



MAKING THE CASE FOR ALTERNATIVES IN UNCERTAIN TIMES

There have been countless academic studies published over the years since “Alternatives” entered the lexicon of modern asset allocation and became an increasingly popular area of focus for institutional investors.

The benefits are widely catalogued, including a lower correlation to stocks and bonds, reduced portfolio volatility, limited duration risk and an alternative source of alpha and income. Accessing alternative assets has historically been the preserve of large institutional investors with the resources and expertise to analyse the underlying alternative assets but in recent years, the market has continued to expand and diversify. Data compiled by RM Funds shows that there are over £110bn of alternative assets listed in London (as of January 2019), ranging from investments in private equity, hedge funds and commodities, to income focused assets such as real estate, alternative credit and infrastructure.

INVEST WITH THE EXPERTS

The wide range and choice of investments now available means that greater time, specialist knowledge and analysis is required in order for discerning asset allocators and investors to select the winners from the losers.

A means of overcoming this challenge is to invest in managers, preferably with a background in alternatives and strategies dedicated to alternatives. Last year RM Funds, a fund manager with decades of experience in specialist real estate, infrastructure and alternative credit, launched the VT RM Alternative Income fund, a global, developed multi-asset mandate focused exclusively on the alternatives sector. The fund objectives are capital preservation, income generation (5% p.a. paid quarterly) and modest capital appreciation (target 7-8% annualised over the medium term).

Our focus is on three key defensive areas:

- Infrastructure;
- Specialist Real Estate; and
- Alternative Credit.

We allocate to infrastructure assets with long-economic lives that are essential to society such as schools, renewable power and airports - cashflows are contracted and typically inflation-linked.

Our allocation to specialist real estate can cover a broad range of assets, all of which are less exposed to the business cycle. The portfolio managers focus on two key sector themes: ageing populations and technological change, and typically invest in assets such as care homes, GP surgeries, distribution centres and data centres.

Alternative Credit encompasses all non-bank lending activities, from direct lending, asset finance & leasing, to structured credit, the characteristics of which are favourable to that of Investment grade bonds and High yield loans. Alternative credit is typically shorter dated with floating rates and therefore has limited duration risk, is secured over real assets, and has financial covenants that enhance investor protection.

CHOPPY WATERS AHEAD?

The last quarter of 2018 proved to be both an uncertain and volatile period for the equity and credit markets as the Trump administration clashed with the Fed's monetary policy stance, QE came to an end in Europe, trade wars fuelled concerns about global growth and, domestically, Brexit continues to dominate the headlines. As we look forward to 2019, what does the year have in store?

The answer is likely more of the same. The Trump administration has a protectionist agenda, which will likely throw a curve ball or two during 2019. The Eurozone's health is deteriorating, and is expected to be further impacted by the withdrawal of new QE. Let's not forget that Germany, the power house of Europe, has only just narrowly avoided a technical recession. Meanwhile it is anyone's guess as to how Brexit will unfold. One thing is clear to us, that while the



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global equity and bond markets remain unstable, well-managed alternative strategies can offer investors a diversified route to stable income with low volatility and predictable growth.

Pietro Nicholls is a Portfolio Manager, and principal at RM Funds. He has spent his career “on-the-ground” advising on, financing and investing in infrastructure, specialist real estate, and private credit. He co-manages the UCITS VT RM Alternative Income Fund, and the award-winning listed investment trust RM Secured Direct Lending with James Robson CIO, RM Funds.

The VT RM Alternative Income Fund is available on all leading platforms. For more information visit www.rm-funds.

Capital at risk. Past performance is not a guide to future returns.

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