# Schroders

# Schroder Real Return CPI Plus 5% Fund Wholesale Class Monthly Report

### Total return %

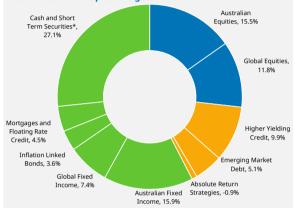
Schroder Real Return CPI Plus 5% Fund (pre-fee) Schroder Real Return CPI Plus 5% Fund (post-fee)

Distribution^

Growth^^

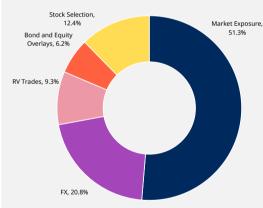
Portfolio inception 01/07/2010, 7 years and 10 months

### **Asset allocation - Capital Weights**



\* Includes floating rate notes, term deposits, negotiable certificate of deposits, cash and other cash equivalents.

### **Asset allocation - Risk Weights**



### RBA CPI Trimmed Mean\* as at 31 March 2018

3 months	0.53%
1 year	1.91%
3 years. p.a.	1.82%
5 years. p.a.	2.09%
Since Inception	2.17%

\*The RBA CPI Trimmed mean returns are published quarterly by the ABS. Historical returns may be subject to revisions.

- ^ Represents distributions as a proportion of total net return
- ^^ Price to price return excluding distribution reinvestments
  Portfolio refers to the Schroder Real Return CPI Plus 5% Fund Wholesale Class

Unless otherwise stated figures are as at the end of April 2018

Numbers may not total to 100 due to rounding

\* Inception date of the Schroder Real Return CPI Plus 5% Strategy is 1 October 2008, as represented by the Schroder Real Return CPI Plus 5% Fund - Professional Class

1 mth	3 mths	1 yr	3 yrs p.a.	5 yrs p.a.	Inception p.a.
1.01	0.77	4.41	4.44	6.02	7.22
0.93	0.55	3.48	3.51	5.07	6.26
0.00	0.00	5.34	4.78	4.82	4.50
0.93	0.55	-1.86	-1.27	0.25	1.76

Past performance is not a reliable indicator of future performance. Returns over 12 months are annualised.

### **Fund objective**

To deliver an investment return of 5.0% p.a. 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

### Portfolio review

The Real Return Strategy had a solid month in April, producing a 0.9% return (post-fee). Month-to-month returns have fluctuated this year and despite the solid April outcome, overall returns so far this calendar year remain moderate. In broad terms, most major asset markets have struggled this year making consistent positive returns hard to find. 1 and 3 year numbers remain below target. From a risk / downside risk management perspective the portfolio has been reasonably well positioned for the rise in volatility (and broader weakness in asset markets) that has unfolded this year. However, the near term headwinds for returns remain strong meaning our risk focus is likely to remain elevated for a time.

The main driver of the solid April outcome was the upswing in equity markets with most markets bouncing following falls in March. A weaker AUD also helped given the Strategy's position to be effectively short the AUD vs key global currencies. With bond yields moving higher, the portfolio benefitted from its relatively short duration positioning as well as the performance of most of the inflation protecting trades.

### **Outlook and strategy**

In recent commentaries we have focused heavily on the fundamental risks to asset markets. Our emphasis has been on the risk posed to asset prices by relatively demanding valuations in many asset classes and the risks posed by rising inflation pressure and the implications of this for medium term central bank accommodation. None of this has materially changed.

One thing we have said relatively little on has been geo-political risk, not because it isn't important, but simply because forecasting geo-political outcomes, especially in the Trump era is difficult, and by and large geo-political risks are rarely triggered – at least the big ones anyway. 2017 was case in point where US and North Korean "shirt-fronting" and the seemingly heightened risk of miscalculation by either party did not derail markets. In fact despite climbing the "wall of worry", volatility was amongst the lowest on record and market gains outsized. Why? Firstly because of the low odds of it actually escalating, and, more fundamentally, because the macro-economy was humming (greed trumped fear).

There are though several important developments that suggest geo-political considerations will loom larger in coming years. Research by the US Federal Reserve confirms a broad uplift in geo-political risk, consistent with (amongst other things) a lessening of the dominance of US economic and political leadership, the growing significance of China as both an economic and political superpower, and exacerbation of wealth inequality as a result of the economic policies pursued by major developed economies post the GFC. Populist politics has become the global norm and this is reshaping the economic and political debate. Given the pervasiveness of the drivers of these developments, this trend is only likely to increase.

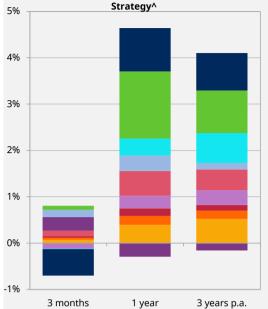
The challenge from a portfolio management perspective is how to properly reflect these considerations in our portfolios. While each potential flashpoint will have its own nuances, it is worth considering (as an example) how we are thinking about China.

China's rise has been dramatic. In the year 2000 China's economy was U\$\$3.7tn (36% of the US) in PPP terms, it has risen to be currently U\$\$23tn (120% of the US), and by 2023 the IMF forecasts it to be U\$\$37tn (150% of the US). This rise has had a profound impact on the global economy and will continue to be a dominant feature in the future.

We view these impacts through three broad lenses: the re-entry of China into the global economy; the geo-political implications; and the Chinese economic and financial structure.

### Performance

### Contributions to Returns (Gross of Fees) of the Schroder Real Return CPI Plus 5%



- Australian Equities
- Global Equities
- Domestic Property Trusts
- Higher Yielding Credit
- Market Neutral Strategies
- Emerging Market Debt
- Absolute Return Strategies
- Australian Fixed Income
- Global Fixed Income
- Inflation Linked Bonds
- Mortgages and Floating Rate Credit
- Cash and Short Term Securities

### **Fund details**

APIR code SCH0047AU Fund size (AUD) \$1,989,309,983 Redemption unit price \$1.1443 Fund inception date July-2010 Buy / sell spread 0.20%/0.20% Management costs 0.90% Minimum initial investment \$20,000 Distribution frequency Normally twice yearly - June and December

Unless otherwise stated figures are as at the end of April 2018

^Strategy relates to the Schroder Real Return CPI Plus 5% Fund Professional Class

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### Outlook and strategy continued

Firstly, with respect to China's re-entry to the global economy, we see the biggest impact as the contribution of Chinese workers to the global labour force, contributing to a sharp fall in the capital to labour ratio. This has increased the supply of labour and placed downward pressure on global wages, impacting both inflation and the ability of central banks to maintain low / positive inflation, extending the business cycle and lowering economic volatility (although at the potential cost of more financial instability). Internally, we have seen China focus on its lack of capital and embark on an historical investment program, supporting both commodity exporters, but also countries that produce and export significant amount of capital equipment (Germany is a good example).

Secondly, the rise of China has so far been benign in a geo-political sense, as the doctrine of "hide your strength, bide your time" (Deng Xiao Ping) has been dominant. However, the ascent of President Xi Jinping has led to a much more aggressive China on the global stage. The two main implications of the political rise of China are a partial de-globalisation of the world economy as it breaks into two strategic blocks - one centred on the US and one on China. Another impact will be an increase in global defence spending as geo-political tensions rise between the two super-powers. The upside is the boost this is likely to provide for innovation and future productivity. The downside is the increased risk of military conflict.

Finally, the rapid rise of debt financing of the Chinese economy has seen episodic fear of a financial crisis, with rising debt generally viewed as a precursor to a financial crisis. The unusual nature of China's credit boom is that it was not driven by excessive demand but by excessive supply. This is not an inflationary environment and has allowed authorities flexibility to step in whenever Chinese growth begins to disappoint. Losses must be borne from mal-investment at some time, but as long as inflation remains subdued, it suggests that it will be a lowering of growth over time, rather than a big bang approach. And if a financial crisis does occur, the chance of a big bang approach is low and it is more likely be a long drawn out process similar to that of Japan, given the highly interventionist approach of Chinese authorities.

These views have been expressed into our portfolio in several ways. At times we have seen the fear of a Chinese financial crisis rise and we have used this as an opportunity to add risk when this has spilled into financial markets. However, given the uncertainty over the outlook for China, and the potential impact on Australian assets, the portfolio has tended to diversify away some of this risk via a short Australian dollar exposure. We believe the deflationary impacts of the re-entry of China into the global economic system have mostly passed and think markets are underestimating the risk of rising inflation and the portfolio currently is hedged against this potentiality. Lastly, we see the risks of geo-political shocks rising and believe in this environment it is more crucial than ever to be cautious about overpaying for assets.

To summarise, rising geo-political risks are likely to present both risk and opportunity in financial markets. Trying to guess the potential of a low probability but high impact event (such as a military escalation) is a mug's game. That said, markets will episodically overreact and having a more fundamental anchor to our process does allow us to position around these risks.

### **Investment style**

Our approach to inflation plus (or real return) investing is to choose the portfolio that has the highest probability of achieving the required return objective over the investment horizon with the least expected variability around this objective. The Fund employs an objective based asset allocation framework in which both asset market risk premium, and consequently, the asset allocation of the portfolio are constantly reviewed. The portfolio will reflect those assets that in combination are most closely aligned to the delivery of the objective.

Investment in the Schroder Real Return CPI Plus 5% Fund Wholesale Class ("the Portfolio") may be made on an application form accompanying the current Product Disclosure Statement, available from the Manager, Schroder Investment Management Australia Limited (ABN 22 000 443 274 AFSL 226473) ("Schroders"). This Report is intended solely for the information of the person to whom it is provided by Schroders. It should not be relied on by any person for the purposes of making investment decisions. Total returns are calculated using exit price to exit price, after fees and expenses, and assuming reinvestment of income. Gross returns are calculated using exit price to exit price and are gross of fees and expenses. The repayment of capital and performance of the Funds is not guaranteed by Schroders or any company in the Schroders Group. Past performance is not a reliable indicator of future performance. Unless otherwise stated the source for all graphs and tables contained in this report is Schroders. Opinions constitute our judgment at the time of issue and are subject to change. This report does not contain and is not to be taken as containing any financial product advice or financial product recommendation. For security reasons telephone calls may be recorded.



### **Schroders**

# Geopolitical considerations and the impact of China

### Simon Doyle, Head of Fixed Income & Multi-Asset

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One thing we have said relatively little on has been geopolitical risk, not because it isn't important, but simply because forecasting geopolitical outcomes — especially in the Trump — era is difficult. By and large, geopolitical risks are rarely triggered — at least the big ones anyway. Last year was case in point, where US and North Korean "shirt-fronting" and the seemingly heightened risk of miscalculation by either party did not derail markets. In fact, despite climbing the "wall of worry", volatility was amongst the lowest on record and market gains outsized. Why? Firstly, because of the low odds of it actually escalating; and, more fundamentally, because the macro-economy was humming (where greed trumped fear).

There are though several important developments that suggest geopolitical considerations will loom larger in coming years. Research by the US Federal Reserve confirms a broad uplift in geopolitical risk, consistent with (among other things) a lessening of the dominance of US economic and political leadership, the growing significance of China as both an economic and political superpower, and exacerbation of wealth inequality as a result of the economic policies pursued by major developed economies post the GFC. Populist politics has become the global norm and this is reshaping the economic and political debate. Given the pervasiveness of the drivers of these developments, this trend is only likely to increase.

The challenge from a portfolio management perspective is how to properly reflect these considerations in our portfolios. While each potential flashpoint will have its own nuances, it is worth considering (as an example) how we are thinking about China.

China's rise has been dramatic. In the year 2000, China's economy was US\$3.7tn (36% of the US) in PPP terms; it has risen to be currently US\$23tn (120% of the US), and by 2023 the IMF forecasts it to be US\$37tn (150% of the US). This rise has had a profound impact on the global economy and will continue to be a dominant feature in the future.

We view these impacts through three broad lenses: the re-entry of China into the global economy, the geopolitical implications, and the Chinese economic and financial structure. Firstly, with respect to China's re-entry to the global economy, we see the biggest impact as the contribution of Chinese workers to the global labour force, contributing to a sharp fall in the capital-to-labour ratio. This has increased the supply of labour and placed downward pressure on global wages, impacting both inflation and the ability of central banks to maintain low/positive inflation, extending the business cycle, and lowering economic volatility (although at the potential cost of more financial instability). Internally, we have seen China focus on its lack of capital and embark on an historical investment program, supporting both commodity exporters and countries that produce and export significant amount of capital equipment (Germany is a good example).

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Rising geopolitical risks are likely to present both risk and opportunity in financial markets.

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### **Important Information**

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### **Schroders**

**Schroders**Real Return
Essentials

### Introduction

Schroders would like to introduce you to our highly regarded approach to multi-asset investing.

Our team has pioneered an active, objective based approach to investing which aims to achieve relatively stable real returns over the medium term.

This brochure has been designed to help explain objective based investing and how the Schroder Real Return funds can be used by investors. We will introduce and explain the following:

- The concept of risk and return
- · Why diversify?
- The traditional way to diversify
- Why a fixed strategic asset allocation is flawed
- What is objective based investing?
- · Schroders' range of Real Return Funds

### **Schroder Real Return Funds**

A smarter way to invest. An easier way to grow your wealth.

# The concept of risk and return

For years investors have been taught that the more risk they take on, the greater the potential returns on their investment.

While this is generally true over the very long term, there will be periods where greater risk detracts from returns – like when share markets fall quickly.

No one asset class consistently outperforms year on year. What's more, when you look at the higher risk asset classes – like Australian shares or global shares – a period of strong performance is often followed by a period of weaker performance.

No one asset class consistently outperforms

Annual returns for a range of asset classes ranked by performance.



**Open for Asset Class Returns** 

### Asset class returns available to Australian investors

Source: Datastream, 12 months to 31 December (1993-2015)

Note: Bloomberg indices previously called UBS

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
77.6%	5.3%	26.7%	14.4%	42.2%	33.0%	55.3%	20.0%	15.0%	12.0%	16.9%	30.4%	43.0%	33.0%	25.6%	14.9%	39.2%	9.3%	11.4%	33.0%	49.3%	26.6%	14.3%
40.1%	2.6%	21.1%	13.0%	20.8%	18.6%	18.7%	12.0%	10.4%	11.6%	14.6%	28.0%	22.8%	24.2%	16.1%	10.7%	37.0%	7.1%	10.5%	20.3%	20.2%	15.6%	11.8%
32.8%	-0.1%	20.6%	12.6%	12.7%	10.0%	17.1%	11.1%	8.3%	8.8%	8.9%	21.4%	16.8%	23.4%	6.8%	9.2%	9.2%	6.0%	9.1%	17.0%	13.8%	10.4%	3.4%
24.9%	-2.5%	18.7%	11.9%	12.2%	9.8%	5.01%	9.7%	6.7%	7.8%	6.6%	10.7%	12.6%	12.1%	6.6%	7.6%	8.0%	5.7%	5.0%	14.7%	7.3%	9.8%	3.0%
16.3%	-4.7%	15.1%	9.5%	10.7%	9.5%	1.92%	6.4%	6.1%	4.8%	4.9%	8.9%	6.6%	6.0%	3.5%	3.7%	6.1%	4.7%	3.0%	9.9%	4.3%	8.1%	2.6%
13.5%	-7.6%	10.7%	7.6%	10.6%	8.0%	0.82%	6.2%	5.5%	2.9%	3.7%	7.1%	6.0%	4.4%	3.2%	-24.6%	3.5%	2.8%	-1.1%	9.7%	2.9%	7.3%	2.5%
13.5%	-8.8%	8.0%	6.6%	7.8%	5.1%	0.28%	5.8%	5.3%	-8.8%	3.0%	7.0%	5.8%	3.9%	2.9%	-38.4%	2.1%	1.6%	-6.0%	7.7%	2.8%	5.6%	2.3%
5.4%	-11.0%	5.1%	1.5%	5.6%	1.5%	-1.22%	2.7%	3.1%	-14.6%	2.4%	5.6%	5.7%	3.3%	-2.1%	-41.2%	1.7%	-0.3%	-10.5%	4.0%	2.3%	2.7%	1.7%
1.8%	-18.9%	-1.1%	-0.8%	-0.3%	-20.6%	- 5.6%	-18.1%	-9.6%	-27.1%	-0.2%	2.5%	2.82%	3.1%	-8.6%	-55.7%	0.7%	-0.4%	-19.2%	2.2%	1.2%	1.7%	-4.3%

Key

Australian **Equities** 

S&P/ASX 200

**Global Equities** 

MSCI World ex Australia A\$ Unhedged

**Global Emerging Market Equities** 

MSCI Emerging Markets A\$ Unhedged **Australian Credit** 

Bloomberg AusBond Credit 0+ Yr Index

**Australian Fixed** Income

Bloomberg AusBond Composite 0+ Yr Index **Global Fixed** Income

Barclays Global Aggregate A\$ Hedged Australian **Property Trusts** S&P/ASX 200 A- REIT Inflation

ABS Consumer Price

Cash

Bloomberg AusBond Bank Bill Index

# Why diversify?

# At Schroders we believe that diversification is crucial in investment management.

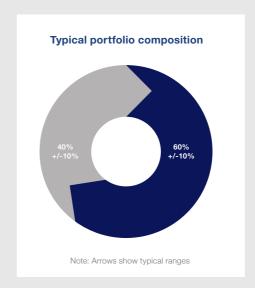
The problem with many investor portfolios with a high allocation to listed shares and property is that they have very high exposure to the same themes, very low protection from certain risks and limited diversification overall when they need it most.

Given the unpredictability of markets, diversifying investments across shares, corporate debt, bonds, property and cash is crucial to delivering more reliable returns.

Don't put all your eggs in one basket

# The traditional way to diversify

The traditional approach to diversification has been to start with a 'strategic asset allocation' that suits the investor's risk appetite.



For example, an investor may invest in a balanced portfolio that is designed to achieve a return of around 5% above inflation over 10 years.

This portfolio would typically be composed of:

**60% growth assets** – including Australian shares, global shares and Australian property trusts.

**40% defensive assets** – including Australian bonds, global bonds and cash.

In many cases, the portfolio will broadly maintain this 60/40 allocation over time in anticipation that it will achieve its return objective over the long term.

The problem with having such a high allocation to growth assets at all times is that the portfolio's performance is likely to fluctuate significantly from one year to the next and often for longer periods. More importantly this may come at just the wrong time, as many retirees experienced after the Global Financial Crisis.

This traditional strategic asset allocation approach has been used for decades to diversify investment portfolios. But does this approach actually achieve the desired outcomes for investors?

At Schroders, we believe there are two significant downsides to strategic asset allocation:

**01** Timing and timeframe risks

**02** Inflexibility of asset allocation ranges

The following graph shows the performance of a typical balanced portfolio over the last 110 years using a rolling 10-year return (i.e. every point on the line is the return achieved per annum over the prior 10 years). This portfolio employs a fixed strategic asset allocation with 60% in domestic and global shares and 40% in domestic bonds and cash.

### 10 year rolling returns adjusted for inflation



Source: Schroders, Global Financial Data

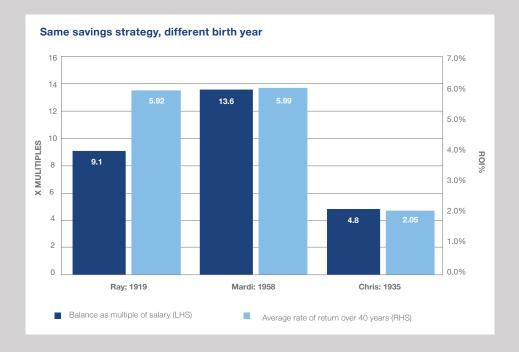
The average return over this 110 year timeframe has been approximately inflation +5% p.a., but there have been numerous occasions when the portfolio has done significantly better or worse than this average.

Ultimately, the timing of when a portfolio commences and the performance of shares over the investment horizon will determine the future success in meeting the objectives of an individual investor.

The original research paper "Why strategic asset allocation is flawed" can be found at: www.schroders.com/en/au/advisers/insights/real-matters/why-saa-is-flawed/

As a way of introducing the importance of timing, let's consider the hypothetical examples of Ray, Mardi and Chris using actual historical data. Ray was born just prior to the turn of the century, Mardi arrived 40 years later and started saving just as Ray retired, while Chris was born in the middle of the two. They all had considerable foresight to decide that saving for their eventual retirement was a prudent course of action and saved 12% of their salary each year.

Their traditional fund managers invested their money in 60% growth assets, like shares and property trusts, and then put the remaining 40% in defensive or safe assets like bonds or cash.



All three people had their money invested for the same amount of time - 40 years, while receiving pay increases each year of inflation plus 2%.

As you can see, Ray and Mardi rode the ups and downs pretty well generating almost a 6% real rate of return per year, that's adjusted for inflation. Although Mardi's end cash balance was much larger than Ray's (13x her final salary vs 9x for Ray). However, poor old Chris barely broke the 2% annualised real return mark, finishing his investment career with only 4x his final salary. That was after 40 years of hard work.

The only difference was "when" they were born, or specifically when they started investing. Ray started in 1919, Chris started in 1935 and Mardi began in 1958.

### So why was there such a big difference in outcomes?

In the early part of Ray's savings period real returns were very strong, while in the latter part, the 1940's and the 1950's, returns were somewhat weaker. In contrast, Mardi's final years of employment occurred in the 1980's and 1990's, a period of very strong real returns.

Given that the account balances of Ray and Mardi are at the largest in the later years of their careers, it is these periods that had the most impact on their final outcomes.

Chris unfortunately, clearly suffers from the issue of just being born at the wrong time.

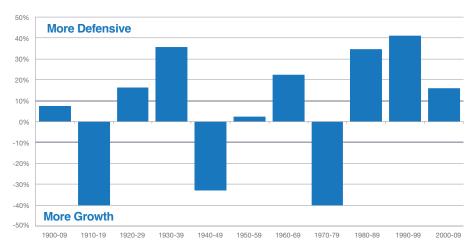
The timing and path of your investment journey can have a significant impact on your final returns

The original research paper "Understanding the journey to retirement" can be found at: www.schroders.com/en/au/advisers/insights/white-papers/understanding-the-journey-to-retirement1/

With a traditional strategic asset allocation approach, investment managers typically operate with a 5-10% buffer of their asset allocations – meaning in a balanced portfolio with a starting point of 60/40 growth/defensive assets, the allocation could be as great as 70/30 or as low as 50/50.

While this buffer adds a degree of flexibility to the portfolios, a range of 5-10% is not broad enough to allow the investment objective to be consistently met on a year-to-year basis.

### Asset allocation shifts required to achieve approximately inflation +5% p.a. return



Source: Schroders

The chart above shows the percentage asset allocation shift required for a traditional 60/40 portfolio to achieve a return close to inflation +5% over each of the last 11 decades.

Only in 2 of the last 11 decades was an asset allocation shift less than 10% enough to achieve inflation +5%. In fact in the 1970's even a 40% shift (ie. 100% growth) was not enough to achieve inflation +5%.

The asset allocation required to achieve this objective was significantly different – and certainly much wider than the ranges that would be more commonly used in the investment industry.

Greater flexibility is required to achieve consistent returns

The original research paper - "How flexible do we need to be?" can be found at www.schroders.com/en/au/individuals/insights/white-papers/how-flexible-do-we-need-to-be/

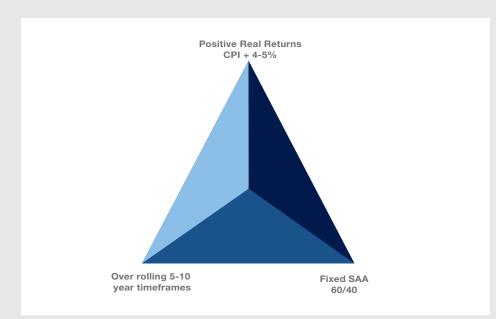
# The investor dilemma

Most investors have as their investment objective the desire to achieve a real return outcome over a defined period. For example, a typical investment objective for a "balanced" or "growth" investment option may be outlined as:

"To outperform the Consumer Price Index (CPI) by 4% per annum over rolling 5 year periods after tax."

After identifying the investment objective, the standard industry approach is to use a broadly static allocation to a range of asset classes to achieve these goals. Typically, a balanced fund with a CPI + 4% objective is likely to have an allocation to 60-70% in growth assets.

Conceptually, investors are trying to balance three competing objectives as shown graphically below.



The problem is that often these three objectives can't be achieved at the same time – realistically only two can be met at any one time.

It's our belief that investors would most likely be unwilling to sacrifice the timeframe over which they are investing. While accepting a lower rate of return may be an option for some, it typically won't meet investor needs in the long run.

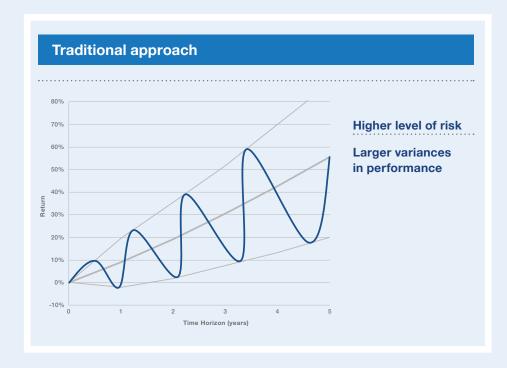
As asset allocation is simply a means to an end, relaxing this constraint makes the most sense. By using an active asset allocation approach there is greater chance of achieving investor return expectations over a realistic timeframe.

Asset allocation is simply a means to an end

The original research paper "Understanding the journey to retirement" can be found at: www.schroders.com/en/au/advisers/insights/white-papers/understanding-the-journey-to-retirement1/

### A smarter way to invest

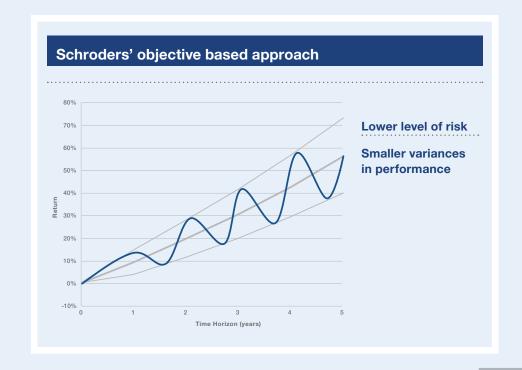
At Schroders, we believe there's a better way to manage the risk and return dynamic, that gives clients greater certainty over the way they invest.



The traditional approach of using a fixed strategic asset allocation may get you there over the long term, but can come with significant periods of volatility. The "real risk" is that a significant drawdown could come at just the wrong time, as many retirees would remember after the Global Financial Crisis.

Rather than building portfolios designed around static asset allocations and very long investment time frames, we aim to meet investors' objectives over rolling 3-year periods – with lower levels of risk and volatility.

We do this because we recognise the importance of giving investors peace of mind and delivering a positive experience along the way.



# What is objective based investing?

**Investment experience** 

Objective based investing starts with the objective in mind rather than an arbitrary benchmark index or a fixed strategic allocation. The approach is generally focused on generating a return above Australian inflation which is referred to as a 'real' return.

Schroders' approach to objective based investing is designed to help investors achieve more stable returns with reduced levels of risk and volatility over the medium term.

The Schroder Real Return funds use a dynamic and unconstrained asset allocation - this means investment opportunities are constantly reassessed helping investors to negotiate the ups and downs of investment markets. This also ensures each of these funds has the flexibility to adapt to changing markets - they can easily increase exposure to those assets which we believe are good value, while reducing risk by selling or, more importantly, avoiding those assets we think are expensive.



Simon Doyle Lead Portfolio Manager Head of Australian Fixed Income and Multi-Asset

Simon has over 27 years of investment experience and joined Schroders in May 2003. He also has direct responsibility for the Schroder Balanced Strategy as well as the Schroder Fixed Income Strategy and chairs the Australian Multi-Asset Portfolio Construction Group.



Simon Stevenson Co-Portfolio Manager Head of Strategy

Simon has over 23 years of investment experience and joined Schroders in June 2008. He is responsible for research across a broad range of asset classes, as well as contributing to the portfolio construction process as a member of the Multi-Asset Portfolio Construction Group.

# Schroders' objective based approach

# Schroders' approach

At Schroders our objective based approach focuses on delivering a more stable return experience with an appropriate level of risk.

### We achieve this goal in four ways:



### Continually assess valuations

We believe investment market valuations are a key indicator about the level of risk in the market, and the potential for future returns.

Making money over time involves buying cheap assets and avoiding expensive assets. By continually monitoring valuations across asset classes, we can identify which asset classes have return and risk characteristics suitable for investment.



### Flexible exposures

It's one thing to be able to identify when an asset class is a suitable investment, but it's another thing to be able to act on it.

The Schroder Real Return funds have the ability to make significant changes to asset allocation as and when valuations dictate. This gives the flexibility to sell assets when they are expensive and buy assets when they are cheap.



### Actively manage risks

We believe risk is not volatility - losing money and not achieving investor objectives is a more important consideration.

Our experienced investment tear actively assesses and manages.

actively assesses and manages the portfolio at every stage of the investment process to:

- Understand and manage the level of portfolio risk
- Minimise the incidence of a negative return
- Maintain an acceptable level of daily liquidity



### Local approach with a global reach

Managed locally for Australian investors with an Australian inflation objective, our objective based approach draws on the insights and experience of our dedicated local team, as well as the extensive resources of the broader Schroders global network. This gives us truly diverse global coverage of investment ideas, research and implementation in key regions and asset classes.

# Schroders' range of Real Return funds

The funds are actively managed, with flexible investment ranges. They have been designed with specific investment objectives which are suitable for investors who have varying tolerances for the amount of risk they are comfortable taking with their money.

The Schroder Real Return funds are **efficient** solutions for investors seeking smoother, **real returns** to grow their wealth.

The funds are **actively managed**, objective based strategies with the flexibility to adapt to changing markets.

Our approach helps to protect investors from bearing the full brunt of falls and has resulted in **reduced losses** when markets decline.

Since any investment comes with risk including the investment under performing or not performing as expected due to various factors, please refer to the PDS for more information on risks.

Access our objective based approach via our unlisted suite of Funds, or via the ASX ticker GROW

Fund Name	Schroder Real Return CPI +3.5% Fund Wholesale Class	Schroder Real Return CPI +5% Fund Wholesale Class	Schroder Real Return Fund (ASX: GROW)			
Inception Date	19 May 2015	1 July 2010 (Strategy inception October 2008)	9 August 2016			
Distribution Frequency	Normally quarterly	Normally twice yearly	Normally twice yearly			
Suggested 3 years		3 years	3 years			
Minimum nvestment \$25,000		\$25,000	No minimum			
Management Costs*  0.60% pa		0.90% pa	0.90% pa			
Target (Before fees)**	Australian Inflation +3.5%	Australian Inflation +5%	Australian Inflation +5%			
Code mFund: SCH12  APIR: SCH0096AU		mFund: SCH11  APIR: SCH0047AU	ASX: GROW			

<sup>\*</sup> For further details on fees and costs please refer to the PDS

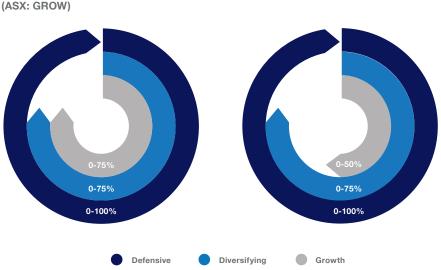
<sup>\*\*</sup> Inflation is measured by the RBA Trimmed Mean as published by the ABS.

# Fund Information

The below graphics depict the investment ranges that each of the funds can use.







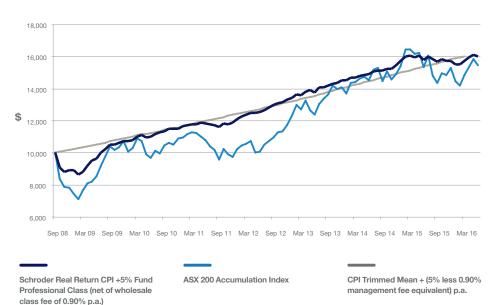
Growth assets typically include shares and property securities, while defensive assets include government bonds and cash. Diversifying assets include high yield debt and some alternatives.

The main difference between our CPI +5% and CPI +3.5% strategies is that the lower return target is matched with a lower volatility target and a limit of 50% allocation to growth assets.

# **Strategy** performance

The following chart shows the performance of a \$10,000 investment in the Schroder Real Return CPI Plus 5% Fund since its inception in October 2008 – compared to Australian shares (S&P/ASX200) and an inflation plus 5% target return.

### Cumulative return since inception of the Schroder Real Return CPI +5% Fund (after fees)

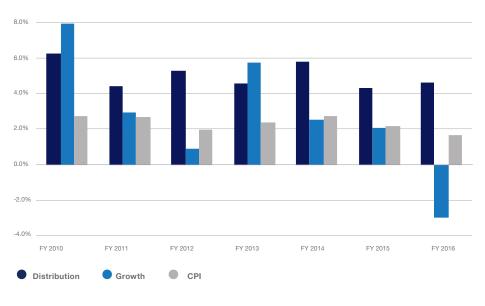


Performance of the Schroder Real Return CPI +5% Fund Professional Class (after fees). Returns presented are to 30 June 2016.
Past Performance is not a reliable indicator of future performance. CPI is measured by the RBA Trimmed Mean as published by the ABS. ASX returns sourced from Datastream

### Simon Doyle, Lead Portfolio Manager, says

"Over long periods of time, done well, our strategy should deliver something like a traditional balanced fund, just without the variability of returns. While it may underperform in strong market environments relative to shares it should do a lot better in a weak environment"

### Income and Growth Returns of the Schroder Real Return CPI +5% Fund (after fees)

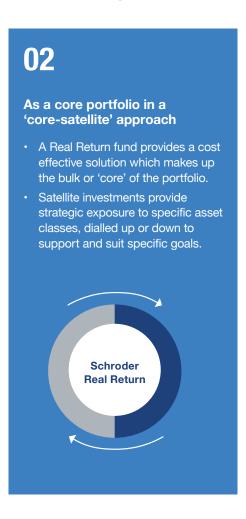


Past performance is not a reliable indicator of future performance. Source: Schroders, Schroder Real Return CPI +5% Fund Professional Class, after fees

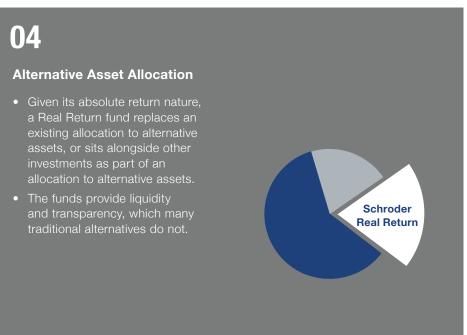
# Where do the Schroder Real Return funds fit in a portfolio?

The Schroder Real Return funds can be used in a number of ways to complement different investment strategies.

## 01 A cost effective whole portfolio solution A Real Return fund can be used as a whole portfolio solution. · Particularly effective if the investor's balance is not large enough to truly diversify across the global investment universe. Schroder **Real Return**



# Replacing a portion of each asset class • An allocation to a Real Return fund is created by reducing existing allocations to portfolio assets. Schroder Real Return



# **About Schroders**

Schroders' sole focus is on investment management to meet clients' needs.

# \$A617 Billion\* Schroders is a highly regarded, award winning independent active investment manager, one of the largest in the world. Through our long-standing history dating back over 200 years, we have been committed to innovation and challenging conventional thinking to develop new investment opportunities for clients. Operating in Australia for over 50 years, we have been successfully managing a multiasset objective based strategy since October 2008, the first of its kind in Australia.

Multi-Asset Crede	ntials				
Launch of the Schroder Balanced Fund	Launch of the Schroder Real Return CPI +5% Fund	Launch of the Schroder Real Return CPI +3.5%	Launch of the Schroder Real Return Fund on the ASX (ASX:GROW)		
1996	2008	2014	2016		
<u> </u>	<u> </u>	<u> </u>			
Began managing multi-asset in Australia	Development of objective-based investing through the GFC as a result of experience with our Balanced Fund	Designed for more risk adverse investors	Today we manage \$9.5bn in multi-asset in Australia		

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You should note that past performance is not a reliable indicator of future performance. Opinions constitute our judgment at the time of issue and are subject to change

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