Investing during the coronavirus crisis

Calls to action for pension plan investors

To help our clients think through the short- and medium-term actions, we recently hosted a webcast covering the issues impacting defined benefit plan sponsors and investment portfolios during these challenging times. Prior to the webcast, we surveyed U.S. plan sponsors, and discovered that their biggest investment and governance concerns were (1) protecting their portfolios from further market falls, (2) generating the returns they need, and (3) making decisions in an uncertain environment. Given this, our webcast focused on potential actions plan sponsors could take to mitigate these concerns. If you have the time to watch the full replay, we encourage you to do so. Otherwise, here's a brief recap of potential actions to consider.

1. Help make your portfolio more resilient.

No one can predict whether the shape of recovery will be V, U, W, L or any other letter. But, with diversity, hedging, and dynamism, you can build a portfolio designed to withstand a multitude of market environments. In addition to strengthening risk management, portfolio actions may also provide new return opportunities – for example, in private markets, alternative credit or tail-risk hedging.

2. Hedge unrewarded risks.

Interest rate risk remains the largest source of volatility for many defined benefit plans. Liability hedging can help keep this risk manageable so that you can focus on managing and exploiting other risks with more potential to add value long term. While Treasury yields could rise and credit spreads could fall as the economy recovers, this is far from certain, so we caution against making drastic moves. If you have a strong view on rates, your action may be to refine your hedge ratio targets rather than forego liability hedging outright.

3. Review return and risk needs.

Chances are that the market environment has blown your strategy off course. Many plan sponsors are under financial stress or behind their journey plans, and market and economic risks are elevated. Potential funding relief may provide breathing room in the short term but won't be a long-term panacea. Going forward, you may need to reconsider the trade-offs – a longer time horizon, taking greater risk or provisioning for more cash going forward – and be more flexible during volatile markets.

4. Flex governance to expand expertise.

There will be more downturns to come with opportunities to help reduce risk. A well-designed portfolio, incorporating alternative hedging approaches, will help you reduce risk without sacrificing expected returns. Prioritize your time by focusing on risk budgets, setting an appropriate hedge and ensuring the portfolio is sufficiently diversified. If you don't have time for this in addition to day-to-day plan management activities, you might look outside your organization for help on the latter.

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