



INVEST *for* SUCCESS

ROUND TABLE ISSUE

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Introduction

From Platform and Investment Director, Simon Taylor

Succession's investment partners recently came together to discuss recent political events taking place across the major developed economies.

The economists, Chief Investment Officers, and strategists shared their thoughts on key areas for growth, with their key insights revealing how they are taking advantage of the anomalies thrown up by recent market movements and how they have changed their asset allocation to navigate the current environment.

At a time of significant short-term noise, investors should not neglect longer-term trends. When safe isn't safe anymore, and risky isn't necessarily risky, understanding their thinking will help us communicate better with clients, and further their financial education.

The full round table panel discussion is available to view as a video on www.successionadvisoryservices.com/video.



SIMON TAYLOR

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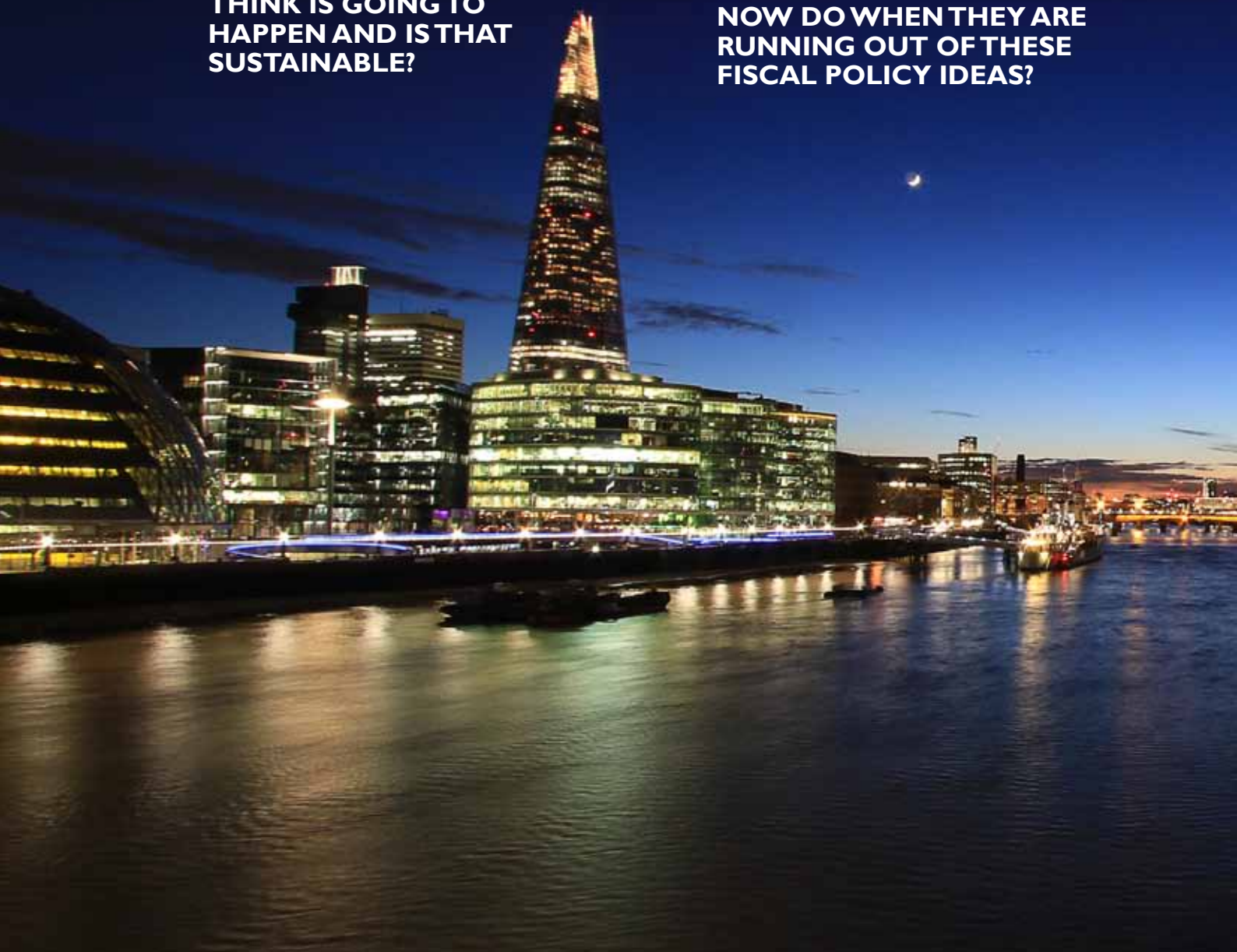
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Succession Economic Round Table

JULY 2017



What should investors be worried about – politics or fundamentals?

BEN KUMAR
7IM



When you look at most UK assets, the fundamentals still matter; but when you look at Sterling, I think politics is still playing a part.

Looking at the global economy, and Britain's place in it, you still see that fundamentals are what is moving things around.

SANJAY RIJHSINGHANI
LGT Vestra



Fundamentals globally are what the markets end up following. Currency has had a huge impact on the FTSE – but it's very interesting to see how the markets have reacted post-Brexit.

If you look at the FTSE for example, a lot of our clients look at their portfolios and attribute a lot of their gains to currency. We saw an astronomical rise in the FTSE 100 post-Brexit – that was primarily currency-

led. But thereafter we saw a rally in global markets, and that was all to do with global fundamentals having improved.

WAYNE BISHOP
King and Shaxson



We would put a little more emphasis on inflation. We're only now getting the first shockwave of Brexit hitting our inflation numbers.

At the same time, you have a global recovery – very good global fundamentals.

Then you have a third part that with the recovery, you're also going to see more wage pressure.

JOHN REDWOOD
Charles Stanley



I think it's very easy to exaggerate the importance of politics on markets. It often doesn't have much impact on how

economies move, unless voters decide on a major change of Government.

We think the underlying position remains that in all the main advanced countries you have Governments that want to promote more growth, that don't think inflation is a major problem, and are happy to run with relatively free and easy monetary policy, and those are good conditions for asset markets.

TREVOR GREETHAM
Royal London



In the near term, it seems that a bit of the steam is coming out of global growth, China is slowing down, inflation rates outside of the UK are likely to dip a little bit. At Royal London, we think that inflation is the main threat to investors over the long run.

We wrote a policy paper recently called the Curse of Long Term Cash. We looked at the returns people have seen



on money and cash ISAs over the last decade or so, and in real terms, you've lost about 10% of the money you put into those cash ISAs. Since the financial crisis, inflation has been consistently higher than base rates and interest rates. We think that will carry on.

We think in the next ten years, you're also likely to see negative real interest rates in the major economies. And that's why we have to move away from cash as a long-term investor and move towards things like multi-asset funds.

NICK WATSON

Janus Henderson



We are looking at negative real wages. This has a really meaningful impact on the disposable income that the average worker has in the UK. The average worker, on a weekly basis this year, has less real disposable income in their pockets than they did ten years ago. I think that's a really

meaningful impact for markets and clearly, it's had some political implications as we've seen in the UK and the US.

DAVID COPSEY

Goldman Sachs



We looked at the two challenges – you get no money from having your money in a bank account, and your wages probably haven't gone very far in the last few years.

The last place you can look to is your investment portfolio, which a lot of people have done and have made very good returns over the last eight years. The challenge now facing investors is that you really can't take inaction. While some people might say that valuations look very high, now is the time to reduce risk. I think with the inflation environment that we're in and the huge degree of uncertainty as to when this economic cycle finishes,

we really can't afford to stop taking investment risks right now.

PAUL GREEN

BMO



There is always political risk in the market. But trying to create an investment strategy around that is a very tricky thing to do.

Even if you predicted the correct result of the US election, it would have been very difficult to predict the way markets reacted. You would have expected a risk-off event. Equities would fall, gold increase in value. And that was correct for about two hours. And then it reversed as equities rallied as a result of the expectation of fiscal stimulus and in particular, we saw value strategies do particularly well with regards to cyclical shares rallying, infrastructure stocks rallying, and gold sold off as a result.

What does the recent election mean for UK investors?

CHRIS BECKETT

Quilter Cheviot



If you look at the economic policies that the current Government will have to pursue to try and keep a coalition of sorts to try to get them over the next months and maybe years, it's the increase of borrowing and spending and the impacts on individual companies that you should look at when investing. On specific sectors, you start thinking about the policies of the main parties in the next election (after the one we've just had) – which may be a matter of months or years. But we're going to be faced with very different policies, and that affects companies quite dramatically in some sectors that could have a lot more regulation and Government involvement.

We always had a larger allocation to international assets, and part of that diversification across currencies protects the purchasing power of investments. You can't just look at a nominal value across a single currency. The depreciation of Sterling has made a lot of investors aware of the real value of their investments.

PETER WESTAWAY

Vanguard



From a UK perspective, the most important issue that will become resolved in the next few months is the Government's stance on Brexit. It's the potential change in stance that the Government is pursuing – whether they will continue with hard Brexit strategy or a soft Brexit that will make it a less costly exercise.

The UK election generated a lot of uncertainty for investors – arguably we have moved from a situation which we had certainty about a bad outcome to uncertainty where at least now things could be a bit better.

Our philosophy has always been not to second-guess political development – it's very difficult to anticipate how these things will play out. But I do think investors are now in a low return environment - not just because of what central banks are doing but because longer run, real interest rates are lower than they've ever been. It's not clear that they are going to rise back to traditional levels anytime soon.

The point about global diversification and how financial advisers should be framing portfolio allocation decisions with their clients is: start from a global portfolio, and then say how much of a home bias should I have? When you put the question that way, it's not at all clear as to why people would want to overweight Sterling.

SANJAY RIJHSINGHANI

Vestra



At Vestra we've been debating what direction markets are going to take in the UK. But you take a step back and think - well here we are focusing so much on the UK and the UK is 3% of global GDP, so it's a very small part of the overall equation.

And whilst we've got a lot of uncertainty, why not move more offshore? I know

historically portfolios that are managed by UK fund managers tend to have a UK bias. But maybe now we get rid of the UK bias. Let's focus more on offshore assets: areas where there is more political certainty, areas that seem to be sorting themselves out - like Europe - rather than just homing in on the FTSE and the UK market.

BEN KUMAR

7IM



Lots of global investors still think of the UK as part of Europe. If you look at many US fund managers – they have European indices, which include the UK, and they say 'yes I guess that area of the world is doing well or badly'. You have to take into account what other investors are doing but being able to do something about the currency now is a very important tool that we didn't have 5-10 years ago.

JOHN REDWOOD

Charles Stanley



At Charles Stanley, we haven't changed our strategy as a result of the recent general election. There's a huge amount of noise in the newspapers, but I haven't seen any indication that the Prime Minister thinks she can change the approach laid out in the Lancaster House speech and the White paper, which remain the definitive statements of the Government's approach to Brexit.

TREVOR GREETHAM

Royal London



If you ended up with a situation like Norway, where the UK remains in the single market, and if the pound took that well, beware of your portfolios because last year was one of the best years in 10 years for Sterling-based investors because the pound was so weak, and your foreign assets went up so much, and the earnings of UK companies went up so much. I think you could see a situation where Sterling strengthens on a more consensus approach to Brexit. But actually, multi-asset portfolio returns are quite lackluster as a result.

We've got a situation here where an extended period of loose monetary policy in a very long business cycle and that's when a lot of excess valuations can build up. But at the moment, there's no sign of wages picking up in a meaningful way in any of the major economies. In the US, wage growth is almost half the level it was in 2007. There's no wage growth in Japan, and hardly any in the UK. It could be job insecurity, technological change.

We live in the UK, and our customers are in the UK. They spend Sterling; they buy goods related to the UK inflation basket. So I think there is a very good reason, particularly for lower risk portfolios to have a very high weighting in Sterling. You have to be a global investor in terms of your tactical positioning and the opportunities you can exploit. But I think there is value to having some matched Sterling exposure in portfolios that are going to be used by people in this country to spend money in Sterling, possibly quite soon.

LEILA BUTT

Prudential



We haven't changed our view fundamentally. The left tail risks have increased, as there is more uncertainty about how the Brexit negotiations will come out. There is uncertainty about how long this Government will last and whether there'll be an early election or not. So all of this uncertainty increases those left tail risks.

But there are pockets of value. So with Sterling depreciation, and if it continues to be weak, then you get a better or a continued good outcome for the FTSE 100. The FTSE 250 is probably not as strong because of the uncertainty playing into investment decisions on the part of some of those companies. Real estate may continue to benefit also from weaker Sterling and the fact that we still have supply constraints on the provision of property.

DAVID LEWIS

Jupiter



The discussions we have been having are should we be redoubling our efforts on what we think the key benefit is: trying to pick active fund managers who can take advantage of dislocations in markets and pick the companies that are going to be the winners of the future, rather than sitting in indexes. That is our key skill.

Making investment decisions on the back of such uncertainty is very challenging. We are focused more on company fundamentals and trying to find really good companies that can grow their earnings over time.

NICK WATSON

Janus Henderson



What we've done with our multi-asset portfolios is maintained our preference for equities over fixed income. Particularly within our equity portfolios, we have tilted towards more value areas, such as Japan and Europe, and areas with loose monetary policy.

DAVID COPSEY

Goldman Sachs



Unless you have to have a UK bias, there isn't really any fundamental reason to do that. In the portfolios across all asset classes of equity, real estate, and fixed income, we typically take 4-5% starting exposure to the UK, and we can move that if we have a positive or negative view on the UK.

By being completely global in our approach, it allows us to focus primarily on the economics.

DAVID SWANWICK

Dimensional



If we think back to why the election was called, it was to increase the majority in parliament to make the Brexit negotiation stance much firmer.

The election result weakened that stance as it has resulted in a coalition Government and could lead to a period of uncertainty with corporations holding back on hiring, wage increases and investment spending as well.

*Global markets have now been on the rise for over seven years.
What does the panel think is going to happen and is that sustainable?*



SANJAY RIJHSINGHANI

Vestra



It's very easy to look at the markets today, the phenomenal rise we've had since the credit crisis and think, "are we heading towards the end of the cycle?"

We have tried to break it down to discreet periods.

In 2008-2010 – the pendulum had swung way to the downside. That was more of a relief rally that the world wasn't coming to an end and people were still going to restaurants, buying clothes.

2010-2013 - QE and asset purchases created liquidity and market excitement, but growth was very anaemic.

2014-2016 – depending what part of the world you were in, markets were flat to treading water. It's only since the middle of 2016 that we've seen a fundamental shift in

data, a pickup in various economies and in all the PMIs around the world.

With alternatives, you still have to be very careful because you've got to understand what you're buying and the risks. As much as we say, "they're uncorrelated", they do have equities and bonds within them. We want to dictate the strategy.

Central banks have become very good at communicating to the investment community. That reduces the shocks to the market. Whilst there are no shocks to the investment community, I think the market should carry on doing reasonably well. And the market will tell policy makers if they're about to raise rates and they don't like it, and all of a sudden data deteriorates, and they don't raise rates. A lot of what policy makers have been doing is flagging it to us first, communicating it and seeing how we react, and once we've reacted they then decide whether to raise rates or not.

JOHN REDWOOD

Charles Stanley



How long is a cycle? As long as the authorities allow them to be.

What brings a cycle to the end? Normally, it is official action and intervention: a Government cutting expenditures, increasing taxes, taking demand out by fiscal action. More likely it will be a central bank working with a Government, hiking interest rates to try and choke off loan demand and take money away from those who have been more adventurous and have lent money. It may be conjoint.

When the authorities overdo it, as they did in 2008/9, they turn a correction into a slump.

It is true that Janet Yellen has over the past few years given reasonable guidance, and we've all followed it, and it's been correct.

Japanese central banks have had awful trouble explaining what they're doing and have trouble hitting the targets they establish for bond yields. The UK central bank offered three separate pieces of guidance of how they were going to increase interest rates and each time the trigger was hit they decided not to and then, in the end, decided to cut it instead. The European central bank has had some wobbles over how much QE it is going to do over what period and decided that they were going to do more of it because they needed to stay loose.

The Japanese obviously are trying to keep the Yen down as much as possible and have been very successful at that. Europeans haven't been so expressly trying to lower the Euro, but they have done quite successfully. Sterling is also down. But the one that's stood out as the strongest currency against which they've all devalued is the Dollar – they now have a president who's desperate to get the Dollar down, and you feel the central bank is reflecting that a little bit. So we need to bear that a little in mind – they are not in charge of currencies, they feel they'd like to be, and it can lead to actions to which you're not predicting.

DAVID LEWIS

Jupiter



We have been taking a bit of risk off the table, given how well things have done in the short term, but we have to be aware that we're investing for our clients and they are long-term investors and equities are a good way for investors to hold money and compound their returns over time.

We look for managers with a valuation discipline. They don't have to be value managers, but people that are willing

to be buying something at a reasonable price, be that growth companies at a higher price or value companies at a lower price.

We also look for managers that have a margin of safety in what they do. One of the key tenets of what we do at Jupiter Merlin is we try to compound returns over time, and that means not losing as much when markets fall.

CHRIS BECKETT

Quilter Cheviot



I think you've got to look at why you've had that 7/8 year bull market. Since March 2009 when the market troughed, you've had a very consistent economic recovery.

We think that economic recovery of 2.5%, probably accelerating to 3%, of global GDP growth can continue for the foreseeable future. It is not a great recovery, but it's good enough for good quality companies to increase their profitability. And if we at Quilter Cheviot can identify those good quality companies that can take advantage of the relatively consistent and modest growth, they are the companies that generate extra profits, extra cash that are funding the dividends, which underpin the market at the moment.

TREVOR GREETHAM

Royal London



We're big believers in business cycle analysis. We use an approach called the Investment Clock, which links different assets classes to the evolution of growth and inflation cycles. And what we're

seeing is the growth lead indicators are softening, and inflationary indicators are pointing downwards.

That suggests a period where we could see corrections in stock prices, and we've also been taking some profits recently. You could see bond yields dip a bit. And that means you're moving away from strong growth, rising inflation, rising interest rates where you tend to get more risk of the business cycle ending.

I want to emphasise the current business cycle could last a lot longer than people think. Not just because it's hard to get a good wage inflation going, wages aren't rising very rapidly in many economies even though unemployment rates are quite low.

But also because of China.

The reason global growth picked up so strongly in the last year is the Chinese authorities massively increased money printing as they were worried that their economy, which is going through some sort of structural slowdown was slowing down too much.

The China slowdown is extending the business cycles everywhere else in the world because it's keeping inflation low. So at Royal London, we think equities have got quite a bit further to go.

The first thing we do is have a blended approach at Royal London to active and passive exposures, so most of our equity exposure is passive. We have active fixed income. Active real estate and that helps to keep the cost level down – it's a good starting point. Then you have to have a systematic process that you can demonstrate added value in real life through a track record or tactical models that we have going back to the 1990s. We do our best to come up with a systematic framework that should mean we do more than just cover our costs over the medium and long run.

But this discussion has shown us in the last few minutes that there is no such thing as a passive multi-asset fund, as you get to choose which assets to put in and that's an absolutely critical decision. So for us at Royal London, we want transparent, daily priced, liquid asset classes. We want to have asset classes that give us some resilience to shocks. Not just diversification through an optimiser, but commodities that do well when no other asset classes do well. We include gilts in the benchmarks. A lot of optimisers don't as credit gives you a higher return. Well, we know in the financial crisis credit and gilts were poles apart.

I think you've got to be very careful about which asset classes you include and which ones you don't.

We don't include some of the more exotic or expensive types of fixed income, so things like hedge funds, aircraft leasing, infrastructure, etc. My concern there – is that they all look as though they're uncorrelated, but they're all built off negative real interest rates in the bond market. And although we don't think we're about to see the big monetary tiding that will end this cycle, when it comes, I think a lot of uncorrelated alternative asset classes will find themselves very correlated and very liquid.

BEN KUMAR
7IM



People are ready and waiting to step in. People are reluctantly just about persuading themselves to keep going. But that's not the same as creating a crescendo.

Emerging markets investment requires some due diligence on the active manager side and a bit more blind faith if

you're going in on the passive side. There are some very heavy concentrations.

We are exploring alternatives. Assets that are not related to the equities or bonds. Now it could be because they are equity market neutral. I think they can offer investors some comfort. It does require due diligence. It's like picking an active manager – you have to do the work, and you have to be comfortable that even if you don't know exactly what the strategy is going to do – you know how it's put together and who's running it and what environment they're running it for. I think that's a useful diversifier. As we all know, diversification does help you out in most situations.

NICK WATSON
Janus Henderson



I'd extend that alternatives discussion beyond the absolute return funds. Yes, there's a role for absolute return funds in portfolios. But alternatives to our mind at Henderson are much broader than that. Areas such as property, private equity, infrastructure, renewables, there's a huge suite of asset classes coming to the market today which give you diversified return profiles but also diversified income streams for income-seeking clients. Three of our investment professionals are focused purely on alternatives – on a day-to-day basis.

It gives us a great opportunity to identify some interesting asset classes. Yes, there are risks – but I think they've got the right approach to identify some interesting opportunities, deliver some diversified return profiles and some diversified income streams.

We are now reaching a world where peak QE has arrived, and you're starting to see tapering. And interest rate rises.

So this creates a world where you're going to see some of these market dynamics shift. We are entering a world where returns are harder to come by, and you're likely to have more volatility. So in that world, a multi-asset portfolio is well positioned to be more active and flexible in their management. There is also a role for picking active managers in this space.

LEILA BUTT
Prudential



There seems to be this assumption that central banks are definitely going to be behind the curve on inflation. While I do agree that long term interest rates are going to be lower than before, that's part of a very long term trend that predates 2008 and the financial crisis,

We do have a lot of uncertainty when it comes to central bank policy because there are potentially up to five vacancies on the FOMC (Federal Open Market Committee). We don't know whether Janet Yellen is going to stay as Fed chair. There are a number of names being floated and one person, in particular, is very much in favour of very pro-active central bank policy. Raising rates quickly and aggressively is what happened in 1994.

The ECB is highly constrained and very likely to run into a wall. There are increasing voices calling for a more aggressive start to tapering.

WAYNE BISHOP
King and Shaxson



Employment is at the highest level ever. They're not the same jobs as

before, but I see that trend continuing as Europe is only just beginning to dig itself out of a trough and it's only through very aggressive monetary policy that it's happening.

But the most important thing is that the US has become very political. Trump love him or hate him has completely changed the economic dynamic, and a little bit of the UK election was about people wanting to be included in the economy and wanting to have a share of the growth.

Economic policy is going to shift a little bit to the mass – so we're going to see more growth-friendly policies, so the populace feels a lot better off because that has been the biggest problem with this unloved bull market.

I still think there are another 4-5 years of building up here because by the time we come round to the next election – I'm sure the Government will be wanting people to feel a lot happier, otherwise they're going to be putting their ticks in the other boxes. So I feel we're going to see a whole range of populist economics here in the UK as we see in America and that is going to push the market and push confidence.



I agree that's there's more growth mileage in the global economy – because there's still spare capacity left in Europe. Capacity constraints will ultimately hold back the extent to which these more optimistic policies will be able to translate into growth.

On the valuations question – I agree that you have to look at them in

the context of the extraordinary qualitative monetary policy that we're now facing. In terms of the fragility of valuations, I worry not so much about the implementation of monetary policy going forward, but the very fact we're in such unknown territory.



Going forward, I think action is one of the things people will have to do to generate returns. Sitting here in developed markets and looking at the developed world, growth has not been particularly strong in this recovery, but if you break down global growth and compare it to previous decades, it has been remarkably consistent – running about 3.2% a decade across the majority of the last 50 years. So you have to start to identify who are the winners and losers.

One area we think is really interesting at the moment is emerging markets. EM in the 80's were delivering 30-40% of global growth – it's now 50% of contribution to global growth and delivering 75% of incremental growth.

Exposing your portfolio to that now is a really important theme to continue to generate returns.



We are in the 8th year of an economic recovery. Admittedly that recovery has

been very slow and unusual. As we look around the world, we think most Governments have worked out that by using austerity it's a surefire way of getting voted out. The path of least resistance is through fiscal spending. That's certainly what they are trying to do in the US and arguably elsewhere around the globe, perhaps with the exception of the UK.

What will help global recovery?
Economic reform and fiscal spending would be a positive.

In terms of what would hinder it. We think debt is something that needs to be well managed. The debt pile is even higher now than it was after the global financial crisis and that is manageable at the moment due to costs being very low due to a low interest rate environment. If that was to change and interest rates go up, the financing of that debt could be quite tough for corporates to keep up with. Something to keep in mind.

Inflation in the UK is running at relatively low levels on a historic basis. In the shorter term, it is at heightened levels. As long as inflation doesn't run too far ahead of wage growth, it is manageable by the consumer. Where it does become a problem is when it runs at higher levels to wage increases, which means the impact on the consumers' disposable income gets squeezed which leads to an impact on consumer spending.

We have seen that over the last couple of months or so. There has been a softening there.

The UK is running at relatively full employment rate. Normally when you see there is no slack in the economy you would expect to see wage rises following shortly afterwards.

What is the panel's view on the recent European elections and their impact?

DAVID COPSEY

Goldman Sachs



The European political situation has clearly been overhanging markets, particularly equities, for some time now. If you'd spoken to managers last year, it would have probably been their biggest concern and given there had been a wave of cross-developed markets, and anti populist and populist movements.

Luckily for Europe, there has been a strong support for the EU across the elections we've seen so far. Some of the big ones across France – we've seen a big surge towards the centre and a party that seems to have the power to really enact some structural change which we think is much needed.

So some of that risk that has been overlaying markets has come off, and so we are now very positive on Europe as we see that investors are moving back to invest in European equities as we see that risk has been taken off.

CHRIS BECKETT

Quilter Cheviot



I think European politics has generally been positive. We've had sensible politicians winning the election in the Netherlands. Macron's done very well, and it looks like he'll get the mandate to implement a lot of his more sensible, economic, particularly labour market, reforms.

There's still a level of political risk – German elections later in the year, possibly Italian. It's not completely over. Populist sentiments of a lot of European populations are not over. The system and rules of elections matter as much as people's preferences.

I think if you marry that up with the continued economic recovery and I think the ECB has been very good at latterly recognising the level of support that European economies need.

JOHN REDWOOD

Charles Stanley



It's very interesting as the consensus wisdom on continental European politics was that it would be very bad news if an anti-Euro party won. No anti-Euro party has won, so we assume that this is still the market's view. And it's definitely the case that the Euro was on a ballot paper, for the first time ever in a big way in the Netherlands, in France and it will be in Italy – as people are sick and tired of the high youth unemployment, very slow growth and slow progress of sorting out the banks and the fiscal disciplines on all Euro members.

Our view is that yes it would be a negative if anti-Euro forces won because of the uncertainty that would create. So far we've been right in saying they're not going to win sufficiently in the Netherlands or France to take those countries out of the Euro.

There is always more of a threat in Italy where the polling has for some time shown over 50% of the public supporting anti-Euro parties. But as the Euro recovery continues and the anti-Euro forces remain very splintered, I think best case is that it is unlikely that Italy will express a political view to leave the Euro, which is then followed through to leave the Euro.

LEILA BUTT

Prudential



I tend to agree that surprising solid growth in the Eurozone has papered over the cracks a little and that's meant that some of these political risks have dissipated. But I don't think they've gone away. We've talked about Italy – very much still a risk. There is the possibility of an early election in Austria as well. So it's really up to the Eurozone – both at a national level and Eurozone level – to continue with structural reforms and to boost the fundamental architecture of the Eurozone, which remains incredibly incomplete.

Structural reforms, in the short term, are not going to make anyone happy. In France, if you're talking about labour market reforms – France desperately needs that. It's going to be massively unpopular and take a long time to bear fruit. We don't know how the electorate is going to react and which way they will swing at the next election. So I think this process of political fragmentation is just going to continue, it's really up to Eurozone leaders to grab the reins.

NICK WATSON

Janus Henderson



The way we should be constructing our portfolios is a range of different outcomes – multi asset is the right way to do that. When you do have political change, it's important to focus on the actual policies. So we've seen Trump come to power – there was a massive spike in small business confidence, treasury sell off, US banks do particularly well. US value, in general, delivered some really strong performance. However, as he's entered a more challenging political dynamic, you have seen all of those traits return to where they were in October.

It's important to focus on the policies of these Governments and evaluate whether they have a reasonable chance of getting their legislative agenda through. So in the case of Europe, Macron in France – you can argue he's had a very successful Presidential election – looks like he's likely to deliver quite a significant majority, in terms of parliamentary election. So that gives him the chance of bringing about some rather reformist policies, some pro-business policies, which should be supportive for European equities.

DAVID LEWIS

Jupiter



We're focusing on asset markets and the thing that has driven asset markets in recent years is QE. I think what this

does is there is more of an impetus for Mario Draghi to rein in the QE. We expect they may cut that back at the beginning of next year.

We're very concerned actually by the correlation we've seen between QE and equity markets. And if they start rowing back, that could have a major impact on asset markets particularly given you could make the argument that QE has been driving their economy until now. Even though things have gone with the status quo, we don't think it's time to embrace too much risk and wade into European equities en masse, just yet.

WAYNE BISHOP

King and Shaxson



The German election at the moment is pretty much a given, given the weakness of the centralist-left party. But there is a risk she could get outflanked even though it has diminished. Of course for the Germans, a weak Euro is absolute nirvana – an export-led country with a weak currency – it just doesn't get any better. Of course, they won't want the strengthening Euro, as it will hit them slowly where it hurts. At the same time, the global dynamic is pushing back against them anyway as we're seeing with Trump.

European elections aren't as important as they were. I really don't think that we can sound the all clear on worries to the Euro though. If politics fail to deliver over the next

year or two, we may find ourselves back in that difficult situation again. Does that stop me from holding great European companies? No. Does it make me sensitive to holding European bonds? Certainly, at the moment I'm very cautious about anything in that area.

PAUL GREEN

BMO



The French presidential election resulted in a market friendly outcome with a larger majority than predicted.

Uncertainty with the recent UK election resulting in a coalition Government.

Elections in Germany in the autumn with two major parties competing and both are pro-EU.

At the moment the biggest political risk is the Italian election. There is the possibility that will come before the end of this year, but it has to be done in the next 12 months.

I think that is too far away to price in and European politics looks as good as it has done for a while

Central banks have recently pumped a lot of money into the environment, creating levels of inflation that we haven't seen for a number of years. This is a limited policy. What do you think they can now do when they are running out of these fiscal policy ideas?

BEN KUMAR
7IM



There is a view at the moment that most central banks are more willing to let global growth, and maybe inflation, get away from them. And then try and raise rates after the fact. And I think that is something we would probably subscribe to.

It's all part of the same mentality in investors' minds about the crisis - about making sure that it doesn't happen again.

Clearly, in the US the process has begun, but I think even there we're seeing a very reluctant rate-rising environment and I think that's going to be true for a long, long time in a lot of places. Any excuse to row back on raising rates or cutting asset purchases or even selling back some of the trillions worth of assets into the market. I think central bankers, in general, are going to look to be cautious.

PETER WESTAWAY
Vanguard



It's important to think about two aspects of how central bankers will be thinking about this. First, whether the economies that they're worrying about have reached full capacity. I think we're kind of there for the US. We were getting there for the UK, but I think we've fallen back away again because of Brexit concerns. I think Europe, we're still not there. It is difficult enough, trying to understand that degree of spare capacity, which would normally be when you would start triggering the tightening cycle.

The additional complication that policy makers are wrestling with is whether or not inflation is as sensitive as it used to be to economies reaching full capacity.

Whether that's to do with the uberisation of employment - the fact that there's much more flexibility in employment markets.

Whether it's more globalising of labour markets? Whatever it is, it doesn't appear that inflation is picking up.

For that reason, central banks are erring on the side of not being too quick to raise interest rates.

We heard Janet Yellen last year talking about maybe letting the economy run hot in order to make up for all that time when it was running so cold and maybe clawing back some of that lost capacity.

We're in new territory. As this QE gets withdrawn, we don't know whether that is going to primarily impinge on bond markets or whether equity markets will be caught in the backwash. I think it's a very difficult time.

We tend to encourage investors to focus on the long run. Think about that diversified portfolio relevant for your risks and not to be too cute about the tactical asset allocation.

PAUL GREEN
BMO



While there is still scope for the central banks to do more, the question is "do they need to?"

We saw at the beginning of June in the ECB's statement, Mario Draghi believes that deflation has been conquered in the Euro zone and there is no need for further stimulus in the economies there.

If you look around the globe, it is a very similar situation. You've got a decent level of GDP growth globally this year. Inflation is staying at relatively low levels.

If you look to Japan, the Bank of Japan are beginning to stimulate the economy with a high level of QE and low rates for the foreseeable future.

In the UK, the BoE we feel are likely to look through this period of heightened inflation in part caused by the oil price picking up last

year, filtering through to the numbers this year, alongside the devaluation of Sterling caused by the EU referendum in the UK in 2016.

If we look to the US, the Fed is on a tightening organisational policy. It has been well flagged that there are likely to be two further interest rate hikes this year. The wording around what they say when they increase rates around future expectations needs to be carefully managed.

CHRIS BECKETT
Quilter Cheviot



I think most central bankers are very data dependent at the moment and while the economic data is good, it's not so good to justify an aggressive tightening of monetary policy. Even in the States, a very managed normalisation of policy, and a very gradual reversing of QE is all that we're looking at.

Other main central banks are going to be far more cautious.

We've got the example of Japan. Every central banker looks at that for what a policy error looks like if you tighten too quickly, particularly after a financial crisis.

When we look at how inflation responds to economic growth, we get down to the more micro level looking at companies that have pricing power. Only the exceptional companies, or the very advantaged sectors, have got that sort of pricing power.

SANJAY RIJHSINGHANI
Vestra



If you go back a few years, it was very much the case that it was the equity side of the portfolio that was the tougher element. I think that climate has changed quite dramatically over the last 12-18 months where the equity side has become a little bit

easier to manage. It's the bond side where we have to be very aware of the risks.

We believe in lower for longer, so we're not concerned about seeing the market sell off aggressively. We just have to keep a very close eye on which way inflation is heading.

I keep coming back to the fact that as long as the communication is there, as long as there are no shocks, we're a firm believer that rates will be lower for longer; and as a result will just use the bond market more for trading opportunities rather than long term investing.

WAYNE BISHOP

King and Shaxson



There are increased limits for central banks. There is very little left in the QE pot. In Europe, there are practically no more bonds left to buy. Really, the effectiveness policy is no longer there – the real move has to be fiscal. Money has to be turning up in peoples' pockets.

I actually think the Government in the UK did the right thing last year by raising the living wage. You have got to have a little bit of Keynesian economics, trying to push the economy alongside the monetary.

At some stage, this has got to be addressed – not just to the US - further down the line to the UK and eventually in Europe.

LEILA BUTT

Prudential



I think it's very important for central banks to start with that process for two reasons. One, for the next recession, it gives them a tiny bit of leeway. But also they've come in for so much criticism about this perception that this monetary financing of Government deficits that they need to move away from this perception and allay concerns from certain quarters that this is not indefinite financing of Government spending.

DAVID COPSEY

Goldman Sachs



You have to look at the areas of the economy that are taking advantage - using - low financing rates. Housing, especially in the UK, is now extraordinarily expensive.

There are other areas like corporate re-financing which is at an all time high where people are borrowing more for longer.

You look at the Fed dots which communicate their expectation of the rate rises and markets meaningfully behind that. Somewhere that has to close, either through markets being surprised, which would be a negative for equity valuations and especially bond valuations. Or the Fed's got it wrong, and people are looking at data differently.

The one factor that we think is enduring is demographics, and that's one thing that budgets are going to have to adjust to as populations in developed markets go through almost certain ageing.

JOHN REDWOOD

Charles Stanley



The problem with the way that banks and Governments tend to look at this is they have this idea that there is a fixed capacity in any given national economy and when you've taken up most of the labour and available factory space, then the next thing that happens is that you have an inflation because people are prepared to bid up for labour and bid up for goods. And therefore, you need to control that by interest rates and other action.

What's wrong with that analysis in the modern world, is there are imports, and you can expand the workforce. You don't get the inflationary consequences from the apparent hitting the capacity boundaries. Yet there is plenty of inflation in our economies that has gone into financial assets and property.

TREVOR GREETHAM

Royal London



Central banks never run out of bullets. Inflation is a monetary phenomenon - they can always create more money, and if they can't buy financial assets like gilts, they can buy commercial paper. They can always expand the money supply.

If you look at hyperinflations in the world you just get the idea that central banks have a lot more they could do, but the question is, should they do more?

My issue is, there has been the wrong balance, not just in the UK, but globally, between fiscal and monetary policy. So we've had unconventional monetary policy beyond zero level interest rates, which have had enormous demands placed on it by tight fiscal policy.

When cutting Government spending, you would expect central banks to cut interest rates a bit more to offset it, but they haven't been able to. So you've seen all this money printing, it has bid up asset prices, particularly in the bond market and if anything has heightened social inequality between asset owners and wage earners.

The pendulum needs to swing back the other way. There should be more done on the fiscal side, to take the strain off monetary policy

NICK WATSON

Janus Henderson



It's certainly the case that markets are pricing a fairly benign outlook for interest rate rises.

In terms of how we're playing our fixed income exposures, we do have some gilts within our portfolios, for hedging characteristics, but we think credit is a more interesting way of playing our fixed income holdings.

Bond prices have been high for a long time. What can investors do now to build their safe assets?

CHRIS BECKETT

Quilter Cheviot



I think cash is giving you a very minimal return. Most portfolios are looking for income and capital growth - you're not going to get it from cash.

We would like a level of cash to give us flexibility. We're active managers; we see opportunities in markets. And the move that we've discussed in the US takes some of the froth out of some of those valuations and some areas of the markets, which gives us a level of opportunity to buy back in.

But I don't think cash should be seen as a strategic asset class. It's something that gives you flexibility to take advantage of market volatility.

DAVID LEWIS

Jupiter



I think having cash is a very sensible thing to have. Having dry powder for when and if markets fall, and being able to take advantage of those opportunities, is really critical.

Whether we hold it ourselves at a portfolio level or within the Jupiter Merlin funds, we have our underlying multi-manager fund managers holding cash for them and us using that to their advantage is a moot point.

We have a bit of cash to dampen volatility and take advantage when opportunities arise.

In terms of where these markets are being defensively positioned is critical. We're invested in some conservative equity funds, and diversification into things like property, we've got some gold in there. We steer clear of quite a lot of the more popular, more esoteric, absolute return funds, or alternative funds, as we find quite a lot of

them opaque and they can be expensive, and quite a lot of them are untested.

We're sticking to traditional asset classes and using cash tactically as and when we think it's appropriate to defend the capital of our underlying clients.

BEN KUMAR

7IM



We are keen on alternatives. We are as keen to avoid opaque alternatives - we've got a team that can do the due diligence, and work out alternative strategies. We speak a lot of about cost around this table as well. Good value. Understandable. Explicable. You don't ever want to be talking to your clients and saying 'I didn't know what they were doing actually.' You want to say 'We know how this is going to perform in most markets and environments.'

I am very suspicious of things that are untested, or worse back tested. But there are strategies out there that have been proven to work over a long period of time, that have been live for a long period of time, that are reasonably priced.

When you're a multi-asset manager, cash is something that you're always going to have because in your wide range of assets, you should probably always have something that's going to be doing reasonably well and you might want to be taking profits from a little bit. You're probably always going to have something that isn't doing so well at the moment, and you need to top back up to weight. Cash is going to be there as the pass through for that over most periods, and I don't think there's any harm in holding it.

Holding it and expecting it to deliver the same return as bonds have done over the past few years is going to be where lots of people will fall down. You need to end up

basically taking more risk than cash if you want to get a better return than cash.

PETER WESTAWAY

Vanguard



What's the role of bonds in a portfolio? They are there to provide stability, to provide a counter weight to equities - that's an important role. Clearly, that counter weight is more effective the longer duration that bond portfolio is.

If you're worried about that interest rate risk possibility, that interest rates are going to go up wholesale, then that may be too costly for you. But for us, we think there's still a role for bonds in a portfolio.

TREVOR GREETHAM

Royal London



I think bonds have a great diversifying property. Particularly when there is an equity market correction, bonds tend to do quite well.

But when we constructed the benchmarks around multi-asset funds a year ago, we explicitly included a "cash on absolutes" element in the strategic asset mix, the long-term asset mix, in order to reduce the duration sensitivity of the funds. We felt uncomfortable going out there with funds called 'conservative' and 'defensive' that were heavily weighted in Government bonds, at a time when real interest rates are -1/-2%. You own these things, and if yields don't change every year, you're paying 1-2% of your real wealth to the Government. They are priced egregiously expensively, and as a result, we think that long term return from fixed income is not going to be brilliant. So we wanted to have

a way of a dampening volatility asset class that didn't expose you to either year in or year out of negative real returns or a rise in bond yields.

We're quite careful what we put in that absolutes category, and the sorts of things that are in there in Royal London are things like absolute return Government bond funds, enhanced cash funds, short duration high yield.

SANJAY RIJHSINGHANI

Vestra



Bonds are an important part of our portfolio and have been historically. We have bonds to provide income-to-income mandates.

From Vestra's point of view, the fact that bond yields have collapsed over the past 20 years means, what do you put in there that has similar qualities and properties but can provide you with a level of income that satisfies the mandate?

With your traditional portfolio, you can have alternatives to substitute the volatility the bond may show, but what you've seen over the past few years is a lot of that money is gradually filtering through to the equity market, which has an element of risk.

JOHN REDWOOD

Charles Stanley



We use bonds to offset equity risk and provide some diversification. Over recent years they've done pretty well in their own right as we've been going through this strange world where Governments love their own debt and have been buying it up at increased prices.

There are two ways to get a better return than cash on a bond element in the portfolio.

One is you lend the money for longer. If interest rates are going to fall, that's great news - you'll make a capital gain as well as pocketing the income. If interest rates stay the same, you'll get a better income than if you were lending it shorter term as you get more money for lending it longer. If rates rise, you lose money, and we're probably at the point now where they're not going to be lowering interest rates anymore.

The other way is to take more risk on who you lend the money to. That's where we've done rather more over the last year - we've had rather more corporate debt, even some higher risk corporate debt in appropriate portfolios. The argument there is in this pretty benign environment where company cashflows and turnover are actually improving overall as there is a bit of economic growth and there's some gearing on profits and cash flow with a bit more pricing power; on average companies are better able to pay their debt and so the risk of a lot of them going bust is reduced.

So if you buy a portfolio of spread risks on corporate debt, you can earn a better return than lending it to Governments or sitting with it in cash. As long as you know there's a bit of risk in it, then that's obviously the best you can do, and so far it's been working.

WAYNE BISHOP

King and Shaxson



A couple of years ago we took the view that fixed income was looking expensive and began reducing. We kept just the index-linked element, which had built up over time and reduced duration. But actually, we replaced a lot with the renewable funds such as solar funds that we built up over a couple of years - with British sun powering British homes.

When you're getting a 5%/6% return on those, you need a lot less than you do in bonds to get the same return - taking half the size for double the risk and end up with the same net position. We do have to return a lot of income, so it is very important to us that you not only have income, but you have income and growth as well.

We've also moved into more of the riskier bonds where you are able to take a very good view on the company and put in some very small positions in some higher risk areas where you are going to get that return, and you have perhaps a little more confidence than if you are firing at just a couple of bond funds where you're hoping they're not too diversified and you're not doing to get any of the mess.

DAVID COPSEY

Goldman Sachs



We try to be quite specific with bonds. The role of bonds is to pay income - right now they're not paying a lot of income. Or their role is to offset the other risks in your portfolio.

We try to be very specific about which bonds were talking about. It's not a binary decision of 'do I want to hold bonds or not?'. We also have the flexibility to be short bonds.

We believe one of the risks to both equities and bonds is an acceleration of inflation that isn't being priced in at the moment to markets. The place where we think the best hedge against that environment coming to pass is being short, very long-dated German Government bonds which really are pricing in low inflation for the rest of the future. By being short those bonds, we can still hold intermediate and short duration bonds in the portfolio, but we've hedged against that one danger scenario which is an acceleration in inflation.

Given that asset correlation has been relatively high, what does the panel think are the best options for them for reducing that correlation?

LEILA BUTT

Prudential



Well correlation across assets seems to be coming down. There was very high correlation until a year ago, and that seems to have reduced quite tremendously.

DAVID COPSEY

Goldman Sachs



Some of the data we have seen suggests that correlations between different equity markets have actually come down. So that gives you a much better opportunity as an active multi-asset investor to allocate them into different equity markets, for example, preferring Europe over US, preferring EM to US as well. So there are interesting opportunities.

Correlations have dropped within equity markets, so that helps both active stock pickers but also helps us as multi-asset investors to find the right equity market to express our view.

PETER WESTAWAY

Vanguard



I think it goes back to do with the role of policymakers. When your primary policy instrument is QE that, by design, is meant to bring down bond yields and push up equity valuations. They've done that for a while, and we're probably at the turning point. So for a while, those correlations had probably normalised for a little bit, but as we go down the other end of the rollercoaster, we may see that pick up in correlations again when equities fall, and bond markets fall.

CHRIS BECKETT

Quilter Cheviot



I think it's an issue for your risk control. In any downturn, the correlations will go up. We saw it in an extreme event in the financial crisis.

It's at that point that if you've had the right risk controls and your clients have been put into the right product or the right risk bucket, then it's an acceptable level of risk they're running – the drawdown will be what they're expecting.

It's all of that sort of work that you need to be doing now so that the clients understand the product, the service that they're buying into and the sort of returns in good times and bad that they're subjecting themselves to.

JOHN REDWOOD

Charles Stanley



I think it's a big difficulty. The correlations had been very high – they've eased off a bit, but they might go back up. It's the type of thing that QE does tend to do to assets.

We have a portfolio because we know we're not going to get everything right and the portfolio expresses a view of what you think is most likely to happen, and you put a reasonable amount of money behind that idea. But you also need to protect yourself against one or two completely different things that might happen, and if everything is correlated, it's extremely difficult to produce any kind of balance.

The other thing that's happening is that because markets have done so well for so

long, the risk-rating of markets is actually quite low at the moment. So if you're trying to design a portfolio to give an amount of risk, you may be taking on far more risk today than you would a few years ago because all these things no longer appear to be so risky.

There's nothing as volatile as volatility, and people rely on the volatility number. You say to people "as it hasn't gone up or down very much in the last year, you're alright" but if you look back over the longer term, you discover volatility has gone all over the place. That is where you need to exercise a bit of judgment, based on longer history as an investment manager.

TREVOR GREETHAM

Royal London



The correlation between stocks and bonds can actually be very low and sometimes negative at the moment because we've been at a pretty low level of inflation for the last 15 years, but you've had a pretty pronounced business cycle.

As you go into a recession, the stock markets have gone down, the bond markets have rallied. Then in a recovery, the opposite has happened.

In the 80s when you were going from a double-digit inflation level in the 1970s down to about 2% inflation, both stocks and bonds liked it, as inflation and interest rates were trending lower. So correlations do vary over time.

At the moment I think stocks and bonds are very diversifying against each other if expressed in the same currency.

I'm not a fan of gilts, but I have some gilts in the portfolio because if another financial crisis comes along, you might make 20% in gilts and lose 20% in investment grade. We've got commodities for a similar reason – they are the benchmark because if we had a Middle East shock, for example, commodity prices spike, they'd be the only asset class going up.



negative correlations you've seen in a very long time. If you go back to the 70s/80s, the correlations between equities and bonds were actually much higher.

The scenarios we've seen in this recovery have been quite specific when you've seen short-term correlation increases, which have followed announcements around QE and people taking their foot off the QE pedal. When you saw the ECB and the Bank of Japan in 2015 coming out saying, "we've come to the end of the road with unlimited monetary policy", you saw the correlation increase. On the other side of that, you've seen during the taper tantrum both equities and bonds falling at the same time.

These are very specific scenarios. That's why I come back to that idea that central banks don't want to end the cycle. They may be forced if inflation becomes out of control and so that inflation component is

where we spend a lot of our time doing fundamental analysis, trying to understand where those pressures of build-up are and how best to hedge against them.



The correlation should continue to decrease, as there is a divergence in policy going forward. If you look at the last 5-6 years, we've all done the same thing, but hereon we probably won't be.

We've already seen with the US and the path they're taking. On top of that the perception is as a global economy, we are becoming more protectionist in our policy whether it be Brexit, or Trump or India for example. So that too should bring correlation down.



Can we talk through what your thinking and policies are for the next six months from the point of view of your invested portfolios.

BEN KUMAR

7IM



We have had a pretty good run in most markets. You don't need to be desperately reaching for risk, and you don't need to be swinging for the fences.

We like Emerging Markets, we like Europe, so were slightly overweight equities there and slightly underweight the UK and the US.

In the Fixed Income market, we're underweight duration, and we have a little bit more exposure to EM bonds, particularly local currency ones. A bit of gold. A bit of alternatives. That's us done really.

PETER WESTAWAY

Vanguard



We see this as low return environment, not just because of policy accommodation but because of the long term outlook for asset returns.

We think the danger for investors is not to over stretch themselves into areas of risk that they don't want to be in. We would continue to urge investors to try and look through the noise of political events. Recent events have proved how difficult it is to try and second guess those.

Keep that globally diversified portfolio and focus on the long term that gives investors the goals they're looking for.

CHRIS BECKETT

Quilter Cheviot



We take a constructive view on the global economy. We think growth continues and that underpins equity valuations.

We are always looking for quality companies that can exploit that growth, get the profit increases, and generate the cashflow to pay their dividends. I think those stocks are out there.

We have a greater international element to portfolios. We have talked about the benefits of diversification: international and currency diversification is part of that.

We see a lot of opportunities left in the world. We don't think the cycle is over. We think it's an environment to remain invested, but to be aware of the risks we have both on the political side and on changes in monetary policy.

JOHN REDWOOD

Charles Stanley



We are optimistic about the world economy. We think the recovery goes on and might speed up a bit later on this year. It's synchronised with all the main economies participating, and we're getting over some of the worse shocks to the commodity economies that have hit the world economy a couple of years ago, and that helps the investment cycle.

We also expect the central banks to remain extremely cautious, offering a lot

of liquidity and keeping interest rates very low and still creating a lot of money in the case of Japan and European Central bank.

Bonds are very dear, equities are dear, but they are probably going to stay that way because of the stimulus that is being provided by the authorities that don't want to end the party.

So we're fully invested. We prefer equities to bonds, and within equities, we think emerging Asia and Asia generally is good value. But there is value to be had in different parts of the world, and although technology is currently having a little sell-off, we think the technology theme and the dramatic structural changes underway are very important, and there is good money to be made out of backing the growth areas and the winners.

TREVOR GREETHAM

Royal London



The multi asset portfolios we manage are very broadly diversified: stocks, bonds, commodities, property, absolute returns so lots of different asset classes in there. At the moment we're quite close to benchmark, so there's not very much like us actually. We tend to take quite strong views.

But the indicators we look at for global growth and inflation are reversing. It feels like growth is cooling off, inflation is beginning to come down, and that could mean we get some turbulence over the summer. Volatility is extremely low right now - it normally rises between now and October. So we've got the dry powder.

We're looking to buy dips in stock markets over the summer.

A more constructive longer-term view, because interest rates are still very low. Central banks want to be behind the curve on inflation; they are happy to keep policy loose. But when you go from central banks tightening to central banks needing to ease again, that transition isn't always smooth, and that's why we're keeping quite close to our multi-asset benchmarks at the moment.

SANJAY RIJHSINGHANI
Vestra



We believe in the theme lower for longer. We subscribe to the fact that rates aren't going anywhere in a hurry and nor is growth about to take off.

We're pretty much neutral on most asset classes so whilst we represent multi-asset class portfolios, we've also got a neutral pretty much next to all of it as we can't get excited about anything at least over the short-term.

But over the medium to long-term, we're very interested to see how Trump's policies evolve and whether they do translate into growth. And some of his policies we do believe we will see an element of growth. From the beginning of next year, we should see a pick up in the US, and that might involve us getting more involved in the equity market again.

But right now for most of the asset classes, we have a neutral next to it.

DAVID COPSEY
Goldman Sachs



We would agree that the world economy will grow and with the broadest synchronisation that we've seen since 2010 with the likes of Russia and Brazil returning to reasonably strong growth.

We think it's still a constructive environment for investing in equities and try to be very selective with which regions and markets still have value. We still favour Emerging Markets within a country and region context, and within a sectorial context, we do think that banks stand to benefit from the changes in monetary policy that are coming through.

Volatility is likely to increase from where we've been, and that might start over the summer. In that environment, especially within a multi-asset context, is that you are going to have to be very dynamic about trading around what could be quite a tight range.

The second component is: favour asset classes that can deliver returns even if equity markets and indices don't move any higher. That's the idea of carry, which is something that pays you an ongoing level of return, even when in the market in general, prices don't move anywhere.

NICK WATSON
Janus Henderson



We are positive on the growth outlook as well, on a global basis. In that environment, we think you want to be owning equities

over fixed income. Where you do have to own fixed income, we think the credit part of the market represents some attractive opportunities.

We are entering a world where you are going to have lower returns and more volatility. We've had peak QE. You've had this tidal wave of money that has supported asset class valuations, depressed volatility, and depressed yields over the past eight years. To my mind, we seem to be moving to a world where you need to be more active in terms of your assets allocation and more active in terms of instrument selection to efficiently implement the views that you have.

We're positive on risk assets overall, and we certainly prefer equities over fixed income.

DAVID LEWIS
Jupiter



We are becoming slightly more defensive. We have seen some potential canaries in the coalmine in the US, potentially with rising delinquencies in their auto loans and student loans. We're also a bit concerned about the Chinese inter-bank rate hikes. So that's making us a bit more cautious.

So how do we position our portfolios in that backdrop? We still have a reasonable amount of equity across our portfolios. These are portfolios that are invested for the long term, and we think equities are a very good solution for the long-term investor.

Within our bond component, we are focusing on active managers as we do across our portfolios and try to find people that are flexible and try to find pockets of value within markets. We hold some cash – as we are being slightly more cautious and have property and gold as diversifiers.

There are huge levels of uncertainty out there. In that backdrop, we are re-doubling our efforts to focus on active managers who we believe have the processes, strategies, and discipline to try and find those good opportunities out there. We're fundamental believers in active managers can and do-out perform markets. We don't hold the average fund, we hold some exceptional individuals, and we think they are the way that we're going to be able to deliver for our clients over the longer term.

WAYNE BISHOP

King and Shaxson



We expect further upgrades to global growth over this year. I still think the global economy is underestimated. So we remain positive to equities overall.

I think we see the real growth in Emerging Markets, in Asia and India and other places that have been behind the scenes recently. At the same time, perhaps against consensus, I'm a bit suspicious of all this moving to Europe that is being loudly touted by a lot of houses at the moment. If the Euro gets stronger, the German machine will slow down. There are some good companies, but I'm very suspicious of the view that Europe is going to pick up.

At the same time, I think people have done the UK down too much. We have still got some fantastic global companies here, and I think we've seen the worst with that election result, so I think I'm very wary of

people going underweight in the UK at the moment. I think the opportunities are there and you've got to take the opportunities.

Commodity prices are going to be where the biggest shock happens. Particularly oil. Obviously with an ethical hat on - oil is in a stronger decline than people think. And that will have a big global rebalancing effect – it will lower property prices in London for one thing which will send off false signals to people.

Certain environmental areas are very exciting at the moment.

There is going to be growth, but it's going to be slightly different as we go ahead. But our core expectation is that we will be talking better numbers by the end of the year.

The biggest risk for me is going to come from the central banks because I do expect a change in tapering policy sometime this year, and how the market reacts to that is going to be critical to performance in the 3rd/4th quarter of this year.

LEILA BUTT

Prudential



We're reasonably optimistic about economic growth. Although we're quite aware of the fact that there is this dichotomy between soft data and hard data. We don't think that the global growth is as synchronised as probably markets were expecting earlier this year.

So you've got possibly the US strengthening but China slowing for example.

We're long-term investors, so we try to look through a lot of the noise and focus on value. The main thing we do is diversification across various asset classes

and geographies, and that fits in very well with our long-term outlook.

The most important risks at the moment are political risk, particularly in the UK and to some extent in the US, and central bank policy going forward.

PAUL GREEN


BMO



The biggest move we have made at BMO on behalf of the F&C portfolios over the last six months has been an increase in US equities. We did that after Donald Trump's win in November last year. We had been underweight US equities for a while and felt with that election victory there could be an increase in fiscal spending leading to a reflationary environment in the market for the first time in a long time. So we added to equities over that time

Over the last couple of months, we have been reducing that position, so we are now slightly underweight US again. On the flip side, we have increased our exposure to European equities, having seen the French election pass with a market-friendly result. We have also seen positive corporate and economic movements in the EU, so we have actually increased exposure to Europe.

Elsewhere, we are underweight UK. Concerned because of uncertainty caused by the coalition Government with regards to Brexit.

Elsewhere overweight Japan, Asia, and Emerging Markets. They are well supported by valuations with a decent earnings growth coming through this year. 





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Great investments to get tech exposure

by **Garry White**

Chief Investment Commentator, Charles Stanley

The technology sector is rapidly growing and innovating. This means it should be an essential part of any investment portfolio. Unfortunately, the UK stock market is short on technology companies, with the sector having just a 1% weighting in the FTSE All-Share. UK investors seeking exposure therefore need to look abroad for these opportunities and collective investments are an ideal way to do this.

Most technology funds are dominated by the larger players. Indeed, the five-largest tech companies in the S&P 500 have a market cap that significantly eclipses the value of Britain's 100 largest companies. These five companies have a market value of about \$2.8 trillion compared with the FTSE 100 total market capitalisation of about \$2.3 trillion. Before looking at ways to invest, let's take a look at each of these technology behemoths

Apple - Apple is expected to release its latest smartphone, the iPhone 8, in September – the tenth anniversary of the launch of the original iPhone. The device is, by far, the group's most successful product and is expected to introduce some radical changes. These include a bigger screen, possibly a 3-D camera and other new features. The company has more than \$250bn in cash balances globally and, as part of President Trump's tax reforms, there are expected to be inducements for companies such as Apple to repatriate the money and invest in the US.

Alphabet - Alphabet owns internet search engine Google, by far the best product in its class. It is still posting substantial double-digit earnings growth, despite its massive size. The company makes most of its money from advertising. Alphabet has also positioned itself in some non-core markets involving emerging technology. These include artificial intelligence, driverless cars, and fibre networks. European anti-trust regulators have, however, recently fined the company €2.42bn over abuse of its search dominance, so there are risks.

Microsoft - Microsoft's operating system is used on most PCs – and its software such as Word and Excel are ubiquitous. However, its "cloud" service, called Azure, is what could be set for big growth. Cloud computing is where companies or individuals pay for internet space to store their own data instead of having their own office servers or large memory on their computers. The company is also good at producing consumer-facing technologies, with a new Xbox console for computer games on the way.

Amazon - When Jeff Bezos launched Amazon.com in 1995 it only sold books. But more than two decades after its launch, Amazon can fairly be described as the "everything store". The online retailer makes its own tech gadgets, such as the Kindle eBook reader and recently announced plans to buy US upmarket grocery chain Whole Foods. This is a move into "bricks-and-mortar" stores which is a departure from its usual operations. Amazon also made history, by becoming the first streaming company to score an Oscar nomination for best picture, with the Casey Affleck drama Manchester by the Sea.

Facebook - An astounding 1.9 billion people actively use Facebook's services every month, with more than 1.3 billion people who use them every day. Last year, the business performed well and generated \$27.6bn in revenue, with the first quarter of this year seeing the group report revenues of \$8bn. The company also owns Instagram, Facebook Messenger and WhatsApp.

FUNDSTO PLAYTHEME

The performance of **Scottish Mortgage Investment Trust** has been so strong it entered the FTSE 100 in March 2017. The fund focuses on businesses with sustainable competitive advantages that can benefit from secular growth trends, and has a sizeable allocation to unquoted investments (28 positions), not in venture capital type companies but in mature cash-generative businesses with market caps north of \$1bn.

Polar Capital Technology invests in a number of the world's leading technology companies. Manager Ben Rogoff seeks to benefit from a number of emerging themes, including e-commerce, digital marketing, cyber security, cloud infrastructure, digital payments and games software.

Like most technology funds, **Allianz Technology Trust** is dominated by North American companies. Performance continues to be very strong, extending its impressive longer term record. The management team believe the Augmented/Virtual Reality theme "is poised to accelerate" in 2017, as is company spending on Cyber Security. The portfolio is tilted towards smaller, higher-growth stocks. ■

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While we only provide ethical investment portfolios we still apply conventional investment management techniques and analysis to the portfolios we manage.

The global economy continues to recover and once again we have seen recent upgrades for global growth, including the UK, and as usual they come with caveats of slower growth for the following year, which are then subsequently upgraded. In the big picture we are still seeing the global economic emergence from the financial crisis. In the US the next significant policy move has now been put on the table. This is the US Federal Reserve beginning to shrink their balance sheet (that is to start to take back the money printed by QE).

The UK is approaching the same stage but all is now on hold for Brexit. Japan is reconsidering its options after another spurt of QE, Europe is beginning to benefit from their belated and aggressive QE and we now see confidence rising in Europe as it catches up. Elsewhere China is a little more political and careful as it is a congress year and India remains the most promising frontier market. To us the biggest risks will be around the US Federal Reserve getting their balance sheet shrinking right, so far they have flagged it well and the market is at ease.

The other leading factor is the long awaited tax reform in the US. Like Brexit in the UK, Donald Trump attracts a lot of media attention but the real news has more to do with Congress and there are expectations of tax reform this autumn that could address some long standing distortions in the US corporate and personal tax system.

In the UK, Brexit remains a large uncertainty that can have enormous consequences for both the UK and Europe. Markets and companies can cope with this uncertainty and will act as facts begin to appear. Up until now we have had almost no facts and just an irritating amount of nonsense from the media.

The last nine months has been a good period for global equities, we have seen equity market rise between 14-20% depending on which index is used. A large part of this has been to the benefit of larger global companies that mainly earn their money overseas, so UK focused growth investments and foreign investments have performed well (about 37% of the combined portfolio, are investments that are either foreign or significant foreign earners).

Subsequently, UK focused ethical income funds for example have underperformed over the period (Henderson UK Ethical Income for example returned 10.9%, F&C Responsible Income 9.88%) and this is the case for income and more defensive shares. About 20% of the combined portfolio is invested in these stocks and this includes investments like the Foresight Solar Fund.

All the data is from Bloomberg/King and Shaxson.

Should you like to know further information on ethical investing please feel free to contact Mark Tomlinson from King & Shaxson on 0773 336 3306 or alternatively mark.tomlinson@kasl.co.uk. ■

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The pitfalls of past performance within fixed income fund selection

by **Nick Watson**

Fund Manager - Janus Henderson

We recently visited an independent financial adviser who focused almost exclusively on past performance when selecting his fixed income holdings. This had led the adviser to invest clients in long-dated corporate bonds funds, a high beta approach to credit investing that has performed incredibly well through the QE (quantitative easing) driven bull market. We are not licensed to give advice, but reflecting upon that meeting, we would like to explain why our own approach to fund selection within fixed income differs. The upside for long-dated corporate bonds appears limited to us given the historically low yields on offer and improving economic backdrop.

HEADWINDS ARE BUILDING

We believe the adage that "past performance is not a guide to future returns" is incredibly relevant here. The low growth, low rate, low inflation, and high QE environment that has propelled high duration* long-dated bonds to current levels is ending. Global growth is positive and resilient, central banks are moving away from near-zero interest rate policies (ZIRP), inflation is normalising, and global markets are starting to look beyond QE for the future drivers of returns. In this environment, the high sensitivity to interest rates that has supported returns of high beta fixed income on a global basis throughout central banks' QE experiment would become a significant headwind to total returns.

DANGER AREAS

We think buying fixed income funds using past performance data as the main input is a very dangerous approach in an asset class that has selective areas of stretched valuations. Rather than looking at absolute returns delivered through an historic period of (arguably) misallocated capital, investors should 'look under the bonnet' and really understand the dynamics of the fixed income vehicle or asset class that they are buying.

We think there are opportunities within fixed income for those investors who are prepared to be nimble and active in the face of continued economic growth and inflation normalisation. This

can take the form of identifying the most appropriate area of the fixed income universe to invest in then, secondly, identifying the best instrument to reflect that view.

A TACTICAL DYNAMIC APPROACH

We have been tactically navigating the fixed income market in our UK-based Multi-Asset portfolios. For example, we increased exposure to US high yield bonds at the start of 2016, as yields rose towards levels historically associated with recession amid concerns about softer US economic data and a weaker oil price. From there, we saw the asset class return c16% by the end of 2016 as oil rallied and economic activity remained resilient, enabling us to take profits and rotate client capital into other areas.

Funds that we currently favour include the AXA US Short Duration High Yield Bond Fund and strategic bond funds such as the TwentyFour Dynamic Bond Fund and the PIMCO GIS Income Fund**. The AXA fund is managed by Carl 'Pepper' Whitbeck and his extremely well-resourced credit research team. The fund offers an attractive near 4% yield with only approximately 40% of market volatility.

TwentyFour and PIMCO offer very different and complementary exposures from their actively managed portfolios. TwentyFour currently favours key positions in European financials, while PIMCO has a more cautious outlook, with exposure to US Mortgage Backed Securities alongside some EM debt and US high yield.

We think that an active and nimble approach to fixed income investing is necessary in an environment of positive growth and normalising economic conditions. We continue to focus on identifying what we believe to be the right parts of the bond asset class and the right funds to implement these views. We truly think this approach provides our portfolios with the best opportunity to deliver competitive risk-adjusted returns throughout a range of market environments. ■

**High duration = high sensitivity to changes in interest rates.*

*** NB: while the manager favours these funds, investment is subject to portfolio risk, return, and cost constraints; investment is therefore not necessarily made across all Janus Henderson Multi-Manager and Core strategies. Fund yields may vary over time and are not a guarantee of future yields.*

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Janus Henderson
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A partnership to provide passives

by Robert Hardy - Business Development Manager

Seven Investment Management

In August 2016, Seven Investment Management (7IM) was one of two providers selected to launch risk-rated model portfolios aligned to Succession's own bands of volatility and performance as part of a discretionary fund management (DFM) offering. A year after those DFM permissions were granted, we look at how these models aim to give your clients greater control and comfort.

One of the most important tenets that 7IM believe investors should hold dear is portfolio diversification. Often discussed in terms of baskets/eggs, the aim is to spread your clients' capital across companies, sectors and geographies to help reduce the likelihood of a one-off event affecting all of their holdings. A Californian earthquake might hurt Silicon Valley-based stocks, but have little or no impact on German bonds or the copper price.

It's on that principle that much of 7IM's investing is based. When we launched our passive funds (the Asset Allocation Passives) over nine years ago, they gave clients access to lower cost investments – assets then typically only available to institutional investors – and also served to broaden the number of options.

Diversification was also important with the bespoke Succession models. We wanted investors to access a very wide spread of assets and leverage our own experience. That experience had already seen us expand the range of assets in our models from 12 asset classes to a set-up much more aligned to our funds.

The models now enabled investors to access passive investments with the attendant cost benefits.

The expansion of asset classes meant that assets could be spread across more classes and ensured that we could access alternative investments. This gave the investment team flexibility, accessing options that could serve different purposes in portfolios than traditional assets typically provide, as well as supporting performance across financial markets' cycles.

Following the 2008 Financial Crisis, central banks had to help economic growth and so set about printing money the 21st century way (through Quantitative Easing), which led to a global bond buying spree. This pushed up the price of bonds and so lowered investors' yields. Now, with bonds being issued with longer maturity dates and central banks potentially having to step in and manage inflation through increased interest rates, the situation is less rosy for investors – particularly for cautious and retired investors who tend to have a lot of fixed income investments. Longer dated bonds increase bond holders'

chances of being hurt in a rising rate environment for protracted periods, a risk that rises as interest rates go up.

7IM's breadth of asset classes helps here too as we can avoid asset classes that could damage portfolios and invest instead in assets serving similar purposes – such as the alternatives – in terms of lower levels of correlation across the portfolio, while potentially protecting capital.

Diversification also supports our investment process which aims to deliver more predictable returns to clients over the medium-to-long term. Obviously investments can go down as well as up, but clients should get greater surety about each year's returns over the long term. And when markets do eventually trend south – highly likely given the current rich valuations for many investments – there are assets that are uncorrelated.

7IM's approach to managing money helps Succession wealth planners provide cash flow modelling. The expected returns that 7IM is aiming to deliver can be incorporated in clients' financial plans, allowing them to see that they're on track to meet their goals and aspirations, and help manage the risks attached to investing. This in turn offers comfort because clients are more likely to be looking forward to an enjoyable retirement rather than one that has to be endured. ■

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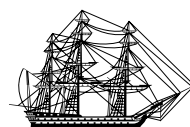
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