

STS¹ Schroder Global Dynamic Balanced Fund

Rocking the status quo – dynamism and flexibility

Modern multi-asset funds such as the STS Schroder Global Dynamic Balanced Fund go beyond the strategic asset allocation followed under the Harvard/Yale endowment fund approach.

The endowment funds of the Ivy League universities Harvard and Yale were for many years a model for many other asset managers to imitate – and quite rightly so, given that right from the design board they went far beyond traditional balanced funds, which could offer only basic diversification with their equities/bonds mix. The endowment funds, by contrast, adopted a long-term strategic asset allocation (SAA) approach that also incorporated alternative asset classes. This concept brought years of success, and they easily overcame the bursting of the tech bubble.

However, there are limits to the SAA, which saw the endowment funds also suffer during the financial crisis. The SAA involves setting a long-term static benchmark and reviewing the portfolio at regular intervals, e.g. every three years, on the basis of asset/liability modelling (ALM). This is normally based on long-term return and volatility projections for different asset classes, often over 20 or 30 years. The problem with the SAA is that the time horizon applied in the ALM tends to be considerably longer than that of investors (be they foundations, pension funds or individuals). However, periods of divergent performance typically arise during this 20 to 30-year span.

Furthermore, the ALM projections were set at a time when there had been two decades of relatively high GDP growth, volatility was low and buy-and-hold strategies were successful. Large-scale volatility could turn all these assumptions upside down, and that is exactly what happened during the financial crisis. Even if an SAA factors in volatility assumptions, the extent to which these fluctuations

correspond to the economic situation is downplayed. A dynamic approach, on the other hand, recognises that different asset classes are more risky at different points in the economic cycle. The SAA also applied the efficient market theory. If, in accordance with this theory, the markets are always right and any anomalies are quickly redressed, then it makes sense to stick to a defined allocation. However, the influence of the irrational can be large, as the financial crisis once again demonstrated. Schroders does not consider the markets to be efficient.

Adapted to the economic cycle

By contrast, the dynamic asset allocation (DAA) aims to identify when the asset allocation needs to be adjusted, but not at the level of short-term market timing. A variety of factors come into play, such as estimations of production gaps or of how much the economy is lagging behind or leading its long-term trend rate. Other indicators can include short-term macroeconomic signals such as new orders, employment figures, inventory level, prices, etc.

The analysis enables an insight to be gained into the typical performance of asset classes at each stage of the economic cycle. Where there are more than ten different asset classes, the combination of different economic signals and analysis instruments is needed to assess the market dynamic or adequately value investments. A good example of the DAA is the STS Schroder Global Dynamic Balanced Fund. This multi-asset fund consists of a defensive portfolio allocation that makes up a minimum of 40% of the fund assets and a growth allocation of up to 60%. The asset classes are dynamically reweighted according to market conditions. In difficult market phases, the fund can be up to 100% invested in defensive assets. The long-term return target is over 5% p.a., and the maximum loss over a rolling 12-month period should not be more than 10%.

The fund invests globally in various traditional and alternative asset classes, using proprietary or third-party funds, ETFs, futures or direct investments. The defensive portion of the portfolio



Gregor Hirt

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

comprises treasuries, government bonds and high-quality corporate bonds.

The growth portion contains positions in equity funds, high-yield and emerging market bonds, private equity, commodities, infrastructure investments, etc. Whereas the STS Schroder Global Dynamic Balanced Fund is suitable as a core investment for investors with limited risk appetite, the STS Schroder Global Diversified Growth Fund was launched in 2006, aimed at growth-oriented investors as a substitute for a global equity portfolio, but with just around two-thirds of the volatility of the equity market. It has a long-term objective of beating EU core inflation by 5%.

Aside from the fixed defensive portion of the STS Schroder Global Dynamic Balanced Fund portfolio, both funds are managed according to a similar investment style, benefiting from Schroders' long years of expertise in global multi-asset investments. 40 experienced professionals analyse economic scenarios on a quarterly basis, and this provides the key information for the individual asset class weightings. The fund managers then implement these in their portfolios, which are updated daily.

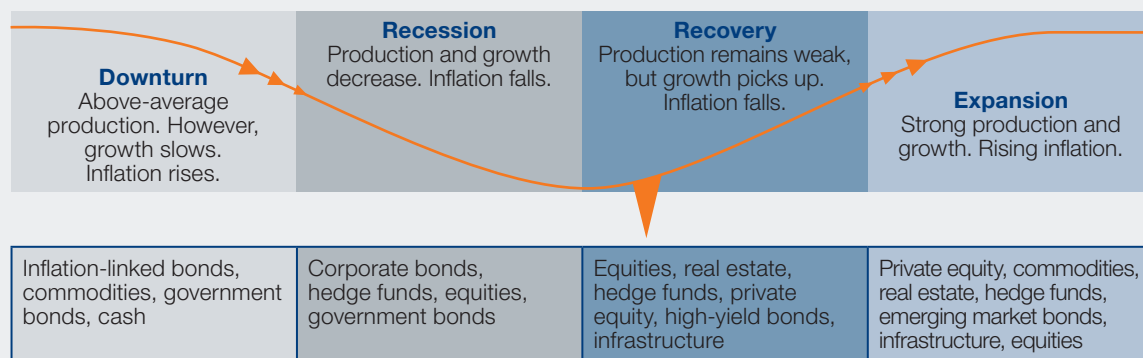
This fund will be approved for marketing in the Nordic region depending on client interest. ■

Fund data ²			Reasons to invest	Investment risks
	STS Schroder Global Dynamic Balanced Fund	STS Schroder Global Diversified Growth Fund		
ISIN (class A, EUR, acc.)	LU0451417645	LU0314807875	➔ The Schroders multi-asset funds are globally diversified funds of funds that give investors access to traditional and alternative asset classes.	➔ The Schroders multi-asset funds are funds of funds that are exposed to various risks via investments in different asset classes.
Launch date	28 September 2009	19 May 2006	➔ Asset classes perform differently in different market phases.	➔ The risks include maturity, credit, share price, liquidity and currency risk.
Fund manager	Gregor Hirt	Johanna Kyrklund	➔ Combining different asset classes can effectively reduce portfolio risk.	➔ By investing indirectly in commodities and/or real estate, the funds may be exposed to market risk in relation to the underlying assets. The funds may also be exposed to geopolitical, delivery, exchange rate and interest rate risk through such investments.
Volume	EUR 27 million	EUR 120 million	➔ The funds are actively managed and the weightings are adjusted to the market phase.	➔ The funds invest globally. Exchange rate movements may cause the value of an investment in another country to rise or fall.
Base currency	EUR	EUR	➔ Two different Schroders multi-asset funds are offered, to meet the needs of growth-oriented investors and those with limited risk appetite.	➔ The funds do not offer any capital protection. The value of the units in the fund may at any time fall below the price that the investor paid for the units, resulting in losses.
Number of holdings	27	30	➔ The funds are suitable as core investments and are managed according to an asset management style.	➔ The funds may use financial derivatives as part of the investment process. This may increase the funds' price volatility by increasing the impact of market events.
Benchmark	No benchmark			
Maximum initial fee	Up to 5.0% of the total subscription amount (5.26315% of the net asset value per share)			
Management fee	1.25%	1.50%		

¹ STS stands for Strategic Solutions. ² Source: Schroders. Data as at 31 October 2010.

Schroders' multi-asset class funds

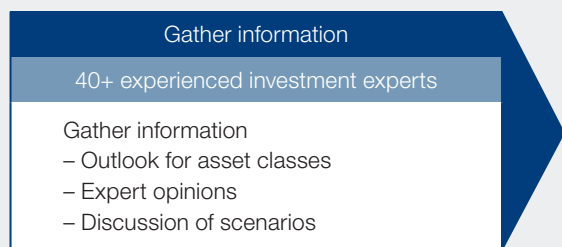
Asset classes across the economic cycle



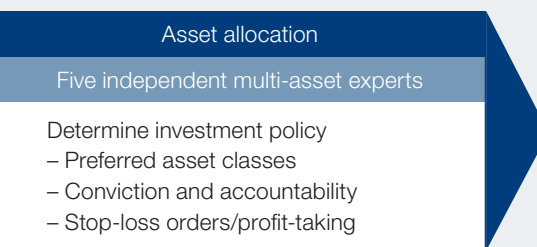
In order to actively adapt your portfolio to the current economic phase, the multi-asset funds can switch the focus of their investments as required. In an upturn, they can benefit more strongly from the equity market, while equity exposure is scaled back when the markets are struggling. The STS Schroder Global Dynamic Balanced Fund can at such times invest up to 100% of its assets in defensive assets such as government bonds, high-grade corporate bonds or cash.

The multi-asset investment process

Quarterly



Monthly



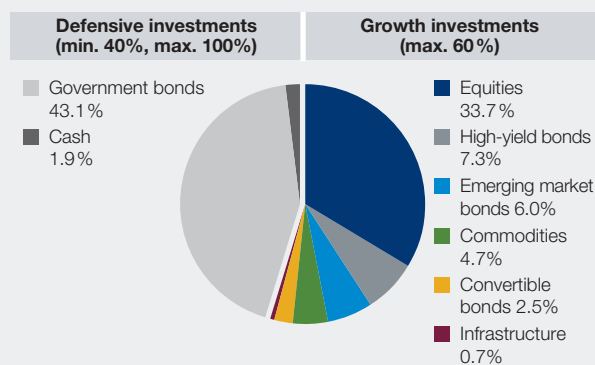
Daily



Source: Schroders. Data as at 31 October 2010. The 30-strong team is made up of portfolio managers, quantitative and qualitative managers and trading experts.

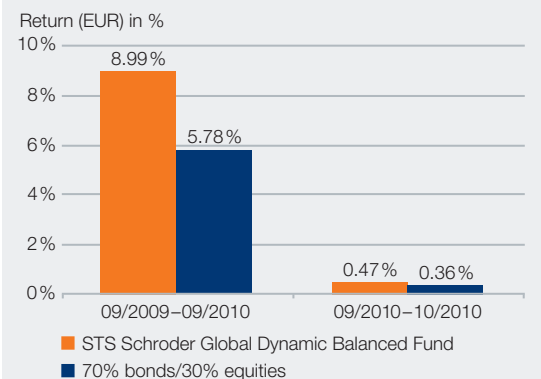
STS Schroder Global Dynamic Balanced Fund

Portfolio as at 31 October 2010



- Our market indicator model remains positive for asset classes that are rich in opportunities; growth investments raised to 55% at present (max. 60%).
- The bulk of the increase related to equities (+4 percentage points to 34%), with the emphasis here on the emerging markets, the Pacific region (ex Japan) and selected European markets.
- Value stocks are preferred to growth stocks and small/mid caps to large caps.
- Still positive on high-yield bonds: attractive income, profitable companies, low default rates; at the expense of high-quality corporate bonds.
- Other positive asset classes: emerging market bonds (local currency), agriculture and gold.

Performance as at 31 October 2010



Source: Schroders, DataStream. Period: 28 September 2009 to 31 October 2010. Performance based on the net asset value of unit class A, EUR, acc. Calculation based on reinvestment of all income and net of annual management fee, but does not include initial fee, charges or transaction cost, which would have a negative impact on the performance figure if included. Foreign currency investments are subject to currency fluctuations. Past performance is not a reliable indicator of future performance. The benchmark consists of the ML Global Government Bond Index II Hedged in EUR (GDR) and MSCI World Euro Hedged (NDR), weighted 70% and 30% respectively.

► Continued from page 1

Fund managers at the mixing desk

Within bonds, however, investors should favour corporate and high-yield names, given that many companies overhauled their balance sheets in the recession, while public debt ballooned in western industrialised nations. Commodities still offer earnings opportunities, as the rise of China is driving prices.

Derivatives open up investment alternatives

Optimal management of the asset allocation in line with the economy requires a diverse selection of liquid and illiquid instruments. Derivatives should not be overlooked, as they offer a flexible and inexpensive way to implement a dynamic asset allocation.

During a stock market upturn, when the small valuation differences between stocks make it hard for active managers to add value, futures, for example, make a sensible alternative to passive ETF index funds.

This is because the transaction costs are much lower for futures than they are for ETFs. In inefficient segments and markets that are drifting sideways, where active management can bear dividends, derivatives can also be used as portable alpha. This is where the return in excess of the benchmark index (“alpha”) achieved by an active manager is separated from the market risk by buying the active fund and simultaneously selling the futures contract on the underlying market.

Some investment ideas can only be implemented by means of derivatives, such as bets on certain currency movements.

Derivatives are also used to hedge positions and can enable new sources of return to be exploited, for example profits can be derived from rises or falls in volatility through the use of call or put options.

It is almost impossible for private and institutional investors to obtain the specialist knowledge needed for optimum asset allocation and to create/maintain the necessary infrastructure. This includes having a global presence and access to information, especially in emerging countries and niche markets.

Investors should be able to use flexible, global multi-asset funds that replicate the entire universe of asset classes in a single product, with scope to weight these flexibly. It requires the specialist knowledge and resources of a global asset manager to manage a portfolio based on economic conditions, enabling losses to be avoided in difficult times and full participation in upturns during boom phases. The need for professional and flexible multi-asset investments will therefore grow precisely because of the experiences of the financial crisis. ■

Popularity has its price

A lot of capital is currently flowing into the emerging markets, and prices are rising. These countries' central banks now need to fight inflation, which is becoming a visibly more difficult job. Meanwhile, the industrialised countries regard the emerging countries' monetary policies as protectionist and are taking counter-measures.

The current enthusiasm for all things emerging market has generated massive investment flows. For the emerging equity markets, 2010 looks set to match the record capital inflow of USD 64 billion seen in 2009. By contrast, developed market equity funds saw redemptions of around USD 37 billion in 2009.¹ That is hardly surprising in itself, but emerging market equities have certainly outperformed their developed counterparts. Investors see a developed world weighed down by debt, struggling to recover from the financial crisis, whilst the relatively unencumbered emerging economies continue to enjoy growth. Such a scenario might be seen as a healthy re-allocation of capital from the rich world to the developing, helping to raise global living standards. However, recent developments have exacerbated tensions between the developed and emerging economies with talk of currency wars and accusations of protectionism.

The head of the IMF, Dominique Strauss-Kahn, has lamented that the co-operation seen during the financial crisis is now absent amongst the G-20. Everyone wants a weaker currency to stimulate their economy, but as a zero-sum game this is something the foreign exchange market cannot deliver. The move toward quantitative easing (QE) in the US has only exacerbated the problem. Adding together all the announcements, the Fed has committed to spending some USD 900 billion, by June 2011, on buying back US Treasuries. This is driving down the US dollar,

and sending investors into higher-yielding assets. Increased capital flows to the emerging economies have been one consequence. In turn, central banks in the emerging world are resisting the upward pressure on their currencies by intervening heavily in the foreign exchange market, or trying to slow the flow by raising taxes on foreign purchases of assets. Brazil, whose finance minister coined the term "currency wars", has increased the tax on purchases on bonds, and Thailand has announced similar action. However, at the centre of the G-20 row is China, which has been criticised for continuing to peg the yuan to the US dollar at what is widely seen as an undervalued rate. Evidence of this can be found in China's huge trade surplus and export-driven growth, especially with the dollar continuing to depreciate, and the subsequent accusation by western countries that China is stealing growth from its trading partners. As the emerging countries are now seeking to prevent their currencies from appreciating and the dollar is continuing to lose value, the other major currencies, including the yen, sterling and euro, are currently strengthening the most.

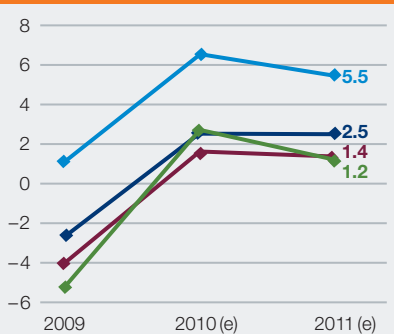
The issue is not new, nor was it a problem during the boom years of the last decade, as growth in the west was led by the credit-driven spending of US and European consumers. The emerging economies provided the supply and in the process helped prevent inflationary pressure from building, thus prolonging the cycle.

Double bubble?

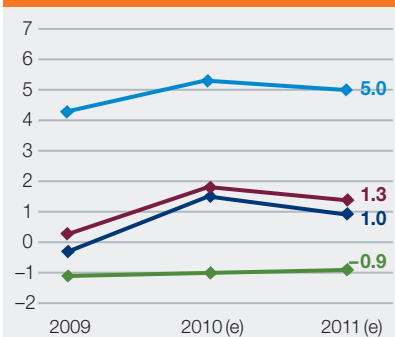
Today, it is a different story. Western consumers are deleveraging, spending is weak and with fiscal and monetary policy reaching its limits, developed country governments are looking overseas for demand to support their economies. They are coming up against emerging economies that continue to follow the same economic path of export-led growth underpinned by an artificially low currency, otherwise known as mercantilism. However, the willingness of the west to tolerate the undervaluation of eastern currencies has been considerably reduced by the financial crisis, while China in particular has seemingly ruled out any significant yuan appreciation. The lines have been drawn. Recognising that more and more countries are likely to join the currency war suggests that we could be in for a turbulent time. Meanwhile, we are likely to see continued capital flows to the emerging markets as interest rates in the west remain low. The Fed's programme of bond repurchases is also depressing long-term rates and forcing more capital outflows as investors seek yield. The result could be a simultaneous bubble in both Treasury bonds and emerging market equities. ■

Schroders Expertforecast and portfolio²

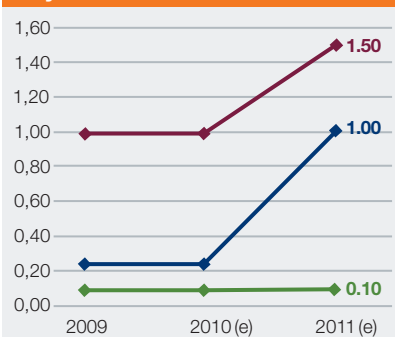
GDP growth in %



Inflation in %



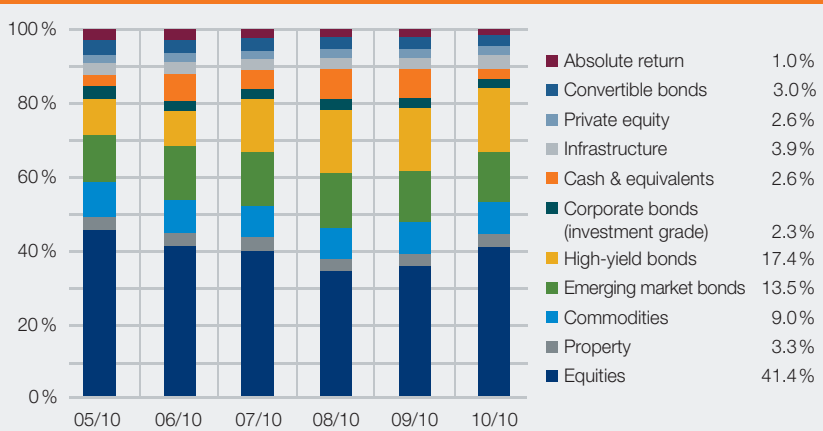
Key rates in %



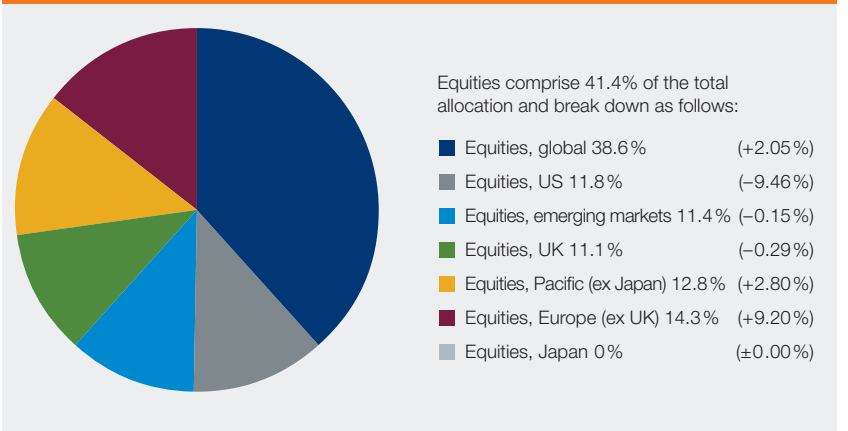
Currencies/oil price

	Current	12/2010 (e)	12/2011 (e)
USD/EUR	1.36	1.25	1.18
USD/GBP	1.60	1.55	1.45
JPY/USD	83.2	85.0	90.0
GBP/EUR	0.84	0.81	0.81
Oil (Brent crude) in USD	83.4	74.1	75.8

Weighting of asset classes since May 2010



Equity allocation (current)



¹ Source: EPFR Global. Data as at 31 October 2010. ² Source: Schroders, DataStream, IMF. Data for GDP, inflation and key interest rates as at 31 October 2010. Key data as at 16 November 2010. Key figures for 2010(e) and 2011(e) are estimated figures for the year-end. Emerging markets comprise Argentina, Brazil, Bulgaria, Chile, China, Colombia, Croatia, the Czech Republic, Estonia, Hungary, India, Indonesia, Latvia, Lithuania, Malaysia, Mexico, Peru, the Philippines, Poland, Romania, Russia, Slovakia, South Africa, South Korea, Taiwan, Thailand, Turkey, Ukraine and Venezuela. Asset allocation (total and equities) refers to the Strategic Solutions – Schroder Global Diversified Growth Fund portfolio. Data as at 31 October 2010.

Beggar-thy-neighbour

If the precedent of pursuing currency devaluation to boost exports is established, the global economy is in for a rough ride.

The US is making no bones about it: it is to buy back USD 900 billion of Treasury bonds by the end of June 2011. The Fed has also announced that it will continue to act flexibly to promote the labour market and encourage price stability. Other bond buybacks could be on the cards if the economy fails to grow as desired. Whether the Fed has got its sums right and a softer dollar will revive the economy is still unclear. Bank lending, however, is probably not being stimulated as the top priority of banks and private households is to pay down debt. The currency effect abroad, however, has been significant: the dollar has lost around 9% of its value since the end of August, when speculation about further quantitative easing began.

The US' move has created problems for the rest of the world, effectively taking growth from Europe and Japan – it is a classic **Beggar-thy-neighbour** devaluation. And countries like China, whose currencies are linked or pegged to the dollar, are facing a greater struggle to contain their currencies. The upshot is likely to be an increase in liquidity in the emerging world, resulting in asset bubbles and higher inflation. As a result of this monetary (pressure) policy, the US will fail to meet its budgetary target. Why, after all, should politicians court unpopularity by increasing taxes or cutting spending when more than half (and possibly all) of the budget deficit will be funded by printing money? The unspoken aim behind it all must surely be to generate inflation.

The euro – still on steroids

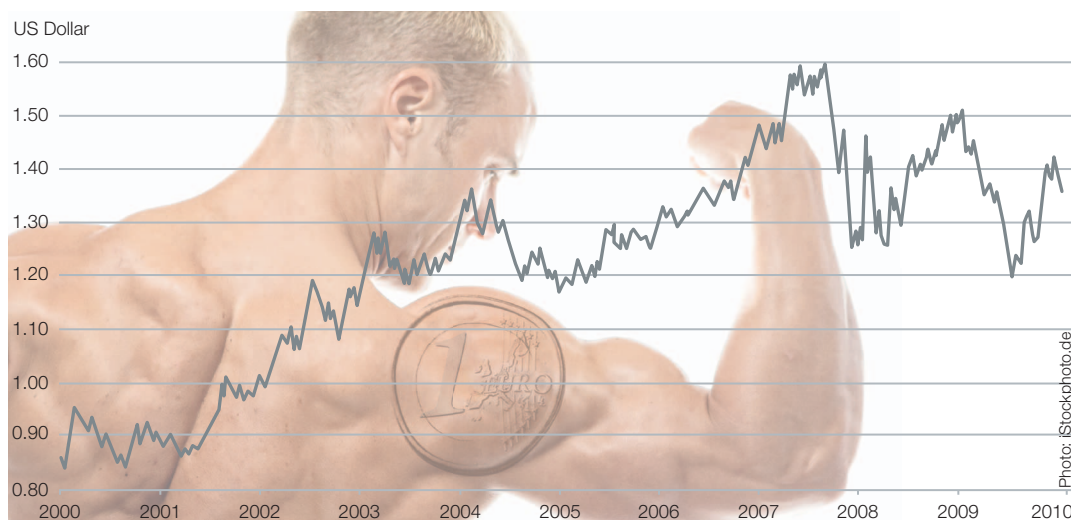
For the European Central Bank (ECB), it is genuine principles such as free-market forces that still seem to count – laudable in theory, but this might spell trouble for the eurozone. It is the only large central bank arguing for normalisation of

monetary policy despite the increasingly parlous state of some of its peripheral nations. Its plan is to stem the extraordinary inflows of liquidity – just as the US and quite possibly the UK are about to embark on another round of quantitative easing, Japan attempts to stop the yen appreciating further, and the emerging markets are keeping their currencies artificially low. The result has been a sharp rise in the euro, despite the debt problems of Greece, Spain, etc. Although the rebound in the euro year-to-date reflects some success in policymaking, its continued strength could jeopardise the recovery, particularly for export-orientated economies like Germany, the Netherlands and Austria.

If the debt and bond crisis persists, for example in Ireland, the euro will further appreciate and the ECB will have to jettison its plans to hike interest rates in 2011.

So what can the EU do? Direct intervention on the forex market has little chance of success. We doubt the EU will be keen to adopt protectionist measures, like trade tariffs, after working for many years to increase its trade openness. Ironically, help might possibly come from the hard-up peripheral states: as Ireland decides to return to the bond market in late 2011 and Greece approaches the point when it too needs to return (early 2012), the existence of the euro may once again be called in question. In such a situation, perhaps we may see a little *schadenfreude* from German exporters. ■

Keith Wade, Chief Economist, and Azad Zangana, European Economist at Schroders



The euro has appreciated further after the debt crisis in the peripheral countries – but structural problems remain. If the debt problems, e.g. in Ireland or Greece, flare up once more, the euro is bound to weaken.

Schroders Expertikon

Beggar-thy-neighbour – when a country seeks to generate a trade surplus in order to increase incomes and create jobs at home. As an increase in exports by one country equates to an increase in imports elsewhere, this policy can have an adverse effect elsewhere (e.g. unemployment). Weapons in the policy war-chest include devaluation of the domestic currency and other measures to restrict imports and promote exports.

Ticker

Equities

↘ **USA** US equities are no longer favoured by international investors; housing activity is still in the doldrums, and households are trying to pay down debt rather than consume more.

Schroder ISF US All Cap

↘ **Europe** Weak growth prospects for the eurozone on the back of the structural debt issues; UK equities do, however, remain cheap.

Schroder ISF UK Equity

↘ **Japan** With US headline interest rates still low, the yen is likely to further strengthen, which will be unfavourable for Japanese equities.

Schroder ISF Japanese Equity Alpha

→ **Pacific (ex Jap.)** The region generally responds well to a loose US monetary policy as it fosters benign liquidity conditions there. However, valuations appear unattractive.

Schroder ISF Pacific Equity

↗ **Emerging markets** Currently the preferred investment region with the best sustainable growth prospects thanks to strong structural fundamentals, e.g. trade surpluses and strong public finances.

Schroder ISF Global Emerging Market Opportunities

Fixed income

→ **Government** Yield curves are likely to remain steep, as short rates are expected to remain anchored by central banks for the time being.

Schroder ISF US Dollar Bond

↗ **Corporate** Given that yields on government bonds remain doggedly low, corporate bonds continue to represent a better-yielding alternative.

Schroder ISF Global Corporate Bond

↑ **High yield** The general recovery in corporate profits should be a positive for corporate credits.

Schroder ISF Global High Yield

→ **Index-linked** We expect global inflation pressure to ease as commodity gains moderate and core prices recede further – with the UK the exception.

Schroder ISF Global Inflation Linked Bond

Alternatives

→ **Property** Valuations are fair both by historical standards and relative to other asset classes; growth prospects are limited.

Schroder ISF Global Property Securities

→ **Commodities** A slowdown in global economic activity, particularly in OECD countries, should push down prices. There is still demand from emerging markets.

Expected performance:

Positive ↗ ↘ Neutral → Negative ↘ ↙

“We could be about to experience a major pensions crisis”

Massimo Tosato, Executive Vice Chairman and Head of Distribution at Schroders, talks about the effects of the financial crisis and the European pension system.

Schroders has been managing assets for over 200 years. Compared to other market crises, how would you rate the most recent crisis?

Our most difficult time was actually during World War Two. But with respect to market crises, I think that this one is probably one of the worst – by far.

For you personally?

I've been in the financial sector since 1981. This recent crisis was the first time we were concerned about what would happen tomorrow.

What are the main conclusions Schroders has drawn from the crisis?

I think the crisis reconfirmed cautiousness as one of the best ways to manage a financial institution. We have no principal risks, zero debt and a very strong cash position of nearly EUR 2 billion. Actually, until two years ago we were strongly criticised for having too much capital. Now everybody keeps saying how smart we were to keep all that capital, and we had some clients who felt comfortable coming to us during the crisis for these very reasons. So while the capital growth rate may be slower as a result of our conservativeness, organic growth and a strong capital position help our type of business build trust in the long term. On the investment side, I think the entire financial industry learned some lessons from the crisis. First and foremost, what value at risk means and that forecasting models must also take account of fat tails – which in the past had been handled more like mathematical exercises than actual probabilities.

How has the crisis changed the finance industry?

I think the financial services sector overall – not just the asset management industry but all financial players – will need to adapt to a much more regulated environment. Now when you introduce regulation, there is always the risk of overshooting. And so managing those implementations properly becomes an exercise in fine-tuning. Too much will kill the industry. But the industry, especially the investment banking and proprietary side of the industry, showed excesses that were not proper and need to be controlled.

Is there anything being discussed in Brussels that asset managers or investors should be worried about?

One set of rules being discussed is PRIIP, the “Packaged Retail Investment Products” initiative. Basically, the concept is to avoid conflicts of interest at the distribution level of retail products such as funds and insurance, and to level the playing field between the different products sold. However, it seems to be causing some discomfort within the insurance industry, so it has been postponed and will probably be rolled up in MiFID 2 [Markets in Financial Instruments Directive], which might be delayed a year or two. I personally think that the way in which financial products are sold, their price and a transparent relationship from the client perspective between the distributor and product provider are very important. So we are open-minded as

a company about cooperating on the implementation of PRIIP. And we do not think it should be stopped.

But the insurance industry is successfully lobbying against it?

We'll see. But the point is, I understand clients' interests and I am in favour of PRIIP. However, there are other aspects that concern me more: the recent debate on the compensation of management in financial services, for example. We are not in a Soviet economy, so why should the government determine compensation for a private company? That is something I struggle to understand in principle. Should companies be prevented from creating systemic risk? Absolutely, yes. But government shouldn't intervene in the management decisions of a company and how much individuals should be paid. A regulatory framework should be created. But if the EU creates rules and America and Asia do not create any or create them differently, then a lot of arbitrage is generated, and talent is very transportable, i.e. companies will move to where the rules are most favourable.

Are you afraid that the smartest people will move elsewhere?

This arbitrage isn't going to happen overnight. But this risk does exist if you look five to ten years ahead. Please don't get me wrong. I'm not saying to not introduce rules, but to introduce rules that are related to governance rather than compensation. And if you really want to do something about compensation, it should be coordinated at a global level. Otherwise you create opportunities for arbitrage.

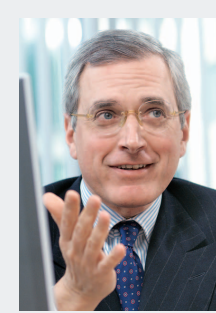
In the recently published book “The Future of Finance” by the London School of Economics (www.futureoffinance.org.uk), one of the authors mentions that the value of pension funds in particular is being significantly eroded by high turnover, i.e. fund managers are taking a more short-term view on returns. Do you share that opinion?

When I think about the way in which we manage institutional portfolios, I cannot say that I have seen that. Most of the pension funds we work for have been closing the defined-benefit structure and are therefore moving to asset/liability matching. And, by definition, that is quite long-term in horizon. So I'm not sure I can agree with that conclusion. However, you do touch one subject that is very close to my heart. Because of the demographic trends in the EU, the defined-benefit schemes of Anglo-Saxon tradition as well as the pay-as-you-go systems in continental Europe are no longer sustainable.

So I think it is very, very important to develop a set of schemes at the European level that favour second- and third-pillar savings of substance in defined-contribution funds.

What should these schemes look like?

To be successful these schemes have to be compulsory. If people want to have a significant pension, and they are planning to save for about 30, 40 years, they should



Massimo Tosato

has worked since 1995 for the London-based asset manager Schroders, which was founded as a trading house in 1804 by the Schröder family from Hamburg. Since 2007, Mr Tosato, who is from Venice, has been Executive Vice

Chairman at Schroders Plc and, in this role, is responsible for global sales and the 100% subsidiary Schroders NewFinance Capital, a specialist in funds of hedge funds. He has some 30 years' experience in the asset management sector and is a member of the Board of Directors of EFAMA, the European fund association.

be saving at least 21, 22 percent of their salary every year. That is not happening anywhere. So, I think we should move to a compulsory defined-contribution mechanism.

Do you see such compulsory schemes being established in Europe?

It's a long way off, because I think we need to be realistic. In a compulsory mechanism, you force people to exchange present consumption for future consumption. It's very difficult to induce – unless you make it compulsory – without tax advantages. And the situation of the fiscal budgets in the EU at the moment doesn't present much opportunity for significant fiscal inducement. Some level of compulsion is therefore necessary. If we don't establish such compulsory schemes, in 10 to 15 years we will experience quite a dramatic pension crisis among the elderly.

Let's turn back to the finance industry: for several years now there has been discussion about consolidation in the European asset management industry. Has any progress been made?

Consolidation is occurring because there are just too many funds and the industry must become more efficient. I believe there are something like 35,000 or 36,000 funds in Europe compared to only 8,000 in the US. So it's over-supplied, and there are a lot of players are of undistinguished quality. But it's a people business; people only need a little capital to start up their own companies. So, while mid-sized companies will keep consolidating with the larger ones, you will continue to see new players coming up with innovative, interesting ideas. Some of them will die; some will survive. It's a very lively industry, so I don't think consolidation will be definitive. Consolidation will also be influenced by the regulatory push to separate product development from distribution. So, I see possible separation in future for some companies affiliated with commercial banks.

One last question concerning the financial crisis: is it over?

We're on the road to recovery. ■

The interview was conducted by Meghan Davis and Alexander Schneider.

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Notices

➔ **Chief Investment Officer (CIO) Fixed Income:** Philippe Lespinard took up the newly-created role of CIO Fixed Income in November 2010. He is responsible for the Global Multi-Strategy Fixed Income Team and chairs the Global Fixed Income Investment Committee, which manages assets of USD 56 billion (as at 30 June 2010). He has more than 20 years' investment experience and previously worked for the hedge fund group Brevan Howard and BNP Paribas.



Philippe Lespinard

➔ **Martha Metcalf**, a specialist in high-yield bonds with 22 years' experience, was appointed Senior Portfolio Manager of the Global High Yield Team at Schroders in New York in October 2010, reporting to Wes Sparks. She previously worked for Credit Suisse and J.P. Morgan. The team is responsible for products including the Schroder ISF Global High Yield (ISIN A, USD, acc.: LU0189893018), which had AuM of USD 4.3 billion as at September 2010.

➔ **Mark Brandeth** was appointed Co-Head of Research of Schroders' QEP (Quantitative Equity Products) Team in August 2010. He previously worked for BlackRock and Barclays.



Mark Brandeth

➔ **Rory Bateman** is the new Head of European Equity at Schroders and as such is responsible for the European equity portfolios. He also continues to manage the Schroder ISF European Large Cap (ISIN A, EUR, acc.: LU0106236937).

➔ **Robin Parbrook** manages the Schroder ISF Asian Total Return (ISIN A, USD, acc.: LU0326948709) and is taking over the Schroder ISF Pacific Equity (ISIN A, USD, acc.: LU0106259558) from Manish Bhatia, who will focus on the Schroder ISF Indian Equity (ISIN A, USD, acc.: LU0264410563).

➔ **Global Equity Team:** Sam Catalano has joined the team as a portfolio manager and global sector specialist covering the materials sector. Giles Money has also joined the team as a portfolio manager and specialist climate change analyst.

➔ **Schroder ISF Global Small Cap Energy** (ISIN A, EUR: LU0507598497): This fund was launched in May 2010 and is being managed by John Coyle and Ben Stanton who for years have successfully been managing the Schroder ISF Global Energy fund. The new fund invests in energy related companies with a market capitalization between USD 50mn and USD 500mn. The process of having the fund approved for marketing in the Nordic countries has begun.

➔ Schroder GAIA:

- An EUR-hedged unit class (ISIN A, EUR hedged, acc.: LU0540985024) has been introduced for the Schroder GAIA Sloane Robinson Emerging Markets fund.
- Schroder GAIA QEP Global Absolute (ISIN A, EUR hedged, acc.: LU0514536464). This fund is not currently accepting any new investments.
- Jeff Blumberg is the new CEO of Egerton Capital Limited. He was previously with Goldman Sachs between 2000 and 2010, where he was Co-COO of Hedge Fund Strategies and a Managing Director for the hedge fund business in Europe and Asia.
- Christopher Morrell will be assisting Richard Chevenix-Trench as a co-manager of the Schroder GAIA Sloane Robinson Emerging Markets with immediate effect.

Award winner

Schroder ISF Global Emerging Market Opportunities



The investment story

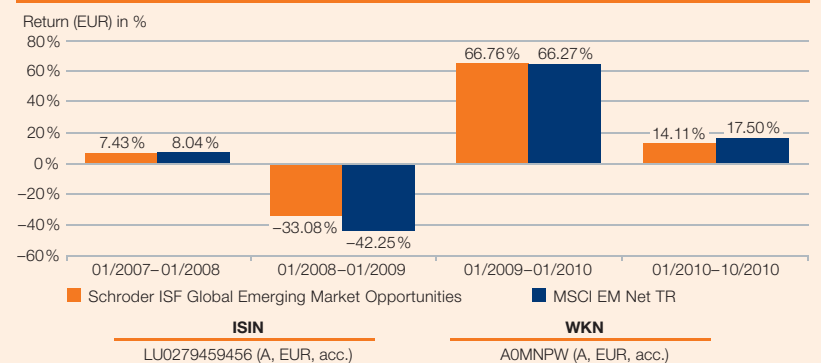
Emerging markets like China, South Africa and Brazil are on the up, offering long-term growth potential. They are also home to around 84% of the world's population and represent nearly a quarter of the global economy. As they power ahead, they are benefiting from low wages, largely healthy public finances, and a young and growing population.

Structural reforms have made them more politically stable and allowed them to open themselves up more to the global market. Today they already account for more than 70% of global economic growth – and the trend is upward. But their market capitalisation is still a long way from reflecting this economic potential: they make up just 24% of global market capitalisation.²

The fund

The Schroder ISF Global Emerging Market Opportunities invests in more than 50 emerging markets in Asia, Europe, Latin America, Africa and the Middle East. Fund managers Nicholas Field and Allan Conway perform their selection independently of any benchmark index. The fund seeks to exploit upturns as effectively as possible, but when stock markets are weak it can defensively hold up to 30% of fund assets in cash and up to an additional 30% in domestic bonds.

Performance since launch³



Investment risks

- The Schroder ISF Global Emerging Market Opportunities is a flexible equity fund that predominantly invests in emerging market equities.
- Investments in emerging market equities may be subject to higher fluctuations than investments in equities from industrialised countries.
- Investments in emerging countries may be subject to liquidity and exchange-rate risks.
- The fund may invest up to 30% of its fund assets in bonds and up to an additional 30% in cash.
- Bonds are subject to interest rate, credit, default and exchange-rate risks.
- The fund does not offer any capital protection. The value of the fund units may at any time fall below the price that was paid for the units, resulting in losses.
- The fund may use financial derivatives as part of its investment process. This may increase the fund's price volatility by increasing the impact of market events.

¹ Source: Morningstar. Data as at 30 September 2010. ² Source: BofA Merrill Lynch Global Equity Strategy, PF, CIA World Factbook, IMF World Economic Outlook, MSCI, as at June 2010. ³ Source: Schroders. Data as at 31 October 2010. Performance based on the net asset value of unit class A, EUR, acc. Calculation based on reinvestment of all income and net of annual management fee, but does not include the initial fee, or any other fees, charges, transaction costs or taxes, which would have a negative impact on the performance figure if included. The fund is also available in unit class A, USD, acc. (ISIN: LU0269904917). Foreign currency investments are subject to currency fluctuations. Past performance is not a reliable indicator of future performance.

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A review of ESG* risks from companies investing in nanotechnology

Karen Shaw, Socially Responsible Investment (SRI) Analyst, has produced a research paper examining the Environmental, Social and Governance (ESG) risks from companies investing in Nanotechnology. The article highlights:

- the history of Nanotechnology;
- its application now and in the future;
- a review of the potential risks of usage;
- and the current state of regulatory control.

A simple definition of nanotechnology is that it is the study of materials at atomic, molecular and macromolecular scales, in order to understand and exploit properties that are different from those on a larger scale. Nano particles and structures can be natural or synthetic, harmless or harmful, depending on make up, size and exposure. In addition, not all synthetic nano particles are new. Some have been used since the 10th century, others in the last half century. Currently, there is no widely accepted, specific, international definition of nanotechnology.

Nanotechnology is already used in an incredibly wide range of commercial applications, ranging from window glass to sunglasses, car bumpers and tyres to paints, skin creams, cosmetics, textiles and food and drink containers. There are greater than 1000 applications and the list is growing rapidly. These early applications of nanotechnology essentially enhance existing products available in the market. They are all completely synthetic in their nano form; although in 'bulk' the chemical compounds are found naturally. For example, nano soot, also called carbon black, is simply soot in bulk form. Currently, there is no explicit international regulation of nano products or nano technology or any standardised protocols for evaluating the environmental or health impacts of nano particles. The current international regulatory regime is tailored to assess chemicals in bulk form and it is suggested that current risk-assessment methodologies are not capable of identifying, in full, the risks associated with nano particles. This makes logical sense given the claims that nano particles can be completely different in their behaviour in nano form to when they are in bulk form.

What are the risks?

The actual existence of nanotechnologies is not a problem per se but so diverse are the range of applications of nanotechnology that it makes assessing them and their impact on human health and the environment extremely complex.

One of the factors influencing the ability of nano particles to be harmful is their 'reactiveness' to the environment generally. Passive nano particles tend to be part

of a fixed and unreactive structure. So an example of passive nano particles might be an inert coating on a ceramic or metal. Structures with nano technology embedded or fixed into a structure have created little concern from a health and safety perspective for humans or the environment.

In summary, there is a significant amount of research that has already been undertaken. The International Council on Nanotechnology maintains a database of scientific knowledge on environment, health and safety research on nano particles. There are circa 2000 entries, on different particle types, exposure pathways and more. This research is public but much more research is thought to have been carried out privately. However, there is insufficient evidence that nano particles don't adversely impact humans and the environment in certain cases where particles are free and reactive. The precautionary principle suggests that more research is required.

But still many questions remain to be answered. Some of them are: Do regulations protect against the potential health or environmental implications of nanotechnology? Can companies be covered by their insurance policies if accidents related to nanotechnology occur? And can insurance companies protect themselves from this risk?

Read the full research paper on Schroder's web site: www.schroders.com/talkingpoint. ■

* Environmental, Social and Governance.

Schroders chronicle

Baron Johann Heinrich Schröder



Baron Johann Heinrich Schröder, 1784–1883
Painting by an unknown artist
Oil on canvas.

Johann Heinrich Schröder travelled from his home town of Hamburg to London to join his elder brother's business in the first years of the nineteenth century (1804). At the beginning of 1818, he established his own trading firm under the English name J. Henry Schröder & Co. This was followed by companies in Hamburg and Liverpool, but the London enterprise remained the most substantial and important. Trading concentrated on routes in the Baltic and the British colonies, with sugar being its most important commodities. Although Johann Heinrich spent lengthy periods of time in London, Hamburg remained his home and it was there that he died, aged 98, having seen his company become one of the most important merchant banks in the City of London. ■

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