

Low Rates Push German Institutions into Equities and Alternatives

2017 Greenwich Leaders: German Institutional Investment Management

Q3 2017

Over the past several years, institutions in Germany and across the Continent have been forced to devote significant resources and attention to complying with the ongoing implementation of new rules, including EMIR, Solvency II and MiFID II, and to shoring up risk management practices. This year, however, the 251 key decision-makers from German institutions participating in the Greenwich Associates annual research study are clear that their top priority is meeting the challenge of low interest rates and yields. As they plot a course to meet this challenge, German institutions are increasingly relying on the counsel of asset management firms like Allianz Global Investors and PIMCO—the 2017 Greenwich Quality LeadersSM in Overall German Institutional Investment Management.

Greenwich Quality Leaders – 2017



Overall German Institutional Investment Management Quality

Investment Manager

Allianz Global Investors
PIMCO

Note: Based on interviews with 251 institutions.
Source: Greenwich Associates 2017 Continental Europe—German Institutional Investors Study

German institutional investors name persistently low interest rates as their primary concern for 2017, and many are taking their first steps to adjust allocations to their fixed-income-heavy portfolios in an effort to reach long-term return targets. “Finding new sources of return requires German institutions to move into less familiar and more complex asset classes, and to consider the implications of these asset classes on risk management and regulatory compliance frameworks,” says Greenwich Associates Managing Director Markus Ohlig. “In this environment, large managers with broad capabilities like AllianzGI and PIMCO can be a valuable resource, and these firms’ abilities to provide knowledge and advice to large institutions is giving them a competitive advantage.”

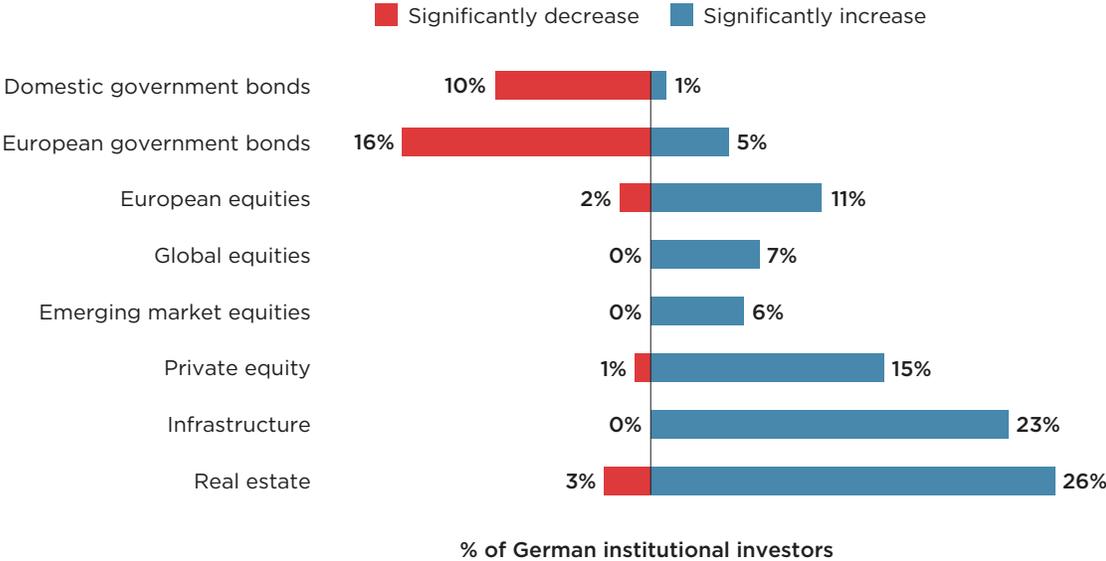
German corporate pension funds in particular are becoming increasingly reliant on external asset managers in general, as they start moving assets out of government bonds—portfolios of which are often managed in-house—to specialized asset classes like high-yield bonds.

Investing in New Asset Classes Requires Expertise

Over the next three years, German institutions expect to shift additional assets out of government bonds and into equities, real assets and specialized fixed-income strategies. In that final category, a narrowing of credit spreads seems to have diminished institutions’ appetite for products like bank loans, asset-backed securities (ABS) and even corporate bonds, while triggering increased demand for emerging market debt. Meanwhile, the data point to a surge in demand among German institutions for real estate, infrastructure and private equity.

New and expanded allocations to these asset classes are pushing the limits of German institutions’ internal expertise and triggering increased demand for external management and counsel. The share of German institutions describing their organizations as expert and well-resourced for portfolio management has declined to 58% in 2017 from 71% in 2015. “Meanwhile, the share of institutions describing themselves as reliant on external advice increased to 59% this year from 51% in 2015,” says Greenwich Associates consultant Mark Buckley.

3-YEAR EXPECTATIONS OF SELECTED ASSET ALLOCATION CHANGES—GERMAN INSTITUTIONAL INVESTORS



Note: Based on 251 responses.
Source: Greenwich Associates 2017 Continental Europe—German Institutional Investors Study

SRI PLAYS RELATIVELY SMALL ROLE IN MANAGER SELECTION

When it comes to selecting managers, socially responsible investing (SRI) is a much less important factor for German institutions than it is for many of their counterparts across continental Europe. In Finland, 100% of the institutions participating in the Greenwich Associates 2017 study said SRI was an important consideration in the manager selection process, as did 85% of institutions in Norway and the Netherlands. Two-thirds of Swedish institutions named SRI as an important factor, as did 57% of Italian institutions.

In Germany, only 32% of institutions say socially responsible investing is an important criterion in their selection of asset managers—and that share is driven mainly by German churches and foundations, more than three-quarters of which say SRI plays a prominent role in manager selection.

German institutions are also taking a “go slow” approach to another SRI-related practice that is gaining momentum elsewhere in Europe: tracking the carbon exposure of their investment portfolios. Only 4% of German institutions currently measure their portfolio’s carbon footprint, and only another 5% expect to adopt the practice in next two years. By contrast, 43% of Finnish institutions now track carbon exposure and 98% expect to be doing so within two years. For more information on this topic, see the 2017 Greenwich Leaders report: *Top European Asset Managers Guide Institutions on Tough Challenges*.

Consultants Mark Buckley and Markus Ohlig advise on the investment management market in Continental Europe.

METHODOLOGY

During the first quarter of 2017, Greenwich Associates conducted in-depth interviews with 251 key decision-makers at the largest German institutional investors. Institutions included German corporate, public, and industry-wide defined-benefit, defined-contribution and hybrid pension funds, banks, Sparkassen, foundations and churches, insurance and reinsurance companies, sovereign pension reserve funds, and other non-pension institutional investors including official institutions, central banks, monetary authorities, sovereign wealth funds, and supranationals.

© 2017 Greenwich Associates, LLC. All rights reserved. Javelin Strategy & Research is a subsidiary of Greenwich Associates. No portion of these materials may be copied, reproduced, distributed or transmitted, electronically or otherwise, to external parties or publicly without the permission of Greenwich Associates, LLC. Greenwich Associates’, Competitive Challenges’, Greenwich Quality Index’, Greenwich ACCESS™’, and Greenwich Reports’ are registered marks of Greenwich Associates, LLC. Greenwich Associates may also have rights in certain other marks used in these materials.

The Greenwich Quality LeaderSM and Greenwich Share LeaderSM designations are determined entirely by the results of the interviews described above and do not represent opinions or endorsements by Greenwich Associates or its staff. Such designations are a product of numerical scores in Greenwich Associates’ proprietary studies that are generated from the study interviews and are based on a statistical significance confidence level of at least 80%. No advertising, promotional or other commercial use can be made of any name, mark or logo of Greenwich Associates without the express prior written consent of Greenwich Associates.

