

Schroder

Monthly High Income Fund

Final Short Report

28 July 2012 to 27 July 2013



Schroders

Schroder Monthly High Income Fund

Review of Investment Activities

From 27 July 2012 to 26 July 2013, the price of A Accumulation units on a selling price to selling price basis rose 12.46%. In comparison, the Investment Management Association Sterling High Yield Sector Average generated a total return of 11.52%¹.

1 Source: Lipper Investment Management.

The period under review was largely positive for fixed income, although was marked by severe bouts of volatility caused mainly by the eurozone debt crisis, but also by events in the US. With government bond yields at record low levels, corporate bonds – and particularly high yield bonds – benefited from investors seeking out sources of yield. Companies benefited from the low levels of interest rates, as it kept their borrowing costs low and also kept the number of defaults in corporate bonds low.

Over this period the fund posted strong positive returns and outperformed the sector average.

The fund's bias towards the financial sector contributed to outperformance in 2012. Towards the end of the year we rotated some of the portfolio towards higher quality high yield issuers and less economically sensitive credits. On a sector level the fund currently has a bias towards the utilities sector.

Looking ahead, we are seeing some improvements in the UK economic backdrop thanks to policymakers' focus on boosting growth by kick starting the housing market. However, we expect volatility to remain high in the coming months and have adopted a cautious stance, but we will be ready to take advantage of opportunities in credit when we see value.

In a difficult overall environment for credit, we think prudent credit selection backed up by rigorous research will be rewarded. We think the high yield sector will continue to benefit from investors' hunt for sources of yield.



**Co-Fund
Manager:**
**Konstantin
Leidman**



**Co-Fund
Manager:**
**Michael
Scott**

Fund Information

	Interim	Final
Accounting dates	27 January	27 July

The funds accounting dates are on the 27th of each month with associated revenue allocation dates on the 25th of the following month.

Ongoing charges figure	For the year to 27.7.13	For the year to 27.7.12
A Income units	1.38%	1.38%
A Accumulation units	1.38%	1.38%
Z Income units	0.73%	0.72% ¹
Z Accumulation units	0.73%	0.72% ^{1,2}

1 The Ongoing charges figure has been restated for the comparative period.

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

Performance Record

Fund performance	Net Asset Value as at 27.7.13 pence per unit	Net Asset Value as at 27.7.12 pence per unit	Net Asset Value % change
A Income units	43.99	41.09	7.06
A Accumulation units	97.61	86.56	12.77
Z Income units	48.41	44.93	7.75
Z Accumulation units	57.81	50.93	13.51

	3 months	1 year	5 years
Schroder Monthly High Income Fund	(0.40)%	12.46%	54.70%
Investment Management Association			
Sterling High Yield Sector Average	(0.58)%	11.52%	46.65%

Fund Source: A Accumulation units on a selling price to selling price basis to 26.7.13.

Index Source: Lipper Investment Management, total return to 26.7.13.

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)

Unit price range	A Income units		A Accumulation units	
	Highest buying p	Lowest selling p	Highest buying p	Lowest selling p
Year to 31 December				
2008	46.94	32.45	73.17	53.41
2009	47.46	32.97	85.11	54.88
2010	50.43	43.35	94.42	79.96
2011	50.55	37.31	98.52	74.93
2012	46.44	39.40	99.61	80.38
2013 to 27 July	45.70	43.49	100.10	95.67

	Z Income units		Z Accumulation units	
	Highest buying p	Lowest selling p	Highest buying p	Lowest selling p
Year to 31 December				
2008	–	–	–	–
2009	–	–	–	–
2010	54.49	46.88	–	–
2011	54.88	40.61	–	–
2012	49.32	42.93	56.92	49.34
2013 to 27 July	50.22	47.45	59.20	55.97

Net revenue	A Income units	A Accumulation units
Year to 31 December	pence per unit	pence per unit
2008	2.4814	3.9756
2009	3.0307	5.2195
2010	2.9937	5.5287
2011	2.7633	5.4453
2012	2.2817	4.7742
2013 to 27 July	1.3430	2.9298

	Z Income units	Z Accumulation units
Year to 31 December	pence per unit	pence per unit
2008	–	–
2009	–	–
2010	3.0477	–
2011	3.0084	–
2012	2.4937	1.6625
2013 to 27 July	1.4753	1.7305

Portfolio Information

	% of net assets as at 27.7.13	% of net assets as at 27.7.12
Spread of investments		
Euro Denominated Short Term Bonds	26.70	24.86
Euro Denominated Medium Term Bonds	27.96	29.28
Euro Denominated Long Term Bonds	8.22	11.79
Euro Denominated Derivatives	(1.05)	0.00
Sterling Denominated Short Term Bonds	5.40	11.91
Sterling Denominated Medium Term Bonds	13.13	8.32
Sterling Denominated Long Term Bonds	5.48	9.51
Swiss Franc Denominated Short Term Bonds	0.18	0.00
Swiss Franc Denominated Medium Term Bonds	0.42	0.00
US Dollar Denominated Short Term Bonds	0.18	0.00
US Dollar Denominated Medium Term Bonds	1.22	0.00
US Dollar Denominated Long Term Bonds	1.52	0.00
US Dollar Denominated Derivatives	0.01	0.00
Net other assets	10.63	4.33

	% of net assets as at 27.7.13		% of net assets as at 27.7.12
Major holdings			
OTE 7.875% Notes 2018	2.09	Treasury 0% Stock 2013	3.24
Bank of Scotland 7.286% Perpetual Bonds	1.66	Treasury 0% Stock 19.11.12	2.16
BPCE 12.5% Perpetual Notes	1.58	Treasury 0% Stock 10.12.12	2.16
Lynx II 7% Bonds 2023	1.57	Treasury 4.5% Stock 2042	1.90
Investec 7.075% Perpetual Bonds	1.44	Germany (Federal Republic) 1.75% Index Linked Stock 2020	1.82
Fiat Finance & Trade 7.75% Notes 2016	1.34	Investec 7.075% Perpetual Bonds	1.43
Arqiva Broadcast 9.5% Notes 2020	1.32	BPCE 12.5% Perpetual Notes	1.40
Spirit Issuer 5.86% Bonds 2014	1.22	Treasury 0% Stock 29.10.12	1.30
Findus Bondco 9.125% Notes 2018	1.19	Royal Bank of Scotland 6.934% Notes 2018	1.29
Sunrise Communications International 7% Notes 2017	1.18	GKN 6.75% Bonds 2019	1.10



Investment Objective & Policy

The fund's investment objective is to achieve a high level of income from a diversified portfolio of debt securities. The full spectrum of available securities, including unrated issues and those of non-investment grade, will be utilised.

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

Risk Profile

Risk and reward indicator



The risk category was calculated using historical performance data and may not be a reliable indicator of the fund's future risk profile.

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.

Risk Profile (continued)

Specific risks

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 derivative 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 Monthly High Income Fund for the year ended 27 July 2013. The long form Report & Accounts for the fund are available on our website 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, the Key Investor Information Document and details of investment charges and costs are available on request or can be downloaded from our website **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.

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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 Conduct Authority. **Trustee:** J.P. Morgan Trustee and Depositary Company Limited, Chaseside, Bournemouth, BH7 7DA. Authorised and regulated by the Financial Conduct 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, or visit our website at www.schroders.co.uk.



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