

## Covid-19 has made anti-fragility the single most important concern for Europe's pension industry

- *With the global economy facing so much uncertainty and funding ratios worldwide plummeting, anti-fragility has become paramount for Europe's pension plans*
- *Pension plans will target private markets to achieve custom-built resilience within portfolios and global equities to plug funding gap*
- *The long ignored middle child of ESG, the 'S' factor has come into its own as Covid-19 exposes labour exploitation in frontline jobs*

**London, 30 November 2020** – With the global economy dogged by so much uncertainty, pension investors find themselves on a journey into the unknown. As a result, pension plans now prize portfolio resilience above all else, according to a new report published today by CREATE-Research and the largest European asset manager, Amundi.

The report surveyed 158 respondents from 17 pension markets across public and private sectors, collectively managing €1.96 trillion of assets. It aims to shed light on how pension plans worldwide are responding as the world economy struggles to recover from what is the economic equivalent of a massive cardiac arrest.

### *Covid-19 has wrecked pension finances, expect bumpy recovery and return of inflation*

The extraordinary policy response by central banks and their governments was timely and vital. But it has also inflicted toxic side effects on pension solvency via ballooning liabilities and plunging incomes from zero-bound interest rates. Alongside the market meltdown in March 2020, these have ravaged funding ratios worldwide.

According to 85% of respondents, financial markets will have a W-shaped or an accordion-shaped recovery: both are highly volatile by nature. Most respondents felt it was likely that central banks will lose their independence from their governments (84%) and inflation will follow deflation after the current crisis is over (77%). Finally, the overwhelming majority of those surveyed believe asset returns will be lower this decade than the previous ones (90%).

**Professor Amin Rajan of CREATE-Research, who led the project, said:** *“Assessing the macroeconomic damage of Covid-19 is akin to looking through a kaleidoscope: different images appear with each turn of the dial. However, one thing is certain: the longer the pandemic lasts, the greater the economic damage to Pension plans.”*

### *Investing is now reduced to a single imperative: anti-fragility*

Asset allocation will have two additional pillars: liquidity and resilience.

In this era of heightened uncertainty and volatility, investing has to be long haul, as highlighted by three quarters (76%) of our respondents.

75% of those surveyed will target private markets to achieve custom-built resilience, whereas high-quality cash flow compounders among global equities will top the asset allocation choice for 76% of respondents looking to build anti-fragility into their portfolios.

Over half (58%) will turn to thematic investing for inherent resilience via secular themes. One UK pension plan highlighted areas. The first being demographics: focusing on health care, and urbanisation. The second is technology: centred on artificial intelligence, 5G networks and cloud

computing. The third is ESG: focusing on renewable energy, labour practices, and corporate governance.

Since sovereign bonds are expected to make minimal total returns, risk tools will rely overly on other means. Greater scenario planning will be the preferred approach used by plans to manage risk in portfolios over the next decade (61%) whilst almost two thirds (57%) will rely primarily on liquidity management. Diversification will remain a massive cornerstone in investing – be it based on asset classes (55%) or risk factors (54%).

**Pascal Blanqué, Group Chief Investment Officer at Amundi, highlights:** *“Covid-19 has forced Governments and central banks to embark on a ‘whatever it takes’ wartime-type monetary response. The long-term impacts on financial markets only become evident in hindsight. Faced with such uncertainty, portfolio resilience and antifragility will be the new guiding star for pension investors.”*

### *Pension plans will favour global equities for capital growth*

Five asset classes will be favoured for income: infrastructure (58%), US Investment Grade bonds (44%), Emerging Markets Investment Grade bonds (41%), private debt (38%) and European Investment Grade (36%). Infrastructure in particular will benefit from large-scale fiscal stimulus with a special focus on renewable energy and its improving cost dynamics. One respondent added, *“with its in-built resilience, infrastructure will be the biggest winner of this crisis.”*

As for inflation protection, equities and infrastructure will be favoured again; commodities and real estate debt much less so with only 4% and 29%, respectively.

Sovereign bonds will be favoured by a small minority (18% for US government bonds and 17% for EM government bonds) and only those with good funding ratios that permit a high degree of portfolio de-risking.

### *ESG funds are going from virtue signalling to value signalling*

The pandemic has given investors a real taste of how physical shocks can devastate portfolios. In this context, ESG investing has proved resilient while also targeting good risk-adjusted returns.

The market crash in March was a true test of whether or not ESG investing is just a bull market luxury, lacking resilience against big drawdowns. The findings of our survey show otherwise. For the majority of our respondents, their ESG funds performed better than the rest of the portfolio (52%) or the same (45%).

Furthermore, the long ignored middle child of ESG, the ‘S’ factor, has come into its own as Covid-19 has exposed low wages, precarious jobs and labour exploitation in frontline occupations – especially in the retail, transport and medical industries.

According to another survey participant, *“firms are becoming aware that they need a social licence to operate. The old ways are now unacceptable to their customers.”*

With these social considerations coming to the fore, the ‘S’ component in ESG will receive more prominence in the future as the spotlight is being turned on how global firms manage their supply chains in particular. Hence, the social factor (30%) has now risen and the environmental (41%) and governance (29%) factors have fallen somewhat in relative importance since our 2018 Survey.

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## About Amundi

Amundi, the leading European asset manager, ranking among the top 10 global players<sup>1</sup>, offers its 100 million clients - retail, institutional and corporate - a complete range of savings and investment solutions in active and passive management, in traditional or real assets.

With its six international investment hubs<sup>2</sup>, financial and extra-financial research capabilities and long-standing commitment to responsible investment, Amundi is a key player in the asset management landscape.

Amundi clients benefit from the expertise and advice of 4,500 employees in nearly 40 countries. A subsidiary of the Crédit Agricole group and listed on the stock exchange, Amundi currently manages more than €1.650 trillion of assets<sup>3</sup>.

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<sup>1</sup> Source: IPE "Top 500 Asset Managers" published in June 2020, based on assets under management as at 31/12/2019

<sup>2</sup> Boston, Dublin, London, Milan, Paris and Tokyo

<sup>3</sup> Amundi data as at 30/09/2020