

Schroder

Absolute Return Bond Fund

Interim Short Report

1 January 2013 to 30 June 2013



Schroders

Schroder Absolute Return Bond Fund

Review of Investment Activities

From 31 December 2012 to 28 June 2013, the price of A Accumulation units on a selling price to selling price basis rose 1.76%. 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 0.25%¹.

1 Source: Lipper Investment Management.

It was a mixed period for fixed income markets, with arguably the most significant development occurring in May and June as fixed income assets sold off sharply due to the prospect of the Federal Reserve tapering its programme of asset purchases.

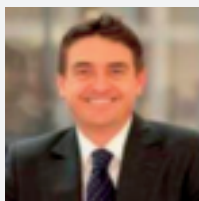
Through much of the period the fund's foreign exchange positioning was a key driver of performance. A short exposure to the Japanese yen was particularly beneficial as the new government in Japan aggressively targeted a weaker currency as a means to boosting its ailing economy. Exposure to peripheral eurozone government bonds – particularly from Portugal – also contributed to performance for much of the period as yields declined.

We gave back some performance in June due to our long exposure to the Norwegian krone as it weakened sharply against the euro. Also exposure to some emerging market currencies like the Indian rupee detracted from performance as it sold off aggressively following the rout in emerging markets.

We expect market volatility to remain high in the coming months and have moved to a more cautious stance. However, volatility creates opportunity for active fund managers, so we are remaining vigilant for mispriced investment opportunities to exploit when markets overshoot in either direction.



**Lead Fund
Manager:**
Bob Jolly



**Alternative Fund
Manager:**
Gareth Issac

Fund Information

	Interim	Final
Accounting dates	30 June	31 December
Revenue allocation dates	31 August	28 February
Ongoing charges figure	For the period to 30.6.13	For the year to 31.12.12
A Income units	1.14% ¹	1.14%
A Accumulation units	1.14% ¹	1.14%
Z Income units	0.74% ¹	0.75% ²
Z Accumulation units	0.74% ¹	0.75% ²

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

2 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.

Performance Record

Fund performance	Net Asset Value as at 30.6.13 pence per unit	Net Asset Value as at 31.12.12 pence per unit	Net Asset Value % change
A Income units	43.61	43.06	1.28
A Accumulation units	99.42	97.06	2.43
Z Income units	49.85	49.10	1.53
Z Accumulation units	52.65	51.22	2.79
	3 months	6 months	5 years
Schroder Absolute Return Bond Fund	0.39%	1.76%	22.97%
Sterling 3 Month LIBOR	0.13%	0.25%	6.97%

Fund Source: A Accumulation units on a selling price to selling price basis to 28.6.13.

Index Source: Lipper Investment Management, total return to 28.6.13.

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	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
2013 to 30 June	45.60	42.74	102.80	97.47

	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	–	–	–	–
2011	50.11	47.02	50.11	47.17
2012	49.68	47.05	51.58	48.05
2013 to 30 June	52.02	48.78	54.41	51.48

Net revenue	A Income units	A Accumulation units
Year to 31 December	pence per unit	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
2013 to 30 June	0.4913	1.0749

	Z Income units	Z Accumulation units
Year to 31 December	pence per unit	pence per unit
2008	–	–
2009	–	–
2010	–	–
2011	0.8287	0.8287
2012	1.0272	1.1797
2013 to 30 June	0.4913	0.5130

Portfolio Information

	% of net assets as at 30.6.13	% of net assets as at 31.12.12
Spread of investments		
Australian Dollar Denominated Short Term Bonds	1.44	1.62
Australian Dollar Denominated Derivatives	0.19	0.61
Canadian Dollar Denominated Derivatives	0.01	(0.03)
Chinese Renminbi Denominated Derivatives	(0.02)	0.06
Czech Koruna Denominated Derivatives	(0.04)	0.05
Euro Denominated Short Term Bonds	14.94	31.87
Euro Denominated Medium Term Bonds	3.33	4.87
Euro Denominated Long Term Bonds	3.20	3.44
Euro Denominated Derivatives	(0.80)	(0.80)
Indian Rupee Denominated Derivatives	(0.24)	0.00
Japanese Yen Denominated Derivatives	(0.51)	(0.02)
Korean Won Denominated Derivatives	0.00	0.10
Luxembourg Debt Funds	1.43	1.52
Malaysian Ringgit Denominated Derivatives	0.00	0.01
New Zealand Dollar Denominated Derivatives	(0.17)	(0.15)
Norwegian Krone Denominated Derivatives	(0.42)	0.12
Philippine Peso Denominated Short Term Bonds	0.70	0.00
Russian Ruble Denominated Derivatives	(0.10)	0.00
Singapore Dollar Denominated Derivatives	0.28	(0.01)
Sterling Denominated Certificates of Deposit	0.59	0.00
Sterling Denominated Commercial Papers	14.24	0.00
Sterling Denominated Short Term Bonds	22.11	22.82
Sterling Denominated Medium Term Bonds	5.13	4.86
Sterling Denominated Long Term Bonds	6.75	6.33
Sterling Denominated Derivatives	0.15	(0.02)
Swedish Krona Denominated Derivatives	(0.35)	0.21
Swiss Franc Denominated Derivatives	(0.04)	0.00
US Dollar Denominated Short Term Bonds	7.55	5.31
US Dollar Denominated Medium Term Bonds	3.63	6.31
US Dollar Denominated Long Term Bonds	19.11	21.73
US Dollar Denominated Derivatives	1.32	(0.53)
Net other liabilities	(3.41)	(10.28)

Portfolio Information (continued)

	% of net assets as at 30.6.13		% of net assets as at 31.12.12
Major holdings			
Asian Development Bank 0% Commercial Paper 2013	3.96	Ginnie Mae 3% Bonds 2043	14.41
Fannie Mae 3% Bonds 2042	3.67	Wachovia 0.84% Notes 2014	3.01
FMS Wertmanagement 0% Commercial Paper 20.8.13	3.56	Barclays Bank 2.5156% Notes 2015	2.83
Freddie Mac 3% Bonds 2042	3.52	Rabobank Nederland 1.46% Notes 2014	2.77
Landwirtschaftliche Rentenbank 0% Commercial Paper 2013	2.77	Caisse d'Amort Dette 1.265% Notes 2014	2.76
Barclays Bank 2.01% Notes 2015	2.62	Nationwide Building Society 2.6144% Notes 2015	2.61
Nederland Waterschapsbank 0% Commercial Paper 2013	2.37	Fannie Mae 2.5% Bonds 2027	2.60
National Australia Bank 1.9544% Notes 2015	2.05	National Australia Bank 2.4644% Notes 2015	2.21
Fannie Mae 4.5% Bonds 2042	1.91	Coventry Building Society 2.61% Notes 2015	1.84
Coventry Building Society 2.1056% Notes 2015	1.72	Svenska Handelsbank 2.0131% Notes 2014	1.82

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 period ended 30 June 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

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.



