



# Schroder Global Active Value (Hedged)

	1 mth	3 mths	6 mths	1 yr	3 yrs p.a.	5 yrs p.a.	S.I. p.a.*	S.I. cum*
<b>Total return % AUD</b>								
Schroder Global Active Value Fund Hedged (pre-fee)	0.83	6.98	-11.89	-7.56	16.53	-1.75	3.59	25.02
MSCI World ex Australia Index (Hedged in AUD)	0.98	8.69	-6.90	-1.91	12.03	-1.92	2.29	15.39
<b>Relative performance</b>	<b>-0.15</b>	<b>-1.71</b>	<b>-4.99</b>	<b>-5.65</b>	<b>4.50</b>	<b>0.17</b>	<b>1.30</b>	<b>9.63</b>
<b>Relative performance (post-fee)</b>								
Schroder Global Active Value Fund Hedged (post-fee)	0.75	6.72	-12.32	-8.48	15.43	-2.67	2.63	17.88
MSCI World ex Australia Index (Hedged in AUD)	0.98	8.69	-6.90	-1.91	12.03	-1.92	2.29	15.39
<b>Relative performance</b>	<b>-0.23</b>	<b>-1.97</b>	<b>-5.42</b>	<b>-6.57</b>	<b>3.40</b>	<b>-0.75</b>	<b>0.34</b>	<b>2.49</b>

\* Since Inception p.a. and cumulative from September 2005  
 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

**Portfolio Characteristics**

No. of stocks	769
Active share*	72.3%
Beta relative to MSCI	0.96
Tracking error %p.a. (Not targeted)	3.1

\*Active share is % sum of absolute active positions x 1/2

**Market review**

After a particularly volatile second half to the year, global equities ended 2011 on a slightly calmer note, with the MSCI World Index rising by 0.6% in local currency terms, taking the gain for the quarter to almost 8%. For the year as a whole, the Index sagged by 5% (once again in local currency), primarily due to weakness in the third quarter as the recovery in the world economy faltered and the European debt crisis deteriorated. However, the annual return for 2011 disguises unusually high dispersion in performance across sectors and countries as investors shunned risk in favour of the perceived safety of large cap US stocks and other defensive areas. For example, Materials and Financials were the worst performing sectors in 2011, underperforming Health Care and Staples by as much as 28% whilst the only region to post a positive absolute return over the year was North America.

**Quarterly performance attribution by region**

Group	Allocation Effect %	Selection Effect %	Total Effect %
North America	-1.01	1.87	0.86
Pan Europe	-0.04	-0.63	-0.67
Japan	-0.52	0.20	-0.32
Pacific ex Japan	-0.35	0.56	0.21
Emerging Markets Asia	-1.53	0.00	-1.53
Emerging Markets EMEA	-0.38	0.00	-0.38
Emerging Markets LatAm	0.12	0.00	0.12
Cash	0.00	0.00	0.00
<b>Total</b>	<b>-3.71</b>	<b>2.00</b>	<b>-1.71</b>

More generally, global macro concerns (primarily European debt and Chinese growth) dominated stock fundamentals during 2011, particularly during the second half, resulting in high correlations between stocks and a strong preference for security at both the asset class level and within equities. Government bonds were the star performer of the year, particularly in the US, despite losing its top-tier AAA credit rating from Standard & Poor's in early August. The cyclical nature of emerging countries meant that they were not immune to the slowdown and their markets posted significant losses in local currency terms which was further amplified by currency weakness, particularly in markets such as Brazil, Turkey and South Africa.

The Fund lagged the benchmark over the course of the fourth quarter. Asset allocation remained the main drag on performance as the negative impact of the continued outperformance of the US market was compounded by the failure of Emerging Markets to translate higher growth into higher equity returns.

**Quarterly performance attribution by sector**

Group	Allocation Effect %	Selection Effect %	Total Effect %
Consumer Staples	0.15	0.17	0.32
Health Care	0.38	0.20	0.58
Telecommunication Services	-0.34	-0.32	-0.66
Utilities	-0.11	0.57	0.46
Consumer Discretionary	0.06	-0.53	-0.47
Information Technology	0.05	-0.47	-0.42
Industrials	-0.19	-0.62	-0.81
Materials	-0.02	-0.34	-0.36
Energy	0.35	-1.23	-0.88
Financials	-0.11	0.64	0.53
Cash	0.00	0.00	0.00
<b>Total</b>	<b>0.22</b>	<b>-1.93</b>	<b>-1.71</b>

The Value strategy is based upon three long-term return drivers: Value, non-cap weighting and unconstrained asset allocation. Reviewing 2011 as a whole, the Value strategy experienced strong headwinds from all three of these long-term return drivers. Most notably, non-cap weighting and being unconstrained were a drag while Value stocks also lagged behind the performance of broader indices. Being non-cap weighted suffered as investors parked money in larger stocks (a 'risk of loss' mindset). Incorporating small cap, mid cap and fundamental indices implied a headwind of between -2 to -3% during 2011. Another indicator of this was market breadth (the percentage of stocks outperforming) which was also very low at close to 40% in the US suggesting an unhelpfully concentrated market. A good illustration that not owning a smaller number of winners can be costly is that not holding Apple alone detracted over 0.3% from relative return. Conversely, market breadth remained much higher in Japan allowing for more return opportunities and this was a market where we added significant value in 2011. Finally, by taking an unconstrained asset allocation approach rather than following the Index country weights was also a headwind, not least due to the near 20% spread in performance between the outperforming US and underperforming Emerging Markets. Indeed, the behaviour of Emerging Markets alone contributed almost 2 percentage points towards the strategy's total underperformance in 2011.

We are ensuring that the Fund remains diversified at the stock level and are also keen to exploit shifts in market sentiment. Furthermore, we are taking a greater than usual interest in country and currency movements to ensure that unwarranted top-down risk is avoided.

- Within defensive sectors we prefer Telecoms and Health Care (especially out of favour Health Care Providers) offset by Consumer Staples which continue to be one of the biggest underweights with Household Goods and Food and Drink companies looking expensive. The main area of interest for us in Staples remains the duller Food Retailers.
- Within cyclical stocks we are still finding Industrials expensive with the notable exception of the less cyclical Defence stocks. Within Consumer Discretionary we continue to find some attractive Retail stocks. We remain overweight Resource stocks (both Energy and Materials).
- Within Financials we retain a preference for Insurers over Banks. Regionally we prefer the US to Europe. We remain more lowly weighted towards Property stocks.
- Within Emerging Markets, we continue to favour a barbell focused upon Resources and Defensives (Telecoms and Utilities). We remain wary of cheap Financials in Emerging Markets and continue to identify some good value Technology stocks, predominantly in Taiwan.
- Regionally, we remain underweight the US market with a corresponding higher allocation in most other regions.
- Our approach in this environment is to remain highly diversified across both stocks and themes while progressively building exposure to attractive investment opportunities, from which we expect to be rewarded once market fear starts to subside.

The outlook for the global economy as we enter 2012 is even more uncertain than normal as a wide range of outcomes appear possible with potentially very different implications. Although recent economic data in the US is consistent with a modest rebound after a lull in the first half of 2011, the world economy currently appears to be growing at around 2% which is about half that experienced at the end of 2010. Moreover, it seems very probable that the Euro area has already slipped back into recession. Despite recent monetary loosening, considerable ambiguity remains about the strength of growth in China and other Asian countries.

More generally, the limited room that western policymakers have to manoeuvre on monetary policy coupled with uncertainty regarding the extent to which the private sector will pick up the baton as the public sector downsizes suggests that 2012 will be characterised by subpar growth. Emerging countries in the main have more room to engineer stronger growth but are also highly cyclical and there are increasing signs of growth fragmentation (e.g. Brazil and Turkey vs. China).

The focus on economic growth is important as a year or more of subdued activity makes global deleveraging even more difficult to achieve which further increases the risk of an adverse tail event. In other words, the global economy is still very vulnerable to shocks which would seem to skew the array of potential risks to the downside. It is also worth stressing that 2012 will also see elections in France, the US and Russia which may also create market volatility.

Unless otherwise stated figures are as at the end of Q4/December 2011  
 Please note numbers may not total 100 due to rounding

## Fund objective

To deliver higher long run returns after fees than traditional capitalisation weighted global equity funds by investing in a diversified portfolio of equity and equity related securities of companies worldwide excluding Australia using an index unconstrained Value-based investment strategy. The impact of currency volatility arising from the underlying portfolio investments on Fund performance is minimised through currency hedges.

## Key Features

- Value style - attractively priced companies with strong fundamentals outperform in the long run.
- Embracing breadth - exploiting opportunities from more than 15,000 stocks globally.
- Stock weights determined by fundamentals, and not by a stock's size in an index.
- Bottom-up, index unconstrained investing - minimal sector, region or size constraints maximises potential return and minimises dead money allocated to expensive stocks simply to satisfy inefficient index constraints.
- Focus on risk management - a highly diversified portfolio minimises stock risk whilst retaining a high degree of conviction.
- Currency hedging - intended to minimise the impact of currency movements on returns.

## Fund details

APIR code	SCH0032AU
Fund size (AUD)	\$114,668,570
Redemption unit price (AUD)	\$0.8373
Fund inception date	Sep-05
Buy/sell spread	0.18%/0.18%
Management costs	0.98%
Distribution frequency	Normally twice yearly - June and Dec

## Contact

[www.schroders.com.au](http://www.schroders.com.au)

E-mail: [simal@schroders.com](mailto: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 1119

## Sector weightings versus benchmark

Fund (%)	Index (%)		Active weight (%)
14.5	10.8	Health Care	3.7
7.3	4.4	Telecommunication Services	2.9
8.4	6.6	Materials	1.8
18.2	16.9	Financials	1.3
12.6	12.0	Energy	0.6
4.3	4.1	Utilities	0.2
10.0	12.1	Information Technology	-2.1
8.5	10.8	Consumer Discretionary	-2.3
8.6	11.1	Consumer Staples	-2.5
7.2	11.2	Industrials	-4.0
0.3	0.0	Cash	0.3

## Regional weightings versus benchmark

Fund (%)	Index (%)		Active weight (%)
11.8	0.0	Emerging Markets	11.8
3.7	2.0	Pacific ex Japan	1.7
9.6	9.5	Japan	0.1
10.2	10.2	United Kingdom	0.0
18.0	18.4	Continental Europe	-0.4
4.0	5.4	Canada	-1.4
42.4	54.5	United States	-12.1
0.3	0.0	Cash	0.3

## Market cap exposure versus benchmark

Fund (%)	Index (%)		Active weight (%)
38.0	65.8	Mega	-27.8
30.9	28.3	Large	2.6
24.6	5.9	Mid	18.7
5.1	0.0	Small	5.1
1.0	0.0	Micro	1.0

Investment in the Schroder Global Active Value Fund (Hedged) may be made on an application form in the Product Disclosure Statement dated 1 February 2011, available from Schroder Investment Management Australia Limited (ABN 22 000 443 274 AFSL 226473) ("Schroders"). This Report is intended solely for the information of the person to whom it is provided by Schroders. It should not be relied on by any person for the purposes of making investment decisions. Total returns are calculated using exit price to exit price, after fees and expenses, and assuming reinvestment of income. Gross returns are calculated using exit price to exit price and are gross of fees and expenses. The repayment of capital and performance of the Funds is not guaranteed by Schroders or any company in the Schroders Group. Past performance is not a reliable indicator of future performance. Unless otherwise stated the source for all graphs and tables contained in this report is Schroders. Opinions constitute our judgment at the time of issue and are subject to change. This report does not contain and is not to be taken as containing any financial product advice or financial product recommendation. For security reasons telephone calls may be recorded. Third party data is owned by the applicable third party identified above and is provided for your internal use only. Such data may not be reproduced or re-disseminated and may not be used to create any financial instruments or products or any indices. Such data is provided without any warranties of any kind. Neither the third party data owner nor any other party involved in the publication of this document can be held liable for any error. The terms of the third party's specific disclaimers are set forth in the Important Information section at [www.schroders.com.au](http://www.schroders.com.au).