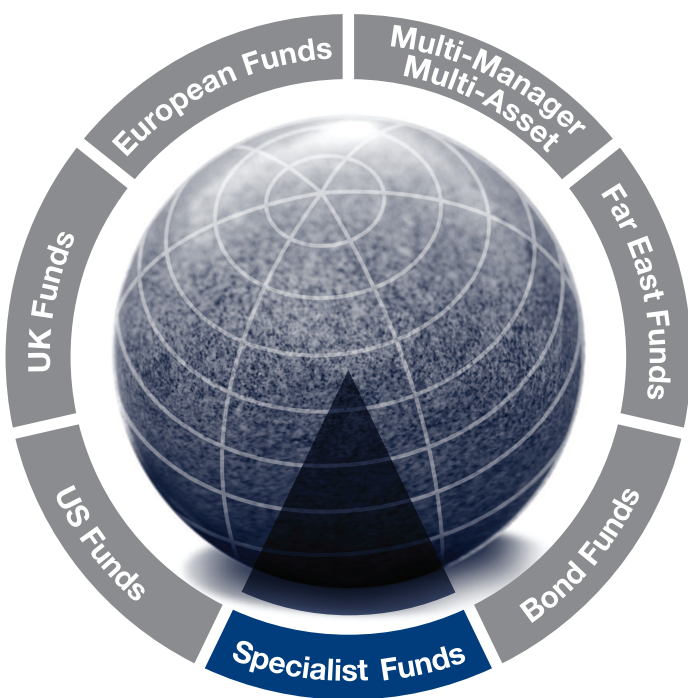


Schroder Recovery Fund

Interim Report and Accounts
January 2012



Schroders

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Schroder

Recovery Fund

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Fund Information

Investment objective and policy

The fund's investment objective is to achieve capital growth for investors through investment in companies that have suffered a severe setback.

The fund invests primarily in UK quoted shares. The investments are selected from those companies that have suffered a severe setback in terms of profits or share prices, but where the management and the prospects are believed to be good.

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

Financial highlights

| Selling price | 13.1.12 | 15.7.11 | % change |
|----------------------|-----------|------------|----------|
| A Income units | 6,007.00p | 6,704.00p | (10.40) |
| A Accumulation units | 9,514.00p | 10,440.00p | (8.87) |
| Z Income units | 47.09p | – | – |
| Z Accumulation units | 47.11p | – | – |

Fund information

| | |
|--------------|--|
| Launch date | 5 May 1970 |
| Launch price | Equivalent to 100p per A Income unit |
| Launch price | Equivalent to 100p per A Accumulation unit |
| Launch date | 2 August 2011 |
| Launch price | 50.00p per Z Income unit |
| Launch price | 50.00p per Z Accumulation unit |

| | Interim | Final |
|-------------------------|------------|--------------|
| Accounting dates | 15 January | 15 July |
| Revenue allocation date | | 15 September |

Total expense ratio

| | For the period to 15.1.12 | For the year to 15.7.11 |
|----------------------|---------------------------|-------------------------|
| A Income units | 1.52% ¹ | 1.51% |
| A Accumulation units | 1.52% ¹ | 1.51% |
| Z Income units | 0.92% ¹ | – |
| Z Accumulation units | 0.92% ¹ | – |

1 The Total expense ratio is annualised based on the fees suffered during the accounting period.

Fund Information (continued)

Total purchases
and sales

| | For the period to 15.1.12 £000's | For the year to 15.7.11 £000's |
|-----------------|--|--------------------------------------|
| Total purchases | 26,406 | 28,018 |
| Total sales | 19,077 | 46,012 |

Review of Investment Activities

From 15 July 2011 to 13 January 2012 the price of A Accumulation units on a selling price to selling price basis fell 8.87%. In comparison, the FTSE All Share Index generated a negative total return of 3.27%¹.

¹ Source: Thomson Financial Datastream.

The second half of 2011 has proved a difficult period for the fund, with increased volatility and further economic concerns impacting the portfolio. Short termism continues to be rife amongst the investment community with market timing perceived as the best way to generate returns: the so called “risk on, risk off” trade – an investment approach that is fundamentally at odds with our value driven long term investment strategy.

With an uncertain economic backdrop, stocks exposed to the consumer suffered as the market displayed renewed concern over an oncoming recession. This impacted our consumer and financial stocks in particular. Conversely, the fund benefited from negative pressure on the mining sector, which we have long viewed as overvalued and have therefore avoided. Over the last few years, these three sectors have often oscillated between positive or negative short term contributions to performance, dependant on prevailing economic sentiment. Our positions in these sectors are driven by longer term valuation based arguments, which we believe have yet to be reflected in share prices.

As recovery fund managers we are conscious that to benefit from long term improvement in businesses, they must survive short term pressures. Despite our detailed accounting analysis and belief in a substantial ‘margin of safety’ in all our investments, the fund suffered two insolvencies in the period. Given their high risk, these positions were small and though disappointing are a feature of a recovery investment strategy. Over the past ten years the fund has suffered a number of such instances, and yet remains amongst the best performing funds in the market over this time period.

We believe strongly that however intimidating and uncertain today's world might seem, our disciplined application of a value based investment strategy will produce significant long term returns.

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.



Co-Fund Manager:
Kevin Murphy

Specialist Value UK equities fund manager with eleven years investment experience

Previously a sector analyst for Pan European Construction and Building Materials

Investment career commenced in 2000 at Schroders

Chartered Financial Analyst

Degree in Economics, Manchester University

Co-Fund Manager:
Nick Kirrage

Specialist Value UK equities fund manager with ten years investment experience

Previously a sector analyst responsible for a number of UK sectors including Transport and Metals & Mining

Investment career commenced in 2001 at Schroders

Chartered Financial Analyst

Degree in Aeronautical Engineering, Bristol University

Net Asset Value and Comparative Tables

Unit price range

| Year to 31 December | A Income units | | A Accumulation units | |
|---------------------|------------------|------------------|----------------------|------------------|
| | Highest buying p | Lowest selling p | Highest buying p | Lowest selling p |
| 2007 | 7,113.00 | 5,640.00 | 10,024.00 | 8,104.00 |
| 2008 | 6,238.00 | 3,534.00 | 8,964.00 | 5,272.00 |
| 2009 | 6,715.00 | 3,328.00 | 10,340.00 | 4,964.00 |
| 2010 | 7,332.00 | 5,598.00 | 11,260.00 | 8,606.00 |
| 2011 | 7,794.00 | 5,348.00 | 12,140.00 | 8,470.00 |
| 2012 to 15 January | 6,433.00 | 5,807.00 | 10,190.00 | 9,197.00 |

| Year to 31 December | Z Income units | | Z Accumulation units | |
|---------------------|------------------|------------------|----------------------|------------------|
| | Highest buying p | Lowest selling p | Highest buying p | Lowest selling p |
| 2007 | – | – | – | – |
| 2008 | – | – | – | – |
| 2009 | – | – | – | – |
| 2010 | – | – | – | – |
| 2011 | 52.40 | 41.89 | 52.40 | 41.90 |
| 2012 to 15 January | 47.91 | 45.52 | 47.93 | 45.54 |

Net revenue

| Year to 31 December | A Income units pence per unit | A Accumulation units pence per unit |
|---------------------|----------------------------------|--|
| | | |
| 2007 | 126.9940 | 178.9702 |
| 2008 | 174.1478 | 250.2293 |
| 2009 | 145.3776 | 216.8860 |
| 2010 | 78.6501 | 122.7432 |
| 2011 | 113.0134 | 176.1499 |
| 2012 to 15 January | Nil | Nil |

| Year to 31 December | Z Income units pence per unit | Z Accumulation units pence per unit |
|---------------------|----------------------------------|--|
| | | |
| 2007 | – | – |
| 2008 | – | – |
| 2009 | – | – |
| 2010 | – | – |
| 2011 | Nil | Nil |
| 2012 to 15 January | Nil | Nil |

Net Asset Value and Comparative Tables (continued)

Net asset value

| As at 15 July | Net asset value £000's | Net asset value per unit p | Number of units in issue |
|---------------------------|---------------------------|----------------------------------|-----------------------------|
| 2009 | | | |
| A Income units | 161,600 | 4,811.20 | 3,358,821 |
| A Accumulation units | 45,326 | 7,393.66 | 613,044 |
| 2010 | | | |
| A Income units | 170,552 | 5,979.50 | 2,852,280 |
| A Accumulation units | 72,619 | 9,311.14 | 779,916 |
| 2011 | | | |
| A Income units | 162,774 | 6,567.04 | 2,478,645 |
| A Accumulation units | 85,902 | 10,402.47 | 825,788 |
| 2012 at 15 January | | | |
| A Income units | 155,220 | 6,007.87 | 2,583,619 |
| A Accumulation units | 78,733 | 9,515.44 | 827,420 |
| Z Income units | 2,083 | 47.11 | 4,423,210 |
| Z Accumulation units | 252 | 47.11 | 534,166 |

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.

Risk Profile

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

The fund invests predominantly in the securities of a particular country. There may be a greater risk than investing in funds that hold securities in a range of countries.

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.

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

Statement of the Manager's Responsibilities

The Financial Services Authority's Collective Investment Schemes Sourcebook (COLL) requires the Manager to prepare accounts for each annual and half yearly accounting period, in accordance with United Kingdom Generally Accepted Accounting Practice, which give a true and fair view of the financial position of the fund and of its net revenue and the net capital losses on the property of the fund for the period. In preparing the accounts the Manager is required to:

- select suitable accounting policies and then apply them consistently;
- comply with the disclosure requirements of the Statement of Recommended Practice for Authorised Funds issued by the IMA in October 2010;
- follow generally accepted accounting principles and applicable accounting standards;
- prepare the accounts on the basis that the fund will continue in operation unless it is inappropriate to do so;
- keep proper accounting records which enable it to demonstrate that the accounts as prepared comply with the above requirements.

The Manager is responsible for the management of the fund in accordance with its Trust Deed, the Prospectus and the COLL and for taking reasonable steps for the prevention and detection of fraud, error and non-compliance with law or regulations.

The Manager's report and accounts for the period ended 15 January 2012 were signed on 24 February 2012 on behalf of the Manager by:

C.E. Helmstetter
Directors

J.M. Cardew

Portfolio Statement

| | Holding at 15.1.12 | Market Value £000's | % of total net assets |
|-----------------------------|-----------------------|------------------------|--------------------------|
| Oil & Gas 1.33% | | | |
| (15.7.11 – 1.14%) | | | |
| BP | 659,212 | 3,139 | 1.33 |
| | | 3,139 | 1.33 |
| Industrials 16.84% | | | |
| (15.7.11 – 21.02%) | | | |
| Bodycote | 519,611 | 1,485 | 0.63 |
| CPL Resources | 1,520,000 | 3,192 | 1.35 |
| Deutsche Post | 236,062 | 2,427 | 1.03 |
| Fiberweb | 5,030,769 | 2,603 | 1.10 |
| Henry Boot | 5,000,000 | 6,250 | 2.64 |
| Johnson Service Group | 18,558,290 | 4,640 | 1.96 |
| Kier Group | 289,175 | 4,048 | 1.71 |
| Marshalls | 1,171,450 | 1,057 | 0.45 |
| Rentokil Initial | 7,512,180 | 5,386 | 2.28 |
| Rexam | 271,104 | 1,008 | 0.43 |
| Robert Walters | 580,000 | 1,060 | 0.45 |
| Smith (DS) | 515,872 | 1,032 | 0.44 |
| St Ives | 5,431,829 | 3,965 | 1.68 |
| WSP Group | 692,032 | 1,642 | 0.69 |
| | | 39,795 | 16.84 |
| Consumer Goods 5.10% | | | |
| (15.7.11 – 5.23%) | | | |
| Bovis Homes Group | 279,614 | 1,263 | 0.53 |
| C&C Group | 954,232 | 2,401 | 1.02 |
| Harvard International | 2,008,936 | 748 | 0.32 |
| Taylor Wimpey | 18,588,780 | 7,640 | 3.23 |
| | | 12,052 | 5.10 |
| Health Care 14.19% | | | |
| (15.7.11 – 12.77%) | | | |
| AstraZeneca | 425,475 | 12,960 | 5.49 |
| Eli Lilly | 119,531 | 3,119 | 1.32 |
| GlaxoSmithKline | 776,640 | 11,137 | 4.71 |
| Pfizer | 443,631 | 6,313 | 2.67 |
| | | 33,529 | 14.19 |

Portfolio Statement (continued)

| | Holding at 15.1.12 | Market Value £000's | % of total net assets |
|--|-----------------------|------------------------|--------------------------|
| Consumer Services 18.73% | | | |
| (15.7.11 – 22.38%) | | | |
| Blacks Leisure Group ^{1 2} | 7,526,728 | 0 | 0.00 |
| Daily Mail & General Trust A Non Voting | 393,305 | 1,645 | 0.70 |
| Dixons Retail | 45,164,528 | 4,376 | 1.85 |
| easyJet | 641,345 | 2,574 | 1.09 |
| French Connection Group | 7,643,653 | 2,943 | 1.24 |
| Future | 18,311,577 | 1,465 | 0.62 |
| Home Retail Group | 7,293,650 | 6,189 | 2.62 |
| Inchcape | 1,504,200 | 4,601 | 1.95 |
| International Consolidated Airlines Group | 960,000 | 1,502 | 0.64 |
| Kesa Electricals | 3,629,038 | 2,479 | 1.05 |
| Ladbrokes | 3,764,643 | 5,018 | 2.12 |
| Luminar Group Holdings ^{1 2} | 4,000,000 | 0 | 0.00 |
| Next | 123,026 | 3,194 | 1.35 |
| Signet Jewelers | 98,075 | 2,874 | 1.22 |
| Trinity Mirror | 5,041,684 | 2,344 | 0.99 |
| William Hill | 1,463,233 | 3,052 | 1.29 |
| | | 44,256 | 18.73 |
| Telecommunications 5.73% | | | |
| (15.7.11 – 6.26%) | | | |
| BT Group | 1,212,767 | 2,466 | 1.04 |
| Vodafone Group | 6,328,390 | 11,072 | 4.69 |
| | | 13,538 | 5.73 |
| Financials 27.55% | | | |
| (15.7.11 – 27.27%) | | | |
| Barclays | 3,593,215 | 7,230 | 3.06 |
| Barclays Bank 14% Perpetual Bond | 430,000 | 491 | 0.21 |
| Collins Stewart Hawkpoint | 8,250,000 | 7,590 | 3.21 |
| F&C Asset Management | 1,621,480 | 1,038 | 0.44 |
| LBG Capital (No.2) 15% Notes 2019 | 485,000 | 526 | 0.22 |
| Legal & General Group | 9,282,036 | 10,359 | 4.38 |
| Lloyds Banking Group | 24,572,982 | 7,244 | 3.07 |
| Lloyds TBS Bank 13% Perpetual Bonds B | 1,329,000 | 1,468 | 0.62 |
| Novae Group | 577,777 | 1,924 | 0.81 |
| Old Mutual | 6,186,660 | 8,742 | 3.70 |

Portfolio Statement (continued)

| | Holding at 15.1.12 | Market Value £000's | % of total net assets |
|---|-----------------------|------------------------|--------------------------|
| Financials (continued) | | | |
| Raven Russia | 1,358,594 | 720 | 0.31 |
| Raven Russia Warrants | 1,444,467 | 404 | 0.17 |
| Resolution | 3,439,800 | 9,033 | 3.82 |
| Royal Bank of Scotland Group | 34,586,095 | 8,335 | 3.53 |
| | | 65,104 | 27.55 |
| Technology 9.41% | | | |
| (15.7.11 – 4.04%) | | | |
| Computacenter | 1,071,094 | 3,876 | 1.64 |
| Hewlett Packard | 294,073 | 5,091 | 2.15 |
| Logica | 8,909,365 | 6,495 | 2.75 |
| Seagate Technology | 533,982 | 6,774 | 2.87 |
| | | 22,236 | 9.41 |
| Euro Denominated Derivatives 0.20% | | | |
| (15.7.11 – 0.04%) | | | |
| Forward to buy €1,115,000 for £981,047 | €1,115,000 | (51) | (0.02) |
| Forward to sell €10,710,000 for £9,441,636 | €(10,710,000) | 509 | 0.22 |
| | | 458 | 0.20 |
| US Dollar Denominated Derivatives (0.29)% | | | |
| (15.7.11 – (0.08)%) | | | |
| Forward to sell US\$28,704,000 for £18,040,803 | US\$(28,704,000) | (685) | (0.29) |
| | | (685) | (0.29) |
| Portfolio of investments ³ | | 233,422 | 98.79 |
| Net other assets | | 2,866 | 1.21 |
| Net assets attributable to unitholders | | 236,288 | 100.00% |

Unless otherwise stated the above securities are ordinary shares or common stock and admitted to official stock exchange listings.

1 Unlisted, suspended and delisted securities within the meaning of the COLL.

2 Securities that are not approved within the meaning of the COLL.

3 Including derivative liabilities.

Statement of Total Return (unaudited)

For the six months ended 15 January 2012

| | 15.1.12 | | 15.1.11 | |
|--|--------------|-----------------|--------------|---------------|
| | £000's | £000's | £000's | £000's |
| Income | | | | |
| Net capital (losses)/gains | | (23,029) | | 40,489 |
| Revenue | 3,709 | | 3,585 | |
| Expenses | (1,737) | | (1,971) | |
| Net revenue before taxation | 1,972 | | 1,614 | |
| Taxation | (30) | | (15) | |
| Net revenue after taxation | | 1,942 | | 1,599 |
| Total return before distributions | | (21,087) | | 42,088 |
| Finance costs: Distributions | | 26 | | (78) |
| Change in net assets attributable to unitholders from investment activities | | (21,061) | | 42,010 |

Statement of Change in Net Assets Attributable to Unitholders (unaudited)

For the six months ended 15 January 2012

| | 15.1.12 | | 15.1.11 | |
|---|----------|----------------------|----------|----------------------------|
| | £000's | £000's | £000's | £000's |
| Opening net assets attributable to unitholders | | 248,676 ¹ | | 243,171 |
| Amounts receivable on issue of units | 22,755 | | 10,562 | |
| Amounts payable on cancellation of units | (13,997) | | (23,522) | |
| | | 8,758 | | (12,960) |
| Stamp duty reserve tax | | (85) | | (55) |
| Change in net assets attributable to unitholders from investment activities | | (21,061) | | 42,010 |
| Closing net assets attributable to unitholders | | 236,288 | | 272,166¹ |

1 The Opening net assets attributable to unitholders for the current period do not equal the Closing net assets attributable to unitholders for the comparative period as they are not consecutive periods.

Balance Sheet (unaudited)

As at 15 January 2012

| | 15.1.12 | | 15.7.11 | |
|---|---------|----------------|---------|----------------|
| | £000's | £000's | £000's | £000's |
| Assets | | | | |
| Investment assets | | 234,158 | | 249,069 |
| Debtors | 1,570 | | 997 | |
| Cash and bank balances | 1,897 | | 3,940 | |
| Total other assets | | 3,467 | | 4,937 |
| Total assets | | 237,625 | | 254,006 |
| Liabilities | | | | |
| Investment liabilities | | (736) | | (208) |
| Creditors | (601) | | (658) | |
| Bank overdrafts | 0 | | (1,663) | |
| Distribution payable on A Income units | 0 | | (2,801) | |
| Total other liabilities | | (601) | | (5,122) |
| Total liabilities | | (1,337) | | (5,330) |
| Net assets attributable to unitholders | | | | |
| | | 236,288 | | 248,676 |

Notes to the Accounts (unaudited)

Accounting policies

Basis of accounting

The accounts have been prepared under the historical cost basis, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the IMA in October 2010.

The accounting policies applied are consistent with those of the annual accounts for the year ended 15 July 2011 and are described in those annual accounts.

General Information

Manager

Schroder Unit Trusts Limited
31 Gresham Street
London EC2V 7QA
Authorised and regulated by
the Financial Services Authority

Investment Adviser

Schroder Investment Management 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

Registrar¹

International Financial Data Services Limited
IFDS House
St Nicholas Lane
Basildon
Essex SS15 5FS

Administration details

Schroders
FREEPOST
RLTZ-CHSY-HBUT
PO Box 1102
Chelmsford
Essex CM99 2XX
Investor Services
0800 718 777
Dealing 0800 718 788
Fax 0870 043 4080

Independent Auditors

PricewaterhouseCoopers LLP
Erskine House
68-73 Queen Street
Edinburgh EH2 4NH

1 The Manager has delegated the function of Registrar to International Financial Data Services Limited.

Authorisation

The fund is an authorised unit trust and is constituted pursuant to the COLL and is structured as a trust. The fund is a UCITS scheme for the purpose of the categorisation of the COLL.

Initial management charge

The issue price of A Income units and A Accumulation units reflects an initial management charge of 5.25% of the creation price (this is approximately 4.99% of the buying price). This is retained by the Manager. With effect from 1 March 2012 the initial management charge was reduced for A Income units and A Accumulation units to 3.25% of the creation price (this is approximately 3.15% of the buying price). There is no initial management charge on Z Income units and Z Accumulation units.

Prospectus

The Prospectus and the Simplified Prospectus are available on request or can be downloaded from our website **www.schroders.co.uk**.



Issued in March 2012 by Schroder Unit Trusts Limited, 31 Gresham Street, London EC2V 7QA.

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