Navigating markets with multi-asset strategies

07/11/2018

Summary

Multi-asset strategies have grown to dominate European retail investment over the past decade, and new product innovation should ensure this trend continues. Indeed, testing market conditions can provide a platform for multi-asset portfolios to stand out: their diversified approach can give investors more flexibility to hunt down opportunities.

Key takeaways

- Despite their relatively recent arrival, multi-asset strategies have grown to dominate European retail investment
- In-built diversification enables investors to benefit from a wide portfolio within a single investment
- Managers' ability to adjust portfolio positions across markets and asset types, without restriction of a benchmark, helps to maximise flexibility and manage risk

Multi-asset strategies are growing in popularity: more than half of all European retail investments over the past 15 years were made into multi-asset portfolios. These inflows have been driven in large part by investors looking to maintain returns while protecting against downside risk. Now, multi-asset investors may find themselves well-positioned to take advantage of a market environment governed by increased volatility and heightened uncertainty.

Our Risk Monitor survey highlighted that navigating the trade-off between upside potential and downside risk is a top challenge for investors, with more than 50% decreasing their return expectations. The good news is, as client demands and concerns have evolved, multi-asset managers have responded by bringing new products – underpinned by new strategies – to market.

For instance, many multi-asset strategies have diversified, embracing a broader range of assets and opportunities for investors. Their blend of equities and bonds can cover a range of geographies and sectors, and many portfolios further bolster diversification with the addition of non-traditional asset classes, such as real estate and infrastructure.

While diversification cannot guarantee positive returns or protection against loss, it provides an additional layer of risk management. An investor could only otherwise achieve this by building a portfolio themselves, with additional cost and effort. In a risk-managed multi-asset portfolio, the risk attached to each underlying asset class is offset by the rest of the portfolio, with the goal of managing the total risk across the strategy.

Delivering beyond diversification

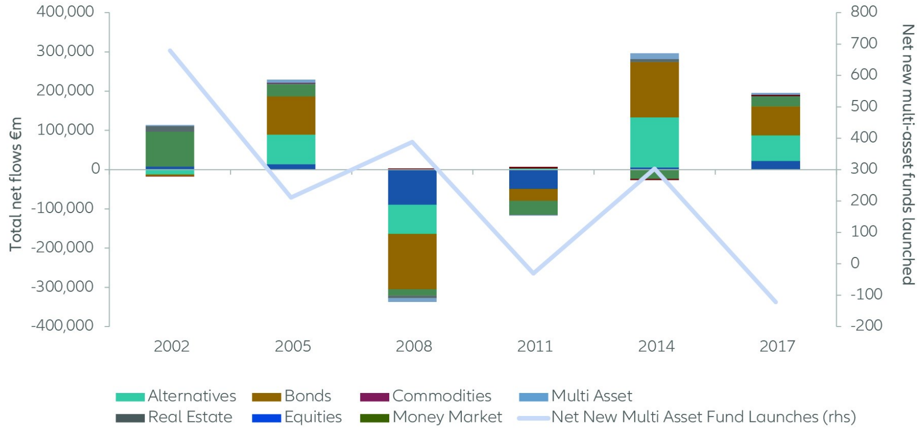
While a basic balanced portfolio can give investors an acceptable level of diversification, what sets some multi-asset strategies apart is that they can employ a solution-based approach that seeks to respond to investors' evolving needs.

For example, actively managed multi-asset portfolios will monitor and adjust asset allocation according to risk or opportunity. This can help investors navigate changing market conditions more dynamically, since professional managers can rebalance the portfolio whenever needed, informed by in-depth knowledge and analysis of the underlying assets.

In addition, some multi-asset strategies are not tethered to a benchmark index. This gives them more freedom to make adjustments according to market conditions, diversify risk, and produce a return stream designed to be uncorrelated with general market performance.

These multiple benefits are increasingly central to the appeal of multi-asset strategies, particularly in a market environment where yields are likely to be subdued for some years and geopolitical and other risks are high on investors' watch list.

Figure 1a Europe funds flows



Source: Broadridge, LuminAM, AllianzGI Global Capital Markets & Thematic Research. Data as at May 2017.

The embodiment of active management

At Allianz Global Investors, we strive to take multi-asset investing a step further. We have a large global team with expertise across asset classes and geographies. Close to 100 investment professionals from Asia, the US and Europe come together monthly to discuss major events in global capital markets.

This collective approach helps to eliminate the "framing bias", where a specialist focus on one specific area can come at the expense of opportunities elsewhere.

We think the multi-asset approach is the embodiment of active management: it requires active managers with diverse skill sets, who use their global expertise to access a range of global opportunities and reposition our strategies for whatever the environment brings.

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ESG investing: deciphering the labels

06/12/2018

Summary

Adoption of ESG investing is growing as investors recognise these strategies' potential for managing risk and driving performance. But as ESG labels proliferate, an understanding of the terminology involved is essential to finding the most appropriate approach.

Key takeaways

- ESG factors have become a mainstream concern for investors; US SIF data show assets invested in US ESG strategies rising by 38% in the past two years
- Adopting an integrated ESG strategy means ESG factors are considered as part of the existing investment process for a strategy
- An SRI strategy relies on screening out investments based on negative criteria; screening for positive criteria is at the heart of impact investing
- Regulatory change is adding to the impetus behind ESG

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