

Income investing in a low interest rate world

January 2019

Investors hope to achieve an average minimum income of 10.1% from their investments, a major new global study has found.

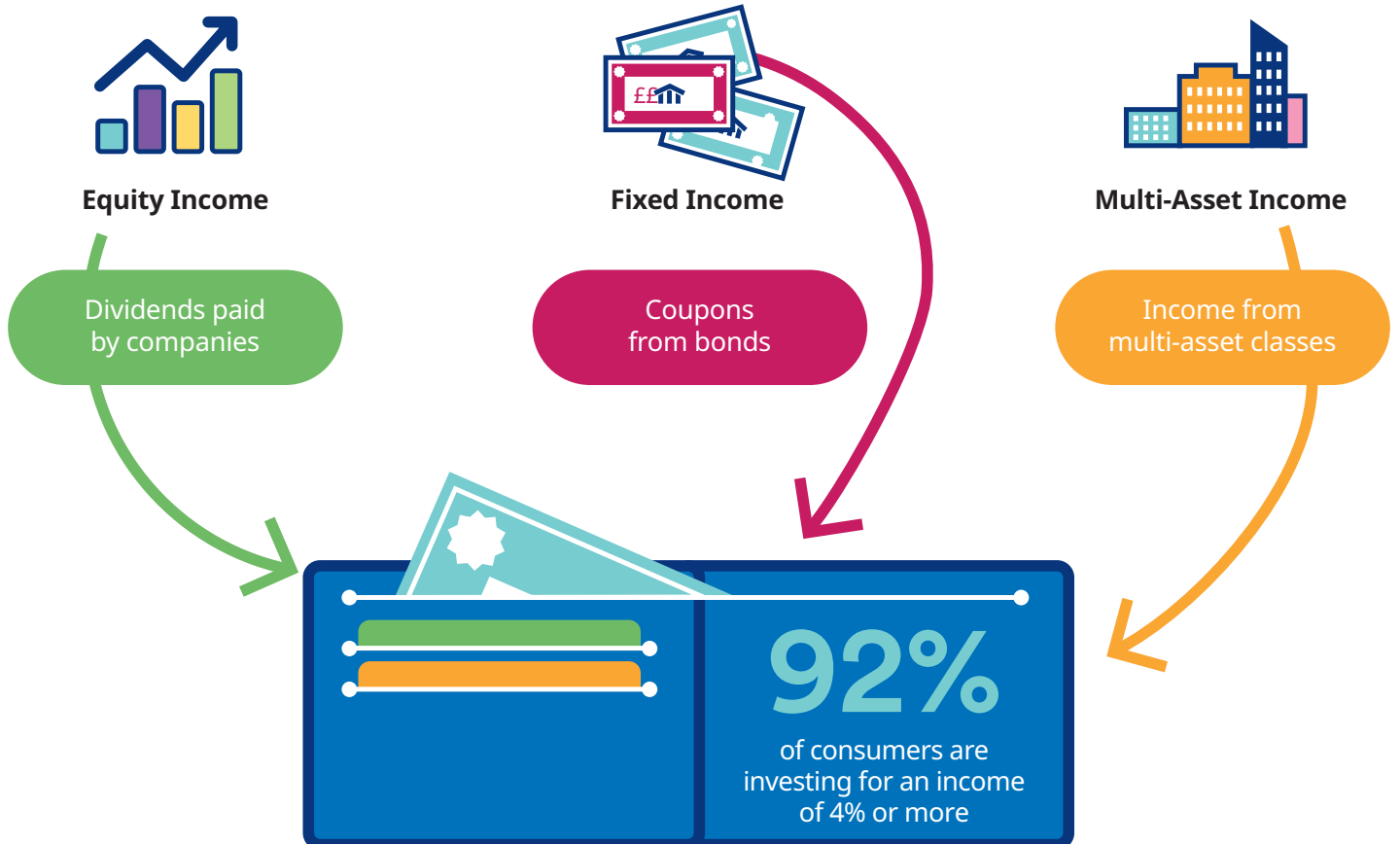
The figure, which represents income from dividends and interest payments on investments, marks an increase from 9.1% two years ago. It is also substantially higher than the income available on typical portfolios.

The Schroders Global Investor Study (GIS) 2018 covered a range of issues, revealing the assets held by investors and the hopes and expectations for what they might achieve. It canvassed the views of more than 22,000 investors in 30 countries around the world.



Income explained

92% of consumers have told us that they are investing for an income of 4% per annum or more. Income can be accessed in a variety of ways.



Traditional sources no longer offer attractive income

Investors seeking income are facing a different investment landscape now to in the past.

Gone are the days of savings accounts offering high rates of interest, and safe government bonds with inflation-beating yields. Investors seeking higher real returns (i.e. returns that outpace inflation) instead may need to turn to different, higher-risk asset classes, such as corporate bonds or equities.

However, choosing which asset class to invest in, and when, can be a complicated decision and managing a portfolio is a time-consuming business.



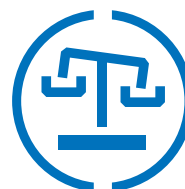
Past

Traditional sources of income like Bank deposits and government bonds no longer offer enough income.



Present

Interest rates are likely to stay lower for longer making the search for income difficult.



Future

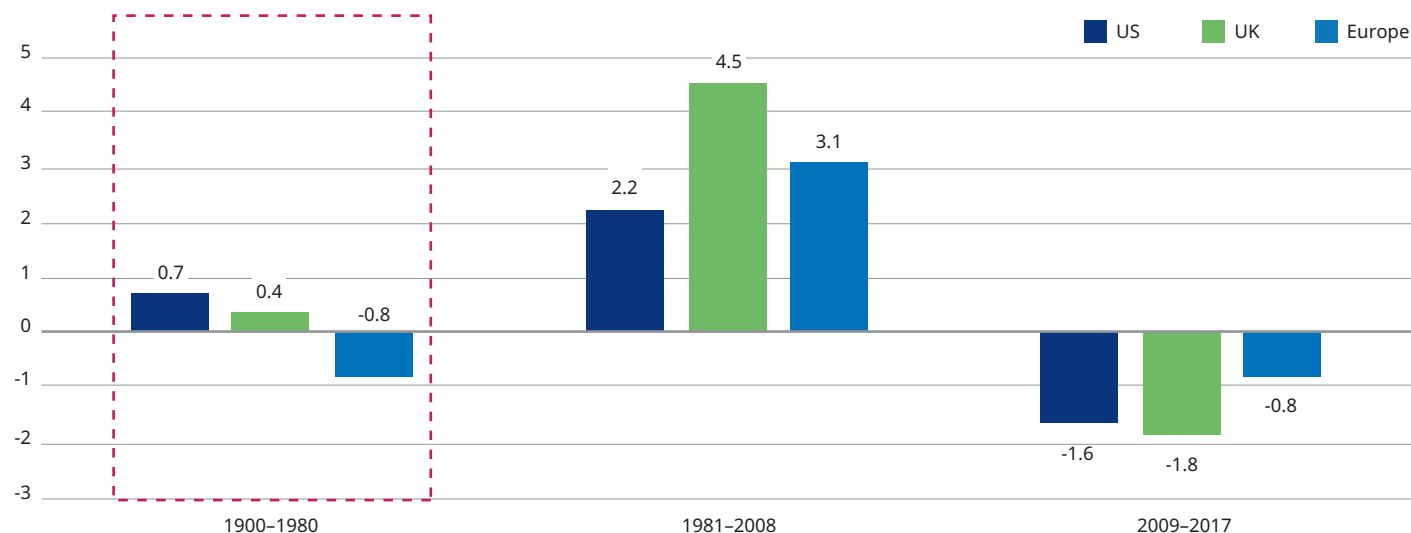
Investors seeking higher income need different solutions than in the past, requiring longer investment horizons and higher risk.

In the past investors could earn decent income without risking their capital. Today, investors can still earn attractive income but they **need to take risk**, which is stressful.

What is the new normal for interest rates?

Interest rates will be higher than today's exceptionally low levels, but are still likely to be relatively low by the standards of pre-2008 crisis levels. Quantitative estimates of where interest rates will settle in the long run vary, but recent comments from policymakers¹ suggest the equilibrium level² for the US and UK is around 0.5% in real terms, meaning 0.5% above the rate of inflation.

Average annual % real interest rate (short-term interest rate minus inflation)



Source: Dimson, Marsh & Staunton, Credit Suisse Global Investment returns Yearbook 2018.

The equilibrium rate will vary from market to market but taking a longer run perspective, the new level would be similar in our view to the average between 1900 and 1981, some 1% to 3% below pre-crisis levels.

1 See: The future fortunes of R-star: are they really rising? John C. Williams FRBSF, 21 May 2018 and the Bank of England Inflation report, August 2018.

2 The equilibrium rate is the interest rate that would pertain when the economy is at equilibrium, meaning that unemployment is at the natural rate and inflation is at the 2% target.

Why Schroders for income?

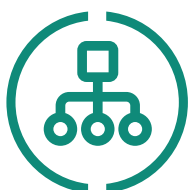
We recognise the challenges income investors face in today's market and package investments into solutions that meet our clients' needs.

Schroders has the breadth and expertise to access income bearing investment instruments around the world.



Higher yield

Our income capabilities provide investors with a diverse range of income products yielding 3%–7%³ per annum.



Choice

To meet your clients' income expectations, you will almost certainly have to seek solutions from further afield than in the past. This means drawing from a wider range of investments, such as equities, corporate bonds, property and multi-asset solutions. As a result, a significantly higher level of expertise is now required.

We have a range of over 30 income solutions across all asset classes offering different investment journeys.



Innovation

We have the resources to undertake continuous product development and a strong history of launching innovative income solutions such as the Maximiser product range.



Income expertise

We can help. With our expertise in this area, we have delivered income for thousands of investors over many years. Our team of over 700 investment professionals is able to search global markets for the very best opportunities. Our skill is to analyse the value and risk of these opportunities to meet income targets consistently.

³ The yield range quoted is not guaranteed and may not be achieved. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested.

At a glance – Income at Schroders

Over

30

income solutions

Diverse range of income products yielding

3%–7%

per annum³

Over

700

investment professionals based in

27

 countries

Manage over

\$40bn

in income-orientated products

Source: Schroders as at 31 December 2018.



Our income expertise

Our wide range of income funds and portfolios is designed to address many of your clients' income needs. Whether this is through equity income funds, fixed income products or multi-asset solutions we have options for you.

For clients with a long-term horizon, this could mean offering higher yields and capital return potential, but with the trade-off of greater volatility. Or, for clients with a shorter-term objective, it could mean offering lower yields with lower risk of drawdown.

Income targets not asset classes

Different journeys and risks

3-4%	4-5%	6-7%
■ Asia Equity Yield	■ Real Estate Equity Income	■ Asia Dividend Maximiser
■ European Equity Yield	■ US Dividend Maximiser	■ Europe Dividend Maximiser
■ Global Equity Yield	■ Asia Asset Income	■ Global Dividend Maximiser
■ UK Equity Yield	■ China Asset Income	■ UK Income Maximiser
■ Multi-Asset Growth and Income	■ Emerging Multi-Asset Income	■ Cat ("Catastrophe") Bond
■ Asia Bonds	■ Global Multi-Asset Income	■ China Bonds
■ RMB ("Renminbi") Bonds	■ Mixed Distribution FOFs ("Fund of Funds")	■ Emerging Market Bonds
■ Securitised Credit	■ Asia Credit Opportunities	■ Global High Income
■ Sterling Corporate Bond	■ Euro High Yield	■ Global High Yield
■ Strategic Credit	■ Global Credit Income	■ India Bonds
■ US Bonds	■ Global Multi Credit	

■ Equities ■ Multi-Asset ■ Fixed Income

Source: Schroders. The income targets shown are for illustrative purposes only and do not necessarily reflect the objectives of any Schroders funds or products. There is no guarantee income targets can be achieved.

Important information: Unless otherwise stated, all data is sourced from Schroders as at 31 December 2018. The views and opinions contained herein are those of the authors as at the date of publication and are subject to change due to market and other conditions. Such views and opinions may not necessarily represent those expressed or reflected in other Schroders communications, strategies or funds. This document is intended to be for information purposes only. The material is not intended as an offer or solicitation for the purchase or sale of any financial instrument or security or to adopt any investment strategy. The information provided is not intended to constitute investment advice, an investment recommendation or investment research and does not take into account specific circumstances of any recipient. The material is not intended to provide, and should not be relied on for, accounting, legal or tax advice. Any references to securities, sectors, regions and/or countries are for illustrative purposes only. Information herein is believed to be reliable but Schroders does not represent or warrant its completeness or accuracy. No responsibility or liability is accepted by Schroders, its officers, employees or agents for errors of fact or opinion or for any loss arising from use of all or any part of the information in this document. No

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