

# Institutional Investors Raise Concerns with High Alternative Asset Deal Pricing

## Investor sentiment remains divided, but concern over valuations crosses asset classes

Preqin's latest survey of alternative assets investors\* finds that they have generally been satisfied with the performance of their portfolios in recent years, and most are seeking to maintain or increase their allocations over the next 12 months. However, across all closed-end private capital asset classes, investors reported high pricing as a key challenge facing the industry, with deal flow also a prominent concern. Regarding hedge funds, investors reported performance and fees as key issues facing the industry. As dry powder has reached record highs across the private capital industry, and the number of funds seeking investment has risen, it is becoming an ever-increasing challenge for investors to find attractive opportunities to which they can allocate capital.

**For more information and analysis, see the full *H2 2017 Preqin Alternative Assets Investor Outlook* here:**  
<https://www.preqin.com/docs/reports/Preqin-Investor-Outlook-Alternative-Assets-H2-2017.pdf>

### Key Alternative Assets Investor Facts:

- **Seventy-eight percent of institutional investors currently invest in alternative assets**, and 47% invest in three or more asset classes. The most-targeted asset classes are private equity and real estate, with 56% of investors involved in each respectively.
- Private equity and private debt are the most well-perceived asset classes: **58% of investors report feeling positive towards private equity, and 57% have a positive perception of private debt**.
- Across most asset classes, **a greater proportion of investors plan to increase their long-term allocations compared to those that will look to reduce them**.
- However, **44% of hedge fund investors plan to reduce their longer term allocation**, double the proportion that plan to increase it. Similarly, 13% of natural resources investors intend to commit less in the long term, on par with those which will look to allocate more (17%).
- The largest proportions of **investors across all private capital asset classes stated high asset pricing as a key challenge** facing the industry in the coming year. Hedge fund investors cited performance (69%) and fees (56%) as their primary concerns.
- In particular, **86% of private equity investors and 72% of real estate investors cited valuations as a key concern in the months ahead**.
- **Across all asset classes, a greater proportion of investors are finding it harder to source attractive investment opportunities than are finding it easier**.

### Oliver Senchal, Head of Real Estate Products:

"Currently, investors face the challenge of choosing between more than 17,100 alternative assets funds which are open to investment, and fund managers face unprecedented levels of competition. These factors, as well as strong performance from the majority of alternative asset classes, and record levels of dry powder, have contributed to investors' increased concern over high pricing in the industry."

As investors flock to alternatives, they are increasingly opting for bigger, more established firms. This places pressure on less established fund managers, who are facing greater competition for the remainder of investor commitments and will have to find ways to stand out from one another in order to attract capital. However, strong long-term performance by alternatives have continued to entice investors to private capital, and we expect to see further expansion of the alternatives industry."

**\*Figures are based on the results of a survey of 540 institutional investors conducted by Preqin in June 2017.**

Preqin is the leading source of information for the alternative assets industry, providing insight and analysis gathered by its global teams of dedicated researchers. Founded in 2003, the company is a frequent source of intelligence used in the global financial press, through its online databases, regular publications and bespoke data requests.

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