Can your fiduciary manager evolve your portfolio in real-time?

Russell Investments

Navigating a smoother and safer journey

As recent COVID-19 volatility has illustrated, markets can change rapidly. This has reaffirmed the need for fiduciary managers to respond in real-time and implement an agile approach to managing assets.

In order to create a tailored solution that will capture market gains without taking undue risk or compromise funding objectives, it is imperative to manage the portfolio against downside risks.

At Russell Investments, we established a proprietary process to monitor the assets, liabilities and funding level daily, adjusting the asset mix through time by considering forward-looking market expectations. This helps ensure the portfolio is always appropriately positioned for the prevailing market environment. We utilise our proprietary downside protection strategies to mitigate the extreme downside whilst keeping exposure to the upside.

Is your investment journey able to weather the storms?

Creating a tailored investment journey that can weather any storm requires the asset allocation to be dynamically managed. This is particularly important in the current environment – where new risks continue to emerge, and speed is of essence when looking to capture attractive investment opportunities.

For example, schemes can mitigate the impact of large market drawdowns through the use of appropriate downside protection strategies. Towards the end of 2019, such strategies were very attractively priced, allowing our clients to buy ‘insurance’ against a downturn for a fraction of the cost that same protection would have cost in March of this year.

Similarly, most Trustees recognise that they can’t wait for three years (and the next valuation cycle) to consider new opportunities. That is why it is critical to have a consistent and transparent investment process that can allow investors to introduce new ideas into their portfolios in a timely and cost-efficient manner.

One such opportunity we exploited on behalf of clients is Gold, which provides excellent protection in a rising inflationary environment – a scenario made much more likely after the significant stimulus package by global governments to combat this year’s economic crisis.

CASE STUDY: Dynamically Managing the portfolio

At Russell Investments, we are acutely aware of the extreme scenarios for the global economy in the aftermath of the COVID-19 pandemic. We are aware of the material negative impact that a *second wave* could have on markets. As such, we have continued to include downside protection strategies in our client portfolios, to mitigate the extreme downside whilst keeping exposure to upside.

In the second half of 2019, our investment process allowed us to identify high valuations in a number of asset classes. As a result, we gradually started to reduce risk through a shift away from riskier assets and by making the portfolio more defensive. In January 2020, we introduced *equity put options* to our clients’ portfolios, which provide true protection for a market sell-off. Those put options remain in client portfolios today to provide protection beyond the U.S. election.

In June, we introduced a *call option* on the UK equity market, which allows clients to capture upside from what we see as the most attractive equity region. This structure is in place until 2021 to cover the UK’s departure from the EU.

As well as having a robust investment process, it is critical to be able to execute decisions in a timely manner. Our 24-hour in-house trading desk allows us to effectively manage risk in clients’ portfolios, and to protect their funding level gains.

This document contains marketing material about our fiduciary management service. This document does not represent impartial advice on this service. In certain cases, you are required to conduct a competitive tender process prior to appointing a fiduciary manager. Guidance on running a tender process is available from the Pensions Regulator.

Is your provider incorporating intelligent de-risking strategies?

In order to successfully capture funding level improvements, schemes should consider moving to a multi-dimensional approach to de-risking.

Following a material increase in funding level, we believe that pension schemes should reduce the risk in the portfolio by:

1. Allocating to lower-risk forms of fixed income (for example, investment-grade bonds); or

2. Reducing the level of leverage within the liability-hedging portfolio (for example, increasing the collateral in the matching portfolio); or

3. Changing the composition of the growth portfolio to target a lower return above Gilts.

Specifically, whether growth assets are restructured or sold down depends on a number of factors, such as the market outlook, the driver of the improvement in the funding level, and the valuation of the low-risk fixed income assets being purchased.

For schemes looking to experience a smooth and safe funding journey, it is important to adopt an informed, market-aware de-risking process and evolve the portfolio in real-time.

Does your provider practice efficient implementation?

Informed de-risking can only be made possible through a proprietary system. Firstly, that can value your assets daily by having visibility into every single one of your holdings. Secondly, execute the required trades swiftly when the triggers are hit.

This is why dedicated implementation teams are critical. They assist in helping to ensure that the best ideas are quickly and efficiently incorporated into your investment portfolio, whilst reducing transaction costs.

How responsible are your environmental, social and governance investing practices?

The responsible investing landscape is continuously evolving, as regulations increase to provide greater clarity and transparency. It is important to have a disciplined approach, integrating environmental, social and governance (ESG) factors and principles of good stewardship throughout the entire investment process. Providing transparent reporting to demonstrate responsible investing policies and procedures can help eliminate the risk of greenwashing.

We believe in an outcome-oriented investment approach, where we look at ESG factors in terms of any material impact for our client portfolios. We do this through our manager research, portfolio management and implementation of proprietary investment solutions.

The bottom line

Navigating through uncertain market conditions can be challenging – but it doesn't need to compromise your scheme's funding goal. It is crucial to ask the following questions – Is your investment journey able to weather the storms? Is the asset allocation dynamically managed? Is your provider incorporating intelligent de-risking strategies? Does your provider practice efficient implementation? How responsible are your ESG investing practices?

An individualised approach to fiduciary management will help ensure that your investment journey is customised to YOUR needs – that is why we have created Russell Investments iFM – fiduciary management tailored just for you.

Find out more about the Russell Investments iFM and understanding your unique goals **here.**

For more information

Call Russell Investments at **020 7024 6000** or visit russellinvestments.com/ifm

Important information

For professional clients only.

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Some investments/bonds may not be liquid and therefore may not be sold instantly. If these investments must be sold on short notice, you might suffer a loss.

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