Downside mitigation with multi-asset solutions

Event summary

Our recent webinar on downside mitigation with multi-asset solutions featured insights from Nelson Arruda, Portfolio Manager and Head of Mackenzie's Multi Asset Strategies Team.

Key takeaways

- There are currently more than 6 million Canadians aged 60 and above, a number that is projected to grow to 10 million by the end of the decade. Over the same period, their investable wealth is expected to grow from $3.2 trillion to more than $5 trillion.[i]
- This vast and growing retirement market is often facing a 25-year investment horizon, with a whole new set of risks that differ from those of their accumulation years.
- Our Monthly Income Portfolios are designed to address these new risks facing retirees and have consistently demonstrated their effectiveness since inception.

Why it matters

The three key risks that retirees face are inflation and market (capital) risk, sequence of returns (timing) risk, and risk of outliving their portfolio (longevity).

Our Monthly Income Portfolios are designed with these risks top of mind and seek balance between downside risk mitigation, income generation and capital growth. The portfolios are available with three risk profiles: conservative, balanced and growth.

Downside risk mitigation

Since the 1950s, markets have experienced drawdowns of greater than 20% every six years, on average. For retirees, this can have devastating effects as they may not have time to rebuild their portfolios. The Monthly Income Portfolios are designed to mitigate downside risk, with both implicit and explicit risk management. The implicit component includes broad asset class and geographic diversification. Interest rate risks are tackled by holding the Mackenzie Unconstrained Fixed Income Fund, which employs tactical strategies around interest rate risk. There is also a small allocation to inflation sensitive assets and a strategic USD overweight due to its safe haven nature.

However, there are times when asset class correlations converge and that's where explicit risk management comes into play. We use options to continually hedge our equity exposure, considering cost, liquidity and performance in different regimes. Our fixed income strategy uses put options with some tactical management. This multi-pronged risk management strategy allows us to provide the downside protection that retirees seek.

Income

Cashflow is very important, as it replaces retirees' regular employment income. All three portfolios aim to enhance income production with investments in dividend paying stocks and high-yielding bonds, and pay a 4% fixed rate distribution that provides steady cash flow retirees can rely upon to manage their liabilities.

Growth

A recent retirement survey found 71% of retirees believe their portfolios should be set up for protection and not growth. We feel that growth is undersappreciated, considering many retirees will spend upwards of 25 years in retirement. Our Monthly Income Portfolios are constructed to participate in growth, which is reflected in their performance. To date, the portfolios have outperformed the majority of category peers. However, performance is only part of the story. Our standard deviation measures over five years are roughly 33% less volatile and our Sharpe ratios are roughly double that of our peers, highlighting that we have taken much less risk per unit of return.[ii]

What advisors can do about it

The Monthly Income Portfolios are engineered for retirees and can help simplify your business and your clients' investment experience and we think now is the right time to rethink your approach to portfolio construction and consider the Mackenzie Monthly Income Portfolios for your clients.

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i Source: Canadian Institute of Actuaries; Statistics Canada.

[ii] Source: Mackenzie Investments, Morningstar, at December 31, 2022

Since inception dates: Mackenzie Monthly Income Conservative Portfolio – Apr 21, 2015; Mackenzie Monthly Income Balanced Portfolio – Jan 13, 2015; Mackenzie Monthly Income Growth Portfolio – Oct 19, 2021

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