Paris, 15 December 2014

Institutional investors under pressure to balance short-term market moves and long-term mandates, finds Natixis Global Asset Management

- Confidence in ability to meet liabilities; however, generating sufficient, reliable returns with traditional asset allocations is challenging
- Perceived lack of tools and improvement in liability-driven investing solutions
- Alternatives and environmental, social and governance (ESG) investments viewed as source of risk-mitigated alpha

Pension funds and other institutional investors believe they will meet their long-term objectives, but they expect it will be difficult to earn stable short-term returns and manage liabilities tied to the extended lifespans of their beneficiaries, according to survey findings released today by Natixis Global Asset Management. Citing pressure to focus on short-term performance and their obligation to balance asset growth and protection, investors are cautiously pursuing innovative ways of generating income and alpha.

The Natixis global survey of 642 institutional investors, including public and corporate pension funds, sovereign wealth funds and insurers collectively managing $31 trillion in assets, explores current market outlook and strategies in portfolio construction, risk management and operations.

While institutional investors are optimistic about equities in 2015, their outlook is tempered by market risks beyond their control and unknown liability risks ahead, particularly those linked to increased longevity. Despite their need for asset growth, institutional investors are twice as likely to reduce portfolio risk as to increase it in the next 12 months. And even with the use of liability-driven investing strategies, the biggest challenge is their ability to generate sufficient returns.

Key findings of the survey include:

• While 87 percent expect to meet their long-term liabilities, more than half of the respondents believe most other organizations will fail to do so (consistent with results from last year's survey).

• 80 percent of institutions say it is challenging to generate stable returns in the short term, while 60 percent of investors expect it will be difficult to fund their long-term liabilities.

• 60 percent of investors responded that the industry has not been innovative enough in developing liability-driven investment (LDI) solutions to meet current and future costs.

• On average, institutions expect they can achieve yearly returns of 6.9 percent after inflation.

• 81 percent of institutional investors believe it will be difficult to mitigate the impact of volatility, and more than three-quarters (77%) are concerned about their ability to manage tail risk.

• The top four potential threats to investment performance in the next year are geopolitical events, European economic problems, slower growth in China and rising interest rates.

"Institutional investors, particularly pension funds, have a lot at stake as the portfolios they manage today are an important source of tomorrow's income for the world's aging population," said John Hailer, president and chief executive officer for Natixis Global Asset Management in the Americas and Asia. "Our Durable Portfolio Construction platform emphasizes risk as the primary factor to determine asset allocation, which may give investors the broader perspective needed to withstand market changes and surprises and generate the returns they are seeking."

Generating return in efficient markets

More than half (55%) of institutional investors agree that traditional assets are too highly correlated to provide distinctive sources of return. As the markets become more efficient, they are looking for new sources of performance. The survey found that most have turned away, in some measure, from traditional asset allocation and toward a greater use of alternative strategies:

• 75 percent of investors feel that alpha is becoming harder to obtain as the markets become more efficient.

• 81 percent agree that alternatives are suitable for institutional portfolios, and 60 percent say they are a good source of returns.

• 71 percent believe that alternatives are necessary for institutional investors to manage liabilities and longevity risk.

Where's the alpha? ESG investing

Many investors say they believe so-called ESG investing can be both a source of return and a way to reduce risk. An ESG approach to investing takes nonfinancial factors – environmental, social and corporate governance – into account to help determine the long-term sustainability and ethical impact of an investment. The survey showed:

• 54 percent think that ESG investing has long-term growth and alpha benefits.

• 55 percent agree that ESG investing mitigates risks such as loss of assets due to lawsuits, social discord and environmental disasters.

Market picks for 2015

As they look ahead to 2015, institutional investors are wary of higher interest rates and in favor of equities. "Even as they perceive stocks as next year's best investment category, institutional investors are cautious," Hailer said.

Among the survey findings:

• 67 percent of institutional investors expect difficulties over the next three years linked to rising interest rates, and 81 percent say it will be challenging to manage volatility in that time.

• As rates rise, the top three ways institutional investors plan to position their portfolios are to move from long to shorter-duration bonds (61%); reduce exposure to fixed-income (46%); and increase use of alternative strategies (36%).

• 46 percent of institutional investors predict stocks will be the strongest asset category in 2015, with U.S. equities standing above those from other regions.

• Another 28 percent identify alternative assets as top performers, with private equity leading the way in that category.

• Only 13 percent predict bonds will be best, followed by real estate (7%), energy (3%) and cash (2%).

« In terms of asset allocation, real estate and value investments are favored by global institutional investors for next year: 40% plan to increase these strategies in their portfolio. Income generating investments is also in a good position, mentioned by 36% of respondents, states Christophe Point, Managing Director, Head of France, Geneva and Monaco at NGAM Distribution. **»**

Methodology

The Natixis Global Institutional Investor 2014 study is based on fieldwork carried out in 27 countries. Interviews were conducted in October and November with 642 senior decision makers working in institutional investment. Respondents were corporate, public and government pension funds; sovereign wealth funds; insurance companies; endowments and foundations; and other institutions.

The findings are published in a new whitepaper, Under Pressure: Facing up to the Challenge of Balancing Short-Term Perfomance Needs with Long-Term Liabilities by the Natixis Durable Portfolio Construction Research Center.

About the Natixis Durable Portfolio Construction Research Center

Now in its fifth year, the Durable Portfolio Construction Research Center conducts global surveys annually with institutional investors, individual investors and financial advisors. Nearly 7,500 respondents from across the Americas, Europe, Asia and the Middle East offer their views on timely investment issues, allowing Natixis to provide valuable insights to assist all investors over the long term. For more information, visit http://durableportfolios.com.

About Natixis Global Asset Management

Natixis Global Asset Management is a multi-affiliate organization that offers a single point of access to more than 20 specialized investment firms in the U.S., Europe and Asia. The firm ranks among the world's largest asset managers.[1] Through its Durable Portfolio Construction® philosophy, the company is dedicated to providing innovative ideas on asset allocation and risk management that can help institutions, advisors and individuals address a range of modern market challenges.

Recognized as the #1 U.S. mutual fund family for 2013 performance in the annual Barron's/Lipper Fund Family Ranking,[2] Natixis Global Asset Management brings together the expertise of multiple specialized investment managers based in Europe, the United States and Asia to offer a wide spectrum of equity, fixed-income and alternative investment strategies.

Headquartered in Paris and Boston, Natixis Global Asset Management, S.A.'s assets under management totaled $894.3 billion (€708.0 billion) as of September 30, 2014.[3] 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 Absolute Asia Asset Management; Active Investment Advisors;[4] AEW Capital Management; AEW Europe; AlphaSimplex Group; Aurora Investment Management; Axeltis; Capital Growth Management; Darius Capital Partners; Dorval Finance;[5] Gateway Investment Advisers; H2O Asset Management;[5] Harris Associates; IDFC Asset Management Company; Loomis, Sayles & Company; Managed Portfolio Advisors;4 McDonnell Investment Management; Mirova;[6] Natixis Asset Management; Natixis Environment & Infrastructure Luxembourg; Ossiam; Reich & Tang Asset Management; Seeyond;[7] Snyder Capital Management; 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. Visit ngam.natixis.com for more information.

Natixis Global Asset Management also includes business development units located across the globe, including NGAM UK Limited, which is authorised and regulated by the UK Financial Conduct Authority and NGAM S.A.

The information contained herein is provided solely for information only and does not constitute a solicitation to buy or an offer to sell any financial products or services.

[1] Cerulli Quantitative Update: Global Markets 2014 ranked Natixis Global Asset Management, S.A. as the 16th largest asset manager in the world based on assets under management as of December 31, 2013.
[2] Barron's/Lipper 2013 one-year fund family ranking based on 64 qualifying U.S. fund companies. Each fund family must have at least three funds in Lipper's general U.S.-stock category, one world (global and international), one mixed-asset/balanced (stocks and bonds), two taxable bond and one tax-exempt bond fund. Natixis was not ranked for the 5- and 10-year periods. Past performance is no guarantee of future results. The Fund Family represents U.S. domiciled funds that are not available for investment to non-U.S. persons. When this communication is provided outside of the U.S., it is done only to provide supplemental information about the expertise of Natixis Global Asset Management and its affiliates.
[3] 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] Division of NGAM Advisors, L.P.
[5] An affiliate of Natixis Asset Management.
[6] A subsidiary of Natixis Asset Management.
[7] A global investment unit of the Natixis Asset Management organization, operated in the U.S. through Natixis Asset Management U.S., LLC

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