

Schroder Absolute Return Income Fund

ARSN 092 060 172

Interim report

for the half-year ended 31 December 2022

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This interim report does not include all the notes of the type normally included in an annual report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2022 and any public announcements made in respect of Schroder Absolute Return Income Fund during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

These financial statements cover Schroder Absolute Return Income Fund as a registered managed investment scheme.

The Responsible Entity of Schroder Absolute Return Income Fund is Schroder Investment Management Australia Limited. The Responsible Entity's registered office is Level 20, 123 Pitt Street, Sydney NSW 2000.

Directors' report

The directors of Schroder Investment Management Australia Limited ("Schroders"), the Responsible Entity of Schroder Absolute Return Income Fund (the "Fund"), present their report together with the financial report of the Fund, for the half-year ended 31 December 2022.

Directors

The following persons held office as directors of Schroders during the half-year or since the end of the half-year and up to the date of this report:

M W Conlon (resigned on 28 February 2023)

S Doyle

R Mellor-Bessant

M Trinh (resigned on 28 February 2023)

S Hallinan

J Soon (appointed on 28 February 2023, resigned on 9 March 2023)

N Goldsmith (appointed on 28 February 2023)

This report is made in accordance with resolution of the Directors.

Review and results of operations

There were no significant changes to the Fund's investment strategy. The investment policy of the Fund continues to be in accordance with the provisions of the Fund Constitution.

Results

The performance of the Fund, as represented by the results of its operations, was as follows:

	Half-year ended	
	31 December 2022	31 December 2021
Operating profit/(loss) (\$'000)	<u>7,026</u>	<u>(2,438)</u>
<i>Distributions - Institutional Class</i>		
Distributions paid and payable (\$'000)	<u>-</u>	<u>-</u>
<i>Distributions - Professional Class</i>		
Distributions paid and payable (\$'000)	<u>1,693</u>	<u>1,188</u>
<i>Distributions - Wholesale Class</i>		
Distributions paid and payable (\$'000)	<u>9,460</u>	<u>6,585</u>

Directors' report (continued)

Significant changes in state of affairs

Market disruptions associated with current geopolitical events have had a global impact, and uncertainty exists as to their implications. Such disruptions can adversely affect asset values and thus the performance of the Fund. Management is continuing to monitor this development and evaluate its impact on the Fund.

In the opinion of the directors, there were no significant changes in the state of affairs of the Fund that occurred during the period under review.

Matters subsequent to the end of the half-year

No matter or circumstance has arisen since 31 December 2022 that has significantly affected, or may significantly affect:

- (i) the operations of the Fund in future financial periods, or
- (ii) the results of those operations in future financial periods, or
- (iii) the state of affairs of the Fund in future financial periods.

Rounding of amounts to the nearest thousand dollars

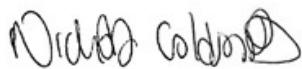
Amounts in the directors' report have been rounded to the nearest thousand dollars in accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, unless otherwise indicated.

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is set out on page 3.

This report is made in accordance with a resolution of the directors.

Director



N Goldsmith

Director



S Hallinan

Sydney

14 March 2023



Auditor's Independence Declaration

As lead auditor for the review of Schroder Absolute Return Income Fund for the half-year ended 31 December 2022, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

A handwritten signature in black ink, appearing to read 'BSS Tompsett'.

BSS Tompsett
Partner
PricewaterhouseCoopers

Sydney
14 March 2023

Schroder Absolute Return Income Fund
Statement of comprehensive income
For the half-year ended 31 December 2022

Statement of comprehensive income

	Note	Half-year ended	
		31 December 2022 \$'000	31 December 2021 \$'000
Investment income			
Interest income from financial assets at fair value through profit or loss		951	816
Dividend income		30	-
Distribution income		-	30
Net gains/(losses) on financial instruments at fair value through profit or loss		7,764	(1,631)
Other operating income		<u>1</u>	<u>1</u>
Total net investment income/(loss)		<u>8,746</u>	<u>(784)</u>
Expenses			
Responsible Entity's fees		1,709	1,620
Custody fees		7	4
Other operating expenses		<u>4</u>	<u>30</u>
Total operating expenses		<u>1,720</u>	<u>1,654</u>
Operating profit/(loss)		<u>7,026</u>	<u>(2,438)</u>
Finance costs attributable to unitholders			
Distributions to unitholders	8	(11,153)	(7,773)
Decrease in net assets attributable to unitholders	7	<u>4,127</u>	<u>10,211</u>
Total comprehensive income for the half-year		<u><u>-</u></u>	<u><u>-</u></u>

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Balance sheet

		As at	
		31 December 2022	30 June 2022
	Note	\$'000	\$'000
Assets			
Cash and cash equivalents		6,282	7,589
Margin accounts		2,681	4,751
Receivables		973	779
Accrued income		316	280
Due from broker receivable for securities sold		25	-
Financial assets at fair value through profit or loss	4	<u>694,086</u>	<u>706,890</u>
Total assets		<u>704,363</u>	<u>720,289</u>
Liabilities			
Margin accounts		1,403	3,071
Distribution payable	8	2,184	1,310
Payables		1,171	1,704
Financial liabilities at fair value through profit or loss	5	<u>501</u>	<u>2,725</u>
Total liabilities (excluding net assets attributable to unitholders)		<u>5,259</u>	<u>8,810</u>
Net assets attributable to unitholders - liability	7	<u>699,104</u>	<u>711,479</u>

The above balance sheet should be read in conjunction with the accompanying notes.

Statement of changes in equity

	Half-year ended	
	31 December 2022 \$'000	31 December 2021 \$'000
<i>Total equity at the beginning of the half-year</i>	-	-
Profit/(loss) for the half-year	-	-
Other comprehensive income	-	-
	<u>-</u>	<u>-</u>
<i>Total comprehensive income</i>	-	-
Transactions with owners in their capacity as owners	-	-
	<u>-</u>	<u>-</u>
<i>Total equity at the end of the half-year</i>	<u><u>-</u></u>	<u><u>-</u></u>

Under Australian Accounting Standards, net assets attributable to unitholders are classified as a liability rather than equity. As a result there was no equity at the start or end of the half-year.

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of cash flows

	Half-year ended	
	31 December 2022	31 December 2021
	Note	\$'000
	\$'000	\$'000
<i>Cash flows from operating activities</i>		
Proceeds from sale of financial instruments at fair value through profit or loss	252,913	119,893
Purchase of financial instruments at fair value through profit or loss	(234,444)	(221,830)
Dividends received	30	-
Distributions received	-	30
Interest received	905	816
Other income received	1	-
Responsible Entity's fees paid	(1,705)	(1,554)
Payment of other expenses	(89)	(39)
<i>Net cash inflow/(outflow) from operating activities</i>	<u>17,611</u>	<u>(102,684)</u>
<i>Cash flows from financing activities</i>		
Proceeds from applications by unitholders	77,445	179,537
Payments for redemptions by unitholders	(86,844)	(72,837)
Distributions paid from operating activities	(9,784)	(7,395)
<i>Net cash (outflow)/inflow from financing activities</i>	<u>(19,183)</u>	<u>99,305</u>
<i>Net decrease in cash and cash equivalents</i>	(1,572)	(3,379)
Cash and cash equivalents at the beginning of the half-year	7,589	7,782
Effects of foreign currency exchange rate changes on cash and cash equivalents	265	(6)
<i>Cash and cash equivalents at the end of the half-year</i>	<u>6,282</u>	<u>4,397</u>
Non-cash financing activities	<u>495</u>	<u>415</u>

The above statement of cash flows should be read in conjunction with the accompanying notes.

1 Basis of preparation of interim report

This general purpose financial report for the half-year ended 31 December 2022 has been prepared in accordance with accounting standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2022 and any announcements made in respect of the Fund during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The Responsible Entity of the Fund is Schroders. The Responsible Entity's registered office is Level 20, 123 Pitt Street, Sydney NSW 2000. The financial statements are presented in the Australian currency.

Except for the impact of new and amended accounting standards adopted by the Fund, the accounting policies adopted are consistent with those of the previous financial year and the corresponding interim reporting period.

2 Summary of significant accounting policies

(a) New and amended standards adopted by the Fund

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial half-year beginning 1 July 2022 that have a material impact on the amounts recognised in the prior periods or will affect the current or future periods.

(b) Net assets attributable to unit holders

Units are redeemable at the unitholders' option, however, applications and redemptions may be suspended by the Responsible Entity if it is in the best interests of the unitholders. The units are classified as financial liabilities as the presence of multiple classes of units on issue by the Fund means it does not meet the criteria in AASB 132 *Financial Instruments: Presentation* for classification as equity.

The units can be put back to the Fund at any time for cash based on the redemption price. The units are carried at the redemption amount that is payable at balance sheet date if the holder exercises the right to put back to the Fund.

(c) Comparatives

Comparative information has been revised where appropriate to enhance comparability. Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3 Fair value measurement

The Fund measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Financial assets / liabilities at fair value through profit or loss (FVPL) (see note 4 and 5)

AASB 13 requires disclosure of fair value measurements by level of the following fair value hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2); and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

3 Fair value measurement (continued)

(a) Fair value hierarchy

Recognised fair value measurements

The tables below set out the Fund's financial assets and financial liabilities (by class) measured at fair value according to the fair value hierarchy at 31 December 2022 and 30 June 2022.

31 December 2022	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Financial assets				
Financial assets at fair value through profit or loss:				
Derivatives				
Forward currency contracts	-	4,107	-	4,107
Fixed interest futures	4,921	-	-	4,921
Fixed interest securities	-	105,293	-	105,293
Unlisted unit trusts	-	501,205	13,894	515,099
Listed unit trusts	17,923	-	-	17,923
Money market securities	3,998	42,745	-	46,743
Total	26,842	653,350	13,894	694,086

Financial liabilities

Financial liabilities at fair value through profit or loss:

Derivatives				
Forward currency contracts	-	320	-	320
Fixed interest futures	28	-	-	28
Swaps	-	153	-	153
Total	28	473	-	501

30 June 2022	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Financial assets				
Financial assets at fair value through profit or loss:				
Derivatives				
Forward currency contracts	-	2,132	-	2,132
Fixed interest futures	1,587	-	-	1,587
Swaps	-	1,479	-	1,479
Interest bearing securities	-	68,822	-	68,822
Unlisted unit trusts	-	569,380	14,637	584,017
Money market securities	23,948	24,905	-	48,853
Total	25,535	666,718	14,637	706,890

Financial liabilities

Financial liabilities at fair value through profit or loss:

Derivatives				
Forward currency contracts	-	2,545	-	2,545
Fixed interest futures	180	-	-	180
Total	180	2,545	-	2,725

3 Fair value measurement (continued)

Investments in unlisted unit trusts are classified as level 2 as they are not traded on an active market. Whilst not traded on an active market, units in the unlisted trusts are open to daily transactions. In addition, the underlying investments of the unlisted unit trusts are predominantly classified as level 1.

The level 3 investment of 13,894,000 (30 June 2022: \$14,637,000) relates to units in Schroder Real Estate Debt Fund which primarily invests in commercial real estate loans secured by mortgages over real property. The significant unobservable input used in the fair value measurement of this investment is the unit price. An increase/(decrease) in the unit price by 0.10% would increase/(decrease) the fair value by \$13,894.

(i) *Transfers between levels*

There were no transfers between the levels of the fair value hierarchy during the half-year ended 31 December 2022 and year ended 30 June 2022.

Fair value measurements using significant unobservable inputs (level 3)

The following tables present the movement in level 3 instruments for the half-year ended 31 December 2022 and year ended 30 June 2022 by class of financial instrument.

31 December 2022	Equity securities
	\$'000
Opening balance	14,637
Purchases	-
Sales	(1,101)
Gain recognised in the Statement of comprehensive income	<u>358</u>
Closing balance 31 December 2022	<u>13,894</u>
Total unrealised gains or losses for the year included in the statement of comprehensive income for financial assets and liabilities at the end of the period	<u>358</u>
30 June 2022	Equity securities
	\$'000
Opening balance	-
Purchases	14,225
Sales	-
Gain recognised in the Statement of comprehensive income	<u>412</u>
Closing balance 30 June 2022	<u>14,637</u>
Total unrealised gains or losses for the year included in the statement of comprehensive income for financial assets and liabilities at the end of the year	<u>412</u>

4 Financial assets at fair value through profit or loss

	As at	
	31 December 2022	30 June 2022
	Fair value \$'000	Fair value \$'000
Financial assets at fair value through profit or loss		
Derivatives	9,028	5,198
Fixed interest securities	105,293	68,822
Unlisted unit trusts	515,099	584,017
Listed unit trusts	17,923	-
Money market securities	46,743	48,853
Total financial assets at fair value through profit or loss	694,086	706,890
Comprising:		
Derivatives		
Forward currency contracts	4,107	2,132
Australian fixed interest futures	3,502	185
International fixed interest futures	1,419	1,402
International credit default index swaps	-	1,479
Total derivatives	9,028	5,198
Fixed interest securities		
Australian other public sector bonds	29,785	26,054
International government bonds	52,589	16,782
Australian corporate bonds	2,988	1,419
International corporate bonds	-	3,749
Australian commercial mortgages	15,180	20,818
Australian floating rate notes	4,751	-
Total fixed interest securities	105,293	68,822
Unlisted unit trusts		
Australian unlisted fixed interest trusts	484,813	554,626
International unlisted fixed interest trusts	30,286	29,391
Total unlisted unit trusts	515,099	584,017
Listed unit trusts		
International listed trusts	17,923	-
Total listed unit trusts	17,923	-
Money market securities		
Australian money market securities	46,743	48,853
Total money market securities	46,743	48,853
Total financial assets at fair value through profit or loss	694,086	706,890

5 Financial liabilities at fair value through profit or loss

	As at	
	31 December 2022	30 June 2022
	Fair value \$'000	Fair value \$'000
Financial liabilities at fair value through profit or loss		
Derivatives	<u>501</u>	<u>2,725</u>
Total financial liabilities at fair value through profit or loss	<u><u>501</u></u>	<u><u>2,725</u></u>

Comprising:

Derivatives

Forward currency contracts	320	2,545
Australian fixed interest futures	-	35
International fixed interest futures	28	145
International credit default index swaps	<u>153</u>	<u>-</u>
Total derivatives	<u>501</u>	<u>2,725</u>
Total financial liabilities at fair value through profit or loss	<u><u>501</u></u>	<u><u>2,725</u></u>

6 Financial assets and financial liabilities at amortised cost

The following financial assets and financial liabilities disclosed in the balance sheet are measured at amortised cost: cash and cash equivalents; receivables; due from brokers - receivable for securities sold; accrued income; distribution payable; payables; and due to brokers - payable for securities purchased.

7 Net assets attributable to unitholders

Movement in number of units and net assets attributable to unitholders during the half-year were as follows:

	As at			
	31 December 2022	31 December 2021	31 December 2022	31 December 2021
	No.'000	No.'000	\$'000	\$'000
Institutional Class				
Opening balance	52,134	46,800	56,507	51,806
Applications	6,288	27,353	6,866	30,400
Redemptions	(7,075)	(18,996)	(7,695)	(21,036)
Increase/(decrease) in net assets attributable to unitholders	<u>-</u>	<u>-</u>	<u>685</u>	<u>(124)</u>
Closing balance	<u><u>51,347</u></u>	<u><u>55,157</u></u>	<u><u>56,363</u></u>	<u><u>61,046</u></u>
Professional Class				
Opening balance	103,286	89,520	96,528	87,944
Applications	12,622	17,171	11,772	16,845
Redemptions	(9,105)	(9,185)	(8,464)	(8,935)
Units issued upon reinvestment of distributions	310	238	288	232
Decrease in net assets attributable to unitholders	<u>-</u>	<u>-</u>	<u>(665)</u>	<u>(1,459)</u>
Closing balance	<u><u>107,113</u></u>	<u><u>97,744</u></u>	<u><u>99,459</u></u>	<u><u>94,627</u></u>

7 Net assets attributable to unitholders (continued)

Wholesale Class	31 December 2022	31 December 2021	31 December 2022	31 December 2021
	No. '000	No. '000	\$'000	\$'000
Opening balance	572,231	461,476	558,444	474,237
Applications	60,523	129,789	58,957	133,014
Redemptions	(72,321)	(43,043)	(70,179)	(43,892)
Units issued upon reinvestment of distributions	213	179	207	183
Decrease in net assets attributable to unitholders	-	-	(4,147)	(8,628)
Closing balance	<u>560,646</u>	<u>548,401</u>	<u>543,282</u>	<u>554,914</u>

As stipulated within the Fund's Constitution, each unit represents a right to an individual share in the Fund and does not extend to a right in the underlying assets of the Fund. There are three classes of unitholders in the Fund being Institutional Class, Professional Class and Wholesale Class.

8 Distributions to unitholders

The distributions during the half-year were as follows:

Institutional Class	Half-year ended			
	31 December 2022		31 December 2021	
	\$'000	CPU	\$'000	CPU
Distributions paid				
- 31 December*	-	-	-	-
Distributions payable				
- 31 December*	<u>-</u>	-	<u>-</u>	-
Professional Class				
Distributions paid				
- 31 July	244	0.23	188	0.20
- 31 August	247	0.23	199	0.20
- 30 September	248	0.23	201	0.20
- 31 October	248	0.23	201	0.20
- 30 November	352	0.33	201	0.20
- 31 December*	60	0.33	31	0.20
Distributions payable				
- 31 December*	<u>294</u>	0.33	<u>167</u>	0.20
	<u>1,693</u>		<u>1,188</u>	

8 Distributions to unitholders (continued)

Wholesale Class	31 December 2022		31 December 2021	
	\$'000	CPU	\$'000	CPU
Distributions paid				
- 31 July	1,408	0.24	1,025	0.21
- 31 August	1,405	0.24	1,065	0.21
- 30 September	1,395	0.24	1,092	0.21
- 31 October	1,377	0.24	1,112	0.21
- 30 November	1,942	0.34	1,132	0.21
- 31 December*	43	0.34	30	0.21
Distributions payable				
- 31 December*	<u>1,890</u>	0.34	<u>1,129</u>	0.21
	<u><u>9,460</u></u>		<u><u>6,585</u></u>	

*CPU shown is the rate applicable to the sum of distributions paid and payable.

9 Events occurring after the reporting period

No significant events have occurred since the end of the reporting date which would impact on the financial position of the Fund disclosed in the balance sheet as at 31 December 2022 or on the results and cash flows of the Fund for the half-year ended on that date.

10 Contingent assets, liabilities and commitments

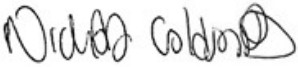
There are no outstanding contingent assets, liabilities or commitments as at 31 December 2022 and 30 June 2022.

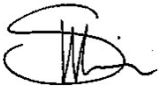
Directors' declaration

In the opinion of the Directors of Schroders:

- (a) the financial statements and notes set out on pages 4 to 14 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Fund's financial position as at 31 December 2022 and of its performance for the financial half-year ended on that date;
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

Director 
N Goldsmith

Director 
S Hallinan

Sydney
14 March 2023



Independent auditor's review report to the unitholders of Schroder Absolute Return Income Fund

Report on the half-year financial report

Conclusion

We have reviewed the half-year financial report of Schroder Absolute Return Income Fund (the Registered Scheme) which comprises the balance sheet as at 31 December 2022, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, significant accounting policies and explanatory notes and the Directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Schroder Absolute Return Income Fund does not comply with the *Corporations Act 2001* including:

1. giving a true and fair view of the Registered Scheme's financial position as at 31 December 2022 and of its performance for the half-year ended on that date
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report.

We are independent of the Registered Scheme in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibilities of the directors of the Responsible Entity for the half-year financial report

The directors of the Responsible Entity are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors of the Responsible Entity determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

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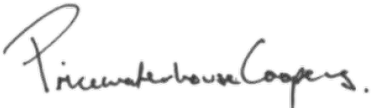
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Auditor's responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the Registered Scheme's financial position as at 31 December 2022 and of its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.


PricewaterhouseCoopers


BSS Tompsett
Partner

Sydney
14 March 2023