NATIXIS INVESTMENT MANAGERS

NEWS RELEASE

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2018 Outlook: 75% of institutional investors say current environment favors active management,

- *Allocations to passive strategies decline for third consecutive year; 75% believe the current market environment favors active management*
- *72% are surprised volatility has been so low for so long, but geopolitical risks and asset bubbles are institutional investors' the top concerns*
- *Alternative assets overshadow bonds as investors shift to Europe & emerging markets; Technology, healthcare, aerospace and financial sectors seen as top outperformers*

Two-thirds of institutional investors worldwide (65%) expect asset bubbles to negatively impact performance in 2018 and three out of every four (75%) believe the current market environment favors active management. On the other hand, allocations to passive slide for the third year in a row, according to a new study released today by Natixis Investment Managers.

To position their portfolios for the volatility they expect as central banks gradually remove the monetary life support system in place since the financial crisis, they are also increasing allocations to non-traditional assets, including private equity, private debt, infrastructure and real estate, as they seek alternatives to bonds and hunt for higher returns in a crowded market.

The survey found 59% believe that volatility has been artificially suppressed by flows into passive investment strategies. More than half (57%) believe the increase in passive investing is distorting relative stock prices and creating systemic market risks (63%), of which 72% believe individual investors aren't yet aware.

Jean-François Baralon, Head of Distribution for France, French-speaking Switzerland and Monaco at Natixis Investment Managers, comments, "Institutional investors around the globe are wary of fragile market conditions, distorted asset prices and systemic risks caused by central bank interventions and the growing popularity of passive investments, and they continue to turn to active management to manage current market conditions. They are confident their own portfolios are built to weather future market conditions, but warn that individual investors are not aware of the systemic market risks posed by passive investing."

Navigating active markets

Comparing passive and active approaches directly, a 57% majority say active managers outperform passive in the long run. Three-quarters of institutions (75%) say active managers are better at accessing emerging market opportunities – and a similar proportion (74%) say active managers provide better exposure to non-correlated asset classes.

Jean-François Baralon continues, "Managing downside risks will be more of a challenge in 2018 – but the New Year should also be seen as an opportunity. Volatility can boost returns for those able to take advantage; however institutions without a truly diverse and durable portfolio risk reacting to market corrections and volatility

– rather than profiting from such movements. Markets look set for a more lively and volatile 2018, and active markets will therefore demand far more active thinking.”

Asset bubbles and equity volatility

An overwhelming three-quarters of institutions (77%) believe a prolonged period of low interest rates has led to the creation of asset bubbles. Moreover, looking ahead, 62% of institutional investors see interest rate rises as the top portfolio concern for 2018 – a potential trigger for a correction in fixed income values.

The survey also found asset bubbles rival geopolitical events – a concern for 74% following recent events – and asset bubbles rank ahead of interest rate increases (61%) as the factor institutions believe will have the most negative impact on their investment performance in 2018.

Yet renewed volatility (rather than a sustained correction) is set to be the main feature for equities in 2018: an overwhelming 78% of institutions expect an increase in equity volatility next year. Looking back on the absence of volatility this year, a majority of institutional investors (59%) believe this is unsustainable and is in fact a cause for serious concern.

The hunt for diversification

Institutional investors are placing greater faith in both equities and uncorrelated, alternative investments to help them ride out such market challenges. Almost two-thirds (64%) say fixed income is no longer providing its traditional risk management role in portfolios, while 60% of institutions now believe traditional assets in general are too highly correlated to provide distinctive sources of return.

By contrast 78% say increasing the use of alternatives is an effective way to manage risk. Within alternatives, there is also an appetite for illiquidity, as 74% believe potential returns make such investments worth the risk associated with fixed timeframes. Private equity is the most popular example with 39% of institutions increasing their private equity investments – and two-thirds (67%) are satisfied with the performance of private equity investments in their portfolio.

In terms of sector picks: more institutions (45%) expect the technology sector to outperform the market in 2018 above any other sector, followed by healthcare (44%), defense/aerospace (43%) and financials (41%).

In direct competition to fixed income, more than three quarters of institutional investors now say that private debt provides higher risk-adjusted returns than fixed income vehicles – and 36% of institutions are currently increasing their private debt holdings.

A longer-term view on the sustainability of returns is also emerging. Three-in-five (60%) institutions now say incorporating Environmental and Social Governance (ESG) practices will be standard for all managers within the next five years. This appears to be for practical purposes as much as moral; a similar majority (59%) say there is alpha to be found in ESG investing.

Jean-François Baralon concludes, “Institutional investors worldwide are steeling themselves for the possible emergence – and correction – of asset bubbles, alongside interest rate hikes and increased volatility. Beyond the traditional interplay of fixed income and equities, we’re also seeing many institutional investors seek refuge in alternative investment strategies, as they look to protect and diversify their portfolios while also generating satisfactory returns. Instead of the long-standing hunt for yield, we are seeing an emerging scrutiny of portfolios – and a new hunt for diversification.”

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Methodology

Natixis surveyed 500 institutional investors including managers of corporate and public pension funds, foundations, endowments, insurance funds and sovereign wealth funds in North America, Latin America, the United Kingdom, Continental Europe, Asia and the Middle East. Data was gathered in September and October 2017 by the research firm CoreData. The findings are published in a new whitepaper, "It's the end of the world as they know it. And they feel fine." For more information, visit durableportfolios.com/global/understanding-investors/institutional-investor-outlook-2018.

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About Natixis Investment Managers

Natixis Investment Managers serves financial professionals with more insightful ways to construct portfolios. Powered by the expertise 26 specialized investment managers globally, we apply Active Thinking☒ to deliver proactive solutions that help clients pursue better outcomes in all markets. Natixis ranks among the world's largest asset management firms[1] ($961.1 billion AUM[2]).

Headquartered in Paris and Boston, Natixis Investment Managers is a subsidiary of Natixis. Listed on the Paris Stock Exchange, Natixis is a subsidiary of BPCE, the second-largest banking group in France. Natixis Investment Managers' affiliated investment management firms and distribution and service groups include Active Index Advisors®;[3] AEW; AlphaSimplex Group; Axeltis; Darius Capital Partners; DNCA Investments;[4] Dorval Asset Management;[5] Gateway Investment Advisers; H2O Asset Management;[5] Harris Associates; Investors Mutual Limited; Loomis, Sayles & Company; Managed Portfolio Advisors®;[3] McDonnell Investment Management; Mirova;[6] Natixis Asset Management; Ossiam; Seeyond;[7] Vaughan Nelson Investment Management; Vega Investment Managers; and Natixis Private Equity Division, which includes Seventure Partners, Naxicap Partners, Alliance Entreprendre, Euro Private Equity, Caspian Private Equity and Eagle Asia Partners. **Not all offerings available in all jurisdictions.** For additional information, please visit the company's website at im.natixis.com. Natixis Investment Managers Distribution (n.509 471 173 RCS Paris). Registered office: 21 quai d'Austerlitz, 75013 Paris.

Natixis Investment Managers includes all of the investment management and distribution entities affiliated with Natixis Distribution, L.P. and Natixis Investment Managers S.A.

[1] *Cerulli Quantitative Update: Global Markets 2017 ranked Natixis Investment Managers (formerly Natixis Global Asset Management) as the 15th largest asset manager in the world based on assets under management as of December 31, 2016.*
[2] *Net asset value as of September 30, 2017. Assets under management ("AUM"), as reported, may include notional assets, assets serviced, gross assets and other types of non-regulatory AUM.*
[3] *A division of Natixis Advisors, L.P.*
[4] *A brand of DNCA Finance.*
[5] *A subsidiary of Natixis Asset Management.*
[6] *A subsidiary of Natixis Asset Management. Operated in the U.S. through Natixis Asset Management U.S., LLC.*
[7] *A brand of Natixis Asset Management. Operated in the U.S. through Natixis Asset Management U.S., LLC.*

About Natixis

Natixis is the international corporate and investment banking, asset management, 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'Epargne.
With more than 17,000 employees, Natixis has a number of areas of expertise that are organized into four main business lines: Asset & Wealth Management, Corporate & Investment Banking, 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 September 30, 2017