

# The Evolving Industry Landscape

PRESENTATION AND DISCUSSION



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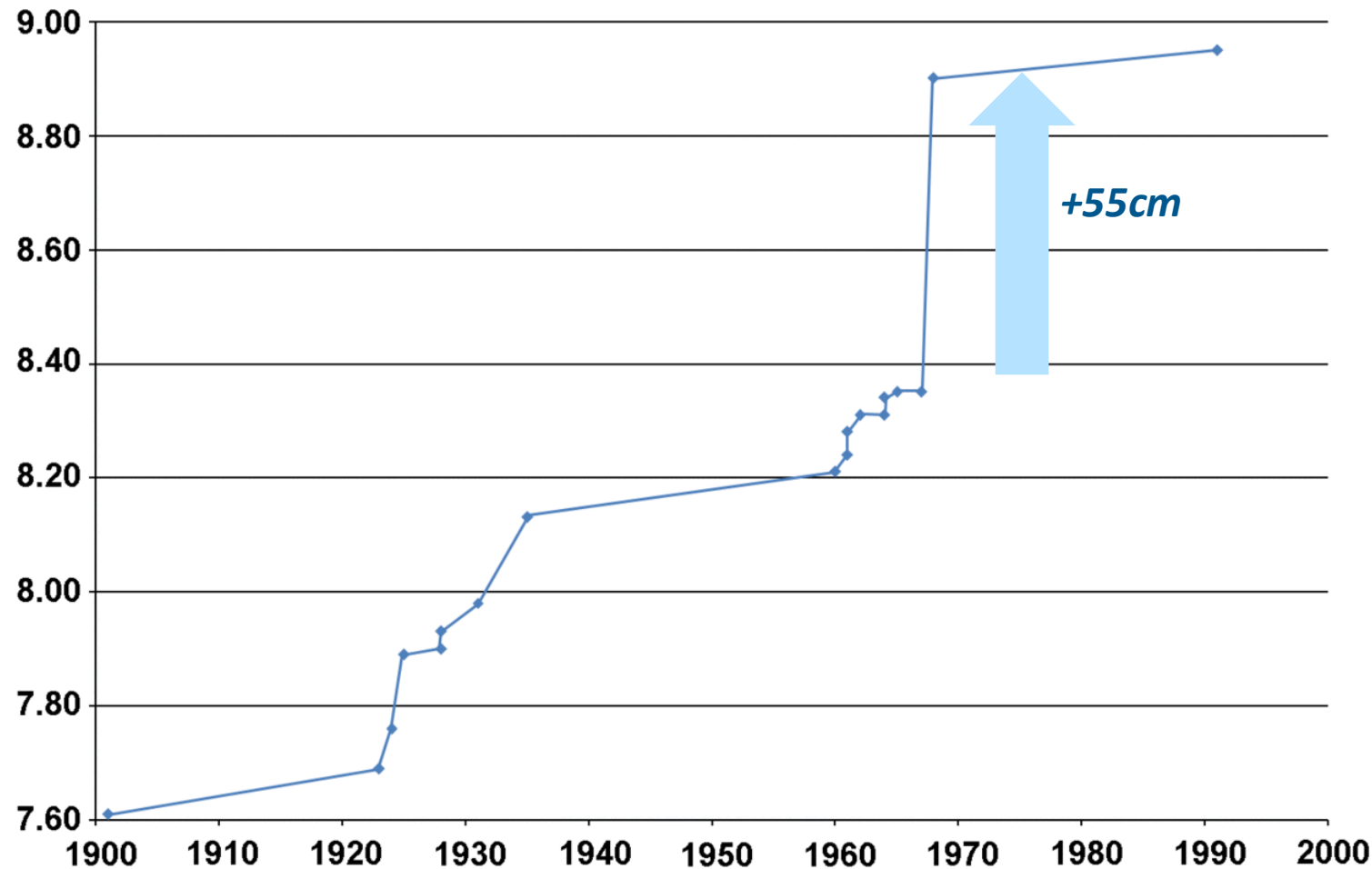
Ready for Next





# Sometimes change doesn't happen in little jumps – but big record breaking ones

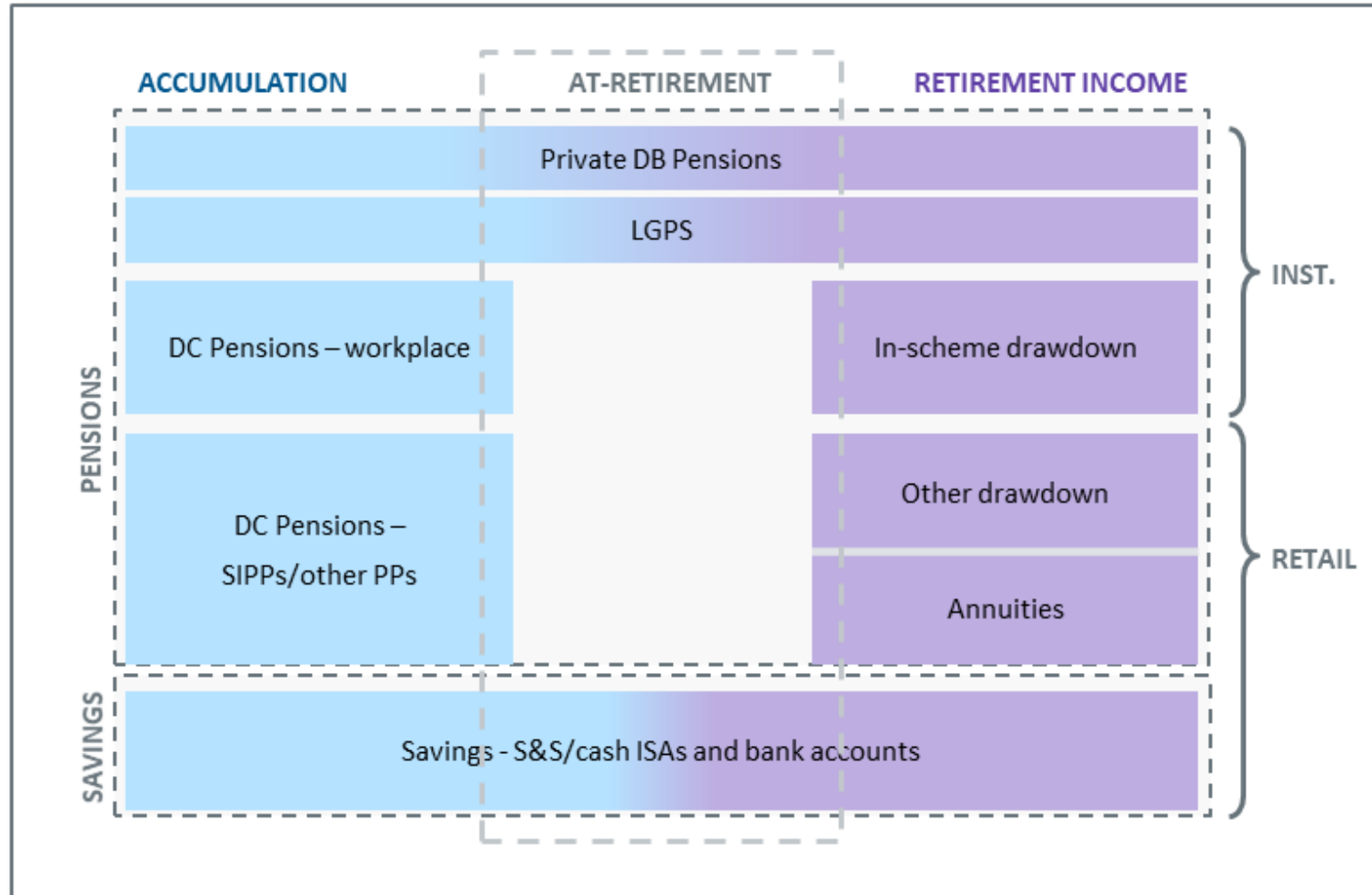
## LONG JUMP WORLD RECORD PROGRESSION



*Bob Beamon*  
*1968 Mexico Olympic games.*  
*8.90m world record*  
*Record stood for **28 years***

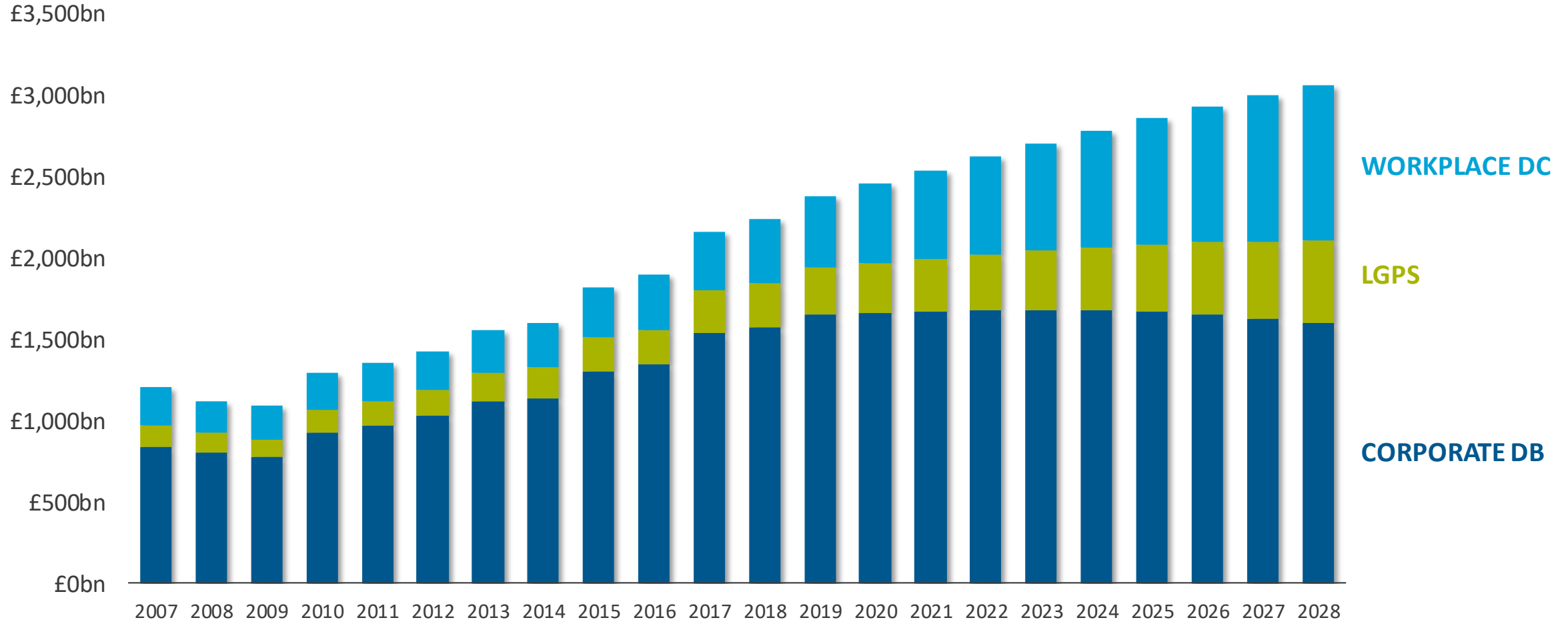
*Has COVID created any 'Beamon' moments  
for UK Pensions?*

## UK PENSION, SAVING AND RETIREMENT ASSETS



*£4.3 trillion*

## UK PENSION, SAVING AND RETIREMENT ASSETS



# A quick case study in divergence - Let's introduce the players

	<i>Characteristics</i>	<i>Before crisis</i>	<i>Feb/March '20</i>	<i>April '20</i>
<b>INSTITUTION A</b>	<i>&gt;£20bn Internal CIO team</i>			
<b>INSTITUTION B</b>	<i>&lt;£1bn No internal team</i>			

# Our story should begin before Covid

	<i>Characteristics</i>	<i>Before crisis</i>	<i>Feb/March '20</i>	<i>April '20</i>
<b>INSTITUTION A</b>	<i>&gt;£20bn Internal CIO team</i>	<i>Alts program Hedging program Cashflow program Risk factor constr.</i>		
<b>INSTITUTION B</b>	<i>&lt;£1bn No internal team</i>	<i>Equity reliant Limited hedging Income reliant Asset class constr.</i>		



# Act 1 plays out very differently for our two groups

	<i>Characteristics</i>	<i>Before crisis</i>	<i>Feb/March '20</i>	<i>April '20</i>
<b>INSTITUTION A</b>	<i>&gt;£20bn Internal CIO team</i>	<i>Alts program Hedging program Cashflow program Risk factor constr.</i>	<i>Reduced impact Solid liquidity Rebalancing</i>	
<b>INSTITUTION B</b>	<i>&lt;£1bn No internal team</i>	<i>Equity reliant Limited hedging Income reliant Asset class constr.</i>	<i>Heavy drawdown Sell for liquidity No rebalance</i>	

# And Act 2 only worsens for our underdogs

	<i>Characteristics</i>	<i>Before crisis</i>	<i>Feb/March '20</i>	<i>April '20</i>
<b>INSTITUTION A</b>	<p>&gt;£20bn Internal CIO team</p>	<p>Alts program Hedging program Cashflow program Risk factor constr.</p>	<p>Reduced impact Solid liquidity Rebalancing</p>	<p>Ride upswing Opportunity aware</p>
<b>INSTITUTION B</b>	<p>&lt;£1bn No internal team</p>	<p>Equity reliant Limited hedging Income reliant Asset class constr.</p>	<p>Heavy drawdown Sell for liquidity No rebalance</p>	<p>Miss upswing</p>

# What next? The choices available are a world apart

	<i>Characteristics</i>	<i>Before crisis</i>	<i>Feb/March '20</i>	<i>April '20</i>
<b>INSTITUTION A</b>	<i>&gt;£20bn Internal CIO team</i>	<i>Alts program Hedging program Cashflow program Risk factor constr.</i>	<i>Reduced impact Solid liquidity Rebalancing</i>	<i>Ride upswing Opportunity aware</i>
<b>INSTITUTION B</b>	<i>&lt;£1bn No internal team</i>	<i>Equity reliant Limited hedging Income reliant Asset class constr.</i>	<i>Heavy drawdown Sell for liquidity No rebalance</i>	<i>Miss upswing</i>



# What next? Sponsor risk/behaviour, regulatory response, etc

	<i>Characteristics</i>	<i>Before crisis</i>	<i>Feb/March '20</i>	<i>April '20</i>
<b>INSTITUTION A</b>	>£20bn Internal CIO team	Alts program Hedging program Cashflow program Risk factor constr.	Reduced impact Solid liquidity Rebalancing	Ride upswing Opportunity aware
<b>INSTITUTION B</b>	<£1bn No internal team	Equity reliant Limited hedging Income reliant Asset class constr.	Heavy drawdown Sell for liquidity No rebalance	Miss upswing



# Generalizing: Stuck to the plan, took stock, and are doubling down on key themes

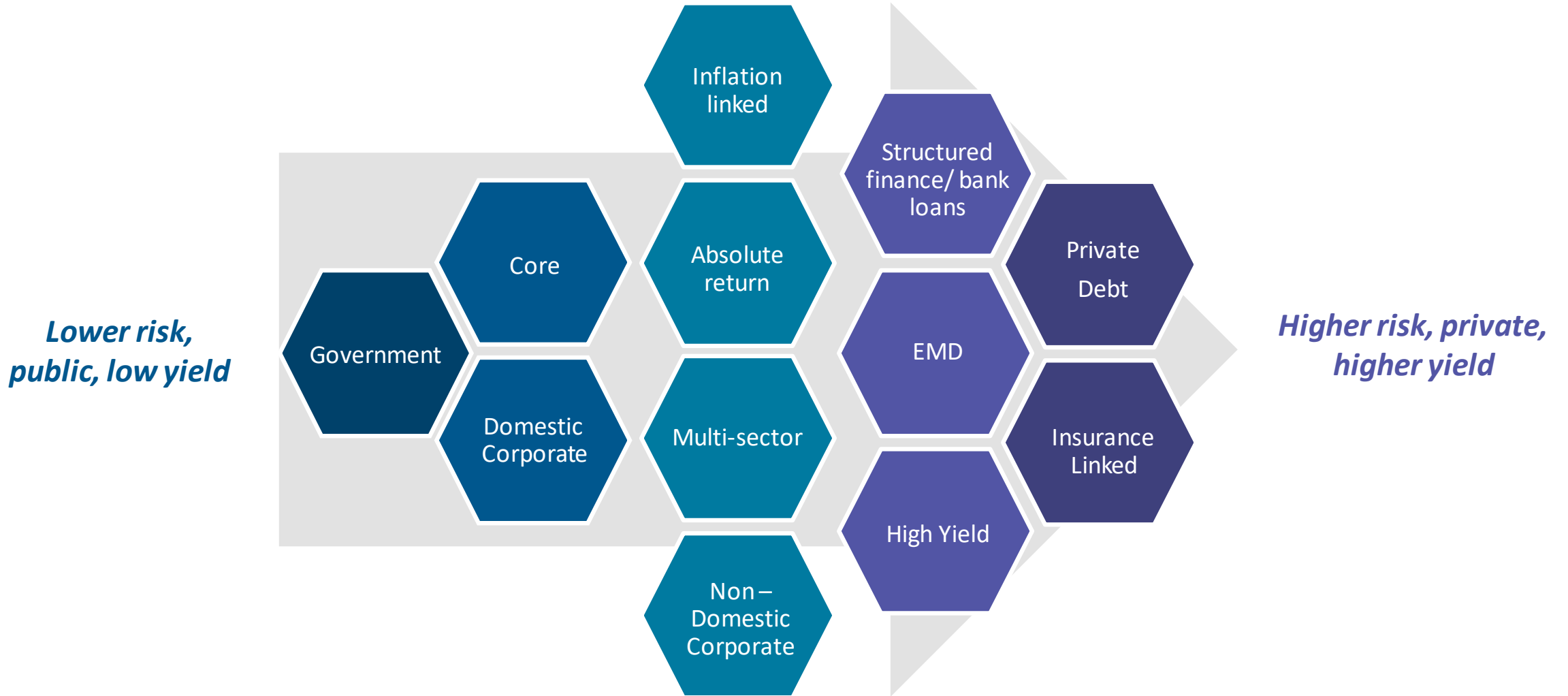
- 1) The Hunt for Yield and Diversification
- 2) Getting Value
- 3) ESG
- 4) Better Governance



THEME 1

# The Hunt for Yield and Diversification

# Low yields cause a global 'waterfall effect'



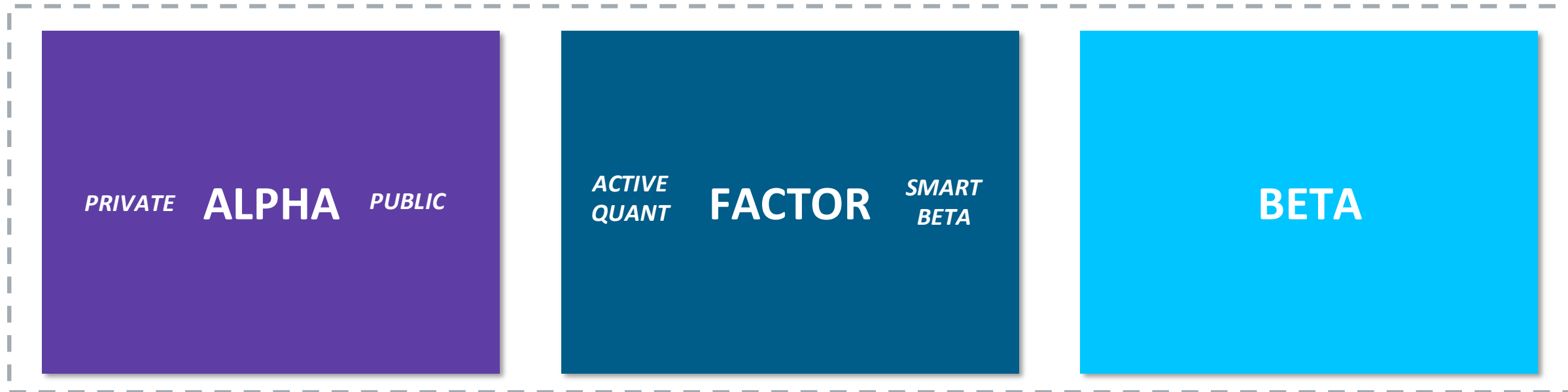
INVESTOR SEGMENT	AUM	TYPICAL APPROACH TO ALTERNATIVES
Mega	>£40bn	Full range of models available
Very large	£20bn - £40bn	Full range of models – though direct investments less likely
Large	£5bn - £20bn	Co-investing and mandates supervised by internal team.
Medium	£1bn - £5bn	Traditional drawdown funds most common.
Small	£500m - £1bn	Less comprehensive and extensive use of alternatives
Very Small	<£500m	Indirect access to alternatives (e.g. DGFs)

THEME 2

# Getting Value

# What mixture of equity approaches delivers my desired outcome?

## AN INSTITUTIONAL EQUITY PORTFOLIO



### Considerations

- Risk – Diversification, Tracking error
- Liquidity
- Return
- Cost
- Internal vs. external
- ESG Goals



THEME 3

ESG

**Client side**

BELIEFS	CLIENT GOALS	CLIENT EXPECTATIONS
“Investors have a moral duty and/or regulatory duty to invest for positive impact”	Do good	Progress towards a non-financial goal will be tracked and made
“I wish to reduce the negative externalities of the companies I financially support”	Avoid harm	I won’t be investing in companies which fail sustainability criteria
“Engagement with corporates on governance fosters better future performance”	Find opportunities	My asset manager will engage with management teams on issues (e.g. diversity) and use votes accordingly
“Considering ESG criteria is a more comprehensive view of risk”	Avoid risk	I won’t be blindsided by material financial risks from ESG issues

**GREEN WASHING**  
where client expectations don't match the reality

**Asset managers**

REALITY	INTENT	PRODUCT PROMISES
Holdings	Company wide investment policies	Strategy name
Engagement / voting record	Investment process of strategy	Fund description
Realised performance	Performance targets	Product groupings
		Verbal promises

THEME 4

# Better Governance



Source: Hyman Robertson, DWP, Broadridge analysis

# Lots of reinforcement to existing trends; some leaps forward

- COVID has led to divergent fortunes
- Double down on key themes
  - 1) The Hunt for Yield and Diversification
  - 2) Getting Value
  - 3) ESG
  - 4) Better Governance





Ready for Next

Communications  
Technology  
Data and Analytics

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