# WHY
# multi-asset investing?

**The world of multi-asset investing since the financial crisis of 2008 has changed significantly. Investment managers have moved away from the almost binary choice of equities and bonds to a much more "multi-dimensional and much expanded opportunity set[1]" in order to provide the required returns for their investors and within their "risk budget".**

Arguably the biggest challenge for all investors, and in particular pension scheme trustees looking forward, is how to manage their scheme investments with "risk assets" looking increasingly expensive. Value is becoming harder to find.

The primary reason for this outcome has been the huge amount of liquidity released by the world's central banks in the form of "Quantative Easing" (QE).

It is worth reminding ourselves that since 2008 and the advent of the financial crisis, it is estimated that some $13 trillion has been created by central banks to buy government and corporate bonds.

To put this into context, this is equivalent to 70% of the annual economic output of the US. We have also seen renewed QE post-Brexit in the UK and the European Central Bank has extended its bond-buying programme until December 2017.

Simply, what we have witnessed since 2008, has been a huge manipulation of markets causing price dislocation with negative yields making the determination of a "risk-free rate" almost obsolete.

To provide some further context, since the Bank of England introduced QE the FTSE All-Share has risen by 148.81%[2] and inflation, as measured by CPI, over the same period has increased by 18.4%[3].

We are in uncharted waters and, as the Greek philosopher Heraclitus observed, "water in the river was never the same twice" which has never been more true for financial markets. It is important for trustees to be mindful of the fact that "for some asset classes past performance is not only a poor guide to future returns but maybe almost impossible to repeat"[4].

Making assumptions about future market conditions based on historic data can lead to false and erroneous conclusions and, although we cannot dismiss the lessons from history, "we do need to be careful how we use them (sic)"[5].

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A combination of QE and almost near-zero interest rates could be likened to the financial system taking a dose of morphine administered at regular intervals by central banks to numb the pain of the financial crisis of 2008.

It has the effect of making the patient almost forget its illness.

As markets rise, the question is whether investors have been lulled into a potentially dangerous and fatal false sense of security?

Let's look at, for example, the VIX (CBOE Volatility Index) which is sometimes referred to as the "fear index".

The VIX seeks to measure the implied volatility of the market and is "therefore a reflection of investors' perception of future volatility or market-risk"[6].

This year so far, the VIX has averaged at 12 which is a little below the longer term average and indicates perhaps that investors are sanguine about the levels of "risk". Is this a prudent reaction to market risk or a worrying complacency?

So how can multi-asset investing protect trustees of pension schemes in a world where "risk" is being manipulated and where "financial repression" has been the policy of central banks since 2008?

On top of this is an increased sense of political instability around the world that could "spook" investors into a quick and rapid change in sentiment.

The result being that equity markets and "risk-assets" generally become vulnerable to "a sell-off" with an ensuing increase and spike in volatility.

Clearly, an essential tenet of multi-asset investing is to adopt a carefully constructed top-down and appropriately diversified, actively-managed portfolio which has exposure to a blended range of different asset classes and strategies.

The portfolio would be designed to mitigate and manage "volatility" over an



"investment cycle" and provide a sustainable level of targeted return linked to the requirements of the pension scheme.

If we accept the premise that a portfolio will invest (depending on market conditions) in a combination of "risk assets" such as equities and strategies that we can broadly categorise as "stores of value", then an experienced multi-asset manager can blend these differing approaches to meet a scheme's performance target through varied market conditions.

Broadly, in periods where "risk-assets" are considered "good value", for example 2012/13, an overweight position in equities, specific skill-based and sector specific strategies could be an appropriate allocation for a scheme.

In more challenging market conditions, a greater weighting towards asset classes and managers that are recognised "stores of value" and offer capital protection, would be the right approach.

By definition, successful multi-asset portfolios have to be "forward-looking", requiring a convictional approach with a clear focus in terms of an investment philosophy that underpins and informs the ongoing management of the portfolio combined with a high quality research capability.

At LGT Vestra LLP we have extensive expertise and experience in managing a broad range of multi-asset portfolios for trustees of pension schemes. Each portfolio is bespoke to the scheme in question and tailored to meet the specific requirements of the scheme trustees.

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LGT Vestra is one of the few global wealth management firms in private ownership. Founded in 2008, we are a UK-based partnership between LGT, wholly owned by the Princely Family of Liechtenstein, and the executive partners of LGT Vestra.

Our private ownership ensures a long-term outlook and financial stability, which together with a shared vision, creates the essence of our business.

If you would like any further information about our multi-asset investment capability and how this approach can be effectively deployed by trustees for pension scheme assets then please contact Tony Allan, Partner and Head of Business Development at tony.allan@lgtvestra.com

1 Talib Sheikh: Morningstar Perspectives
2 Source Bloomberg. Total Return 5th March 2009 – 12th April 2017.
3 Source Hargreaves Lansdown, Lipper IM as at 4th March. Quoted in the Money Observer April 2017.
4 Jonathan Marriott "Did the ancient Greeks know a thing" Jersey Business Briefing. November 2014
5 Jonathan Marriott " Did the ancient Greeks know a thing". Jersey Business Briefing. January 2014.
6 Neil William Investment Director LGT Vestra US "Understanding Risk". April 2017



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