Adding Diversified Global Credit to U.S. Corporate Pensions

Global public credit markets have grown significantly in the last decade, creating an asset class that can assist pension plans in generating income in excess of traditional fixed income and dampening volatility from growth assets. We analyzed the average asset allocation of the largest 100 U.S. corporate pension plans and the impact of adding a market value weighted basket of global sub investment grade securities, denoted as Credit.

1. Credit offers diversifying benefits with a low correlation to the Traditional Fixed Income portfolio.

2. Making an allocation to Credit with a pro rata reduction of Equities (part of the Growth Assets) can reduce overall portfolio volatility and both funded ratio and funded status volatility.

3. Because Credit is more correlated to the Liability than other Growth Assets, adding additional amounts of Credit can reduce the portfolio’s excess return volatility, as defined as the standard deviation of portfolio return less the liability return. Creating a portfolio that more closely tracks the Liability.

4. The addition of Credit can achieve the aforementioned points without a meaningful reduction in return.

There are a number of ways to integrate Credit into a portfolio. We believe the competitive return profile, relatively muted volatility, and diversification benefits make it an attractive strategic addition to a pension portfolio.
Risks

Risk Warnings Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy. Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. You may not get back the amount originally invested. Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. Levels and basis of taxation may change from time to time.

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Index performance shown is for illustrative purposes only. Indexes are unmanaged. It is not possible to invest directly in an index. All performance shown in US dollars. The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.

Asset Class | Index Name
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FI - Long | Barclays Long Government/Credit Bond Index
Domestic EQ | Russell 1000
Intl EQ | MSCI World ex US
Global EQ | MSCI ACWI
Private Equity | S&P Listed Private Equity Index
Real Estate | Dow Jones U.S. Real Estate Index
Cash | Barclays 1-3 Month T-Bill Index
Liability | Barclays Long Corporate High Quality Index

Source: Barclays, JP Morgan, MSCI, Dow Jones and S&P as of 2/26/21. Index performance is shown for illustrative purposes only. Indexes are unmanaged. It is not possible to invest directly in an index. All performance shown in US dollars. The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.