The essentials of multi-asset investing

A beginner-friendly guide

Quilter Investors

Deciding to invest is a good first step towards meeting your financial goals. Over time, these goals may change.

Initially, you may focus on growing your money. You may then need your investments to generate an income. Or you may need to take a different level of risk. This is where the flexibility of multi-asset investing can help.

By understanding the concept of multi-asset investing, you'll be able to make informed decisions and feel more in control.

Who is this guide for?

The newcomer

I've decided I want to invest and want to understand how I can reach my goals.

The knowledge-seeker

I want to understand how my money will be invested.

The fine-tuner

I already invest but want to expand my knowledge beyond the basics.

How does multi-asset investing work? *6*

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What we'll cover

What is multi-asset investing?

Multi-asset investing may sound complex. However, it's essentially when you invest in a variety of asset classes, countries, and sectors, (such as the technology or healthcare industries) that are blended into one investment portfolio.

Multi-asset investing allows you to invest in a broader range of investments with greater flexibility than investing in individual funds.

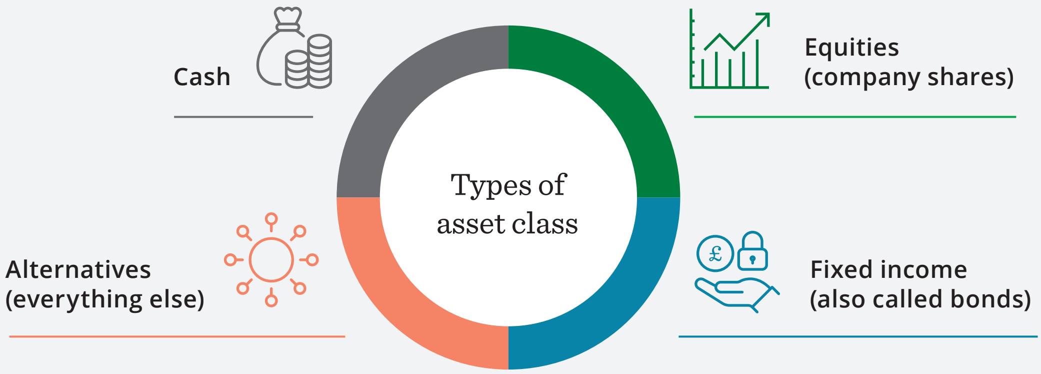
By including a diverse range of investment types, multi-asset investing aims to:

Help spread risk and smooth out the ups and downs of your investment journey.

Maximise your potential returns over the long-term.

What is an asset class?

An asset class is a group of financial assets which have similar characteristics. There are four main types of asset class:



Each asset class can be broken down further to offer a range of investment opportunities, as shown below.

Asset classes

Equities (company shares)	Fixed Income	Alternatives	Cash
UK	Government bonds	Commodities	Instant access
North America	Inflation-linked bonds	Infrastructure	Fixed-rate deposits
Europe	Corporate bonds	Hedge funds	Money market
Japan	High-yield bonds	Property	
Emerging markets			

How does multi-asset investing work?

Your multi-asset investment needs to be managed and monitored. This is done by an expert portfolio manager on your behalf.

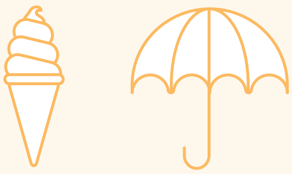
The portfolio manager uses their knowledge and expertise to select the appropriate investments to build a diversified investment portfolio that has the potential to maximise your returns over the long term.

Each investment portfolio will have its own investment objective. This can include:

- Providing a specific level of risk.
- Delivering a specific amount of income.
- Incorporating responsible investment (such as environmental or social) considerations.

Diversification means not putting all your eggs in one basket – in other words, choosing a range of different investments that balance each other out.

A simple way to explain this is if you were to invest in an ice cream company and an umbrella company, you would hope that the ice cream company would do well in good weather and the umbrella company would do well in bad weather, balancing out the investment returns across the seasons.



The different types of multi-asset investing

Portfolio managers normally run an investment portfolio in three main ways - direct investing, fund of funds, or manager of managers.

The portfolio managers can combine one or more of these types of approaches to create a portfolio with even more flexibility.

Direct investing

The portfolio manager blends a range of direct investments across different asset classes to produce a diversified investment portfolio.

This can include investing directly in equities and bonds as well as alternative investments, which are usually held through a specialist fund.

Fund of funds

With a fund of funds approach, the portfolio manager aims to blend the most appropriate funds to achieve the investment objective.

This can be done either by selecting funds from a single fund group, or by selecting funds from across the market to get the best opportunities in the desired asset class.

Manager of managers

Instead of selecting funds, the portfolio manager chooses external fund managers to run specially created funds, sometimes referred to as 'sub-advised mandates'.

The fund manager is given specific instructions outlining how the fund should be managed such as where and how it invests.

A fund is a type of investment where money from different people is pooled together to buy a variety of equities (company shares), bonds, or other investments.

This mix of investments is managed by a portfolio manager, providing individuals with a portfolio that is structured to match a specific investment objective.

Active vs passive

All multi-asset investing starts with a template for the ideal mix of assets that aims to deliver the desired returns. It establishes how much of the fund or portfolio should be held in each asset class. The portfolio manager will then choose which investment style, active or passive, is best suited to achieve the objective of the portfolio.

Active management

Active management means the portfolio manager 'actively' monitors and adjusts the portfolio to try and deliver the best returns in line with the portfolio's investment objectives and risk profile. This can be achieved through tactical changes to the portfolio known as tactical asset allocation.

Tactical asset allocation

Tactical asset allocation is when a portfolio manager makes short-term tactical changes to the portfolio in response to changes in the market, or to its underlying funds. The portfolio manager is aiming to either protect the portfolio or capture returns.

Passive management

A passively-managed portfolio only invests in passive products, such as index trackers and exchange-traded funds. The portfolio manager does not adjust the portfolio on a regular basis.

Sometimes called a 'set and forget' option, these types of portfolios have a fixed strategy, for example 60% in equities and 40% in bonds. The investments are typically only rebalanced to keep within that strategy.

Passively-managed portfolios tend to have lower charges. However, investors need to be prepared to weather any volatility in the markets, as the portfolio manager would not actively change the portfolio to reflect changes in the market.

What are passive investments?

Passive funds (also known as index or tracker) aim to **track** the performance of a benchmark index or stock market. For example, they may track an index of the UK's largest 100 companies, or the performance of a regional stock market.

This approach is different from actively managed funds where fund managers invest with the aim of **beating** a benchmark or target.

There are also actively-managed passive portfolios. While these portfolios only include 'passive' investments, the portfolio manager is still actively monitoring the portfolio and can adjust the mix of assets if needed.

The role of risk

The risk with financial markets is that your investments can go down, as well as up, particularly at times of market uncertainty.

Important to know

Your appetite for risk refers to the level of investment risk (volatility) you are comfortable with. Volatility is a measure of how much an investment's value increases or decreases over a given time. If the value fluctuates a lot in a short period, hitting new highs and lows, it is described as higher risk. Investment choices are heavily influenced by your attitude to risk.

If you are looking to take a specific level of risk to meet your objectives, some multi-asset investments offer a risk framework to help you achieve these goals.

Risk-targeted

If your investment portfolio is risk-targeted it means the portfolio manager will control the amount of risk that you are exposed to.

Each portfolio has a risk target which is usually measured in terms of volatility. The risk target usually forms a key part of the portfolio's investment objectives, and the portfolio is continuously monitored to ensure this target is adhered to.

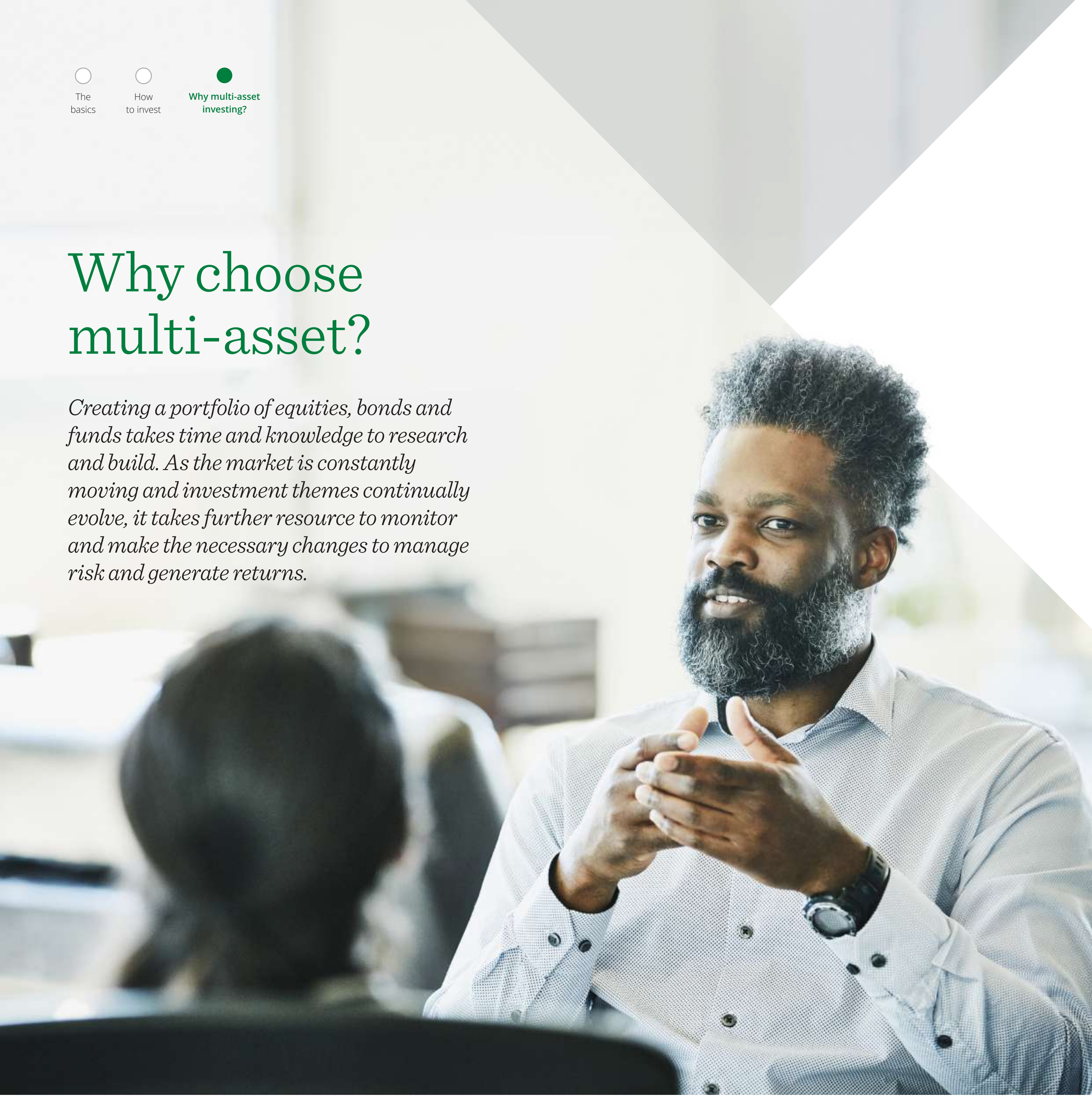
Risk-rated

There are several independent ratings agencies who assess funds and then provide a risk rating against their own scale. The rating is based on information available at the time of the assessment and it could change whenever the fund is reviewed.

Unlike risk-targeted funds, the portfolio managers of risk-rated funds are not obliged to keep to a given risk rating. This is generally because they will be trying to beat a benchmark, such as the rate of inflation or a peer group, which might conflict with meeting a specified risk target.

Why choose multi-asset?

Creating a portfolio of equities, bonds and funds takes time and knowledge to research and build. As the market is constantly moving and investment themes continually evolve, it takes further resource to monitor and make the necessary changes to manage risk and generate returns.



Keeping up to date with all the funds available, the latest developments, and doing all the necessary research takes a lot of time and effort:

- In the UK alone, there are more than **2,000 funds** to choose from.
- There are thousands of offshore funds registered in places such as Luxembourg and Ireland.
- New funds are constantly being launched.

A multi-asset portfolio takes care of all these challenges for you.

Portfolio managers generally have many years of experience in navigating changing market environments and have the support of a wider investment team to seek out the best opportunities.

Three key benefits of choosing a multi-asset investment

1

✓ We do all the hard work

Building a portfolio and then refining it and reshaping it over the years takes time, knowledge, and skill. Few personal investors have the resources to do this effectively, but a multi-asset portfolio manager uses the resources of a wider investment team to carry out these tasks.

2

✓ Your portfolio matches your risk appetite

The use of risk-targeted or risk-rated funds means you can choose a portfolio that meets your appetite for risk at each stage of your investment journey.

3

✓ Your risk is spread through diversification

Your investment journey can be made smoother by spreading the risk. An actively-managed portfolio can also react quickly to market events. The overall balance of the portfolio can be adjusted, rather than having to immediately sell or buy investments in a knee-jerk reaction, as can be the case in a fixed asset allocation portfolio.

Interested to know more?

If you're interested in multi-asset investing, the best next step will be to contact your financial adviser for more information.

If you don't have a financial adviser and are interested in getting financial advice, then we can help. We have a nationwide team of experienced advisers who can help you wherever you are on your financial journey, offering you tailored financial advice with exceptional service.

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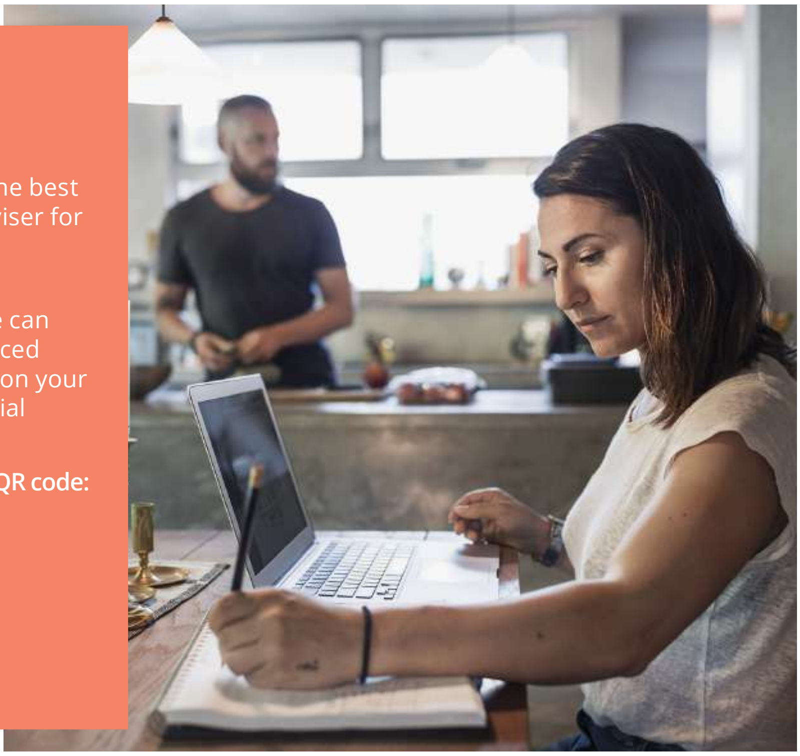

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Important information

Investment involves risk. The value of investments and the income from them may go down as well as up and investors may not get back any of the amount originally invested. Because of this, an investor is not certain to make a profit on an investment and may lose money. Exchange rate changes may cause the value of overseas investments to rise or fall.

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