
Multi-asset funds: research powered investment opportunities

Morningstar Investment Management
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For Financial Advisers to use with their clients

Morningstar Wealth's investment management capabilities gives advisers and their clients access to unparalleled depth and breadth of research. As the Multi Asset Funds achieve their third anniversary, we wanted to share a quick update on how we approach building and managing these portfolios, as well as where we're finding opportunities at the moment.

A robust process for an uncertain investing environment

One important aspect of our investment process is 'robustness'. This has been something of a mantra at Morningstar Wealth during 2023. We carry out extensive research and testing at each stage of the process but most of all at selection. That means the asset allocation for our Multi Asset Funds are positioned for different challenging investment environments. We achieve this by selecting assets with diversified return drivers and different associated risks.

The single biggest risk for any investor is losing money. Not the inevitable ups and downs which come with investing, but a sudden large-scale loss of capital that cannot be made back. Everyone wants to avoid that: investors, advisers and us. So we're focused on delivering returns consistent with clients achieving their long-term goals.

No-one can accurately predict the future. Instead, we believe in being prepared for a broad range of eventualities, such as upping our allocation of defensive equities, like utilities and consumer staples, to protect in the event of an economic downturn, or favouring protective assets like good quality government bonds where we can buy at the right price and lock in higher yields.

This is a period of change, meaning that investors need to be prepared for a wider-than-usual range of potential economic outcomes. We believe that the key to good investing outcomes lies in maintaining a long-term view, extensive research and diligent risk management while balancing diversity with targeting specific growth opportunities. All of this is at work in our range of [Multi Asset Funds](#). Investments grounded in research.

The Morningstar group is a research powerhouse, with hundreds of researchers and analysts globally, covering an extensive range of regions and sectors. This local access means better insight, a more granular view to identify individual opportunities. The more granular we get in our research and analysis, the more potential return-driving opportunities we can pinpoint, thereby translating into better client outcomes. Here are some current examples.

China has risks but the opportunities make it good value opportunity

China has experienced a difficult few years. Extensive Covid lockdowns, a property market slowdown and technology crackdown have had a far-reaching impact, exacerbated by geopolitical tensions. The market-anticipated rush of pent-up demand seen elsewhere following the end of lockdowns failed to materialise.

This has caused low consumer and investor sentiment. Valuations are key here and where there are risks, we often find tomorrow's golden opportunities.

As investors pulled away and equity prices fell, this created a valuation gap between current pricing and Morningstar's view on long-term fair value. China isn't out of the woods yet, but the bad news is already largely priced in and expectations are low, increasing the upside potential and limiting the downside risk.

Bonds have had a difficult time but have much to offer

Bonds have had a difficult time over the past couple of years as sharply rising interest rates increased their volatility, shaking the confidence of investors in an asset class that should provide defensive characteristics. However, while unsettling, higher volatility doesn't mean a higher level of risk. In fact this has made bonds cheaper and increased future returns. Bond yields have increased substantially over the last two years and we have a more positive view of bonds than we've had in the last decade.

UK and US government bonds, for example, have become much more attractive following the recent sell-off. There's much speculation around interest rates, we can't know what's over the horizon. We can, however, be prepared and our simulated total return analysis shows us the impact of future interest rate increases or decreases. This is clearly not a guide to future performance, but bonds tend to offer more stability.

This combination of better pricing and returns today has earned them a place in our Multi Asset Funds.

We follow the research, not the herd. We act on the insight from our research specialists around the world, and sometimes that means stepping off the more well-trodden paths. **MI**

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