Schroder Real Return

Quarterly Investment Option Update

31 December 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

Investment Option Performance

To view the latest investment performances for each product please visit amp.com.au

Investment Option Overview

Investment Category	Multi Sector (Specialist)
Suggested Investment timeframe	5 years
Relative risk rating	4 / Medium
Investment style	Active
Manager style	Single Manager

Sector Allocation	%
Australian Equity	11.1
Global Equity	13.9
Property	0.0
Absolute Return	1.2
High Yielding Credit	8.6
Emerging Market Bond	5.0
Asian Credit	2.0
Australian Fixed Income	27.2
Global Fixed Income	8.1
Cash & Cash Equivalents	23.0

Investment Option Commentary

The Schroder Real Return CPI + 5% strategy returned 0.9% (pre-fees) over the quarter and 8.9% (pre-fees) over the year . Over the last three years the strategy has provided an annualised return of 5.0% (pre-fees) with a volatility below 2.5% p.a.

Over the quarter and one year period, both Global and Australian Equities contributed positively on a currency hedged basis. Spread compression saw most credit assets add to performance over the quarter and year, particularly global and Australian high yield, along with RMBS, Asian corporates and global investment grade. Their recent allocation to commercial mortgages also added during these periods.

The main detractor from performance came from their currency positions. The AUD rallied over 4% during the quarter, mostly from strong performance at the end of December thanks to the US-China 'Phase One' deal and global risk appetite returning. This saw long positions in haven currencies such as the USD and JPY detract. Safe-haven assets such as Australian and Global sovereign bonds detracted also, along with Australian investment grade corporates, over the quarter but these were strong contributors to performance over the 12 month period.

Market Commentary

December saw global equities rally over 3.5% for the month and almost 9% for the quarter. This helped push 2019 to a very solid return of over 27%. Abundant central bank liquidity, the Phase One US-China trade deal and the decisive UK election win helped boost sentiment. Australian equites had the weakest returns over the month and quarter, at -2.2% and 0.68% respectively, as overseas investors took profits into year end. US equities posted strong results with over 3% for the month and almost 9% for the quarter in USD terms. Emerging markets outperformed over both periods delivering 7.5% and 11.8% respectively in USD terms.

The improving economic outlook has seen manufacturing PMIs bottom and the global index move above 50. With this, sovereign bonds have sold off as yields have started to steepen. US 10-year yields widened 14bps over the month and 25bps over the quarter, losing 0.68% and 1.45% in value. Australian yields rose 35bps over the month and quarter, causing the current 10-year bond to lose over 3% over both periods.

Outlook

Schroders remain dynamic within their equity allocation, adding 5% back to their exposure in early November, bringing the overall weight to 25%. While Schroders remain cautious as valuations remain problematic, two major geopolitical risks have improved on the margin and markets are awash with central bank liquidity, providing an opportunity to add back to risk.

Within fixed income, in December Schroders reduced their duration by 0.25 years, bringing their overall portfolio duration to around 1.75 years. While they remain attracted to duration for its return potential if and when downside risks to growth unfold, they believe yields could back up further from here as manufacturing and global trade improve over the short-term.

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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