

## abrdn MyFolio Managed Funds

### Introduction

abrdn was formed from the merger of Standard Life Investments and Aberdeen Asset Management in 2017. It is one of the world's largest investment companies, the largest active manager in the UK and one of the largest in Europe.

[Click here to read the abrdn approach to ESG investing.](#)



### Fund Range

The abrdn MyFolio Managed funds are **risk based** and **predominantly active**. The range comprises:

| Fund                       | Sector             | Launch Date    | Volatility Target               |
|----------------------------|--------------------|----------------|---------------------------------|
| <b>MyFolio Managed I</b>   | Volatility Managed | September 2010 | 20-40% of World stock markets*  |
| <b>MyFolio Managed II</b>  | Volatility Managed | September 2010 | 35-55% of World stock markets*  |
| <b>MyFolio Managed III</b> | Volatility Managed | September 2010 | 45-75% of World stock markets*  |
| <b>MyFolio Managed IV</b>  | Volatility Managed | September 2010 | 60-90% of World stock markets*  |
| <b>MyFolio Managed V</b>   | Volatility Managed | September 2010 | 70-110% of World stock markets* |

\*represented by MSCI World Index over 10 years

### Investment Process

These funds invest predominantly in abrdn funds but may have some exposure to externally managed funds for specific asset class/investment exposure (e.g. index funds, Japanese and Asian equity funds).

The overall structure of the investment process is fairly typical of a fund of funds proposition. It combines strategic and tactical allocations with fund/investment selection and risk management to provide the risk targeted ranges. The investment process can be broken down into four steps: long-term strategic asset allocation, tactical asset allocation, fund selection and portfolio construction, and rebalancing and review.

The strategic asset allocation is set by abrdn through a process which combines both internal and external expertise. The Strategic Asset Allocation (SAA) for the MyFolio funds combines expertise from across Multi Asset Investment Solutions Teams. The aim of the SAA process is to select the optimal mix of assets for the given risk target of each portfolio, based on a ten-year investment horizon. abrdn has experienced teams dedicated to generating forecasts for long-term (10 year) asset class returns (SAA Strategy), and portfolio optimisation (Portfolio Engineering). The primary role of these teams is to ensure that the SAAs are directed towards the most attractively valued combination of asset classes (highest risk-adjusted returns) on a ten-year view. They undertake a risk/return optimisation process using a menu of available asset classes and a risk (volatility) target for each portfolio. The process begins with a detailed understanding of how each selected asset class is expected to behave, how it is expected to perform over the longer term, its volatility and how its performance correlates with other asset classes. The constrained optimisation process uses a 10-year time horizon to construct the SAA with the aim of generating optimal returns for each level of risk over the period. Each selected asset combination will represent one of the five risk levels offered through the MyFolio funds. abrdn has a Strategic Asset Allocation Committee (SAAC) that is responsible for the oversight and approval of all SAA decisions. The SAAC undertake a formal review of all portfolios on a quarterly basis to ensure that the SAA is consistent with expectations and within its long-term volatility ranges. There is also a formal annual re-optimisation, where the full optimisation process is undertaken to ensure that the mix of assets remains optimal for the given level of risk. The SAAC applies a number of constraints to the optimisation to ensure that the portfolios are always appropriately diversified. Underpinning this process is the use of the abrdn Solutions Portfolio Optimiser (aSPO), which provides optimisation and risk analysis using both the capital market forecasts from the abrdn Research Institute and the covariance matrix generated by the abrdn Factor Risk Model.

Tactical asset allocation positions for each fund are decided by the Multi-Asset Solutions (MAS) team within abrdn. The MAS team will apply their tactical investment views to fine tune the strategic asset allocation and take advantage of shorter-term opportunities. Across the range, abrdn describe their positions within markets, sectors and stocks as being Overweight, Neutral or Underweight relative to the fund's benchmark. While the house view covers asset classes at a broad level (equities, credit, government bonds, property and cash), the TAA committee within the MAS team drill down to a more granular level (UK equities, US treasuries, European property, etc.) and formulate views on these more detailed asset classes. The MyFolio funds are run in a disciplined manner and risk controls are applied across the range. Tactical positions are limited to +/- 5% of the benchmark within each asset class. This same limit applies to any variation in the splits of growth and defensive assets with defensive assets being cash and fixed income and the remainder classified as growth assets.

Sector responsibilities are split within the team with each sector having two lead analysts. These responsibilities are reviewed and rotated when necessary. Quantitative and qualitative techniques are employed to analyse funds. The team score and rank each fund within its sector based on a range of performance characteristics generated over a five-year period. In addition to pure return measures, this incorporates risk metrics such as maximum drawdown and up / down capture ratios. Rather than provide a list of potential target funds, the ranking is employed to ensure the team understand the characteristics of the funds in the sector and how they behave in particular market environments. The first step in the qualitative aspect of the research process is to gather a range of data on the fund from the fund group in question. If a fund passes this initial review process, then they will look to conduct an initial meeting with the relevant fund manager/team to discuss the fund in more detail. Fund manager research is based on a framework known as the Five P's. This process is used throughout abrdn's fund research, forming the basis for the pre-meeting questionnaires that are sent to all managers, the agenda for the manager interview process, the subsequent team discussions, the research reports that are completed on the funds and the ongoing fund monitoring. The five P's are: Philosophy, Process, People, Performance and Price.

As part of the process, they seek to understand a manager’s specific ESG (Environmental, Social and Governance) policy, the rigour with which it is applied and embedded into the process before and after investment and their approach to reporting on ESG issues. Whilst in their role as stewards, they believe they need to consider material ESG factors, the MyFolio ranges are not dedicated ESG fund ranges. They recognise that ESG integration can be a key component in the identification and mitigation of risk. Corporate governance has always been key in this respect, but social and environmental aspects are gaining recognition.

The managers look to construct diversified, efficient, active portfolios that will generate strong risk-adjusted returns in a consistent manner through an economic cycle. They place a great deal of emphasis on how they blend funds, managers and styles to achieve this. Full aggregate analysis can be done on a monthly ‘look through’ basis, allowing them to measure the overall risk exposures relative to the funds’ objective and also to look at the contribution of each underlying fund to the total position. This allows them to balance the holdings appropriately and also provides more information on the funds and how they operate, enabling them to further ‘fine tune’ portfolio positioning.

**Our Opinion**

The whole process, from asset allocation through to fund selection, uses the strength of both internal and external resources to form a balanced combination of portfolios. This robust structure forms the basis from which all portfolios are built and provides a consistency across the range. Advisers looking to combine different styles for clients within the MyFolio range can do so knowing the portfolio will have the same underlying characteristics. The MyFolio Managed funds provide an investor with options across a range of risk profiles, and we believe these form part of one of the most comprehensive solutions available to the retail investment market.



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