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L&G sees active allocation as key to returns

By Amanda Smith

Legal & General's multi-managers say one of the biggest risks investors face is overpaying for an asset. The team highlights the outperformance of its funds in 2008 as an example of its approach paying off.

The managers felt alternative asset classes such as property and private equity looked overvalued at that time and they were not keen on the leverage and illiquidity in these classes. It chose not to hold them and says this helped performance during the financial crisis.

Fund manager at Legal & General Tim Gardner says: "We see asset allocation as a differentiator and another source of return, so we are not just relying on fund selection. It is nice to have a three-year anniversary as some people wait for a three-year track record before a fund appears on their radar. We aim to continue focusing on performance because that is how we fill our fund with investors."

The team runs three multi-asset funds of funds, launched in April 2008, on a multi-asset basis but says this does not mean holding all of the asset classes all the time. Neither does it mean focusing on equities and bonds with a few token alternatives thrown in.

Instead, Gardner and Alan Thein use active asset allocation to identify the areas providing most value at any given time, taking advantage of investment opportunities as they arise.

Some multi-asset managers hold all asset classes all of the time for diversification, in the expectation that something in the portfolio will always outperform.

But the L&G team says that in a bear market, when managers are relying heavily on that diversification to get them through difficult times, the one thing that that will go up is correlation between the asset classes. This means holding all asset classes does not provide as much diversification as these managers believe.