WTW

Driving true diversification and innovation

By Elizabeth Dooley

Raymond Kwong

Investing with intentionality toward risk-return drivers and unlocking true diversification have won WTW the titles of Alternatives House of the Year and Best Multi-Asset House in *Asia Asset Management's* Best of the Best Awards 2023. The awards are in recognition of their flagship Hedge Advantage Fund (HAF) and Partners Fund.

For WTW's Director, Investments Asia, Raymond Kwong, the past year has re-enforced perceptions of a paradigm shift taking place across the global investment landscape, where the emerging complexities of uncertainty and volatility are encouraging investors to rethink how components of their portfolio can come together to generate sustainable long-term outcomes.

"Institutional investors are seeking to better understand the risk-return drivers behind their strategic asset allocations, with the aim of taking a more intentional approach to building resilient portfolios that can weather rapidly shifting market cycles," explains Kwong.

Diversification

Within the alternatives space, he points to WTW's HAF as an example of a diversified portfolio that places significant value on flexibility, precision, and dynamic exposures to capture increasingly fleeting opportunities. The strategy is also geared to protect the downside irrespective of equity and fixed income performance. HAF manages US$2.6 billion and adopts an investment mandate that invests in a carefully curated list of high-quality hedge fund managers to deliver attractive risk-adjusted returns. This means targeting a return of cash plus 4-6% per annum, with a beta to equities of less than 0.25.

The figures are impressive, with HAF having delivered an excess return of 11.3 in 2022 compared to the average fund of hedge fund over the same period. Furthermore, despite three difficult years that included the onset of the Covid-19 pandemic, the 2021 recovery and the 2022 market drawdown HAF delivered 8.3% per annum. For the full year of 2022, Kwong reported that HAF posted strong positive returns of 6.1%, with a cash return of 1.3%, marking four consecutive years of positive performance. Since inception, HAF showed an equity beta of 0.0 and a robust Sharpe Ratio of 0.6, compared to 0.3 and 0.4 for the average fund of hedge fund.

"What these numbers demonstrate is the power of intentional portfolio construction and high-quality manager selection. And in terms of diversification, we believe in the need to explore a range of different return risk drivers so that no single component dominates the performance of the fund. The layers of the fund are comprised of uncorrelated sub-categories overseen by managers that generate true alpha, as opposed to those hiding behind market beta," he says.

Meanwhile, WTW's Partners Fund is a £2.6 billion (US$3.55 billion) multi-asset solution designed to deliver annual returns of 5% above inflation with half the volatility of equities. It invests in a broad range of asset classes, return drivers and geographies via diverse underlying funds to give long-term investors a sophisticated and scalable alternative to the global equity component of their return-seeking portfolios. The Partners Fund provides exposure to traditional equities, as well as emerging markets, hedge funds, alternative credit, government bonds, commodities, private equity, real estate and infrastructure, all via specialist hand-selected third party managers. In 2022, the fund outperformed the equity comparator by 9.8% with less than one third of the volatility.

Sustainable innovation

By leveraging WTW's scale and global network, both the HAF and Partners Fund provide a truly unique market-neutral complement to existing portfolios, with both funds boasting among the lowest fees in the industry, at a low 1.03% and 1.25% TER respectively.

In terms of innovation the HAF works with a preferred macro manager and has developed a unique 'best ideas' co-investment program. So far, the HAF has invested in six different co-investment opportunities in the last 12 months.

"This is one of the attractive diversification benefits investors can achieve from HAF, where the manager extracts and proposes high conviction trades from their strategy and HAF can elect to focus just on these trades," Kwong explains. This includes transfer of the existing climate insurance-linked strategy into a new fund designed to offer a bespoke diversified exposure to weather and ESG-linked risks via risk transfer solutions.

This tactic feeds into the strategy of the Partners Fund, where a range of diversifiers have been added to the portfolio, including macro and systematic strategies, long-short equity, and carbon credits that have helped the portfolio weather volatile markets. As well as a bespoke inflation protection strategy this includes freeing up capital for new private market opportunities. Increased allocation to private markets beyond traditional real estate and infrastructure include forestry, a sustainable timber business, and the value of direct ownership of a carbon capture asset. Another example is an investment in renewables, with an allocation to a "buy-fix-sell" strategy exclusive to WTW, focused on solar, biomass and battery storage in Japan and Taiwan.

"Investors are moving away from the traditional 60/40 equity bond portfolio. In the current complex environment HAF remains well positioned to contribute more meaningfully to institutional portfolios in Asia. We are also increasingly confident that we can deliver equity-like returns with lower volatility to institutional investors across the region through our multi-asset solutions." ■