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Royal London
Global Multi Asset Portfolios (GMAPs)

November 2024

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Head of Multi Asset

An active approach

In our view, there's no such thing as passive in multi asset. We keep the broadly diversified asset mix of our Global Multi Asset Portfolios under constant review and we manage exposures actively at the asset class and security level.

Our funds have benefited from an overweight in equities as stocks climbed to new highs, rallying close to 20% year to date. The Investment Clock is adding further support to stocks, moving into the disinflationary Recovery quadrant as central banks cut the cost of borrowing. The key risk to markets is geopolitics, with war in the Middle East and Ukraine and economically damaging policy plans from Trump to contend with.

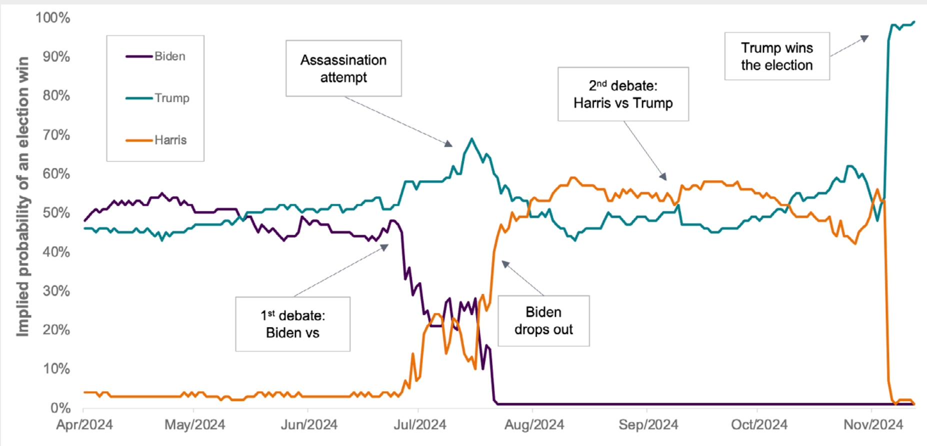
A close election

Polling suggested the US Presidential Election was too close to call with prediction markets evenly balanced (Chart 1). In the event, Donald Trump won, taking all the swing States along with control in both parts of Congress.

Markets are yet to make their minds up on the implications. Investor sentiment was depressed ahead of the vote and US stocks initially rallied strongly in the expectation tax cuts and deregulation.

However, a more negative tone set in as worries about Trump appointees surfaced and tensions with Russia worsened. As active managers we will monitor the economic tailwinds and political headwinds as we go into 2025.

Chart 1: Prediction Market Odds on Presidential Candidates



Past performance is not a guide to future performance. The views expressed are the author's own and do not constitute investment advice.

Source: PredictIt Implied Odds, Bloomberg as at 14 November 2024.

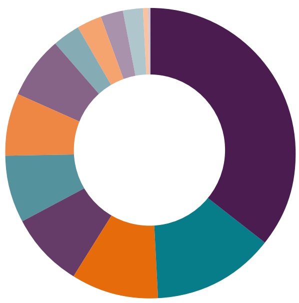
Tactical positioning: Overweight stocks; underweight bonds and commodities

We are overweight equities, given supportive macro and technical conditions which continue to support the asset class. We are underweight government bonds, which have struggled particularly following the US election and UK budget, as investors priced in fewer central bank rate cuts. We are underweight commodities where weak industrial demand is hampering returns from energy and metals, though we have owned a separate position in gold which has benefited from political uncertainty. We prefer US equities to other regions on a tactical basis.

	--		-		=		+		++
Multi Asset									
Stocks								■	
High Yield							■		
Property					■				
Commodities				■					
Bonds				■					
Cash		■							

Source: Royal London Asset Management as at 14.11.24.

Asset allocation



North American Equities	35.8%
UK Equities	13.5%
Property	9.6%
Emerging Market Equities	8.4%
Credit	7.5%
Global High Yield	7.1%
Japan Equities	6.9%
Commodities	2.9%
European Equities	2.9%
Index Linked Bonds	2.5%
Asia Pacific Ex Japan Equities	2.2%
Government Bonds	0.5%
Cash	0.2%

Source: Aladdin as at 13.11.24.

Weightings may vary according to tactical asset allocation and the Royal London Multi Asset Growth Fund may invest outside of indicated asset classes as the manager sees fit. The views expressed are the author's own and do not constitute investment advice.

Strategic asset mix is an active choice: Broadly diversified for greater resilience

Seeking inflation-beating returns

The GMAPs are designed to maximise long run return after inflation for a given level of risk (range on page 4).

They share the same asset mix and investment approach as Royal London's Governed Portfolio pension funds.

Different asset classes offer their best returns at different times, as shown below. The purple box shows the performance of the GMAP Growth Fund. We believe that blending asset classes offers a smoother journey over time and, ultimately, a better risk/return trade-off.

We build resilience by diversifying broadly, including real assets and inflation hedges – like equities, commercial property and commodities – and by holding less in fixed income when yields are low.

A smooth journey

Our broadly diversified and active asset allocation has seen our multi asset funds outperform less diversified peers over the last three and five years, helped by inflation-hedging commodity exposure in the cost of living crisis and a lower weight in bonds when yields were close to zero.

Our broadly diversified mix has lagged more concentrated funds over the last year, however, given the narrow rally led by US equities and technology stocks. We continue to believe spreading investments across multiple asset classes is the best way for investors to benefit from good risk adjusted returns with resilience to shocks.

Tactical asset allocation has added value over three years but its impact has been broadly flat over the last year in the face of a series of sudden market reversals since the summer.

Regular strategic review

We keep the strategic asset allocations for each portfolio under constant review to ensure the mix remains appropriate for its specific risk target and to respond to changing valuations.

The most recent change this summer saw us further reducing UK equities in favour of global equities where the earnings trend is stronger.

The current equity mix of 70% global 20% UK and 10% emerging markets still has a greater allocation to UK than its market capitalisation weight, in order to add a value tilt and greater inflation resilience to the mix.

We also reduced strategic property exposure marginally in some of the multi asset funds, with the target weights now varying from 5% to 11.25% as a maximum.

Year	2019	2020	2021	2022	2023	YTD
1	Global Stocks +22.6%	Global Stocks +14.3%	Commodities +28.3%	Commodities +30.7%	Global Stocks +16.0%	Global Stocks +15.5%
2	UK Stocks +19.2%	EM Stocks +11.9%	Global Stocks +20.0%	Cash +1.0%	**Multi Asset +8.1%**	EM Stocks +14.7%
3	EM Stocks +15.9%	Gilts +8.3%	Property +19.9%	UK Stocks +0.3%	UK Stocks +7.9%	UK Stocks +8.1%
4	**Multi Asset +13.8%**	Cash +0.3%	UK Stocks +18.3%	**Multi Asset -5.2%**	Cash +4.4%	**Multi Asset +7.9%**
5	Gilts +6.9%	Property -1.0%	**Multi Asset +14.6%**	EM Stocks -6.4%	Gilts +3.7%	Cash +4.4%
6	Commodities +3.5%	**Multi Asset -1.2%**	EM Stocks +1.0%	Global Stocks -7.8%	EM Stocks +2.9%	Property +4.2%
7	Property +2.1%	Commodities -6.1%	Cash +0.0%	Property -10.1%	Property -0.1%	Commodities +3.0%
8	Cash +0.7%	UK Stocks -9.8%	Gilts -5.2%	Gilts -23.8%	Commodities -13.1%	Gilts -2.7%

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Source: RLAM, Refinitiv Datastream, total returns in sterling term as at 31 October 2024; property as at 30 September 2024. 'Multi Asset' returns are based on the Royal London Global Multi Asset Portfolio (GMAP) Growth Fund net of 0.60% fund management fee. All other returns are shown gross of fees. Indices used are FTSE All Share, FTSE All World, FTSE Emerging Markets Index, Bloomberg Commodity Index, FTSE British Government All Stock Index, JP Morgan UK 1M Cash Index, UK MSCI Total Return Property Index (NADJ).

A active tactical overlay: Economic recovery continues, overweight equities

A robust research-led process

Trends and turning points in markets create opportunities for a genuinely active manager. Our tactical process is grounded in research with back-tested models to guide strategies at the cross asset level along with those focused on regional or sector positions within each asset class.

Each model draws on a range of fundamental, valuation or technical factors to help us make good decisions. As an example, the Investment Clock, below, links asset class rotation to the stage of the global business cycle as defined by trends in growth and inflation. Different investments offer their best or worst returns at different times.

Investment Clock moves into Recovery

The funds benefited from an overweight position in equities for most of this year. The macro-economic environment remains supportive for the asset class.

With improvements in US leading indicators and European business confidence, our global growth scorecard has improved. At the same time, we are observing inflation continue to come down from its highs, taking the Investment Clock into Recovery.

Historically, Recovery is the best time for equity market performance relative to other asset classes.

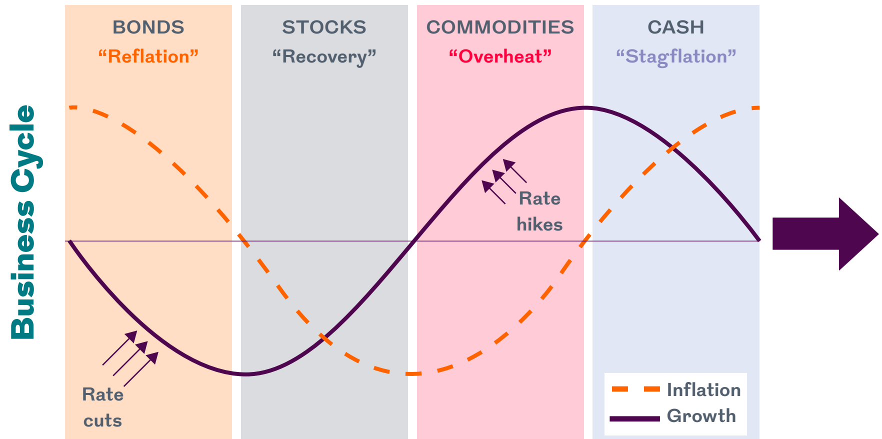
Overweight stocks, underweight bonds

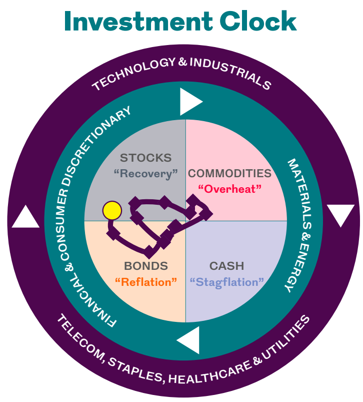
We went into the US election positively positioned on equities, having added to positions in October as investors became overly bearish.

We are underweight bonds; following the US election, bond yields are likely to remain higher as markets move to price in fewer rate cuts in anticipation of Trump's inflationary policies.

It remains to be seen whether the incipient recovery in global growth survives some of the geopolitical challenges 2025 will bring. As active investors we remain vigilant for opportunities to invest or protect value.

The Investment Clock now in Recovery





Historic asset class returns through business cycles

	Growth	Inflation	Bonds	Stocks	Commodities	Cash
Reflation	⬇	⬇	7.9%	-1.5%	-29.3%	2.6%
Recovery	⬆	⬇	4.4%	18.1%	-9.0%	1.0%
Overheat	⬆	⬆	-0.4%	8.9%	17.6%	-0.2%
Stagflation	⬇	⬆	-2.7%	-14.3%	37.1%	-1.1.%
	Average return		2.2%	6.8%	1.6%	0.5%

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Source: RLAM for illustrative purposes only. Investment Clock trail shows the last 12 monthly readings based on global growth and inflation indicators. Yellow dot is the current reading. Data in the table is based on an analysis of business cycles from April 1973 to 01.01.2024. Indices used are ICE BofA US Treasury Index, DataStream US Equity Market Index, S&P Goldman Sachs Commodity Index and 3-month US Treasury bills.

An actively managed fund line-up

Portfolio construction

The multi asset portfolios are built using a blend of actively managed Royal London funds spanning equities, property, bonds and cash. We use index futures, currency forwards and Exchange Traded Funds (ETFs) for exposures like commodities and to implement tactical asset allocation positions efficiently.

The benefits of using in-house funds

Royal London Asset Management's investment team work closely together in one location. We have a deep understanding of the award-winning funds we invest in, direct access to the managers and real time visibility of underlying holdings for risk management purposes. Using in-house funds also keeps costs to a minimum.

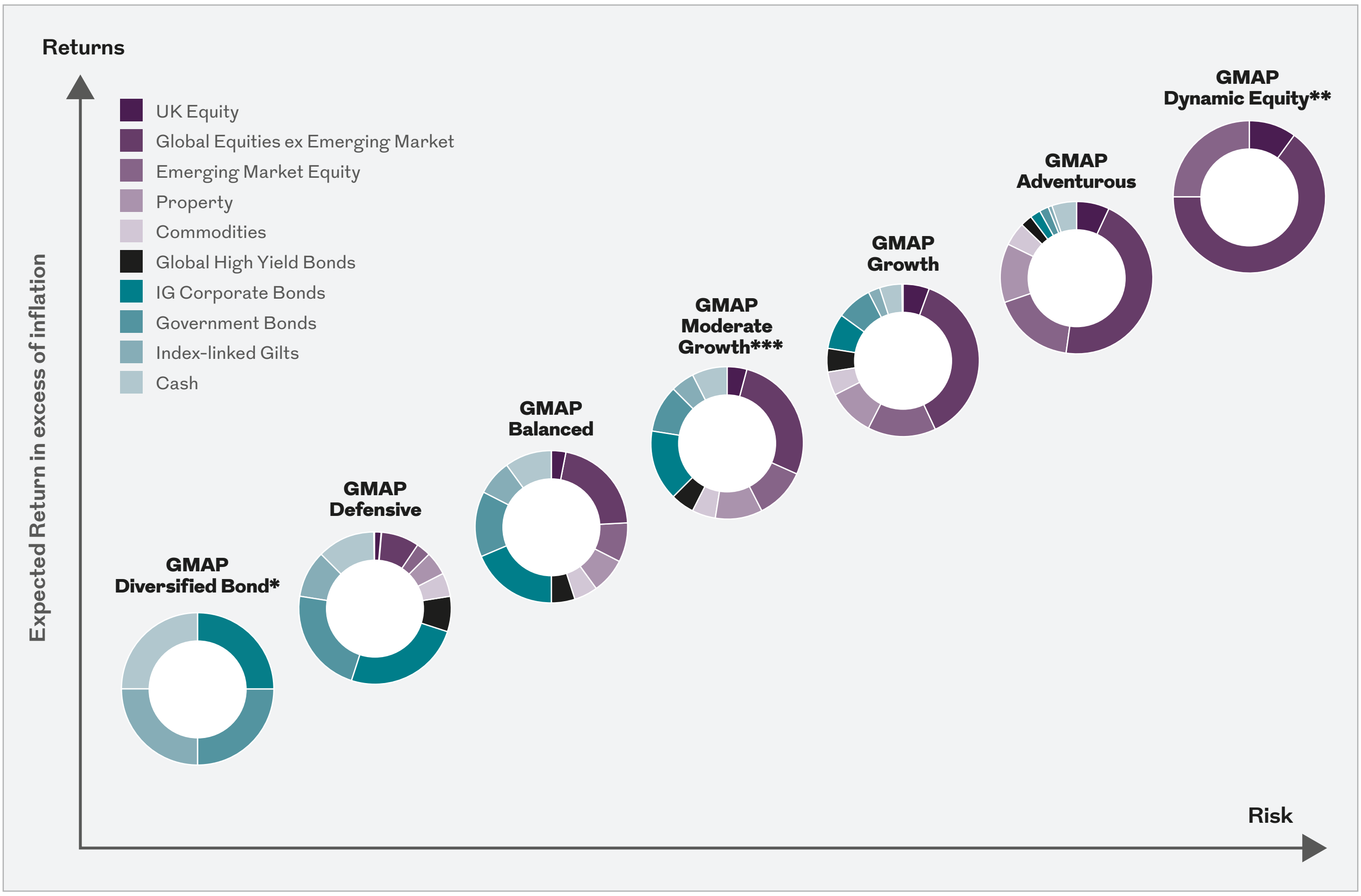
New fund launch: GMAP Moderate Growth

We expanded our multi asset range for sterling-based investors this summer with the launch of GMAP Moderate Growth.

Our aim is to help advisers wishing to use the GMAPs as a Centralised Investment Proposition by ensuring we have all of the most popular customer risk buckets covered. The new fund sits at the centre of the range, between GMAP Balanced and GMAP Growth.

Our range: Global Multi Asset Portfolios

We offer seven diversified portfolios with different risk/return profiles to suit different clients' investment objectives.



* Fund name changed from Royal London GMAP Conservative Fund on 15 March 2024.
** Fund name changed from Royal London GMAP Dynamic Fund on 15 March 2024.
*** Royal London GMAP Moderate Growth Fund launched on 25 July 2024.
Source: Royal London Asset Management, for illustrative purposes only.

Risk warnings

Investment risk: The value of investments and any income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested.

Exchange rate risk: Changes in currency exchange rates may affect the value of your investment.

Emerging markets risk: Investing in emerging markets may provide the potential for greater rewards but carries greater risk due to the possibility of high volatility, low liquidity, currency fluctuations, the adverse effect of social, political and economic instability, weak supervisory structures and accounting standards.

Derivative risk: Derivatives are highly sensitive to changes in the value of the underlying asset which can increase both fund losses and gains. The impact to the fund can be greater where they are used in an extensive or complex manner, where the fund could lose significantly more than the amount invested in derivatives.

Credit risk: Should the issuer of a fixed income security become unable to make income or capital payments, or their rating is downgraded, the value of that investment will fall. Fixed income securities that have a lower credit rating can pay a higher level of income and have an increased risk of default.

Interest rate risk: Fixed interest securities are particularly affected by trends in interest rates and inflation. If interest rates go up, the value of capital may fall, and vice versa. Inflation will also decrease the real value of capital.

Efficient Portfolio Management (EPM) techniques: The fund may engage in EPM techniques including holdings of derivative instruments. Whilst intended to reduce risk, the use of these instruments may expose the fund to increased price volatility.

Counterparty risk: The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the fund to financial loss.

Fund investing in funds risk: The fund is valued using the latest available price for each underlying investment, however it may not fully reflect changing stock market conditions and the fund may apply a 'fair value price' to all or part of its portfolio to mitigate this risk. In extreme liquidity conditions, redemptions in the underlying investments, and/or the fund itself, may be deferred or suspended.

Liquidity and dealing risk: The fund invests indirectly in assets that may at times be difficult to value, harder to sell, or sell at a fair price. This means that there may be occasions when you experience a delay in being able to deal in the fund, or receive less than may otherwise be expected when selling your investment.

Contact us

For more information about our range of products and services, please contact us.

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Ref: F RLAM PD 1010

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