

Three layers of defence that selectors should watch for in funds



Multi-asset funds and alternative strategies are increasingly coming into favour under the new market backdrop where risks are rising, according to fund selector Emmanuel Ferry.

The Banque Pâris Bertrand chief investment officer said the all-weather feature of multi-asset funds are required with three key layers of defence, including high diversification across all asset classes, active management in order to profit from higher dispersion and tight risk management.

This includes the ability to disinvest according to a disciplined process, he told Citywire Selector.

Alternative strategies will also be attractive once again as market risks rise, he said: 'We have identified three vectors in the equity universe: 1/ market-neutral with alpha extraction; 2/ long/short to capture quality in company balance sheets; and 3/ convergence of valuation multiples (with value and regional rotations).'

Alternative assets such as gold are a crucial element to offset the equity risk, he added.

These are the investments of choice made in the context of the longest US post-war expansion, which has created several imbalances in fundamentals and in financial asset valuations, Ferry said.

'This has made the markets more vulnerable to shocks including political, geopolitical, economic and financial ones. A resurgence in volatility will be the hallmark of the markets moving forward, after a decade of risk compression orchestrated by the central banks.'

The current market paradigm should start shifting, with volatility on the rise, he added, moving from financial leverage to a preference for liquidity.

Elsewhere, financial asset valuations should begin a process of convergence towards their long-term means and investors will move into more liquid assets while investors are expected to engage in more tactical selling into rallies.