

How to Surf

THE LATE CYCLE VOLATILITY

An interview with Kylie Willment, Chief Investment Officer, Pacific

Like surfers adapting their technique to different waves, successful investors need to change their investment strategy to suit prevailing conditions. So *how* do investors respond to the themes that are dominating the market, such as late-cycle credit conditions, changes in market participation, geopolitical tensions and sustainability challenges? Kylie Willment explains at a recent Mercer Global Investment Forum.

There are many parallels between the oceans and the markets. Surfers and investors both want to successfully conquer the waves, avoid market-crashing dumpers and navigate the hard-to-see riptides.

In volatile markets, a long-term focus is crucial because, despite the ascending and descending wave patterns, the long-term market trend is up.

To ride through the waves, investors and surfers alike need a willingness to take a calculated risk and use their skills and experience.

Mercer's experience has guided some key principles in our response to the changing market conditions.

1. Diversification

One of the key tools investors have to “ride through the late cycle”, is diversification.

Building more robustness into portfolios via exposure to a range of alternative assets is something we are advocating. Additionally, exposure to a range of strategies will potentially increase portfolio resilience.

2. Active Management

A return of volatility should provide a more fertile hunting ground for alpha in the coming years. Alpha generation becomes more important in a lower return environment as investors' ability to rely on the market return alone becomes compressed.

3. Dynamic

We believe the use of active managers and dynamic asset allocation processes will improve portfolio robustness and outcomes over time.

4. Managing for the unknown

As for the unexpected “dumpers”, we do not expect a major crash out of the late cycle anytime soon, but investors must manage for the unknown.

Seismic shifts in the global order or a faster, steeper path to recession are factors that could cause the markets to dump unexpectedly. You need to identify where your portfolio may be at risk of large, unexpected market moves. Therefore, stress testing your portfolio is vital.

Think about your hedging tool kit. Is now the time for options-based protection strategy as an insurance policy against market downturn?

And as Australian-dollar investors, we have the benefit of a currency that tends to have downside protection attributes, so perhaps think about foreign currency exposure as one tool in your hedging tool kit.

5. Sustainability is a priority

There is a new wave – sustainability – and it's a fast-moving wave.

At Mercer we view sustainable investments as a key priority, and urge you to think about your own portfolio's climate resilience.

Surfers are motivated by the thrilling ride that takes them safely to shore. As fiduciary investors, we are motivated by delivering great investment outcomes to our clients and members.

Our job is to remain focused on the long-term goal and ride successfully through them, so I hope you see the opportunities and enjoy the ride.



Kylie Willment

Kylie is a partner in Mercer's Institutional Wealth business and is Chief Investment Officer for the Pacific region. Kylie leads the Delegated Solutions (DS) portfolio management team, which consists of asset allocation strategists, portfolio managers and analysts across Australia, New Zealand and Asia. The team is responsible for managing approximately A\$39 billion in assets within Mercer's multi-manager funds. Kylie is a member of Mercer's Pacific Investment Committee, Mainstream Assets Global Investment Committee, the Institutional Wealth Leadership Team and Co-Chair of the Global DS ESG Integration Committee. She is based in Sydney.

To contact Kylie
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Mercer Global Investment Forums

Mercer's Global Investment Forums bring together institutional investors, investment managers and senior Mercer investment specialists from around the world. The forums have become one of the most anticipated events in the industry.