INSURANCE ASSET RISK AMERICAS AWARDS 2022
Winner
Multi-asset manager of the year

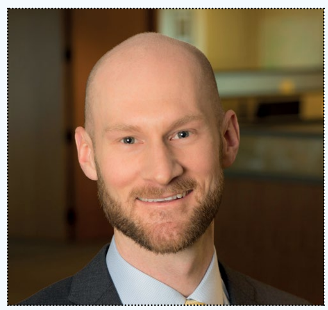
LOOMIS | SAYLES

Loomis Sayles: multi-asset investing for insurers

Colin Dowdall, director of insurance solutions at Loomis Sayles, explains how a multi-asset strategy can help insurers in an ever changing investment world

What measurable benefits can a multi-asset strategy offer insurers in the current environment?

We believe that we have entered an entirely new investment regime, one characterized by higher rates, higher inflation, and magnified levels of volatility. The long credit beta trade, which worked tremendously well for insurers post GFC until year-end 2021, will likely be challenged looking ahead. We believe that this increased level of volatility will be difficult for insurers, requiring a more thoughtful approach to curve positioning, and credit risk. This requires broadening the constraints on an insurance portfolio and giving a manager the flexibility to implement best ideas across the credit spectrum. This can be measured through optimal risk-adjusted performance and/or yield depending on the requirements of the insurer.



Colin Dowdall

Why should insurers come to Loomis Sayles for investment expertise in general?

I will cite a leading insurance consultant who articulated that Loomis Sayles has the broadest and deepest view on credit as any of the managers that they follow. As part of that commitment to broad and deep credit investing, we believe it is important to invest heavily in research and technology.

We have spent the past four years building out the insurance-specific infrastructure to enable us to serve in that trusted advisor role to our insurance clients. This includes dedicated resources across Portfolio Management, ALM Advisory, Relationship Management, and Technology. Insurers expect us all to fluently speak the insurance language, and we've built a team that has spent decades working alongside insurers to build custom portfolios that meet their unique requirements.

We have observed that insurers have underinvested in risk analytics and technology to support their understanding of risk exposures in their portfolios. Loomis Sayles has built a proprietary risk analytics system that we have been able to share with clients to enhance their existing infrastructure.

What are some of the key themes for Loomis Sayles in 2022?

Given the dramatically different investing environment for insurers, our priorities have shifted as well. We have been engaging along three primary themes.

First, we have seen insurers that have been moving away from single-sleeve "plus" credit portfolios to consolidate toward a multi-asset "plus" portfolio approach. This includes strategies like high yield, bank loans, CLOs, esoteric ABS, EM debt, and convertibles. They recognize that getting the beta call right in some of these areas is critical, and managers are optimally positioned to make that call as they live in these markets day to day.

Second, insurers are experiencing substantial losses in their core/core plus portfolios, and they are questioning the value of forcing discipline around a benchmark. This leads to a discussion around a more absolute return approach where guidelines serve as the guard-rails on risk. The conversation certainly shifts when you have liability backing portfolios for life insurers, but we find that most P&C and health insurers have the flexibility to adopt a broader approach. We think this theme has staying power, especially within the backdrop of higher volatility in interest rates and spreads.

Finally, we have seen movement from insurers to dedicate a sleeve of their portfolio to the "esoteric ABS" asset class. This sector includes commercial, consumer, and real estate sectors of the structured market. The yield premium is substantial relative to corporates and works particularly well for income focused insurers.

What are the unique things that you are doing related to ESG?

In order to help our clients achieve their investment and ESG goals, we empower our research and investment teams, by providing them with market-leading tools, systems and data. Every client has unique needs and requirements; we have a long history of meeting the complex needs of our insurance clients which includes addressing important ESG issues in a way that is sensitive to their specific needs.

Loomis Sayles has developed a process where our credit research team engages, tracks and advocates for improvement on material ESG issues facing portfolio companies. We seek to partner with portfolio companies and take an approach that is specific to the individual situation of the credit that we hold. We have created our own proprietary materiality maps and an ESG Scoring System that are integrated into our proprietary portfolio construction tools. Additionally, utilizing our technology, we have developed a proprietary ESG data center that tracks Loomis Sayles proprietary ESG ratings along with third party ESG data providers. We have received feedback from clients that the robustness of these tools provides a more complete picture of the various ESG characteristics of their portfolios in a simple format.