2023 NATIXIS GLOBAL FUND SELECTOR OUTLOOK SURVEY

It’s complicated

Fund selectors look to balance challenging markets and evolving client needs

NATIXIS
INVESTMENT MANAGERS

After riding out two years of a global pandemic with relative ease (and double-digit returns), markets and investors around the world faced a rude awakening in 2022.

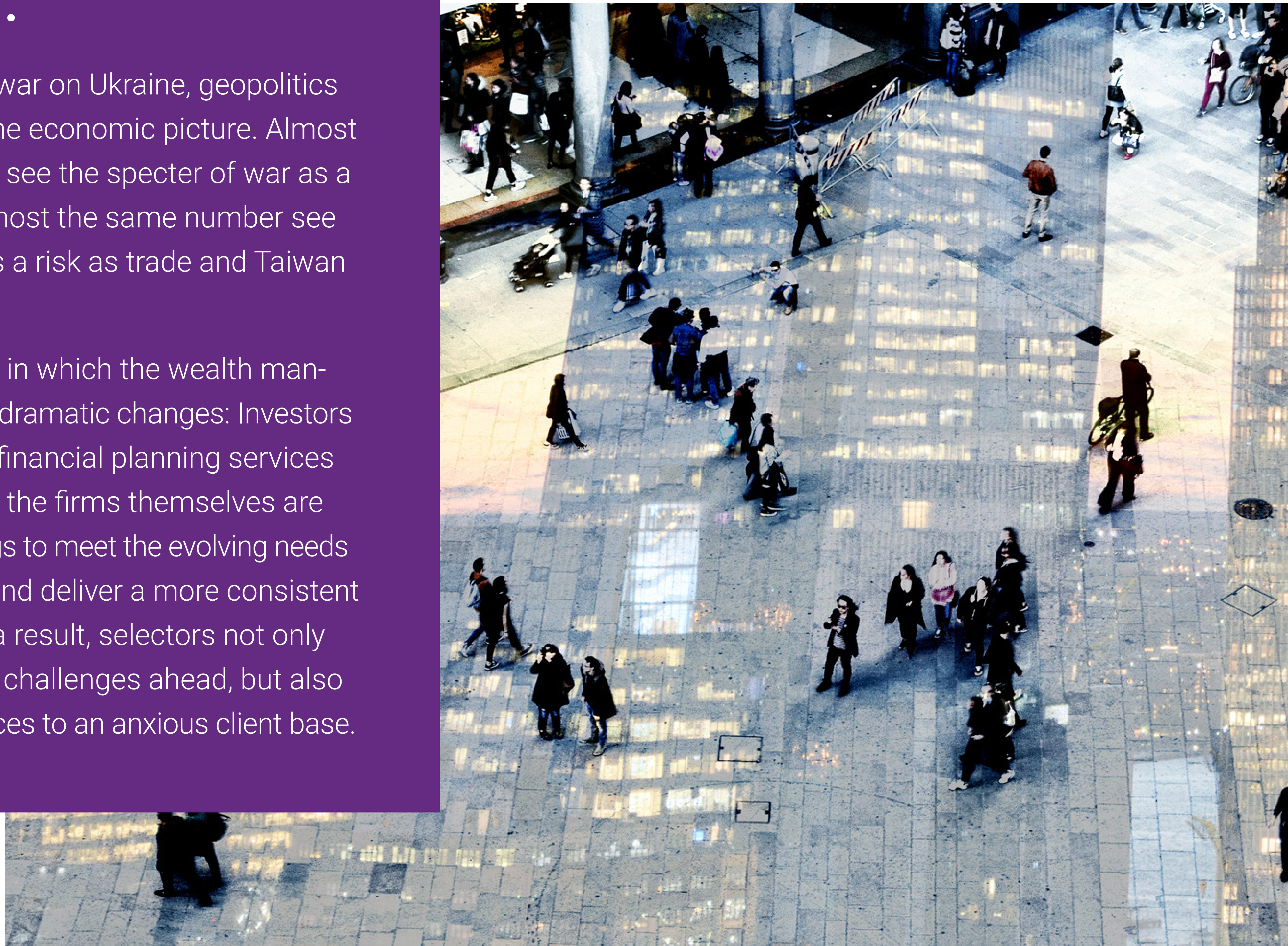
Inflation shot to a 40-year high, interest rates spiked to a 15-year high, and markets around the world responded with the worst losses many had seen since the 2008 global financial crisis.

Results from a recent survey of 441 fund selectors at leading wealth management, private bank, and insurance platforms in 28 countries call for more of the same in 2023. Except now 62% globally, and 65% in EMEA, believe recession will be absolutely necessary in order to get inflation under control.

Where the risks lie

Looking at the year ahead, inflation (70%) and interest rates (63%) continue to rank at the top of portfolio concerns, and as policy makers plan more hikes in 2023, a central bank error (52%) ranks as the biggest economic risk. One year into Russia's war on Ukraine, geopolitics also factor prominently in the economic picture. Almost half of fund selectors (49%) see the specter of war as a pressing economic risk. Almost the same number see US/China relations (48%) as a risk as trade and Taiwan policies intersect.

The risks all come at a time in which the wealth management business is facing dramatic changes: Investors want more comprehensive financial planning services from wealth managers, and the firms themselves are working to tailor their offerings to meet the evolving needs of higher net worth clients and deliver a more consistent investment experience. As a result, selectors not only have to address the market challenges ahead, but also deliver new investment choices to an anxious client base.



Success in 2023 will come down to how well they perform in three critical areas:

1. Reading the market: After last year's losses, selectors are relatively optimistic about the prospects for 2023, with 73% going so far as to say they will maintain or increase average return assumptions of 8.8%.

2. Shoring up client portfolios: While few believe they will need to make wholesale changes to portfolio strategy, many will adjust bond holdings to better yield potential, equity weightings to capture the upside of market dislocations, and turn up the risk management potential of alternatives.

3. Refining the product offering: With 48% of investors saying they want advisors to deliver financial planning services,[1] firms are looking to model portfolios to streamline client accounts, and separately managed accounts and direct indexing to enhance customization and tax efficiency.

It all begins with navigating an uncertain economic and market environment.

Fund selectors have the responsibility for screening investments for some of the largest wealth management platforms across the globe.

441
fund selectors oversee
$30 trillion
in investable client assets

87
INDEPENDENT WEALTH ADVISORY FIRMS

42
INSURANCE/ ANNUITY PLATFORMS

41
FUND-OF-FUNDS MANAGERS

59
REGISTERED INVESTMENT ADVISORS

67
PRIVATE BANKS AND BANK-TRUST ORGANIZATIONS

41
FAMILY OFFICES

8
OTHER

50
WIREHOUSE FIRMS

28
TAMPS

18
DEFINED CONTRIBUTION PLANS

Another year of inflation rates and volatility – and now recession

After a decade of low inflation, low rates, and high growth, the global economic environment changed dramatically in 2022. For the first time in decades, high inflation became a pressing threat – a problem that was only aggravated by geopolitical turmoil as Russia invaded Ukraine and energy prices spiked.

In the wake of all this change, six out of ten globally and 70% in EMEA believe that recession is inevitable. It's important to note that sentiment on the prospects for recessions differs widely by region. Significantly fewer in the UK (57%) and Asia (56%) see recession as inevitable. Fewer still in North America (53%) believe recession is a foregone conclusion for 2023, but that number could be lower because one-third (32%) believe the economy was already in a recession at the end of last year.

Regardless of when recession concerns are realized, recovery is already on the minds of fund selectors. Professional sentiment suggests investors should buckle up for the long haul: Many (53%) believe that markets may be underestimating how long recession could last, a sentiment that runs strongest in Asia (67%).

Even as 60% anticipate recession, it appears to be too early for selectors to accurately project how it all turns out. Out of our 441 respondents only 45% believe a safe landing is possible. However, when they are forced to choose between a safe landing and a crash, 66% favored safe, which indicates sentiment favors a less painful outcome.

Inflation will remain stubbornly elevated

Inflation continues to be a primary concern. Central banks have been on the case for most of the past year, implementing a series of rate hikes aimed at quelling inflationary threats. In the US, the Fed has implemented seven rate hikes taking the fed funds rate from 0.25% in January of 2022 to 4.5% in December, the highest rate since 2007's 5.25%. Similarly, the Bank of England undertook aggressive action that included eight rate hikes in the same period.

While rising rates can stymie markets, fund selectors see a significant upside for clients. Three-quarters believe rising rates will usher in a resurgence in traditional fixed income. Despite the efforts, 72% believe central banks cannot curb inflation on their own. Maybe they can't, but bankers are still seen as an essential piece in the puzzle: More than half say the biggest economic threat in the year ahead will be a central bank error.

Overall, 53% believe inflation will remain stubbornly elevated in the next 12 months. The scenario which began playing out at the end of 2022 illustrates what stubborn could look like. In December, after six consecutive months of declines, markets were buoyed to learn that inflation in the US had moderated to 6.5% in December. Inflation trending steadily lower from its high-water mark of 9.1% is certainly reason to breathe a sigh of relief, but it's important to note that headline CPI at 6.5% is still well above the Fed's target rate of 2%.

Recession and growth concerns are not limited to inflation-related factors. Changing trade practices are also weighing on their minds, as 62% of fund selectors worry that the move from global trade to more domestic production and friend-shoring will hinder growth.

60%

of fund selectors anticipate recession, but it still appears to be too early for selectors to accurately project how it all turns out.

Geopolitical risks are on the rise

Fund selectors also see significant geopolitical risks in 2023. War (49%) and US/China relations (48%) both rank among their top economic risks – though it should be noted the threat is felt greatest where the issue hits closest to home.

Those with a front seat to the Russian war with Ukraine, including EMEA (57%) and UK (52%), feel the threat of war most acutely, while those in Asia (63%) and EMEA (61%) are most concerned with US/China relations. Fewer in the UK (37%) and North America (38%) are as concerned about the threat posed by US relations with China.

Consumer spending (32%) and global trade (27%) round out the five greatest economic threats. It should be noted that the impact of war in Europe's breadbasket, related energy shortages, and natural disasters in the agriculturally rich US West leaves almost one-quarter (23%) to worry about the threat posed by a potential food or natural resource crisis.

Currency will also factor in their minds, as 84% believe the US dollar will maintain its global dominance while more than half (55%) believe the GBP will remain at historic lows. Similar to inflation, US dollar dominance is seen in varying degrees. After a year in which the dollar led, 63% of selectors globally still see it weakening in 2023. Those in Asia (74%) and EMEA (70%) are most likely to project the dollar weakening, while only 48% in the UK agree, a number lower than even the six in ten in North America.

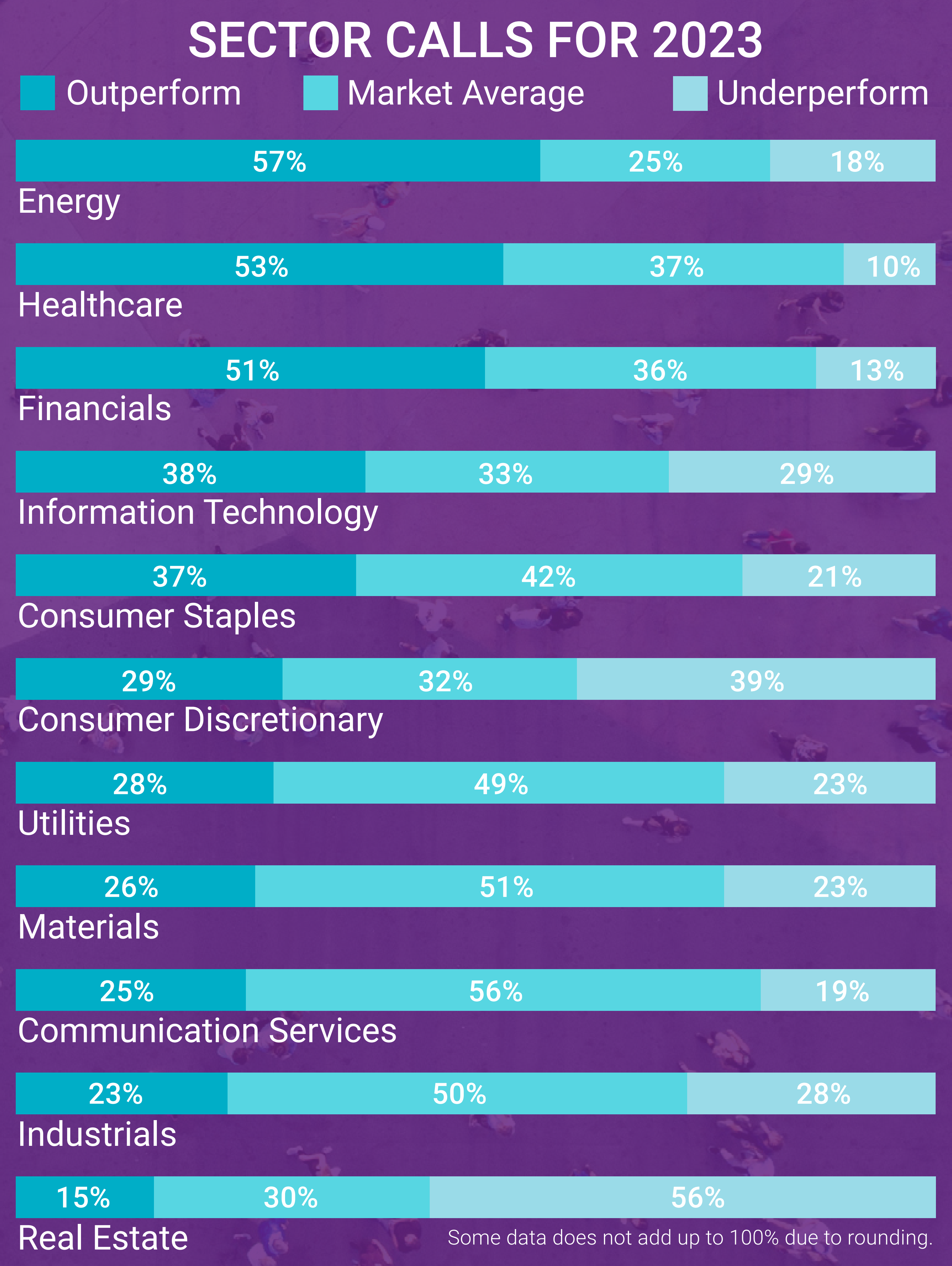
Sector outlook favors those with shorter-term cash flows

Inflation may hurt sectors that have longer-term cash flows, but financials may look attractive to fund selectors because their cash flows tend to be short-term. That, and they also benefit from higher interest rates.

Despite seeing energy prices come back down to earth recently, many believe the sector is still likely to outperform the broad market, suggesting they may anticipate additional disruption to fossil fuel supplies as the Russian war enters its second year.

Big tech is one area where they anticipate at least a turnaround. After seeing big tech take a battering in 2022, more than half of selectors (52%) are bullish on the sector. With losses adding up, it may be that many see the sector as coming back in line with market returns (33%) or exceeding the market average (38%). But few believe big tech will continue to underperform in 2023.

Recession concerns may impact the view on performance of many selectors: They reserve their harshest outlook for the interest-rate-sensitive real estate sector, where 56% of those surveyed believe the sector will underperform the markets. The outlook is at the convergence of two significant trends in post-pandemic markets: A rising rate environment doesn't bode well for the performance of residential properties, and the view for commercial real estate may be further compounded by the uptick in companies adopting permanent remote work policies.



Some data does not add up to 100% due to rounding.

Inflation is a common denominator across market views, but it is also a trigger for a range of concerns in 2023. Inflation itself may present the top risk, but the knock-on effects of rate hikes (63%) implemented by central banks to curb inflation, and volatility (49%) driven by anxious investors, round out the top portfolio risks for fund selectors.

The outlook in Asia is slightly different. Fund selectors there still see these as the top three portfolio risks, but they are most concerned with volatility (65%), then interest rates (56%), and then inflation (51%).

Not only will fund selectors need to consider these prime risks in client portfolios, but they acknowledge a number of secondary concerns including valuations (28%), liquidity (26%), and currency fluctuations (22%) that will influence investment and business decisions in 2023.

Among these secondary concerns, valuations are top-of-mind. After watching the bull market run up over the past ten years, 65% of fund selectors worry that the markets do not reflect the fundamentals. They will be watching closely to see if current volatility will change the circumstances, as 77% believe markets will finally realize that fundamentals matter.

Volatility likely to continue

Volatility was one of the key outcomes of economic and market shifts in 2022, and fund selectors see more of the same in 2023. Even after last year's uptick, more than half (51%) project that stock market volatility will increase over the next 12 months.

Bonds were also historically volatile in 2022, and while only 37% expect bond volatility to increase in 2023, almost the same number (35%) expect the same level of volatility in the year ahead.

As a result of elevated volatility, selectors will be watching a number of key indicators: Dispersion, or the difference in returns among securities, was elevated in 2022, and while four in ten (42%) believe it will remain the same, almost the same number (41%) are looking for dispersion of returns to be even higher in 2023. This is one clear reason that 72% of fund selectors globally call for active management to outperform passive investments this year.

51%
of fund selectors project that stock market volatility will increase over the next 12 months.

72%
of fund selectors call for active management to outperform passive investments this year.

Active management stands out in an uncertain market

As they contemplate the reality of a recession, fund selectors are looking to active investments as a critical tool for managing client portfolios. In fact, 80% of these professional investors say active management is necessary to find alpha during a recession.

After a year in which 56% say active investments outperformed the passive investments on their platform, 71% of selectors believe markets will favor active management in 2023. Six out of ten go so far as to say they will increase the number of active funds on their platform this year. Recent product innovations give selectors choices. For example, half of those surveyed believe active ETFs will revolutionize how they build portfolios.

Many fund selectors (54%) anticipate that a recession will reveal key inadequacies of passive investments. More than half (67%) worry that large flows in and out of passive investments exacerbate already high levels of market volatility. The same number (55%) worry that passive distorts relative risk-return tradeoffs. Another 65% see even greater problems and worry that the popularity of passive has increased systemic risk.

6 out of 10

fund selectors say they will increase the number of active funds on their platform this year.

Job one: Shoring up client portfolios?

As the individuals responsible for $30 trillion in assets, the primary job of fund selectors in 2023 is to ensure client portfolios are positioned for a more volatile and uncertain market and shored up against recession. Given a wide range of risks, they will need to start with adjusting allocation strategy and then move on to how they allocate within specific asset classes.

Given all that is on their plate in 2023, fund selectors are remarkably optimistic about what they can deliver for clients. Overall those surveyed share an average long-term return assumption of 8.8%. Few will reduce their expectations this year while 44% will maintain their assumptions. Three in ten go so far as to say they will increase their assumptions.

Regionally, those in Asia set highest expectations at an average of 10.2%. Fund-of-funds platforms (10.1%), registered investment advisors (9.7%), and wealth managers (9.1%) all share high assumptions for investment returns, while the lowest can be found with investment divisions of insurance (7.3%).

The moderate risk portfolio benchmark

The best place to gauge how selectors will adapt their portfolio strategy to address the economic threats and market risks is the go-to moderate risk portfolio, which represents a large number of clients at each firm.

Overall selectors report that they will make only small adjustments in their allocations for these clients. But these small shifts are significant in scope. Most telling among the data are North American fund selectors, who appear to be positioning client portfolios to capture the yield advantage presented by higher interest rates. Their plans show that they will increase allocations to fixed income, while dialing back those in alternative assets where they turned for yield replacement. This strategy is clearly backed up by how they are adjusting bond allocations.

MODERATE RISK PORTFOLIO ALLOCATIONS	2022	2023
Equities	44%	45%
Fixed income	32%	34%
Alternatives	16%	15%
Cash	7%	5%
Other	1%	1%

Bonds are back

Fund selectors may see inflation as a portfolio key risk, but they also see a potential opportunity in the interest rate hikes that come with it. After seeing numerous rate hikes in 2022, 54% believe interest rates will continue to rise. This is good news to fund selectors, as three-quarters believe that rising interest rates will usher in a resurgence in bonds. In the short term, more than 55% say they are bullish on bond market prospects for 2023.

This is a significant turning point for income-oriented investors. After experiencing historically low rates since the global financial crisis, many had turned to higher-risk alternative investments to enhance their yield potential. After 15 years on the hunt, 62% believe investors are taking on too much risk in pursuit.

Bond allocation calls show that selectors are prepared to up investments in bonds of all types. Most prominently, 51% globally will increase investments in government bonds. Another 46% say they will also increase allocations to investment grade corporates and 33% will up their high yield bond holdings. It appears these moves represent the beginning of lasting sea change in bonds as 55% project long duration to outperform short.

FIXED INCOME	Add	Same	Trim
Government	51%	35%	14%
Investment Grade	46%	40%	15%
High Yield	33%	42%	24%
Emerging Market Debt	28%	49%	23%
Securitized Debt	22%	58%	20%
Green Bonds	46%	46%	7%

The sweet spot for lengthening durations

When to lengthen duration is a critical consideration. While a small number (16%) say they are already lengthening duration, others are waiting for rates to climb higher. For now, the sweet spot that will lead most selectors to move is somewhere between 4.25% and 5.0%. In the US, where the fed funds rate hit in the middle of that range (4.5%) in December, 20% say they will be waiting for 5% before they lengthen duration.

In Asia, where interest rates range from -0.1% in Japan to 3.65% in China to 4.25% in Hong Kong, almost one-quarter of selectors (23%) say they have already seen enough to lengthen duration. In the UK, where rates now stand at 3.5%, it will take another 100 basis points before half of fund selectors will have lengthened duration.

RATES NEEDED TO RECOMMEND LENGTHENING DURATION

	Global	Asia	EMEA	N. Amer	UK
Doing it already	16%	23%	13%	16%	17%
4.00–4.25	9%	9%	7%	10%	11%
4.25–4.50	17%	9%	18%	16%	22%
4.50–4.75	20%	23%	21%	22%	12%
4.75–5.00	16%	9%	24%	12%	15%
5.00+	15%	19%	12%	20%	8%
Does not apply	7%	7%	5%	5%	15%

Valuations matter again

Despite the challenges, fund selectors appear to be relatively optimistic for equities in 2023. Almost six in ten (59%) are bullish on stocks – a full 10% more than institutional investors who were surveyed about a month earlier. But views vary widely by region. Two-thirds of those in EMEA say they are bullish while the same number in Asia are bearish on stocks.

After a long bull market run in which low rates helped lift stock prices virtually all around, almost two-thirds of fund selectors (65%) are convinced that current valuations do not reflect company fundamentals. Now, as they anticipate elevated volatility and increased dispersion, they will likely turn to active managers, as 86% believe the market will recognize that valuations matter again.

In looking at the opportunities, 61% believe large-caps will outperform small-caps, and project developed markets (64%) to outperform emerging markets.

Overall, selectors are prepared to increase allocations first to US equities (45%) over emerging markets (37%), Europe (34%) and APAC (30%), indicating that they find opportunity in the volatility that plagued major markets across the globe in 2022.

That may be the global average, but selectors in Asia are the biggest outliers. Large numbers here are prepared to trim from European (54%) and US (23%) equities, while significantly more will add to APAC (54%). One reason for the optimism may be the loosening of the tight restrictions that came with China's zero-Covid policy. After posting a relatively low growth rate of 3% in 2022, relaxed restrictions have led even the Chinese government to up 2023 GDP estimates from 4.7% to 5.2%.[2]

EQUITIES	Add	Same	Trim
US Equities	45%	37%	18%
European Equities	34%	38%	28%
APAC	30%	48%	22%
LatAm	14%	61%	25%
Emerging Markets	37%	44%	20%

Emerging Markets

China's ability to meet its GDP goal is likely to have a significant impact across emerging markets. In fact, two-thirds of those surveyed (66%) believe emerging market investing is overly dependent on China. This gives some reason to pause, as eight in ten (81%) say regulatory uncertainties make China less attractive and 76% say China's geopolitical ambitions limit its investment appeal.

In the long run many wonder if those ambitions will result in a bifurcated world in which China and the US become the dominant economic spheres – an idea that can already be seen in the concerns of the 48% of selectors who worry about the risks presented by US/China relations in 2023.

Beyond China, selectors worry about the impact of inflation in general, and food inflation in particular, on emerging economies. More than three-quarters (77%) globally think elevated food prices are an underestimated risk for emerging markets, a concern that is even greater in Asia where almost nine in ten (88%) think the risk is not fully appreciated.

Alternative: New reasons to believe

Fund selectors' alternative allocation calls show that while rising rates may lead them to trim certain investments, the inherent risks presented by an uncertain market are giving them new reasons to believe. Almost six in ten say they are recommending increased allocations in alternative investments, thanks to higher levels of risk. Risk views run so strong that 63% say they believe alternative investments belong in retiree portfolios to help mitigate their exposures.

When it comes down to it, 64% believe portfolios composed of 60% equities, 20% bonds, and 20% alternatives will outperform the traditional 60/40 portfolio in 2023.

Mitigating risk with alternatives

A strong indication of their conviction is that worldwide, fund selectors are twice as likely to increase allocations to absolute return strategies (32%) rather than trim (13%), with the remainder maintaining current allocations. The sentiment is even stronger in North America where 37% will increase compared to only 8% who will trim. Options-based strategies, such as hedged equity, show similar sentiment both globally (25% add / 9% trim) and in North America (33% add / 6% trim).

Of all alternatives, selectors are most likely to add to infrastructure investments both globally (48 add / 6% trim) and in North America (46% add / 4% trim). Six in ten investors in Asia agree and will increase their allocations as well.

Maximizing yield with alternatives

Plans here may be twofold. On one hand, certain infrastructure can mitigate risk by providing a steady long-term return stream. On the other, infrastructure has been gaining a toehold in portfolios as selectors looked to enhance yield while rates were low. That's also a likely motivation now, as 58% say their firm is recommending alternative investments as a yield replacement.

Despite better news on bonds, selectors appear to still be worried about their ability to generate yield. In fact, they are more likely to say they will add to private debt investments globally (31% add / 17% trim) and in North America (39% add / 15% trim).

The popularity of private assets is not limited to debt. Globally, selectors are more likely to add to private equity / venture capital investments both globally (43% add / 13% trim) and in North America (46% add / 9% trim). The same number (46%) in the UK plan to increase allocations to these assets.

ALTERNATIVES	Increase	Maintain	Decrease
Real Estate	29%	55%	16%
Absolute Return	32%	55%	13%
Private Equity/VC	43%	44%	13%
Private Debt	31%	52%	17%
Commodities	28%	51%	22%
Gold/Precious	29%	51%	20%
Infrastructure	48%	46%	6%
Hedge Funds	26%	58%	17%
Cryptocurrency	19%	56%	25%
Options-Based	25%	66%	9%
Managed Futures	26%	62%	11%

A new rationale for real estate

Real estate investing presents some of the biggest questions for selectors in 2022. Clearly rising rates can create a headwind for real estate values, leading 56% to anticipate that real estate will lag the broad market. This fact alone may make it surprising to learn that selectors plan to add to their holdings. Globally, 29% say they will add and 35% in North America will do the same. Only those in EMEA plan to trim, where 24% say they'll dial back exposures.

However, rising rates are just one of a multitude of portfolio challenges they need to address. It's likely they are looking to real estate's ability to hedge inflation with predictable long-term cash flows.

The long-range product plan

Fund selectors may face tough portfolio choices in 2023, if they are going to address the wide-ranging risks clients face with their investments this year. But in the long run, selectors also need to be thoughtful about the types of products that will offer clients for both today and many years down the road.

Product calls show that they are actively managing their offering to ensure they can meet these key objectives. In some cases, they will need to adapt their offering to meet new regulatory requirements.

Such is the case with sustainable investments. While 61% overall say they will add to their sustainable offering, the highest level of respondents who said they'll add (71%) hail from EMEA, where MIFID iii requires all financial advisors to ask their clients about interest in sustainable investments. Meanwhile in North America, only 37% say they'll add to their offering.

In other instance, selectors show they are backing up their convictions by increasing their offering in areas such as active investments. Projecting more volatile markets with greater dispersion in which they think valuations will matter more, it's not surprising that 72% believe active investments will outperform passive. It should also be no surprise that, given their view, six in ten (59%) say they will increase the number of active funds on their platforms.

Why private assets retain their luster

Interest in private assets has been growing steadily as interest rates hovered in the low to negative range across the globe during the past decade. Even now, as the yield picture begins to change, 50% say they will add to their private investments offering. One key factor in this decision may be that they see a new reason to invest, as 44% believe private assets will provide a safe haven for investors.

As a result of this continued popularity, fund selectors are able to report that their firms offer a wide range of investment choices. On the equities side, funds of funds (52%), infrastructure (48%), and venture capital (36%) are cited most frequently. For private debt, direct lending (43%) and co-investing (33%) top the list of offerings.

Many are also looking to private assets to enhance their offering of sustainable investments, as 44% say they will increase their ESG (environmental, social and governance) offerings and 30% will turn to private markets for impact investing.

PRIVATE EQUITY		PRIVATE DEBT	
Fund of Funds	52%	Direct Lending	43%
Infrastructure	48%	Co-investment	33%
Venture Capital	36%	Mezzanine	26%
Growth Capital	34%	Venture Debt	24%
Direct Co-investment	31%	Special Situations	23%
Co-investment Fund	28%	Secondaries	21%
Mezzanine Financing	22%	Distressed Debt	19%
Secondaries	22%	Other	1%
LBO	21%		

TRYING TO MAKE AVAILABLE IN 2023	
ESG	44%
Impact	30%
Direct Deals	22%
Middle Market	21%
Co-investment	20%
Large Market	20%
Secondaries	19%
M&As	16%
Lower Market	11%

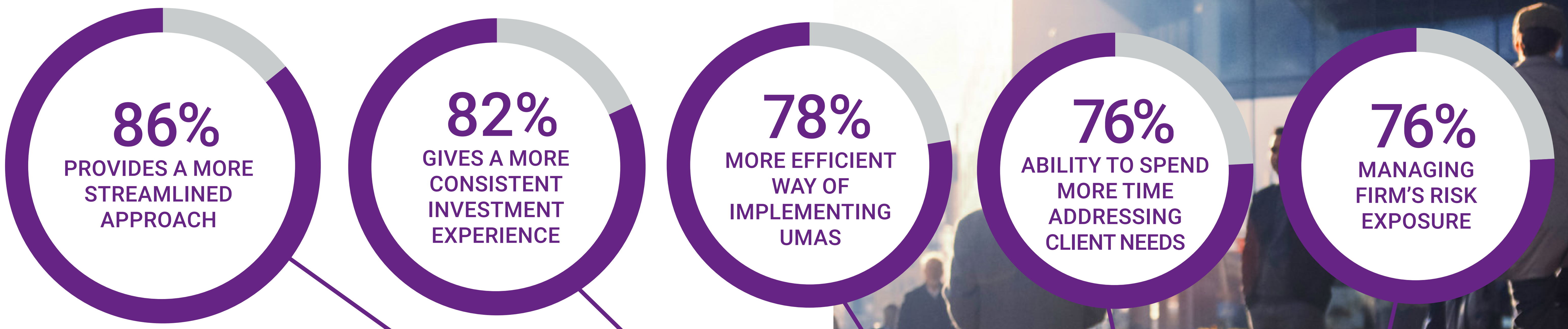
Models make for a more consistent investment experience

Another key consideration for firms is how to best implement effective portfolio management that can deliver a consistent experience for thousands of clients. In recent years, many have implemented model portfolio programs to help unify their investment offering.

Among the 441 selectors included in the 2023 Natixis Outlook survey, 79% report that their firm offers some sort of model program. Most frequently these firms report they offer models because they can deliver a more streamlined approach to investing, and a more consistent investment experience as noted. But they are finding a wide range of other benefits.

One of the key benefits they find models afford their clients is that using models can give advisors more time to address client needs (76%). This can be critical, as investors told us in 2021 the two services they want most from their advisor are financial planning (48%) and retirement income planning (40%).[3] Both exercises require that advisors are able to work with clients on complex issues while still meeting their investment needs. In addition, firms note that giving their client base a more consistent experience helps manage their own risk exposure (76%).

Selectors also find that models help make it easier to implement unified managed accounts (UMAs) for clients. UMAs are becoming important tools for managing the often-complicated assets of high net worth investors. The accounts provide clients a comprehensive wealth management solution by combining a range of investments (stocks, bonds, mutual funds, etc.) in a single, professionally managed account. In the end, regular reporting provides clients with a more holistic view of their wealth.



Use of third-party providers growing

As selectors look to grow their model offerings, they are turning to third-party managers to enhance their offering. In fact, our past surveys show that selectors' self-reported use of third-party managers has more than doubled in three years, rising from 11% in 2021 to 24% in 2023.

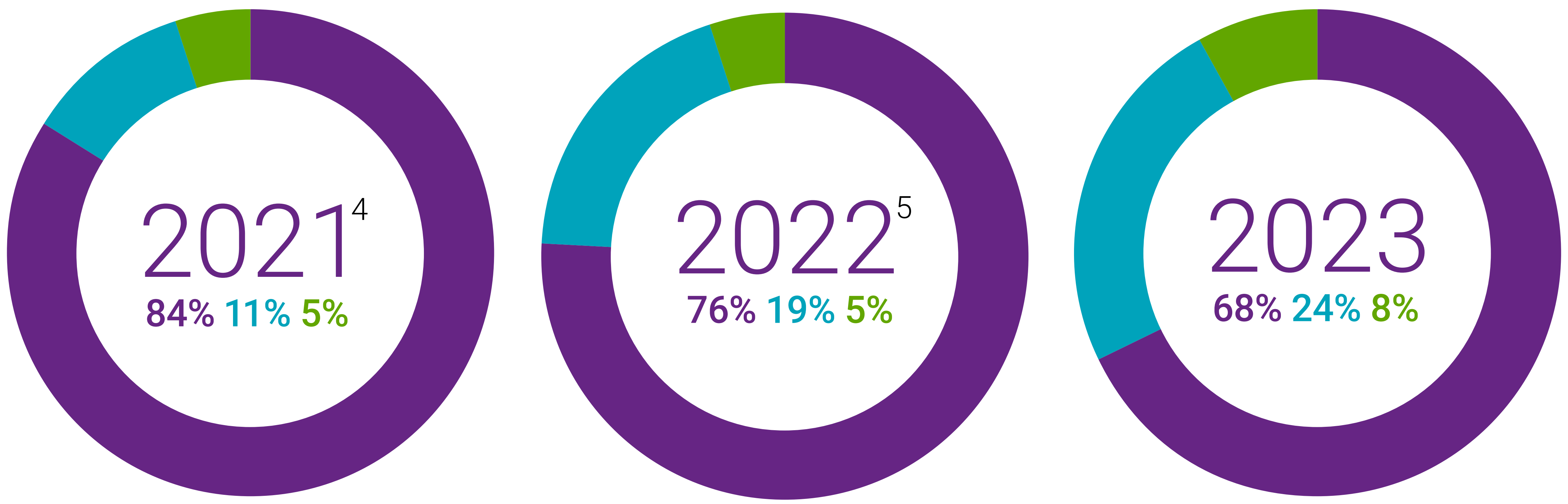
With wider use come clear expectations for third-party managers. Given the current market conditions and the desire to deliver consistency, it's no surprise to see that a manager's ability in active risk management (47%) is the first thing selectors are concerned with – even before fees (40%). Beyond that, they are looking for third-party managers who can develop models that are customized to meet firm needs (38%). They also want to be assured that managers can implement tactical asset allocations, again a key consideration in uncertain and unsettled markets. And as firms look to deliver on ESG demand, one-third said they are looking for managers who can deliver model solutions.

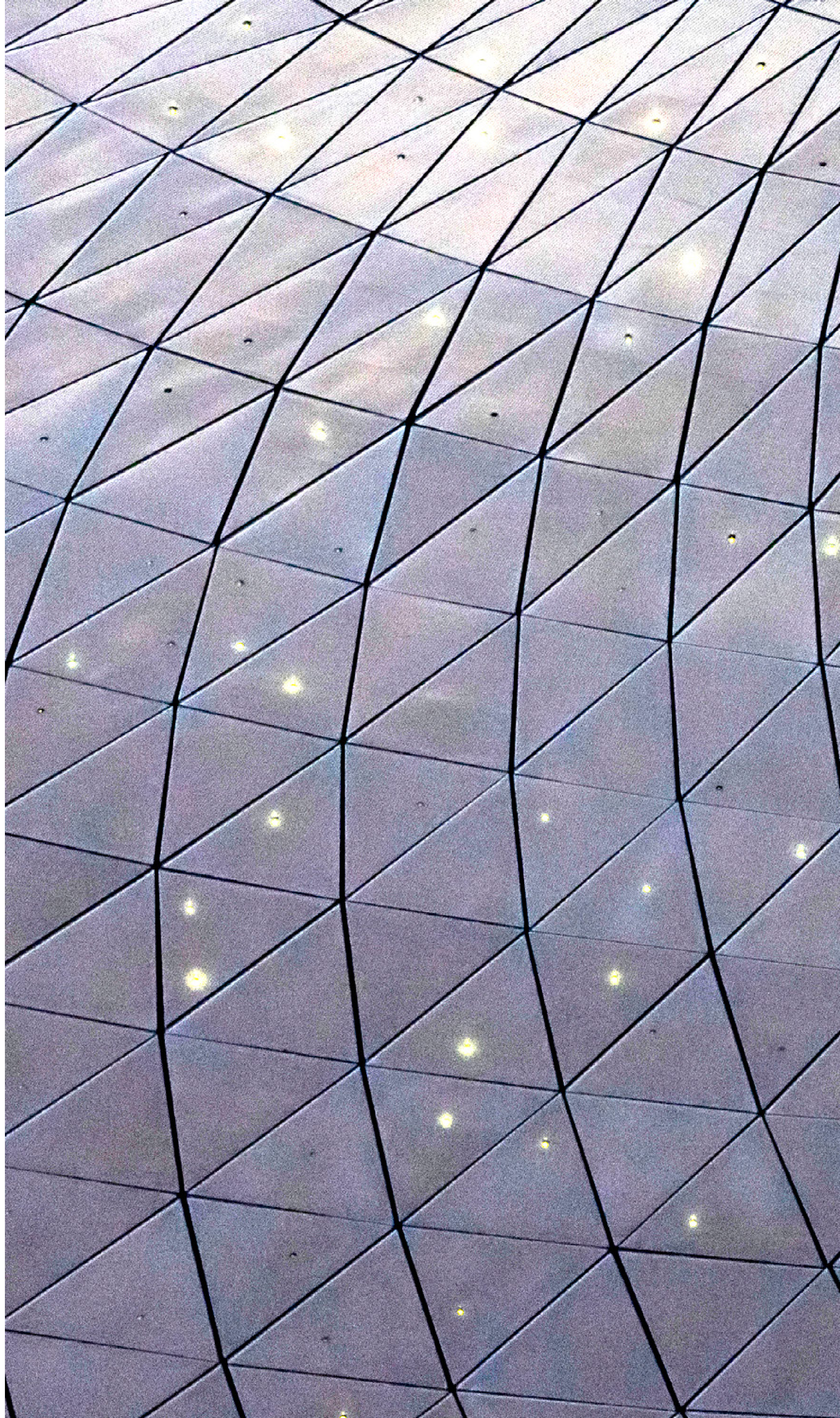
WHAT DIFFERENTIATES THIRD-PARTY MODEL PROVIDERS?

1	Active risk management	47%
2	Competitive fee structure	40%
3	Ability to customize for firm needs	38%
4	Tactical asset allocation	37%
5	ESG integration	33%

FIRMS ARE EXPANDING THEIR THIRD-PARTY OFFERING

Proprietary models
Third-party models
White label





Adding new strategies

ESG model capabilities will come into the spotlight in 2023, as almost half (49%) of fund selectors say their firms plan to add these types of portfolios to their offering. Most significantly, MIFID iii, along with other factors, is leading 61% of those in Europe to add more ESG models to their offering, as are 57% in the UK and 55% in Asia.

In North America, the top candidate for addition to model platforms is high net worth models that combine the model structure with enhanced tax management and other customized features. The option is on the planning grid for 38% of selectors worldwide.

Many firms (38% global and 43% in North America) are also setting their sights on income-oriented models, an especially timely choice as a rapidly growing retiree population converges with a more robust set of income investments. With more firms recommending alternative investments, 42% of selectors in North America and 33% globally will look to streamline the process by adding alternative sleeves to their model offerings.

PLANNED ADDITIONS TO MODEL PLATFORMS IN 2023

49%	ESG Models
38%	High Net Worth
38%	Income
35%	Thematic Sleeves
33%	Alternative Sleeves
23%	Tax-Managed

Separately managed accounts for customization

The need to deliver for higher net worth clients is top of mind for wealth managers around the world. Along with building more robust model portfolio platforms, firms have also intensified their focus on separately managed accounts. Because clients own the underlying securities in these accounts, there are greater opportunities to customize the investment while providing a professionally managed portfolio.

In fact, the ability to customize (40%) is the top reason selectors say their firms are offering SMAs. They also believe SMAs provide greater operational efficiency (33%), a key consideration when trying to deliver for a wide range of clients with wide-ranging needs. The same number also point to lower fees and the ability to better serve high net worth clients. Selectors in North America were most likely to say the tax efficiency (38%) of owning the securities – and their underlying cost basis – is another important consideration.

WHY FIRMS OFFER SMAs

44%	Customization
33%	Lower fees
33%	Operational efficiency
33%	Better serve HNW clients
31%	Premium offering
29%	Tax efficiency

It’s complicated, but manageable

Fund selectors have genuine concerns about what 2023 will bring to their clients. They anticipate elevated levels of inflation, rising rates, and increased market volatility. Only this year, they anticipate it will all end in recession. The scenario will clearly put many clients on edge, and selectors will have to insulate portfolios for a market scenario that has become unfamiliar to many after a decade of solid gains.

Allocation calls show they will actively manage clients’ portfolios to better position them for this new reality. They see rising rates as a resurgence for bonds and are reallocating clients to both government and investment grade corporate bonds – along with almost every other flavor of traditional fixed income.

On the equity side, they are bullish and believe that higher volatility, broader dispersion of returns and a renewed focus on fundamentals favor active managers. Alts will continue to factor into the equation, but they will rely on alts to help mitigate while continuing to look at these investments to help boost yields.

In the long run, they will continue to implement products that will first enhance the investment experience for clients and also deliver a higher level of customization.

They recognize that it may be a complicated world in 2023. But they give every indication that they believe it’s all manageable.

About the survey

Natixis Investment Managers, Global Survey of Fund Selectors conducted by CoreData Research in November and December 2022. Survey included 441 respondents in 28 countries throughout North America, Latin America, the United Kingdom, Continental Europe, Asia and the Middle East.

About the Natixis Center for Investor Insight

The Natixis Center for Investor Insight is a global research initiative focused on the critical issues shaping today's investment landscape. The Center examines sentiment and behavior, market outlooks and trends, and risk perceptions of institutional investors, financial professionals and individuals around the world. Our goal is to fuel a more substantive discussion of issues with a 360° view of markets and insightful analysis of investment trends.

Learn more

Meet the team:

Dave Goodsell
Executive Director

Stephanie Giardina
Program Manager

Erin Curtis
Assistant Program Manager

Jessie Cross
AVP, Content

Additional Information:

1. 2021 Natixis Global Survey of Individual Investors, conducted March-April 2021, included 8,550 individuals in 24 countries.

2. "Global Outlook: China's Zero-Covid U-Turn." Economist Intelligence Unit, 19 Dec. 2022, https://www.eiu.com/n/global-outlook-chinas-zero-covid-u-turn/.

3. 2021 Natixis Global Survey of Individual Investors, conducted March-April 2021, included 8,550 individuals in 24 countries.

4. Natixis Investment Managers, Global Survey of Professional Fund Buyers, conducted by CoreData Research in November and December 2020. Survey included 400 respondents in 21 countries.

5. Natixis Investment Managers, Global Survey of Fund Selectors conducted by CoreData Research in November and December 2021. Survey included 436 respondents in 25 countries.

The views and opinions expressed may change based on market and other conditions. This material is provided for informational purposes only and should not be construed as investment advice. There can be no assurance that developments will transpire as forecasted.

Actual results may vary.

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.

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.

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.

Alpha is a measure of the difference between a portfolio's actual returns and its expected performance, given its level of systematic market risk. A positive alpha indicates outperformance and negative alpha indicates underperformance relative to the portfolio's level of systematic risk.

Equity securities are volatile and can decline significantly in response to broad market and economic conditions.

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.

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.

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

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

The index information contained herein is derived from third parties and is provided on an "as is" basis. The user of this information assumes the entire risk of use of this information. Each of the third party entities involved in compiling, computing or creating index information disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to such information.

The views and opinions expressed may change based on market and other conditions. This material is provided for informational purposes only and should not be construed as investment advice. There can be no assurance that developments will transpire as forecasted. Actual results may vary.

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.

Outside the United States, this communication is for information only and is intended for investment service providers or other Professional Clients. This material must not be used with Retail Investors. This material may not be redistributed, published, or reproduced, in whole or in part. Although Natixis Investment Managers believes the information provided in this material to be reliable, including that from third party sources, it does not guarantee the accuracy, adequacy or completeness of such information. **In the EU (ex UK):** Provided by Natixis Investment Managers S.A. or one of its branch offices listed below. Natixis Investment Managers S.A. is a Luxembourg management company that is authorized by the Commission de Surveillance du Secteur Financier and is incorporated under Luxembourg laws and registered under n. B 115843. Registered office of Natixis Investment Managers S.A.: 2, rue Jean Monnet, L-2180 Luxembourg, Grand Duchy of Luxembourg. **France:** Natixis Investment Managers Distribution (n.509 471 173 RCS Paris). Registered office: 43 avenue Pierre Mendès France, 75013 Paris. **Italy:** Natixis Investment Managers S.A., Succursale Italiana (Bank of Italy Register of Italian Asset Management Companies no 23458.3). Registered office: Via Larga, 2 - 20122, Milan, Italy. **Germany:** Natixis Investment Managers S.A., Zweigniederlassung Deutschland (Registration number: HRB 88541). Registered office: Im Trutz Frankfurt 55, Westend Carrée, 7. Floor, Frankfurt am Main 60322, Germany. **Netherlands:** Natixis Investment Managers, Nederlands (Registration number 50774670). Registered office: Stadsplateau 7, 3521AZ Utrecht, the Netherlands. **Sweden:** Natixis Investment Managers, Nordics Filial (Registration number 516405-9601 - Swedish Companies Registration Office). Registered office: Kungsgatan 48 5tr, Stockholm 111 35, Sweden. **Spain:** Natixis Investment Managers, Sucursal en España. Serrano n°90, 6th Floor, 28006 Madrid, Spain. **In Switzerland:** Provided by Natixis Investment Managers, Switzerland Sàrl, Rue du Vieux Collège 10, 1204 Geneva, Switzerland or its representative office in Zurich, Schweizergasse 6, 8001 Zürich. **In the UK:** Provided by Natixis Investment Managers UK Limited, authorized and regulated by the Financial Conduct Authority (register no. 190258). Registered Office: Natixis Investment Managers UK Limited, One Carter Lane, London, EC4V 5ER. **In the DIFC:** Distributed in and from the DIFC financial district to Professional Clients only by Natixis Investment Managers Middle East (DIFC Branch) which is regulated by the DFSA. Related financial products or services are only available to persons who have sufficient financial experience and understanding to participate in financial markets within the DIFC, and qualify as Professional Clients as defined by the DFSA. Registered office: Office 603 - Level 6, Currency House Tower 2, PO Box 118257, DIFC, Dubai, United Arab Emirates. **In Singapore:** Provided by Natixis Investment Managers Singapore (name registration no. 53102724D), a division of Ostrum Asset Management Asia Limited (company registration no. 199801044D). Registered address of Natixis Investment Managers Singapore: 5 Shenton Way, #22-05 UIC Building, Singapore 068808. **In Taiwan:** Provided by Natixis Investment Managers Securities Investment Consulting (Taipei) Co., Ltd., a Securities Investment Consulting Enterprise regulated by the Financial Supervisory Commission of the R.O.C. Registered address: 16F-1, No. 76, Section 2, Tun Hwa South Road, Taipei, Taiwan, Da-An District, 106 (Ruentex Financial Building I), R.O.C., license number 2017 FSC SICE No. 018, Tel. +886 2 2784 5777. **In Japan:** Provided by Natixis Investment Managers Japan Co., Ltd., Registration No.: Director-General of the Kanto Local Financial Bureau (kinsho) No. 425. Content of Business: The Company conducts discretionary asset management business and investment advisory and agency business as a Financial Instruments Business Operator. Registered address: 1-4-5, Roppongi, Minato-ku, Tokyo. **In Hong Kong:** Provided by Natixis Investment Managers Hong Kong Limited to institutional/corporate professional investors only. Please note that the content of the above website has not been reviewed or approved by the HK SFC. It may contain information about funds that are not authorized by the SFC. **In Australia:** Provided by Natixis Investment Managers Australia Pty Limited (ABN 60 088 786 289) (AFSL No. 246830) and is intended for the general information of financial advisers and wholesale clients only. **In New Zealand:** This document is intended for the general information of New Zealand wholesale investors only and does not constitute financial advice. This is not a regulated offer for the purposes of the Financial Markets Conduct Act 2013 (FMCA) and is only available to New Zealand investors who have certified that they meet the requirements in the FMCA for wholesale investors. Natixis Investment Managers Australia Pty Limited is not a registered financial service provider in New Zealand. **In Latin America:** Provided by Natixis Investment Managers S.A. **In Colombia:** Provided by Natixis Investment Managers S.A. Oficina de Representación (Colombia) to professional clients for informational purposes only as permitted under Decree 2555 of 2010. Any products, services or investments referred to herein are rendered exclusively outside of Colombia. **In Mexico:** Provided by Natixis IM Mexico, S. de R.L. de C.V., which is not a regulated financial entity or an investment manager in terms of the Mexican Securities Market Law (Ley del Mercado de Valores) and is not registered with the Comisión Nacional Bancaria y de Valores (CNBV) or any other Mexican authority. Any products, services or investments referred to herein that require authorization or license are rendered exclusively outside of Mexico. Natixis Investment Managers is an entity organized under the laws of France and is not authorized by or registered with the CNBV or any other Mexican authority to operate within Mexico as an investment manager in terms of the Mexican Securities Market Law (Ley del Mercado de Valores). Any use of the expression or reference contained herein to "Investment Managers" is made to Natixis Investment Managers and/or any of the investment management subsidiaries of Natixis Investment Managers, which are also not authorized by or registered with the CNBV or any other Mexican authority to operate within Mexico as investment managers. **In Uruguay:** Provided by Natixis Investment Managers Uruguay S.A., a duly registered investment advisor, authorized and supervised by the Central Bank of Uruguay. Office: San Lucar 1491, oficina 102B, Montevideo, Uruguay, CP 11500.

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

In the United States: Provided by Natixis Distribution, LLC, 888 Boylston St., Boston, MA 02199. Natixis Investment Managers includes all of the investment management and distribution entities affiliated with Natixis Distribution, LLC and Natixis Investment Managers S.A.

This material should not be considered a solicitation to buy or an offer to sell any product or service to any person in any jurisdiction where such activity would be unlawful.

5424182.1.1

NATIXIS
INVESTMENT MANAGERS