

Schroders

Schroder Absolute Return Income Fund Wholesale Class

Product Disclosure Statement Issued: 20 June 2018

mFund code: SCH55

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Important information

This Product Disclosure Statement (PDS) is a summary of significant information relating to the Wholesale Class of the Schroder Absolute Return Income Fund (the Fund) (ARSN 092 060 172, APIR SCH0103AU). Within this document there are also a number of references to additional, important information (which form part of the PDS) that are marked with a ✓. You should consider all of this information before making a decision to invest in the Fund. You can download a copy of the PDS and the 'Additional Information to the PDS' from Schroders' website at www.schroders.com.au or request a copy free of charge by calling us on (+61) 1300 136 471.

The information contained in this PDS is general information only and does not take into account your personal financial situation or needs. You should seek financial advice tailored to your personal circumstances.

Neither the Fund, Schroder Investment Management Australia Limited (Schroders), nor any of their related bodies corporate or associates, guarantees in any way the performance of the Fund, repayment of the capital from the Fund, any particular return from, or any increase in the value of the Fund.

Up to date information

Certain information in this PDS may change from time to time. This includes, but is not limited to, potential changes that we have identified. Where we indicate to you that we will give notice of such changes, or where the updated information includes no materially adverse information, we will publish the updated information on our website www.schroders.com.au. A copy of the updated information will be available free of charge upon request by contacting Schroders.

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1. About Schroders

Schroders is the Responsible Entity for the Fund and the issuer of this PDS. As Responsible Entity, Schroders is responsible for selecting and managing the assets and overseeing the operations of the Fund. This responsibility includes establishing, implementing and monitoring the Fund's investment objective.

Schroders offers a range of investment products and is part of the Schroders Group. The Schroders Group is one of the largest independent investment managers providing investment management services from offices in 27 countries. While many financial institutions try to provide all things to their clients, we specialise in just one – pure investment management.

In Australia, Schroders is a wholly owned subsidiary of Schroders plc, a publicly listed UK company with origins in banking and finance dating back over 200 years. Financial services has been a core business for Schroders in Australia since 1961. For further information, please visit our website www.schroders.com.au.

Why Schroders?

- Organisational stability from a strong balance sheet, low levels of debt and majority family and staff ownership
- Independence and exclusive focus on asset management aligns our interests with our clients
- Size and experience of investment teams both locally and globally
- Commitment to in-house research
- Global perspective
- Disciplined and robust investment process.

2. How the Schroder Absolute Return Income Fund works

Pooled investment

The Fund is a registered managed investment scheme. When you invest your money in the Fund, we pool your money together with other investors' money. This pool is used to buy investments that are managed on behalf of all investors in the Fund.

Units in the Fund

We divide the total value of the assets held in the Fund into units and calculate prices for each unit based on the value of the underlying assets in the relevant class. Each unit carries equal beneficial interest in the Fund as a whole but not in any particular assets. We also maintain a record of the number of units acquired. You can increase your units by reinvesting distributions or making an additional investment, or decrease your units by making a withdrawal.

Generally, unit prices are calculated each Business Day for the preceding Business Day in Sydney. The unit price will change as the market value of assets in the Fund rises or falls. Entry prices are generally higher than exit prices due to the costs of buying and selling the underlying assets in the Fund. The cost associated with buying and selling the underlying assets is called the buy-sell spread. The unit price also reflects the impact of fees charged for investing in the Fund.

Details relating to Fund net asset value (NAV) and units on issue are available at www.schroders.com.au.

Minimum investment amounts

The minimum initial investment amount is \$20,000 and the minimum additional investment amount is \$5,000.

How to withdraw

Unitholders may request to withdraw some or all of their investment in the Fund by sending written notification or completing a withdrawal form that can be downloaded from www.schroders.com.au.

The Fund has been admitted to mFund, the managed funds settlement service operated by the ASX. Unitholders invested through mFund will be able to make a withdrawal from the Fund through mFund by placing a sell order with participating ASX brokers.

The minimum withdrawal amount is \$5,000, unless the withdrawal relates to all the units held by that unitholder. Withdrawals are subject to cut-off times which are detailed in section 1.4 of the 'Additional Information to the PDS'.

Where payment instructions are not to a pre-nominated account, failure to provide the original withdrawal instruction to Schroders may cause delays in processing the instruction. Schroders does not accept instructions to pay a third party and will not initiate payments to accounts with non-Australian Authorised Deposit-taking Institutions (ADIs) unless otherwise agreed by Schroders.

In some circumstances, such as a freeze on withdrawals, unitholders may not be able to withdraw their funds within the usual withdrawal periods.

✓ You should read the important information on how to invest in and withdraw from the Fund before making a decision. Go to sections 1.3 to 1.6 of the 'Additional Information to the PDS' which you can access on Schroders' website at www.schroders.com.au or request a copy free of charge by calling Schroders on (+61) 1300 136 471.

The material about the significant features of the Fund may change between the time when you read this PDS and the day when you acquire the product.

Distributions

Distributions are normally determined monthly by Schroders. Cash distributions are calculated based on the Fund's distributable income at the end of the distribution period as determined by the Responsible Entity in accordance with the Fund's Constitution divided by the number of units on issue. All taxable income will be attributed to unitholders each year in accordance with the applicable tax laws. A unitholder can elect to have their distributions:

- reinvested in units. There is no buy/sell spread associated with reinvestment of distributions; or
- paid to the unitholder's pre-nominated bank account with an Australian ADI or a non-Australian ADI as agreed by Schroders.

Indirect investors

Schroders authorises the use of this PDS by clients or prospective clients of intermediate investment operators such as Investor Directed Portfolio Services (IDPS), nominee or custody services or IDPS-like services provided through a registered managed investment scheme. This PDS may be used to give the relevant operator of an intermediate investment a direction to invest in the Fund. In doing so, clients of the intermediate investment operator become indirect investors in the Fund. This is because they are not unitholders in the Fund, rather the operator of the intermediate investment can exercise rights, or decline to exercise rights, such as attend and vote at unitholders' meetings, on behalf of indirect investors. Certain provisions of the Fund's Constitution (such as provisions relating to the rights of unitholders, applications for units and withdrawals and meetings of unitholders) are not relevant to indirect investors. Indirect investors should ignore certain information in this PDS that is relevant only for direct investors, for example:

- **Applications/Withdrawals:** The offer document from your intermediate investment operator will outline the procedure for your investment in, or withdrawal of units from, the Fund.
- **Cooling-off period:** Cooling-off rights applicable to direct investors in the Fund do not apply to clients of the intermediate investment operator. You should contact the operator of the intermediate investment to determine what cooling-off rights you may have.
- **Distributions:** Distributions you receive as an investor may differ from those referred to in this PDS.
- **Fees and expenses:** The fees and charges that may apply may differ from those referred to in this PDS.
- **Taxation:** The taxation implications for investors depend upon the nature of your intermediate investment. If you are uncertain as to the taxation consequences of your investment in the Fund you should seek independent taxation advice.

Indirect investors should also read this PDS together with any disclosure documentation from their intermediate investment operator. Schroders will promptly notify the relevant operator of an intermediate investment that is investing in the Fund when this PDS is amended. If you are investing through an indirect intermediate investment operator, such as an IDPS, enquiries and complaints for indirect investors may be directed to Schroders.

3. Benefits of investing in the Schroder Absolute Return Income Fund

Significant features

The Schroder Absolute Return Income Fund is an absolute return focused strategy that invests in Australian and international fixed income securities to deliver regular income to investors. With a focus on managing downside risks it aims to outperform cash and term deposits over the medium term, but with less volatility than equity markets and aims to avoid negative returns over any rolling 12-month period. The Fund may also use derivatives and active currency management to help achieve this investment objective.

Significant benefits

The benefits of investing in the Fund include:

- Actively managed absolute return debt strategy offering income, risk control and liquidity
- Flexibility to invest across the fixed income universe, unconstrained by benchmarks, to seek return and control risk
- Full application of investment capabilities including asset allocation, credit sector selection, security selection and risk management, overlaid with management of interest rate risk
- Strong research commitment with the Schroders Credit Research team performing fundamental analysis of corporates in Australia and globally
- Experienced and dedicated investment team with clear accountability that is well integrated into the broader Schroders' global fixed income team. This delivers global insight, research and implementation in key regions and asset classes.

✓ You should read the important information about the significant features of the Fund before making a decision. Go to section 1 of the 'Additional Information to the PDS' which you can access on Schroders' website at www.schroders.com.au or request a copy free of charge by calling Schroders on (+61) 1300 136 471.

The material about the significant features of the Fund may change between the time when you read this PDS and the day when you acquire the product.

4. Risks of managed investment schemes

The nature of investment markets is such that all investments carry risk and different strategies may carry different levels of risk, depending on the assets that make up the strategy. Assets with the highest long-term returns may also carry the highest level of short-term risk.

The level of risk you are willing to expose your investments to will vary depending on a range of factors including your age, your investment timeframe, your other investments and your risk tolerance. The value of your investment and the returns from your investment will vary over time. Future returns may differ from past returns, the level of returns on investments will vary and returns are not guaranteed. This means you may lose some of the value of your investment.

The significant factors that may affect the performance or value of your investment include, but are not limited to:

- **Market risk:** includes the risk of volatility and negative returns arising from investment markets
- **Interest rate risk:** includes the risk of adverse changes in security prices as a result of interest rate movements
- **Credit risk:** includes the risk of an issuing entity defaulting on its obligation to pay interest and principal when due
- **Company risk:** includes the risk of adverse changes to a company or its business environment
- **International investments risk:** includes the risk that international political, economic or currency events negatively affect the value of investments
- **Emerging Markets/Frontier Markets risk:** includes the risk of significantly higher price volatility, less liquidity and greater political risk than in developed markets
- **Currency risk:** includes the risk that foreign currency fluctuations may negatively affect the value of investments
- **Derivatives risk:** includes the risk that a counterparty defaults or losses are magnified through investing in derivative contract
- **Liquidity risk:** includes the risk that assets may not be converted to cash in a timely manner
- **Counterparty risk:** includes the risk that counterparties fail to meet their contractual obligations
- **Regulatory and legal risk:** includes the risk that governments or regulators may pass laws, create policy, or implement regulation that affects a fund
- **Administration risk:** includes the risk that administration platforms may not perform their obligations properly
- **Fund risk:** includes the risk of changes to the investment team, fees and costs and the termination of a fund.

✓ You should read the important information about the significant risks of investing in the Fund, including further information about investment risks, before making a decision. Go to section 2 of the 'Additional Information to the PDS' which you can access on Schroders' website at www.schroders.com.au or request a copy free of charge by calling Schroders on (+61) 1300 136 471.

The material about the significant risks of investing in the Fund may change between the time when you read this PDS and the day when you acquire the product.

5. How we invest your money

Warning

You should consider the likely investment return, the investment risk and your investment timeframe when considering whether to invest in the Fund.

Fund description	The Schroder Absolute Return Income Fund is an active absolute return strategy that invests in a range of domestic and international fixed income securities. The Fund invests primarily in a portfolio of bonds and other fixed and floating rate securities denominated in various currencies issued by corporates, governments, government agencies, supra-nationals as well as securitised credit such as asset and mortgage backed securities. The full spectrum of available securities, including non-investment grade, may be utilised. With a focus on managing downside risk, the Fund has the flexibility to invest in cash and other debt securities (such as government bonds) to help preserve capital during downturns in the credit cycle. In adopting an absolute return approach, the most critical element of the investment process is to identify which assets to own and when to own them. This is then complemented by extensive credit research and expertise in individual credit selection. The Fund may also use derivatives and active currency management as part of the overall investment strategy to create a well-diversified portfolio with the potential to deliver consistent returns above cash and term deposits but with less risk and volatility than the equity market.													
Investment return objective	To outperform the RBA Cash Rate after fees over the medium term while aiming to avoid negative returns over any rolling 12-month period.													
Suitability and risk	For investors who seek steady distributions from a portfolio of income generating securities and returns in excess of cash over the medium to long term with a focus on capital preservation.													
Time horizon	At least 3 years.													
Asset classes and investment ranges	<table border="1"> <thead> <tr> <th>Asset classes</th> <th>Investment ranges</th> </tr> </thead> <tbody> <tr> <td>Australian investment grade</td> <td>0% - 100%</td> </tr> <tr> <td>Global investment grade</td> <td>0% - 100%</td> </tr> <tr> <td>Australian high yield*</td> <td>0% - 40%</td> </tr> <tr> <td>Global high yield*</td> <td>0% - 30%</td> </tr> <tr> <td>Cash and cash equivalents</td> <td>0% - 100%</td> </tr> </tbody> </table>	Asset classes	Investment ranges	Australian investment grade	0% - 100%	Global investment grade	0% - 100%	Australian high yield*	0% - 40%	Global high yield*	0% - 30%	Cash and cash equivalents	0% - 100%	*Maximum aggregate exposure to high yield assets will not exceed 50%.
Asset classes	Investment ranges													
Australian investment grade	0% - 100%													
Global investment grade	0% - 100%													
Australian high yield*	0% - 40%													
Global high yield*	0% - 30%													
Cash and cash equivalents	0% - 100%													
Labour standards and environmental, social and ethical considerations	Schroders uses an investment approach that considers each investment based on its individual merits. Schroders may have regard to labour standards or environmental, social and ethical considerations in relation to investment decision making subject to economic and financial outcomes. From time to time, Schroders may exclude certain securities from the Fund's investment portfolio having regard to these matters as well as regulatory considerations and the risks these pose for unitholders. A list of securities excluded having regard to these considerations can be viewed at www.schroders.com.au .													
Changes to the Fund	In order to meet the Fund's investment objectives, asset classes and investment ranges may be changed from time to time. We will give unitholders written notice of any material variation which we believe they would not have reasonably expected.													

6. Fees and costs

Did you know?

Small differences in both investment performance and fees and costs can have a substantial impact on your long-term returns. For example, total annual fees and costs of 2% of your investment balance rather than 1% could reduce your final return by up to 20% over a 30 year period (for example, reduce it from \$100,000 to \$80,000). You should consider whether features such as superior investment performance or the provision of better member services justify higher fees and costs. You may be able to negotiate to pay lower contribution fees and management costs where applicable. Ask the Fund or your financial adviser.

To find out more

If you would like to find out more, or see the impact of the fees based on your own circumstances, the **Australian Securities and Investments Commission (ASIC)** website (www.moneysmart.gov.au) has a managed funds fee calculator to help you check out different fee options.

The table below shows the fees and other costs that you may be charged for investing into the Fund. These fees and costs may be paid directly from your account, from the investment returns or from the Fund assets as a whole. The information in the table may be used to compare the costs of this product with other simple managed investment schemes.

Type of fee or cost*	Amount
Fees when your money moves in or out of the Fund	
Establishment fee	Nil
Contribution fee	Nil
Withdrawal fee	Nil
Exit fee	Nil
Management costs	
The fees and costs for managing your investment	<p>Management fee to Schroders of 0.54% p.a. of the Net Asset Value (NAV) of the Fund. Indirect costs of 0%** of the Net Asset Value (NAV) of the Fund.</p> <p>The management costs comprise the management fee (which covers normal expenses, since these are paid for out of the management fee) and indirect costs. As Schroders has decided to pay normal expenses out of its management fee entitlement, it will only be reimbursed out of the assets of the Fund where the expenses are abnormal expenses such as the cost of unitholder meetings. Abnormal expenses are not generally incurred during the day-to-day operations of the Fund.</p>

*For certain wholesale clients (as defined in the Corporations Act), Schroders may, at its discretion and in accordance with ASIC Policy and the Corporations Act, negotiate, rebate or waive all or part of Schroders' fees. Please refer to section 3, 'More detailed information about fees and costs' in the 'Additional Information to the PDS'. Unless otherwise stated, all fees and costs are quoted inclusive of any GST and net of any input tax credits (ITCs) or reduced input tax credits (RITCs) that are expected to be available to the Fund. Where RITCs are available, the prescribed rate is currently 55% or 75%, depending on the nature of the fee or cost incurred. Adviser fees may also apply. See below for more details. Please refer to section 3, 'More detailed information about fees and costs' in the 'Additional Information to the PDS'.

**The indirect costs are calculated and incorporate estimated amounts with reference to the relevant costs incurred during the period 1 January 2017 to 31 December 2017.

Additional explanation of fees and costs

Example of annual fees and costs for the Fund

This table gives an example of how the fees and costs for the Fund can affect your investment over a 1 year period. You should use this table to compare this product with other managed investment products. This example is illustrative only and fees may vary for your actual investment.

Example	Balance of \$50,000 with a contribution of \$5,000 during year	
Contribution fees	Nil	For every additional \$5,000 you put in, you will be charged \$0.
PLUS Management costs comprising:	0.54% p.a.	And , for every \$50,000 you have in the Fund you will be charged \$270 each year.
Management fee to Schroders	0.54% p.a.	
Indirect costs	0%	
EQUALS Cost of Fund		<p>If you had an investment of \$50,000 at the beginning of the year and you put in an additional \$5,000 during that year you would be charged fees of \$270¹.</p> <p>What it costs you will depend on the fees you negotiate</p>

¹Additional fees may apply. This amount excludes fees for an additional contribution of \$5,000 during the year. Please note that the minimum initial investment for the Fund is \$20,000, and the minimum additional investment is \$5,000. This example does not take into account the buy/sell spread nor any abnormal expense recoveries. We have assumed a constant value of \$50,000 throughout the year.

Important – Fees may be payable to your broker for accessing the Fund through mFund and, if applicable, to your financial adviser (refer to the Statement of Advice provided by your broker or adviser). These fees are in addition to those above.

Management costs

Management costs comprise the fees or costs (including indirect costs) that you incur by investing in the Fund.

The management fee is the fee for Schroders' services as Responsible Entity in overseeing the operations of the Fund and/or for providing access to the Fund's underlying investments. Schroders is entitled to management fees as set out in the above table calculated on the NAV of the Fund (inclusive of GST less any RITC entitlement). Management fees are calculated and accrue daily and generally paid in arrears. Schroders may rebate all or part of its management fees to 'wholesale clients' as defined in the Corporations Act on an individually negotiated basis. For further information, wholesale clients can contact Schroders.

Indirect costs are generally payable from the Fund's assets rather than directly by you. Indirect costs do not include transaction costs.

Other fees and costs may apply to the Fund. Unless otherwise agreed, Schroders may change the amount of any fees in this PDS (including increasing fees up to the maximum set out in the Constitution) without your consent. The management fee disclosed in this PDS will not be changed without providing at least 30 days' advance notice to you. For information on tax please see Section 7 of this PDS below.

ASIC fee calculator

To calculate the effect of fees and costs on your account balance, you can use the calculator provided by ASIC at www.moneysmart.gov.au.

✓ You should read the important information about fees and costs before making a decision. Go to section 3 of the 'Additional Information to the PDS', which you can access on Schroders' website at www.schroders.com.au or request a copy free of charge by calling Schroders on (+61) 1300 136 471.

The material relating to more detailed information about fees and costs may change between the time when you read this PDS and the day when you acquire the product.

7. How managed investment schemes are taxed

Warning

Investing in a registered managed investment scheme is likely to have tax consequences and unitholders are strongly advised to seek professional tax advice.

Registered managed investment schemes do not pay tax on behalf of unitholders. Unitholders are assessed for tax on any income and capital gains generated by the Fund.

Unitholders should obtain independent professional tax advice about their individual circumstances as the taxation implications of investing in the Fund will vary depending on their individual circumstances.

✓ You should read the important information about 'How managed investment schemes are taxed' before making a decision. Go to section 4 of the 'Additional Information to the PDS', which you can access on Schroders' website at www.schroders.com.au or request a copy free of charge by calling Schroders on (+61) 1300 136 471.

The material relating to more detailed information about how managed investment schemes are taxed may change between the time when you read this PDS and the day when you acquire the product.

8. How to apply

If you would like to invest in the Fund, please complete the application form accompanying this PDS. By signing the form you are confirming that you have received this PDS and had an opportunity to read it.

You may make additional investments in the Fund via BPAY® or by forwarding payment in accordance with the payment options set out in this PDS, together with either a current application form or written notice. A written notice must include details of the investor's name, address, contact telephone number, investor code number, payment method and application details. Such written notice must be duly authorised by the investor(s). Applications are subject to cut-off times that are detailed in section 1.3 of the 'Additional Information to the PDS'. Where a valid application instruction is received and accepted by the cut-off time on a Dealing Day, units will be allocated at the unit price calculated for that Dealing Day. Where cleared funds are not received, units will not be allocated and the investor may be liable for reasonable administrative and associated costs incurred and any tax payable. For additional applications received by BPAY, we will issue units when the money is received from your nominated financial institution. This means units may not be issued on the day of your BPAY instruction if there are delays in receiving the application money.

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mFund

The Fund has been admitted to mFund and you can invest in the Fund through participating ASX brokers. Your ASX broker will process a buy order for units through CHESS. CHESS will confirm the order with your ASX broker once received and accepted by us. Applications for units received and accepted by us will be forwarded by CHESS to your ASX broker for your payment. You will need to provide your application money to your ASX broker.

We will price and allot new units in the Fund to your CHESS Holder Identification Number (HIN). CHESS will notify your ASX broker of the unit price and units allotted. If you are allotted units (through transfer or certain corporate actions) which are not broker-sponsored, your holding will be issuer sponsored and you will be provided with an SRN. See www.mfund.com.au for additional information.

Payment options

Please refer to the payment options as set out in the 'Additional Information to the PDS'. In the case of applications for amounts in excess of \$5 million, application funds should be made by direct deposit via Real Time Gross Settlement (RTGS). Any other payment method for such large applications may delay processing of the application.

Cooling off

A 14-day cooling-off period applies to investments made directly by retail investors in the Fund. Your cooling-off period will begin when your transaction confirmation is received by you or on the 5th Business Day after units are issued (whichever is earlier) and will end on the 14th day after that date. The confirmation statement you receive on the initial application will state the date on which the units were issued. During this 14-day period, you may cancel your initial investment by sending an authorised instruction to Schroders. Your initial investment will then be repaid after adjustments are made for changes in the value of the investment, reasonable administrative and transaction costs incurred by the Fund and any tax payable. The cooling-off period will end if and when you make an additional investment during the 14-day period.

Dealing with complaints

Schroders has procedures in place for dealing with complaints. Unitholders with enquiries should contact Schroders. Notification of any complaint should be made in writing addressed to:

Client Services Manager
Schroder Investment Management Australia Limited
GPO Box 5059
Sydney NSW 2001

We will seek to acknowledge receipt of your complaint in writing as soon as reasonably practicable and in any event within 14 days from receipt, and address your complaint within 45 days. If Schroders has not addressed your complaint, or if you are not satisfied, you can refer your complaint to the independent complaints resolution body, Financial Ombudsman Service Limited, ABN 67 131 124 448 (FOS), of which Schroders is a member. Legislation has been passed to establish the Australian Financial Complaints Authority (AFCA) as the dispute resolution scheme that will replace FOS.

Claims determined by FOS are subject to maximum limits on the total value of the remedy that can be awarded. Please see the terms of reference for FOS as approved by ASIC which can be found at www.fos.org.au. If your complaint remains unresolved you may contact FOS at GPO Box 3, Melbourne VIC 3001 or call 1300 780 808 or fax (03) 9613 6399. The FOS is not available to New Zealand unitholders.

9. Other information

Certain information in this PDS may change from time to time. Where we indicate to you that we will give notice of such changes, or where the updated information includes no materially adverse information, we will publish the updated information on our website at www.schroders.com.au. A copy of the updated information will be available free of charge upon request by contacting Schroders.