

Royal London

Global Multi Asset Portfolios (GMAPs)

November 2023



Trevor Greetham
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.

Global economies have been resilient in 2023. The recent run of softer data has come with lower bond yields and increased hopes of a US soft landing. We've re-established equity overweights and trimmed commodities. Disappointment in growth or inflation could necessitate more defensive positioning later.

Overweight stocks for now

Following on from a positive start to the year, stock markets lost ground as we entered Q4 as mixed corporate earnings; concerns about higher interest rates and the re-emergence of geopolitical risk sent volatility higher.

With markets at lower levels, we re-established an overweight position, as our proprietary investor sentiment indicator flashed its most depressed reading since the UK mini-budget crisis a year ago.

The business cycle is in the cross hairs and we are monitoring macro-economic data closely. We are overweight equities. In the absence of bad news, stock market seasonality could support a rally into the Spring (Chart 1).

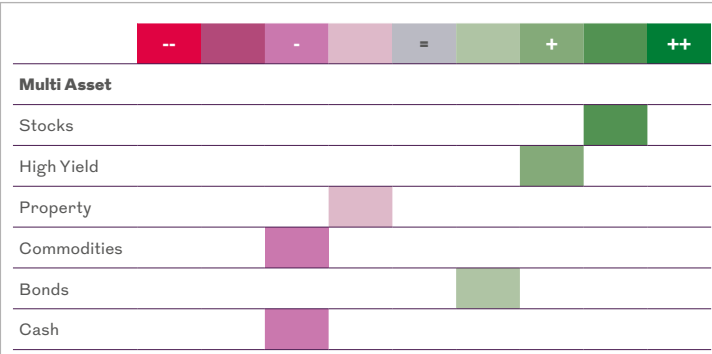
Average stock market return



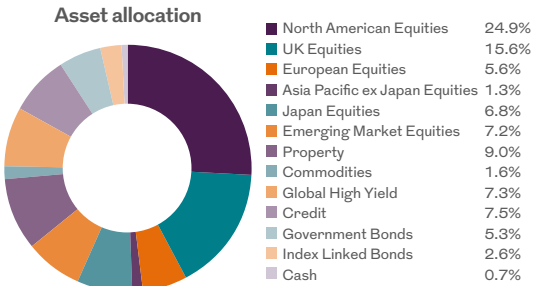
Past performance is not a guide to future performance. The views expressed are the author's own and do not constitute investment advice.
Source: Refinitiv Datastream. DataStream World Equity Index (Total Return) used to show stock returns. From 1973 to 2022.

Tactical positioning: Positive on stocks and bonds, negative on commodities

We have benefited from an overweight in stocks for the majority of this year. We are currently overweight equities, having added to our position when markets moved to overly depressed levels in October. We are underweight commodities and underweight commercial property but have moved to an overweight position in government bonds. Within equities, we continue to favour Japan, while we also continue to favour growth sectors.



Source: Royal London Asset Management as at 24.11.23.



Source: Royal London Asset Management as at 24.11.23

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 and 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.

Resilience in volatile markets

Our broadly diversified and active asset allocation has helped the GMAPs to outperform less diversified peers over the last five years, helped by inflation-hedging commodity exposure and a lower weighting in bonds when yields were close to zero.

This year, stocks have advanced from the low levels they reached over 2022, which has driven an increase in fund values despite weakness in bonds and commodities.

On a tactical basis, we have added additional value from being overweight equities for much of the year and from overweight positions in areas of the market which have outperformed this year: growth stocks and Japanese equities.

Strategic review: We added to bonds in March 2023

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.

We felt that investment grade bonds offered little value when gilt yields were close to zero, but significantly higher yields mean significantly better prospects for bond investors. As a result, we made a large shift into bonds at the end of March 2023, increasing duration. At the same time, we took the opportunity to increase global diversification and reduce UK-specific risk by lowering domestic equity and property weights in favour of global stocks and a newly initiated allocation to global bonds.

Year

	2018	2019	2020	2021	2022	Year to date
1	Property +7.5%	Global Stocks +22.6%	Global Stocks +14.3%	Commodities +28.3%	Commodities +30.7%	Global Stocks +6.3%
2	Cash +0.6%	UK Stocks +19.2%	EM Stocks +11.9%	Global Stocks +20.0%	Cash +1.0%	Cash +3.6%
3	Gilts +0.6%	EM Stocks +15.9%	Gilts +8.3%	Property +19.9%	UK Stocks +0.3%	Multi Asset +1.7%
4	Global Stocks -3.1%	Multi Asset +13.8%	Cash +0.3%	UK Stocks +18.3%	Multi Asset -5.2%	Property +1.0%
5	Multi Asset -4.7%	Gilts +6.9%	Property -1.0%	Multi Asset +14.6%	EM Stocks -6.4%	UK Stocks +0.3%
6	Commodities -5.7%	Commodities +3.5%	Multi Asset -1.2%	EM Stocks +1.0%	Global Stocks -7.8%	EM Stocks -2.4%
7	EM Stocks -7.6%	Property +2.1%	Commodities -6.1%	Cash +0.0%	Property -10.1%	Commodities -4.0%
8	UK Stocks -9.5%	Cash +0.7%	UK Stocks -9.8%	Gilts -5.2%	Gilts -23.8%	Gilts -4.4%

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

Source: RLAM, Refinitiv Datastream, total returns in sterling term as at October 2023; property as at September 2023. '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, FSE 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).

An active tactical overlay: Macro outlook unclear, overweight stocks

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 edges into Reflation

We have been overweight equities for the majority of the year, as fading inflationary pressures and resilient global growth data have moved our Investment Clock to the equity friendly Recovery phase. This proved beneficial as stocks continued to rebound from the lows made in a dismal 2022.

Our Investment Clock (yellow dot below) has now moved into the cross hairs, with the growth and inflation outlook unclear.

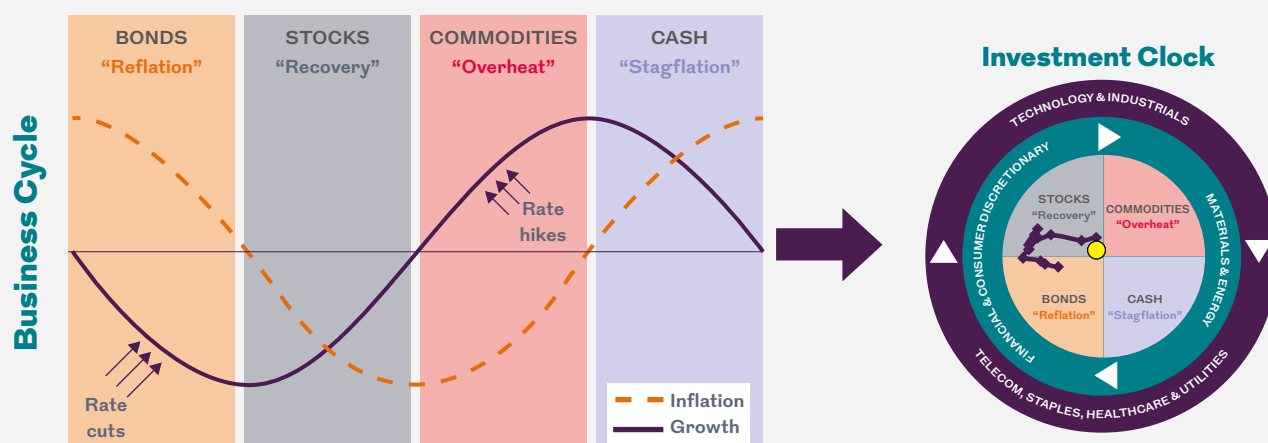
Our base case assumes that we move further into Reflation as labour markets soften but it is possible for the Clock to move towards Recovery if global economies avoid recession or even move back towards Stagflation if energy prices spike over the winter.

Positive on stocks and bonds

We are currently overweight both stocks and bonds, but we are ready move in whatever direction is necessary.

While the macro environment is less clear for risk assets, technical factors such as positive momentum and seasonality led us to overweight the asset class. Bond markets could see further upside as macro data continues to soften and yields fall from their peak.

Going forward, should major economies move into recession, we expect that defensive positioning will be necessary in the GMAPs and we would probably move underweight stocks, credit and commodities in favour of safe havens like government bonds and gold.



Historic asset class returns through business cycles

	Growth	Inflation	Bonds	Stocks	Commodities	Cash
Reflation	↓	↓	8.3%	-1.9%	-29.4%	2.7%
Recovery	↑	↓	4.4%	18.0%	-7.3%	1.1%
Overheat	↑	↑	0.0%	10.9%	16.9%	-0.1%
Stagflation	↓	↑	-1.4%	-10.2%	35.7%	-0.7%
Average return			2.7%	8.1%	1.4%	0.7%

Past performance is not a guide to future performance

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 December 2022. 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: Embedding ESG

Portfolio construction

The multi asset portfolios are built using a blend of actively managed and passive Royal London funds spanning equities, property, bonds and cash alongside the index futures, currency forwards and Exchange Traded Funds (ETFs) we use for other exposures, such as commodities, or 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.

Adding carbon-tilted commodity exposure

The most recent change we made to the line up was adding exposure to the Invesco Bloomberg Commodity Carbon Tilted UCITS ETF, that reduces exposure to commodities with higher emissions in their production process.

We worked with Bloomberg to develop the index it tracks, using a similar approach to that used in the Royal London carbon-tilted equity funds.

Investing your money responsibly

Responsible investing a core belief

At Royal London responsible investing is embedded right across our business, based on our core belief that better run companies tend to make better investments. Investors in GMAP funds benefit from our full range of responsible investing policies and approaches. The funds we invest in tilt exposures to reduce their carbon footprint, exclude companies with poor Environmental, Social and Governance (ESG) scores or integrate ESG considerations into active security selection decisions.

Positive change

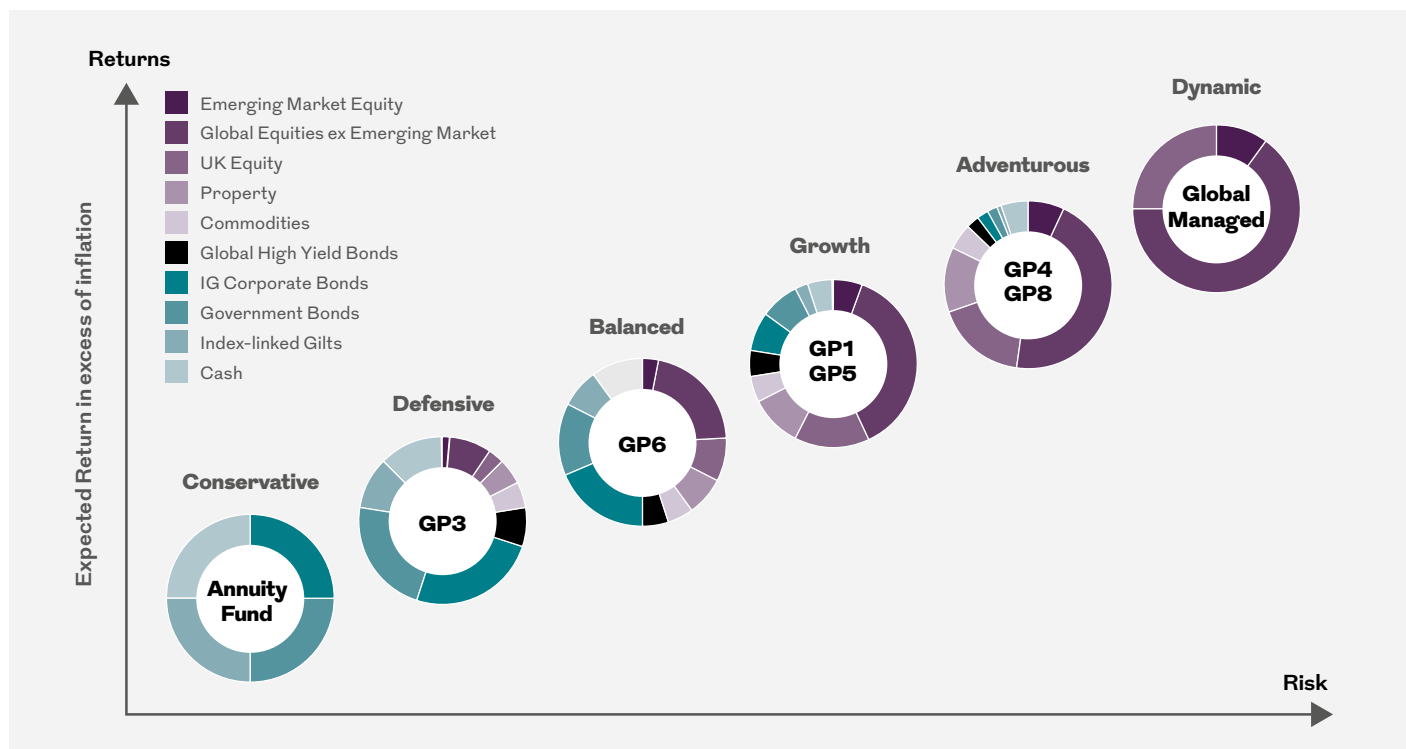
Royal London Asset Management's investment philosophy is based on actively engaging with the companies in which we invest, to help influence their behaviour. We actively support initiatives encouraging the reduction of carbon emissions and transition to a sustainable world, in a way that considers the impact of the necessary changes on society. An active management approach also means we can divest from companies that cannot or will not change.

A dedicated team

Our investment teams are supported by a Responsible Investment team, made up of specialists and subject matter experts on sustainability and ESG issues. They work closely with fund managers to help them analyse key issues, integrate ESG factors into investment processes, consult on proxy votes, and collaborate to encourage companies to improve performance.

Our Global Multi Asset Portfolio range

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



Source: Royal London Asset Management, for illustrative purposes only.

Weights in pie charts relate to each fund's strategic asset allocation and these weights will vary according to tactical asset allocation. Figures in the centre of the pie charts relate to equivalent Governed Portfolios within Royal London's Governed Range.

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.

Royal London Asset Management
80 Fenchurch Street,
London EC3M 4BY

For advisers and wealth managers
bdsupport@rlam.co.uk
020 3272 5950

For institutional client queries
institutional@rlam.co.uk
020 7506 6500

www.rlam.com
investmentclock.co.uk

We are happy to provide this document in Braille, large print and audio.

For Professional Clients only, not suitable for Retail Clients.

This is a financial promotion and is not investment advice. The views expressed are those of Royal London Asset Management at the date of publication unless otherwise indicated, which are subject to change, and is not investment advice. Telephone calls may be recorded. For further information please see the Privacy policy at www.rlam.com.

The funds are sub-funds of Royal London Multi-Asset Funds ICVC, an open-ended investment company with variable capital with segregated liability between sub-funds, incorporated in England and Wales under registered number IC001058. The Company is a non-UCITS retail scheme. The Authorised Corporate Director (ACD) is Royal London Unit Trust Managers Limited, authorised and regulated by the Financial Conduct Authority, with firm reference number 144037. For more information on the fund or the risks of investing, please refer to the Prospectus or Non-UCITS retail scheme Key Investor Information Document (NURS KII Document), available via the relevant Fund Information page on www.rlam.com.

Issued in December 2023 by Royal London Asset Management Limited, 80 Fenchurch Street, London, EC3M 4BY. Authorised and regulated by the Financial Conduct Authority, firm reference number 141665. A subsidiary of The Royal London Mutual Insurance Society Limited.

Ref: PDF RLAM PD 0166