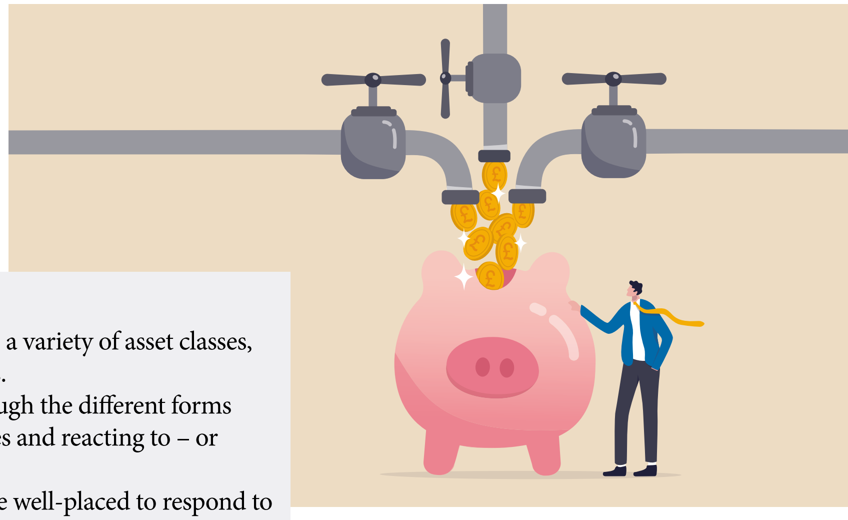
Containing multitudes



Summary
• Multi-asset funds are investment vehicles that contain a variety of asset classes, from 'classic' equities and bonds through to alternatives.
• By their very nature, they provide diversification through the different forms of assets, and this can be useful in tackling market cycles and reacting to – or preempting – crises.
• As a mixed, and changeable, bag, multi-asset funds are well-placed to respond to the demand for a greater focus on responsible investment strategies.
• The wider asset management industry is facing changing that are likely to be extremely relevant to multi-asset funds – including the rise of artificial intelligence, which could arguably change the way in which managers do their job.

Multi-asset funds, as the name suggests, are designed to hold a variety of different asset classes, including equities, bonds, real estate and more, finds Sandra Haurant

"Multi-asset funds provide diversification and a liquid, lower-risk alternative or complement to a pension scheme's traditional equity growth allocation," says Cardano senior multi-asset strategist, Ross Barr. "Multi-asset funds can be diverse, but the basic premise is to deliver stable returns over a market cycle. Multi-asset funds should therefore provide a lower volatility solution for pension schemes than allocating to passive strategies."

What's more, according to Columbia Threadneedle Investments head of dynamic real return, multi-asset, Christopher Mahon, these diversified funds can bring a raft of other advantages for pensions schemes – for example, access to asset allocations skills. "This is the key advantage a multi-asset solution offers," says Mahon. "Making both strategic and tactical recommendations is the core of our offering."

Then there is the question of governance – an area that has grown in importance over the past 15 or more years, says Mahon, who says the emphasis has shifted today to encompass a broader remit: "With the increased reporting focus that trustees now have, our governance solution has expanded to include many more elements including holistic reporting of environmental, social and governance (ESG) metrics such as carbon footprinting."

Crucially for pensions, connecting liability-driven investment (LDI) with multi-asset strategies can help to provide flexibility when schemes most need it, says Mahon. In Columbia Threadneedle's case, linking LDI with multi-asset funds, allowing the bulk of a scheme's assets to be on the same platform – he says helped funds during last year's turmoil.

And finally there are advantages both in terms of cost and scope: "*[Multi-asset funds]* offer advantages in terms of annual management charges and the ability to access a range of assets classes (depending on scheme size)," Mahon adds.

Diverse strategies

Given the diversification found within multi-asset funds, it's not surprising that there are also multiple ways in which to manage them. "At Cardano we have an economically-balanced investment philosophy," says Barr. "In our multi-asset funds, we invest in a variety of asset classes that are expected to generate returns at different stages of an economic cycle."

But, Barr explains, a 'static' portfolio – even one with healthy levels of diversification – will not always perform well in every given environment. "To solve this, we combine an active approach to asset allocation – informed by our view on the direction of the global economy – with thoughtful and flexible portfolio construction using a wide-ranging toolkit across various financial instruments," says Barr. "This helps to deliver our clients' objectives and ensure downside protection."

Meanwhile, at Columbia Threadneedle: "Our investment approach is active, in that we aim to add value through rotating across and within asset classes at different terms of the investment cycle, we are also active at the stock selection level," says Mahon. Risk levels vary according to the individual mandate, and some funds, such as the CT Dynamic Real Return Fund, have, "a great deal of flexibility within the asset classes, and so the magnitude will be different to a fund that is managed against a fixed benchmark, where the allowance will be lower in terms of magnitude".

For Mercer partner and global head of multi-asset team, Andrew McDougall: "It's about finding and offering portfolios which reflect different beliefs and constraints, rather than just risk profiles. So, for example, do you believe in active management? Where do you want to see it deployed? Is it just in fixed income or is it across equity and across hedge funds?" And, he adds: "The other key trend we have seen and have discussed with clients is around the simplicity versus complexity trade off, particularly in the context of private markets and illiquidity. Some schemes are better placed, with their time horizons and their governance, to take that on, and some are not."

Highs and lows

When it comes to performance, recent times have been interesting for multi-asset funds – ups and downs in the markets, in theory, give these diversified funds an opportunity to demonstrate their ability to ride out lows and benefit from highs.

Mahon says: "Looking at our funds, they have performed well in both absolute and relative terms across the range of managed funds and outcome orientated funds. Our decision to be on the receiving end of the higher rate environment particularly via overweight credit (including investment grade, high yield and emerging debt) has worked well." What's more, he adds: "Our decision to add to European ex UK equities earlier this year was well-timed and our portfolios benefited from increased allocations. We have since reduced this allocation given the sheer strength of the outperformance."

According to McDougall, for those funds that are equity and bond heavy, which he refers to as the "core style strategies," 2022 was "a really tough market" while more idiosyncratic funds fared better. In all cases, says McDougall, transparency, at a very granular level, is key. "We give the transparency to clients around which elements of what we're doing work, and which haven't worked, over given periods," he says.

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A move towards multi-assets?

Broader changes in the pensions landscape are leading to different strategy requirements – and in the defined contributions (DC) universe, the draw of these balanced, diversified solutions is clear. Mahon explains: "As DC schemes continue to grow in size, the importance of multi-assets can only increase. This is a growing area of focus for our business and we have some very attractive funds from both a performance and fee perspective." However, he adds, for DB schemes the story is different. "It is more nuanced, as the market will slowly mature over time," Mahon says. "We feel there is ample opportunity to take market share, for instance, by offering a direct link between the LDI provider and the management of the growth assets. As schemes reflect on the operational risks seen during the LDI crisis, a streamlined approach is likely to appeal."

Changing landscapes

Indeed, the big advantage of multi-asset funds is that they have certain shape-shifting qualities that allow them to adapt and meet different needs at different times in the market. As Mahon says: "Multi-assets represent around a quarter of our firm's assets and is central to our strategy as a business. Having a breadth of capabilities across equities, fixed income and alternatives, and managing a range of strategies, means that we can tailor our service to the clients' requirements," says Mahon. After all, he adds: "Our 25-plus years of experience in managing active allocation mandates have taught us one thing – change is the only constant."

And that shape-shifting covers not just asset class choices, but also themes. As sustainable investment becomes mainstream, forming an essential element in any strategy, multi-assets can, arguably, respond to challenges and benefit from opportunities in a range of ways within the environmental sphere – with the potential to boost healthy competition among managers, too. "As a firm, our approach to responsible investing and engagement is available on a standalone basis and is powerful enough to win over $1 trillion of third-party assets," says Mahon. "The same approach to engagement applies to our multi-asset funds and as the industry examines competing claims for responsible investing, we feel our credentials here will differentiate us versus the competition."

Finally, in broader terms, asset management as an industry is likely to come in for some significant changes, too, McDougall says, which could have an impact on the ways in which these funds are managed: "I think in the context of artificial intelligence, and the advances in technology in general, one can see that the impact of technology is increasing all the time – and the asset management industry has probably been slower than others to adopt those material changes." Change, then, is perhaps on its way sooner rather than later – although, adds McDougall, "as we say at Mercer, the first rule of forecasting is don't do it".

Written by Sandra Haurant, a freelance journalist