Principal Global Investors

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Investors are worried about financial repression as policy decisions drive global markets

Survey results show that over 66% of investors want asset managers to prioritise a deeper understanding of the debt crisis and its hidden risks and opportunities

London, June 17 2013: Central bank policy decisions will be the primary factor driving global markets in the next three years, according to 62% of those surveyed in an annual, independent report released today by CREATE-Research and commissioned by Principal Global Investors.

The report, now in its fifth consecutive year, also highlights worries about financial repression – caused when interest rates are kept low for a long duration – distorting asset allocation decisions.

Entitled *Investing In A Debt-Fuelled World,* the report discusses the challenges facing global financial markets imbued with ultra-low interest rates, heavy uncertainty and investors who lack direction. The report seeks to document the force of this undercurrent and its impact on investing in this decade.

The report surveyed over 700 asset managers, pension plans, pension consultants, fund distributors, and fund administrators from 29 countries with a combined AuM of US $27.4 trillion and was followed by 100 interviews.

Key findings include:

- Over two-thirds of investors wanted asset managers to prioritise a deeper understanding of the debt crisis and its hidden risks and opportunities.
- 49% of those interviewed said they would prefer an integrated solution for asset allocation, manager selection and investment options.
- A parallel shift into DC plans that combine the best of today's plans with new innovations in response to personalisation of risk. Today, DC plans hold 43% of global pension assets. By the end of this decade, this share will exceed 60%.
- The transition has already prompted asset allocation strategies to evolve. Survey respondents identified a shift to real assets —the biggest single change from this annual study's 2012 edition.
- Over the next three years, 45% of survey participants believe DC investors will pursue a dynamic asset allocation strategy. 62% of DC investors themselves reveal they would choose to pursue balanced/multi-asset class funds.
- DC plan members will increasingly distinguish between beating the market and meeting their needs, defined as the most enduring legacy of the 2008 crash.
- DB members will continue to move away from diversification strategies that target returns and move toward outcome-oriented investing.

Professor Amin Rajan, CEO of CREATE-Research and the report author, comments:

"Politics, more than economics, will drive the markets. Rather than try and beat the markets, investors will target specific solutions that will meet their unique needs. Alpha will be in the eye of the beholder. Asset managers will need to manage expectations of what can be delivered: 61% of survey respondents want asset managers to avoid unrealistic claims about returns and 55% agree that expectations could be managed more effectively."

Nick Lyster, CEO of Principal Global Investors Europe, comments:

"Over the next decade, the fall-out from repeated rounds of unprecedented quantitative easing and the resulting financial repression will continue to decrease the number of defined benefit pension plans and drive the evolution of defined contribution products.

"Baby boomers - most of whom have never seen a DB arrangement - will own close to 75% of retail assets in the next five years. These investors will be forced to shoulder their own retirement risk. Against this backdrop, this year's report identifies a new lens for asset managers through which to view investment strategy returns.

"The asset management industry will need to redefine how it works. New, forward-looking products need to be developed. Innovations will be more solutions-based, with alpha being a question of exceeding clients' needs rather than the market.

"By partnering closely with our clients to understand their needs and developing customised solutions for them, Principal Global Investors has been making significant progress in redefining how we partner with clients. This is one of the benefits of having a multi-boutique strategy."

The full report is available at: create.principalglobal.com and www.create-research.co.uk.

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Notes to Editors:

About CREATE
CREATE-Research is an independent think tank specialising in strategic change and the newly emerging business models in global asset management. It undertakes major research assignments from prominent financial institutions and global companies. It also undertakes advisory work for senior decision makers in reputable organisations across Europe and the U.S.

Its work is disseminated through high profile reports and events which attract wide attention in the media. Further information can be found at www.create-research.co.uk.

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The scope of its client base — which encompasses public and private pension funds, foundations and endowments, central banks, insurance companies, sub-advisory arrangements and sovereign wealth funds — reflects the breadth and sophistication of the firm's investment capabilities, the global reach of the business, the quality of its research and investment professionals, and ultimately the results achieved for its clients.

*As of March 31, 2013.

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