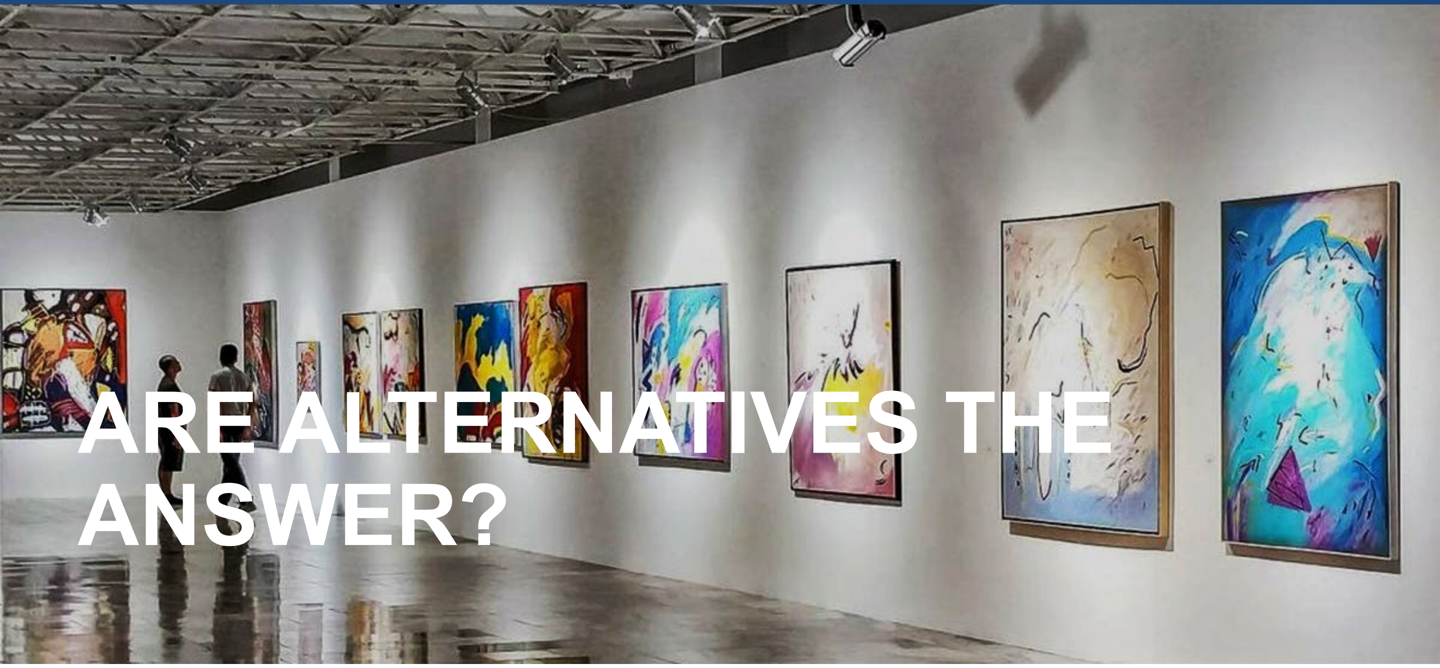

# ARE ALTERNATIVES THE ANSWER?

Much has been written about the difficult market climate facing asset allocators with respect to investing in developed market fixed income markets. Indeed, in previous articles, we've identified these challenges and the approaches we've implemented to navigate such difficult market conditions, such as advocating a defensive approach, relying on vehicles with flexible mandates, specialised strategies and a bias toward managers employing limited duration considerations.

This disciplined approach to our fixed income allocation has proved relatively successful, resulting in good risk-adjusted returns from our suite of managers over the short to medium term, though, with depressed interest rates likely to persist for the foreseeable future, particularly in the developed world, returns on an absolute basis will potentially be harder to achieve without taking on additional credit risk. With opportunities within the fixed income universe somewhat limited and as valuations continue to be stretched, in an endeavour to remain diversified, asset allocators will be forced to look at alternative areas of the market.

We're conscious of the need for appropriate diversification within our multi-asset portfolios and as such spend a great deal of time formulating future return expectations and correlation metrics of the main asset classes in which we invest. Among these, alternative assets have been a core element.

Notwithstanding the attraction of equities - particularly relative to bonds on valuation grounds and on a fundamentally driven basis - fund selectors of balanced to lower risk mandates will need to look past traditional bond / equity portfolios, as fixed income managers take on more risk and equity exposure increases.

There has been a rise in popularity of Real Assets funds facilitating exposure to a multitude of physical assets and income derived from physical assets including; real estate, infrastructure, commodities, specialist lending, music royalties, renewables, storage and asset financing.

Liquidity profiles are an important consideration when analysing esoteric investments such as the aforementioned Real Asset vehicles, which can be accessed via an open- or closed-ended vehicle, with the latter providing the security of permanent capital (*i.e.* no inflows and outflows) and daily dealing liquidity.

Private Equity vehicles are another alternative. Listed private equity fund-of-funds offer investors access to an area of the market that is growing AUM year-on-year and which combines the liquidity of being listed and the diversification benefit of exposure to several underlying fund managers. Due to large minimum investments, investors are normally unable to invest in such potentially lucrative investments, however, listed Private Equity funds afford investors the opportunity.

*Continued overleaf*

Traditional alternative vehicles such as hedge funds and property have been problematic. Managers of offshore hedge funds have found it difficult to replicate their return profile in a UCITS structure and performance has been generally sluggish. Whilst problems surrounding liquidity within daily-dealing open-ended "bricks & mortar" property funds have more than likely signalled the beginning of the end of such vehicles.

MitonOptimal's Alternative Strategies exposure is regularly discussed within our Investment Management Committee meetings as we strive to get an ideal blend within our model portfolios.  As such, our international team have been relatively active in our exposure to the asset class. That said, we have yet to implement a closed-ended position in our Alternatives allocation and are content with the current mix of strategies; as always however, we would not be averse to do so if the opportunity warranted.

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