



01:
David Griffith
head of investment
strategy, multi-asset
strategies group
BlackRock

Redefining retirement income

The BlackRock Global Multi-Asset Income Fund takes a risk-first approach to its diversified portfolio that spans more than 10 asset classes and 40 countries.

Instinctively multi-asset investing makes sense. In the current lower for longer return environment, investors with clear income appetites need to seek yield beyond a single asset class.

BlackRock head of investment strategy, multi-asset strategies group, David Griffith⁰¹ explains the key challenge for income investors today is there's no single asset class that can deliver an attractive level of yield and also provide the defensive characteristics that fixed income used to play in portfolios a decade ago.

"Since the Global Financial Crisis, the income landscape has changed dramatically. Yield levels across most major asset classes have declined," Griffith says.

"Today's investors need to seek yield beyond a single asset class and think multi-asset, but also be very mindful of the risks when seeking income."

The risk-first approach

The investment strategist says most multi-asset strategies start with an income target and risk is adjusted up or down to maintain the level of income. While this is often an appropriate solution, in a period of declining yields it can force the manager to take on more and perhaps unnecessary risk.

"This may not be ideal for some investors, particularly retirees, where capital preservation is very important when building portfolios," Griffith says.

He adds this is where a product such as the BlackRock Global Multi-Asset Income Fund begins to show its distinctive character because it tackles risk from a unique perspective.

The fund begins its investment process by establishing a "risk ceiling". From there the portfolio managers and investment specialists look to maximise the level of income but are also cautious not to exceed the ceiling. Griffith says it's known as the "risk-first approach to income."

"That risk ceiling is based on a simple benchmark of 50% equities and 50% bonds. We also apply a tactical asset allocation approach that seeks the best risk-adjusted yield opportunities globally," he says.

"Overall, the strategy's looking to deliver an attractive level of yield while preserving capital and maintaining risk."

The 50/50 benchmark essentially allows the investment team to determine its acceptable level of volatility over a three to 12 month period.

Using BlackRock's risk analysis software Aladdin, the team can measure volatility over time horizons of six weeks, one year and up to seven years. Capital is then allocated across multiple asset classes to maximise yield and minimise implied volatility.

In its most recent "Recommended" rating of the fund, Zenith Investment Partners acknowledges that focusing on the shorter time horizons in a period of lower volatility may lead to risk being underestimated. However, it notes, "the investment team will also incorporate stress testing on the final portfolio, which Zenith believes bolsters the level of rigour around risk management." BlackRock was also awarded 'winner' of the multi-asset diversified category at the 2017 Zenith Fund Awards.

Finally, Griffith adds the portfolio is typically constructed with half the risk of equities. He explains the team invests in more than 10 asset classes, 40 countries and 20 sectors which provide access to attractive income opportunities with the benefits of less risk from the nature of broad diversification.

Portfolio construction

Griffith says the BlackRock Global Multi-Asset Income Fund can be used in two ways in Australian portfolios: first as a source for retirement income; second, as a source of total returns.

"If you think about retirement portfolios in Australia they typically hold a high proportion of Australian equities," he says.

"And given the BlackRock Global Multi-Asset Income Fund delivers a yield similar to franked Australian equities, but with less than half the risk, it can be used to blend portfolios and reduce the risk – which is really important for retirees."

In essence a conservative investor could potentially achieve higher income without ratcheting up the risk of their portfolio too much. Or stated another way, income investors largely exposed to equities can look to maintain yield levels while de-risking their portfolio.

BlackRock says given the global nature of the portfolio, it can often be used as a diversifier to Australian-sourced income.

It adds there are investors globally which don't actually take the income and use it as more of a total return approach.

It makes sense to Griffith, given a world where asset classes are priced high across the board.

"If you think about the forward looking envi-

ronment for returns and asset classes from here, it does look a little challenged," he says.

"And we believe the composition of those forward looking returns will be driven largely by income or yield compared to capital appreciation. This strategy can deliver a total return via yield in portfolios and help to diversify risk."

Zenith notes that for the fund to achieve its primary income objective – between 5-7% per annum with capital appreciation of 1-3%pa – the manager will adopt an unconstrained and dynamic approach "that attempts to ensure investors are adequately compensated for the level of risk being taken."



The quote

Investors need to seek yield beyond a single asset class and think multi-asset.

Managing multi-assets

As at 31 March 2018, BlackRock was managing about US\$422 billion in its multi-asset strategies globally.

Griffith, who is part of BlackRock's multi-asset strategies group, is one of more than 170 investment professionals dedicated to the multi-asset universe and an important resource for the fund's three portfolio managers: Michael Fredericks, Justin Christofel and Alex Shingler.

The multi-asset team also works closely with the risk and quantitative analysis group (RQA). There are four dedicated risk specialists "who focus on multi-asset products and are critical in the monitoring of risk and informing decisions for this strategy", Zenith says.

"The team holds meetings on a monthly basis with asset class specialists and portfolio managers who manage the underlying portfolio sleeves. This regular interaction allows the multi-asset income team to discuss each asset class in depth, the focus being on where yield can be sourced, risk and return projections and any new ideas which may be appropriate for the portfolio," Zenith says.

BlackRock adds the fund's philosophy is founded on the belief that valuations and changes in macroeconomic fundamentals drive long term asset class returns.

Its team also believes that over shorter periods, markets often display inefficiencies from an asset allocation perspective due to investor behaviour. The team then analyses valuations, cyclical and short-term factors to generate the investment strategy suited to fund's primary income objective.

Since inception of the strategy in October 2015, it has delivered an attractive level of income of 6%, while preserving capital and with risk less than half of that of equities. **FS**



Watch the video
on www.fsitv.com