# Schroder Real Return

## Quarterly Investment Option Update

30 September 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:
www.amp.com.au/performance

## Investment Option Overview

| | |
|---|---|
| **Investment Category** | Multi Sector (Specialist) |
| **Suggested Investment timeframe** | 5 years |
| **Relative risk rating** | 5 / Medium to high |
| **Investment style** | Active |
| **Manager style** | Single Manager |

| Sector Allocation | % |
|---|---|
| Australian Equity | 15.5 |
| Global Equity | 11.9 |
| Property | 0.0 |
| Absolute Return | 0.0 |
| High Yielding Credit | 11.3 |
| Asian Credit | 3.6 |
| Emerging Market Bond | 5.0 |
| Australian Fixed Income | 20.1 |
| Australian Inflation Linked | 5.0 |
| Global Fixed Income | 9.1 |
| Cash & Cash Equivalents | 18.5 |

## Investment Option Commentary

The Schroder Real Return strategy returned -0.31% (pre-fees) in September, taking the quarter and rolling one-year return to 0.68% and 1.01% (pre-fees) respectively. While the 1-year return is below the target of real 5%, this compares to a fall of -13.6% in the ASX 200 over the same period. Volatility and downside risk remain low and consistent with the strategy's objectives.

FX was the largest positive contributor in September, adding roughly 0.4% to overall portfolio returns, with a rebound in the USD helping to drive FX returns. Duration also added 0.1% to returns, while their S&P 500 options also made a moderate positive contribution. Over the quarter, the main positive drivers of returns were split across Equities, Credit and Duration. Within Equities, Global Equities were the primary positive contributor adding 0.4% to returns, while in Duration, their AUD holdings were the largest contributor adding 0.2% to returns.

The main detractor to returns in September was Equities, as a pullback in risk markets saw Equities weigh down portfolio returns by -0.7%. Within the Equities figure, a large part of this detraction coming from Australian Equities which underperformed Global Equities. Credit spreads were a more moderate detractor over the month, taking -0.2% off returns. Stock selection in both Australian and Global Equities was another detractor as value stocks underperformed growth stocks, while their S&P 500 put options were also a small drag on returns.

## Market Commentary

Key positions as follows:

- The investment manager is cautious but not bearish on risk position, largely due to liquidity and policy support and the fact that in equities the extremes of valuation are concentrated and not uniform;
- within equities, they are biasing toward the more attractive segments of the market like Australian equities and value to growth as a style bias;
- where possible they aim to find high quality “carry” in preference to cash – albeit they are becoming scarcer;
- They are looking for and making investments in areas where there is a structural and underinvested risk premia (like Commercial Real Estate lending) and other selective alternative investments;
- They are diversifying away from broader corporate risk in developed economies and into markets like Asian credit and US securitized debt which provide high quality exposure to the US consumer; and

## Outlook

**Equity**

While the investment manager remains cautious on Equity markets given the extended valuations and uncertainty around the upcoming US selection, they have used the pullback in September to add about 2% to their Equities exposure taking the overall allocation to 27.5%. They also sold some out of the money S&P 500 Put Options, which allows us to collect a premium while the CBOE Volatility Index (VIX) is still trading at a relatively high level of around 30. This should enable us to effectively buy back into the market should the S&P 500 fall to the 3000 mark.

**Fixed Income**

Australian bonds were one of the standout performers during September, as both shorter and long end yields moved lower on the back of a speech by RBA deputy governor Guy Debelle flagging the potential for the RBA to provide further easing. Bond markets are now anticipating a further rate cut to 10 bps and potentially further quantitative easing. Global bond yields also rallied through September, albeit to a smaller extent than Australia. Credit and emerging market debt spreads widened over the month in conjunction with the pullback in equity markets.

Over the month the investment manager had made a few changes to their fixed income positions, though overall portfolio duration remains at 1.75 years. They added moderately to their credit exposure, spread out across investment grade, high yield and securitised, in order to seek some additional yield.

**Currency**

The USD recovered some of its losses over the last few months, as a broader sell-off in risk assets resulted in safe haven currencies like the USD and JPY outperforming. The investment manager have flagged that a possible rebound in the USD was possible given the accumulation of short speculative positions, however their medium term view is for the USD to continue to weaken as it remains overvalued against other developed market currencies (with the exception of the AUD), while the Fed's accommodative stance is also likely to be supportive of a weaker dollar.

## 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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