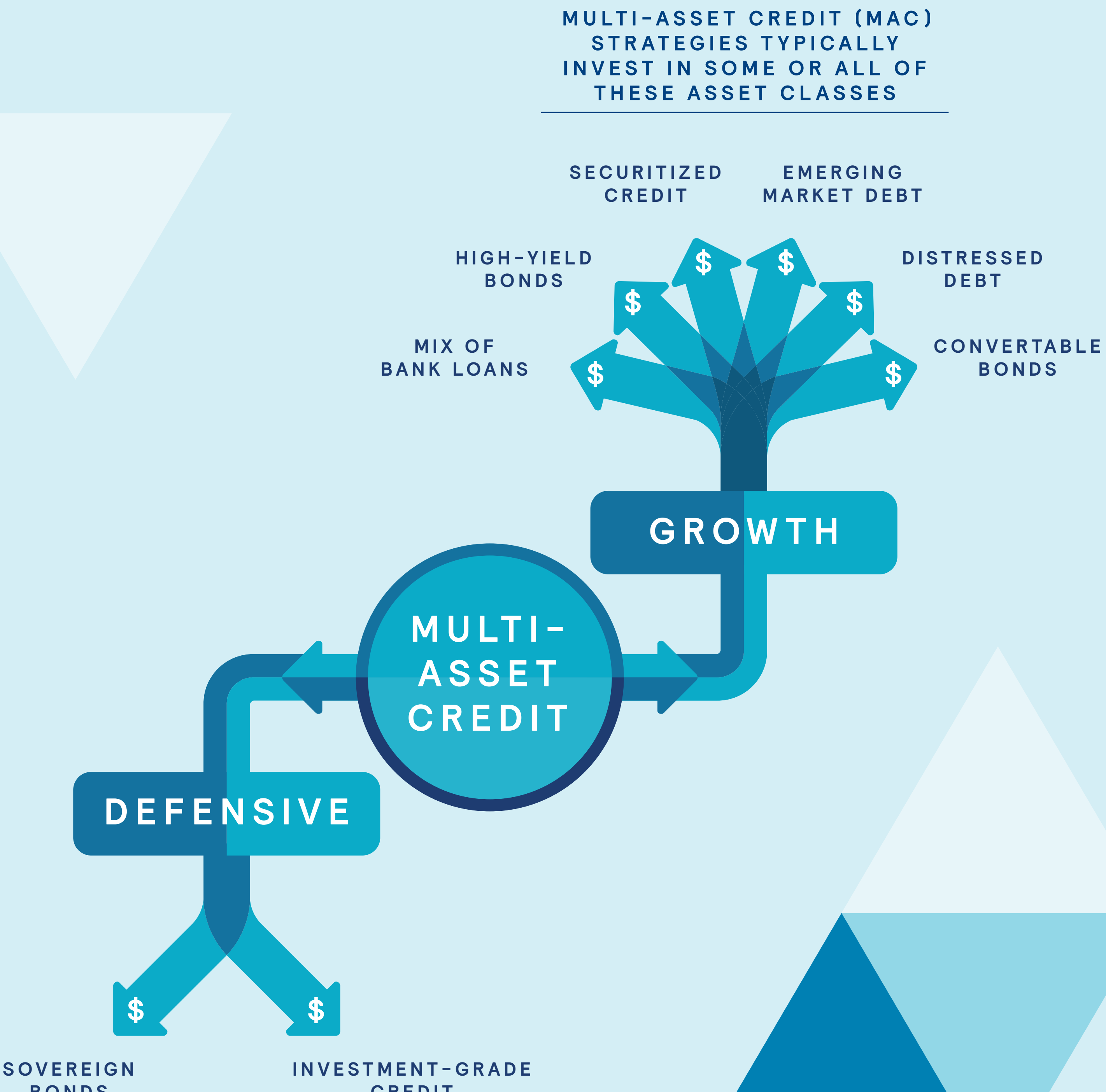
WHAT ARE MULTI-ASSET CREDIT STRATEGIES?

NOEL COLLINS



BACK TO **MERCER.CA**

HOW DO MANAGERS GAIN HIGHER-YIELDING EXPOSURE?

MAC STRATEGIES EVOLVED IN ORDER TO GIVE INVESTORS ACCESS TO HIGH-YIELD FIXED INCOME IN A MORE DIVERSIFIED AND BETTER MANAGED WAY THAN SIMPLY ALLOCATING DIRECTLY TO ONE PARTICULAR AREA OF HIGH YIELD.

KEY FEATURES OF MAC PORTFOLIOS

- Opportunist portfolio management
- Unconstrained universe
- Benchmark agnostic
- Can include short positions
- Use of hedging and defensive strategies

ENHANCE EXPOSURE TO MULTIPLE CREDIT RETURN DRIVERS

- Invest across a range of higher-yield credit asset classes
- Provide a diversified portfolio
- Implement dynamic asset-class rotation
- Apply sector-selection decisions across different areas

WHY INVEST NOW IN MAC?

In today's market environment, three aspects of MAC strategies are particularly relevant for investors looking to protect accumulated wealth.

VALUATION

With global "search for yield" many fixed-income markets reached rich yield levels in recent years. This heightens the potential for MAC managers to have an ability to protect investors against excessive valuations

INTEREST RATE SENSITIVITY

For investors concerned about rising interest rates, MAC strategies tend to have lower duration characteristics and so are likely to have less interest-rate sensitivity than longer duration portfolios

CREDIT SPREADS

With prevailing credit spreads being tight MAC managers have the freedom to invest in their "best return" ideas while having the flexibility to reduce risk to spread widening via asset allocation, or indeed by introducing some hedging and protection strategies into the portfolio

HOWEVER, LOOK UNDER THE HOOD

MAC portfolios typically have outright return objectives that reflect market conditions over time. However, in practice the universe of MAC strategies is quite heterogeneous:

Some managers are more defensive in nature, with lower exposure to credit markets, and therefore should have reduced drawdowns in a stressed environment.

Other managers have higher market exposure or a greater focus on riskier or more illiquid sectors, which are associated with higher return expectations and higher risk.

Within the MAC universe, some managers will include emerging market debt (EMD) within their investment spectrum, whereas other managers may focus more on pure credit markets. This consideration can be relevant for clients who already have sufficient portfolio allocations to EMD, as well as other clients who may wish to include their EMD exposure within their MAC strategy.

IMPLEMENTATION

From a portfolio construction viewpoint, the lower volatility of high-yield asset classes compared with equities is a distinct advantage, and hence return expectations from MAC strategies are attractive on a risk-adjusted basis compared with equities.

Mercer's research coverage of MAC managers has formed a substantial part of our research focus since 2013, and MAC has been an area of high search activity with clients. Many clients have used MAC strategies as part of a de-risking process via which they aim to reduce portfolio reliance on equities and yet maintain a decent level of overall return.

MAC strategies have also been used by clients looking to diversify their fixed income portfolios away from low yield sovereign and investment grade credit assets.

To view full paper: CLICK HERE

ABOUT THE AUTHOR

Noel is a Senior Consultant with Mercer Investments based in Dublin, working in Mercer's Bond Boutique, where he is the Lead Researcher for EMD and MAC strategies. Noel sits on Mercer's Global Asset Allocation Group and is a member of the International Ratings Review Committee. Prior to joining Mercer in 2000, Noel worked for seven years as a fixed-income and currency asset manager with a Dublin-based fund manager. He is a Fellow of the Institute of Actuaries and holds a first-class honors degree in economics and mathematics from Trinity College Dublin. He may be reached at noel.collins@mercer.com.

ABOUT MERCER

At Mercer, we make a difference in the lives of more than 110 million people every day by advancing their health, wealth, and careers. We're in the business of creating more secure and rewarding futures for our clients and their employees — whether we're designing affordable health plans, assuring income for retirement, or aligning workers with workforce needs. Using analysis and insights as catalysts for change, we anticipate and understand the individual impact of business decisions, now and in the future. We see people's current and future needs through a lens of innovation, and our holistic view, specialized expertise, and deep analytical rigor underpin each and every idea and solution we offer. For more than 70 years, we've turned our insights into actions, enabling people around the globe to live, work, and retire well. At Mercer, we say we Make Tomorrow, Today.

For further information, please visit

www.mercer.ca

Join the conversation:
On Twitter: @MercerCanada
On LinkedIn: www.linkedin.com/company/mercer-canada

MARSH & McLENNAN
COMPANIES