



NEW BFINANCE RESEARCH REVEALS INVESTOR SENTIMENT DURING COVID-19 CRISIS

Diversifying strategies are paying off for many investors, but not all: more than a third of the investors using investment grade credit and 40% of hedge fund investors are “not satisfied” with their performance during the downturn

55% of investors had equity downside protection in place ahead of the crash

Liquidity risk is the dominant concern for investors over the coming weeks

Results of new ‘snap’ poll: [‘How Are Investors Reacting to the 2020 Crisis?’](#)

Sydney, 30 March 2020 – bfinance has conducted a new survey of asset owners. The primary objective of the poll (19-20 March) was to ascertain how investors are reacting to the current COVID -19 crisis, and particularly whether they were satisfied with how strategies that may have provided diversification against equity downturns were delivering so far.

The poll received responses from 260 investors in 28 countries, with total assets estimated at well over \$2.5 trillion. Among the respondents 49% are from pension funds, 15% from insurers, 13% endowments or foundations and 6% family offices.

Is diversification delivering?

Asset classes that should ideally provide diversification against equity risk, such as investment grade credit and hedge funds, are delivering mixed results for investors depending on the strategies and asset managers used.

Three in five investors using investment grade credit are either “somewhat” or “very” satisfied with its performance during the downturn, with 35% “not satisfied” and European investors distinctly less happy than US counterparts.

Among the 46% of investors using multi asset strategies, 57% are either “somewhat” or “very” satisfied (7% “very satisfied”) with their performance through the crisis so far, while 35% are “not satisfied.” For hedge fund investors, 46% are “somewhat” or “very” satisfied” while 38% are “not satisfied.”

Among the 55% of respondents who had some explicit equity downside protection (hedging) in place prior to the crash, the majority (77%) are either “very” or “somewhat” satisfied with how those hedges have performed. That being said, nearly a quarter are “not satisfied.” Depending on the implementation approach used, hedges could have been either the golden ticket or the false hope of Q1 2020.

Survey respondents are generally satisfied with the performance of their illiquid strategies – an area that has seen a substantial increase in average allocations during the last decade. Yet their performance remains a major “known unknown” in investor portfolios. In addition, investors appear broadly happy with the amount they had allocated to private market strategies, despite some potential portfolio management challenges arising from liquidity constraints: 84% of investor respondents use private markets the vast majority are satisfied with their allocations to this area; those dissatisfied with allocations largely say they “should have had more” in illiquid strategies.

Strategic changes and portfolio rebalancing

Over the last three weeks, 11% of investors have made “significant dynamic or tactical changes” to portfolios, with a third making “minor dynamic/tactical adjustments.” Most are rebalancing to prior weights, or trying to: “a solid, rules-based rebalancing mechanism is key,” says one investor respondent. Yet it is far from straightforward: a significant minority (27%) report that they are wanting to rebalance to the usual asset allocation but finding that “rebalancing is challenging.”

As market liquidity seizes up, liquidity risk is the dominant concern, and downside risk a close second, for investors over the coming weeks. Although bfinance has noted differences between groups (e.g. pension fund versus insurer) and between individuals of each group, immediate solvency and funding issues are somewhat less of a priority, which may well suggest an expectation that the worst of the decline may be relatively short-lived.

Expectations for the future

Optimists and pessimists are balanced in almost equal measure when it comes to expectations for the “most likely outcome” from an economic standpoint. In total, 31% of the group lean more towards the “prolonged recession” camp, while 32% sit on the “faster recovery” side of the fence.

****Kathryn Saklatvala, Head of Investment Content, bfinance**:** “Although markets and performance results are changing week by week, it is fascinating to get an early look at how so many asset owners are initially reacting to what’s happening within their portfolios. While strategies that are theoretically intended to provide some diversification are performing as planned for many, a very substantial minority have been disappointed in the results so far in areas such as investment grade credit, hedge funds and multi-asset. We expect considerable scrutiny of manager selection, strategy selection and asset allocation as the dust settles.”

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NOTES TO EDITORS

About bfinance:

bfinance is an award-winning specialist consultant that provides investment implementation advice to pension funds and other institutional investors around the globe. Founded in 1999, the London headquartered firm has conducted engagements for more than 300 clients in 33 countries and now has eight offices in seven countries.

Services include manager search and selection, fee analysis, performance monitoring, risk analytics and other portfolio solutions. With customised processes tailored to each individual client, the firm seeks to empower investors with the resources and information to take key decisions. The team is drawn from portfolio management, research, consultancy and academia, combining deep sector-specific expertise with global perspective.