

The Frontier Line

Multi-asset credit (MAC): MAC to the future

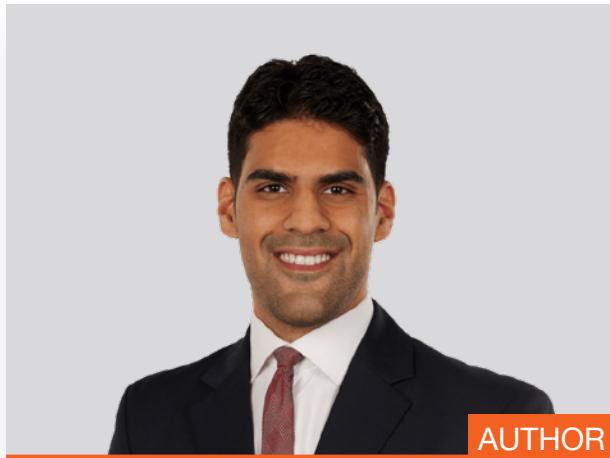
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About us

Frontier Advisors has been at the forefront of institutional investment advice in Australia for over thirty years and provides advice on around \$850 billion of assets across the superannuation, charity, public sector, insurance and university sectors.

Our purpose is to empower our clients to advance prosperity for their beneficiaries through knowledge sharing; customisation; technology; and an alignment and focus that is unconstrained by any product conflicts.



Atharv Seth

Consultant

Atharv Seth is an Investment Consultant at Frontier Advisors, working across the defensives and alternatives research and client consulting teams. Atharv has over four years of experience in financial markets, with expertise in both direct equity and fund manager research. Prior to joining Frontier in August 2025, Atharv was an equity analyst, producing financial models and equity research reports on ASX-listed stocks for institutional clients. He previously worked as an Investment Analyst at Zenith Investment Partners, specialising in fund manager research across Australian, global, and emerging market equity strategies. Atharv holds a Bachelor of Commerce (Finance) from the University of Melbourne and is a CFA® charterholder.



Iain McMahon

Head of Defensives & Alternatives

Iain McMahon joined Frontier Advisors in 2019 and is the Head of Defensives & Alternatives. Iain is responsible for investment strategy, portfolio construction, derivatives advice and manager research across debt, currency, alternatives and multi-asset derivatives. Prior to joining Frontier, Iain spent eight years at J.P. Morgan in a range of risk management functions. Four of these years were based in London providing quantitative and qualitative portfolio analysis as a Market Risk Manager. He holds a Bachelor of Commerce (Finance) and a Bachelor of Science (Statistics) from the University of Melbourne. He is also a CFA charterholder and a certified Financial Risk Manager (FRM).

Introduction



The one stop solution

Multi-asset credit (MAC) funds emerged in the aftermath of the global financial crisis and have been widely promoted as a comprehensive, liquid credit solution. They provide access to a broad range of credit securities, asset classes, sectors, and geographies conveniently packaged in a single structure. MAC funds offer two key advantages:



They are operationally convenient, allowing investors to gain exposure to multiple credit asset classes through a single allocation.



The multi-sector mandate provides investment managers with a broader opportunity set to deliver strong risk-adjusted returns.

Given the comparative maturity of the cohort, we believe it is timely to re-explore the MAC value proposition. Have MAC funds delivered better risk-adjusted return outcomes than their underlying constituents (e.g. high yield bonds and leveraged loans)? In this paper, we analyse the return drivers and delve into the different implementation styles across 21 different MAC investment managers.



Frontier has historically conducted extensive research on multi-asset credit and readers seeking a primer may refer to:

[Frontier Line 155 Multi Asset Credit. When Out of Stock is a Good Thing](#)

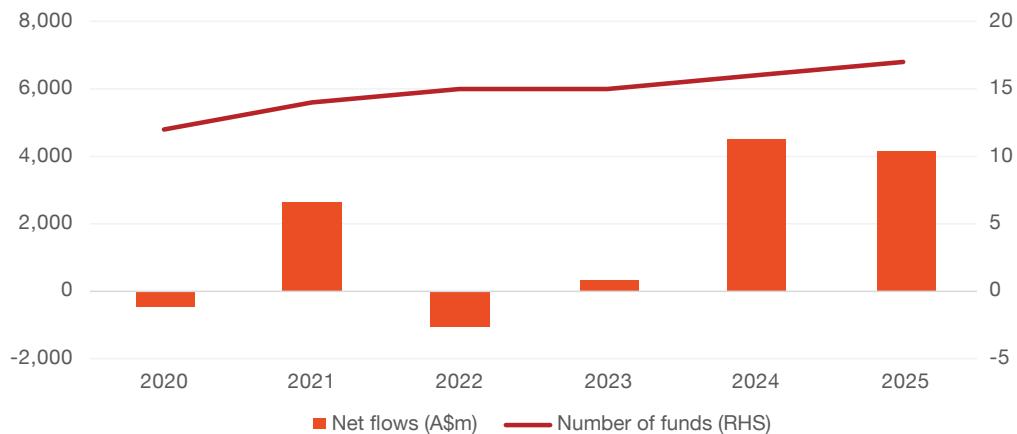


Why now?

Even though credit spreads remain tight relative to historical levels, comparatively higher all-in yields and high equity valuations have supported credit assets.

Under this backdrop, MAC strategies continue to gain traction among Australian investors. As illustrated in Chart 1, MAC funds (and their respective Australian unit trusts) have grown in number and experienced notable inflows over the recent period.

Chart 1: Total net flows for MAC funds versus number of funds



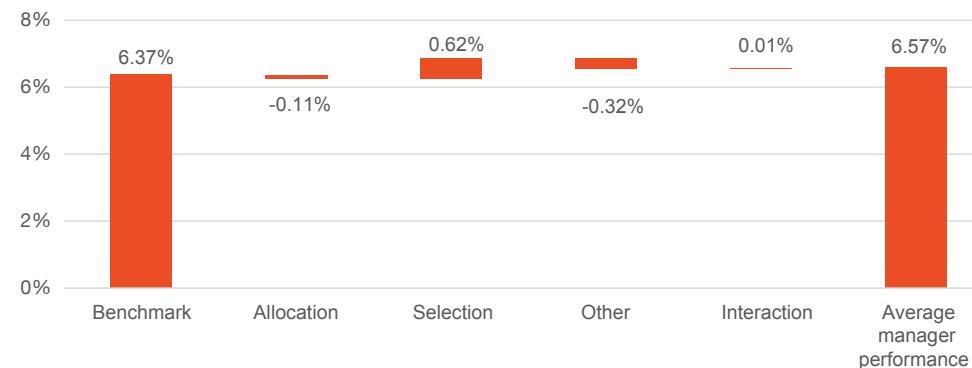
Source: Frontier Advisors, fund managers, eVestment. Data as of 30 June 2025. Includes strategies with Australian unit trusts only.

Return drivers for MAC managers

MAC funds are characterised by a greater focus on total returns, flexibility to allocate between credit asset classes and low-interest rate duration. While MAC managers frequently use cash-plus performance objectives, we believe it is prudent to evaluate MAC funds against market benchmarks (reflective of their underlying constituents). Our preference is for sub-investment-grade MAC implementations with global representation. As such, we have used an equal-weighted high-yield bond and leveraged loan benchmark¹ as the basis of our analysis.

For MAC investors, credit asset allocation is outsourced to the investment manager, enabling them to capitalise on mispricing and generate returns through both credit sector allocation and security selection. Chart 2 reflects the excess returns for Frontier's surveyed MAC managers relative to our market benchmark, split into credit allocation, security selection, and Other² factors.

Chart 2: Median manager five-year performance attribution



Source: Frontier Advisors; fund managers; Bloomberg. Data as of 30 June 2025.

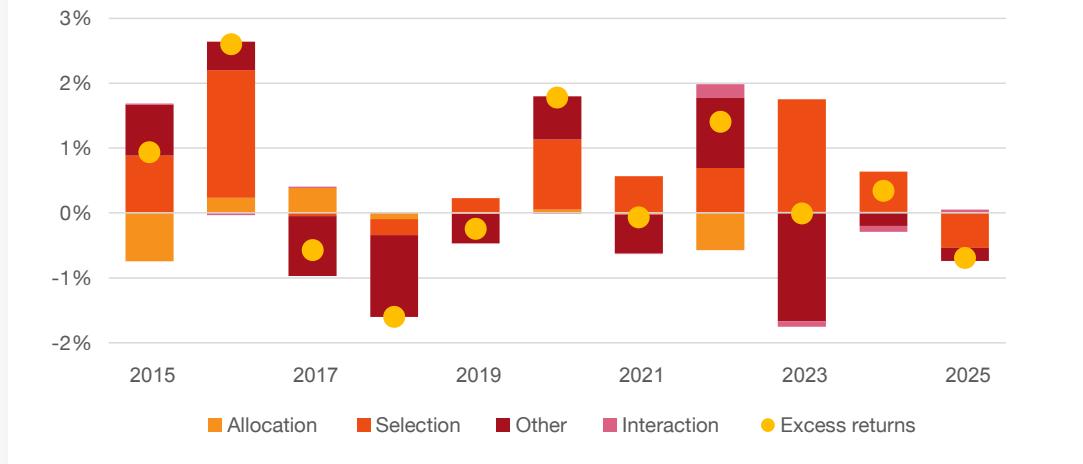
Attribution calculations adjusted to exclude investment-grade (IG) exposure.

¹ As represented by 50/50 ICE BofAML Global High Yield & S&P/UBS Leveraged Loan Indices.

² Other includes contributions from sub-asset classes, excluding loans and bonds.

The median surveyed MAC manager outperformed the benchmark by 20 basis points per annum, gross of fees over the most recent five-year period. This was driven solely by security selection, as allocation decisions between high-yield bonds and loans did not contribute meaningfully to excess returns. The absence of notable excess returns from allocation appears to also be a trend observed over a longer look-back, as shown in Chart 3.

Chart 3: Excess return drivers for median MAC manager



Source: Frontier Advisors; fund managers; Bloomberg. Data as of 30 June 2025.

Attribution calculations adjusted to exclude investment-grade (IG) exposure.

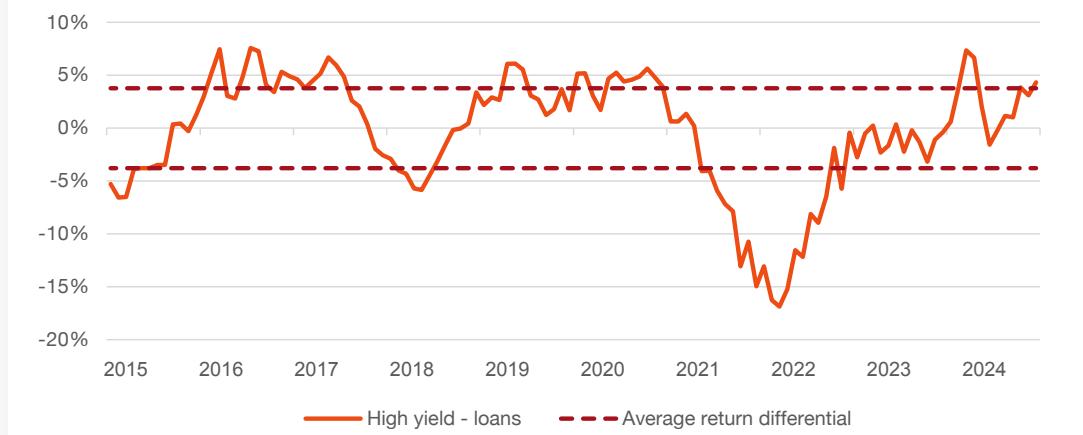
While excess returns vary over time, security selection has been a relatively consistent source of excess returns. The implications are less favourable (at the median) for both allocation and off-benchmark (i.e. other) performance attribution.

Where is the allocation alpha?

Notwithstanding a manager's willingness and ability to time the market, sector allocation alpha can only reasonably be expected when the performance between leveraged loans and high yield bonds diverges. Divergence in performance is most attributable to the difference in interest rate duration between leveraged loans and high yield bonds, and hence most consequential in years where interest rates change significantly. Other explanations include different default and loss outcomes, market microstructure and compositional differences in the benchmark. While this performance dispersion is reasonably modest through the cycle (~3% p.a. absolute), it has been above average in the recent period (i.e. 2022).

The rolling annual return difference between high-yield bonds and leveraged loans is shown in Chart 4.

Chart 4: Rolling one-year return (high yield bonds less loans)

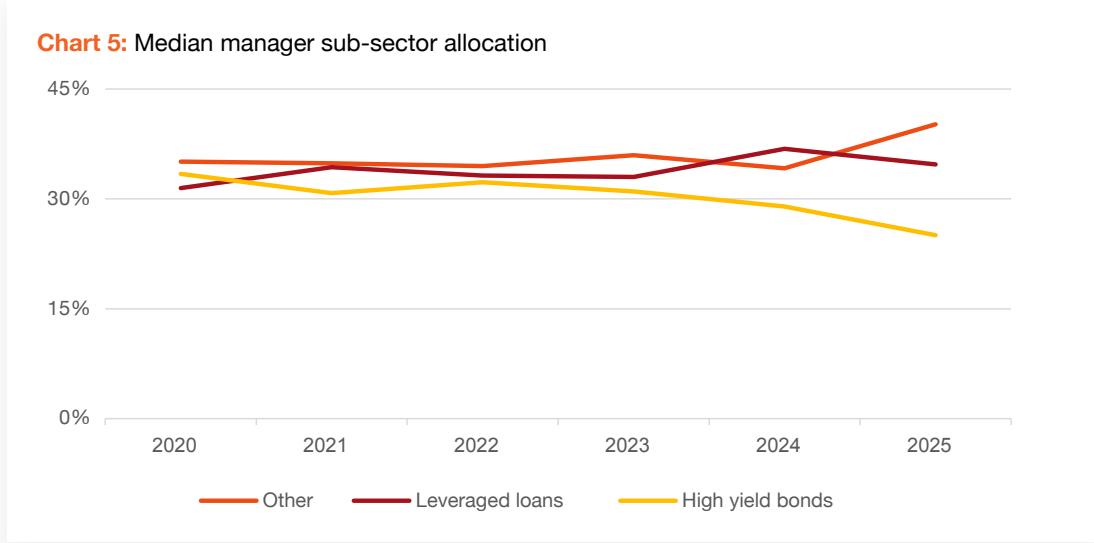


Source: Bloomberg, Frontier Advisors. The average return differential is shown as the absolute level of difference in yearly returns.

Over the recent market environment, tactical tilts across MAC building blocks should have been particularly value-additive. So, why has alpha from sector rotation been largely absent for the median manager? This is largely due to the lack of significant tilts, with broadly static and similarly sized exposures across credit asset classes, as illustrated in Chart 5.

This may be attributable to less pronounced top-down decisions and reduced credit sector rotation within the median MAC construct. This aligns with Frontier's observations, where fundamental bottom-up orientation is the most commonly utilised MAC investment process. Managers do not typically advertise notable allocation alpha, nor should we readily expect it as MAC investors.

There is an emerging trend of the median manager favouring loans over bonds in the financial year 2024/25.



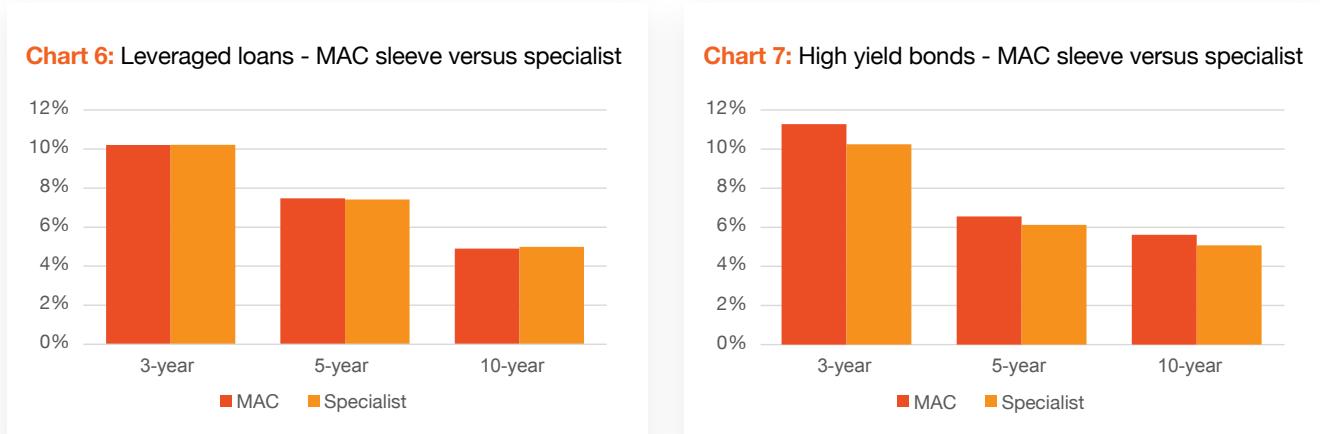
Source: Frontier Advisors, fund managers. Data as of 30 June 2025. Calculations adjusted to exclude sovereign & DM investment-grade (IG) exposure. Excludes strategies with a track record less than five years.

Additionally, the median off-benchmark allocation to 'Other' has increased over the past two years and now exceeds the share of loans or bonds in the portfolio.

Better than the specialist?

As discussed, security selection has been the predominant driver of excess returns for Frontier's surveyed MAC managers relative to the benchmark. But how do the returns of MAC managers compare against specialist credit managers who invest solely within individual credit sleeves?

Charts 6 and 7 compare the sleeve-level returns of MAC managers against their eVestment peer group of specialist high-yield bond and leveraged loan managers.



Source: Frontier Advisors; fund managers; eVestment.
Data as of 30 June 2025.

Source: Frontier Advisors; fund managers; eVestment.
Data as of 30 June 2025.

We observe the average sleeve-level return of MAC managers has been slightly better than that of the average specialist manager across both bonds and loans. However, this conclusion marginally overstates the relative selection alpha for MAC managers for the following reasons:



Unlike specialist manager returns, MAC sleeve-level returns exclude cash allocations, which create a drag on performance.



MAC managers may be incentivised to assume greater credit risk within loan and bond sleeves, with the benefit of incremental diversification (or explicit risk-mitigating exposures) elsewhere in the portfolio.

In our view, the key takeaway is that the returns between specialist managers and MAC sleeves are broadly similar.



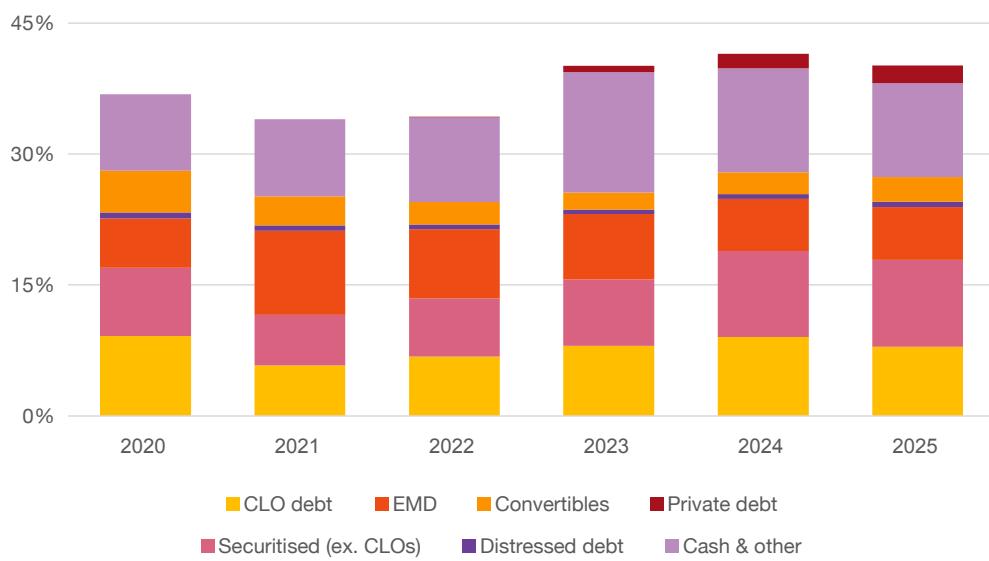
This indicates that investors are not compromising on security selection when adopting a MAC approach.

Selection alpha for MAC managers has been consistent with our expectations and is at least commensurate with single sleeve strategies.

What about the ‘Other’ group?

So far, our analysis has focussed on bonds and loans compared to the market benchmark. In practice, MAC managers invest across a diverse range of credit asset classes. Chart 8 illustrates the average exposure to off-benchmark allocations (i.e. Other) across Frontier’s surveyed MAC managers.

Chart 8: Average ‘Other’ allocations



Source: Frontier Advisors; fund managers. Data as of 30 June 2025.

Calculations adjusted to exclude sovereign & DM investment-grade (IG) exposure.

The average other exposure among surveyed managers has primarily consisted of cash, collateralised loan obligations (CLOs) and other securitised debt. Recently, MAC implementations have also begun featuring private assets, although this remains a marginal allocation. We do not advocate for private assets within the liquid MAC construct and would prefer to disaggregate such exposures in a standalone form.

Allocations to the 'Other' sectors serve one of several purposes:

- **Liquidity:** Cash drag is expected to reflect negatively on performance attribution.
- **Risk reduction:** This may be either a strategic or tactical decision undertaken to improve portfolio diversification. We most typically observe high-grade CLOs and incremental hedging using credit derivatives (this is captured under Cash & other).
- **Return enhancement:** This is more commonly a tactical decision to opportunistically dial up risk. Allocations to subordinated CLOs/securitised debt, convertibles and liquid distressed are observed.

While select managers adopt a strategically higher risk posture, the median manager appears to reflect a defensive return profile from its off-benchmark allocation (owing partly to the residual cash exposure). Chart 9 shows that while the median manager's 'Other' sleeve has generally underperformed the market benchmark, it has mitigated losses (and outperformed) during periods of negative absolute returns.

Chart 9: Median MAC manager 'Other' sleeve return versus market benchmark



Source: Frontier Advisors, fund managers. Data as of 30 June 2025. Excludes strategies with a track record of less than five years. Calculations adjusted to exclude sovereign & DM investment-grade (IG) exposure.

At the portfolio level, off-benchmark exposures such as cash and derivatives also lead to the median MAC manager having comparable levels of credit risk (as measured by duration times spread) relative to the market benchmark (see Chart 10). We consider the risk profile of the median MAC manager to be commensurate to its sleeves and actively managed around the combined market benchmark.

Chart 10: Median manager versus benchmark DTS



Source: Frontier Advisors, fund managers; Data as of 30 June 2025.

Chart 11: Rolling three-year volatility (% p.a.)



Source: Frontier Advisors, fund managers; Data as of 30 June 2025.

The final word



It remains difficult to reconcile MAC returns with their advertised absolute return philosophy, as benchmark awareness and less pronounced top-down orientation are considered features of a MAC investment process.

We regard cash-plus performance objectives as secondary, with MAC returns proportionate to their underlying credit constituents. In the previous market regime, rising interest rates caused capital losses, while lower credit spreads and flat/inverted term structures reduced yield. The resulting realised performance of MAC managers was comparatively weaker than cash. We believe this phenomenon to be transient, rather than structural. MAC funds have also delivered better risk-adjusted returns than their underlying sleeves (e.g. high yield bonds and leveraged loans) over the long term, as shown in Chart 12.

MAC funds' outperformance has almost entirely originated from security selection. Selection alpha for managers has been consistent with our expectations and at least commensurate with single sleeve strategies. While MAC managers have shown less evidence of successfully generating returns through credit allocation (via asset class and sector rotation), MAC investment processes are typically bottom-up driven and top-down allocation decisions are a less prominent feature. Many MAC managers do not typically advertise significant allocation alpha, nor should we expect it as investors.

Off-benchmark ('Other') allocations have increased in size in recent years and are likely to continue to generate consequential

contributions to returns going forward. This sleeve includes a diverse range of credit exposures, offering incremental diversification plus any cash exposures for liquidity. Our combined data shows a modest detraction from returns from off-benchmark exposures, yet it embeds defensive characteristics into the median MAC implementation. There are, however, select MAC managers who use this allocation to strategically embed higher levels of risk as a source of return enhancement. Each MAC implementation is considered different, and investors should be mindful of the differences inherent in each manager's approach. Manager selection is critically important, and there are consequences of assuming structurally higher levels of credit risk.

While certain investors may prefer to own credit asset allocation decisions, tactically timing the market is difficult, and allocation alpha is only guaranteed in the presence of sufficient skill, resourcing and proximity to each of the underlying credit markets.

Therefore, for most investors, MAC funds remain Frontier's preferred liquid sub-investment grade credit allocation, as they provide investors with an operationally convenient exposure to mid-risk credit assets.



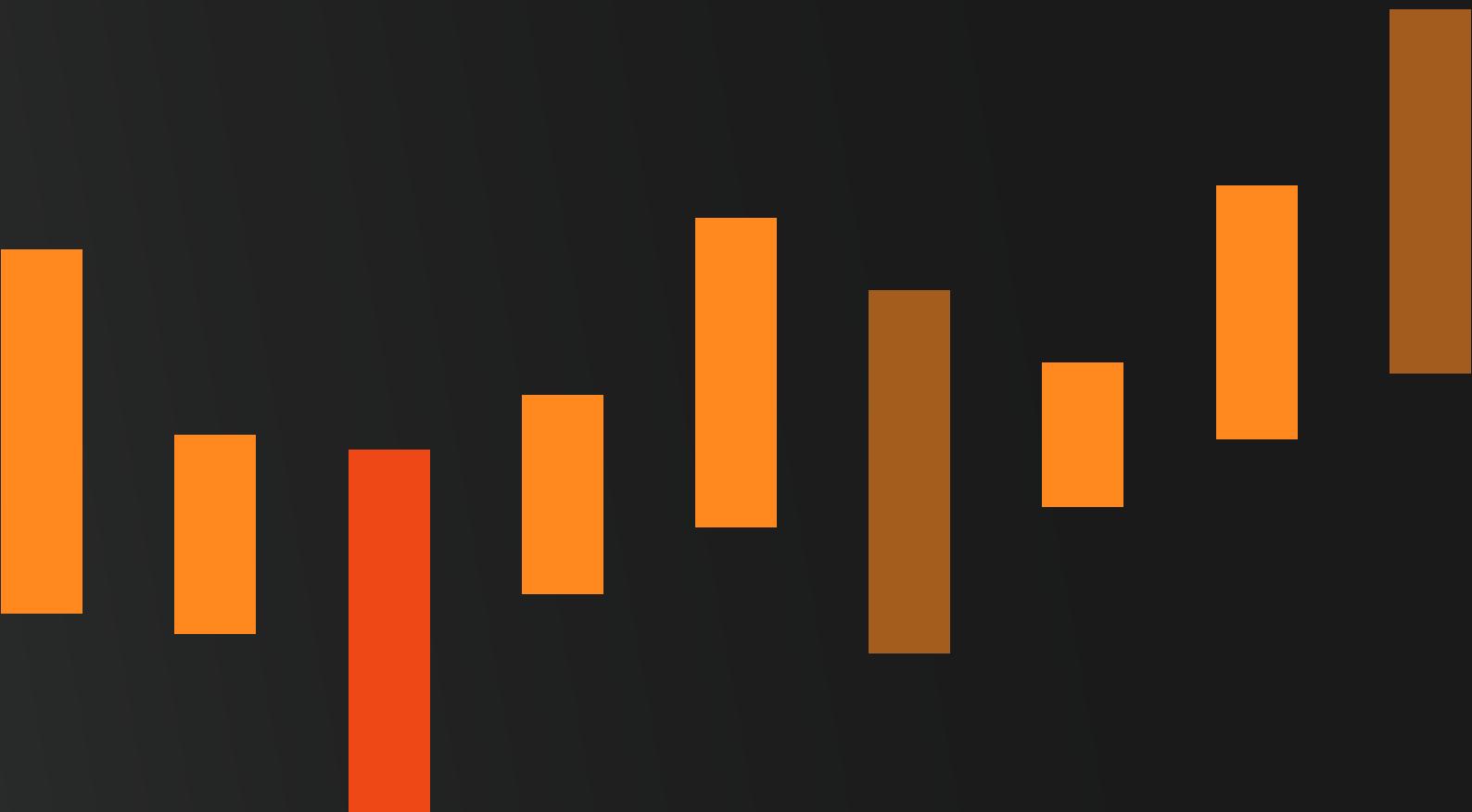
Learn more

If you are interested in learning more about MAC funds and how it can work in your portfolio, contact your Frontier client team or a member of our Defensive Assets and Alternatives Team.

Chart 12: Median manager performance versus market and cash benchmark



Source: Frontier Advisors; fund managers, Bloomberg, Data as of 30 June 2025. Index = 100 at June 2015.



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