

# Multi asset explainer

How to deliver diversification

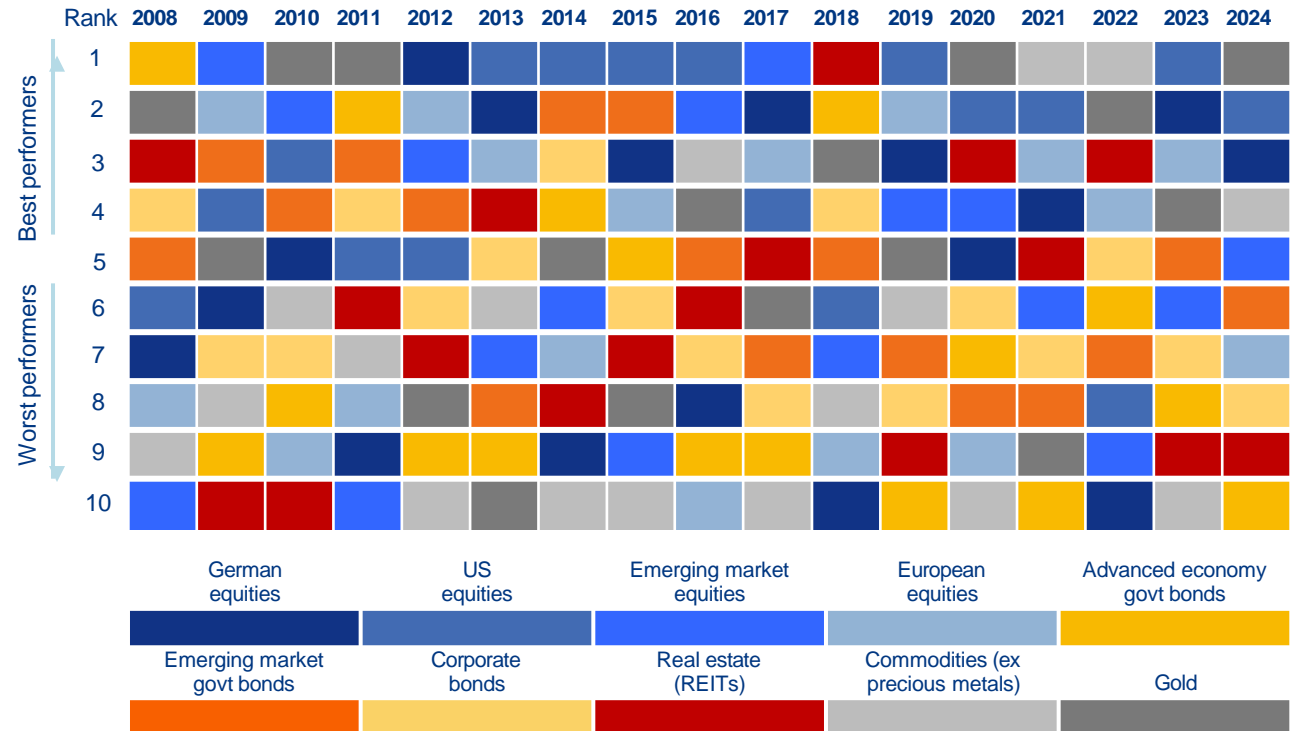
# The power of multi asset

## Designed to maximise potential gains and minimise risks

- When it comes to investing, a diversified portfolio can be a wise approach.
- Multi asset investments may offer a simple solution to diversification. Rather than investing in just equities or fixed income, they capture a range of asset classes, ranging from global equities to high yield bonds.
- A multi asset portfolio may also include alternative investments such as commodities, real estate investment trusts, private equity and catastrophe bonds. Typically, holdings range across countries and regions, delivering geographic diversification.
- Given that asset performance generally varies from year to year (see chart), the ability to shift in and out of asset classes as markets change is key.

## Changes in asset performance show the value of a diversified approach

Performance of various asset classes ranked 1 to 10 each year



### INVESTMENT TAKEAWAY

Multi asset is engineered to capture possible asset outperformance and reduce downside risk

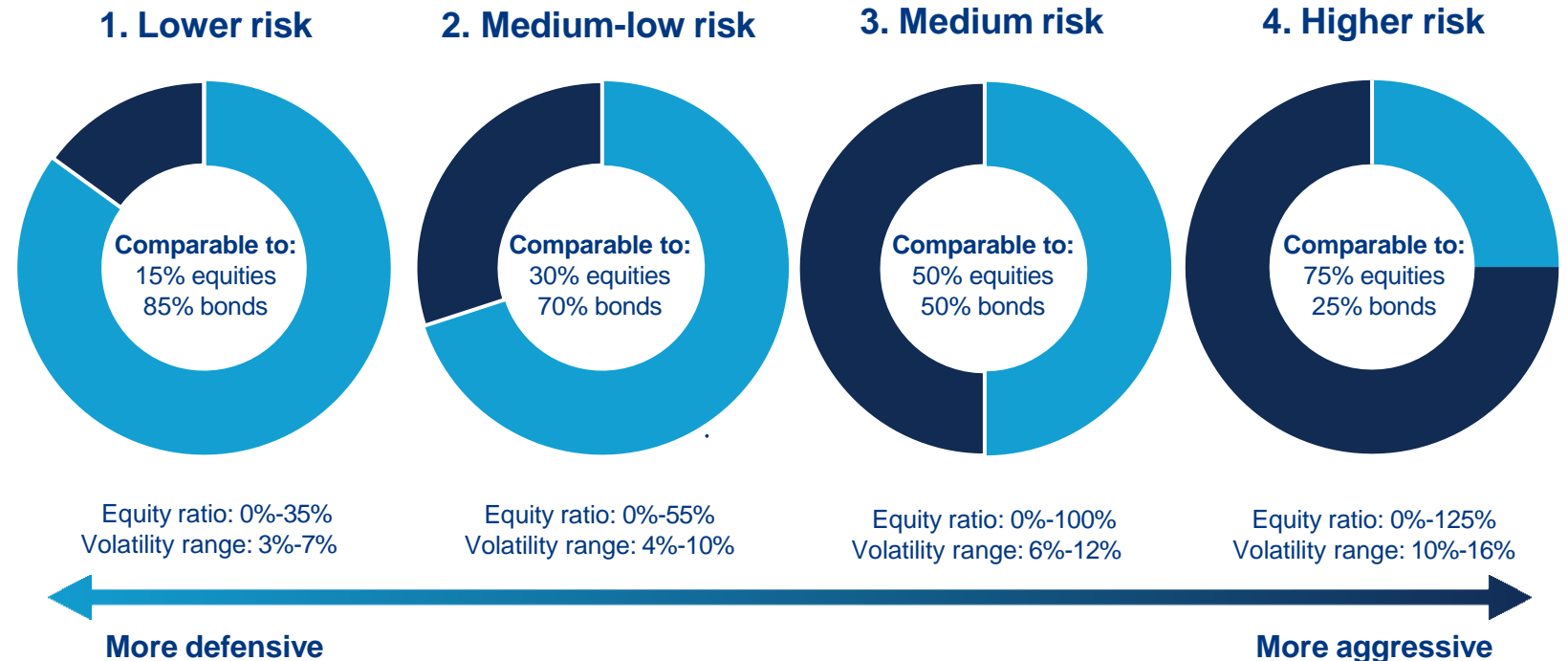
Past performance does not predict future returns. Chart source:: Datastream, Allianz GI Global Capital Markets and Thematic Research, Used Benchmarks: Germany: MSCI Germany TR, USA: MSCI USA TR, Equities Emerging Markets: MSCI EM TR, Equities Europe: MSCI Europe, Bonds Advanced Economies: JPM Global Govt. Bond Index TR, Bonds Emerging Markets: BofA Diversified EM External Debt Sov. Bond TR, Corporate Bonds: BofA ML Broad Corp. Index TR, Real Estate: BD Europe Hedonic House Price Composite Index NADJ, Commodities (ex precious metal): S&P GSCI Non. Precious Metals TR, Gold: €/fine ounce, all indices in USD (TR = Total Return Index, NAV = Net Asset Value). Quarterly data expressed as quarter-over-quarter (q/q) changes. Data as of 22 January 2025, Housing Data as of 15 November 2024.

# The starting point for multi asset

The appropriate choice of multi asset portfolio will depend on an investor’s risk profile and return expectations

- Investors should consider how much risk they can tolerate and their return expectations.
- The investment time horizon is key: a longer-term investment period may be appropriate for investors who want to maximise potential gains.
- Multi asset gives investors the flexibility to match their risk appetite with their portfolio – from more defensive (eg, 85% in bonds) to more aggressive strategies (eg, 75% in equities) – see chart.
- Each portfolio is actively managed by a fund manager to balance the investments depending on market conditions to deliver on return and income objectives and control risk. Higher risk also tends to mean higher volatility.

Investors can match their risk appetite with their multi asset portfolio | Example portfolios



## INVESTMENT TAKEAWAY

When choosing a multi asset portfolio, consider the time horizon for the investment and level of risk appetite

# Reasons to consider multi asset today

## In a world at a crossroads, multi asset can help investors navigate the way forward

Shifting financial conditions call for agility from investors. Actively managed multi asset portfolios can pivot accordingly and help target pockets of potential outperformance. We see three reasons for investing in multi asset now:

### 1. Economies are diverging, creating opportunities

- Economic growth and interest rates differ across the US, Europe and Asia.
- The main economies are growing at different speeds, while inflationary pressures may prompt a rethink of interest rate paths – and investors may need to adjust their expectations.
- As economies follow different paths, so will asset classes, enabling multi asset investors to target the best performers.

### 2. Equities and bonds are starting to move in different directions again

- Multi asset offers exposure across asset classes usually anchored around an allocation to equities and bonds.
- The aim is that the asset classes perform differently: equities offer growth, but when they struggle, bonds tend to do better.
- Equities and bonds historically show negative correlation, even if this thesis has been tested in recent periods. The bottom line is that diversification and agility are key.

### 3. A diversified approach suits more volatile markets

- Uncertainty in economic policy and geopolitics may fan volatility and different asset performances.
- Active asset selection can help to focus on value opportunities and capitalize on any price adjustments.
- We think this environment lends itself to a selective and broad approach: equities, fixed income, commodities and private markets.



## INVESTMENT TAKEAWAY

A multi asset approach can deliver diversification, offering an agile response to a diverging world

# Which multi asset approach is most suitable? (1/2)

## Factors to consider when selecting a multi asset portfolio:

### 1. The level of risk

- As a rule, the higher the potential risk that an investor takes, the higher the potential return. Different portfolios cater for different risk appetites.
- Fixed income is considered less risky than equities, so portfolios with a bigger weighting in bonds may be best suited to more conservative investors.
- More intrepid investors or those with a longer investment horizon (who may be able to take more risk), might consider portfolios with more exposure to equities.

### 2. The level of focus on sustainability

- There's a variety of multi asset investment options prioritising sustainability as more portfolios promote their environmental and social objectives.
- Some strategies place sustainability alongside financial growth as a dual focus for driving returns. For example, the fund managers may help firms they invest in adjust to a low-carbon economy.
- The result? Investors support companies' sustainability goals while benefiting from potential new sources of growth.



## INVESTMENT TAKEAWAY

Consider factors including risk and sustainability in choosing a portfolio to match diversification and return goals

# Which multi asset approach is most suitable? (2/2)

## Factors to consider when selecting a multi asset portfolio:

### 3. The investment approach

- A fund manager's investment approach determines the sources of insight used to build a portfolio and time the buying and selling of assets.
- Fund managers that use fundamental analysis harness deep research into securities and other information that often cannot be codified.
- Fund managers that adopt quantitative analysis apply investment ideas in a systematic way and computer power to process vast data sets.
- Many fund managers specialise in one or the other approach. Others may combine both, complementing their different strengths.

### How fundamental and quantitative approaches compare

	Fundamental	Quantitative
<b>Taking conviction</b>	Using the market cycle as a conviction tool to anticipate swings in asset prices.	Using data and models to make large-scale decisions that deviate from the benchmark.
<b>Delivering diversification</b>	Gathering views from across the investment team to identify a range of potentially undervalued openings.	Analysing many markets in parallel to aid diversification and target risk-adjusted outperformance.
<b>Avoiding human bias</b>	Using market forecasts from experts across specialisms to help to minimise bias and improve accuracy.	Drawing on data-led insights and objective decision-making to avoid the behavioural biases in markets.
<b>Combining both philosophies in a single portfolio may offer a more robust path to meeting investment goals.</b>		



### INVESTMENT TAKEAWAY

Fundamental and quantitative strategies offer distinct paths to diversification and risk management, but they can also be combined

# Insights on the value of diversification from our multi asset experts



## Best of both worlds: how combining investment philosophies creates a resilient multi asset portfolio

by Gregor MA Hirt, Hartwig Kos and Michael Stamos



## Four reasons why many portfolios hold too much risk (and what to do about it)

By Michael Stamos



## Where are the new centres of gravity in markets?

by Gregor MA Hirt



## Revealed: the secret to managing risk in volatile markets

by Matt Toms and Gavin Counsell



## Bad news means better returns? The upside of uncertainty

by Gregor MA Hirt, Sebastian Lukas and Andreas de Maria Campos



## Breaking the barbell: a return to more active diversification?

by Michael Stamos and Sean Shepley

# Disclaimer

**The document is for use by qualified Institutional Investors (or Professional/Sophisticated/Qualified Investors as such term may apply in local jurisdictions).**

This document or information contained or incorporated in this document have been prepared for informational purposes only without regard to the investment objectives, financial situation, or means of any particular person or entity. The details are not to be construed as a recommendation or an offer or invitation to trade any securities or collective investment schemes nor should any details form the basis of, or be relied upon in connection with, any contract or commitment on the part of any person to proceed with any transaction.

Any form of publication, duplication, extraction, transmission and passing on of the contents of this document is impermissible and unauthorised. No account has been taken of any person's investment objectives, financial situation or particular needs when preparing this content of this document. The content of this document does not constitute an offer to buy or sell, or a solicitation or incitement of offer to buy or sell, any particular security, strategy, investment product or services nor does this constitute investment advice or recommendation.

The views and opinions expressed in this document or information contained or incorporated in this document, which are subject to change without notice, are those of Allianz Global Investors at the time of publication. While we believe that the information is correct at the date of this material, no warranty of representation is given to this effect and no responsibility can be accepted by us to any intermediaries or end users for any action taken on the basis of this information. Some of the information contained herein including any expression of opinion or forecast has been obtained from or is based on sources believed by us to be reliable as at the date it is made, but is not guaranteed and we do not warrant nor do we accept liability as to adequacy, accuracy, reliability or completeness of such information. The information is given on the understanding that any person who acts upon it or otherwise changes his or her position in reliance thereon does so entirely at his or her own risk without liability on our part. There is no guarantee that any investment strategies and processes discussed herein will be effective under all market conditions and investors should evaluate their ability to invest for a long-term based on their individual risk profile especially during periods of downturn in the market.

Investment involves risks, in particular, risks associated with investment in emerging and less developed markets. Any past performance, prediction, projection or forecast is not indicative of future performance. Investors should not make any assumptions on the future on the basis of performance information in this document. The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested.

Investing in fixed income instruments (if applicable) may expose investors to various risks, including but not limited to creditworthiness, interest rate, liquidity and restricted flexibility risks. Changes to the economic environment and market conditions may affect these risks, resulting in an adverse effect to the value of the investment. During periods of rising nominal interest rates, the values of fixed income instruments (including short positions with respect to fixed income instruments) are generally expected to decline. Conversely, during periods of declining interest rates, the values are generally expected to rise. Liquidity risk may possibly delay or prevent account withdrawals or redemptions.