

# Introduction to GAM

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# Staying Engaged

## Key themes for investors

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### **Global reflation gathering pace**

- IMF now modestly optimistic; PMIs firmly expansionary, broad-based
- Fundamentals continue to underpin equity investment
- European recovery driven by positive credit flows
- French election clears the runway for European equities
- World ex-US equities looking especially compelling

### **The US 'slowdown' should not cause undue concern**

- Hard data weaker and even some surveys are softening
- US auto sales dip – why? Three possible reasons
- But much of this is seasonal and temporary
- Hard to see an imminent recession
- Where is the inflation?
- Not your father's job market – but is the Fed aware?

### **Diversification**

- Cheap hedges – European volatility
- Alt-bonds – their day is surely coming
- Alternatives – the old days are very...old

### **Positioning and Q&A**

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# **GLOBAL REFLATION**

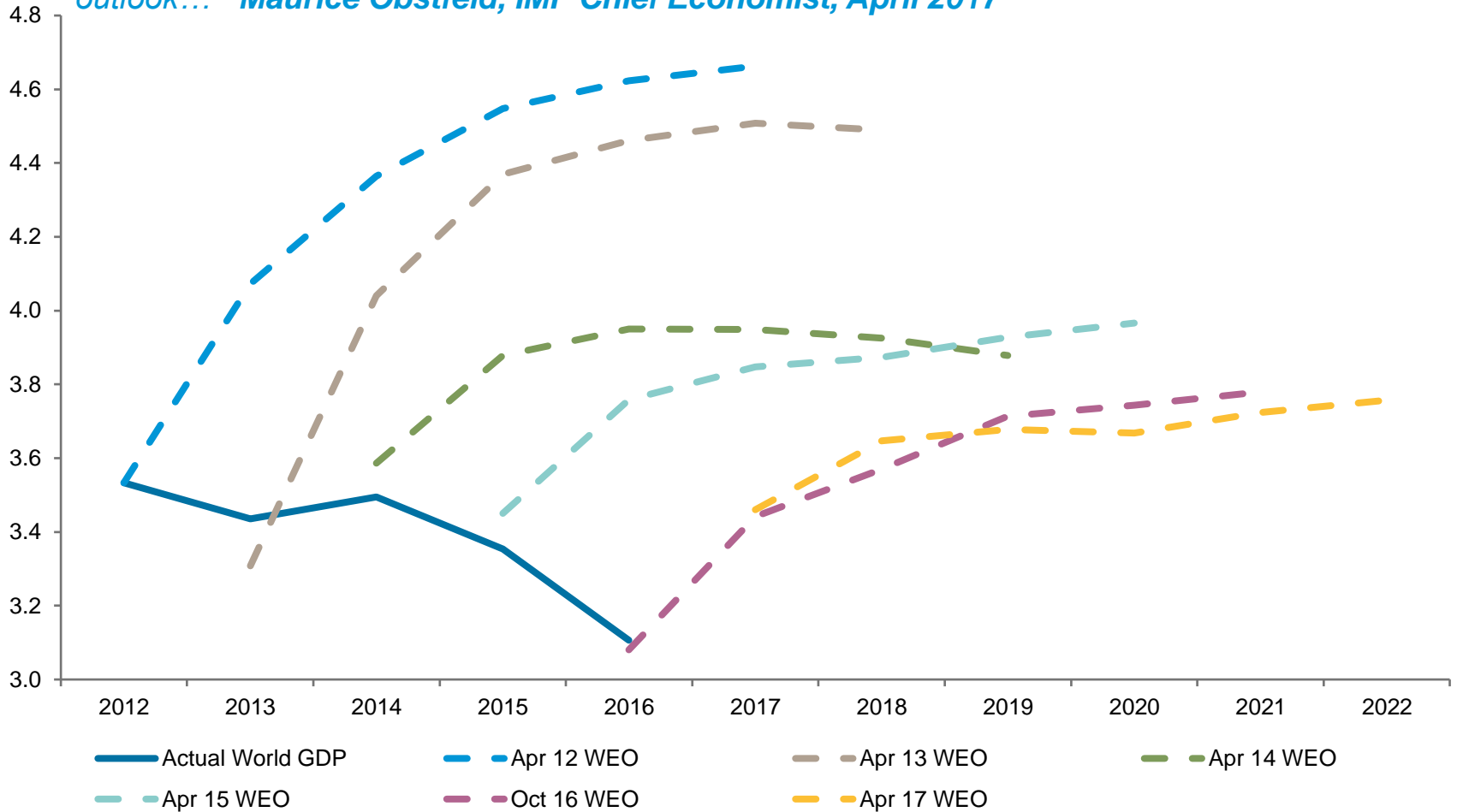
## **GATHERING PACE**

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# IMF now modestly optimistic

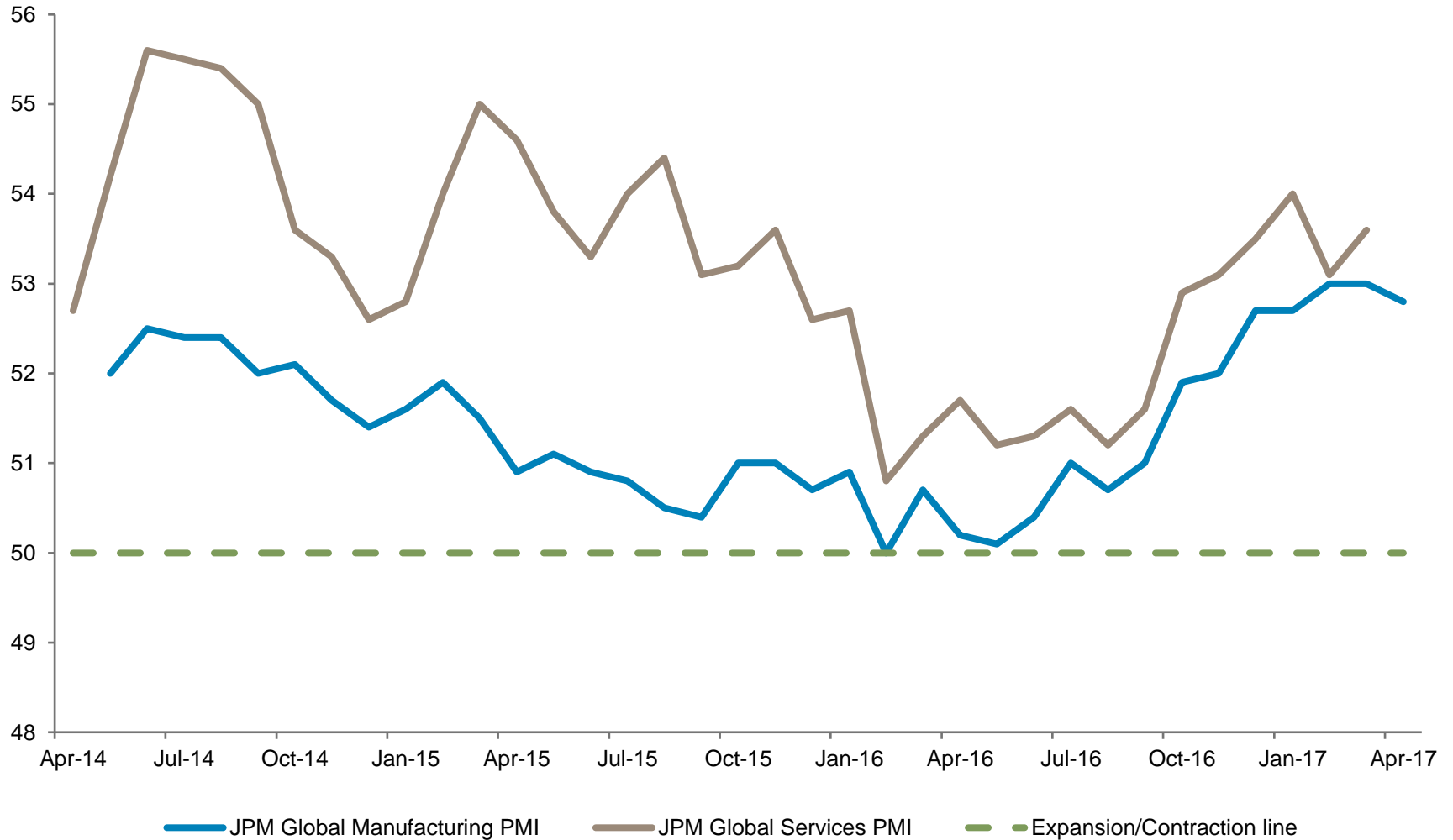
% GDP growth from 31 Dec 2011 to 31 Dec 2022\*

*“Consistently good economic news since summer 2016 is starting to add up to a brightening global outlook...” Maurice Obstfeld, IMF Chief Economist, April 2017*



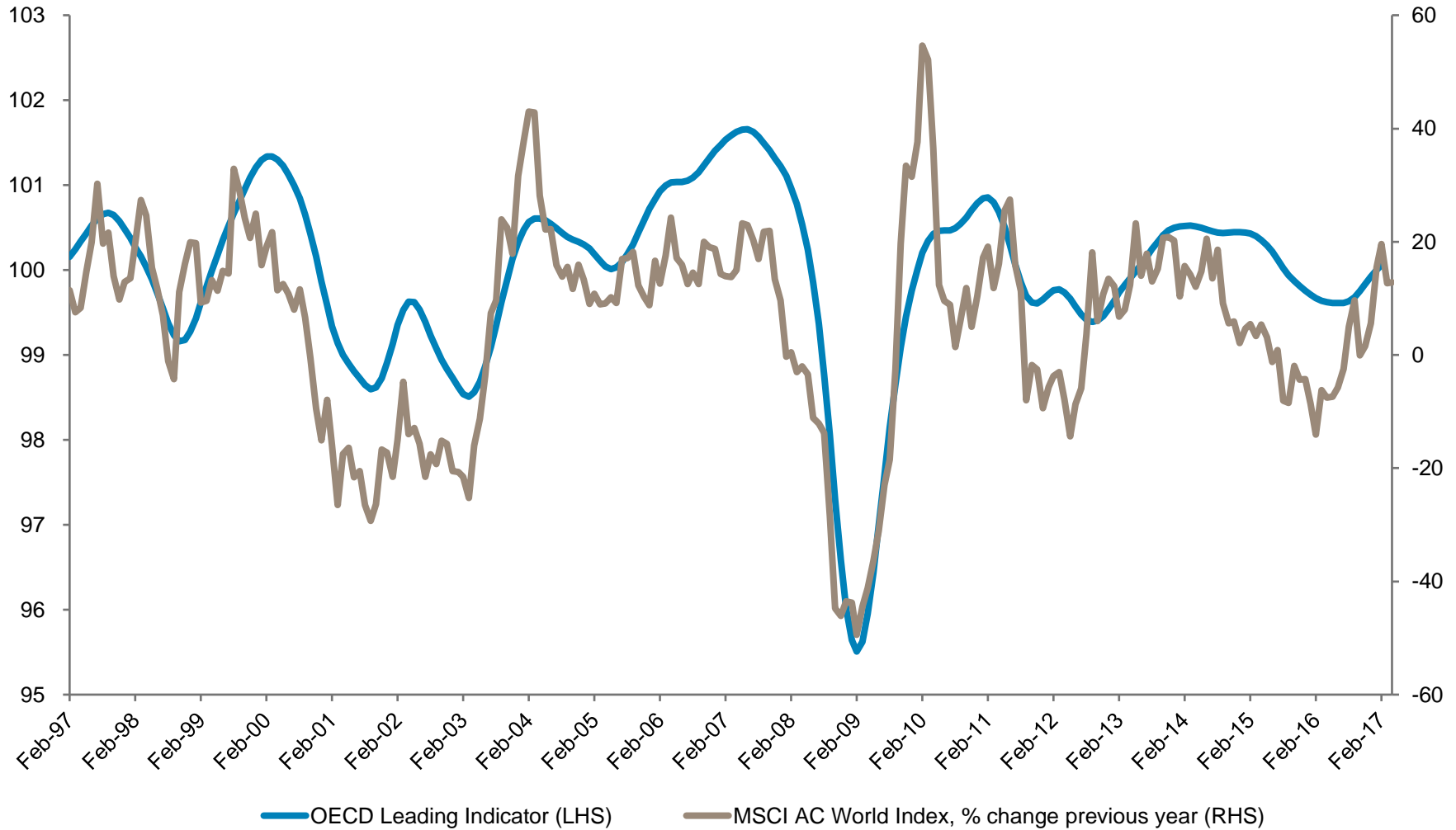
# Global PMIs firmly expansionary, broad-based

Data from 30 Apr 2014 to 30 Apr 2017



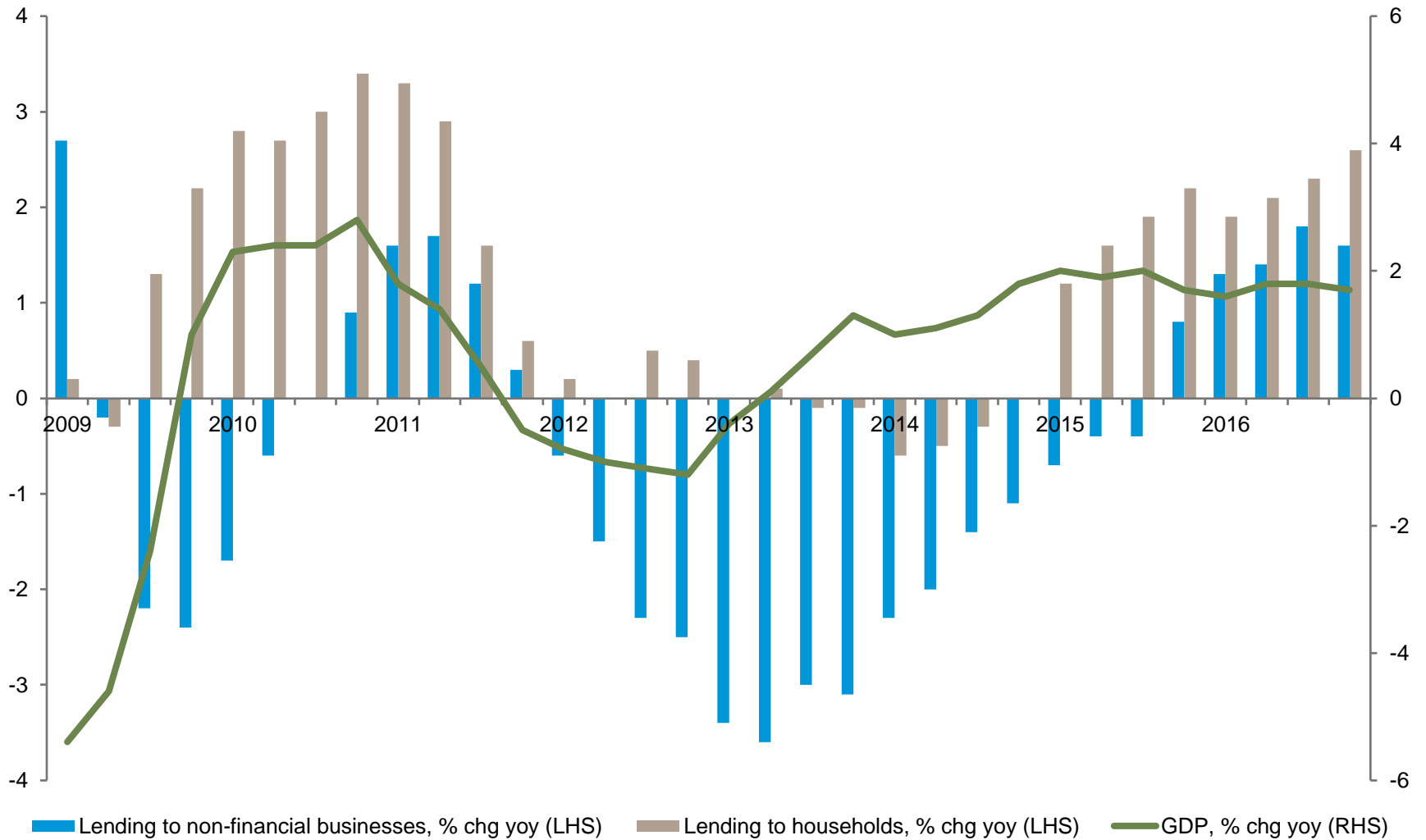
# Fundamentals continue to underpin equity investment

Data from 28 Feb 1997 to 28 Apr 2017



# European recovery driven by positive credit flows

Eurozone data from 30 Jun 2009 to 31 Mar 2017

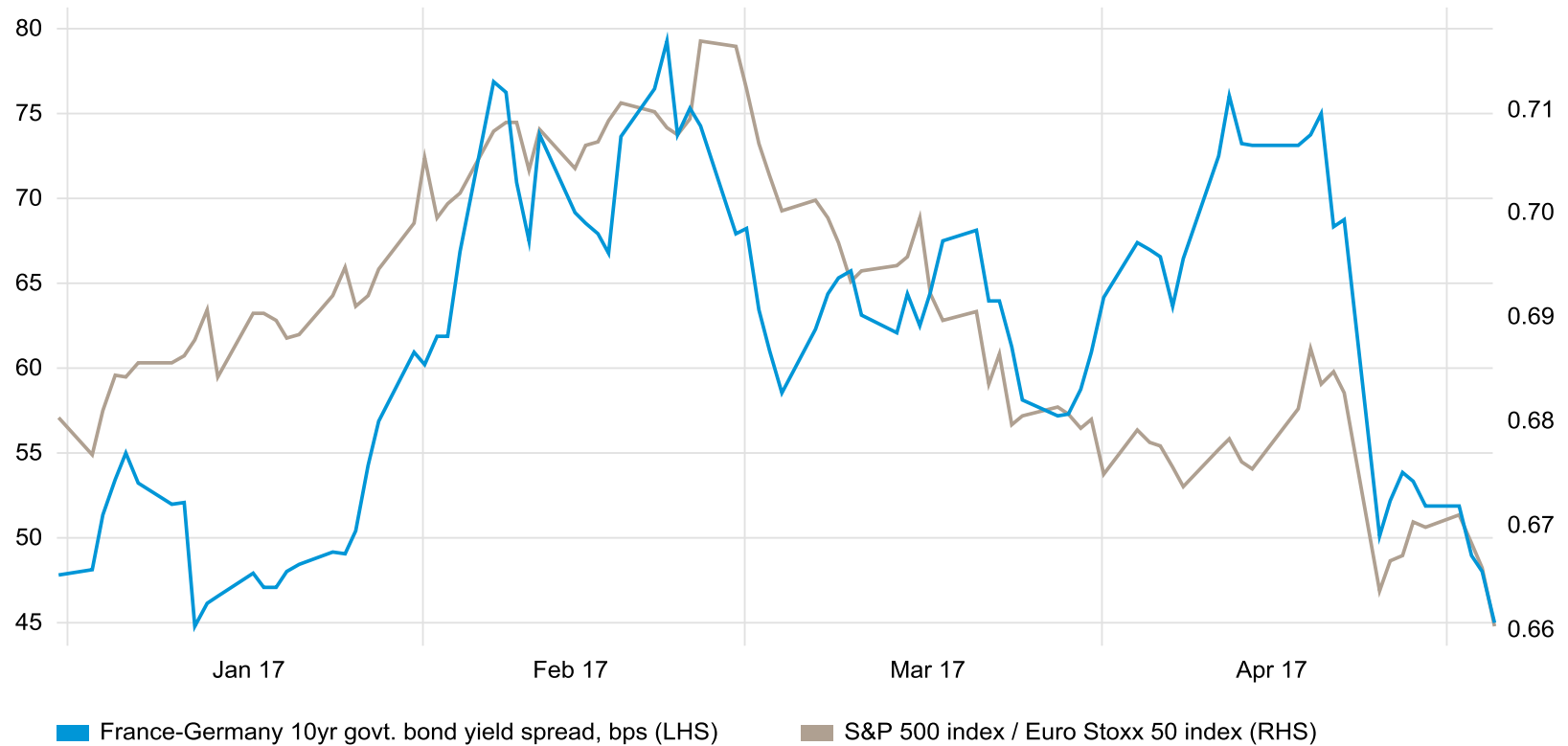


# French election clears runway for European equities



From 30 Dec 2016 to 4 May 2017

*“The high priestess of fear is sitting before me.” Emmanuel Macron on Marine Le Pen, 3<sup>rd</sup> May 2017*



Past performance is not indicative of future performance.

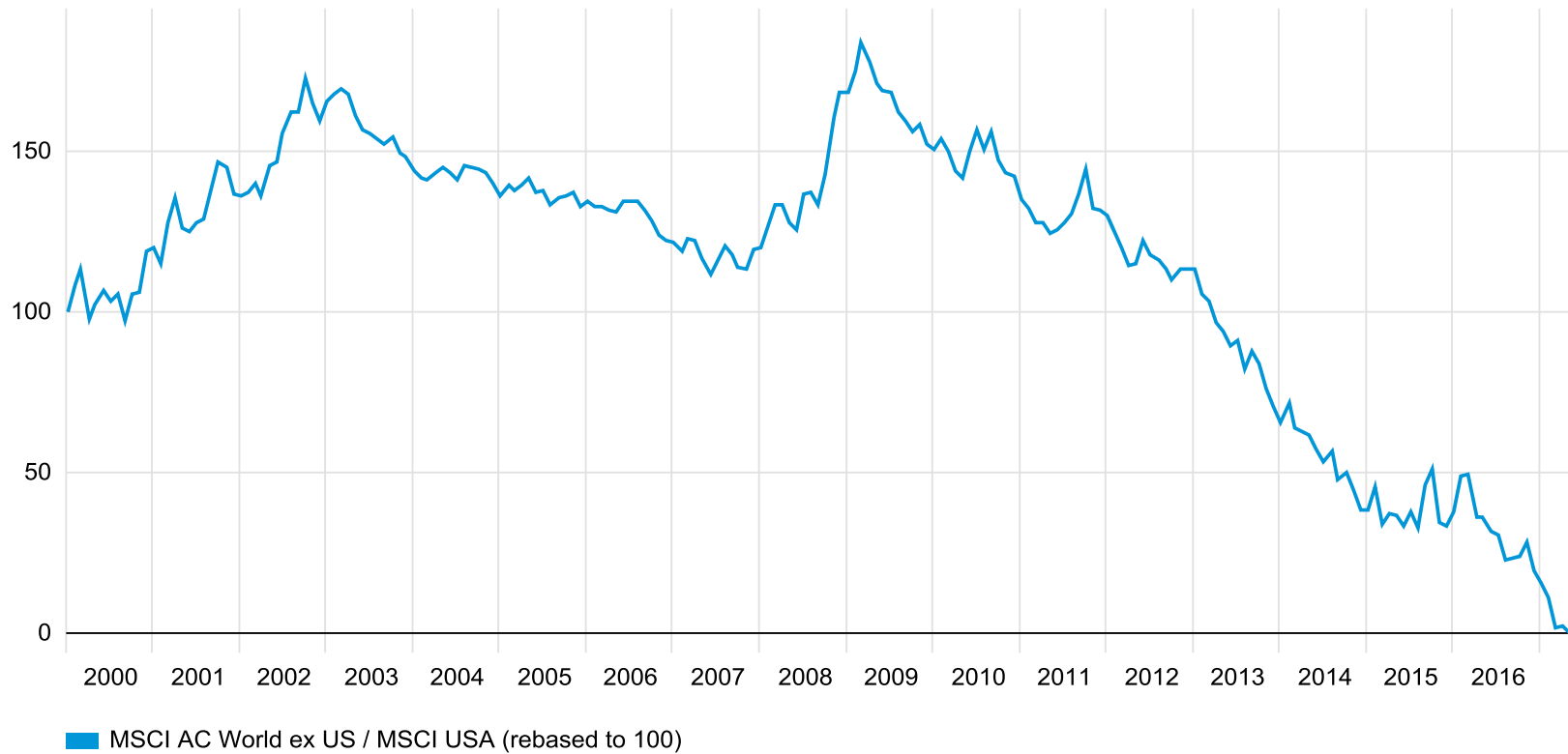
Source: Bloomberg



# World ex-US equities looking especially compelling



From 31 Dec 1999 to 3 May 2017



Past performance is not indicative of future performance.

Source: Bloomberg

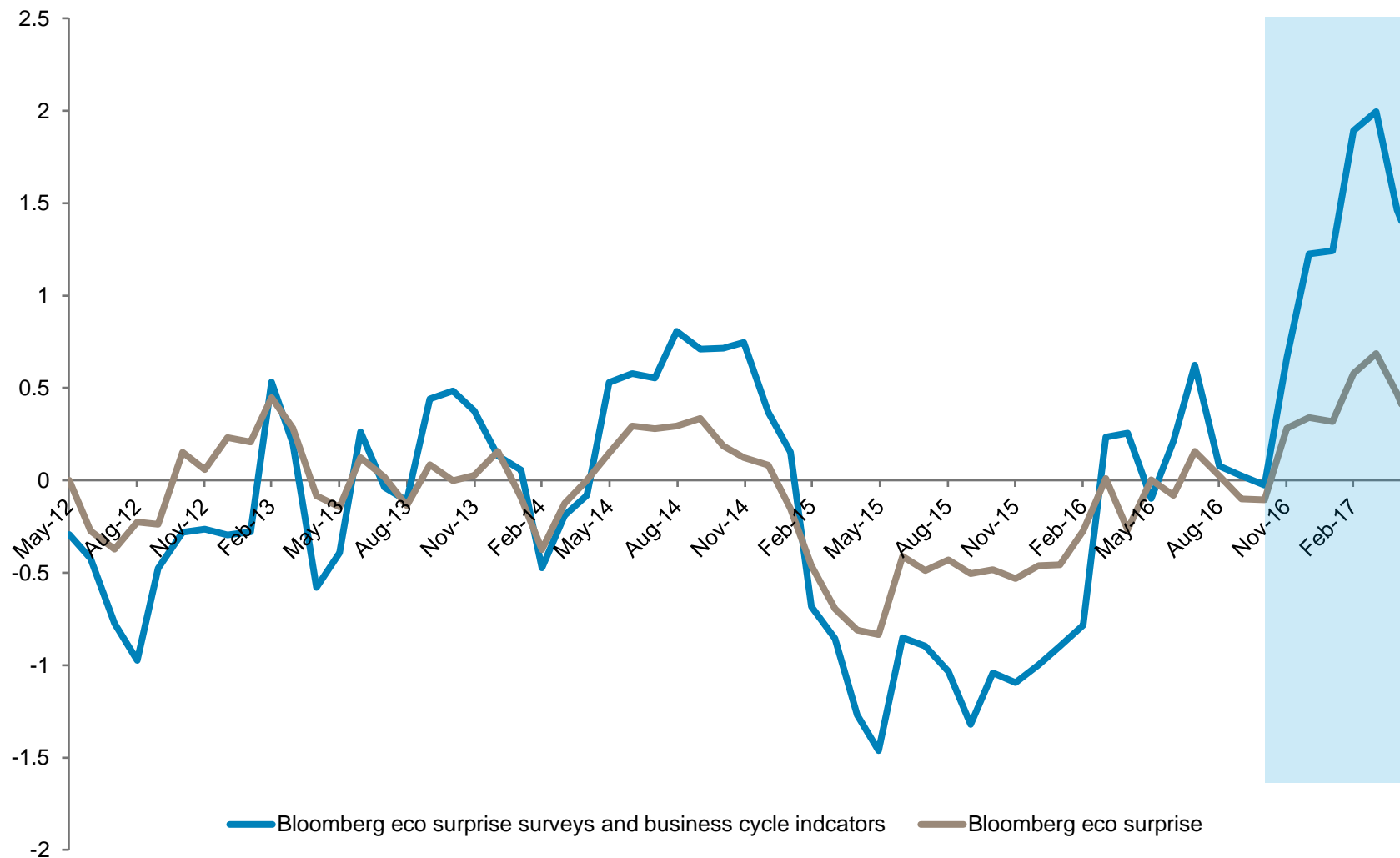
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**THE US 'SLOWDOWN'  
SHOULD NOT CAUSE  
UNDUE CONCERN**

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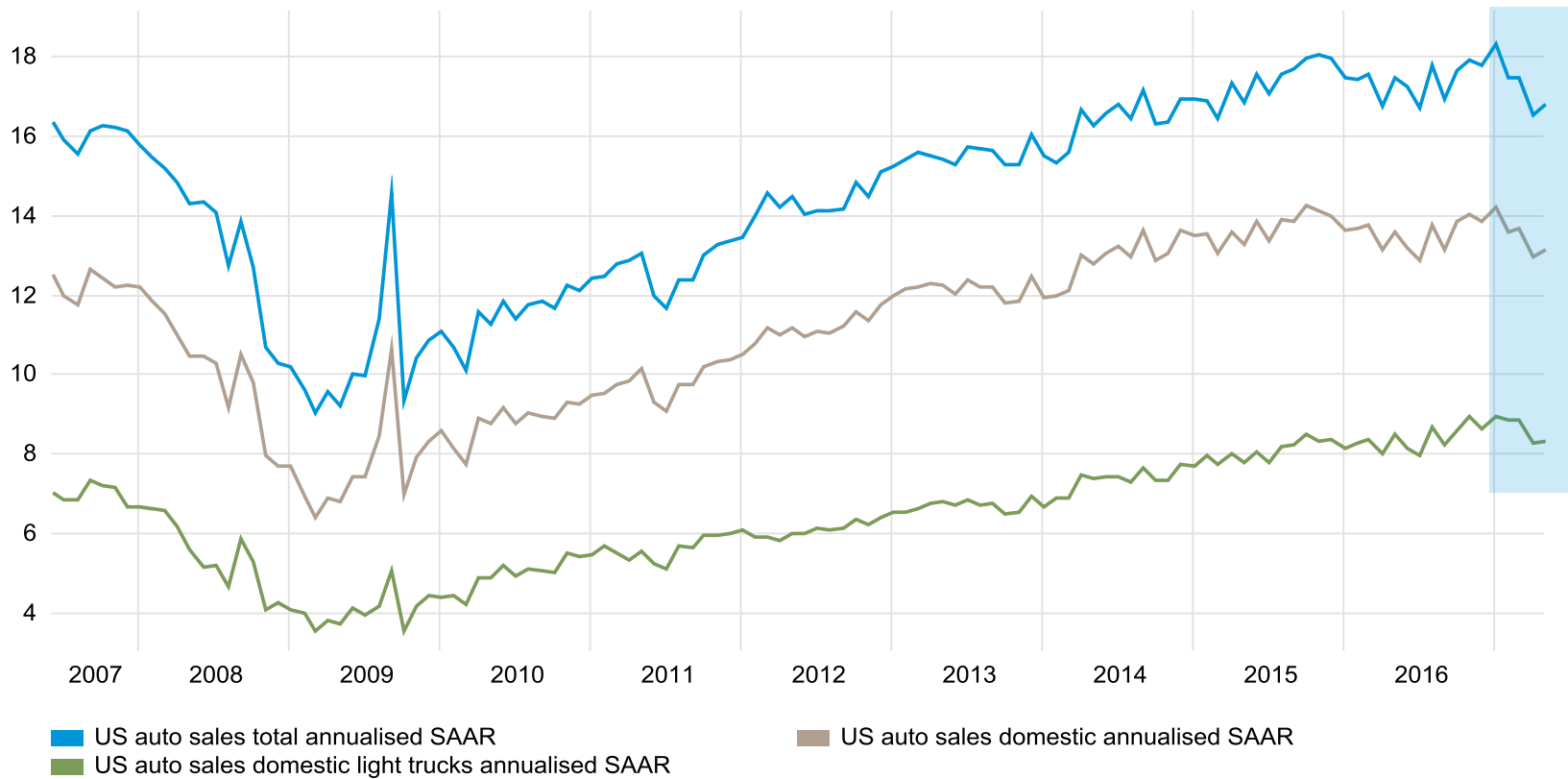
# Hard data weaker and even some surveys softening **G|A|M**

Data from 31 May 2012 to 4 May 2017



# US auto sales dip - why? Three possible reasons

From 31 May 2007 to 30 Apr 2017

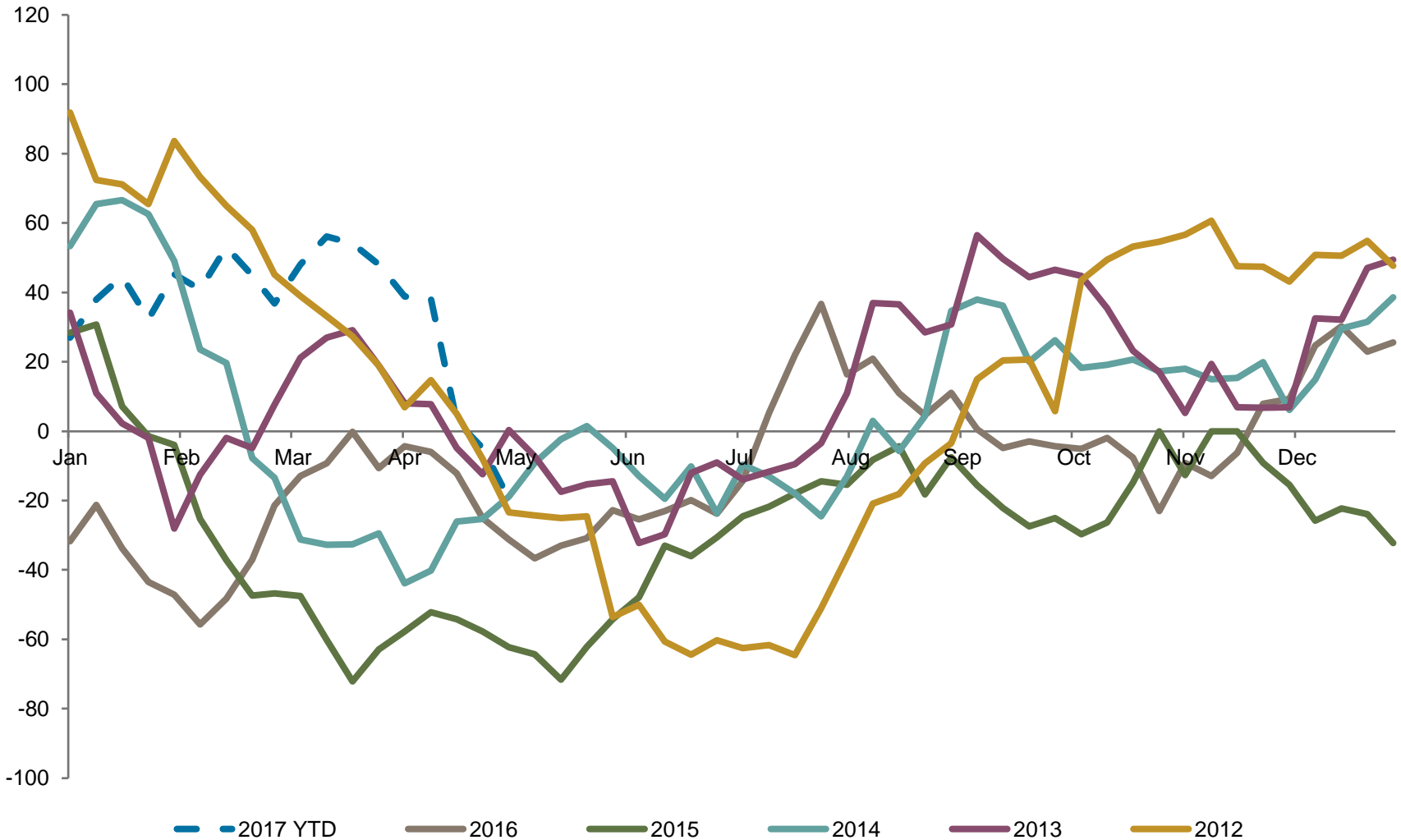


Past performance is not indicative of future performance.

Source: Bloomberg

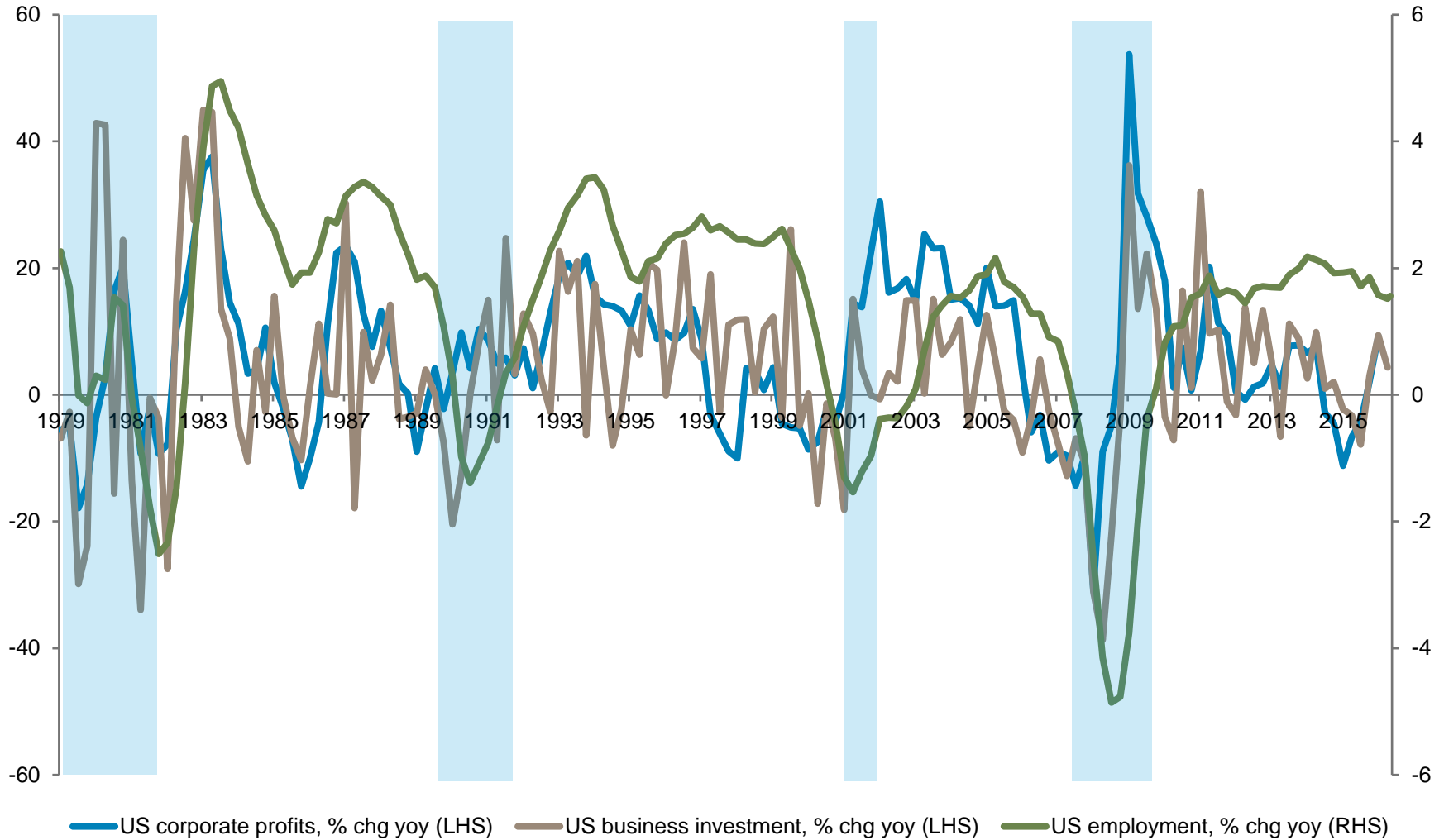
# But much of this is seasonal and temporary

Citi US eco surprise index for calendar years 2012 to 2017 YTD inclusive



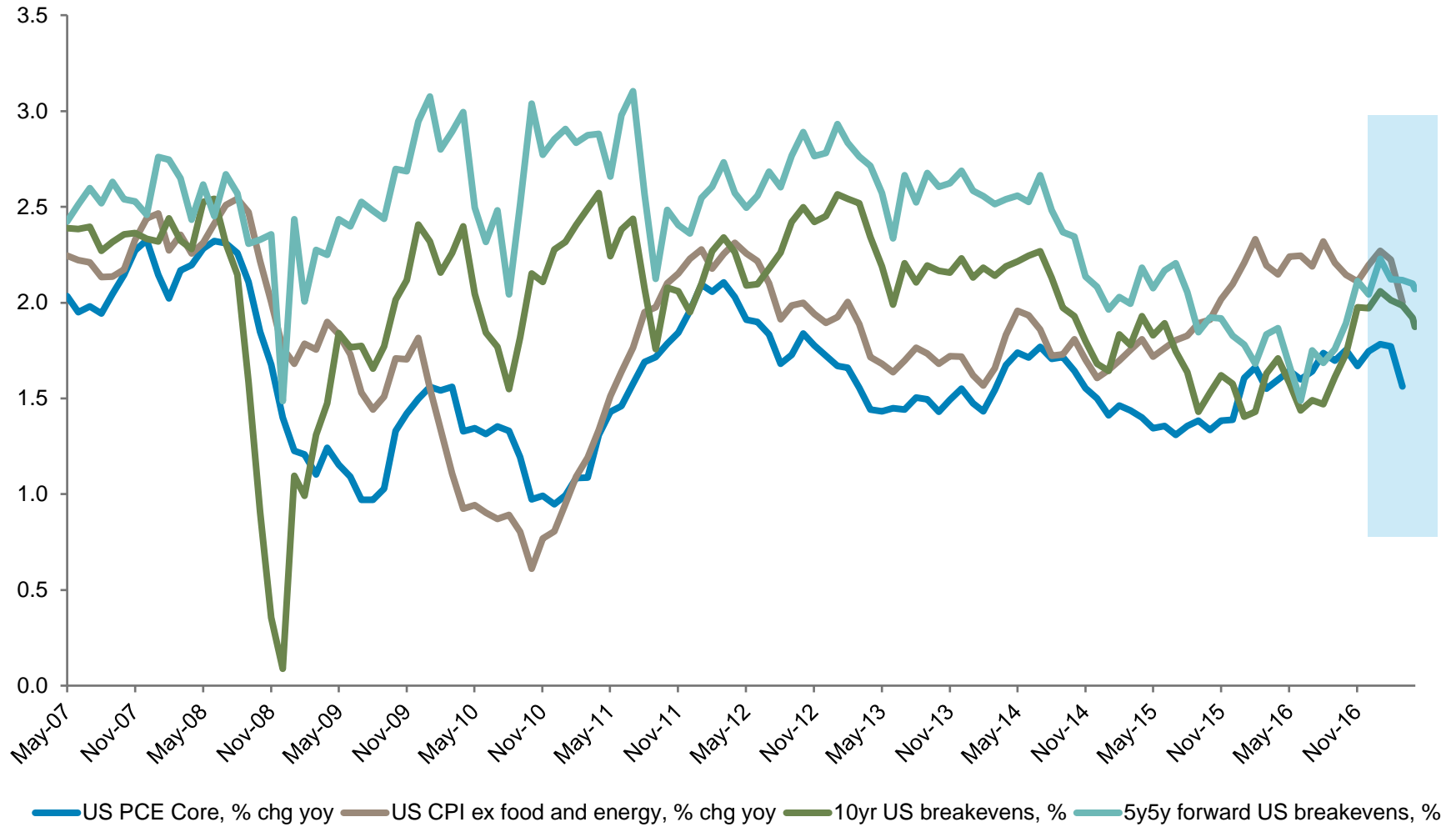
# Hard to see an imminent recession

Data from 31 Dec 1979 to 30 Apr 2017



# Where is the inflation?

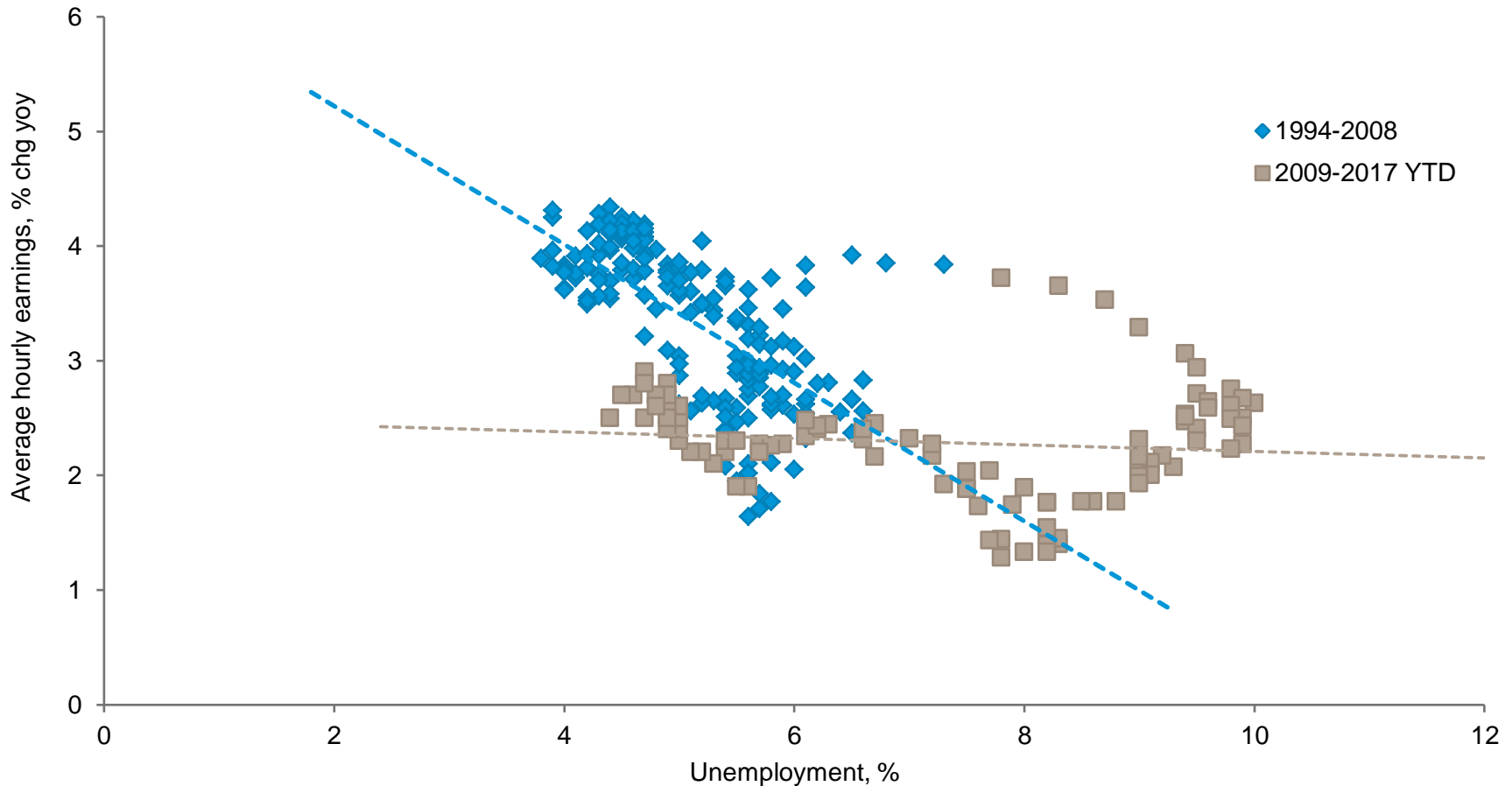
Data from 31 May 2007 to 4 May 2017



# Not your father's job market – but is the Fed aware?

Data from 15 Dec 1993 to 31 Mar 2017

*“Cumulative disadvantage is triggered by progressively worsening labor market opportunities at the time of entry for whites with low levels of education...preventing the over-prescription of opioids is an obvious target that would clearly be helpful.” Anne Case, Princeton, March 2017*





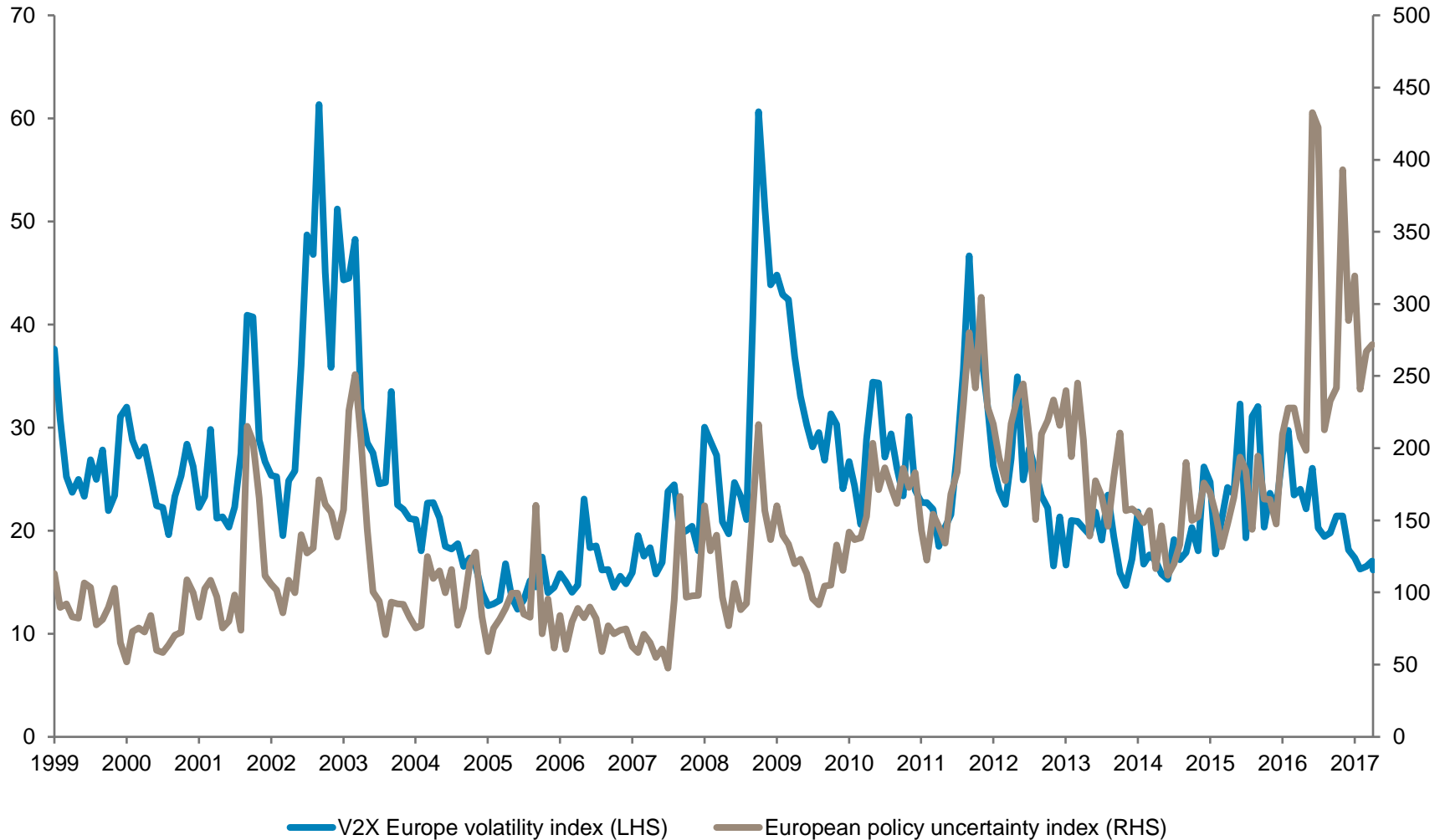
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# DIVERSIFICATION

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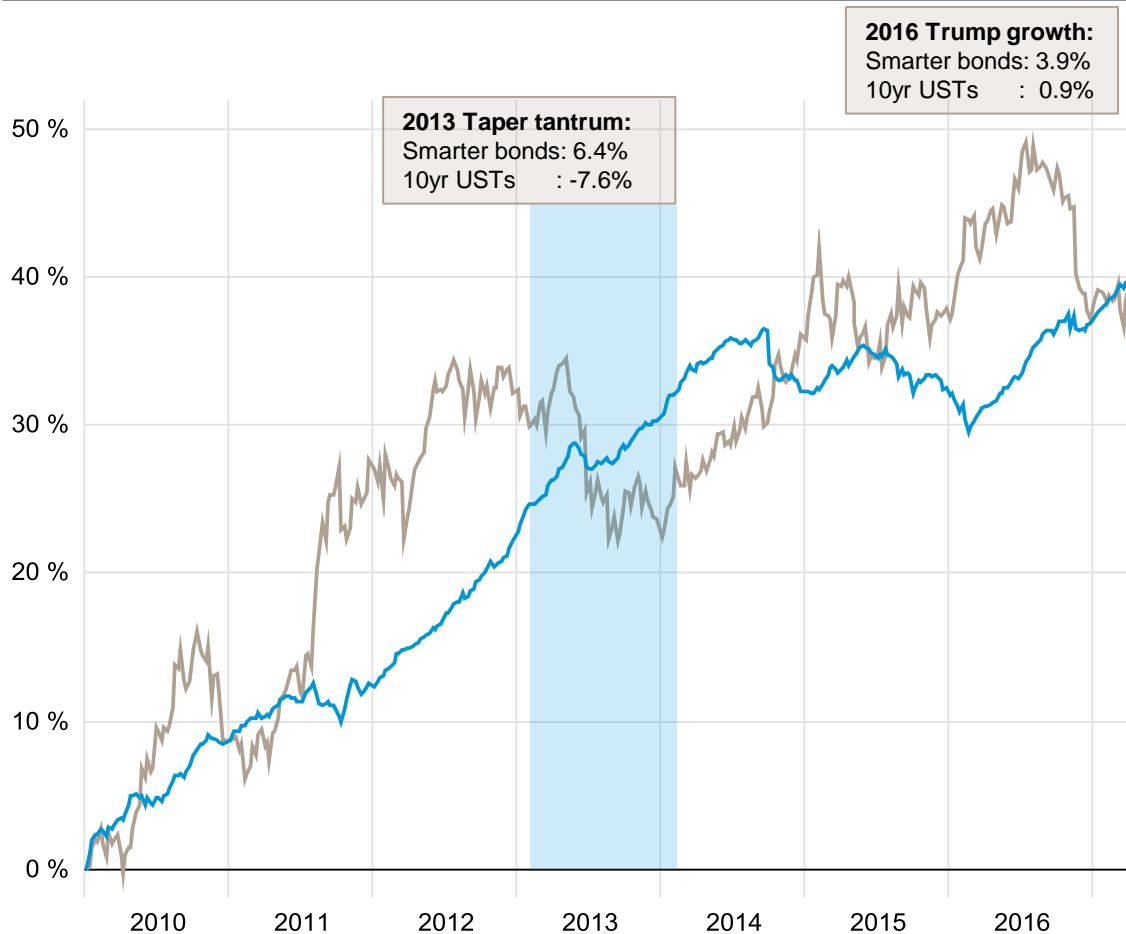
# Cheap hedges – European volatility absurdly low

Data from 15 Dec 1993 to 31 Mar 2017



# Alt-bonds - their day is surely coming

Performance from 31 Dec 2009 to 28 Apr 2017



	Simple Perf. %	Ann. Perf. %	Ann. Std. Dev.
<span style="color: blue;">■</span> CMPBF	40.8	4.8	2.4
<span style="color: brown;">■</span> US10P	40.6	4.8	6.5

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

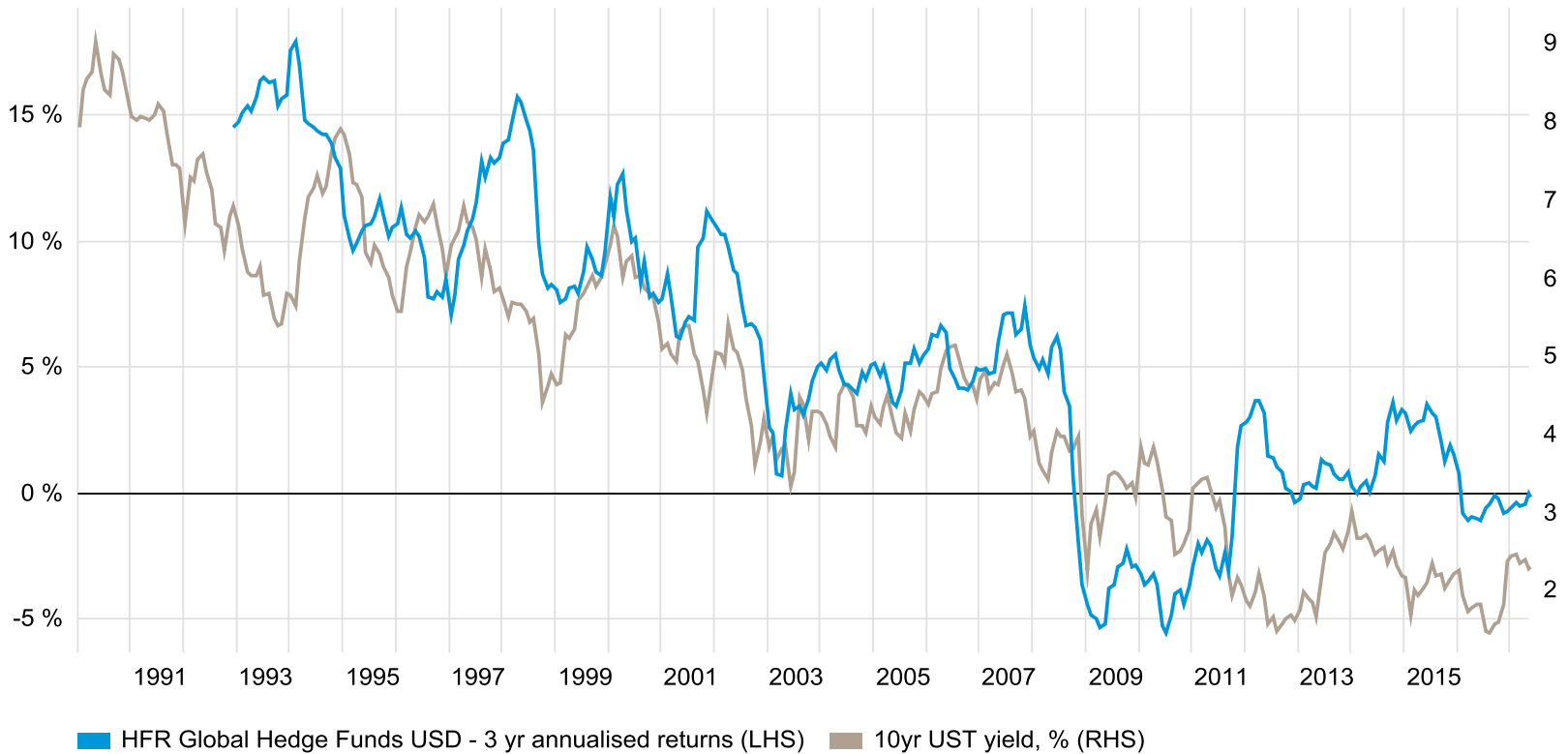
Past performance is not indicative of future performance. Performance is provided gross of fees.

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.

# But Alts day has gone (for now)

3 years rolling annualised returns from 29 Dec 1989 to 3 May 2017



Past performance is not indicative of future performance.

Source: Hedge Fund Research, Thomson Reuters

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# POSITIONING AND PERFORMANCE UPDATE

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# Scenarios for 2017

Data as at 04 Jan 2017

Probability: %	Crisis: 10%	Stagnation: 20%	Reflation: 60%	Boom: 10%
	<ul style="list-style-type: none"> <li>Global GDP &lt;2%</li> <li>DM slows, EM follows</li> <li>Geopol. / systemic crisis</li> <li>Profits relapse</li> <li>Markets tumble</li> </ul>	<ul style="list-style-type: none"> <li>Global GDP &lt;3%</li> <li>Reflation stalls, EM lags</li> <li>Geopolitical tensions</li> <li>Profits go sideways</li> <li>Markets correct</li> </ul>	<ul style="list-style-type: none"> <li>Global GDP &gt;3.5%</li> <li>DM, EM growth</li> <li>Geopolitics contained</li> <li>Profit recovery continues</li> <li>Gradual market progress</li> </ul>	<ul style="list-style-type: none"> <li>Global GDP &gt;4%</li> <li>DM recovers, EM takeoff</li> <li>Geopolitics benign</li> <li>Profits smash forecasts</li> <li>Bull market</li> </ul>
<b>Equities</b>	<b>-20 to -10%</b>	<b>-10 to 0%</b>	<b>2 to 7%</b>	<b>7 to 15%</b>
Allocation	10%	15%	40%	50%
Implied contribution	-1.5%	-0.8%	1.4%	5.5%
<b>Fixed Income &amp; Credit</b>	<b>2 to 5%</b>	<b>1 to 4%</b>	<b>0 to 3%</b>	<b>-3 to 1%</b>
Allocation	55%	50%	30%	25%
Implied contribution	1.9%	1.3%	0.5%	0.1%
<b>Alternatives</b>	<b>-2 to 5%</b>	<b>-1 to 5%</b>	<b>-1 to 5%</b>	<b>-2 to 5%</b>
Allocation	20%	25%	25%	20%
Implied contribution	0.3%	0.5%	0.5%	0.3%
<b>Liquidity</b>	<b>0% to 0.5%</b>	<b>0% to 1%</b>	<b>0.5% to 1.5%</b>	<b>2% to 3%</b>
Allocation	15%	10%	5%	5%
Implied contribution	0.0%	0.1%	0.1%	0.1%
<b>Expected return</b>	<b>0.8%</b>	<b>1.1%</b>	<b>2.8%</b>	<b>5.7%</b>
<b>Including alpha</b>	<b>1.6%</b>	<b>2.0%</b>	<b>3.8%</b>	<b>6.6%</b>

**Probability-weighted expected return including assumed alpha = 3.3%**

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.

# Strategic and tactical views – summary

Data as at 04 May 2017

	Low Conviction	Cautious	Neutral	Positive	High Conviction
Equities		<b>UK</b> [sterling recovery, recession risk] <b>Japan</b> [currency risk, economic doldrums]	<b>US</b> [growth is back but valuations high]	<b>Europe</b> [Political risks elevated, but economy improving] <b>Emerging Mkts</b> [sound fundamentals, opportunity]	
Neutral					
Fixed Income		<b>Active aggregate bonds</b> [diversification rather than upside]	<b>Absolute Return approaches</b> [rates opportunities, careful risk control]	<b>Financial credit</b> [regulatory trend, steady underlying cashflows] <b>Liquid high yield</b> [safer return extraction]	<b>MBS</b> [steady return profile] <b>Insurance-linked</b> [low correlation to major indices]
Positive					
Alternatives			<b>Macro trading</b> [potentially rich opportunity set for managers to exploit]	<b>Market neutral Equity L/S</b> [innovative non-directional approaches]	<b>Merger Arbitrage</b> [spread extraction with diversification can provide steady return profile]
Cautious					
Flexibility	<b>Government bonds</b> [shorts in USTs, bunds, Sweden]			<b>JPYUSD</b> [cheap hedge] <b>V2X calls</b> [cheap hedge]	<b>Thematic equities</b> [Value, Europe, China] <b>Diverse carry</b> [EM, HY, MBS] <b>Currency themes</b> [EM, HY, MBS]
Positive					

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# Q & A

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