

Professional fund buyers anticipated increased market volatility with a more risk averse approach – Natixis Investment Managers Survey

- Professional fund buyers anticipated greater market volatility in 2020
- Active asset managers seen as source of outperformance while passive investing seen as exacerbating systemic risk and volatility
- ESG plays a critical role for minimizing headline risk, generating higher risk-adjusted returns and delivering new sources of diversification
- Nearly half say private assets will play a more prominent role in their portfolio strategy in the future

London, 6 April 2020 – Professional fund buyers globally anticipated increased market volatility in 2020, taking a more defensive approach to portfolio positioning, according to a survey by Natixis Investment Managers. The survey of more than 400 fund buyers – responsible for selecting funds included on private bank, insurance, fund-of-fund and other retail platforms – which was conducted in Q4 2019, found that four-fifths (79%) expected greater equity volatility and 72% expected higher volatility in the bond markets.

While nobody could have predicted the historic levels of volatility experienced in markets across the globe since February 2020, fund buyers had already signaled they would be taking a risk averse approach to fund selection during 2020. Almost half (44%) expected to diversify away from U.S. equities, while 73% said they would be willing to underperform their peers in exchange for greater down-side protection. Whether it was concern about stratospheric stock valuations, questions about the viability of a sustained low interest rate environment, or the lingering effects of geopolitical uncertainty, Professional Fund Buyers expected the rally was unlikely to continue in 2020.

As a result, the survey found fund buyers are looking to active managers to help navigate the greater sector dispersion in markets with three-quarters of fund buyers (75%) willing to pay higher fees for potential outperformance. Fund buyers also noted the popularity of passive investments as a source of systemic risk and volatility as better-performing securities receive larger weights. Buyers flagged concerns around the potential for large losses in the event of a downturn.

Matthew Shafer, EVP, Head of Wholesale Distribution, Natixis Investment Managers commented:

“Professional fund buyers entered 2020 anticipating further market volatility and risk. The uncertain factor was what event would trigger a fall and when exactly it would occur. Investors are enduring unprecedented market conditions as a result of the Coronavirus pandemic, but Fund buyers’ primary aim remains focused on protecting clients — both from market losses and from individuals’ reactions to them — by creating portfolios that are durable enough to withstand extreme market volatility, yet well positioned for recovery. We are starting to see professional fund buyers return to risk with a continued focus on ESG strategies, well-valued equities and alternative fixed income”.

Positioning for risk and return

Despite the heightened volatility and short-term disruptions, fund buyers’ long-term return assumptions remain fairly stable, having already built into account the ebbs and flows of market cycles. This year is no exception, and the vast majority of buyers (85%) reported their organization’s return assumptions as realistically achievable. However, many buyers had anticipated some reversion to the mean after a strong 2019, with 38% more respondents expecting to lower return assumptions than to raise them.

The survey also revealed that buyers’ sector preferences were already reflecting expectations for weak economic growth. Few expected the pro-cyclical materials and industrials sectors to outperform. Instead, buyers were most sanguine about sectors with strong secular growth drivers, expecting outperformance in information technology (44%), healthcare (42%) and financials (32%).

ESG on the rise

In turbulent markets ESG is also increasingly being recognized as an important risk factor which active managers can account for. When asked the primary reason for incorporating ESG factors into their investment decision making, 22% of fund buyers said to minimize headline risk, 21% said to generate high risk adjusted returns and 19% said to improve diversification. The survey revealed that (62%) of fund buyers are feeling increasing demand from clients to align their strategies with investor values.

Europe has pioneered the implementation of ESG and continues to take the lead, with higher rates of implementation and active ownership, in which investment firms enter into a dialogue with companies around ESG issues, exercising both ownership rights and voice to effect change.

Private Assets as a diversifier

While some buyers express some concerns about the use of alternative investments, buyers generally think the benefits are worth the tradeoffs, particularly in the case of private investments. Almost half, (49%) say private assets will play a more prominent role in their portfolio strategy going forward.

The survey also found that eight in ten buyers (82%) felt that the ongoing environment of low yielding bonds will trigger a shift toward alternatives. That hunt for yield likely explains the interest in income-related alternative assets such as infrastructure, real estate and private debt, with half (49%) saying that private assets will play a more prominent role in their portfolio. Clearly, after the volatility experienced in the past few weeks buyers will have found a new appreciation for strategies that will help produce un-correlated returns and offer greater potential for risk management.

Matthew Shafer added: *“Against a backdrop of market volatility, professional fund buyers are facing the combined challenges of generating returns, while accounting for downside risk as well as newer risk considerations such as ESG. With further geopolitical risk on the horizon, while fund buyers will be watching market conditions vigilantly, our findings suggest they are well prepared for the current shifting market environment.”*

Natixis IM’s annual professional fund buyers survey “The Age of anxiety: professional fund buyers seek alpha, diversification - and defense.” is available here: www.im.natixis.com/intl/research/2019-professional-fund-buyer-survey

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Survey Methodology

The Natixis Investment Managers Global Survey of Professional Fund Buyers was conducted by CoreData Research in October and November 2019. The survey included 400 respondents in 23 countries throughout North America, Asia, Latin America, the United Kingdom, Continental Europe and the Middle East.

About the Natixis Center for Investor Insight

Investing can be complicated: Event risk is greater and more frequent. Volatility is persistent despite market gains. And investment products are more complex. These factors and others weigh on the psyche of investors and shape their attitudes and perceptions, which ultimately influence their investment decisions. The Center for Investor Insight conducts research with investors around the globe to gain an understanding of their feelings about risk, their attitudes toward the markets and their perceptions of investing.

About Natixis Investment Managers

Natixis Investment Managers serves financial professionals with more insightful ways to construct portfolios. Powered by the expertise of more than 20 specialized investment managers globally, we apply Active Thinking® to deliver proactive solutions that help clients pursue better outcomes in all markets. Natixis Investment Managers ranks among the world's largest asset management firms¹ with more than \$1 trillion assets under management² (€934.1 billion).

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 include AEW; Alliance Entreprendre; AlphaSimplex Group; DNCA Investments;³ Dorval Asset Management; Flexstone Partners; Gateway Investment Advisers; H2O Asset Management; Harris Associates; Investors Mutual Limited; Loomis, Sayles & Company; Mirova; MV Credit; Naxicap Partners; Ossiam; Ostrum Asset Management; Seeyond; Seventure Partners; Thematics Asset Management; Vauban Infrastructure Partners; Vaughan Nelson Investment Management; Vega Investment Managers;⁴ and WCM Investment Management. Additionally, investment solutions are offered through Natixis Investment Managers Solutions, and Natixis Advisors offers other investment services through its AIA and MPA division. **Not all offerings available in all jurisdictions.** For additional information, please visit Natixis Investment Managers' website at im.natixis.com | LinkedIn: [linkedin.com/company/natixis-investment-managers](https://www.linkedin.com/company/natixis-investment-managers).

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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 Assets under management ("AUM") as of December 31, 2019 is \$1,048.4 billion. AUM, as reported, may include notional assets, assets serviced, gross assets, assets of minority-owned affiliated entities and other types of non-regulatory AUM managed or serviced by firms affiliated with Natixis Investment Managers.

³ A brand of DNCA Finance.

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