Press Release **26th February 2015**

Management Fees Need to Improve, Say Institutional Investors in Alternative Assets Funds

Over half of investors in each alternative asset class feel improvements in the alignment of interests between investors and fund managers can be made by focusing on management fees

The majority of institutional investors that were interviewed* by Preqin at the end of 2014 believe that more needs to be done with regards to the management fees they pay on alternative assets fund investments. Of the five major alternative asset classes – private equity, hedge funds, real estate, infrastructure and private debt – investors named management fees as the area that needed the most improvement with regards to alignment of interests in all asset classes but private debt. Within private debt, it was second behind the amount managers commit to their own funds.

Preqin has witnessed the average fees of alternative assets funds fall noticeably over recent years – the mean management fee of 2014 vintage private equity buyout funds is 1.90% compared to 2.01% for vintage 2007 funds. Hedge funds launched last year have mean management fees of 1.54% compared to 1.65% for funds with a 2008 inception. While it is evident managers are making efforts to reduce the fees they charge, it is apparent that investors believe that more can be done.

Other Key Findings from Preqin's Latest Investor Interviews:

- **Infrastructure fees most under pressure:** 91% of investors in infrastructure named management fees as the area where alignment of interests could be most improved. Yet management fees have already come down significantly; funds with a 2014 vintage or currently fundraising have a 1.43% mean management fee, down from 1.78% for vintage 2013 funds.
- **Real estate set for largest capital inflows**: 79% of active investors in real estate plan to invest more capital in the asset class in 2015 than in 2014, with none intending to invest less. This is a higher proportion than any other alternative asset class.
- **Private equity most "positive" asset class**: investors in private equity had the highest proportion that felt positive about the asset class, with 59% of investors stating so. This was closely followed by infrastructure investors, with 57% feeling positive about the asset class.
- **Investors allocate most to hedge funds**: 17% of investors in hedge funds allocate 20% or more of their assets under management to the asset class, higher than any other alternative asset. This is followed by 6% of real estate investors that allocate 20% or more of their AUM.
- **Private debt poised for growth**: 55% of investors in private debt indicated that they would invest more capital in the expanding asset class, and 65% are looking to increase their allocation over the longer term.

For more information and to view the full results from the survey, split by asset class, please see the report: https://www.preqin.com/docs/reports/Preqin-Investor-Outlook-Alternative-Assets-H1-2015.pdf

Comment:

"While the fees paid by investors in alternative assets funds have long been a point of contention, the last few years have seen investors become ever more vociferous. In the year that saw CalPERS announce it is withdrawing from the hedge fund asset class due to complexity and cost, it is unsurprising that institutional investors across the globe that Preqin spoke with at the end of last year named fees as the number one area where they are seeking improvement.

Yet managers have been making strides with regards to fees. Preqin has seen the average management fees for alternative assets funds fall steadily over recent years, with average fees for hedge funds specifically approaching 1.5% compared to the perceived 2% industry standard. But if managers are to continue to raise significant volumes of capital from investors keen to develop their alternative asset portfolios, they will need to be able to effectively justify the fees they charge to an increasingly demanding investor community."

Mark O'Hare – CEO, Preqin

New York: One Grand Central Place, 60 E 42nd Street, Suite 630, New York NY 10165 Tel: +1 212 350 0100
London: 3rd Floor, Vintners' Place, 68 Upper Thames Street, London, EC4V 3BJ Tel: +44 (0)20 3207 0200
Singapore: One Finlayson Green, #11-02, Singapore, 049246 Tel: +65 6305 2200
San Francisco: 1700 Montgomery Street, Suite 134, San Francisco, CA 94111 Tel: +1 415 835 9455
Web: www.preqin.com / info@preqin.com

** The findings in this press release and Preqin Investor Outlook: Alternative Assets, H1 2015 are based on Preqin's survey of 440 investors in alternative assets. By investor location, 40% of these investors were based in Europe, 37% in North America, 14% in Asia and 9% in Rest of World. When broken down by investor type, 26% were public pension funds, 12% private sector pension gun, 11% private sector pension funds, 10% foundations, 8% fund of funds, 7% endowment plans, 5% asset managers, 5% family offices, 4% wealth managers, 3% banks, and the remaining 11% fell into other institutional investor categories.*

Note to Editors:

- Preqin is spelled without the letter 'U' after the 'Q'.

About Preqin:

Preqin is the leading source of information for the alternative assets industry, providing data and analysis via online databases, publications and bespoke data requests.

Preqin has built a reputation in the alternative assets industry for providing the most comprehensive and extensive information possible. Leading alternative assets professionals from around the world rely on Preqin's services daily, and its data and statistics are regularly quoted by the financial press. For more information, please visit: www.preqin.com

For more information, please contact: Nicholas Jelfs +44 (0)20 3207 0282 or press@preqin.com