

Paris, 26 September 2017

Investors' Appetite for Gains Exceeds Their Stomach for Risk, and Index Funds May Not Deliver What They Want

Natixis Global Asset Management has released the results of its 2017 Global Individual Investor survey. A total of 8300 individual investors (400 in France) have been surveyed between February and March 2017 in 21 countries across Asia, Europe, the Americas and the Middle East. Among the main findings:

- **Passive index funds could leave investors short of their goals. French investors say they need returns of 9.1% above inflation to meet their goals at a time when many experts expect low single-digit returns from many market indices.**
- **Investors' use of index funds may be at odds with their strong desire for ESG investments. 80% of French investors want their investments to reflect their personal values, but only 44% say index funds contain these types of companies.**
- **Closet indexers are damaging trust in the fund industry. 72% of investors expect truly active managers, but almost the same number (66%) believe many managers are charging active management fees while really just tracking an index**
- **More education is needed on alternative investments. 60% of French investors believe it is essential to invest in alternatives to reduce risk, but only 40% do so effectively.**
- **When it comes to making investment decisions, investors trust their financial advisors (75%), more than their close friends or family (54%), the financial media (59%) or social media (32%).**

More than two-thirds of global investors feel financially secure, emboldened enough by strong market gains to take additional investment risks. But the record highs and historic calm over the past year aren't enough to soothe their fear of losses. Investors' definition of risk seems to be focused on the loss of capital and not on investment opportunities.

Natixis' survey also shines a light on investors' confusion over even basic topics, such as the attributes of index investing, pointing to a need for greater clarity. Although 72% of French investors continue to say they would prefer safety over performance, they also say they need returns of 9.1% above inflation. At a time when many market experts are forecasting low single-digit returns over the long-term, investors may need to rethink their strategy and turn to truly active managers that strive to outperform market benchmarks through superior security selection.

Skeptical and confused, French investors value advice more than ever

The majority (72%) of investors say the asset management industry provides value for money, but they need to be reassured that those firms are managing their assets in their best interests. Some of this skepticism can be traced to closet indexers – firms that claim to actively manage their funds and charge commensurate fees, but deliver portfolios that mimic benchmarks. Sixty-two percent of French investors say they expect their mutual funds to have portfolios that differ substantially from their benchmarks, but two-thirds (66%) believe many managers charge active fees while really just tracking an index. In Natixis surveys last year*, 57% of institutional managers and 43% of financial advisors cited the prevalence of closet indexers as a reason they used passive strategies.

The survey also found continued misperceptions about index investments. Fifty two percent of investors mistakenly believe index funds are less risky and 60% say they help minimise losses, even though index funds track both the ups and downs of the markets they follow and provide no built-in risk management. Seventy-five percent of global institutions* said investors have a "false sense of security" about passive investing. Asked to compare the relative strengths of active and passive investments,

86% of institutional investors say active is better suited to generating alpha, to generating risk-adjusted returns (64%), for accessing emerging market opportunities (76%), and for ESG investing (75%), while passive investment management is regarded above all as a way to reduce management fees.

These differences in perception reflect the challenges that individual investors are facing. The good news is that investors are ultimately seeking out the assistance of financial advisors: 66% of French investors receive financial advice and 65% of them believe they need an expert to find the best investment opportunities (65%).

“Through our research, investors tell us loud and clear they need advice, they’re confused about passive investing, and they want transparency and value for their money,” said **Jean-François Baralon, Head of Natixis Global Asset Management Distribution for France, French-speaking Switzerland and Monaco.** *“Individual investors tend to attribute to index funds advantages that they don’t always have in terms of risk control. Truly active management, on the other hand, can help to optimise risk and generate alpha over the long term.”*

ESG demand from individual investors grows, but may not be compatible with passive index investing

Almost 80% of French investors say they want their investments to reflect their personal values and adhere to high standards for environmental, social and governance (ESG) criteria. Seventy-two percent say it is important to invest in companies that are ethically run, while 67% believe it is important to invest in companies that have a positive social or environmental impact.

But the desire for investments to better match personal convictions is difficult to rationalize for investors who rely solely on traditional passive index funds, as hundreds of companies are included in many popular indexes regardless of their corporate behavior or ethics. Only 44% of French investors say index funds contain companies that reflect their personal values.

Investors are looking for alternatives, but need help

French retail investors express a great need to integrate risk management into their investments. Seventy-six percent seek investment solutions that provide them with greater diversification, a better risk/reward pairing (78%), protection from volatility (75%) and decorrelated performance (74%). Yet, while alternative investments could help meet these needs, only 40% of French individual investors say they invest in them.

“The financial industry as a whole has an important role to play to help investors make thoughtful long-term investment decisions and to enable them to explore all the investment strategies available. It is encouraging to see that investors are showing a greater interest in ESG and alternative solutions, but to best utilise these strategies, investors need education, clarity and professional advice,” concludes **Jean-François Baralon.**

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**2016 Natixis Institutional Investors Survey released in March 2017. Carried out in October and November 2016 among 500 global institutional investors*

Methodology

Natixis Global Asset Management’s 2017 survey of 400 retail investors was conducted by CoreData as part of a broader, global survey with 8300 investors in 21 countries in Asia, Europe, the Americas and the Middle East. The survey was conducted online in February and March 2017 with investors

possessing at least USD 100,000 (or an equivalent sum in purchasing power parity) in net investable assets.

The full report can be viewed at: ngam.natixis.com/us/research/individual-investor-survey-trust-2017.
To find out more go to: 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 31.2 million clients spread over two retail banking networks, Banque Populaire and Caisse d'Épargne.

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, 2017

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 (\$951.7 billion AUM²), 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 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 June 30, 2017. 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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