May 2013
(All data expressed as at 30 April 2013)

For professional investors or advisors only

Schroders
Monthly Portfolio Update

Schroder International Selection Fund*
Currency Absolute Return USD

Fund overview:

The purpose of the fund is to offer, to both institutional and retail clients, a vehicle that will deliver low-risk cash plus returns.

The fund aims to achieve returns in excess of USD cash, whilst aiming to preserve capital on a rolling 12-month basis through investing in cash, deposits and money market instruments in any currency, as well as currency related derivatives including but not limited to forwards, futures, swaps and options. At the time of acquisition, the residual maturity of all deposits and money market instruments held by the portfolio will not exceed 365 days. As a result of its derivatives strategy, the fund may both create long and short exposure to the derivatives' underlying assets.

Cash instruments and FX contracts, both of which offer excellent liquidity, allow the fund to hold a diversified portfolio of investments focused on generating absolute returns.

Performance

US$ A Shares Net %	Apr 2013	YTD 2013	2012	2011	Since Inception* Cumulative Total Return
Schroder Currency Absolute Returns US$	**0.74**	**1.20**	**0.05**	**-1.58**	**-0.35**
3 Month US$ LIBID	0.01	0.05	0.31	0.20	0.57

Source: Schroders
* Inception 31 January 2011

Review

We wrote previously that, for the US, an outlook of "lower energy prices and slower growth in Q2 doesn't bode well for a bounce in inflation metrics and the risk appears to be rising that far from tapering off the current USD 85bn a month asset purchases, the scene is being set for them to be increased. We will be "monitoring very closely" the words of the core of the committee in coming weeks." An interesting few weeks since our note has indeed seen the fixation with a tapering-off of the Federal Reserve's asset purchases turn to the implications of some benign inflation data releases. The FOMC succinctly reminded anyone in doubt of the implications by highlighting their flexibility to "increase or reduce the pace of purchases" in a statement following their meeting in May.

A day later, the ECB awoke from a deep slumber to acknowledge that weakening economic activity was extending into the core countries and increasingly subdued credit and inflation dynamics probably warranted some action. A 25bps cut in their refinancing rate to 50bps was duly delivered, a narrowing in the corridor (maintaining the deposit rate at 0bps and a cut in the marginal lending rate to 100bps from 150bps) as well as soothing assurances that the fixed-rate, full-allotment "eat-all-you-can" liquidity regime was here to stay for a while yet. Additionally, they announced a (so far, characteristically vague) plan to work with other euro-area institutions to "promote a market for asset-backed securities collateralised by loans to non-financial corporations". More interestingly, some of the Council were in favour of cutting rates by more than and President Draghi sounded open to the possibility of cutting the deposit rate to negative territory: "We are technically ready. There are several unintended consequences that may stem from this measure. We will address and cope with these consequences if we decide to act."

Developments over the past fortnight offer little reason to believe that the monetary punch bowl is about to be withdrawn abruptly. The activist monetary regimes of major central banks remain in place (if not accelerating in the Eurozone and Japan) and the influence of excess global liquidity remains in play: reflected by some dichotomy between economic activity and asset prices currently. After a stretch of weaker/disappointing data, a temporary period of upside surprises is entirely conceivable and could have impressive implications for liquidity-fuelled asset prices resilient to bad data.

** Schroder ISF Currency Absolute Return USD is referred to as Schroder ISF CAR USD throughout this document.*

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The fund is overweight commodity-linked currencies (including CAD, MXN and AUD) due to our assessment of generally negative sentiment prevailing towards commodities and these currencies and this backdrop of excess liquidity provision and outright policy objective of asset price reflation from major central banks that favours a constructive outlook for commodity prices and these currencies. Our analysis of positioning indicates a particularly extended short position in the case of the Canadian Dollar and is the basis for a larger overweight here. Sentiment towards the Australian dollar is negative (consensus forecasts anticipate weakness vs. the US dollar).

The fund holds an underweight position in the US dollar, largely held against overweight positions in the TWD and CNY. Our fundamental view on Chinese assets and policy has turned more positive, the appreciation of CNY fixings vs. the USD is accelerating and technical analysis supports the view for an overweight position given new lows in 12m USDCNY NDFs. Additionally, the recent change in Fed rhetoric in response to weaker inflation releases is significant in the context of market expectations recently centred on tapering-off of asset purchases. A greater risk of additional QE is a major fundamental negative for the US dollar (and again, would benefit commodity currencies in our view).

The Eurozone scores strongly in our Quant model, reflecting genuine structural improvements that have occurred in the region. That said, against this backdrop of structural improvements and easier financial conditions, economic activity has remained weak and indeed accelerated on the downside recently – and extending now to the core, including Germany. Ceteris paribus, the implications of this are that monetary policy is likely to be eased further – the ECB obliged with this week's cut in policy rates and, importantly, indicated a willingness to cut deposit rates into negative territory. Their monetary orthodoxy credentials may come under pressure should activity not improve and further monetary easing be the only policy lever available and this would be negative for the currency, in our view (even if that is a constructive environment for Eurozone assets including bonds and equities – and indeed benefits other European currencies). The converse of this is that an improved outlook for economic activity would alter our view as this would be very supportive for the currency in the context of structural improvements that have occurred.

The fund has held a significant underweight in the JPY and is now neutral on the basis that sentiment and positioning analysis is now positive for the yen given that consensus forecasts anticipate further yen depreciation and surveys/IMM data indicate underweight positioning in the JPY. The fundamentals are now neutral given that the first round of aggressive policy action is largely discounted and further policy action is unlikely for the time being. Moreover, with no indications of Japanese capital flight, the view is less attractive at current valuations.

Asset Allocation as at 30 April 2013

Holdings as at 30 April 2013 %

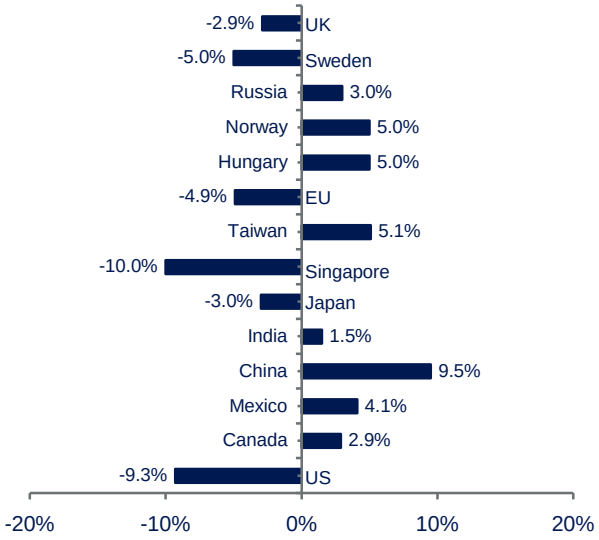
Exposure		Yield*
-9.3	US	0.0
2.9	Canada	0.9
4.1	Mexico	3.0
-2.4	**Total Americas**	
9.5	China	-0.2
1.5	India	6.8
-3.0	Japan	-0.1
-10.0	Singapore	0.0
5.1	Taiwan	-1.0
3.1	**Total Asia**	
-4.9	EU	-0.3
5.0	Hungary	3.6
5.0	Norway	1.3
3.0	Russia	6.2
-5.0	Sweden	0.8
-2.9	UK	0.2
0.1	**Total Europe**	
99.0	**Cash/T-Bills**	0.0

Source: Schroders
*Implied Yield

Fund Summary	%
Yield to Maturity	0.61
Average Duration (years)	0.25
Average Credit Rating	AAA

Performance Overview

Non-US$ exposure as at 30 April 2013 %



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An investment in the Company entails risks, which are fully described in the prospectus.

Past performance is not a reliable indicator of future results, prices of shares and the income from them may fall as well as rise and investors may not get the amount originally invested.

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The capital may be subject to circumstances and periods where returns could be negative. Therefore the capital is not guaranteed and may decrease. Investments in money market instruments and deposits with financial institutions may be subject to price fluctuation or default by the issuer. Some of the amounts deposited may not be returned to the fund.
Currency derivative instruments are subject to the default risk of the counterparty. The unrealised gain and some of the desired market exposure may be lost. Investments denominated in a currency other than that of the share-class may not be hedged. The market movements between those currencies will impact the share-class.
Emerging equity markets may be more volatile than equity markets of well established economies. Investments into foreign currencies entail exchange risks.
The Fund may hold indirect short exposure in anticipation of a decline of prices of these exposures or increase of interest rate.