

**Schroder**

# Absolute Return Bond Fund

---

## Final Short Report

1 January 2012 to 31 December 2012



**Schroders**

# Schroder Absolute Return Bond Fund

## Review of Investment Activities

**From 30 December 2011 to 31 December 2012 the price of A Accumulation units on a selling price to selling price basis rose 6.13%. The fund aims to achieve a rolling twelve month positive return and is unconstrained by a benchmark. For information, over the same period, Sterling 3 Month LIBOR generated a total return of 0.86%<sup>1</sup>.**

**1 Source: Lipper Investment Management.**

Corporate and high yield bonds provided very strong returns as investors have taken on more risk through 2012. In this environment peripheral European sovereign bonds outperformed core European government bonds over the year.

Central Bank announcements were significant positive catalysts for the higher risk markets. The European Central Bank's more proactive approach under Mario Draghi, as well as significant policy announcements in early September, and a new round of quantitative easing in the US all further supported the rally.

The fund posted a positive absolute return over the period. For much of the year performance was driven by the fund's bias towards corporate bonds, as credit spreads benefited from an easing of investor risk aversion and a widespread hunt for yield.

Foreign exchange positioning further contributed to performance, particularly towards the end of the year, with exposure to Asian currencies such as the Korean won contributing, as well as a short position in the Japanese yen.

Mortgage backed securities (MBS) also helped performance, particularly after the US Federal Open Market Committee's announcement in September that it would purchase US\$40 billion of agency MBS per month.

Looking ahead, we think 2013 will be another year where markets will swing between euphoria – when either growth or politicians offer positive surprises – and disappointment – when either the political system takes its collective foot off the reform agenda or we see a temporary ebbing in economic momentum.



**Lead Fund  
Manager:**  
**Bob Jolly**



**Alternate Fund  
Manager:**  
**Gareth Isaac**

# Fund Information

	Interim	Final
Accounting dates	30 June	31 December
Revenue allocation dates	31 August	28 February
<b>Ongoing charges figure</b>	For the year to 31.12.12	For the year to 31.12.11
A Income units	1.14%	1.17%
A Accumulation units	1.14%	1.17%
Z Income units	0.75% <sup>1</sup>	0.91% <sup>2</sup>
Z Accumulation units	0.75% <sup>1</sup>	0.91% <sup>2</sup>

To comply with the requirements of the UCITS IV Directive the Total expense ratio has been replaced with an Ongoing charges figure. The comparative figures have been restated in line with the new requirement.

<sup>1</sup> From 23 January 2012, the Annual management charge was reduced from 0.75% to 0.60% and the Administration charge was reduced from 0.15% to 0.10% for Z Income units and Z Accumulation units.

<sup>2</sup> The Ongoing charges figure is annualised based on the fees suffered during the accounting period.

## Performance Record

<b>Fund performance</b>	Net Asset Value as at 31.12.12 pence per unit	Net Asset Value as at 31.12.11 pence per unit	Net Asset Value % change
A Income units	43.06	41.17	4.59
A Accumulation units	97.06	90.88	6.80
Z Income units	49.10	46.82	4.87
Z Accumulation units	51.22	47.79	7.18

	3 months	1 year	5 years
<b>Schroder Absolute Return Bond Fund</b>	1.68%	6.13%	17.06%
Sterling 3 Month LIBOR	0.14%	0.86%	9.83%

Fund Source: A Accumulation units on a selling price to selling price basis to 31.12.12.

Index Source: Lipper Investment Management, total return to 31.12.12.

Please remember that past performance is not a guide to future performance and it might not be repeated. The value of investments and the revenue from them may go down as well as up and investors may not get back the amount originally invested. Because of this, you are not certain to make a profit on your investments and you may lose money.

## Performance Record (continued)

<b>Distribution</b> Year to 31 December	A Income units pence per unit	A Accumulation units pence per unit
2008	1.4836	2.8175
2009	1.7141	3.3616
2010	2.0032	4.1098
2011	1.6601	3.5197
2012	0.8985	2.0427

Year to 31 December	Z Income units pence per unit	Z Accumulation units pence per unit
2008	–	–
2009	–	–
2010	–	–
2011	0.8287	0.8287
2012	1.0272	1.1797

<b>Unit price range</b>	<b>A Income units</b>		<b>A Accumulation units</b>	
Year to 31 December	Highest buying p	Lowest selling p	Highest buying p	Lowest selling p
2008	48.35	40.80	91.06	77.93
2009	46.04	41.24	91.16	80.64
2010	47.02	42.77	97.71	86.91
2011	46.59	42.25	98.86	90.38
2012	44.92	41.53	100.80	91.68

	<b>Z Income units</b>		<b>Z Accumulation units</b>	
Year to 31 December	Highest buying p	Lowest selling p	Highest buying p	Lowest selling p
2008	–	–	–	–
2009	–	–	–	–
2010	–	–	–	–
2011	50.11	47.02	50.11	47.17
2012	49.68	47.05	51.58	48.05

## Portfolio Information

	% of net assets as at 31.12.12	% of net assets as at 31.12.11
<b>Spread of investments</b>		
Australian Dollar Denominated Short Term Bonds	1.62	0.00
Australian Dollar Denominated Derivatives	0.61	0.01
Canadian Dollar Denominated Derivatives	(0.03)	0.00
Chinese Renminbi Denominated Derivatives	0.06	(0.06)
Czech Koruna Denominated Derivatives	0.05	0.00
Euro Denominated Certificates of Deposit	0.00	7.22
Euro Denominated Commercial Papers	0.00	3.14
Euro Denominated Short Term Bonds	31.87	10.74
Euro Denominated Medium Term Bonds	4.87	4.70
Euro Denominated Long Term Bonds	3.44	2.98
Euro Denominated Derivatives	(0.80)	0.52
Japanese Yen Denominated Derivatives	(0.02)	0.01
Korean Won Denominated Derivatives	0.10	(0.02)
Luxembourg Debt Funds	1.52	0.00
Malaysian Ringgit Denominated Derivatives	0.01	0.00
New Zealand Dollar Denominated Derivatives	(0.15)	(0.01)
Norwegian Krone Denominated Derivatives	0.12	(0.02)
Singapore Dollar Denominated Derivatives	(0.01)	0.00
Sterling Denominated Certificates of Deposit	0.00	4.35
Sterling Denominated Commercial Papers	0.00	2.46
Sterling Denominated Short Term Bonds	22.82	5.81
Sterling Denominated Medium Term Bonds	4.86	8.15
Sterling Denominated Long Term Bonds	6.33	6.53
Sterling Denominated Derivatives	(0.02)	0.00
Swedish Krona Denominated Derivatives	0.21	0.07
Swiss Franc Denominated Derivatives	0.00	0.01
US Dollar Denominated Short Term Bonds	5.31	10.42
US Dollar Denominated Medium Term Bonds	6.31	16.34
US Dollar Denominated Long Term Bonds	21.73	23.71
US Dollar Denominated Derivatives	(0.53)	(0.52)
Net other liabilities	(10.28)	(6.54)

## Portfolio Information (continued)

	% of net assets as at 31.12.12		% of net assets as at 31.12.11
<b>Major holdings</b>			
Ginnie Mae 3% Bonds 2043	14.41	Treasury 3.75% Stock 2021	7.76
Wachovia 0.84% Notes 2014	3.01	Ginnie Mae 3.5% Bonds 2042	6.00
Barclays Bank 2.5156% Notes 2015	2.83	Ginnie Mae 3.5% Bonds 2041	4.19
Rabobank Nederland 1.46% Notes 2014	2.77	Ginnie Mae 4% Bonds 2040	3.86
Caisse d'Amort Dette 1.265% Notes 2014	2.76	Treasury 5% Stock 2012	3.55
Nationwide Building Society 2.6144% Notes 2015	2.61	Treasury 4.25% Stock 2040	3.09
Fannie Mae 2.5% Bonds 2027	2.60	Caisse Amortissement 0% Commercial Paper 2012	2.46
National Australia Bank 2.4644% Notes 2015	2.21	Barclays Bank 1.79% Certificate of Deposit 2012	2.11
Coventry Building Society 2.61% Notes 2015	1.84	Nordea Bank 0% Commercial Paper 2012	2.07
Svenska Handelsbank 2.0131% Notes 2014	1.82	BNP Paribas 0% Commercial Paper 2012	2.07

## Investment Objective & Policy

The fund's investment objective is to achieve a positive return over rolling twelve month periods, in all market conditions.

To achieve the investment objective, the fund will invest primarily in a portfolio of bonds and other fixed and floating rate securities denominated in various currencies issued by governments, government agencies, supra-national and corporate issuers worldwide. The full spectrum of available securities, including non-investment grade, may be utilised. In addition foreign currency strategies may also be employed.

Investment will be primarily in directly held transferable securities. The fund may also invest in collective investment schemes, derivatives, cash, deposits, warrants and money market instruments.

### Further Information

The Manager will seek to achieve positive returns in all market conditions, but there is no guarantee that this objective will be achieved.



# Risk Profile

## Risk and reward indicator



The risk category is based upon the fund's risk target and there is no guarantee that the fund will achieve it.

The fund is in this category because it can take higher risks in search of higher rewards and its price may rise and fall accordingly.

The fund's risk category is not guaranteed to remain fixed and may change over time.

A fund in the lowest category does not mean a risk free investment.

## Specific risks

The fund invests in assets which are exposed to currencies other than sterling. Exchange rates may cause the value of overseas investments and the revenue from them to rise or fall.

The fund invests in emerging markets and the Far East. This involves a high degree of risk and should be seen as long term in nature.

The fund is index unconstrained and has the potential for greater volatility.

The fund invests in higher yielding bonds (non-investment grade). The risk of default is higher with non-investment grade bonds than with investment grade bonds. Higher yielding bonds may also have an increased potential to erode your capital sum than lower yielding bonds.

The fund uses derivatives for specific investment purposes. This involves a higher degree of risk and may lead to a higher volatility in the unit prices of the fund. The Manager employs a risk management process to allow the Manager to measure derivatives and forward positions and their contribution to the overall risk profile of the fund. As part of this risk management process, the Manager conducts daily value at risk analysis of the fund and performs both stress and back testing of the fund.

As a result of the annual management charge being charged wholly to capital, the distributable revenue of the fund may be higher, but the capital value of the fund may be eroded which may affect future performance.

For these reasons, the purchase of units should not normally be regarded as a short term investment.

# Report & Accounts

This document is a short report for the Schroder Absolute Return Bond Fund for the year ended 31 December 2012. The long form Report & Accounts for the fund are available on our website [www.schroders.co.uk](http://www.schroders.co.uk) or upon written request to Schroders, FREEPOST, RLTZ-CHSY-HBUT, PO Box 1102, Chelmsford, Essex CM99 2XX.

## Other information

With effect from 31 December 2012 the initial management charge was removed for A Income units and A Accumulation units.

The information contained in this report is designed to enable unitholders to make an informed judgement on the activities of the fund during the period it covers and the results of those activities at the end of the period. For more information about the activities and performance of the fund during this and previous periods, please contact the Manager.

The Prospectus and the Key Investor Information Document are available on request or can be downloaded from our website **[www.schroders.co.uk](http://www.schroders.co.uk)**.

Schroders is required by the European Union Savings Directive to report payments to HM Revenue and Customs that are made by the fund to investors living in other European Union member states.

**Please remember that past performance is not a guide to future performance and it might not be repeated. The value of investments and the revenue from them may go down as well as up and investors may not get back the amount originally invested. Because of this, you are not certain to make a profit on your investments and you may lose money.**

For investors' security, calls to Schroder Investor Services may be recorded. **Manager:** Schroder Unit Trusts Limited, 31 Gresham Street, London, EC2V 7QA. Authorised and regulated by the Financial Services Authority. **Trustee:** J.P. Morgan Trustee and Depositary Company Limited, Chaseside, Bournemouth, BH7 7DA. Authorised and regulated by the Financial Services Authority. **Independent Auditors:** PricewaterhouseCoopers LLP, Erskine House, 68-73 Queen Street, Edinburgh EH2 4NH.

**For further literature please contact Schroder Investor Services on 0800 718 777 or at [investorservices@schroders.com](mailto:investorservices@schroders.com), or visit our website at [www.schroders.co.uk](http://www.schroders.co.uk).**

