

# Schroder Real Return

Quarterly Investment Option Update

30 June 2019

## Aim and Strategy

To deliver an investment return of 5% pa before fees above Australian inflation over rolling three-year periods. Inflation is defined as the RBA's Trimmed Mean, as published by the Australian Bureau of Statistics. The portfolio invests across a broad array of asset classes including equity, alternatives and debt to ensure the portfolio is truly diversified in both an economic and asset class sense. The portfolio employs an objective-based asset allocation framework in which both asset market risk premia and, consequently, the asset allocations of the portfolio are constantly reviewed. As risk premia (and thereby expected returns) change, so too will the asset allocation of the portfolio (and sometimes significantly). The portfolio will reflect those assets that in combination are most closely aligned with the delivery of the objective. The investment manager believes that in effect it's not the asset classes that are important but the likely characteristics of the return. The approach utilises a combination of Schroder's longer-term return estimates together with their shorter-term value, cycle and liquidity framework.

## Option Performance

To view the latest investment performances for each product please visit [amp.com.au](http://amp.com.au)

<b>Investment category</b>	Multi Sector (Specialist)
<b>Suggested investment timeframe</b>	5 years
<b>Relative risk rating</b>	4 / Medium
<b>Investment style</b>	Active

Sector Allocation	%
Australian Equity	10.1%
Global Equity	12.5%
Property	0.0%
Absolute Return	0.3%
High Yielding Credit	9.3%
Emerging Market Bond	5.1%
Australian Fixed Income	21.6%
Australian Inflation Linked	4.1%
Global Fixed Income	7.8%
Cash & Cash Equivalents	29.3%

Asset Allocation	Benchmark (%)	Actual
Australian Fixed Interest	N/A	25.6
Global Fixed Interest	N/A	7.8
Australian Shares	N/A	10.1
Global Shares	N/A	12.5
Growth Alternatives	N/A	0
Defensive Alternatives	N/A	14.8
Listed Property & Infrastructure	N/A	0
Unlisted Property & Infrastructure	N/A	0
Cash	N/A	29.3

## Investment Option Commentary

The Schroder Real Return strategy returned 1.4% (pre fees) in June and 2.7% (pre fee) for the June quarter. Over the one-year to June 2019 the strategy delivered a solid 5.7% (pre fee) return, while the annualised return for the three-year period was slightly better at just on 6% p.a. pre fees. In real terms this equates to 4.3% p.a. real, slightly below the portfolio's real 5% p.a. objective. Notwithstanding a pick-up in market volatility, the volatility of the strategy remained low at close to 2.5% p.a. over the rolling three-year period.

Australian equities, global equities, global Australian corporate bonds, emerging market debt and Australian higher yielding credit were among the main positive contributors, with the debt assets capturing both narrower credit spreads and lower yields.

Unsurprisingly, there were few detractors at an asset allocation level in both June and over the quarter apart from some money "left on the table" through the investment manager's equity and bond futures positioning where we have positioned the fund cautiously. Stock selection in large cap Australian equities and in the main Global Blend strategy also detracted in both June, and over the quarter.

## Market Commentary

Equity markets posted solid gains across the June quarter, but it was far from a smooth ride. For global markets, gains in April were reversed in May before rebounding strongly in June on renewed expectations about imminent central bank stimulus via lower official interest rates and additional QE. This capped off a solid six months for equities after a much more turbulent end to 2018.

Sovereign bonds had a strong month, capping off a strong quarter and a strong year. Rate cuts were delivered in Australia in June (and again in early July) for the first time in three years with cash rates in Australia now at record lows. While significant easing of monetary policy is now priced in global yield curves, in the current environment the risk to yields seems to remain skewed to the downside.

Shifting interest rate, growth and political risks have had some impact on currency markets through the June quarter. The AUD has traded in a relatively narrow range over the month. While near-term support is potentially coming from stronger iron ore prices and expectations of lower global rates, Schroder holds to their view that the risks to the AUD are to the downside.

## Outlook

The single biggest influence on markets recently has been Central Banks driving sovereign bond yields lower and equity markets higher. Their recent focus has been on what may cause this nexus to break which we think broadly fall into 3 key areas: rising inflation, recession or some sort of financial crisis (bank or systemic failure).

Unlike current market consensus, we're less prepared to dismiss inflation as a risk. More likely though is the potential for recession and there's always a risk of a systemic issue in an overleveraged and geo-politically charged world.

Their key positioning in the face of these are:

- The level of risk in the portfolio at present remains modest and below what we'd deem to be an average level of risk in the portfolio. While we added risk through Q1, we've reduced this again as markets rallied in Q2;
- Within equities, their preferences remain Australia and Japan (over the US);
- Within credit, we prefer higher quality to higher risk (more for income than capital gain);
- We've been adding (and are likely to continue to add) sovereign risk / duration on the basis that Central Banks are easing policy again and this also helps provide recession protection.

## Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1850AU
AMP Flexible Super - Retirement account	AMP1870AU
AMP Flexible Super - Super account	AMP1866AU
CustomSuper	AMP1850AU
Flexible Lifetime - Allocated Pension	AMP1854AU
SignatureSuper	AMP1858AU
SignatureSuper Allocated Pension	AMP1862AU
SignatureSuper Select	AMP1858AU

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