

Insights on Multi Asset Strategies

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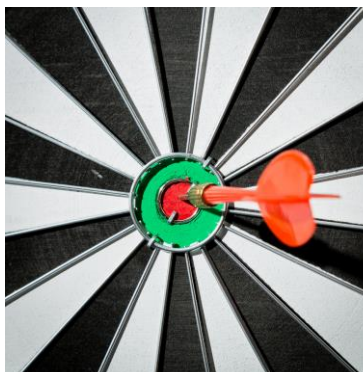
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This week, MJ Hudson Allenbridge published some insightful [research](#) on multi asset strategies. Credit to Shan Gao and Andrew Cheung who undertook this research, surveying 37 different multi-asset managers.

With an estimated £400 billion of assets invested in such approaches, it is important to understand how/whether multi asset managers are adding value. This is a market which remains dominated by the largest asset managers: 52% of the assets under management rest with the largest five firms. That, in itself, presents a concern. One of those managers, for example, has seen a fall in value (driven by investor withdrawals) of £14.5 billion since December 2016. Another manager saw major withdrawals after its manager team departed, causing the price to show significant fluctuations. In contrast, the MJ Hudson Allenbridge research team noted that around one-third of managers who responded had seen their assets under management more than double, in just two years. Such significant fund flows can have a major impact on investment decisions as well as on operational efficiency.



The primary reason for allocating to a multi-asset strategy, according to the research, was to access multiple asset classes and reduce volatility. Multi-asset funds are particularly attractive to smaller pension funds who would find it less cost efficient to address these goals via a bespoke solution. Those who responded also stated that the main barrier to entry was the lack of a clear definition of the Diversified Growth Fund classification. To some extent this was a bit of a grumble at the consulting community. As an independent investment adviser, I see different consultants' classifications, and it is fair to say that each firm uses slightly different descriptors to distinguish these funds. However, I question whether the end-investor would state this as their primary barrier to entry – I suspect it would more likely to be around fees (the second most popular perceived barrier to entry in the research). Over 38% of assets invested in multi-asset funds are still being charged out at an annual management fee of 70-100 basis points, a not-inconsequential fee scale.



The final observation in the research that caught my eye was around Environmental and Social Governance (ESG). Encouragingly, of the 37 managers who responded, only three said that they did not explicitly apply ESG criteria to their investment process. The devil, of course, is in the detail, and asset owners would do well to challenge their multi-asset managers on exactly how they apply their criteria in a multi-asset environment.

The report wraps up with a comprehensive analysis of performance and risk. The headline data is that, for the three years to Q2 2018, 65% of multi-asset funds have met or exceeded their target returns and most had an annual realised volatility of about half to two-thirds the volatility of global equities, albeit with the large performance dispersion observed in the report.