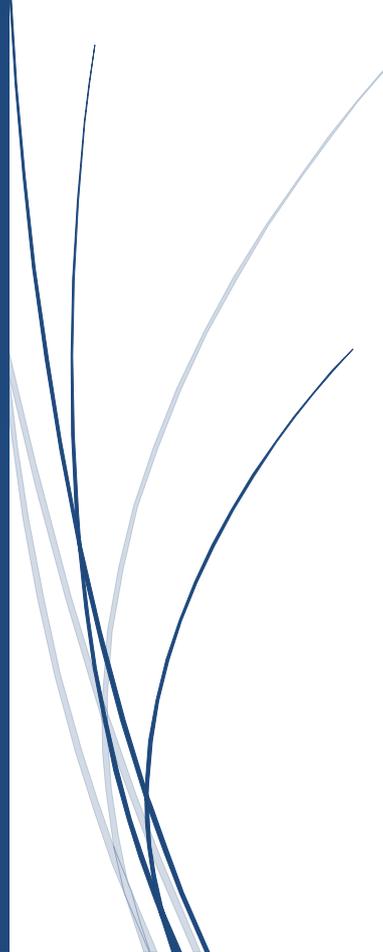




**PROSPECTUS**

## **ASSET ALLOCATION IN EUROPE:**

**What challenges  
and opportunities lie ahead?**



If you are interested in joining this Task Force, please do not hesitate to contact **Cosmina Amariei** (Researcher, European Capital Markets Institute) by email at: [cosmina.amariei@ceps.eu](mailto:cosmina.amariei@ceps.eu) or by phone: +32 (0)2 229 39 55.



## **ASSET ALLOCATION IN EUROPE: What challenges and opportunities lie ahead?**

Prospectus for a CEPS – ECMI Task Force

The **Centre for European Policy Studies (CEPS)** and the **European Capital Markets Institute (ECMI)** are inviting industry representatives, policymakers, investors' associations, academics and other relevant stakeholders to take part in a new Task Force on the challenges and opportunities of asset allocation in the context of the CMU project. The purpose of this Task Force is to contribute to the public debate on the availability of long-term savings products across the EU, and the reconciliation of market practices and policy/regulatory frameworks with long-term investment.

### **BACKGROUND**

Well-functioning, deeper and highly integrated European capital markets could play a greater role in providing alternative financing sources for companies, increasing options for retail/institutional investors, and enhancing market-based, private risk-sharing mechanisms. At present, capital markets are at different stages of development across the EU, and matching the supply and demand of capital on a cross-border basis remains problematic. In relation to the area of asset allocation, the CMU Action Plan sets out three main priorities: fostering direct/indirect retail investors' participation in capital markets, increasing long-term, infrastructure and sustainable investment by institutional investors, and facilitating cross-border investment.

At the end of 2015, the financial assets of European households amounted to €30 tn, while the total assets of asset management companies, insurance companies and pension funds totalled over €35 tn. In past years, the investment climate has been characterised by falling short- and long-term interest rates, with cyclical and structural drivers reinforcing each other. Higher rates and steeper yield curves are envisaged soon in Europe, provided that a series of factors materialises, such as strong growth, inflationary pressures, less accommodative monetary policies, etc.

While the consequences of the low interest rates environment vary across companies, depending on their business models, balance sheet structures and risk management practices, all had to re-examine the notion of risk-free assets, make changes to the composition and risk/return profile of their portfolios and question whether their asset allocation techniques are still working. Against the background of low/negative returns on traditional assets, thematic/factor investment began to gain traction. This goes beyond the traditional regional or sectoral investment approach in that it is about identifying asset classes/projects, regions or sectors by taking into account both financial and non-financial information.

The methods for measuring portfolio diversification fall into three major categories: indicators that rely on portfolio weightings; approaches based on contribution to risk; and measurements based on exposure to fundamental factors. Portfolio diversification, calculated on the basis of contribution to risk, depends on volatility and on correlations. Risk has many dimensions (credit risk, interest rate risk, liquidity risk, maturity risk, market risk, volatility risk, currency risk, inflation risk, country/region risk). QE, among other things, also led to higher cross-asset correlations (equity and fixed income markets), which in turn increased the return sensitivity to market-wide factors. Investment strategies in fixed income markets have also become more crowded. In most cases, the risk premia component seemed to count more than the actual economic fundamentals in the asset valuation process. Sustained search-for-yield strategies has also become a cause for concern.

A common pattern observed during the past few years is that some institutional investors have shifted their asset allocation to lower-rated securities (further down the credit risk spectrum), to less liquid assets (lower volatility) and increased the duration of their portfolios (venturing into longer and longer maturities). This may leave them more exposed to nominal changes in both rates and spreads. Investment funds have been increasing their exposure to the non-financial corporate sector and, most importantly, to the non-euro area bond markets, including those of the United States, emerging markets and the rest of the EU. Traditionally, insurance companies and pension funds have been seen as sources of long-term capital with investment portfolios built around the two main asset classes (fixed income and equities). ICPF have progressively diversified portfolios by adding allocations to alternative investments (private debt, private equity, infrastructure and real estate, direct loans, hedge funds etc) which are naturally illiquid, but this represents a very small share compared to the other asset classes. With respect to retail investors, the main problem to tackle is the overexposure to cash and bank deposits, which do not find their way into capital markets.

## MAIN OBJECTIVE

This Task Force wishes to engage a diverse group of stakeholders in a structured dialogue, in order to:

- identify the factors at macro- and micro- level (macro-economic conditions, political uncertainty, policy mix – monetary, fiscal and structural measures, financial markets dynamics, interest rate outlook, regulatory requirements, business models and strategies etc) that will drive investment decisions in Europe in the short, medium and long run;
- analyse the impact on households/retail investors and on different categories of financial intermediaries (asset managers, investment banks, insurance companies, pension funds); and
- put forward a targeted list policy recommendations to strengthen the long-term savings - investment channel in Europe.

## ORGANISATION



The Chairperson is an external expert appointed by CEPS-ECMI. The Rapporteurs (ECMI staff) will host the meetings, conduct research independently and draft the final report. The Experts Group will be composed of 5-7 selected experts who will attend at least 4 out of 6 meetings in person. Their role will be to: steer the research agenda of the meetings, together with the chairman; consult with the broader Task Force and observers; review the final report and comment on the list of recommendations. The Task Force includes a broader group of stakeholders: industry representatives and observers (academics, policymakers, regulators, supervisory authorities, consumer/investor associations, etc) that will actively participate during the meetings. The roles are described in detail in the **APPENDIX**.

## AGENDA (tentative)

Based on the research agenda outlined in this prospectus, CEPS and ECMI will organise a series of meetings that will be held under the Chatham House rule and be closed to the press. Participation is limited to members of the Expert Group, Task Force, observers and selected invitees. The Chairperson will make sure that multiple interests are represented and taken into account. A detailed agenda will be distributed prior to each meeting. Each meeting will consist of 2-3 presentations followed by roundtable discussions and a wrap-up session. Post-meeting reports will be prepared and circulated. Based on these discussions and its own independent research, CEPS-ECMI will publish a final report drafted by the Rapporteurs.

## Meeting 1 – April 2017

### Introductory session

This meeting will allow participants to interact and express their views on the main topics to be covered in the various meetings, from both a national and European perspective.

### Research questions:

- Which main themes are likely to dominate the investment space in Europe (reflation, low returns ahead, growth opportunities, sources of yield and risk diversification, sustainable finance etc)?
- Are institutional investors well equipped for major markets/regulatory/policy shifts? If so, what will this mean for their business models and asset allocation strategies?
- Does the current regulatory framework (at national or EU level) provide the incentives for long-term, sustainable investment, on a cross-border basis?
- Does the current supply of investment products meet the needs of retail investors across the EU? Is it necessary to support the creation of new retail investment products or vehicles?

## Meeting 2 – May 2017

### Focus: asset managers and investment banks

### Proposed topics:

- outlook for investment portfolios and trading books (overweight/underweight on which asset classes – equity, rates, credit, currencies, real assets)
- asset allocation options (equities vs. fixed income, credit vs. government bonds, small and mid cap vs. large cap equities, financial vs. non-financials, cyclicals vs. non-cyclicals etc.)
- discretionary mandates vs. investment funds, retail vs. professional/institutional investors
- trends in investment strategies: active vs. passive, defensive vs. aggressive, impact of fintech – robo advice
- revision of management fees, unbundling of research, quality of trade execution, advisory services

## Meeting 3 – June 2017

### Focus: insurance companies and pension funds

### Proposed topics:

- portfolio allocation strategies (equity, fixed income, alternatives) and risk-management processes
- interest rate sensitivity, valuation effects on the assets/liability side, duration gap, reinvestment risk
- in (out)- sourcing of asset management, co-investment with other institutional investors
- operational efficiencies, funding pressure, regulatory incentives, stress testing
- product portfolios shifts (capital-guaranteed vs. unit-linked policies, defined benefit vs. defined contribution schemes)

## Meeting 4 – July 2017

### Focus: retail investors

### Proposed topics:

- direct or indirect participation in capital markets, the supply of retail investment products, evolving distribution channels and access to investment advice
- cross-border competition among product manufacturers and distributors, risk-return performance, transparency of costs and fees
- Pan-European Personal Pensions Product (legal regime, default fund allocation, tax treatment etc)

## Meeting 5 – September 2017

### Review of the draft final report

A report of 20-30 pages will be prepared by the ECMI research staff. This will set out a series of policy recommendations supported by in-depth quantitative and qualitative analysis. Strong emphasis will be placed on the nature of cross-border securities holdings (instrument type, holder sector and issuer sector). The report will be discussed in detail with the Members of the Expert Group and Task Force, with a view to publication and presentation.

## Meeting 6 – October 2017

### Launch of the final report

The final report will be launched at a public event in Brussels, open to the press, in the presence of high-level policymakers and market participants. Additional launch events in other European capitals may be organised.

## RESEARCH TEAM

**Karel Lannoo**, CEO, CEPS and General Manager, ECMI



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More information about ECMI at: <http://www.eurocapitalmarkets.org/>

## PARTICIPATION

Participation in the Task Force is subject to a fee to cover organisational expenses. CEPS and ECMI members are entitled to a discounted fee and non-members (with a commercial interest) pay the full fee.

The fee covers:

- The research carried out by CEPS and ECMI staff
- Organisational, logistical and other costs of all meetings
- Web access and documentation
- Launch of the final report in Brussels at a public event to maximise exposure
- Press release and communications management
- Printing and editing costs of the final report
- Distribution of the final report to key stakeholders in the industry and among policy circles

Fee Structure (+21% VAT)	
ECMI or CEPS Corporate Member	€ 1500
Non-Members	€ 5000*
Observers	free of charge (academics, policymakers, regulators, supervisors, independent experts, consumer/retail investors associations)

\* Discount available if non-members decide to become a member of CEPS and/or ECMI.

## IMPORTANT NOTE

In order to join the Task Force, please fill in and return the **registration form**. Commercial firms or other bodies with or without commercial interests should designate a representative with longstanding experience and knowledge of financial markets as the official member of the Task Force. A CV should be attached to the registration, including for observers.

## REGISTRATION FORM

### CEPS/ECMI corporate members – check the applicable box (+21% VAT)

ECMI Corporate Member | EUR 1,500  CEPS Corporate Member | EUR 1,500

PLEASE INDICATE THE NAME AND POSITION OF THE MEMBER YOU PROPOSE (and attach a CV)

First name:	Last name:
Job title:	
E-mail:	Telephone:

### Non-members - check the applicable box (+21% VAT)

Full Fee | EUR 5,000  My company is interested in becoming a member of CEPS and/or ECMI

PLEASE INDICATE THE NAME AND POSITION OF THE MEMBER YOU PROPOSE (and attach a CV)

First name:	Last name:
Job title:	
E-mail:	Telephone:

### OBSERVERS

Free or charge

First name:	Last name:
Job title: (and please attach a CV)	
E-mail:	Telephone:

### Billing information (only for industry participants)

Company/Association

Department:

Tax register number (VAT for Europe):

Postal address:

Postcode:

City:

Country:

Contact person:

**Date:**

**Signature:**

Please return the registration form to  
Ms. **Maarja Kuusik**, at [maarja.kuusik@ceps.eu](mailto:maarja.kuusik@ceps.eu), Tel: +32 2 229 39 82.

# APPENDIX

## Principles and Guidelines for the Task Force

This appendix offers guidance to members of the Task Force and other parties wishing to understand the functioning of the initiative and the drafting process of the final report. Task Forces represent structured dialogues among industry representatives, policymakers, academics and other relevant stakeholders who discuss topics in dedicated meetings. The final report is the result of the research carried out independently by ECMI-CEPS Rapporteurs.

### Participants

The **Chairman** is an expert appointed by CEPS-ECMI to steer the dialogue during meetings and advise as to the general conduct of the activities of the Group.

The **Rapporteurs** are CEPS-ECMI researchers who organise the Group, conduct the research independently and draft the final report.

The **Members** are any individuals, such as academics, policymakers, regulators, supervisors, representatives of commercial companies, trade associations, consumer interests groups, investors' associations, who participate in the activities of the Task Force in a personal capacity. They must have expertise in the topics discussed and provide input to the discussions through presentations and relevant material for the final report.

#### 1. The role of the Experts Group

The Experts Group will:

- Steer the research agenda of the meetings and the content of the active discussions with the Task Force and observers;
- Contribute to meetings with active input, including targeted presentations;
- Support the research of the Rapporteurs and comment on the various drafts of the reports, including the possibility to produce written contributions (subject to the Rapporteurs' approval and editing);
- Ensure that the research behind the final report adheres to the highest standards;
- Have access to all the documents produced during the work of the Group;
- Contribute to the recommendations that will be discussed and added to the final report.

#### 2. The role of the Task Force

The Task Force is the group that will contribute the many viewpoints of the market and more technical expertise in the individual meetings on specific topics. The Task Force will:

- Participate in discussions and actively contribute to meetings (including targeted presentations);
- Be able to see drafts of the final report and provide comments that can improve its content;
- Have access to the internal documents and to the presentations made during the work of the Group.

#### 3. The role of the Observers

A group of policymakers, academics, consumer/investors' associations and independent experts may attend the joint EG and TF meetings. They will attend in an observer capacity, so they will not be required to provide a contribution (unless agreed otherwise). This group will also include speakers invited by CEPS and ECMI to provide individual contributions to one or more meetings.

The lists of members of the Expert Group, Task Force and the Observers will be featured in the final report and on the CEPS and ECMI websites. All members attend the meetings in a personal capacity and do not necessarily endorse the recommendations of the final report.

### Objectives of the final report

- The report is meant to contribute to the policy debate by presenting a balanced set of arguments, based on the discussions among participants and internal desk research.

- The report seeks to provide readers with a constructive basis for discussion. The authors will not seek to advance a single position or misrepresent the complexity of any subject matter.
- The report also fulfils an educational purpose, and is therefore drafted in a manner that is easy to understand, with technical jargon fully defined.

### **Drafting of the main text**

- In the main text, rapporteurs detail the results of the research carried out independently in the framework of the Task Force. This part of the report will refer to the discussions during the meetings but also to available data and literature.
- Scientific literature may be cited in this part of the report. Members are not expected to endorse any reference to this literature. A general disclaimer is inserted to clarify this aspect.
- The conclusions of each section will be clearly presented.

### **Use of data**

- The final report features data that are considered both relevant and accurate by the Rapporteurs.
- Task Force members are encouraged to contribute with any data or propose any source of data that Rapporteurs consider as relevant.
- Task Force members may question either the relevance or accuracy of any given data. After consultation with other Group members, the Rapporteurs may decide either to exclude this data or to mention these concerns in the main body of the text.

### **Drafting of conclusions and recommendations**

- The final report will feature a set of policy recommendations, drawn up by the Rapporteurs, which are meant to reflect the Task Force's discussions during the process. For a recommendation to be featured in the report, there needs to be enough information being discussed in the open debates among the TF members. In all cases, the report will seek to identify the points where there is some sort of common understanding of market issues.
- Both policy recommendations and the content of the final report will be summarised at the beginning of the report in the form of an 'executive summary'.
- TF Members will be given ample opportunity to review the final report and provide their input on a draft version. Nevertheless, the authors (Rapporteurs) will be solely responsible for the content of the final report.

### **Sample disclaimer**

The findings presented in this Final Report do not necessarily reflect the views of all the members of this Task Force. However, the members were involved during the drafting of the Final Report and provided input to the discussions through presentations and the provision of data and other materials, which have been used in this Final Report. A set of principles has guided the entire drafting process to allow all of the interests represented in the Task Force to be heard. The Rapporteurs are solely responsible for its content and any errors contained therein. Neither the Experts Group Members nor the Task Force Members (or their respective companies) necessarily endorse the conclusions of the Final Report.



## **European Capital Markets Institute**

**Informing policy on European capital markets**