Low-Return Environment Calls For Savvy Allocations, Risk Management

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Chuck Jaffe, in this episode of The NAVigator podcast interviewed Nathan Shetty, head of multi-asset for Nuveen and co-manager of the Nuveen Multi-Asset Income Fund. Read the Q & A below as Nathan and Chuck discuss the importance of using proper allocations to generate reasonable and consistent total returns in a low-return environment. Shetty notes that proper diversification and risk management are particularly important in times like today, with so many wild cards, headline risks, and uncertainties.

Nathan Shetty

The podcast can be found on AICA's website by clicking here: https://aicalliance.org/alliance-content/pod-cast/

CHUCK JAFFE: Nathan Shetty, head of multi-asset at Nuveen is here and we're talking about where in the world you want to invest in an environment where expected returns are low, this is The NAVigator. Welcome to The NAVigator, where we talk about all-weather active investing and plotting a course to financial success with the help of closed-end funds. The NAVigator is brought to you by the Active Investment Company Alliance, a unique industry organization that represents all facets of the closed-end fund industry from users and investors to fund sponsors and creators. If you're looking for excellence beyond indexing, The NAVigator's going to point you in the right direction. And today we're heading in many directions, because my guest is Nathan Shetty, director of multi-asset at Nuveen, co-manager

on NMAI, that's the Nuveen Multi-Asset Income Fund. And multi-asset strategies, well, we don't want to get into jargon, it's kind of another way of saying that decisions over asset allocation will typically be the driving factor in returns. To learn more about how it works with NMAI or any Nuveen fund go to Nuveen.com for more information. And to learn more generally about closed-end funds, interval funds, and business-development companies go to AICAlliance.org, the website for the Active Investment Company Alliance. Nathan Shetty, thank you for joining me on The NAVigator.

NATHAN SHETTY: Thanks Chuck, good to be here.

CHUCK JAFFE: Nathan, we need to really start with a little bit of a definition in terms of, A, what NMAI's trying to do, because that's going to help my audience understand what you're looking at. But also, multi-asset and why asset allocation is the key here.

NATHAN SHETTY: Yeah, Chuck, again it's quite different from a lot of other funds out there that focus on one particular asset class. NMAI, it's a broadly diversified strategy, meaning we're investing in both stocks and bonds, and we're investing in stocks and bonds to extract both current income as well as deliver the potential for capital appreciation. Now NMAI is also a total return strategy, and by total return strategy I mean it's not benchmark bound. We didn't build the strategy by saying, "Here's the benchmark," and then doing some tiny deviation away from the benchmark, we built the strategy to deliver on an outcome. And that outcome that we've structured is about distributing 6-7% per annum, and we want to be able to deliver that distribution in a risk-conscious manner.

CHUCK JAFFE: Six to seven percent sounds great, and it would have sounded a lot better before we saw high inflation and rising interest rates. How much harder has it been, and how much allocation change have you had to go through to live up to that mandate in these conditions?

NATHAN SHETTY: Most of these strategies, multi-asset strategies, are medium to longer term strategies. We need to extract capital appreciation and current income from broad market betas, market betas from around the globe. So when ultimately the rising rate environment and risk assets tend to fall, this strategy obviously is going to succumb to some short-term pressures, but ultimately focusing on the medium to long term is quite important. Now that being said, we do have a tactical asset allocation overlay to help manage certain risks in the shorter term and capitalize on opportunities. And in that short-term tactical asset

allocation we have had a preference for US large cap value, which has held up considerably well compared to say, tech stocks or growth in the US. We've allocated towards infrastructure equity, and we've done this by reducing some of the exposure to international equity even though international equity has a great deal of value. On the bond side we have shifted the portfolio toward floating-rate securities. Chuck as you know, in an environment of rising interest rates, fixed bonds are going to come under pressure, and by allocating away from fixed and into floating we don't undergo as much downside risk as interest rates continue to climb.

CHUCK JAFFE: And although you're tilting in certain directions and contracting in certain directions, one of the things that's really important, as I understand pretty much any multi-asset strategy, is diversification. So how do you balance that mandate? I mean, help my audience understand what multi-asset diversification means to you. Are you in every asset class with a position? How much do you tighten up or what have you in these kinds of conditions?

NATHAN SHETTY: Yeah, diversification, we built this strategy on a number of core, call them philosophical tenets is how we manage all the money that my group manages. And one of which, sort of a pithy way of looking at it, but we always say that diversification is our highest conviction trade. Now diversification, a less obvious one that strategies employ from a multi-asset perspective is by being in and allocating to multiple asset classes, bonds and fixed income of course, and then all the subsectors from emerging markets to developed markets as I mentioned before, fixed and floating-rate securities. On the equity side we traverse the entire globe, it can be in a variety of sectors and styles like value and growth. So you do have a broad opportunity set and we make it a point to ensure that diversification from a geographic perspective, style, and cross-asset perspective. I'd say most importantly, and a real differentiator in how we manage and built this strategy, is that we ensure that we're diversified from an underlying risk factor perspective. So think of us looking under the hood of all these asset classes and exposures and understanding the common factors that are driving risk and return and ensuring that we have diversification in those underlying risk factors.

CHUCK JAFFE: Help us understand a little bit more about that. Because one of the things that has been going on while the market was in the long bull market was that everybody talked

about diversification but they also felt it didn't really work. Like at a time when US large caps were clearly the best market in the world, it didn't really pay to be diversified. Now given everything that's changing, you can certainly see why it might be paying to be diversified, but I don't think people view diversification spreading assets out given that risk lens that you were just talking about. So when folks feel that diversification wasn't working because one market was so dominant, were you feeling that diversification still was?

NATHAN SHETTY: This is a great point, Chuck, and I think it comes down to the purpose for diversification and why the portfolio is built the way that it is. We don't take risk for the sake of taking risk, we're taking just the right amount of risk in order for us to deliver on that mandate, which is to provide annual distributions in the order of 6-7%. Taking risk beyond that to so-called shoot the lights out, and doing that by taking concentrated bets in say, US growth, which was one of the best performing sectors of the equity market or broad markets over the last 10 years, sure, it certainly would have delivered those returns but in also much greater risk. Then the question is when do you peel back that concentrated bet? Of course year to date it's also one of the worst performers. So understanding the utility that diversification brings from the risk perspective is as important as balancing off your ability to be able to deliver on what the ultimate return objective is. So we definitely understand the risk of not being concentrated whenever in hindsight you can say just being in US equity markets would have been the best, but on a forward-looking basis that can certainly lead to bad outcomes. In other words, the distribution of that outcome is much broader. And then our forward-looking basis from the environment that we're in now, Chuck, I'd just say that diversification is going to be more essential than ever. Our research suggests than in inflationary environment, the diversification benefit between, say treasuries and equities or fixed-rate bonds and equities, starts to diminish, it starts to go away. Another way of saying this is the correlation between bonds and equities starts to increase. And we're mindful of that, that's part of the dynamism of our strategy, we're always monitoring that and sourcing diversification. It's still going to be rewarded to deliver on that ultimate mandate, Chuck.

CHUCK JAFFE: Really interesting. Nathan, great stuff, thanks so much for joining me on The NAVigator.

NATHAN SHETTY: Chuck, thanks. It's been a pleasure.

CHUCK JAFFE: The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. And yes, that's me, and you can check out my show, which is celebrating its 10th anniversary this coming week, on your favorite podcast app or by going to MoneyLifeShow.com. To learn more about interval funds, closed-end funds, and business-development companies go to AICAlliance.org, the website for the Active Investment Company Alliance. They're on Facebook and LinkedIn @AICAlliance. Thanks to my guest Nathan Shetty, director of multi-asset at Nuveen, co-manager on NMAI, the Nuveen Multi-Asset Income Fund. Learn more about the firm and the fund at Nuveen.com and on Twitter @NuveenINV. The NAVigator podcast is new every Friday, please don't miss one by subscribing via your favorite podcast app. And until we do this again next week, happy investing everybody.

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