

Multi-Asset Sophistication is Outstripping the Pace of Traditional Investment Technology Support

A additional tier of buy-side asset allocation has shifted focus from the *portfolio level* to more tactical asset allocation at the *investment structure level* and - in recent times - been labelled multi-asset. While the concept of multi-asset class investments has been around for many years, they are steadily growing in popularity since the sub-prime crisis as managers seek out RoR. Multi-assets are structured to leverage better returns while increasing diversification and reducing portfolio and investment risk so it is easy to understand the attraction.

Even the definition of multi-asset is evolving as the asset type components that it can be comprised of are still blossoming and the creativity portfolio managers are bringing to the mix is pushing the envelope. With languishing returns in listed securities, more and more portfolio managers are adopting more sophisticated multi-asset strategies that include items such as derivatives, options, futures & real assets (such as real estate, private equity).

Many investment managers are crossing the chasm from listed securities to private investments to try to create more sophisticated structures in their multi-asset strategies. The multi-asset space that is emerging is a long way from where it started and is a far cry from the traditional single-class investment strategies of the past.

While the investment structures for multi-asset structures are becoming more sophisticated at a rapid pace, for many firms the technology to support the needs of these complex hybrid investments is not available. Many portfolio managers are forced to use Excel to manage and monitor their investment structures for multi-asset portfolios as a consolidated source in corporately supported systems does not exist. Multi-asset managers using Excel for a consolidated view of holdings may be reducing portfolio and investment risk, but are concurrently increasing operational risk by using Excel as their technology solution.

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Many firms do not have corporately supported investment management platforms that have the capacity to manage both listed and private assets on one platform. As multi-asset class investments that combine public and private investments continue to grow, this deficiency will create more operational risk as managers resort to Excel to have consolidated views of the investment details they need to manage and monitor their positions.

Monitoring multi-asset structures with listed securities is challenging, as asset classes outperform/ underperform at different times and no asset class will outperform during every type of economic cycle. Assessing the performance and viability of these structures requires the ability to dissect them into their individual components as well as assessing the health of the strategy as a whole.

Portfolio management on the buy-side has increased in complexity for many years. As multi-asset investments transcend equities and fixed income to include derivatives and real assets, the complexity to monitor and evaluate ongoing investment risk increases greatly. This is further complicated by comingling liquid/market priced listed securities with illiquid/private priced private assets. For many managers, the only place they can assemble their complete portfolio is in Excel, as the official book of records is fragmented over multiple systems.

As rates of return for listed securities at the index and individual security continue to underperform, multi-asset strategies striving to outperform exchange returns will grow in popularity. To keep operational risk, compliance and investment monitoring in check, firms need to investment in consolidated platforms that are asset-agnostic to ensure they are well positioned to support the business for these hybrid investment structures going forward.

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