

Alternative Assets Investors Face Increasingly Daunting Fund Selection Process

Across all alternative asset classes, more investors state that it is harder to source attractive investment opportunities than 12 months ago

Preqin's latest survey of over 490 institutional investors globally shows that while alternative assets remain a crucial component of many portfolios, investors are finding it harder to identify attractive investment opportunities compared to a year ago. With a record-high 2,798 private capital funds in market, and 13,725 hedge funds open for investment, choosing the right fund is challenging; 57% and 54% of real estate and infrastructure investors respectively are finding it harder to find attractive opportunities. At the same time, among private equity and hedge fund investors 47% and 46% respectively stated the same.

Although private capital investors generally stated that they felt the balance of power with their fund manager was shifting towards them, there remain some aspects of the fund selection and marketing process which they view unfavourably. For instance, fund terms remain a key issue across the industry; at least 80% of investors across all asset classes stated that they had previously decided not to invest in a fund before due to the proposed terms, while more than a quarter in each asset class said they frequently did so. Investors also felt that firms must work harder when promoting their funds; in excess of a third of investors across the alternatives spectrum commonly find that fund marketing documents do not meet their needs. Notably, almost 10% of investors in real estate, hedge funds and natural resources stated that fund marketing documents always fail to meet their needs.

Other Key Facts from the Preqin Investor Outlook: Alternative Assets, H2 2016:

- **Participation in Alternatives:** **Seventy-nine percent of institutional investors surveyed by Preqin participate in at least one alternative asset class**, while 47% invest in at least three. Larger investors are more likely to invest in alternatives; 88% of those managing at least \$1bn in assets participate in the industry.
- **Allocation Plans:** For the first time ever, **more investors intend to reduce (33%), than increase (17%), their allocation to hedge funds**, in the long term. Private debt and private equity, however, can expect growth in with 67% and 56% of investors planning to increase their allocation to the asset classes respectively.
- **Target Allocations:** **Nearly a third of hedge fund investors (29%) have target allocations of 20% or more of their AUM**, the highest proportion of any alternative asset class. Conversely, nearly half of infrastructure investors surveyed (49%) are targeting an allocation of less than 5% of their total AUM.
- **Investor Satisfaction:** More than two-thirds (71%) of investors hold a generally positive opinion of the private equity industry, the highest proportion of any asset class, followed by private debt (61%). While **a quarter of investors hold a negative opinion of natural resources**, nearly half (46%) are unhappy with hedge funds.
- **Fund Performance:** Only 11% of investors felt that their investments in private equity, infrastructure or real estate failed to meet expectations. Moreover, **over a third (36%) of investors in real estate felt their performance objectives were exceeded**, the highest proportion of any asset class.

For more information and analysis from the survey, covering all asset classes, please see the full report:
<https://www.preqin.com/docs/reports/Preqin-Investor-Outlook-Alternative-Assets-H2-2016.pdf>

Comment:

"Institutional investors remain committed to alternative assets and, in most cases, far more investors expect to grow their allocations to these asset classes than intend to reduce them. However, it is undoubtedly a challenging time for investors, with an increasingly congested market making it difficult to select the right investment manager or vehicle, while fund managers face a battle in standing out from the crowd and attracting fresh investor capital.

Investors pinpointed fund manager marketing documents and proposed fund terms as particular areas for concern; these issues seem to be present across all asset classes, and serve to illustrate the challenges investors face in committing to vehicles. Although more investors believe that the dynamic is shifting in their favour than against them, managers must ensure that they maintain open and effective communication during the fundraising process."

Mark O'Hare – Chief Executive, Preqin

Note to Editors:

- Preqin is spelled without the letter 'U' after the 'Q', the company name being an amalgamation of the former name, Private Equity Intelligence.

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

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