

# Schroder ISF Asian Bond\*

**IMPORTANT INFORMATION:**

This is a direct investment fund investing primarily in bonds and other fixed and floating rate securities.

Key risk:

- The fund may have significant exposure in financial derivatives instruments (up to 100% of its total net asset) such as options, futures, contracts for difference, warrants, swaps, forward contracts. Risks associated with these instruments include counterparty risk, credit risk and liquidity risk. Under extreme market conditions and circumstances, investors may lose entire amount originally invested.
- The fund's investment in bonds and other types of debt securities including short term money market instruments is subject to risks such as interest rate risk, credit risk and default risk and, potentially, currency exchange rate risk. The fund may invest substantially in securities below investment grade (up to 100% of its total net asset) which are generally accompanied by a higher degree of credit risk than higher rated, lower yielding securities.
- The fund's investment in emerging and less developed markets may be subject to significant risks such as political and economic risks, legal and regulatory risks, market and settlement risks, execution and counterparty risk, and currency risk.

You should not invest in the fund unless the intermediary who sells the fund to you has advised you that the fund is suitable for you and has explained why, including how buying the fund would be consistent with your investment objectives.

You should not make any investment decision solely based on this document. Please read the relevant offering document carefully for further fund details including risk factors.



**Combine**  
your potential investment returns  
with income and growth



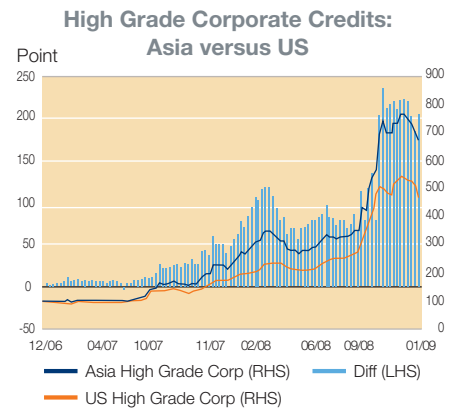
**Schroders**

# Asian Bond Market Outlook



## Asian corporate bonds show investment values

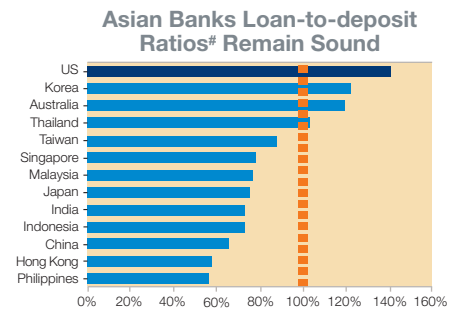
The yield spread of U.S. corporate bonds and Treasury bonds continue to widen as investors expect the default risk to soar amid the U.S. subprime crisis. Seeing a plunge in market liquidity, corporations in Asia have also been caught up in the contagion leading to further widening of yield spread and extreme under pricing. Many corporate bonds are now priced well below their par value of \$100. This presents an opportunity to pick up quality corporate bonds of companies that have strong financial positions and corporate governance.



Source: Bloomberg, as at 9 January 2009

## Asian banks generally have stronger balance sheets than their developed world peers

Asia has undergone a 10-year reform after the 1997 financial crisis. As a result, banks in the region are financially stronger than in the pre-Asian crisis period, with significant enhancements in balance sheet and cash flow management. Looking at the loan-to-deposit ratio (see chart), banks in Asia generally have larger deposit volumes than loan volumes, representing better risk management compared to their U.S. counterparts.

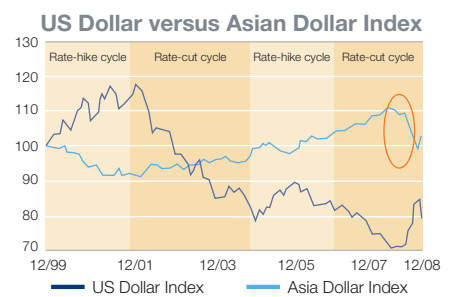


Source: Credit Suisse, Company reports, CEIC, S&P, Bloomberg, as at 13 October 2008

# Loan-to-deposits ratios: Indonesia, Korea, Malaysia, Philippines: commercial banks; China: financial institutions; Singapore: domestic banking units; India: scheduled commercial banks; Taiwan: domestic banks; Thailand: commercial banks registered in Thailand; Japan: domestic licensed banks; US: large regional banks; Australia: loans included personal, residential and commercial loans only

## Benefit from potential appreciation in Asian currencies through local bonds

De-leveraging over the past year has resulted in huge amounts of long U.S. dollar positions from institutional investors and hedged funds, boosting the dollar's exchange rate versus Asian currencies. However, over the longer term, the dollar will face the challenges of low interest rates, twin deficits and an increase in money supply. This constitutes a positive long-term outlook for Asian currencies.



Source: Bloomberg, Schroders, as at 31 December 2008  
Index is rebased to 1999 = 100

## Excellent Asian Fixed Income investment team

- Schroders was one of the first asset management companies to introduce an Asian Bond Fund more than 10 years ago. Asset under management exceeds US\$2.5 billion (as at 31 December 2008). The fund is the largest amongst Asian bond funds available in Hong Kong.
- Schroders International Selection Fund – Asian Bond has received numerous prestigious awards highly recognised in the industry.
- The Schroders Asian Fixed Income investment team consists of 11 Asia-based investment professionals, who are supported by the company's worldwide network and experienced global bond investment specialists. The team strives to explore the best investment opportunities available.

# Schroder ISF Asian Bond

## Investment Objective

To provide a return of capital growth and income primarily through investment in a portfolio of bonds and other fixed and floating rate securities issued by governments, government agencies, supra-national and corporate issuers in Asia excluding Japan.

## Fund Features

- A majority of the fund invests in Asian government and corporate bonds. The fund may also invest up to 33% (including cash) in AAA-rated G2 government bonds (typically US Treasuries and German Bunds) for diversification and capital preservation purposes
- The fund aims to achieve return through three directions: interest rate, currency and credit
- The fund captures opportunities in various economic cycles by investing in a wide range of bonds, such as those issued by governments, corporates and multinationals
- The fund is based in U.S. dollar. Monthly dividends are optional. The most recent dividend payout is 4.74% p.a.<sup>^</sup>

## Fund Strategy

**Interest Rates:** Together with historically steep yield curves, and the increasing likelihood of a correction in risk assets, we expect government bonds to receive some support at current higher yield levels.

**Currencies:** In tandem with our expectations that hopes of a sustained recovery could be challenged in the months ahead as the impact from China's front-loaded stimulus wears off, we refrain from loading up on short-USD positions at prevailing levels.

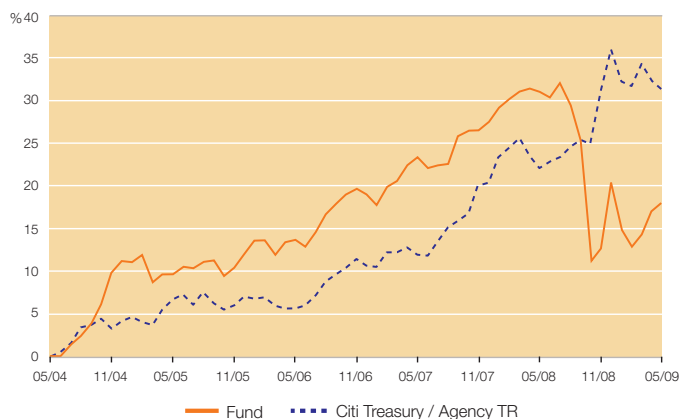
**Credits:** In the medium term, Asian credits will benefit from more credit friendly actions (such as capex reduction and balance sheet repair), and credit spreads still offer attractive risk-adjusted returns on a multi-year basis.

## Key Performance

Cumulative Performance (%)	YTD	3 Mths	1 Yr	3 Yrs	5 Yrs	Since Launch
Fund	-1.80	4.60	-9.91	3.81	18.07	131.83
Index	-3.52	-0.38	7.52	24.22	31.23	76.35

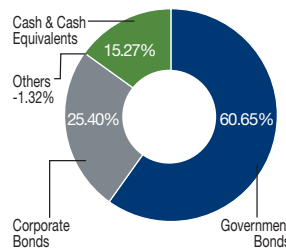
  

Annual Return (%)	2008	2007	2006	2005	2004
Fund	-5.77	7.18	6.28	0.68	10.42
Index	12.98	8.80	3.41	2.73	3.55

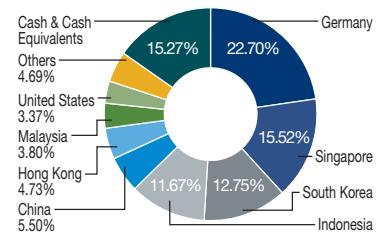


## Asset Allocation

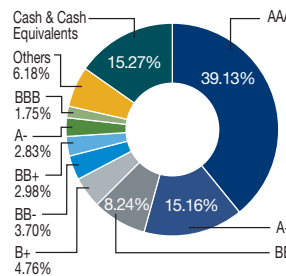
### Investment Breakdown



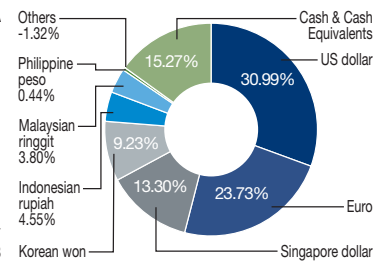
### Geographical Breakdown



### Rating Breakdown



### Currency Breakdown



## Top Holdings

Bonds	Weight
Bundesrepublik 4.25% 04/07/2039	12.44%
German Treasury Bill 0% 15/07/2009	10.25%
Singapore Government Bond 4.625% 01/07/2010	7.88%
Korea Government Bond 4.75% 10/12/2011	5.59%
Korea Treasury Bond 5.75% 10/09/2018	3.64%

## Key Information

Unit NAV	USD10.91
Hi/Lo (Past 12 mths)	USD12.28/10.26
Initial Charge	5.00%
Management Fee	1.25% p.a.
Fund Manager	How Phuang Goh
Launch Date	10/98
Fund Size (million)	USD1,511.06
Distribution Frequency (Class A)	Monthly
Unit Available	Accumulation & Distribution
Financial Year End	31/12
Bloomberg Ticker	SCHABDA LX
ISIN Code	LU0106250508
Lipper Code	60035640

\* Schroder International Selection Fund is referred to as Schroder ISF

+ Morningstar, Inc. All Rights Reserved. Morningstar Rating™ as at 29 May 2009.

^ Source: Schroders. Dividend payable on June 2009.

All fund information as at 29 May 2009. Source: Schroders. Fund performance based on Class A Accumulation; NAV-NAV in USD with net income re-invested. The Fund size quoted includes all classes of the Fund.

**Investment involves risks. Past performance is not indicative of future performance. Please refer to the relevant offering documents for fund details including risk factors. This material is issued by Schroder Investment Management (Hong Kong) Limited and has not been reviewed by the SFC.**