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# Latin American & US Offshore Advisors Portfolio Barometer

## The latest research and insights from Natixis Investment Managers

Natixis Investment Managers' Portfolio Barometer offers insights into Latin American & US Offshore financial advisors' model portfolios and the allocation decisions they are making. Our team of dedicated consultants works directly with financial advisors and other intermediaries to analyze and enhance their understanding of the sources of risk, return and diversification in their portfolios.

In this report we present the changes we've seen in advisors' moderate model portfolios in the second half of 2019 compared to the first half and explain the key drivers in performance differentials.[1] We also contrast Latin American & US Offshore portfolios with moderate models from countries profiled in our Global Barometer. Finally, we compare annual results with the capital markets outlook provided by seven key Latin American & US Offshore financial institutions at the beginning of 2019.

**SECOND HALF 2019**

Trends and observations derived from in-depth analysis of 38 model risk-rated portfolios managed by Latin American & US Offshore financial advisors and wealth firms.

## Key Findings

- **Equity exposure declined** to 40.7% from 43.0% at midyear, but retained its position as the largest broad asset class in the average Latin American & US Offshore moderate model portfolio.
- **Actively managed funds accounted for 84%** of equity allocations, with higher active allocations in international and emerging markets and lower exposure to active managers in North American funds.
- **Fixed income allocations ticked up slightly,** accounting for 39.5% of the average moderate model, with 94% in actively managed products.
- **Advisors trimmed their positions in multi-asset products** from 11.1% to 8.9%.
- **Exposure to alternatives doubled,** increasing to 7.3% from 3.6% in the prior half.
- **Compared to its international peers,** the average Latin American & US Offshore moderate model portfolio performed well in 2019, beating out Spain, France and the UK, while only trailing US onshore by a small margin.
- **Financial institutions largely underestimated** the strength across nearly all asset classes in their 2019 yearly outlooks.

1 The model portfolios under review were defined as Moderate Risk by the firms themselves.

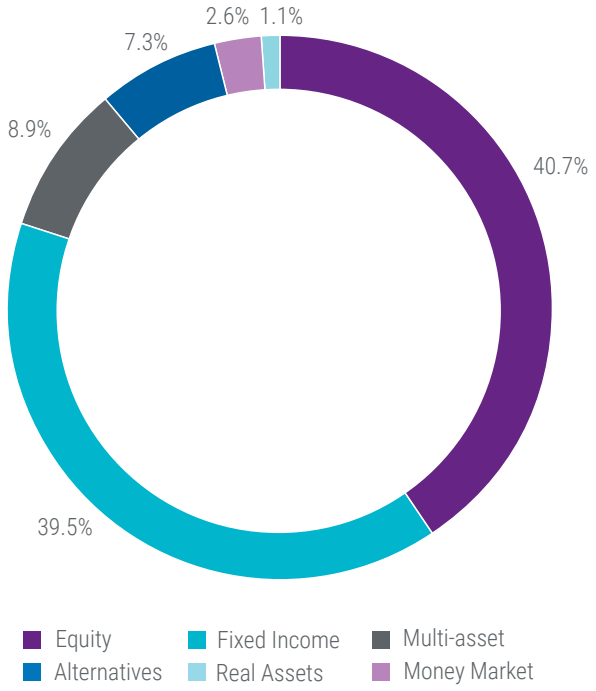
## Equity and fixed income allocations just about equal

Many of the advisors we work with indicated they wanted to take a little risk off the table by rebalancing back to initial allocations as equity markets continued to rally. Some went even further, increasing their allocations to fixed income and alternatives. In the Latin American & US Offshore moderate model portfolio peer group, North American and Global Equity allocations increased slightly, to 17.9% and 11.7% respectively, with a preference for growth stocks over value stocks.

These moves appear to have been related to advisor concerns about the UK and Japan. While they seemed to like the valuations in Europe, where they preferred value over growth, advisors didn't have the courage of their convictions in those markets. "Other Equity" allocations were cut by half, to more normal levels, with Sector Equities accounting for 2.7% of allocations (primarily Healthcare) and individual stock holdings just 0.5% of the 4.5% total.

ESG-oriented allocations (environmental, social, governance) accounted for about 30% of average equity exposure. ESG allocations were highest in Emerging Market Equity, at just over 50%, compared to 20% in North America, where large-cap indexing is more popular.[2]

**FIGURE 1: Average allocations in Latin American & US Offshore moderate model portfolios (2H 2019)**




Source: Natixis Portfolio Clarity® data from July 1 to Dec. 31, 2019. Asset classes are based on Morningstar categories. Real assets represents the sum of commodities, property and miscellaneous.

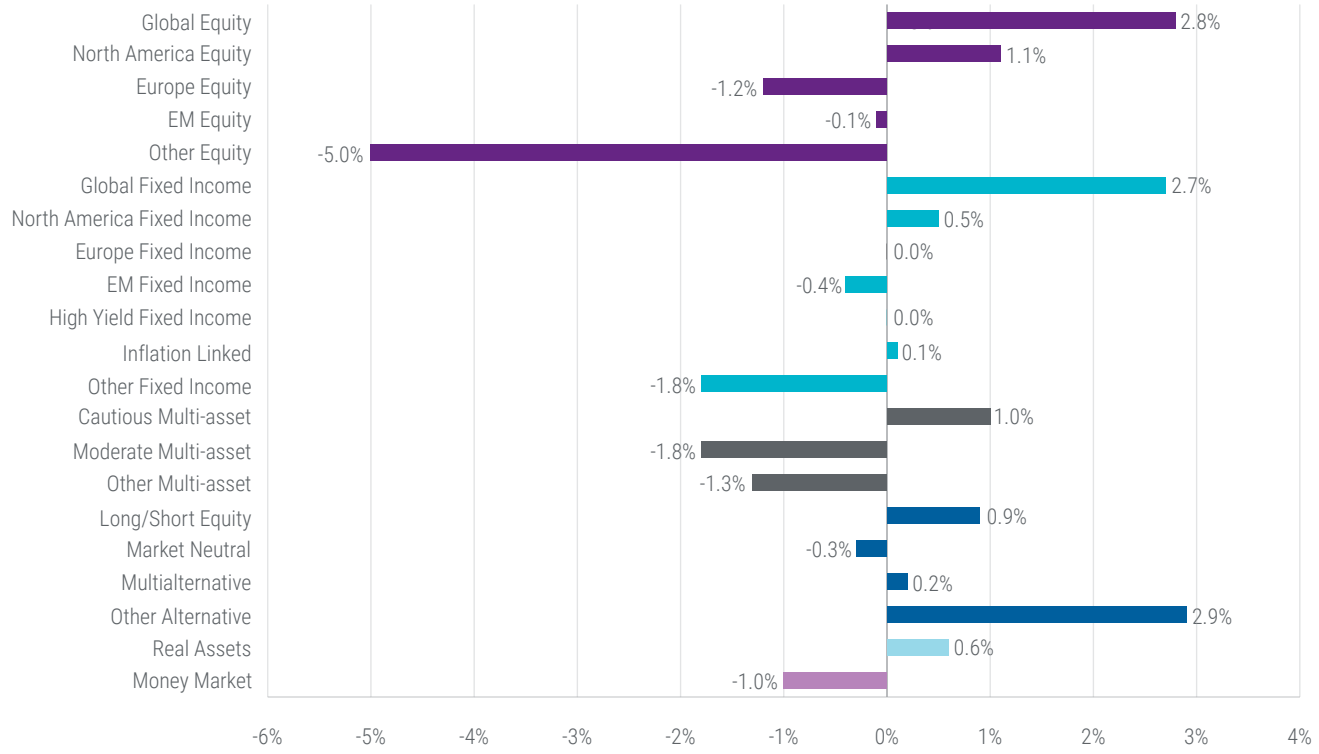
**FIGURE 2: Detailed asset allocation of moderate model portfolios (2H 2019)**

| | | |
|---|---|---|
| Equity | Global Equity | 11.7% |
| | North America Equity | 17.9% |
| | Europe Equity | 2.2% |
| | EM Equity | 4.4% |
| | Other Equity | 4.5% |
| Fixed Income | Global Fixed Income | 12.2% |
| | North American Fixed Income | 16.1% |
| | Europe Fixed Income | 0.0% |
| | EM Fixed Income | 3.6% |
| | High Yield Fixed Income | 3.6% |
| | Inflation Linked | 0.7% |
| | Other Fixed Income | 3.3% |
| Multi-asset | Cautious Multi-asset | 2.2% |
| | Moderate Multi-asset | 3.4% |
| | Other Multi-asset | 3.4% |
| Alternatives | Long/Short Equity | 1.6% |
| | Market Neutral | 0.9% |
| | Multialternative | 0.5% |
| | Other Alternative | 4.3% |
| Real Assets | | 1.1% |
| Money Market | | 2.6% |
| | Grand Total | 100% |

Source: Natixis Portfolio Clarity® data from July 1 to Dec. 31, 2019. Categories are based on Morningstar.

2 Natixis Portfolio Clarity®. Methodology: "ESG Focus" investments as tagged by Morningstar based on fund manager self-reporting.

**FIGURE 3: Allocation changes in moderate model portfolios – 1H 2019 to 2H 2019**



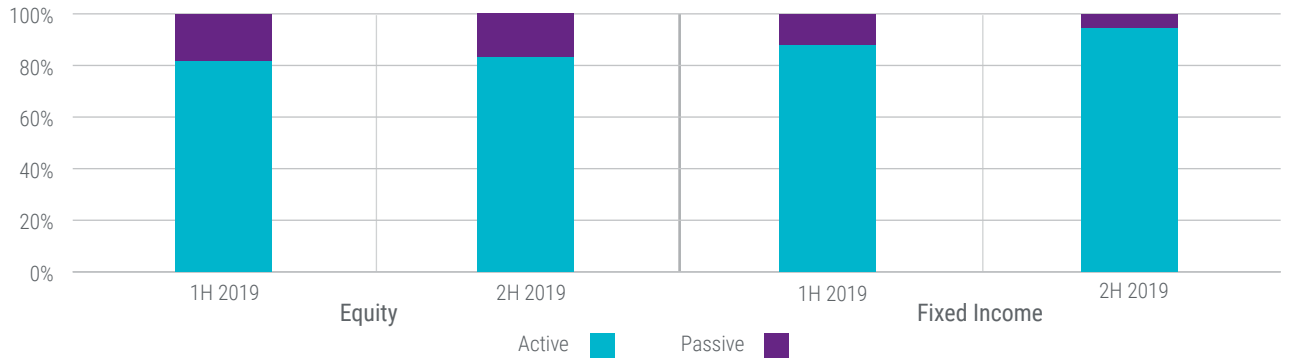

Source: Natixis Portfolio Clarity® data from July 1 to Dec. 31, 2019.

## Allocations to actively managed funds strong across stocks and bonds

Equity generally saw an uptick in active management over the year. Financial advisors tended to favor active managers for emerging market (92%), global (93%) and European equities (100%) but felt more comfortable with passive strategies for North American allocations. Active exposure in North American equities declined to 74% from 76% at midyear, amid an ongoing string of record highs in the S&P 500®.

Financial advisors continue to prefer active management for fixed income by large margins. The category remains 94% actively managed, up from 88% at midyear. The preference for active managers was strongest in global and emerging market fixed income (100% and 95% respectively) and weakest in inflation-linked securities (74%) where the do-it-yourself decision may not have seemed as risky.

**FIGURE 4: Use of active managers on the rise**




Source: Natixis Portfolio Clarity® data from July 1 to Dec. 31, 2019.

## Fixed income allocations pick up

Strong performance and continuing accommodative monetary policy generally made fixed income slightly more attractive for moderate model portfolios. USD Diversified Bond was the top Morningstar category within the North America Fixed Income asset class, followed closely by Short-Term and Flexible Bond. Quality paper is still in demand as advisors hedge against an equity market that may be reaching its peak.

We saw a similar trend in Global Bonds, with Flexible Bond and USD Hedged Flexible Bond as the top allocations. This seems to reinforce the anecdotal evidence of advisors having less personal conviction about where to allocate and delegating the decision to professional bond managers who can "go anywhere."

Just under 9% was allocated to ESG fixed income. Unlike equity, emerging market debt exposure was modest, at 3.4%, with the balance in North America. The largest ESG exposures overall were in high yield securities.

## Modest use of multi-asset funds and alternatives

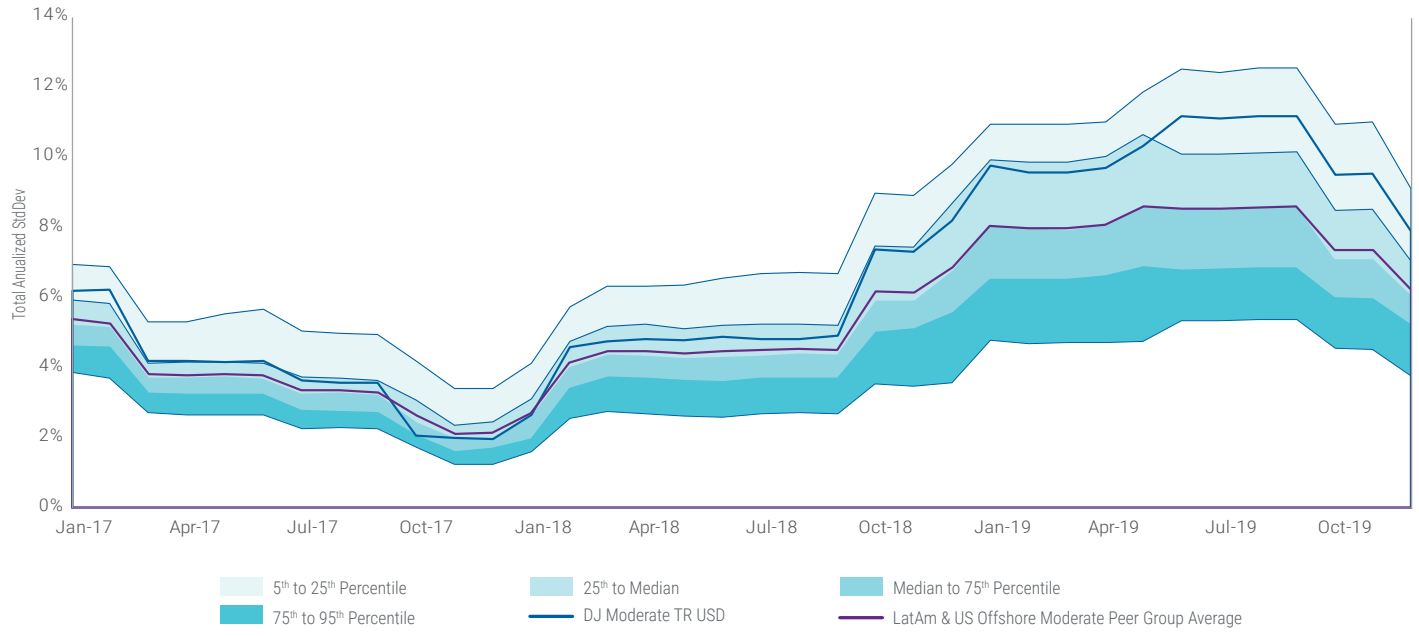
Not surprisingly, advisors tended to favor Moderate multi-asset funds in their moderate models. Aggressive multi-asset funds dominated the Other multi-asset category, and allocations to the Cautious bucket decreased. Despite continued strong performance across traditional assets, exposure to alternatives increased in the second half of 2019, from 3.7% of the average portfolio to 7.3%. Other Alternatives accounted for the bulk of the allocations at 4.3%, primarily Global Macro and Long/Short Debt.

## Higher risk/return profile

Advisors started the year on a cautious note following the market plunge in the fourth quarter of 2018. But risk appetite increased as the equity market rebounded. The average 3-year annualized risk for the moderate model portfolios increased from 5.1% at year-end 2018 to 5.7% by the end of 2019. On a one-year basis, risk has begun to come out of the market, with the average model seeing 12-month standard deviation numbers return to their pre-2018 year-end crisis levels (Figure 5).

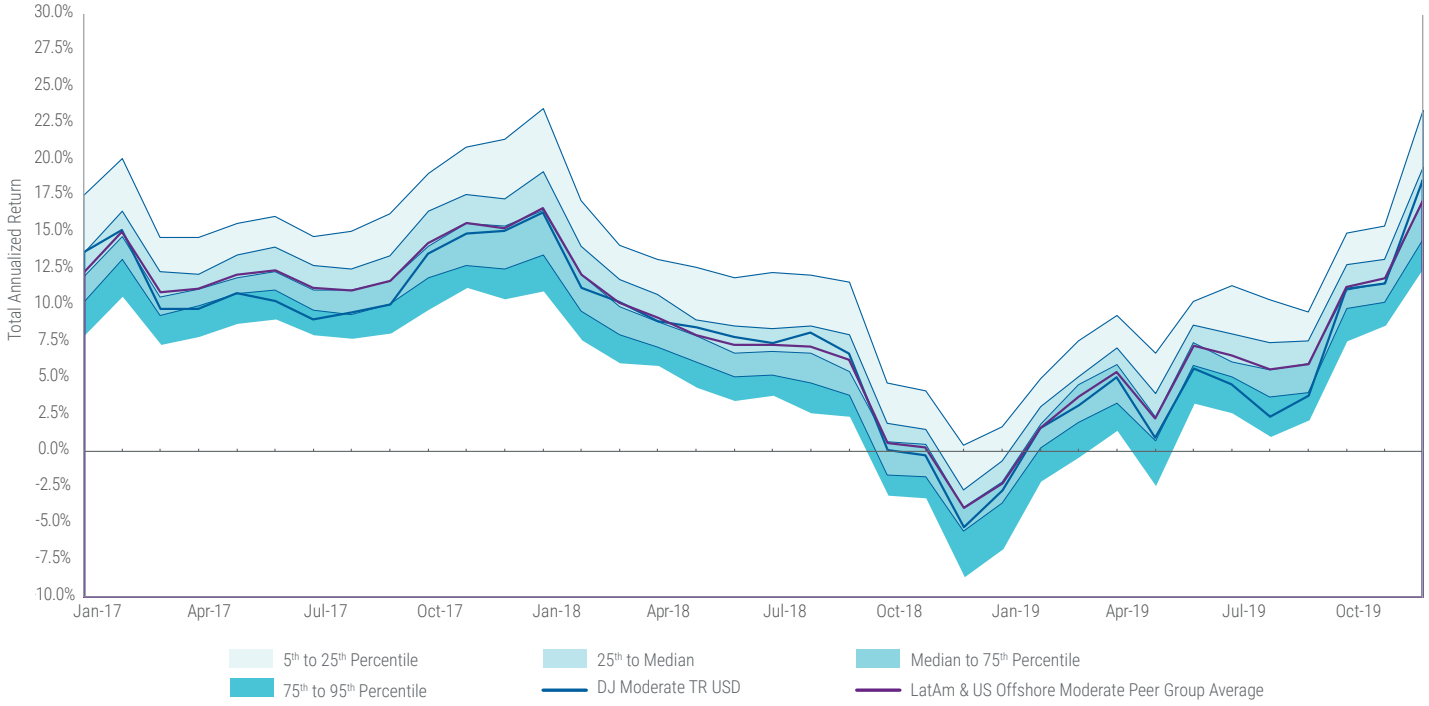
Every moderate model portfolio we reviewed made a full recovery from the fourth quarter 2018 downturn (Figure 6), with the average portfolio matching the Dow Jones Moderate model's return, but with lower risk (Figure 7). Comparing year-end 2018 and 2019 on a three-year annualized basis, returns have jumped from an average of 4.99% to 9.15%.

**FIGURE 5: 12-Month Rolling Risk – 2H 2019 Latin American & US Offshore Moderate Peer Group**



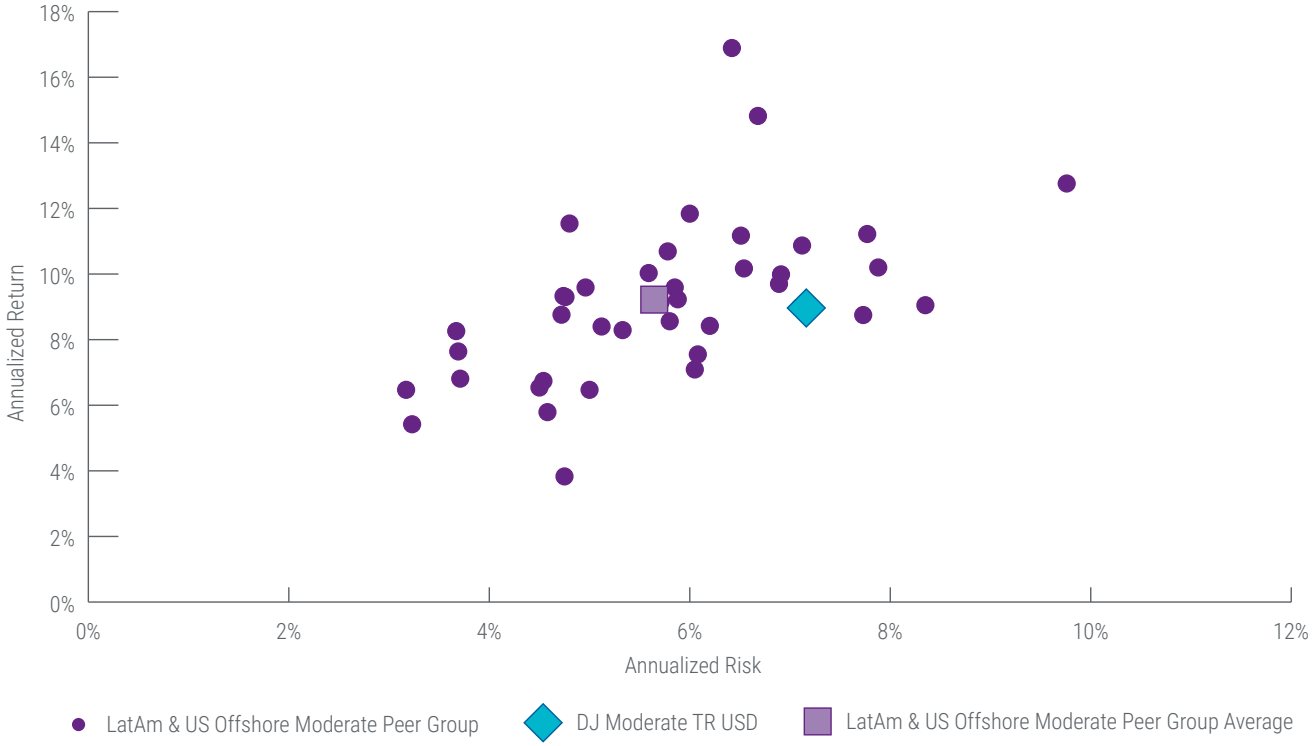

Source: Natixis Portfolio Clarity® data from July 1 to Dec. 31, 2019. Risk data from Jan. 1, 2017 to Dec. 31, 2019.

**FIGURE 6: 12-Month Rolling Performance – 2H 2019 Latin American & US Offshore Moderate Peer Group**




Source: Natixis Portfolio Clarity® data from July 1 to Dec. 31, 2019. Past performance is no guarantee of future results. Performance data from Jan. 1, 2017 to Dec. 31, 2019.

**FIGURE 7: 3-year risk/return of 2H 2019 Latin American & US Offshore moderate model portfolios**

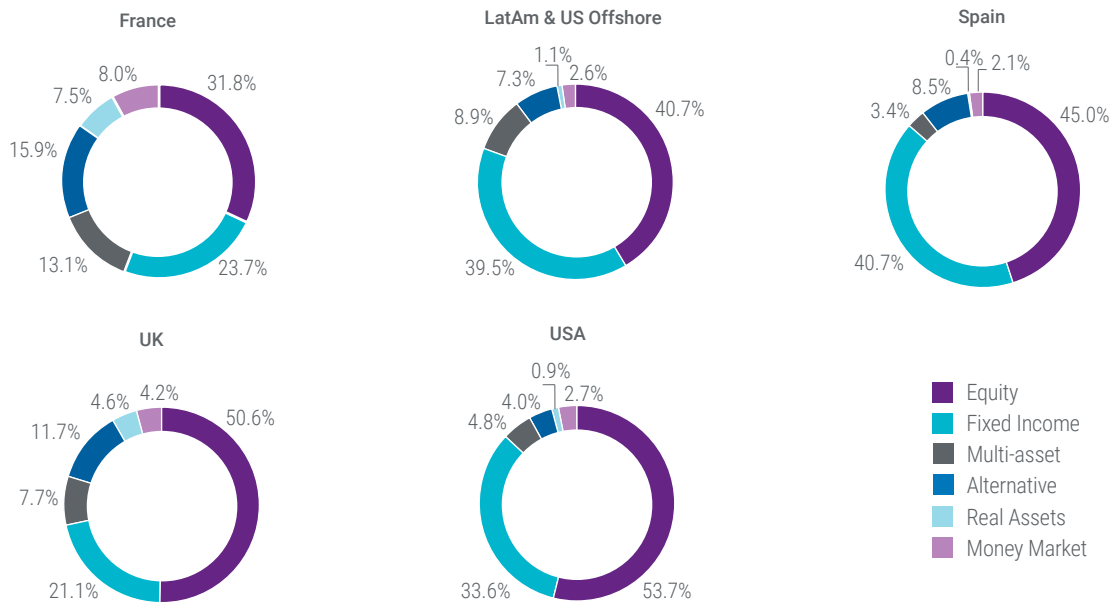



Source: Natixis Portfolio Clarity® data from July 1 to Dec. 31, 2019. Past performance is no guarantee of future results. Performance data from Jan. 1, 2017 to Dec. 31, 2019

## Latin America & US Offshore portfolio performance competitive

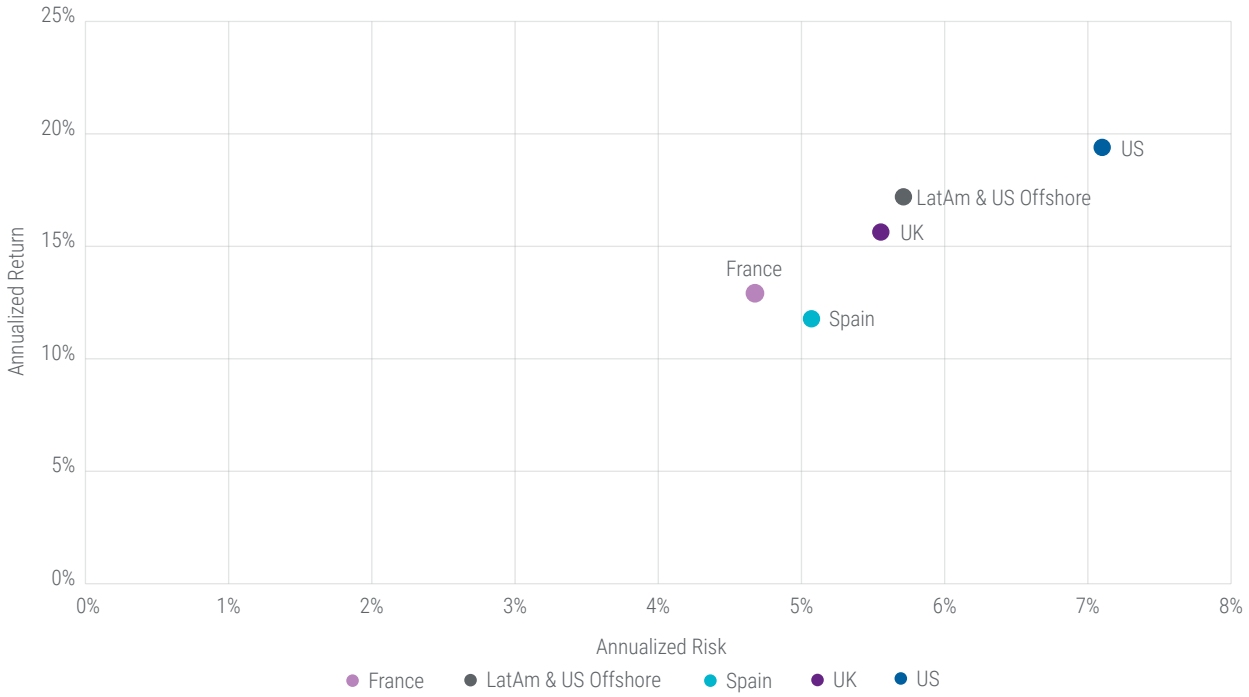
Latin American & US Offshore financial advisors' allocation decisions varied somewhat from those of their US and European counterparts. The portfolios had the second lowest equity allocation behind France, but due to their higher concentration in US equity, performance outpaced the European models. Higher allocations to US equity resulted in the strongest returns for the US portfolios.

**FIGURE 8: Average moderate model allocations varied across geographic regions**




Source: Natixis Portfolio Clarity® data from July 1 to Dec. 31, 2019. Real assets represent the sum of commodities, property and miscellaneous.

**FIGURE 9: 3-year risk / 12-month return of moderate model portfolios across geographic regions**




Source: Natixis Portfolio Clarity® data from July 1 to Dec. 31, 2019. Past performance is no guarantee of future results. Performance data from Jan. 1, 2019 to Dec. 31, 2019. Based on the 12-month performance and 3-year annualized standard deviation of 357 portfolios submitted for analysis to Natixis Investment Managers.

## Revisiting the 2019 outlook – and looking ahead

In the year-end 2018 Portfolio Barometer, we summarized the 2019 asset class outlooks published by research teams at seven of the largest intermediary firms in the Latin American & US Offshore marketplace.[3] In retrospect we can see that the firms' expectations for 2019 were strongly tempered by the market turbulence in the last quarter of 2018. In nearly all cases, 2019 results exceeded expectations on the upside, as asset class returns were uniformly positive across equity and fixed income. Figure 10 compares those mixed and cautious views with subsequent returns through December 31, 2019.

**FIGURE 10: Year-end review – Global financial institution 2019 outlook**

| | | 2019 Firm Outlook | | | | | | | Asset Class Return YE 12/31/19[4] |
|---|---|---|---|---|---|---|---|---|---|
| | | Firm 1 | Firm 2 | Firm 3 | Firm 4 | Firm 5 | Firm 6 | Firm 7 | |
| Equities | US | = | = | + | = | = | + | + | 31.5 |
| | Europe | + | + | – | = | + | = | – | 24.6 |
| | Japan | = | – | + | + | + | + | + | 18.9 |
| | EM | + | – | = | + | = | + | + | 18.4 |
| Fixed Income | Gov US | = | + | + | + | = | + | – | 6.8 |
| | Gov Europe | = | + | + | – | – | = | – | 6.8 |
| | IG US | = | = | = | – | – | = | – | 14.2 |
| | IG Europe | – | = | = | – | = | + | – | 6.3 |
| | HY US | + | – | = | = | – | = | – | 14.4 |
| | HY Europe | = | – | = | = | – | = | – | 11.3 |
| | EM | + | – | = | = | + | + | + | 13.5 |
| | Inflation | = | + | – | – | + | = | = | 8.3 |
| Alternatives | | + | + | = | + | + | + | + | 8.1 |
| FX | USD | – | + | – | – | – | – | – | -1.2 |
| | EUR | + | – | = | + | + | + | + | -3.2 |
| | EM | + | – | + | + | – | – | + | -3.2 |
| Volatility | | + | + | + | + | + | + | + | -50.9 |

Source: Natixis Portfolio Clarity®.

3 Based on offshore assets and distribution footprint

4 Return data represents asset class index performance independent of firms listed in Figure 10. See Appendix A for list of underlying indices used for asset class performance.

Fast forward one year, and the firms' projections for 2020 again show considerable variation. This year, however, firms may be reacting to the very real possibility that the exceptional returns of 2019 are unlikely to persist. Yet surprisingly, while the consensus for volatility in the coming year is positive, it is far from the unanimous view we saw in 2019. In fact, after a banner year for equity and fixed income in 2019, the only asset class with even six out of seven positive votes for 2020 is alternatives.

**FIGURE 11: Global financial institutions outlook 2020**

| | | 2020 Firm Outlook | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Firm 1 | Firm 2 | Firm 3 | Firm 4 | Firm 5 | Firm 6 | Firm 7 |
| Equities | US | + | = | + | – | = | + | = |
| | Europe | + | – | – | + | + | – | = |
| | Japan | + | = | – | + | = | + | = |
| | EM | + | – | = | + | = | + | = |
| Fixed Income | Gov US | + | + | – | + | – | + | + |
| | Gov Europe | – | + | – | – | – | = | + |
| | IG US | – | + | = | = | = | + | + |
| | IG Europe | – | + | – | – | + | = | – |
| | HY US | = | = | – | – | = | + | – |
| | HY Europe | = | = | – | – | + | = | – |
| | EM | = | = | – | + | + | = | = |
| | Inflation | = | + | + | + | = | = | = |
| Alternatives | | + | + | + | + | + | – | + |
| FX | USD | = | + | + | – | = | – | – |
| | EUR | = | = | – | – | = | + | + |
| | EM | = | = | – | + | = | = | – |
| Volatility | | = | + | = | = | = | + | – |

Source: Natixis Portfolio Clarity®.

## Cautious optimism

Entering 2020, markets appeared resilient amid waning concerns about US/China trade relations and growing worries about coronavirus and potentially slower global growth ahead. Consensus was that US markets will likely be supported until the presidential election in November, but earnings will need to grow to sustain the bull market. Global financial institutions were generally underweight European government debt, with a focus on US government and investment grade fixed income. In alternatives, the focus was on gold and private markets rather than on absolute return strategies. But as recent history has demonstrated, the environment can change quickly. Monitoring portfolios is an ongoing process, particularly as volatility picks up, which is why most financial advisors can benefit from a periodic review of their models to help identify sources of return, diversification, and risk.

## Methodology

All figures, unless otherwise stated, are derived from detailed analysis conducted by the portfolio consultants at Natixis Investment Managers.

This edition of the Portfolio Barometer highlights trends and observations uncovered by analysis of 38 model risk-rated portfolios managed by Latin American & US Offshore financial advisors and wealth management firms in the six months ending December 31, 2019. The model portfolios under review were defined as Moderate Risk by the firms themselves. All statistics in this report are based on returns of advisors' current model portfolios over the three years ending December 31, 2019. These statistics are therefore representative, rather than actual historical figures.

The dedicated consulting team collects portfolio data and aggregates it in accordance with the peer group portfolio category that is assigned to an individual portfolio by the investment professionals. When professionals request a report, they categorize the portfolios as belonging to one of the following categories: Aggressive, Moderately Aggressive, Moderate, Moderately Conservative, or Conservative. The categorization of individual portfolios is not determined by Natixis, as our role is solely as an aggregator of the pre-categorized portfolios.

Please note that risk attributes of portfolios will change over time due to movement in the capital markets. Portfolio allocations provided to Natixis are static in nature, and subsequent changes in an investment professional's portfolio allocations may not be reflected in the current data.

For the risk/return characteristics of the global portfolios, calculations are based on average asset allocations, indices and Morningstar Categories.

## Appendix A

| Asset Class | | Index Used |
|---|---|---|
| Equities | US | S&P 500® TR USD |
| | European | MSCI Europe LOC |
| | Japan | MSCI Japan LOC |
| | EM | MSCI EM NR USD |
| Fixed Income | Gov US | BBgBarc US Government TR USD |
| | Gov Europe | ICE BofAML Pan-Europe Government Index LOC |
| | IG US | ICE BofAML US Corporate Index USD |
| | IG Europe | ICE BofAML Euro Corporate Index LOC |
| | HY US | ICE BofAML US High Yield Index USD |
| | HY Europe | ICE BofAML Euro High Yield Index LOC |
| | EM | JPM GBI-EM Global Diversified TR USD |
| | Inflation | ICE BofAML Global Inflation-Linked Government Index |
| Alternatives | | Credit Suisse Liquid Alternative TR USD |
| FX | USD | Deutsche Bank USD Trade Weighted Index Spot |
| | Euro | Deutsche Bank EUR Trade Weighted Index Spot |
| | EM Currency | JP Morgan Emerging Markets Currency Index (EMCI) Live Spot |
| Volatility | | CBOE Market Volatility (VIX) |

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Natixis Portfolio Clarity® is the portfolio consulting service of Natixis Investment Managers. Specialized consultants provide objective portfolio analysis to investment professionals who seek a deeper level of insight, using sophisticated analytical tools to identify and quantify sources of risk and return.

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1 Cerulli Quantitative Update: Global Markets 2019 ranked Natixis Investment Managers as the 17th largest asset manager in the world based on assets under management as of December 31, 2018. 2 Net asset value as of December 31, 2019. Assets under management ("AUM"), as reported, may include notional assets, assets serviced, assets of minority-owned affiliated entities and other types of non-regulatory AUM managed or serviced by firms affiliated with Natixis Investment Managers.

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