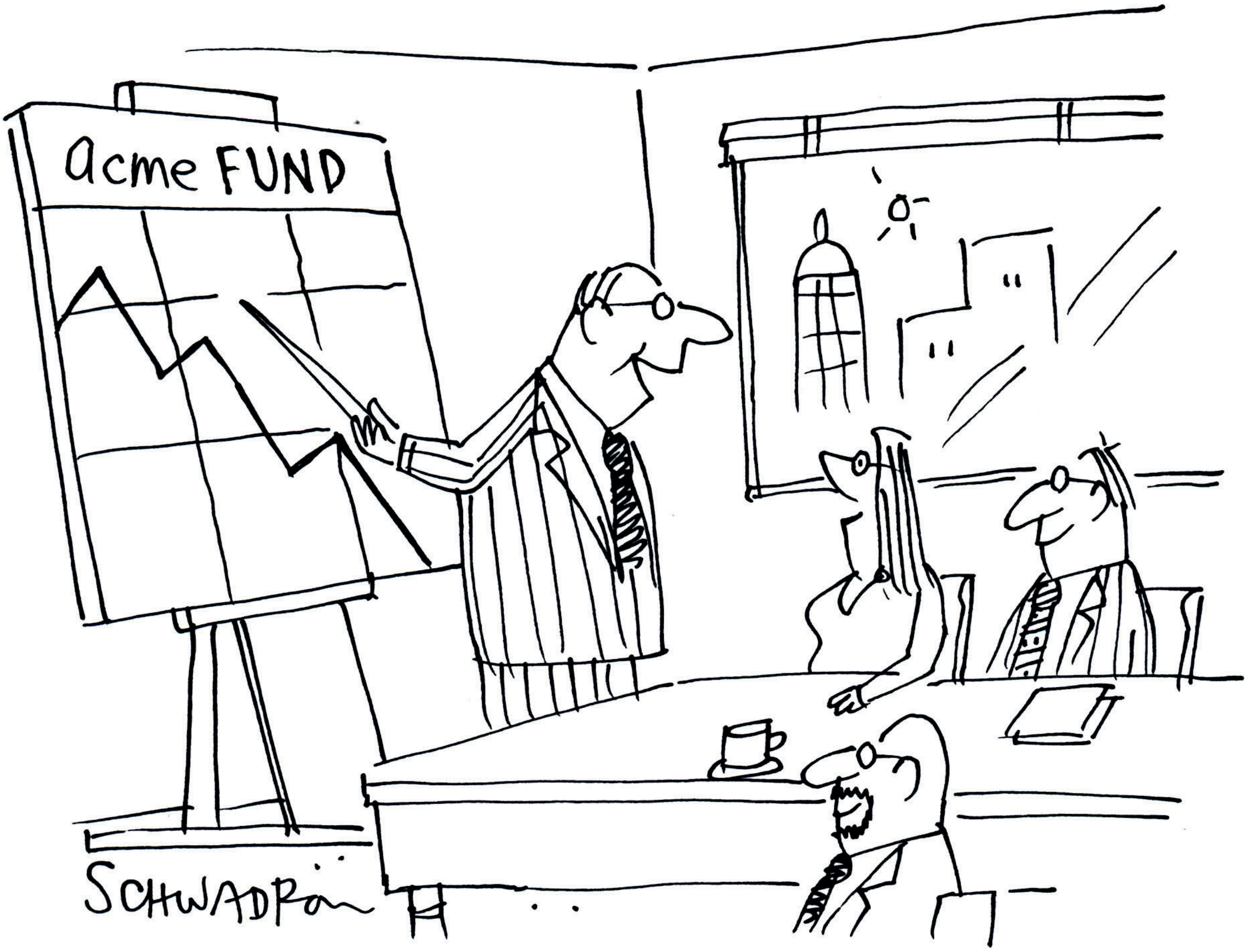
Finalytiq

MUG'S GAME

Multi-Asset Fund Report 2019

Contents



"Our fund lost millions... but the good news is our
management fees are *not* based on performance."

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The report is published annually and quarterly updates are available on a subscription basis.
This report should be used in conjunction with the excel dataset that is also provided alongside this report.

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?

Welcome to the latest edition of the Multi-Asset Fund Report

For the last few years, we have published an annual study of the multi-asset fund universe. The result of our latest study is as heart-wrenching as previous years; the overwhelming majority of multi-asset fund managers don't add any value through their asset allocation and fund selection. In fact, they detract from value.

In that regard, with a very few exceptions, multi-asset funds are a mug's game. These exceptions only prove the rule. Low-cost propositions available through Vanguard, Blackrock and a few others tend to deliver better returns for clients.

The implication of this report's findings is that advisers using multi-asset funds have to reassess their proposition. This is particularly the case where costs are meaningfully higher than the aforementioned low-cost alternatives.

It's clear that many investors in many of these high-cost multi-asset funds are being taken for a mug. There is also a wider discussion about how advisers are inadvertently undermining their own value. There is a general consensus that advice is infinitely more valuable than investment management. Yet, the median cost of multi-asset funds (1.15% pa) is greater than what most advisers charge for their ongoing advice (1% pa, including financial and tax planning and behavioural coaching). If an adviser recommends that clients pay more for investment management than they pay for financial planning, what does this say about the advisers' perception for their own value?

Given that high-cost multi-asset funds systematically underperform simple, low-cost equity/bond benchmarks, we have to ask why many advisers continue to recommend them. In a recent article, Wall Street Journal's personal finance columnist Jason Zweig suggests that one reason advisers continue to value investment management over financial planning expertise, is that they aren't confident enough in their own value proposition.

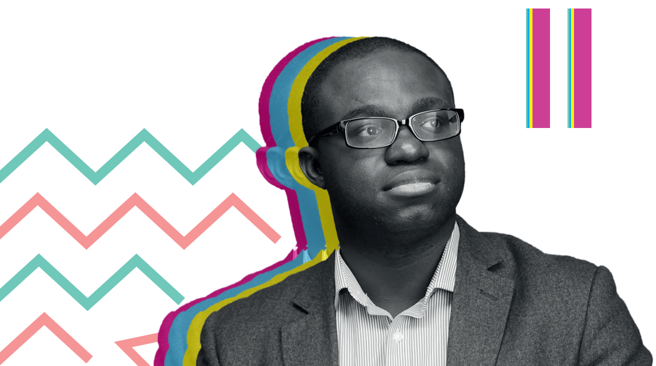
'Meanwhile, advisers who charge for their services through an investment-management fee while appearing to give financial planning away have trained the public to believe investing is arcane and expensive, while financial planning is mundane and unimportant. The opposite is closer to the truth: Investment management is a commodity whose market price has dropped close to zero, whereas the advice and judgment of a good financial planner can do wonders for your net worth.'

- Jason Zweig

We firmly believe that advice is infinitely more valuable than investment management, so advice costs should be more than product (including platform + fund) costs. Fund managers clearly don't seem to recognise this. They continue to price funds higher than advice.

So instead why do advisers continue to indulge them by recommending high-cost multi-asset funds?

Advisers might want to give some thought to the message they are conveying to clients, if the cost of the product they recommend is higher than the cost of advice itself.



Looking under the bonnet

Multi-asset investing remains the investment engine of the financial planning process, getting us from A to B – taking the client from their current financial situation towards their lifetime goals.

Having the right moving parts within the engine is crucial. Research shows that asset allocation drives on average 90% of investment returns. (Actually, in many cases it accounts for over 100% of investment returns since asset selection is often negative, but we'll leave that debate for another time).

Investment return is the investor's compensation for subjecting their assets to uncertainty - the less certain the outcome, the higher the stakes and the greater the potential reward must be. It is rational to seek the highest level of return possible for the amount of risk we're able to take – an efficient engine gives us more miles to the gallon.

So, finding the right strategy to meet the client's risk profile and return requirements is key to reaching the desired destination, not to mention achieving suitability. Multi-asset funds provide advisers with a means to do this and identifying the right strategy for the individual financial plan. Running the engine is effectively outsourced to the fund provider leaving the adviser free for the fun stuff - financial and tax planning, behavioural coaching and hand-holding.

In this report we look under the bonnet at the range of multi-asset funds available to assess their road worthiness, how they perform, what kind of journey they offer and if they're worth the price we pay for them.

Unfortunately, in the investment world, you can't just pay a premium for a Ferrari if you want to go faster. However, we do know that how much we pay will have a significant impact on whether we arrive where we want to go, so price is a key factor in our analysis.

We'll also examine efficiency to reveal which fund families have demonstrated the ability to consistently provide a good level of return for the amount of risk they take. Finally, we'll look at how bumpy the road has been, whether investors have been subjected to motion sickness or travelled smoothly. In essence, we put multi-asset funds to the Ronseal test. If advisers are delegating portfolio management to third-party fund managers, they need a degree of confidence in their ability to deliver for the client.

Our aim is that this manual will help you select funds for individual clients and provide a reference guide for your due diligence process with a scoring system that is easy to navigate. We hope you enjoy the ride.

Methodology

1. Selection of a Fund Universe

Our research was based on FE Analytics' Risk-Targeted Multi-Asset Solutions (RTMAS) and includes other prominent multi-asset fund families not included in the RTMAS universe.

2. Fund 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 returns and volatility data, we plotted Efficient Frontier charts to visually demonstrate the return multi-asset fund managers deliver for each extra unit of risk assumed. This relationship between risk and return generally reflects the proportion of growth assets in the funds.

With this information, an adviser can simply and easily ascertain how much their clients are rewarded for each unit of risk. They can then determine which fund managers offer the best returns at the lower and higher ends of the volatility spectrum, which can then be translated into investment decisions based on growth asset exposure.

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. Suitability Ratings

This year we adapted our ranking criteria to reflect a number of objectives that multi-asset fund investments are designed to achieve.

Our ranking criteria are as follows:

- The Risk-adjusted returns (represented by Sharpe Ratio) of funds relative to the No-Brainer portfolio benchmarks. A fund family's score is expressed as the Sharpe ratio of the family, weighted by fund AUM, as a percentage of that of the benchmark portfolio over three, five, seven and ten-year observation periods
- The returns of funds relative to the No-Brainer portfolio benchmarks. Like the risk-adjusted return score, a fund family's score is expressed as the aggregate return of the family, weighted by fund AUM, as a percentage of that of the benchmark portfolio over three, five, seven and 10-year observation periods
- Total cost (including ex-ante transaction costs)
- Combined maximum drawdown and maximum loss factor. The metric combines funds' maximum loss and drawdown over a seven-year period, adjusting for lifespan (i.e. increasing the drawdown of funds with shorter lifespans). The value is measured as a percentage of the No-Brainer portfolio benchmark's maximum drawdown and loss

Multi-Asset Scoring System

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:

A B C D E

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?

MUG'S GAME

Fund Ownership Changes & Closures

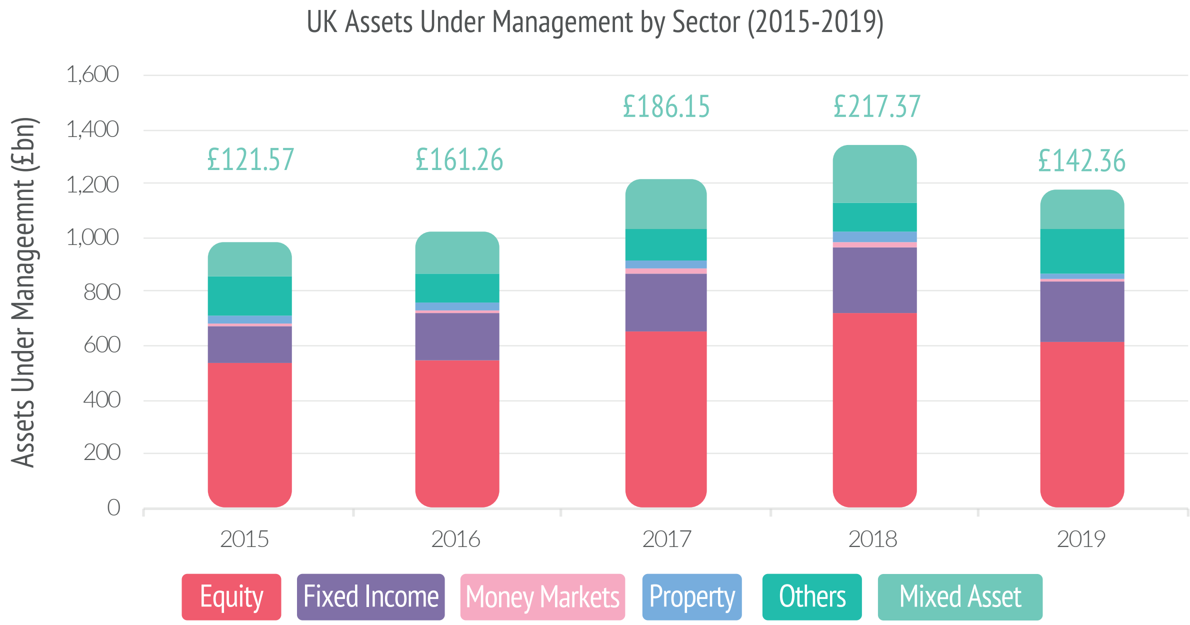
Since last year's report, there have been a number of changes to the constituents of our study. The changes can be found in the table below:

Previous Name	*Current Name*
City Financial Multi Asset	VT Garraway
FP 8AM	EF 8AM
F&C Lifestyle	BMO Lifestyle
F&C BMO Universal	BMO Universal
FP Tatton Oak	VT Tatton Oak
HSBC WSSF	N/A
IFSL Brooks Macdonald	BM Brooks Macdonald
Old Mutual Cirillium	Quilter Investors Cirillium
Old Mutual Cirillium Passive	Quilter Investors Cirillium Passive
Old Mutual Creation	Quilter Investors Creation
LF Prudential Dynamic Focused	LF Prudential Risk Managed
Pru Dynamic	Pru Risk Managed
T. Bailey Discovery	VT Discovery
VT Multi Asset	N/A

As we can see, a number of fund families changed ownership over the course of the last year, while two families (HSBC WSSF and VT Multi-Asset) were discontinued.

Multi-Asset Universe

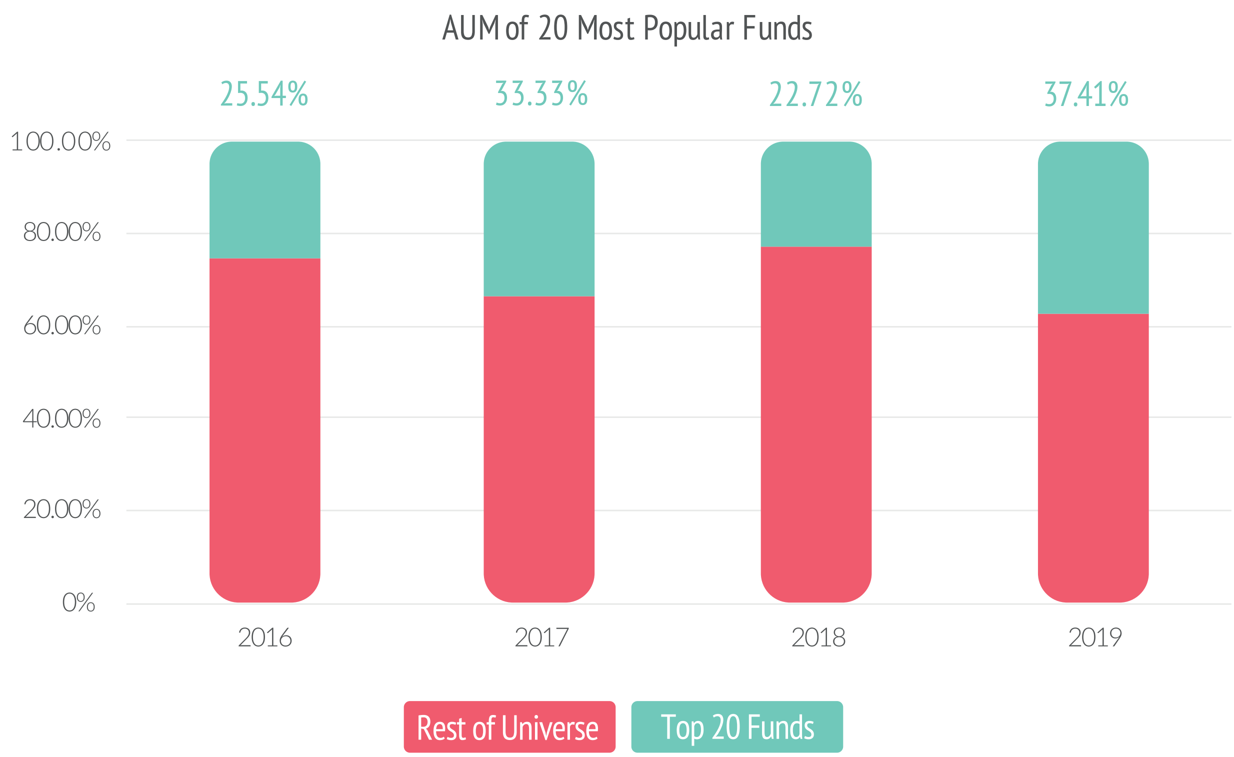
As a continuation of our report last year, we've looked at the trends in assets under management (AUM) by sector (as defined by the UK Investment Association). Over the course of the last couple of years, we've observed an increase in capital inflows into the multi-asset asset class given their apparent 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%

During the same period, we've seen an increase (albeit inconsistent) in the concentration of clients' money in a restricted number of funds. The figure below shows the collective AUM of the top 20 most popular funds (measured in terms of AUM) over the course of the last four years.



What we see is that there has been an increase in the concentration of clients' assets in a small number of funds, which represent a staggering 37% of all UK investor money invested in the multi-asset universe. This is further demonstrated by the degree to which the five most popular funds currently on the market have grown in terms of AUM over the course of the last four years.

Fund	2016	2017	2018	2019
Vanguard LifeStrategy 60% Equity	1430	2939.2	4054.7	5588.1
Aviva Inv Multi Strategy Target Return 2	346.7	5054.7	5707.7	4853.4
Pictet Multi Asset Global Opportunities HI	n/a	n/a	3263.4	4154
Standard Life Investments MyFolio Managed III	2274	3131.7	3599.9	3787.2
Vanguard LifeStrategy 40% Equity	905.8	1985.3	2717.9	3700.6

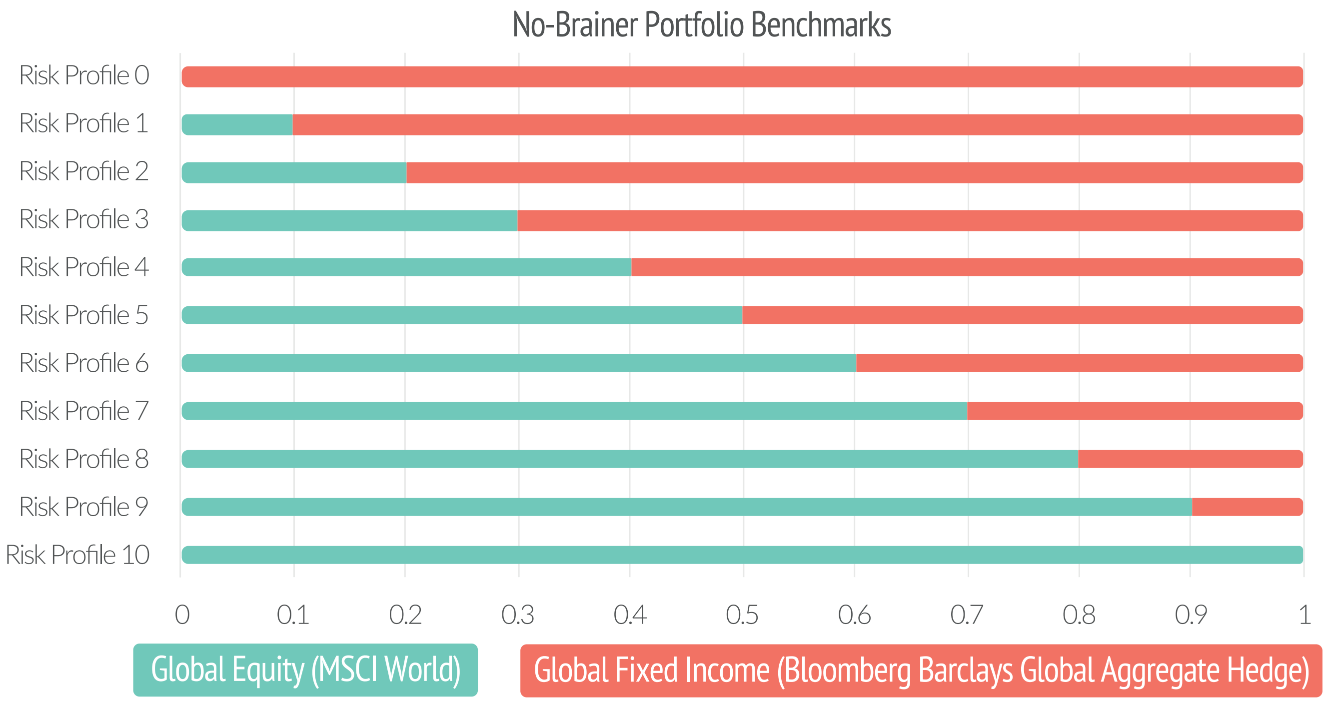
Benchmarking Multi-Asset Funds

This year, 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.

MUCH...

...has been said and written on the matter of the main sources of managerial outperformance. The three primary ways managers achieve this are:

- 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 the manager's benchmark. However, when applied ineffectively and combined with high transaction and management fees, they can eat 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.

Efficient Frontier for Multi-Asset Funds

The following charts show the risk-return relationship for the 89 multi-asset fund families studied within the report and the No-Brainer benchmark portfolios over periods of three, five, seven and ten years.

Our data encapsulates the following number of fund families per observation period:

Observation Period (Years)	3	5	7	10
Number of Fund Families	79	71	62	41

Our efficient frontier charts show the vast majority of the fund families observed to be less effective at delivering risk-adjusted returns than the No-Brainer benchmark portfolios.

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. The more pronounced navy-blue line represents the No-Brainer portfolios.

The number of fund families that outperformed our No-Brainer portfolio benchmarks on a risk-adjusted basis are as follows:

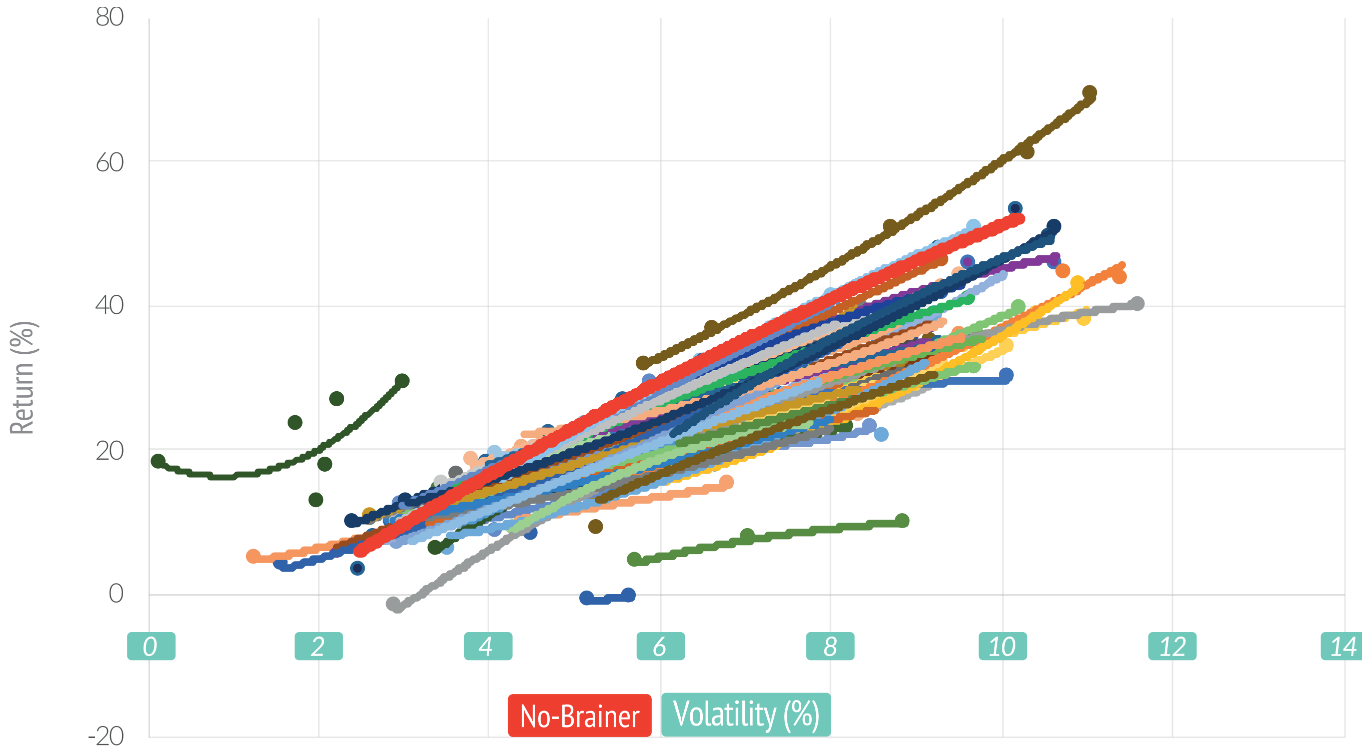
Observation Period (Years)	3	5	7	10
Number of Fund Families	34	10	11	9

Note that outperformance is measured using the fund-size weighted Sharpe ratio. The Sharpe ratio is simply the return an investor receives in excess of the return one could achieve with the closest thing to a risk-free investment (short-term government bonds), adjusted for the risk of the investment.

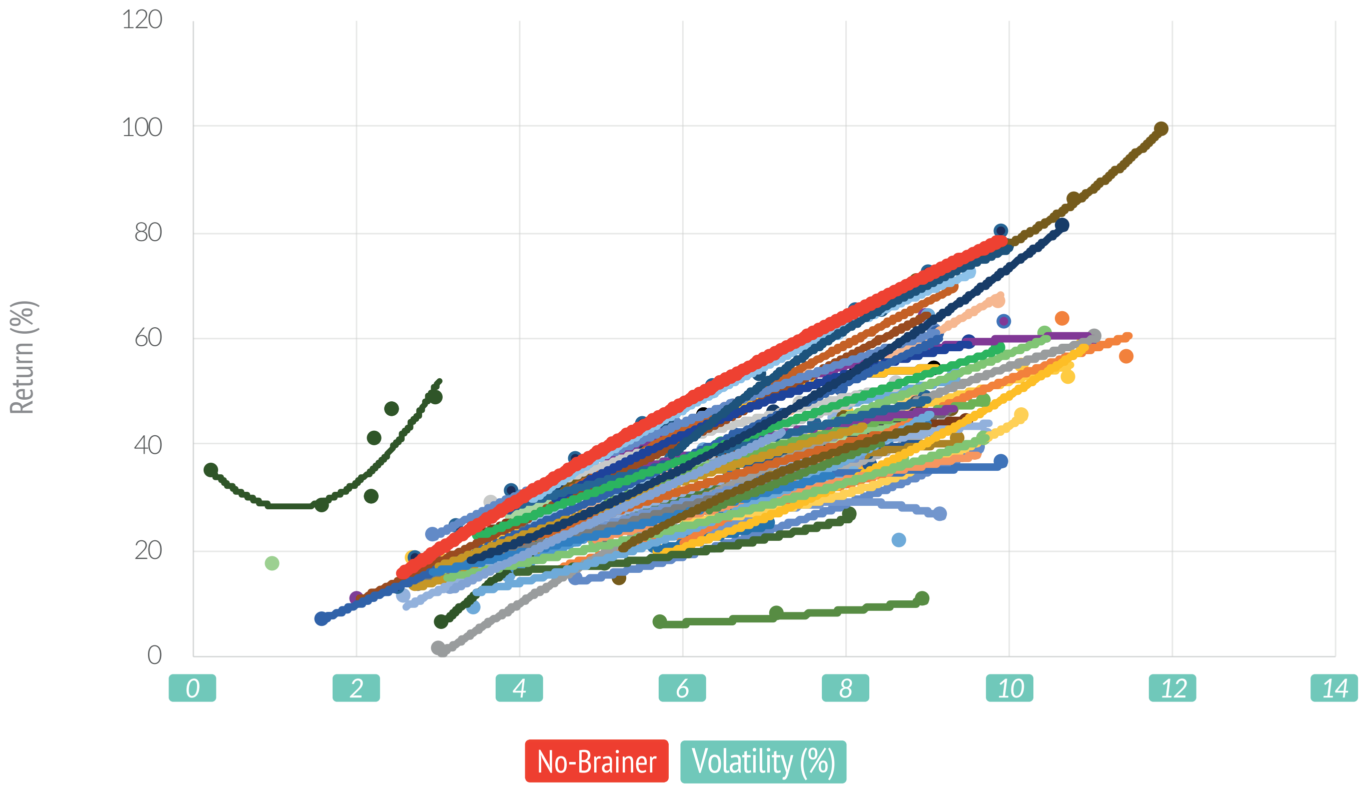
So, a higher Sharpe ratio simply indicates how much return a manager has been able to generate per unit of risk, with reference to what one could achieve when taking on zero (theoretically speaking) risk.

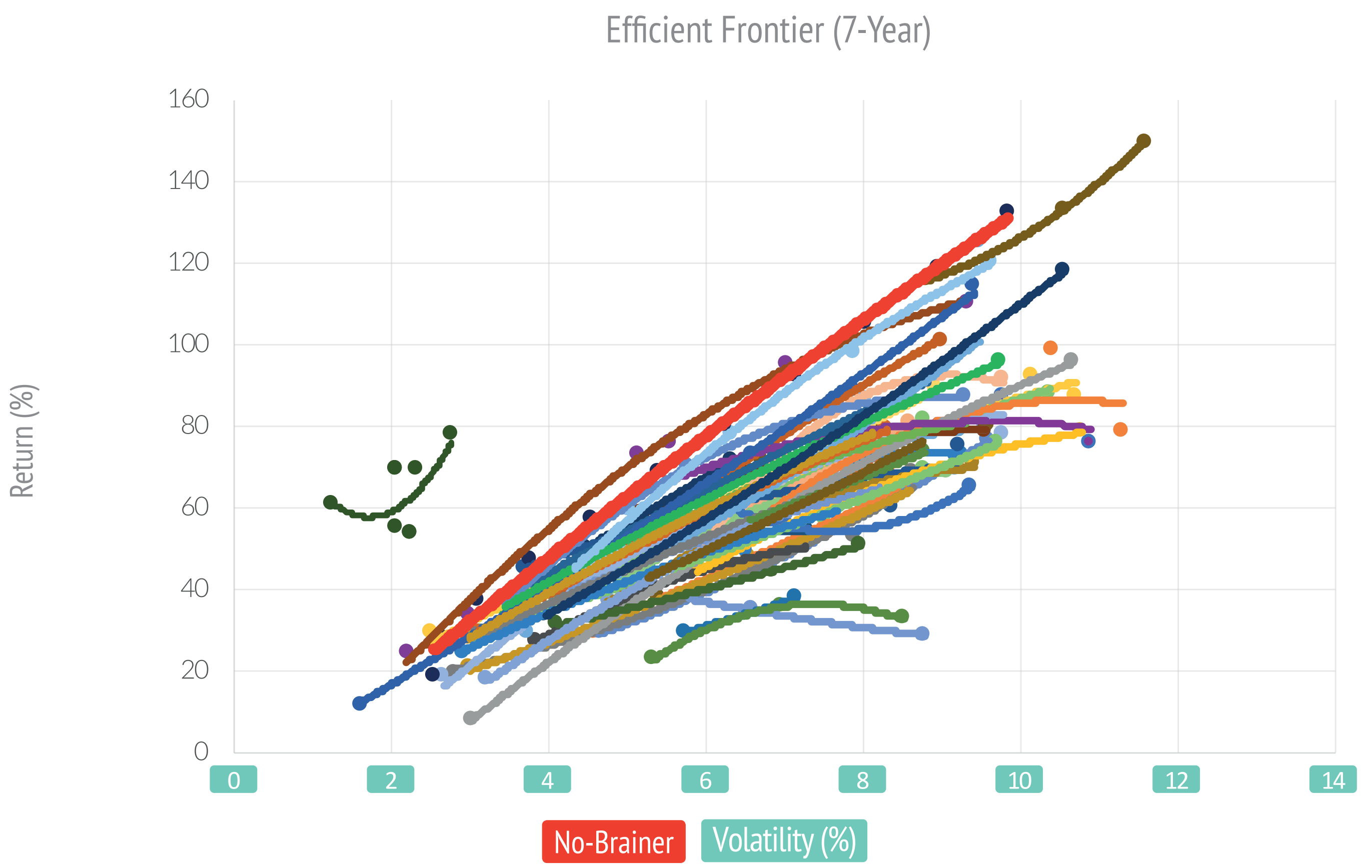
As we see, the vast majority of funds underperform both benchmarks. Therefore we can conclude based on this metric that the fund families demonstrate sub-optimal asset allocation and ineffective asset selection.

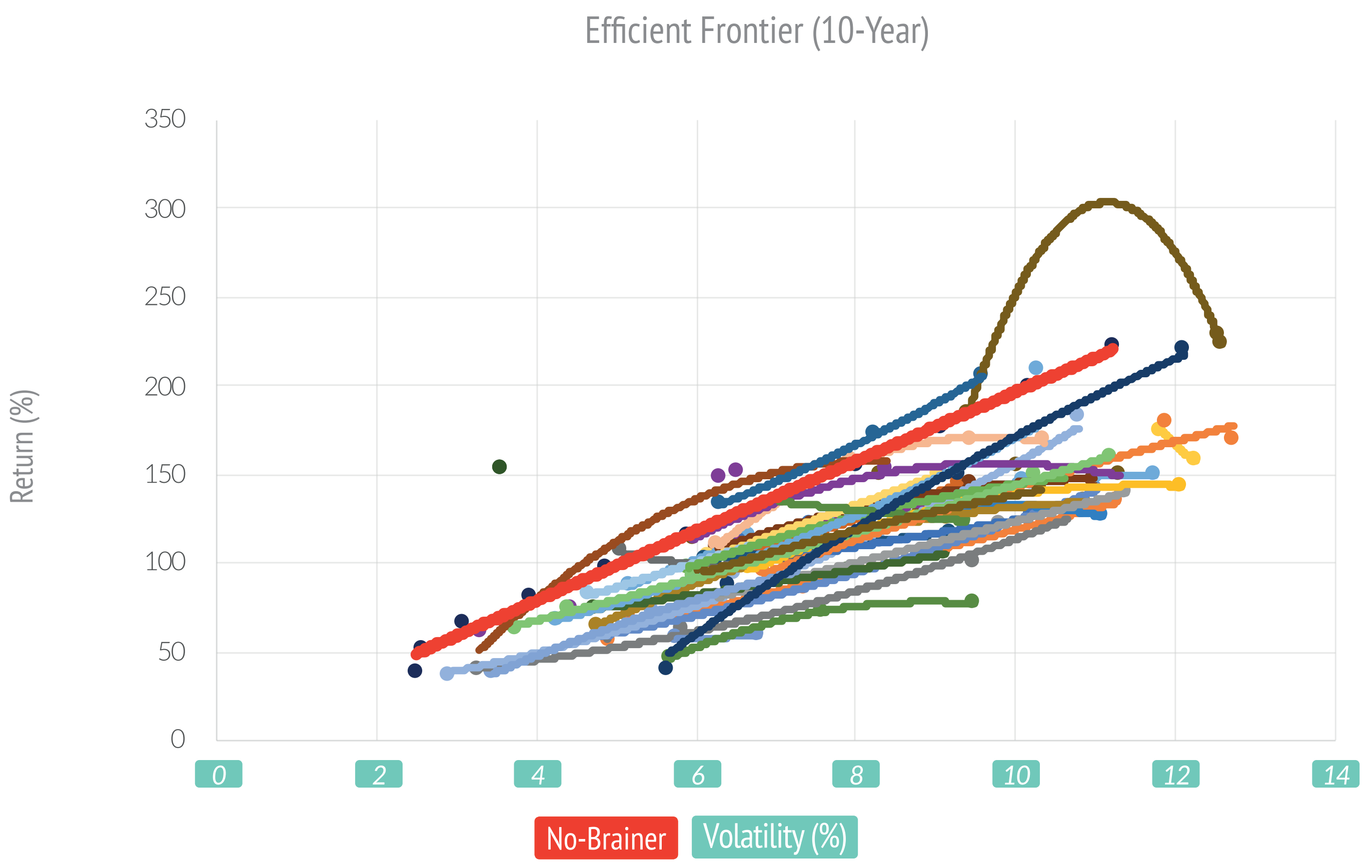
Efficient Frontier (3-Year)



Efficient Frontier (5-Year)




Efficient Frontier (7-Year)
Return (%)
160
140
120
100
80
60
40
20
0
0
2
4
6
8
10
12
14
No-Brainer
Volatility (%)


Efficient Frontier (10-Year)
Return (%)
350
300
250
200
150
100
50
0
0
2
4
6
8
10
12
14
No-Brainer
Volatility (%)

Fund Costs

This year, we've found once again that fees within the multi-asset space remain high (colossal in some instances), eating into net returns that would otherwise directly benefit clients.

The table below shows the data for the individual funds and the average total cost for each family.

Multi Asset Fund Total Cost		
Rank	**Fund**	**Family (Weighted Average)**
Most Expensive	2.94	2.33
Upper Quartile	1.54	1.51
Median	1.15	1.15
Lower Quartile	0.75	0.76
Cheapest	0.19	0.20

Note: Total cost is calculated as the ongoing charges figure + ex-ante transaction costs

As we can see from the figures above, the ongoing charges figures vary greatly within the multi-asset universe. However, given the overall underperformance of the vast majority of the fund families, questions must still be asked about how justified these lofty fees are. Little wonder the value of investment management is being called into question by the regulator, the media and indeed policy markers.

As expressed previously, our views on fund management fees is that they should never be greater than those of advisers. As such it's worth noting that the median total fund cost of our multi-asset fund sample is greater than the typical advisory fee. Does this suggest that asset managers believe that their role is more valuable than advisers? And to the extent that advisers are recommending these funds, do they buy into this myth? Whatever the case, we do not believe the level of cost can survive in an age where advisers are generally expected to keep costs low.

The most reasonably priced fund families in our observation group were as follows:

Fund Family	Total Cost (%)	Family Score
HSBC Global Strategy	0.20	C
BlackRock NURS Consensus	0.26	A
Vanguard LifeStrategy	0.27	A

Now, although cost (as mentioned previously) is factored into our ranking system, it is merely one factor among many others. As such, the evidence of low costs mirroring high multi-asset fund scores is an indication of the negative impact high fees have on fund returns.

Ranking Criteria

We have adapted our ranking criteria this year to reflect a number of factors that are key not only to high quality returns, but also to the psychological process of investing over the long-term and maintaining a level-headed approach to investing.

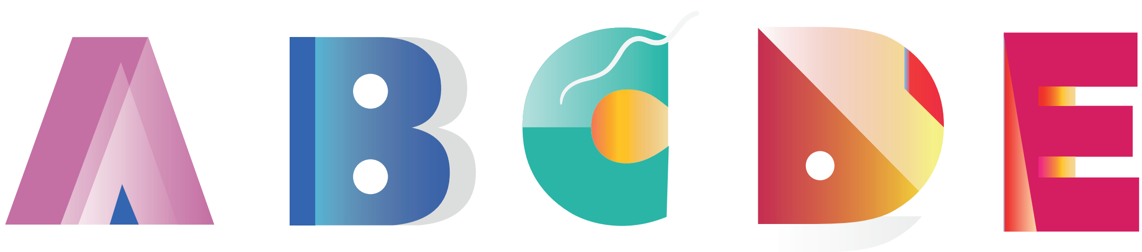
The most notable of which is the combined maximum drawdown and maximum loss factor. The metric combines funds' maximum loss and drawdown over a seven-year period, while adjusting the scores of those funds with a shorter lifespan (and thus less of an opportunity to experience significant drawdown/loss) upwards. The purpose of this metric is to reflect a cause of an investor's psychological unease, which might lead to premature divestment.

Fund families' scores are aggregated from individual fund scores based on AUM and then compared to the No-Brainer portfolio benchmarks.

The remaining scoring criteria have been adapted slightly since last year's report, but the essence and purpose of them remains the same. The factors are as follows:

- The risk-adjusted returns (represented by Sharpe ratio) of funds relative to the No-Brainer portfolio benchmarks. A fund family's score is expressed as the Sharpe ratio of the family, weighted by fund AUM, as a percentage of that of the benchmark portfolio over three, five, seven and 10-year observation periods
- The returns of funds relative to the No-Brainer portfolio benchmarks. Like the risk-adjusted return score, a fund family's score is expressed as the aggregate return of the family, weighted by fund AUM, as a percentage of that of the benchmark portfolio over three, five, seven and 10-year observation periods.
- Total cost (including ex-ante transaction costs)

Fund families are appointed one of the following scores:



Fund family ratings (arranged alphabetically and by rank) are found on the following pages.

Fund Family Scores

By Name

Fund Family	Rating	Weighted Total Cost
7IM AAP	E	0.68
7IM Multi Asset	E	1.42
7IM Dynamic Planner	D	0.34
Aberdeen Diversified Core	E	1.38
Allianz Risk Master	E	1.15
Architas MA Active	B	1.58
Architas MA Blended	D	1.14
Architas MA Passive	A	0.64
Aviva Multi Asset	D	0.73
Aviva Multi Strategy	E	1.91
Aviva Multimanager	E	1.78
Barclays Wealth Global Beta	C	0.70
Barclays Wealth Global Markets	D	1.02
BlackRock NURS Consensus	A	0.26
BlackRock Volatility	B	0.29
BM Brooks Macdonald	C	1.24
BMO MM Lifestyle	B	1.07
BMO Universal MAP	D	0.65
Brown SVS Shipley	D	1.49
Close Multi-Asset	E	1.10
Close Managed	E	1.37
Close Tactical Select Passive	C	0.61
Cornelian Asset Managers SVS Cornelian	D	1.30
Cornelian Asset Managers SVS Cornelian RMP	E	0.54
Coutts Personal Portfolio	E	N/A
Dimensional World Allocation	B	0.52
EF 8AM Multi-Strategy	C	2.07
Fidelity Multi Asset Allocator	C	0.27
Fidelity Multi Asset	B	0.95
Fidelity Multi Asset Open	C	1.60

Fund Family	Rating	Weighted Total Cost
FP Apollo Multi Asset	E	1.86
FP Luceo	E	1.26
FP Volare	E	1.26
GAM Star	E	1.94
HC Sequel	E	1.72
HC Verbatim	D	0.75
HC Verbatim	E	1.32
HSBC Global Strategy	B	0.20
IFSL Sinfonia	E	1.99
Invesco Balanced Risk	E	1.05
Janus Henderson Core	E	1.07
Janus Henderson Multi-Manager	D	1.74
Jupiter Merlin	C	1.68
L&G Multi-Index	C	0.31
L&G Multi-Index Income	C	0.38
LF Prudential Risk Managed Passive	B	0.84
LF Canlife Portfolio	D	0.94
Liontrust Sustainable Future	B	1.20
M&G Episode	D	0.94
Margetts	D	1.35
Marlborough	E	1.94
MGTS Clarion	E	1.74
MI Momentum Focus	E	1.45
Omnis Investments Ltd Omnis Multi-Manager	D	1.51
Pictet Multi Asset	E	1.14
Premier Liberation	C	1.78
Premier Multi-Asset	B	1.73
Pru PruFund	B	1.58
Pru Risk Managed Active	E	1.47
Quilter Investors Cirilium Passive	E	0.86

Fund Family	Rating	Weighted Total Cost
Quilter Investors Cirilium	D	1.38
Quilter Investors Creation	E	1.40
Rathbone Multi-Asset	B	0.76
RBS Coutts Multi Asset UK	E	N/A
Santander Atlas	C	0.88
Schroder Dynamic Planner	E	1.14
Schroder Fusion	E	0.82
Schroder MM	D	1.51
Scottish Widows Multi-Asset	D	1.47
SEI Sterling Wealth	E	1.44
Standard Life Investments MyFolio Managed	E	1.04
Standard Life Investments MyFolio Managed Income	E	1.12
Standard Life Investments MyFolio Market	B	0.41
Standard Life Investments MyFolio Multi Manager	E	1.46
Standard Life Investments MyFolio Multi-Manager Income	E	1.49
Tilney 200	E	1.72
True Potential Investments SVS TPI 1	E	1.00
True Potential Investments SVS TPI 2	E	0.96
True Potential Investments SVS TPI 6	E	0.62
True Potential Investments SVS TPI 7	D	0.67
VAM Multi-Asset	E	2.33
Vanguard LifeStrategy	A	0.27
VT Discovery	C	1.29
VT Esprit	E	1.65
VT Garraway Multi Asset	E	1.76
VT Greystone	C	1.78
VT Grosvenor	E	1.31
VT Tatton Oak	B	0.95
Zurich Horizon Multi-Asset	E	0.97

Fund Family Scores

By Grade

Fund Family	Rating	Weighted Total Cost
Architas MA Passive	A	0.64
BlackRock NURS Consensus	A	0.26
Vanguard LifeStrategy	A	0.27
Architas MA Active	B	1.58
BlackRock Volatility	B	0.29
BMO MM Lifestyle	B	1.07
Dimensional World Allocation	B	0.52
Fidelity Multi Asset	B	0.95
HSBC Global Strategy	B	0.20
LF Prudential Risk Managed Passive	B	0.84
Liontrust Sustainable Future	B	1.20
Premier Multi-Asset	B	1.73
Pru PruFund	B	1.58
Rathbone Multi-Asset	B	0.76
Standard Life Investments MyFolio Market	B	0.41
VT Tatton Oak	B	0.95
Barclays Wealth Global Beta	C	0.70
BM Brooks Macdonald	C	1.24
Close Tactical Select Passive	C	0.61
EF 8AM Multi-Strategy	C	2.07
Fidelity Multi Asset Allocator	C	0.27
Fidelity Multi Asset Open	C	1.60
Jupiter Merlin	C	1.68
L&G Multi-Index	C	0.31
L&G Multi-Index Income	C	0.38
Premier Liberation	C	1.78
Santander Atlas	C	0.88
VT Discovery	C	1.29
VT Greystone	C	1.78
7IM Dynamic Planner	D	0.34

Fund Family	Rating	Weighted Total Cost
Architas MA Blended	D	1.14
Aviva Multi Asset	D	0.73
Barclays Wealth Global Markets	D	1.02
BMO Universal MAP	D	0.65
Brown SVS Shipley	D	1.49
Cornelian Asset Managers SVS Cornelian	D	1.30
HC Verbatim	D	0.75
Janus Henderson Multi-Manager	D	1.74
LF Canlife Portfolio	D	0.94
M&G Episode	D	0.94
Margetts	D	1.35
Omnis Investments Ltd Omnis Multi-Manager	D	1.51
Quilter Investors Cirilium	D	1.38
Schroder MM	D	1.51
Scottish Widows Multi-Asset	D	1.47
True Potential Investments SVS TPI 7	D	0.67
7IM AAP	E	0.68
7IM Multi Asset	E	1.42
Aberdeen Diversified Core	E	1.38
Allianz Risk Master	E	1.15
Aviva Multi Strategy	E	1.91
Aviva Multimanager	E	1.78
Close Multi-Asset	E	1.10
Close Managed	E	1.37
Cornelian Asset Managers SVS Cornelian RMP	E	0.54
Coutts Personal Portfolio	E	N/A
FP Apollo Multi Asset	E	1.86
FP Luceo	E	1.26
FP Volare	E	1.26
GAM Star	E	1.94

Fund Family	Rating	Weighted Total Cost
HC Sequel	E	1.72
HC Verbatim	E	1.32
IFSL Sinfonia	E	1.99
Invesco Balanced Risk	E	1.05
Janus Henderson Core	E	1.07
Marlborough	E	1.94
MGTS Clarion	E	1.74
MI Momentum Focus	E	1.45
Pictet Multi Asset	E	1.14
Pru Risk Managed Active	E	1.47
Quilter Investors Cirilium Passive	E	0.86
Quilter Investors Creation	E	1.40
RBS Coutts Multi Asset UK	E	N/A
Schroder Dynamic Planner	E	1.14
Schroder Fusion	E	0.82
SEI Sterling Wealth	E	1.44
Standard Life Investments MyFolio Managed	E	1.04
Standard Life Investments MyFolio Managed Income	E	1.12
Standard Life Investments MyFolio Multi Manager	E	1.46
Standard Life Investments MyFolio Multi-Manager Income	E	1.49
Tilney 200	E	1.72
True Potential Investments SVS TPI 1	E	1.00
True Potential Investments SVS TPI 2	E	0.96
True Potential Investments SVS TPI 6	E	0.62
VAM Multi-Asset	E	2.33
VT Esprit	E	1.65
VT Garraway Multi Asset	E	1.76
VT Grosvenor	E	1.31
Zurich Horizon Multi-Asset	E	0.97

Fund Family Score Analysis

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

Family Score	A	B	C	D	E
Number of Families to Achieve	3	13	13	16	40
Highest Total Cost (%)	0.64	1.74	2.07	1.74	2.33
Lowest Total Cost (%)	0.26	0.20	0.27	0.34	0.54

To provide somewhat more context on the classification system, the highest and lowest Sharpe ratios (annualised) for the various classes of multi-asset fund families are as follows:

Rating	3-Year		5-Year		7-Year		10-Year	
	Max	Min	Max	Min	Max	Min	Max	Min
A	1.26	1.15	1.23	1.01	1.31	1.12	1.06	1.00
B	6.33	0.87	5.31	0.80	3.32	1.03	2.60	0.96
C	1.36	0.89	1.11	0.74	1.25	0.90	1.23	0.74
D	1.22	0.78	1.07	0.66	1.19	0.90	1.19	0.81
E	1.29	-0.06	1.18	0.18	1.21	0.58	0.99	0.60

We can see, broadly speaking, the lower a fund family's ranking, the lower its highest and lowest Sharpe ratios will be, although the trend is more pronounced when looking at the worst performers within each category. The notable outliers in the data are the highest Sharpe ratios for the B-rated group. This effect is being driven by the exceptionally low volatility and high returns of the PruFund range, which results in the Sharpe ratios of the fund range being elevated to levels far higher than other fund ranges.

Top-Rated Fund Family Analysis

Architas Multi-Asset Passive Family

The first range to be reviewed is the Architas Multi-Asset Passive fund range. The family is is comprised of seven funds and is invested in a variety of collective investment schemes and other instruments that track market indices. The fund range is permitted to use derivatives to enhance returns, in addition to using derivatives to maintain risk exposure and currency exposure. The funds within the range are also permitted to lend securities, although these strategies are unlikely to take up a significant proportion of the funds' holdings.

The funds' asset allocation, which across the range varies between 30 and 99% in growth assets, is determined using eValue's asset allocation system. The eValue asset allocation structures are constructed using forecasted asset-class returns based on Monte Carlo simulations using a number of capital market assumptions.

The asset-weighted return and volatility of the fund family over the last one, three, five, seven and 10 years is as follows:

Observation Period	1-Year	3-Year	5-Year	7-Year	10-Year
Compounded Return (%)	5.27	26.54	46.39	71.10	118.96
Annualised Return (%)	5.27	8.16	7.92	7.97	8.15
Annualised Volatility (%)	6.36	6.35	6.67	6.48	7.31

The figure above shows strong returns over the past decade, however the fund range's high cost is somewhat of an issue, given its AUM-weighted total cost of 0.64%, which is relatively high for a passive index-tracking fund.

Fund	Growth Assets (%)	Total Cost (%)	AUM (£m)	Returns (%)					
				YTD	1-Year	3-Year	5-Year	7-Year	10-Year
Prudent	29.75	0.66	29.6	5.68	3.28	14.57	32.74	44.78	-
Reserve	35.41	0.64	175.4	7.65	5.09	18.21	39.44	55.75	-
Moderate	44.24	0.63	532.3	8.53	5.41	22.63	42.84	64.74	110.94
Intermediate	54.89	0.63	552.6	9.43	5.1	27.26	46.49	72.27	120.6
Progressive	75.15	0.66	212.8	11.21	5.31	34.09	54.64	86.21	134.77
Growth	95.18	0.67	97.8	13.06	5.89	41.05	60.62	96.6	-
Dynamic	99.94	0.7	31.4	13.67	6.4	41.38	56.03	86.8	-

Given our AUM-weighted scoring system, the score of the family as a whole is impacted more so by the Intermediate and Moderate funds, the effect of these funds is increased because of their longer lifespan. The funds have demonstrated strong returns in recent years and over the longer observation periods which has contributed to the family's A-rating.

In the figure above, we can see somewhat of a non-proportional relationship between growth assets and returns over the longer time periods; however this relationship is present in the YTD returns data, indicating that the funds' growth assets may not have been consistent across our observations.

Fund	Growth Assets (%)	YTD Returns (%)
Prudent	29.75	5.68
Reserve	35.41	7.65
Moderate	44.24	8.53
Intermediate	54.89	9.43
Progressive	75.15	11.21
Growth	95.18	13.06
Dynamic	99.94	13.67

In summary, the Architas MA Passive fund range has been awarded an A-rating given its returns both gross and risk-adjusted, in addition to it's low volatility and drawdown relative to the global market portfolios.

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BlackRock NURS Consensus Range

Our second A-rated fund range is the BlackRock Consensus family. The range invests primarily in collective investment schemes, the majority of which are in-house, geographically-focused equity and bond indices. The fund range includes five funds, with equity weight limits of 35, 50, 65, 85 and 100% equities. Given the prominence of the BlackRock brand, it is unsurprising that the fund family's average AUM sits at £538m, which is heavily impacted by the Consensus 85 fund's sizeable investor base.

The asset-weighted return and volatility of the fund family over the last one, three, five, seven and 10 years is as follows:

Observation Period	1-Year	3-Year	5-Year	7-Year	10-Year
Compounded Return (%)	4.99	28.83	46.38	79.26	135.75
Annualised Return (%)	4.99	8.81	7.92	8.70	8.95
Annualised Volatility (%)	8.01	7.23	7.42	7.39	8.54

The fund range's asset-weighted cost is very attractive, sitting at 0.26%, given our preference for low cost multi-asset funds and their tendency to track market returns more efficiently. To provide more context on the fund range, the funds that make up the range are as follows:

Fund	Total Cost (%)	AUM (£m)	Returns (%)				
			1-Year	3-Year	5-Year	7-Year	10-Year
Consensus 35	0.33	184.9	5.59	15.95	37.95	-	-
Consensus 60	0.32	224	4.56	20.87	37.54	-	-
Consensus 70	0.3	151.8	4.73	24.1	40.73	-	-
Consensus 85	0.25	2039.7	4.89	30.48	47.42	79.26	135.75
Consensus 100	0.25	92.5	7.6	45.1	70.99	-	-

As we can see from the AUM and performance data, the fund family's performance in the rankings is driven to a relatively large extent by the NURS Consensus 85 fund given our AUM-based weighting system and the fund's longer life span. The fund range as a whole has delivered relatively strong returns, notably at the fixed income end of the range. Of note is the seemingly non-proportional relationship between increases in growth assets and returns over the longer time periods, in particular the five-year period. Looking at YTD performance however, for which our asset allocation data is most relevant, there is a relatively proportional relationship between the two variables.

Fund	Growth Assets (%)	YTD Return (%)
Consensus 35	20.99	7.46
Consensus 60	39.23	9.17
Consensus 70	52.93	10.15
Consensus 85	63.24	11.72
Consensus 100	97.98	15.84

So, we can conclude from this data, that over the five-year period, there may have been some variability in the growth asset weighting of the fund, which drove the somewhat underwhelming returns. Nevertheless, overall the fund range has delivered strong returns over the long-term driven by both its high and low equity funds, driven by both and has thus been assigned an A-rating.

Vanguard LifeStrategy Range

Our final fund range to be reviewed is the Vanguard LifeStrategy family. The fund family is invested primarily in in-house market tracking bond and equity index funds, however the fund may invest directly in bonds and equities. Use of derivatives is permitted, but again, it is unlikely that the usage of these instruments will play anything other than a very marginal part in the funds' performance. The funds are somewhat overweight in exposure to the UK, have a large-cap equity bias and are invested in fixed income securities with medium credit quality and high interest rate sensitivity.

The asset-weighted returns and volatility of the fund range is as follows:

Observation Period	1-Year	3-Year	5-Year	7-Year	10-Year
Compounded Return (%)	6.86	26.99	50.52	82.67	-
Annualised Return (%)	6.86	8.29	8.52	8.99	-
Annualised Volatility (%)	7.91	6.18	6.58	6.46	-

With strong annualised returns of 8.99% across the fund range, it's testament to the design of the portfolios and emblematic of the strength of the Vanguard brand that the fund range's total cost sits at an impressive 0.27%. The range's popularity has contributed to its average AUM of £3.3bn, which provides Vanguard with the required scale to enable efficient purchasing of securities, minimising bid-ask spreads and thus enabling costs to be driven down even further.

To provide more context on the returns at a fund level, the figure below lists key information on the constituents of the fund range:

Fund	Total Cost (%)	Fund Size (£m)	Returns (%)				
			1-Year	3-Year	5-Year	7-Year	10-Year
20% Equity	0.28	1249.7	6.51	13.06	30.8	44.46	-
40% Equity	0.27	4234.4	6.6	19.66	40.36	62.24	-
60% Equity	0.27	6459.5	6.84	27.11	50.74	82.41	-
80% Equity	0.26	3059.7	7.12	34.73	61.27	104.32	-
100% Equity	0.25	1526.6	7.39	42.68	72.35	128.35	-

The sheer popularity of the Vanguard LifeStrategy is evident in the data above, given the range's cumulative AUM of £16.53bn. Its popularity isn't surprising given the returns achieved since the fund range's inception, the highest of which (related to the 100% equity fund) is comparable to other 100% equity multi asset funds' 10-year performance. The consistent asset allocation of the fund range is also visible in the proportional relationship between growth asset concentration and returns across all observation periods.

This Year's Changes in A-Rated Funds

Fund	2018 Rating	Result	2019 Rating
Architas MA Passive	B	↑	A
BlackRock NURS Consensus	A	→	A
HSBC Global Strategy	A	↓	B
Liontrust Sustainable Future	A	↓	B
Pru PruFund	A	↓	B
Standard Life Investments MyFolio Market	A	↓	B
Vanguard LifeStrategy	A	→	A

Here are the notable fund rating changes.

- The promotion of Architas MA Passive from a B-rating in 2018 to an A-rating in 2019. The fund range on aggregate scored highly with regards to return, both gross and risk-adjusted, in addition to scoring relatively strongly in terms of historical drawdown and cost.
- HSBC Global Strategy was downgraded this year to a B-rating, given its mediocre drawdown performance. The fund range scored relatively well in terms of return and risk-adjusted return, but the performance in this regard was not enough to compensate for the historical downside risk associated with the range.
- The Liontrust Sustainable Future range was also downgraded to a B-rating. This was solely based on cost. The fund scored highly in terms of drawdown and in terms of both risk-adjusted and gross returns. Given our adapted ranking system and our preference for low-cost investments, the fund range was demoted accordingly.
- Prudential's ever popular PruFund also had its rating changed to a B-rating, given the significant costs of investing, which on an AUM-weighted basis stand at a pricey 1.58%. As such, much like the Liontrust range discussed above, the range was demoted on this basis. It is worth noting that the fund has exhibited outstanding returns, exceptionally low volatility and a result of the latter, low drawdown.
- Standard Life's MyFolio Market fund range is an exception in that it has been downgraded to a C-rating given its poor performance in terms of drawdown and risk-adjusted returns, which both can be attributed to volatility/ downside risk. Its low cost and strong gross returns compensated in parts for the areas in which the family disappointed, but was insufficient to maintain an A/B-rating.

Summary

For many, multi-asset investing is the investment engine of the financial planning process. Multi-asset funds however are just one of the various ways for advisers to achieve this. Our research shows that an overwhelming majority of multi-asset funds do not add any value over and above No-brainer portfolios consisting of simple equity-bond allocation. This is to say, fund managers systematically detract value via their asset allocation and fund selection.

The median cost of a multi-asset fund is 1.15% pa, which is more than a typical adviser charges. Given their dismal performance, it is quite worrying that asset managers seem to believe that they're worth more than advisers. It is even more worrying that advisers who recommend these funds appear to buy into this myth. If an adviser recommends that a client pays more for investment management than they charge for financial planning, what does this say about how the adviser perceives their own value? In an age of increasing pressure for advisers to keep costs low, we struggle to see how many multi-asset funds' fee structures can survive the ongoing scrutiny of regulators, the media and investors. We've seen that fees are not an indicator of quality; investors don't benefit from paying a higher price, many multi-asset funds' fee structures.

As the previous section detailed, there have been instances of fund ranges experiencing an improvement or deterioration in their rank this year. This in part reflects the change in methodology from previous years, however it also reflects the important fact that past performance is a weak predictor of future performance. As such, we underline this often-cited lesson in investment, to ensure readers are aware of the limitations in using historical returns data.

Nevertheless we hope this guide has served as a useful tool for appraising multi-asset fund ranges and will improve our readers and their clients' investment outcomes.

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.

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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