October 2020

Schroder Real Return CPI Plus 5% Fund Wholesale Class

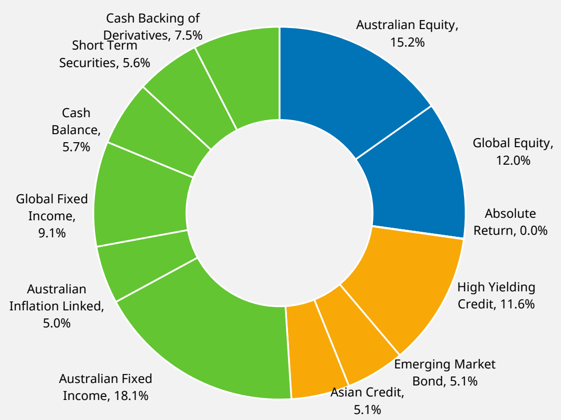
Monthly Report

Total return %	1 mth	3 mths	1 yr	3 yrs p.a.	5 yrs p.a.	Inception p.a.
Schroder Real Return CPI Plus 5% Fund (pre-fee)*	0.66	0.66	1.49	3.73	4.48	6.30
Schroder Real Return CPI Plus 5% Fund (post-fee)*	0.58	0.44	0.58	2.81	3.55	5.35
Distribution^	0.00	0.00	3.40	3.47	3.99	4.24
Growth^^	0.58	0.44	-2.81	-0.67	-0.45	1.11

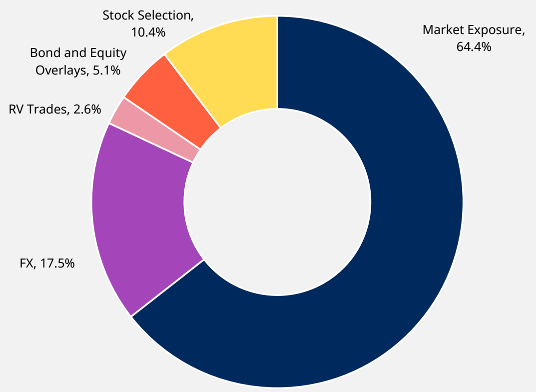
Portfolio inception 01/07/2010

*Performance may be impacted by changes in the buy/sell spread over the period.
Past performance is not a reliable indicator of future performance. Returns over 12 months are annualised.

Asset allocation - Capital Weights



Asset allocation - Risk Weights



RBA CPI Trimmed Mean* as at 30 September 2020

3 months	0.41%
1 year	1.19%
3 years. p.a.	1.48%
5 years. p.a.	1.94%
Since Inception	1.99%

*The RBA CPI Trimmed mean returns are published quarterly by the ABS. Historical returns may be subject to revisions.

^ Represents distributions as a proportion of total net return
^^ Price to price return excluding distribution reinvestments
Portfolio refers to the Schroder Real Return CPI Plus 5% Fund Wholesale Class

Unless otherwise stated figures are as at the end of October 2020
Numbers may not total to 100 due to rounding
* Inception date of the Schroder Real Return CPI Plus 5% Strategy is 1 October 2008, as represented by the Schroder Real Return CPI Plus 5% Fund - Professional Class

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.

Portfolio review

The Schroder Real Return CPI Plus 5% Fund ("Fund") returned 0.58% (post-fees) in October, taking the calendar year to -0.01% (post-fees). Over the 1 year to October the strategy delivered a 0.58% (post-fees) return, while the annualised return for the 3 year period was 2.81% (post-fees). The volatility and drawdown remains consistent with our objectives.

Largest contributors

FX was the largest positive contributor in October, adding roughly 0.4% to overall portfolio returns, with a selloff in the AUD helping to drive FX returns. A tightening of credit spreads added an additional 0.2% to returns, while our relative value trades and global equities stock selection also made a moderate positive contribution.

Largest detractors

The main detractors to returns in October were global equity beta, Australian equity stock selection and USD duration. All three of these factors weighed on portfolio returns by approximately -0.1% each.

Market Review

Having personally lived through New York lockdown and then hotel quarantine as I relocated home to Australia, I thought time standing still might be behind me… however, October turned out to be a long month - waiting for the first Tuesday in November to come around felt exhausting. My inbox overflowed with scenario analysis, expert commentaries and alternative data tracking sources. We now know that most of that proved to be worthless as the widely projected "Blue Wave" didn't materialise nor did the eventual "worst outcome" of a gridlocked Washington (Biden + Republican Senate) result in a market selloff. One prediction that does look to be validated was Republicans keeping hold of a Senate majority (at least until the Senate runoff for Georgia in January) which while not decisive, did swing in the Republican's favour from mid-October, dragging risk assets lower as the odds of an enlarged fiscal stimulus in the US fell.

Under the shadow of the US election and rising COVID-19 infection rates, markets struggled in October with the most cyclically sensitive areas hit hardest. European equities (DAX -9.4%) and oil (WTI -11%) were amongst the poorest performers as investor concerns focused on falling demand and renewed shutdowns across Europe. US equity markets were not immune to this negative sentiment falling for their second consecutive month (S&P -2.7% & Nasdaq -2.3%). In fact, apart from fixed income markets eking out small positive numbers, the only markets to register gains were those linked to China. Emerging market equities were a beneficiary, rising 2.1% during October.

Geopolitical risk is a chronic problem that is likely to remain for the foreseeable future. We will continue to see periods of elevated tensions around flash points like elections, however we believe that we are unlikely to return to a world focused on globalisation in the near-term. No matter what the outcome of the election we were positioning for more stability and certainty. The mere fact that a potentially volatile event has passed leads to a level of increased certainty and stability. Combining this view with the principle that we had no information edge on the outcome we did not position the portfolio for any single outcome. One trade we did add to the portfolio during October was to sell out-of-the-money S&P 500 puts. The trade was designed to benefit from the higher implied volatility around the November election which no matter the outcome we expected to diminish once the result was known.

While October delivered more positive news on Australian lockdowns with considerable easing of restrictions in Victoria and state borders reopening. Unfortunately, in Europe after a relatively successful summer period they are now experiencing a second wave as they enter into colder months. This second wave appears to be worse than the first with daily infection numbers eclipsing those seen in the first wave and as yet are not showing signs of being stabilised. These numbers could be impacted by higher levels of testing today, however the double-digit positive test rates are still cause for concern. Despite higher infection rates the death rates are not rising by the same magnitude, still sitting below the first wave's levels. While this is a positive, European leaders including in Germany, France & the UK were forced to re-institute lockdowns to contain infection rates as hospitalisation rates soared pointing to ICU capacities being reached in a matter of weeks.

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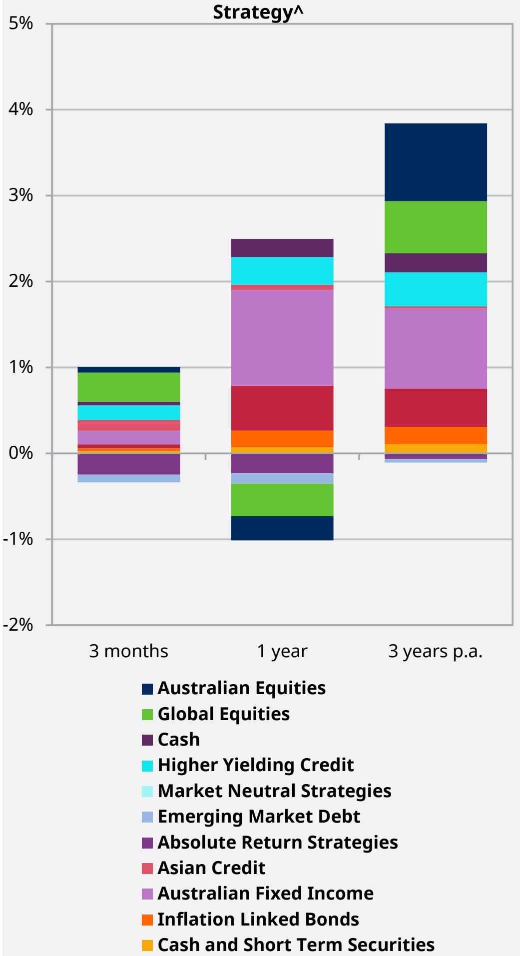
Performance

Contributions to Returns (Gross of Fee) of the Schroder Real Return CPI Plus 5% Strategy^



Fund details

APIR code	SCH0047AU
Fund size (AUD)	$1,389,994,046
Redemption unit price	$1.1192
Fund inception date	July-2010
Buy / sell spread	0.20%/0.20%
Management costs	0.85%
Minimum initial investment	$20,000
Distribution frequency	Normally twice yearly - June and December

Unless otherwise stated figures are as at the end of October 2020

^Strategy relates to the Schroder Real Return CPI Plus 5% Professional Class

Market Review continued

Dovish messaging continued from central bank policy makers including negative rates chatter from the Bank of England and the Reserve Bank of Australia telegraphing further interest rate cuts and the inception of quantitative easing (QE). While the RBA stopped short of negative rates at 0.1% their announcement of a six-month A$100bn QE program will be stabilising. Under this ongoing low rate environment, we undertook two main actions in the portfolio. We moved our Australian government duration “out the curve” favouring 10-year maturity which will benefit from additional RBA QE. We continued to deploy cash into higher quality investment grade Asian credit which is offering a considerable yield pickup versus western peers. We also reduced our exposure to Australian mortgages as their yield is now sub 1%.

With the US election now effectively out of the way, the outlook for markets is somewhat clearer. We know that monetary policy will remain supportive across both developed and emerging markets. Fiscal stimulus will remain in large and increasing scale across much of the world, however the significant increase in budget deficit for the US under a “Blue Wave” scenario is no longer realistic. Instead what a split US congress signals is no material change to current market conditions. A material increase to the US budget deficit will require additional substantial economic shock otherwise Senate Republicans are likely to resort to usual Washington politics of partisanship and horse trading. As far as US policy, we expect a move back towards realignment of global allies through the likes of resigning of the Paris accord. We do however see a continuation of a harder stance against China as that policy has always had bipartisan approval. We may see the current trade tensions subside; however we expect Biden to continue to hold firm against China especially in areas of technology and intellectual property.

Market Outlook

Equity

Most developed equity markets pulled back in October as uncertainty around the US election and a potential fiscal package, as well as a continued resurgence of COVID-19 through Europe, which resulted in lockdowns across a number of European nations, all weighed on financial markets. There were some bright spots though, with Australian and emerging market equities both producing positive returns. The Q3 earnings season in both the US and Europe is about 80% reported and has generally been quite positive, with a large majority of companies beating analyst expectations and large surprises to the upside on average – though the market reaction has been more muted as it had already priced in much of the upside.

While we remain moderately cautious on equity markets given the extended valuations, we have continued to add to risk at the margin, through selling additional out of the money S&P 500 put options, which allows us to collect a premium while the VIX is still trading at a relatively high level of over 30, and would ensure we effectively buy back into the market should the S&P 500 fall to the 3000 level.

Fixed Income

There was divergence in global bond markets, as US long end yields increased through October as the market began to price in the prospect a Democratic sweep in the US elections, and the subsequent increase in projected fiscal expenditure. In core Europe, bond yields moved in opposite direction as a number of countries in the continent moved towards another lockdown. The Australian market was little changed. Credit spreads tightened moderately at the global level, while in Australia they were flat.

Over the month we made a few changes to our fixed income positions, though overall portfolio duration remains at 1.75 years. We continued to add to our diversifiers, through adding 1.5% to Asian credit and taking the total allocation there to 5%. Meanwhile, we have sold down our Australian mortgage holdings to 2% given the low sub 1% yields and limited liquidity. Finally, we tweaked our Australian duration holdings to hold more of our exposure on the longer end in anticipation of the subsequently announced RBA QE program, as opposed to the shorter end which is already anchored.

Currency

The AUD sold off during the month as it priced in the prospect on an RBA rate cut and a QE program, while the US dollar (USD) saw some moderate strengthening against other developed market currencies. While our overall portfolio level FX exposure remains unchanged, we have shifted some of our USD exposure to Japanese yen (JPY) as it has greater valuation support and is expected to perform strongly in a risk off environment.

Discontinuation of the London Interbank Offered Rate

This notification is to inform you of the changes that will arise due to the discontinuation of the London Interbank Offered Rate (and other similar rates) by the end of December 2021 and its impact on our funds. For more details, please refer to our policies & notices page on our website www.schroders.com.au

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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.

Schroders