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Investing for a world of change

Why Ninety One for Multi-Asset Credit

The fast view

- The 'multi-asset credit' strategy universe is highly diverse, spanning a broad range of investment approaches. Ninety One's Multi-Asset Credit Strategy is focused on the global opportunity set.
- To maximize its ability to capture the upside and limit the downside, we believe a credit strategy should be unconstrained and allocate dynamically across a global opportunity set.
- A focus on carry rather than duration as a return driver makes our Strategy less sensitive to interest-rate volatility and has resulted in a more stable return stream than more duration-sensitive assets.
- The Strategy has delivered differentiated and compelling risk-adjusted returns when compared to more traditional fixed income aggregate markets and more US-centric multi-asset credit approaches.

Past performance does not predict future returns; losses may be made.

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For further information on the investment team, please see Important information section.

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Global, Dynamic and Unconstrained

The term 'multi-asset credit' applies to a very broad range of investment strategies, and investors can find significant variation across the investment universe. The opportunity sets that multi-asset credit strategies tap into vary dramatically and this can lead to significant variations in portfolio construction. As a result, the risk/return outcomes for investors can be very different, depending on the strategy they choose.

We believe the following characteristics are key when it comes to capturing the upside and limiting the downside in credit investing:

- A **global approach**, as this brings diversification benefits and prevents a strategy from becoming overly sensitive to the US economic cycle.
- A **dynamic** approach to asset allocation allows a portfolio to pivot nimbly to the most attractive areas of the market and move away from those areas that offer less value.
- An **unconstrained** approach means the strategy can access lesser-known areas of the market, such as specialist credit, which would typically require a higher governance budget to access individually.

Here, we discuss each point in turn, in the context of Ninety One's Multi-Asset Credit Strategy.

A global opportunity set

At Ninety One we employ a global approach to managing our Multi-Asset Credit Strategy. Unlike other approaches that have a bias towards the US given its dominant role in global credit markets, we exercise the ability to allocate meaningful exposure to other regions – such as Europe and emerging markets. This can bring significant benefits in terms of portfolio diversification, ensuring that the overall Strategy is less correlated to the fluctuations of the US economy. To illustrate the potential benefits a more global opportunity set can bring, Table 1 shows that over the last 10 years, European assets have outperformed their US counterparts – across investment-grade credit, high-yield credit, and loan markets – while generally exhibiting lower levels of volatility.

Table 1. 10 year risk and return across various global assets

	10-year return (annualised)	10-year volatility	10-year return/risk
US investment-grade	2.56%	6.60%	0.39
European investment-grade	2.79%	4.72%	0.59
US high yield	4.26%	7.69%	0.55
European high yield	5.07%	7.23%	0.70
US loans	4.49%	5.46%	0.82
European loans	5.93%	6.44%	0.92

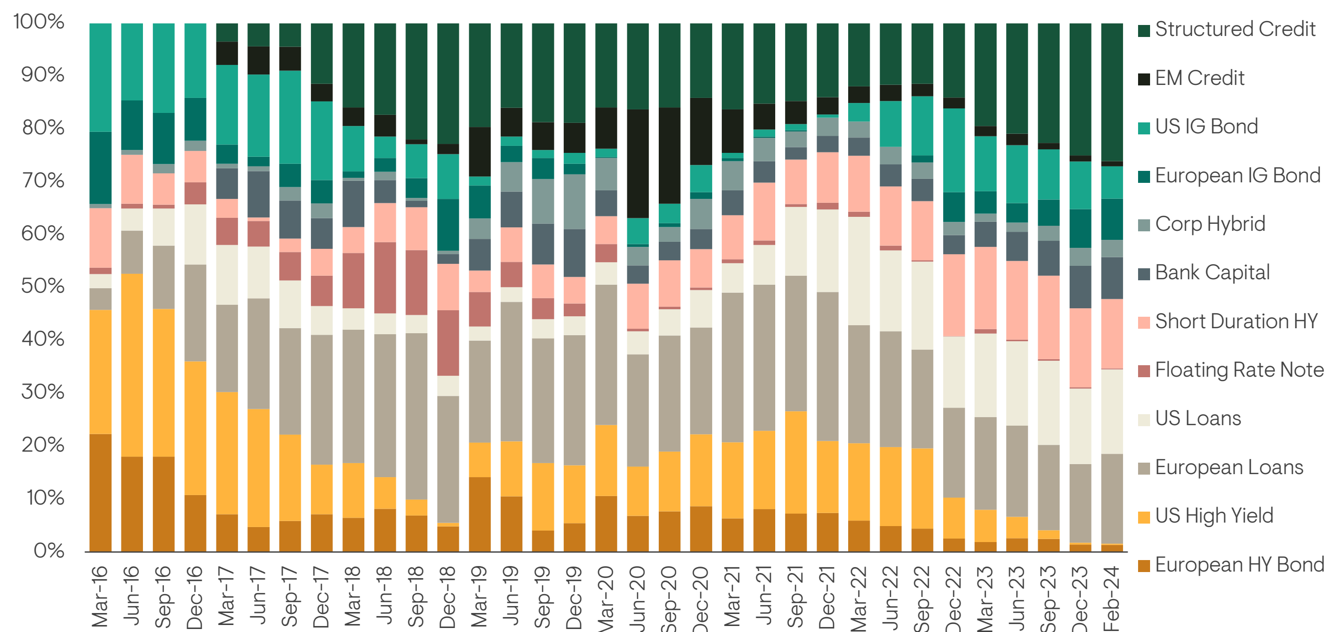
Source: ICE BofA Merrill Lynch, JP Morgan, as at 29 February 2024. US high yield = ICE BofA US High Yield; European high yield = ICE BofA EUR High Yield; US investment grade (IG) = ICE BofA US IG; European IG = ICE BofA EUR IG; US Loans = Morningstar LSTA US Lev Loan TR USD; European EUR Loans = Morningstar European Lev Loan TR USD.
For further information on indices, please see Important information section.

Our portfolio breakdown (as illustrated in Figure 1 below) demonstrates the global nature of the Strategy and reflects our current views on relative valuations, particularly in the investment-grade space. Exposure to Europe is at its highest ever level, while less than a third of the portfolio is allocated to the US. The ability to access high-conviction ideas from our emerging market credit research team allows us to take advantage of the growth differential that emerging market economies enjoy over their developed-market peers, while a global approach is also conducive to greater diversification across sectors.

A dynamic and unconstrained approach

We believe that a dynamic approach is vital to generate the best results in a multi-asset credit strategy. Since our Multi-Asset Credit Strategy's inception, we have shown our willingness and ability to rotate into different sub-asset classes, dialling up exposure to areas of the market that look most attractive and moving away from those that offer less value in our view. There have been periods when we have reduced exposure to even the largest credit blocks – including US investment-grade (c.US$9 trillion in market capitalisation) and high-yield debt (c.US$1.3 trillion market capitalisation) – to almost zero. This can be seen in Figure 1, below. which also highlights current positioning, evidencing our ability to increase exposure to segments that currently offer more value (structured credit).

Figure 1. Ninety One Multi-Asset Credit Strategy asset allocation since inception



Based on a related portfolio with substantially similar objectives as those of the services being offered.
Source: Ninety One, February 2024. Since inception date: 01 January 2016.
For the purposes of displaying more coherent portfolio information cash and synthetics have been removed from charts and the residual exposure is grossed up to sum to 100%.

Our dynamic approach seeks to limit any structural biases, encouraging a benchmark-agnostic portfolio. For example, some multi-asset credit managers have a more structural allocation to emerging market debt, and even include it within their benchmark; we prefer to use this allocation more tactically based on prevailing valuations. We believe a better outcome from both a risk and return perspective can be achieved through using this allocation lever more dynamically. Furthermore, our unconstrained approach allows us to access less-explored areas of the market such as specialist credit, which can be difficult to access individually but can add significant value to a multi-asset credit portfolio.

The structure of our team is integral to our dynamic and unbiased approach. Analysts are split by industry, allowing them to specialise, but sector coverage spans the entire credit spectrum (ratings, region, and asset class). This team structure is specifically tailored to multi-asset credit investing, allowing the analysts to identify pockets of value without the bias that is often prevalent when using teams from different credit asset class silos to generate ideas.

Differentiated return outcomes

The risk and return outcomes Ninety One's Multi-Asset Credit strategy have achieved reflect the above approach and a specific and deliberate focus on returns driven by carry and spread compression (rather than duration or currency). Being more carry oriented, our strategy can complement core and core-plus fixed income allocations where returns are more heavily influenced by duration. The dominance of duration and a more US bias is also evident in other multi-asset credit strategy approaches, making our return profile different to many of our peers given our more global approach and focus on spread.

Table 2. Returns and volatility of Ninety One's Multi-Asset Credit Strategy compared to various indices

	Ninety One Multi-Asset Credit Strategy	US Aggregate	Global Aggregate (US$-hedged)	SOFR+4% (pre 01Dec21 LIBOR USD 3M+4%)
Returns				
1 year	8.63%	3.33%	5.49%	9.31%
3 years (annualised)	1.72%	-3.16%	-1.71%	6.57%
5 years (annualised)	3.78%	0.86%	0.98%	6.07%
Since inception (annualised)	4.72%	1.23%	1.81%	5.85%
Standard deviation				
1 year	2.47%	7.06%	4.62%	-
3 years (annualised)	3.17%	6.52%	4.47%	-
5 years (annualised)	4.62%	5.71%	3.95%	-
Since Inception (annualised)	3.81%	4.83%	3.38%	-
Sharpe Ratio (Since inception)	0.76	-0.13	-0.01	-
Correlation (Since inception)	-	0.26	0.29	-
Beta (Since inception)	-	0.20	0.33	-
Performance during period of high US Treasury vol (since Feb 2022)				
Cumulative return	5.21%	-6.72%	-2.92%	-
Average monthly return	0.25%	-0.26%	-0.11%	-

Past performance does not predict future returns; losses may be made.

Source: Ninety One, Bloomberg. 29 February 2024. Performance is net of fees. Net performance is net of the highest institutional segregated portfolio management fee. Net returns are shown net of all trading expenses. Income is reinvested, in USD.
The Global and US Aggregate indices are shown to compare Ninety One's Multi-Asset Credit Strategy's risk-adjusted performance with commonly used fixed income benchmarks in the US.
Performance start: 01 January 2016.
Benchmark: SOFR+4% (pre 01 Dec 2021 LIBOR USD 3M +4%).
Performance is calculated based on monthly returns. Volatility is calculated using daily returns.
Indices are shown for illustrative purposes only.

A differentiated approach

The Ninety One Multi-Asset Credit Strategy follows a global approach, designed to access a broad opportunity set across the credit spectrum. Our unconstrained, dynamic asset allocation process prevents structural biases and ensures the portfolio is positioned to capitalize on the best opportunities according to prevailing market conditions. As a result, we believe that our Strategy offers the potential for powerful diversification benefits, both to traditional fixed-income aggregate products as well as other more US-centric multi-asset credit strategies.

General risks

The value of investments, and any income generated from them, can fall as well as rise. Costs and charges will reduce the current and future value of investments. Past performance does not predict future returns. Investment objectives may not necessarily be achieved; losses may be made. Target returns are hypothetical returns and do not represent actual performance. Actual returns may differ significantly. Environmental, social or governance related risk events or factors, if they occur, could cause a negative impact on the value of investments.

Specific strategy risks – Multi-Asset Credit

Derivatives: The use of derivatives may increase overall risk by magnifying the effect of both gains and losses leading to large changes in value and potentially large financial loss. A counterparty to a derivative transaction may fail to meet its obligations which may also lead to a financial loss. **Interest rate**: The value of fixed income investments (e.g. bonds) tends to decrease when interest rates rise. **Loans**: The specific collateral used to secure a loan may decline in value or become illiquid, which would adversely affect the loan's value. Many loans are not actively traded, which may impair the ability of the Portfolio to realise full value in the event of the need to liquidate such assets.

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