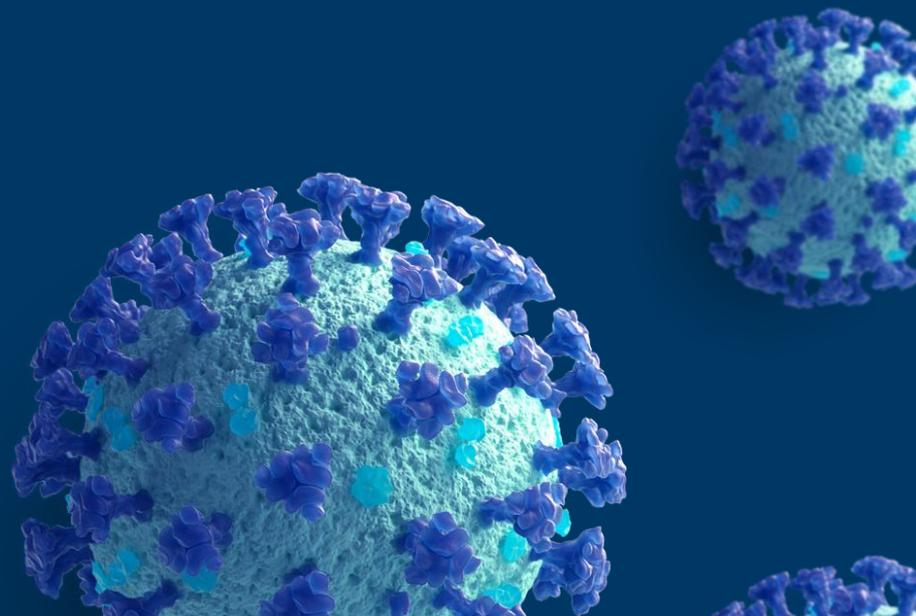


# Fiduciary management webinar

UK clients update

1 April 2020



# Agenda

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## **UK fiduciary management update**

**Helen Hope**, Head of UK Clients

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## **Update on financial markets**

**Julius Bendikas**, Asset Allocation Specialist

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## **Investment strategy update**

**James Lewis**, Head of UK Strategy

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## **Growth assets**

**Andrew McDougall**, Head of Portfolio Management

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## **Dynamic asset allocation**

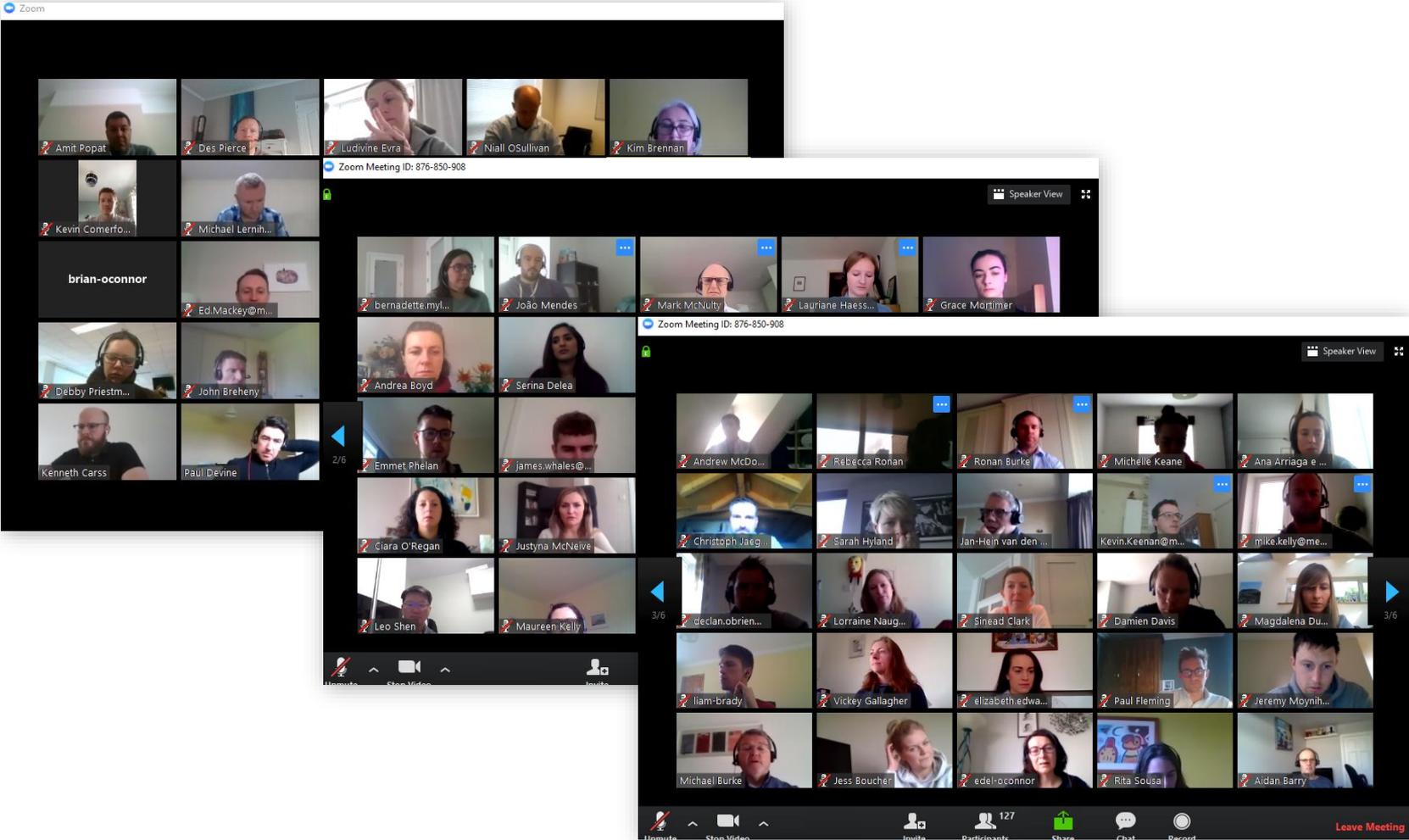
**Rupert Watson**, Head of Asset Allocation

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**Q&A**, compered by **Dan Melley**, Head of UK Fiduciary Management

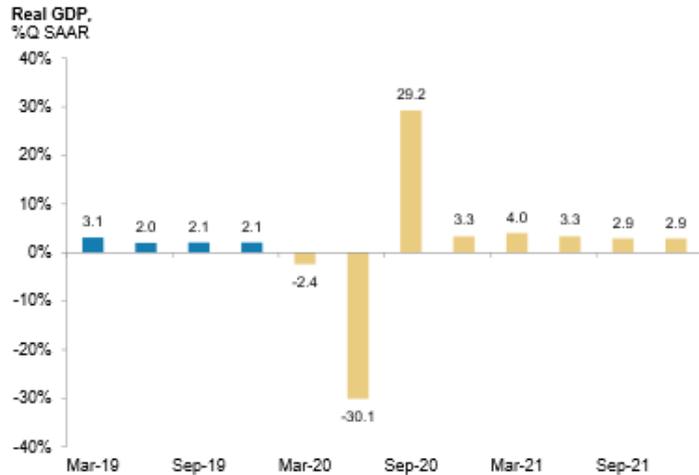
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# UK fiduciary management update



# Update on financial markets

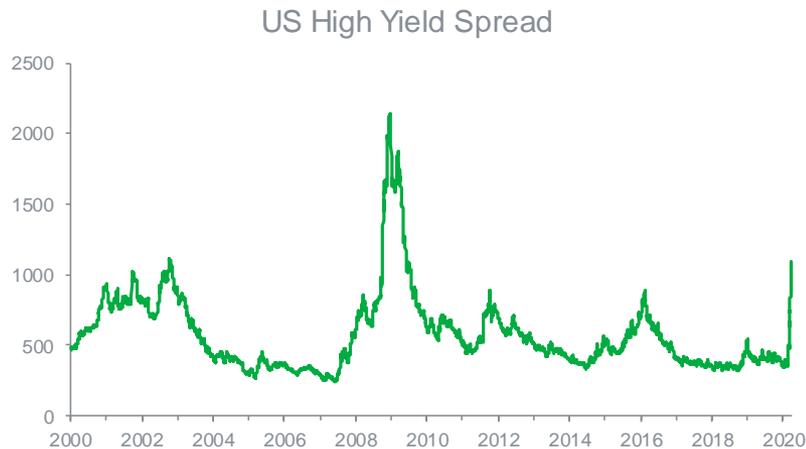
## US GDP



## Equity cheaper, but not cheap



## High-yield bonds looking cheap



## S&P 500 price/earnings

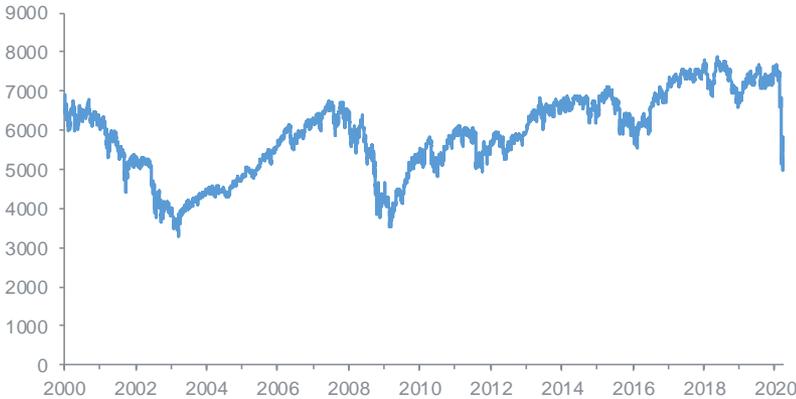


Source: Bloomberg. Date: 30 March 2020.

Source: JPMAM, IBES, Datastream, Bloomberg. March 18, 2020.

# Market reaction

FTSE 100



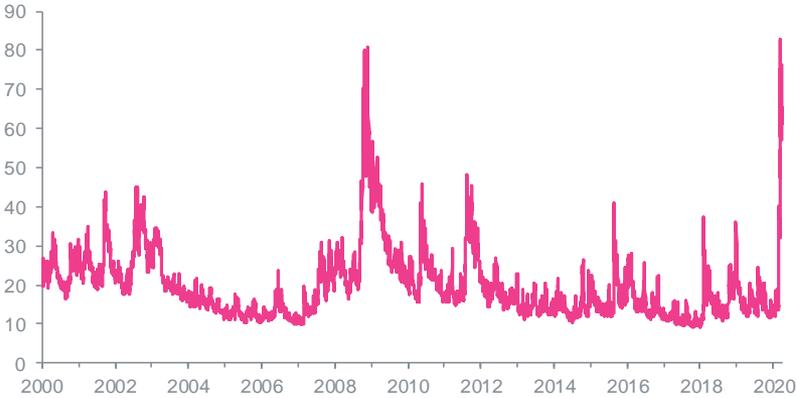
Oil



UK 10 Year Gilts

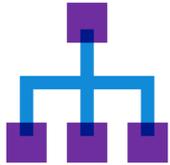


VIX Index



Source: Bloomberg. Date: 30 March 2020.

# Investment strategy update



## Governance

- Daily strategic COVID decision making to record actions taken
- Close interaction with Portfolio Management team
- Asset allocation meetings every 2-3 days to discuss positioning
- Bi-weekly reviews of portfolio positioning and hedging
- Weekly senior strategist meetings



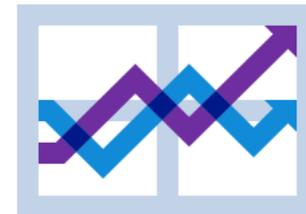
## Intelligent trading

- Process in place to consider trading decisions daily
- Cancel rebalancing trades due to numerous reversals in markets
- Widen rebalancing ranges and rebalancing halfway to target
- Matching portfolio trading: widened ranges for review on rates and inflation hedging for discretionary clients
- Smart “fund aware” trading
- DAA implementation



## Investment strategy reviews

- Timing, contributions, covenant, valuation date
- Early warning signals
- CDI opportunities?
- Take appropriate action
- Recalibration reaction



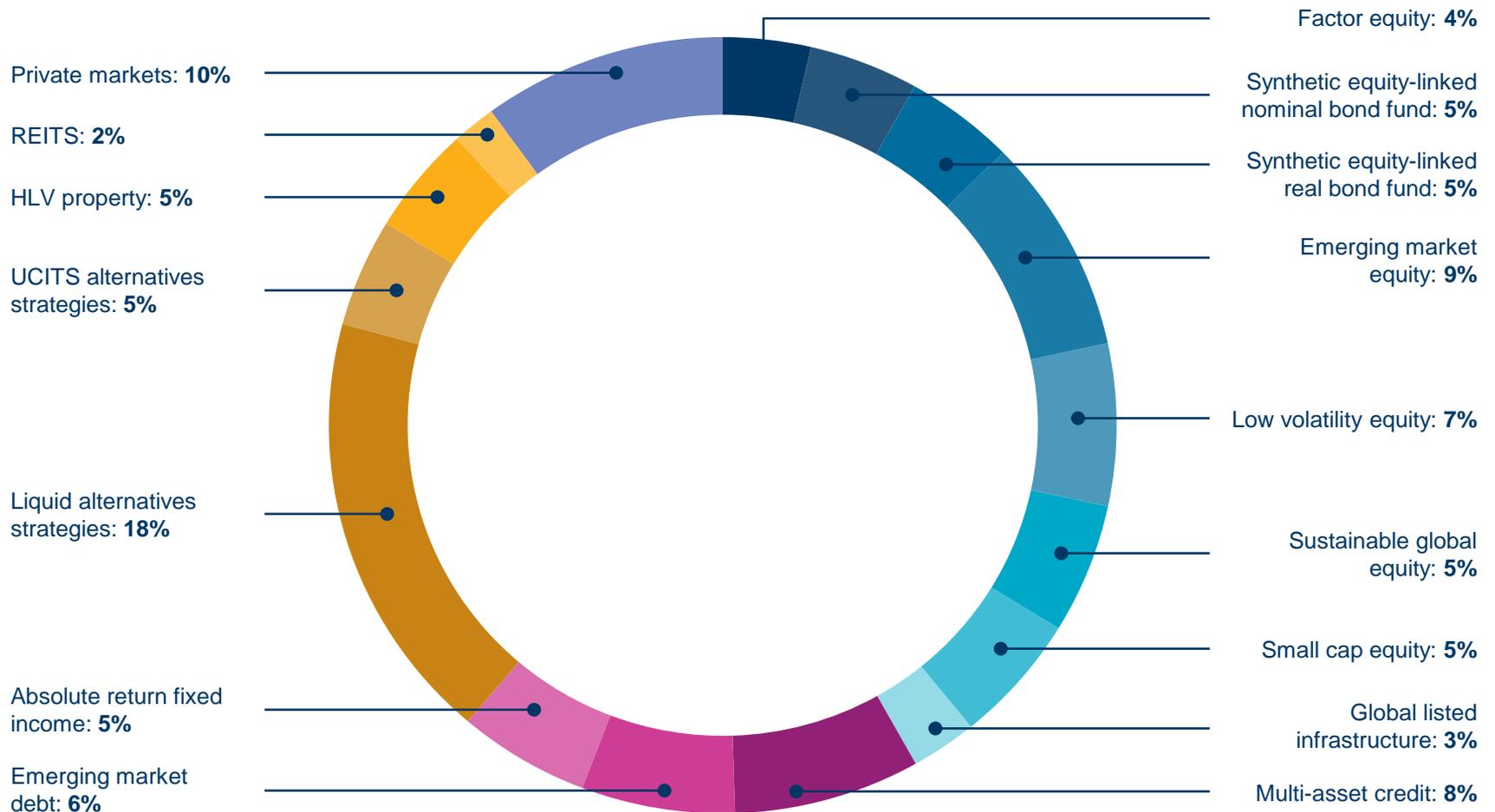
## Performance

- CDI – business as expected
- Glide clients – performing ahead of broad market

The figures shown are estimates based on an average Mercer client's characteristics and an average UK pension scheme's characteristics (derived from the PPF Purple book statistics). For both estimates, the following assumptions have been made: liability duration of 21 years, 45% growth allocation; 17% of the Growth portfolio in unhedged foreign currency.

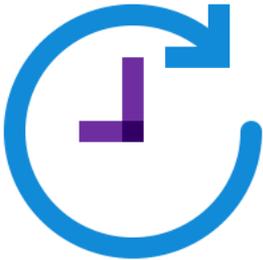
- For the average Mercer scheme, the following additional assumptions have been made: funded liability hedge ratio of 88%, 30% of matching allocation is credit with spread duration of 12.5 years; equity beta of 0.9 to MSCI World for Growth portfolio daily traded funds and 0% return for other Growth funds.
- For the average UK scheme, the following additional assumptions have been made: funded liability hedge ratio of 50%, 20% of matching allocation is credit with spread duration of 7 years and equity beta assumed to be 0.9 to MSCI world for 80% of Growth assets and 0% return for other Growth assets.
- Relevant market indices are used for MSCI World, credit spread and Gilt/Liability returns. - Where shown, actual Mercer Growth portfolio return estimates are based on actual returns for daily traded funds and estimates for the non-daily funds. MAC returns are assumed to be in line with benchmark returns of 50:50 Leveraged Loans, Global High Yield. MLAS assumed to be in line with MUAS. HLV Property has an assumed 0% return where data is not available.

# Growth assets update

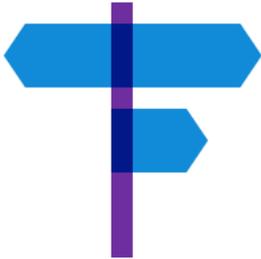


Source: Mercer. Pie charts may not add up due to rounding. Allocations as at March 2020.

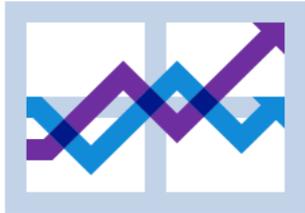
# Dynamic Asset Allocation



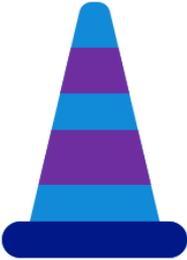
Long-term considerations



Opportunities



Adapting to volatility



Caution

# China recovers end March. Everywhere else collapses. Central banks step up support

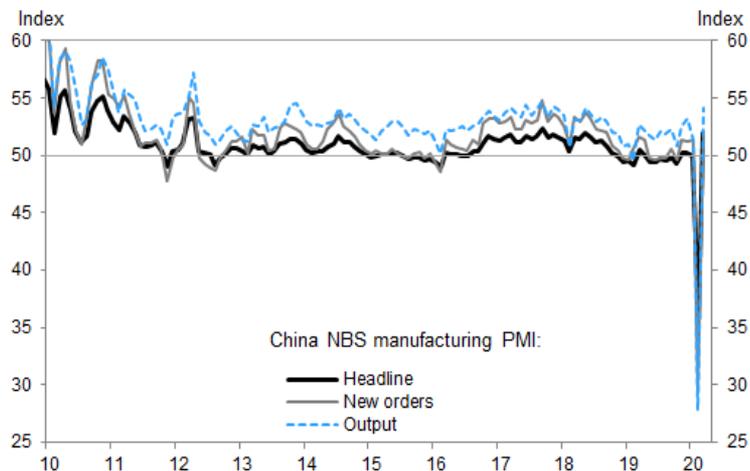
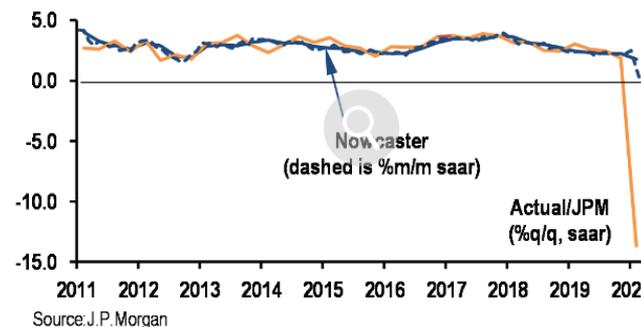


Figure 2: Global real GDP

%q/q, saar; J.P. Morgan projection and Nowcaster through 1Q20



Wherever... credit is not flowing, we have the ability in these unique circumstances to temporarily step in and provide those loans and we will keep doing that, aggressively and forthrightly.  
Fed Chair Powell (26.3)

In the current circumstances....monetary policy is aimed at guarding against an unwarranted tightening in financial conditions and, more broadly, supporting businesses and households through the crisis and limiting any lasting damage to the economy. Bank of England (26.3)

# Equities make some losses. Bonds perform well as central banks step in and stabilise

## US equities make back some losses



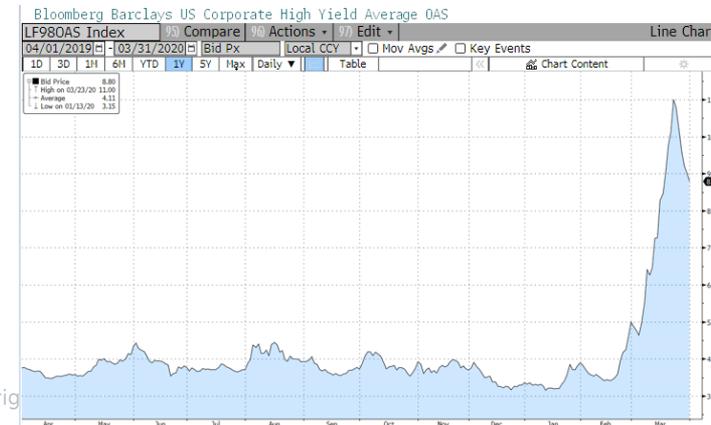
## US government bonds at yield lows



## Chinese equities outperform



## Credit spreads narrow



er(US) Inc. All rig

# Q&A

# Thank you

For further information and materials,  
please visit our Coronavirus hub on  
[www.uk.mercer.com](http://www.uk.mercer.com)

Please send us any questions by email to  
[helen.hope@mercercor.com](mailto:helen.hope@mercercor.com)



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