Schroders Institutional Investor Study

Investment Outlook Report 2017/18

Contents

About this study

This report was commissioned by Schroders to study institutional investors across North America, Europe, Latin America and Asia to analyse their investment objectives, outlook for performance and their attitudes to risk.

Respondents represent a variety of institutions, including pension funds, foundations, endowments and sovereign wealth funds.

The research was carried out via an extensive global survey during June 2017. The 500 institutional respondents were split as follows: 115 in North America, 200 in Europe, 150 in Asia and 35 in Latin America.

Respondents were sourced from 15 different countries.

Executive summary

Institutional investors in North America are targeting higher returns over the coming year – with over half having return expectations greater than 7% - than their European counterparts, Schroders Institutional Investor Study has found.

More than half of North American institutions (54%) seek returns of at least 7%, compared to 40% of European investors. Latin American investors were also optimistic, with 55% hopeful of recording performance of at least 7%.

In contrast, European investors struck a more cautious tone, with 30% pencilling in returns of just 1%-4%. This is double the proportion of investors in North America expecting the same level of performance. Institutional investors in Europe and Asia also had a greater variety of return expectations, compared to investors in the Americas.

European investors however were substantially more confident of achieving their modest return goals, with 61% expecting to meet their investment targets, compared to 46% in North America. Globally, 54% of investors were confident of making their return objectives. At the same time, just over a quarter of investors globally (28%) admitted they had increased their allocation to cash.

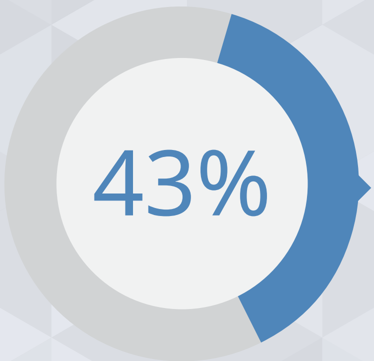
North American investors were also prepared to be patient to meet their loftier return goals. Almost two-thirds (61%) are willing to hold a strategy for at least four years, compared to 53% of European investors. Asian institutions had the shortest investment time horizon with the majority (51%) expecting to change their investment strategies within four years.

Globally, investors highlighted monetary policy – the prospect of higher interest rates and the tapering of quantitative easing – as the macro issues set to have the biggest impact on portfolio performance. Although information security has increasingly become a mainstream issue, cyber attacks were only flagged by 17% of investors as a potentially important investment issue.

Geopolitical events and the rise of populism have dominated investors' thinking over the last two years and this theme is poised to remain particularly strong in the Americas. Almost two-thirds of North American investors (63%) and just over half of Latin American investors (52%) expected geopolitics and populism to have a greater impact on investment decision-making than compared to 12 months ago.

Although still a factor, European and Asian institutions were more sanguine about geopolitical matters and populism, with 45% and 38% of investors respectively in these regions of the belief that these issues will be a bigger focus.

Institutional investment outlook infographic



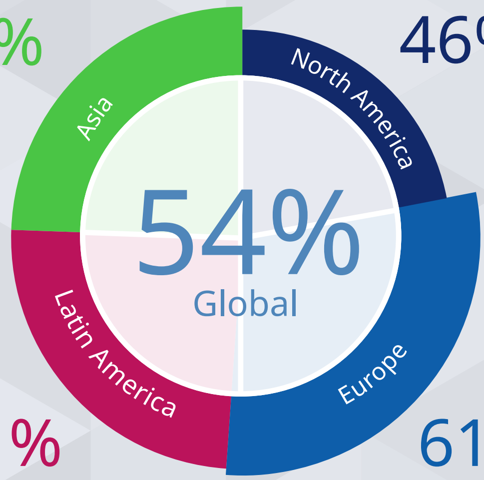
Expect returns >**7%**

North America	Latin America
54%	55%

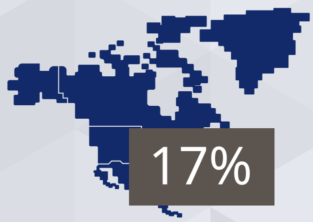
Expect returns > **7%**

CONFIDENCE

Confident to achieve returns

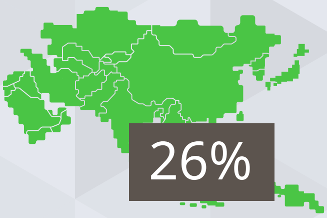


Hold investment strategies for **4 years or less**



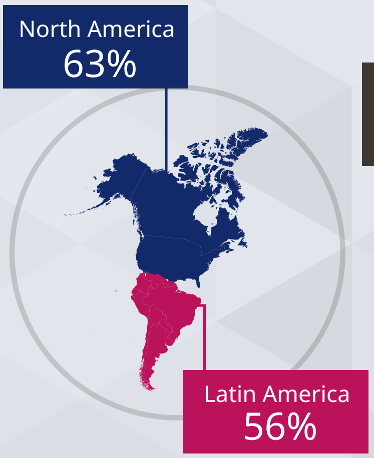
North America

Most likely to hold strategies for a full investment cycle **(17%)**



Asia

Shortest investment time horizon – **26%** hold a strategy for **2 years or less**



48%
Agree

Geopolitical events are expected to affect performance – **48% agree** this impact will be greater in the coming year. Greater impact anticipated by investors in **North America (63%)** and **Latin America (56%)**.

BUT

– **70%** say geopolitical events have the potential to create investment opportunities

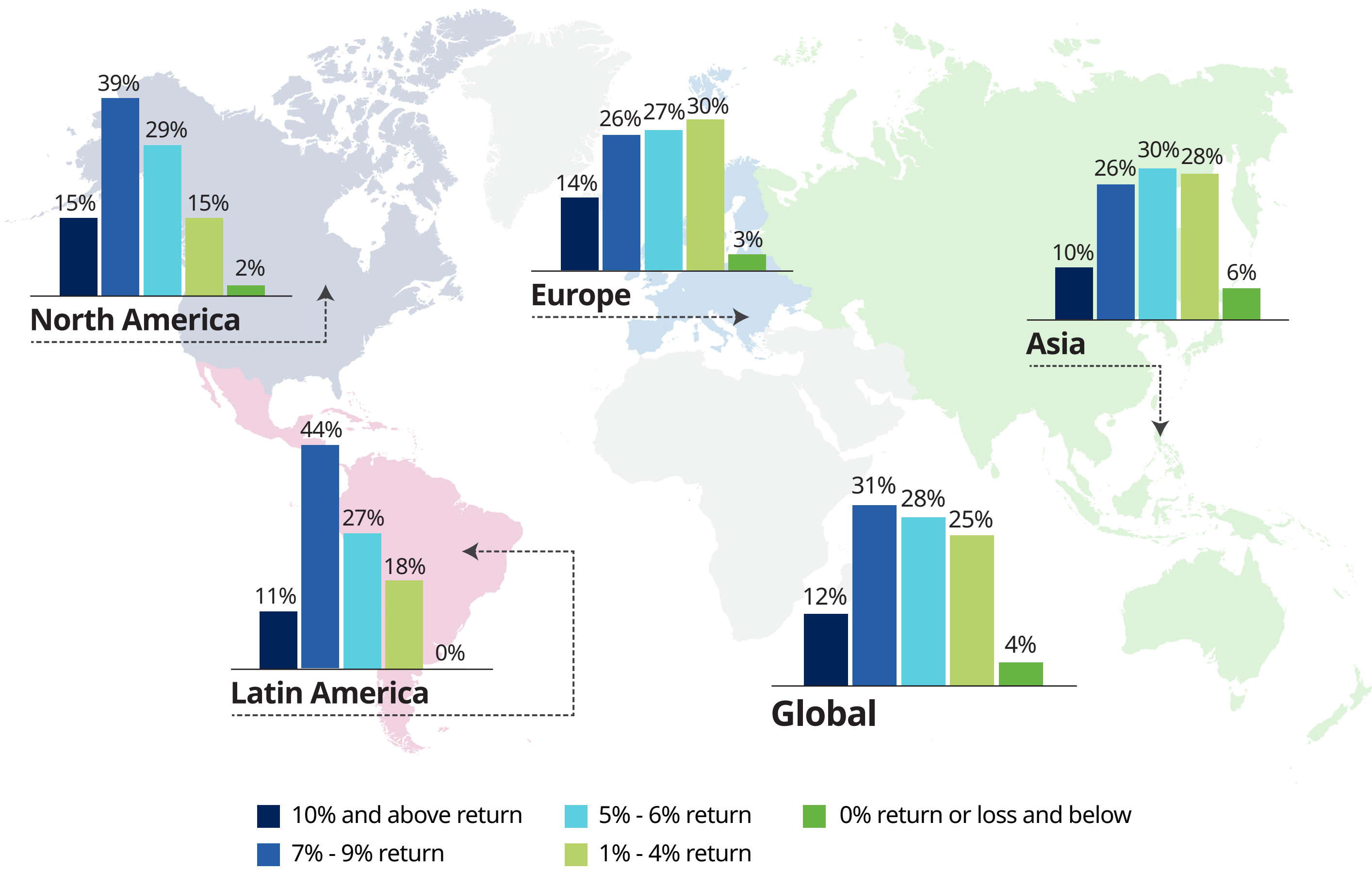
Macro issues most likely to impact performance are:

- Higher interest rates - **(60%)**
- Tapering of monetary policy - **(54%)**
- Global economic slowdown - **(48%)**

Return expectations around the world

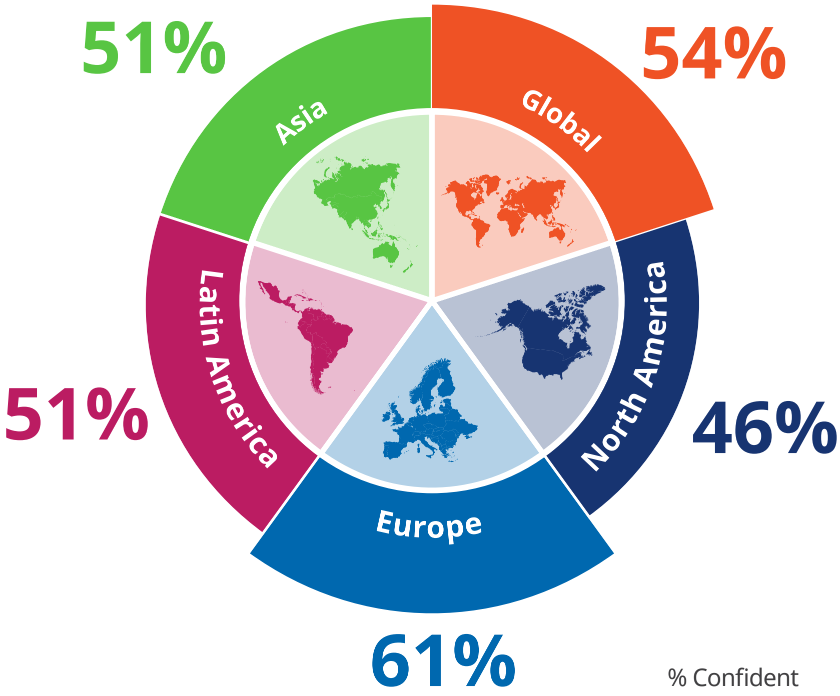
The fourth quarter of 2017 ushered in interest rate hikes in some developed markets and increased volatility fuelled by political uncertainty. This paper seeks to identify the sentiment among institutional investors in terms of their outlook for performance and risks their portfolios face in the current global circumstances.

Worldwide, the majority of institutional investors are expecting to generate a positive return in the next 12 months. Of them, 43% anticipate generating a return higher than 7%. Institutional investors in North America and Latin America are more positive than their peers in other regions as 54% and 55%, respectively, forecast returns upward of 7%. Performance prospects in Asia and Europe, which includes the UK, are more muted.



Confidence in achieving the returns

The more subdued outlook in Europe however seems to lead to greater investor confidence. As their return expectations are arguably more realistic, over six in 10 institutional investors in Europe are confident they will meet their target. This is higher than the global average of 54%. North America, despite the loftier return ambitions, is home to lower levels of confidence as 46% think they will achieve the results they are hoping for.



Investment time horizons

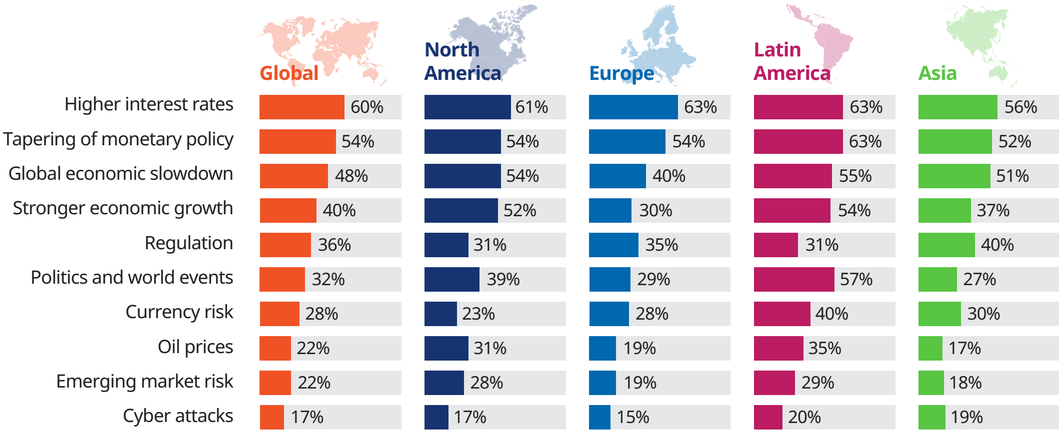
Institutional investors have an unexpectedly short-term investment outlook. Over 40% say they hold their chosen investment strategies for four years or less. Across all regions, the 2-4 year time period is home to the greatest proportion of investors. This could well be indicative of the pressure institutions face to perform in the short term and therefore may feel a greater need to make use of tactical investments than they did historically.

Investment time horizons in Asia are especially short with 26% of institutional investors holding a strategy for less than two years. Those in North America on the other hand are the most likely to hold a strategy for a full investment cycle (17%).

	Global	North America	Europe	Latin America	Asia
Less than 2 years	18%	10%	16%	14%	26%
2-4 years	24%	23%	25%	26%	25%
4-5 years	11%	10%	13%	17%	9%
5-10 years	17%	17%	19%	17%	12%
Over 10 years	12%	17%	9%	9%	12%
A full investment cycle	13%	17%	12%	11%	12%
No specific time period	5%	6%	6%	6%	4%

Impact of macro issues on portfolio performance

The two most prevalent issues due to affect portfolio performance over the coming 12 months, according to institutional investors, are related to monetary policy. The hiking of interest rates in the world's major developed markets is of considerable concern, as is the tapering of monetary policy. Despite the world economy forecast to grow strongly next year, the threat of a global economic slowdown also featured prominently on investors' radars.

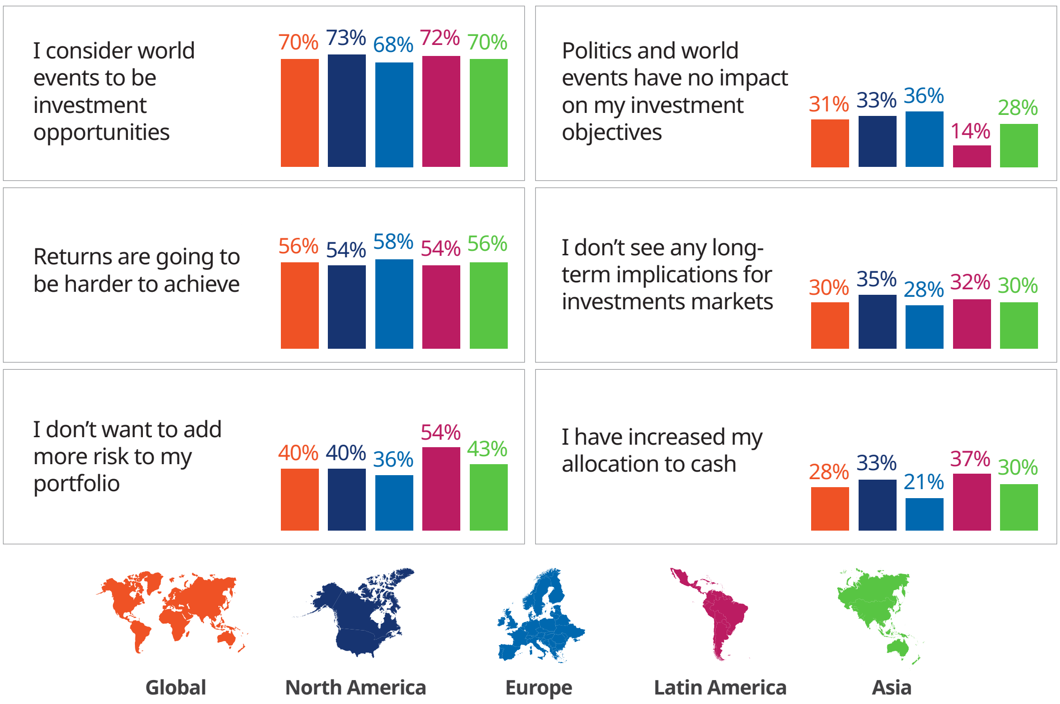


% Yes, (Multiple answers allowed)

Geopolitical events and investments

Institutional investors are nevertheless optimistic about the challenges posed by geopolitical events. Globally, 70% say world events will drive investment opportunity. This sentiment is highest in North America (73%) and lowest in Europe (68%). However, over half of investors (56%) also believe returns are going to be harder to achieve.

Latin American investors are the most risk averse with 54% stating they don't want to add more risk to their portfolio. This compares to 40% of investors globally. Some 37% of Latin American investors have also increased their allocation to cash, compared to 28% of investors globally.

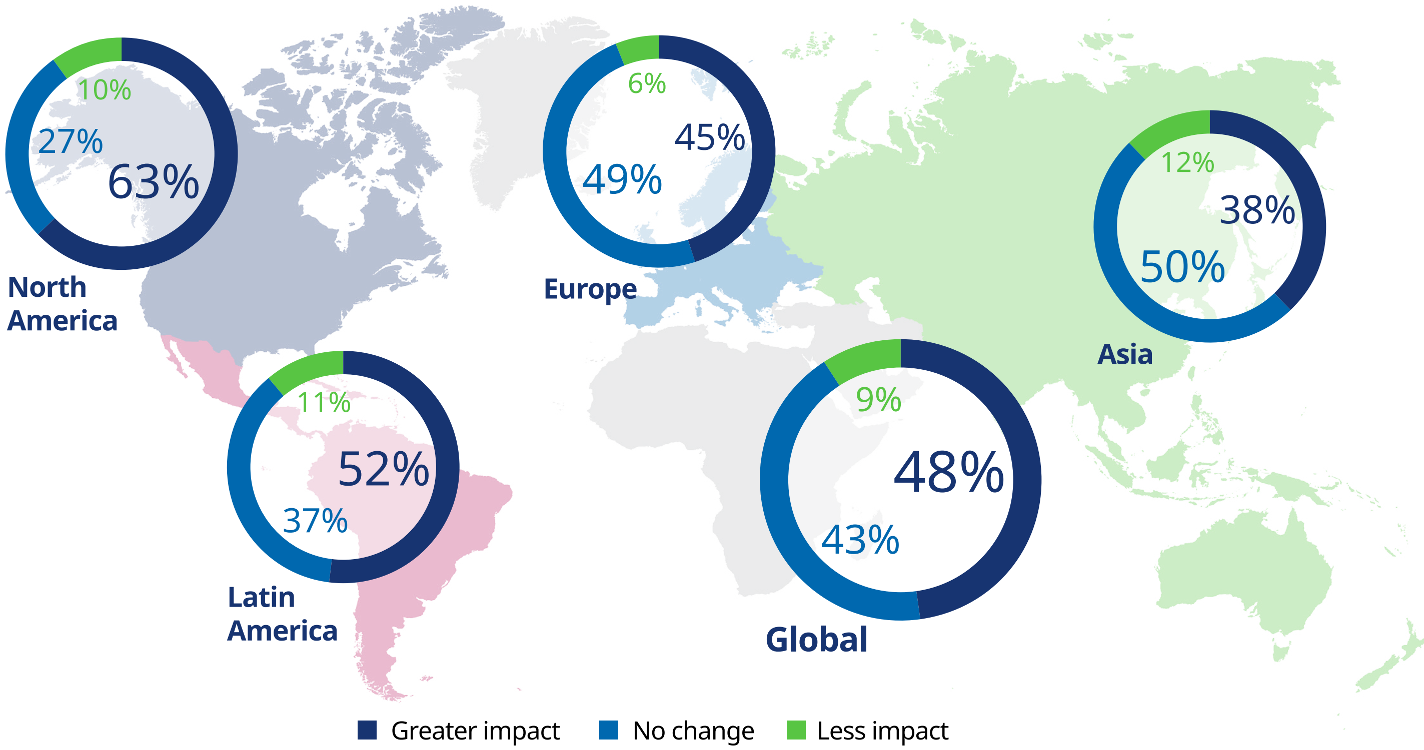


% Agree + Strongly agree

Impact of geopolitical events and populism on investment decision-making

Institutional investors have always had to deal with macroeconomic and geopolitical events when investing. And, in today's environment, these issues remain particularly prominent. For 48% of institutional investors worldwide, the geopolitical events and the rise of populism in politics will have a greater impact on the way they invest in the coming year, than compared to the last 12 months.

Interestingly, this feeling is even more palpable in North America (63%) and Latin America (52%). However, fewer investors in Europe (45%) and Asia (38%) expect geopolitical events to have a greater effect on their investments in the coming year. It can be argued that institutional investors in Europe have had to deal with an unstable political environment for a while and are more accustomed to taking this into greater consideration.



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