# Multi-Asset Funds Dashboard Feb 2015

### 2014: Poor Performance, but Good Flows

The performance of multi-asset (MA) funds was poor in 2014, particularly for flexible funds, which continued to underperform traditional balanced funds and benchmarks. Flexible funds captured only 25% of the market upside in 2014, failing to show the return asymmetry that investors expect from them (typically aiming to capture 40%-50% of upside and avoiding losing more than 20%-30% of the downside). Nevertheless, flows remained strong, confirming investors' appetite for multi-asset investments.

### Usual Culprits for Underperformance; New Culprits Emerging

As in the past, the culprits for underperformance were tactical asset allocation and traditional downside protection mechanisms proved ineffective for many funds as central bank actions drove market sentiment and changed valuations. The new culprits were fixed-income rally and equity-sector rotation in 2014 which caught many discretionary asset allocators by surprise.

### Limited Number of Top Performers Fulfil Objectives

Despite poor average performance, the top 5% best performers beat a composite global multi-asset benchmark, in many cases simply by being overweight or increasing early enough exposure to the US and duration. The best performers among Fitch's rated funds were those that navigated the inflection point in June 2014, when risk premia started to diverge, following a period of positive performance for all risk assets.

### New Outcome-Oriented Approach in MA Gains Ground

Within the MA fund universe, there is an increasing number of outcome-oriented, benchmark-agnostic funds, which have a specific total return, volatility and/or income objective. The rating process of such funds requires a filtering of the fund universe, to identify close peers.

### Unabated Search for Higher Yield and Better Diversification

The ability to find returns from higher yield and income (being opportunistic and/or broadening scope for investment) without materially increasing a fund's risk profile and achieve efficient diversification, (i.e. without being over-diversified) will be a key test of a manager's portfolio construction skills in 2015, in Fitch Ratings' opinion.

### Navigating Inflection Points Key in 2015

Anticipating the impact and timing of US Federal Reserve and the ECB policy changes was and will continue to be the most important decision for MA managers. Potentially more correlated and volatile asset class returns will be a threat when interest rates start to rise. Given macro-economic uncertainty, option-based risk management strategies may increase in popularity, despite cost.


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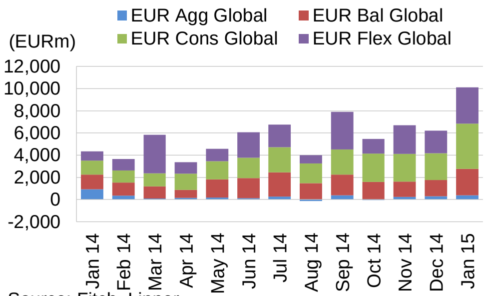
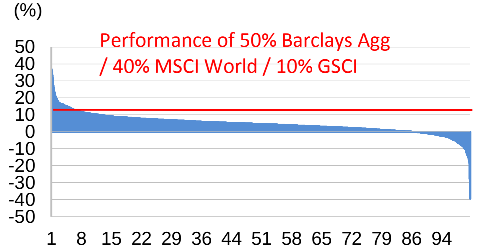
**Mixed Asset Fund Flows**



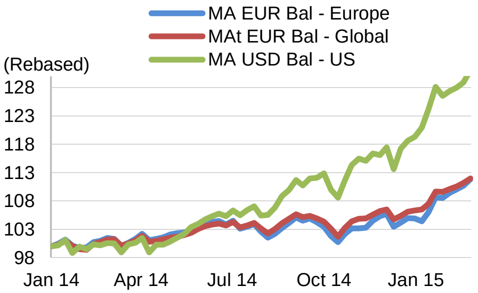

Source: Fitch, Lipper

**2014 Performance Dispersion**



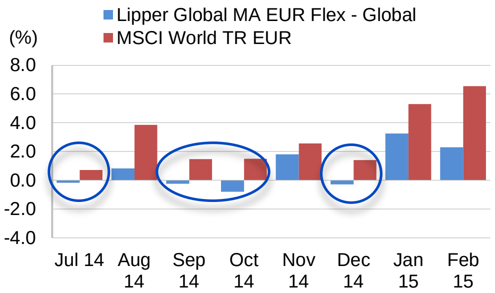

Source: Fitch, Lipper - EUR Flex Global category, 2014 performance

**US Bias Beneficial**




Source: Fitch, Lipper

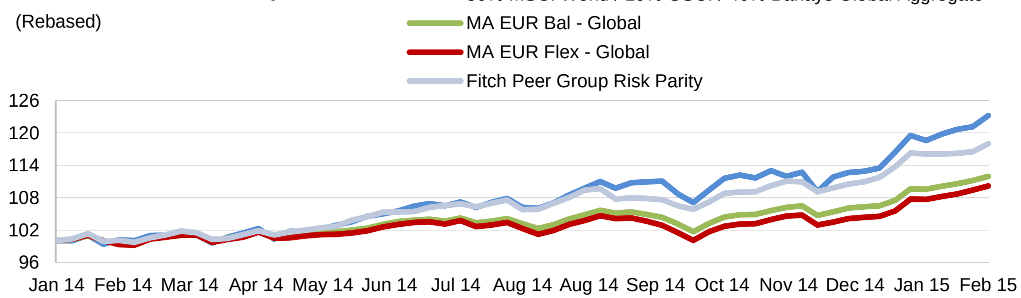
**Poor Asymetry of Returns**




Source: Fitch, Lipper

**Flexibility didn't Pay in 2014**

Risk Assets come back in Q4




Source: Lipper, Fitch