HARNESSING THE BRAVE NEW WORLD FOR MULTI-ASSET INVESTING

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Back in the 1980s and 1990s, the sustained bull markets in bonds and equities meant typical multi-asset strategies, commonly known as 'balanced funds', delivered excellent returns. Consisting of fairly static exposures to the two principal asset classes, as time went by their performance was increasingly assessed using peer group rankings, without reference to risk, as opposed to assessing the strategy's total or real return. The total expense burden to investors also inexorably ratcheted up. Back then, bear markets were cyclical and less extreme. Consequently de-risking was generally not rewarded, or for that matter, valued by investors.

Then the bubble burst. The onset of a secular bear market in the early 2000s, marked a brutal lesson in the risk and reward characteristics of equity markets. This was repeated, to a larger degree a few years later in 2008. Investors who regarded themselves as cautious suffered severe capital losses in some multi-asset funds. 'Balanced' these funds were not.

TODAY'S BRAVE NEW WORLD

As we move into the middle of the 2010s, what do we feel the world facing multi-asset managers looks like today?

Firstly, greater asset allocation flexibility is likely going to be necessary in the financial market world we find ourselves in. The global financial crisis has ushered in a degree of government and Central Bank market intervention that is unprecedented, leading to distortions in asset valuations which will eventually have to be unwound.

Secondly, the capacity within multi-asset teams to see the world from the 'bottom-up' across multiple global asset classes, rather than rely on traditional macro dominated 'top-down' approaches, is likely to be critically important in meeting investor objectives. This is a world that will favour large well-organised teams with the ability to analyse and understand portfolios from top to bottom, owning every single allocation.

Finally, greater precision and discrimination around expressing a view should result in more robust structural diversification in portfolios, as well as more effective risk and reward trade-offs. The ability to hand-pick individual positions, express relative preferences or to build a bespoke basket of stocks is likely to be increasingly important in the world of modest returns. A focus on asset class behaviours, as opposed to labels, is also, we believe, critical in achieving robust diversification.

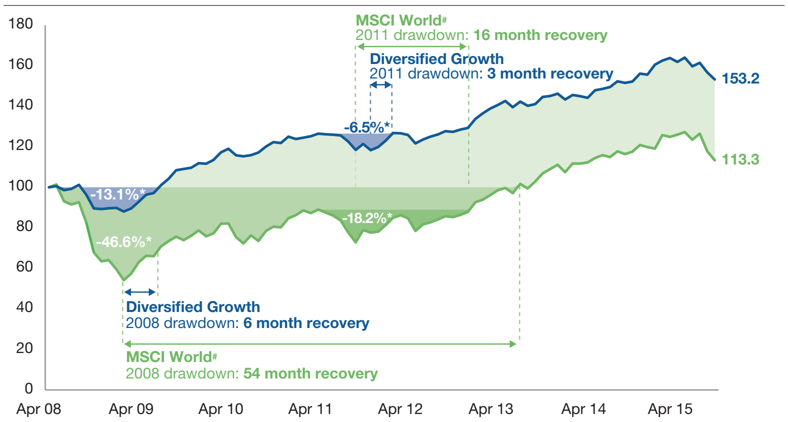
INVESTEC DIVERSIFIED GROWTH STRATEGY

We have been managing our Diversified Growth Strategy since 2008 and have navigated – at times difficult – markets over this time.

The strategy's aim is to achieve sustainable, real growth over the medium term, seeking to meet the challenge facing today's investors: how best to achieve sustainable, real growth over the medium term without the degree of volatility typically associated with the highest returning growth assets.

We believe our approach effectively combines our collective experience of managing multi-asset portfolios, with the best practice of institutional asset management as well as innovative thinking about portfolio construction, risk management and position implementation.

Protecting the downside and participating in rising markets



Past performance should not be taken as a guide to the future, losses may be made. Data is not audited. Source: Investec Asset Management, as at 30 September 2015, Gross of all fees in, GBP. Performance would have been lower had management fees been included. Composite inception 1 May 2008. Drawdown characteristics of monthly returns. # MSCI World is hedged to GBP. * Percentages indicate maximum drawdown for period.

Our investment objective for Diversified Growth is a return target of CPI +5%, per annum, gross of fees, over rolling 5 year periods with half the volatility of equities. This investment objective ensures that we place equal emphasis on return and risk, rather than just one or the other.

The chart shows the returns of the strategy since inception, and demonstrates how the strategy has historically protected investors from the worst ravages of the equity markets. In both 2008/9 and 2011/12 it not only fell much less than global equities, it bounced back to previous highs more rapidly (as illustrated by the "recovery" figures in the chart). Returns have historically, therefore, been less volatile than equities, which would have been helpful for DB plans in terms of limiting the volatility of their overall funding level, and motivating for DC members who saw their retirement pots weather the storm and get back on a growth trajectory after difficult times.

A MODERN APPROACH TO MULTI-ASSET INVESTING

By taking a modern approach to multi-asset investing, the DGF Strategy dynamically allocates across a diverse range of asset classes. Grouping assets into 'Growth', 'Defensive' and 'Uncorrelated', by considering their behaviours rather than relying on asset class labels, should result in superior diversification, and therefore more consistent returns

Consistent risk-adjusted returns are targeted by harnessing a broad opportunity set of traditional and non-traditional return sources. Exposure to each basket is achieved through a combination of our in-house strategies, direct investments, derivatives, passive investments and external funds. A tailored implementation approach allows us to select what we believe are the most appropriate means of gaining exposure to an investment opportunity.

Returns are driven by selecting those opportunities supported by the strongest Compelling Forces: Fundamentals, Valuation and Market Price Behaviour: Fundamentals – do the facts underlying the investment support its case? A rigorous risk management framework aims to ensure the correct balance of risk across and within the asset class baskets in order for the Fund to meet its return objective.

MANAGING RISK AND DELIVERING RETURNS AT REASONABLE COST

We are potentially at a fork in the road, meaning investors will need to decide what type of multi-asset funds should form the foundations of their portfolios for the future. Those strategies that succeed, we feel, will be those that can demonstrate an ability to pro-actively manage risk and deliver returns at reasonable costs. It's this combination that we target within the Investec Diversified Growth strategy.