Влияние пандемии коронавируса на инвестиционные фонды

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Аннотация

В статье описывается влияние коронавируса на инвестиционные фонды, особенно в секторе недвижимости, и то, что можно ожидать от активов недвижимости после COVID-19. Мы обнаружили, что паевые инвестиционные фонды с активным акционерным капиталом уступают ряду пассивных показателей, что противоречит распространенному мнению о том, что активные менеджеры выигрывают во время кризиса. Кроме того, инвесторы отдавали предпочтение устойчивым фондам во время кризиса, предполагая, что устойчивость теперь рассматривается как необходимость.

Ключевые слова: коронавирус, инвестиционный фонд, фонд недвижимости, работа из дома, влияние пандемии.

Impact of COVID-19 on investment funds

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Abstract

The article describes the impact of coronavirus on investment funds, especially those of real estate sector and what can be expected for real-estate assets in a post-COVID-19 world. We find that active equity mutual funds underperform a variety of passive benchmarks, contradicting the popular belief that active managers outperform in downturns. In addition, investors have favored sustainable funds during the crisis, suggesting that sustainability is now viewed as a necessity.

Keywords: covid-19, investment funds, real estate funds, work-from-home, impact of the pandemic.

COVID-19 is an infectious disease caused by severe acute respiratory syndrome coronavirus 2. It was first identified in December 2019 in Wuhan, Hubei, China, and has resulted in an ongoing pandemic around the world. As of 7 October 2020, 35.9 million cases have been reported across 188 countries and territories with more than 1.05 million deaths and more than 25 million people recovered.

As one of precautionary methods governments agreed to close borders and restrict personal contacts with people by making them work from home. This affected the world economy on a huge scale as about 80 % of all economic activities have come to a standstill amid the coronavirus-induced lockdown. There has not been any particular country or region that has been spared due to the lockdowns, which have significantly impacted trade and supply chains leading to declines in investments across the board since the beginning of the pandemic, with the S & P 500 having declined by 4.1% on a Year to Date (YTD) basis. The Real estate sector, which has been considered a safe haven over time, has also been hit by massive illiquidity affecting the performance of the sector.

The Organization for Economic Co-operation and Development (OECD) in their OECD Economic Outlook, June 2020, expect global growth for 2020 to contract by 7.6% if there is a second wave of infections before end of the year and a 6% contraction if a second wave is avoided.

Even though the stock markets plummeted in March, since then they recovered more than 40 %, driven by a flush of liquidity as central banks around the world cut rates to counter a coronavirus-inflicted economic slowdown. Despite the historical performance of stocks with gold reaching its maximum, IT sector stock prices growing for more than 30% after they plummeted in March, investors are worried about job losses and salary cuts hurting their income after two-month lockdown. Future equity flows will hugely depend on how soon the confidence on future cash flows for individuals returns back to normal.

Overall, COVID-19 brought us many challenges but also opportunities. No investment funds were ready or could predict it, but this experience taught us all a great deal. In this article we will see how well investment funds performed during this crisis, especially focusing on the real-estate sector with new trends and regulations coming into the picture.

Overhang of the pandemic has made people crave for the predictability of low risk, low return instruments. Most “Robinhood" investors are comparing the returns made by their recent equity investments as the norm rather than the exception. This is increasing the tendency to self-manage money rather than being advised. Even though no one could predict coronavirus crisis, most investors were disappointed about not being advised to exit equity investments, which in turn has led to big loses.

Historically, actively managed equity funds were expected to outperform in the downturn, but instead, they underperformed a variety of passive benchmarks.

One popular hypothesis is that active funds outperform in market downturns, when investors value performance the most. The COVID-19 crisis is particularly suitable for testing this hypothesis, for two reasons. First, investors surely want to hedge against such an unprecedented output contraction and unemployment surge. In the last two weeks of March alone, ten million workers filed for unemployment benefits, more than the almost nine million workers who lost jobs during the Great Recession. Second, large price dislocations during this crisis provide opportunities for active managers to perform well. For example, the S&P 500 experienced its steepest descent in living memory, losing 34% of its value in the five weeks between 19 February and 23 March 2020, before bouncing back by over 30% in the following five weeks.

Using daily returns for all US active equity mutual funds, paper Pastor and Vorsatz (2020) finds that active funds underperform their passive benchmarks over the 19 February to 30 April period. The underperformance is particularly strong when measured against the S&P 500, as shown in figure 1: 74% of active funds underperform the S&P 500, with average underperformance equal to -5.6% over the ten-week period, or -29.1% on an annualized basis.

Even when comparing active funds to their fund-specific style benchmarks, we find meaningful underperformance: 58% of funds underperform their FTSE/Russell style benchmarks, with average underperformance equal to -2.1%, or -11% on an annualized basis. In short, active funds performed poorly during the COVID-19 crisis.

However, while active funds underperform on average, some are far better than others. We find that funds with above-average sustainability outperform the remaining funds with the same style by 14.2% per year in terms of FTSE/Russell benchmark-adjusted returns. This result is largely driven by environmental sustainability.

According to a survey by Banque de Luxembourg on the implications of the COVID-19 crisis on ESG, it seems that investors are increasingly looking at companies from a social perspective. The high returns of sustainable funds and stocks suggest that market participants' tastes continue shifting toward green assets and green products during this crisis. European investors especially continued to favor the ESG approach during this turbulent period. Whereas 'classic' funds saw significant outflows in February and March, funds with an ESG approach recorded positive inflows during the first quarter of 2020.

Therefore, we can see that investors retain their commitment to sustainability under COVID-19. More sustainable funds – particularly those that are more environmentally sustainable and those

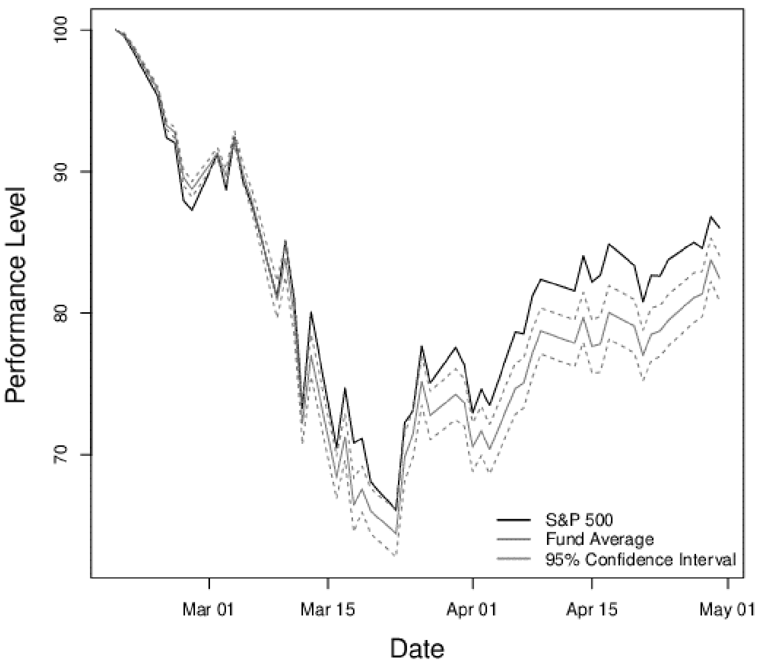

Fig. 1. Average fund performance vs. the S&P 500 during the COVID-19 crisis

that employ exclusion criteria in their investment process – receive relatively more net flows than less sustainable funds within the same style group.

However, the funds which were even under more pressure and stress were real estate funds. The real estate market is often a clear indicator of the economy's health, and we are starting to see the effects of Covid-19. The pandemic has had an immense impact on people and businesses with social distancing measures vastly changing the way individuals use physical space. Service providers who couldn't mitigate health risk for employees and customers, tenants struggling to pay the rent, construction delays and business deals being rejected were some of many challenges real estate sector had to face. Virus has directly changed the way people inhabit and interact with physical space, and the knock-on effects of the virus outbreak have made the demand for many types of space go down, perhaps for the first time in modern memory. This poses a real threat to the real estate industry, not just due to short-term cash flow challenges faced by businesses but the change in lifestyle and consumer behavior.

Tenants once looking for security from their leases will now look for flexibility, but the extent to which the leases provide for items such as break rights and rent suspensions may negatively impact valuations and risk ratings. Certainly, from a lender and investor perspective, there will be greater scrutiny around contracts, the provisions in place and key insurances. Going forward investors and lenders will want a much more informed approach to asset selection. Above all, owners and operators have an obligation to protect the safety and health of people by all reasonable means.

Looking on a bright side of opportunities COVID-19 provided our economy, there are strong opportunities in industrial and logistics real estate. While forecasts for capital and rental growth have been revised down for the next twelve months, this industry is very well positioned to meet the demands of the more sudden shift towards online retail. Looking at companies like Amazon Prime from a distribution and logistics perspective, this online trend was growing pre Covid-19 and to an extent flexible working and working from home so arguably these trends have been accelerated.

From a broader perspective, there will be opportunities for fund managers looking to buy up distressed assets as we recover from the pandemic and, as we turn our focus from Covid-19 to sustainability and social/environmental factors there is a huge role for the real estate sector to play in terms of developing and investing in commercial and residential real estate which meets this new demand for sustainable living. One of the effects of COVID-19 was the acceleration of an existing trend towards flexibility, which investment managers should take into consideration and adjust their existing assets to the maximum possible level of flexibility and dispose inflexible assets.

While the pandemic has driven people to spend more time outside of the city potentially putting the city high street at risk, it has encouraged people to interact more with their local areas so we may see growth in retail and leisure activity in outskirt villages and smaller high streets. The fate of the larger town and city high streets is hard to predict but the real estate space surrounding the traditional high street has been identified as an opportunity for industry and logistics so high streets may find themselves repurposed rather than obsolete.

In contrast, assets that have greater human density seem to have been the hardest hit: healthcare facilities, regional malls, lodging, and student housing have sold off considerably. And this conclusion is logical as people now avoid crowds, students do not go to school and study from home, restaurants and bars close their doors to the customers. Retail especially is facing a hard time naturally as the shift moves online and away from highstreets and city centers, in the short-term due to social distancing and restrictions, and longer term with the consequences of employees working from home more regularly and changing their preferences from high street to home. Consumers forced to shop online because of closed malls and shopping centers may permanently adjust their buying habits for certain categories toward e-commerce. This comes with potential risks because we can’t foresee how this might play out, consumer appetite is very hard to predict at the moment.

The COVID-19 experience could also permanently change habits that may affect demand for other real estate assets, such as hospitality properties and short-term leases. We now got great alternatives such as video conferences which prove to be sufficient or even preferable. Near-shoring of supply chains may further reduce demand for cross-border business travel, and consumers who are afraid of traveling overseas may shift leisure travel to local destinations.

Another trend that has been accelerated by the crisis is digitalization of real estate funds which had been moving toward digitizing processes and creating digitally enabled services for tenants and users. Physical distancing and the lockdown of physical spaces have magnified the importance of digitization, particularly by measures such as tenant and customer experience. Within residential real estate, the examples of progress are virtual open houses and showings, augmented and virtual reality, targeted, and personalized sales. Those steps will more quickly allow their residents to find the right space for themselves as well as establish long term lasting relationship with the lender.

Therefore, we can all agree that working from home could dramatically affect the real estate funds as demand for offices could reduce by 10-20% in a post-COVID world. Work from home (WFH) is very clearly going to be more prevalent in the future. The COVID pandemic has revealed WFH to be a positive for both employers and employees. Workers valued flexibility, spending time with family and having more time to exercise during the pandemic.

This trend of WFH surely will have an impact on a niche asset classes such as self-storage and cloud kitchens. The demand for cloud storage and other technologies will increase as work from home appeared to be profitable and preferable by many companies. Even universities who are obliged to provide classes remotely now can get adjusted to a new type of hybrid education.

In the medium to longer term, Barclays believes the shift to WFH could hurt rental pricing and office valuations. The first key piece of evidence is that both employers and employees like work from home, and both intend to have more work from home in the future. The analysis of corporate transcripts revealed that half of S&P 1500 companies discussed WFH in 2Q20 earnings calls. Of those, 80% expressed positive sentiment.

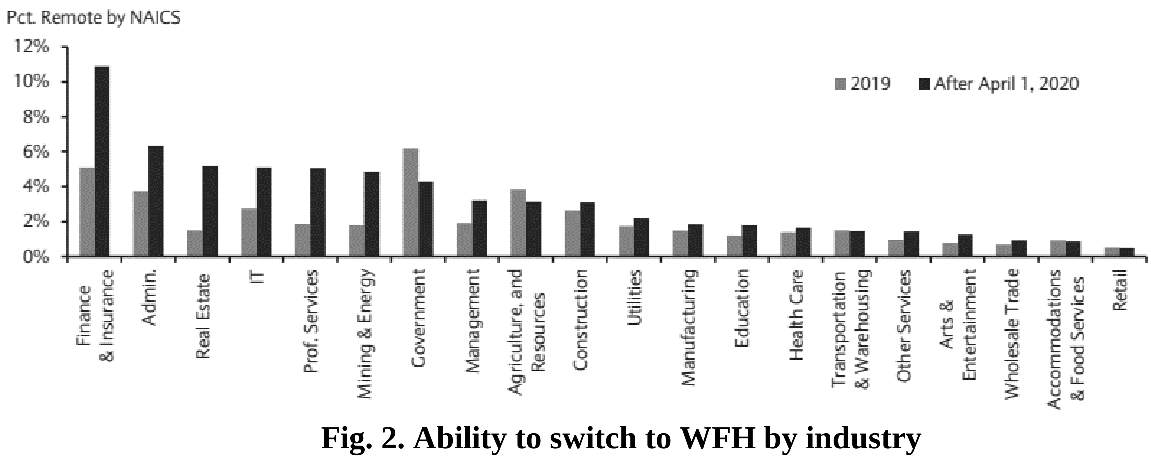

Fig. 2. Ability to switch to WFH by industry

However, it is not easy for every industry to offer their workers a remote permanent position. Roles like finance, legal, and IT can easily be performed almost entirely remotely. But others like sales, HR, and research require more in-person interactions that an office provides. For example, looking at graph 2, even prior to COVID, financial services allowed a relatively high share of WFH jobs, and post-COVID it is the leader by almost 2 times over the next highest sector of administrative work. By contrast, even now relatively few education, health care, and retail roles are identified as permitting WFH.

Despite everything said above, real estate funds do not expect WFH to mean an end to in-office work for a majority of employees. If evidence is correct, it implies an average 2-3 days a week WFH will become the norm for up to half the working population. Fundamentally, however, offices will probably continue to provide critical functions for most businesses (social hub, collaboration and creativity inspiring, informal training and communication) and therefore will not go the way of more severely affected retail. It is the way in which office space will be used—its function and utilisation—that is expected to change dramatically, more so than whether it will be used.

Therefore, we can surely say that to respond to the current and urgent threat of COVID-19, and to lay the groundwork to deal with what may be permanent changes for the industry after the crisis, real estate must act now. Those real estate funds that succeed in strengthening their position through this crisis will go beyond just adapting, they will have taken bold actions that deepen relationships with their employees, investors, end users, and other stakeholders.

Funds' abilities to succeed will depend on how they respond to immediate challenges to the industry — particularly the current declines in short-term cash flow and demand for space, as well as the uncertainty surrounding commercial tenants' ability to pay their bills. In the medium to long term, the changed behaviors forced upon the industry will have likely altered the way consumers and businesses use and interact with real estate. The critical question is which of these changes will stick. Throughout, acting quickly and smartly will help determine the fate of players not only in these challenging times but also as the industry emerges from the current crisis and inevitably reinvents itself.

Our study contributes to the recent literature on how COVID-19 has affected the economy and financial markets. We tried to quantify the economic repercussions of the spread of COVID-19 and find the appropriate policy response. We understood how the health crisis affected stock and bond markets as well as investor expectations.

We found out thanks to the COVID-19 crisis that active funds do not make up for their disappointing average performance by performing well in recessions. Also, we saw that investors started to value sustainability even more and started to see it as something essential rather than complementary. The fact that investors retained their commitment to sustainability during a major crisis suggests they have come to view sustainability as a necessity.

The crisis has highlighted critical social issues: the importance of workers' health, the vulnerability of supply chains and the value of the human factor. Companies that have taken pains to protect their workers and engage in social dialogue have found it easier to ensure business continuity.

The ‘beneficial’ effect of the COVID-19 crisis on sustainable and responsible investment could turn out to be a better balance between Environmental, Social and Governance factors. Nevertheless, with several million jobs likely to disappear, a significant increase in social inequalities is highly likely.

No one can predict when the economy will restore and how many adjustments will be required towards restoration. There are high levels of uncertainty about exactly how the post-COVID environment shapes up, with some evidence pointing to more extreme reductions in office demand, while others point to more moderate changes. European real estate operators will likely need to be more flexible in future. European Landlords anticipate higher demand for flexible spaces and contracts post-COVID.

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