

Briefing note

# Helping your staff ride the investment market wave

The first quarter of 2020 will be long remembered as being one of the most difficult periods in history for global markets.

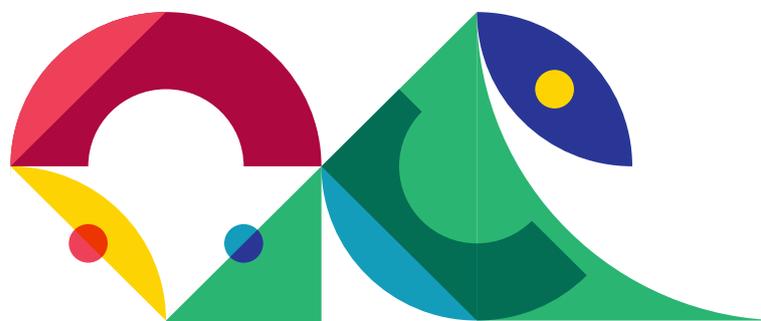
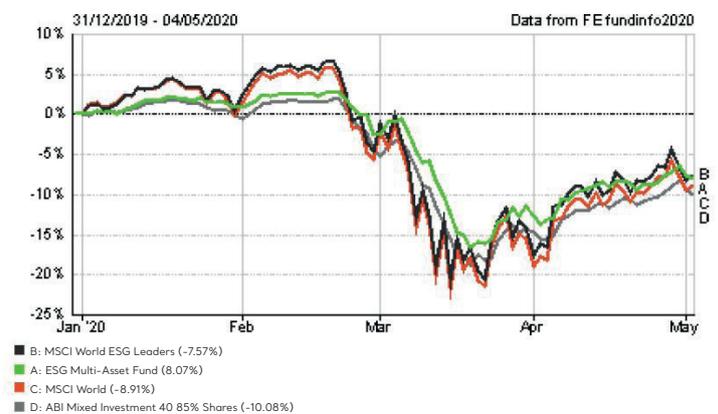
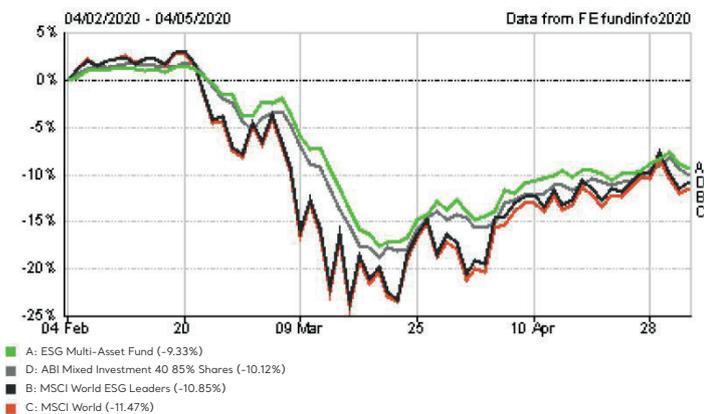
There are two investment considerations for defined contribution pensions that are often regarded as being beneficial in managing the ebbs and flows in global markets, particularly during market shocks like this. Below we have outlined how these have impacted on investment performance during the Covid-19 pandemic.

**1. Diversification:** spreading investments across different types of assets to maintain investment returns while reducing investment risk (i.e. ups and downs).

**2. Environmental, social and governance (ESG) considerations:** Investing in a manner that positively influences ESG factors has the potential to provide long-term sustainable returns for members.

So how have these two factors affected investment performance?

Looking at the charts below we can see the last 3 months and year to date have once again confirmed our expectation that diversified strategies (represented by the mixed investment sector) could provide some risk protection from falling global equity market environment (represented by the MSCI World index).



Index	Description	YTD return (%)	YTD volatility*
MSCI World	This represents the performance of equity (stocks and share) markets across the world	-29.68	34.21
ABI Mixed Investment 40 85% Shares	Represents a diversified portfolio comprising of between 40% and 85% of equities	-26.76	25.13
MSCI World ESG Leaders	This represents the performance of equity (stocks and share from companies with strong ESG principles) markets across the world)	-26.10	33.81
ESG Multi-Asset Fund	Represents a diversified portfolio which includes ESG considerations	-22.80	24.64

Source: Financial Express, as at 04/05/2020. Past performance is not a guide to future performance.

\*volatility is a measurement of how much the performance has varied, moving up and down, during the period and represents the level of risk within this investment.

However, another worthwhile observation is that, in general, companies with strong ESG principles (represented by MSCI World ESG Leaders Index) have proven to be more resilient, outperforming their peers. These companies tend to be well organised and transparent, focused on dynamically addressing social & environmental issues, and also tend to have strong balance sheets.

Last but not least, incorporating ESG considerations into a well-diversified strategy – as shown by the example of an ESG multi asset fund above – could help to further minimise the volatility risk and protect members’ assets more efficiently.

Overall, investments which reflect positive ESG characteristics are predicted to improve the probabilities of more predictable/sustainable returns.

### Investment & ESG check points (for Employers and Trustees)

At this point it is important to consider these issues to ensure your pension scheme members’ funds can recover and be better protected from future extreme markets.

Below are a few key questions to ask:

- Is your default strategy well diversified and still aligned with your membership’s risk tolerance in line with DWP and TPR guidance?

- Have you considered whether your default strategy should embed environmental, social and governance factors in the asset allocation?
- If not, you may wish to review your strategy as it could be a material contributory factor to performance. It is also important to consider whether the investment strategy meets your beliefs as a business and your pension scheme members’ beliefs.
- If yes, you should closely monitor the effectiveness and performance of your strategy to ensure it continues to meet your needs.
- What measures did your provider take to ensure your pension scheme assets invested remained on firm financial ground (active stewardship).

If you would like any help with your investment strategy, including understanding how it has held up under current conditions, or would like assistance in communicating these difficult messages to your pension scheme members, please contact your PS Aspire consultant or [sayhello@psaspire.com](mailto:sayhello@psaspire.com)

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