



Investment webinar

Positioning for reinvention

Rupert Watson

Head of Asset Allocation, Europe

Deb Clarke

Global Head of Investment Research

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Strategic Research Director, US

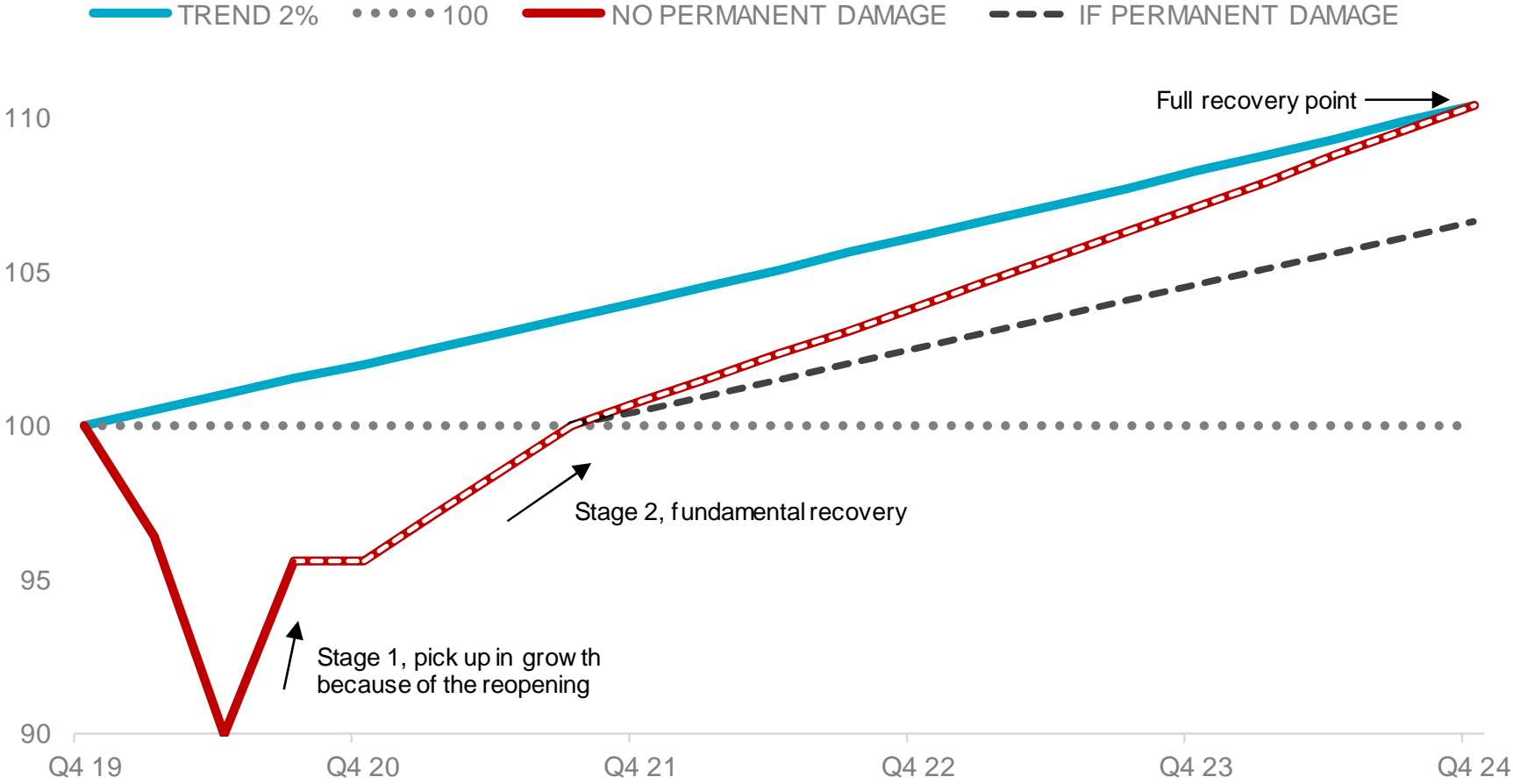
10 December 2020 - for professional investor use only.



Broad Market Update

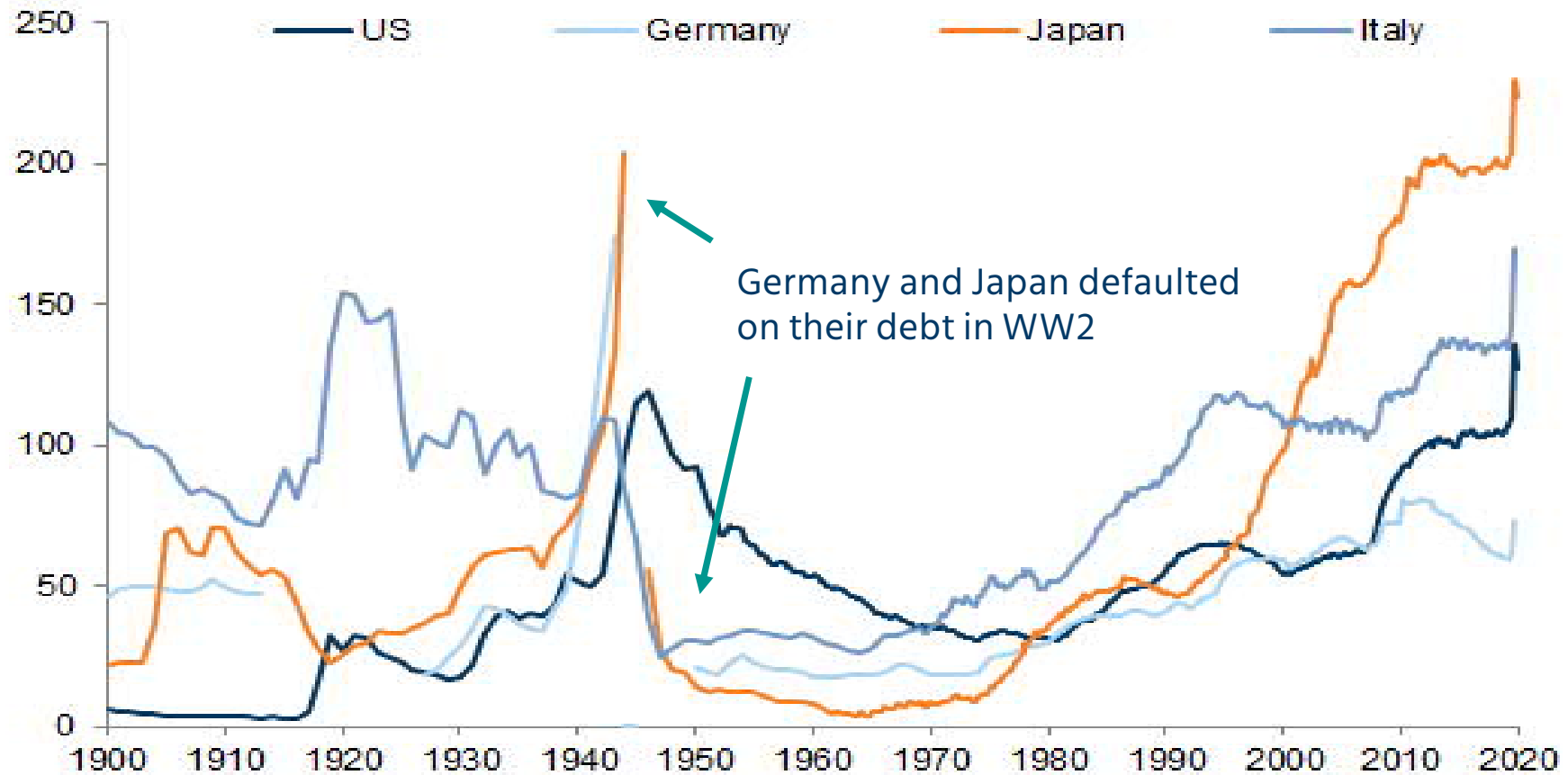
Rupert Watson – Head of Asset Allocation, Europe

Economic growth. Near term worse, because of COVID Mid 21 better because of vaccine



Source: Mercer, illustrative purposes only

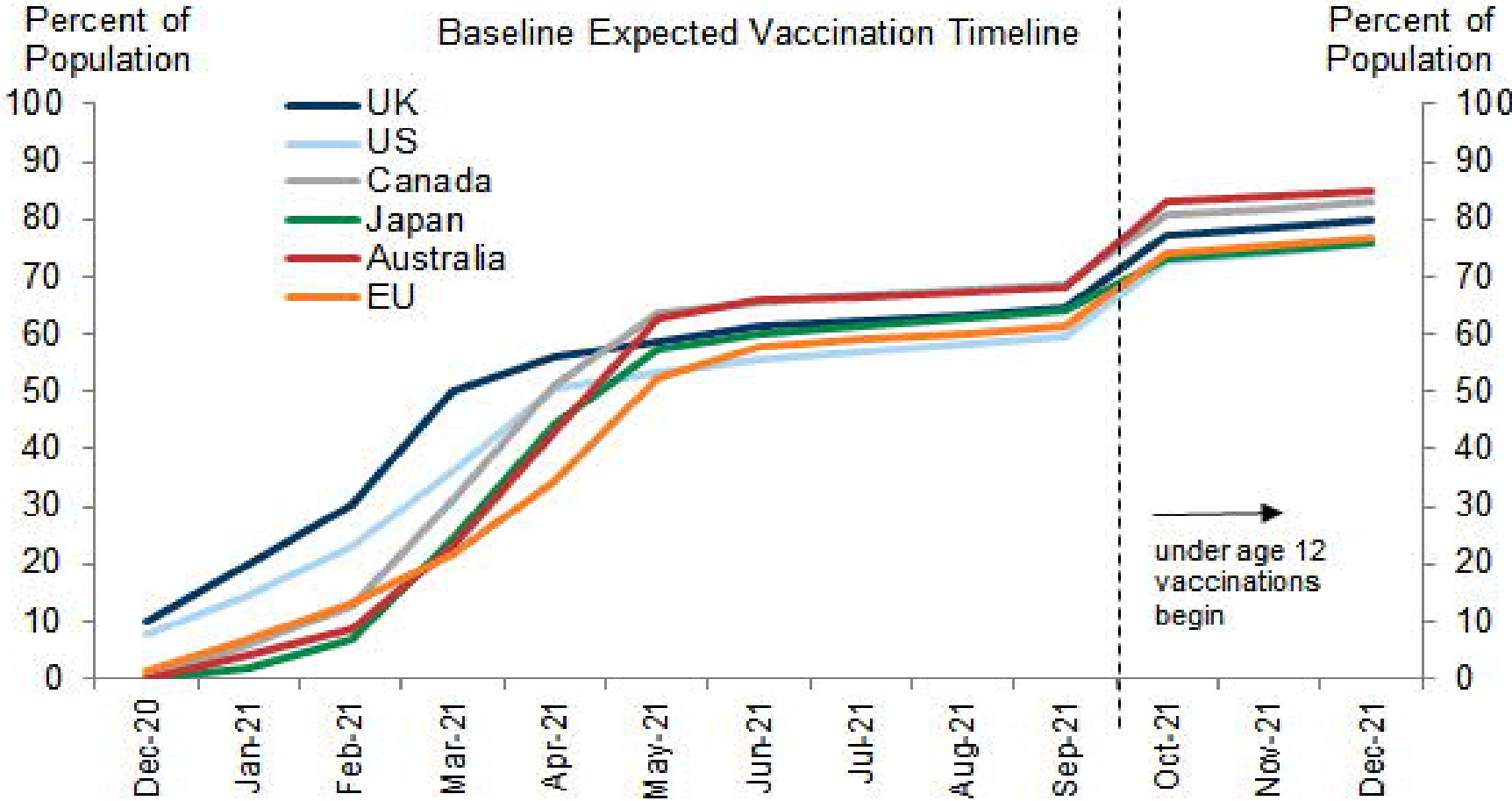
Long term impact of COVID is unclear Technology, WFH is good. Debt bad



Source: GFD, Goldman Sachs Global Investment Research

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Most countries hit 50% vaccinated by the spring



Source: Goldman Sachs Global Investment Research

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High yield spreads normal. Should fall further

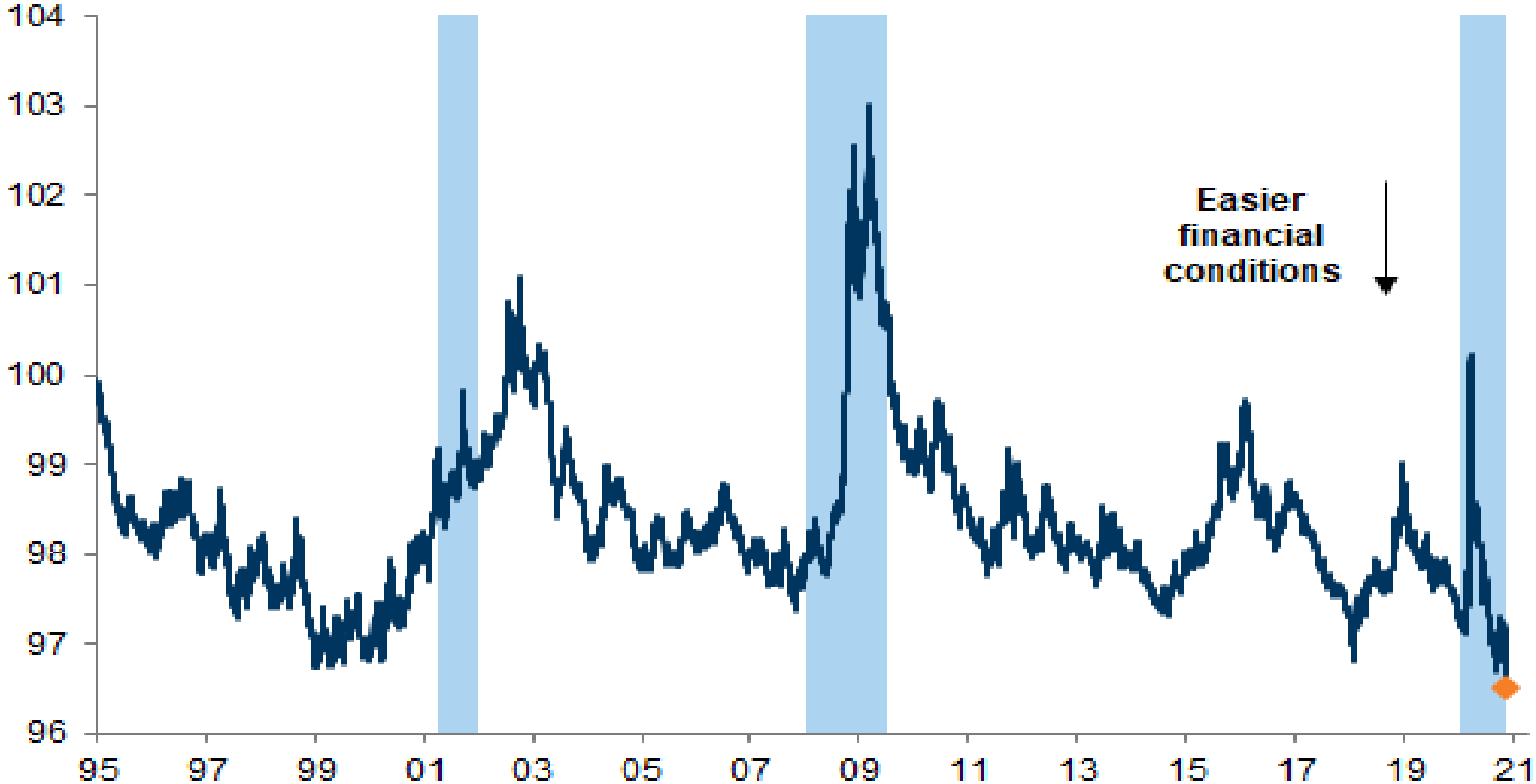
High Yield OAS Spread



Bloomberg Barclays Global High Yield OAS Spread Source: Mercer

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US financial conditions are close to all time lows



US Financial Conditions Index (FCI), Source: Goldman Sachs Global Investment Research

Equities expensive vs earnings

S&P 500 Cyclically Adjusted Price Earnings (CAPE) Ratio



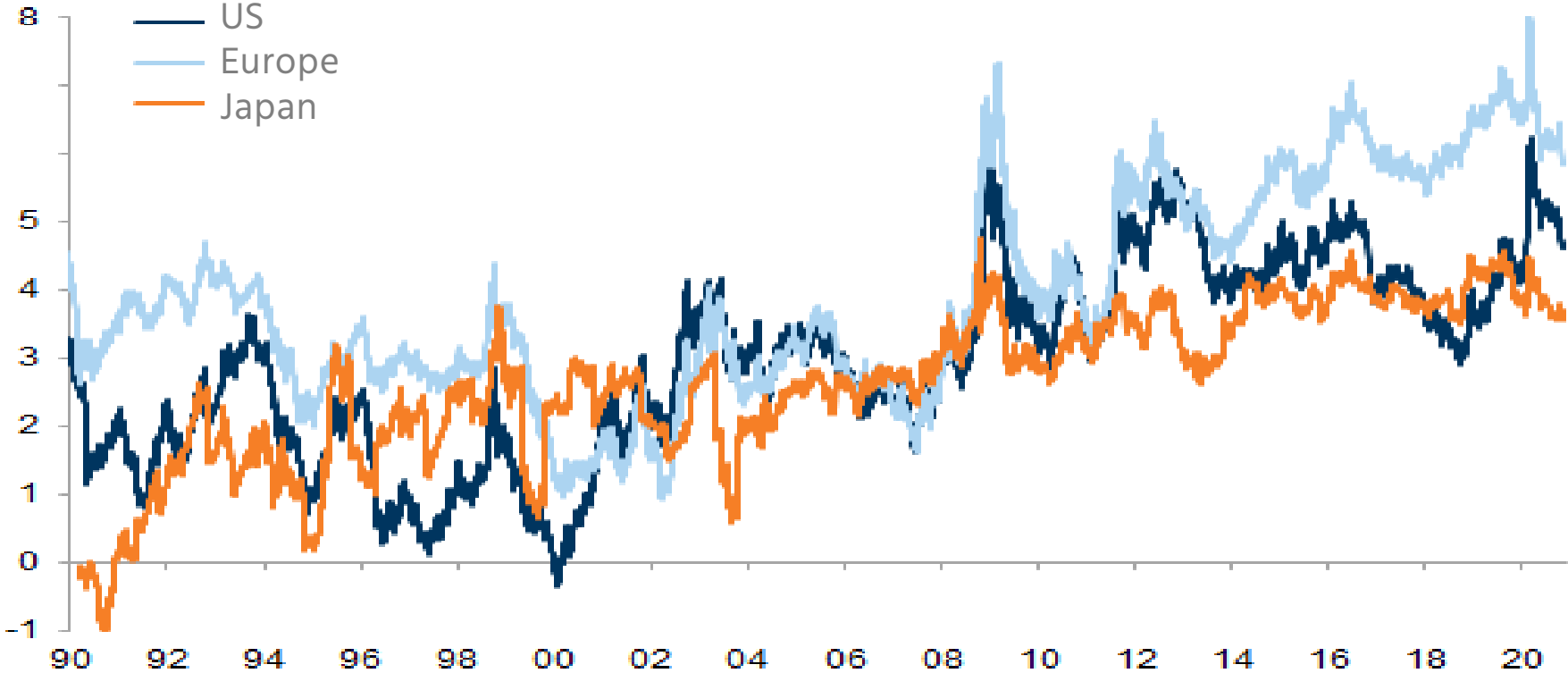
Source: Robert Shiller, Bloomberg Finance LP, Deutsche Bank

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But equities are still cheap vs bonds

Single stage Dividend Discount Model Equity Risk Premium (DDM ERP)

Single stage DDM ERP = Dividend Yield + Long Term growth - 10-year bond yield with Long Term growth = 6-10y GBP growth based on consensus economics



Source: Haver Analytics, Consensus Economics, Goldman Sachs Global Investment Research

The Great Acceleration

Deb Clarke - Global Head of Investment Research

Susan McDermott - Strategic Research Director, US

The Great Acceleration

Summary of Themes

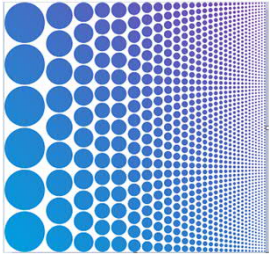
The New World



Policy distortions

Vying powers

Business as Unusual



Markets as unusual

The age of engagement

Workplace as unusual

Position for Transition



Money talks, markets listen

The energy transition

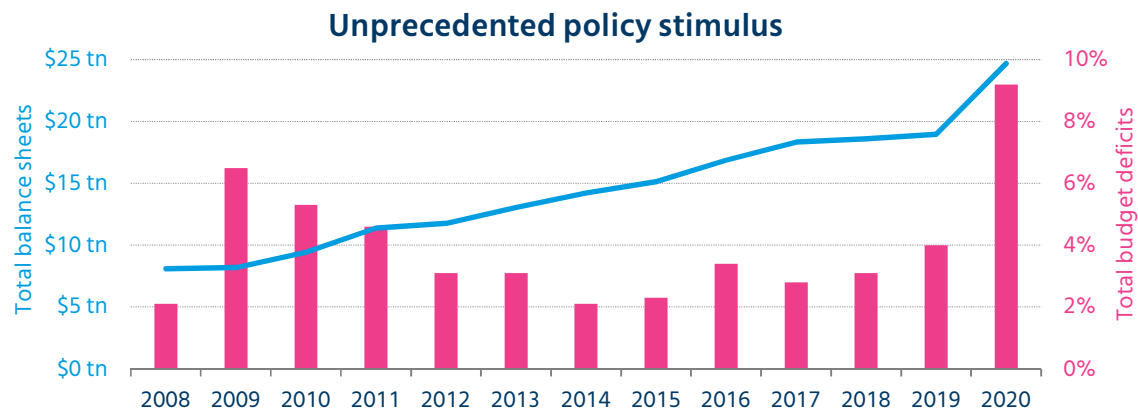
SDG-aware investing

Note: SDGs refer to the UN Sustainable Development Goals

The New World: Policy distorting the economy

Double whammy of monetary and fiscal stimulus ...

...aimed at Main St, not Wall St

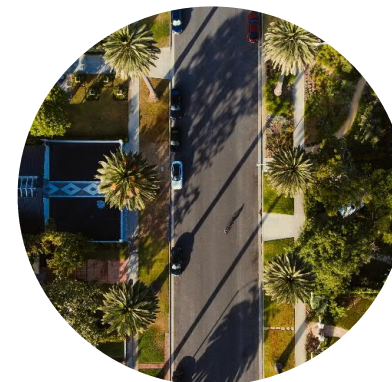


Sources: Bloomberg for central bank balances sheets. Haver Analytics, CEIC, Morgan Stanley Research forecasts for budget deficits. Total balance sheet figures represent data from the Bank of Japan, the European Central Bank, the Bank of Japan. Balance sheet data is at December 31 of each year except 2020 which is to October 13, 2020. Budget deficit data for 2020 is estimated.

Global financial crisis stimulus...?



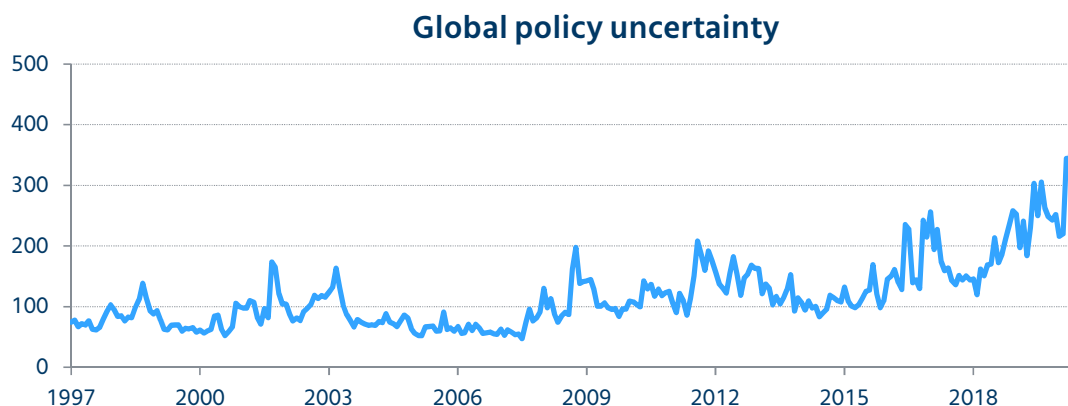
Pandemic response stimulus



The New World: Policy distorting the economy

...increases the risk of inflation longer term

...and the need to revisit defensive toolkits.



Source: Federal Reserve Bank of St Louis. Data to August 1, 2020.

"...our approach could be viewed as a flexible form of average inflation targeting."



Jerome Powell
Chairman of the US Federal Reserve

The New World: Vying powers

US and China battle it out for the 21st century

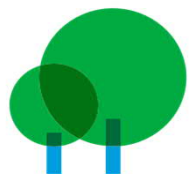
West	Sector	East
Cisco	Telecommunications	Huawei
Tesla	Electric vehicles	BYD Auto
Amazon, Ebay	E-commerce	Alibaba, JD.com
Netflix	Online entertainment	iQIYI
Facebook	Social media	TikTok

Source: Mercer

“The greatest long-term threat to our nation’s information and intellectual property, and to our economic vitality, is the counterintelligence and economic espionage threat from China.”

Christopher Wray
FBI Director

COVID-19 focuses attention on supply chain resilience



Natural disasters



Cyber attacks



Trade disputes

42%

Supply chain-disruption losses equal 42% of one year’s EBITDA on average over a decade

Source: McKinsey, “Risk, resilience and rebalancing in global value chains”, Aug 2020

The New World: The view from the US



US-China trade relations



Communications



Policy distortions



Regulatory changes

Business as Unusual: The workplace

Cities in the suburbs?

“Almost 88% of office workers globally worked from home during the pandemic (97% in the US) with 68% globally (73% in the US) satisfied with their experience.

Source: Global Work from Home Experience Survey – April 2020 available at www.globalworkplaceanalytics.com/global-work-from-home-experience-survey

Virtualize or die...

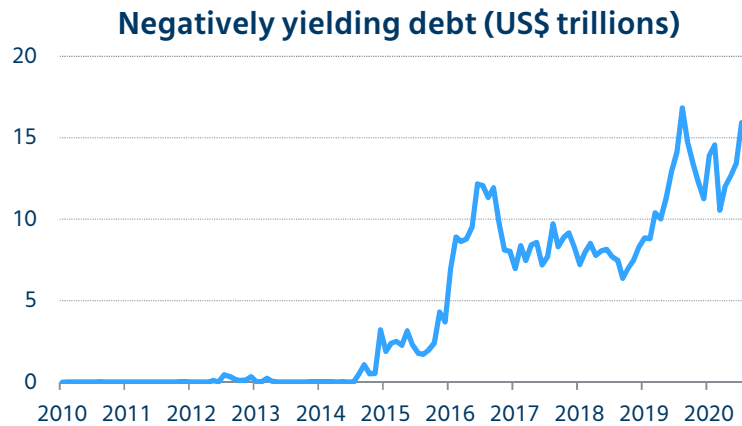
“94% of small and medium sized businesses have become more reliant on technology to ensure business continuity during COVID-19 with 70% saying they are accelerating the digitalization of their businesses as a result of COVID-19”.

Source: Cisco. Available at www.newsroom.cisco.com/press-release-content?articleId=2089055. The study was conducted in the Asia Pacific region in July 2020.

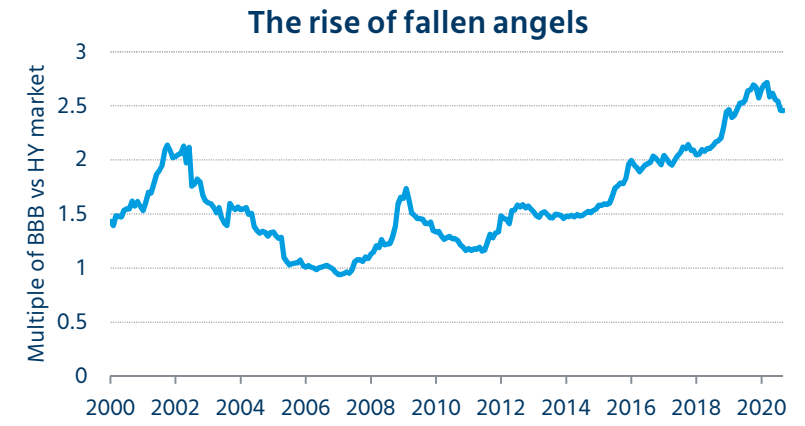
Business as Unusual: The markets

Need to get beneath the “bonnet of beta”

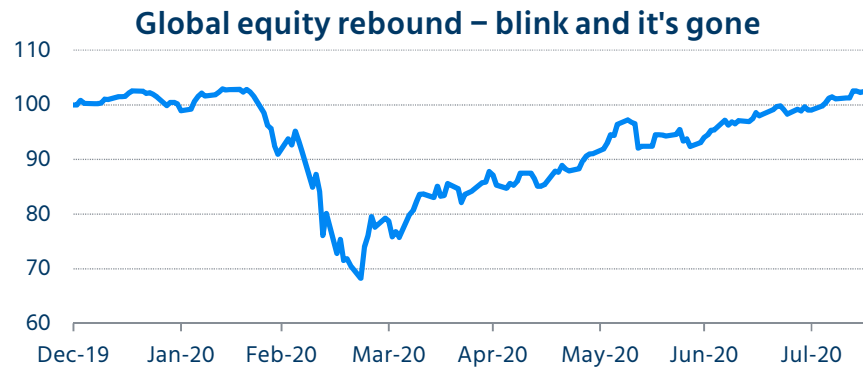
“Blink and it’s gone” – speed test your governance process



Source: Bloomberg



Source: Thomson Reuters Datastream



Source: Thomson Reuters Datastream

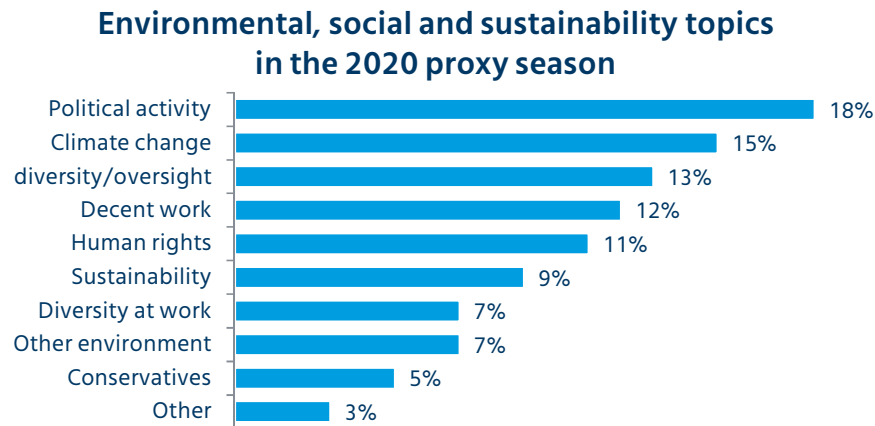
Business as Unusual: The age of engagement

Value-add of ESG is expected to increase

“The one thing that is very clear in this COVID-19 world ... [is that] stakeholder capitalism is only going to become more and more important, and the companies that focus on all their stakeholders – their clients, their employees, the society where they work and operate – are going to be the companies that are going to be the winners for the future.”

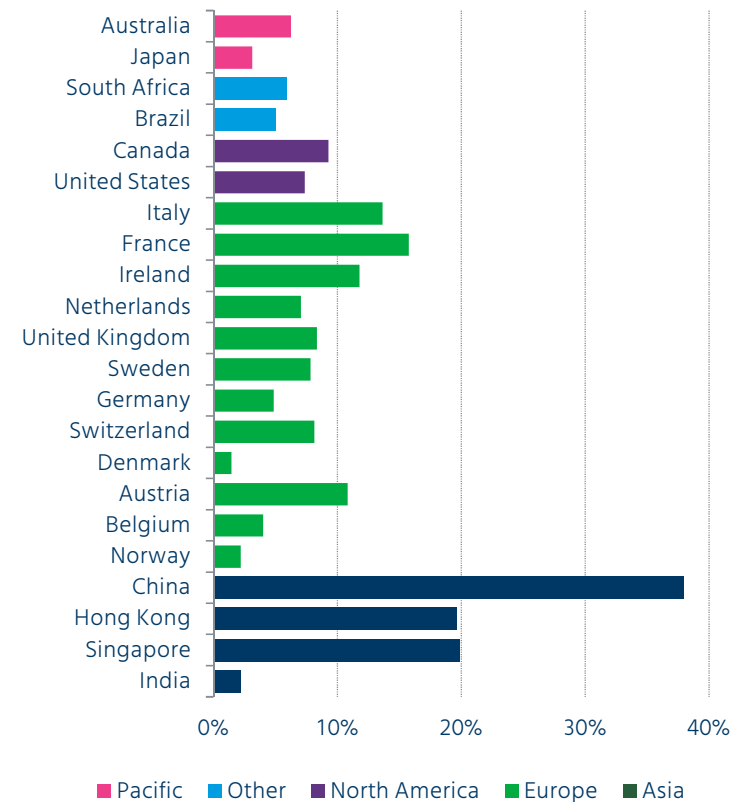
Larry Fink, Blackrock CEO, July 2020

Diversity and inclusion is rewarded



Source: Proxy Preview 2020

Percentage of PMs that are female



Source: Mercer, "Diversity Dressing", May 2020

Enhancements to MercerInsight

Attributes now being captured in Mercer Insight

- + Diversity policy, metrics and targets
- + Flexible working practices
- + Unconscious bias training practices
- + Compensation and promotion practice
- + Hiring initiatives and practices
- + Return to work support
- + Published gender pay figure and analysis
- + People diversity

How diversity gets incorporated into our Four Factor evaluation process of asset managers

IDEA GENERATION



- Philosophy
- Investment process
- Competitive advantage
- Resources

PORTFOLIO CONSTRUCTION



- Guidelines
- Style
- Risk
- Monitoring

IMPLEMENTATION



- Trading
- Turnover
- Capacity
- Fees

BUSINESS MANAGEMENT

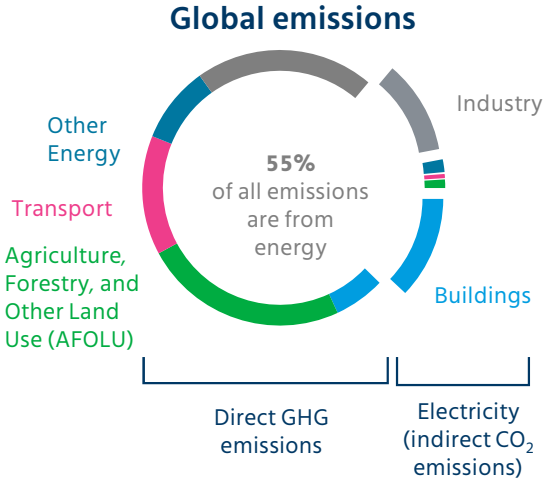


- Business structure
- Business environment/culture
- Remuneration
- Non-investment distraction

Our high conviction strategies will typically show good representation of cognitive diversity reflected through the idea generation, and further supported through portfolio construction and business management

Position for Transition: The “decade of delivery”

It’s the decade of delivery ...



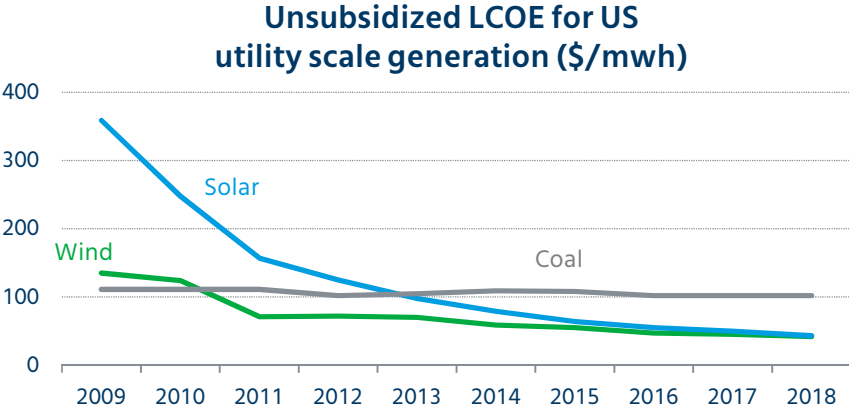
Source: IPCC, 2014: Climate Change 2014: Synthesis Report. Contribution of Working Groups I, II and III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change [Core Writing Team, R.K. Pachauri and L.A. Meyer (eds.)]. IPCC, Geneva, Switzerland, 151 pp

...and the energy transition is underway

45%

The IPCC ⁽¹⁾ states greenhouse emissions need to reduce by 45% (from 2010 levels) by 2030, and to net zero by 2050, to have a 50% chance of temperatures rising +1.5°C by 2100

(1) Intergovernmental Panel on Climate Change, the source of scientific information and technical guidance for Parties to the UN Framework Convention on Climate Change (UNFCCC)



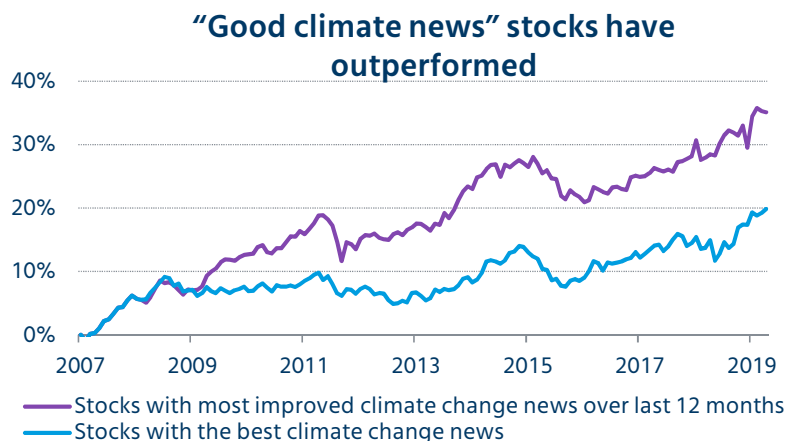
Sources: Lazard and BNEF

Position for Transition: Commitments to net-zero are building

Commitments to “net zero” accelerating

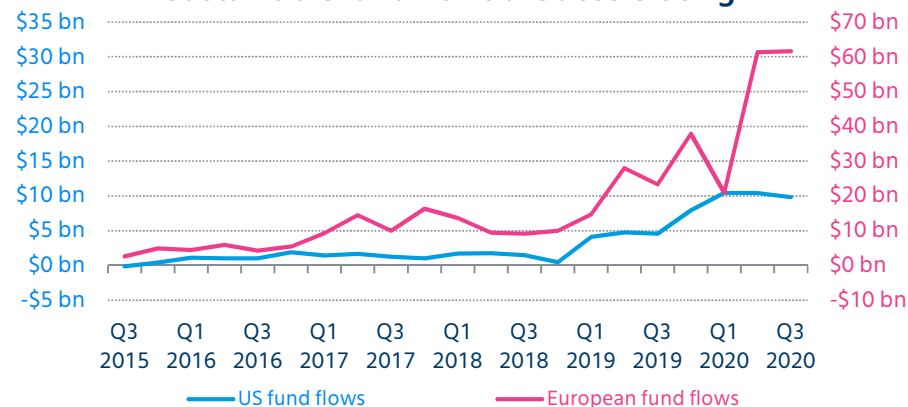


Money talks, markets listen



Source: Deutsche Bank Research: 'Past the Tipping Point with Customers and Stock-markets, Sept 2019 (vs MSCI World)

Sustainable fund flows are accelerating



Source: Morningstar. European fund flows converted from EUR to USD using prevailing quarter-end exchange rates sourced from Thomson Reuters Datastream

Good clean energy stocks have outperformed



Source: Thomson Reuters Datastream, total returns represented by the S&P Global Clean Energy Index in USD, rebased at December 31, 2019

Position for Transition: The view from the US



The Great Acceleration

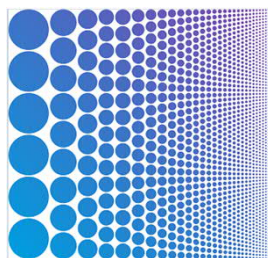
Summary of Themes

The New World



- Holistic, qualitative approach to risk
- Inflation risk management
- Opportunistic strategies
- Re-test value of regional strategies

Business as Unusual



- Public and private credit opportunities
- Reassess your real assets exposure
- ESG ratings matter more than ever
- Review manager diversity

Position for Transition



- Total portfolio climate-transition plan
- Gray, green, or in-between
- Decarbonize-at-the-right-price
- Seek out sustainable assets and strategies

Note: SDGs refer to the UN Sustainable Development Goals

From theory to practice

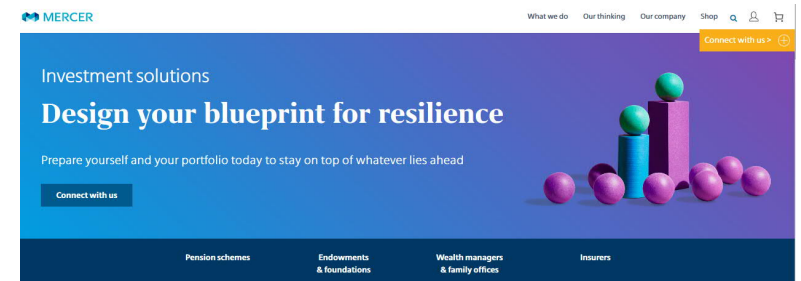
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In these times of stress, robust processes have never been more crucial.

Our investment solutions can strengthen your governance. And our advice can help deliver your investment objectives:

- Develop a complete risk and governance solution.
- Access multiple highly rated investment managers.
- Reduce investment-related costs.



Highly rated managers • Simplified processes • Better governance control

Q&A

Thank you, and what's next?

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