Blending assets

Sandra Haurant considers the role of multi-asset investing within pension fund portfolios

Summary
- Multi-asset funds diversify across asset classes to smooth returns.
- There are hundreds of multi-asset funds, made up of different asset blends, with private market assets an increasingly popular part of the mix.
- Multi-asset funds help pensions balance long-term growth with resilience for better risk-adjusted returns.
- Regular review of the funds is important given market volatility.
- ESG approaches in multi-asset funds vary widely.

As the name suggests, multi-asset funds contain a variety of different asset classes, designed to complement each other and create a combination that will provide investors with the growth they require. Just what can these funds offer pensions, now and in the future?

In-built diversification

"In the timeworn phrase, *[multi-asset funds]* avoid 'putting all our eggs in one basket' and instead look to deliver a smoother investment journey than is feasible by investing in just one asset class," says L&G head of macro strategy, asset management, Chris Jeffery.

The term multi-asset can apply to any fund that holds more than one asset class. There are hundreds of multi-asset funds, each with its own blend of assets. "The workhorse assets are equities, fixed income, real estate, commodities and infrastructure," Jeffery says. "Within equities, multi-asset funds typically hold a diversified sectoral and regional mix. Government, corporate, asset-backed, emerging market and high-yield debt typically sit within fixed income. Private market assets, both equity and credit, are a growing part of the mix, alongside more niche opportunities, like insurance-linked bonds." Although, he adds: "Given the global nature of those assets, the associated foreign currency risk also needs to be managed carefully."

Aviva Investors head of EMEA institutional client relationship management, Heather Brown, says the firm structures its multi-asset funds around three core categories – growth, defensive and private markets. "Our belief is that each of these buckets of assets can play a distinct role in delivering long-term outcomes," she says. "Growth assets are typically expected to perform better when economic conditions are strong, while defensive assets will tend to exhibit better relative performance during periods of uncertainty or market stress. This means they have more potential to help cushion portfolios against losses."

And Brown agrees that private market assets, like private debt, infrastructure and property, are taking up more space today, despite their illiquid nature. "They can offer access to opportunities and diversification benefits, which go beyond traditional asset classes," she says, while also offering an "illiquidity premium, whereby investors benefit from the potential of additional returns by locking their capital in longer-term investments".

The right balance

"We believe multi-asset funds can play an important role for pension schemes looking to achieve a balance between long-term growth and resilience, which can deliver risk-adjusted returns," says Brown. "Pension funds want to capture long-term structural opportunities, whilst seeking to manage downside risks, and we think globally diversified pension portfolios spanning both public and private markets and blending active and passive strategies are the most effective means of doing that."

Indeed, whether it's about assets or management styles, getting the blend right is a crucial part of the process. Russell Investments head of multi-asset EMEA, Alain Zeitouni, says: "Multi-asset funds offer meaningful portfolio diversification by providing holistic access to a broad range of asset classes, beyond traditional equities and fixed income." And multi-asset funds can also incorporate "dynamic tactical asset allocation," says Zeitouni, which can be particularly helpful in turbulent times.

In fact, says Zeitouni, it is in periods of heightened volatility that multi-asset funds prove their worth. As markets tumbled following the announcement of Trump's tariffs at the start of the second quarter in 2025, for example, he says: "The ability to promptly re-balance portfolios or selectively add to equities in response to the sharp market reaction helped positively impact performance."

Keeping it fresh

We are, though, living through remarkably eventful times, and markets tend to react vigorously to economic, political and climate challenges. So, it's important to keep the balance of underlying assets right – which can mean shaking things up from time to time. Different managers take different approaches to reviewing assets, says XPS senior investment consultant and head of multi-asset research, Josh Pilley. "Some fund managers will set a long-term strategic allocation and rarely change the underlying asset mix, whilst some managers are very active in their approach, regularly shifting their portfolio based on their market outlook," he says. "At XPS, our preference is for funds that have some form of dynamic asset allocation, taking into account asset valuations and market sentiment. However, we believe that it is very hard for funds to deliver consistent positive returns from short-term tactical trading."

Meanwhile, Brown says: "This year, as much as any other, has been a good reminder that markets can be volatile, so it's important funds are regularly reviewed, to best-ensure they are performing as expected, they remain resilient to the changing environment and their forward-looking assumptions align with latest thinking.

"Alongside this, we think it can be beneficial to apply shorter-term, tactical investment opportunities with the aim of enhancing returns and trying to mitigate emerging risks, but also to help smooth the investor journey."

The place for ESG

Given the large number of funds and the diversified nature of the underlying assets within them, it's perhaps no surprise that the range of environmental, social and governance (ESG) approaches is also wide. "There is a broad spectrum of ESG approaches across multi-asset funds," says Pilley, "ranging from funds that make no consideration of ESG factors through to funds where each individual portfolio holdings must contribute towards an overall 'sustainability' objective".

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However, the Financial Conduct Authority's (FCA) Sustainability Disclosure Requirements, aimed at combatting greenwashing, have had an impact on certain funds using terms like 'sustainable' or 'ESG' within fund names and marketing materials. "While a small handful of multi-asset funds have been successful in their applications to the FCA to continue to use these labels, a greater proportion of funds have opted to remove these labels, with managers citing challenges meeting the FCA's requirements despite having sustainability-based objectives within their funds," Pilley says. "Across the funds we monitor that have removed labels, we have not seen any significant changes to managers' focus on sustainable investing."

Shift or shrink

The global economic environment is in flux, and pensions, too, are in a state of change. According to Pilley, many multi-asset funds have seen significant structural shifts in their investor base over recent years, largely due to outflows from DB pension schemes pursuing de-risking strategies, while, he says, some funds benefit from their position in the "latter accumulation and decumulation stages" of DC glidepaths.

As a result, Pilley says: "We expect that these structural shifts will lead to a shrinking of the multi-asset fund universe over the next decade, as some funds that were traditionally aimed at DB schemes ultimately close or merge, whilst a smaller number of large DC-focused multi-asset funds succeed." This might not mean a material change to strategies, he adds, but it could mean a greater focus on innovation catering to DC schemes.

For Brown, the current key trends in the sector, she says, are the integration of private markets, largely in response to the Mansion House Accord, and the growing need for post-retirement investment solutions. "By progressively diversifying the exposure of our multi-asset portfolios to include things such as UK property, private debt and infrastructure equity, we believe it has led to increased portfolio resilience and a more diversified set of return drivers," Brown says. On post-retirement, she adds: "The industry is geared up to help people build assets as they move toward retirement, but less attention has been paid to helping people know how to invest or draw an income once they reach retirement."

The Pension Schemes Bill, aimed at improving both DB and DC schemes, may be useful, she says, by helping ensure those metaphorical eggs are carefully spread out into different baskets. But Brown believes multi-asset funds will evolve to hold their place. "We have already taken steps to create multi-asset retirement solutions that are designed with an asset mix we believe can help retirees invest with confidence, manage risk and draw a sustainable income into their retirement," she says.

Written by Sandra Haurant, a freelance journalist