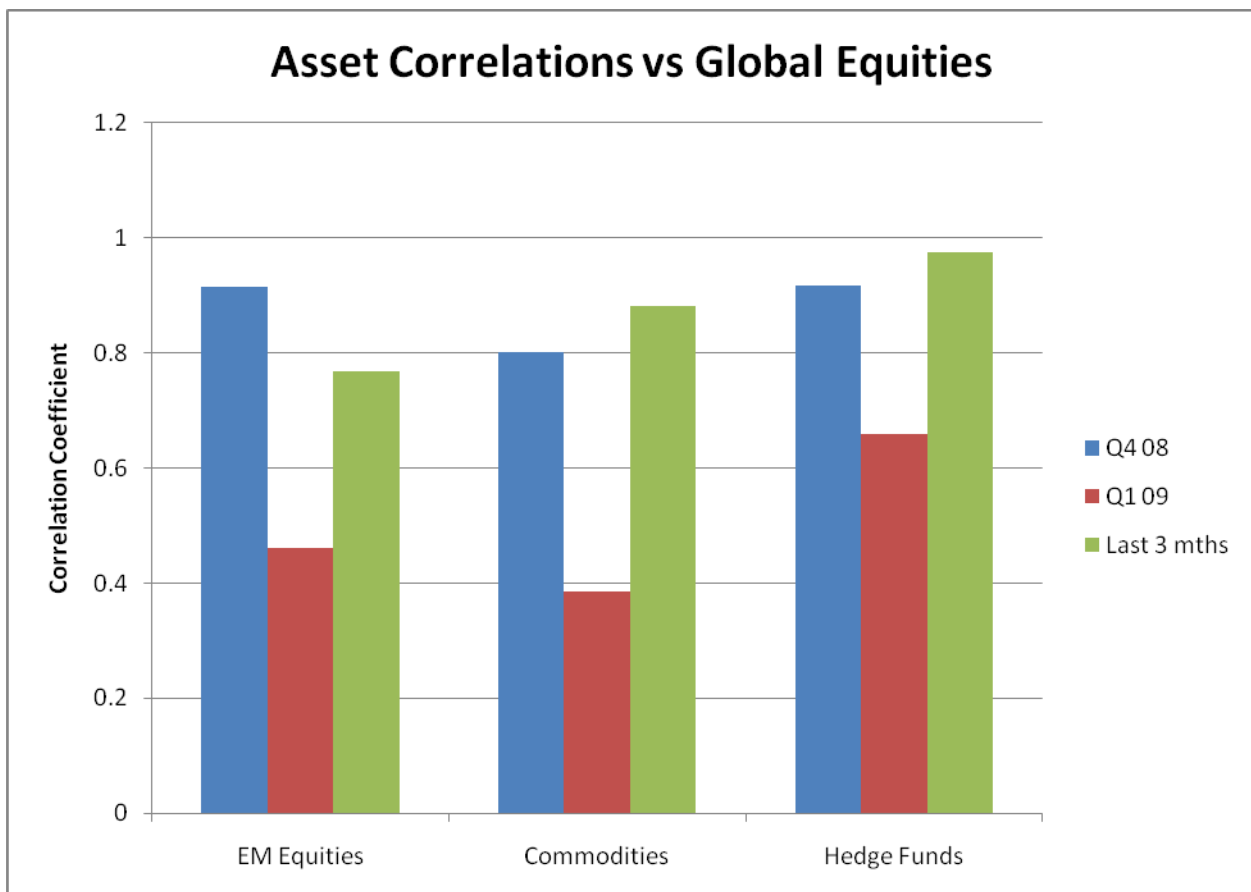


Rising asset correlations demands more dynamic solutions, says RCM

With asset class correlations back at the elevated levels of late 2008, David Hollis of RCM comments on the challenges facing investors:

“At the moment there is considerable uncertainty amongst investors with the realisation that fundamental global economic imbalances remain unresolved, that the fiscal boost gifted to the equity markets is winding down, and that the path to a more normal economic growth trajectory may be a volatile one. This has led to a reversion in asset class correlations to the elevated levels of late 2008. Following the collapse of Lehman Bros in 2008, with the global economy coming perilously close to systemic collapse, correlations across asset classes rose to such an extent that as investors took flight, alternative assets and equities alike crashed, resulting in diversification failing to offer the capital protection that it was expected to deliver.



Source: Datastream/Bloomberg

“Now, with trading volumes already depressed by summer vacation absentees, the 'buy-hold' strategy that has been adopted by risk-averse investors against a backdrop of double-dip recession theories, is perpetuating increased volatility.

If real-money investors are sat on the sidelines in fear of the US re-entering recession, all we can foresee is volatility spiralling higher as fewer and fewer trades are placed in the market. How can investors generate a return in an environment of heightened risk?

“Diversified growth funds can provide investors with access to a broad range of underlying asset classes, mirroring in pooled fund format that offered by fiduciary managers. A genuinely diversified fund should supply the investor with a risk reduction of 50%, at the same time generating a return equivalent to equities. Such 'diversified growth funds' are commonplace, but we believe diversification alone is not the answer.

“A dynamic asset allocation investment approach is required in such volatile and cross correlated markets as we see developing today - an asset allocation that is truly active and dynamic; that is both nimble and unconstrained. Furthermore, should the global economy re-enter recession, a so-called double-dip, concern regarding sovereign debt levels may prevent fixed income assets from providing a safe haven. Even if authorities embark on another round of sovereign debt purchases (Quantitative Easing) their fiscal credibility may be sufficiently doubted that it leads bonds to sell-off in tandem with equities. Therefore, against a backdrop of simultaneous falls in risky and risk-free assets, investors only option would be to ensure a form of downside protection was in place.

- Ends -

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Notes to Editors

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Photographs

High-resolution photographs of our investment professionals are available to download here:

http://www.rcm.co.uk/press/04_fundmanagers.html

Awards

- RCM Highly Commended for Equities Manager of the Year, at the European Pensions awards 2010.
- RCM named winner of Active North American Equity at Pensions & Investment Provider awards 2009. RCM US Large Cap Select Growth is managed by Scott Migliori, CIO for US Equities, RCM.
- RCM named No.1 leading fund management firm for SRI Research by Thomson Reuters Extel 2009.
- Global CIO of RCM, Andreas Utermann, named CIO of the Year by Funds Europe magazine 2008.
- Winner of European Investment Trust of the Year by Investment Week magazine, 2008, for the RCM-managed Charter European Trust.

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- Allianz RCM Global EcoTrends Fund named winner Best Climate Change Investment fund 2008, by Holden & Partners/ Incisive Media.

About RCM (all data source RCM as at 31/03/10)

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