

# Schroder Real Return

Quarterly Investment Option Update

31-December-2017

## Availability

Product name	APIR
Flexible Super – Choice (Retirement)	AMP1870AU
Flexible Super – Choice (Super)	AMP1866AU
Flexible Lifetime – Allocated Pension	AMP1854AU
Flexible Lifetime – Super	AMP1850AU
Signature Super	AMP1858AU
Signature Super – Allocated Pension	AMP1862AU

## Investment Option Performance

Investment performances are subject to product fees and where relevant tax as outlined in the product PDS. Therefore investment performance may differ between products. In addition, activity on your account such as contributions and deductions will also impact the investment performance specific to you. To view the latest investment performances for each product, please visit [www.amp.com.au](http://www.amp.com.au). You can also view the last investment performance specific to you by visiting your My Portfolio account.

## Contact Us

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## Overview

**Aim & Strategy:** To deliver an investment return of 5% pa before fees above Australian inflation over rolling 3 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 a dynamic asset allocation framework in which both asset market risk premium, and consequently, the asset allocations of the portfolio are constantly reviewed. As risk premium (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 is 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 category:** Multi-sector (Specialist)

**Suggested Investment Timeframe:** 5 years

**Relative Risk Rating:** Medium to High

Asset Allocation	Actual (%)	Range (%)
<b>Growth</b>		0-75%
Australian Equities	15.79%	
Global Equities	11.63%	
<b>Diversifying</b>		0-75%
Higher Yielding Credit	7.11%	
Emerging Market Debt	5.06%	
Absolute Return Strategies	0.01%	
<b>Defensive</b>		0-100%
Australian Fixed Income	15.54%	
Inflation Linked Bonds	3.31%	
International Fixed Income	8.00%	
Mortgages and Sub Debt	6.85%	
Cash	26.70%	

## Holdings

Industry Exposure	%
Consumer Discretionary	4.29
Consumer Staples	3.47
Derivatives	0.76
Energy	2.93
Financials	19.49
Government Related	3.66
Governments	6.50
Health Care	2.52
Industrials	5.14
Information Technology	3.74
Materials	5.98
Money Market	21.27
Real Estate	2.79
Securitized	5.11
T-Bills	1.94
Telecommunication Services	3.10
Unit Trust	0.04
Utilities	4.05
Other	0.00
Cash	3.22

Regional Exposure	%
Australia	82.07
USA	4.78
Europe Ex UK	2.78
United Kingdom	3.17
Asia incl Japan	5.59
Emerging Markets	1.24
Others	0.37

Top Ten Securities	%
WESTPAC BANK NCD 12 APR 2018	2.06
WESTPAC BANK NCD 28 SEP 2018	1.83
ANZ NCD 09 MAY 2018	1.65
NAB NCD 05 JAN 2018	1.55
WESTPAC BANK NCD 21 FEB 2018	1.55
ANZ NCD 15 MAR 2018	1.55
WESTPAC BANK NCD 26 MAR 2018	1.55
CBA NCD 28 MAR 2018	1.55
NAB NCD 10 APR 2018	1.55
ANZ NCD 14 MAY 2018	1.54

## Market Commentary

2017 was noted for its lack of volatility, and this can be seen strongly in the performance of global equity markets. For the first time, global equities (based on the MSCI ACWI's 30 year history) saw a rise in every month of the year. The US market (S&P 500), while not posting a rise every month, saw a positive return every month once dividends are included, the first time since 1958. The largest fall for the US market intra year was 3%, which is the smallest intra year fall in any calendar year in the post war period.

## Investment Option Commentary

In terms of performance drivers, equity markets were the main game, with the outright strong performance of equity markets over the month and quarter, but also the Strategy's overall tilt towards the higher yielding and better value Australian equity market. Australian stocks kicked into life at the end of the year performing strongly in December and the quarter. Outside of Equities, the strategy's exposure to FX detracted from returns over the month as the Australian dollar rallied, but over the quarter it remained neutral.

## Outlook

Inflation will be the most important call in 2018. Last year inflation did not accelerate as much as expected as the stabilisation in oil prices saw headline inflation growing at a moderate level. While oil prices have been edging up recently,

the moves have been modest relative to recent performance. So the question is whether the tight labour market in the US leads to an acceleration in wages and core inflation. The base case is that it does, based on the fact that the US unemployment rate has fallen to around the historical tipping point that has led to rising wages and inflation. This would be a shock to markets, that are generally pricing in a continuation of the benign environment, and the Fund would expect volatility to rise sharply as markets adjust to the new regime.

The Fund would see this as a buying opportunity, as the fundamentals remain positive – with strong nominal growth and profits. How long this positive environment for risk assets lasts depends on the third lesson. Accelerating wages and inflation will see a continued rise in the US cash rate, and at some point it will rise to a level that will impact negatively on growth.

Broadly the strategy is set for a regime shift in inflation leading to a rise in volatility – it is defensively positioned with a 27% exposure to equity markets and 12% exposure to higher yielding credit. Other positions that will benefit from a rise in volatility are the long USD v AUD position, S&P put options and of course exposure to safe and liquid short dated securities and cash. The strategy's interest rate sensitivity is also low, given a rising inflationary environment would be problematic for bond markets, with a duration of 0.9 years.

## **What you need to know**

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