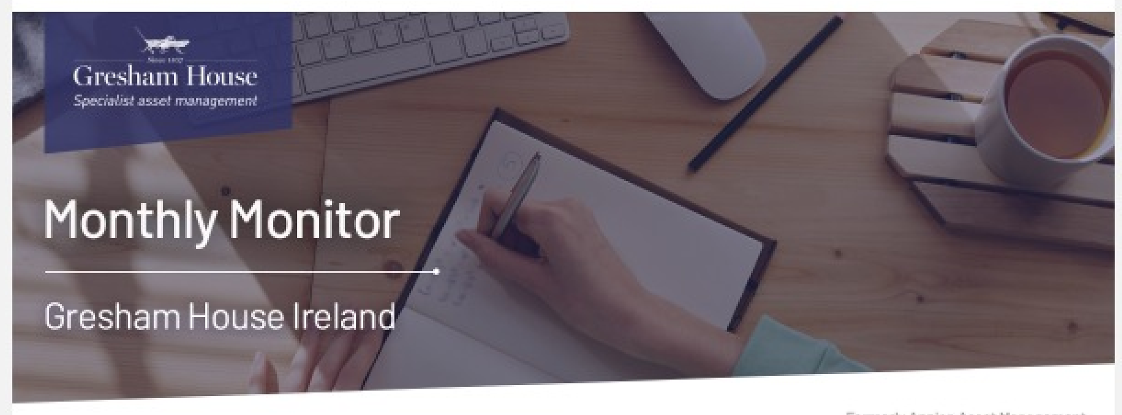

Formerly Appian Asset Management

Monthly Monitor | June 2022

The future for multi-asset funds

Multi-asset investing has been one of the fastest growing asset categories over the last twenty years. From 2003 to 2018, the industry increased globally more than five-fold, from \$2tn to \$11tn, also increasing its market share of worldwide assets under management from 6% to 14%.

The attraction of multi-asset investing is completely logical - the diversification benefits offered by investing in different asset classes have the potential to dampen volatility in comparison to an investment in a single asset class.

After a strong period of performance, multi-asset funds are struggling and therefore it's fair to question what the future for the asset class holds.

Despite the rise in alternative assets over the last decade, many multi-asset funds remain a variant of the traditional 60:40 portfolio: 60% equities and 40% bonds.

These funds worked perfectly in a world without widespread inflation and any sell-off in equities was met with a rise in bond values.

In this world, bond values and equity values were negatively correlated and a 60:40 portfolio often worked wonderfully from a diversification perspective. In fact, it worked so well that complacency set in.

As bond yields have moved lower over the last decade, equity indices have continued to hit new highs, propelled by the performance of US growth stocks which have come to dominate global indices. Whilst all was good at the time, many ignored the fact that it was the lower bond yields that were driving equity valuations higher and therefore there was a declining amount of diversification within portfolios.

When everything was moving in the right direction, everything looked great as positive returns were being generated with low levels of volatility. Statistically, there was nothing wrong but fundamentally the industry had set itself up for a fall.

We warned about the perils associated with this strategy in October last year.

Since then, the 60:40 portfolio has declined by 12%, as inflation has emerged as a threat to the global economy causing both sides of the 60:40 portfolio to decline as bond prices are falling and valuations of expensive growth stocks are contracting.

There is a chance that the current decline in bond values and the melt down in US growth stocks will lead to a watershed moment for the multi-asset industry.

This would be defined by an embrace of active management as opposed to passive management. It would comprise:

- A move to active asset allocation, meaning investors are not constrained to a set asset allocation (60:40) but rather one that's flexible enough to react to risks and opportunities as the external environment changes
- A true embrace of alternative assets - e.g. forestry, property and infrastructure - which can bring diversification characteristics
- A return to decision making based on fundamentals not index weightings
- A move back to accountability, as we are sure to hear plenty of excuses for the current failure of multi-asset funds and they will all sound something like "It's the market's fault"

It is our view that the industry is unlikely to make these changes, but we will continue to pursue our active approach that has served us well across our multi-asset mandates for the last 17 years.

Current asset allocation

Assets	Appian Multi-Asset	Impact	Range
Equities	54%	44%	30 - 60%
Bonds	5%	10%	0 - 30%
Cash/cash equivalents	8%	18%	10 - 30%
Property	7%	5%	0 - 20%
Alternatives			10 - 30%
-Forestry	7%	7%	
-Infrastructure	13%	16%	
-Commodities	4%	0%	
-Venture Capital	2%	0%	

Please visit our website for further information. The latest views and insights from the team can be found here.

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