

KEY NOTES

Seeking yield in different places

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October 2012

What are the main challenges currently facing yield-seeking investors?

- ▶ Investors have required yield sourced portfolio to address a number of investment requirements. Historically, government bonds have been the asset class of choice for yield-focused investors, but in recent years, government bond yields have declined. This means that investors need to look in different places for the yields they need.
- ▶ Investors' needs are not one dimensional. The need for yield can be driven by many different concerns and often involves balancing short-term requirements for pay-out with a continuing need to preserve capital and a longer-term desire to see income levels grow over time. It is important to find a solution that addresses all of these objectives.

How can these challenges be met?

- ▶ Individually, separate asset classes can clients to meet different objectives at various points in the market cycle. Alternatively, adopting a multi-asset class approach may enable investors to gain the benefit of the yield-generating characteristics of a full range of asset classes.
- ▶ A multi-asset class approach may combine: the capital stability and current yield qualities typically associated with investment grade corporate bonds; steady potential for both yield and capital growth coming from careful security selection in the global equity realm; and higher potential for yield growth over the longer-term through allocations to emerging equity income stocks.
- ▶ A diversified approach means there is also room for other, less traditional asset classes, such as bank loans, preferred shares, master limited partnerships, real estate and infrastructure. The intelligent and well-managed use of derivatives can also be a key driver of additional yield.

What are the key characteristics of a good multi-asset fund?

- ▶ The world will continue to change and so will the capital and income opportunities in different asset classes. Managing a yield-oriented solution requires an unconstrained strategy and tactical flexibility to find attractive and growing income, to manoeuvre through changing market conditions and protect against volatility.



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- ▶ In the search for yield, it is vital not to sacrifice quality. The optimum investment approach will seek to identify opportunities where there is not only an attractive current yield, but also scope for the yield to grow over time. This approach can be adapted to meet a variety of institutional investor needs, including retirement solutions, income requirements for charities or foundations, or as a core defensive element to an overall asset allocation strategy.

How are multi-asset funds typically incorporated into a portfolio?

- ▶ The specifics of each client requirements differ. Many investors take a core/satellite approach to their use of multi-asset yield funds, which means using one fund as the main allocation with smaller allocations being used to customise the outcome. Depending on the starting point, this might mean owning a multi-asset yield fund as the core allocation with additional holding in real estate or infrastructure, if liquidity issues aren't a concern. By contrast, some fixed income focused investors have used multi-asset allocations as incremental holdings for diversification benefits and to enhance their yield.
- ▶ One of the major hurdles for investors is the range of different regulatory regimes they can experience. It is vital that these are taken account of before any investment decisions are taken.

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