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Summary

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Long-term return expectations of institutional investors

- This report summarizes the results of a survey of Finnish institutional investors' expectations of long-term investment returns. The survey was conducted in late 2021 / early 2022. The results of the survey are compared to capital markets assumptions published by global asset managers, as well as realized historical returns and previous return forecasts. The respondents comprised of eight Finnish pension institutions as well as six institutional asset and wealth managers.
- Real annualized returns on money market investments and low risk bonds are expected to be zero or below over the next decade. Bond returns are expected to turn mildly positive over a longer, 10 to 30-year investment horizon.
- The annualized ten-year real return expectation for non-investment grade ("high yield") bonds is 1.3%, rising to 2.6% over the longer 10 to 30-year period.
- Real estate investments are expected to provide a real return of approximately 3% p.a.
- The expected real return for developed market equities is approximately 4% p.a., whereas emerging market equities are expected to provide an additional one percentage point higher annualized returns.

- Private equity and private debt investments are expected to yield substantially higher returns than their public market counterparts. For private equity, the expected real return over the next decade is 6.8% p.a., rising further to 7.6% over a 10 to 30-year horizon. For private debt, the corresponding expectations are 3.5% and 4.2% p.a.
- Absolute return funds are expected to return approximately 2% p.a. in real terms.
- The expectations are subject to substantial uncertainty. For instance, the 50% confidence interval reported by the respondents is approximately +/- 3 percentage points annually.
- The expected returns according to the survey results were almost without exception higher than those assumed by global asset managers, which is in part explained by different reference indices and geographical allocations. The expectations of the representatives of the Finnish pension investment community were generally more modest than those of the domestic asset and wealth managers.
- Future return expectations are materially lower than the realized returns over the past decade.
- The respondents expect to earn premia from active asset allocation and security selection, illiquidity premium, as well as from ESG investing. On the contrary, factor premia are generally expected to be low.
- The participants of the survey were asked to update their expectations for long-term investment returns in early August. Their responses can be divided into three equally sized categories:
 - a) no change,
 - b) expectations of long-term investment returns are only updated annually as part of investment planning process for the following year, and
 - c) expected returns have increased as equity markets have sold off and interest rates risen.

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