Schroder Real Return Fund
ASX: GROW

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

Monthly Report - July 2018

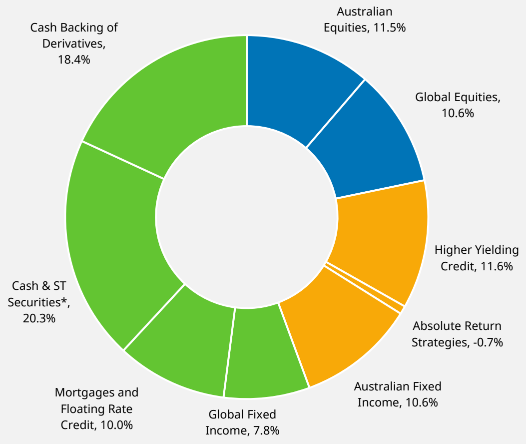
For more information about the Fund visit www.schroders.com.au/grow

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)	0.70	1.27	5.71			5.49
Schroder Real Return Fund (Managed Fund) (post-fee)*	0.62	1.04	4.76			4.55

Portfolio inception 09/08/2016, 1 years and 11 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 30 June 2018

3 months	0.46%
1 year	1.85%
3 years. p.a.	1.78%
5 years. p.a.	2.06%

*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 July 2018

Portfolio review

The Real Return Fund (ASX:GROW) produced a solid +0.7% (pre-fee) return in July, leaving the 1 year return at +5.7% (pre-fee), a return in real terms of around +3.9%, well above inflation and well within our risk parameters, but below our targeted return objective.

Outlook and strategy

Generally speaking, risks assets performed well in July with most global equity markets posting solid gains. Significantly, "value", as a style factor, performed well compared to "growth", which benefitted our core global equity holding (Schroder QEP Blend Strategy) which has an inherent value bias and which has been hurt for some time by the persistent outperformance of "growth" and "momentum" over "value". Credit spreads retraced some of their losses with global high yield having a decent month despite relatively narrow spreads and evidence of broader fundamental and technical deterioration. While bond yields moved higher in July, our very modest duration positioning of 0.7 years helped protect the portfolio from this negative drag.

While measured market volatility may not have picked up much this year, uncertainty about the future path of economies and markets clearly has. While we can thank President Trump for some of this, I'm not sure that the path forward would have been any more certain without him. In fact, Trump has probably made uncertainty the one certainty (if that makes any sense!). Markets are currently unperturbed. Equity markets continue to grind higher. A 21% fall in the Facebook share price is seen as an idiosyncratic issue, causes no more than a minor palpitation, and then US market again edges higher, closing in on its January highs. Clearly happy days!

We can understand this bullish sentiment. Economies are growing, the latest US profit season was good, and while inflation pressure is building, there isn't yet the smoking gun to declare inflation back and a problem for investors or policy makers. The real risk for investors is recession, and while our research suggests that the recession clock has started to tick, the timing is beyond the immediate consciousness of most investors. Let the good times roll.

Understanding where this bullish sentiment comes from is not the same as agreeing with its consequences. A more balanced take on the current state of play is that global growth momentum has peaked (particularly after allowing for the boost to US growth from tax cuts) and the negative impact of tariffs (directly) and business confidence (indirectly). Consistent with this we expect that US profit momentum has also peaked. A moderation in top line growth and a rise in costs should see margins moderate from here. The risk of a surprise to both investors and policy makers on the inflation side remains real. Significantly, this is occurring against a background of relatively full valuations for both equities (particularly US equities) and credit (particularly higher yielding/riskier credit). Our 3-year return forecasts for US equities have gone negative again. The last time they were negative was in January.

China can't be forgotten either. Growth has slowed and the imbalances that have been well documented are having an impact. Policy has been eased, but the risks of a further moderation in Chinese activity can't be dismissed.

From an Australian perspective, the outlook is benign but not without its risks. The RBA left rates unchanged at 1.5% and while doing nothing on rates for two years might seem somewhat boring, it is the right decision against an economy that is broadly growing at around trend. The unemployment rate has been relatively sticky above 5%, wage growth, inflation is barely within the RBA's target range, and the housing sector (especially house prices) has already seen considerable tightening as lending standards rise and the availability of credit to the sector falls.

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*	0.63	0.59	1.16	3.35	-	SCH12
Schroder Real Return CPI Plus 5% Fund Wholesale*	0.76	0.79	1.35	4.68	3.74	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 most of this isn't new news — the uncertainty over tariffs probably the exception — market prices have risen again and with the US equity market closing in on January highs, we have cut our equity exposure by a further 5% in recent weeks (mainly in Australian and US equities). This leaves us relatively defensively positioned in early August. We've also added some duration back into the portfolio. This should be viewed as a tactical position and seen against an overall position reflecting modest risk asset exposure. In broad terms though, we remain well positioned for an inevitable increase in volatility, a renewed bout of risk aversion, and rising inflation. Now is not the time to shoot for the stars — asset quality and liquidity are an important focus.

Fund details

ASX Code	GROW
Fund size (AUD)	$50,462,918
ASX Quoted Price	$3.6405
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 July 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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