

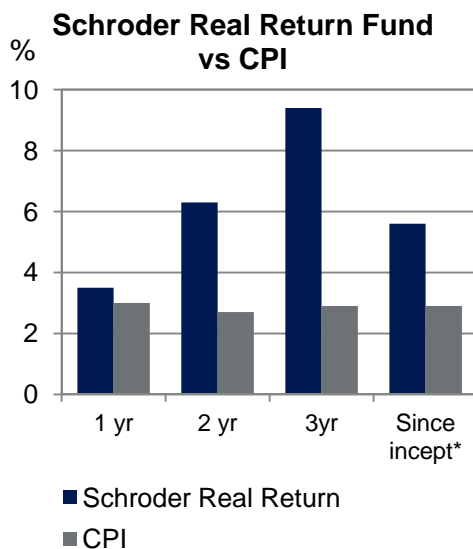
Schroders Fund Focus

Schroder Real Return Fund Wholesale Class



Simon Doyle, Head of Fixed Income and Multi-Asset talks about the Fund and views on the market.

Performance to 31 October 2011 net of fees



Performance based on Schroder Real Return Fund net fees. Note Wholesale Class fee rate of 90bp pa.

*Inception = 1 October 2008

The Real Return strategy was launched 3 years ago. How has it performed?

The performance of the strategy has matched, and probably even exceeded our expectations. While performance since inception (just over 3 years) has fallen just short of target, this largely reflects the strategy's launch in the midst of the GFC storm. However, for the three years to the end of October 2011, the Schroder Real Return Fund has achieved a return of 9.3% pa (after fees) exceeding its target return of 7.6% (CPI +5%). Taking another perspective, this compares favourably with the annualised return of the Australian share market (S&P/ASX 200) of 7%pa for the same period. The volatility of the Schroder Real Return Fund has also been less than half that of the sharemarket over this period.

How has the Fund held up in recent months given the events in Europe and the pressure on risk assets?

Certainly the September quarter this year was a difficult period for investors. Risky assets generally recorded pronounced falls, with investors preferring the perceived safety of sovereign bonds in markets like Australia and the US. The Schroder Real Return Fund held up comparatively well through this period. In the September quarter the Fund produced a negative return of -1.7% compared to Australian equities of -11.6%, and more than recovered these losses in October.

Reasons for the Fund's solid performance are twofold. Firstly, the underlying asset allocation of the portfolio was very well diversified and not overly dependent on equities. Secondly, risk mitigating strategies in the portfolio performed very well to break the fall. These strategies included a 20% cash exposure, holding many of our foreign assets in foreign currency so when the A\$ fell sharply in September it actually provided a positive return, and finally our interest rate exposure where we benefited from the decline in Government bond yields.

How is the Schroder Real Return Fund Wholesale Class different to other traditional multi-asset portfolios?

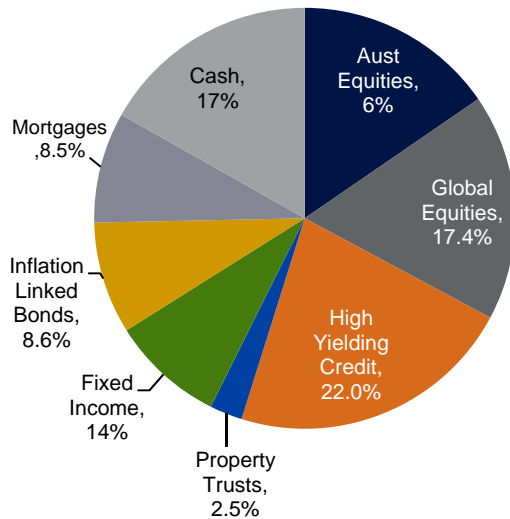
Primarily we take a more objective approach to investing, selecting our investments on the basis of expected future performance. We only invest where we believe it will contribute to the achievement of our investment objectives. Unlike traditional balanced funds we don't constrain ourselves with arbitrary strategic asset allocation levels so if we don't see potential in equities then we don't own them. We adjust the portfolio regularly, so when our view of markets does change we will adjust the portfolio buying and selling to reflect our revised view. The investments we make in the portfolio are made purely on the basis of what makes sense to us.

The Schroder Real Return Fund is very different to what many advisers are used to. How is it being used by advisers in client portfolios?

We are seeing more advisers restructuring portfolios around a more objective based framework so strategies like the Schroder Real Return Fund form the core of their clients' portfolios. For many of these advisers a focus on delivery of clients' objectives by investing based purely on each instrument's ability to contribute to the overall outcome is driving their portfolio construction. We are also seeing advisers use the Schroder Real Return Fund in their alternatives portfolio given its attractive liquidity profile and clear focus on generating absolute return.



Asset allocation as at 31 October 2011



Source: Schroders

Why did you set CPI+5% as your target?

The consistent achievement of 5% above inflation over rolling 3 year periods is a tough target. Over very long periods of time, riskier asset classes such as equities can be expected to deliver higher returns but this often comes with significant volatility and negative returns. This feature of equity markets can affect the consistent achievement of objectives. We choose to invest in riskier asset classes only when they present attractive valuations and there is good probability of capturing the upside over our investment horizon. Our processes place diversification and valuation at the heart of building portfolios and is the reason we believe we can deliver on such a demanding objective

Does the Fund have any built in structural biases?

No. We have been very deliberate in constructing the portfolio to remove any structural biases. What we believe is that our expectations of future returns should drive the positioning of portfolio and to do that properly we need to be agnostic to which asset classes that is coming from. We aim to be completely objective and allow return expectations and risk minimisation to drive the positioning.

The Schroder Real Return Fund Wholesale Class currently has less exposure to equities than other multi-asset portfolios. Does this mean it will underperform if equity markets run again?

Clearly if we have exposure to equities and equities deliver strong returns, the absolute size of our returns may lag that of equities. However, we do not see this as "underperformance". Our objective is to deliver CPI+5% as consistently as we can. Whether we return more or less than any given market is irrelevant.

What's driving your decisions to invest in different asset classes at the moment?

If we were to distil our investment framework into one key aspect then it would be valuations. How much we pay for an investment largely determines the return we make and the risk we take. Applying this framework today suggests that after a pronounced sell-off in the September quarter, equity and credit assets look cheap while Government debt looks expensive. The bias within our portfolio has been to hold equities and credit in higher proportions and to reduce our exposure to Government bonds.

How is the Fund currently positioned?

We used the weakness in the equities markets during the September quarter as a buying opportunity. We added some equity risk to the portfolio and currently have an equities exposure of around 32%. The most significant exposure in the portfolio is to credit where we have an allocation of roughly 45% of the portfolio across different types of credit risk from high quality right through the credit curve. The other key position of the portfolio is that around 20% is sitting in cash. We see this as very important not only from the perspective of preserving capital but also giving us the ability to fund increased exposure to assets as risk premia move around.

Do you think your approach to investing has improved over the past 3 years?

We are always trying to improve our process and this is particularly the case with regards this Fund. The prevailing environment is one in which risk management, particularly downside risk management, is particularly important. This has certainly been one area in which we have focused.

Investment in the Schroder Real Return Fund Wholesale Class may be made on an application form in Product Disclosure Statement which is available from Schroder Investment Management Australia Limited, ABN 22 000 443 274, AFS Licence 226473 ("Schroders"). Opinions, estimates and projections in this report constitute the current judgement of the author as of the date of this article. They do not necessarily reflect the opinions of Schroders or any member of the Schroders Group and are subject to change without notice. In preparing this document, we have relied upon and assumed, without independent verification, the accuracy and completeness of all information available from public sources or which was otherwise reviewed by us. Schroders does not give any warranty as to the accuracy, reliability or completeness of information which is contained in this article. Except insofar as liability under any statute cannot be excluded, Schroders and its directors, employees, consultants or any company in the Schroders Group do not accept any liability (whether arising in contract, in tort or negligence or otherwise) for any error or omission in this article or for any resulting loss or damage (whether direct, indirect, consequential or otherwise) suffered by the recipient of this article or any other person. This document does not contain, and should not be



relied on as containing any investment, accounting, legal or tax advice. Past performance is not a reliable indicator of future performance. Unless otherwise stated the source for all graphs and tables contained in this document is Schroders. For security purposes telephone calls may be taped.

