

Fund & Asset Manager
UK
Rating Report

Schroder Investment Management

Asset Manager Rating



'M2' Rating Definition

Asset managers in this group have earned high scores in most areas of assessment. Such organisations are generally stable, well-capitalised investment management companies with a track record of profitability. Organisations at this rating level are run by highly experienced, tenured management teams supported by experienced front-, middle-, and back-office staff. The organisational infrastructure includes strong risk management and internal control functions, which are integrated in the day-to-day portfolio management processes. Portfolio management processes are consistently applied and supported with frequent investment analysis and monitoring, forming a disciplined approach for making buy, sell or hold decisions. At this rating level, organisations will have strong investment administration capabilities, as reflected in the level of investor services and the quality of investor reporting. All core processes are supported with integrated technology resources, complemented with good analytical and decision-support.

Analysts

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Rating Rationale

Fitch Ratings has revised its Asset Manager Rating assigned to the London-based investment activities of Schroder Investment Management (Schroders) to 'M2+' from 'M2'. The rating does not take into account the management of Schroders' alternative assets, namely the real estate and fund of hedge fund business.

The rating is based on the company's long history, independence and exclusive focus on asset management. It reflects the strength of the company's balance sheet and the robust financial performance achieved in recent years. It also benefits from the continued transition of the company into a well diversified global asset manager supported with relevant resources. The rating recognises the thoroughness and intense research input of its bottom-up investment processes and a solid risk management framework in place. The addition of the '+' modifier emphasises strength in the company's investment infrastructure and technological platform with notable progress being made in data management and integration. It also notes operational efficiency in administration, including an advanced derivative operation capacity. The rating however also takes into account ongoing challenges in human resource management as the company suffered from a number of top level departures and heightened staff turnover in investment research in the past 12 months. The sharp correction in equity, credit and alternative asset markets and potentially further adverse business flows in both institutional and retail - following strong growth over the past three years in the latter - represents another key risk to the company that may impact profit margins significantly.

Schroders has managed the demanding market conditions that have prevailed over the past 15 months relatively well thanks to the diversity in its book of business in terms of geography, product and distribution channel. The institutional business has at last been stabilised, supported by new business acquired in products launched over the past three years. Retail business contributed significantly to growth in 2007 but consolidated notably in the first nine months of this year. Profit growth has held up well so far but is expected to deteriorate over the next quarters. A high share of cash and liquid assets provides financial flexibility to weather the current challenging market conditions. Schroders has suffered a number of key departures, including a management committee member and the head of fixed income and head of multi asset management. Investment processes remained stable, taking into account various changes in second line management and particularly among research analysts, which puts an onus on their short-term consistency. On the other hand, qualified successors - mainly internal - have been put in place, mitigating disruptions in decision-making. Schroders has achieved key milestones in its London operation with respect to its technological platform following the implementation of SimCorp Dimension as the main accounting and repository tool. Risk management routines were responsive to the volatile environment and included daily surveillance of counterparty risks. Although Schroders has not been materially affected by the ongoing credit crisis, some specialised funds such as in the total/absolute return area underperformed beyond risk budget estimations as well as funds that by their product design have been more dominantly exposed to the credit markets.

Manager Profile

Schroder Investment Management

Schroders is a global asset management company with GBP114.7bn in AuM as at 30 September 2008. Schroder Investment Management is owned by Schroders Plc, founded in 1804, which has been listed on the London Stock Exchange since 30 September 1959. The Schroder family holds about 47% of the company's voting equity in various nominee accounts. Schroders Plc is rated 'A+/F1/B/5', with a Stable Outlook, affirmed by Fitch in November 2007.

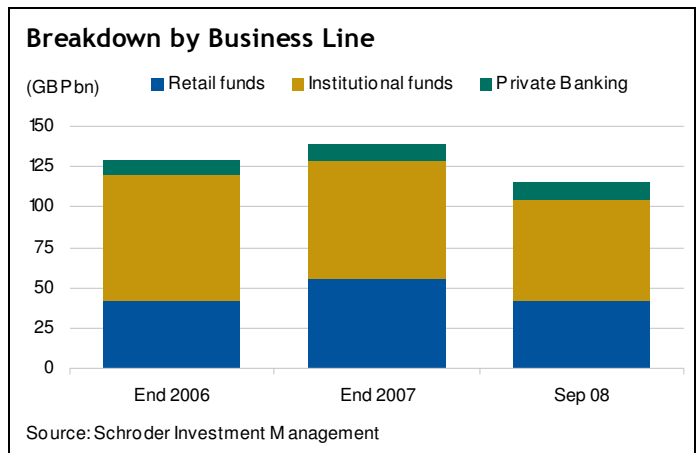
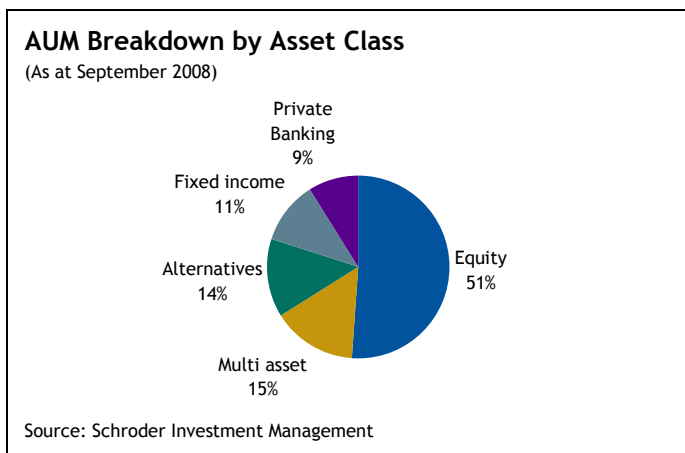
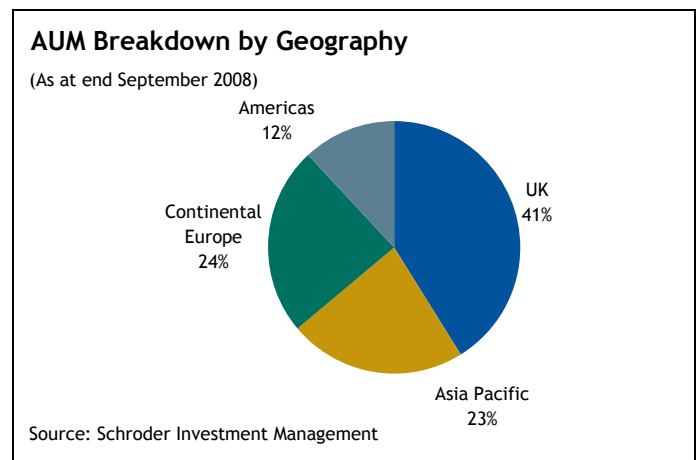
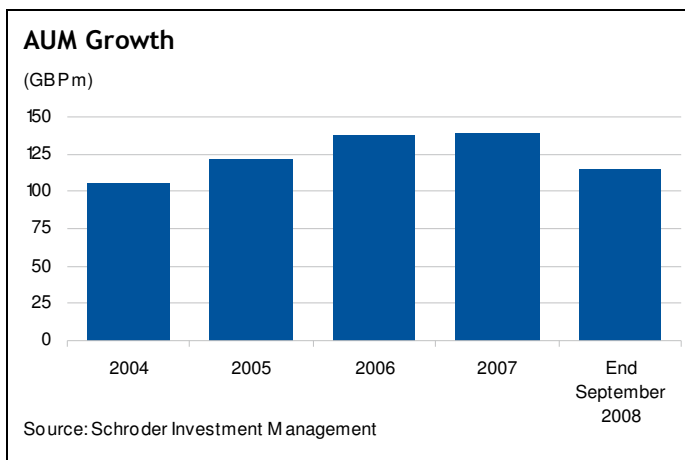
As at 30 September 2008, 1,203 staff were located in London, historically the main investment centre (2,749 globally), and 188 (378 globally)

of these were investment professionals (portfolio manager research analysts, traders). Investments span all asset classes and investment areas, although predominantly equities. Schroders manages an increasing share in alternatives and specialised investment strategies such as in its diversified, income and quantitatively oriented portfolios.

Schroders Investment Management services a variety of different institutional investors such as corporates, pension funds, local and public authorities and charities, as well as retail clients. High net worth individuals are serviced by the dedicated private banking division.

Address	31 Gresham Street London EC2V 7QA UK	Ownership	London Stock Exchange listed; about 47% of the capital is held by the founder family
Company contact	Emma Tovey Head of Corporate Communications Tel. 00 44 20 7658 6000 emma.tovey@schroders.com	Parent/affiliates	-
Website	www.schroders.com	CEO	Michael Dobson
Type of organisation	Asset management company	CFO	Stephen Brooks
Year founded	1804	CIO	Alan Brown
Domicile, place of incorporation	London; UK	Key portfolio managers	Ken Lambden: Head of Equities Karl Dasher: Head of Fixed Income John McLaughlin: Head of Multi-Asset Management Justin Abercrombie: Head of Quantitative Equity Products Geoff Blanning: Head of EM Debt and Commodities
Registration(s)/jurisdiction(s)	FSA, Reg.No 119348	No. of portfolio managers	85 at end-September 2008 (based in London)
		No. of employees	1,203 at end-September 2008(based in London)

Assets Under Management



Schroder Investment Management

Rating

M2+

Key Rating Drivers

Strengths

- Long history, exclusive focus and extensive track record in asset management with a global, diversified book of business (by geography, product and distribution channel)
- Upgraded technological platform leading to notable progress in data management and integration
- Thorough, research intensive bottom-up investment processes
- Overall solid risk management framework

Challenges

- Restoring stability in staffing, particularly among equity and credit research analysts to ensure consistency in processes
- Expected ongoing volatility in retail business potentially impacting profit margins

Score

Company & Staffing

2.25

- Long-established expertise in and clear focus on asset management with a broad product range
- Controlled evolution of the company into a globally diversified investment manager with enhanced focus on alternative investments (emerging markets debt and equity, commodities, diversified growth strategies, liability driven investment) and derivative capacity
- Financial flexibility to respond to a challenging market environment; high share of liquid assets in the balance sheet
- Established principles of corporate governance, including corporate responsibility
- Some key departures, including senior management; staff turnover in investment research
- Consolidation in asset growth, potentially smaller contribution from high margin retail business

Risk Management & Controls

2.00

- Solid and well organised risk management framework throughout the company ensuring a good level of oversight
- Tight risk surveillance reflecting dislocations in markets to date; currently daily routine in global risk management for counterparty risk and liquidity management
- Strong operational risk management practices supported by a dedicated database and monitoring tool; tight third party oversight
- Sophisticated proprietary risk management and risk budgeting tools as per asset class
- Investment risk management function separate, but not strictly independent from investment management
- Stress testing selectively applied; recent challenges in surveillance of fixed income absolute return products

Portfolio Management

2.25

- Bottom-up, mainly fundamental research driven investment approach with strong accountability
- Information gathering and knowledge sharing through global integrated web-based research platform (GRiD)
- Further build-up of quantitative investment capacity and expertise by a dedicated equity team
- Refinements in the fixed income process through the use of a quantitative credit filtering tool (CRAFT)
- Sound portfolio analytics framework, risk budgeting policies and processes
- Professional trading desk with pre- and post-trade cost analytics
- Restoring staff stability; therefore enhancing interaction between research analysts and portfolio manager

Investment Administration

2.25

- New reporting engine "FundReport" for client valuation reporting in the UK; web-based e-link facilities
- Global standard for performance attribution through Bi-One; further progress on fixed income attribution
- Updated web-based client information on market developments; but less exhaustive information in routine reporting (such as fund factsheets)
- Outsourced custody, fund administration and pricing agent
- Increased operational efficiency and flexibility following the implementation of SimCorp Dimension (SCD) as the global repository tool
- High straight-through processing (STP) in operations; sound and scalable derivative platform to process increasing volumes

Technology

2.00

- Target Operating Model (TOM) largely completed in the UK through the implementation and full interfacing of SCD as integrated middle office (MO)/back office (BO) application
- Notable progress in data management and integration
- Internal IT resources to support and develop further set of proprietary, asset class-based decision support/risk management systems
- Outsourced IT maintenance and security services; established and tested business recovery/continuity plans in place
- Global rollout of SCD and completion of outstanding TOM projects (client communication and services)

Company & Staffing

Shareholding & Financial Standing

Schroder Investment Management is owned by Schroders Plc, which has been listed on the London Stock Exchange since 30 September 1959. The Schroder family holds about 47% of the voting equity in various nominee accounts; 6.7% of the total ordinary and non-voting ordinary shares in issue (as of December 2007) are owned by employees eligible for dedicated share plans as part of their remuneration.

Schroders' overall financial standing is backed by high capitalisation, minimal gearing and a large share of liquid assets on its balance sheets. The financial performance in 2007 was strong as asset management profits before tax rose 22% to GBP266.5m (compared to GBP219.0m at end-2006) reflecting ongoing structural improvements, namely an increase in average profit margins.

Profits in asset management for the first nine months of 2008 increased by 3% to GBP195.8m compared to the same period last year, taking into account a challenging market environment with broadly lower equity and credit markets and also considerable stress in alternative assets. Given the intense pressure on all of these markets to October, a further impact on Schroders' profits will be felt more clearly this quarter and into 2009. Adjustments have already been announced both in compensation and non-compensation costs.

Key risks to the financial performance arise from a prolonged and persisting downturn in equity markets, which still represents about 51% of the asset base (as of September 2008). Fitch also recognises that in a risk-averse environment, business flows will likely be subdued for some time if not outright negative as has been the case in Q308 in both the institutional and, more importantly, the retail business. The exposure to the latter has grown strongly and has been instrumental in the underlying profit growth of the company over the past three years.

Mitigants to the financial risk are seen in the diversity of Schroders' book of business and in the high share of cash accumulated, which provides another layer of financial flexibility.

Experience in the Asset Management Industry

The Fitch Asset Manager Rating is assigned to Schroder Investment Management and refers to the investment activities based in London, historically the major global investment centre. These activities include the management of: UK, European, global and emerging markets equities; UK, European and global fixed-income funds and emerging market debt; balanced funds and specific investment solutions in the multi-asset management group. Schroders operates two other investment centres in New York (US equities, US fixed income) and Singapore (Asia Pacific equities and bonds). The rating does not take into account the management of alternative assets, namely the real estate activities and the hedge fund business managed by New Finance Capital, which Schroders Plc acquired in 2006.

Schroders' history dates back more than 200 years to 1804. It is a global asset management organisation represented in 28 countries worldwide. Well diversified by geography, clients in asset management outside the UK (excluding private banking) make up 62% of the total (continental Europe 22%, Asia-Pacific 27% and the Americas 13%) at end-June 2008, confirming the increasing globalisation of its business. Schroders operates three main investment hubs in London, New York and Singapore, which are supported by a number of other local investment centres.

Institutional business remains the company's central focus, accounting for 53% of AuM at end-September 2008 (53% at end-December 2007). While the company has suffered from substantial net outflows in this segment over recent years following re-allocations of traditional UK balanced investors, a notable stabilisation occurred in the first nine months of 2008 when compared to the previous year. Fitch also

notes Schroders' capacity to attract new business which amounted to GBP7.3bn in H108, largely driven by strong margin products.

Schroders' retail business - steadily built up over recent years - accounted for 37% of AuM at end-September 2008 (40% at end December 2007). Sales have generally been strong in this area except for the last two quarters where notable net outflows were reported. This reflects the risk averse behaviour of such investors in line with declining asset returns that could be observed over the past six months and if continued represents a key risk to Schroders' asset gathering capacity. The remaining 10% of AuM correspond to Schroders' private banking activities.

Schroders' investment management profile is increasingly shaped by its transition from a traditional asset manager into a provider of alternative investment classes and strategic solutions such as diversified growth strategies. Strong expertise has been gained and resources committed in emerging markets in both bonds and equities but also commodities, satisfying demand for global diversification needs of institutional investors. AuM in alternative strategies (commodities, emerging market debt and equity, hedge funds, private equity and property) has almost doubled since end-2005, reaching GBP16bn or 14% of total assets, with commodities being a particular engine of growth until summer 2008 before markets went into sharp retreat in the months to end-October 2008. In its multi-management business, growth continued in the so-called "new" balanced business, which encompasses investments into a wider range of less correlated asset classes. Since its implementation in 2006, assets in this area grew to around GBP2bn to end-September 2008. Other growth areas include quantitatively driven equity and local specialities such as Asian bonds.

Management pursued its strategy of diversifying the book of business and seeking growth opportunities by selective smaller acquisitions as demonstrated by the acquisition of the Swiss third party fund management business of Swiss Re in March 2008 or the Singapore-based private client advisory unit of the Commonwealth Bank of Australia.

Fitch notes Schroders' efforts to build capabilities beyond the traditional set of asset classes and the adequate support management has given to this in human resources, technology and operational infrastructure. The agency views such strategic positioning as an adequate means to address institutional needs for diversification, which has no doubt supported the stabilisation of flows in this business. However, current market conditions may challenge duration of such recently acquired business, particularly as underlying volatilities (for example, in commodities) may exceed investor expectations and lead to a review of allocation. This may include investment objectives in return-oriented strategies that have not been met in the short term.

Corporate Independence & Governance

Schroders' key strength is its independence and exclusive focus on asset management, minimising potential conflicts of interest. It has a tradition of outsourcing functions that are not key to asset management such as custody, administration, and transfer agency, thereby leveraging on scalable third party platforms that offer market "best practice" and a proven level of service quality. Further outsourced functions include London IT infrastructure and asset pricing.

Distribution of funds is geared towards cooperating with recognised international and local third-party distributors and, in the institutional business, tight relationships are held with leading consultants by means of dedicated and increased resources.

Corporate governance is laid down in the company's governance guidelines, which the board adopted in 2004 and reviewed and updated during 2007. However, there is no board majority of independent non-executive directors (as proposed by the

FSA's Combined Code 2006). Except for this, Fitch views Schroders' governance principles as a sound foundation for conducting the asset management business and well embedded in the company's culture.

Staffing

Schroders' human resource management benefits from a global presence and recognition, which gives the company access to the industry's best talents both locally and globally. HR policies encourage personal development and career planning and remuneration is geared towards maintaining high quality staff. Portfolio managers have 14 years' experience on average while research analysts have 10 years of industry experience. The senior management team combines a wealth of experience in asset management and has been instrumental in driving the strong evolution of the company in recent years.

The following table summarises Schroder Investment Management's staffing levels in key areas in its London operation:

Function	No. of staff
Senior management (group management committee)	11
Portfolio management	190
Of which:	
Equity	36
Fixed income (incl. EM market debt)	13
Multi-asset management/LDI/structured products	11
Alternative investments	29
Trading desk	17
Research analysts	84
Other investment staff	114
Risk management	25
Distribution (product management/acquisition/marketing/product support)	226
IT (internal)	129
Legal/compliance/audit	44
Operations	35

Source: Schroder Investment Management, as of end-June 2008

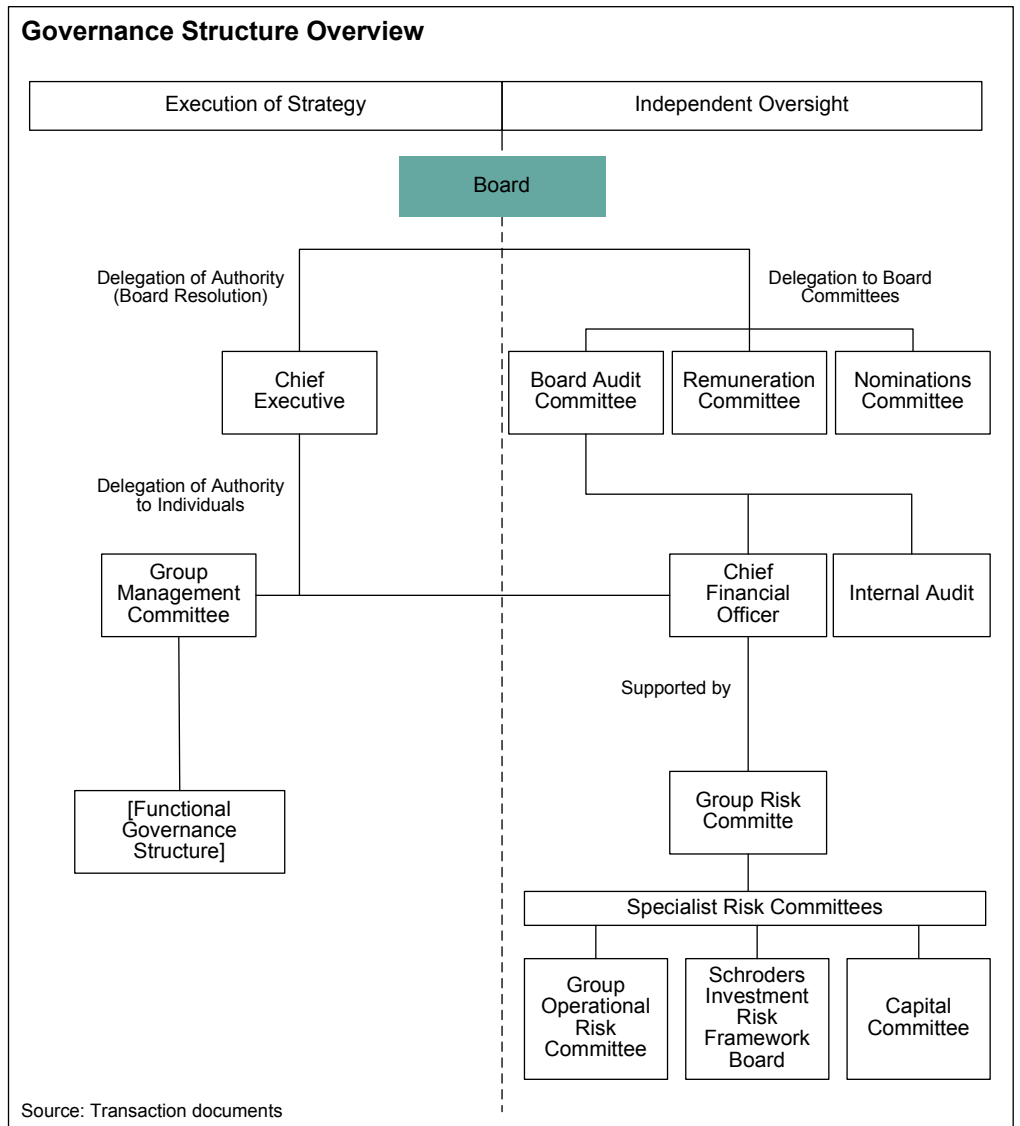
However, in the 15 months to September 2008, the company has been faced with a number of key departures, including a member of the group management committee, the heads of the fixed income and multi-asset groups and a number of leading second line managers, particularly in the fixed income team. Furthermore, a number of analytical staff in credit and equities departed. On balance, such vacancies have been filled quickly, mainly by internal successors as the company has benefited from its pool of qualified staff. In addition, a number of new hires were made to support staffing, particularly for new and sophisticated products.

In the context of market turbulence, Fitch believes that more stability in staffing is essential for the company to avoid compromising on the consistency of investment processes and quality of research.

Risk Management & Controls

Control Organisation Structure

Schroders has a solid and well organised risk management framework with clearly assigned responsibilities in place, ensuring a high level of oversight from top management and the board of directors through delegation to board committees as outlined in the governance structure below.



Primary responsibility for the risk and control framework rests with the CFO, who is supported by the group risk committee (GRC), for monitoring and reporting of risks and an evaluation as to the effectiveness of the control procedures. Schroders has changed the composition of the GRC to include the CIO as well as product management to give it a broader and more forward looking view on risks. Beyond the structure shown, the company maintains a number of other sub-committees, for example, a brokerage committee, global trading performance committee or group derivatives committee and others to support the overall risk responsibilities. Risk reporting to the GRC is standardised but focused and allows for instant evaluation of more granular risk levels.

Schroders provides an AAF 01/06 report for 2007 (Audit and Assurance Faculty) on its internal controls for the largest part of legal entities following the guidelines issued by the Institute of Chartered Accountants in England and Wales (ICAEW).

The control structure reflects the company's global scale and accounts for the growing complexity of Schroders' product range and, in Fitch's view, places it well to meet its risk and control objectives.

Operational Risk Management

Schroders' business area heads across the group conduct a semi-annual bottom-up survey of business risks and control effectiveness. Such results are blended with the semi-annual assessment of key risk and key performance indicators that identify a diversified range of constantly monitored company-wide risk categories. To strengthen operational risk aspects, a dedicated group operational risk committee has been separated as a sub-committee from the group risk committee.

The operational risk management process continues to be facilitated through Schroders' worldwide intranet-based risk management system, "SWORD", which provides risk and control maps for local management. The system systematically captures all incidents and system or process failures and reports control performance, particularly for high-risk items, on a monthly basis. Reporting is aggregated through a risk dashboard that maps open issues ranked by the level of importance and overdue time, adverse audit and compliance opinions as well as errors and the project status provided by the change management team. It provides, via a web facility, flexible querying of issues to more granular levels.

Relationships with third parties are based on service level agreements (SLAs) and are subject to regular reviews, tight monitoring by means of key performance indicators and subsequent follow ups to ensure sustainable high quality services provided to investors. A particular focus is kept on outsourced administrative services with administrators and custodians.

Compliance and Controls

Schroders has a defined compliance framework in place, advising the board on the FSA compliance regime and ensuring consistency with regulations in all jurisdictions in which the company is active. Formal monitoring activities and control routines are coordinated with the internal audit function and approved by the group compliance committee. The function is organised globally under a new head of compliance and adequately staffed, allowing oversight, particularly for the number of foreign locations that largely employ their own dedicated compliance staff. Areas of compliance are thoroughly mapped, including personal conduct and client relations. Relevant policies, procedures and standards - for example, on best execution, inducements, complaints and fair allocation - are reviewed and updated at least on a yearly basis. Escalation procedures are well defined and control issues are tracked by way of the SWORD application, the functionalities of which, compliance intends to extend further to cover both complaints and regulatory breaches.

Restrictions and controls on investment constraints at the portfolio level - whether statutory, contractual, client-specific or internal in nature - are automatically monitored through the Charles River Investment Management System (CRIMS) on a pre- and post-trade basis. For Luxembourg domiciled funds, the ex-post monitoring of investment restrictions is automatically performed through the ChaseTrac system.

Controls on valuation and pricing of the funds are securely performed by means of multi-level checks, automated controls of tolerance limits facilitated by a newly introduced vendor solution and defined reconciliation procedures. Schroders operates a central pricing unit that cross checks pricing provided by the custodian based on a defined procedure, including escalation steps. On top of local pricing committees, Schroders has recently installed a global pricing committee that includes external specialists for discussion, agreement and consistent resolution of open valuations and pricing issues. The pricing of over-the-counter (OTC) derivatives benefits from the use of a specialist third party provider, Markit.

Investment Risk Management

Schroders manages investment risks based on a dedicated governance structure, Schroders Investment Risk Framework (SIRF), which ensures that all portfolios are managed and regularly monitored in line with their investment objectives and the constraints of each client. It includes regular risk and performance reviews and attribution analysis. Risk parameters are carefully chosen to fit the purpose and reflect the specific risks that affect the relevant investment strategy. The risk surveillance process involves the risk manager, desk heads and the product manager, who are obliged to make a regular sign-off and includes formal portfolio risk exception reporting. Minutes and aggregated risk reports are provided to a dedicated board, acting as a sub-committee to the group risk committee.

Investment risk resources are partly embedded in portfolio management, particularly in the multi-asset team, which undertakes intense quantitative research to support risk methodologies and drive risk management processes, particularly with respect to the monitoring of rather complex strategies. The head of investment risk reports to a dedicated COO in the investment division. This structure grants an acceptable degree of separation and accounts for the skill-set needed to oversee more complex risks in the specialist investment area. Nevertheless, Fitch continues to see the full independence from investment management being compromised when compared to its peers.

Schroders uses dedicated proprietary tool sets for investment risk identification and monitoring, which are aligned to capture diversified range risk factors relevant to the specific asset classes and enable outlier identification. Fitch views these tools, which provide an integrated and uniform monitoring for portfolio managers, as well suited to their objective. While these tools to a various degree allow for stress testing of portfolios, Schroders as yet makes relatively little use of such functionalities in a formal and consistent manner, except where for regulatory purposes such tests are required.

Portfolio Management

Schroders derives its competitive edge in active asset management from its global coverage, the depth of its proprietary research in both equity and fixed income and the selection and portfolio construction skills of responsible portfolio managers.

Asset management is organised on a global scale under the leadership of the global CIO who oversees fixed income, multi asset, structured products, quantitative equities and investment operations. Equities and emerging market debt and commodities are currently under the direct responsibility of the CEO. This structure results from a re-arrangement of responsibilities following the departure of the vice chairman and will likely be subject to further adjustments.

Decision-making follows an integrated team oriented approach supported by a range of dedicated management tools. Analysts' performances are clearly quantified through a dedicated attribution module (ARM), which measures the quality of recommendations by specific company grades that analysts are obliged to provide. The ultimate management responsibility, however, always rests with portfolio managers. Global monthly strategy meetings and various short-term team meetings guide investment decisions with a clear buy and sell discipline being imposed. Information gathering and communication of research ideas to fund managers is performed through GRiD, the Schroders Global Research Investment Database, an integrated web-based research platform that contains both internal and external company-specific research (equity, credit) and market information, including the coverage lists of stocks, their history, and portfolio rating actions with a clear rationale of the investment decisions taken.

Schroders relies on experienced and well resourced trading facilities through the Charles River Investment Management System (CRIMS), both in fixed income and

equities, ensuring a global live facility on a 24/7 basis. Trading is highly automated through the use of FIX protocol and a full audit trail in CRIMS, which records all the stages of the transaction process. Strict focus is kept on accessing the most liquid market pools (through, for example, Direct Market Access, LiquiNet, multi-broker algorithms or fixed income platforms such as TradeWeb or Market Access) to warrant efficient execution, low trading cost and little slippage. Transaction costs are managed on a daily basis, and pre-trade and post-trade analysis is performed through ITG Triton analytical tools, linked to CRIMS. Trading performance reports based on ITG Plexus are reviewed on a quarterly basis. OTC order management and trade execution of swaps are supported through the Derivatives Term Sheet Application (DTSA).

In summary, Fitch views the overall investment capacity of Schrodgers to be well balanced with its stated investment objectives and the resources committed in staffing, research and the portfolio analytics framework to be adapted to the relevant processes and their related risks.

Equity

Schrodgers' investment philosophy and core investment processes in equities have remained broadly unchanged since Fitch's last review. The investment process is effectively bottom-up, focused on stock selection and geared to be neutral in terms of a systematic style bias over a cycle. It emphasises mis-priced opportunities in quality companies whose potential earnings power should emerge over the long term, as evaluated by Schrodgers' proprietary company valuation model (CVM), which generates valuation metrics, including three-year earnings and cash-flow forecasts. Such rigorous financial analysis ultimately translates into a ranking from "one" to "four", reflecting expectations of over- and underperformance, respectively. Supplementary conclusions are drawn from direct company contacts and quantitatively performed internal analysis for the screening of markets, stocks and valuation.

An exception to this is the global emerging market process where 50% of the value added is expected to be derived from country allocation based on a proprietary top-down quantitative model that takes into account five groups of factors (valuation, growth, currency/risk, momentum and interest rates) with data sourced from independent third parties.

Schrodgers' dedicated quantitative equity products, which concentrate on generating a diversified portfolio of unconstrained stocks with regard to sector, country and market capitalisation, also follow a specific process. The company defines four dedicated strategies, value, quality, quality/value blended and core, where certain filters on financial metrics and liquidity are applied to drill down the relevant investment universe. Stock weights are determined by the global ranking, a market impact weighting and the probability of value being realised when compared to history, but are restricted to a 0.5% maximum; portfolios are then constructed on a bottom-up region and sector allocation.

Risk budgeting and portfolio construction in the core processes follow a broadly unconstrained approach in which stocks within the remits of the given risk parameters for the portfolio are weighted and ranked according to the portfolio manager's conviction with additional considerations given to liquidity. This process is facilitated through PRISM (Portfolio Risk Investment Strategy Manager), the key risk management tool that identifies a key range of diversified active risks at the portfolio level and controls style tilt in equity portfolios. In addition, Schrodgers has implemented a vendor tool, IMPACT, for real time portfolio construction and monitoring, which also provides pre-trade what-if scenario analysis.

Bonds and Credit Management

Schroders' fixed income processes are designed to provide investors with a global set of opportunities in European and UK portfolios based on dedicated, regionally organised but globally interlinked teams. A broad universe of instruments is covered by the London operation ranging from pure regional government bond portfolios to specialist asset classes such as high yield bonds, emerging market debt and asset-backed securities. Bottom-up credit research and investment-grade corporate bonds form a key focus in Schroders' fixed income activities supported by a dedicated and comparatively large team of credit research analysts.

Processes generally continue to be fundamentally oriented and research-driven and decisions are made with a high degree of intellectual discipline. Strategies are formulated using a scorecard approach and all qualitative assessments are fully documented. Quantitative, model-based inputs have been integrated further into the investment process, for example to identify value in government markets, provide rich/cheap analysis of credit markets or to filter rich/dear individual issuers. The dedicated fixed income quant team also provides a supplementary technical analysis of market conditions. Active management is pursued through relatively incremental bets - but frequent investment decisions are made according to clearly defined out-performance/stop loss objectives based on duration, yield curve, sector allocation or security selection.

Credit selection follows a detailed due diligence examination of each issuer and detailed financial modelling to assess creditworthiness. The output is an assignment of internal credit ratings and subsequent recommendation as a measure of relative strength versus the markets. Corporate issues assigned the lowest ranking by the credit analysts cannot be held in portfolios. Thorough credit profiles are maintained and updated on a regular basis with tight monitoring of deteriorating credit profiles.

Risk budgeting and portfolio construction is the responsibility of the lead portfolio manager facilitated by the use of FIA, Schroders' proprietary Fixed Income Analytics, Lehman Point and Quick Risk, a newly added quantitative tool for correlation calculation of the top-down strategies.

Schroders makes comparably large use of derivatives in its fixed income business, namely credit default swaps (CDS), for which it provides a secure operational environment. Risk management routines have been responsive to the volatile environment and included daily surveillance of counterparty risks. Schroders has not been materially affected by recent credit events and critical single issuer exposures but some specialised funds have underperformed, for example those reflecting current dislocation in the ABS market. Equally, challenges occurred with respect to absolute and total return oriented strategies where results compared to the stated investment objective deviated notably from expectations derived as part of the underlying risk budgeting process.

Balanced/Diversified

Schroders' balanced investment approach, particularly the "new balanced" strategy, focuses on high diversification and applies a combination of uncorrelated strategies across different asset classes.

The classic approach in formulating the investment strategy through the group's asset allocation committee, representing a large pool of global specialist expertise, has been kept in place. As the different sections within the traditional multi-asset funds are managed by the fixed-income or equity specialists, the related processes and practices described earlier apply.

Further expertise has been built in structured investment products that provide full or partial capital protection through option overlays, or aim to maximise income generation. It includes strategic solutions such as LDI pooled pension funds, which both enjoyed continued investor interest. To extend coverage and support in

alternative strategies underlying the diversified growth approach, Schroders has built further resources, particularly in commodities investments which are managed in conjunction with emerging market debt securities in a dedicated unit.

Fitch views Schroders' competitive edge in this area as being derived from the resources committed, the input of its dedicated quantitative research unit and the proprietary Value-at-Risk (VaR)-based tools used for portfolio construction, optimisation and monitoring. Such tools not only enable a flexible choice of benchmark but also account for the specific non-linear distribution profiles of the related investment strategies.

Investment Administration

Reporting & Communication

Schroders' overall communication to financial investors is anchored by the general disclosure requirement for UK stock listed companies. Beyond this, it has a proven capacity to respond actively to client needs, specifically institutional investors, and has been responsive in informing fund clients through updated web-based reports and assessments, particularly on recent market developments.

Reporting processes and business flows have been organised more efficiently as part of Schroders' Target Operating Model. In April 2007, the company licensed FundReport by vendor provider Fund Works, for the production of UK client valuation reports, linked to SimCorp Dimension to achieve a notable enhancement in data collection, accuracy, automation and operational oversight. Schroders generally proposes summarised monthly reports to its investors, followed by a more detailed quarterly reporting. Reporting content and presentation is of a good standard and institutional investors find access to their portfolios through e-link facilities. Updated workflows enable a flexible reporting regime, including performance attribution delivered through Bi-One, a specialised vendor product. However, Schroders does not currently utilise the full potential of reporting instruments (for example, advanced risk reporting and attribution) available in its standard reporting regime but rather reserves them for tailor-made reports provided to institutional clients.

The asset manager complies with global investment performance standards (GIPS), and was last verified for the period to end-December 2007.

Administration

Schroders has a service-minded culture in place with capacity and necessary resources to provide tailor-made administrative solutions, reflecting the long history of dealing with various types of institutional investors. Over the past 12 months, a particular focus was kept on relationships with consultants supported by additional hires. Within Schroders, an experienced department is devoted to the set-up procedure for new funds, reflecting clearly assigned responsibilities and a "four-eyes principle" approach to control.

The company has a streamlined and automated operational platform in place; administrative services for the UK- and Luxembourg-based range of funds (administration, custody, transfer agency) are provided via outsourcing agreements with recognised third parties, ensuring efficiency and scale. Such relations are governed by service level agreements (SLAs) and the quality of the services rendered - particularly net asset value (NAV) calculation - is continuously assessed by means of key performance indicators and close and regular follow-ups.

Over the past two years, Schroders has built a sound and scalable operational derivative platform - instrumental to support its diversified asset strategies - that captures a variety of instruments and has handled sharply increasing business volume.

Schroders uses a global clearer for derivatives and typically transactions are automatically matched through the DTCC (Depository Trust And Clearing Corporation) in the case of single and basket CDS, or Swapswire for interest rate swaps. It makes use of credit support annexes as part of its legal set-up and performs the corresponding collateral management internally.

Valuation processes and pricing procedures are well organised and mainly delegated to external parties or independent sources such as Markit for the pricing of credits and OTC derivatives. Internal reconciliations are performed through a central pricing unit; a dedicated pricing committee is installed in case of discrepancies, of which compliance is a member.

Schroders emphasises high standards in corporate responsibility with a view to transfer such principles also into the companies in which it invests. Activities are coordinated and governed by a dedicated corporate responsibility committee, which was set up in 2007 and is chaired by the CIO. The company provides proxy voting services through the external provider Institutional Shareholder Services (ISS) on an automated basis.

Fitch views Schroders' investment administration platform as scalable and effective, suited to cope with business volumes and aligned to the complexity of business transactions that require operational excellence, particularly in derivative operations.

Technology

Schroders has achieved milestones with respect to its Target Operating Model (TOM) in its London operation as described below as well as for its administration platform centres in Luxembourg and Zurich. The asset manager has largely completed the front-to-back-office investment infrastructure project and now possesses an integrated technological platform with a high degree of automated business flow as opposed to the previously fragmented applications and solutions. Remaining projects refer to a strengthening of client networking and communication links, improved global web content management and a final roll-out of the platform to the investment centre in Singapore. As a result of the project implementation, efficiency has been increased and the management of Schroders' corporate data and securities registers rationalised. Fitch views these developments as instrumental in supporting the company's global asset management strategy and important to adequately manage the extended franchise of the business.

Front Office

Schroders uses CRIMS as its main front office tool. Positions are daily reconciled directly with SimCorp Dimension (SCD), the newly implemented fund accounting tool and repository base. CRIMS has an integrated order routing platform, which is live across all international hubs and automatically performs compliance monitoring.

Relevant risk budgeting and portfolio construction tools such as PRISM and IMPACT for equity, FIA, Quick Risk for fixed income or SMART on the multi-management side are fully integrated into the CRIMS position-keeping reconciled with SCD. Such proprietary tools are designed to cover the risk and return drivers specific to the individual asset classes and provide sound portfolio monitoring functionalities. They also allow for risk monitoring from various angles, including VaR calculations (for fixed income through Lehman Point). Furthermore, other risk metrics reflecting an evaluation of downside risks (such as expected shortfall or conditional VaR) provide a comprehensive view on related investment risks.

Middle & Back Office

As part of post-trading order processing, middle-office teams make extensive usage of recognised off-the-shelf business applications such as the FIX protocol (broker communication/confirmation), Global Oasys (trade matching for listed instruments), Swapswire and DTCC (confirmation for OTC). Communication and transaction flows

with external depository banks and custodians follow standardised procedures based on SWIFT messages. Custodian reconciliations for holdings and transactions are automatically performed using Intellimatch. As mentioned, SCD is an integrated application that services middle- and back-office functions and incorporates the portfolio data master file.

Data Management/Integration

Following the TOM project, data management and integration centralised in the company's IT function has been notably improved as demonstrated by a large number of individual single purpose applications, reports and interfaces that have since been surrendered. Automation, by and large, has increased as a result, leaving less need for manual interventions. Information is stored either in Eagle PACE (including the security masterfile, investment and benchmark data, and the account position) or SCD, as the portfolio data and position-keeping, ensuring a consistent set of quality data. These systems are linked to each other and other applications such as CRIMS or data warehouses such as Client portfolio ultimately access these pools through established interfaces.

IT Security

Schroders, on behalf of the group, has outsourced its IT infrastructure in London to CSC Computer Sciences Limited, which is responsible for system security (database access and in-house and external firewall systems) and integrity and also to provide system maintenance routines. All obligations are governed by detailed SLAs. Internally, Schroders has a 129 member IT specialist team in the UK that oversees internal proprietary system development and coordinates requests from various departments.

Schroders has established business continuity procedures in place that include dedicated staff monitoring, semi-annual updates, regular testing of communication plans and recovery sites in place in each location. In addition, a group-wide insurance covers revenue losses due to business interruptions.

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