

Multi-asset investing

In our Focus on [successful long term investing](#) we outlined the importance of diversification. Investing all your money in one type of asset might maximise your potential return over the long term, but it also maximises your risk.

Put simply, to reduce risk don't put all your eggs in one basket. For investors that means spreading investments across a range of assets.

What is Multi-asset Investing?

Most portfolios will contain a range of funds, each of which have a specific mandate to invest into a particular asset class (cash, fixed interest, property and equities) and/or in a particular geographical location. These are typically known as single manager funds.

This approach may be adequate in some scenarios. However, it does not necessarily facilitate the type of proactive management that would enable swift movement between asset classes or geographical sectors.

Multi-asset funds invest across all asset classes. (For more about these read our [Focus on asset classes](#)).

In order to gain the same broad access to the full range of asset classes, they may either invest directly into individual securities or create an umbrella, known as a multi-manager fund, which invests into a carefully constructed selection of single manager funds.

Asset allocation and fund selection

The multi-asset fund manager decides upon the split between asset classes according to the fund's objective.

This asset allocation will depend upon the manager's long term strategy and reflects their view on the outlook for each asset class. It will take account of any short term tactical deviations from the long term strategy that will benefit and/or protect the fund. The manager then undertakes in-depth analytical research into the individual securities or the universe of collective funds, as appropriate.

Not all multi-asset/multi-manager funds are alike. While the funds will obviously differ due to varying views on markets, they will also differ in their overall objectives and the methods of achieving those objectives.

Some funds will be more risk averse, aiming for capital preservation. They will not only invest in naturally defensive asset classes but also construct the portfolio in such a way as to position non-correlated assets alongside each other.

There will be other funds that will be less risk averse, specifically using an increased exposure to high risk assets, in order to maximise returns. They will invest in riskier areas, including more esoteric investments on the basis of the manager's conviction ideas.

It should be noted that multi-manager funds cost more than single manager funds as there is an extra tier of management. Typically, the additional charges for multi-manager funds are between 0.5% - 1.0% per annum.

For the right funds, we believe this is justifiable when considering the benefit of access to a broader range of assets, the active management and the potential for out-performance.

What are the advantages and disadvantages of this approach?

The main advantages of multi-asset investing are:

- Able to access more than one asset class through one fund
- Able to move quickly between asset class, geographic regions and sector to take advantage of changes in the prospects for each of these areas
- Changes within the fund can be made without any Capital Gains Tax liability to you
- Able to access a wider range of assets. These include commodities, structured products, hedge funds, private equities and currency exposure
- Able to access a wider range of investments such as institutional funds not normally available to you
- Able to access several leading fund managers within one fund.

What are the advantages and disadvantages of this approach?

The main disadvantages of an absolute return fund are:

- Multi-manager funds cost more than single manager funds as there is an extra tier of management. Typically, the additional charges for multi-manager funds are between 0.5% - 1.0% per annum. These charges may eat into the overall return of the fund.
- There is no guarantee that the fund will achieve its objective.

And finally....

Above all, investors should remember that returns from a portfolio that is diversified across a range of asset classes are likely to be less volatile than those from a portfolio that focuses on a single asset class.

Nobody knows what the future will bring, so the ability to proactively move between assets will be vitally important. Multi-asset and multi-manager funds are one way in which investors can do this now.