

# END OF THE GOLDEN AGE?

AVIVA INVESTORS  
May 2016



## Key points

---

The global economy looks to face sub-par expansion, low productivity growth, and a shrinking pool of workers relative to retirees in many countries in coming decades

---

A McKinsey report warns that average annual returns for U.S. and European shares over the next two decades could be around half of those achieved since 1985<sup>1</sup>

---

We believe we are moving to a world where meeting a specific investor outcome forms the bedrock of investment decisions rather than a world where allocating among asset classes does

---

A focus on diversifying risk means a multi-strategy approach can produce smoother returns to deliver consistent outcomes

---

If risk is not accounted for on a forward-looking basis, a portfolio may not be appropriately diversified when the next shock sell-off strikes

---

## Traditional investment strategies based on the norms of the last 30 years might struggle to deliver the outcomes desired in a new era of potential lower growth and poorer returns.

Investors are on the cusp of a possible frightening shift in global trends set to scythe investment returns for shares and bonds over coming decades. This is the conclusion of a report published by McKinsey & Company in April 2016, with the consultancy arguing that the golden age for investors is over after a 30-year “bull” market for both asset classes.<sup>1</sup>

In its report, McKinsey points to an alignment of positive factors that previously boosted long-term returns in the past three decades, including the rise of China to the world’s second largest economy, sharp falls in inflation and interest rates around the world, and strong global growth. U.S. and European equities averaged returns of 7.9 percent a year, while bond returns averaged 5.0 percent and 5.9 percent, respectively, over the same period. And, this was achieved despite the jolts to financial markets triggered by the dot-com crash of 2000 and global financial crisis of 2008.

With traditional investment strategies unlikely to deliver the same level of returns, a fresh approach to running investors’ money may be needed to provide adequate outcomes in a world of stretched valuations and negative interest rates. One outcome-focused, benchmark-free option is multi-strategy investing.

### Lowering expectations

In the next two decades the global economy faces the prospect of sub-par expansion, low productivity growth by historical standards and a shrinking working-age population relative to retiree numbers in China and the “developed” world economies. For instance, the share of American citizens at retirement age will soar by 150 percent by 2050 to represent 21 percent of the population, or nearly 92 million people.<sup>1</sup>

McKinsey warns that average annual returns for shares in the U.S. and Europe could be between 3.9 percent and 6.4 percent, depending on the pace of growth, over the next twenty years.<sup>1</sup> This compares with average returns on the asset class of 6.5 percent and 4.9 percent respectively over the last century.<sup>1</sup> Meanwhile, fixed income assets are expected to provide average annual returns of up to only 2.0 percent in both regions, in line with average fixed income returns over the last one hundred years.<sup>1</sup>

The implications of the above siren calls on prospective returns from shares and bonds are stark: McKinsey estimates that an average annual real return of 4.5 percent over the next 30 years, rather than the 6.5 percent real returns seen over the last three decades, would mean a 30-year-old today having to work seven years longer or to save almost double as much to enjoy the same living standards as someone retiring today.<sup>1</sup>

### Time to get unconventional

The shortcomings of many traditional investment approaches have been exposed since 2008, as global central banks took much of the developed world into an era

---

<sup>1</sup>Source: “Diminishing returns: Why investors may need to lower their expectations,” McKinsey Global Institute, April 2016

# END OF THE GOLDEN AGE?

AVIVA INVESTORS  
May 2016



of negative interest rates and age-old correlation trends between asset classes break down.

With bond yields low and assets more correlated than their historical norm, what looks like a well-diversified portfolio may carry significant risk. If different assets sell off in tandem as global growth disappoints or U.S. interest rates rise unexpectedly, investors could discover just how diversified their portfolios are and if their investment strategies are delivering the performance they expect.

## **New order**

In meeting the challenges facing investors, we are moving to a world where meeting a specific investor outcome forms the bedrock of investment decisions, rather than one where allocating among equities, bonds, and other asset classes does. This shift should apply to all investors, be they pension plans, companies, or individuals, regardless of whether they are aiming to obtain consistent capital appreciation, regular sustainable income, an inflation-beating return, or meet a specific future liability.

## **Multi-strategy investing**

An outcome-oriented, multi-strategy approach generally aims to produce steady performance, regardless of the investment climate, in line with a target. This is achieved by combining a wide range of investment strategies, some of which perform well when markets rise, and others when they fall. With freedom to invest where they want and to profit from market volatility, portfolios can profit from a wide-range pool of investment ideas in an effort to improve risk-adjusted performance.

For instance, in looking to produce steady performance that is uncorrelated with other asset classes by diversifying risk, a multi-strategy approach might combine three different types of strategies: “market,” “risk-reducing,” and “opportunistic.” The first group seeks to provide a positive return when markets perform as we expect, while the second aims to boost returns when markets do not behave as anticipated without harming performance when they do. However, the last group looks to exploit opportunities arising from market inefficiencies created by non-profit seekers such as global central banks.

This focus on diversifying risk means a multi-strategy approach can produce smoother returns to deliver consistent outcomes. Carefully managing the risks to which portfolios are exposed is crucial. If risk is not accounted for on a forward-looking basis, a portfolio may not be appropriately diversified when the next shock sell-off strikes. Indeed, periods of market crisis can create opportunities for outcome-oriented strategies to improve returns.

With investment strategy set over a three-year period, without the distraction of benchmark performance or the constant impact of global central banks, managers can devote their resources to seeking to deliver the outcomes that investors want, whether prospective returns in coming decades are better or worse than anticipated.

The golden age for traditional investment approaches may, as McKinsey claims, be over. If it is right, this may be the time when investors look beyond those approaches to achieve their desired investment outcomes.

# END OF THE GOLDEN AGE?

AVIVA INVESTORS  
May 2016



## Important Information

Unless stated otherwise, any sources and opinions expressed are those of Aviva Investors Global Services Limited (Aviva Investors) as of May 4, 2016. Opinions, estimates, forecasts, and statements of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice. Information contained herein has been obtained from sources believed to be reliable, but has not been independently verified by Aviva Investors and is not guaranteed to be accurate. References to specific securities, asset classes and financial markets are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations. Past performance is no guarantee of future results. There can be no guarantee that the investment or risk objectives discussed will achieve their desired objectives.

The name "Aviva Investors" as used in this presentation refers to the global organization of affiliated asset management businesses operating under the Aviva Investors name. Each Aviva Investors' affiliate is a subsidiary of Aviva plc, a publicly-traded multi-national financial services company headquartered in the United Kingdom.

Aviva Investors Americas LLC (AIA) is the named subadviser to the Virtus Multi-Strategy Target Return Fund and utilizes the services of Aviva Investors Global Services Limited (AIGSL) and its other affiliates (collectively, Aviva Investors) to manage the Fund. These affiliates are Participating Affiliates as that term is used in relief granted by the SEC. The listed investment professionals are associated with AIGSL.

## IMPORTANT RISK CONSIDERATIONS

**Equity Securities:** The market price of equity securities may be adversely affected by financial market, industry, or issuer-specific events. Focus on a particular style or on small or medium-sized companies may enhance that risk. **Foreign & Emerging Markets:** Investing internationally, especially in emerging markets, involves additional risks such as currency, political, accounting, economic, and market risk. **Credit & Interest:** Debt securities are subject to various risks, the most prominent of which are credit and interest rate risk. The issuer of a debt security may fail to make interest and/or principal payments. Values of debt securities may rise or fall in response to changes in interest rates, and this risk may be enhanced with longer-term maturities. **High Yield-High Risk Fixed Income Securities:** There is a greater level of credit risk and price volatility involved with high yield securities than investment grade securities. **Derivatives:** Investments in derivatives such as futures, options, forwards, and swaps may increase volatility or cause a loss greater than the principal investment. **Leverage:** When a fund leverages its portfolio, the value of its shares may be more volatile and all other risks may be compounded. **Counterparties:** There is risk that a party upon whom the fund relies to complete a transaction will default. **Portfolio Turnover:** The fund's principal investment strategies will result in a consistently high portfolio turnover rate. A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when fund shares are held in a taxable account. **Prospectus:** For additional information on risks, please see the fund's prospectus.

**Investors should carefully consider the investment objectives, risks, charges, and expenses of any Virtus Mutual Fund before investing. The prospectus and summary prospectus contain this and other information about the fund. Please contact your financial representative, call 1-800-243-4361, or visit [www.virtus.com](http://www.virtus.com) to obtain a current prospectus and/or summary prospectus. You should read the prospectus and/or summary prospectus carefully before you invest or send money.**

Not all products or marketing materials are available at all firms.  
Not insured by FDIC/NCUSIF or any federal government agency. No bank guarantee. Not a deposit. May lose value.  
Distributed by **VP Distributors, LLC**, member FINRA and subsidiary of Virtus Investment Partners, Inc.  
2105 5-16 © 2016 Virtus Investment Partners, Inc.