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Investment Update 1st quarter 2020

Entering this year, 'political risk' (read: Brexit and the US-China trade war) appeared to be the biggest threat for the global economy. These issues have now been entirely overshadowed by the coronavirus, which rapidly escalated into a global pandemic. The first three months of 2020 produced the worst quarter for equity markets since the credit crisis of 2008-2009. Although a partial recovery has been visible since the second half of March, we would like to look back at these eventful past three months.

Sharp fall on stock markets

Feedback

The coronavirus sent equity markets sharply lower in the second half of this quarter. Equities in Asia and emerging markets were hit hardest, partly because of their dependence on commodities. Specific sectors, such as the tourist and airline industries, also experienced severe turbulence.

Unsettled bond markets

Bond markets were similarly unsettled. Less solid companies, in particular, ran into trouble. The heightened risk of default on their repayment obligations led to a strong increase in the risk premiums for corporate bonds (credit spreads). Investors fled to safe havens. This can be seen in the decline in capital market rates for the highest-rated countries.

Impact on a.s.r. lifecycle returns

These developments had an impact on the lifecycle returns within the a.s.r. Werknemers Pensioen. In euro terms, the ASR Amerika Aandelen Basisfonds lost over 17%. The losses in other regions (Europe, Asia and Emerging Markets) ranged between 20% and 27% last quarter.

The higher risk premiums for corporate bonds were the main cause of the negative returns in this asset class, notably for high-yield and emerging market bonds. Only Euro government loans posted a small gain. Broad diversification is clearly vital in times like these.

a.s.r. lifecycle returns Werknemers Pensioen Q1 2020

Age	Defensive	Benchmark	Neutral	Benchmark	Offensive	Benchmark
45 (and younger)	-15.98%	-16.81%	-17.20%	-18.23%	-18.41%	-19.62%
55	-9.62%	-10.15%	-16.40%	-17.37%	-18.41%	-19.62%
65	-1.57%	-1.67%	-4.56%	-4.50%	-6.37%	-6.84%

The returns are stated after deducting fund and transaction fees, but exclusive of the investment administration expenses charged by a.s.r. Werknemers Pensioen. The performance statements shown on this page were compiled with care by a.s.r. No liability is accepted in respect of this information. The benchmarks for our lifecycles were compiled pro rata. This is because each underlying fund has its own relevant benchmark. For instance, the benchmark for the ASR Amerika Aandelen Basisfonds is the MSCI US Index.

Performance versus the benchmark

In the first quarter of 2020 our lifecycles outperformed their benchmarks for almost all age categories. This outperformance was achieved thanks to our stringent filtering for quality equities. Key selection criteria are strong management, healthy balance sheet, stringent ESG policy and solid market position. These equities were relatively less affected in the past quarter.

Focus on long term

As the above returns show: the more offensive the profile, the greater the impact. That is the downside of taking more risk. In positive times, when equities do better than bonds, a more ambitious profile offers a greater chance of higher returns. Such as in 2019. Read more about the [lifecycle returns in recent years](#).

Price falls are an inherent part of investing. On average, equity prices suffer a sharp, rapid decline once every 10 years. Historically, equity markets have always recovered. As a pension investor, you are investing for the long term. This means that you still have plenty of time to make up any losses. Moreover, when equity prices are low, you can purchase more equities for the same monthly invested amount. You thus benefit extra when prices rise again. In times of negative returns, therefore, it pays to remain focused on the long term.

The a.s.r. Werknemers Pensioen pension plan invests according to the lifecycle principle: the level of risk is gradually reduced as you get closer to retirement. The reason is that as you grow older, the time available to compensate shocks on the financial markets steadily decreases. In this later stage, more emphasis is placed on safer investments. The effect can be seen in the last-quarter returns just before retirement date.

a.s.r. lifecycle returns Werknemers Pensioen Q1 2020

Age	Defensive	Neutral	Offensive
67	-0.09%	-2.06%	-3.00%

Because of investing according to the lifecycle principle, strong price falls have less impact as the retirement date draws nearer.

What is the outlook?

It is still too early to make concrete statements about the future. The 2020 outlook for the economy and financial markets has changed significantly in the past three months. The economic damage inflicted by the coronavirus crisis is becoming increasingly visible in numbers and a global recession looks inevitable. Financial markets do not seem to care that much about the macroeconomic data so far. In April, there was even a partial recovery visible.

However, uncertainties for the mid-term will persist for the time being. This is clear from the above-average volatility on the equity markets and the sharp decline in consumer confidence. But it should also be noted that the unprecedented measures announced by governments and central banks will go a long way towards mitigating both the economic damage and any financial systemic risk.

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