PRESS RELEASE

NATIXIS
GLOBAL ASSET MANAGEMENT

# Investors' Appetite for Gains Exceeds Their Stomach for Risk, and Index Funds May Not Be What They Really Want, Finds Natixis Survey

- ***Investors say they need returns 8.9% above inflation, 51% higher than experts believe the markets will deliver[1]***
- ***Investors' use of index funds may be at odds with their strong desire for ESG investments; only 54% believe index funds contain companies that don't reflect their values***
- ***"Closet indexers" damage trust in the fund industry; 64% expect truly active managers, but 71% suspect they're really being charged high fees for index-hugging portfolios***
- ***When it comes to making investment decisions, investors trust their financial advisors more than friends & family, the media, social media and even themselves***
- ***62% think it is essential to invest in alternatives to reduce investment risk, but education is needed***

**BOSTON, Sept. 26, 2017** – Two-thirds (68%) of investors feel financially secure, emboldened enough by strong stock market gains to take additional investment risks, but the market's record highs and historic calm over the past year aren't enough to soothe their fear of losses, according to a new survey by Natixis Global Asset Management. Fewer than half (45%) of investors completely trust themselves to make investment decisions, and while most admit they need help, they are conflicted about whom to trust. Confusion about even basic topics, such as the attributes of index investing, points to a need for greater clarity.

Natixis surveyed 750 individual investors across the US and found:

- On average, investors say they need real annual returns of 8.9% above inflation to meet their financial goals – up from 8.5% in 2016. That is well above the returns many forecasters expect in coming years for market indexes tracked by the most popular passive investment funds, and 51% higher than the 5.9% financial professionals think is achievable.
- Nearly seven in ten (69%) say they are comfortable taking risks to get ahead in the market, and those with financial advisors are generally more comfortable with risk than those without (75% vs 56%, respectively).
- However, 81% would choose safety over performance, and 57% think volatility could undermine their ability to achieve financial goals.
- Fewer than half (45%) completely trust themselves to make investment decisions on their own. Six in ten (61%) would prefer to have an expert find the best investment opportunities.
- When it comes to investment decision-making, 88% of investors say they trust their financial advisor more than any other source, including industry analysts (73%), close friends and family (72%), investment ratings and awards (67%), the financial media (62%) and social media (43%).
- More investors trust their financial advisors than they do financial institutions overall (69%), so much so that 60% would follow their current advisor if he or she went to a different firm.

"The foundation for earning investor trust starts with listening," said David Giunta, CEO for the US and Canada at Natixis Global Asset Management. "Through our research, investors tell us loud and clear they want a better connection to their investments, they're confused about passive investing, and they want transparency and value for their money."

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[1] 2016 Global Survey of Financial Advisors and 2016 Global Survey of Institutional Investors.
For more information, visit ngam.natixis.com/us/research.

## Closet indexing, passive investing and misplaced expectations

Some of the blame for investor confusion can be traced to closet indexers – firms that claim to actively manage their funds and charge commensurate fees, but deliver portfolios that mimic benchmarks. Sixty-four percent of investors say they expect their mutual funds to have portfolios that differ substantially from their benchmarks, but 71% believe many active managers charge high fees while really just tracking an index. That may be why in Natixis surveys last year, 57% of institutional managers and 43% of financial advisors, respectively, cited the prevalence of closet indexers as a reason they used passive strategies.

The survey also found continued misperceptions about index investments. Sixty-six percent think index funds are less risky and 61% say they help to minimize losses, even though index funds track both the ups and downs of the markets they follow, less fees, and provide no built-in risk management. That may be why 76% of financial advisors and 75% of institutional investors said investors have a "false sense of security" about passive investing in Natixis surveys last year. In addition, only 72% of investors agreed that index funds give them returns comparable to the market – the definition of index funds – which suggests investors would benefit from additional education.

## ESG demand grows, but may not be compatible with indexing

Natixis found investors continue to prioritize owning investments that reflect their personal values and adhere to high standards for environmental, social and governance (ESG) criteria – a conviction that may be difficult to rationalize for investors who rely solely on traditional passive index funds. Three-quarters (75%) of individuals say there are companies they don't want in their portfolios because they violate their personal principles, and 73% go so far as to say they would sell a company that had environmental or ethical problems. Yet despite the hundreds of companies included in many popular indexes regardless of their corporate behavior, nearly half of investors (46%) do not believe index funds contain companies out of sync with their values. That may be why 75% of institutional investors said actively managed strategies are a better option than passive ones for ESG investing in a Natixis survey last year.

Natixis also found:

- Eighty-four percent of investors consider it important to invest in companies that are ethically run and 73% say it's important that the companies they invest in have good environmental records.
- Seven in ten (71%) say it is important to make a positive social impact through their investments.
- The portion of investors who say their financial advisor has discussed ESG investing with them rose slightly to 61% from 57% the year prior.

"Many investors are no longer satisfied by doing well, they also want to do good," said Natixis' Giunta. "As investors' goals for their money increasingly extend beyond their account statements, financial professionals need to take a holistic view of client portfolios that balances their desire for return with risk, cost and broader considerations."

## Investors looking for alternatives, but need help

Six in ten investors (63%) surveyed by Natixis say their investment knowledge is strong, but the results show investors would benefit from additional education and guidance on alternative investments.

The survey found:

- Three-quarters (77%) say they are willing to invest in assets other than stocks and bonds, 62% think it is essential to invest in alternatives to reduce investment risk, and 66% think alternative investments would give them higher returns than traditional stocks and bonds.
- However, over six in ten (63%) of investors say alternatives are too complicated, 71% think they are risky, and 11% don't know if their investment holdings include alternatives.

- Millennials (44%) are more likely than Generation X (38%) and Baby Boomers (42%) to use alternative investments.

In its report on the survey, Natixis suggests that investors may be confusing the broad “alternatives” term with a smaller subset of complex, higher-risk strategies. Yet many of these strategies are designed to provide non-correlated returns, minimize volatility and ultimately help reduce overall portfolio risk.

**What investors want from advisors**

When asked what they are looking for from their financial advisor, the most frequent response investors gave was simply to be heard – followed by doing a better job at aligning their investments with their personal values. In rank order of importance, investors say they seek the following:

1. Listen
2. Offer investments that reflect personal values
3. Provide a clear explanation of fees
4. Help discussing financial goals and planning with family members
5. Help with tax issues
6. Help manage market volatility
7. Talk about estate planning
8. Discuss charitable giving and philanthropic goals

“Investors receive a constant barrage of information, but what they really need is clarity,” said David Goodsell, Executive Director of Natixis’ Durable Portfolio Construction Research Center. “Despite historically low volatility, investors still worry it will undermine their financial goals. After an eight-year bull market, investors still define risk as a loss of assets rather than missing out on opportunity. And despite very high hopes for returns, they say they want safety over investment performance. Investors clearly need a financial professional to help them reconcile these conflicts and achieve their goals.”

*All investing involves risk, including risk of loss.*

*This report is being provided for informational purposes only, does not constitute investment advice and should not be construed as a recommendation for investment.*

**Methodology**

Natixis surveyed 750 individual investors across the United States with a minimum of $100,000 in investable assets. The group included 223 members of Generation Y, also known as Millennials (age 21 to 36); 251 from Generation X (age 37 to 52); and 236 Baby Boomers (age 53 to 72), as well as 85 retirees. The online survey was conducted in February 2017 and is part of a larger global study of 8,300 investors in 22 countries and regions from Asia, Europe, the Americas and the Middle East. The report, entitled “Trust, Transparency and the Quest for Clarity: Investor Attitudes on Markets and the Business of Investing,” is available at: ngam.natixis.com/us/research/individual-investor-survey-trust-2017.

**About Natixis Global Asset Management**

Natixis Global Asset Management serves thoughtful investment professionals worldwide with more insightful ways to invest. Through our Durable Portfolio Construction® approach, we focus on risk to help them construct more strategic portfolios that seek to endure today's unpredictable markets. We draw from deep investor and industry insights and partner closely with our clients to put objective data behind the discussion.

Natixis Global Asset Management is ranked among the world's largest asset management firms.[2] Uniting over 20 specialized investment managers globally ($951.7 billion AUM[3]), we bring a diverse range of solutions to every strategic opportunity. From insight to action, Natixis Global Asset Management helps our clients better serve their own with more durable portfolios.

Headquartered in Paris and Boston, Natixis Global Asset Management, S.A. is part of Natixis. Listed on the Paris Stock Exchange, Natixis is a subsidiary of BPCE, the second-largest banking group in France. Natixis Global Asset Management, S.A.'s affiliated investment management firms and distribution and service groups include Active Index Advisors®;[4] AEW Capital Management; AEW Europe; AlphaSimplex Group; Darius Capital Partners; DNCA Investments;[5] Dorval Asset Management;[6] Emerise;[7] Gateway Investment Advisers; H2O Asset Management;[6] Harris Associates; Loomis, Sayles & Company; Managed Portfolio Advisors®;[4] McDonnell Investment Management; Mirova;[8] Natixis Asset Management; Ossiam; Seeyond;[9] Vaughan Nelson Investment Management; Vega Investment Managers; and Natixis Global Asset Management Private Equity, 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 ngam.natixis.com | LinkedIn: linkedin.com/company/natixis-global-asset-management.

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*[2] Cerulli Quantitative Update: Global Markets 2017 ranked Natixis Global Asset Management, S.A. as the 15th largest asset manager in the world based on assets under management ($877.1 billion) as of December 31, 2016.*

*[3] Net asset value as of June 30, 2017. Assets under management (AUM) may include assets for which non-regulatory AUM services are provided. Non-regulatory AUM includes assets which do not fall within the SEC's definition of 'regulatory AUM' in Form ADV, Part 1.*

*[4] A division of NGAM Advisors, L.P.*

*[5] A brand of DNCA Finance.*

*[6] A subsidiary of Natixis Asset Management.*

*[7] A brand of Natixis Asset Management and Natixis Asset Management Asia Limited, based in Singapore and Paris.*

*[8] A subsidiary of Natixis Asset Management. Operated in the U.S. through Natixis Asset Management U.S., LLC.*

*[9] A brand of Natixis Asset Management. Operated in the U.S. through Natixis Asset Management U.S., LLC.*

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