



Edelman Trust Barometer Special Report: Institutional Investors 2018

UK edition

November 2018



#TrustBarometer

Institutional Investor Trust Report Methodology

N= 500 Institutional Investors

Online quantitative study among

U.S. n=100

U.K. n=100

Canada n=100

Japan n=100

Germany n=100

**Fielded from 9 September to 22
October 2018**

Contents

**Bracing for Brexit and the
death of a bull 04**

**Investment criteria
is evolving 10**

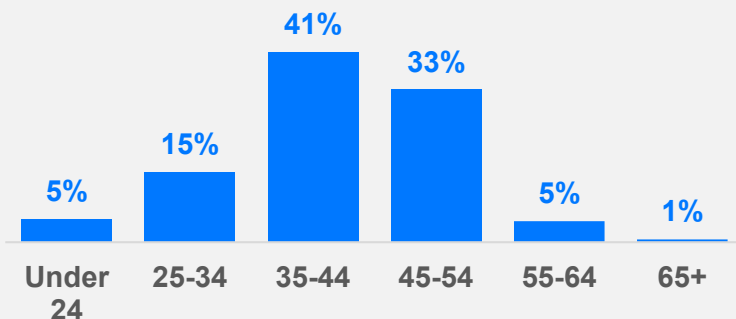
**Investors look beyond
the balance sheet 15**

Activism goes mainstream 20

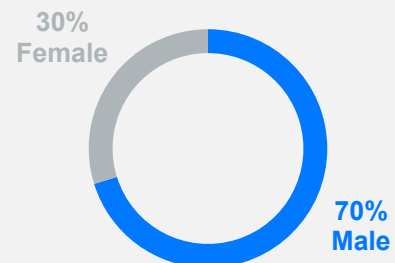
**A new framework for telling
the investment story 23**

A diverse global sample

Age



Gender



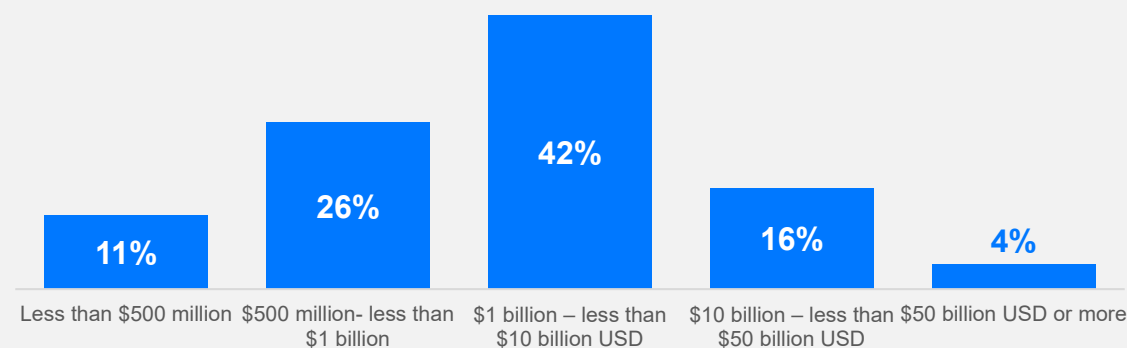
Respondents' job titles



Primary Investment Style

| | | | |
|-------------------|-----|--------------------|----|
| Growth | 41% | Quantitative/Index | 7% |
| Value | 14% | Activist | 6% |
| Hedge | 13% | GARP | 6% |
| Industry-specific | 10% | N/A | 3% |

Organization's Assets Under Management



Source: 2018 Edelman Institutional Investor Trust Global Survey

S1. What is your approximate age?

S7. In your current job, approximately how much are your institution's investable assets?

S8. Which of the following best describes your position or level within your company or organization?

D2. What is the primary investment style for the funds you manage on behalf of your organization?

D4. What is your gender?

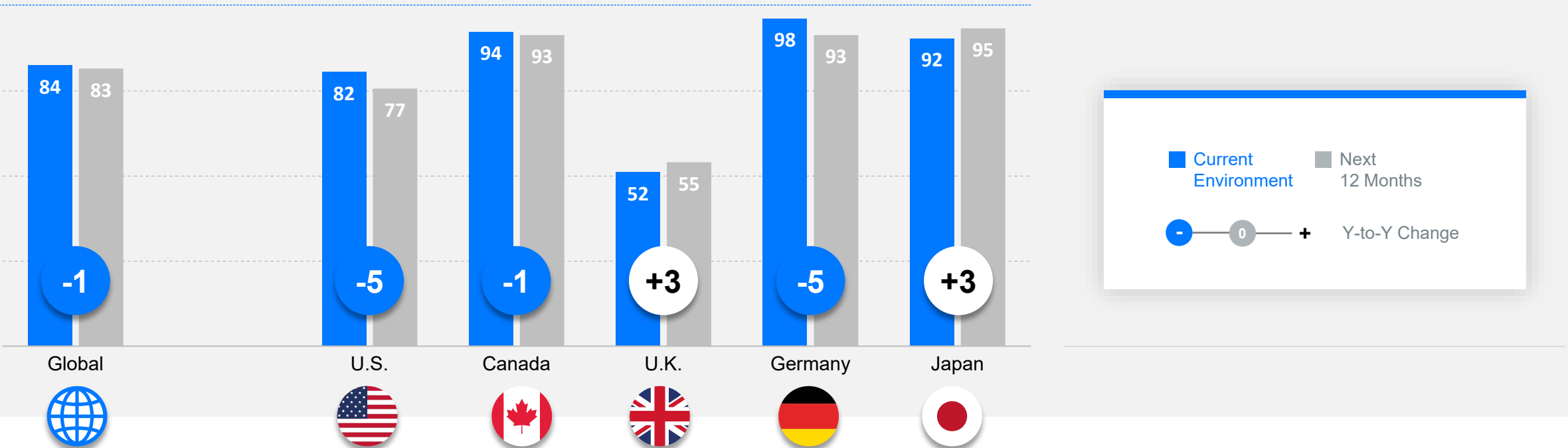


Bracing for Brexit and the death of a bull

Institutional Investor Trust Report 2018

Investors optimistic, but warning signs emerging

Percentage who feel positive about the current and future investing environment:



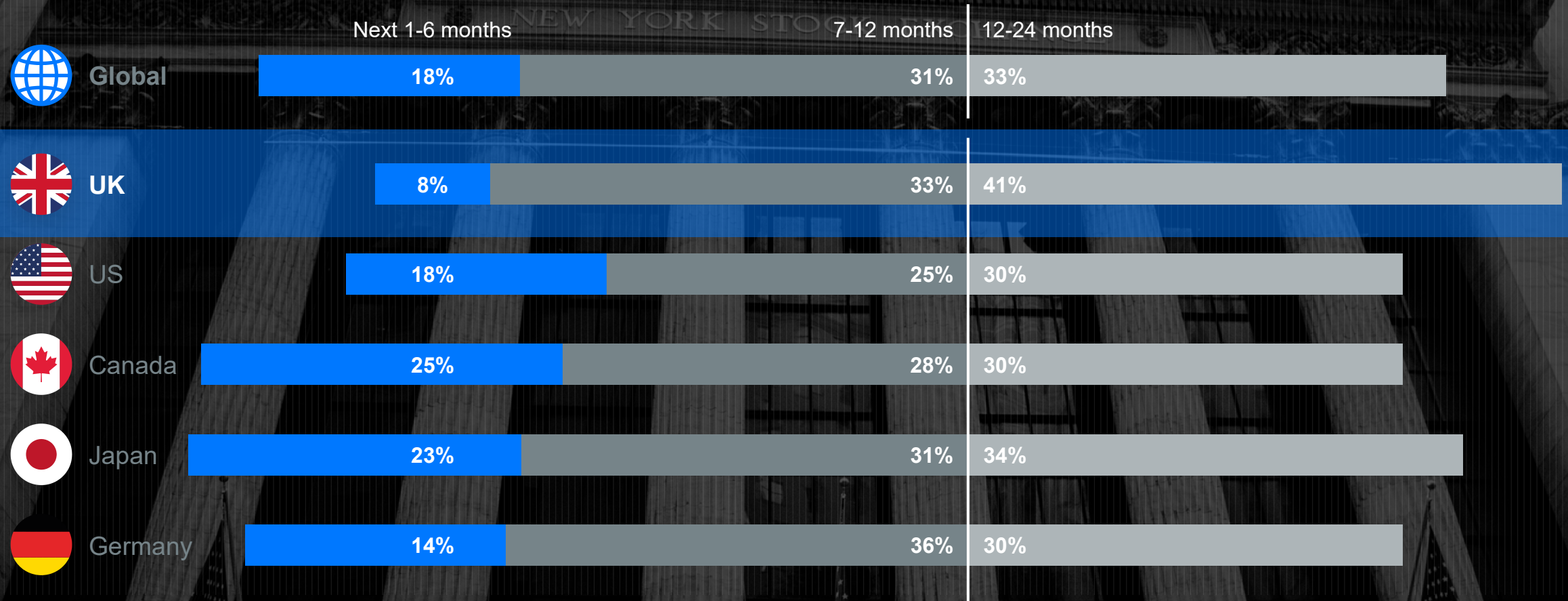
Source: 2018 Edelman Institutional Investor Trust Survey

Q1: Looking back at the economic and political climate over the past 12 months, how would you describe the current investing environment as compared to the previous year?

Q2: Looking ahead at the next 12 months, what is your outlook on where the investing environment is heading, considering the economic and political climate?

The bull market is nearing an end

Investors who believe the bull market will come to an end in



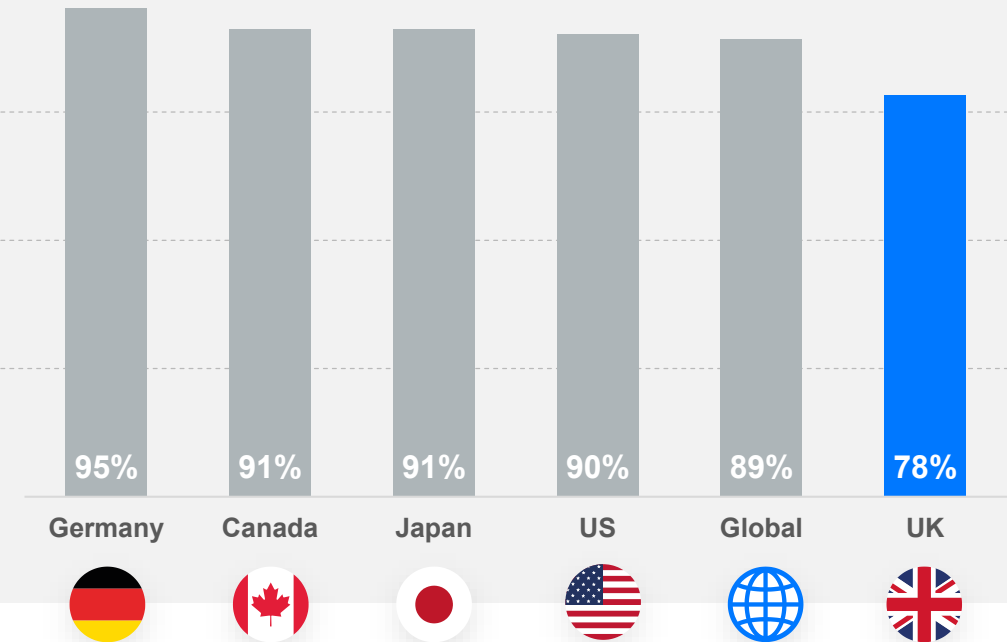
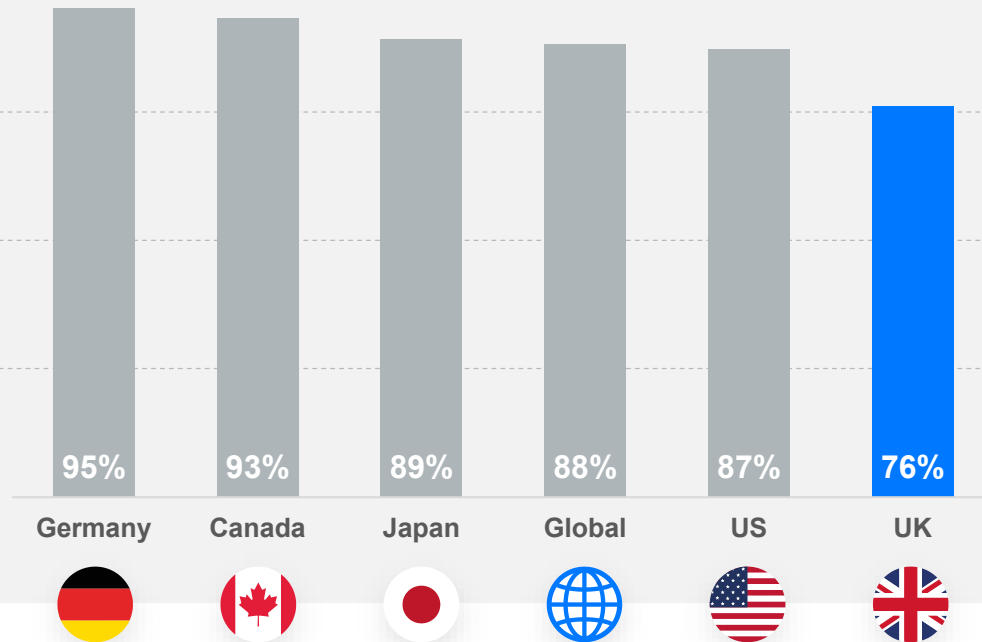
Political risks are affecting investment strategies

The current political climate is influencing investment strategy

[Percentage who agree]

International trade risks are impacting strategy

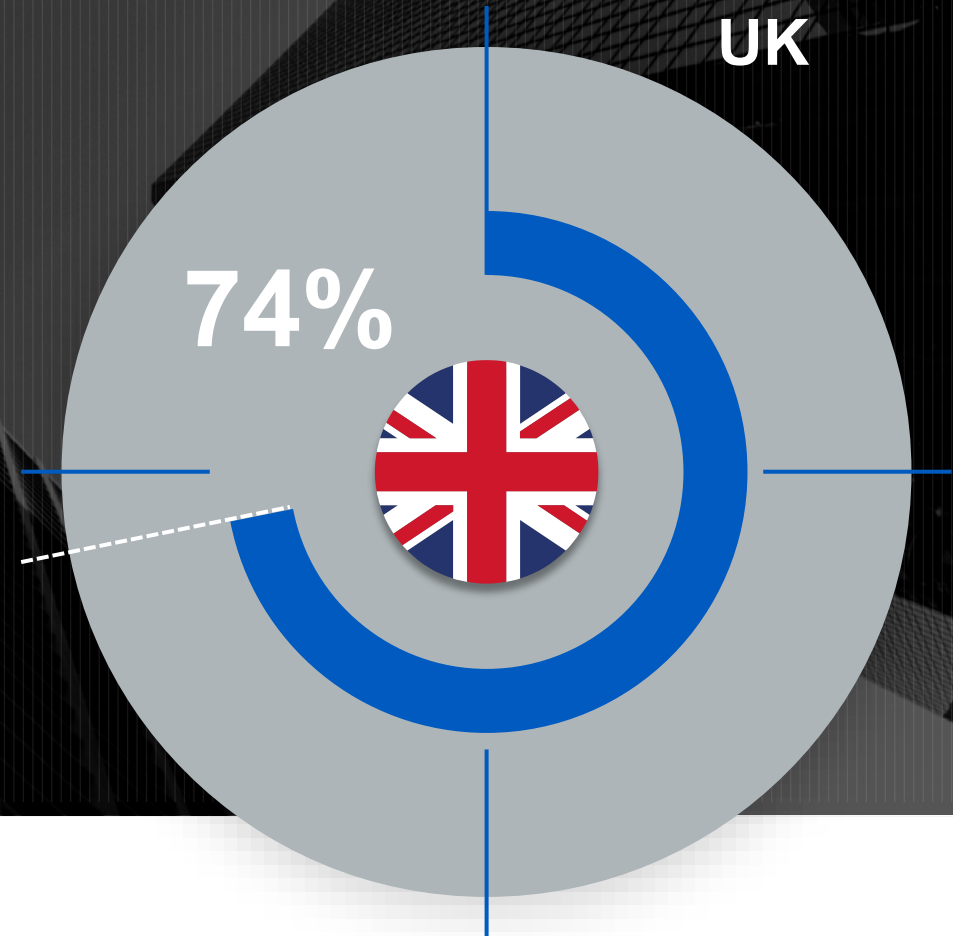
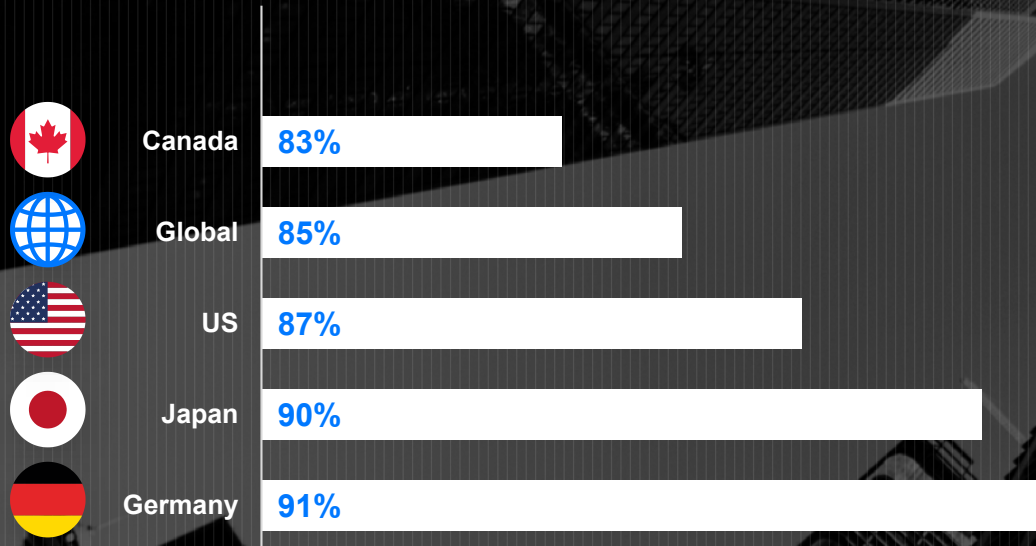
[Percentage who agree]



Companies are seen as unprepared for political risks

Investors believe that most companies do not fully acknowledge the new risks to their business from the current political climate

[Percentage who agree]



Brexit is a key preoccupation

Investment decisions are greatly influenced by Brexit risks

82%

of **UK investors** believe Brexit has impacted investment decisions over the last 12 months

86%

of **UK investors** believe these risks will continue to impact investment decisions for the next 12 months



Investors believe uncertainty around the Brexit outcome is making investment decisions tougher



Investment criteria are evolving

Institutional Investor Trust Report 2018

Trust in a company is the most important factor for UK investors



93%

My trust in the company



92%

Reputation of the company
within the company's industry



91%

Access to
management



93%

Current valuation
vs. peer companies



91%

Ethical standards

Investors are looking for better guidance

Long-term financial outlook

Investors who believe providing long-term guidance on financial performance impacts trust:

96%

Believe it impacts trust

66%

Believe it has a **great deal** of impact on trust

...and operational data points

Investors who believe providing operational metrics as part of guidance in addition to financial metrics impacts trust:

95%

Believe it impacts trust

63%

Believe it has a **great deal** of impact on trust

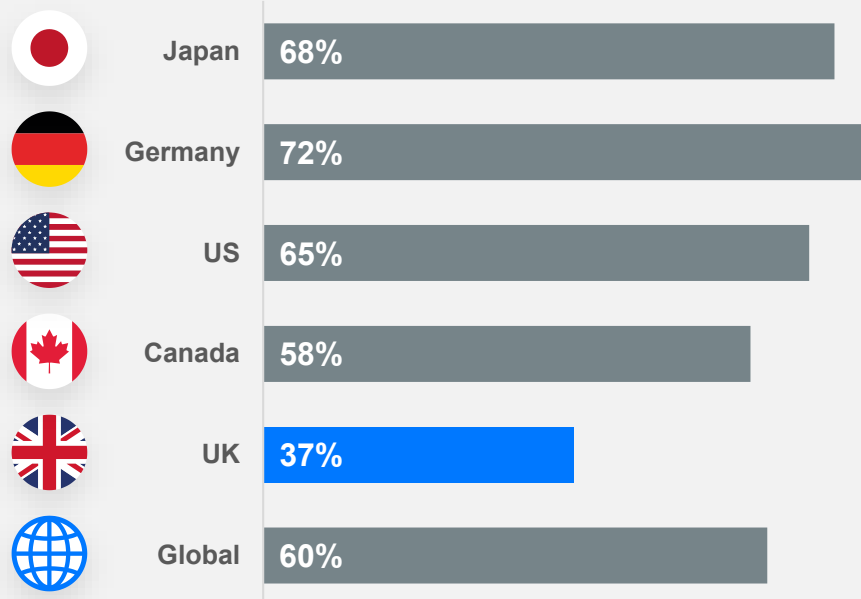


90%

of UK investors would like to see more use of **qualitative, forward-looking disclosures** when evaluating a current or prospective investment

Investors globally are looking for companies to engage on corporate governance

Percentage of respondents who are **actively engaging the investment community on corporate governance matters**:



UK investors are more focused on issues of shareholder democracy:

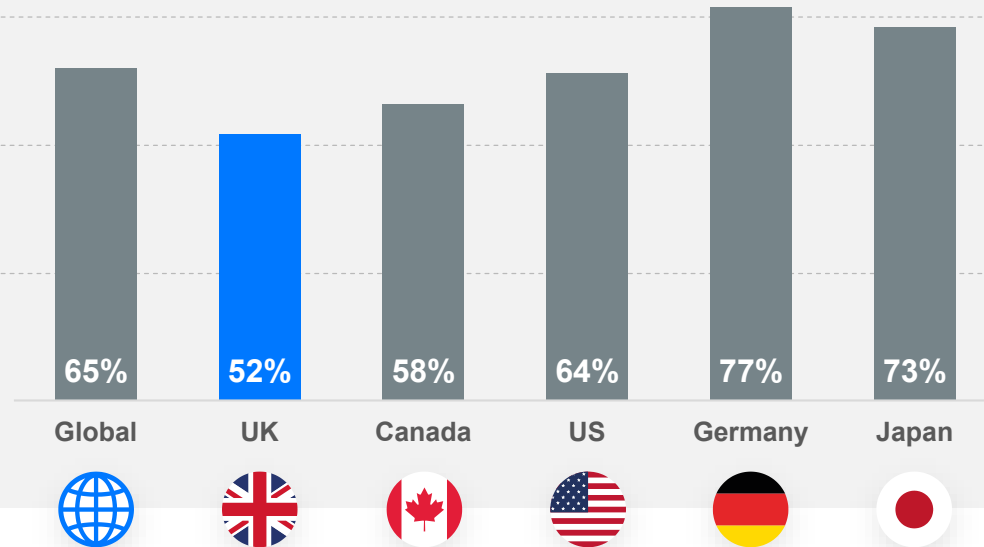


1. Aligning executive compensation with investor interest
2. Providing equal voting rights to shareholders
3. Executive and Board stock ownership
4. Diversity within a company's Board of Directors and executive team / frequently refreshing the Board of Directors
5. Aligning executive compensation with industry peers
6. Proxy access (Investors having access to a company's proxy documents)

Investors value culture and conduct

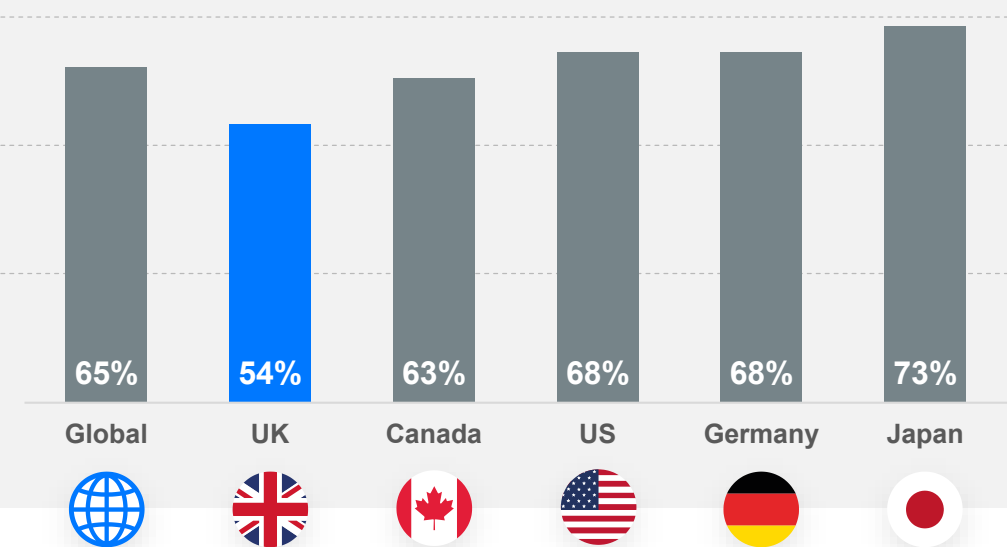
Maintaining a healthy corporate culture impacts trust

[Percentage who agree]:



Enforcing a corporate code of conduct should apply at all levels of the company

[Percentage who agree]:



Edelman Institutional Investor Trust Report
Q7. How much does each of the following corporate behavioural practices impact your trust of a company that you are/may consider investing in or recommend? For each one, please indicate the level of impact using a 9-point scale where 1 means "no impact on trust" and 9 means "a great deal of impact on trust." - Top 2 Summary

A black and white photograph of a long, empty train platform. The platform is flanked by glass and metal structures, with a textured floor. A blue wireframe graphic, consisting of many thin, curved lines that form a series of overlapping loops and waves, is overlaid on the image, extending from the left side towards the right. The overall atmosphere is modern and architectural.

Investors look beyond the balance sheet

Institutional Investor Trust Report 2018

Business globally is expected to lead

2018 Global Trust Barometer

64%

of global investors say that **CEOs should take the lead on change** rather than waiting for government to impose it

2018 Global Edelman Earned Brand Report

64%

Belief-driven buyers:
+13pts
YOY Change from 2017

2018 Institutional Investor Trust Report

98% of global investors think public companies **have an urgent obligation** to address one or more societal issues to ensure the global business environment remains healthy and robust



0% of UK investors believe public companies should be silent on societal issues

Top 5 global Issues



1: **CYBERSECURITY**



2
Income
inequality



3
Workplace
diversity



4
National
security



5
Immigration

Source: 2018 Edelman Trust Barometer. COM_MCL. When looking for general news and information, how much would you trust each type of source for general news and information? Please use a nine-point scale where one means that you "do not trust it at all" and nine means that you "trust it a great deal." 9-point scale; top 4 box, trust, question asked of half of the sample. TRU_INS. Below is a list of institutions. For each one, please indicate how much you trust that institution to do what is right using a nine-point scale, where one means that you "do not trust them at all" and nine means that you "trust them a great deal." 9-point scale; top 4 box, trust. CEO_AGR. Thinking about CEOs, how strongly do you agree or disagree with the following statements? 9-point scale; top 4 box, agree, question asked of half of the sample. General population, 8-market average.

Source: 2018 Edelman Earned Brand. Q17. Please indicate how much you agree or disagree with the following statements. 9-point scale; top 4 box, agree. 8-market average.

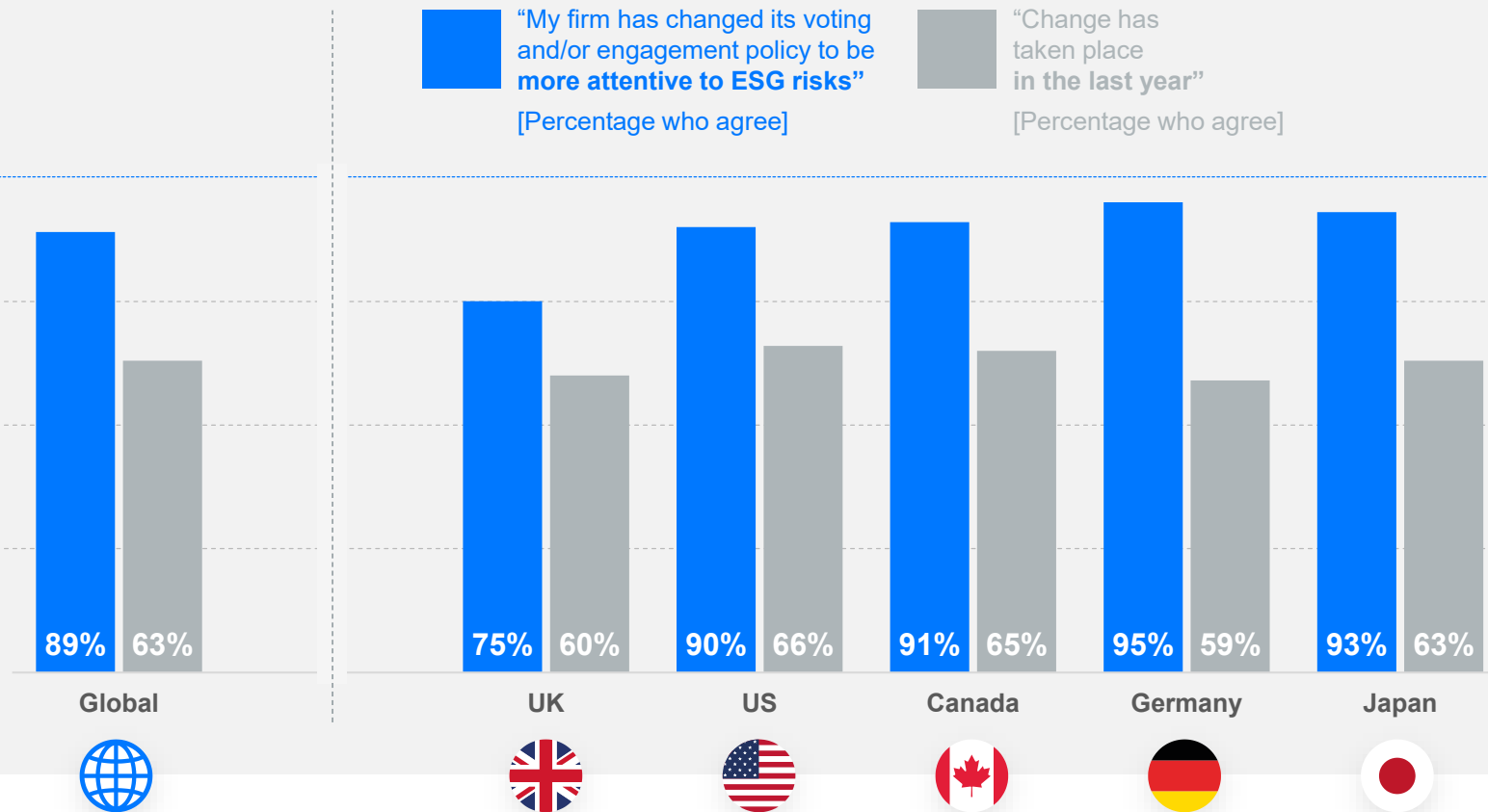
Source: 2018 Edelman Earned Brand. Belief-driven buying segments. 8-market average

Source: Edelman Institutional Investor Trust Report

Q17. The following is a list of societal issues that are currently the focus of concern and debate in many countries. These issues may cause the creation of new governmental rules, laws and policies that have implications for how businesses operate. Please select the issues you feel companies have an urgent obligation to take a public stand on to ensure the global business environment remains healthy and robust.

Investors are becoming more attentive to environmental risks

Percentage who agree:



UK investors are integrating ESG into investment strategies



Statement

85% of investors believe long-term value hinges on both financial performance and ESG

79% say impact and socially responsible investing are part of my firm's investment strategy

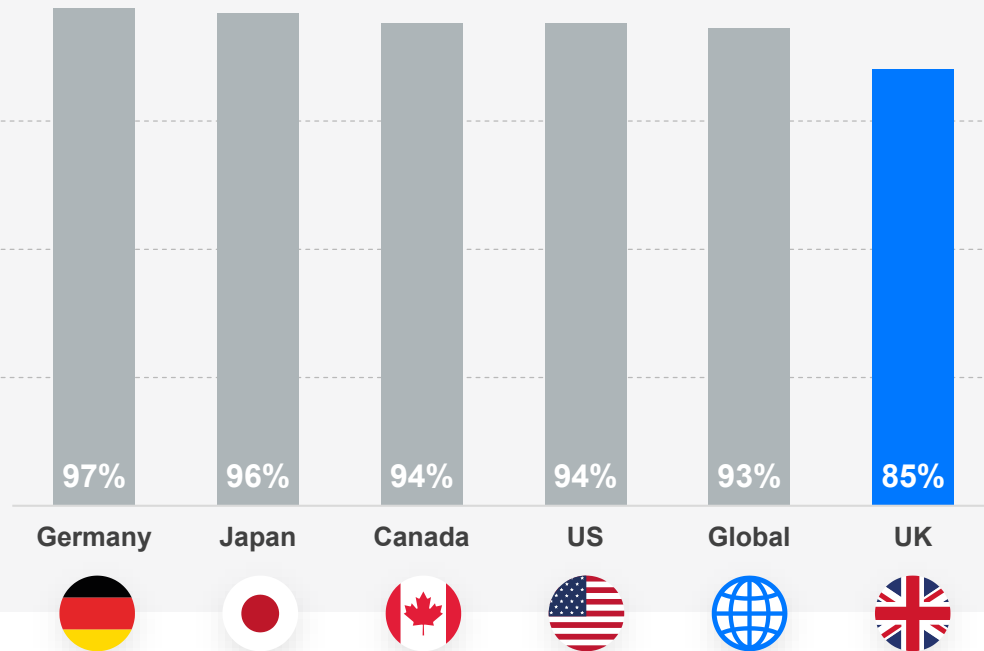
40% of investors changed voting/engagement policy to be more attentive to ESG over a year ago

Longer-term investors seek out sustainable investments

“My firm believes

long-term value hinges on both financial performance and ESG features”

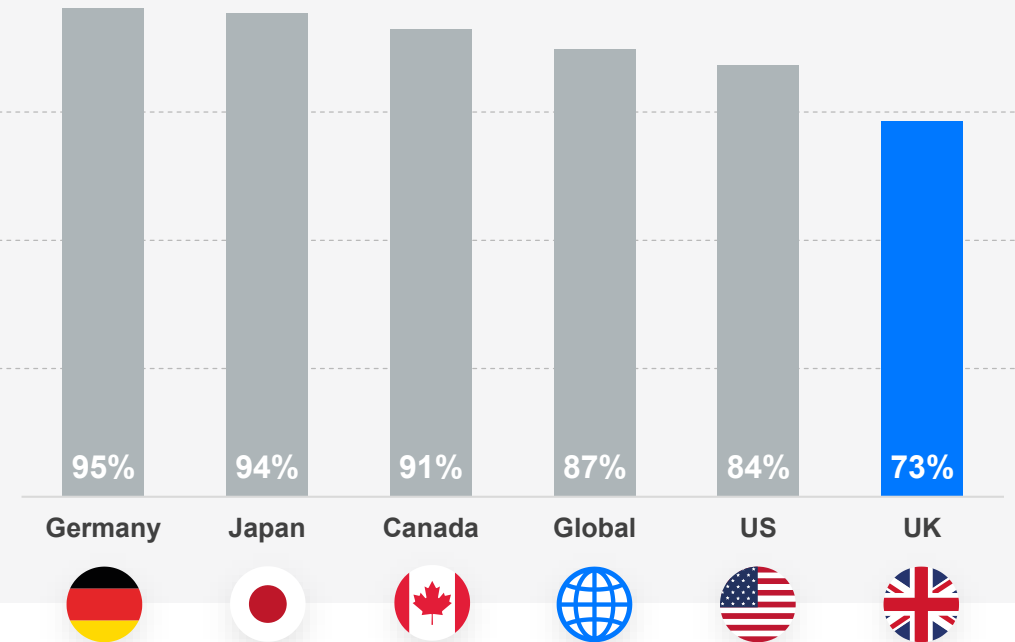
[Percentage who agree]



“My firm would consider

investing with a lower rate of return if [the investment] included sustainable or impact investing considerations”

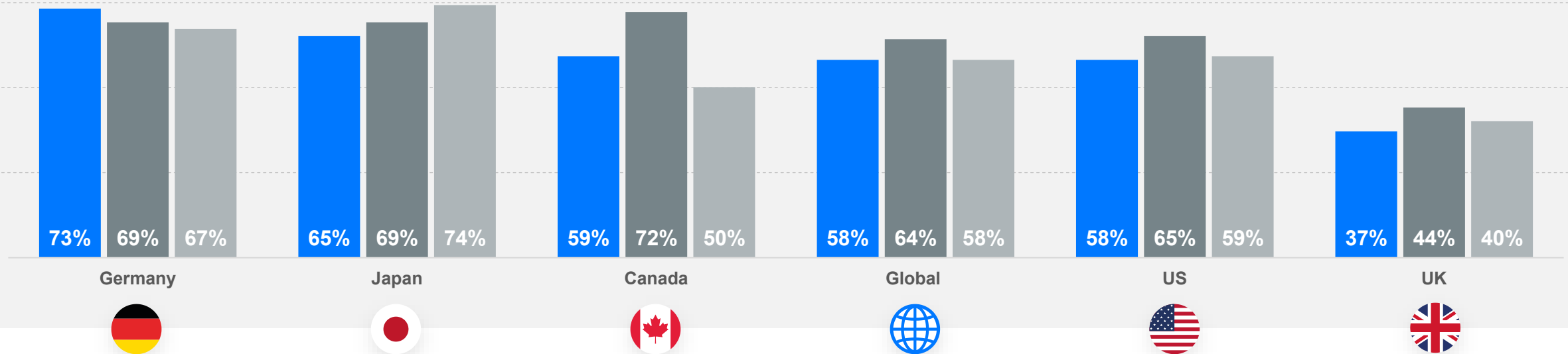
[Percentage who agree]



Global investors place greater emphasis on environmental factors in addition to social and governance practices

Percentage who agree each is very important:

Environmental Social Governance



Edelman Institutional Investor Trust Report
Q12b. Please select how important each of the following elements is when it comes to ESG investing. For each one, please indicate how important it is using a 9-point scale where 1 means "not at all important" and 9 means "most important". - Top 2 Summary.



Activism goes mainstream

Institutional Investor Trust Report 2018

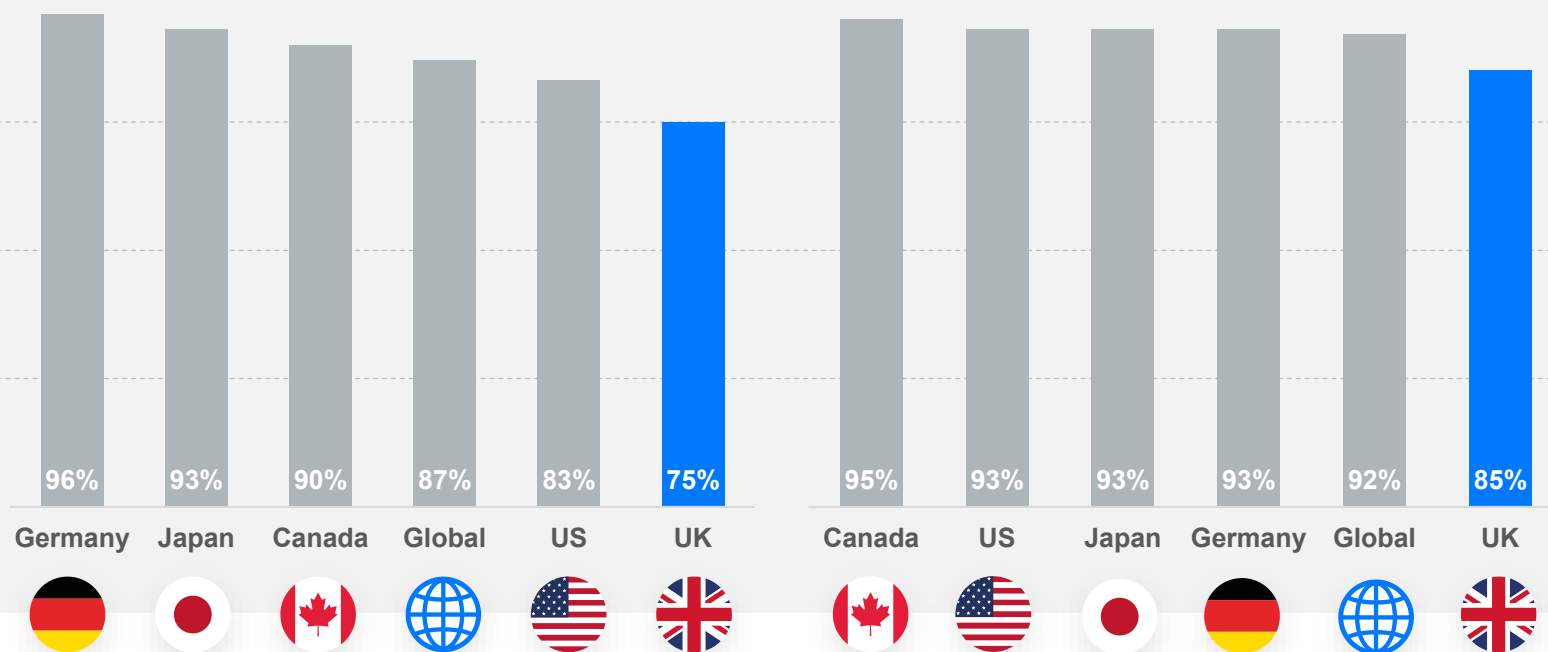
Activism is emerging as part of the investment approach

Investors are becoming more interested in taking an activist approach to investing

[Percentage who agree]

Investors will support a reputable activist if they believe change is necessary at a company

[Percentage who agree]



UK Market Context



Statement

21 out of the 40 reported campaigns in Europe were for UK companies ⁽¹⁾

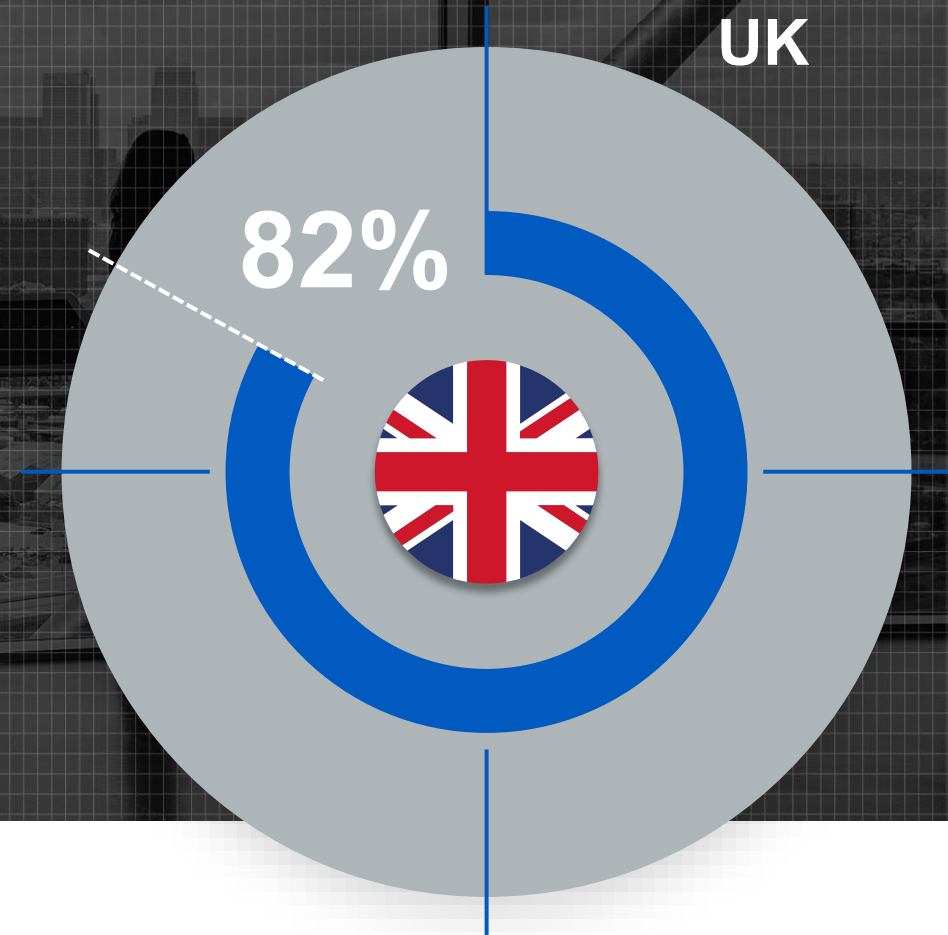
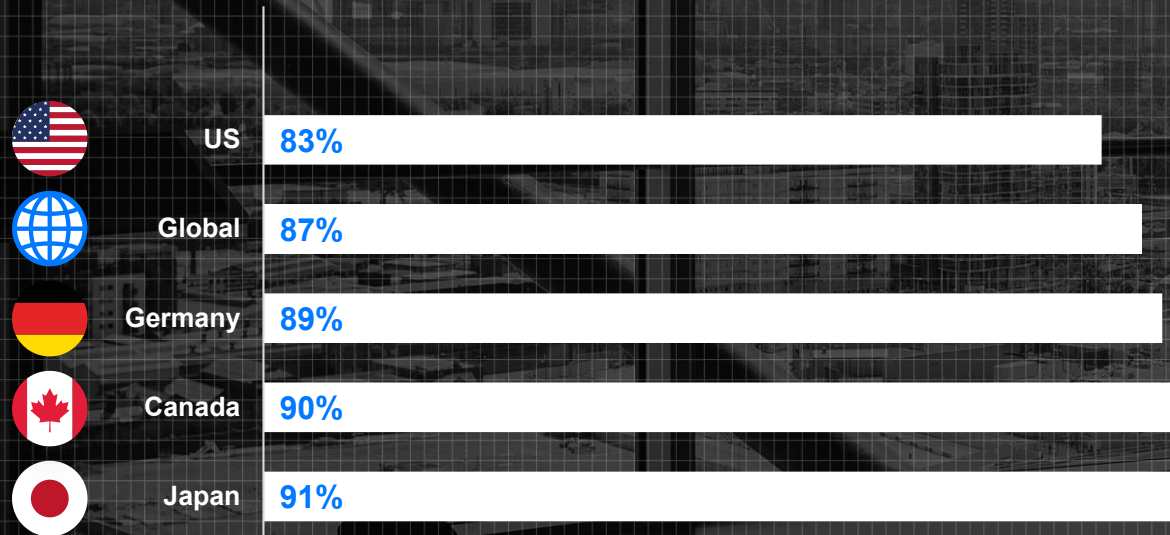
UK companies are increasingly a target, with 36 campaigns reported so far this year (vs 36 in total in 2017) ⁽¹⁾

46% of public activist demands of UK based companies at not satisfied ⁽²⁾

Companies are seen as unprepared for activist campaigns

Investors believe most companies are not prepared to handle activist campaigns

[Percentage who agree]



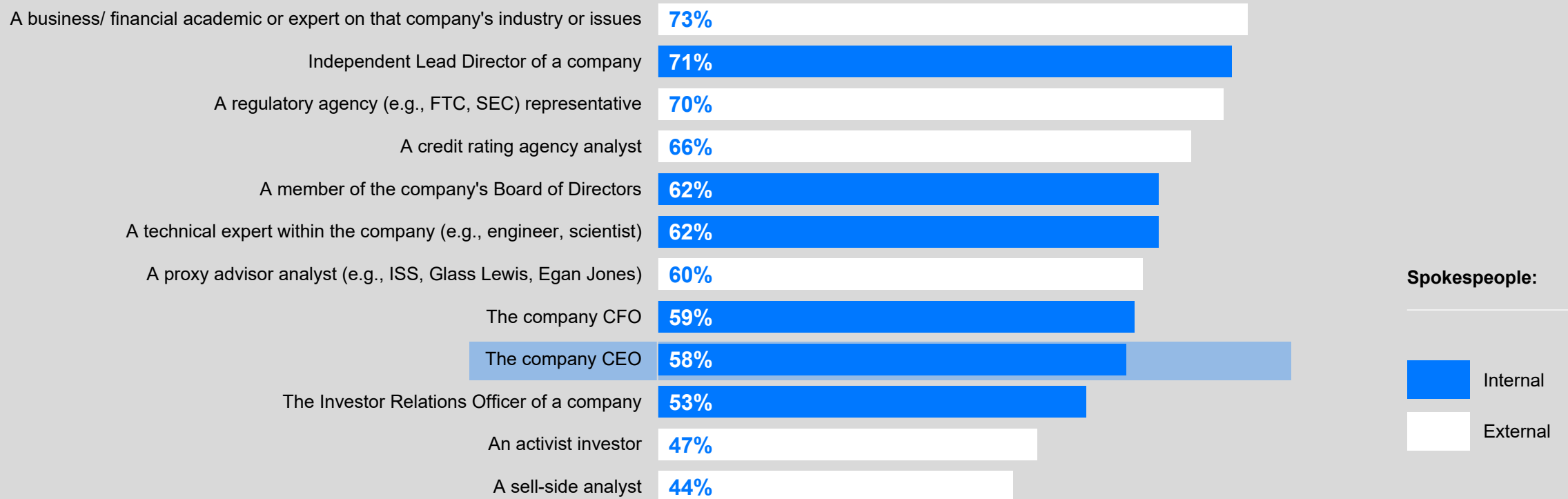
A black and white photograph of a long, empty train platform. The platform is flanked by glass and metal structures, and a train is visible in the distance. A blue wireframe graphic, consisting of many thin lines that form a wavy, tunnel-like shape, is overlaid on the image, extending from the foreground into the background.

A new framework for telling the investment story

Institutional Investor Trust Report 2018

Management does not control the company's narrative

Percentage who believe following source of information is credible:



UK investors are more trusting of the Board than executives

CEO: **58%**

Rank a **CEO** as a credible source of information when forming an opinion of a company

CFO: **59%**

Rank a **CFO** as a credible source of information when forming an opinion of a company

71%



Senior
Independent
Directors

are ranked #2 as a credible source of information when forming an opinion of a company (vs rank 3 globally)

MIFID II reshaping
the IR landscape



44% of UK investors say **sell-side analysts are the least credible source of information** when evaluating a company

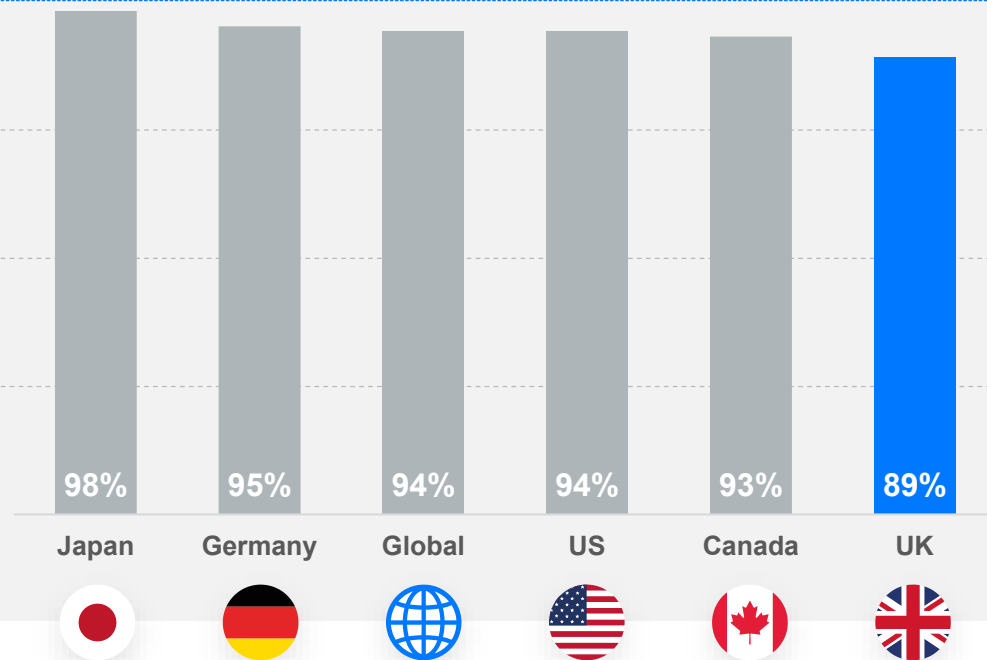
Source: 2018 Edelman Institutional Investor Trust Survey – UK data

Q13. Below is a list of people. In general, when forming an opinion of a company, if you heard information about a company from each person, how credible would the information be—not credible at all, somewhat credible, very credible, or extremely credible? - Top 2 Summary.

Investors must trust the Board of Directors

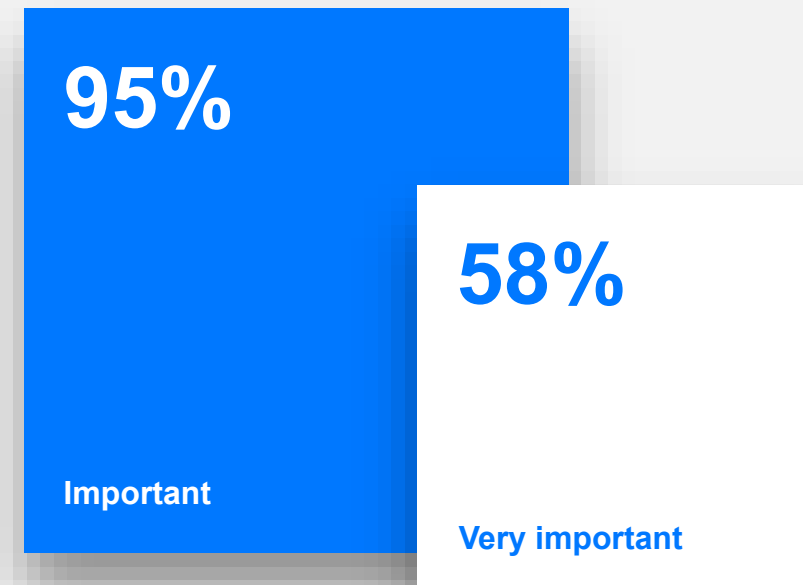
It is important trust a company's Board of Directors before making or recommending an investment:

[Percentage who agree]



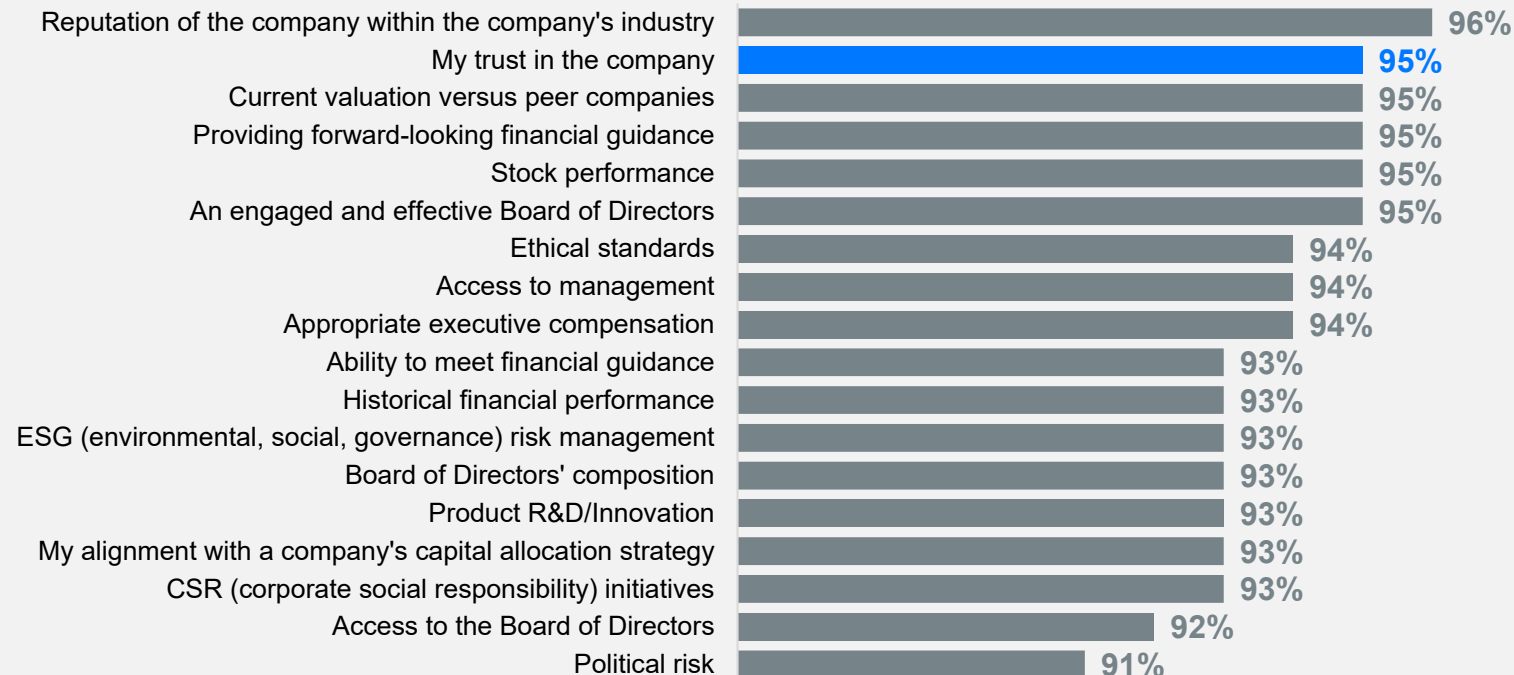
An engaged & effective Board of Directors is important when considering a company to invest in

[Percentage who agree]



Trust is most the important factor in investment decisions globally

Percentage who find each company attribute most important when making investing decisions



UK Market Context



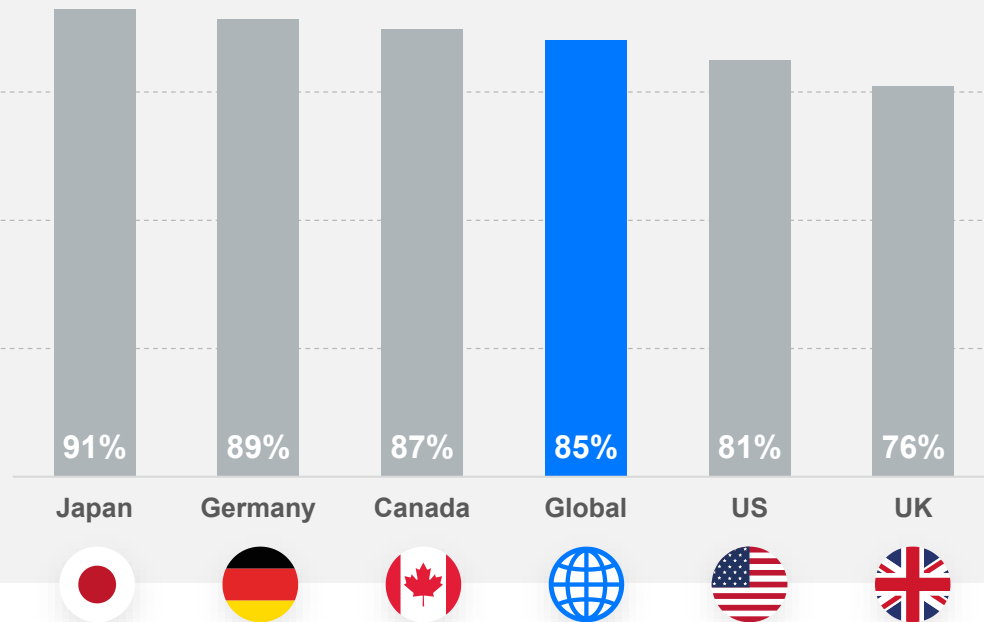
Statement

The CIO / fund manager's own trust in a company is the most important factor when considering an investment (ranked #1 by 93% of UK investors)

Investors want more progressive IR communications

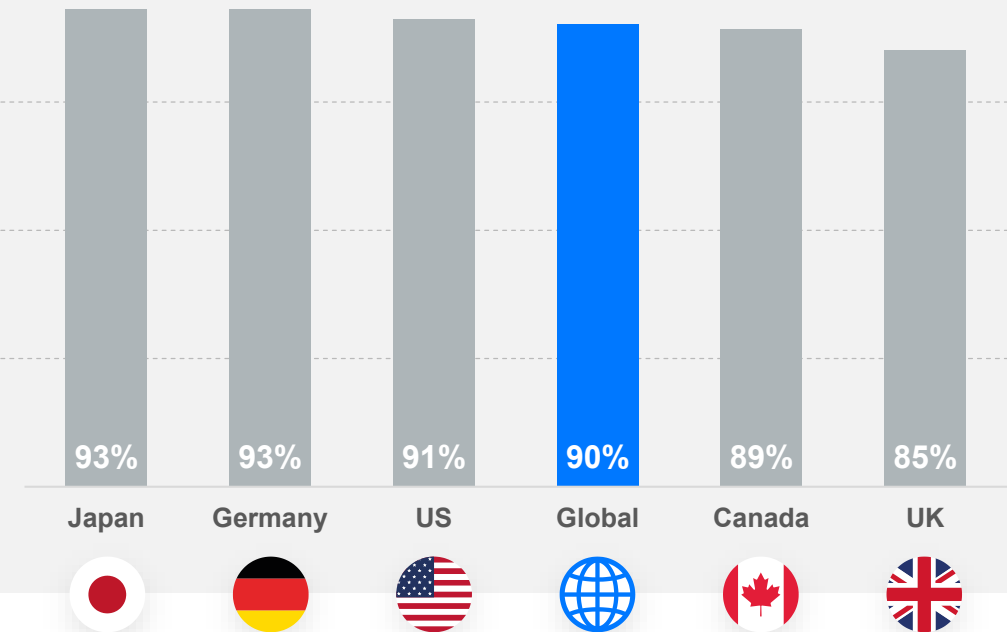
The way most companies share information for IR purposes is outdated

[Percentage who agree]



When evaluating a current or prospective investment, I would like to see more visual ways of sharing information

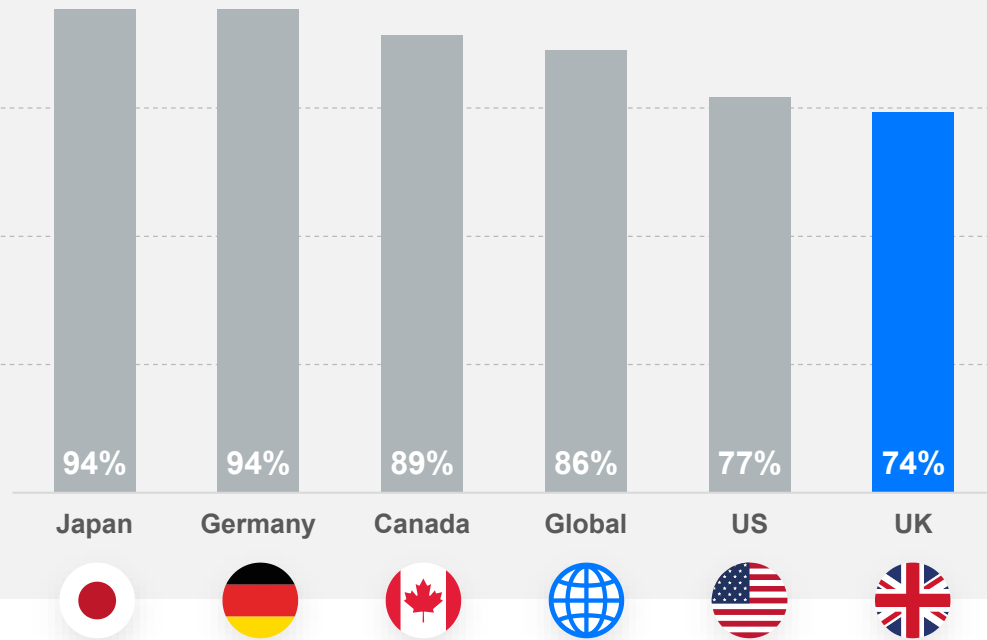
[Percentage who agree]



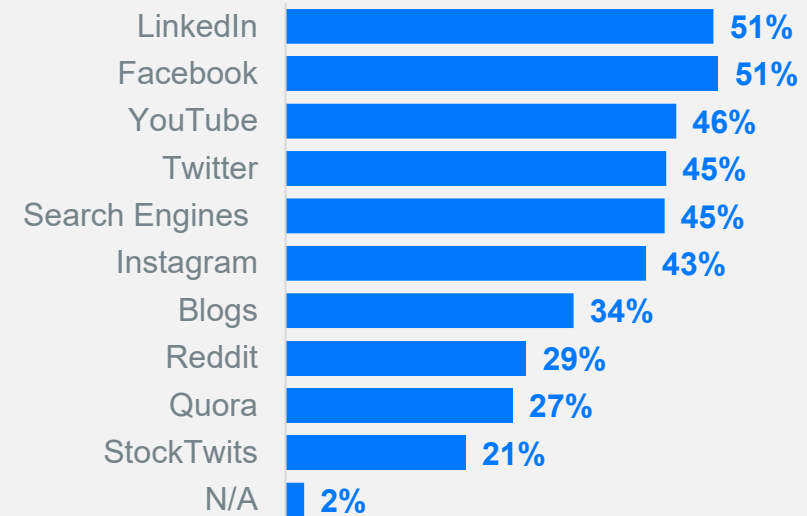
Today's investors rely on digital channels

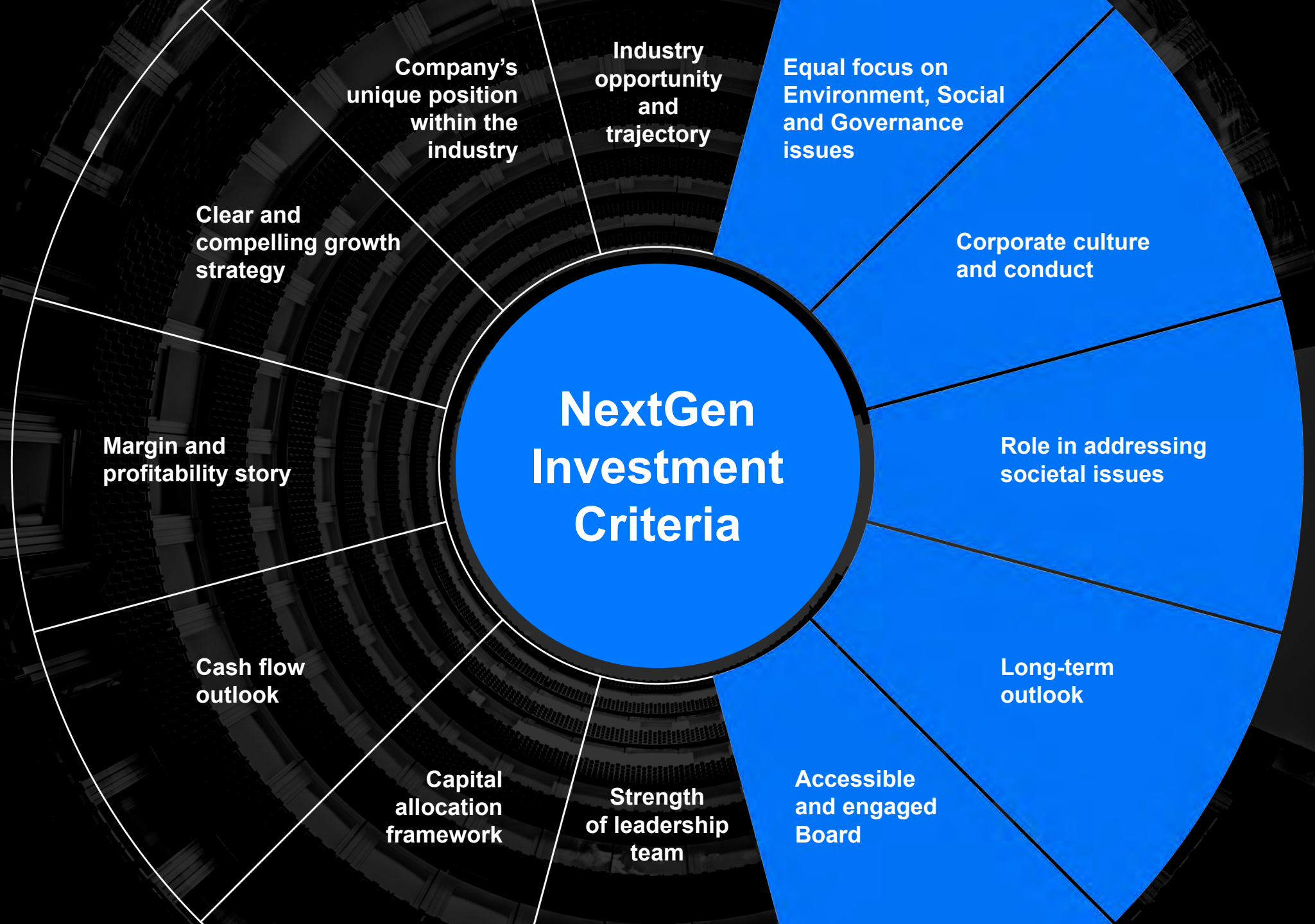
Percentage who agree with the following statements:

When evaluating a current or prospective investment, I consult the company or executive's social media channels



I read/follow information published on a company's digital and social media channels, website, and/or corporate blogs





www.edelman.co.uk

For more information

Iain Dey

iain.dey@Edelman.com

Edelman Financial Communications (London)

capmarkets@smithfieldgroup.com