THE SCANNER

MULTI-ACT
Built by investors for investors

Multiply and preserve wealth with **a multi-asset portfolio**

Investor portfolios are influenced by numerous factors that impact both portfolio returns as well as the investor's journey. However, there are two primary factors that have a disproportionately large impact on an investor's experience and can be construed as the true orchestrators of successful portfolio investing.

The confluence of

Market Volatility & **Investor Behaviour**

Market volatility and investor behaviour are the twin forces that steer an investor's journey. The intricate interplay between these two factors underscores the importance of a requirement of a resilient investment strategy. Market volatility influences investor behaviour, and in turn, investor behaviour feeds into impact market volatility. To mitigate the combined impact on investment portfolios, investors can adopt a multi-asset approach, ensuring diversified exposure to asset classes like equity, debt, gold, and more, enabling them to navigate the pendulum swings of the market and achieve stable returns regardless of market conditions – a strategy often referred to as, "All Seasons Portfolio".

Key tenets of building an 'All Season Portfolio' strategy

Investment markets are driven by a complex interplay of micro and macro-economic factors, adding to the complexity of investing.

Given this backdrop , it is imperative that the portfolio construct allows for continued exposure to different asset classes across timeframes. For example, the year 2022 proved that the traditional 60:40 portfolio (Equity: Debt) has run past its utility as exemplified by the severe underperformance of such a portfolio in that year. Further, a fragile global macro-economic situation, combined with rising geo-political risks, calls for exposure to asset classes that are likely to better navigate the troubled times or tail risk events and generate robust returns during recovery and growth phases.

Built by investors for investors

The inclusion of multiple asset classes within the portfolio serves to reduce overall volatility, rendering investors less susceptible to short-term market fluctuations. This multi-asset approach yields three primary benefits:

- Enhanced (or at par) risk-adjusted returns, in comparison to risk assets
- Consistent asset allocation exposure within the portfolio, unaffected by behavioural biases, resulting in a more stable return/risk profile
- Improved wealth preservation and longevity of the portfolio

Asset classes exhibit cyclical movements from peaks to troughs and back, but the beauty of diversification lies in the fact that these cycles are not perfectly synchronised across different asset classes. This divergence enables a multi-asset portfolio to shield against downturns in specific asset classes while capitalising on upswings in others.

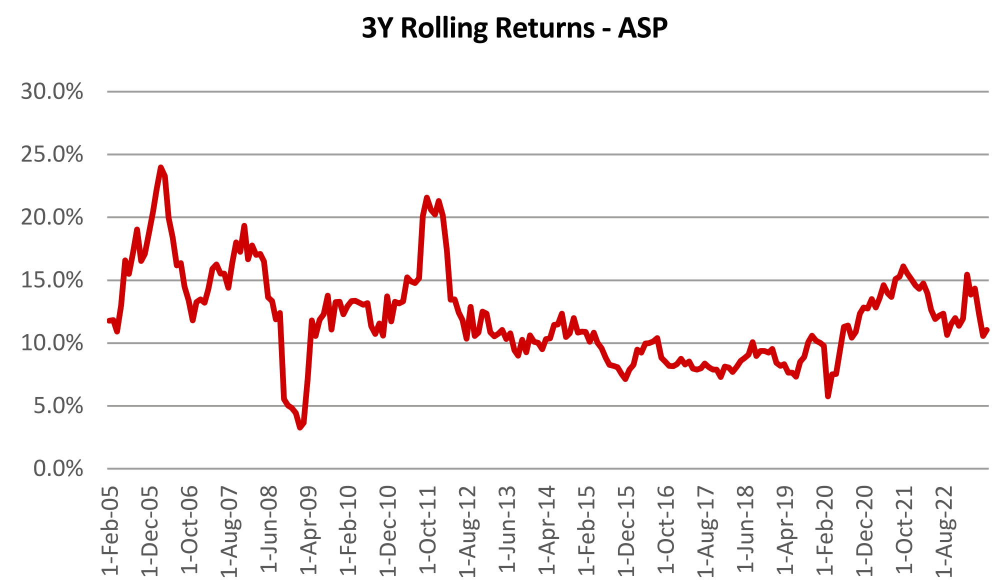
Showcased below, performance, volatility, and the Sharpe-ratio of Multi-Act's All Season Portfolio (ASP) Strategy[1] back test.

Exhibit 1: ASP Strategy vs Individual asset classes

	Since Mar 2002				3Y Rolling Returns Distribution					Avg Wt in ASP
	CAGR	SD	Sharpe	Max DD	Negative	0%-6%	6%-10%	10%-15%	Above 15%	
Equity-India	15.9%	22.1%	0.48	-54.7%	3.2%	14.4%	18.5%	23.9%	40.1%	29.9%
Equity - US	11.5%	14.0%	0.34	-38.0%	11.7%	9.9%	8.1%	24.3%	45.9%	15.1%
Gold	11.9%	19.0%	0.32	-28.7%	11.3%	18.5%	8.6%	21.2%	40.5%	21.1%
Debt - LT	7.0%	3.2%	-0.12	-6.5%	0.0%	32.4%	60.8%	6.8%	0.0%	17.1%
Debt - ST	4.4%	0.4%	-7.98	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	16.9%
ASP	11.9%	9.2%	0.49	-20.1%	0.0%	3.2%	26.1%	51.4%	19.4%	

(Max DD: Maximum Drawdown; SD: Standard Deviation; CAGR: Compounded Annual Growth Rate)

Exhibit 2: 3-year rolling returns of ASP Strategy



1. The ASP strategy is to be distinguished from the ASP product offered by Multi-Act's PMS business.

Q&A

Vikas Biyani

Head, Investment Advisory

What impact does multi-asset diversification have on portfolio risk and return?

Assuming that different asset classes witness market cycles (ups and downs) at varying times and not necessarily simultaneously, this should result in stable and sustainable/predictable long-term portfolio performance.

Research[2] and our own back-test studies suggest that such an approach leads to lower risk and drawdowns against popular risk asset classes like equities, etc., and a better return profile compared to pure debt/fixed income. Noting the nuances of Multi-Asset strategy, various investment managers and fund houses have rushed to launch multi-asset offerings (over the last 18-months). However, Multi-Act has long been a vociferous advocate of the multi-asset approach and have been successfully running such strategies[3] for 5+ years now.

What aspects should be taken into account when choosing asset classes for inclusion in a multi-asset portfolio?

- Acquaintance and comfort with different identified asset classes
- Availability of investible instruments adequately representing different asset classes
- Efficiency aspect in terms of costs, taxation etc.
- Liquidity and control over the selected asset class exposures

Your thoughts on rebalancing – why and when should this be done?

Rebalancing is important for staying on course in terms of consistent and continuing exposure required for target asset allocation. Due to market events, volatility, etc., some asset classes might behave in contrast to others during specific time frames, making it pertinent to not allow extensive skew in asset class exposures (against an indicative allocation range formulated a-priori). Rebalancing allows for prudent profit booking in areas which have shown strong performance and switching to segments which have underperformed, thereby also allowing for valuation upside advantage in a portfolio on an overall basis. Couple of approaches to rebalancing are listed:

- Periodic rebalancing at a pre-established frequency (sans the impact of seasonality)
- Event driven rebalancing which is driven by rules, valuation, and movement/inflection points of other market indicators, etc.

Any risks that investors should consider before building a multi-asset portfolio?

Not necessarily a risk, but investors should be behaviourally prepared for periods of underperformance at an aggregate portfolio level against popular asset classes like equities for prolonged periods. Another important factor to be considered is the selection of the right instrument within the chosen asset classes. This is important because all the past performance outcome results are affected by one drawback, i.e., survivorship bias. Thus, investments selected in each of the asset classes should be aligned with the long-term outcome expectations of that particular asset class.

What are the 'must-haves' in a basic multi-asset portfolio?

- Equity, preferably quality oriented securities, companies with long competitive advantage and growth tailwinds
- Global equities, to de-risk domestic only exposures
- Gold and related instruments
- Fixed income (short-term/long-term/ dynamic duration) or quasi fixed income
- Inflation hedges (commodities, real assets)

2. https://www.bqprime.com/opinion/the-essence-and-benefits-of-an-all-weather-strategy
3. https://multi-act.com/our-strategies/all-seasons-portfolio/

Statutory Disclosure and Disclaimer:

Multi-Act Trade and Investments Private Limited (MATI) is a SEBI Registered Investment Advisor having Registration No. INA000008589. It provides investment advisory and affiliated research services to its clients. Research data and reports shared with clients and public at large through electronic medium are for information and general reading purpose only and neither does it constitute any guidelines or recommendations on any course of action to be followed by the reader/receiver nor does it solicit buying or selling of any securities or financial product. The information in this newsletter is prepared on the basis of publicly available information, internally developed data and other sources believed to be reliable. The information prepared by MATI does not contain and is not based on any non-public, material information considered price sensitive or otherwise. The recipient of information is advised to exercise independent judgment and act upon the same based on their sole discretion, own investigations, and risk-reward preferences.

The opinions (if any) expressed in the newsletter by MATI are personal opinion and the same are relevant to the date of the report, which, with reasonable passing of time and based on market conditions, are subject to change without notice.

Any direct or indirect reproduction or duplication or distribution of the newsletter, without the written consent of MATI, will be considered an infringement.

MATI, its associates or any of their respective directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information and consequently are not liable for (a) any decisions taken based on the same or (b) any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way from the information.

It is stated that, as permitted by SEBI Regulations and the Company's Employee Dealing Policy, MATI and/or its associates, affiliates and/or individuals thereof may have interests in securities, if any, referred to in the information provided and may make purchases or sale thereof while the information is in circulation.

Investment in securities market is subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI, membership of BASL and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

RIA Name: Multi-Act Trade and Investments Private Limited

RIA Registration number: INA000008589 (Validity: Perpetual)

BASL Membership ID: 1398

Type of Registration: Non-Individual

CIN: U65920MH1997PTC109513

Regd. Office: Ground Floor, ICC Chambers I, Saki Vihar Road, Powai,
Mumbai – 400 072, Maharashtra. 022-61408989

Visit our website https://multi-act.com/ for additional disclosures and disclaimer.