



# Investment Solutions

## Multi-Strategy Fund

Investment Solutions Multi-Strategy Fund (MSF) aims to achieve a return of LIBOR plus 3.5% per annum, delivering equity-like returns with much lower volatility by investing in a broad range of asset classes. The MSF will invest in a variety of growth seeking assets with different performance patterns over time. This combination aims to provide a smoother return than if invested purely in equities; in other words, a less risky or volatile return than equity markets provide.

### Methodology

To combine best of breed funds that cover a wide range of asset classes and whose returns are expected to have low correlations with each other. Investment Solutions will manage this fund within an active asset allocation framework and have subdivided the fund into three categories: Absolute Return, Equities and Themes. We will alter the allocations between these categories and within each of them to reflect our short term views for expected returns.

### Key Features

- To target positive returns in varying market conditions.
- Access to a wide range of alternative asset classes.
- Access to some of the industry's most highly skilled managers.
- Diversified portfolio with the flexibility to move between asset classes.

### The Attraction for Investors

Small to medium pension schemes have the same responsibilities as larger schemes to provide suitable diversification within asset strategies. Trustees find that they are duty bound to seek the lowest level of volatility for any given target level of return. To achieve this in an increasingly evolving and complex investment world requires resources, insight and access to new opportunities. Larger schemes do this by either employing their own investment teams or through consultants but this strategy is often too costly for smaller schemes to adopt.

The MSF aims to deliver suitable diversification and access to a wider range of asset classes together with investment expertise to allocate to each sector. The underlying investments can be difficult to access for an individual client due to

minimum investment sizes; the MSF breaks down these access barriers for our clients.

### Detailed Investment Process

#### > Manager Selection

Our rigorous multi-manager approach enables us to select managers who excel in their field of expertise. For each asset class, we identify a shortlist of managers through a combination of quantitative and qualitative research. We then undertake a full due diligence process where we meet managers onsite to assess the quality of their firm, people and processes.

For promising managers, we carry out quantitative analysis on their holdings and their performance to ascertain if they do as they say and where they are in their individual performance cycle.

#### > Asset Allocation

We have carried out extensive modelling to construct a strategic portfolio that marries the requirement for growth together with the need for capital preservation over a 5-10 year investment cycle. Our Markets and Economics Team provides market intelligence and sets our short term economic views, which provide the foundation for our tactical asset allocation positions within the MSF.

### Multi-Strategy Fund at a glance

<b>Target Return</b>	LIBOR + 3.5% (excluding Investment Solutions AMC)
<b>Target Volatility</b>	6 - 10%
<b>Benchmark</b>	3 Month LIBOR
<b>Time Horizon</b>	Rolling 5 - 10 years

#### > Portfolio Construction

The portfolio is constructed by combining the manager selection and tactical asset allocations together with careful consideration to the overall risk profile of the fund. The strategic weights have been decided following extensive modelling to

minimise expected volatility, while still aiming for equity-like returns.

### The Multi-Strategy Fund Structure

The MSF has been designed to provide the appropriate balance between long term growth and capital preservation in the shorter term. As already mentioned, the MSF has been split into three categories: Absolute Return, Equities and Themes. We have set strategic allocations for these categories within the MSF, as shown below. These allocations will be reviewed from time to time and could change in the future and will drive the long term growth requirement, while also reducing shorter term volatility.

#### Tactical asset allocation ranges

Asset Class	Strategic Weight	Ranges (%)
Absolute Return	40%	20 - 70
Themes	30%	10 - 50
Equities	30%	10 - 50
Cash	0%	0 - 50

The types of investment strategies considered for each of the three categories are explained below.

#### Absolute Return

The aim is to target positive returns, irrespective of what is occurring in equity or bond markets. Absolute return strategies are just that, strategies that are focused on generating a positive return over the shorter term. These strategies will aim to deliver a return of cash +3% to 4% over the longer term, though they look to preserve capital in the short term.

#### > Fund of Hedge Funds

Fund of hedge funds consist of a portfolio of hedge funds, with a view to generating positive returns from a number of uncorrelated strategies. The manager is responsible for maintaining a diversified mix of strategies while the underlying hedge funds will use their skill to deliver positive performance. Within each of these hedge fund strategies there are varying levels of risk dependent on the level of leverage employed as well as the investment classes used. However, we are looking for low risk strategies that do not employ large amounts of leverage, and keep exposure to speculative instruments to a minimum.

#### > Market Neutral Equity

Equity market neutral strategies seek capital appreciation independent of whether stock markets are going up or down through exploiting market inefficiencies. Managers assume a market neutral position by buying positions (going "long") in stocks that it believes are undervalued and selling positions in stocks (going "short") that it believes are overvalued.

The fund manager will use derivatives to obtain exposure to the shares without necessarily paying

money up front for this exposure. As the managers' fortunes predominantly lie in their abilities to choose winners and losers, these funds are able to generate positive returns regardless of the direction of the stock market.

#### > Absolute Return Bonds

Absolute Return bond managers look to generate a positive return over the short term by investing in a variety of strategies linked to the global bond market, these may be relative value or directional in nature and include curve, credit spread and carry trades.

#### Themes

The aim is to provide access to a wide variety of asset classes, whose returns show low correlations with equities, that increase diversification and help smooth returns by reducing risk. The financial attractiveness of these asset classes may vary over time so we constantly look to identify attractively valued asset classes, or Themes. The alternative asset classes include currency, commodities, infrastructure, private equity, global real estate and emerging market debt.

#### > Active Currency

Active currency looks to generate positive returns by exploiting the relative returns of various currencies around the world. This is implemented in the following three main strategies.

Carry trade: This has been a very popular strategy over the past few years, which looks to borrow money in a country with very low interest rates, e.g. Japan, and invest it in a country with high interest rates, e.g. Australia, with the goal of earning excess interest, as well as benefitting from the strengthening of the currency.

Momentum: This is a very short term strategy. When a currency starts to strengthen or weaken, the extent and period of the currency's change can be significant. The fund manager will look to take advantage of the momentum of such a change and buy/sell accordingly.

Fundamental strategies: This is a longer term strategy where managers form a view on the relative attractiveness of a country through looking at a number of factors, principally GDP growth, interest rates, inflation rates, current account deficit and household savings rates.

#### > Commodities

Commodities refer to traded raw materials such as oil, wheat, gold and copper. Commodity investment has over the long term proved to be a good hedge against inflation as commodity prices tend to rise in line with inflation. They have also shown low levels of correlation to equity markets.

The commodities manager will aim to deliver positive performance by varying the allocations to each commodity; each of which have their own unique supply and demand characteristics.

The market is made up of the following broad commodities groups: energy, agriculture, base metals and precious metals. The fund manager will not physically own commodities but instead trade in financial instruments that provide exposure to the underlying commodities market.

#### > **Infrastructure**

Infrastructure covers investment into services that are necessary for the functioning of a country e.g. motorways, energy grids and storage facilities. Infrastructure investment has lower volatility due to the requirement of infrastructure for daily life and the lack of competition, as a result of government regulation. Well known infrastructure projects include electricity generation, water, toll roads, airports and pipelines. The infrastructure manager will aim to generate returns by investing in companies that own, develop or finance infrastructure assets.

#### > **Private Equity**

Private equity funds make investments directly into private companies or conduct buyouts of public companies that result in a delisting of a public entity. Private equity investments often demand long holding periods to allow for a turnaround of a distressed company, a liquidity event such as an Initial Public Offer (IPO) or sale to a public company.

Many private equity firms conduct what are known as leveraged buyouts (LBOs) where large amounts of debt are issued to fund a large purchase. Private equity firms will then try to improve the financial results and prospects of the company in the hopes of re-selling the company to another firm or cashing out via an IPO.

The private equity fund manager will not invest directly in such private equity deals but instead invest in companies that are predominantly involved in the private equity industry or in Private Equity Investment Trusts (PEIT).

A PEIT is a closed-end fund investing in a portfolio of privately held companies. The buyout market is highly linked to the credit cycle due to the amount of debt used in these transactions. These investments will perform better when it is cheaper to borrow money to finance private equity deals.

#### > **Global Real Estate**

Global real estate covers commercial property investment anywhere in the world. This offers increased diversification as different countries have differing supply and demand characteristics that drive the long term returns of their property markets. The global property market has been lowly correlated with both equity and bonds.

A Real Estate Investment Trust (REIT) is a property security, a quoted company that owns and manages commercial property including offices, industrial units, hotels, retail and leisure centres and residential properties. The returns will come from a combination of rental income and

capital appreciation. A REIT will either directly hold properties in a certain sector in one country or across many countries, or hold a diversified portfolio of property across industries and regions.

A REITs investment manager is able to add value by allocating to various countries or property types where they see valuation opportunities. REITs offer reduced spreads and better liquidity than an investment into a direct property fund.

#### > **Emerging Market Debt**

Emerging market debt is an investment in the debt of emerging market countries, and because of the increased risk, offer a higher return on their debt than developed market countries. Emerging market debt is split between local currency debt and debt issued in a foreign or hard currency. Debt that is issued in a hard currency has predominantly been US Dollars, Euros or Sterling. The country's government is seen as the borrower.

#### **Equities**

Historically, equities have provided the greatest source of growth for investment portfolios, however, returns have been volatile. In this portion of the fund we invest in managers who look for the best opportunities anywhere in the world, with little or no constraints on country or industry allocation. Each manager in this part of the fund will have a different skill set and has already demonstrated the ability to produce superior returns.

#### > **Unconstrained Global Equity**

These managers are able to invest in any equity market in the world, so they are not constrained to investing in any single market but are able to choose the best company in each industry from around the world; subject to a minimum level of diversification.

#### > **Low Volatility Equity**

These managers design their equity portfolios to target more certain positive returns. Whilst not increasing as much as the general stock market in positive markets the aim is to better preserve capital when the stock market goes down. The manager does this by using its allocation to cash more proactively and using derivatives to reduce the potential downside risk from equities.

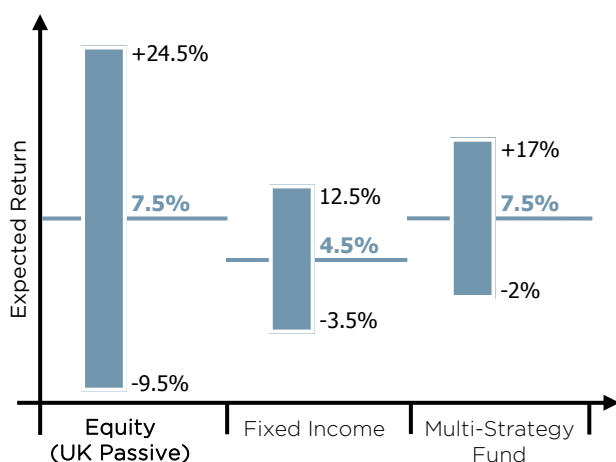
### Why Diversify?

Diversification plays a fundamental role within multi-asset investment, reducing the volatility of returns. Diversification works because different asset classes perform differently in varying market conditions. Effectively highs and the lows in asset movements are balanced out in order to achieve more stable middle ground growth.

Historically, investors have relied on equities and bond markets for their investment strategies as these asset classes were readily accessible. Other asset classes, such as infrastructure, required large investments and as a result, were inaccessible. Over the last couple of years, these barriers to entry have been significantly reduced, enabling investors to more widely diversify their assets.

The benefits of diversification are demonstrated in the graph below, which shows the volatility comparisons between equities, fixed income and the Multi-Strategy Fund. Because our Multi-Strategy Fund is highly diversified it can achieve equity-like returns with much lower volatility over the longer term.

### Volatility Comparison



Source: Investment Solutions, for illustration only.  
Note: The ranges above represent a 68% confidence interval, on a one year basis assuming historical volatility.

### Contact Us

For more information on our Multi-Strategy Fund please contact your Adviser or our Client Services team:

Investment Solutions  
3rd Floor  
1 Royal Exchange  
London EC3V 3LN  
t: +44 (0)20 7847 3300  
f: +44 (0)20 7847 3399

[enquiries@isltd.co.uk](mailto:enquiries@isltd.co.uk)  
[www.isltd.co.uk](http://www.isltd.co.uk)

The Multi-Strategy Fund invests in a number of alternative asset classes which include commodities, property, hedge funds, private equity and infrastructure investments and/or funds that use sophisticated portfolio management techniques which include leverage, derivatives, short selling and other structured products and, the values of such investments may be volatile. In view of the nature of this investment you may wish to obtain advice from your investment advisers as to its suitability for investment. In certain instances, investors may face a delay in switching or redeeming their investment because the underlying assets in the fund may not always be readily saleable. It is for this reason that investment in this fund should be viewed as a long-term investment. Exchange rate changes may cause the value of overseas investments to rise or fall. Investors should be aware that investment in emerging markets involves a high degree of risk and should be seen as long term in nature. Investment Solutions Limited is unable to provide advice and can only provide information on its own products and services. Investment Solutions Limited and Investment Solutions Fund Managers Limited are authorised and regulated by the Financial Services Authority. Investment Solutions Limited Registered No. 3104978. Investment Solutions Fund Managers Limited Registered No. 842763. Both companies are registered in England and Wales at: 5th Floor, Leon House, 233 High Street, Croydon, Surrey CR9 9AF. Financial Services Authority registered address: 25 The North Colonnade, Canary Wharf, London E14 5HS. For your security telephone conversations may be recorded. The asset allocation and choice of asset managers are at the discretion of Investment Solutions Limited and may be changed without notification to the investor.