

# BNY Mellon Real Return Inst W Acc

August 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 31 Jul 2019):</b> £6685.8m
<b>Yield (as at 13 Aug 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> 0.15%
<b>Multi-Manager:</b> No	



## Fund Opinion

Following the news that long-standing fund manager and strategist Iain Stewart is to retire in December 2019, we have suspended the AA rating of the BNY Mellon Real Return fund. The confirmation of Mr Stewart's retirement is not unexpected and Newton had been transitioning the role and responsibilities of the Real Return team for some time. Indeed, he has not been involved in the day to day management of the fund since June 2018.

Day to day management remains the responsibility of Suzanne Hutchins, Andy Warwick and Aron Pataki and there is no change in this regard. Andy Warwick joined the firm from BlackRock in 2018 and he is an experienced multi-asset manager recruited to give the team further depth and capability as part of the transition planning for Iain Stewart's anticipated retirement.

The team here remain well resourced and credible. However, we are in the process of arranging an early meeting with the managers of the fund and with members of the broader strategy team at Newton to reassess the capability and support for the strategy in light of Mr Stewart's upcoming retirement.

## 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.

The team 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 within the investment team 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 in June 2018. 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 the company 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 firm's Real Return team including the strategy team.

## Risk Summary

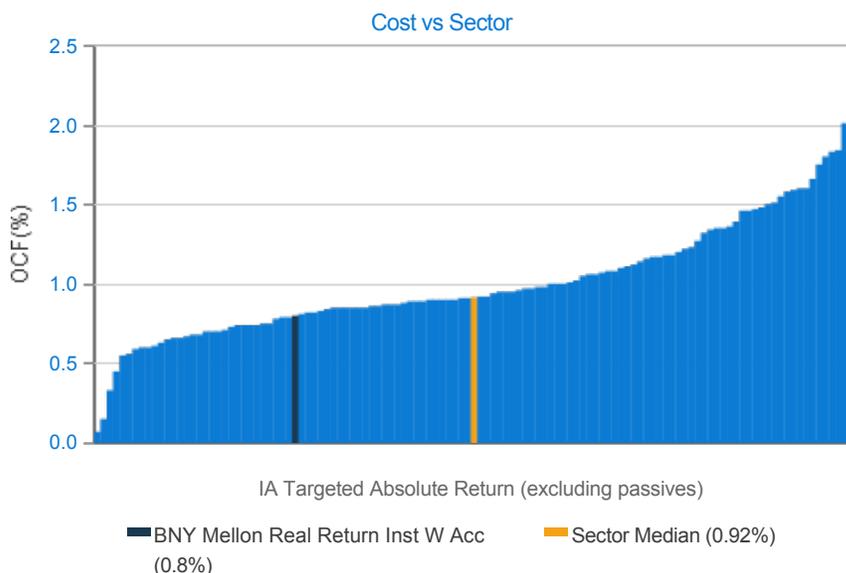
The fund invests in global equities and government fixed interest markets. Equities are a volatile asset class and a proportion of the fund invested overseas is open to exchange rate risk. The fixed interest section of the fund has interest rate risk. The fund will also invest actively in derivatives 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 Aug 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 a proven track record over the long term.

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, the business 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 the firm's global research team, there are a number of sub teams, one of which is the responsible investment team (RIT). The RIT work with the businesses 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>	1.83%
<b>Annualised Volatility</b>	4.60%
<b>Max Drawdown</b>	-6.27%
<b>Max Gain</b>	10.73%
<b>Max Loss</b>	-5.38%
<b>Sharpe Ratio</b>	0.00
<b>Sortino Ratio</b>	-0.31

(3 year data to last month end)

**Currency of Share Class**

GBP

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

128.8 pence

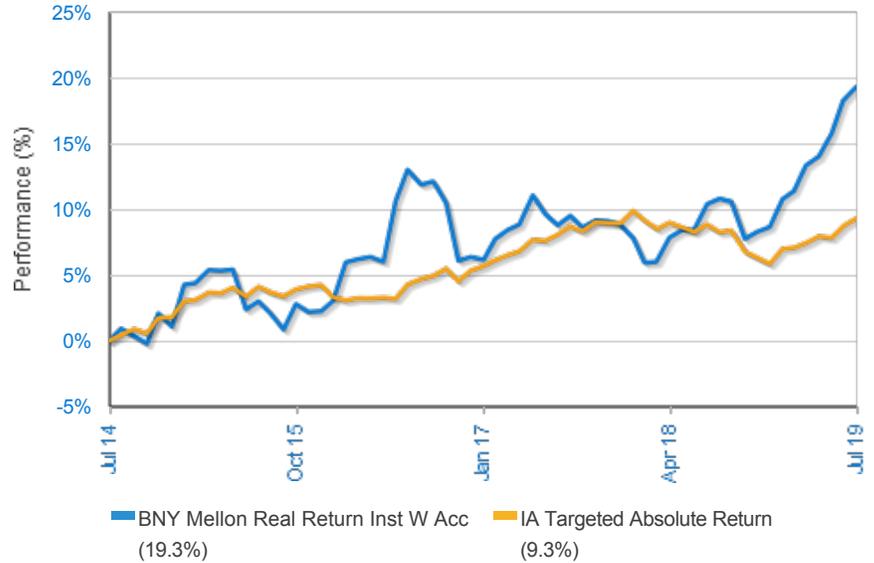
**Benchmark**

LIBOR GBP 1 Month

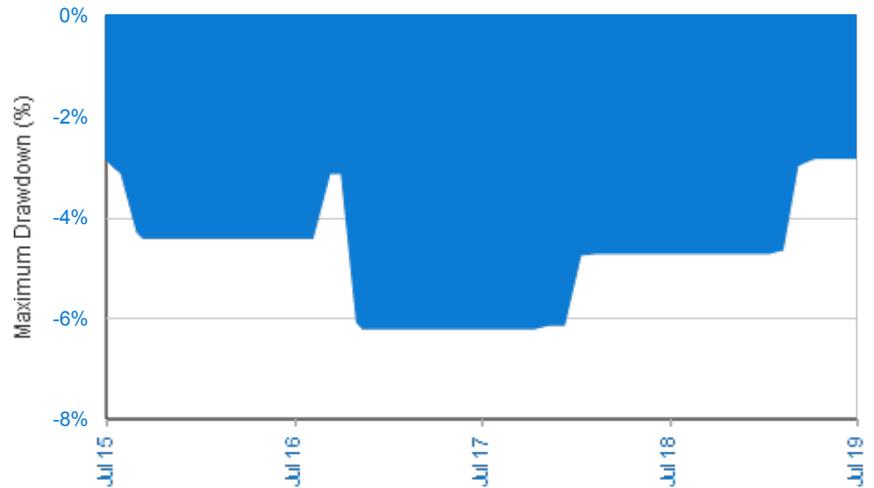
**Discrete Annual Performance to Last Quarter End**

Period	Fund (%)	Sector (%)	Quartile Ranking
0-12m	9.1	0.4	1
12-24m	-1.1	0.6	3
24-36m	-0.9	4.3	4
36-48m	8.1	-0.2	1
48-60m	2.1	3.7	3

**Capital Growth**



**Maximum Drawdown (Rolling 12 Months)**



### Asset Allocation Positioning

Name	%
Global Government Fixed Interest	18.5
Cash & Cash Equivalents	15.1
Alternative Assets	13.4
Europe ex UK Equities	11.6
North American Equities	9.5
Global Corporate Fixed Interest	8.3
Commodity & Energy	6.6
Others	17.1

(Data as at 30 Jun 2019)

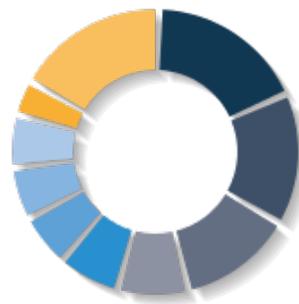
### Top Ten Holdings

(Data as at 30 Jun 2019)

Company Name	%
UNITED STATES OF AMER TREAS BILLS 3.375% BDS 15/11/48 USD100	8.0
ISHARES PHYSICAL GOLD ETC	4.9
ISHARES J.P. MORGAN USD EM BOND UCITS ETF	2.0
AUSTRALIA(COMMONWEALTH OF) 3.75% TB 21/04/37 AUD100 (CDI)	1.9
AUSTRALIA(COMMONWEALTH OF) 3% TB 21/03/47 AUD100 (CDI)	1.9
AIA GROUP LTD	1.8
CANADA HOUSING TRUST NO 1 2.35% BDS 15/06/27 CAD5000	1.7
BRAZIL(FEDERATIVE REPUBLIC OF) 4.875% NTS 22/01/21 USD1000	1.4
RENEWABLES INFRASTRUCTURE GRP(THE)	1.3
SAP SE	1.3

### Sector Breakdown

(Data as at 30 Jun 2019)



- Government Bonds (18%)
- Cash & Cash Equivalents (15%)
- Alternative Assets (13%)
- Corporate Bonds (8%)
- Precious Metals & Stones (7%)
- Debt (6%)
- Financials (6%)
- Industrials (6%)
- Consumer Goods (4%)
- Other (17.3%)

### Geographic Breakdown

(Data as at 30 Jun 2019)



- Not Specified (54%)
- Money Market (15%)
- Europe ex UK (12%)
- North America (9%)
- UK (6%)
- Pacific ex-Japan (3%)
- Japan (1%)
- Others (1%)

### Financial Express Crown Rating

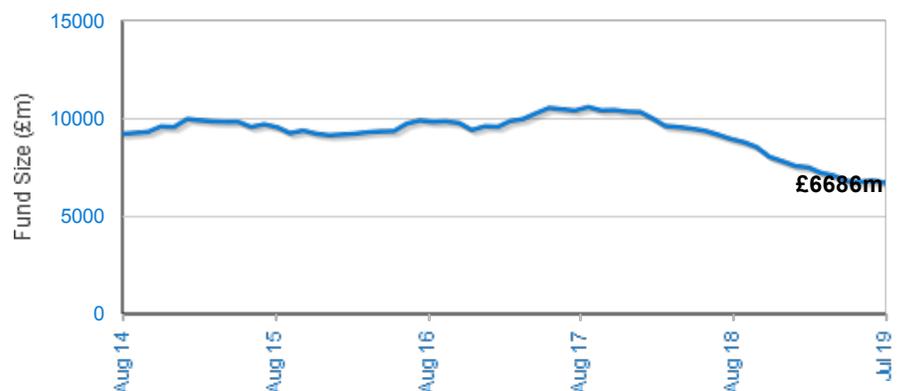


### Financial Express Alpha Manager Rating

N

### Assets Under Management

(Data as at 31 Jul 2019)



## 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 would trigger a review of our rating.

FE Risk Rating: 38

SRRI: 3

#### Disclaimer

This factsheet is published by, and remains the copyright of, Square Mile Investment Consulting and Research Limited ("Square Mile"). Unless otherwise agreed by Square Mile, this commentary may only be used by the permitted recipients and shall not be provided to any third parties. Square Mile makes no warranties or representations regarding the accuracy or completeness of the information contained in this factsheet. The information contained in the factsheet represents the views and forecasts of Square Mile at the date of publication but the information set out herein may be subject to change without reference or notification to you. Square Mile does not offer investment advice or make recommendations regarding investments and nothing in this factsheet shall be deemed to constitute financial or investment advice in any way and shall not constitute a regulated activity for the purposes of the Financial Services and Markets Act 2000. Nothing in this factsheet shall constitute or be deemed to constitute an invitation or inducement to any person to engage in investment activity. Should you undertake any investment activity based on information contained in this factsheet, you do so entirely at your own risk and Square Mile shall have no liability whatsoever for any loss, damage, costs or expenses incurred or suffered by you as a result. Unless otherwise indicated, all figures are sourced from Financial Express Limited. Please note that such figures and other information in this factsheet are believed to be reliable but their completeness and accuracy is not guaranteed and Square Mile does not accept any responsibility for errors, inaccuracies, omissions or any inconsistencies herein.