

A Guide to Multi-Asset Investing

What is it?

Asset Allocation

Diversification

Risk vs Return

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“Uncertainty is the only certainty there is, and knowing how to live with insecurity is the only security”

*A Mathematician plays the stock market,
John Allen Paulos,
Professor of Mathematics at
Temple University*

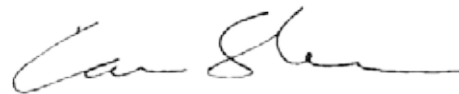
Introduction

During the 1980s and 1990s, global investors enjoyed mostly benign market conditions, and asset allocation was a relatively simple task, with a traditional equity/bond mix (i.e. a 60/40 equity/bond allocation) delivering, for the most part, appealing results. Events played out differently as the 2008 global financial crisis erupted and liquidity issues emerged. Portfolios built on a static, traditional asset allocation approach offered poor diversification, displaying unexpectedly high levels of correlation between asset classes, and in many cases exposures to some particular risks were very different than forecasted.

In the aftermath of the financial crisis, largely expansive monetary policies and unprecedented quantitative easing experiments by the major central banks have created a very disparate investment environment, characterised by low nominal rates, negative real rates and wildly fluctuating levels of volatility. This backdrop of financial repression and uncertainty has triggered a consensus movement towards diverse multi-asset allocation strategies to spread risk.

The purpose of this guide is to introduce you to multi-asset investing, its history and evolution as an investment practice and also the benefits, limitations and methods to investing across multiple asset classes.

I hope you find this guide useful in considering your investment options.



Conor Sheridan

Investment Analyst, Private Clients



01

What Is Multi-Asset Investing?

What is Multi-Asset Investing?



'Spreading the risk'



'Safety in numbers'



'Don't put all your eggs in one basket'

Multi-asset investing is the process of gaining exposure to a **globally diverse mix of asset classes** in an investment portfolio.

Multi-asset investing may combine traditional securities, such as equities and fixed income, with non-traditional approaches, such as alternative investments i.e. property and commodities.

The purpose of combining these asset classes is to reduce the risk of an investor's portfolio exposures and in turn, the systemic risk that lies with concentrated investments in one asset class.



NB: Graph is for illustrative purposes only.



02

History of Multi-Asset Investing

History of Multi-Asset Investing

“To reduce risk it is necessary to avoid a portfolio whose securities are all highly correlated with each other. One hundred securities whose returns rise and fall in near unison afford little more protection than the uncertain return of a single security”

Harry Markowitz

Portfolio Selection: Efficient

Diversification of Investments, 1968



Harry Markowitz, the Nobel laureate, is widely regarded as the founder of the ‘don’t put all your eggs in one basket’ approach to portfolio allocation, or more commonly known as Modern Portfolio Theory.

Markowitz’s portfolio theory showed how investors could pick an optimal portfolio of assets, minimising risk levels for any given expected return, or maximising expected return for any given level of risk. This theory is what underpins today’s multi-asset investment strategies.

He published his seminal paper on modern portfolio management and **the risk reducing benefits of effective diversification** in the early 1950s, but only much later, just over 25 years ago, did multi-asset investing first appear in practice – in the endowment funds of Yale and Harvard University.



03

Evolution of Multi-Asset Investing

Evolution of Multi-Asset Investing

The Yale and Harvard Endowment funds were the first world renowned portfolios to attempt not only to maximise returns but to maximise returns for a given level of risk, as per Markowitz's Modern Portfolio Theory.

Figure 1: Yale Endowment Asset Allocation

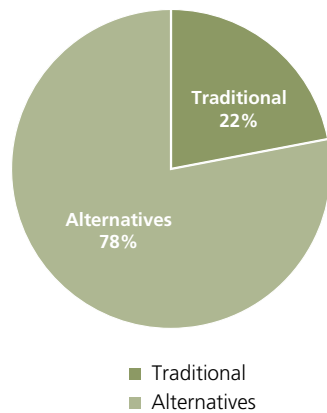


Figure 2: Harvard Endowment Asset Allocation

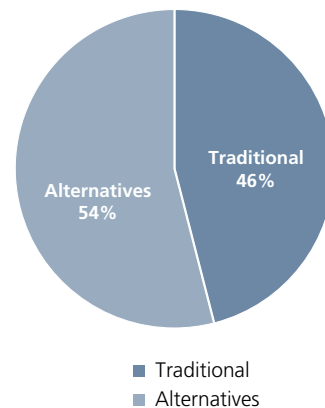
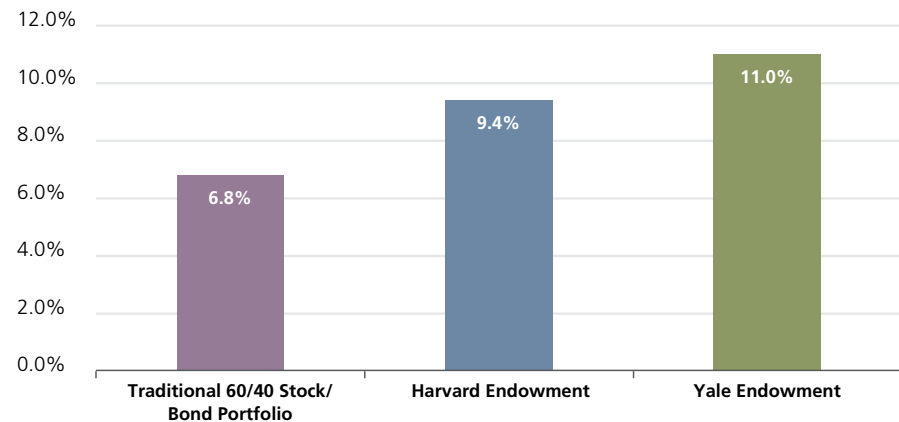


Figure 3: 10-Year Historical Investment Returns



Source: The Yale Endowment 2013 / CNL Securities Performance data is over the period 2003-2013 and is net of fees. Endowment funds are not open to public purchase Stock and Bond Portfolio includes S&P 500 and Barclays US Aggregate Bond Index.

Following the ongoing success of these funds, other universities, sovereign wealth funds and long-term investors began to replicate the strategy. Thus, the 'Endowment' Model became the widely adopted 'Multi-Asset' Model.

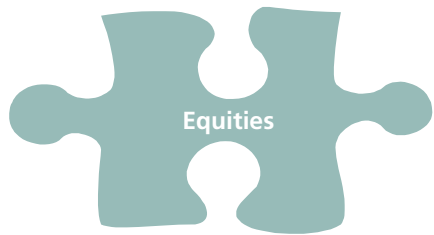
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Fundamentals of Multi-Asset Investing

Fundamentals - Asset Allocation

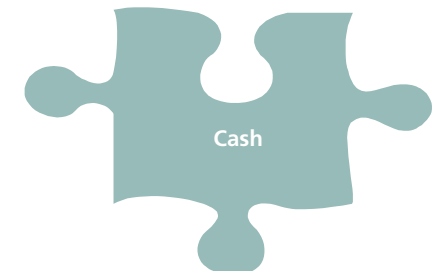
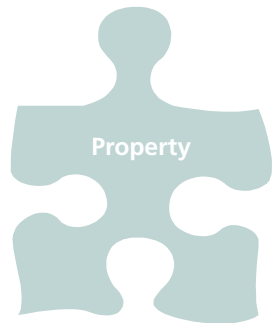


Asset allocation is a key ingredient of a successful investment strategy

Asset allocation involves deciding how to spread money across different asset classes and how much to hold in each.

To construct a portfolio to meet a specific objective, it is critical to select a combination of assets that offers the best chance to meet that objective, subject to the investor's preferences (investment horizon, risk tolerance etc).

The mixture of those assets can help to **determine both the range of returns and the variability of returns for the portfolio.**



Fundamentals - Diversification

- Decisions on how to split investments between various types of assets, such as equities, fixed income or alternative assets, are difficult for even the most experienced investors.
- Table 1* demonstrates the challenges investors face when attempting to predict the next best performing asset class.
- Frequently the best performing asset class in one year can be a poor performer in the next. By adopting a multi-asset approach it is possible to generate more consistent returns with lower risk, **reducing the peaks and troughs in a portfolio and put investors in a position to meet investment goals.***

Table 1: Predicting Performance: 10-Year Asset Class Returns

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015										
EM Equity	50.07%	Property	22.89%	EM Equity	24.32%	Global Govt Bonds	11.00%	EM Equity	68.28%	Gold	38.84%	Private Equity	14.65%	Property	21.51%	Int Equity	22.20%	Property	28.47%	Equity Long Short	17.55%
Private Equity	46.89%	Euro Equity	17.61%	Gold	18.34%	Gold	10.33%	Property	27.81%	Private Equity	28.84%	Gold	13.51%	Euro Equity	20.86%	Euro Equity	22.02%	Private Equity	22.88%	Absolute Return	17.49%
Commodities	38.51%	EM Equity	16.32%	Euro Govt Bonds	13.81%	Cash	4.76%	Int Equity	26.79%	EM Equity	26.05%	Global Govt Bonds	7.08%	Corporate Bonds	15.81%	Private Equity	16.09%	Int Equity	20.52%	Private Equity	17.19%
Gold	35.09%	Private Equity	15.57%	Corporate Bonds	10.40%	Euro Govt Bonds	4.24%	Euro Equity	25.70%	Property	25.87%	Cash	1.41%	Int Equity	13.76%	Equity Long Short	9.60%	Absolute Return	14.25%	Int Equity	9.39%
Property	27.12%	Corporate Bonds	10.76%	Euro Equity	8.92%	Corporate Bonds	-6.99%	Gold	21.46%	Commodities	25.40%	Corporate Bonds	0.54%	EM Equity	13.08%	Euro Govt Bonds	6.77%	Equity Long Short	13.51%	Property	6.48%
Int Equity	26.98%	Euro Govt Bonds	10.64%	Private Equity	7.14%	Absolute Return	-14.22%	Corporate Bonds	18.63%	Equity Long Short	25.08%	Euro Govt Bonds	-0.30%	Euro Govt Bonds	12.03%	Corporate Bonds	6.55%	Gold	11.47%	Euro Equity	5.68%
Euro Equity	25.12%	Gold	10.49%	Commodities	5.88%	Private Equity	-17.85%	Commodities	15.94%	Absolute Return	24.57%	Int Equity	-4.83%	Private Equity	11.76%	Absolute Return	4.85%	Global Govt Bonds	8.16%	Euro Govt Bonds	1.56%
Equity Long Short	23.91%	Int Equity	7.58%	Cash	4.32%	Equity Long Short	-22.30%	Equity Long Short	13.71%	Int Equity	21.12%	Absolute Return	-5.00%	Equity Long Short	8.31%	Cash	0.22%	EM Equity	7.98%	Global Govt Bonds	1.49%
Absolute Return	22.91%	Cash	3.11%	Global Govt Bonds	3.95%	Commodities	-33.23%	Absolute Return	10.38%	Global Govt Bonds	3.92%	Equity Long Short	-7.19%	Absolute Return	7.96%	Global Govt Bonds	-0.64%	Euro Equity	5.19%	Cash	-0.02%
Global Govt Bonds	4.04%	Global Govt Bonds	1.08%	Equity Long Short	0.41%	Int Equity	-38.73%	Private Equity	10.21%	Cash	0.82%	Property	-8.24%	Global Govt Bonds	4.31%	Property	-3.55%	Cash	0.21%	Gold	-0.21%
Cash	2.21%	Absolute Return	0.73%	Absolute Return	0.07%	Euro Equity	-42.25%	Euro Govt Bonds	7.93%	Euro Equity	-1.17%	Commodities	-10.67%	Gold	3.79%	EM Equity	-9.21%	Euro Govt Bonds	-4.38%	Corporate Bonds	-0.35%
Corporate Bonds	-8.68%	Equity Long Short	0.29%	Int Equity	-0.93%	Property	-48.52%	Cash	1.22%	Corporate Bonds	-4.00%	Euro Equity	-17.81%	Cash	0.58%	Commodities	-11.84%	Corporate Bonds	-4.44%	EM Equity	-6.33%
Euro Govt Bonds	-9.08%	Commodities	-8.31%	Property	-16.75%	EM Equity	-52.60%	Global Govt Bonds	0.87%	Euro Govt Bonds	-7.49%	EM Equity	-18.13%	Commodities	-3.18%	Gold	-29.63%	Commodities	-5.60%	Commodities	-18.02%

Best Performing



Worst Performing

Source: Davy, Bloomberg, Cambridge Associates FE Index

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*Returns are based on gross dividends reinvested. Net returns will take into consideration tax rates that would apply on any dividends received which will vary depending on the investor's taxable rate. You should consult your tax adviser for the rules that apply in your individual circumstances.

European Equities: Eurostoxx50. International Equity: MSCI World, Equity Long/Short: HFRI Eq Hedge. EM Equity: Emerging Market Equities. Eur Gov Bonds: BofA ML 1-10 yr All Euro. Global Gov Bonds: JPM Global Gov Bond Index. Corporate Bonds: BofA ML Euro Large Cap Corp Index.

Property: FTSE EPRA/NAREIT. Gold: Golds Index. Commodities: DJ Commodities. Abs Return: HFRI Fund Weighted. Private Equity: Cambridge US PE. Cash: 3m Euribor. All returns are quoted in Euros.

Fundamentals - Managing Risk

“The future is uncertain, so we can never know what will happen. Indeed, risk would not exist if we could correctly anticipate the future.”

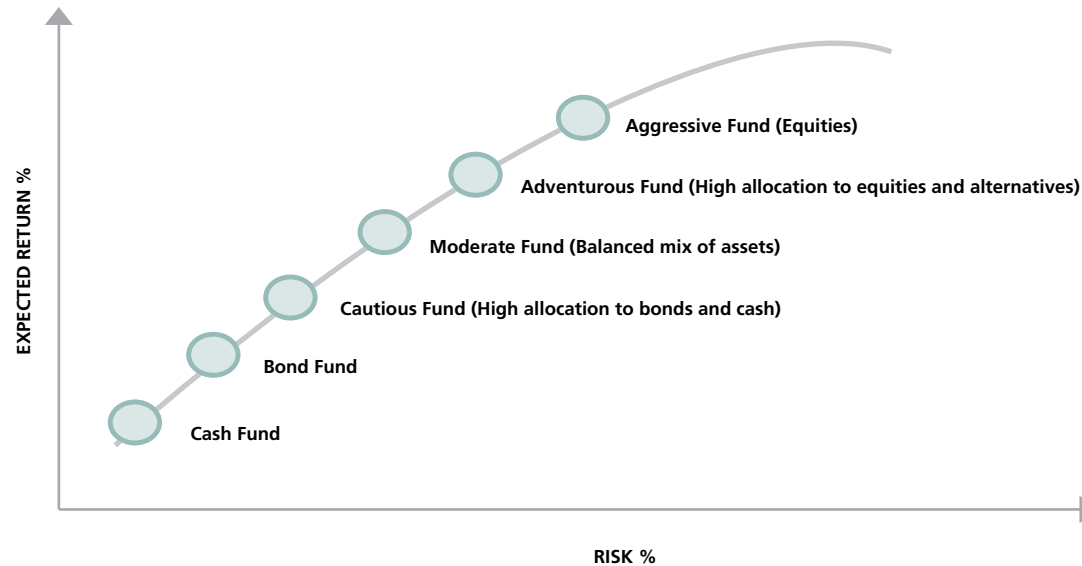
Peter Bernstein
Economist

- One of the most important realities of successful investing is that **the future is unknown**. While this statement may appear obvious, investors often fail to fully appreciate the uncertainty they face.
- **Risk is multi-faceted**, it can involve the collapse of a specific company, industry sector or currency. Equally, it can stem from shocks to the market as a whole, a dearth of interbank liquidity or the failure of a trading counterparty (i.e. any other parties involved in the transaction).
- The **key to intelligent investing has always been to know and understand the complete set of risks that a portfolio may face** and manage them in line with an investor's risk profile.
- In doing this an investor can then allocate their assets effectively to **target a return range and risk exposure** that aligns to their profile.

Fundamentals - Risk versus Return Trade-Off

Many multi-asset funds target a specific risk profile or tolerance to enable investors to select the portfolio that best fits their profile and goals.

Increasing allocation to 'risky' assets, such as equities and alternative assets, can achieve a greater prospective return but will also increase the level of risk your portfolio is exposed to. This is called the Risk versus Return Trade-Off.



Source: Davy

NB: Graph is for illustrative purposes only.

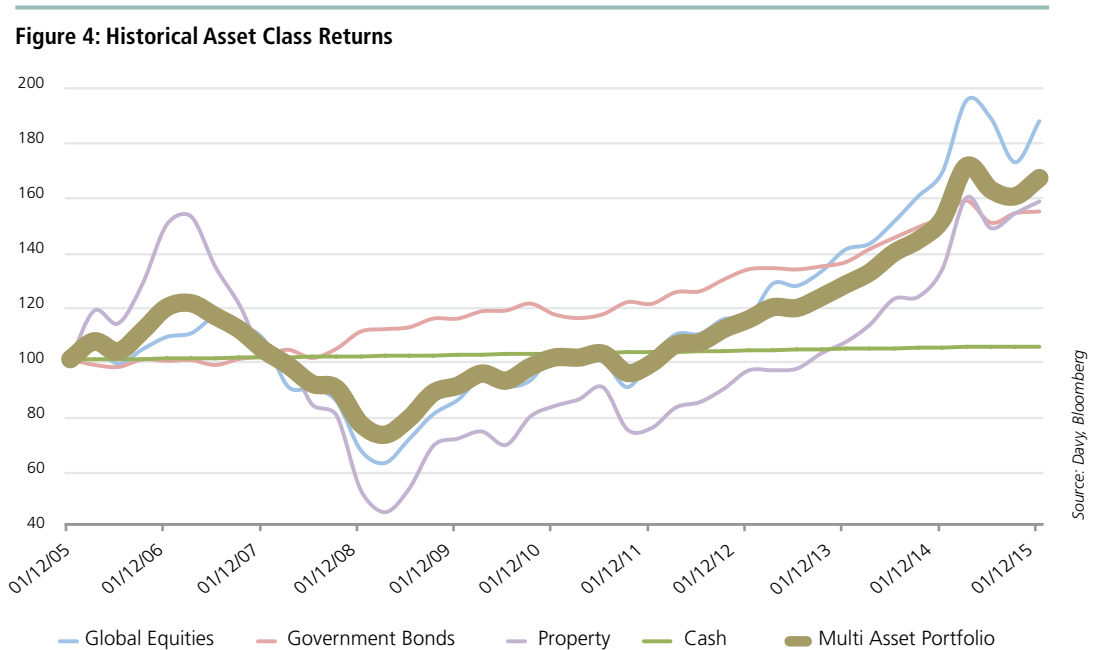
Putting It All Together: Historical Performance

Figure 4 below illustrates the varying returns for a sample set of asset classes over a 10-year time period*.

Each of the asset classes in this time-series experienced quite varied levels of risk and return, in particular one can observe the positive effects of the prolonged bond bull market and the fluctuating returns of both global equities and property leading to wide peaks and troughs.

Combining the sample asset classes to create a multi-asset portfolio would have enabled an investor to smooth their returns and achieve a greater level of return relative to risk than investing in a single asset class.

Figure 4 illustrates the importance and potential benefits of strategic asset allocation and effective diversification. The purpose of allocating to a multi-asset strategy is not to maximise returns in the absence of any consideration of risk, but rather **to maximise the opportunities for compelling risk-adjusted returns by expanding the opportunity set in the context of balanced diversification.**



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*Asset classes are represented by indices; Global Equities- MSCI World, Government Bonds- Vanguard Euro Govt. Bond Index Property- Nareit (Equity Reits), Cash: 3-Month Euribor.



05

Summary

Summary

- Multi-asset investing is one of the many investment strategies available. It **aims to reduce the risk and smooth the returns of portfolios** through diversification.
- **The strategy invests across a combination of asset classes** (such as cash, equities, fixed income or alternative investments) to attempt to achieve a certain level of risk-adjusted returns.
- **Consistently choosing the top performing asset classes is an extremely difficult task.** In line with this, diverse asset allocation is a key feature of multi-asset investing as the mix of assets chosen will have a significant impact on the range of returns and the variability of returns for the portfolio.
- An investor must decide which is **the optimal risk vs return trade-off**. This will be subject to a number of factors such as investment profile, time horizon and attitude to risk.
- Historically, multi-asset portfolios have produced **greater relative returns for a given level of risk than single-asset classes**.
- As with all investment decisions there are risks. Potential investors should familiarise themselves with all risks before making a decision to invest.



06

Important Information

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07

Appendix

Market Data

Endowment Funds	2011	2012	2013	2014	2015
Yale Endowment	21.9%	4.7%	12.5%	20.2%	11.5%
Harvard Endowment	21.4%	-0.1%	11.3%	15.4%	5.8%
60/40 Bond*	4.2%	-0.1%	18.5%	10.2%	6.9%

Indices	2011	2012	2013	2014	2015
MSCI World	-4.7%	11.2%	18.8%	17.3%	8.3%
S&P 500	2.1%	16.0%	32.4%	13.7%	10.5%
Vanguard Euro Govt Bond Index	3.3%	10.4%	1.9%	12.2%	1.3%
Barclays US Aggregate Bond Index	11.9%	4.0%	2.2%	18.6%	9.5%
FTSE NAREIT All Equity REITs	13.2%	0.2%	-7.4%	21.3%	15.1%
3 Month Euribor	1.0%	1.4%	0.2%	0.3%	-0.1%

* 60/40 Portfolio contains 60% S & P 500 and 40% Barclays US Aggregate Bond Index. Endowment performance figures are shown in USD terms. Indices performance are shown in EUR terms.

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