

Schroder Real Return

Quarterly Investment Option Update

31 March 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

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	10.0%
Global Equity	15.2%
Property	0.0%
Absolute Return	0.7%
High Yielding Credit	6.7%
Asian Credit	2.4%
Emerging Market Bond	5.7%
Australian Fixed Income	25.2%
Australian Inflation Linked	4.9%
Global Fixed Income	5.8%

Investment Option Commentary

March was a wild ride on a range of fronts and fortunately now behind us. The Schroder Real Return Strategy was relatively well positioned and was able to absorb some, but not all, the volatility.

In terms of specific contributors, the biggest positive contribution to returns in March was their FX position – with their short AUD positioning (especially against the USD) contributing around +0.5% to returns in March and around +1.75% to performance in the quarter. While March was a volatile month for interest rates as the RBA and other central banks cut rates and stepped up their QE programs, duration made a small positive contribution to returns in March but around +1.2% to returns during the quarter.

Most asset prices tumbled in March and across the quarter with equities and higher yielding / higher risk credit performing poorly. While our exposures were relatively modest to both, the extent of the falls in the underlying markets dragged returns down. For the quarter to March, the decline in equities was the biggest detractor, contributing around –5% to the return. The dramatic widening in credit spreads cost another -2.5%. Credits' problems in March were compounded by the collapse in the oil price which put additional pressure on the energy component of the key global credit indices (especially high yield).

Market Commentary

The month and the quarter were dominated by the pandemic. In January the investment learnt that a novel coronavirus had begun to infect citizens of Wuhan in China. As Chinese authorities responded to the outbreak by locking down provinces and extending the New Year holidays, they saw bond markets respond to the hit from growth via weaker Chinese activity, while risk assets generally held based on the assumption that the virus would be contained in China. Realisation that the virus was spreading globally, and a better understanding of the economic cost of social distancing required to mitigate the spread, saw risk assets fall sharply in March. Authorities also stepped into the fray, with a combined fiscal stimulus of around US\$5 trillion and central banks lining up to buy US\$7 trillion of financial assets through quantitative easing (QE).

Outlook

Equity markets plunged in March albeit ending the month well off their lows. Australia was a relatively poor performer during the month (-21.5%). The US market posted losses of around 12.5%, while markets in Asia (including Japan) posted significant but more modest losses. Volatility was extreme during the month. The key VIX index peaked at 82 in March, at the same point the S&P index was 25% below where it started the month. For reference this was above the levels recorded during the GFC. By month end volatility had moderated but remained at an elevated 55.

While overall value (and prospective returns) across the equity universe have improved, the impact on corporate earnings make the extent to which value has improved unclear. Notwithstanding this Australia remains their preferred market, partly because it has underperformed, but partly because the investment manager are seeing more positive signs around the containment of Covid-19.

Central banks globally adopted the “whatever it takes” mantra in March cutting rates and embarking on renewed QE programs to inject liquidity and confidence back into markets. Notably, the RBA was amongst the most aggressive Central Banks, cutting rates by 50 bps to 25 bps and commencing QE through direct bond purchases and yield targeting (predominately at the front end of the curve). While front ends rallied, there was significantly more volatility at the back end of curves as investor also sought liquidity in the sovereign market. From a credit perspective it was clearly a very tough month. Credit had appeared to lag equities during the last week of February but caught up quickly. Adding to weakness in credit has been the collapse in the oil prices which has put substantial pressure on energy producers who are well represented in the global high yield bond market.

Currency volatility was also extreme in March as the safe haven attraction of the USD dominated. The AUD fell sharply (at one point briefly falling below USD 0.56) before recovering towards month end.

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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