NATIXIS
GLOBAL ASSET MANAGEMENT

INVESTOR INSIGHTS SERIES

PRACTICE PERFECT

In pursuit of the ideal advisory business

Practice perfect

In pursuit of the ideal advisory business

Financial advisors globally are anticipating 9.4% business growth in the next 12 months. Only 47% believe growth will be the result of market action. Three-quarters say their growth will come from winning new clients or earning a greater share of business from current clients. Our 2016 Global Survey of Financial Advisors finds that in pursuit of this goal, advisors face critical decisions about how they structure their practice, how they manage clients and how they select investments.

Practice management: Heightened regulations and increased fee pressures are leading advisors to focus on their role as business owner.

- Seven in ten say they will make at least some changes in their business model as a result of new regulations, and close to half (48%) say they will need to change their business model in order to sustain business growth.
- The pressure is so great, 25% say they may consider selling their practice, merging with another firm, retiring or exiting the industry altogether.

Client management: Faced with unrealistic expectations and irrational behaviors, one of the biggest challenges for advisors may simply be keeping clients invested.

- Overall, 86% of advisors tell us their success is linked directly to their ability to manage client return expectations. But investors globally say they expect returns of 9.5% above inflation, while advisors say expectations for 5.3% above inflation are more realistic.
- It's no wonder that 85% say their ability to prevent clients from making emotional decisions is a critical success factor and say they are challenged to get an accurate picture of client risk tolerances.

Investment management: Delivering on the investment side in an environment marked by high correlations, low yields and erratic periods of volatility means advisors must navigate a range of investment challenges.

- Two-thirds of advisors worldwide believe investors have a false sense of security about passive investments, and about the same number say investors are unaware of the risks associated with passive investments.
- Advisors may use passive in their portfolio mix, but they are turning to passive for two reasons, managing fees and accessing efficient asset classes.

Success for many financial advisors in 2016 may really be a balancing act. Their ability to grow a successful practice will be directly linked to their ability to adapt to new regulations, to lead clients away from emotional decisions, and to make sound, strategic decisions in how they select investments for client portfolios.

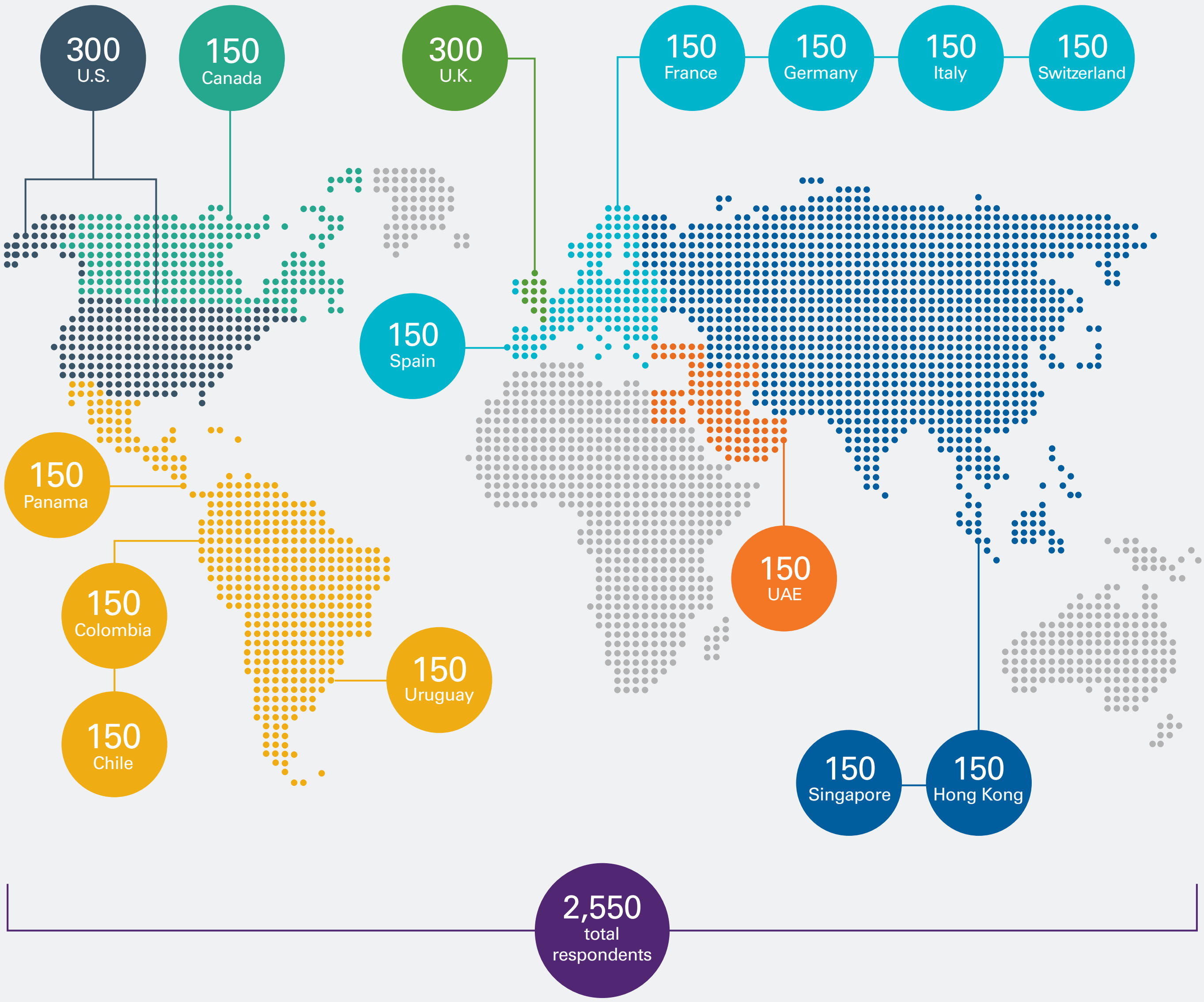
TABLE OF CONTENTS

2016 Global Survey of Financial Advisors

2016 Global Survey of Financial Advisors

ABOUT THE SURVEY

Natixis Global Asset Management surveyed 2,550 financial professionals globally in July 2016 with the aim of better understanding the contemporary attitudes and needs of this key collective of individuals to the financial services industry. Advisors from the Americas, Asia, Europe, and the Middle East are represented in the survey.



PROJECT BACKGROUND AND METHODOLOGY

2016 marks the fifth year in which Natixis Global Asset Management has conducted its global Financial Advisor Survey.

CoreData Research was commissioned by Natixis to conduct the study of advisors in 15 countries in order to assess advisor attitudes on a range of topics such as business growth, portfolio construction (including volatility, risk and income), client service, advice and investment challenges.

An online quantitative survey was developed and hosted by CoreData Research. A sample of 2,550 advisors in 15 countries was obtained for the purposes of this study. Results are analyzed with segmentation from a range of perspectives.

INTRODUCTION

Practice perfect

In pursuit of the ideal advisory business

Advisors around the world are on the route to dramatic business change: At one end are the commission-based compensation and style-box allocation models that have long been a foundation for success. At the other is a fee-based business constructed on a foundation of goals-based plans and purposefully built investment portfolios. To achieve this new ideal practice, advisors will have to navigate a complex playing field where new regulations, unpredictable client behavior, and a spate of shifting investment considerations could derail even the best-laid plans.

> “Advisors’ hopes for asset growth are not pinned solely on market performance.

Our 2016 Global Survey of Financial Advisors reveals sharp contrasts among financial professionals around the world in their perceptions of business opportunity and their ability to achieve an ideal practice. Overall we see that most advisors are optimistic about their prospects. On average, they expect their assets under management to grow by 9.4% in the next 12 months.

But advisors’ hopes for asset growth are not pinned solely on market performance. Only 47% believe market gains will help their books grow. Instead, they believe clients, both old and new, will be a primary driver of asset growth. We see that nearly eight in ten believe they will have to acquire new clients (78%) or gain a larger share of wallet from their current clients (77%) in order to meet their business expectations.

This positive outlook contrasts greatly with a significant number of advisors for whom the challenges may be too great to go it alone. A quarter (25%) of advisors worldwide are wondering if they should give up on their current practice model altogether and considering whether they should sell their business, merge with another firm, retire, or leave the business altogether in the next 12 months.

"Financial advisors are in a position where they must look critically at the playing field.

Regardless of whether they pursue growth with their current business model or join forces with another firm, financial advisors are in a position where they must look critically at the playing field in order to anticipate and react to any of the obstacles in their path. Safely crossing over to the new model will require enhanced strategies for managing three critical aspects of their practice:

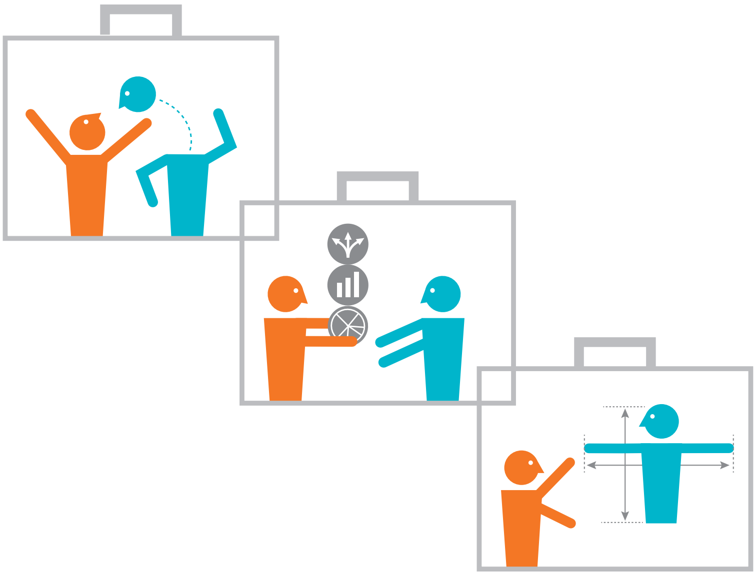
- **Managing a business at the speed of change:** New regulations in the U.K., the U.S., Europe and Asia put increased pressure on advisors to ensure they are acting in their clients' best interests. At the same time, advisors are also contending with tighter pricing models and fee structures, all the while looking for solutions that can make them more efficient in servicing clients.
- **Managing emotions and expectations:** Advisors see investors making critical mistakes; they are prone to emotional decisions, they fail to have goals and they don't always fully understand their own risk tolerance. But the biggest challenge for advisors may be managing clients' return expectations, as our research shows their expectations may be close to twice what advisors see as realistic.
- **Managing a new balance of investments:** Fee-focused investors often look to passive investments for lower costs. But advisors say they may have a false sense of security and fail to see the potential risks of index funds. In building more risk-conscious portfolios, advisors also believe it's time to go beyond traditional stock and bond investments and are adopting liquid alternatives to help meet a range of investment applications.

While pursuing the perfect practice will certainly present challenges, the opportunities for advisors are clear. Those who evaluate the paths open to them and devise an effective business strategy are likely to navigate obstacles and deliver a new generation of practice that allows them to grow while still meeting changing business realities and client needs. Perfection is unattainable in virtually any business endeavor, but the pursuit of the ideal practice is a worthy effort that can result in a better experience for advisors and clients alike.

SECTION ONE

Advisors play many roles

Business owner may be the most challenging



Financial advisors play many different roles: When clients are unnerved by volatile markets, advisors play the role of client therapist, talking them through sound, logical investment decisions. In building portfolios they play the role of pragmatist, selecting strategies to meet specific investment objectives. In attracting new clients they become a strategist, tailoring their offering to unique prospect segments.

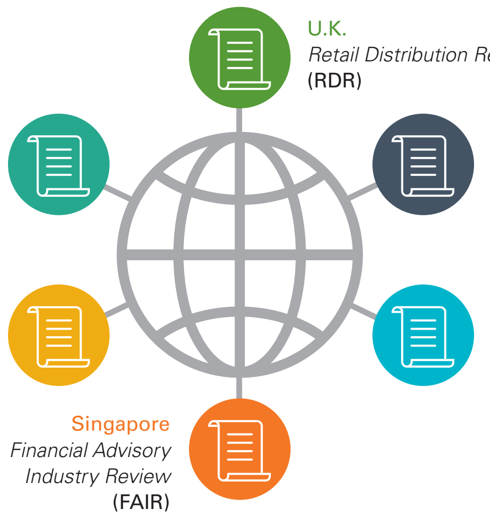
In the midst of this multi-dimensional profession, it's important not to lose sight of another critical role advisors must play to be successful – businesspeople. As they strive to grow their business, advisors today face weighty questions that will determine whether they succeed or not: How will they adapt their business model to meet the regulatory reforms reshaping their compensation structure and service model? How will they respond to competitive pressures and disruptive technologies? How will they position themselves to navigate a complex and uncertain market environment?

> “As they strive to grow their business, advisors today face weighty questions that will determine whether they succeed or not.

Riding the regulatory wave

In the wake of the global financial crisis, advisors have been swept up in a wave of reform as regulators across the globe work to ensure the financial service industry puts investors first. Whether it's the U.K.'s Retail Distribution Review (RDR), Canada's CRM2, the European Union's MiFID I and II, or similar acts in Australia, Germany, and Singapore, the goals are clear – to make advisor compensation more transparent and ensure the industry is acting in the best interest of investors. Most recently, advisors in the U.S. are coming to grips with new regulatory pressures presented by the U.S. Department of Labor's Conflict of Interest Rule, which is slated to go into effect in 2017.

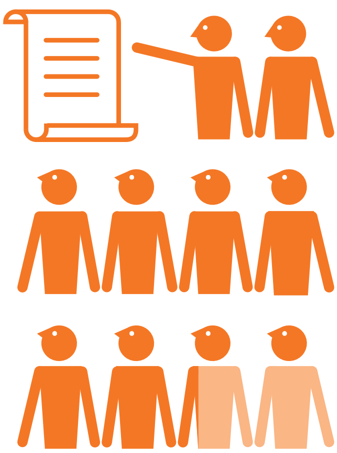
REGULATORY REFORM ACROSS THE GLOBE



Globally, advisors believe this level of regulatory scrutiny holds dramatic implications for their practices. More than eight in ten say heightened regulation and disclosure requirements are challenging to the growth of their business. Ensuring they are in compliance with new regulations will likely require that advisors redirect time and resources to this critical business function. More than three-quarters believe increased regulations could even lead to higher costs for clients.

Advisors also express reservations about the implications new regulations hold for individual investors. Almost eight in ten are concerned that more stringent regulations could limit access to financial advice for lower balance and mid-tier clients. A large number of advisors are also concerned that regulations may restrict their ability to deliver the level of service desired by clients. As for their own growth prospects, 43% believe new regulations sweeping across the global industry could limit their ability to prospect for new clients.

INCREASED REGULATION COULD CHALLENGE GROWTH



81%
of advisors say heightened regulation and disclosure requirements are challenging to the growth of their business

The consequences of reform

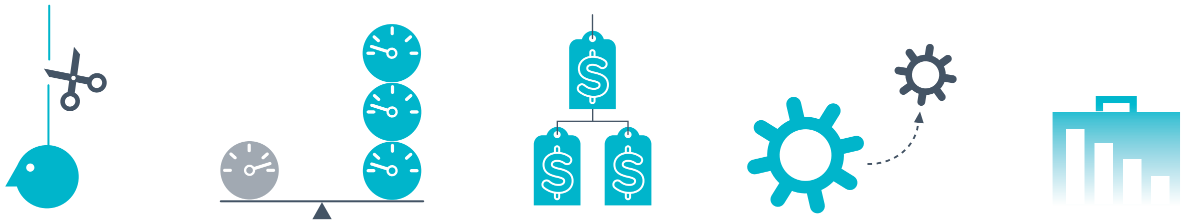
As the wave keeps rolling, advisors will adapt. Seven in ten say they will make at least some changes in their business model as a result of new regulations, and close to half (48%) say they will need to change their business model in order to sustain business growth. Specifically, advisors anticipate a number of changes ahead: 38% say they will likely disengage with smaller clients, 29% plan to increase the use of passive strategies for lower balance clients, while 26% say they will change their fee structure. Overall, these changes will require advisors to think differently about how they manage their practice.

Business pressures are mounting

Along with the immediate needs to comply with new regulations, advisors are also looking to manage a growing number of business challenges. Downward fee pressure makes it difficult to maintain margins. And disruptive technologies introduce an all-new class of competition in the form of automated advice platforms.

THE CONSEQUENCES OF REFORM

Advisors will look first to trim client rosters and manage fees in response to new regulation



38%
plan to disengage with smaller clients due to new regulations

29%
plan to increase use of passive strategies for low balance clients

26%
are changing their fee structure

12%
will outsource a portion of their investment management

9%
plan to transition their business away from investment management

A question of value, not price

Advisors across the globe are feeling the effects of fee compression, with 62% reporting that they are pressured to deliver services at a lower cost. Advisors in Hong Kong (80%) and the U.S. (71%) are those among our global survey base that are feeling the pressure most acutely, while it appears that advisors in the U.K. and Italy (49%) are less challenged by fees. But advisors would do well to make the conversation about value rather than price.

Now is a critical opportunity for advisors to be explicit in communicating their real value to clients, whether that is asset allocation and investment selection, education and communication, or specialized services such as estate planning. The good news for advisors is that investors believe that professional advice can make a difference in their investment outcomes. Our 2016 Global Survey of Individual Investors[1] shows that 64% of investors worldwide say professional advice is worth the fee, and 66% believe that investors with advisors are more likely to meet their financial goals.

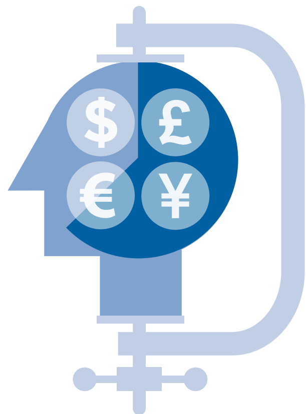
One area where we see significant interest from investors is client education. Half of the investors we surveyed said they believe they would have a better chance of achieving their long-term goals by enhancing their investment knowledge. When asked what they want most from a professional advisor, they put help in making more informed investment decisions at the top of the list. They also want better solutions for managing risk, help setting goals and establishing plans, and personalized advice in volatile times. Delivering on these factors provides advisors with a significant opportunity to demonstrate their value to clients.

Disruptive technology not so disruptive today

Younger clients raise serious questions for advisors, especially as automated advice platforms become more widely available to tech-savvy Millennial investors. Participants in our investor survey[1] identified their perceived advantages for online

FEES TIGHTENING

Advisors are feeling the effects of fee compression



62%
say they are challenged to some degree to manage downward fee pressure

1 Natixis Global Asset Management, Global Survey of Individual Investors conducted by CoreData Research, February-March 2016. Survey included 7,100 investors from 22 countries.

> “Advisors rank market volatility and performance as the top challenges to their business growth.

advice, citing lower fees (56%) and convenience (46%). But investors also identified some key shortcomings of automation, with few giving automated advice an edge in communication on investment strategy (16%) and customer service (13%). This perception fits with advisors’ views on robo-advisors.

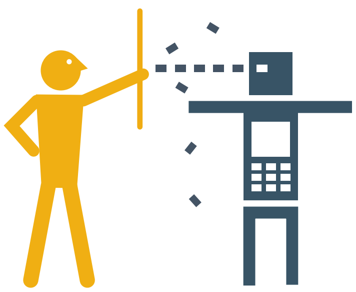
Most advisors (78%) do not see automated advice as the future of the investment industry, nor do they worry that automated advice will make traditional advisors obsolete – 83% say it won’t. But there may be applications for this type of service within an advisory practice, such as providing an efficient platform for advisors to manage assets for lower-balance clients or the assets of clients’ children in an efficient way.

Managing in an era of uncertain markets

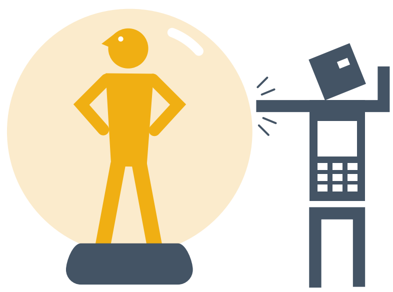
While it appears that advisors may not be counting on markets to deliver business growth, they do see the markets as presenting obstacles to their success. In the 12 months since our last survey, advisors have had to navigate three unique market events – China’s Black Monday in August 2015, the stock market plunge in January 2016 and the surprise vote in favor of the Brexit in June 2016. These realities come after years of abnormally low volatility for policy-driven markets.

It’s no wonder that advisors rank market volatility and performance as the top challenges to their business growth, followed by the low yield environment that has loomed over the markets since 2008. Underneath it all is a sense that it’s not the markets and volatility that worry advisors, it’s how clients will react to volatility that gives them the greatest concern.

AUTOMATED ADVICE NOT VIEWED AS A THREAT



83%
say they don’t worry that automated advice will make traditional advisors obsolete



78%
do not see automation as the future of the advice industry

73%
don’t believe automation can deliver on tactical allocation in periods of volatility

SECTION TWO

Clients want to focus on goals

But emotions and expectations get in the way

If advisors are counting on growing their practices by gaining new clients and earning a larger share of assets from current clients, then putting the client first isn't only a regulatory requirement, it's a business necessity. Advisors are feeling the critical need to concentrate on the quality of the experience they deliver to clients. This can entail much more than managing assets. Often, the greater challenge comes in managing clients' emotions and expectations and delivering an experience focused on meeting clearly defined goals and outcomes.

> "Advisors are feeling the critical need to concentrate on the quality of the experience they deliver to clients.

At face value this may seem like a straightforward task, but underneath the surface, advisors will need to counsel clients who are cautious, conflicted and all too often led astray by volatile markets and uncertain prospects. Overall, financial advisors across the globe say world events and market movements can lead investors to make emotional decisions that are counterproductive to their long-term interests, yet investors themselves may not be aware of the consequences of these actions.

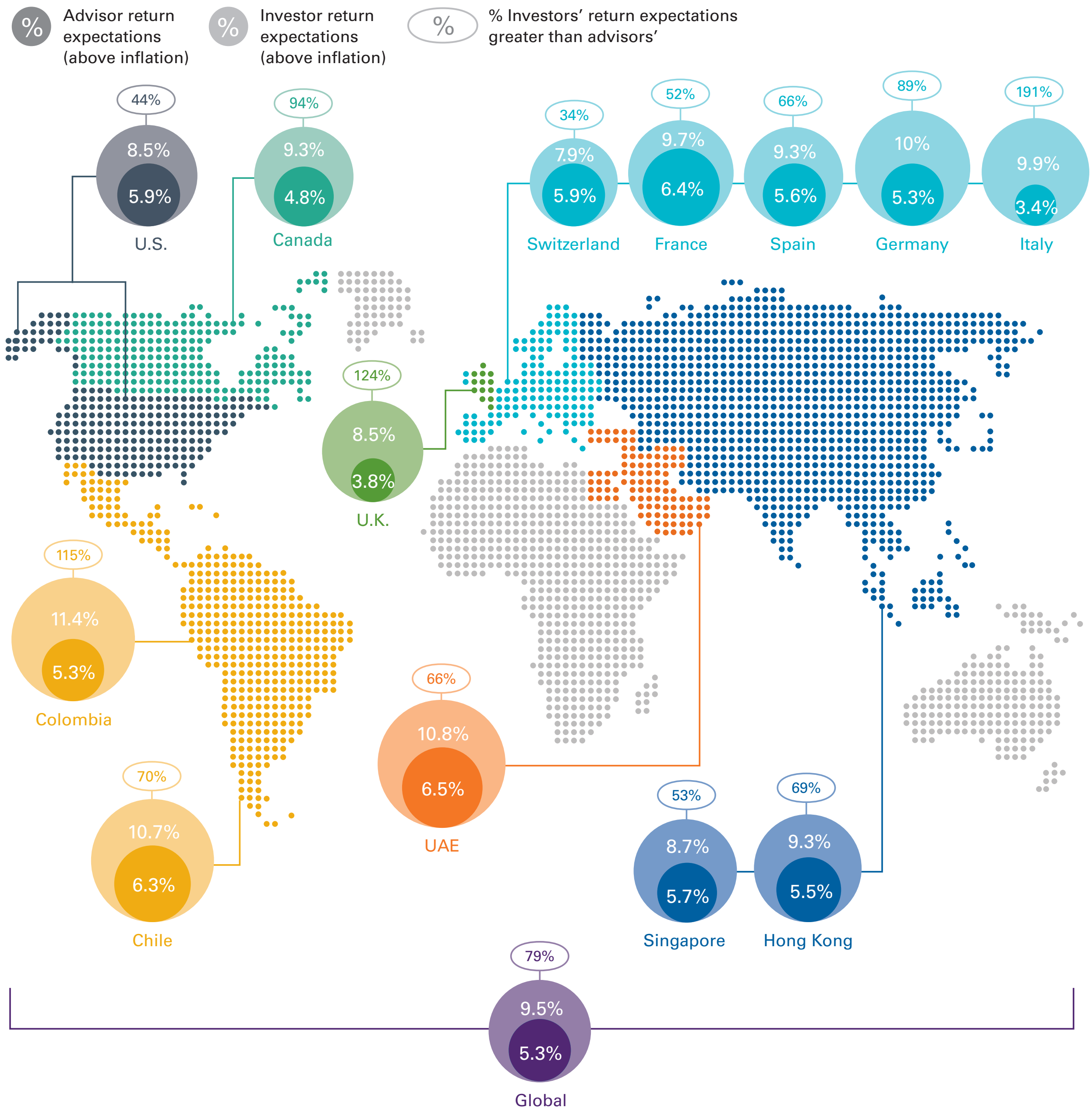
Great expectations

Investors across the globe are conflicted between their hopes for high returns and their willingness to take on investment risk. On average individuals in our 2016 investor survey say they are expecting returns of 9.5% above inflation.[2] Investing to

2 Natixis Global Asset Management, Global Survey of Individual Investors conducted by CoreData Research, February-March 2016. Survey included 7,100 investors from 22 countries.

THE EXPECTATIONS GAP

Given low bond yields and inconsistent equity returns, advisors worry that clients have unrealistic return expectations



achieve this level of return would generally mean focusing on equities and considerable exposure to market volatility. But investors may not be equipped for the bumpy ride this could entail. When presented with a choice, more than three-quarters of investors said they would take safety in their investments over performance. Advisors are likely to have a clearer view into this conflict, and overall they say it's reasonable for clients to expect returns of 5.3% over inflation.

Bridging this divide is an important part of effective client management. Overall, 86% of advisors tell us their success is linked directly to their ability to manage client return expectations. Almost the same number (85%) point to their ability to prevent clients from making emotional decisions as an important success factor. But successfully meeting these objectives can be difficult when, as 81% of advisors believe, investors are too focused on short-term performance.

Advisors identify key investor mistakes

As a professional managing a book of business with hundreds of clients, each financial advisor has a unique view into the day-to-day behaviors of individual investors. According to the 2,550 advisors we surveyed in 15 countries, making emotional decisions is the number-one investor mistake. Next, they point to unrealistic return expectations, focusing too much on short-term noise, followed by failing to have a plan, and not understanding their own risk tolerance. It is these human factors that may hurt investors most, and they may not recognize the impact of their behaviors.

Based on results in our 2016 Investor Survey,[3] it would seem that few investors recognize that they could be making the very same mistake advisors say can hurt them most. For example, more than half of the investors we surveyed (56%) say they struggle with making emotional decisions when market shocks occur, but only 29% believed they could have a better chance of succeeding if they were able to stop making emotional decisions. Compounding this problem is the large number of investors who may be making two more of the mistakes cited by advisors: not setting goals and not making plans. Globally, we find that 51% of investors say they have no clear financial goals and 63% report that they have no financial plans.

Getting at the goals

Advisory firms across the globe recognize the need to get investors focused on personal goals and have introduced models that are more likely to resemble those from financial planners than traditional investment management. Investors appear to be open to a move toward goals-based investing in concept, but advisors realize that there are some significant pitfalls in its execution.

Despite their lack of clear goals and well-defined financial plans, investors say they are open to a goals-focused approach that could get them off a market performance treadmill. More than seven in ten in our investor survey[3] said they would be happy to achieve their goals over a one-year period even if it meant they underperformed the market. While this is good news, advisors understand how human nature and investor behavior can thwart goals-based investing efforts.

From the advisor's perspective this shift from looking to the market as a benchmark to focusing on personal goals leaves investors open to emotional decisions. The top problem according to 59% of advisors is managing clients' return expectations. This could be particularly problematic when markets are on the upswing and investors do not capture the same level of returns. On the downside, advisors see the second biggest problem: clients' ability to maintain focus in volatile markets (48%). Beyond client behavior, the next set of considerations is related to their ability to effectively implement goals-based investments on behalf of their clients.

On their side of the equation, advisors believe it is difficult to translate goals-based plans into investment strategy (31%). Some worry about the accuracy of current risk profiling tools, while others believe that personalized performance reporting and benchmarking may be lacking. Among all of the issues that we asked advisors about on this subject, they are least worried about setting a fee for planning services.

TOP FIVE INVESTOR MISTAKES

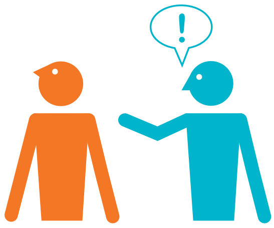
Advisors have a unique view into how investors can hurt themselves

3 Natixis Global Asset Management, Global Survey of Individual Investors conducted by CoreData Research, February-March 2016. Survey included 7,100 investors from 22 countries.

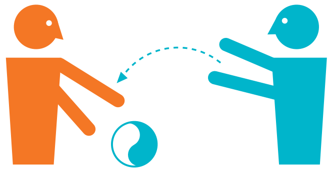
WHY DO CLIENTS BREAK UP WITH THEIR ADVISOR?

Advisors see communication problems as weighing more heavily than even investment performance

Failing to communicate frequently
71%



Failing to listen to client needs
53%



Failing to meet client return expectations
46%

ADVISORS REPORT CLIENTS ARE LOOKING FOR WIDE RANGE OF SERVICES

Managing volatility – 55%

Tax-efficient investing strategies – 36%

Estate planning and trustee services – 27%

Goals-based planning and advice – 27%

Strategies that don't correlate to the broad markets – 24%

Relationship management

Despite the many variables advisors need to consider in managing clients and their investments, it's important not to lose sight of the fact that an advisory practice is a service business. To meet their goals of winning new clients and maximizing relationships with their current clients, advisors naturally have to concentrate on the quality of their relationships.

In our research we've found that advisors and clients both understand what goes into an effective relationship. While investor outcomes are the ultimate test of the relationship, advisors have only so many levers to pull in managing investments. Even so, there are many deciding factors that are within the advisor's control.

The investors we spoke with[4] who have ended an advisory relationship in the past 12 months point to a wide range of factors that contributed to their decision. Most frequently they cite performance (41%). After that, they say their advisor didn't understand their goals (32%) or didn't share their views on investing (30%), didn't communicate frequently enough (26%), and didn't justify their fees (26%).

From the advisors' viewpoint, they believe these same relationship factors are even more important to retaining clients. When asked why clients leave, 71% of advisors say an advisor's failure to communicate frequently with clients is a major downfall. Along similar lines, 53% said failure to listen to clients' needs could result in lost business. Fewer than half (46%) believe failing to meet return expectations is where advisors lose clients.

The key to delivering on client expectations isn't linked exclusively to service execution, but advisors also report clients are looking for a wider range of services, which could be the opening to sustaining client relationships over the long term. Advisors say their clients are asking for help with specific investment challenges such as managing volatility (55%), tax-efficient investing strategies (36%) and strategies that don't correlate to the broad markets (24%). But often they are looking for broader services such as estate planning and trustee services (27%) and the ever-present goals-based planning and advice (27%).

At a time when 62% of advisors believe their ability to justify their fees to clients is important to their success, managing client behaviors, meeting client expectations, and delivering more focused services will be critical.

4 Natixis Global Asset Management, Global Survey of Individual Investors conducted by CoreData Research, February-March 2016. Survey included 7,100 investors from 22 countries.

SECTION THREE

Advisors want to look beyond traditional investments

But need clarity on new alternatives

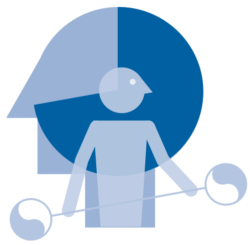
It's clear that financial advisors will need to dedicate considerable time and resources to managing their practice and managing their clients, but they must still deliver on the investment side. Investment selection is no simple proposition: advisors must translate client goals into investment strategy. They need to evaluate a range of investment styles, strategies and pricing options to build effective portfolios. Ultimately they must deliver a consistent investment experience to their clients.

All of this must be accomplished in an environment marked by high correlations, low yields and erratic periods of volatility. Advisors know that they cannot rely on past methods to meet these competing goals. Seven in ten say they believe they will need to replace traditional diversification and portfolio construction techniques with new approaches to achieve desired results. Even more (73%) believe that a stock and bond portfolio is no longer enough to pursue returns and manage risk. But clients' fee sensitivities, coupled with key misperceptions about passive investments, may be driving the portfolio construction conversation beyond asset class selection into product pricing.

Breaking the index myth

Passive investments such as index funds have gained considerable market share in the advisory world over recent years. Advisors have clear reasons for turning to passive strategies. First and foremost, they see them as an effective tool for managing expenses (66%). This is an important consideration for advisors as they respond to increased fee pressure. They also see passive as a tool for accessing efficient asset classes (57%). Implementing them in this fashion can be an effective

SHAKING UP THE INVESTMENT PROCESS

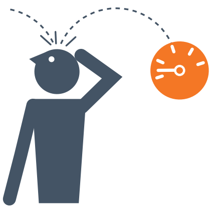


73%
believe that the traditional stock and bond portfolio is no longer the best way to pursue returns and manage risk for most investors

69%
of advisors believe they need to replace traditional diversification and portfolio construction techniques with new approaches to achieve results

BREAKING THE INDEX MYTHS
Advisors believe clients may be asking too much of passive investments

68%
of advisors agree investors have a false sense of security with passive investments



66%
believe investors are unaware of the risks of passive investing

71%
say investors do not realize that index funds leave them exposed to headline risks, such as environmental, social and governance factors

strategy to free up resources to direct into those asset classes and strategies where active management may be able to provide greater upside potential.

Based on results from our 2016 Investor Survey,[5] we see that individuals believe that passive investments present lower fees (62%), but they may transfer this advantage to greater benefits. Six in ten individuals believe that passive investments are less risky and believe that they will offer better downside protection.

Investors may fail to recognize that while passive strategies may capture gains when markets are up, these investments have no built-in risk management so they also capture losses when markets are down.

Two-thirds of advisors believe investors have a false sense of security about passive investments. Almost the same number say investors are unaware of the inherent risks of passive. More specifically, 71% of advisors believe investors do not realize that index funds leave them exposed to headline risks such as environmental, social and governance factors.[6]

The key difference between advisor and investor views on passive investing is that advisors see tactical advantages for passive investments – fees and efficiency – within a comprehensive portfolio strategy. It appears that investors see index investments as a panacea for the many concerns they have about investing in today's markets. One of the key tasks for advisors is to educate clients and help them see the difference.

Implementing liquid alternatives

If fee-driven discussions on passive investments are at one end of the spectrum of the investment selection process, the implementation of alternatives[7] seeking to enhance diversification, manage risk, or add alpha[8] potential is at the other. Traditionally, accessing the investment strategies and asset classes needed to deliver on these objectives would have meant turning to alternative investments, many of which came with higher investment minimums, higher fees and significant liquidity limitations.

Over the past decade, the asset management industry has innovated in this area by developing liquid alternatives that seek to provide the same potential benefits but in a simplified package that offers broader access to these investments with lower investment minimums. Liquid alternatives have gained broad acceptance, and 58% of advisors worldwide and 75% in the U.S. say they use liquid alternatives in client portfolios.

"Alternative" is a wide-ranging term covering many different asset classes and investment strategies, and advisors have many options to choose from in the liquid alternatives world. Most frequently, advisors who use liquid alternatives[9] report that they incorporate real estate investments in client portfolios (60%), but the field has expanded greatly and a large number of advisors are implementing more sophisticated strategies such as multi-alternatives (46%), global tactical asset allocation (43%) and long-short equities (42%).

5 Natixis Global Asset Management, Global Survey of Individual Investors conducted by CoreData Research, February-March 2016. Survey included 7,100 investors from 22 countries.

6 Actively managed funds may also expose investors to possible headline risks.

7 Alternative investments involve unique risks that may be different from 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.

8 Alpha is a measure of the difference between a portfolio's actual returns and its expected performance, given its level of systematic market risk. There is no guarantee that any investment will generate alpha.

9 Of the 2,550 financial advisors surveyed, 1,480 use liquid alternatives and 1,070 do not.

Diversification does not guarantee a profit or protect against a loss.

ADVISORS USING ALTERNATIVE STRATEGIES AND WHY

Advisors apply alternative investments to a wide range of portfolio functions

Portfolio Application

Alternative Strategies **% of Advisors Who Use Them**	Diversification	Volatility	Reduce Risk	Manage Risk	Enhance Returns	Steady Income
Real Estate **60%**	42%					22%
Multi-alternative **46%**	57%					
Global Tactical Asset Allocation **43%**	47%				20%	
Long-Short Equity **42%**		27%	28%		23%	
Market Neutral **37%**		34%	33%			
Managed Futures **22%**	29%				25%	
Long-Short Credit **19%**	27%			27%		
Option Writing Strategies **17%**			20%		29%	

The 42% of advisors who say they do not implement liquid alternatives reflect the complexities of the alternatives marketplace. Almost half of these advisors (47%) say they believe liquid alternatives are risky, when in fact many of these strategies are actually designed to help advisors better manage risk across a portfolio. Some (43%) say these strategies are too difficult to explain to clients, highlighting the need for deeper education for both clients and advisors.

Overall, it appears that liquid alternatives give advisors access to more tools to address specific objectives within client portfolios. But even as the class of investment matures, it would appear that there is still significant need for education on how each type of alternative can be applied within a portfolio. With so many different types of investments available, part of the time dedicated to education should be allocated to not just the form of the investment, but its function within the portfolio.

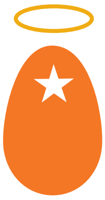
> “Part of the time dedicated to education should be allocated to not just the form of the investment, but its function within the portfolio.

Investing in client values

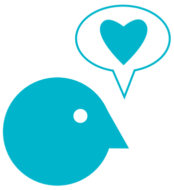
One area where advisors may want to listen more closely to client demands is in finding investments that more closely align with their personal values. Strategies that focus on environmental, social and governance (ESG) factors could be gaining more mindshare from investors as they look to avoid the effects of headline risk, such as the Volkswagen emissions scandal and the pricing scandal at Valeant Pharmaceuticals. In both cases, regulatory fines and public outcry drove both companies’ share prices significantly lower.

ESG 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 universe of investments may be reduced. A security may be sold 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.

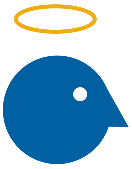
INVESTORS ARE LOOKING FOR INVESTMENTS THAT ALIGN WITH THEIR PERSONAL VALUES



78%
of investors think it's important to invest in companies that are ethically run



75%
think it's important to invest in companies that reflect their personal values



71%
think it's important to know that their investment is doing social good

69%
think it's important to invest in companies that have a positive social impact

For many, these concerns might lead to a conversation with their advisors about ESG strategies, but somewhere along the way, this point may be overshadowed by more immediate concerns around fees, performance and volatility.

Respondents in our investor survey[10] painted a clear picture of demand for ESG strategies. More than three-quarters (78%) of individuals say that it's important to invest in companies that are ethically run. Three-quarters say it's important to invest in companies that reflect their personal values. More specifically, seven in ten want to invest in companies with sound environmental records and almost the same number want to invest in companies that have a positive social impact.

But even given this strong indication of interest in connecting their investments to their values, only 51% of investors say their advisor has spoken to them about ESG strategies. One potential reason for this disconnect is the small number of advisors (32%) who say their clients are asking about ESG more now than they were three years ago.

Advisors have their own reservations on ESG investing. More than six in ten say they do not believe that these strategies have a long enough track record, although there are some specialists in the field that have been practicing their craft for more than a decade. Advisors also express doubts about the efficacy of ESG. Almost six in ten claim ESG strategies do not mitigate governance and social risks, and 66% do not believe ESG will be a standard practice for advisors in the next five years.

Fund ratings firm Morningstar holds a different view. The firm has introduced the Morningstar Sustainability Index, which tracks 20,000 mutual funds globally for ESG attributes. With the index, Morningstar takes away one of the most common arguments against these investments – there is no way to accurately measure ESG implementation.

This is a case where more clarity is needed. Unlike socially responsible investments which applied negative screens to weed out companies in certain industries such as firearms and tobacco companies, ESG is a more clearly defined investment discipline that targets themes tied to the advancement of environmental, social and governance issues at the company and industry level. The approach potentially helps investors manage risk and return in a unique way. On one hand, they may provide insulation from headline risk, but on the other, they may allow investors to tap into new sources of alpha, such as the green economy.

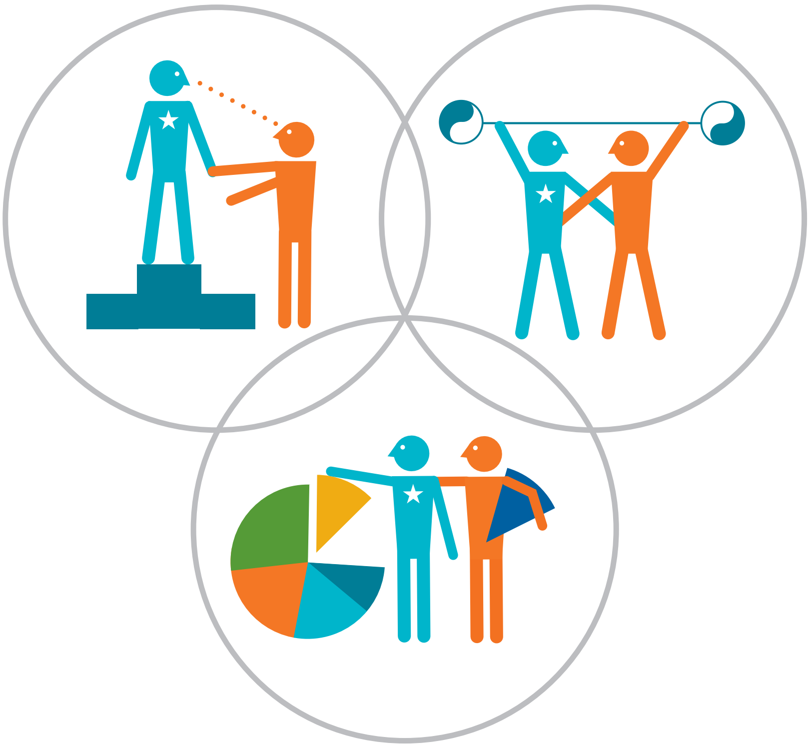
This last aspect may appeal most to financial advisors seeking new sources of return. More than half of those we surveyed (53%) believe there is alpha to be found in ESG, providing an opportunity to potentially boost overall portfolio performance.

The questions around when and how to best implement ESG strategies, liquid alternatives and passive investments are important considerations for financial advisors as they seek to enhance their client offering.

10 Natixis Global Asset Management, Global Survey of Individual Investors conducted by CoreData Research, February-March 2016. Survey included 7,100 investors from 22 countries.

CONCLUSION

Toward a more ideal practice



Toward a more ideal practice

Achieving an ideal practice may seem like an impractical goal in a market facing so much change. Markets, regulators and clients will always present challenges that could either change the measure by which the ideal is measured or disrupt business plans. But the ideal practice is a worthy pursuit. It will keep advisors' business senses sharp, attune them to client needs, and put them at the top of their investment game.

> “Advisors know that business growth depends on their ability to successfully add more clients to their books.

Advisors have no easy task before them. But the effort is worthwhile. Based on the insights of the 2,550 advisors representing 15 countries in our 2016 Global Survey of Financial Advisors, today's advice market presents three clear opportunities for business growth.

Focusing on the business means focusing on clients

Advisors know that business growth depends on their ability to successfully add more clients to their books and earn more assets from the clients they already have. This client-centric view comes at a critical time for the advice business. Regulators across the world are focused on the advisory business. Specific regulations may vary from country to country, but the objectives are similar: to ensure investment professionals put the interests of their clients ahead of their own.

This client-first approach will also serve as a foundation for a stronger business model. In a time when investors are hyper-focused on fees, advisors who demonstrate their value, whether that is asset allocation and investment selection, education and communication, specialized services such as estate planning, or convenient online services such as an automated advice solution for lower-balance and younger clients, may be better positioned for growth.

> “This client-first approach will also serve as a foundation for a stronger business model.

Managing clients means managing emotions

Over the course of the past five years, we have seen one overwhelmingly consistent trend among investors: failing to see how making emotional decisions can impede their ability to meet long-range financial goals. Our research quantifies what most advisors know from experience. But we also see that emotions are not limited to the basic fight-or-flight reaction investors demonstrate when running from volatile markets.

Investors’ emotions can also cloud what they may consider to be rational decisions. Investors who are comforted by the low fees associated with passive investments appear to transfer that into an association with risk management, downside protection and diversification. Advisors recognize the potential risk these assumptions may hold for clients. Perhaps the best step forward is to redouble education efforts on basics of risk, return and investing with clients.

Goals-based investing presents another significant opportunity for advisors to better enhance client relationships. For five years we’ve asked investors about their goals and plans and we continue to hear that a majority of investors have no clear goals and have no financial plans. Most advisors start client relationships off with these basics, but in many cases, it may be effective to start every client meeting off with a review of just what the client is trying to accomplish. This could provide effective grounds for conversation and turn the discussion from benchmark comparisons to a comparison of how clients are doing overall.

Selecting investments may mean broadening your view

Advisors have access to more tools for building client portfolios than ever before: active mutual funds, passive index funds and ETFs, liquid alternatives and specialized strategies such as ESG. The objective for advisors is to be deliberate in the investments they choose for client portfolios and communicate a clear purpose for each.

Advisors and investors have different views on the advantages of passive investments. Clients see low fees and make assumptions about risk management benefits. Advisors see passive investments as effective tools for managing fees and accessing efficient asset classes. Here again more education is necessary to help clients become stronger, better-informed investors.

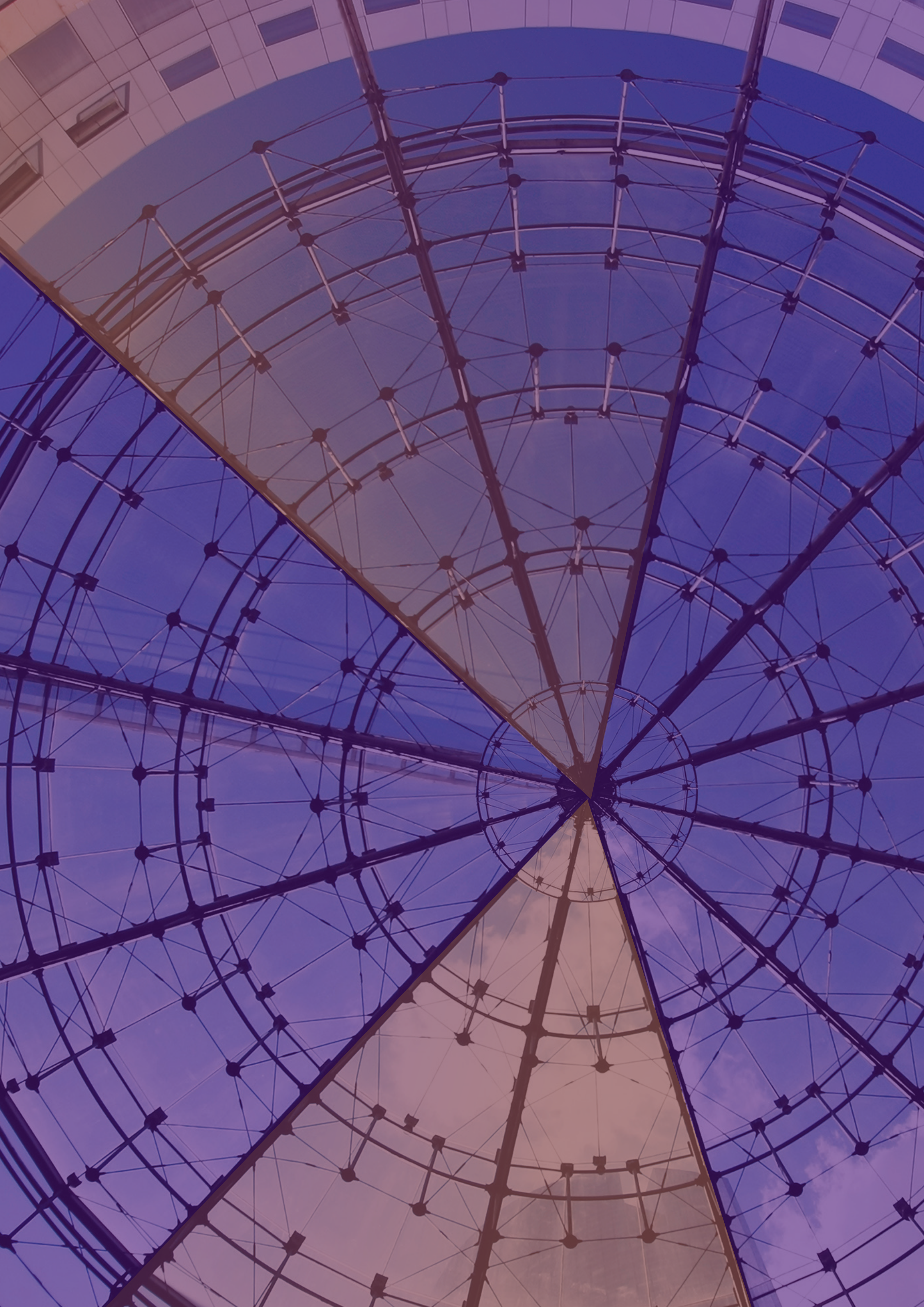
This need for client education is a recurring theme in the investment side of the business. Investors tell us they are ready for a different approach to portfolio construction. More than three-quarters say they want new portfolio strategies that help them better manage risk, that offer a better balance of risk and return, and help them diversify their portfolios.[11] Alternative investments are one way of pursuing these goals, but advisors worry that they may be too complicated to explain.

Investors also express the preference for utilizing investments that reflect their personal values. Advisors may do well to take a second look at ESG strategies that can help achieve this important client objective.

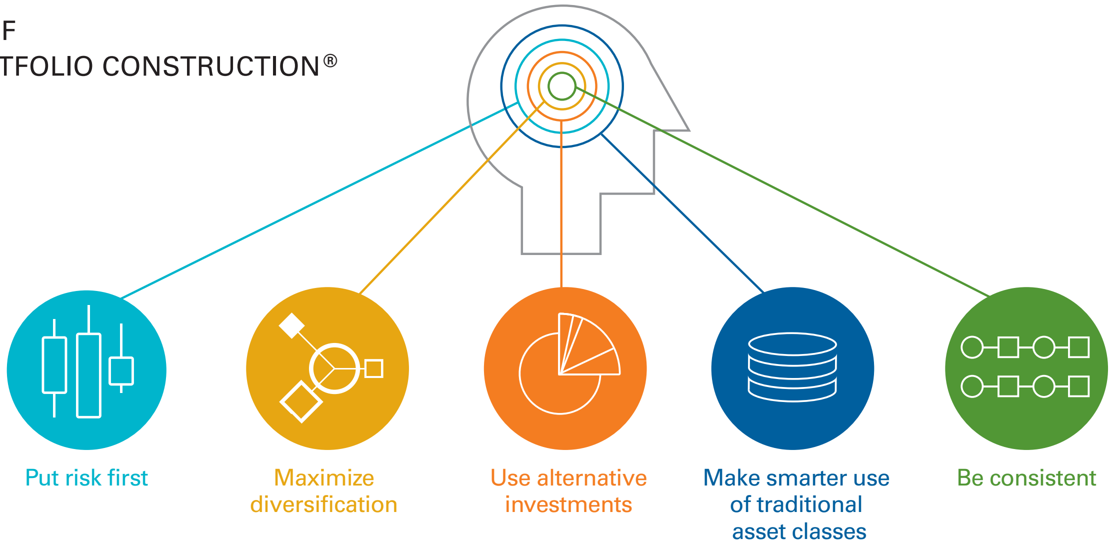
Setting the course for an ideal practice

Advisors face many challenges to building a successful business today. Those who are able to step back and assess their position will see that there may be just as many opportunities. With the right strategy, advisors will adapt to change and move closer to the ideal practice.

11 Natixis Global Asset Management, Global Survey of Individual Investors conducted by CoreData Research, February-March 2016. Survey included 7,100 investors from 22 countries.



FIVE TENETS OF
DURABLE PORTFOLIO CONSTRUCTION®



Toward more durable portfolios

In markets across the globe we have seen investors of all types challenged to meet the competing priorities of generating returns through short-term market cycles and funding long-term financial liabilities. In our view, meeting these modern market challenges demands a more consistent investment framework.

We believe **Durable Portfolio Construction®** can make a difference to individuals, advisors and institutions as they look to build portfolios that can help address risk concerns while also pursuing long-term asset growth. Our tenets for Durable Portfolio Construction include:

Put risk first – Use risk parameters as the main input for asset allocation to manage volatility. Durable Portfolio Construction targets a consistent range of risk rather than a potential range of returns. The result is added predictability and, ultimately, durability in the portfolio.

Maximize diversification – Consider the broadest possible range of asset classes and investment strategies – long and short exposures to global equities, global fixed-income, commodities and currencies – with a goal of managing volatility in the overall portfolio.

Use alternatives – Alternatives may be an effective means of diversification. They also may lower correlations, temper volatility and offer new sources of return. For example, alternative strategies well suited to a durable portfolio include long or short exposures to commodities, currencies or real estate for new sources of return, or hedging to help reduce risk.

Make smarter use of traditional asset classes – Seek new, efficient ways to capitalize on the long-term potential of stocks and bonds. Smarter use of equities includes techniques and strategies that have the potential to enhance long-term returns or reduce short-term risk. Smarter use of fixed-income may include inflation-aware bond strategies and multisector bond funds.

Be consistent – Maintain a consistent portfolio construction process to focus on the big picture and withstand short-term market changes. Choosing and using a rational, repeatable construction process is the hallmark of a durable portfolio – and perhaps the most important principle of Durable Portfolio Construction.

Durable Portfolio Construction® does not guarantee a profit or protect against a loss.

PROGRAM OVERVIEW

About the Durable Portfolio Construction Research Center

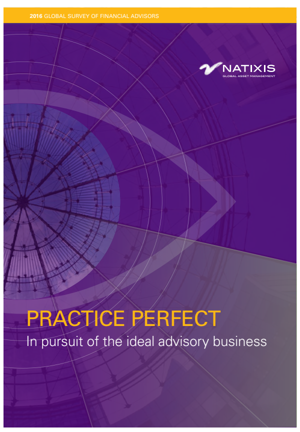
Investing can be complicated: Event risk is greater and more frequent. Volatility is persistent despite market gains. And investment products are more complex. These factors and others weigh on the psyche of investors and shape their attitudes and perceptions, which ultimately influence their investment decisions. Through the Durable Portfolio Construction Research Center, Natixis Global Asset Management 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.

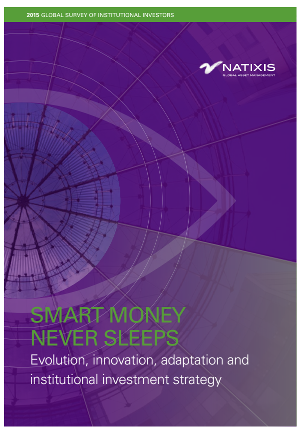
Research agenda

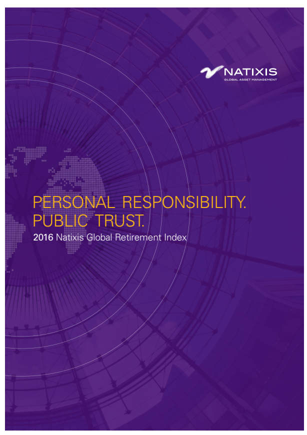
Our annual research program offers insights into the perceptions and motivations of individuals, institutions and financial advisors around the globe and looks at financial, economic and public policy factors that shape retirement globally with:

- Global Survey of Individual Investors – reaches out to 7,100 investors in 22 countries.
- Global Survey of Financial Advisors – reaches out to 2,550 advisors in 15 countries.
- Global Survey of Institutional Investors – reaches out to over 600 institutional investors in 29 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.







About the surveys referenced in this paper

2016 Global Survey of Individual Investors – Natixis Global Asset Management commissioned CoreData Research to conduct a global study of individual investors, with the goal of understanding their views on the markets, investing and measuring their progress toward financial goals.

Data was gathered throughout February and March 2016. The study included 7,100 investors in 22 countries.

2015 Global Survey of Financial Advisors – Natixis Global Asset Management commissioned CoreData Research to conduct an international study of financial advisors, with the aim of better understanding the contemporary attitudes and needs of this key collective of individuals to the financial services industry.

Data was gathered over a five-week period spanning June and July 2015. Globally, the study involved 2,400 financial advisors in 14 countries and territories.

Helping to build more durable portfolios

Natixis Global Asset Management is committed to helping advisors build better portfolios that stand up to the challenges of modern markets. To learn more about our Durable Portfolio Construction® philosophy, visit durableportfolios.com.

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