



Meet Richard Coghlan

Portfolio Solutions Manager, Global Multi-Asset Team
Co-Manager, T. Rowe Price's Global Real Assets Equity Strategy

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Professional and Education—

Richard earned a B.S. in geology from Duke University, a Ph.D. in geochemistry from Brown University, and an M.B.A. in finance and accounting from the University of Chicago.

24 years
Investment Experience

4 years
With T. Rowe Price

 **Tokyo**
Office Location

Richard joined T. Rowe Price's Global Multi-Asset Division in 2017, later relocating to Tokyo. He is co-manager of T. Rowe Price's Global Real Assets Equity Strategy, an asset allocation solution that provides diversification across real assets sectors for investors, with total assets under management (AUM) of USD 9.5 billion, as of December 31, 2021.¹

Richard Coghlan is a global solutions portfolio manager within the Multi-Asset Division. He is a co-portfolio manager of the Global Real Assets Equity Strategy and a member of the Multi-Asset Steering Committee. Richard has over 24 years of investment experience, four of which are with T. Rowe Price, and has worked in the Philippines, South Korea, Hong Kong, and, most recently, the United States prior to relocating to Japan. He is experienced in building and managing

investment solutions for non-U.S. investors. Richard's career in asset management began in 1997 with the Asian Finance and Investment Corporation, an affiliate of the Asian Development Bank. In 2000, he joined Schroders Investment Management. As head of multi-asset Asia at Schroders, Richard developed and managed a highly successful multi-asset income product and helped to grow AUM in the region from USD 4 billion to USD 18 billion over a nine-year period.

¹ Includes a U.S.-registered mutual fund, common trust funds, and subadvised portfolios.

Richard, can you tell us what made you decide to pursue a career in asset management?

At university I studied geology and was intent on a mining career, graduating in 1982 just as the commodity bubble burst, so I ended up doing a Ph.D. in geochemistry. I worked in environment consulting for six years but found it was very regulatory driven. So I decided on a career reset and took an M.B.A. in finance and accounting at the University of Chicago, as I had always been interested in the world of investing. I moved to Asia as an investment professional in 1997, just in time for the Asian financial crisis, as my wife took a job at the Asian Development Bank in Manila. The first few years of my financial career was managing private equity investments for the Asian Finance and Investment Corporation in Manila.

In 2000, I joined Schroders, managing a distressed debt fund, before moving to multi-asset investing full time in 2006, becoming head of Schroders' multi-asset team in Hong Kong and then for the Asian region. I joined T. Rowe Price in 2017 and took over the Global Real Assets Equity Strategy together with Chris Faulkner-MacDonagh, which I discuss below. In 2020, I helped launch the Multi-Asset-Global Income Strategy (MAGI), a dynamic multi-asset strategy that seeks to offer durable income and long-term capital appreciation, drawing on T. Rowe Price's global research platform for security analysis.

Can you please discuss your approach as a portfolio manager? How do you seek to generate value for clients?

For the Global Real Assets Equity Strategy, we start by keeping the portfolio 100% invested, making sure that any cash lying in separately managed sleeves is invested via derivatives. We do this because the Global Real Assets Equity Strategy is intended to be a building block in larger global portfolios and must be fully invested to provide the inflation sensitivity our clients are looking for. I think the key to understanding the strategy is to look at the impact even a small allocation to real assets equities can have on the overall properties of a global equity or balanced portfolio. Notably, many portfolio managers and their clients have neglected to add these types of exposures and so are likely poorly positioned for inflation surprises.

We have outsourced five underlying sleeves within the strategy, with the strategic design at the top level having around 60% in commodities and 40% in real estate. In real estate, about half is in the U.S. real estate sleeve, managed by Nina Jones, and the other half is in global real estate, managed by Jai Kapadia. For commodities, 30% is invested in the T. Rowe Price Global Natural Resources Equity Strategy, managed by Shinwoo Kim, while John Qian manages a 25% diversified metals sleeve and a 5% precious metals sleeve. The energy sleeve tends to have a strong bias to quality, with a longer-term focus by the analysts on cost curves three to five years out.

Currently, our positioning among the five sleeves is broadly neutral. We also set aside a 5% budget-funded pro rata from the other five sleeves—for taking discretionary positions that do not significantly overlap with our underlying managers. We can be quite flexible and nimble—a year and a half ago we increased our energy exposure, for example, via exchange-traded funds and futures, while last summer we added to growth industrials and transportation stocks (airlines and railroads), which we believe are set to benefit from improved pricing power in the post-pandemic recovery. We are not stock pickers, and so we consult the T. Rowe Price platform analysts on stock selection.

A key aim of the Global Real Assets Equity Strategy is to provide strong positive inflation sensitivity to the portfolio. We find that real assets equities have generally performed in line with our research models, providing a high degree of defense against rising inflation risk, particularly if inflation is unexpected. The real assets team took a different, non-consensus view of inflation early in 2021 in the initial phase of the post-pandemic recovery. While we saw supply chain disruption raising some prices, at the time there were few signs of generalized inflation. However, we believed it was only a matter of time for inflationary pressure to leak through to general inflation, including substantial wage growth and higher owner's equivalent rents. The Fed's "transitory" view of inflation was about to fail.

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Our advice then to the T. Rowe Price Asset Allocation Committee was that inflation was going to surprise to the upside, which supported adding to real assets equity exposure. Since then, we have had Russia's invasion of Ukraine, removing up to 3 million barrels per day of oil supply and giving a powerful boost to food prices. As a result, the short-term inflation outlook has deteriorated. December 2022 inflation forecasts have increased from around a 3% estimate a few months ago to possibly as high as a 6% to 8% range now.

The uncertainties are far greater now than pre-February, as agricultural shortages and food price shocks can be destabilizing for many developing economies, as was seen during the “Arab Spring” protests that began in Tunisia in late 2010. Although Asia is generally a higher rice consuming region and may be expected to be less affected than

other regions, higher grain and seed prices still impact the region, and higher fertilizer prices will be a global headwind. I believed the case for adding exposure to real assets equities in a global portfolio strengthened following the Russia-Ukraine crisis.

Views on inflation and interest rates are closely linked. What are your views—has the Fed fallen far “behind the curve”?

I think one problem is that the Fed’s own models suggest that interest rates should be rising even more quickly than markets expect given what has happened to inflation. The Fed’s projected path for the fed funds rate appears to be closer to staying neutral than to real tightening. For example, the Fed expects its preferred inflation measure, the personal consumption expenditure (PCE) deflator, to be running at 4.4% in December 2022. And the forecast unemployment rate of 3.5% in 2024 remains below the Fed’s estimate of the “full employment” rate of unemployment, or NAIRU (non-accelerating rate of unemployment). The Fed’s projections do not seem to align very well with each other.

The large demand stimulus in 2021 to counter the coronavirus pandemic was necessary to avoid recession and stop people from falling into poverty, but it has, no doubt, contributed to today’s higher inflation. However, the primary cause has been the supply-side disruption, where many of the issues—such as the ongoing chip shortage—have yet to be resolved. More recently, the Russia-Ukraine crisis has endangered supply and boosted many commodity prices from already-high levels, adding to the inflation pressures.

While short-term inflation expectations have risen, long-term expectations have changed much less, so far. We think the problem with this view is that wage expectations have also changed and set the stage for higher inflation. In a tight labor market, workers will seek to offset the compression in their real wage due to higher inflation. This is probably the key thing for both investors and the Fed to monitor, even if a 1970s-style wage-price spiral is still only a tail risk. I think that inflation will eventually peak and roll over, but it is going to take much longer than the pundits had expected.

After a decade of low inflation, investors are having to refocus their portfolios with an eye on inflation protection. What are the challenges involved in adjusting to a higher-inflation regime today?

I think investors need to hedge their portfolios by investing in sectors and companies that possess pricing power, and real estate equities are one good example. Also, with the crude oil price set to remain above USD 100 per barrel and production costs at some U.S. shale formations only USD 30 to USD 40 per barrel, a number of energy firms can expect to earn excess profits this year.

In a real assets portfolio, the key inflation play is to seek companies with an ability to extract economic rents, a capital-efficient way to achieve a high inflation beta. In our strategy, the underlying assets are equity-focused—companies that are able to protect their profit margins and earnings growth in real terms. In contrast, the principal focus of an inflation protected bond portfolio is to preserve inflation-adjusted capital, not to grow earnings. It is worth noting that real assets do not cover the full extent of companies with good pricing power. Where airlines are reopening, for example, demand has been very strong, with higher fuel costs not a major obstacle so far. In our strategy, we can include such opportunities, despite being “off benchmark.”

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The U.S., as a net oil exporter, benefits at the margin from a higher oil price, and this in turn can provide support to the global economy. Moreover, the negative impact of higher oil prices is less than, say, 20 years ago as the world has become much more energy efficient today. The value factor might work in a higher inflation environment, but I think that pricing power is probably more important.

It is not clear that a steady series of rate hikes will power financials. As in the 1970s inflation era, we might see yield curve inversion without recession. Short duration fixed income assets, such as 18-month to two-year bonds, could be attractive. Also, mortgage rates have risen dramatically to above pre-COVID levels. Spreads have already widened a lot, which offers a cushion, and mortgage rates may stop rising so aggressively despite the Federal Reserve having just started hiking rates.

There is no sign of a slowdown in the U.S. housing market. Many homebuyers facing rising house prices may wish to lock in before mortgage rates move higher, given that their incomes have also risen, and cash buyers are still a major force in the market.

Some global managers still seem to think in terms of the traditional 60/40 stock/bond portfolio. Are real assets underappreciated?

I think some managers may have doubted the role of real assets during the post-Lehman decade, a period identified by many economists as “secular stagnation.” I believe that the

global economy has exited secular stagnation permanently and that we are now in a totally different environment, where inflation is again a force to contend with. I think real assets equities today are a good way to start managing inflation risks more actively. Investors might consider the benefits of adding exposures to real assets to a global equity or balanced portfolio.

In the current environment of past underinvestment in many commodities, I believe resources stocks have the potential to bring superior pricing power to the portfolio. Some managers may be moving away from the 60/40 portfolio toward something more like a diversified growth strategy, where real assets clearly have an important role to play.

Finally, can you please share with us your personal interests and how you relax outside of work?

When I first moved to Japan, I planned to play some golf, go skiing, and get to know the country. Then along came the coronavirus, so these ambitions had to be put on hold. As Japan is in the process of opening up, I hope to make up for lost time. I work out and exercise three times a week with a personal trainer, and I like to walk and have explored much of Tokyo on foot. I have two children—my eldest is studying engineering at university, and my second son is at a boarding school in Utah, my home state. Actually, he is on a field trip to Greece and Italy just now, so it seems that global travel is thankfully already making a comeback.

The following risks are materially relevant to the portfolio:

General Portfolio Risks

Capital risk—The value of your investment will vary and is not guaranteed. It will be affected by changes in the exchange rate between the base currency of the portfolio and the currency in which you subscribed, if different.

Equity risk—In general, equities involve higher risks than bonds or money market instruments.

Geographic concentration risk—To the extent that a portfolio invests a large portion of its assets in a particular geographic area, its performance will be more strongly affected by events within that area.

Hedging risk—A portfolio's attempts to reduce or eliminate certain risks through hedging may not work as intended.

Investment portfolio risk—Investing in portfolios involves certain risks an investor would not face if investing in markets directly.

Management risk—The investment manager or its designees may at times find their obligations to a portfolio to be in conflict with their obligations to other investment portfolios they manage (although in such cases, all portfolios will be dealt with equitably).

Operational risk—Operational failures could lead to disruptions of portfolio operations or financial losses.

ESG and sustainability risk—May result in a material negative impact on the value of an investment and performance of the portfolio.

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