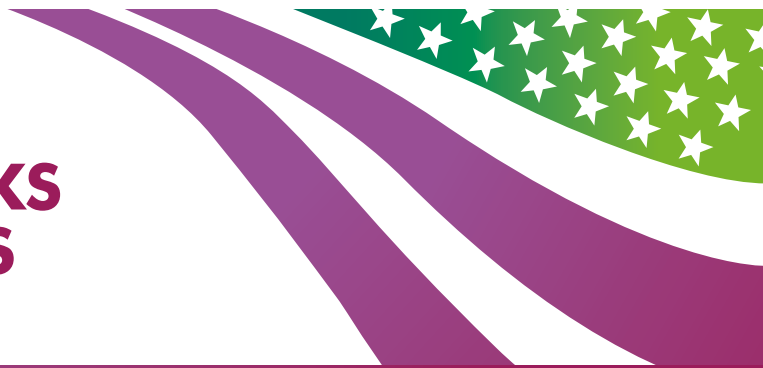


# US ELECTION 2016 TRUMP VICTORY: BALANCING THE RISKS AND OPPORTUNITIES

9 November 2016



**PAUL CRAIG**  
PORTFOLIO MANAGER,  
CIRILIUM/GENERATION

**ANTHONY GILLHAM**  
CO-INVESTMENT  
DIRECTOR, MULTI  
ASSET, AND PORTFOLIO  
MANAGER, GENERATION

**RASMUS SOEGAARD**  
ASSISTANT PORTFOLIO  
MANAGER, CIRILIUM

The result of the US presidential election, a win for the Republican candidate Donald Trump, could trigger short-term turbulence across several investment markets, but we believe investors may refocus on the positives of the economy after they have had more time to digest the result.

Although his rival, the Democratic candidate Hillary Clinton, had entered the election ahead in the opinion polls, we had been wary of assuming that opinion polls were accurate. As with the UK referendum on the EU, in the event the pollsters were found wanting. Trump won key marginal states, such as Florida, Ohio and North Carolina, that many forecasters had tipped would go to the Democrats. The Republicans also retained their majorities in the House of Representatives and the Senate, which means that Trump may find it easier to enact his policies than Obama did.

The immediate reaction of international equity (company share) markets was negative. While mindful of the market turbulence that could follow the result, we also believe there could be investment opportunities arising from it. There may be a parallel to be drawn with the UK referendum on the EU, when equities (company shares) went initially lower, but quickly recovered and moved, for the most part, strongly ahead.

We shall be monitoring market developments closely. If the Trump win does lead to a pronounced pull back in the stock market, we shall be studying it carefully to see if buying opportunities emerge, especially for small and medium sized companies whose main business lies within the US.

Before the election, we invited managers of funds to come in to our offices to talk to us about areas where they felt there could be opportunities. In terms of our holdings our focus, as always, is on quality managers with a repeatable investment process.

## POSITIONING WITHIN GENERATION

Mindful of the risk of turbulence and increased risk, before the election we reduced our weighting to equities to the greatest extent we can under our investment parameters within the Generation portfolios. This adjustment is typical of our process: we can de-risk the funds swiftly, when needed, in order to defend against possible falls and protect investors' capital. The Generation portfolios focus not just on the destination, but also on providing a smoother journey.

The portfolios are therefore in a strong position to manage market turbulence.

Within the bond market, there may also be turbulence, as the Trump presidency could be a period of lower taxes, higher inflation, and consequently lower bond prices. Within the Generation portfolios, we therefore took some money out of bonds before the election. We also reduced our portfolios' sensitivity to interest rate risk, so that a movement upwards in market interest rates would have less adverse impact on our bond positions (since rises in market interest rates mean that bond prices fall).

Emerging markets equities and bonds are areas that could suffer from the Trump victory. Before the election, mindful of this risk, we therefore reduced exposure to emerging market local currency bonds within the Generation portfolios. When faced by events that increase uncertainty, we emphasise the importance of holding the right balance in portfolios, not being skewed to any outcome and being able to withstand short-term buffeting.

## POSITIONING WITHIN CIRILIUM

We take great comfort in the broad level of diversification across the Cirilium range of portfolios. We have deliberately chosen managers that focus on good quality businesses, whose products or services should remain in demand regardless of developments in US politics. The US election, though important, is not the only

event we have been studying, and we manage the portfolios on a global basis.

Furthermore, we have initiated a strategy that has the effect of providing short-term insurance against a downward move in the equity market, to protect some of the portfolio should investors take greater fright than we are expecting. Despite these short-term worries, we continue to expect the global economy to make further progress driven by US and China, which should provide fundamental support for equities. However, this may continue to put upward pressure on bond market interest rates, which keeps us focused on corporate bonds with maturity dates below average, and on non-traditional fixed income securities.

## TIME IN THE MARKET

The benefits of using multi-asset funds include diversification, in other words, not putting all your eggs in one basket, but having a mix of different kinds of investment. Another benefit is that decisions about the precise mix to use are made by specialists who have the resources to undertake thorough research.

Across our multi-asset funds, we emphasise allocation to managers who have consistent and repeatable investment processes, and who share our strong focus on the long term. Conversely, we have sought to avoid managers with more speculative investment approaches.

We firmly believe that long-term approach to investing produces the best outcomes for investors: time in the market is more important than trying to time the market. Investors often try to second-guess market movements, jumping in and out; but far more effective is for them to stay invested and keep adding funds on a regular basis, even when prices have fallen. By continuing to invest when prices are lower, investors often experience the benefits of pound cost averaging. When prices are falling, the same amount of pounds will buy more shares, allowing the investor to benefit if prices later rise again.

---

## ABOUT THE AUTHORS

**Paul Craig** joined Old Mutual Global Investors (OMGI) in 2014 and is manager of the Cirilium multi-asset portfolios. He joined from Henderson, following OMGI's acquisition of the Cirilium portfolios. Paul has managed the portfolios since 2009. He has also acted as a non-executive director of two investment trusts. Paul brings with him 25 years of experience in the asset management industry. He started his financial career at Chase Manhattan International before moving to LTCB International and then Exeter Investment Group as a fund of funds manager. He then went on to New Star, before joining Henderson following its acquisition.

**Anthony Gillham** joined Old Mutual in 2000 and is a co-investment director of the multi-asset unit. In 2007, Anthony became a global bond portfolio manager having been a fixed income research analyst since 2006. Prior to focusing on fixed income, Anthony's areas of coverage included multi-asset, Nordic equities and quantitative US equity and fixed income research. Anthony is a CFA charterholder and has over 15 years of investment experience.

**Rasmus Soegaard** is a portfolio manager in the multi-asset unit at Old Mutual Wealth's investment division. Throughout his investment career, he has had a focus on alternatives research and portfolio management. Rasmus has worked with alternatives research and portfolio management for the past 15 years, having previously worked as a Hedge Fund Analyst with International Asset Management Ltd and ABN Amro Asset Management Ltd. Rasmus commenced his career with HSBC Republic Investments Ltd, is a Chartered Alternative Investment Analyst and holds an MSc in International Securities, Investment and Banking from the ICMA Centre, University of Reading.



---

**Please remember that past performance is not a guide to future performance. The value of investments and the income from them can go down as well as up and investors may not get back the amount originally invested. Exchange rate changes may cause the value of overseas investments to rise or fall.**

The Old Mutual Cirilium Multi-asset portfolios are managed by Old Mutual Investment Management Limited. Old Mutual Investment Management Limited replaced Intrinsic Cirilium Investment Company Limited as the Authorised Corporate Director of the Fund on 1 December 2014. This communication is issued by Old Mutual Global Investors (UK) Limited (trading name Old Mutual Global Investors), a member of the Old Mutual Group. Old Mutual Global Investors is registered in England and Wales under number 02949554 and its registered office is 2 Lambeth Hill London EC4P 4WR. Old Mutual Global Investors is authorised and regulated by the UK Financial Conduct Authority ("FCA") with FCA register number 171847 and is owned by Old Mutual Plc, a public limited company limited by shares, incorporated in England and Wales under registered number 3591 559. This communication has been prepared for general information only. It does not purport to be all-inclusive or contain all of the information which a proposed investor may require in order to make a decision as to whether to invest in the Fund. Nothing in this document constitutes a recommendation suitable or appropriate to a recipient's individual circumstances or otherwise constitutes a personal recommendation. No investment decisions should be made without first reviewing the prospectus and the simplified prospectus of the Fund which can be obtained from [www.cirilium.com](http://www.cirilium.com)

This communication provides information relating to a fund known as Old Mutual Generation Funds (the "Fund"). This communication is issued by Old Mutual Global Investors (UK) Limited (trading name Old Mutual Global Investors), a member of the Old Mutual Group. Old Mutual Global Investors is registered in England and Wales under number 02949554 and its registered office is 2 Lambeth Hill London EC4P 4WR. Old Mutual Global Investors is authorised and regulated by the Financial Conduct Authority ("FCA") with FCA register number 171847 and is owned by Old Mutual Plc, a public limited company limited by shares, incorporated in England and Wales under registered number 3591 559. The Fund is also regulated by the FCA and therefore Old Mutual Global Investors may promote the Fund to the public. This communication has been prepared for general information only. It does not purport to be all-inclusive or contain all of the information which a proposed investor may require in order to make a decision as to whether to invest in the Fund. Nothing in this document constitutes a recommendation suitable or appropriate to a recipient's individual circumstances or otherwise constitutes a personal recommendation. No investment decisions should be made without first reviewing the prospectus and the key investor information document of the Fund which can be obtained from [www.omglobalinvestors.com](http://www.omglobalinvestors.com). The Fund may invest principally in units in collective investment schemes.