

# Schroder Real Return

Quarterly Investment Option Update

30 June 2020

## 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

Sector Allocation	%
Australian Equity	14.8
Global Equity	12.3
Property	0.0
Absolute Return	0.9
High Yielding Credit	9.2
Asian Credit	2.6
Emerging Market Bond	5.1
Australian Fixed Income	19.3
Australian Inflation Linked	5.3
Global Fixed Income	5.5
Cash & Cash Equivalents	25.1

## Investment Option Performance

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

## Investment Option Overview

<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
<b>Manager style</b>	Single Manager

## Investment Option Commentary

The Schroder Real Return CPI + 5% Fund returned 4.1% for the June quarter. For the financial year (12 months to June) the strategy returned 1.6%. The return over the last 12 months is below our target and is framed against an environment of heightened market volatility, significant falls in many asset prices (including big declines in equities), challenging liquidity conditions, and very low (close to 0%) cash rates and bond yields in the face of the COVID-19 environment.

The main positive contribution to returns over the quarter came from equities, with about half of the contribution from Australia. Credit also contributed positively over the quarter with credit spreads generally drifting lower over the month of June. Likewise, sovereign yields were also flat to lower over the quarter ensuring a positive contribution from duration. The rebound in equity and credit markets together with the stabilisation in sovereign yields all added 5.7% to returns in aggregate over the second quarter.

With equities and credit performing well during the quarter, clearly returns would have been higher had the manager held more equity (or risk generally in the portfolio). That said, in terms of overall returns, the biggest detractor to returns across the second quarter was the FX positioning.

With the USD moderating as COVID 19 concerns eased, the AUD continued to recover much of the ground lost during the March quarter. Sterling also weakened as Brexit concerns elevated in June. After performing very strongly in the first quarter, FX detracted 2% from returns over the last quarter. Stock selection in Australian and Global equities continued to drag down performance.

## Market Commentary

Central banks globally have rapidly and substantially flooded the world with money, and with real economic activity depressed, this has found its way into financial markets, suppressing yields and in turn boosting equity prices independent of underlying earnings. The central bank playbook was refined in the post-GFC environment of financial repression but was quickly dusted off and put on steroids in the COVID-19 response.

Furthermore, the US Federal Reserve has broadened its reach into the purchase of corporate bonds (both investment grade and high yield) on the argument of ensuring availability of capital and liquidity to underlying corporates (irrespective of underlying corporate quality). This has buoyed investor confidence, and with exceptionally low yields accessible on cash and sovereign bonds (globally), investors have been happy to follow the Fed into corporate assets, suppressing corporate bond spreads and boosting equity prices.

## Outlook

### Equity

In broad terms equities are again expensive. For example, the S&P 500 index is trading on a 12 month forward PE ratio of 22 times earnings, with considerable uncertainty with respect to the future path of earnings. The Australian market looks more reasonable, but still elevated, at 19 times. For the tech heavy Nasdaq, the equivalent ratio is 38 times, suggesting investors are prepared to pay a significant premium for growth, well supported by abundant central bank liquidity.

### Fixed Income

Global bond yields remain anchored to low levels, on the back of near term deflationary forces and central bank QE programs. Government bond yields in Australia and the US drifted slightly lower over the month, but with central banks firmly targeting very low yields and underlying economies weak, the near term pressure on yields remains down.

### Currency

While the manager still favours the USD as a defensive play, they have switched some of this exposure to Yen in both April and May, seeing the Yen exposure rise to 3.0%. USD remains as the largest currency exposure, and think shorter term support remains strong, but do think that the upside over the longer term is limited by the lack of valuation support.

## 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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