www.fundweb.co.uk

fundstrategy.

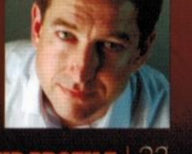
February.2015 £4.95

To spend or not to spend?

That is the question as pension freedoms loom | 18

The Fund Strategy Investment Committee assesses prospects for 2015 | 34

Martin Davis



Kames Capital chief executive officer on why the group is happy being in the middle ground

GROUP PROFILE | 32

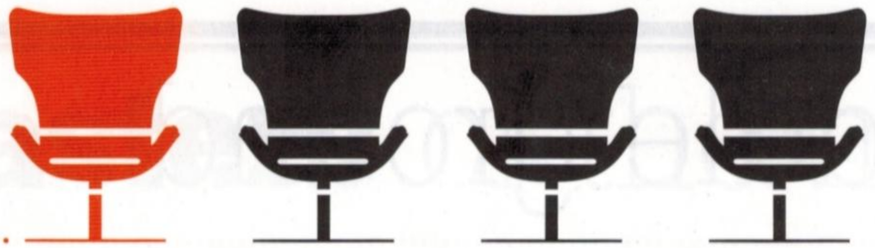
Nick Gartside

JP Morgan's head of global fixed income believes volatility could throw bonds a lifeline in 2015

PROFILE | 24

FIRST FOR INVESTMENT STRATEGIES

FORWARD THINKING



COMMITTEE CHAIRMAN

Adam Lewis
EDITOR
FUND STRATEGY

As this is the first issue of Fund Strategy in 2015 I can only start by offering the panel a belated happy new year!

The start of a new year always offers up a chance to look ahead at what the coming 12 months may bring, but predicting markets is always somewhat of a fool's game. Also, I am not expecting our committee members to have had an epiphany and altered all their views just because the year has changed.

However, already a lot has happened this year. The European Central Bank's announcement of a €60bn-a-month monetary stimulus programme to fight deflation and the Greek left-wing alliance Syriza's election win are just two important events that have occurred since the majority of the panel last expressed their views.

So what are the key things to be considering this year? For example, after a strong year last year, can commercial property continue to offer decent returns? And, on the flip side, after a weak 2014, can UK smaller companies recapture their form of 2013?

Then there is the oil price. The plummeting price of black gold is set to create a divide of winners and losers, especially within global emerging markets. The net oil importing nations, such as India, South Africa and Turkey, are all beneficiaries of the lower price, while the oil exporters, such as Russia, Nigeria and Venezuela, are being hit hard.

And what about Japan? After Shinzo Abe's snap election win in December, will 2015 be a good year for backers of the country?

Away from equities, there is the good old fixed income conundrum. Last year all the experts got it wrong (again), saying 2014 would be the year of rising bond yields. So will 2015 prove the same, or are you a fixed income bear?

Mike Deverell
INVESTMENT MANAGER, EQUILIBRIUM ASSET MANAGAMENT

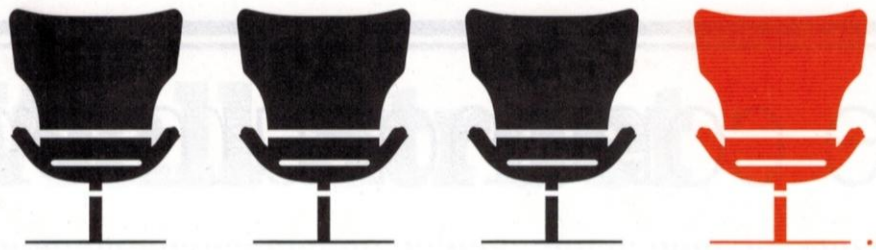
“I am going to sound like a broken record as my tips for 2015 are very similar to my 2014 tips. Last year I had a positive outlook towards commercial property and small cap equities in the UK. Property did exceptionally well. It is highly correlated to economic growth and, with the UK economy performing well, prices rose strongly. The economy may not be as strong in 2015 but the sector is attracting consistent flows and growth is likely to continue. Direct bricks-and-mortar funds such as Aberdeen (formerly Swip) Property are good ways to invest in property with low correlation to equities. Small cap equities did not have such a great 2014. However, there has been stronger earnings growth in the smaller end of the market than in large companies. Stagnant prices and growing earnings have reduced price/earnings ratios. Again, smaller companies are more likely to benefit from a growing UK economy, with less susceptibility to macro issues than multinationals. Marlborough and Miton's UK funds are good ways to invest in quality smaller companies.

Jonathan Davis
MANAGING DIRECTOR, JONATHAN DAVIS WEALTH MANAGEMENT

“In December 2013, 67 out of 67 economists/markets commentators in the annual Barrons survey said Government bond yields would rise in 2014. All 67 were wrong. Hilariously, there is again unanimity against Government bonds. As in 2013, we are of the view that Government bonds – especially US Treasuries – will do very well in 2015. Access long bonds via TLT, 10 years via IBTM exchange traded funds. We continue to see long-term strength in the US dollar, which would further boost US treasury holdings. We can see Chinese stocks going from their long-term bear market into a major bull market. We expect a pullback in Japanese shares but then a resumption of the bull that started in 2012. We like funds that hedge against a de-basing yen, for the long term, such as the DXJ ETF. If oil picks up, sustainably, then it will be shooting-fish-in-a-barrel time for emerging markets, especially Brazil and Russia. And note, the worst three-day new year starts of the the S&P 500 in 50 years were 2000 and 2008 ... and the first three days this year were also well down.

James Calder
HEAD OF RESEARCH, CITY ASSET MANAGEMENT

“As a rule, we do not invest for a calendar period. Rather, our asset allocation adjusts over time (although under extreme conditions the adjustments can be quite drastic). 2015 will most likely be a continuation of our evolving view through 2014. The surprising and sharp deterioration of the oil price we would consider as a positive in a disinflationary sense. We continue to be negative on fixed interest, a view reflected through low weights in our portfolios, which are focused towards strategies encompassing floating rates, absolute returns and some strategic managers. On the positive side, we have increased our weight to UK secondary commercial property, which in our view will benefit from an improving UK GDP. Elsewhere, we continue to be optimistic on equity markets, in particular the US and the UK, and have increased our exposure to Japan where appropriate. While being optimistic for 2015, from a real return perspective we caution that returns will be modest when compared with previous economic cycles.



One month into 2015, panel members reveal whether their outlook for the year has been changed by recent global events

John Husselbee

HEAD OF MULTI ASSET, LIONTRUST

"There has been a marked pick-up in volatility since last summer as global growth began to falter and deflation returned to the eurozone. So we begin the year with economies once more at very different points of the business cycle. The US, having ended tapering, should be able to sustain its recovery. The snap election win by Abe in Japan provides the necessary support for further reform. Meanwhile the ECB seems to have been forced into sovereign QE, albeit late in the day. The question now is whether this can reflate the eurozone economy as well as asset prices.

My preference is to invest where there is value rather than momentum and our favoured equity markets continue to be Europe and Japan. Normalisation is the challenge for bond managers. We favour those that can hedge interest rate and duration risks. Finally, a period of higher volatility will provide greater opportunity for active fund managers. As a result, I would expect to see dispersion rise among the fund sectors, with a greater division of returns between winners and losers.

Tim Cockerill

HEAD OF COLLECTIVES RESEARCH, ROWAN DARTINGTON

"We have QE in Europe, Syriza winning the Greek election, US interest rates expected to rise and the conundrum of where the oil price will settle: 2015 has started with some big questions and big events. In addition, areas of the fixed interest market are valued as close to their highs as ever, while equities are not screamingly cheap. With so many forces at play, trying to asset allocate has never been harder. The drop in the oil price is likely to be a big influence this year and on a scale to cause major shifts in the global economy, at consumer, business and country level. Where oil is an input cost there is a benefit, and focusing on these areas makes sense, while those areas dependent on a high oil price for success are best avoided. Fixed interest surprised everyone last year but this year will be more subdued. Equities need an improving economic outlook; without it, 2015 could be the year when the best companies are sifted out from the also-rans – quality and strength of balance sheet is going to be important – stockpicking will be crucial.

Lee Robertson

CEO, INVESTMENT QUORUM

"We think this will be a problematic year for investors as the worldwide recovery is proving to be patchy, although there are growing signs of hope in the US. Deflationary pressures, particularly in the eurozone and possibly in the UK, will continue to weigh heavily on momentum. Falling commodity prices, a lack of demand over supply and the current oil price dramas all add to the uncertainty. It might be easy to conclude that there are few real investment opportunities, but we feel that in an environment such as this there will continue to be tactical opportunities and good fund pickers will continue to find reasonable returns. Themes we believe will offer benefits are those that benefit from falling oil prices, such as consumer discretionary and transport, as the price at the pumps filters through into household budgets. Japan and Europe look set to benefit from the lower oil prices. Financials is a theme we continue to support, as is global equity income investing. Funds we favour include Lindsell Train UK Equity, Hendersons European Focus and Baillie Gifford Japanese fund.

THE INDEPENDENT VIEW

Keith Wade

CHIEF ECONOMIST AND STRATEGIC, SCHRODERS

Looking ahead, our forecasts show another year of sub-par global growth at 2.8 per cent in 2016, with US activity moderating in response to higher interest rates and a stronger US dollar. Growth in China also eases down and when combined with the US, offsets a minor upturn in Japan and the eurozone in response to further central bank easing and currency depreciation.

In terms of risks, three out of our seven macro scenarios are biased towards the deflationary side, such as Eurozone Deflation and China Hard Landing. The former assumes weak economic activity weighs on eurozone prices with the region slipping into outright deflation. The latter focuses on the collapse in house prices as efforts to deliver a soft landing in China's housing market fails.

At this stage, markets are in a dislocation phase which occurs whenever there is a sharp fall in a price linked to incomes. This phase could well continue until oil prices stabilise. Ultimately though we see developments in the oil market as creating upside risk for the world economy in 2015 through stronger growth alongside lower inflation.

The US continues to be one of our favoured markets as it is still a driver of global growth. Strong third quarter earnings from US companies provide fundamental support for the market's fair-to-expensive valuation ratios. Looking ahead, corporate profit margins are likely to come under pressure as wages pick-up. However, we believe that investors will continue to be attracted to the market given the superior growth opportunities in the US.

Share repurchases are slowing but we see greater likelihood of the strong cash flows held by companies being deployed for mergers and acquisition activity.