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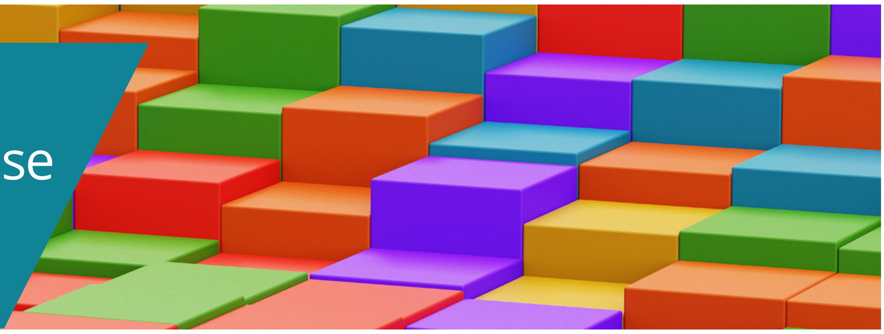
March 2020

A strong and growing case for multi-asset investing



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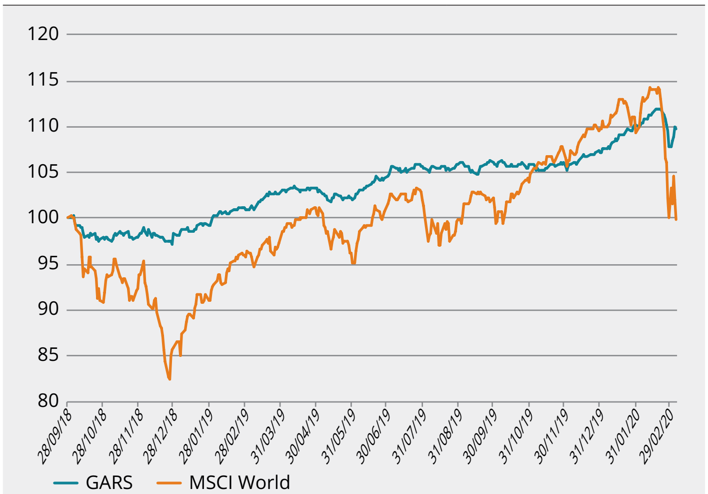
Recently, I was updating a client on our Multi-Asset funds. He repeated a familiar story: "What multi-asset in general needs to make clients really interested again is a 20% fall in the markets". As I write, the equity sell-off has about half that magnitude. Rather than wait to see if the markets fall further and only acting then, this is a good time to re-visit multi-asset funds. Was my client's confidence in the asset class in times of market stress justified and is a place merited for multi-asset in a wider portfolio?

The chart below shows the performance (net of fees) of our Global Absolute Return Strategies (GARS) portfolio since the start of 1st October 2018. This coincides with the bedding down of the process and people changes we made to the management of the portfolio and the start of a period of market volatility. It compares the performance of the fund with global equities hedged to GBP. The hedging is important because it removes gains or losses due to currency fluctuations.

There is a stark contrast. Despite sentiment suggesting this has been a great period for equities, the total return for global equities over this time period has been less than cash. By contrast, GARS has returned ahead of its target of cash+5%, gross of fees with less than a third of the volatility.

Chart 1: GARS AUD hedged Z share class performance (net of institutional fees) versus global equities hedged net total return AUD



Source: Bloomberg, Aberdeen Standard Investments, 6 March 2020

Past performance is not a reliable indicator of future results.

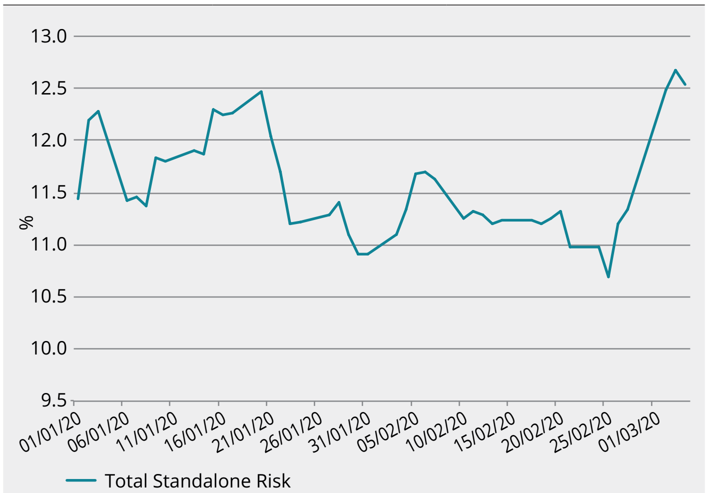
Managing turbulence

The reason why multi-asset strategies can perform more strongly during turbulent markets is not just because they have lower equity content and lower expected volatility (both of which are clearly true). The breadth of investment universe is an advantage during volatile markets but equally important is the active nature of our management style. It's also important to recognise that de-risking and re-risking a portfolio is about far more than just about managing the equity exposure. It is about adjusting the whole shape of the different risks being blended together. One simple way of illustrating that is to look at chart 2 below.

The chart shows the total level of "standalone risk" deployed in GARS since the start of the year. This could also be thought of as reflecting the total return-seeking risk in the portfolio. The most recent data points are the highest of the year so far – indicating a relatively high level of return-seeking assets in the portfolio. However, the equity content is low. In mid-January, we held a 33% net long position in the fund. It is now just 8% net long – that is the smallest equity position we have ever held.

The key to managing turbulence is more to do with achieving a balance of risk, identifying opportunities as they present themselves and having the means to capture them. In other words, having a versatile mandate and using it to the full.

Chart 2: Total standalone (return-seeking risk) deployed in GARS (UK portfolio) year to date



Source: Aberdeen Standard Investments, 6 March 2020

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Aberdeen Standard Investments

There are numerous illustrations of the fund's versatility in the last few weeks:

1. Granular implementation of equity holdings – rather than hold exposure as pure beta, we have found better opportunities targeting more specific exposure such as European Equity Infrastructure strategy. This strategy has returned positively year to date despite the equity market collapse.
2. Use of relative value positions – our highest contributing strategy year to date favours US bond over German bonds. At a time when the overall level of bond yields is extremely low, we have reduced directional bond market risk through this position.
3. Hedging – we still have confidence in the long term potential of Emerging Market bonds, but believe it is prudent to hedge some of that risk in the near term. We have adjusted our associated credit and currency risk as a result.
4. Diversifying currencies – we significantly increased our long yen holding in mid-February and also opened a position that is short the Thai Baht in an expectation of significantly lower tourism in Thailand.

By using the versatility of the mandate, we can achieve an asymmetric return profile. This means the portfolio falls less in weak markets than it gains in strong markets. In 2018-19, for example, the fund declined by just 17% of the fall in equities in Q4 2018, but enjoyed 27% of the bounceback in Q1 2019. It may still be early days in the current crisis and too early to judge performance. However, as March 6th, GARS has returned 2.21% (net of fees) year to date and global equities hedged to AUD have fallen 9%. That is the value of multi-asset funds during turbulence.

And there may well be more turbulence to come. The full impact of the Covid-19 virus is yet to be felt outside Asia. While policy-makers have acted to cut interest rates in many countries to bolster growth, that also underlines their expectations of the potential severity of the impact. Bond markets have responded by hitting all-time low yields. Uncertainty as measured by the VIX index of volatility is at a 10 year high. It seems inevitable that the uncertainty is going to persist a while longer. The case for making a change in portfolios today to increase multi-asset exposure is strong and growing.

Year on Year performance, to 31 Dec 2019

	Year to 31/12/2019 (%)	Year to 31/12/2018 (%)	Year to 31/12/2017 (%)	Year to 31/12/2016 (%)	Year to 31/12/2015 (%)
Gross performance	9.09	-4.37	5.31	0.01	6.10
Institutional Fund Performance (net of fees)	8.13	-5.17	4.50	-0.81	5.11
Bloomberg AusBond Bank Bill	1.50	1.92	1.75	2.07	2.33

Source: Aberdeen Standard Investments as at 31/12/2019. 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. Please note different fees may apply to different share classes.

For full details of the fund's objective, policy, investment and borrowing powers and details of the risks investors need to be aware of, please refer to the PDS. For a full description of those eligible to invest in each share class please refer to the relevant PDS.

Risk Factors

The value of investments and the income from them can fall and investors may get back less than the amount invested.
The fund invests in securities which are subject to the risk that the issuer may default on interest or capital payments.

The use of derivatives carries the risk of reduced liquidity, substantial loss and increased volatility in adverse market conditions, such as a failure amongst market participants. The use of derivatives may result in the fund being leveraged (where market exposure and thus the potential for loss by the fund exceeds the amount it has invested) and in these market conditions the effect of leverage will be to magnify losses.

The fund invests in emerging market equities and / or bonds. Investing in emerging markets involves a greater risk of loss than investing in more developed markets due to, among other factors, greater political, tax, economic, foreign exchange, liquidity and regulatory risks.

The fund invests in equity and equity related securities. These are sensitive to variations in the stock markets which can be volatile and change substantially in short periods of time.

The fund invests in high yielding bonds which carry a greater risk of default than those with lower yields.

The fund price can go up or down daily for a variety of reasons including changes in interest rates, inflation expectations or the perceived credit quality of individual countries or securities.

Important Information

The value of an investment is not guaranteed and can go down as well as up. An investor may get back less than they invested.

Please consider the below risk factors:

(a) The fund invests in securities which are subject to the risk that the issuer may default on interest or capital payments.

(b) The fund price can go up or down daily for a variety of reasons including changes in interest rates, inflation expectations or the perceived credit quality of individual countries or securities.

(c) The fund invests in equities and equity related securities. These are sensitive to variations in the stock markets which can be volatile and change substantially in short periods of time.

(d) The fund may invest in emerging market equities and / or bonds. Investing in emerging markets involves a greater risk of loss than investing in more developed markets due to, among other factors, greater political, tax, economic, foreign exchange, liquidity and regulatory risks.

(e) The use of derivatives carries the risk of reduced liquidity, substantial loss and increased volatility in adverse market conditions, such as a failure amongst market participants. The use of derivatives will result in the fund being leveraged (where market exposure and thus the potential for loss by the fund exceeds the amount it has invested) and in these market conditions the effect of leverage will be to magnify losses. The fund makes extensive use of derivatives.

(f) The fund invests in high yielding bonds which carry a greater risk of default than those with lower yields.

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