2022 Fund Selector Outlook

Fund selectors look past Covid to bigger risks in 2022

2022 Fund Selector Outlook
Executive Overview

Rapid spread of the Omicron variant and subsequent frontline labor shortages, system-wide flight cancellations, and other delays demonstrate that as the pandemic enters a third year, Covid-19 still poses a significant threat to the global economy, but with inflation at a 40-year high and interest rates ready to rise, investors have more to worry about in the year ahead.

When it comes down to it, how they respond to three key themes will determine their success in 2022:

- Interest rate hikes, supply chain disruptions, and variants add up to uncertain macro landscape and selectors say the global economy is not likely to fully recover from Covid in 2022.
- Inflation, valuations, and volatility add to a growing list of portfolio risks facing selectors as they look to manage investments and client emotions.
- Model Portfolios, Private Assets, and ESG (Environmental, Social, and Governance) Strategies present key points of differentiation in efforts to manage client assets and bring new clients into the fold.

About the report

Natixis Investment Managers, Global Survey of Fund Selectors conducted by CoreData Research in November and December 2021. Survey included 436 respondents in 25 countries throughout North America, Latin America, the United Kingdom, Continental Europe, Asia and the Middle East.

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What will make headlines in 2022?

Covid-19 variants disrupt the return to normal	✓	**Life will revert to how things were before the pandemic**
Global economy fully recovers from Covid-19	✓	**Global economy cannot escape consequences of Covid-19**
Reopening trade outperforms ✓		Stay-at-home trade outperforms
Big tech is broken up	✓	**Big tech continues to grow unabated**
Large caps outperform	✓	**Small caps outperform**
Value stocks outperform ✓		Growth stocks outperform
Developed markets	≈	**Emerging markets**
ESG outperforms	≈	**ESG underperforms**
Defensive portfolios outperform	≈	**Aggressive portfolios outperform**
Active investments outperform ✓		Passive investments outperform

✓ = Headline predictions for 2022

≈ = Headline predictions too close to call

1. 2022 Economic Outlook

Supply chain disruptions, central bank policy and Covid variants pose threats to growth

- The pandemic continues to cast a long shadow as fund selectors see mounting risks in the macro headlines.
- Supply chain disruptions (51%) pose the top threat as shortages in everything from shipping containers to microprocessors to pet food linger.
- Two-thirds believe disruptions will continue into 2023.
- 45% of selectors rank less supportive central bank policy among their top economic concerns.
- 59% believe the global economy cannot escape the consequences of Covid in 2022.

Top 5 economic threats for 2022

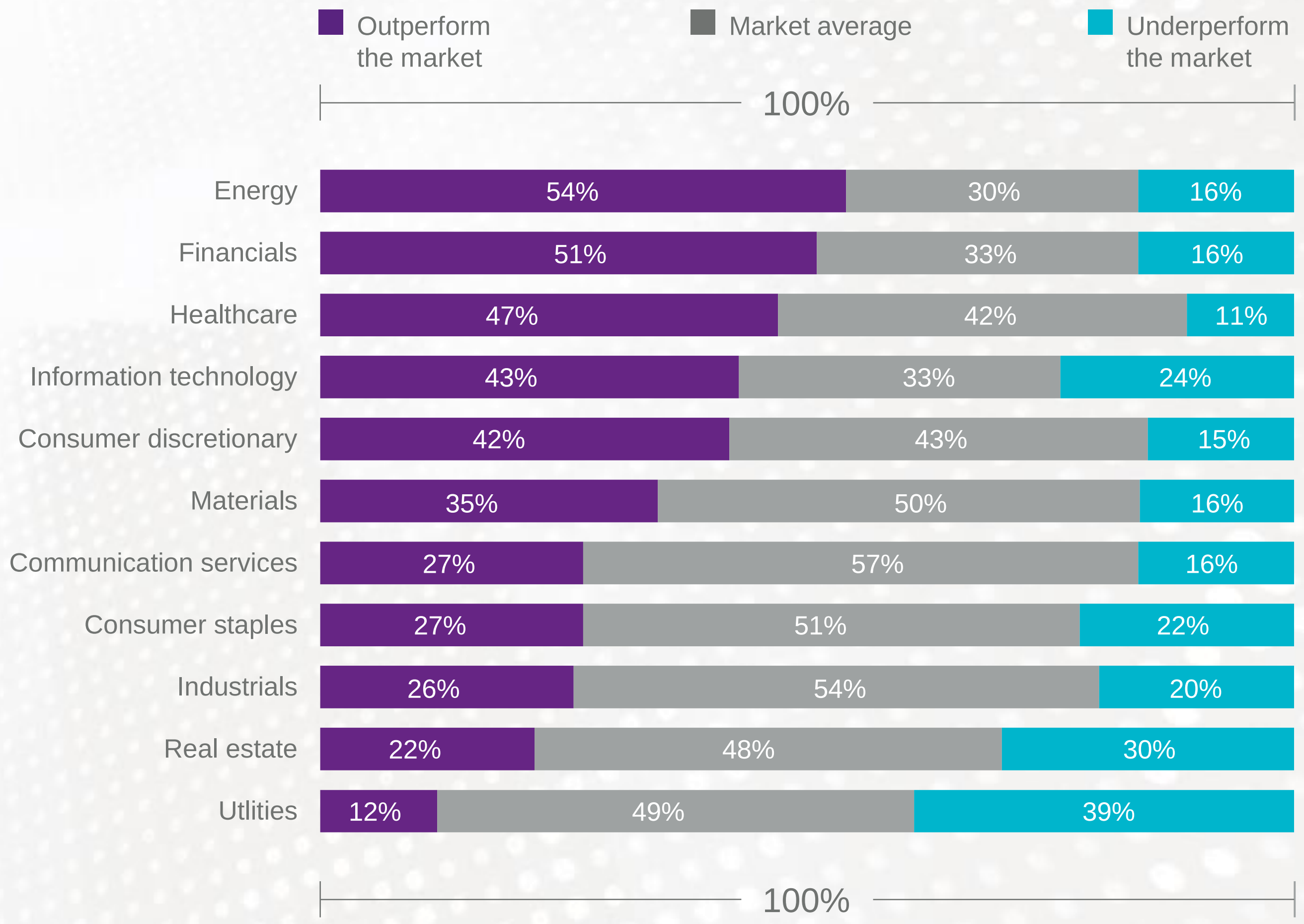
Supply chain disruptions	Less supportive central bank policy	Covid variants	US/China relations	Economic growth
51%	45%	40%	39%	24%

1. 2022 Economic Outlook

Energy tops sector calls

- Energy (54%) tops the list of potential outperformers.
  - A long-term view suggests energy will benefit as the economy picks up and demand increases.
- Commitment to the reopening trade comes across loud and clear in sector calls for 2022.
- Interest rate hikes may factor into thinking on financials with 51% projecting outperformance.
- 47% project outperformance in healthcare.
- 43% anticipate outperformance in tech.
  - Yet, one-third (35%) may project breakup for big tech.
  - 65% think growth for the sector will be unabated in 2022.

2022 calls reflect reopening trend



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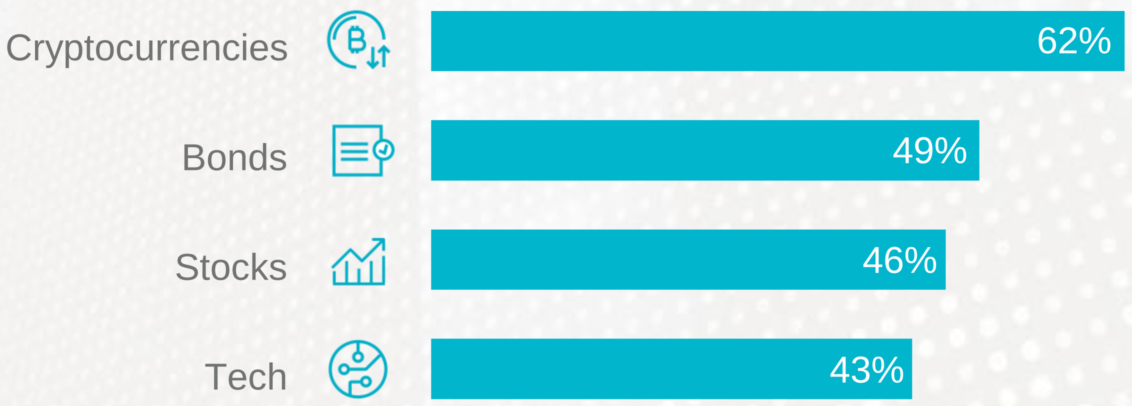
1. 2022 Economic Outlook

Markets are due for a correction

- 62% predict a correction for cryptocurrencies.
  - Even with risks, clients may be paying more attention to return potential and 36% say clients are demanding a crypto offering.
  - Three in ten selectors think investors should have some crypto exposure in their portfolios.
  - 82% say crypto will need to be more transparent before their firm can offer investment.
  - 65% think firms will need more education before they can start to invest in crypto.
- 49% project a correction in bonds.
- 46% sense a potential correction for stocks.
- Tech near the top of the market for the better part of a decade, 43% worry the trend has run its course and the sector will experience a correction.

Which markets may be ripe for a correction?



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2. Portfolio Strategy for 2022

Rates, inflation, and valuations top risk concerns

- Fund selectors anticipate no dramatic shifts in allocation strategy.
- They will rely on tactical calls within individual asset classes to balance the risk/return potential of portfolios.

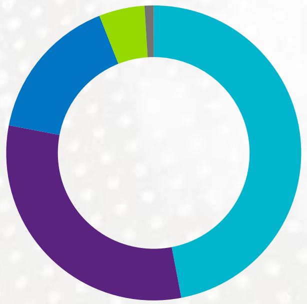
Portfolio allocations show few shifts for 2022

Fund selectors are holding steady for moderate risk portfolios

2021

47%	Equities
33%	Fixed income
14%	Alternatives
5%	Cash
1%	Other

2022



47%	Equities
31%	Fixed income
16%	Alternatives
5%	Cash
1%	Other

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2. Portfolio Strategy for 2022

Rates, inflation, and valuations top risk concerns

- Interest rates (70%) would top their list of portfolio risks.
- Inflation (68%) ranks almost as high on the list.

Top 5 portfolio risks for 2022

Interest rates
70%

Inflation
68%

Valuations
48%

Volatility
47%

Liquidity
16%

2. Portfolio Strategy for 2022

Equity valuations do not reflect fundamentals

- 84% of fund selectors believe that low rates have distorted valuations.
- Two-thirds of selectors are concerned that current valuations do not reflect the fundamentals.
- One in five fund selectors globally say valuations no longer matter.
- Two-thirds say current equity market growth is unsustainable.
- 60% are concerned that the bull market will come to an end when bankers stop printing money.

Equities	Increase	No Change	Decrease
US equities	28%	41%	31%
European equities	40%	46%	15%
Asia-Pacific equities	39%	46%	15%
Emerging market equities	39%	39%	21%

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2. Portfolio Strategy for 2022

Selectors shift focus from interest rates to credit

- 87% say fixed income strategy will be important to counter duration risk.
- 70% report their firms are recommending alternative investments as yield replacements.
- Selectors are willing to trade rate risk for credit risk and will increase allocations to investment grade and high yield corporates and emerging market debt holdings.

Fixed Income	Increase	No Change	Decrease
Government-related (Sovereign debt, Treasury, etc.)	16%	46%	39%
Securitized debt (Mortgage-backed Bonds, etc.)	19%	62%	19%
Investment grade corporate debt	28%	50%	23%
High yield corporate debt	32%	44%	24%
Emerging market debt	26%	48%	26%
Green bonds	50%	42%	8%

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2. Portfolio Strategy for 2022

Alternative investments present enhanced yield potential

- The search for yield also has selectors turning to alternative investments.
- Selectors plan to maintain or increase allocations to infrastructure (47%/45%).
- Many are looking to alternative allocations to help navigate a more uncertain market scenario with absolute return strategies.
    - 53% will maintain their allocations and another 39% will increase.

Alternatives	Increase	No Change	Decrease
Real estate/REITs	▲ 30%	— 57%	▼ 13%
Absolute return strategies	▲ 39%	— 53%	▼ 7%
Private equity	▲ 45%	— 47%	▼ 8%
Private debt	▲ 35%	— 55%	▼ 10%
Commodities	▲ 26%	— 59%	▼ 15%
Gold/precious metals	▲ 24%	— 59%	▼ 17%
Infrastructure	▲ 45%	— 47%	▼ 8%
Other	▲ 14%	— 86%	▼ 0%
Cryptocurrency	▲ 32%	— 57%	▼ 12%
Cash	▲ 14%	— 70%	▼ 16%

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3. Investment Solutions

Model portfolios for a more consistent investor experience

- 80% of respondents globally report their firm has some form of model portfolio offering.
- 82% say model portfolios provide a more consistent investment experience.
- 69% say models provide an extra level of due diligence.
- 85% say models provide a streamlined investment approach.

The case for model portfolios

85%
say they’re a more efficient way of implementing unified managed accounts

85%
believe they offer a more streamlined approach

82%
find they give clients a more consistent investment experience

3. Investment Solutions

Firms increase third-party model portfolios

- More than one-third see their firm expanding third-party offerings in 2022.
- Two-thirds say models make it easier to implement ESG across client portfolios.
- 74% find that models offer a lower cost option.
- Three-quarters of selectors say model portfolio programs help manage firm risk exposure.

Where will fund selectors add to model offerings in the next 12–24 months?

3. Investment Solutions

Selectors see significant delta in private asset returns

- Two-thirds of selectors see a significant delta in private asset returns.
- 49% of selectors say their firm is offering more private investments in response to client interest.
- 25% are looking explicitly for impact investments in private markets.

Private deal focus for 2022

ESG	Co-investment	Direct deals	Impact investments	Secondaries
45%	28%	27%	25%	25%

3. Investment Solutions

Six in ten to add to ESG offerings

- 64% of selectors say they plan to add to their ESG offering over the next 24 months.
- Seven out of ten say ESG is integral to sound investing.
- 63% go so far as to say there is alpha to be found in ESG.
- Seven in ten of those surveyed say standardization will make it easier to evaluate ESG investments.

How fund selectors implement ESG strategy

ESG integration	Thematic investing	Exclusionary screening	Best-in-class selection	Impact investing	Active ownership
57%	53%	48%	43%	43%	35%

Working past a wall of worry

Fund selectors may not see Covid as the greatest threat to economic growth in 2022, but the pandemic still raises many questions. Since the first signs of contagion, Covid has upended global supply chains, driven inflation to a 40-year high, and pushed interest rates to unsustainable lows. Yet fund selectors consider the reopening trade to be the best bet for the year ahead. The challenge comes down to how well they deliver on portfolio solutions.

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