Press Release

Pension plans begin biggest investment shift in a decade, as they return to long-term strategies that take ESG investing from niche to mainstream – according to new research from CREATE and Amundi

London, 27/11/2017 – European pension plans now consider long-term investing to be key to navigating the post-crisis environment, according to a report published today by CREATE-Research and Amundi. In light of rising inflation, loosening monetary policy and the rise in populist government movements, pension funds are moving away from short term, risk averse strategies designed to cope with volatile markets in favour of investing for long term yield and growth. This is resulting in a wholesale review of asset allocation, and has also revealed that ESG investing has dramatically gone from niche to mainstream. The research questioned 161 pension plans with total assets of €1.71 trillion and was followed up by interviews with 30 senior executives to obtain detailed insights.

Respondents identified four pertinent shifts in the global economy:

- from globalism to populism
- from monetary to fiscal policy
- from deflation to inflation
- from over–regulation to deregulation

The world has moved on from the 2008 global financial crisis, with inflation returning to economies in America, Europe and Japan, and central banks winding down their quantitative easing, leaving fiscal action to sustain global growth. However, unfamiliar political risks have emerged fueled by populism, including the election of Donald Trump and the Brexit vote. Only **3%** of pension plans regard the shift from globalism to populism to have a *positive* impact. The biggest concern is the impact of the protectionist Trump agenda, which, if pursued vigorously, could have negative knock on impacts via elaborate financial and supply chain linkages. All investors can be certain of is that they are transitioning into a more mature phase of the market cycle, with the US well ahead of the pack, followed by Europe.

Against this backdrop pension funds increasingly view long-term investing as a matter of necessity as much as choice with **44%** of respondents expecting the role of long term investing to *rise*, compared to just **8%** who expect it to *fall*. While overall holding periods differ according to the needs of individual schemes, most pension funds now agree that assets need to be held for longer in order to realise value, with less attention given to short term volatility or overreacting to the 24 hour news cycle. A majority (**60%)** believe that lower portfolio turnover delivers better returns for equities, with **50%** agreeing the same is true for bonds and **46%** for alternatives.

With interest rates still at all-time lows, investors are reviewing their asset allocation away from bonds, which are now seen as over-priced given their finite yields. The majority of funds (**62%**) believe global equities are best suited to meet their plans' goals over the next three years – in particular those high quality stocks offering good dividends, strong pricing power and tested brands that promote the so-called bondification of equities. Alternative credit and real estate debt are also becoming more popular due to the attractive yields on offer compared to bonds.

Significantly, **61%** of pension funds now expect to increase their allocations according to ESG parameters (Environment, Social and Governance) in the next three years. ESG investing is now effectively a mainstream investment strategy, with a consensus emerging around the view that generating sustainable long-term returns requires a sustainable economy and society. There is also a moral imperative, while **27%** said that ESG investing *works for investors*, **29%** said that *investors have a role to play* and **50%** of respondents cited *exercising social responsibility* as a driver of ESG investing.

Professor Amin Rajan of CREATE-Research, who led the project, said: *"The rise of populism casts a political shadow over the global economy at a time when central banks are starting to unwind their highly accommodative monetary policies. The combined effects are likely to cause major shifts in the global economy, and pension funds are collectively altering their strategies to protect against the downside while seeking growth. For most this has resulted in a long term investment approach which naturally favours equities. There is also a growing recognition that the asset manager best placed to deal with the post crisis environment is not necessarily the one with the best strategy, but the one who makes the fewest mistakes.*"

Pascal Blanqué, Group Chief Investment Officer at Amundi, said: *"In this comprehensive review of how Europe's pension funds are thinking and behaving, it's clear that attitudes are adapting to the new normal, and for many this will mean going back to basics and returning to the kind of long term investing we saw before the financial crisis. But history seldom repeats itself, and for the first time we are seeing a consensus forming around ESG investing, as pension investors increasingly price in climate change and governance concerns to their long term outlook."*

ENDS

This document is intended solely for journalists and media professionals. The information is provided solely to enable journalists and media professionals to have an overview of the topic discussed, and whatever use they make, which is exclusively for independent editorial, Amundi assumes no responsibility.

Contacts

James McFarlane
Maitland
Tel: +44 (0) 207 395 0482
jmcfarlane@maitland.co.uk

Natacha Sharp
Amundi
Tel: +33 (0) 1 76 37 86 05
Email: Natacha.sharp@amundi.com

Amin Rajan
CREATE-Research
Tel: +44 (0)1892 526 757
Email: amin.rajan@create-research.co.uk

About Amundi

Amundi is Europe's largest asset manager by assets under management and ranks in the top 10[1] globally. Thanks to the integration of Pioneer Investments, it now manages 1.4 trillion[2] euros of assets across six main investment hubs[3]. Amundi offers its clients in Europe, Asia-Pacific, the Middle-East and the Americas a wealth of market expertise and a full range of capabilities across the active, passive and real assets investment universes. Headquartered in Paris, and listed since November 2015, Amundi is the 1st asset manager in Europe by market capitalization[4] .

Leveraging the benefits of its increased scope and size, Amundi has the ability to offer new and enhanced services and tools to its clients. Thanks to its unique research capabilities and the skills of close to 5,000 team members and market experts based in 37 countries, Amundi provides retail, institutional and corporate clients with innovative investment strategies and solutions tailored to their needs, targeted outcomes and risk profiles.

About CREATE Research

CREATE-Research is an independent research boutique specialising in strategic change and the newly emerging business models in global asset management. It undertakes major research assignments from prominent financial institutions and global companies. It works closely with senior decision makers in reputable organisations across Europe and the US. Its work is disseminated through high-profile reports and events that attract wide attention in the media. Further information can be found at www.create-research.co.uk