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Why are multi-asset funds so popular? Three key reasons

According to figures from the Association for Savings and Investment (ASISA), multi-asset funds continue to enjoy strong support from investors this year, accounting for just under half of all of the assets held in unit trust funds. This isn't surprising, since these funds have many benefits. But first, what are multi-asset funds?

As their name clearly implies, multi-asset funds are unit trusts that, unlike single-asset funds such as equity or bond funds, can invest in a range of different assets. They are available in several risk/return profiles, depending on the mix of assets they hold. In South Africa, ASISA categorises them into high equity, low equity, flexible and income. Below are three key benefits of investing in multi-asset funds.

Diversification

By investing across multiple asset classes that don't react to the same factors in the same ways and so aren't perfectly correlated, multi-asset funds are able to reap the benefits of diversification. For example, in broad terms, equities are likely to outperform bonds in times of rising inflation, while listed property has better potential to produce stronger returns than bonds in times of low interest rates. This is particularly beneficial during times of high market uncertainty, like the present. But even in periods of relative stability, appropriate diversification is one of the most important characteristics of a portfolio, since even the experts can't predict which

assets will outperform in the coming year, and the top performers vary widely from year to year.

Taking South African listed property as an asset class, it has been particularly volatile over the past decade in relative (and absolute) returns). So far in 2022 it has been the second-worst performer among local and domestic assets, with a -15.8% return for the 12 months to 31 September 2022, better than only foreign equity. But the previous year to 31 September 2021, it delivered the best return of all asset classes with 54.4%.

With multi-asset funds like the M&G Balanced Fund, their relative performance is much more likely to remain consistent over time compared to single asset classes. Diversifying across multiple asset classes means that the funds are exposed to different risk factors, which serves to mitigate their return volatility. Also importantly, the lower the short-term volatility of your investment returns, the easier it is to stick to your investment plan when one particular asset class delivers poor returns.

Risk Management

Risk is the possibility that an investment's actual return will be different than expected, and includes the chance of losing some or all of your original investment. Managing risk is thus a crucial part of portfolio management as it takes time, as well as exponentially greater subsequent returns, to make up for any losses. As multi-asset funds can be invested in a range of asset classes, investment managers can manage a fund's overall risk profile by controlling how much of a fund is invested into each one. If one type of asset has experienced a strong run compared to others, an active manager like M&G Investments may decide to take some profits and pare back those holdings as it becomes more expensive, in favour of cheaper assets. Remember, it's important to understand your own risk profile before investing, which is why your financial adviser will start by helping you discover how adverse, or not, you are to risk. While nobody ever wants to lose money, your investment will go up and down in value over time, and your ability to tolerate this is a major factor in determining your risk profile.

Tax efficiency

Another benefit of multi-asset unit trusts is that the fund manager is able to actively adjust the asset allocation of the fund without triggering a capital gains event. They can buy or sell the dozens of underlying assets without showing an actual gain or loss for their clients, which would be subject to capital gains tax (CGT) in the hands of an individual. This means that CGT is deferred until such time as you decide to sell your units.

M&G Investments' range of funds includes four multi-asset funds, each with a specific set of risk and return objectives. Choosing the right one for you will be a function of your investment goals, your time horizon, and your risk profile. The M&G Balanced Fund has consistently outperformed its benchmark, the average of the ASISA Multi-Asset High Equity category, over the past 20 years.

To invest in our multi-asset funds, contact your financial adviser or our Client Services Team on 0860 105 775 or at info@mandg.co.za.

<https://www.mandg.co.za/insights/articlesreleases/why-are-multi-asset-funds-so-popular-three-key-reasons/>