European CIO Survey
Projects, Themes & Priorities for 2016
Calendar of upcoming Roundtables

Management Roundtable for Chief Investment Officers
2 - 3 March 2016 • Kempinski Hotel Gravenbruch • Frankfurt

This Roundtable focuses on business management issues relating to overseeing the investment process and team, as well as timely discussion on investment topics. This meeting is suitable for the CIO, Chief Risk Officer, Chief Strategist, Head of Equities or other senior investment officials. The Institute’s electronic polling system allows for instant benchmarking on issues and for discussion around replies to questions at each meeting.

Chief Operating Officer / Chief Financial Officer Roundtable
7 – 8 June 2016 • Hotel Vier Jahreszeiten • Munich

The roles of COO and CFO as key members of a CEO’s management team have never been more important than in the current business environment. This Roundtable will bring together 45 operational and financial officials to share views on the challenges they face in helping their firms adapt to a new environment of client needs, volatile markets, global expansion and new technology. We will again partner with Casey Quirk/McLagan on a “Performance Intelligence” study of member firms, which will be presented at this Roundtable.

Chief Executive Officer Roundtable
3 - 5 October 2016 • Grand Hotel du-Cap-Ferrat, a Four Seasons Hotel • Côte d’Azur

The highlight of the Institute’s calendar, this Roundtable concentrates on the critical trends shaping the asset management industry - providing your annual “business check” on how your counterparts are handling the same issues as you. This meeting is reserved exclusively for the Senior Delegate or a more senior executive based in Europe. The Institute’s electronic polling system allows for instant benchmarking on issues and for discussion around replies to questions at each meeting. The Roundtable starts with Cocktails on the Monday 3rd October.

Chief Compliance Officer Roundtable
November 2016 • Date and Venue TBC

This Roundtable for senior Compliance specialists will feature the impact and concerns about the latest regulatory topics, as well as providing an excellent networking opportunity. The Institute’s electronic polling system allows for instant benchmarking on issues and for discussion around replies to questions at each meeting.

Special invitation

US Institute CEO Roundtable
22 – 24 June 2016 • Four Seasons Hotel • Boston

This special invitation, extended by our sister US Institute, enables European Institute Senior Delegates to compare notes with North American counterparts. This invitation cannot be transferred to colleagues in the US.

Ad Hoc Programme
CEO Luncheon
6 January 2016 • Location TBC • London

The European Institute always kicks off the New Year with a special CEO lunch (exclusive to Senior Delegates).

June 2016 • Location TBC • London

Member CEOs will meet to discuss the findings of Casey Quirk/McLagan’s “Performance Intelligence” Study.
Foreword

Welcome to the 2016 European CIO Survey results, which will give you a valuable insight into the thinking of asset owners at a wide range of institutions, from relatively small foundations and endowments up to some of Europe’s largest pension funds with tens of billions in assets under management.

These findings are based on the views of over 120 senior investors in Europe. These individuals are registered users of our private, online community, Investor Intelligence Network. They also attend our events on a regular basis, so we have a good relationship with them and they clearly feel comfortable giving us their heartfelt views on investment matters. This year, we have probed their thinking on various alternative asset classes in more depth, among other topics covered in the survey.

If you have any questions on the results or methodology, or have suggested areas to cover for next year’s survey, then please get in touch with me. On behalf of Institutional Investor, I wish you a successful 2016 and I look forward to welcoming you and your organisation to our events over the next 12 months.

Scott Anderson
Managing Director – Europe and Middle East
Institutional Investor – Memberships & Conferences
Office: +44 207 303 1744
Mobile: +44 7408 850122

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Key Findings: European Investors Seek Returns in a Low Interest Rate World

This year we decided to freshen up our annual online survey for investors using the Investor Intelligence Network. In particular, we wanted to get a better feel for their areas of interest in alternative assets, as well as their priorities for asset allocation changes. While over 300 senior investors took part in this year’s global survey, this report covers the responses from over 120 investors in Europe. What came across very strongly is the difficulties that investors face in a world of very low, even negative, yields on core fixed income. At the same time, many have an uncomfortable feeling that loose monetary policies have distorted asset valuations.

What is an achievable annual return?
We asked if an annual expected return of CPI plus 3% is quite achievable. While just over 70% of investors agreed it is, this result masks a number of qualifications. Some felt it was achievable over time, but difficult in the short-term. Others said it meant taking on risk and would not always be achieved. Another view that it was a tough target for a conservatively managed pension fund; it needed a higher allocation to more illiquid, or riskier assets.

Active v Passive and Fixed Income
Asked if they believe that active management is superior to passive, 64% of investors agreed, but frequently qualified this, by saying active is best suited to certain markets. In global equities for instance, only 29% of investors are entirely or mostly active. Smart beta or other types of alternative indexation or factor-based investing are of interest, with 27% considering these approaches and 38% using them.

Asked about the role of fixed income, the responses show that it fulfils three main roles, as a liability hedge, a source of stability and of income. In their comments, investors explained that while, say, sovereign bonds, are used to hedge liabilities and/or to give stability, EM or high yield debt is there to provide returns. Investors also said that they are very interested, or interested, in a number of alternative fixed income assets, such as direct lending, distressed debt, infrastructure debt and mezzanine.

Asset Allocation Changes
A key finding in the survey came when investors were asked about asset classes where they expect to see an increase or reduction of at least 3%. The most likely asset classes to see a significant increase are real estate, infrastructure and private debt, while public equities and fixed income are the biggest net losers. Private equity is another net winner and so, to a lesser extent, are multi-asset class beta strategies and trading/uncorrelated strategies. For hedge funds and commodities, not many investors are planning significant changes and increases and decreases in allocations almost cancel each other out.

Hedge Funds and Liquid Alternatives
Asked if they planned to allocate to hedge funds in the next six to twelve months, 26% said they would. For these investors, four strategies stood out for planned allocations: Macro, CTA, long-short or equity hedge and multi-strategy. And 56% agreed that liquid alternatives are now becoming more mainstream, while just over a quarter said that they plan to allocate to liquid alternatives in the next year. Improved diversification and enhanced returns were seen as the main roles of liquid alternatives.

Other Findings
Just over 20% of investors expressed interest in co-investing, compared to just over 40% who said it was not for them, with the remainder saying that they already did this. On ESG, well over a third of investors said that they take a broader, holistic views on it, while nearly a quarter said that it is something they are currently looking closely at. Finally, asked about the biggest impediments to long-term investing for them, short-term reporting requirements and governance were cited as the biggest impediments.
An annual expected return target of CPI + 3% is quite achievable

True 73%

False 27%

“It will be harder in the future than the last 6 years”
Public Pension Fund, UK

“Achieving a return of CPI + 3% comes with very significant risk profile”
Corporate Pension Fund, UK

“It depends on your risk capacity. For many funds the above is an aggressive target”
Public Pension Fund, Denmark

“It could be, but it is getting harder by the minute”
Corporate Pension Fund, Spain
How do you set return targets?*

- **52%** Benchmark and Tracking Error
- **49%** Matching Against Liabilities
- **45%** Absolute Return
- **14%** Other

*Respondents were asked to tick all that apply.
### Your current asset allocation

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>0%</th>
<th>1%-5%</th>
<th>6%-15%</th>
<th>16%-25%</th>
<th>26%-40%</th>
<th>41%-60%</th>
<th>61%-80%</th>
<th>80%+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Equities</td>
<td>1%</td>
<td>8%</td>
<td>12%</td>
<td>23%</td>
<td>36%</td>
<td>18%</td>
<td>2%</td>
<td>0%</td>
</tr>
<tr>
<td>Private Equities</td>
<td>19%</td>
<td>48%</td>
<td>26%</td>
<td>3%</td>
<td>2%</td>
<td>1%</td>
<td>0%</td>
<td>1%</td>
</tr>
<tr>
<td>Public FI</td>
<td>2%</td>
<td>7%</td>
<td>17%</td>
<td>20%</td>
<td>24%</td>
<td>14%</td>
<td>13%</td>
<td>3%</td>
</tr>
<tr>
<td>Private Debt</td>
<td>33%</td>
<td>34%</td>
<td>24%</td>
<td>6%</td>
<td>1%</td>
<td>1%</td>
<td>2%</td>
<td>0%</td>
</tr>
<tr>
<td>RE &amp; Infrastructure</td>
<td>8%</td>
<td>23%</td>
<td>53%</td>
<td>12%</td>
<td>3%</td>
<td>0%</td>
<td>0%</td>
<td>1%</td>
</tr>
<tr>
<td>Commodity/Commodities Futures</td>
<td>68%</td>
<td>30%</td>
<td>2%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Multi-Asset class Beta Strategies</td>
<td>73%</td>
<td>14%</td>
<td>11%</td>
<td>2%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Trading /Uncorrelated Strategies</td>
<td>64%</td>
<td>27%</td>
<td>8%</td>
<td>1%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Hedge Funds</td>
<td>51%</td>
<td>24%</td>
<td>22%</td>
<td>3%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Cash</td>
<td>22%</td>
<td>63%</td>
<td>12%</td>
<td>2%</td>
<td>1%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>
Asset categories where a significant change is expected

<table>
<thead>
<tr>
<th>Category</th>
<th>Increase</th>
<th>Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Equities</td>
<td>16%</td>
<td>25%</td>
</tr>
<tr>
<td>Private Equities</td>
<td>20%</td>
<td>8%</td>
</tr>
<tr>
<td>Public FI</td>
<td>17%</td>
<td>25%</td>
</tr>
<tr>
<td>Private Debt</td>
<td>27%</td>
<td>4%</td>
</tr>
<tr>
<td>RE &amp; Infrastructure</td>
<td>38%</td>
<td>3%</td>
</tr>
<tr>
<td>Commodity/Commodities Futures</td>
<td>5%</td>
<td>6%</td>
</tr>
<tr>
<td>Multi-Asset class Beta Strategies</td>
<td>10%</td>
<td>5%</td>
</tr>
<tr>
<td>Trading /Uncorrelated Strategies</td>
<td>9%</td>
<td>3%</td>
</tr>
<tr>
<td>Hedge Funds</td>
<td>7%</td>
<td>9%</td>
</tr>
<tr>
<td>Cash</td>
<td>7%</td>
<td>6%</td>
</tr>
</tbody>
</table>
Does your organization believe, generally speaking, that active management is superior to passive?

True
64%

False
36%

“Active as in deviating from market cap weighted benchmarks: yes, active as in short time horizon and high turnover: no”
Endowment Fund, Scandinavia

“Time and time again, it is shown that active strategies cannot beat the market (after cost).”
Foundation, the Netherlands

“It must be true active, high conviction, benchmark averse”
Corporate pension fund, UK
What best describes your global equity exposure?

- Entirely Passive: 8%
- Mostly Passive: 27%
- Entirely Active: 21%
- Mostly Active: 36%
- Split between Active/Passive: 8%

Do you have dedicated smart beta/alternative/indexing/factor-based investing?

- Yes: 38%
- No: 35%
- Not yet, but we are considering it: 27%
The role of fixed income in your portfolio?*

- 35% Liability Hedge
- 34% Source of Stability
- 23% Income
- 6% Platform for Excess Return
- 3% Liquidity Source

*Respondents were asked to tick all that apply.

“Some of it for higher expected return (EMD) and low correlation, some for liquidity (lower risk sovereigns)”
Endowment Fund, Scandinavia

“Gilts in liability driven portfolio to reduce funding level volatility, rest of fixed income for return”
Public Pension Fund, UK

“This needs a rethink given that equities now tend to have higher running yields than fixed income, and HY has been shaky (good entry point?)”
Local Authority Pension Fund, UK
How interested are you in learning about these strategies?

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Very Interested</th>
<th>Interested</th>
<th>Not Interested</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Lending</td>
<td>37%</td>
<td>36%</td>
<td>27%</td>
</tr>
<tr>
<td>Mezzanine</td>
<td>17%</td>
<td>47%</td>
<td>36%</td>
</tr>
<tr>
<td>Distressed</td>
<td>27%</td>
<td>37%</td>
<td>36%</td>
</tr>
<tr>
<td>RE Debt</td>
<td>29%</td>
<td>46%</td>
<td>25%</td>
</tr>
<tr>
<td>Credit Focused Special Sits</td>
<td>16%</td>
<td>41%</td>
<td>43%</td>
</tr>
<tr>
<td>Infrastructure Debt</td>
<td>36%</td>
<td>39%</td>
<td>25%</td>
</tr>
<tr>
<td>CLO</td>
<td>7%</td>
<td>38%</td>
<td>55%</td>
</tr>
<tr>
<td>Venture</td>
<td>14%</td>
<td>24%</td>
<td>62%</td>
</tr>
<tr>
<td>Private Equity/Buyout</td>
<td>29%</td>
<td>35%</td>
<td>35%</td>
</tr>
</tbody>
</table>

Other strategies of interest:
- Commodities
- Microfinance
- Impact Investing
- Buy and Maintain
- Highly Sustainable Investing
- Vol/Vega
- Smart Beta
Plans to Allocate to Hedge Funds in the next 6-12 Months

- **NO** 74%
- **YES** 26%
Hedge fund strategies of interest

- **Macro**: 24%
- **CTA**: 18%
- **L/S or Equity Hedge**: 15%
- **Multi-strategy**: 15%
- **Relative Value/Arbitrage**: 6%
- **Credit**: 6%
- **Event Driven**: 3%
- **EM**: 3%
- **EQ Neutral**: 3%
- **Commodities**: 3%
How do you view fees for hedge funds & private equity?

- **38%** Fees are justified
- **26%** None of the above
- **19%** Way too high
- **17%** Big area of concern

“Private equity offers high return after cost but cost should and will be reduced”
Corporate Pension Fund, the Netherlands

“We calculate TER but do not judge fees”
Corporate Pension Fund, Switzerland

“Way too high which is why we invest in the managers themselves”
Corporate Pension Fund, UK
Will liquid alternatives become more mainstream?

“And if they do it will be the spark of the next crisis”
Sovereign Fund, Europe

“It’s natural that hedge funds and mainstream mutuals will meet each other halfway”
Public Pension Fund, UK
Are you considering adding liquid alternatives in the next 6-12 months?

- No: 74%
- Yes: 26%

What is the role of liquid alternatives in your portfolio?

- Improved Diversification: 66%
- Enhanced Return Potential: 50%
- Better Transparency: 22%
- Risk Mitigation: 22%
Your views regarding ESG?

- **37%**: Actually we take an even broader, more holistic view
- **23%**: Something we’re currently looking at more closely
- **17%**: None of the above
- **11%**: Fad, not for us
- **9%**: We’ve moved beyond ESG into impact investing
- **3%**: Source of alpha

“G is imbedded in our investment approach; we have a watching brief on E and have tried to quantify its impact on our portfolio; S is less of a focus.”

**Corporate Pension Fund, UK**

“Something we plan to look at more closely in years to come”

**Public Pension Fund, Balkans Region**

“We have incorporated ESG into all of our selection processes”

**Corporate Pension Fund, the Netherlands**
Are you active in co-investing and direct investing?

- Yes: 37%
- No: 42%
- Would like to: 22%
Have you collaborated with like-minded institutions?

- **NO**: 52%
- **YES**: 48%

What is the biggest impediment to long-term investing at your organization?*

- Short-term Reporting Requirements: 45%
- Governance: 39%
- Other: 22%
- Silos: 12%
- Lack of Proper Staff Incentives: 10%

*Respondents were asked to tick all that apply.

“Politicians”
Corporate Pension Fund, the Netherlands

“Rules and Regulations from the financial authorities”
Corporate Pension Fund, Norway

“Traditional reporting on traditional short term risk measures”
Corporate Pension Fund, the Netherlands
What ranks highest on your wall of worry?

1. Unintended Consequences of Central Bankers’ Monetary Policy Mistakes
2. Worsening China Slowdown
3. Global Stock Market Crash
4. Bond Market Illiquidity
5. Global Currency Contagion out of Asia
6. Europe Breaks Apart
7. =Rate Spike
   =Middle East Turmoil
   =US Debt
8. Inflation
What’s your most pressing challenge right now?

“Cash flow management and portfolio balance in volatile markets”
Corporate Pension Fund, UK

“Negative interest rate environment”
Corporate Pension Fund, Switzerland

“Keeping returns high enough”
Corporate Pension Fund, Norway

“Finding value since almost everything is expensive”
Public Pension Fund, UK

“Deployment of capital in private debt”
Public Pension Fund, Switzerland

“Low yield environment and pressure on funding ratios – will the pension sector survive another few years without rates rises?”
Corporate Pension Fund, the Netherlands

“Low level of interest rates and further prospects of low yields”
Insurance Company, Solvenia

“De-risking and hedging liabilities whilst maintaining returns”
Corporate Pension Fund, the UK

“Finding skilled people”
Corporate Pension Fund, Switzerland

“Solvency II”
Insurance Company, Sweden

“Getting a 6% nominal return in an increasingly illiquid market with more uncertainty and almost every asset class being overpriced due to monetary policy”
Corporate Pension Fund, the Netherlands
About the Survey

This year’s survey is based on the views of over 300 global senior investment officials who are members of Institutional Investor’s private online community for accredited asset owners, Investor Intelligence Network (IIN). Since its launch in 2011, IIN has grown at an impressive rate; in early December 2015, it had 3,401 individual investors from 2,010 different funds around the world. Pension funds, either corporate, public or multi-employer fund, account for 54% of the membership, followed by foundations and endowments (16%), then insurers and health institutions, sovereign funds and central bank funds. In terms of geographic spread, Europe and North America make up rough half each of 80% of the members, with smaller representations from the Middle East and Africa, Asia and South America. Bear in mind too, that most investors using IIN are at a high level in their organisations, typically CIOs, CEOs, heads of equity, bond or alternatives, or senior risk or portfolio managers. This makes IIN one of the largest and most active networks of institutional investors in the world.

IIN members were invited to complete our online questionnaire in November 2015 and over 100 asset owners in Europe took part. This survey report deals only with the European responses. All graphs are representative of data we have for each question.

### European Asset Owner Participants by Fund Type

<table>
<thead>
<tr>
<th>Fund Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private/Corporate Pension Fund</td>
<td>42%</td>
</tr>
<tr>
<td>Public/Government Pension Fund</td>
<td>19%</td>
</tr>
<tr>
<td>Multi-Employer Pension Fund</td>
<td>10%</td>
</tr>
<tr>
<td>Insurance</td>
<td>10%</td>
</tr>
<tr>
<td>Other</td>
<td>6%</td>
</tr>
<tr>
<td>Foundation</td>
<td>4%</td>
</tr>
<tr>
<td>Endowment</td>
<td>3%</td>
</tr>
<tr>
<td>Sovereign Wealth Fund</td>
<td>3%</td>
</tr>
<tr>
<td>Central Bank Reserves Fund</td>
<td>2%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>0%</td>
</tr>
</tbody>
</table>

### European Asset Owner Participants by Size (AUM by USD)

<table>
<thead>
<tr>
<th>Size Range</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>$500m - $1bn</td>
<td>17%</td>
</tr>
<tr>
<td>$2bn - $5bn</td>
<td>34%</td>
</tr>
<tr>
<td>$6bn - $10bn</td>
<td>16%</td>
</tr>
<tr>
<td>$11bn - $20bn</td>
<td>9%</td>
</tr>
<tr>
<td>$21bn - $50bn</td>
<td>14%</td>
</tr>
<tr>
<td>$51bn - $100bn</td>
<td>4%</td>
</tr>
<tr>
<td>More than $100bn</td>
<td>6%</td>
</tr>
</tbody>
</table>

**NOTES**

The Investor Intelligence Network is a private, password-protected website for institutional investors. To request for an application to join, please email Antje Meyer (ameyer@iilondon.com).

Managers who wish to access real-time intelligence on the needs of this online community of institutional investors can join the Manager Intelligence Network (MIN). MIN provides an unique insight into the needs of this global community, and allows managers to connect with your institutional clients and prospects in a secure setting. To request for an application to join the Manager Intelligence Network, please email Lily Armstrong (lily.armstrong@iilondon.com).

A global survey report of all responses will be published in Spring 2016.
Here to help. Your contacts at Institutional Investor:

Managing Director, European Institute
Scott Anderson
  t: +44 (0) 207 303 1744
  e: scott.anderson@iilondon.com

European IIN Content Director
Matthew Craig
  t: +44 (0) 207 303 1727
  e: mcraig@iilondon.com

US and Global IIN Content Director
Rich Blake
  t: +1 212 224 3390
  e: rblake@iiconferences.com

Institutional Investor
8 Bouverie Street
London
EC4Y 8AX
United Kingdom