



SYNAPTIC

# Multi-asset is currently king in the investment balancing act



There is a palpable excitement in firms that we are consulting with about the current trend for multi-asset solutions. It is amazing to witness the rare confluence of Providers' plans, intermediaries' preferences and consumer appetite - all in virtuous alignment. These products are being made to order, are a joy to recommend and are flying off the shelves.

When we crunch the data relating to recommendations made through the Synaptic system we see the following: a majority of funds flowing into the 'multi-asset' arena.

This underlines the fact that 'multi-asset' investing is not just a catch-all for customers with smaller amounts to invest, but are a core investment solution for a wider range of cases, including single premium bond / ISA and pension investments.

As many of the funds are relatively new, you may need to concentrate on those that have a greater track record, including performance through difficult market conditions.

Sectors		%
1♦	IA Mixed Investment 20%-60% Shrs	26.14
2♦	IA Mixed Investment 40%-85% Shrs	21.48
3▲	IA UK All Companies	21.38
4▼	IA Mixed Investment 0%-35% Shrs	18.94
4▲	IA Property	18.94
6▼	IA UK Equity Income	18.73
7♦	IA Unclassified	17.99
8▲	IA Specialist	17.88
9▼	IA Global	17.57
10▲	IA Sterling Strategic Bond	17.35

We have been reading this week about the FCA's concerns about the lack of consistency in advice. For us this points to the difficulty that some firms are having in setting up robust due diligence, and establishing best practice. Some of our best customers have only come to us after they have been censured by the FCA for example. You must have the ability to evaluate investments in depth, including a full range of risk metrics and asset allocation. You need to be able to do research in the context of the products and platforms that are being recommended. You need to be able to maintain portfolios for research purposes so as not to rely exclusively on information from the Providers. Finally you need to be able to conduct independent risk assessments of your clients and their investments, preferably with access to stochastic metrics.

The Due Diligence points are really the same as for any portfolio. Multi-asset investments still require you to understand how and where the money is invested. So if you can't see a breakdown – you should almost certainly avoid.

The fund should reflect your firm's investment strategy, in terms of diversification of asset classes and investment themes. As many of the funds are relatively new, you may need to concentrate on those that have a greater track record, including performance through difficult market conditions.

The freedom that a multi-asset proposition can exercise is a potent weapon in today's markets. The markets have benefitted greatly from artificial liquidity since the downturn, but as macro policy is shifting among the big economies, bouts of volatility are revealing areas of real vulnerability relating to correlation and liquidity risks. Multi-asset funds are starting to fill the gaps where straight forward allocation to fixed income would have once worked, but alas is no longer an easy option. Many fixed income instruments are now too expensive, illiquid and volatile. The wider remit and flexibility of the multi-asset manager is the key to navigating the topsy-turvy markets we are in. The many funds that are managed to a risk profile become ready-made solutions that align beautifully with a client's appetite for risk, as explored with their adviser.

Moreover the portfolio administration overhead is removed from the adviser.

We have been performing due diligence on funds from Canada Life, Fidelity, L&G IM, M&G, Prudential, Premier, Rathbones, Royal London, Vanguard Sanlam and Santander in recent months, and there are some truly outstanding ranges to choose from. Exclusively passive solutions are also available and over all, ongoing costs are easily comparable to traditional model portfolios. Clearly the compliance overhead is low, as the fund can be analysed as a single entity.

Below - I have built the following grid in Synaptic Product and Fund, providing a table that I can sort across a variety of metrics prior to selection. As with risk, qualitative research (or opinion!) should not take precedence over quant analysis. The FCA is concerned about the consistency of advice within groups of advisers, but we think that a focus on how research is performed should make it easier to establish parameters for consistency and best advice.

**Eric Armstrong**  
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Showing 1 to 321 of 321 funds											Factsheets	Graph	Options
Fund	Primary asset class	Best/worst: Best 12-months	Best/worst: Worst 12-months	Charges: Total expense ratio (TER)	Cumul. perf.: CP 3 years	Financial Express rating: Crown	Risk metrics: Volatility	Risk metrics: Alpha	Risk metrics: Information ratio	Risk metrics: Kurtosis			
CF Ruffer European C Acc	Mixed Asset	32.6	-6.26	1.26	36.24	4	2.37	0.46	0.2	1.83			
Premier Multi-Asset Distribution A Acc	Mixed Asset	41.43	-32.39	2.25	32.72	5	1.48	0.46	0.91	0.94			
Artemis Monthly Distribution Ret Acc	Mixed Asset	26.13	4.3		35.46	5	1.86	0.44	0.63	0.37			
Premier Multi-Asset Monthly Income A Acc	Mixed Asset	37.7	-2.04	2.26	30.83	5	1.38	0.44	0.73	0.8			
Games Ethical Cautious Managed A Acc	Mixed Asset	32.38	-23.44	1.36	34.8	5	1.89	0.43	0.54	-0.28			
Standard Life Investments Dynamic Distribution R	Mixed Asset	35.89	-28.03	1.62	33.33	5	1.75	0.42	0.66	0			
IPM Balanced Managed I Acc	Mixed Asset	41.17	-31.73	0.65	38.96	5	2.31	0.4	0.44	0.29			
Premier Multi-Asset Growth & Income A Acc	Mixed Asset	28.66	-22.43	2.51	35.66	5	1.94	0.39	0.6	0.06			
WFM Hathaway Acc	Mixed Asset	41.14	-25.25	1.59	34.8	5	2.3	0.38	0.23	0.24			
IPM Cautious Managed A Acc	Mixed Asset	12.82	-10.87	1.43	20.7	3	1.25	0.36	0.28	-0.86			
Royal London Sustainable World Trust C Acc	Mixed Asset	28.82	0.08		39.6	4	2.65	0.34	0.39	-0.77			
Scottish Friendly Managed Growth	Mixed Asset	40.85	-41.28	1.46	35.58	5	2.38	0.33	0.32	-0.51			
CF Odey Portfolio Sterling Retail Inc	Mixed Asset	34.01	-7.4	1.71	33.74	5	2.4	0.31	0.24	-0.91			
Practical Investment Acc	Mixed Asset	36.06	-35.73	1.11	33.47	5	2.23	0.31	0.32	0.41			
Old Mutual Managed A Inc	Mixed Asset	44.19	-36.69	1.67	30.4	5	1.92	0.29	0.33	0.41			
Henderson Inst Global Care Managed A Acc	Mixed Asset	35.75	-28.83	1.6	34.78	4	2.4	0.27	0.41	-0.41			
Invesco Perpetual European High Income Acc	Mixed Asset	45.21	-12.15	1.52	27.14	5	1.99	0.27	0.28	0.25			
SF Cautious	Mixed Asset	32.13	-20.53	2	23.97	5	1.48	0.27	0.38	1.61			
WFS Hawksmoor Distribution A Acc GBP	Mixed Asset	29.51	0.24	3.25	27.79	5	1.89	0.26	0.2	1.45			
Royal London Sustainable Diversified Trust C Acc	Mixed Asset	21.57	-1.9		27.2	4	1.93	0.25	0.36	-0.24			
B&C MM Navigator Moderate A Acc	Mixed Asset	25.07	-16.97	2.38	23.85	5	1.56	0.25	0.39	0.23			

# Multi Asset Investing – Diversification



**Multi asset investing has many attractions from an advisers perspective – it is a way of outsourcing the ongoing management of client funds in a cost effective way – and key to this are the diversification benefits it brings, not just in the initial portfolio but on an ongoing basis through the fund management and rebalancing.**

Diversification is a subject which investors should have high up on their agenda when planning a portfolio and most investors understand the principle - which is to spread assets across a number of different asset classes, sectors and geographies to deliver the best return for a given level of risk. Combinations of assets that do this are said to be on the efficient frontier as defined by Harry Markowitz in 1952 - this is the cornerstone of what is called Modern Portfolio Theory. The efficient frontier is the point where a portfolio reaches its optimal combination of assets to achieve the best return for the risk taken. We will not dwell too long on this, only to understand that in investment theory at least diversification is at the heart of maximising risk and return.

Diversification is key to managing risk in a portfolio, and so to understand this we need to look more closely at risk, and the different types investors are exposed to. Fundamentally there are two types of risk to address. Firstly systematic or 'market risk', which is a risk that diversification cannot address and it is associated with every type of asset. Causes of systematic risk are things like inflation rates, exchange rates, political instability, war and interest rates. This type of risk is not specific to a particular company or industry, and it cannot be eliminated, or reduced through diversification; it is just a risk that investors must accept.

The second type of risk is unsystematic risk and this is specific to a company, industry,

market, economy or country, and it can be reduced through diversification. The most common sources of unsystematic risk are business risk and financial risk.

A diversified portfolio will invest in a range of assets so that not all will be affected in the same way by market events. In simple terms, the more concentrated a portfolio, the greater risk there is that if a negative event occurs affecting markets related to the assets you are holding, then they could all fall in value. If this risk has been spread by holding non correlated assets – that is those which react in a different way to the event - the chances of significant loss are lower. There are always exceptions to this, such as a crisis that transcends all of these normal correlations, as we saw with the 2008 global financial crisis.

The benefits of diversification are perhaps best illustrated with an example. If a portfolio were held in only one type of stock – for example airline stocks – and an event occurred affecting that industry – for example an indefinite strike by aircraft staff – then the share prices of all the stocks will drop, having a dramatic effect on the entire portfolio. If however the portfolio also held some stocks to counterbalance this risk, for example rail company stocks, then only part of the portfolio would be affected, and indeed the rail company stocks may increase as a result of higher demand for its services.

## Diversification is key to managing risk in a portfolio, and so to understand this we need to look more closely at risk, and the different types investors are exposed to.

Of course it is possible, and indeed preferable, to diversify further than this - as there are many events that would affect all transport stocks. This is the impact of correlation. Any event that reduced travel overall would affect the whole portfolio, so it would be argued that train and air travel stocks have strong correlation. In order to achieve better diversification, you would want to diversify more comprehensively, not only investing in different types of companies but also in different types of industries. The more uncorrelated the stocks are, the better.

even companies if direct equities are included) and potentially other levels in between. Diversification is simple to understand but far more difficult to deliver effectively.

Once a portfolio is in place, it is just as important to monitor it, and look at the attribution (how and why a portfolio differed from its benchmark) as this can illustrate where there are biases and unintended risks in a portfolio. Holding a range of mutual funds from different managers may seem to offer diversification but if all the managers have 10% in Vodafone for example, then the

away from this style the portfolio could perform much worse than one which included a range of styles.

Portfolio construction is a careful balancing act, as it is also not wise to over diversify as this can work against a portfolio as well. Splitting a portfolio into many small packages can incur higher transaction costs and can mean that the holdings are so small that the portfolio doesn't really benefit from holding the right stocks as they are in too small a quantity to influence the overall return.

In summary, the principle of diversification is generally well understood and is a vital part of portfolio planning. This simple initial message is however much more complex when looking to execute effectively to meet different client requirements. This is where multi asset funds run by professional fund management groups can help to deliver the right level of risk adjusted returns.

**In simple terms, the more concentrated a portfolio, the greater risk there is that if a negative event occurs affecting markets related to the assets you are holding, then they could all fall in value.**

Constructing a diversified portfolio involves a number of layers, from the macro or headline level - choosing between equity, bonds, property, cash, commodities, and alternatives - to decisions on geography, and ultimately decisions on individual sectors and funds (or

underlying concentration risk may be higher than first thought. Similarly, holding funds from a number of managers with the same or similar style or process would not represent a diversified portfolio as the funds would be highly correlated and if the market moved

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November 2015



# Understanding the true cost of investing in multi-asset and multi-manager funds

**The use of multi-asset funds has increased substantially in recent years. This trend has been driven by the desire to obtain long-term investment growth similar to that of equities, but with significantly lower volatility.**

The underlying costs of these funds are often overlooked, but should be a crucial factor in investors' selection process.

## Looking beyond headline charges

The Retail Distribution Review (RDR) has served to make advisers and clients increasingly aware of how higher charges can weigh on long-term investment performance. Indeed, traditional ways of expressing charges, such as the annual management charge (AMC),

may not give you the whole picture when it comes to providing a true reflection of the cost to the end consumer.

The total expense ratio (TER) and the more recent Ongoing Charges Figure (OCF) are more accurate measures of the total charges as they include items such as legal, custody and audit fees. However, even these measures only cover headline investment charges and do not capture the other costs of investing. When analysing a multi-asset fund, for example, investors may also wish to consider fund costs in three other areas:

- the turnover costs of changing the funds held
- the trading costs within the underlying funds
- the cost of any derivatives exposure

## Turnover costs of changing underlying funds

Trading costs are the most obvious example of costs that are not captured by the AMC, TER or OCF. While it's difficult to obtain precise figures, as fund turnover varies over time and from one manager to another, we believe that these are important costs to consider.

Switching exposure between asset classes or markets, for example by switching from UK to European equities, is one of the main ways



that managers aim to add incremental returns. Even the most effective active manager won't be right with every trade, but each trade does incur transaction costs. These transaction costs are based on the difference between the buying and selling prices of investments (known as the 'bid/offer spread'). Where actively managed funds are bought as part of the overall multi-asset fund, it is also likely that there will be occasional costs from switching assets from one manager to another.

A multi-asset fund that uses inexpensive, in-house passive funds avoids the majority of these costs. It will therefore be likely to incur significantly lower costs than one using external active funds or Exchange-Traded Funds (ETFs). Furthermore, if managers have a wide range of liquid funds, the use of 'crossing' can help to reduce these costs further. Crossing is the in-house process of matching buyers and sellers of these underlying internal funds so that each side can avoid costs by trading at the 'mid' price.

## Turnover costs within underlying funds

The funds held within a multi-asset fund also incur transaction costs. While both index and active funds incur these costs, they are typically much higher for active funds, as the

The presence of 'hidden' costs can make it difficult to assess the total costs of a multi-asset fund, particularly where more complex strategies are involved. The benefits of these strategies are often well articulated, but the costs are often overlooked.

managers change their views over time. This implies a considerable saving for multi-asset funds using index tracker funds for their underlying investment exposure.

### Derivatives: The cost of flexibility

Most multi-asset funds use derivatives to take shorter-term positions that might be very expensive or time-consuming to undertake with physical assets. While derivatives can provide this important and useful flexibility, they can incur significant additional costs. Most multi-asset funds make use of both exchange-traded and over-the-counter derivatives such as futures, options, and total return swaps (TRS).

For example, exposure gained through futures and TRS tend to give a slightly lower return than the equivalent holding in the underlying asset. This is because of the funding charges banks generally make for providing them. These funding charges consist of the derivative funding cost, as well as the difference between the cost of the three-month cash rate (on which futures are based) and the lower cost of the one-week cash rate (against which most cash funds are benchmarked). There can also be costs relating to the clearing, execution and margin-interest costs associated with the use of derivatives.

When taking shorter-term positions it may still be more efficient to use derivatives than physical assets, due to lower initial trading costs in many cases. However, it is important to note the implied cost of assessing alternative strategies.

### Making an informed investment decision

The combination of headline costs included in the TER and underlying trading and derivative costs can have a major impact on returns received by a multi-asset investor over the long run. However, the presence of 'hidden' costs can make it difficult to assess the total costs of a multi-asset fund, particularly where more complex strategies are involved. The benefits of these strategies are often well articulated, but the costs are often overlooked.

Assessing a manager's ability to generate returns and manage risk is clearly central to fund selection. When doing the due diligence research on a given fund for your clients, however, we also believe that it is crucial to take an in-depth look at all of the costs incurred in executing a fund manager's strategy.

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# Multi-asset funds and risk profiles: What's the difference between risk rating and risk targeting?

Some of the industry press coverage of multi-asset funds fails to clearly differentiate between a fund that carries a basic risk rating and a fund that actively targets risk. With an ever increasing regulatory focus on client suitability, it's more important than ever for advisers and the press to clearly differentiate between the two.

## Risk rating vs. risk targeting

Any fund can receive a 'risk rating' from an independent risk profiling agency. However, very few funds have an explicit mandate to maintain this rating. Normally, funds

have other targets, such as outperforming a benchmark. Over time, they can succeed or fail in meeting this target, but either way, they can, and often do, drift away from their original risk rating. This poses a challenge for advisers who must continually reassess whether the fund remains suitable for a given client's risk profile.

'Risk-targeted' funds aim to match a specific risk profile over time, while delivering strong risk-adjusted returns. Doing this successfully requires the fund to adapt the asset allocation in the face of developing trends. Even as the markets cycle through bull and bear phases, the risk profile of a risk-targeted fund should remain consistent. This allows advisers to align the risk attitude of their clients to the funds' and hopefully avoid any nasty surprises.

Asset allocation name	Attitude to Risk	Risk Rating
Multi-Index 3	Moderately Cautious	2.7
Multi-Index 4	Balanced	3.2
Multi-Index 5	Balanced	3.8
Multi-Index 6	Moderately Adventurous	4.8
Multi-Index 7	Adventurous	5.5



## Risk targeting: Solving the suitability dilemma

Risk-targeted multi-asset funds represent the next generation of multi-asset investment solutions, and it's no surprise that they continue to grow in number and AUM. If these funds succeed in being consistent with specific risk profiles, the adviser and their client will both have peace of mind that, as long as the client's attitude to risk doesn't change, the funds should remain suitable.

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# The Bond Conundrum

**With government bonds playing an important role in many low volatility portfolios, can this traditional allocation staple still be considered a 'safe option' in today's environment of high prices and record-low yields?**

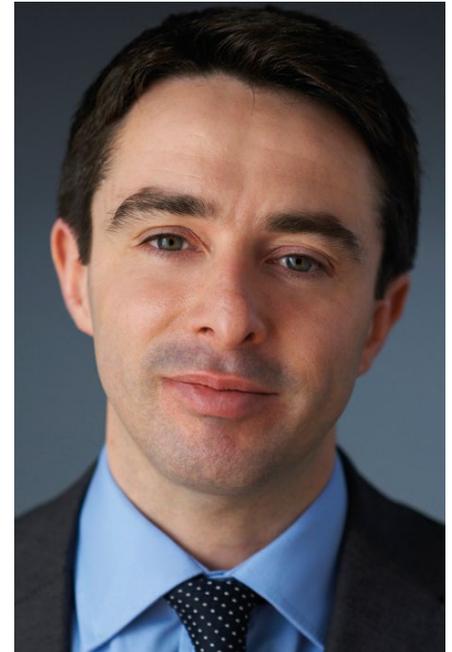
Bonds have played a key role for investors over recent decades, offering solid returns against a backdrop of falling interest rates and portfolio protection based on a low correlation with equities. In recent years, this perceived 'safe asset' has been in high demand as investors, fearing the worst from equity markets and declining growth expectations, sought to avoid risk.

But with an interest rate increase seeming almost inevitable soon, the economic picture does not look positive for bonds on a forward-looking basis.

So if traditional fixed income cannot provide the required risk/return profile, are there other assets that can?

We would highlight select absolute return products as a realistic option, and whilst we cannot guarantee, as with any investment, that these will make money, they do have the ability to deliver real long-term positive returns, something the richly valued bond markets may struggle to do from here.

Unlike long-only fixed income funds, absolute return strategies can invest across a wide array of asset classes as well as utilising derivatives. These instruments are not used to inflate returns, but rather to limit the risks associated with investing in global markets. To capture this, GAM's risk-rated model portfolios invest in a range of absolute return products, ranging from equity long/short funds through to global macro funds, with the intention of capturing



positive returns at a low level of volatility, something that traditional fixed income funds may struggle to achieve going forward.

We are not arguing for a wholesale move away from fixed income strategies (we do hold some esoteric fixed income positions), but the current environment calls for a different, more modern, investment approach. Absolute return products needn't be scary, indeed they may be exactly what we need to navigate the current investment environment: generating steady cash-plus returns whilst limiting risk.

For more information please regarding GAM's 5 risk-rated portfolios visit [www.gam.com](http://www.gam.com) or contact Emma Howard on **020 7393 8834 / [emma.howard@gam.com](mailto:emma.howard@gam.com)**

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Portfolio name	Attitude to Risk	Risk Rating
GAM Star Defensive	Balanced	3
GAM Star Cautious	Balanced	3.5
GAM Star Balanced	Moderately Adventurous	4.1
GAM Star Growth	Moderately Adventurous	4.8
GAM Star Global Equity	Adventurous	5.6



# Today's brave new multi-asset world

## Philip Saunders is Co-Head of Multi-Asset and Co-Portfolio Manager of the Investec Diversified Growth Fund

As we move into the middle of the 2010s, what do we feel the world facing multi-asset managers looks like today?

Firstly, greater asset allocation flexibility is likely going to be necessary in the financial market world we currently find ourselves in. The global financial crisis has ushered in a degree of government and Central Bank market intervention that is unprecedented, leading to distortions in asset valuations which will eventually have to be unwound.

This is probably most evident in bond markets. If, after a 33 year secular bull market cycle, developed bond markets have made their secular low points in yields, their role as defensive and diversifying components within portfolios may well be compromised. This flips conventional portfolio construction theory on its head.

Secondly, the capacity within multi-asset teams to see the world from the 'bottom-up' across multiple global asset classes, rather than rely on traditional macro dominated 'top-down' approaches, is likely to be critically important in meeting investor objectives. This is a world that will favour large well-organised teams with the ability to analyse and understand portfolios from top to bottom, owning every single allocation, with the tools to 'do the job' and the scale to deliver cost effective solutions to investors.

Finally, greater precision and discrimination around expressing a view should result in more robust structural diversification in portfolios, as well as more effective risk and reward trade-offs. The ability to hand-pick individual positions, express relative preferences or to build a bespoke basket of stocks is likely to be increasingly important in the world of modest returns. A focus on asset class behaviours, as opposed to labels, is also, we believe, critical in achieving robust diversification.

We are potentially at a fork in the road, meaning investors and their advisors are left with the choice about what type of multi-asset funds should form the foundations of their portfolios for the future. These, we feel, will have to have demonstrated an ability to pro-actively manage risk and deliver returns at reasonable costs.



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# What is income?

## Generating an income has been an increasingly important objective for many investors.

The income available from conventional savings accounts has dwindled to near-zero at a time when changes to the pension rules have set more retirees in search of income-generative investments to replace an annuity income stream. The insurance and asset management industries have responded and advisers now have a wealth of income choices available: How can they navigate these choices for clients?

We believe there is a virtue in simplicity and would argue that diversification within the major asset classes is more than important simply selecting the fund with the broadest spread of assets. Security by security analysis

can ensure diversification across a blend of risk factors, rather than simply the broad macro factors such as interest rates or investor risk appetite that often guide the performance differential between asset classes. In particular, a focus on valuation can ensure that a fund manager avoids the worst excesses of the market and mitigates risk.

We would also argue for the importance of a 'real yield' – a yield that is organic rather than generated artificially. At a time when interest rates are at 0.5% and the income available on cash savings is negligible, an investment paying 7-8% will have associated risks, be that liquidity, default or business risk. Equally, a number of equity funds now artificially raise the income by selling call options. This is a valid strategy, but may cap a fund's capacity for capital growth.

Advisers looking to build a robust and reliable income-generative portfolio for clients have a range of factors to consider, in the blend of assets they use, the risks they are taking and



how those investments are structured. A higher, inflation-adjusted income for clients is possible, but advisers must ensure that it does not come at too high a price.

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Asset allocation name	Attitude to Risk	Risk Rating
Jupiter Strategic Reserve Fund	Moderately Cautious	2.3
Jupiter Merlin Income Portfolio	Balanced	3.5





# How we can fuel investors' retirement journeys



**When setting out on a long trip in an area with few petrol stations, it is advisable for drivers to ensure they have enough fuel. Preparing for retirement is no different.**

That's why the Old Mutual Generation portfolios have been designed, in collaboration with advisers, to supply income to fuel clients' unique retirement journeys. They seek to do this through meeting the needs of a new generation of retirees, who desire a flexible and bespoke solution.

The portfolios enable clients to decide, after consultation with their advisers, what level of income they want to take and when they

would like to take it, in line with lifestyle goals and attitudes towards risk.

As such, they don't stipulate the amount of income clients are likely to receive. The only target they do have is that they aim to achieve returns above inflation of either +3%, +4% or +5% over the medium term, depending on the Generation portfolio.

At the same time, they aim to mitigate against the impact of market stress through active short-term risk management.

Our dynamic asset allocation approach involves holding some assets that provide a level of 'natural' yield, including a core of equities. These assets contribute to the funds' focus on aiming to generate relatively smooth total returns, acknowledging the damaging effects of so-called 'pound-cost ravaging' for those investors who are withdrawing money from their pension pots.

My colleague Paul Craig and I manage the portfolios, and we are supported by an investment unit with vast experience in managing multi-asset funds, equities, fixed income and alternatives.

Taken together, all this means we seek to offer investors a smooth ride as they embark on their retirement journeys – and ensure their fuel lasts the distance.

**Anthony Gillham**  
co-investment director of multi-asset unit, Old Mutual Global Investors

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Asset allocation name	Attitude to Risk	Risk Rating
Old Mutual Generation Target 3	Moderately Cautious	2.8
Old Mutual Generation Target 4	Balanced	3.7
Old Mutual Generation Target 5	Adventurous	5.1



# Natural' income key to smooth retirement

**Due to a multitude of factors, including the increase in life expectancy leading to retirements that could span decades rather than years, the demand for long-term income solutions is expected continue to grow.**

A key issue for income-hungry retirees is how they can obtain a decent, long-term level of income after they finish working which has the potential to last the duration of their retirement. Of course, the traditional annuity is still an option, but it may not necessarily be the most suitable option for everybody, and more investors are expected to consider other income investment options, such as multi-asset income funds.

Three such alternatives that may interest those approaching or in retirement are the Premier Multi-Asset Distribution Fund, Premier

Multi-Asset Monthly Income Fund, and Premier Multi-Asset Growth & Income Fund. The Funds invest in a variety of other funds providing exposure to a range of assets selected by our multi-asset team for their potential to pay a regular and sustainable income as well as typically being funds managed by specialist investment teams. By diversifying in this way, the multi-asset team aim to manage risk and open up the income opportunities, rather than relying on a single asset to deliver the income. Our funds also produce a "natural" income. This is the income that the investor receives as dividends, which are aggregated from the dividends of the portfolio's underlying dividend distributions. So, the income in this case is the number of shares in a fund multiplied by the dividend per share. The income can fluctuate over time but no shares have to be cashed-in, meaning the income investor will have their full pack of shares to get paid dividends for as long as they hold the investment. The income share price will also fluctuate but should have the potential to grow over time.



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Asset allocation name	Attitude to Risk	Risk Rating
Premier Multi-Asset Monthly Income Fund	Balanced	3.6
Premier Multi-Asset Distribution Fund	Balanced	3.6
Premier Multi-Asset Growth & Income Fund	Adventurous	5.1



**t h e s i s**

asset management

# Multi asset investing: activism enabled



**Steven Richards, Fund Manager**

**Multi asset investing at Thesis through underlying funds can enable us to be activist investors, influencing the underlying managers for the long term good of our own clients says Steven Richards, Fund Manager**

Activist investing, once derided as pillaging for quick profits, can be seen as advocating for shareholders, compensating for the inertia of institutions that often fail to engage with investee companies. Institutional investors may just sell (even at a loss) underperforming companies.

Thesis is involved in the activist investment situation of Sherborne Investors and its stake

in private equity company Electra plc, the board of which Sherborne believes should be better at driving returns. In contrast to activists who take short positions and exert a destructive downward force, Sherborne-style activism is constructive. It seeks appreciation in its stake and attempts to accomplish this through useful, productive engagement with company leadership.

Sherborne started building its stake when Electra's shares were trading at a discount of nearly 20% reflecting, in Sherborne's view, shareholder expectations of underperformance. Electra however was not an outlier in its sector and had respectable share performance.

Electra's share price rose strongly, largely due – ironically – to Sherborne's interest in it. When Sherborne held 19% of the company, head Edward Bramson proposed appointing three new board directors, himself included, to lead a strategic review. Electra rejected the proposal and Sherborne demanded a shareholder ballot.

Thesis, with its approximate 1% stake in Electra, was considered a 'marginal' voter that

could influence the ballot outcome. I met with both parties to hear their cases and, in the case of Electra, to reprimand them for directly contacting our clients. As an appointed DFM we can take on administrative burdens like this, consider the implications, and do the right thing for our clients.

We voted in favour and, although the vote was not carried, Electra itself subsequently announced better terms for investors. The package was well received and Sherborne's stake – and our clients' too – has become even more valuable.

Still keen on changes to Electra, Edward Bramson pushed for another EGM at which Thesis will again vote in the best long term interests of our clients and not necessarily the board's recommendation.

For further information contact Lawrence Cook, Director of Marketing & Business Development, Thesis Asset Management  
T. 01483 406115 M. 07899 802048.

Asset allocation name	Attitude to Risk	Risk Rating
Theisis model collective 3 of 7	Balanced	3.5
Theisis model collective 4 of 7	Moderately Adventurous	4.1
Theisis model collective 5 of 7	Moderately Adventurous	4.5





# The benefits of keeping multi-asset portfolios straightforward

## The benefits of a straightforward, diversified, and low cost approach

Multi-asset investing does not need to be complicated. In our view, a straightforward, diversified, low cost approach, should serve a variety of investors well.

We like to think of our Vanguard LifeStrategy Funds, for example, as an outwardly simple but inwardly sophisticated solution. There is a significant level of diversification in the funds given their construction with market-cap weighted index funds. If you look at the 60/40 Fund, made up of 60% global equities and 40% global fixed income, it includes 25 asset classes, including emerging markets and small cap equities.

The passive funds also help keep costs down, which are one of the few levers in the investor's control. Given the inverse relationship between costs and returns, lower costs should translate into higher returns over time. Costs are also one of the few things in investor's control. Of course, we also need to bear in mind that the value of investments can fall as well as rise and investors may not get back all of what they invest.

## Perspective on two popular alternative asset classes

In today's low yield environment, we are often asked about the inclusion of commercial property and other alternative asset classes as a substitute for fixed income. It's important

to remember that commercial property has much different risk characteristics than bonds and there is no liquid, publicly traded market for this type of asset. Property values are only updated on an annual basis through appraisal, distorting their reported correlations, and experience suggests they will not offer the same levels of diversification during periods of market stress.

Commodities are another 'alternative' asset class we are often asked about that also cannot be invested in directly. Exposure is typically obtained through futures markets. They are liquid, publicly traded, but a future does not have a cash flow and can't be valued in the same way as equities and bonds. Instead, valued are obtained by other facts such as supply and demand and the time to maturity, making their prices more volatile. Correlations of commodities and traditional asset classes have also risen significantly over time, potentially reducing their diversification benefits.

Finally, our research shows that to make any real difference, investors need to allocate around 10% or more of a given asset class to their portfolio. This suggests significant commitment and requires you to underweight another asset class.

There are pros and cons to every investment decision, but in our view, a straightforward, well-diversified portfolio of equities and bonds, implemented at a low cost, should work well for a variety of investors.



**Todd Schlanger, CFA**  
Investment Strategist,  
Vanguard Europe

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For further information on the fund's investment policy, please refer to the Key Investor Information Document ("KIID"). The KIID and the Prospectus for this fund is available in local languages from Vanguard via our website <https://global.vanguard.com/>.

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Asset allocation name	Attitude to Risk	Risk Rating
Vanguard LifeStrategy 40%	Balanced	3.3
Vanguard LifeStrategy 60%	Moderately Adventurous	4.1
Vanguard LifeStrategy 80%	Adventurous	5.1

