by 2014 and initially plans to cut public sector salaries by between 5% and 15%. Greece's finance minister quickly announced a reduction of 10% in public spending designed to limit the deficit to 8.7% in 2010, but this promise has already been partially retracted as a result of pressure from the trade unions. In Great Britain the deficit in 2010/2011 will account for 12% of GDP, according to government sources. The bulk of it is structural in nature and an economic upturn will not automatically reduce it. In London too, reliable statements on budget policy can only be expected after the general election in the spring. ■

Schroders Experticon

The **International Monetary Fund** is a specialised United Nations organisation, based in Washington, with 186 member states at present. The functions of the IMF include granting loans to countries that are in economic difficulties as well as development cooperation.

The **EU convergence criteria** (also called the Maastricht criteria) must be fulfilled by each country that aspires to membership of the Eurozone. They apply to price stability, financial policy, exchange rate trends and long-term interest rates. The financial policy guidelines - no annual deficit above 3% GDP, no government debt above 60% of GDP - also apply after accession to the Eurozone.

Ticker

Equities

→ **USA** US corporations have strong balance sheets and their earning power is set to increase. However, not overly attractive in terms of valuation.

Schroder ISF US Large Cap

→ **Europe** German firms respond positively to the inventory cycle and demand from the emerging nations. A strong euro dampens the demand for exports though.

Schroder ISF European Equity Alpha

→ **Japan** Unpopular with institutional investors. Increased willingness to prevent an appreciation of the yen could be good for the market.

Schroder ISF Japanese Equity

→ **Pacific (excluding Japan)** Region should continue to benefit from a relaxed US interest-rate policy and expansion of trade with China. Risk of a "bubble" not averted.

Schroder ISF Hong Kong Equity

↗ **Emerging nations** Economically stable emerging nations still offer the best opportunities. High liquidity and boom in China are helpful.

Schroder ISF Korean Equity

Bonds

→ **Government bonds** Interest rates in the leading economies remain low for the time being. Reduction in quantitative easing becomes a balancing act.

Schroder ISF Strategic Bond

↗ **Corporate bonds** Yield gaps no longer as great as they were during the financial crisis. Still attractive due to continued low rates of interest.

Schroder ISF Global Convertible Bond

↑ **High-yield bonds** Yield gaps have narrowed, but still greater than in the pre-crisis periods.

Schroder ISF Global High Yield

→ **Index-linked bonds** Energy prices should lead to higher overall inflation in 2010. Significant output gap keeps underlying inflation down.

Schroder ISF Global Inflation Linked Bond

Alternative Investments

→ **Property** Improved investor sentiment; trend towards falling property returns are set to continue, particularly in Great Britain. Historical valuation quite favourable.

Schroder ISF Global Property Securities

↗ **Commodities** Should benefit from the recovery of the global economy on the whole. Low interest rates and inflation hedging favour gold, but a recovery of the dollar poses risks.

↑ Overweight

→ Neutral

↓ Underweight

Schroders Multi-Asset-Fonds: Dynamism equals stability

Risk diversification pays off. This is now common knowledge. However, a professional investment process, such as the one employed in Schroders' current Multi-Asset Fund, is essential if it is to work in every economic situation.

It all sounds really easy in theory. Different asset classes, for example equities, bonds or commodities, have a different risk profile. Equities from emerging nations for example promise consistently high returns against correspondingly high risks. By contrast, German government bonds have a low risk profile with low returns as a rule. Combining the two investments produces an unexpected effect. The risk profile of the combined portfolio does not correspond to the average value of its two components, it is more favourable. This means higher returns and lower risk.

Correlation and time factor

This recognition, first introduced as "portfolio theory" in the 1950s, earned its creator, Harry Markowitz, a Nobel Prize and revolutionized investment theory. It is no longer a question of picking out "good" investments. Since Markowitz, the interdependence of the investments, so-called correlation, must also be taken into consideration. The lower the mutual dependence (zero correlation would be ideal), the more likely it is that fluctuations in individual investments will balance out, and the greater the chance of achieving optimal risk distribution in the portfolio.

In practice this is rather more complicated than it appears, however, since the correlation between investments fluctuates as well. This became evident during the financial crisis in 2008/2009. During the months of uncertainty, almost all asset classes moved in one direction only - downwards. Even pioneers of risk diversification, such as major university foundations temporarily suffered substantial losses. Risk diversification can therefore only be efficient if it includes the time factor in its strategy an additional dimension, i.e. pay more attention to the economic cycle. It would also be useful to have a large measure of flexibility in switching to and from high-risk investments like equities and stable investments such as government bonds.

Professional solutions

MSchroders issued the STS Schroder Global Diversified Growth Fund in 2006 as a multi-asset fund. This fund satisfies the main requirements for a stable, well-diversified basic investment. The growth-oriented Global Diversified Growth invests in a wide range of asset classes. Schroders uses funds as the vehicle, as well as other instruments such as index futures and ETFs. Fund manager Johanna Kyrklund is

able to make dynamic adjustments to the different assets classes such as equities, commodities, private equity or high-yield bonds, depending on the market situation. A second multi-asset fund, which is aimed at investors seeking a balanced portfolio, was issued in autumn 2009 and is set to be approved in Germany in spring 2010. The Global Diversified Growth Fund and the Balanced Fund, managed by Gregor Hirt, benefit from Schroders' professional and broad-based multi-asset expertise. The investment process is based on in-house economic scenarios with quarterly updates by more than 40 experienced experts. The Global Asset Allocation Committee uses these updates to develop the key data for weighting the asset classes. The Committee uses quantitative models as well as its own qualitative assessment for this purpose. This is how Schroders' experts recognized the extreme undervaluation of corporate bonds in autumn 2009 for example and were able to generate an attractive increase in value here.

Stable or growth oriented

Around 30 fund managers and analysts implement the guidelines issued by the Global Asset Allocation Committee in portfolios that are updated daily. The Balanced Fund aims to deliver a return of over 5% p.a. with a maximum loss of 10% over rolling twelve-month periods. Growth assets must not comprise more than 60% of the portfolio in order to guarantee this stable performance. This is the main difference to the STS Schroder Global Diversified Growth Fund, which invests up to 100% in growth assets. Schroders thus offers two professionally managed multi-asset strategies for conservative and growth-oriented investors. ■

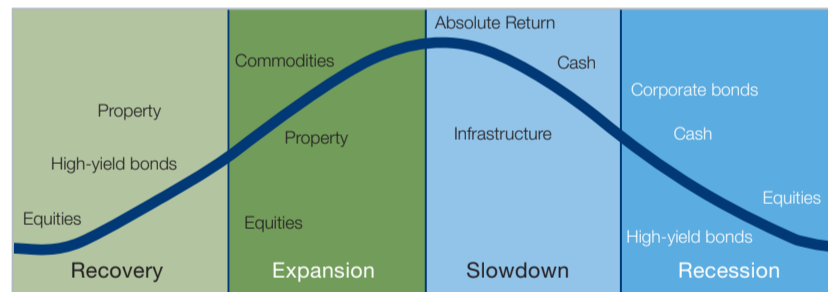
1. STS stands for Strategic Solutions throughout the document.



Gregor Hirt

manages the multi-asset investments sector for continental Europe and is also responsible for the STS Schroder Global Dynamic Balanced Fund. Hirt joined Schroders in 2006 and has 13 years' investment experience, including at Credit Suisse Asset Management in Zurich and New York.

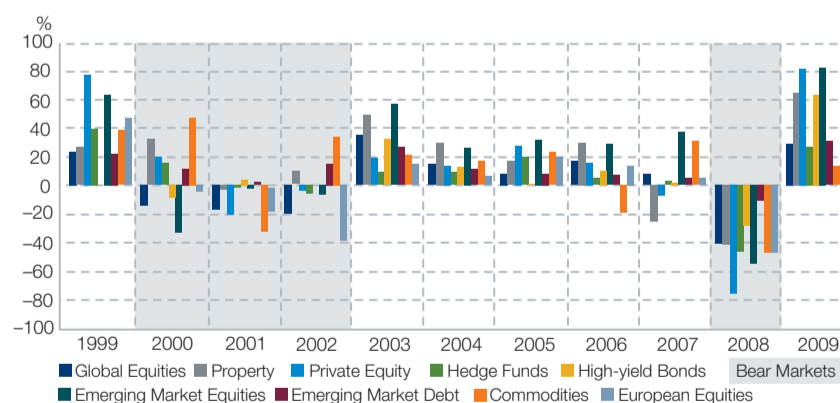
The asset classes in the economic cycle model ...



Risk diversification on the time axis allows appropriate emphases to be set, thereby achieving more stable returns over the long term.

Source: Schroders. For illustrative purposes only.

... and between 1999 and 2009



A fixation on a few asset classes may mean missed opportunities. Flexible weighting of asset classes is a prerequisite for sustainable, attractive yields.

Source: Schroders, Datastream, Lehman Live, Bloomberg. Period: 31.12.1998 to 31.12.1999.

	STS Schroder Global Diversified Growth Fund	STS Schroder Global Dynamic Balanced Fund
Orientation	Growth oriented	Balanced
ISIN Code (Class A, EUR, Acc.)	LU0314807875	Approval in the Nordic countries planned for the spring of 2010; It will then be possible to acquire shares in the fund.
Inception Date	19 May 2006 (Class A, 31 August 2007)	28 September 2009
Fund Currency	EUR	
Initial Subscription Fee	up to 5.00% of the subscription amount (equiv. to 5.26315% of the net asset value per share)	
Management Fee	1.50% p.a.	1.25% p.a.

Share Classes C and I do not incur an initial fee.

➔ Change of benchmark:

The new benchmark for Schroder ISF Asian Local Currency Bond is the HSBC Asian Local Bond Index (ex China, ex India), which replaced the iBoxx Asia Custom Index in December 2009. ■

➔ Schrodgers founds GAIA

A platform, regulated under UCITS III, for selected hedge-fund managers

At the end of 2009 Schrodgers put a new fund platform on the market, in the shape of the SICAV Schroder GAIA. On the UCITS III platform, domiciled in Luxembourg, Schrodgers is offering regulated hedge funds, managed by external hedge-fund managers. In this way investors obtain transparent access to high-quality hedge-fund strategies. The first product to be registered was the Schroder GAIA Egerton European Equity Fund. The fund will be registered as soon as possible in the Nordic region.

It is a long-short equity fund, managed by the independent asset manager Egerton Capital Limited Partnership, which specialises in pan-European equities. The fund manager is John Armitage, chief investment officer of Egerton.

The fund invests mainly in European equities, with the aim of earning attractive returns in the medium term. The investment process is based on a bottom-up analysis of individual securities. To hedge existing positions, or for investment purposes, the fund may enter into synthetic short positions. The GAIA platform is operated jointly by Schrodgers and the Schrodgers subsidiary NewFinance Capital, a leading umbrella hedge-fund manager. Schrodgers is supplying its global sales network and expertise in managing UCITS III products, while NewFinance Capital contributes hedge-fund expertise and its alternative-investment experience. ■

➔ “You are still here!”

The landscape in our industry has changed as many financial institutions and other investors have faced extreme difficulties over the recent couple of years. Concepts as counterparty risk, side pockets, gates and related terms have existed a long time but suddenly came to the fore of our minds.

Time and again we have been welcomed by our clients with the words “You are still here!” in recognition of our long term commitment to the Nordic region. Schrodgers’ Copenhagen office was established in 1989 with the Stockholm office following in 1998. Both of these offices has been working continuously ever since.

This means that our local presence now spans into the third decade! Is this important at all? The message we get when speaking to clients is that while both they and we at Schrodgers acknowledge that it is important to have direct contact to the Fund Managers and Product Managers now and then, it seems to be valued that we can give day-to-day support from local offices with local staff.

Little known to clients is that we have colleagues based in our Stockholm office who manage a Nordic property fund. They also assist other property fund managers in Schrodgers when they are seeking Nordic exposure in the funds they manage. An example of this the Schroder European Logistics Fund which was launched in 2004 where two Nordic properties are in the portfolio.

Office addresses are found on the final page of Schrodgers Expert, and so are names and contact details for employees with client contact. ■



Schrodgers entrance in the London headoffice

Excellent

Schroder ISF Global Convertible Bond

Standard & Poor's Rating¹

A

The investment story

Convertibles are corporate bonds that offer investors the option of subsequently exchanging the bond for issuer's equities. This option increases in value, if the stock market becomes more volatile. Convertibles are a very flexible instrument. They give investors the opportunity to invest in rising stock markets and their fixed interest rates also provide a risk buffer in times of crisis (“automatic asset allocation”). Convertibles are ideal for risk diversification and are less sensitive to changes in interest rates than conventional bonds. They are an attractive alternative for investors who are unwilling to take major risks.

The fund²

The Schroder ISF Global Convertible Bond invests in a wide range of high-quality convertibles from the USA, Asia, Japan and Europe. The portfolio normally comprises 50 to 130 securities with the emphasis being on investment grade. Issues with balanced bond and equity characteristics are preferred in order to make optimal use of the asymmetrical return-risk profile of convertibles. Individual securities are selected on the basis of in-depth economic, regional, stock market and credit analyses in order to identify the best investment opportunities. The fund management aims to achieve about 50% to 60% of total performance from the share sensitivity of the bonds and the regional selection. These are two areas in which partners Schrodgers and Fisch Asset Management benefit in particular from their in-house research. At the beginning of 2010, less than two years after its launch, the fund was awarded the A rating by Standard & Poor's for its excellent performance record.

The fund management

Kurt Fisch is a co-founder of Fisch Asset Management (FAM), a leading specialist in convertibles, based in Zurich. As a member of the management team, he is responsible for management of the portfolio. Fisch held management positions at the *Schweizerische Kreditanstalt* and at Bank Lips, among others, before forming FAM in 1994. The firm began advising Schrodgers on managing convertible bond funds in 2007. In August 2009 FAM was managing clients' assets worth 2.2 billion euros.³



Kurt Fisch

Recommendation

The convertibles market stands a good chance of benefiting from investors' increasing appetite for risk in 2010. Fund manager Kurt Fisch stresses, “We are observing a growing interest in the sector. Convertibles offer a range of opportunities for investors to increase their exposure to international equities and real values at a low risk. We also believe that convertibles can be used as a natural hedge against inflation and the worries about deflation.”

ISIN Code	LU0351442180 (Class A, USD, Acc.)
Inception Date	14 March 2008
Initial Subscription Fee	up to 5.00% of the total subscription amount (equivalent to 5.26315% of the Net Asset Value per Share)
Management Fee	1.25% p.a.

1. Source: Standard & Poor's. As at: 5 January 2010.

2. Source: Schrodgers. As at: 31 December 2009.

3. Source: Fisch Asset Management. As at: 31 August 2009.

➔ Schrodgers Nordic Executive Round Table 2010

The annual meeting for CEOs and CIOs in the Life & Pension sector was held at the British Embassy in Copenhagen 21st January 2010. The overall theme of the seminar was **Modern Asset Allocation – Can we do better in the future?**

Why was this issue of interest to the audience? Well, pension funds have been brought to their knees by a combination of falling asset prices, declining interest rates and a series of legislative and regulatory changes - all leading to higher costs; and yes, on top of that we have the inconvenient truth that we are all living longer. It is too late to undo past investment decisions but it is the right time to learn some very important lessons from the experience of the last decade - because looking back some of this was avoidable.

The “best practice” asset allocation models of today have been shown to be badly flawed and based on some totally unrealistic assumptions. Therefore we are sure that we can do better in the future.

The programme focussed on:

- Lessons to learn from the credit crisis – potential consequences of the policy responses
- The best practice asset allocation model of tomorrow
- Dynamic asset allocation – case study
- The challenges of the global pension fund industry in the aftermath of the credit crisis

Nick Archer, British Ambassador to Denmark and Ketil Petersen, Country Head Nordic Region – Schrodgers, welcomed and handed over to William R. White, former Economic Adviser and Head of Monetary and Economic Department – BIS. As Economic Adviser, he oversaw the preparation of the prestigious BIS Annual Report, for which he wrote the Introduction and Conclusions. In this capacity, he is now widely credited with being one of the few who foresaw the current economic and financial difficulties. During his part he among other things discussed the ability (or lack of ability) of the financial system to be fully functioning again in the short term. One of his worries is how the vast amount of liquidity that has been supplied by governments and central banks can be absorbed without dislocating the “normal” economy.

Schrodgers Group CIO, Alan Brown, continued in his talk to question the way we are making asset allocation decisions. Most institutional investors have fixed limits for each asset class in which they stick and one of lessons from recent history is that investors by applying dynamic asset allocation can avoid much pain.

As Johanna Kyrklund, Head of Multi-Asset World ex Asia at Schrodgers explained, we have been doing this for some time in our multi assets portfolios, and the results are very encouraging indeed. Johanna’s team are also used by our clients to discuss these types of allocation strategies and how they can be implemented in practise.

That clients are looking for more transparency and liquidity in their portfolios, and that a high degree of uncertainty prevails because FSAs and other regulators have not yet finished their work, is evident to Mercer Investment Consulting according to Divyesh Hindocha, Global Director of Consulting. This he explained to the audience before Ketil Petersen opened the panel discussion with the four speakers. ■

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Schrodgers’ chronicle

Turbulent times

In 1940 Helmut Schröder was appointed senior partner of the company and chairman of Schrobanco. The investor in American investments survived the Wall Street Crash in 1929 by investing wisely. Schrobanco now began developing as a banking corporation that was relatively independent of London and succeeded in ensuring the survival of the dynasty during World War II when things got tough for Anglo-German enterprises.



Helmut Schröder was a senior partner at Schrodgers from 1940 to 1962.

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