Aberdeen Standard Capital

A guide to multi-asset investing

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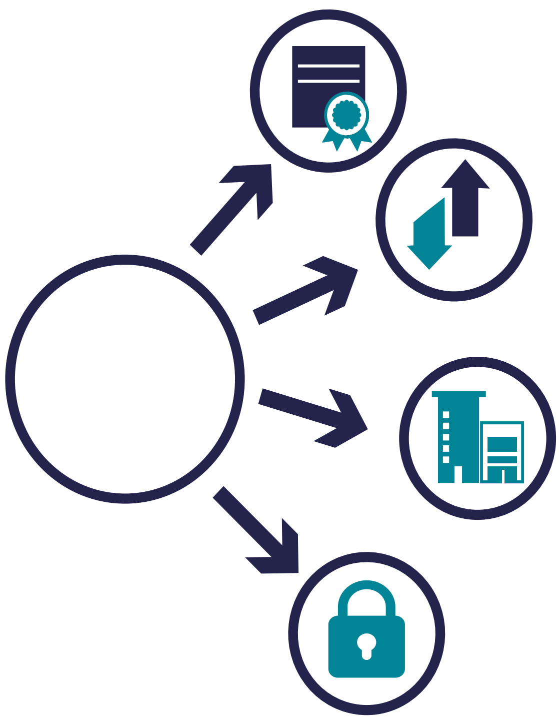
What is multi-asset investing?

In its simplest form, it's investing in a mix of different types of investment. Company shares and government bonds are among the most common kinds of investment held in multi-asset portfolios. Though in recent years the range of investments held in multi-asset portfolios has expanded widely. Many portfolios now invest in other assets that many investors would never consider investing in or have access to them. Examples include private equity, infrastructure and commercial property, among others.



Why invest in multi-asset portfolios?

At Aberdeen Standard Capital we believe that by actively investing on a global basis across different asset classes, we can offer clients the best opportunity to increase their real wealth, consistently and over the long term. Perhaps the biggest benefit of multi-asset investing is diversification. By actively investing in more than one kind of asset, you can spread risk and improve your potential for returns.

The underlying objective for investors is to achieve growth, income or preserve capital with as little risk as possible. Multi-asset investing is designed to help.

Diversification works because different types of investment often don't perform in the same way at the same time. For example, share prices often go up while bond prices are falling, and vice versa. This is because factors such as economics, interest rates, politics, conflicts and even the weather affect different asset classes in different ways. What's positive for one may be negative for another.

Diversification can also help to even out returns and lessen the effects of short-term market ups and downs. Share prices can be quite volatile and change a lot in a short period of time. Bond prices tend not to move up and down quite as much or as fast as share prices. So, by investing in both, you can achieve less volatile returns than would come from investing in shares alone.

We can't predict all the factors affecting how different asset classes perform. But in most years, the difference between the best and worst-performing asset classes is substantial. That's why 'correlation' is such an important concept here.

Understanding correlation

Correlation is the relationship between asset classes. The lower the correlation between two investments, the less similar they are in their behaviour. If they're negatively correlated, they move in opposite directions – one rising in value while the other falls. If they're positively correlated, they'll tend to rise and fall in value at the same time.

If you invest in just one type of investment (for example UK shares), you may be exposed to a lot of risk. If the stock market fell suddenly, the value of your shares would substantially fall in value. A well-diversified portfolio spreads this risk by holding investments that aren't positively correlated to shares. In other words, multi-asset investing means not putting all your eggs in one basket.

How can you make money?

Like the underlying investments that it holds, a multi-asset portfolio can make money in two main ways. As an investor, you might be looking for one or both of these types of return. It depends whether your investment goals centre on growing your money, getting regular income payments, or even a combination of the two.

1. Capital growth

Capital growth means an increase in the value of the assets you invest in. For example, buying shares that rise in price before you sell them is one of the most straightforward examples of capital growth.

2. Income

Income may be a set or variable amount. Bonds, for example, usually provide an investor with regular fixed payments. Rent from a property investment also fits into this category. Shares will often pay out dividends, which tend to be variable.

How can you lose money?

Taking a multi-asset approach can reduce the risk of losing your money compared to investing in a single asset. But it doesn't eliminate it completely. Although it's unusual for all types of investment to fall in value at the same time, it can happen.

The last time was in 2008, in the middle of the financial crisis. In extreme circumstances such as these, a multi-asset portfolio is likely to fall in value along with other investments. It may not lose as much as an investment in a single type of asset, though.

It's also worth considering that, while multi-asset investing often reduces risk, it can also limit returns. Spreading your money around means that you might not make as much as you would if investing in one asset that performed very well. So, in a year where shares do well, a portfolio made up of shares might typically enjoy better performance than a multi-asset portfolio. However, in a year where shares do badly, a multi-asset portfolio is likely to fare better than a portfolio made up of shares.

How to invest - our approach

It’s possible to build a multi-asset portfolio by investing directly in different assets. But doing it effectively can be a time-consuming and labour-intensive process. You need extensive knowledge and experience to choose the optimum mix of investments. It can also be costly.

Because of this, many people choose to diversify their portfolios by investing in multi-asset portfolios run by professional managers. These portfolios pool investors’ money together and then divide it between different asset classes. You benefit from the managers’ expertise and their ability to access a wider range of investments than that available to individual investors.

Some multi-asset portfolios include niche investments that need significant research to understand the risks. On top of this, it can be difficult for an individual to buy and sell these kinds of investment quickly. But you can get access to these and the advantages they potentially offer through a multi-asset portfolio.

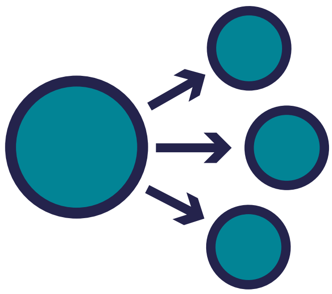
As a discretionary investment manager we work with our clients to understand their investment priorities and risk appetite, before creating a multi asset portfolio that best meets those needs.

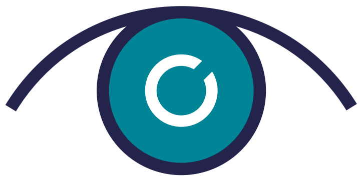
We are in a unique position of being able to combine our own in-house expertise, with the full global capabilities of Aberdeen Standard Investments*. This global reach enables us to identify diverse investment ideas across the world and provides access to the institutional investment capabilities and research of the wider business.

* Aberdeen Standard Capital is the discretionary management arm of Aberdeen Standard Investments. Aberdeen Standard Investments is a brand of the investment businesses of Aberdeen Asset Management and Standard Life Investments.

Multi-asset and macro investing

Supported by 90* multi-asset professionals, plus Aberdeen Standard Investments' asset class specialists, our multi-asset and macro strategies cover a spectrum of approaches and investor goals.





Collaborative approach.

Our multi-asset portfolios benefit from the size and diversity of our resource. Managing our multi-asset products is a team of over 90 talented professionals. These individuals work together, combining critical skills and experience in disciplines that include economics and thematic research, tactical asset allocation, portfolio management, risk analysis and portfolio construction. The team can also draw on the resources of our asset class specialists across the globe.

Investment flexibility

We have the flexibility to use a full array of investment techniques and liquid instruments. For instance, by taking both 'short' and 'long' positions, we can implement 'relative-value' strategies that seek positive returns irrespective of whether markets rise or fall. Such strategies allow us to take advantage of valuation anomalies between geographies, sectors, size/capitalisation and asset classes. We can take exposure directly or through derivative instruments.

Long-term view

We believe many market participants take only a short-term view when they invest. Rather than be distracted by day-to-day market 'noise', we focus on longer term (three years or more) views of markets. This extended timeframe allows us to exploit non-consensual ideas and insights, and opportunities arising from mis-pricing.

* Source: Aberdeen Standard Investments, as at 30 June 2019.

Team-based approach

Our team-based approach means ideas and insights are shared and challenged, ensuring we make robust, well-informed investment decisions. It also means that no one individual is critical, which contributes materially to the long-term consistency and stability of our portfolios.

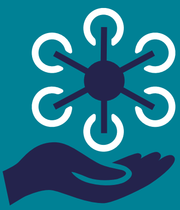
State-of-the-art risk control

Effective risk control is a vital element of our multi-asset investment approach. This allows us to build portfolios able to withstand market stresses and provide investors with a smoother investment journey.

Our portfolios benefit from our state-of-the-art risk infrastructure and processes. For example, as well as historical stress testing, we have developed our own forward-looking scenario analysis procedure to test our portfolios for extreme but plausible future events. Our advanced approach allows us to incorporate expert opinions about future world states into projections of portfolio outcomes. Future stress scenarios we test for might include: a rapid slowdown in China, global trade wars or faster-than-expected interest rate rises in the US.

Efficient implementation

Our global trading platform and dedicated dealing desks maintain full market coverage for efficient portfolio implementation and best value trade execution.

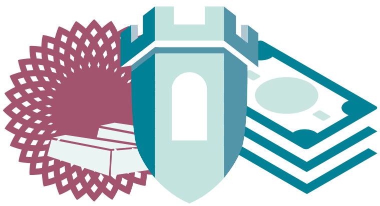


Broad investment universe

Our multi-asset strategies can invest across a broad range of asset classes and geographies, allowing us to invest wherever we see the best opportunities for returns. For example, alongside traditional equity/ bond investments, we can invest to profit from our views on currencies, interest rates, inflation and volatility. Similarly, we can invest to gain exposure to particular industry sectors and themes across the globe. In this way, we aim to give clients access to more return potential, more ways to diversify risk and – ultimately – greater opportunity to meet their goals.

Our multi-asset solutions include:

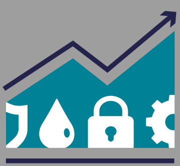
- Conventional balanced portfolios that spread investments across a range of different asset classes.
- Risk-based portfolios that are tailored to provide investors with an investment based on their preferred investment style and tolerance to risk.
- Enhanced-diversification strategies that seek to generate equity-like returns over the medium term with less volatility than investing only in equities.
- Absolute target return strategies that aim to deliver positive annualised returns regardless of market direction.



Defensive

Multi-asset portfolios usually provide exposure to a mix of defensive and growth asset classes. Defensives include cash, government bonds, corporate bonds, global inflation-linked bonds and absolute return products. Growth assets include equities, high-yield bonds, emerging market debt, alternative strategies, infrastructure and commercial real estate.

Growth



Our approach

Our core belief is that there are a number of asset classes now available to investors that have attractive return prospects but different return drivers. By combining these asset classes in a diversified portfolio we aim to deliver attractive long-term returns with lower volatility and greater resilience to market turbulence than traditional multi-asset portfolios. Our edge in managing these genuinely diversified portfolios comes from our ability to identify, access and thoroughly research this broader range of asset classes. It is driven by the experience of our Diversified Assets (DA) team and the access they have to the breadth and depth of investment resources at Aberdeen Standard Investments.

In building portfolios we start with our strategic view of long-term macroeconomic drivers and return prospects in each asset class. We conduct thorough research and benefit from significant flexibility to select the best way to access each opportunity. Our ongoing review then adapts the portfolio based on our specialist insights into market developments and the changing attractiveness of each asset class.

Definitions

Equity

(n) shares in a company that can be bought and sold on a stock market

Bonds

(n) debenture, a security, issued by a government or a company when borrowing money

Multi-asset

multi- combining form meaning much or many; asset *(n)* an item of monetary value e.g. she invested in a multi-asset portfolio

Commercial real estate

property that has a business use and focus such as industrial units, office buildings, shops, shopping centres, restaurants.

Infrastructure

the basic systems and services, such as transport and power supplies, that a country or organization uses in order to work effectively

Alternatives

An alternative investment or alternative investment fund (AIF) is an investment or fund that invests in asset classes other than stocks, bonds, and cash. These includes hedge funds, private markets and tangible asset such as wine and art

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aberdeenstandardcapital.co.uk

Important Information

Investment involves risk. The value of investments, and the income from them, can go down as well as up and an investor may get back less than the amount invested. Past performance is not a guide to future results.

The details contained here are for information purposes only and should not be considered as an offer, investment recommendation, or solicitation to deal in any investments or funds and does not constitute investment research, investment recommendation or investment advice in any jurisdiction.

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