



December 2011

Quarterly Report

## Schroder Fixed Income Fund Standard Class

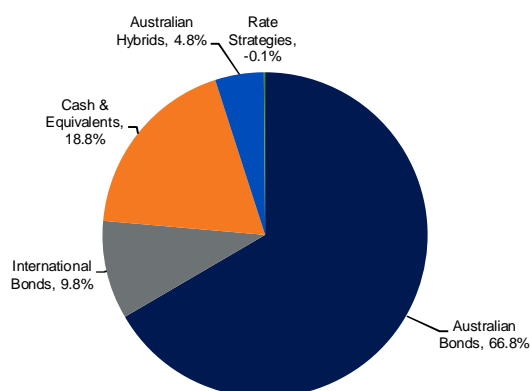
### Total return %

Schroder Fixed Income Fund Standard Class (pre-fee)
Schroder Fixed Income Fund Standard Class (post-fee)
UBS Composite Bond Index
<b>Relative performance (pre-fee)</b>

	1 mnth	3 mths	6 mths	1 yr	3 yrs pa	5 yrs pa
Schroder Fixed Income Fund Standard Class (pre-fee)	0.70	2.17	5.67	11.06	8.03	8.03
Schroder Fixed Income Fund Standard Class (post-fee)	0.67	2.09	5.49	10.68	7.67	7.67
UBS Composite Bond Index	0.77	1.93	6.65	11.36	6.30	7.40
<b>Relative performance (pre-fee)</b>	<b>-0.07</b>	<b>0.25</b>	<b>-0.98</b>	<b>-0.30</b>	<b>1.73</b>	<b>0.64</b>

Past performance is not a reliable indicator of future performance  
Please refer to [www.schroders.com.au](http://www.schroders.com.au) for post-tax returns

### Asset allocation %



### Portfolio statistics

	Fund	Benchmark
Duration	2.37 yrs	3.79 yrs
Yield to maturity	5.50%	4.67%
Average Coupon	4.69%	4.99%

### Sector exposure %

Asset	Allocation
Banks	42.9
Diversified financial	11.4
Real Estate	2.3
REITS	2.1
Insurance	1.4
Investment companies	0.1
Government	18.1
Consumer, Non-cyclical	4.4
Other	3.6
Communications	3.1
Industrial	2.5
Consumer, Cyclical	2.2
Utilities	2.1
Basic Materials	1.7
Energy	1.3
Diversified	0.6
Technology	0.1

Benchmark is the UBS Composite Bond Index  
Please note numbers may not total 100 due to rounding

### Commentary

In a series of summits, Eurozone nations agreed on measures to help alleviate the sovereign debt crisis. These included a 50% haircut on privately held Greek debt, an agreement for European banks to raise their capital levels substantially, and for the remaining funds in the European Financial Stability Fund (EFSF) to be leveraged by 4 or 5 times to about EUR 1 trillion. Also the Greek and Italian PMs resigned and were replaced by 'technocratic' leaders. However there continued to be a lack of details on how these measures would be implemented. This contributed to S&P putting six AAA Eurozone members on 'credit watch negative' and Fitch lowering France's rating to 'negative' outlook. Pressure also grew in the Italian bond market where the benchmark bond yield rose by 1.42% in Q4 and made several breaks of the 7% threshold, which has been associated with severe funding challenges in other Eurozone nations. Central banks were active in the quarter: with six major central banks lowering the cost of USD funding to help alleviate pressures on European banks; the ECB cut its policy rate by 0.5% to 1.0% and expanded funding support for European banks including 3 year liquidity tenders; the People's Bank of China announced a 0.5% cut in the reserve requirement ratio for their banks; and the Reserve Bank of Australia (RBA) cuts its official cash rate twice. While European and Chinese economic indicators deteriorated, data in the US mostly pointed to firmer growth. Australian data continue to be mixed and pointed to a two tier economy.

Major bond markets saw mixed performance over the quarter - although, most bond markets were flat to lower. The Australian 10 year bond yield fell in Q4, by 0.55% to 3.67% (0.26% in December), making 2011 the first year since 1995 that has seen falls in the benchmark long rate in every quarter. As mentioned above the RBA cut its official cash rate in two steps, November and December, from 4.75% to 4.25%. Minutes of the board meetings cited concerns about the European debt crisis and the potential impact on the global and Australian economic activity. Corporate bonds outperformed government bonds, with higher yielding credit posting positive returns similar in size to equity markets.

### Portfolio review

The Fund had a positive quarter, posting solid absolute returns, modestly above benchmark. Significantly, the strong December quarter took the return on the Fund in 2011 to above 11% (pre-fee). A key driver of absolute returns in the quarter was the continued strong demand for low risk assets which saw support grow for Australian government bonds where nominal yields remain relatively high in global comparisons. The key driver of outperformance during the quarter was the contraction in credit spreads as the market looked to cheap corporate debt as an alternative to highly leveraged global sovereigns.

### Outlook and strategy

Our current strategy continues to be framed around capital preservation and managing the absolute risk in the Fund. In reflecting this strategy we ended the quarter targeting 1.5 years short duration vs benchmark as we believe the risks around yields on key sovereigns (Australia, US and Germany) are skewed to the upside leaving investors with index duration (of 3.8 years) with considerable capital risk. With the local yield curve inverted, the RBA unlikely to deliver the cuts needed to validate current bond yields and liquidity paramount, we've also been building up our cash holdings.

We continue to like good quality investment grade corporate bonds (in both Australian and in developed global economies) and this is supported by still reasonable valuations and relatively healthy corporate balance sheets.

From a sector perspective we retain a bias to highly rated spread product (such as Semi-Government bonds and Government guaranteed securities) over Australian government bonds. This is supported by the recent widening in spreads which has substantially improved the valuations on these securities.

We have adopted a cautious stance to the initial foray into the covered bond market by the Australian banks. While we would acknowledge that initial issuance has been priced attractively from the investors perspective, we have some concerns about liquidity and would like more information before investing.

**Fund objective**

To obtain exposure to a diversified range of domestic and international fixed income securities with the principal aim of outperforming the UBS Composite Bond Index after fees over the medium term.

**Investment style**

Our fixed income philosophy is based on our belief that most investors make inefficient use of the opportunity set available to them. For example, such investors may focus too much on arbitrary benchmarks that are not aligned with their objectives or they may have too narrow a focus (ie duration or credit).

It is our belief that this creates an inefficiency that can be captured by broadening the opportunity set to capture diversified sources of risk and return. This can be broken down into 4 components - market return (strategic beta selection), active return (active beta rotation), active return (security selection) and portfolio management / implementation. Please refer to our product disclosure statement for more information.

**Fund details****Schroder Fixed Income Fund Standard Class**

APIR code	SCH0016AU
Fund size (AUD)	\$820,146,907
Redemption unit price	\$1.0910
Fund inception date	December 2003
Buy / sell spread	0.05%/0.05%
Management costs	0.34%
Minimum initial investment	\$500,000
Distribution frequency	Normally quarterly

**Regional exposure %**

Australia	83.8
USA	10.9
Europe ex UK	3.2
UK	2.0
Asia inc Japan ex EM	0.0

**Security profile %**

Fixed rate	62.7
Floating rate	37.3
Other	0.0

**Top 10 holdings %**

QLD Treasury Corp (AUD 6.000, 21/4/2016)	3.4
Treasury Corp of Victoria (AUD 5.750, 15/11/2016)	2.0
QLD Treasury Corp (AUD 5.750, 21/11/2014)	1.8
NSW Treasury Corp (AUD 6.000, 1/4/2016)	1.7
QLD Treasury Corp (AUD 6.000, 21/2/2018)	1.6
National Australia Bank NCD 05/03/2012	1.6
QLD Treasury Corp (AUD 6.000, 21/10/015)	1.4
National Australia Bank Ltd (AUD 5.750, 19/12/2013)	1.4
ANZ Banking Group Ltd (AUD 5.250, 16/1/2014)	1.1
National Australia Bank NCD 27/01/2012	1.1
<b>Total</b>	<b>17.2</b>

**Maturity profile %**

0-3 Years	49.8
3-5 Years	25.8
5-10 Years	15.6
10 Years +	8.9

**Composite broad rating %**

AAA	25.2
AA	15.3
A	18.9
BBB	15.7
BB	1.0
B	0.2
CCC and below	0.0
Cash	23.6
Not Rated	0.0

Unless otherwise stated figures are as at the end of December 2011

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