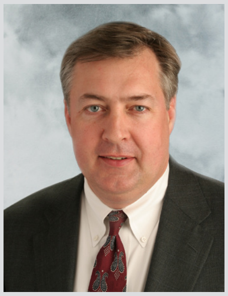
Exploring Multi-Asset Solutions for the New Market Regime

The market environment of the post-financial crisis, stall-speed regime from 2009 through mid-2016 was unusual in many ways, the most conspicuous of which was the outperformance of "safe" assets during a time of economic growth. Investors were rewarded for defensive choices that at most other times would have meant sacrificing long-term returns. As the new reflationary market regime sets in, however, investors should revisit portfolios that likely are too defensive for what lies ahead. Multi-asset strategies can play a useful role.

AUTHORS:



MICHAEL J. KELLY, CFA
Managing Director,
Global Head of Multi-Asset

AGAM SHARMA
Managing Director, Portfolio
Manager, Global Multi-Asset

Investors' needs are evolving

While many investors have been satisfied with their portfolios' levels of risk and return in recent years, times are changing. They soon may see somewhat faster economic growth, a reversal – even if slow – in the 38-year trend of declining inflation and interest rates, and lower overall expected portfolio returns. Investors stand to benefit from holding diversified liquid alternatives measured by total return objectives to complement traditional relative return strategic benchmarks. Total return strategies offer low correlations to relative return strategic benchmarks and can add alpha in both de-risking and re-risking markets through a dynamic approach designed to navigate changing landscapes.

As returns from strategic targets fall short of constituents' needs in a lower return world – even when accompanied by a traditional quantum of alpha – the need for strategies focused on delivering acceptable risk/return outcomes will become more important. For many years, qualified investors turned to hedge funds as a non-benchmarked total return allocation. In recent years, however, hedge funds have struggled with disappointing performance, uneconomic pricing, governance challenges (particularly for public funds), and a general lack of transparency. While private assets are the refuge of the day, many investors also are looking for liquid alternative strategies, such as multi-asset, which manage dynamically to outcome-based objectives that can generate superior returns at a lower cost, and with greater alignment and higher transparency.

Indeed, investors can use multi-asset strategies within their portfolios to provide solutions to many of the issues they face. Multi-asset strategies may offer the potential for:

- Meeting absolute or total return objectives, such as outperforming Libor or the Consumer Price Index (CPI) over given periods
- Downside protection and lower volatility
- Providing diversified sources of sustainable alpha at a lower cost, consistent with today's need for good governance and transparency
- Offering access to a wide range of asset classes that are dynamically managed across market cycles

Like hedge funds, multi-asset strategies represent a talent pool, not an asset class. Yet, in their entirety, multi-asset objectives arguably are more closely aligned with most investors' objectives. An array of multi-asset strategies has emerged to play diverse roles in investor portfolios.

Multi-asset strategies can play different roles in a portfolio

Generally, multi-asset strategies can be categorized in three ways:

1. **Alternatives to growth assets.** These strategies seek equity-like returns, but with lower risk. These are generally total return strategies that aim to deliver a return equal to the Consumer Price Index plus 5%-6% by making opportunistic investments across a wide array of asset classes.
2. **New strategic mixes.** This broad segment of strategies includes replacements to traditional 60% equity/40% bond portfolios. The strategies, which include risk parity, risk factor parity, and diversified growth, lie between alternatives to growth and capital preservation categories. The focus here is predominantly on new strategic allocations that are not correlated with the investor's overall strategic mix. Nuanced asset class or risk factor additions seek overall risk reduction for the portfolio while providing exposures that would be difficult to obtain otherwise for a traditional investor.
3. **Alternatives to capital preservation assets.** These are strategies where the focus is more on risk than on return, and where risks generally do not exceed those of fixed income broadly. Here, managers seek to reduce interest rate sensitivity and outperform in a rising-rate environment.

All three types of multi-asset strategies are liquid alternatives that offer not only improved diversification benefits, but also improved return prospects. When blended effectively, they may contribute even more to an investor's portfolio than would a single strategy.

The PineBridge Global Dynamic Asset Allocation Strategy (GDAA) is an alternative to growth assets and can help investors address a wide variety of challenges – an advantage we believe will be key in the new market regime.

PineBridge GDAA ▼

	Alternatives to Growth Assets	New Strategic Mix	Alternatives to Capital Preservation Assets
Description ▶	Target return of equities with lower (2/3rds) volatility of equities; focus on growth assets	60/40 replacement, i.e. Risk Parity or Diversified Growth Funds; various risk management approaches	Target volatility of fixed income but with potential for higher returns and low interest rate sensitivity
Typical Objective Return (per annum) ▶	CPI[1] plus 5-6%	Relative return benchmark	CPI[1] plus 2-3%
Objective Risk (Volatility per annum) ▶	8-10% p.a.	5-7% p.a.	3-4% p.a.
Role in Portfolio Context ▶	Diversify from equities/fixed income while maintaining return level	Diversify by introducing additional asset classes (alternatives & illiquids)	Reduce interest rate sensitivity without raising risk level

- **'Liquid alternatives' strategy**
- **Objective-based (total return or target risk)**
- **Diversifier for traditional equity/fixed income portfolios**

Common Characteristics

For illustrative purposes only. We are not soliciting or recommending any action based on this material. [1] CPI is defined as US CPI ex-food & energy.

Industry Award Recognition for the PineBridge Global Dynamic Asset Allocation Strategy[1]

2015 Institutional Investor U.S. Investment Management Awards – Global Balanced / Tactical Asset Allocation Manager of the Year

Institutional Investor U.S. Investment Manager Award within the Balanced/Global Tactical Asset Allocation category

global isf Investment Excellence Awards 2014 – Multi-Asset Manager of the Year – PineBridge Investments

Global Investor Investment Excellence Award – Global Multi-Asset Manager of the Year

For more information on our multi-asset capabilities, please visit www.pinebridge.com.

[1] Named top investment manager within the Balanced/Global Tactical Asset Allocation category. Institutional Investor 2015 U.S. Investment Management award methodology: https://www.pinebridge.com/capabilities/multi-asset/pinebridge-global-dynamic-asset-allocation-strategy-receives-institutional-investor-award. Global Investor Investment Excellence Award, July 2014. Global investor award methodology available from the provider, www.globalinvestor.com.

Solving for targeted needs

Below, we explore a few of the ways the PineBridge Global Dynamic Asset Allocation Strategy has been utilized by investors seeking to address a specific challenge through a multi-asset solution.

Client seeking to:	The PineBridge Global Dynamic Asset Allocation Strategy helps manage objectives by:
Increase returns and the Sharpe ratio of the return-seeking side of a liability-driven investment program of a US corporate pension fund	Targeting equity-like returns with lower volatility, which can help enhance returns, reduce risk, and accelerate a more predictable path to funded status
Manage a portfolio against a client-specified benchmark as well as enhance the sourcing of ideas for a US corporate treasury group	Managing a mandate to a customized benchmark using the same investment process; we also encourage the client, as a strategic partner, to regularly participate in strategy meetings and maintain active, two-way dialogue
Provide total returns with managed risk for an Australian government entity	Delivering a high-conviction investment approach, including a dynamic currency hedging framework, and providing transparency and access to the team for insights as part of the client's asset allocation panel
Serve as an outsourced chief investment officer for a US corporate pension plan	Implementing asset allocation within ranges around targets prescribed, and selecting and monitoring managers for public and private asset classes
Serve as hedge fund replacement by underfunded Taft-Hartley clients	Delivering sustainable risk-adjusted returns through high Sharpe ratios with lower overall fees, greater transparency, and enhanced liquidity
Act as extension of clients' teams as a strategic partner, providing actionable insights in an efficient and transparent manner	Offering transparent research for actionable insights, knowledge sharing, and direct access to client-specific reports as well as thought leadership and customized support based on frequent, in-person communication

Seeking return objectives

We believe that a singular focus on risk is in itself a risk. Although the stall-speed regime of the recent past did not impair returns for those who clung to safety, the new reflationary regime should favor those balancing risks and returns.

Having managed a global dynamic strategy for more than a decade, PineBridge Investments' global multi-asset team has the long-term experience that enables us to recognize that the risk/return calculus is always evolving and that portfolios must dynamically adjust to seek growth opportunities while managing risk across various cycles.

Today's outcome-oriented solutions are typically multi-asset class strategies with return objectives and a risk management component. These strategies are not created equal, however. Some focus on risk over returns, while others seek returns with a risk-conscious approach. We believe risk and return should be equal partners, or two sides of the same coin. We view our approach as risk-aware, yet not solely risk-driven. We manage our strategy through a forward-looking fundamental process that focuses on where returns are being created and where risks are rising.

Transparency is important for investors in today's environment. We believe investors should be able to look behind the curtain to understand the mechanics of our dynamic strategy. As we construct our portfolios, we draw on the expertise of diverse on-the-ground teams within fixed income, equities, currencies, and alternatives with the goal of creating an optimal blend of assets wherein fundamentals will strengthen over an intermediate term of nine to 18 months. These views are anchored through our five-year forward-looking forecasting model, the Capital Market Line, and distilled to an intermediate-term view through our monthly set of meetings that leverage more than 200 global investment professionals across PineBridge Investments.

We believe our global presence and collaboration offer a distinct advantage, allowing us to nimbly yet thoughtfully share and debate information to make proactive decisions, rather than reactive corrections. This helps us position for bigger opportunities while mitigating significant risks through an active, dynamic approach.

About PineBridge Investments

PineBridge Investments is a global asset manager with experience in emerging and developed markets,and investment capabilities in multi-asset, fixed income, equities and alternatives. Our firm is differentiated by the integration of on-the-ground investment teams of more than 200 professionals, providing investors with the combined benefits of global fundamental perspectives and analytical insights. We manage over US$80 billion as of 31 March 2017 for a global client base that includes institutions, insurance companies, and intermediaries.

MULTI-ASSET | FIXED INCOME | EQUITIES | ALTERNATIVES