Into the great wide open

Seven insights on how institutions will take on the risks and opportunities of an uncertain 2021

2021 Institutional Outlook
Executive Overview

After a tumultuous year marked by the global coronavirus pandemic, the fastest market selloff on record, and a tempestuous US presidential election, institutional investors around the globe expect economic, political, and social upheaval to continue in 2021. While on the surface, it looks like the year that will not end won't end soon, their views are tempered with the good news of vaccines and many believe investment opportunities can be found – if you know where to look.

1. The economy won't recover from Covid in 2021
2. Policy will matter more than politics
3. Markets will favor value and active management
4. The winning streak continues for tech and healthcare
5. Allocation strategy won't change, but tactics will
6. Commitment to private assets will deepen
7. The story behind next year's headlines

About the survey

Natixis Investment Managers, Global Survey of Institutional Investors conducted by CoreData Research in October and November 2020. Survey included 500 institutional investors in 29 countries throughout North America, Latin America, the United Kingdom, Continental Europe, Asia and the Middle East.

500 total survey respondents

146
Corporate Pension Plans

99
Endowments/ Foundations

104
Public or Government Pension Plans

130
Insurance Companies

21
Sovereign Wealth Funds

1

Markets won't recover from Covid in 2021

After a year of lockdowns, masks, and Zoom meetings in 2020, institutional investors overwhelmingly believe the new normal will stay in place in 2021.

Covid-19 has long-reaching implications

When do you expect GDP levels to return to pre-Covid values in your country?

By Q2 2021	Q4 2021	2022	2023	2024 and beyond
9%	**12%**	**44%**	**27%**	**8%**

79% of institutions believe the market is underestimating the long-term impact of Covid-19 on the economy

Which of the following is most important to signaling economic recovery in your country?

- **74%** Improved consumer spending/sentiment
- **68%** Improved business spending/sentiment
- **67%** Productivity (i.e. low unemployment, wage growth)
- **15%** Stock market performance
- **14%** Higher inflation
- **7%** Low interest rates

Which long-term outcome(s) of the fiscal stimulus currently being provided by governments are most likely to occur?

- **65%** Tax hikes
- **53%** Increased risk of a financial crisis
- **52%** Decreased ability to respond to future crises
- **44%** Cuts to social safety net programs

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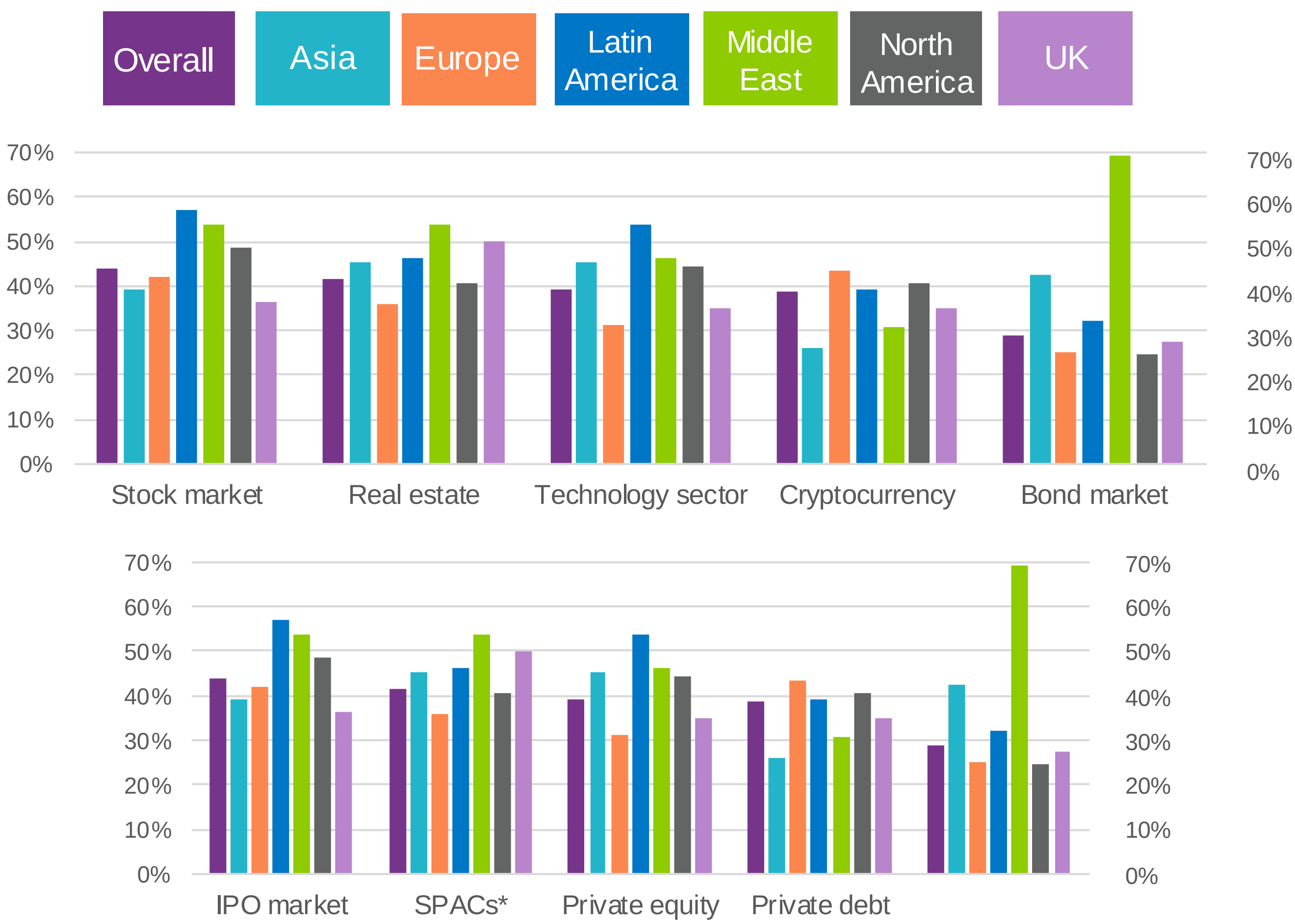
On watch for a correction

- Eight in ten institutional investors worry the market underestimates the long-term impact of Covid
- 95% of institutions globally see the potential for a market correction in at least one sector in 2021 – concerns focused on the stock market (44%), real estate (41%), technology (39%) and cryptocurrency (39%)
    - While a correction in the bond market is not a main concern globally, nearly 7 in 10 institutions in the Middle East see the potential for a correction
    - Latin American institutional investors are more concerned about potential corrections in every sector than the global average

Where will the market corrections be?



The majority of institutional investors worry the market underestimates the long-term impact of Covid-19 as 95% of institutions globally see the potential for a market correction in at least one sector.

*A special purpose acquisition company (SPAC) is a company with no commercial operations that is formed strictly to raise capital through an initial public offering (IPO) for the purpose of acquiring an existing company.

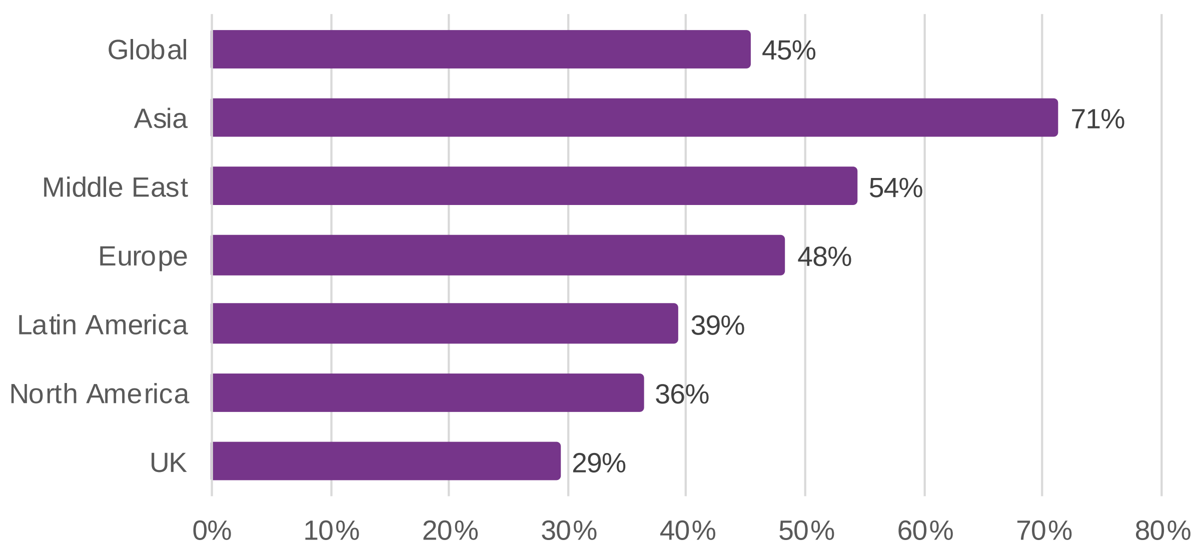
2

Policy will matter more than politics

With a contentious US presidential election in the books, political polarization intensifying around the globe, and still no agreement on Brexit, institutional investors see the potential for an uptick in political volatility around the world in 2021.

- 69% believe geopolitical tensions will be on the rise in 2021 – more than 10 points lower than the sentiment of those surveyed before the election
- 74% of institutional investors thought democracy would weaken around the world in 2021
- Nearly two-thirds (65%) see the level of spending needed to address the pandemic and are anticipating it will result in future tax increases
- More than half (53%) believe pandemic spending has increased the risk of a new financial crisis and say the 2020 response will limit the ability of policy makers to respond to a future crisis
- Globally, just 45% say policy makers in their home country were effective in responding to the pandemic

Have policy makers in your country been effective in their pandemic response?
Percent of institutions who agree



When it comes down to it, institutional investors say they are more concerned with policy than politics, with 78% saying central bank policy has more of an effect on markets than elections do.

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Markets will favor value and active management

Given the uncertainty, institutions are split in their view as to which approach will work best in 2021 institutions: 53% say defensive portfolios will outperform in 2021 and 47% say an aggressive approach will yield better results.

- 53% of institutional investors name negative interest rates as the top portfolio risk
    - 64% of the insurers surveyed are worried about rates, given the critical role bonds play in insurance portfolios
- About one-third say their organizations have already invested in negative-yield securities, and more than half (53%) anticipate heavier volume for negative yielding bonds in 2021
- 52% of institutions are also focused on volatility as a key portfolio risk
    - Nearly two-thirds (65%) project equity volatility to be on the rise – a 51-point spread from those who think it will be on the decline

Top 5 portfolio risks for 2021

Negative interest rates	53%
Volatility	52%
Credit crunch	33%
Liquidity	28%
Inflation	23%

Of all the portfolio risks they could face in 2021, institutional investors put negative interest rates at the top of the list. Adapting strategy to account for negative-yield securities is one of the biggest challenges facing institutions.

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

Valuations: where risk indicates opportunity

- More than three-quarters (78%) of institutional investors say current market growth is unsustainable
- Institutions project value investments (58%) to outperform growth (42%) investments
- Eight in ten (82%) say that current valuations do not reflect company fundamentals and the same number go so far as to say low rates have distorted valuations
- Nearly eight in ten (79%) institutional investors say the market will favor active managers in 2021 and two-thirds of institutions flat out predict actively managed investments to outperform passive
- Institutional investors voice significant concerns about the rising popularity of passive investments and its undue influence on markets:
    - Seven in ten (71%) say large flows to passive exacerbate volatility
    - Six in ten say the widespread use of passive investment shows that the market is ignoring fundamentals
    - Four in ten worry that the run-up in passive investing may actually put too much power in the hands of a small number of investors

Active management takes a front seat in portfolio plans

Active/Passive Allocations – 2020 Survey	
Currently	3 years from now*
70% Active Investments	69% Active Investments
30% Passive Investments	32% Passive Investments

*Active/Passive split adds up to 101% due to rounding

Given projections for increased volatility, greater dispersion and a preference for value investments, it adds up to a market that 79% of institutional investors say will favor active managers in 2021.

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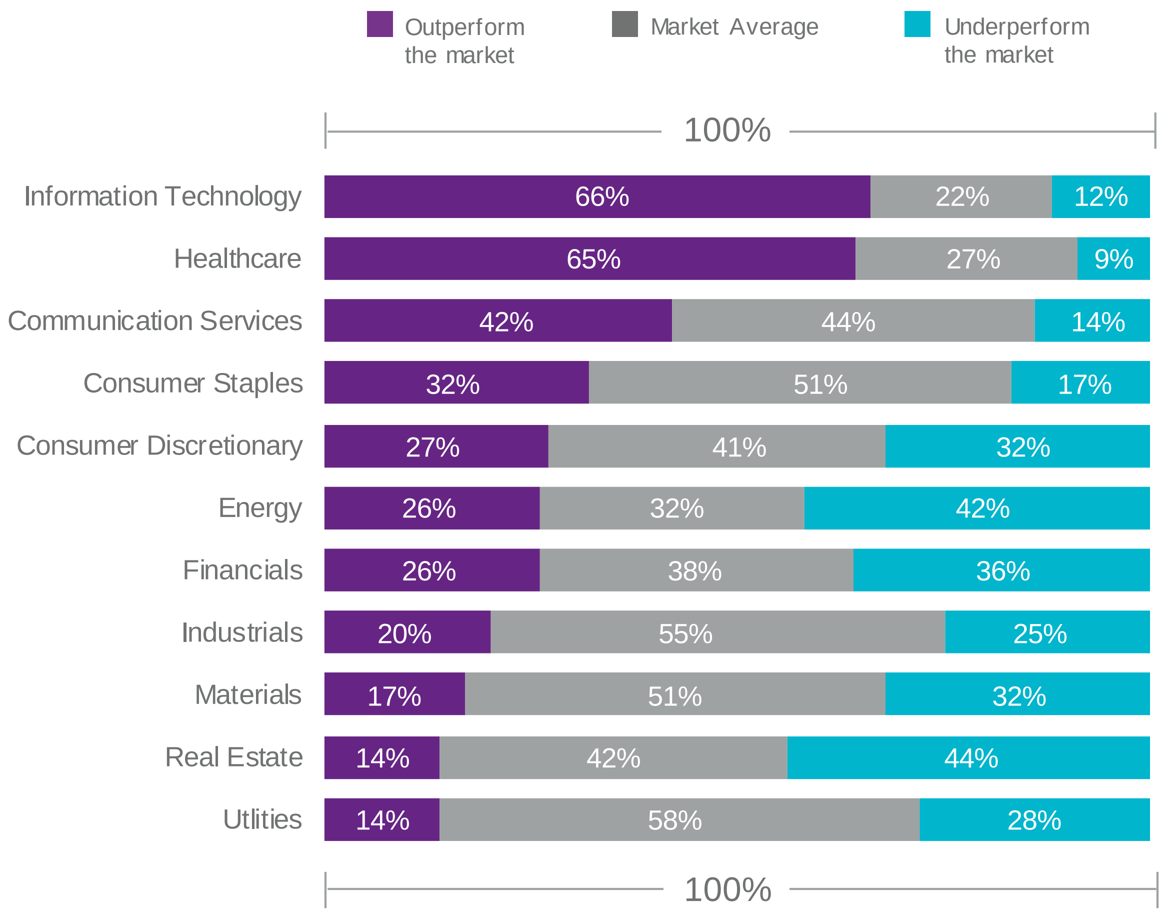
4

The winning streak continues for tech and healthcare

Institutional investors anticipate the sectors that outperformed in 2020 continue to do so in 2021.

- Two-thirds (66%) expect technology to outperform in 2021, a margin 55% higher than those who say it will be down
- With promising news of at least two new vaccines, institutions see healthcare outperforming in 2021
- Consumer staples is another sector predicted to outperform – the pandemic stockpiling of home essentials like toilet paper and paper towels contributed to nearly a 9% gain in the sector (as of November 2020)
- Conversely, institutions see pandemic trends continuing to play out that will lead to underperformance in a number of sectors including real estate, materials, utilities, financials and industrials

Which sectors will outperform – or underperform?



Despite their risk concerns, institutional investors anticipate the sectors that outperformed in the pandemic market will stay in favor, while most of the laggards will stay left behind.

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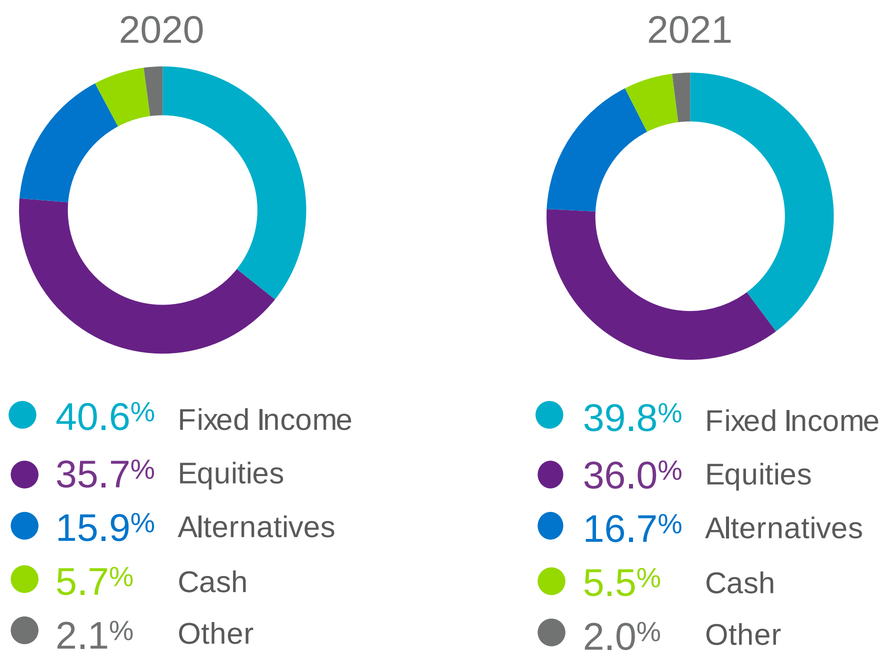
Allocation strategy won’t change, but tactics will

Even as they predict that defensive portfolios will outperform aggressive in 2021, institutional investors do not project any dramatic shifts in their overall allocation plans.

- **Equities:** While 43% say they are likely to maintain their current positions, 32% say they will trim US holdings. Those assets will likely go to Asia Pacific, emerging market stocks[1] and Europe (allocation shifts shown on the next page).
- **Fixed Income:** Institutions are most concerned addressing their top portfolio risk: negative rates. They plan to up investment grade corporates, securitized debt[2] and high yield corporates. Conviction runs high on green bonds[3] amongst those invested.
- **Alternatives:** Among those who own them, alternative allocations appear to be the Swiss Army knife in 2021 plans: The hunt for yield is most clearly reflected as close to half say they will increase investments in private debt.[4] They are looking to up allocations to gold and precious metals and absolute return strategies[5] in terms of risk management.

Minor shifts towards equity and alternatives for 2021



Institutional investors do not project any dramatic shifts in overall allocation plans, and while they are not making significant moves between asset classes, changes can be seen within asset classes among those who invest.

Footnotes 1-5: See page 14 for definitions

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Asset allocations changes

Equities	Increase	No Change	Decrease
Asia-Pacific Equities	▲ 32%	– 55%	▼ 13%
Emerging Market Equities	▲ 31%	– 54%	▼ 15%
European Equities	▲ 31%	– 46%	▼ 23%
US Equities	▲ 25%	– 43%	▼ 32%

Fixed Income	Increase	No Change	Decrease
Green Bonds/	▲ 48%	– 51%	▼ 1%
Investment Grade Corporate Debt	▲ 30%	– 51%	▼ 19%
Securitized Debt (Mortgage-Backed Bonds, etc.)	▲ 26%	– 56%	▼ 18%
Emerging Market Debt	▲ 26%	– 56%	▼ 18%
High Yield Corporate Debt	▲ 26%	– 52%	▼ 23%
Government-Related (Sovereign Debt, Treasury)	▲ 19%	– 51%	▼ 30%

Alternatives	Increase	No Change	Decrease
Private Debt	▲ 46%	– 45%	▼ 10%
Infrastructure	▲ 42%	– 50%	▼ 9%
Private Equity	▲ 38%	– 50%	▼ 12%
Absolute Return Strategies	▲ 27%	– 55%	▼ 17%
Gold / Precious Metals	▲ 27%	– 66%	▼ 8%
Real Estate / REITs	▲ 25%	– 58%	▼ 17%
Commodities	▲ 13%	– 75%	▼ 12%

Cash	Increase	No Change	Decrease
Cash	▲ 13%	– 64%	▼ 22%

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

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Commitment to private assets looks to deepen

Institutional investors continue to look to private markets to fulfill portfolio plans, but even as they do, many are cautious about the effect that outsized flows to equity and debt offerings will have down the road.

- Six in ten worry that there is too much money chasing too few deals and another 36% say the level of uninvested assets is too high
- Just under half of those surveyed (44%) worry about the liquidity risk presented by long lock-up periods
- 80% say current fee terms are generally too high and 25% also worry about fees increasing further as investors compete for a place in fewer and fewer deals

Institutional views on private equity investments

Primary investments		Most attractive sectors	
65%	Private equity funds	61%	Healthcare
45%	Infrastructure	60%	Information technology
44%	Co-investment	25%	Energy
43%	Fund-of-funds	21%	Real estate
37%	Venture capital	21%	Communication services

Despite any reservations they may express, roughly 80% of institutional investors invested in private assets and two-thirds of institutions overall say these investments will play a more important portfolio role going forward.

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Toplining 2021's top headlines

Providing an outlook on the investment landscape for the next 12 months is no small task, but those responding to our institutional survey provided diverse views on everything from the pandemic to politics and policy to sectors to their own portfolio positioning. Their projections paint a unique snapshot of what we'll see in 2021.

What will the headlines be for 2021?

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

ESG = Environmental, social and governance

≈ Headline predictions within a 7 point spread or less were deemed a toss-up.

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

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.

Only time will tell

Institutional investors look out across the possibilities in 2021 and see an uncertain mix of challenges and opportunities. Even as the S&P 500 reenters record territory, they are wary of assuming that run will continue. For every reason that makes them optimistic there is another that gives them pause. With most calling for another 12–24 months before the global economy recovers, time will be the key factor that determines how their projections pan out.

1. Institutions don't expect the global economy to return to form until 2022 or 2023 and worry that the market underestimates the long-term effect of Covid-19.
2. Institutional investors say they are more concerned with policy than politics with 78% saying central bank policy has more of an effect on markets than elections do.
3. Opinions are split on whether an aggressive or defensive approach will yield better results, but there is consensus that the current market environment is favorable for active management.
4. The sectors that outperformed in 2020 are expected to continue to do so in 2021, with a majority predicting continued growth in the health and technology sectors.
5. Institutions do not foresee any dramatic shifts in their overall allocation plans; however, there are notable shifts within asset classes among those who invest.
6. Institutions will continue to look to private markets to fulfill portfolio plans with the majority indicating private assets will play a more prominent portfolio role going forward.
7. Headline predictions for 2021 offer some mixed perspectives, but paint a clear picture that uncertainty, risk and opportunity will be shaped by more factors than the markets alone.

IMPORTANT INFORMATION

1 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 U.S. or other developed market securities.

2 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.

3 A green bond is a type of fixed-income instrument that is specifically earmarked to raise money for climate and environmental projects.

4 Private debt includes any debt held by or extended to privately held companies.

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

The data shown represents the opinion of those surveyed, and may change based on market and other conditions. It should not be construed as investment advice.

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All investing involves risk, including the risk of loss. No investment strategy or risk management technique can guarantee return or eliminate risk in all market environments. 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.

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

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.

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

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 universe of investments may be limited and investors may not be able to take advantage of the same opportunities or market trends as investors that do not use such criteria. This could have a negative impact on an investor's overall performance depending on whether such investments are in or out of favor.

Value investing carries the risk that a security can continue to be undervalued by the market for long periods of time.

An index fund is a type of mutual fund with a portfolio constructed to match or track the components of a financial market index.

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.

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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Volatility management techniques may result in periods of loss and underperformance, may limit the Fund's ability to participate in rising markets and may increase transaction costs.

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