Schroders

Institutional Investor Study 2019

Private Assets

Marketing material for professional investors and advisers only

Contents

Executive summary

Schroders' third annual Institutional Investor Study

This Study analyses the investment perspectives of 650 institutional investors, collectively responsible for $25.4 trillion in assets and from 20 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.

650

650 institutional respondents

20

different locations

$25.4tn

in assets under management

This year's results have demonstrated that there is a growing global demand for private assets. **52% of institutional investors are set to increase allocations to private assets** over the next three years, with demand highest among those in North America (58%).

Almost three-quarters (74%) of institutional investors are driven by the prospect of **higher returns** and **portfolio diversification** (73%) when investing in private assets. This indicates investors are struggling to generate returns and achieve diversification through conventional asset classes.

Real estate and private equity are the most popular asset classes for current allocations. One in five (19%) currently allocates between 6–10% of their overall portfolio toward real estate and one in eight (13%) allocates between 6–10% to private equity.

The appeal of these two asset classes may be due to **investors' high return expectations.** 69% think private equity will generate returns of more than 5% over the next year, while 57% believe real estate will deliver returns of more than 5% over the next 12 months.

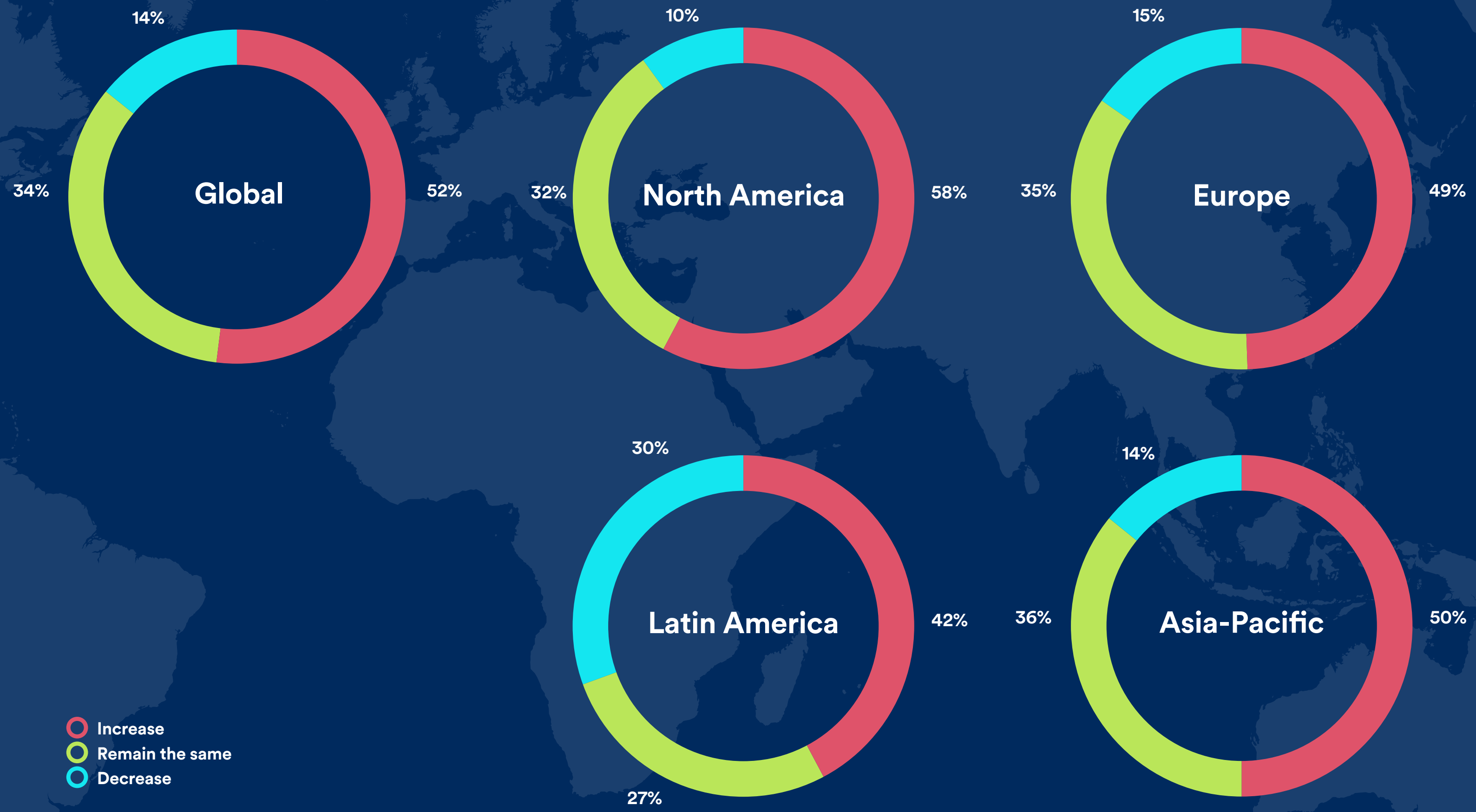
While there is this growing demand, there are still challenges with private asset investing. Institutional investors globally identify **fees (59%)**, **liquidity issues (53%)** and **complexity (37%)** as the three main challenges.

The pull of private assets

Growing global demand

More than half (52%) of institutional investors expect to increase allocations to private assets over the next three years. Demand is highest among those in North America, with nearly six in 10 (58%) set to raise allocations.

While only 14% of global institutions plan to decrease their private asset allocations, Latin American investors are the outlier, with 30% planning to decrease allocations in the next three years.



Within the next three years, do you expect your allocation to private assets to...?

Drivers for private asset investing

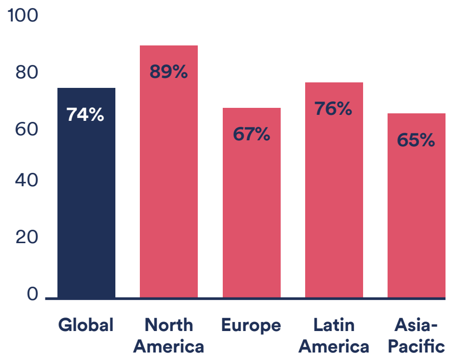
Seeking returns and diversification through private assets

Global institutional investors point to the need to generate higher returns (74%) and diversify portfolios (73%) as the primary reasons for using private assets.

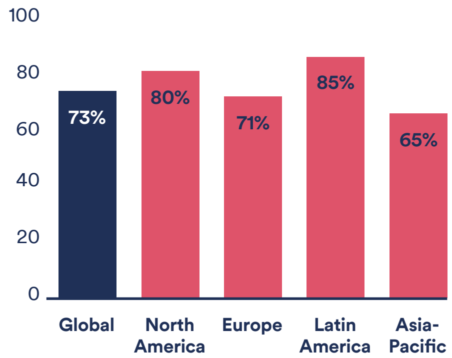
Investors in North America (89%) attach significantly more value to the prospect of generating higher returns, while diversification (85%) is a stronger driver for investors in Latin America.

Better risk management (43%) is the third most cited reason for using private assets globally. This factor holds most sway for North American investors (52%).

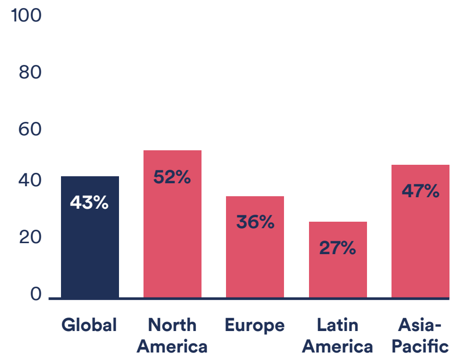
To generate higher returns



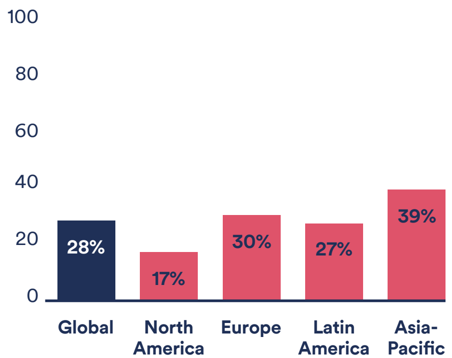
To diversify your portfolio



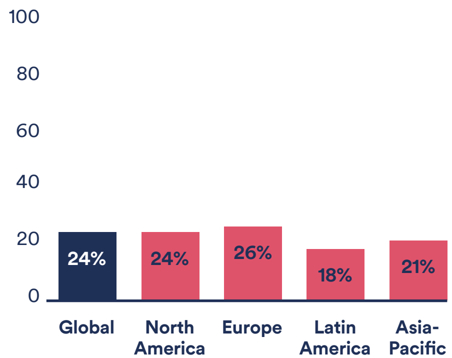
To better manage risk



To generate a steady income



To hedge against inflation



On a scale of 0–5 (0 being strongly disagree and 5 strongly agree) to what extent are the following factors reasons for you to invest in private assets?

Asset class allocation

Current allocation and return expectations are correlated

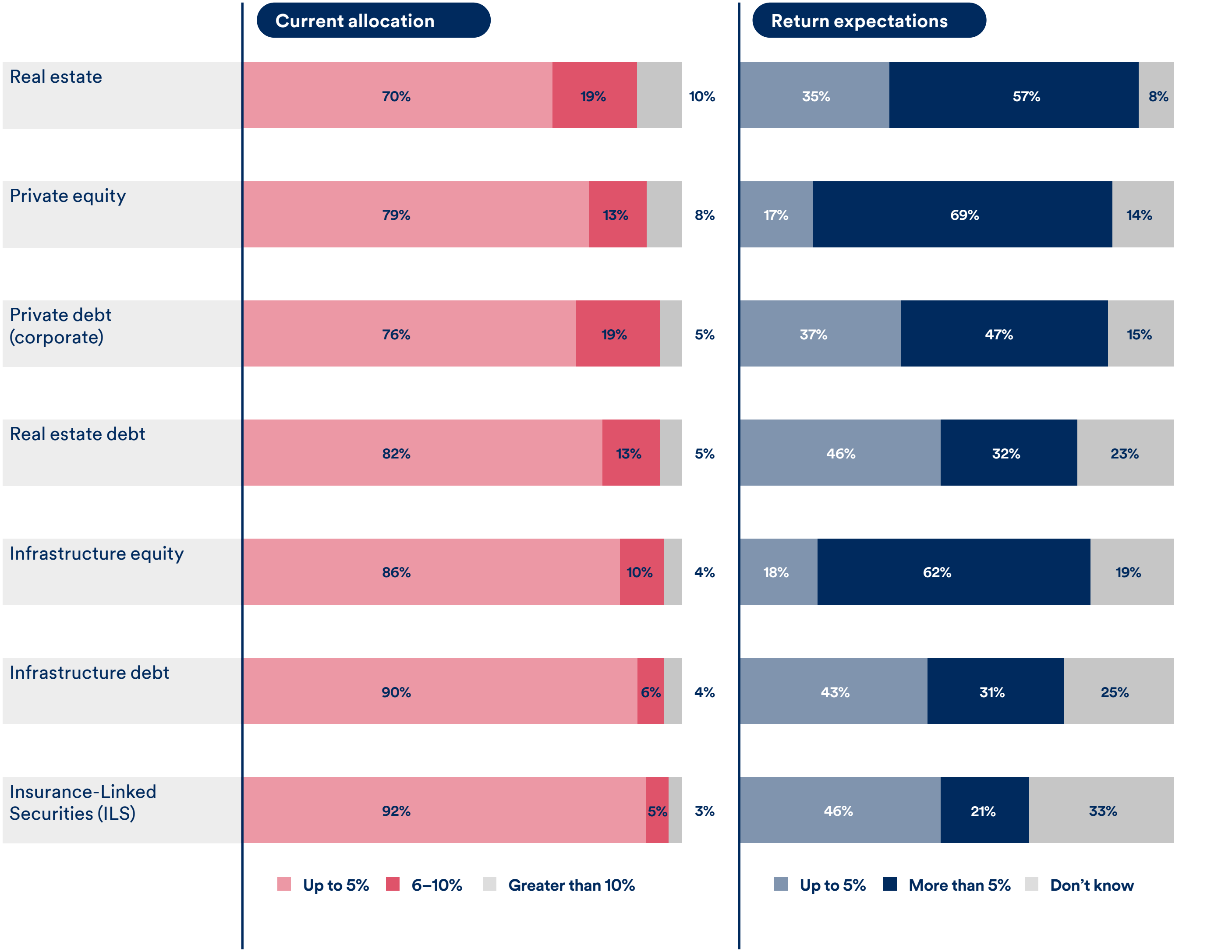
Real estate makes up the largest allocation within private assets among institutional investors. One in five (19%) currently allocate between 6-10% of their overall portfolio toward real estate and one in 10 greater than 10%.

Private equity accounts for the second-largest proportion of private assets among investors. One in eight (13%) allocates between 6-10% of overall portfolios toward private equity and 8% allocates more than 10%.

The appeal of these two asset classes may be due to investors' high return expectations. 69% think private equity will generate returns of more than 5% over the next year, while 57% believe real estate will deliver returns of more than 5% over the next 12 months.

46% of investors believe real estate debt and Insurance-Linked Securities (ILS) will only generate up to 5% returns in the next 12 months.

What proportion of your overall portfolio do you allocate to these private asset classes and what are your return expectations of these asset classes over the next 12 months?



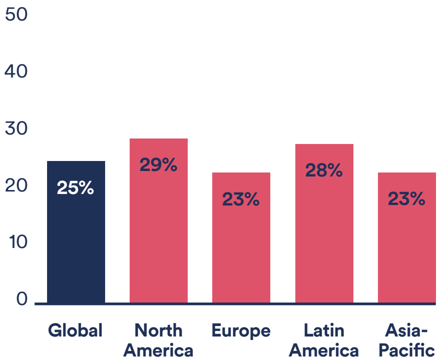
Asset class allocation

Private equity and income-seeking private assets on the rise

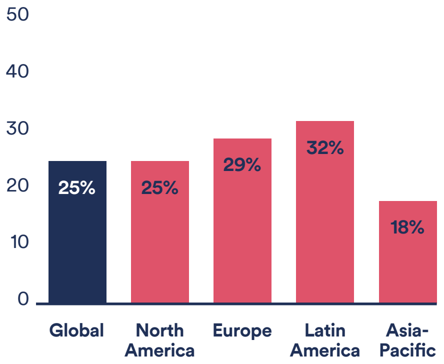
These high return expectations are driving an anticipated increased in future allocations. Nearly four in 10 (37%) investors say that private equity is the asset class they expect to increase allocations to the most over the next three years.

In our overview report 'Geopolitics and investor expectations', we saw global institutional investors' most important investment objective for the next 12 months is to generate income (66%), with generating high risk-adjusted returns coming in third (55%). This is representative of global appetite for those private assets that can deliver a stable, long-term and inflation-linked income stream e.g. private debt and real estate (25%).

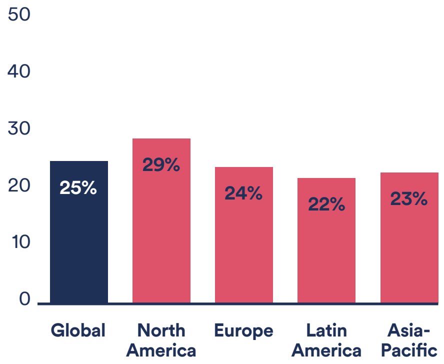
Private debt (corporate)



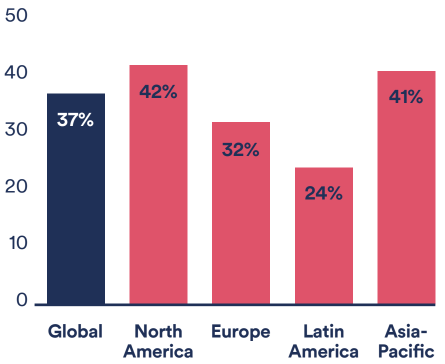
Infrastructure equity



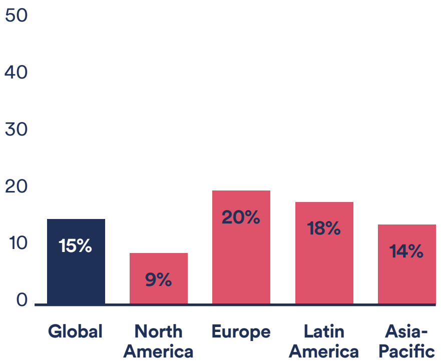
Real estate



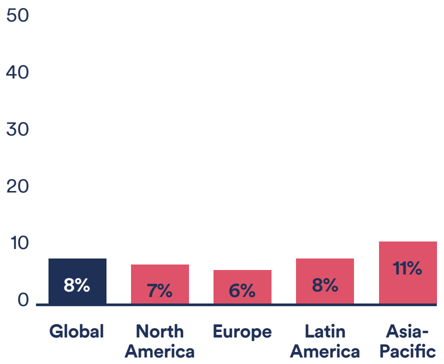
Private equity



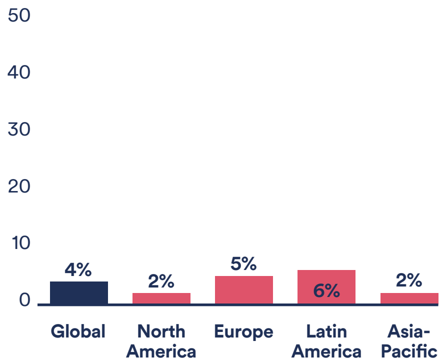
Infrastructure debt



Real estate debt



Insurance-Linked Securities



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

Private asset hurdles

Fees and complexity particularly challenging

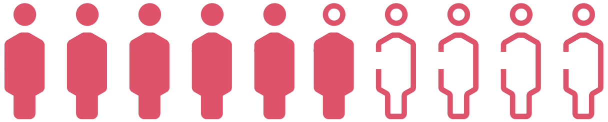
While allocations are set to rise as investors hunt for returns and seek diversification, institutions still point to a number of hurdles when investing in private assets.

Investors identify fees (59%), liquidity issues (53%) and complexity (37%) as the three main challenges. Institutions are aware the attractive premiums offered by private assets are a function of both illiquidity and complexity and that investing in the asset class can be higher cost.

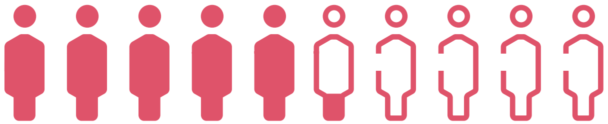
Fees – both in terms of their level and complexity – were cited as being particularly challenging for investors in North America (69%). Investors in Asia-Pacific (43%), meanwhile, are more likely to find complexity a challenge.

More than a quarter of global investors (27%) also flag difficulties arising from a lack of internal investment skills and resources when investing in private assets. Investors in Europe (33%) are most likely to cite this challenge, indicating a need for outsourced solutions.

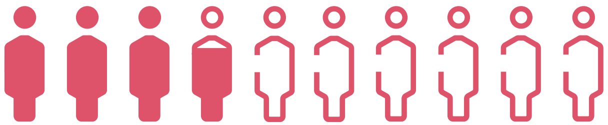
In your experience, what are the main challenges of investing in private assets?



59%
fees



53%
liquidity issues



37%
complexity

Asia-Pacific

43%

Investors in Asia-Pacific are more likely to find **complexity a challenge**.

North America

69%

Fees were cited as being particularly challenging for investors in North America.

Global

27%

of global investors also flag difficulties arising from a **lack of internal investment skills** and resources when investing in private assets.

Private asset hurdles

Fees and complexity particularly challenging (continued)

	Fees	Liquidity issues	Complexity	Lack of internal investment skills/ resources	Government/ regulatory barriers	Organisation's investment committee restrictions	High minimum investment required
Global	59%	53%	37%	27%	20%	20%	14%
North America	69%	56%	34%	24%	11%	13%	17%
Europe	62%	50%	34%	33%	19%	22%	14%
Latin America	54%	52%	34%	32%	36%	36%	14%
Asia-Pacific	46%	55%	43%	21%	26%	21%	12%

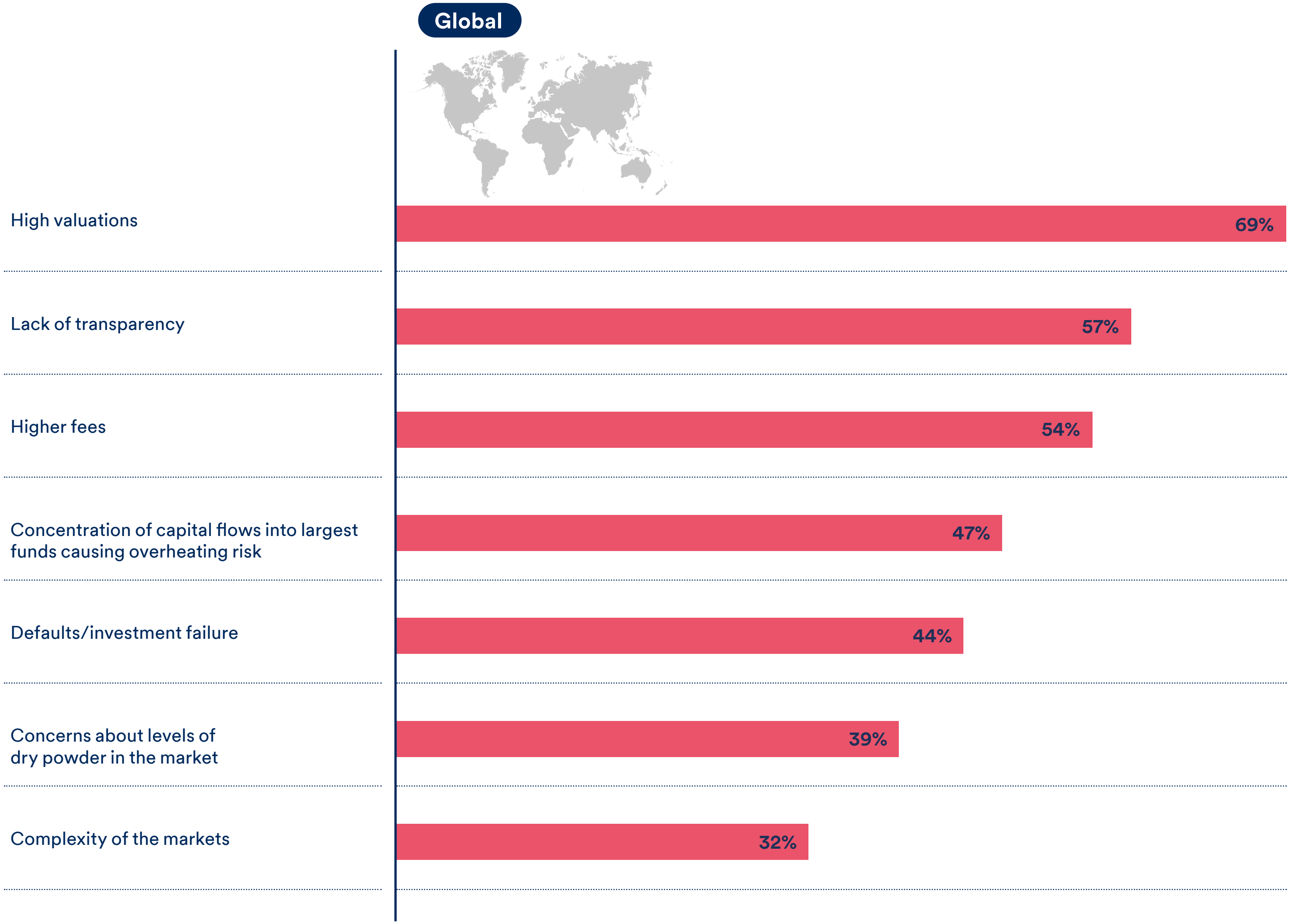
In your experience, what are the main challenges of investing in private assets?

Concerns when investing in private assets

High valuations and lack of transparency are top concerns globally

The primary concern among investors is high valuations (69%), reflecting fears the market could be overheating on the back of a decade of funding growth. Indeed, concerns around both high valuations and overheating are greatest among North American and European investors.

Defaults/investment failure is the third highest concern for Asia-Pacific investors (54%) but they are least concerned about levels of dry powder in the market (27%). This is in stark contrast to North American investors who put defaults/investment failure at 31% and dry powder concerns at 48%.



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

Concerns when investing in private assets

High valuations and lack of transparency are top concerns globally (continued)

	North America	Europe	Latin America	Asia-Pacific
High valuations	71%	70%	62%	65%
Lack of transparency	57%	56%	54%	58%
Higher fees	64%	53%	48%	49%
Concentration of capital flows into largest funds causing overheating risk	56%	46%	40%	41%
Defaults/investment failure	31%	44%	48%	54%
Concerns about levels of dry powder in the market	48%	40%	38%	27%
Complexity of the markets	23%	28%	30%	48%

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

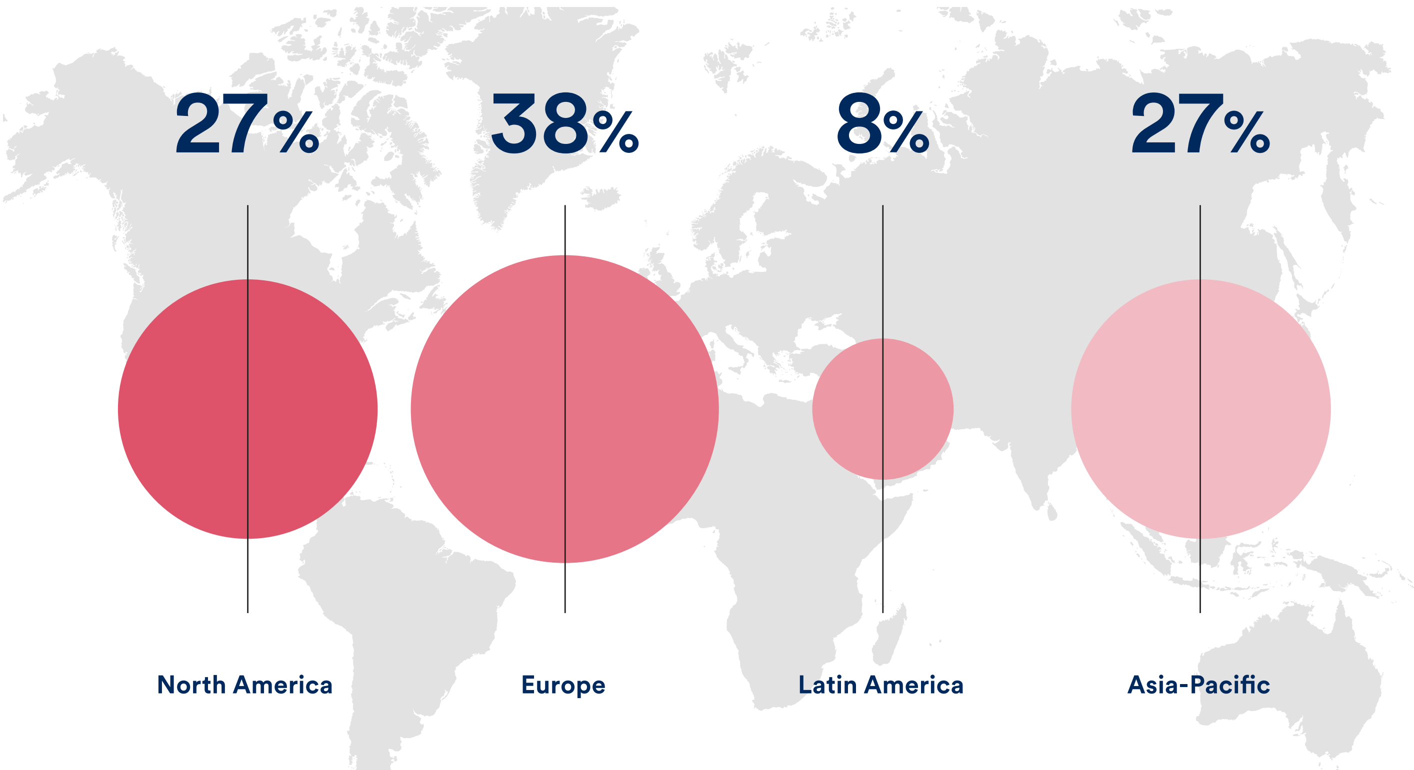
About the Study

Schroders commissioned CoreData to conduct the third 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 spectrum of institutions, including pension funds, insurance companies, sovereign wealth funds, endowments and foundations managing $25.4 trillion in assets. The research was carried out in May 2019. The 650 institutional respondents were split as follows: 175 in North America, 250 in Europe, 175 in Asia-Pacific and 50 in Latin America. Respondents were sourced from 20 different locations.

650
institutional respondents

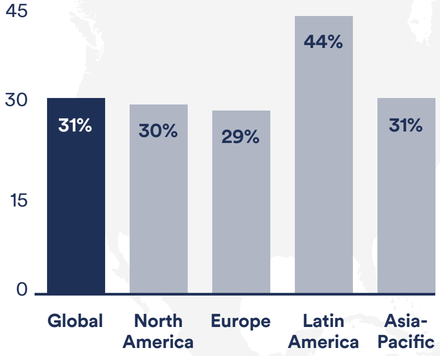
20
Different locations



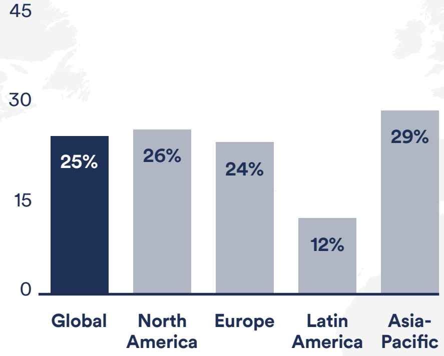
About the Study

Type of organisation

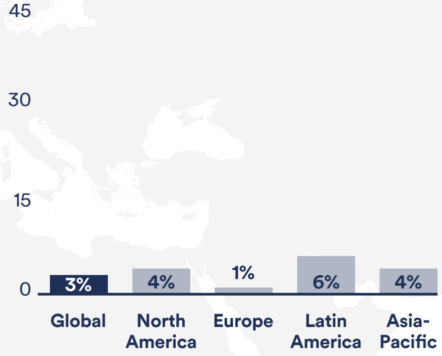
Corporate pension plan



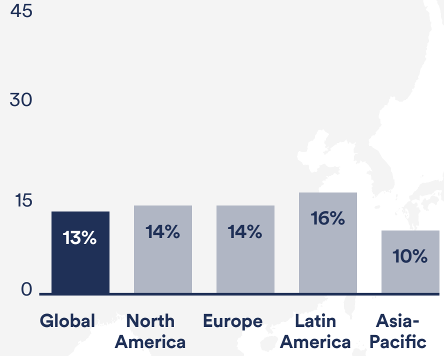
Public or government pension plan



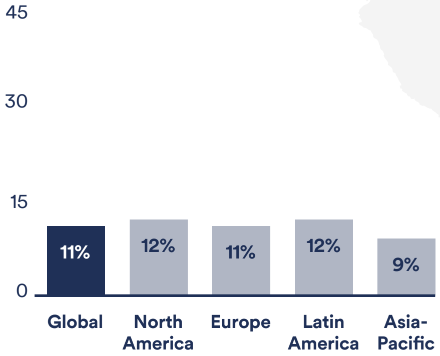
Sovereign wealth fund



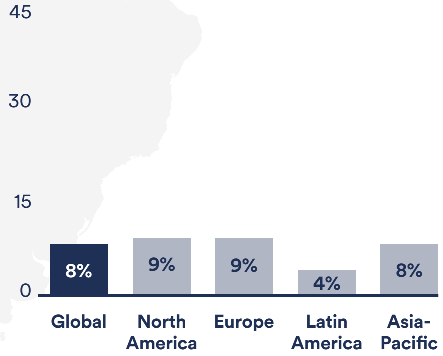
Life insurance company



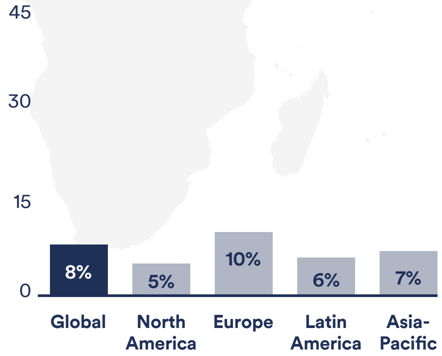
Non-Life insurance company



Endowment



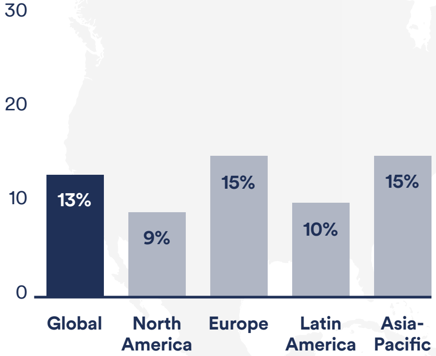
Foundation



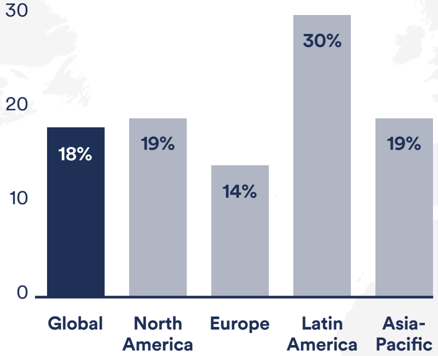
About the Study

Assets under management

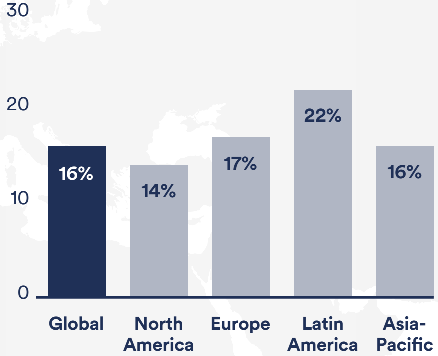
Less than $1bn



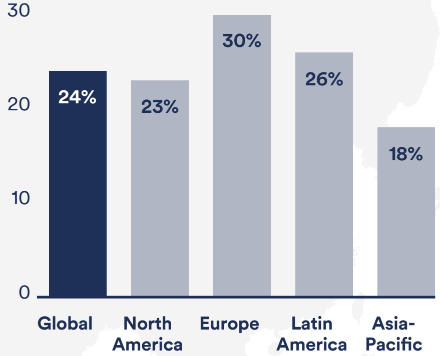
$1bn to less than $5bn



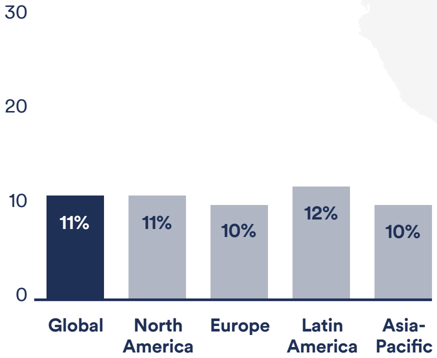
$5bn to less than $10bn



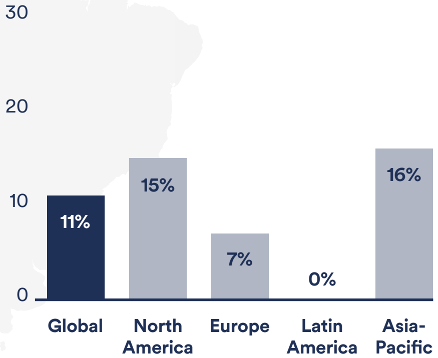
$10bn to less than $50bn



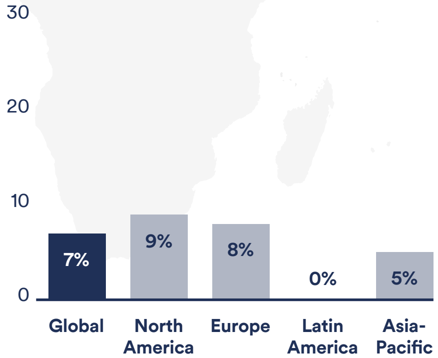
$50bn to less than $100bn



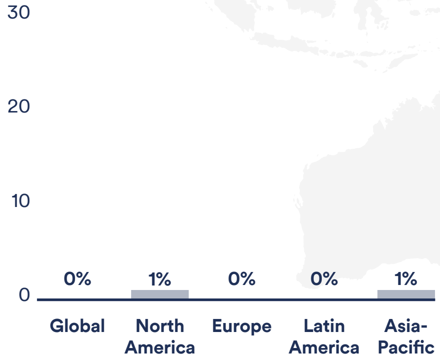
$100bn to less than $250bn



$250bn to less than $500bn



$500bn to less than $1tn



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