Six simple reasons why yesterday’s volatile markets are a wake-up call for investors today

Global Survey of Individual Investors
Executive Overview

The volatility at the end of 2018 was a wake-up call for individual investors. On the heels of the longest running bull market in history, the final three months of last year saw sustained volatility – and raised questions about what the future holds. But did investors take those declines to heart? According to our recent Global Survey of Individual Investors, they acknowledge last year’s volatility, but they’re just not sure what to do about it.

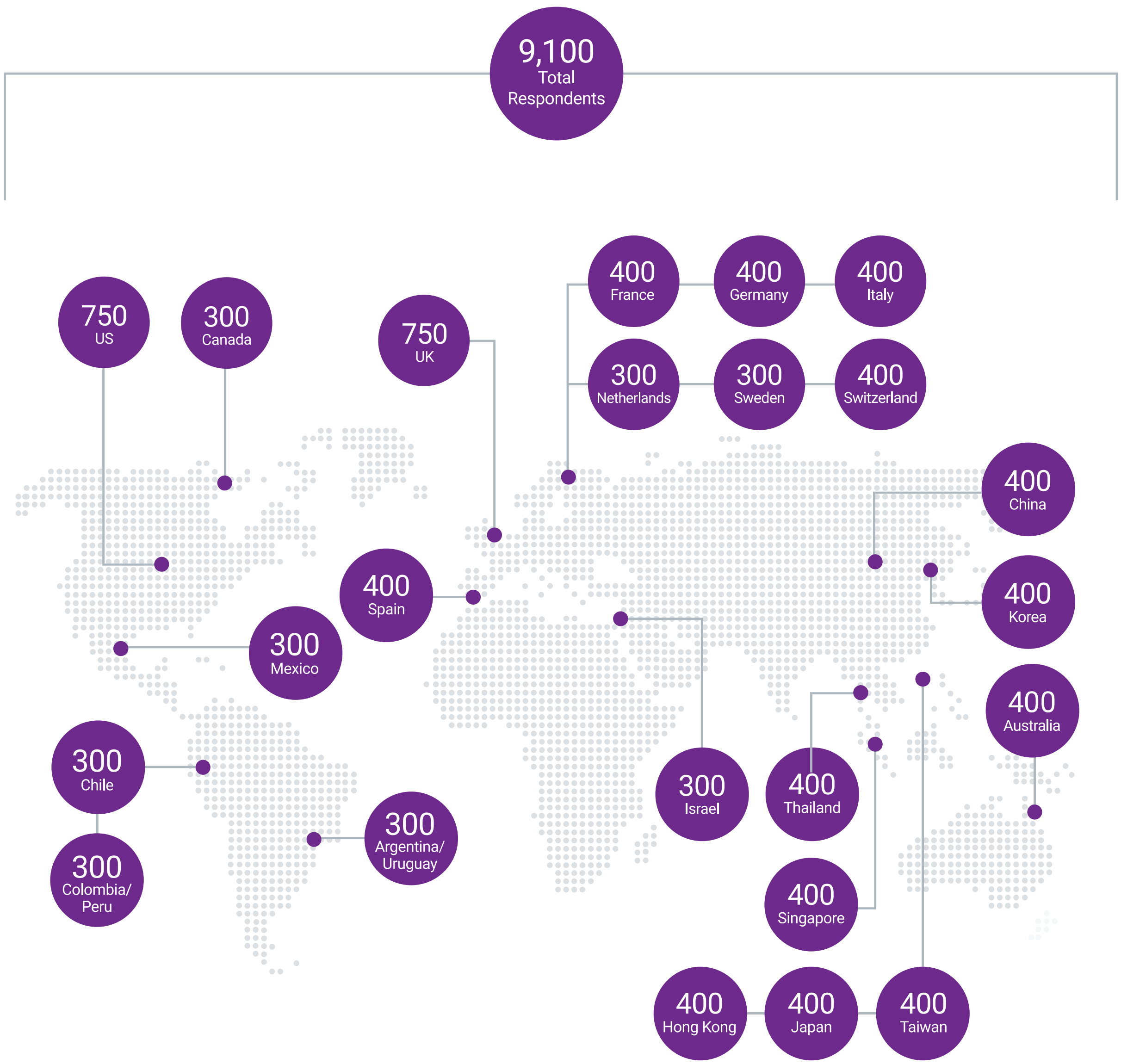
1. Investors are conflicted about risk. They like the idea of taking risks to get ahead, but are far less comfortable taking bolder action in real life.
2. Investors also need to understand how much risk they can handle. Our survey shows that, despite their confidence, their knowledge here is shaky.
3. Investors need realistic expectations. They expect returns that are 11.7% above inflation – the highest targets we’ve recorded to date, in spite of last year’s volatility. Professionals say 5.5% is realistic.[1]
4. Assumptions about index fund risks need a gut check. Many investors are confused about the fundamental differences between active and passive investing.
5. Bonds are math. Math is hard. Many just don’t understand how rate hikes affect their fixed income investments.
6. The volatility and losses in Q4 of 2018 have pushed investors to take a hard look at how diversified they are, rekindling an interest in alternative investments.

1 Natixis Investment Managers, Global Survey of Financial Professionals conducted by CoreData Research in March 2018. Survey included 2,775 financial professionals in 16 countries.

About the survey

Natixis Investment Managers surveyed 9,100 investors globally in February and March 2019, with the goal of understanding their views on the markets, investing and measuring progress toward their financial goals. Investors from 25 countries are represented in this, the tenth annual survey of individual investors.

An online quantitative survey of 44 questions was developed and hosted by CoreData Research. Each of the 9,100 individual investors had minimum net investable assets of US $100,000 (or Purchase Price Parity [PPP] equivalent).



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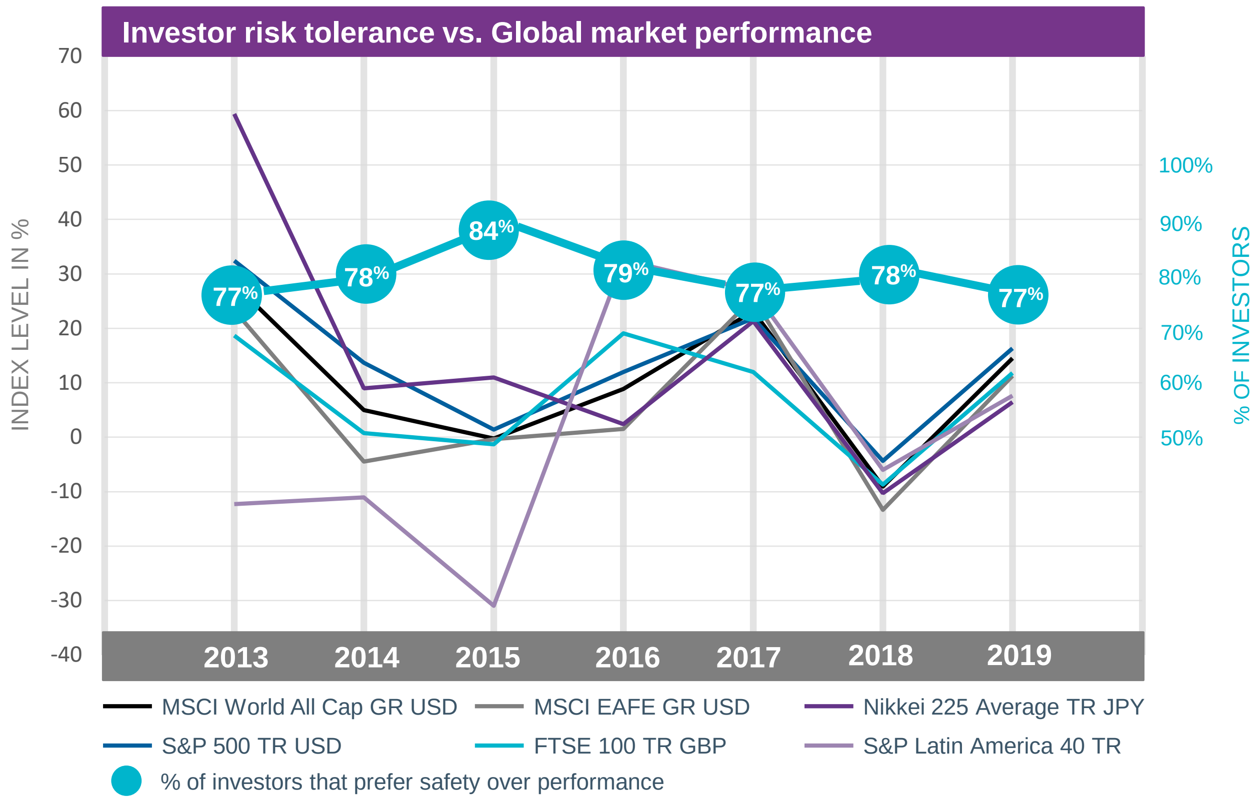
1

Knowing investment risk isn’t the same as feeling it

Investors are conflicted about risk. They like the idea of taking risks to get ahead, but are far less comfortable taking bolder action in real life.

- 2/3 of investors know portfolio fluctuations of 10% are a normal occurrence when investing.
- 6 in 10 feel that volatility undermines their ability to achieve savings and investment goals.
- 9 in 10 investors say it is important to protect their assets in volatile times.



Source: Natixis Investment Managers 2019 Global Survey of Individual Investors; Natixis Investment Strategies Group

56% of investors are willing to pay a premium price for an investment that could help protect them from volatility.

Natixis Investment Managers Global Survey of Individual Investors conducted by CoreData Research: June-July 2013; 5.650 investors; 14 countries | March 2014; 5,950 investors; 14 countries | Feb 2015; 7,000 investors; 17 countries | Feb-March 2016; 7,100 investors; 22 countries | Feb-Mar 2017; 8,300 investors; 26 countries | Aug-Sept 2018; 9,100 investors; 25 countries | Feb-Mar 2019; 9,100 investors; 25 countries.

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2

Investors need to know how much risk they can actually handle

Our survey shows that, despite their confidence, investors' knowledge about risk is shaky.

- 8 in 10 financial professionals globally say the bull market has made investors complacent about risk.[1]
- However, 8 in 10 investors claim to understand the risks posed by the market environment in 2019.
- While nearly 2/3 of investors felt they were prepared for market risks at the start of 2018, in hindsight, only 59% say they were actually prepared for last year's downturn.

48% of investors worldwide said one of their greatest fears is an unexpected expense

This is a surprising number, considering respondents have a minimum of $100,000 in investable assets and 71% say they feel financially secure.

Other key investor worries

Maintaining their standard of living	Healthcare costs	Taxes	Not having enough money to save
34%	34%	33%	33%

Source: Natixis Investment Managers 2019 Global Survey of Individual Investors

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3

Investors expect greater returns than professionals say is realistic

Global Average Expectations		
11.7%	113%	5.5%
Individual investor annual return expectations (above inflation)	The % difference between investor and professional expectations	Financial professionals' annual return expectations (above inflation) [1]

	Investors[1]	Expectation Gap	Financial Professionals[2]
Argentina	10.7%	70%	6.3%
Australia	11.9%	85%	6.4%
Canada	10.1%	78%	5.7%
Chile	12.8%	88%	6.8%
Colombia/Peru	14.0%	137%	5.9%
France	9.5%	79%	5.3%
Germany	9.1%	72%	5.3%
Hong Kong	12.9%	164%	4.9%
Italy	10.5%	134%	4.5%
Singapore	11.0%	96%	5.6%
Spain	13.3%	232%	4.0%
Switzerland	11.6%	119%	5.3%
UK	10.8%	152%	4.3%
US	10.9%	73%	6.3%

Source: Natixis Investment Managers 2019 Global Survey of Individual Investors

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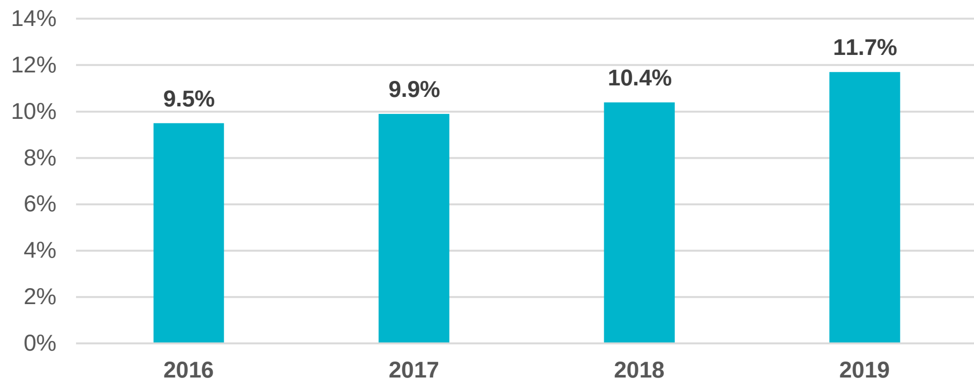
3

Investors expect greater returns than professionals say is realistic

- Investor return expectations are at an all-time high, in spite of last year's volatility.
- Investors expect returns that are 11.7% above inflation – professionals say 5.5% is realistic.[1]
- These expectations represent the highest targets we've recorded since introducing questions about anticipated returns in 2014.[2]

Investors' Expected Returns (Above Inflation)



Source: Natixis Investment Managers 2019 Global Survey of Individual Investors

Investors need to realize that pursuing these greater returns will likely mean taking on more risk – as well as significant exposure to the volatility they see as a threat to their savings goals.

1 Natixis Investment Managers, Global Survey of Financial Professionals conducted by CoreData Research in March 2018. Survey included 2,775 financial professionals in 16 countries.

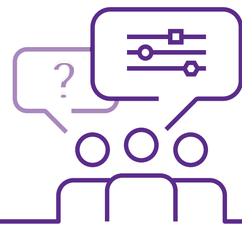
2 Natixis Investment Managers Global Survey of Individual Investors conducted by CoreData Research: Feb-March 2016; 7,100 investors; 22 countries | Feb-Mar 2017; 8,300 investors; 26 countries | Aug-Sept 2018; 9,100 investors; 25 countries | Feb-Mar 2019; 9,100 investors; 25 countries. From 2014 through 2018, the question asked investors the real annual returns (above inflation) they needed to achieve based on their understanding of investment goals. In 2019, the same question was asked, but investors were able to answer for this year and over the long term. 2019 return expectations cited above are investors' responses for over the long term.

4

Assumptions about the risks of index funds need a gut check

Many investors are confused about the fundamental differences between active and passive investing.

- 68% of investors claim to know the difference between active and passive investments, yet one-third of investors did not recognize that index funds give them market returns.
- 2/3 of investors said the volatility made them realize that index funds were riskier than they thought.
- A surprising 62% of investors ignore that experience and still say they believe index funds are less risky (a number that is virtually unchanged from our survey results in 2017 and 2018).



68% recognize that index funds give them market returns	55% recognize that index funds are cheaper	64% believe index funds will help minimize losses	57% believe index funds provide access to the best opportunities in the market
TRUE – An index fund is designed to match or track a financial market index.	**TRUE** – Index funds are replicating the performance of a benchmark index and therefore typically have a lower expense ratio.	**FALSE** – Index funds provide broad market exposure and have no built-in risk management.	**FALSE** – Index funds provide access to every opportunity in the market and follow their benchmark index no matter what the markets are doing.

Source: Natixis Investment Managers 2019 Global Survey of Individual Investors

Investors are truly confused about what they get from index funds and the fundamental differences between active and passive investing.

Unlike passive investments, there are no indexes that an active investment attempts to track or replicate. Thus, the ability of an active investment to achieve its objectives will depend on the effectiveness of the investment manager.

4

Assumptions about the risks of index funds need a gut check

Roughly 7 in 10 investors worldwide:

- Believe it is important that their investments give them a chance to beat the benchmark (71%)
- Say it's important to have the ability to take advantage of short-term market movements (70%)
- Expect their mutual fund to have a portfolio that's different from the index (68%)

It's important to remember that, based on their basic premise, index funds do not deliver on any of these fronts.

For a majority of investors, index funds may actually run counter to their investment expectations.

Unlike passive investments, there are no indexes that an active investment attempts to track or replicate. Thus, the ability of an active investment to achieve its objectives will depend on the effectiveness of the investment manager.

5

Bonds are math. Math is hard.

Investors are weary about rising interest rates, rating them among the top five market risks for 2019.

We asked investors:
What happens to a portfolio when interest rates are rising?

- A > The price of the bonds decreases
- B > The price of the bonds increases
- C > The income received from bonds in the future increases
- D > The income currently received from the bonds increases
- E > I don't know

Only **3%** of survey respondents fully understood the relationship between bonds and interest rates

36% of survey respondents selected at least one correct answer

61% of respondents did not understand the relationship at all

Source: Natixis Investment Managers 2019 Global Survey of Individual Investors

Making the relationship between bonds and interest rates clear before rates increase is critical – especially considering that among the 77% of those surveyed who invest in bonds, 54% do so to generate income and 49% are looking to reduce risk.

6

Investors see an alternative to stocks and bonds

The volatility and losses in Q4 of 2018 have pushed investors to take a hard look at how diversified they are, rekindling an interest in alternative investments.

- Nearly six in ten (57%) investors report that volatility has them looking for investments other than stocks and bonds.
- Seven in ten say they are interested in finding strategies that can enhance the diversification of their portfolio. Another 65% say they want strategies that are less tied to the broad market.
- Just 38% of the investors surveyed worldwide report that they own alternative investments. And as many as 15% of investors don't know if they own alternative investments, and that number is up 5% from 2017.

IDK is not OK

Investors worldwide don't know what they own in their portfolios

15%
don't know if they own **alternative investments**

17%
don't know if they own **index funds**

12%
don't know if they own **real estate funds**

Source: Natixis Investment Managers 2019 Global Survey of Individual Investors

Clearly, investors need to better understand what's in their portfolio. This is an area that demands better investor education about investments overall – and alternatives in particular.

What’s next?
Making the lessons of market volatility stick

1. Investors need better education on the reality of risk and volatility, as well as help determining how much risk they can actually handle.
2. Investors need to better understand the relationship between risk and return.
3. Investors need help setting return expectations based on how much they think they need – and also on how much risk they can afford to take.
4. They need to understand the difference between passive and active investments, so they can better identify risk in their portfolios.
5. They’ll need to go back to math class and get the facts about what rising rates mean for their bond investments over both the long and short term.
6. Finally, and maybe most importantly, they’ll need to be clear on which investments they own in their portfolios – and why.

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IMPORTANT INFORMATION

Natixis Investment Managers Global Survey of Individual Investors conducted by CoreData Research, February – March 2019. Survey included 9,100 investors; 25 countries.

This material is provided for informational purposes only and should not be construed as investment advice. The views and opinions expressed are as of June 1, 2019 and may change based on market and other conditions. There can be no assurance that developments will transpire as forecasted, and actual results may vary.

All investing involves risk, including the risk of loss. Investment risk exists with equity, fixed income, and alternative investments. There is no assurance that any investment will meet its performance objectives or that losses will be avoided.

An index fund is a type of mutual fund with a portfolio constructed to match or track the components of a financial market index.

Unlike passive investments, there are no indexes that an active investment attempts to track or replicate. Thus, the ability of an active investment to achieve its objectives will depend on the effectiveness of the investment manager.

Alternative investments involve unique risks that may be different from those associated with traditional investments, including illiquidity and the potential for amplified losses or gains. Investors should fully understand the risks associated with any investment prior to investing.

The MSCI World All Cap Index captures large, mid, small and micro-cap representation across 23 Developed Markets (DM) countries. With 11,910 constituents, the index is comprehensive, covering approximately 99% of the free float-adjusted market capitalization in each country. **S&P 500® Index** is a widely recognized measure of US stock market performance. It is an unmanaged index of 500 common stocks chosen for market size, liquidity, and industry group representation, among other factors. It also measures the performance of the large-cap segment of the US equities market.

The MSCI EAFE Index (Net) is a free float-adjusted market capitalization index designed to measure large and mid-cap equity performance in developed markets, excluding the US and Canada. The Index includes countries in Europe, Australasia, and the Far East.

The FTSE 100 Index is one of the world's most recognized indices and accounts for 7.8% of the world's equity market capitalization. It represents the performance of the 100 largest blue chip companies listed on the London Stock Exchange, which meet the FTSE's size and liquidity screening. The index represents approximately 85.2% of the UK's market and is currently used as the basis for a wealth of financial products available on the London Stock Exchange, National Stock Exchange of India and other institutions globally**.**

Japan's Nikkei 225 Stock Average is the leading and most-respected index of Japanese stocks. It is a price-weighted index composed of Japan's top 225 blue-chip companies on the Tokyo Stock Exchange. The Nikkei is equivalent to the Dow Jones Industrial Average Index in the US. In fact, it was called the Nikkei Dow Jones Stock Average from 1975 to 1985.

The S&P Latin America 40 includes 40 leading blue-chip companies that capture approximately 70% of the region's total market capitalization. Constituents are drawn from five major Latin American markets: Brazil, Chile, Colombia,
Mexico and Peru.

You cannot invest directly in an index. Indexes are not investments, do not incur fees and expenses and are not professionally managed.

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