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HOME BIAS REPORT

An analysis of the Home Bias phenomenon amongst UK investors

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- The Home Bias Report seeks to unveil and analyse the anticipated "home bias" towards domestic equities in the UK market.
- Based on the assumption that UK retail investors are heavily overweight domestic equities, the research examines this concentration risk and explores why this, possibly subconscious, home bias exists.
- The survey also reveals UK investors' innate risk aversion to stocks and shares investing and how this may be linked to the home bias phenomenon.
- Our report comprises quantitative research based on a poll of 201 UK direct investors with a minimum of £25,000 of investible assets. We define direct investors as individuals who invest directly into the equity and/or debt capital markets without the assistance of a financial adviser.
- For UK investors, consciously or subconsciously adopting this investment position is likely to severely limit the growth potential of portfolios, whilst concentrating, and therefore increasing, risk.

Key Findings

Equity optimism abounds: the bull run continues in the minds of investors

- The majority of UK investors (72%) are optimistic about the global stock market in the next year
- Investors believe that the UK market will perform strongest over the next year (71%), followed by Europe (66%), and finally the US (65%)
- Over half of investors (57%) think Brexit will have a positive impact on UK equities

The UK has a significant investing "home bias"

- 3 in 4 UK investors (74%) are looking to invest the majority of their assets in their home market
- Only 7% are looking to make significant investments into the US
- Investors are put off investing in the US market because of geopolitical tensions, politics, rising interest rates and high valuations

Despite market optimism, investors are nervous about buying equities

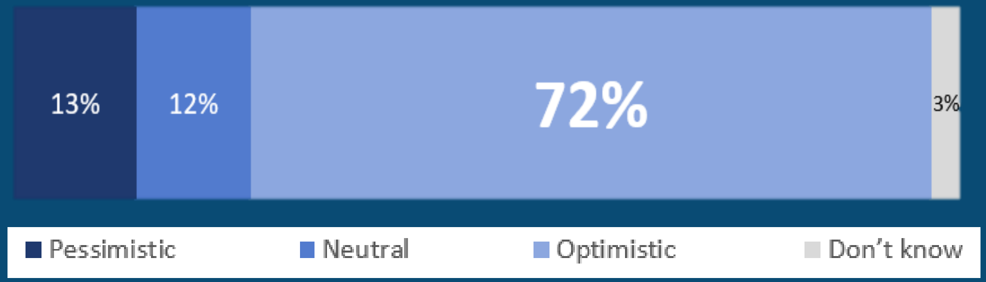
- 73% of investors say there is something that puts them off investing in equities
- 32% say equity investing involves too much risk and volatility
- 21% feel they don't have a strong enough grasp of business fundamentals to invest in stocks

The case for diversification is growing

- Investors feel Brexit is likely to have a negative short-term economic effect but 57% believe it will have a positive, long-term impact on UK stocks
- 59% of respondents considered diversifying their portfolios in light of the Brexit vote
- 45% of investors are worried about rising interest rates in the UK

Majority of investors are optimistic about global stock market in next year

Percentage of investors who are pessimistic / neutral / optimistic for the global stock markets over the coming 12 months



How do you feel about the outlook for global stock markets over the coming 12 months?

- Despite volatility, geopolitical unease and changes to global monetary policy, UK direct investors remain overwhelmingly positive about the outlook for the global stock market over the next 12 months.

- This positive outlook suggests direct investors in the UK are willing and ready to allocate capital and, in theory, should be considering which markets will generate the best returns.

Investors have a positive outlook for equities globally

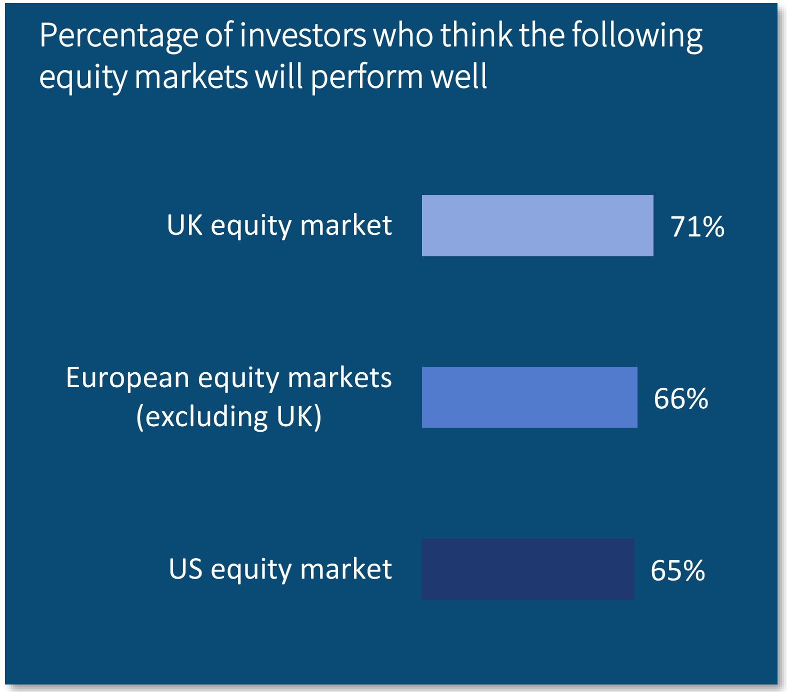
> UK investors have comparable expectations for UK, European and US stock markets, despite the very different economic and political factors which are driving them.

> When asked how well they thought these equity markets would perform in the next one to three years, at least two thirds of investors rated all markets as positive.

> Many people are inherently positive about the future and this is also the case when it comes to investing.

> It is nonetheless surprising to see how upbeat UK investors are about the global economy, and especially the UK economy, given that the uncertainty caused by Brexit remains firmly in place.

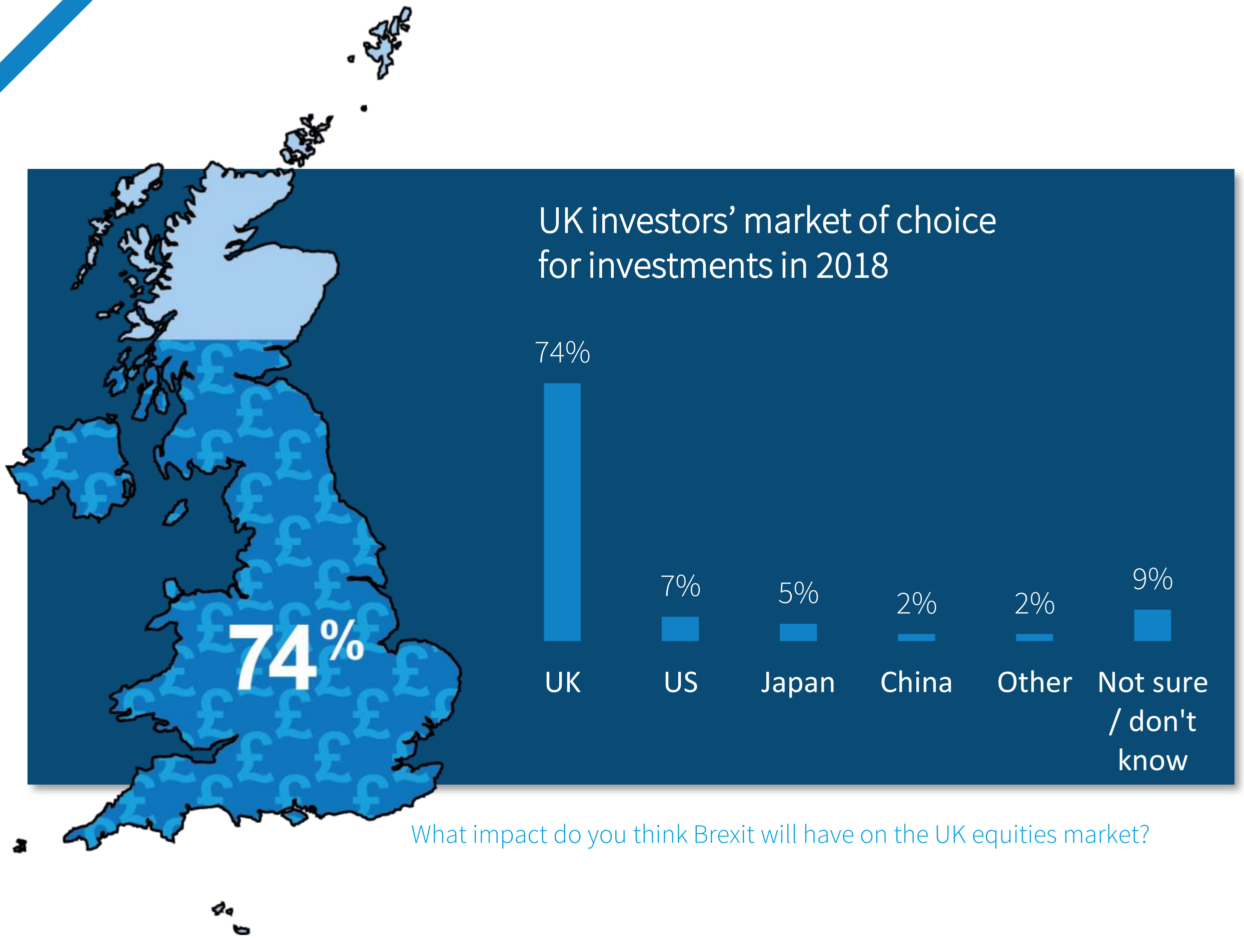
> Against this economic backdrop we would caution investors against over-allocating to this potentially turbulent market.



How do you think the following equity markets will perform in the next 1-3 years?

When it comes to investing, the UK has a significant "Home Bias"

- Despite the fact that UK direct investors expect global stock markets to perform strongly over the next few years, this optimism is not reflected in their investing behaviour.
- Three quarters of UK direct investors (74%) are looking to make the majority of their investments in 2018 in their home market, compared to only 7% who are looking to make significant investment into the US, 5% to Japan and 2% to China.
- That nearly one in ten investors do not know or are unsure of their favoured markets demonstrates how little investors are considering foreign equities compared to their own.

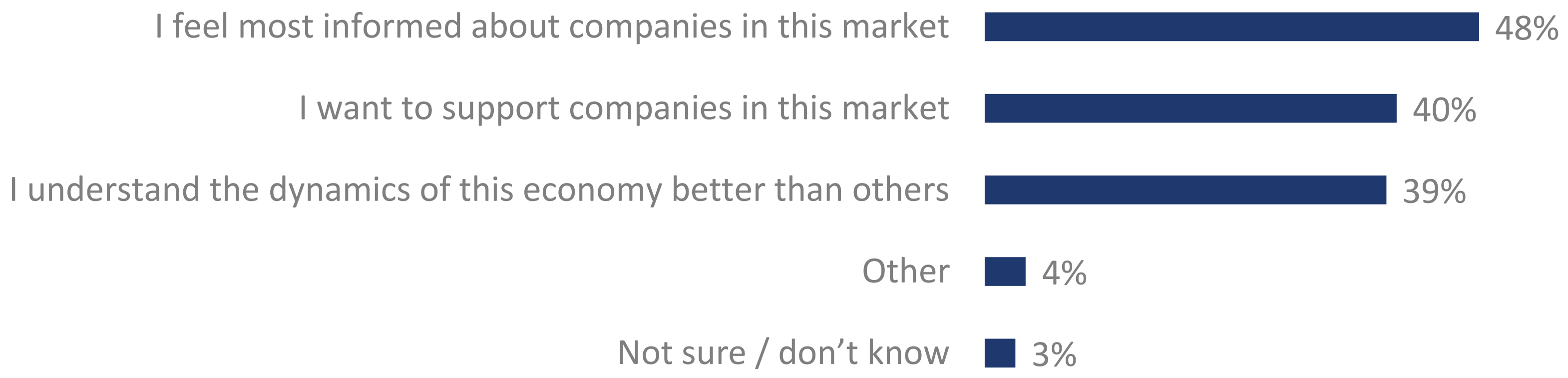


What impact do you think Brexit will have on the UK equities market?

Why does the Home Bias exist?

UK direct investors are more comfortable allocating money to economies and stocks with which they are immediately familiar, even if the data suggests there may be better returns elsewhere.

Reasons for investing in their preferred market



Why are you attracted to investing in your preferred market?

Brexit is challenging the Home Bias

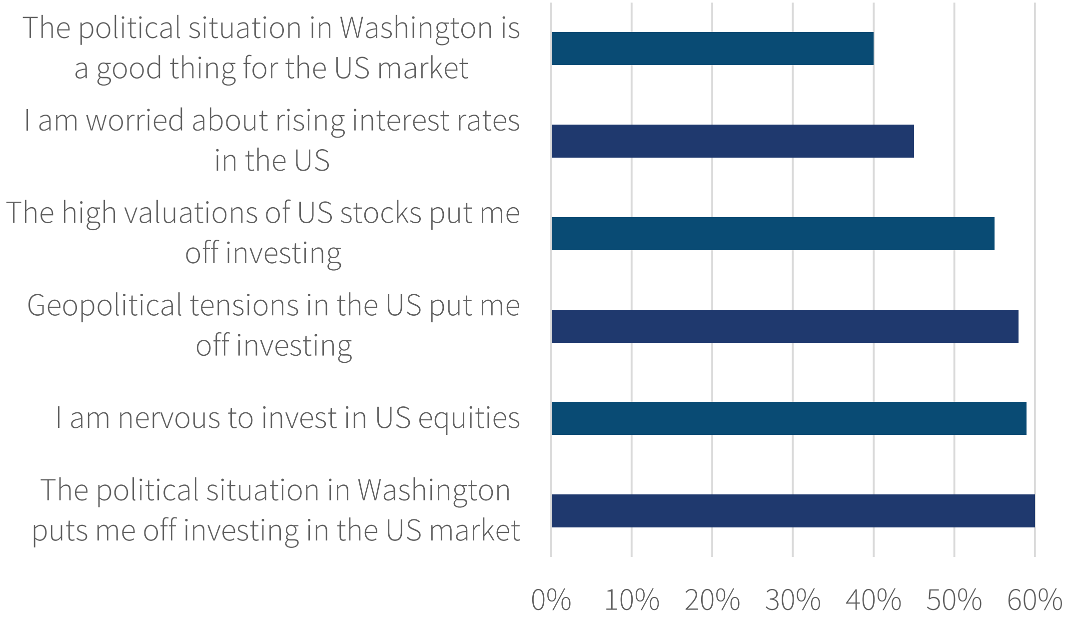
57% think Brexit will have a positive impact on the UK stock market

59% say Brexit has made them consider diversifying their portfolio away from UK stocks

What impact do you think Brexit will have on the UK equities market?

- Given the continued uncertainty around the UK's future relationship with the EU, investors are surprisingly positive about the outlook for UK equities.
- UK investors may have high hopes for UK stocks in the future but, conversely, are reviewing their exposure to the UK economy in the short term.
- Investors may be reactively or reflexively looking to diversify outside of UK shares simply in order to avoid Brexit turbulence rather than as part of a considered long-term diversification strategy.

Scepticism of US markets dissuades investors from diversification

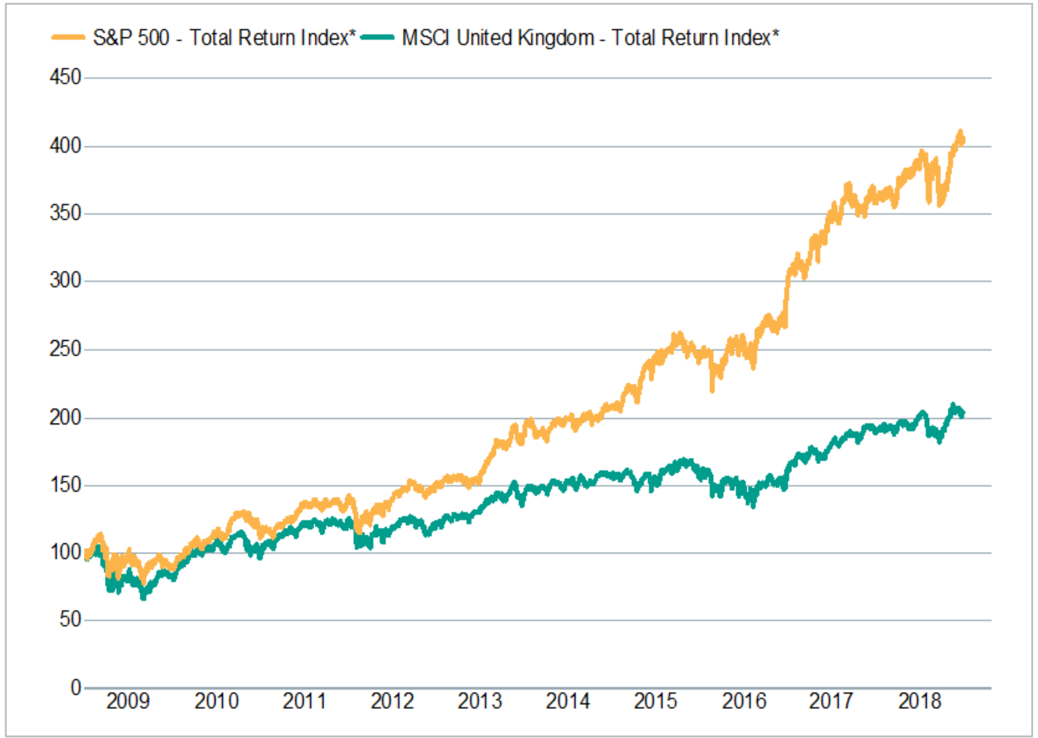


Percentage of respondents who agreed with the above statements

- UK investors have historically been nervous of buying into the US market due to perceived risks. The US remains the most established, liquid, and capitalised market in the world. With abundant financial information and strictly observed reporting regulations, it is also highly transparent. Similarly, transaction volume, market capitalisation, and the sheer number of listed companies make it a unique investment opportunity.
- However, despite the potential high returns from US stocks, political tension and rising interest rates have resulted in UK investors shying away from investing in American equities.
- Whilst political sabre-rattling can nomics and markets have had a larger impact on politics than the other way round.

The case for diversification

The US market has outperformed the UK market over the last 10 years



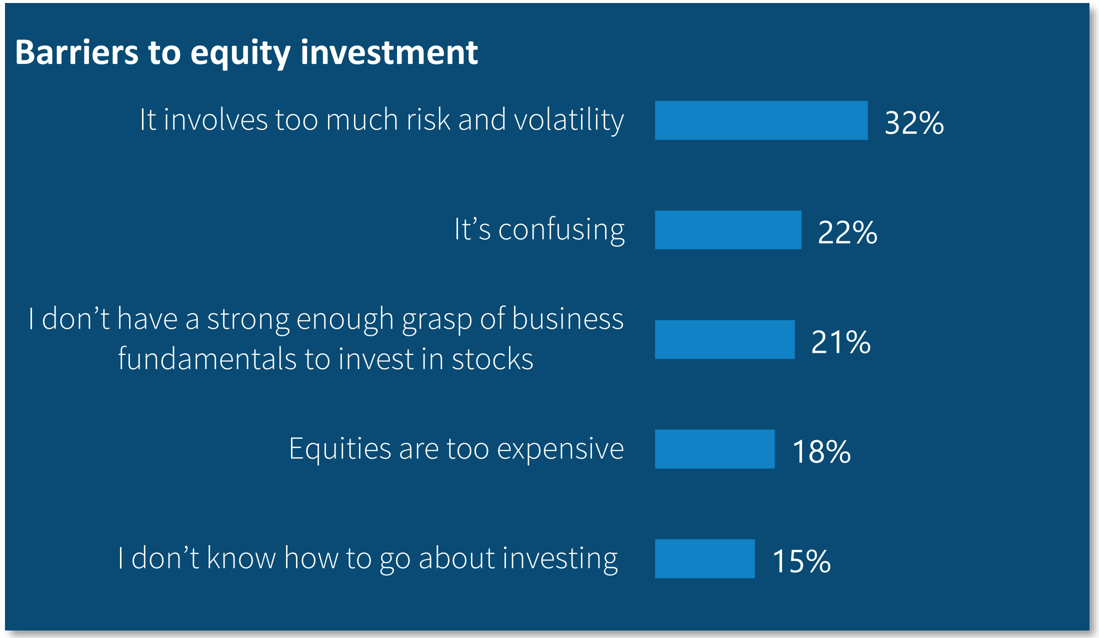
Source: FactSet, MSCI, Standard & Poor's, as of 7/3/2018. *Indexed to 100 = 7/2/2008 using the British pound as the base currency.

The performance of global markets differs year over year

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Germany 64.79%	Australia 31.95%	Emerging Markets 34.54%	Spain 50.17%	Emerging Markets 39.82%	Japan -29.11%	Emerging Markets 79.02%	Nordic Countries 26.04%	United States 1.99%	Germany 32.10%	United States 32.61%	United States 13.36%	Japan 9.90%	Canada 25.49%	Emerging Markets 37.75%
Spain 59.21%	Spain 29.56%	Canada 28.86%	Nordic Countries 40.41%	Germany 35.93%	Switzerland -29.90%	Australia 76.77%	Canada 21.21%	United Kingdom -2.52%	Nordic Countries 23.38%	Germany 32.40%	World 4.71%	Nordic Countries 3.01%	Australia 11.67%	France 29.90%
Emerging Markets 56.28%	Nordic Countries 28.45%	Japan 25.63%	Germany 36.79%	Canada 30.24%	United States -37.14%	Canada 57.36%	Emerging Markets 19.20%	Switzerland -6.05%	France 22.82%	Spain 32.30%	Canada 2.22%	United States 1.32%	United States 11.61%	Germany 28.49%
Canada 55.36%	Emerging Markets 25.95%	Australia 17.54%	France 35.42%	Australia 29.79%	Spain -40.06%	Nordic Countries 48.53%	Japan 15.59%	World -6.86%	Australia 22.30%	France 27.66%	Switzerland 0.66%	Switzerland 1.20%	Emerging Markets 11.60%	Spain 27.68%
Australia 51.36%	Canada 22.78%	Switzerland 17.13%	Emerging Markets 32.55%	Spain 24.69%	World -41.85%	Spain 45.07%	United States 15.45%	Australia -10.79%	Switzerland 21.47%	Switzerland 27.56%	Emerging Markets -1.82%	France 0.78%	World 8.48%	Nordic Countries 26.79%
Nordic Countries 44.66%	United Kingdom 19.57%	Nordic Countries 16.67%	Australia 32.51%	Nordic Countries 22.22%	France -42.71%	United Kingdom 43.37%	Australia 14.73%	Spain -11.16%	Emerging Markets 18.63%	Japan 27.35%	Australia -3.24%	Germany -1.27%	France 6.02%	World 24.62%
France 41.03%	France 19.22%	World 11.37%	United Kingdom 30.66%	France 14.03%	Canada -45.15%	World 35.41%	World 13.21%	Canada -12.16%	World 16.80%	Nordic Countries 26.46%	Japan -3.72%	World -1.84%	Germany 3.50%	Japan 24.39%
Japan 36.15%	Germany 16.66%	France 10.59%	Switzerland 28.23%	World 12.18%	Germany -45.50%	France 33.26%	Switzerland 12.86%	Japan -14.19%	United States 16.13%	World 23.44%	Spain -4.35%	United Kingdom -7.51%	Japan 2.73%	Switzerland 23.62%
Switzerland 35.00%	Japan 15.95%	Germany 10.52%	World 21.53%	United Kingdom 8.39%	United Kingdom -48.32%	United States 27.14%	Germany 9.32%	France -16.00%	United Kingdom 15.30%	United Kingdom 20.71%	Nordic Countries -4.75%	Australia -9.77%	United Kingdom -0.04%	United Kingdom 22.38%
World 34.63%	World 15.75%	United Kingdom 7.38%	Canada 18.35%	Switzerland 6.06%	Australia -49.96%	Switzerland 26.61%	United Kingdom 8.80%	Nordic Countries -17.11%	Canada 9.90%	Canada 6.44%	United Kingdom -5.35%	Emerging Markets -14.60%	Spain -0.48%	United States 21.90%
United Kingdom 32.06%	Switzerland 15.60%	United States 5.72%	United States 15.32%	United States 6.03%	Nordic Countries -53.01%	Germany 26.56%	France -3.23%	Germany -17.45%	Japan 8.36%	Australia 4.34%	France -8.99%	Spain -15.39%	Nordic Countries -3.08%	Australia 20.15%
United States 29.11%	United States 10.71%	Spain 4.92%	Japan 6.33%	Japan -4.14%	Emerging Markets -53.18%	Japan 6.39%	Spain -21.13%	Emerging Markets -18.17%	Spain 4.73%	Emerging Markets -2.27%	Germany -9.76%	Canada -23.59%	Switzerland -4.04%	Canada 16.90%

Source: Schwab Asset Class Quilt TM, Global Market Performance

Despite optimism around global stocks, investors are nervous about buying equities



What if anything puts you off buying equities?

- As well as a home bias, the UK may well have an 'asset class bias'. The UK sees far more capital allocation to bonds than stocks; according to the Investment Association, £14 billion of retail investment flowed into fixed income products, compared to £10 billion which flowed into equities in 2017*.

- This data is mirrored by our research. The majority of investors (73%) say that there is at least one thing which puts them off investing in equities, despite the fact that equities are the best long-term way to create wealth and avoid erosion of returns due to inflation.

- Unlike fixed income, equity investment offers higher rewards but also higher risk. If investors do choose to allocate their capital to equities, they may be inclined to hedge that risk by investing in stocks they know and recognise – namely, UK companies – thereby entrenching the home bias even further.

How to overcome the Home Bias?

Economic background and associated risks

- A more challenging investing environment requires a more disciplined investing approach
- In a time of political and economic uncertainty, international diversification is a prudent move
- A home bias investment position is likely t limit the growth potential of portfolios, whilst concentrating risk

Achieving portfolio diversification

- Look for markets which possess economic dynamism and growth opportunities, liquidity and range of companies
- Pay attention to economic fundamentals rather than headlines
- Remember that asset class diversification and regional variety are crucial for robust portfolio selection
- Recognise any structural bias in a portfolio’s composition

Appendix

Overall methodology

An online survey conducted a short survey to understand the perceptions of investors in the UK and to validate the hypothesis of home bias (i.e. favouring investing in the UK over other markets), and their attitude to investment and the equities market. We interviewed 201 UK investors with 25K disposable savings in April 2018.

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