Schroder Real Return Fund
ASX: GROW

A smarter way to invest. An easier way to grow your wealth.

Monthly Report - February 2018

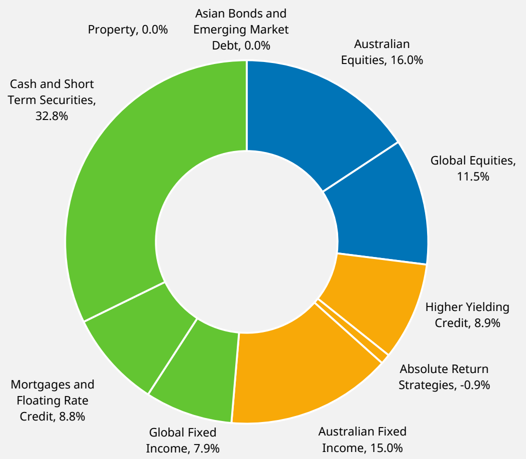
For more information about the Fund visit www.schroders.com.au/grow

Total return %	1 mth	3 mths	1 yr	3 yrs p.a.	5 yrs p.a.	Inception p.a.
Schroder Real Return Fund (Managed Fund) (pre-fee)	0.19	0.70	5.44			5.71
Schroder Real Return Fund (Managed Fund) (post-fee)*	0.12	0.47	4.50			4.76

Portfolio inception 09/08/2016, 1 years and 6 months

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

Asset allocation



* Includes floating rate notes, term deposits, negotiable certificate of deposits, cash and other cash equivalents.

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 2017

3 months	0.40%
1 year	1.79%
3 years. p.a.	1.84%
5 years. p.a.	2.08%

*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 February 2018

Portfolio review

The Schroder Real Return Fund (ASX: GROW) produced a positive return of 0.19% in February against a challenging and volatile market environment. The Strategy's return for the 12 months ended February was 5.44%, around 4% above inflation, but shy of the Strategy's 5% real return objective. The Strategy's other objectives (to avoid / mitigate drawdowns) and to keep volatility low (5% indicative) continue to be met.

Contributing to the Strategy's positive return in February was the overall defensive positioning; meaning exposure to the most volatile assets during the month was modest. Our preference for Australian equities over global equities also helped during the month with Australian equities outperforming global equities by around 4% over the month. Positive contributions were made by the Australian dollar which declined around 3.5% during February and the relative value trade of short A-REIT's v Australian equities. The Strategy's cash position was also a meaningful positive contributor as was exposure to higher quality investment grade credit also aided performance given most of the volatility in credit being felt in the lower quality / higher yielding segment to which we currently have a limited exposure.

Outlook and strategy

Significantly, February offered investors a glimpse of what could happen if economic conditions and policy shift slightly on their respective axes. While our returns were not spectacular in February, they were positive against a backdrop of some large falls in equities (while global equities declined around -3.5% during the month, intra-month declines in some markets were in the order of -10%) and wider credit spreads, mainly in the high yield space. This served as a timely reminder that risk does matter, and certainly from our perspective in managing the Strategy, avoiding / mitigating drawdowns is an extremely important objective. While we acknowledge that our returns would have been better in 2017 if we'd held more equities, this is a "double edged sword". More equities are fine on the way up, but punitive on the way down, and, while we'd like to think we can time markets, the reality is we can't. February showed what can happen.

While the saying "be careful what you wish for" has plenty of merit, it's fair to say we weren't unhappy to see a return of volatility in February and at least the partial recognition that the outlook was unlikely to be as positively benign as market pricing had suggested. Opinions vary in the market as to whether the sharp decline in risk asset prices was a "technical" correction – given the extent to which short volatility trades had been piling up - or whether it was more fundamentally linked to concerns about US inflation and the path of monetary policy. The net result was a short but relatively sharp shift in asset prices – albeit mainly felt in equities.

While the world is not markedly different to what it was a few months ago, there are some things that have shifted.

Firstly, the evidence is continuing to accrue supporting the idea that core inflation is starting to rise in the US and that this is increasing the uncertainty around the future course of monetary policy. Bond yields have reflected this with US 10 year bond yields rising around 0.5% so far this calendar year. The latest pronouncements from the US around steel tariffs and trade wars have also elevated uncertainty around trade, retaliation, and by extension, growth. While US President Trump's constituency may be buoyed the protectionist rhetoric, it may ultimately end up as an "own goal".

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

Schroders

	1 mth	3 mths	6 mths	1 yr	3 yrs p.a.	mFund Code
Schroder Real Return CPI Plus 3.5% Fund Wholesale*	0.18	0.70	2.16	3.48	N/A	SCH12
Schroder Real Return CPI Plus 5% Fund Wholesale*	0.25	0.89	3.31	4.90	3.36	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

Secondly, while economic conditions have been good (decent growth, improving profits, low inflation) and the US tax cuts a clear pro-cyclical boost to growth and profits, the exponential rise in equity prices through the December-January period was an over-exuberant response leaving both sentiment extreme and valuations extended. While some of this over-exuberance has been reversed, the shakeout to date has been relatively moderate. Valuations have adjusted, but not by much. The medium term outlook for both bond and equity returns still looks poor.

Thirdly, some of the complacency evident in markets and reflected in the exceptionally low levels of market volatility has rightly been shaken-off, offering a timely reminder that complacency can beget disaster as investors in Short VIX futures ETF's can attest. These funds, that attracted reasonable flows in 2017 have now either collapsed completely or are trading at prices 90% or more below their peaks. Volatility is unlikely to return to its recent lows.

To be clear, we believe it's premature to call the end to the bull market in equities just yet as most bull markets end with recession and the risk of recession in any of the major economies at present is low. That's not to say a policy mistake isn't possible, or, as we've noted above that something like aggressive retaliation to US trade pronouncements couldn't sap confidence and derail the global growth trajectory. More likely we think volatility will remain higher than 2017, returns overall will moderate and uncertainty about policy and the economy will re-exert.

While we are well positioned to add risk to the portfolio, we are reluctant to rush in as the retracement in equity prices so far has been relatively modest. Volatility will likely provide us with some opportunity but volatility to date has not fundamentally shifted the risk skew.

That said, we have made a couple of changes to the portfolio.

We have continued to build the inflation risk thematic into positions via duration, inflation break-evens, inflation linked bonds and our short A-REIT's positioning. This positioning is now significant and we are unlikely to add materially to this unless our concerns about inflation rise further.

We have also moderated our long GBP position amid renewed uncertainty around Brexit and the UK government. This is a short term risk reduction trade and one we expect to reverse given the medium term attractiveness of GBP on valuation grounds. This fits with our overall thesis that US dollar weakness won't be sustained in light of the US now being one of the worlds' high yielding currencies.

Fund details

ASX Code	GROW
Fund size (AUD)	$45,820,873
ASX Quoted Price	$3.6467
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 February 2018

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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