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Institutional investors warn of increasing correlations, finds Natixis survey

- *Stocks and bonds are too highly correlated, according to more than half of institutional investors surveyed*
- *Large investors say low-yield environment is No. 1 concern*
- *Significant increase in demand for innovation in managing liability risks, longevity*
- *Half of investors surveyed believe there is alpha in ESG (environmental, social and governance) investments*

Paris, January 26, 2016 – Institutional investors worldwide say it is challenging to find diversification among traditional asset classes, with more than half (54%) saying stocks and bonds are too highly correlated to provide distinctive sources of return, according to a recent survey by Natixis Global Asset Management. The survey also found evidence that alternative assets are taking on new prominence within institutional portfolios to help generate better risk-adjusted returns - the top priority of institutional investors in 2016.

"*In the current market, traditional asset allocation has become a zero-sum game*," said John Hailer, Head of international distribution and chief executive officer of Natixis Global Asset Management Americas and Asia. "*An investment approach that's fit for modern markets is needed. Institutional investors are increasingly moving to a broader mix of non-correlated assets alongside traditional stocks and bonds."*

Two-thirds (66%) of institutional investors believe that an effective way of easing risk is to increase allocations to non-correlated assets, including private equity, private debt and hedge funds. Nearly half (49%) say it is essential to invest in alternatives in order to outperform the broader markets.

The Natixis survey of 660 institutional investors includes corporate, public and government pension funds, sovereign wealth funds, insurance companies, and endowments and foundations collectively managing more than $35 trillion in assets.

Institutions worry about their ability to fund liabilities in a volatile, low-rate market. In response, they are adapting their investment strategies, risk management approach and business operations to better meet their long- and short-term obligations.
Eighty-four percent of institutions say the low-yield investing environment is their biggest concern for managing risk, followed by generating returns (82%) and funding long-term liabilities (72%). Nearly seven in ten (68%) say meeting growth objectives and short-term liquidity needs are a challenge to their organization.

"*These findings illustrate the dilemma faced by institutional investors, who are forced to call into question their traditional portfolio management techniques in order to respond to the challenges of an increasingly complex and turbulent financial environment*", explains Christophe Point, Head of Natixis Global AM Distribution for France, French-speaking Switzerland and Monaco. "*They are aware that they have to review their portfolio construction approach to maximise diversification and reduce risk*".

Performance expectations in an active / passive world

While costs are top of mind for institutions and many will increase usage of passive strategies in more efficient asset classes, active strategies still hold favor for pursuing better returns overall. Currently, 64% of institutional assets are managed actively and 36% are managed passively. Fifty-eight percent of investors say that, over the long term, active investments outperform passive ones. And, in the next 12 months, 67% say economic factors, changing monetary policies and market volatility will favor active managers.

The majority of institutional investors agree that active management is a source of alpha (87%), accessing non-correlated asset classes (77%) and taking advantage of short-term market movements (71%).

"*Concerned by the increase of correlation between asset classes and underlying risks - particularly in an uncertain market context - a growing number of institutional investors are seeking truly active fund managers, to deliver performance decorrelated from financial market volatility*", adds Christophe Point. "*They are increasingly moving towards a broader mix of active and passive investment management strategies in their portfolios, aware of their respective advantages.*"

Rising need for LDI innovation

The vast majority of institutions are concerned over meeting their long-term objectives and are looking for more innovative LDI (liability-driven investing) solutions.
72% of institutions say they are concerned about their ability to fund long-term liabilities, and 68% say it is a challenge to manage uncertain liabilities linked to increased longevity. Although nearly three-quarters of institutions (73%) say they have tools to manage liability assets, 78% say they are looking for more innovative LDI solutions for today's markets, a significant rise from 60% in 2014.

"*As the population ages and people live longer, underestimating future liabilities is a significant risk for institutional investors*," Hailer said. "*Institutions are expressing growing demand for product improvements to better manage long-term liabilities. The findings of our survey continue to suggest that LDI innovation is not keeping up with the demands of institutional investors*."

Incorporating ESG investing

Many institutional investors (64%) say it has become increasingly difficult to achieve alpha. Half now see environmental, social and governance (ESG) investments as a potential source of return, and 51% say ESG assessments help mitigate headline-making risks. Most (95%) institutional investors are to some extent incorporating environmental, social and governance (ESG) strategies. More than four in ten (41%) of them do so, primarily because it's in their fund's mandate.

About the survey

The Natixis Global Asset Management Institutional Investor study is based on fieldwork carried out in 29 countries. The online survey was conducted in October 2015 with 660 senior decision makers working in institutional investment. The findings are published in a new whitepaper, Smart Money Never Sleeps, by the Natixis Durable Portfolio Construction Research Center. To download a copy, visit http://durableportfolios.com.

Press Contact

Natixis Global Asset Management
Samia Hadj, Global Public Relations
Tel: +44 (0)20 3405 4206
samia.hadj@ngam.natixis.com

Natixis
Farah Boudjemia
Tél. +33 (0)1 58 19 47 41
farah.boudjemia@natixis.com

About Natixis Global Asset Management

Natixis Global Asset Management, S.A. is a multi-affiliate organization that offers a single point of access to more than 20 specialized investment firms in the Americas, Europe and Asia. The firm ranks among the world's largest asset managers.[1] Through its Durable Portfolio Construction® philosophy, the company is dedicated to providing innovative ideas on asset allocation and risk management that can help institutions, advisors and individuals address a range of modern market challenges. Natixis Global Asset Management, S.A brings together the expertise of multiple specialized investment managers based in Europe, the Americas and Asia to offer a wide spectrum of equity, fixed-income and alternative investment strategies.

Headquartered in Paris and Boston, Natixis Global Asset Management, S.A.'s assets under management totaled $865.9 billion (€775.5 billion) as of September 30, 2015.[2] Natixis Global Asset Management, S.A. is part of Natixis. Listed on the Paris Stock Exchange, Natixis is a subsidiary of BPCE, the second-largest banking group in France. Natixis Global Asset Management, S.A.'s affiliated investment management firms and distribution and service groups include Active Investment Advisors;[3] AEW Capital Management; AEW Europe; AlphaSimplex Group; Aurora Investment Management; Axeltis; Capital Growth Management; Cube Infrastructure Managers; Darius Capital Partners; DNCA Investments;[4] Dorval Finance;[5] Emerise;[6] Gateway Investment Advisers; H2O Asset Management;[5] Harris Associates; IDFC Asset Management Company; Loomis, Sayles & Company; Managed Portfolio Advisors;[3] McDonnell Investment Management; Mirova;[5] Natixis Asset Management; Ossiam; Seeyond;[7] Snyder Capital Management; Vaughan Nelson Investment Management; Vega Investment Managers; and Natixis Global Asset Management Private Equity, which includes Seventure Partners, Naxicap Partners, Alliance Entreprendre, Euro Private Equity, Caspian Private Equity and Eagle Asia Partners. Visit http://ngam.natixis.com for more information.

1 Cerulli Quantitative Update: Global Markets 2015 ranked Natixis Global Asset Management, S.A. as the 17th largest asset manager in the world based on assets under management ($890.0 billion) as of December 31, 2014.
2 Net asset value as of September 30, 2015. Assets under management (AUM) may include assets for which non-regulatory AUM services are provided. Non-regulatory AUM includes assets which do not fall within the U.S. Securities and Exchange Commission's definition of 'regulatory AUM' in Form ADV, Part 1.
3 A division of NGAM Advisors, L.P.
4 A brand of DNCA Finance.
5 A subsidiary of Natixis Asset Management.
6 A brand of Natixis Asset Management and Natixis Asset Management Asia Limited, based in Singapore and Paris.
7 A brand of Natixis Asset Management

Natixis Global Asset Management also includes business development units located across the globe, including NGAM S.A., a Luxembourg management company authorized and regulated by the CSSF, as well as branch offices of NGAM Distribution in France.

About Natixis

Natixis is the international corporate, investment, insurance and financial services arm of Groupe BPCE, the 2nd-largest banking group in France with 36 million clients spread over two retail banking networks, Banque Populaire and Caisse d'Epargne.
With more than 16,000 employees, Natixis has a number of areas of expertise that are organized into three main business lines: Corporate & Investment Banking, Investment Solutions & Insurance, and Specialized Financial Services.
A global player, Natixis has its own client base of companies, financial institutions and institutional investors as well as the client base of individuals, professionals and small and medium-size businesses of Groupe BPCE's banking networks.
Figures as at June 30, 2015