Global Investor Study

Under pressure: investors' response to crisis

Schroders

Marketing material

Contents

Overview

Understanding personal behaviours and motivations when investing is important to help make the right decisions - especially when external pressures are at play. People who invest are faced with countless decisions about which investments to choose, each with unique risks and potential rewards attached. The Schroders Global Investor Study 2020 explores the behaviours and attitudes of more than 23,000 people who invest from around the world.

Overall, the results show that, against a backdrop of market turbulence, people's expectations for income and returns are still on the rise. Despite recognising that investment plans should be well-informed, most investors still rely on their own research for their financial knowledge and expertise.

About this study

In April 2020, Schroders commissioned an independent online survey of over 23,000 people who invest from 32 locations around the globe with 1000 of these respondents from Australia. This spanned countries across Europe, Asia, the Americas and more.
This research defines people as those who will be investing at least €10,000 (or the equivalent) in the next 12 months and who have made changes to their investments within the last 10 years.

Note: Figures in this document may not add up to 100 per cent due to rounding.

Global findings in a nutshell

People are over-optimistic about their investment returns over the next five years
When asked about their total investment portfolio over the next five years, respondents expect an average annual total return of 10.92%, which is 1.02% higher than was expected two years ago and a small increase of 0.22% on last year.

Covid-19 is expected to have a negative economic impact for the next two years
66% of people think this will be felt for the next six months to two years, with only 21% believing the impact will go beyond two years.

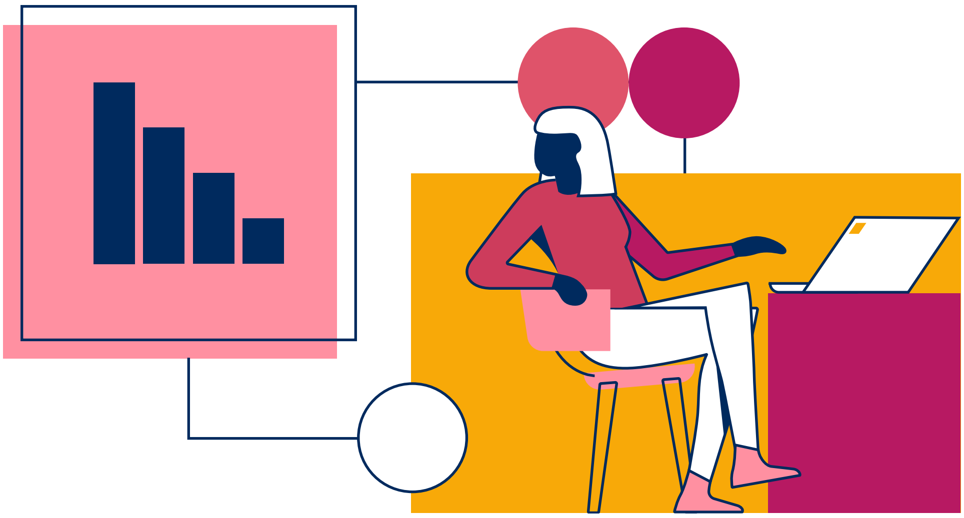
Banks and financial advisers are top for offering financial advice
People get their financial advice from various sources, but the most common two are banks (46%) and independent financial advisers (42%).

Financial education DIY
The majority of people think that acquiring financial knowledge should be a personal endeavour (68%), with another significant majority also placing responsibility on the heads of financial providers (62%). But this shouldn't downplay the role of state institutions, such as government and education systems, with almost half (48%) of people expecting them to provide sufficient knowledge on personal financial matters.

Becoming an expert
97% of people would like to have some kind of knowledge on personal financial matters, with the largest proportion of this group (46%) seeking a medium level of knowledge that enables them to really probe advice given by a financial adviser.

Preference for active over passive investing
Passive investments aim to match the performance of the market (e.g. it might track the FTSE 100 or the MSCI World index) whereas with active investing, a manager aims to beat the market through research, analysis and their own judgement.

The results show that while consumers have a general preference for active investment methods, the majority of their investment portfolio is passive and therefore at odds with their personal investment inclination.



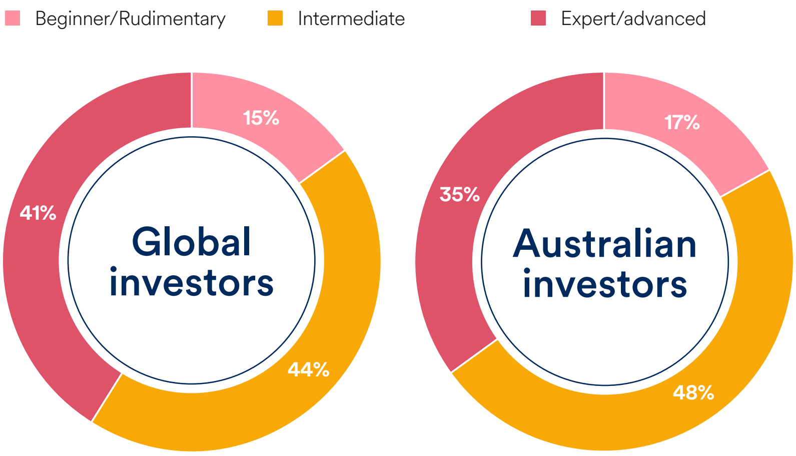
Investment knowledge

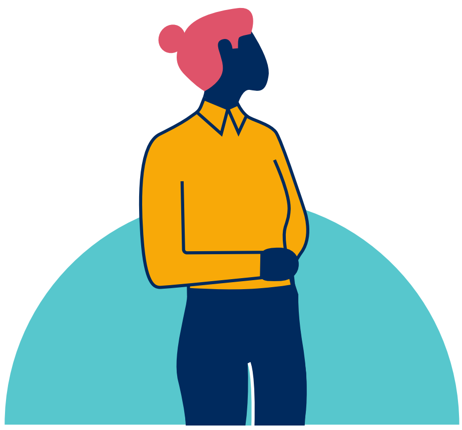
When asked how they would describe their level of investment knowledge, two-fifths (41%) of global investors felt their investment knowledge was expert/advanced and one-in-six (15%) rated it as beginner/rudimentary, with the remaining 44% rating it as intermediate.

In Australia, a little over one-third (35%) of investors felt their investment knowledge was Expert/Advanced and one-in-six (17%) rated it as beginner/rudimentary, with the remaining 48% rating it as intermediate.

Interestingly, the survey found men in Australia have greater belief in their investment knowledge, with 61% describing their knowledge as expert/advanced compared to only 39% of women.

Level of investment knowledge





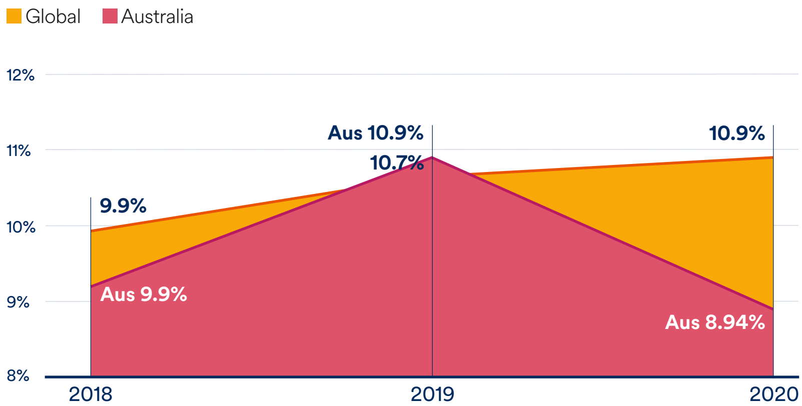
Investment expectations

Despite the recent market disruption, surprisingly, people have an over-optimistic outlook on their total investment returns. When asked about their return expectations on a total investment portfolio over the next five years, respondents, on average, expect an annual total return of 10.9%. This improbable return is 1.02% higher than what was expected two years ago and a small increase of 0.2% on last year. This is at odds with the current global equities (MSCI World Index) performance which produced an annualised return of 9.5% over the last five years to the end of April 2020.

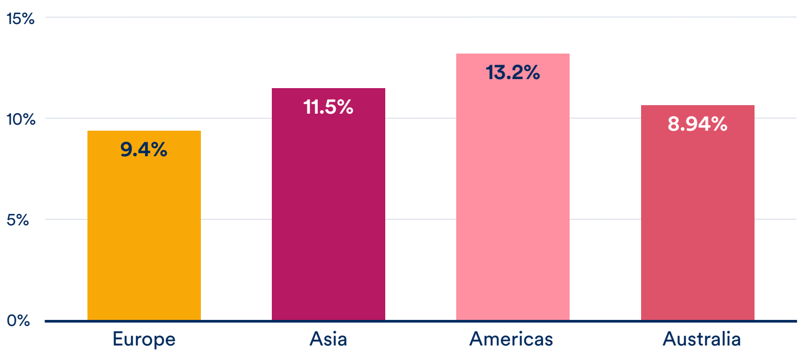
But these levels of optimism do vary according to region, painting a mixed picture of investment performance around the world. In Australia, respondents expected to receive, on average an annual total return of 8.94% over the next five years. Although lower than global results and lower than the previous two years, this is still higher than the 3.5% p.a. over the last five years delivered by S&P/ASX200.

> “People have an over-optimistic outlook on their total investment returns

Expectations of average annual total return from investment portfolios, over the next five years



Expectations of average annual total return from investment portfolios, over the next five years, by region



Location	Average annual total return from investment portfolios over the next five years
US	15.38%
Indonesia	14.80%
Argentina	14.60%
Taiwan	14.03%
India	13.64%
UAE	13.62%
Brazil	13.33%
Thailand	13.02%
South Africa	12.67%
China	12.25%
Chile	12.20%
Mexico	11.99%
Poland	11.19%
UK	11.08%
Russia	11.07%
Singapore	10.93%
Portugal	10.66%
Denmark	10.62%
Hong Kong	10.28%
South Korea	10.15%
Spain	10.03%
Belgium	9.69%
Canada	9.55%
Sweden	9.23%
Netherlands	9.06%
Australia	8.94%
Germany	8.40%
France	8.31%
Austria	8.04%
Italy	7.93%
Switzerland	6.96%
Japan	5.96%

European respondents are least optimistic about the anticipated returns of their investment portfolios (9.4%), while those in the Americas are the most positive with a very generous expected annual total return of 13.2% on average.

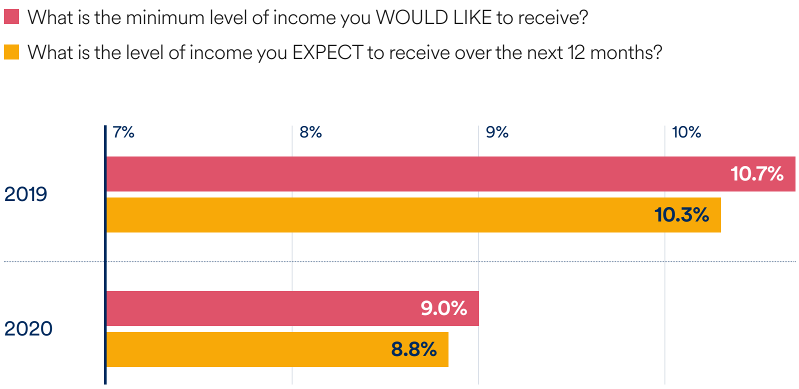
Narrowing our lens to investment expectations by country, we can see that there are significant differences in opinion regarding expected return. European countries are split into two camps, with Poland (11.19%) and the UK (11.08%) notably more positive than Italy (7.93%) and Switzerland (6.96%). Asia is on the whole far more aligned compared to Europe, with Japan being the exception to this, coming in as the least optimistic (yet potentially most realistic) country with annual investment return estimates over the next five years at 5.96%.

As for the Americas, Canada stands out for being significantly less optimistic than other countries with return expectations at 9.55%.

Thinking about average income from investments over the next 12 months, people are still unrealistically optimistic, but notably less so than last year. Investment income expectations are more aligned with income aspirations than they have been in previous years (8.8% vs 9% respectively). In Australia, investment income expectations have dropped significantly from the previous year with the income people would like dropping from 11.5% to 7.79% and the income people would expect dropping from 11% to 7.14%.

But what is the driving force behind these attitudes and unrealistic predictions? Our results show that 80% of people are still basing their predictions on the returns they have received in the past, with a decade of strong returns potentially inflating people's expectations to unrealistic levels.

Average income from investments people would like to receive vs. what they expect to receive over the next 12 months

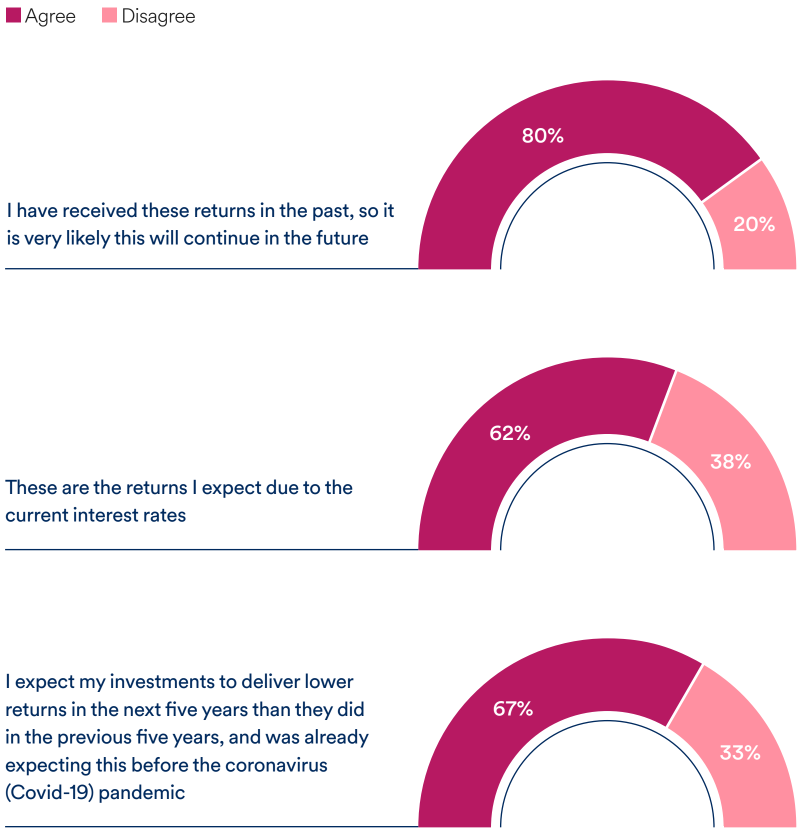


67% of people corroborate their expectation of lower returns over the next five years, stating that they believed this to be the case even before the onset of the pandemic.

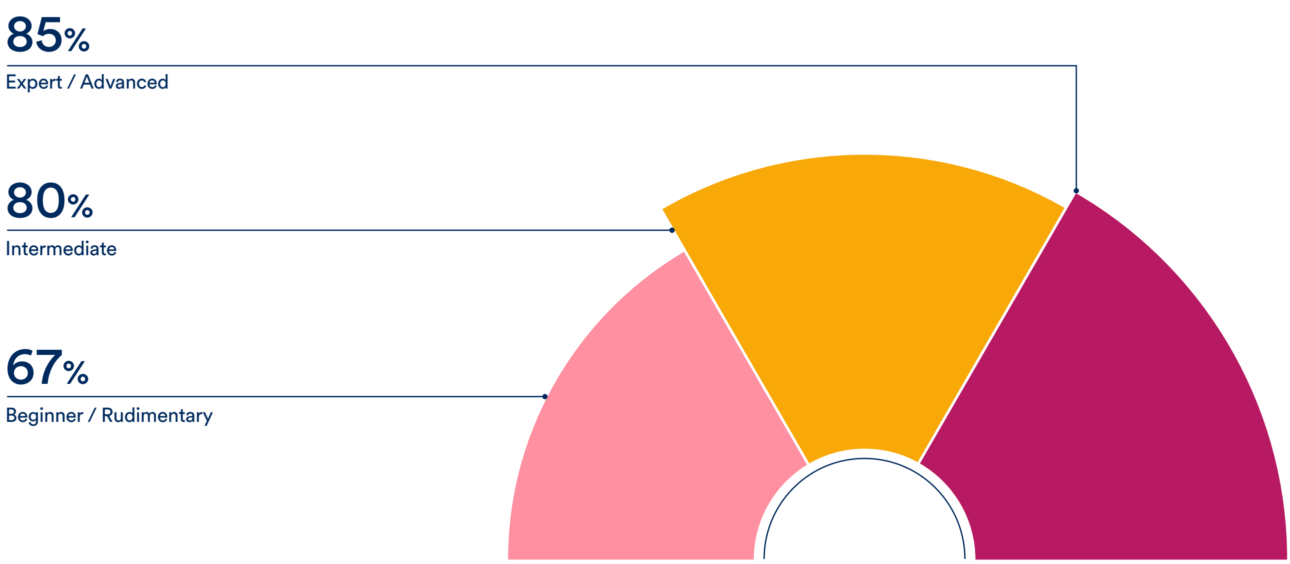
A small majority globally (62%), and even higher in Australia (75%) are basing their expected returns on current interest rates, unsurprising considering the Federal Reserve has vowed to keep rates low. However, this is somewhat revealing when you consider that the expected return is still higher than such low interest rates would traditionally allow.

It's also interesting to see how these judgements change according to how respondents rate their own investment knowledge. There was no notable difference for expectation of lower returns even before Covid-19 or accounting for interest rates. However, the propensity to rely on the performance of investments in previous years is dramatically increased among those who claim to be 'expert' or 'advanced' investors (85%), while only 67% of beginner/ rudimentary investors agree that their investments' past performance will inform how they perform in the future.

Basis of income expectation

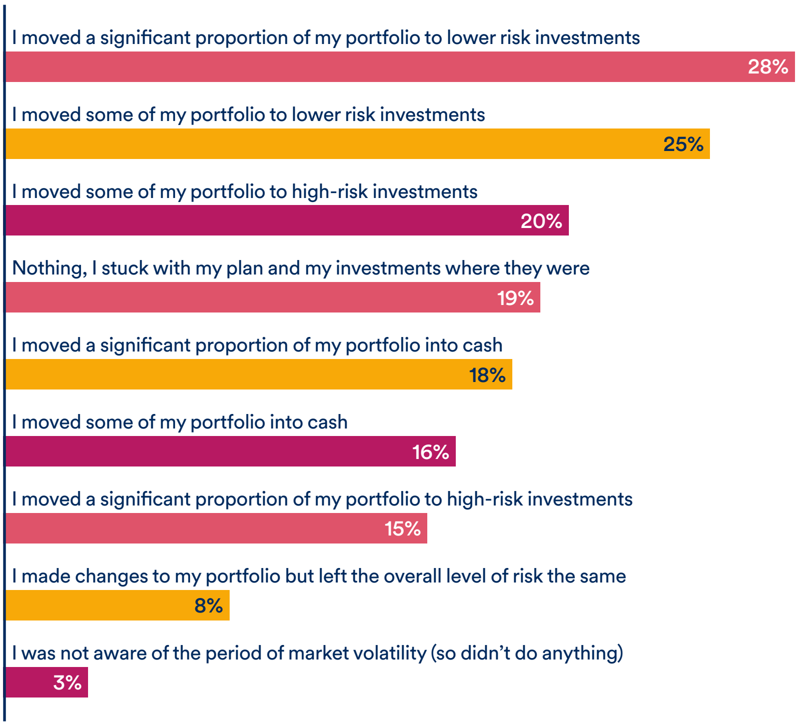


Percentage of people basing their expectations of investment income for the next five years on returns they've received in the past

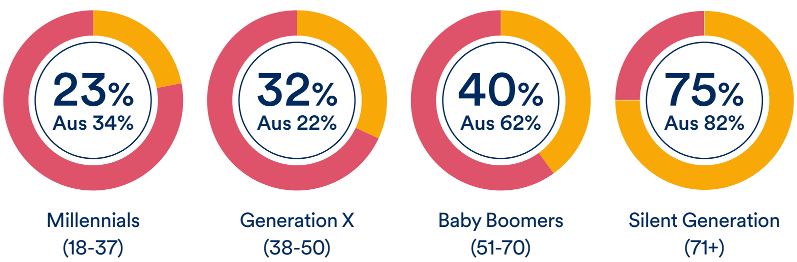


The impact of a global pandemic

Changes made to investment portfolios during February and March 2020



People who either moved their portfolio but maintained level of risk/ didn't make any changes



Covid-19 has certainly made its mark on investment behaviour even if investors aren't expecting it to impact their returns in the long term.

When asked how they approached the period of stock market volatility in February and March of 2020, a significant majority of people made changes to their portfolio. Over a quarter of people (28%) moved significant proportions of their portfolio to lower risk investments, while a fifth (20%) moved some of their portfolio to high-risk investments.

Australian investors were more likely than their global counterparts to stick to their original plans with 34% not making any changes to their investment portfolio during this period. Interestingly, women were more likely to not make any changes to their portfolio (38%) vs men (31%).

There was also a trend among different age groups, with the likelihood of either maintaining risk level or making no changes increasing significantly among older age groups. Globally, baby boomers were almost twice as likely (40%) to maintain the risk level of their portfolio/ not make any changes than millennials (23%), while those over 71 years old were over three times more likely (75%) to do so.

As for the negative economic impact brought on by Covid-19, 66% of people think this will be felt for the next six months to two years, with only 21% believing the impact will go beyond two years. Given this acknowledgement of the ramifications of Covid-19 for the economy, it is surprising that more respondents don't foresee this affecting the level of return on their investments over the next year. Unlike with the results for annual total return on investments for the next five years, there was no notable difference between regions, with sentiments relatively comparable across geographies.

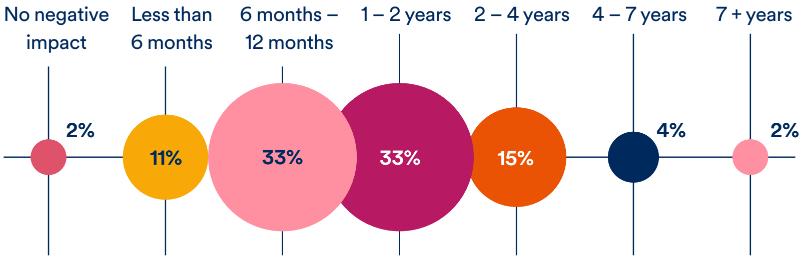
Mindful investing

Before Covid-19, 35% of people thought about their investments at least once a week. Since the pandemic began, however, almost half of people (49%) think about their investments at least this frequently.

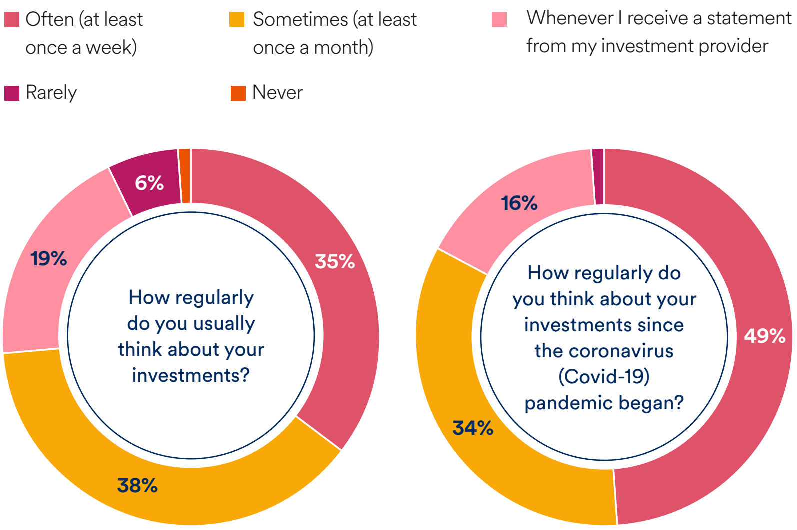
But with greater knowledge comes greater responsibility, and self-purported 'expert' or 'advanced' investors are almost twice as likely to think about their investments on a weekly basis than beginner/rudimentary investors (44% vs 22% respectively) and 61% vs 31% in Australia.

Australian men were more likely to think about their investments more frequently with 36% stating they think about them at least once a week compared to 27% of Australian women. When looking at how regularly they think about investments since the coronavirus pandemic begin, this increases to 56% for men and 43% for women.

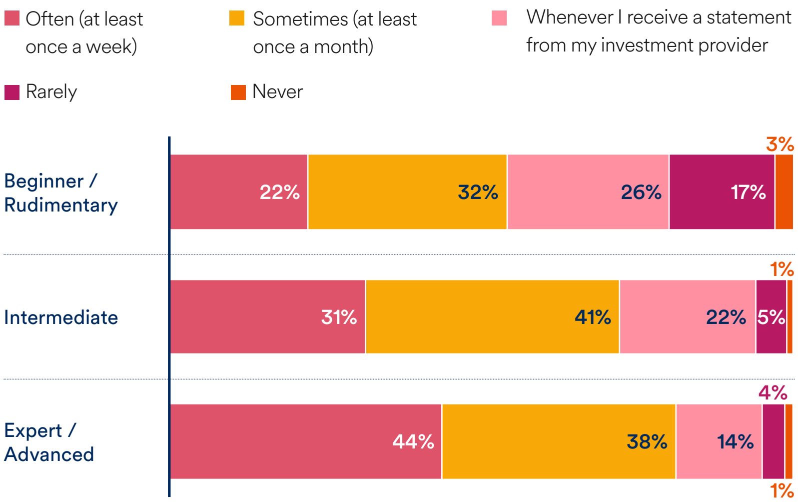
How long the period of negative economic impact caused by Covid-19 will last



How regularly do you usually think about your investments?

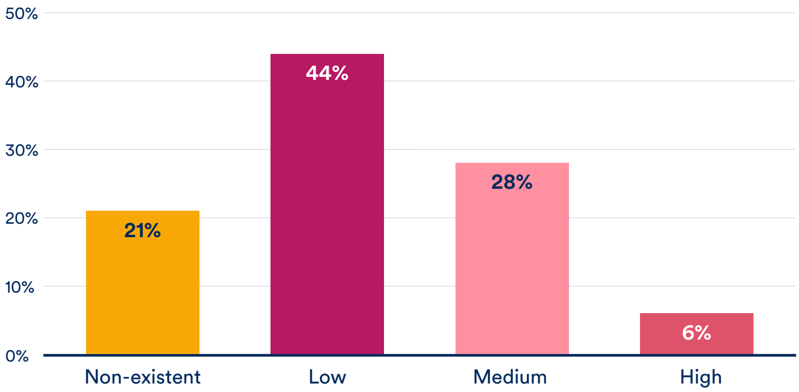


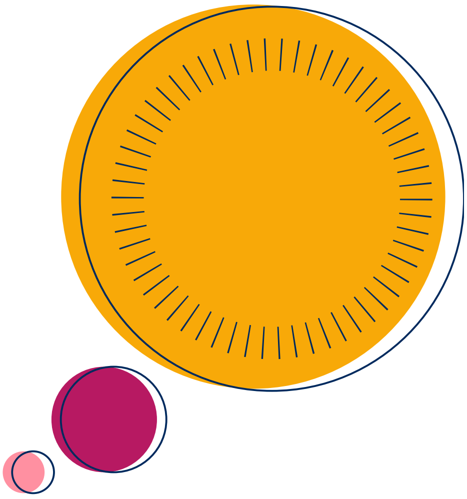
Time spent thinking about personal investments, before Covid-19



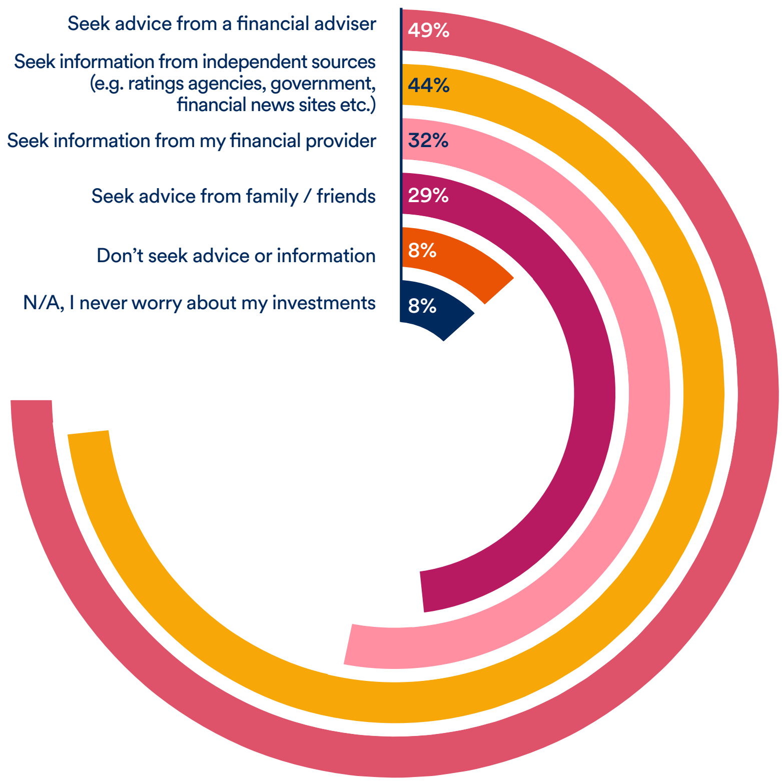
Money on your mind?

How do investors describe their level of worry if their investments drop for a short period of time?





Route taken when worried about investments



But while this additional time is spent thinking about their investments, it's important to point out that this doesn't necessarily indicate worry or anxiety. More than a fifth (21%) of investors claim they don't worry about their investments, even after a drop. This is less likely in Australia where only 15% of investors claim they don't worry about investments after a drop.

The performance of investments can be anxiety-inducing even when market pressures are at a minimum. However, 2020 has been a turbulent year, so how has this influenced investors' behavioural habits?

"Expert" or "advanced" investors are eight times more likely (16%) to say they never worry about their investments, compared to their "intermediate" counterparts (2%).

When people do worry about their investments, almost half of them (49%) turn to financial advisers for professional help. But still a significant minority (44%) seek information from independent sources like ratings agencies and financial news sites themselves.

Friendly advice

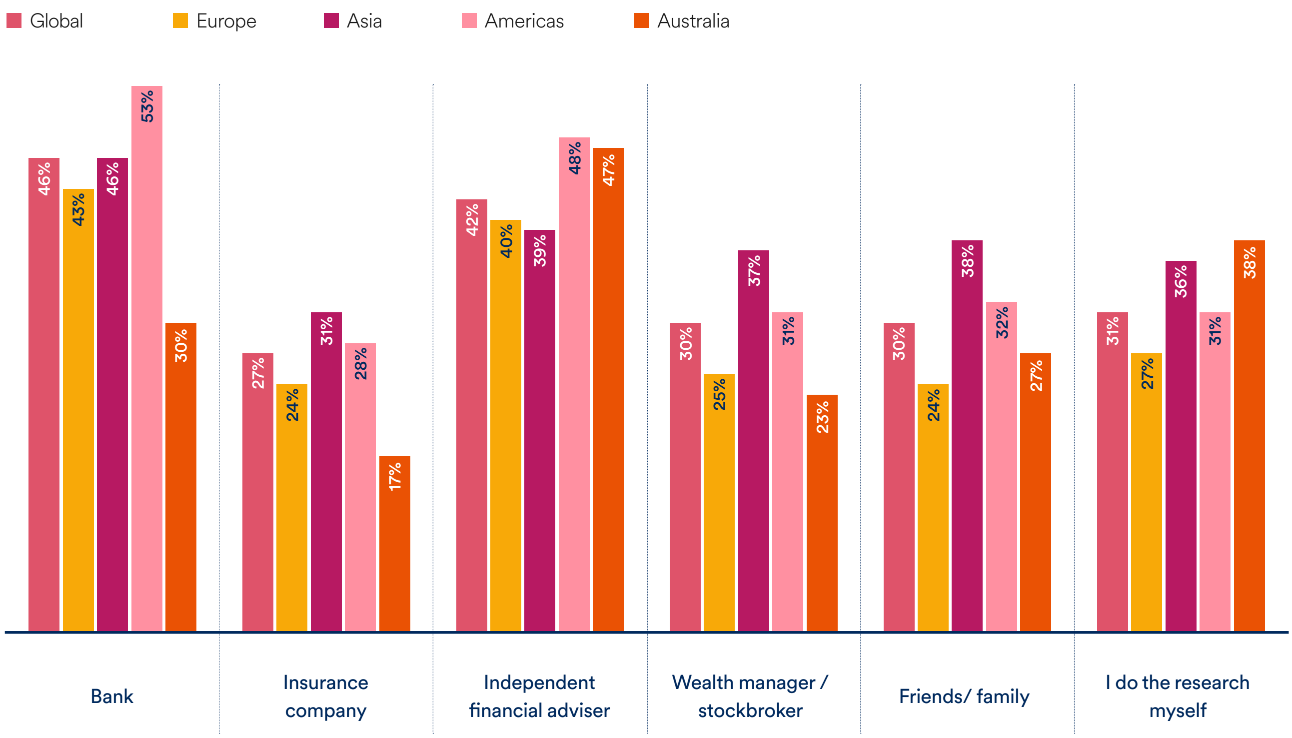
People get their financial advice from various sources, but the most common globally two are banks (46%) and independent financial advisers (42%). Bottom of the list are insurance companies with only 27% of respondents getting their financial advice this way.

While these global figures are representative of the results when looking at different regions, there are a couple of points of difference.

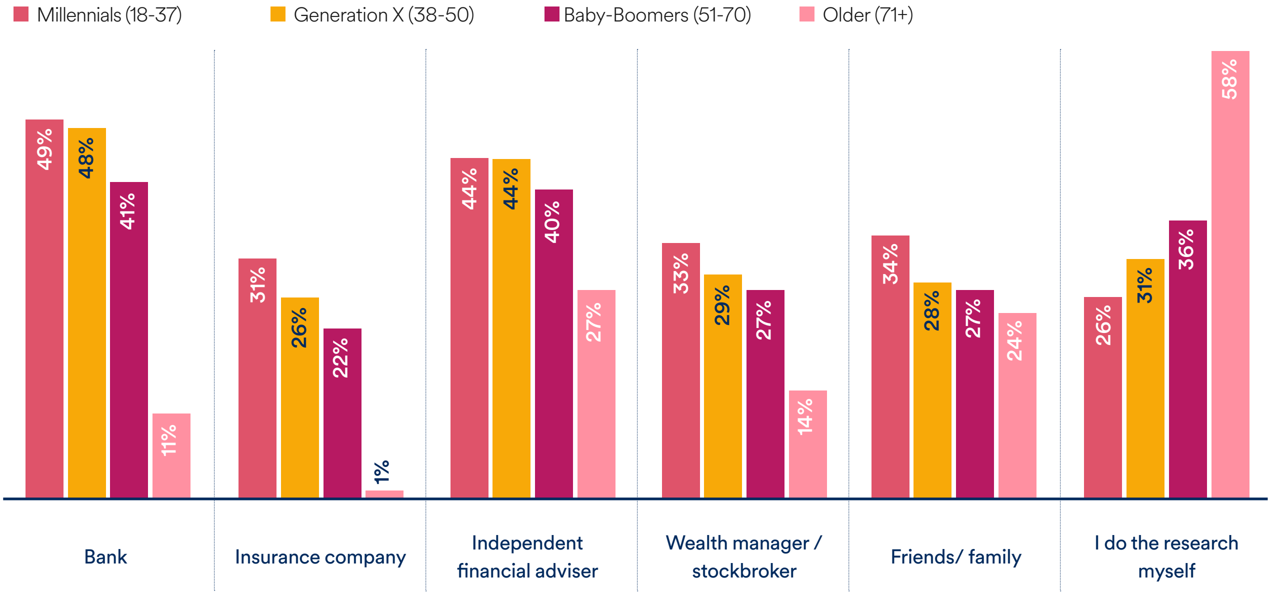
The results showed that Asia is more likely to source financial advice from friends/family (38%) compared with other regions and, while on average, few people chose to do research themselves, Europeans were the least likely to be their own source of financial advice (24%) compared with other regions.

> **Globally self-purported 'expert', or 'advanced' investors, receive their financial advice from a stronger mix of professionals, however this is not the case in Australia**

Sources of financial advice, by region



Sources of financial advice, by age

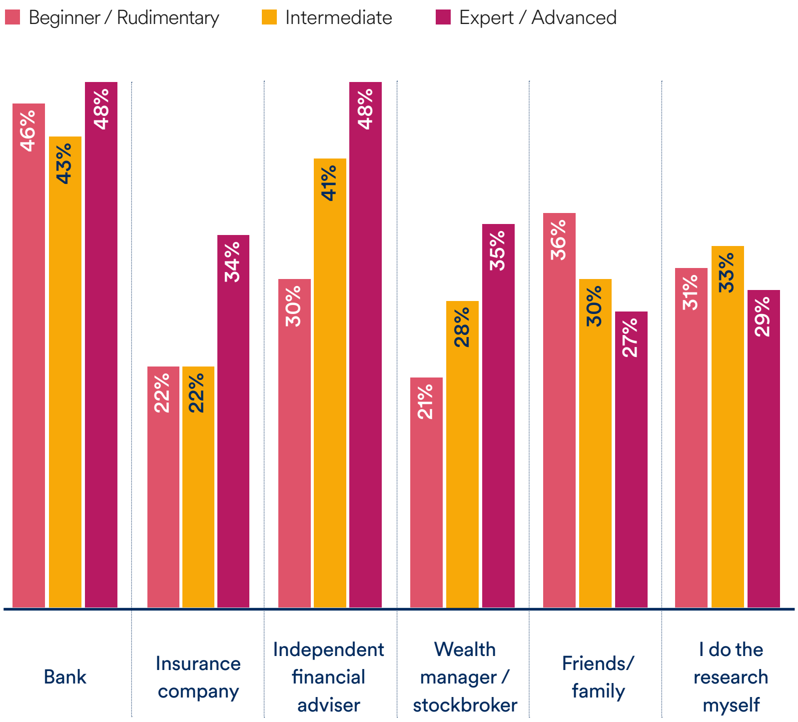


In Australia people were most likely to source financial advice from independent financial advisers (47%) or do the research themselves (38%). Interestingly, Australian men were more likely to do the research themselves (44% vs women 33%), whereas Australian women were more likely to source their information from a bank (33% vs men 26%) or their friends/family (31% vs men 24%).

There was however, a notable pattern when considering sources of financial advice across generations. While reliance on yourself as a source of financial advice more than doubles for over 71 year-olds (58%) compared to millennials (26%), there is also a general trend where we see reliance on all sources of advice, except for 'doing research myself', decreasing as age increases.

Those who rate their investment knowledge as 'expert', or 'advanced', receive their financial advice from a stronger mix of professionals than beginners through to intermediates. They are also least likely to do research themselves (29%) and consult a friend/ family member (27%). However, this is not the case in Australia with 43% of people who consider themselves 'expert' or 'advanced' doing the research themselves, compared with 32% of beginners.

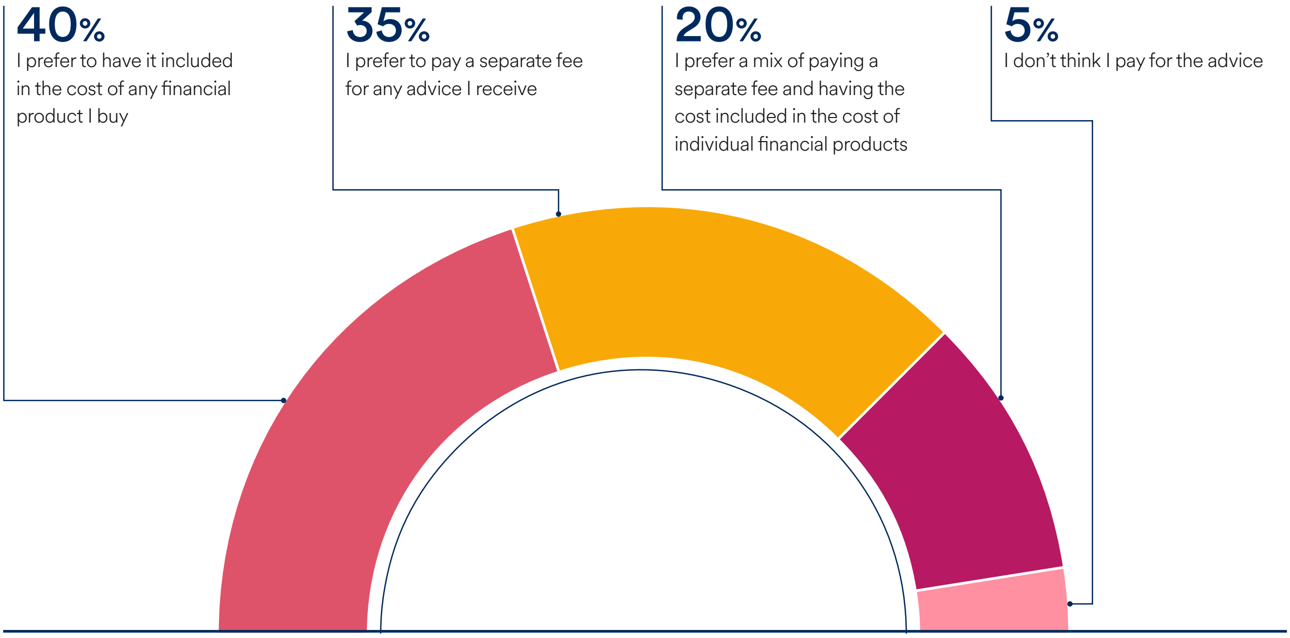
Sources of financial advice, by investment knowledge



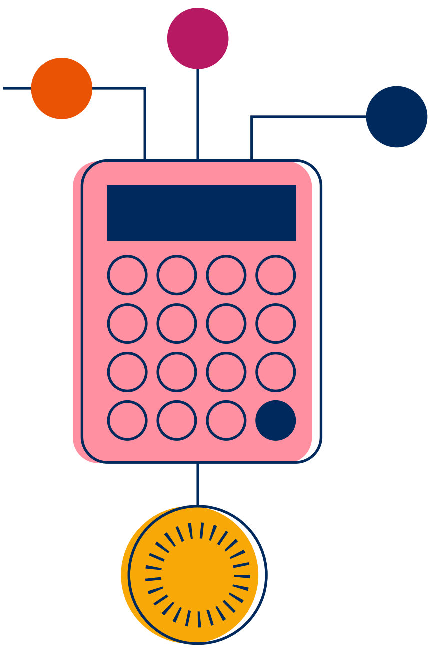
Please note respondents identified their investment knowledge themselves

Is the best advice free?

Advice payment preferences



Globally, when paying for their advice, there was a clear preference across the board for this payment to be included in the cost of any financial product people buy (40%). In Australia, the preference to pay for advice was to pay a separate fee (41%), followed by the fee being included in the cost of the financial product (35%). This could be an after effect of the Hayne Royal Commission which had a large focus on fee for service financial advice models.



6%

of people don't think they pay for advice in Australia.

Financial education: responsibility vs reality

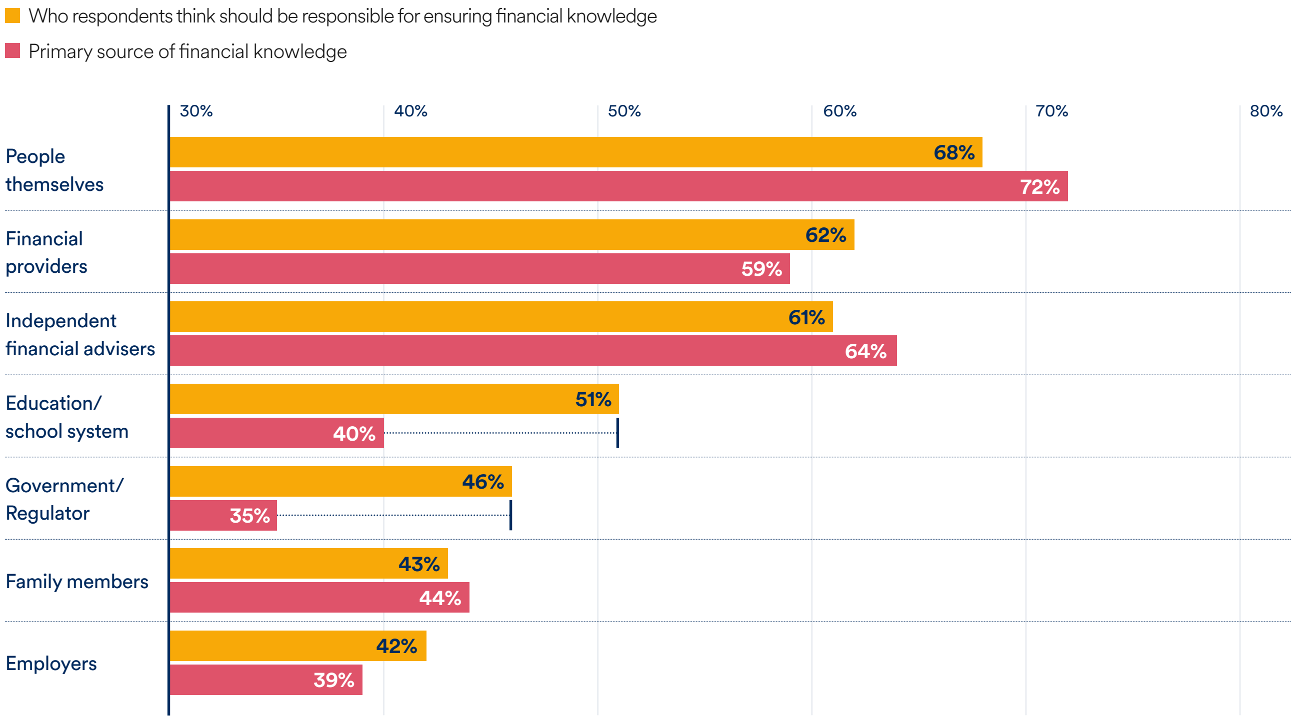
We've heard where consumers get their financial advice from, but who do they think should be responsible for ensuring that people have a sufficient level of knowledge on personal financial matters?

The majority of people think that financial knowledge should be a personal endeavour (68%), with another significant majority also placing responsibility on the heads of financial providers (62%). In Australia, respondents had a higher propensity to place the responsibility of financial knowledge on themselves with 76% thinking it should be a personal endeavour which was followed by independent financial advisers (69%) and financial providers (66%).

This is somewhat at odds with where people get their financial advice, as only a small portion globally (31%) took this task on themselves to research. When it comes to general financial knowledge, people are willing to put in the effort and hold themselves accountable (72% think they are responsible for their own knowledge).

When considering where people acquire their knowledge in reality vs who they think should be responsible, some interesting gaps start to emerge.

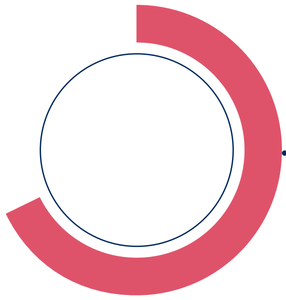
Responsibility vs reality



The biggest gaps were for government/ regulators and education/ school systems who appear to be most out of step with the responsibility placed on them by the consumer (48%). While 51% of people said education/ school systems should be responsible for disseminating financial knowledge, only 40% actually acquired their knowledge from these institutions. And it's a similar story for government/ regulators, with 46% of people placing responsibility on them and only 35% actually acquiring their knowledge in this way.

Employers and family members are also held accountable for providing financial knowledge, at least by a strong minority of millennials and Generation X. Millennials are almost three times (47%) as likely to expect employers to provide financial knowledge than the over 71s (15%), and almost twice as likely (46%) to place this responsibility on their family members than the older generation (24%).

Given that 64% acquire their knowledge from financial advisers, it's interesting to examine the dynamic here more closely, looking at how people can get the most out of their financial advisers.



68%

of people think that financial knowledge should be a personal endeavour

Who people think should be responsible for providing financial knowledge

Expert ambition?

So, given that such a large portion of us are taking financial education into our own hands, what level of financial knowledge are people trying to obtain?

97% of people would like to have some kind of knowledge on personal financial matters, with the largest proportion of this group (46%) seeking a medium level of knowledge that enables them to really probe advice given by a financial adviser.

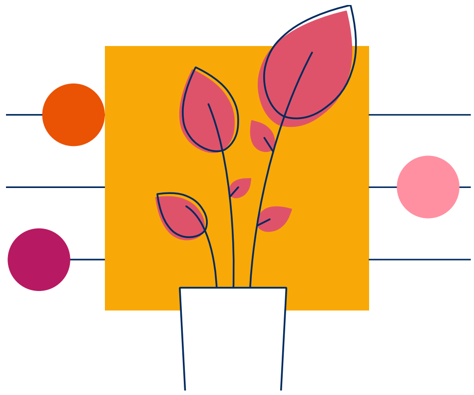
The findings were similar in Australia with 48% of respondents seeking a minimum level of knowledge that enables them to probe advice given by a financial adviser.

Looking at knowledge ambition by region, the Americas is the clear front-runner, with almost half (46%) of people striving for a high level of knowledge that enables them to make t heir own decisions, cutting out the need for a financial adviser.

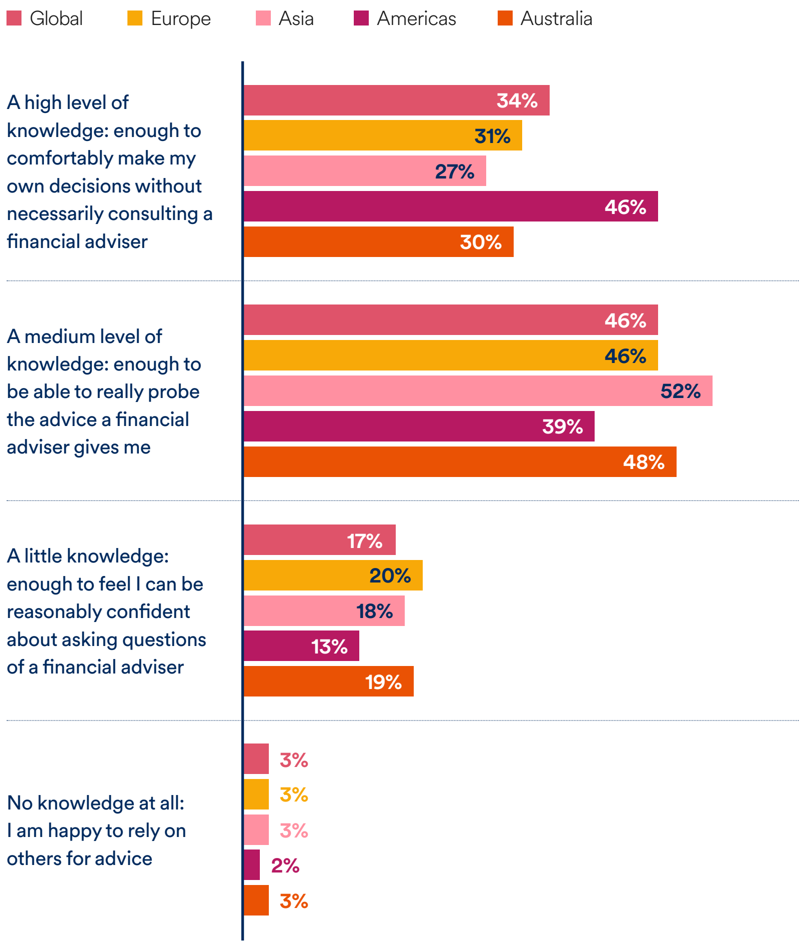
52% of respondents in Asia would instead like to have a medium level of knowledge, showing that they still value the role of the financial adviser in overseeing their personal financial matters.

46%

of people want a medium level of knowledge that enables them to really probe advice given by a financial adviser



Desired level of financial knowledge, broken down by region



> **Most people would like to have some kind of knowledge on personal financial matters**

Financial knowledge in action

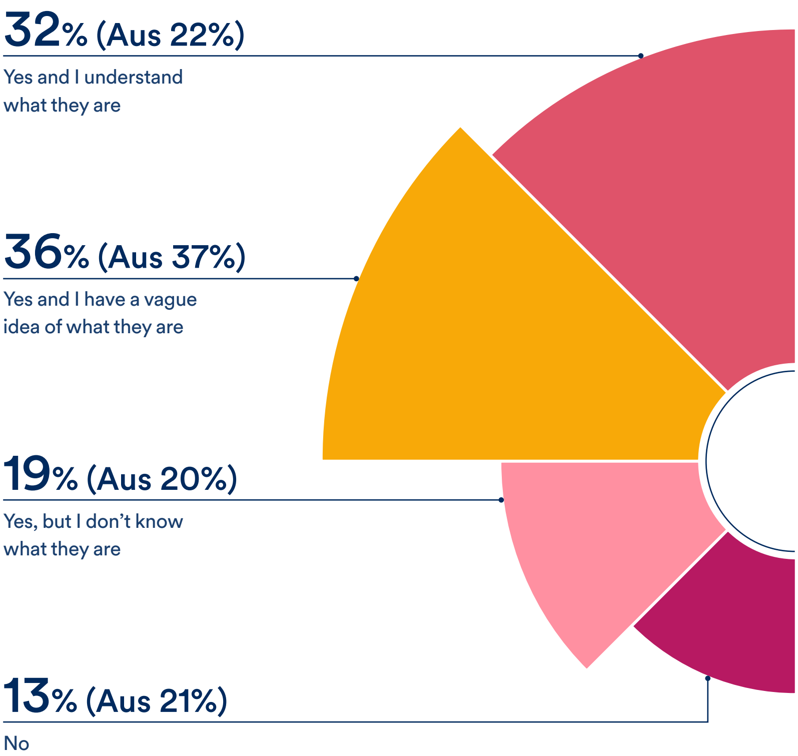
Given people's differing levels of knowledge, the accessibility of certain kinds of investment becomes even more pertinent when we consider how they acquire their financial knowledge, where this comes from and ultimately, how they are able to put their knowledge into practice.

When asked if they had heard of private asset investments for example, only 32% of people confirmed this and that they understood what they were. The remaining 68% (and even higher in Australia at 78%) only had either a vague understanding, didn't know what they were or hadn't heard of them at all.

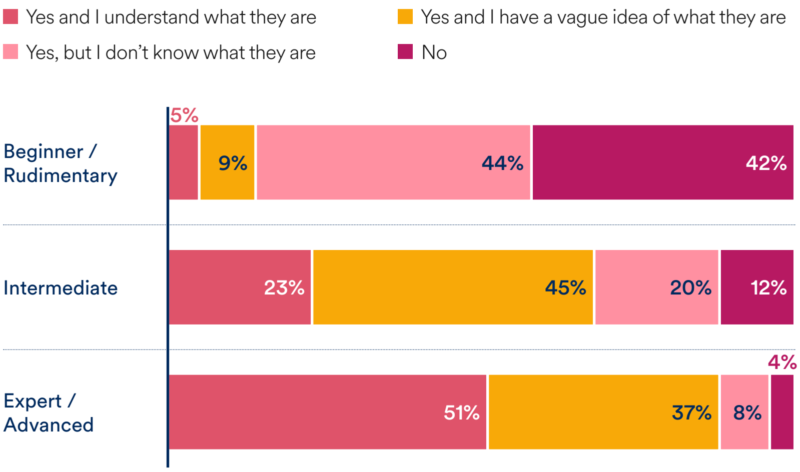
It also appears to be the case that younger generations, millennials (36%), have a clearer understanding of what private asset investments are vs non-millennials (28%). This was similar in Australia with 30% of millennials having a clear understanding of private asset investments vs non-millennials (19%).

Also surprising was that a significant minority (37%) of self-purported 'expert' or 'advanced' investors had only a vague understanding of what private asset investments are. While over two fifths (42%) of 'beginner' or 'rudimentary' investors hadn't heard of them at all.

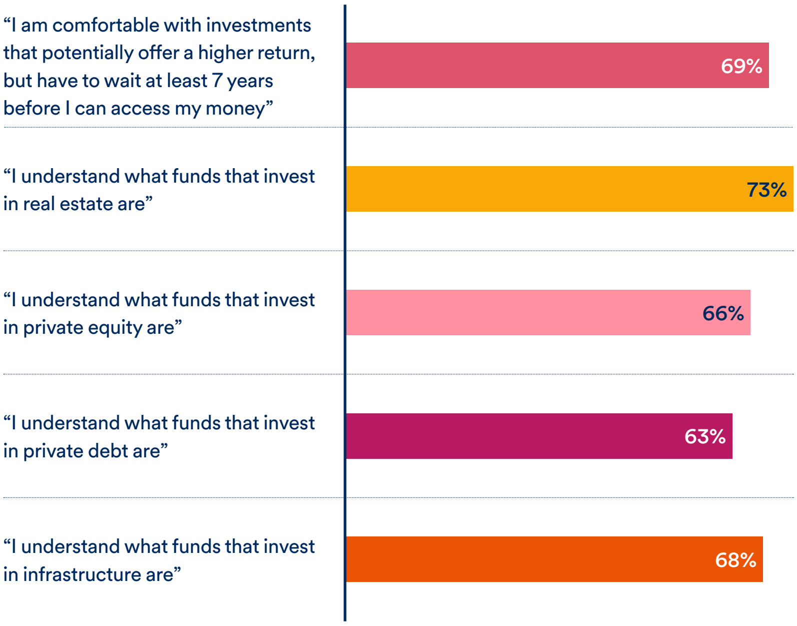
Have you heard of private assets investments?



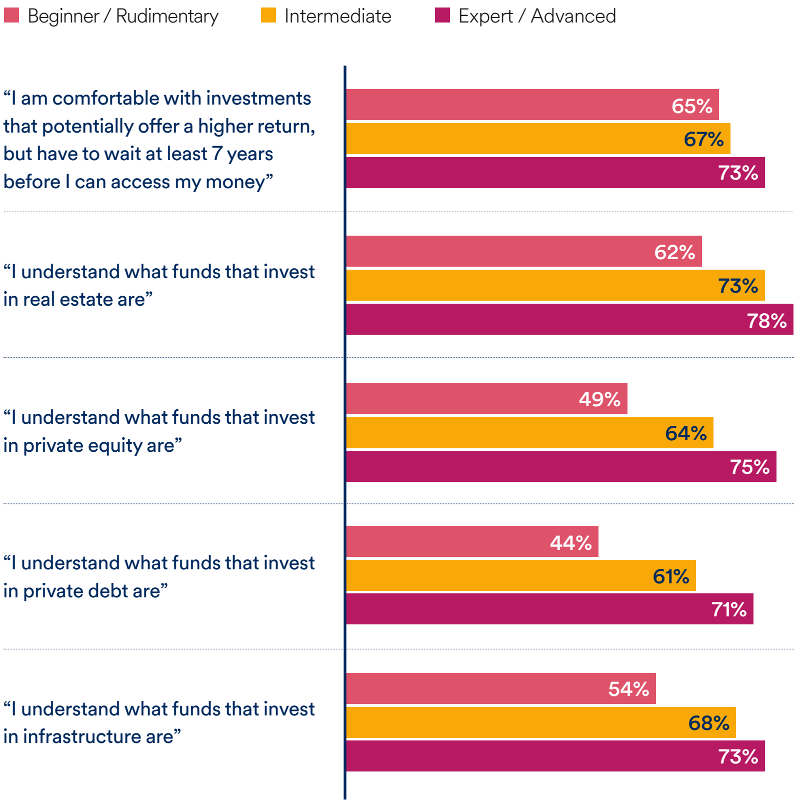
Different levels of investors' understanding of private asset investment



Understanding of private asset investments around the world



Understanding of private assets investments, by investment knowledge group



However, when we describe private asset investments more specifically, such as ‘investing in real estate’ or investing in private equity’ for example, the majority of people understand what different funds are. 69% are also comfortable with the idea of investments that they might have to wait at least seven years before accessing their money.

Does this reveal an underlying lack of knowledge - or a discomfort around investment terminology?

As you would expect, a higher proportion of those who identify as ‘expert’ or ‘advanced’ investors understand what funds investing in private equity are (75% of expert/advanced understand what this is vs 49% of beginner/ rudimentary investors) and also private debt (71% for expert/advanced vs 44% for beginner/ rudimentary investors). The results also show us that a higher proportion of ‘expert’ or ‘advanced’ investors (73%) are comfortable with longer-term investments that potentially offer a higher return.

However, this still does not correlate with the number of experts who are completely confident in private assets - revealing a knowledge gap still exists for those who believe themselves ‘expert’ or ‘advanced’ investors.

People who claim to be ‘beginner’ or ‘rudimentary’ investors are more likely to understand funds investing in real estate (62%) than anything else.

“

A higher proportion of those who identify as ‘expert’ or ‘advanced’ investors understand what funds investing in private equity are

Active vs passive investing

Active
Where a manager aims to beat the market through research, analysis and their own judgement

Passive
Where the aim is to match the performance of the market e.g. it might track the FTSE 100 or the MSCI World index

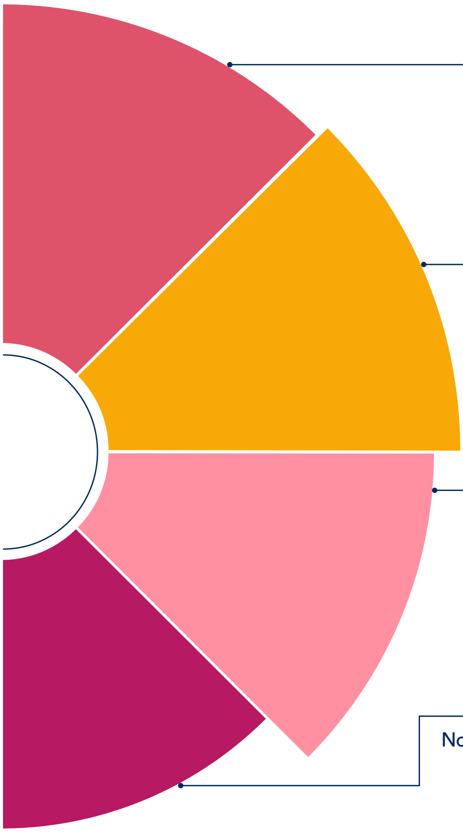
How much of people's portfolios are in active and passive investments?

Investments based on matching market performance appear less desirable to people, with only 62% interested in putting investment into funds that take this approach. An investment approach based on detailed assessments of a company and its potential future profitability is more appealing, with 81% of people interested in funds adopting this method.

The results show that while consumers have a general preference for active investment methods, the majority of their investment portfolio is passive and therefore at odds with their personal investment inclination. The results show that while Australian consumers have a general preference for active investment methods (63% quantitative, 82% fundamental, 72% quantamental vs. 64% passive), the majority of their investment portfolio is passive (61% v 39%) and therefore at odds with their personal investment inclination.

In Australia, we also found that men are more likely to hold a higher proportion of their portfolio in passive investments (64.35%) vs women (57.4%).

Interest in putting investments into funds that take the following approaches



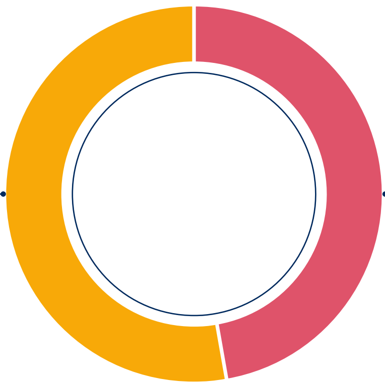
78% (Aus 63%)
Making investment decisions based on advanced computer and mathematical modelling

81% (Aus 82%)
Making investment decisions based on detailed assessments of a company and its potential future profitability

75% (Aus 72%)
Making investment decisions based on a combination of both advanced computer modelling/mathematical modelling and detailed assessments

62% (Aus 64%)
No active investment decisions are made – the aim is to match the performance of the market (e.g. it might track the FTSE 100 or the MSCI World index)

Proportion of people's portfolios that are active vs passive



53% (Aus 61%)
Passive (where the aim is to match the performance of the market (e.g. it might track the FTSE 100 or the MSCI World index)

47% (Aus 39%)
Active (where a manager aims to beat the market through research, analysis and their own judgement)

Investment rites of passage

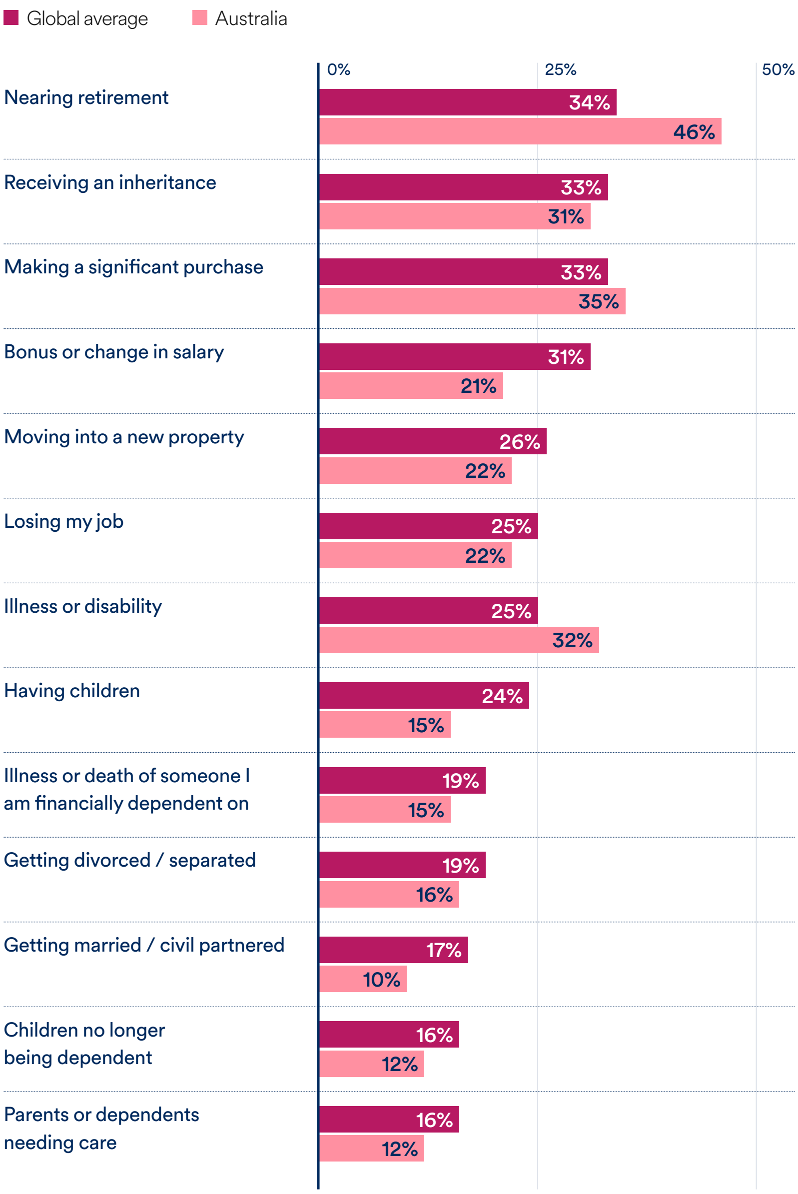
The survey revealed that people rely on their own research to help them obtain knowledge on personal financial matters (72% of global respondents), but are there investment rites of passage, or triggers, that encourage people to seek help from a professional?

The answer is 'yes', with 34% (46% in Australia) of respondents claiming they would be most likely to seek professional investment advice when nearing retirement. 33% of respondents would also be likely to consult a professional when receiving inheritance, or even making a significant purchase, such as buying a new car.

Millennials were also twice as likely (46%) to seek professional financial advice when receiving an inheritance than non-millennials (23%), and twice as likely to do so when having children (34% vs 17%).

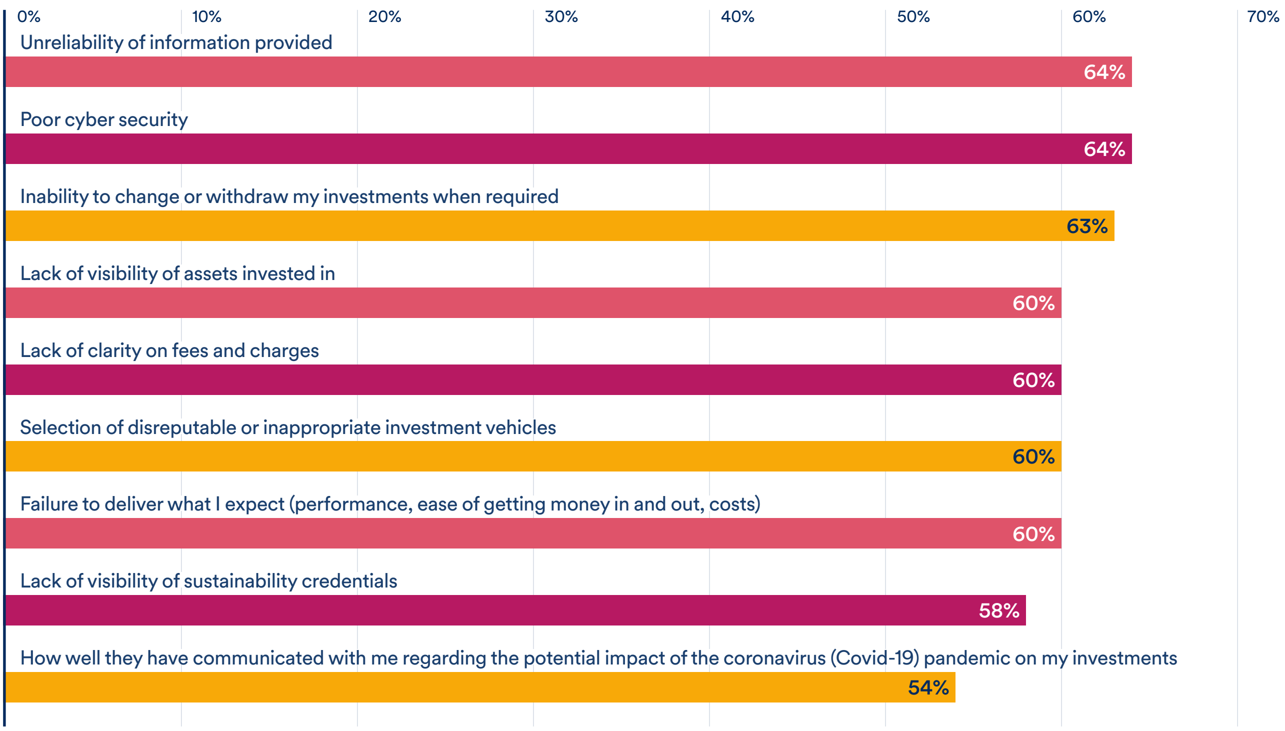
“Investment rites of passage encourage people to seek help from a professional

Personal life events that are most likely to cause people to seek professional financial advice



Is a lack of trust driving a rise in independent investors?

Aspects that would undermine trust in an investment provider

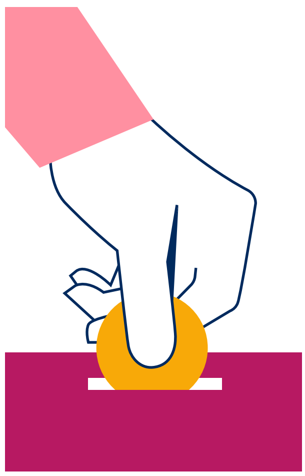


With so many people relying on a mixture of professional advice and personal knowledge to aid in their investment decision-making, along with younger generations increasingly likely to rely on family members for financial education, what is the role of trust in investments today?

The spread of the results show that many things could undermine trust in investment providers, with unreliability of information provided and poor cyber security (64%) being the most likely aspects to cause this effect. The smallest proportion (54%) of people felt their trust would be undermined by poor communication around the potential impact of the pandemic on their investments.

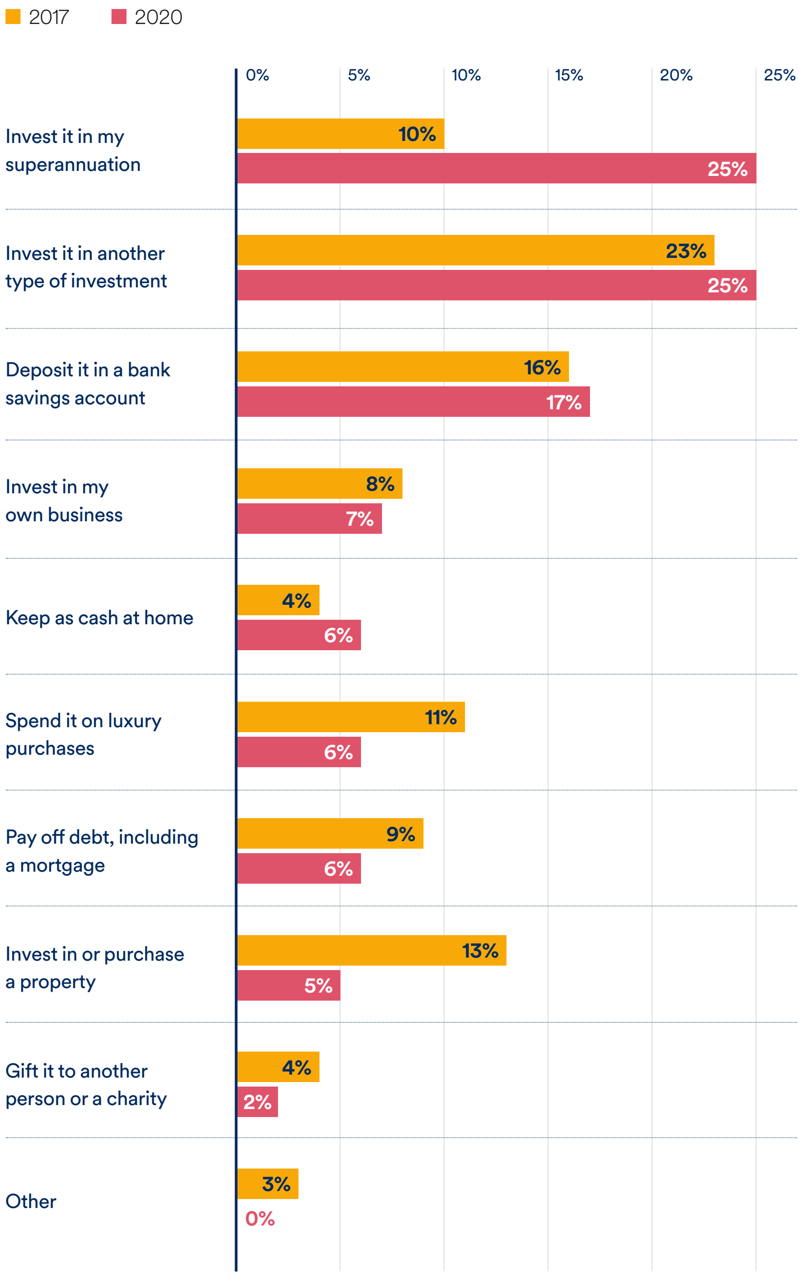
This was similar in Australia however a higher percentage of people felt that the inability to change or withdraw investments when required and failure to deliver what they expect (66%) contributed to their distrust of an investment provider.

> **“Many things could undermine trust in investment providers**



Spending habits for the year ahead

2017 vs 2020: Number one priorities for disposable income spending



Looking to the year ahead, the challenges posed by Covid-19 and its associated economic impact has meant people aren't looking to use their disposable income to change their lifestyles. Since Schroders last asked this question in 2017, spend on luxury items such as holidays and vehicles, etc. has taken a hit (11% in 2017 vs 6% in 2020) . Priority to invest in, or purchase a property has also more than halved since 2017 (13%) with only 5% of respondents prioritising this for their disposable income in 2020.

Interestingly, using disposable income to invest in general investments, deposit in a savings account and keep as cash at home also saw a rise in prioritisation for people - perhaps showing they are preparing for a period of volatility.

While there was a general consensus across different investment knowledge groups, there was one notable difference with beginners and rudimentary investors. 24% of this group opted to deposit their disposable income in a bank savings account, while only 14% of 'advanced' and 'expert' investors would do the same.

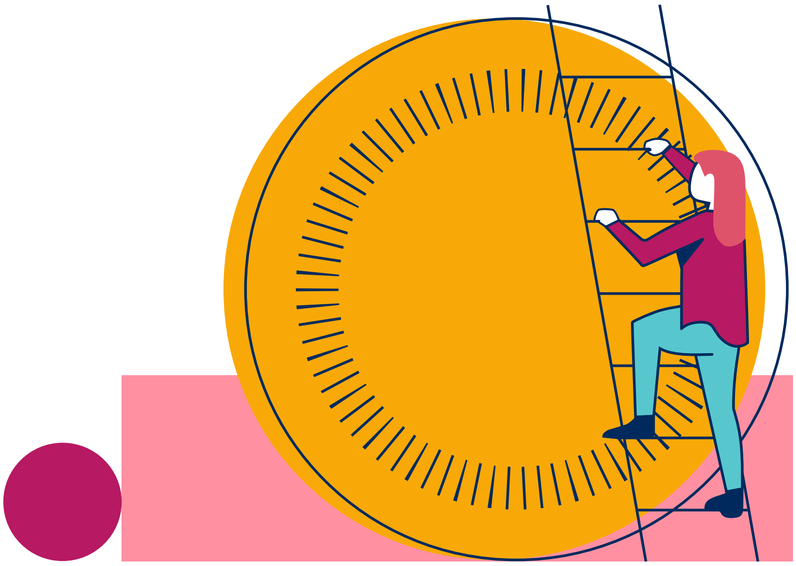
The overall results were similar in Australia with investing in superannuation (22%), investing in another type of investment (21%) and depositing in a bank savings account (20%) being the top priorities for disposable income spending.

A point of difference in Australia was between men and women. The most common priority for women was depositing disposable income into a bank account (57%) followed by investing in another type of investment (51%) and paying off debt (40%). Men were more likely to invest disposable income in another type of investment (59%), deposit funds into their bank accounts (53%) or invest in their superannuation (48%).

Would people like to upskill their financial expertise?

Whether it's superannuation, or savings accounts, people want to know whether they're making the right decisions. But behavioural biases could be impacting the decisions people make about their investments - especially during difficult periods of uncertainty.

The next decade is set to deliver returns that likely don't match the expectations of investors. People around the world stated that they want to have financial knowledge, but few have the confidence to say they are experts. Addressing this lack of knowledge could be the key to empowering people to take control of their finances in difficult times, and ensure they are handling their investments in the best way.



The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested. Exchange rate changes may cause the value of any overseas investments to rise or fall.

Schroders commissioned Raconteur to conduct, between 30 April and 15 June 2020, an independent online study of 23,450 people in 32 locations around the world. This research defines "people" as those who will be investing at least €10,000 (or the equivalent) in the next 12 months and who have made changes to their investments within the last 10 years.

For more information about the Schroders Global Investor Study, visit

schroders.com.au/globalinvestorstudy

EST. 1804

Schroder Investment Management Australia Limited
Level 20, 123 Pitt Street, Sydney, NSW 2000
T +612 9210 9200

schroders.com.au