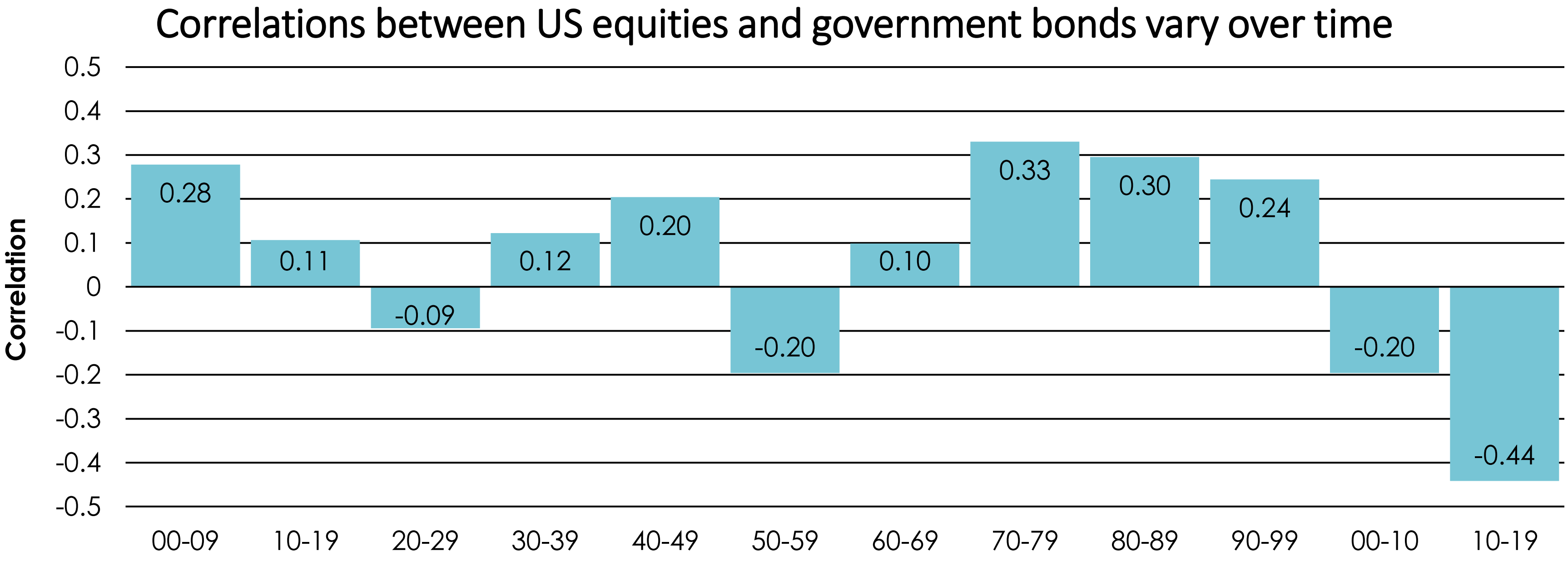
Multi-Asset and a Basket of Strategies

Dr. Daniel Seiler

Head Multi Asset – Vontobel Asset Management

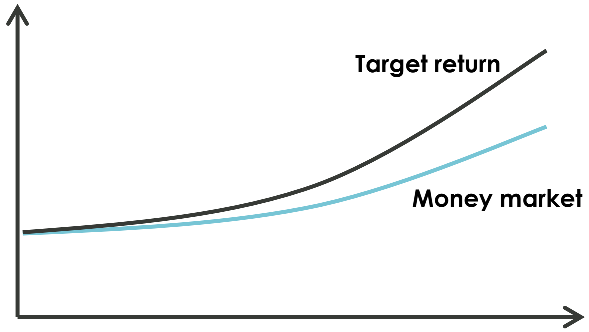
What are the learnings of the Covid crisis for multi asset solutions?



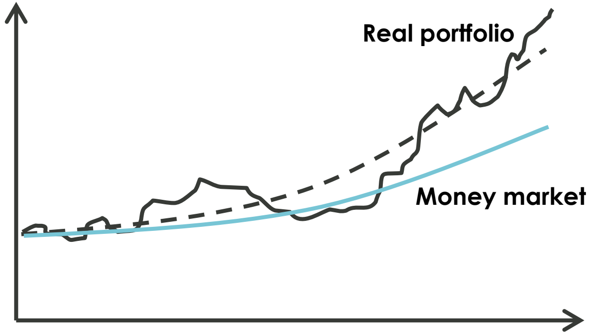
The chart shows the correlation between US government bonds (represented by 10-year US treasury constant maturity bonds) and US equities (represented by the S&P Composite) for twelve decades between 1.1900-1.2020 based on monthly returns. Source: Vontobel Asset Management, http://www.econ.yale.edu/~shiller/data.htm.

What your core beliefs for successfully managing multi asset portfolios?

Wish: Consistent capital growth



Reality: “Alpha” can vary



- “Alpha” can vary in the short term
- Diversification across **different risk premia that complement each other over time**
- **Risk management** must be an integral part of the investment process

What your core beliefs for successfully managing multi asset portfolios?

	Traditional Multi Asset	Modern Multi Asset	
Portfolio type	Balanced	Risk-based	View-based
Asset Allocation	Static, tactical allocation changes possible	Dynamic, based on changes in volatility and correlation over time	Dynamic, based on market views and changes in volatility and correlation over time
Risk Management	Volatility not managed, no use of leverage	Volatility targeting, dynamic use of leverage	Volatility targeting, dynamic use of leverage
Risk contribution of each asset class	Equity bias	Equal risk contributions from all asset classes	Depends on view-based allocation

What asset classes or risk premia do you need for implementing a robust multi asset portfolio?

Universe of Risk Premia

We focus on what is important:

1. **Economic evidence**
2. **Positive excess return** over the long run
3. **Diversification**, i.e. risk-return-profiles that complement each other
4. **Liquidity**

The Key Risk Premia

Traditional risk premia

Risk Premium Eq

Risk Premium Fi

Alternative risk premia

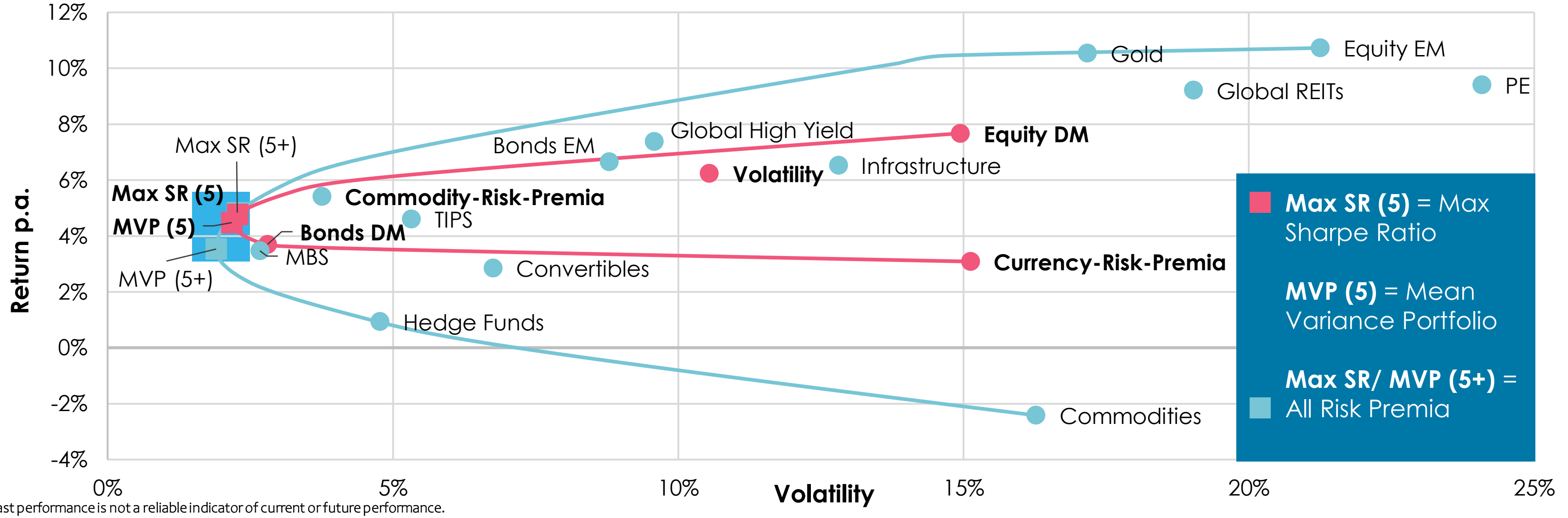
Risk Premium Co

Risk Premium Vo

Risk Premium Fx

What asset classes or risk premia do you need for implementing a robust multi asset portfolio?

Universe of Risk Premia

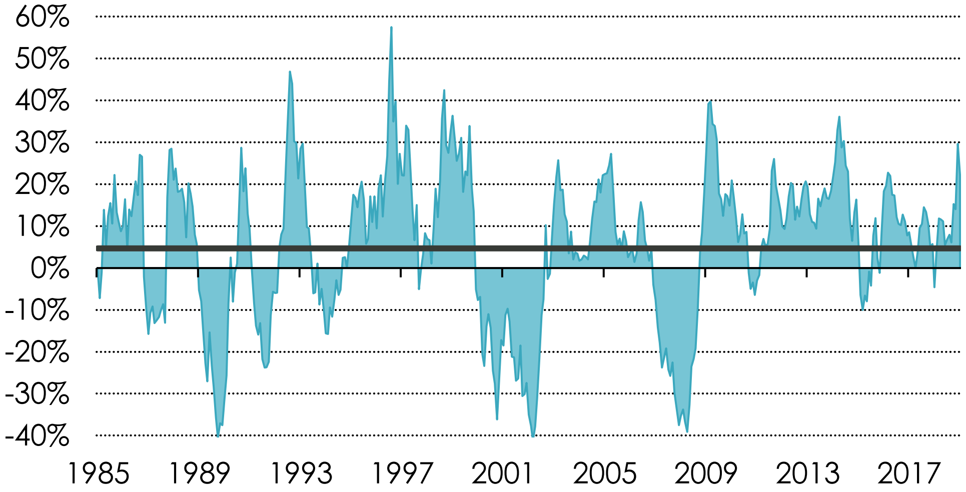


Past performance is not a reliable indicator of current or future performance.

The return may go down as well as up due to changes in rates of exchange between currencies. This graph shows the long-only efficient frontiers over the period 30.11.2002 to 30.4.2020 using end-of-month data. We consider two universes: the Vescore universe (black), and an enhanced universe (black & gray). MSR denotes the «maximum Sharpe ratio portfolio» and MVP the «minimum variance portfolio». No costs are considered in this analysis. Thus, the returns of less liquid asset classes are overstated. Including their real implementation costs would even strengthen Vescore's approach to focus on only five asset classes. Source: Bloomberg, Vontobel Asset Management.

Where can returns be generated over the next years and how important will tactical management be?

Example: Equity risk premium (rolling 12-month return)



Rationale for Tactical Management

– The equity risk premium represents the stock market return above the risk-free return which is on average 5-6% p.a. (Range: -40% to +60%)

– Investors take systematic risk according to their economic expectations

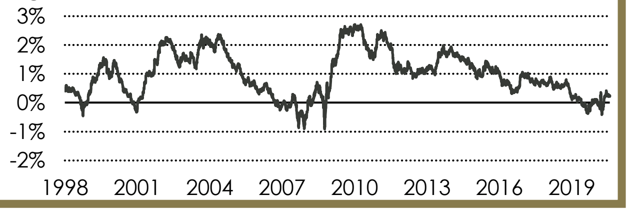
– Tactical management creates added value

Past performance is not a reliable indicator of current or future performance.
The return may go down as well as up due to changes in rates of exchange between currencies. Equity risk premium: Difference between rolling 12-month return of MSCI World TR Gross USD (BB-Ticker: M2WO Index) in EUR and Euro Money Market Rate. Source: Vontobel Asset Management, data: 1.1986–12.2019.

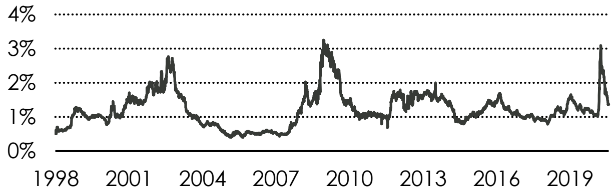
Where do models help and what are their advantages/ challenges versus discretionary approaches?

Measure the fundamental market environment (GLOCAP model)

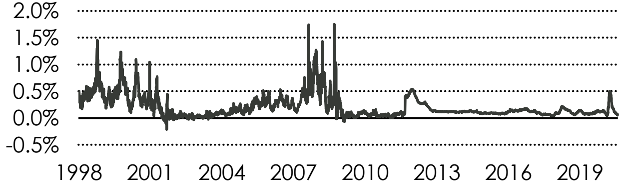
Term Spread (G7, GDP-weighted)
Long-term business expectations



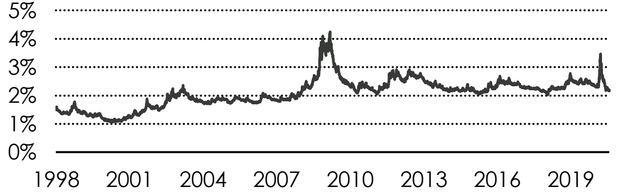
Credit Spread (USA & EMU Industrials)
Confidence in corporates



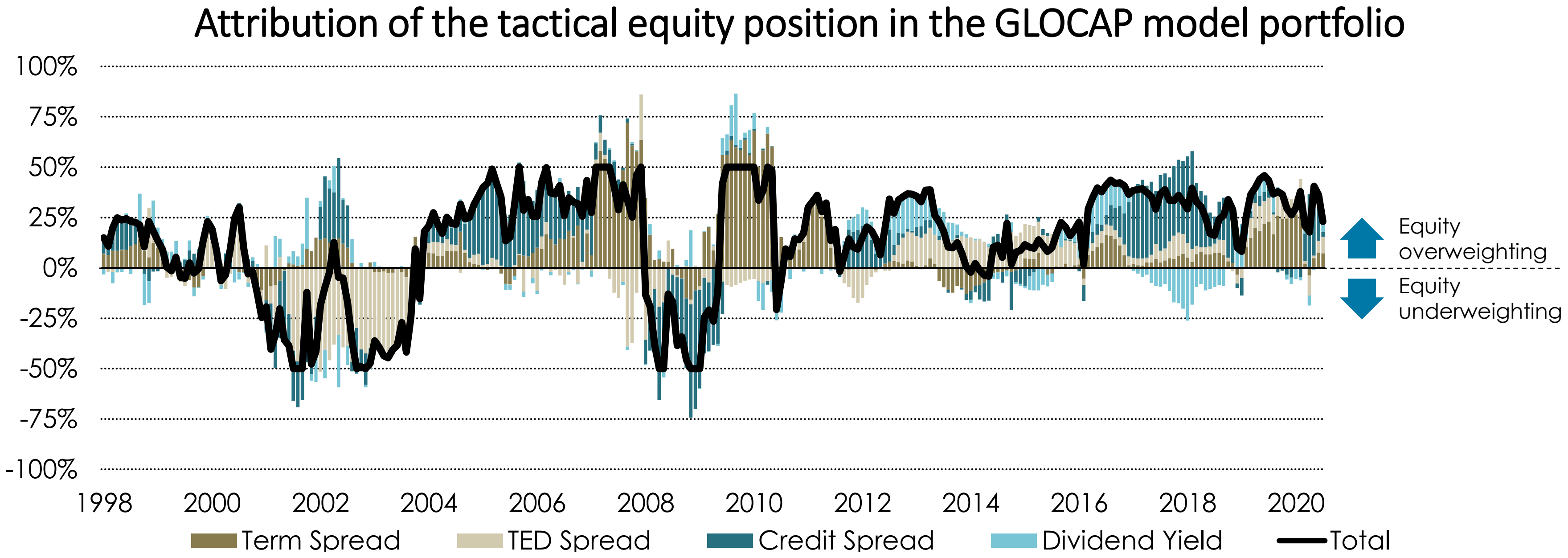
TED Spread (USD, EUR, JPY; 1/N-weighted)
Liquidity preferences and systemic risk



Dividend Yield (G7; GDP-weighted)
Fundamental valuation



Where do models help and what are their advantages/ challenges versus discretionary approaches?



Model portfolio with equity quota management in the range of -50% to 50%, based on a neutral position.
Source: Vontobel Asset Management, data: 31.1.1998–31.7.2020.

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