

# BNY Mellon Real Return Inst W Acc

November 2021  
Investment Research



## Overview

The managers' aim to return cash (one month GBP Libor) plus at least 3.25% net of fees over five years. They also aim to achieve a positive absolute return on a rolling three-year basis, however neither are guaranteed. The managers have a focus on long-term growth and the fund is exposed to equities and other risk assets, therefore it is likely to experience periods of drawdown, which in certain scenarios could be meaningful.

Capital Accumulation	Capital Preservation	Income	Inflation Protection
●			

## Square Mile Expected Outcome

We believe that this fund should be able to achieve a return of one-month sterling LIBOR 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 29 Oct 2021):</b> £5791.3m
<b>Yield:</b> 1.83%	<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> 0.35%
<b>Multi-Manager:</b> No	



## Fund Opinion

This unconstrained multi-asset fund may have appeal for investors looking for capital growth but who are also looking to preserve the real value of their capital over the long term. The fund benefits from an experienced team who understand the dual objectives of this fund and work together in a collegiate way while making full use of the wider resources across the broader Newton team. There have been changes to the team over the last few years, with strategist Iain Stewart retiring in December 2019. While his departure was a loss in terms of his experience and influence, we think the remaining team here are experienced and capable investors.

Day to day management remains the responsibility of Suzanne Hutchins, Andy Warwick and Aron Pataki. 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 to Mr Stewart's retirement. From a global strategy perspective, Brendan Mulhern now has a key role in providing macroeconomic and strategic input and helping to inform the team in their asset allocation decisions.

The fund has a broad investment universe and is structured around a return seeking core with offsetting stabilising assets and hedges, including derivatives to help reduce and manage risk. However, over the last few years, the managers have shown a willingness to be more dynamic in the way they manage this portfolio, to take advantage of opportunities, and we have seen more volatility in the profile of the fund, something we expect to continue going forward. While the fund maintains a focus on preserving investors capital on a medium-term view over shorter periods it has experienced some significant drawdowns and this profile is something investors need to be willing to endure.

This is an established and successful strategy with a solid long-term record and we think the fund continues to be in capable hands.

## Fund Description

BNY Mellon is a global investment company providing investment management and investment services to both individuals and institutions. Within their investment management business, they own 8 boutique companies managing a total of around \$1.9trillion. This includes Newton Investment Management who manage £46bn (as at December 2020) and who manage active equity and bonds, multi-asset, real return and income mandates. All the BNY Mellon boutiques function as autonomous businesses, operating with their own investment culture and approach.

The fund is managed by a team of experienced investors at Newton Investment Management. Suzanne Hutchins, Andy Warwick and Aaron Pataki are co-managers and are supported by the wider Real Return team as well as the wider investment team and risk resources at Newton. Ms Hutchins is the head of the team and has over 25 years experience and has worked on the strategy for many years. Aaron Pataki joined Newton in 2006 and Andy Warwick, the newest recruit is an experienced multi-asset investor having joined in July 2018 from a senior role at BlackRock. The wider Real Return team includes a dedicated global strategist Brendan Mulhern, as well as equity, fixed income and alternatives analysts. BNY Mellon Real Return 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 4% p.a. before fees (3.25% p.a. net of fees) over five years. It also aims to achieve a positive return on a rolling three-year basis although neither of these outcomes are guaranteed. The managers believe the main risk to any investment is the permanent loss of capital and therefore short-term volatility is a secondary consideration. They 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.

The Real Return team, and the wider Newton business, manage the fund using a framework based on a global thematic approach to investment decision making. This focuses on identifying long-term structural changes impacting the global economy such as demographic shifts, growing demand for healthcare, climate change and the impact of China (amongst others). This analysis provides the basis for the views taken on asset classes, sector positioning, stock selection and risk analysis.

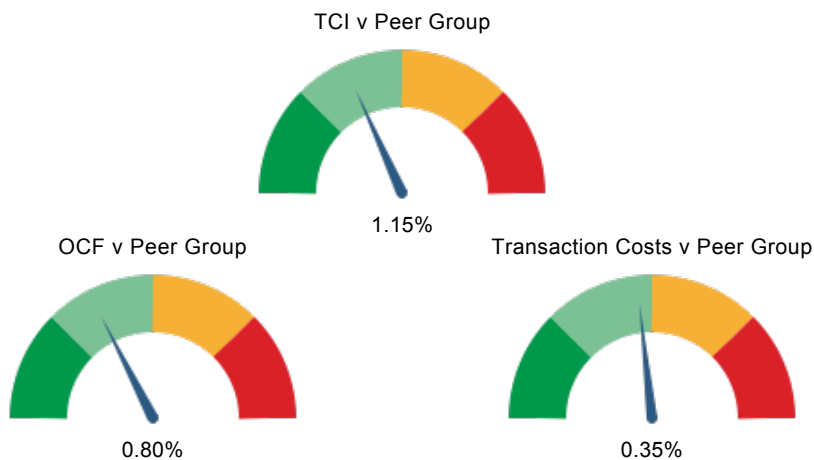
The fund is built with a core of return-seeking assets including equities, corporate bonds, alternative assets and emerging market debt. The core is complemented with stabilising assets and hedging positions to dampen volatility and provide downside protection. Derivatives and hedging strategies are employed for efficient portfolio management and downside protection. While the managers' have wide discretion on where to invest there are some portfolio construction limits designed to help control risk. Individual corporate issuers are limited to 5% at the time of purchase and no more than 20% will be invested in any one sector. Position sizes are considered after an evaluation of liquidity, themes, conviction, valuation and risk profile. Currency views are implemented by active currency positions and sterling currency hedging. The managers have a dynamic and active approach to running the portfolio and the fund is not immune from short-term drawdowns or periods of volatility, despite the managers' capital preservation mindset.

## Risk Summary

The fund invests in global equities (shares), global fixed income and alternative assets & strategies. Equities are a volatile asset class and a proportion of the fund is invested overseas is open to exchange rate risk. The fixed interest section of the fund has interest rate risk and credit risk. The fund will also invest actively in derivatives to support the fund's 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 and capital is at risk. The fund can also experience significant shorter-term falls in the value of capital.

## Value for Money

The ongoing charge figure (OCF) of this fund is lower than the median for its peer group. When we consider the total cost of investment (TCI) the fund is also competitive relative to its peers. Whilst the fund hasn't always met its challenging performance target it has done so more often than not. Overall, when considering its longer term track record, the experience of the team and its costs we see the fund as offering value for money.



## ESG Integration

<b>Company Assessment</b>	0	1	2+	3
Demonstrable steps are being taken to fully integrate ESG factors into all of the company's investment processes.				
<b>UN PRI Strategy &amp; Governance Rating</b>	A+			
<b>Fund Assessment</b>	0	1	2	3
ESG factors may be considered by the fund's manager as an input into their analysis but are not a formal part of the investment process.				

## Responsible Investing Approach

Exclusion	Responsible Practices	Sustainability	Impact
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

### Additional Information

<b>Annualised Return</b>	8.74%
<b>Annualised Volatility</b>	8.97%
<b>Max Drawdown</b>	-15.87%
<b>Max Gain</b>	4.68%
<b>Max Loss</b>	-13.46%
<b>Sharpe Ratio</b>	0.90
<b>Sortino Ratio</b>	0.67

(3 years data to last month end unless otherwise stated)

#### Currency of Share Class

GBP

#### Fund Price (as at 12 Nov 2021)

150.5 pence

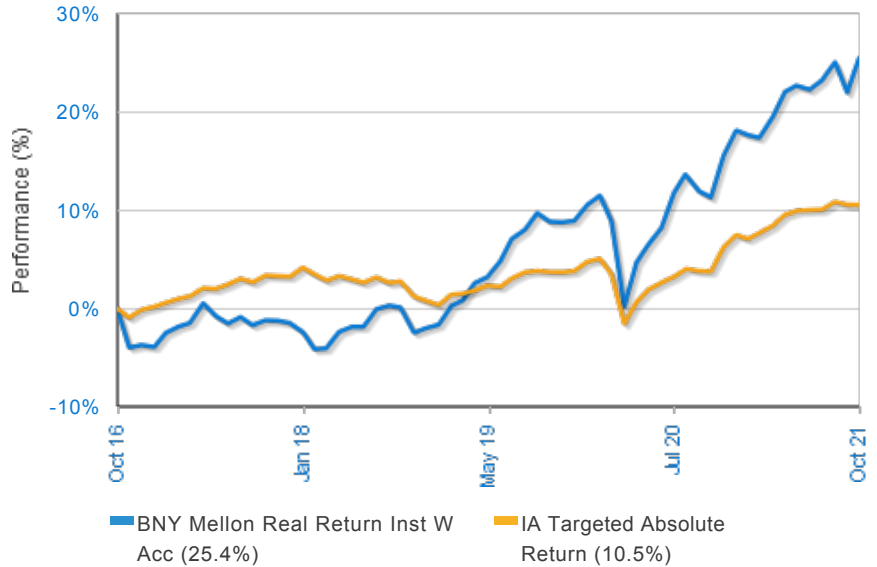
#### Benchmark

LIBOR GBP 1 Month

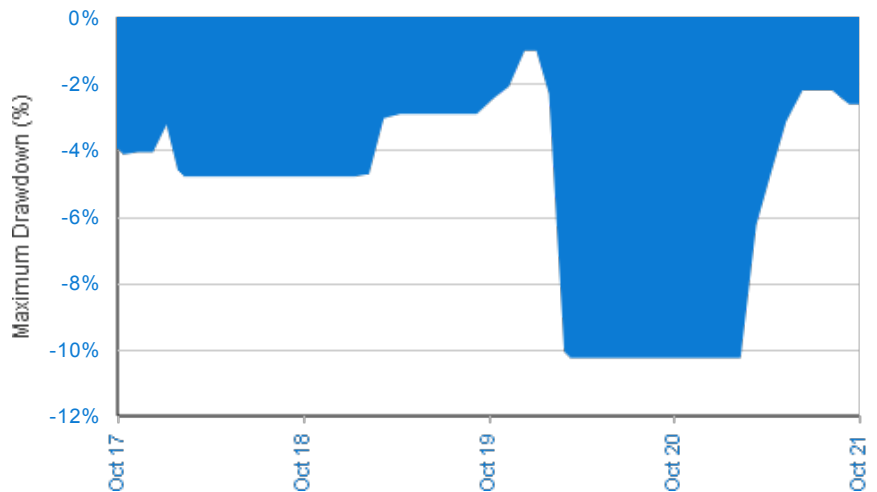
### Discrete Annual Performance to Last Quarter End

Period	Fund (%)	Sector (%)	Quartile Ranking
0-12m	8.9	6.5	2
12-24m	2.9	0.1	2
24-36m	8.7	0.9	1
36-48m	1.8	0.1	2
48-60m	-3.1	3.2	4

### Capital Growth



### Maximum Drawdown (Rolling 12 Months)



### Asset Allocation Positioning

Name	%
North American Equities	27.2
Money Market	18.2
Alternative Assets	16.4
Europe ex UK Equities	16.0
UK Equities	9.6
Global Corporate Fixed Interest	4.6
International Equities	2.9
Others	5.0

(Data as at 30 Sep 2021)

### Top Ten Holdings

(Data as at 30 Sep 2021)

Company Name	%
BNP PARIBAS ISSUANCE B.V. 0.0% 18-NOV-2021	2.7
ASTRAZENECA PLC	1.7
ALPHABET INC	1.4
LINDE PLC	1.4
THE RENEWABLES INFRASTRUCTURE GROUP LIMITED ORD	1.4
VOLKSWAGEN AG	1.4
INTERNATIONAL PUBLIC PARTNERSHIP	1.4
JPMORGAN CHASE & CO	1.4
PRUDENTIAL PLC	1.4
MICROSOFT CORP	1.3

### Sector Breakdown

(Data as at 30 Sep 2021)



- Money Market (18%)
- Alternative Assets (16%)
- Consumer Goods (10%)
- Health Care (10%)
- Financials (10%)
- Technology (10%)
- Industrials (8%)
- Consumer Services (7%)
- Corporate Bonds (5%)
- Other (6.9%)

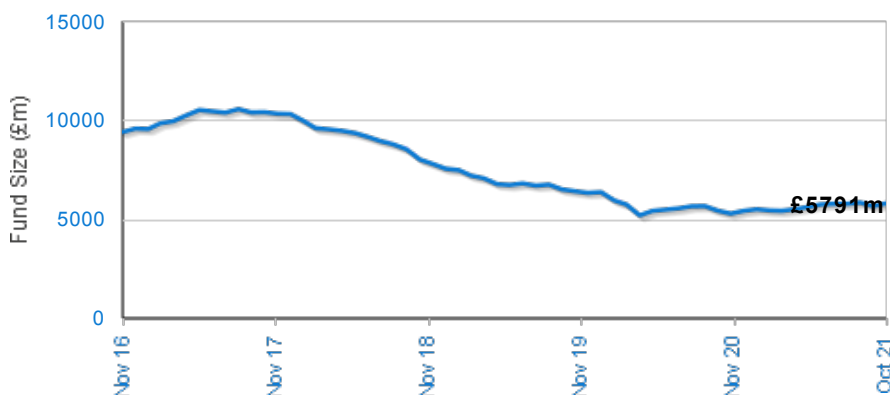
### Geographic Breakdown

(Data as at 30 Sep 2021)



- North America (27%)
- Not Specified (21%)
- Money Market (18%)
- Europe ex UK (16%)
- UK (10%)
- Others (3%)
- Japan (2%)
- Pacific ex-Japan (2%)
- Global Emerging Markets (1%)

### Assets Under Management



## 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 including fixed income holdings.

### 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 and may see large mark downs in the pricing of such assets.

### 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. Emerging market fixed income can be a volatile asset class.

### Derivative Risk

The fund is predominantly invested in physical assets but uses 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 managers intend. The use of derivatives may increase the counter-party risks in the fund.

### Manager Risk

The trio of individuals managing the fund have varying levels of experience and skill sets. Any changes to key individuals on the strategy would trigger a review of our rating.

FE Risk Rating: 48.00

SRRI: 4

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