Emerging market securities can boost a retirement portfolio: BNY Mellon

By Editor Test *Mon, Jun 10, 2013*

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Adding real assets, emerging market equities and debt, and liquid alternatives to defined contribution plan investment line-ups could improve risk-adjusted returns, reduce volatility and protect against inflation, according to a recent white paper from BNY Mellon.

The paper is entitled, *Retirement Reset: Using Non-Traditional Investment Solutions in DC Plans.* It claims that defined benefit (DB) plans tend to outperform DC plans primarily because DB plans include non-traditional assets and DC plans don't.

The report notes non-traditional approaches could enhance the success of investors in the current environment, which it expects to be characterized by lower long-term expected returns, higher volatility and heightened inflation risk.

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"Equities comprise a higher percentage of the DC portfolios than they do of DB portfolios," said Capone. "We believe that applying the best DB practices to DC plans would reduce equity risk and home country bias as well as thoughtfully incorporating alternative investments to increase diversification, return potential and downside risk management."

The real asset portion of the DC portfolio proposed by BNY Mellon is designed to hedge against inflation and would include Treasury Inflation-Protected Securities (TIPS), real estate investment trusts (REITS), commodities and natural resource equities.

"Combining emerging markets equity and fixed income would provide a more blended and balanced approach than allocating only to emerging markets equities… The more balanced approach has the potential to reduce portfolio volatility and diversify country and currency risks," according to the report.

BNY Mellon sees liquid alternatives as a way for DC participants to diversify with assets that have a low correlation with the equities market. "There is a wide range of liquid alternative strategies. We are using three hedge fund indices as proxies for this asset class," the release said.