

# Multi Asset Investing



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Investing can often feel overwhelming, especially given the wide range of options available. Multi-asset investing simplifies this by diversifying your investments across various asset classes, helping you grow your wealth while managing risk.

This guide will explain what multi-asset investing is, how it has evolved, and why it may be a suitable option for you. By the end of this guide, you will have a clearer understanding of how multi-asset investing works, its benefits, and the role it plays in achieving long-term financial goals.



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# The history and evolution of multi-asset investing

**Multi-asset investing dates back centuries, with early investors diversifying across assets like land, commodities, and government bonds.**

The modern, 20th century, approach emerged in the 1950s when economist Harry Markowitz pioneered portfolio theory. His work demonstrated that spreading investments across multiple asset types could effectively reduce risk without necessarily lowering returns. This principle remains central to multi-asset investing today.

As financial markets evolved, asset classes like equities and alternative investments became more accessible. By the 1980s and 1990s, multi-asset funds emerged, offering investors a convenient way to achieve diversification through a single investment solution. Recently, technological advancements and improved financial analysis have further refined multi-asset investing, making it a key strategy for investors seeking a balanced approach to risk and return.

# Understanding multi-asset investing

Multi-asset investing involves spreading investments across a variety of asset classes, including:



## Equities (Shares)

Ownership in companies with potential for growth. Equities tend to offer higher returns over the long term but come with greater volatility.



## Fixed Income (Bonds)

Loans to governments or companies that pay interest. Bonds are typically less volatile than equities and can provide a stable income stream.



## Property

Real estate investments for income and potential appreciation. Property investments can provide long-term capital growth and rental income.



## Cash & Cash Equivalents

Low-risk, highly liquid investments such as savings accounts and money market funds. These provide stability and liquidity but may not keep pace with inflation.



## Alternatives

Investments such as commodities, infrastructure, and private equity that provide additional diversification. These asset classes often behave differently from traditional stocks and bonds, offering further risk management benefits.

## The benefits of outsourcing to a multi-asset investment manager

Many investors choose to outsource their investment management to a professional multi-asset investment manager. This decision is driven by several key benefits:



**Expertise and Research** - Investment managers have access to institutional-grade research, sophisticated financial models, and a team of analysts who assess opportunities across global markets.



**Risk Management** - Multi-asset managers actively monitor market conditions and adjust portfolios to optimise risk and return.



**Time Efficiency** - Managing a diversified portfolio requires continuous monitoring and adjustments, which can be time-consuming for individual investors.



**Cost Efficiency** - Investment managers can leverage economies of scale, accessing institutional share classes and reducing transaction costs.



**Access to a Broader Investment Universe** - Independent investment managers can screen funds and assets across the entire market, ensuring clients benefit from the best available investment opportunities.

Using an independent, whole-of-market investment manager ensures that investment decisions are not constrained by in-house products or biases, allowing for a truly diversified and optimised portfolio.

## The benefits of diversification

Diversification spreads investment risk across multiple asset classes, helping to:

1

Reduce exposure to any single investment type.

2

Enhance the likelihood of consistent returns.

3

Protect against market volatility.

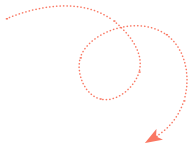
WORKED EXAMPLE:

Mitigating investment risks

Imagine an investor who puts all their money into one company's shares. If that company faces difficulties, the investment could suffer significantly. However, if the investor instead spreads their money across equities, bonds, property, and alternative investments, a downturn in one asset class may be offset by stability or gains in others.

Another example is the 2008 financial crisis, where equities saw significant declines while government bonds and gold provided stability.

The below diagram displays the annual returns of individual asset classes versus a diversified multi-asset portfolio, with each colour representing a different asset class and each calendar year ordered from best to worst performer, highlighting how the multi-asset portfolio consistently tracks a steady path across varying market outcomes.



	2024	2023	2022	2021	2020	2019	2018	2017
Fixed Income	19.59%	15.31%	1.08%	22.51%	12.67%	21.71%	4.94%	-1.90%
Diversified Multi Asset Portfolio	15.70%	12.06%	-0.37%	19.63%	10.20%	19.21%	0.33%	13.24%
Property	5.99%	6.25%	-5.70%	14.47%	5.83%	16.39%	-1.82%	8.89%
Cash & Cash Equivalents	4.78%	4.31%	-7.70%	3.53%	2.59%	4.38%	-2.81%	6.93%
Alternatives	0.07%	4.22%	-8.08%	-0.11%	0.11%	2.71%	-3.17%	3.39%
Global Equities	-1.25%	-0.25%	-19.01%	-3.83%	-7.27%	0.52%	-3.79%	0.06%

Active vs. Passive investing

Active Investing

Fund managers make decisions to buy and sell investments based on research and analysis, aiming to outperform a benchmark index. Active strategies involve higher costs due to research, trading, and management fees.

Passive Investing

Investments track an index (e.g., FTSE 100) and aim to replicate its performance. Passive strategies offer lower costs as they require minimal management.

When each strategy is used

Investment managers may use active strategies when they believe market inefficiencies can be exploited for superior returns. Passive strategies may be favoured in well-researched markets where active managers find it harder to outperform.

Active Implementation Using Passive Vehicles

Some portfolios adopt active asset allocation while implementing their decisions using passive funds, blending cost efficiency with tactical market positioning.

Investment Structures

Active Funds:

Typically structured as OEICs or unit trusts, involving professional management and higher fees.

Passive Fund:

Include ETFs and index funds that replicate market indices with lower charges.



## Strategic vs. Tactical Asset Allocation

Asset allocation is the process of dividing an investment portfolio among different asset classes to balance risk and returns. It aims to diversify portfolios, reduce volatility, and align investments with individual goals and risk tolerance.

Asset allocation strategies include Strategic Asset Allocation, a long-term method which involves maintaining a fixed asset allocation aligned with the investor's goals. Meanwhile, Tactical Asset Allocation involves shorter-term adjustments to asset allocation responding to market changes.



### Strategic Asset Allocation

A long-term approach that sets a fixed asset allocation based on an investor's objectives.



Example:

**A retirement portfolio with 60% equities and 40% bonds.**

### Tactical Asset Allocation

Short-term adjustments to asset allocations based on market conditions.



Example:

**Reducing equities and increasing bonds in times of market uncertainty.**

## Risk considerations in multi-asset investing

While multi-asset investing helps reduce risk through diversification, it does not eliminate all risks. Investors should be aware of:

**Market Risk:** Economic downturns or financial crises can impact all asset classes, though to varying degrees.

**Interest Rate Risk:** Rising interest rates can negatively affect bond prices and certain equities.

**Inflation Risk:** Inflation can erode the purchasing power of cash and fixed income investments.

**Liquidity Risk:** Some asset classes, such as property and private equity, may take longer to sell in adverse market conditions.

**Currency Risk:** International investments may be affected by fluctuations in exchange rates.

**Manager Risk:** The performance of an actively managed portfolio depends on the skill and strategy of the investment manager.



Investors should work closely with financial advisers to assess their risk tolerance and ensure their portfolio is aligned with their investment goals and time horizon.



## Conclusion

Multi-asset investing provides a structured approach to managing investment risk while seeking to deliver steady returns. By working with a financial adviser, you can find a multi-asset solution that aligns with your long-term goals.

**If you'd like to learn more about our services, speak to your adviser today or contact our team using the details below.**



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