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VARIETY VALUE: THE HUNT FOR RETURNS AMID UNCERTAINTY

FROM PROPERTY TO PLANES, MULTI-ASSET INVESTORS ARE FINDING A WEALTH OF NICHE OPPORTUNITIES

SAM ANTROBUS

For multi-asset investors trying to extract maximum value for their clients, the global macro backdrop has proved challenging.

Maintaining maximum flexibility across a range of asset classes is vital in the hunt for positive performance. But in times of such sustained market uncertainty, where are investors seeking returns?

As Robert Love, head of research at Asset Intelligence, explains, investors have certainly had more than enough food for thought when analysing opportunities in conventional asset classes.

He cites the current low-yield environment and concerns over

commercial property as two reasons for what he sees as an increasing appetite for income-paying alternatives. But it is within emerging market equities that Love sees real potential.

'Emerging markets present an interesting opportunity – on a selective basis – with valuations low compared with historic averages across a range of metrics,' he says.

'On the back of quantitative easing, developed markets have uncharacteristically led global markets over recent years. And



with a bounceback in oil and resources, many have sought to increase exposure to emerging markets [again].'

For many investors, multi-asset funds are a simple way to gain

exposure to an array of asset classes under one roof.

According to Mark Williams, investment manager at Charteris, the value of these funds is very much determined by their structure – as any potential gains in traditional bond-and-equity-based funds are arguably wiped out once active fund management fees have been taken into account.

‘Some multi-asset funds have greater leanings toward fixed income securities, which, given how 10-year UK gilts have recently dropped to a record low of 1.225%, doesn’t highlight a good opportunity for investors,’ he explains.

‘With the leading UK index price as of 9 June no different from what it was at the start of the calendar year, while there are places in equity markets offering capital gain and increases in yield, you’ll only get those after paying the asset management company and other charges associated with the fund.

An argument could be made that it is better to invest in these stocks directly and cut out the middle man.’

One area Williams feels investors have wrongly overlooked is gold.

‘Examine how well gold, precious metals and the base metal markets have performed this year. That was the real opportunity, and yet most multi-asset investors would have had no exposure to that sector at all and will question why,’ he adds.

Peter Lowman, chief investment officer at Investment Quorum, feels, with a weakening Chinese economy, and concerns around the Fed’s next interest rate rise and the outcome of the US presidential election, the strength of headwinds facing equity markets should not be underestimated.

But while accommodative central bank monetary policies have seen bonds perform well in recent times, he now sees less value in fixed income.

‘With bonds now looking rather unattractive compared with equities, we foresee better long-term opportunities in the latter asset class,’ he says.

‘We feel there are still some very good investment opportunities in European and Japanese equities, and the ASEAN area is beginning to look interesting again.’

Property prospects

Beyond the cornerstone markets of bonds and equities, property naturally represents a key alternative in the multi-asset domain. Although, as concerns surrounding the health of the sector resulted in UK investors pulling more money out of property funds in February than in any month since 2008, sentiment towards property is no longer rock-solid.

Lowman believes the uncertainty surrounding Britain’s membership of the European Union is one of the key triggers that led to the subsequent repricing of many leading

commercial property funds, but suggests opportunities in the sector may still arise. And with the Fed likely to pull the trigger on an interest rate rise at some point over the next year, that could present a real opportunity for investors.

‘In terms of global real estate, this asset class tends to do well in a rising interest rate environment, which we are likely to experience over the next 12 to 18 months,’ Lowman says.

Williams still sees value within the domestic property sector.

‘I am still a long-term bull when it comes to the UK property sector, and even more so since the recent sell-off,’ he says.

‘Property – as with all markets – still works on a supply and demand basis, and from the analysis I am looking at, I see that the residential demand for property is high and that demand will continue to grow.

‘Even if house prices do go on to fall slightly, so what? That just allows more consumers who were unable to get onto the property ladder before to grab their opportunity to get on it.’

Absolute returns

The popularity of property funds may have fluctuated in recent times, but one sector where popularity is not a problem is targeted absolute return.

According to the Investment Association, April saw the sector maintain its position as the UK’s best-selling net retail sector for the fifth consecutive month. The swathes

of investors heading to funds designed to produce consistent returns within periods of sustained market volatility makes perfect sense considering how turbulent global markets have been.

As Love highlights, however, multi-asset investors need to proceed with caution when running the rule over such funds.

'We have seen an increasing trend towards absolute return strategies that help to smooth volatility, provide non-correlated returns and reduce equity-related risk. However, absolute return can often be used as an umbrella term, hiding a variety of different strategies that all have different characteristics that behave in different ways, given different market conditions,' he explains.

'There are a lot of funds like this available, but in our experience, they do not all necessarily deliver as you would hope or expect over the long term.'

Lowman believes that given the markets' recent sensitivity towards macro events and central bank policies, absolute return strategies could prove useful in helping iron out the bumps in the road.

'If you look at the absolute return sector, there have been some very interesting funds launched in recent times,' he says.

'For example, the Aviva Investors Multi-Strategy Target Income, the JP Morgan Global Macro Opportunities and the Invesco Perpetual Global Targeted Returns funds all have very

experienced managers, excellent investment processes and, in the case of the aforementioned, an attractive yield for those who are seeking income,' he explains.

Alternative assets

Others, like Damien Lardoux, portfolio manager at EQ Investors, are finding alternative veins of value in volatile times.

Lardoux believes in looking beyond the traditional regional and sector breakdowns to find opportunities in a relatively expensive equity market.

'Environmental equities looks to us to be a very attractive theme and one which can be considered by investors with very different risk profiles,' he says.

'Over the past 15 years, the investment universe has grown nearly 10 times and comprises companies across all regions with different market caps and sub sectors.

'While 10 years ago the universe was relatively volatile and made up of a number of non-profitable companies, it is now a lot more mature, with companies enjoying strong earnings growth,' he explains.

Funds investing in real assets, such as aircraft leasing, occupy a key area of the alternative investment sphere.

Love sees value in this space, but thinks that adding considerable exposure to such alternatives may represent a step too far for multi-asset investors.

'Key considerations such as liquidity, asset security and default risk are important to fully understand, particularly for less mature markets. They tend to be used as a diversifier rather than an asset class alternative,' he says.

Lowman is one investor who has utilised alternative assets as a means of diversifying his investments, which he feels has been important through times of market uncertainty.

'With the traditional asset classes of equities and bonds being heavily influenced by central bank policies, having exposure towards alternative asset classes, such as aircraft leasing, peer-to-peer lending, infrastructure and commodities, has at times been a helpful diversifier to smooth our returns,' he says.

US rate rise

An important consideration for multi-asset investors is a potential US interest rate rise.

But, in Williams's opinion, even if the Fed does choose to initiate a rate rise in the near future, such a move should not induce too much fear in investors.

'After the latest numbers said only 38,000 [jobs] were created, there is now mounting doubt as to whether or not a US interest rate rise will happen at all,' he says.

'If we go on the assumption that there will be a rate rise, the rate itself – in real terms – is actually minuscule and will make a minimal impact.' ■