State Street Brexometer: Gauging Investor Sentiment on the Brexit Impact

State Street Institutional Survey
November 2018 (Q4 2018)
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, 103 individuals participated.

- The research was conducted between 30 October and 8 November 2018.

- This is ninth 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

- After appetite for increased holdings of UK assets rose to record levels in Q3, Q4 brought a slightly more muted response from investors, with those intending to increase their holdings falling to 14.6%. This is still the second highest score since Q3 2017.

- The proportion of investors looking to decrease their holdings of UK assets also rose slightly, from 19.8% in Q3 to 20.4% in Q4.

- Positive outlook for the medium-term global economic remains strong at 38% - a slight fall from 43% in Q3. However, the number of those holding a negative outlook doubled, from 15% to 30%. This is the highest negative reading since the study began – and is more than 7% higher than the previous record (set in Q2 2018 at 23%).

- Q4 saw the number of investors anticipating Brexit having an impact on their business operating model fall slightly, from 83% to 80%. The proportion of those expecting it to have a significant impact fell more sharply, from 26% in Q3 to 18%.

- The investment services that investors envisage their business needing greater support with following Brexit continue to be regulatory reporting support (28%), fund restructuring (20%) and transition management (14%). The proportion of investors stating that they would not need any support rose sharply in Q4, from 28% to 39%.
Summary of Findings

- After a sharp dip in Q3, which saw figures fall to a record low of 24%, the number of investors who expect to increase their level of investment risk over the coming three to five years increased to 28%. The number anticipating a decrease in risk appetite rose too, however, to 43% - the highest proportion since the survey began.

- Ireland overtook Luxembourg as the most attractive location for managers looking to expand their cross-border fund businesses – despite a fall of nearly 9% in mentions. It topped the list with 45%, followed by Luxembourg (38%) and Germany (24%). The UK rose to fourth in the rankings with 22% - up from 10% in Q3.

- Over the last quarter there has been a slight increase in the number of investors expecting to utilise cross-border fund locations, with 38% saying they will do so in the coming three to five years. This is up slightly from 37% in Q3. The proportion of those expecting to use them less remained constant at 2%.
Q1. How does your company intend to change its holdings of UK assets (equites, bonds or alternatives) in the next six months?

- Increase significantly: 9.7%
- Increase slightly: 5.8%
- Stay the same as today: 8.7%
- Decrease slightly: 10.7%
- Decrease significantly: 9.7%
- Don't know: 55.3%

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?
Q2. What are your expectations of medium-term (three to five years) prospects for global economic growth?

- 38.2% Positive
- 30.4% Neutral
- 28.4% Negative
- 2.9% Don't know
- 38% have a positive outlook on global economic growth prospects
Q2. What are your expectations of medium-term (three to five years) prospects for global economic growth?
Q3. What level of impact do you anticipate Brexit having on your business operating model?

- Very significant impact: 11.7%
- Significant impact: 18.5%
- Moderate impact: 27.2%
- Slight impact: 12.6%
- Very slight impact: 5.8%
- No impact: 1.9%
- Don't know: 80%

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?
Q4. Which investment services do you envisage your business will need greater support with following Brexit?

- Regulatory reporting support (e.g. Solvency II, AIFMD): 28.3%
- Fund restructuring: 19.6%
- Transition management: 14.1%
- Performance and risk analytics: 12.0%
- Offshore services: 12.0%
- Custody and Accounting: 8.7%
- Currency overlay strategies: 8.7%
- Execution Services: 5.4%
- None of the above: 39.1%
- Don't know: 10.9%
Q4. Which investment services do you envisage your business will need greater support with following Brexit?

- Regulatory reporting support (e.g. Solvency II, AIFMD): 28.3% in Q4 2018, 28.1% in Q3 2018
- Fund restructuring: 19.6% in Q4 2018
- Transition management: 16.9% in Q4 2018
- Performance and risk analytics: 10.1% in Q4 2018, 12.0% in Q3 2018
- Offshore services: 12.0% in Q4 2018, 7.9% in Q3 2018
- Custody and Accounting: 12.4% in Q4 2018
- Currency overlay strategies: 8.7% in Q4 2018, 3.4% in Q3 2018
- Execution Services: 5.4% in Q4 2018, 7.9% in Q3 2018
- None of the above: 39.1% in Q4 2018
- Don't know: 10.9% in Q4 2018, 10.1% in Q3 2018
Q5. Over the next three to five years, how will asset owners change their level of investment risk?

- Significantly increase levels of risk: 24.7%
- Slightly increase levels of risk: 30.1%
- No change: 12.9%
- Slightly decrease levels of risk: 4.3%
- Significantly decrease levels of risk: 3.2%
- Don't know: 28.0%

Bar chart showing:
- All increase: 28.0%
- All decrease: 43.0%
Q5. Over the next three to five years, how will asset owners change their level of investment risk?

- **Q4 2018:**
  - Significantly increase levels of risk: 3.2%
  - Slightly increase levels of risk: 24.7%
  - No change: 39.6%
  - Slightly decrease levels of risk: 30.1%
  - Significantly decrease levels of risk: 12.9%
  - Don't know: 4.3%

- **Q3 2018:**
  - Significantly increase levels of risk: 3.3%
  - Slightly increase levels of risk: 20.9%
  - No change: 24.7%
  - Slightly decrease levels of risk: 39.6%
  - Significantly decrease levels of risk: 28.6%
  - Don't know: 4.4%
Q6. What fund locations do you see as the most attractive for managers looking to expand their cross-border fund business?

- Ireland: 44.7%
- Luxembourg: 37.7%
- Germany: 23.5%
- UK: 22.4%
- France: 20.0%
- Channel Islands: 18.8%
- Netherlands: 15.3%
- Sweden: 7.1%
- Denmark: 4.7%
- Finland: 3.5%
- Norway: 2.4%
- Italy: 0.0%
- None: 9.4%
- Other: 9.4%
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: 38.4%
- Slightly more: 2.3%
- No change: 47.7%
- Slightly less: 11.6%
- Significantly less: 9.3%
- Don’t know: 1.2%
- Less: 1.2%
Disclaimer

Important Information:

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