PRESENTER: Joining me now is Alistair Baker, Multi-Asset Portfolio Manager for Schroders. So, Alistair, it's good to have you with us today. Now, first off, politics is moving markets more than ever before, so how much does this influence your investment decisions? ALISTAIR BAKER: So I think the first thing when thinking about what influences your investment decision, you have to say do I have any edge or insight into it? Now clearly politics, Trump's tweets, you can't forecast that kind of thing. So we say look, a lot of it is noise. But what you have to say is that politics does have an effect on the rules of the game. And what you're seeing now is with the increased rise of populous, Brexit, Donald Trump, that what you're seeing is an increased range of outcomes that are possible within markets. And markets don't work on certainty, there's a number of things that could happen in the future, and now we need to factor those in to our investment decisions to a greater extent than we did before. Before we lived in a world where globalisation was forever an increasing trend, now is it coming to an end, who knows? That now needs to be factored into your investment process. Really we started this process back in 2011, because we had actually the European financial crisis, which again was a big political event. The way we've incorporated that into our process is thinking through a lens of scenarios. So we think about what's our base case scenario, and what could move us away from that base case and how do all the assets we own within our portfolio stand up under that stress? Are there any assets we'd like to buy that may pay off quite well if that event actually plays out, but not lose too much under our baseline. So it's incorporated within our framework, but it's not an edge in our ability to generate investment returns. It's about risk management. PRESENTER: Well, recession risks are creeping higher for 2019/2020, so how do you manage that in your M&A portfolio? ALISTAIR BAKER: So I think the key thing within a multi-asset portfolio is that we adapt to different market environments. I think the reason people talk about rising recession risk is because we're now seeing low unemployment rates, and the Federal Reserve beginning to withdraw liquidity, and the ECB at least beginning to talk about it. So that begins to think we're now more late cycle. So what we need to do is make sure we position the portfolio to ensure that we think forward to that recession risk, but also be aware that actually at this stage in the cycle there's still returns to be made. So I think the thing is to make sure that you're currently invested to continue to generate returns, accept that's likely to come with higher volatility given the lack of liquidity support we now have, and prepare the portfolio for the future by identifying assets you may wish to buy as things become more turbulent and less certain. PRESENTER: Well it does seem that bonds and equities are really moving together at the moment, which is getting rid of some of those diversification benefits, so where do investors go from here? ALISTAIR BAKER: So I think the first thing to say about bonds is to some extent over the past eight/nine years we've been in quite a lucky position. We've had bonds going up, equities going up, and bonds going up when equities are going down, and vice versa, giving a nice stable portfolio path. And now we're in a situation where we've moved from a situation where we were in low inflation, low growth, to one where we're getting slightly higher growth and slightly higher inflation. What that means to us is bonds are less of a good diversifier and unlikely to generate such strong returns going forwards. But does it mean they no longer work in times of true market corrections? Our answer is probably no. And the reason for that is if you look back this correction, they protected about 10% of the downside. And that might not sound like a lot compared to the 20% to 30% they were protecting before, but in true market stress bonds still have a role in that portfolio. But you don't want to have quite so much given the challenges that we face with that central bank liquidity being withdraw. PRESENTER: Well, a lot of investors are wondering when this bull-run we're seeing, how long that can last. So if we did see another wobble, what would that mean for multi-asset portfolios, and would the next crash kill diversification? ALISTAIR BAKER: So I think multi-asset portfolios are quite a wide spectrum and people tackle how they generate returns in different ways. I think the ideal portfolio would be one with high returns, low volatility and low correlations. And I think that is something of a bit of a fantasy portfolio. I think there may be some managers that can deliver that once during a crisis, but then you have to be very good at selecting the correct manager for the correct set of crisis circumstances. You look at things like Poulson's returns, spectacular during the financial crisis, since then more mediocre. And I think that's one thing that we try and avoid is trying to look for that perfect portfolio for the perfect circumstance and have perfect forecasts. Instead what we're saying is on the balance of probabilities, on what's priced into the market, what is the best set of assets to own today to give us the return and risk that we want? So at the moment we are a bit more cautious. We say look, valuations are higher, economic growth and central bank liquidity is being withdrawn, therefore we need to run a slightly more cautious profile, but not a fully defensive portfolio, because we're not yet at the end of the cycle. It's about adapting. So in terms of when a drawdown happens, our portfolio will look to preserve capital, not make money, because I think otherwise you're in the wrong psychological position. But then when the returns are available, we'll certainly look to re-engage and capture those returns. PRESENTER: So finally talk me through your asset allocation then, considering this investment environment we find ourselves in. ALISTAIR BAKER: So I think the truth is that in some sense we have to be more adaptable than we have in the past. I think that what you tend to find is you have very long recovery periods where you have quite a luxurious position of owning directional market beta. Now, we're in a situation where you need to think more about the relative value opportunities. And you can see that wide dispersion we've had across equity markets this year. The only equity market up is the S&P 500. All the other equity markets are down, and they're actually down quite significantly, somewhere between 5 and 10%. So you're seeing that increased dispersion, which means that at this stage of the cycle you can generate a bit more from relative value, stock picking, and you need to begin to incorporate that to within your portfolio, which you perhaps had downplayed when there was lots of cheap beta around and you could just ride the rally. So that's where we've got to within our portfolio, incorporating more relative value positions, thinking carefully about which countries, or which regions, or which areas have good strong fundamentals, and can withstand increased political risk, and also great volatility associated with that liquidity withdrawal from the markets. PRESENTER: Alistair, thank you. ALISTAIR BAKER: Thank you.