M&G Investments
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Well-diversified portfolios are key for post-pandemic investing

Market volatility is widely expected to be on the rise this year across the globe due to uncertainty around rising interest rates and relatively expensive equity and bond market valuations in many of the world's biggest markets. This suggests that a well-diversified portfolio like a balanced fund may be a wise option compared to a pure equity fund: we wrote about equity investing and its advantages in a recent article. Multi-asset funds such as the M&G Balanced Fund and M&G Inflation Plus Fund offered by M&G Investments are designed to provide some downside cushion against extensive volatility over the medium-term, as well as the potential for inflation-beating returns through the risk assets it holds.

According to Morningstar, within the ASISA Multi-Asset High Equity category, which allows up to 75% total equity exposure in a unit trust, the typical balanced fund returned an average of 10.7% for the 12 months ending 31 March 2021. Meanwhile, the M&G Balanced Fund delivered an impressive 15.5% (after fees) over the same period and has produced consistent outperformance for investors since its inception over 20 years ago. The M&G Inflation Plus Fund, another of our multi-asset unit trusts in the ASISA Multi-Asset Low Equity category, also has an impressive longer-term track record.

The advantages of multi-asset solutions

Exposure to diversified assets is probably the biggest advantage to investing in a multi-asset fund. Typical balanced funds hold a wide range of different global and local assets, including equities, listed property, bonds (both fixed and floating rate) and cash. We believe that, by their very nature, they should form the core of a long-term investment portfolio. Active fund managers like M&G Investments carefully adjust the weights of their multi-asset fund's assets over time, according to changing market conditions and asset valuations, to take advantage of the best return opportunities that arise or mitigate rising risks. However, to maintain compliance with retirement regulations (known as Regulation 28), retirement portfolio holdings are limited to 75% equity, 25% property, and 45% in foreign at all times.

Bond and cash holdings provide investors with a steady income stream that can help protect against inflation and offset some downturns in the equity market, while equities offer the potential for the highest total returns over time. This diversification means that, given time, investors can benefit from equity-like returns from a balanced fund, but with less risk than an equity fund. That's why we recommend having an investment timeframe of at least five years for the M&G Balanced Fund.

Would lower equity exposure be more suitable for you?
Perhaps your investment goal is shorter than five years, but you still want to have the potential for inflation-beating returns combined with better downside protection. To achieve this, you would likely choose a fund in the ASISA Multi-Asset Low Equity category, which limits total equity exposure to 40%, like the M&G Inflation Plus Fund. Here your upside return potential is lower than in a balanced fund, but the downside risks are also lower over time due to the higher weight of fixed-income assets, giving investors a less volatile return path over time. In fact, in managing the M&G Inflation Plus Fund, apart from its primary goal of achieving a return of inflation plus 5% (net of fees) over rolling three-year periods, we also have a secondary aim of not losing capital for investors over any 12-month rolling period. That's why we recommend having at least a three-year time horizon for any investment in this unit trust. It is also suitable for longer-term investors with a more conservative risk profile, and it is Regulation-28 compliant.

In times of elevated uncertainty like the present, well-diversified multi-asset solutions, such as the M&G Balanced and Inflation Plus Funds, can not only help deliver inflation-beating returns but they can also help you avoid feeling the full effects of volatility compared to those of a pure equity fund. In doing so they can be easier for investors to hold onto during equity market downturns – helping them tolerate potential losses more easily – which is one of the most important elements in successful longer-term investing.

For more information on investing with M&G Investments, please feel free to contact our Client Services Team on 0860 105 775 or email us at info@mandg.co.za.