

November 16, 2020

Asset Owner Round Table

Observations on
Covid-19 Impact



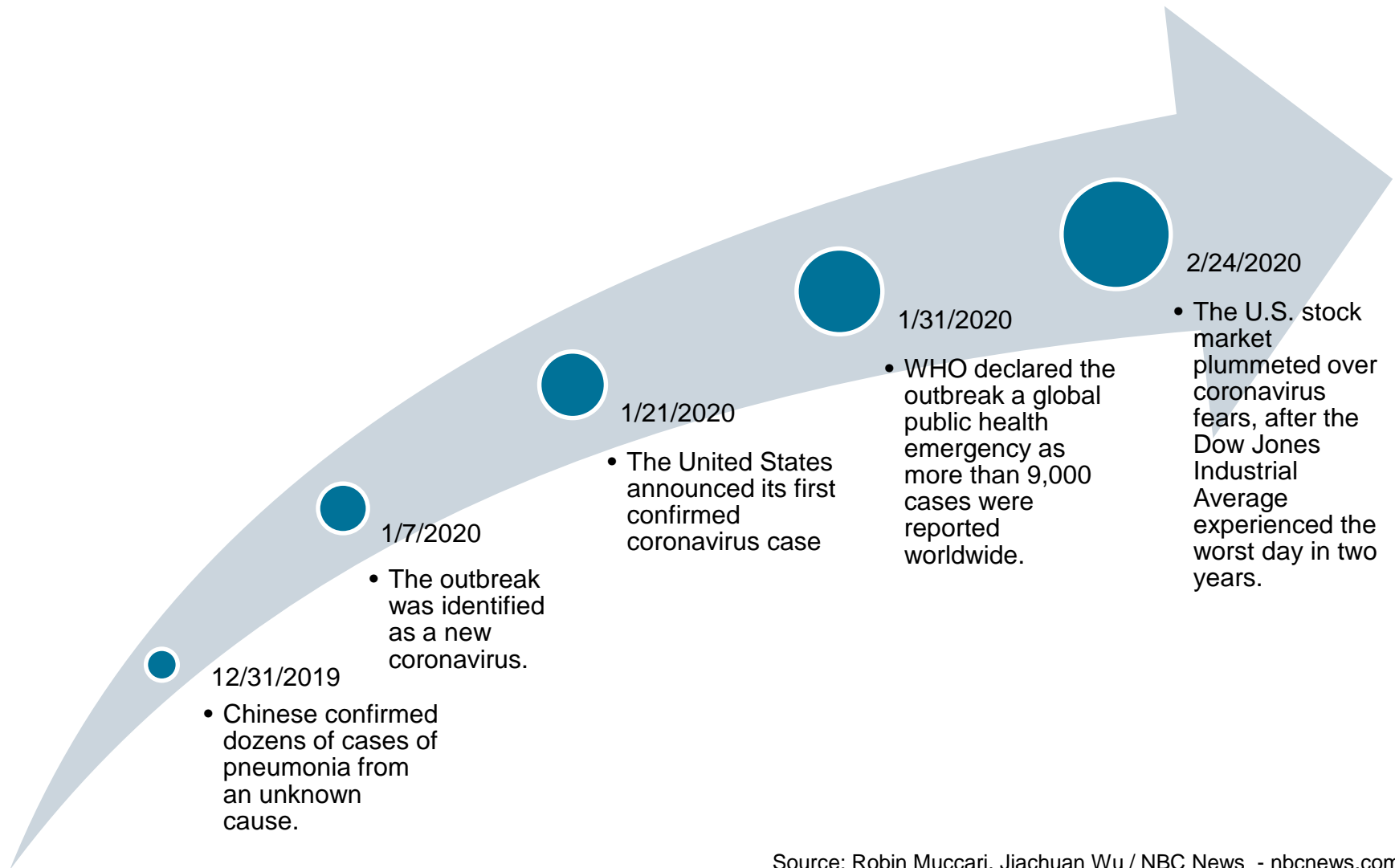
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Observations on COVID-19 Impacts

- Early Virus Timeline
- Market Impacts
- Asset Owner Challenges
- Observations

Observations of Covid-19 Impacts

Early Covid-19 Timeline



Source: Robin Muccari, Jiachuan Wu / NBC News - nbcnews.com

Observations of Covid-19 Impacts

Equity Drawdown and Liquidity Issues



Equity Markets struggle to find a floor:

- MSCI World Index down 29.6 percent from peak ¹
- Investor Confidence declined below 75 in January, March and April. ²

State Street Investor Confidence Index



Lower than normal levels of Liquidity on the fixed income market:

- Central Bank Programs
 - Commercial Paper Fund Facility
 - Primary Dealer Credit Facility
 - Designed to provide meaningful liquidity to markets
- Quantitative Easing

¹ Thomson Reuters. February 12, 2020 through March 12, 2020

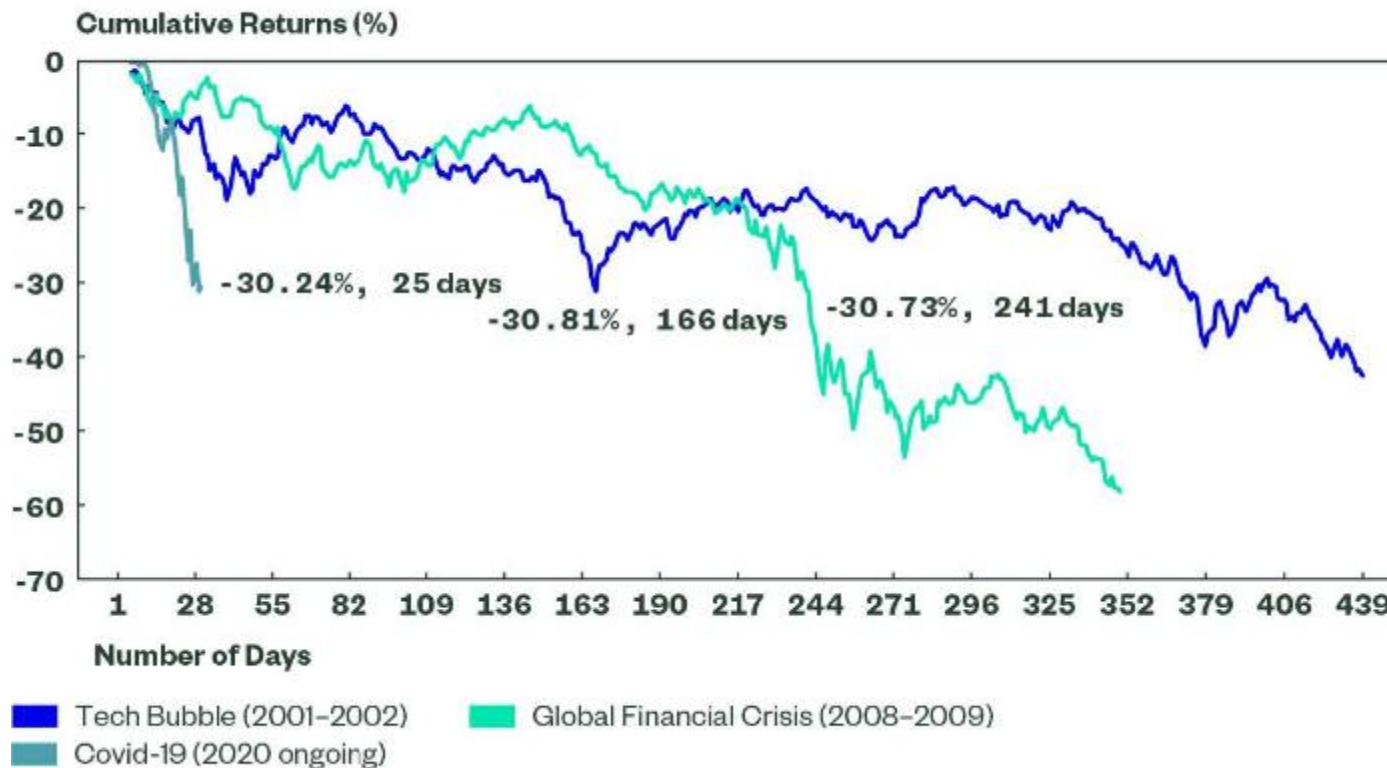
² State Street Corporation, State Street Investor Confidence Index, StateStreet.com

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Recap of what happened in March

Figure 1: The Current Drawdown Has Been Exceptionally Steep

Comparisons of Recent Drawdowns to the -30% Mark for the MSCI World Index



Source: FactSet, State Street Global Advisors, as of March 20, 2020.

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Recap of what happened in March

Figure 2: The Difference Between the Best and Worst Performing Sectors in the Current Drawdown Is Much Smaller than in Previous Drawdowns

Breadth of Sector Returns at 30% Market Drawdowns



Source: FactSet, State Street Global Advisors as of March 20, 2020.

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Decisions faced by Asset Owners

Client Challenges



Asset Allocation & Rebalancing



Rebalance or delay the rebalance for a better entry point

Execute adjustments using synthetic overlay exposures to align with policy beta targets



Liquidity Concerns



Start the rebalance process early to avoid potential month-end liquidity challenges

Is my cash and liquid position sufficient to meet short term cash requirements



Private Market Information Challenges



Impact of drawdown on the quarterly valued assets and overall exposures

Estimation of impact on asset allocation

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How did Asset Owners Respond

Most Investors took some action: ²

Universe of US Public & Corporate DB Plans

- **Equity Median drift from target reached more than 5% under target – underweight cut to 3% at end of March**
- **Fixed Income peaked at overweight of more than 2.8% but fell to 2% by end of March**
- **Cash was a beneficiary of liquidity concerns and overweight steadily increased over time and remained over 2% into April**
- **The allocation to alternatives varied over the month and the changes can be attributed to lack of mark to market for private investments during much of the market volatility**

NEPC Survey of E&F Clients: ¹

16% full rebalance to targets
44% took action toward target
14% raised cash
7% raised cash

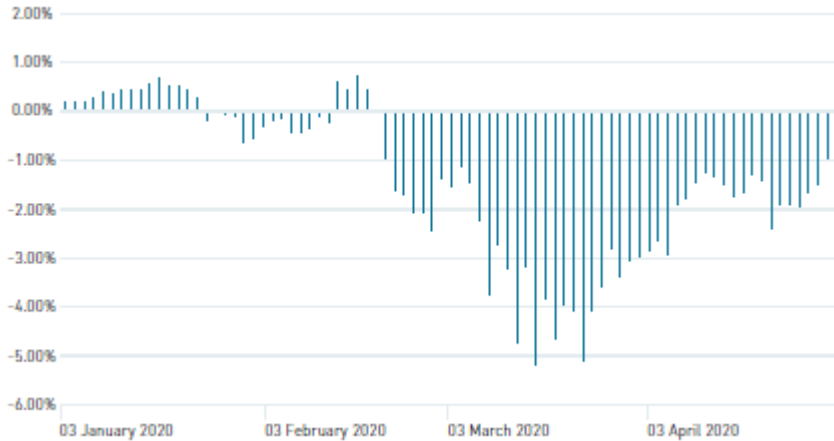
¹ NEPC, Endowment & Foundation Flash Poll, “COVID-19: Market Vies and Action:”, April 2020

² 2020 State Street Corporation, The ReBalancing Act White Paper

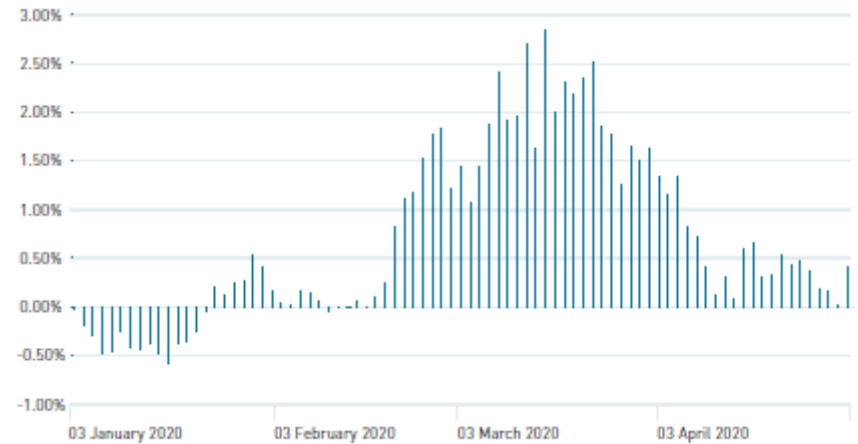
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Impact on median assets relative to policy ¹

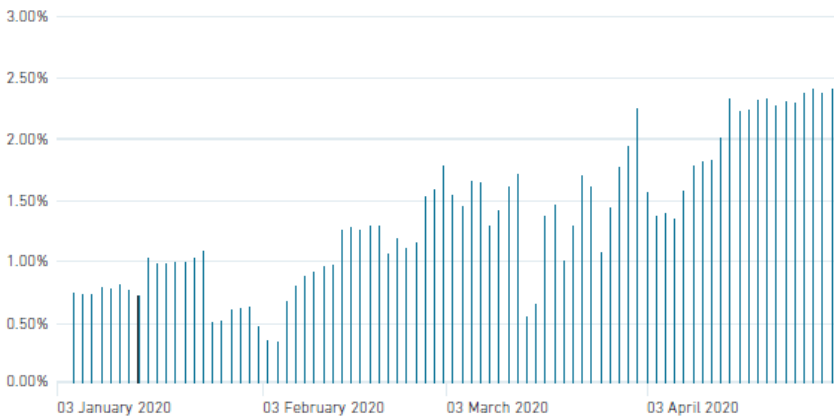
Equity (median) – asset class weight relative to plan



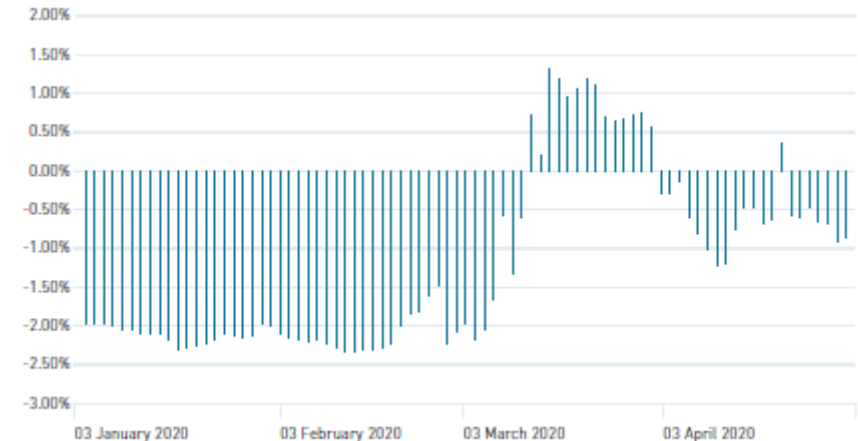
Fixed Income (median) – asset class weight relative to plan



Cash (median) – asset class weight relative to plan



Alternatives (median) – asset class weight relative to plan



¹ 2020 State Street Corporation, The ReBalancing Act White Paper

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Observations

A disciplined rebalancing strategy can provide benefits

- **Investors with a 5% band on policy weights would have triggered on March 13 and increased the return during the Q2 rebound relative to delaying the rebalancing or not rebalancing at all. ¹**

Cash and liquid assets remained well above policy targets

- **Education related institutions raised more cash than retirement funds based on concerns for operating capital and increased costs.**

Communication of full impact of drawdown can be challenging

- **The issues associated with communicating expected impacts on private market asset valuations to constituents can be reduced through usage of PMEs.**

¹ 2020 State Street Corporation, The ReBalancing Act White Paper
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