In association with

Multi-asset roundtable

The many facets of multi-asset

Our panel of experts discusses the definition of multi-asset investing, and how different multi-asset strategies and approaches can play a part in pension portfolios today

Chair: It would be good to understand how different investors and institutions define multi-asset investing, given the term encompasses a wide range of interpretations.

Andrew: For me, multi-asset is about managing the nature of the exposure from a risk perspective. You can also do things from a volatility management perspective too; but the paramount consideration for my clients is how can they experience the return profile that they are seeking, whilst having a clear eye on the nature of the underlying risk, and how that risk evolves as the journey is being undertaken. A crucial point there is that it needs to be a dynamic asset allocation framework. We need to be responding to changes in valuation, we need to be responding to changes in fundamentals and we need to be managing that journey on behalf of our clients. The important distinction therefore for me is one of a risk management journey, rather than volatility management.

Nicholson: From a consulting point of view, multi-asset investing offers a governance-friendly way of accessing a wider range of asset classes. The alternative, of course, is for clients to invest in the underlying assets themselves and manage the dynamism themselves, but some clients can't take decisions quickly enough themselves to be able to do that. We have clients who take both approaches.

Vial: Portfolio construction and asset allocation are both part of a manager's skill – certain managers allocate dynamically, others do fixed; but if I take a step back, multi-asset encompasses a

In association with

Multi-asset roundtable

CHAIR

Chair: Kishen Ganatra, European Strategic Research Director, Mercer
Kishen is a principal within Mercer's Wealth business in London. In his roles as European strategic research director and as the lead for the Manager Research's Solutions effort, Kishen is responsible for developing intellectual capital on portfolio construction, asset-class views and key investment themes, including outcome orientated investment solutions. Kishen is a member of Mercer's Global Strategic Research Committee and the Multi Asset Research Group. He is also part of the Hedge Fund Boutique.

PANEL

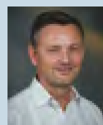
Steven Andrew, Fund Manager, M&G
Steven joined M&G in 2005 as a member of the portfolio strategy and risk team, before moving to the multi-asset team, where he helped to formulate asset allocation strategies for M&G's multi-asset fund range. He has been the fund manager of the M&G Episode Income Fund since its launch in 2010 and also deputy fund manager of the M&G Sustainable Multi Asset Fund which launched in early 2019. Steven began his career at the Bank of England in 1987 and subsequently worked at F&C Asset Management and Merrill Lynch before joining M&G.

Craig Heron, Head of Public Markets, RPMI Railpen
Craig is head of public markets and the fund manager for the Growth Fund, Railpen's liquid return seeking portfolio. Craig joined Railpen in September 2011 and has 22 years' investment experience. Before joining Railpen, Craig held a position as a multi-asset manager, responsible for a range of portfolios and regional funds at Henderson Global Investors and New Star Asset Management. Craig has a Bachelor's degree in Actuarial Mathematics and Statistics, holds the Investment Management Certificate (IMC) and is a CFA charterholder.

Adrian Mitchell, Chief Investment Officer, Delegated Consulting Servives, Aon
Adrian started his career at Bacon & Woodrow in 1984. Initially he worked as a pensions actuary and then moved to the investment consultancy practice where he provided investment advice to a wide range of large pension scheme and charity clients. He joined Fleming Asset Management in 1994 to set up and lead the Quantitative Portfolios Group, managing UK, European and global equity mandates. After Fleming was purchased by J.P. Morgan in 2000, he left the firm to join FF&P Asset Management (the Fleming Family Office).

Ross Nicholson, Managing Director, and DB Consulting Team Head, River and Mercantile Solutions
Ross is a managing director within River and Mercantile Solutions and is head of the DB consulting team. He has worked as a consultant to a wide range of trustee groups under different engagement models over the past 12 years. He is lead consultant to a number of clients and helps different trustee boards with a wide range of investment issues, including setting objectives and journey planning, manager evaluation and selection and prioritising changes.

Erik Rubingh, Head of Systematic Factors, BMO Global Asset Management
Erik Rubingh joined the firm in July 2007 and is managing director and head of factor investments. Prior to joining, Erik worked at ABP Investments (now APG Investments), first as senior portfolio manager in the Global Quantitative Strategies Group and later as head of that group. Erik graduated from Groningen University with an MSc in Econometrics. He is also a CFA charterholder. Erik is a regular contributor to the investment press and a commentator on global asset management.



Stéphane Vial, Managing Director and Head of Investor Relations EMEA, CFM
Stéphane is managing director, in charge of CFM's EMEA client base. He joined CFM in 2007 and spent his first two years at CFM's headquarters in Paris where he was responsible for European client coverage. He then made the move to Tokyo where he was the director of CFM Asia KK, before moving to London in 2013. Stéphane has 20 years of experience in trading capital markets in both London and New York having worked for Chase Manhattan Bank, Renaissance Technologies and Commerzbank.

In association with

very wide range of strategies. It starts from your traditional betas (bonds and equities) mixed together in a 'long only' fashion, to funds that are less constrained, where you're not meant to be just 100% beta. You can have strategies with capital-based allocations such as traditional strategies that deliver similar risks to the market itself; or strategies based on risk allocations – risk parity being one example.

Next you have diversified growth funds (DGFs), which came into existence 15 years ago off the back of looking for investment solutions after the bubble in 2001, where the benefit was to mix asset classes and strategies together to mitigate risks.

Then there are absolute return multi-asset solutions, where you're not necessarily benchmarked. Moving from long-only into the alternative space, you find alternative risk premia, or alternative beta, which tend to be risk based and, unlike DGFs, make use of leverage and derivatives.

Then you can go all the way to hedge funds – a hedge fund is essentially a multi-asset vehicle often using more complex and proprietary strategies.

So, multi-asset is very broad and there are a number of dimensions to differentiate all these, such as how much beta it has, if it is it long-only, leveraged? How risk is allocated, risk-based versus capital allocation; and whether it's just purely physical or whether it is synthetic through the use of futures and derivatives.

Mitchell: From our point of view, there are five key asset classes. You've got equities, bonds, property, currency and commodities. Multi-asset allows you to access some or all of those types of strategies, either long or short, to produce a return target which tends to be either cash plus or inflation plus, with a whole continuum of solutions, ranging from the highly alpha-driven at one end to extensive use of beta or even leveraged beta with risk parity at the other end. Trying to categorise them in a way that clients understand is the challenge, of course.

Heron: It is a challenge. If you go back to balanced funds, the modern DGF is just a balanced fund with extra bells and whistles, in my opinion. Then you go through that litany of different choices that were mentioned earlier, and if you are trying to get access to any one of those, whoever you are speaking to will tell you they can do it – whatever you ask for.

But if you are looking for one definition of multi-asset, I would say it's a portfolio with a combination of assets. Beyond that, it's very tricky to define.

Using multi-asset within a portfolio

Chair: So, we've understood multi-asset covers a wide range of approaches. From an asset allocator's point of view, what are the ways in which a multi-asset strategy can be used within a portfolio? One of the issues investors have had with traditional DGFs is what role they play in the portfolio, because they're almost a whole portfolio solution in themselves. How do they form a piece of the portfolio?

Mitchell: When we build funds in the DC world, you're a lot more constrained. You have to offer daily liquidity to get onto platforms and this impacts returns.

In the DB world, we would build a multi-asset portfolio. It would be bespoke for every client, because it takes into account their particular needs – they're not just delegating their assets to us, they're delegating the management of the liabilities to us as well, so we need to take a more holistic view when building the portfolio. For DB clients using LDI, we can build a portfolio to meet the funding cost of the LDI and then an excess return, aiming to close the deficit over time.

For those DB schemes that perhaps want more of a CDI approach, then we can build portfolios that have a more predictable income within the liquid part of the multi-asset space.

Nicholson: Investment consultants that are building multi-asset portfolios themselves are doing it either with a core multi-asset mandate with some things around the outside, or they are just building it themselves with the individual asset classes and the trustees (or the fiduciary manager) are managing the dynamism themselves. Again, it depends. It comes back to trustees' governance constraints. Smaller clients that don't meet very often perhaps have a greater need for something that has dynamism built into the fund.

Heron: Yes, it depends. I want to be able to control my asset allocation, but there'll be times where I want to have

In association with

Multi-asset roundtable

exposure to certain risk premia.

If I think about putting a DGF into that portfolio, what we see some consultants doing is going into DGF strategies, experiencing three years of bad performance, and then moving into the next DGF strategy.

So, when it comes to building a multi-asset portfolio, sometimes it's appropriate, other times very difficult. For smaller schemes that don't have the ability to throw hundreds of millions of pounds here, there and everywhere that can't move quickly, it is theoretically a good solution for them, but it's caveat emptor, as always.

Andrew: I agree on the point of the variability – there are people who are successful for short periods of time and then disappear, and then another system or trend or process is seen as rewarding multi-asset funds or DGF funds. That should just be a reminder that there is no holy grail. There is no one system that will constantly win time and again, but we, collectively, never learn. We're always seduced, collectively, by the latest fad.

Isn't it therefore beholden on all of us, both providers and intermediaries, to open the box and ask: "How do you claim to offer an edge, offer a genuine observation on the markets that isn't already there, isn't already in the price, doesn't already get reflected? Do you have an analytical edge? Do you have an information edge? Show me the transparency of your investment thinking, your investment process. I appreciate, as a client, sometimes the market's not going to favour that for a bit, but at those times, if I've understood your investment process, that's the time when I would want to be adding exposures to your fund.

Rubingh: From my perspective, it's like a journey starting in long-only equities, then in short equities, and then based on that experience, you think these concepts can be applied in other asset classes as well – long/short, market neutral, capital appreciation – and hopefully, you'll be able to deliver on that. You get diversification in that space as well.

But the great advantage for the client is that it makes explicit the split between the asset allocation decision on a high level – so how much in bonds, how much in equities – and how much can we add to that, using reasonably transparent techniques.

You won't reveal everything you're doing in detail, but the general concepts can be reasonably well understood, even by not overly sophisticated clients. So, it's the split between the beta decision and where you think you can get some additional returns on a diversified basis.

Chair: I would agree that the use of multi-asset strategies primarily comes down to an investor's governance constraints. For those investors that are governance constrained, a traditional core multi-asset strategy may be of use. However, for those investors that are less constrained by governance, they should be looking to build their own multi-asset portfolios to best meet their objectives, with the potential use of some idiosyncratic multi-asset strategies as part of their liquid alternatives allocation. On the topic of liquid alternatives, a lot of investors have been taking allocations out of things like DGFs and multi-asset strategies and opting for alternatives risk premia type approaches. Why are some investors are doing that?

Vial: There's a range of reasons, but the historical reason is that DGFs came into existence 15 years ago, at a price that was the right price for the product in the market, particularly in the UK which has fee constraints, and it's a one-stop-shop solution.

The challenge for an investor to allocate to DGFs is that you have many underlying strategies, which may include esoteric forms of beta. And you can end up in daily funds that do listed derivatives, listed real estate, convertibles and all kinds of different things.

If you have to do due diligence, can you actually go through all the 50 or 100 different sub-strategies?

Our approach is to offer a relatively low number of strategies known as alternative betas, in a market neutral framework, so investors can take back control of how much beta they want on one side, and how they want to have those exposures implemented it.

On the alternative side, think about risk budget and also think about what sort of strategy you believe in. You may believe in what your manager offers you or you may believe in just a portion. But

In association with

my point is that it's customer friendly, you can pick and choose strategies as well as target a fixed amount of risk for each. The benefit is to diversify traditional betas of the portfolio with these non-traditional uncorrelated betas in a manner where investors keep control.

A traditional DGF that has a lot of beta will go with the market, in terms of volatility. If there's no volatility in the market, it will be very difficult to get volatility in your DGF. If there is a crisis in the market, your DGF will deliver high volatility.

Ultimately, we are giving more control to investors.

Mitchell: One issue with DGFs is the perception that they promise to provide equity like returns with lower volatility. They've certainly delivered on the low vol, but they probably haven't delivered on the return side of things. Investors can buy market exposures, relatively cheaply, elsewhere in their portfolio, so it's about understanding what the drivers are within a multi-asset fund and not overpaying for beta.

Funds that are more market neutral – hedge funds, alternative risk premia – may make a lot of sense alongside market exposures held within client portfolios.

Heron: When the alternative beta strategies don't work, you can quantify that much more easily, because it's a market phenomenon. If something is opaque and has 50 different strategies in it, and you get your quarterly report and it's down another 0.5 per cent, you will have trouble understanding why.

A lot of alternative beta strategies were very disappointing in 2018. You can look at why that's the case. And from a client perspective, it's not great, but at least you can understand.

Outcomes are going to be good and bad. That's the reality of life, unfortunately, and investments. Understanding why they're good or bad is very important, rather than just, it's a good year – great. It's a bad year – I'm going to give the fund manager a hard time.

Performance measurement

Chair: Performance measurement is a difficult task for many investors when it comes to multi-asset portfolios – what are some of the group's thoughts on how to approach this topic?

Vial: On the alternative beta side, it's becoming benchmarked, so you can clearly measure your managers, one versus the other. Managers do more or less the same thing, using similar strategies so it's the implementation details that will set them apart, provided they deliver performance consistent with their benchmark.

Mitchell: As fiduciary managers, we're trying to achieve a better funding ratio for our clients, so we usually have a liability benchmark.

What's more interesting, when you're investing in these types of strategies, is the attribution, understanding the drivers. What has actually produced the return that year? Is it in line with your expectations of what that manager should have produced? It may have been a tough year, for example, but was it a tough year within historical norms that you can live with and understand?

Andrew: I agree. A lot of this is also about timeframes. It's not good enough to just look at an arbitrary calendar year and say, "it failed to reach its objective" or "it way surpassed its objective", in terms of whether it was a good or a bad year. You need to look at whether it met your expectations in the medium term for the delivery of what's suited to you, as a client.

Rubingh: I would also say, especially on the alternative side, it's important to relate back to your underlying asset class; so, if you say it's an alternative play that's market neutral, then it needs to be seen to give that market neutrality. Timeframes are important, of course, but if you look at your returns over a three-year period and even though you claim to be equity market neutral, a lot of the returns can be explained by the equity market, then you've not really delivered on what you were promising, even if it's positive. That's an important element.

Chair: While we're talking about performance measurement, the past couple of years have seen mixed performance across the board. How should investors be reacting to that?

Vial: The very first thing is you have to understand what sort of Sharpe or what sort of risk adjusted return you should expect and you should frame that into an appropriate timeframe – three to five years I think is a good timeframe for these strategies. Performance of any given calendar year – take it with a pinch of salt. Look at it, but don't force yourself to make changes after 12 months.

The second thing you can do is

In association with

Multi-asset roundtable

look through either your back test, or at the historical returns. You should ask yourself, for example: Is this out of the norm? Is there something that you're not meant to expect in that sort of strategy? Have returns been delivered in a way that doesn't make any sense? This is an inward-looking analysis that any investor can make of their manager.

The third thing is to analyse externally – how do I compare? These strategies, such as alternative beta, have been in the market for a very long time. They're not new. They've been traded in many ways and for many years, therefore you can look at whether you are an outlier and being an outlier, on the up side or the down side, should raise questions. The fact that there are benchmarks is very useful.

Mitchell: When you're looking at diversified growth funds' performance over the last three years – with 2018 being a tough year for most asset classes – less than half of DGFs outperformed cash by more than 4 per cent pa.

We'd encourage clients to think about the fact that maybe they're paying active manager fees for products that are largely beta-driven. Cheap passive DGFs are available and risk parity can provide some leverage there as well, in that space. Or if they prefer active management, move towards the more alpha-driven part of the market.

But even there, for a manager to outperform cash by 4 per cent pa, over the long-term, purely in a market neutral way, using alpha, that's a tough ask, I would say. So, people need to be more realistic about returns they're likely to get from that end of the DGF spectrum.

Andrew: An important question to encourage clients to ask, or at least get clients to get their consultants to ask, is: "Show me your process in action, because I'm not necessarily investing here with a sense of faith that you can deliver LIBOR plus four. I'm investing because you've shown me a process that I think I understand, that I think I know how it will behave in certain market environments, but more importantly, that I think I know how you will act, given a certain opportunity set that the market's offering you. So, show me, over periods of volatility, how you responded, if indeed that's what your mandate is to do."

It's very important, amid those periods of volatility, that they can give you a very clear sight of whether or not they are sticking to their plan.

Heron: There are some very persuasive empirical studies of institutions' records of hiring and firing managers and consultants' records of recommending managers, and even among the very best managers, the probability of them having three consecutive years of poor performance is much higher than you would expect.

We tend to frame the medium-term as three to five years. My time horizon at Railpen however is much longer, so my medium-term should really be 20 years. It's difficult though. When you sit on an investment committee and there's a row of red numbers, psychologically it is difficult not to react.

What you then need to do is ask yourself if you still have the same faith in the manager that you had when you first appointed them. Ask yourself what kind of evidence there is that you should still have that faith.

Nicholson: One of the challenges over the past couple of years is that a large proportion of pension schemes have more in DGFs than perhaps they should have; trustees are a bit more comfortable giving, say, a quarter of their growth assets to a DGF manager rather than a straight-up equity manager. This has been challenging when some DGF managers haven't performed.

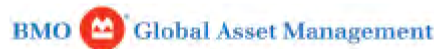
Chair: Why do you think that is?

Nicholson: It can be seen as an easy way of accessing diversification, but what we've seen is the cost of that diversification has been quite a drag on performance when managers don't perform.

Choosing a manager

Chair: An important point Craig *[Heron]* mentioned was about evidencing your faith behind choosing a manager. Could you describe some of the work that an investor may want to do when looking at the multi-asset space? What types of things would be appropriate to tick the box on, given performance is not one of the defining factors?

Heron: Performance is not one of them. Attributing where performance has come from, and whether that follows the stated process is fine, but the one, three, five, ten years of performance doesn't matter – it's just noise. It doesn't tell you anything.



In association with

In terms of due diligence, it essentially boils down to the various 'Ps'. Managers should have a philosophy as to why they think their strategy can beat a particular market benchmark to produce a return. There then needs to be a process as to how they're going to apply that philosophy to a portfolio, in good and bad times.

So, to summarise, what's the philosophy? What's the process? How do they evidence that they actually do that? You've got to try and get yourself as close to working in that company and understanding what they do, as you can, without actually going and working in the company.

Andrew: I couldn't agree more and the answer isn't in the numbers. You're not going to find the answer looking at a screen at your desk, going through the spreadsheets.

The answer lies in how your manager makes their investment decisions. How do they describe how they make their decisions? How can they evidence that? They need to be able to show their process, the robustness and coherence around it.

Mitchell: One of the attractions of multi-asset investing is the breadth that you can make decisions across, but that's also a problem, because does the manager have skill in all those areas?

We run fiduciary portfolios. We try and pick the very best managers in each asset class, so we're not reliant on a single manager to have all the necessary skills. We can pick the specialists in each area and bring them together. So, if I was looking at a fund's attribution, I'd be looking to see where the Achilles heel was with the multi-asset fund, where the manager has strength in depth; and the areas where perhaps they're a little bit weak, and they might think about outsourcing that part of their portfolio.

Innovation

Chair: One of the innovations happening across asset management as a whole, but particularly in multi-asset, is the prevalence of systematic forms of investing. Could we get some thoughts in terms of what role systemic forms of investing can have when managing multi-asset portfolios versus more traditional discretionary forms of multi-asset investing?

Rubingh: One approach is to stick with what the market deems to be the best allocation, perhaps some form of cap weighting, and then take exposure to certain styles in a systematic way, in order to try to generate positive returns. There it's quite important that the factors you take exposure to are not just shown to have historically generated positive returns but that there is also a sound reason as to why they generated positive returns.

Chair: So it's about the fundamentals behind the factors and to ensure they remain persistent in the future?

Rubingh: Yes, that fundamental rationale is important, rather than just saying, "Momentum will always work, so let's put everything on momentum", for example.

Chair: Is there room to allocate between factors?

Rubingh: That is very difficult, so we prefer a reasonably static allocation to a number of factors that we think will be rewarded; we don't think there's a lot of benefit in being very dynamic, in that sense.

Vial: We're in the same camp. It's interesting because systematic managers try to avoid human biases that can lead to mistakes, for example one such bias is to think we are superior at timing the market. So typically, as a systematic manager, we want to avoid timing; we allocate fixed amount of risks into strategies for which, individually, we have modest expectations but if you make a decent combination of them, then you get something that aims at beating the risk-adjusted returns of the market.

Chair: So how does timing around asset allocation come in to it, and being dynamic around that asset allocation?

Vial: It's about picking a handful of strategies that exhibit persistence and plausibility – and once picked, one should keep a constant risk weight to those over the long run. Take the human element out and keep the weight to the strategies, regardless of short term performance. Excessive rebalancing or timing over your models or long term risk allocation has the effect of ruining your investment framework. It is a human bias to interfere therefore hard to stay away from.

Andrew: For me, it's not about timing as much as pricing. Time is irrelevant – what I want to know is the journey of the price. Does the passage of time mean

In association with

Multi-asset roundtable

anything in a short run sense, to market behaviour? Yes, but it shouldn't. When we're thinking about timing our entry points, the time of our entry points is when the market's offering us a heavily discounted price on a good fundamental asset. If we can take advantage of a period of volatility that we think has non-fundamental sources – that is sourced in human behaviour, that is sourced in the misapprehension of risk – then we will build portfolios of those sorts of opportunities, which come at very different times – hopefully – but they come at the same price, which is cheaper and discounted for reasons that we would have an argument with.

Mitchell: The genuine episodes like that are infrequent though.

Andrew: They're very infrequent. In 2016 we had a few of them, mostly for political reasons, when the market was worrying about political stuff – like Trump, like Brexit, like Marine Le Pen. All of that was unsettling the market from a price behaviour perspective, and opening up a nice degree of opportunity, which then paid off very well and has continued to pay off very well, because you acquire these assets at a good price.

That for me is the number one piece of information that we should all be focusing on – what am I being asked to pay for this asset, because I'm an investor that wants to get a good price and not a bad one, not just ride whatever trends the market's currently taking me on.

Heron: In terms of decision-making timing, even between systematic and discretionary, there are underlying similarities which are very apparent. Essentially a systematic approach is rules-based, coded, essentially, and you don't override those rules. Discretionary is more human, but it's still rules – it's just heuristics. You're relying on the humans, or the team, the process, to take the information in, distil it, disseminate it, go through that decision-making process in the same way, every single time.

Heron: Some clients are going to like the discretionary, some will prefer the computer to make the decisions.

Mitchell: If you take the cynical view that alpha is just beta that's not been discovered yet then, in a sense, one of the attractions of the more systematic approach is that as time goes by and you find out what these heuristics are, and you like them, you can codify them and take advantage of them, in a cheaper way.

Andrew: That sounds very appealing and alluring, that the machine's doing it for us, but there's a human sitting at the computer, plugging in what the machine needs to be thinking about, from a framework perspective; which term it uses, which kind of decay factor it uses for its correlation statistics. What are the influences on the inputs that are very important?

Clearly, we're still a long way from getting that right. I wouldn't be dismissive of it though, despite the fact that I am a subjective, judgement-based fund manager/asset allocator, I think the investor can be well served by a CTA type approach.

Vial: What's also interesting is that discretionary is at times an easier conversation to have with investors. They can relate to it. Discretionary relates better to the way investors think about what strategy makes sense for their portfolio. With systematic, it's a bit more difficult, even though the world is moving towards more automation, and it's generally understood that computers are better at dealing with large amounts of data than the human being. You have to explain that human beings are full of biases that are remarkably persistent across generations, and that those biases don't mix well with investing.

Andrew: If we can codify the biases, then happy days. I just don't have confidence that we can codify the complexity and granularity and sophistication of the twisted ways in which the human mind then manifests itself in its decision making, and the imagination we all bring to the elaborate narratives and justification for our own decisions.

Vial: It's very tricky. That's what systematic firms are trying to do. Certain traits are well known and documented, such as following trends whether it be social, fashion, or prices of financial instruments. One example is the paradox of Investment Committees debating new investments. It is incredibly difficult for IC's to approve a new investment that has had a recent poor performance, even though it may be perfectly within expectations. The clear bias is to approve past winners!

Chair: We have had a good discussion in terms of discretion and systematic. Do we think the asset management world is going one way or do you think there's always going to be room for both types of approaches?

Nicholson: There is room for

In association with

multiple types of DGFs as they can play different roles in the portfolio.

Rubingh: In the past few years there's been quite a lot of attention to factors and there is almost an implicit assumption that this is a one-way street. However, if you go back in time and think about, for example, 2005 and 2006, what went on then in especially the equities space, but also in asset allocation generally to some extent, it was all about what was uniformly labelled as quant. Then we got to 2007 and 2008, and it went completely out of favour, and now it has come back. So, these things come and go in cycles, and it's never a one-way street.

One of the strengths though of a systematic approach is that it takes away that human element, that behavioural element, as much as possible. It doesn't mean that it's always easy or that it will always generate positive returns, no matter what, but it gives a stronger reference point than a more discretionary process. What you'll do if things are not going quite the way you expect them to is go back and look at the models again, but you're not going to intervene and reverse the position.

Heron: If you ask however which direction is the world going currently? If you take it back to a single asset class 'equity', there's a very determined move into passive and there has been for three, four years, probably, maybe even five.

Also, in relation to multi-asset, a lot of money went into discretionary DGF strategies, some of which have disappointed and now people are recycling back out. Not all of them of course, but some of the big ones raised a lot of money and disappointed, and money is cycling out of those and, as I understand it, into more of the systematic, rules-based, alt-beta strategies. So, in terms of where the world is heading now and has done for the last three or four years, it's definitely away from the discretionary decision making.

What turns it back, if it turns back? If I had to guess, it's probably the next bear market, in equity world.

Andrew: That will be determined by the nature of returns – the nature of the market. We are in the current phase of volatility aversion for a reason. People have been pained by volatility. It hasn't been costly to be too cautious. It has been costly to be overexposed, in terms of the volatility experience that your client has achieved. When the pendulum swings, and it is a when – it just might not be in our working lifetimes - but when the pendulum swings to the cost of caution has been high, on a relative basis, and either you've lost money in your German government bonds and you're down 20 per cent, or you see all of your neighbours, in a metaphorical sense, having participated in a 30 per cent to 40 per cent gain by holding something that you weren't holding, because you had volatility aversion, then you'll embrace a more returns-seeking manager – then you'll embrace those things and the market psyche will swing.

The obsession with volatility management and over-caution is a product of the environment that we've been in and seem to remain in, given the behaviour of the past 12 months.

Mitchell: The market cycle is also important – there are certain types of multi-asset funds, particularly the beta-driven DGFs and the risk parity funds that you want to be in at the start of the cycle, then you move into more defensive DGFs later on in the cycle.

Chair: We have heard from asset managers on the topic of dynamic asset allocation, but a question for the asset allocators in the room, how do you use dynamic asset allocation within your broader portfolios? Is that something you value and is that something you look to manage in-house, or do you look to outsource that to a multi-asset manager?

Nicholson: We manage it in-house for our fiduciary clients and then, for advisory clients, it depends on the client and their engagement. We do have some advisory clients that are more willing to be asset allocators themselves and are open to us providing the monthly asset allocation views, and then implement it off like that. Others haven't got that sort of decision-making framework in place. So, it depends on the client. It probably depends on the size of the client. It depends on how often they meet and their governance budget.

Mitchell: We do a combination on the fiduciary side – the key decision is the strategic asset allocation for each client. We will then take shorter-term tactical positions relative to that strategy but the positions are fairly constrained. Occasionally we'll take bigger, strategic moves if the opportunities come along, usually following severe market dislocations, but that's rare.

We also delegate to managers who we believe have skill in dynamic asset allocation – for example in the hedge fund space we invest in global macro managers who we feel may have an edge and may provide some extra returns. But mostly we control strategy from the top down.