NEWS RELEASE

# Fidelity Research Finds Only Half of U.S. Institutional Investors Say They Are Confident They Will Achieve Target Returns Over the Next Three Years

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Study Introduces New Innovation Curve, Revealing How Investment Philosophies Affect Decision-Making

BOSTON--(BUSINESS WIRE)-- Institutional investors representing more than $12 trillion in assets under managementi anticipate downward pressure on their ability to outperform against their return targets, according to the 2021 Fidelity Institutional Investor Innovation Study. While respondents nearly doubled their expected required rate of return, on average, in 2020 (12.3% actual compared to 6.3% required), only 54% said they are confidentii they will achieve their expected target rate of returniii over the next three years. Fidelity's study also introduced a new framework called the Investment Innovators Curve to help institutions benchmark against their peers.

When institutional investors were asked about challenges they are experiencing, the top answer was yield generation, described as being forced to take on more risk for the same level of return (40%). Thirty-nine percent of institutional investors confirmed they are taking on more total risk in their portfolios than three years ago, and 37% revealed they are not comfortable with the total level of risk in their portfolios.

"This year's study signals headwinds that have been putting pressure on firms to consider taking on more risk as they look for new sources of excess returns," said Vadim Zlotnikov, president of Fidelity Asset Management Solutions and Fidelity Institutional Asset Management. "As we consider the impact of potential future macroeconomic changes, this is an opportunity for institutional investors to reevaluate their investment philosophies and decision-making processes."

**Investment Innovators Curve: New Framework Helps Institutions Benchmark Against Peers**

For almost 20 years, Fidelity has been conducting primary research to understand decision-making among institutional investors, and this new research aims to help U.S. institutional investors benchmark portfolio and organizational performance against their peers. This year, respondents selected their placement in an innovation category, based on their organization's ability and willingness to experiment with new investment approaches and asset classes.

The majority of institutional investors in the study placed themselves in the middle as either Early Majority (33%) or Late Majority (31%). However, an analysis of segments at the "tails" of this curve, made up of Innovators (5%) and Early Adopters (18%) at one end and Laggards (13%) at the other, demonstrates how widely investment and decision-making approaches can differ depending on an organization's orientation around innovation, even among institutions of similar types and sizes. For more information on the segments, please see "About the Investment Innovators Curve" below.

Innovators/Early Adopters reported a more optimistic performance outlook when compared to Laggards with higher return targets (6.8% vs. 5.7%). Innovators/Early Adopters said they had a slightly higher actual rate of return in 2020 than Laggards (13.1% vs. 12.3%). When asked about challenges to their portfolios, Laggards were more likely to report concerns about yield generation (44% vs. 38% of Innovators/Early Adopters) and risk management (25% vs. 19%). Conversely, Innovators/Early Adopters were more likely to find it difficult to source differentiated investment ideas (28% vs. 21% of Laggards).

Innovators/Early Adopters appear to see more opportunity in tactical changes. The vast majority (93%) said they believe there may be value in short-term investment opportunities, compared to 70% of Laggards. While about the same number of Innovators/Early Adopters and Laggards said they are permitted to invest in short-term market opportunities (82% vs. 86%, respectively), Laggards were more likely to need formal approval to make tactical changes (43% vs. 27% of Innovators/Early Adopters) or use tolerance bands (52% vs. 38%). Innovators/Early Adopters were more likely to lean on asset managers with flexible mandates (42% vs. 27% of Laggards) or have asset class leads with discretion to make tactical adjustments when they saw fit (24% vs. 6%).

"There is no right or wrong approach to innovation, but by analyzing different investment philosophies, we hope to better understand and support the distinct needs and goals of institutional investors across the Investment Innovators Curve," said Zlotnikov.

**Asset Allocation: Investors at Either End of Curve Manage Portfolios Differently**

Institutional investors in the study overall reported an asset allocation of 63.5% to active, 28.9% to traditional passive (e.g., cap weighted), and 7.6% to non-traditional passive (e.g., factors, non-cap weighted, "smart/strategic beta"). Respondents reported the following expected changes by 2025:

- Active: 31% expect to increase their allocations, 47% expect no change, and 22% expect to decrease. Half of Innovators/Early Adopters expect to increase.

- Traditional passive: 23% expect to increase their allocations, 54% expect no change, and 23% expect to decrease. Laggards were more likely to expect increases (29%).
- Non-traditional passive: 23% expect to increase their allocations, 69% expect no change, and 7% expect to decrease. One-third of Innovators/Early Adopters (33%) expect to increase.

Innovators/Early Adopters reported higher allocations to alternatives than Laggards (23% vs. 16%), while Laggards had more of a home country bias for U.S. equity (35% vs. 29% of Innovators/Early Adopters) and U.S. investment grade fixed income (21% vs. 17%).

Fidelity surveyed 500 institutional investors in the U.S. involved in their organizations' decision-making processes and conducted interviews with 11 respondents.

**For additional details on the survey, go to i.fidelity.com/innovation**.

**About the 2021 Fidelity Institutional Investor Innovation Study**

The 2021 Fidelity Institutional Investor Innovation Study polled chief executive officers, chief investment officers, treasurers, and other investment executives at 500 institutions in the US. At the time of the survey, these institutions represented $12T (USD) in assets under management, across public sector defined benefit plans, corporate defined benefit plans, insurance companies, defined contribution plan sponsors, endowments and foundations, family offices, private banks, and sovereign wealth funds. Respondents were asked a range of questions about their portfolio objectives, market perspectives, asset allocation, investment philosophy, and investment process. Fidelity Asset Management Solutions (FAMS) conducted the survey from May 28 to July 26, 2021. The survey was executed in association with global research consultancy, CoreData Research. All respondents completed an online questionnaire, which was then supplemented by 11 in-depth qualitative interviews with survey respondents at pensions, as well as with endowments and foundations. Numbers may not total 100% due to rounding.

**About the Investment Innovators Curve**

Adapted from ideas in Diffusion of Innovations, by Everett Rogers (New York: Free Press, 5th Edition, 2003). Respondents selected their firm's placement in one of the following categories:

- Innovators: "We are frequently one of the first to try a new asset class or investment approach, even if it's extremely new and/or unproven."
- Early Adopters: "We are not the first to try a new asset class or investment approach, but will quickly follow if we notice others are trying it."
- Early Majority: "We are curious about new asset classes or investment approaches, but are more pragmatic. We'll wait until it's more common/established before investing."

- Late Majority: “We adopt a new asset class or investment approach out of necessity. Once it’s mainstream and has clear, demonstrated value, we’ll invest in it.”
- Laggards: “We are very risk averse when adding new asset classes or investment approaches to our portfolio. We would rather be late to a new investing trend than bear the potential risks involved with new approaches.”

**About Fidelity Investments**

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i Respondents were asked, “What are the total assets of your primary investment portfolio (e.g., pension)? ($M)”, at the time the survey was taken from May 28 to July 26, 2021.ii Respondents were asked on a scale of 1-5, with 5 being “very confident”: “How confident are you that your portfolio will achieve its target return in the next 3 years?” 54% represents those who responded with 4 or 5.

iii Target or required rate of return is not an actual rate of return.

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