

Threadneedle Dynamic Real Return ZNA GBP

November 2021
Investment Research



Overview

This fund seeks to provide investors with a real return, that is above inflation over the medium to long term, whilst also attempting to minimise the level of capital fluctuations over the short term. In practice, the manager seeks to generate a return which is 3% p.a. net of fees above UK Consumer Price Index (CPI). Over the longer term this should correlate with a return that is similar to that of equities but with up to two thirds of the volatility. He also aims to generate a positive return over rolling 3-year periods net of fees regardless of market conditions.

Capital Accumulation	Capital Preservation	Income	Inflation Protection
●			●

Square Mile Expected Outcome

We believe that this fund should be able to deliver UK CPI + 3% p.a. (net of fees) over three to five years and a positive return over any three year period.

Active/Passive: Active	IA Sector: IA Targeted Absolute Return
Launch Date: 18/06/2013	Fund Size (as at 31 Oct 2021): £2493.2m
Yield: 0.92%	Distribution Pay Date: May 26 (Final), Nov 26
Fund Manager: Toby Nangle	Ongoing Charge Figure: 0.91%
Domicile: United Kingdom	Transaction Cost ex Ante: 0.06%
Multi-Manager: No	



Fund Opinion

We like this fund for a number of reasons. Columbia Threadneedle has an impressive track record of successful asset allocation and we see this as a strength of the group. A key attribute of their success is the firm-wide focus on collaboration and idea sharing. We see this fund as a natural extension to what the multi asset-team has been doing successfully for a number of years but with an unconstrained approach, allowing full flexibility to invest in the best asset class and thematic ideas of the group. Toby Nangle is an experienced investor and had been responsible for managing a similar strategy prior to joining Columbia Threadneedle. He benefits from the support of the wider team as well as the senior investors from within the business, most of which have been working together and applying the same process for a number of years.

We think this is a fund that should appeal to investors who require growth which is ahead of inflation but who are also seeking to reduce capital volatility to a level which is meaningfully below that of equities. Whilst the manager does attempt to minimise capital drawdown, investors should be aware that this is not an absolute return fund using derivatives to do so, and therefore the fund is vulnerable to drawdowns at times of market stress when asset class correlations rise. While the fund's performance profile has been more lacklustre over the last few years, we think the fund continues to have appeal for those looking for a diversified multi-asset portfolio with long-term potential.

Fund Description

Toby Nangle has been lead manager of the fund since inception. He joined Columbia Threadneedle in 2012 and is Global Co-Head of Asset Allocation and Head of Multi-Asset, EMEA. In this role he is responsible for managing and co-managing a range of multi-asset portfolios, as well as providing strategic and tactical input to the company's asset allocation process. Mr Nangle previously worked at Baring Asset Management, initially in the fixed income team and subsequently as Director of the Multi-Asset Group.

The multi-asset team believe that they can successfully exploit price inefficiencies between asset classes via the insights of their research teams and that this gives them a perspective advantage. This philosophy is utilised to the fullest extent in this strategy where returns will be driven by the team's asset allocation capabilities. The manager invests in an unconstrained manner and will dynamically adjust the overall risk exposure of the fund to best take advantage of market opportunities. There is no longer term or neutral asset allocation and therefore only investments that the manager believes will help achieve the objective will be held. This means active positions will be taken where the team's view on asset classes differ most from that of consensus, and are attractively valued.

Research is undertaken at a company wide level by the various investment teams at Columbia Threadneedle including those which focus on market economics, valuation and sectors & themes. This research, along with more specialist analysis, is distilled down by the Asset Allocation Strategy Group who are responsible for setting out a central asset class view and rationale. This group consists of senior investment professionals from across a range of asset classes. They are also responsible for setting the broad themes which they believe will influence markets as well as the risk budget that guides the manager in his portfolio construction. The risk budget of the fund will vary over time, however, the upper limit is two thirds of equity volatility.

Correlations of investments are a key consideration of portfolio construction with the manager aiming to construct a fund which is not only diversified by asset class but also in its sensitivity to market news flow. Key to the strategy is selecting the appropriate combination of assets at the right time. The manager will invest in a mixture of in-house funds and segregated accounts, directly held securities, passive instruments and derivatives. The use of the Columbia Threadneedle strategies helps deliver a more consistent approach, as the best ideas of the group will also be integrated into the underlying securities of the strategies held.

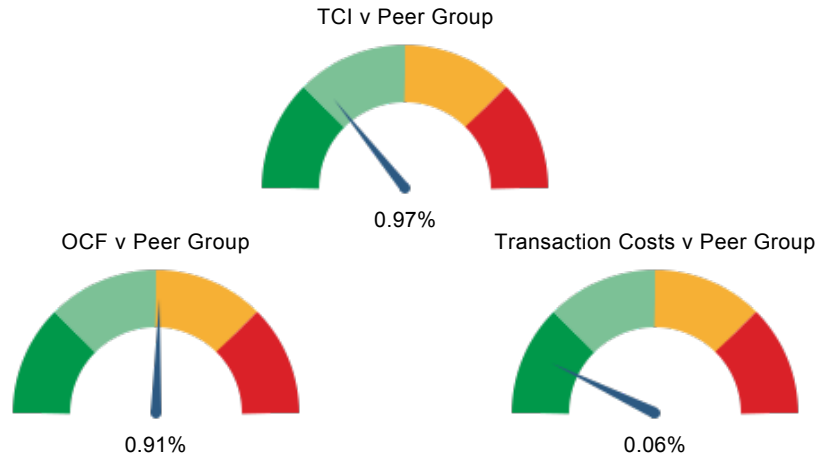
Risk Summary

The fund sits in the IA Targeted Absolute Return sector however we view it as a diversified growth fund. Its absolute return aspirations are long term and this fund is a long only strategy that will generally only benefit from positive price movements. If all markets and asset classes are falling the fund is unlikely to provide a positive return although diversification should deliver some offsetting benefits. Whilst the fund's asset allocation will be a strong driver of returns, the underlying Columbia Threadneedle funds held, and which make up the majority of the portfolio, are expected to provide returns in excess of their performance benchmarks over time. The investment approach of most underlying equity funds held would typically be described as growth orientated, indicating it seeks companies which are generally growing faster than the market. When this investment style is out of favour, we would expect the potential for outperformance from the underlying funds to be more limited.

This is a NURS (Non-UCITS Retail Scheme). This gives the manager wider investment powers than a UCITS and concentration limits. For example, the fund has a relatively modest allocation to commercial property.

Value for Money

While the ongoing charge figure (OCF) of this fund is slightly above its peer group median, it ranks well on a total cost of investment (TCI) measure. The peer group has a broad range of funds with different investment objectives and investment parameters. Nonetheless, we believe the fund offers value for money based on the quality of the management team and impressive resources which support it.



ESG Integration

Company Assessment	0	1	2	3
ESG factors are considered formally but are not instrumental within all of the company's investment processes.				
UN PRI Strategy & Governance Rating	A+			
Fund Assessment	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

Annualised Return	5.69%
Annualised Volatility	7.14%
Max Drawdown	-12.46%
Max Gain	5.76%
Max Loss	-12.07%
Sharpe Ratio	0.72
Sortino Ratio	0.62

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

Currency of Share Class

GBP

Fund Price (as at 12 Nov 2021)

151.0 pence

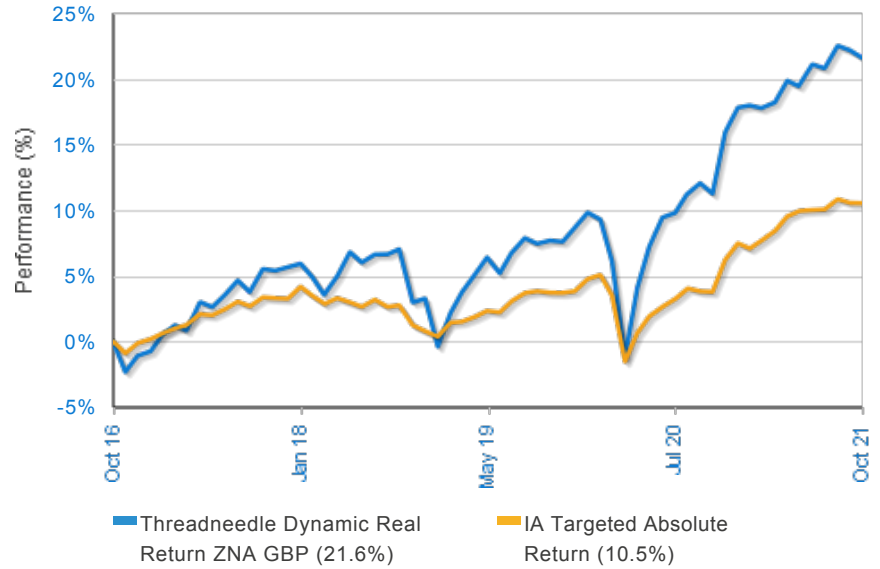
Benchmark

UK Consumer Price Index (CPI) + 3% p.a.

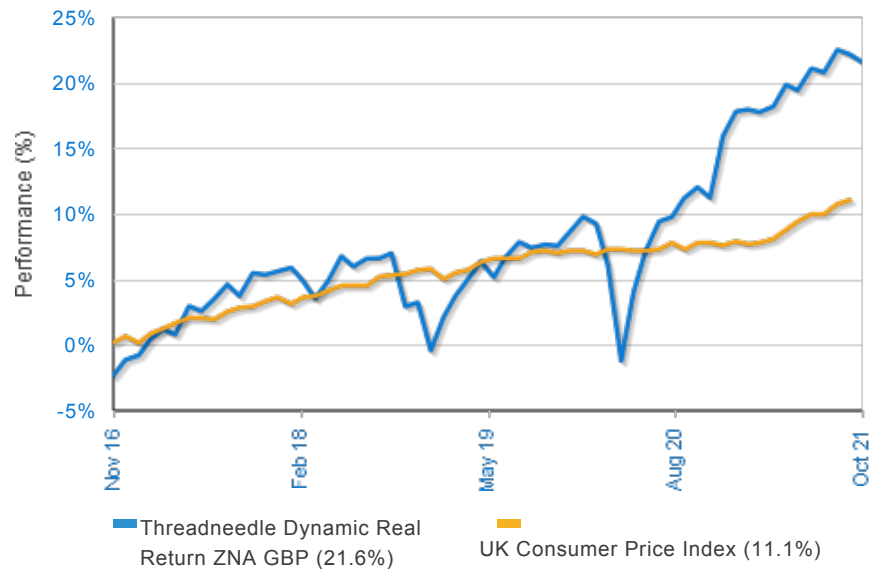
Discrete Annual Performance to Last Quarter End

Period	Fund (%)	Sector (%)	Quartile Ranking
0-12m	9.0	6.5	2
12-24m	4.1	0.1	2
24-36m	0.6	0.9	3
36-48m	3.1	0.1	1
48-60m	5.4	3.2	2

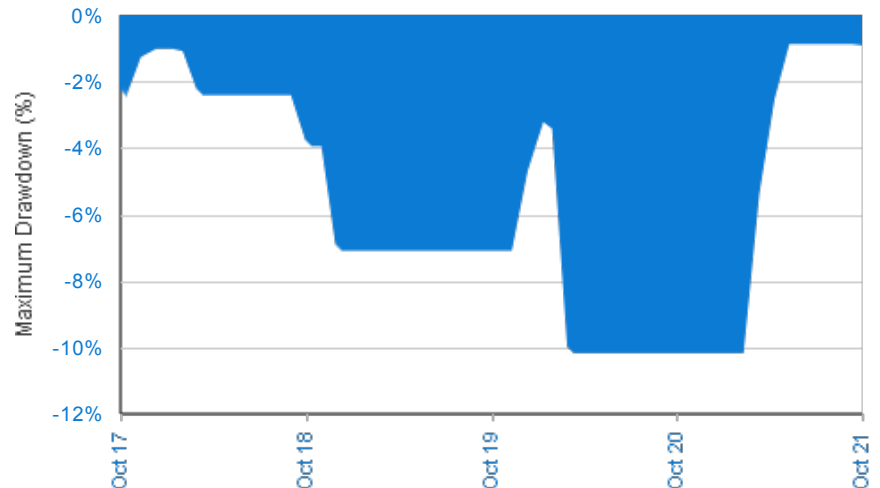
Capital Growth



Inflation Protection



Maximum Drawdown (Rolling 12 Months)



Asset Allocation Positioning

Name	%
Global Investment Grade Fixed Interest	17.0
Global High Yield Fixed Interest	12.2
Global Developed Markets Government Fixed Interest	12.2
Japanese Equities	11.9
International Equities	9.8
Global Emerging Market Equities	9.6
Commodity & Energy	6.5
Others	20.9

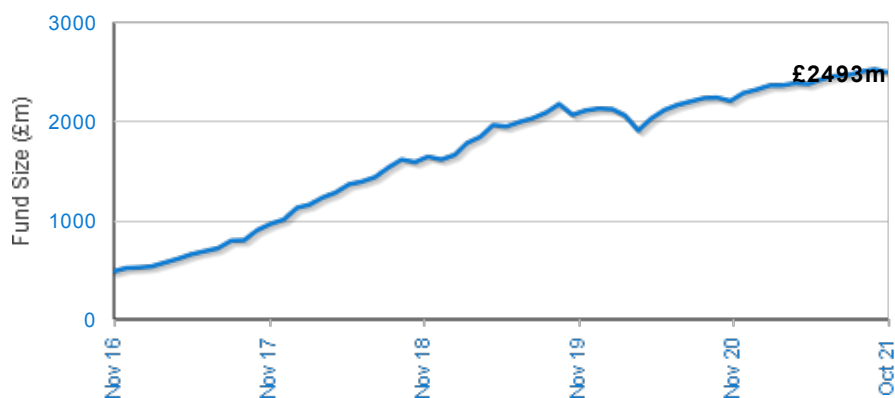
(Data as at 30 Sep 2021)

Top Ten Holdings

(Data as at 30 Sep 2021)

Company Name	%
THREADNEEDLE STERLING SHORT-DATED CORPORATE BOND FUND	13.3
GLOBAL EQUITIES	9.8
HY CREDIT	9.5
THREADNEEDLE JAPAN FUND	8.0
THREADNEEDLE LUX - ENHANCED COMMODITIES CAPITALISATION -XU-	4.4
TOPIX INDX FUTR DEC21	3.9
THREADNEEDLE ASIA FUND	3.7
THREADNEEDLE STERLING CORPORATE BOND FUND	3.7
HM TREASURY UNITED KINGDOM DMO 1.75% GILT 07/09/22 GBP0.01	2.9
GOV OF UK 0.50% 22/07/2022	2.8

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

This is a multi-asset fund which is likely to have exposure to shares. Shares are volatile investments and this volatility is typically heightened at times of economic stress.

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. A widening in credit spreads may impact the fund. Note that wider credit spreads often occur at times of weaker stock markets and/or weakening economies.

Exchange Rate Risk

The fund invests overseas and it is exposed to foreign currencies. Currency markets may move sharply.

Liquidity Risk

The fund primarily invests in liquid assets but may hold some less liquid assets.

Emerging Markets Risk

The fund may invest in securities issued by governments or companies in emerging markets.

Derivative Risk

The fund is predominantly invested in physical assets but may employ derivative strategies for efficient portfolio management purposes.

Manager Risk

The manager is seen as an important element in Square Mile's rating of the fund, although potential alternatives may exist elsewhere in the organisation. Square Mile will reappraise the rating if the lead manager were to leave.

FE Risk Rating: 38.00

SRRI: 5

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