

LPAC - Short Course

Objective based investing

June 2015

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Investment Presentation

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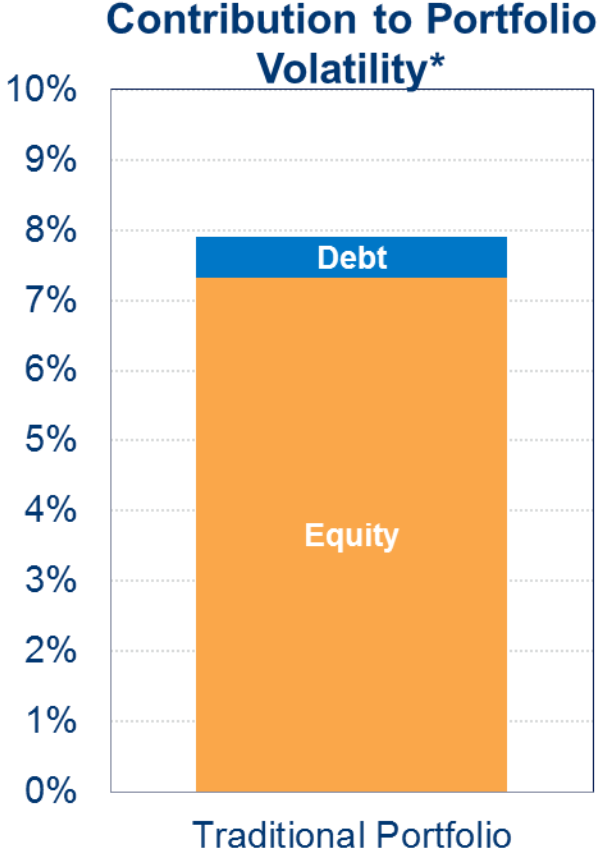
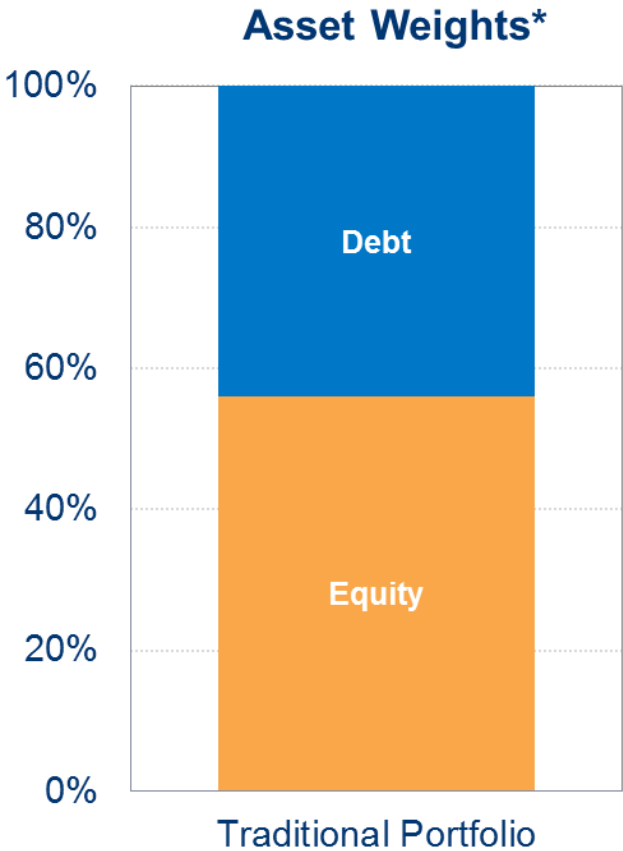
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The standard portfolio

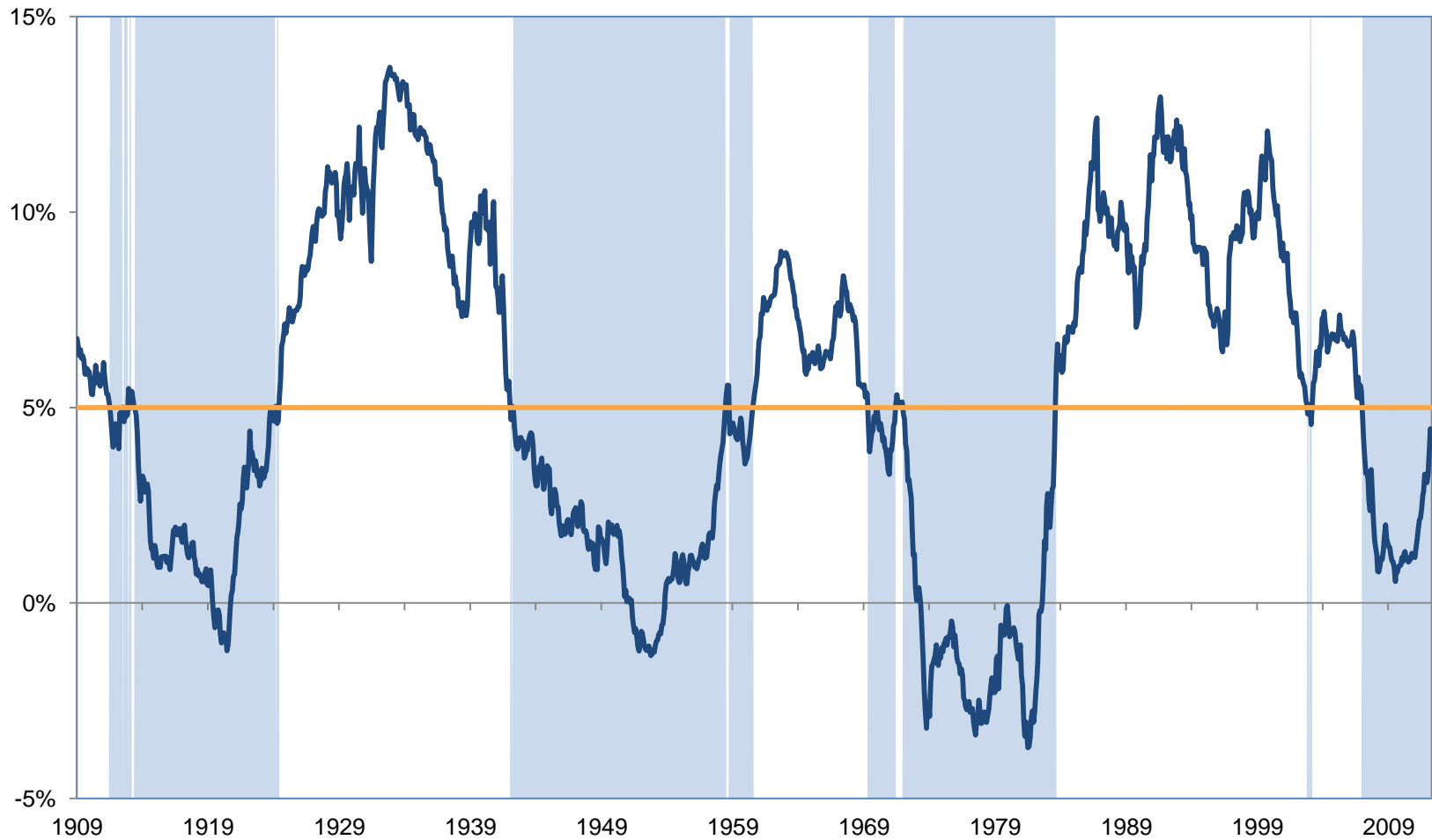
Fixed SAA, dominated by Equities



Source: Schroders, SMART VaR
* Schroders Balanced Fund as at 31 December 2014

How has the standard portfolio performed?

10 Year Rolling Real Returns

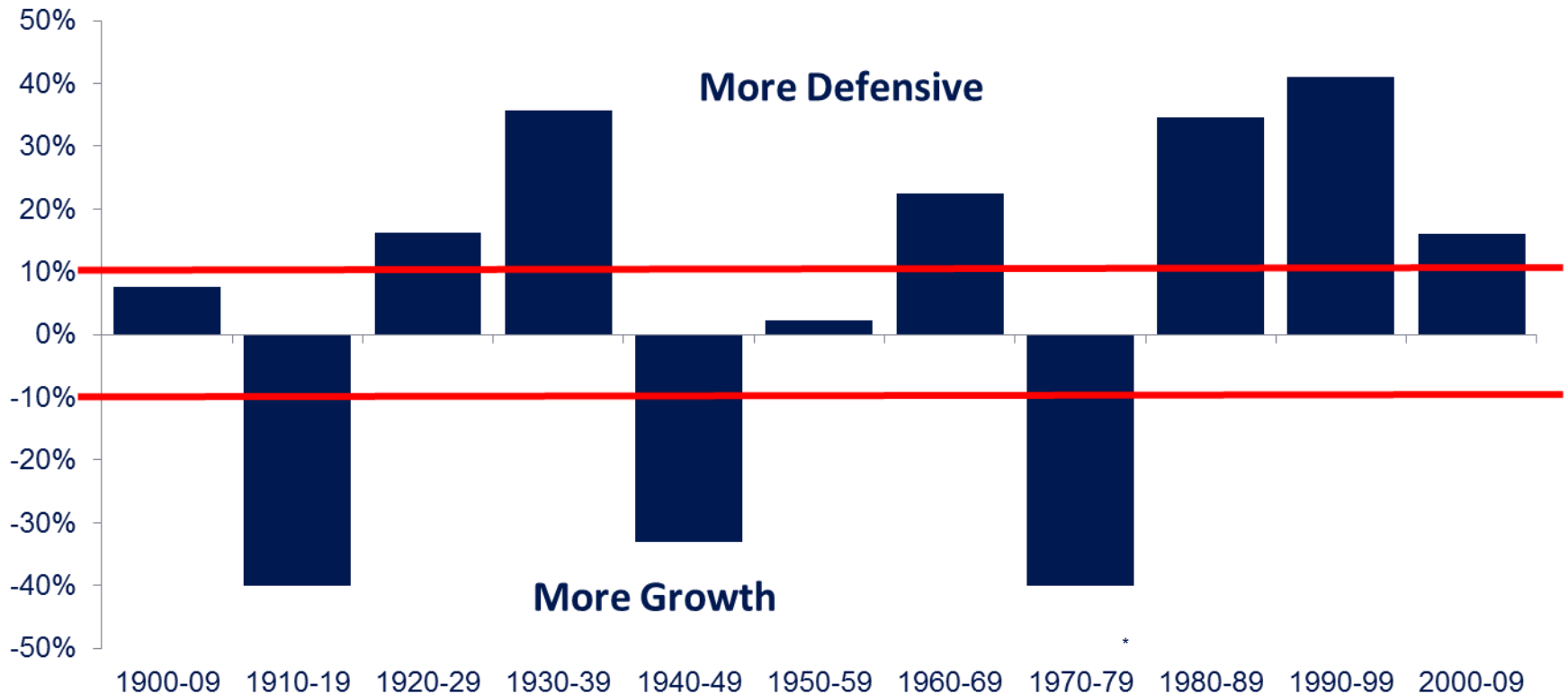


Source: Schroders, Global Financial Data, Balanced fund is 30% global equity, 30% Australian equity, 30% Australian bonds, 10% cash.

Objective based management

Significantly more flexibility required

Difference in asset allocation from standard 60/40 to achieve 4.5% real return



Source: Schroders

*Unable to achieve positive real return in the 1970s due to high inflation environment even when allocating 100% to equities, the best performing asset class

Risk return trade-off varies considerably

Assumptions versus Reality

Standard Assumptions

- Risk and return trade-off is static
- Valuations don't matter in the long run
- Risk is volatility
- Order of returns doesn't matter

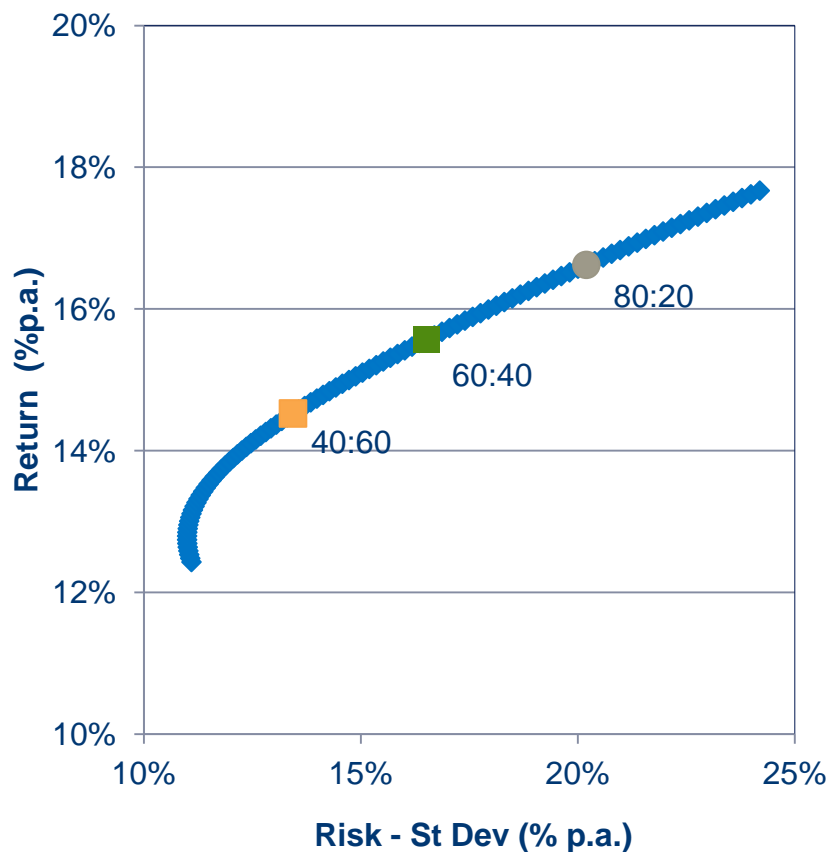
Reality

- Risk / return trade-off is dynamic
- Valuations matter
- Risk is not meeting objectives
- The path returns take is important

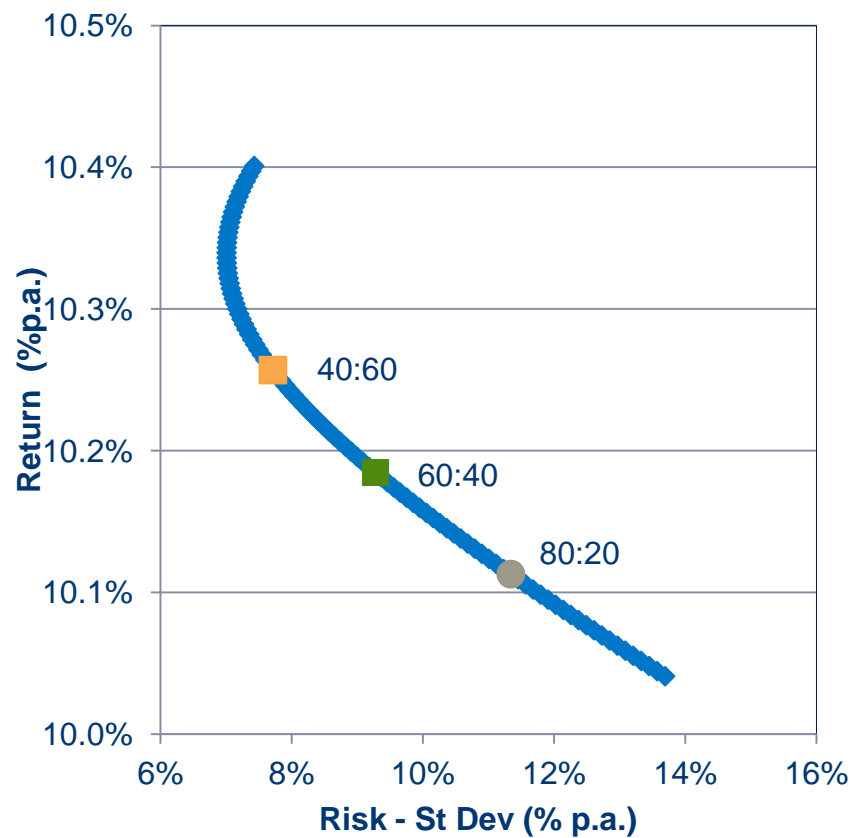
Valuations matter

The risk/return trade-off is not static

Efficient Frontier 1980's



Efficient Frontier - 1990's and 2000's



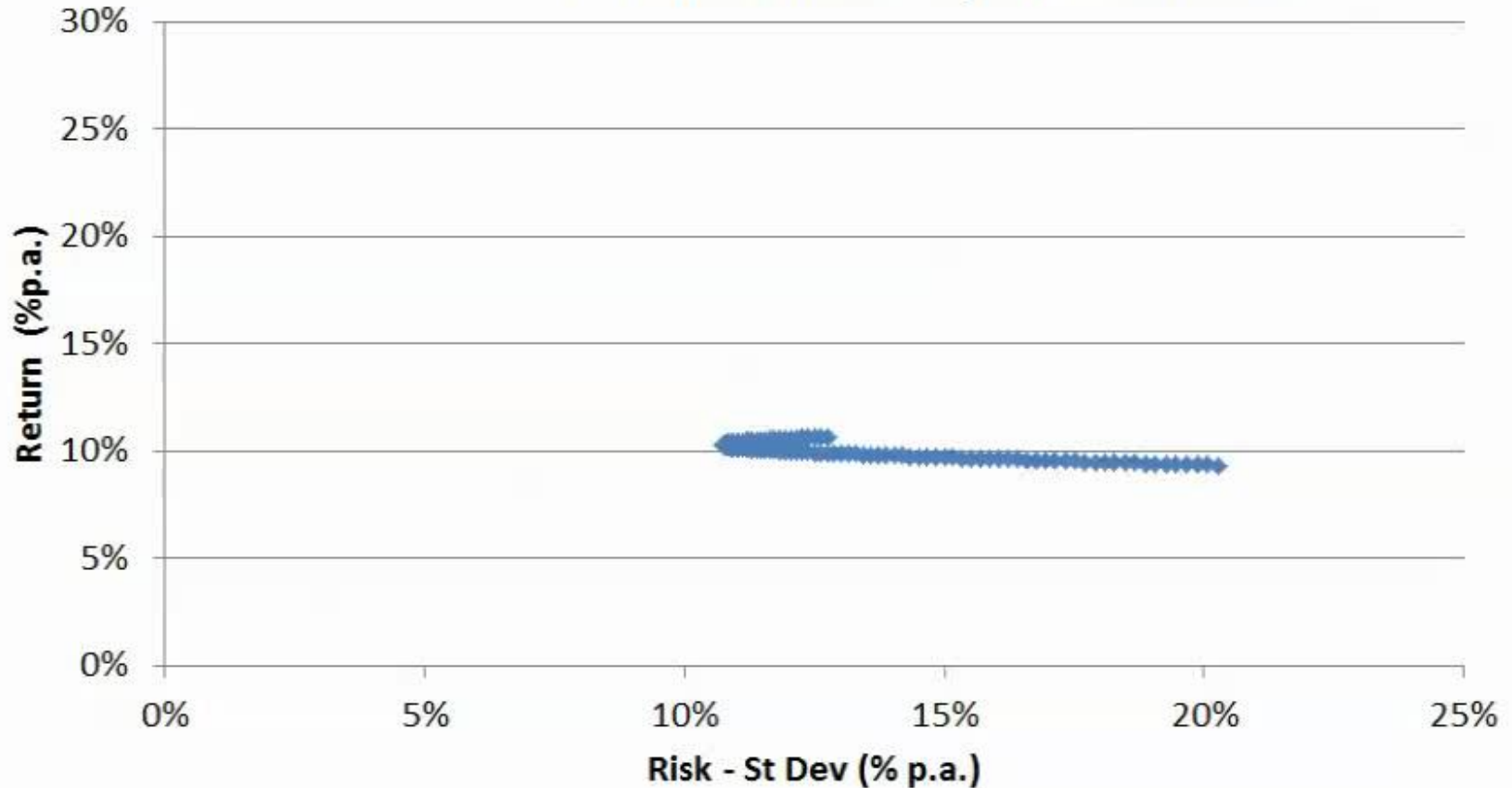
Source: Schroders. Datastream.

ASX 200 and UBS. A Composite index. Actual risk (standard deviation) and return for the period 1 Jan 1980 to 31 Dec 1989 and 1 Jan 1990 to 31 Dec 2010.

Risk return trade-off varies considerably

Last 2 decades better off in bonds than shares

Efficient Frontier 10 years to 12/1932

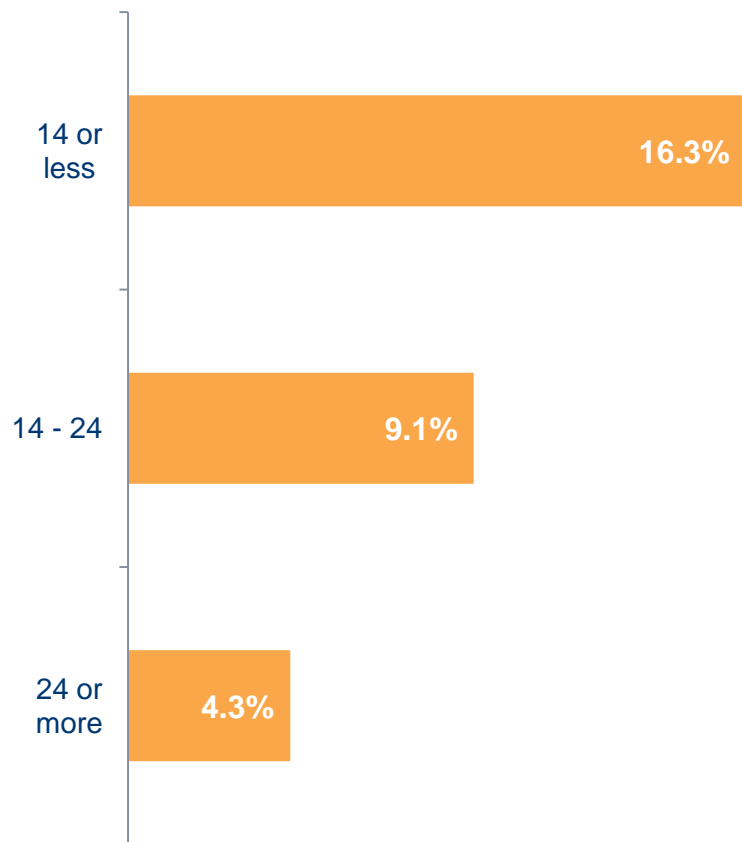


Source: Schroders. Datastream. ASX 200 and UBS. A Composite index. Actual risk (standard deviation) and return for the period 1 Jan 1980 to 31 Dec 1989 and 1 Jan 1990 to 31 Dec 2010.

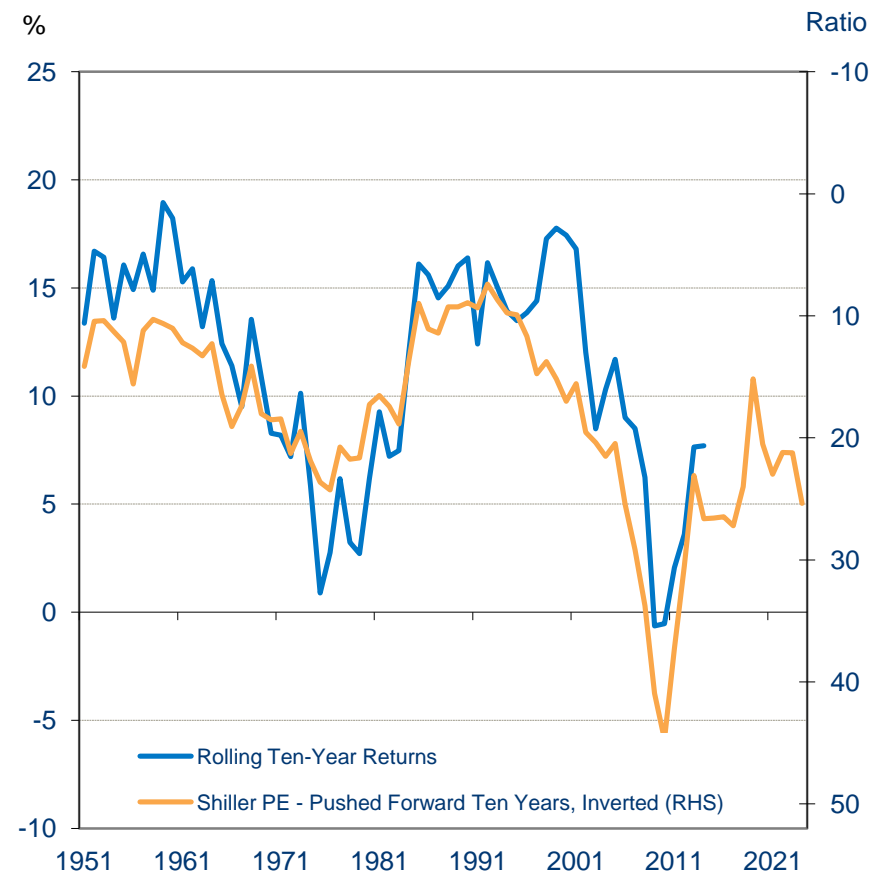
Valuations Matter

Average Annualised 10 Year Return – International Equity

Starting P/E



US Equity Market and Shiller PE

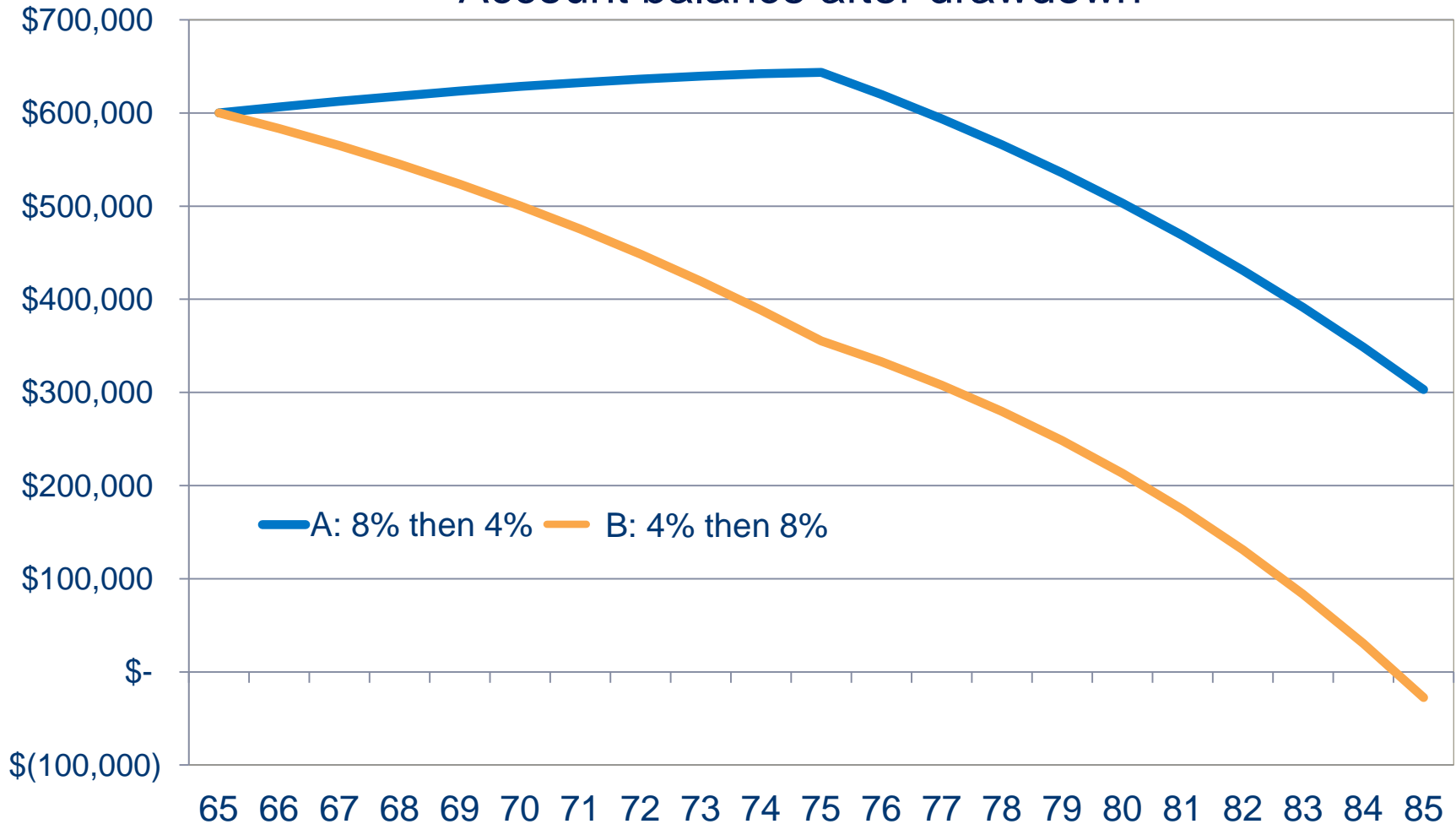


Source: GFD, 31 Jan 1970 to 31 December 2014 in USD

The order of returns matters

Both pre & post retirement

Account balance after drawdown



Source: Schroders, Scenario A: 8% p.a for 10 years then 4% p.a. Scenarios B: 4% p.a for 10 years then 8% p.a. \$40,000 p.a. drawdown.

An Australian investor's perspective

Annual returns for a range of asset classes

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
77.6%	5.3%	26.7%	14.4%	42.2%	33.0%	55.3%	20.0%	15.0%	12.0%	16.9%	30.4%	43.0%	33.0%	25.6%	14.9%	39.2%	9.3%	11.4%	33.0%	49.3%	26.6%
40.1%	2.6%	21.1%	13.0%	20.8%	18.6%	18.7%	12.0%	10.4%	11.6%	14.6%	28.0%	22.8%	24.2%	16.1%	10.7%	37.0%	7.1%	10.5%	20.3%	20.2%	15.6%
32.8%	-0.1%	20.6%	12.6%	12.7%	10.0%	17.1%	11.1%	8.3%	8.8%	8.9%	21.4%	16.8%	23.4%	6.8%	9.2%	9.2%	6.0%	9.1%	17.0%	13.8%	10.4%
24.9%	-2.5%	18.7%	11.9%	12.2%	9.8%	5.01%	9.7%	6.7%	7.8%	6.6%	10.7%	12.6%	12.1%	6.6%	7.6%	8.0%	5.7%	5.0%	14.7%	7.3%	9.8%
16.3%	-4.7%	15.1%	9.5%	10.7%	9.5%	1.92%	6.4%	6.1%	4.8%	4.9%	8.9%	6.6%	6.0%	3.5%	3.7%	6.1%	4.7%	3.0%	9.9%	4.3%	8.1%
13.5%	-7.6%	10.7%	7.6%	10.6%	8.0%	0.82%	6.2%	5.5%	2.9%	3.7%	7.1%	6.0%	4.4%	3.2%	-24.6%	3.5%	2.8%	-1.1%	9.7%	2.9%	7.3%
13.5%	-8.8%	8.0%	6.6%	7.8%	5.1%	0.28%	5.8%	5.3%	-8.8%	3.0%	7.0%	5.8%	3.9%	2.9%	-38.4%	2.1%	1.6%	-6.0%	7.7%	2.8%	5.6%
5.4%	-11.0%	5.1%	1.5%	5.6%	1.5%	-1.22%	2.7%	3.1%	-14.6%	2.4%	5.6%	5.7%	3.3%	-2.1%	-41.2%	1.7%	-0.3%	-10.5%	4.0%	2.3%	2.7%
1.8%	-18.9%	-1.1%	-0.8%	-0.3%	-20.6%	-5.6%	-18.1%	-9.6%	-27.1%	-0.2%	2.5%	2.82	3.1%	-8.6%	-55.7%	0.7%	-0.4%	-19.2%	2.2%	1.2%	1.7%

Australian Equities – S&P/ASX 200	Global Equities – MSCI World A\$ Unhedged	Global Emerging Market Equities – MSCI Emerging Markets A\$ Unhedged	Australian Credit – UBS Australian Credit Index All Maturities	Australian Fixed Income – UBS AU Composite All Maturities	Global Fixed Income – Barclays Global Aggregate A\$ Hedged	Australian Property Trusts – S&P/ASX 200 A-REIT	Inflation – RBA Consumer Price Index	Cash – UBS AU Bank Bill All Maturities
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Source: Datastream, 12 months to 31 December (1993-2014)

A range of Multi-Asset Solutions

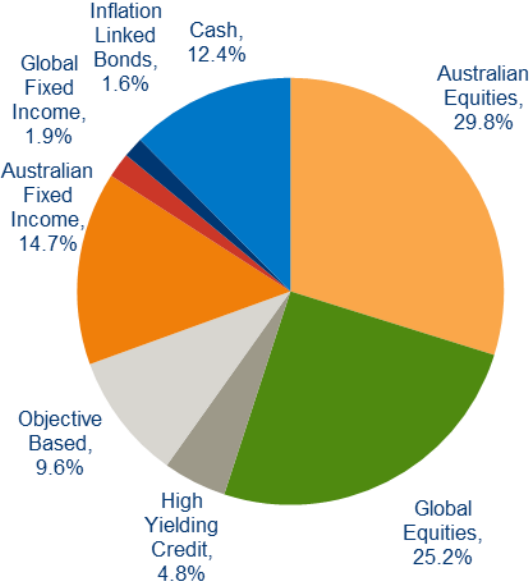
Different solutions for different objectives

	Schroder Balanced Fund	Schroder Real Return (CPI Plus 5%)	Schroder Real Return (CPI Plus 3.5%)
Asset Class	Multi-Asset / Traditional	Multi-Asset / Objective Based	Multi-Asset / Objective Based
Benchmark	Constrained – 60/40, Peers	Flexible	Flexible
Target performance/risk objective	Max return subject to risk constraints	CPI+5%, min downside risk	CPI+3.5%, min sequence and downside risk
Timeframe	5years +	3 years	3 years
Strategy	Active, SAA with TAA overlays	Target return / downside risk focus, flexible AA	Target return / downside risk focus, flexible AA
Investment phase	Accumulation	Accumulation, Pre-retirement and Pension	Pre-retirement, Pension, Income/Low risk
Distribution	Twice yearly	Twice yearly	Aims to distribute at least the RBA cash rate quarterly
Target Investor	For investors seeking a balanced portfolio combining a diversified range of growth and defensive assets with strong downside risk control	The fund is designed for investors seeking to maximise returns by dynamically investing across a wide range of risk premia and asset classes whilst minimising downside risk	A flexible and diversified portfolio for investors seeking to achieve targeted returns above inflation by investing across a wide range of risk premia and asset classes whilst minimising downside risk

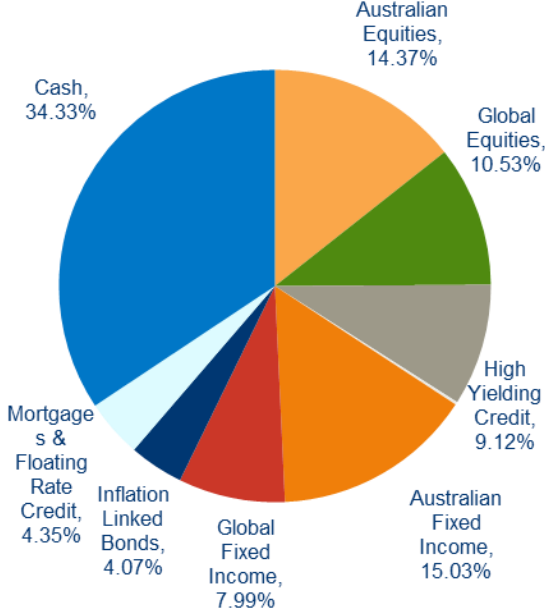
How does this compare to a traditional* portfolio?

Focusing on client objectives

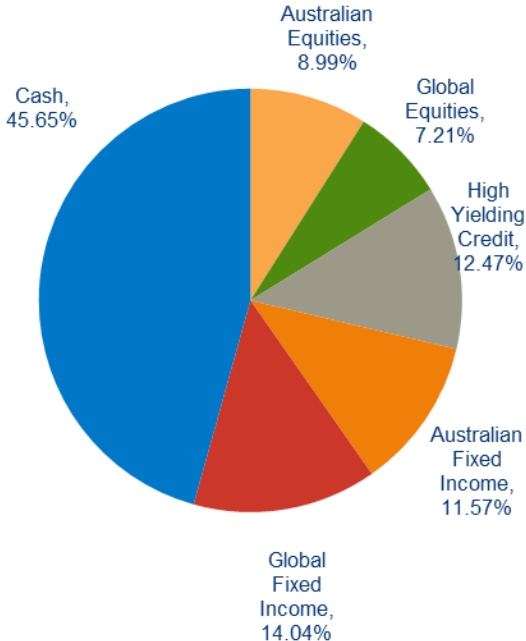
Traditional*



Objective Based**



Objective Based, lower risk***



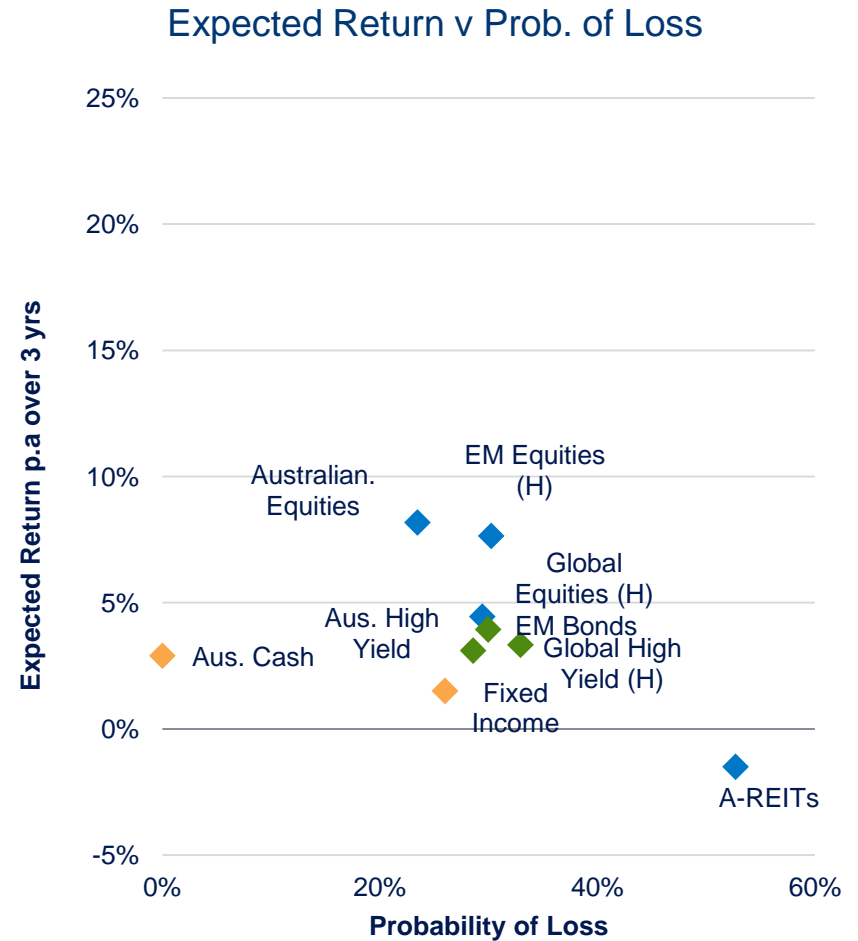
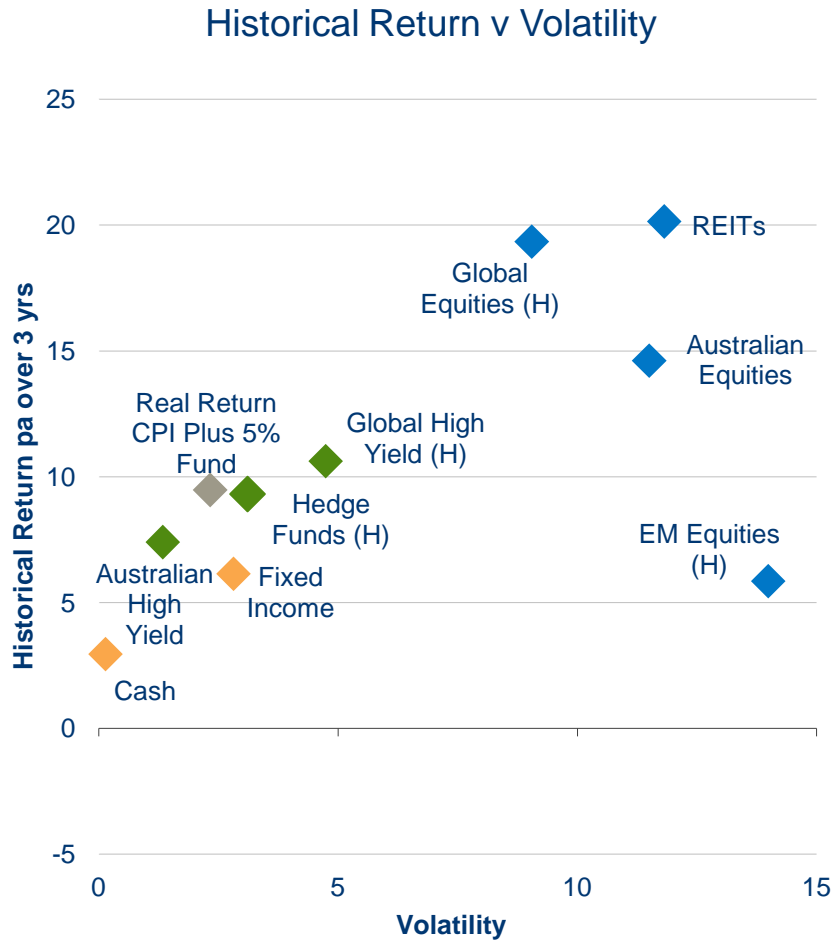
*Traditional strategy refers to the Schroder Balanced Fund

Objective Based strategy refers to the Schroder Real Return CPI Plus 5% Fund. *Objective based, lower risk refers to the Schroder Real Return CPI Plus 3.5% Fund

Please note that these are indicative asset allocation only and may change, subject to market conditions and outlook, and may not add to 100 due to rounding, as at 31 March 2015

Our forecasts

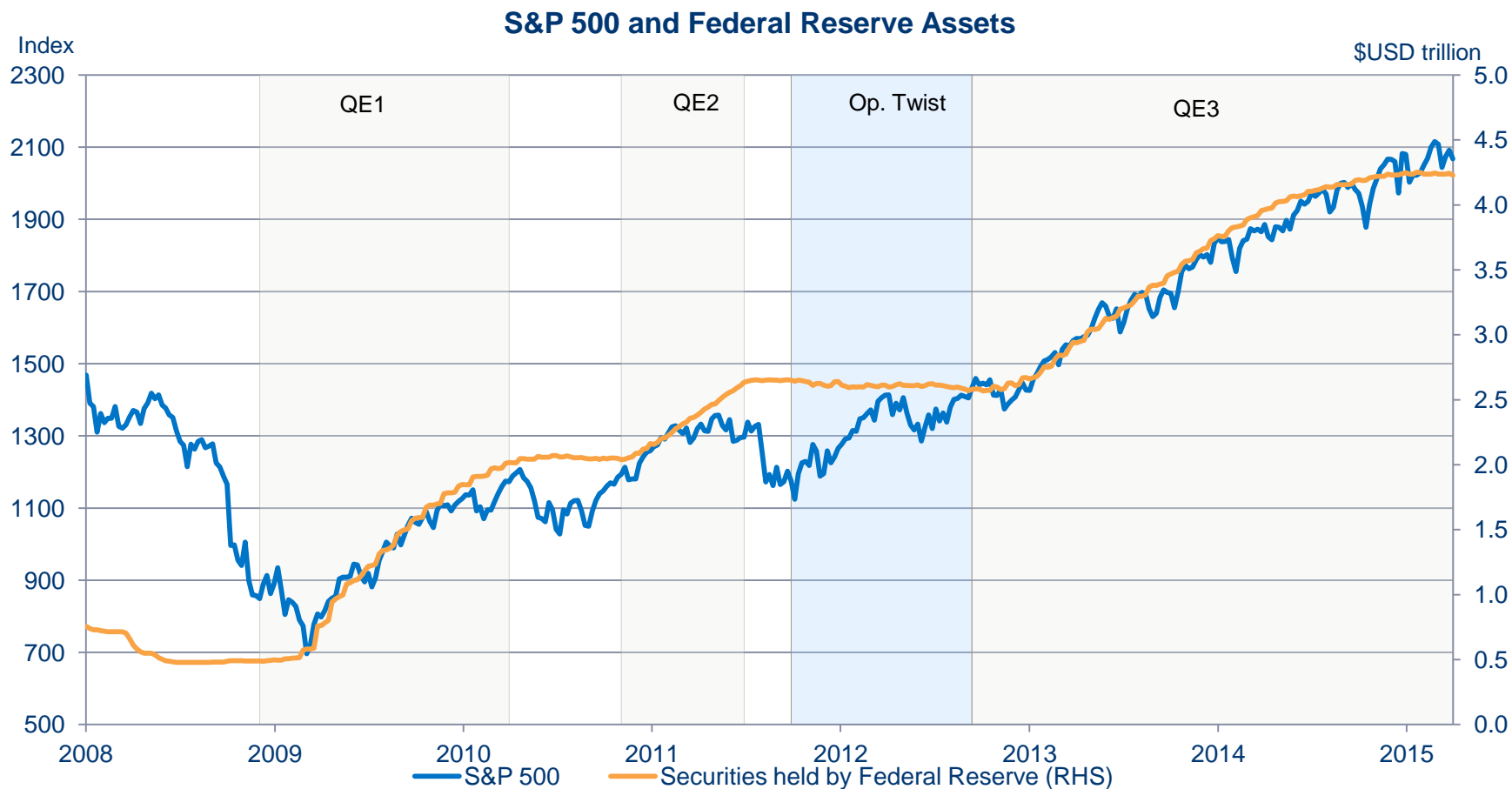
Low and compressed returns, rising risk



Aus Equities: ASX 200 Acc Index; Global Equities: MSCI World ex Aus AUD Hedged Net TR Index; REITs: ASX 200 Acc A-REIT Index; Fixed Income: UBS Composite Bond Index; Australian High Yield: Schroder Higher Yielding Credit Pool; Global High Yield: Barclays Global High Yield AUD Hedged Index; Cash: UBS Bank Bill Index; Emerging Markets: MSCI EM AUD Hedged Net TR Index; Hedge Funds: Credit Suisse Hedge Fund Index Source: Schroders, Bloomberg, Morningstar. Datastream. Expected returns as at 30 April 2015. Historical returns are to 30 April 2015, with the exception of Hedge Funds which for the prior month.

Quantitative easing

A false sense of security?

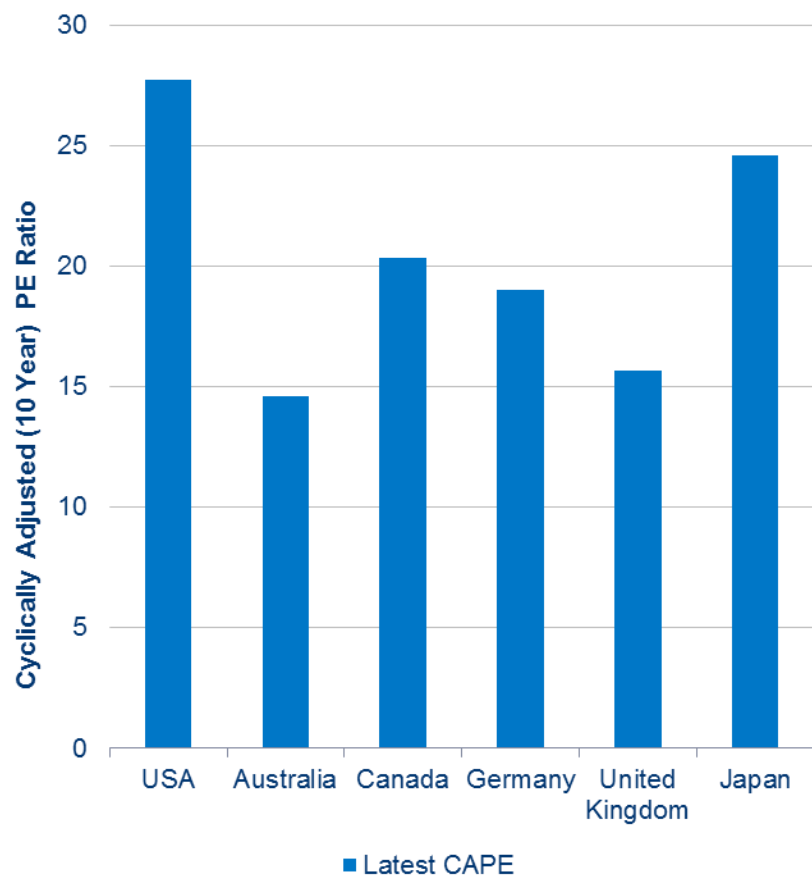


Source: Datastream, Schroders

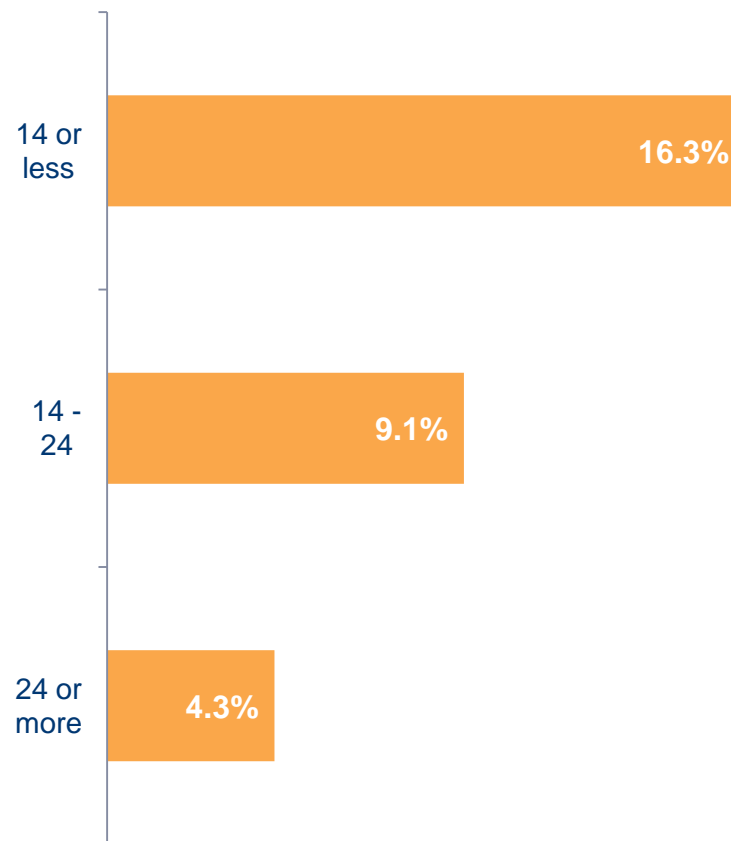
Key views: Valuations stretched in the US

Imply moderate future returns

Cyclically Adjusted PE Ratios



Starting US CAPE v 10 Year Returns

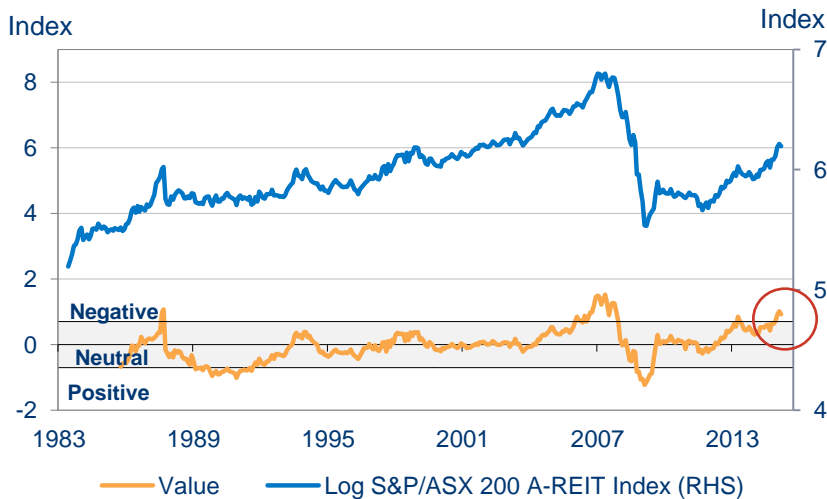


Source: GFD, 31 Jan 1970 to 31 December 2014 in USD

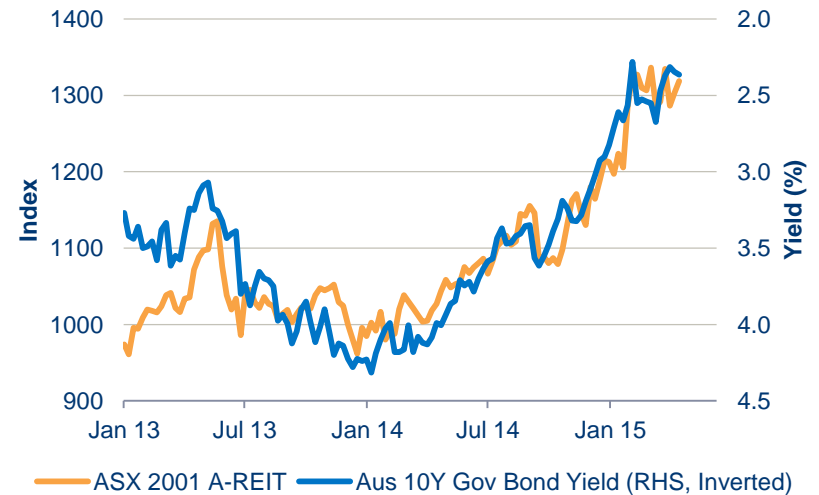
Key views

Lots of reasons not to like REIT's

A-REITs and relative value



A-REITs v Bond Yields



	Value Signal	Relative Value										
		USA	Europe ex UK	UK	Japan	China (USD)	Hong Kong	Russia (USD)	World (DM)	EM (USD)	Asia ex Jap	A-REITs
Australia	-0.1	-0.4	-0.1	0.3	-0.8	-0.2	-0.3	-0.3	-0.4	-0.2	-0.2	-0.9
USA	0.3		0.3	0.7	-0.3	0.2	0.2	0.1	0.1	0.2	0.2	-0.5
Europe ex UK	0.0			0.4	-0.6	-0.1	-0.1	-0.2	-0.2	-0.1	-0.1	-0.8
UK	-0.4				-1.1	-0.5	-0.6	-0.6	-0.7	-0.6	-0.5	-1.2
Japan	0.7					0.6	0.5	0.4	0.4	0.5	0.5	-0.1
China (USD)	0.1						-0.1	-0.1	-0.2	-0.1	0.0	-0.7
Hong Kong	0.2							-0.1	-0.1	0.0	0.0	-0.6
Russia (USD)	0.2								0.0	0.1	0.1	-0.6
World (DM)	0.3									0.1	0.1	-0.5
EM (USD)	0.2										0.0	-0.6
Asia ex Jap	0.1											-0.7

Schroders A wolf in REIT's clothing

By David Wanis, Portfolio Manager, Multi-Asset

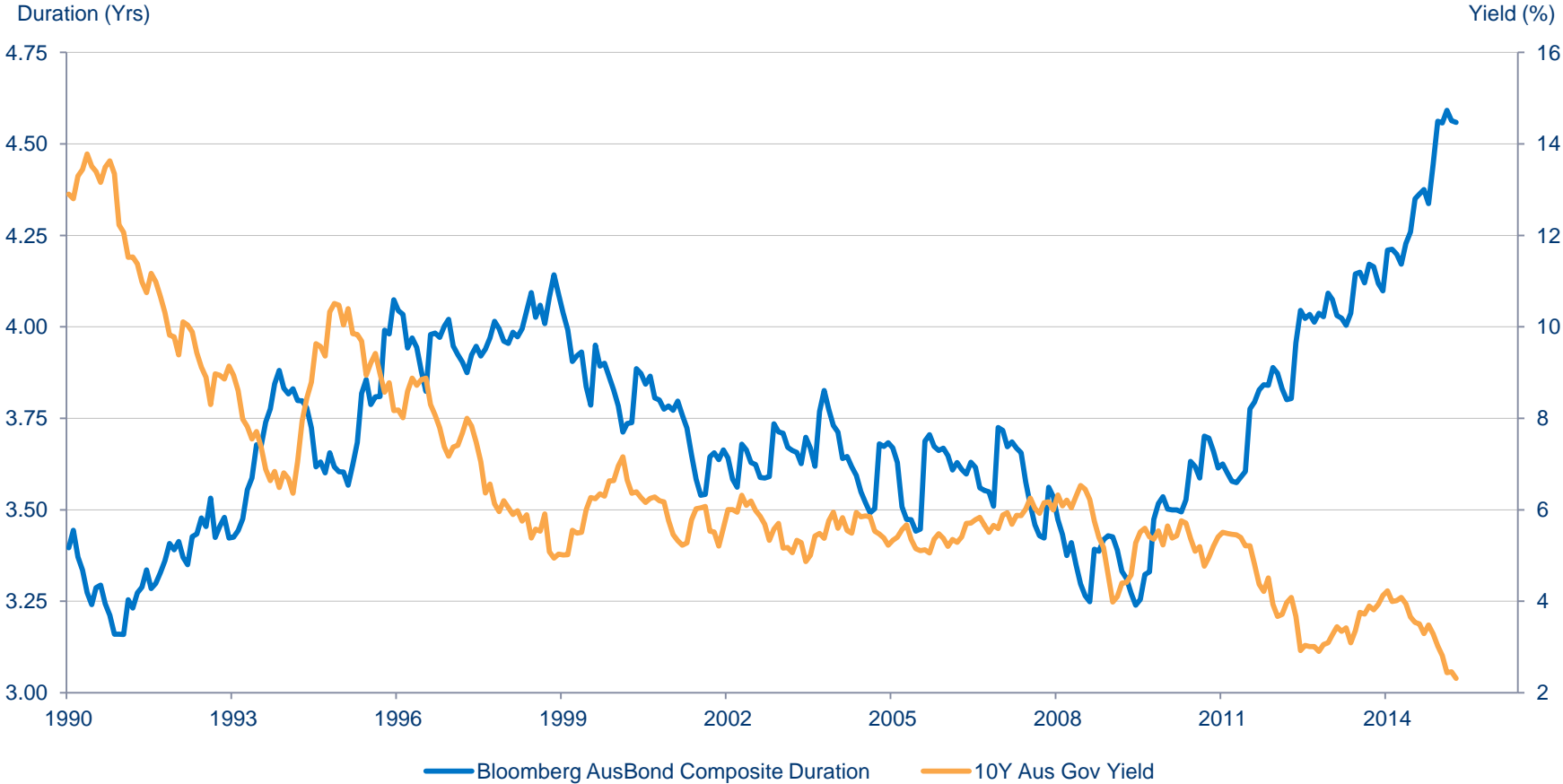
"More money has been lost reaching for yield than at the point of a gun"
Raymond F. DeVoe, Jr

The last time we wrote about Australian Real Estate Investment Trusts (A-REITs) in 2010 the post GFC reforms to operating models and balance sheets, as well as reasonable valuations, made the sector more appealing than it had been for some time. In markets, a lot can change in four years and this paper provides an update on the current investment opportunity in the sector.

Fixed Income

Benchmark is not low risk

Australian Bond Yield and Duration

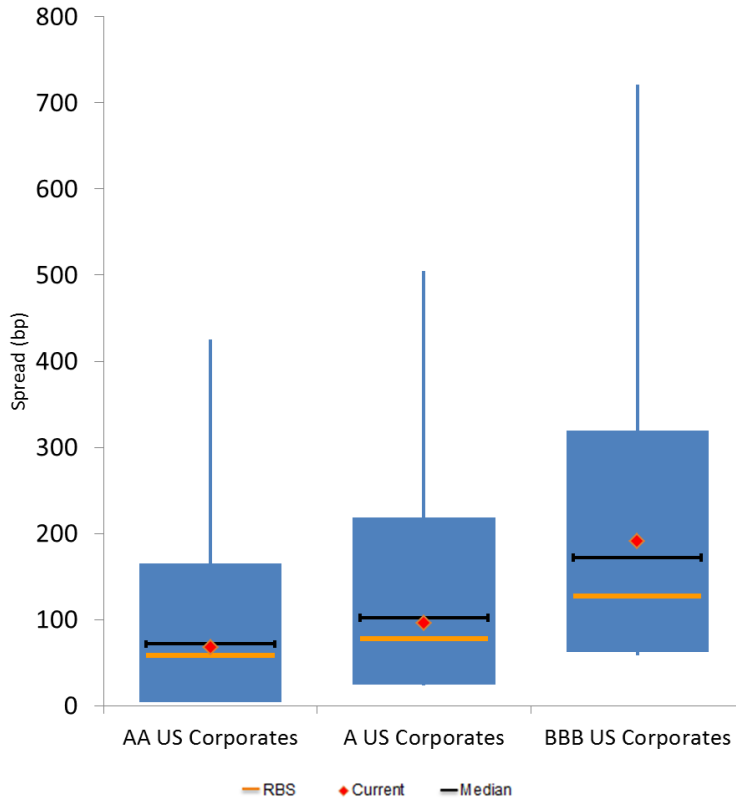


Source: Bloomberg as at 28 February 2015

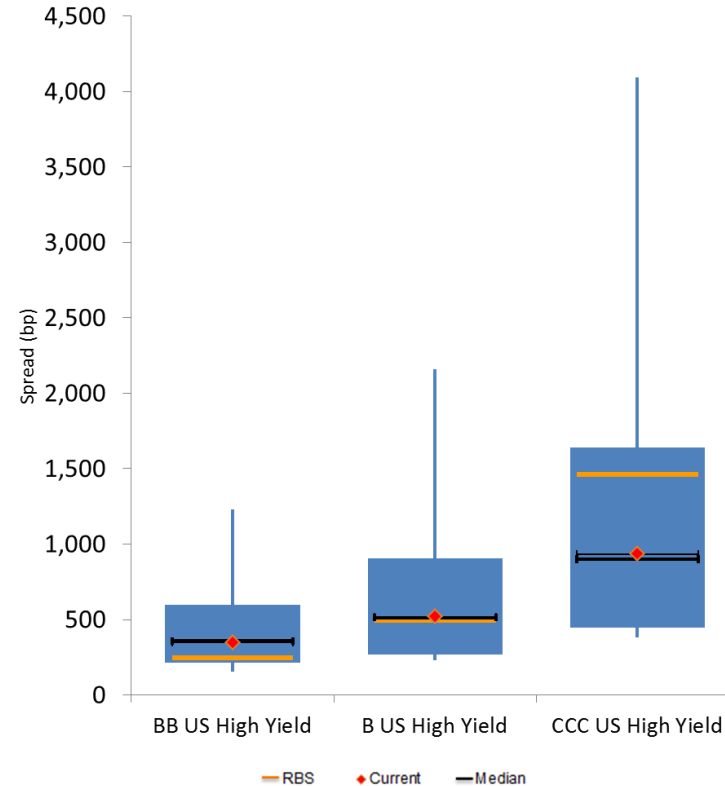
Credit

Expensive for lower quality assets

US Investment Grade Spread History



US High Yield Spread History

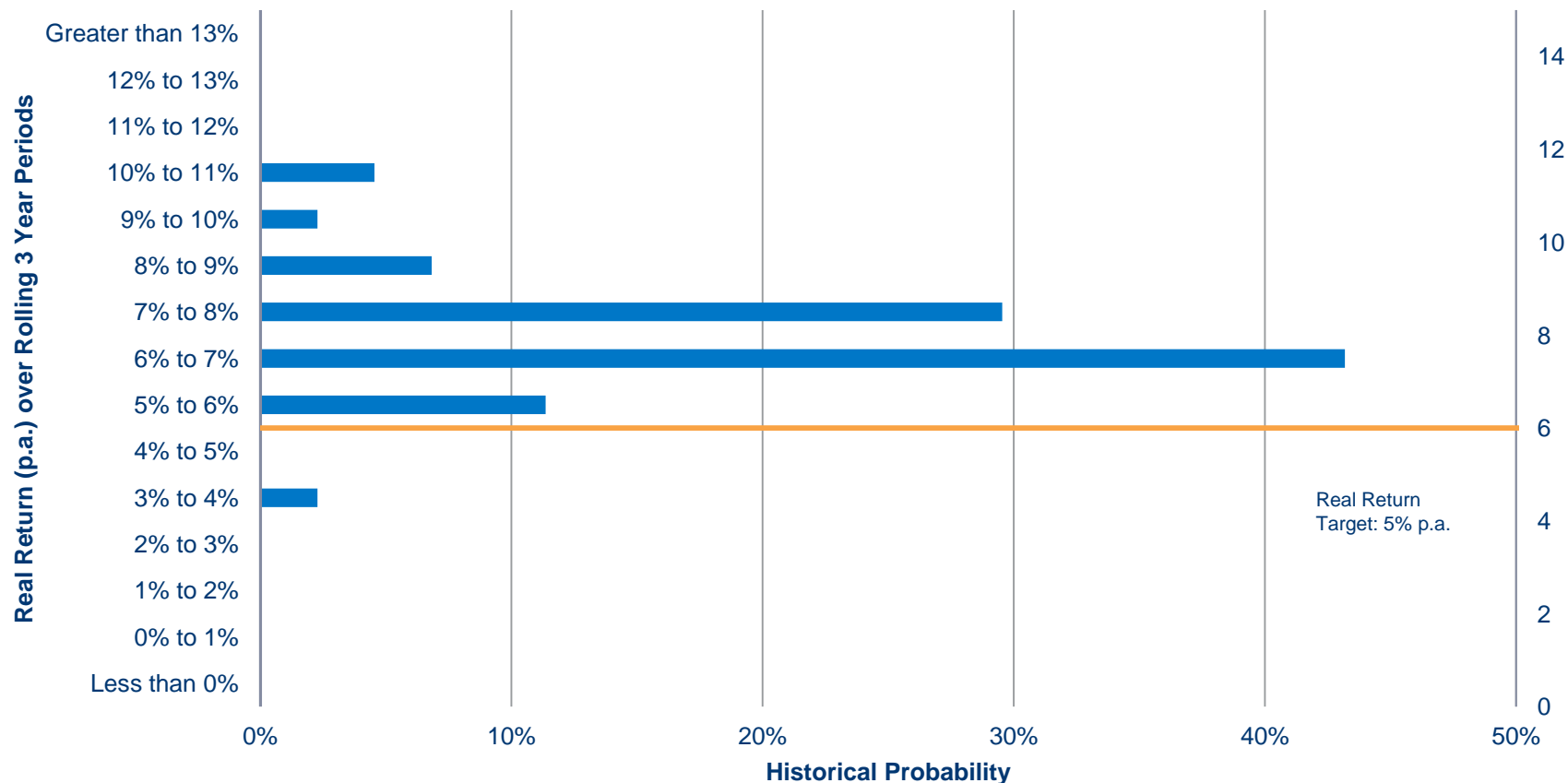


Source: OAS to LIBOR data sourced from City Velocity (Citi Fixed Income Index – AusBIG Index – Corporate Rating Category) and Barclays Global High Yield Index as at 30 April 2015. Min and max range indications have been trimmed by 5% at both points to remove extremes. Rock Bottom Spread per Schroders calculation using average term of relevant City Velocity data set and Barclays Global High Yield at 6 years average term using Ba3 average rating.

Schroder Real Return CPI Plus 5% Fund

Performance v objectives (risk & return)

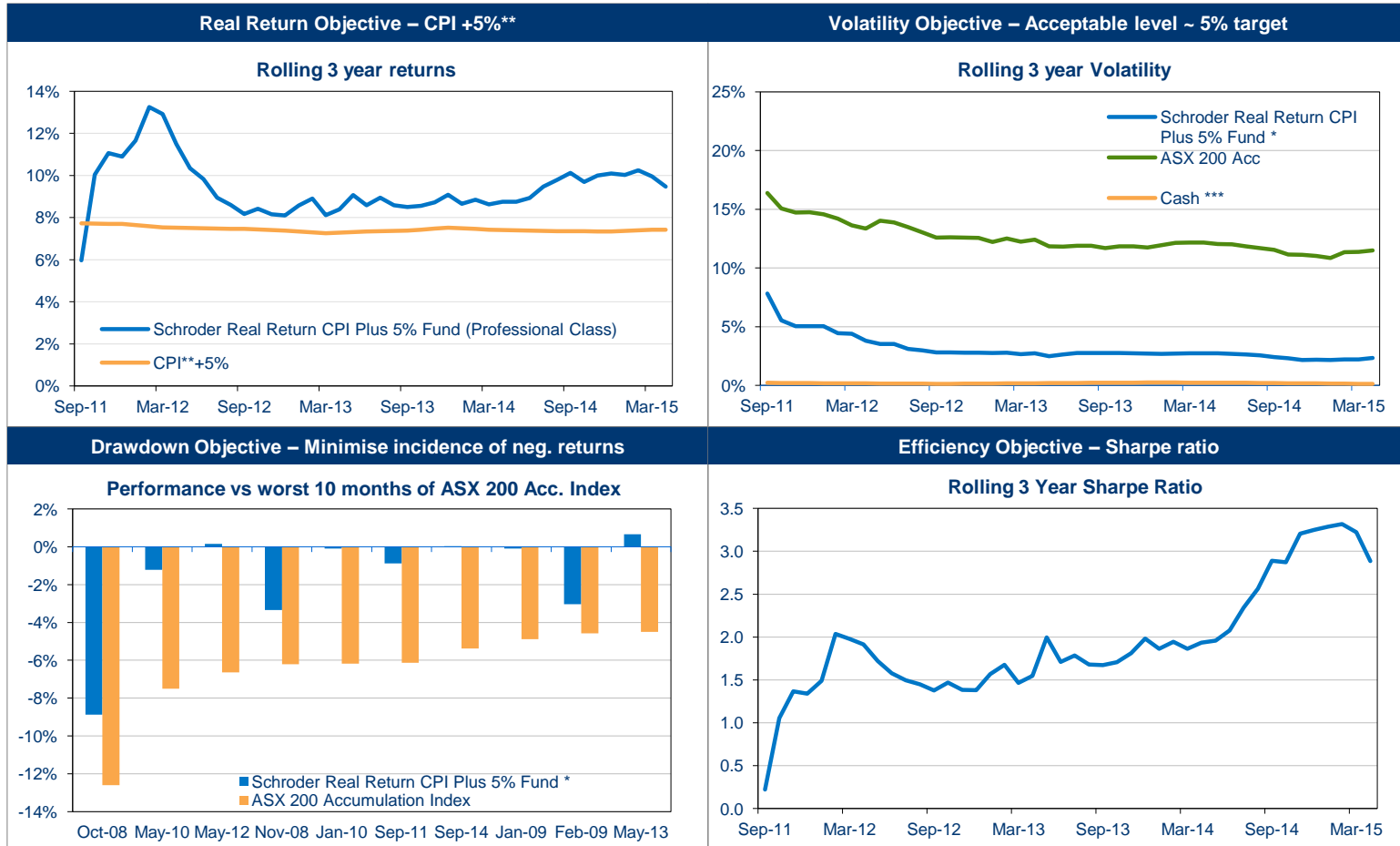
Distribution of Returns against Objective - Real Return CPI + 5% Fund



Source: Schroders. Returns are for Schroder Real Return CPI Plus 5% Fund (Professional Class, pre-fees) to 30 April 2015. Australian CPI growth for the 3 years to April 2015 is assumed to be at the same level as for the 3 years to March 2015

Schroder Real Return CPI Plus 5% Fund

Performance v objectives (risk & return)



* Performance of the Schroder Real Return CPI Plus 5% Fund Professional Class ** CPI is measured by the RBA Trimmed Mean as published by the ABS.

*** The proxy for Cash is the RBA Cash Rate. Gross performance is measured as at 30 April 2015.

Source: Schroders, Bloomberg, Datastream.

Questions?

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