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

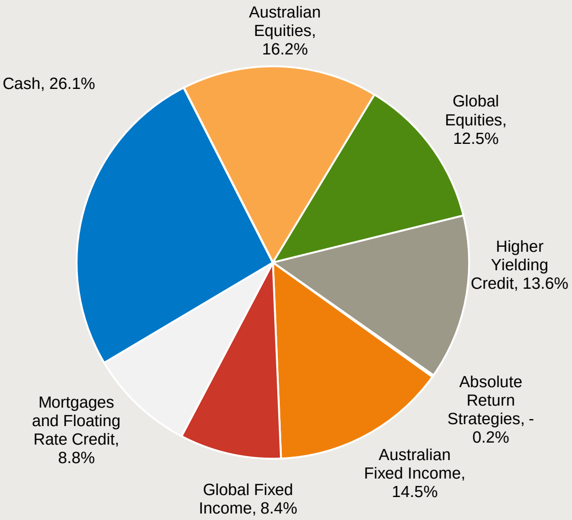
Monthly Report - August 2016 — For more information about the Fund visit www.schroders.com.au/grow

Total return %	1 mth	3 mths	6 mths	1 yr	3 yrs p.a.	Inception p.a.
Schroder Real Return Fund (Managed Fund) (pre-fee)						0.49
Schroder Real Return Fund (Managed Fund) (post-fee)*						0.44

Portfolio inception 09/08/2016.

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

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 June 2016

3 months	0.51%
6 months	0.75%
1 year	1.66%
3 years. p.a.	2.19%

*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 August 2016

Portfolio review

August was the inaugural month for the Schroder Real Return Fund (Managed Fund) with the Fund incepted on August 9th and quotation on the Australian Securities Exchange beginning August 16th. This is an exchange quoted version of our long running Real Return CPI +5% strategy and our investment views are consistently reflected across the funds.

August was an unremarkable month, equities declined modestly, bond yields edged higher and the Australian dollar has remained by and large range bound. Consistent with this, the Fed continued to dither with the Jackson Hole get together seemingly confirming the Fed's reluctance to adjust US monetary policy. Overall market volatility remained very low and the critical questions on the minds of investors remained unanswered. That said, some of the pressure points we have been highlighting in recent months have shown some tentative signs of bubbling to the surface and need to be watched carefully.

Against this backdrop, the Schroder Real Return Fund produced a positive post-fee return of 0.44% since its inception.

There were several factors contributing to this positive outcome in August. The most significant positive contribution came from credit and was particularly evident in global high yield where spreads continued to narrow. Also contributing significantly in August was stock selection in Australian equities, where in broad terms the materials sector outperformed sectors such as healthcare, utilities and A-REITs, the latter a sector we have not liked for some time. The positive contribution from stock selection significantly offset the drag on performance from the modest decline in the overall market. Small contributions from global equities (both at an asset allocation and stock selection level), currency and cash also helped.

The overall position of the Portfolio is defensive although we still seek broad diversification across equity markets, high yield, investment grade credit and government bonds. In addition, a significant (over 25%) portion of the Fund is currently held in cash. As an objective based multi asset investment strategy, the positions held in the Fund are a direct result of our views on return, risk and overall fund outcomes rather than any fixed asset allocation benchmark. Summary asset allocation is provided monthly in this report along with detailed commentary around specific positions and changes. As per ASX disclosure guidelines we will also disclose the full portfolio holdings on a quarterly basis with a two month lag. Our full portfolio as at 30 September 2016 will be disclosed on 30 November 2016.

Outlook and strategy

We remain of the view that the Fed's intransigence with respect to US monetary policy is a key cause of suppressed asset price volatility and the mispricing of risk in global asset markets. The much anticipated Jackson Hole conference proved a non-event, with the Fed providing more evidence that it simply painted itself into a corner with respect to US rate adjustments. The preconditions they seemingly require (a stable global backdrop, limited market volatility and strong US data – especially payrolls) immediately preceding an appropriate FOMC meeting may not ever occur. US data in August was pretty good (sure the manufacturing ISM and payrolls were on the softer side) but the things that had been muted in Q2 have rebounded. Consumption remains solid and production is recovering. A rebound in US earnings in coming quarters would start to make the gap between rates and the economy even wider than would seem justifiable with upside risk to bond yields.

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

	1 mth	3 mths	6 mths	1 yr	3 yrs p.a.	M Fund Code
Schroder Real Return CPI Plus 3.5% Fund Wholesale*	0.56	1.38	4.51	3.46	N/A	SCH12
Schroder Real Return CPI Plus 5% Fund Wholesale*	0.50	1.46	5.49	3.39	5.11	SCH11

*Both funds 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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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.

Fund details

ASX Code	GROW
Fund size (AUD)	$20,542,935
ASX Quoted Price	$3.5153
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 August 2016

Outlook and strategy continued

On this point, it is worth highlighting the poor performance of A-REITs in August (-2.8%) amid a relatively small rise in bond yields. We maintain that interest sensitive securities are particularly vulnerable should bond yields rise (even moderately) and these are areas we think should be avoided (or at worst limited) in a medium term context. The flip side of this was relatively good performance of the materials and energy sectors in August. Our relative position in these sectors has hampered performance for some time, but this is now starting to contribute. It's early days, but a positive nonetheless.

These factors have been particularly relevant in our thinking around portfolio construction and in particular our overall appetite for risk. Specifically, we believe valuations for equities in general are "full" in a cyclical context, but not stretched. While this implies moderate future returns and some limits to the upside, from a valuation perspective at least they are not overly vulnerable. The downside risks to equities though are threefold. The first is that valuations are being elevated by low discount rates and extended valuations in bond markets. This makes them susceptible to rising yields, both in an aggregate sense and especially for those sectors that have benefitted the most from a yield based revaluation. Secondly, and related to this is the fact that central banks generally have used both policy (action and inaction) as well as rhetoric to suppress volatility in markets. This has worked so far because growth has been moderate (positive but moderate) and inflation low. Any change to this dynamic (particularly via higher inflation) should prompt a re-pricing of risk (appropriate in our view). The biggest risk though is invariably recession, either at a macro-economy level or in profits specifically. While this is not the most likely scenario in our view, the risks of this scenario unfolding are not low.

The bottom line is that while we think there's some upside to equities there's plenty of downside. In an objective based environment where downside risks matter, a cautious approach is warranted. We have held our equity exposure fairly constant of late, but maintained some put options to provide additional protection to the downside. We've taken additional risk in credit across the curve and this has been rewarded albeit credit spreads have narrowed and capital gains from credit delivered in the form of both lower aggregate yields and tighter spreads, have probably already accrued. That said, in the absence of recession we see credit as a carry story now rather than one to look to for outsized returns.

In terms of position changes in August there are two worth highlighting. Firstly, we added a long Yen and a long Sterling position to the portfolio. This was driven by strong valuation support and motivated by diversifying some of our FX exposure away from the USD. Secondly, we closed out the modest long UK equity position following the strong performance of the broader UK market post the Brexit referendum and the sharp decline in GBP.

Overall though not much has changed so our broader portfolio positioning and strategy remains in place.

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