

# Portfolio Health Check

The challenges of recent months have shown how important it is to have defined a long-term, crisis-resistant investment strategy. The economic situation after Covid will be different. Now is the time to analyse whether your portfolio is still properly aligned to your goals – with Mercer's Portfolio Health Check.



## Core Offering

- **Review of your current benchmark asset allocation** versus Mercer's reference portfolio
- **Identification of opportunities** in your current asset allocation to improve your portfolio's efficiency and robustness
- **Analysis of current market opportunities** and implications for your asset allocation
- **Mercer view of your existing asset managers** based on our market leading Investment Manager Research<sup>1</sup>



## Optional Services

- **Risk factor analysis:** Analysis of your portfolio's exposure to underlying risk factors. This further enhances the assessment of diversification to different sources of return and the portfolio's robustness to deal with market events
- **Investment Governance Review:** Benchmarking of your investment organization and processes against market best practices to avoid operational and reputational risks
- **ALM study:** Detailed analysis of your pension fund's situation based on assets and liabilities to develop a customized investment strategy catering for your individual needs



## Mercer Advantage

- **Globally one of the largest investment consultants** with advisory assets of CHF 15'000 billion
- Leading institutional asset manager research function with more than **200 full-time analysts**
- **Broad coverage** of institutional investment strategies
- **Excellent track record** in identifying alpha-generating asset managers (average 1.3% p.a. alpha since inception<sup>2</sup>)
- **Independence** of banks and asset managers in our consulting
- **Not only experts in investments, but also in Swiss pension fund liabilities** with over 20 in-house actuaries and accredited pension fund experts

<sup>1</sup> only for strategies currently researched by Mercer; Mercer's research currently covers around 35,000 strategies

<sup>2</sup> Performance is gross of investment management fees and certain other expenses. Past performance is no guarantee of future results. Please see Important Notices for further information on Value Added Disclosures and Manager rating methodology.

## About Mercer

Mercer is a global market leader in pensions and investments advice. We combine the experience of our Swiss pensions and investment experts with the expertise of more than 5,000 colleagues and over 200 investment researchers worldwide to offer you the best support for your challenges. With \$15 trillion assets under advice and \$300 billion assets under management, Mercer and its subsidiaries are leading providers of investment advice, tools and delegation solutions globally. In Switzerland, Mercer Switzerland Inc. supports clients with more than 100 colleagues in our Zurich and Nyon offices. Our investment solutions, implementation and delegation offerings are provided by Mercer Alternatives AG.

## Contact

Reach out to us and learn more about how Mercer can support you in your challenges:



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## Important Notices – Value Added Disclosures

Measurement of value added through manager research recommendations as of December 31, 2019.

Mercer's Investment business has developed and implemented a methodology for measuring the value added through their manager research recommendations. This methodology and the results of the analysis, for periods to December 31, 2019, are presented below.

### Measurement methodology

For most investment strategies that we research, we arrive at a rating on a four-tier scale in which the possible ratings are A, B+, B and C. When we formulate short lists of candidates for clients to consider in manager searches, these are generally drawn from the list of strategies rated A within the relevant product category. We first began maintaining formal ratings on this basis in 1995, replacing less formal methods in place, and have extended this to cover all product categories that we actively research, over the period since.

Our methodology for measuring the performance of our ratings entails calculating the average performance of the strategies that we rated A within each product category each quarter, based on the ratings as they stood at the end of the previous quarter. Therefore, there is no element of hindsight in the analysis. We then compound these quarterly results together to calculate performance over longer periods. Finally, we subtract the return for an appropriate and widely accepted benchmark index for the product category concerned to calculate value added. We also calculate a risk-adjusted measure of the value added known as the information ratio.

In essence, this methodology tracks the performance of a hypothetical Mercer client that is assumed to split its money evenly between all of the strategies rated A by Mercer within the product category concerned. This hypothetical client is assumed to have reviewed its manager lineup at the end of each quarter, based on the Mercer ratings as they stood at that point in time. A typical client would not invest in all strategies in all of the categories, as some may not be relevant to a particular client for a variety of reasons. Therefore, the actual added value of strategies selected by a client would vary from the results depicted here. The average value added for each product category is detailed in this report.

Three types of strategy are excluded from the analysis. Firstly, we exclude strategies that are sub-advised by other investment managers, to avoid double-counting. Secondly, where a manager offers two variants of what is essentially just one strategy, we only include one of these in the analysis (we used to use the one with the longer track record but in 2011 we assigned the decision on which track record to use to the researcher responsible for the strategy), once again to avoid double counting. Thirdly, if a strategy's track record relates to a benchmark that is materially different to the benchmark used in the analysis for the product category concerned, it will be excluded from the analysis to avoid distortions that could arise solely as a result of the non-standard benchmark.

Where a manager offers equity strategies in a typical long only format and a variant which includes the ability to short, we only include the long-only version.

For some product categories, where the use of custom benchmarks is prevalent, there is no single widely accepted benchmark that can be used as a basis for this analysis. We therefore use a slightly different methodology for these categories. In these cases, we carry out the analysis by first calculating value added each quarter for each track record relative to its custom benchmark, then calculating the average of these value added figures each quarter, and then compounding the quarterly value added figures to calculate value added over longer periods.

We have carried out these calculations for most of the product categories where we both maintain ratings and for which we have reliable performance data (currently 69 categories), going back in each case to when we first had a reasonable spread of ratings for the product category concerned.

### Some important caveats

All of the value added figures have been calculated by Mercer, but are based upon performance data provided to Mercer by the investment managers concerned. Mercer generally does not independently verify the performance information provided by investment managers.

The methodology described above does not allow for transaction costs that an investor would have incurred if it had actually changed its panel of investment managers every quarter in line with changes to the list of products rated A by Mercer within the product category concerned. In practice, the turnover of managers incurred by such an investor would have averaged about 15% per annum (the actual averages since inception for each product category are shown in the final section of the results). We have not attempted to estimate the transaction costs that would have been incurred as this would require assumptions on a number of factors, including the investor's cash flow position and how the changes had been implemented.

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