

# Keeping our edge

## David Hutchins explains how AllianceBernstein ensures its target-date fund range continues to innovate to meet the needs of investors

It's now over six years since we launched our innovative range of target-date funds (TDFs) in the UK. They offer flexible open architecture, proactive management and the full benefits of our research-driven process, along with decades of multi-asset investment and DC experience. Above all, they have consistently delivered market-beating returns at a low cost – outperforming both our targets and our competitors.

All of this has been achieved in a market characterised by a succession of political and policy shocks – from the Chinese devaluation to the Bank of Japan's adoption of a negative interest-rate policy and to the UK's vote for Brexit. Our TDF range has successfully weathered all of these market squalls. But as we look to the next six years and beyond, we are determined not to rest on our laurels.

So how do we continue to maintain our investment edge? Given the sustained bull market since 2009, we expect future returns to be lower as interest rates rise and global economic growth remains constrained. Accordingly, and in line with our investment approach, we will continue to increase the diversification of investments within our TDF range to keep it fit for purpose in a changing investment environment.

In particular, we are focusing on building out our capability, initially for some of our custom TDF clients, to incorporate investments in private

and illiquid markets. With correlations between conventional assets on the increase, these areas offer us a new arena for effective asset allocation. As these correlations rise, illiquid asset markets provide scope for genuine diversification and uncorrelated long-term returns.

At the same time, we are also seeking alternative risk premia in the public markets. To achieve hedge-fund-like returns at a far lower cost, we have integrated the Ramius liquid-alternatives investment team into ours. This team's expertise will give our TDFs' access to a wide variety of alternative return sources without the associated illiquidity risks and cost.

As part of the gradual evolution of the strategic asset allocation for our packaged TDFs, in 2016 we introduced a factor-based investment approach – what is popularly known as 'smart beta'. The AB factor-based strategies aim to outperform conventional equity indices through controlling exposure to a range of factors such as deep value, momentum, capital use and profitability. Through dynamic allocation to these factors, we aim to avoid the 'buy high, sell low' paradigm of conventional passive equity strategies.

We are conscious that we need to achieve genuine diversification, not simply pay a higher price for exposure to the asset classes that are already in our portfolios. Instead, we have been looking for truly new or unique sources of return.

But it's not only in our asset

allocation that we have innovated. We have been striving to ensure that we continue to outperform our competitors in understanding the needs of DC investors and in the strength and transparency of our process. To that end, we have developed our CyRIL™ tool. This provides a robust framework for setting investment objectives, whether for a default strategy or a personalised investment strategy.

CyRIL™ focuses on investor outcomes, using liability-driven investment techniques to establish investment objectives that are fully aligned with the needs of the client. The experience is akin to some of the well-known online property valuation tools, in that you can add as many layers of detail to the process as you want. This includes not only earnings and age, but other important indicators of future needs, such as education, job role and current savings. Importantly, CyRIL™ is not a 'black box' model but a fully transparent process that can be reconfigured at any stage to reflect the requirements of plan trustees or the individual investor.

Finally, we have been tightening our emphasis on transaction costs across our entire range of default strategies. By combining clear value for money with the market-leading transparency and market-beating performance of our TDF range, we have every confidence that we can keep our competitive edge finely honed in the rapidly evolving investment environment that we expect in the years ahead.



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