

EXECUTIVE CONVERSATION

with **Keith McDonagh**, head of MassMutual Institutional Solutions



Volatile Markets Highlight the Importance of Thinking Long Term

As a privately held mutual company, MassMutual understands the benefits of viewing financial markets with a long-term lens. That's also the point of view that it encourages for its clients, who are confronting uncertainty on many levels in both the markets and the broader economy. In this executive conversation, Keith McDonagh, MassMutual's head of institutional solutions, discusses how that's playing out amid the coronavirus pandemic and related economic conditions.

Pensions & Investments: What are some common questions and concerns that you've been hearing from your institutional clients recently?

Keith McDonagh: What's on everyone's mind, first and foremost, is the health of their employees, co-workers, business partners, families and friends. So what does this [pandemic] mean from a health perspective? That's the most important concern for all of us.

But there are a lot of other unknowns as well, including how long will this situation last. Our institutional clients might have been planning either de-risking transactions or updated investment strategies, but now they're trying to think about how much cash they need on hand. What type of contingencies do they need to think about? How do they make sure that their asset mix matches the needs of their business?

The most common questions revolve around those unknowns and how they can prepare themselves for as many eventualities as possible.

P&I: How do you help them respond to those unknowns?

McDonagh: Whether you're in good times or in challenging times, it's important to think about long-term objectives. What are you trying to achieve and how could it be impacted, both in positive or negative situations, whether short or long term? And then, what is the mix of investments or financial solutions necessary to meet your objectives while protecting for the unknowns.

I encourage all of our institutional clients to continue to think about that long-term end, based on where they're starting now. What might be the gaps they're trying to fill, whether through insurance, investments, risk management or other solutions?

P&I: Has your long-term approach changed at all, given the current climate?

McDonagh: No, if anything, the current environment has reinforced who we are in terms of long-term thinking. You can't predict, but you can prepare, and that just helps reinforce the guidance. Today, we're having more conversations on these topics with our current clients, prospective clients and business partners. It has reinforced to me that the more well-po-

sitioned and balanced you are for achieving your objectives, the more thoughtful you can be in both your actions and your timing throughout market cycles.

P&I: As an investment manager and an insurance company, what are you doing for stability?

McDonagh: Since we are a mutual company, we have always thought of things in terms of decades and not quarters, and we manage the business that way. Many of the solutions that we offer, both in the institutional and the retail space, involve relationships with customers that extend decades into the future.

We've always believed in financial strength and stability and having a well-diversified general investment account that takes a long-term view. That allows us to manage through multiple economic cycles and gives us a deep product portfolio of solutions that help meet different client needs over time.

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P&I: Are you doing anything differently now than you were two months ago?

McDonagh: In terms of how we operate as a company, we are very consistent in our focus on financial strength and stability. What is different is the types of conversations we're having with clients. We have always talked about risk management, and clients are much more focused on the risk element today. Spending the necessary time with clients to understand their needs and concerns at this time is critical to both maintaining and continuing our long-term relationships.

P&I: We have reported that corporate pension plan funded status has fallen back to 2012 levels. What should those plan sponsors be focusing on at this point?

McDonagh: Many pension plans with lower funded statuses have not wholeheartedly embraced liability-driven investing strategies. At this time, their focus depends on the nature of their funded status and whether they're an active plan or a hibernated plan. First, I suggest that sponsors look at their glidepath, and I reinforce the importance of LDI. While LDI may not have the same appreciation opportunities as a more equity-oriented strategy, it will reduce volatility and help assets and liabilities stay in sync, which helps maintain a plan's funded status.

P&I: Institutional investors like to consider themselves long-term investors, but we have seen that they can get caught up in trends and momentum like anyone else. How do you stress the value of a truly long-term perspective with clients?

McDonagh: Institutional investors tend to be very data driven. Data is an important element in working with clients and advisers to see both risks and opportunities. The analytics also help them understand how their portfolio would react under different environments versus their goal – or in the case of a pension plan, how the investments will react in relation to their pension liabilities.

Using data helps take emotion out of the equation by showing where there may be drift in terms of a portfolio or a collection of financial assets. It might highlight where there's some basis risk in terms of how assets and liabilities are moving or any mismatch. Data is key to helping people see the theory in practice.

P&I: Over the past few years, we've seen many corporate defined-benefit plans annuitize or execute on other risk transfers. Do you expect that to continue trending up?

McDonagh: In the near term, I expect the market will see lighter activity until the uncertainty around the current pandemic passes and markets return to a more normal state. Some of the companies that were ready to transact will do so because they're well prepared and well-funded. But other companies will pause, particularly if they had to infuse cash into their plan, while they evaluate broader corporate needs. I think plans that have already applied LDI and are well-funded will continue on the risk transfer path once the current economic situation resolves. At that time, I expect many more plans to also start down that road.

P&I: What else do you see looking ahead?

McDonagh: The current health crisis is a national challenge that we will meet together with mutual focus. Similarly, we will come out of this economic cycle as we have during past periods of volatility and uncertainty.

We continue to think long term, and I recommend that same approach for all clients in all industries. You can't predict, but you can prepare. Make sure you're working with a dedicated financial partner with experience through multiple economic and market cycles. •

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