PRESENTER: With an outlook on the markets and what it means for multi-asset investing, I'm joined now by Anthony Gillham. He is Head of Investment as Quilter Investors. Well, Anthony, we've just got ourselves through the earnings season, what did you learn from it? ANTHONY GILLHAM: Yes, well the earnings season in the US this quarter has been absolutely fantastic: companies across the piste generating some great top line growth and some great bottom line as growth as well. So profit growth in excess of 25% at the aggregated level. So a very strong earnings season for US companies. Which continues the trend actually of recent quarters as well, but in many cases has continued as well to exceed analyst expectation. So very strong set of results and arguably a surprisingly strong set of results for many US companies. PRESENTER: So a good earnings season in the round, but are you worried about market volatility? ANTHONY GILLHAM: Well this is exactly what's happened isn't it, we've had this fantastic earnings season; yet October in particular we've seen peak to trough declines in the S&P 500 of around about 10%. So that seems like a slightly strange relationship. And when we look at those results actually it does highlight to us that there's been this divergence between growth assets in US equities and value stocks. And I think what we're seeing, and some of the drivers of this volatility is exactly that, this underperformance of what's done well in the last 12, 18, 24 months, these growth assets, and these relatively few US companies, particularly in the tech sector that have done most of the heavy lifting, and the rest of the market, the so-called value stocks that have underperformed. And I think when you scratch beneath the surface of some of these great earnings announcements, you start to get a picture as to why this has started to happen, and what we have to do I think is to look at what companies are actually saying for their future expectations for growth. I think companies are typically saying that they're continuing to expect earnings growth, but the pace at which that growth continues to rise is likely to moderate a little bit. Now because many of these growth stocks in particular, and I think if everybody's familiar with the FANG's acronym, the Facebook, Amazon, Netflix and Google, and the big mega tech companies in the US that are on premium multiples, any suggestion that the rate of growth might even slow I think has the market a little bit worried; which is actually giving some of the more cheaper areas of the market, the so-called value stocks, this chance to come back a little bit. PRESENTER: And does that mean overall you're positive on equities, how does this then translate into your asset allocation? ANTHONY GILLHAM: Well as usual the answer is it depends. As I was saying, fantastic earnings season. But I think certainly with respect to a lot of the growth stocks, particularly the technology sector, a lot of that is already in the price, and arguably some. So we've been quite cautious actually on the outlook for large cap growth stocks, technology in particular, and have actually favoured a much more diversified approach to markets. In fact this volatility that we've seen over October led by some of these expensive growth sectors I think is to be expected. And so we've been favouring other areas of the US equity market, but also we've been a lot more diversified internationally as well, with of course positions in Europe, Japan I think we like, but emerging markets too. So a lot more diversified I think than some of our competitors. PRESENTER: Well if you're a little concerned about how toppy growth is feeling at the moment, does that mean you're much more a fan of value? ANTHONY GILLHAM: Yes and certainly value is an area that we've seen increasing across the portfolios that I'm responsible for at Quilter Investors, but also amongst my team as well. Now value's had a pretty poor run pretty much all of this year and for much of 2016 and 2017 as well. And so as we start to see, as you rightly say, growth topping out, we have been starting to emphasise those areas of our portfolios a little bit more. It's not, we're not flicking a switch of course, we want to remain diversified, so we still have exposure to growth in portfolios, but it's more of a gradual transition that we've been making. PRESENTER: And how do you distinguish between value and perhaps a value trap? ANTHONY GILLHAM: Yes. PRESENTER: Particularly with things like the rise of the internet. ANTHONY GILLHAM: Absolutely, so old industries versus new industries. I think active management is absolutely critical. And we delegate a lot of the strategies to some of the world's best fund managers, and we have a very robust process for evaluating those managers. And certainly in the value space that ability to understand this idea of what is the fundamental value of that stock I think is critical. PRESENTER: Well you mentioned volatility a few minutes ago, how worried are you by asset price volatility right now, and what can you do to guard against it? ANTHONY GILLHAM: So volatility is on the rise absolutely. Very recently I think we were talking about volatility being at a 30 year low, which we were quite concerned about. But we're starting to see volatility rise. Now that gives us some opportunities to protect our portfolios. We don't just invest in cash equities and cash bonds; we are also big users of alternative investments. So a great variety of different types of alternative investments, but using indices such as VIX, so using VIX options for example. We can use these types of instruments to help us I guess give us a tail hedge against rising volatility in portfolios. Now that can be quite an expensive strategy to use. So we've got to be careful and sparing in how we deploy those strategies, but it's certainly something that we spend a lot of time and dedicate quite a bit of resource in our team to figuring out. PRESENTER: Well you mentioned there alternative asset classes, how do you make sure you've got enough resource onboard so that you're not just buying into alternative asset classes, but you're buying hand on heart into the right parts of them? How is the resource mix changing on the desk over time? ANTHONY GILLHAM: Yes, so we look at our research team for example. We have actually one of the bigger research teams in the UK. Guys we've got within that team dedicated to looking at alternative strategies. These are guys who have been looking at these types of strategies for many years, and are sufficiently well connected to know where the next new and exciting strategy is going to come from and how to source that. So we do spend a lot of time researching managers, it's very important. But as I was mentioning with the volatility hedge, our VIX hedge for example, some of these strategies we're putting on in portfolios directly ourselves. And so there's a number of people in my team focused on what I would call relative value strategies, so a relative value team if you like, who are looking for how to deploy VIX options, when to use different types of derivative strategy in portfolio, with exactly the objective of potentially defending on the downside, but also giving diversification to our funds as well, so very important to devote the right amount of resource to that. PRESENTER: Now there's been a lot of change, I mean not least with the creation of Quilter Investments, as CIO how much time are you spending running money and how much time are you spending running and developing the business? ANTHONY GILLHAM: I've said and I've always said I'm an investment professional at heart. I sit in the middle of the investment desk, very involved day to day in running both the team but also my portfolios. So I spend a good majority of my time running money. That's certainly something I've been passionate about throughout my 20-odd year career, and that remains an area that excites and interests me. As we move through market environments like we're seeing today, I think that interest is only being extended further. PRESENTER: Well you're making reference obviously to the extraordinary things that are happening in politics at the moment around Brexit, how do you take that into account when you're running money, particularly as so many of your investors will have sterling as their base currency, and will look to the UK equity and bond markets as the core place where they start investing? ANTHONY GILLHAM: Absolutely, and it's not just Brexit by the way. I mean the political landscape across the world is becoming more polarised as we're seeing a greater rise in nationalism. But I think from our customers' point of view, the end investors in our products, there are a number of things that we can do to defend against this rising political uncertainty. The first thing I'd say is as multi-asset investors we remain truly diversified. Whether that's invested in a global portfolio of very well-diversified equities, whether that's getting the right balance between international equities and UK equities, whether that's getting the right balance in terms of large caps versus more domestically facing midcaps, it's something we're focused on, or whether that's investing in other asset classes. Fixed income is a good example. Many managers will be focused on UK government bonds as that volatility anchor, that diversifier. Well we're not constrained by UK government bond asset class, and actually we're taking some of the portfolios that I run, reasonable amounts of our interest rate exposure actually in the US at the moment. So we're not constrained by only investing in UK assets, so very important. The alternatives piece I think is key too, and there are a number of levers that we can pull on the alternative side, whether it's trying to give us diversification against even some of these factors that I mentioned in the US, you know, value v growth. So US equity long/shorts. We've recently introduced a manager to a couple of the portfolios in the team that aims to take advantage of some of those dislocations. But alternatives also covers inflation defending asset classes, and I think bringing the question, bringing it back to Brexit, which I think was where your question is, one of the big impacts is likely to be on sterling. And I think if we do see a negative outcome from Brexit, and we do see sterling fall, which I think it's likely to do if we see an exit, that's likely to be inflationary in the long term. So we need to make sure in our portfolios we've got assets that can defend against rising inflation, and certainly alternatives play a key role in that. PRESENTER: But if you're worried that the UK currency could head south, it could completely tank, if that happens at that point you haven't got the firepower to buy overseas diversification have you? ANTHONY GILLHAM: I think I'll bring this back to diversification actually. If you look at our portfolio, our multi-asset funds, they are highly diversified portfolios, and it is unlikely that you will ever see us at either extreme. What we're likely to do, and indeed what we have been doing, is to lean into positions. So overweight and underweight positions in sterling, rather than take big bets which will give us a binary outcome, which isn't what our customers want. Now if you look at some of the portfolios that I manage for example over recent weeks, and actually as we have increased our international exposure at the expense of some of our sterling positions in particular, we've started to see sterling positions in the portfolios decline ever so slightly. Which I think will give us some good protection against the so-called bad Brexit scenario, which of course would be bad for sterling. PRESENTER: So, in summary, where do you see the main opportunities and threats to multi-asset investors at the moment? ANTHONY GILLHAM: I think if we take a step back we need to remember that looking at global leading indicators for example, many of them remain in expansionary territory. Actually the global macro backdrop doesn't look too bad at all. And I think that's the case not just in the US but still in Europe, in Japan, emerging markets we see a reasonably benign set of circumstances. So I think it's important to remember that. So, reasonably good outlook in many respects for certain parts of the equity market, growth assets if you like. But I think where we have to be careful is on the valuation side. Certainly if we look at the beneficiaries of the run up certainly over the last 18 months to two years and pointing the finger at big US technology companies, US growth, we've seen a relatively concentrated part of the market do most of the heavy lifting in terms of equity returns. And I think we've got to be careful that we don't become complacent that because it worked in the last six months, the last 12 months, that actually this is going to be the place to fish for returns in the next six months, the next 12 months, and so looking to make sure that we maintain that diversification discipline. Looking to other overseas markets, emerging markets for example I think should be beneficiaries of this pretty benign growth environment. PRESENTER: Anthony Gillham, thank you very much. ANTHONY GILLHAM: Thanks Mark.