December 2011 Quarterly Report

Schroder Pooled Superannuation Trust

Total return %	1 mth	3 mths	1 yr	3 yrs p.a.	5 yrs p.a.	10 yrs p.a.
Schroder Pooled Superannuation Trust (pre-fee)	-0.6	3.6	-7.0	11.3	1.6	8.5
S&P / ASX 200 Accumulation Index	-1.4	2.1	-10.5	7.6	-2.3	6.2
Relative performance (pre-fee)	**+0.8**	**+1.5**	**+3.5**	**+3.7**	**+3.9**	**+2.3**
Schroder Pooled Superannuation Trust (post-fee)	-0.7	3.5	-7.6	10.6	0.9	7.7
Relative performance (post-fee)	**+0.7**	**+1.4**	**+2.9**	**+3.0**	**+3.2**	**+1.5**

Inception Date: 22 Jan 2001, 10 years and 11 months.

Past performance is not a reliable indicator of future performance

Market cap	Portfolio[1]	Benchmark[2]
ASX 1 - 50	84.1%	83.5%
ASX 51 - 100	9.1%	9.7%
ASX 101 - 300	4.8%	6.8%
Non Index	1.2%	
Cash	0.8%	

Top ten holdings %	Portfolio[1]	Benchmark[2]
BHP Billiton Limited	12.7%	11.4%
National Australia Bank Limited	7.6%	5.4%
Commonwealth Bank of Australia	7.0%	8.0%
Westpac Banking Corporation	6.8%	6.3%
ANZ Banking Group	6.1%	5.7%
Woolworths Limited	5.7%	3.2%
Telstra Corporation Limited	4.4%	4.3%
Rio Tinto Limited	2.9%	2.7%
Brambles Limited	2.8%	1.1%
James Hardie Industries Se	2.6%	0.3%
Total	**58.6%**	**48.4%**

Characteristics	Portfolio[1]	Benchmark[2]
No. of stocks	55	200
Volatility (5yr standard deviation)	15.8%	16.2%
Tracking error (3yr historic)	3.8%	

1 The 'Portfolio' is the Schroder Pooled Superannuation Trust portfolio

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

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

Commentary

The S&P / ASX 200 Accumulation Index rose by 2.1%, while the Schroder Pooled Superannuation Trust (pre-fee) portfolio rose by 3.6%, outperforming by 1.5% for the quarter.

Replays of the slow motion train wreck otherwise known as the global economy continue to sap the energy of weary equity investors. Markets limped through the final quarter of 2011, with farcical plans to convince investors that insolvent sovereigns were actually sound investments proving understandably ephemeral. Whilst the large scale restructuring of debt that needs to occur remains obfuscated in political argument, we expect investors to remain focused on trying to protect wealth. This objective is thoroughly challenging. Capital inflows for those countries perceived as safe havens, Australia included, are proving almost as much of a headache as the exodus of capital from those in the front carriages of the train wreck. The spectre of money printing as the route through which governments will seek to address unsustainable debt positions has dramatically heightened the rush to protect wealth. Hitherto popular safe havens such as gold, declined over the quarter, perhaps serving to remind the army of gold believers that convincing those with wealth to try and hide it in unproductive assets is an absolutely guaranteed way not to solve the world's problems, nor to sustainably protect wealth. The rapid expansion of global credit and the resultant inequitable distribution of wealth are at the heart of current global problems. The path to recovery will require wealth redistribution (whether the wealthy like it or not). We believe sensible investment strategies are likely to benefit from an acceptance of this reality, rather than assuming reality can be deferred or prevented.

Our investment process is dominantly focused on the long term. In trying to ascertain how much we should pay for a business, there are a couple of issues which dominate our thinking. The first is whether the business will stand the test of time, and the second is how much we think it can sustainably earn. 'Sustainability' is a term which has become increasingly used and abused. However, to our minds, it is policies that have failed this test that are at the heart of current problems, and rectifying these that will provide the solution. Policies which encourage debt and discourage saving have become the norm across the western world. Negative gearing in Australia and tax deductible mortgage payments in the US are matched with a fractional reserve banking system intent on proffering as much credit as possible and central banks focused on inflation targeting with no regard whatsoever for the amount of credit entering the economy. Imagine our surprise when the outcome was over-geared households, businesses and governments! Having reached the point at which trust between lenders and borrowers has collapsed, the investment environment which will prevail in the future depends on how this impasse is resolved. Europe may be the eye of the storm at present, as demographics and antiquated laws accelerate the demise, however, the outcome of similar policies elsewhere will not produce better outcomes. It is for this reason that we are adamant that as custodians of capital, companies acknowledge the need for structural change rather than hoping for a cyclical rebound which will allow them to pursue tried and tested paths of strategic growth (overpaying for acquisitions) and paying for performance (increasing remuneration regardless of shareholder outcomes). Our current experience is that most are instead taking the advice of Dylan Thomas; "do not go gentle into that good night; rage, rage against the dying of the light".

The resource sector continues to stand out as one of the few experiencing conditions which remain better than those we expect to be sustainable. This, in turn, stems largely from the pursuit of Chinese policies which we believe are similarly unsustainable. While this remains an unpopular, and to date incorrect standpoint, emerging cracks in the Chinese miracle are provoking slightly more objective analysis and a little less "but think of all the people moving from farms into urban areas", resulting in the materials sector (-3.1%) struggling over the quarter. Merger and acquisition activity remains solidly focused in this sector, with the merger proposal between Aston Resources (-9.5%) and Whitehaven Coal (-0.8%) the major deal of the quarter, whilst Gloucester Coal (+27.4%) also benefited from a merger proposal from Yanzhou Coal. Talk of synergies from blending coal and realising even higher prices, saw investors welcome the deal, albeit with greater cynicism than may have been the case a few short years ago. At the other end of the spectrum, which should give some insights into the underlying profitability of much Chinese enterprise, steel stocks were on their knees as an absence of that annoyingly necessary lifeblood, profit and cashflow, forced Bluescope Steel (-34.5%) into raising further capital and punished OneSteel (-43.6%) on the expectation that it requires a similar transfusion.

Schroders

Quarterly contributors %	Position *	Attribution
Newcrest Mining Limited	Underweight	0.41
James Hardie Industries Se	Overweight	0.34
BHP Billiton Limited	Overweight	0.31
Telecom Corporation of NZ	Overweight	0.25
Cochlear Limited	Overweight	0.18

Quarterly detractors %	Position *	Attribution
Alumina Limited	Overweight	-0.42
Chorus Limited	Overweight	-0.29
Fletcher Building Limited	Overweight	-0.27
Stockland	Underweight	-0.08
Commonwealth Bank of Australia	Underweight	-0.06

* Portfolio weights versus benchmark are average weights over the quarter

Commentary continued

The positive side of the ledger was again dominated by more defensive businesses, with utilities (+8.1%) and telecoms (+6.9) continuing their solid performance. While we find the strong and sustainable cashflow streams from business in these sectors appealing, we remain somewhat wary of the aggressive financial engineering used in many cases. With equally strong franchises in other industrial businesses and areas such as healthcare, we retain a preference for conservative use of financial leverage.

Illustrations of businesses struggling with the transition to more austere economic times are plentiful, but perhaps nowhere more so than in the retail sector. The script over recent decades has been nothing if not predictable. Every successful format has driven profit growth by consistently expanding store numbers and assuming consumers will spend more than last year, allowing them to report positive same store sales growth. The propensity of households to consistently increase borrowing levels to fund the purchase of that slightly larger LCD TV with the 3D glasses or the iPhone4S with the slightly better camera has driven an expectation by retailers that one of the ten commandments is 'thou shalt always buy more unnecessary trash than last year'. Things are changing. The only certainty these days is that Gerry Harvey will regularly appear in the media whingeing about the latest threat to traditional retail. Whether it's price deflation in electronics, on-line retail having an unfair advantage or landlords hiking rents, inability to accept reality is an ineffective business management tool. Profit warnings over the quarter highlighted the extreme operating leverage inherent in the business models of most retailers, and shareholders behaved similarly to customers; they left the store without buying. JB HiFi fell (-25.7%), Billabong (-46.7%), Kathmandu (-21.2%), David Jones (-16.6%) and Harvey Norman (-12.3%). Accepting the new reality will remain a theme for investors for some time to come.

Notable market positives

Cochlear (+ 33.7%)

The sharp fall in value as a result of a recall of the latest version of the Nucleus 5 implant gave the first opportunity in some time to purchase shares in Cochlear at, what are in our opinion, attractive valuation levels. Although the recall is likely to have a significant cost to the company, both in rectification and likely losses of market share, Cochlear will almost undoubtedly remain the dominant player in the hearing implant market. Its products remain at the forefront of its field and investment in R&D well ahead of peers.

James Hardie (+19.3%)

In our opinion, James Hardie remains one of the standout examples of management assiduously guarding and developing an existing strong franchise. Whilst coping with diabolical market conditions and housing starts well below sustainable levels, the business is delivering margins and returns which most building materials companies don't earn in peak cycle conditions. For those willing to look through current conditions, we believe the rewards of this excellent stewardship will be substantial when US housing eventually recovers.

Brambles (+10.7%)

Refocusing on the core pallet pooling operations and productivity gains within the business has begun to yield significant gains for Brambles. We have always been attracted to the franchise strength and powerful scale economies in the pallet pooling operations, however, new management have provided us with far more confidence in the durability of this franchise through improvements in one of the most important objectives, customer satisfaction. In a global environment which we believe will demand constant productivity gains going forward, we believe the business remains exceptionally well positioned.

Notable market negatives

Alumina (-24.7%)

Despite a good quality asset base and reasonable ongoing demand, relatively poor commodity pricing versus other metals and marginal economics for most Chinese players have continued to suppress profitability. We remain of the view that the low cost, good quality asset positioning of the business should allow them to deliver reasonable returns through time. At current valuation levels, the assets of Alumina remain valued at well below replacement cost.

Fletcher Building (-23.1%)

After a profit warning during the quarter on the back of weakening demand in the core Australian and New Zealand markets, the stock performed poorly. We believe the business remains well positioned, although we remain of the view that most market pundits are too optimistic on the longer term outlook for housing starts. Fletcher Building management have always been adept at ensuring the business is optimised for the prevailing conditions, and we remain confident that the business will continue to deliver solid results.

Harvey Norman (-12.3%)

Along with much of the retail sector, weakening consumer demand, a high $A and on-line retail threats combined to relieve the traditional retail sector of much of its profitability in 2011. Although the Harvey Norman business controls an extensive property portfolio which supports much of the current valuation, a more proactive approach to dealing with what we expect to be a tougher retail environment for some years to come will be necessary if the traditional retail business is to flourish. From an investment analysis standpoint, our efforts have been similarly lacking in vision.

Schroder Pooled Superannuation Trust

Quarterly Report
December 2011

Fund objective

To outperform the S&P/ASX 200 Accumulation Index after fees over the medium to long term by investing in a broad range of companies from Australia and New Zealand.

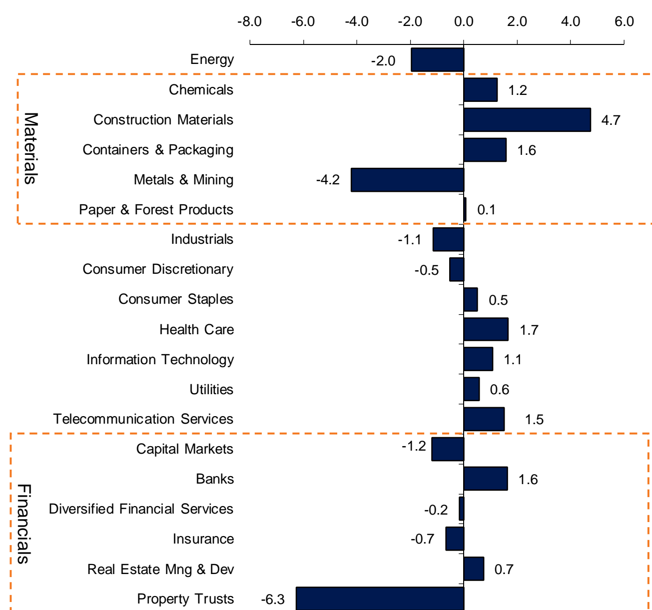
Investment style

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	SCH0018AU
Fund size (AUD)	$64,423,230
Redemption unit price	2.2346
Fund inception date	January 2001
Buy / sell spread	0.30%/0.30%
Minimum investment	$100,000
Distribution frequency	No distribution
Management costs (p.a.)	0.65% pa of the Net Asset Value of the Trust

Sector exposure versus the benchmark %



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Benchmark is the S&P / ASX 200 Accumulation Index

Commentary Continued

Outlook

Having recently watched Meryl Streep as Margaret Thatcher in "The Iron Lady", the lack of short term reward for tough decisions and the sometimes heavy price of genuine leadership are all too apparent. Observing the current state of global political leadership and notable absence of iron ladies or gentlemen, we are left expecting a reality which primarily involves the path of least resistance rather than genuine reform. As a result, financial markets seem more likely to continue along the path of responding periodically to initiatives which aim to restore confidence through deception rather than addressing genuine sustainability. It is for this reason that we are wary of expectations of strong returns from equity investment despite apparently cheap valuations versus history. Expectations for equity returns also need to be considered in light of other asset classes which are also likely to deliver unexciting returns, and in no way means that we believe attractively valued businesses cannot be found. We do however, as noted earlier, expect wealth protection to remain challenging.

Sustaining profitability and returns on capital in this environment will become an increasingly difficult objective, and we expect that companies which can achieve this objective will perform well. As a result, our portfolio remains skewed towards businesses that we believe have franchises which can endure tougher times and management teams looking to support returns through hard work and productivity gain rather than financial engineering and corporate activity. This hasn't changed for some time, nor do we expect it to change in the foreseeable future.

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Investment in the Schroder Pooled Superannuation Trust ('the Fund') (ABN 98 346 208 677) may be made on an application form in the Product Disclosure Statement dated 1 February 2011, available from the Manager, Schroder Investment Management Australia Limited (ABN 22 000 443 274 AFSL 226473) ("Schroders").The Trustee of the Fund is Perpetual Superannuation Limited (ABN 84 008 416 831).

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