Investments • Pensions • Financial Planning

Guide to:

Portfolio Construction: Multi Asset managed funds or Specialist funds

Introduction

Why we made this guide

A fundamental starting point when assessing how to invest your money, is to decide how you want it managed.

There are two core options:

- Place it into broadly based multi asset managed funds and leave the fund managers to decide how much is held in different geographic areas, sectors and asset types
- Use a portfolio of different funds, each allocating money to a specific geographic area, sector or asset type, thus retaining control over the overall strategy.

At Atkins Bland, we are happy to work with either preference, and recognise that the choices here are often a matter of personal preference, rather than a question of one being more suitable than the other.

However, when applying that preference, it is important to understand the issues and factors at play, which is why we have this guide.

Questions and answers

Information which might help you make a decision about investment

What is the difference?

In a nutshell, it's all about who is driving the decision making on how your money is distributed in terms of broad "asset allocation".

Are all decisions left to third party fund managers or based on advice from ourselves?

Both approaches aim for the same outcome, which is a well spread portfolio targeting capital growth, income or a mixture of both from whatever risk strategy they are working with.

However, the way money is deployed to achieve this may differ quite considerably.

Where Atkins Bland is advising you on the asset allocation, the portfolio is bespoke to you, so fully reflects your own personal circumstances and objectives, and our own research and analysis.

When a multi asset managed fund is used, the asset allocation is the same for everyone in that fund and does not take specific account of the individual circumstances of each investor or the asset allocation views of Atkins Bland.

Which option does Atkins Bland offer?

We offer both, or, for those who like to sit on the fence, a mixture between the two.

In either case, Atkins Bland will provide advice on fund selection, but with a multi asset managed fund approach this is limited to which funds to use, and we have no part to play in the underlying investment strategy.

In contrast, with a portfolio of specialist funds, we are fully involved in the underlying strategy and, at times, it is likely to be very different from that being used by most multi asset managed funds.

Questions and answers

Information which might help you make a decision about investment

Why are the underlying strategies different?

One reason for this is that most multi asset managed funds tend to huddle together, reluctant to go out on a limb and move too far away from the “benchmark” allocation based on market sizes and convention.

Staying close to the asset allocation of a peer group and benchmark helps avoid the risk of significantly underperforming the average and standing out from the crowd in the wrong way. However, it also makes it hard to stand out from the crowd in the right way, by significantly outperforming a peer group.

In essence, multi asset managed funds generally cling on to quite similar broad asset allocation strategies on the basis that there is safety in numbers. If whatever you do is about the same as the rest, you will not get pilloried in the press.

In contrast, where Atkins Bland is advising on the asset allocation, if we feel market conditions warrant it we are happy to move a long way from the average allocations of a multi asset managed fund or those applying to the benchmarks we use for performance comparison.

Far from hugging a benchmark, we are happy to shun it. This is commonly known as being “benchmark agnostic”.

Another reason asset allocation can differ is liquidity. A big multi asset managed fund may find it quite difficult to substantially change its asset allocation, due to the sheer scale of the change needed in terms of buying and selling investments. On the other hand, an individual portfolio constructed of investments in specialist funds can easily change strategy, normally with no hindrance to buying and selling and no liquidity obstacles to contend with.

Why do we lean to being “benchmark agonistic”?

It’s not that we don’t care how we do against a benchmark. It’s just that we are not overly concerned with comparisons over the very short-term, but much more concerned with results over the medium to long term.

To have a good prospect of outperforming the average over the medium to long term, you have to be prepared to see deviations in the wrong direction over the shorter term. If you are not, you have little chance of breaking free from the average.

In addition, we are not overly enamoured with conventional thinking on asset allocation, as we feel it is designed to reflect relationships between different sectors and areas which belong to the past rather than embrace the significant changes we have seen in recent years.

Questions and answers

Information which might help you make a decision about investment

Will a portfolio of specialist funds do better than a multi asset managed fund?

While an individually advised portfolio will often have a very different strategy to a multi asset managed fund, and may change more over time, that does not mean it will produce better results. No one can possibly know that in advance, and it is perfectly possible that using a multi asset managed fund strategy will generate the better outcome.

One of the benchmarks we use for our client portfolios is based on the average from multi asset managed funds in the relevant risk classification, so anyone using our asset allocation advice can assess at each report how we are doing against the alternative of a multi asset managed fund approach.

Our aim is to beat the benchmark, which means beating the average multi asset managed fund. But this aim is focused on the middle and long distance, so over years and not months, and we avoid getting obsessed with the latter at the expense of the former.

After all, the portfolios we advise on are designed for the medium to long term, for a period of years, and not a period of months, so it's how they do over the longer term that really matters.

We don't know if our strategy of taking a longer term "big picture" view will continue to work, but we are happy that it has so far, and we have been around long enough to see all manner of conditions to test our approach.

In truth, though, regardless of our ambitions and hopes, a decision on portfolio management style should never be based on a belief that one strategy will beat another, because no one can know in advance if it will.

The decision should, instead, be based on a personal preference in terms of what the investor is most comfortable with.

Is one more expensive than the other?

This depends on specific fund choices, rather than style. Either can be more expensive than the other or cheaper. It is not whether a fund is multi asset or investing in just one area which defines costs, but a range of other factors.

With both options, you can have a cheap solution, or an expensive solution, or anything in between.

What’s the conclusion?

What to take away from this guide

How do I choose then?

In some cases, your basic preferences and objectives may decide for you, at least partly.

If you want a high level of income, or to avoid certain investment areas, or favour others, a multi asset managed fund structure may not suit you all that well, as you may not be able to find one which fits the bill accurately enough.

However, with most priorities and objectives, either can work, so it is down to what you want.

A good question to ask is do you want regular personalised reports with plenty of detail on how your money is invested, and why?

If you do, a portfolio of specialist funds may well be the best choice.

If you do not, a multi asset managed fund strategy may be best.

Another good question is are you happy to receive reports which require a response from you? This is important since we work on an advisory and not discretionary basis, so, if using us for asset allocation advice, we will need your approval and go ahead before any changes are made.

In contrast, with a multi asset managed fund, you, and we, are not involved with any investment strategy decisions. They are made anyway, so you do not need to approve changes.

We should explain here that we are talking about broad asset allocation decisions, not the stock specific decisions. To explain by way of an example, with either option the fund managers will be responsible for deciding which US stock to buy with any part allocated to the US. It is the decision on whether to invest in the US at all, or rather how much to invest in the US, which we are referring to as asset allocation decisions.

So:

If you want a bespoke and personalised investment solution, ongoing involvement, and engagement with how your money is being invested, at least in terms of receiving periodic reviews and recommendations, and responding to these, our advice on asset allocation using a portfolio approach may be ideal.

If you prefer to mix in with the crowd and have no ongoing involvement in any asset allocation, then a multi asset managed fund may be best.

Final words

Other important points which are good to know

The last word: changing your mind

If you feel a bit daunted by having to make a decision like this in the often complex and jargon filled world of investment planning, take heart. As long as you choose wisely and ensure you have a proper investment choice with whatever arrangement you put in place, any “decision” can be reversed, usually very easily.

A portfolio of specialist funds can be moved to a multi asset managed fund approach through a simple change of funds within an investment or pension plan, and vice versa. No fuss, no bother and, often, no forms to fill in. So, it is very easy to try out one solution or another, and see if it suits you, and change to the other if you decide that it doesn’t.

Another last word: you’re not alone

Atkins Bland is here to help you.

This guide is designed to try to explain some of the background to its subject matter, but nothing can really replace a good chat. Please do feel free to speak to us about any aspect of this and ask any questions you like. It’s why we’re here, to provide advice.

Important notes

Any opinions expressed on the merits or disadvantages of any options are intended as a general comment only and not as specific advice to the reader.

This document is intended as a supplement to full independent advice and not as a replacement for it and should be read in conjunction with any personalised recommendations provided by Atkins Bland Ltd and with any product brochures supplied.

The value of investments will fall as well as rise, as can any income produced.

Inflation can reduce the real value of capital and the income it generates

Past investment performance is not a reliable guide to the future

Any reference to taxation, regulation or legislation is based on our current understanding and details should be checked before any reliance is placed upon its accuracy.

The impact of taxation and tax planning depends on individual circumstances and may be subject to change, which can be retrospective.

Errors and omission excepted

Prepared by Atkins Bland Ltd. Dec 2022

Atkins Bland

Investments • Pensions • Financial Planning

The value of investments will fall as well as rise, as can any income generated.
An investor may, therefore, get back less than invested.