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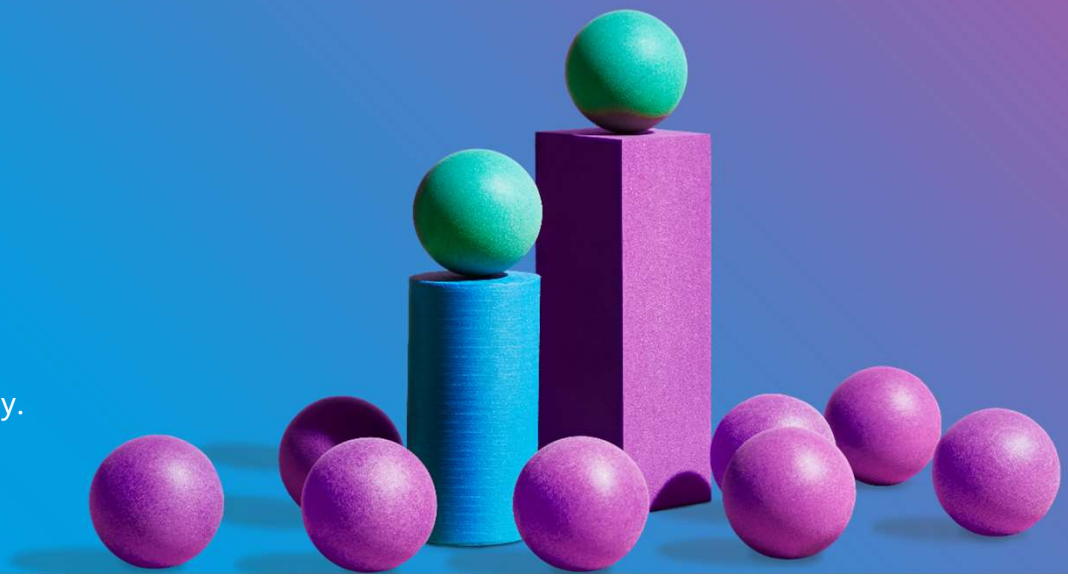
Investment solutions

Get future-ready. Building better governance together.

Michael Dempsey
Global Head of investment solutions

Hooman Kaveh
Global CIO of investment solutions

Rupert Watson
Head of Asset Allocation



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Welcome

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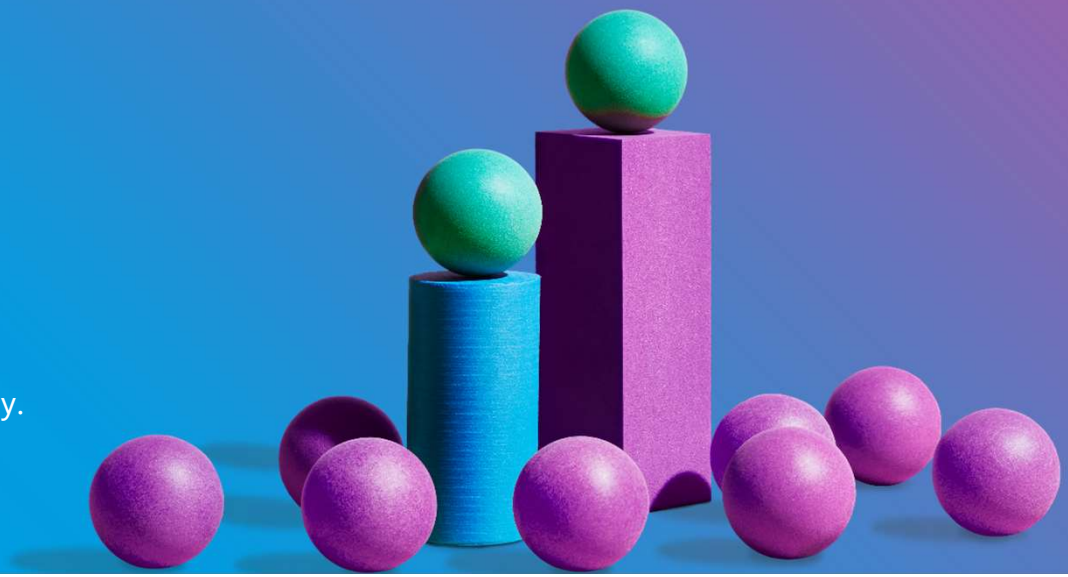

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Defining governance
And the benefits for our clients

Governance incorporates how strategic and operational decisions are made and how they are implemented across a portfolio, in a time efficient and cost effective manner.

Time, resources and expertise

Decision-making:
1. Strategy
2. Portfolio managers

Diversification and complexity

Making changes and responsiveness

Cost efficiency

A robust governance framework should be measureable by the investment outcome achieved

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Economic & market outlook

Rupert Watson
Head of Asset Allocation

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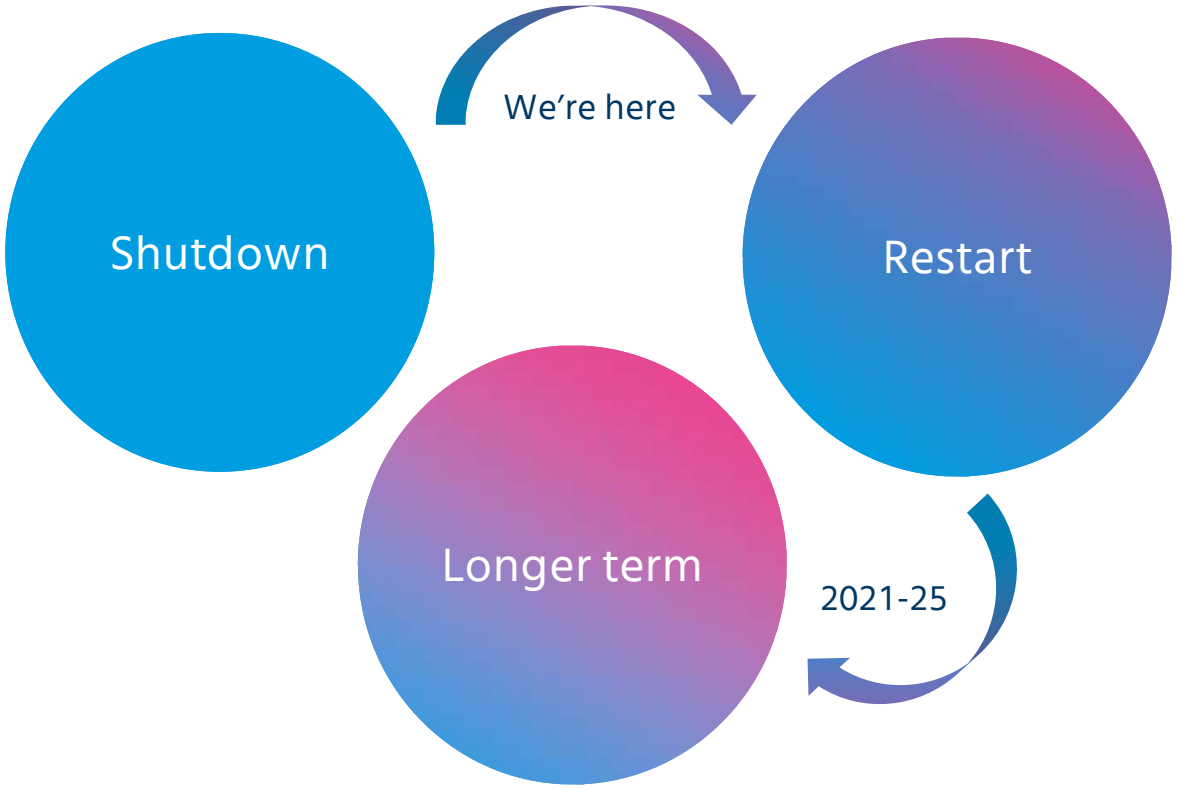
Three phases to the crisis from an economic perspective



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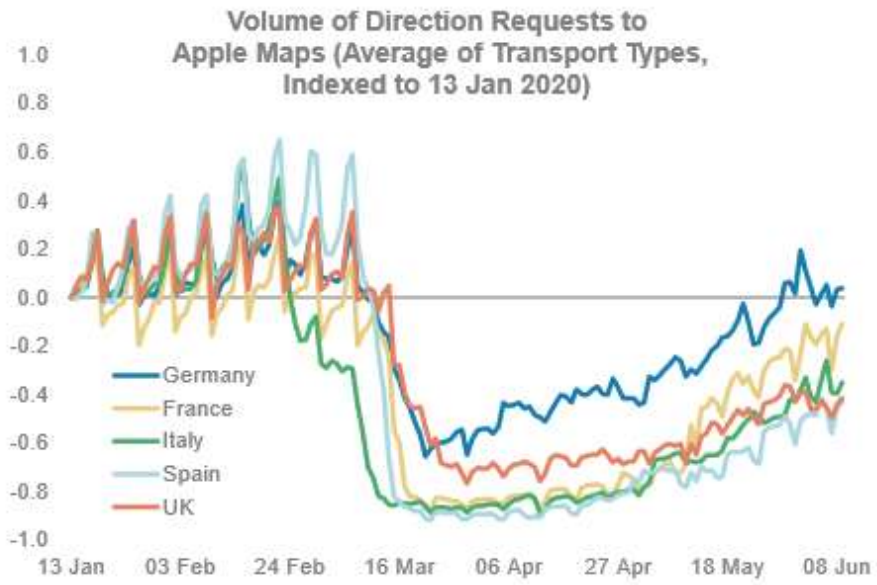
The restart has begun. Economic data bouncing

Exhibit 20: Lifting the lockdown: Mobility requests recovering in the UK as well, although not as much as in Germany and France



Source: Apple, Morgan Stanley Research

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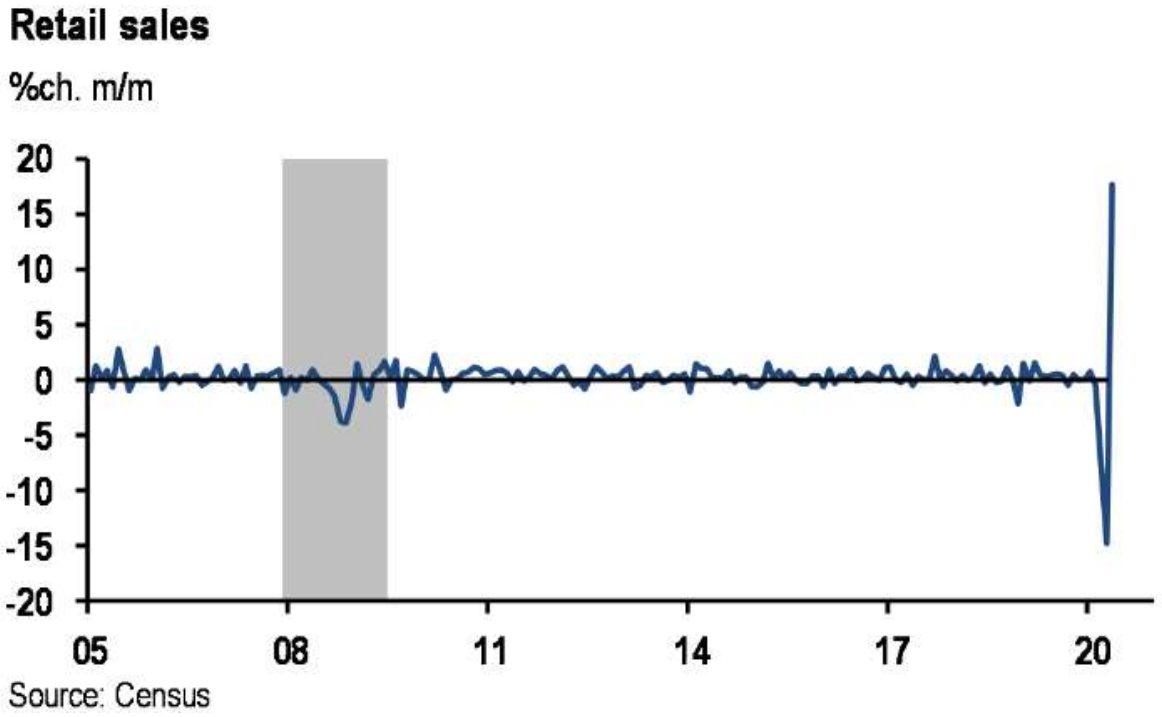
The restart has begun. Economic data bouncing (cont.)

US retail sales collapse, then recover



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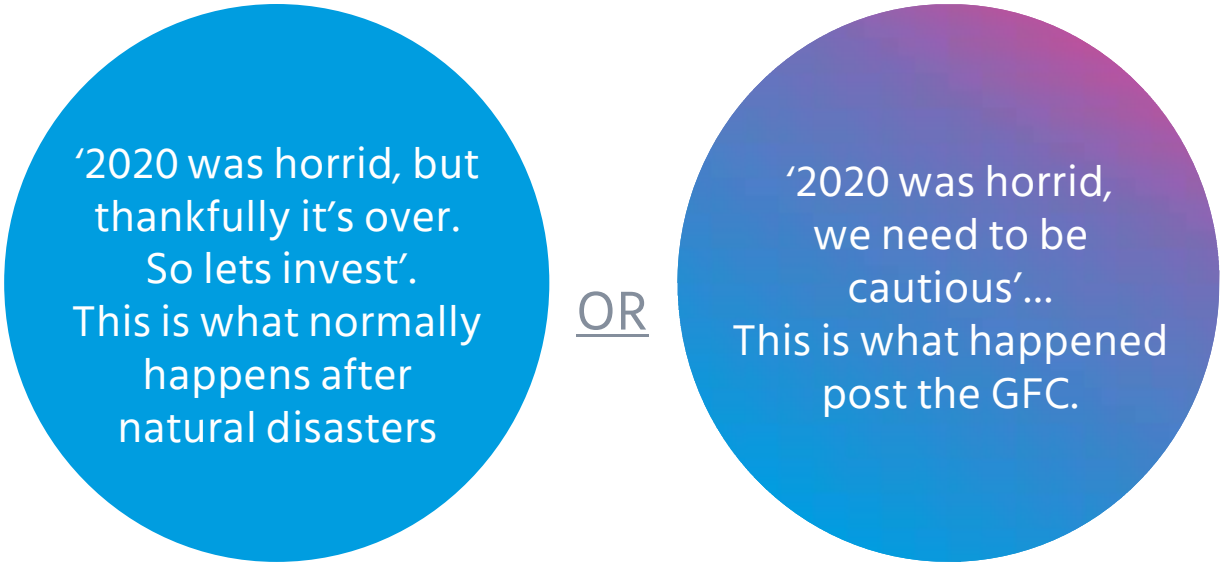
The speed of the recovery will in part depend on whether the virus is eliminated or merely controlled

And will businesses say…



We assume that monetary and fiscal policy will remain exceptionally supportive for as long as it takes. That wasn't the case post GFC.

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High level asset class view for the next 1-3 years

Source: Mercer, 29 June 2020.

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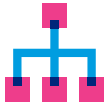
Challenges facing institutional investors

Low expected returns in uncertain environment



Operational inefficiencies and implementation timelines

Increasing complexity & risk of regulatory requirements

Ensuring suitability of investment strategy and investment managers

Liquidity management

Manager fees, transparency and other costs

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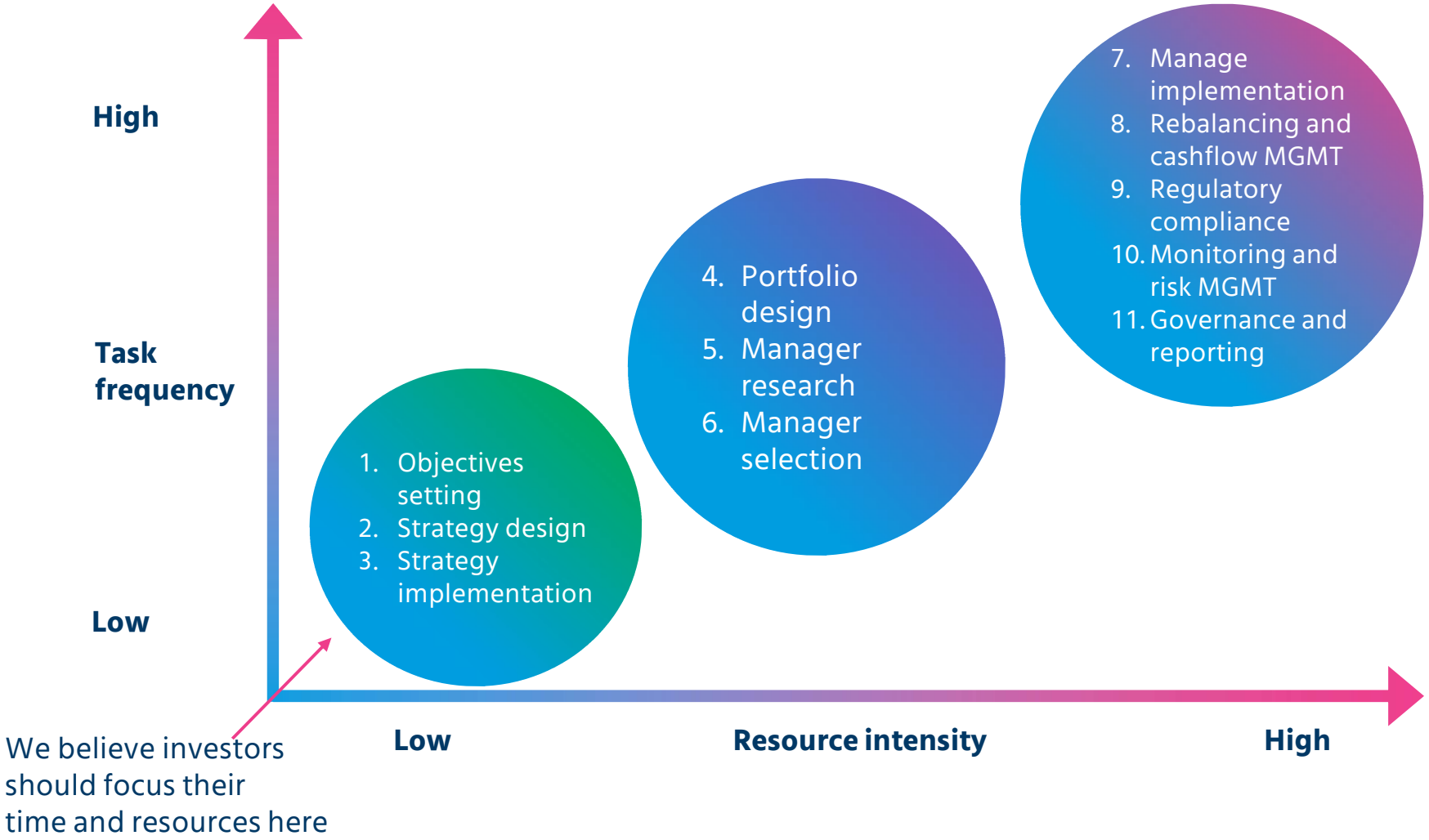
Key elements of the investment governance process



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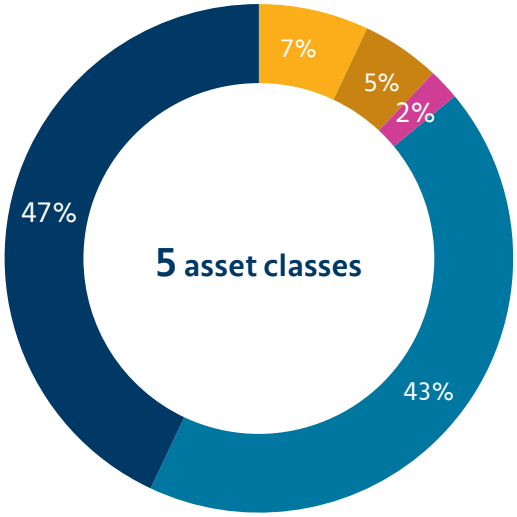
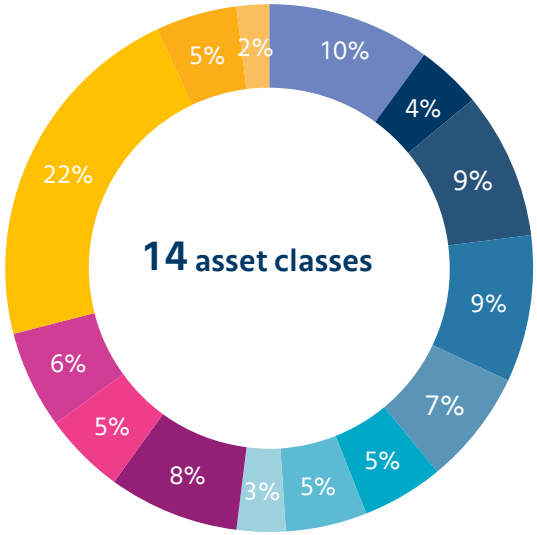
Portfolio preparedness: hitting longer term objectives

Low governance portfolio



- Alternatives
- Property
- Emerging Market Debt
- Non Domestic Equity
- Domestic Equity

High governance portfolio



- Private markets
- Factor equity
- Synthetic Equity
- Emerging market equity
- Low volatility equity
- Sustainable global equity
- Small cap equity
- Globa listed infraestructure
- Multi-asset credit
- Absolute Return Fixed Income
- Emerging market debt
- Liquid Alternatives
- HLV property
- REITS

Diversification provides stability of returns

Source: Mercer. The following portfolio allocations have been shown for illustrative purposes:

Allocations for the low governance portfolio are based on the Mercer European Asset Allocation 2010 survey results, based on the average UK Scheme between €50m and €100m, including return seeking assets only.

Allocations for the high governance portfolio are based on the strategic asset allocation for Mercer's model growth portfolio as at 31 March 2020, including return seeking assets only.

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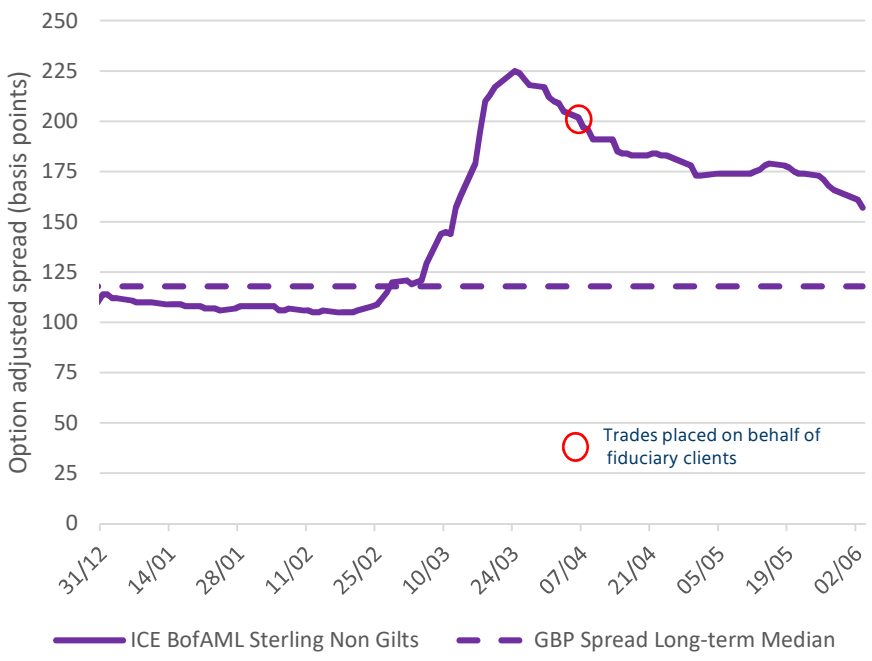
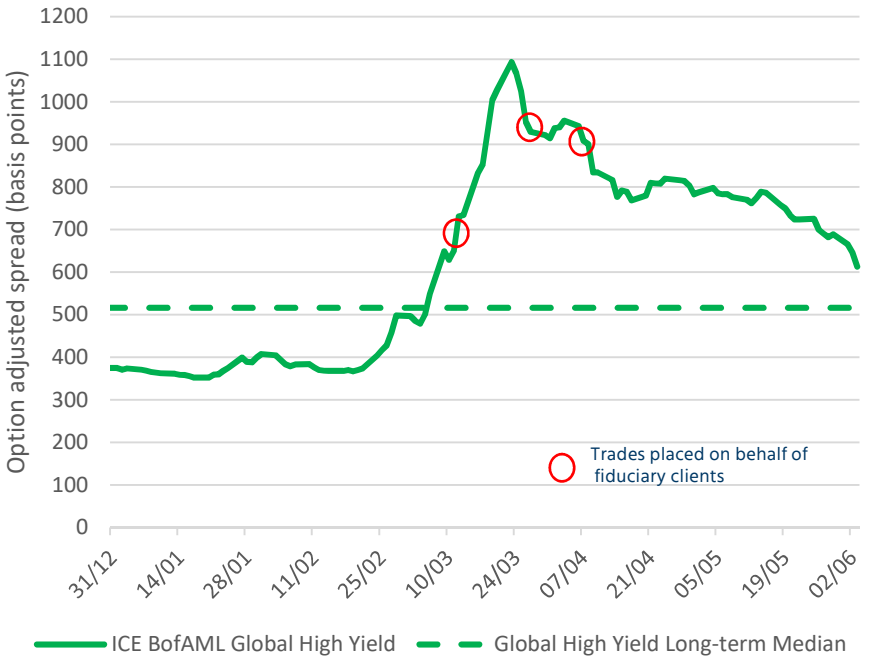
The opportunity in corporate credit

Credit spreads

GBP investment grade spread vs median



Global high yield spreads vs historic median



Source: DataStream. Data as at 3 June 2020. Median = median of daily spread levels between 31 Dec 1999 and 3 June 2020

Valuations remain attractive despite recent rally

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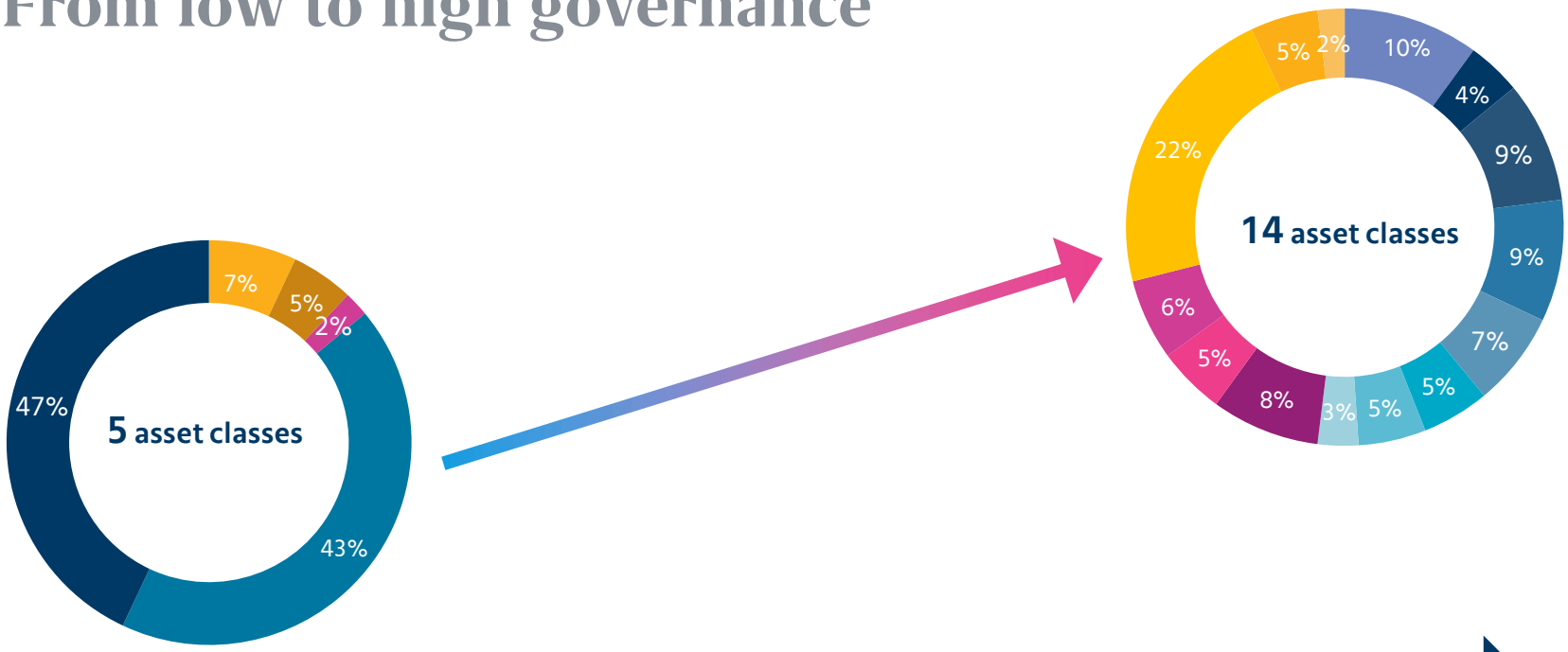
The governance journey

From low to high governance



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Potential benefits to all institutional investors

DB pensions	Endowments and foundations	Insurers
• Improved funding level (more than 30% over 6 years[1]) • Reduced risk and reliance on sponsor • Dynamic portfolio management • Member benefits secured ahead of plan • Cost efficiency – lower manager fees[3]	• Strategic advice • Specialist asset classes and highly rated (ESG) managers • ESG policy[2] • Managed reputational risk • Cost efficiency - lower manager fees[3]	• Reduced burden on in-house team • Outsourced execution and risk control • Restructure of underperforming investments • Realised fee savings of more than $2m[3] • Cost efficiency - lower manager fees[3]

[1] Source: Mercer. Information based on a DB pension client which we managed from January 2014 until full buy out was completed and assets transitioned to an insurer in Jan 2020.
[2] Please note that while ESG Integration forms part of the overall Mercer Investment process, it is not implemented equally across all services and products. For full information see the Mercer Delegated Solutions Europe Sustainable Investment Policy.
[3] Savings are estimated and cannot be guaranteed.

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Questions our clients are considering as part of this journey

Was my portfolio appropriately diversified and did it perform as I needed it to?

Could I access the data I needed to check on my holdings and risk exposures through times of market stress?

Could I respond quickly when needed?

Did I capture opportunities that emerged – and did I do so efficiently?

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Q&A

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Thank you

Our next webinar will be on 30 July and will focus on the private markets opportunity and especially private credit.

For further information, materials and to register, please visit **www.mercer.com**

Please send us any questions by email to **MercerInvestmentSolutions@mercer.com**

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