INSIGHT ON MULTI-ASSET

THE STARTING POINT OF ANY OUTCOME-ORIENTED APPROACH TO INVESTMENT IS A DEFINITION OF THE END GOAL. IN THIS CONTEXT, OUR BROAD OPPORTUNITIES STRATEGY TARGETS ATTRACTIVE RISK-ADJUSTED RETURNS OVER THE MEDIUM TERM AND WE ARTICULATE THIS AS AN ABSOLUTE (CASH PLUS 4.5% PA, GROSS OF FEES) RETURN OVER ROLLING FIVE-YEAR PERIODS.

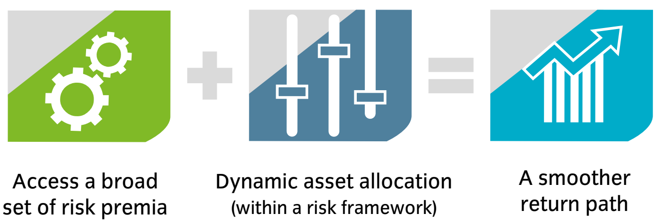
The next stage of our approach is to track this target in an effective risk-controlled manner. While we often talk in terms of volatility (for example we aim to deliver our return objective with under half of the volatility of global equities) we define risk more broadly than that. In essence, we target a smoother return path or a better distribution of return than traditional balanced or multi-asset approaches. By doing so, we aim to:

- increase the probability of hitting our target
- reduce vulnerability to market timing issues. An investor's experience is affected by their entry and exit points. This point is critical for defined benefit (DB) and defined contribution (DC) pension schemes alike

THREE CORE PRINCIPLES

To achieve our goals we employ three core principles. Each has common sense appeal and have been used to some degree by investment managers for decades. Our approach to each, however, is subtly different to standard industry practice and the way we blend them together is, in our view, the key to delivering a more attractive return profile.

Chart 1: Core principles



1. ACCESS TO A BROAD OPPORTUNITY SET

Diversification is rightly seen as one of the few 'free lunches' in the investment world. On its own, it won't stop us losing money – but it is likely to reduce the probability.

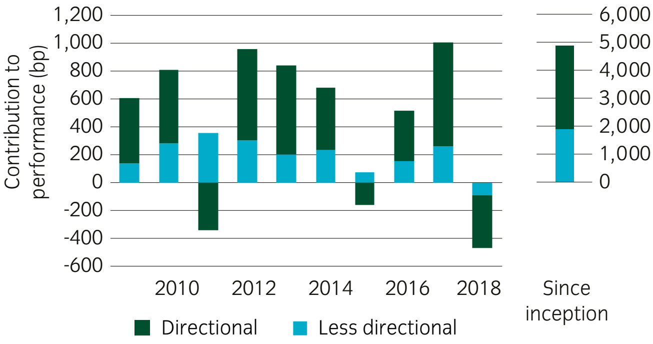
From an asset allocation perspective, diversification is normally associated with investing across a range of asset classes (for example, equities, bonds, property). But there can be so many more dimensions to diversification. It can involve combining different sources of return, some passive, some active. Active management has traditionally been thought of as 'stock picking' in equity or bond portfolios. Again, it can be more – through smart implementation we can benefit if our views are correct, but also add some value should events unfold not exactly as we had foreseen.

Importantly, our approach involves blending the active management of directional risk (making money when markets go up) across a range of assets, with less directional strategies (which aim to make money whether markets go up or down). By combining these two sources of return, we access a broader range of risk premia, enabling us to provide a degree of diversification which we believe traditional strategies cannot match.[1]

Of course diversification is not just about risk reduction. The broader opportunity set has the potential for return generation in a range of different market conditions. Moreover, there is a fundamental rationale for utilising both directional and less directional sources of return. Put simply, it tends to be the environments when managing directional risk is most challenging (when asset allocation is focused on capital preservation) that the opportunities to take advantage of less directional strategies are at their greatest.

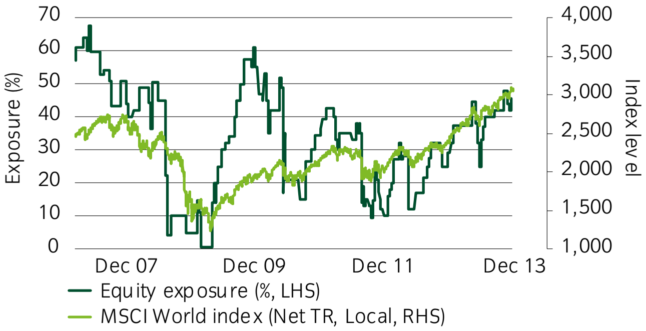
[1] For more information, please see our paper "Risk premia within a multi-asset strategy".

Chart 2: Breaking down attribution of returns: directional and less directional strategies



As at 31 December 2018. Chart explanation: the chart illustrates the calendar year attribution of Insight's broad opportunities strategy, gross of fees in GBP (for illustrative purposes only), since 7 September 2009, when the attribution began to be recorded in this format.

Chart 3: Dynamic asset allocation example: equity weight during global financial crisis



Source: Bloomberg and Insight. Chart explanation: the chart illustrates the dynamic nature of our approach to asset allocation by plotting the Insight broad opportunities strategy's equity weighting, focusing on a specific period of time.

2. DYNAMICALLY MANAGED ASSET ALLOCATION

Conventional approaches to asset allocation rely on a long-run assessment of return expectations, risk, and cross asset relationships to drive a strategic asset allocation (SAA). Some movement around this benchmark is common place. However this is limited, in part because the underlying assumption of the approach is that over time, the SAA will meet the investor's requirements.

We have philosophical issues with the conventional method (in reality we cannot forecast any of the inputs with the degree of accuracy required by an SAA approach) but the practical implication of following one is large swings in performance and a high degree of uncertainty as to the return experience at any point in time.

We advocate a more dynamic and flexible approach that places more emphasis on active asset allocation. Adopting such an approach requires two things:

First, utilising a sound knowledge of the factors driving asset class performance. Understanding the environments which are conducive for positive asset class performance (or those associated with poor or negative asset class performance) is in our view a more achievable objective than forecasting the inputs with the degree of accuracy required by a SAA approach.

Second, a strategy that does not have benchmark weightings needs an alternative approach to determining asset class weightings. Our bias towards asset classes is driven by a fundamental understanding of how they are influenced by macroeconomic factors, valuations and proprietary indicators of market positioning to form a view on their likely performance. But how much exposure we can afford to have is in part guided by risk considerations. This is where dynamic asset allocation and downside risk management dovetail together.

3. MULTI-DIMENSIONAL RISK FRAMEWORK

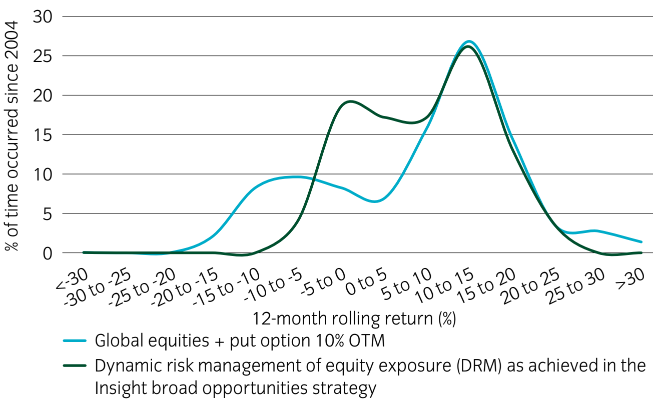
Within a multi-asset framework, risk management can take a number of forms. First the overall portfolio needs to be diversified – not only in terms of investment holdings, but also in terms of contribution to risk.

Second, different types of investment require subtly different risk management techniques. The most volatile things within a portfolio tend to dominate its risk return characteristics.

For directional assets like equity – which offers the prospect of attractive returns but where, on occasion, large negative drawdowns occur – we employ a dynamic risk management (DRM) strategy specifically designed to control drawdown. This provides a guide of how much exposure we can afford to run which we cross-check against our fundamental views.

This, in our view, represents a more effective form of downside risk management than traditional approaches which tend to rely on hedging strategies or some form of 'put' protection. These traditional approaches can protect portfolio downside but tend to be expensive (i.e. they act as a drag on returns) and we illustrate this point below.

Chart 4: DRM vs. returns from global equities combined with a simple put-protection strategy[2]



[2] As at 31 December 2018. Global equities represented by MSCI World Index, in gross, local currency terms. Chart explanation: the chart illustrates the distribution of returns achieved by our dynamic risk management process applied to global equities compared to simple put-protection strategy. On the bottom axis we show 12-month rolling returns, while on the vertical axis we show the percentage of time those returns were observed from the inception of the Insight broad opportunities strategy (31 December 2004) to 31 December 2018.

For less directional investments, alternative approaches to risk management are more appropriate – where for example the expected distribution of return is less susceptible to large drawdowns or when a strategy involves non-linear pay-off profiles. The same principles apply (conviction of view and tolerance for loss) but their application is different.[3]

PUTTING PRINCIPLES INTO PRACTICE

The principles outlined above are key to our aim of delivering a smoother investment journey and providing a better distribution of returns.

Each component is well grounded in investment theory but money management also requires common sense. For example, it is intuitively appealing from an investment perspective to use the broadest opportunity-set to enable return generation in a range of different market conditions.

The process behind making asset allocation decisions is often seen as complex but the idea is simple. In actively managing directional risk we aim to access risk premia when valuations are attractive and the conditions for the release of value are evident. When the opposite conditions exist, our fundamental approach should guide us away from such investments. However, should our judgement be wrong, our approach to downside risk management is our safety net.

Choosing the most efficient access vehicles is also important so as not to waste money (performance) on management fees. We use passive exposures where outperformance opportunities are small relative to market volatility and where liquidity and low trading costs are of high importance. Active management is attractive where 'bottom-up' opportunities are higher relative to market volatility giving scope for stock picking to show through or where company specific issues need addressing – for example managing default risk in high yield.

At Insight, risk management is not an afterthought. Rather it is a central part of portfolio construction. The result is a strategy well equipped to meet its return objective but with a strong element of downside risk management which at times can be the key to ensuring a smoother return path or a better distribution of return.

The three principles we employ may not be revolutionary but we hope this note has provided some light on the evolutionary steps we have taken to maximise their effectiveness in achieving our goals.

PRACTICE INTO PERFORMANCE

Chart 5: Long-run track record of the Insight's broad opportunities strategy

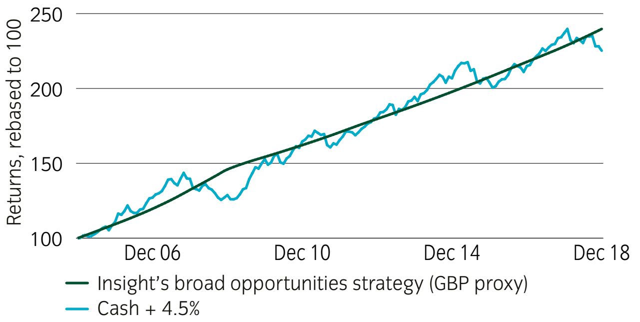


Chart explanation: the strategy described in this note began as a segregated mandate in December 2004. Data as at 31 December 2018, gross of fees. The long-term track record of the Insight broad opportunities strategy has a base currency of USD. This performance record has been adjusted by interest rate differentials to derive a GBP proxy. No currency adjustments have been made to the underlying investments. Cash represents 3 Month GBP Libid. Past performance is not a guide to future performance.

From inception (31 December 2004) to 31 December 2018, Insight's broad opportunities strategy has achieved a 6.0% annualised return (gross of fees), compared with an annualised return of 1.9% from cash (3 month GBP Libid). The strategy has recorded 5.9% annualised volatility, compared with 13.0% annualised volatility from global equities (MSCI World).

In chart 6 we show the annualised returns, as well as the largest drawdowns, experienced by investors in the strategy and other investments over the same time period.

Chart 6: Drawdown risk/return comparison

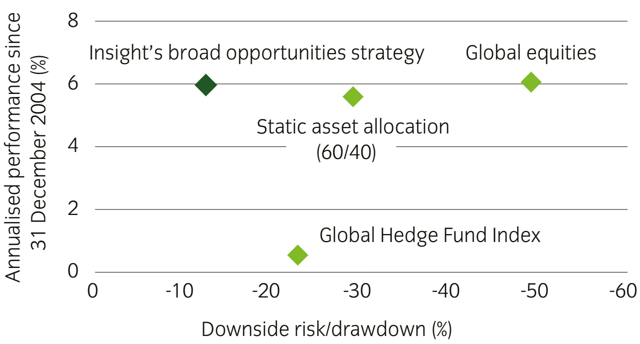
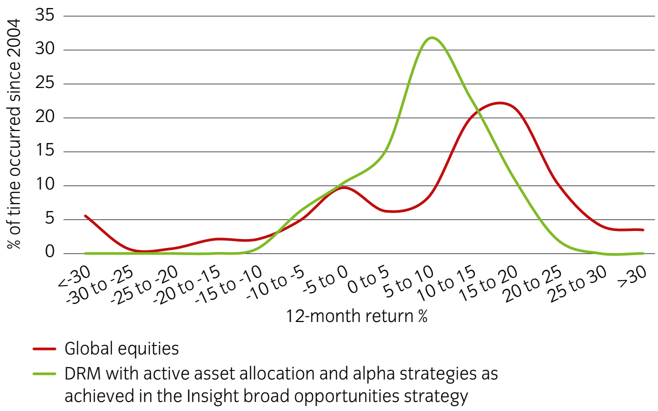


Chart explanation: the chart shows the performance of our strategy (GBP proxy) from inception as at 31 December 2004 to 31 December 2018, gross of fees. On the vertical axis we show return and on the horizontal axis we show a measure of drawdown risk. Drawdown is calculated as the largest peak-to-trough change in the period, based on monthly data. For comparative purposes our strategy is compared to three alternative approaches: 1. Global equities (MSCI World TR Index, net, hedged into GBP). 2. A static asset allocation (60% global equities – MSCI World TR Index, net, hedged into GBP; 40% global bonds – JP Morgan GBI Index hedged into GBP). In other words, a traditional "balanced portfolio". 3. A leading global hedge fund index (HFRX Global Hedge Fund (GBP) Index).

[3] For more information, please see our paper "Risk management within a multi-asset strategy".

Chart 7: An alternative way of looking at risk and return – distribution of returns[4]

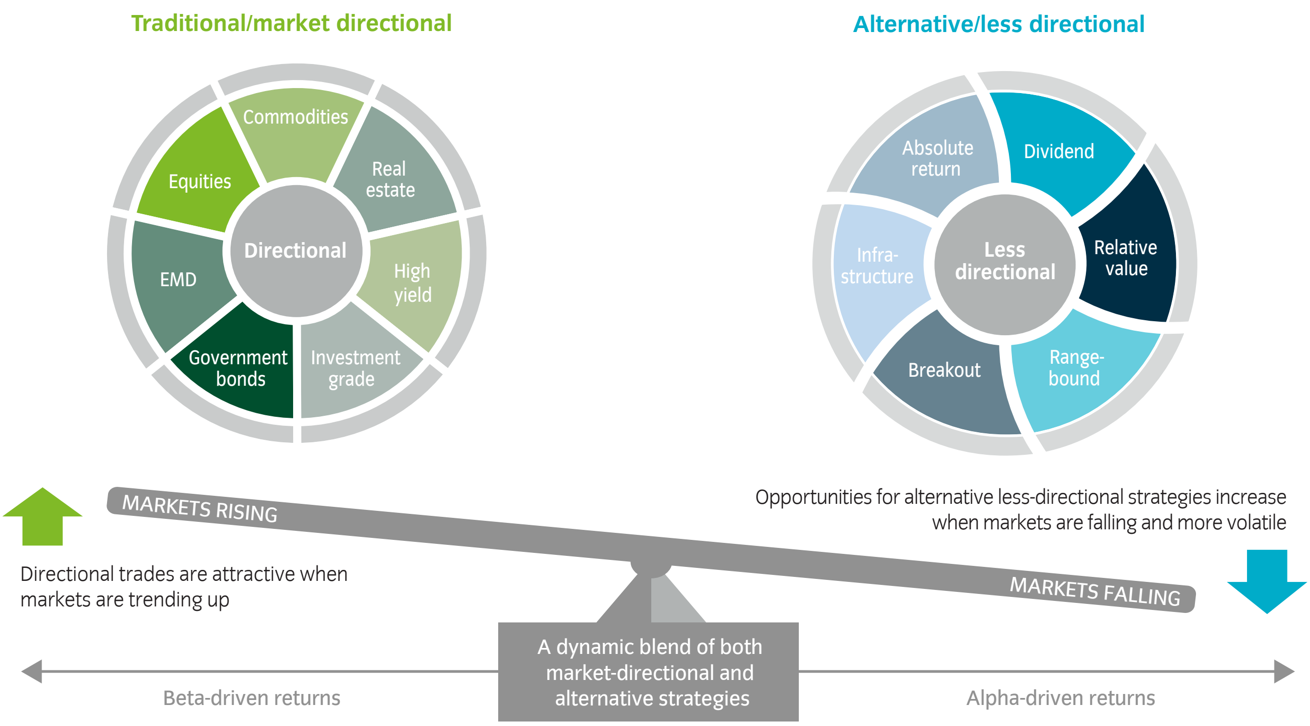


THE INVESTMENT TEAM

Insight's broad opportunities strategy is managed by a team of 10 dedicated portfolio managers. They sit within Insight's investment division which comprises over 200 front-line investment professionals. The team are able to harness investment ideas from all the specialist investment units within the firm ensuring that the strategy benefits from a rich source of investment ideas. The team are experts in asset allocation, macroeconomic analysis and portfolio construction and have developed a clear and transparent investment process that allows ideas to be channelled into a robust portfolio specifically designed to meet its objectives.

[4] As at 31 December 2018. Chart explanation: the chart shows the distribution of returns achieved by our strategy compared to the returns from global equities over the same period, represented by the MSCI World Index, in gross, local currency terms. On the bottom axis we show returns while on the vertical axis we show the percentage of time those returns were observed between 31 December 2004 and 31 December 2018.

Chart 8: Insight's approach to diversified growth – thinking beyond traditional bounds



IMPORTANT INFORMATION

RISK DISCLOSURES

Past performance is not indicative of future results. Investment in any strategy involves a risk of loss which may partly be due to exchange rate fluctuations.

The performance results shown, whether net or gross of investment management fees, reflect the reinvestment of dividends and/or income and other earnings. Any gross of fees performance does not include fees and charges and these can have a material detrimental effect on the performance of an investment.

Any target performance aims are not a guarantee, may not be achieved and a capital loss may occur. Strategies which have a higher performance aim generally take more risk to achieve this and so have a greater potential for the returns to be significantly different than expected.

Portfolio holdings are subject to change, for information only and are not investment recommendations.

ASSOCIATED INVESTMENT RISKS

Multi-asset

Derivatives may be used to generate returns as well as to reduce costs and/or the overall risk of the portfolio. Using derivatives can involve a higher level of risk. A small movement in the price of an underlying investment may result in a disproportionately large movement in the price of the derivative investment.

Investments in bonds are affected by interest rates and inflation trends which may affect the value of the portfolio.

The investment manager may invest in instruments which can be difficult to sell when markets are stressed.

FIND OUT MORE

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