CORE DATA research

Investment Outlook 2021

Global Professional Fund Buyers

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Contents

FIVE KEY TAKEAWAYS

1

Fund buyers expect uptick in volatility in 2021

Six in 10 global fund buyers say market volatility will increase over the next 12 months. A higher proportion of respondents in North America (69%) anticipate elevated levels of volatility. There is particular concern over rising Covid-19 cases in the U.S., which could help explain why more North American buyers are bracing for higher volatility.

2

Professional buyers are seeking shelter in active funds and alternatives

With markets expected to remain choppy in 2021, global professional fund buyers are putting their faith in active strategies. Nearly half are predominantly using active funds to provide protection from volatility. Faith in active is strongest in the UK and Asia, with about two-thirds using active managers to weather turbulent markets. Fund buyers also see alternative investments as a key risk management tool. Nearly six in 10 are using alternatives to manage risk within portfolios and eight in 10 say alternatives are becoming increasingly important for diversification purposes.

3

Fund selectors are also looking to benefit from volatility

While professional buyers seek to insulate portfolios, they are also looking to capitalize on turbulent market conditions. About two-thirds are turning to tactical asset allocation strategies to exploit volatility and short-term market opportunities. A further two-thirds are hunting for opportunities in risk assets such as equities, emerging markets and commodities. This risk-on approach is particularly favoured by those in North America and the UK. Elsewhere, seven in 10 global respondents are allocating to sectors that have benefited from the pandemic such as tech, healthcare and e-commerce.

4

Professional buyers think all funds will soon be ESG funds

Six in 10 global fund buyers have increased their focus on ESG in the wake of Covid-19. The UK is leading the sustainability charge, with eight in 10 upping their ESG commitment. A belief that sustainable investments will help deliver superior performance is a key driver — half of global respondents think ESG funds tend to outperform their non-ESG counterparts. This sentiment is most pronounced among fund selectors in the UK (65%) and Europe (60%). Amid this rising tide of ESG, nearly two-thirds of respondents think all investment funds will incorporate ESG in five years. And three-quarters say rising demand for ESG will benefit active funds — a view endorsed by almost all UK fund selectors.

5

Greenwashing expected to rise amid concerns of green bubble

As sustainable investing becomes more widespread, there are growing concerns about companies only paying lip service to ESG. Eight in 10 global fund selectors say greenwashing will become more prevalent as demand for ESG increases. Concern over greenwashing is highest among fund selectors in Asia (88%). Meanwhile, nearly three in 10 global respondents think ESG represents a market bubble that will eventually burst. This finding likely reflects a view that there is too much marketing hype surrounding sustainable investing rather than a belief that ESG is a passing trend or fad.

Methodology: CoreData Research surveyed 200 professional fund buyers in North America, Europe, Asia and the UK in November and December 2020. Survey respondents are involved in the evaluation and selection of investments and investment managers for organizations including wealth management firms, private banks, insurers, DC investment platform providers and turnkey asset management providers/DFMs.

BACKGROUND

The fund selection process is a fine art at the best of times. But amid the unimaginable events of 2020, fund selectors have faced the sternest of challenges.

The year 2020 saw Covid-19 plunge the world into the worst economic downturn since the Great Depression. The pandemic triggered the fastest stock market crash in history, followed by one of the fastest bear-market recoveries. Meanwhile, governments and central banks around the world rolled out unprecedented monetary and fiscal stimulus packages, keeping markets awash with liquidity and giving rise to negative-yielding bonds.

As if that was not enough, we also witnessed the US elections, Brexit, a severe oil crisis and ongoing US-China tensions.

2020 unleashed an economic, political and social earthquake the likes of which we have not seen before. All of which sent huge shockwaves through financial markets. In many ways, Covid-19 has served to tear up the investing rulebook. Previously accepted norms, trends and behaviours no longer prevail. Stock markets have become disconnected from economic realities, the traditional inverse relationship between stocks and bonds has broken down and inflation remains stubbornly muted despite ultra-low interest rates and quantitative easing.

But the impact of Covid-19 on the investment arena has been extremely uneven, fuelling large performance dispersions across asset class, sector, style and geography. This sense of polarisation is perhaps best characterised by the contrasting fortunes of growth and value. While growth stocks, powered by large cap US tech companies, have driven stock markets to new highs, value, cyclical and small caps have sold off.

Similar disparities exist on a sector basis. Industries including tech, healthcare and e-commerce have benefited from the pandemic due to increased demand, while sectors including travel, retail and hospitality have suffered due to Covid-19 restrictions.

The pandemic has also changed the face of income investing. Dividends have been cancelled or suspended as companies look to repair balance sheets or respond to government demands — something which has further hastened the shift away from value stocks. And with bond yields at all-time lows, the search for income has taken on new urgency. We will likely see more investors turn to income-generating alternatives such as infrastructure or take on additional risk by allocating to high yield or emerging market bonds. And in the UK, investment trusts, which can hold back dividends received in good years to build reserves for distributions in tougher times, could see a spike in investor interest.

The nature of markets suggests that out-of-favour styles and sectors will return to vogue at some point. Successful rollout of the Covid-19 vaccine, an economic recovery and higher interest rates could all trigger a rotation to value stocks, beaten-down cyclicals and equity income. But the difficult part is knowing when these shifts will take place and positioning portfolios accordingly. Fund selection is not about identifying those funds which have performed well in the past but picking those winners which will outperform in the future.

At the same time, professional investors need to build portfolios offering robust downside protection amid elevated levels of volatility. Black swan events like Covid-19 underscore the importance of diversification and risk management. With asset classes more correlated than ever, we will see rising demand for funds that can diversify portfolios with genuinely uncorrelated assets. The theory and culture of risk management and diversification will need to be modernised and revised for the post-Covid age. And this will require fund manufacturers to develop more innovative risk-targeted and multi-asset solutions.

The pandemic and accompanying volatility will inevitably add further fuel to the active versus passive debate. Index fund investors will have been exposed to the highs and lows of wild market swings throughout 2020. Meanwhile, the pandemic has provided an opportunity for active managers to prove their value in protecting against volatility and taking advantage of short-term market opportunities.

But the key to selecting the winners of the future is tapping into long-term structural trends. And in this respect, Covid-19 throws up an array of opportunities. The pandemic has accelerated the evolution of mega-trends including ESG and technology and permanently changed the way we work, communicate and consume. Long-term strategic asset allocation strategies will therefore need to be reconfigured to benefit from these changes in human behaviour.

CoreData

About Us

CoreData Research is a global specialist financial services research and strategy consultancy. CoreData Research understands the boundaries of research are limitless and with a thirst for new research capabilities and driven by client demand; the group has expanded over the past few years into the Americas, Africa, Asia, and Europe.

CoreData Group has operations in Australia, the United Kingdom, the United States of America, Colombia, Sweden, Malta, Singapore, South Africa and the Philippines. The group's expansion means CoreData Research has the capabilities and expertise to conduct syndicated and bespoke research projects on six different continents, while still maintaining the high level of technical insight and professionalism our repeat clients demand.

With a primary focus on financial services CoreData Research provides clients with both bespoke and syndicated research services through a variety of data collection strategies and methodologies, along with consulting and research database hosting and outsourcing services.

CoreData Research provides both business-to-business and business to- consumer research, while the group's offering includes market intelligence, guidance on strategic positioning, methods for developing new business, advice on operational marketing and other consulting services.

The team is a complimentary blend of experienced financial services, research, marketing and media professionals, who together combine their years of industry experience with primary research to bring perspective to existing market conditions and evolving trends.

CoreData Research has developed a number of syndicated benchmark proprietary indexes across a broad range of business areas within the financial services industry.

- Experts in financial services research
- Deep understanding of industry issues and business trends
- In-house proprietary industry benchmark data
- Industry leading research methodologies
- Rolling benchmarks

The team understands the demand and service aspects of the financial services market. It is continuously in the market through a mixture of constant researching, polling and mystery shopping and provides in-depth research at low cost and rapid execution. The group builds a picture of a client's market from hard data which allows them to make efficient decisions which will have the biggest impact for the least spend.

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