German Investment Management: 2013 Greenwich Quality Leaders

Q3 2013

German institutional investors are adjusting investment strategies and portfolio allocations in an attempt to generate yield amid low interest rates and declining return expectations. As they do so, they give top marks to Allianz Global Investors and PIMCO — the 2013 Greenwich Quality Leaders in German Investment Management.

Every year, Greenwich Associates interviews more than 200 German institutions about their investment portfolios and strategies. In 2013 nearly 250 institutions were asked to name the external asset managers they employ and to rate them according to a series of investment and service criteria. Firms that receive quality ratings that top those of competitors by a statistically significant margin are named Greenwich Quality Leaders.

"Historically low interest rates are pressing German institutional investors to diversify their investment portfolios and to utilize specialized strategies as they seek out new sources of yield," says Greenwich Associates consultant Lydia Vitalis. "In this dynamic environment, institutions single out Allianz Global Investors and PIMCO for superior quality in investment management."

Institutions Hunt for Yield

Across all German institutions, mean actuarial earnings rates declined from 4.3% in 2011 to 3.7% in 2013 and institutions have also reduced their expected rates of returns on all asset classes. In 2011, expected annual returns on fixed-income holdings for the next five years averaged 3.7%. By 2013 institutions expect only 2.9%. Expected returns on domestic and European equities dropped from 6.3% to 5.9% over the same period, and expected returns on international equity have fallen to 6.2% from 7.0%.

With German institutions currently devoting more than three quarters of investment capital to "return-seeking" as opposed to "liability-matching" assets, asset return expectations are the most important key driver behind significant allocation changes. As part of their efforts to enhance returns in an environment that remains very risk sensitive, they are increasingly diversifying their portfolios and reshaping the fixed-income landscape for institutional investors.

Greenwich Quality Leaders — 2013

Greenwich Associates
Greenwich
2013
Quality Leader

Overall German Investment Management Quality

Allianz Global Investors

PIMCO

Note: Based on interviews with 248 institutions. Leading brokers are displayed in alphabetical order. Source: Greenwich Associates 2013 Continental European Investment Management Study

As they seek out sources of yield, German institutions are reducing allocations to passive fixed income while diversifying active fixed-income portfolios. Over the past 12 months institutions have increased allocations to active global bonds, emerging markets debt and high yield. More broadly, expectations that the current low-interest rate environment will persist longer-term have prompted a dramatic extension of duration with institutions now report holding virtually no fixed-income assets with less than five years duration. Expectations to decrease Government Bond exposure further also continue, with Emerging Market debt, High Yield and Active Global Bonds anticipated to continue to be beneficiaries over a three-year time horizon.

Expectations that this diversification trend would also benefit alternatives appear yet to materialize, as regulatory and structural challenges persist. However, a net +26% of investors still expect to significantly increase infrastructure exposure in the next three years and a net +25% plan to meaningfully increase allocations to real estate. "Institutions were also optimistic about alternative allocations last year, but fell short of goals," says Greenwich Associates consultant Marc Haynes. "But investors are hopeful that the development of the limited partnership regime under the auspices of the AIFMD — the so-called "investment KG" — will prove supportive in the future."

Consultants Marc Haynes and Lydia Vitalis advise on the investment management market in Continental Europe.

Methodology

Between March and May 2013, Greenwich Associates conducted interviews with professionals at 248 of the largest institutional investors in Germany. Institutions included corporate pension funds, public pension funds, banks, sparkasse, foundations, churches, and insurance companies. Interview participants were asked about their investment service providers, their business practices and their future expectations.

The findings reported in this document reflect solely the views reported to Greenwich Associates by the research participants. They do not represent opinions or endorsements by Greenwich Associates or its staff. Interviewees may be asked about their use of and demand for financial products and services and about investment practices in relevant financial markets. Greenwich Associates compiles the data received, conducts statistical analysis and reviews for presentation purposes in order to produce the final results.

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