INVESTOR INSIGHTS SERIES

Ready. Steady. And waiting.

Professional fund buyers taking active steps to tackle 2019's anticipated volatility and uncertainty

Seeking risk to provide performance in a world of low returns. Limiting risk to preserve wealth amid the world's widespread uncertainty. Successfully pursuing each goal is difficult; trying to achieve the two simultaneously is tougher still. But despite their seemingly contradictory challenges, professional fund buyers are confident they can tackle what they see coming in 2019 – equity and fixed income markets that are likely to be more volatile, yet offer opportunities for discerning buyers; interest rates that are expected to rise, but could stabilize as a result of policy shifts; and a global economic environment marked by trade and geopolitical uncertainties. If anything, the stock market's plunge in last year's final quarter and its full bore return early in the new year underscore the value of the group's focused, disciplined approach that is prepared for the worst while attempting to capture the best, whenever and wherever that occurs.

In short, the next 12 months probably won't be easy for professional fund buyers, who are responsible for selecting funds for insurers and funds of funds, as well as recommending and/or choosing funds for the platforms of broker-dealers, private banks and trust companies. The results of this year's global survey of 200 of these key investment decision-makers reveal the directions they are likely to take to satisfy the demands of their firms' clients.

Professional fund buyers have lowered long-term return expectations to 7.7% from 8.4% last year.

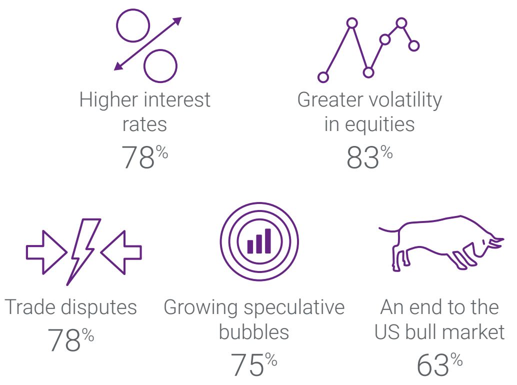
Projected portfolio allocations for 2019 remain unchanged, but they anticipate making meaningful changes within asset classes.

Three-quarters of professional fund buyers say this market environment is favorable for active management.

Rising concerns, lower performance expectations

While December 2018's market decline came after this year's survey results were collected, the cautious mindset revealed by the responses of professional fund buyers indicate that their wide-ranging concerns are well grounded. Reflecting the more difficult year they expect, professional fund buyers reduced their long-term rate-of-return assumptions to an average of 7.7% from 8.4% last year.

Among their expectations and concerns for 2019



- **Higher interest rates** – anticipated by the vast majority of respondents and considered a top portfolio risk by more than half. More than the absolute level of interest rates, professional fund buyers are concerned about the pace of central bank rate hikes.
- **Greater equity market volatility** – concerns half of respondents, and is expected by an overwhelming majority.

Portfolio allocations locked in for the long term

	Equities	Fixed Income	Alternatives	Cash	Other
2017[1]	43.6%	32.5%	13.7%	6.0%	4.2%
2018 (current)	44.2%	31.9%	14.6%	6.6%	2.1%
2019	43.0%	31.7%	15.8%	7.1%	1.6%

1 The Natixis Investment Managers Global Survey of Professional Fund Buyers was conducted by CoreData Research in September and October 2017. The survey included 200 respondents in 23 countries.

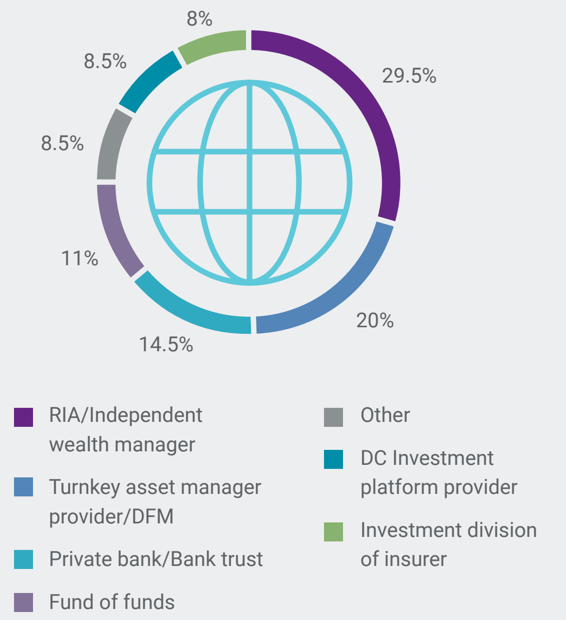
- **Performance pressure** – from forces including central bank unwinding of quantitative easing, geopolitical disruptions and trade disputes.
- **An end to the US bull market within 12 months** – a timetable with which almost two-thirds of respondents either agree or strongly agree. While only a handful expect a global financial crisis in 2019, six in ten believe that regulation put in place after the 2008–09 crisis has done little to mitigate current and future market risks.
- **Market bubbles** – individual investors are unaware of emerging speculative bubbles, say the vast majority of professional fund buyers, who see the most danger in cryptocurrencies, followed by technology, the bond market and real estate.

Despite their concerns, professional fund buyers around the world are staying the course. For 2019, they are planning to make relatively small changes to the share size of each asset class allocation within their portfolios, but anticipate making some meaningful changes within each of the asset classes.

ABOUT THE SURVEY

The Natixis Investment Managers Global Survey of Professional Fund Buyers was conducted by CoreData Research in October and November 2018. The survey included 200 respondents in 22 countries throughout North America, Latin America, the United Kingdom, Continental Europe and the Middle East.

The professional fund buyers in the survey, who are researchers and analysts responsible for the fund selection process, work in a variety of institutions at the following types of organizations:



Equities: Looking beyond national borders

While concerned about volatility and the effects of Federal Reserve tightening, professional fund buyers are trimming their overall equity allocation by just 1.2 percentage points from 2018. Within the asset class, however, they are taking a broad global view and are willing to venture far from home to seize opportunities. They anticipate making several moves, including a notable one involving emerging markets:

	INCREASE	DECREASE	NO CHANGE	DO NOT INVEST
European	35%	30%	30%	6%
Emerging market	39%	17%	27%	18%
Asia-Pacific	29%	18%	43%	11%
US	20%	44%	29%	8%

- **US equities:** Perhaps because of the age of the US bull market and opportunities elsewhere in the world, almost half of professional fund buyers (44%) say they plan to decrease their allocation to American stocks, while roughly one-quarter (28.5%) plan to stay the course.
- **European equities:** Conflicted by persistent worries about Brexit and Italian banks in the face of favorable valuations and earnings outlooks, respondents are almost evenly divided over increasing, decreasing and maintaining their allocations.
- **Asia-Pacific:** The recent trade fracas is causing US importers to seek new supply chains outside China, which will lead to new opportunities throughout the region. For that reason, perhaps, and because even slower China growth is greater than growth elsewhere, respondents are holding steady in their allocation to the region.
- **Emerging markets:** Perhaps reflecting what they see as a turn in the market cycle, most respondents say they plan to increase their allocation to this diverse equity category.

Within equities, professional fund buyers anticipate that the financials, healthcare and information technology sectors will outperform the market in 2019. In contrast, they see materials and real estate as likely underperformers. Sectors in the "market average" performance category include communication services, consumer discretionary, consumer staples, energy, industrials and utilities.

Fixed income: Safety first

Most respondents plan no change in their allocation to fixed income investments. Among fixed income classes, however, many professional fund buyers intend to direct less of their debt dollars into high yield bonds due to worries over rising interest rates, a potentially weaker economy, and the financial wherewithal of high yield issuers. By fixed income type, they anticipate making the following shifts:

	INCREASE	DECREASE	NO CHANGE	DO NOT INVEST
Investment grade corporate debt	21%	32%	39%	10%
Government related	29%	22%	38%	12%
Securitized debt	15%	17%	47%	23%
Emerging market debt	19%	23%	31%	28%
High yield corporate debt	21%	34%	30%	16%
Green bonds	22%	4%	19%	57%

- **Government and agency securities:** In their efforts to keep portfolios safe, more than one-third of respondents intend to keep their allocation to these highly rated debt instruments as is, while nearly one-third plan to increase their allocation.
- **Asset-backed debt:** In this category, which includes mortgage-backed securities and other securitized debt, almost half of those surveyed anticipate making no change.
- **High yield bonds:** Since high yield securities are often considered the debt market's closest equivalent to equities in terms of risk, it's probably not surprising that one-third of professional fund buyers are trimming their high yield sails.
- **Emerging market debt:** While enthusiastic about emerging market equities, professional fund buyers for the most part intend to keep their allocation to emerging market debt securities steady.
- **Green bonds:** Fewer than half of respondents invest in this category, but among those who do, the largest share intend to increase their allocation to bonds issued by companies deemed to satisfy environmental and other social criteria.

Alternatives: A route to returns, diversification and safety

Currently constituting 14.6% of portfolios, on average, and projected to increase to 15.8% in 2019, the diverse range of alternative investments and strategies used by professional fund buyers are seen as valuable tools to help meet performance objectives, manage risk and diversify holdings.

	INCREASE	DECREASE	NO CHANGE	DO NOT INVEST
Infrastructure	19%	8%	33%	41%
Private debt	15%	13%	31%	42%
Private equity	17%	11%	33%	40%
Real estate/ REITs	22%	15%	41%	23%
Hedge fund strategies	19%	16%	35%	31%
Commodities	10%	13%	34%	44%

Because of the preferences of their individual investor clients, who do not typically share the decades-long time horizons of many institutional investors, a resounding 70.1% of professional fund buyers' alternatives allocations go to liquid alternative investments. The survey included questions about several alternative asset types available in liquid versions including real estate and REITs, hedge fund strategies, commodities, infrastructure and others, as well as less liquid alternatives including private equity and private debt, and questions about respondents' preferences regarding the choices.

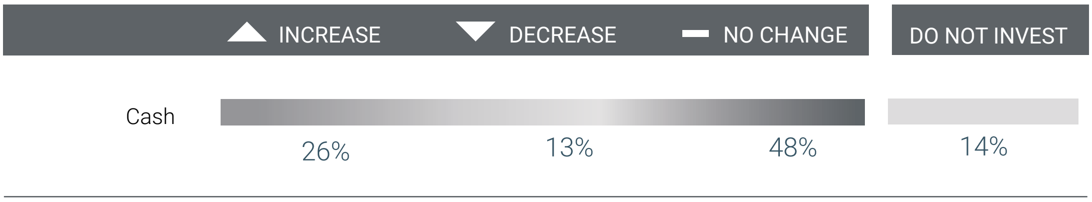
- **Enhancing returns:** When asked which strategies are the best for potentially enhancing returns, most of the professional fund buyers surveyed identified long-short equity, long-short credit and private debt as their top choices.
- **Risk reduction:** Most opt for market neutral strategies.
- **Diversification:** Honors went to multi-alternative, global tactical asset allocation and real estate strategies, while for protection against volatility, managed futures was the winner.
- **Option writing:** Respondents were almost evenly split on its advantages in return enhancement (22%), volatility protection (20%) and the ability to generate steady income (23%).

Within their overall alternatives allocation for 2019, most professional fund buyers plan no change in the share directed to each asset or strategy type.

Cash: Receiving its due

Rising volatility, concerns about the economy and worries about the continuation of the equities bull market are three reasons that cash is once again being appreciated as an asset class diversifier. Having a cash cushion to seize buying opportunities as well as to dampen the impact of potential losses in other assets can lessen risk in portfolios and improve returns — as well as allay client fears. Assisting in this reburnishing of cash's role in a portfolio are higher short-term interest rates, which have shifted cash from an asset acting as a performance drag to one making a modest contribution to gains.

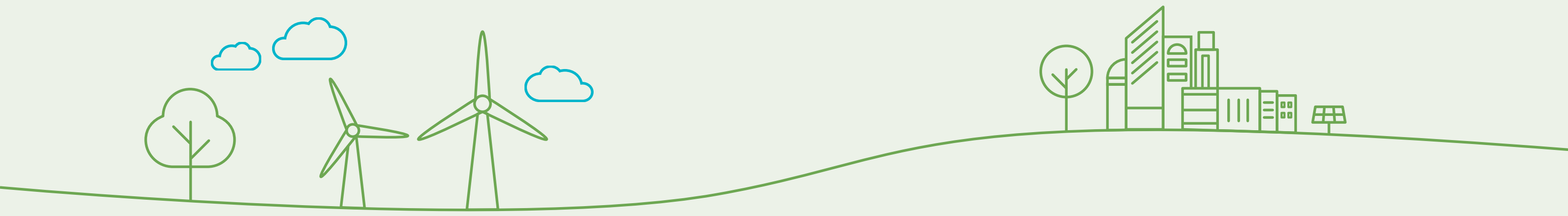
While half of professional fund buyers plan no change in their cash allocation in 2019, one-quarter plan to increase their allocation. Overall, cash is anticipated to account for 7.1% of portfolios in 2019, up from 6.6%.



The markers of professional fund buyer decision-making

The role of the professional fund buyer is often that of gatekeeper and arbiter, analyzing and selecting investments for others – typically individual investors who are clients of the buyer's organization, and often the advisors who serve those clients. Because of their role as intermediary decision-makers, professional fund buyers must take into account their own organization's demands as well as those of advisors and end clients, and make choices that try to satisfy all those they serve. The role presents unique tensions regardless of where in the world the professional fund buyer is employed, or by which organization. As a consequence, this small but influential group of investment professionals has developed certain preferences over time that shape their outlook and their choices. Here are four significant markers of the professional fund buyer mindset confirmed by results of the survey:

- **A bias toward risk assets.** Even while slightly lowering their 2019 allocation to equities, professional fund buyers still favor that asset class. As study after study about investment returns has concluded, equities offer the potential for greater returns over time than other asset classes, despite the greater risk. Even when market turndowns and crises test their clients' risk tolerance, and although they are not blind to potential speculative bubbles, professional fund buyers continue to take the path indicated by experience and choose equities.



ESG investing: Another year closer to becoming standard practice

Not so long ago, the use of investment criteria that incorporated attention to environmental, social and governance (ESG) factors was considered fringe. Now, whether due to the growing proportion of Millennial investors for whom ESG investing often is a priority, concerns about global warming and the environment, or because governance problems have proven to be at the root of several major corporate meltdowns, ESG investing has become mainstream.

When asked about ESG investing, half say ESG factors are important in their organization's current manager selection process, and two-thirds say they will increase their allocation to ESG strategies in 2019. More than half of those surveyed contend that there is alpha to be found in ESG investing.

The top two reasons professional fund buyers incorporate ESG considerations into investment decision-making and analysis are to align investment strategies with their organizational values and because ESG investing is mandated by their investment policy statements and those of their clients.

> Two-thirds of professional fund buyers say that including ESG factors will be standard practice for all investment managers within five years.

Most often cited as challenges in ESG investing are a lack of demonstrated performance track records, the difficulty in measuring financial and non-financial performance, concerns that companies may be "greenwashing" reported data to enhance their public image, and the conflict between short-term return goals and long-term sustainability objectives.

- **Time horizons suited to client needs.** Unlike investment professionals at endowments who effectively have an infinite time horizon, professional fund buyers must select investments that achieve long-term goals for end-clients, such as building a retirement nest egg, while also satisfying the more immediate demands of clients and their advisors for above-average performance. As a result, the long-term time horizon of professional fund buyers is shorter than that of many institutional investors but longer than the actual (not self-professed) time frame of individual investors, as demonstrated by the holding period of their investments. Half of survey respondents say they base their organization's long-term return assumptions on a ten-year time frame, while 40% used a five-year period.

- **Preference for liquidity.** Probably because of the shorter time horizons and liquidity needs of their clients, who often do not clear the hurdles surrounding many private investments, professional fund buyers tend to favor liquid alternative investments and liquid versions of strategies used by hedge funds. Most do not invest in private equity or private debt, for example, or in infrastructure investments.

- **Strength of convictions.** Professional fund buyers have confidence in their abilities and in the quality of their investment selections. More than eight in ten believe or strongly believe that their return assumptions are realistically achievable.

Why professional fund buyers choose active management

Since slightly more than one-quarter of portfolios overseen by professional fund buyers are managed passively, investment professionals obviously acknowledge the role of index-based investing. Yet almost three-quarters of their portfolios consist of actively managed investments, which means that professional fund buyers strongly support the value added by high-quality active managers.

Active features prominently in portfolio plans

Almost two-thirds of respondents agree or strongly agree that actively managed investments outperform passive portfolios in the long run. In fact, even in their passive holdings, over half are allocating more to smart beta choices than they were three years ago.

Asset managers: What professional fund buyers want

No question, performance is the key determinant of asset manager selection among professional fund buyers. But other factors enter into their decision-making.

Chief among these are:

- Access to portfolio specialists
- In-depth performance attribution reporting
- Independent fund analysis
- Timely market insights
- Direct access to fund managers
- Sharing of investment philosophy
- Strength of support services.

While another three-quarters of respondents agree or strongly agree that alpha is becoming increasingly difficult to obtain as markets become more efficient, they are willing to pay higher fees for potential outperformance and agree that the 2019 market environment is likely to be favorable for active portfolio management.

Facing challenges with confidence

Like travelers venturing outdoors when weather forecasters warn of the possibility of a storm, professional fund buyers are prepared for what might be coming in 2019. Almost half have trimmed their assumed rate of return in anticipation of stock market declines and rising interest rates, which tend to reduce the value of fixed income investments.

But they are not holing themselves up and avoiding what may come. Instead, they are selectively using alternative investments, especially of the liquid variety, to meet their clients' needs for growth and safety, as well as continuing to rely on the performance potential of active management. Professional fund buyers overwhelmingly agree that the unfolding market environment, however challenging it may be, is likely to be favorable for active management.

PROGRAM OVERVIEW

About the Natixis Center for Investor Insight

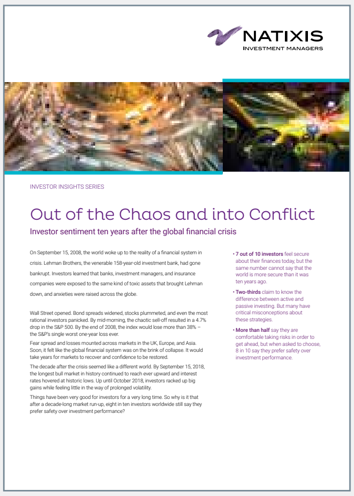
Investing can be complicated: Event risk is greater and more frequent. Volatility is persistent despite market gains. And investment products are more complex. These factors and others weigh on the psyche of investors and shape their attitudes and perceptions, which ultimately influence their investment 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.

Research agenda

Our annual research program offers insights into the perceptions and motivations of individuals, institutions and financial professionals around the globe and looks at financial, economic and public policy factors that shape retirement globally with:

- Global Survey of Individual Investors – reaches out to 9,100 investors in 25 countries.
- Global Survey of Financial Professionals – reaches out to 2,775 professionals in 16 countries.
- Global Survey of Institutional Investors – reaches out to 500 institutional investors in 28 countries.
- Natixis Global Retirement Index – provides insight into the environment for retirees globally based on 18 economic, regulatory and health factors.

The end result is a comprehensive look into the minds of investors – and the challenges they face as they pursue long-term investment goals.



Out of the Chaos and into Conflict

Investor sentiment ten years after the global financial crisis

Rise against the machines

Financial professionals focus on human dynamics in response to growing digital competition

2018 Global Retirement Index

An in-depth assessment of welfare in retirement around the world

> To learn more:
Visit: im.natixis.com/research

The Natixis Investment Managers Global Survey of Professional Fund Buyers was conducted by CoreData Research in October and November 2018. The survey included 200 respondents in 22 countries throughout North America, Latin America, the United Kingdom, Continental Europe and the Middle East.

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. No investment strategy or risk management technique can guarantee return or eliminate risk in all market environment.

This material is provided for informational purposes only and should not be construed as investment advice.

The views and opinions expressed may change based on market and other conditions.

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 than 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.

Sustainable investing focuses on investments in companies that relate to certain sustainable development themes and demonstrate adherence to environmental, social and governance (ESG) practices, therefore the Fund's universe of investments may be reduced. It may sell a security when it could be disadvantageous to do so or forgo opportunities in certain companies, industries, sectors or countries. This could have a negative impact on performance depending on whether such investments are in or out of favor.

Outside the United States, this communication is for information only and is intended for investment service providers or other Professional Clients. This material must not be used with Retail Investors. This material may not be redistributed, published, or reproduced, in whole or in part. Although Natixis Investment Managers believes the information provided in this material to be reliable, including that from third party sources, it does not guarantee the accuracy, adequacy or completeness of such information.

The analyses and opinions referenced herein represent the subjective views of the author as referenced, are as of January 23, 2019 and are subject to change. There can be no assurance that developments will transpire as may be forecasted in this material.

In the EU (ex UK and France): Provided by Natixis Investment Managers S.A. or one of its branch offices listed below. Natixis Investment Managers S.A. is a Luxembourg management company that is authorized by the Commission de Surveillance du Secteur Financier and is incorporated under Luxembourg laws and registered under n. B 115843. Registered office of Natixis Investment Managers S.A.: 2, rue Jean Monnet, L-2180 Luxembourg, Grand Duchy of Luxembourg. Italy: Natixis Investment Managers S.A., Succursale Italiana (Bank of Italy Register of Italian Asset Management Companies no 23458.3). Registered office: Via Larga, 2 - 20122, Milan, Italy. Germany: Natixis Investment Managers S.A., Zweigniederlassung Deutschland (Registration number: HRB 88541). Registered office: Im Trutz Frankfurt 55, Westend Carrée, 7. Floor, Frankfurt am Main 60322, Germany. Netherlands: Natixis Investment Managers, Nederlands (Registration number 50774670). Registered office: Stadsplateau 7, 3521AZ Utrecht, the Netherlands. Sweden: Natixis Investment Managers, Nordics Filial (Registration number 516405-9601 - Swedish Companies Registration Office). Registered office: Kungsgatan 48 5tr, Stockholm 111 35, Sweden. Spain: Natixis Investment Managers, Sucursal en España. Serrano n°90, 6th Floor, 28006 Madrid, Spain.

In France: Provided by Natixis Investment Managers International – a portfolio management company authorized by the Autorité des Marchés Financiers (French Financial Markets Authority - AMF) under no. GP 90-009, and a public limited company (société anonyme) registered in the Paris Trade and Companies Register under no. 329 450 738. Registered office: 43 avenue Pierre Mendès France, 75013 Paris.

In Switzerland: Provided by Natixis Investment Managers, Switzerland Sàrl, Rue du Vieux Collège 10, 1204 Geneva, Switzerland or its representative office in Zurich, Schweizergasse 6, 8001 Zürich.

In the British Isles, this material is provided by Natixis Investment Managers UK Limited which is authorised and regulated by the UK Financial Conduct Authority (register no. 190258) - registered office: Natixis Investment Managers UK Limited, One Carter Lane, London, EC4V 5ER. When permitted, the distribution of this material is intended to be made to persons as described as follows: in the United Kingdom: this material is intended to be communicated to and/or directed at investment professionals and professional investors only; in Ireland: this material is intended to be communicated to and/or directed at professional investors only; in Guernsey: this material is intended to be communicated to and/or directed at only financial services providers which hold a license from the Guernsey Financial Services Commission; in Jersey: this material is intended to be communicated to and/or directed at professional investors only; in the Isle of Man: this material is intended to be communicated to and/or directed at only financial services providers which hold a license from the Isle of Man Financial Services Authority or insurers authorised under section 8 of the Insurance Act 2008.

In the DIFC: Distributed in and from the DIFC financial district to Professional Clients only by Natixis Investment Managers Middle East (DIFC Branch) which is regulated by the DFSA.

Related financial products or services are only available to persons who have sufficient financial experience and understanding to participate in financial markets within the DIFC, and qualify as Professional Clients as defined by the DFSA. Registered office: Office 603 - Level 6, Currency House Tower 2, PO Box 118257, DIFC, Dubai, United Arab Emirates.

In Singapore: Provided by Natixis Investment Managers Singapore (name registration no. 53102724D), a division of Ostrum Asset Management Asia Limited (company registration no. 199801044D). Registered address of Natixis Investment Managers Singapore: 5 Shenton Way, #22-05 UIC Building, Singapore 068808.

In Taiwan: Provided by Natixis Investment Managers Securities Investment Consulting (Taipei) Co., Ltd., a Securities Investment Consulting Enterprise regulated by the Financial Supervisory Commission of the R.O.C. Registered address: 34F., No. 68, Sec. 5, Zhongxiao East Road, Xinyi Dist., Taipei City 11065, Taiwan (R.O.C.), license number 2018 FSC SICE No. 024, Tel. +886 2 8789 2788.

In Japan: Provided by Natixis Investment Managers Japan Co.,Ltd., Registration No.: Director-General of the Kanto Local Financial Bureau (kinsho) No. 425. Content of Business: The Company conducts discretionary asset management business and investment advisory and agency business as a Financial Instruments Business Operator. Registered address: 1-4-5, Roppongi, Minato-ku, Tokyo.

In Hong Kong: Provided by Natixis Investment Managers Hong Kong Limited to institutional/ corporate professional investors only.

In Australia: Provided by Natixis Investment Managers Australia Pty Limited (ABN 60 088 786 289) (AFSL No. 246830) and is intended for the general information of financial advisers and wholesale clients only.

In New Zealand: This document is intended for the general information of New Zealand wholesale investors only and does not constitute financial advice. This is not a regulated offer for the purposes of the Financial Markets Conduct Act 2013 (FMCA) and is only available to New Zealand investors who have certified that they meet the requirements in the FMCA for wholesale investors. Natixis Investment Managers Australia Pty Limited is not a registered financial service provider in New Zealand.

In Latin America: Provided by Natixis Investment Managers S.A.

In Colombia: Provided by Natixis Investment Managers S.A. Oficina de Representación (Colombia) to professional clients for informational purposes only as permitted under Decree 2555 of 2010. Any products, services or investments referred to herein are rendered exclusively outside of Colombia.

In Mexico: Provided by Natixis IM Mexico, S. de R.L. de C.V., which is not a regulated financial entity, securities intermediary, or an investment manager in terms of the Mexican Securities Market Law (Ley del Mercado de Valores) and is not registered with the Comisión Nacional Bancaria y de Valores (CNBV) or any other Mexican authority. Any products, services or investments referred to herein that require authorization or license are rendered exclusively outside of Mexico. While shares of certain ETFs may be listed in the Sistema Internacional de Cotizaciones (SIC), such listing does not represent a public offering of securities in Mexico, and therefore the accuracy of this information has not been confirmed by the CNBV. Natixis Investment Managers is an entity organized under the laws of France and is not authorized by or registered with the CNBV or any other Mexican authority. Any reference contained herein to "Investment Managers" is made to Natixis Investment Managers and/or any of its investment management subsidiaries, which are also not authorized by or registered with the CNBV or any other Mexican authority.

In Uruguay: Provided by Natixis Investment Managers Uruguay S.A., a duly registered investment advisor, authorized and supervised by the Central Bank of Uruguay. Office: San Lucar 1491, oficina 102B, Montevideo, Uruguay, CP 11500.

The above referenced entities are business development units of Natixis Investment Managers, the holding company of a diverse line-up of specialized investment management and distribution entities worldwide. The investment management subsidiaries of Natixis Investment Managers conduct any regulated activities only in and from the jurisdictions in which they are licensed or authorized. Their services and the products they manage are not available to all investors in all jurisdictions.

In Canada: This material is provided by Natixis Investment Managers Canada LP, 145 King Street West, Suite 1500, Toronto, ON M5H 1J8.

In the United States: Provided by Natixis Distribution, L.P., 888 Boylston Street, Boston, MA 02199. Natixis Distribution, L.P. is a limited purpose broker-dealer and the distributor of various registered investment companies for which advisory services are provided by affiliates of Natixis Investment Managers.

Natixis Investment Managers includes all of the investment management and distribution entities affiliated with Natixis Distribution, L.P. and Natixis Investment Managers S.A. This material should not be considered a solicitation to buy or an offer to sell any product or service to any person in any jurisdiction where such activity would be unlawful.

2402265.1.1
Exp. 12/31/2020
RC50-0119

NOT FDIC INSURED • MAY LOSE VALUE • NO BANK GUARANTEE