State Street Brexometer: Gauging Investor Sentiment on the Brexit Impact

State Street Institutional Survey
Q1 2019
Methodology

- State Street commissioned PollRight* to conduct a survey of professional investors on their sentiment apropos Brexit.

- Respondents comprised institutional and alternative investors such as hedge funds, real estate and private equity**. In total, 100 individuals participated.

- The research was conducted between 31 January and 10 February 2019.

- This is the final quarterly instalment of a study that was first conducted in Q4 2016.

*PollRight is a market research agency specialising in business-to-business research.

** Countries covered by survey included UK, US, Europe, Central & South America, Middle East, Asia, Africa and Oceania.
Summary of Findings

• Investor appetite for holdings of UK assets polarised in Q1 2019, with an increase in both the number of those looking to increase and decrease their exposure. 19% of investors stated that they were planning to increase their exposure in the next six months – the second highest figure since Q3 2018 (20.8%).

• The proportion of investors looking to decrease their holdings of UK assets rose for the third straight quarter, reaching 22%. This is also the second highest recording since Brexometer began, after a high of 23.5% in Q1 2018.

• There was a decrease in the proportion of investors holding a positive medium-term outlook for global economic growth. With positive sentiment now at 32%, this represents the lowest reading since Brexometer began. Neutral sentiment now stands at 37% - up from 28% in the previous quarter – and negative sentiment is 30%, which is in line with the Q4 2018 results.

• Four out of five investors (80%) believe that Brexit will have some form of impact on their business operating model, while 22% believe that it will have a significant impact. This is the joint second highest reading, tied with Q4 2017, after the 26% recorded in Q3 2018.
Summary of Findings

• Regulatory reporting support, fund restructuring and performance and risk analytics remain the most likely services required following Brexit, while demand for transition services has fallen slightly from 14% in Q4 2018 to 7% now.

• Investors are slowly beginning to foresee a return to risk from investors following a decrease in H2 2018. However, the 29% who expect to see an increase in levels of investment risk is still below the 33%+ results seen between Q3 2017 and Q2 2018.

• The number of investors expecting to see a decrease in risk appetite has fallen slightly, from a record high of 43% in Q4 to 40% now.

• Having overtaken Luxembourg as the most attractive location for managers looking to expand their cross-border fund businesses in Q4 2018, Ireland consolidated its position in Q1 2019. 46% of investors cited Ireland compared to 36% who cited Luxembourg, while Germany (27%), the UK (24%) and France (16%) completed the top five.

• Q1 2019 saw a slight drop-off in the outlook for utilising cross-border fund locations, with 35% expecting to use them more in the next three to five years, compared to 38% in Q4 2018. However, the number of those expecting to use them ‘significantly more’ grew from 9% to 14%.
Q1. How does your company intend to change its holdings of UK assets (equites, bonds or alternatives) in the next six months?

14% Increase significantly
5% Increase slightly
5% Stay the same as today
12% Decrease slightly
5% Decrease significantly
10% Don't know

Slides 5 – 16 are the results of a survey commissioned by State Street
Q1. How does your company intend to change its holdings of UK assets (equites, bonds or alternatives) in the next six months?

- Increase significantly: Q1 2019 - 5.0%, Q4 2018 - 5.8%
- Increase slightly: Q1 2019 - 14.0%, Q4 2018 - 8.7%
- Stay the same as today: Q1 2019 - 54.0%, Q4 2018 - 55.3%
- Decrease slightly: Q1 2019 - 10.0%, Q4 2018 - 9.7%
- Decrease significantly: Q1 2019 - 12.0%, Q4 2018 - 10.7%
- Don't know: Q1 2019 - 5.0%, Q4 2018 - 9.7%
- All increase: Q1 2019 - 19.0%, Q4 2018 - 14.6%
- All decrease: Q1 2019 - 22.0%, Q4 2018 - 20.4%
Q2. What are your expectations of medium-term (three to five years) prospects for global economic growth?

- 32% have a positive outlook on global economic growth prospects
- 37% are neutral
- 30% are negative
- 1% don’t know
Q2. What are your expectations of medium-term (three to five years) prospects for global economic growth?

![Bar chart showing expectations for Q1 2019 and Q4 2018.](chart_image)
Q3. What level of impact do you anticipate Brexit having on your business operating model?

- Very significant impact: 22.2%
- Significant impact: 15.2%
- Moderate impact: 16.2%
- Slight impact: 13.1%
- Very slight impact: 4%
- No impact: 7.1%
- Don't know: 16.2%

80% anticipating Brexit to have an impact on their business operating model.
Q3. What level of impact do you anticipate Brexit having on your business operating model?

- Very significant impact: 7.1% (Q1 2019), 5.8% (Q4 2018)
- Significant impact: 15.2% (Q1 2019), 12.6% (Q4 2018)
- Moderate impact: 22.2% (Q1 2019), 22% (Q4 2018)
- Slight impact: 22.2% (Q1 2019), 22.3% (Q4 2018)
- Very slight impact: 13.1% (Q1 2019), 11.7% (Q4 2018)
- No impact: 16.2% (Q1 2019), 18.5% (Q4 2018)
- Don't know: 4.0% (Q1 2019), 1.9% (Q4 2018)

All significant impact: 79.8% (Q1 2019), 79.6% (Q4 2018)
Q4. Which investment services do you envisage your business will need greater support with following Brexit?

- Regulatory reporting support (e.g., Solvency II, AIFMD): 25.5%
- Fund restructuring: 18.4%
- Performance and risk analytics: 13.3%
- Currency overlay strategies: 13.3%
- Custody and Accounting: 11.2%
- Offshore services: 10.2%
- Execution Services: 9.2%
- Transition management: 7.1%
- None of the above: 36.7%
- Don't know: 13.3%
Q4. Which investment services do you envisage your business will need greater support with following Brexit?

- Regulatory reporting support (e.g. Solvency II, AIFMD): 25.5% Q1 2019, 28.3% Q4 2018
- Fund restructuring: 18.4% Q1 2019, 19.6% Q4 2018
- Performance and risk analytics: 13.3% Q1 2019, 12.0% Q4 2018
- Currency overlay strategies: 13.3% Q1 2019, 8.7% Q4 2018
- Custody and Accounting: 11.2% Q1 2019, 8.7% Q4 2018
- Offshore services: 10.2% Q1 2019, 12.0% Q4 2018
- Execution Services: 9.2% Q1 2019, 5.4% Q4 2018
- Transition management: 14.1% Q1 2019, 7.1% Q4 2018
- None of the above: 36.7% Q1 2019, 39.1% Q4 2018
- Don't know: 13.3% Q1 2019, 10.9% Q4 2018
Q5. Over the next three to five years, how will asset owners change their level of investment risk?

- 25% significantly increase levels of risk
- 26% slightly increase levels of risk
- 25% no change
- 14% slightly decrease levels of risk
- 6% significantly decrease levels of risk
- 4% don't know

- 4% all increase
- 29% all decrease

Information Classification: General
Q5. Over the next three to five years, how will asset owners change their level of investment risk?

![Bar chart showing the percentage of asset owners' views on investment risk changes from Q1 2019 to Q4 2018.](image)

- **Significantly increase levels of risk**: Q1 2019 - 4.0%, Q4 2018 - 3.2%
- **Slightly increase levels of risk**: Q1 2019 - 25.0%, Q4 2018 - 24.7%
- **No change**: Q1 2019 - 25.0%, Q4 2018 - 24.7%
- **Slightly decrease levels of risk**: Q1 2019 - 26.0%, Q4 2018 - 30.1%
- **Significantly decrease levels of risk**: Q1 2019 - 14.0%, Q4 2018 - 2.9%
- **Don't know**: Q1 2019 - 6.0%, Q4 2018 - 4.3%
- **All increase**: Q1 2019 - 29.0%, Q4 2018 - 28.0%
- **All decrease**: Q1 2019 - 4.3%, Q4 2018 - 43.0%

Information Classification: General
Q6. What fund locations do you see as the most attractive for managers looking to expand their cross-border fund business?

- Ireland: 46.0%
- Luxembourg: 36.0%
- Germany: 27.0%
- UK: 23.0%
- Channel Islands: 20.0%
- Netherlands: 18.0%
- France: 16.0%
- Sweden: 12.0%
- Norway: 7.0%
- Italy: 5.0%
- Finland: 4.0%
- Denmark: 3.0%
- None: 7.0%
- Other (please specify): 6.0%
Q7. Over the next three to five years, to what extent will your company utilise cross-border fund locations, such as Ireland and Luxembourg?

- Significantly more: 35%
- Slightly more: 4%
- No change: 0%
- Slightly less: 10%
- Significantly less: 20%
- Don't know: 3%
- 45%
- 14%
- 16%
- 1%
Disclaimer

Important Information:

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