THIS SUPPLEMENT:

Stewart Cowley: Big Ideas

Manager of the Old Mutual Global Strategic Bond Fund and Head of Fixed Income at Old Mutual Asset Managers (UK), talks to Selftrade's Stacey Mulvanerty.

Alex Stanic and Alex O'Reilly: The case for global equities

Lead Managers for Global Opportunities and Global Equity at River and Mercantile review Global equities.

Asset Outlook

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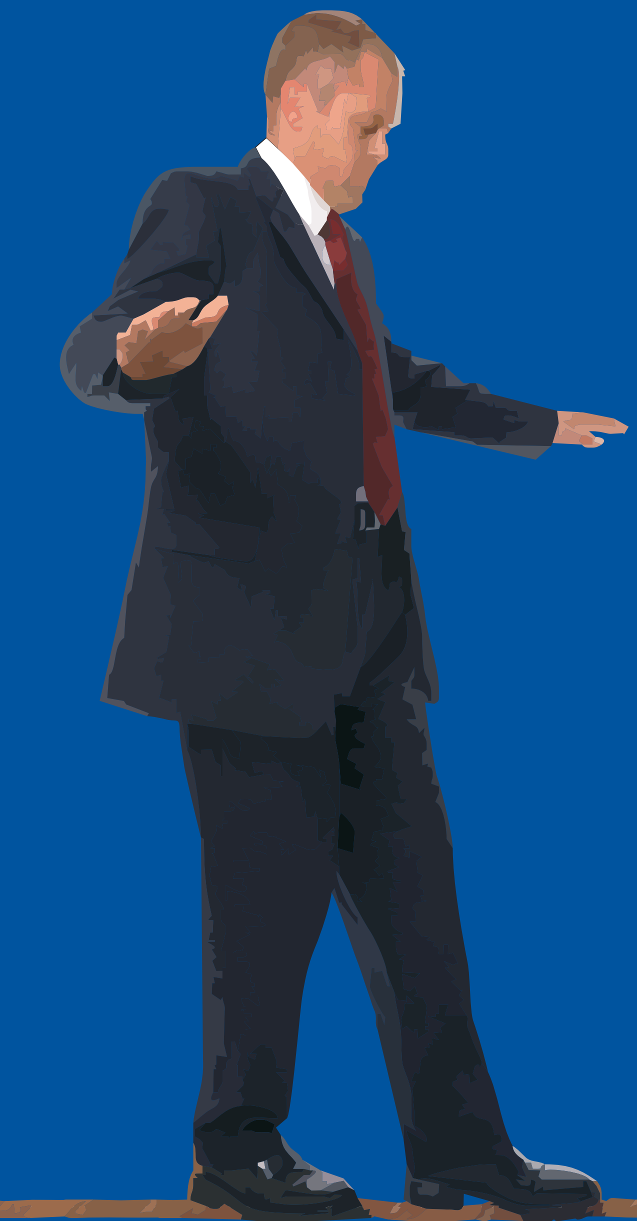

Whatever the outcome

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Asset Allocator

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IN CONVERSATION

Stewart Cowley – Big ideas

Manager of the Old Mutual Global Strategic Bond Fund and Head of Fixed Income, Old Mutual Asset Managers (UK), talks to Selftrade's Stacey Mulvanerty about his investment approach in managing the Old Mutual Global Strategic Bond Fund.

How would you describe your investment philosophy?

What I look for is the big ideas, ones that are going to last several years and which are going to drive interest rates, currencies and the bond markets. What I try to do is capture these super-cycles in the world and then place the portfolio in such a place to enable it to capture and take advantage of these big ideas. We'll try and manage the noise around the super-cycles and the big trends, but we never take our eye off what the big picture is and what our vision for the future's going to be.

What about your investment process?

The process revolves around these big ideas. The ideas might be the healing of the banking system or development of the middle classes and consuming classes in China, perhaps the development of central Europe into Eastern Europe and so on. And what we want to do is develop a research process that creates indicators to represent them so we can monitor the progress and their impact on the world. If you can monitor the progress and the impact on the world, then you can start making decisions about the directions of currencies or interest rates, bond markets or how well companies are going to do. And once you've sorted that out you can design a portfolio from it which is going to react to these big ideas in the world.

So for instance, if we get a virtuous circle whereby the Chinese develop a consumerist middle class, which buys refrigerators and cars and televisions, then those likely to benefit most are places like Japan, because they will latch their economy onto the Chinese and potentially the decade-long Japanese recession could actually disappear, which would be good for the Japanese yen for instance.

In addition, we can marry this process to a bottom up stock picking approach. So, for instance, if you're talking about the healing process within the global banking system, then obviously your corporate bond managers will want to know about that in order to pick the right kind of corporate bonds within the financial sector. Similarly, their experiences of real companies can inform our overall macro view as well. So the whole process is about influencing each other.

What is your current market view for bonds?

I think government bond yields could go to very low levels in Europe, the UK and the US. Not quite as low as they were in Japan but not a million miles away. This will take time but nothing goes on for ever, and subsequently there will be the process of healing that I mentioned earlier. So there is a finite window of opportunity to invest in say, very safe government bonds, and then, because yields will start to rise very quickly at some point (so prices will be falling), you would need to sell and have safer investments or ones which can react to a rising yield environment.

At the same time, there are still some tremendous companies in the corporate bond area which are relatively safe and can generate income for a portfolio. There is a case for having some inflation-linked bonds in a portfolio as well, because inflation will rise in this country again, and if you have bonds which react to a rising inflation environment, you can deliver great total returns to a portfolio.

What is the asset allocation in the Old Mutual Global Strategic Bond Fund?

Roughly we have about 40% in corporate bonds, the remainder in government bonds, mainly in Europe, the US and UK which will be most severely affected by the downturn. We've got some currency positions as well, although a low allocation to the US dollar, partly because important creditor nations like the Chinese are changing their investment portfolio and showing a lack of demand for the US dollar. Therefore the US dollar and the US bond market could be in trouble in the next year or eighteen months.

Stewart Cowley is an accomplished orchestral musician and is the author of six children's books. Cowley was head of global fixed interest at INVESCO Asset Management from 1993-1995 before joining Hill Samuel Asset Management as head of global fixed interest and joint CIO. He was appointed director of investment management (fixed income) at Newton in 2000, and joined Old Mutual Asset Managers in early 2009. He now takes charge of the Old Mutual Dynamic and Global Strategic Bond funds.

Alex Stanic & Alex O'Reilly – The case for global equities

Lead Managers for Global Opportunities and Global Equity at River and Mercantile review Global equities.

In stark contrast to recent summers, July and August 2009 witnessed strong returns from stock markets around the world. Markets have delivered healthy double-digit returns during what is traditionally a quiet period. Despite the sharp rally that started in March, many markets remain below the levels 12 months ago when the world entered the depths of financial and economic crisis.

Whether this is a bear market rally or a new bull market, nobody truly knows. Many market commentators are making increasingly positive noises about economic prospects, and the prospects for equity markets to continue rising. With that in mind, and with the activity that we have witnessed from our own customer base, investors are reassessing the allocation of their portfolios.

Should markets continue to progress, how do investors best achieve exposure to further gains. Do the UK or US stock markets offer the best prospects? What about BRICs? We don't pretend to know the answer but, as with all investments, building diversification into your equity portfolio is more important than ever, given the potential for nasty surprises as the nascent recovery evolves. We have all become familiar with the term 'Globalisation' in recent years. It describes an ongoing process by which regional economies, societies and cultures have become integrated through a globe-spanning network of exchange, hopefully to the benefit of all participants. We believe that introducing globalisation to a portfolio can benefit stock market investors.

Historically, investors of all types, from the largest institutions to the smallest private investors have exhibited a domestic bias in their investments. For institutional investors such as pension funds, the rationale was a belief that domestic shares offered the best match for their liabilities. If pension liabilities were linked to domestic economic conditions (wage growth and inflation) then surely domestic companies would be the best match. For private investors, companies whose names and products were well known provided a degree of comfort and familiarity. But to what extent do these premises hold true?

Taking 2 of the largest "UK" companies, in the case of BP (formerly British Petroleum of course) over 75 % of its 2009 earnings came from outside the UK. In Vodafone's case, 13 % of its revenues came from the UK. These 2 companies combined make up over 13 % of the FTSE 100 Index, so any investor holding a fund that replicates the Index, or indeed holds these blue chip UK-listed shares directly, has invested in anything but UK focused companies.

Similarly, it is likely that every reader of this magazine has access to a computer (where both the hardware and software were developed overseas) and owns (or has owned) a television bearing a Japanese brand. Investing only in UK companies offers limited access to the companies whose products we use every day. There is a significant potential opportunity cost from having a home bias in your portfolio.

For all investors, asset allocation is the most important factor driving the return on a portfolio. However once an investor has established the appropriate mix of asset classes, we believe investing the equity allocation on a global basis will serve investors well. Investing globally reflects the evolving and integrating nature of the global economy.

The global equity team at River and Mercantile identify and apply Themes to provide a framework for the investment landscape. Such themes transcend the traditional boundaries within which many investors operate, providing us with an understanding of the major dynamics affecting the world – economic, political, social, behavioural, industrial and technological. In honing down the wealth of investment opportunities, focusing on companies that are beneficiaries of these themes means we bias clients' money towards ideas benefiting from a "tailwind" rather than those running into a headwind that saps their future prospects.

Whilst long-term trends are helpful, we want to find investments capable of generating strong returns. A valuation discipline helps protect our clients from periodic levels of market excess and identifies potentially underappreciated investments

Our approach is perhaps best summarised by way of live portfolio holdings. A current theme is Hyper Stimulus; that is, the unprecedented action taken by US financial authorities pumping money into the system through "printing money" and cutting interest rates aggressively…the equivalent of a shot of adrenalin for a sick patient.

The objective of such measures is obviously to boost domestic US economic and corporate prospects. But is investing in US companies the best way to benefit from this?

Being global in nature we looked across the world for less obvious beneficiaries of this theme, particularly noting the strong link between US monetary policy and Asian economics due to currency pegs. These mean that many Asian economies import US monetary policy; cuts to US interest rates effectively led to cuts in Asia. Whilst the US desperately needed such measures for economic stimulus, Asia did not; nevertheless rates in Asia started to fall.

Our experience led us to look at Hong Kong, which maintains a strong, long-term commitment to its Dollar peg and, in particular, to real estate stocks as a major potential beneficiary of falling rates. We undertook valuation analysis of the region's real estate stocks, which revealed that Hong Kong property stocks offered good value. Having also analysed company fundamentals, and previously met the management teams, we added 2 Hong Kong focused residential property stocks to the portfolio. These companies offer the chance to access strong demand for property in Hong Kong, at an attractive valuation that under appreciates their exposure to China, both led by capable management teams.

Alex Stanic and Alex O'Reilly are both Lead Manager for Global Opportunities and Global Equity at River and Mercantile.

The River and Mercantile Global Opportunities Fund will be available through Selftrade towards the end of October at 0.5%.

Global asset views

Consensus views on world markets and sectors drawing expertise from fund management groups.

	UK	US	Europe	Emerging	China	Property	Gilts	Corp. Bond
Aberdeen	0	0	0	1	1	1	1	0
BlackRock	0	1	0	1	0	0	-1	2
Gartmore	2	2	-2	0	0	0	2	2
JP Morgan Asset Management	2	-2	-2	2	2	0	0	0
M&G	1	0	1	2	1	2	-1	-1
Selftrade Research	1	1	1	1	2	0	0	1
Schroders	1	-2	-1	1		-1	1	2
Société Générale Asset Management								
Scottish Widows Investment Partnership	1	1	0	0	0	1	-1	1
Threadneedle	0	0	2	1	2	-1	-2	2

KEY: -2 Negative; -1 Underweight; 0 Neutral; +1 Overweight; +2 Positive

	UK	US	Europe	Emerging	China	Property	Gilts	Corp. Bond
Autumn 07	-0.1	-0.5	0.8	0	0.2	0	-0.8	-1
Winter 07	0.4	-0.1	0.9	0.8	0.4	-0.6	-0.7	-0.8
Spring 08	-0.4	-0.5	0.6	0.1	0.2	-1.1	-0.2	-0.3
Summer 08	-0.5	0.2	0	0.3	0.3	-1	-0.4	-0.3
Autumn 08	-0.4	0.8	0	0	-0.1	-0.8	-0.4	-0.6
Winter 08	-0.1	0.5	-0.1	0.2	0.5	-1.3	0.3	0.7
Spring 09	-0.3	1	0.4	0.3	0.2	-1.1	-0.5	1.2
Summer 09	0.1	0.8	-0.1	0.7	1.0	-0.7	0.4	1.7
Autumn 09	0.9	0.1	-0.1	1	0.9	0.2	-0.1	1

Consensus

Revival in the world economy is reflected in the quarterly consensus snapshot of investment views with economic growth established in China and tentative signs in Europe being mirrored in the views expressed. The outlook for the United Kingdom, generally seems to be positive for the first time since the survey was run. Elsewhere, there appears some caution towards Gilts while property is showing signs of a return to favour - a trend investors will want to watch..