



CAMRADATA

Investment Considerations Survey

**Attitudes from the
Institutional Investment Industry**

December 2016



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During November 2016 CAMRADATA conducted an online survey of asset managers, investment consultants, and pension schemes.

The purpose of the survey was to better understand the thoughts and opinions of each group about:

- Asset allocation
- Asset classes being considered
- Key issues impacting investment decision-making
- Asset inflows
- ESG
- ETFs
- Movement of interest rates
- Outlook of financial markets

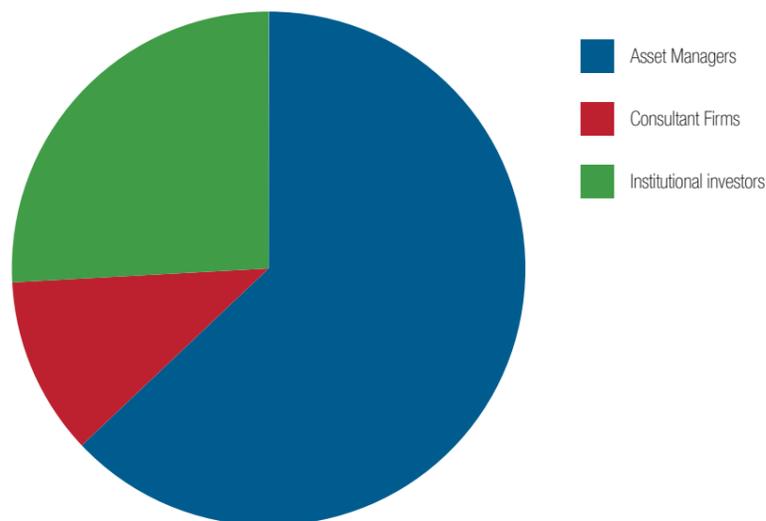
Whilst the majority of responses received were from asset managers; consultants and institutional investors made up 11% and 26% respectively of the overall responses received.

Of the asset management firms who responded to this survey, only 16% manage funds for pension schemes only, whilst the remaining 84% stated they manage money for both pension schemes and insurance firms.

Of the consultant firms who responded, 69% advise pension schemes only and nearly 8% advise insurance firms as well.

Of the investors that responded 78% were pension schemes and the remaining 22% were insurers.

Of the pension schemes who responded, 70% had a defined benefit scheme and 44% had a defined contribution scheme.



Summary

This survey provides an indication of opinions within the institutional investment industry taken during November 2016.

It is not intended to be a statistically robust, scientific study but it does provide insight into the views of asset managers, consultants, and investors. Respondents provided us with their views on matters relating to investments, asset classes, asset allocation and financial markets.

Asset Allocation

- Of the consultants who responded, the top asset classes which their pension clients are invested in are Global Equity; and Emerging Markets Equity which both received a 100% response rate.
- Perhaps not surprising, many of the pension schemes that responded invested in Global Equity, UK Bonds, Corporate Bonds, Property and DGF/Multi Asset.
- Of the 36 asset classes listed, consultants expected pension schemes to consider any one of them, with the exception of five (Chinese Equity; Eastern European Equity; MENA; Euro Bonds; and Real Estate Debt), over the next 6 months.
- Around half of consultants expect their clients to invest in DGFs; as does the pension schemes themselves; plus around half of the managers will be marketing this asset class over the next 6 months.

Key Issues

- Market Volatility is still the most pressing issue which 84% of the investors responding to this survey said will have an impact on their investment decision making process.
- The Low Yield environment is another issue Consultants and Investors agree upon and one which figures highly in their choices with 73% of investors selecting this as one of their Top 3 issues.
- Meeting Total Return Objectives is the third top key issue for Investors, although Protecting Capital and Managing Uncertain liabilities are not far behind

Asset Inflows

- The top 3 asset classes which investors think will see the most inflows over the next 6 months are Diversified Growth Funds /Multi Asset; Infrastructure; and High Yield Bonds.

ESG

- Just over half of all investors and consultants expected asset managers to have ESG integrated in their investment process.

Exchange Traded Funds

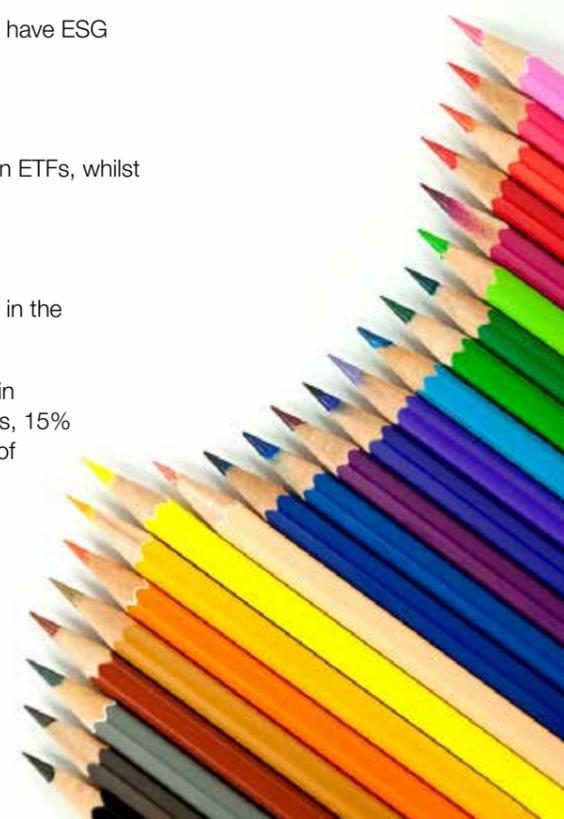
- 36% of investors and consultants said that they would consider investing in ETFs, whilst just under a third are undecided.

Interest Rates

- The majority of respondents believe the UK will continue to see no change in the interest rate over the next 6 months.
- Whilst many respondents expect the US market to have the greatest hike in interest rates, with 54% expecting there to be an increase of at least 25bps, 15% expect to see a 50bps increase and 1% are expecting to see an increase of 75bps during the next 6 month period.

Financial Markets

- Most respondents are generally neutral about the US; UK; European; and Global financial markets over the next 6 months.



What asset classes do you / your clients currently invest in?

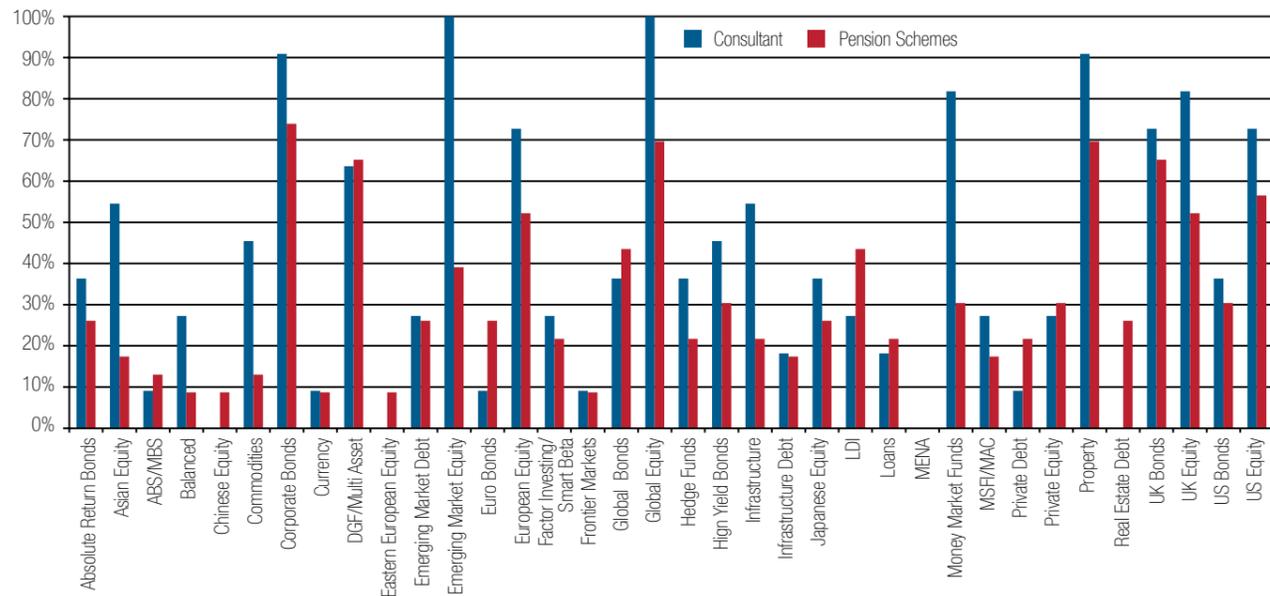
Of the consultants who responded, the top asset classes which their pension clients are invested in are Global Equity; and Emerging Markets Equity which both received a 100% response rate. This is closely followed by Corporate Bonds and Property at 91%. UK Equity and Money Market Funds were each selected by 82% of consultants.

Perhaps not surprising, many of the pension schemes that responded invested in Global Equity, UK Bonds, Corporate Bonds, Property and DGF/Multi Asset.

However, the survey did also highlight disparities between some of the asset classes:

1. Emerging Market Equity - was selected by 100% of the consultants whilst only 39% of the pension schemes said they were currently invested in this asset class, a difference of 61%.
2. Real Estate Debt - selected by none of the consultants, but 26% of the schemes invested in this.
3. Asian Equity – over half of consultants said their clients invested in this asset class whilst less than a quarter currently had monies allocated to this type of strategy.
4. Global Equity – whilst this was the one of the most invested asset class chosen by pension schemes; it was still only chosen by 70% of the schemes whereas 100% of consultants said their clients were invested in this.

Interestingly, apart from MENA, all of the asset classes shown in the chart were invested in to some degree by pension schemes. Other stand out asset classes that pension schemes selected include: Diversified Growth Funds (DGF) / Multi Asset; UK Bonds; European Equity; and US Equity.



Which asset classes will you / your clients consider investing in over the next 6 months / Which asset classes will you be most actively marketing in the next 6 months?

There seems to be a fair bit of disparity between asset managers, consultants and pension schemes concerning the strategies that schemes will consider investing in and also those which managers will be actively marketing over the next 6 months.

Of the 36 asset classes listed, consultants expected pension schemes to consider any one of them, with the exception of five (Chinese Equity; Eastern European Equity; MENA; Euro Bonds; and Real Estate Debt), over the next 6 months.

Infrastructure received the highest count from consultants who suggested that 72% of their clients would invest in this asset class, perhaps indicating this asset class is on the rise in popularity as only 66% of consultants selected this answer 10 months ago.

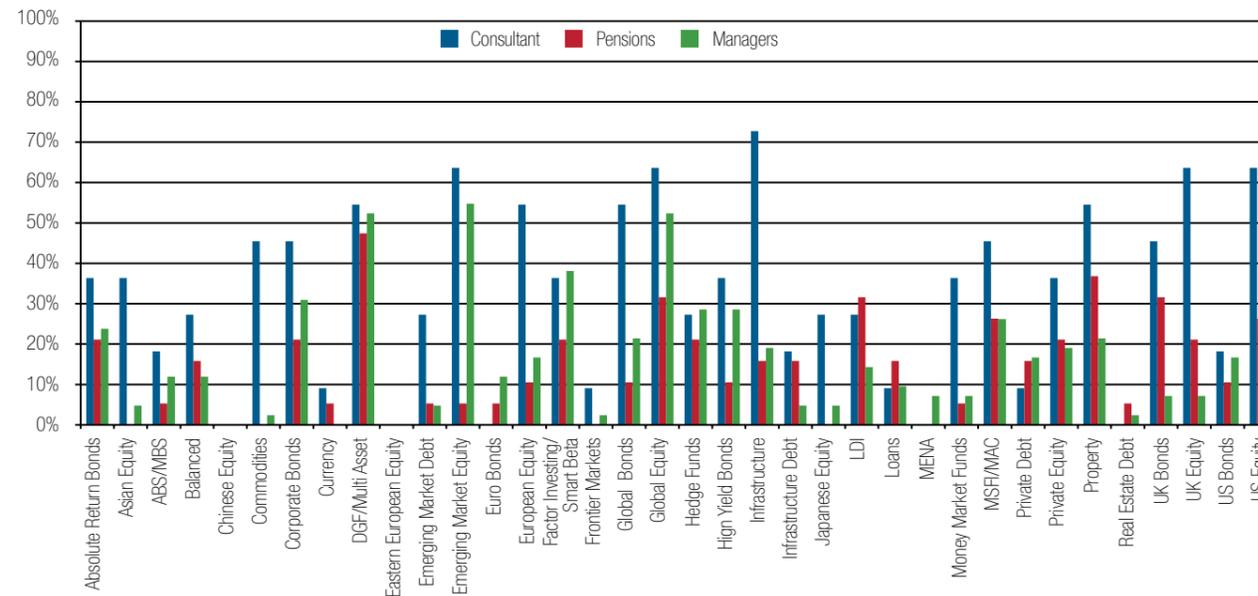
Only 27% of consultants now believe that schemes will invest in LDI over the next 6 months. This is a huge drop from April where 83% of consultants indicated schemes would consider investing in them. That said over 30% of pension schemes are still considering LDI as a solution.

DGF/Multi Asset strategies are an interesting area to look at; managers, consultants and pension schemes are all within 10% of each other's opinion. Around half of consultants expect their clients to invest in DGFs; as does the pension schemes themselves; plus around half of the managers will be marketing this asset class over the next 6 months. This result offers a strong indication that multi asset strategies will continue to play a key part in pension schemes asset allocation over the next 6 months.

Nearly 64% of consultants suggested their clients would consider investing in Emerging Market Equity and 54% of managers would be actively marketing it. Whereas surprisingly only 5% of Pension schemes suggested they would be investing in this asset class.

Nearly all of the asset classes listed are expected to be marketed by asset managers over the next 6 months (as one would expect). However, the asset classes that should be watched as they were chosen by at least a third of the pension schemes are; DGF/ Multi Asset; Global Equity; LDI; Property and UK Bonds.

From the entirety of the asset classes listed only Eastern European Equity and Chinese Equity were not selected as an asset being considered.



UK Equity

was the 9th most searched asset class in November 2016, a significant increase from October 2016 when it was the 31st most searched.

“ What is interesting to note is this number has increased by 21% from April, highlighting that more investors see Market Volatility as a key issue ”

What are the top 3 key issues impacting on your investment decision-making process / the investment decision-making process of your pension clients over the next 6 months?

It is interesting to note that all the options were selected at least once by each group. This clearly shows the diversity of issues faced by decision makers in this industry.

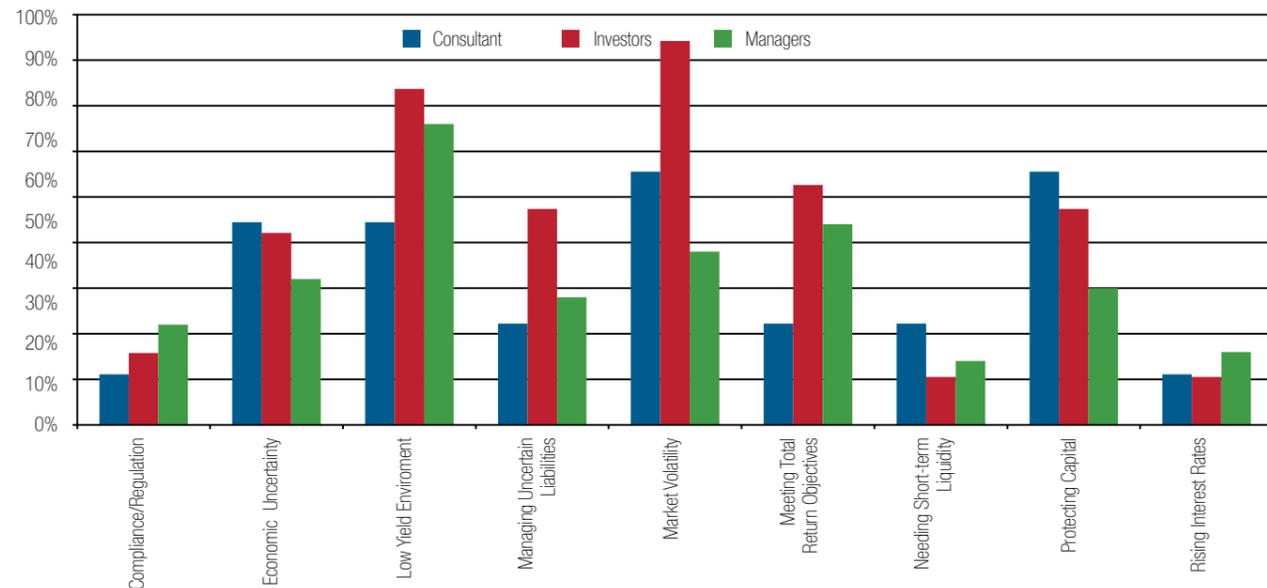
However, as it was in April 2016, Market Volatility is still the most pressing issue which 84% of the investors responding to this survey said will have an impact on their investment decision making process. What is interesting to note though, is this number has increased by 21% from April, highlighting that more investors see Market Volatility as a key issue. Market Volatility is also one of the top issues that consultants thought their clients faced. This shows a congruity of thinking between these two groups which has endured since June 2015 as both groups gave similar responses to each other in the last two surveys.

The Low Yield environment is another issue Consultants and Investors agree upon and one which figures highly in their choices with 73% of investors selecting this as one of their Top 3 issues.

Meeting Total Return Objectives is the third top key issue for Investors, although Protecting Capital and Managing Uncertain liabilities are not far behind.

The view on Protecting Capital has seen a change to the responses received in April when only just over 10% of both Consultants and Investors put it in their top 3 issues. In this survey Protecting Capital has shot up as an issue for Consultants (56%) and Investors (47%).

Compliance/Regulation; Needing Short-term Liquidity; and Rising Interest Rates all appear to be less of an issue to investors when making investment decisions from the investors. It will be interesting to see if this trend endures into the future.



In your opinion, from across the industry, which 5 asset classes will see the largest investment in-flows in the next 6 months?

In April 2016 there was more of a clear pattern across the board of a handful of funds that were going to get the most inflows and a handful of funds that would get the least. In this survey we see more of a mismatch as there is no correlation found between Consultants, Investors and Managers.

The top 3 asset classes which investors think will see the most inflows over the next 6 months are Diversified Growth Funds /Multi Asset; Infrastructure; and High Yield Bonds.

The top 3 asset classes chosen by consultants are Diversified Growth Funds / Multi Asset; Infrastructure; Factor Investing/Smart Beta. Interestingly Factor Investing/Smart Beta was the Investors fourth choice.

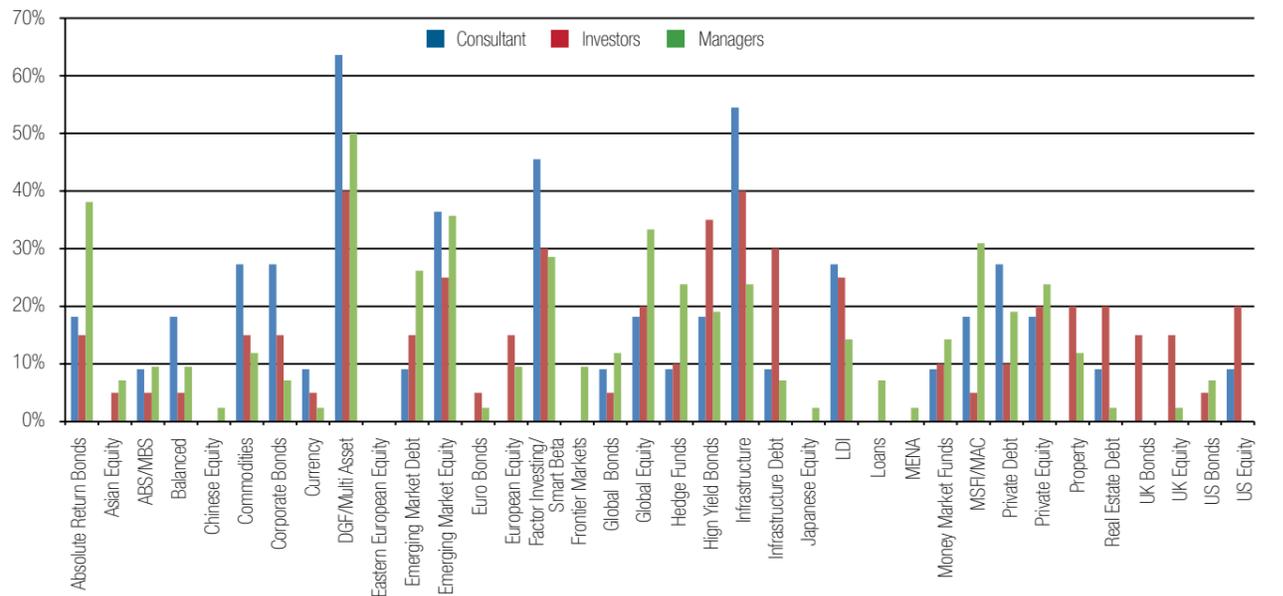
Diversified Growth Funds / Multi Asset was chosen by half of the asset manager respondents, making it their top asset class for inflows. However, they are expecting to see inflows in Absolute Return Bonds and Emerging Markets Equity as the 2nd and 3rd asset classes to see the most inflows in the next 6 months.

As expected, based on some of the previous answers in this survey, Consultants are not expecting to see as many inflows to LDI over the next 6 months as they had forecasted in April 2016.

Just over half of Investors believe Infrastructure will see the largest inflow of investment, whereas only 24% of managers put it in their top 5.

Interestingly there are two asset classes, UK Bonds and US Equity, which Investors are expecting to see inflows in which the asset managers do not.

No Consultants, Managers or Investors chose Eastern European Equity.



12,703

Investor hits on DGFs between 1st December 2015 and 30th November 2016. This makes it the third most searched on asset class, by investors and consultants, in CAMRADATA Live over this period.

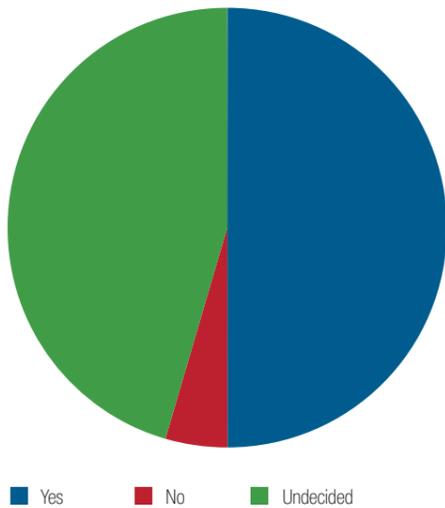
Environmental, Social and Governance continues to be a hot topic in the asset management industry. Just over half of all consultants and investors who responded stated they would expect asset managers to have ESG integrated in their investment process.

That said, 45% are still undecided on whether this was something they expected.

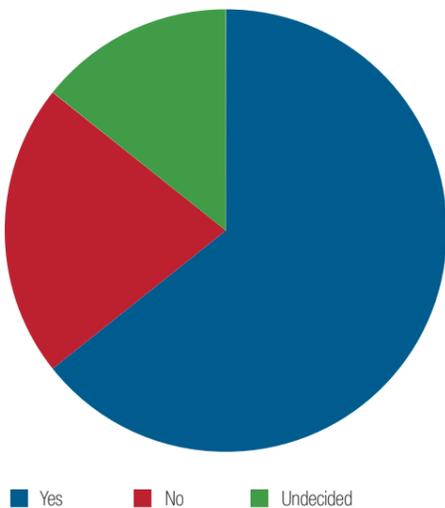
Whilst the majority of asset managers do have ESG integrated in their investment process, it is interesting to note that 21% of the asset managers who responded do not.

This either suggests some asset managers have yet to begin to address this issue or they do not feel that it is an issue that needs to be addressed.

Do you expect asset managers to have ESG integrated in the investment process?



Do you have ESG integrated in the investment process?

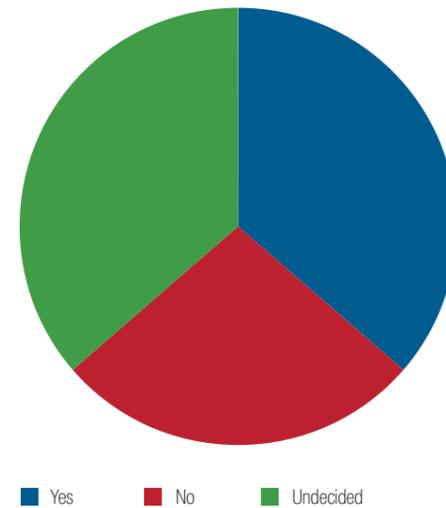


36% of investors and consultants said that they would consider investing in ETFs.

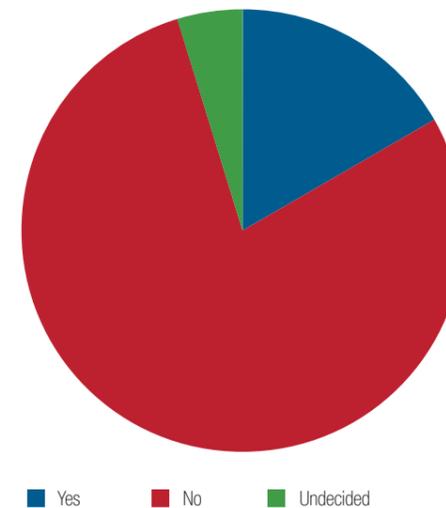
36% said they were undecided at this time

That said, the majority of asset managers did not offer ETFs, with only 17% of the asset managers who responded offering this type of investing.

Would you consider investing in ETFs?



Do you offer investments in ETFs?



Over 20,000

searches in CAMRADATA Live in the last 12 months from 1st December 2015 to 30th November 2016.

“ Environmental, Social and Governance continues to be a hot topic in the asset management industry ”



“ The current survey reveals the majority of respondents now believe the UK will continue to see no change in the interest rate over the next 6 months ”

Over the next 6 months how do you expect interest rates to move, if at all?

Ten months ago the majority of respondents thought there would be an increase in the UK interest rates by 25bps. This did not happen as the UK interest rate remained the same.

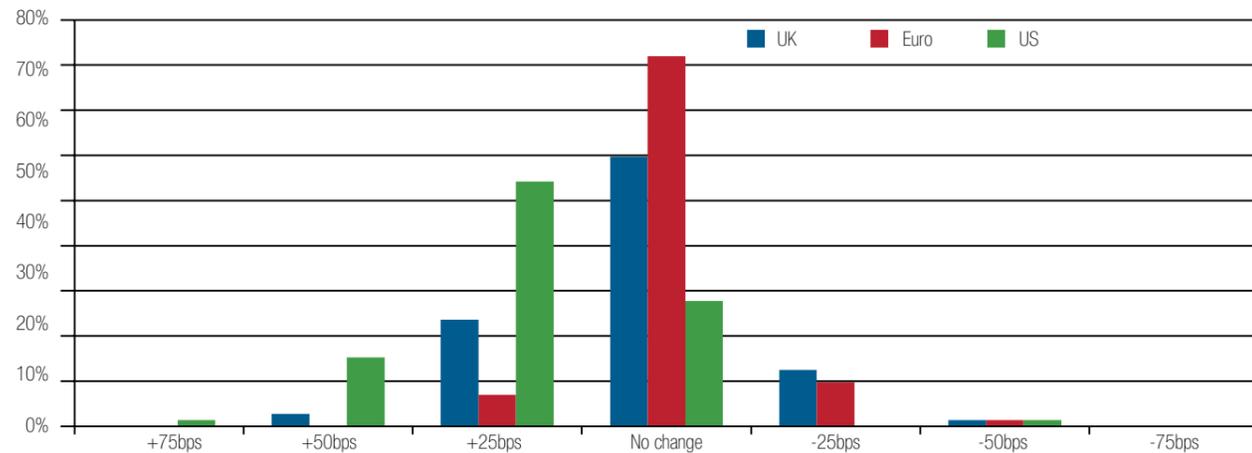
The current survey reveals the majority of respondents now believe the UK will continue to see no change in the interest rate over the next 6 months.

The cut in Euro interest rate must have surprised many of the respondents from the previous survey, who had expected there to be no change. Perhaps unsurprisingly, the majority of respondents now believe there will be no change from the current rate over the next 6 months.

Over half of the respondents expect to see another increase in US interest rate by at least 25 bps over the next 6 months.

Interestingly 1% of respondents are forecasting an interest rate cut in the UK, US or Europe more than 25bps.

Many respondents expect the US market to have the greatest hike in interest rates. 54% are expecting there to be an increase of at least 25bps. 15% expect to see a 50bps increase and 1% are expecting to see an increase of 75bps during the next 6 month period.



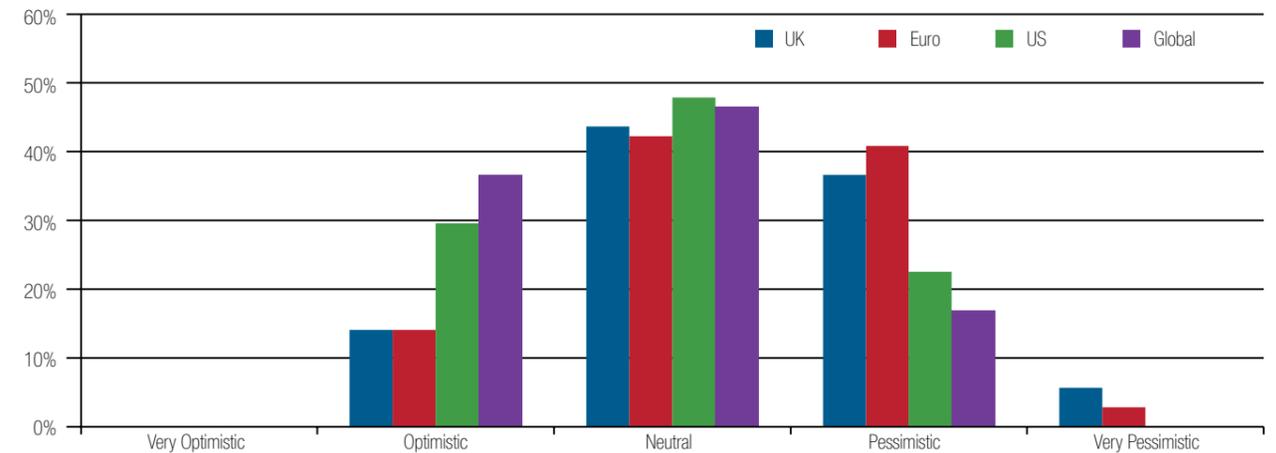
In summary, how optimistic are you about the financial markets over the next 6 months?

Most respondents are generally neutral about the US; UK; European; and Global financial markets over the next 6 months, meaning financial markets have done nothing to incite positivity amongst the respondents since the last survey.

That said, from the graph below you can see the pessimistic side to be heavier than the optimistic side with some being 'very pessimistic' about UK and Europe, no doubt in the light of Brexit and the possible implications and uncertainties it provides.

5,700

the total number of investment products listed in CAMRADATA Live





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