

German Investment Management: 2014 Greenwich Quality Leader

Q3 2014

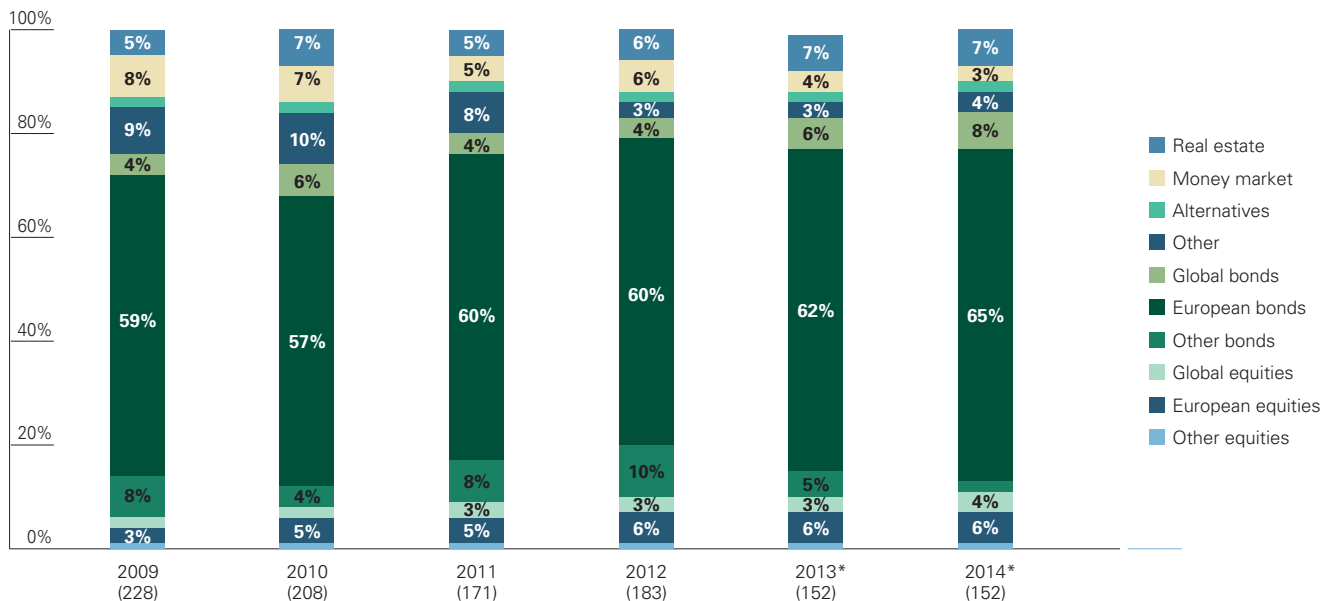
Facing the continuation of historically low interest rates, new regulations and a challenging return environment, German institutional investors are taking a strategic pause.

The results of the Greenwich Associates 2014 German Institutional Investor Study suggest the themes of globalization and diversification that have featured prominently in institutional investment strategies in recent years will remain in place in coming years. However, the pace of change within institutional portfolios has slowed over the past 12 months as investors contend with low rates and a list of specific challenges, including the following:

- Pension funds are struggling to meet return targets as both corporate and public/industry pensions seek ways to generate yield in the low-rate environment. Over the past year, these efforts have been complicated by volatility in emerging markets. Most German funds have spent the past several years reviewing their strategic portfolio allocations.
- After completing these reviews, many investors concluded that emerging markets should represent a strategic position in their portfolios. Getting to the stage of funding these positions has taken considerable time and education, and recent volatility has caused many investors to review the situation and pause to assess next steps.
- Insurance companies continue to balance the need to deliver guaranteed returns against the liquidity and solvency impact of new rules, while the administrative burden of Solvency II and other regulations weigh insurers down even further.
- Even banks are being worn down by the “critical burden” of regulations. The implementation of new rules is forcing banks to take actions that are not necessarily aligned to the strategic investment direction that they would like to follow. Meanwhile, systems and reporting capabilities are being pushed to their limits.

German Institutional Investors' Asset Allocation

2009–2014 — Matched Sample



Note: Percent of total German assets reported. Percentages are Euro-weighted; assets are not projected and comprise institutional investors disclosing asset information. *2013 and 2014 data run on a matched sample.

Source: Greenwich Associates 2014 Continental European Institutional Investors Study

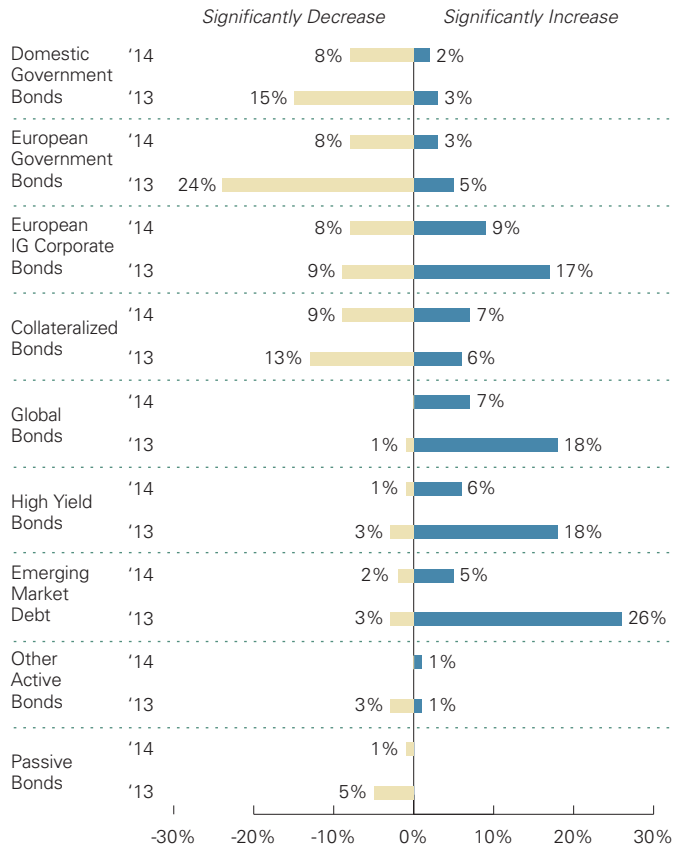
Portfolio Allocations: Continued Diversification

Overall allocations to government bonds declined last year as German institutions continue to diversify fixed-income portfolios. Looking ahead, Greenwich Associates anticipates some degree of additional rotation as institutions continue diversifying away from government bond exposures to fund additional diversification. We expect to see much of this achieved through increased allocations to existing mandates rather than through ongoing hiring activity of additional managers.

Although plans to increase allocations to alternative asset classes failed to materialize last year, institutions' ongoing search for yield is contributing to growing demand for real estate investments, particularly among public and industry pensions.

Fixed Income: German Institutional Investors' 3-Year Expected Asset Allocation Changes

2013–2014, by Type of Investment



Note: Percent of German Institutions. For each category, the balance of institutions not displayed here have indicated no change or no answer. Source: Greenwich Associates 2014 Continental European Institutional Investors Study

Greenwich Quality Leaders

As German institutions step back to reassess strategies and consider the best way forward, they are looking for support in their decision making from investment managers able and willing to talk beyond product boundaries.

Greenwich Quality Leader — 2014



Overall German Investment Management Quality

Allianz Global Investors

Note: Based on interviews with 258 institutions. Leading brokers are displayed in alphabetical order. Source: Greenwich Associates 2014 Continental European Institutional Investors Study

“In this environment, managers’ flexibility to implement individual and bespoke requirements and an ability to deliver intellectual capital beyond the constraints of a traditional investment mandate are valued attributes,” says Greenwich Associates consultant Lydia Vitalis.

The 2014 Greenwich Quality Leader in German Investment Management is Allianz Global Investors. As part of its 2014 research program, Greenwich Associates interviewed 258 individuals at Germany’s largest corporate, public and industry-wide pension funds, banks (including Sparkassen), foundations, churches, insurance and reinsurance companies, and other institutions. These institutions were asked to name the external investment managers they use for specific asset classes, and to rate these managers on a series of investment and service criteria.

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

Methodology

Between March and May 2014, Greenwich Associates conducted interviews with professionals at 258 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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