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Legal & General Multi-Asset Target Return

Opinion

- This Recommended fund benefits from the experience of seasoned investors with complementary skills who work closely with the wider multi-asset capabilities, fund management and risk teams.
- The team is agnostic about asset classes and the priority is to build a portfolio that reflects their macro views in a risk-aware manner.
- The process is well-organised and the portfolio construction is clear, set around three sources of returns (market, tactical and alternative strategies), with risk mitigation strategies ever-present and tailored to portfolio positioning.

Characteristics and Utility

- The managers have complete freedom to consider ideas from any asset class but seek to limit the potential for drawdowns in the unit price through careful portfolio calibration, diversification and the inclusion of continuous portfolio insurance strategies.
- Although the portfolio is designed to deliver a positive return whilst being less reliant on market direction, they operate with a long-term time horizon. Therefore, it can take time for individual strategies to reach their potential. However, the diversified nature of the overall portfolio and the continuous use of portfolio insurance strategies mean that shorter-term drawdowns should be limited.
- The fund is suitable for investors who are seeking a diversified, lower-volatility vehicle that invests across a wide variety of assets but has reduced sensitivity to market direction.

Risk Commentary

The fund’s KIID Synthetic Risk and Reward Indicator (SRRI) is 4. This is a regulatory measurement that is, where possible, calculated from the volatility of its weekly performance over a five-year period. A score of 4 means the fund’s historic volatility is between 5% and 10%.

The fund’s five-year standard deviation is slightly higher than similar multi-asset funds in the sector. Although the fund aims to achieve positive returns, investors should be aware that this is a longer-term objective and performance over the shorter term maybe indifferent or negative. Different share classes could have differing SRRI scores.

Key Fund Facts

Inception Date:	20 March 2015
Manager(s) Since:	Emiel van den Heiligenberg (Mar 15) Willem Klijnstra (Mar 15) Chris Teschmacher (Jan 18) Josh Logan (Oct 23)
Fund Domicile:	United Kingdom
Base Currency:	£ Sterling
Fund Benchmark:	Bank of England Base Rate + 5%
IA Sector:	Targeted Absolute Return

Formal documentation, including the fund prospectus and the KIID, should be sought directly from the asset manager. A link to the asset manager’s website can be found on the relevant fund page at theadvisercentre.co.uk. An asset manager adviser factsheet is also provided there.

Fund Snapshot

A globally diversified, multi-asset fund, with the team seeking to incorporate complementary sources of return with portfolio insurance strategies. The fund's performance aspiration is 5% p.a. above base rate (before fees) over a rolling 3-year period. Within its sector, the fund features in our 'Multi-Asset, Diversified' category.

Investment Team

The fund is managed by the Asset Allocation team. Emiel Van den Heiligenberg (Head of Asset Allocation), Willem Klijnstra (Strategist), Chris Teschmacher and Josh Logan (fund managers) are the lead portfolio managers. They work closely with John Roe (Head of Multi-Asset Funds). The Asset Allocation team combines Legal & General Investment Management’s (LGIM) economic and multi-asset research capabilities with portfolio management across a range of multi-asset products.

Investment Philosophy

The team seeks to grow and protect investors’ capital, as well as manage volatility and moderate drawdowns through a diversified, multi-strategy approach. Three key investment principles underpin their approach: markets are inefficient; everything else being equal, greater investment flexibility expands the opportunity set; the path of returns matters, not just the long-term outcome.

Investment Process

The team believes that a flexible, multi-strategy approach, which is free of the constraints of a benchmark or implementation style, is the most effective way of delivering a return that is less reliant on market direction. Strategies are identified from across asset classes, sectors, currencies, interest rates, inflation and volatility instruments and they are blended such that the overall portfolio is exposed to complementary sources of returns.

The asset allocation team seeks to understand the current and likely future phases of the economic cycle, as well as analysing market valuations and systemic risks. This facilitates the continuous appraisal of the appropriate level of market risk to take. Investment ideas are generated via a team-based, research-driven process, through which strategies are honed using the input of economists, strategists and fund managers. The fund is framed around four key components: market returns (long-only investments that can encompass all available asset classes); alternative strategies (dynamic, rule-based strategies that capture alternative risk premia); tactical strategies (a blend of relative value and outright strategies that reflect the team’s short-term views); and, risk mitigation strategies (managing correlations, limiting drawdowns and balancing factor risks according to the shape of the overall portfolio).

Portfolio Construction and Risk Controls

Over the long term, portfolio risk is expected to be drawn fairly evenly from the market, alternative and tactical strategies, although the team tends to lean more heavily into the tactical element as a source of risk and return. More generally, the aim is for the portfolio to have average sensitivity to broader equity markets (beta) of below 0.4 and annualised volatility in the 6% to 10% range (annualised). The drawdown of the fund is not expected to exceed 40% of the drawdown of equities (as represented by the S&P 500 index). The portfolio typically comprises 35-50 diversified strategies.