Headed for the light

Fund selectors project a risky 2021 but see opportunity on the horizon

2021 Professional Fund Buyer Outlook
Executive Overview

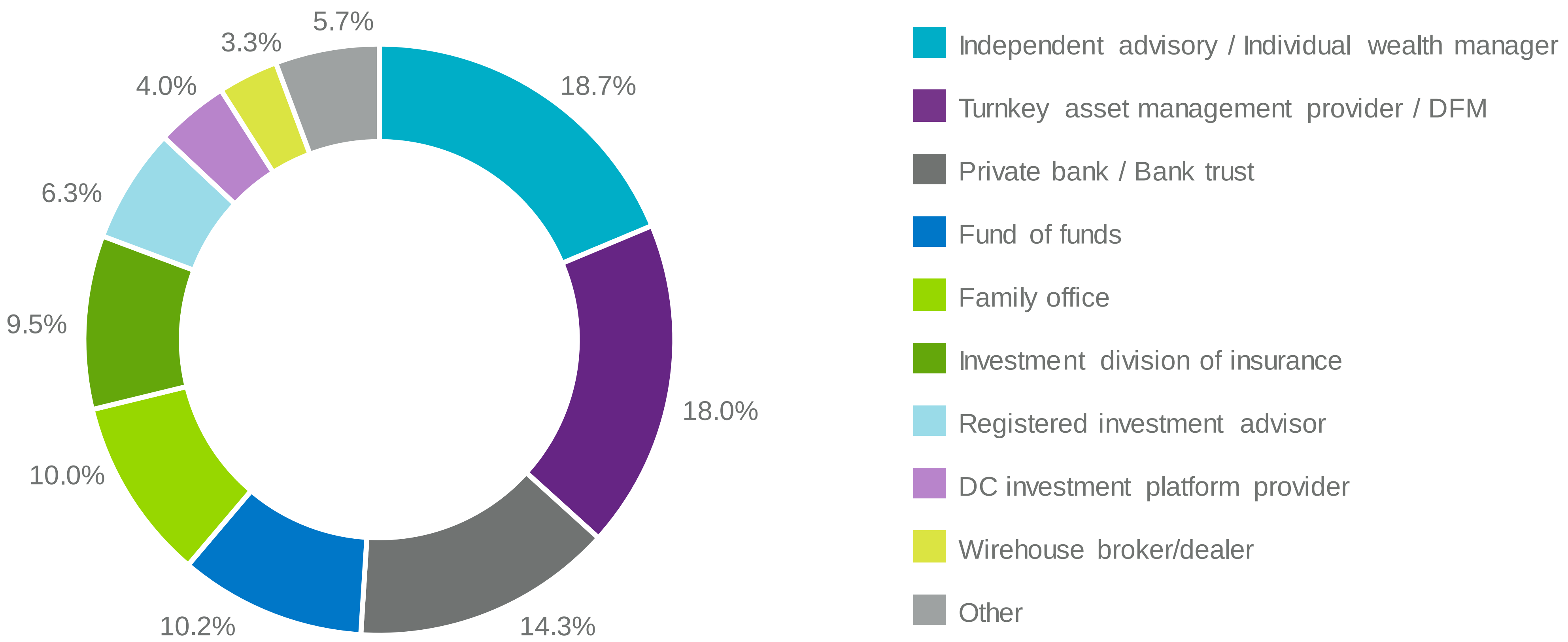
“Unprecedented” may have been the most overused word of 2020, as a global public health crisis, climate events and natural disasters, the fastest market correction in history, and political turmoil all reached extremes that had never been seen. But in the final weeks the global race for Covid immunization provided a glimmer of hope as both Pfizer and Moderna received expedited approval for their vaccines. The effects of this much-needed shot of optimism came across loud and clear in the results of the 2021 Natixis Global Survey of Fund Selectors. Even as they predict a risky investment environment marked by low to negative interest rates and higher levels of volatility in 2021, these fund selectors representing $12.7 trillion in assets are positioning portfolios to capture the upside potential.

1. A risky world continues to struggle with Covid
2. How allocation strategy will play out
3. Managing the business
4. Setting a new precedent

About the survey

Natixis 2021 Global Survey of Professional Fund Buyers, conducted by CoreData Research in November and December 2020. Survey included 400 respondents in 21 countries through North America, Latin America, Asia, the United Kingdom and EMEA (Europe, Middle East and Africa).

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:



1. A risky world continues to struggle with Covid

Fund selectors confident they can handle risky markets

- Six in ten fund selectors believe the Covid new normal is here to stay
- Two-thirds of those surveyed predict the global economy will not recover from Covid-19 in 2021 and 60% say that policy makers in their home country have been ineffective in their response to the pandemic
- Almost six in ten (57%) fund selectors anticipated that geopolitical tensions would deescalate in 2021, with concerns focused on rising social unrest (62%) and democracy weakening across the globe (55%)

Top portfolio risks by region

	Global	Asia	EMEA	Latin America	North America	UK
Volatility	49%	37%	40%	60%	65%	38%
Negative interest rates	39%	58%	49%	0%	26%	38%
Inflation	37%	19%	32%	53%	44%	44%
Credit crunch	34%	26%	38%	20%	25%	51%
Liquidity	25%	23%	28%	33%	23%	21%
Currency fluctuations	23%	19%	23%	53%	19%	24%
Deflation	15%	33%	15%	7%	14%	8%

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1. A risky world continues to struggle with Covid

Limited correction concerns

Where will the market corrections be?

While there may not be consensus on what will be affected, nearly every professional fund buyer surveyed (94%) anticipates a market correction in 2021.

1. A risky world continues to struggle with Covid

We asked fund selectors to predict headlines for 2021

Small cap outperforms ✓	Large cap outperforms
Developed markets outperform	**✓ Emerging markets outperform**
Aggressive portfolios outperform ✓	Defensive portfolios outperform
Passive investing outperforms	**✓ Active investing outperforms**
ESG funds outperform ✓	ESG funds underperform
Growth stocks outperform	**✓ Value stocks outperform**
Global economy cannot escape the consequences of Covid-19 ✓	Global economy fully recovers from Covid-19
Life will revert to how things were before the pandemic	**✓ The Covid 'new normal' is here to stay**
Big tech continues to grow unabated ✓	Big tech is broken up
Geopolitical tensions rise	**✓ Geopolitical tensions deescalate**
Democracy weakens globally ✓	Democracy strengthens globally
Social unrest deescalates	**✓ Social unrest increases**

Regardless of where they see the risks, fund selectors are likely to look at it as opportunity – projections for year-end headlines suggest they will favor a risk-on approach.

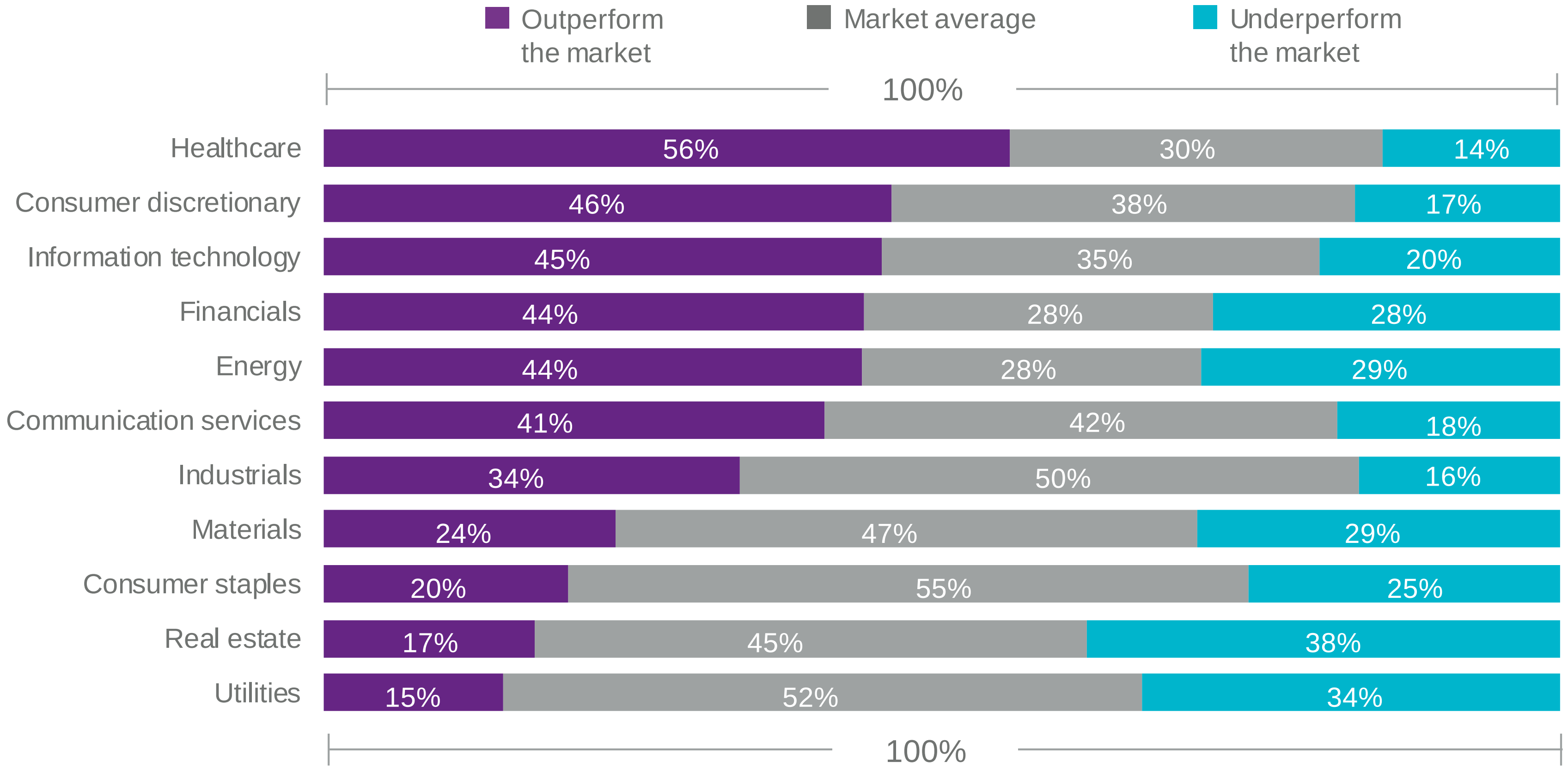
✓ Headline predictions with a point spread greater than 7 points are shown as the prediction

1. A risky world continues to struggle with Covid

Sector calls: The glimmer of hope sheds light on opportunity

- Buoyed by the arrival of multiple vaccines at year-end, pro buyers are particularly bullish on healthcare
- Even with concerns about a potential correction, 45% still call for outperformance from information technology companies
- 46% project outperformance for consumer discretionary, 44% for energy, 44% for financials and 41% for communications services
- While 84% say they will increase or maintain allocations to REITs (Real Estate Investment Trusts), they are more likely to see the real estate sector underperforming (38%) vs. outperforming (17%)

Which sectors will outperform – or underperform?



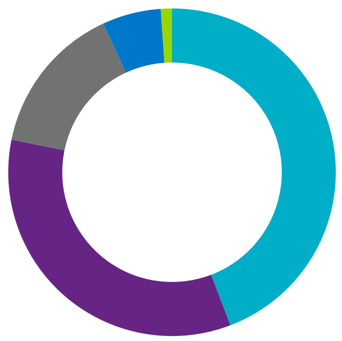
Fund selectors may not think the economy will recover to pre-pandemic levels this year, but sentiment shows they expect the recovery to begin in earnest. The optimism expressed in their sentiment has been echoed by the broad market.

1. A risky world continues to struggle with Covid

Covid influencing strategic shifts

- Fund selectors are factoring a wide range of risks into 2021 portfolio plans, and return assumptions of 7.1% show some moderation over 2020's pre-pandemic 7.6%
    - A majority (55%) do not anticipate making changes to their assumptions in the next 12 months
- An average increase of 1.4% to equity allocations takes reported stock positions from 44.2% in 2020 to 45.6%, reinforcing their "risk-on" posture
- Projections for fixed income reveal genuine concerns about negative rates
    - Buyers anticipate reducing allocations to bonds by 2.4% on average, taking holdings down from 34% for 2020 to 31.6% for the year ahead
- Allocations to alternative investments appear to be the most likely home for fixed income allocations as professional buyers look for yield replacements
    - On average, those surveyed anticipate adding 1.3% to this portfolio sleeve, taking it from 14.9% in 2020 to 16.2% in 2021

2020



- 44.2% Equities
- 34.0% Fixed Income
- 14.9% Alternatives
- 5.8% Cash
- 1.1% Other

2021

- 45.6% Equities
- 31.6% Fixed Income
- 16.2% Alternatives
- 5.3% Cash
- 1.3% Other

When asked why they are implementing these allocation moves, it's clear that Covid is a critical decision factor, with half (51%) reporting the pandemic as their motivation to shift allocation plans.

2. How allocation strategy will play out

Fixed Income

- The global pandemic and an ensuing global economic shutdown demanded swift fiscal and monetary action from central banks
- Central banks' action included 200+ rate cuts worldwide, with many countries heading into negative territory*
  - By July more than one-quarter of the Bloomberg Barclays Capital Global Aggregate Index was trading with negative yields and more than $18 trillion in negative yielding debt globally*
- Negative rates factor heavily into the equation for professional buyers, as 30% say their organization has already invested in negative yielding securities and almost half (49%) also expect to see more negative yielding bonds in the future

Fixed Income	Increase	No Change	Decrease
Green Bonds	65%	29%	6%
Emerging Market Debt	46%	41%	13%
High Yield Corporate Debt	38%	40%	22%
Investment Grade Corporate Debt	30%	47%	23%
Securitized Debt (Mortgage-Backed Bonds, etc.)	26%	52%	22%
Government-Related (Sovereign Debt, Treasury)	16%	40%	44%

ESG is taking hold in fixed income plans as pro buyers anticipate adding more green bond strategies.

*Source: Natixis PRCG

Allocation changes shown are for those invested in each of the sub-asset classes.

Emerging markets refers to financial markets of developing countries that are usually small and have short operating histories. Emerging market securities may be subject to greater political, economic, environmental, credit and information risks than US or other developed market securities. • Securitized debt instruments are financial securities that are created by securitizing individual loans (debt). Securitization is a financial process that involves issuing securities that are backed by a number of assets, most commonly debt. • A green bond is a type of fixed income instrument that is specifically earmarked to raise money for climate and environmental projects.

2. How allocation strategy will play out

Equities

- In a remarkable sequence of 2020 events, equity markets experienced record losses and gains – with more fiscal and monetary stimulus likely to come from policy makers, fund selectors think stocks have even more room to run in 2021 and they will look around the globe for opportunities
- Just over one-third (36%) plan to decrease US equity holdings
    - This may be less about market concerns and more about taking gains to capitalize on market performance in other regions, as another third (32%) will increase their US holdings; the remaining third (32%) will maintain their positions
- More than half (55%) say they will add to APAC (Asia-Pacific) stocks
- 52% also say they will add to emerging market positions

Equities	Increase	No Change	Decrease
Asia-Pacific Equities	▲ 55%	– 37%	▼ 9%
Emerging Market Equities	▲ 52%	– 38%	▼ 10%
European Equities	▲ 41%	– 34%	▼ 25%
US Equities	▲ 32%	– 32%	▼ 36%

Nearly two-thirds of fund selectors (65%) say that emerging market investments are more attractive than they were pre-Covid.

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2. How allocation strategy will play out

Alternatives

- With central banks cutting rates and keeping them low in order to guide the economy through the pandemic, professional buyers know they need to look beyond bonds; plans for alternative allocations focus largely on assets with the potential to make up the difference
- Among those who already hold the asset classes in their portfolios, 93% intend to increase or maintain their holdings in private equity, the same number plan to do the same with infrastructure, and 94% plan to do the same with private debt
- 54% say they are concerned with liquidity risk in private assets, but their actions show that given the likelihood that a low to negative interest rate environment is likely to last a good while longer, they like the surety that comes with the lock-up

Alternatives	Increase	No Change	Decrease
Private Equity	45%	48%	7%
Infrastructure	42%	51%	7%
Private Debt	41%	53%	6%
Absolute Return Strategies	36%	54%	10%
Real Estate / REITs	30%	53%	17%
Commodities	25%	64%	11%
Gold / Precious Metals	23%	60%	18%

In essence, allocating more to private assets may be seen as the opportunity to enhance performance with less risk of the big drawdowns seen in public markets.

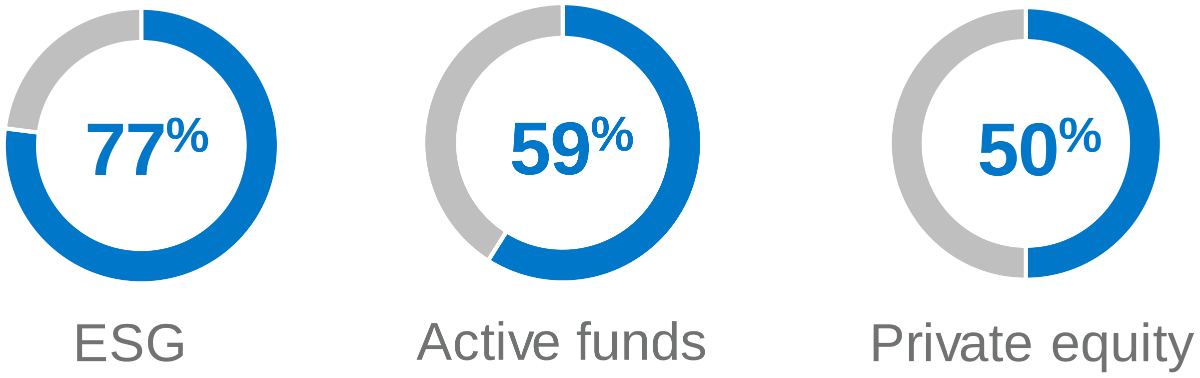
Allocation changes shown are for those invested in each of the sub-asset classes.
Private debt includes any debt held by or extended to privately held companies.

3. Managing the business

Firms focus on models to provide a consistent experience for clients

- In rationalizing their product offering, 80% of buyers say the emphasis is on quality rather than quantity
- One key area of focus is ESG, where 77% of those with strategies on platforms say they will add to their offering
- Six in ten (59%) also say they will increase the number of active funds they offer, while another 50% will add to private equity
- In North America, 47% of buyers say their firms will add to their separately managed account platforms as well

Top 3 investments fund selectors will increase on their platforms



Along with the challenges of navigating a potentially riskier market in 2021, fund selectors see their firms transforming the investment offering to achieve greater consistency across client portfolios and better meet client needs.

3. Managing the business

The growing demand for model portfolios

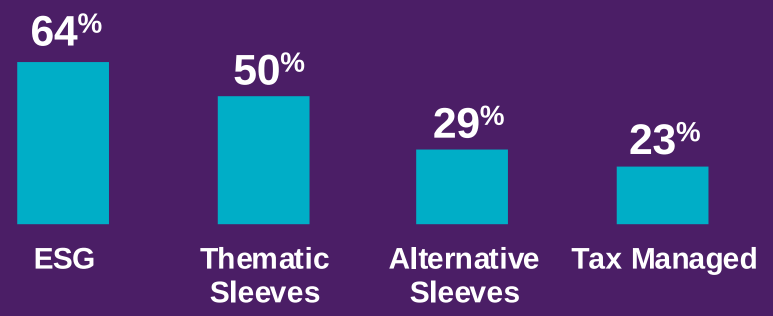
Half of fund selectors say they'll add more existing client assets into models

30% will add third party models to their firms' platform within the next 12 months

Efficiency and consistency are key factors in the move to models

77% say models offer an added layer of due diligence in investment selection

A majority of fund selectors see a greater need for specialty models



66% say models make it easier to implement ESG across client portfolios

61% say they're adding ESG because of client demand

3. Managing the business

The key benefits and challenges of model portfolios

Benefits

55% More consistent client experience
91% Registered Investment Advisors
72% Insurance Platform Managers

41% More efficient implementation of UMA
89% for Defined Contribution Platform Managers

36% Greater ability to tailor to client needs

33% Managing firm's risk exposure

31% Lower cost option

30% More time for advisors to address client needs
92% for Wirehouses

Challenges

41% Providing some level of customization

36% Evaluating when to offer new models and rationalizing offering

30% Offering models that mitigate risk

28% Analyzing performance results

24% Convincing advisors to adopt models
Note: problem for wirehouses (42%), private banks (44%)

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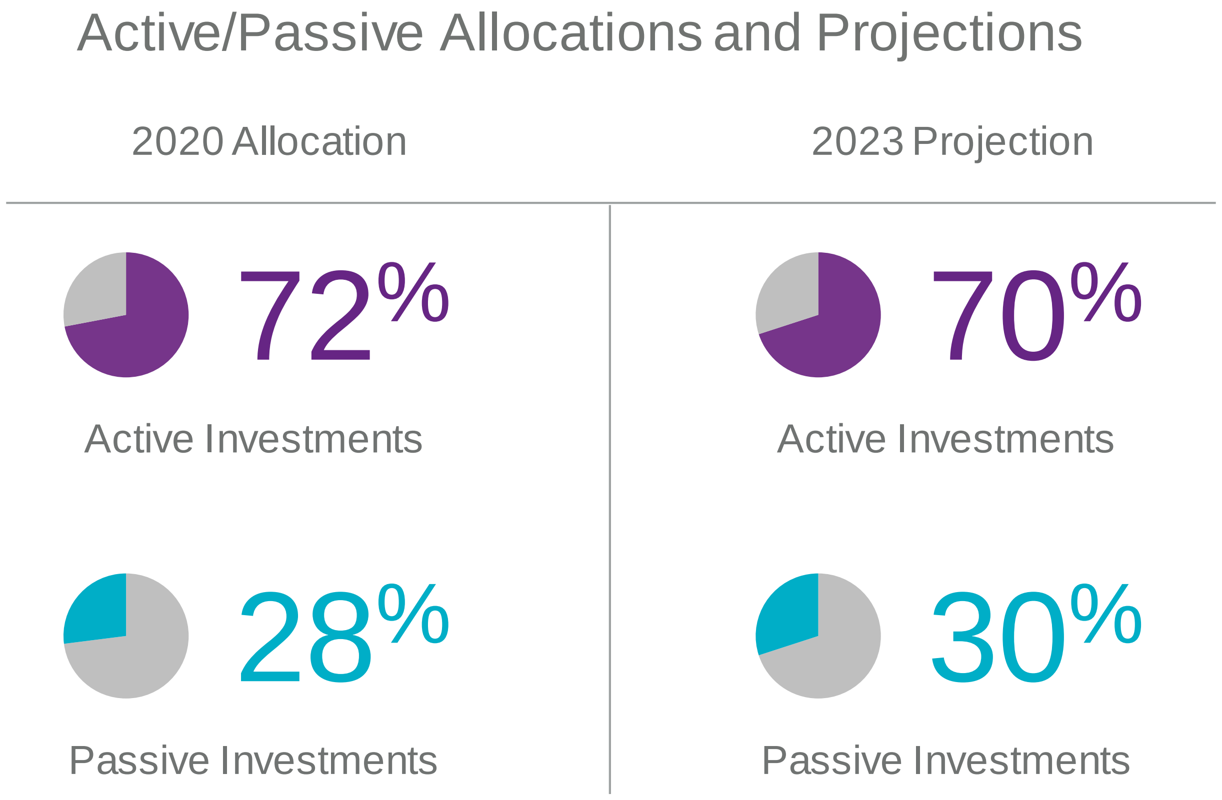
3. Managing the business

Plans call for adding active strategies

- Given that fund selectors see the potential for greater volatility and are projecting value stocks to outperform growth, it's not surprising to see that 83% believe markets will favor active investments in 2021
- Today, professional buyers report that on average, 72% of assets are invested with active managers, while only 28% are in passive investments
- Little change is expected over the next three years, as they project allocations will be 70% to active and 30% to passive



Professional fund buyers' commitment to active was likely reinforced last year, when two-thirds say active investments on their firm's platform outperformed during the market downturn.

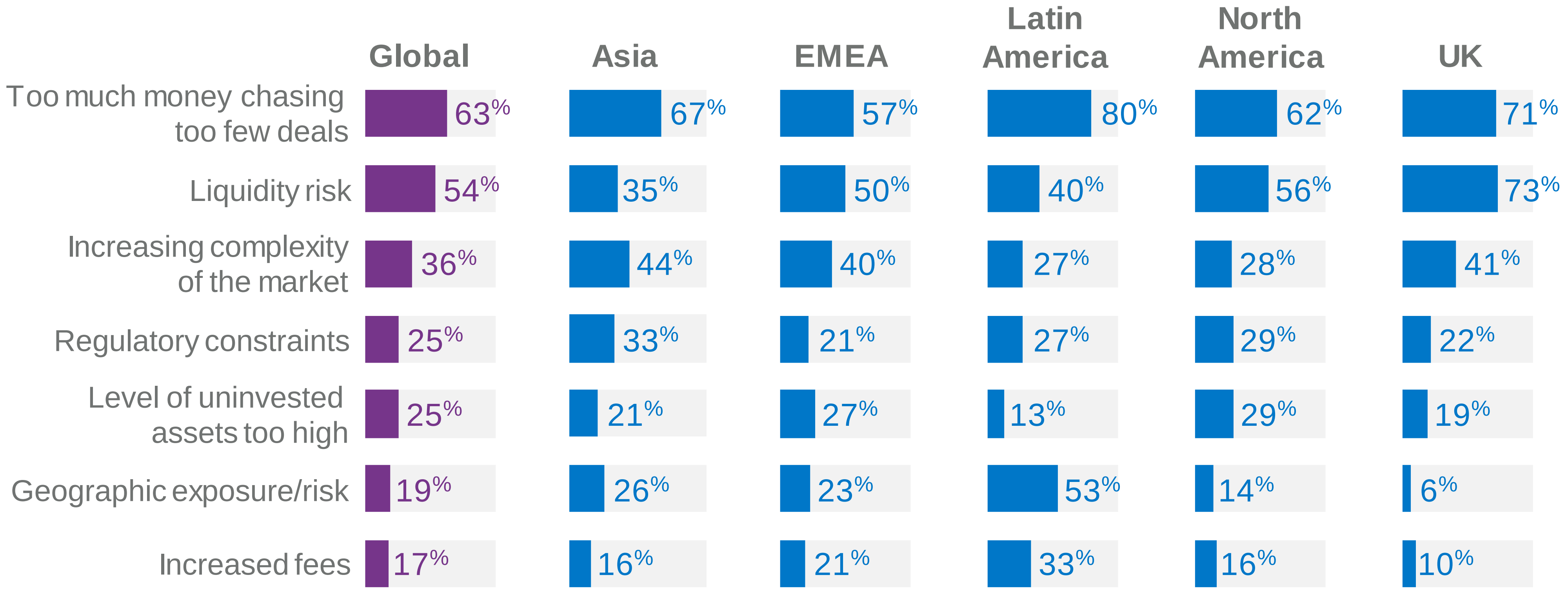
Unlike passive investments, there are no indexes that an active investment attempts to track or replicate. Thus, the ability of an active investment to achieve its objectives will depend on the effectiveness of the investment manager.

3. Managing the business

Pursuing private options

- Private assets will continue to be a focus for professional buyers in 2021 and beyond
- Given that rates were low before 2020 and are now even lower, it's no wonder that 53% say private assets will play a more important role in portfolio strategy
- Six in ten say the resiliency demonstrated by private assets during Covid will increase demand

Private Asset Concerns by Region



Despite any concerns, professional buyers also see an important advantage to investing in private assets in today's markets: One-third (34%) say private assets could provide a safe haven in the event of a correction, as was tested by the record downturn at the start of 2020.

Setting a new precedent

1. **A risky world continues to struggle with Covid** – Professional buyers clearly see challenges in store in 2021 as the global economy struggles to recover from Covid. But even as they see the potential for risk and volatility, they are also looking at opportunity.
2. **How allocation strategy will play out** – Covid can be seen as a critical decision factor as professional fund buyers shift allocations within asset classes for 2021.
3. **Managing the business** – Fund selectors plan to expand their product offering to better adapt to the pandemic market and new client needs. In the end, they are taking on these “unprecedented” times with a clear, measured plan that will lay the groundwork for years to come.

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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.

Absolute return strategies are not intended to outperform stocks and bonds during strong market rallies, and may underperform during periods of strong market performance.

Asset allocation strategies do not guarantee a profit or protect against a loss.

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.

Commodity-related investments, including derivatives, may be affected by a number of factors including commodity prices, world events, import controls, and economic conditions and therefore may involve substantial risk of loss.

Fixed income securities may carry one or more of the following risks: credit, interest rate (as interest rates rise bond prices usually fall), inflation and liquidity.

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S&P 500® Index is a widely recognized measure of US stock market performance. It is an unmanaged index of 500 common stocks chosen for market size, liquidity, and industry group representation, among other factors. It also measures the performance of the large-cap segment of the US equities market.

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You cannot invest directly in an index. Indexes are not investments, do not incur fees and expenses and are not professionally managed.

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