

Schroder

Absolute Return Fund Company

Interim Short Report

1 October 2013 to 31 March 2014



Schroders

Company Information

General information

Schroder Absolute Return Fund Company (SARFCo or the Company) is an umbrella company comprising two sub funds which have their own investment objectives and policies. At 31 March 2014 SARFCo had the following sub funds:

Schroder Absolute UK Dynamic Fund

Schroder UK Absolute Target Fund

The document has been designed to show the individual results of the sub funds.

Significant events

On 2 July 2013 Schroders completed the acquisition of Cazenove Capital Holdings Limited.

In order to integrate the two firms, we have made a number of changes to our combined business and trust range. With effect from 24 March 2014, the Cazenove Absolute Return Fund Company sub funds changed names to:

Cazenove Absolute UK Dynamic Fund – Schroder Absolute UK Dynamic Fund

Cazenove UK Absolute Target Fund – Schroder UK Absolute Target Fund

The administration fees on the Cazenove funds were also brought into line with the fees charged on the Schroders' existing fund range.

To ensure the quality of administration is consistent across all Schroder funds, we have made some changes to the service providers behind the funds. These changes will have no impact on the way the funds are managed and are simply part of the process Schroders has gone through to simplify our operations.

With effect from 24 March 2014, Cazenove Investment Fund Management Limited were replaced as Authorised Corporate Director (ACD) by Schroder Unit Trusts Limited.

With effect from 24 March 2014, J.P. Morgan Europe Limited were replaced by International Financial Data Services Limited as Registrar.

Schroder Absolute UK Dynamic Fund

Review of Investment Activities

From 30 September 2013 to 31 March 2014 the price of P1 GBP Accumulation shares rose 2.44%.

Continuing signs of improvement in the UK's economic situation caused the equity market to move higher over the period. The fund delivered solid monthly gains for the most part, with stock selection in the long book driving performance. Among the best performers in the portfolio were Quindell, an insurance software and services specialist, house builder Telford Homes, car dealer Pendragon and Topps Tiles. A clear exception was digital sport company Perform Group, which detracted from fund performance following a profits warning in December that caused its stock to tumble.

Over the six months, the fund posted a negative return in only one of them: March was a tough month generally for equity markets and a number of our star performers of 2013 suffered, including technology firms Xaar and WANDisco.

Small cap earnings growth prospects for this calendar year have collapsed this month from +10% to +3%, according to data from Peel Hunt. Meanwhile mid caps have clearly been the subject of some top down profit taking and that trend may well continue, especially if the flow of Initial Public Offerings and secondary deals remains as high as it is. We need to be careful not to throw the baby out with the bathwater here, keeping focused on good long term investment opportunities that will drive performance in a more settled market.



**Fund
Manager:**
**Paul
Marriage**



**Fund
Manager:**
**John
Warren**

Fund Information

	Interim	Final
Accounting dates	31 March	30 September
Revenue allocation date		30 November

Ongoing charges figure	For the period from 1.4.14 ¹	For the period to 31.3.14	For the year to 30.9.13
P1 GBP Accumulation shares	1.67%	1.60% ²	1.63%
P2 GBP Accumulation shares	1.17%	1.10% ²	1.13%
P1 Euro Accumulation shares	1.67%	1.60% ²	1.97%
P2 Euro Accumulation shares	1.17%	1.10% ²	1.14%

¹ The integration of Cazenove Capital Holdings with Schroders plc has resulted in a change to the fees on the Cazenove Funds to bring them into line with the fees charged on Schroders' existing UK range. With effect from 1 April 2014, an administration fee of 0.15% pa will apply to the fund, resulting in an ongoing charge as detailed above.

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

Performance Record

Fund performance	Net Asset Value as at 31.3.14 pence per share	Net Asset Value as at 30.9.13 pence per share	Net Asset Value % change
P1 GBP Accumulation shares	150.80	147.33	2.36
P2 GBP Accumulation shares	154.02	150.16	2.57
P1 Euro Accumulation shares	137.55	135.71	1.29
P2 Euro Accumulation shares	143.14	140.98	1.53

	3 months	6 months	Since launch
Schroder Absolute UK Dynamic Fund	(1.46)%	2.44%	50.90%

Fund Source: P1 GBP Accumulation shares on a dealing price to dealing price basis to 31.3.14.

The Schroder Absolute UK Dynamic Fund was launched on 7.9.09.

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)

Share price range	P1 GBP Accumulation shares		P2 GBP Accumulation shares	
	Highest dealing p	Lowest dealing p	Highest dealing p	Lowest dealing p
Year to 31 December				
2009	102.24	98.65	102.32	98.66
2010	105.54	91.56	106.00	91.87
2011	121.35	105.75	122.40	106.23
2012	129.55	115.07	131.42	116.46
2013	154.55	128.49	157.67	130.50
2014 to 31 March	156.13	150.60	159.41	153.90

	P1 EUR Accumulation shares		P2 EUR Accumulation shares	
	Highest dealing ¢	Lowest dealing ¢	Highest dealing ¢	Lowest dealing ¢
Year to 31 December				
2009	–	–	–	–
2010	–	–	–	–
2011	135.98	126.36	139.80	127.34
2012	143.49	128.21	148.36	131.93
2013	170.13	141.83	176.93	146.97
2014 to 31 March	171.78	165.60	178.83	172.50

Net revenue Year to 31 December	P1 GBP Accumulation pence per share	P2 GBP Accumulation pence per share
2009	Nil	Nil
2010	0.4160	0.8225
2011	Nil	Nil
2012	Nil	Nil
2013	Nil	Nil
2014 to 31 March	Nil	Nil

Net revenue Year to 31 December	P1 EUR Accumulation cent per share	P2 EUR Accumulation cent per share
2009	–	–
2010	–	–
2011	Nil	Nil
2012	Nil	Nil
2013	Nil	Nil
2014 to 31 March	Nil	Nil

Portfolio Information

	% of net assets as at 31.3.14	% of net assets as at 30.9.13
Portfolio structure		
Long exposure	84.11	81.62
Short exposure	(37.66)	(32.79)
Net long exposure	46.45	48.83
Gross investment	121.77	114.41

	% of net assets as at 31.3.14	% of net assets as at 30.9.13
Major Holdings		
Treasury 0% Stock 2.6.14	7.34	Xaar 3.94
Treasury 0% Stock 9.6.14	7.34	Perform Group 3.71
Treasury 0% Stock 1.9.14	7.34	John Menzies 2.50
Treasury 0% Stock 8.9.14	7.33	Clinigen 2.16
Treasury 0% Stock 16.6.14	4.90	Smart Metering Systems 2.02

Ten largest net sector positions (five net long, five net short)	% of net assets as at 31.3.14			
	Long	Short	Gross	Net
Electronic & electrical equipment	8.69	(0.96)	9.65	7.73
General retailers	7.63	(0.79)	8.42	6.84
Travel & leisure	5.83	0.00	5.83	5.83
Software & computer services	4.38	(0.62)	5.00	3.76
Household goods & home construction	3.50	0.00	3.50	3.50
Personal goods	0.00	(1.93)	1.93	(1.93)
Industrial transportation	0.00	(0.99)	0.99	(0.99)
Chemicals	1.22	(1.86)	3.08	(0.64)
Nonlife insurance	1.59	(1.87)	3.46	(0.28)
Pharmaceuticals & biotechnology	1.34	(1.53)	2.87	(0.19)

Portfolio Information (continued)

Ten largest net sector positions (five net long, five net short)

% of net assets as at 30.9.13

	Long	Short	Gross	Net
Electronic & electrical equipment	10.15	(1.16)	11.31	8.99
Media	5.50	0.00	5.50	5.50
General industrials	4.91	0.00	4.91	4.91
General retailers	6.32	(2.04)	8.36	4.28
Technology hardware & equipment	4.12	0.00	4.12	4.12
Personal goods	0.00	(0.99)	0.99	(0.99)
Pharmaceuticals & biotechnology	0.95	(1.73)	2.68	(0.78)
Financial services	0.00	(0.67)	0.67	(0.67)
Healthcare equipment & services	0.00	(0.49)	0.49	(0.49)
Chemicals	1.35	(1.83)	3.18	(0.48)

Investment Objective & Policy

The objective of the Schroder Absolute UK Dynamic Fund ("the fund") is to achieve absolute returns through targeted investment strategies independent of United Kingdom market conditions or indices. The fund will aim typically to deliver absolute (more than zero) returns over a rolling three-year period, although an absolute return performance is not guaranteed over this or longer periods of time and it may not achieve this objective. There is a risk to an investor's capital. Investors may not get back the amount originally invested.

The ACD will seek to achieve its investment objective by investing in a concentrated portfolio of companies (usually between 30 to 60 companies both on the long side and the short side of the portfolio) predominantly incorporated in the United Kingdom or in companies which derive a significant proportion of their revenues or profits from this country or which are primarily operating in this jurisdiction. Investments will be made primarily in companies and other securities which are constituents of the FTSE All Share Index with a bias towards medium sized and smaller companies. The fund may also invest in securities listed on the Alternative Investment Market and in equity related transferable securities, such as preferred shares, debentures, warrants (warrants may not exceed more than 5 per cent of the total assets of the fund) and convertible securities or in derivatives thereof. As the fund has an absolute return objective it will not be managed against any index.

Investment Objective & Policy (continued)

Whilst the fund will mainly invest in equities, it may also invest in debt securities (such as bonds and notes of any maturity which are transferable securities), where this is deemed appropriate in the market conditions prevailing at that time. Any such securities will be rated investment grade by Moody's or S&P, or if not rated, deemed by the Investment Manager to have at least an equivalent rating and will be issued by the United Kingdom government or companies incorporated in the United Kingdom or in companies which derive a predominant proportion of their revenues or profits from this country or which are principally operating in that jurisdiction. The fund may also invest in short term securities which are rated investment grade (such as certificates of deposit, bankers' acceptances and commercial paper) for temporary defensive purposes.

The fund will seek to achieve its investment objective and policy through the use of various investment strategies including the use of derivatives to obtain long and synthetic short positions principally through contracts for differences. The fund may also use forward foreign exchange transactions, interest rate and government bond futures, and other exchange traded and off exchange traded derivative contracts for the purposes of efficient portfolio management and/or meeting the investment objectives of the fund. Such derivative contracts have the potential to significantly increase the fund's risk profile.

The ACD employs a risk management process that seeks to control the volatility of fund returns.

The fund may at any time have substantial holdings in ancillary liquid assets.



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.

There is no guarantee that the hedging strategy applied in hedged unit classes will entirely eliminate the adverse effects of changes in exchange rates between the base currency and the portfolio currencies.

More than 35% of the property of the fund may be invested in Government securities.

The fund may invest 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 invests in derivatives and in alternative investments (including commodities, hedge funds, property funds and private equity) which involves a higher degree of risk and can be more volatile. They should only be considered as a long term investment.

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

Schroder UK Absolute Target Fund

Review of Investment Activities

From 30 September 2013 to 31 March 2014 the price of P2 GBP Accumulation shares rose 0.01%. The fund does not measure its performance against a benchmark, however, for comparison purposes, the FTSE* All Share Index generated a total return of 4.79%¹.

1 Source: Thomson Reuters Datastream.

Continuing signs of improvement in the UK's economic situation caused the equity market to move higher over the period. However, it was a mixed six months for the fund. The fund made steady gains over the first five months, with top performing holdings on the long book including Booker, 3i Group, DS Smith and Hays. However, March was a month to forget for the fund as it delivered the worst monthly performance under our tenure and wiped out the previous five months' gains. Some of our best performers of 2013 lost momentum – such as Xaar which was hit by the retirement of its CEO – while some of our stocks were caught out by unexpected government actions in both the UK and India.

Looking ahead, we are seeing the UK reaccelerate, with both manufacturers and services rebounding. We currently have a small net long exposure as we expect the markets to remain well supported by bid speculation, fundamentals and valuation. We shall retain our value bias for the reacceleration, but look to commodities for some late cycle exposure, with a current preference for oil over mining.



**Fund
Manager:**
**Steve
Cordell**



**Fund
Manager:**
**Julie
Dean**

Fund Information

	Interim	Final
Accounting dates	31 March	30 September
Revenue allocation dates	31 May	30 November

Ongoing charges figure	For the period from 1.4.14 ¹	For the period to 31.3.14	For the year to 30.9.13
P1 GBP Accumulation shares	1.42%	1.35% ²	1.39%
P2 GBP Accumulation shares	0.92%	0.85% ²	0.89%
P1 Euro Accumulation shares	1.42%	1.36% ²	1.47%
P2 Euro Accumulation shares	0.92%	0.86% ²	0.90%

1 The integration of Cazenove Capital Holdings with Schroders plc has resulted in a change to the fees on the Cazenove Funds to bring them into line with the fees charged on Schroders' existing UK range. With effect from 1 April 2014, an administration fee of 0.15% pa will apply to the fund, resulting in an ongoing charge as detailed above.

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

Performance Record

Fund performance	Net Asset Value as at 31.3.14 pence per share	Net Asset Value as at 30.9.13 pence per share	Net Asset Value % change
P1 GBP Accumulation shares	121.61	122.10	(0.40)
P2 GBP Accumulation shares	124.52	124.83	(0.25)
P1 Euro Accumulation shares	95.94	97.33	(1.46)
P2 Euro Accumulation shares	96.37	97.61	(1.26)

	3 months	6 months	5 years
Schroder UK Absolute Target Fund	(0.96)%	0.01%	23.70%
FTSE* All Share Index	(0.63)%	4.79%	113.30%

Fund Source: P1 GBP Accumulation shares on a dealing price to dealing price basis to 31.3.14.

Index Source: Thomson Reuters Datastream, total return to 31.3.14.

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Performance Record (continued)

Share price range	P1 GBP Accumulation shares		P2 GBP Accumulation shares	
	Highest dealing p	Lowest dealing p	Highest dealing p	Lowest dealing p
Year to 31 December				
2009	109.08	95.57	109.64	95.52
2010	107.47	96.85	108.32	97.91
2011	107.70	96.86	109.41	97.96
2012	112.34	107.47	114.36	109.18
2013	123.28	111.97	126.00	114.08
2014 to 31 March	123.85	120.90	126.78	123.80

	P1 EUR ¹ Accumulation shares		P2 EUR Accumulation shares	
	Highest dealing ¢	Lowest dealing ¢	Highest dealing ¢	Lowest dealing ¢
Year to 31 December				
2009	105.51	92.60	104.35	91.48
2010	103.51	92.82	102.79	92.59
2011	100.07	92.83	103.45	92.61
2012	–	–	107.64	103.18
2013	117.78	115.42	117.84	107.23
2014 to 31 March	117.94	115.00	118.45	115.60

¹ The share class was dormant with the final pricing point being 4 November 2011 and was reactivated on 16 July 2013.

Net revenue Year to 31 December	P1 GBP Accumulation pence per share	P2 GBP Accumulation pence per share
2009	Nil	Nil
2010	0.0466	0.5529
2011	Nil	0.1594
2012	Nil	Nil
2013	Nil	Nil
2014 to 31 March	Nil	Nil

Net revenue Year to 31 December	P1 EUR Accumulation cent per share	P2 EUR Accumulation cent per share
2009	Nil	Nil
2010	Nil	0.5370
2011	Nil	0.1109
2012	Nil	Nil
2013	Nil	Nil
2014 to 31 March	Nil	Nil

Portfolio Information

	% of net assets as at 31.3.14	% of net assets as at 30.9.13
Portfolio structure		
Long exposure	54.59	59.20
Short exposure	(51.21)	(52.72)
Net long exposure	3.38	6.48
Gross investment	105.80	111.92

	% of net assets as at 31.3.14		% of net assets as at 30.9.13
Major holdings			
Treasury 0% Stock 14.4.14	12.47	3i Group	4.22
Treasury 0% Stock 16.6.14	12.46	Melrose Industries	3.89
Treasury 0% Stock 15.9.14	12.45	Babcock International	3.21
Treasury 0% Stock 7.4.14	8.12	DS Smith	3.17
Treasury 0% Stock 2.6.14	8.12	Hansteen	3.10

	% of net assets as at 31.3.14			
Ten largest net sector positions (five net long, five net short)	Long	Short	Gross	Net
Support services	11.74	(5.09)	16.83	6.65
General industrials	3.74	0.00	3.74	3.74
Software & computer services	3.58	0.00	3.58	3.58
Real estate investment trusts	2.87	0.00	2.87	2.87
Electronic & electrical equipment	2.67	0.00	2.67	2.67
Nonlife insurance	0.00	(4.67)	4.67	(4.67)
Beverages	0.00	(3.93)	3.93	(3.93)
Banks	0.53	(2.78)	3.31	(2.25)
Personal goods	1.59	(3.51)	5.10	(1.92)
Fixed line telecommunications	0.64	(2.33)	2.97	(1.69)

Portfolio Information (continued)

Ten largest net sector positions (five net long, five net short)

% of net assets as at 30.9.13

	Long	Short	Gross	Net
Electronic & electrical equipment	4.00	0.00	4.00	4.00
Financial services	7.21	(3.72)	10.93	3.49
Software & computer services	3.18	0.00	3.18	3.18
General industrials	3.17	0.00	3.17	3.17
Real estate investment trusts	3.10	0.00	3.10	3.10
Beverages	0.00	(2.83)	2.83	(2.83)
Oil equipment, services & distribution	0.00	(2.59)	2.59	(2.59)
Household goods & home construction	0.57	(3.07)	3.64	(2.50)
Pharmaceuticals & biotechnology	0.00	(2.37)	2.37	(2.37)
Industrial transportation	0.00	(2.32)	2.32	(2.32)

Investment Objective & Policy

The objective of the Schroder UK Absolute Target Fund ("the fund") is to achieve absolute returns through targeted investment strategies independent of United Kingdom market conditions or indices. The fund will aim typically to deliver absolute (more than zero) returns over a rolling three-year period, although an absolute return performance is not guaranteed over this or longer periods of time and it may not achieve this objective. There is a risk to an investor's capital. Investors may not get back the amount originally invested.

The ACD will seek to achieve its investment objective by investing predominantly in companies incorporated in the United Kingdom or in companies which derive a significant proportion of their revenues or profits from this country or which are primarily operating in this jurisdiction. Investments will be made predominantly in the equities of large or mid sized companies and other equity related transferable securities, such as preferred shares, debentures, warrants (not exceeding 5 per cent of the total assets of the fund) and convertible securities or in derivatives thereof. This does not, however, preclude investment in a limited way in smaller companies. As the fund has an absolute return objective it will not be managed against any index.

Investment Objective & Policy (continued)

Whilst the fund will mainly invest in equities, it may also invest in debt securities (such as bonds and notes of any maturity which are transferable securities), where this is deemed appropriate in the market conditions prevailing at that time. Any such securities will be rated investment grade by Moody's or S&P, or if not rated, deemed by the investment manager to have at least an equivalent rating and will be issued by the United Kingdom government or companies incorporated in the United Kingdom or in companies which derive a predominant proportion of their revenues or profits from this country or which are principally operating in that jurisdiction. The fund may also invest in short term securities which are rated investment grade (such as certificates of deposit, bankers' acceptances and commercial paper) for temporary defensive purposes.

The fund will seek to achieve its investment objective and policy through the use of various investment strategies including the use of derivatives to obtain long and synthetic short positions principally through contracts for differences. The fund may also use forward foreign exchange transactions, interest rate and government bond futures, and other exchange traded and off exchange traded derivative contracts for the purposes of efficient portfolio management and/or meeting the investment objectives of the fund. Such derivative contracts have the potential to significantly increase the fund's risk profile.

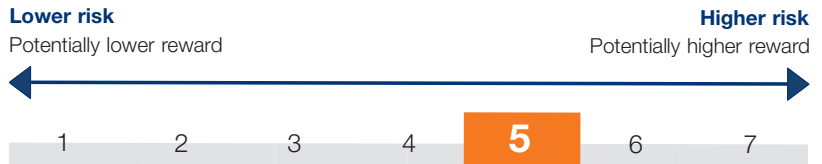
The ACD employs a risk management process that seeks to control the volatility of fund returns.

The fund may at any time have substantial holdings in ancillary liquid assets.



Risk Profile

Risk and reward indicator



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Specific risks

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The fund may invest 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.

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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 Fund Company for the period ended 31 March 2014. 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

The information contained in this report is designed to enable shareholders to make an informed judgement on the activities of the company 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 company during this and previous periods, please contact the ACD.

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.

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 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, Atria One, 144 Morrison Street, Edinburgh, EH3 8EX.

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.



