

# DYSFUNCTIONAL FAMILIES



**MULTI-ASSET  
FUND GUIDE 2018**



# MULTI-ASSET FUND GUIDE 2018

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# SUMMARY OF KEY FINDINGS

In our research of 91 multi-asset fund families, consisting of 402 funds, in which £148bn of clients' money is invested we found the following:

- > The clear majority of multi-asset fund families have a sub-optimal risk-adjusted return profile when compared with an equivalent equity-bond portfolio dubbed 'No-Brainer portfolio' and Vanguard LifeStrategy. This finding is consistent with the outcomes of our research over the past two years.
- > When compared with the No-Brainer portfolio, 12 funds delivered a better risk return profile over 3 years, while a mere 6 maintained this superiority over 5 years.
- > 5 fund families outperformed the Vanguard LifeStrategy on a risk-adjusted basis over the 3-year period, while only 1 outperformed over the 5-year period.
- > Numerous pieces of research have demonstrated the inverse relationship between the cost of investing and returns and we found there to be a similar relationship when observing our sample of funds.
- > The cost of multi-asset funds remains high and we find no evidence of corresponding performance to justify this. Our fund family sample had the following OCF data:
  - Highest – 2.78%
  - Upper Quartile – 1.36%
  - Median – 0.96%
  - Lower Quartile – 0.62%
  - Lowest – 0.20%
- > The data showed little evidence of economies of scale when observing the relation between fund size and OCF and between fund size and returns
- > The FinalytiQ Multi-Asset Rating is our assessment of the potential of the multi-asset fund family to deliver value for clients in the long term. There 5 ratings are: excellent (A), good (B), average (C), poor (D) and very poor (E). Based on this rating system, 5 fund families achieved an A-rating, while 7 were awarded a B-rating.
- > Advisers have a regulatory obligation to ensure that their recommendations are in the client's best interest. If multi-asset fund managers don't consistently add value through asset allocation and fund selection (over and above a benchmark portfolio), what's the justification for making clients pay a premium for incompetence?





# INTRODUCTION

The story of the cobra in India during British colonization is a surprisingly valuable one when it comes to multi-asset funds.

The venomous creature was a constant irritation to the Brits, given their lack of familiarity with the species. To rid this newly inhabited land of cobras, the colonial administrators devised a cunning plan: they offered a bounty for every dead cobra! The plan was an instant success as the locals were handsomely rewarded for killing large numbers of snakes. But soon it became apparent to the colonial masters that some enterprising folks had in fact been breeding the animal to benefit from this lucrative deal.

Upon realising this, the colonisers scrapped the scheme. The cobra breeders in turn abandoned the now worthless endeavour and let the snakes free. The population of these petulant and dangerous creatures increased once again to a level similar to that before the scheme was devised.

As to whether the story is entirely true is a question for another time, but it illustrates a valuable lesson about how a perceived solution often comes with its own problems.

Multi-asset funds have grown significantly in popularity over the past decade. In the wake of the 2008 financial crisis, UK regulators turned their attention to the suitability of investment vehicles to the risk-profiles of clients. In response, asset-managers created a range of new products tailored to their clients' appetites for risk.

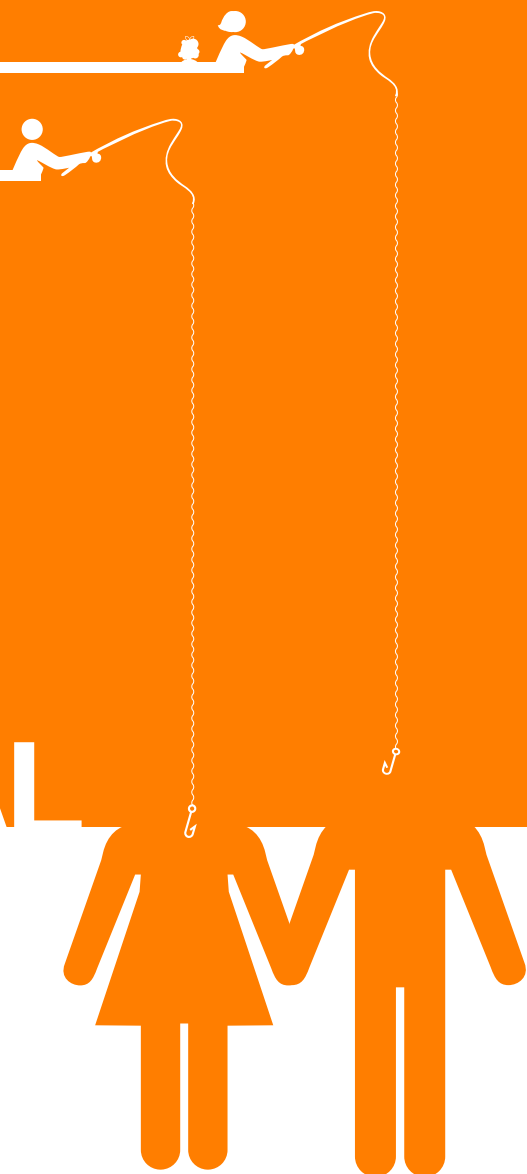
The reason for the popularity of multi-asset funds is obvious; they make life easier for advisers and the client. With an increasing number of advisers focusing on financial planning, multi-asset funds have become one of the key ways for advisers to 'outsource' portfolio management to a third-party. The work involved is thus far less time-consuming for the advisers than the alternatives such as running model portfolios in-house or outsourcing to Discretionary Fund Managers (DFMs).

By delegating asset allocation and fund selection to the asset manager, the adviser has more time for client-facing activities and financial planning. Ongoing management includes keeping the portfolio within a pre-defined risk boundary. However, much like in the tale of the troublesome cobra, the solution for the problem of the pre-crisis misalignment of investment vehicles to clients' tolerances for risk comes with its own problems.

In this report we analyse an array of prominent multi-asset funds within the context of their families given the structure of multi-asset fund management, where funds are managed collectively. Our aim is that this report and the accompanying excel spreadsheet will serve as a useful reference for advisers' selection and due-diligence processes with regards to multi-asset funds.

# DYSEUNCTIONAL FAMILIES

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# METHODOLOGY

## 1. SELECTION OF A FUND UNIVERSE

We selected FE Analytics' Risk-Targeted Multi-Asset Solutions (RTMAS) universe as the subject of our research. We also included other prominent multi-asset fund families not included in the RTMAS universe.

## 2. RISK, RETURN, COST AND FUND SIZE ANALYSIS

We examined the return, risk, cost, fund size and asset allocation data over periods of one, three, five, seven and ten years. Data was obtained from FE Analytics' database and represents our sample as of 30/06/2018.

From the return and risk data, we plotted scatter charts for each fund family with data points representing individual funds connected by a polynomial trend line.

We refer to this trend line as the *Efficient Frontier*.

Our Efficient Frontiers are intended to show not only the risk-return profile of funds (data points) but the risk-return profile of the family (trendline). With this information, an adviser can simply and easily ascertain how much their clients are rewarded for each extra unit of risk the fund manager takes. And then determine whether an extra unit of risk might be rewarded better elsewhere. This enable the adviser to assess whether the investor is getting value for money.

Returns and volatility data on individual funds (this includes efficient frontiers data) retain the same format and value as those extracted from FE Analytics. Returns, volatility and cost data on families are weighted by fund size to represent the average exposure of an investor to the fund families.

## 3. STATISTICAL ANALYSIS

The main purpose of our statistical analyses is to test a number of commonly held theories and assumptions about the relationship between investment returns, charges and AUM. The following are the test we carried out:

- > Spearman's Correlation Efficient of Returns and Assets Under Management (AUM)
- > Spearman's Correlation Efficient of AUM and OCF

Spearman's Correlation Efficient was selected due to the non-linearity of the data and the desire to remove the subjectivity associated with 'cleaning' non-linear data that occurs when conducting linear correlation analysis.

## 4. SUITABILITY RATINGS

This year, we revised our rating criteria and have based it on the following:

- > The risk-adjusted performance (Sharpe ratio) of the funds within a family relative to funds in a risk-asset-based peer group (similar proportion of risky assets). This metric is expressed as the percentage of funds within the family that outperform the mean of their peer-group over three, five, seven and ten-year period.
- > The risk-adjusted performance (Sharpe ratio) of the funds within a family relative to the No-Brainer portfolio benchmarks. A fund family's score will represent the Sharpe ratio of the family as a percentage of its respective benchmark for periods of three, five, seven and ten years.
- > OCF

## IT'S WORTH NOTING...

The fundamental scoring system to measure performance relative to peer-group is binary. By that we mean that a fund within a family either beats or fails to beat its target mean and is appointed a 1 or a 0 accordingly. This does reduce the power of the variable as it does not distinguish between moderate outperformance and exceptional outperformance. However, by measuring performance relative to a No-Brainer benchmark on a continuous scale we account for varying degrees of out/underperformance.

The Multi-Asset Ratings are designed to demonstrate whether a fund family achieves adequate returns for clients given its cost and the risk borne by the investor. Possible ratings are as follows:



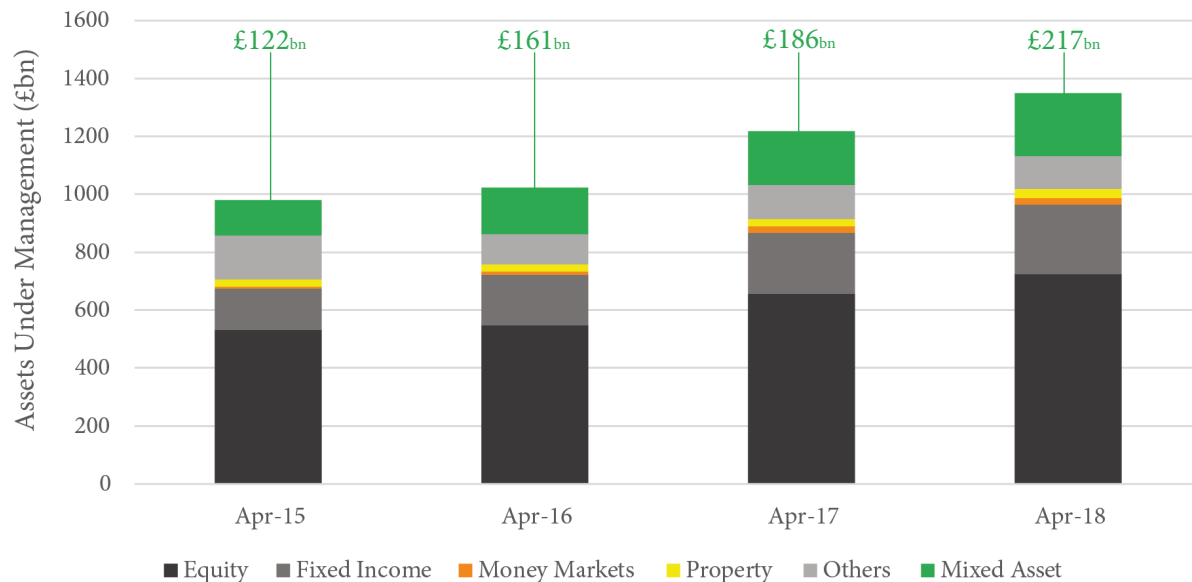
The rating methodology addresses issues that are central to suitability: client outcomes and the integrity of risk-profiling as part of the advice process. If clients aren't being systematically rewarded for each unit of risk, what's the justification for putting them in a fund that takes more risk? If multi-managers don't consistently add value through asset allocation and fund selection (over and above a benchmark portfolio), what's the justification for making clients pay a premium?

As you'd expect, the ratings have no provider influence whatsoever and are designed to help advisers answer the question: given the range of options available in the market, which multi-asset fund families are suitable based on cost, risk-adjusted performance and consistency of performance?

# THE MULTI-ASSET UNIVERSE

Multi-asset funds have been growing in popularity due to their apparent simplicity in delivering asset class/geographical diversification and their ability to match clients to appropriate risk profiles. Over the last couple of years their popularity has been growing consistently.

Assets Under Management by Fund Sector (2015 - 2018)



Source: The Investment Association

The growth in multi-asset funds' popularity (in terms of market AUM - as the following table shows) has occurred in conjunction with an overall growth in the value of funds under management, although multi-asset funds in general have experienced approximately double the growth over the last 3 years.

As we see in the following figure, equity funds have managed to maintain consistently strong growth over the last 2 years, even considering the share of the UK investment fund universe already occupied by the asset class.

Sector	Growth in AUM			
	Apr-15 - Apr-16	Apr-16 - Apr-17	Apr-17 - Apr-18	Average
Total Funds Under Management (UK)	4.54%	18.84%	10.76%	11.38%
Mixed Asset	32.65%	15.43%	16.77%	21.62%
Equity	2.69%	19.77%	10.32%	10.93%
Fixed Income	23.92%	21.16%	13.53%	19.54%
Money Markets	58.06%	106.05%	5.18%	56.43%
Property	-3.28%	2.07%	19.22%	6.00%
Others	-30.72%	10.64%	-2.31%	-7.46%

Multi-asset funds' growth rate appears to be slowing, although this may just be a short-term blip rather than a long-term trend. In any case, it's crucial to keep multi-asset funds under the microscope to ensure that they continue to deliver value for the investors.

# A NATURAL BENCHMARK FOR MULTI-ASSET FUNDS

A key part of an adviser's role is to ensure that the fees associated with their investments are adequately rewarded. To gauge the extent to which a client should be compensated, an appropriate benchmark is required.

Given the apparent value of the geographical and asset-class diversification of multi-asset funds, the natural benchmark for any multi-asset portfolio would be one based on the global allocation of publicly-traded securities. This is what Ronald Doeswijk et al. (2014, 2016), dubbed the 'global market portfolio' (GMP) in a series of seminal papers.

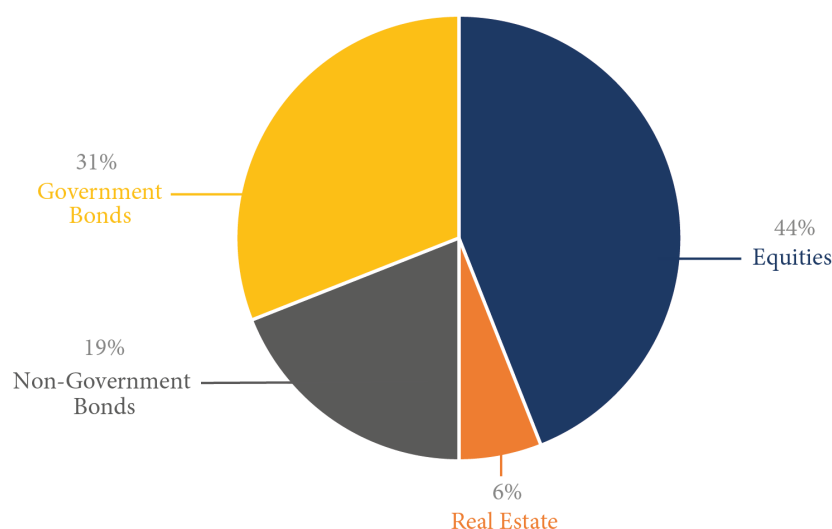
In their 2012 paper titled *'The Global Multi-Asset Market Portfolio'*, Ronald Doeswijk et al. note that

*'The global multi-asset market portfolio contains important information for strategic asset-allocation purposes. First, it shows the relative value of all asset classes according to the global financial investment community, which one could interpret as a natural benchmark for financial investors. Second, this portfolio may also serve as the starting point for investors who use a framework in the spirit of Black and Litterman (1992), or for investors who follow adaptive asset-allocation policies as advocated by Sharpe (2010).'*

In a 2017 paper, Doeswijk et al. reinforce their claims why GMP is the natural benchmark for investors and presented the high-level asset allocation for the market portfolio. They note that

*'Sharpe (2010) advocates that the GMP can be used as a starting point or benchmark for portfolio construction. As the GMP reflects the average investor in publicly available assets at any point in time, it is a natural benchmark for investors. Moreover, passive investors in the GMP save costs of trading since only marginal rebalancing is required due to differences in net issuance of asset classes. Sharpe (1991) argues that investors without a reason to deviate from the average should keep their costs as low as possible by being passive investors in the GMP.'*

The 2017 global market portfolio had the following make-up. Simply put, it's a 50/50 equity-bond split.



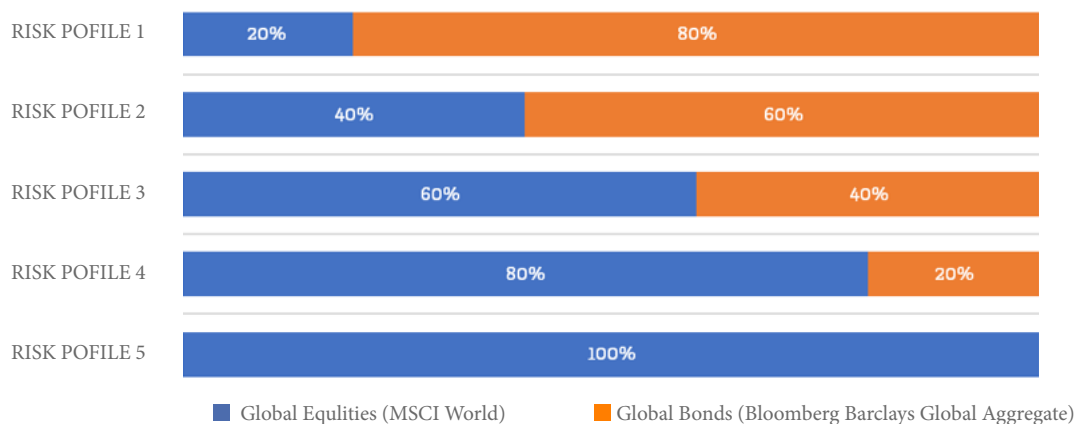
This is the challenge, nay, the requirement of all multi-asset fund managers: do they add value through their asset allocation and fund selection, over and above the global market portfolio. And if so, do they do so net of fees?

## THE NO-BRAINER PORTFOLIO...

The No-Brainer portfolio is our translation of this theory into practice.

To construct the No-Brainer portfolio, we use the GMP as a reference and adjust the portfolios in accordance with the typical risk-profiling system (20% intervals) of weighting fixed income assets and equities. Note: the real-estate proportion of the portfolio is allocated to equities given the presence of real estate investment trusts (REITS) within the MSCI equity index.

### THE 'NO-BRAINER' PORTFOLIOS



The idea behind the benchmark portfolio is very simple; create a passive portfolio in its purest form that allocates to market cap-weighted global equities and bonds, depending on the degree of risk an investor is prepared to stomach.

The portfolios do not require the selection expertise of an asset manager or constant management and administration and so only charge an annual fee of 0.50%p.a. (a conservative figure, given that the typical fee for passive funds is much lower). Decisions about when to buy and sell securities are generally riddled with inefficiencies, thus the only decision to be made with the No-Brainer portfolio is what proportion of the portfolio is to be allocated to equities and fixed income assets.

The portfolios are rebalanced annually on the 1st of January.

We also use the Vanguard LifeStrategy as a real-world implementation of the concept of the No-Brainer Portfolio. Vanguard's LifeStrategy is the cheapest and simplest multi-asset fund range in the UK market and is widely seen as a benchmark for the industry.

It's plain vanilla in the sense that it only allocates to equities and bonds, offers regular rebalancing and no tactical asset allocation. The fund is comprised of Vanguard index funds, resulting in full control of fees which is reflected in its 0.22%p.a. fee.

The fund applies the same 20% increments for equity/fixed income allocation, involves no tactical allocation and rebalances periodically.

Using both benchmarks enables us to evaluate the performance of multi-asset funds against an empirical benchmark (No-Brainer) as well as a real-world competitor widely regarded as the industry benchmark. (Vanguard). In doing so we can ascertain whether multi-asset fund managers add value to the client's investment experience.

As expressed previously, fund managers' core responsibility is to outperform their respective benchmarks. Any under-performance merely detracts from the value of a client's portfolio and as a result, their wealth. Thus it is imperative, given the alternative investment opportunities available to investors today that they manage to do so. Managers create wealth as a result of the following:

- > An effective asset-allocation strategy
- > Successful tactical deviation from the allocation
- > Efficient usage of the multitude of securities at their disposal

When applied effectively and efficiently, these techniques deliver wealth to clients, and in some cases increase wealth in excess of an equivalent market/ benchmark. However, when applied ineffectively and combined with high transaction and management fees, this process eats into the value of a client's investment.

This issue is paramount within the sphere of investing and is a very prominent topic of discussion with regards to fund managers' performance.

*'There are three key tasks that fall on a multi-manager and their attitude which should justify what they get paid. The first is determining the appropriate strategic asset allocation, while the second is determining any tactical deviation from the strategic targets and adding value from doing so. The third, which undoubtedly consumes most of the time and effort in most cases, is manager selection'*

*Stephen Walker, BlackRock*

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*'The challenge for multi-managers is they cannot simply assume they can charge for asset allocations by default unless they can demonstrate a consistent quantum of value above a base model or benchmark.... Demonstrable value-add from manager selection remains key'*

*Jon 'JB' Beckett – UK research lead at the Association for Professional Fund Investors.*

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And so, the purpose of this report is to address these concerns within the context of the multi-asset fund and guide advisers when making decisions for clients.





# THE EFFICIENT FRONTIER FOR MULTI-ASSET FUNDS

The following charts show the risk-return relationship for the 91 multi-asset fund families studied within the report and the No-Brainer benchmark portfolios over periods of one, three, five, seven and ten years.

Where fund data is not available, it is excluded from the graph, which does result in a paradoxical scenario seeing as the sample size decreases as the data becomes more meaningful.

Nevertheless our data encapsulates the following number of fund families:

Observation Period (Years)	1	3	5	7	10
Number of Fund Ranges	87	78	69	54	32

Our efficient frontier charts show the vast majority of the fund families contained within the study to have a less efficient risk-return profile than the No-Brainer benchmark portfolios (royal blue curve) over the more meaningful time periods (five, seven and ten years). There are a number of fund families that show superior profiles over the shorter time periods (one and three-year period). This is reflected in our data for fund family asset-weighted Sharpe ratio.

Simply put the results show the serial under-performance of multi-asset funds across the spectrum of predetermined equity/fixed income asset weightings over numerous observation periods.

This result holds true when comparing against the Vanguard LifeStrategy fund family (pale blue curve), with only two families outperforming over three years and one outperforming over the five-year period. \*Note that the VLG has only been in existence in the last 5 years\*

The number of fund families that outperformed our benchmarks on a risk-adjusted basis are as follows:

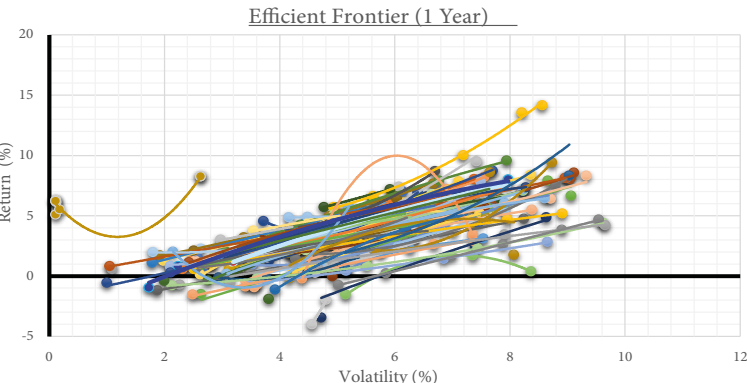
	1 Year	3 Years	5 Years	7 Years	10 Years
No-Brainer Portfolios	15	14	6	3	3
Vanguard LifeStrategy	28	3	2	-	-

Outperformance is measured using the fund-size weighted Sharpe ratio of the fund family and compared against the fund-size weighted average of both our benchmarks. The Sharpe ratio, to those unfamiliar is simply the reward an investor receives for every unit of risk taken and is an industry-standard metric.

So, a higher Sharpe ratio would generally indicate greater returns across various asset-class weightings.

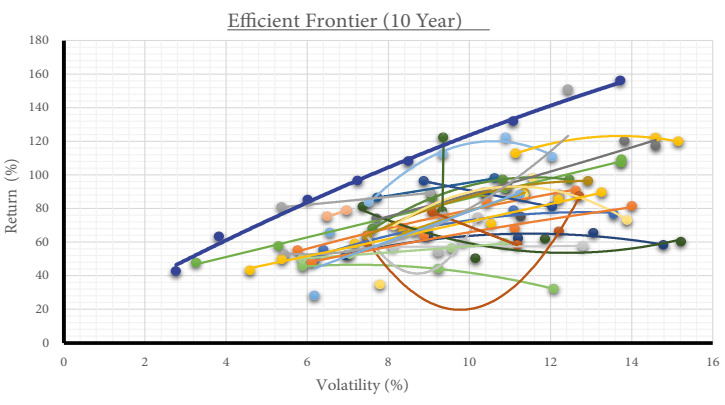
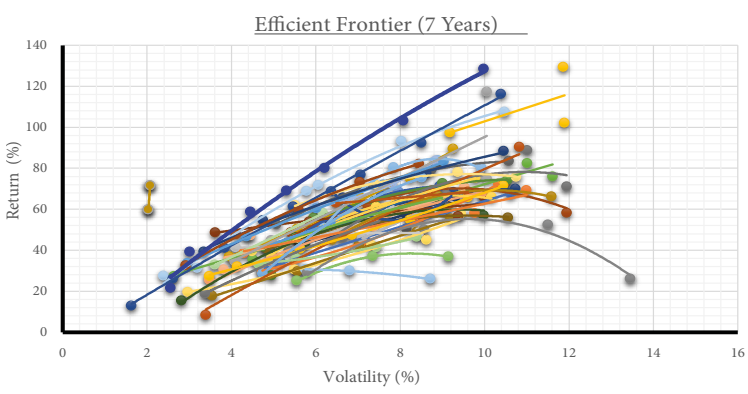
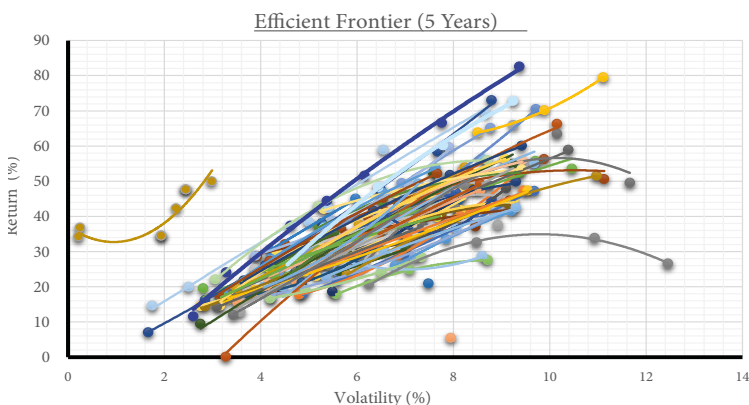
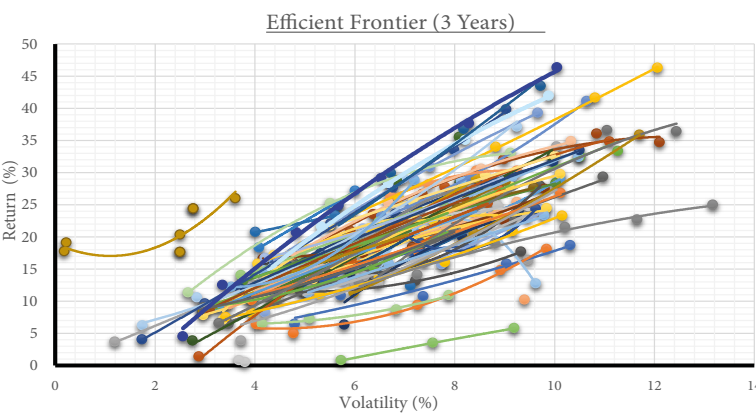
As we see, the vast majority of funds underperform both benchmarks and thus we can conclude based on this metric that the fund families demonstrate sub-optimal asset allocation.

# EFFICIENT FRONTIER CHARTS FOR MULTI-ASSET FUNDS



NO-BRAINER PORTFOLIOS =

VANGUARD LIFESTRATEGY =



## OCE: A PRICE WORTH PAYING?

It is a highly-publicised theory within investment that high costs of investing detract from returns and are highly-linked to under-performance. Fees within the multi-asset space remain high, eating into net returns that would otherwise directly benefit clients.

The data for our sample group is as follows:

Multi-Asset Fund OCF	
Rank	OCF
Most Expensive	2.78%
Upper Quartile	1.36%
Median	0.96%
Lower Quartile	0.62%
Cheapest	0.20%

To put these numbers into context, the fund family with the second lowest OCF, 0.22% p.a., was in fact Vanguard's LifeStrategy. And considering Vanguard LifeStrategy's performance relative to the other fund families in our study, it raises questions about how deserved these lofty fees really are.

The FCA's regulatory handbook lays out the foundations for how adviser's must act in their client's best interest.

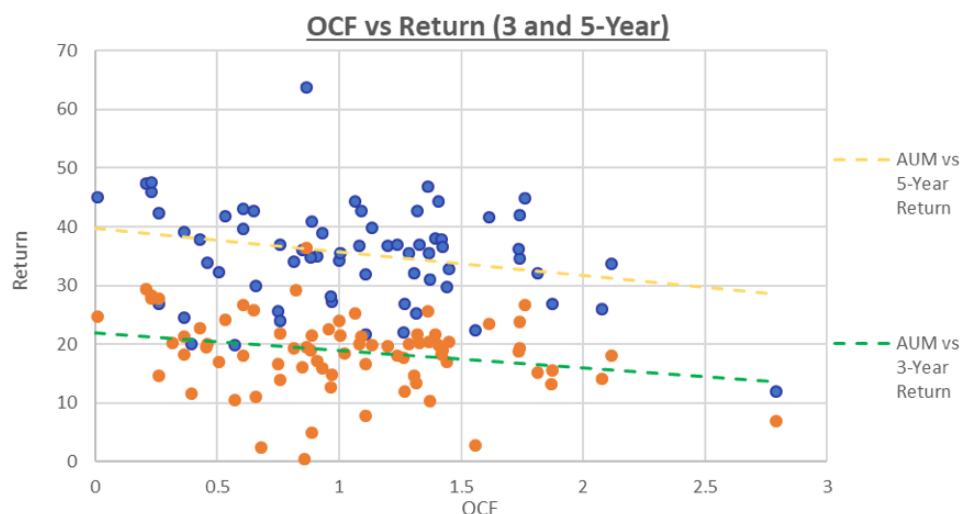
### COBS 6.1A.16G:

‘In order to meet its responsibilities under the client's best interests rule and Principle 6 (Customers' interests), a firm should consider whether the personal recommendation or any other related service is likely to be of value to the retail client when the total charges the retail client is likely to be required to pay are taken into account.’

In short, fees must be linked to services that are of benefit to the client and looking at the data and it appears that for most multi-asset funds, that objective hasn't been met.

Simply plotting and drawing a trend-line for the three and five year data shows a general inverse relationship between the two variables.

This relationship needs to be tested further with correlation analysis. In our quarterly update we shall examine the correlation between OCF and returns when the gross return data can be retrieved.



## ASSETS UNDER MANAGEMENT AND ECONOMIES OF SCALE

The concept of economies of scale is one of the most important factors in establishing a successful asset management firm.

Vanguard through its AUM size and operational efficiency has been able to establish an extremely successful low-cost index fund-focused investment franchise. Likewise, other fund managers attempt to produce superior returns relative to their smaller counterparts by driving down unit cost and producing superior research. We find however within the asset management industry that at some point, AUM becomes an obstacle to performance as certain investment strategies for instance can only be executed up to a certain capacity level. After this, the inefficiency that the manager is attempting to exploit may be arbitrated away and/or the transaction costs involved in executing the strategy eat away at the potential alpha. Indeed, this debate has been topical within the multi-asset space, particularly within the factor model-driven sector, as a tremendous amount of assets have been allocated to the strategy over the last five years or so.

We examine the effect of the fund family's total assets under management (AUM) on OCF and returns. A negative correlation between OCF and AUM indicates that the fund house is providing cost-based economies of scale, whereas a positive correlation between AUM and returns indicates that asset growth isn't adversely affecting returns.

The results of our Spearman's correlation test on AUM vs. OCF and AUM vs. returns are as follows:

\*Note: Spearman's correlation defines a score of less than 0.2 as extremely weak and between 0.2 and 0.4 weak\*.

Spearman's Correlation	3 Years	5 Years	7 Years	10 Years	Present
AUM vs. Returns	-0.021	0.260	0.275	0.027	
AUM vs. OCF					-0.270

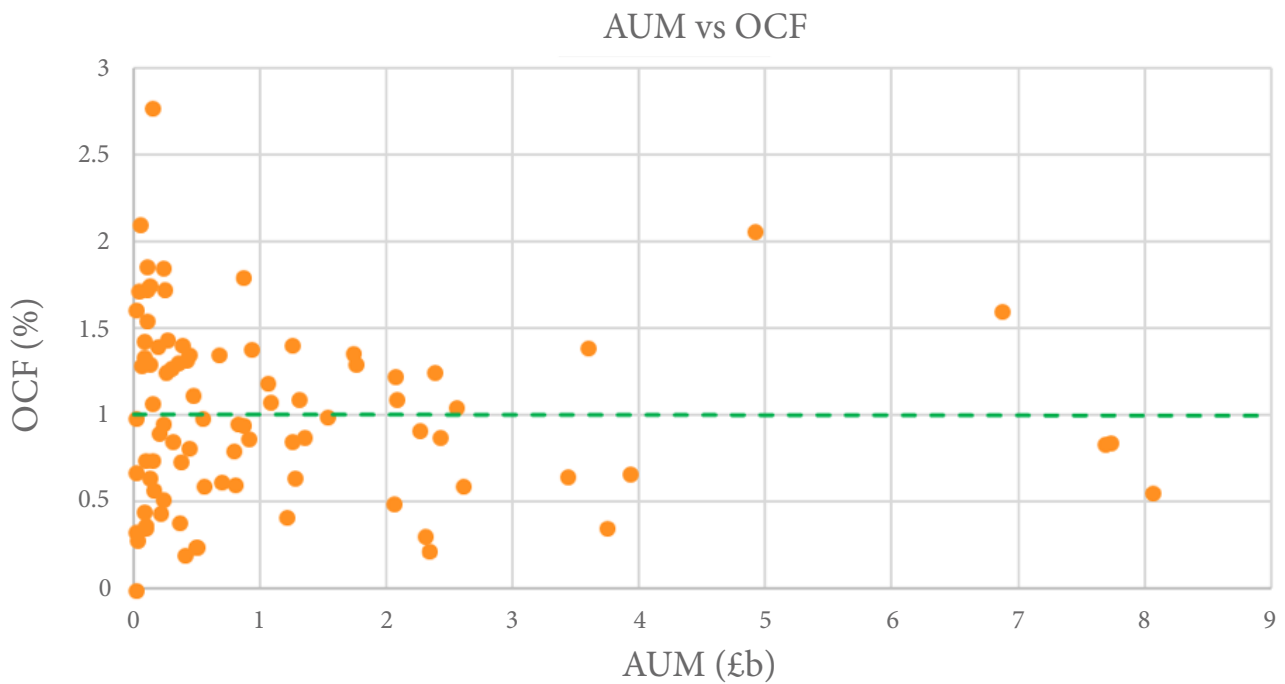
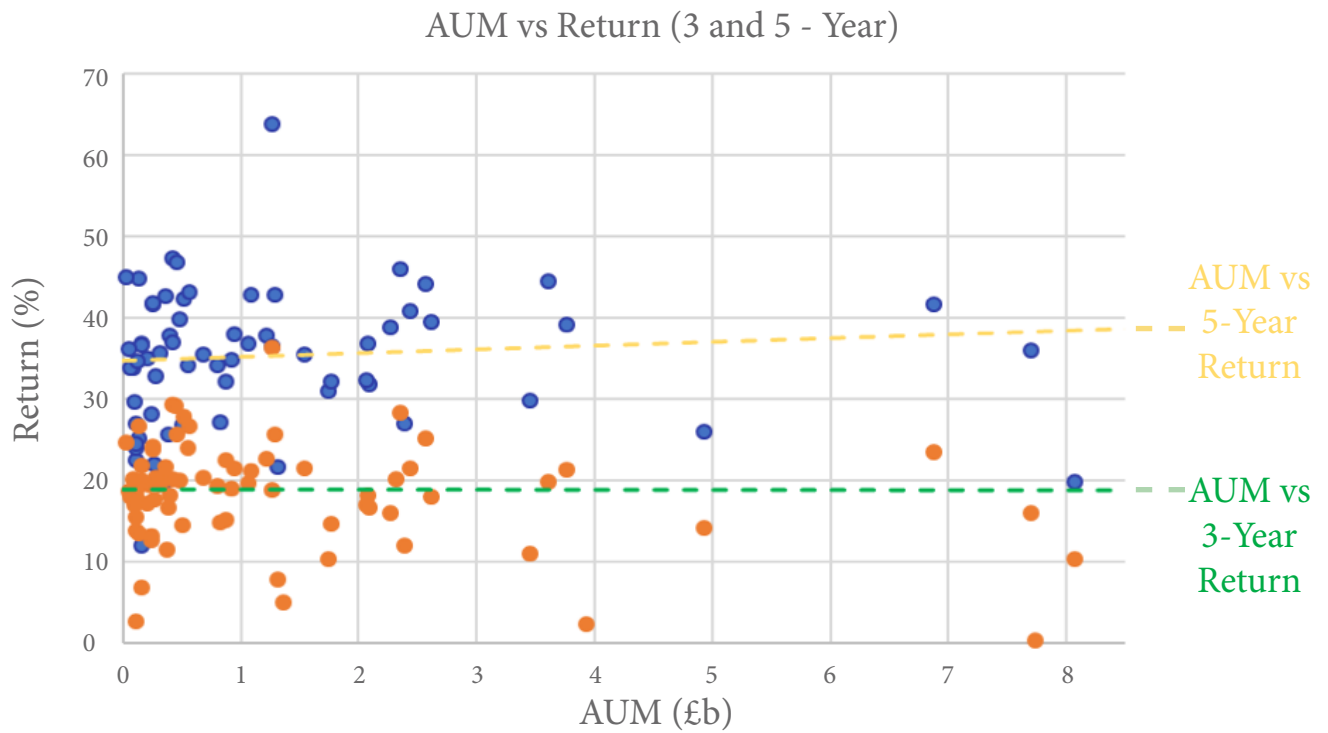
We find a weak positive correlation between AUM and returns over the five, seven and ten-year testing periods.

There are questions however regarding causality: As we are only taking an individual figure for the present day AUM, it is difficult to ascertain whether AUM are driving economies of scale that manifest in greater returns, or whether past success (in the form of greater returns) has led to an increase in the fund family's popularity and thus an increase in AUM.

Thus, the results need to be taken with a pinch of salt, however we shall seek to untangle these results in the report's next quarterly update.

As for the relationship between AUM and OCF, we find a weak negative correlation, indicating that fund size has somewhat of a positive effect on costs.

The data when plotted and a trendline drawn align as follows (see next page):



As we see from our data plots and trendlines, the data is hardly flattering. Thus, taken in conjunction with our correlation results which didn't find any compelling evidence to use AUM as an indicator of future returns, we advise advisers not to use fund size as a source of guidance.

# GOAL-ORIENTATED INVESTING

A criticism that could be levelled against our benchmarking approach in this study is that we fail to recognize the variety of objectives that multi-asset funds try to achieve. Given that managers will often target returns, volatility, or income, using a number of benchmarks may be more meaningful.

Our view is that these nomenclatures are no more than marketing labels conjured up by the industry to woo investors. Research by Morningstar UK substantiated these claims, in demonstrating that:

- > Like traditional multi-asset funds, most outcome-oriented funds typically underperform representative indices.
- > In general, outcome-oriented funds' charges are similar to traditional multi-asset funds.
- > Because portfolio positioning, risk-adjusted return profiles and charges of outcome-oriented multi-asset funds are similar to their traditional peers, there's little reason to categorise the two groups separately.
- > Defining funds by return, income and volatility objectives may be easier than asset-allocation ranges for people with limited investment knowledge to understand. However, this can give a false sense of comfort or oversimplify the potential risks.

An extract from the report reads:

‘Overall, the portfolios of most target-return multi-asset funds are similar to traditional funds, as are their risk-adjusted performance profiles, so there is no real need for separate categorisation. Given this commonality, we believe that subdividing the funds further, based on objectives or outcomes, would create a variety of sparsely populated sectors.’

Thus, when looking to invest in multi-asset funds, it is advisable to look at the relevant metrics, rather than what might be seductive branding.

## A SCORN-FILLED SYSTEM FOR SCORING MULTI-ASSET FUNDS

This year we've adjusted our scoring to simply reflect 3 metrics:

- > The risk-adjusted performance (Sharpe ratio) of the funds within a family relative to funds with a similar proportion of equities to fixed income securities. This metric is expressed as the percentage of funds within the family that outperform the mean Sharpe ratio of their peer-group. The observation periods are three, five, seven and ten years.
- > The risk-adjusted performance (Sharpe ratio) of the funds within a family relative to the No-Brainer portfolio benchmarks. This is expressed as the asset-weighted Sharpe ratio of the family divided by the Sharpe ratio of its respective benchmark.
- > OCF

The purpose of the scoring criteria change was to base the ranking system purely on data that can be directly linked to client outcomes.

As expressed previously, the fundamental scoring system to measure performance relative to peer-group is binary. By that we mean that a fund within a family either beats or fails to beat its target and is appointed a 1 or a 0 accordingly. This does reduce the power of the metric as it does not distinguish between moderate out-performance and exceptional out-performance. However, by measuring performance relative to theoretical benchmark we account for multiple degree of out/under-performance.

We must also mention that returns data are expressed net of fees, thus cost is already embedded in the data, meaning that when taking into account OCF in our scoring system, we are essentially double counting a variable. However, the benefits of using net returns data to measure the client's gains, far outweigh those of using gross returns, which have no direct connection to a client's financial outcome.

As discussed in the methodology, fund families can be appointed one of the following scores:



Fund family ratings are as follows (see next pages for fund families arranged alphabetically and following pages for families arranged by rank):



Fund Manager	Fund Family	OCF	Final Score
7IM	7IM AAP	0.65	D
7IM	7IM	1.36	E
7IM	Dynamic Planner	0.33	D
Aberdeen	Diversified	0.45	D
Allianz	RiskMaster	0.99	D
Architas	Multi-Asset Active	1.39	D
Architas	Multi-Asset Blended	1.00	C
Architas	Multi-Asset Passive	0.64	B
Aviva	Multi Asset	0.60	C
Aviva	Multi Strategy	0.85	E
Aviva	Multi Manager	1.41	D
Barclays	Wealth Global Beta	0.39	D
Barclays	Wealth Global Markets	0.45	D
BlackRock	Consensus	0.22	A
BlackRock	Volatility Strategy	0.25	B
Brown Shipley	SVS	1.26	E
City Financial	Multi Asset	1.55	E
Close	Portfolio X	0.92	C
Close	Managed	1.13	D
Close	Tactical Select Passive	0.52	C
Cornelian	Asset Managers SVS	1.19	C
Cornelian	Asset Managers SVS RMP	0.68	E
Coutts	Personal Portfolio	0.57	E
Dimensional	World Allocation	0.42	C
F&C	BMO	0.29	D
F&C	Multi-Manager Lifestyle	1.08	B
Fidelity	Multi Asset Allocator	0.25	D
Fidelity	Multi Asset	1.10	C
Fidelity	Multi Asset Open	1.44	D
FP	8AM Multi-Strategy	2.11	E
FP	Apollo Multi Asset	1.86	E
FP	Luceo	1.30	E
FP	Tatton Oak	0.90	D
FP	Volare	1.34	E
GAM	Star	1.81	E
HC	Verbatim Multi Index	0.75	E
HC	Verbatim Portfolio	1.32	C
HC	Sequel	1.86	E
HSBC	Global Strategy	0.20	B
HSBC	WSSF	1.28	D
IFSL	Brooks Macdonald	0.96	E
IFSL	Sinfonia	1.08	C
Invesco	Perpetual Balanced Risk	0.74	D
Janus Henderson	Core	0.75	E

Fund Manager	Fund Family	OCF	Final Score
Janus Henderson	Multi-Manager	1.41	E
Jupiter	Merlin	1.61	C
L&G	Multi-Index	0.31	C
L&G	Multi-Index Income	0.37	E
LF	Canlife Portfolio	0.86	E
Liontrust	Sustainable Future	0.86	A
M&G	Episode	0.88	C
Margetts	Multi-Asset	1.36	D
Marlborough	Multi-Asset	1.75	D
MGTS	Clarion	1.73	D
MI	Momentum	1.43	E
Old Mutual	Cirilium passive	0.60	C
Old Mutual	Cirilium	0.56	C
Old Mutual	Creation	1.10	E
Omnis Investments	Multi-Manager	1.31	C
Pictet	Multi Asset, Sicav II	0.67	E
Premier	Liberation	1.36	B
Premier	Multi-Asset	1.40	B
Prudential	Dynamic Focused	0.88	C
Prudential	Dynamic	2.27	D
Prudential	PruFund	1.58	A
Rathbone	Multi-Asset	0.80	C
RBS Coutts	Multi-Asset	0.50	D
Santander	Atlas	0.88	D
Schroder	Dynamic Planner	0.99	E
Schroder	Fusion	0.65	E
Schroder	Multi-Manager	1.30	D
Scottish Widows	Solution	1.26	E
SEI	Wealth	1.06	B
Standard Life	MyFolio Managed	0.84	C
Standard Life	MyFolio Managed Income	0.96	D
Standard Life	MyFolio Market	0.36	A
Standard Life	MyFolio Multi Manager	1.23	C
Standard Life	MyFolio Multi-Manager Income	1.31	E
T. Bailey	Discovery	1.73	C
Tilney	200	2.07	E
True Potential	Investments SVS TPI 1	0.88	E
True Potential	Investments SVS TPI 2	0.95	E
True Potential	Investments SVS TPI 6	0.61	E
True Potential	Investments SVS TPI 7	0.62	E
VAM	Close Brothers	2.78	E
Vanguard	LifeStrategy	0.22	A
VT	Esprit	1.62	E
VT	Greystone	1.73	C
VT	Grosvenor	1.40	E
VT	Multi-Asset	0.35	C
Zurich	Horizon Multi-Asset	0.81	D

Fund Manager	Fund Family	OCF	Final Score
BlackRock	Consensus	0.22	A
Liontrust	Sustainable Future	0.86	A
Standard Life	MyFolio Market	0.36	A
Prudential	PruFund	1.58	A
Vanguard	LifeStrategy	0.22	A
Architas	Multi-Asset Passive	0.64	B
BlackRock	Volatility Strategy	0.25	B
F&C	Multi-Manager Lifestyle	1.08	B
HSBC	Global Strategy	0.20	B
Premier	Liberation	1.36	B
Premier	Multi-Asset	1.40	B
SEI	Wealth	1.06	B
Architas	Multi-Asset Blended	1.00	C
Aviva	Multi Asset	0.60	C
Close	Portfolio X	0.92	C
Close	Tactical Select Passive	0.52	C
Cornelian	Asset Managers SVS	1.19	C
Dimensional	World Allocation	0.42	C
Fidelity	Multi Asset	1.10	C
HC	Verbatim Portfolio	1.32	C
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L&G	Multi-Index	0.31	C
M&G	Episode	0.88	C
Old Mutual	Cirilium passive	0.60	C
Old Mutual	Cirilium	0.56	C
Omnis Investments	Multi-Manager	1.31	C
Prudential	Dynamic Focused	0.88	C
Rathbone	Multi-Asset	0.80	C
Standard Life	MyFolio Managed	0.84	C
Standard Life	MyFolio Multi Manager	1.23	C
T. Bailey	Discovery	1.73	C
VT	Greystone	1.73	C
VT	Multi-Asset	0.35	C
7IM	7IM AAP	0.65	D
7IM	Dynamic Planner	0.33	D
Aberdeen	Diversified	0.45	D
Allianz	RiskMaster	0.99	D
Architas	Multi-Asset Active	1.39	D
Aviva	Multi Manager	1.41	D
Barclays	Wealth Global Beta	0.39	D
Barclays	Wealth Global Markets	0.45	D
Close	Managed	1.13	D
F&C	BMO	0.29	D
Fidelity	Multi Asset Allocator	0.25	D
Fidelity	Multi Asset Open	1.44	D

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HSBC	WSSF	1.28	D
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Marlborough	Multi-Asset	1.75	D
MGTS	Clarion	1.73	D
Prudential	Dynamic	2.27	D
RBS Coutts	Multi-Asset	0.50	D
Santander	Atlas	0.88	D
Schroder	Multi-Manager	1.30	D
Standard Life	MyFolio Managed Income	0.96	D
Zurich	Horizon Multi-Asset	0.81	D
7IM	7IM	1.36	E
Aviva	Multi Strategy	0.85	E
Brown Shipley	SVS	1.26	E
City Financial	Multi Asset	1.55	E
Cornelian	Asset Managers SVS RMP	0.68	E
Coutts	Personal Portfolio	0.57	E
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FP	Apollo Multi Asset	1.86	E
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FP	Volare	1.34	E
GAM	Star	1.81	E
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IFSL	Brooks Macdonald	0.96	E
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Pictet	Multi Asset, Sicav II	0.67	E
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Standard Life	MyFolio Multi-Manager Income	1.31	E
Tilney	200	2.07	E
True Potential	Investments SVS TPI 1	0.88	E
True Potential	Investments SVS TPI 2	0.95	E
True Potential	Investments SVS TPI 6	0.61	E
True Potential	Investments SVS TPI 7	0.62	E
VAM	Close Brothers	2.78	E
VT	Esprit	1.62	E
VT	Grosvenor	1.40	E

# FUND FAMILY ANALYSIS

Of the fund families contained within our study, the results of our classification process are as follows:

Classes	A	B	C	D	E
Number of Funds	5	7	22	24	31
Lowest OCF (%)	0.22	0.20	0.31	0.25	0.37
Highest OCF (%)	0.86	1.40	1.73	1.75	2.78

To provide somewhat more context on the classification system, the lowest and highest 3-year Sharpe ratios (annualised) for the top 3 classes are as follows:

Classes	A	B	C	D	E
Lowest Sharpe (3-Year)	0.378	0.288	0.166	-0.115	-1.006
Highest Sharpe (3-Year)	2.747	0.645	0.625	0.729	0.611

And the lowest and highest 5-year Sharpe ratios (annualised) are as follows:

Classes	A	B	C	D	E
Lowest Sharpe (5-Year)	0.476	0.523	0.178	0.135	0.014
Highest Sharpe (5-Year)	3.576	0.621	0.611	0.462	0.375

As you will have noticed, some funds in inferior categories will display superiority within a certain characteristic (e.g. OCF) over its counterpart in a higher category. However, its poor performance in another metric (in this instance risk-adjusted returns) will condemn it to a lower score group. It is thus a combination of past risk-adjusted performance and low costs that result in a high classification being awarded.

Now, given the premise of this guide, we'll refrain from giving a detailed run-through of poorly-performing and overly expensive multi-asset fund families and instead focus on those that achieved an 'A'-rating.

First up we have BlackRock's NURS Consensus Family:

## BLACKROCK'S NURS CONSENSUS FAMILY

Blackrock's NURS family is a passively-managed family, as evidenced by its staggeringly low OCF of 0.22%. It is primarily made up of iShares index funds and the percentage of risk-assets held within the funds ranges from 35% to 100%. Again, this is another fund range that has benefited from low OCF. The asset-weighted performance of the fund family is as follows:

	1-Year	3-Year	5-Year	7-Year	10-Year
Asset-Weighted Return (%)	3.76	28.62	46.28	54.65	70.91

## LIONTRUST SUSTAINABLE FUTURE FAMILY

Liontrust's fund range has performed particularly well over the last 10 years. It has somewhat more of a tolerance for volatility but has delivered good returns to compensate for it. It too has benefited from strong equity markets, with the lowest individual fund allocation to risk assets sitting at 51%. These returns are associated with a higher cost, with its OCF totalling 0.86%. Its asset-weighted returns data is as follows:

	1-Year	3-Year	5-Year	7-Year	10-Year
Asset-Weighted Return (%)	11.03	36.73	64.17	98.60	109.45

Excluding Prudential's PruFund (which we shall caveat next) the range achieved the highest asset-weighted Sharpe ratios for the 3-year and 5-year observational periods

## PRUDENTIAL PRUFUND

As mentioned above, the inclusion of Prudential's PruFund range in our list of A-rated fund families requires somewhat of a caveat. The fund range during its operating life has managed to achieve incredibly high risk-adjusted performance due to its staggeringly-low volatility. This has profoundly impacted the highest 3-year and 5-year Sharpe ratio data for our A-rated funds (see page 25). Asset-weighted returns and volatility data as follows:

	1-Year	3-Year	5-Year	7-Year
Asset-Weighted Return (%)	5.71	17.81	34.93	47.74

	1-Year	3-Year	5-Year	7-Year
Asset-Weighted Volatility (%)	0.73	1.78	1.50	1.53

The fund's application of a reserve has enabled the fund managers to reduce volatility to perplexingly low levels (~0.11%), which has caused the Sharpe ratio of various funds within the range to sky-rocket. Nevertheless, the net effect from a clients' perspectives have been high risk-adjusted returns, which would explain the family's popularity.

## STANDARD LIFE'S MYFOLIO MARKET FAMILY

An impressively low OCF of (0.35%) is of some significance in the MyFolio Market fund range's A-rating, considering its moderate returns data:

	1-Year	3-Year	5-Year	7-Year	10-Year
Asset-Weighted Return (%)	4.39	21.63	39.54	63.10	-

The funds' underlying asset allocation is heavily dominated by indices which would explain the low OCF. Two of the five funds within the family have higher than 86% risk asset exposure, which again places the family in the category of funds that have benefited from low costs and strong equity markets. The five funds' exposures to risk assets range from 28% to 98%.

## VANGUARD'S LIFESTRATEGY

Now, although our data was organised alphabetically meaning Vanguard LifeStrategy family's introduction was delayed until this point, we'd like to pretend we saved the best fund house until last.

Vanguard have become what is essentially an industry benchmark, given their access to well constructed in-house index funds and their resulting ability to maintain very low OCF's. Their benchmark status is perhaps also attributable to their equity/fixed income asset weighting system which operates in 20% intervals, with no fund within the LifeStrategy more than 0.28% away from an interval mark.

The LifeStrategy demonstrates strong returns data:

	1-Year	3-Year	5-Year	10-Year
Asset-Weighted Return (%)	4.28	28.07	47.99	-

# NAVIGATING THE ACCOMPANYING DATA SET

In purchasing the report you will have received a spreadsheet containing key findings and information from the research.

The spreadsheet contains:

- Fund Range Analysis: Consisting of Appointed Score, OCF, Return, Volatility and Sharpe Ratio Data (All Asset-Weighted) and AUM
- Individual Fund Data: Consisting of Cost, Asset/ Geographical Allocation and Miscellaneous Data (Compliance etc.)
- Fund Sector Data
- Efficient Frontier Charts: Users can select which data sets to view by clicking on the graph chart area and subsequently clicking on the funnel shaped pop-up at the top right-hand corner of the chart area. Users can then toggle between fund families and compare and contrast risk-return profiles.



# FINAL THOUGHTS

While investment into multi-asset funds continues to grow, the importance of objective and fair research into the fund sector becomes more and more valuable. For potential investors considering investing in the sector for the first time or existing customers looking to increase their holdings, we think it is imperative that people are familiar with the relative value of pursuing these strategies. A great deal of inefficiencies exist in multi-asset funds and we hope that readers will now be able to identify the multi-asset fund families that deliver better outcomes for clients.

Thank you for reading and we look forward to presenting further insights in our quarterly update.



# ABOUT US



FinalytiQ are a research-based investment consultancy firm providing services to financial planners, providers and asset managers. Our main aim is to provide financial planners with the required information to make robust investment propositions and deliver superior client outcomes.

## ABRAHAM OKUSANYA

Abraham is the founder of FinalytiQ and creator of Timeline, an online application for illustrating sustainable withdrawal strategies in drawdown portfolios. He has authored several industry papers and delivered talks to the FCA, CII, PFS and several conferences across the country.



## FERGUS O'KANE

Fergus is an investment analyst with the firm. He holds a BSc in Biomedical Sciences from Newcastle University and an M.B.A. from Cardiff University. A couple of months after passing the 1st level of the CFA in December 2017, he joined FinalytiQ and will be continuing his studies whilst furthering his knowledge of the industry with the firm.

## GEORGIOS BOUZIANIS

Georgios is a quantitative/ investment analyst and programmer with the firm and has been heavily involved in the technological processes underpinning the Timeline App. He holds a BSc in Financial Engineering from the University of Aegean and an MSc in Financial Mathematics from King's College London.



## KARTHICA UNDERWOOD

After a very short stint at the Office for National Statistics, Karthica started her career in financial planning. She holds the Chartered Financial Planner designation and has previously worked as an IFA before moving back into a research role in 2014.

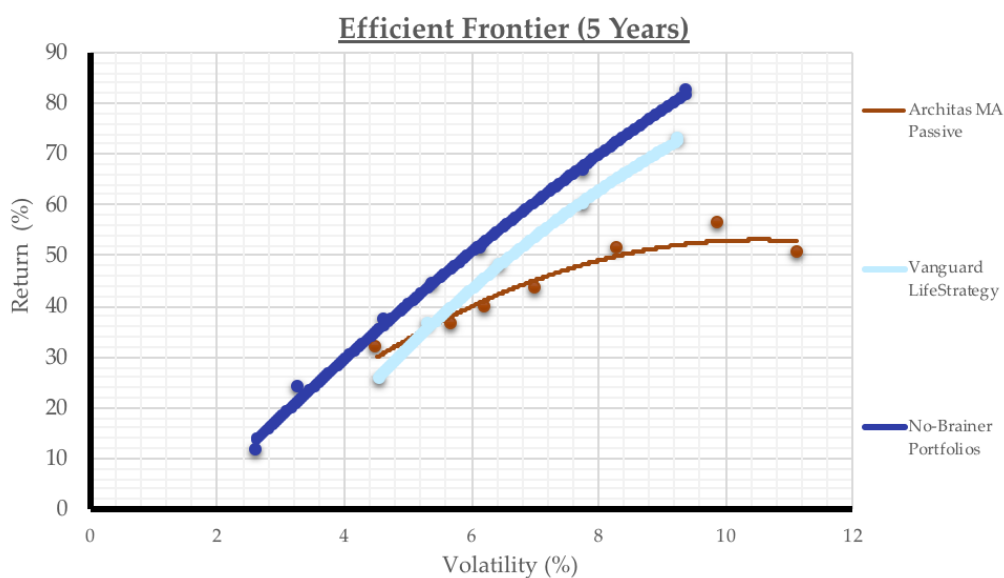
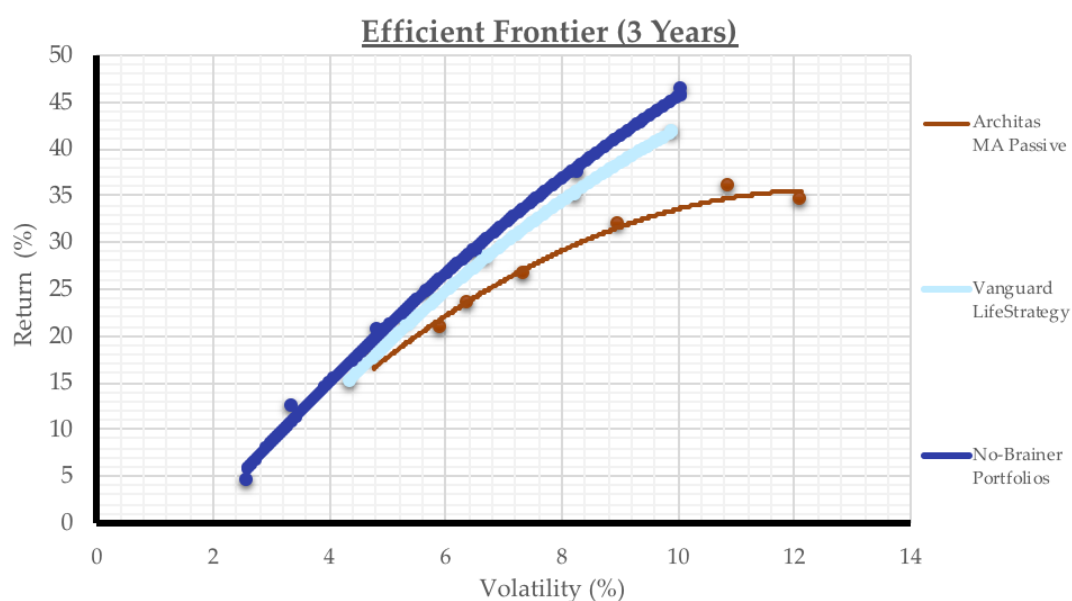
## EJIKE INEGBU

After a brief stint as a researcher at Warwick Business School, Ejike joined Hermes Investment Management in London as a Quantitative Analyst. There he focused on portfolio analysis and investment strategy, he went on to head the group. After 13 years at Hermes, he left to join the Alternatives group at UBS Asset Management in Zurich.



# FACTSHEET: ARCHITAS MULTI ASSET PASSIVE FUNDS

Passive Range	OCF
Prudent	0.65%
Reserve	0.65%
Moderate	0.64%
Intermediate	0.64%
Progressive	0.65%
Growth	0.65%
Dynamic	0.65%



## FACTSHEET: BLACKROCK CONSENSUS & VOLATILITY STRATEGY FUNDS

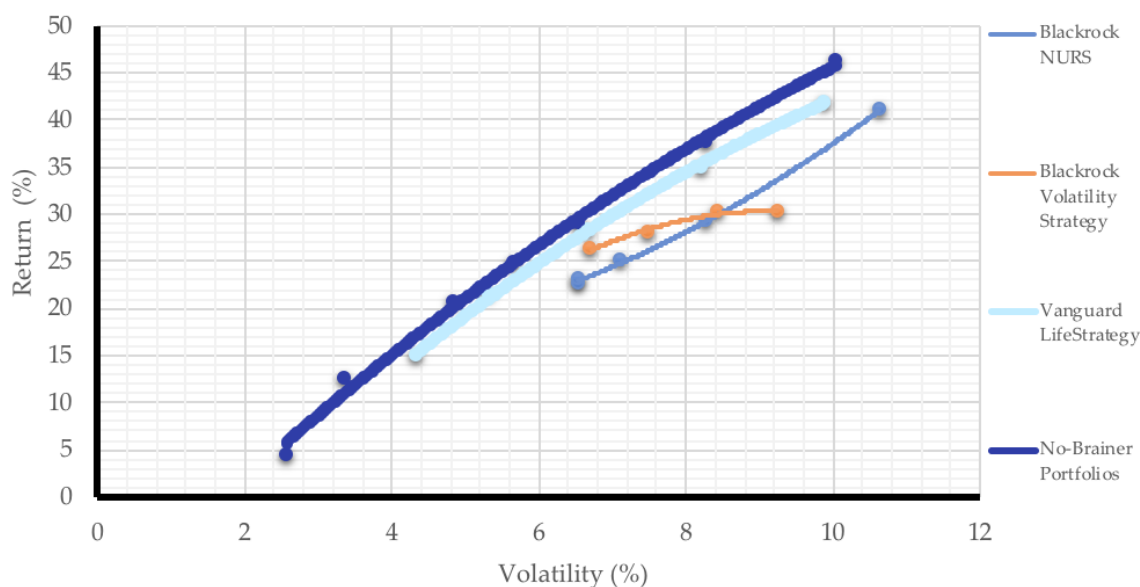
Consensus	TER
35	0.25%
60	0.24%
70	0.24%
85	0.22%
100	0.24%



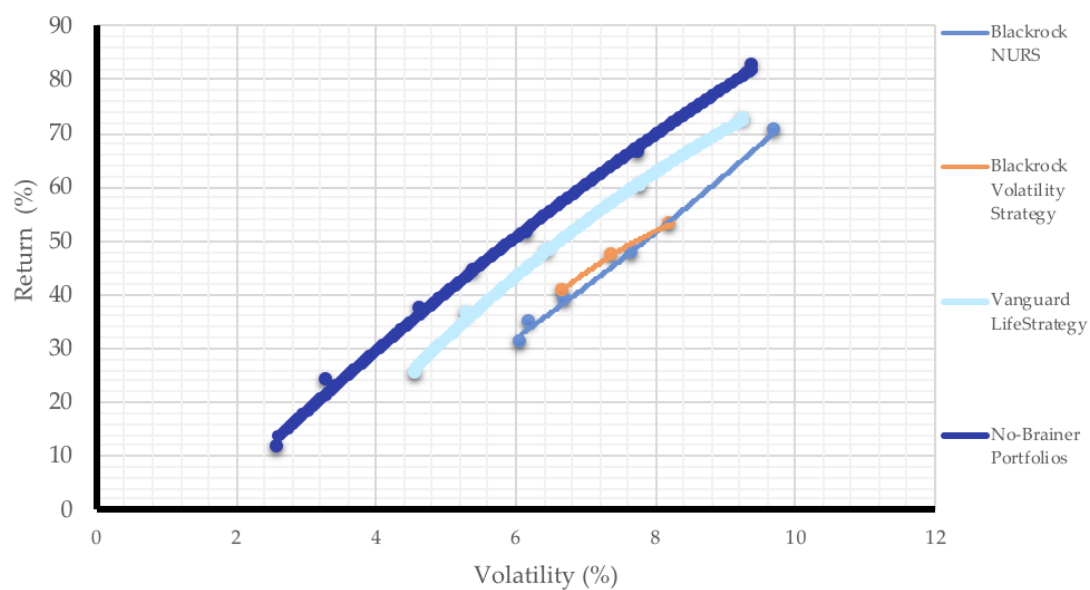
Volatility Strategy	TER
I	0.23%
II	0.23%
III	0.23%
IV	0.23%



### Efficient Frontier (3 Years)

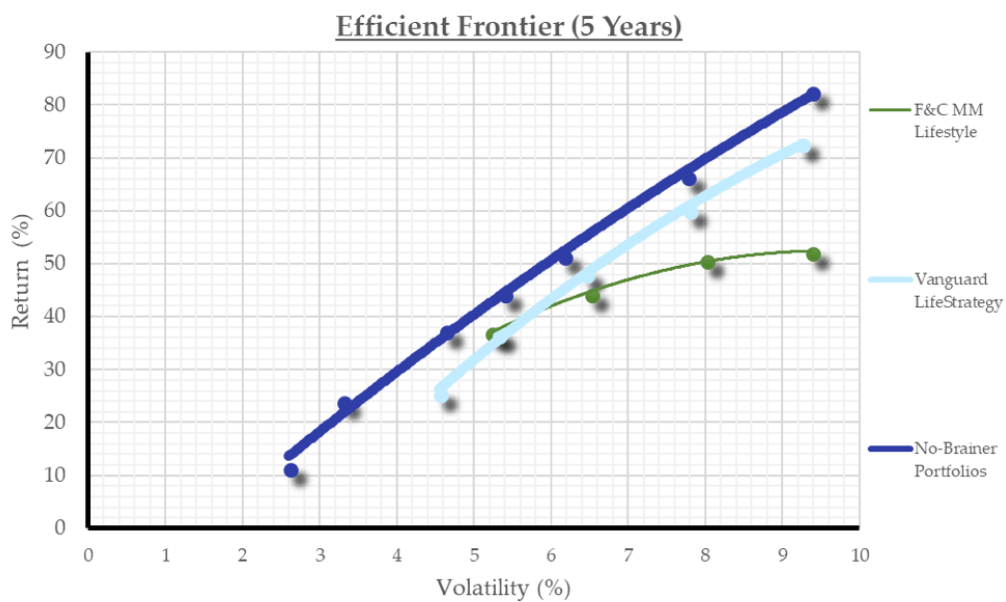
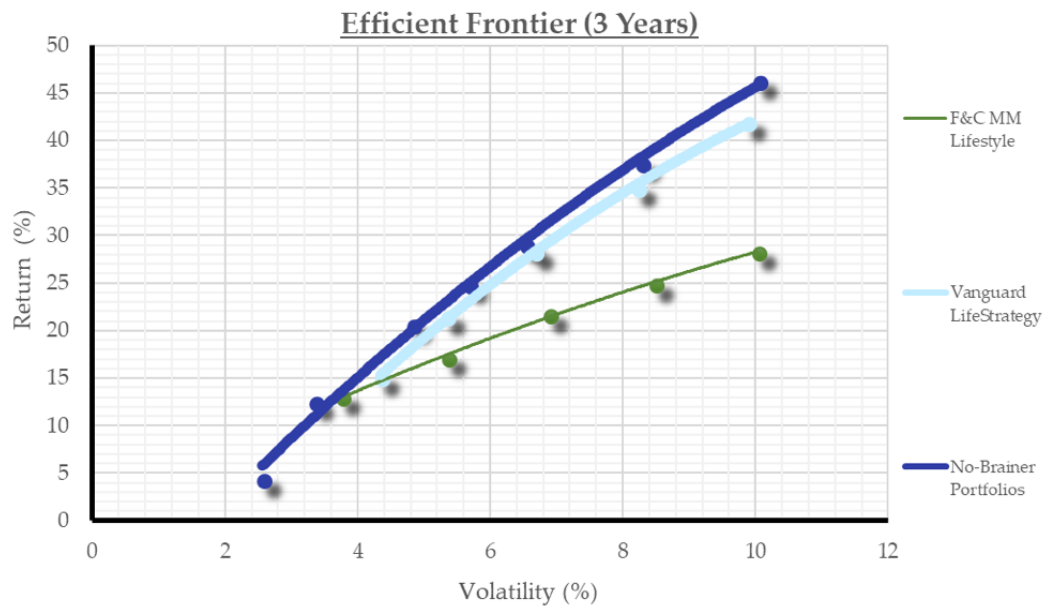


### Efficient Frontier (5 Years)



## FACTSHEET: F&C MULTI MANAGER M LIFESTYLE FUNDS

F&C MM Lifestyle Range	OCF
Foundation	1.09%
Defensive	1.06%
Cautious	1.09%
Balanced	1.09%
Growth	1.09%

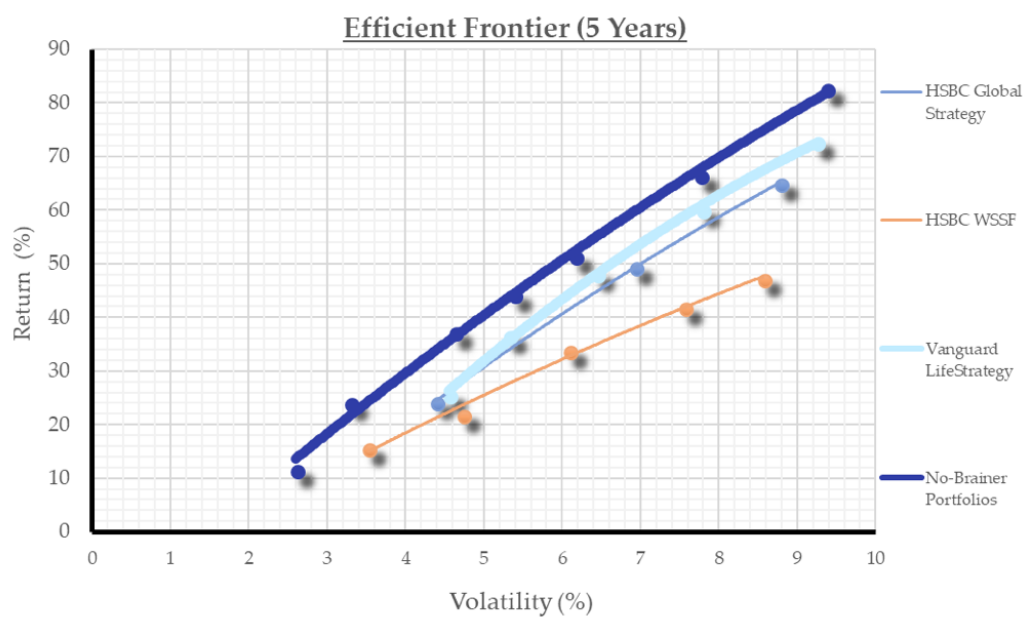
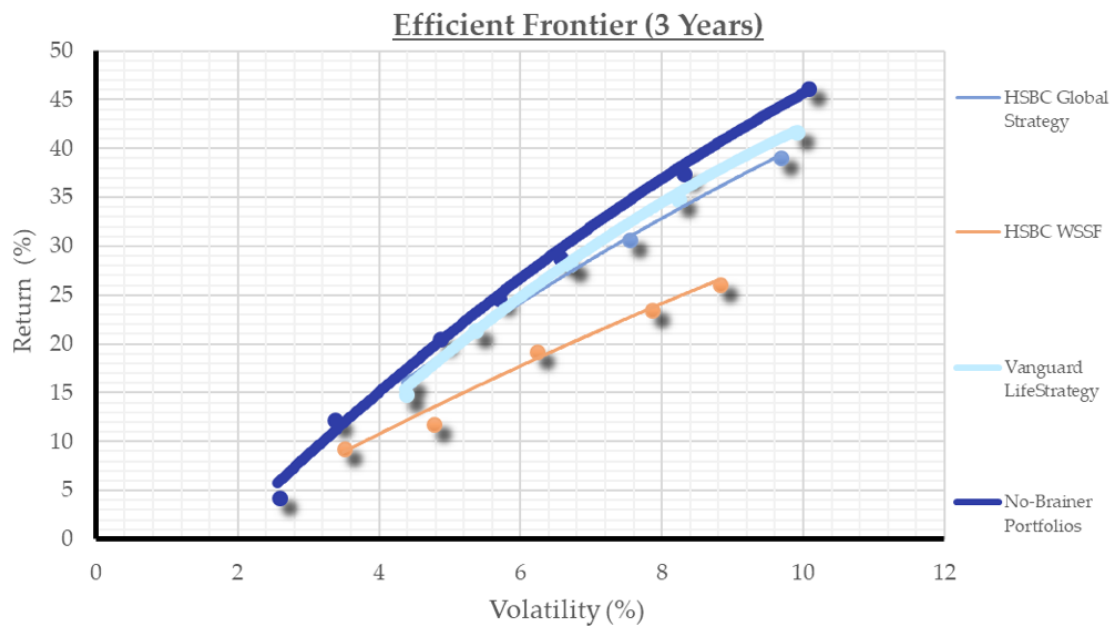


## FACTSHEET: HSBC GLOBAL STRATEGY & WSSF FUNDS

HSBC Global Strategy Range	OCF
Cautious	0.18%
Balanced	0.20%
Dynamic	0.21%



HSBC WSSF Range	OCF
WSSF 1	1.56%
WSSF 2	1.21%
WSSF 3	1.27%
WSSF 4	1.30%
WSSF 5	1.26%

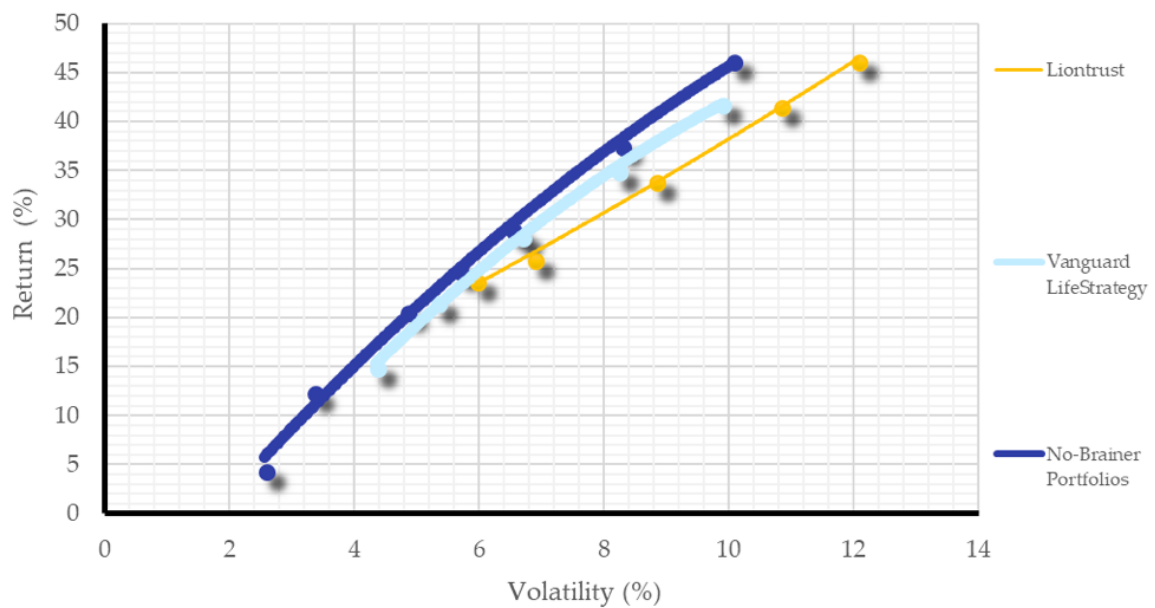


## FACTSHEET: LIONTRUST SUSTAINABLE FUTURE FUNDS

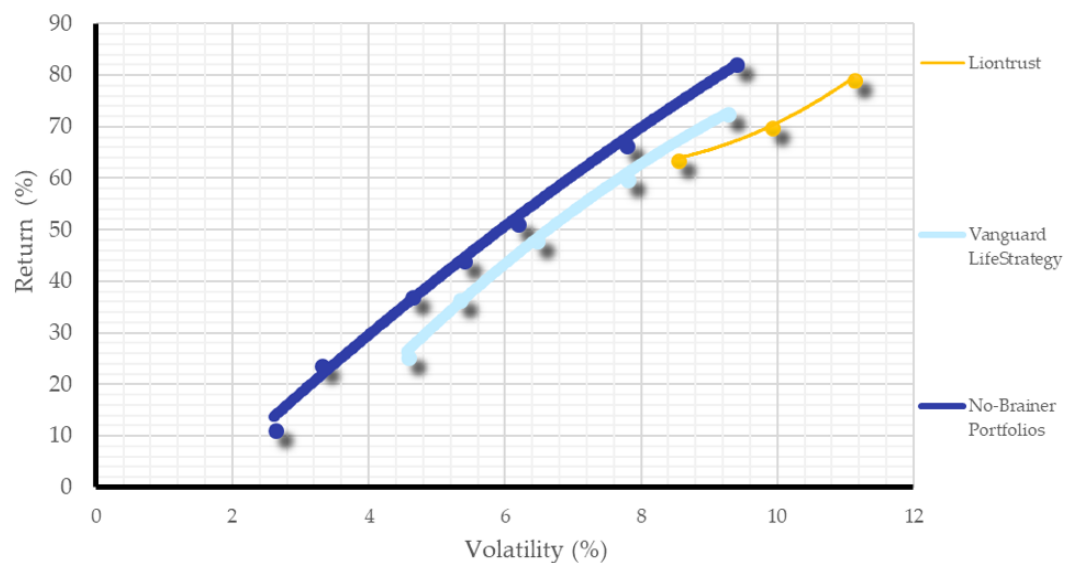
Liontrust Sustainable Future Range	OCF
Sustainable Future Defensive Fund	0.99%
Sustainable Future Cautious Fund	1.00%
Sustainable Future Managed Fund	0.85%
Sustainable Future Absolute Growth Fund	0.85%
Sustainable Future Global Growth Fund	0.85%



Efficient Frontier (3 Years)



Efficient Frontier (5 Years)



## FACTSHEET: PREMIER LIBERATION & MULTI-ASSET FUNDS

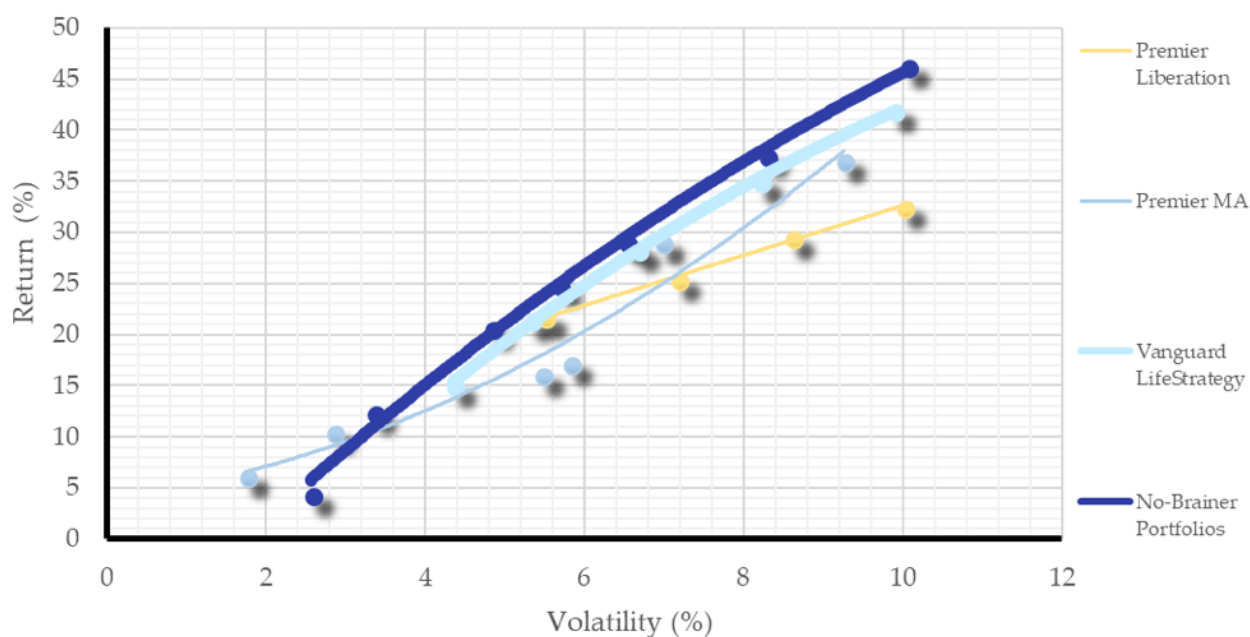
Premier Liberation Range	OCF
IV	1.31%
V	1.33%
VI	1.39%
VII	1.50%



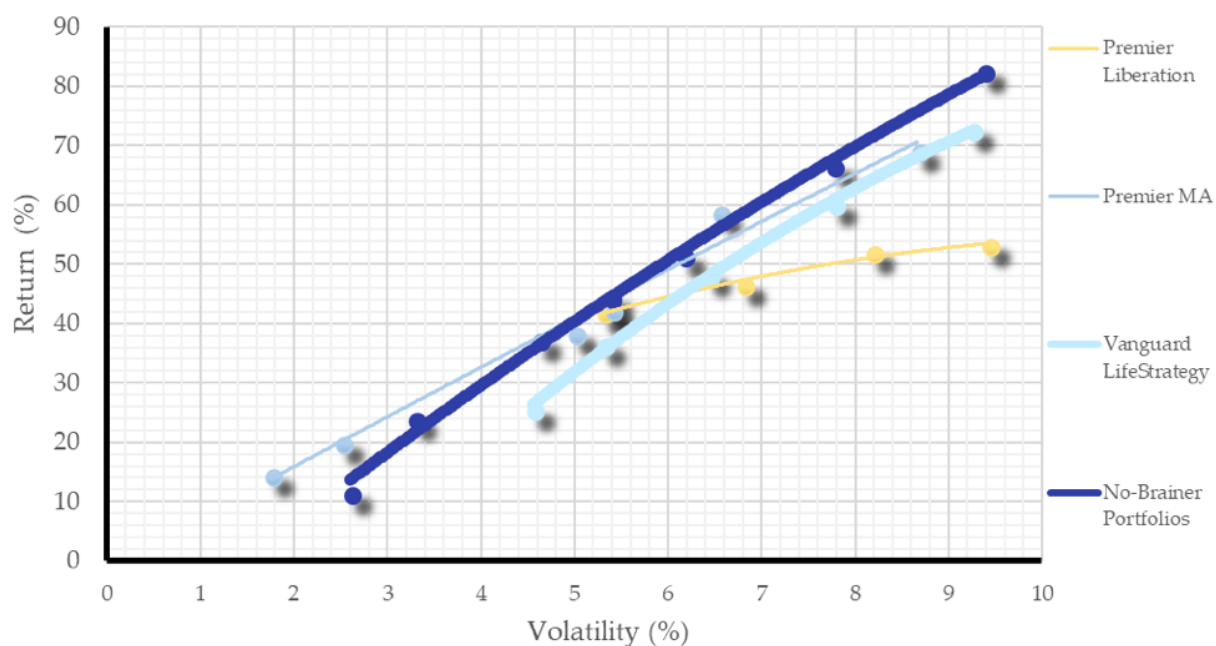
Premier Multi-Asset Range	OCF
Absolute	1.19%
Conservative	1.26%
Distribution	1.31%
Global Growth	1.81%
Growth & Income	1.60%
Monthly Income	1.29%



### Efficient Frontier (3 Years)



### Efficient Frontier (5 Years)





## FACTSHEET: SEI WEALTH FUNDS

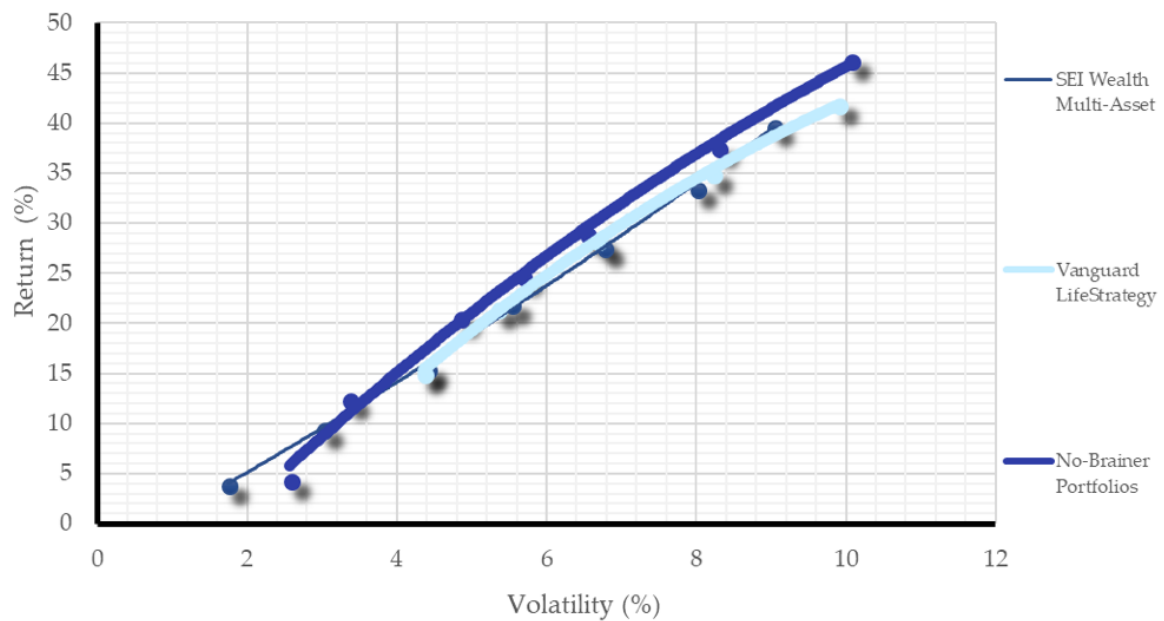
SEI Wealth Range	OCF
Defensive	0.78%
Conservative	0.87%
Moderate	0.80%
Core	1.05%



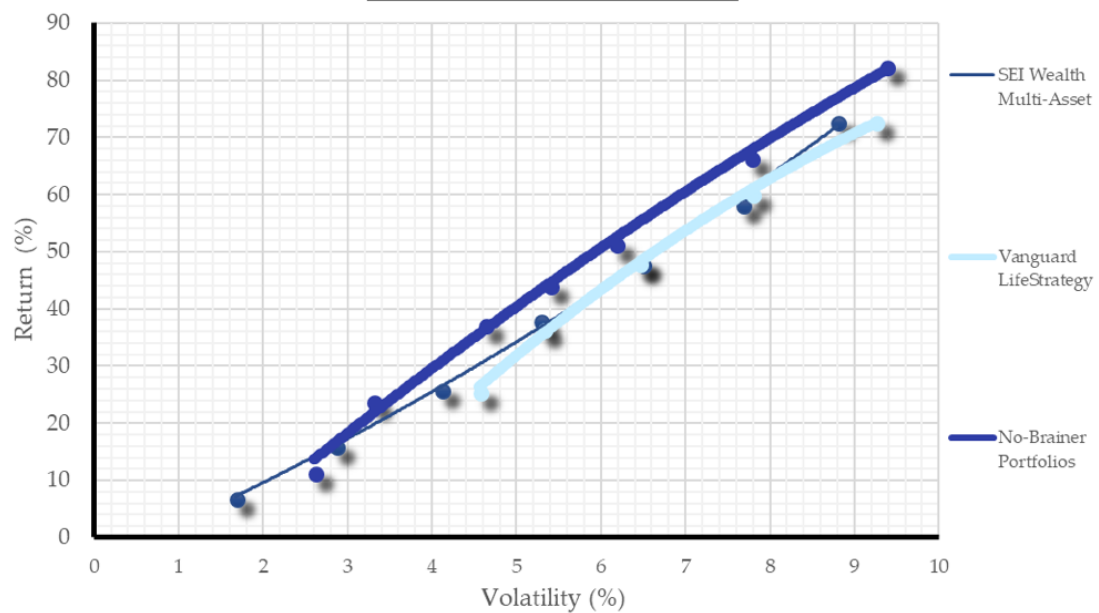
SEI Wealth Range	OCF
Balanced	1.10%
Growth	1.15%
Aggressive	1.13%



Efficient Frontier (3 Years)



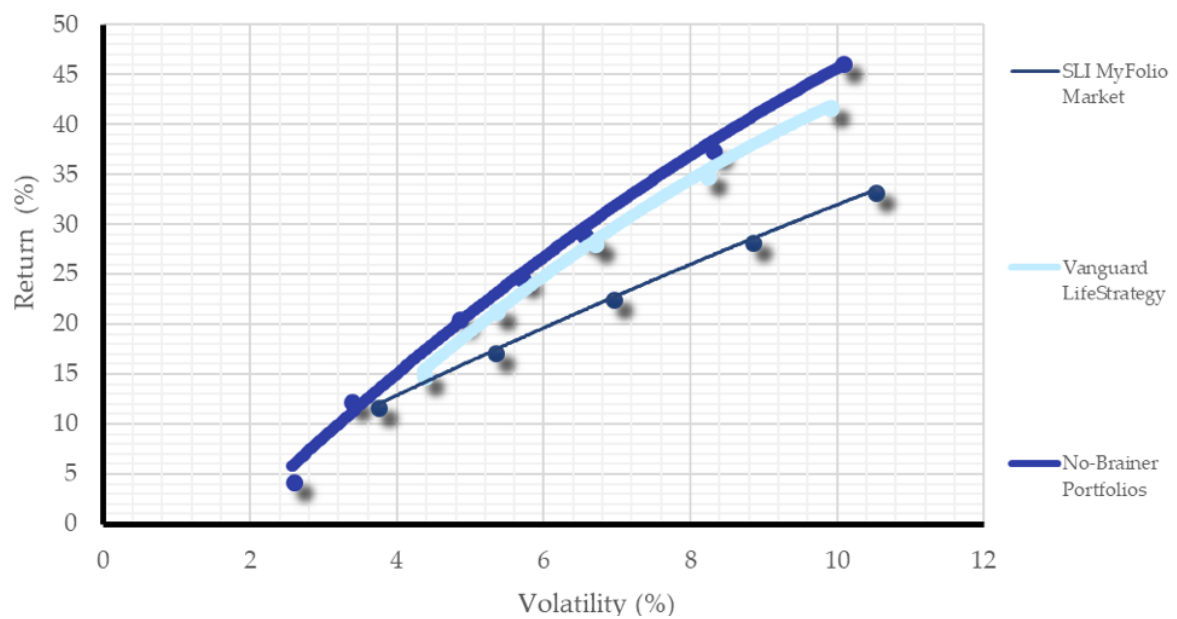
Efficient Frontier (5 Years)



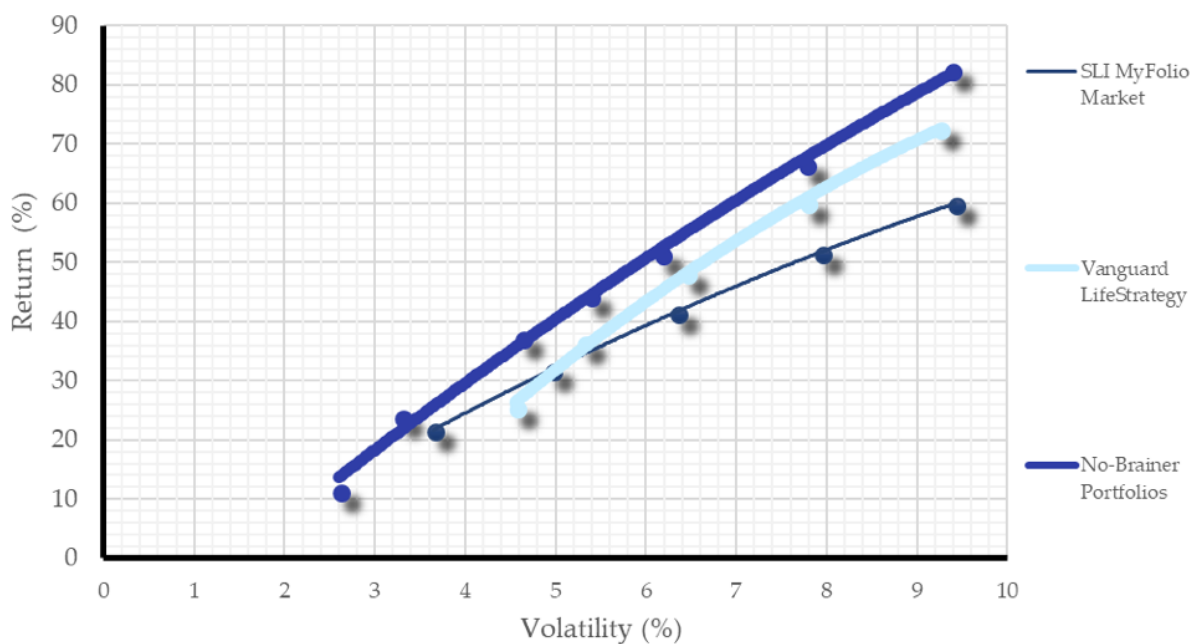
## FACTSHEET: SLI MYFOLIO MARKET FUNDS

Myfolio Market Range		OCF
I	<div style="text-align: center;"> <div style="border: 2px solid green; border-radius: 50%; width: 60px; height: 60px; display: flex; align-items: center; justify-content: center; margin: 0 auto;"> <div style="font-size: 2em; font-weight: bold; color: green; margin-bottom: 5px;">A</div> <div style="font-size: 0.8em; color: green; text-align: left;">                     FinalytiQ Multi-Asset Rating                 </div> </div> </div>	0.34%
II		0.35%
III		0.37%
IV		0.36%
V		0.33%

Efficient Frontier (3 Years)

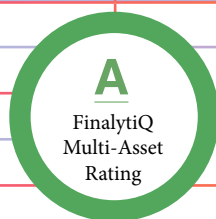


Efficient Frontier (5 Years)

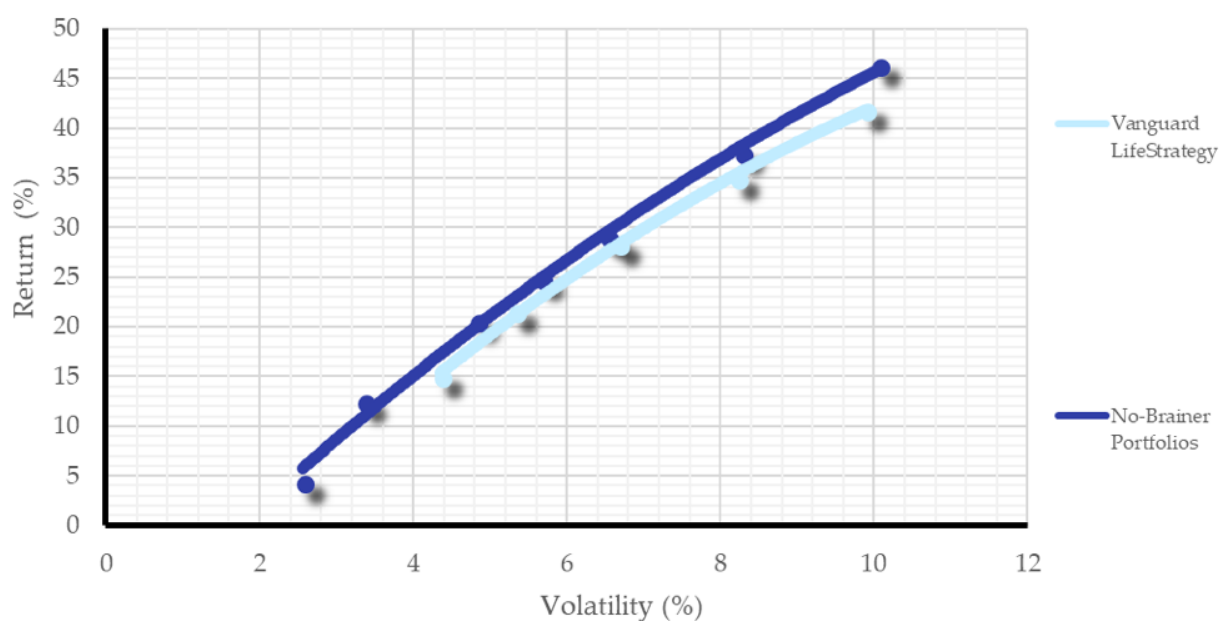


## FACTSHEET: VANGUARD LIFESTRATEGY FUNDS

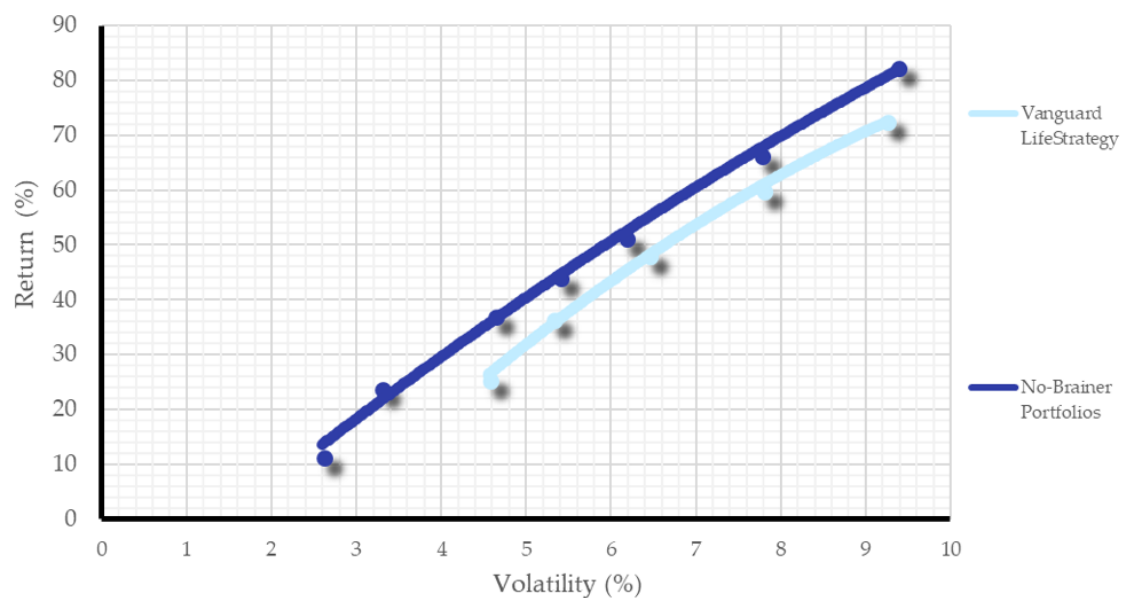
Lifestrategy Range	OCF
20	0.22%
40	0.22%
60	0.22%
80	0.22%
100	0.22%



Efficient Frontier (3 Years)

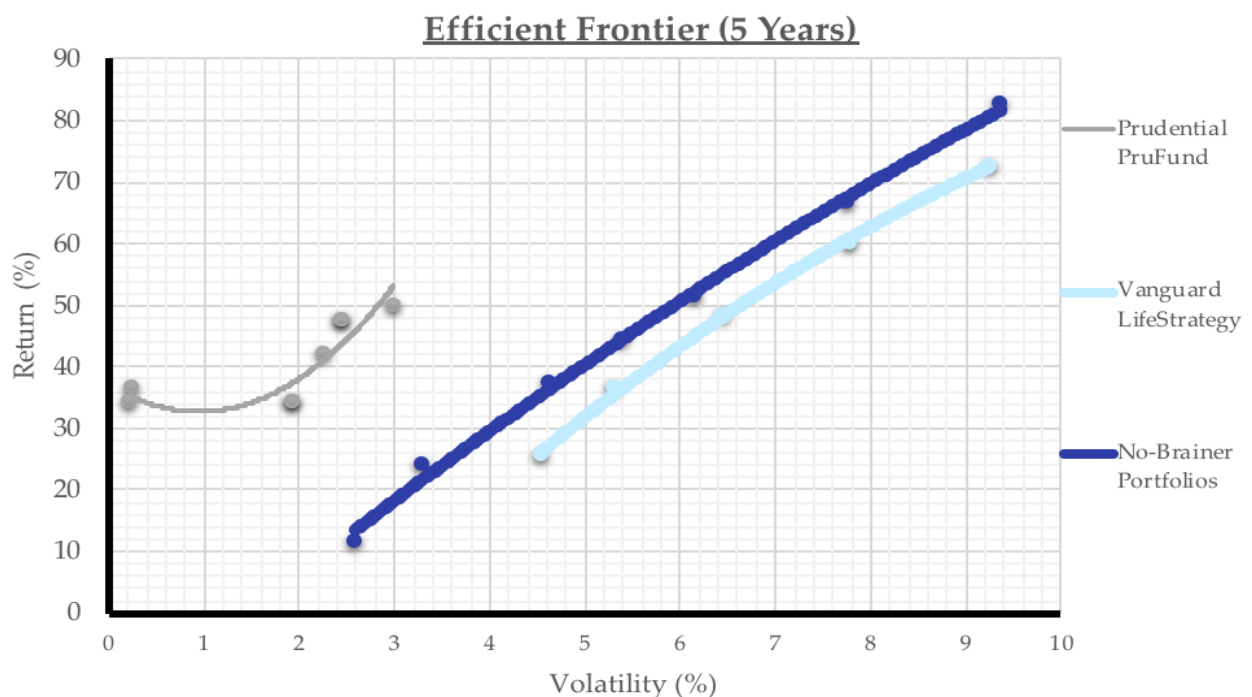
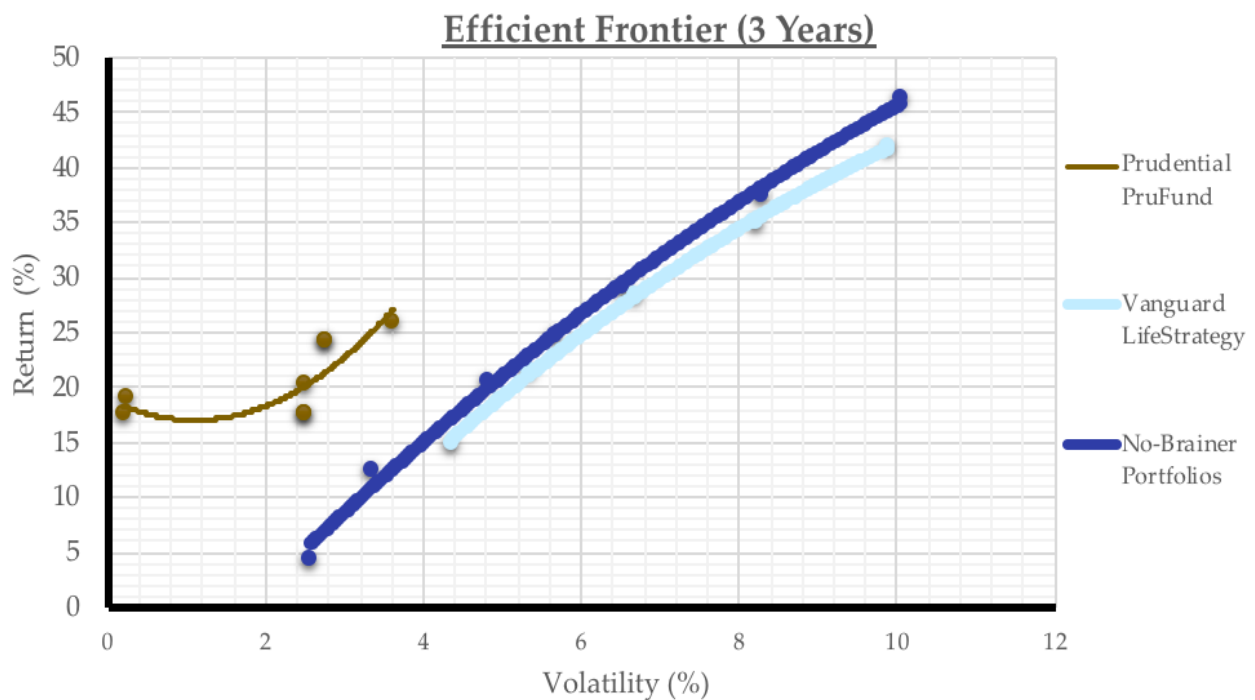


Efficient Frontier (5 Years)



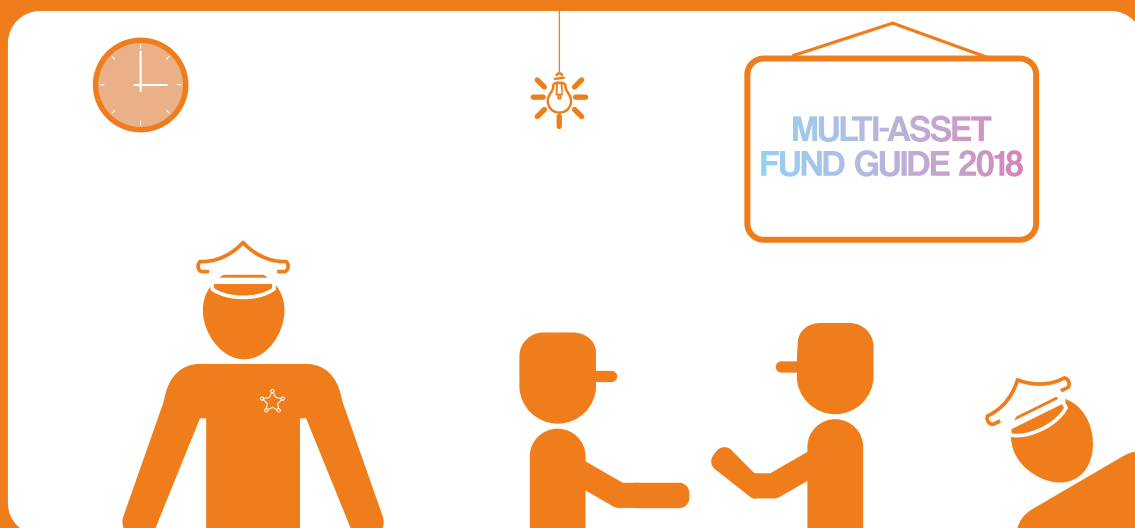
## FACTSHEET: PRUDENTIAL PRUFUND FAMILY

Prudential PruFund Range	TER	Prudential PruFund Range	TER
PruFund 0-30 Fund	1.55%	Cautious	1.52%
PruFund 10-40 Fund	1.59%	Growth	1.59%
PruFund 20-55 Fund	1.62%	Protected Cautious	1.52%
PruFund 40-80 Fund	1.64%	Protected Growth	1.59%

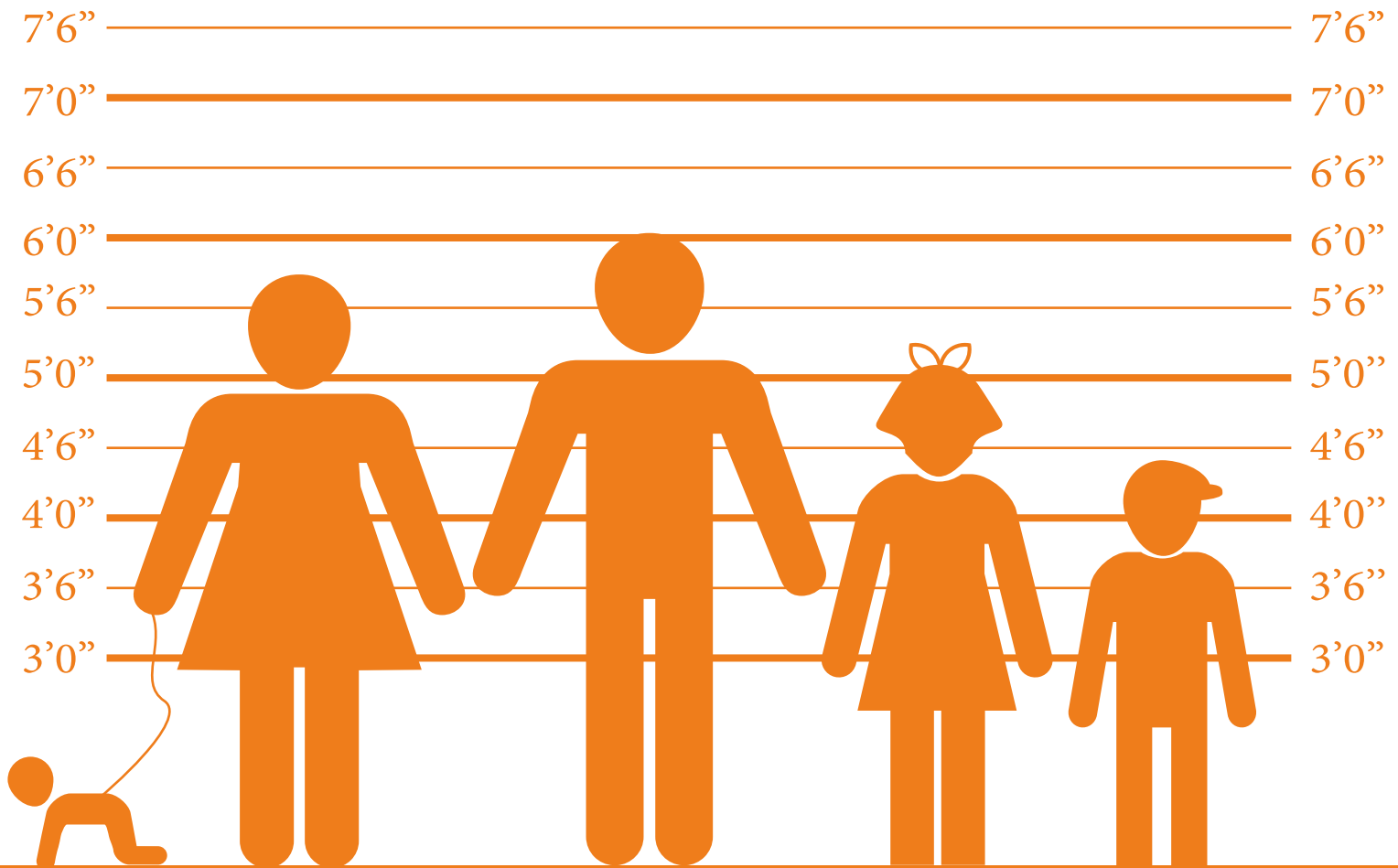


# DYSFUNCTIONAL FAMILIES

Finalyti



# DYSFUNCTIONAL FAMILIES



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