

## RLAM Keynote Briefing highlights benefits of active investment

Royal London Asset Management (RLAM) highlighted the importance of active asset management at its annual Keynote Briefing for investors and advisers, held today. Setting the tone for the event, economist Ian Kernohan analysed the recent recession and recovery, drawing comparisons with previous recessions. Key differences that he highlighted included the speed and scale in the decline of GDP and global trade; the increased importance of emerging markets within the global economy; the strength of corporate balance sheets and the scale of policy response. Interpreting this, Kernohan suggested that markets now favour those managers readily able to adapt to change, take advantage of volatility and exploit opportunities within a challenging environment.

RLAM's Keynote Briefing provided a platform for showcasing its award-winning expertise across major asset classes, with breakout sessions hosted by a range of fund managers who gave their outlook for government and corporate bonds, equities, cash and property.

### **Fixed interest**

Craig Inches, George Henderson and Paul Rayner of RLAM's government bond team believe that markets lend themselves to nimble asset allocation and diversified sources of performance within tight risk controls. In anticipation of flattening yield curves and higher UK interest rates late this year, they favour longer-dated assets over sub-five year gilts. Meanwhile, with greater upside inflation risk, they are also overweight index-linked issues. They have additionally identified value in a number of overseas markets, particularly in Europe, where ECB rate profiles are too severe, and in Australia where government bonds are oversold.

Credit managers Eric Holt and Sajiv Vaid argue that index-hugging can deprive clients of additional sources of return and that investors will be rewarded for conducting their own in-depth research to uncover undervalued opportunities, rather than taking ratings at face value. At a fund level, they seek higher yield through a diversified portfolio of securities, including lower-risk opportunities that are frequently misunderstood. Examples of these include investment trusts and covered bonds linked to UK residential mortgages, which are AAA-rated yet still yield one to two percent above gilts.

### **Equities**

Martin Cholwill, manager of the Royal London UK Equity Income Fund and Bradley Mitchell, manager of the Royal London UK Growth Fund and Royal London UK Ethical Equity Fund, remain positive on UK equities. Both believe that while prospects for the UK economy might be downbeat, the UK equity market offers plenty of opportunities amongst those stocks which derive earnings from strong global growth. Cholwill is additionally identifying scope to diversify income lower down the capitalisation scale and away from those mega-cap stocks that dominate many equity income portfolios.

### **Cash**

Tom Meade, director of Royal London Cash Management (RLCM) states that today's money markets are typified by heightened bank and sovereign risk,

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reduced liquidity, low interest rates and tighter regulation. Meade, who is responsible for over £5 billion in segregated cash portfolios, believes that changing market dynamics mean that the need for co-operation and communication between client and manager has never been more pronounced.

### **Property**

Despite recovering strongly in 2010 and outperforming equities and gilts, the property market remains challenging. Stephen Elliott, manager of the Royal London Property Fund, and retail sector specialist Drew Watkins, of RLAM's property team, claim that increased pressure on rents and greater tenant selectivity is widening the gap between prime and secondary property, highlighting the importance of active asset management.

### **Robert Talbut, RLAM's Chief Investment Officer, commented:**

"RLAM's annual Keynote Briefing provides an invaluable opportunity for us to engage with our clients, share our views on the major asset classes and demonstrate how we can continue to deliver strong returns through active management despite the challenges of uncertain markets."

- ENDS -

### **Editor's notes**

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- Bright Grey – UK protection market
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- RLAM – fund management
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- Royal London (retail) distributes life and pensions products through Santander's UK branch networks.

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