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

Sasha Mandich highlights the importance of individually tailored fiduciary management strategies incorporating dynamically managed asset allocations, intelligent de-risking strategies and efficient implementation

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.

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.

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 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.

Is your provider incorporating intelligent de-risking strategies?

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. Pension schemes should consider moving to a multi-dimensional approach to de-risking that involves:

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

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.

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.

Dedicated implementation teams are critical, ensuring that the best ideas are quickly and efficiently incorporated into your investment portfolio, whilst reducing transaction costs.

How responsible are your ESG investing practices?

The responsible investing landscape is continuously evolving. 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.

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 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 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.

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