

Market Insights – Fixing The Roof

August 2017

“The complete evaporation of liquidity in certain market segments of the US securitization market has made it impossible to value certain assets fairly, regardless of their quality or credit rating.” **BNP Paribas, 9 August 2007**

Julian Howard, Head of Multi-Asset Solutions

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Fixing The Roof

Key themes for investors

Growth story shifting away from America

- Nothing to suggest global recession around the corner
- Hopes for US growth revival fade
- European economic renaissance has US in its sights
- China inventory accumulation keeps show on the road
- Latin America showing good health

US equity market on the final straight

- How sustainable are US profits?
- Margins are close to historic highs
- Waning importance of US equity market
- Technology surge is sustainable this time
- Chance for ex-US regions to outperform
- Valuations suggest bond-like returns from equities
- Scenario analysis – out of date within six weeks!

How can we diversify?

- Bond-equity correlation inconveniently bad
- Government bonds trading at high ‘multiples’
- Hedge funds generally not the preferred solution
- Alternative bond book has a central role to play

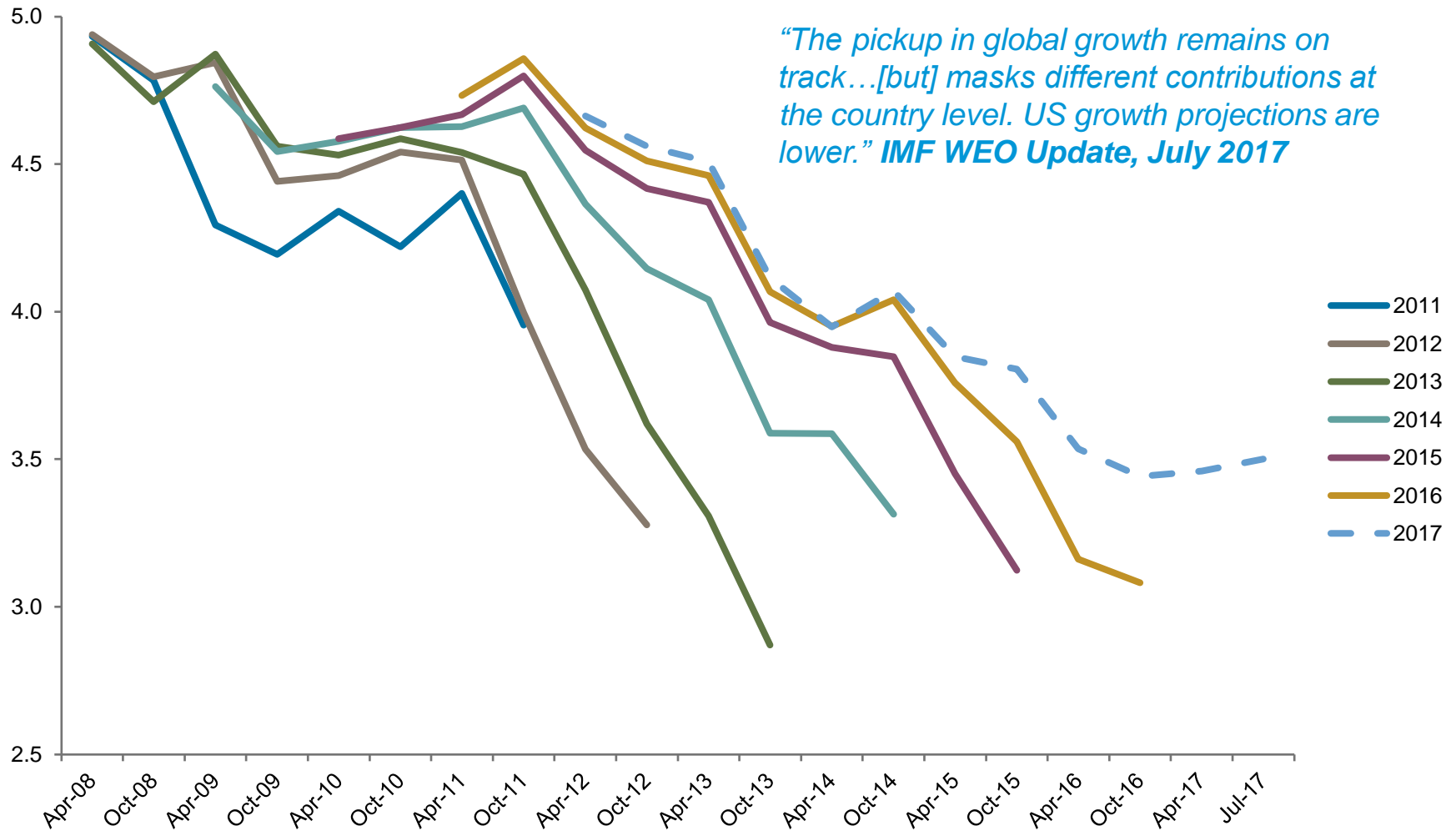
Positioning and Q&A

- Scenario analysis
- Positioning

GROWTH STORY
SHIFTING AWAY
FROM AMERICA

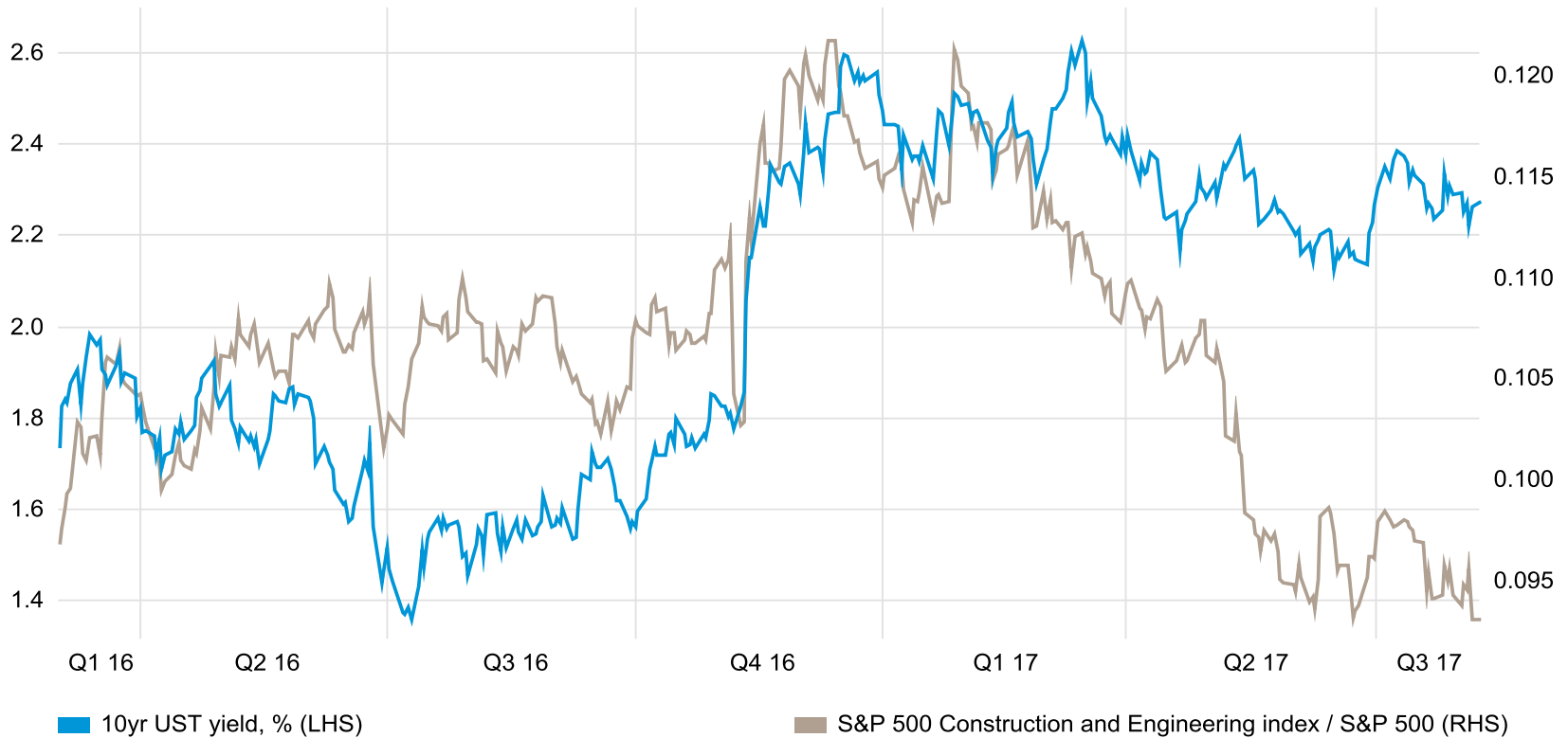
Nothing to suggest global recession around the corner

IMF global GDP % growth forecasts from Apr 2008 to Jul 2017



Hopes for US growth revival fade

From 29 Feb 2016 to 7 Aug 2017



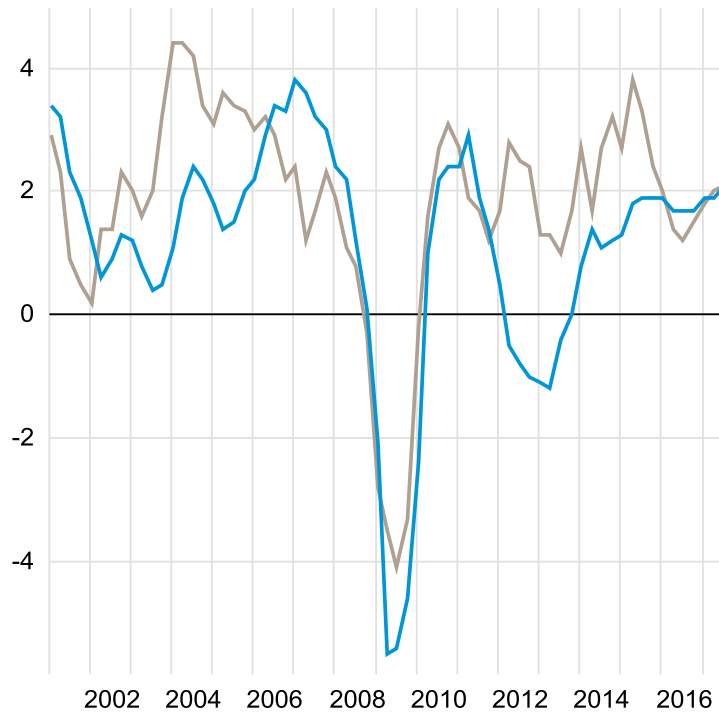
“The currency of the day is now patience, which may wear thin as policy changes are bogged down by bureaucracy and political infighting.” **Mark Shenkman, CEO Shenkman Capital**

Past performance is not indicative of future performance.

European economic renaissance has US in its sights

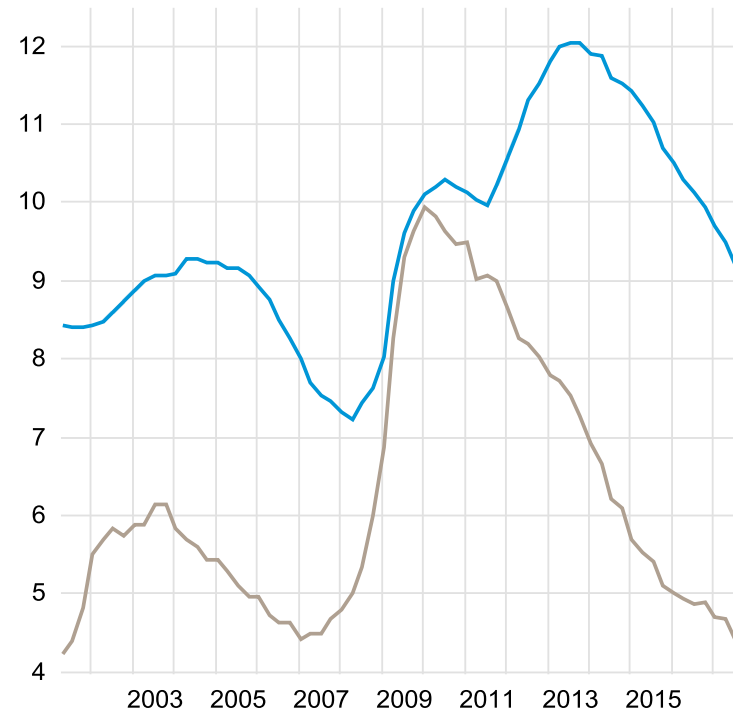
From 31 Dec 2000 to 30 Jun 2017

Growth on a par with US...



■ Eurozone GDP growth, % change previous year
■ US GDP growth, % change previous year

...Unemployment rapidly falling

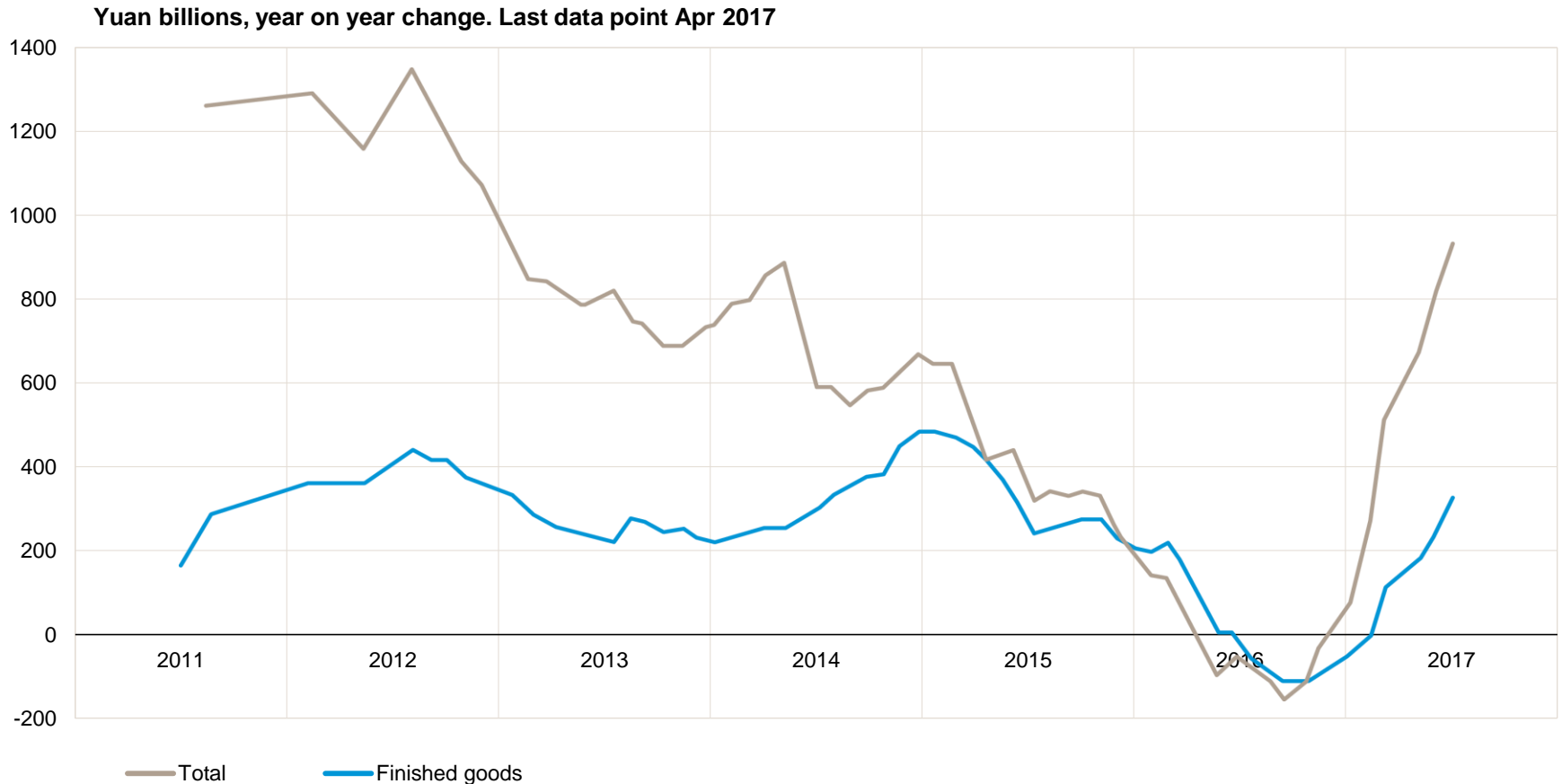


■ Eurozone unemployment, %
■ US unemployment, %

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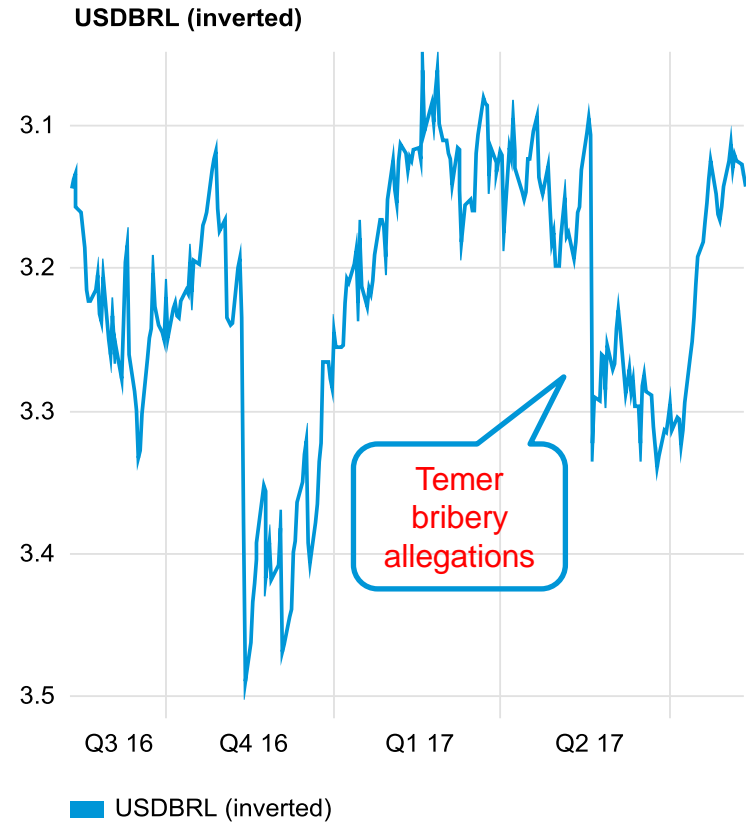
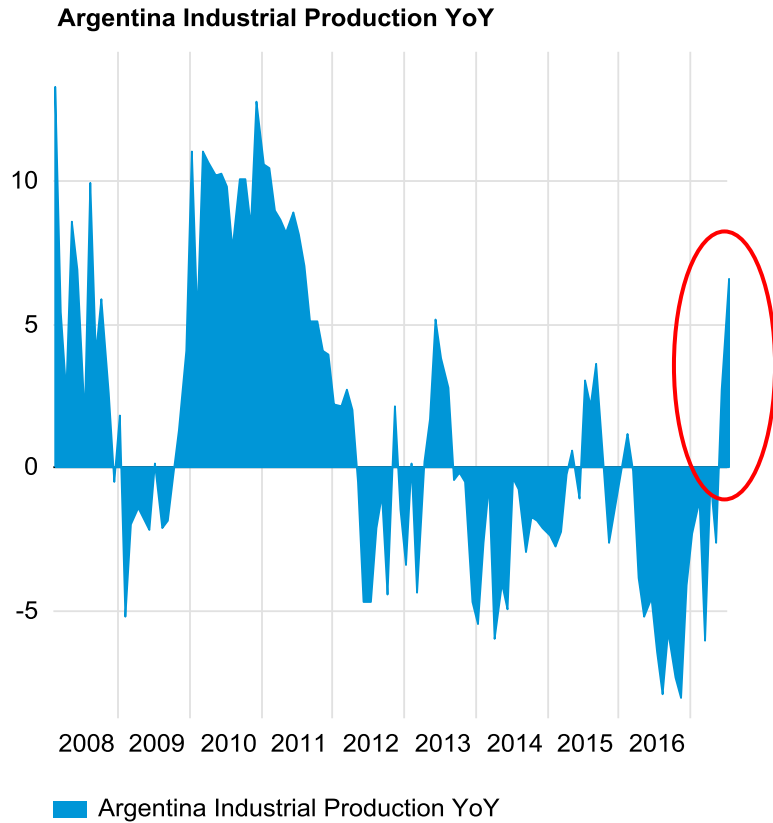
China inventory accumulation keeps show on the road

Data from 31 Dec 2010 to 30 Apr 2017



Latin America showing good health

From 31 Jan 2008 to 30 Jun 2017

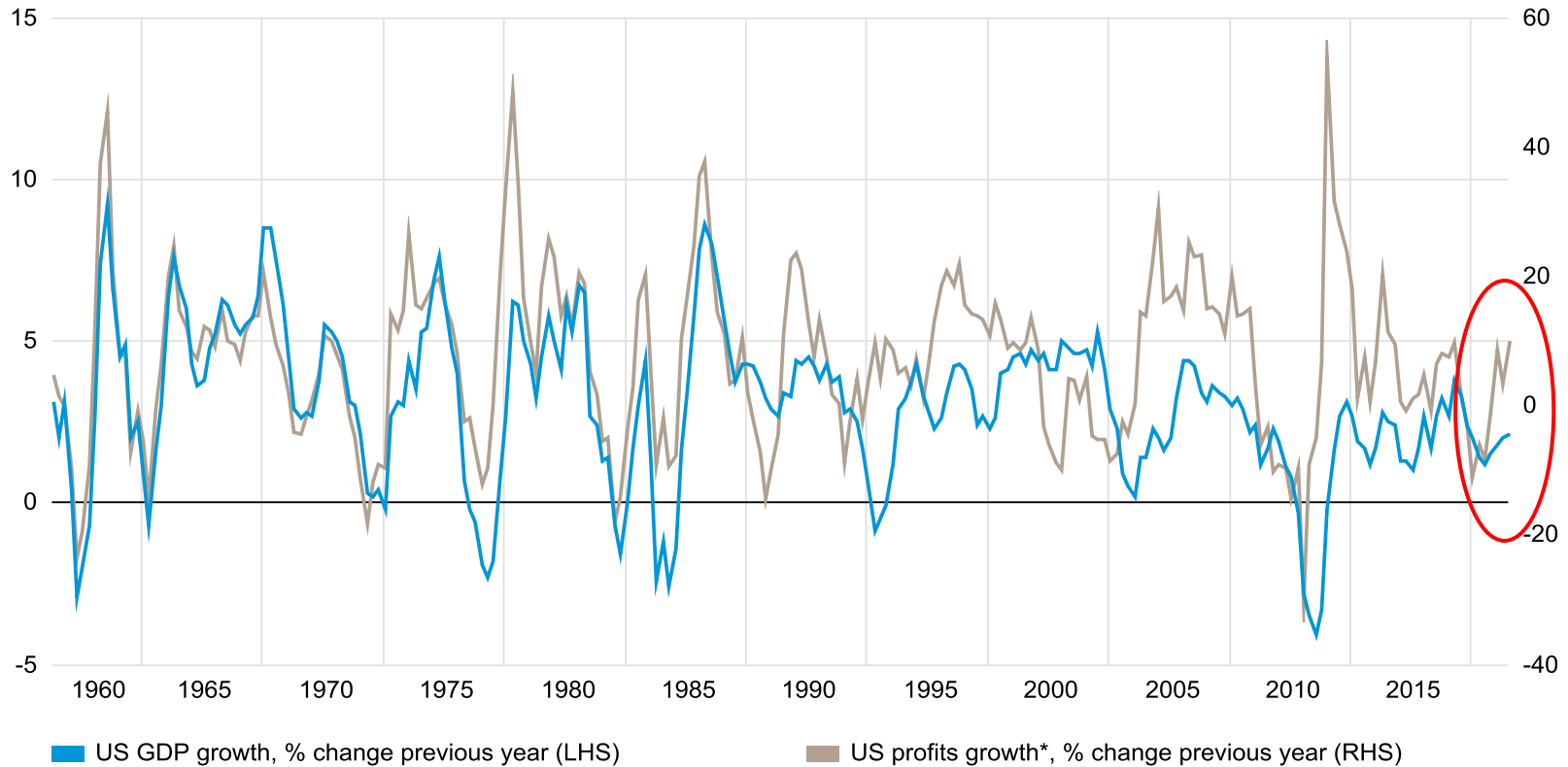


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US EQUITY MARKET **ON THE FINAL** **STRAIGHT**

How sustainable are US profits?

From 31 Mar 1957 to 30 Jun 2017



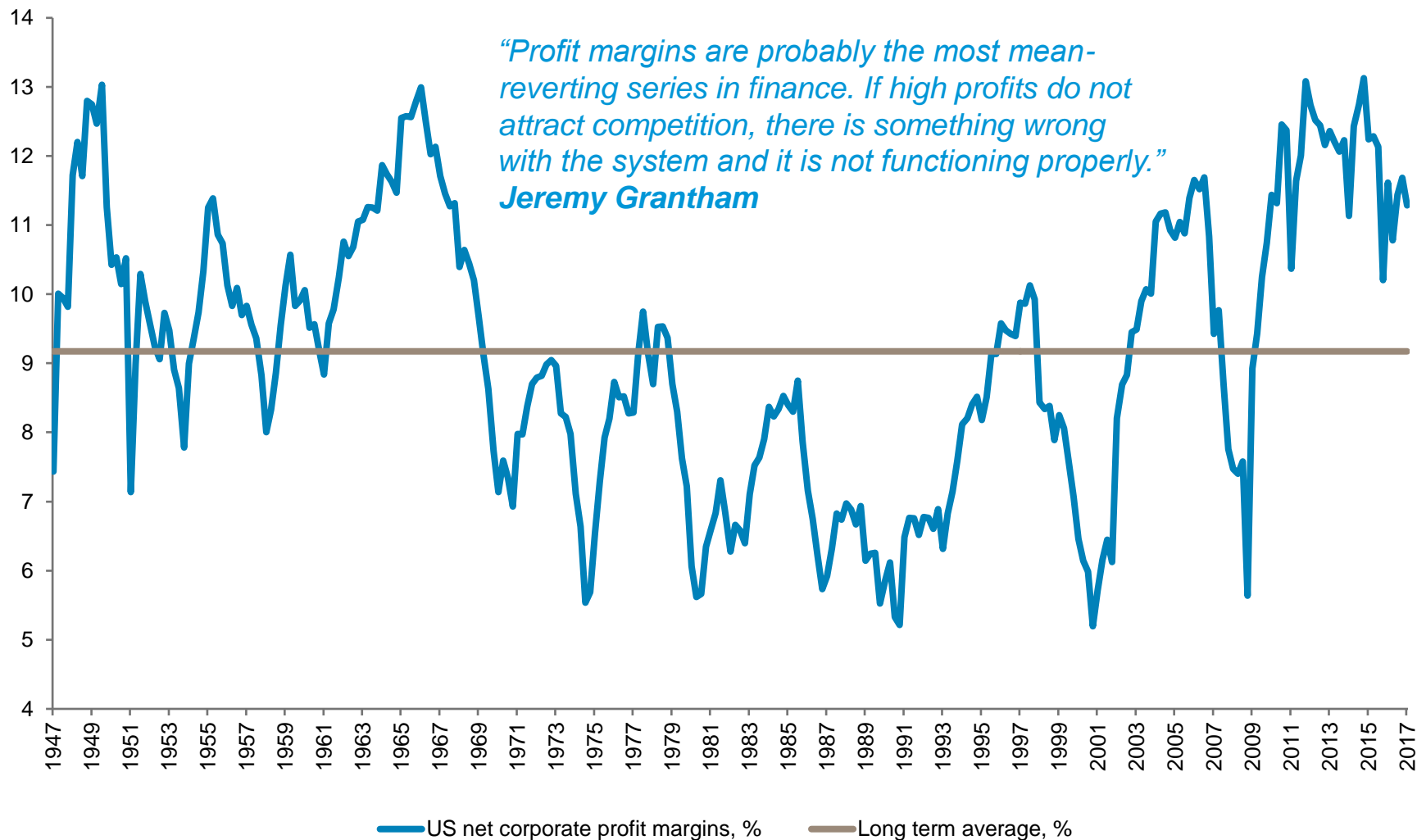
Past performance is not indicative of future performance.

Source: Bloomberg, GAM

*Estimate for Q2 2017 based on reported profits as at 7 Aug

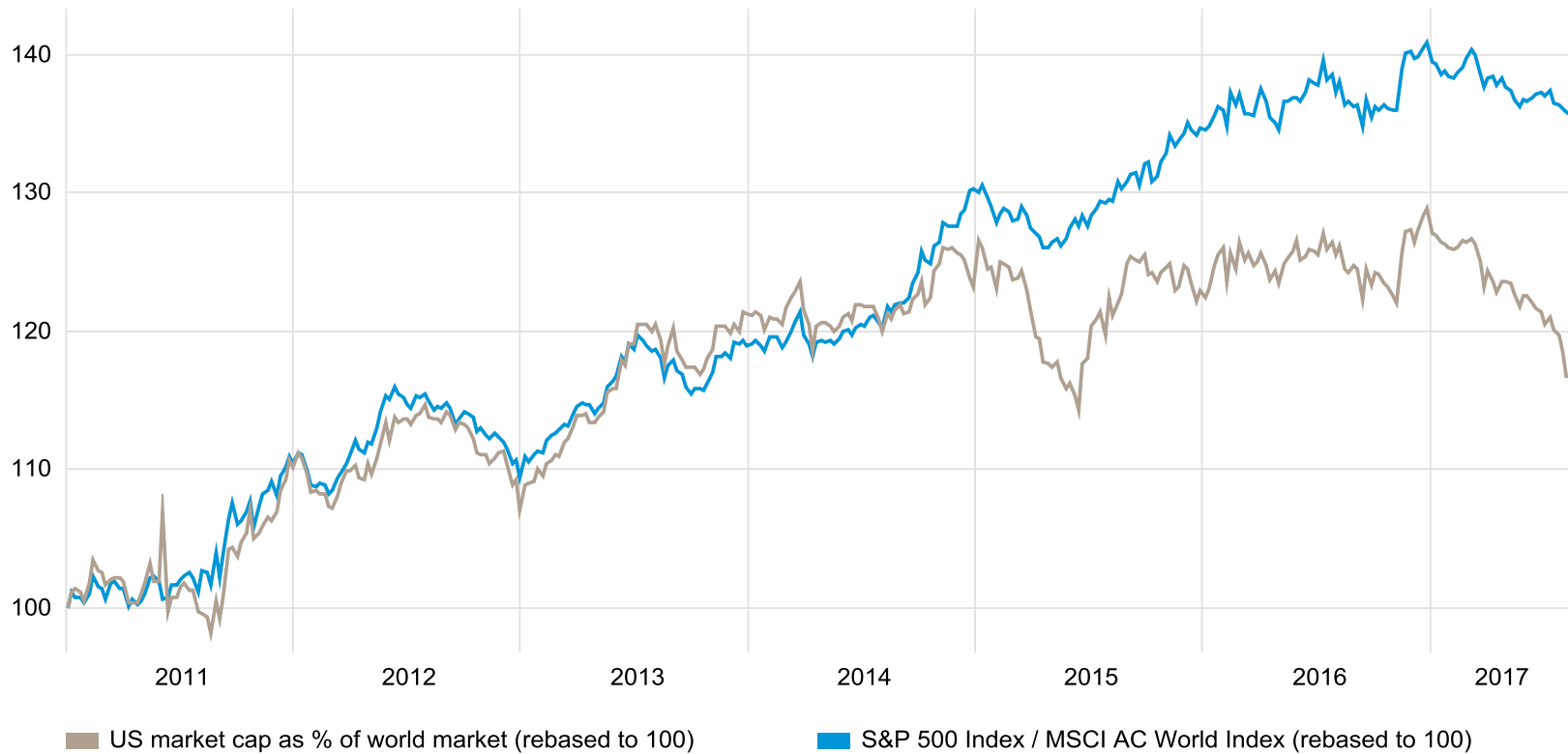
Margins are close to historic highs

Data from 31 Dec 1946 to 1 Jan 2017



Waning importance of US equity market

From 31 Dec 2010 to 10 Aug 2017



Past performance is not indicative of future performance.

Technology surge is sustainable this time

From 2 Feb 1996 to 9 Aug 2017

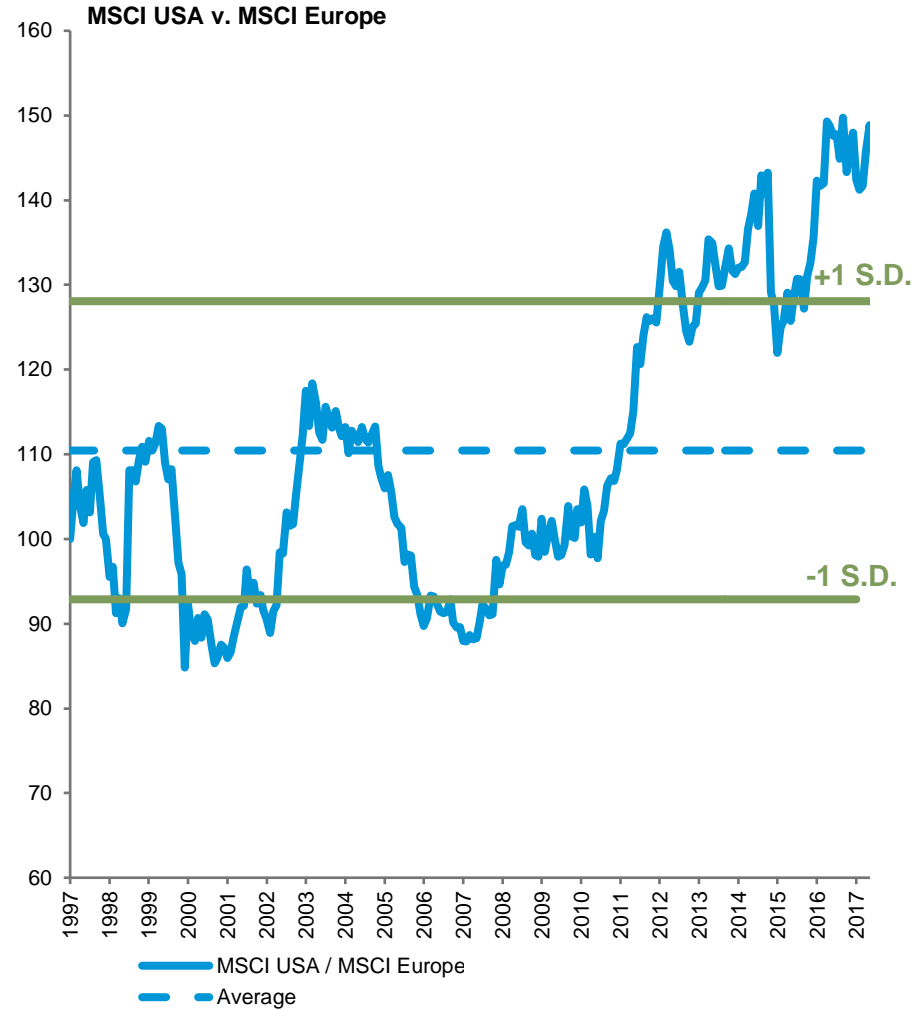
"We had a great quarter, I couldn't be happier ...and if you look at EPS we were up 17% year on year and so it was a fantastic quarter in any way you look at it."
Apple CEO Tim Cook, 1 August 2017



Past performance is not indicative of future performance.

Chance for non-US regions to outperform

Data from 31 Mar 1997 to 8 Aug 2017

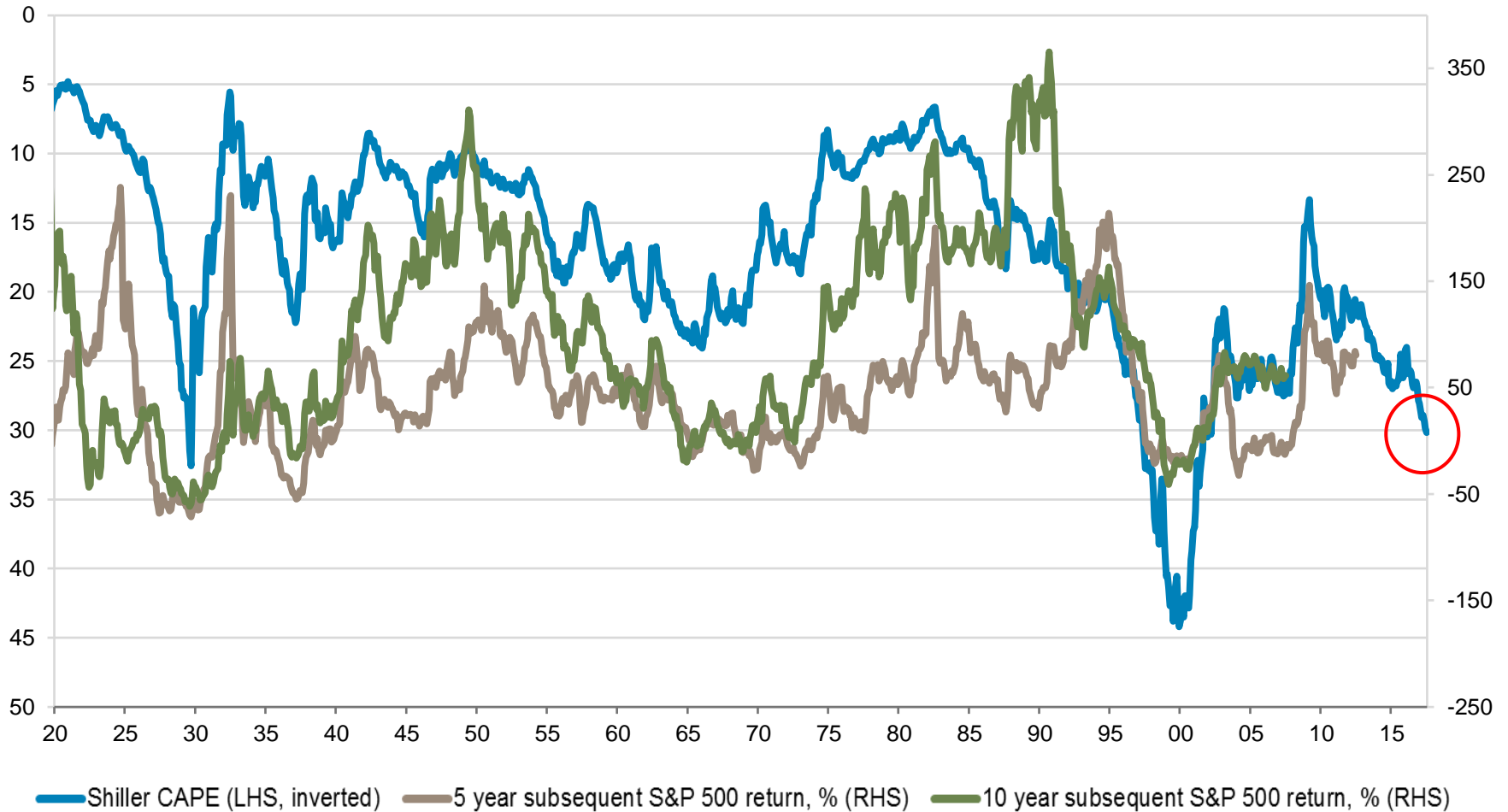


Source: Bloomberg

Past performance is not indicative of future performance.

Valuations suggest bond-like returns from equities

Data from 30 Jun 1917 to 31 Jul 2017



Latest 12-month scenario analysis

Data as at 15 Aug 2017

Probability: %	Crisis: 10%	Slowdown: 25%	Sideways: 50%	Acceleration: 15%
	<ul style="list-style-type: none"> Global GDP <0% DM slows, EM follows Geopol./systemic crisis Profits relapse Markets tumble 	<ul style="list-style-type: none"> Global GDP 1%-2% Reflation stalls, EM lags Geopolitical tensions Profits growth deteriorates Markets correct 	<ul style="list-style-type: none"> Global GDP 2%-3% Moderate DM, EM growth Geopolitics contained Profit recovery stalls Modest market progress 	<ul style="list-style-type: none"> Global GDP >3% DM thrives, EM takeoff Geopolitics benign Profits beat forecasts Late-cycle bull market
Equities	-20 to -10%	-10 to 0%	2 to 5%	5 to 10%
Allocation	10%	15%	30%	50%
Implied contribution	-1.5%	-0.8%	1.1%	3.8%
Fixed Income & Credit	-3 to 0%	-1 to 2%	2 to 4%	3 to 5%
Allocation	55%	50%	40%	25%
Implied contribution	-0.8%	0.3%	1.2%	1.0%
Alternatives	-2 to 5%	-1 to 5%	-1 to 5%	-2 to 5%
Allocation	20%	25%	25%	20%
Implied contribution	0.3%	0.5%	0.5%	0.3%
Liquidity	0% to 0.5%	0% to 1%	0.5% to 1.5%	2% to 3%
Allocation	15%	10%	5%	5%
Implied contribution	0.0%	0.1%	0.1%	0.1%
Expected return	-2.0%	0.1%	2.8%	5.2%
Including alpha	-1.1%	1.0%	3.8%	6.1%

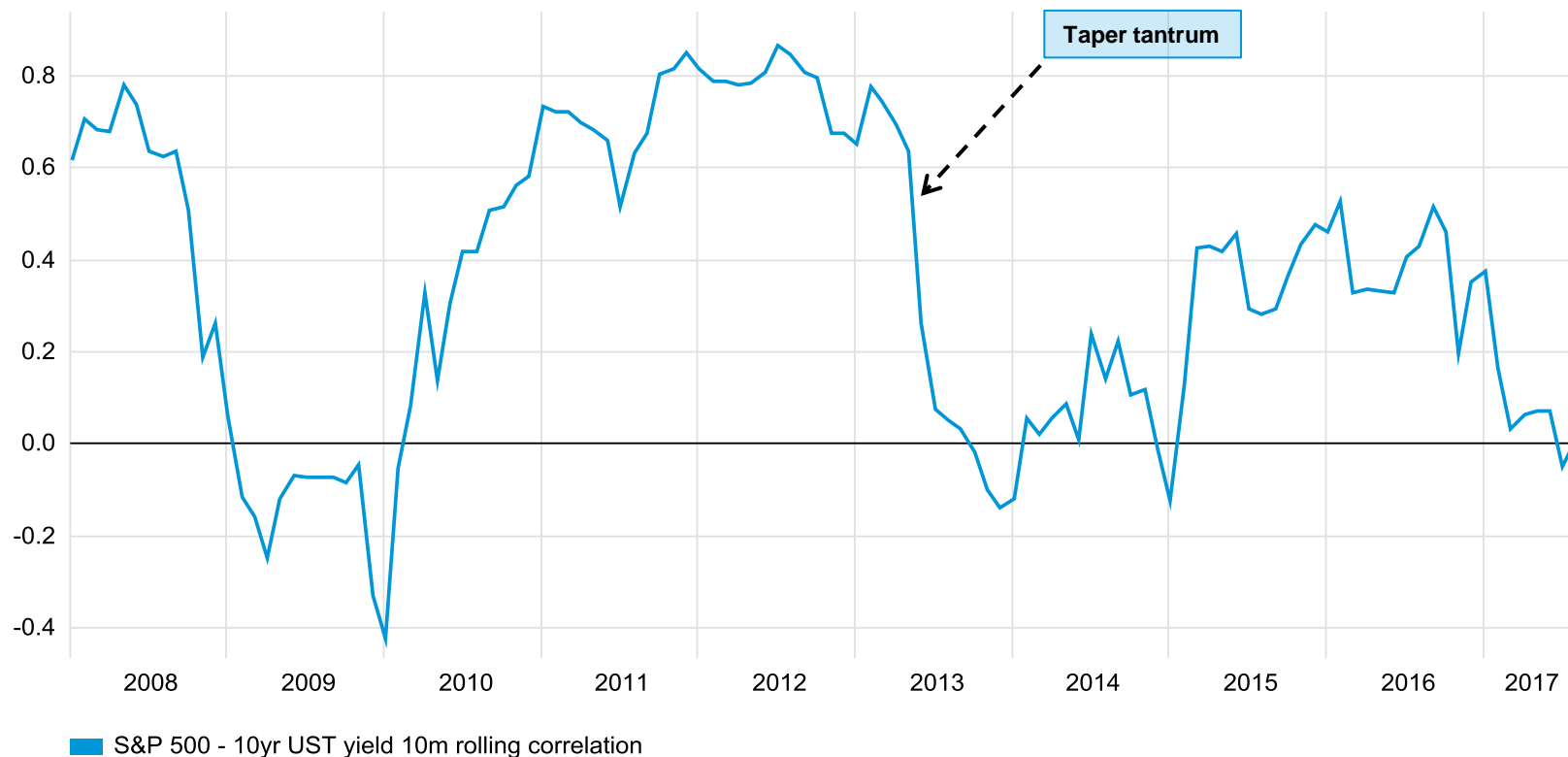
Source: GAM. For reference, OECD full year 2017 forecast for world GDP growth is 3.3%.

Allocations, asset class ranges and holdings are subject to change. The views expressed are those of the manager at the time and are subject to change. There is no guarantee that forecasts of strategies or objectives will be achieved.

HOW CAN WE DIVERSIFY?

Equity-Bond yield correlation inconveniently bad right now

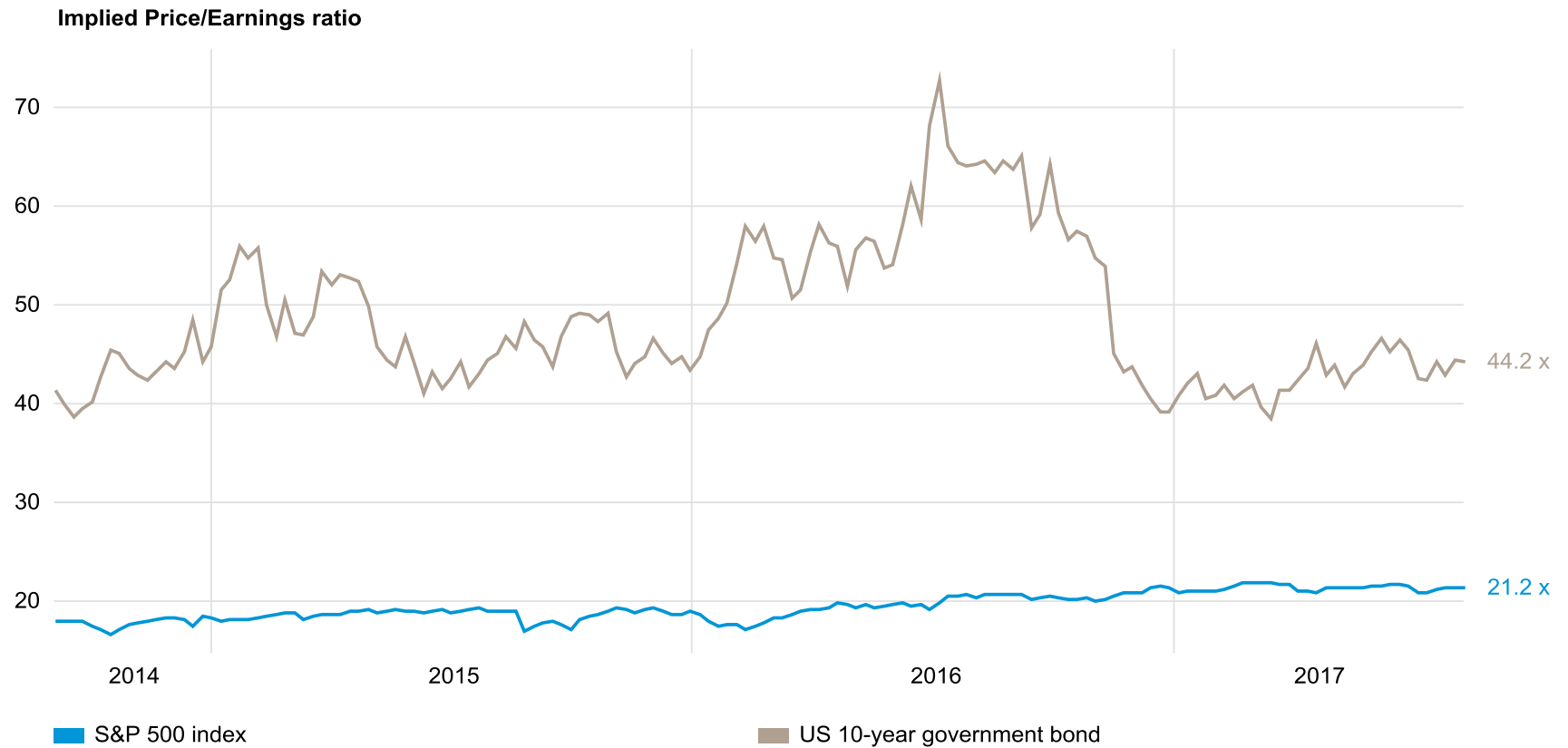
1 year rolling correlation from 31 Dec 2007 to 7 Aug 2017



Past performance is not indicative of future performance.

Government bonds trading at high 'multiples'

From 2 Sep 2014 to 8 Aug 2017

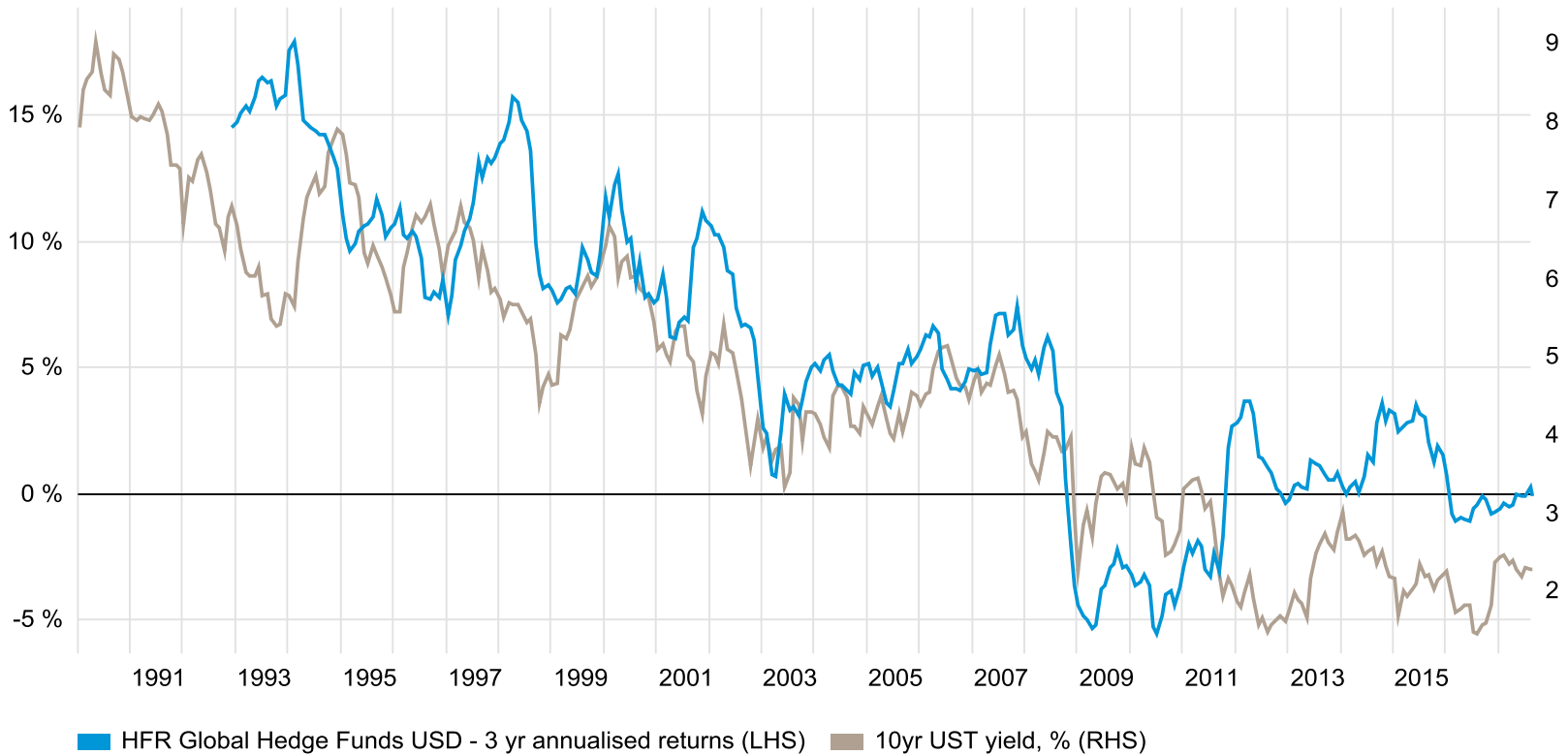


Past performance is not indicative of future performance.

Hedge funds (generally) not the preferred solution

3 years rolling annualised returns from 29 Dec 1989 to 8 Aug 2017

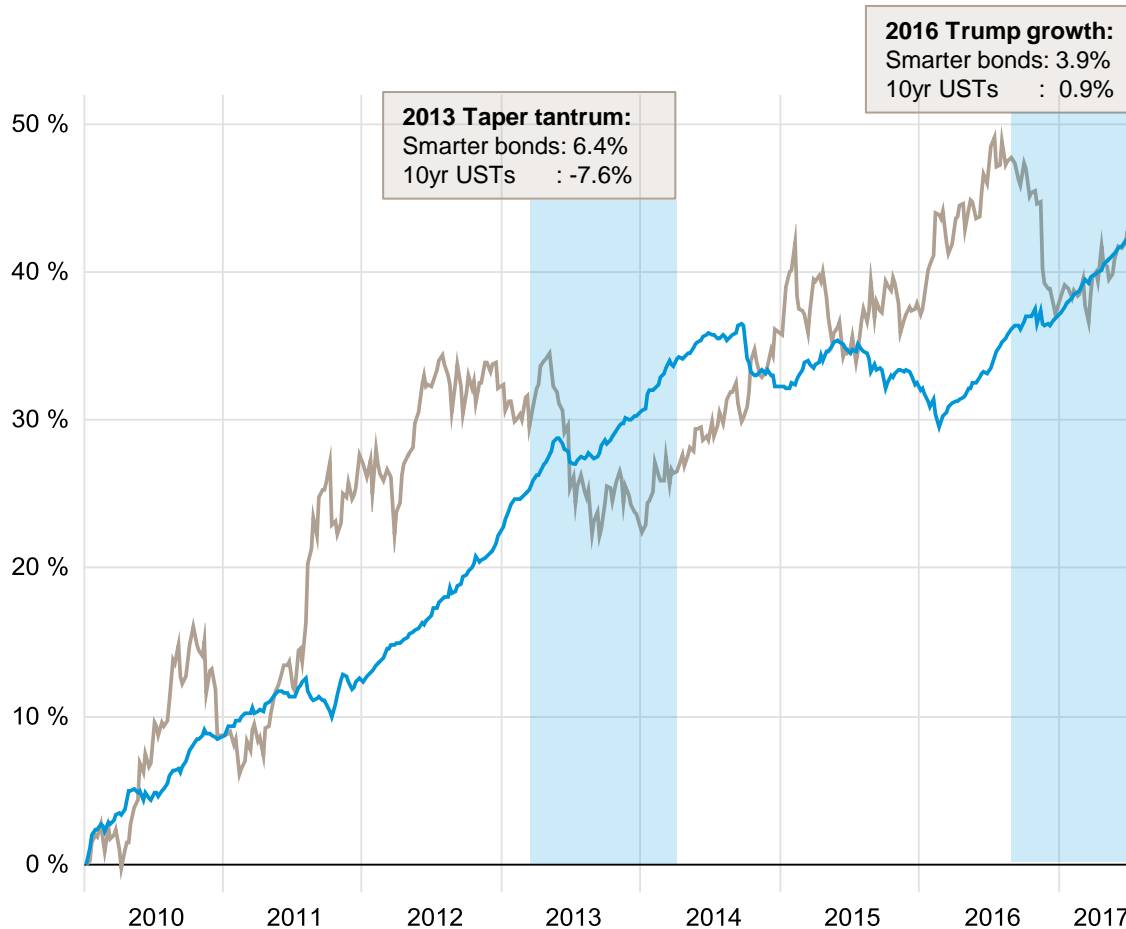
Leveraging up the Great Moderation in bond yields was yesterday's strategy



Past performance is not indicative of future performance. Performance is provided net of fees.

Alternative bond book has a central role to play

Performance from 31 Dec 2009 to 31 Jul 2017



	Simple Perf. %	Ann. Perf. %	Ann. Std. Dev.
CMPBF	43.4	4.9	2.4
US10P	41.3	4.7	6.4

Duration:
Smarter bonds: 1.29
10yr USTs : 2.43

■ GAM Composite AR USD - Fixed Income and Credit
■ 10-year US government bond index USD

Past performance is not indicative of future performance. Performance is provided gross of fees.

Source: GAM, Thomson Reuters

GAM Composite Absolute Return USD – Fixed Income and Credit is a performance series based on the Fixed Income and Credit portion of the Absolute Return portfolio. It is not in itself a fund or strategy that can be accessed separately and so its performance must always be viewed in the context of the wider Absolute Return portfolio.

POSITIONING AND PERFORMANCE UPDATE

Latest 12-month scenario analysis

Data as at 15 Aug 2017

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Strategic and tactical views – summary

As at 07 Aug 2017

	Low Conviction	Cautious	Neutral	Positive	High Conviction
Equities		UK [recession risk, unclear Brexit path] US [exhaustion, marginal underweight]	Japan [underperformed, improving prospects]	Europe [Political risks easing, economy improving] Emerging Mkts [sound fundamentals, ex-US theme]	
Neutral					
Fixed Income		Active aggregate bonds [diversification rather than upside]	Absolute Return approaches [rates opportunities, careful risk control]	Financial credit [regulatory trend, steady underlying cashflows] Liquid high yield [safer return extraction]	MBS [steady return profile] Insurance-linked [low correlation to major indices]
Positive					
Alternatives			Macro trading [potentially rich opportunity set for managers to exploit]	Market neutral Equity L/S [innovative non-directional approaches]	Merger Arbitrage [spread extraction with diversification can provide steady return profile]
Cautious					
Flexibility	Government bonds [shorts in USTs, bunds, Sweden]			JPYUSD, Gold [cheap risk-off hedges] Thematic equities [European buybacks, Tech, H-Shares, Homebuilders]	Diverse carry [EM, HY, MBS] Currency themes [EURUSD]
Positive					

GAM Multi Asset Solutions – Key Strategies

Full range from target return to global equities

For professional investors only

Absolute Return		Relative Return		
GAM Target Return Range	GAM Flexible Global / Absolute Return	GAM Balanced Strategy	GAM Diversified Growth Strategy	GAM Composite Global Equity Strategy
Expected return: Libor+ 3 and 5% p.a.	Expected return: Libor+ 3-4% p.a.	Estimated volatility: 40-60% of global equities	Estimated volatility: 60-80% of global equities	Estimated volatility: 90-100% of global equities
Structure: <ul style="list-style-type: none"> • UCITS Star fund • Segregated strategy 	Structure: <ul style="list-style-type: none"> • UCITS Star fund • Segregated strategy 	Structure: <ul style="list-style-type: none"> • Segregated strategy 	Structure: <ul style="list-style-type: none"> • Segregated strategy 	Structure: <ul style="list-style-type: none"> • UCITS Star fund • Segregated strategy
<p>Direct securities approach, aiming to deliver independent returns regardless of the market environment.</p> <p>Unconstrained 100%</p>	<p>Fund of fund, asset allocation approach, aiming to deliver independent returns regardless of the market environment.</p> <p>Equity 30.0% Fixed Income 33.5% Alternatives 21.5% Flexibility* 15.0%</p>	<p>Balance of capital protection and participation in equity market growth.</p> <p>Equity 50.0% Fixed Income 22.5% Alternatives 18.0% Flexibility* 9.5%</p>	<p>Significant participation in equity market growth with a moderate focus on capital protection.</p> <p>Equity 70.0% Fixed Income 13.3% Alternatives 11.2% Flexibility* 5.5%</p>	<p>Strong participation in equity market growth.</p> <p>Equity 98.0% Flexibility* 2.0%</p>

*Comprises liquidity and tactical asset allocation.

Source: GAM
All information as at 16 Dec 2016 unless otherwise stated.

Awarded Funds refer to the awards for specific fund categories



Q & A

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