Putnam launches “Dynamic Risk Allocation” fund

By Editor Test *Wed, Oct 5, 2011*

In addition to global equities and global fixed-income securities, the fund may invest in commodities and real estate investment trusts, and use leverage.

Putnam Investments has launched the Putnam Dynamic Risk Allocation Fund, designed to “actively balance the sources of portfolio risk across multiple asset classes, with flexibility to respond dynamically to changing economic conditions and market valuations,” the company said in a release.

The fund will make use of a “risk parity” approach that Putnam uses for institutional clients. From Putnam’s description, this approach fills the fund’s risk budget with assets other than equities. “We think it should be a new core holding,” said Laura McNamara, a Putnam spokesperson. “It is a better way to manage risk.”

According to the fund fact sheet, the fund will get 46% of its risk exposure from U.S., non-U.S. and emerging market equities, 22% from TIPS, commodities and REITs, 16% from U.S. and non-U.S. fixed income securities, and 16% from high-yield and emerging market bonds. The typical 60%/40% balanced fund gets 90% of its risk exposure from the equities component, Putnam said.

“The portfolio weightings will be dynamically adjusted in response to changing market conditions, providing the potential to further enhance performance and manage risk,” Putnam said. The fund will also use leverage and derivatives to adjust risk exposures.

Putnam’s Global Asset Allocation team, led by Jeffrey L. Knight, will manage the new fund. The team’s specialists have experience in managing multi-asset portfolios for both the institutional and retail marketplaces, including more than five years of managing portfolios employing a risk-parity approach.