



2018 UK Investor Survey

The anxious optimist in the City

Introduction

For the third year, we have set out to get insight into the thinking and strategic direction of chief executive officers (CEOs) in the UK and how their views compare with the perceptions and expectations of investors and analysts following UK companies. We asked the two groups for their opinions on growth prospects in a disruptive environment, the effects of globalisation and the threats that UK companies face today. We also sought their views on managing and maintaining stakeholder trust and the challenges and opportunities presented by technology and automation.

Their responses, as in past years' surveys, unsurprisingly showed a variety of perspectives, along with many similarities. Where there are meaningful differences, we have also drawn out comparisons of the investment professionals' responses depending on where they are based (UK, US and Western Europe).

We hope these findings will help to improve the quality of engagement – and perhaps understanding – between companies and the investment community.

Note: Throughout this report we use the terms 'investment professionals' and 'investors' interchangeably to describe the respondents to our survey. This group of capital market participants includes portfolio managers, equity analysts, credit ratings agencies, governance and stewardship professionals, private equity investors and individual investors. They cover a range of industries and focus on the equity markets, fixed income markets or both.

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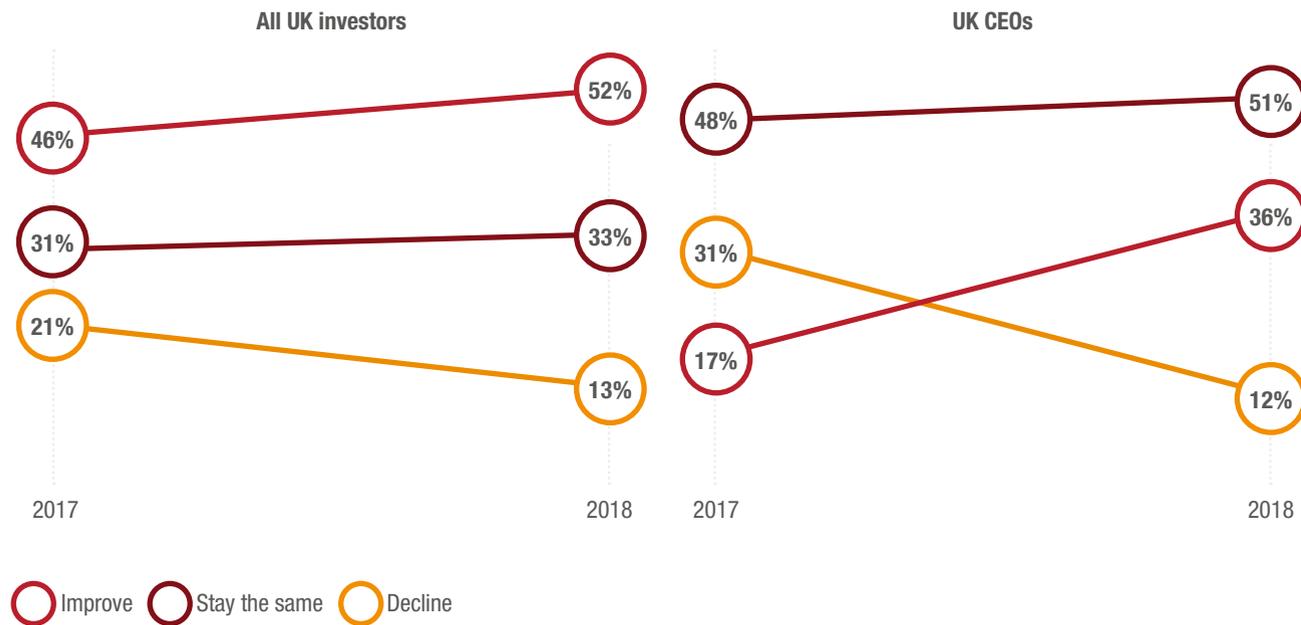
01

Global growth: Great expectations

Investment professionals following UK companies continue to show optimism in the global economy, at least over the next 12 months. However, that confidence does not translate to company growth prospects, with their growth expectations for companies over the next 12 months and three years declining from last year's survey.

Investors are more confident than CEOs about the outlook for global growth, and their confidence has improved since last year

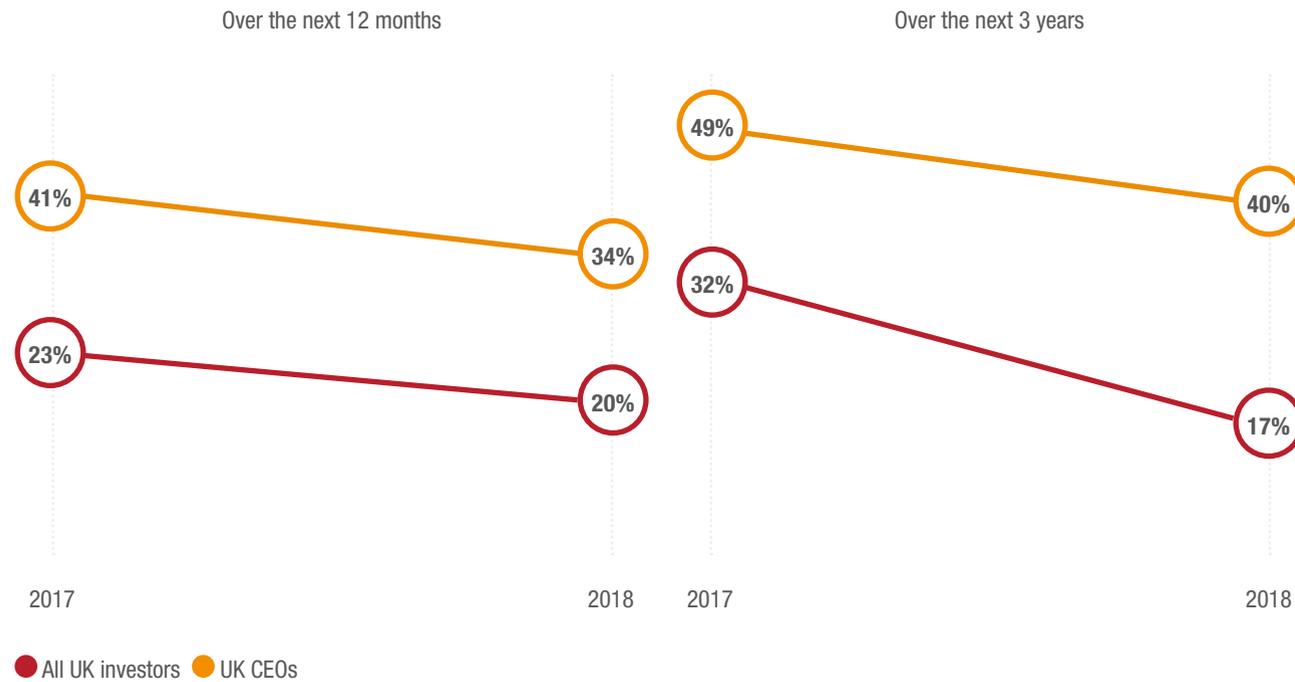
Q Do you believe global economic growth will improve, stay the same, or decline over the next 12 months?



Investors are less confident about growth than CEOs, and their confidence in the long term has declined since last year

Q How confident are you about the prospects for revenue growth for the companies you invest in or follow (for investors) or for your organisation (for CEOs) over the next 12 months and over the next three years?

i Chart shows percentage of respondents answering 'very confident'.



By comparison

Over the next 12 months

25% of Western Europe-based and US-based investors vs 20% of all UK investors

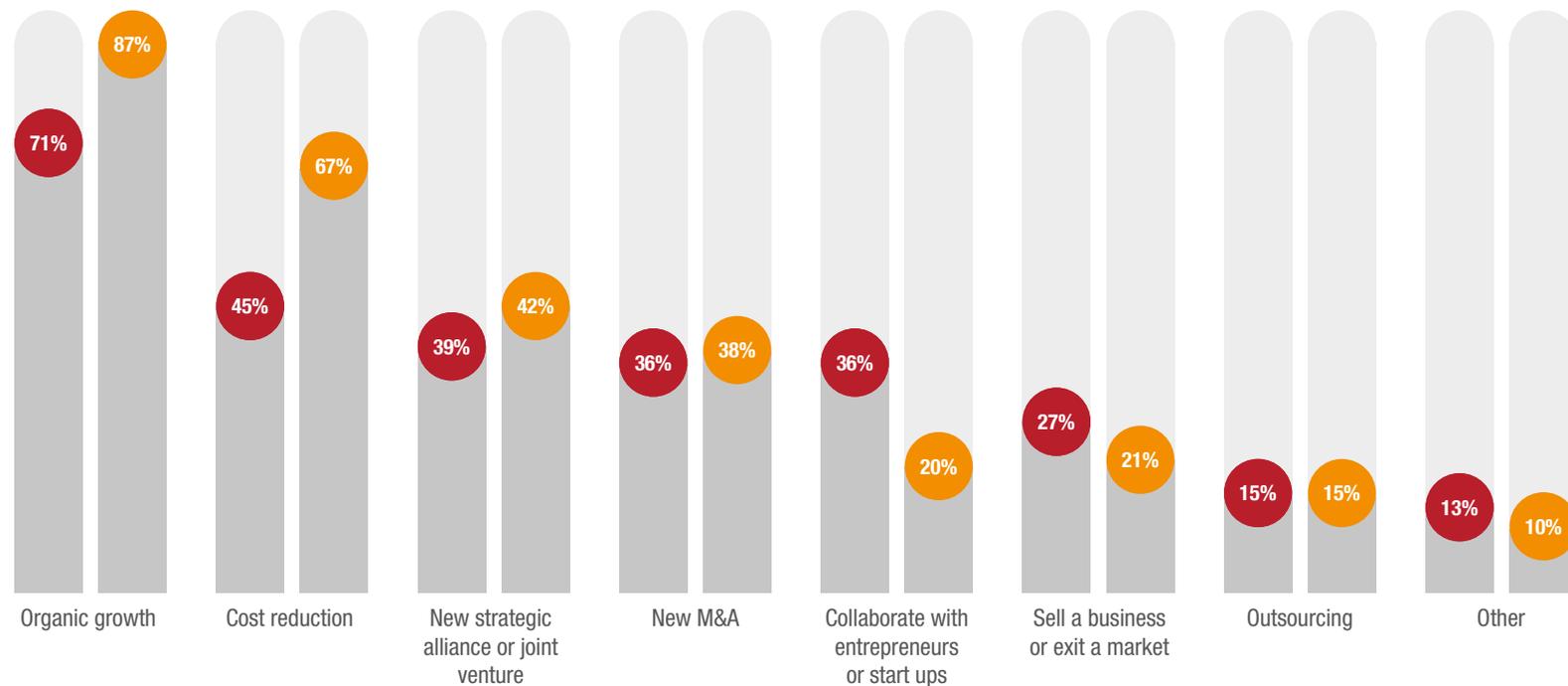
Over the next 3 years

9% of Western Europe-based investors vs 17% of all UK investors

Investors and CEOs both prioritise organic growth, particularly those investors based in the UK

Q Which of the following activities, if any, do you think companies should be planning (for investors) or are you planning (for CEOs) in the next 12 months in order to drive corporate growth or profitability?

i Investors who responded 'Other' mentioned technology and innovation as important for driving growth and profitability.



● All UK investors ● UK CEOs



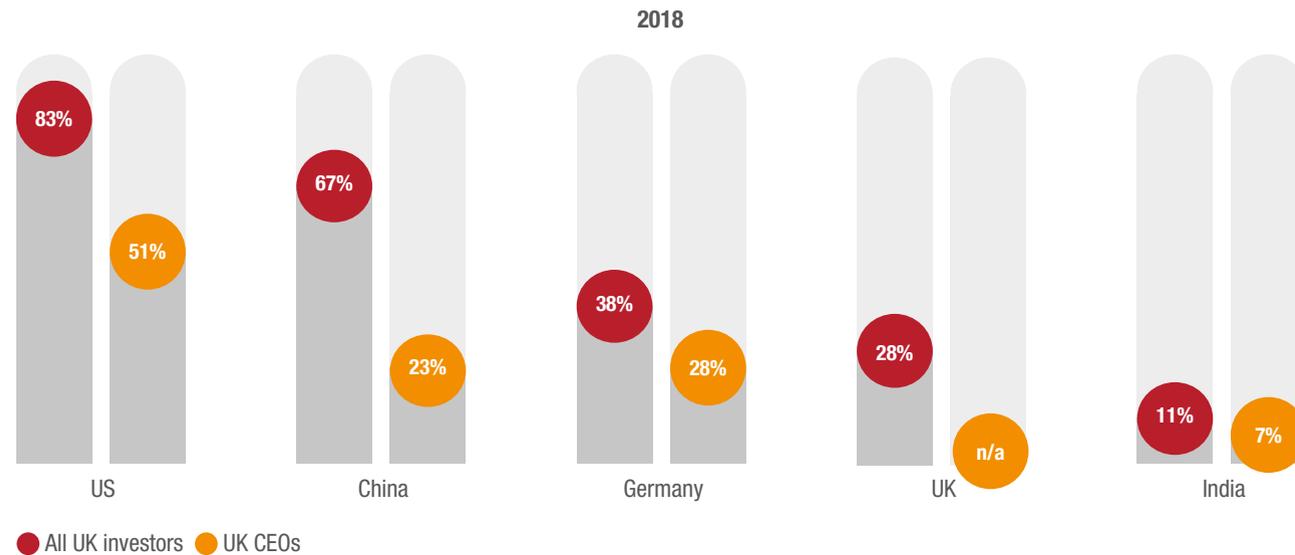
“Asset-heavy industries used to be dominant, but now it’s all about intangibles. E-commerce is a way to get data and sell it – companies are becoming data companies. Data belongs to people and, even if anonymised, companies that can enhance such data will flourish. Companies will continue to grow but in different ways than we’ve known.”

Investment professional, UK

US and China remain top spots for growth prospects for UK companies

Q Which three countries do you consider most important for the overall growth prospects for the companies you invest in or follow (for investors) or your organisation's growth prospects (for CEOs) over the next 12 months?

i CEOs were asked not to select the country in which they are based.



By comparison

US

92% of US-based investors
64% of Western Europe-based investors
 vs 83% of all UK investors

China

77% of US-based investors vs 67% of all UK investors

Germany

67% of Western Europe-based investors vs 38% of all UK investors

UK

54% of UK-based investors
11% of Western Europe-based investors
 vs 28% of all UK investors

India

21% of US-based investors vs 11% of all UK investors

02

Threats:

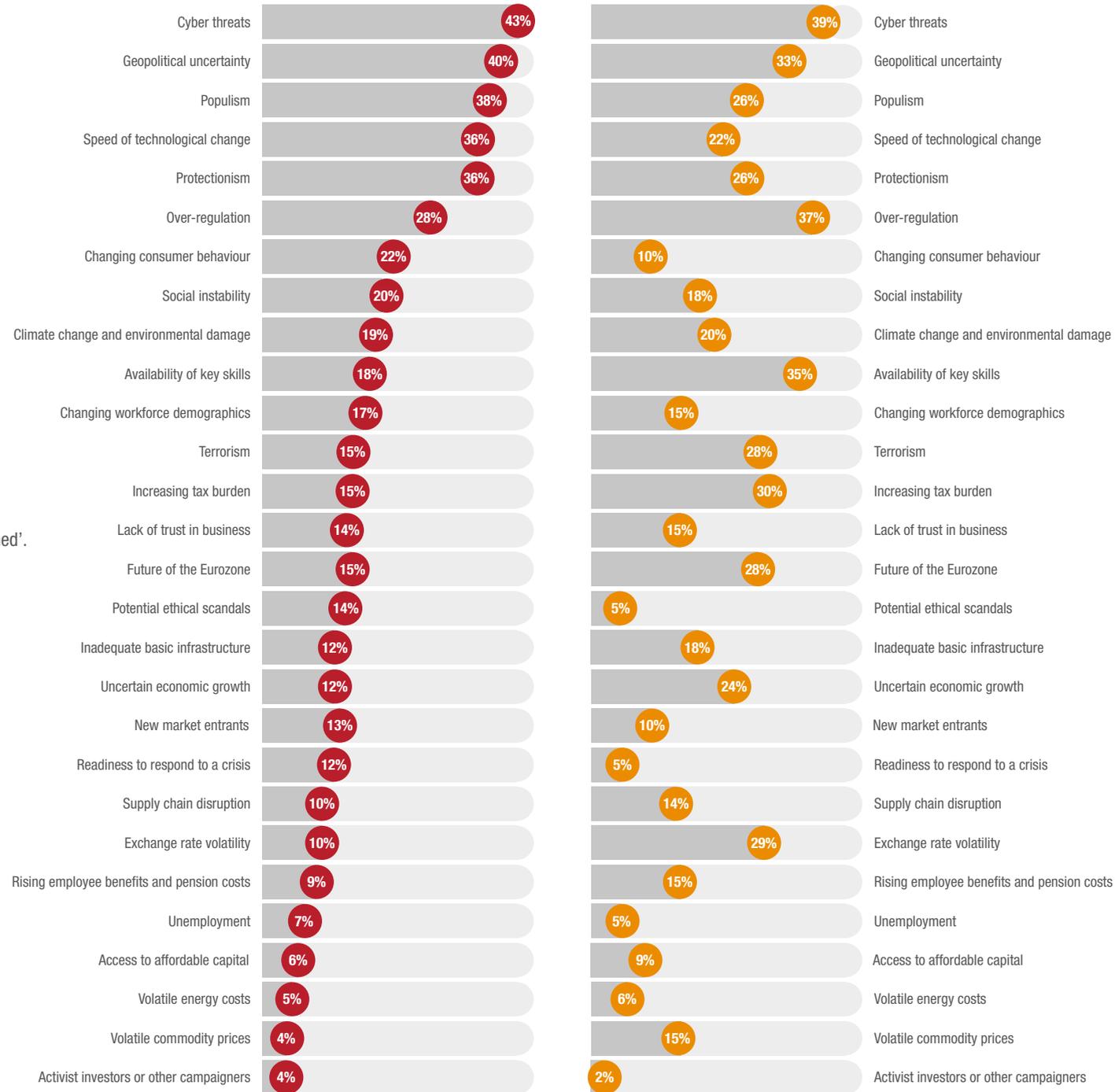
What CEOs worry about is not always the same for investment professionals

Technological advancements are in the news on a regular basis, so it is no surprise that investment professionals' and CEOs' concerns about the speed of technological change and cyber threats have increased from last year's survey. But the two groups differ quite significantly in their views of whether over-regulation, availability of key skills, terrorism and an increasing tax burden will affect company growth prospects; although these are keeping CEOs up at night, they don't seem to be as concerning to investment professionals.

Investors and CEOs see cyber threats as the top threat to UK company growth prospects

Q Please find below a list of potential business, economic, policy, social and environmental threats to company growth prospects. How concerned you are, if at all, about each of these?

i Chart shows ranking of respondents answering 'extremely concerned'.



● All UK investors ● UK CEOs

By comparison

Cyber threats

54%

of US-based investors vs 43% of all UK investors

Climate change and environmental damage

31%

of Western Europe based investors vs 19% of all UK investors

Availability of key skills

8%

of UK-based investors vs 18% of all UK investors

03

Global vs local: Navigating a fractured world

Investment professionals continue to think that globalisation has helped some aspects of doing business: the ease of moving capital, people, goods and information and enabling universal connectivity. But they don't think it has helped as much in others: averting climate change and resource scarcity and closing the gap between the rich and poor. This is unchanged from last year.

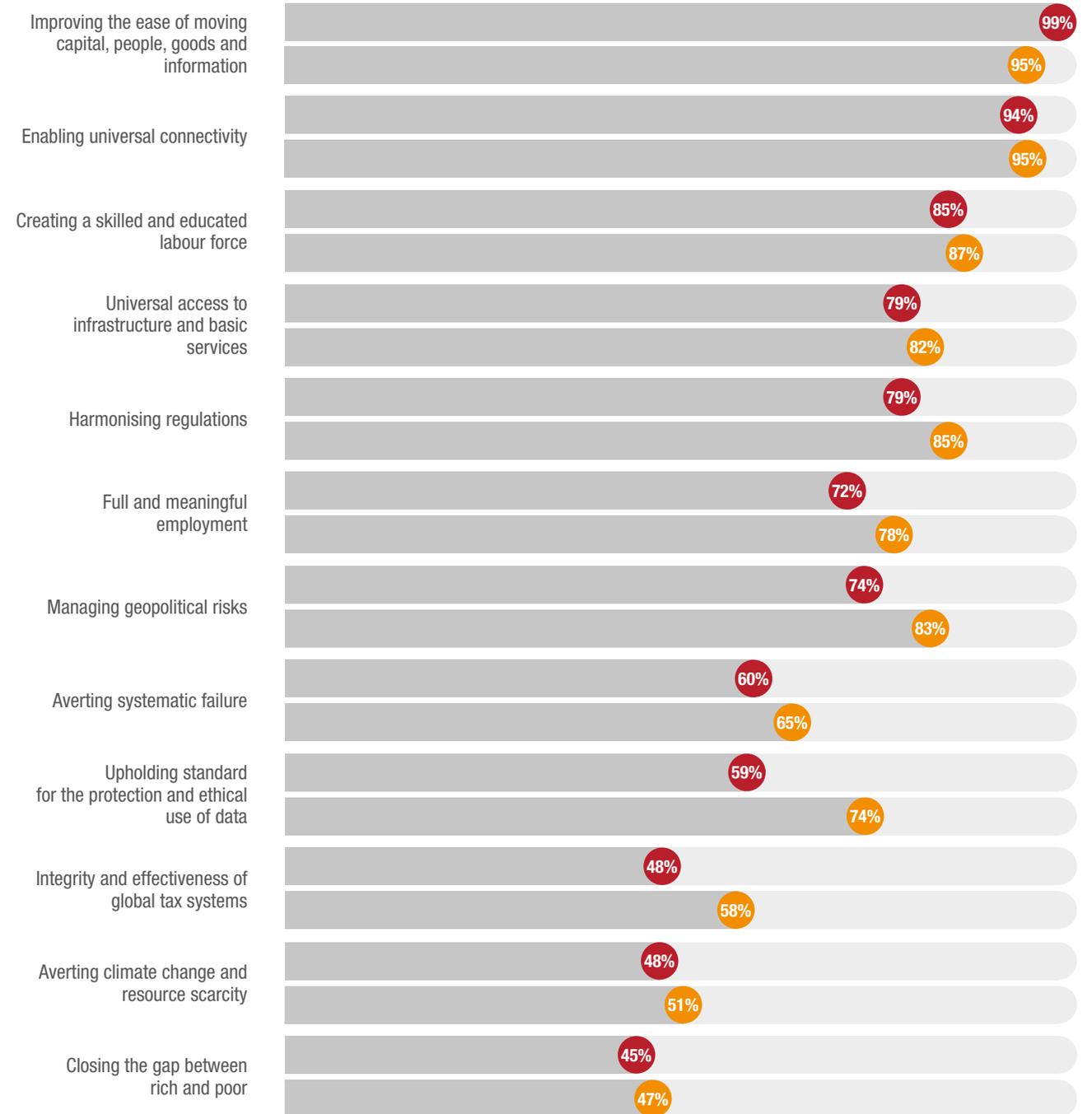
Investment professionals also think we live in a fractured world and don't expect that to change. Notable exceptions to that are that they think corporate integration will continue and that we are moving towards more open access to the internet. In many other areas, however, they think we are moving apart.

CEOs generally think globalisation has helped in more areas than investors do

Q To what extent has globalisation helped with the following areas?

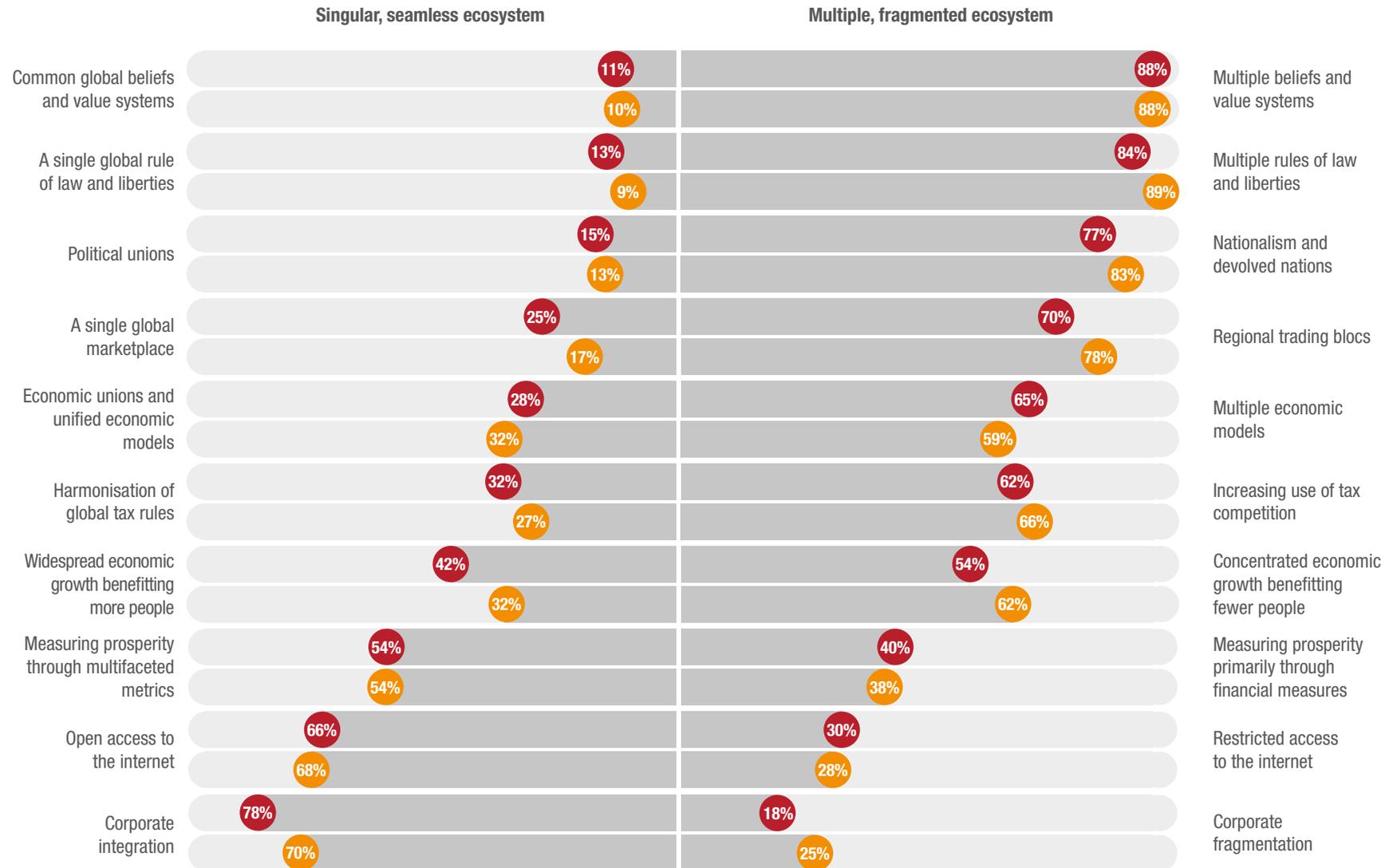
i Chart shows percentage of respondents answering 'to a large extent' or 'to some extent'.

● All UK investors ● UK CEOs



Investors and CEOs think the world is becoming more fractured

Q Considering the following opposing political, economic and trade trends, please select the one you believe the world is moving more towards



● All UK investors ● UK CEOs

By comparison

US-based investors:

Restricted access to the internet

51%

vs 30% of all UK investors

Open access to the internet

47%

vs 66% of all UK investors

Increasing use of tax competition

79%

vs 62% of all UK investors

Harmonisation of global tax rules

14%

vs 32% of all UK investors

Western Europe-based investors:

Multiple economic models

54%

vs 65% of all UK investors

Economic unions and unified economic models

42%

vs 28% of all UK investors

04

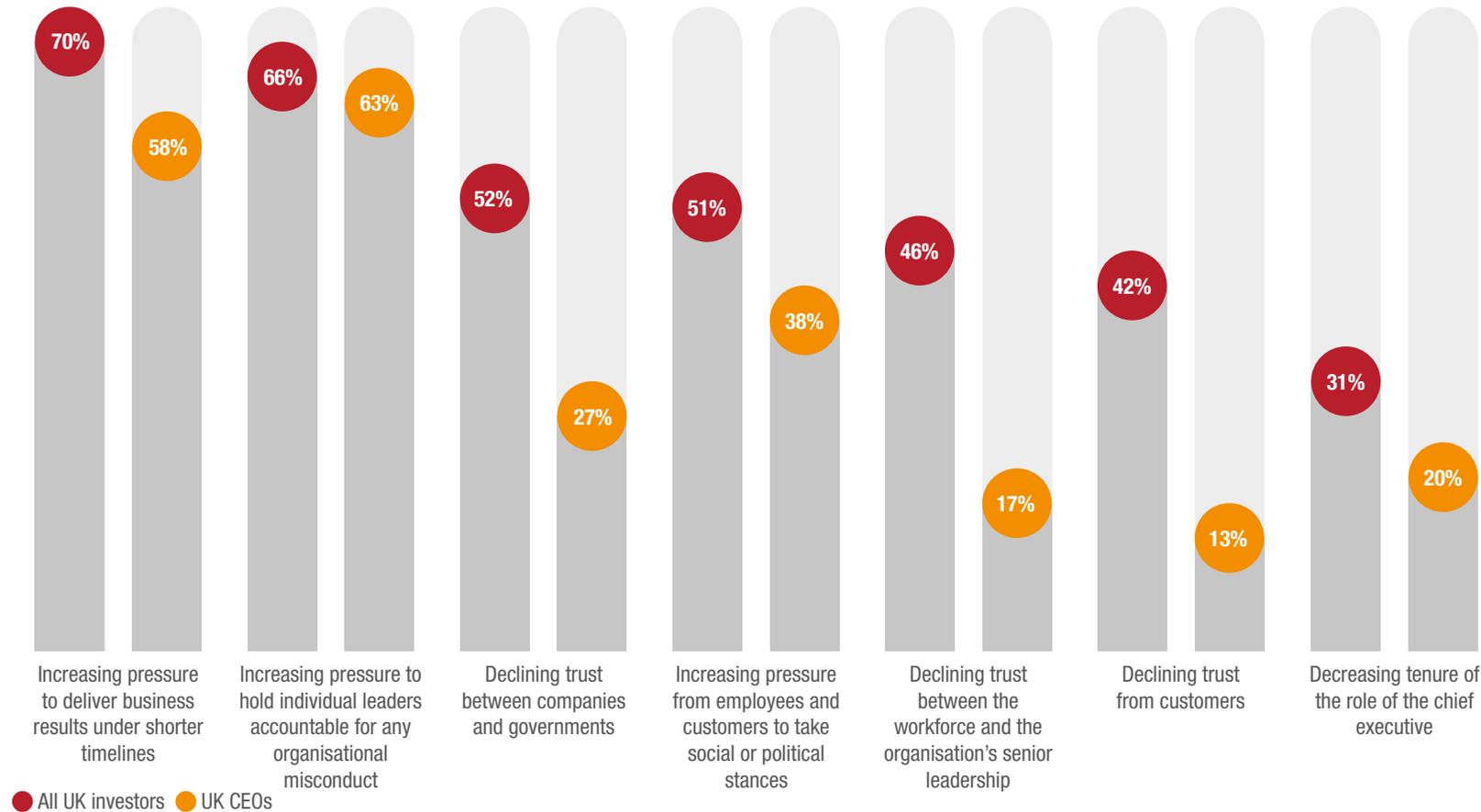
Challenges: Living in an age of disruption

Investment professionals and CEOs both agree: the increasing pressure for UK companies to deliver results under shorter timelines is the biggest challenge that companies face today. But, in other areas, investment professionals think companies face a greater degree of challenge than CEOs say they experience, with the biggest difference being the perception of declining trust between companies and governments, their workforce and their customers. And while they both have concerns about the ability for companies to attract digital talent, investment professionals are less likely to think that it's the company's responsibility to retrain staff whose jobs become automated.

Investors and CEOs agree that the biggest challenge for companies is the increasing pressure to deliver business results under shorter timelines

Q To what extent do you agree or disagree that the companies you invest in or follow (for investors) or that you (for CEOs) experience the following challenges?

i Chart shows percentage of respondents answering 'agree' or 'strongly agree'.



“Corporate respect (trust) is declining. It’s been a few years now that we’ve seen wage pressure in real terms. Remuneration for senior executives is growing, but everyone else’s isn’t.”

Investment professional, UK

By comparison

Increasing pressure to hold individual leaders accountable for any organisational misconduct

51% of Western Europe-based investors vs 66% of all UK investors

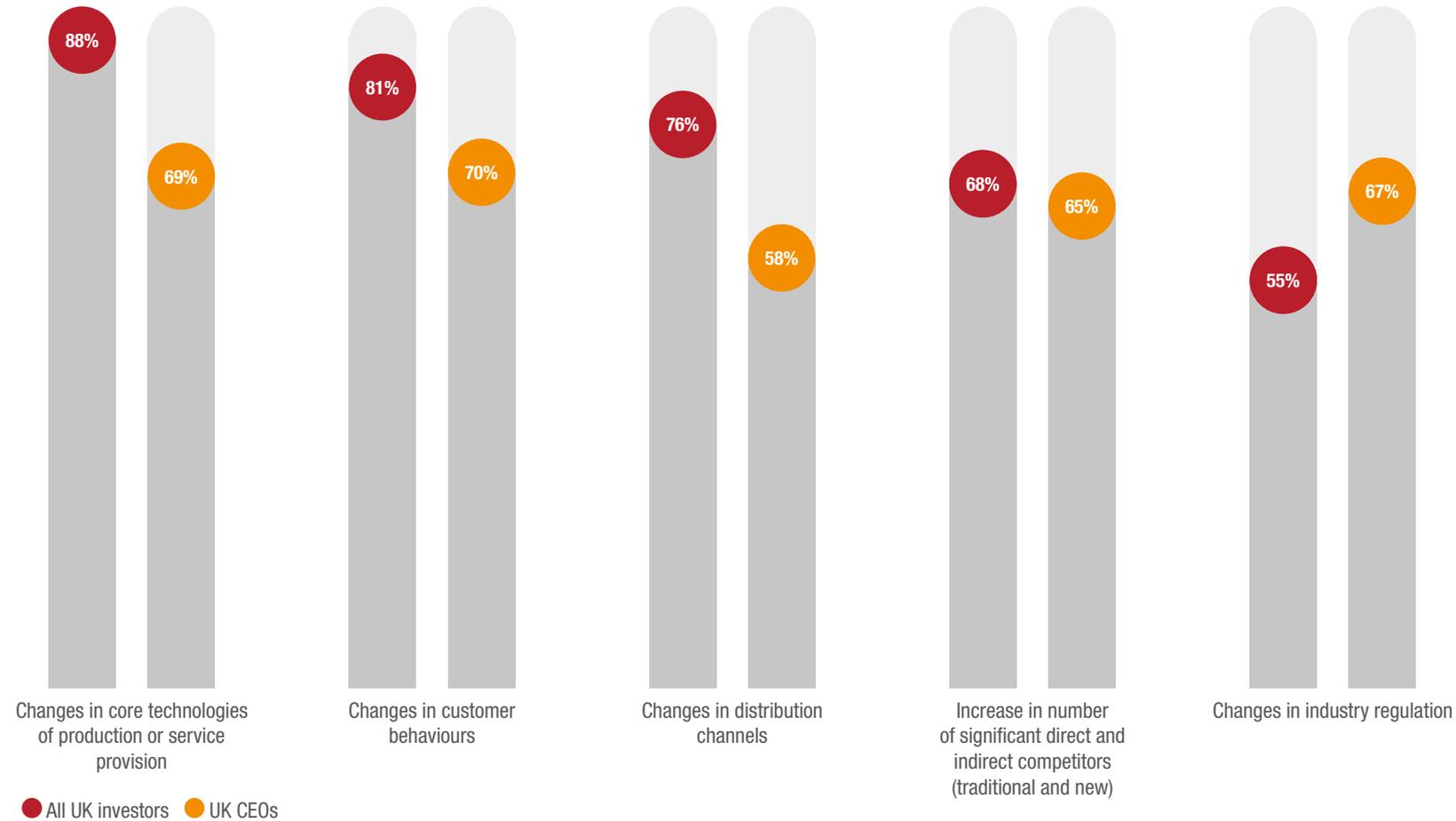
Increasing pressure from employees and customers to take social or political stances

61% of US-based investors vs 51% of all UK investors

Investors generally expect more disruption than CEOs do

Q It has been reported that the average lifespan of today's organisations is shrinking, largely due to increased disruption in the marketplace. How disruptive do you think the following trends will be for the companies you invest in or follow (for investors) or for your business (for CEOs) over the next five years?

i % of respondents answering somewhat disruptive or very disruptive



By comparison

Changes in consumer behaviours

71%

of UK-based investors vs 81% of all UK investors

Changes in distribution channels

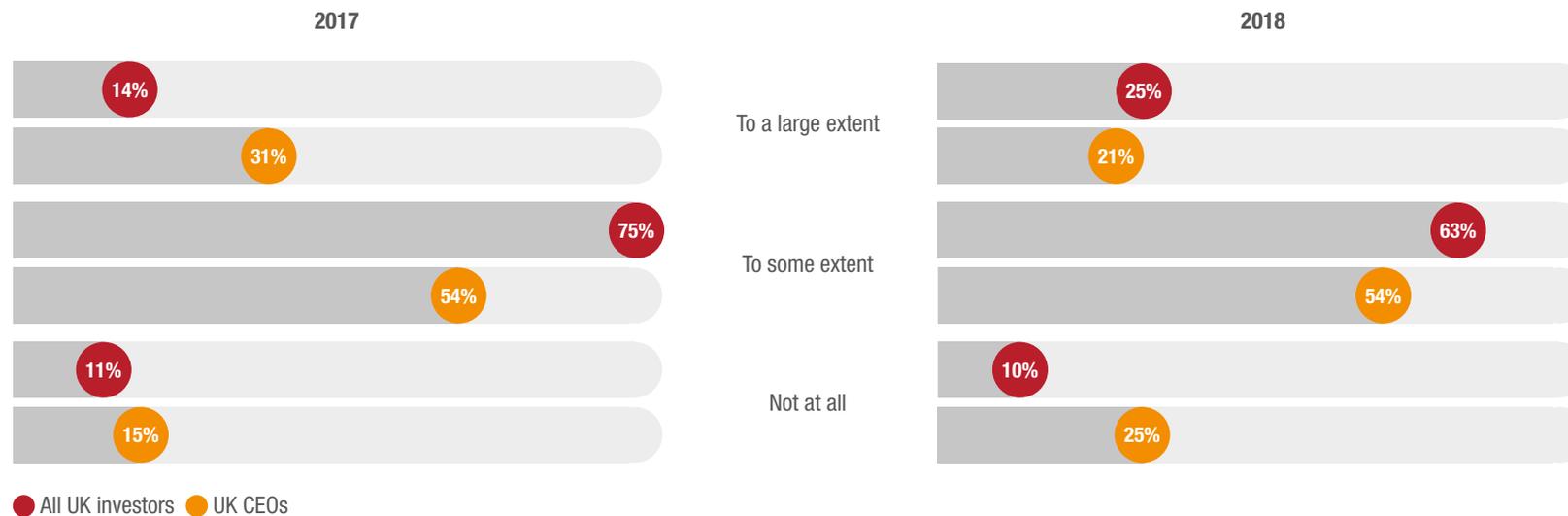
64%

of UK-based investors vs 76% of all UK investors

Investors expect automation to decrease UK company headcount to a large extent more so than last year

Q To what extent do you think headcount in the companies you invest in or follow will decrease (for investors) or to what extent do you expect headcount at your organisation to decrease (for CEOs) as a result of automation and other technologies?

i Responses for CEOs reflect those who expect a decrease in their company's headcount in the next 12 months.



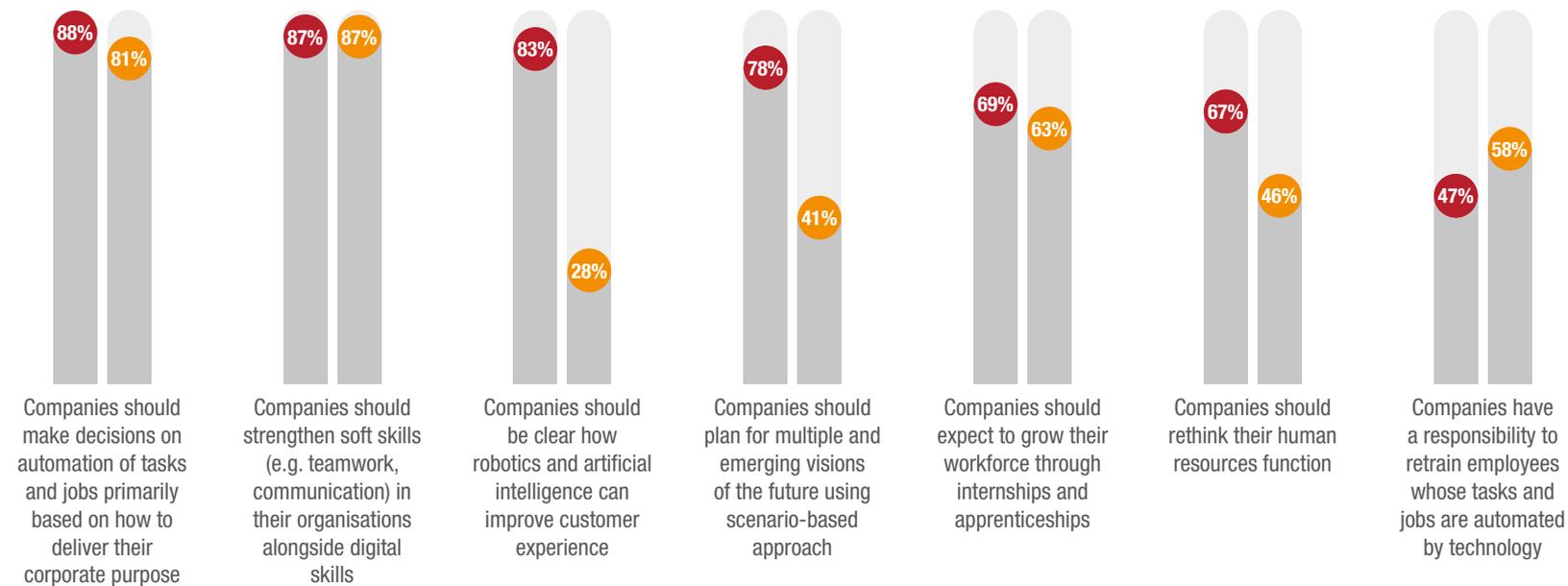
“Tech will definitely replace jobs. Everyone needs to work better with technology and companies need to enable their employees to work with technology, not against it. We add value if we work together with technology.”

Investment professional, UK

Investors and CEOs differ in how they think companies use technology to improve customer experience, plan for multiple visions of the future and rethink their HR function

Q Thinking about what a company's (for investors) or your (for CEOs) people strategy may look like for the digital age, how strongly do you agree or disagree with the following statements?

i Chart shows percentage of respondents answering 'agree' or 'strongly agree'. Investors were asked what companies should do, whereas CEOs were asked what they are doing.



● All UK investors ● UK CEOs



“We always need soft skills. Being able to digest information and pick out the relevant information is very important, but a company needs to provide the right environment for its staff to be productive and learn.”

Investment professional, UK

By comparison

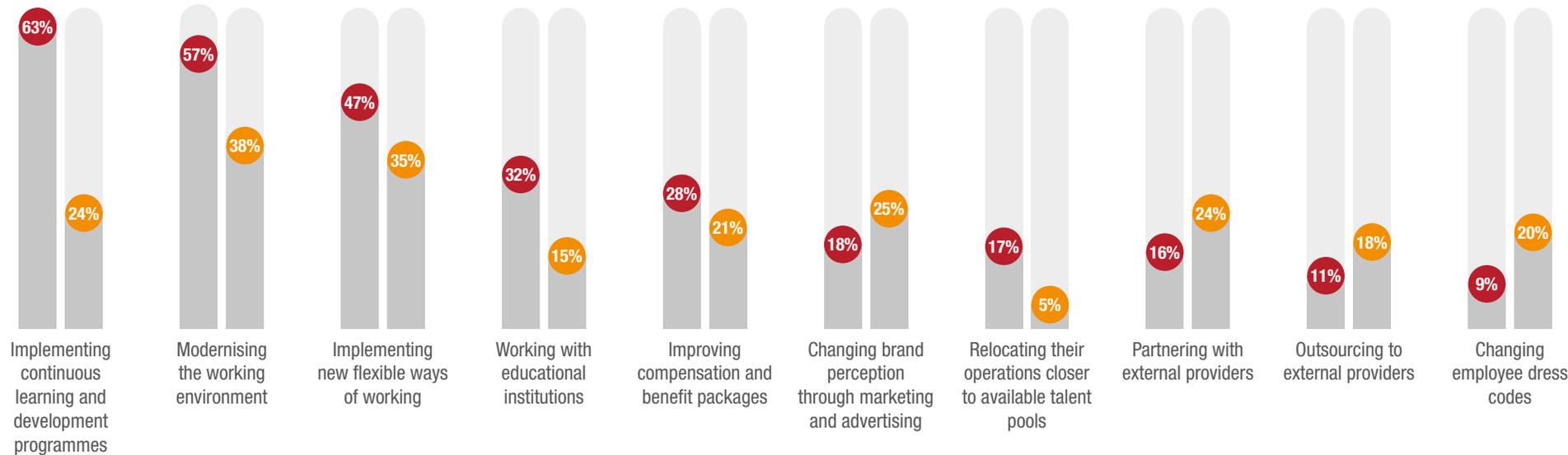
Companies should rethink their human resources function

80% of Western Europe-based investors
55% of UK-based investors
 vs 67% of all UK investors

Investors and CEOs have different views on how companies can attract digital talent

Q To what extent do you think the companies you invest in or follow should be using (for investors) or is your organisation using (for CEOs) the following strategies and tactics to attract or develop digital talent?

i Chart shows percentage of respondents answering 'to a large extent'.



● All UK investors ● UK CEOs

By comparison

Modernising the work environment

46%

of US-based investors vs 57% of all UK investors

Implementing flexible ways of working

60%

of Western Europe-based investors vs 47% of all UK investors

Working with educational institutions

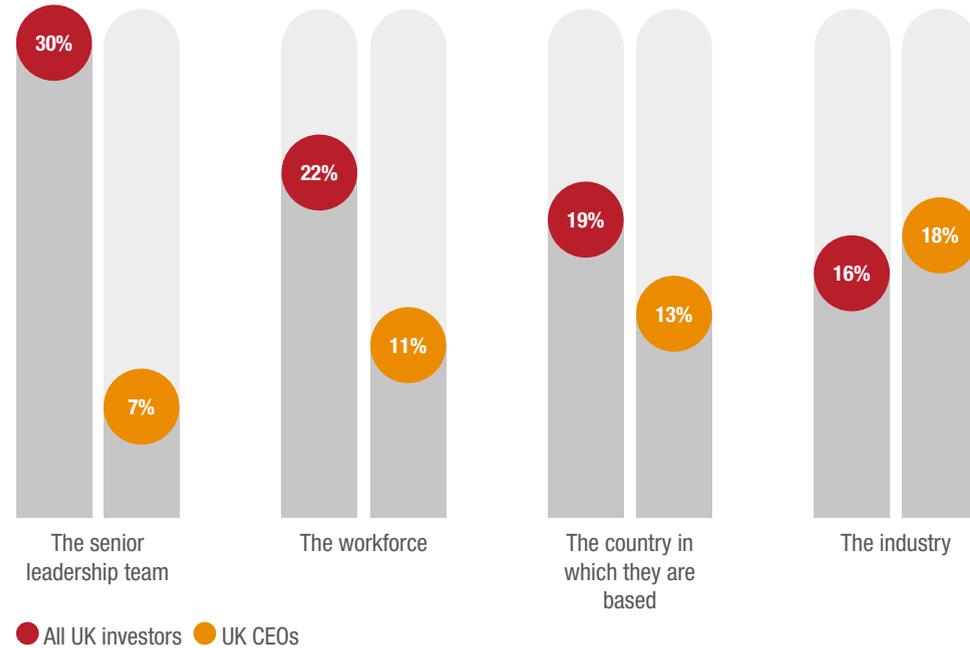
22%

of UK-based investors vs 32% of all UK investors

Investors are generally more concerned than CEOs about the ability of companies to access digital skills

Q Thinking specifically about digital skills, how concerned are you about the availability of these skills amongst the following in the companies you invest in or follow (for investors) or in your company (CEOs)?

i Chart shows percentage of respondents answering 'extremely concerned'.



By comparison

The workforce

10%

of UK-based investors vs 22% of all UK investors

The country in which they are based

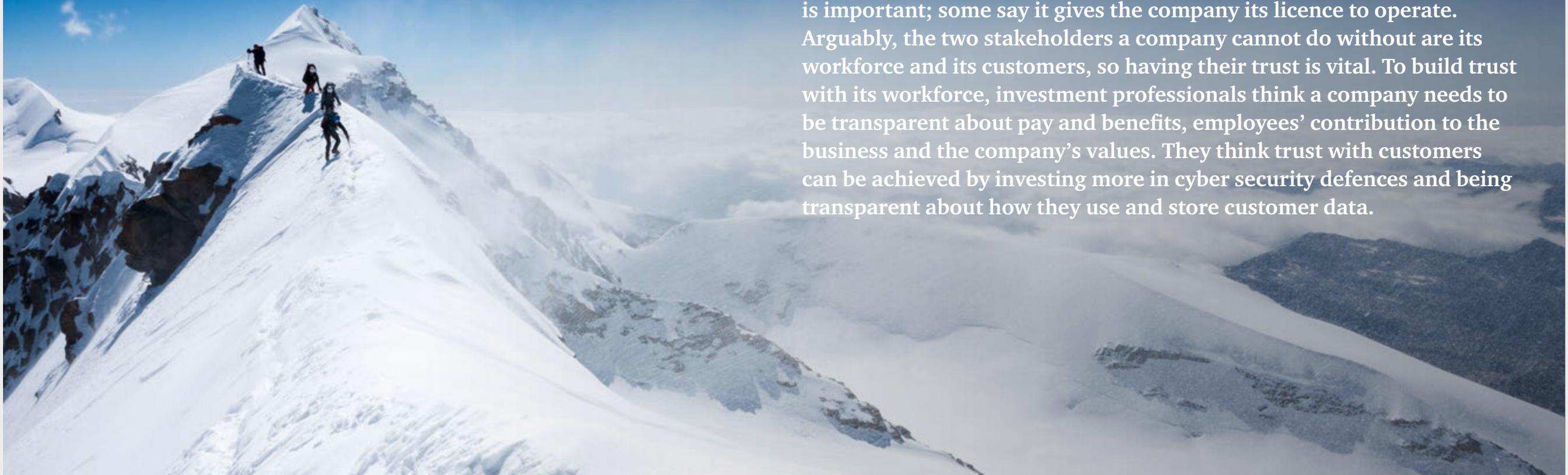
7%

of UK-based investors vs 19% of all UK investors

05

Trust: It's all about the people

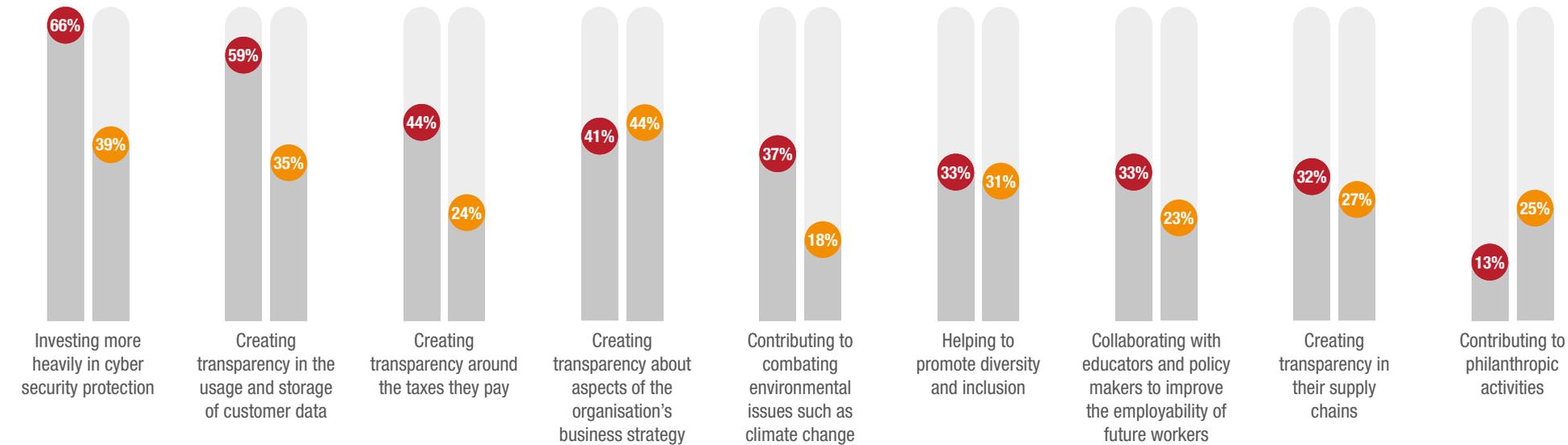
A company's ability to build and maintain trust with its stakeholders is important; some say it gives the company its licence to operate. Arguably, the two stakeholders a company cannot do without are its workforce and its customers, so having their trust is vital. To build trust with its workforce, investment professionals think a company needs to be transparent about pay and benefits, employees' contribution to the business and the company's values. They think trust with customers can be achieved by investing more in cyber security defences and being transparent about how they use and store customer data.



Investors think cyber security should be the top priority for building trust with customers, while CEOs employ a range of strategies

Q Beyond providing valuable products and services, to what extent do you think the companies you invest in or follow should be using (for investors) or is your organisation using (for CEOs) the following strategies and tactics to build trust with customers?

i Chart shows percentage of respondents answering 'to a large extent'.



● All UK investors ● UK CEOs

By comparison

Creating transparency in the usage and storage of customer data

49%

of Western Europe-based investors vs 59% of all UK investors

Creating transparency around the taxes they pay

31%

of US-based investors vs 44% of all UK investors

Collaborating with educators and policy makers to improve the employability of future workers

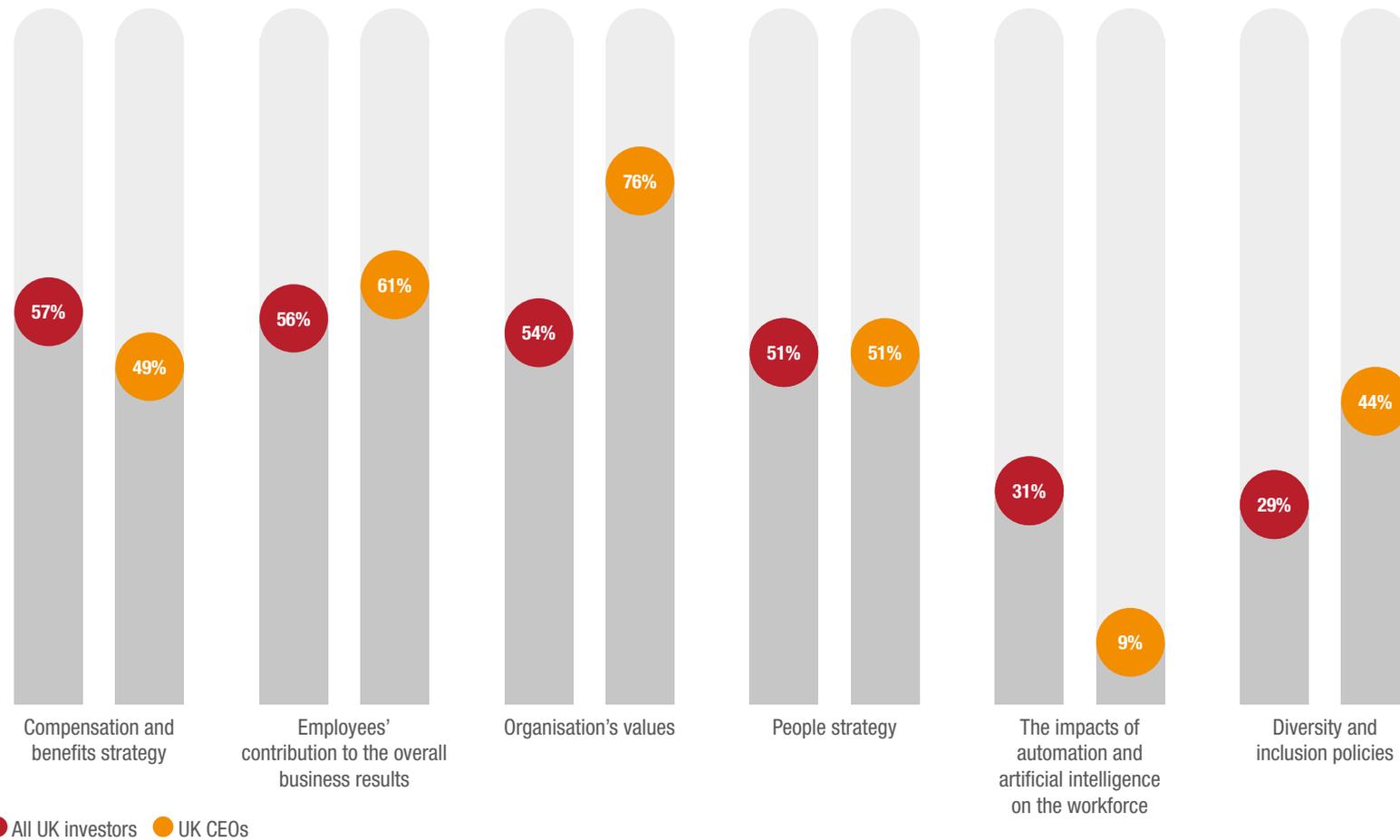
21%

of Western Europe-based investors vs 33% of all UK investors

Investors think trust with the workforce is built through pay, whereas CEOs prioritise the organisation's values

Q To what extent do you think the companies you invest in or follow could build trust with their workforce (for investors) or is your organisation building trust with its workforce (for CEOs) by creating transparency in the following areas?

i Chart shows percentage of respondents answering 'to a large extent'.



By comparison

Compensation and benefits strategy

44%

of UK-based investors vs 57% of all UK investors

Employees' contribution to the overall business results

45%

of UK-based investors vs 56% of all UK investors

06

A message from Hilary Eastman, Head of Investor Engagement, PwC UK



We hope you have found PwC's 2018 UK Investor Survey useful and insightful. Our research into the thinking and strategic direction of UK CEOs and how their views compare with the perceptions and expectations of investment professionals has identified a number of areas in which the two parties could work to understand each other better. Although there are a number of similarities in view, this report highlights where companies have an opportunity to communicate their approaches to, for example, driving growth and profitability, dealing with disruption, maintaining trust, preventing cyber attacks and managing customer data. It also shows areas investment professionals may want to focus on in their engagement with UK companies.

I would like to thank all the individuals who took the time to answer our surveys and speak to our researchers. Without hearing their opinions, we would be unable to share these insights.

Survey methodology

PwC conducted an online survey in which we received responses from 348 investment professionals from 43 countries who invest in UK companies. We also conducted 5 in-depth interviews. The respondents to the online survey were spread across a range of industries, roles and specialisms. We compared these responses with those in PwC's 21st CEO Survey, which captured the views of 193 CEOs of UK companies.

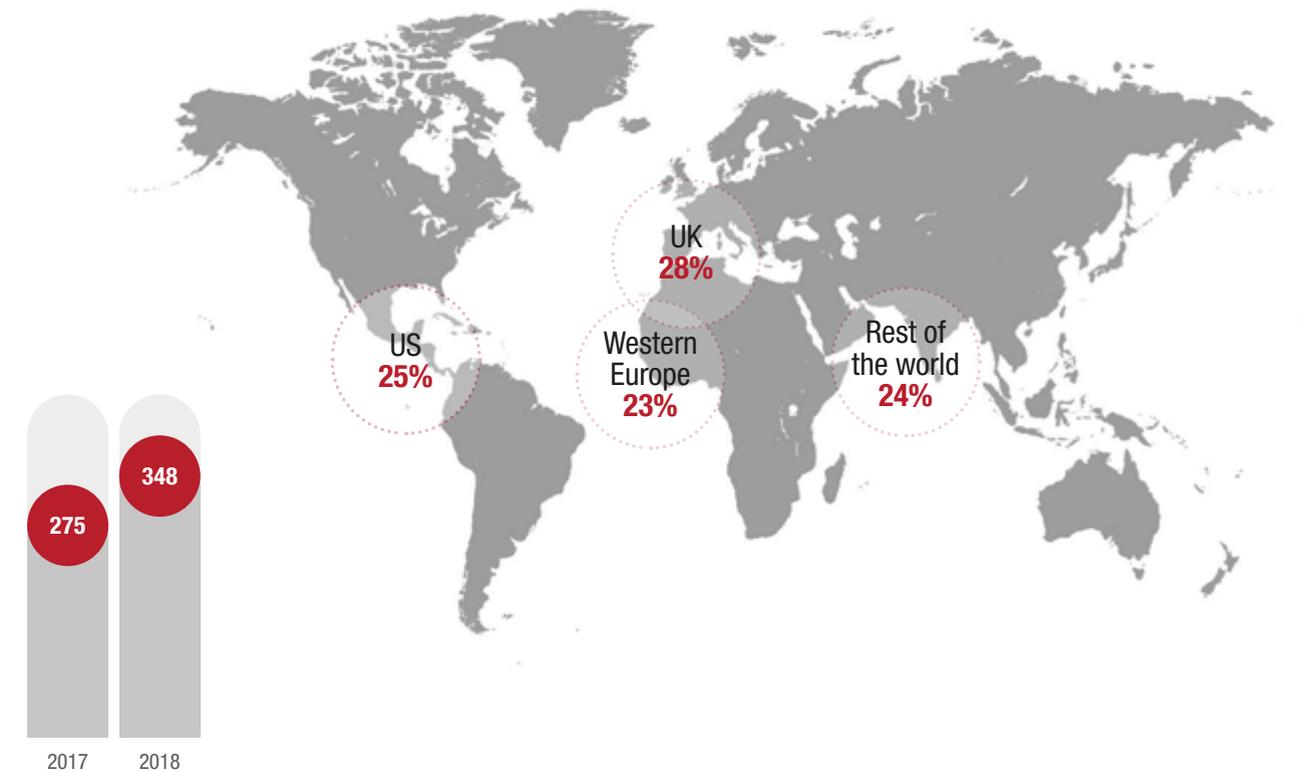
Investment professionals answered our questions in relation to what they expect of the companies they invest in or follow, whereas CEOs responded in the context of what their own organisation is doing.

Notes:

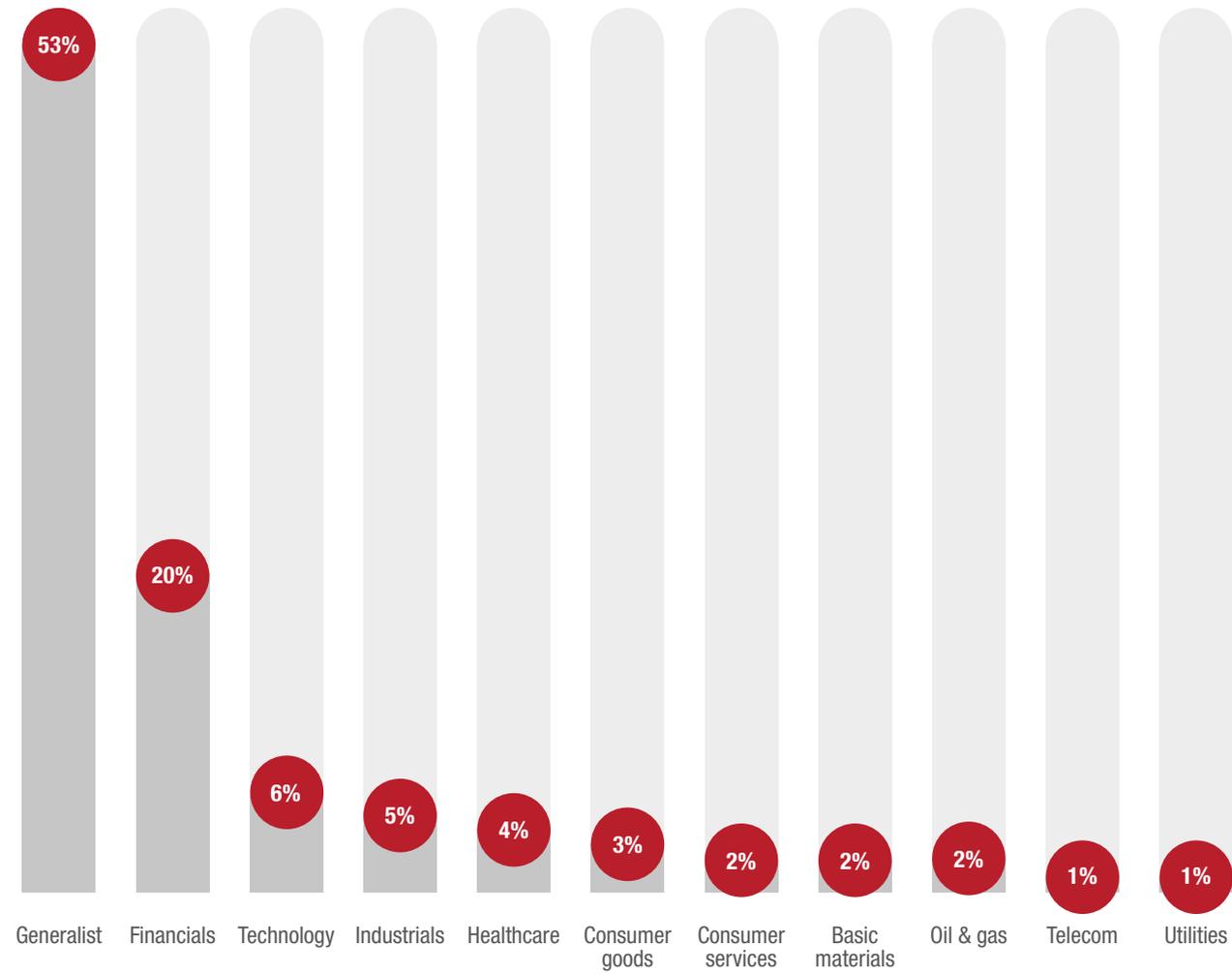
- Not all figures add up to 100% as a result of rounding percentages and exclusion of 'neither/nor', 'don't know' and 'prefer not to say' responses.
- The base figures for investors is 348 (all UK-focused respondents) unless otherwise noted. The base for figures for CEOs and global investors is detailed in the CEO Survey and Global Investor Survey, respectively.

The online research was undertaken by PwC Research, our Network's global centre of excellence for primary research and evidence-based consulting services. The in-depth interviews were conducted by staff of PwC UK.

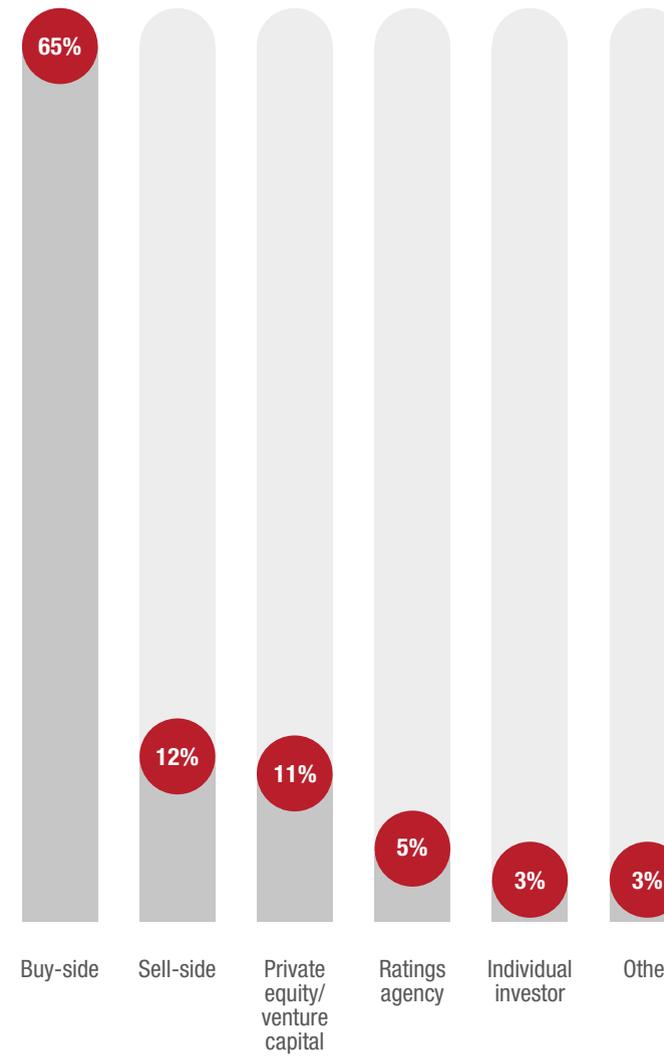
Number of survey respondents



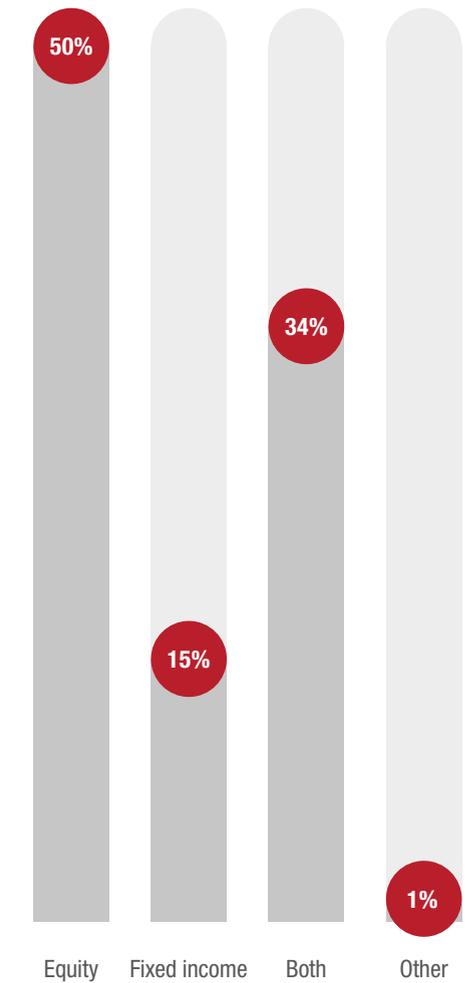
Industries covered



Role



Specialism



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