Schroder Real Return

Quarterly Investment Option Update

31 December 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/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	15.47
Global Equity	12.51
Absolute Return	0.02
High Yielding Credit	12.49
Insurance Linked Securities	2.48
Asian Credit	4.96
Emerging Market Bond	4.99
Australian Fixed Income	16.35
Australian Inflation Linked	3.19
Global Fixed Income	10.05
Cash & Cash Equivalents	17.48

Investment Option Commentary

The Schroder Real Return CPI Plus 5% Fund returned 0.7% (pre fees) for the month of December and 5.0% (pre fees) for the quarter. For the 1-year and 3-year periods ending December 2020 the fund has returned 5.1% and 4.8% p.a. respectively.

Equities were the largest positive contributor in December, adding 0.9% to overall portfolio returns for the month and 4.0% for the quarter. Emerging market equities were the largest contributor adding 0.44% for December, followed by US (0.19%) and Australian equities (0.16%). Over the December quarter Australian equities provided the largest positive contribution of 1.92%. A tightening of credit spreads added an additional 0.3% to returns for the month and 1.1% for the quarter, while their relative value trades, insurance linked securities and S&P options positions also made a modest positive contributions.

The main detractor to returns in December was FX as the Australian dollar continued to rally. FX detracted by -0.6% for the month and -0.7% for the quarter. Duration position was flat in December but was negative over the quarter, while stock selection in Australian Equities detracted in December

Market Commentary

In December, risk assets continued to grind higher on the back of more positive vaccine news. The US Food & Drug Administration (FDA) granted emergency use of the Pfizer and Moderna vaccines and the UK became the first to authorise the AstraZeneca vaccine. China authorised another vaccine candidate and aims to vaccinate 50 million people by February. As of the time of writing, over 13 million doses of vaccines have been administered across 33 countries. The US alone has already inoculated 4.7 million citizens. While this falls far short of the 20 million goal set by the Trump administration, it was sufficient enough for markets to see light at the end of the tunnel.

The positive vaccine news allowed markets to look through the increasingly worrisome virus mutation emanating from the UK and South Africa. The new mutation has been found to be up to 70% more transmissible than the usual strain, implying an R0 between 1.5 and 1.7. Reassuringly, The market took this news in its stride as the World Health Organization (WHO) stated that current vaccines appear to be effective against this new strain. While Schroders can all breathe a sigh of relief, it is perhaps complacent to say Schroders can fully look through this development.

The markets breathed a sigh of relief as the US electoral college system did not buckle under pressure. Despite multiple lawsuits and continued attempts to uncover fraud and impropriety, states certified their results and ultimately voted on December 14th in line with expectations, delivering a Biden & Harris victory. In 2016, 10 electors voted against the will of the people, but surprisingly, there were no faithless electors in 2020. With democracy saved, the market moved forward with the belief that a Biden presidency will deliver stability in 2021.

Outlook

Equity

Given the strong market moves in November and the continuation into year end, the Manager's expected returns for equities have fallen. Therefore, Schroders reduced their equity weight by 3% down to 28%. This was implemented through equal reductions in their allocations to global valuation biased equity strategy , US and Australian equities. Schroders have maintained their tilt towards emerging markets and US small capitalisation equities, as Schroders believe these markets will outperform through the recovery phase. With their December 2020 sold puts expiring, Schroders combined the equity sale with selling additional out of the money put options to earn a premium. The portfolio continues to hold put option protection strategies spreads to buffer the fund from small to medium sized market corrections.

Fixed Income

During December, Schroders reduced their overall portfolio duration by 0.5yrs down to 1.25yrs, predominantly through selling US treasury futures. With US 10-year yields below 1%, there is limited room for treasuries to rally. Inflation expectations continue to rise, and are estimated at 2%. With a real yield of -1%, US treasuries are becoming increasingly unattractive. While Schroders believe central banks will ultimately implement a version of yield curve control, the risk remains for yields to gradually rise. The Fed has highlighted their intentions to let inflation run above their target, so for now Schroders reduce their exposure to duration.

Availability

Product Name	APIR Code
AMP Flexible Super - Super	AMP1866AU
AMP Flexible Super - Retirement	AMP1870AU
CustomSuper	AMP1850AU
Flexible Lifetime - Super	AMP1850AU
Flexible Lifetime - Allocated Pension	AMP1854AU
SignatureSuper	AMP1858AU
SignatureSuper Select	AMP1858AU
SignatureSuper - Allocated Pension	AMP1862AU

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