



**01:**  
**Brendan Walsh**  
portfolio manager,  
Aviva Investors

# Multiple strategies for a single outcome

What's the use in outperforming the benchmark by a handful of percentage points when the index has fallen 20% or worse?

The global financial crisis showed the traditional mix of equities and bonds in most portfolios was far from flawless. Aviva Investors has done away with the fixation on relative performance and served up a strategy designed to meet investors' outcomes whatever the market conditions.

Traditional asset allocation begins by asking an investor's age and attitude to risk to determine how much of their portfolio can be allocated to growth assets with the aim of generating the highest possible return over time. Individual fund managers can be selected in the hope of generating above average returns but the investors largely gets what the market serves up – both positive and negative.

With its new range of multi-strategy funds, Aviva Investors instead begins with an outcome investors can identify with – generating capital growth over the medium to long term in all market conditions – and works backwards to the individual investment ideas from there. The portfolio managers then determine the best way to express the idea without preference for one asset class over another. The goal is to provide clients with a steady, reliable source of return whatever the weather.

"The Aviva Investors Multi Strategy (AIMS) Target Return Fund is really all about focusing on outcomes. We've identified clear, transparent outcomes for clients," explains the fund's co-manager Brendan Walsh<sup>01</sup>.

Investing in multiple strategies rather than a single asset class, such as equities, can help to reduce how much the value of a fund goes up or down, so delivering smoother returns over time. The Aviva Investors Target Return Fund aims to have less than half the risk typically associated with an investment in global equities over a rolling three-year period.

"Due to the Fund's ability to smooth returns, we are now getting a lot more interest from retail dealer groups and large wealth management firms who are looking to add the Fund to their model portfolios," said Brett Jackson, head of business development, Australasia at Aviva Investors.

"This is driven by the fact that fixed income going forward will not offer the same level of protection in a typical balanced fund that it has done over the last 10 years simply because 10-year government bonds are now at extremely low levels. Also, institutional clients, with their focus on getting better outcomes from a limited fee budget, continue to focus on replacing expensive hedge funds and private equity programs for the new cheaper multi-strategy funds that are now available in the Australian market."

The AIMS Target Return Fund has recently received a "RECOMMENDED" rating by LONSEC Research Australia, an independent investment research body.

## How it works

Like most traditional fund managers – or any investor for that matter – Walsh and his team start by building a big picture house view; a macro view of the world that anchors the idea generation process. This will include forecasts for economic growth, inflation, monetary policy, demographics and other key metrics.

Investment professionals from all asset classes and from all of the firm's offices around the world are then encouraged to submit ideas to a central strategic investment group.

Within that group, which is made up of CIOs, fund managers and thought leaders across Aviva Investors, those ideas are then debated.

"What we're looking for there is not complete consensus but to tease out any valid, rational objections to the idea," Walsh says of the collegiate process. "If the objections are not met then the idea does not get signed off."

The strategic investment group might see anywhere from six to 14 ideas a month with around 30-50% of those becoming approved.

Crucially each investment idea is only ever considered in the context of the fund's overall aim. Each idea can also be expressed using any instrument the investment team thinks is most appropriate. This can range from an investment in a simple equity index to more complex derivatives.

"These are not strategies that are designed for any one environment or any one market. Our target is to deliver cash +5% regardless of the market environment. We should be delivering that target regardless of whatever market we're in. You should be confident that in a choppy and volatile market that these funds will protect your capital," says Walsh.

## Different types of return

One of the most important factors contributing to the fund's performance is risk management and diversification.

"The one thing we can predict is that markets can be unpredictable," says Walsh. "Our process involves testing all our investment strategies, and potential strategies, to see how well they would perform in a wide range of market conditions. The fund's risk specialists work closely with our fund managers to ensure that we have the right blend of strategies within the fund."

"The way our investment strategies are expected to interact with each other across a range of potential market conditions (or scenarios) is crucial to managing the fund.

"Ultimately, we aim to select a combination of strategies which together seek to maximise the chance of achieving our return objective, and manage the volatility of the fund."

The idea is to have as diverse an idea set as possible without too many relying on any one market event or condition to perform. The risk of getting an interest rate call wrong in the US, for instance, might be offset by having another strategy in the fund targeting a return from an emerging market currency movement.

Over time the key risk-return drivers behind the fund vary and ideas go in and out of the portfolio, but generally there are 25 to 30 strategies running at any one time and these can be broadly grouped into three buckets: market returns, opportunistic and risk reducing.

"Within market returns we have things like our long Nikkei position [Japanese equities], European equities and global equities. They've been performing strongly at different periods over the last two years," explains Walsh.

"Within opportunistic we have some currency positions, we have also taken a short position on the biotech index; that's been quite a strong performer over the last year.

"Really importantly the risk reducing returns – the stabiliser for the fund – have been performing very well in volatile periods like January and February this year. Long Australian rates have been a good example of an idea we've run there."

## True to label

The AIMS Target Return fund launched two years ago in July 2014 and in that time has seen a number of volatile events including the China led sell-off of August 2015 and the more recent market jitters stemming from the UK's surprise vote to leave the European Union. During that time the fund has done just what it was designed to do and is just a fraction behind its target annualising about 4.3% return.

"What's really pleasing to us is that we've delivered that return with a volatility of less than a third of equities. The fund's holding up really well. Obviously we had an interesting event in the UK recently with Brexit; we came through that pretty much flat, we were up in July and we look like we're well up month to date [August]."**FS**



## The quote

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