March 2015 Quarterly Report

Schroder Credit Securities Fund - Wholesale Class

Total return %

	1 mth	3 mths	1 yr	3 yrs p.a.	5 yrs p.a.	10 yrs p.a.
Schroder Credit Securities Fund (post-fee)	0.06	0.86	3.48	5.49	6.13	5.21
RBA Cash Rate	0.19	0.58	2.46	2.82	3.53	3.98
Relative performance (post-fee)	**-0.13**	**0.28**	**1.02**	**2.67**	**2.60**	**1.23**
Schroder Credit Securities Fund (pre-fee)	0.13	1.04	4.26	6.28	6.93	6.01

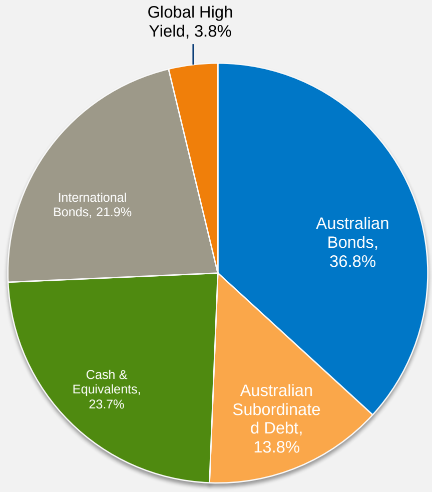
Past performance is not a reliable indicator of future performance

*10 year return is based on a blend of RBA Cash Rate and Bloomberg Credit Index.

Please refer to www.schroders.com for post-tax returns

Portfolio inception 23/08/2002, 12 years and 7 months

Asset allocation %



Portfolio statistics

Modified duration	-0.16 yrs
Yield to maturity	3.89%
Average credit rating	BBB
Number of securities	1114

Sector exposure %

	Asset	Allocation
Financials	Banks	43.7
Financials	Diversified financial	8.9
Financials	Insurance	4.5
Financials	REITS	2.9
Financials	Real Estate	1.8
Financials	Investment companies	0.0
	Consumer, Non-cyclical	7.6
	Energy	5.4
	Utilities	5.2
	Industrial	4.8
	Communications	3.9
	Government	2.7
	Consumer, Cyclical	2.6
	Other	2.3
	Basic Materials	2.2
	Technology	0.6
	Diversified	0.4

*The 'Portfolio' is the Schroder Credit Securities Fund - Wholesale Class

*The Portfolio may have a sizeable exposure to securities, including cash instruments, issued by each of the four major Australian banks.

*Unless otherwise stated figures are as at the end of Mar 2015

*Benchmark is the RBA Cash Rate

*Please note numbers may not total 100 due to rounding

Market review

The quarter was dominated by central bank actions, with policy generally becoming more accommodative. The European Central Bank (ECB) announced its long-anticipated Quantitative Easing programme in January, and starting on March 9 the ECB began to buy EUR60bn in government bonds, ABS and covered bonds each month and expects to continue this until at least September 2016. This will see the ECB's balance sheet larger by EUR1.14 trillion at September 2016 – growing by a third. The Swiss Central Bank abandoned its currency's cap to the Euro seeing the Swiss Franc surge, surprising the market and creating controversy across the global economic establishment. China's central bank, the PBoC, was active in February, easing policy twice during the month. Early in February, they cut the required reserve ratio (RRR) for banks by 0.5%, unlocking a potential 650 billion Yuan (A$130bn) in liquidity. This was followed up at the end of the month by a cut in interest rates, with the one year deposit and lending rates both cut by 0.25%, to 2.5% and 5.35% respectively. In Australia, the Reserve Bank (RBA) changed tack. While previous guidance suggested an unchanged policy stance, a change in forecast outlook saw the RBA cut the official cash rate by 0.25% to 2.25%. The RBA then continued to wrong foot the market by leaving the cash rate unchanged in March. While the US Federal Reserve (Fed) removed its pledge to be "patient" in March, pointing to a potential lift in the cash rate occurring as early as the June meeting, Fed officials' expectations of the cash rate path were revised down, signalling a lack of urgency.

Easing monetary policy was a boon for global bond markets. US 10 year government bond yields fell, over the quarter, by 0.25% to 1.92%. German 10 year government bond yields fell to their lowest level on record, ending the quarter at only 0.18%, 0.36% lower. Australian bond yields followed, and exceeded, the broader global trend with 10 year government bond yields falling by 0.42% to 2.32%. Credit markets performed strongly with credit spreads narrowing over the quarter.

Portfolio review

The Portfolio returned 0.86% (post-fee) during the quarter versus a benchmark of 0.58%. This takes annual performance to 3.48% (post-fee) or 1.02% above the RBA Cash Rate.

Bond markets again posted solid returns over the quarter, supported by a range of easing measures by central banks - including the ECB's long awaited asset purchase program - in response to generally subdued growth and low inflation, and in certain countries to defend against currency and commodity price moves. While these actions also supported risky asset returns, compared to late 2014, month-to-month volatility lifted due to rising uncertainty over whether the Fed will be able to move US policy in the opposite direction to the global pack.

Credit markets posted positive returns over the quarter. Companies (outside of mining) are generally getting small sales increases and are cutting costs to extract moderate profit improvements with many continuing to appease shareholders through high dividends and/or share buybacks. On the whole credit metrics remain acceptable; helped by an increasingly lower funding cost. All in all, this environment is generally favourable for credit investors with a key issue being credit spreads are already fairly fully valued.

Supply was particularly strong during this time. In Australia, March included another $1bn bond from BHP, $250m each from cement maker, Holcim and construction/contractor Downder EDI as well as $6bn in financial issuance. The BHP deal looked relatively cheap at its spread at launch but we halved our bid when the issuer tightened the spread based on investor demand. This proved to be the right move after S&P placed BHP's rating on negative watch, and spreads widened. We continue to monitor BHP bond spreads to take advantage of better spreads to invest the other half of our planned exposure. The Holcim deal didn't present sufficient reward for the risk while Downer similarly has far too much earnings volatility to warrant investing at the spread offered.

Our credit exposure remains focused in investment grade credit which in our view offers acceptable return for risk. We added slightly to our credit exposures over the quarter exposure although we remain patient given likely volatility ahead - whether associated with the Fed's tightening cycle, USD moves, or otherwise and we expect this will create opportunities to position the Portfolio more constructively. Cash is close to 24%. We continue to remain cautious in our approach to interest rate risk with duration close to zero with a moderate long position in Australia offset by a short duration position in the US and Europe.

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Outlook and strategy

The descent of core market bond yields towards and through zero continued apace over the March quarter, driven by an aggressive ECB prepared to buy bonds at yields down to -0.20%, consolidation of commodity prices at low levels following the December plunge, reduced near term expectations for inflation, a raft of global policy easings in response, a strong US dollar which unsettles both US domestic and emerging markets, and an ongoing search for yield.

That is the view in the rear view mirror. It may also be the windscreen view for momentum-driven investors or those without conviction of process, but it is not ours. Our process is anchored by the strong belief that valuations are the primary driver of future returns and risk.

Even without a valuation approach, prospects for bonds aren't great. The close proximity to zero of bond yields in much of the world means that returns to maturity will be low (negative in the case of all the bonds in Europe trading with negative starting yields) and the probability of loss over shorter periods will be high (with little yield to offset the impact of capital price changes if yields rise).

The US economy continues to strengthen despite headwinds from the stronger dollar, which are roughly counterbalanced by the beneficial effect of the oil price slump. Closure of the output gap should revive endogenous inflationary pressure after a long layoff, and bring a forward-looking Fed to lift official rates off the floor. In Europe and Japan too, central bank policy, weakening currencies and the fall in commodity prices are improving cyclical prospects, and probably helping to balance global risks more evenly (away from dependence on US-led growth). Recession in the major economies – though some probability in Australia – is a distant risk.

Liquidity conditions are broadly very favourable for core market government bonds, supported by the ECB, BoJ and other price inelastic buyers, but we'd be wary about the music stopping, or even the record playing backwards (after all, policy tightening could involve central bank balance sheet shrinkage, including via bond sales). In credit markets, liquidity is challenged by changes to the regulatory regime that restrict the historic intermediary role played by banks in transferring risk between market participants.

Our focus on delivering absolute returns, protecting downside risk and managing uncertainty leaves us positioned cautiously against expensive valuations, an expected uptick in volatility associated with cyclical divergence / policy change, and a mixed liquidity environment. While valuations are expensive, investment grade credit remains the most favourable return-risk proposition in the fixed income universe, this is why we moved up in quality, rather than out in risk as the market has done. We are wary about high yield credit at current valuations and EMD still needs to cheapen further before we would consider an allocation. Our allocation to RMBS has remained steady as this is one of the few fixed income sectors where liquidity premia is still being rewarded. Our weighting to cash remains elevated, providing a source of stability to the Portfolio and the flexibility to respond to repricing opportunities as they arise.

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Fund Objective

To outperform the RBA Cash Rate after fees over the medium term.

Key Features

- Absolute return focus with an objective to outperform cash and minimise capital volatility.

- Diversified pool of quality domestic and global credit and income securities.

- Provide regular income; distribution policy closely aligning distribution payments with underlying income yield of the credit universe.

- Well defined, disciplined and proven investment process that aims to ensure we are in the right assets at the right time.

- Focus on risk adjusted returns where there needs to be appropriate reward for risk taken and the flexibility to be very defensive.

- Strong domestic and global team, giving investors access to a broader opportunity set and the resources to analyse and monitor credit risk.

Top ten holdings %

ANZ Banking Group Ltd (USD 3.450, 8/8/2022)	1.7
Westpac Banking Corp (USD 3.625, 28/2/2023)	1.6
Term Deposits - Bank of QLD - 12/6/2015	1.5
National Capital Instruments Euro Llc 2 (EUR 0.971, Perpetual	1.3
Swiss Reinsurance Co Ltd (AUD 3.985, Perpetual)	1.0
Bendigo and Adelaide Bank Limited NCD 09/06/2015	0.9
Westpac Banking Corp (AUD 3.555, 22/1/2020)	0.9
Commonwealth Bank of Australia (USD 6.024, Perpetual)	0.8
Westpac Banking Corp NCD 08/04/2015	0.8
Westpac Banking Corp NCD 8/04/2015	0.8
Total	**11.2**

Maturity profile %

0-1 years	28.5
1-3 years	9.0
3-5 years	13.0
5 years +	49.5

Security profile %

Fixed rate	55.6
Floating rate	44.6
Other	-0.2

Regional exposure %

Australia	61.2
USA	28.0
Europe ex UK	7.2
UK	3.6
Asia inc Japan ex EM	0.0
Emerging Markets	0.0

Fund details

APIR code	SCH0103AU
Fund size (AUD)	$636,727,070
Redemption unit price	$1.0825
Fund inception date	August-2002
Buy / sell spread	0.20%/0.20%
Management costs	0.75%
Minimum initial investment	$25,000
Distribution frequency	Normally quarterly

Holdings by composite broad credit rating %

AAA	8.1
AA	5.2
A	23.5
BBB	33.5
BB	4.1
B	2.4
CCC and below	1.0
Cash	22.0
Not Rated	0.1

Unless otherwise stated figures are as at the end of March 2015

Figures may not total 100 due to rounding

Regional exposure is expressed by currency pre-hedging.

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