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INVESTMENT MANAGERS

NEWS RELEASE

Top Investment Professionals Say Investors Are Overexposed to Risky Assets, Finds Natixis Investment Managers Survey

- *Increased volatility, correction in stocks, tech and cryptocurrencies predicted; Rates, inflation and valuations top portfolio risks*
- *Supply chain disruption and China relations are considered bigger potential threats to the US economy than COVID variants. Supply chain disruptions expected to persist until 2023.*
- *Nearly nine in 10 to expand firm's model portfolio offering, giving more investors access to institutional-quality portfolios and more consistent investment experience*
- *Infrastructure and private assets favored to counter low yields; More than half see alpha potential in environmental, social and environmental (ESG) investments.*

BOSTON, Feb. 8, 2022 – Eighty percent of the investment professionals responsible for fund selection and portfolio construction at leading US wealth management firms, private banks and wirehouses say that investors have taken on too much portfolio risk in a rate environment that has distorted stock values and decimated bond yields, according to new survey findings released today by Natixis Investment Managers. Sentiment from fund selectors reflects a shift in the market forces that drove stocks to record highs last year and now call for portfolio repositioning as the Federal Reserve starts raising rates, markets begin to normalize and the world learns to live with COVID.

After last year in 2021 when the Standard & Poor's 500 posted gains of 27%, fund selectors correctly forecasted the correction that has been playing out since the beginning of this year in the stock market (64%), tech sector (48%), and cryptocurrencies (71%). Most (88%) anticipate rate hikes, which the Federal Reserve has now indicated will begin in March. The survey found that fund selectors are looking to manage investments and investor emotions during the volatile transition to a higher rate, high inflation environment.

- Fund selectors expect more volatility for the stock market (78%) and bond market (72%).
- 67% say more frequent rebalancing will be important as markets churn.
- 87% are expanding their model portfolio offering, an approach they say streamlines the investing process (93%), gives clients across their firm a more consistent investment experience (88%), and can enhance investors' potential to outperform the market benchmarks (56%).

"Wealth managers' goal is to construct portfolios with the right balance of risk and return for each investor that helps them avoid emotionally-charged buying or selling and positions them for success," said Matthew Coldren, Executive Vice President and Head of the US Financial Institutions Group at Natixis Investment Managers. "To address their clients' increasingly complex needs, financial advisors today are using sophisticated strategies and tools that were once available to only the largest institutional investors, which can help give their clients a leg-up on achieving their financial goals."

Natixis IM surveyed 141 US investment professionals who collectively represent $2.7 trillion in client assets under management and are responsible for selecting the products and strategies, including mutual funds and exchange-traded funds (ETFs), used to create client portfolios on wealth manager, private bank, family office, wirehouse/broker-dealer, retirement plan provider, insurance and other retail investing platforms. The US findings are part of a larger global study of professional fund selectors representing $12.6 trillion in client assets.

The survey shows that fund selectors are mostly confident in the resilience of the US economy and strength of American consumers. However, they see supply chain disruptions, which 62% expect will continue until 2023, as the biggest potential threat to the US economy, followed by relations between the US and China (43%). On a macro level, they are less concerned about the economy's ability to weather tightening monetary policy (35%), government spending (34%) and COVID variants (31%). Despite the ongoing surge in Omicron, 61% of fund selectors don't expect new variants to slow economic growth this year.

Yet fund selectors see increased risks for investment portfolios, which have thrived in a market lifted by unprecedented fiscal and monetary stimulus.

The survey found:

- 85% of fund selectors believe valuations are distorted by super-low rates and don't reflect company fundamentals (66%)
- 72% think the stock market has grown at a rate that isn't sustainable
- Their top portfolio risk concerns are now rates (77%), inflation (77%), valuations (53%), and volatility (53%).

Positioning portfolios for a changing investing landscape

Fund selectors see opportunities for growth this year in a market environment that 73% agree will favor more active management.

- They expect better returns on the reopening trade (70%) than the stay-at-home trade (30%); value (66%) over growth (34%); and by a narrower margin, small cap (55%) over large cap (45%).
- Most (70%) think Big Tech will remain big and continue to grow unabated.
- They recommend tactical rotations to more economically sensitive and value-oriented sectors. Key calls underscore their conviction in the reopening trade and favor: Energy, financials, healthcare, information technology and consumer discretionary.
- They are divided on whether growth is more likely to come from developed markets (51%) or emerging markets (49%); however, 78% agree that emerging market investments are overly dependent on China, and 87% feel that regulatory uncertainties in China make the country a less attractive investment opportunity.
- They remain committed to the important role fixed income plays in client portfolios, though 87% agree it will be important to counter duration risk as rates begin to normalize. With rates still at historically low levels, 69% are increasingly recommending alternative strategies as a way to

generate yield.

Search for risk-managed growth in models, alternatives and ESG

Fund selectors are focused on enhancing their product offering as they look to balance a changing investment landscape with the evolving needs and interests of clients. At the core of this offering are model portfolios, comprised of a mix of actively and/or passively managed funds aligned with clients' preferences and risk profiles. On average, three-quarters of the models currently on their platform are proprietary models built and managed in-house; however, 42% of fund selectors say they intend to add more third-party models this year, and 45% plan to increase the number of actively managed funds offered.

"Given concerns about increased volatility, fund selectors are clearly telling us that model portfolios are likely to take a prominent place in plans for 2022 as they look to present an integrated, risk-based solution that can help investors navigate a riskier market environment," said Dave Goodsell, Executive Director of Natixis IM's Center for Investor Insight. "At the same time, many are looking to complement their core model offering with non-correlated investments and other specialized strategies."

Over the next two years, fund selectors plan to add:

- **Model portfolios:** 87% will enhance their model portfolio offering, including adding models focused on tax management (49%), alternatives (41%), income-generation (39%); ESG (37%) and thematic areas such as disruptive technologies and longevity (31%).
- **ESG investments:** Nearly six in ten (59%) are adding more ESG-focused investment options. While 50% of fund selectors say consideration of ESG factors is an integral part of sound investing, 52% believe there is alpha to be found ESG investments.
- **Private assets:** Half (50%) will add more private investments, where 72% of fund selectors say there is a significant delta in returns from the public markets. They see the most attractive areas for private equity investments as: Information technology, infrastructure, healthcare and real estate

The cryptocurrency conundrum

Forty percent of fund selectors report that clients are increasingly demanding cryptocurrency solutions, and 45% feel pressure to add cryptocurrencies specifically to appeal to younger investors. Of those currently offering digital currencies (45% of all respondents), 45% intend to further expand their existing offering. However, for now, most fund selectors (68%) don't think individual investors should have exposure to cryptocurrency. More than eight in ten (87%) agree that these assets need to be more transparent, and 84% think they will need some type of regulatory oversight. Moreover, 70% say their firm needs more education in digital assets and cryptocurrencies before investing in them.

A full copy of the report on the 2021 Natixis Investment Managers Pro Fund Selector Survey can be found here.

Methodology

Natixis Investment Managers' Global Survey of Fund Selectors was conducted by CoreData Research in November and December 2021. The survey included 436 respondents in 25 countries throughout North America, Latin America, the United Kingdom, Continental Europe, Asia and the Middle East.

About Natixis Investment Managers

Natixis Investment Managers' multi-affiliate approach connects clients to the independent thinking and focused expertise of more than 20 active managers. Ranked among the world's largest asset managers[1] with nearly $1.4 trillion assets under management[2] (€1,199.4 billion), Natixis Investment Managers delivers a diverse range of solutions across asset classes, styles, and vehicles, including innovative environmental, social, and governance (ESG) strategies and products dedicated to advancing sustainable finance. The firm partners with clients in order to understand their unique needs and provide insights and investment solutions tailored to their long-term goals.

Headquartered in Paris and Boston, Natixis Investment Managers is wholly owned by Natixis. 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; 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; and WCM Investment Management. Additionally, investment solutions are offered through Natixis Investment Managers Solutions and Natixis Advisors, LLC. **Not all offerings are available in all jurisdictions.** For additional information, please visit Natixis Investment Managers' website at im.natixis.com | LinkedIn: linkedin.com/company/natixis-investment-managers.

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[1] Cerulli Quantitative Update: Global Markets 2021 ranked Natixis Investment Managers as the 15th largest asset manager in the world based on assets under management as of December 31, 2020.
[2] Assets under management ("AUM") as of September 30, 2021 are $1,390 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. Excluding H2O Asset Management.
[3] A brand of DNCA Finance.

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