

News Release

Contacts:

Steffen Zwink/ Corinna Rygalski

+ 49 (0) 69 689778 - 665 / - 663

steffen.zwink@mercer.com

corinna.rygalski@mercer.com

Buoyant manager search activity reflects shift towards non-traditional mandates

- International multi-asset mandate searches increase, most notably in UK and US
- Fixed income search activity continues to move away from government and credit benchmarked mandates

London, 30 April 2014

Globally, manager search activity remains buoyant as investors seek to allocate away from traditional equity and fixed income mandates, according to data released by Mercer. Mercer's authoritative [2013 Global Manager Search Trends](#) report gives insight into institutional manager hiring patterns and search trends around the world and is based on activity reported through Mercer's global client database.

Deb Clarke, Global Head of Investment Research at Mercer, said: "The trend away from traditional asset classes observed in recent years continues, driven mainly by investors seeking to diversify their growth portfolios and ensure they incorporate multiple return drivers. Investors have continued to increase allocations to global strategies and more diverse mandates, including investment in alternative assets and diversified growth funds.

"Our view that government bonds are unattractive has led us to identify alternative fixed income growth opportunities and we have, through working with investment managers, helped create a number of new investment opportunities, one example is buy and maintain credit. We have seen considerable client interest in these new opportunities, with buy and maintain credit growing to become the second highest mandate overall in terms of assets placed."

Global search activity ran at similar levels to 2012 with a notable increase in the value of assets placed. Mercer undertook a total of 760 searches in 2013, compared to 776 in the prior year. Across Asia, Europe (ex UK) and the UK search activity increased. In contrast, Australasia and North America witnessed a decline in the number of searches, though both these regions saw a rise in value of total assets placed.

Within the fixed income area a global increase in non-benchmark related fixed income searches was noted. Paul Cavalier, Head of Mercer's Fixed Income Boutique, commented: "Given the potential for modest future

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returns from government bonds we have worked to identify how clients can protect themselves from the impact of rising interest rates. As a result, we have seen an increased amount of client searches in absolute return, unconstrained bond and multi-asset credit funds, though the trend away from regional mandates to more globally focused products persists.”

There was a continuing strong demand for multi-asset strategies with the total number of searches in this area jumping by a third over the year. The searches were primarily in the UK and the US but a number of other regions also saw activity in this area. Within the equity space global and world ex-US categories unsurprisingly continued to see the most activity with limited interest in domestic equities outside of Australasia and North America. Perhaps surprisingly in view of the travails in that sector, emerging markets equity searches ran at a similar level to 2012.

UK & Europe

The UK saw a 5% increase in manager searches from 2012 to 2013, with assets placed rising from \$17.8bn to \$22bn. By far the most popular asset search, international multi-asset strategies (largely diversified growth), grew by over 25%. However, developed market equities continue to dominate search activity by the weight of assets placed.

In the rest of Europe search activity rose, mainly driven by a considerable increase in both searches and assets placed in Germany. Surprisingly, infrastructure and timber were the most popular search categories in the region with a large number of small mandates awarded in Germany.

Asia Pacific

In Asia, manager search activity increased significantly in 2013, jumping from 17 to 66, with assets placed rising from \$2bn to \$3.5bn. Global equity had the most searches, whereas the largest amount of assets placed was in international multi-asset. The growth in searches has been driven by Japan in particular and Garry Hawker, Mercer’s Director of Strategic Research for Growth Markets, commented: “The considerable increase in searches is likely to be mainly a result of ‘Abenomics’, that is, the current economic policies of fiscal stimulus, monetary easing and structural reforms in Japan. We interpret the growth in searches for global asset classes as evidence that many investors in Asia are seeking to further diversify their portfolios beyond the local markets.”

Developments in Australia reflect the global trend, with a slight dip in search activity (dropping from 111 to 85) coupled with a considerable increase in assets placed, jumping from \$6.8bn in 2012 to \$13.7 in 2013. The most popular searches were Australian equity and global equity, with modest increases observed in alternatives and multi-asset categories. Hendrie Koster, Mercer’s Director of Strategic Research in the Pacific region, said: “The implementation of significant regulatory reform in the insurance and superannuation sectors during 2013 led to a marked decline in manager search activity during the first half of the year. However, a relatively high number of traditional asset class reviews were undertaken by clients in the Pacific region towards the end of 2013, once the regulatory changes were bedded down.”

US & Canada

In the US, the decline in manager searches continued across defined benefit (DB) and defined contribution (DC) mandates. In the DB space, equity and bond searches declined whereas interest in alternatives grew.

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Emerging market equities was the most popular search category but US fixed income had the largest share of assets placed.

“The increase in alternatives searches is mainly driven by US investors’ desire to seek additional diversification away from equities, mainly due to a policy shift toward a less stimulative monetary policy, reducing US dollar liquidity in the US and elsewhere as well as increasing the prospect of rising interest rates sometime in the future,” said Terry Dennison, US Director of Consulting in Mercer’s investment business. “The dip in DC searches follows the current trend amongst pension plans to help simplify the member decision-making choices by offering fewer, but more diversified investment options.”

Canadian manager search activity declined significantly from 146 in 2012 to 112 in 2013. Assets placed were also down (from \$4.2bn to \$2.5bn in 2013). A considerable number of balanced fund and Canadian equity searches were driven by manager-specific issues in 2012, which did not repeat in 2013. Equity searches represented most of the activity in 2013, with a majority of searches being conducted for foreign equity and the largest allocation of assets to a single category being to emerging markets equity.

David Zanutto, Mercer’s Canadian Director of Strategic Research, commented: “We expect the trend towards increased interest in foreign equity to continue as investors look to take advantage of broader investment opportunities in the globalised economy. We also anticipate more activity in the alternatives space as our clients seek ways to diversify equity market risk without sacrificing too much in expected returns.”

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