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Be single minded and pick ONE multi-asset fund to do it all from the hundreds on offer: We reveal how to choose

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Multi-asset funds are designed to make life easy for investors. They purport to offer a one stop 'mini portfolio' so that investors don't have to construct one themselves.

The idea is that instead of battling the complexity of picking a range of funds, equities, bonds and other assets, investors can simply pick one.

The fund manager is responsible for designing and maintaining a well-balanced portfolio so the investor can sit back and relax – and hopefully wait for returns to roll in.

But opting for a multi-asset fund still leaves investors with one headache: how to pick one.

After all, there are around 700 to choose between, which can leave investors bewildered. Besides, not all multi-asset funds are created equal.

Pick the right one and you may have found a hassle-free way to grow your wealth over the long term. Pick the wrong one and you may take on too much or too little risk.

HOW THE FUNDS PERFORM THROUGH THICK AND THIN

Multi-asset funds are designed to offer a perfect blend of investments that performs well in all market conditions.

They will contain some investments that perform well when the economy is growing, others that do better when it is running out of steam. That way, there should always be something in the portfolio that is turning a profit.

As Dzmitry Lipski, head of funds research at wealth manager Interactive Investor, explains: 'When one asset class is struggling, other parts of the portfolio can do the heavy lifting.'

However, because multi-asset funds offer balance and protection against falling financial markets, they will never be the best performers when the market is roaring ahead.

If you opt for a multi-asset fund, make sure you pick one that matches your appetite for investment risk. Some take more risk in the hope they are rewarded with higher returns. Others are happy to be a little more cautious, even if it means accepting a lower return.

You may be able to tell the risk profile of a multi-asset fund just by scrutinising its name. Many will contain the word 'cautious', 'balanced' or 'adventurous' in their name, which refers to how much risk they take.

However, other funds will require a little more digging.

In general, the higher the ratio of equities – or shares – to bonds in a fund, the riskier it is.

That is because companies tend to rise and fall in value with the health of the economy, whereas bonds are more likely to pay a steady income regardless of how the economy is performing.

So, as a rule of thumb, if you want to take on more risk, opt for one with a higher proportion of equities to bonds, and if you would rather be more cautious, pick one with a lower proportion of equities.

WHY THE CHEAPEST FUND ISN'T ALWAYS THE BEST

The cheaper a multi-asset fund, the more of your returns you will be able to hold on to. But you may not want to go for the cheapest if it is not the best fund for you.

Darius McDermott, managing director at Chelsea Financial Services, says: 'Cost is an important consideration, but we must emphasise that cheapest isn't always best – it's performance after charges that counts most.'

He adds that multi-asset funds tend to be more expensive than funds that invest in just one sector because you're paying for someone to pick investments – and arrange them in a perfect combination.

Some multi-asset funds keep costs down by creating a portfolio of cheap passive funds, which track an index automatically rather than relying on an expert – and more costly – fund manager to decide what to invest in.

The Vanguard LifeStrategy range is the 'ultimate globally diversified one-stop shop'. So says Interactive Investor's Lipski, who notes that with annual charges of 0.22 per cent this range is one of the cheapest out there.

There are five multi-asset funds in the LifeStrategy range, each with a different blend of equities and bonds. Investors can choose which blend is right for them depending on their appetite for risk.

Lipski also likes the BMO Sustainable Universal MAP, a range of five multi-asset funds for different investor risk profiles.

The funds are designed to avoid companies with damaging or unsustainable practices and focus on those making a positive difference.

'With a total annual charge of just 0.35 per cent and global diversification, this fund range represents an ideal way for beginner investors to invest in a responsible fashion,' he says.

McDermott likes Fidelity's MultiAsset Allocator range, which has an annual cost of 0.2 per cent after a recent price drop from 0.25 per cent. There are five funds to choose from depending on risk appetite, and they are constructed from passive funds to keep costs down.

As well as multi-asset funds, there are also investment trusts with a multi-asset remit.

Unlike funds, investment trusts are companies whose shares are bought and sold on the stock exchange. Investment trusts are able to borrow money to buy assets, which means they can be riskier than funds, but also stand a chance of outperforming them.

James Carthew, at fund data specialist QuotedData, likes three investment trusts with multi-asset portfolios: RIT Capital Partners, Personal Assets and Ruffer Investment Company.

RIT Capital Partners is the investment vehicle for the family interests of Lord Rothschild. An investment of £1,000 three years ago would now be worth £1,259 and it has a total annual charge of 0.66 per cent.

Personal Assets has turned £1,000 into £1,254 over the same time period and costs 0.73 per cent a year. It aims to grow wealth while protecting investors' money when markets are going through turbulence.

Ruffer has turned £1,000 into £1,272 over three years. It aims to keep volatility low regardless of what markets throw at it and has a total annual charge of 1.08 per cent.

Laith Khalaf, financial analyst at wealth manager AJ Bell, also rates Ruffer and Personal Assets Trust.

'Ruffer recently ruffled some feathers by investing a small portion of their portfolio in Bitcoin, and making a huge profit in a few months,' he says.

'But short-term gains aren't normally what this fund is about, and the managers choose their portfolio conservatively. They aim to avoid any fall in value over a 12- month period, and to grow investors' capital and provide an inflation-busting return in the long run.'

For a focus on sustainability, Khalaf mentions a new trust: Schroder BSC Social Impact.

'This is a relatively new and fairly small fund, which is targeting returns ahead of inflation from investments that are designed to have a positive benefit to society,' he adds. 'We'd like to see it grow over time.'