



# ROYAL LONDON GLOBAL **MULTI ASSET PORTFOLIOS**

Trevor Greetham – Head of Multi Asset

September 2016

ASSET MANAGEMENT

For professional investors only, not for retail investors

# UNCERTAIN MARKET CONDITIONS IMPACTING DECISION MAKING

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Macro Economics	Politics	Monetary policy	Hunt for yield	Volatility
<ul style="list-style-type: none"><li>• Uncertain global growth outlook</li><li>• Inflation or deflation?</li></ul>	<ul style="list-style-type: none"><li>• Brexit</li><li>• Trump</li><li>• European elections</li></ul>	<ul style="list-style-type: none"><li>• Distorting market</li><li>• “Forward misguidance”</li><li>• Out of bullets?</li></ul>	<ul style="list-style-type: none"><li>• Negative yields</li><li>• Over-reaching for income</li></ul>	<ul style="list-style-type: none"><li>• Swings in investor sentiment</li><li>• Bonds offering return-free risk?</li></ul>

# MARKET RETURNS VARY WIDELY YEAR TO YEAR A CLEAR INVESTMENT PROCESS IS ESSENTIAL

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Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	YTD
1	EM Stocks +37%	Gilts +13%	EM Stocks +63%	EM Stocks +24%	Gilts +16%	EM Stocks +13%	Global Stocks +21%	Property +19%	Property +14%	EM Stocks +30%
2	Commodities +14%	Cash +6%	UK Stocks +30%	Commodities +21%	Property +8%	UK Stocks +12%	UK Stocks +21%	Gilts +14%	Global Stocks +4%	Commodities +21%
3	Global Stocks +11%	Commodities -11%	Global Stocks +21%	Global Stocks +17%	Cash +1%	Global Stocks +12%	Property +11%	Global Stocks +12%	UK Stocks +1%	Global Stocks +20%
4	Cash +6%	Global Stocks -18%	Commodities +6%	Property +15%	UK Stocks -3%	Gilts +3%	Cash +0%	EM Stocks +8%	Gilts +1%	Gilts +17%
5	UK Stocks +5%	Property -23%	Property +2%	UK Stocks +15%	Global Stocks -7%	Property +2%	Gilts -4%	UK Stocks +1%	Cash +1%	UK Stocks +11%
6	Gilts +5%	UK Stocks -30%	Cash +1%	Gilts +7%	Commodities -13%	Cash +1%	EM Stocks -5%	Cash +0%	EM Stocks -10%	Cash +0%
7	Property -5%	EM Stocks -35%	Gilts -1%	Cash +1%	EM Stocks -18%	Commodities -5%	Commodities -11%	Commodities -12%	Commodities -20%	Property +0%

Source: DataStream, Total returns in sterling terms. YTD return as of 25 Aug 2016

**Difficult to predict asset class returns**



# WHAT TO LOOK FOR IN ACTIVE TACTICAL ASSET ALLOCATION

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- 1. Clear objectives:** tilting away from strategic benchmark over the short to medium term to generate additional return
- 2. Uncorrelated return:** valuable source of added value in a low return environment with little impact on long-term risk characteristics
- 3. Robust investment process:** research-led approach drawing on fundamental convictions of experienced investors
- 4. Good track record:** outperformance in line with expectations while reducing losses significantly during the last financial crisis
- 5. Cost-effective implementation:** Implemented with low cost derivative instruments to reduce transaction costs

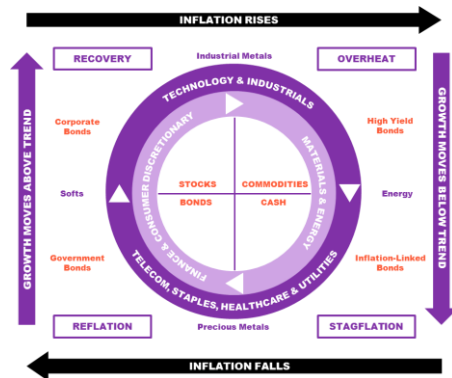
Past performance is no guide to the future. The value of investments may go down as well as up and you may get back less than originally invested.



# A SYSTEMATIC FRAMEWORK FOR DECISION MAKING RESEARCH-LED BUT WITH ROOM FOR JUDGEMENT

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## Tactical Models



## Quantitative Models

Quantitative models:

- Based on a range of factors
- Backtested over a 20 year period
- Independent of each other
- Uncorrelated with stock markets

## Fundamental Analysis

## Strategy & expert opinion

- RLAM asset class experts
- External advisors
- Policy makers

## Implementation templates

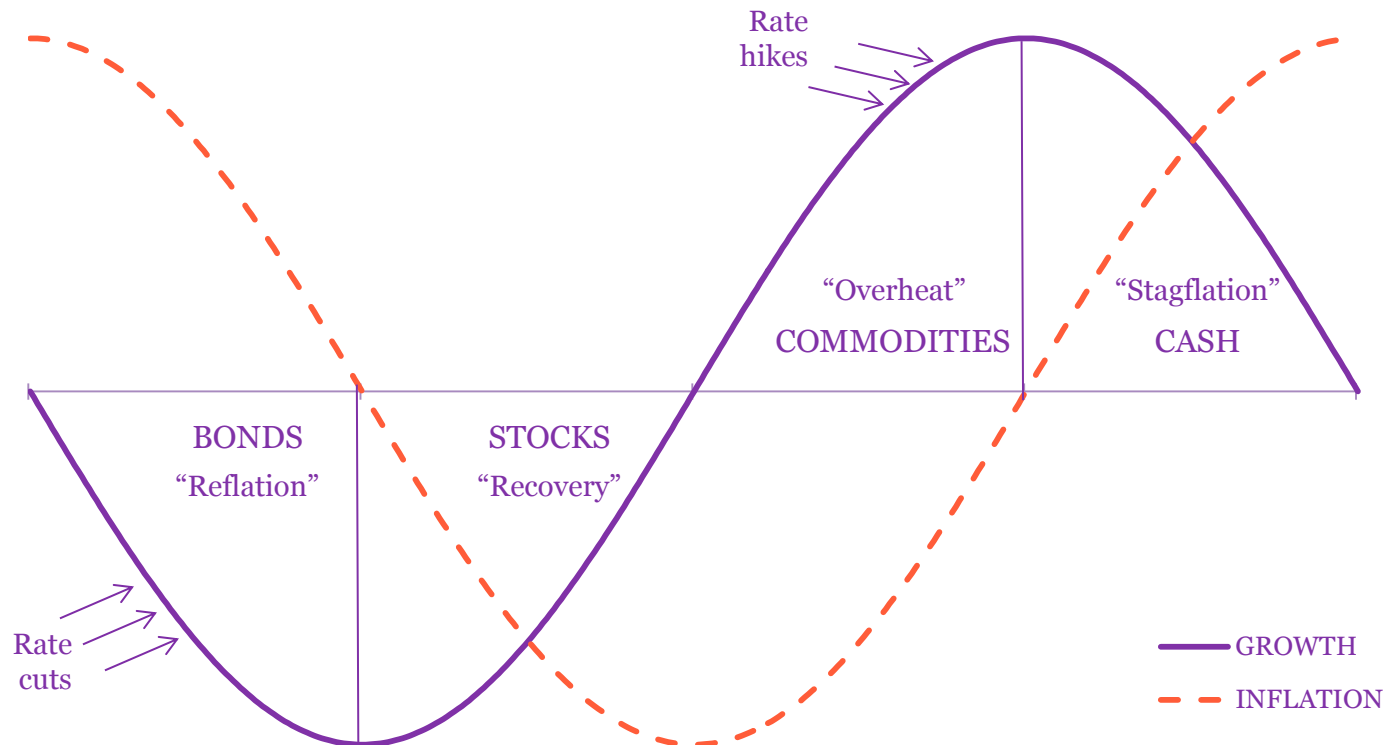
	Underweight	Neutral	Overweight
Equities			
Commodities			
Property			
Bonds			
Cash			

	Underweight	Neutral	Overweight
North America			
Europe ex UK			
UK			
Japan			
Pacific ex Japan			
Emerging Markets			

Experience and judgement to warn when “this time is different”

# ASSET CLASS ROTATION AND THE ECONOMIC CYCLE

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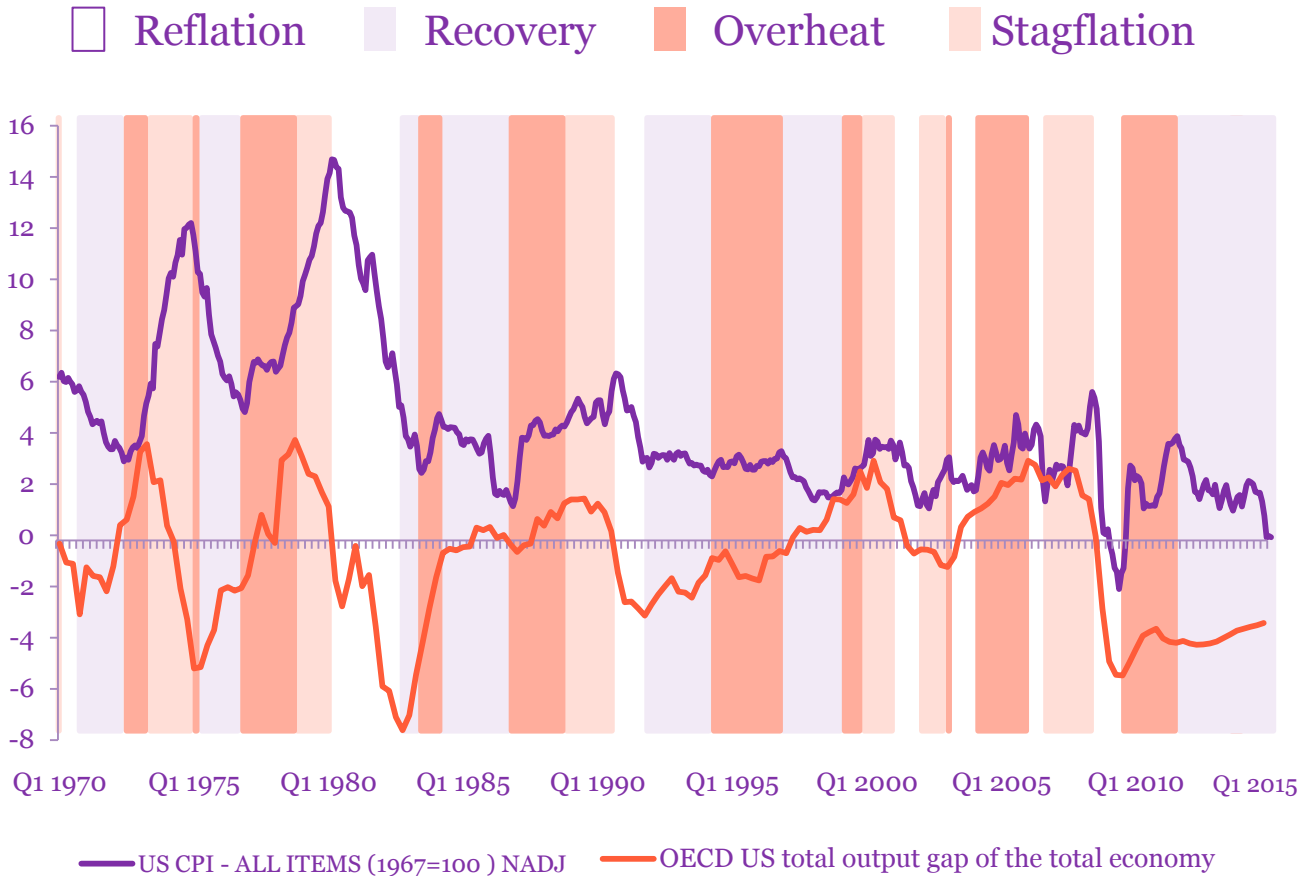
Source: RLAM as at 30 April 2015.

**Asset returns are linked to the growth and inflation cycles**

# HISTORICAL CLOCK PHASES SINCE THE 1970S

## REAL LIFE CAN BE COMPLICATED

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Source: Datastream and RLAM, 31 March 2015.

**Phases identified using hindsight**

# A PATTERN EMERGES TRY TO STAY ON THE DIAGONAL

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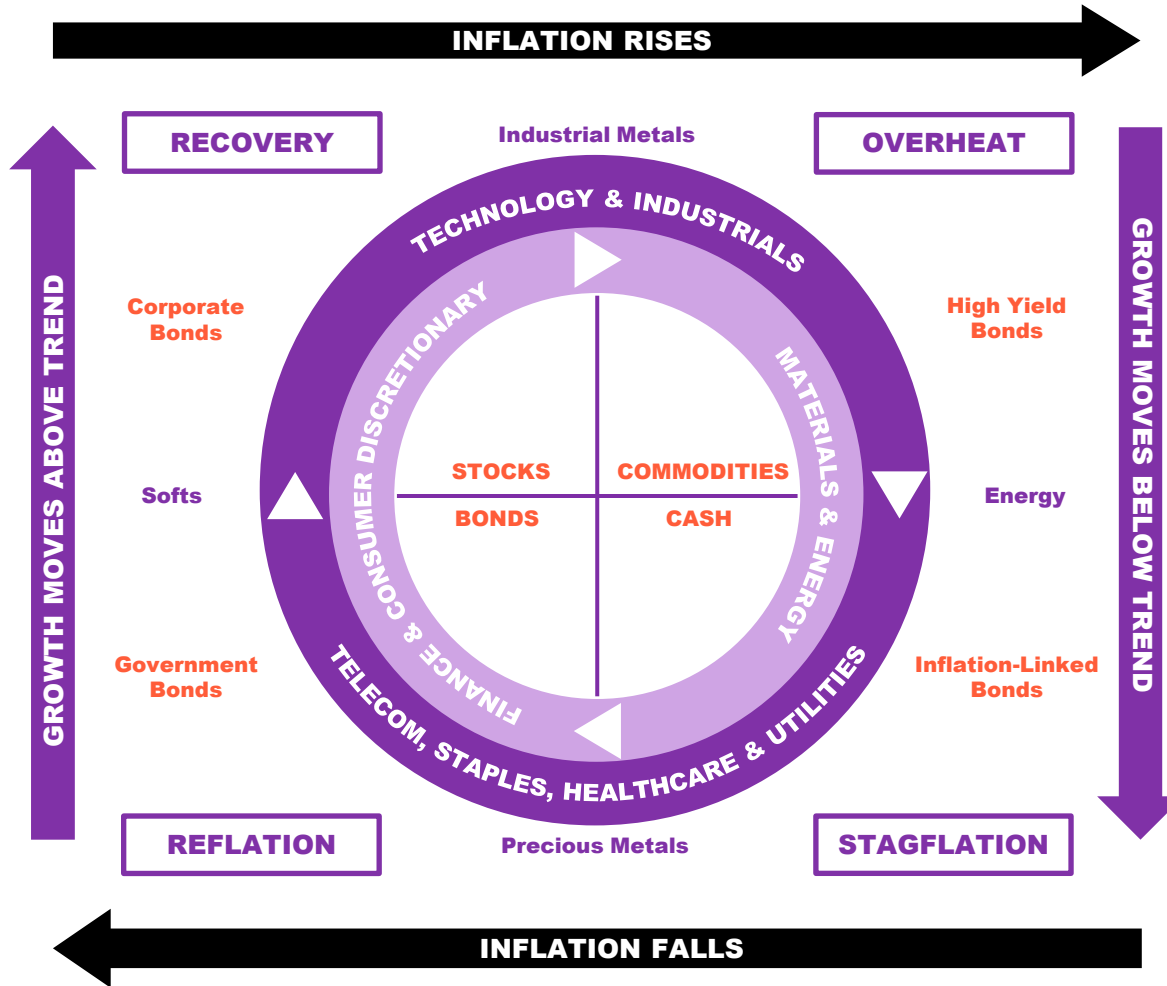
	Growth	Inflation	Bonds	Stocks	Commodities	Cash
<b>Reflation</b>	↓	↓	9.5%	-3.3%	-27.4%	3.1%
<b>Recovery</b>	↑	↓	4.9%	20.9%	-10.0%	1.3%
<b>Overheating</b>	↑	↑	0.8%	6.8%	17.4%	0.4%
<b>Stagflation</b>	↓	↑	-0.7%	-13.6%	38.9%	-0.4%
	Average Return		3.2%	6.4%	2.6%	1.0%

Source: RLAM. Analysis from April 1973 to April 2015. Indices used are ML Treasury & Agency Master, S&P Composite, GSCI Commodity index and US 3-month T Bills.



## INVESTMENT CLOCK THE CYCLE DRAWN AS A CIRCLE

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Source: RLAM  
For illustrative purposes  
only.

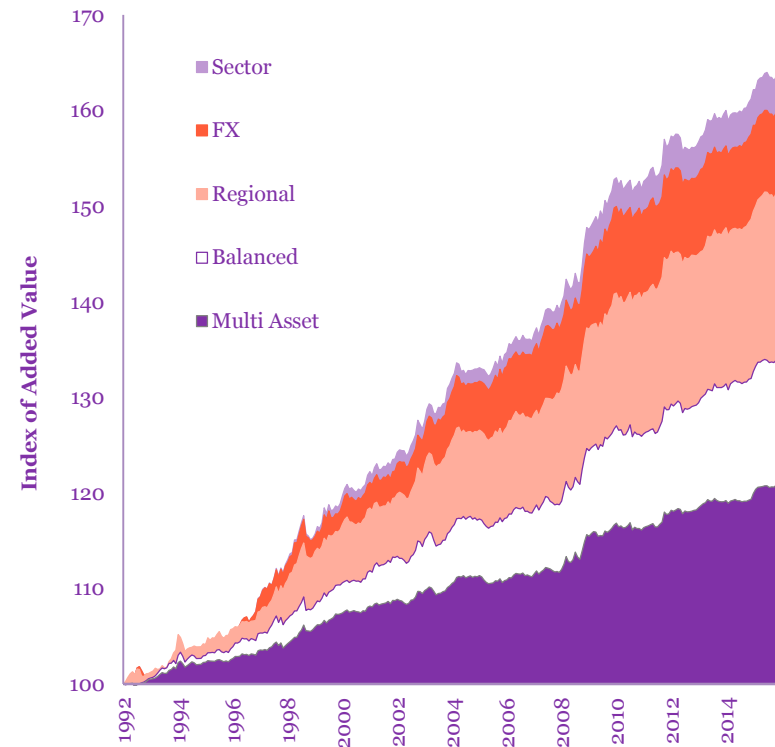
## Growth and inflation cycles are key

# TACTICAL MODELS WORK OVER THE LONG RUN MODELS BACKTESTED SINCE 1992

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- Simulated added value from a combination of strategies

<b>Number of years</b>	<b>24</b>
<b>Total Return</b>	64%
<b>Backtest total return (p.a.)</b>	2.1%
<b>Standard deviation</b>	1.6%
<b>Information Ratio (ex post)</b>	1.3
<b>Hit rate</b>	66%
<b>Conservative return assumption</b>	1.6%



Source: RLAM as at 31 December 2015, for illustrative purposes only.

Simulated past performance is not a guide to future performance. The value of investments and the income from them is not guaranteed and may go down as well as up and investors may not get back the amount originally invested. Simulated Portfolio returns are calculated using historical positions based on in-house tactical asset allocation models, but do not include the impact on return expected from stock selection within each asset class. Returns are quoted gross of fees and transaction costs.



# BREXIT!

## OPPORTUNITIES IN UNCERTAIN TIMES

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Brexit is a shock to UK and European growth and uncertainty is likely to persist for months or years

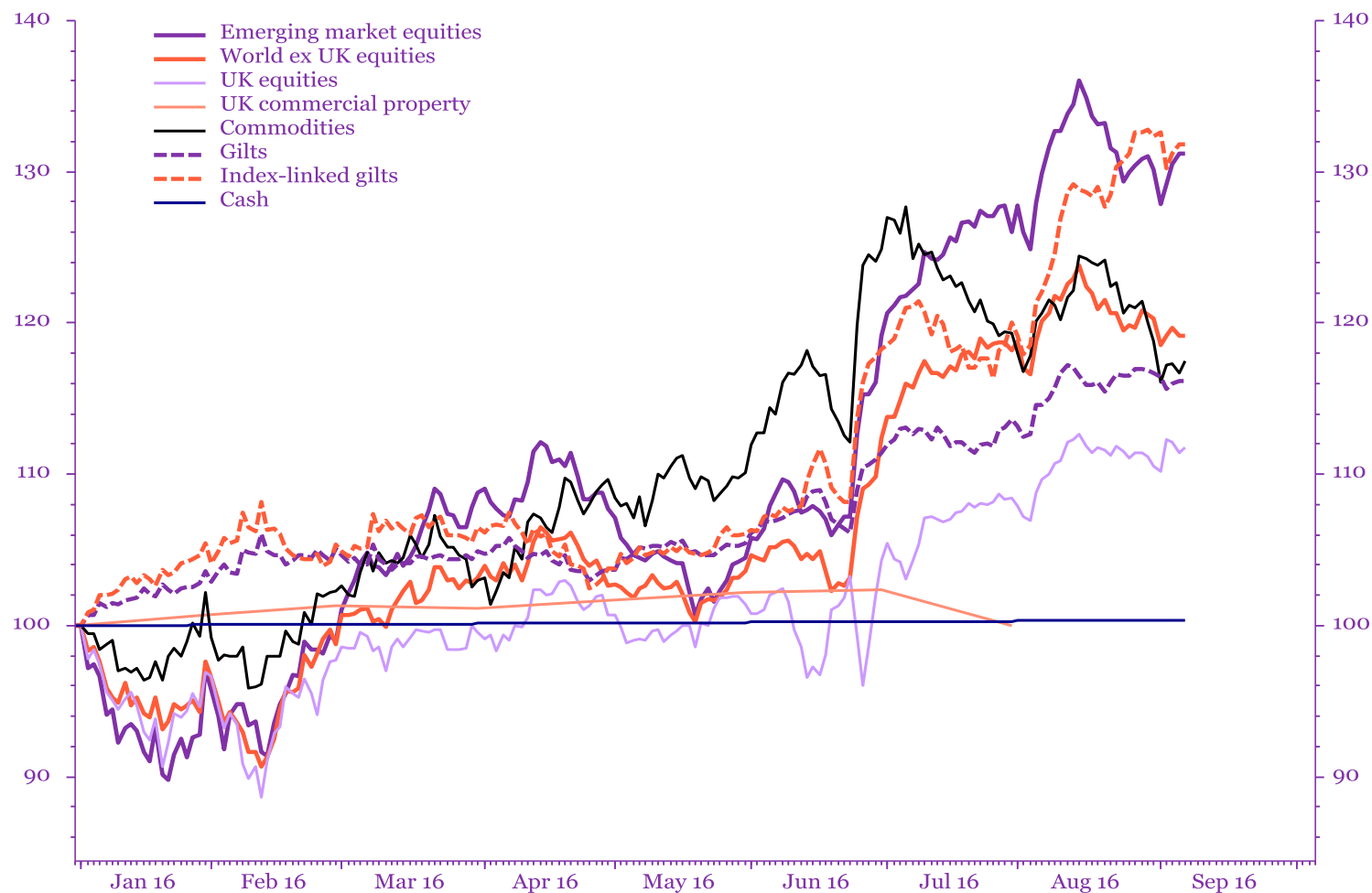
In the short run, Brexit means looser monetary policy and both stocks and bonds are benefitting

The Investment Clock model is supportive of stocks and commodities but we are bearish on bonds

Regionally, we favour the emerging markets on stronger Chinese activity and Japan where policy is pro-growth and the market is a hedge against dollar strength

# THE BREXIT BOOM EXPECTATION OF LOOSER POLICIES TAKEN POSTIVELY

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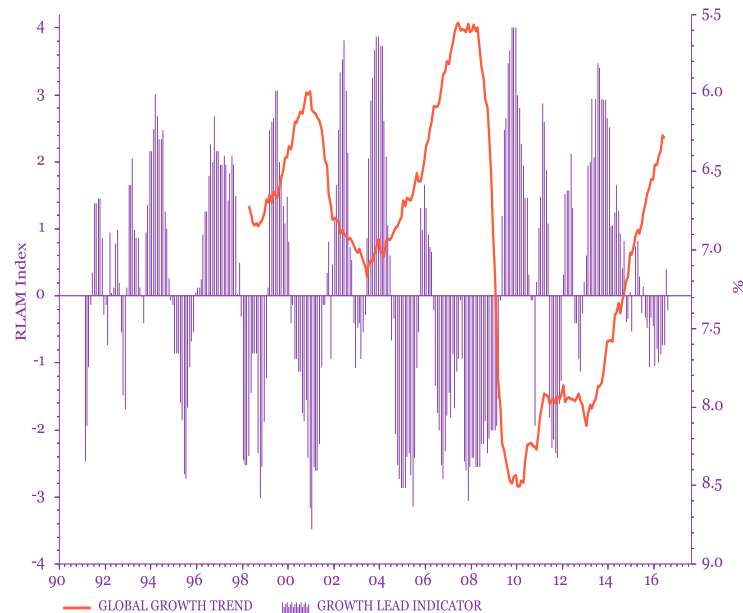
Source: Thomson Reuters Datastream as at 06/09/2016

ROYAL  
LONDON

# POSITIVE GROWTH TREND, LITTLE INFLATION PRESSURE POLICY LIKELY TO STAY LOOSE

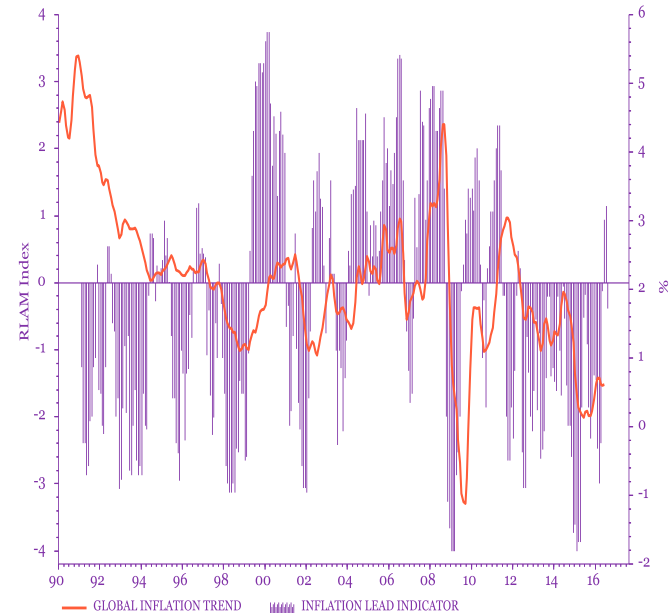
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## Global growth trend and scorecard



Source: Thomson Reuters Datastream as at 15/06/2016

## Global inflation trend and scorecard

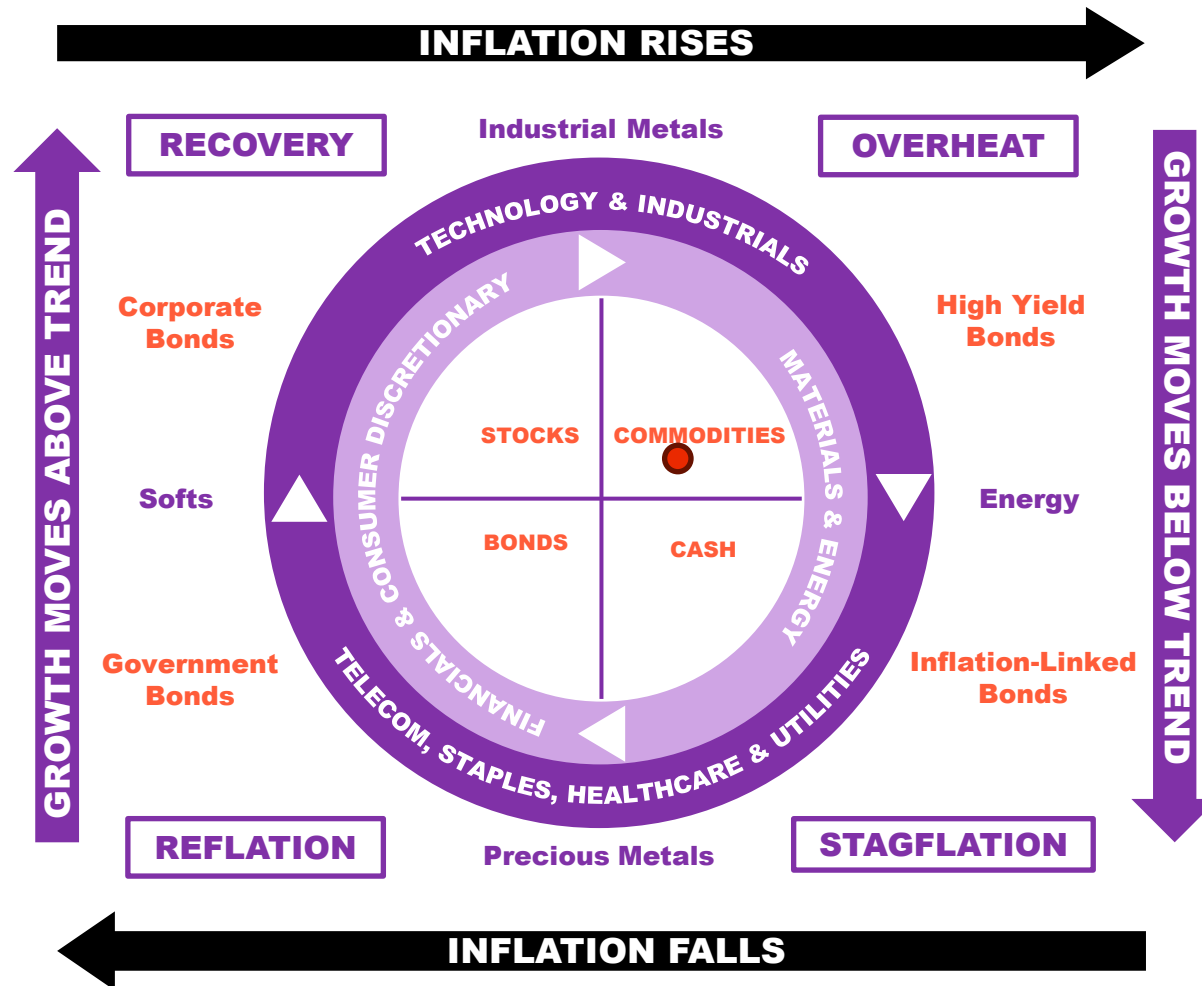


Source: Thomson Reuters Datastream as at 15/06/2016

# THE INVESTMENT CLOCK

## POSITIVE FOR STOCKS AND COMMODITIES

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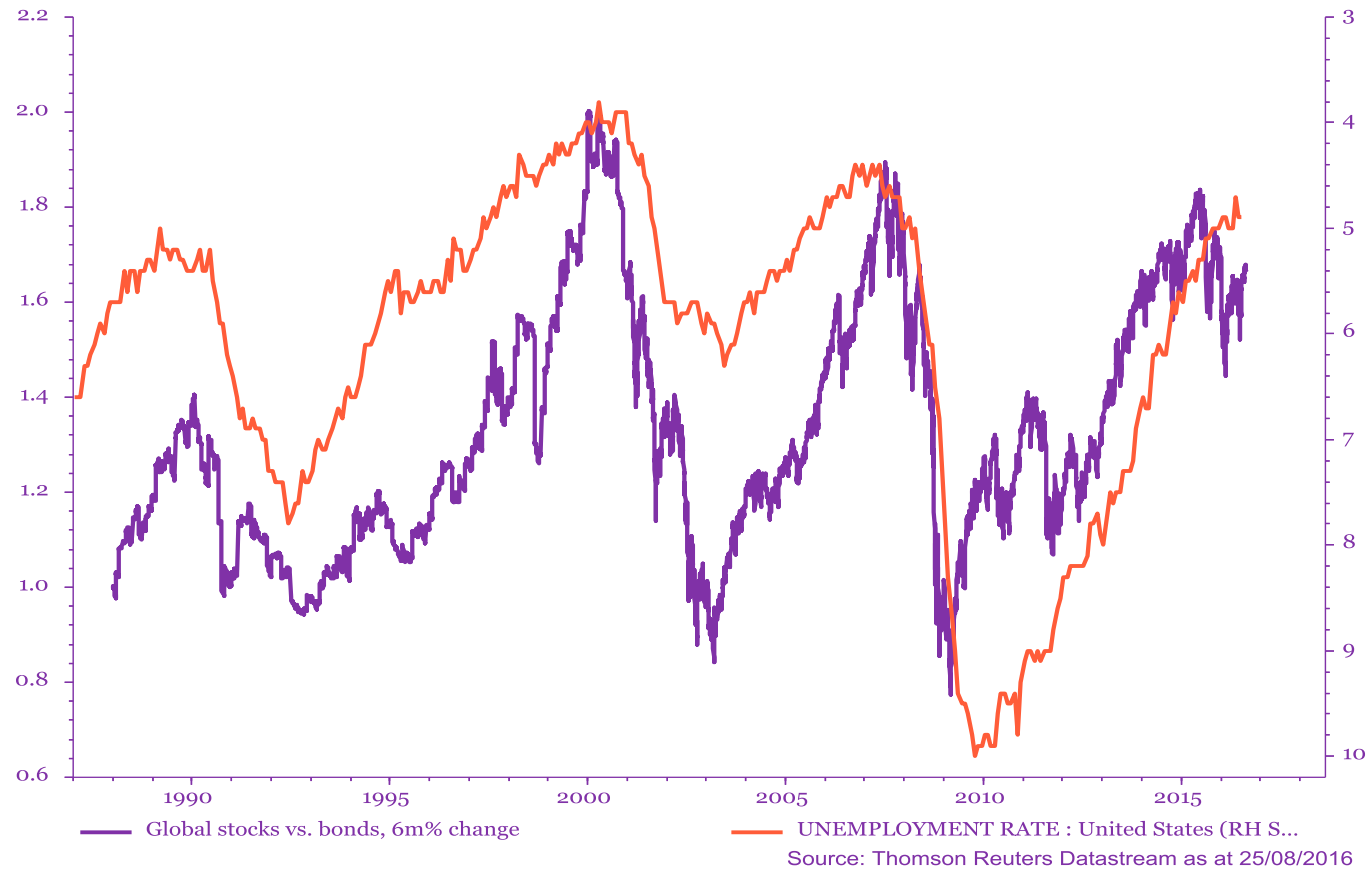


Source: RLAM. For illustrative purposes only.

## A POSITIVE BACKDROP FOR STOCKS

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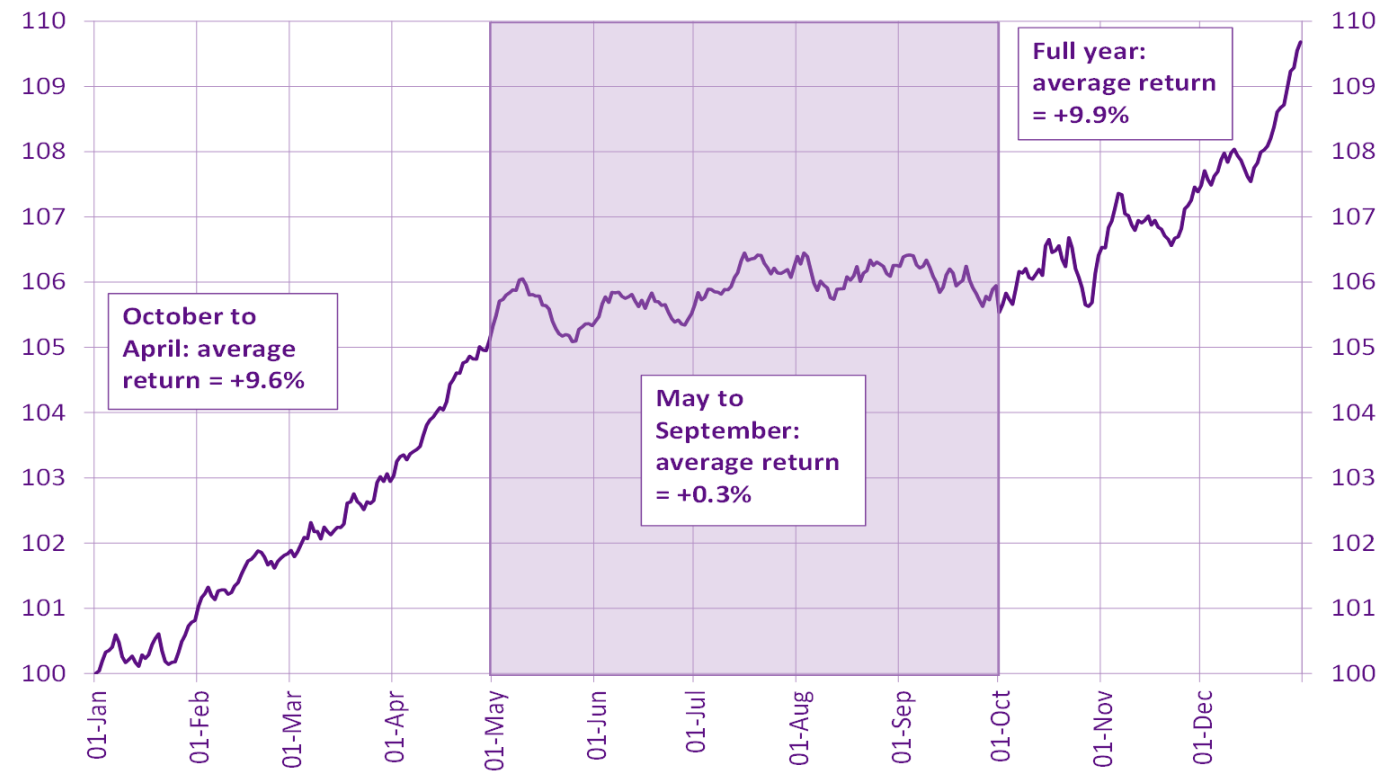
# STOCKS BEAT BONDS WHEN UNEMPLOYMENT IS FALLING



# SEASONALITY TURNING POSITIVE BUY ON DIPS

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## Summer markets tend to be volatile



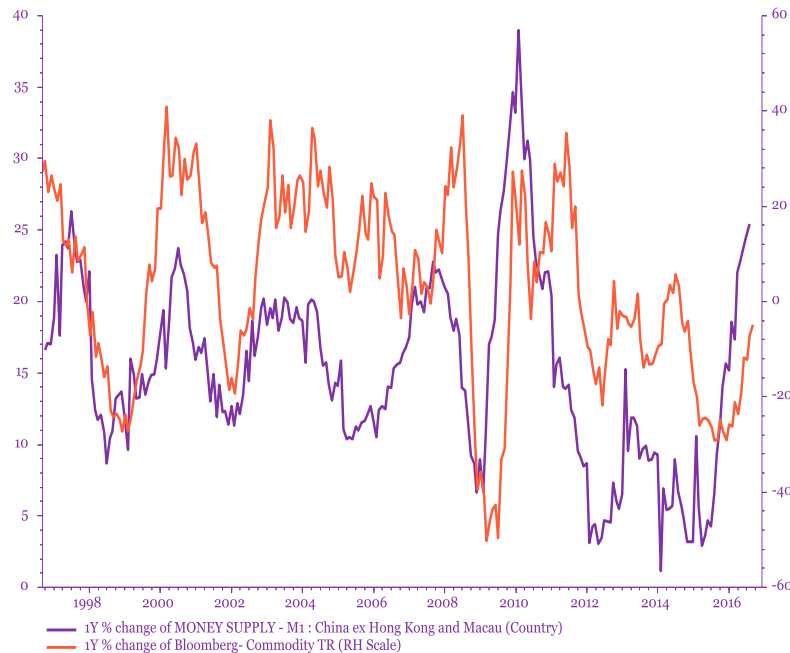
Source: RLAM; seasonal pattern of Global Equity returns since 1973



# A POSITIVE BACKDROP FOR COMMODITIES STRONGER CHINA, WEAKER DOLLAR?

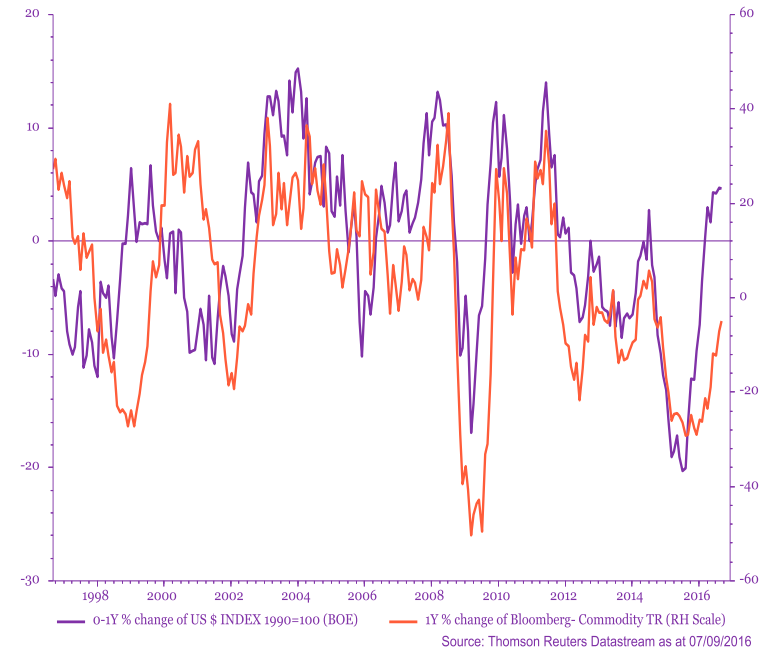
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## Commodities and China M1



Source: Thomson Reuters Datastream as at 31/07/2016

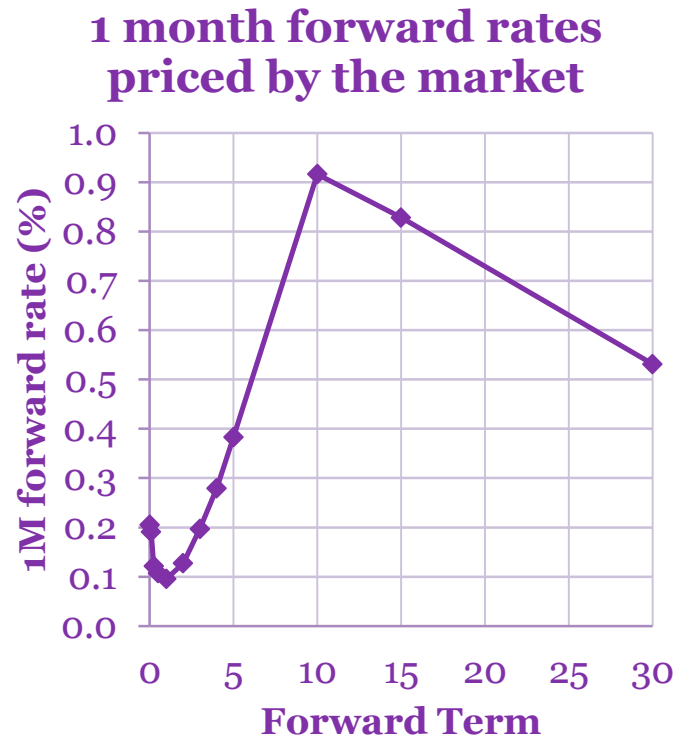
## Commodities and the US dollar



Source: Thomson Reuters Datastream as at 07/09/2016

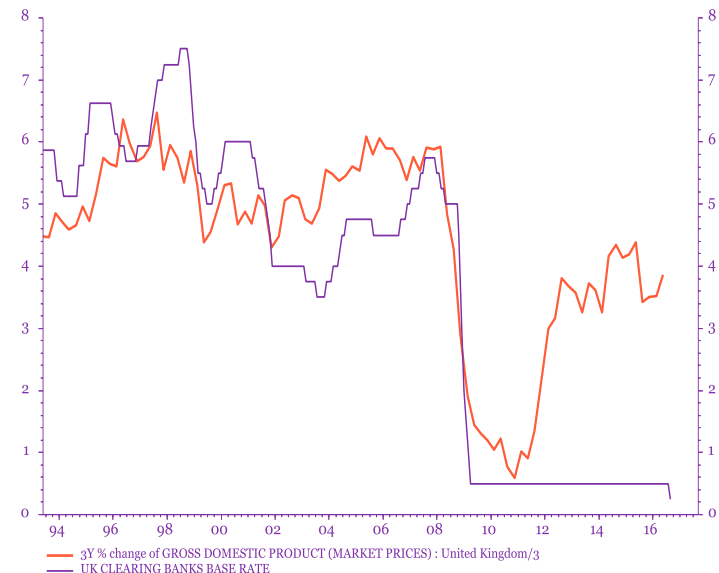
# BANK OF ENGLAND IS DISTORTING THE BOND MARKET LITTLE LONG TERM VALUE IN BONDS

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Source: Bloomberg, as of 24th August 16, 1M forward rates based on GBP OIS swap curve

## Nominal GDP growth and UK base rate



Source: Thomson Reuters Datastream as at 15/05/2016

**Markets suggesting policy rates will remain below 1% for the next 30 years**

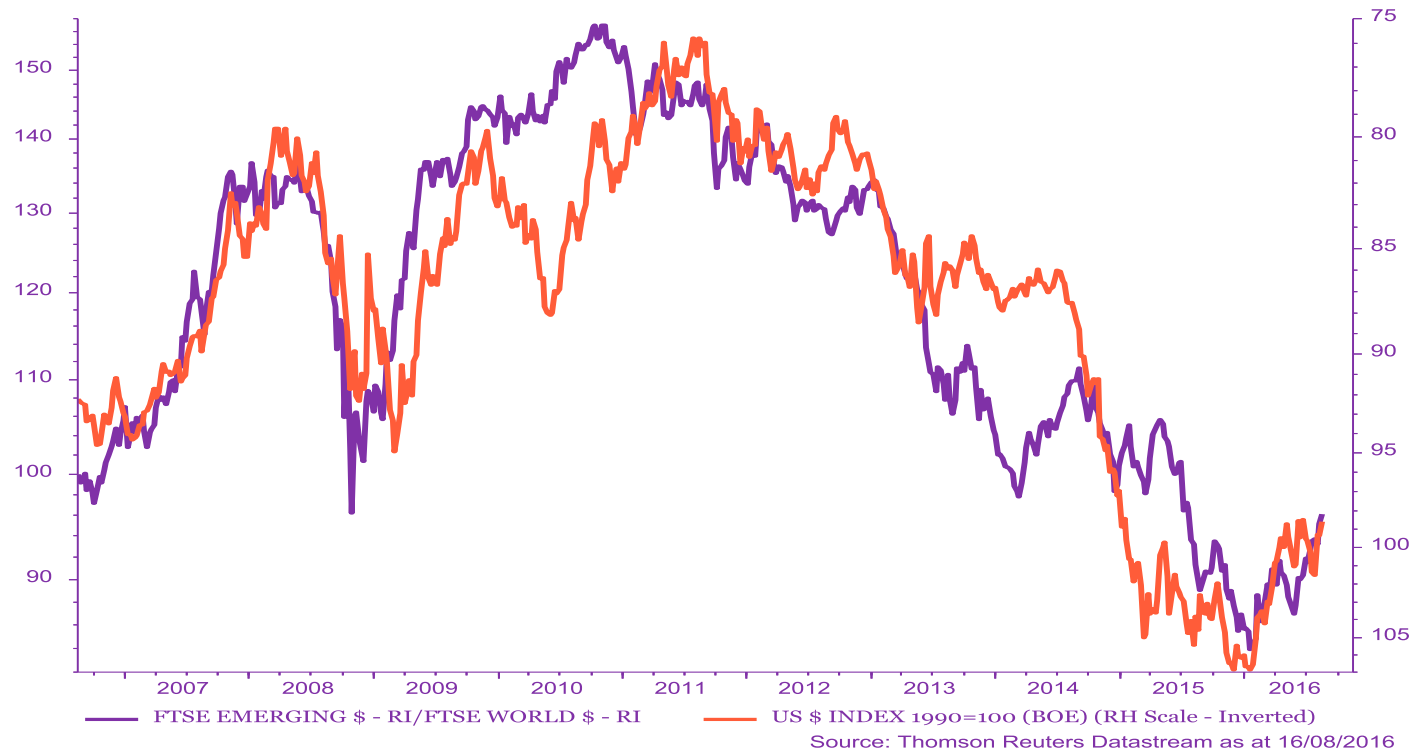


# EMERGING MARKETS AS BREXIT WINNERS

## LOOSER POLICY BENEFITS EMERGING MARKETS

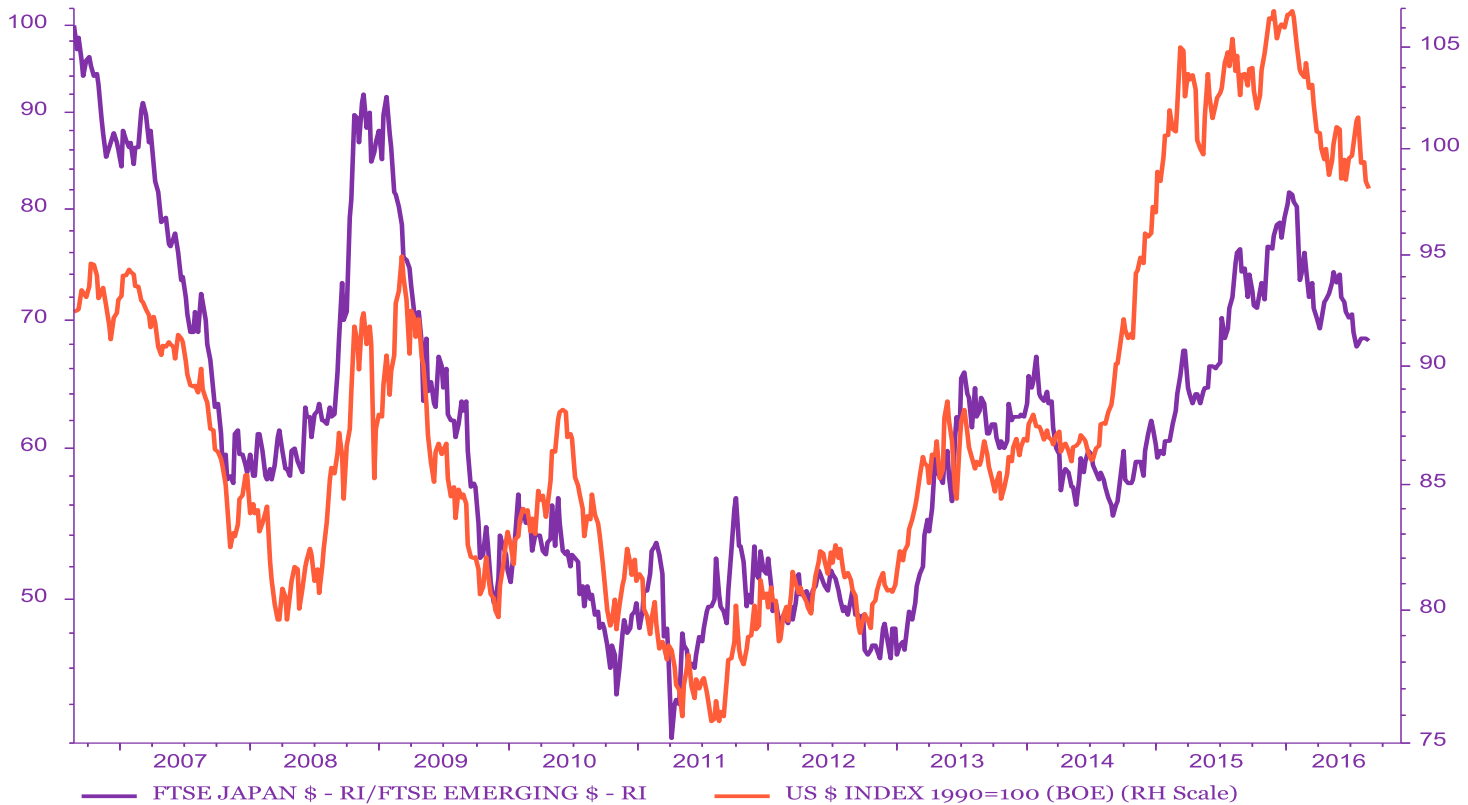
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### US dollar index and EM Stocks relative to World index



# JAPAN DOES WELL WHEN THE DOLLAR IS STRONG AND POLICY IS PRO-GROWTH

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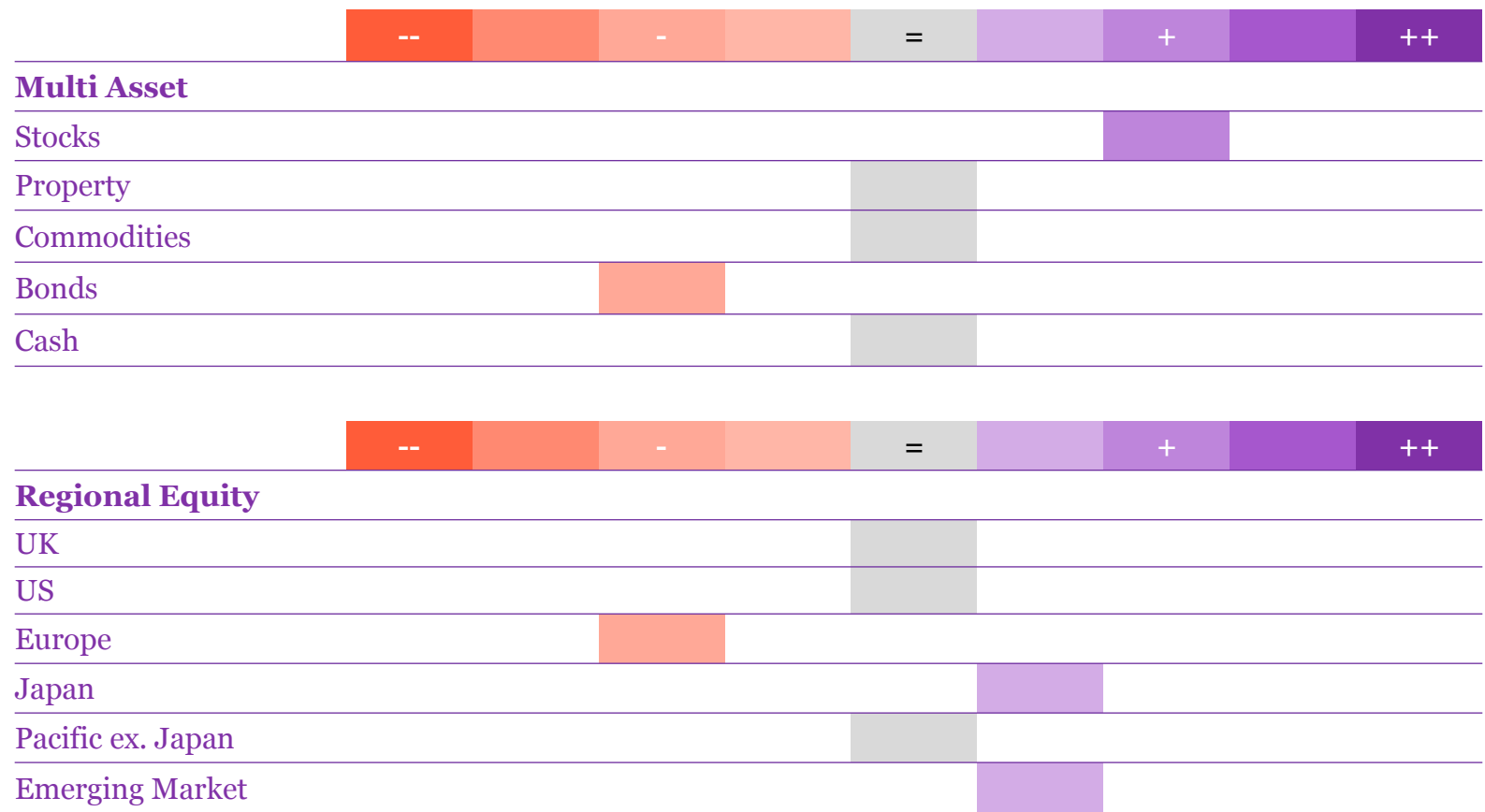


Source: Thomson Reuters Datastream as at 23/08/2016

## WHERE WE STAND

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# OVERWEIGHT IN EM AND JAPAN, UNDERWEIGHT BONDS



Tactical positions as of July/August 2016



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# APPENDIX

## ASSET MANAGEMENT

# HIGHLIGHTS

## RL GLOBAL MULTI ASSET PORTFOLIOS (GMAPS)

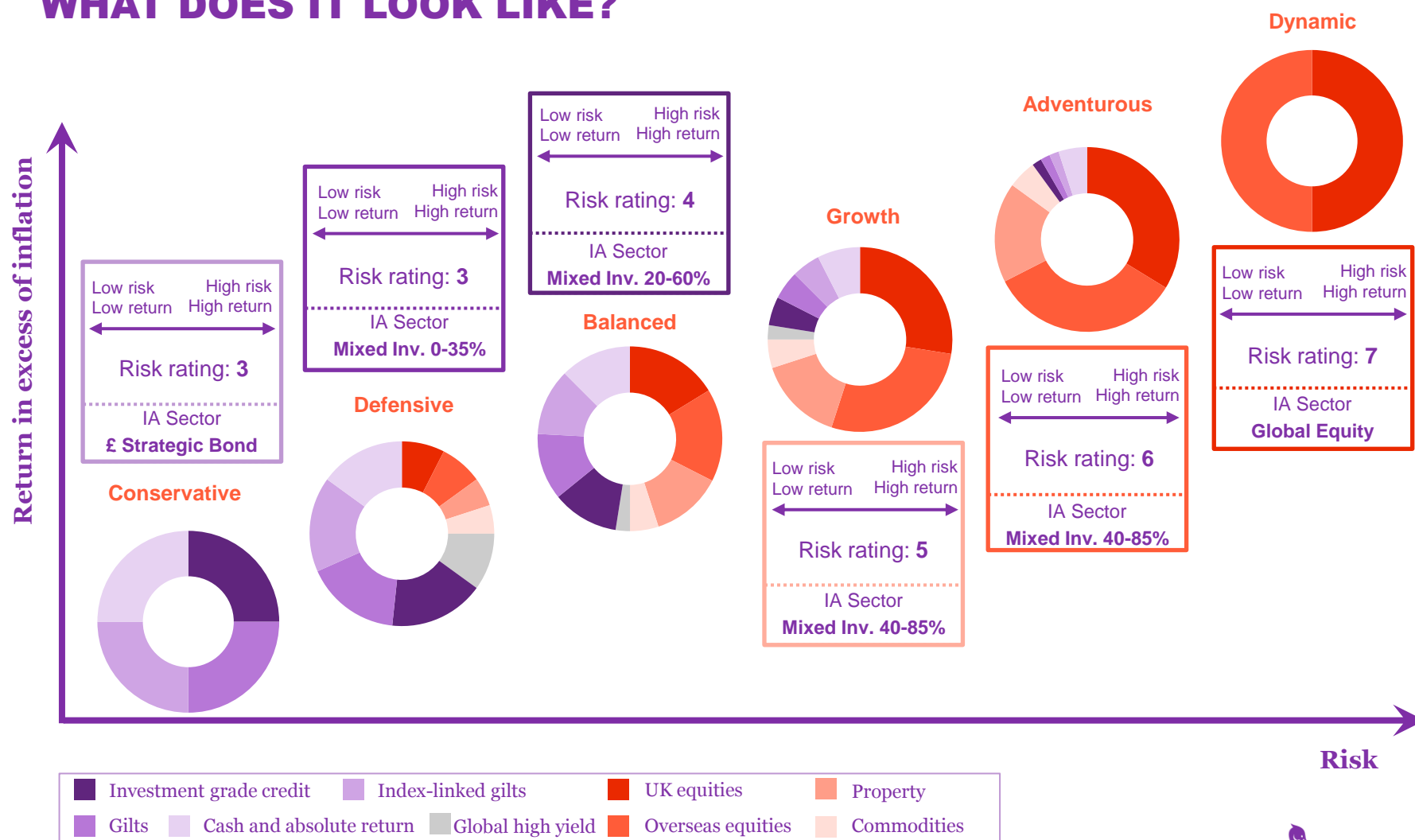
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1. **Risk-based** construction to maximise long run real returns
2. **Broadly diversified** to increase resilience to shocks
3. **Tactical asset allocation** from manager with proven track record
4. **Cost effective blended approach** to active/passive exposures \*
5. **High degree of transparency** via dedicated Investment Clock website

\* Target OCF 60bps

# RL GMAPS RANGE WHAT DOES IT LOOK LIKE?

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Risk rating is established by Distribution Technology (DT) and is out of 10. For illustrative purposes – reflects Strategic Asset Allocation weightings, may vary in accordance with tactical asset allocation.

**Six diversified portfolios offering different risk return profiles**



# RLAM MULTI ASSET RANGE SOURCING ASSET EXPOSURES

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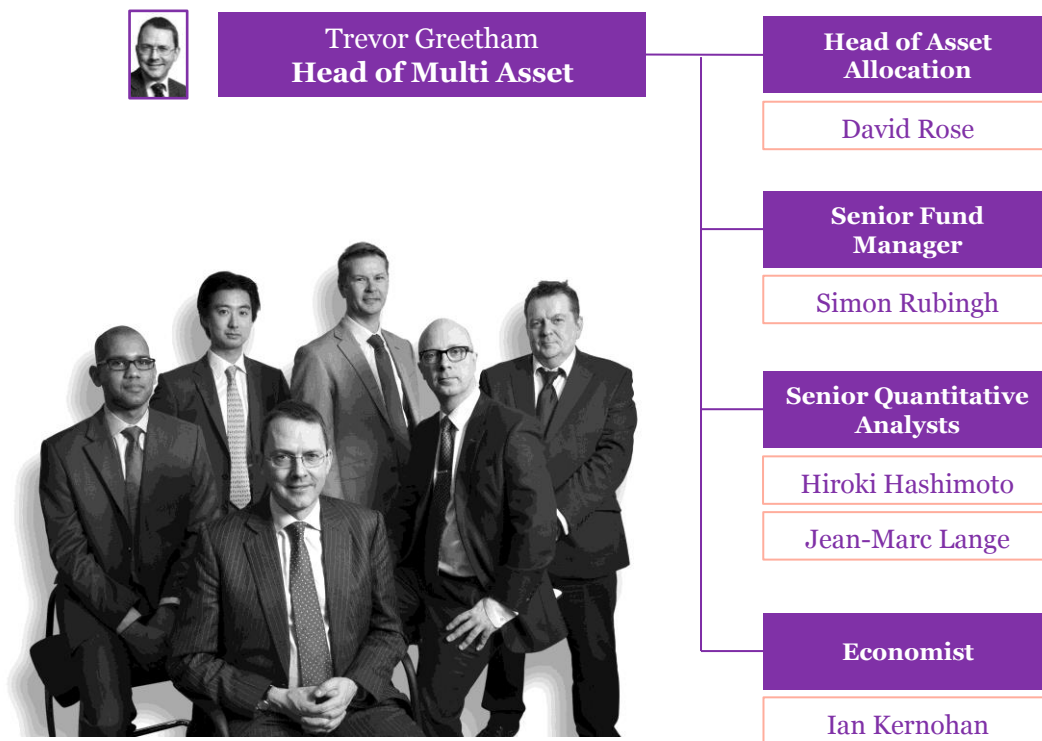
- A cost-effective blend of active and passive Royal London funds supplemented by exchange traded funds and derivative instruments for tactical asset allocation

Asset Class	Primary route to market	Why this exposure?
<b>Equity</b>	Royal London Passive Funds	Predominantly RLAM tracker funds to provide low cost access
	3 <sup>rd</sup> Party Exchange Traded Funds (ETFs)	Where RLAM do not have a suitable in-house tracker fund
<b>Bond</b>	Royal London Actively Managed Funds	RLAM believes that active management is important in fixed income markets
<b>Property</b>	Royal London Property Fund	Making use of significant in house capability
<b>Commodities</b>	Commodity Swaps	A low cost way to track returns of a diversified basket of commodities
	Exchange Traded products	
<b>Cash and Absolute Return</b>	Royal London Actively Managed	RLAM's range of cash funds to provide liquidity and capital stability Absolute return strategies to generate additional returns where appropriate

Source: RLAM. See Appendix for further details.

# MULTI ASSET TEAM TEAM STRUCTURE

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From left to right: Jean-Marc Lange, Hiroki Hashimoto, Trevor Greetham, Simon Rubingh, Ian Kernohan and David Rose.

**Approximately 19 years' average industry experience**

# KEY INVESTMENT PROFESSIONALS

## **Trevor Greetham – Head of Multi Asset**

Prior to joining Royal London in 2015, Trevor was Asset Allocation Director for Fidelity Worldwide Investment, where he was responsible for implementing tactical investment decisions across a wide range of institutional and retail funds including the Fidelity Multi-Asset Strategic Fund. From 1995 to 2005, Trevor was Director of Asset Allocation for Merrill Lynch. Trevor qualified as an actuary with UK life insurer Provident Mutual and has a Master of Arts in Mathematics from Cambridge University. He has 23 years of investment experience.



## **Ian Kernohan – Economist**

As RLAM's Economist, Ian Kernohan plays an important role in the strategic and day-to-day investment decisions taken across the company. He also carries out extensive global economic analysis to assist our multi asset team in positioning their portfolios. Ian is an active commentator in the trade and national press and is quoted frequently in response to the latest economic news and the impact on investment markets. Ian joined RLAM in 1995, working initially as UK Equity Fund Manager, before moving to his current role in 2004. Prior to joining RLAM, Ian spent two years as an economist in the Government Economic Service and as a consultant. Ian has an MA in Economics and Politics from Edinburgh University, an MSc in Economics from York University, and MSc in Finance from London Business School.



## **David Rose – Head of Asset Allocation**

David joined United Friendly in 1998, which became part of Royal London Group in 2001. His early responsibilities included all written work associated with funds under management, before moving to Asset Allocation in 2002. Since then, he has worked closely with successive CIOs to ensure that all balanced funds are correctly positioned to deliver successful outcomes for our clients. David has BSc from the University of Ulster and an MSc from The London School of Economics.



# KEY INVESTMENT PROFESSIONALS

## Simon Rubingh – Senior Fund Manager

Simon joined RLAM in August 2013 following the acquisition of The Co-operative Asset Management (TCAM) by the Royal London Group. Simon is a Senior Fund Manager within the Multi Asset Team. He previously held the role of Senior Fund Manager within the RLAM Sustainable team, with responsibility for alternative investments and the tactical asset allocation strategy. Simon was previously Head of Overseas Equities from 2002 and managed the TCAM Asia Pacific portfolio from 1991. Simon joined TCAM in 1989 as a research analyst on Japanese equities, has a B.A. (Hons) in Applied Economics from Abertay University and is an Associate of CFA UK.



## Hiroki Hashimoto – Senior Quantitative Analyst

Hiroki Hashimoto is working on tactical asset allocation and portfolio modelling within the Multi Asset Team. He joined RLAM in November 2015 with broad quantitative research experience in Multi Asset, Fixed Income and Currencies. Hiroki started his career in 2008 and he previously worked at Adrian Lee & Partners, Fidelity Worldwide Investment and Bloomberg. He is a CFA Charterholder and a certified Financial Risk Manager.



## Jean-Marc Lange – Senior Quantitative Analyst

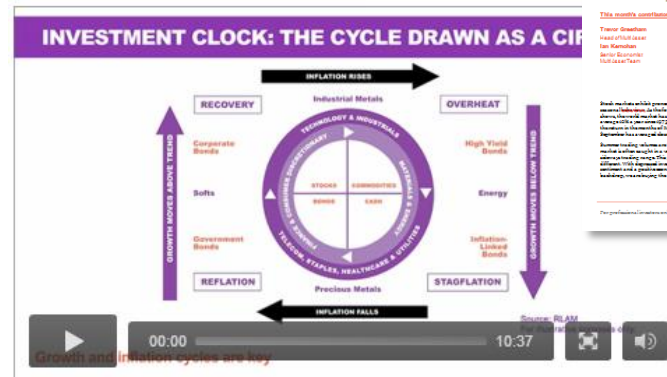
Jean Marc joined RLAM in March 2012 from Henderson Global investors. He is a Senior Quantitative Analyst within RLAM's Multi Asset Team. He joined RLAM as manager of the passive European ex UK fund, also assisting with the day to day running of RLAM's UK, Asia and US passive fund range. He has held previous positions as a senior risk analyst at Henderson focusing on equity long short and market neutral hedge funds. He is a CFA charter holder, holds an MBA in Finance from Arizona State University and an MSc in Applied Statistics from Birkbeck University.



# MULTI ASSET INVESTING AND THE INVESTMENT CLOCK

## ASSET MANAGEMENT

- One part of a robust process used to guide tactical strategy
- Tactical decisions carried out within a risk controlled framework
- Range of online support material including investment clock and market update videos by Trevor Greetham
- Regular in-depth investment clock report and frequent blog activity



The screenshot shows the Royal London website's 'Investment Clock' section. The header includes the Royal London logo and navigation links: Home, Personal pensions, Workplace pensions, Investment, Technical Central, Tools and support, About us. The main content area is titled 'Latest Investment Clock updates' and features a video player with a thumbnail of Trevor Greetham. Below the video, there is a section for 'Market outlook - August 2015' and a 'Latest updates' section with a link to 'Discover the latest movements of the Investment Clock and commentary on our positioning.' The page also includes a sidebar with links to 'Our investment process', 'The Investment Clock', 'Latest updates', 'UK Stewardship Code', 'AKG endorsements', 'Glossary', and 'Due diligence report'.

[www.investmentclock.co.uk](http://www.investmentclock.co.uk)



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