Investments

The power of **purposeful diversification**

Ady Bougourd:
Senior Manager - Investments Jersey

2024 was a year of significant shifts, marked by a record number of global elections, rising geopolitical tensions, and central banks finally beginning to cut interest rates in the second half of the year. However, these rate cuts were not as substantial as initially expected—nor as much as mortgage holders might have hoped.

Artificial Intelligence technology stocks continued to rally throughout the year dominating the markets and the headlines! As an investor, you could be forgiven for being captivated by these star performers and feeling the urge to put all your eggs in one basket and ride the wave. However, stocks do not always go up. Various factors, such as market fluctuations, economic conditions, and company performance, can all impact stock prices. For instance, economic downturns or recessions often lead to decreased consumer spending and lower corporate profits, causing stock prices to fall. Therefore, while stocks have the potential for growth, they are also subject to risks and uncertainties that may lead to declines.

Looking to 2025, there is a high degree of uncertainty with material policy changes on the horizon from the new US administration and interest rates now expected to be "higher for longer".

To manage this risk, diversification is one of the most effective strategies. This is a strategy that involves spreading your investments. Think of it like eating a balanced diet - a bit of protein, a mix of carbs and so on. In investment terms, diversification means spreading your savings and investments across different asset types—such as shares, bonds, property and cash—as well as across various sectors, currencies and regions. The goal is to reduce risk by ensuring that when one asset underperforms, another outperforms, thereby smoothing market fluctuations and delivering more stable long-term returns.

So, what is purposeful diversification? This is where the diversification is not just in asset classes but also managers and investment styles! Our **multi-management approach** purposefully spreads clients' investments across different asset managers, investment types and strategies. With the support of our strategic partner, Mercer Global Investments, this sophisticated means of managing risk ensures that each investment type, style and asset manager, are carefully considered and enhance the opportunity to achieve consistent, competitive return streams that compound to superior investment performance over time.

What is a multi-manager?

A multi-manager is a professional who invests in and manages a selection of asset managers, across different markets, asset classes, investment philosophies and styles of money management. The ultimate goal is to reduce the potential downside risk asset managers have relative to one another and thereby enhancing investment returns. Put simply, a multi-manager allows investors to invest in a blend of the smartest and most talented asset manager strategies from one single portfolio solution.

Multi-management enhances diversification

Because asset managers have different views and investment philosophies (such as standards or beliefs), dictating how they manage money, it only stands to reason that a varying number of money management styles exist.

These standards and beliefs lead to asset managers selecting different stocks at different points in the economic cycle, deciding when to enter the market, how quickly to build a position, adjusting it over time and determining when and how quickly to exit.

Investors can benefit from understanding that they don't need to predict which investments will deliver the best returns during the next month, next year or next five years. Why? Diversification protects us from the market's variability and our inability to predict the future.

Let's look at the benefits in more detail

Asset class diversification

Think of asset classes like food groups, proteins, carbs, fats and so on. Just as you might adjust your intake of different food groups depending on your health goals, in investing, asset classes like stocks (equities), bonds, real estate and cash play different roles in a portfolio. Each serves a unique purpose, like how different food groups contribute to a balanced diet.

Each asset manager specialises in different asset classes. By allocating funds to multiple asset managers, investors gain exposure to a broader range of asset classes. For instance, one manager might focus on global equities, while another handles bonds or property. To see how different asset classes have performed over the past 10 years, click here to view the periodic table of index returns.

Investment strategy diversification

Now consider investment strategy as a type of cuisine. The specific ingredients and cooking methods create a distinct meal, Italian, Caribbean, French and so on. When investing in equities, we refer to styles such as value, momentum, quality and growth. An asset manager's philosophy sets out the fundamental approach that the asset manager applies to making investment decisions. The philosophy will give rise to an investment style and serves to aid an understanding of the portfolio actions taken and the investment results achieved, both in good and bad times.

Multi-managers combine asset managers with complementary styles, allowing investors to benefit from different investment approaches at different times. This reduces the exposure to any one style of investing and reduces the volatility of returns.

Manager selection

An asset manager is like a skilled chef. They use their expertise to select, prepare, and combine ingredients (asset classes) according to a particular style, creating a well-crafted portfolio. Just as chefs manage the preparation of food, asset managers manage investments.

Multi-managers carefully select skilled professionals. They evaluate track records, investment processes and risk management practices.

This rigorous selection process ensures that each asset manager selected has demonstrated a consistent application of their investment philosophy and strategy, promoting repeatable and reliable return streams.

Dynamic allocation

Now imagine a chef who can adjust the menu based on seasonal ingredients, guest preferences and the latest culinary trends. This flexibility allows them to create the best possible dining experience.

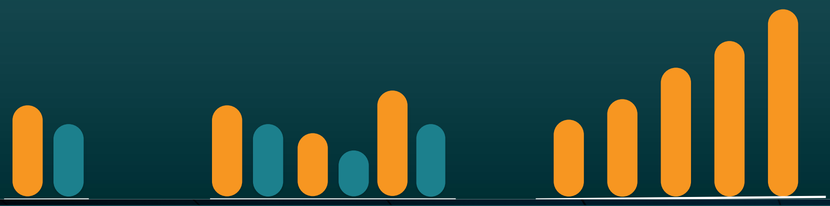
Similarly, multi-managers can shift their investment allocations based on market conditions, economic trends, and changing investor preferences.
This dynamic approach enables them to seize opportunities and manage risks effectively, just as a chef adapts to ensure a memorable meal. Flexibility allows them to capitalise on opportunities and manage risks effectively.

Conclusion

The investment landscape is ever-changing and what succeeded in the past may not necessarily do so in the future. Therefore, it is prudent for investors to resist the allure of chasing past winners and instead focus on building a diversified portfolio. By siding with a multi-manager, investors can benefit from a blend of expert strategies, reducing risk and enhancing the potential for consistent, long-term returns. Remember, the key to successful investing is not in predicting the short-term market winners, but in maintaining a balanced and diversified portfolio that can withstand market fluctuations and deliver sustainable growth over time.

The Alexforbes way

Superior performance
Our objective - scaling the performance tables



Achieve above-benchmark returns Ensure we remain competitive	With consistency over time Ensure we produce smoother return streams	Compounding into superior long-term performance Ensure we deliver impressive outcomes

Multi-management
Our DNA - your investment building blocks

Research manager universe We simplify complexity	Identify top-rated managers We find the best	Blend complementary strengths We get the best out of them

Purposeful diversification
Our philosophy - three guiding principles

1. Invest broadly Mix of investments	2. Invest intelligently Complementary strategies	3. Invest wisely Quality asset managers

Disclaimer

Alexander Forbes Investments Jersey Limited (AFIJ) is regulated by the Jersey Financial Services Commission for the conduct of fund services business, and is the Manager of the Alexander Forbes Investments Global Fund (the Fund), an open-ended unit trust, established in Jersey on 28 April 1997 as an unclassified fund. This document does not form part of the prospectus for the Fund and does not constitute an invitation to subscribe for units in the Fund or represent investment advice of any kind. The matters set out herein should not be relied upon for the purposes of making an investment in the Fund. Read full disclaimer here.

Alexander Forbes Investments Jersey Limited
Registration number: 67439
Physical address: 2-6 Church Street, St Helier, Jersey, Channel Islands
Telephone number: +44 (0) 1534 837837
Fax number: +44 (0) 1534 837888
Email address: AFInvestJersey@alexforbes.je
Website: www.alexforbes.com.