

PORTFOLIO ANALYSIS & CONSULTING

Five Institutional Investment Trends – Midyear 2023

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Natixis Investment Managers Solutions portfolio consultants monitor asset classes, investment products and market activity both in real time and from a historical perspective. Compelling institutional trends are summarized below.

#1 Returns Recover, Dispersion Narrows

Performance recovered in Q4 2022 and Q1 2023, with nearly all institutional investment programs posting positive quarterly returns. With less dispersion between asset class returns, the difference between top and bottom quartile returns was largely tighter as well.

BUILDING BETTER PORTFOLIOS

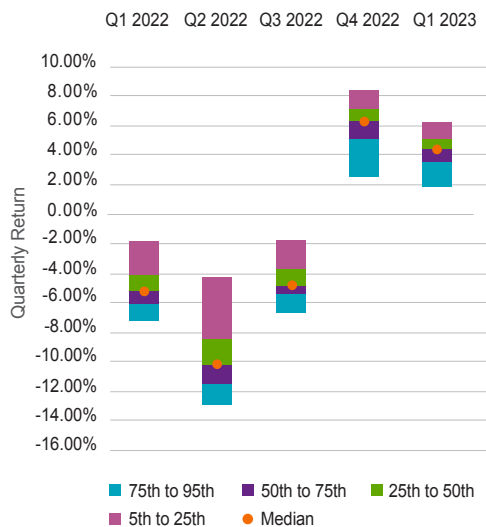
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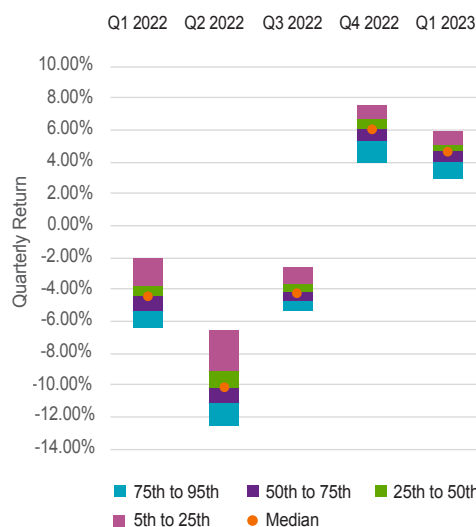
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E&F Performance by Percentile



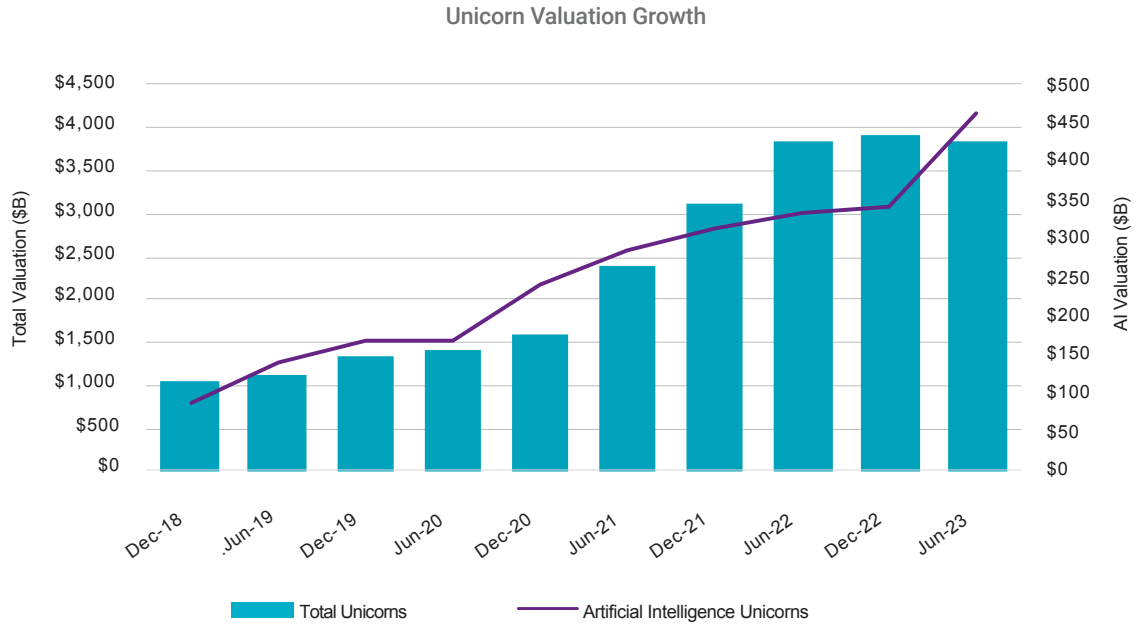
Public Performance by Percentile



Source: Natixis Investment Managers Solutions, InvMetrics.

#2 Unicorn Births Slow, but AI Soars

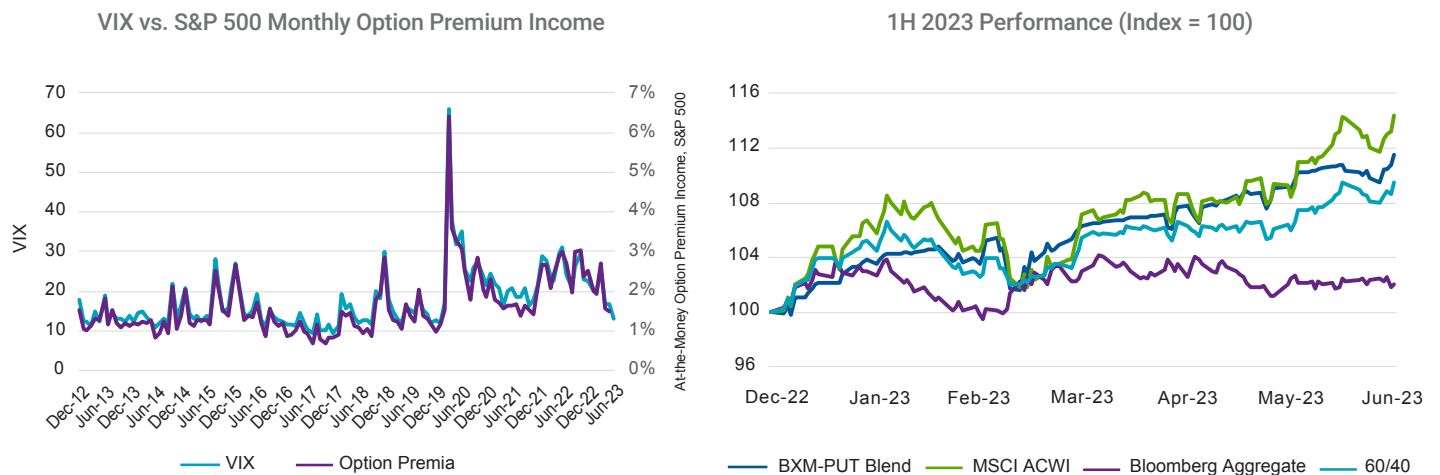
The total valuation of global unicorns, privately held companies valued at \$1 billion or higher, shrank from \$3.9 trillion at 12/31/2022 to \$3.8 trillion at 6/30/2023. However, the underlying companies involved primarily in artificial intelligence saw a 35% increase in valuation in 1H 2023, rising from \$342 billion to \$463 billion. This increase was largely driven by two firms: Bytedance, the Chinese parent company of TikTok, and OpenAI, which announced a multi-billion-dollar partnership with Microsoft.



Source: Natixis Investment Managers Solutions, CB Insights (cbinsights.com/research).

#3 Implied Volatility Benefits Options Strategies

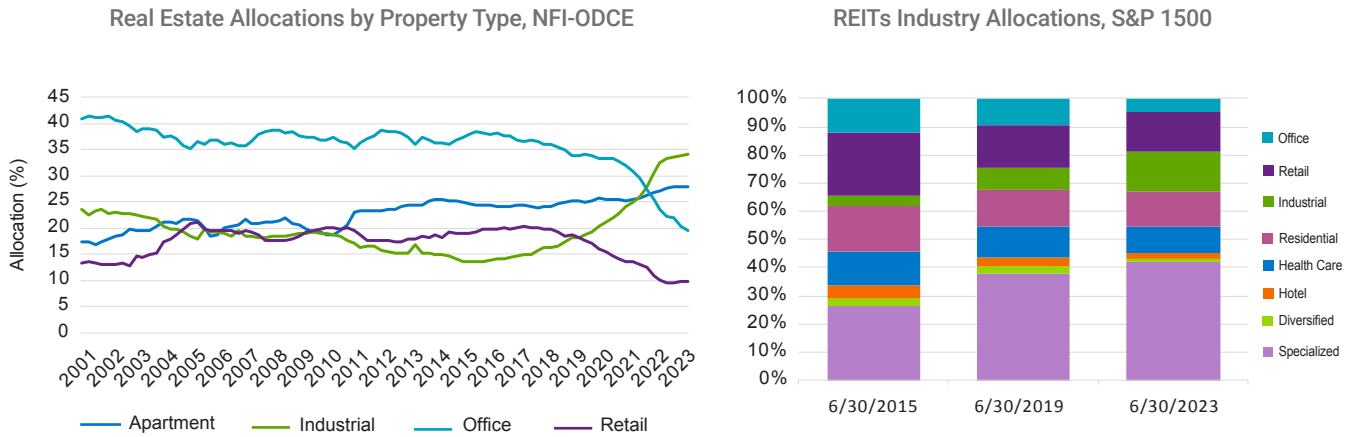
Implied volatility, as reflected by VIX, was elevated vs. history for much of 1H 2023, leading to higher-than-average premiums from options selling. This benefited options-based strategies, which outpaced returns from many traditional equity and fixed income products. A blend of the CBOE BuyWrite and PutWrite Indices, representing long exposure to both puts and calls on the S&P 500, would have outperformed a 60/40 portfolio composed of MSCI ACWI and Bloomberg Aggregate Indices.



Source: Natixis Investment Managers Solutions, Bloomberg.

#4 Real Estate Recomposition

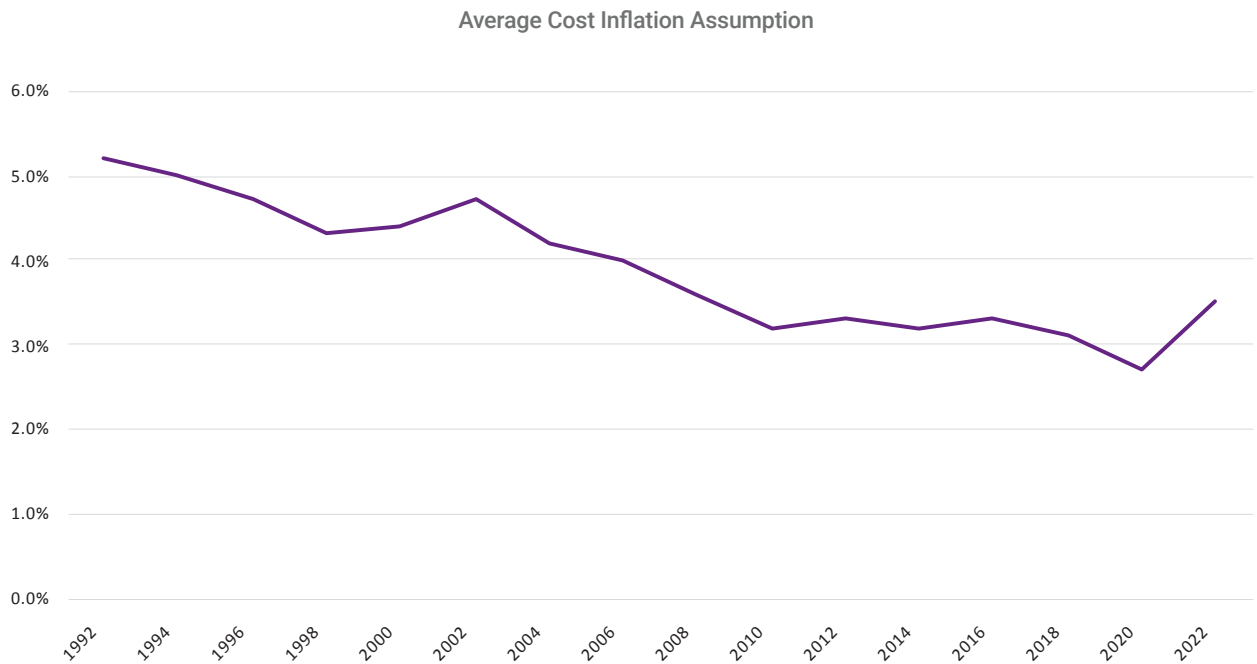
Amidst concerns around the impact of remote work on commercial real estate, allocations to office properties have declined rapidly. The NCREIF Fund Index – Open End Diversified Core Equity (NFI-ODCE), which tracks institutional private core real estate strategies, is now led by the industrial property type at 31.4%. Office, the largest weight in the index for many years, fell to 20.8%. On the public REIT side, office allocations have plummeted to 4% of the index, suggesting a more muted impact from the office industry going forward.



Source: NCREIF, FactSet.

#5 Inflation Pressures Hit NDTs

Nuclear decommissioning trusts, with liabilities often tied to projected future energy storage costs, saw the first meaningful increase to inflation assumptions in the past 30 years. In addition, two nuclear power plants, Oyster Creek (NJ) and Pilgrim (MA), announced four-year extensions to planned decommissioning dates, citing poor investment performance and higher-than-expected inflation in 2022.



Source: NISA Investment Advisors, LLC (inflation assumptions), Nuclear Regulatory Commission/Holtec Decommissioning (extensions).



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