Q&A:

ROYAL LONDON
ASSET MANAGEMENT

TREVOR GREETHAM

HEAD OF MULTI ASSET,
ROYAL LONDON ASSET MANAGEMENT

WITH SO MANY MULTI-ASSET FUNDS ON OFFER TODAY, WHAT SETS YOU APART FROM YOUR PEERS?

We have a number of unique selling points in the market. First and foremost is our approach to tactical asset allocation. Secondly, we avoid some of the more exotic asset classes competitors invest heavily in, which should mean more resilience if we go into recession.

Lastly, we have a pragmatic approach to passive investing. We brought the cost level down by using passive exposures where it makes sense – such as in highly efficient and liquid equity markets – while sticking to active management in areas like credit, where passive funds are weighted towards the most indebted companies or countries.

Fortunately, we have a number of award-winning Royal London fixed income funds to choose from. It's not possible to be passive in physical property, but we have great in-house managers, investing billions of pounds worth of assets across the UK.

HOW DOES THAT TACTICAL ALLOCATION WORK? CAN YOU EXPLAIN THE INVESTMENT CLOCK?

We have a research-led tactical asset allocation process that makes use of quantitative models, but allows room for experience and judgement to play a part. We start with an analysis of factors that have worked in the past.

The Investment Clock is a good example. Different asset classes tend to perform better at different stages of the business cycle. Stocks do best in the early recovery while inflation is still low or falling. Commodities do better later in the expansion, when inflation is rising and the world economy is starting to overheat.

Cash and government bonds are a good place to invest when growth is slowing. The multi-asset team will look at the models this will form the starting point of a fundamental discussion.

We think it's a mistake to be purely quantitative like some of our peers. If you look at recent curveballs, like Brexit and Trump, it's not always obvious how to fit them into a spreadsheet. Having a back-tested quantitative anchor, which we complement with more qualitative investment calls, has served us well over the years.

GIVEN THIS APPROACH, HOW HAVE YOU BEEN POSITIONED RECENTLY?

The multi-asset funds I manage have been overweight equities since 2012. We have had more of a trading mentality over the last year, moving between relatively large overweight positions to take advantage of market panics early in 2017 and into year end, but moving back to neutral as markets recovered. We weren't surprised to see markets drop later in the year as slowing global growth, rising inflation and rising US interest rates are a toxic mix.

Another strong facet of our investment style, that helps us during volatile times, is we try to be contrarian investors. We look at a range of indicators to gauge investor sentiment. If people are being complacent or greedy, as in January or September last year, we'll think about scaling back exposure or adding defensive hedges. We almost always buy when investors are in a panic.

Markets overreact to bad news, and market stress often leads to a policy change that triggers a recovery. The strong start this year is a case in point. The worst December for US stocks since the Great Depression saw our sentiment indicator register one of its ten most depressed readings in weekly data, going back to the early 1990s. We bought equities.

Since then, the Federal Reserve System signalled a pause in its rate hikes, China has announced stimulus measures and president Trump is falling over himself to sound positive about trade tensions. Investor sentiment has swung towards the complacent side, so we've move back to neutral.

IN TERMS OF THE GLOBAL MULTI ASSET PORTFOLIO RANGE (GMAP), THEY NOW HAVE A THREE-YEAR TRACK RECORD DON'T THEY?

Yes, the GMAPs celebrate their third birthday in March, but they share the same investment approach as Royal London's risk-targeted Governed Portfolios which have just passed the ten year point. I've been managing multi-asset funds for UK investors since 2005, so we have a track record.

DO YOU WANT TO TALK ABOUT THAT TRACK RECORD? HOW HAVE THE FUNDS PERFORMED?

Risk-adjusted returns have been good relative to the peer group. We're helped by commercial property, which was just about the only asset class that did well in 2017.

The impact of tactical asset allocation has been good over the long run, but broadly neutral since the GMAPs launched. This doesn't surprise us too much as our investment style tends to add less value in the late cycle when volatility is very low but makes up for that by adding a lot of value going into and coming out of a recession. It feels like there will be plenty of opportunities to add value for investors over the next few years.

HOW ARE ADVISERS USING THE FUNDS? ARE THEY GOOD VALUE?

We have funds spanning the risk spectrum, so some financial advisers are using the GMAPs as part of their centralised investment proposition. They are similar to the Governed Portfolios used for pensions.

Others have bought them as part of the blend to sit alongside multi-asset funds with a different investment approach. Advisers with a model portfolio approach are less likely to buy a GMAP but we think they will be interested in our new absolute return fund, the Multi Asset Strategies Fund (MAST). It applies a similar investment process, but with a more dynamic approach to limit downside risk.

The GMAPs are available on all the major platforms and management fees are 45 basis points. Given that we're active, that puts us at the cost-effective end of the spectrum. ■

www.investmentclock.co.uk