

# Newton Real Return Inst W Acc

November 2018

## Outcome

The fund has a performance aim of one-month sterling cash plus at least 3.25% net of fees over five years. The fund aims to achieve a positive absolute return on a rolling three year basis. Over the manager's tenure, the fund has met these objectives. However, the manager has a focus on the long-term and the fund is exposed to stock markets, which may result in periodic draw downs.

Capital Accumulation	Capital Preservation	Income	Inflation Protection
●	●		

## Performance Objective

The manager aims to achieve a return of one-month sterling cash plus at least 3.25% p.a. net of fees over a five year period.

<b>Active/Passive:</b> Active	<b>IA Sector:</b> IA Targeted Absolute Return
<b>Launch Date:</b> 01/09/1993	<b>Fund Size (as at 31 Oct 2018):</b> £8005.2m
<b>Yield (as at 13 Nov 2018):</b> 2.3%	<b>Distribution Pay Date:</b> Jan 01, Jul 01 (Final)
<b>Fund Manager:</b> Aron Pataki, Suzanne Hutchins	<b>Ongoing Charge Figure:</b> 0.80%
<b>Domicile:</b> United Kingdom	<b>Transaction Cost ex Ante:</b> 0.15%
<b>Multi-Manager:</b> No	



## Fund Opinion

Iain Stewart is a veteran investor who has worked at Newton for over 25 years, managing both multi asset and global equity mandates. He has the able support of the experienced Newton Real Return team and for instance, he works closely with portfolio managers, Suzanne Hutchins and Aron Pataki, on this fund. The key attractions of this fund are the established Newton Global Thematic approach that is at the core of the process, combined with the experience of Mr Stewart. We think this is an appealing option for investors seeking a fund that is focused on capital preservation and delivering positive absolute returns over the long-term.

## Fund Description

Fund manager, Iain Stewart, has been at Newton for over twenty years and he has managed the Real Return fund since 2004. He is supported by the Newton Real Return investment team of 8 professionals on this strategy.

In the manager's view, the main risk to any investment is the permanent loss of capital and short-term volatility is of secondary consideration if the underlying investments remain sound. The manager focuses his attention on determining what would represent long-term fair value for various asset classes and securities. The process starts with the fund's performance aim, which is to generate returns of cash plus at least 3.25% net of fees, and maintain a level of volatility somewhere between that of bonds and equities.

Newton take a global thematic approach to investing which focuses on structural changes impacting the global economy such as demographic shifts and the growing demand for healthcare. This analysis provides the basis for the views taken on asset class, sector and stock selection, currency and expected volatility that define the fund's structure. Newton strongly believes that it is better to view investments from a global perspective. The analyst team draw up stock recommendations based around these themes and the portfolio manager uses these to build the fund's portfolio. The portfolio is broadly constructed across multiple asset classes without reference to any benchmark and the manager aims to construct a highly diversified portfolio. The fund operates with a core of return seeking assets, and these are complemented with stabilising assets and hedging positions to dampen volatility and provide downside protection. Derivatives and hedging strategies are employed for efficient portfolio management and downside protection, but the manager will not use leverage or sell short individual stocks.

The fund is relatively unrestricted and the manager has wide discretion of where to invest. Individual equity weightings will be limited to 5% and no more than 20% will be invested in any one global equity sector. Typically the fund has had a volatility ranging from 10-12% p.a., which is a greater level than the bond market and less than the equity market.

## Risk Summary

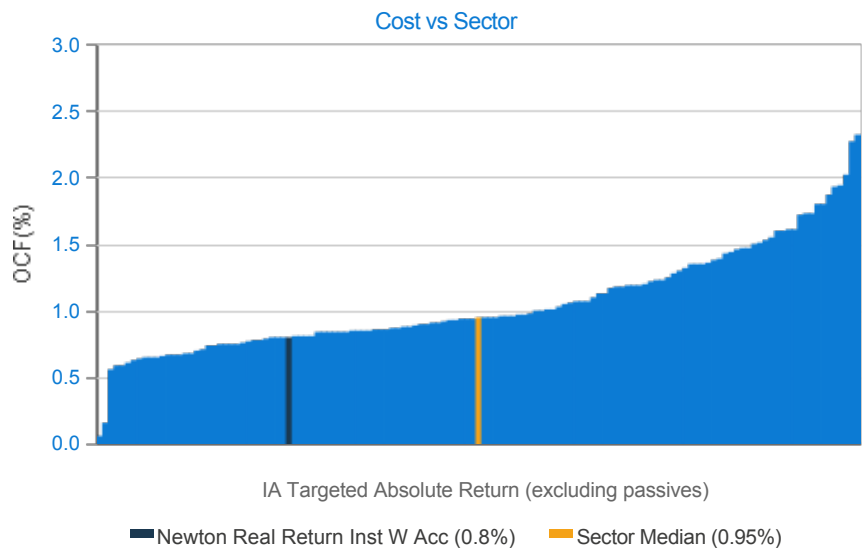
The fund invests in global equities and government fixed interest markets. Equities are a volatile asset class and the proportion of the fund invested overseas is open to exchange rate risk. The fixed interest section of the fund has interest rate risk. We believe that the fund's asset mix provides some element of capital protection for investors over the longer term, however, this is an objective of the fund and not guaranteed.

## Value for Money

(Calculation as at 15 Nov 2018)

The ongoing charge figure (OCF) of this fund is lower than many other funds within the sector. We see this fund being very good value for money largely because investors have access to a highly experienced manager who over a number of market cycles has proven to provide strong risk adjusted returns.

Following the introduction of MiFID II regulations in January 2018, asset management firms are now required to disclose all costs and charges related to the running and administration of funds. This can include items outside of the OCF, such as research costs. As a result, Newton Investment Management will be absorbing the costs associated with their research, which should slightly reduce the overall fee paid by investors. This step is at the discretion of each fund group, but it is one that a number of firms have followed.



This chart shows the ongoing charge figure (OCF) for the fund relative to the median and all other funds in the sector. Each blue bar represents the OCF of an individual fund's 'primary' share class as meets the Investment Association's definition.

## Socially Responsible Investing

Within Newton's global research team, there are a number of sub teams, one of which is the responsible investment team (RIT). The RIT work with Newton's industry and credit analysts to ensure that material ESG (environmental, social and governance) issues are integrated into valuation expectations. The RIT carries out proprietary ESG research to ensure that a company or issuer's ESG practices are taken into account in assessing the investment case. Before an analyst recommends any new security for investment, the RIT carries out an ESG quality review, which allows the investment team to understand the key ESG risks and opportunities being faced by a potential investment.

**Additional Information**

<b>Annualised Return</b>	1.58%
<b>Annualised Volatility</b>	5.20%
<b>Max Drawdown</b>	-6.27%
<b>Max Gain</b>	6.59%
<b>Max Loss</b>	-5.38%
<b>Sharpe Ratio</b>	0.00
<b>Sortino Ratio</b>	-0.39

(3 year data to last month end)

**Currency of Share Class**

GBP

**Fund Price (as at 13 Nov 2018)**

115.3 pence

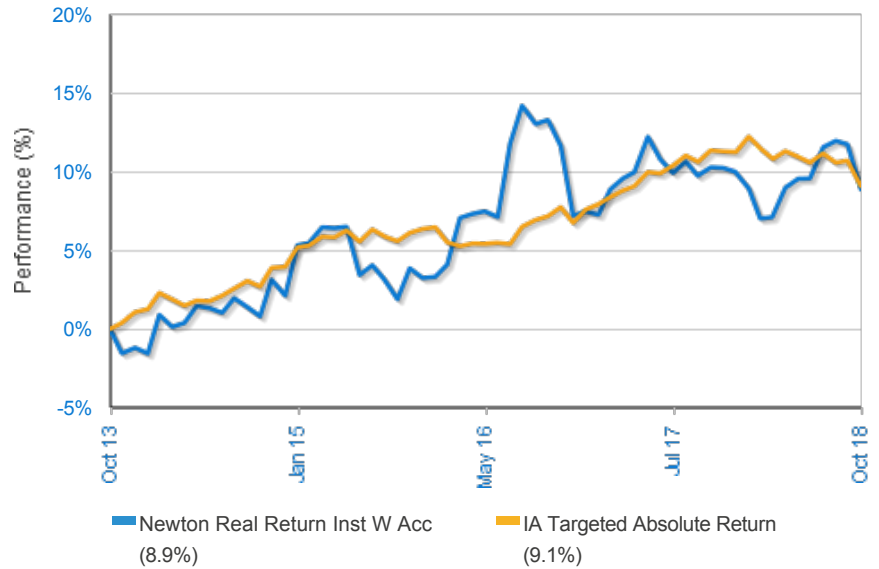
**Benchmark**

LIBOR GBP 1 Month

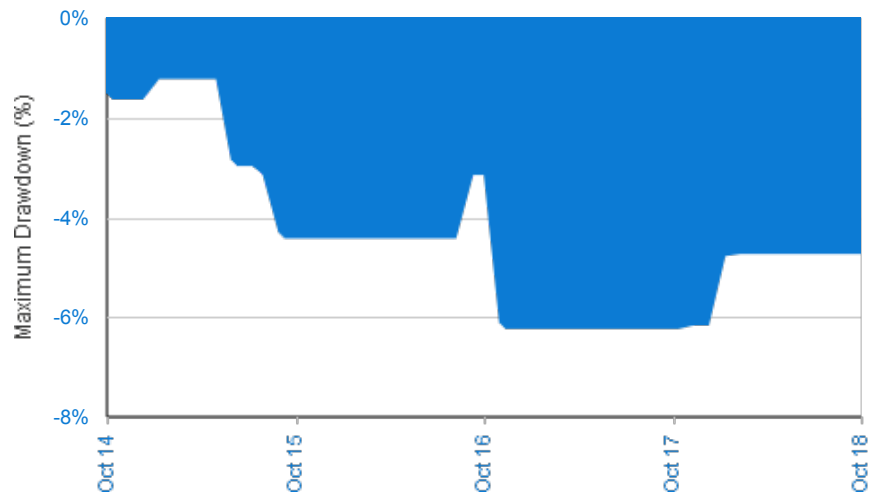
**Discrete Annual Performance to Last Quarter End**

Period	Fund (%)	Sector (%)	Quartile Ranking
0-12m	1.8	0.1	2
12-24m	-3.1	3.2	4
24-36m	11.2	1.5	1
36-48m	0.5	2.5	3
48-60m	3.7	4.2	3

**Capital Growth**



**Maximum Drawdown (Rolling 12 Months)**



### Asset Allocation Positioning

Name	%
Global Government Fixed Interest	19.6
Europe ex UK Equities	16.9
North American Equities	14.0
Cash & Cash Equivalents	13.1
UK Equities	9.1
Asia Pacific ex Japan Equities	6.3
Commodity & Energy	5.7
Others	15.3

(Data as at 30 Sep 2018)

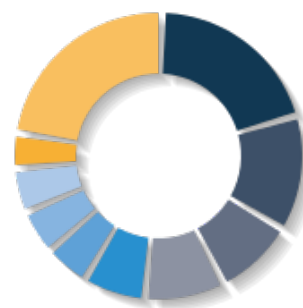
### Top Ten Holdings

(Data as at 30 Sep 2018)

Company Name	%
UNITED STATES OF AMER TREAS BILLS 2.25% TB 15/11/27 USD100	9.4
NOVARTIS AG	2.2
AUSTRALIA(COMMONWEALTH OF) 3% TB 21/03/47 AUD100 (CDI)	2.1
CISCO SYSTEMS INC	2.1
AIA GROUP LTD	1.9
CANADA HOUSING TRUST NO 1 2.35% BDS 15/06/27 CAD5000	1.8
ISHARES PHYSICAL GOLD ETC	1.8
AUSTRALIA(COMMONWEALTH OF) 3.75% TB 21/04/37 AUD100 (CDI)	1.6
SAMSUNG SDI	1.4
EVERSOURCE ENERGY	1.4

### Sector Breakdown

(Data as at 30 Sep 2018)



- Government Bonds (20%)
- Cash & Cash Equivalents (13%)
- Financials (9%)
- Industrials (9%)
- Technology (7%)
- Corporate Bonds (5%)
- Consumer Goods (5%)
- Health Care (5%)
- Consumer Services (4%)
- Other (22.8%)

### Geographic Breakdown

(Data as at 30 Sep 2018)



- Not Specified (39%)
- Europe ex UK (17%)
- North America (14%)
- Money Market (13%)
- UK (9%)
- Pacific ex-Japan (6%)
- Others (1%)
- Japan (1%)

### Financial Express Crown Rating

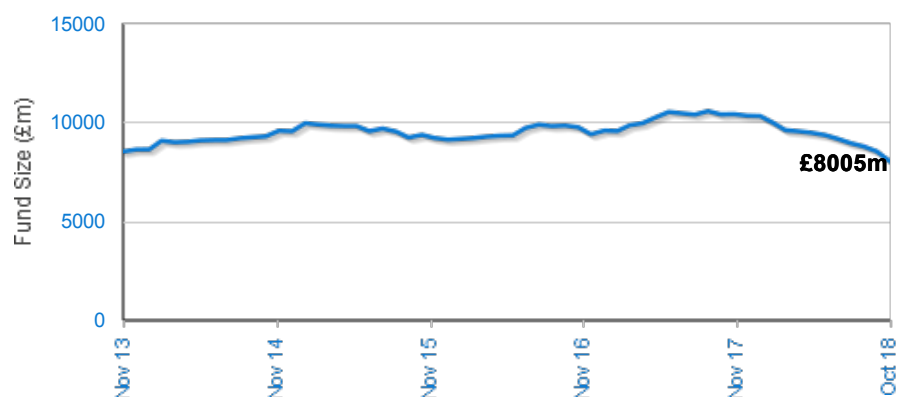


### Financial Express Alpha Manager Rating

N

### Assets Under Management

(Data as at 31 Oct 2018)



## Qualitative Risk Assessment

	Significant	Potentially Significant	Not Significant
Equity Risk	●		
Interest Rate Risk	●		
Credit Risk		●	
Exchange Rate Risk		●	
Liquidity Risk		●	
Emerging Markets Risk		●	
Derivative Risk		●	
Manager Risk	●		

### Equity Risk

The fund has some exposure to shares. Shares are volatile investments but diversification across asset classes may moderate these risks. At times of economic stress, volatility may rise as might correlations between asset class returns.

### Interest Rate Risk

This is a multi-asset fund. Higher interest rates may adversely impact valuations of many financial assets.

### Credit Risk

This is a multi-asset fund with exposure to credit markets. Note that wider credit spreads often occur at times of weaker stock markets and/or weakening economies.

### Exchange Rate Risk

The fund has some exposure to assets denominated in foreign currencies. Changes to exchange rates may impact the fund price.

### Liquidity Risk

The fund invests in assets which could be difficult to sell at certain times. In extreme circumstances the fund may have to resort to selling assets at below fair value.

### Emerging Markets Risk

The fund has the ability to invest in securities issued by governments or companies in emerging markets, though the bulk of the portfolio will be focused on developed markets.

### Derivative Risk

The fund is predominantly invested in physical assets but may employ derivative strategies as part of its risk management. These are complex instruments and investors should be aware that there is a chance they may not behave in a manner that the manager intends. The use of derivatives may increase the counterparty risks in the fund.

### Manager Risk

The manager is seen as an important element in Square Mile's rating of the fund. Square Mile is likely to downgrade the fund if the manager were to leave.

FE Risk Rating: 38

SRRI: 4

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