MULTI-ASSET MANAGER OF THE YEAR

Aon

The role of multi-asset products has grown in importance in recent years, as providers strive to meet the diverse needs of pension funds.

This award looks to reward the best of the best in this increasingly-competitive space. The judges said this year's winner stood out from the rest with its strong performance and keenness to innovate, along with its effective engagement with trustees. Congratulations go to Aon.

It's no surprise as Aon is at the forefront of multi-asset investing, offering solutions that meet the diverse needs of DB schemes. Its core multi-asset offering includes its unconstrained solution, managed growth fund and small client solution.

Always looking to expand its offering, 2017/18 saw the launch of its absolute-return fund, low-risk bond solution and hedge-fund strategies.

Its unconstrained solution invests across global equities, fixed income, hedge funds, new opportunities (ie. insurance-linked securities), emerging market wealth and illiquids. It invests in over 25 sub strategies and has a wealth of clients who benefit from savings on underlying manager fees.

Its managed growth fund offers tailored portfolios to meet client constraints (eg, liquidity and/or cost). This fund used fully active asset allocation, investing across absolute return, multi-factor equities, return-seeking bonds.

Its diligence has paid off with its unconstrained multi-asset offering outperforming the benchmark by +2 per cent per annum over a three-year period. Remarkable results can also be seen in its managed growth solution, which outperformed by +1.6 per cent per annum since inception. Aon has also outperformed industry buy-rated diversified growth funds over three- and five-year periods.

"Aon is at the forefront of multi-asset investing, offering solutions that meet the diverse needs of DB schemes"

Hand-in-hand with performance and product innovation is client service; Aon has delivered a triple threat. It is committed to providing the very best in training and education, having published over 25 investment research papers in 2017/18. It also ran numerous seminars focused on investments throughout 2018.

Showing that it truly has clients' best interests at the heart of everything it does, it has used its multi-billion pound scale to secure significant fee discounts from external managers.

It has also directly reached over 1,000 investors across Europe through its numerous conferences and seminars, in regions including UK, Ireland, Netherlands, Germany and Switzerland.

A fantastic achievement; well done to Aon.

The Multi-Asset Manager/Provider of the Year award went to Aon. Receiving the award was Vicky Kydoniefs, investment partner at Aon (centre). Natalie Tuck, European Pensions (right) and host Kerry Godliman (left) presented the award.

@EuropeanPension #EuropeanPensionsAwards

The past, present and future of multi-asset investing

Adrian Mitchell, EMEA CIO of Aon's Investment business looks at the evolving role of multi-asset investing and how this has shaped best practice today.

The challenges facing pension schemes have increased significantly over the past 40 years and the last few years have been no exception. Interest rates have fallen sharply, increasing funding costs and lowering expected future returns. Schemes are far more mature and are faced with a proliferation of new complex investment options. All of this puts pressure on the governance of schemes. We look at how multi-asset solutions have evolved over time to meet these challenges and what the future holds for multi-asset investing.

A 'one-size-fits-all' approach

Pension schemes have long used a multi-asset approach to investing. In the 1980s the prevailing model was the balanced fund; a single manager managed all the scheme's assets. This approach failed to acknowledge that each scheme is unique, so trustees moved towards strategies which better reflected their scheme's maturity.

The significant fall in equity markets in the early 2000s put funding ratios under pressure and led to the closure of many defined benefit (DB) schemes. This accelerated their maturity and led to an increased focus on liability-driven investing (LDI). Few schemes had the governance to deal with sophisticated LDI approaches together with a highly diversified growth portfolio managed by specialist managers. Smaller schemes also had difficulty in accessing the full range of growth assets.

The growth of DGFs

Diversified growth funds (DGFs) were developed in the mid-2000s to deal with these issues and to reduce schemes' exposure to equity risk. They held a wider range of underlying asset classes than balanced funds and adopted a more active approach to asset allocation. Schemes with greater LDI matching performed relatively well in the 2008/9 recession as growth assets fell sharply and interest rates were cut, which helped to popularise LDI and fuelled a boom in DGFs. However, DGFs suffer from the same issue as balanced funds, few - if any - managers are best in class in all of the underlying investments and few DGFs outsource significantly. In today's low return environment, we believe trustees should seek out strategies which offer a diverse range of best in class return drivers. On top of this, much of the performance from DGFs has been driven by their market beta exposures, with added value from active management somewhat limited, despite charging active management fees.

The present and future of multi-asset

Where does this leave multi-asset investment today? The most recent evolution is fiduciary management. This approach retains the low governance advantages of DGFs, but the fiduciary manager can build a fully-diversified growth portfolio of best in class managers while managing liquidity to keep the LDI portfolio in place to pay pensions, transfer values, etc. Fiduciary management is therefore a highly capital-efficient approach, tailored specifically to a scheme's unique circumstances and can be managed dynamically to reduce risk as the funding ratio improves. It is anticipated that by 2025, over 30% of UK DB schemes will be using some form of fiduciary management.

Assessing the options

Trustees should consider the size and maturity of their scheme, the specific issues they face and the amount of resource at their disposal. For example, larger schemes may have the expertise and governance to manage their assets themselves. For smaller schemes, a DGF approach may still be the best approach. However, trustees should ensure they understand the return drivers for the DGF, that they are not overpaying for market returns and that it offers an open architecture approach to allow the use of specialist managers.