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PRESS RELEASE

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Institutional investors embrace risk in pursuit of better returns and yield, finds Natixis Global Asset Management Survey

- **Institutions seek new ways to meet long-term growth and liability goals by simultaneously mitigating and exploiting risk in low-yield, volatile market environment**
- **Key strategies include growing use of private investments, illiquid assets, increased exposure to alternatives and greater reliance on risk budgeting and diversification**
- **80% of French institutional investors (75% globally) believe today's markets are more favorable to active managers**

Natixis Global Asset Management published today its annual international survey of institutional investors - 500 managers of public and corporate pensions, foundations, endowments, insurance funds and sovereign wealth funds in North America, Latin America, the United Kingdom, Continental Europe, Asia and the Middle East. Collectively, they manage $15.5 trillion in assets.

Faced with volatility, greater risks and still-low yields, institutional investors are raising their exposure to higher-risk assets in pursuit of better returns, At the same time, they are doubling down on risk management to better balance long-term growth objectives and liquidity needs, but say they need better ways of identifying risk across their portfolios.

The findings provide insight into how institutional investors, largely considered to be the world's largest, smartest investors, are using risk to their advantage. 75% of French institutional managers, versus 62% globally, feel they can handle near-term market risk despite greater volatility, which they say poses the biggest risk to their performance.

Their top organizational concern, however, is low yield. Given the prospect for greater volatility and persistence of low interest rates, few global institutions are relying on traditional portfolio strategies to meet their performance goals. In their efforts to manage the risks, they believe the more effective techniques include diversifying holdings across sectors (88%), risk budgeting (83%), increasing their use of alternative investments (80%) and smart beta (75%).

The survey reveals that the percentage of global institutions using alternatives to manage risk has exploded from 53% in 2015 to 76% today. In addition, 56% report that their organization is investing in more in illiquid assets today than they were three years ago.

« While risk factors change over time, the challenge for institutional investor remains to deliver long-term results while navigating short-term market pressures," said Fabrice **Chemouny, Executive Vice President and Global Head of Institutional Sales of Natixis Global Asset Management – International Distribution**. "*Given their mandates, avoiding risk is not an option for institutional investors. They have to beat the odds or change the game, and they are doing so by balancing risks and embracing alternatives to traditional portfolio construction, but always with an eye on their long-term objectives ».*

Pursuing growth: bigger role for real assets, alternatives

In examining their goals, 70% of global investors believe their return expectations are achievable, but confidence may not be as strong as it seems on the surface. Half (50%) of the institutions expect to decrease return assumptions in the next 12 months.
While most are confident they'll be able to meet their long-term liabilities, 62% think most of their peers won't. 67% of French institutional agree that traditional diversification and portfolio construction techniques need to be replaced with new approaches.

The survey found:

- 67% of global institutional investors think private equity provides higher risk-adjusted returns than traditional asset classes, and 55% believe private equity provides better diversification than traditional stocks.
- 73% of them think private debt provides higher risk-adjusted returns than traditional bond investments. The three areas they consider most promising are infrastructure, healthcare and the sector combining technology, media & telecom. Many also say they are likely to consider increasing use of direct lending (44%) and collateralized debt (34%).
- About one-third (34%) of global institutions report that they are planning to increase allocations to real assets, including real estate, infrastructure and aircraft financing, in the next 12 months. As seen with their broader views on private markets, 63% of institutional decision makers' primary goal for investing in real assets is earning higher returns.
- About one half of French institutions (46%, versus 56% globally) report they are increasing exposures to alternative investment strategies this year. The adoption of alternative investments isn't limited to growth portfolios, as 71% of French respondents say alternatives have a role in liability-driven investing as well.

Balancing growth, risk, liquidity and liabilities

While global institutions think that alternatives help to diversify portfolios and manage risk, more than half (55%) report that their need for liquidity has limited their ability to invest in alternatives. Many institutional decision makers (71%) believe more stringent solvency and liquidity requirements established by regulators around the world have resulted in a greater bias for shorter time horizons and more liquid assets. This has proven to be a significant challenge to meeting liabilities that stretch out over multiple decades. Respondents say their top risk management concern is balancing long-term growth objectives with long-term liquidity needs.
ESG (environmental, social and governance) investing is taking on broader dimensions for investment teams, providing a measure for identifying companies and investment trends that may provide long-term growth potential to the portfolio. 67% of French investors surveyed (59% globally) say that considering ESG issues is a way to generate alpha. An equal percentage says it is a way to lessen headline risks, such as lawsuits, environmental harm or social discord. 62% believe ESG will be a standard practice for all managers in the next five years.

Active management is better suited to generating risk-adjusted returns

Nearly 80% of French institutional investors (75% globally) believe today's markets are more favorable to active managers – an increase of 6% over 2015. The projection for passive has dropped steeply year over year. In 2015, they assumed a 9% increase in allocations to passive within three years, now they anticipate an increase of just over 1% by 2019. Asked to compare the relative strengths of active and passive investments, 86% say active is better suited to generating alpha, to generating risk-adjusted returns (64%), for accessing emerging market opportunities76%, and for ESG investing 75%.

While institutional investors see the value of passive investments for specific objectives, they see potential problems for individual investors who have come to rely heavily on indexing. For 75% of French institutional investors, individuals are not fully aware of the risks of indexing which may conduct them to a false sense of security about indexing.

The challenge of liability management

Liability management is top of mind for institutional decision makers. 70% of global institutions surveyed have adopted asset-liability matching strategies to help them align asset sales and income streams to future expenses with the goal of managing liquidation risk. Many of these strategies have relied on high-quality fixed-income securities, but institutions are now using a wider range of instruments in liability-driven investing (LDI).
They include hedging strategies (used by 47%), inflation-linked bonds (44%) and nominal bonds (37%). But they are also looking for a broader set of options. About three-quarters of institutional investors (77%) say alternatives have an important role to play in LDI portfolio management, as they offer valuable diversification and risk mitigation and complement the overall portfolio.
A significant number (62%) believe that despite using LDI strategies, most organizations will fail to meet their long-term objectives. Three in five (60%) say there is a lack of innovation in LDI solutions, although not as many (41%) are willing to pay a premium for innovative LDI solutions.

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Methodology

Natixis surveyed 500 institutional investors about their opinions on risk, predictions on asset allocation and views on market performance. The respondents included managers of corporate and public pension funds, foundations, endowments, insurance companies and sovereign wealth funds in North America, Latin America, the United Kingdom, Continental Europe, Asia and the Middle East. Data was gathered in October and November 2016 by the research firm CoreData. The findings are published in a new whitepaper, "Double Down." For more information, visit www.durableportfolios.com

About Natixis

Natixis is the international corporate, investment, insurance and financial services arm of Groupe BPCE, the 2nd-largest banking group in France with 35 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 December 31, 2016

About Natixis Global Asset Management

Natixis Global Asset Management serves thoughtful investment professionals worldwide with more insightful ways to invest. Through our Durable Portfolio Construction® approach, we focus on risk to help them construct more strategic portfolios that seek to endure today's unpredictable markets. We draw from deep investor and industry insights and partner closely with our clients to put objective data behind the discussion.
Natixis Global Asset Management is ranked among the world's largest asset management firms.[1] Uniting over 20 specialized investment managers globally (€832 billion AUM[2]), we bring a diverse range of solutions to every strategic opportunity. From insight to action, Natixis Global Asset Management helps our clients better serve their own with more durable portfolios.
Headquartered in Paris and Boston, 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; Axeltis; 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] 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 ngam.natixis.com for more information.

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.

1 Cerulli Quantitative Update: Global Markets 2016 ranked Natixis Global Asset Management, S.A. as the 16th largest asset manager in the world based on assets under management ($870.3 billion) as of December 31, 2015.
2 Net asset value as of December 31, 2016. 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 SEC'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.

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