



How does your multi-asset provider measure up?

Multi-asset funds have become increasingly popular among investors who want an 'all-in-one' outcome-oriented solution using dynamic asset allocation and effective diversification. **Casey Quirk¹ recently forecasted there will be more than \$3 trillion of demand for multi-asset and benchmark-agnostic strategies worldwide between now and 2020**, driven by a focus on outcomes (e.g. income, growth or downside protection) that will be funded partly by redeeming active benchmark-oriented products.

Whereas single-asset funds are bound to the performance of only one asset class, multi-asset funds can invest in a wide range of assets, sectors, managers, strategies and geographies. Consequently, they vary greatly in composition, objectives, investment philosophy and performance. But with such variability, how do you, as an investor or fiduciary, compare the different multi-asset offerings in the market to find the most suitable one for your (or your clients') circumstances? Here are some questions to ask.

Achieve your objectives

- Outcome-oriented approach.** How does your provider design, construct and manage portfolios to achieve specific outcome objectives? For example, how does it achieve target return objectives above inflation? Can it work with preferences such as a tax management focus or on environmental, social and governance (ESG) issues?

Diversified, best-of-breed return sources

- Investment opportunities.** How does your provider identify investment opportunities? What sources does it rely on for new ideas or input?
- Effective diversification.** How does your provider diversify its portfolio to ensure it controls risk without unduly compromising returns?

What tools, skills and research does your provider draw on to really understand the most effective combinations of assets as market conditions change?

- Best-of-breed managers and strategies.** To what extent does your provider rely on its in-house portfolio management team and to what extent does it look externally to search for the 'best-of-breed' managers or strategies globally? How does it discover and research both large and boutique managers? How does it take advantage of new innovative and cost-effective strategies developed by other managers?
- Total portfolio management.** How does your provider evaluate combinations of active and passive managers, as well as systematic factor exposures², to create the optimal risk-return profile across your total portfolio?

¹ Source: Casey Quirk (November 2015), "The Roar of the Crowd". Casey Quirk is the largest global management consultancy firm focused on the asset management industry.

² Smart beta investing offers a systematic approach aimed at balancing investors' exposures. Smart betas can be defined as "transparent, rules-based portfolios designed to provide exposure to specific factors, market segments or systematic strategies". Smart betas come in two basic types; strategy-based and factor-based. At Russell Investments, we focus on factor-based smart betas based on particular characteristics of stocks and make selections accordingly, rather than just simply weighting the portfolio in line with a pre-determined strategy.

Robust investment process

- Integrating insights into portfolios.** How does your provider combine insights from capital market strategists with its portfolio management process? In what ways does it ensure these key functions are well-integrated?
- Scalable portfolio management.** What portfolio management systems does your provider use to implement ideas across multiple portfolios? Is this done in an automated way that is fair to all clients? Can its portfolio processes be scaled up as its assets under management increase?
- Quantitative and qualitative approaches.** Can your provider draw on both quantitative and qualitative approaches to portfolio construction and combine both sets of insights effectively? How does your provider avoid behavioural biases?
- Differentiating between market insights and noise.** How does your provider evaluate short-term market fluctuations? How does your provider's process enable it to distinguish between temporary moves and the start of major trends? For example, how did your provider navigate the market volatility and temporary setbacks in August 2015?
- Dynamic asset allocation.** How can your provider demonstrate it employs truly dynamic asset allocation and respond nimbly to changing market conditions?

Experienced investment team

- Team experience.** What experience and resources does your provider's investment team have? What is the breadth and depth of its capabilities?
- Diversity and accountability.** How does your provider achieve diversity of views and skill-sets to avoid group think, while ensuring clear accountability? Does it rely on a few key people or does it have a truly multi-disciplinary team originating insights?

Portfolio risk control

- Risk management.** How does your provider manage risks in the total portfolio and in each individual asset class?
 - › How does your provider monitor and respond to new opportunities and emerging risks? Can it demonstrate how quickly it can respond and implement changes?
 - › What types of risk tools does your provider use to manage its portfolios?
 - › What insights do its risk tools provide and what scenarios do its tools simulate?
- Downside protection strategies.** How does your provider control unnecessary volatility and protect the portfolio from large market setbacks that are hard to recover from?

Implementation

- Best trade execution.** How does your provider ensure you receive the best execution on trades?
 - › Can your provider trade global securities on a 24-hour basis?
 - › What financial instruments does your provider trade? Physicals? Derivatives? Structured products?
 - › Does your provider trade on an agency basis, always choosing the best price from independent brokers and banks, or does it sometimes act as principal, choosing to trade from its in-house book and using its own prices?
 - › Does your provider have dedicated specialist investment professionals to efficiently capture and execute investment insights in a timely and cost-effective way?

Multi-asset checklist

At Russell Investments, we believe an industry best-practice, multi-asset solution should feature:

- ✓ Truly dynamic asset allocation
- ✓ Effective diversification across global investments
- ✓ Downside protection strategies that protect against large market setbacks that are hard to recover from
- ✓ Dedicated experts and systems to manage risk and to trade in the most timely and cost-effective way
- ✓ Best-of-breed managers and strategies in every asset class.

We believe these attributes will become even more important as we head into an increasingly challenging market environment with significant downside risks³. Facing lower returns, higher volatility and limited opportunities in traditional assets, successful multi-asset providers need to have strong capabilities in every aspect of the investment process and be able to manage them in a seamless, well-integrated way to survive and thrive.

3. For more information, see our Global Market Outlook which highlights the most recent economic insights and market insights from our global team of investment strategists, www.russellinvestments.com.au/insights/market-insights.

What gives Russell Investments the award-winning edge year after year?

Speak to your Russell Investments representative, call 612 9229 5111, or go to www.russellinvestments.com.au for more information.