



PGIM INVESTMENTS

GATEKEEPER PULSE®

Key findings from our semiannual survey of fund selectors in Europe and Asia

CONDITIONS CALL FOR ACTIVE SOLUTIONS

For Professional Investors only.
All investments involve risk, including the possible loss of capital.

ISSUE NO. 4

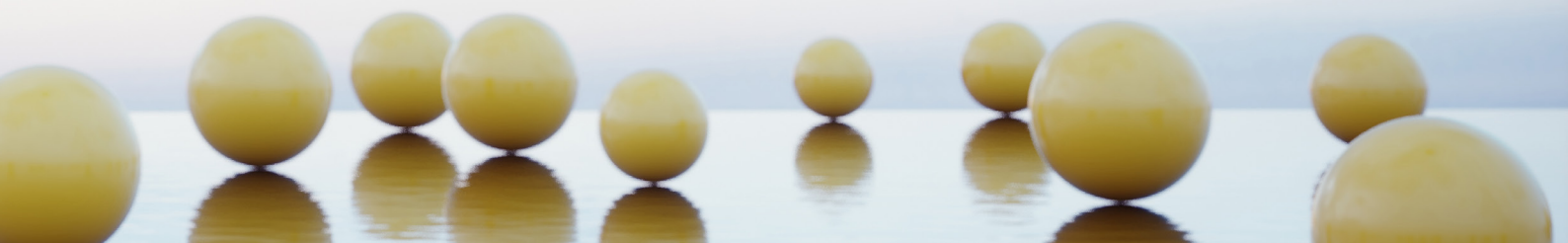
CONTENT



Fund selectors foresee uncertainty amid unresolved economic issues, with diverging expectations for growth, inflation, monetary policy and other matters of market-moving significance. As a result, most gatekeepers believe risk is elevated along with potential for related volatility.

Despite disagreeing about the backdrop, fund selectors find common ground in the revival of fixed income and demand for global equity and ESG. Gatekeepers also show consensus regarding their confidence in active management's ability to navigate unsettled markets and more.

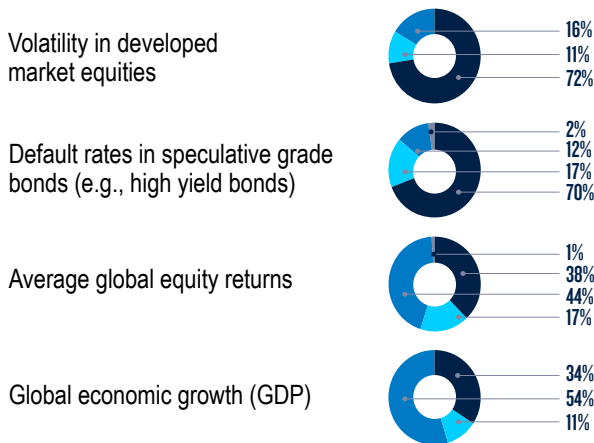
We surveyed 210 gatekeepers in Europe and Asia responsible for selecting funds for large global financial institutions with at least \$1 billion US in assets under management (AUM). Read on for more insight on their attitudes, allocation plans, manager preferences and more.



1. ECONOMIC & ASSET MANAGEMENT OUTLOOK

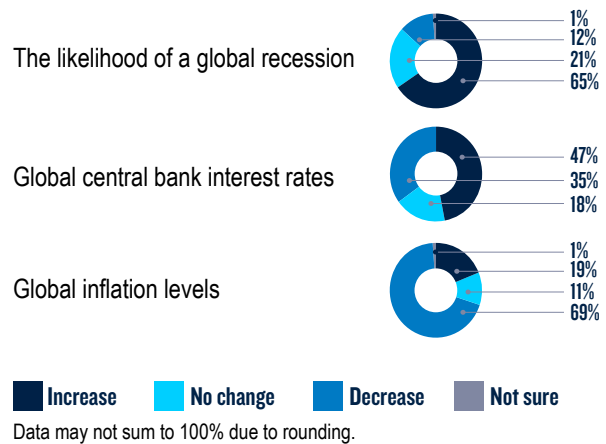
Consensus Calls for Volatility

For the following macroeconomic and investment return considerations, what is your firm's outlook over the next 12 months, in comparison to the prior 12-month period?



While biased toward negative scenarios, opinions regarding global markets and the economy are divided. The vast majority foresees volatility in developed markets amid noteworthy disagreement in expectations for global gross domestic product (GDP).

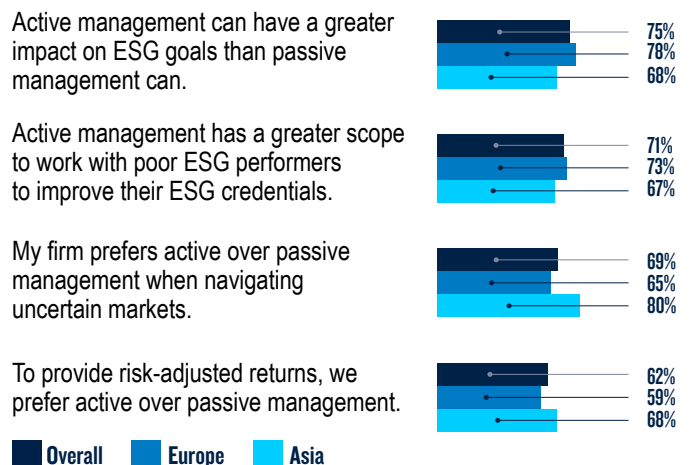
For the following investment considerations, what is your firm's outlook over the next 12 months, in comparison to today?



Advocates for Active Management

Whether navigating market uncertainty or realizing ESG goals, fund selectors prefer to employ actively managed solutions for their capacity to improve outcomes. Most consider active management superior to passive investing in its ability to generate risk-adjusted returns.

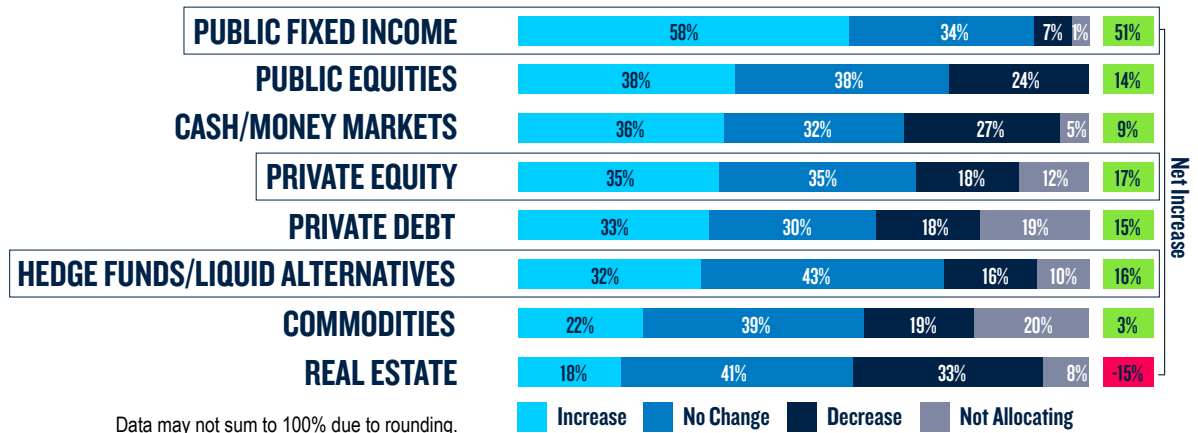
To what extent do you agree or disagree with the following statements?



Among Asset Classes, Fixed Income Is the Favourite

Fixed income is widely favoured for positive allocation activity over the next 12 months amid high hopes for diversification capabilities and return potential. Elsewhere, expected increases in cash are on par with plans for new public and private equity outlays, possibly reflecting elevated caution. Gatekeepers also indicate a decrease in real estate activity.

From an asset allocation perspective, how is your firm looking to position the following sectors over the next 12 months?

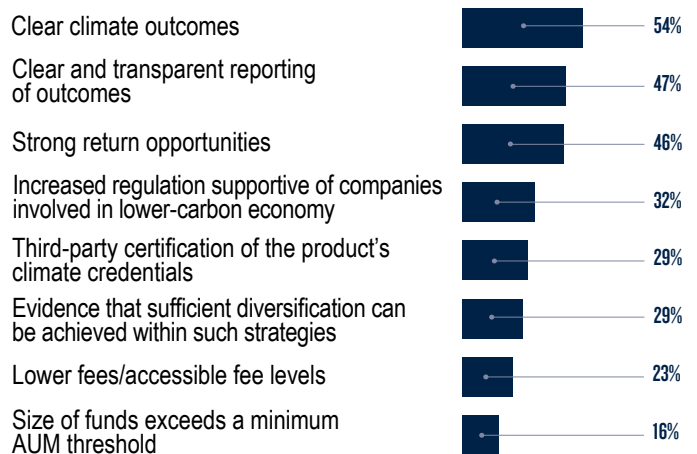


2. THEMATIC & ESG INVESTING

Show-Me Sentiment for Carbon Solutions

Clear climate outcomes, transparent reporting and attractive performance potential rank highest among factors that would encourage demand for carbon solutions products. Fee levels and AUM thresholds, which can present obstacles to new product adoption, are much less influential.

Which of the following factors would most encourage your firm to invest in decarbonisation/climate solutions products?



Appetite for Emissions Avoidance Data

Seven in 10 gatekeepers think it is important that ESG funds disclose avoided emissions among holdings, reflecting widespread demand for a level of emissions analysis that is lacking among many funds focused on global decarbonisation efforts.

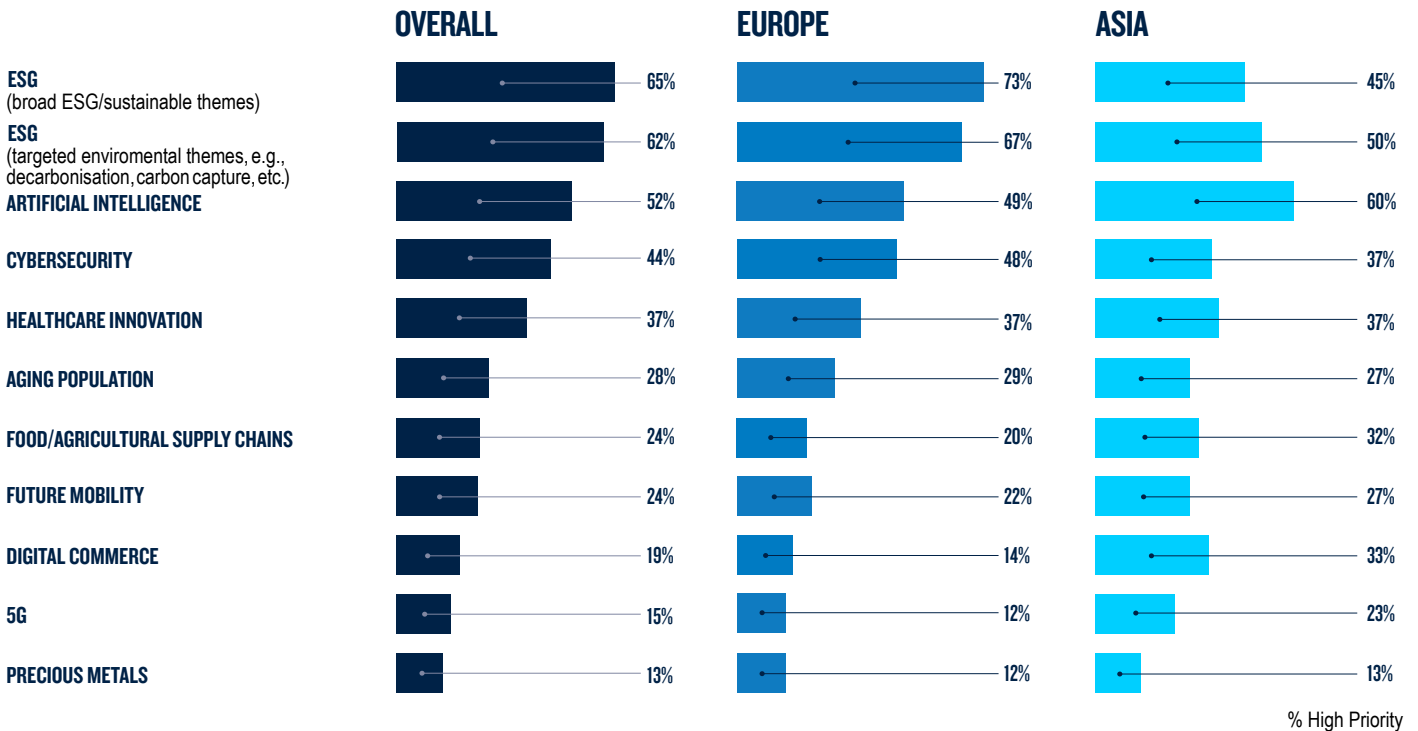


72% say that disclosure of avoided emissions is important from ESG fund providers

ESG and AI Represent Top Priorities

Cited by nearly two-thirds of respondents, ESG is the highest-priority investment theme. The overall average reflects an outsized boost from Europe and a trend towards increased prioritisation among higher AUM firms. Artificial intelligence also attracts widespread interest, especially in Asia.

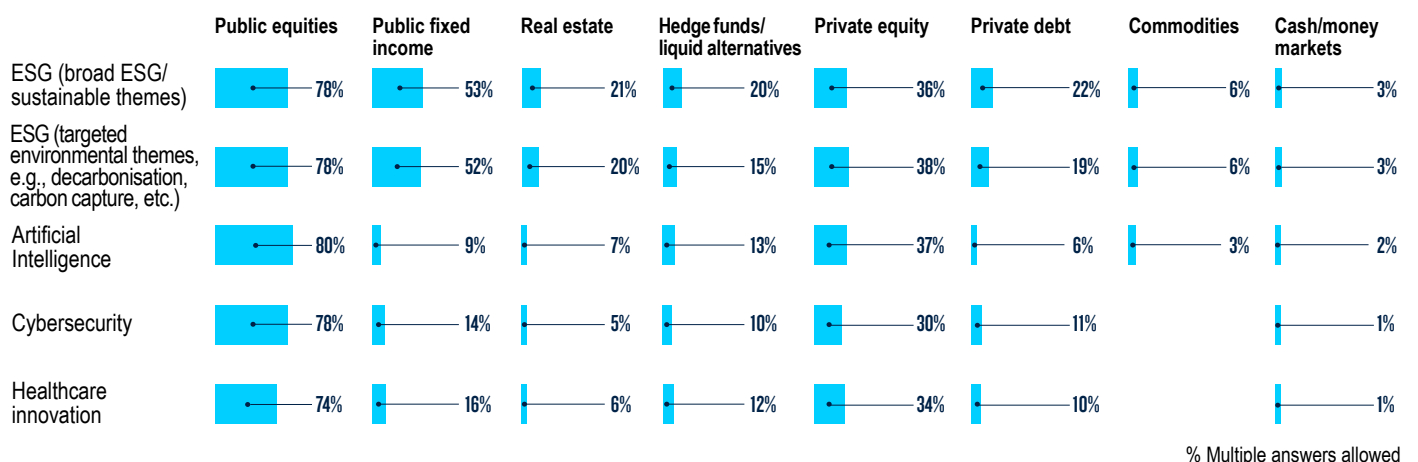
For each of the following, please indicate the extent to which they are considered a priority investment opportunity, or not, in the coming 12 months.



Enlisting Equities for Access

Public equities rank as the option most utilised to pursue thematic investing goals. While public fixed income ranks second in terms of ESG, its use falls steeply in other categories. At least three in 10 gatekeepers see a role for private equity in each of the top five themes.

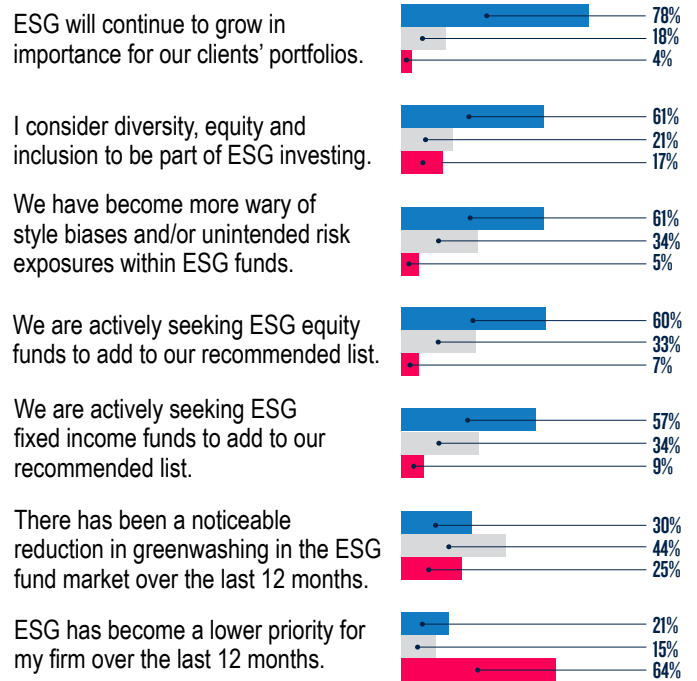
In which asset classes will you be prioritising the thematic investment opportunities that you mentioned in the previous question?



Steadfast Commitment to ESG

Fund selectors appear unmoved by anti-ESG rhetoric in the U.S., with eight in 10 indicating an increasingly important role for ESG in client portfolios. Sizable majorities report active efforts to add ESG equity and ESG fixed income funds to their recommended lists.

Thinking about the current investment environment, to what extent do you agree or disagree with the following statements?



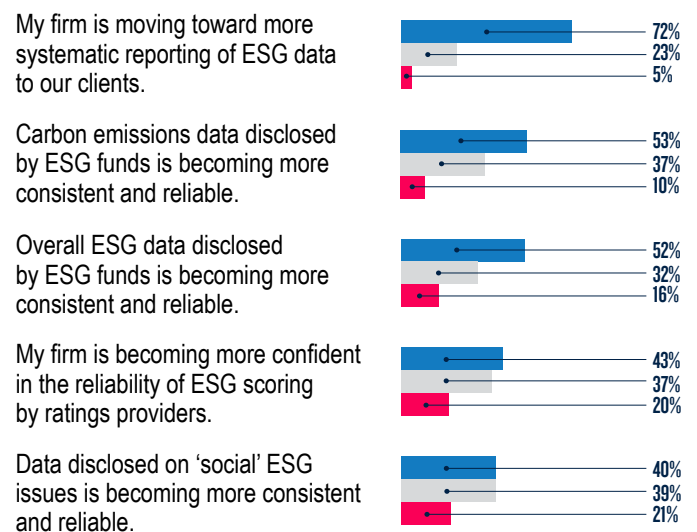
Agree Neutral Disagree

Data may not sum to 100% due to rounding.

Evaluating ESG Data Delivery

Most firms are moving towards systematic ESG reporting to clients as data disclosures from ESG funds become more consistent. Still, confidence in the reliability of scoring provided by ESG ratings firms shows room for improvement.

Thinking about the current investment environment, to what extent do you agree or disagree with the following statements?



Agree Neutral Disagree

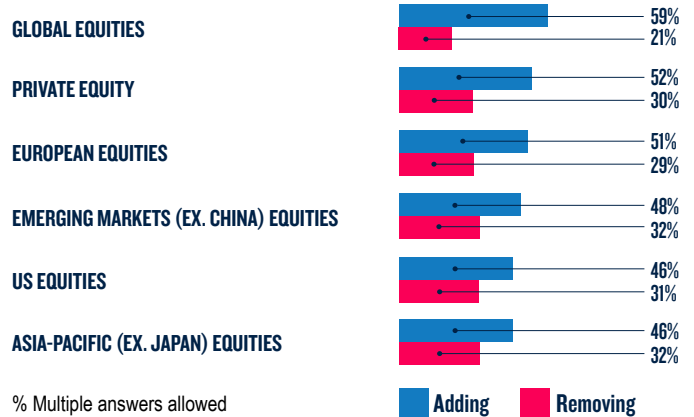
Data may not sum to 100% due to rounding.

3. EQUITY

Recommended Lists to Rise

Overall, gatekeepers are predisposed to adding to their recommended lists in all equity segments, led by global equity and private equity. Adding funds that invest in the respective domestic equity markets of respondents finish second to global equity when broken down by region.

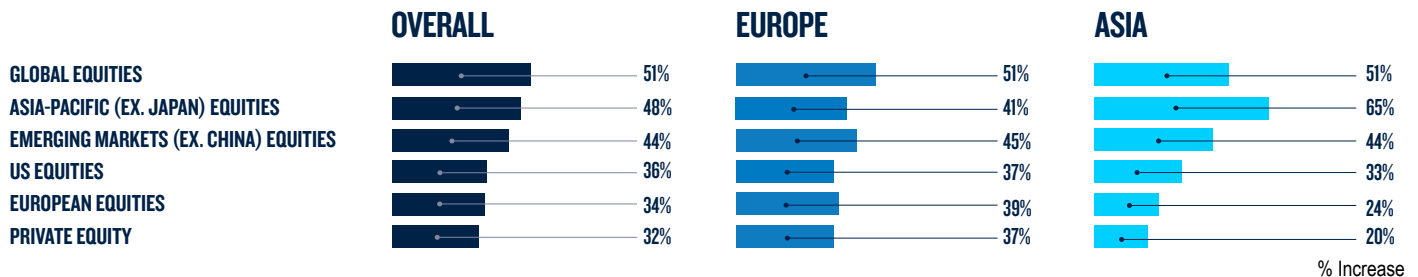
Which equity sectors/segments are you most likely to be adding to your recommended fund list over the next 12 months? And in which sectors are you most likely to be removing funds from the list?



Equity Allocation Outlook

Aggregate results show global equity to be the top target for increased equity allocations in the next 12 months. The next highest priorities on the list, emerging market equity and Asia-Pacific equity, enjoy above-average regional support from Europe and Asia, respectively.

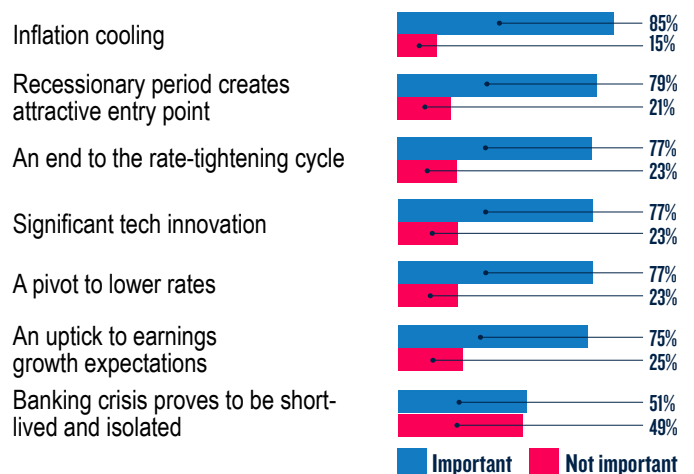
How will your firm be allocating across equity sectors/segments over the next 12 months?



Avenues to Equity Enthusiasm

Insight on issues fueling lingering uncertainty would trigger more agreeable attitudes regarding equity allocations. Gatekeepers rank evidence of cooling inflation, an attractive entry point and a definitive end to the interest rate hiking cycle atop their wish list.

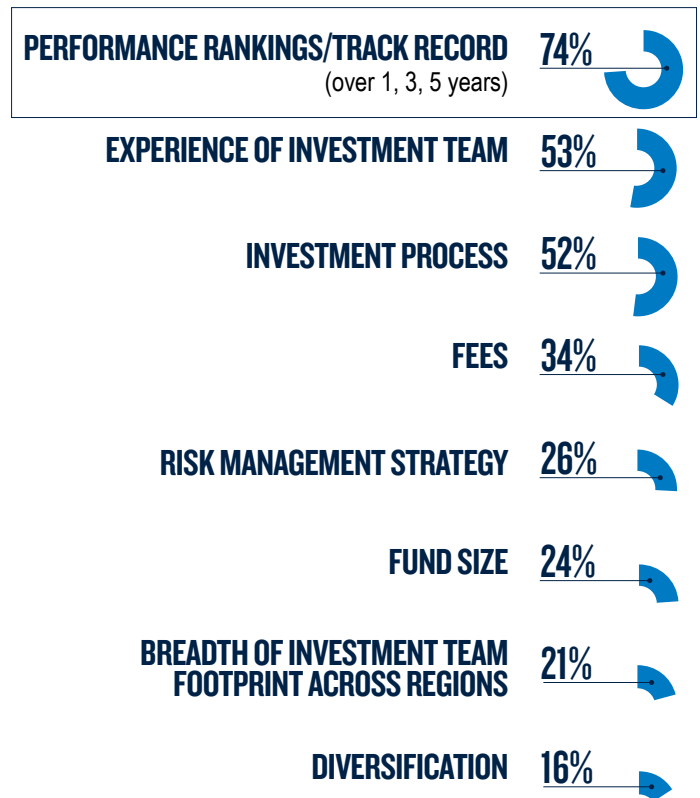
How important would/will the following factors be in triggering an increase in your overall equity allocations?



Prioritising Performance

By a notable margin, performance is the most important consideration in equity fund selection. Investment team experience and the process the team employs, which can offer insight into ongoing performance potential, are the next most significant selection influences.

What attributes are most important to you when selecting a global equity fund?

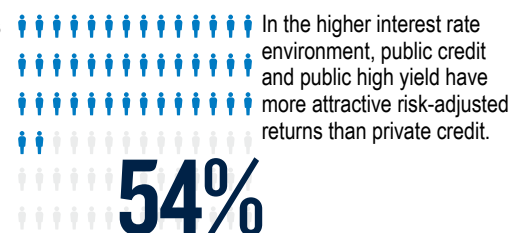
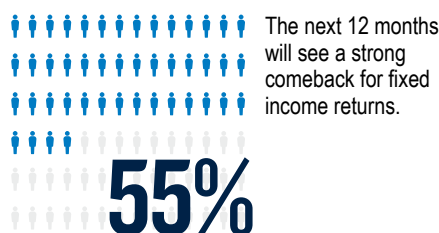
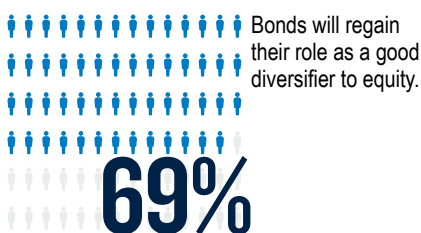


4. FIXED INCOME

Calling for a Comeback

More than two-thirds of gatekeepers believe fixed income will reclaim its long-held diversifying role as ballast to offset equity volatility after elevated correlation between stocks and bonds last year. Most also expect bonds to stage a performance comeback over the next 12 months.

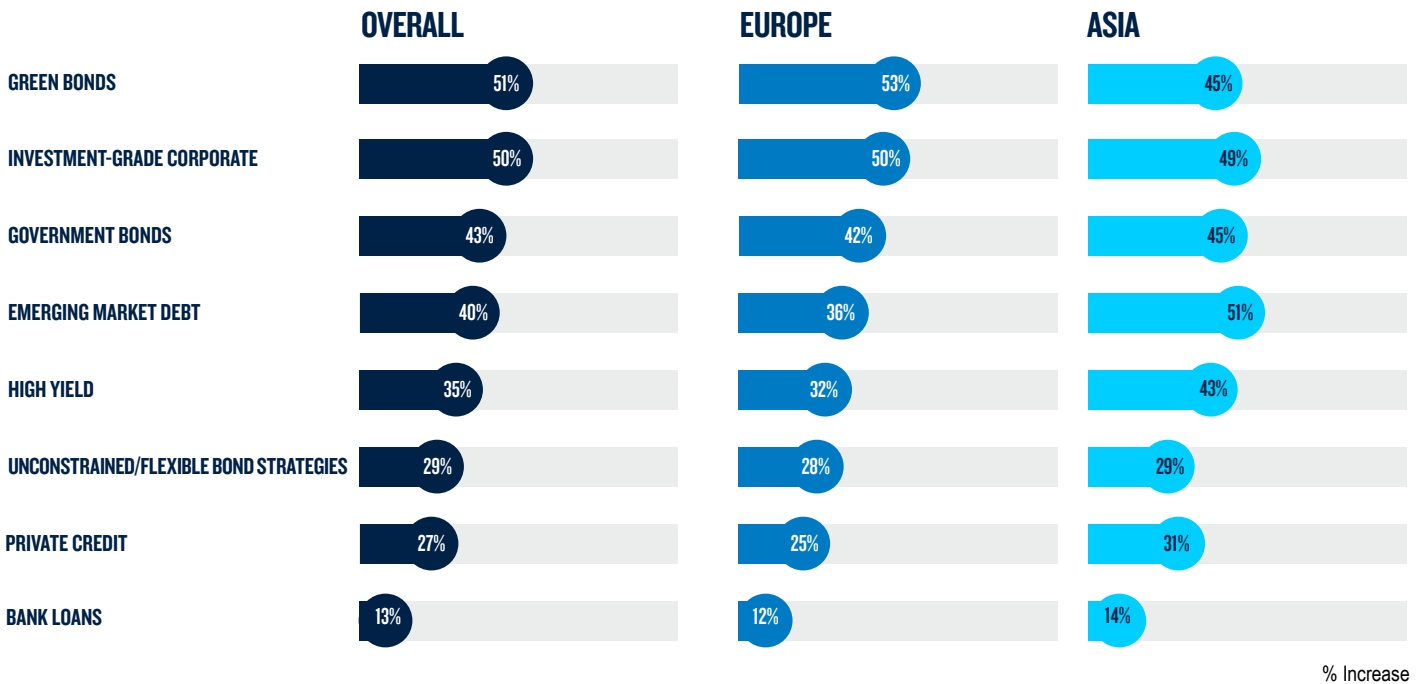
To what extent do you agree or disagree with the following statements?



Affinity for Green and Investment Grade

Half of all respondents expect to increase allocations to green and investment grade bonds. At 40%, the overall response rate for emerging market debt receives outsized influence from fund selectors in Asia, possibly reflecting a home-region trend evident in equity allocations.

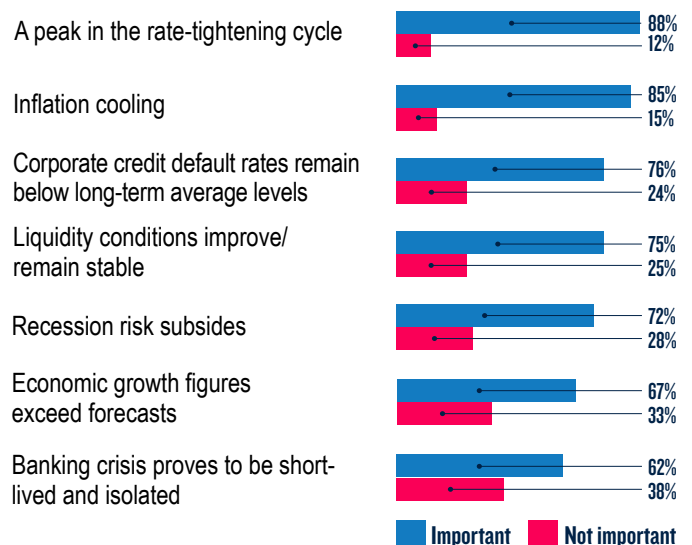
How will your firm be allocating in fixed income sectors/segments over the next 12 months?



All Eyes on Interest Rates

Nine in 10 gatekeepers cite a peak in the rate-hiking cycle as reason for increased allocations to fixed income, with almost as many respondents saying the same about cooling inflation. Below-average credit default rates would similarly motivate about three-fourths of fund selectors.

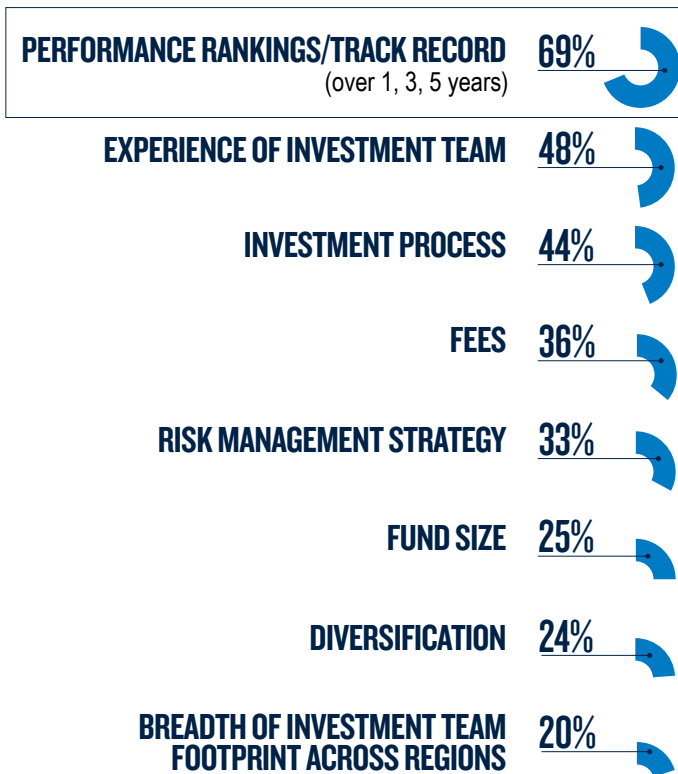
How important would/will the following factors be in triggering an increase in your overall fixed income allocations?



What Matters Most

Bond fund selection criteria mirror equity fund evaluation measures, with performance, investment team experience and investment process as top considerations. Responses in other categories further down the list remain largely consistent between fixed income and equity.

What attributes are most important to you when selecting a global flexible bond fund?

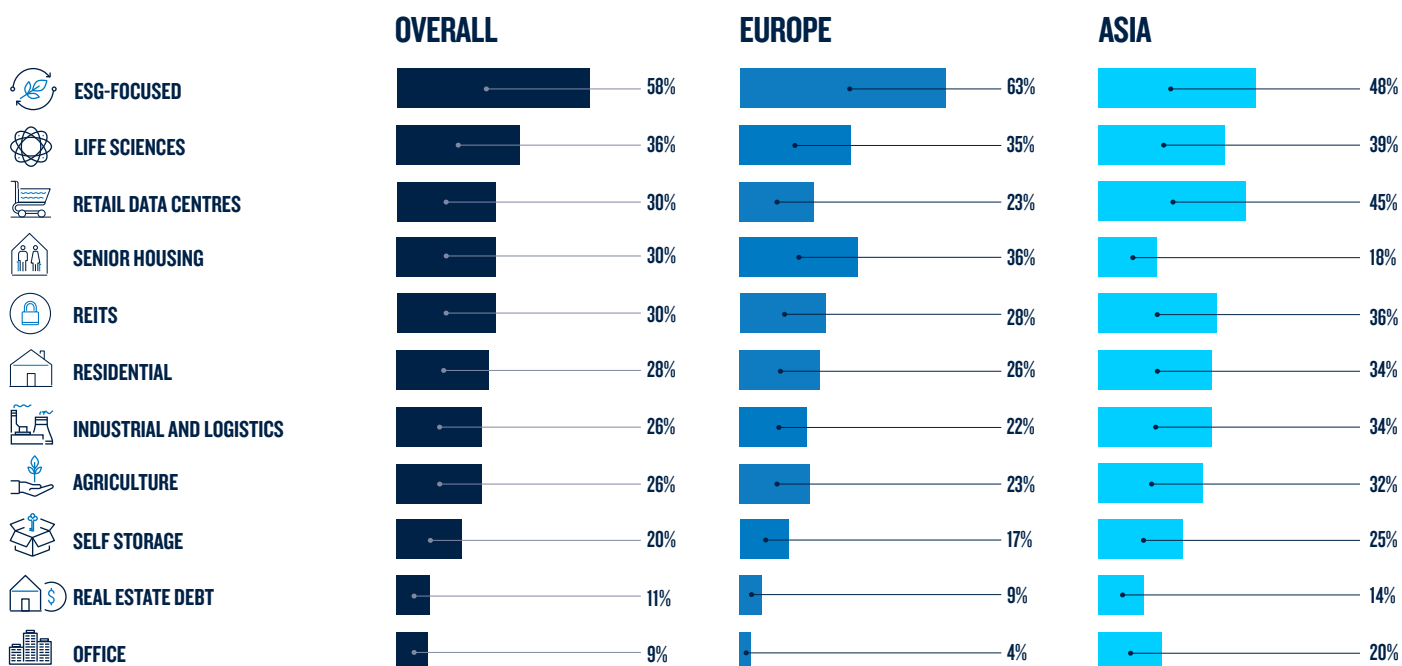


5. REAL ESTATE

High Value ESG Appraisal

When it comes to real estate, fund selectors favour ESG-focused allocations by a wide margin. The trend is less pronounced among gatekeepers in Asia, who report higher interest in most other categories than their counterparts in Europe.

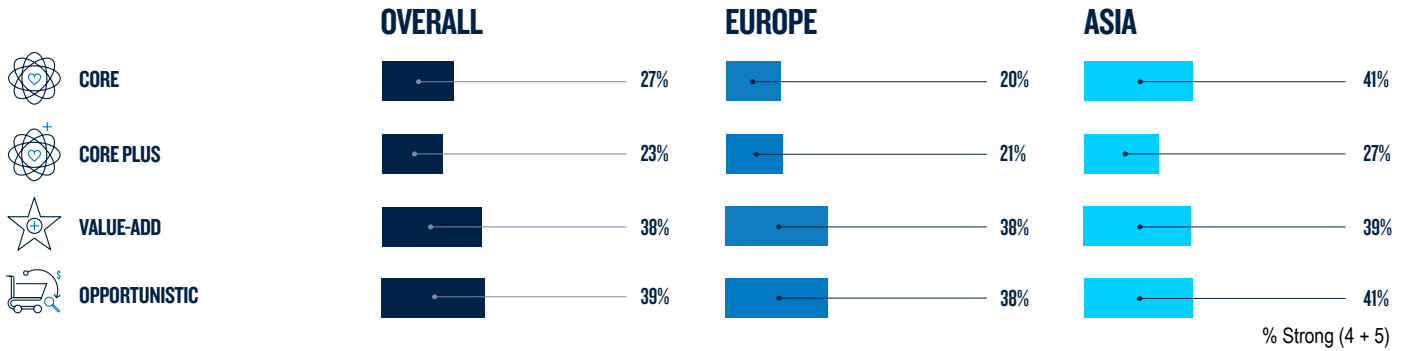
How will your firm be allocating across real estate sectors/segments over the next 12 months?



Active Opportunities

Gatekeepers are aligned in being interested in opportunistic and value-added real estate strategies, possibly reflecting unsettled market conditions. Responses depart considerably regarding core allocations, with fund selectors in Asia twice as receptive as their counterparts in Europe.

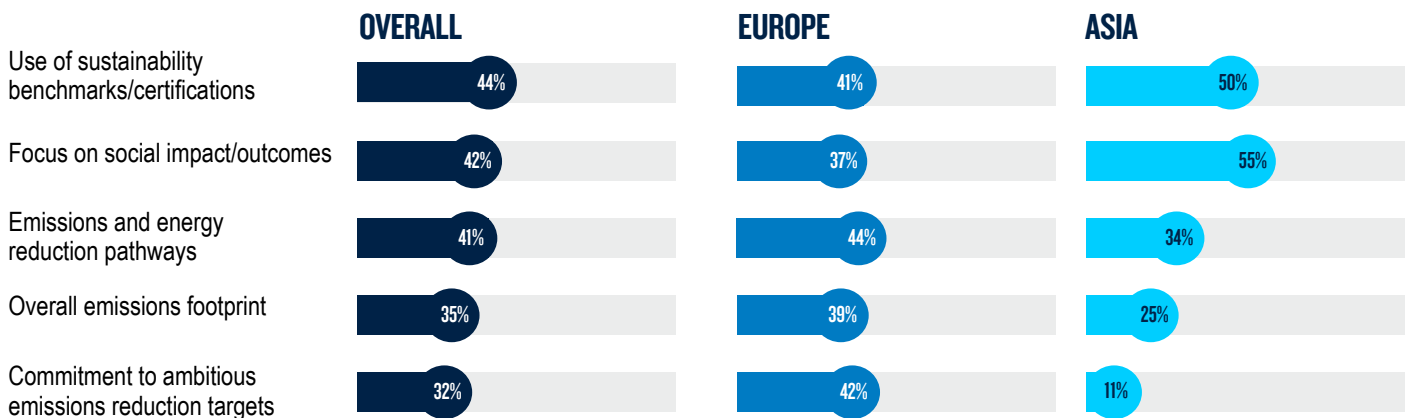
How weak or strong is your appetite for the following types of real estate strategies over the next 12 months?



ESG Real Estate Is Local

Fund selectors in Europe assign roughly equal importance to various environmental, social and governance (ESG) real estate factors, while responses from their counterparts in Asia are more dispersed. Gatekeepers in Europe are nearly four times as likely to identify a commitment to ambitious emissions reduction targets as important.

What are the most important criteria for you when assessing ESG-labeled real estate funds?



6. LIQUID ALTS

Economic Influences on Intentions

One-third of fund selectors report plans to increase commitments to liquid alternatives in the next 12 months, while two in five respondents say a recessionary environment would increase their firm's appetite for liquid alts.

What is your firm's outlook for liquid alternatives/global macro strategies?

My firm intends to increase allocations to liquid alternatives strategies over the next 12 months.



Global macro strategies will generate better returns over the next 12 months, in comparison to the prior 12-month period



A recessionary environment will increase my firm's appetite for liquid alternatives strategies



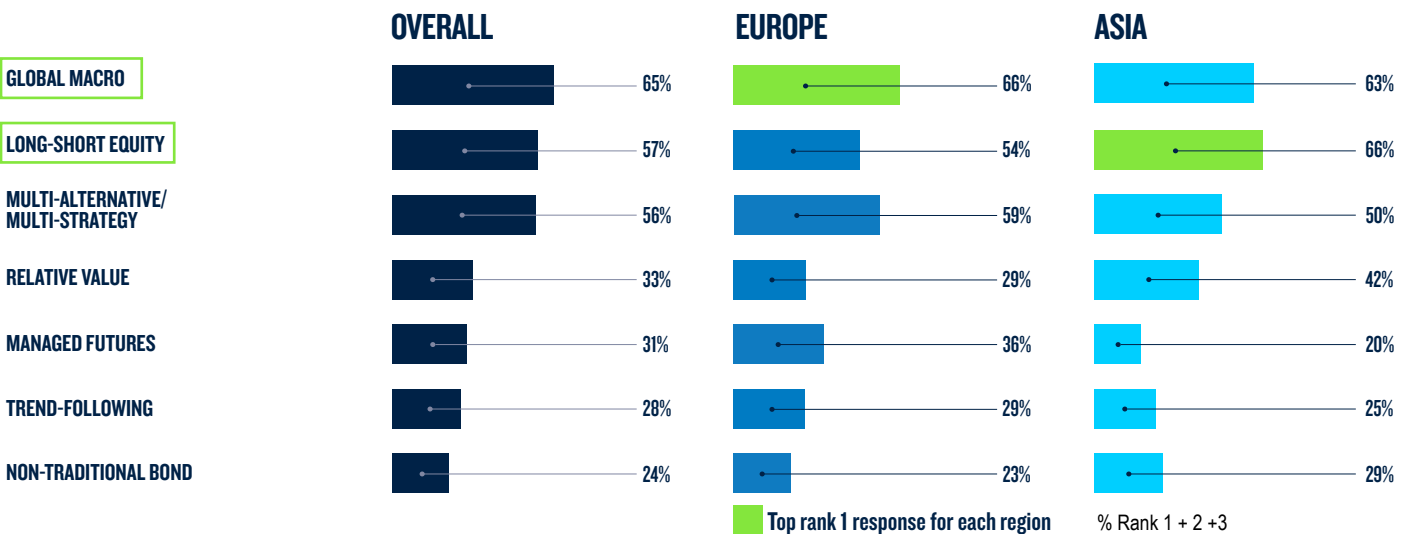
Legend: █ Likely █ Neither likely nor unlikely █ Unlikely

Data may not sum to 100% due to rounding.

Flexibility Is a Sought-After Feature

Global macro and long-short equity are heavy favourites in the liquid alt space. While both categories enjoy robust support in both regions, global macro tops responses from Europe and long-short equity leads feedback from Asia.

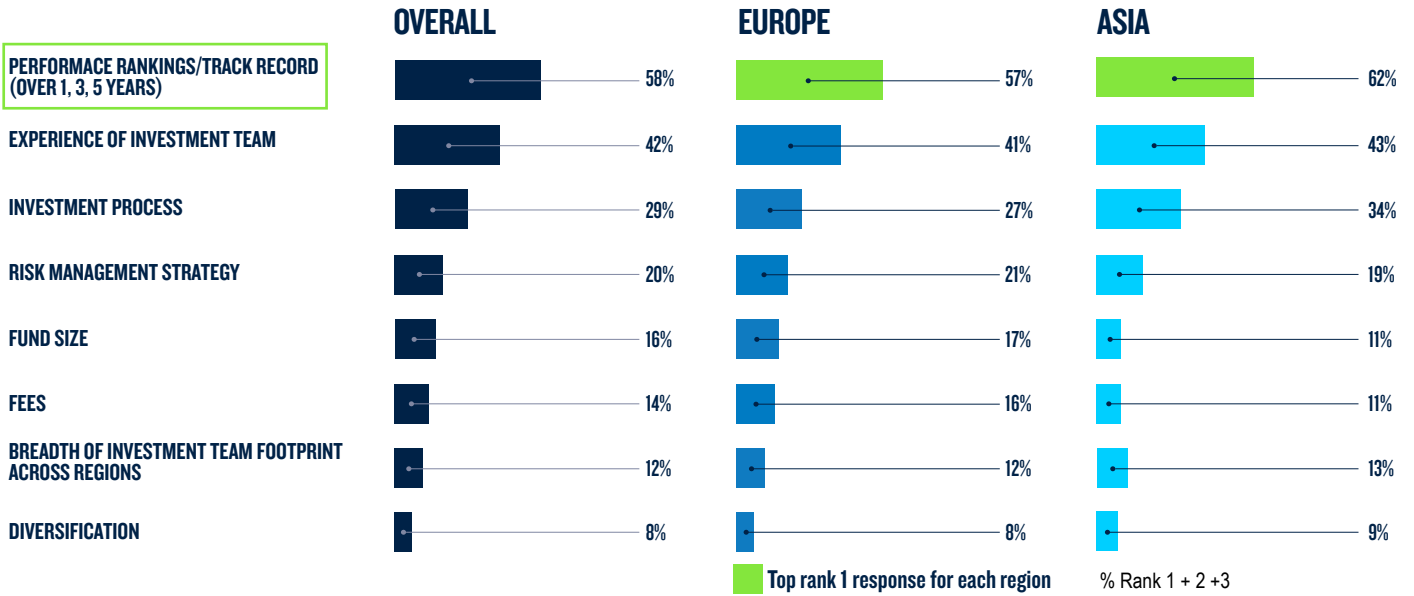
What types of liquid alternatives strategies are you most likely to invest in over the next 12 months?



Alternative Assessments

Like other categories, performance and experience play leading roles in selecting liquid alt funds, but respondents are less concerned about process than they are for stocks and bonds. Responses regarding fees appear to show a willingness to pay up for the right liquid alt opportunity.

What factors are most important to you when selecting a liquid alternatives fund?



METHODOLOGY

- The study gathered the views of 150 Europe-based and 60 Asia-based gatekeepers at large global financial institutions who are responsible for fund selection. The online survey was conducted by CoreData Research in July 2023.
- Survey respondents were from the following countries: UK, Austria, Germany, Switzerland, Belgium, Netherlands, Luxembourg, Italy, Denmark, Finland, Norway, Sweden, Singapore and Hong Kong.
- Respondents were aged 28-65, had been in their current role for at least one year, and the current AUM at their firms was at least \$1 billion US.

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