



**LOMBARD ODIER**  
INVESTMENT MANAGERS

# Considerations for an all-rounded multi-asset portfolio

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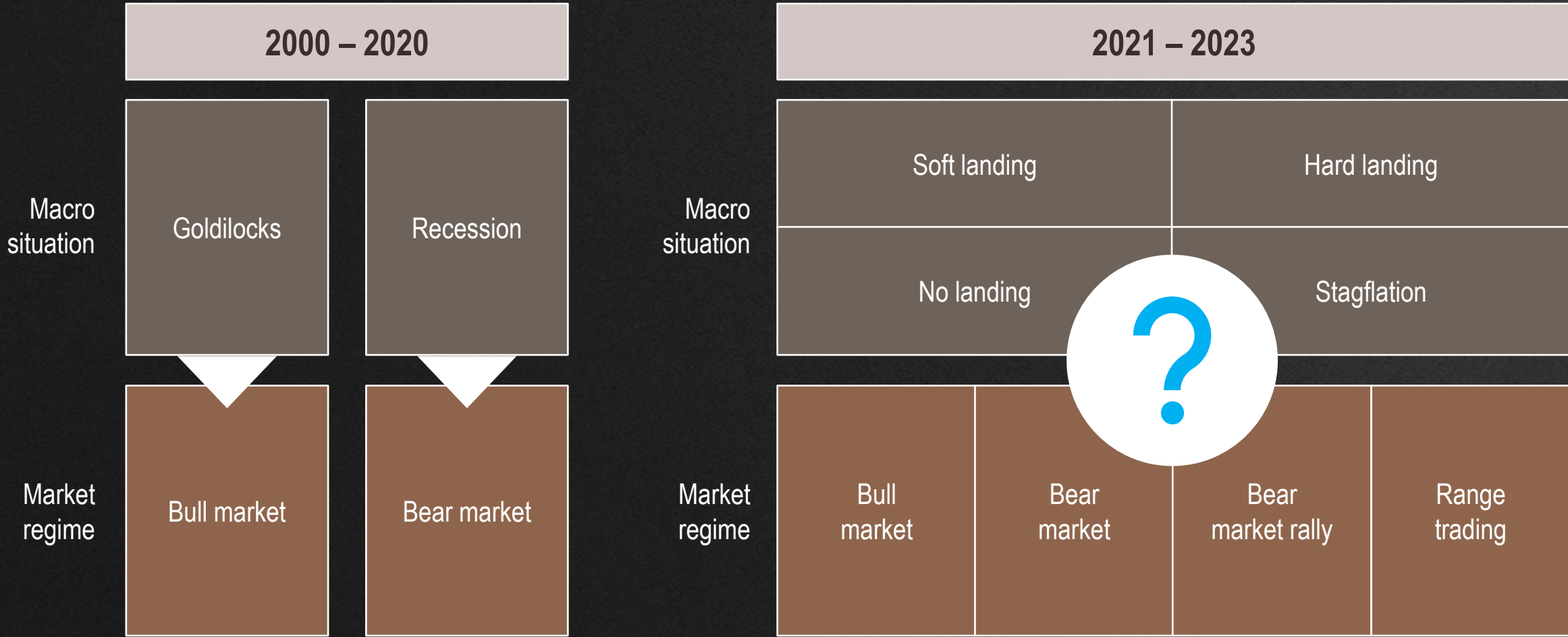
June 2023



## Introduction

Navigating short-term uncertainties

# Multiplying scenarios means uncertainty – and a dire need for flexibility




Source: LOIM. For illustrative purposes only.

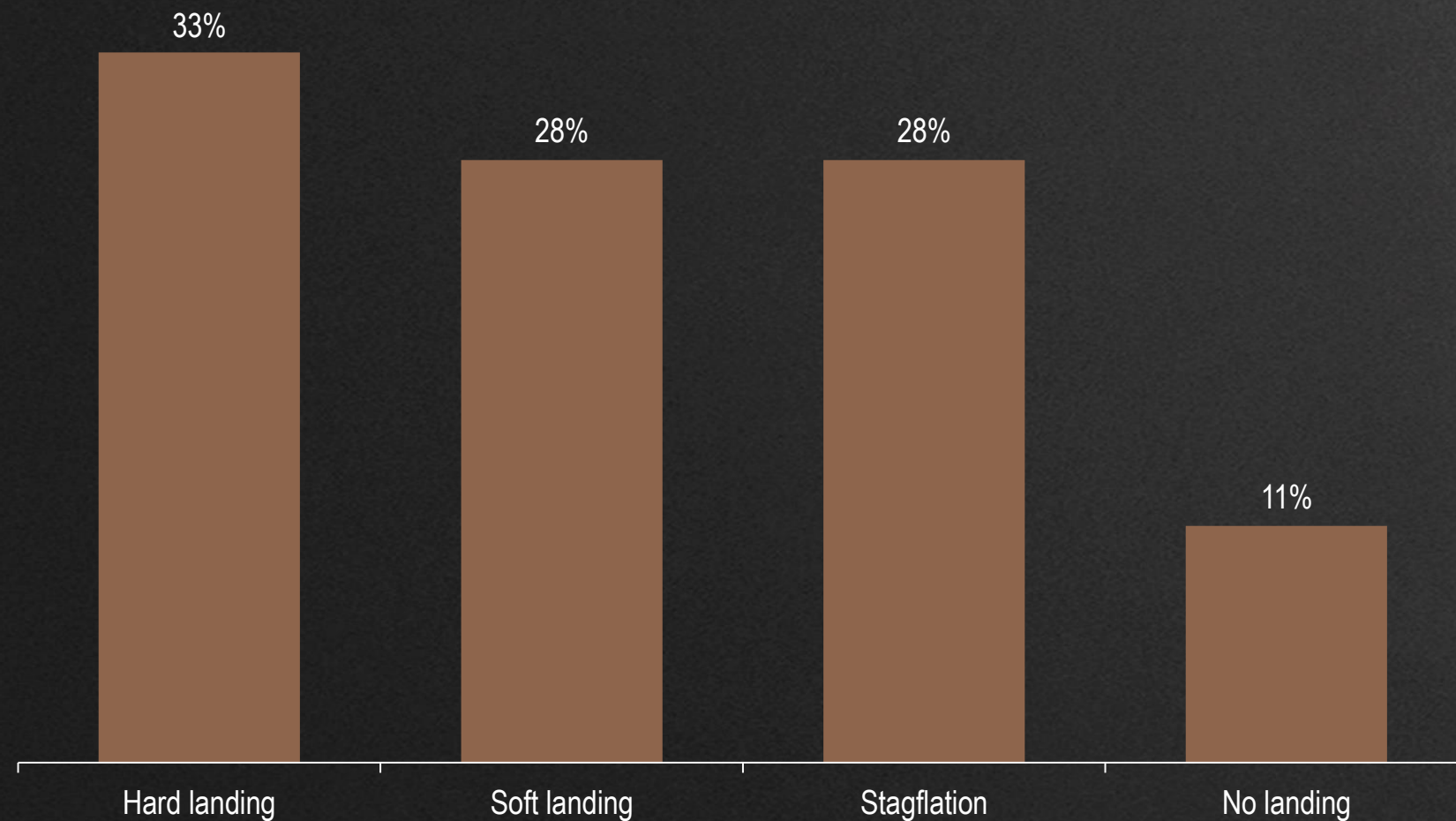
## The market struggles to map out the road ahead

**LinkedIn**

Poll question was: “What market scenario do you expect to see in 2023?”

The LinkedIn poll ran from 20 – 28 March 2023

The 289 votes were fairly evenly split: 



Source: LOIM. Any reference to a specific company or security does not constitute a recommendation to buy, sell, hold or directly invest in the company or securities. It should not be assumed that the recommendations made in the future will be profitable or will equal the performance of the securities discussed in this document.


# Year to date, the allocation most rewarded by the market shows how the odds are changing

## YTD performance ranking


	10-Jan	18-Jan	26-Jan	3-Feb	13-Feb	21-Feb	1-Mar	9-Mar	17-Mar	27-Mar	4-Apr	12-Apr	20-Apr	28-Apr	8-May	16-May	24-May
Top	Soft landing	No landing	No landing	Soft landing	No landing	No landing	Soft landing	Soft landing	Hard landing	Soft landing	Soft landing	Soft landing	Soft landing	Soft landing	Soft landing	Soft landing	Soft landing
Second	No landing	Soft landing	Soft landing	No landing	Soft landing	Soft landing	No landing	No landing	Soft landing	Hard landing	No landing	No landing	No landing	No landing	No landing	Hard landing	Hard landing
Third	Hard landing	Stagflation	Stagflation	Hard landing	Stagflation	Stagflation	Stagflation	Hard landing	No landing	No landing	Hard landing	Hard landing	Hard landing	Hard landing	Hard landing	No landing	No landing
Fourth	Stagflation	Hard landing	Hard landing	Stagflation	Hard landing	Hard landing	Hard landing	Stagflation	Stagflation	Stagflation	Stagflation	Stagflation	Stagflation	Stagflation	Stagflation	Stagflation	Stagflation

Past performance is not a reliable indicator of future performance.  
Data as at May 2023. Source: LOIM, Bloomberg.

# Our response: we are led by what the data tells us



**An agnostic long-term strategic allocation**



**Tactically take into account market information (prices)**

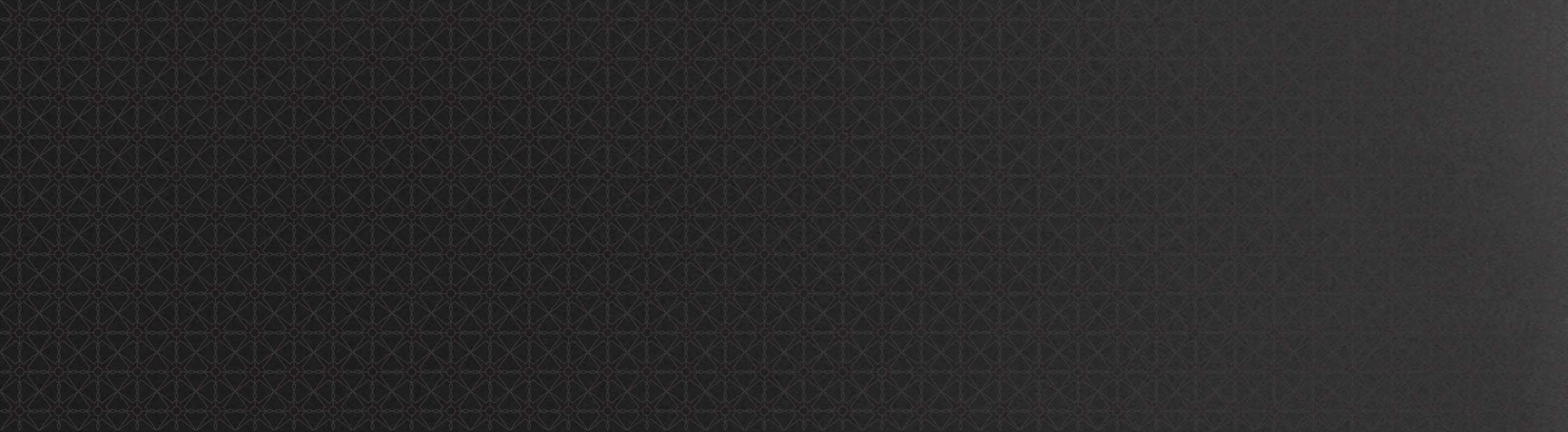


**Tactically take into account macro information**



**Manage drawdowns**

Source: LOIM. Asset allocation/portfolio composition is subject to change. For illustrative purposes only. There can be no assurance that the investment objective will be achieved or that there will be a return on capital. As of May 2023.

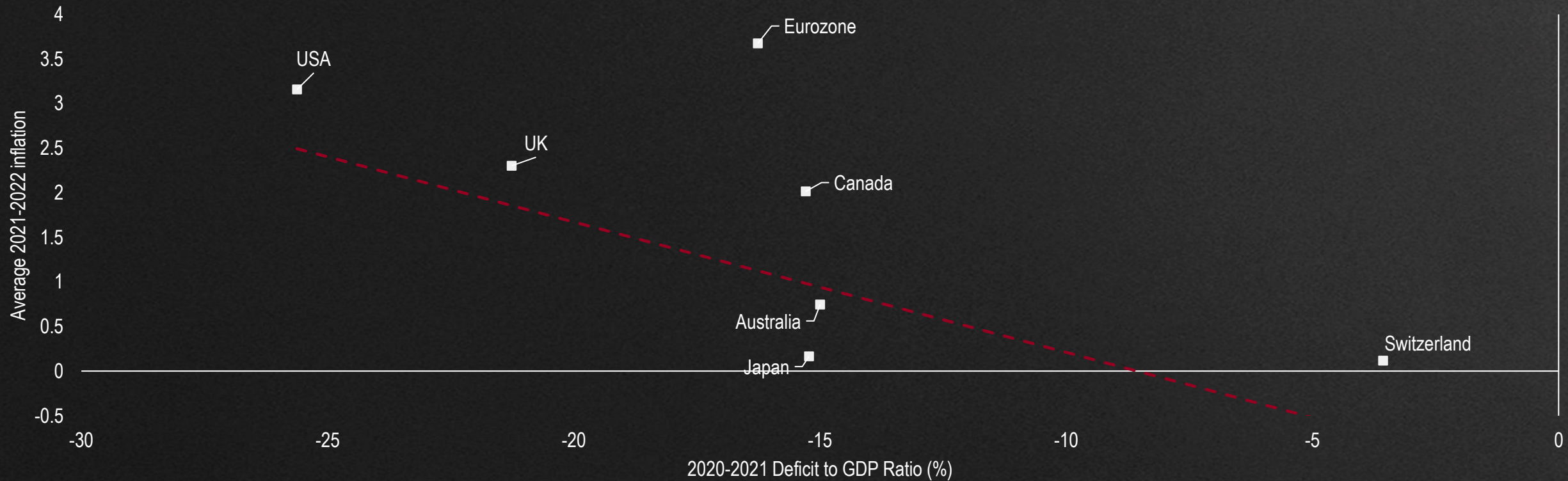


**Looking at the bigger picture**

# Long Term (1)

The current inflation reflects a high demand: higher rates needed

## Expected Inflation as a Function of Recent Deficit

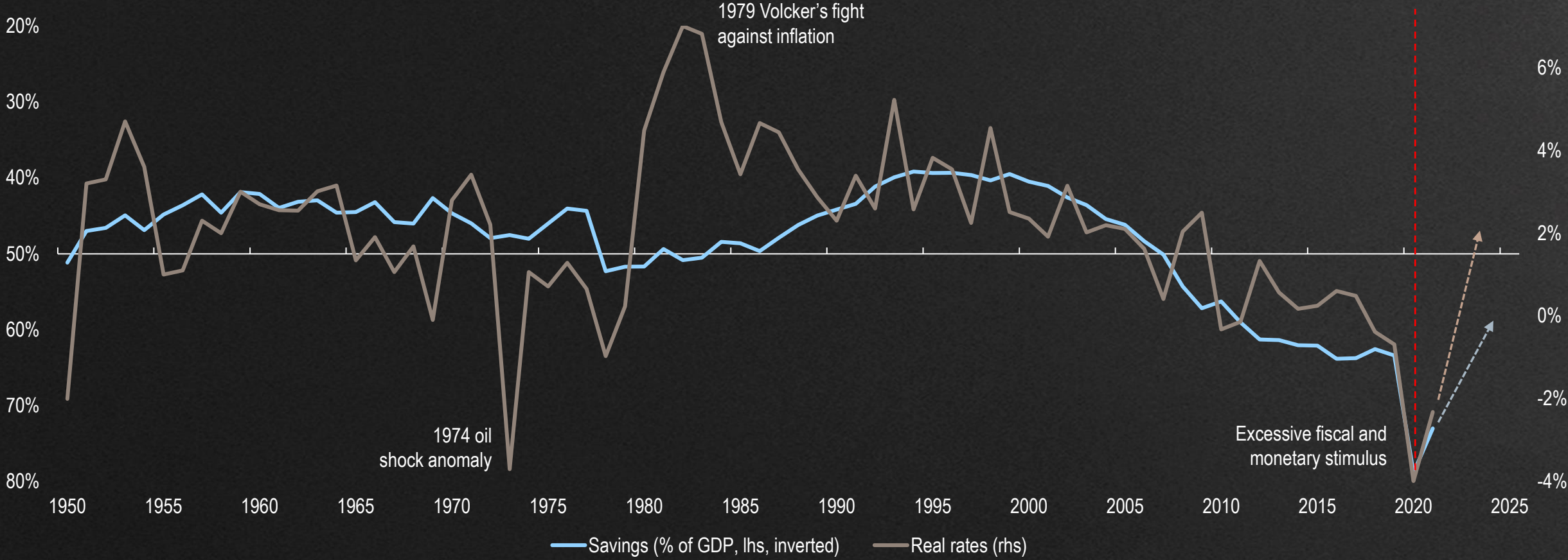


Source: LOIM, Bloomberg. Data as of December 2022.

# Long Term (2)

With lower savings come higher rates

US Real Rates vs. Savings as Ratio to GDP

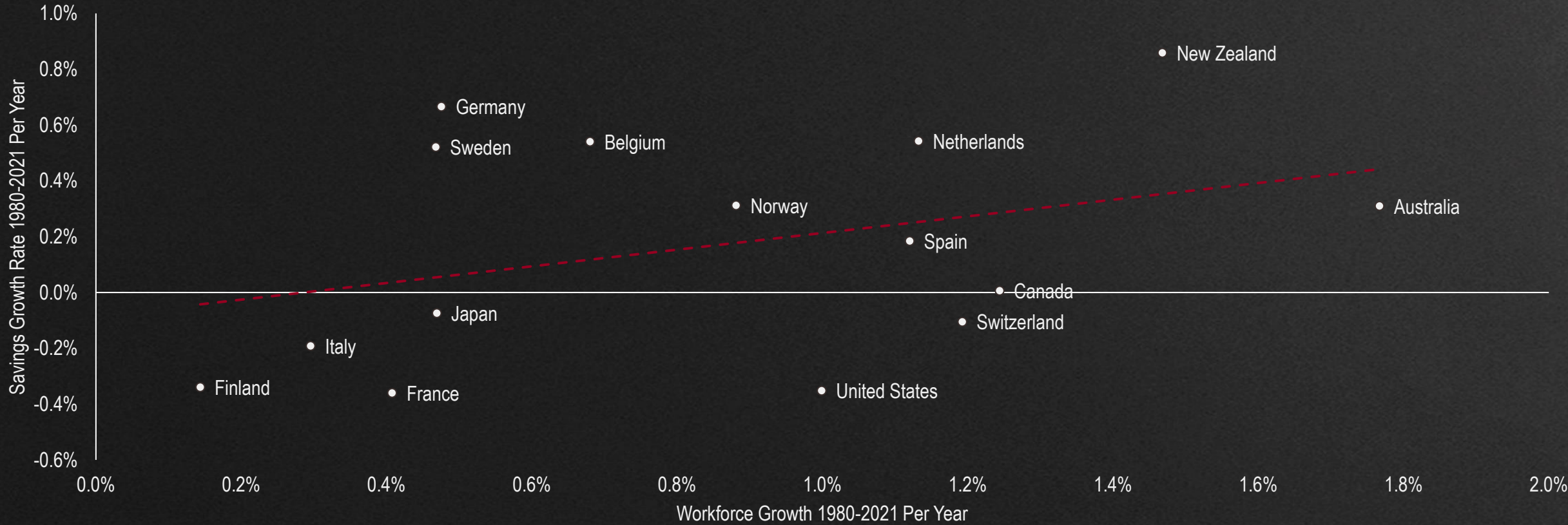


Source: Bloomberg, LOIM. Data as at December 2021.

# Long Term (3)

Demographic trends may cause the cost of capital to rise

Savings Growth as a Function of Workforce Growth

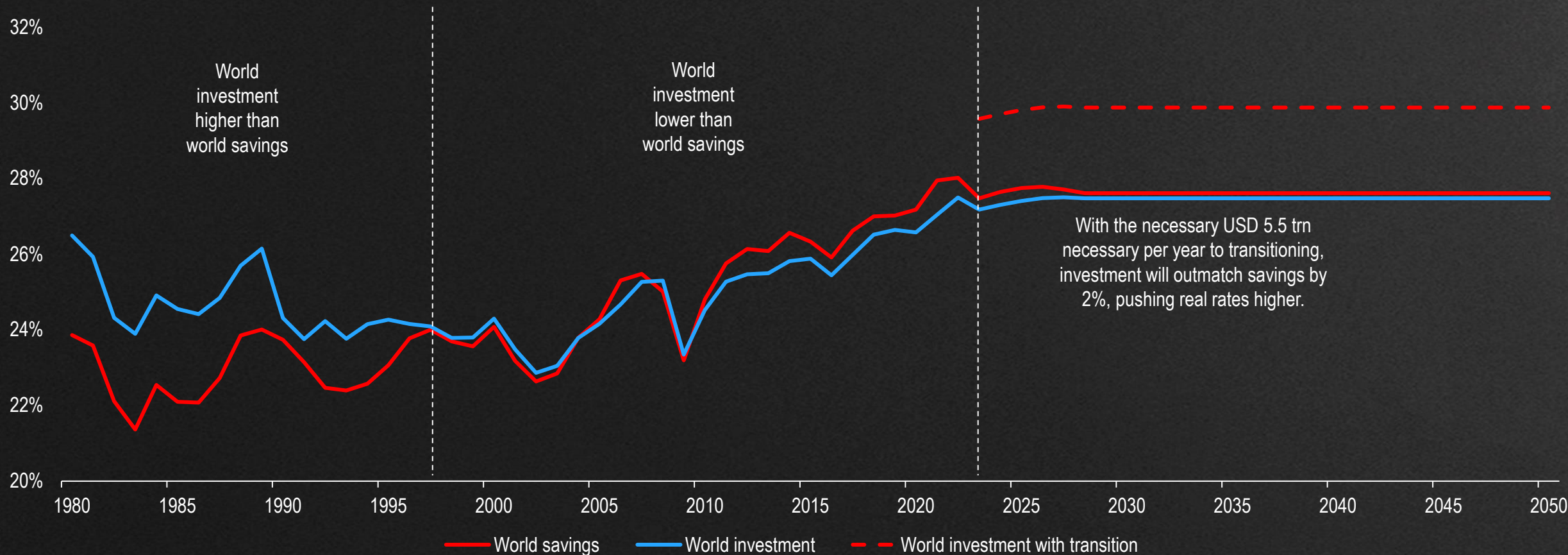


Source: Bloomberg, LOIM. Data as of December 2021.

# Long Term (4)

Transitioning may drain savings and drive real rates higher

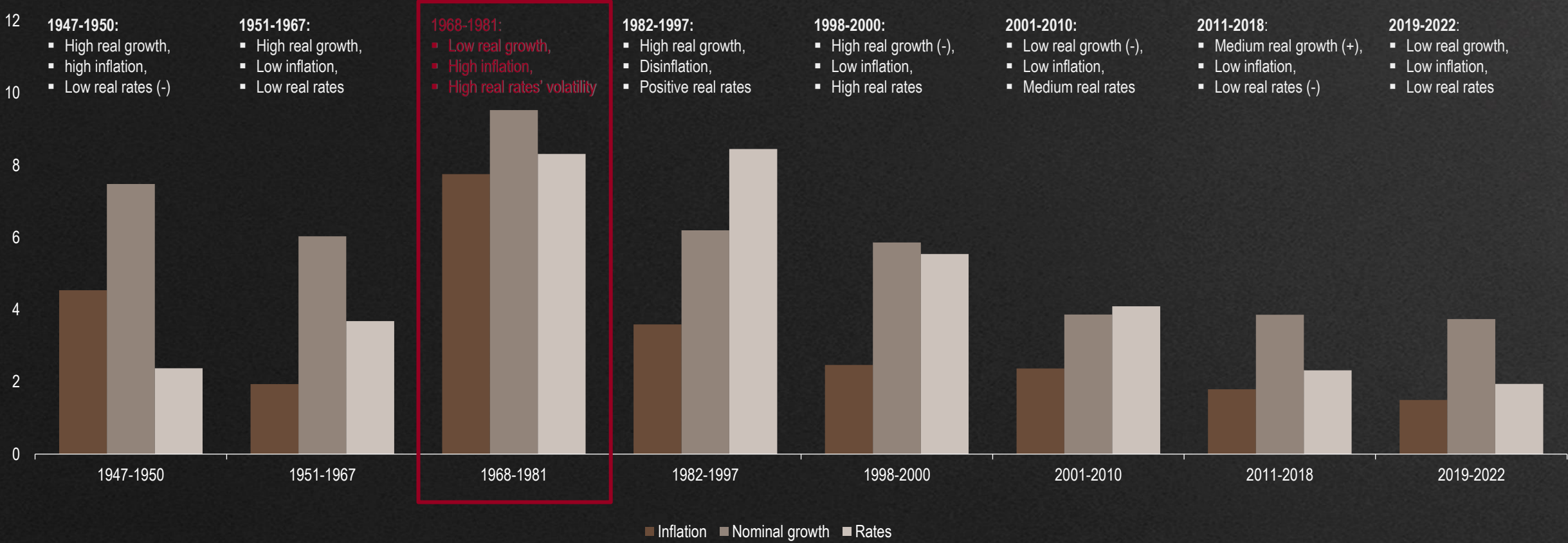
World Investment and Savings (as % to GDP)



Source: IMF, LOIM. Data post 2022 is based on IMF estimates. As of 31 May 2023.

# What happens to financial markets when real rates rise?...

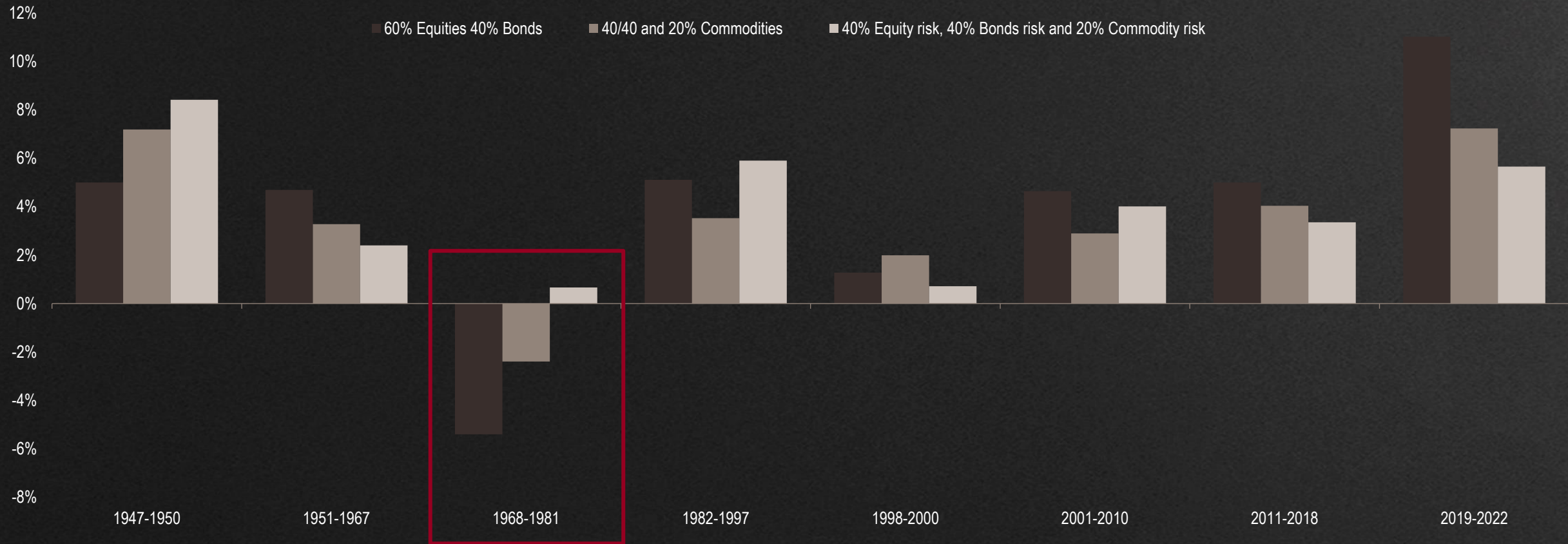
Nominal Growth, 10-year Rates and Inflation (US Data)



Source: Bloomberg, LOIM. Data as at December 2022..

# ...Risk-balanced solutions outperform passive portfolios

Multi-Asset Performances (Returns in Excess of Cash)

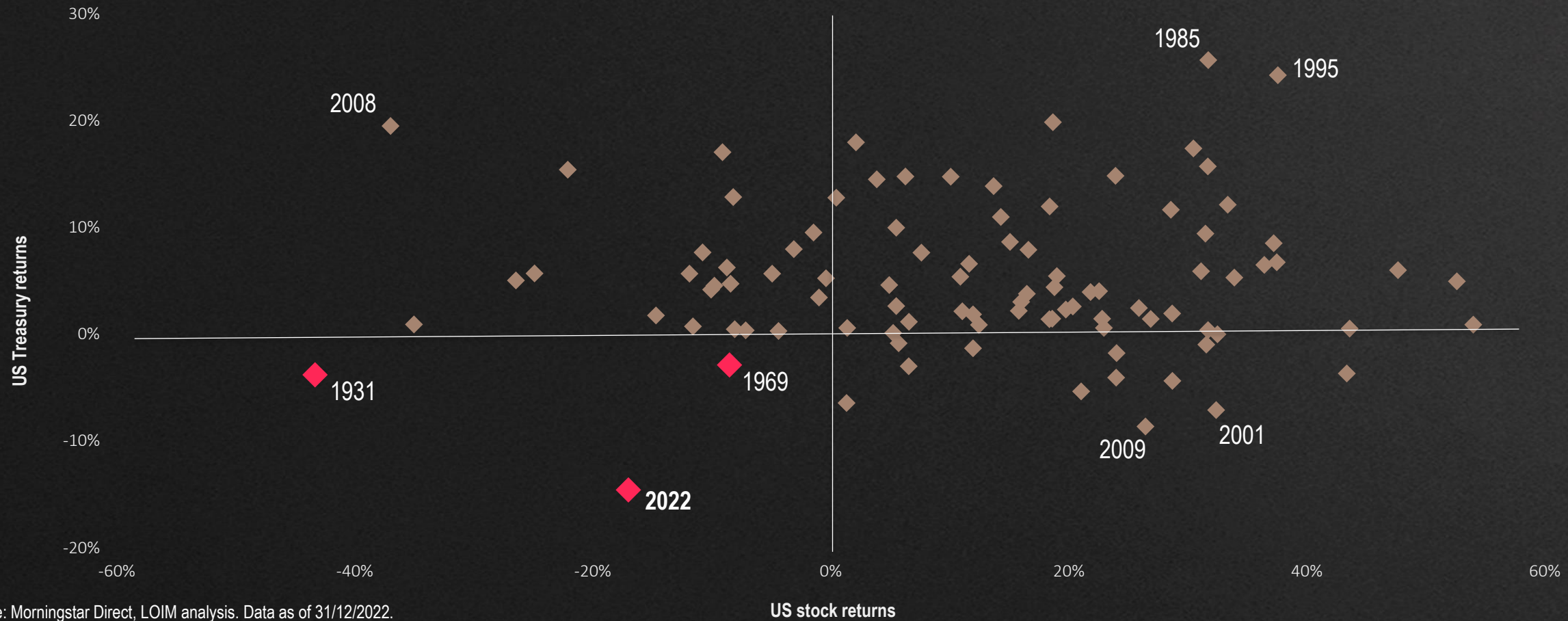


Source: Bloomberg, LOIM as at December 2022.

**Designing a solution fit for purpose**

# Our core beliefs (1): Turning solely to bonds for diversification doesn't always work

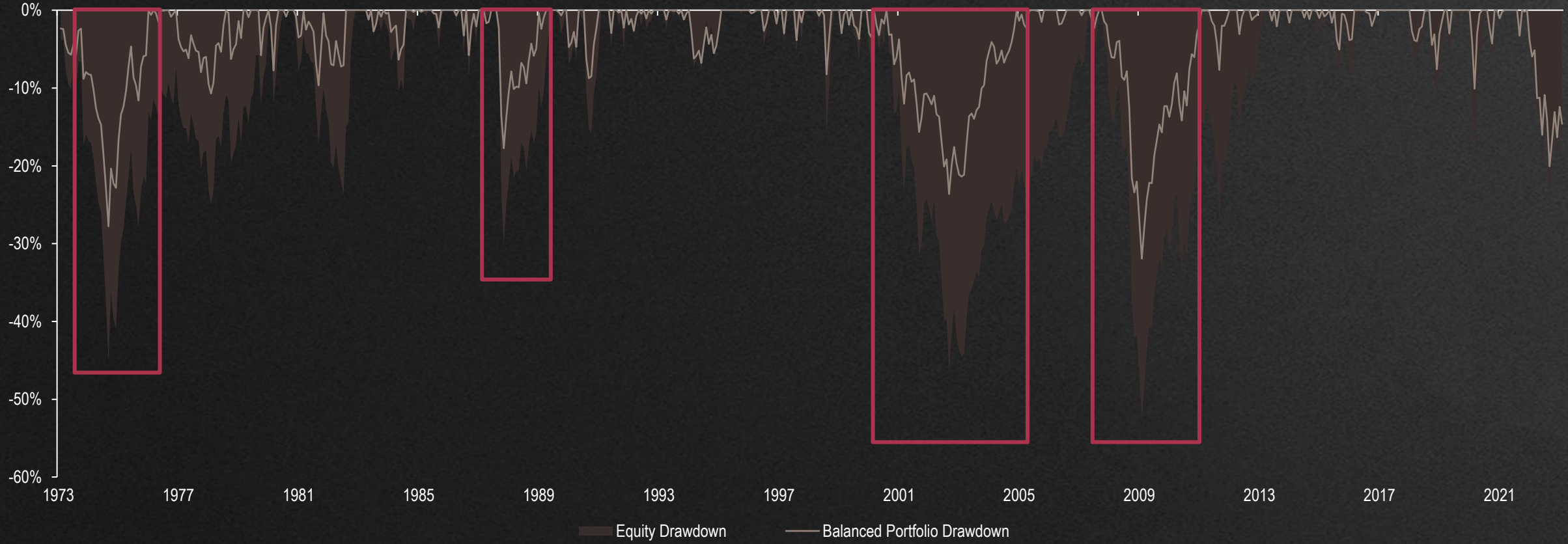
US Equity and US Treasury performance<sup>1</sup>, 1926-2022



Source: Morningstar Direct, LOIM analysis. Data as of 31/12/2022. For illustrative purposes only.

# Our core beliefs (2): Traditional multi-assets portfolios are overly dependent on equities

US Equity and balanced portfolio drawdowns<sup>1</sup>, 1973-2023

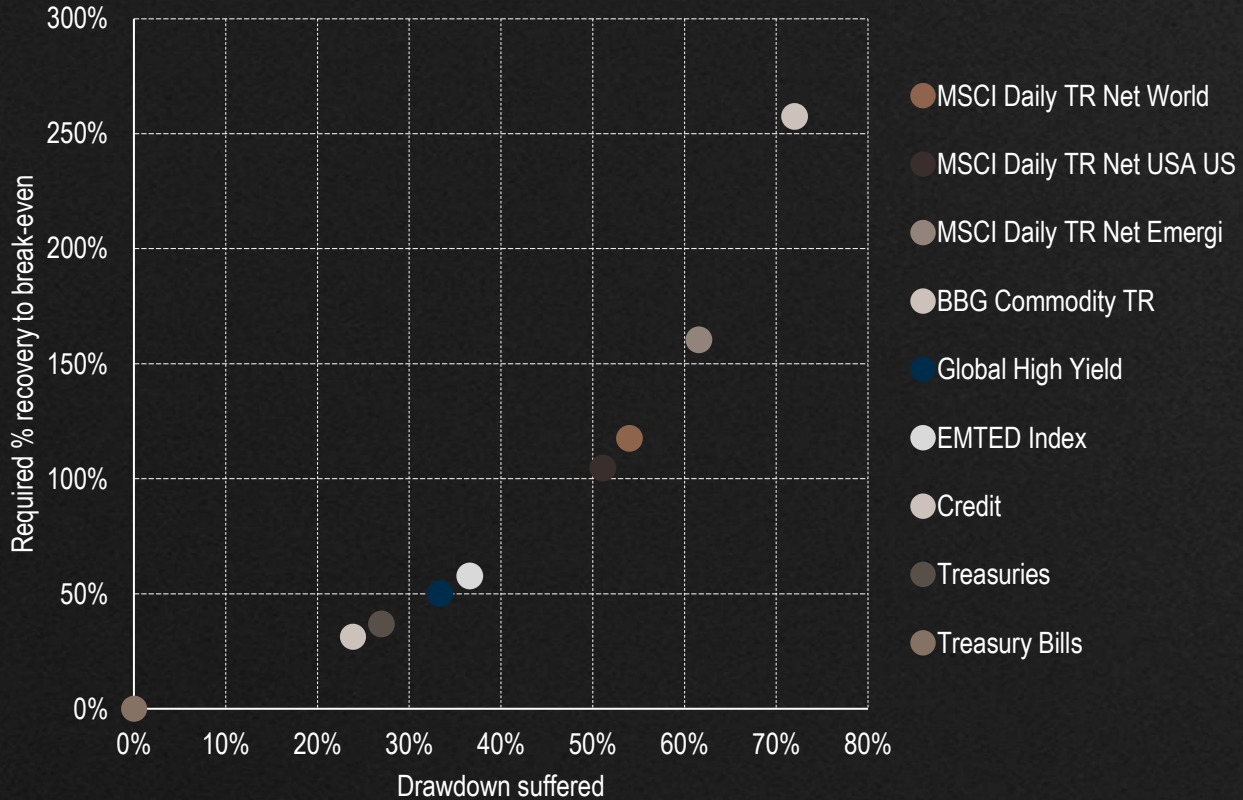


Sources: LOIM, Bloomberg, For illustrative purposes only. Data as at 28/02/2023. Indices used: Government bonds: Bloomberg Barclays US Govt Total Return Value USD; Equities: S&P 500. Balanced Portfolio: 60% equities, 40% bonds, rebalanced monthly. Past performance is not a guarantee of future results. Holdings/allocation may change. <sup>1</sup> It is a method used to measure the financial risk of an investment. It is the extent or the amount of losses carried by a financial instrument since it starts to decline from a high point until it bounces back to surpass such point.

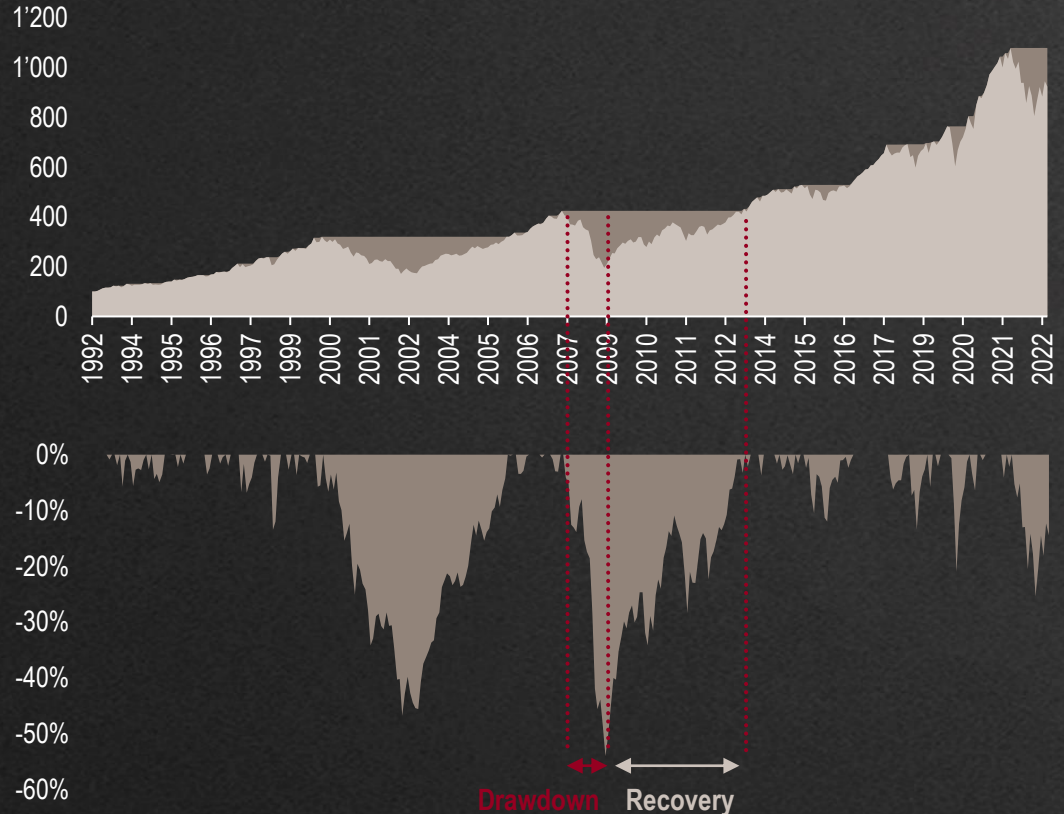
# Our core beliefs (3): Drawdowns matter more than volatility

Large drawdowns are bad because they require time and effort to return to previous capital levels

## DRAWDOWN VERSUS RECOVERY ACROSS MAJOR ASSET CLASSES



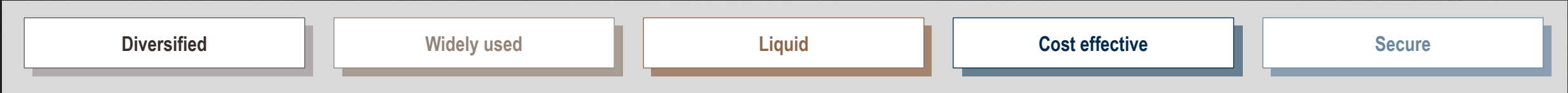
## HISTORICAL DRAWDOWN – MSCI WORLD, 1992-2022



For illustrative purposes. Asset classes include: sovereign bonds, credit, developed equities, emerging equities and commodities. Data 1980-2022.  
 Source: Bloomberg, LOIM calculations. Data as of 28/2/2023.  
 Past performance is not a guarantee of future results.  
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# Our response (1): Defining the right tool set


We use instruments that tend to perform better in different market environments




WHAT?	WHY?
DM equities	Typically perform well in <b>Expanding Growth</b> markets
EM equities	Typically perform well in <b>Expanding Growth</b> markets, with some sensitivity to inflation
Government bonds	Typically perform well in <b>Declining Growth</b> and <b>Deflationary</b> markets
Corporate bonds	Typically perform well in <b>Declining Growth</b> markets, particularly when not followed by recessions
Commodities	Typically perform well in <b>Inflationary</b> markets
Cash	Simple, <b>protective asset</b>
Volatility	Typically benefits from <b>unexpected market shocks</b>

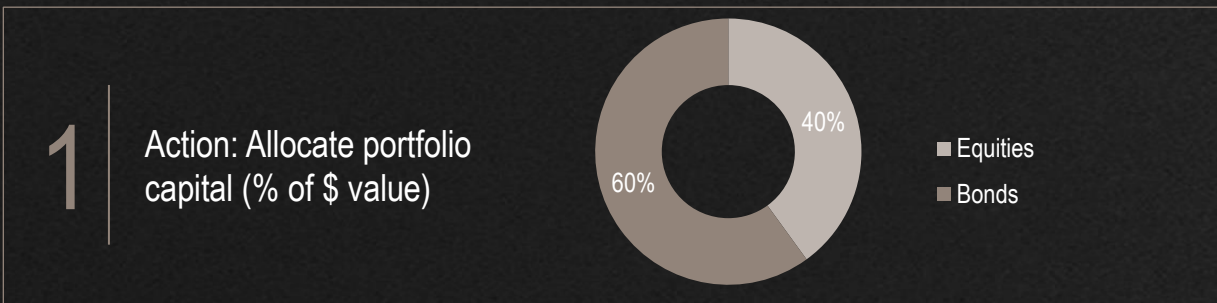
Source: LOIM. Asset allocation/portfolio composition is subject to change. For illustrative purposes only. There can be no assurance that the investment objective will be achieved or that there will be a return on capital.

# Our response (2): Prefer risk allocation to capital allocation

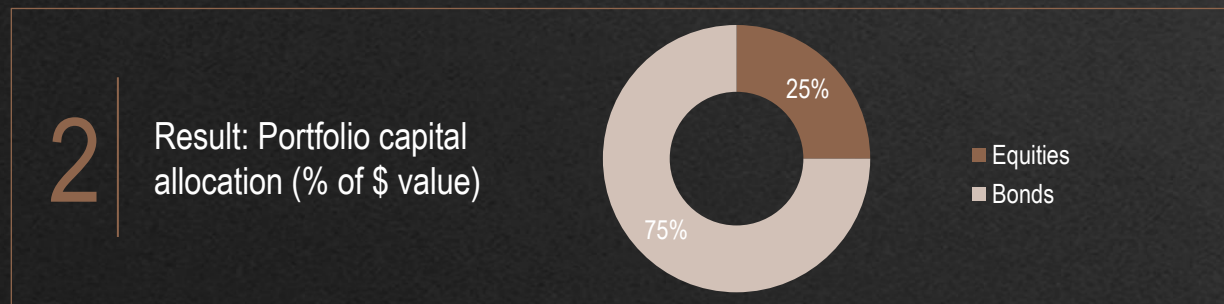
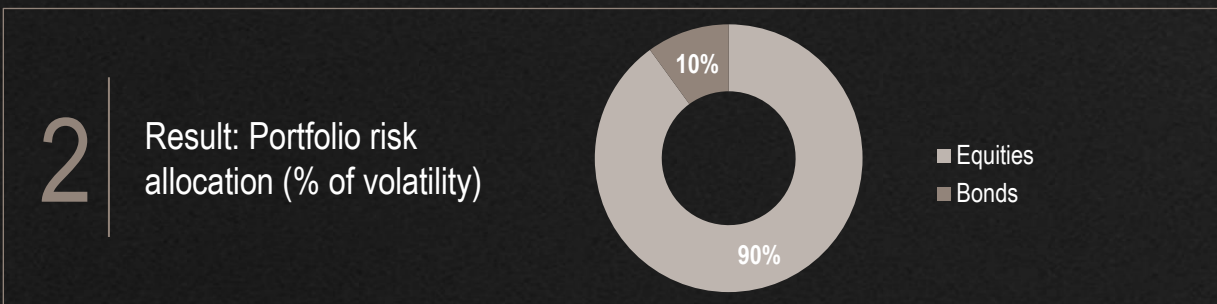
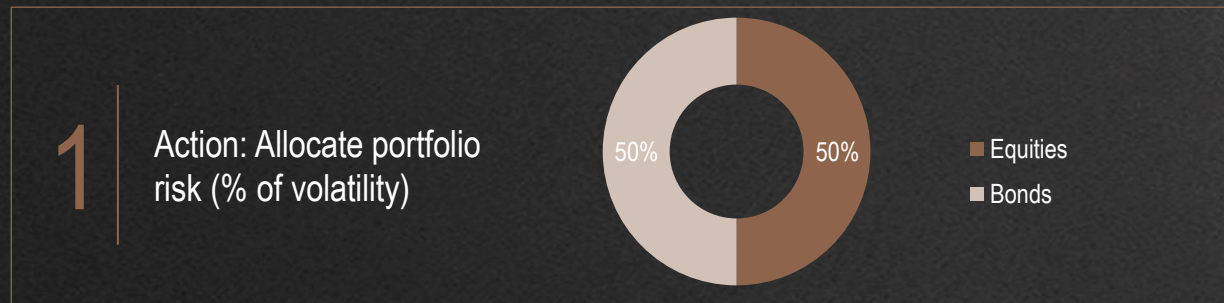
 We believe **capital allocation** may mask risk concentration and lead to a false sense of diversification

 We believe **allocating the risk contribution** of asset classes is key for true diversification and generating stable risk-adjusted returns

## Traditional capital-based allocation



## Risk-based allocation



Source: LOIM. For illustrative purposes only. Allocations may change. Data as of 28/02/2023.  
Capital protection/Capital preservation represents a portfolio construction goal and cannot be guaranteed.

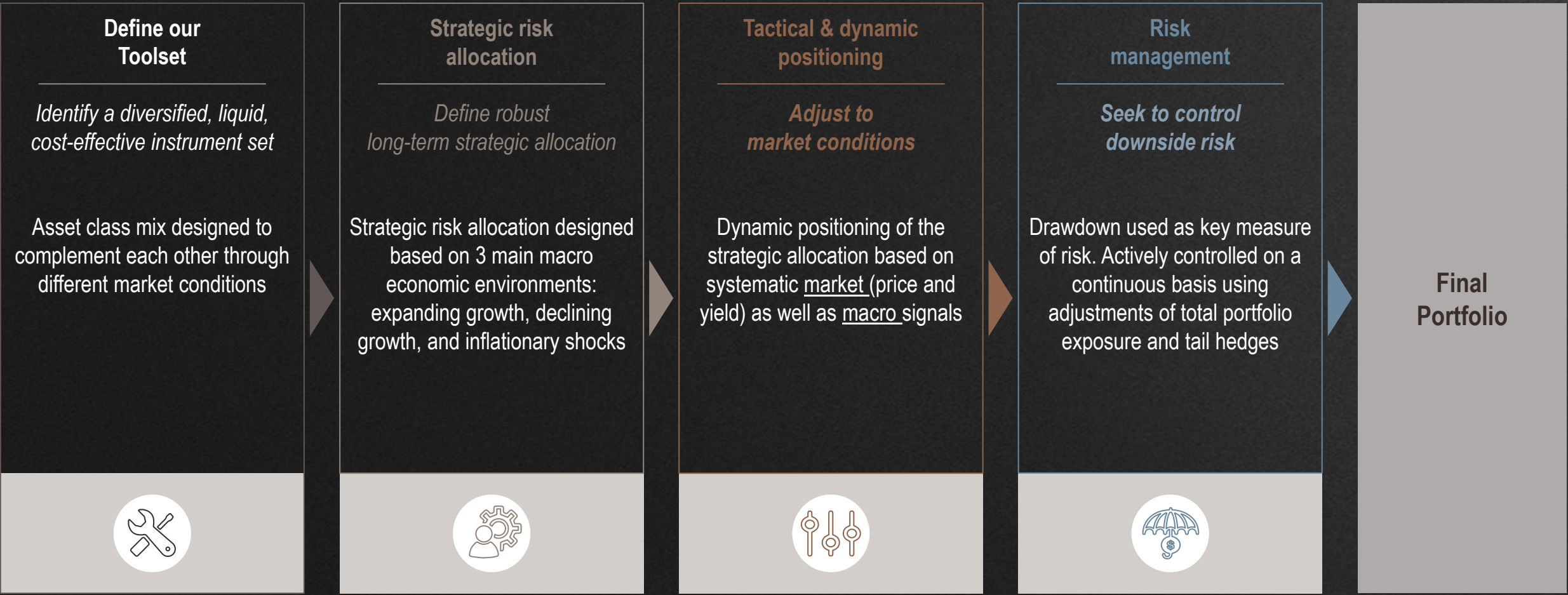
# Our response (3): Managing drawdowns is powerful

## Value of risk management



Source: LOIM, Bloomberg. Data as of 30/05/2023. Past performance is not a guarantee of future results. For illustrative purposes only.

# Designing a good solution incorporating advances in portfolio construction



Source: LOIM. For illustrative purposes only.

# Defining our strategic asset allocation

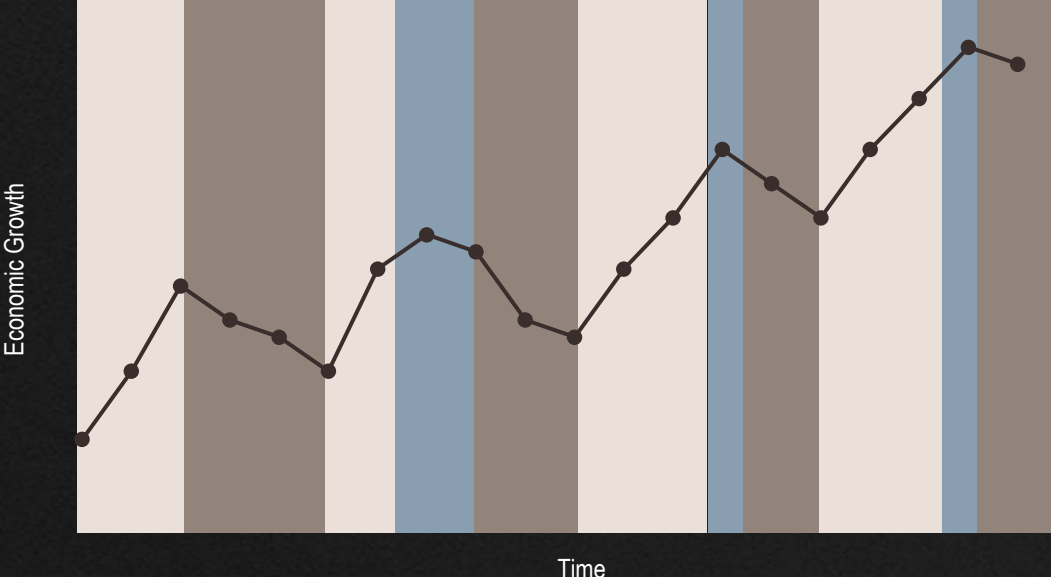
We seek a balanced exposure to the economic cycle at all times

Long-term analysis of economic cycles shows periods of expanding growth, declining growth and inflation occur successively in a balanced way

Expanding growth  
Approx. 40% of the time

Declining growth  
Approx. 40% of the time

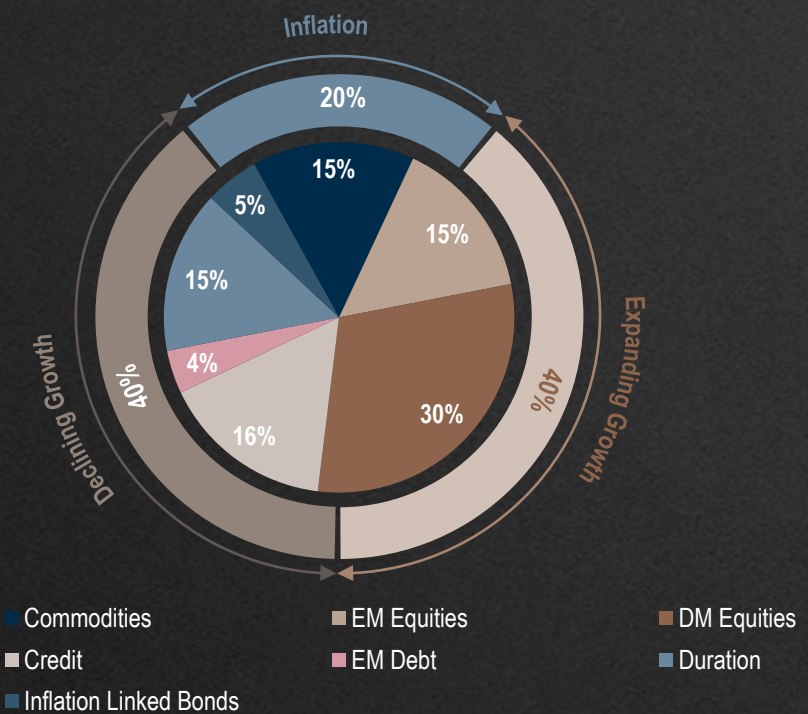
Inflationary shock  
Approx. 20% of the time



Source: LOIM. For illustrative purposes only. Allocations are subject to change.

We design our strategic asset allocation to be balanced across the long-term growth/inflation cycle, without favouring any one particular scenario, using the tools most suited to each macro-economic scenario

## Base case risk allocation



# Implementing our tactical asset allocation

We use quantitative signals to respond to changing market conditions



## Typical signals for price dynamics

- **Positive** signal: current price is above medium-term average
- **Negative** signal: current price is below medium-term average

### Resulting tactical adjustments

- ✓ Increase allocation to assets with positive signals
- ✓ Reduce allocation to assets with negative signals



## Typical signals for yield (carry) strategies

- **Positive** signal: yield curve is steepening
- **Negative** signal: yield curve is flattening (or even inverting)

### Resulting tactical adjustments

- ✓ Increase allocation to assets associated with steeper yield curves
- ✓ Reduce allocation to assets associated with flatter (or inverting) yield curves



## Typical signals for macro strategies

- **Positive** signal: favourable macro (growth, inflation, monetary policy) and/or risk appetite
- **Negative** signal: unfavourable macro (growth, inflation, monetary policy) and/or risk appetite

### Resulting tactical adjustments

- ✓ Increase allocation to assets typically outperforming in current macro backdrop
- ✓ Reduce allocation to assets typically underperforming in current macro backdrop

Source: LOIM. For illustrative purposes only. Holdings and allocations may vary over time. Past performance is not a guarantee of future returns.

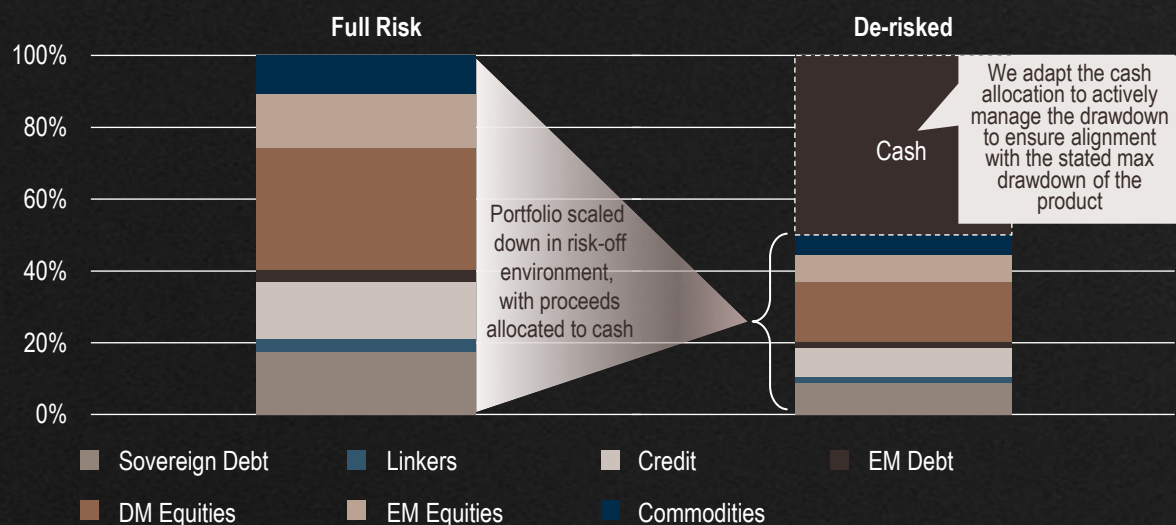
# Combined with an innovative risk and drawdown management process

- There are two primary methods to manage risk in a multi-asset portfolio:
  1. Change the **asset allocation** within the portfolio (e.g. sell equities, buy bonds)
  2. Change the **overall exposure** of the portfolio (e.g. sell equities and bonds proportionately)

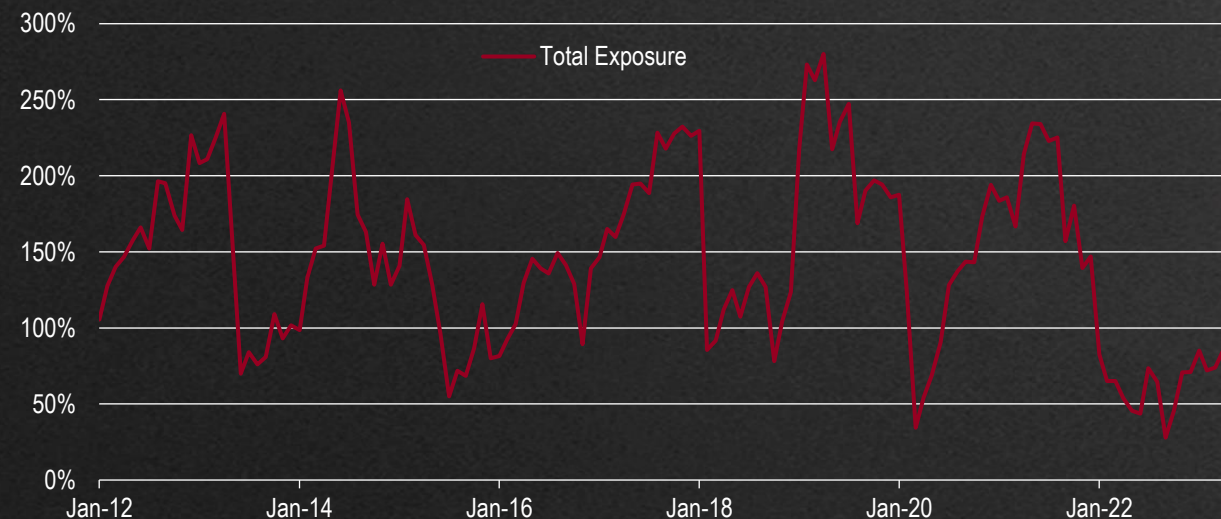
Rather than changing the asset allocation **within** the portfolio in response to sudden market movements – we instead choose to **scale the whole portfolio** in response to changes in market risk:

- This involves selling the **whole portfolio** and replacing it with cash to help **preserve capital**, or conversely increase exposure to the whole portfolio to deploy risk

## Adaptive risk allocation



## Dynamic total portfolio exposure – All Roads Strategy<sup>1</sup>



Source: LOIM as at 31/5/2023. <sup>1</sup> LOF – All Roads. For illustrative purposes only. Allocations may change. Capital protection/Capital preservation represents a portfolio construction goal and cannot be guaranteed.

# The outcome: stable returns and downside protection<sup>1</sup>

LOIM All Roads Strategy – 11 years live track record

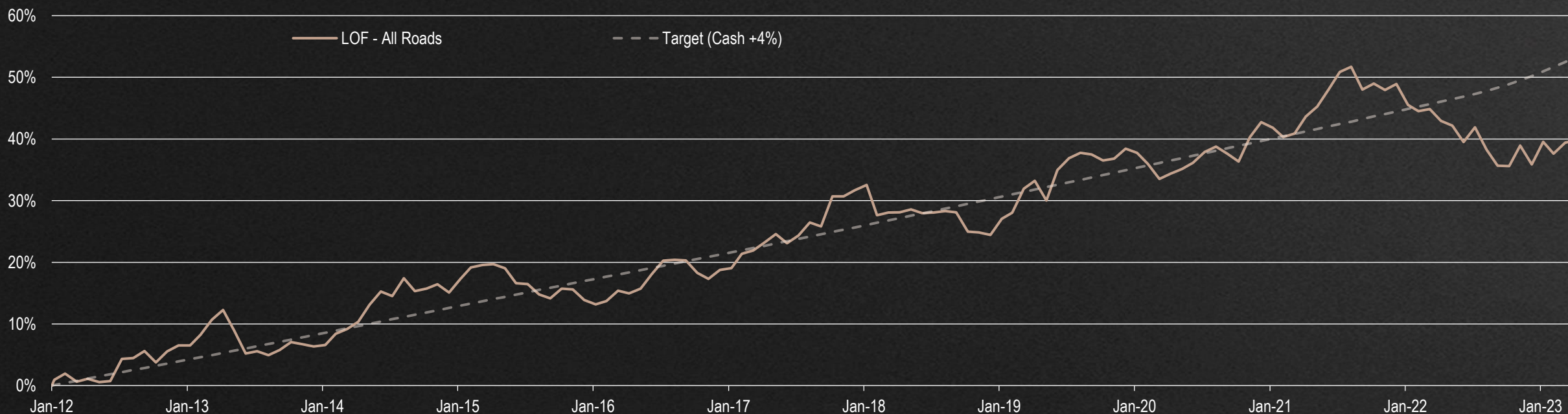
Past performance is not a guarantee of future results

## STABILITY

- Aim: Cash + 3 to 5%
- Realized<sup>2</sup>: Cash + 3.2%

## CAPITAL PROTECTION

- Aim: Expected 1-year drawdown limit of 10%
- Realised<sup>1</sup>: 10.6%



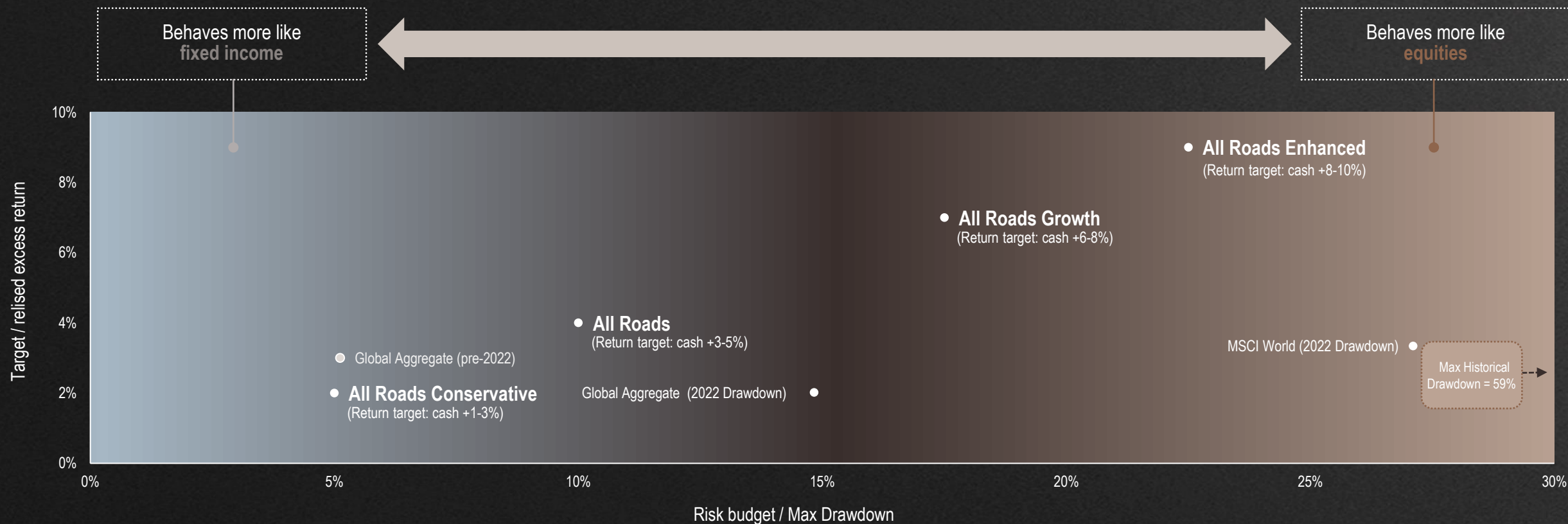
Source: LOIM. Data as of 30/04/2023. Past performance is not a guarantee of future results. <sup>1</sup>Capital protection is a portfolio construction goal and cannot be guaranteed. <sup>2</sup> Performance/data (as applicable) of LO Funds All Roads EUR NA share class net of all fees and expenses. Cash index: ESTR. Capital protection/Capital preservation represents a portfolio construction goal and cannot be guaranteed. Target performance/risk represents a portfolio construction goal. It does not represent past performance/risk and may not be representative of actual future performance/risk. Strategy inception: 24 January 2012.

# An investment approach that can fit multiple uses

Strategy can be scaled to varying risk/return profiles

Past performance is not a guarantee of future performance

## Broad range of target returns<sup>1</sup> and risk budgets<sup>2</sup>



Source: LOIM. <sup>1</sup>Target return = target excess return above cash, gross of fees. For MSCI World / Bloomberg Global Agg, realized performance. <sup>2</sup>Observed number for MSCI World / Bloomberg Global Aggregate, risk budget for All Roads Strategies, Data as of 28/02/2023. Target performance/risk represents a portfolio construction goal. It does not represent past performance/risk and may not be representative of actual future performance/risk. For illustrative purposes only. There is no guarantee that the drawdown target will not be exceeded.

# Q&A

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