

# Newton Real Return Inst W Acc

May 2019

## 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, however this is not guaranteed. The managers have a focus on long-term growth and the fund is exposed to stock markets, therefore it is not immune to periods of drawdown.

| 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>Sector:</b> IA Targeted Absolute Return           |
| <b>Launch Date:</b> 01/09/1993                                   | <b>Fund Size (as at 30 Apr 2019):</b> £6767.3m       |
| <b>Yield (as at 13 May 2019):</b> 2.2%                           | <b>Distribution Pay Date:</b> Jan 01, Jul 01 (Final) |
| <b>Fund Manager:</b> Andy Warwick, Aron Pataki, Suzanne Hutchins | <b>Ongoing Charge Figure:</b> 0.80%                  |
| <b>Domicile:</b> United Kingdom                                  | <b>Transaction Cost ex Ante:</b> 0.16%               |
| <b>Multi-Manager:</b> No   |  |



## Fund Opinion

This fund benefits from an experienced team of managers who focus on the delivery of Real Return strategies. Iain Stewart is a veteran investor who has worked at Newton for over 25 years, managing both multi asset and global equity mandates and who began managing the fund in 2004. He continues to have an important influence in the broader management of the real return strategy given his role as a strategist on the team. However, the fund also has depth in its day to day management team with three experienced named managers, Suzanne Hutchins, Aron Pataki and Andy Warwick at the helm. Andy Warwick is the most recent hire and has bolstered the team's resources as well as supporting succession planning as Iain Stewart has chosen to re-focus his role towards strategy.

The main attractions of this fund in our view are Newton's established global thematic approach which remains at the core of the process here, combined with the broader depth of the Real Return team.

While the fund has struggled to meet its performance objective more recently given its generally cautious positioning, 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

This is an unconstrained, multi-asset fund that is managed with an absolute return approach to deliver long-term real returns. The fund has a formal performance objective to achieve a return of one-month sterling cash plus at least 3.25% p.a. net of fees over a five year period.

In the managers' view, the main risk to any investment is the permanent loss of capital and short-term volatility is a secondary consideration. The managers' focus their attention on determining what would represent long-term fair value for various asset classes and securities, building the portfolio to generate their return target of cash plus 3.25% while looking to maintain volatility between that of equities and bonds.

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 positioning, stock selection, currency and the expected volatility that define the fund's structure. The analyst team draw up stock recommendations based around these themes and the portfolio managers use these where relevant to build the fund's portfolio.

The portfolio is broadly constructed across multiple asset classes without reference to any benchmark and the managers aim to construct a highly diversified portfolio. The fund is built 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 managers do not use leverage or sell short individual stocks. While the managers' have wide discretion on where to invest there are some portfolio construction limits designed to control risk. Individual equity weightings are limited to 5% and no more than 20% will be invested in any one global equity sector.

The fund is managed by Suzanne Hutchins, Aron Pataki and Andy Warwick. Following some changes at Newton in late 2017, Suzanne Hutchins became the leader of the Real Return investment team. Long-time fund manager of the strategy Iain Stewart (who had managed the fund since 2004) moved to a strategy role on the team, relinquishing day to day portfolio management activities. However, his involvement remains embedded in the real return strategy and its management. Complementing Iain's experience, Suzanne Hutchins has over 25 years of experience and they have worked together for sometime. Aron Pataki joined Newton in 2006 and has a particular focus on derivatives and hedging. The newest recruit, Andy Warwick joined in 2018 from BlackRock where he was also an experienced multi-asset manager. The trio of managers are additionally supported by the wider resources of Newton's Real Return team.

## Risk Summary

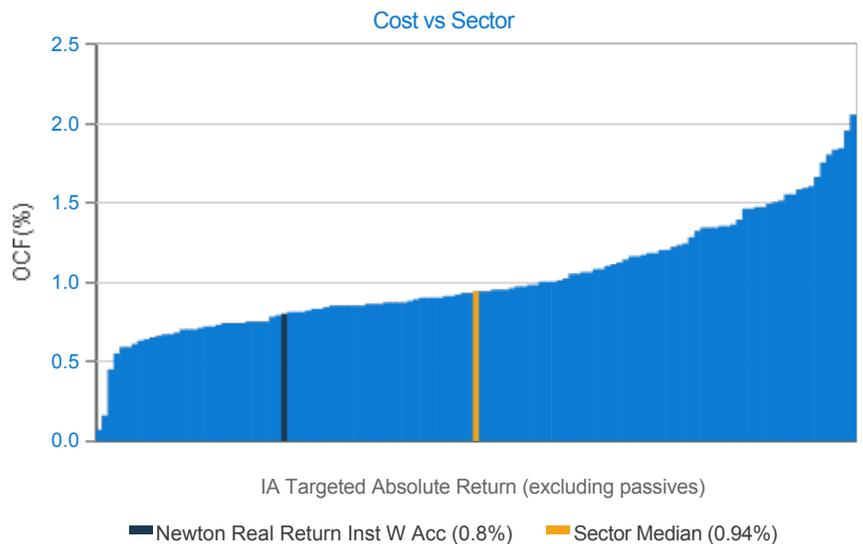
The fund invests in global equities and government fixed interest markets. Equities are a volatile asset class and a proportion of the fund invested overseas is open to exchange rate risk. The fixed interest section of the fund has interest rate risk. The fund will also invest actively in derivatives to support the fund's capital preservation objectives. We believe that the fund's asset mix and approach can provide some element of capital protection for investors over the longer term, however, this is an objective of the fund and not guaranteed. The fund can also experience significant shorter term drawdowns of capital.

## Value for Money

(Calculation as at 15 May 2019)

The ongoing charge figure (OCF) of this fund is lower than many other funds within the sector. We see this fund as being good value for money largely because investors have access to an experienced team and a strategy that has been proven since Iain Stewart began managing it in 2004.

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 for any potential investment.

**Additional Information**

|                              |        |
|------------------------------|--------|
| <b>Annualised Return</b>     | 1.68%  |
| <b>Annualised Volatility</b> | 5.14%  |
| <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>         | -0.22  |

(3 year data to last month end)

**Currency of Share Class**

GBP

**Fund Price (as at 13 May 2019)**

121.8 pence

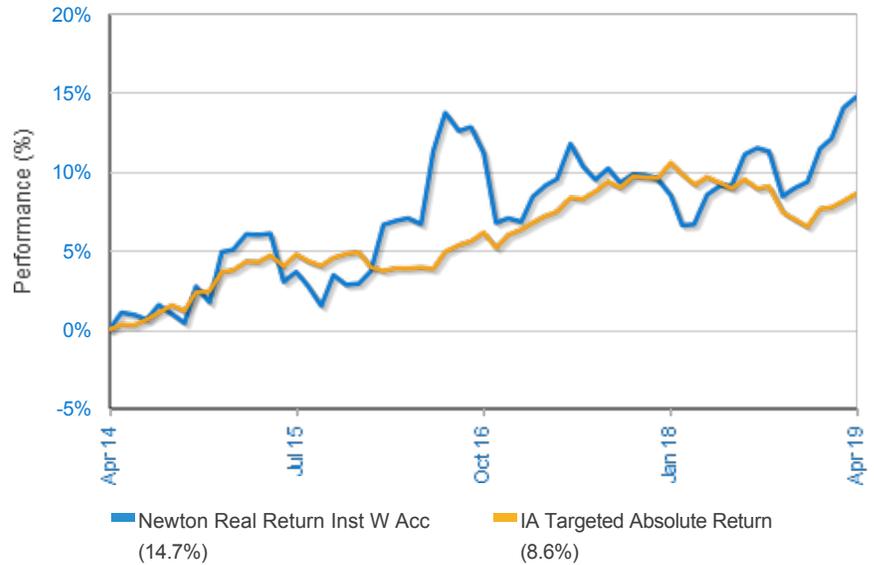
**Benchmark**

LIBOR GBP 1 Month

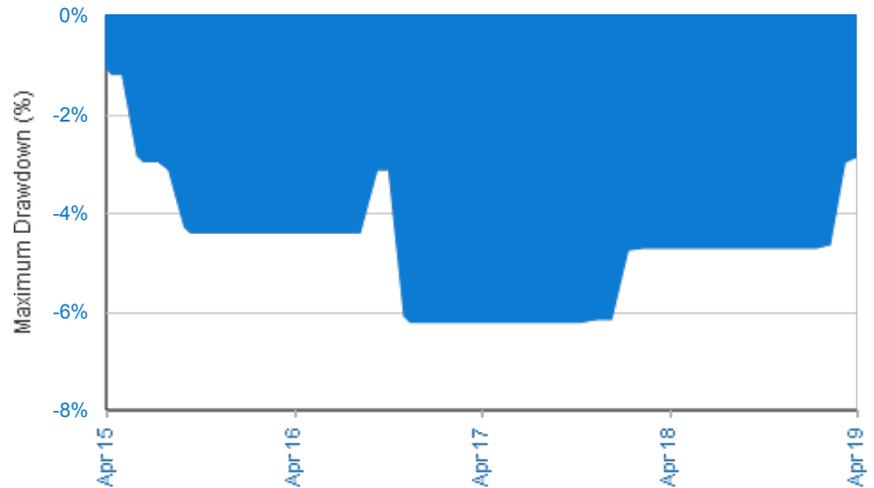
**Discrete Annual Performance to Last Quarter End**

| Period | Fund (%) | Sector (%) | Quartile Ranking |
|--------|----------|------------|------------------|
| 0-12m  | 6.9      | -1.0       | 1                |
| 12-24m | -2.2     | 1.8        | 4                |
| 24-36m | 2.1      | 3.2        | 3                |
| 36-48m | 0.8      | -0.4       | 2                |
| 48-60m | 6.3      | 3.9        | 2                |

**Capital Growth**



**Maximum Drawdown (Rolling 12 Months)**



### Asset Allocation Positioning

| Name                                  | %    |
|---------------------------------------|------|
| Global Government Fixed Interest      | 25.3 |
| Europe ex UK Equities                 | 11.6 |
| Alternative Assets                    | 10.8 |
| North American Equities               | 10.2 |
| Commodity & Energy                    | 9.1  |
| Global Emerging Market Fixed Interest | 7.4  |
| Global Corporate Fixed Interest       | 6.6  |
| Others                                | 19.0 |

(Data as at 31 Mar 2019)

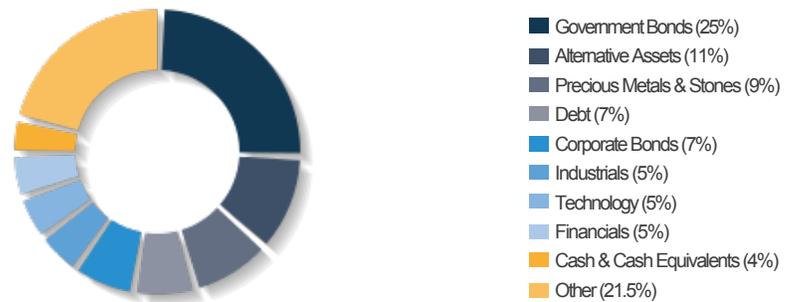
### Top Ten Holdings

(Data as at 31 Mar 2019)

| Company Name   | %    |
|--|------|
| UNITED STATES OF AMER TREAS BILLS 3.375% BDS 15/11/48 USD100 | 14.1 |
| ISHARES PHYSICAL GOLD ETC                                    | 4.4  |
| ISHARES J.P. MORGAN USD EM BOND UCITS ETF                    | 4.1  |
| AUSTRALIA(COMMONWEALTH OF) 3% TB 21/03/47 AUD100 (CDI)       | 2.2  |
| INVESCO PHYSICAL GOLD ETC                                    | 2.1  |
| NOVARTIS AG  | 2.0  |
| ETFs METAL SECURITIES LTD ETFs PHYSICAL GOLD (DT ZERT)       | 1.9  |
| AUSTRALIA(COMMONWEALTH OF) 3.75% TB 21/04/37 AUD100 (CDI)    | 1.8  |
| AIA GROUP LTD  | 1.8  |
| DEUTSCHE WOHNEN SE   | 1.6  |

### Sector Breakdown

(Data as at 31 Mar 2019)



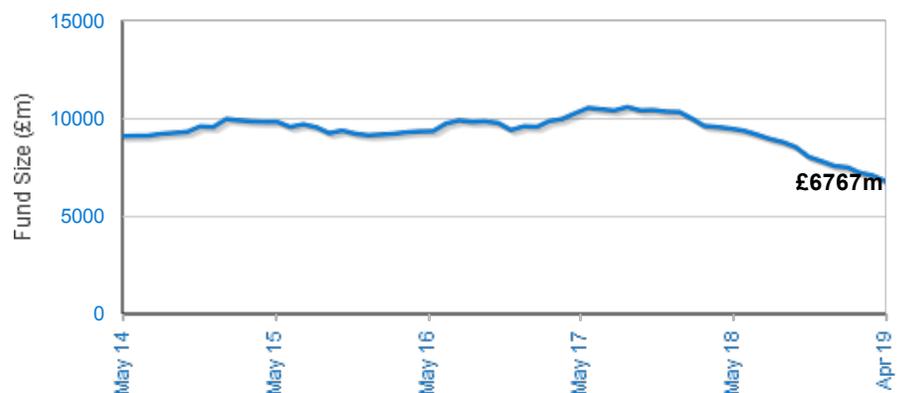
### Geographic Breakdown

(Data as at 31 Mar 2019)



### Assets Under Management

(Data as at 30 Apr 2019)



### Financial Express Crown Rating



### Financial Express Alpha Manager Rating

N

## 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 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 trio of individuals managing the fund have varying levels of experience. Any changes to key individuals on the strategy, including Iain Stewart, would trigger a review of our rating.

FE Risk Rating: 35

SRRI: 3

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