INVESTOR INSIGHTS SERIES

HELP WANTED

How investor behavior is rewriting the job description for financial professionals

Help wanted

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Trapped between expectations for near double-digit returns and strong apprehensions about investing in persistently volatile markets, investors worldwide are of the opinion that professional financial advice is worth the fee. But even though they believe individuals who work with a financial professional are more likely to achieve their goals, investors have a clear vision of just what kind of advice they need.

Our fifth-annual Global Survey of Individual Investors offers a look inside the expectations of 7,100 investors in 22 countries in 2016.* It offers a clear view into the challenges facing investors and the behaviors that may keep them from achieving their goals. With our report we look at three key issues facing investors, and the implications for financial professionals.

- **Misinformation, confusion and conflicts abound.** Inundated with market information, short-term performance numbers and proclamations about the right way to invest, individual investors are challenged to separate fact from fiction. A majority of individuals see low fees for passive investments and assign greater benefits to these vehicles, such as protection from market losses and better diversification. Investors say they need average returns of 9.5% above inflation yet say they value safety over investment performance. All the while, investors admit they lack clear financial goals and a financial plan to drive decisions.
- **Retirement lacking clear definition.** Individuals recognize they will need to assume greater responsibility for retirement funding, but they may not be setting their sights high enough. On average, investors in our sample are saving an average of 12% annually toward retirement, but they think they will need to replace less than 64% of current income to live comfortably in retirement – well short of the 75% to 80% recommended by experts.
- **Seeking help on their own terms.** Individuals believe professional help is necessary, but they are looking for a collaborative relationship that goes beyond advice to help them become better informed and more confident investors. They want their investment professional to take them beyond traditional portfolio models with strategies that help them manage risk and give them better diversification.

As regulators in Asia, Europe and North America take steps to ensure financial professionals put investors first, it is the investor who clearly outlines what that means and defines a better client experience that puts achieving long-term goals ahead of attaining short-term performance. Investors have hung out the "help wanted" sign, but the old job description for financial professionals has changed. It's now up to asset managers, distributors and investment professionals to address gaps and shortcomings of old business models if they are to live up to investors' expectations.

*See page 5 for survey respondent breakdown.

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INTRODUCTION

Help Wanted

How investor behavior is rewriting the job description for financial professionals

Investors worldwide are at a critical point of conflict where apprehension about investing in complex and often volatile markets intersects with their need to generate a level of return that will help them fund retirement and other vital goals. Looking ahead, these individuals believe they need professional help, but they want more than just investment recommendations from their financial providers.

Results from the 2016 Natixis Global Survey of Individual Investors show that investors want a stronger, more personalized relationship with their financial provider – one that helps them see beyond daily market noise, helps them refine personal goals, and helps them become stronger, more confident investors. What they want most is help with making more informed investment decisions.

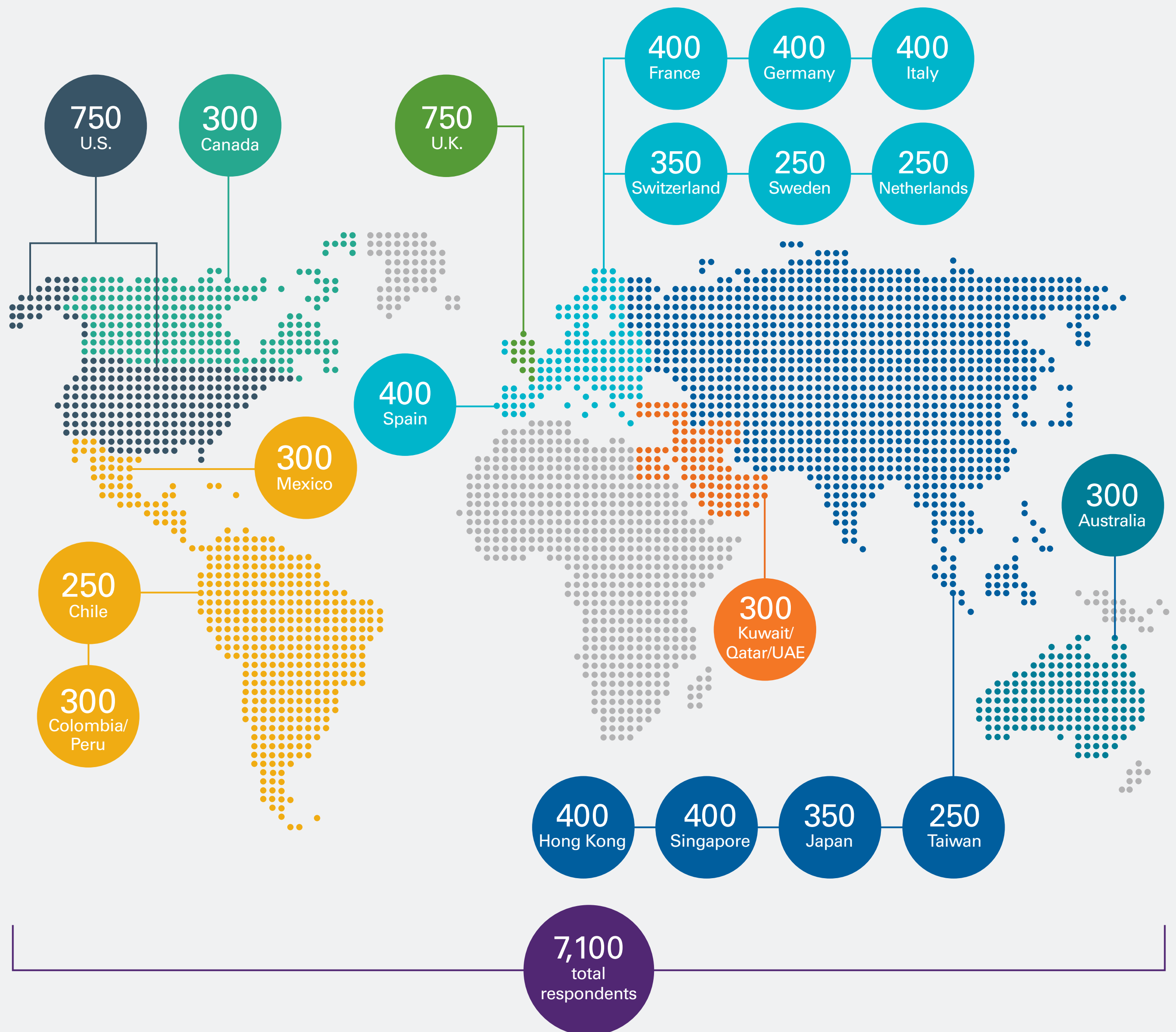
For many, this can be the make-or-break point in how they relate to their financial providers, as demonstrated by the 27% of respondents in our survey who have terminated an advisory relationship. Not surprisingly, when asked why they ended the relationship, 41% cited investment performance. But this factor is closely followed by two more telling issues: 1) failing to understand their savings and investment goals (32%) and 2) investment views that differ from their advisor's (30%). While financial professionals and providers cannot control performance, they can control the process, explaining why investments are held and communicating with investors on their progress toward meeting goals.

“While financial professionals and providers cannot control performance, they can control the process, explaining why investments are held and communicating with investors on their progress toward meeting goals.

2016 Global Survey of Individual Investors

ABOUT THE SURVEY

Natixis Global Asset Management surveyed 7,100 individual investors globally in February-March 2016 with the goal of understanding their views on the markets, investing and measuring their progress toward financial goals. Investors from the Americas, Asia, Europe, the Middle East and Oceania are represented in the survey.



PROJECT BACKGROUND AND METHODOLOGY

2016 marks the seventh year in which Natixis Global Asset Management has conducted its Individual Investor Survey in the U.S., and the fifth year it has conducted its global survey.

CoreData Research was commissioned by Natixis to conduct the study of investors in 22 countries in order to better understand their attitudes toward portfolio construction, risk, advice, and saving, their market sentiments, and their perceptions on benchmarking investment performance.

An online quantitative survey was developed and hosted by CoreData Research. A sample of 7,100 individual investors with a minimum of U.S. $200,000 (or Purchase Price Parity [PPP] equivalent) in net investable assets was obtained for the purposes of this study. Results are analyzed with segmentation from a range of perspectives.

Coming at a time when regulators in Asia, Europe and the U.S. are focused on ensuring that the investment industry acts in the best interest of clients, this represents a powerful opportunity to focus on knowing clients better, to sit on the same side of the desk, roll up their sleeves and work together toward the unique goals of investors worldwide.

Five years on, the need for help is clear

Based on what we've observed about investor attitudes, perceptions and behaviors in the five years since we established the Durable Portfolio Construction® Research Center, this redefined relationship could not come at a better time.

After surveying more than 30,000 individuals in 22 countries over the years, it's clear that many investors are ill equipped to meet their goals on their own and could benefit from education and personalized advice. We continue to see key trends that, if left unchecked, could leave individuals short of long-term financial success:

- **Investors fail to set goals and plans** – Fewer than half of those we surveyed this year say they have these financial cornerstones in place.
- **Investors cannot rationalize return expectations with risk tolerances** – Investors may say they need double-digit returns, but the vast majority say they'll take safety over investment performance (79%).
- **Investors have major misconceptions about the markets and investing** – Investors overestimate the benefits of passive investments and underappreciate the potential roles alternative investments can play.

> "After surveying more than 30,000 individuals in 22 countries over the years, it's clear that many investors are ill equipped to meet their goals on their own and could benefit from education and personalized advice.

Where help is needed today

Our 2016 report looks at investors' attitudes and behaviors and focuses on how a lack of self-awareness may be hurting their chances of long-term success. Knowing that fewer than 30% of investors believe they would be more likely to meet their goals if they stopped making emotional decisions, we see a convergence of three key factors:

- **Misperceptions, confusion and conflict** – From conflicting goals to mental accounting to emotional decisions, investors are challenged to find solid footing in today's markets.
- **Coming up short on the big goal** – Making these mistakes now could leave investors short of retirement funding goals at a time when a greater share of this responsibility lies on their shoulders.
- **A call for help** – Even as automated advice is touted as the industry's great disruptor, investors tell us they value personal relationships with financial providers.

Since our survey program began in 2011, investors have been on a rollercoaster of emotions. They experienced the second longest bull market in history and felt the sting of history's worst market start in 2016. What they want from financial providers is clear advice on what to do next.

SECTION ONE

Investors are misinformed, confused and conflicted.

Who can blame them?

Investors today have access to more information, more choices and more services than ever before. It's no wonder so many are confused. As participants and spectators in an investing culture that's built on a 24-hour news cycle, where short-term market performance is packaged in simple black and white terms, investors may be missing one critical asset: context.

Nowhere is the need for greater clarity more compelling than in regards to investors' views on passive investments. Given increased adoption of passive investments, we have followed this topic across our last three surveys, asking advisors, institutional decision makers and now individual investors for their views on the benefits of passive investments. What we found is a clear disconnect between what individuals believe to be the merits of passive investments and what investment professionals believe them to be.

"Investors appear to have a number of misconceptions about the value of passive investments.

Low fees perceived as broader advantages

Passive investments have gained greater attention in recent years because of their lower fees, and in a period in which markets had been steadily increasing, they have gained attention for their short-term performance gains. When asked for their views on the benefits of passive or index investments, a majority of individuals believe these vehicles have lower fees (62%), which is true. But they may be translating this fee advantage into greater investment benefits.

Investors appear to have a number of misconceptions about the value of passive investments: Six in ten say passive investments are less risky, the same number think they are better for minimizing losses and believe they offer better diversification, and more than half of investors claim that they offer access to the

INVESTORS GLOBALLY ARE CONFUSED ABOUT THE BENEFITS OF PASSIVE INVESTING

60%
believe index funds are less risky

60%
believe index funds can help them minimize losses

61%
believe index funds offer better diversification

55%
say index funds help them access the best investment opportunities

best investment opportunities. But views expressed by individuals in our 2016 survey conflict directly with those offered by investment professionals.

Institutional decision makers and financial advisors agree that passive strategies have a fee advantage, but they do not express the same confidence about other investment benefits in our most recent surveys. When it comes to pursuing better risk-adjusted returns and generating alpha, both groups give the nod to active management. They also give the advantage to active for taking advantage of short-term market movements, for accessing emerging market opportunities, for providing exposure to non-correlated asset classes, and for generating stable income.[1]

Missing the risk of index investments

What may be most troublesome is the view that passive strategies are less risky. In a new publication titled "What Is An Index?" Dr. Andrew Lo proposes an entirely new definition of an index. He observes that, because traditional market-cap weighted indexes are static benchmarks, they don't manage risk in any way. Dr. Lo, who is the Director of the Laboratory for Financial Engineering at the Massachusetts Institute of Technology, says that "under this new definition of what an index is, being passive with respect to investment alpha[2] doesn't have to mean that you're also passive about managing risk."

Investors should note that a lack of risk management is an important distinction for index investments that exist today. When markets gain, investors capture market returns, but when markets decline, investors also capture market losses.

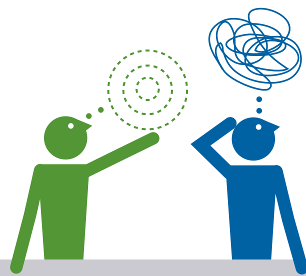
While investor demand for these lower-fee products may be strong, it is important that investors see the full picture of how they fit into a comprehensive portfolio strategy.

Conflicted between what they want and what they can take

Investors also need greater clarity about risk and its symbiotic relationship with investment returns. For the past five years, we have seen consistently that investors' return expectations are not aligned with their risk tolerances. When asked in 2016 what they will need to achieve their goals, investors around the globe said it will take returns of 9.5% above inflation, which translates into real returns approaching 12% to 13%. While this may be seen as an overly optimistic estimate by professional investors, more than six in ten investors surprisingly believe they can actually achieve their expected returns over the long term. Unfortunately, they may not be ready to take on the risk associated with pursuing such high levels of return.

1 Natixis Global Asset Management, Global Survey of Financial Advisors conducted by CoreData Research, July 2015. Survey included 2,400 financial advisors in 14 countries and territories. Natixis Global Asset Management, Global Survey of Institutional Investors conducted by CoreData Research, October 2015. Survey included 660 institutional investors in 29 countries.

2 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.



NO GOALS, NO PLANS

Although they're improving gradually, investors do not have clear financial goals or financial plans to help them reach their investment goals.

	2013	2014	2015	2016
No financial goals	58%	58%	57%	51%
No financial plans	70%	68%	67%	63%

Risk defined in absolute terms

From standard deviation to Sharpe Ratios to value at risk,[3] the asset management industry has developed a wide range of metrics for measuring investment risk. These can be valuable tools for informed investment professionals, but individual investors define risk in more concrete terms: Most frequently, investors define risk in terms of the permanent loss of capital (35%). In other cases, they cite underperforming the market (20%), failing to meet financial goals (16%), and exposing assets to market volatility (15%). Only 8% of the 7,100 investors we spoke with actually define risk in terms of missing out on potential investment returns.

These do not sound like the views of an investor who is likely to endure the potential volatility that comes hand-in-hand with the pursuit of double-digit returns. One reason for this significant conflict may be that large numbers of investors lack fundamental tools to help guide their investment decisions.

Guesstimating success

Despite it all, it would appear that based on their own estimation the investors we interviewed are surprisingly disciplined and lucky investors. Our study was fielded in February 2016, shortly after many individuals would traditionally receive their year-end statements. When asked how they fared in 2015, individuals told us on average that they generated a 5.8% return in 2015 – this despite high volatility and significant market losses worldwide. While these levels may be plausible in Europe, the average U.S. moderate risk portfolio analyzed by our Portfolio Clarity service[4] returned -0.92% compared to a return of 1.38% for the S&P 500 Index in 2015. Even in cases where investor estimates are accurate, expectations were not met and only 18% of respondents worldwide claim they were satisfied with their results.

HIGH RETURN EXPECTATIONS

On average, investors believe they need a real annual return of **9.5%** above inflation to achieve their investment goals. **64%** believe their return expectations are realistic.

3 Standard Deviation is a statistical measure that sheds light on historical volatility. Sharpe Ratio is a measure of risk-adjusted return, calculated by dividing an investment's excess return over a riskless asset (such as the 3-Month T-Bill) by its standard deviation of returns. The higher the Sharpe Ratio, the better the historical risk-adjusted performance. Value at Risk is the maximum dollar amount of loss not exceeded within a given probability and time frame.

4 Analysis compares Moderate Model Portfolios with a 60% S&P 500® / 40% Barclays U.S. Aggregate Bond Index benchmark. Portfolio data in this report is drawn from 1,937 portfolios submitted by financial advisors since 2012.

Similarly, given the extreme volatility at play in the markets in the first weeks of 2016, few investors report they made changes to their portfolios despite a 9% drop in the S&P 500 in the first three weeks of the year and a 5% decline for the month. Remarkably, the majority of investors we surveyed (54%) claimed they made no changes in their portfolios during this time, while 30% say they reduced equity holdings only slightly. Industry flow data suggests they may have acted differently.

In the U.S., for example, 60% of individuals report they did nothing during the January market downturn, yet Strategic Insights reports that investors actually pulled back more than $3b in U.S. equity fund investments in the month. Flow data globally paints a similar picture, with nearly $9b (USD) pulled from equity funds despite 54% of investors saying they did nothing.

“In the U.S., for example, 60% of individuals report they did nothing during the January market downturn, yet Strategic Insights reports that investors actually pulled back more than $3b in U.S. equity funds.

Without goals, there’s no foundation for decisions

Over the past five years we have seen that investors are not building a foundation that can serve as the basis for their investment decisions. Half of those we spoke with in 2016 say they have no have clear financial goals, and more than six in ten say they have no financial plans. As a result they may lack the grounding needed to make sound decisions. Adding to the challenge are the 56% of individuals who say they struggle to avoid emotional decisions when markets are volatile.

Regulators in some regions have taken steps to shore up this shortfall by requiring financial planning for investment clients. The U.K. was among the first to bring this to bear on behalf of investors. As part of Retail Distribution Review, which introduced greater transparency and fairness to the advice industry, financial plans are now an integral part of the investment process and could help to better position investors for long-term success.

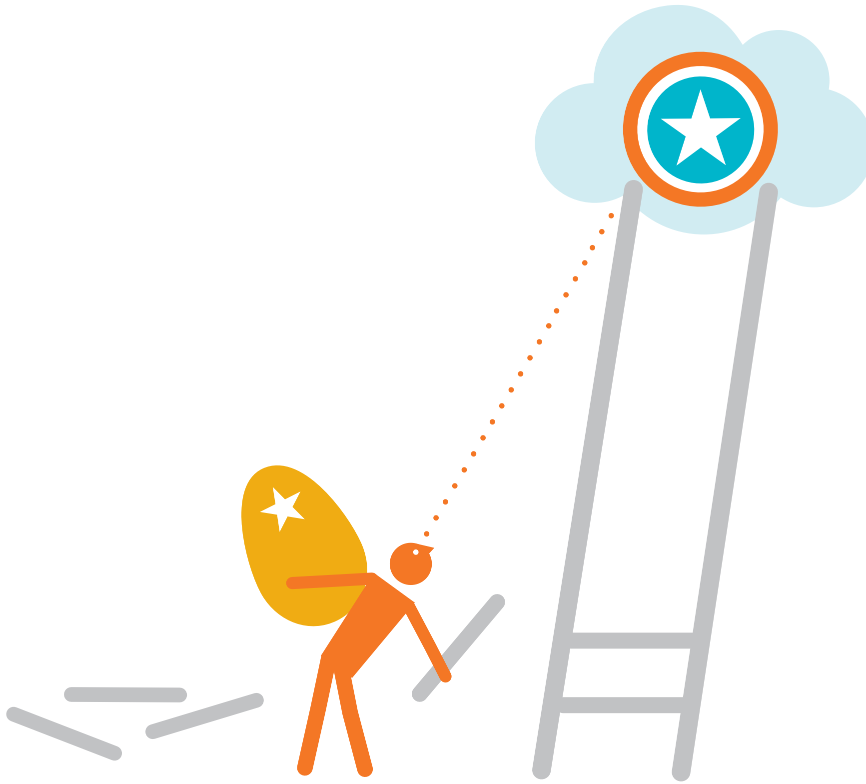
Too much on the line to rely on guesswork

No matter what the investment process, investors are not likely to reach the outcomes they want unless they get past short-term market noise and stay invested long enough to give the process a chance to work. And it will need to work if investors are to meet their number one financial priority – funding their retirement.

SECTION TWO

Retirement: an ill-defined and elusive goal

But investors want to change that

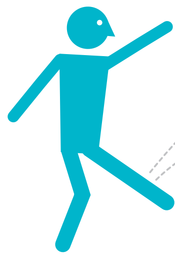


Retirement security in regions around the world has long been built on shared commitments from governments, employers and individuals. But changing demographics and economics are conspiring to undermine the stability of the three-legged stool that has been the foundation for income for millions of retirees worldwide. Investors may not be prepared to balance the added responsibility.

> “Changing demographics and economics are conspiring to undermine the stability of the three-legged stool that has been the foundation for income for millions of retirees.

Population growth and shrinking tax revenues have rendered traditional models for government benefits unsustainable, putting old-age benefits in question for many individuals. Growing lifespans have translated into longevity risk, challenging traditional employer pensions to meet liabilities that can span decades. In many cases, individuals are challenged to save while also meeting immediate financial needs presented by the high cost of living and financial pressures like mortgages, student loan debt and elder-care expenses.

COMING UP SHORT ON RETIREMENT INCOME NEEDS



Investors say they need to generate just 63.8% of their pre-retirement income in order to live comfortably in retirement.

Most experts believe that 75%-80% is a more accurate benchmark.

Individuals feel the weight of responsibility

The responsibility for funding retirement must be placed somewhere, and 77% of the individual investors we surveyed believe it lands squarely on their shoulders. What is most interesting is that this pressure is felt greatest in those countries where strong government pension systems, public health benefits, and well-developed and stable financial systems provide the greatest retirement security for individuals.

Switzerland, for example, has ranked number one or number two in the Natixis Global Retirement Index (which measures retirement security) over the past four years. Yet three-quarters of Swiss investors believe it is becoming more of their responsibility to fund retirement than the government's. In countries where that responsibility is met through mandated personal and workplace savings, the belief is even stronger, with investors in Chile (80%), Colombia (89%), Hong Kong (85%) and Singapore (83%) saying they feel the weight of this responsibility.

> "Regardless of their sentiments on funding retirement, investors may be underestimating just how much that responsibility adds up to.

Mixed emotions on retirement funding

Overall, investors have mixed emotions about their growing role in retirement funding. Globally, most say they are "resigned," as if to say, "Yes, we know it's our job and there's little we can do to change it." In the U.S., where the stability of Social Security funding is an ongoing concern, investors are split, with almost the same number saying they are resentful or angry (18%), unprepared (17%) or resigned/indifferent (17%). Yet in Australia, where superannuation defined contribution schemes that place shared responsibility on individuals and employers have been in place for close to 25 years, investors report being content (19%), empowered (19%) and optimistic (17%).

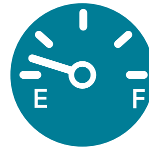
Coming up short on retirement estimates

Regardless of their sentiments on funding retirement, investors may be underestimating just how much that responsibility adds up to. On average, investors tell us they will need to generate just 63.8% of their pre-retirement income in order to live comfortably in retirement. This is well below the 75% to 80% that most experts believe to be an accurate benchmark. Setting the wrong goal at the outset may be a critical oversight, leaving investors exposed to the risk that they may come up short at a time when greater accuracy is needed.

INVESTORS IDENTIFY TOP THREATS TO THEIR FINANCIAL SECURITY IN RETIREMENT

1.
Long-term care costs and healthcare costs

2.
Not saving enough



3.
Outliving assets

If and when they come up short, investors tell us they will rely on three contingency plans. The largest number of investors (52%) plan to work after their retirement age to make up for any gap in retirement funding. A large number of investors (31%) see government programs as their backup plan, but questions remain as to the long-term viability of this option. Another 28% will look to their spouse or significant other for help.

What really worries investors about retirement is the potential cost of long-term care. Investors were more than twice as likely to cite this challenge as their next concern, not saving enough money. This, along with outliving assets and a shortfall in their government pension, all weigh equally on the minds of investors.

Retirement tools may not be used to maximum effect

As they take on a greater share of the responsibility, individuals around the globe recognize they will need to rely on multiple sources for retirement funding. For their part, investors see retirement plan savings (19%), investment income (14%) and the sale of a home or business (14%) as their primary contributions to the funding pot. After accounting for almost half of the total amount needed themselves, investors then see employer pensions (23%) and government programs (13%) as the next largest sources from which they can generate retirement income.

The good news for investors as they look to build retirement savings is that large numbers participate in a workplace savings program. A majority (62%) of those we surveyed say they participate in a company-sponsored retirement plan. However, this should be tempered by the fact that those selected for our survey have a minimum of $200,000 in investable assets, so it is not surprising that they have access to some form of workplace savings plan, as that can often be a significant source of personal wealth.

Naturally, we see the highest number of individuals participating in workplace savings plans in those countries where the pension system is built around these vehicles. This includes Colombia/Peru (87%), Chile (85%), Mexico (82%) and Hong Kong (76%). The lowest level of participation among our survey base comes where individuals still have access to more generous government benefits, including Italy (42%), Spain (43%) and Sweden (52%). One outlier among this population is Singapore, where the government's three-tier mandatory savings program emphasizes that individual contributions for retirement and workplace plans are not prevalent in the market.

TOP SOURCES OF RETIREMENT CONTRIBUTIONS

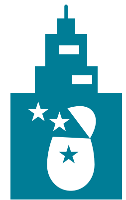
Individual

Retirement plan savings
19%

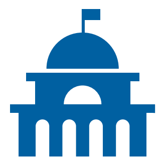
Investment income
14%

Sale of home or business
14%

Government/ Employer



Employer pension
23%



Government programs
13%

Savings rates lowest for U.K. and U.S. investors

On average, investors say they contribute 12.1% of income to retirement savings annually. We see higher savings rates in Taiwan (21.3%) and Singapore (15.9%). Those saving the least hail from the U.K. (9.2%) and the United States (9.9%). While these numbers look promising, it is important to note that this study covers higher net worth investors (49% report net investable assets of $500,000 and above) who are likely to have accumulated significant retirement assets and have higher levels of disposable income to be directed into savings plans. It would be wrong to extrapolate this data as a substitute for the total population, where studies have shown the savings rate to be woefully low. For example, our own survey of defined contribution plan participants shows a rate of just 2.39%.[5]

But even those who save 10% or more of income in retirement plans should be aware of a potential blind spot that is likely to be the result of poor financial planning. On average, investors believe they will need to generate 64% of pre-retirement income in retirement, a figure that is well below the 75% to 80% frequently cited by experts as a realistic estimate of retirement income needs. Financial professionals would do well to focus on this area in client relationships, and help investors to better quantify the amount they will need to accumulate in order to meet even the most conservative income goals.

Investors want to focus on goals

Even though only half of our respondents say that they have clear financial goals, and fewer still have a financial plan, that does not mean they do not want to have these foundations in place. Most investors (75%) tell us their investments are based on personal goals, even though only 49% of investors tell us they have clear financial goals. In addition, investors appear to have the right mindset for implementing more goals-based strategies.

In terms of setting expectations, three-quarters of investors tell us they are willing to set a goal that is independent of overall market returns. Virtually the same number also tell us they would be happy if they achieved their investment goals, even if they underperformed the market in a given year.

For many investors it could be said that their heart is in the right place if they are going to take a more goals-based approach. However, they will need to rationalize what this means for how they make investment decisions if their head is to lead them to a better strategy. This is where investors are specific about what they want from their financial providers.

INVESTORS' THOUGHTS ON INVESTING BASED ON PERSONAL GOALS AND BENCHMARKS

76%
would be happy if they achieved their investment goals even if they underperformed the market in a given year

75%
are willing to set a target return that is independent of overall market returns

72%
evaluate their investment performance against their personal goals

5 Natixis Global Asset Management, Survey of U.S. Defined Contribution Plan Participants conducted by CoreData Research, August 2015. Survey included 1,000 U.S. workers, 750 being plan participants and 250 being non-participants.

SECTION THREE

Professional advice is welcome

But new rules of engagement are being set

Renewed focus on the fiduciary role of financial intermediaries in Asia, Europe and the U.S. has many benefits for investors, such as ensuring these professionals are thinking of their best interests and making fees more transparent. But even as this relationship is being redefined, investors do not see themselves as passive participants in the investment process.

Investors across the world find great value in getting professional help. Nearly seven in ten say investors with advisors are more likely to reach their savings and retirement goals. From fundamental financial planning to investment strategies to more personalized service, individuals have much to say about their expectations for their financial providers.

> “Nearly seven in ten investors say that investors with advisors are more likely to reach their savings and retirement goals.

More than performance, investors want knowledge

When asked what influences their investment decisions, investors most frequently cite professional advice (39%) over online research (20%) and their own instincts (19%). In fact, 64% of investors worldwide say professional advice is worth the fee. But investors are also clear on what type of advice they want.

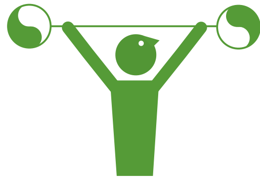
Investors tell us they want to become smarter and better informed about how investing and the markets work. Half of the investors we surveyed say enhancing their investment knowledge would better enable them to achieve their long-term goals. They see professionals as partners who can help them to attain this goal.

When asked to rank what they want most from a professional, investors most frequently say they want help making more informed decisions about their investments. They also want better solutions for managing risks, help setting goals and plans, proactive advice on what to do next and new online tools.

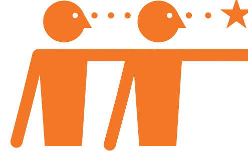
THE VALUE OF PROFESSIONAL ADVICE

What investors want most from financial professionals

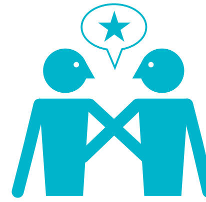
1.
Help making more informed decisions about investments



2.
Better solutions for managing risks



3.
Help setting goals and establishing plans



4.
Personalized advice in volatile and uncertain markets

5.
New online investing tools

"When it comes to delivering the type of personalized advice they desire, investors see the limitations of these lower-cost models.

Robos seen as cheaper, but missing key services

In recent years automated advice platforms, or robo-advisors, have been touted as the investment industry's great disruptor, but investors may have a different point of view. When asked about the advantages of automated advice, they see robo-advisors as a lower fee solution (56%) and give them credit for being more convenient (46%). Some say they may even offer better performance (31%).

But when it comes to delivering the type of personalized advice they desire, investors see the limitations of these lower-cost models: Investors tell us they want to make better-informed decisions, yet only 17% think automated advice platforms can provide value beyond performance such as education on investing and the markets. Investors say they want professionals to coach them through volatile times, yet few investors (16%) think robo-advisors can communicate on investment strategy. Ultimately it appears as though investors are looking solely at the cost advantage, knowing they would miss out on many of these benefits, as only 13% believe automated platforms provide better customer service.

Making an emotional breakthrough

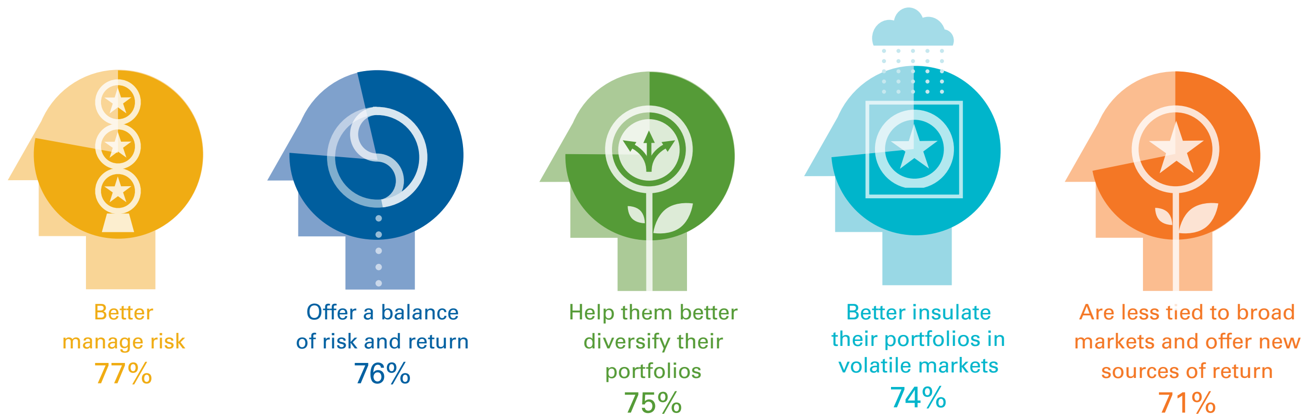
A majority of the investors we spoke with say they struggle to avoid emotional decisions when markets are volatile and they want help overcoming those fears. One in four investors say they want education that will help them become a better and more confident investor – a desire that is consistent regardless of age, affluence or whether the investor currently has a relationship with a financial advisor.

As much as individual investors feel that they need to know more about investing and need more education on the markets, they are not out of tune with what they want from their investments.

A FRESH MODEL FOR INVESTING

Two-thirds (67%) of investors worldwide do not believe that a traditional approach of equities and bonds within a portfolio allocation is the best way to pursue returns and manage investments.

Investors want new portfolio strategies that:



Portfolios, not products

Experience has taught investors that relying on traditional stock and bond investment models may no longer be enough. This is an opportunity for the financial industry to demonstrate real value. Rather than focusing on selling products on short-term performance, the industry would do well to deliver investments in the context of a portfolio designed to help investors meet long-term goals.

As we've seen in recent years, investors understand that current investment models need to change. In 2016, two-thirds of investors worldwide say they do not believe that a traditional stock and bond portfolio is the best way to pursue returns and manage investments. They are clear about how they want their financial provider to address this challenge.

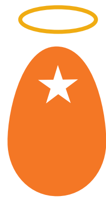
Three-quarters of investors say they need new portfolio strategies that can better manage risk. Considering that investors define risk as permanent loss of capital and not losing out on opportunity, financial providers would do well to emphasize their efforts to manage investment risk for their clients. They also want strategies that can provide a better balance of risk and return, better diversify their portfolio and better insulate them from volatility. Seven in ten also stress that they want strategies that are less tied to the broad market.

> “Three-quarters of investors say they need new portfolio strategies that can better manage risk.

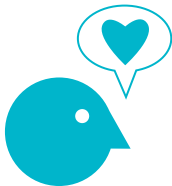
Alternatives are welcomed

To better address many of these objectives, the investment industry has introduced investors to alternative investments.[6] In the five years since we first conducted our global investor survey, we are seeing not only that financial professionals are discussing these strategies with clients, but that the message is better received.

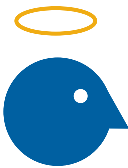
6 An alternative is an investment that is not one of the three traditional asset types (stocks, bonds and cash). Alternative investments include hedge funds, managed futures, real estate, commodities and derivatives contracts. Alternative investments involve specific risks that may be greater than those associated with traditional investments, and there is no assurance that any investment will meet its performance objectives or that losses will be avoided.



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

Whereas in 2014 we saw that 73% of professionals said they talked to clients about alternatives and only 46% of clients agreed[7], we now see that more than six in ten investors say they have had a conversation about these investments with their advisors.

This is an example where strengthening the knowledge of investors could potentially strengthen their portfolio. But we still find pockets of resistance. Fewer than half of high-net-worth (49%) and emerging high-net-worth (45%) investors say they invest in alternative strategies. Half of this population believes alternatives are too risky, despite the fact that many times alternatives may be implemented to better manage risk. A significant number of investors in this group (22%) also believe these strategies are too expensive. Innovations in liquid alternatives have helped dispel this notion, as many alternative strategies are now available in mutual fund pricing structures.

These same investors understand their own limitations, with nearly one-third stating that they do not know how alternative investments work. Financial professionals who address this learning opportunity may gain agreement with investors to incorporate alternative investments in a comprehensive portfolio strategy.

Investing in their beliefs

Another opportunity to deliver a better investment experience is to provide clients with solutions that address their personal needs and convictions. One area where investors are demonstrating clear preferences is investments that focus on environmental, social and governance issues (ESG).

The emissions scandal at Volkswagen that contributed to the $5.4 billion loss posted by the company in 2015, and a similar scandal recently uncovered at Mitsubishi, are prime examples of why many investors share this investment view. Their values may run deeper than negative screens traditionally deployed in this discipline. Nearly eight in ten investors globally say it's important to invest in ethically run companies. Three-quarters also say they want to invest in companies that reflect their personal values.

Investors have strong connections to these values: About seven in ten tell us that it's important to know their investment does social good and that the companies they are investing in have a positive social impact, and they believe that funding advancements in areas like healthcare and education is important. However, only 51% of investors say their advisor has spoken to them about ESG investing, providing an opportunity for advisors.

Integrating ESG strategies into client portfolios can be a clear example of how the industry can better align with investors and provide an offering that connects with their personal values and beliefs. Ultimately this is the type of relationship investors want from their financial providers.

7 Natixis Global Asset Management, Global Survey of Financial Advisors conducted by CoreData Research, June-July 2014. Survey included 1,800 financial advisors in 10 countries. Natixis Global Asset Management, Global Survey of Individual Investors conducted by CoreData Research, May 2014. Survey included 5,950 investors in 14 countries.

CONCLUSION

Investors want to come first

The investment industry must demonstrate its commitment

Investors in 2016 need help meeting critical challenges. They want to grow assets but are hesitant to take on risk. They hear about the benefits of investment products but may not see where they fit in their portfolio. They know they are faced with funding a greater share of retirement but may not understand how to meet this goal. What they do know is that they want help and believe financial professionals can make a difference.

On the surface, 70% of the 7,100 investors we spoke with globally believe the investment industry has a vested interest in helping them succeed, but only 50% believe the industry puts them first. We think it's time for every financial professional to demonstrate their commitment by ensuring each investor knows that they are the clear priority.

From asset managers to financial providers to intermediaries and advisors, every professional in the industry plays a role in helping investors live a better financial life. Living up to this weighty responsibility will mean taking a close look at the business itself and reevaluating practices that have been built up over decades. To deliver on its commitment to investors, the industry must address three critical areas.

“Living up to this weighty responsibility will mean taking a close look at the business itself and reevaluating practices that have been built up over decades.

Put risk first

There are few industries in which short-term performance is as deeply dissected and discussed as it is in the investment industry. But the performance debate may not address investors' real concerns. The individuals we surveyed tell us they are more concerned with safety than investment performance, and more concerned with meeting their goals than beating the benchmark. The industry needs to turn the conversation to these concerns.

> "When asked what they want from providers, investors' number one answer is "help with making more informed investment decisions.

Investors define risk in simple terms: permanent loss of capital. This is why risk needs to be the starting point for the investment process. The industry needs to do more to truly understand investors' risk tolerances, help them to better understand what the risks are in their investments, and make sure their expectations and goals are aligned with what level of risk they can tolerate.

Stop talking about products. Start talking about portfolios.

The investment discussion needs to take the focus off individual products and their performance. Instead, financial professionals need to discuss investments in the context of how they contribute to an integrated portfolio strategy designed to help investors meet their unique goals.

Too much time has been wasted on a debate about active versus passive investing. The real solution is active and passive, used to strategically benefit client portfolios. Getting there will require that asset managers are more forthcoming about what they can deliver and what they can't.

Investments that claim to provide active management must actually deliver it. If managers charge a fee for active management, they must deliver a truly active strategy to justify the expense. Investors who expect they will receive active management should never be surprised to learn their fund is actually a closet tracker. It does a disservice to both the individual and the industry at large.

Passive managers should also take note. They do offer investors a lower fee, but it does the investor a disservice to present them as a less risky investment that could protect them on the downside. In truth, they deliver equal exposure to market gains and market losses. Investors need to know what their assets are exposed to in every investment.

Concentrate on education and advice

When asked what they want from providers, investors' number one answer is "help with making more informed investment decisions." An initial step financial professionals can take is to put investors first and to help them help themselves. It's time for the industry to deliver lifetime education for clients.

It begins with the basics of financial planning. 71% of those we spoke with who do not have a financial advisor tell us they do not have a financial plan. This should be the fundamental tool from which all investment decisions are made. Many intermediaries already make this a primary step, but planning is not done for a point

in time; goals and risk tolerances change over time and plans may have to as well. Investments change, too, and investors should be brought along in the process with a clear explanation of both the form their investments take and the function they serve in their portfolios.

The process is not all that different from going to a physician for a health assessment. The industry must be concerned with the financial health of the individuals who entrust their futures with them.

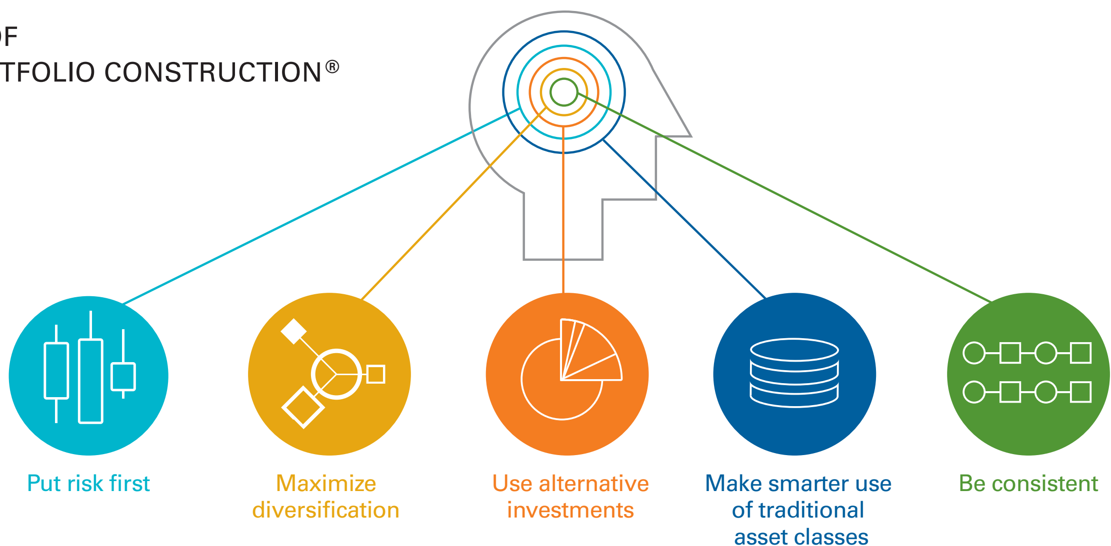
Getting the job

Investors are challenged by today's markets and need clarity. Their desire to be better, more informed investors must be met with education, advice and support from financial professionals. If the investment industry rises to the occasion, it can earn the trust and loyalty of clients for the long term.

A more durable approach

At Natixis we rely on Durable Portfolio Construction, our risk-minded investing approach to support investors' strategic goals with objective rigor. By providing deep data to aid in planning, interactive resources to analyze strategies, and thought leadership to inspire new approaches, it's about providing the tools, support and analytical rigor needed to help advisors build more intelligent portfolios.

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

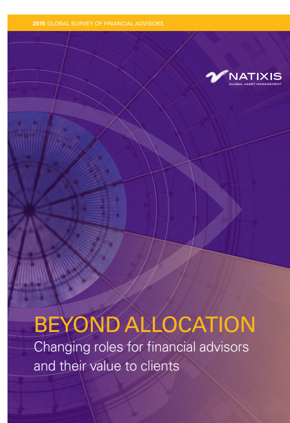
Investing can be complicated: Event risk is greater and more frequent. Volatility is persistent despite market gains. And investment products are more complex. These factors and others weigh on the psyche of investors and shape their attitudes and perceptions, which ultimately influence their investment 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.

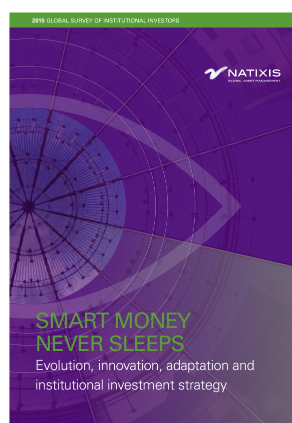
Research agenda

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 2,400 advisors in 14 countries and territories.
- 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 20 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

2014 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 2014. The study included 5,950 investors in 14 countries.

2014 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 2014. The survey was delivered through an online quantitative survey of approximately 40 questions. Globally, the study involved 1,800 financial advisors in ten countries and across four continents.

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.

2015 Global Survey of Institutional Investors – Natixis Global Asset Management commissioned CoreData Research to conduct a global study of institutional investors, with the aim of gaining insight as to how they are managing investments and meeting various challenges in today's world.

Interviews were conducted throughout October 2015. Globally, the study involved 660 decision makers working in institutional investment in 29 countries.

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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