

# 2018 Queensland Regional Roadshow

## Making Money.....and keeping it

Matthew Leung – Account Manager

May 2018

**Schroders**

# 2018 Queensland Regional Roadshow

## Making Money.....and keeping it

Oliver Trusler, CFA – Investment Director

May 2018

**Schroders**

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# As people live longer, their retirement needs will grow

## Are retirees ready for the challenges they face?

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Problems are likely to get worse as life expectancy improves

1. OECD iLibrary. Expected years in retirement - men = 18.1, women = 22.5. As at December 2012  
Source: Time Magazine. March 2015.

# 2018 Queensland Regional Roadshow

Making money....and keeping it

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1

Sum of the parts or parts of some?

2

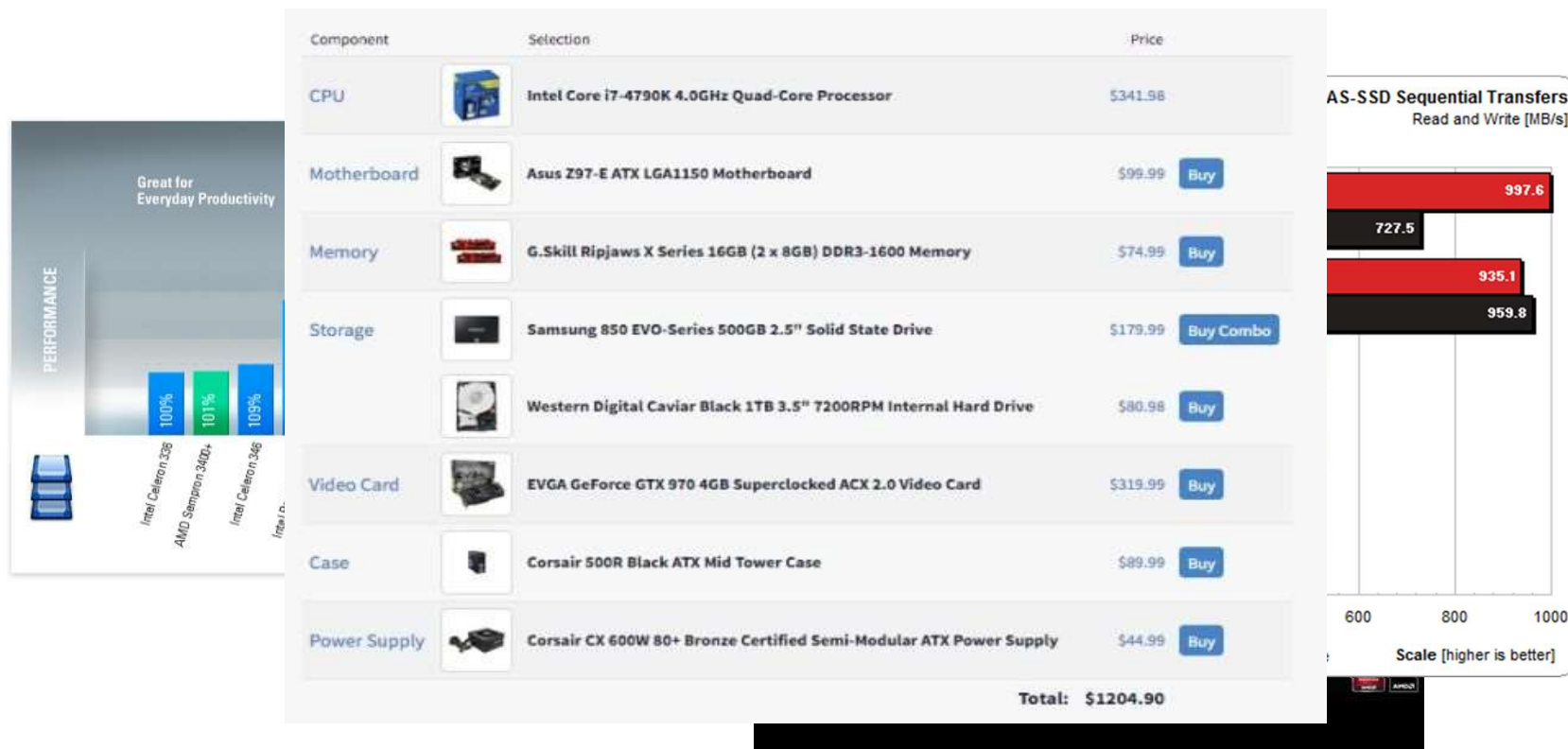
Making money and keeping it in May 2018

3

Picking winners or avoiding landmines?

Some of the parts or parts of some?

# Anyone remember buying a PC in the 1990's?



Source: Google images

# Bundles of components helps, but not much

**hp e-pc**

- Intel® Celeron® Processor, 633MHz
- 128MB memory
- 10GB Hard Disk
- 24x Slim Format CD-ROM
- Integrated audio and graphics
- Integrated 3COM LAN
- Internet Keyboard
- MS Windows® 2000
- 15" LCD Monitor

(Other e-pc specifications and monitor options are available. Call the number below or visit our website for further information.)

Recommended price  
**£619\*** Ex. VAT  
**£727\*** In. VAT

HP recommends Windows® 2000 Professional for business.

- Intel® Pentium® 4 Processor 2.53GHz
- CD Burner
- DVD Burner
- 18" Flat-Panel Display
- 128MB NVIDIA GeForce4™ Graphics
- 120GB Hard Drive

**1-800-GATEWAY™**

Prices and configurations subject to change without notice or obligation.

Select 1 of 4 colour options

**XPS™ M1730 NOTEBOOK**  
Amazing 17" HD Widescreen Display

Starting from **\$2699<sup>1</sup>** or as low as \$69/mo.\*  
Must Quote E-Value™ Code: CHX7FS6

- Intel® Core™2 Duo Processor T7500
- Genuine Windows Vista® Home Premium
- 17" UltraSharp™ Widescreen UXGA Display with TrueLife™ (glossy)
- 2GB Memory; 120GB<sup>1</sup> Hard Drive
- 512MB Dual NVIDIA® GeForce® 8700M GT with NVIDIA™ SLI™ Technology
- Dual Layer 8X DVD Burner<sup>1</sup>
- 1-Year Return to Depot (RTD) Service\* (Warranty, RTD Service, 1-Year XPS Tech Support)
- 10GB Dell DataSafe™ Online Storage for one year
- 2.0MP Built-in Webcam and Mic
- \$0 Shipping

**RECOMMENDED UPGRADES**

- Genuine Windows Vista® Ultimate Edition, English – \$180<sup>1</sup>
- 160GB<sup>1</sup> Hard Drive – \$100<sup>1</sup>
- Internal Dell Wireless Bluetooth™ and Telus Mobile Broadband Built-in Card – \$169<sup>1</sup>

**XPS 420 DESKTOP**  
Amazing 19" HD Widescreen Display

Starting from **\$1099<sup>1</sup>** or as low as \$28/mo.\*  
Must Quote E-Value Code: CHX4FS6

- Intel® Core™2 Quad Processor Q6600
- Genuine Windows Vista® Home Premium
- 2GB Dual Channel DDR2 SDRAM at 667MHz
- 320GB<sup>1</sup> Hard Drive (7200 RPM)
- 128MB ATI RADEON™ HD 2400Pro
- 19" SE198WFP Widescreen Digital Flat Panel Display
- Dual Layer 16X DVD Burner<sup>1</sup>
- 1-Year In-Home Service\* (Warranty, On-Site Service, 1-Year XPS Tech Support)
- 10GB Dell DataSafe™ Online Storage for one year
- \$0 Shipping

**RECOMMENDED UPGRADES**

- Genuine Windows Vista® Ultimate Edition, English – \$150<sup>1</sup>
- 256MB ATI Radeon® HD 2600XT – \$120<sup>1</sup>
- 3-Year In-Home Service\* (Warranty, On-Site Service, 3-Year Tech Support) – \$159<sup>1</sup>

**XPS 720 DESKTOP**  
Amazing 22" HD Widescreen Display

Starting from **\$1799<sup>1</sup>** or as low as \$46/mo.\*  
Must Quote E-Value Code: CH72FS6

- Intel® Core™2 Quad Processor Q6600
- Genuine Windows Vista® Home Premium
- 2GB Corsair Dominator DDR2 SDRAM 800MHz overclocked to 1066MHz
- 22" E228WFP Widescreen Digital Flat Panel Display
- 250GB<sup>1</sup> SATA Hard Drive (7200 RPM)
- 256MB NVIDIA® GeForce® 8600 GTS
- Dual Layer 16X DVD Burner<sup>1</sup>
- 1-Year In-Home Service\* (Warranty, On-Site Service, 1-Year XPS Tech Support)
- 10GB Dell DataSafe™ Online Storage for one year
- \$0 Shipping

**RECOMMENDED UPGRADES**

- Genuine Windows Vista® Ultimate Edition, English – \$150<sup>1</sup>
- 3-Year In-Home Service\* (Warranty, On-Site Service, 3-Year XPS Tech Support) – \$189<sup>1</sup>
- 768MB NVIDIA® GeForce™ 8800 GTX – \$450<sup>1</sup>

**WISH FOR MORE GIFTS?**

Play Holiday Frenzy: Merry Matchups and you could WIN an exciting XPS Ski package for two to Panorama Mountain Village in the B.C. Rockies.

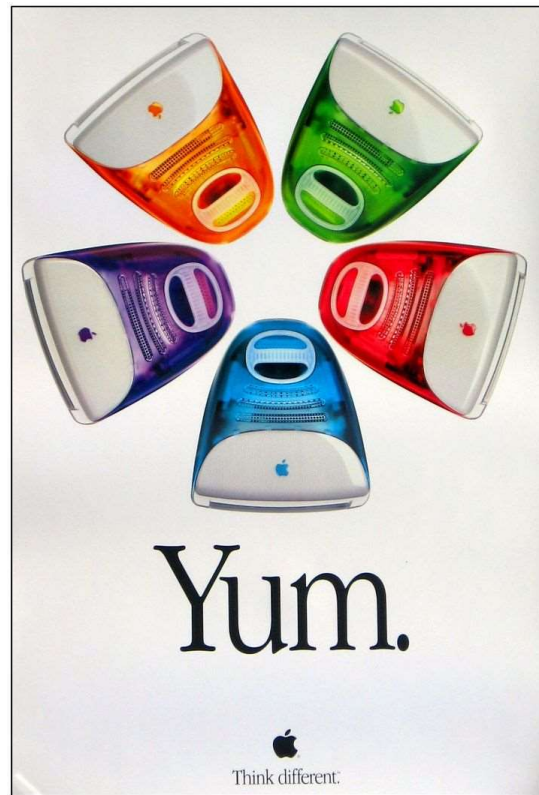
Ski package includes: 7 nights accommodation, 2 seven day lift tickets, up to \$2000 for airfare, \$800 spending money

Register for the contest and enter the secret code word for 5 extra chances to win! Secret Code Word: DELL

NO PURCHASE NECESSARY. Contest closes on January 8, 2008 at 4:59 pm EST. Contest open to residents of Canada who have reached the age of 13 or older at the time of entry. To enter or for full contest rules, visit [www.WinWithDell.ca](http://www.WinWithDell.ca)

# Solutions – focus on the outcome that matters

Colour looks good in my office



Battery will last all day

**The new 17-inch  
MacBook Pro**  
Now up to 8 hours of battery life.

From \$2,999

Buy now ▶

No technical specs. No product. All outcome

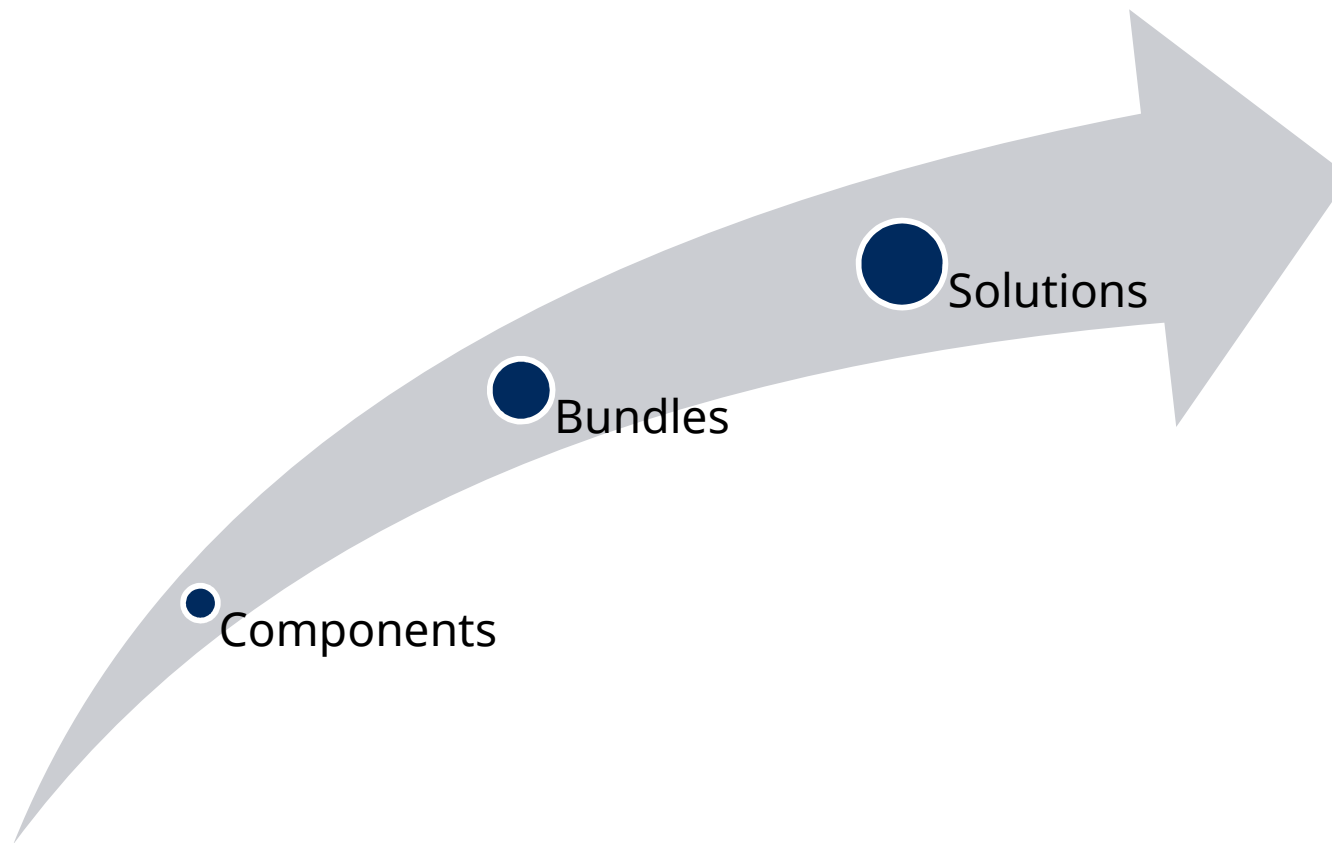
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Source: Apple

# Evolution moves from components to outcomes

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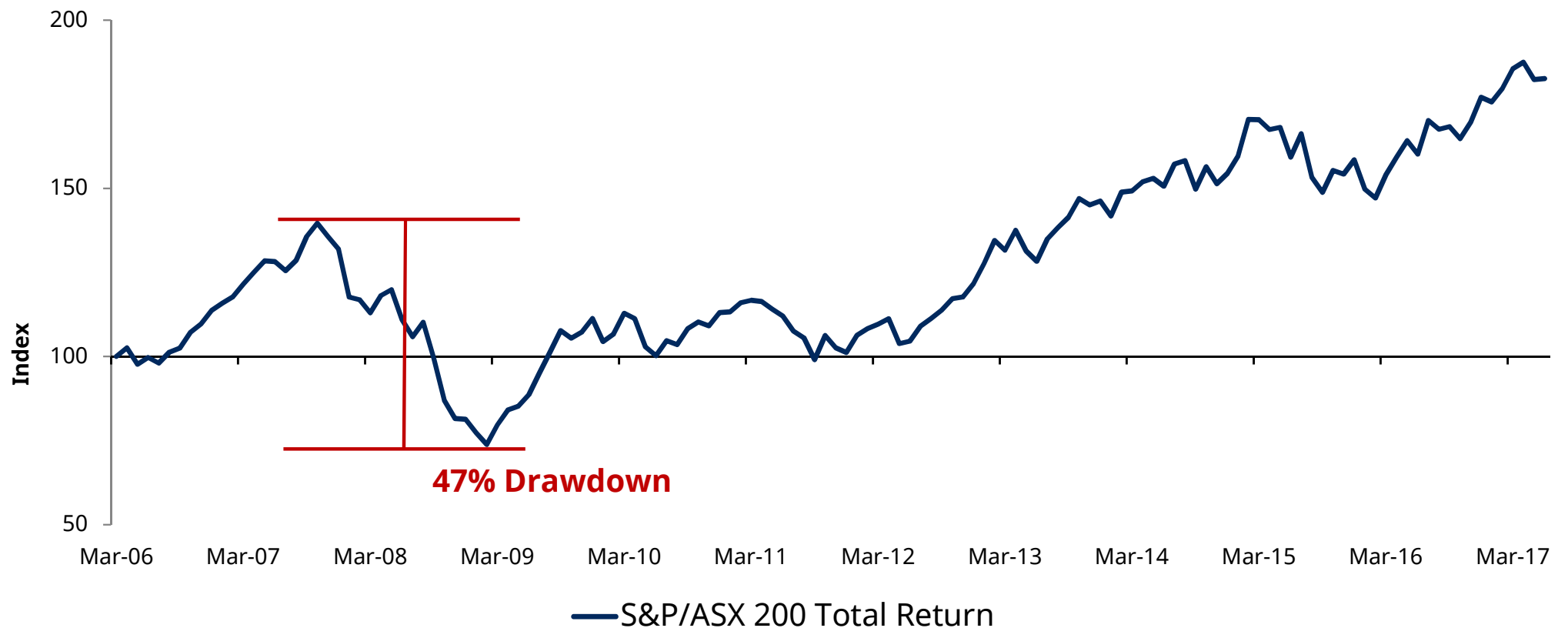


What are our wealth building options?

Schroders

# Shares are the best way to build long term wealth

But you need discipline to cope with massive drawdowns



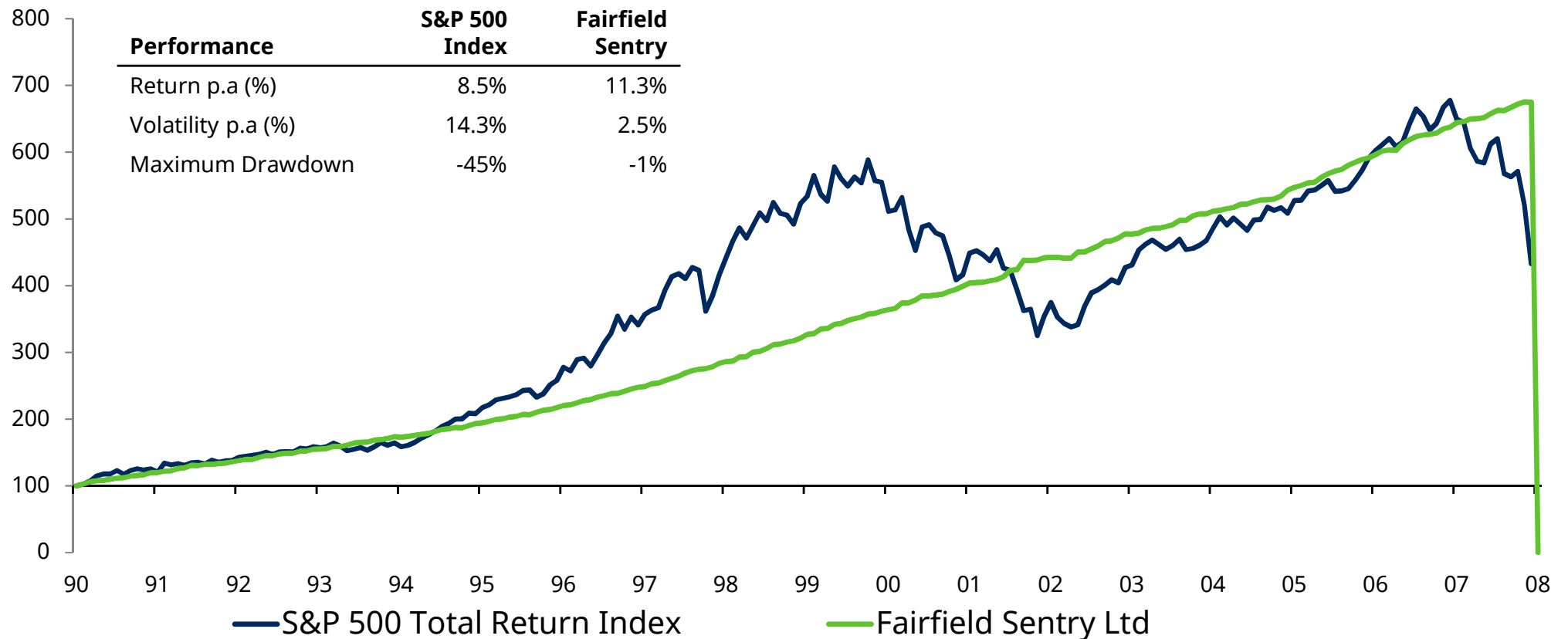
Source: Bloomberg, Schroders

# Diversification is the only free lunch in markets



Source: Diversified Portfolio: 25% S&P/ASX 200, 25% MSCI World Ex Australia Hedged AUD Net Total Return Index, 10% S&P/ASX 200 A-REIT Index, 15% Bloomberg AusBond Composite 0+ Yr Index, 15% Bloomberg Barclays Global-Aggregate Total Return Index Value Hedged AUD, 10% Bloomberg Barclays US Corporate High Yield Total Return Index Value Hedged AUD

# THIS is what everyone wants. Right?



Source: Bloomberg, Schroders. This is illustrative only and not a recommendation to buy, sell or hold any security

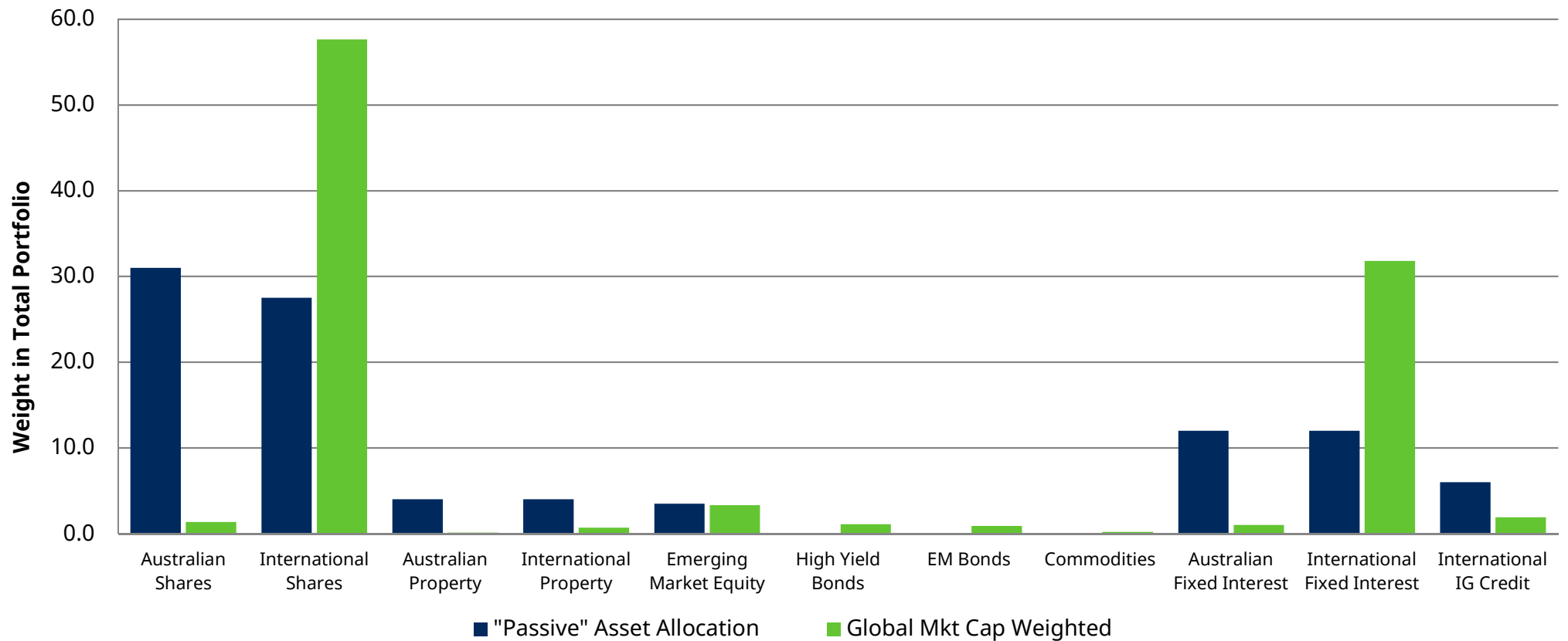
If it looks too good to be true...

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# Portfolio diversification – there is no “right” answer

There is only the solution most likely to meet the objective

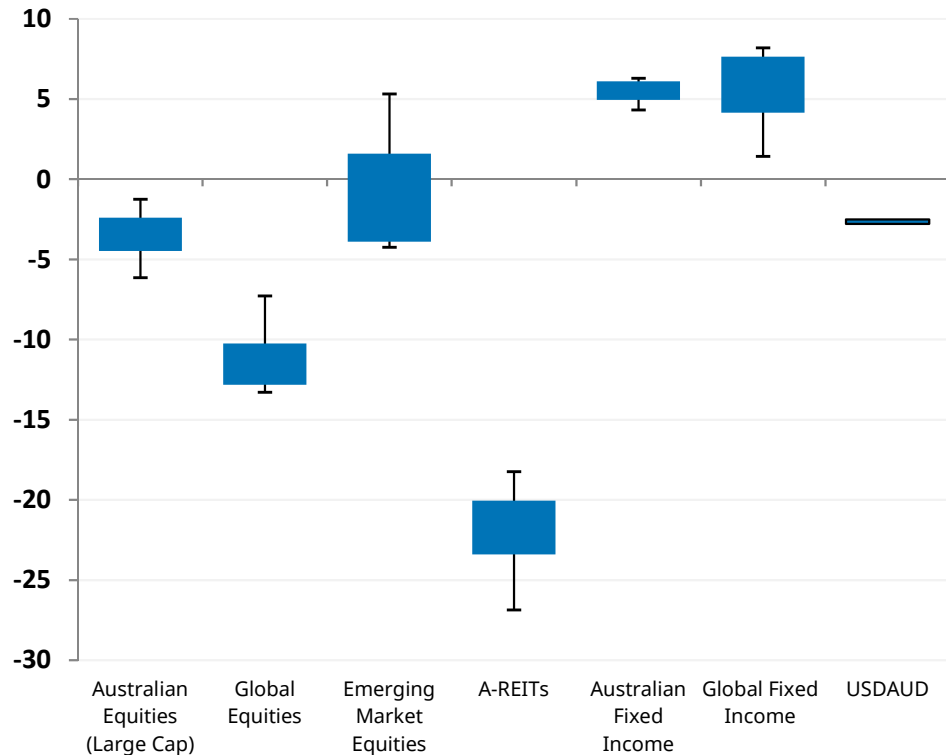


Source: Aug 2016 - Vanguard LifeStrategy Growth Fund (Passive example), James Picerno (Global Mkt Cap Weighted example)

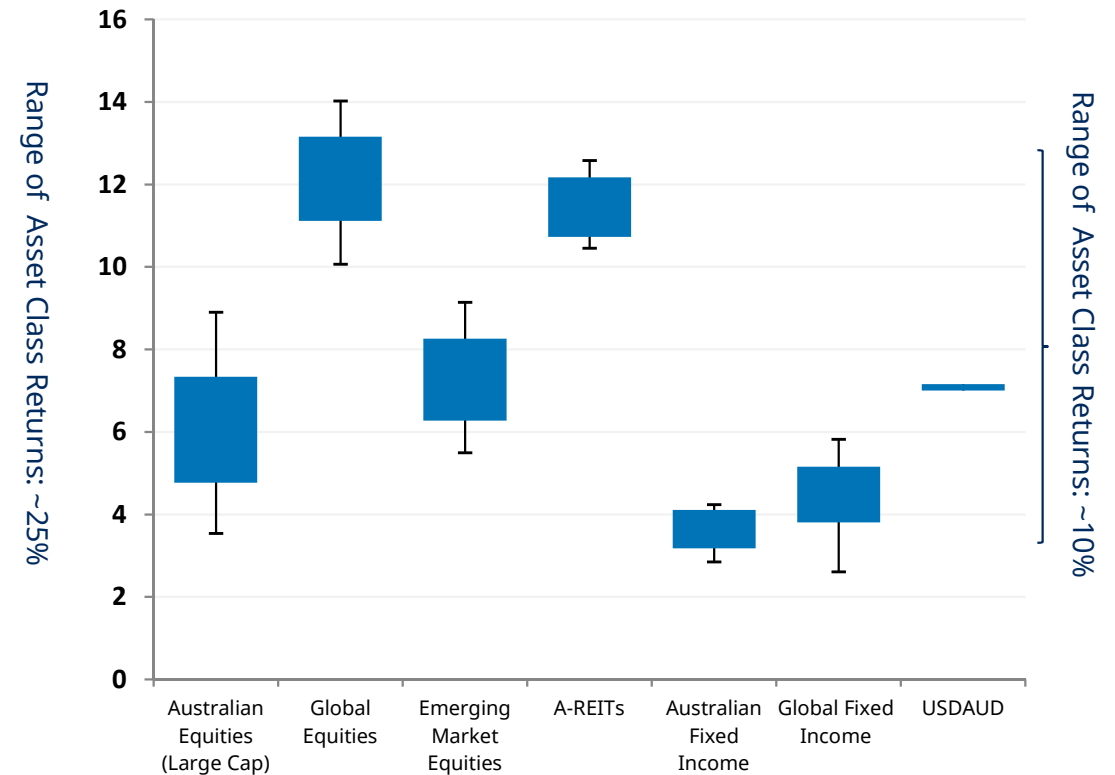
# Asset Allocation vs Stock Selection

Picking only stocks or active managers risks missing the bigger picture

Total p.a return 3 yrs from June 2006 - June 2009

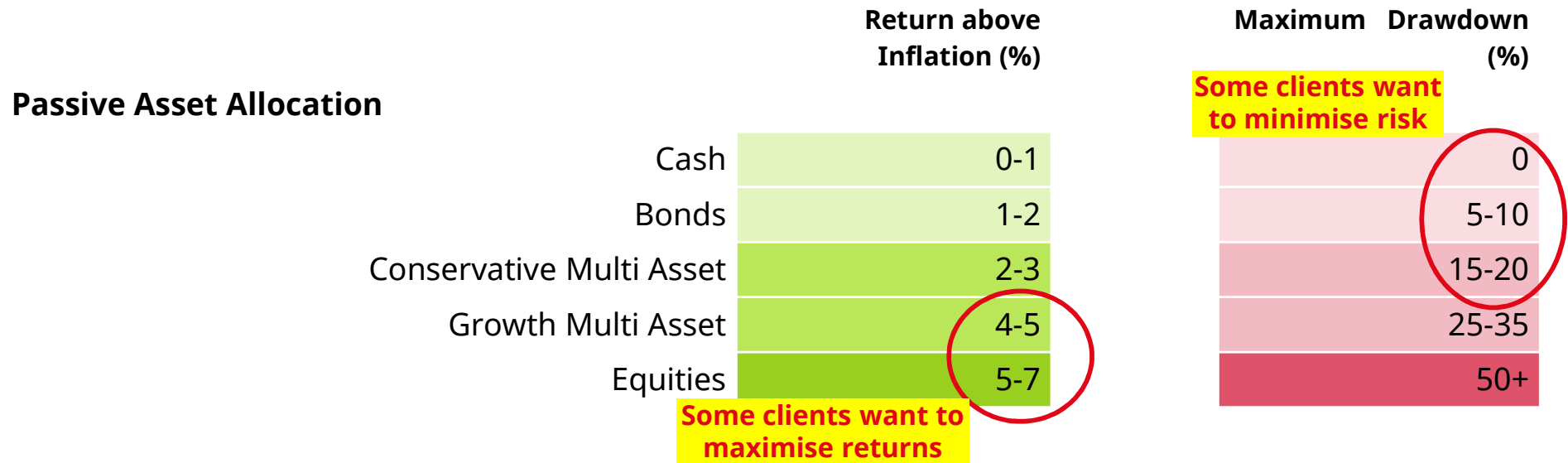


Total p.a return 3 yrs from June 2014 - June 2017



Source: Morningstar, active manager performance of 10th to 90th percentile of managers. Morningstar Categories; Australian Equities (Blend), Australian Equities Mid-Small (Blend), Global Equities (Blend), Emerging Market Equities, Australian Real Estate Equities, Bond- Australia, Bond- Global.

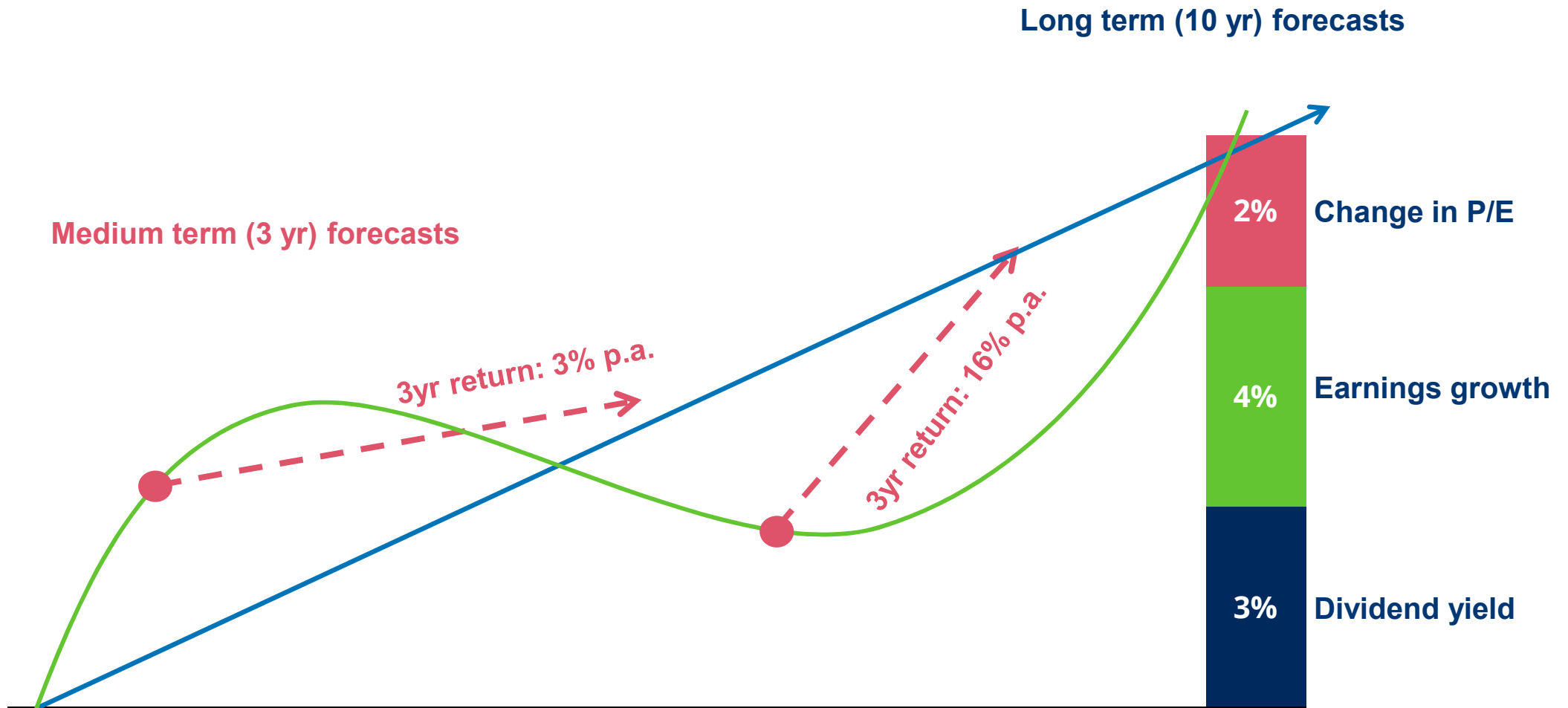
# What are our solution options?



Source: Schroders – illustrative of outcomes from each asset class and strategy over a full economic cycle. Conservative multi asset approximates 30% equity / 70% bond allocations. Growth multi asset approximates 70% equity / 30% bond allocations.

# Return forecasting framework

Use valuation models that capture cyclical opportunity



Source: Schroders. For illustrative purpose only; Past Performance is not indicative of future returns.

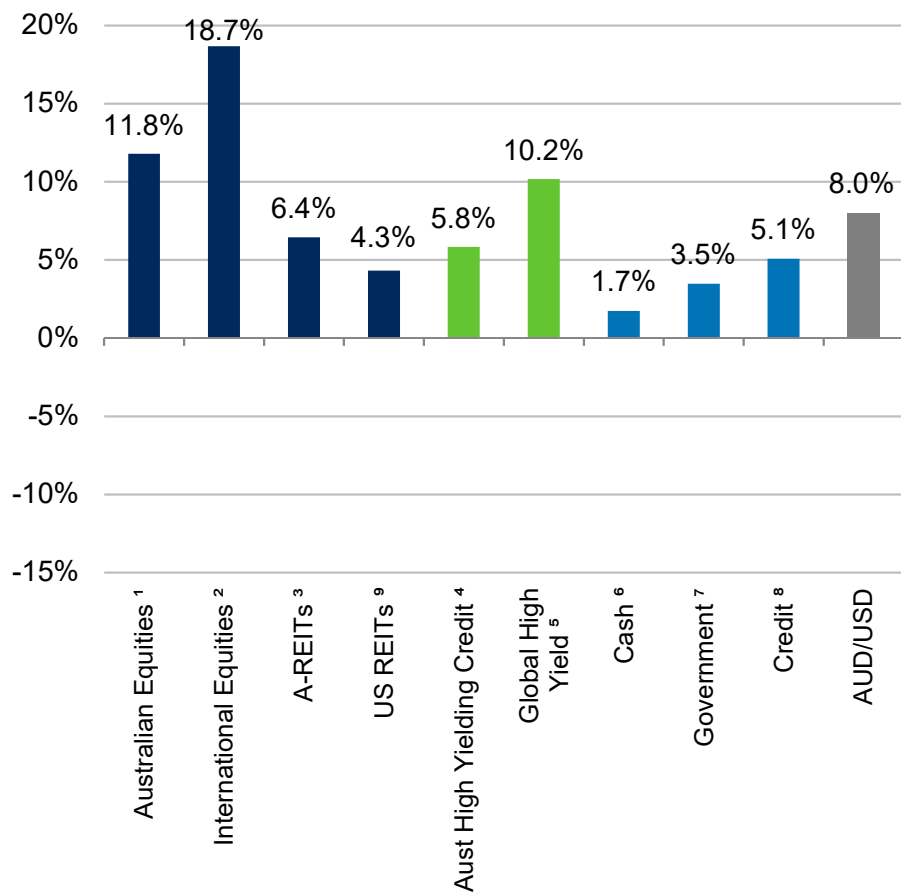
Making money and keeping it in May 2018

Schroders

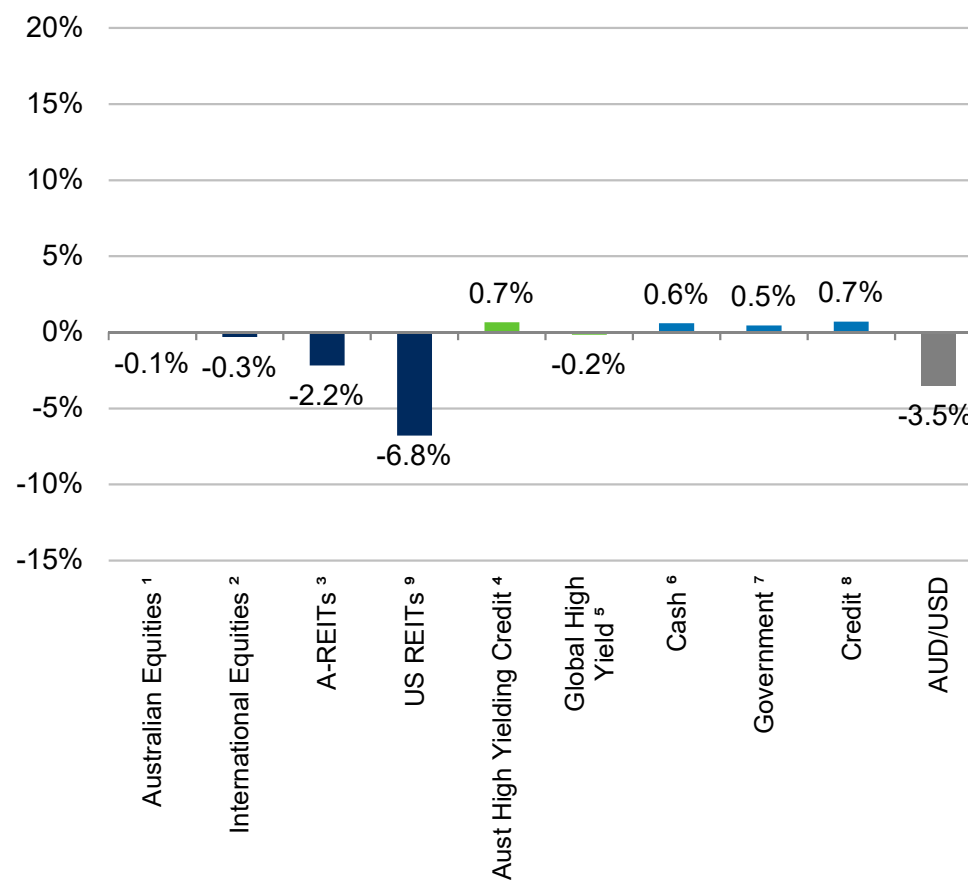
# Market performance

## 2017 exceeded expectations. 2018 off to a mixed start.

### Gross returns by asset class 2017



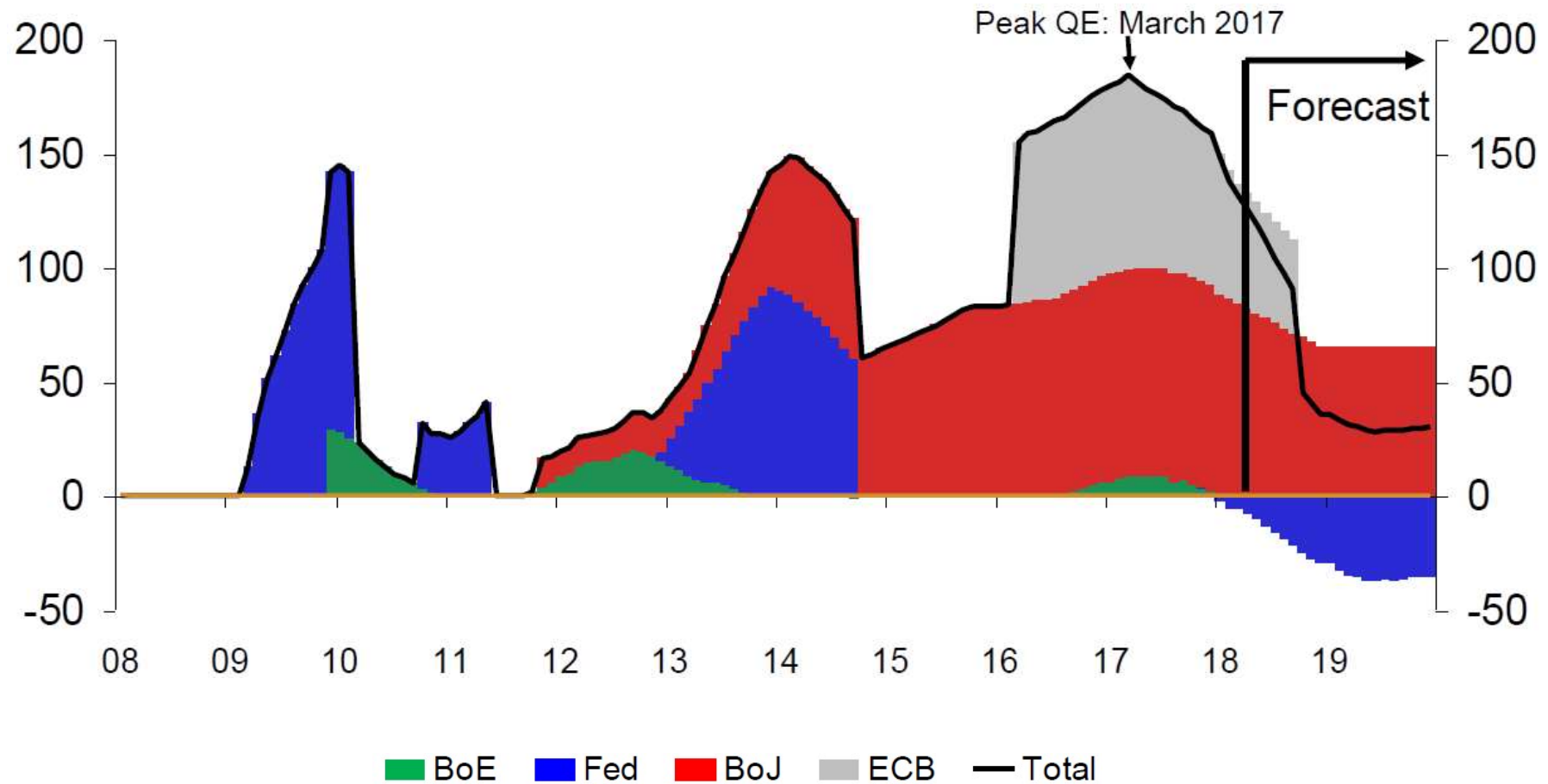
### and 2018 cytd



Source: Schroders/Datastream as at 30 April 2018. 1. S&P ASX 200 Acc; 2. MSCI World ex Aus Net TR (Local); 3. S&P ASX300 A-REIT Acc; 4. Schroder Higher Yielding Credit Pool; 5. Merrill Lynch Global High Yield Index (USD); 6. Bloomberg AusBond Bank Bill Index; 7. Bloomberg AusBond Treasury Index; 8. Bloomberg AusBond Credit Index. \* Past Performance is not a reliable indicator for future performance.

# Asset prices continue to receive a helping hand

## Tariffs and trade wars are a sideshow in comparison

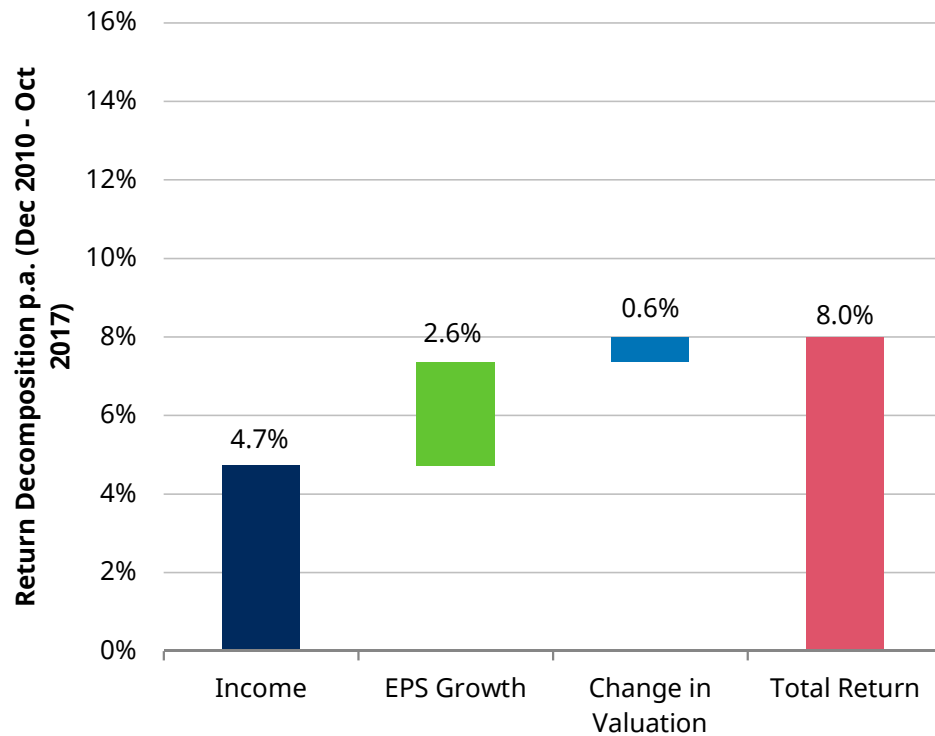


Source: Fed, BoJ, ECB, BoE, Haver Analytics, DB Global Research

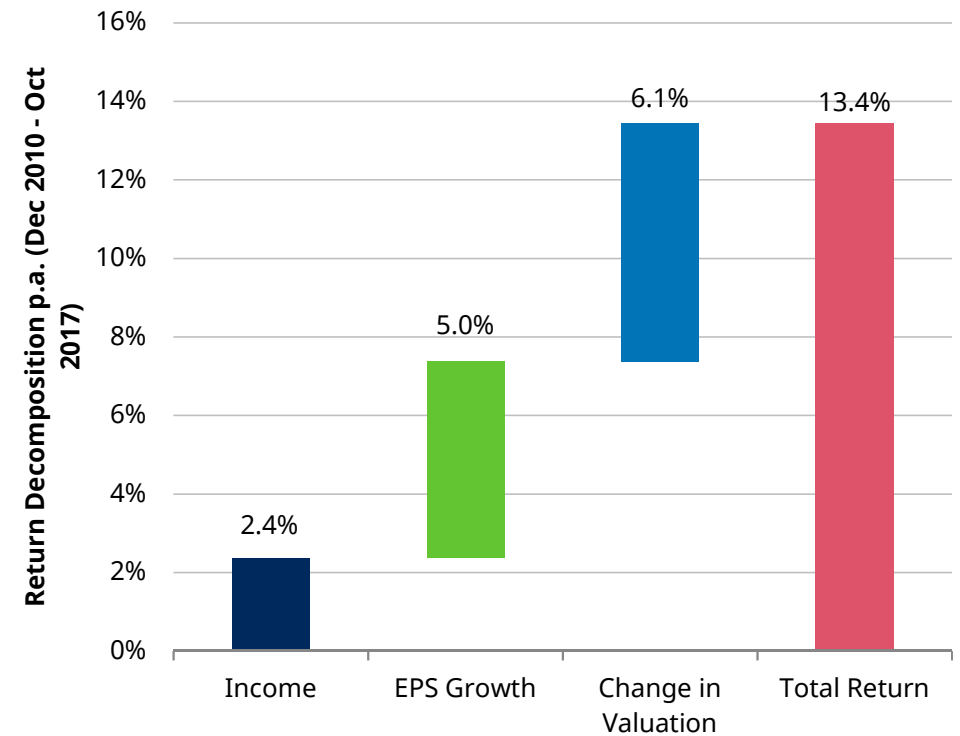
# Decomposing Equity Returns 2010-2017 (the QE era)

The difference is mainly valuations

## Australian Equities



## US Equities

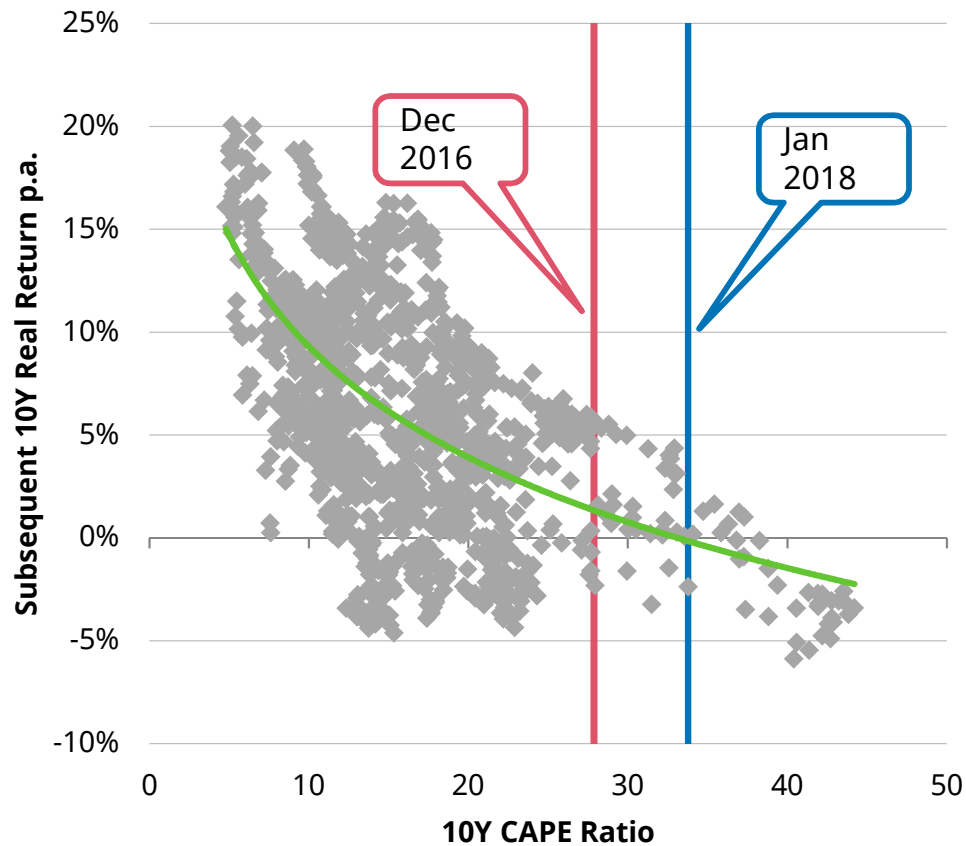


Source: Schroders. November 2017. Past performance is not indicative of future returns

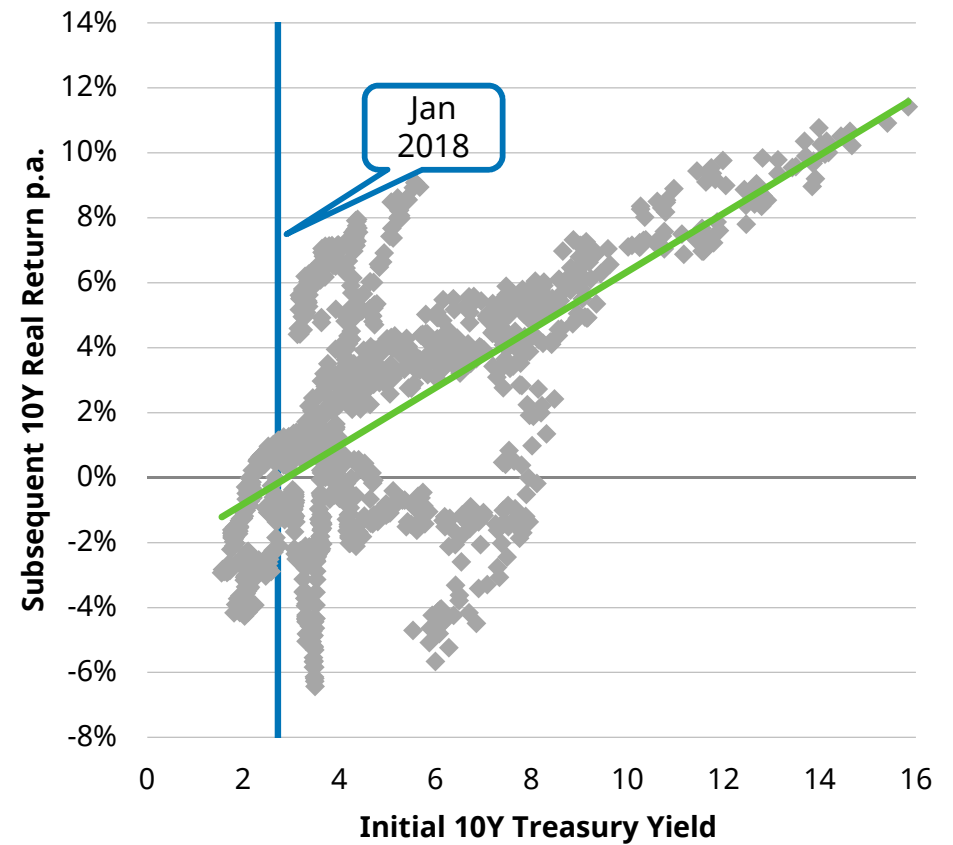
# Valuations expensive & yields low

## Suggest low prospective returns

US Equities: Shiller PE v 10Yr Returns (Real)



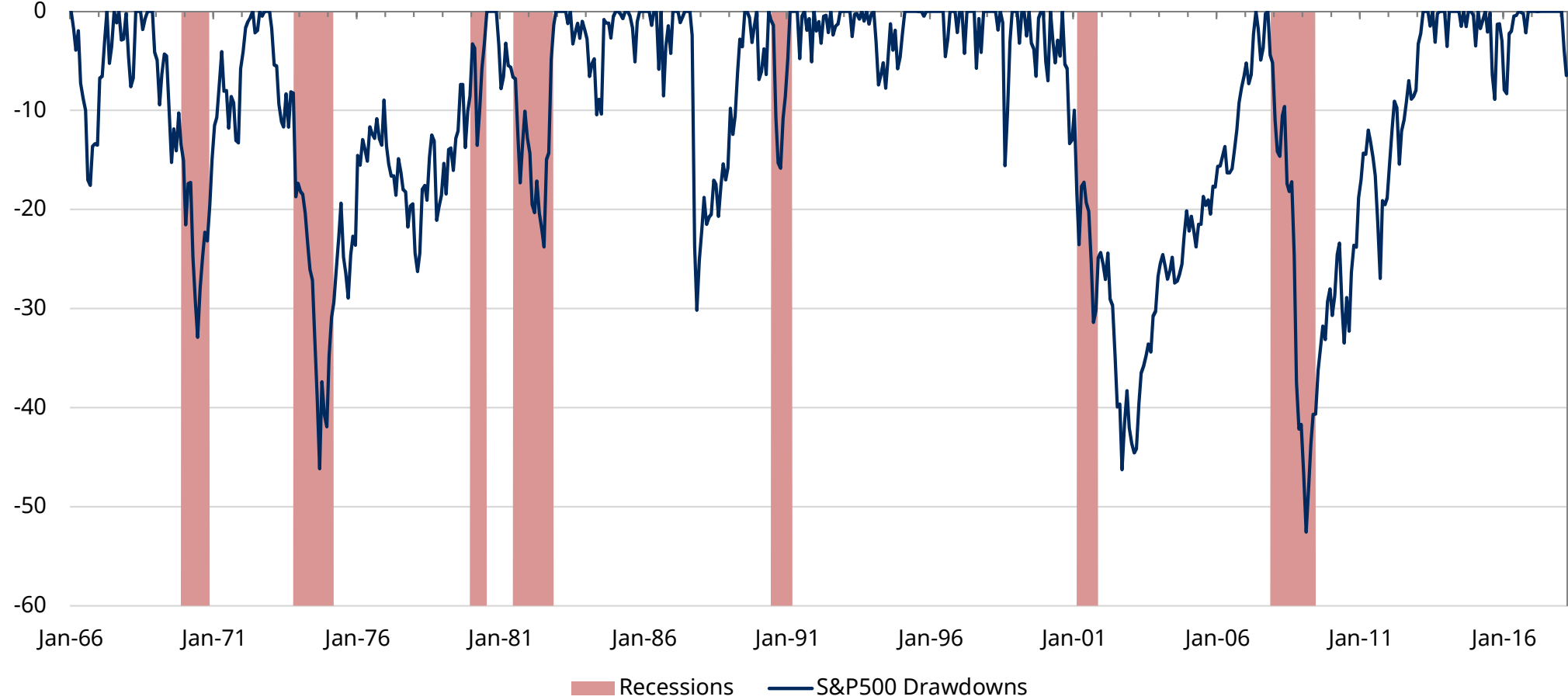
US Bond Yields v 10Yr Returns (Real)



Source: Bloomberg, GFD, Schroders

# Recessions kill bull markets

## S&P 500 Drawdowns and Recessions

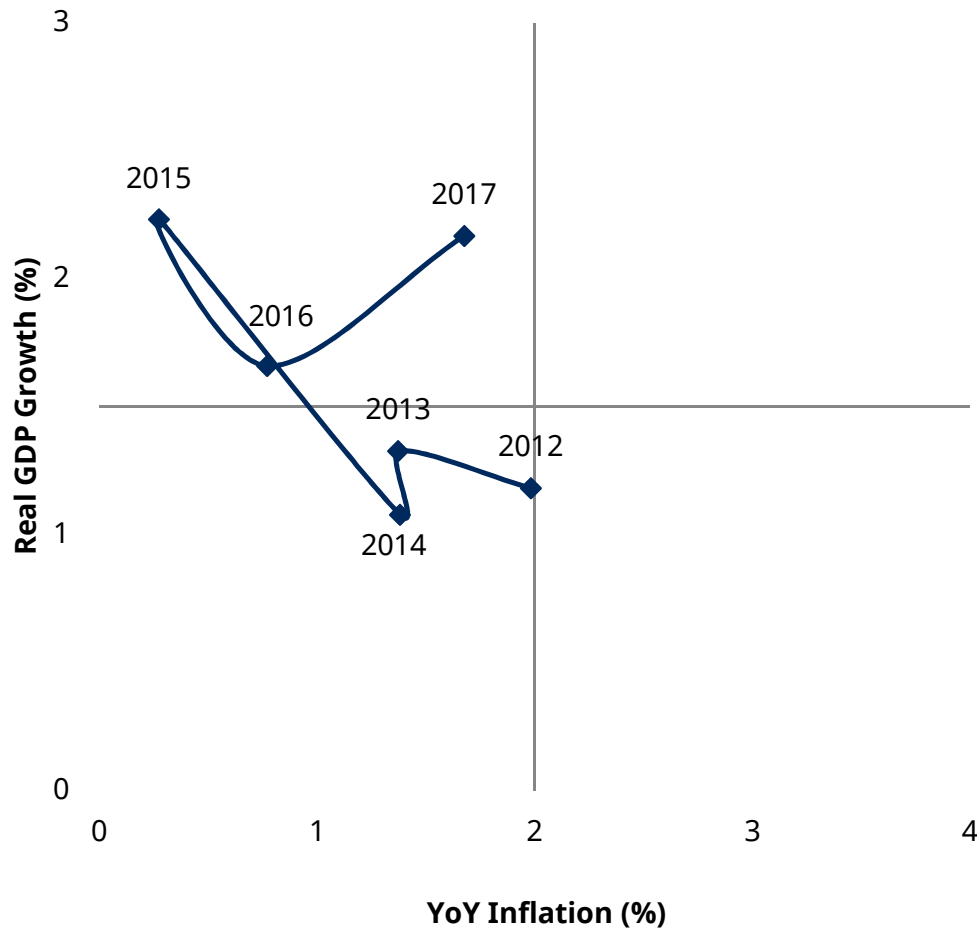


Source: Datastream

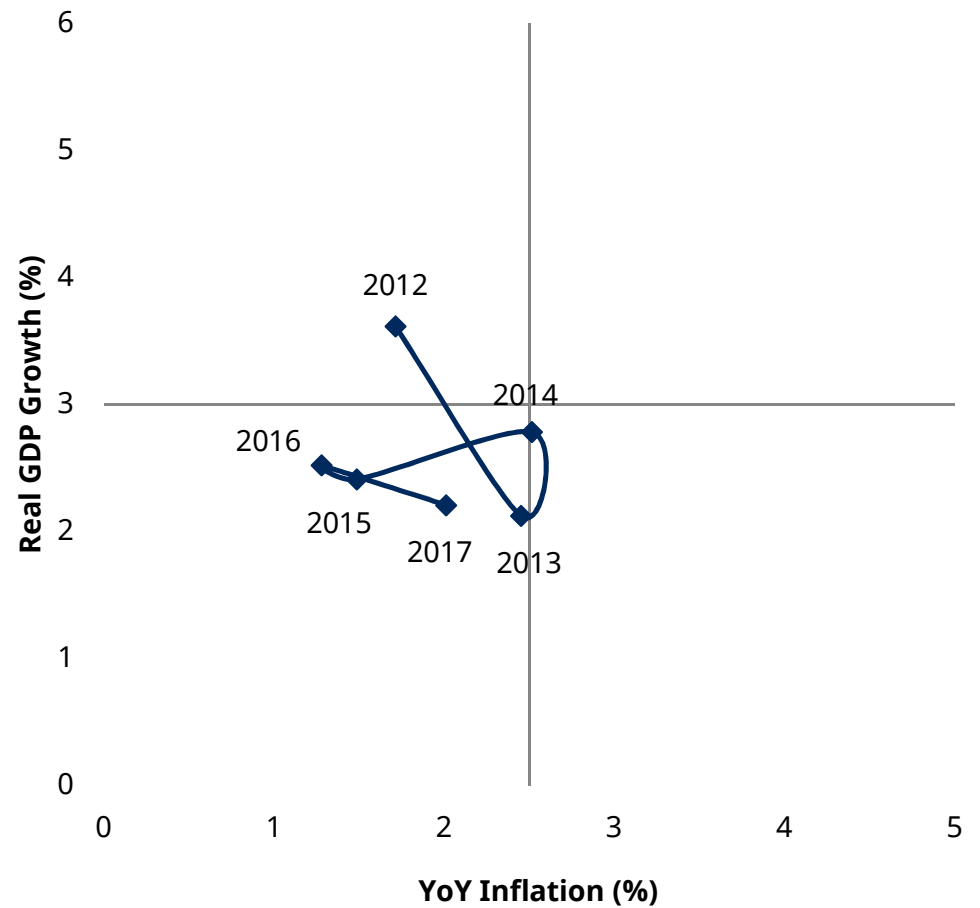
# Cycle = Goldilocks

Synchronised growth + low inflation = low rates + rising profits

## Advanced Economies GDP & Inflation



## Australia GDP & Inflation

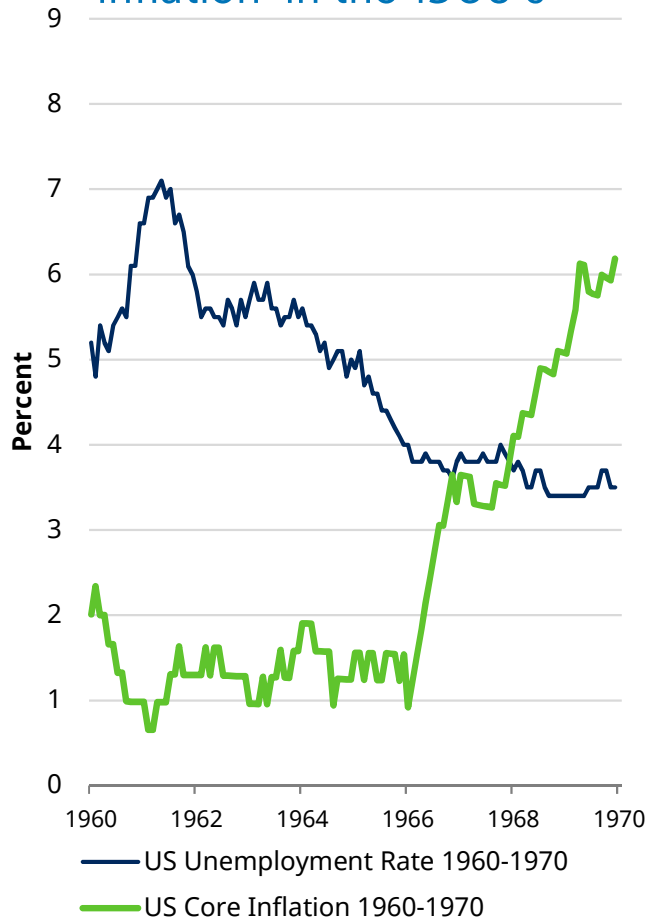


Source: IMF

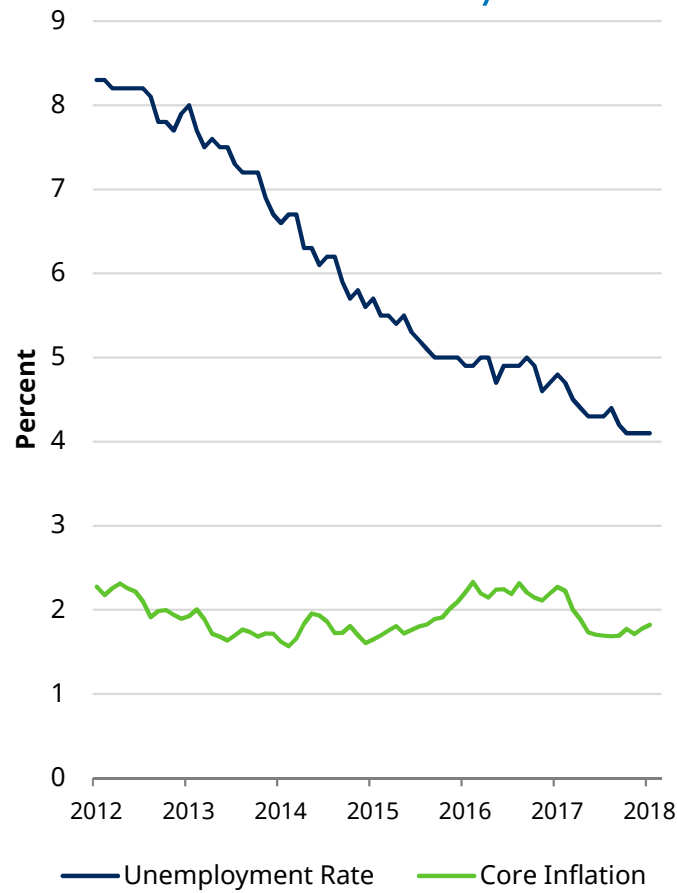
# Cycle

## Inflation is coming

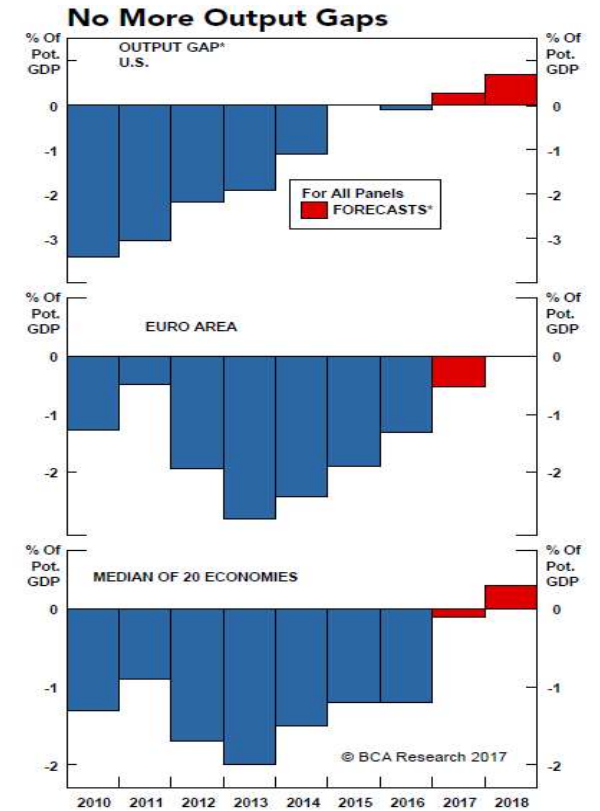
US unemployment vs inflation in the 1960's



US unemployment vs inflation today



Spare capacity may have been worked off

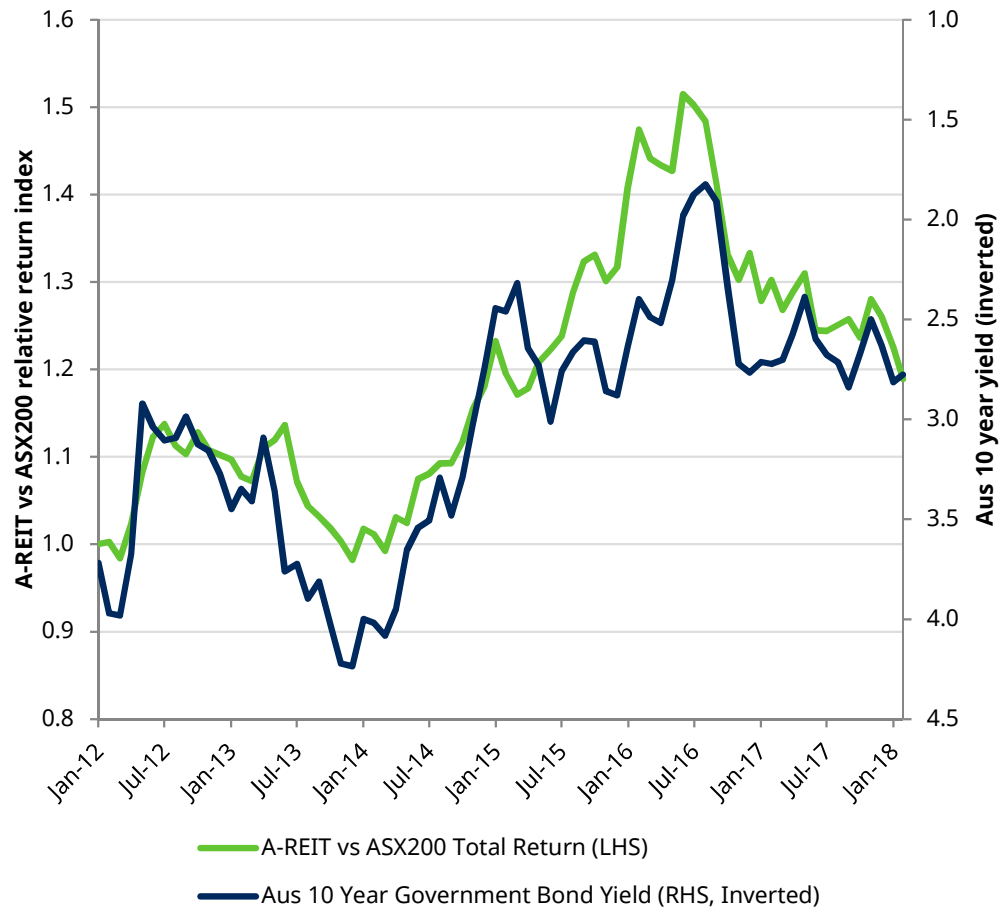


Source: Datastream, Schroders. RHS chart source: IMF World Economic outlook, January 2018

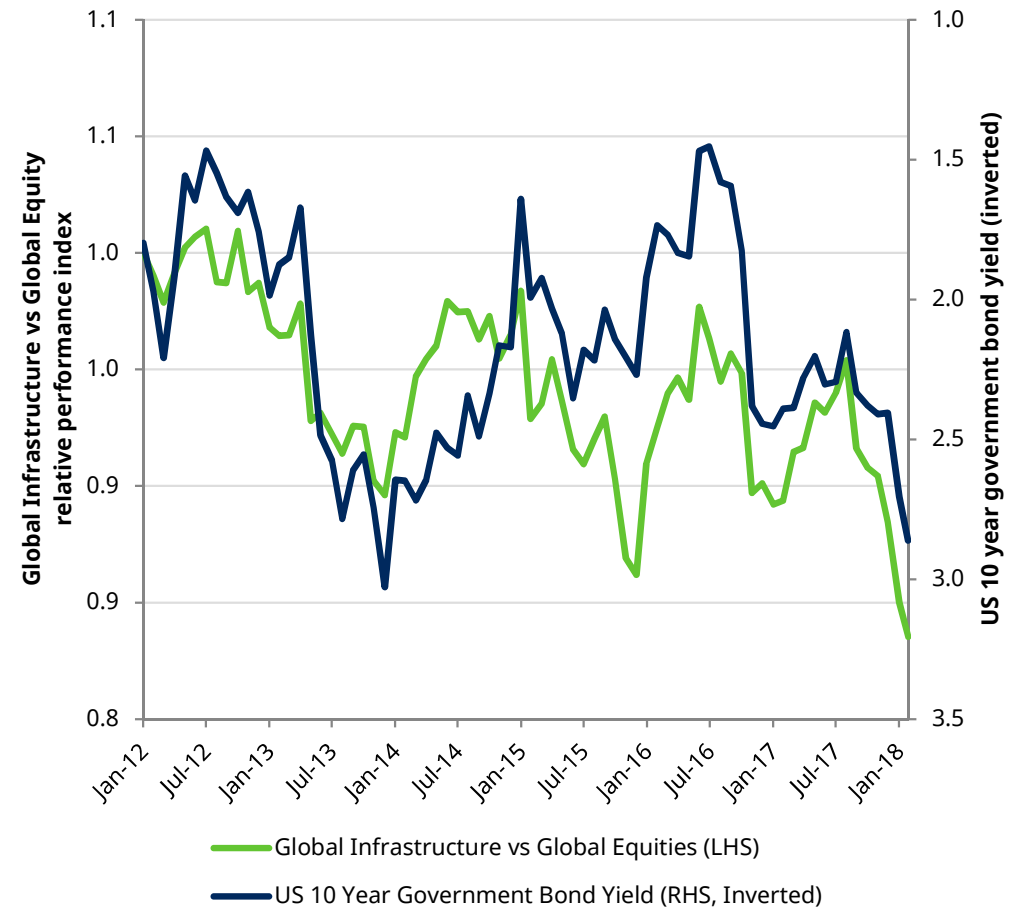
# Why inflation matters

Many bond proxies will also be hit hard

## A-REIT relative performance vs yields



## Infrastructure relative performance vs yields

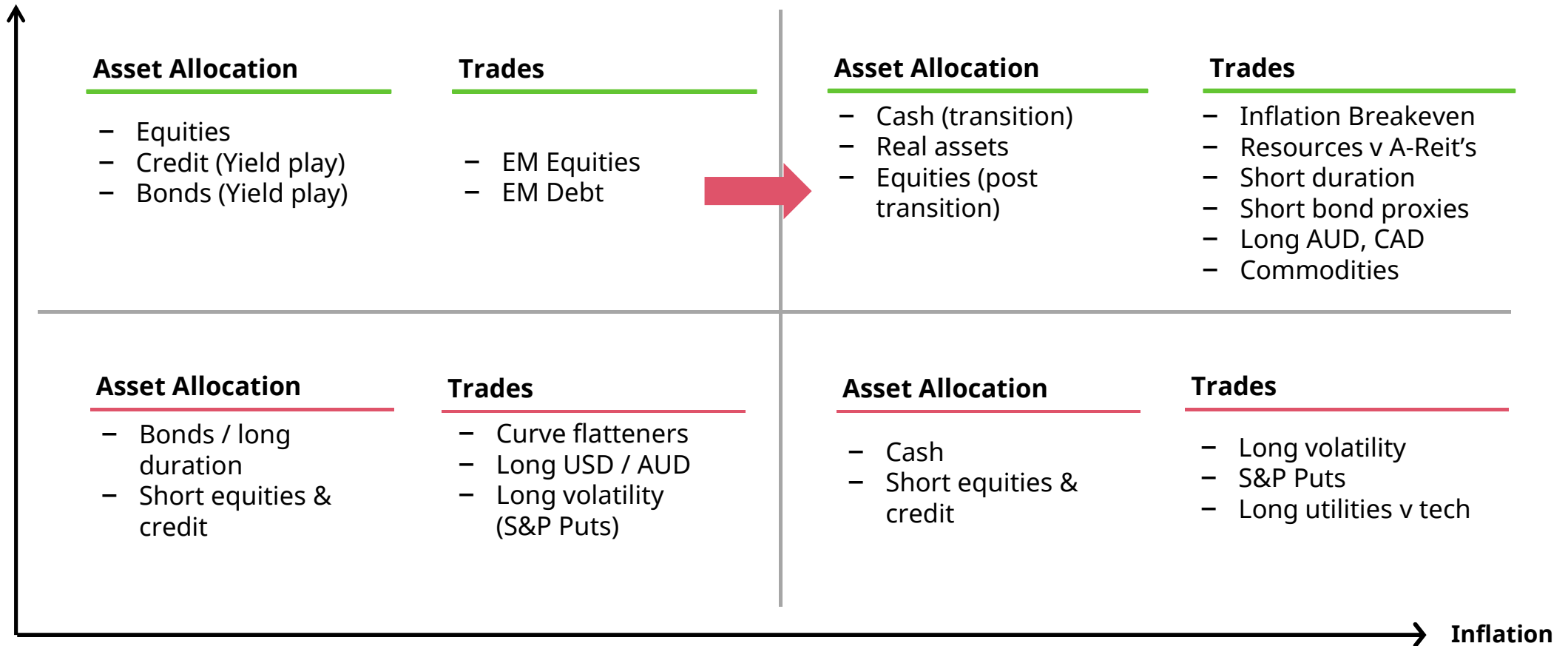


Source: Bloomberg

# Key scenarios

## Market is pricing a 'Goldilocks' scenario

Growth



Source: Schroders.

When it's time to leave the party  
We're not sure it's midnight yet, but it's pretty late

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**“They are dancing in a room in which the clocks  
have no hands”**



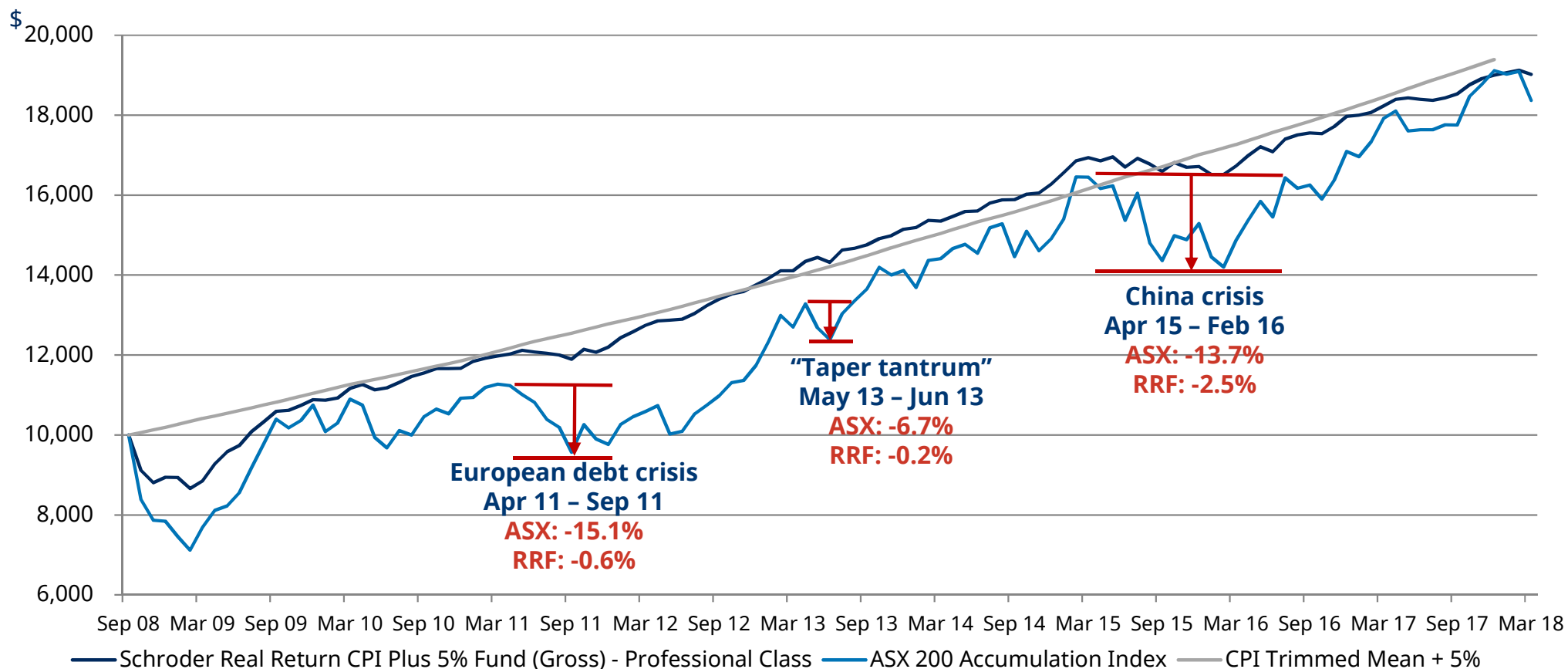
Picking winners or avoiding landmines?

Schroders

# Gross return, risk and drawdown objectives

## Delivering capital growth whilst managing volatility and drawdowns

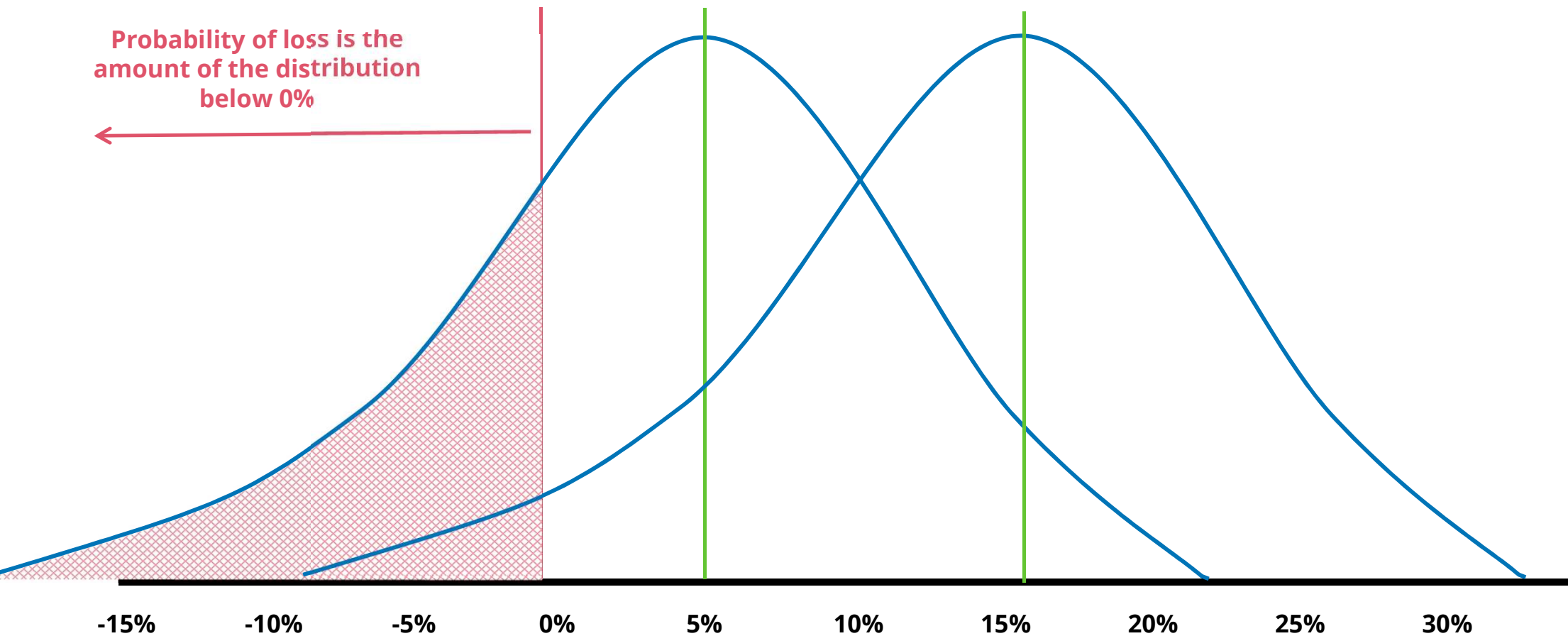
The team has a strong history managing a Real Return strategy



Source: Schroders, Datastream, ABS. Cumulative performance shown for the Schroder Real Return CPI+5% strategy (gross of fees) since inception to 31 March 2018. Past Performance is not a reliable indicator of future performance. CPI is measured by the RBA Trimmed Mean as published by the ABS. Performance of the Unlisted Fund is shown to illustrate how a comparable managed fund using the same strategy has performed over longer time periods. Performance of the Schroder Real Return Fund (ASX:GROW) may vary due to differences such as market making activities, variations in implementation strategy and inflows/outflows.

# What is the probability of loss

A risk measure that considers the starting valuation and the nature of the asset

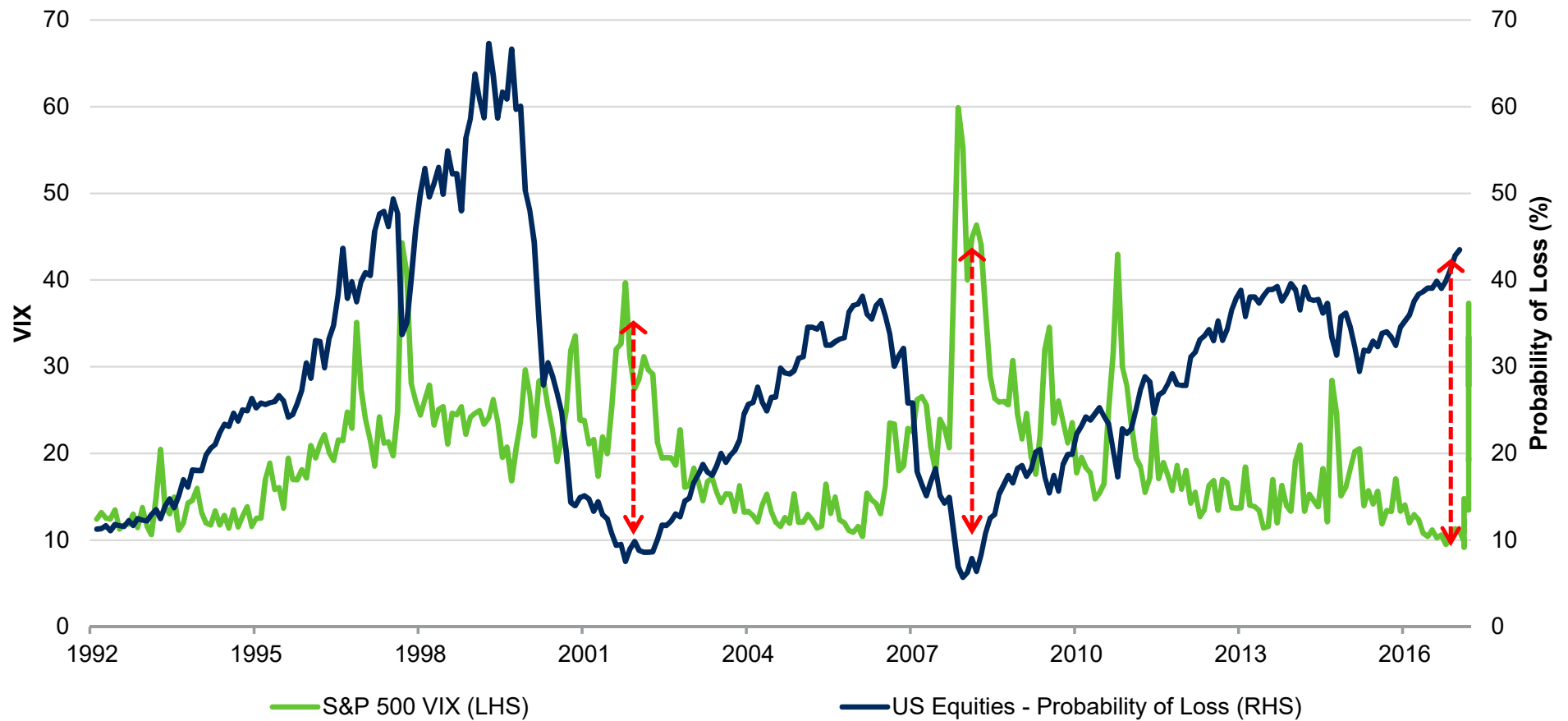


Source: Schroders. For illustrative purpose only; Past performance is not indicative of future return.

# Volatility is not risk

Risk is the probability of loss

VIX versus probability of loss for US equities

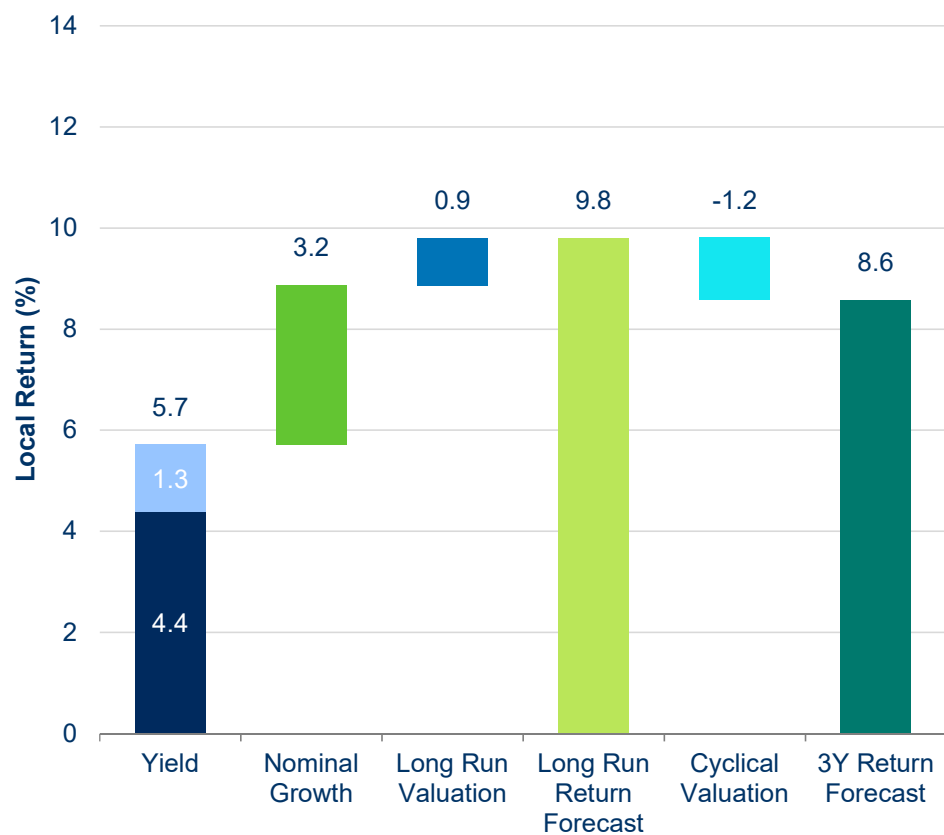


Source: Schroders, Datastream

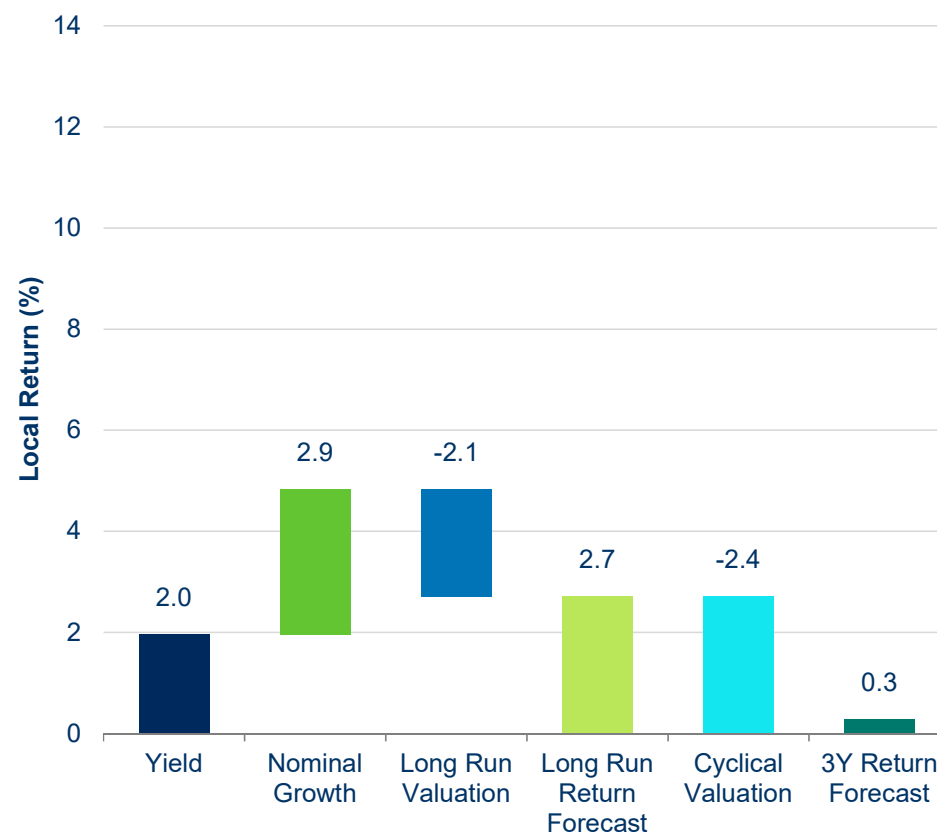
# Return and Risk Forecasts

## Components of equities return

### Australian Equities



### US Equities



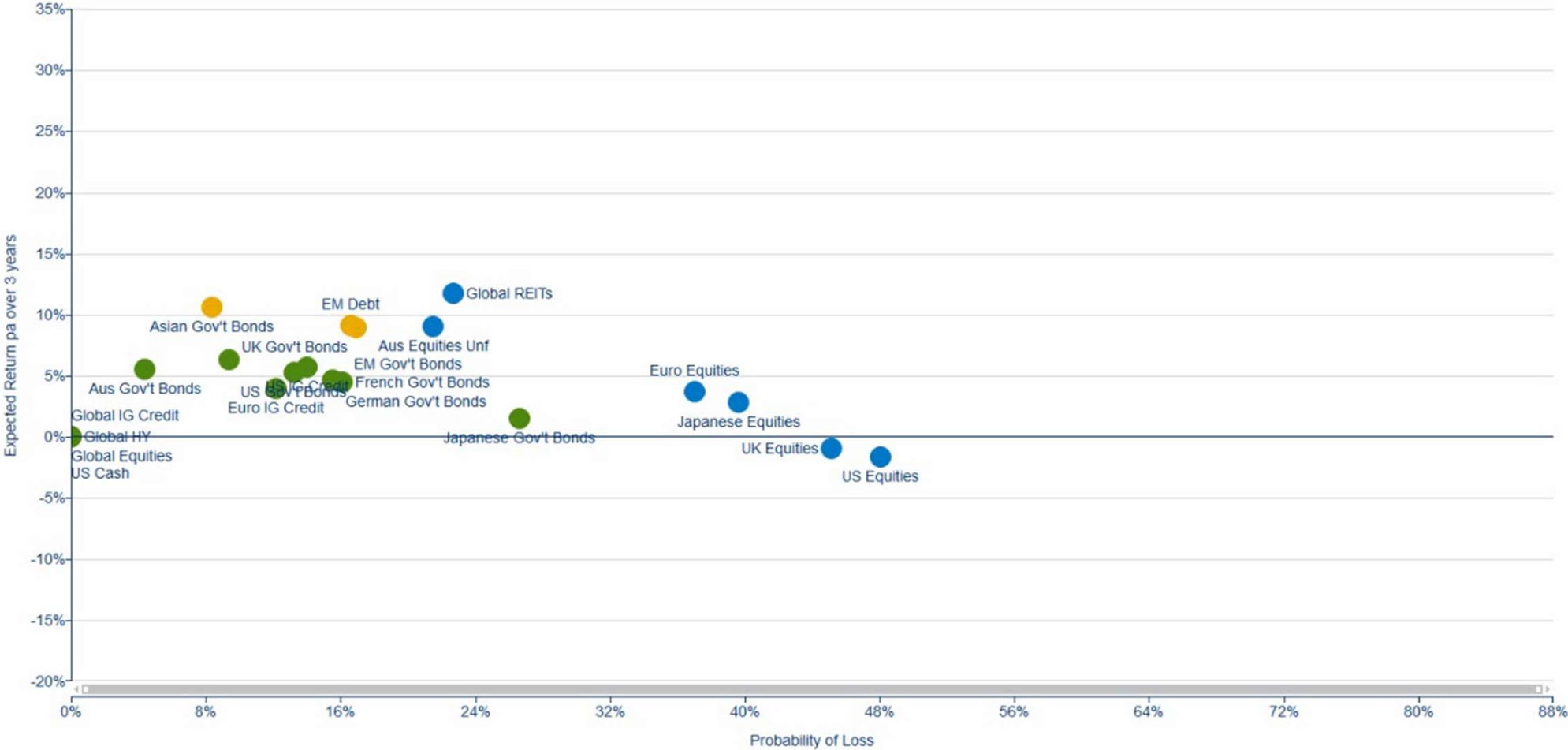
Source: Schroders. 31 March 2018. For illustration purpose only. Past performance is not indicative of future returns

# Return & risk forecasts

## Time lapse record of our monthly forecasts

The dynamic nature of both our return and risk forecasts requires a more flexible asset allocation

Expected 3Yr pa Return vs Probability of Loss



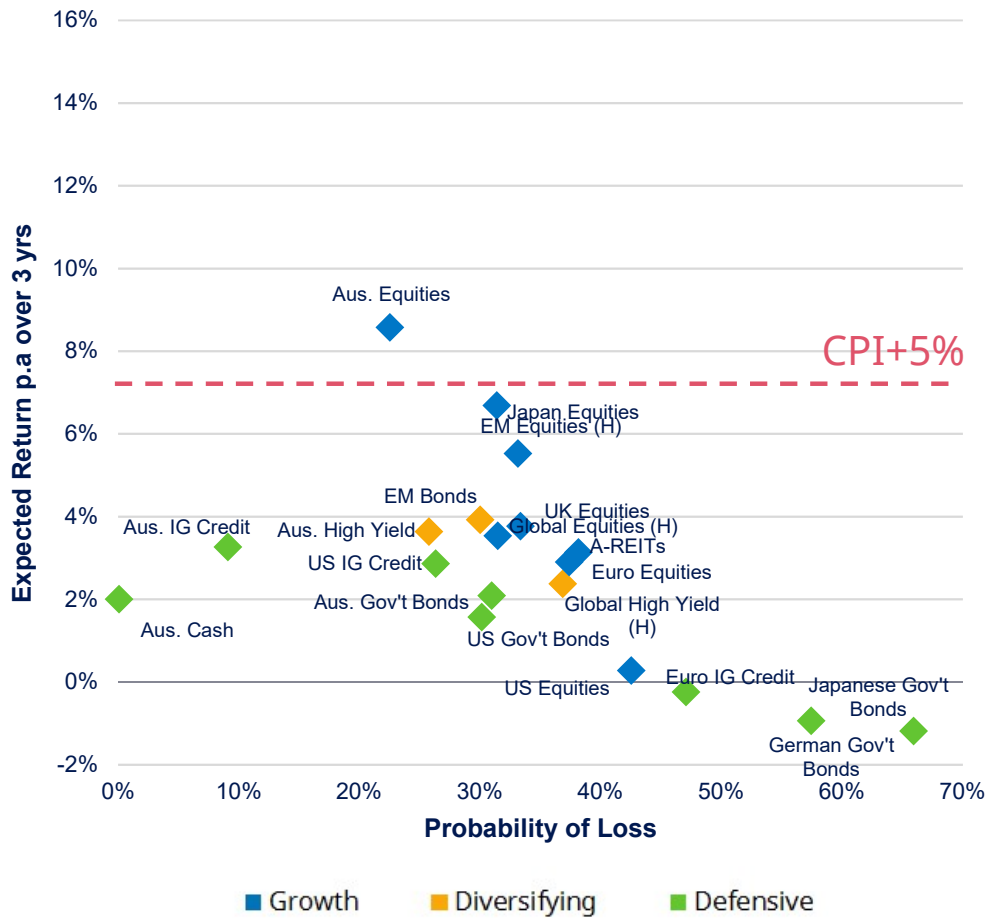
Source: Schroder Investment Management

Data as at: 24 Jul 1998

# Return and risk forecasts

## Not all risks are the same

### Return and risk forecasts



### Prob. of loss versus downside risk

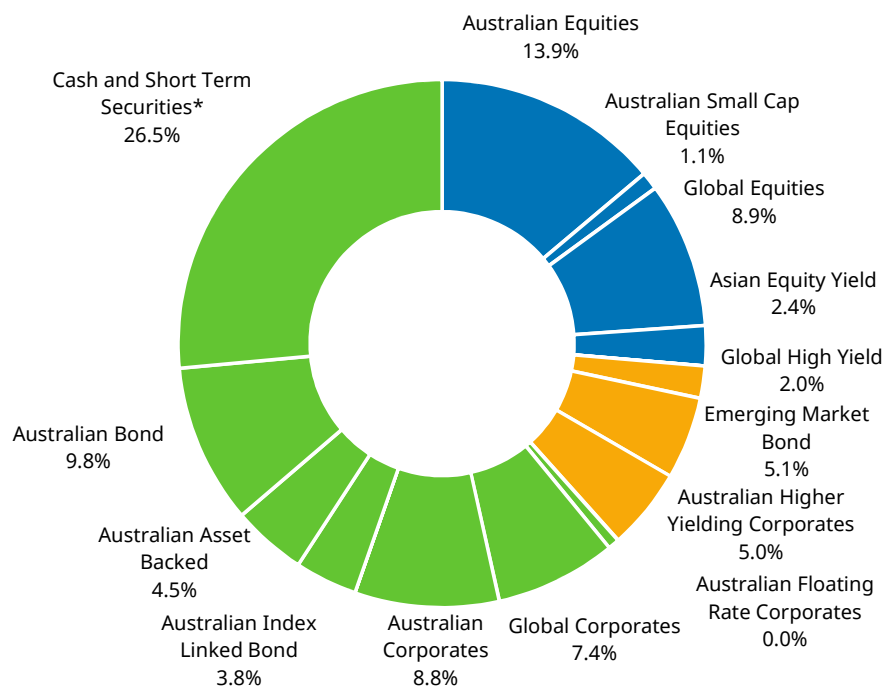


Source: Schroders as at 31 March 2018. Countries, stocks and sector weightings and returns are mentioned for illustrative purposes only and should not be viewed as a recommendation to buy/sell.

# How we are invested

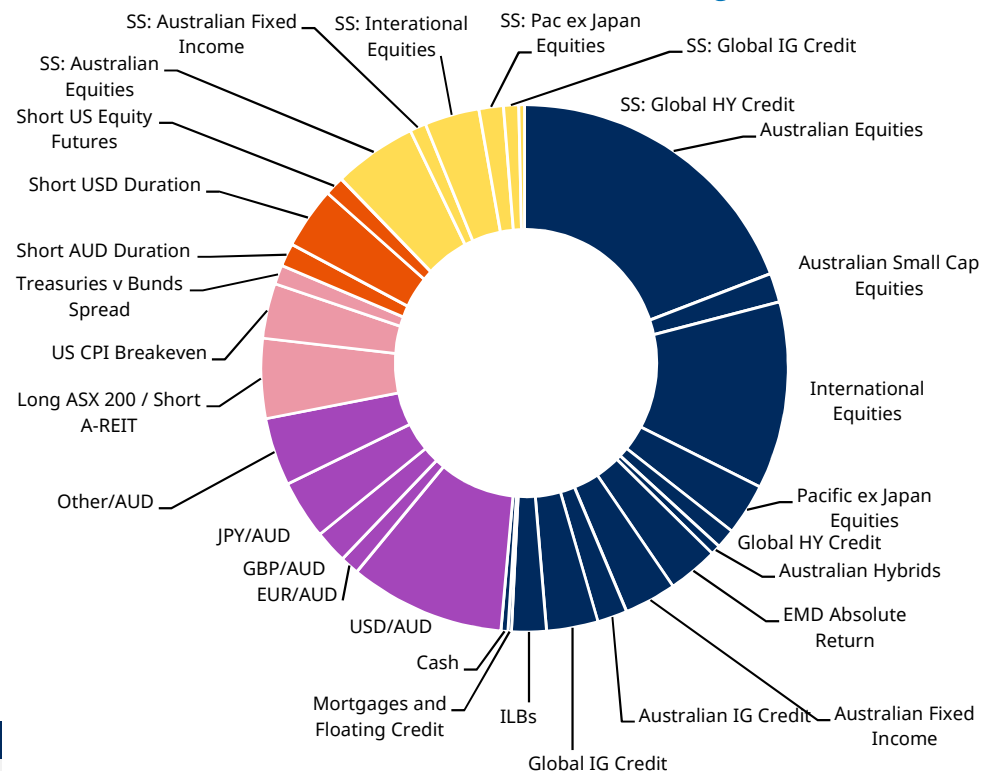
## Schroder Real Return CPI Plus 5% Fund as at 31 March 2018

### Portfolio – Capital Weights



Additional Portfolio Information			
FX Exposure:	17.4%	Duration:	0.7 yrs
USD (weighted):	7.6%		
EUR:	1.1%		
GBP:	1.5%	Implementation	
JPY:	2.7%	Internal Funds / Pools	75.8%
Other	4.5%	Direct	24.2%

### Portfolio – Risk Weights



Risk Contribution		
Market Exposure	51.4%	
FX	20.5%	
Stock Selection	12.2%	
Bond and Equity Overlays	6.4%	
RV Trades	9.5%	

Source: Schroders. \*Within the Cash and Short Term Securities component of the Schroder Real Return CPI Plus 5% Fund, 13.3% of the Fund is invested in term deposits, floating rate notes, and negotiable certificates of deposit.

# Questions?

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Thank you

Schroders

# Key views in our portfolios

## Investment outlook

Markets & Strategies	Risk management & Portfolio construction
Expect low returns from most assets.	Overall risk levels remain low. Cash weight elevated (store of value and optionality given still expensive markets).
Both global equities and sovereign bonds remain vulnerable to downside risk.	Protection through RV trades: curve flatteners and put options.
QE driven equity markets (US, Japan, Europe) most expensive.	Prefer Australia equities within relatively low overall equity exposure.
Bonds remain expensive. Fed to continue to tighten and begin reducing balance sheet.	Maintaining some duration but less than 'normal'.
Credit valuations stretched.	Have reduced exposure following spread tightening.
Short A-REIT's vs ASX 200	Protection against higher yields.
EM has been volatile. Risk remains for broader EM weakness	Exposure remains modest and selective
Long FX (mainly USD) v AUD	AUD still a good risk hedge & source of return.

Source: Schroders

# Why inflation matters

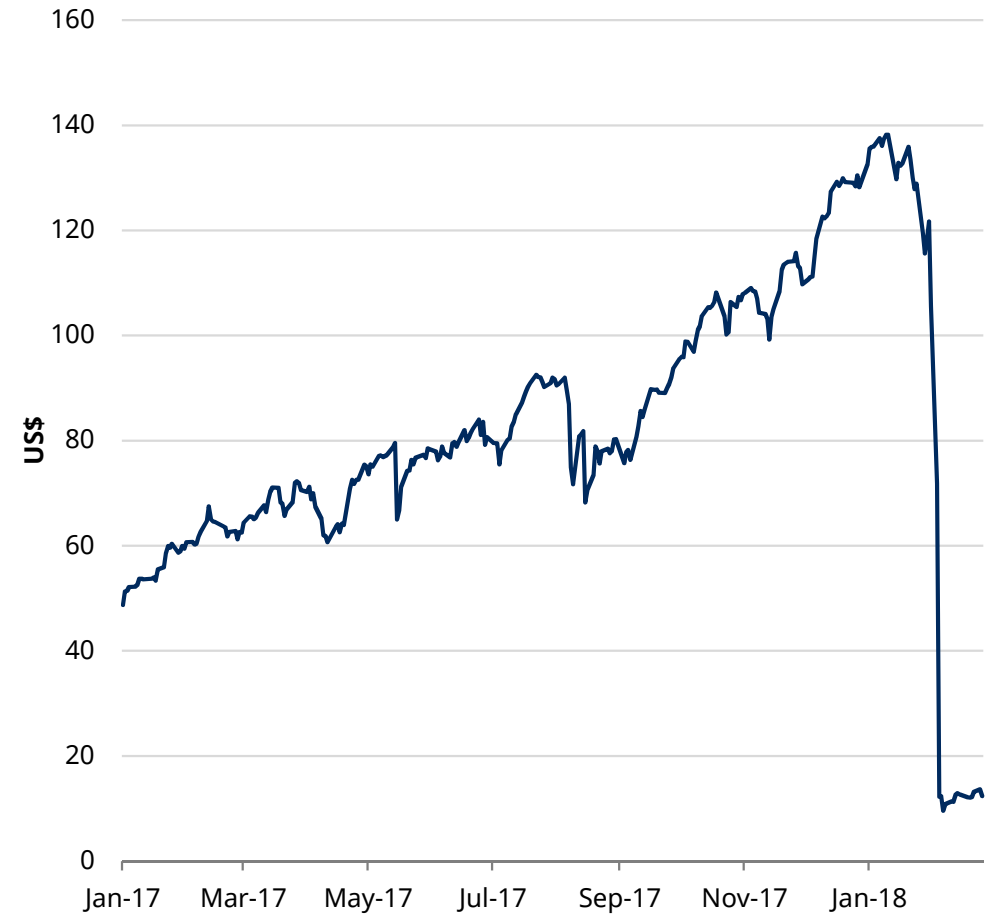
## Unwind of bets on low volatility – sudden and severe

Proshares Short VIX Short-Term Futures ETF

Market cap



Price



Source: Bloomberg

# Schroder Real Return Fund (ASX:GROW)

Focused on the things that matter



## Casting our net as widely as possible

- An objective based, diversified investment solution
- Targeting a smoother path of returns which is not reliant on a single asset class source of return



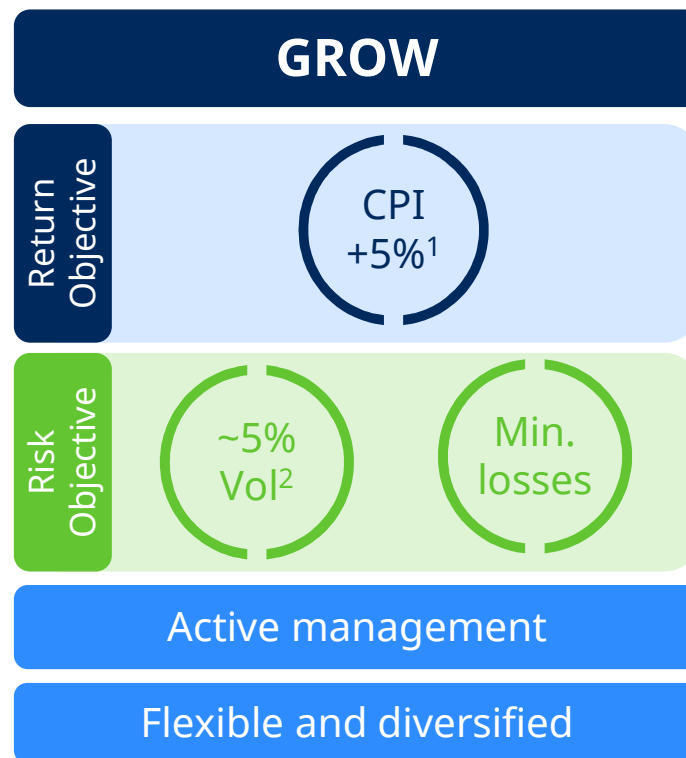
## Adaptable to different market environments

- Our dynamic asset allocation approach provides flexibility to change as markets change
- Offers both growth and downside risk management of capital



## The expertise and experience to deliver

- An experienced and award-winning team with a proven track record in objective-based investing over 8 years



Source: Schroders. Investment objectives are targets only and not guaranteed. Expected volatility and beta are an internal objective only.

<sup>1</sup> Return objective is per annum gross of fee over rolling three year periods.

<sup>2</sup> Up to 8% p.a

# Schroders investment philosophy

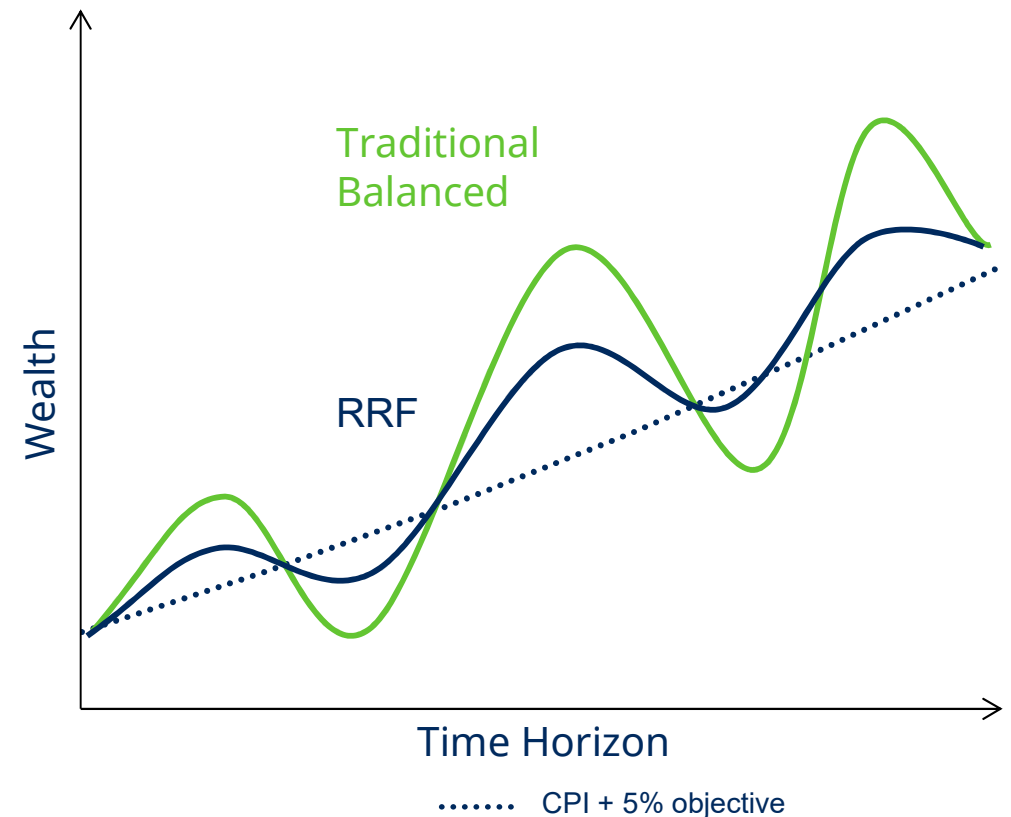
## Objective Based Investing

### Our philosophy

- Investors want returns above inflation or cash but few manage to it
- Risk is losing money, not volatility
- Minimizing drawdowns is crucial
- Valuations matter
- High conviction asset allocation needs to be responsive to changes in outlook
- Investment decisions should be framed around the objective

We continually assess investment opportunities so that the portfolio is well placed to meet our objectives whilst minimizing variability around this target.

### We manage to our return and risk objectives



Investment opportunities are continually assessed in order to meet our objectives

# Schroders' Real Return Strategy

## Our core beliefs

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**1**

**Valuations of asset classes matter just as much as for individual securities**

**2**

**Asset allocation needs to be broad and flexible – responding to changing markets**

**3**

**Risk is losing money and not meeting investment objectives, NOT volatility**

# Portfolio Risk Management

## Portfolio Management beyond Asset Allocation

### 1. Avoid

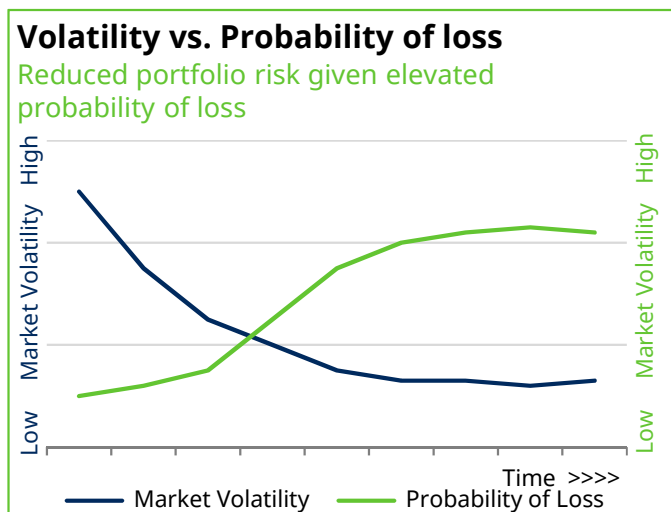
- Valuations inform us about prospective risk and returns
- Risk of loss guides risk allocation not backward looking measures of volatility

### 2. Diversify and Mitigate

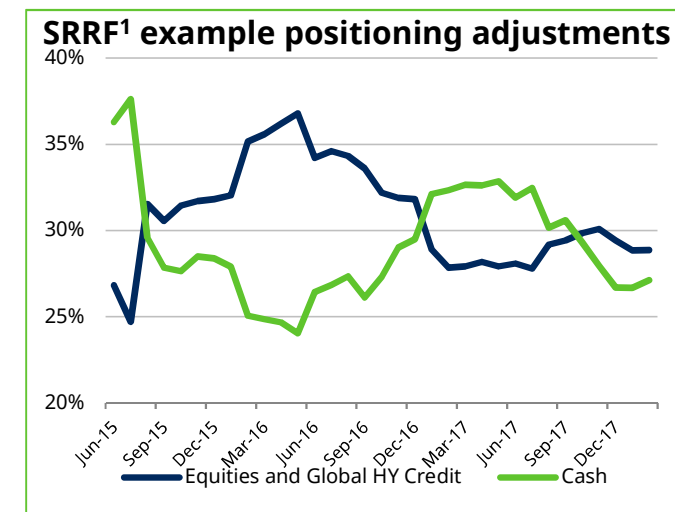
- Own assets where risk is lowest
- Normal volatility (diversification) but diversification difficult in stress environments
- Specific risk (strategy based)
- Low probability but high impact (tail risk insurance)

### 3. Re-assess

- If drawdown occurs - Why?
- Outlook changed (cut risk - but what risk?)
- Prices changed (ex ante risk may have fallen - hold or add)
- Increase in ex poste volatility is not an increase in risk



<b>Scenario Risk</b> Bund vs Treasury spread	<b>Deflation Risk</b> 0.7yr Portfolio Duration
<b>Scenario Risk</b> Short AUDUSD for China slowdown risk	<b>Recession Risk</b> USD and EUR Curve Flatteners
<b>Reach for Yield</b> Short REITs vs. market	<b>Tail Risk Hedge</b> S&P 500 Put Option



Source: Schroders, as at 31 March 2018.

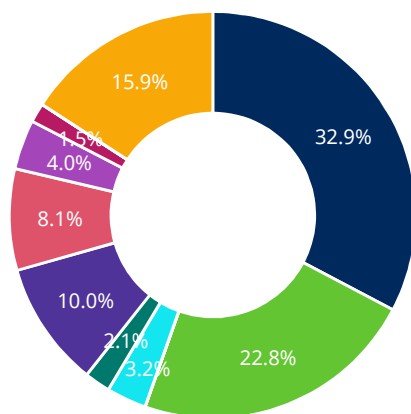
<sup>1</sup>SRRF is the Schroder Real Return Fund.

# How does this compare to a traditional portfolio?

## Focusing on client objectives

### Traditional

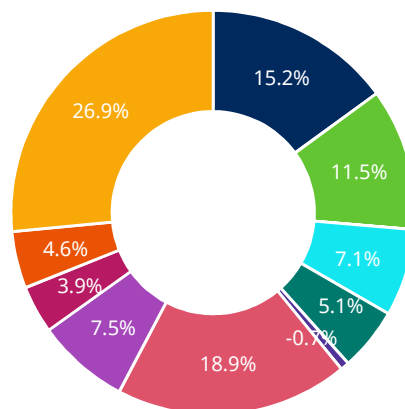
Schroder Balanced Fund



- Australian Equities
- Global Equities
- Property Trusts
- High Yielding Credit
- Emerging Market Debt
- Objective Based
- Australian Fixed Income
- Global Fixed Income
- Inflation Linked Bonds
- Mortgages and Sub-debt
- Cash and Short Term Securities

### Objective Based

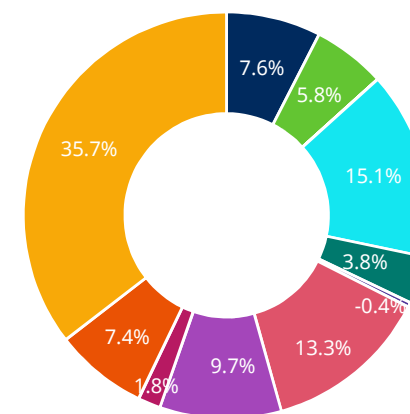
Schroder Real Return CPI Plus 5% Fund



- Australian Equities
- Global Equities
- Property Trusts
- Higher Yielding Credit
- 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

### Objective Based, lower risk

Schroder Real Return CPI Plus 3.5% Fund



- Australian Equities
- Global Equities
- Property Trusts
- High Yielding Credit
- 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

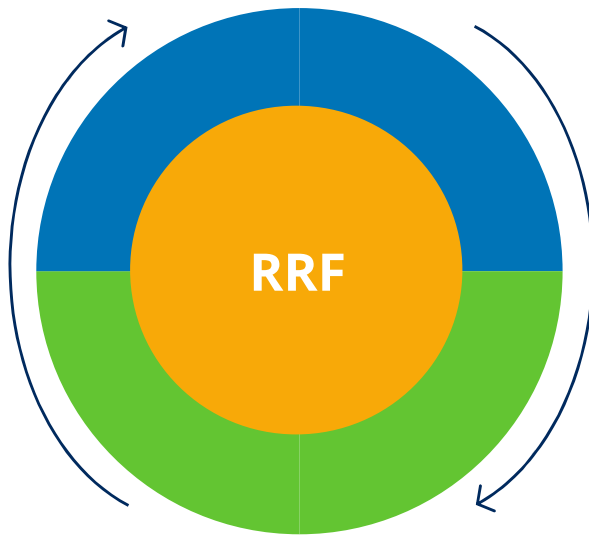
Source: Schroders.

Please note that these are indicative asset allocation only and may change, subject to market conditions and outlook, and may not add to 100 due to rounding, as at 31 March 2018.

# Where does Real Return fit in your portfolio?

A flexible, professionally managed, diversified solution

Core holding



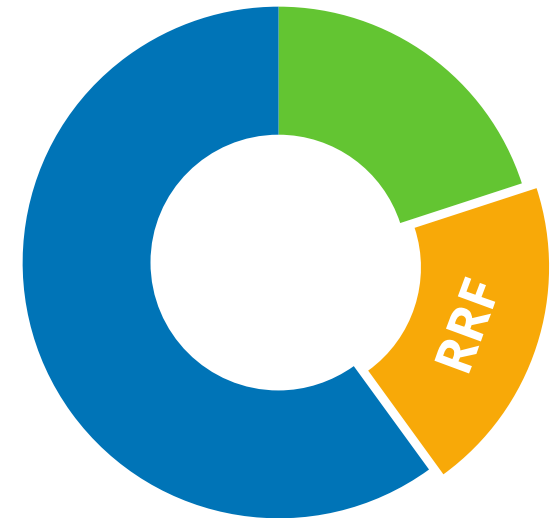
A core portfolio in a 'core satellite approach'

Portion



Replacing a portion of each asset class

Replacement/complement



Replacing/complementing alternative assets

Or a cost effective professionally managed whole of portfolio solution

# A range of Multi-Asset Solutions

## Different solutions for different objectives

	Schroder Balanced Fund		Schroder Real Return (CPI Plus 3.5%)		Schroder Real Return (CPI Plus 5%)		Schroder Real Return (ASX:GROW)	
<b>Asset Class</b>	Multi-Asset/Traditional		Multi-Asset/Objective Based		Multi-Asset/Objective Based		Multi-Asset/Objective Based	
<b>Benchmark</b>	Constrained – 60/40, Peers		None/Flexible		None/Flexible		None/Flexible	
<b>Target performance/ risk objective</b>	Max return subject to risk constraints		CPI+3.5%, min sequence and downside risk		CPI+5%, min downside risk		CPI+5%, min downside risk	
<b>Asset allocation ranges</b>	Growth	40–70%	Growth	0–50%	Growth	0–75%	Growth	0–75%
	Diversified	0–30%	Diversified	0–75%	Diversified	0–75%	Diversified	0–75%
	Defensive	10–60%	Defensive	0–100%	Defensive	0–100%	Defensive	0–100%
<b>Timeframe</b>	5 years +		3 years		3 years		3 years	
<b>Strategy</b>	Active, SAA with TAA overlays		Target return/downside risk focus, flexible AA		Target return/downside risk focus, flexible AA		Target return/downside risk focus, flexible AA	
<b>Investment phase</b>	Accumulation		Accumulation, Pre-retirement, Pension, Income/Low risk		Accumulation, Pre-retirement and Pension		Accumulation, Pre-retirement and Pension	
<b>Distribution</b>	Normally twice yearly		Aims to distribute at least the RBA cash rate quarterly		Normally twice yearly		Normally twice yearly	
<b>Availability</b>	Unlisted		Unlisted		Unlisted		Quoted on the ASX	

Source: Schroders. Investment guidelines are internal only and subject to change without notice.

# Strategy Performance

## As at 30 September 2017

### Performance across Multi-Asset strategies

Performance	1 yr	3 yrs (p.a.)	5 yrs (p.a.)	10 yrs (p.a.)	S.I. (p.a.)
<b>Schroder Balanced Fund<sup>1</sup></b>	9.3%	7.5%	10.0%	6.9%	9.0%
<b>SAA Benchmark</b>	8.4%	7.6%	9.9%	5.4%	8.3%
<b>Quartile ranking<sup>2</sup></b>	1	2	2	1	1
<b>Balanced Fund% Volatility</b>	3.7%	6.1%	5.6%	7.7%	7.0%
<b>Schroder Real Return Fund CPI Plus 5% (RRF5%)<sup>1</sup></b>	5.5%	5.3%	6.7%	-	7.1%
<b>CPI<sup>3</sup></b>	1.8%	1.9%	2.2%	-	2.4%
<b>RRF5% Real Return</b>	3.7%	3.4%	4.5%	-	4.7%
<b>RRF5% Volatility</b>	1.8%	3.1%	2.8%	-	5.0%
<b>Schroder Real Return Fund CPI Plus 3.5% (RRF3.5%)<sup>1</sup></b>	4.3%	4.3%	-	-	4.4%
<b>RRF3.5% Real Return</b>	2.5%	2.4%	-	-	2.4% <sup>4</sup>
<b>RRF3.5% Volatility</b>	1.3%	2.2%	-	-	2.1%

Source: Schroders. <sup>1</sup>Returns are displayed gross of fees for the Schroder Balanced Fund (Professional Class), the Schroder Real Return CPI Plus 5% Fund (Professional Class), the Schroder Real Return CPI Plus 3.5% Fund (Institutional Class) as at 30 September 2017. Past performance is not a reliable indicator of future performance. Inception of the Schroder Balanced Fund (Professional Class) is 23 August 1996. Inception of the Schroder Real Return CPI Plus 5% Fund (Professional Class) is 1 October 2008. Inception of the Schroder Real Return CPI Plus 3.5% Fund (Institutional Class) is 5 March 2014. <sup>2</sup>Quartile ranking data based on Morningstar as at 30 June 2017. <sup>3</sup>CPI is measured by the RBA Trimmed Mean as published by the ABS until 30 June 2017. <sup>4</sup>CPI return since inception of the Schroder Real Return Fund CPI Plus 3.5% was 2.0%.