



Q&A - Introducing the All Market Income Portfolio

Meeting the Income Challenge

With US\$15 trillion of bonds globally now offering negative yields, the challenge for income investors has never been greater. How can investors find attractive yields, diversify their risks and still have the opportunity for capital growth? In this Q&A, portfolio manager **Karen Watkin** explains how AllianceBernstein's (AB's) multi-asset income approach can find a way.



Karen Watkin, CFA, is Portfolio Manager for the Multi-Asset Solutions business in EMEA. As well as being Portfolio Manager for the All Market Income Portfolio, she is responsible for the development and management of multi-asset portfolios for a range of clients. From 2008 to 2011, Karen was portfolio manager for the Index Strategies Group, responsible for the development and management of AB's custom index strategies for institutional clients in EMEA. She joined the firm in 2003 from Accenture.

Key Fund Facts:

(As at 30/04/2019)

Why All Market Income Portfolio?

Seeks income generation and long-term growth by:

- + Investing across a broad universe of global fixed income, global equities and non-traditional assets and strategies
- + Dynamically adjusting exposures by allocating across asset classes based on changing market conditions
- + Leveraging asset class experts at AB to provide superior security selection

Fund Launch date: 02.11.04

Net Assets: US\$434 million

Morningstar Rating:

Class I USD Shares



Rated against 713 funds in the USD Moderate Allocation Category, based on risk-adjusted returns

ISIN I: LU1127391495

Q1. Karen, why do you believe that multi-asset solutions offer a superior investment solution for income-seeking investors?

Karen W (KW): For many investors, investing for a stable source of income is one of their most important investment priorities. But the hunt for income has become harder and the risks higher after almost a decade of low interest rates. When evaluating which investments offer the best source of income, investors should be aware that a multi-asset-driven solution has the ability to deliver both a stable income plus the potential for capital growth by accessing many different types of opportunity. This means that investors do not have to miss out on the potential for growth and, with diversified sources of income, can keep a careful eye on risk.

Q2: What can investors expect in terms of investment returns from the Fund?

KW: We aim to deliver a high and stable level of regular income combined with the potential to benefit from capital appreciation. Our investment objective is to deliver total returns of cash plus 5% with most of the income coming from the high-yield investments within the portfolio while keeping volatility within a 6-8% range. We do this by focusing on identifying the best asset class exposures to deliver the right balance of income, growth and stability. However, with growth stabilizing at a slower pace in the US and China in 2019, rate expectations may already be priced into the market. That means stocks of companies with genuine growth and strong balance sheets—like the ones we target in our portfolio—could see their multiples expand.

Q3. How has the Fund been designed and why?

KW: At AllianceBernstein, we have invested significant time and

research in designing a superior multi-asset solution which offers investors breadth, depth and flexibility. In practice this means that our portfolio managers (PMs) benefit from the freedom to invest in a truly unconstrained manner, selecting the best investment opportunities from a wide range of assets around the world. The All Market Income Portfolio (the Fund) has been designed with maximum flexibility in mind. It can invest both in traditional sources of income—including high-yield bonds, emerging-market bonds, investment-grade credit, and high-dividend equity—and in non-traditional sources such as real estate investment trusts (REITS), equity options and currencies.

Q4. How do you construct the portfolio? Can you give us an example of how the investment process works in action?

KW: We begin by constructing the portfolio based on thorough, deep analysis and building a strategic asset allocation. At the heart of this process is understanding how high-income asset classes behave both individually and as part of an overall portfolio, always balancing the need for stable income with the potential for capital growth and downside risk mitigation. We then select our investments from a wide range of asset classes, combining long-term drivers of return such as equities with traditional and differentiated sources of income such as high-yield bonds, emerging-market debt, energy Master Limited Partnerships (MLPs) or option strategies. When building a strategy focused on generating high income it is important to understand the specific risk exposures that come with investing in high-yield asset classes and finding return sources that can complement these. For example, when investing in high-yield bonds it can be beneficial to diversify some of the risk associated with this by incorporating equity strategies that have complementary characteristics, i.e. those with less leverage, strong balance sheets and stable earnings.

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Q5. Volatility rose and then fell in the first half of 2019, only to return with a vengeance in August. How can multi-asset investing help investors navigate these uncertain markets and headwinds?

KW: Investors will need to get used to a more volatile environment in future as volatility returns to normal after many years at unusually depressed levels. In this changing environment we believe having a more diversified and flexible multi-asset approach to investing for income will be crucial. Critical economic and political issues are likely to impact markets for some time to come, including unpredictable trade tensions and shifting central bank policies. A multi-asset approach is ideally suited to navigate challenging market conditions, through its flexible and dynamic approach and ability to switch between asset classes.

Q6. How have you positioned the fund against this challenging backdrop?

KW: We have carefully positioned the Fund to withstand a more volatile market environment in 2019. We have focused our equity investments on companies with stronger balance sheets, greater stability and less market risk. At the same time, we have tactically reduced our exposure to areas which are most sensitive to trade risk—for example emerging-market equities—and increased exposure to asset classes which are less sensitive, such as global real estate. On a more positive note, we believe that the strength of the US consumer should help support markets, and we favour US financials both for their resilience to trade tensions and their potential to benefit from a steepening yield curve resulting from a cut in interest rates by the US Federal Reserve (the Fed).

Q7. What are the key investment opportunities and risks for the remainder of the year?

KW: Markets are facing the late, late stage of the economic cycle. Investors need to be prepared for global economic growth to slow and risks to rise, against a backdrop of elevated volatility. On the positive side, although trade tensions and global growth concerns have weighed on markets recently, we do not foresee a recession and believe that the Fed will step in with policy support where required (as recently demonstrated by the July rate cut). Also, China's economy should start responding to stimulus in the second half of 2019, which would be supportive of global trade and economic growth.

To sum up, investors would be wise to adapt a well-diversified position and prepare to take advantage of opportunities as they arise. Despite the risks that markets are facing, there are still plenty of exciting investment opportunities. And we believe that the AB All Market Income Portfolio is ideally positioned to take advantage of them with its flexible, dynamic asset allocation and ability to generate a combination of stable income plus capital appreciation.

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