

Press Release

Institutional investors attaching greater importance to returns

- **Major investors' need for safety remains high**
- **Absolute returns becoming even more significant**
- **European markets are preferred investment region**

Frankfurt, 25 October 2011: **The safety of investments remains the most important criterion for German institutional investors. Two-thirds of them cite safety as the most relevant aspect in their investment decisions, while 19 per cent of them claim that liquidity is the most important. The significance of investment returns has risen sharply, with 12 per cent of institutionals currently considering this criterion to be the most important. These were among the findings of Union Investment's latest risk management study, the theoretical aspects of which were coordinated by Professor Lutz Johanning from the WHU – Otto Beisheim School of Management. This year's study, which was conducted from June to August, surveyed 42 institutional investors such as banks, insurers, companies and foundations with investments totalling some €300 billion.**

Whereas the importance that institutionals attach to safety and liquidity decreased slightly in this year's survey, the relevance of investment returns grew substantially. 12 per cent of investors cited the rate of return as their most significant investment criterion. Last year this figure was only 7 per cent. Institutional investors are therefore sharpening their focus on the generation of adequate returns, even though this is still a relatively low priority. "Investors have had a pretty tough time over the past three years or so, during which German government bonds have yielded less than the required minimum rate of return, which is usually at least 4 per cent. This means that their income reserves have largely been depleted

For further information please contact:
Christian Lienke, Public Relations • Tel.: +49 (0)69 2567 1641 • Fax: +49 (0)69 2567 2371
Union Asset Management Holding AG, Wiesenhüttenstrasse 10, 60329 Frankfurt am Main, Germany

and their appetite for returns has grown significantly”, explained Alexander Schindler, the member of Union Investment’s Board of Managing Directors responsible for business with institutional clients. “In the current environment of low interest rates it is virtually impossible to generate adequate rates of return without taking risks. The crucial factor now more than ever is to deliberately exploit market opportunities and mitigate unwanted risk.”

The experience of the financial crisis and the growing relevance of returns as a criterion have changed investors’ attitudes. Whereas long-term strategic asset allocation strategies and conventional benchmark-based approaches have dominated portfolio management in the past, dynamic tactical strategies are now becoming increasingly popular. For example, only 17 per cent of those surveyed stated that it was still essential for them not to underperform an index. On the other hand, 45 per cent of those who took part in the survey claimed that it was important for them not to undershoot a certain minimum rate of return. “Index benchmarks are no longer useful as target rates of return; relative returns are of no help to investors in the current environment”, said Schindler. “Consequently, minimum-variance approaches and dynamic capital preservation strategies that meet investors’ need to earn higher returns while at the same time enabling them to mitigate risk are likely to become even more important in future,” explained Professor Johanning. “By using these strategies, investors will be able to exploit their limited risk budgets efficiently.”

Reluctance to diversify seen as a risk factor

83 per cent of investors who took part in the latest survey described their own organisation as primarily safety-oriented. This assessment is reflected in their asset allocation. Fixed-income securities and money market instruments on average account for 84 per cent of the total

For further information please contact:
Christian Lienke, Public Relations • Tel.: +49 (0)69 2567 1641 • Fax: +49 (0)69 2567 2371
Union Asset Management Holding AG, Wiesenhüttenstrasse 10, 60329 Frankfurt am Main, Germany

investments held by German institutionals. These are followed by equities (9 per cent of total investments), real estate (5 per cent) and private equity (1 per cent). By contrast, investments in hedge funds and asset-backed securities are virtually non-existent at present.

German institutional investors are only moderately diversified in regional terms. The vast majority of their funds are invested in European markets. While 81 per cent of their total equity portfolio is invested in Europe, 93 per cent of their fixed-income holdings are invested in this region. "Institutionals' reluctance to diversify their investments more widely in regional terms will impair the beneficial effects of diversification", explained Professor Johanning.

Since 2005 the asset manager of the cooperative financial network has been conducting regular surveys of institutional investors' preferences in respect of the criteria that are relevant to their investments. These surveys form an integral part of Union Investment's annual risk management study, which includes regular academic research on a specific topic. The 2011 study – which has been written by Professor Lutz Johanning, Dr Christian Funke and Dr Timo Gebken – mainly analyses how global risks impact on financial markets and risk management. The findings of this survey are currently being evaluated and will be published shortly.

For further information please contact:
Christian Lienke, Public Relations • Tel.: +49 (0)69 2567 1641 • Fax: +49 (0)69 2567 2371
Union Asset Management Holding AG, Wiesenhüttenstrasse 10, 60329 Frankfurt am Main, Germany