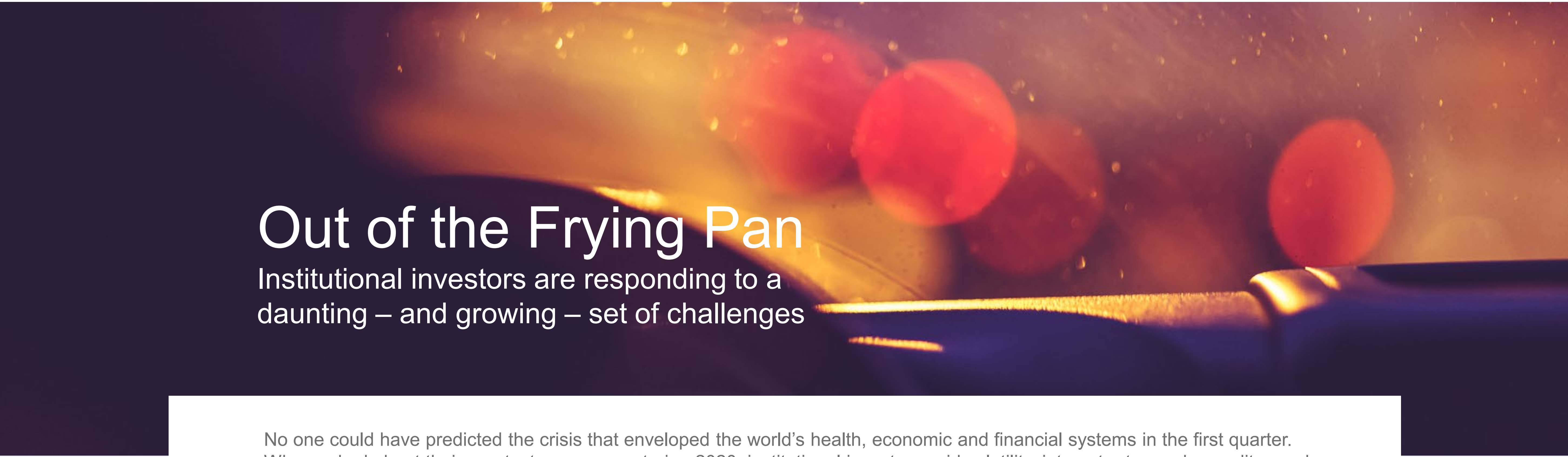


Out of the Frying Pan

Institutional investors are responding to a daunting – and growing – set of challenges

No one could have predicted the crisis that enveloped the world's health, economic and financial systems in the first quarter. When asked about their greatest concerns entering 2020, institutional investors said volatility, interest rates and a credit crunch; a pandemic and oil-price war weren't on the radar. That said, institutional investment teams were entering the year on high alert. Most expressed concern about the level of risk in the markets, given high equity valuations, low interest rates, large government and corporate debt loads, and the potential for complacent investors to panic in the event of a downturn. At the same time, they felt hamstrung by post-Financial Crisis regulations and market myopia, which forced them to emphasize short-term considerations over long-term strategy. If institutional investors' challenges began the year at 8 on a scale of 10, they've since jumped to 11.

1. Managing to long-term risks despite short-term distractions
2. Rates much lower for much longer
3. ESG is embraced. Now how best to do it?
4. Forging a clear path forward

About the survey

Natixis Investment Managers, Global Survey of Institutional Investors conducted by CoreData Research in October and November 2019. Survey included 500 institutional investors in 29 countries throughout North America, Latin America, the United Kingdom, Continental Europe, Asia and the Middle East.

500 total survey respondents

145
Corporate Pension Plans

102
Endowments/ Foundations

103
Public or Government Pension Plans

127
Insurance Companies

23
Sovereign Wealth Funds

1. Managing to long-term risks despite short-term distractions

A mismatch between regulations and liabilities

- Ten years of ultra-low interest rates have pushed liabilities higher, exacerbated by the staggering central bank easing in the first quarter.
- Institutions need investments that offer a yield premium to meet their long-term mandates, but these types of investments restrict short-term liquidity.
- Institutions must operate within stringent liquidity requirements established in the wake of the 2008 financial crisis.

Institutions balance long-term mandates with liquidity requirements

More than half
believe the solvency and liquidity requirements create too much bias for short-term horizons

Four in ten
say liquidity requirements challenge their ability to pursue long-term investment objectives

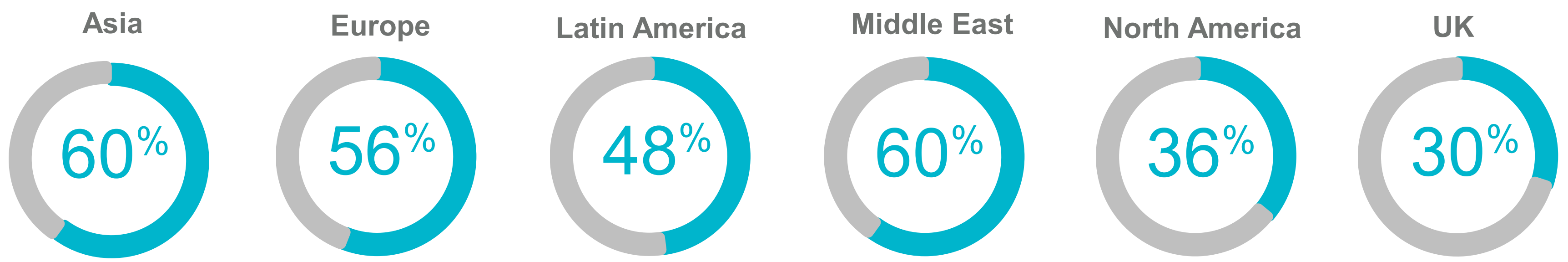
Institutional investors feel hamstrung, as short-term considerations limit their ability to invest for their long-term objectives.

1. Managing to long-term risks despite short-term distractions

Institutions must balance short-term performance benchmarks with long-term obligations

- Nearly half of institutions say the market's focus on short-term results inhibits their ability to execute long-term strategy.
- One-third of institutions feel internal pressure from the short-term outlook of boards that are too focused on quarterly results.

48% of institutions globally say the focus on short-term market performance pressure means long-term strategies are not given the time they need to play out



Institutions want to protect against downside risk – and most say they are willing to trail their peers to do so, but face the possibility of harsh judgment if their prudence caused near-term underperformance.

1. Managing long-term risks despite short-term distractions

Politics raise concerns for institutions

1. **US presidential election the primary source of political concern**
   - Globally, 7 in 10 institutional investors expect the US election to be a major source of market volatility.
   - North American institutions were the most likely to project campaign-induced volatility, 8 points ahead of other regions.
2. **Volatility and uncertainty more concerning than particular political outcomes**
   - Only a few percentage points separate respondents who say the election will have a negative (29%) or positive (23%) impact. Just under half (48%) believe there will be no impact.
   - Like the electorate, institutions are split – about half say the markets will react favorably to a new president (52%).
   - 54% believe markets will react unfavorably if Democrats win both houses of Congress – suggesting roughly equal numbers disagree with these views.
3. **The global problem of foreign election interference**
   - Seven in ten professional fund buyers believe election interference is an increasing problem. 8 in 10 in North America agree followed by 71% of institutions in the UK.

Top 5 measures to counter geopolitical risk

1.	Scenario analysis	48%
2.	Have capital buffers/reserves in place	47%
3.	Be more nimble and agile	31%
4.	Prioritize risks based on some clear criteria	25%
5.	Create signposts that track risks	22%

Institutional teams on the whole are concerned about the volatility and uncertainty introduced by the presidential election, rather than about a particular political outcome.

2. Rates much lower for much longer

Low interest rates an albatross for institutional investors

- When institutions were surveyed in Q4 of 2019, it seemed conceivable that interest rates might tick up modestly in 2020 to offer some relief. But then, the COVID-19 crisis hit and the Federal Reserve dropped interest rates to zero to stabilize markets.
- Institutions must meet their mandates in an even more yield-starved world. They were already turning to alternatives, and changes in the world since they were surveyed seem likely to push institutions further in this direction.

Institutions turning to private assets

7 in 10 say

- that the returns of private assets are worth the liquidity risk.
- they believe private assets would play a more prominent role in their investment strategies going forward.

Institutions must meet their mandates in an even more yield-starved world. They were already turning to alternatives, and changes in the world since they were surveyed seem likely to push institutions further in this direction.

Where institutional investors are maintaining or increasing private asset allocations

75%	71%	70%	67%
Real estate / REITs	Infrastructure	Private debt	Private equity

2. Rates much lower for much longer

Institutions turning to outsourcing

- Investing in alternatives is complex; doing it successfully demands particular skills and experience.
- Three-quarters of institutional teams say they outsource at least some investment management in order to access specialized expertise.
- Placement in top-tier managers' funds is limited, and acquiring it can depend on relationships.

Top 3 reasons for outsourcing solutions

Access to specialized expertise	Efficient access to illiquid assets and alternatives	Access to strategies tailored to our risk/return profile
75%	**43%**	**36%**

Institutional investors' reasons to outsource seem tied to the current environment – they are looking for creative solutions to generate the returns they need within their risk parameters.

3. ESG is embraced. Now how best to do it?

Institutional investors increasingly believe that long-term investment success is not separate from ESG goals

The institutional case for ESG

96% of institutional investors
say they have a role in addressing the world's most significant challenges:

- Influencing policies and practices of the companies in which they invest (49%)
- Putting capital to work to address global problems like climate change and diversity and inclusion (48%)
- Championing enhanced corporate governance (48%)
- Leading the change in the investment practices of the industry (40%)
- Engaging with governments and urging them to solve problems (32%)

ESG has momentum. In 2019, the U.S. Business Roundtable issued new Principles of Corporate Governance that for the first time asserted corporations' commitment to deliver value to all stakeholders, not primarily to shareholders.

ESG: Environmental, Social & Governance investing

3. ESG is embraced

Blended finance as a solution

- Six in ten (60%) say they would be more willing to invest in projects that help provide solutions to societal challenges if those projects presented a risk/return profile in line with their portfolios' long-term goals.
- Only one-quarter of institutions say they do not actively pursue impact investing: investments made with the intent to generate and measure social and environmental benefits alongside a financial return.

Blended finance provides a new model in which asset managers, investment banks and NGOs unlock the promise of impact and infrastructure investing in the developing world.

For example:
Establishing World Bank guarantees may make investment risks palatable to institutions. Such platforms have the potential to make investing in socially beneficial projects more realistic for institutional teams, freeing up capital to improve living conditions around the globe.

Blended finance puts public and philanthropic capital to work at increasing private sector investment in sustainable development.

NATIXIS
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Forging a clear path forward

1. **Managing to long-term risks despite short-term distractions –** Institutional teams must contend with all the risks they faced at the beginning of the year, and the first quarter correction has only upped the stakes.
2. **Rates much lower for much longer –** Low rates have been an albatross for institutional investors, and they are turning to outsourcing to help them overcome the challenges of today's markets.
3. **ESG is embraced. Now how best to do it? –** Institutional investors are continuing to dissolve the walls between the notions of societal good and investment success, as they pursue greater insights and more effective models to use their financial clout to make the world a better place.

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