

Schroder US High Yield Strategy Overview

Summary

Schroders' US High Yield strategy seeks to generate total return by investing across the full maturity spectrum of below investment grade corporate bonds, denominated in US dollars. The strategy may also invest up to 30% in investment grade corporate bonds and government securities. The strategy typically does not invest in equities, leveraged loans, or emerging market sovereigns.

In the US High Yield strategy, we manage six key factors to generate return. Three factors: issue selection (including investment decisions on seniority/subordination, covenant protection, maturity, and bond versus CDS exposures), sector weighting, and quality tilt typically contribute the majority of excess returns relative to the Barclay Capital US Corporate High Yield Index. Positions in three other areas are also actively managed: geographic exposure, duration and curve positioning, and liquidity. These factors together contribute the balance of excess returns versus the benchmark.

Firm highlights

- Schroders manages more than \$322.8 billion in total assets worldwide
- Wide range of fixed income strategies across all major markets – developed and emerging
- Global bond team of more than 100, including more than 30 portfolio managers and over 25 credit analysts, with eight analysts dedicated to high yield research
- Deep global research capabilities – the vast majority of research is generated in-house

Team highlights

- \$64.5 billion of fixed income assets under management globally
- Specialist high yield portfolio managers led by Wes Sparks, Head of US Fixed Income and High Yield portfolio manager
- Strong team of career global credit analysts, including eight dedicated high yield credit analysts
- Fixed income quantitative analytical team for proprietary analysis and modeling
- In-house economics team

Key features

- Research-driven, themes-based investment process
- Analysts utilize a rigorous issuer evaluation process that combines fundamental, relative value and volatility assessment
- Centralized global credit research platform for fixed income and equity teams
- Relative value approach to decision making with opportunistic management in changing markets
- Risk management is embedded in our culture - we are lending our client's money

Investment objective

Schroders' US High Yield strategy seeks to outperform the Barclays Capital US High Yield Corporate Index* by 150 basis points annualized (before fees) over an investment cycle.

*This index is an unmanaged portfolio of US issued debt securities. No managed account can guarantee that its performance will match the performance of its benchmark.

Investment philosophy

- Fixed Income markets are global, interrelated and generally efficient but can overreact to events, creating investment opportunities
- We believe that a globally integrated team of research-driven bond investors is the ideal structure to take advantage of these opportunities
- Using a disciplined investment process and diversified strategies, we seek to generate consistent above benchmark returns with lower than average volatility

All data and statistics as of March 31, 2011



Credit research

Fundamental credit research is core to our investment philosophy and process and is a key driver of our ability to deliver superior risk-adjusted performance. Our global credit team of over 25 'career' analysts, including eight dedicated high yield analysts, is one of the largest and most experienced in the industry, averaging over 10 years of experience. Schroders credit analysts have excellent relationships with companies' senior management due to our exceptional franchise and close cooperation with Schroders' network of 90 equity analysts. Research responsibilities are organized regionally and by sector with analysts based in London, New York, Philadelphia, Singapore, Hong Kong and Sydney. Our global team of credit analysts covers the full spectrum of investment grade and below investment grade issuers, and produces analysis and internal ratings of more than 1,300 issuers, or approximately 50-60 issuers per analyst.

Investment process

Our fixed income process consists of four distinct steps:

- Conduct in-depth proprietary market research (fundamental, quantitative and technical) to develop investment themes will to dominate markets over the ensuing 3-6 month period
- Develop and prioritize investment strategies, based on these investment themes, which determine portfolio positioning in the market: regional and currency allocation, sector biases, credit quality tilt and liquidity
- Implement investment strategies within the portfolio using a relative value framework to prioritize investment ideas and execute security selection
- Continually review portfolio within a rigorous risk management framework, emphasising both issuer concentration limits and a tracking error volatility target

The cornerstone of our investment process is our weekly Fixed Income strategy meeting. Here, portfolio managers combine the outputs from our economic, quantitative and global credit research with bottom-up issuer research to establish investment themes and resulting

Macro strategy

Macro credit strategy is based on quantitative and qualitative analysis conducted by the portfolio management and research teams. Historical spread analysis and proprietary models are used in conjunction with our monthly scorecards process, which assigns a value to key factors impacting fundamentals, positioning, and valuations within the credit markets. Scores are aggregated to calculate an overall credit score, reflecting our outlook for the credit market and its subsectors the ensuing month.

Sector strategy

Sector strategy incorporates top-down economic and business cycle drivers with bottom-up credit fundamentals to forecast expected sector returns. Analysts and portfolio managers independently assign a view of 1 (outperform the index), 2 (perform in line with the index), or 3 (underperform the index) to each sector in the benchmark. Analysts base their view on fundamental research of the issuers in their respective sectors while portfolio managers incorporate their knowledge of index composition and characteristics, relative value and market and technical conditions. This serves as the basis for in depth team discussions and determines the consensus sector view, a key component in portfolio construction.

Issuer selection

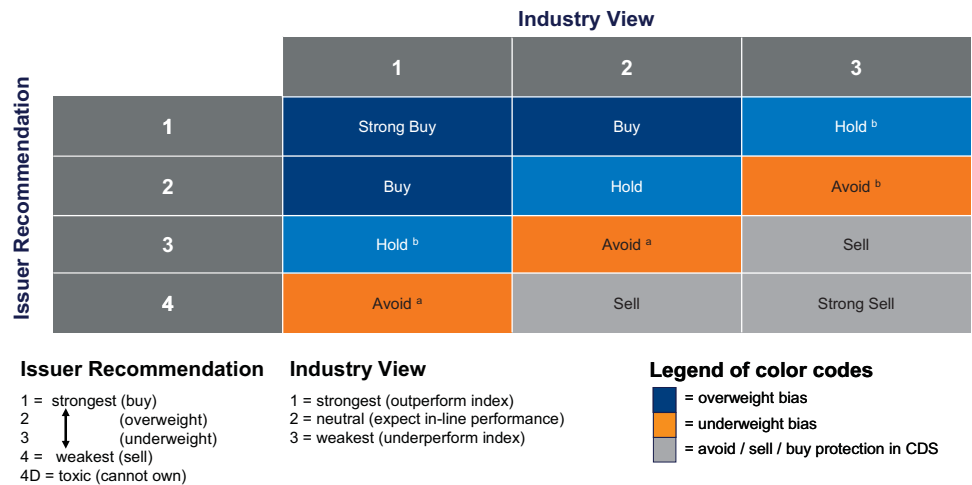
Every covered issuer is thoroughly analyzed using a common and disciplined process. This process includes a comprehensive due-diligence examination of each issuer and detailed financial modeling to assess credit worthiness. Above all, analysts focus on a company's current and future ability to service debt from cash flows. Issuers are then assigned a credit opinion, an investment recommendation, and an issuer concentration limit.

Our proprietary credit research process provides a consistent and proactive framework for security selection and portfolio construction.

1. **Credit opinion:** the direction of credit quality trend over the next 6 – 12 months using five classifications ranging from improving to declining, ranked within each sector
2. **Recommendation:** an issuer ranking based on relative value of an issuer within its sector
3. **Issuer Concentration Limit:** a maximum position size, relative to the benchmark, that is determined by current internal ratings and potential price volatility of each issuer

Portfolio construction

Sector and Issuer views are brought together in Schroders' Credit Matrix, which is a 12-box grid of Issuer Recommendations (determined solely by credit analysts) and Sector Views (determined jointly by credit analysts and portfolio managers). The Credit Matrix allows all of the credit analysts and portfolio managers worldwide to speak a common language and also provides a guide for portfolio managers to use in portfolio construction. The figure below illustrates a conceptual form of the Credit Matrix; a "heat map" that illustrates gradations of buy, hold, or sell signals for the various issuers depending on the current sector view.



Source: Schroders

a These issuer/industry combinations can be good candidates to be used as a short leg on a CDS paired trade
 b These issuer/industry combinations must be re-evaluated quickly at major market turning points

The output of this process is each analyst's ranking of all covered issuers relative to the respective sector. These reports are used by the portfolio managers to evaluate recommendations across all sectors. In addition, issue selection is optimized based on credit quality, capital structure and liquidity profile. This information is then incorporated with our macro economic analysis and themes, market trends and technical conditions to construct diversified portfolios. Ultimately, the high yield portfolio managers are responsible for the final investment decision.

Risk management

Inherent within the fixed income investment process is a structured approach to risk management and monitoring which utilizes a combination of formal and informal rules and guidelines, as well as proprietary quantitative models and externally supplied software tools, including Charles River and Barclays POINT.

At a total portfolio level, the team seeks to reduce risk through the diversification of lowly or non correlated investments. For individual issues, position size is determined by an assessment of risk and reward across different strategies, and is rigorously controlled based on the issuer's risk profile. All positions are measured in both percentage and contribution-to-duration (CTD) terms.

The use of structured risk controls is critical to limiting the volatility of returns versus a benchmark while achieving the portfolio performance target. Our process tracks sector and individual exposures against their benchmarks, quantifying such exposures through: modified and effective duration, yield to maturity, option-adjusted spread, yield curve exposure, sector and industry allocation, and credit rating category.

Experienced team

Name	Position	Location	Years of Experience	Years with Schroders	Speciality
Wes Sparks	Lead Portfolio Manager	New York	22	10	Global High Yield Portfolio Manager
Martha Metcalf	Portfolio Manager	New York	22	<1	Global High Yield Portfolio Manager
Dan Sullivan	Asst Portfolio Manager	New York	4	4	US High Yield Assistant Portfolio Manager
Patrick McCullagh	Credit Analyst	London	14	4	Telecommunications, Media, Technology
Senan Kiran	Credit Analyst	London	7	2	Basic Industries, Capital Goods
Richard Brown	Credit Analyst	Singapore	26	10	Natural Resources, Utilities, and Real Estate
Li Ping Yeo	Credit Analyst	Singapore	16	4	Telecom, Media, Technology, Transportation, Conglomerates, and Food & Consumer Goods
Chris DeYoung	Credit Analyst	New York	21	7	Basic Industries, Capital Goods, Transportation
Susan Park	Credit Analyst	New York	16	6	Telecommunications, Media, Technology
Jorie Widener	Credit Analyst	New York	13	3	Consumer Cyclical & Non-Cyclicals – with particular focus on Autos, Gaming, Retailers, Healthcare
Mona Yee	Credit Analyst	New York	16	5	Energy, Pipelines, Electric Utilities

As of December 31, 2010

Why Schroders for US High Yield

- Consistent and proven investment process that capitalizes on differentiated sources of risk adjusted return
- Experience team of over 25 career global credit analysts, including eight dedicated high yield analysts, applying stringent credit standards that are supported by fundamental research
- Opportunistic style that capitalizes on changing market environments
- Risk management mentality governs every step of the investment process

Risks

All investments involve risks including the risk of possible loss of principal. The market value of the portfolio may decline as a result of a number of factors, including interest rate risk, credit risk, inflation/deflation risk, government securities risk, foreign investment risk, currency risk, derivatives risk, leverage risk and liquidity risk. Frequent trading of the portfolio may result in relatively high transaction costs and may result in taxable capital gains.

Important Information

Schroders plc

Schroders is a global asset management company with \$322.8 billion under management as of March 31, 2011. Our clients are major financial institutions including banks and insurance companies, public and private pension funds, endowments and foundations, high net worth individuals, financial intermediaries and retail investors. Our aim is to apply our specialist asset management skills in serving the needs of our clients worldwide and in delivering value to our shareholders. With one of the largest networks of offices of any dedicated asset management company and over 335 portfolio managers and analysts covering the world's investment markets, we offer our clients a comprehensive range of products and services.

Further information about Schroders can be found at www.schroders.com/us

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Past performance is not necessarily a guide to future performance. The value of investments can go down as well as up and is not guaranteed.

Diversification does not assure a profit or protect against loss in a declining market.

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