

Royal London

Global Multi Asset Portfolios (GMAPs)

March 2024



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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 growth indicators are perking up against a backdrop of falling inflation. This favorable macro environment moves our Investment Clock into equity-friendly Recovery. We have been overweight stocks since 2022 Q4. The prospect of stronger growth makes us less positive on bonds. Rate cuts aren't likely to come thick and fast.

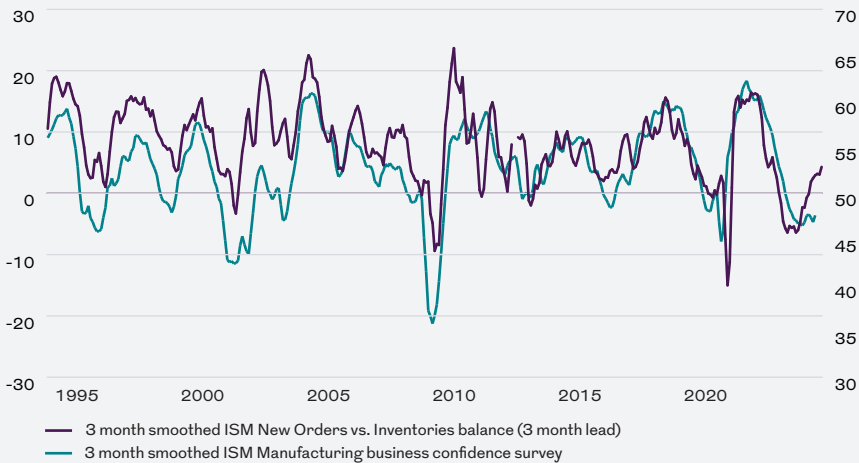
Positive on stocks

Equity markets followed on from a strong 2023 with further gains to start 2024, moving a range of stock market indices, including the S&P 500 and Japanese Nikkei 225, to all-time highs.

Global growth indicators are starting to perk up. A rise in industrial new orders against a low inventory backdrop (chart 1) suggests a new re-stocking cycle, usually good news for corporate earnings.

However, an environment of more resilient growth could cast uncertainty around central bank interest rate cuts and provide a headwind for bonds.

Strong pipeline of new orders bodes well for global manufacturing

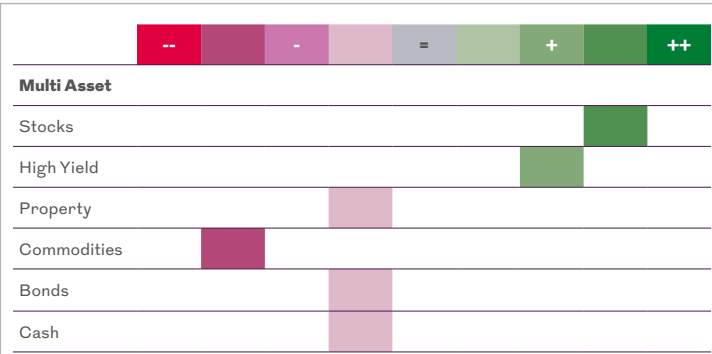


Past performance is not a guide to future performance. The views expressed are the author's own and do not constitute investment advice.

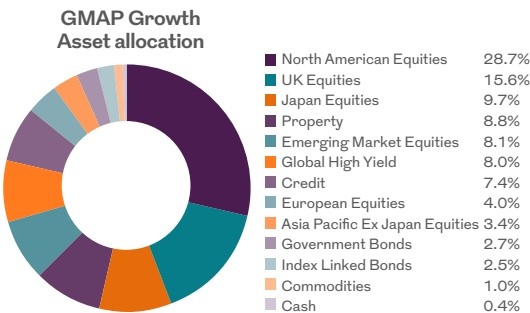
Source: LSEG Datastream as at 15 January 2024.

Tactical positioning: Positive on stocks, negative on commodities

Our multi asset funds have benefited from an overweight in stocks over the last year or so and we increased the size of this position at the start of 2024 as technical and macro indicators became more positive. Within equities, we continue to favour growth sectors and Japan. We are underweight both commodities and commercial property while broadly neutral on government bonds.



Source: Royal London Asset Management as at 29.02.2024.



Source: Royal London Asset Management as at 13.02.24

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 GMAP strategic asset mix is designed to maximise long run return after inflation for a given level of risk (range on page 4). The funds 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 by including real assets like equities and commercial property, inflation hedges like 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.

Stocks continued to advance from their late 2022 lows to fresh highs, more than offsetting losses from a fall in commodity prices, and driving an increase in fund prices.

On a tactical basis, we have added additional value. Overweight positions in stocks, especially growth sectors like technology and the strongly performing Japanese market, have all contributed positively.

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 strategic review in 2023 recognised that bonds offered much better prospects for investors after the dramatic rise in yields over 2022. We increased exposure at the end of March 2023 by switching some of our fixed income exposure into higher duration funds.

We also took the opportunity to increase global diversification and reduce UK-specific risk by lowering UK equity and property weights in favour of global stocks and a newly initiated allocation to global investment grade bonds.

Year

	2018	2019	2020	2021	2022	2023	Year to date
1	Property +7.5%	Global Stocks +22.6%	Global Stocks +14.3%	Commodities +28.3%	Commodities +30.7%	Global Stocks +16.0%	Global Stocks +5.9%
2	Cash +0.6%	UK Stocks +19.2%	EM Stocks +11.9%	Global Stocks +20.0%	Cash +1.0%	Multi Asset +8.1%	Multi Asset +1.9%
3	Gilts +0.6%	EM Stocks +15.9%	Gilts +8.3%	Property +19.9%	UK Stocks +0.3%	UK Stocks +7.9%	EM Stocks +1.3%
4	Global Stocks -3.1%	Multi Asset +13.8%	Cash +0.3%	UK Stocks +18.3%	Multi Asset -5.2%	Cash +4.4%	Cash +0.9%
5	Multi Asset -4.7%	Gilts +6.9%	Property -1.0%	Multi Asset +14.6%	EM Stocks -6.4%	Gilts +3.7%	Property +0.2%
6	Commodities -5.7%	Commodities +3.5%	Multi Asset -1.2%	EM Stocks +1.0%	Global Stocks -7.8%	EM Stocks +2.9%	Commodities -0.3%
7	EM Stocks -7.6%	Property +2.1%	Commodities -6.1%	Cash +0.0%	Property -10.1%	Property -0.1%	UK Stocks -1.1%
8	UK Stocks -9.5%	Cash +0.7%	UK Stocks -9.8%	Gilts -5.2%	Gilts -23.8%	Commodities -13.1%	Gilts -3.3%

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Source: RLAM, Refinitiv Datastream, total returns in sterling term as at 29 February 2024 property as at 31 January 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 more positive and we are 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 moves into Recovery

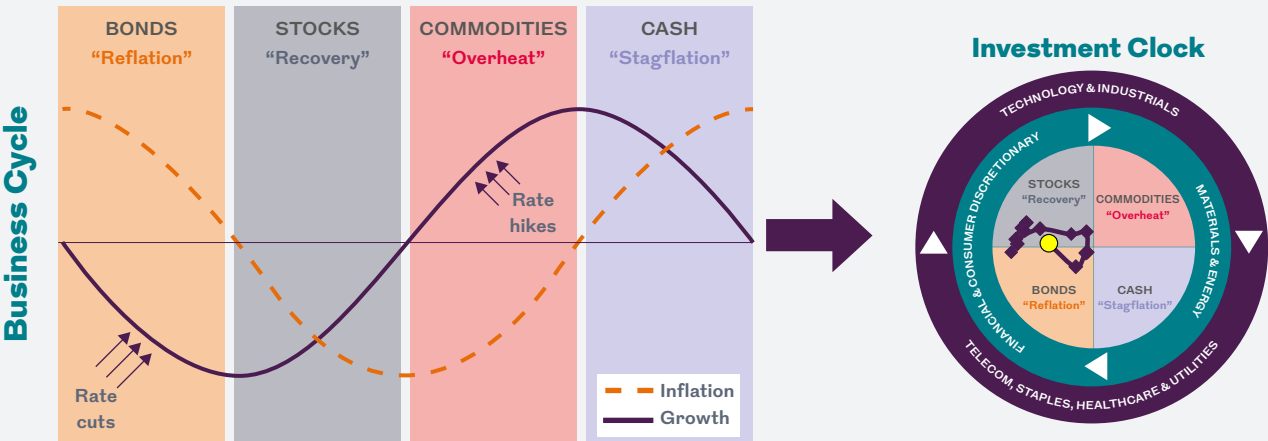
Late last year a run of soft economic data saw the Investment Clock drift into Reflation, a disinflationary slowdown phase in which central banks usually cut interest rates aggressively.

However, stronger business confidence data and a very strong US non-farm payrolls report paint a different picture early in 2024. The Clock has now moved back into disinflationary Recovery (yellow dot below). This phase of the business cycle is when equity markets typically outperform the most.

Positive on stocks, less confident on bonds

We have been overweight equities since 2022 Q4 and recent evidence has added to our conviction. If economic growth continues to firm up, stocks are likely to benefit from a pickup in corporate earnings.

However, a stronger growth backdrop could pose a headache for central banks, given tight labour markets and high core rates of inflation. We think interest rates will still come lower in 2024, but not to the degree currently factored into bond markets and this could limit returns.



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: Strong performance with risk control

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.

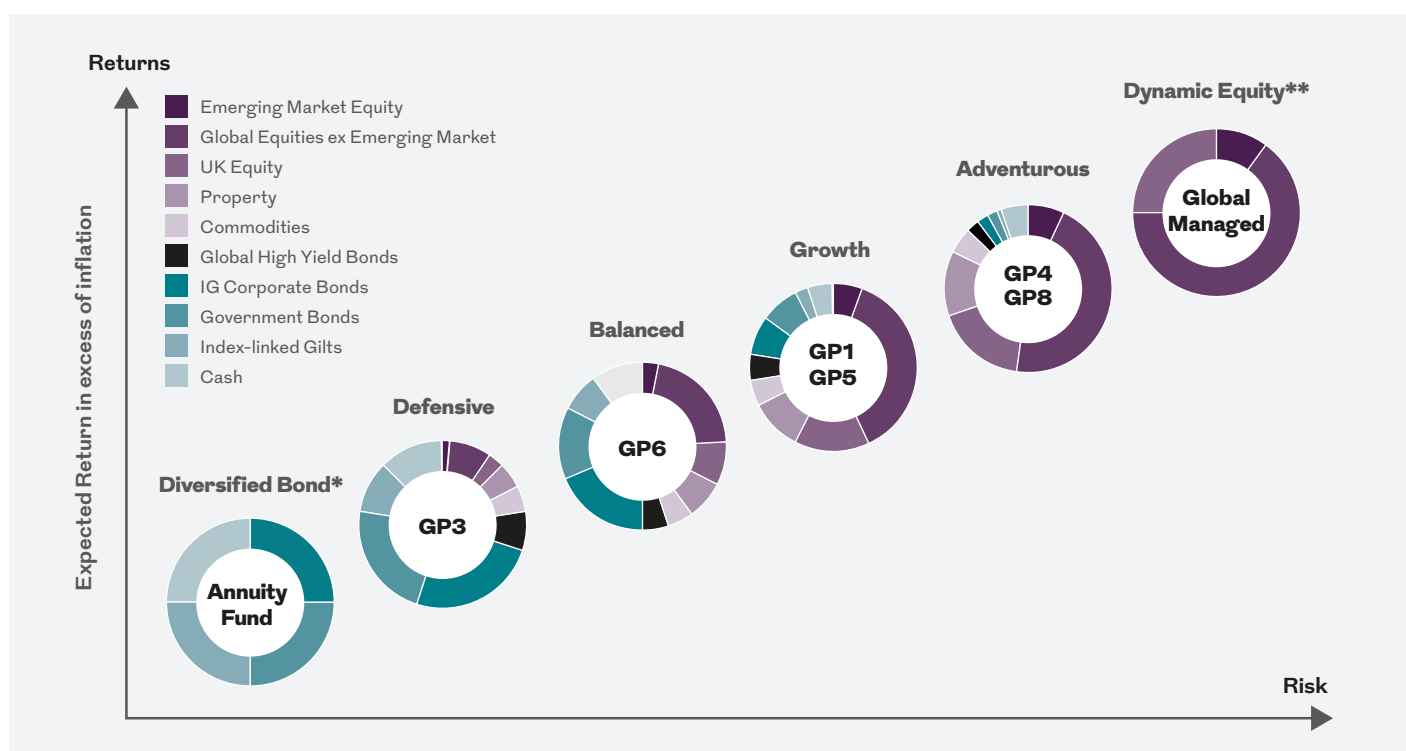
A strong equity line up

Our equity exposure is expressed through regional tilt funds seeking to reduce carbon with low tracking error alongside global funds looking to add value through stock selection. The Royal London Global Equity Diversified Fund has outperformed consistently over the last five years, while carefully controlling regional and sector exposures.

The line up allows tactical asset allocation to express regional and sector views without doubling up or cancelling out active positions in underlying funds.

Our Global Multi Asset Portfolio range

We offer six 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.

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.

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

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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.

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