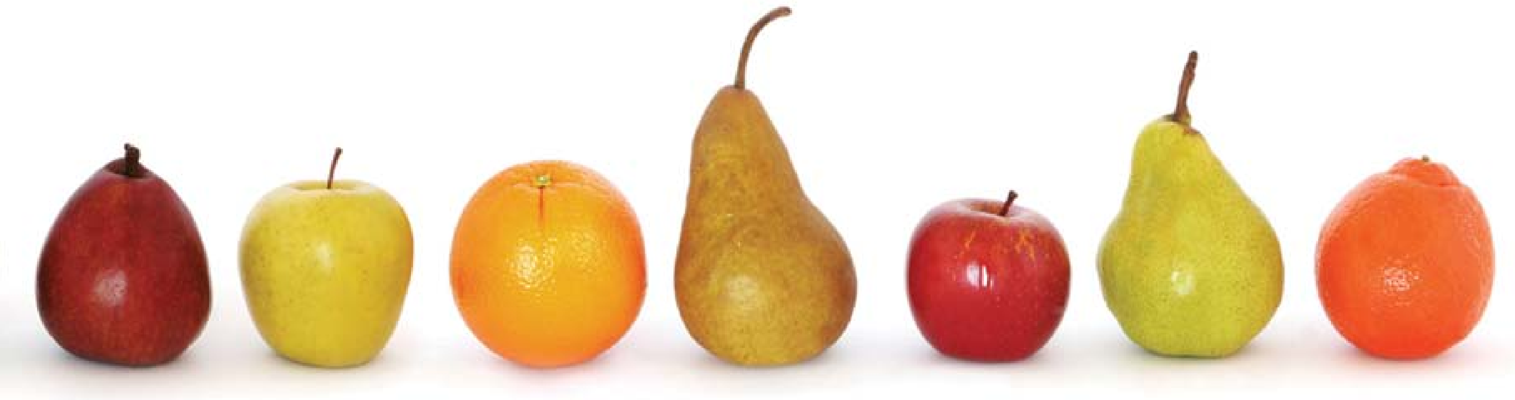

INVESTMENT

Multi-asset strategies: take your pick

Multi-asset investment funds are emerging as an increasingly popular investment strategy, with market products now available in a wide variety of shapes and sizes. Andrew Williams **explores how take-up of the strategy varies across Europe**

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A multi-asset fund combines investments across different asset classes such as equities, bonds, currencies and alternatives in order to diversify the portfolio and source returns from different markets. As Aberdeen Standard Investments' multi-asset investment specialist, William Martinez, explains, such funds can range from low risk to high risk, depending on the mix of asset classes and exposures employed.

"There are multiple types of multi-asset funds and approaches, ranging from very traditional to more advanced, including strategic and tactical asset allocation, enhanced diversification, absolute return and diversified alternatives. In general they are all seeking to deliver diversification, [meaning] a better risk/reward trade-off than is available from investing in a single asset class," he says.

Elsewhere, Broadridge Financial Solutions' principal – EMEA Insights, Jonathan Libre, agrees that multi-asset approaches comprise a 'broad universe' of investment strategies, each with differing objectives. For example, the Broadridge definition of multi-asset investment stretches from what he describes as 'old style balanced strategies' through asset allocation and absolute return. Within that range, he reveals that there are funds that are classified as 'dynamic, income, target maturity, multi-asset income and so on.'

"We saw substantial net inflows into multi-asset strategies from pension funds right into the start of 2017, with many schemes opening up to multi-asset opportunities as a result of the low yield environment," he says.

"More recently we have seen outflows, although these have very much been concentrated among UK DB schemes," he adds.

Meanwhile, Baillie Gifford's client service manager, Martina Jersaková, observes that multi-asset funds have proven to be incredibly popular among pension funds in the UK, with UK defined benefit (DB) schemes emerging as early adopters of multi-asset strategies ten years or so ago. In particular, she points out, smaller and less-well resourced schemes have considered these to be an optimal one-stop solution for their growth assets as they reduced their exposure to equities from around 60% ten years ago to around 30% today.

"As DB schemes have become

better funded and more mature there is in increasing focus on multi-asset income approaches as cash flow dominates," she says.

Regional variations

When it comes to regional variations in the take-up of multi-asset funds around the continent, Libre reveals that the UK is the most fragmented pensions market in Europe, with a huge number of sub-scale pension funds – meaning that a diversified, off-the-shelf multi-asset product has been a compelling proposition. As far as DB schemes are concerned, he also observes that DGFs (diversified growth funds, many of which target absolute returns) have benefited hugely from the de-risking trend, as schemes would reduce equity allocations in favour of a DGF, in order to achieve growth with lower volatility.

More recently, he highlights that heightened awareness of cash-flow and income needs has meant that schemes are moving further towards fixed income strategies, and multi-asset strategies are also finding themselves in competition with fiduciary management solutions, although DGFs remain a core component of UK DC default strategies, with the charge cap leading many schemes towards allocating to the low-cost variants.

According to Martinez the take-up of multi-asset funds by pension funds across Europe has differed considerably based on local regulation and historical practice. The UK has used multi-asset approaches increasingly since the 1960s, and has also witnessed the more recent creation and rise in popularity of DGFs.

"Italy and Germany have mostly invested in more conventional long-only multi-asset funds, but they have very different pension systems. Dutch pension funds have been more focused on fiduciary management structures – building their own diverse portfolios from specialist funds," says Martinez.

"So, whilst the European pension fund market is diverse, in general we see the desire for outcomes, as opposed to benchmark-relative performance, and tangible added-value as common needs across countries," he adds.

Elsewhere around Europe, Libre points out that, in Germany, multi-asset is commonly used within a Master-KVG structure – and he reports that Broadridge has also heard of some of the larger, more sophisticated pension funds showing interest in quantitative multi-asset strategies.

"The Swiss market is focused on costs, and as such passively implemented balanced funds have been popular. Absolute return multi-asset funds face challenges within Swiss pensions due to the investment quotas faced by schemes," he says.

"Liberalisation of investment regulations in Italy led to a burst in popularity of multi-asset, with Cometa being the primary example of a pension fund allocating to several multi-asset strategies," he adds.

Over the past five years or so, Jersaková reports that Baillie Gifford has experienced an increasing demand for its multi-asset capabilities from UK defined contribution plans – an ongoing trend that she notes has prompted a rethink by many providers on design due to cost constraints.

"On the Continent, the majority of the demand for multi-asset funds to date has been among retail investors. We are beginning to see some interest from European institutions and, in response, are adding a Diversified Return Euro Fund to our existing Dublin UCITS range," she says.

"Similar to our experience in the UK, the interest in multi-asset funds appears to be among smaller institutions searching for a one-stop approach that offers them access to a diverse range of asset classes," she adds.

Comparison criteria

Martinez believes that performance-comparisons between multi-asset funds should only be made directly between those operating in a similar fashion, with the quality of diversification an important metric if the overall returns and volatility are similar.

"Crucial criteria for selection in our view should be whether the process employed by the manager is likely to perform in the future," he says.

IT IS ESSENTIAL FOR CLIENTS TO GET A CLEAR UNDERSTANDING OF THE APPROACH A GIVEN STRATEGY IS UNDERTAKING

- Multi-asset funds combine investments across different asset classes such as equities, bonds, currencies and alternatives.
- They are commonly used in an effort to diversify portfolios and source returns from different markets.
- Levels of adoption of multi-asset investment strategies by pension funds across Europe have varied considerably based on local regulation and historical practice. They have proved more popular in the UK in the past, but are gaining traction in countries like Italy and Germany.

"For example, we believe that market conditions are likely to be increasingly uncertain as the investment environment evolves with central bank policy moving away from low interest rates, and quantitative easing moves towards quantitative tightening and rising rates. This could be a challenge for some types of multi-asset approaches such as '60/40' or 'risk parity' that have benefitted from the rally in equities and bonds, but are likely to fare less well in different conditions," he adds.

Meanwhile, Jersaková highlights the fact that multi-asset funds are a heterogeneous group, with many different investment approaches and benchmarks adopted across the industry, which makes comparison more difficult for clients.

"In our view, it is essential for clients to get a clear understanding of the approach a given strategy is undertaking. We would typically split multi-asset funds into three broad groups: traditional balanced funds, fully diversified strategies and hedge funds. Thereafter, the two important factors for clients to consider are the repeatability of the investment approach, as well as the stability of the investment team," she says.

"In scrutinising the long-term track record of each strategy, clients should consider the net-of-fees returns delivered, as well as the volatility of those returns. There are a number of multi-asset strategies that have been around for over ten years now, which should make the performance comparison an easier task for clients," she adds.

If diversification is a key element of the proposition of most multi-asset funds, Martinez believes it is also important to consider whether that diversification can be durable as the market environment and risks change over time.

"It is also important for investors to ensure that investment houses have the levels of resource, expertise, and scale that are appropriate for their multi-asset mandate, from an investment management perspective, as well as from a regulatory and governance perspective," he says.

"Lastly, pension funds may wish to ensure that the manager has the flexibility to design a solution that takes into account their overall portfolio and what outcome they are trying to achieve. For example we can replicate the strategic asset allocation and combine it with a tactical asset allocation component. Managing both components together holistically within the portfolio provides advantages for efficiency of portfolio investments and portfolio risk management. We expect to see these types of solutions to be of interest to some European pension funds," he adds. ■