

SHINING A LIGHT ON THE..... Threadneedle Dynamic Real Return Fund

AT A GLANCE

Investment Objective	
<p>The aim of the Fund is to provide a positive real rate of return above inflation (defined as the Consumer Price Index) over the medium to long term and to provide a positive return over a three-year time period, notwithstanding market conditions. Positive returns are not guaranteed and no form of capital protection applies. The Fund invests in shares of companies and bonds (which are similar to a loan and pay a fixed or variable interest rate) issued by companies and governments, money market instruments, cash, currencies, property and commodities worldwide. Commodities are physical materials such as oil, agricultural products, and metals. The Fund makes active investment decisions and may vary exposure to or at times choose not to invest in some of the types of investments listed. The Fund invests directly in these assets, through regulated or unregulated funds, or by using derivatives.</p>	

Inception Date	18 June 2013
Fund Factsheet Link	http://www.morningstar.co.uk/uk/funds/snapshot/snapshot.aspx?id=F00000Q3C7

Management	
Manager Name	Start Date
Toby Nangle	18 June 2013

Investment Style Details	
Equity Style	
Market Capitalisation	% of Equity
Giant	37.79%
Large	33.36%
Medium	25.14%
Small	3.70%
Micro	0.01%

Top 10 Holdings		
Assets in Top 10 Holdings	84.36%	
Name		% of Assets
Threadneedle Uk Short Dated Corporate Bond		24.02%
Threadneedle European High Yield Bond		12.11%
Threadneedle Japan		10.26%
Threadneedle European Select		9.87%
Threadneedle UK		7.70%
Threadneedle Enh Cmdty Port		5.66%
United Kingdom (Government Of) 4%		4.73%
United Mexican States 8%		4.72%
Threadneedle UK Prpty Authrsd Invmt		2.93%
United Mexican States		2.37%

Volatility Measurements	
3-Yr Std Dev (volatility)	4.25%
3-Yr Mean Return (average)	6.37%

FUND PERFORMANCE

Performance from launch 18 June 2013 to 31 August 2016:

	2013	2014	2015	2016
Threadneedle Dynamic Real Return Fund	2.54%	6.20%	2.96%	7.30%
50/50 iShares Core UK Gilts/Core £ Corporate Bond	-1.58%	13.41%	0.09%	17.86%

Performance over 1 year, 3 years and since launch:

	1 year	3 years	Since launch
Threadneedle Dynamic Real Return Fund	8.33%	21.00%	20.30%
50/50 iShares Core UK Gilts/Core £ Corporate Bond	18.77%	34.05%	36.68%

You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

UPDATE....

Before diving into the update with the manager it is worth reflecting on the performance. For us this fund is seen as an alternative or blend with bonds. The aim being to have bond like volatility with equity type returns. The best measure of performance for us is bonds and although the fund appears to be behind in terms of performance it has volatility of just 4.27% over three years compared to 7.11% with the bond benchmark. Effectively delivering positive returns with lower volatility.

The fund has been tested three times in August 2015, January 2016 and June 2016. Below is how the fund performed vs the benchmark:

	1 Aug 2015 – 31 Dec 2015	1 Jan – 23 June 2016	24 June 2016 – 31 Aug 2016
Threadneedle Dynamic Real Return Fund	-0.30%	0.96%	6.28%
50/50 iShares Core UK Gilts/Core £ Corporate Bond	-0.23%	5.86%	11.34%

Taking this a step further the stated aim of the fund is to achieve a return of inflation plus 4% over a three-year time frame which the fund has achieved. Toby explained that the idea of the fund is to follow an active allocation strategy.

By this he explained that traditionally to provide downside protection investors would use a 60/40 split. By this he means 60% in equities and 40% in bonds. His view is that although bonds have performed well in the last 30 years this isn't normal and can't continue. This means the traditional ways of providing protection through bonds will not work moving forward, so a new strategy would be required.

The aim of the fund is to provide an alternative option for investors by using active asset allocation across the main asset classes to include commodities, property, bonds, equities and alternatives with a three to six-year time frame. The aim is to capture the upside but protect on the downside. As an example a slowdown in Asia may mean investing in Australian Government Bonds but blending with cheap Asian Assets. The aim is to avoid all assets correlating and therefore moving in the same direction.

The fund has been tested in difficult markets and Toby explained that this has provided opportunities which reflect the dynamic nature of the asset allocation. This is about moving across the different asset classes to capture the best ideas and returns.

In summary, if the argument is true that bonds cannot deliver the same returns moving forward and carry greater risk, then investors will need to turn to alternative investments to provide downside protection. There are a variety of options out there. This fund seems fairly straightforward and since launch has delivered its targeted return. It therefore may be a good option to consider as a blend with a bond fund or other strategies.

The source of information in this note has been provided by Threadneedle and is correct as at September 2016. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision.