

Schroder Australian Equity Fund

Total return %

Schroder Australian Equity Fund (pre-fee)	1.7
S&P / ASX 200 Accumulation Index	2.2
Relative performance (pre-fee)	-0.5

	1 mth	3 mths	1 yr	3 yrs pa	5 yrs pa	10 yrs pa
Schroder Australian Equity Fund (pre-fee)	1.7	0.8	55.9	0.3	9.9	10.9
S&P / ASX 200 Accumulation Index	2.2	-0.6	44.7	-3.2	6.7	8.4
Relative performance (pre-fee)	-0.5	1.4	11.2	3.5	3.2	2.5

Inception Date: 3 Mar 1964

Market cap

	Portfolio ¹	Benchmark ²
ASX 1 - 50	74.3%	82.8%
ASX 51 - 100	11.8%	10.9%
ASX 101 - 300	7.0%	6.3%
Non Index	3.3%	0.0%
Global ex NZ	0.0%	0.0%
Cash	3.7%	0.0%

Top ten holdings %

	Portfolio ¹	Benchmark ²
BHP Billiton Limited	9.6%	12.8%
ANZ Banking Group	6.5%	5.4%
Commonwealth Bank	5.6%	7.7%
National Australia Bank	5.5%	5.0%
Westpac Banking Corporation	4.3%	7.2%
Woolworths Limited	4.2%	3.1%
News Corporation	3.8%	0.5%
Suncorp-Metway Limited	3.3%	1.0%
Brambles Limited	3.0%	0.9%
Wesfarmers Limited	2.9%	3.3%
Total	48.7%	46.9%

Characteristics

	Portfolio ¹	Benchmark ²
No. of stocks	65	200
Volatility (3yr standard deviation)	18.5%	18.4%
Tracking error (3yr historic)	5.3%	
Portfolio turnover* (1 yr)	20.6%	

Please refer to www.schroders.com.au for post-tax returns

Past performance is not a reliable indicator of future performance

Commentary

The S&P / ASX 200 Accumulation Index rose by 2.2%, while the Schroder Australian Equity Fund (pre-fee) rose by 1.7%, underperforming by 0.5% for the month.

Reporting season is always a reality check for investors. Whatever beliefs and assumptions we may have about company operating performance, this is the time when the rubber hits the road and we can test those views in the face of the evidence. For long term investors, the importance of a result is not the immediate share price reaction which is often a function of whether the market is short or long a stock, but rather the extent to which a company's operational performance confirms or denies the investment thesis.

The Market Report Card

Headline earnings declined 11% versus the same period last year as companies struggled to negotiate the tail end of the economic downturn. Whilst overall earnings were down, results were around 2% better than expected. Somewhat surprisingly defensive businesses performed poorly relative to expectations. The key trends that emerged during this reporting season were; 1) revenue growth was lower than expected, 2) operating costs were also lower than expected offsetting the weaker revenue growth, and 3) earnings guidance was cautious reflecting demand stabilization but only patchy signs of recovery.

In terms of share price performance the best sectors were Consumer Staples (+6.2%) and Healthcare (+3.8%). Consumer Staples was driven by a solid result from Wesfarmers (+15.2%) on the back of surprisingly good margin expansion from its discretionary retail businesses Target and Kmart. The sustainability of this improvement is questionable given the relatively flat comp store sales growth achieved by these businesses and a tough sales period ahead. The sector laggards were Telecommunications (-10.2%) and REIT's (-0.2%). Telstra was the main drag on the telco sector due to another weak result. The ongoing deterioration in the fixed line business and slowing growth in mobile phone revenues provided another reminder to investors on how tough operating conditions are for the business.

The Schroder Report Card

Our overall grade was below average reflecting not just our Portfolio performance but more importantly what we fundamentally got right and wrong. The key positive contributors to performance for the month were an overweight position in News Corporation (+6.6%) and underweight positions in QBE (-6.6%) and Toll Holdings (-20.9%). QBE and Toll must have felt like Daniel Day Lewis in "last of the Mohicans" as they finally fell from their market darling status. In the case of QBE, weak industry pricing conditions in global commercial insurance markets have caused underwriting profitability to decline further than the market expected. With reserve releases now exhausted, the headwinds of weak pricing, low interest rates and the appreciation of the AUD proved too much to overcome. Industry fundamentals have yet again won out over strong management.

Key negative contributors for the month were overweight positions in Primary Healthcare (-20.5%) and Gunns (-35%) and an underweight position in Westpac (+9.5%). This is where we have done poorly at a fundamental level this reporting season. In the case of Primary our thesis on the pathology business following the acquisition of Symbion has not played out as expected with increasing competition negatively impacting margins and returns. Digesting government fee cuts as well as managing a complex business integration has presented significant challenges for Primary, and the revenue leakage to competitors has been greater than anticipated.

¹ The 'Portfolio' is the Schroder Australian Equity Fund

² Benchmark is the S&P / ASX 200 Accumulation Index

Unless otherwise stated all figures are as at the end of February 2010
Please note numbers may not total 100 due to rounding

*Turnover = $\frac{1}{2}(\text{Purchases} + \text{Sales} - \sum \text{Cashinflows} + \sum \text{Cashoutflows}) / \frac{1}{2}(\text{Market Value}(T_0) + \text{Market Value}(T_1) - \sum \text{Cashflows})$

Fund objective

To outperform the S&P/ASX 200 Accumulation Index over the medium to long term. The Fund offers investors access to a professionally managed portfolio of predominantly Australian securities.

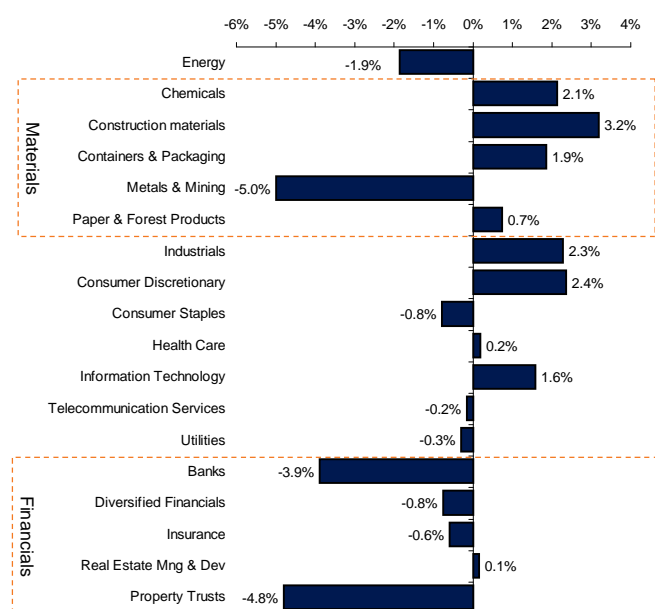
Investment style

Schroders is a bottom-up, fundamental, active growth manager of Australian equities, with an emphasis on stocks that are able to grow shareholder value in the long term.

Fund details

APIR code	SCH0002AU
Fund size (AUD)	\$1,079,603,332
Redemption unit price	7.6244
Fund inception date	March 1964
Buy / sell spread	0.30%/0.30%
Minimum investment	\$500,000
Distribution frequency	Normally twice yearly - June and Dec
Management costs (p.a.)	0.64%

Sector exposure versus the benchmark %



Unless otherwise stated all figures are as at the end of February 2010
Benchmark is the S&P / ASX 200 Accumulation Index

Contact

www.schroders.com.au

E-mail: simal@schroders.com

Schroder Investment Management Australia Limited

ABN 22 000 443 274 Australian Financial Services Licence 226473

Level 20 Angel Place, 123 Pitt Street, Sydney NSW 2000

Phone: 1300 136 471 Fax: (02) 9231 1137

Investment in the Schroder Australian Equity Fund ('the Fund') may be made on an application form in the Product Disclosure Statement dated 1 December 2008, available from the Manager, Schroder Investment Management Australia Limited (ABN 22 000 443 274 AFSL 226473) ("Schroders").

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Commentary Continued

The sector also serves as an example of the increasing influence which government policy is having on returns and margins across the listed market. Handouts to some sectors and price cuts to others are becoming an increasing feature of the landscape. The plan seems to be to resolve question marks over policies resulting in hundreds of newly painted school halls and poorly installed pink batts with handouts to needy media moguls in return for some positive spin.

Gunns has been significantly affected by the weak pricing conditions in the forestry industry. In particular deteriorating economic conditions for Japanese paper companies and a change in their product sourcing patterns has resulted in a significant fall in woodchips volumes (down 30%). Consequently profitability and cash flow have declined. Gunns is a little like a farmer during a drought – 'asset rich but cash flow poor'. In recognition of this issue the company has announced a restructure in which it is looking to sell a portion of its plantation and pulp mill assets. This is designed to raise cash and reduce debt. With NTA of \$1.59/share compared to a current share price of \$0.57/share, the market is pricing an extremely pessimistic outcome in our view. Whilst the danger of banks behaving in their own self interest to the detriment of shareholders is very real at present, we are hopeful that more benign funding conditions will assist them in taking a slightly longer term focus.

Outlook

In recent months the market has gyrated from optimism to pessimism and back again as uncertainty has emerged about the transition of economies away from a Government stimulus lead recovery to one driven by the private sector. This path is not likely to be smooth as evidenced by the surprise decision taken by the RBA in February to pause its rate hiking cycle only to resume it in March. What could they have seen in one month? Reporting season provided no great clarity for the road ahead other than to highlight the gap between current market expectations and economic reality. Companies remain cautious and still in the glass half empty camp.

As active stock pickers this type of market environment is generally good because it creates opportunities. In recent times we have tilted the portfolio towards more defensive stocks, such as Woolworths, which have lagged the market and hence have become more attractive based on their long term risk adjusted returns. We remain underweight Resources and Banks because they are expensive relative to industrials with much of the good news on commodity prices and bad debts already priced into share prices. This is not to say we are deliberately seeking to avoid riskier parts of the market. In fact we have recently increased our overweight position in Myer (which we did not buy in the IPO) following its significant share price underperformance. We are more than happy to buy risk if it is warranted by fundamentals and expected returns. However, our portfolio positioning is not pre-determined and is ultimately a function of where the most attractive risk adjusted return opportunities present themselves in the market.