News

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BMO Global Asset Management's Multi-Asset team outlines five trends for delivering returns

LONDON, 07 June 2017 With the F&C Diversified Growth Fund celebrating five years with Paul Niven and Keith Patton at its helm, the managers look ahead to the next five years and outline five key trends to enable them to continue delivering on their objective.

Commenting on the Fund's five year performance, Keith Patton, co-portfolio manager of F&C Diversified Growth Fund at BMO Global Asset Management, said:

"There are many multi-asset strategies for clients to choose from, we have focused on taking the appropriate amount of risk to deliver the outcome we set out in our objectives, allowing us to provide a relatively smooth return path and delivering on our second objective of providing clients with peace of mind"

The Fund delivered on its objective to provide a cash +4% return to investors with an annualised return of 4.61%* over the five years to 31 May 2017.

The five trends the team has highlighted are:

A decline in volatility doesn't mean a decline in opportunities

Volatility in equity and bond markets has recently fallen to historically low levels, with the VIX (Chicago Board Options Exchange Volatility Index) now at levels only seen on a small handful of occasions in the past 25 years. This may indicate a level of complacency, but is also consistent with low levels of corporate defaults and a perceived strength in terms of corporate health. However, concentration on headline volatility numbers belies the periodic ructions across and within markets.

By tactically managing positions, investors can exploit the breadth of performance dispersion available, which has been an important source of returns in multi-asset portfolios. In addition, low volatility presents an opportunity to periodically purchase insurance for a multi-asset portfolio and protect downside to performance.

Look beyond traditional sources of return

Low yields and asymmetric return prospects are evident in bond markets, while equity markets are now trading at historically rich levels of valuations. On this basis, return expectations from traditional assets have moderated.

Investors need to broaden their horizon. Alternative sources of return which add to portfolio returns while reducing risk are required to complement traditional assets in the current environment. Consideration of the alternatives universe requires a deep understanding of prospective returns as well as the underlying drivers of performance for each asset in order to achieve true diversification. We have found it effective to focus on liquid, cost effective alternative sources of return to sit alongside our exposure to fixed income and equity assets.

Look within traditional assets for alternative sources of return

In the hunt for liquid and diversifying sources of return, an area that should not be overlooked is factor based investment within traditional assets. Using long established and independent factor exposure within equity markets investors can construct a truly diversified set of return drivers which provide uncorrelated returns against other exposures.

Government bonds no longer a return driver or a risk diversifier

The 35 year-long bull market in government bonds may well have run its course. Investors in balanced mandates have enjoyed spectacular returns from ‘low risk’ bonds in recent decades, at levels which rival those from equity markets. Those returns were driven by a fall in yields from 16% to close to 1%. Over the past five years bonds have delivered modestly positive yields and the trend in yields may no longer be down. With yields at such low levels prospective returns are anaemic at best.

Government bonds have, historically, provided an effective diversifier to riskier equity holdings in periods of stress. In the event of a better growth outturn and higher inflation and interest rates, bonds may reflect a source of instability looking forward, rather than complementing equities in times of stress.

Hope for the best, prepare for the worst

Protecting capital is important in building long term returns. Judicious use of risk mitigation strategies and effectively navigating a portfolio through bouts of market stress will reward investors with a smooth performance journey.

Capturing upside opportunities across a range of traditional and alternative exposures, while protecting the portfolio from periodic down moves in markets, has allowed us to deliver on the fund objective of cash +4% in a risk controlled manner over the past five years.

Commenting on drivers for growth that pension funds can use, Paul Niven, co-portfolio manager of F&C Diversified Growth Fund at BMO Global Asset Management, said:

“As long-term investors, many pension funds look to generate growth from their multi-asset portfolios. For trustees, meeting investment goals consistently over shorter time periods is vital to attaining this long-term growth. Keeping an eye on the changing investment landscape, expanding the range of investment possibilities and maintaining flexibility is key.”

** including fund expenses but excluding AMC*

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Past performance should not be seen as an indication of future performance. The value of investments and income derived from them can go down as well as up as a result of market or currency movements and investors may not get back the original amount invested.

Views and opinions expressed by individual authors do not necessarily represent those of BMO Global Asset Management.

For more information please visit: http://www2.bmogam.com/Multi-Asset-Investing

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About BMO Global Asset Management

BMO Global Asset Management is a global investment manager with offices in more than 25 cities in 14 countries, delivering service excellence to clients across five continents.

Our four major investment centers in Toronto, Chicago, London and Hong Kong are complemented by a network of world-class boutique managers strategically located across the globe: BMO Real Estate Partners, LGM Investments, Pyrford International Ltd.and Taplin, Canida & Habacht, LLC. BMO Global Asset Management is a signatory of the United Nations-supported Principles for Responsible Investment initiative (UNPRI).

BMO Global Asset Management is a part of BMO Financial Group, a highly diversified financial services provider based in North America with total assets of CDN $692 billion as of January 31, 2017, and over 45,000 employees. BMO Wealth Management has worldwide assets under management of CDN $402 billion as of January 31, 2017.