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

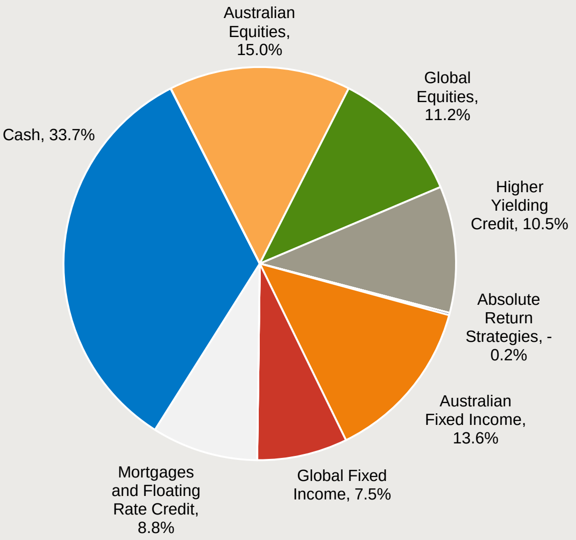
Quarterly Report - March 2017 **For more information about the Fund visit www.schroders.com.au/grow**

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)	0.82	1.31	3.40	-	-	4.24
Schroder Real Return Fund (Managed Fund) (post-fee)*	0.74	1.09	2.94	-	-	3.65

Portfolio inception 09/08/2016, 0 years and 7 months

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 31 December 2016

3 months	0.45%
6 months	0.81%
1 year	1.63%
3 years. p.a.	1.99%

*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 March 2017

Portfolio review

The Real Return Fund (ASX:GROW) had a solid month delivering a return of 0.7% (post-fee) in March, seeing a quarterly return of 1.1% (post-fee). Performance over the quarter was driven by the strong performance of risk assets and by the strategy's exposure to the reflation theme. More recently, while risk assets have continued to perform strongly, the reflation theme has lost all of its momentum. The quarter saw a strong contribution from equities and higher yielding credit. Falling bond yields also led to a positive contribution from the strategy's fixed income exposure. Currency exposure resulted in a small detraction, with the Australian dollar rising, seeing a loss on our foreign currency holdings.

Outlook and strategy

The last year has seen a major sea change in views around the outlook for inflation. It was only the start of last year when markets were gripped by fear of a deflationary spiral, seeing equity markets plunging and bond yields falling sharply. The second half of last year saw the mantra switch to reflation, with equity markets and bond yields rising. We were not surprised by this sea change as it was driven by the impact of the volatility of oil prices on global inflation, and the market participants' tendency to extrapolate the recent inflation experience.

The plunge in oil prices from $US100 per barrel to a low of $US25 per barrel in February last year had an outsized impact on inflation. The sharp fall in oil prices detracted significantly from annual inflation figures and resulted in global deflation early last year. However, for this detraction to have continued, oil prices needed to continue to fall. Instead of falling further, oil prices rose, reaching the current level of around $US50 per barrel in July, a 100% rise in oil prices. This had a significant positive impact on inflation. However, this effect has now peaked and will drop out of the equation relatively quickly from here. The future of inflation will now be driven by the tightness of global labour markets and the impact on wages. This is especially the case for the US where estimates suggest that any further falls in the unemployment rate would lead to growing wage and inflation pressures.

Markets also got a kick along with the election of President Trump, with the focus on his platform of tax cuts, deregulation, and infrastructure spending; his more protectionist views seem to have been discounted by markets. It also saw a release of "animal spirits" with surges in business and consumer sentiment, an ingredient missing since the GFC. However, his administration has so far disappointed markets, not by protectionist activities, but due to the perceived slow start to the "good" parts of his agenda. This was seen most starkly in the Republican's inability to rewrite Obama's health care legislation last month. For us, this isn't a big issue, as the US system, with its various checks and balances, is designed to prevent rapid, large-scale change. Changes just take time.

So far the jump in animal spirits hasn't been replicated by the hard data, especially in the US where the first quarter looks to have seen a weakening. However, given the leads and lags it is still highly likely we see stronger global economic growth later this year. This, combined with modest upward inflation pressures, will see strong nominal growth and profitability.

The difficulty we have with this rosy outlook is that markets seem to have already priced it in, with valuations across the various asset classes relatively rich. The return outlook across all the markets we forecast is quite modest, and the dispersion of expected returns from early last year has mostly disappeared, limiting any existing pockets of value. The risk is disappointment, if we are wrong and the lift in confidence is not sustainable in light of the slow political progress, or if President Trump moves to implement his more protectionist agenda (trade is one area the restrictions on the President are relatively light).

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*	0.49	0.76	2.55	6.19	N/A	SCH12
Schroder Real Return CPI Plus 5% Fund Wholesale*	0.80	1.18	3.35	7.98	4.95	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

While last year was initially about adding risk as we leaned against the deflation fears, and in the middle of the year increased our exposure to assets that perform in a reflationary environment, this year we have been doing the opposite. We have reduced the strategy's risk exposure, cutting equities by 2.5% in January to 26%, and selling a further 1% of global high yield bonds in February, taking this exposure to 2%, well down from GROW's peak of 6.0% last year at inception in August 2016 (and 7.5% for the unlisted Real Return Fund earlier in the year prior to GROW's inception). The exposure to the reflation theme was also reduced. In February we sold our Australian resources versus the broader equity market position, and in March reduced our exposure to the Australian dollar (adding US dollars) and sold our US break even position, a position that captured inflation expectations embedded in the US bond market.

Diversified portfolios are most vulnerable in the lead in to a recession, which our indicators suggest is unlikely in the near future. However, valuations are stretched, with markets primed for a very positive environment, suggesting the margin for safety is low. As we have seen several times over the last couple of years, these are times when patience pays off as opportunities have a habit of presenting themselves. As we have shown in the past we will be quick to avail ourselves of them when they do.

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)	$28,273,263
ASX Quoted Price	$3.6077
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 March 2017

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