



VT RM ALTERNATIVE INCOME: HELPING DFMS AND MODEL PORTFOLIOS ACCESS ALTERNATIVE INVESTMENTS

It is increasingly challenging for equity investors to successfully navigate an uncertain macro picture involving global trade wars, Brexit and indications of weakness across European economies. Q4 last year demonstrated the difficulties facing traditional equity investors, with elevated volatility and a nervous market quick to reprice “risk” assets downwards. With an about turn for the markets in January and February – where do we go next?! When one looks across credit, there are also reasons to be concerned: QE has reduced yields to record lows, credit spreads have witnessed substantial compression and weaker lender protections have been negotiated in bond and loan documentation by borrowers and their advisors, with increasing amounts of covenant-lite issuance.

The case for alternative investments remains strong. Our alternative investment thesis seeks to offer asset allocators portfolio diversification, lower volatility and a lower correlation to traditional equity and fixed income assets. This has become a key area of focus for institutional investors.

However, in meeting with wealth managers on my travels as part of the distribution team at RM Funds, it is clear that accessing alternative investments can be tricky. In particular for model portfolio providers, the challenge is finding investments that offer daily dealing and can provision for inflows and redemptions from the model portfolio service. A considerable number of opportunities in the space are in closed-end structures (investment trusts and REITs) - accessing these strategies directly can either be challenging or restricted for model portfolios. For those investors who are able to allocate directly to alternative vehicles, achieving cost-effective diversification and selecting the ‘winners’ requires a sizeable input of time, knowledge and analysis.

RM Funds are specialists in managing alternative investment strategies designed to deliver capital preservation and stable income returns for investors. The team has decades of boots-on-the-ground experience advising on, and investing in, such assets. Last year we launched the VT RM Alternative Income fund (RMAI), designed to provide an investable solution to the rising demand

from wealth managers for accessible alternatives. We listened to our clients, constructing a product that allows model portfolios and DFMs to easily gain exposure to alternatives, and take advantage of the opportunities on offer within this space.

Crucially, the fund is an open-ended UCITS scheme with daily dealing, aiming to address the issues of accessibility and liquidity for investors. The fund objectives are to deliver capital preservation and quarterly income distributions, with modest capital appreciation over the medium term. VT RM Alternative Income is a multi-asset global developed mandate, with an opportunity set that spans investment trusts and REITs to direct equity and corporate credit. The portfolio is focused on three key defensive sectors, all representing areas of expertise for the investment team:

- Infrastructure
- Specialist Real Estate
- Alternative Credit

Through focusing on these defensive and income-generative themes, and excluding higher-risk alternatives such as private equity, commodity and hedge fund strategies from our investment universe, our model portfolio investors can allocate from the most cautious risk buckets through to balanced and even moderate-growth risk profiles. Investors benefit from diversification across alternative income opportunities, currently gaining exposure to 48 holdings within the portfolio – eliminating the need for wealth managers to run concentrated risk exposures and reducing liquidity challenges for model portfolios.

At RM Funds we are committed to providing high levels of investor transparency and engagement, and believe in manager alignment with the investors in our funds. We are regularly commended on our approach to disclosure, with our monthly factsheets featuring a full list of portfolio holdings. Our investment team are readily available to discuss portfolio activity and outline the thesis behind an investment when a client is interested in a more complete understanding. RM Funds and its investment team are personally



JAMES SATTERTHWAITE
Head of Distribution and Director at RM Funds

invested in RMAI, demonstrating an important alignment of interest with our investors and confidence in the strategy to deliver on its objectives. As a signatory to the Principles for Responsible Investment, we operate to prescriptive responsible investment standards.

As we progress through 2019, RM Funds is cautiously optimistic. The domestic and international outlook remains unstable, with equity and credit markets demanding skilful stock-picking to extract added value. Well-managed alternatives offer compelling risk-adjusted returns, and we expect interest from wealth managers to continue to grow in this area. For model portfolios and DFMs struggling to take advantage of the opportunities on offer, the VT RM Alternative Income fund could be the solution for unlocking this potential.

James Satterthwaite is Head of Distribution and a Director at RM Funds. For more information on RMAI, please contact him at:

james.satterthwaite@rm-capital.co.uk

VT RM Alternative Income is available on all leading platforms. For more information, please visit:

www.rm-funds.co.uk/RMAI

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

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