NATIXIS GLOBAL ASSET MANAGEMENT
INSTITUTIONAL INVESTOR SURVEY HIGHLIGHTS – GERMANY-SWITZERLAND

The survey of institutional investors in Germany and Switzerland by Natixis Global Asset Management (NGAM), one of the 15 largest asset managers in the world based on assets under management[1], was released on September 25, 2012 by NGAM's Durable Portfolio Construction Research Center. The telephone survey of 30 institutional investors in each country was conducted by OnResearch in June-July, 2012. Institutional investors surveyed manage or oversee corporate pensions, public/government pensions, fund of funds, sovereign wealth funds, insurance reserves/liabilities, and/or endowments/foundations. The median asset level managed by the survey respondents in Germany was approximately €50 billion and in Switzerland was approximately Fr. 5.5 billion. The survey conducted in Germany and Switzerland is part of a larger global study of 482 institutional investors in 13 countries in Asia Europe and the Middle East, as well as the U.K. and the U.S. A copy of the global survey highlights is available at (www.ngam.natixis.com/pressroom).

Asset Allocation

- Institutional investors in Germany and Switzerland report they hold a higher allocation of lower-volatility assets in their portfolios. Half of their assets are in bonds **(26%)** and cash **(24%)**, compared to traditional assets with a higher volatility such as equities **(23%),** real assets such as inflation bonds, commodities and real estate **(13%)** or alternative assets such as hedge funds, private equity and venture capital **(10%).** (Q17)
- Nearly nine in 10 **(87%)** feel confident that their institutions' current asset allocation mix will allow them to generate positive returns in volatile markets.(Q18)

Difficulties/Risks Associated with Achieving Investment Objectives

- More than half (**53%)** of the institutional investors surveyed in Germany and Switzerland said that one of their organization's top investment objectives is to grow capital over the long term, followed by preserving capital **(33%)** and avoiding investment losses **(33%)**. (Q16)
- Achieving the highest annualized return, net of fees, was the goal of only slightly more than one in four investors **(28%)**, as were generating predictable current income **(27%)** and smooth volatility in investment returns **(25%)**. (Q16)
- Nearly nine in 10 **(88%)** institutional investors in Germany and Switzerland say it is "difficult" or "extremely difficult" to meet total return objectives, mitigate the impacts of market volatility **(85%)**, accommodate draw-downs but keep their portfolios growing to meet liquidity needs **(82%)** or manage tail risk **(80%)**. (Q21)
- Among the areas in which investors had fewer difficulties were adhering to asset allocation targets during periods of market volatility (77**%)**, constructing portfolios to reduce correlations among assets **(70%)** and constructing portfolios to protect principal in down markets (**70%**). (Q21)
- The areas in which investors indicated the *least* difficulty include achieving balanced diversification across asset classes **(57%)** and constructing portfolios to take advantage of market upswings **(60%)**. (Q21)

- More than four in 10 **(42%)** say that they consider global fiscal imbalances to be the top risk they face to achieving investment objectives (with 17% ranking it as the No.1 risk, 12% ranking it No.2 and 13% ranking it No.3). (Q24)
- Other frequently cited risks include changes in tax policies or laws and regulations (**34%)**, sudden changes in the value of currencies **(29%)**, global equity market risk **(28%)** and geopolitical risk **(28%)**. (Q24)

Threats to Achieving Objectives

- According to **20%** of Germany and Switzerland's institutional investors, the No. 1 worry that keeps them awake at night is regulatory uncertainty, followed by contagion resulting from the European debt crisis **(15%)**; missing out on investment growth opportunities **(12%)**; and unrealistic performance expectations by the organization and beneficiaries. **(10%).** (Q23)
- Others say that the top worries that lead to sleepless nights are underperformance that threatens the core mission/growth of the organization (**10%**); discovering unexpected sources of risk in the portfolio **(8%)**; and inability to react quickly to volatile market conditions **(7%)**. (Q23)

Success in Achieving Objectives

- Four in 10 **(40%)** grade their institution's level of success in funding long-term liabilities as being above the average, compared to only **13%** who say the success rate of their institution is below-average. (Q32)
- Thirty-seven percent say their institution's level of success in sticking to a disciplined risk budgeting process is above the average, with just **13%** rating their institution's success as below average. (Q32)
- One-third **(33%)** say their institution's performance is above the average when it comes to aligning investment strategy with desire liquidity, cash flows and spending levels compared to only **12%** who rate their performance as below the average. (Q32)
- The areas in which investors say their institutions have been least successful include creating portfolios that reduce correction among assets (**18%** saying they are above the average); separating sources of return (core beta and satellite alpha) in portfolio construction **(22%)**; and constructing portfolios to take advantage of market upswings **(22%)**. (Q32)

Managing Risk Since the Global Financial Crisis Began in 2008

- Nearly nine in 10 **(87%)** agree that volatility, like a crisis, provides investment opportunities. More than three in four also agree that achieving their investment objective is more important than beating a benchmark **(78%)**, market volatility is the new normal for investors **(78%)** and reducing risk means accepting lower returns **(75%)**. (Q20)
- Majorities agree that historical market data demonstrating that longer holding periods decrease the likelihood of a negative annualized return are no longer valid **(58%)** and the best way to temper market volatility is to increase allocations to non-correlated assets **(55%)**. (Q20)
- Nearly three in four **(73%)** say that managing portfolio risk is more important than managing market volatility, with nearly as many **(72%)** saying that managing market volatility is more difficult to manage than portfolio risk. Only one in three **(32%)** say that they cannot effectively manage risk in their portfolio because of unpredictable market volatility. (Q20)

- Half **(50%)** of Germany and Switzerland's institutional investors agree that it is impossible to gauge whether a macro event is a long-term trend or a missed buying/selling opportunity, but only **43%** say that the greatest risk is the chance of missing an investment opportunity. (Q20)

How Institutional Investors Are Managing Risk

- Seven in 10 **(70%)** say that their institution has changed its risk management approach compared to the approach it was taking five years ago (Q31) and nearly as many **(67%)** feel more confident today than five years ago that their risk management approach today is the right one for today's volatile markets. (Q33)
- According to **90%** of Germany and Switzerland's institutional investors, one of the most effective ways to manage portfolio risk is to increase the use of liquid (more unconstrained) alternatives such as macro or long-short equity strategies. (Q37)
- Other effective means of portfolio risk management include increasing assets to non-correlated assets **(82%),** the use of risk budgeting (**82%**), increasing allocations to fixed income **(78%),** the use of currency hedging (**78%**), and increasing allocations to global equities **(70%)**. (Q37)
- Six in 10 **(62%)** say that institutional investors need to replace traditional diversification and portfolio construction techniques with new approaches to achieve results. (Q27)
- Seven in 10 **(70%)** say that it is essential to invest in alternatives in order to diversify portfolio risk and nearly as many **(67%)** believe it is essential to invest in alternatives in order to outperform the broad market. (Q27)
- A majority **(58%)** say that locking into a "long-only" strategy is not in the best interest of their portfolio, the same number **(58%)** says that the alternative strategies they are investing in will outperform last year's returns, and **43%** agree that traditional assets are too highly correlated to provide distinctive sources of return. **(Q27)**
- Only one-third **(33%)** rate their institution's capabilities at identifying aggregate portfolio risk across asset classes as above the average (**52%** said average). (Q22)
- Fewer than one in three **(27%)** say their risk tolerance level today is higher than it was five years ago (**38%** say it is lower and **35%** say it is the same). (Q30)
- A two-thirds majority **(68%)** say that asset management firms are a valuable source for ideas and insight on managing risk. (Q27)
- Investors say their institutions monitor a risk budget to keep overall portfolio risk in check on a daily basis **(27%)** or weekly/monthly basis **(48%).** (Q36)
- More than half **(56%)** of Germany and Switzerland's institutional investors consider which investments are specifically designed to produce a low correlation to the broader markets on a regular basis (weekly or monthly); **10%** do so on a daily basis. (Q36)
- Twenty percent report examining short-term asset class correlations to global stock indices on a daily basis; **13%** consider which investments carry the greatest protection against a tail risk event on a daily basis. (Q36)

Strengths of Germany and Switzerland's Institutional Investors

- When asked to rate their institution's capabilities, nearly half **(47%)** of German and Swiss institutional investors rate their institution's ability to construct portfolios that generate strong diversification across asset classes as above the average, **35%** say their organization has above-average capabilities in constructing portfolios that deliver strong risk-adjusted performance and **33%** say their institutions are above the average in identifying aggregate portfolio risk across asset classes. (Q22)

- Nearly four in 10 **(38%)** say they are above the average in constructing portfolios that protect principal and achieve growth and one in four **(25%)** report their institution has above-average ability to identify and track risk across multiple asset managers. (Q22)
- One-third **(33%)** say their organization's ability to construct portfolios that generate positive returns regardless of market conditions as above the average, and **28%** rate their institution's capabilities to remove the "guesswork" in managing risk during periods of volatility as above the average. (Q22)
- Just **15%** report their institution has above-average ability to identify when assets grow too correlated to the broader markets as above the average. (Q22)

Influence of Global Economic and Political Issues on Investment Decisions

- The top three economic issues cited as having a "significant" influence on investment decisions are the European financial crisis **(58%);** economic growth **(48%);** and central bank/monetary policies **(43%).** (Q25)
- Among the issues that trail behind in significance are government debt levels (**42%)**; consumer confidence **(38%)**; inflation/deflation **(32%)**; unemployment **(27%);** trends in the value of real estate **(25%)** and international trade **(18%)**.(Q25)

Market Volatility

- More than one in three **(35%)** predict that the single most significant source of market volatility over the next two years could be contagion from the European debt crisis, with **72%** ranking it among the top three causes of market volatility. An uneven global economic recovery **(22%)** and speculative trading/market manipulation **(12%)** are the next two most commonly cited potential sources of volatility. (Q26)
- Political/regulatory gridlock in responding to sovereign debt levels **(8%)**; a hard landing for the Chinese economy **(7%)**; and shifts in political power/party **(6%)** trail as sources of volatility. Tightening monetary policy **(3%)** is at the back of the pack as a perceived source of possible volatility, together with escalating tensions between Iran and Israel and rising energy prices. (Q26)
- Four in five **(80%)** say they assess the volatility of an asset or security before considering its potential return, either on a daily **(22%)** or a weekly or monthly basis **(58%)**. (Q36)
- Nearly eight in 10 (**78%)** find that market volatility is the new normal for investors and **72%** agree that managing market volatility is more difficult than managing market risk. (Q20)
- Nearly nine in 10 **(87%)** agree that volatility, like a crisis, provides investment opportunities. (Q20)
- Just over half **(55%)** of institutional investors in Germany and Switzerland say the best way to temper market volatility is to increase allocations to non-correlated assets. (Q20)

Achieving Portfolio Construction & Management Goals

- Nine in 10 **(92%)** percent expect generating positive returns regardless of market conditions will be difficult during the next 12 months, with **25%** of those expecting it to be "extremely" difficult. (Q35)
- Similarly, **(88%)** of Germany and Switzerland's institutional investors predict it will be difficult to grow assets without taking on too much risk in the coming year, including **33%** who say it will be "extremely" difficult to do so. (Q35)
- Among other views of the coming year:

- **90%** say it will be difficult or extremely difficult to dynamically allocate assets across different market scenarios including deflation, inflation, recession and economic growth
- **87%** say it will be difficult or extremely difficult to both protect investment principal and grow assets
- **82%** say it will be difficult or extremely difficult to perform well in a negative real interest rate environment
- **80%** say it will be difficult or extremely difficult to meet expectations for income

Effectiveness of Investment Strategies

- More than four in 10 **(43%)** German and Swiss institutional investors say that traditional assets are too highly correlated to provide distinctive sources of return. (Q27)
- Nearly three in five **(58%)** say that the alternative strategies they are investing in will outperform last year's returns. (Q27)
- Six in 10 **(62%)** agree that institutional investors need to replace traditional diversification and portfolio construction techniques with new approaches to achieve results. (Q27)
- Nearly as many **(58%)** agree that locking into a long-only strategy is *not* in the best interest of their portfolio. (Q27)
- The majority **(60%)** agree that there are very few tools available to adequately remove the "guesswork" associated with managing investments in today's markets. (Q27)
- Three in four **(78%)** confirm that achieving their investment objective is more important than outperforming a benchmark**.** (Q20)

Alternative Investments

- A majority **(70%)** of Germany and Switzerland's institutional investors believe it is essential to invest in alternative strategies investments to diversify portfolio risk, and **67%** agree it is essential to invest in alternatives to outperform the broader markets. (Q27)
- Three-quarters (75%) of the survey respondents invest in alternative strategies, with two-thirds (**65%)** of those stating they have done so for five years or longer and **36%** reporting they have invested in alternatives for eight years or more. (Q38)
- Eight in 10 **(80%)** have been pleased with the performance of their alternative investments with 18% describing themselves as being "extremely pleased" and 62% as "pleased." One in five (**20%)** said they were disappointed. (Q39)
- Six in 10 **(58%)** expect that the alternative strategies they are investing in will outperform last year's returns. (Q27)
- One in 10 **(10%)** German and Swiss institutional investors would have increased their allocation to alternatives if they had to do it all over again; **65%** would keep their allocation the same and **25%** would have decreased it. (Q41)
- Two in 10 **(21%)** of all German and Swiss institutional investors surveyed say using absolute return strategies is one of the three highest investment priorities of their organization in the next 12 months, with **26%** saying that increasing their allocation to alternative/non-correlated assets is among their top three priorities. (Q34)
- Just four in 10 **(40%)** institutional investors in Germany and Switzerland say they prefer to invest in alternative investments that are *only* accessible to other institutional investors. (Q27)

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Alternative Asset Allocation Strategy Performance

- Nineteen percent say that emerging market debt is performing below their target, while **37%** say it is performing above their target, the best performance-to-expectations of any alternative investment product type. (Q40)
- More than one-third **(34%)** of Germany and Switzerland's institutional investors report that real estate is performing below their target; **5%** say it is performing above their target. (Q40)
- One-third **(33%)** say socially responsible investing is below their target, while only **15%** say it is above their target. (Q40)
- One in four **(26%)** report that hedge funds of funds are performing below their target, while **71%** say they are performing on target and just **3%** say they are performing above their target. (Q40)
- Sixteen percent of German and Swiss institutional investors report that global macro funds are performing below their target, while **18%** say performance is above their target. (Q40)
- More than one-quarter **(29%)** report venture capital is performing below their target and **5%** say performance is above their target.(Q40)
- Similarly, **29%** say that commodities are performing below their target, while **13%** say they are performing above their target. (Q40)

Global Regulatory Reform

- More than four in five **(83%)** agree that Europe's AIFMD is too broad in scope and will impose regulations on alternative fund managers not designed for the businesses or the risks they take. (Q29)
- A clear majority (**82%)** say the most significant unintended consequence of global financial reform will be less, not more, transparency, correlated asset exposures, counterparty risks, etc. (Q29)
- Nearly eight in 10 **(78%)** institutional investors in Germany and Switzerland agree that the staggered pace of implementing financial reform globally is creating more, not less, systemic risk. (Q29)
- Seven in 10 **(72%)** agree that mark-to-market regulatory requirements prevent investors from being able to capitalize on market opportunities. (Q29)
- Two-thirds (**68%)** agree that increased regulation will force investment companies to locate or increase their presence in less-regulated emerging financial centers such as Dubai. (Q29)

Challenges Managing Investments in 2012

- The domino effect of the European financial crisis and related uncertainty was selected by **31%** of Germany and Switzerland's institutional investors as the biggest challenge to managing investments this year. (Q42)
- Global instability (political and economic) was selected by **20%**, followed by changes in tax policies or regulation laws and government spending (**17%**) and market volatility (**17%**). (Q42)
- Just **4%** selected their national economic environment and only **2%** each chose either managing asset correlation/asset diversification or managing client expectation regarding economic uncertainty as the biggest challenge to managing investments this year. (Q42)

Investment Priorities in the Coming Year

- The top investment priority in the next 12 months for Germany and Switzerland's institutional investors is to use strategies that limit exposure to market volatility (**14%** ranked it No.1). (Q34)
- Tied at **10%** each were paying more attention to actual, rather than average, measures of risk; increasing the allocation to alternative/non-correlated assets and increasing holdings of "safe" cash-like investments. (Q34)

About Natixis Global Asset Management, S.A.

Natixis Global Asset Management, S.A. is one of the 15 largest asset managers in the world based on assets under management[1]. Its affiliated asset management companies provide investment products that seek to enhance and protect the wealth and retirement assets of both institutional and individual investor clients. Its proprietary distribution network helps package and deliver its affiliates' products around the world. Natixis Global Asset Management, S.A. brings together the expertise of multiple specialized investment managers based in Europe, the United States and Asia to offer a wide spectrum of equity, fixed-income and alternative investment strategies.

Headquartered in Paris and Boston, Natixis Global Asset Management, S.A. has assets under management totaling $711 billion (€560 billion) as of June 30, 2012[2]. Natixis Global Asset Management, S.A. is part of Natixis. Listed on the Paris Stock Exchange, Natixis is a subsidiary of BPCE, the second-largest banking group in France. Natixis Global Asset Management, S.A.'s affiliated investment management firms and distribution and service groups include: Absolute Asia Asset Management; AEW Capital Management; AEW Europe; AlphaSimplex Group; Aurora Investment Management; Capital Growth Management; Caspian Private Equity; Darius Capital Partners; Gateway Investment Advisers; H2O Asset Management; Hansberger Global Investors; Harris Associates; IDFC Asset Management Company; Loomis, Sayles & Company; Natixis Asset Management; Natixis Multimanager; Ossiam; Reich & Tang Asset Management; Snyder Capital Management; and Vaughan Nelson Investment Management.

Natixis Global Asset Management, S.A. also includes business development units located across the globe, including NGAM S.A., Zweigniederlassung Deutschland, a branch of NGAM S.A. which is authorised and regulated by the Commission de Surveillance du Secteur Financier.

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1 Cerulli Quantitative Update: Global Markets 2012 ranked Natixis Global Asset Management, S.A. as the 13th largest asset manager in the world based on assets under management as of December 31, 2011.
2 Assets under management (AUM) may include assets for which non-regulatory AUM services are provided. Non-regulatory AUM includes assets which do not fall within the SEC's definition of 'regulatory AUM' in Form ADV, Part 1.

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