Recessions, safe havens and illiquidity risk

In October, **Tell Media Group**, in co-operation with **JP Morgan Asset Management**, **Lombard Odier Investment Managers** and **M&G**, invited a group of Nordic asset owners to discuss the current market and the impact on asset allocation. Tell Media Group founder Niklas Tell and Caroline Liinanki, editor of Nordic Fund Selection Journal, moderated the roundtable.

By: **Caroline Liinanki** Photo: **Christer Salling**

To kick of the discussion, which was held at Nobis Hotel in central Stockholm, Caroline Liinanki observed that it wasn't that long ago since investors were preparing for rising interest rates and asked the investors at the table whether the expectations now had changed to rates remaining low for the foreseeable future.

MIKAEL ANGBERG: Our belief is that low interest rates will be around for a long time, which also means that expected returns from assets will be impacted negatively. So we're expecting lower returns in the future than experienced over the last 10 years. Then, what we've experienced market-wise is a lot of interest rate volatility, which opens up opportunities to make money from interest rate exposures. So low interest rates have a dampening effect on asset returns but that doesn't mean that you can't make money from interest rate volatility.

REIMA RYTSÖLÄ: We also think the low interest rate environment will remain, at least for some time. Over the next five years, we don't see that much of a difference. And if we do have rising interest rates, that would be a positive surprise from our perspective, even though the bond portfolio would be hit temporarily. And perhaps other asset classes as well.

THÉODORE ECONOMOU: One key point is that interest rates act on expected returns like gravity on objects. As they come down, the starting point for returns is lower. The returns from the typical balanced portfolio – and this is true across currencies – have been, depending on the risk level, between 3 to 4 points above cash rates. So if cash rates have come down by, say, three points today versus the average over the last 30 to 40 years, the starting point is three points less. But the risk level has stayed the same, or it could even be higher. The implication I think is that at least a part of the portfolio should be a risk-based portfolio that can do well whether the situation lasts or we have a normalisation of interest rates.

NILS HENRIKSSON: It would be sort of nice if at least someone said that rates would explode upwards but I don't see that coming and I would concur that rates will stay low for a long time. It's anyone's guess what's beyond five years but it seems likely, if it hasn't already happened, that central banks will give it one more go and expand balance sheets. So owning fixed income investments is pretty useless but we all have balance sheet liquidity needs and you need to filter your views through your circumstances. Furthermore, if diversification ever has made sense, it would certainly be right now but I would prefer to hold no bonds if I could.

NIKLAS TELL: HOW HAS YOUR VIEW ON THE EXPECTED LEVEL OF RATES CHANGED?

SORCA KELLY-SCHOLTE: When we look at the long term, our expectations are that there will be some normalisation of interest rates, although the path to that outcome is highly uncertain. Last year, we said that there was a risk that the US would get pulled down into recession before Europe even gets off the ground and that appears to be what's happening. So we're certainly thinking about whether we need to revise all of our expectations downwards. But to some extent, I'm not sure whether it changes the response, although it might change the magnitude of the response. The associated outcome is that you will get very low returns from bonds whether interest rates rise or not. In that context, you have to ask what role do sovereign bonds have in the portfolio if they are expected to deliver a negative outcome? We would say that the only role they play is as balance in a turbulent market due to some kind of flight-to-quality effect or if there are further attempts to cut rates.

NILS HENRIKSSON: It's not only that. They're also liquid and can be used as a collateral.

SORCA KELLY-SCHOLTE: Yes, but cash can give you that. There are other assets that can give you the volatility dampening and give you some of that liquidity and collateral and therefore broadening the perspective of those other roles becomes important. And I think that comes back to what you were saying about diversification as the first port of call.

RICHARD RYAN: I do find it fascinating, as an investor, when I see a degree of consensus as strong as around this table. It suggests to me that everyone is facing the same way, which means that the right thing to do is to face the other way. I do wonder why it is that we believe that inflation can no longer be created. We've gone through a long period where positive demographics, positive globalisation and restrained fiscal policy has led to benign inflation. Looking forward though, what's there to say that those forces don't turn against us? What if global trade becomes more difficult? What if we question the efficacy of monetary policy and a rise of populism leads to a greater tolerance of fiscal

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>
> *– Lars-Göran Orrevall, Skandia*

spending? Then why not turn on the taps and allow governments to run greater fiscal deficits? The belief that rates have got to stay lower for longer has to be predicated on the notion that there's an inability to generate inflation and I think that's a really bold statement to make when so far only one policy tool has been tested.

MIKAEL ANGBERG: I think rates actually should have been higher because inflation, if measured with different measures, has been higher than the actual inflation measure that central banks unfortunately seem to be stuck at.

THÉODORE ECONOMOU: I would argue that there's a position for bonds in the portfolio construction but the implementation has to be rethought. And in our view, it can be rethought in two ways. Firstly, if we start with a dose of humility in our macro view, we have to take into account that the current situation may lead to some extreme scenario: either extreme deflation or extreme inflation. And bonds can play a role, almost as insurance policies: inflation-linked bonds against inflation and sovereign bonds against deflation.

CAROLINE LIINANKI: CAN GOVERNMENT BONDS REALLY PLAY THAT DIVERSIFYING ROLE GOING FORWARD?

SORCA KELLY-SCHOLTE: I think they still have that response in periods of crisis. There will still be that flight-to-quality effect and I don't think that will go away. That doesn't work if you've got high inflation. The periods when bonds have stayed correlated to equites, even during periods of volatility, have tended to be associated with higher inflation.

MIKAEL ANGBERG: Something to pay attention to is the dynamic nature of the stock/bond correlation. It's not something that's fixed forever but it moves a lot.

ERIK RANBERG: When mentioning low rates, there are two particular things that have happened during the last six months that we should take into account. Rates staying low shouldn't be a surprise. Government bonds with a five-year duration are in negative territory, which we've actually seen for the first time. The other feature is that the US bond market has turned into a negative time premium so you're not paid for investing long at all. So there are a lot of factors telling you that you should be quite cautious about this market.

LARS-GÖRAN ORREVALL: A lot of people are talking about this scare of the Japanese scenario but Japan actually has negative inflation, so they have positive real rates. We don't have that. We have much higher inflation and much lower rates, so I would say that we've had a much more extreme monetary policy than Japan. When it comes to the interest rate environment, I think we're close to the end game but I don't think that will change until we've had a real crisis again – usually regime shifts happen after a crisis. I think yields will stay low for some time but it's very difficult to do this forecasting and I think we should all be humble because I don't think anyone of us would have expected negative rates for bonds in Sweden, for example.

THÉODORE ECONOMOU: The implications to me is that part of the portfolio has to be based on the assumption that we cannot forecast the future and that it has to do well in either scenario.

LARS-GÖRAN ORREVALL: Also, looking at classical portfolio construction, diversification is very important and the best diversifier in a risky portfolio is, of course, government bonds. That worked perfectly during the last recession but today it's difficult to say that it will work in the same way. So that's the main problem really in the portfolio construction – what to do with the safe part. Maybe you can have these safe government bonds just as capital protection but usually you would earn a lot of money in that part of that portfolio when there is a crisis and I have a hard time to see that bond yields will go down to -2 per cent or something like that. So diversification of the portfolio is much more difficult to achieve today than before.

REIMA RYTSÖLÄ: And if it takes a couple of years before the recession comes, you have to actually pay for the capital protection during those years due to the negative rates. So times are different!

NILS HENRIKSSON: But it's still a safe haven.

LARS-GÖRAN ORREVALL: Yes, a safe negative haven.

NILS HENRIKSSON: Well, we can reach for illiquid assets that are less volatile in reported values.

MIKAEL ANGBERG: And that's an actual tool that many investors use. I have one comment on forecasting being impossible. I think one has to try to build a portfolio that will be robust against whatever that will happen, without knowing what that will be. When it comes to government bonds, it's a question of magnitude. They paid you back handsomely in the last crisis but although they won't pay you back as handsomely this time, they might not lose as much as something else. So in a relative sense, they could still impact your overall portfolio positively. And perhaps that's the best you can hope for.

RICHARD RYAN: We run a portfolio that doesn't have the luxury of looking at non-fixed income allocations. And today, government bonds don't feature per se but there's a role for them. There are segments of the bond market where you can generate reasonable levels of low beta income. The persistence of a contractual income stream, unlike in equities, should be attractive in a low-yield environment. Super-short government bonds can also play a role during episodic moments of panic. And Mikael is right – they may not provide handsome returns but they are likely to hold up better than other asset classes and crucially, will afford investors the liquidity to go and invest in assets whose prices have fallen and where prospective returns have significantly improved.

CAROLINE LIINANKI: THERE'S BEEN A LOT OF TALK ABOUT THE END OF THE BUSINESS CYCLE OVER RECENT YEARS. WOULD YOU AGREE THAT WE CURRENTLY ARE LATE IN THE CYCLE AND WHAT DOES THAT MEAN FROM AN INVESTMENT POINT OF VIEW?

THÉODORE ECONOMOU: If this is the end, it has lasted a long time! But I think the real question is: what is the impact

NORDIC ASSET ALLOCATION ROUNDTABLE, STOCKHOLM

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of this uncertainty? And the answer is that it forces us to rethink portfolio construction. The traditional stock/bond portfolio carries significant drawdown risk and at the same time has lower expected returns than in the past. To face that challenge and increase returns there are three tools available to CIOs. One is maximising the benefits of the long-term horizon: how illiquid can we be and how can we take advantage of that? Another tool is to think of the sustainability of the positions we have in bonds or stocks against some major trends: political, monetary policy, digitalisation, populism and climate change. And the third is to introduce active risk management into the portfolio to address that uncertainty about outcomes and making sure at least part of the portfolio will be an "all roads" portfolio that will perform no matter where we are in the cycle.

NIKLAS TELL: SO DOES THAT MEAN IT DOESN'T REALLY MATTER IF WE ARE LATE CYCLE?

MIKAEL ANGBERG: From a certain vantage point in our investment process, it doesn't really matter. Over a certain relatively long-term time horizon, we acknowledge the fact that we have no idea what kind of market regime or market environment we will face but we do our best to construct a portfolio that will do something for us regardless. But then dynamically, we want to move around that fixed position and then it does matter. Process-wise, from a top-down perspective, we believe in understanding macro and from that perspective, whether we think it's going to be a recession or not obviously has an impact on our thinking. But ultimately, we don't care about whether it's a recession or not but about price impact. If there's repricing of assets without a recession, that's just as bad or good as if there's a repricing because of a recession. So it's ultimately about what we think the behaviour of asset prices will be. But we do think there's going to be a recession!

SORCA KELLY-SCHOLTE: We believe in thinking in long-term strategic terms as an anchor to your overall thinking and then have the dynamics to move around that and take into account what's currently happening. Without that strategic discipline of long-term expectations, we're just swaying in the wind.

LARS-GÖRAN ORREVALL: A year ago, I would have said that we were in the late cycle because inflation started picking up, the Fed was hiking rates, there was low unemployment and so on. Today, I'm not so sure any longer. I've been around in asset management for almost 30 years now and I've just experienced three recessions. But one thing you can be sure of is that in a recession, you lose money on risky assets. If you have a recession, then you're almost certain to have a bear market in equities. There have been a few big bear markets without a recession but it's difficult to find any recession without a bear market. For that reason, it matters if you have a recession and you should be a little bit afraid of that. In general, we're try to have a robust portfolio because you can't be sure if there will be a recession of not.

MIKAEL ANGBERG: I agree. I didn't mean there's no linkage and I agree that asset repricing is more severe in a recession context than not.

REIMA RYTSÖLÄ: In optimal circumstances, it would, of course, be nice to have an all-terrain portfolio that can handle the downturns and even recessions. But I agree with Lars-Göran in that when you have a recession, all your risky assets will get hit. And when we look at the asset correlations, we have to split the time terrain, especially the correlation in severe market conditions, because at those moments, everything apart from long government bonds seem to correlate with each other. And then you have to imagine your portfolio against your solvency capabilities and how much you actually can handle.

THÉODORE ECONOMOU: Drawdowns are unavoidable if the market starts discounting a recession but I would argue that the objective should be to control the drawdown. We should move from a framework of estimating the drawdown to one where, at least for part of the portfolio, we control the drawdown. That's a change of mindset that has to happen. Today, compared to 1952 when Harry Markowitz wrote his paper, we have tools, which by and large come from the alternative space and the quant space, that have a track-record and can be used to control drawdowns. I believe CIOs should take advantage of that, at least for part of the portfolio.

CAROLINE LIINANKI: IF IT'S NECESSARY WITH A DIFFERENT APPROACH TO PORTFOLIO CONSTRUCTION, HOW HAVE YOU REASSESSED YOUR THINKING AND WHAT CHANGES HAVE YOU MADE?

REIMA RYTSÖLÄ: We've been focusing on one of the usual suspects: harvesting the illiquidity premium. We've also done a more thorough work on the actual liquidity need that we're facing and whether we can handle it in a different way than we used to, which has been having a bucket of government bonds as super-liquid assets and really big thresholds of premia above that on what's needed. So that's definitely one thing we've tried to do for some time. That's for sure no silver bullet and the time diversification compared to mark-to-market is shadowed by the evident market reaction that illiquid assets will face as well. So you can't hide from that. But in our business, I have to admit that sometimes even quarterly diversification might help when you handle your portfolio and solvency system.

NILS HENRIKSSON: You mean that the reported volatility is lower?

REIMA RYTSÖLÄ: That as well, but if I take Q4 last year when all listed equities had a pretty severe market reaction, private equity has at least so far actually pretty much survived that downturn.

ERIK RANBERG: How long have you been into the market? You can't have been there in the 90s then.

REIMA RYTSÖLÄ: We all know private equity is neither a silver bullet nor a magic trick. If the long-term trend is there, private equity doesn't help at all but in V-shaped downturns, it sometimes gives you that cushion. But for sure, we saw at the beginning of the 90s and during the financial crisis that it's not diversifying.

SORCA KELLY-SCHOLTE: I think that's a really important point. I think the trick is being very thoughtful about your own particular circumstances and to your point, Reima, to think very carefully about being able to just sit through those periods, harvest the income and wait for capital prices to come back. I think there's sometimes a confusion between illiquidity and failed investments and we often assume that the first necessary leads to the latter because that was the experience for hedge funds and many private equity funds in the 90s but that's not always the experience. And being thoughtful about differentiating is critical to success.

MIKAEL ANGBERG: Two key things to remember in that context are governance and liquidity. If you don't have a strong governance model, you might find yourself with moving goal posts in the scenario that we've just described and that can be very damaging. And for sure, I've experienced the problem, for instance, with the governance model where you think you're stable until you're not stable and things change. And when the time comes to take risk, the appetite for risk is not there any longer.

NILS HENRIKSSON
Gamla Livförsäkringsaktiebolaget SEB Trygg Liv
CEO of the Swedish pension company Gamla Livförsäkringsaktiebolaget SEB Trygg Liv since 2012. Prior to that, he worked as its finance director.

SORCA KELLY-SCHOLTE
JPMorgan Asset Management
Head of EMEA pensions solutions and advisory at JPMorgan Asset Management since 2015. Prior to that, she was managing director for client strategies and research at Russell Investments.

ERIK RANBERG: As a PLC company, we're a bit different and we have a shorter horizon. In our organisation, the CIO gets a target for financial income that should not be lower than a certain number with a certain degree of probability. In that way, we actually create a two-layer system of dynamic risk management for achieving a financial result that we think is ok for the business as a whole. Then we're following how it's evolving throughout the year. We actually have a calendar-year horizon but are wondering if we should move to a 12-month horizon because in a certain situation it could actually turn into a loss-making machine. Our strategy is quite different from what I see others doing. It's more common to give the CIO a kind of a reference balance and then he's a relative manager.

THÉODORE ECONOMOU: I think you're really pointing to the future. On the one hand, you have to ask how illiquid you can be and how to maximise this benefit of illiquidity but also which minimum part of the portfolio that should remain extremely liquid. The advantage of a highly liquid portfolio is that it can be actively managed to limit the drawdown and have some sort of absolute return expectation. I would argue this second tool has a great promise. We've been doing this in our own pension fund, where 30 per cent is allocated to illiquidity but also almost 30 per cent managed around the same principles as Erik. That's taking advantage of tools developed in the CTA space and the risk parity space to try to achieve that active risk control and absolute return performance pretty much regardless of the environment. What I'm seeing is that this kind of approach is really attracting a lot of interest globally.

ERIK RANBERG: Some of the objections I get to this strategy is that then you can't be invested in illiquids but that's wrong. But you have to be liquid at all times, in particular if the reason for markets to come down is some kind of liquidity issue. What you have to be very aware of when you run this kind of portfolio and at the same time diversify into quite a few asset classes is that when you have to take down risk, you have to make sure that you don't get too much basis risk into the portfolio. In other words, if you're supposed to take down risk, look at the instruments you're using.

THÉODORE ECONOMOU: Implementation is key but the tools exist in the derivative space to do that in a very controlled fashion. What I like about this is that it's really doing what Markowitz said in 1952: you should separate how you allocate the assets versus how much risk you're taking. That's something most of us learnt in the first semester of finance at university but it's seldom being done 70 years later. Today, the tools exist and we're at a turning point where the environment forces us to rethink portfolios and implementation and to move in a direction that's less traditional but in one way more conservative.

CAROLINE LIINANKI: THE GENERAL TREND WHEN IT COMES TO LISTED EQUITIES HAVE BEEN A SHIFT FROM ACTIVE TO MORE PASSIVE INVESTMENTS. HOW HAVE YOUR PORTFOLIOS CHANGED?

REIMA RYTSÖLÄ: The argumentation of active management makes perfect sense but looking at the track record on actively managed funds favours going more into passive. That's what we've done, especially for the US market, which has been a real struggle for active managers. Of course, if market volatility picks up and circumstances become more severe, active management may have a better edge compared to passive, but so far it has been a bit of a struggle, at least for our managers.

NILS HENRIKSSON: It's not worth the money.

ERIK RANBERG: We have kept active managers but there are a couple of things we register. I think picking managers is more difficult than most actually envision. It's really hard work and with active management, you should be active in managing the manager as well because there are periods when they're doing well and other periods when they're not doing so well. The other thing is that as CIOs, we're supposed to make choices for the good of the company and by just going passive, you're saying you don't care which companies you get into the portfolio – that's decided by the market. We wouldn't live up to the Global Compact or our own sustainability policy by doing that.

NILS HENRIKSSON: You're talking about standard old-fashioned market-cap weighted indices. We don't have that at all. We run passive on ESG-friendly benchmarks and we pay much less for that than traditional equity long-only mandates. It costs a few more basis points than the S&P to get ESG-friendly benchmarks but it's a big difference versus paying for active management.

REIMA RYTSÖLÄ: It's the same for us. Passive investment in liquid markets can be handled with an ESG tilt. It tends to be that for super-liquid markets like the US, it's difficult to earn or produce added value above the fee level compared to indices. We use a lot of active management but more in emerging markets, for hedge funds and on the illiquid side.

NIKLAS TELL: IS NOT USING AS MUCH ACTIVE MANAGEMENT ALSO A QUESTION OF FEE BUDGETS?

MIKAEL ANGBERG: That depends on your own internal constraints, which may or may not be aligned with what you would like to do if you had total freedom. But we don't have total freedom – none of us do. And the fee budget definitely is a factor when we have to make choices on how to deploy active versus passive and in which sectors of the market we want to deploy risk etc. From a top down perspective, it's crucial for me to understand how we're going to deploy our risk budget in terms of market exposures – the starting point is not how to do active management. That comes later. We've decided that we can manage systematic exposures to markets and to companies internally. It's not passive and it's not smart beta. It can incorporate sustainability issues that are our own sustainability issues, so we construct our own benchmarks and construct our own systematic strategies, so that's a form of active management. We also believe in the possibility of generating excess return from fundamental analysis but we're very selective. We need to see that either we or the manager have the capabilities to generate that outperformance over a sustained period of time. We're going through a review now and we think that as a Swedish relatively big pension fund with an internal team, we can probably do something in the Swedish equity market if we have a good process, good people and know the companies well. But we may not be able to do it elsewhere.

LARS-GÖRAN ORREVALL: I really like active management but I also think it could be an active choice to have an index strategy for some markets. In some markets, you have to put a lot of energy in what you're doing, especially in alternatives and illiquid areas. But there is, of course, a problem with ESG and sustainability in passive investments. You can, of course, use an ESG index but is that index perfect for you? There are so many different views on what sustainability is. One thing is taking away some bad companies but today it's also about taking in companies that are the right choices. I think it will be more difficult going forward to have traditional passive management in our portfolio, especially because of sustainability issues.

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Lombard Odier Investment Managers
Chief investment officer for multi-assets at Lombard Odier Investment Managers as well as chairman of the investment committee at the firm's pension fund since 2015. Prior to that, he was CEO and chief investment officer of the Cern Pension Fund.

RICHARD RYAN
M&G
Lead portfolio manager M&G multi-asset credit and responsible for institutional multi-asset credit strategies. Prior to joining the firm in 2001, he was a global fixed income fund manager at Nomura Asset Management.

> "We're exploring other ways of diversifying the portfolio and making it robust without relying solely on long-dated government bonds"
>
> – *Mikael Angberg, AP1*

RICHARD RYAN: There are some asset classes that do lend themselves well to active management. For example, credit is an asset class where sustainable levels of outperformance are achievable. Why? Because credit markets have strong mean reversion tendencies and importantly, these occur over a time frame that's exploitable by a manager. To succeed, that manager must have a very strong investment philosophy, flexibility within a mandate and patience. One of the disappointing things about the current argument on fees is that it focuses so heavily on the gross fees and not the net-of-fees return that an investor might enjoy.

CAROLINE LIINANKI: IS THERE ANYTHING IN PARTICULAR YOU ARE SPENDING A LOT OF TIME ON TO HAVE A MORE DIVERSIFIED OR BETTER PORTFOLIO GOING FORWARD? AND IS THERE ANYTHING YOU THINK INVESTORS SHOULD BE DOING THAT THEY'RE NOT DOING, OR NOT DOING TO A SUFFICIENT EXTENT?

LARS-GÖRAN ORREVALL: To me, it seems like the negative yields on the safe assets within fixed income really are pushing everyone towards illiquid products or alternatives in different ways. But of course, this comes at a price because these assets are more difficult and more complex and if you're not good at this, I'm not sure that you should do it, at least not yourself. You must have an organisation that really can evaluate the risks because the risks of these assets are different from public equities and fixed income instruments. So you should be a little careful in what you're doing.

THÉODORE ECONOMOU: Firstly, yields act on expected returns like gravity on object. Against this, I would encourage every asset owner to ask three questions. Are we taking advantage of illiquidity in our long-term horizon enough to increase performance? Are we deploying a sustainability mindset to better manage risk or maximise performance, or both? And are we deploying all the tools available to dynamically manage the risk of the portfolio in an environment of high uncertainty? If you ask all of these three questions, they will inevitably lead you to rethink portfolio construction.

MIKAEL ANGBERG: In any market environment, but particularly when the market outlook is somewhat grey, it's critical to make sure that you have a strong governance model. That's probably the most important aspect of managing a portfolio successfully through tough times. I would echo Theodore's point that you should exploit the tools that are in the toolbox and evaluate to what extent they can be used. In our case, we essentially have the capability of doing a lot of stuff internally. So we're exploring other ways of diversifying the portfolio and making it robust without relying solely on long-dated government bonds but through risk premia, convexity and by utilising leverage on the balance sheet. That's something we to some extent always have done through currency overlay but now we're more explicitly targeting levels of leverage to be able to build a more balanced risk exposure. And with risk, I mean volatility, of course, but also a whole host of other measures that we employ to understand the dynamics of the risk of the portfolio. It's really about being very disciplined in how you deploy risk and having a very disciplined structure, coupled with a strong governance model. I don't think one should blindly rely on illiquidity and unlisted exposures, I think there's certainly something to be had there and I know Reima has done a lot of work on understanding the liquidity premium but it's not a panacea. We believe that if you find the right people or do the right thing yourself, there's an element of actively working with companies or buy assets that can extract some active component but there's no secret sauce in deploying your balance sheet in stuff that isn't mark-to-market. The trend in the institutional market place has been very much about ploughing money into private markets but I think one has to be very careful in how you do that, in what your objective is and in understanding the risk.

ERIK RANBERG: From our point of view, there are some simple things to be aware of. One focus you always have when you're running a portfolio is how to keep the running income from the portfolio going, because that provides us with some kind of leeway. And that's what actually brings us into all these untraditional markets. We also haven't touched upon Solvency II. It's a concern for us that while the Solvency II regulation started out with some very good economic sensible principles, it has since turned more and more political. That's a struggle for us and we have to spend a lot of time on that.

RICHARD RYAN: The investment community is starved of yield. Everyone is looking for it and casting the net wide, looking in all sorts of places. There's a phenomenal amount of cash chasing a limited number of opportunities. We're all looking at non-traditional assets and non-traditional mechanisms to achieve a specific outcome. However, investors are behaving as if this will be the last chance to buy assets with a reasonable, or at least positive, yield. And yet, I don't believe that asset price behaviour has changed or that volatility in the market place no longer exists. If we believe that market volatility exists and that market behaviour is observable, then actually we should ask ourselves one question only: do I get paid to take on the risk? And if I don't get paid to take on the risk, do I have an investment horizon long enough and do I have sufficient patience to allow me to stand aside and let the market play out? Investors can then react to asset prices and seize opportunity wherever it manifests itself. If you have that, I think you're in a tremendously strong position to take advantage of whatever comes.

SORCA KELLY-SCHOLTE: When we're at these moments of great uncertainty, it's really important to hold on to some strategic discipline or anchor. It's quite easy to forget that and to allow yourself to sway in the breeze. That's a governance point – to make sure there's that discipline that underpins the thinking and acts as a yardstick for the action you take. Part of what I'm hearing and what I agree with is that there's more of a pivot from asset allocation as a return exercise to asset allocation as a risk management exercise and that's probably the way it always should have been: to start with what you can bear and then figure out what return is achievable within that. I don't think it's what actually has happened in practice. In many corners of the industry, people focus on what returns they want to shoot for and then stretch to achieve that. I think we probably are beginning to become a bit more thoughtful on what risk we can actually bear and that's a good thing.

REIMA RYTSÖLÄ: Hunting yield is a common theme among investors and that drives investors more and more towards harvesting illiquidity premia. We will continue to utilise our liquidity capacity, so in other words to invest even more to illiquid assets. On the other hand, investors like us have to stay disciplined and make sure you don't invest more in illiquid assets than your risk-taking capacity allows, even in the most severe market conditions.