

UBS Annual Reserve Manager Survey 2020

26th Reserve Management Seminar

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26th Annual Reserve Management Seminar Survey

With over 20 years of comprehensive surveys, we believe the following data is among the most authoritative depictions of official reserve management activities available. This year's survey was conducted during July – September 2020 and collected responses from over 30 central banks from all regions globally. Results were presented at the 26th UBS Reserve Management Seminar, held virtually from September 28-30.

- In the face of the ongoing COVID-19 crisis, central banks and other sovereign institutions continued adjusting their reserve management practices to meet their goals while keeping a close eye on risks. Whilst a shift towards more **defensive assets** is visible in 2020, the “secular” trend towards more **diversification** remains intact with equities now being an eligible asset class at 43% of central banks, a new all-time high.
- Top concerns related to the investment of FX reserves are **lower/negative yields** mentioned by **69%** of respondents. Inflation and rising US interest rates are a concern for only **6%** of survey participants. **19%** of respondents think that the US FED could turn to **negative interest rates** if needed. Interest rates are expected to remain low for a prolonged period of time.
- When it comes to more general concerns affecting the global economy, **trade wars** are still the #1 risk, unchanged from the previous year. Risks coming from political developments in the US moved up to second place and were mentioned by 72% of respondents, up from 30% in the previous year. Regarding the **COVID-19 crisis** specifically, 42% of participants expect further disruptions in major economies including new shutdowns until a vaccine is found.
- The **global dominance of the USD** remains intact despite falling yield differentials. Demand for **euro** denominated assets remains relatively low. The **RMB** continues its “marathon” of becoming a key reserve currency with the average long-term target allocation to the Chinese currency increasing to 5%.
- **50%** of surveyed institutions reduced risks in their portfolios during the downturn in March. Of those central banks already invested in equities, **40%** rebalanced (bought) during the decline.

Source: UBS Annual Reserve Manager Survey, results as of September 2020.

26th Annual Reserve Management Seminar Survey

Highlights from our 2020 survey: The impact of the COVID-19 crisis

In a special section of this year's Reserve Management Seminar Survey, we explored how the ongoing COVID-19 crisis has affected reserve managers.

- While **58%** of participants indicated that the crisis only had a “moderate” impact on their **investment activities**, 35% experienced severe (19%) or very severe (16%) consequences.
- A **multi-year global economic slowdown** is seen as the key longer-term risk resulting from the crisis, followed by **unmanageable debt levels**.
- When it comes to the global economic impact of the crisis, the vast majority of participants expects global GDP to contract by **more than 6%** for full-year 2020, followed by a **U-shaped recovery**.
- A high number of participants (**90%**) believe that Developed Economies will be better positioned in a post-Corona world.
- **Half** of the participants indicated that they **reduced risk** in their portfolio during the sell-off in March of this year. Among those that were already invested in equities, **40%** rebalanced/bought equities during that downturn.
- For **16%** of participants, the crisis has increased their interest in **alternative asset classes** (e.g. market-neutral hedge funds). Finally, **75%** believe that the COVID-19 crisis will further support the trend towards ESG investing.

Source: UBS Annual Reserve Manager Survey, results as of September 2020.

26th Annual Reserve Management Seminar Survey

Highlights from our 2020 survey: Macro and economic issues

- For the third year in a row, **trade wars** ranked as the top concern among survey participants. For the second year in a row, the fear of a **global economic slowdown** with a return of **deflationary trends** ranked second. Political developments in the US now also tie second with 72% of participants concerned, while only 30% saw this as a key risk in the previous year.
- Fears of a hard landing in China have fallen dramatically from third place in the previous year and are now seen as a key risk by only **6%** of participants, reflecting the solid economic recovery and the ability of the Chinese to control the pandemic during the survey period.
- When it comes to topics that are specifically related to the investment of FX reserves, the top concern which **69%** of respondents cited is **lower and negative yields** in the fixed income markets. This was already the top concern in the previous year but was only mentioned by 50% of participants as concerns were less concentrated in 2019. Rising US interest rates are now only a concern for 6% of survey participants.
- **44%** of participants expect the US FED to raise interest rates only in 2023 and a further **22%** only later than 2023. In contrast, a majority of **61%** of participants expect the ECB to only raise rates later than 2023.
- **19%** of respondents think that the US FED could turn to negative interest rates if needed.

Source: UBS Annual Reserve Manager Survey, results as of September 2020.

26th Annual Reserve Management Seminar Survey

Highlights from our 2020 survey: Asset Allocation

- The global trend towards **FX reserve diversification** is continuing but the survey data hints to a **slowdown** in the overall speed as more conservative instruments (supranationals, sovereign Eurobonds or covered debt) were more frequently added on a net basis when compared with the previous year.
- With central banks still diversifying away from more conservative fixed income assets, **Passive Equity, Corporates, EM Local Currency Debt** and **Gold** were the most frequently mentioned asset classes when it comes to expected net increases in the coming year.
- While only a small number of sovereign institutions indicated that they were buying **Green Bonds** in the past year, a high number of **37%** of participants expect to do so in the coming year. This shows that the interest of central banks for ESG strategies is still rising fast as shown in previous surveys.
- In terms of **eligible asset classes**, the number of respondents that indicated that **equities** are an allowed asset class at their institution increased to a new all-time high of **43%** compared with 39% in the previous year.
- Overall, **50%** of participants altered their **Strategic Asset Allocation** over the last 12 months and a further **56%** indicated that they wish to implement further changes to their asset allocation in the next 12 months.
- **13%** of respondents indicated that they recently moved or considered moving passively-managed assets to **active** management strategies. **91%** responded that **CLOs** are not an eligible asset class at their institution and that they are also not planning to make them eligible. Finally, **41%** of respondents indicated that they integrate **gold** holdings in the SAA of their reserve management portfolio, while 59% are treating gold separately.

Source: UBS Annual Reserve Manager Survey, results as of September 2020.

26th Annual Reserve Management Seminar Survey

Highlights from our 2020 survey: FX Reserves

- **90%** of central banks consider their current level of reserves as **adequate**, up from 84% in the previous year.
- **87%** of the respondents say that their level of reserves **increased or remained stable** over the last 12 months, signaling that the period of stabilization in global FX reserves that we observed last year continued.
- Central banks use several measures to determine the **adequacy** of their reserves, with the majority measuring against **months of imports**.
- **58%** of respondents split their assets in different **tranches** to better tailor their asset allocation.
- **Five** surveyed entities have recently considered setting up a **Sovereign Wealth Fund**, up from three in the previous year.

Source: UBS Annual Reserve Manager Survey, results as of September 2020.

26th Annual Reserve Management Seminar Survey

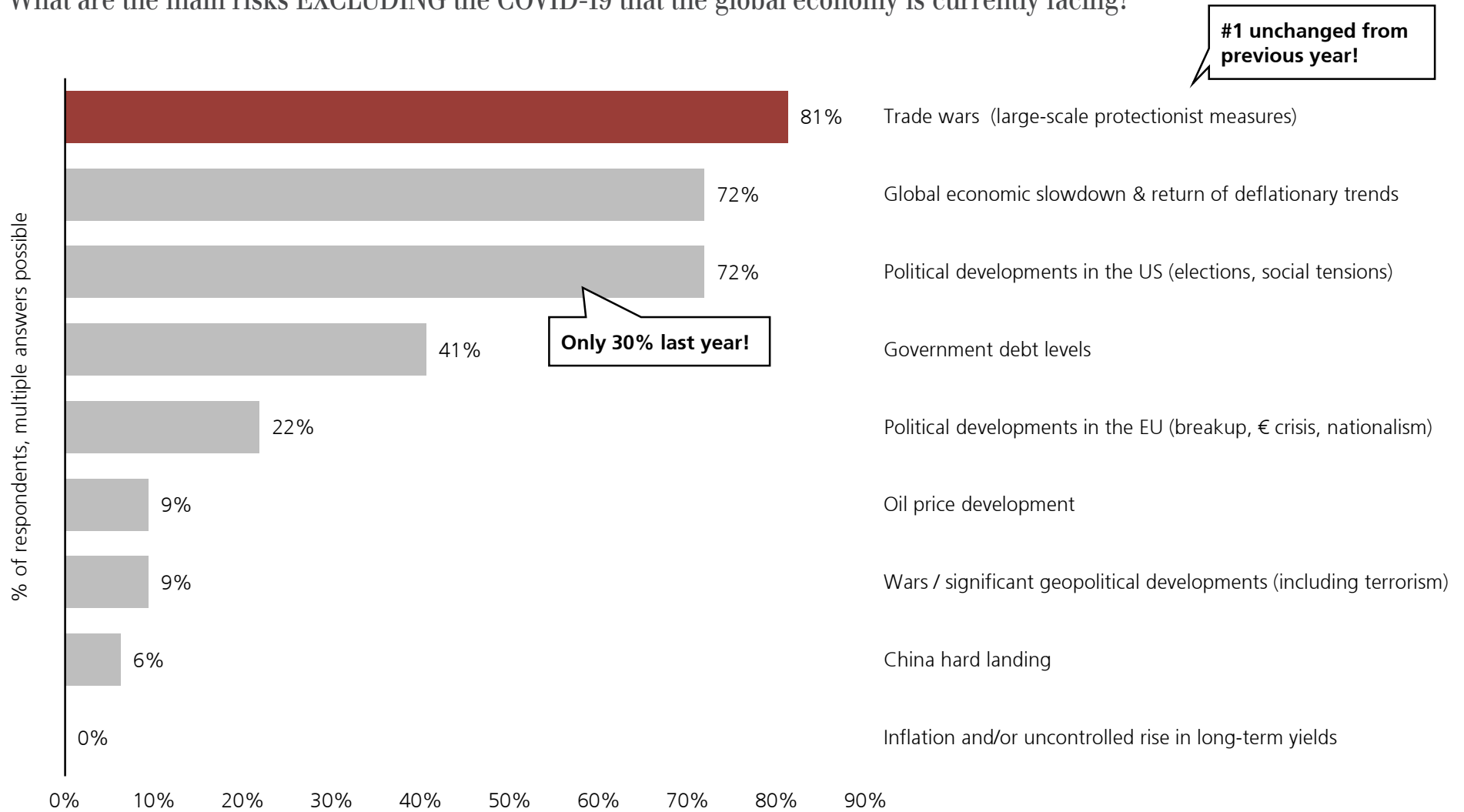
Highlights from our 2020 survey: Currency management

- The average share of **USD holdings** among all the participants was **67%**, down from 71% in the previous year.
- The **US dollar** and the **Renminbi** were the most frequently mentioned currencies when it comes to the question which currencies were added by participating sovereign institutions during the past year.
- After a more positive trend over the past two years, the **Euro** was once again the biggest net loser (British Pound in 2019) in the currency composition of participating institutions. The **US dollar** and the **Renminbi** are the most frequently mentioned currencies that sovereign institutions expect to add in the future.
- Overall, **83%** of survey respondents answered that they are invested, or consider investing, in the **Renminbi**, another increase from 77% in the previous year.
- The average **long-term (10-year) target allocation to the RMB** increased to **5.0%** from 4.2% in the previous year, which implies further growth from levels currently reported to the IMF. **Four** participants indicated that they introduced the RMB as a new currency in their reserves.

Source: UBS Annual Reserve Manager Survey, results as of September 2020.

Main concerns impacting the global economy

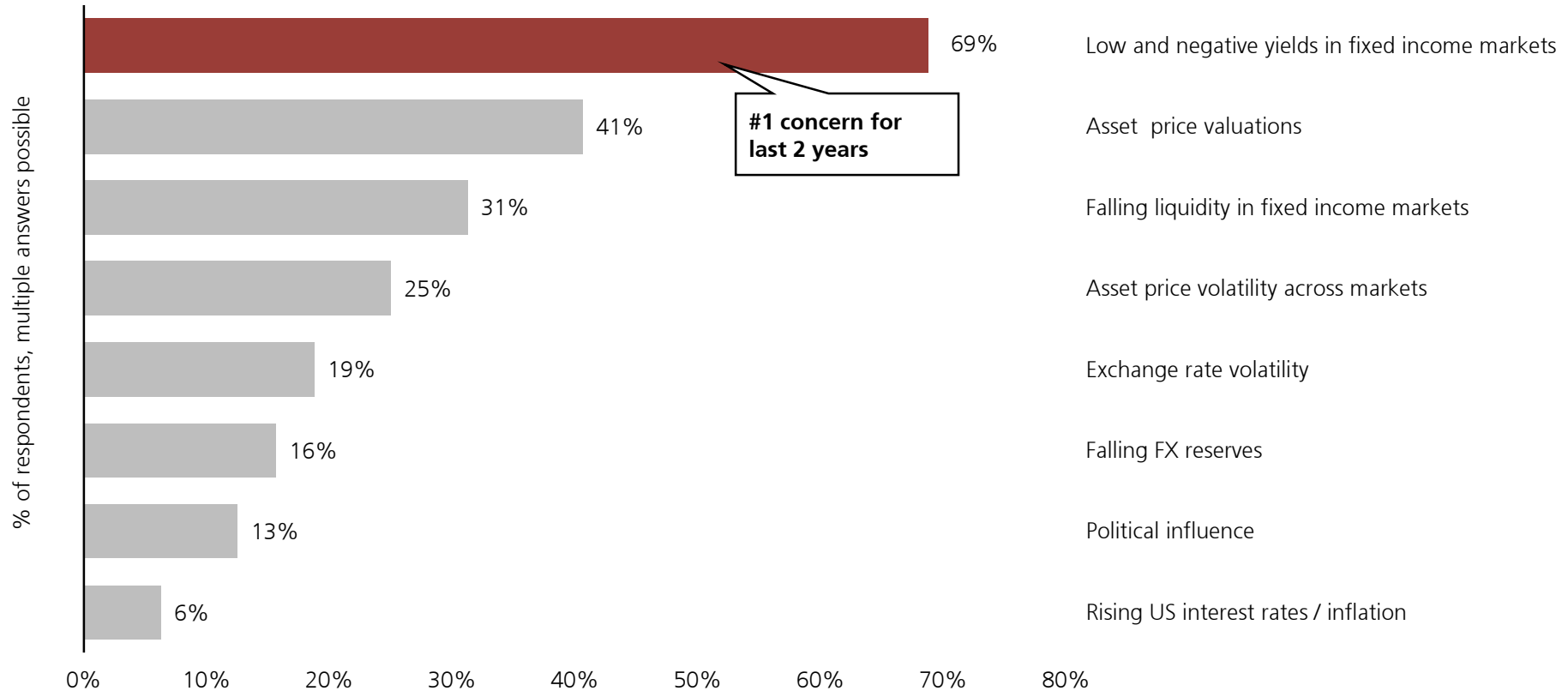
What are the main risks EXCLUDING the COVID-19 that the global economy is currently facing?



Source: UBS Annual Reserve Manager Survey, results as of September 2020.

Main concerns impacting the levels of FX reserves

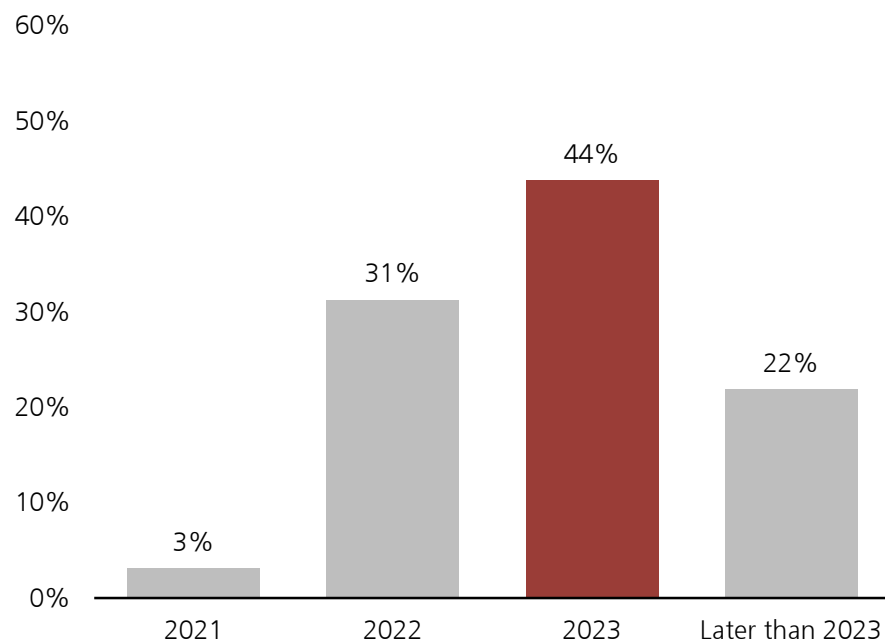
What are your main concerns EXCLUDING the COVID-19 when it comes to the investment of FX reserves?



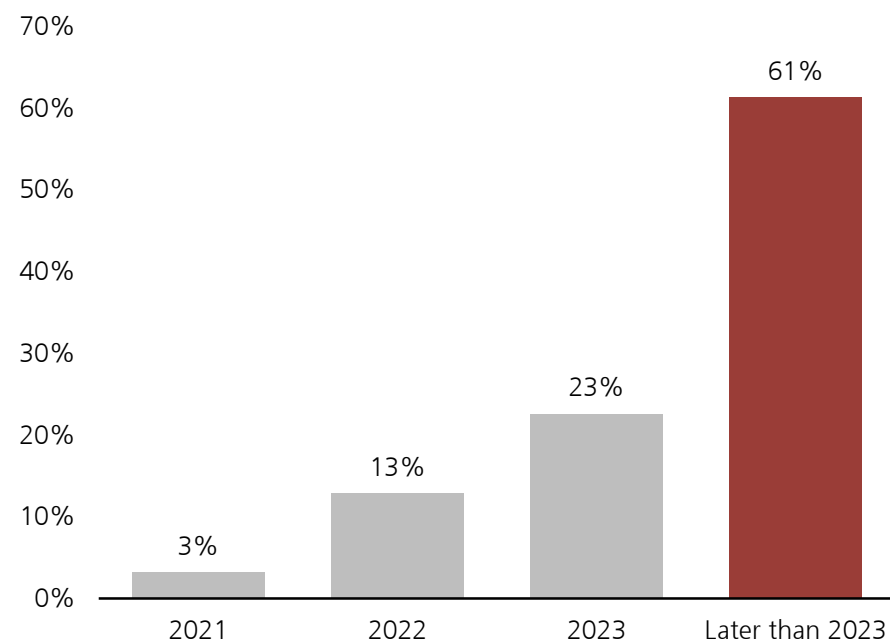
Source: UBS Annual Reserve Manager Survey, results as of September 2020.

Timing the turning point in the interest rate cycle

By when do you expect the FED to raise interest rates?



By when do you expect the ECB to raise interest rates?



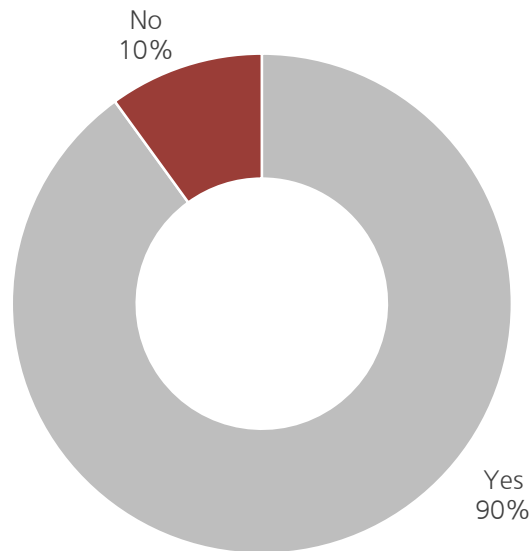
Will the Fed turn to negative interest rates if needed?

- **19%** of survey participants think that the US FED will adopt negative interest rates if needed

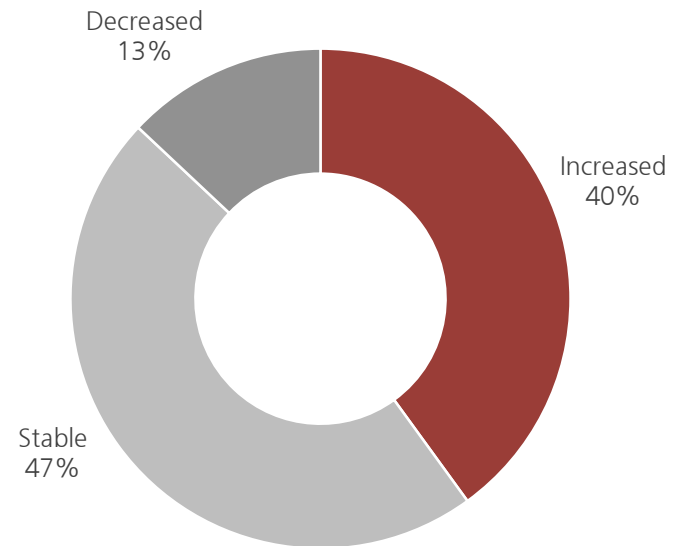
Source: UBS Annual Reserve Manager Survey, results as of September 2020.

Level and adequacy of FX reserves

Do you see your current level of FX reserves as adequate?



How has the amount of your FX reserves changed over the last 12 months?



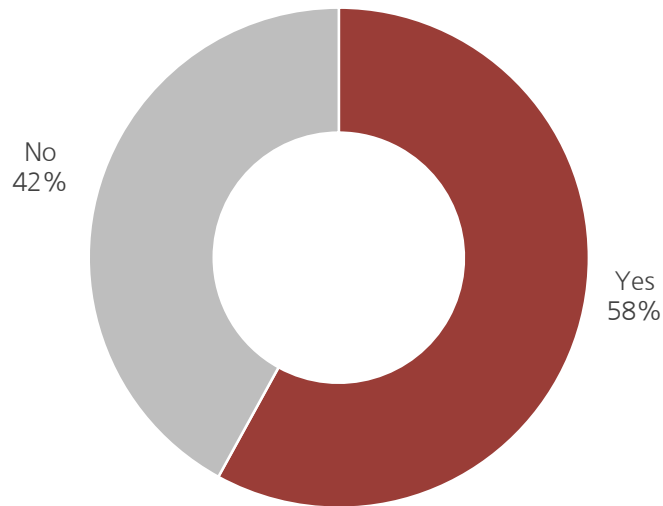
How do survey participants assess their FX reserves?

- The percentage of survey participants that see their level of FX reserves as **not** adequate has **decreased** to **10%** from 16% last year.
- The number of participants who reported increased FX reserves is **down** to **40%** from 45% last year.
- The majority of participants uses several measures to determine the adequacy of their reserves, but the majority is measuring against months of imports (most frequent answer with 79%), short-term external debt as well as monetary aggregate.

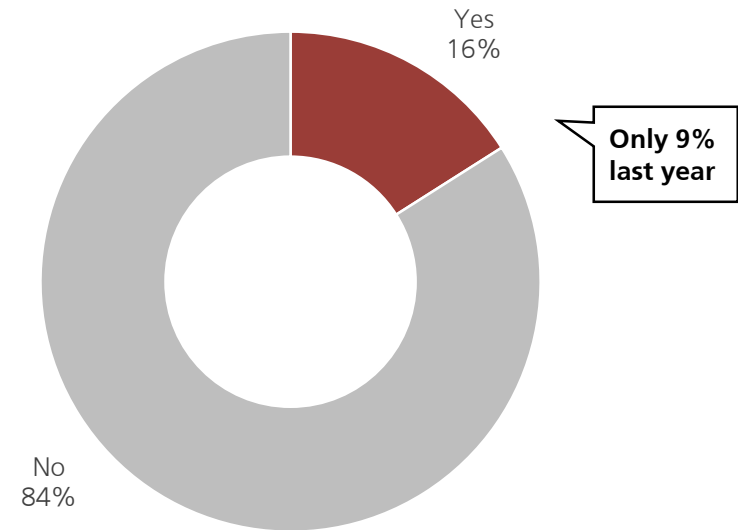
Source: UBS Annual Reserve Manager Survey, results as of September 2020.

Tranching and institutional setup

Do you segment / tranche your reserves (e.g. in liquidity, liability and saving/total return/wealth portfolios)?



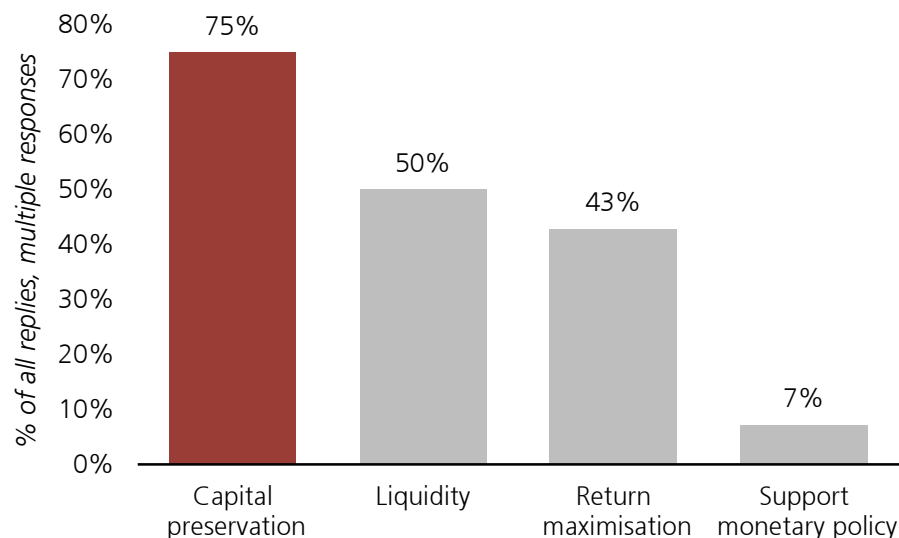
Has your institution recently considered setting up a separate entity (e.g. Sovereign Wealth Fund) to manage assets?



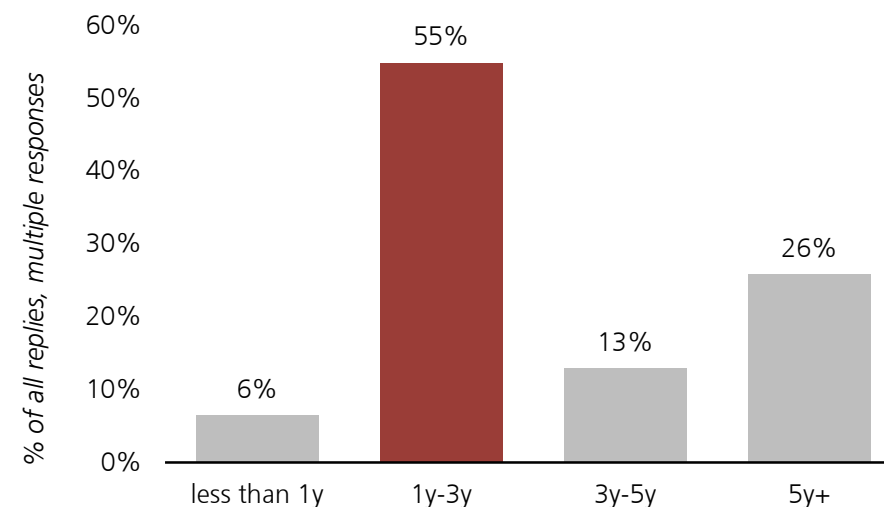
Source: UBS Annual Reserve Manager Survey, results as of September 2020.

Key asset allocation objectives

What are your primary investment objectives?



What is your investment horizon?



- Overall, **50%** of participants altered their Strategic Asset Allocation over the last 12 months (previous year: 45%) and a further **56%** (previous year: 45%) indicated that they wish to implement further changes to their asset allocation in the next 12 months.
- Only **3%** of respondents indicated that they consider investing in illiquid asset classes (for example infrastructure or real estate) to enhance returns, compared with 24% in the previous year.
- **13%** responded that they recently moved or considered moving passively-managed assets to active management strategies compared with 19% in the previous year.
- **91%** responded that CLOs are not an eligible asset class at their institution and that they are not planning to make them eligible.
- **41%** of respondents indicated that they integrate gold holdings in the SAA of their reserve management portfolio, while 59% treat gold separately.

Source: UBS Annual Reserve Manager Survey, results as of September 2020.

Trends in approved asset classes

Which of the following instruments are approved at your institution?

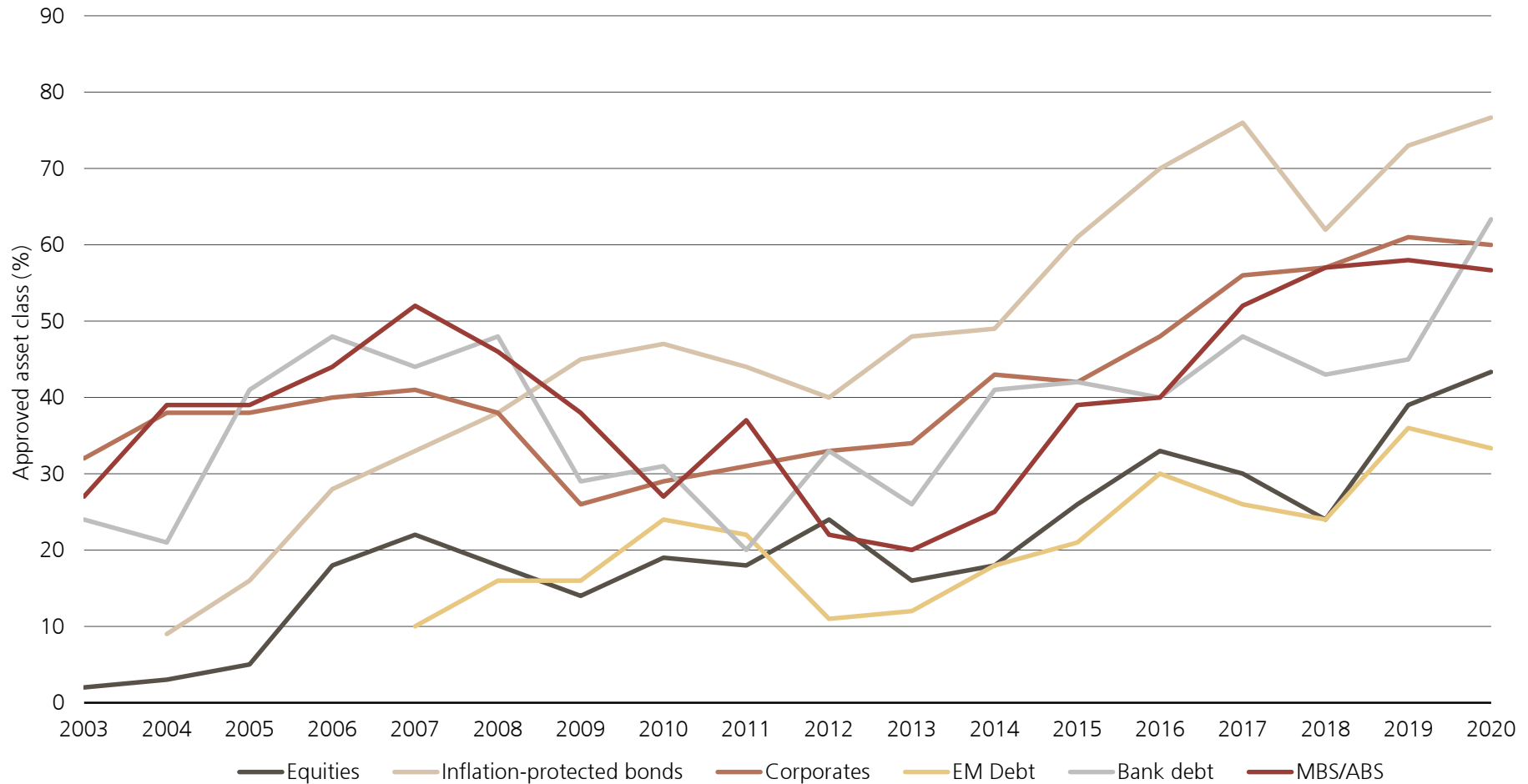
Asset Class	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Supranationals	100	94	95	93	90	89	94	82	87	76	70	68	70	72	70	74	63	62	60	62	54	63	60
Sovereign eurobonds	100	85	86	89	93	92	90	78	73	64	68	65	66	66	64	60	60	58	58	61	60	66	66
US agencies	93	85	76	74	83	74	49	54	69	55	65	71	84	86	84	82	76	78	75	71	62	68	54
Inflation protected bonds	77	73	62	76	70	61	49	48	40	44	47	45	38	33	28	16	9	na	na	na	na	na	na
Covered bonds	50	45	43	48	53	34	43	40	45	30	38	40	53	58	50	48	44	38	35	37	34	28	12
Bank debt	63	45	43	48	40	42	41	26	33	20	31	29	48	44	48	41	21	24	21	26	20	16	4
Corporates	60	61	57	56	48	42	43	34	33	31	29	26	38	41	40	38	38	32	28	22	20	15	10
MBS / ABS	57	58	57	52	40	39	25	20	22	37	27	38	46	52	44	39	39	27	22	17	19	12	2
Emerging Market debt	33	36	24	26	30	21	18	12	11	22	24	16	16	10	na	na	na	na	na	na	na	na	na
Equities	43	39	24	30	33	26	18	16	24	18	19	14	18	22	18	5	3	2	na	na	na	na	na
Private Equity	7	18	5	19	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Hedge Funds	0	15	0	11	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na

In percent of total respondents, multiple responses possible.

Source: UBS Annual Reserve Manager Survey, results as of September 2020.

Trends in approved asset classes

Which of the following instruments are approved at your institution?



In % of total respondents, multiple responses possible.

Source: UBS Annual Reserve Manager Survey, results as of September 2020.

Key changes in asset allocation

Which of the following instruments have you increased/decreased in your portfolio in the past year?
Which of the following instruments would you want to own more or less over the next year?

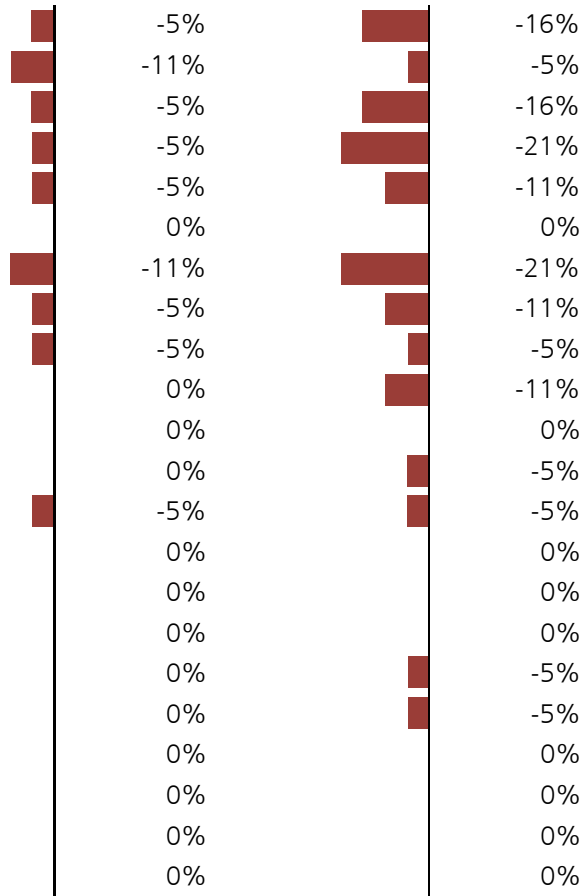
More interest in conservative products this year

% of respondents that plan a **decrease** in the **coming year**

% of respondents that reported a **decrease** in the **past year**

% of respondents that reported an **increase** in the **past year**

% of respondents that plan an **increase** in the **coming year**



Instrument	% of respondents that reported an increase in the past year	% of respondents that plan an increase in the coming year
Supranationals	37%	37%
Sovereign eurobonds	32%	32%
US agencies	21%	16%
Inflation-protected bonds	5%	21%
Covered bonds	26%	26%
Green Bonds	5%	37%
Bank debt	5%	11%
Corporates	16%	21%
ABS	5%	5%
MBS (RMBS, CMBS, CMO)	21%	5%
CDO (CBO, CLO)	0%	0%
EM hard currency debt	0%	11%
EM local currency debt	21%	16%
Equities passive	21%	21%
Equities active	5%	0%
Multi-asset products	0%	0%
Gold	5%	16%
Infrastructure (equity & debt)	5%	0%
Commodities (excl. Gold)	0%	0%
Real Estate	0%	0%
Hedge Funds	0%	0%
Private Equity	0%	0%

Strong interest in Green Bonds

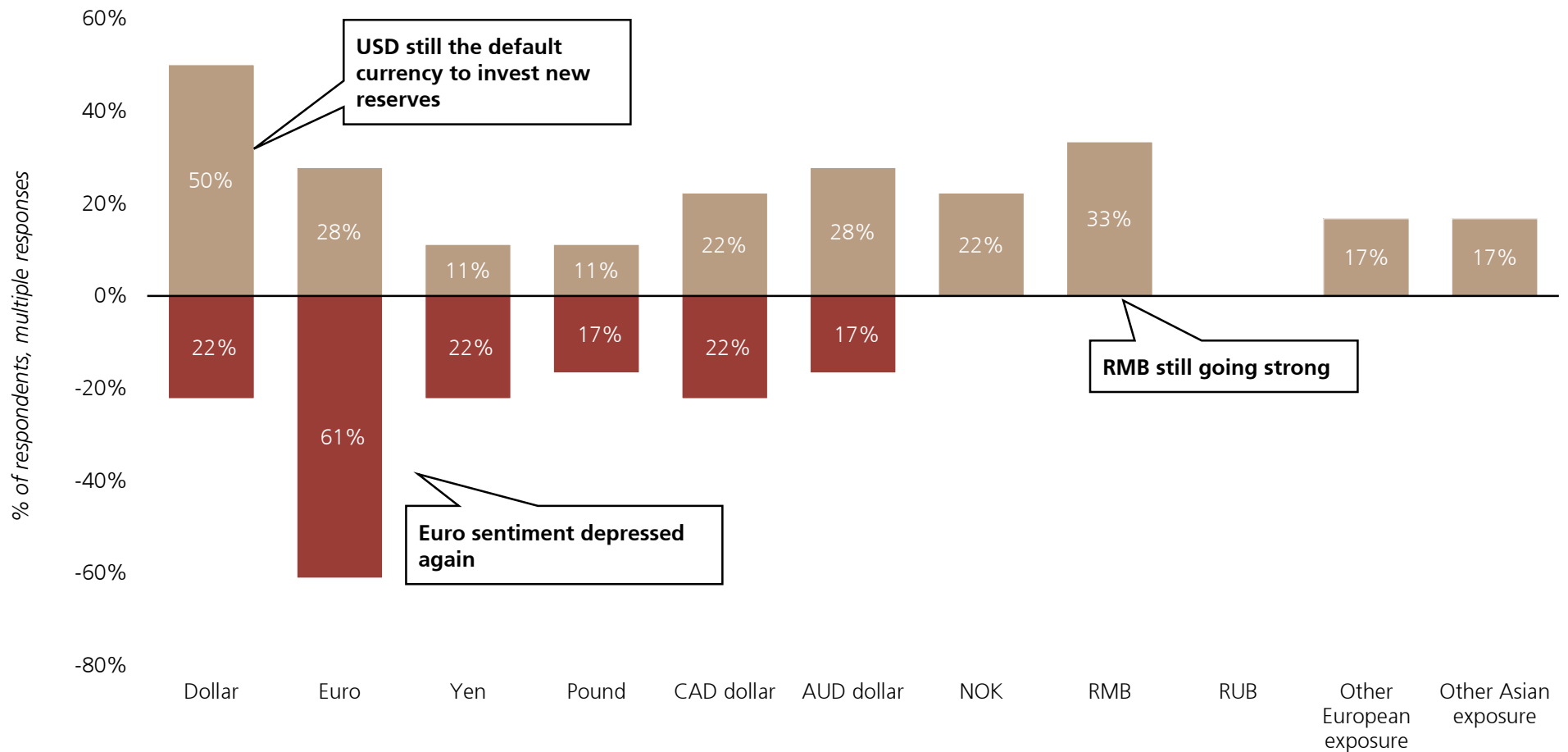
No interest yet in Real Estate

Source: UBS Annual Reserve Manager Survey, results as of September 2020.

Currency focus: Changes in 2019/20

Indicates the % of respondents that altered their allocations to each currency up or down.

How have survey participants altered their currency allocation during the past year?



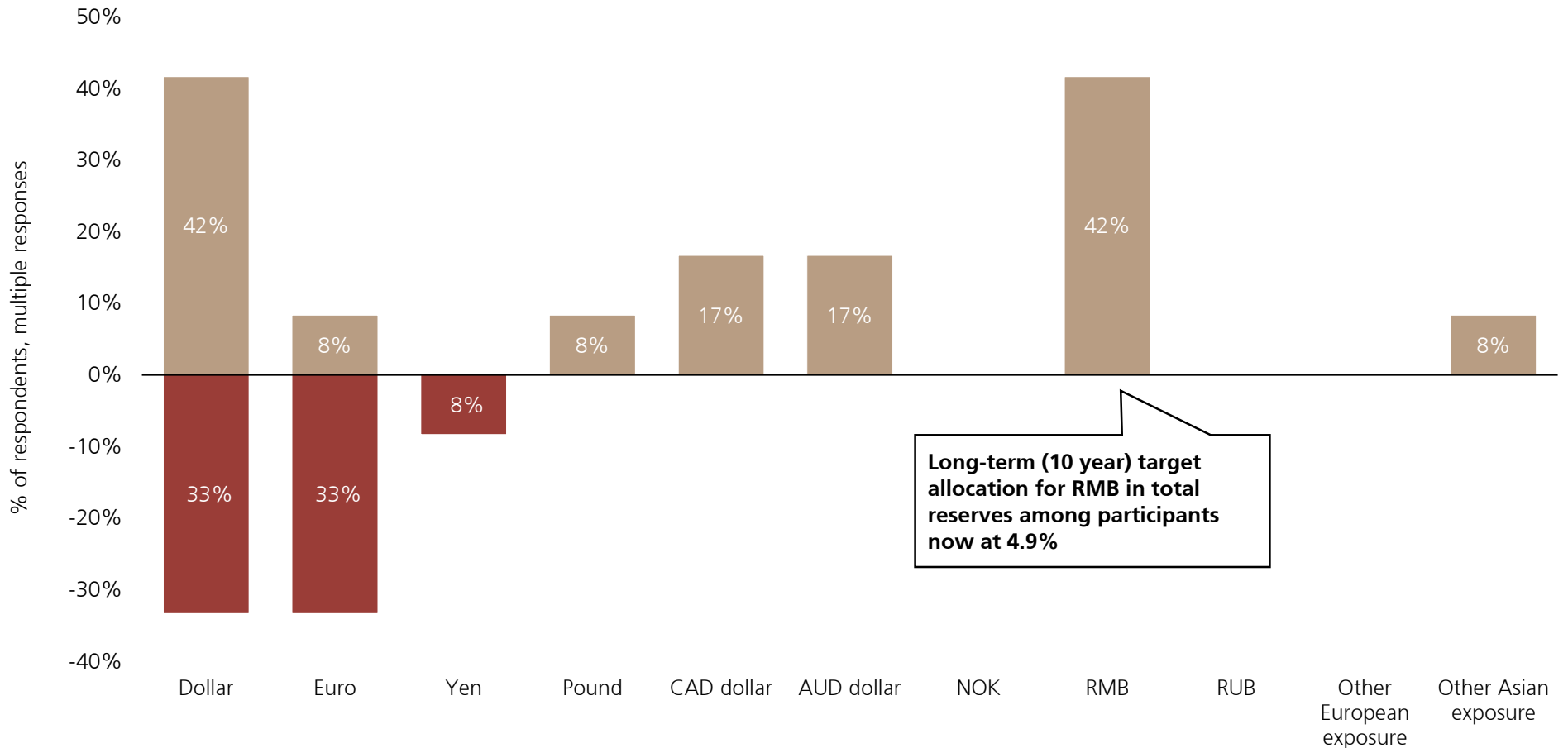
The average share of USD holdings among all participants was at 67%, down from 71% in 2019.

Source: UBS Annual Reserve Manager Survey, results as of September 2020.

Currency focus: Outlook

Indicates the % of respondents that expect their allocations for each currency to go up or down.

How do survey participants expect their currency allocations to change going forward?

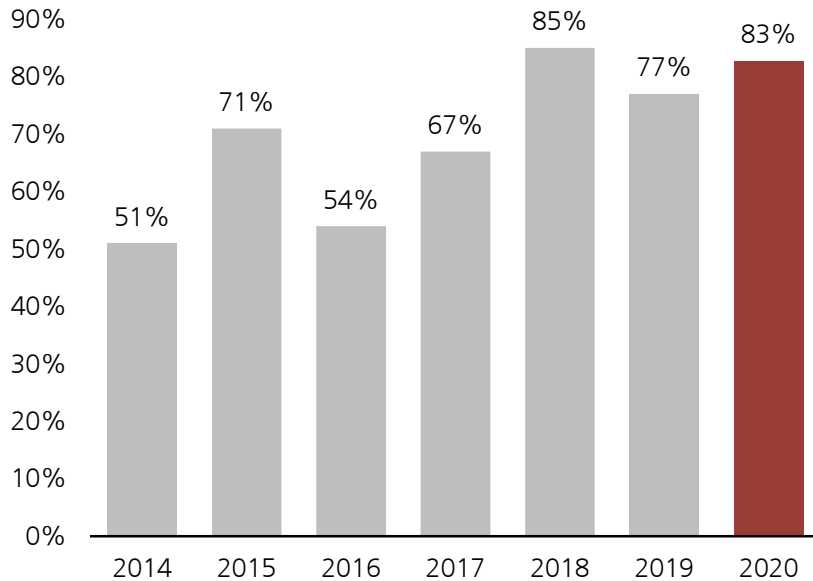


Source: UBS Annual Reserve Manager Survey, results as of September 2020.

Currency focus: RMB

Please describe your attitude towards the RMB!

% of survey respondents that are invested, or consider investing, in the RMB (last 6 surveys)



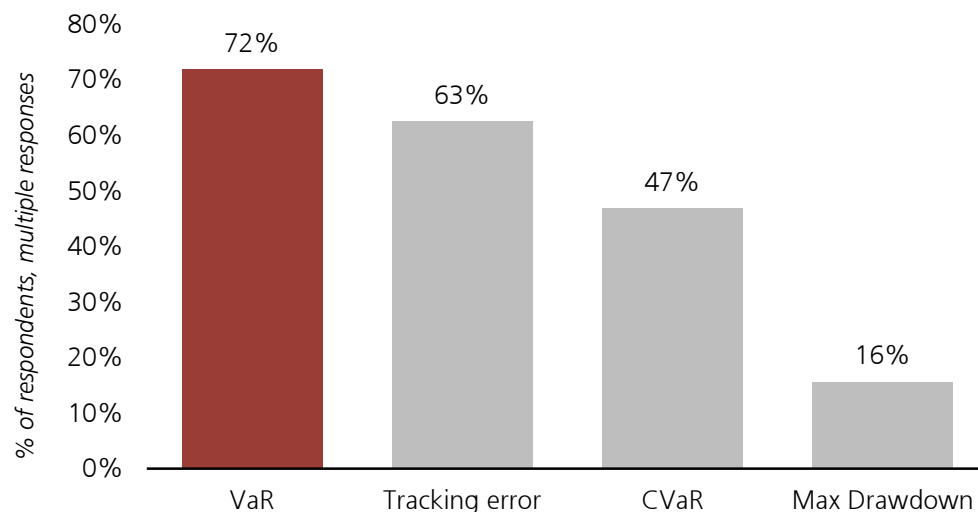
The average long-term target allocation (not the actual allocations) to the RMB is around 5.0% among survey participants, another increase from 4.2% in the previous year

- 4 participants reported that they introduced the RMB this year in their reserve portfolio (after 5 participants in the previous year).
- The number of participants that are invested, or consider investing, in the RMB increased again from slightly lower levels last year but did not surpass the high level of 85% reached in 2018.

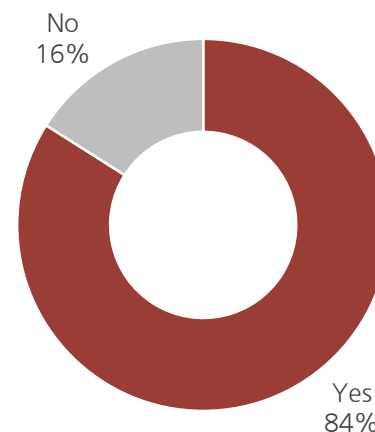
Source: UBS Annual Reserve Manager Survey, results as of September 2020.

Performance and Risk management

How do you measure risk in your portfolios?



Do you take any tactical positions compared to benchmark?



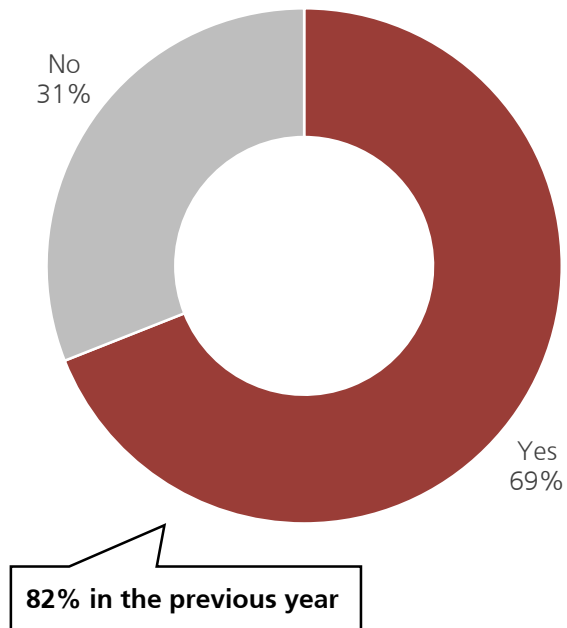
Risk and performance measurement

- **56%** of the survey respondents review their investment policy **in intervals of a quarter or longer**, while 44% are using more frequent intervals or review on an ad-hoc basis.
- **No** survey participant increased maximum drawdown levels to enhance returns over the past year.
- **48%** of survey respondents indicated that no negative returns are tolerated in their investment policy. Only **16%** indicated that they tolerate a maximum drawdown of up to 5% in their investment policy.
- The number of participants that indicated that they are taking tactical positions compared to the benchmark has again increased, reaching **84%** after 70% in the previous year.

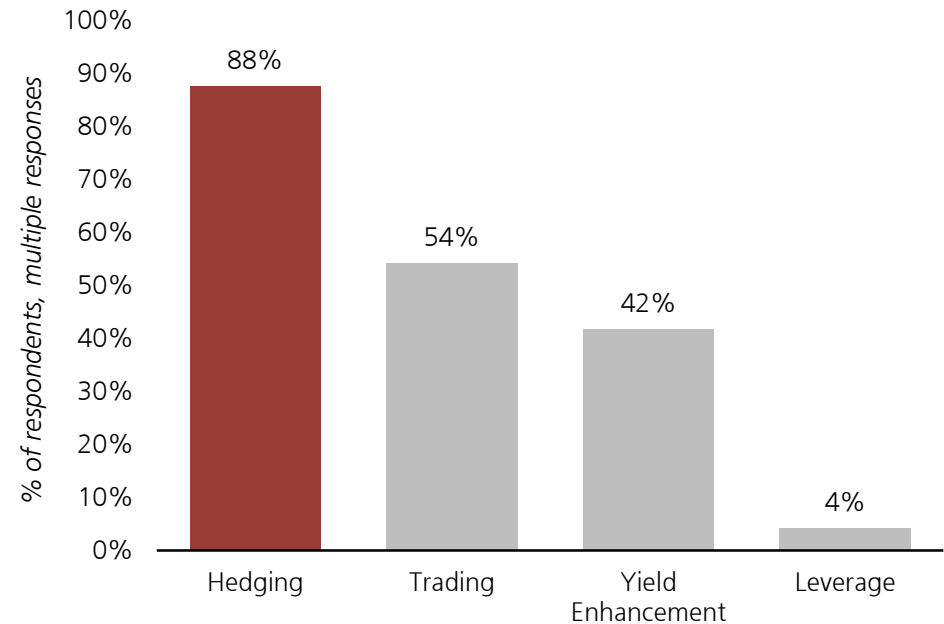
Source: UBS Annual Reserve Manager Survey, results as of September 2020.

Derivatives

Do you use derivatives within your reserve portfolio?



If you use derivatives, what are the main objectives for using them?

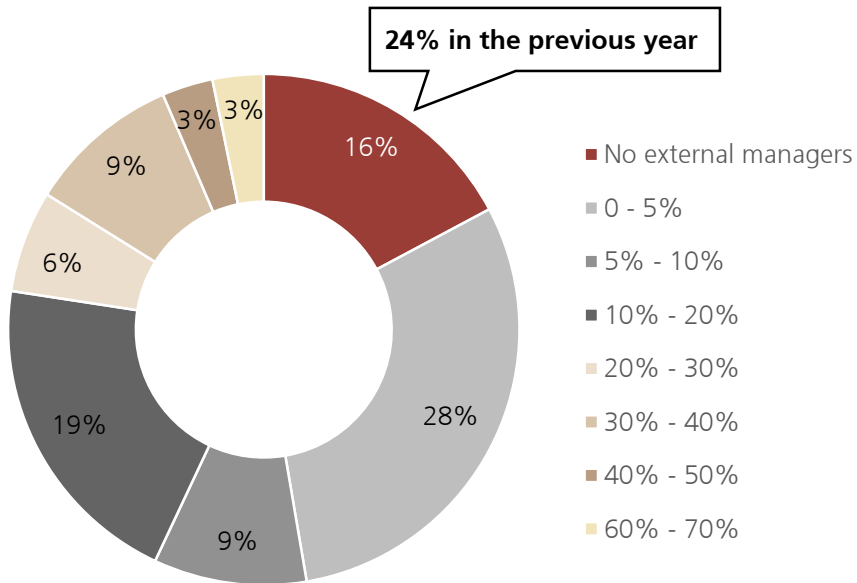


Additional survey participants reported the use of derivatives to reduce FX risk, but not to manage reserve assets.

Source: UBS Annual Reserve Manager Survey, results as of September 2020.

External asset management

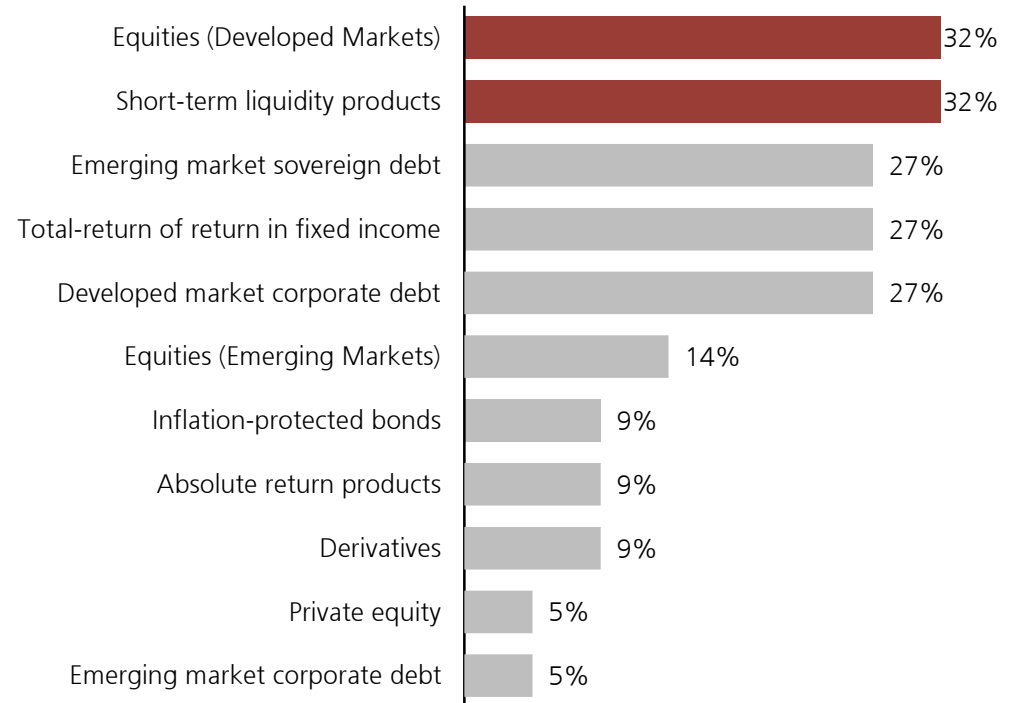
What percentage of your reserves are currently externally managed?



What assets are externally managed?

- External mandates currently exist mainly in the area of DM sovereign and corporate debt, MBS as well as inflation-protected bonds, short-term liquidity products and developed market equities.
- **25%** of respondents indicated that they are currently looking into tail-risk hedging strategies, up from 6% in the previous year.

What asset classes of external fund management interests you the most?



Source: UBS Annual Reserve Manager Survey, results as of September 2020.

COVID-19 crisis special: Summary

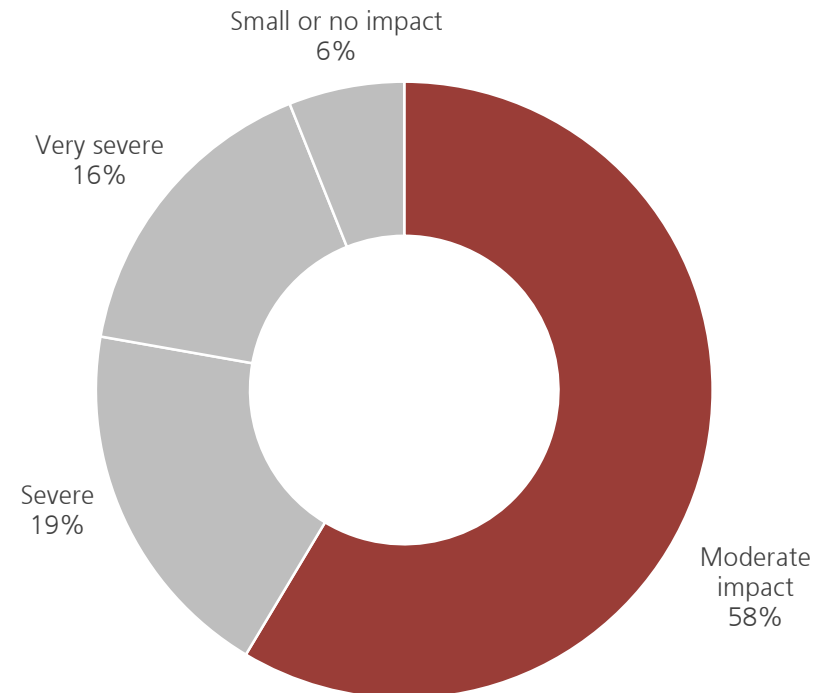
The impact of the COVID-19 crisis on Reserve Managers

- In a special section of this year's Reserve Management Seminar Survey, we explored how the ongoing COVID-19 crisis has affected reserve managers.
- While **58%** of participants indicated that the crisis only had a "moderate" impact on their investment activities, 35% experienced severe (19%) or very severe (16%) consequences.
- A **multi-year global economic slowdown** is seen as the key longer-term risk resulting from the crisis, followed by unmanageable debt levels.
- When it comes to the global economic impact of the crisis, the majority of participants expects **global GDP** to contract by more than 6% for full-year 2020, followed by a **U-shaped recovery**.
- A high number of participants (90%) believe that Developed Economies will be better positioned in a post-Corona world.

Behavior during the crisis

- Exactly **half** of participants indicated that they reduced risk in their portfolio during the sell-off in March of this year. Among those that were invested in equities and responded to the respective question, **40%** rebalanced/bought equities during that phase.
- For **16%** of participants, the crisis has increased their interest in alternative asset classes (e.g. market-neutral hedge funds). Finally, **75%** believe that the COVID-19 crisis will further support the trend towards ESG investing.

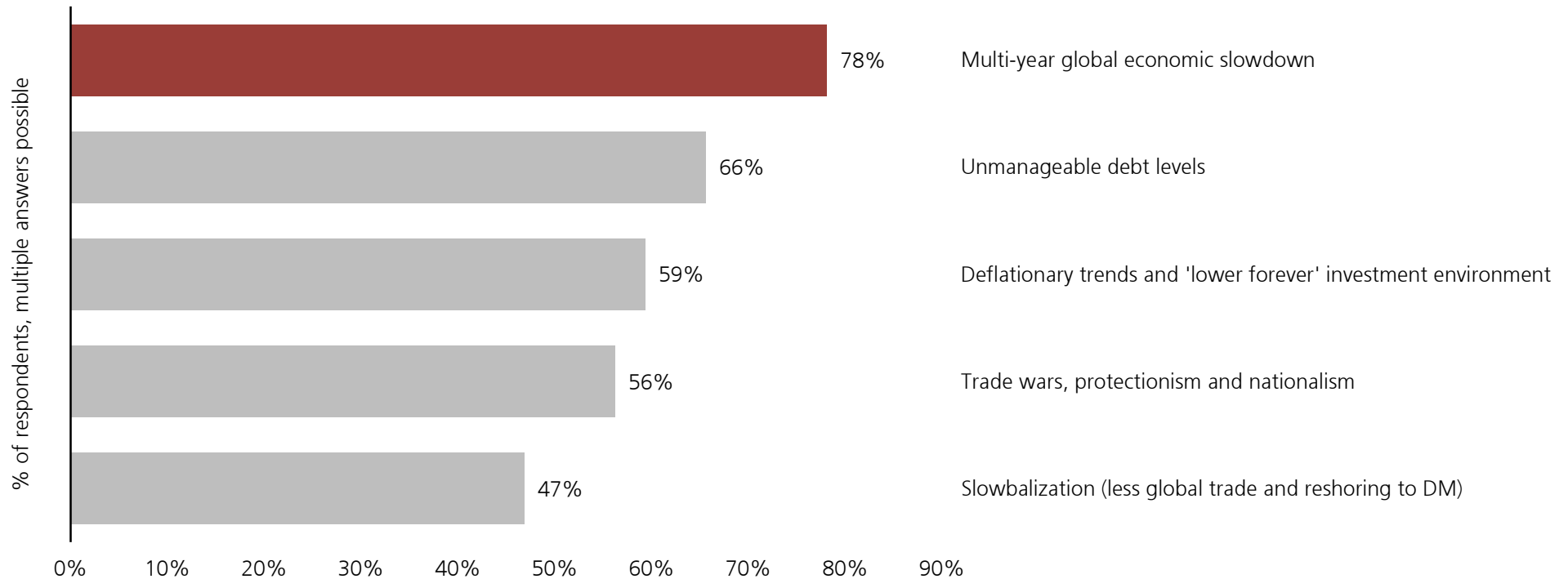
How severe do you consider the impact of the COVID-19 crisis on your investment activities?



Source: UBS Annual Reserve Manager Survey, results as of September 2020.

COVID-19 crisis special: The long-term impact of the crisis

What do you think are the key long-term risks from the Corona crisis?

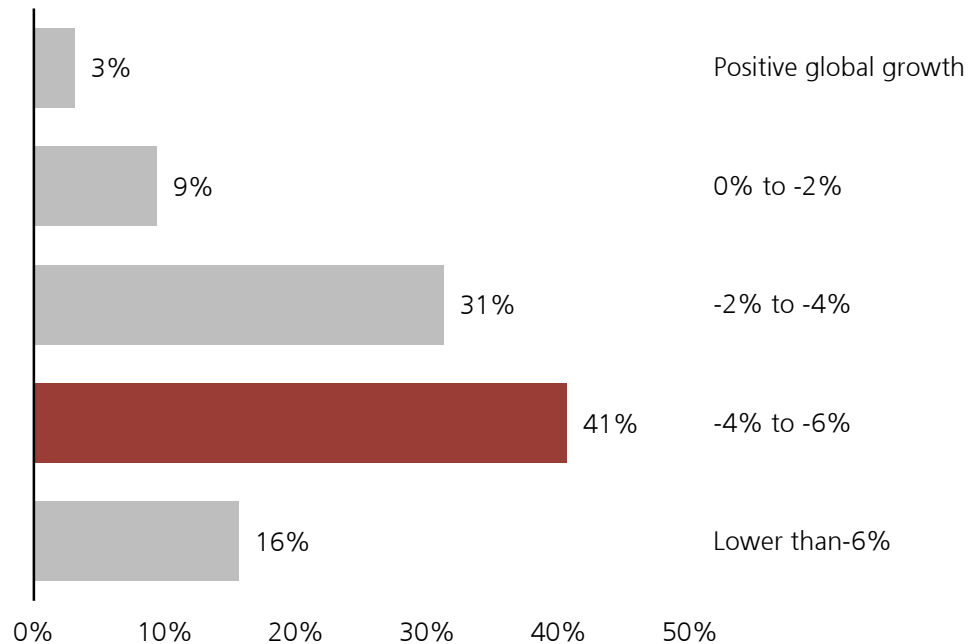


When asked about the key long-term risks from the COVID-19 crisis, a multi-year global economic slowdown was seen as the key longer-term risk resulting from the crisis, followed by unmanageable debt levels. In addition, several participants used the free text field to indicate that their top worries include a dramatic resizing of certain industries that are of significance for their host country, including travel, tourism and leisure.

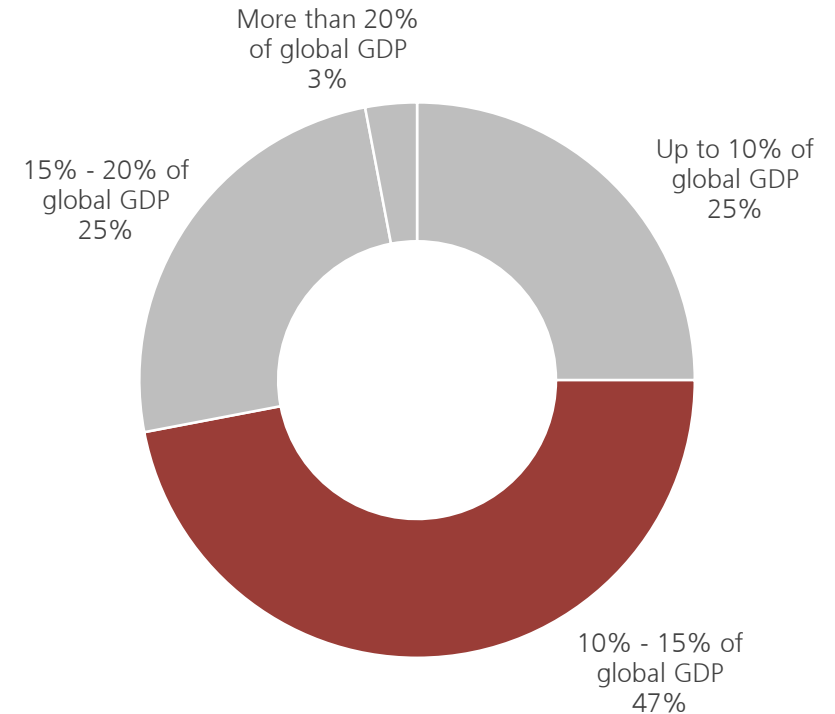
Source: UBS Annual Reserve Manager Survey, results as of September 2020.

COVID-19 crisis special: The economic impact

What is your estimate for global GDP growth for full-year 2020?



What is your estimate for total global fiscal stimulus for full-year 2020?

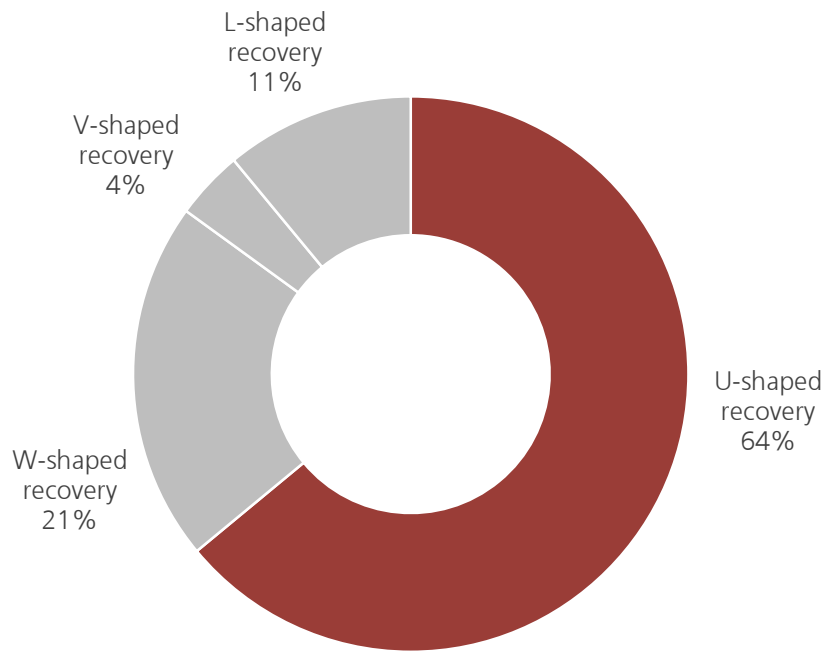


When it comes to the global economic impact of the crisis, the majority of participants expects global GDP to contract by more than 6% for full-year 2020. Regarding the total global fiscal stimulus that will be deployed over full year 2020 to tackle the crisis, 10%-15% of global GDP received the highest amount of votes (47%).

Source: UBS Annual Reserve Manager Survey, results as of September 2020.

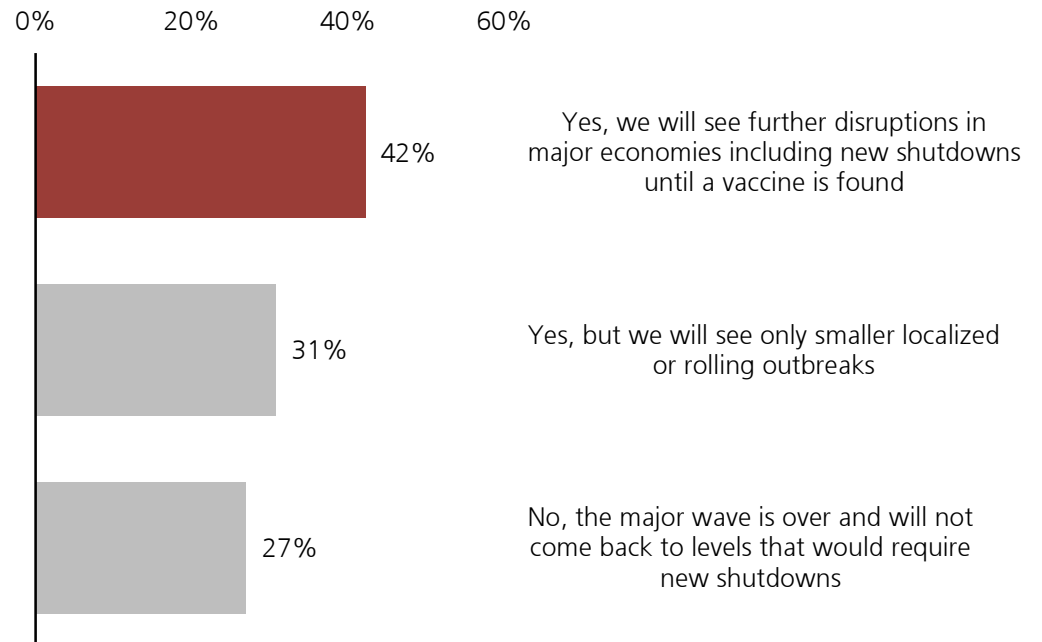
COVID-19 crisis special: The path out of the crisis

What "letter" will ultimately represent the type of recovery of the global economy?



Of those participants that used the free text field instead, 2 expected a "Nike" recovery and one participant a "square root" recovery.

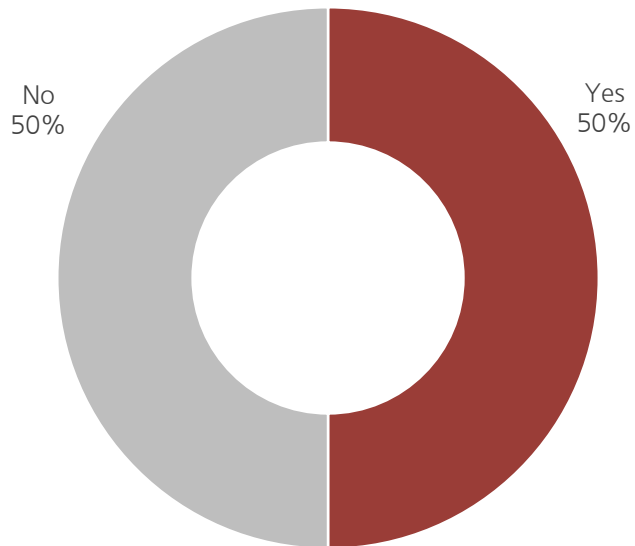
Will we see substantial second and third waves of infections?



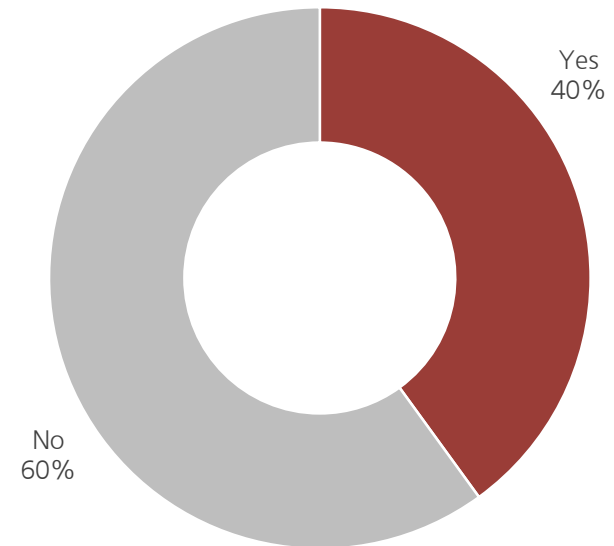
Source: UBS Annual Reserve Manager Survey, results as of September 2020.

COVID-19 crisis special: Market activity

Did you reduce risk in your portfolio during the sell-off in February/March?



In case you are invested in equities, did you rebalance (i.e. bought) during the February/March decline?



Exactly half of participants indicated that they reduced risk in their portfolio during the sell-off in March of this year. Among those that were invested in equities and responded to the respective question, 40% rebalanced/bought equities during that phase

Source: UBS Annual Reserve Manager Survey, results as of September 2020.

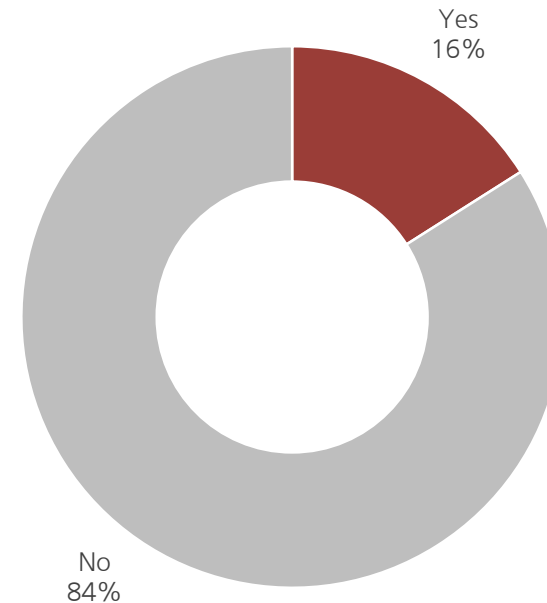
COVID-19 crisis special: Impact on asset classes

What asset classes will gain relatively more importance in central bank portfolios after the COVID-19 crisis?

In a free text field, we asked participants to indicate which asset classes have gained in relative importance for them due to the COVID-19 crisis.

- **Safe haven assets** (Gold, Government bonds, Supras) were mentioned most frequently. Also, several participants stressed the need for **liquid assets**.
- Within **fixed income**, China Government and Policy Bonds as well as Sustainable Bonds were mentioned.
- Within **equities**, defensive and counter-cyclical sectors (telecommunication, health care) were mentioned several times.
- Instead of mentioning specific asset classes, several participants indicated that the crisis stressed the need for **diversification**.

Has the crisis increased your interest in alternative asset classes (e.g. market neutral hedge funds)?



Source: UBS Annual Reserve Manager Survey, results as of September 2020.

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