Diversification

The quiet and consistent strategy that proves its worth

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In an uncertain world, Aberdeen MPS' Darren Ripton explains why diversification is more important than ever to help provide good outcomes for clients.

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None of us are immune to the fact that we're living through a period of extreme geopolitical and macro uncertainty. Since the start of this decade, we've witnessed a series of global shocks, one after the other.

Now, midway through the decade, the world is once again on edge. The escalating conflict between Iran and Israel is raising concerns on broader regional instability and adding another layer of volatility to global markets.

At the same time, with Donald Trump back in power as the 47th US President, there's been an assumption that US stocks would continue to dwarf other stocks, driven by his administration's determination to deliver faster economic growth. The main US stocks index, however, is only just up on the year following a torrid few weeks and a steep decline in April.

In an increasingly unpredictable world, diversification remains one of the most effective strategies for both managing risk and enhancing long-term returns.

Diversification: the only free lunch

US Nobel Prize-winning economist, Harry Markowitz, described diversification as the 'only free lunch in investing'. Best known for his work on modern portfolio theory, Markowitz emphasised the importance of diversifying your portfolio to reduce risk and enhance returns.

Though the idea is simple – spreading investments across a range of asset classes, sectors and geographies – it's a powerful approach to help smooth returns and reduce overall portfolio risk. And it has taken on a new importance during recent periods of heightened market volatility.

Protection in uncertain times

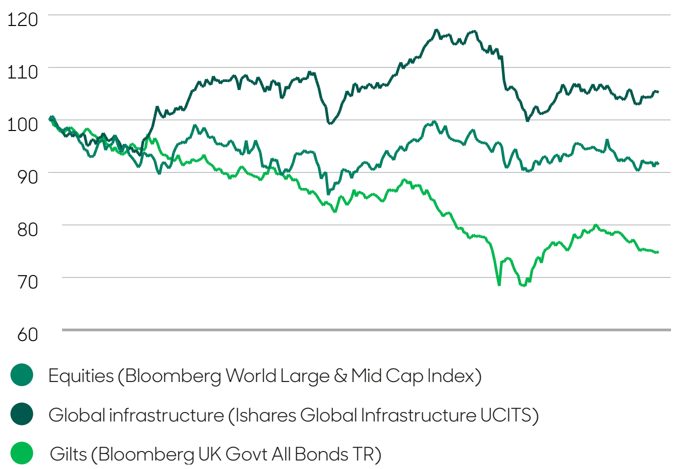
With the global shocks over the past five years, traditional asset class correlations have been challenged. As a result, concentrated portfolios are more vulnerable to sharp losses. Diversified portfolios, such as Aberdeen MPS, on the other hand, tend to be more resilient. They don't eliminate risk, but they help manage it as losses in one area can be offset by gains or stability in another.

This is important when geopolitical tensions, inflation, and shifting monetary policies create a more complex backdrop for investors. In such times, diversification can act as a shock absorber, helping to preserve capital.

Asset classes such as absolute return funds or global infrastructure can act as a buffer in periods of volatility. Within the Aberdeen MPS, we've had an allocation to global infrastructure since the launch of the portfolios in 2014.

Taking 2022 as an example, a year marked by significant economic turbulence, the chart below demonstrates how the diversifying qualities of listed infrastructure came to the fore in a year when equities and, more importantly, bonds delivered negative returns.

Returns from equities, gilts & infrastructure in 2022



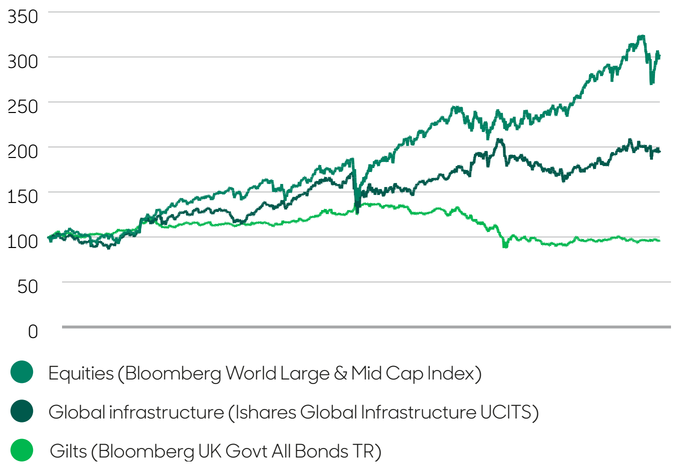
Source: Bloomberg. For illustrative purposes only. No assumptions regarding future performance should be made. Data as at 24 June 2025.

Returns without chasing risk

While diversification is often associated with risk management, it also plays a crucial role in generating returns. By accessing a broader range of opportunities, it avoids the need to 'bet big' on any one idea. Instead, the focus is on building a more balanced path to long-term returns.

It's important to note that diversification does not need to come at the expense of expected returns. Using global infrastructure as an example again, the chart below shows the strong long-term returns of the global listed infrastructure over the last ten years.

Returns from equities, gilts & infrastructure (28 November 2014 – 31 May 2025)



Source: Bloomberg. For illustrative purposes only. No assumptions regarding future performance should be made. Data as at 24 June 2025.

Diversified portfolios, such as Aberdeen MPS, can also be actively managed to adapt to changing conditions. Tactical shifts in asset allocation, sector exposure, or geographic focus can enhance performance while staying within a diversified framework.

Resilience, consistency and potential for growth

Diversification may not be the most exciting topic, but it remains one of the most important. Though it may not promise overnight success, it offers resilience, consistency and the potential for long-term growth.

The team behind the Aberdeen MPS embraces this philosophy, offering a well-diversified range of solutions that can help navigate market volatility. Designed to provide strong risk adjusted returns over the medium to long term, we're committed to delivering resilient portfolios positioned to benefit from the everchanging world we live in.

In a world full of noise and complexity, it's often the quiet, consistent strategies that prove the most effective.

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The value of investments can go down as well as up and your clients could get back less than they paid in.

Past performance does not predict future returns. The value of investments, and the income from them, can go down as well as up and clients may get back less than the amount invested.

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