Our Multi-Asset Investment Beliefs

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Introduction

Throughout our history, going back more than 200 years, we have always focused on delivering superior investment services to our clients. **We are an investment-led service company,** and we will remain so in the future.

Investment leadership does not simply equate with having a multitude of investment experts or disseminating competences across the innumerable disciplines of investment management. For us, investment leadership means excelling in **three strategic dimensions: innovation, asset allocation and generating returns in excess of the markets (alpha).**

First, **innovation means staying ahead of the game at identifying the next major investment themes** and giving our clients access to those great opportunities. It means being creative, anticipating the trends and thinking ahead of our competitors.

Second, we want to be **best-in-class in global asset allocation** – strategic and tactical allocation. We have over 200 years' experience of crafting strategies across multiple asset classes, currencies *and* geographies, and we want to build on this experience to continue being a multi-asset powerhouse.

Finally, investment leadership means **generating systematic returns in excess of the markets in selected asset classes**. This means generating returns above and beyond market risk premia and style factors, in the few disciplines where we excel rather than across the board.

To deliver on these strategic dimensions we believe **it is paramount to have a shared investment philosophy** and to implement it rigorously through a disciplined and focused investment process.

This document contains the **guiding principles of our multi-asset investment philosophy and process, which from now on we will call our *'multi-asset investment beliefs'*.**

Our beliefs are constructs that help us make sense of the financial markets. They provide clarity of thought, bind several individual perspectives into one framework, allow us to evaluate the complex investment universe consistently and also provide succour and courage to help stay the course during the most troublesome market cycles.

Although the dynamics of financial markets are far from being scientifically proven beyond all doubt, we prefer approaches that are founded on evidence and data as opposed to judgment and opinion.

Our beliefs — confirmed by academic theory and supported by empirical examination — result in a clear course of action that has served us well in the past and will continue to do so in the future.

RENAUD DE PLANTA
Senior Partner of the Pictet Group

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Our Multi-Asset Investment Beliefs

Investing within a disciplined framework

Belief 1.1

Investment success stems from a rigorous and repeatable process. It is not about luck or access to privileged information. It requires a rigorous and unbiased method for gathering and analysing information, taking decisions and executing them with discipline.

Belief 1.2

We seek to exceed our clients' objectives by capturing inefficiencies when markets diverge from fair value, and we exploit such opportunities through active management.

Risk premia

Belief 2.1

Generating returns in excess of risk-free rates generally requires taking risks. Some of these – such as term, credit and liquidity – are systematic and offer decent premia. These should be pursued if the time horizon required to capture them is no longer than the potential liability demands on the portfolio.

Belief 2.2

One of the few exceptions to the standard risk-return paradigm is ESG. We believe it is essential to embed ESG factors in our investment decisions as it is our hypothesis that they will outperform in the long run. We also recognise that the stability they provide reduces investment risks. This necessarily implies that ESG factors are a negative risk premium, which makes an ESG approach specific and similar to the so-called 'low-beta anomaly'.

Belief 2.3

Currency movements are a zero-sum game, where one person's gain is another one's loss. There is no long-term premium available for providing liquidity, except for emerging markets.

Asset allocation

Belief 3.1

Asset allocation is the most important driver of return in the long run.

Belief 3.2

Strategic asset allocation (SAA) has a bigger impact on long-term returns than tactical asset allocation. Defining an appropriate strategic allocation is therefore essential. The SAA must endure periods of greed and fear, where the temptation to change it to reflect the latest market movements generally ends up destroying value.

Belief 3.3

Tactical asset allocation (TAA) plays an increasingly key role in capturing risk premia in a timely manner, especially when the speed and amplitude of market movements accelerate owing to the growing correlation between asset classes. TAA can not only add performance above the returns generated by the SAA but also help manage risk and limit drawdowns. There are many ways to implement tactical views: exposures to asset classes, regions, currencies, themes and risk factors.

Main sources of multi-asset returns

Belief 4.1

Tactical views on asset allocation must reflect four major dimensions, according to the time horizon in focus. Valuation is the best indicator of long-term expected risk and return, while in the short and mid term the macroeconomic situation, economic liquidity creation (both central-bank and private-sector liquidity) and technical factors (sentiment, behavioural biases, institutional constraints, supply/demand dynamics) tend to be better gauges of the market's trajectory.

Belief 4.2

Assessing valuation requires a rigorous, independent and fundamentally based research process that encompasses macro, industry and company-specific analyses.

Belief 4.3

Investment decisions should take account of the time lag between financial-market cycles and economic cycles: market prices anticipate the future development of the real economy; they do not follow it. A classic mistake is to equate economic growth with a bull market.

Belief 4.4

We take account of capital allocation growth of any asset, style and geography as a contrarian indicator, a sign that an established trend might soon go into reverse.

Belief 4.5

Investment decisions should take account of potentially unconscious biases arising from benchmark choices, index rebalancing mechanisms and regulation.

Belief 4.6

We look carefully at liquidity providers as well as who is buying and who is selling on the market: *weak hands* (retail and highly leveraged investors) or *strong hands* (strategic and corporate buyers).

Active management, public and private markets

Belief 5.1

We refrain from widespread use of passive investment because – though cost-effective for investors and sometimes useful for implementing rapidly tactical views – it could prove economically inefficient by misallocating capital, increasing systemic risk and reducing competition in industries that are largely owned by index fund providers.

Belief 5.2

Private investment returns derive not only from the illiquidity premium, but also from the potential for asset transformation.

Portfolio construction

Belief 6.1

We prefer to implement our views through a range of diverse and uncorrelated investment decisions rather than through a few large ones, according to what is known as 'the law of active management'.

Belief 6.2

The client's base currency should significantly influence the strategic asset allocation, the portfolio construction and the risk tolerance, owing to a nominal "currency illusion" effect.

Belief 6.3

Currency hedging of multi-asset portfolios is generally appropriate for nominal and/or low volatility assets — such as developed-market bonds, direct real estate and hedge funds — particularly when the reference currency is considered a safe haven.

Building effective teams

Belief 7.1

The most effective investment committees prefer debate to consensus, dissent to harmony, and humility to complacency.

Belief 7.2

Success in active management is achieved by teams of diverse specialists – as opposed to single portfolio managers – with clear roles assigned and full accountability for their performance.

Belief 7.3

We believe large investment teams talk a lot and are more subject to non-economic behaviour, while smaller teams can decide and act swiftly.

Belief 7.4

To perform at their best, investment managers need to focus on their primary task of managing assets on behalf of their clients. They therefore need to be protected from the distractions of non-investment-related activities.

Defending clients' interests

Belief 8.1

As service providers we manage assets on behalf of our clients and should never lose sight of that crucial fact. We put clients' interests ahead of our own and forgo business opportunities that are not in the interests of our clients in the long run.

Belief 8.2

Client demands or interventions in terms of asset allocation tend, on average, to be pro-cyclical. We therefore recommend clients to adopt standard investment guidelines and implementation procedures to prevent complexity from reducing performance.

Engaging with purpose

Belief 9.1

We believe in the efficiency of responsible capitalism. As stewards of clients' savings, we therefore want to act responsibly in selecting investments and interacting with issuers of debt or equity instruments.

Belief 9.2

Companies pursuing sustainable business practices are more likely to thrive in the long term as they are better at identifying, understanding and managing longer-term challenges, be they economic, social, environmental or regulatory in nature. We believe therefore that integrating environmental, social and governance practices is not only the right thing to do; it also adds value to our clients' portfolios in the long term.

Belief 9.3

Active ownership is an integral part of a sound governance framework of strong checks and balances. We believe in the merit of strengthening our engagement efforts and systematically exercising our voting rights on behalf of our clients.

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