

Finalyti 

MUG'S GAME

Multi-Asset Fund Report 2019



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*The report is published annually and quarterly updates are available on a subscription basis.
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Summary of Key Findings

In our 2019 instalment of the Multi-Asset Fund Report, our research covered 89 fund families, consisting of 391 multi-asset funds, which collectively hold £125.7bn of client money. Our key findings were as follows:

- The vast majority of multi-asset funds continued to underperform the No-Brainer portfolios on a risk-adjusted basis
- 10 fund families delivered greater risk-adjusted returns than the average of our No-Brainer portfolio benchmarks over a five-year observation period.
- The distribution of fund costs remained broadly the same to our findings last year

- OCF

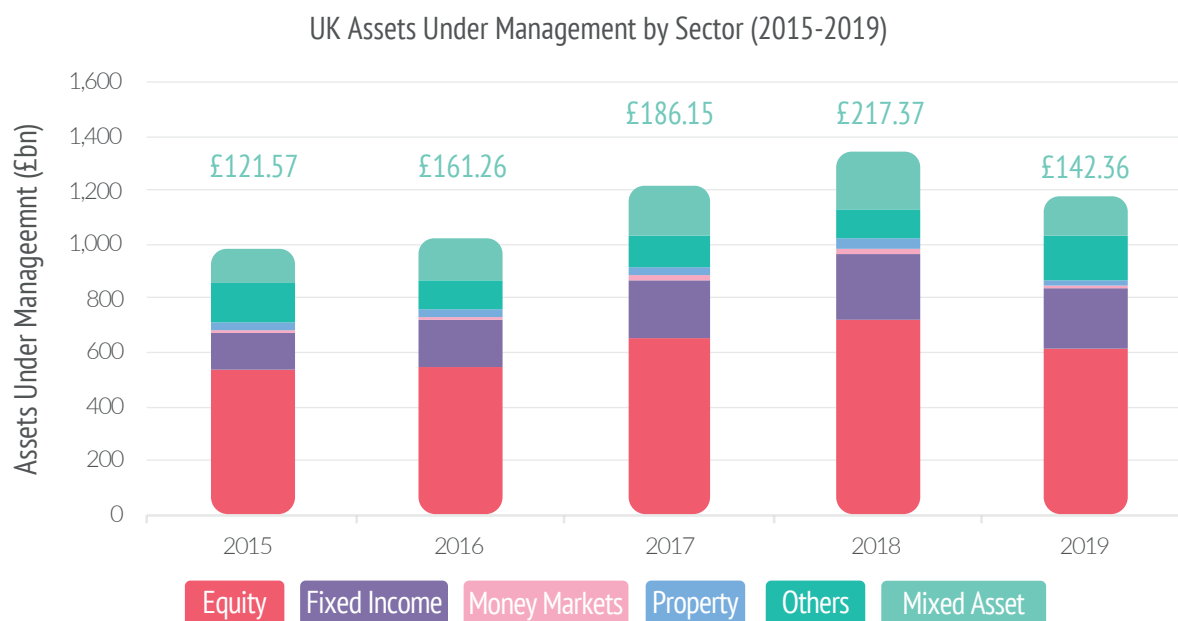
- Highest – 2.91%
- Upper Quartile – 1.29%
- Median – 0.95%
- Lower Quartile – 0.63%
- Lowest – 0.16%

- Total Cost

- Highest – 2.94%
- Upper Quartile – 1.54%
- Median – 1.15%
- Lower Quartile – 0.75%
- Lowest – 0.19%

- Over the course of the last couple of years, we've seen increases in the concentration of client money within a smaller number of multi-asset funds.
- 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. The five ratings are: excellent (A), good (B), average (C), poor (D) and very poor (E). Based on this rating system, three fund families achieved an A-rating, while 12 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?

As a continuation of our report last year, we've looked at the trends in assets under management (AUM) by sector (as defined by the UK Investment Association). Over the course of the last couple of years, we've observed an increase in capital inflows into the multi-asset asset class given their apparent benefits in delivering asset type and geographical diversification. This past year, however, with both the global equity market downturn and concerns regarding the UK's macroeconomic situation, assets under management in the UK have declined, with multi-asset funds suffering the greatest capital outflows.



We can see in the table below, the decline in the value of assets under management was significant to say the least. This may reflect investors' general lack of confidence of the asset class as a whole, which is somewhat consistent with our findings during previous years' reports.

Sector	Growth In AUM			
	Apr-15 - Apr-16	Apr-16 - Apr-17	Apr-17 - Apr-18	Apr-18 - Apr-19
Funds Under Management (UK)	4.54%	18.84%	10.76%	-17.55%
Equity	2.69%	19.77%	10.32%	-15.11%
Fixed Income	23.92%	21.16%	13.53%	-8.23%
Money Markets	58.06%	106.05%	5.18%	-57.16%
Property	-3.28%	2.07%	19.22%	-18.75%
Others	-30.72%	10.64%	-2.31%	44.67%
Mixed Asset	32.65%	15.43%	16.77%	-34.51%

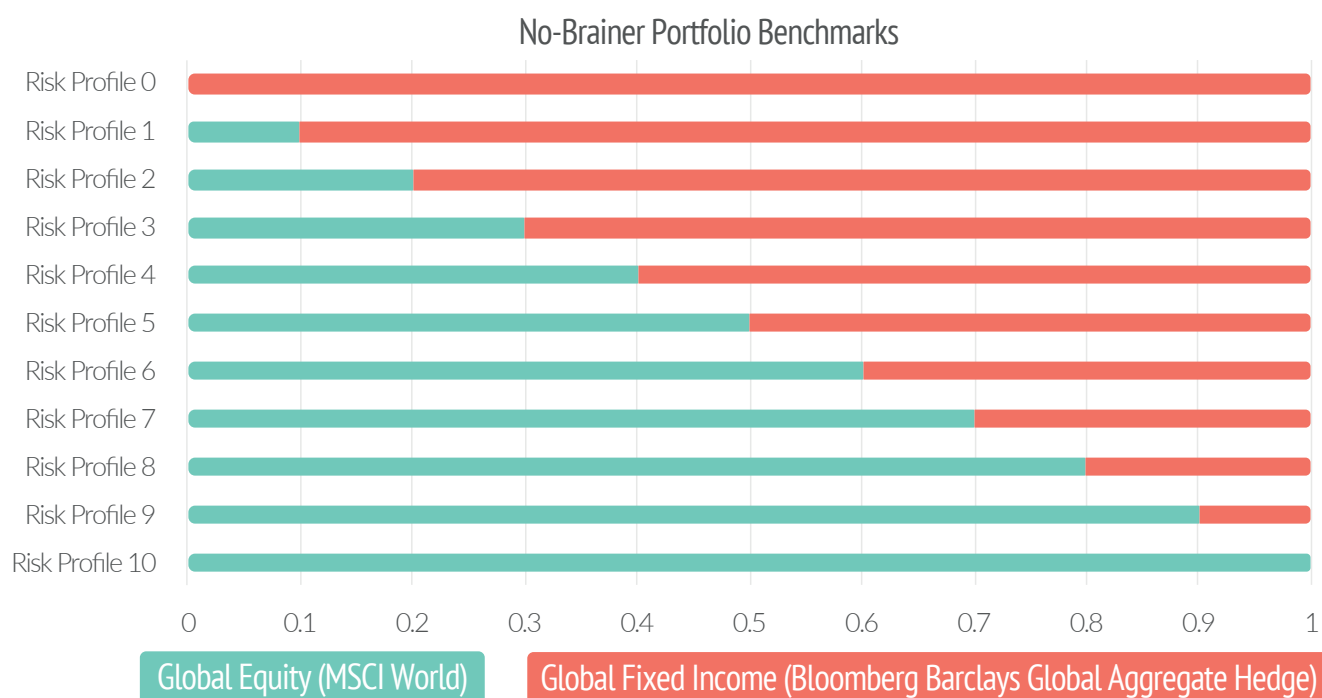
enchmarking Multi-Asset Funds

This year, we have opted to use the No-Brainer portfolios as our primary benchmarking tool.

As readers of previous reports will be aware, the portfolios are constructed using global bond and equity indices to replicate global geographical asset allocation. The weights of the indices within the portfolios are then adjusted to reflect the percentage of growth assets contained within the multi-asset funds in our sample.

In previous years, we constructed the portfolios in accordance with the typical risk-profiling system of weighting defensive to growth assets in 20% intervals. This year however, we've opted to increase the number of intervals to ensure the multi-asset funds are matched more closely to their respective risk-weighted benchmarks.

The benchmarks are now weighted as follows:



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.

A fund manager's core responsibility is to outperform his/her respective benchmark. If the benchmark is a suitable one, failure to do so means that their client could have realistically gained better returns elsewhere and as a result has seen some of their wealth unnecessarily eroded. The idea behind the benchmark portfolio is very simple; create a passive portfolio in its purest form that enables meaningful comparison between a multi-asset fund and a simple global market cap-weighted portfolio.

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.



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.

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