

Private Assets

Schroders

Institutional Investor Study 2020

Marketing material for professional
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Schroders' annual Institutional Investor Study analyses the investment perspectives of 650 institutional investors, collectively responsible for \$25.9 trillion in assets and from 26 locations across the world.

The Study provides a snapshot of some of the world's largest investors' key areas of focus and concern including the macroeconomic and geopolitical climate, return expectations, asset allocation and attitudes to private assets and sustainable investing.

This year's findings showed that, even at the height of the Covid-19 pandemic and subsequent economic panic, investors believe they will increase their allocation to private assets in the next 12 months.

Institutional investors' attitudes to private assets:

79%

cite higher returns and diversification as key drivers for investing in private assets.

56%

believe fees and liquidity issues are the biggest challenges when investing in private assets.

65%

Identify performance track record as the top criteria when selecting a private assets manager.

46%

identify private assets as a way to manage risk.

“

Historical crises have shown that portfolios with significant exposure to private markets can achieve long-term investment performance.

The Institutional Investor Study shows that investors continue to be attracted to private markets to increase diversification and access specialised, alternative return streams. These characteristics can become especially valuable at times when the global outlook remains so unclear.

As we review the results of this study, economies are more open than they were in April, but the impact of Covid-19 on our daily lives remains very present. Now it is becoming clear which sectors are emerging as the winners and losers.

We continue to believe that private markets offer investors manifold opportunities and the best route to managing this challenging environment.



Georg Wunderlin
Global Head of Private Assets

Allocation to private assets continue to increase

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Private assets managers, relative to public markets, are capable of directly supporting portfolio assets by helping them to adapt in times of crisis, and thereby having immediate impact on the real economy.

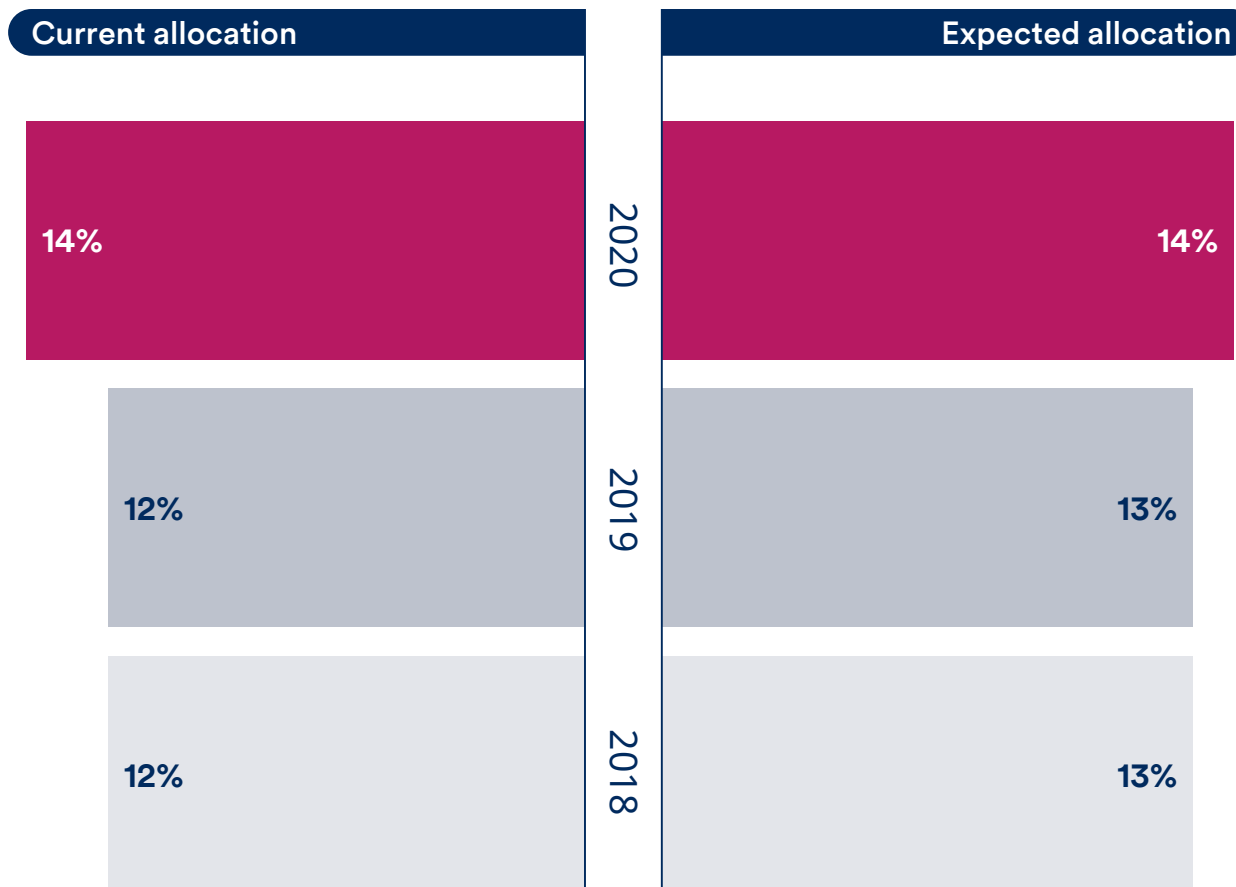
For equity investments, this means, for instance, the ability to provide capital injections and make necessary strategic changes during periods of stress and for debt investments, this means the right to seize control or restructure to provide a level of downside protection for investors.



Georg Wunderlin
Global Head of Private Assets

What percentage of your institution's portfolio is currently allocated to private assets?
And what rise in allocation do you expect over the next 12 months?

Private Assets

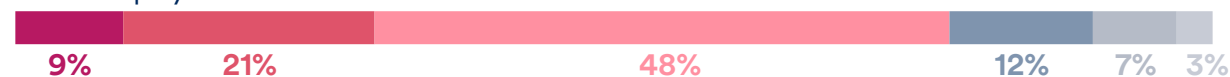


Private equity, private debt and real estate debt are current asset classes of choice

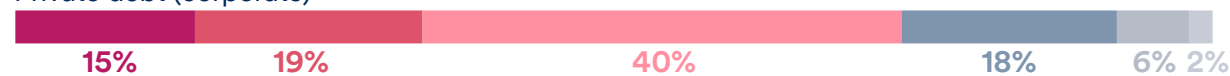
What proportion of your investment portfolio do you allocate to each of these private assets?

0% 0-1% 2-5% 5-10% 10-20% Greater than 20%

Private equity



Private debt (corporate)



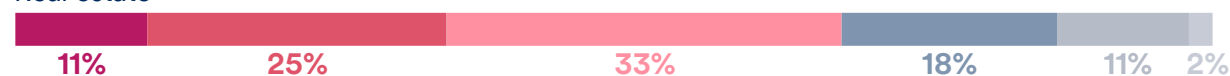
Real estate debt



Infrastructure debt



Real estate



Infrastructure equity



Insurance-linked securities



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The increasing allocation to private debt is an indication that investors value structurally defensive debt instruments in a private market setting that also allows for flexibility.

There is a lot that managers of private debt assets can do to limit the impact of crises on investors' portfolios. The flexibility of the asset class allows managers to renegotiate the terms of lending, and arrange interest payment deferrals or covenant waivers that can provide the needed time for borrowers to weather the storm, ultimately protecting the long-term interests of investors.



Ji-Eun Kim

Head of Multi-Private Asset Investments


The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested. Private equity investments typically display uncertainties which do not exist to the same extent in other investments (e.g. listed securities). Private equity investments may be in entities which have only existed for a short time, which have little business experience, whose products do not have an established market, or which are faced with restructuring etc.

Private equity is expected to see a rise in allocation over the next three years

Which asset class do you expect to increase your allocation the most to over the next three years?

Private equity, infrastructure equity and private debt have been identified by institutional investors to have the biggest increase in allocation over the next three years. Private equity is considered more appealing in Asia-Pacific and North America, with 47% and 41% of investors expecting to increase their allocation to that asset class, compared with 37% globally.





On average, a quarter of investors (24%) globally state they will not be increasing their allocations over the next three years to any of the asset classes listed in our Study.

	 Global
Private equity	37%
Infrastructure equity	29%
Private debt (corporate)	28%
Real estate	21%
Real estate debt	12%
Infrastructure debt	12%
Insurance-linked securities	7%
None of the above	24%

Multiple answers allowed, please select at most three answers

Private equity is expected to see a rise in allocation over the next three years (continued)

Which asset class do you expect to increase your allocation the most to over the next three years?

	 North America	 EMEA	 Latin America	 Asia-Pacific
Private equity	41%	28%	34%	47%
Infrastructure equity	32%	33%	22%	24%
Private debt (corporate)	34%	25%	26%	27%
Real estate	20%	21%	32%	20%
Real estate debt	8%	15%	26%	7%
Infrastructure debt	12%	13%	12%	9%
Insurance-linked securities	5%	13%	8%	2%
None of the above	22%	26%	30%	23%

Multiple answers allowed, please select at most three answers

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Unlike in the other geographies, EMEA's highest expected increase in asset class allocation is to infrastructure equity. Given the strength of the mid-equity market for core infrastructure in Europe, it's no surprise that institutional investors are turning their interest towards long-term investments that focus on predictable cashflows, sustainability and protection from inflation.



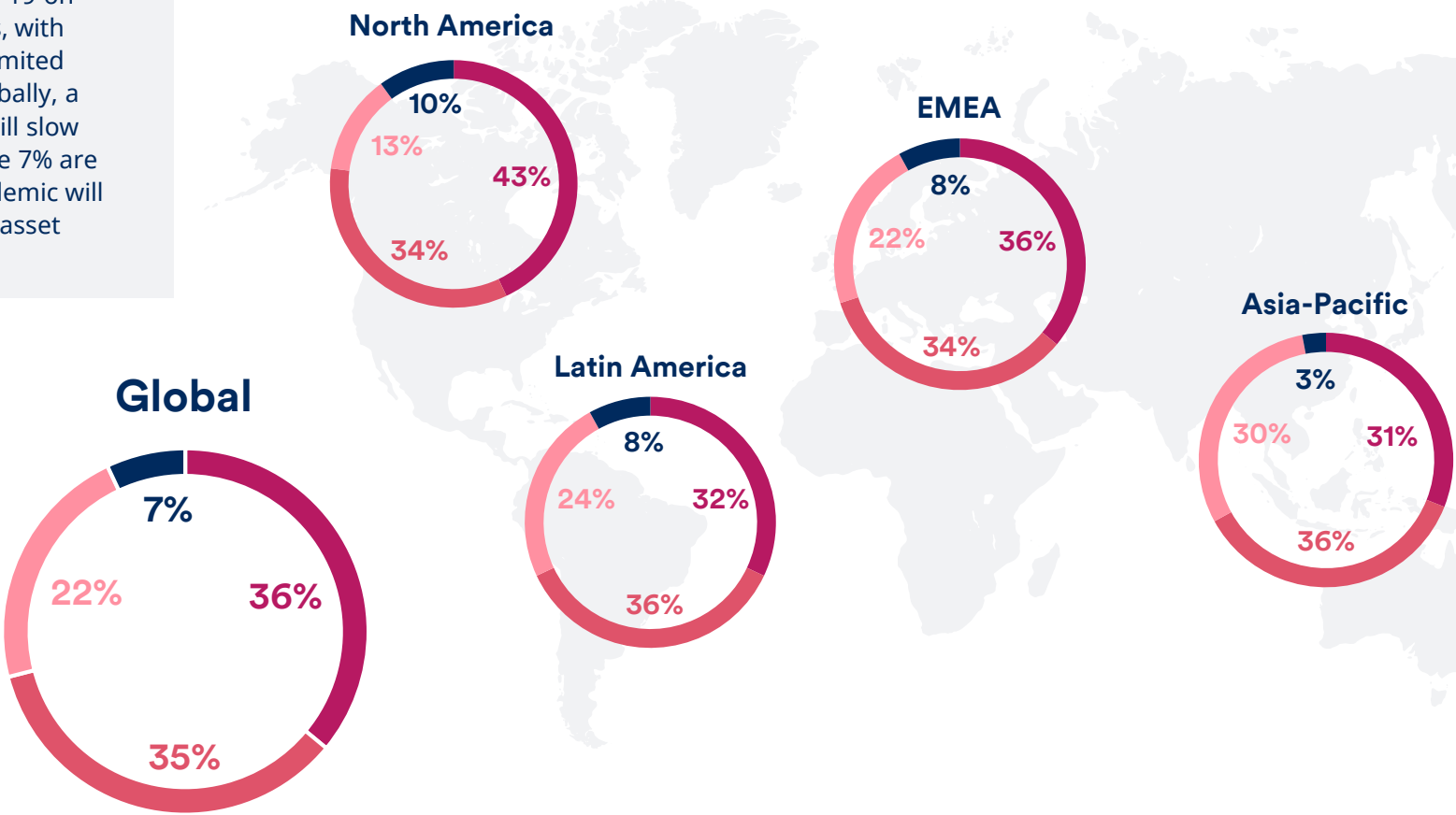
Georg Wunderlin
Global Head of Private Assets

Investor sentiment towards private assets remains stable despite Covid-19

How will Covid-19 impact your allocations to private assets?

North American investors are the most bullish about the effects of Covid-19 on their allocations to private assets, with 43% believing it will have no or limited impact on their investments. Globally, a fifth (22%) say their allocations will slow until the situation stabilises, while 7% are opportunistic, believing the pandemic will accelerate their allocation to the asset class.

- It will have no or limited impact
- It will slow down our allocation (e.g. until the situation stabilises)
- Too early to say
- It will accelerate our allocation to private assets



Investors have conservative return expectations for the next 12 months

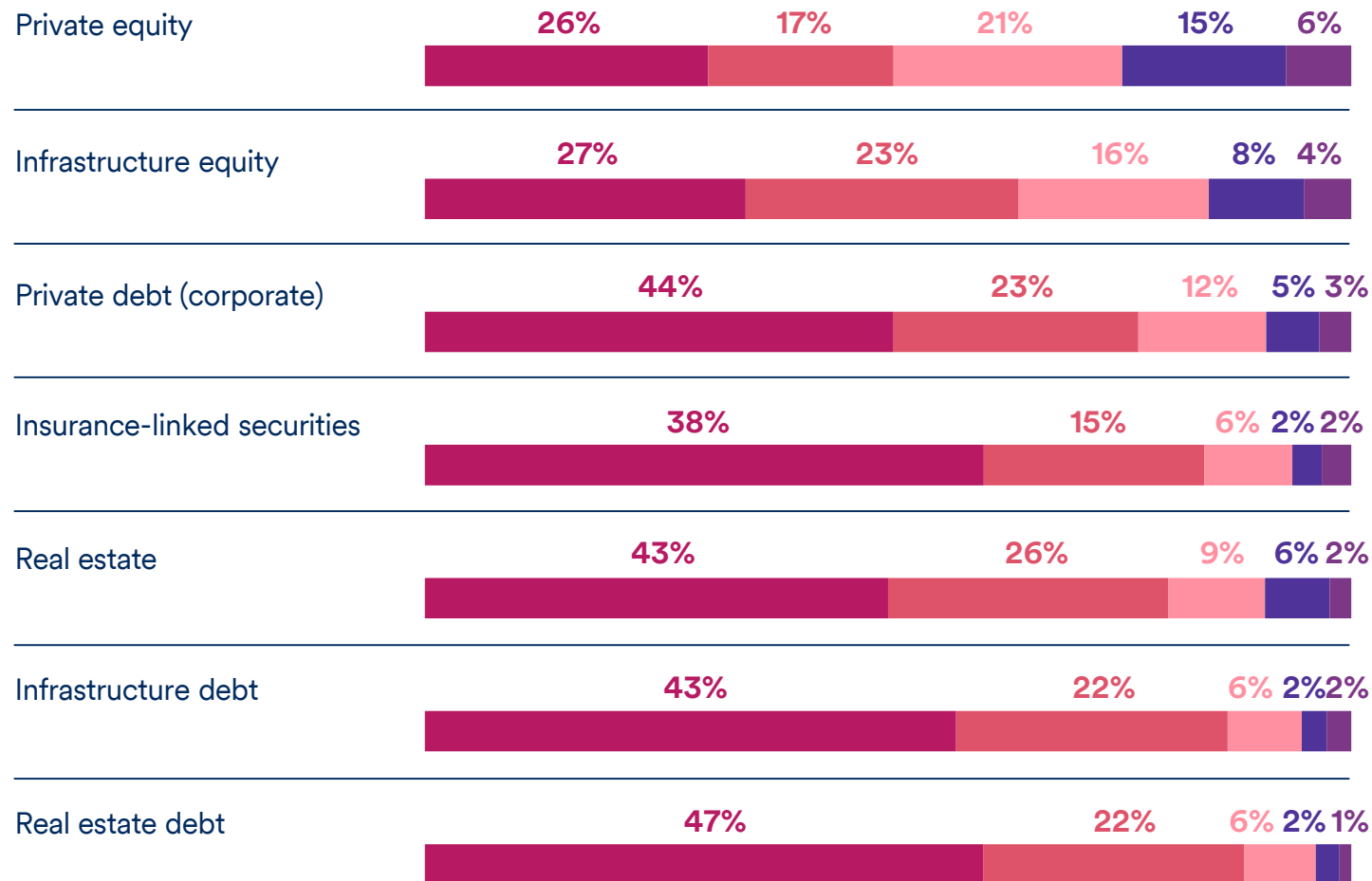
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What are your net return expectations of these private asset classes over the next 12 months?

Return expectations across the various private assets for the next 12 months are conservative, most likely due to the Covid-19 pandemic, however, investor attitudes towards private equity remain strong. 21% believe that their allocation to private equity will deliver more than 10% of their net returns over the next twelve months.

Lower expectations are placed on real estate and infrastructure debt with 43% of institutional investors expecting to generate up to 5% of their net returns from both asset classes.

■ Up to 5% ■ 5-7.5% ■ 7.5-10% ■ 10-15% ■ Greater than 15%



Percentages may not add up to 100% due to 'Don't know' option not displayed

Performance track record and investment philosophy are key drivers of private asset manager selection

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What are your top three criteria when selecting a private asset manager?







	Global	
Performance track record	65%	
Investment philosophy	57%	
Fees and terms and conditions	51%	
Team stability	36%	
Ability to structure / meet local requirements	24%	
Quality of client servicing and reporting	21%	
Holistic solution approach and capability	20%	
Depth of ESG capability	16%	

Multiple answers allowed, please select three options

Performance track record and investment philosophy are key drivers of private asset manager selection (continued)

10

What are your top three criteria when selecting a private asset manager?

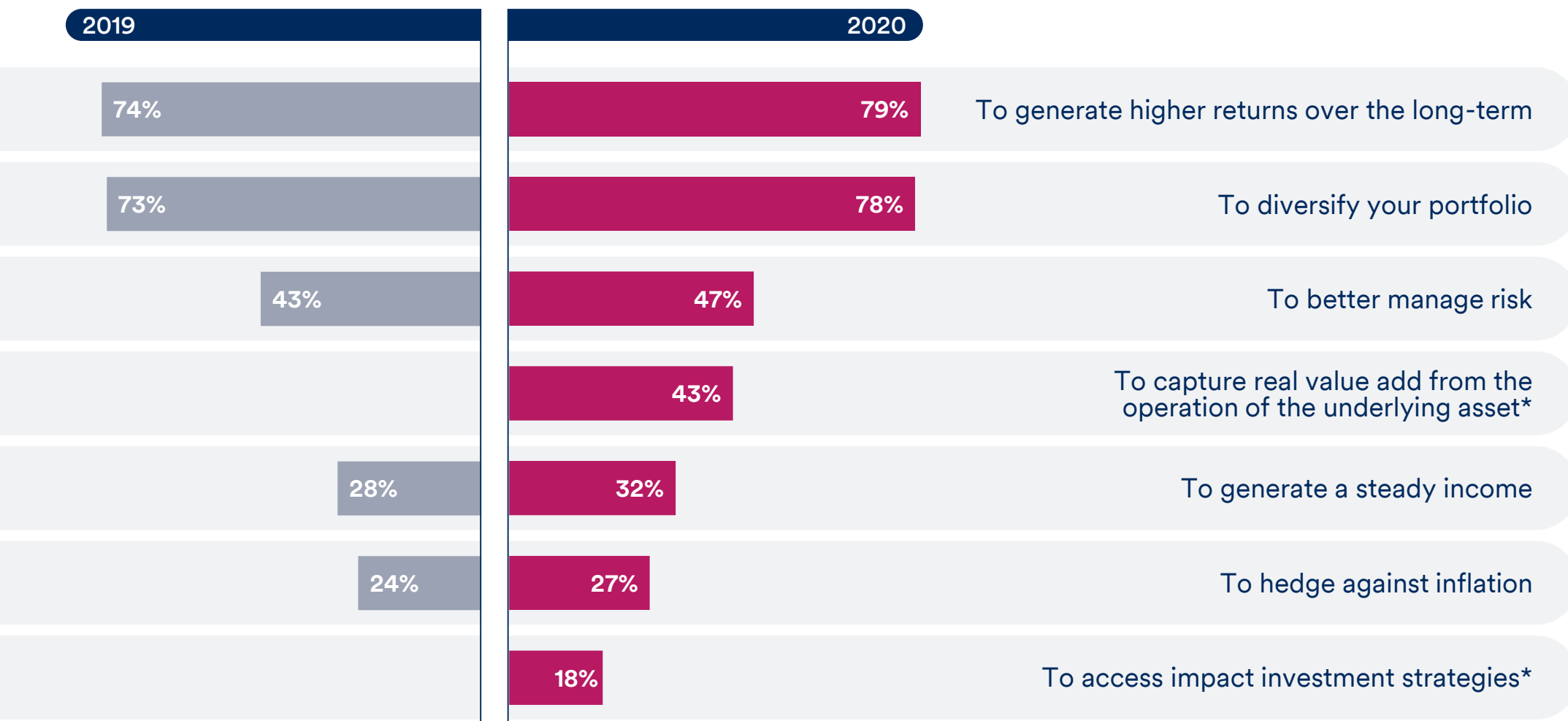
	North America 	EMEA 	Latin America 	Asia-Pacific 
Performance track record	73%	63%	76%	57%
Investment philosophy	59%	66%	58%	43%
Fees and terms and conditions	49%	48%	44%	58%
Team stability	40%	40%	38%	26%
Ability to structure / meet local requirements	11%	21%	18%	45%
Quality of client servicing and reporting	16%	20%	34%	24%
Holistic solution approach and capability	20%	18%	22%	23%
Depth of ESG capability	8%	20%	8%	19%

Multiple answers allowed, please select three options

Long-term returns and diversification drive private asset allocations

11

To what extent are the following factors reasons for you to invest in private assets?



Returns from any investment are not guaranteed





On a scale of 1-5 (1 being strongly disagree and 5 strongly agree) | % Strongly Agree (4 + 5) | *These questions were not asked in 2019

Long-term returns and diversification drive private asset allocations (continued)

12

To what extent are the following factors reasons for you to invest in private assets?

2020 2019

	 North America		 EMEA		 Latin America		 Asia-Pacific	
To generate higher returns over the long-term	87%	89%	75%	67%	81%	76%	74%	65%
To diversify your portfolio	79%	80%	81%	71%	84%	85%	70%	65%
To better manage risk	56%	52%	37%	36%	46%	27%	51%	47%
To capture real value add from the operation of underlying asset*	40%		49%		43%		38%	
To generate a steady income	39%	17%	30%	30%	35%	27%	24%	39%
To hedge against inflation	27%	24%	28%	26%	27%	18%	26%	21%
To access impact investment strategies*	16%		21%		38%		8%	

Returns from any investment are not guaranteed

On a scale of 1-5 (1 being strongly disagree and 5 strongly agree) | % Strongly Agree (4 + 5) | *These questions were not asked in 2019

Valuations, fees and transparency continue to be a concern when investing in private assets

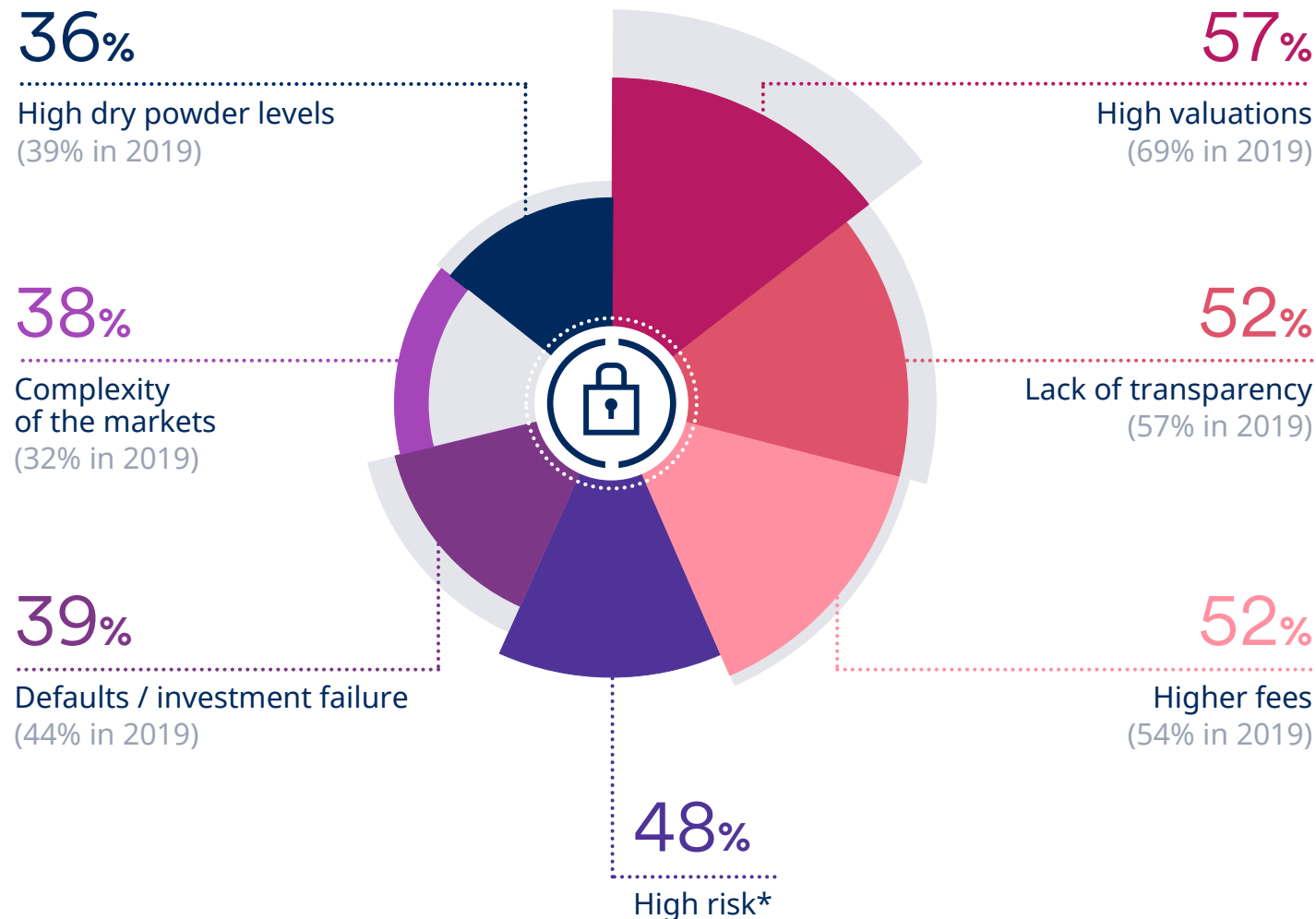
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How concerned are you, or would you be, about the following when investing in private assets?

Valuations, transparency and fees have historically provided investors with challenges when accessing private markets.

We would note, that these concerns are asset class and sector dependent, and that opportunities abound for those able to find value away from crowded and overvalued trades.

We've seen the largest decreases in concerns around default failure (44% in 2019 vs 39% in 2020) and lack of transparency (57% in 2019 vs 52% in 2020). Unease about valuations has also dropped from 2019, which could be driven by the market shock resulting from the Covid-19 crisis which saw valuations decline.



Respondents were asked to rate on a scale of 0-5 where 0 = Not concerned at all and 5 = Very concerned | % Very concerned (4 + 5) | *This question was not asked in 2019

Liquidity, cost and complexity greatest obstacles when investing in private assets

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Concerns around fees and transparency have long been a blockage for investors allocating larger portions of their portfolio to private assets. Liquidity as a concern to investors is another point that comes as no surprise.

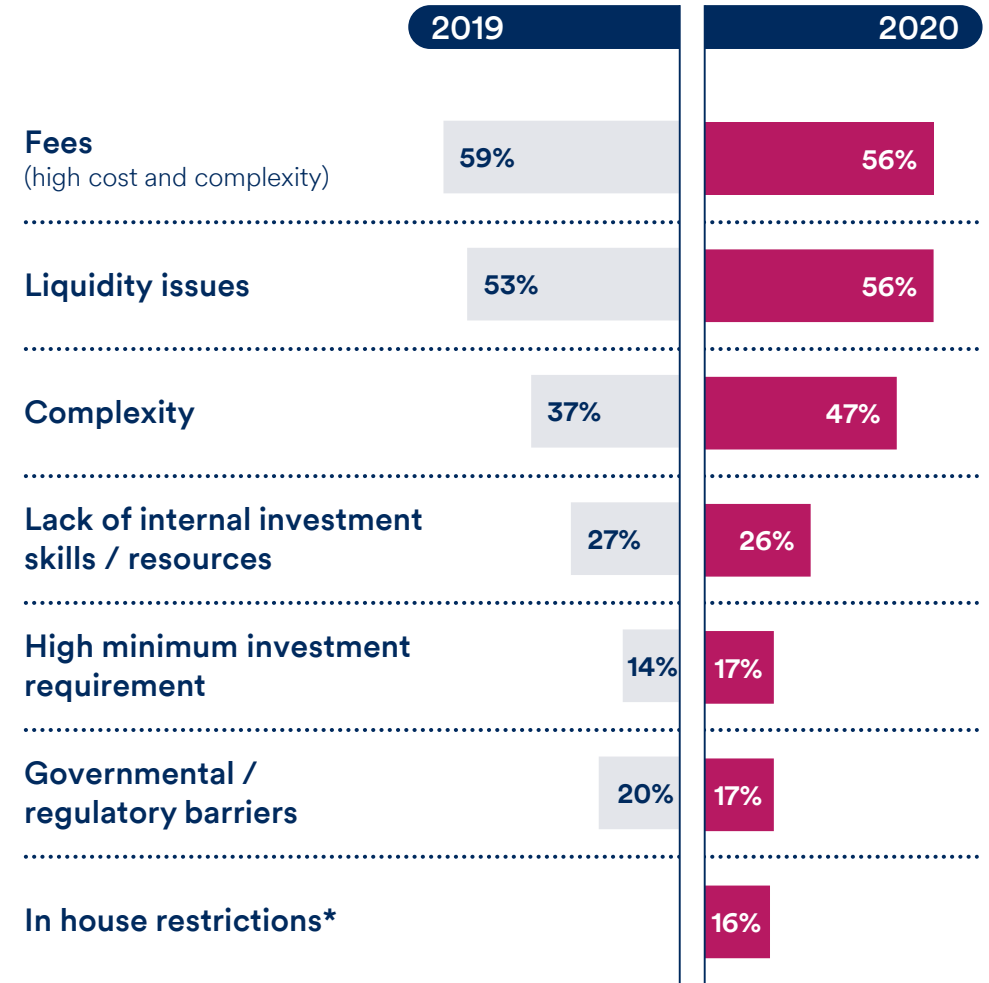
It is clear that LPs are sending a message that the industry needs to address. Let's not forget however, that illiquidity and long lock-ups are the defining characteristics for private assets allowing for control, impact, effective crisis management and ultimately superior value creation.



Georg Wunderlin
Global Head of Private Assets

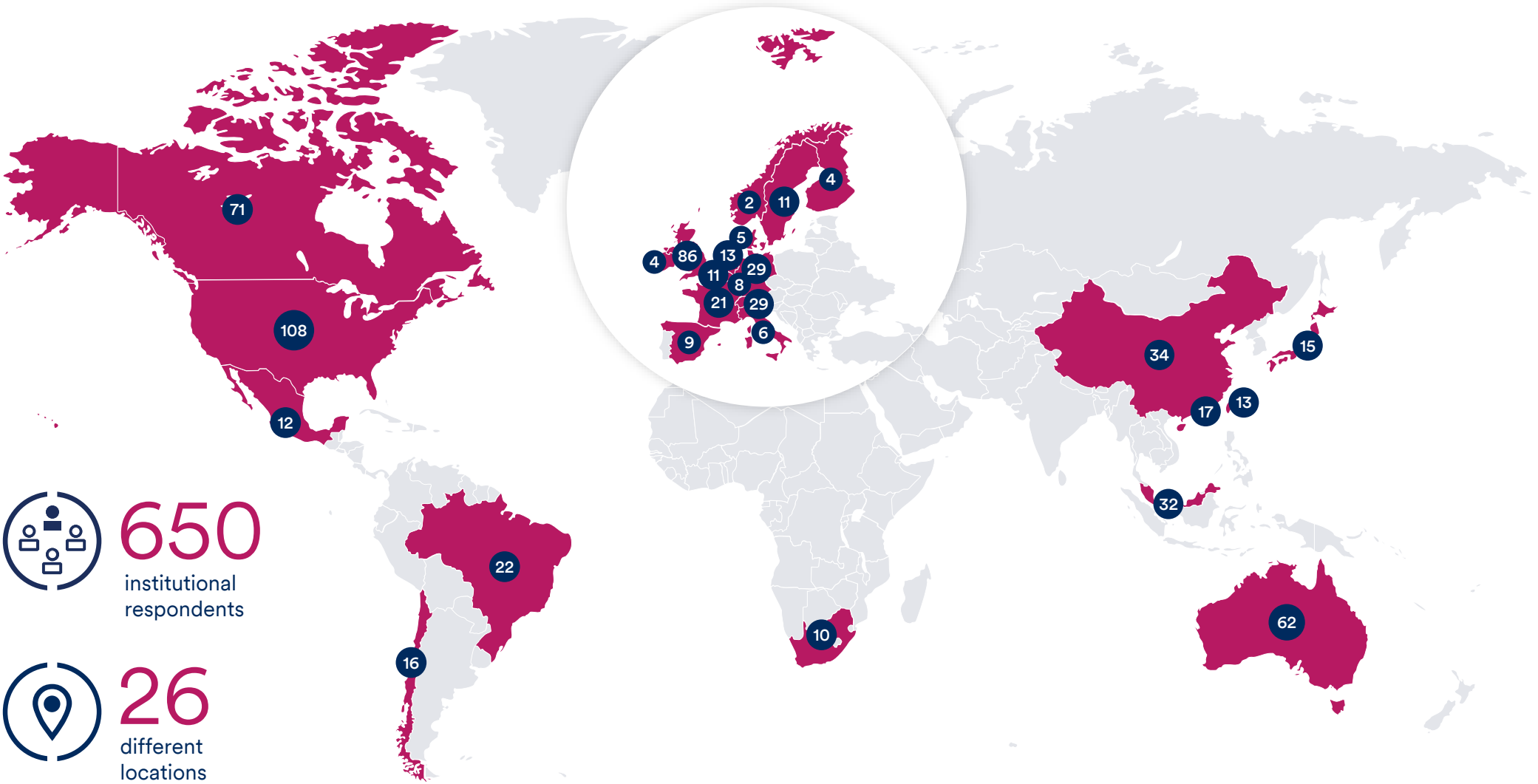
In your experience, what are the main challenges of investing in private assets?

Concerns around high fees continue to be the main challenge for institutional investors when considering investment into private assets. In 2019 and 2020, fees were cited the main challenge (59% in 2019; 56% in 2020). As evidenced earlier in the findings, the illiquidity premium associated with private assets was an attractive feature, however, we can see that it can also be a cause for concern. The complexity of private assets as an investment route appears to be more of a concern for investors this year than in 2019, with a 10 percentage point increase. Investors in Asia-Pacific highlight fees as their main concern (60%) while the other regions cite liquidity issues (Latin America; 60%, EMEA and North America; 58%).



Multiple answers allowed, please select at most three answers | *This question was not asked in 2019

Worldwide institutional respondents



Schroders commissioned CoreData to conduct the fourth annual Institutional Investor Study to analyse the world's largest investors' key areas of focus and concern including the macroeconomic and geopolitical climate, return expectations, asset allocation and attitudes to private assets and sustainable investing.

The respondent pool represents a broad spectrum of institutions, including pension funds, insurance companies, sovereign wealth funds, endowments and foundations owning approximately \$25.9 trillion in assets.

Regional institutional respondents



North America

179
27%



EMEA

248
38%



Latin America

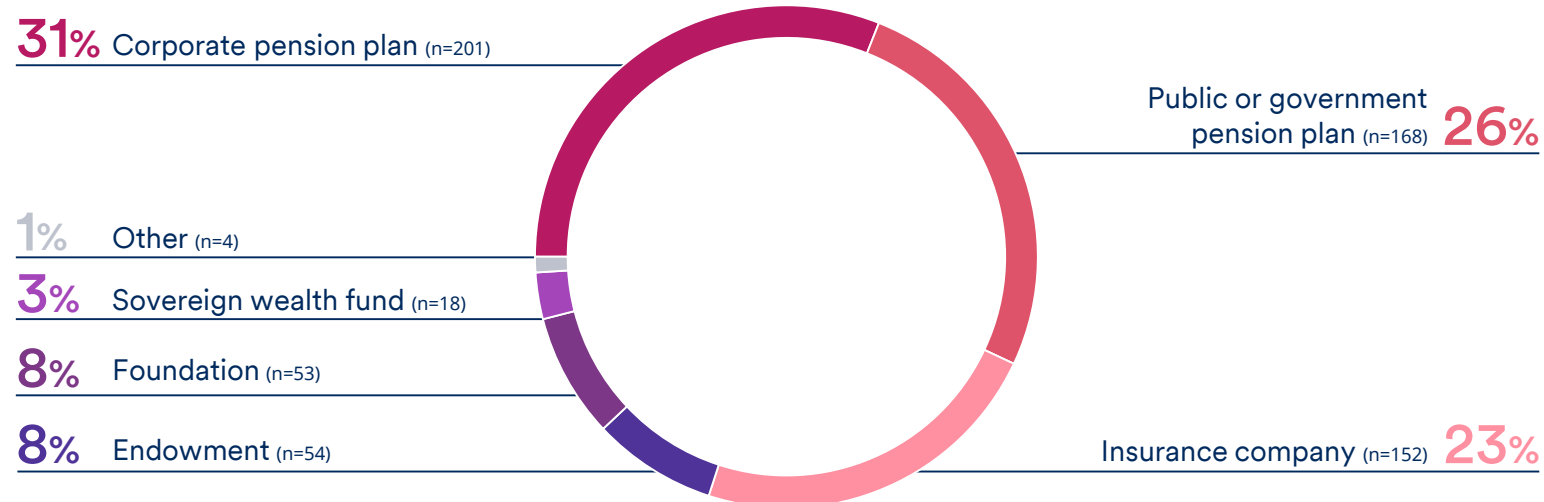
50
27%



Asia-Pacific

173
8%

Type of organisation

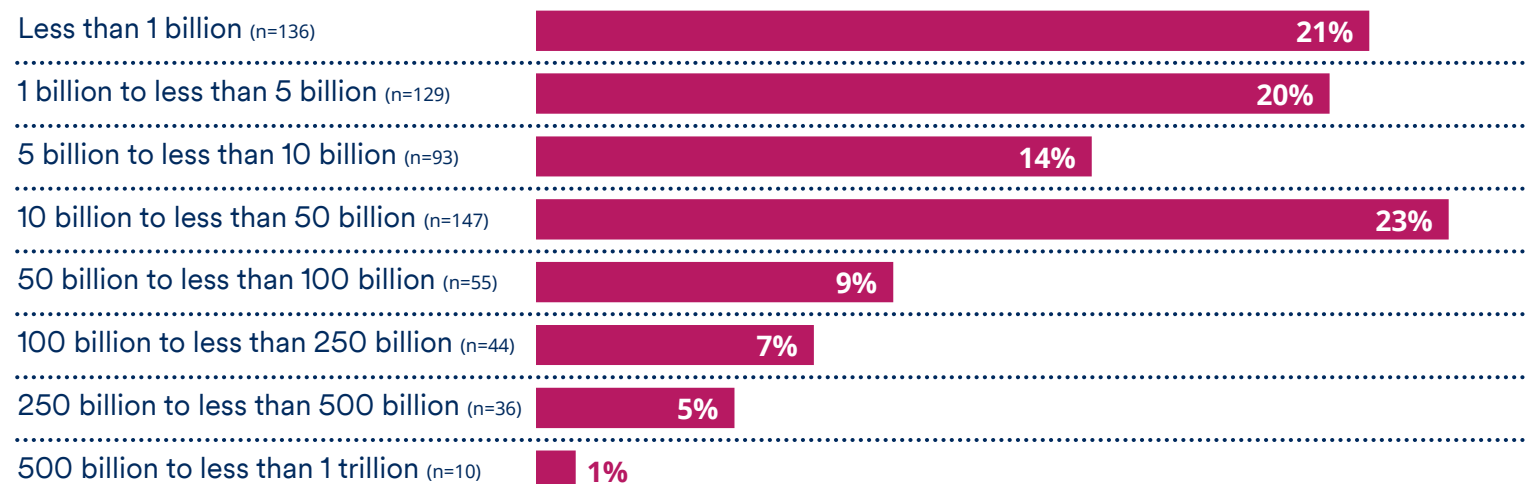


Assets under management



Total AUM

\$25.9
trillion



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