



cio investment club

Whitepaper #11

January 2025

Multi-Asset Whitepaper: How should institutional investors approach due diligence in multi-asset?



Multi-asset

In association with

Baillie Gifford™



How should institutional investors approach due diligence in multi-asset?

Multi-Asset Whitepaper #11



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Introduction

Multi-Asset mandates can vary enormously in how they are built and managed as well as the way they utilise investment strategies and adapt their exposure to asset classes to cater to clients' targets and risk profiles. While multi-asset strategies can benefit from allocating to a broad range of global assets and diversifying portfolios, as with any strategy they are susceptible to underperforming when a single asset class is performing strongly.

With asset owners across the institutional spectrum of pension schemes, insurance companies, family offices and charities outsourcing to multi-asset funds, how can they comprehensively compare strategies in their due diligence? And do multi-asset strategies lend themselves more to some institutions than others in terms of institutions, liabilities, regulatory frameworks and investment goals?

At a cio investment club roundtable attendees shared their interpretations of the term 'multi-asset' and their approach to multi-asset solutions.

Mark Parry, head of manager research at Barnett Waddingham, began the discussion by noting the wide-ranging applications of multi-asset according to clients' profiles and asset managers' investment approach.

"Multi-asset can work for small clients who want low governance, or to target a specific return. It may work for diversification or for downside protection. And it may work by complementing other assets. There is no one-size-fits-all."

Outsourcing mandates to multi-asset managers can also be a convenient solution for asset owners who don't have the sophistication to manage complex strategies themselves or simply want to delegate, observed James Stewart, senior investment consultant and head of manager research at XPS.

Whatever the rationale behind utilising multi-asset solutions, a common denominator is to spread the risk and not depend on a single asset class to support returns or risk requirements, summarised Alain Zeitouni, head of multi-asset, EMEA, at Russell Investments. Secondary to this is the customisation of the strategy, he added.

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“That means adapting what you can reasonably run and achieve to the client needs, whether that’s managing drawdown, hedging the position, reaching an inflation-plus target, achieving an absolute return or a benchmark-relative return – whatever the objective, multi-asset can potentially address it. This can apply to individual clients as well for an insurance company having to manage its solvency risk when it comes to running their insurance investment book.”

Yona Chesner, head of investment, North, at Cartwright, pointed out that a multi-asset approach can also be adopted outside the realms of multi-asset funds and mandates.

“The vast majority of institutional investors, are, in some way, investing in multi-asset. They may not have delegated the asset allocation to a particular product or to a particular manager, but unless they’re only investing in a single asset class, they are investing in multi-asset.”

Insurers largely invest in interest rate-sensitive assets such as fixed income in order to match their liabilities, so what is their approach to multi-asset strategies?

Kedi Huang, senior vice president and UK CIO at Aspen Insurance Group, explained: “As an insurer, our asset allocation is skewed towards public and private global fixed income markets that generate stable and attractive income streams. But within that area you

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can play cross asset rotations, such as relative value across different regions and different sectors.

“Areas where we make active rotations within the fixed income market include positioning more towards structural credit or using US agency mortgage-backed securities as an efficient way to gain duration risk. Multi-asset is also applied in our broader asset allocation through exposure to real estate, infrastructure and equities, but these are not large allocations.”

Kedi is also cognisant of the correlation risk between Aspen’s investment portfolio and its underwriting book, particularly now synthetic risk transfers, in which banks purchase insurance-like protection on some of their loans, are becoming more commonplace.

“Banks are now tending to offload the number of long risk or credit risk onto insurance balance sheets, so I want to make sure we adopt the holistic balance sheet analysis for joint risk exposure rather than just focusing on investment management.”





Spoilt for choice

Given there are myriad multi-asset configurations, it's possible the investment managers of two separate strategies under the umbrella of multi-asset could take conflicting views. "Because multi-asset is so broad, it's almost a disservice to call it one thing," Yona mused. So how can asset owners and consultants determine if a multi-asset strategy is a good fit before deploying them?



"You need to get under the hood and understand how a strategy and approach works," Mark advises. "What are the key drivers? What are the intended outcomes? Is it macro-led or based on stock selection? Does it have an approach to protecting against the downside? Sometimes what looks like a diversified portfolio will be remarkably concentrated in the investment views it's taking."

He continued: "We look at many metrics and ratios as well as using qualitative judgment. Plus, we consider the stability and sustainability of the strategy and the business."

While positive past performance can prove attractive to potential investors, understanding whether those returns can be replicated is paramount, said Alain.

"You won't see anything through past performance. You need to understand how repeatable, potentially, that performance is. What is the investment process? How experienced is the team and how is it organised? How has performance been delivered in the past? Was it through holding equities when equities were rising, or was it through more tactical asset allocation? Is the strategy active, passive, or a combination of both? What environment is the strategy suited to and how is risk managed?"

James reasoned that a track record is more important in assessing active strategies than passive mandates, with asset allocation decisions an easier route to delivering success than stock selection, which can be more difficult.

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"With passively managed strategies you can look under the bonnet at the process, and the positions gauge the outlook for the portfolio. It's harder with actively managed strategies because you're relying more on manager skill and the views of the investment manager, which make a big difference. Without a track record it's difficult to judge active mandates and investors should refrain from putting too much weight into back testing results alone."

Tom Danaher, investment specialist at Baillie Gifford, posited that multi-asset fund selectors face greater challenges than those researching single asset class funds.

"Over the past ten years the multi-asset funds with the highest equity weightings have done remarkably well based on the strong performance of equity markets, but as a fund selector, you also need to consider risk and what their neutral asset allocation is."



A balancing act

The conversation turned to the retirement market and how compatible multi-asset strategies are with pension funds, bearing in mind members' varied requirements in the accumulation and decumulation phases.

“In decumulation there are three risks pension savers need to consider: longevity risk – will retirees outlive their pension pot; sequencing risk – if markets were to fall early in their retirement how would that affect the value of their pension pot; and inflation risk – how can they protect their pot from inflation over time,” Tom explained.

“Whether retirees choose an annuity or a multi-asset drawdown fund, there's no perfect answer to solve all three problems. To mitigate all three of those risks, active asset allocation is essential because the appropriate mix of asset classes will change over time. An element of bottom-up stock selection can provide security of income. Decumulation is very different to accumulation, and you need investment strategies that are built to deal with its specific problems.”

Mark added that pension schemes also need to think about the accumulation phase of the younger members in pension schemes.

“Investors starting off today should probably be taking a higher risk than someone in retirement,” he said. Pension scheme managers need to look across the whole life cycle and ensure what is in place is fit for the whole range of investor types. There is a different emphasis on risk and return in the decumulation phase and that is historically somewhere multi-asset could have played a role in the past, and maybe that will be a focus going forward.”

Whether or not pension scheme members are taking direct income from the underlying assets or drawing income on a total return basis will also be fundamental to the overall structure of the strategy being utilised, Yona pointed out.

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A known quantity

As well as having the scope to invest across traditional asset classes, including equities, fixed income, property and commodities, multi-asset strategies can allocate to alternative asset classes, such as private equity, private credit and the arguably more divisive cryptocurrencies. While the participants differed on their views regarding the wisdom of investing in these alternatives, the room was in agreement that investors should proceed with caution.

“Our role as consultants is to understand what investment managers are considering and why, whether it makes sense, and if it is likely to contribute to the outcomes they’re trying to deliver,” began Mark. “There’s always innovation in financial markets, but it’s important to retain perspective and not be blinded by the next new thing.”

Private markets are inherently less liquid than public markets, Alain pointed out, highlighting the need to assess clients’ liquidity needs and ensure they’re comfortable holding a position for five to ten years if they have exposure to private markets.

In Kedi’s view, private markets will play an important role for institutional investors.

“Most of the debt to GDP ratio across developed market economies is at the high end, which limits their capacity to support economic growth for the next decade. Therefore, private capital will be important to support future economic growth,” he explained.

At the time of the roundtable, Bitcoin – the most widely adopted cryptocurrency – was trading at highs of around \$95,000, lending greater relevance to the discussion. Yona divulged that Cartwright recently facilitated the first UK defined benefit pension scheme direct investment in Bitcoin.

“You’ve got to understand Bitcoin to invest in it, you’ve got to understand what it’s doing in your portfolio, and it has to match your time horizon,” he said. “It is an extremely high-volatility asset. If you don’t understand those three things, then it is ill-advised getting involved in something which is new. Having said that, there is a place for it in some cases, and more importantly, ignoring it entirely and not understanding it is not sensible.”



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Alain did not take a view on whether multi-asset strategies should invest in cryptocurrencies but suggested using a crypto proxy as a lower-risk alternative.

“Crypto ETFs only exist in the US, so in Europe we can’t access cryptocurrencies in an investor-friendly framework. But there are indirect ways to access cryptos, for instance, through convertible bonds issued by crypto platforms. These give you some exposure to cryptos and could be a safer play than dealing with the complexity and operational feasibility of buying cryptos on behalf of your clients.”



The year ahead

Looking at the coming year, the multi-asset managers were asked how they are positioning their portfolios in light of the most recent ‘Trump bump’ and with global geopolitical tensions bubbling away.



“If you look at returns over the past two years, it's mostly been a global equity story, of which 65% is US equity, and within that there are around five equities delivering most of the returns,” Alain recalled. “So, as we enter 2025 there are some worries in the market about whether markets are too expensive and if the rally is sustainable.

“Markets are slightly overbought, but not to a point where we would be cutting risk. We're still slightly overweight equity within our portfolio, but we may have a totally different scenario in three months. There could be a trade war between China and the US, although that doesn't seem to be the case, or a political issue somewhere we're not expecting. But with the information we have, that is how we are entering 2025.”

From an income perspective, equities have limited appeal, added Tom.

“In our Sustainable Income strategy, we've got approximately one third invested in equities, a third in bonds, and the remainder in real assets. The real assets allocation is two-thirds invested in listed infrastructure and one-third in listed property,” he said.

“We think it's worth looking beyond equities because the income return from equities is currently paltry, compared with other asset classes. The blended yield on our equities is about 2.5%, which is low when we can

achieve 6% in investment grade credit, 8% or 9% in high yield, and 8-10% in emerging market debt. As income investors, we have to be sure equity dividends are going to grow at high rates in order to have a high allocation there at the present time. In America, in particular, income investing is tough because valuations are so high.

“However, real assets is an interesting area. We've recently added to property, partly because UK and European stocks have been awful, including those of some well-managed companies. In Q4 the average REIT in the UK was trading at a discount of over 20% discount, which is rare, and has historically been an attractive entry point. If we can buy a real assets holding trading at a significant discount to its net asset value, with a clear path to dividend growth, those holdings should help us to reach our return objectives during the coming years.”

Ed's Note: Please note, the Baillie Gifford Sustainable Income Fund, referred to in this whitepaper, will be renamed the Baillie Gifford Monthly Income Fund. This change takes effect on 31 January 2025. This reflects the FCA's Sustainability Disclosure Requirements (SDR) governing the use of sustainability-related terms and the manager's decision to pursue 'non-labelled' status for this Fund. The letter to shareholders can be found via the link: [Sustainable Income Fund - Shareholder letter regarding name change](#)¹

¹ <https://www.bailliegifford.com/en/uk/intermediaries/literature-library/funds/oiecs/sustainable-income-fund/sustainable-income-fund-shareholder-letter-regarding-name-change/>

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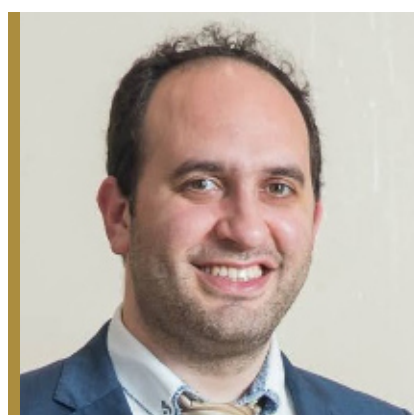


James Stewart

Interim Head of Manager Research, XPS Group

James Stewart is a Senior Consultant at XPS Group where he is acting Head of Investment Manager Research. His role co-ordinating and overseeing the research of funds and investment managers at XPS provides valuable insights for institutional investors, including innovative products and solutions available, as well as industry and regulatory changes.

In addition to his research responsibilities, James advises a number of clients with appointments that cover a range of shapes and sizes, including UK DB and corporate appointments, for schemes ranging from £30m through to £1bn+ in assets under advice.



Yona Chesner

Head of Investment – North, Cartwright

Yona Chesner is Head of Investment – North at Cartwright and is a qualified actuary with over 15 years' experience advising pension schemes and other institutional clients on all aspects of their investment needs.

Prior to joining Cartwright in January 2024, Yona worked for 12 years at Deloitte, building up and leading their Manchester investment team. Before that, he worked at LCP within their investment advisory practice. Yona specialises in developing and implementing strategic investment solutions for his clients with a particular focus and expertise in working with more complex and bespoke approaches.





Kedi Huang

UK CIO, Aspen

Kedi Huang is currently an SVP and UK Chief Investment Officer, with principal responsibilities for overseeing UK investment balance sheets and leading Group investment analysis and strategic initiatives. Kedi is part of the Aspen UK Executive Committee.

Prior to this, Kedi was an investment banker at Nomura, responsible for cross-asset investment, financing, and balance sheet hedging deals for insurers and pension funds. Before that, Kedi was a portfolio solution manager at LGIM, covering strategy and fund management activities for insurers and pension funds.

Kedi is a Fellow of the Institute and Faculty of Actuaries and a Certified Financial Analyst (CFA). Additionally, Kedi is a Chartered Alternative Investment Analyst and a Chartered Enterprise Risk Actuary. Kedi holds a master's degree in Mathematics (Part III) from the University of Cambridge, a master's degree in Actuarial Finance from Imperial College Business School, and an undergraduate degree in Mathematics with Statistics for Finance from Imperial College London.



Mark Parry

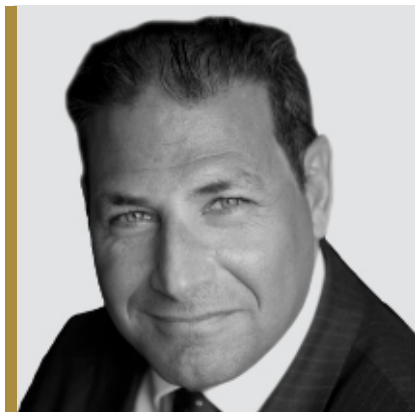
Head of Manager Research, Barnett Waddingham

Mark leads our Manager Research Team. Working closely with our consultants, Mark's team provides independent and well-researched views on investment opportunities, tailored to the specific needs of the client.

A senior investment professional with over 20 years' experience as a multi asset and fixed interest fund manager, Mark has the knowledge and expertise to assist clients with the information and support they need.

Mark also sits on our investment research priorities group, so has visibility of research across different areas. This enables him to identify and develop research opportunities that are likely to benefit our clients.





Alain Zeitouni

Senior Director, Head of Multi-Asset – EMEA, Russell Investments

Alain Zeitouni is Senior Director, Head of Multi-Asset, based in London. He is the portfolio manager of Russell Investments' flagship Multi Asset Growth Strategy funds (MAGS), as well as the MAGS risk-rated retail fund range. Since September 2020, he has led the EMEA Multi-Asset team and has ultimate responsibility for the performance of all multi-asset funds in the region.

Alain joined Russell Investments in 2011 as a portfolio manager on the Multi-Asset team. Before that, he spent 10 years at Barclays Wealth Managers France where he created the multi management department. Alain began his career in London with General Electric Capital Europe as a financial analyst in 1999.



Tom Danaher

Independent Investment Specialist, Baillie Gifford

Tom is a Multi-Asset and Income investment specialist in the Clients Department. He joined Baillie Gifford in 2022.

Prior to this, Tom was an Investment Director at Evelyn Partners (formerly Smith & Williamson) in London, where he spent seven years managing multi-asset portfolios on behalf of private clients, trusts and charities.

Tom graduated with first class honours in Politics, Philosophy & Economics from the University of Manchester and is a Chartered Fellow of the CISI.



In attendance



Beth Brearley (Moderator)

Freelance Writer

Beth Brearley is a freelance writer specialising in asset management, institutional investing and private equity.

A former editor of several prominent B2B titles, Beth has spent almost two decades covering the financial services sector.



Sean Thompson

Founder & Director, cio investment club

Sean has nearly 40 years of experience working in London's financial services sector and the insurance market. After 10 years as Managing Director of CAMRADATA, Sean launched the cio investment club on 1st January 2024.

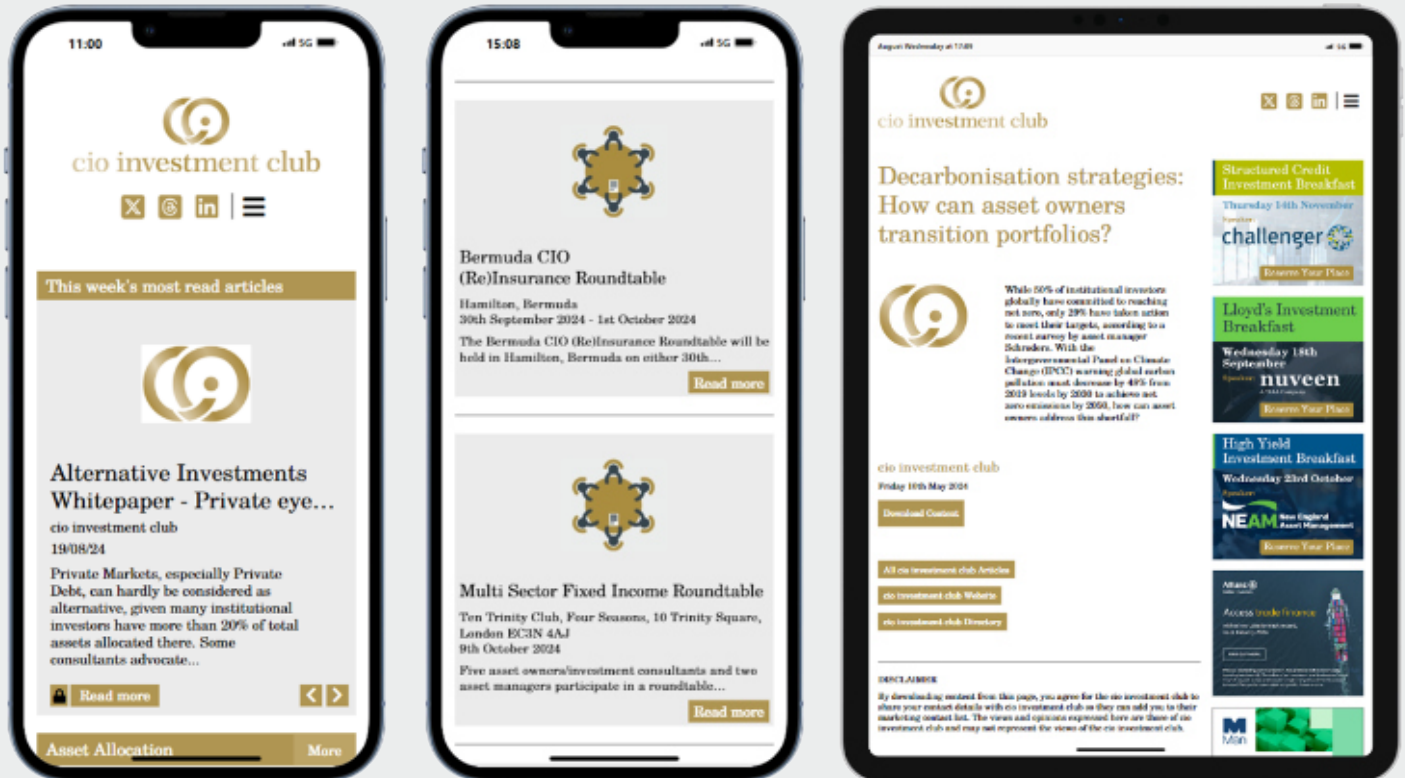
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