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Observations on Five Institutional Investing Trends

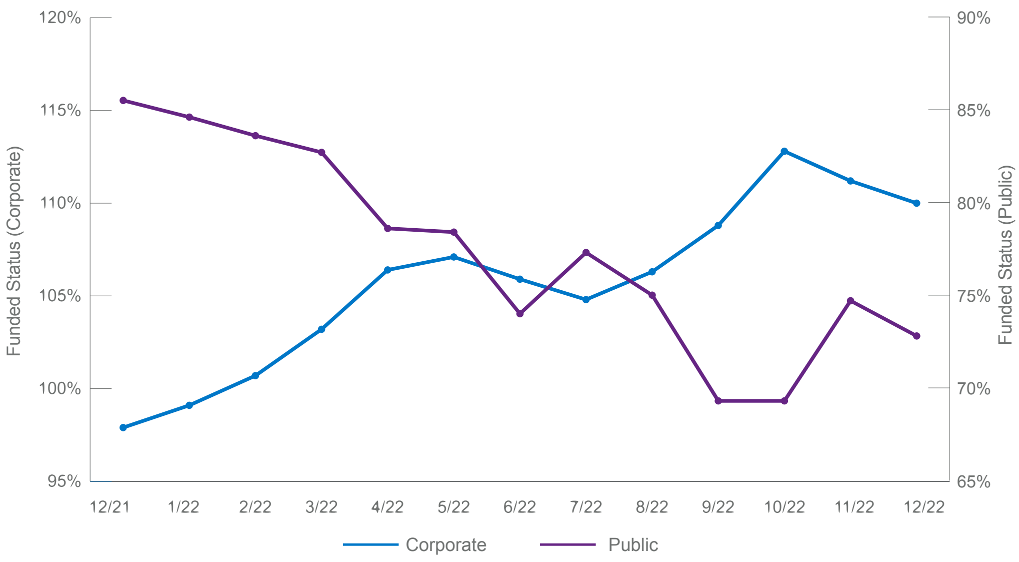
By Mark Cintolo, CFA®, CAIA®, Vice President, Portfolio Consultant

Natixis Investment Mangers Solutions portfolio consultants monitor asset classes, investment products and market activity both in real time and from a historical perspective. See which institutional investing trends impacted asset allocation decisions in the second half of 2022.

#1 Pension funded status diverges.

In a challenging return environment, public funds saw funded status dip from 85.5% at 12/31/2021 to 72.8% at 12/31/2022. Conversely, corporate plans achieved gains, rising from 97.9% to 110.0%, as higher interest rates drove down liability values.

Funded Status by Plan Type



Source: Natixis Investment Managers Solutions, Bloomberg.

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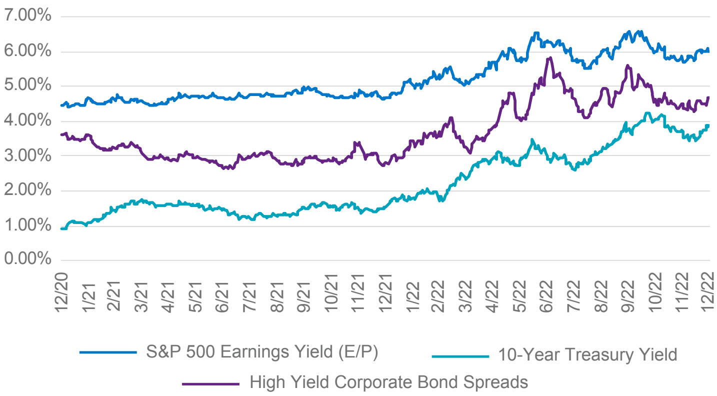
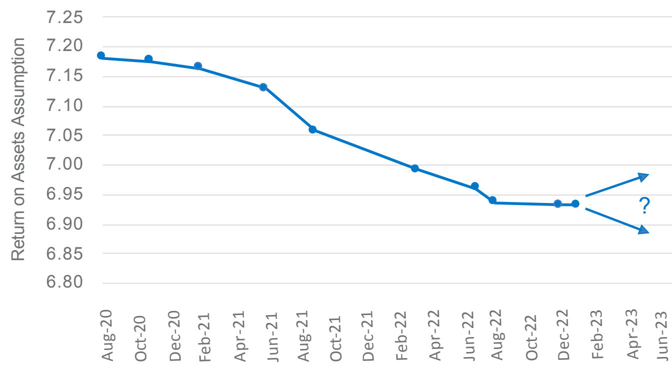
#2 Expected returns higher, but public funds hold off increasing assumptions.

Many components of future return expectations – equity earnings yields, government bond yields, credit spreads – are elevated compared to recent history. But this has not yet led to meaningful increases in investment return assumptions among public funds. Higher assumptions typically lead to higher funded status estimates and lower required contributions. Given significant momentum in recent years toward reducing assumptions, the investment environment could provide plans some breathing room to either keep assumptions flat or move them higher.

Future Returns – Building Blocks



Average ROA of Public Plans

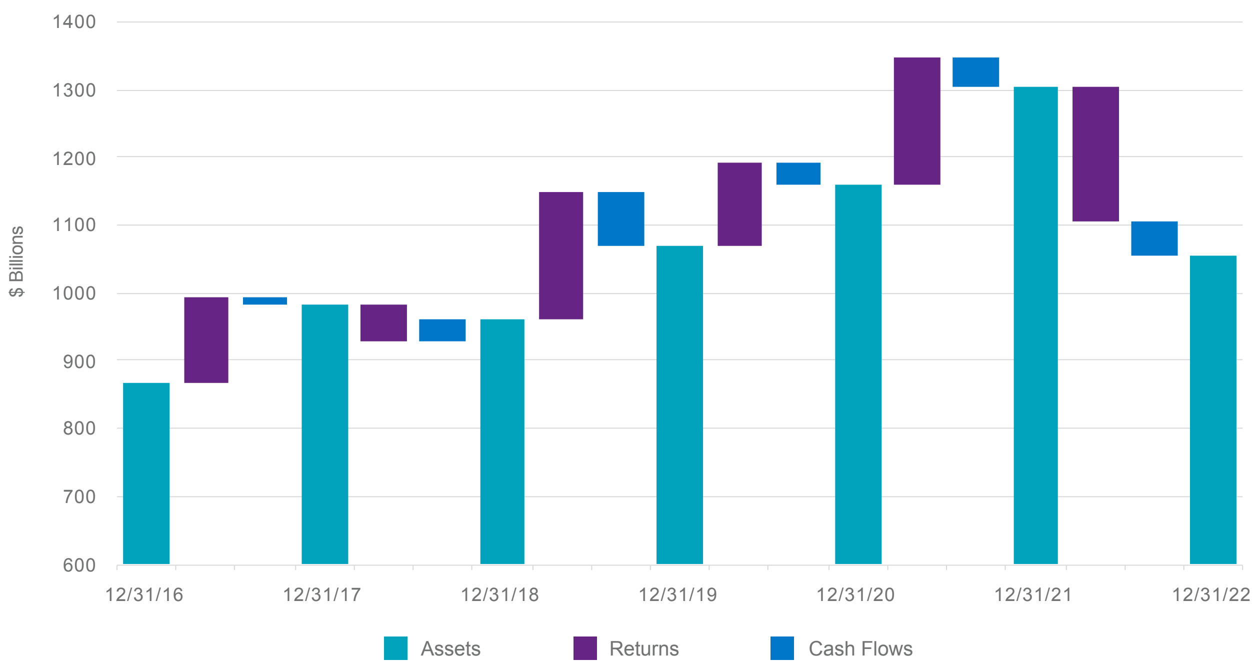


Source: Natixis Investment Managers Solutions, FactSet, NASRA.

#3 Three steps back.

US foundations saw asset levels decline to $1.057 trillion, erasing 3 years of gains. The average foundation lost 15.5% from market returns plus another 3.4% due to the difference in cash flows among grants, expenses, and new contributions.

Foundation Assets



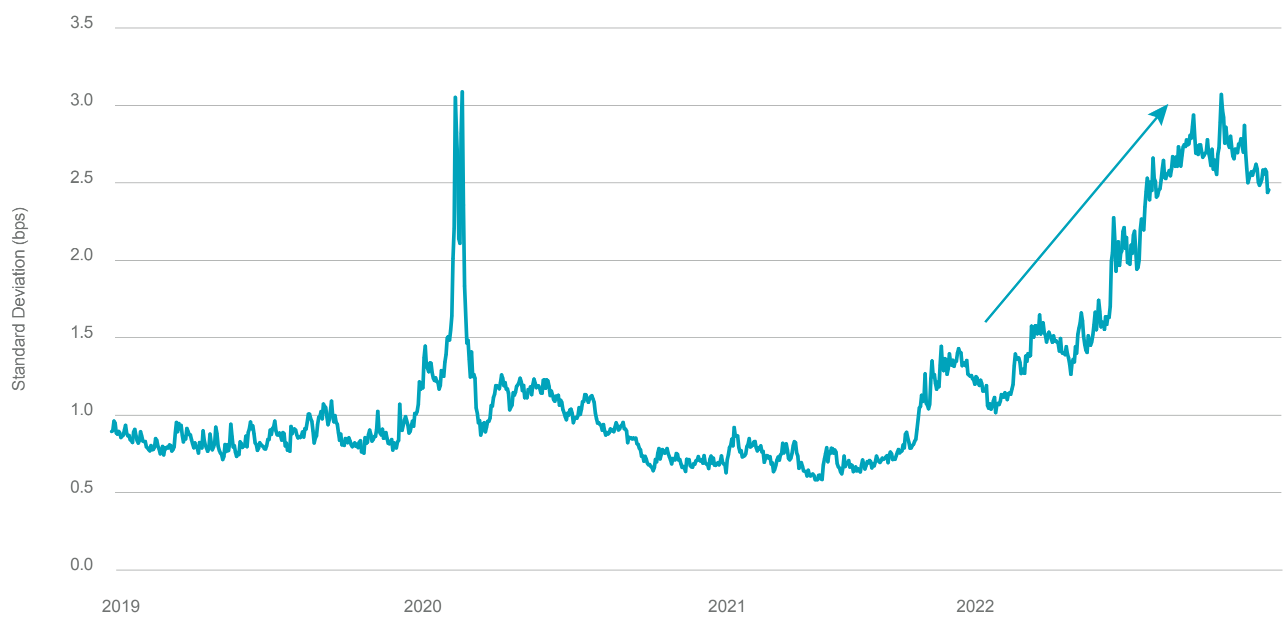
Source: FoundationMark, Natixis Investment Managers Solutions. FoundationMark Source: https://www.foundationmark.com/#/

#4 All-to-all trading for institutions?

The US Treasury market has seen liquidity erode in recent years, most notably in March 2020, but bid/ask spreads remained somewhat elevated throughout 2022. To help address this, some have called for broader "all-to-all" trading where a larger, more diversified group of potential counterparties including asset managers and institutions could exchange Treasury bonds without settling through a clearinghouse. This could provide greater price transparency and improved liquidity in times of stress.

Source: New York Fed, Pensions & Investments.

Bloomberg U.S. Government Securities Liquidity Index



Source: Bloomberg.

#5 Troubled union plans look to high quality fixed income with SFA relief.

The first round of multi-employer union pension plans eligible for federal assistance under the March 2021 American Rescue Plan Act began receiving funds in 2022. Per final guidance issued in July, 67% of all relief funds are required to be invested in high quality, investment grade fixed income, with the remaining 33% invested in return-seeking assets. Through 12/30/2022, $45.6 billion had been awarded to 56 plans, covering over 600,000 participants. Many eligible plans will not be able to apply for relief until March 11, 2023. The Pension Benefit Guaranty Corporation (PBGC) estimated the final cost of the program to be $94 billion, covering over 200 plans.

Source: Pensions & Investments, PBGC.

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