

Schroder Real Return Fund (Managed Fund) ASX Code: GROW

Monthly Report - November 2016

For more information about the Fund visit www.schroders.com.au/grow

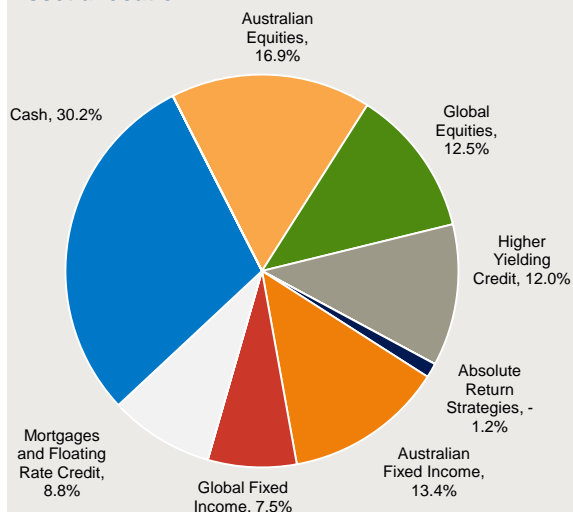
Total return %

Schroder Real Return Fund (Managed Fund) (pre-fee)
Schroder Real Return Fund (Managed Fund) (post-fee)*

	1 mth	3 mths	6 mths	1 yr	3 yrs p.a.	Inception p.a.
Schroder Real Return Fund (Managed Fund) (pre-fee)	0.85	1.00	-	-	-	1.50
Schroder Real Return Fund (Managed Fund) (post-fee)*	0.78	0.78	-	-	-	1.22

Portfolio inception 09/08/2016, 0 years and 3 months

Asset allocation



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.

RBA CPI Trimmed Mean* as at 30 September 2016

3 months	0.35%
6 months	0.89%
1 year	1.74%
3 years. p.a.	2.11%

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

Portfolio refers to investment in the Schroder Real Return Fund (Managed Fund)

Unless otherwise stated figures are as at the end of November 2016

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

Portfolio review

The Real Return Fund (ASX: GROW) had a solid month delivering a return of 0.85% in November. While intra month volatility was high, the "surprise" victory of Donald Trump in the US presidential election fuelled the reflation trade that had begun in the September quarter. The most notable move was in bond yields. US Treasury yields set the tone for a continuation of the sell-off in bonds more broadly and the spill-over of this into yield "proxies" such as A-REITs and defensive industrial stocks. On the other hand, it was good news for bank stocks because steeper yield curves improve perceptions about their outlook. Resources also performed strongly, reflecting stronger commodity prices on the back of improved data in China and in anticipation of strong commodity demand in the US due to an expected infrastructure spending spree.

Outlook and strategy

While we had not expected a Trump victory, the idea that inflation risks were on the rise and central-bank suppression of bond yields had gone too far were important themes we had increasingly reflected in the portfolio. The most visible representation of our thinking in this regard has been our relatively high cash holding – a position for which, we have at times been criticised. We've held this position largely because we felt bond yields were too low and would eventually lead to losses for bond holders. Our thinking was that cash offering a modest, but certain, positive return was preferred to inevitable losses on bonds. We didn't profess to have any great insight into the likely catalyst, other than that we felt central banks (particularly the Federal Reserve) would be forced to reassess their rhetoric and their policy stances as inflation responded to tighter labour markets and more stable, or higher, oil prices. The pre-conditions were there, we just needed a catalyst. Along came Trump!

Since their trough in July, US 10-year bond yields have risen by over 1% (an 80% increase in yields from their level in July). Australian bonds have followed suit, rising by a similar amount since their trough at the start of September and resulting in losses at an index level (Bloomberg AusBond Composite Index) of 2.9% over the intervening period. While value is starting to be restored, there is still a significant mismatch between the level of yields and the economic parameters to which they should align. It is in our view too early to be buying bonds. But certainly the veracity and size of the sell-off highlight how quickly asset prices can move. The opportunity may be sooner than had been anticipated only a month or two ago.

Consistent with this thematic has been the idea that the broader yield play (anything with a decent yield gets bid up) is at an end. We've been avoiding A-REITs, selling high-yield bonds and adding positions that enable us to profit from this view. "Breakeven" inflation positions (buying US inflation-linked bonds and selling US Treasury futures) and buying Australian resource sector futures against A-REIT futures have been important alpha-generating positions for us. Likewise, we've maintained exposure to the active Australian equity portfolio, which has reflected these themes from a stock- and sector-selection perspective.

The US dollar has been a notable mover since the US election. This, together with concern over the impact of a significantly more protectionist US administration, has hurt emerging markets. While value in emerging markets has improved as a consequence, we remain cautious.

Post-fee performance of other Real Return products offered by Schroders

	1 mth	3 mths	6 mths	1 yr	3 yrs p.a.	mFund Code
Schroder Real Return CPI Plus 3.5% Fund Wholesale*	0.66	0.75	2.14	4.34	N/A	SCH12
Schroder Real Return CPI Plus 5% Fund Wholesale*	0.96	1.01	2.48	5.17	4.80	SCH11

*Both funds on offer are unlisted. An application into these funds may be made through an application form attached with the PDS, which is available on our website at www.schroders.com.au. The management fee for the Schroder Real Return CPI Plus 3.5 % Fund (Wholesale Class) is 0.60% and for the Schroder Real Return CPI Plus 5% Fund (Wholesale Class) is 0.90%.

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Outlook and strategy continued

It is fair to say that a lot of what has been noted above reflects more of what we don't like as opposed to what we do like. This is the reality of a world in which yields are low and risk premiums are narrow. True, some markets have moved but, for context, bond yields are only back in many cases to where they were at the start of the year. They are still well below the levels they were trading three years ago. Context is important. It is also important as we are yet to see the impact of higher bond rates on broader equity-market valuations and investor behaviour. In addition, the initial enthusiasm for the pro-cyclical growth boost for equities is likely to wain as investors eventually digest the reality of the uncertainty and consequences of a Trump presidency.

It is early days. Patience is still warranted and is likely to be well rewarded.

Fund details

ASX Code	GROW
Fund size (AUD)	\$22,356,562
ASX Quoted Price	\$3.5426
Fund inception date	August-2016
Management costs	0.90%
Distribution frequency	Normally twice yearly - June and December

Unless otherwise stated figures are as at the end of November 2016

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.

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