

## STOCK TAKE

# Quartet's McInnes maintains bearish stance despite recent global equity rally



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**Colin McInnes, managing partner at Quartet Capital Partners, has already reaped the rewards of buying into Japanese equities back in February, but argues risks are looming for equities.**

## Positioning

Although global equity markets have continued to rise from their summer 2012 lows, McInnes remains bearish, pointing to no real improvement in fundamentals. As a result, he is running a large underweight in equities, with a 37.5% allocation in Quartet's balanced model, well below a strategic asset allocation of 45%.

It includes a 7.5% exposure to European equities through exchange traded funds (ETFs), held since October 2011, and a 10% position in UK equities.

'I think equity valuations are not hugely stretched. There is still some upside and I think markets will continue to run, but there are still risks lurking around the corner – for example, a disorderly exit from the eurozone or Cyprus getting worse,' he explained.

The team has upped exposure to index-linked bonds, which form a third of the in-house model's 22.5% bond allocation, cut back corporate debt exposure and sold out of conventional gilts completely in the first quarter.

They are also allocating 12.5% to commodities and 25% to alternatives.

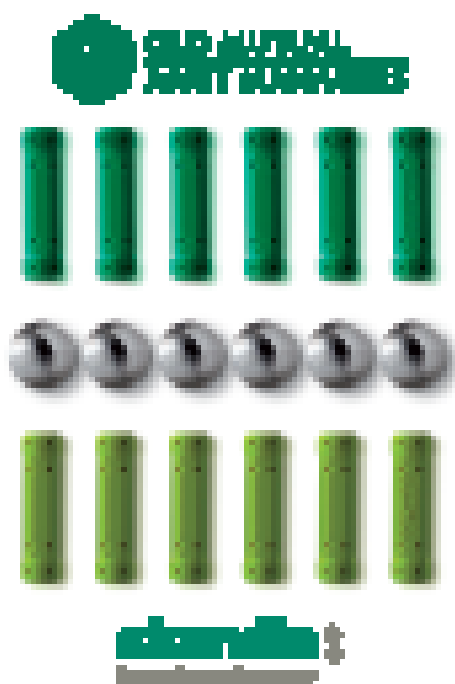
## Performance

Over the past 12 months Quartet's balanced model rose 8.1%. It has returned 16.2% over the past three years with annualised volatility of 6%. Over the calendar year 2012, the model

Colin McInnes: Has been upping exposure to index-linked bonds



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rose 6.1%, while ARC Sterling Balanced rose 4.85%. MclInnes highlights emerging market debt as a positive contributor, up 17% last year. The team's Japanese equity position, initiated in early February, is already up 5%, and European equities also boosted performance.

'We have been delighted with how much participation we have been able to capture, given our less than optimistic views,' he added.

Having around 30% of the portfolio in non-sterling, predominantly in US dollars and Singapore dollars, also boosted returns. However, gold and CTA exposure hurt performance, which MclInnes is willing to accept, given the roles of both as risk diversifiers.

Outlook

Looking ahead, MclInnes remains cautious. 'We are in the ever so slightly nervous camp, given the macro headwinds. We don't need a black swan event like North Korea or Cyprus really tipping the scales.'

Infrastructure, accessed through ETFs, is on MclInnes' radar, while the team introduced global agriculture as a theme in September last year.

Buy

Japanese equities

'We wanted exposure to exporters that could benefit from the stimulus programmes in Japan. We hedged the currency out.'

Hold

Gold

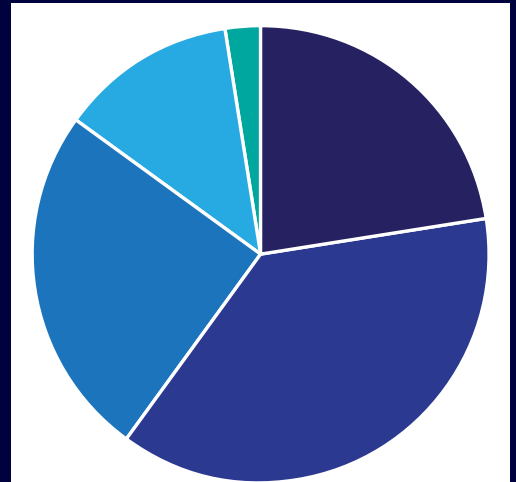
'Last year, gold was a detractor, but it is not there to have a beta of one with everything else in the portfolio.'

Sell

Corporate debt

'We cut back corporate debt exposure as we think spreads are reaching tight levels.'

Breakdown of Quartet's balanced model



Fixed interest	22.5%
Equities	37.5%
Alternatives	25%
Commodities	12.5%
Cash	2.5%

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