Media update

COVID-19 AMPLIFIES NEGATIVE IMPACTS OF PENSION RISK FOR CORPORATES

FRANKFURT – 19 January 2021: Companies that take a low pension risk approach can benefit from improved share price performance, lower capital costs and higher valuations, even in times of high market stress, according to the second annual Pension Report from asset manager Insight Investment, in collaboration with the Frankfurt School of Finance & Management. The report analyzes the impact of pension risks of DAX 30 and MDAX companies on share price performance and valuations.

The COVID-19 pandemic provided this iteration of the study with an opportunity to examine how high and low pension risk companies behaved in terms of stock returns and funding costs during a period of extreme market stress. The results showed that i) companies with low pension risk benefit from higher stock returns and a lower cost of financing, that ii) deficit-related pension risk factors have the highest and most significant impact on future stock returns and iii) that these trends were amplified, not reversed, during the market stresses caused by the pandemic.

The Pensions Monitor study was once again led by Wolfgang Murmann, Head of Solutions, Germany, at Insight Investment, and Prof. Olaf Stotz of the Frankfurt School.

Murmann commented: "Our headline findings in 2020 were consistent with the 2019 report, but it was striking to observe how Covid-19 amplified the results. In the first two months of the year, before the market crash, our set of companies with the lowest pension risk outperformed those with the highest pension risk by 5%. At the point of maximum market drawdown in mid-March, that difference increased by more than 10 percentage points. And while debt refinancing costs increased universally, they increased even more so for those companies deemed high pension risk. Managing pension risk should therefore be an important focus for a corporate manager."

Prof. Olaf Stotz said: "Most pension risk studies focus on stand-alone measures and do not necessarily refer back to the corporate balance sheet and impact on share price performance and refinancing costs. Our Monitor seeks to do just that. We look at pension risks from three different perspectives: a deficit-related dimension, a liability-related dimension and a change-related dimension. The consistency in our findings year on year suggests that pension risk trends are resilient over time and across different market environments."

The 13 risk measures applied by the Pension Monitor can be adapted by companies into their own bespoke pension risk scorecard, to help in managing pension risk on a forward-looking basis.

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Methodology

The Pension Monitor analyses pension risks of DAX 30 and MDAX companies and quantifies the impact that these risks have on capital markets indicators such as share performance, company valuation and both debt and equity refinancing costs. The universe consists of 90 companies in total. Similar to the 2019 Pension Monitor, the 2020 edition first ranks the companies by total pension risk, taking an average of score from 13 pension risk measures, dividing these into two portfolios. A 'Top' portfolio comprising the 50% of companies with the lowest pension risks, and a 'Bottom' portfolio comprising the 50% of companies with highest pension risks. Additionally, a more detailed sorting approach using risk-adjusted returns and quintile portfolios, with Q1 the quintile including the 20% of companies with lowest pension risk and Q5 the 20% of companies with the highest pension risk is applied to evaluate pension risks on a standalone basis and detect trends.

About Insight Investment

Insight Investment is a leading asset manager focused on designing investment solutions to meet its clients' needs. Founded in 2002, Insight's collaborative approach has delivered both investment performance and growth in assets under management. Insight managed €806bn of assets as at 30 September 2020 across its core liability-driven investment, risk management, liquidity management, fixed income and credit capabilities.[1] Insight Investment is owned by BNY Mellon, a global leader in investment management and investment services with $2 trillion in assets under management.

Insight takes responsible investment seriously. In our view, it is as an essential part of managing risk and deciding whether an investment is fair value. We were a founding signatory to the UN-supported Principles for Responsible Investment (PRI)[2] in 2006 and have been systematically integrating environmental, social and governance (ESG) issues in our research process for more than a decade. Where we identify material ESG risks, we engage to better understand the issues. In 2020, Insight was awarded A+ ratings by the PRI for strategy and governance, and for the integration of responsible investment-related issues across our fixed income business. We believe this reflects our ongoing commitment to integrating responsible investment practices across all aspects of our business.
More information about Insight Investment can be found at: www.insightinvestment.com

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[1] As of 30 September 2020. Assets under management (AUM) are represented by the value of cash securities and other economic exposure managed for clients. Figures shown in USD. FX rates as per WM Reuters 4pm spot rates. Reflects the AUM of Insight, the corporate brand for certain companies operated by Insight Investment Management Limited (IIML). Insight includes, among others, Insight Investment Management (Global) Limited (IIMG), Insight Investment International Limited (IIIL), Insight Investment Management (Europe) Limited (IIMEL) and Insight North America LLC (INA), each of which provides asset management services.

[2] The PRI, launched in 2006, is an independent organisation that works to understand the investment implications of ESG factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. More details are available at www.unpri.org/. Click here for further details