

Preqin Investment Consultant Outlook: Alternative Assets

H2 2011

The Opinions of 70 Leading Alternatives Investment Consultants on the Private Equity,
Private Real Estate, Infrastructure and Hedge Fund Markets and Their Plans for the Coming Year.



Methodology:

Preqin, the alternative assets industry's leading source of data and intelligence, welcomes you to the H2 2011 edition of Preqin Investment Consultant Outlook: Alternative Assets, a unique look at investment consultants' current views and opinions on the private equity, private real estate, infrastructure and hedge fund markets for the year ahead.

Preqin Investment Consultant Outlook draws on the results of a survey conducted in mid-2011 of over 70 alternative asset investment consultants from around the world who have over \$1.5 trillion worth of alternative assets under advisement. The sample of consultants was selected from Preqin's alternative investment consultant database, the most comprehensive and accurate source of information on investment consultants in alternatives and the clients they advise on private equity, private real estate, infrastructure and hedge fund investments.

We hope that you find the information in this report useful and interesting. All feedback and suggestions you may have for improvements to future editions of this survey are welcome.

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Private Equity: Key Geographies & Strategies

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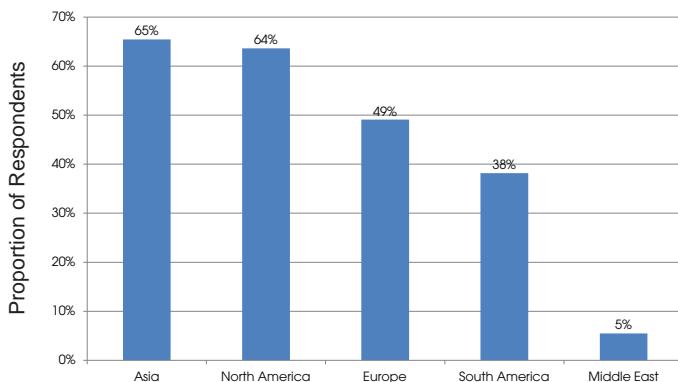
Consultants were asked which regions they felt presented the best opportunities in the private equity market for their clients over the course of the next 12 months. For private equity investments, Asia was the most commonly cited region, chosen by 65% of consultants, closely followed by North America, named by 64% of respondents as the region offering the best private equity opportunities in the current market, as Fig. 1 shows.

Emerging markets are often viewed by investment consultants and their clients as offering attractive investment opportunities. With a large proportion of consultants naming Asia and South America, which was mentioned by 38% of respondents, as attractive areas for investment in the current market, commitments to funds targeting these regions are likely to continue.

Investment consultants were asked which types of private equity funds they feel present the best opportunities in the current climate. They were asked to rank the level of attractiveness of a specific list of fund types on a scale of one to five, with five being the most attractive and one being the least attractive.

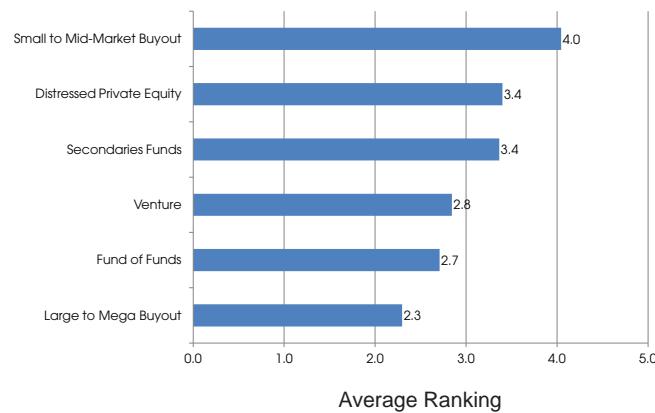
Consultants ranked small to mid-market buyout funds as presenting the most attractive investment opportunities at present, with the fund type getting an average ranking of 4.0, as Fig. 2 shows. It is interesting to note that small to mid-market buyout funds were also named by the majority (49%) of institutional investors interviewed for the latest Preqin Investor Outlook: Private Equity report as presenting the best investment opportunities in the current market.

Fig. 1: Regions Viewed by Alternatives Investment Consultants as Presenting the Best Opportunities in Private Equity



Source: Preqin

Fig. 2: Alternatives Investment Consultant Attitudes to Private Equity Fund Types (5 - Most Attractive; 1 - Least Attractive)



Source: Preqin

Private Equity: Levels of Investment & Key Issues in the Coming Year

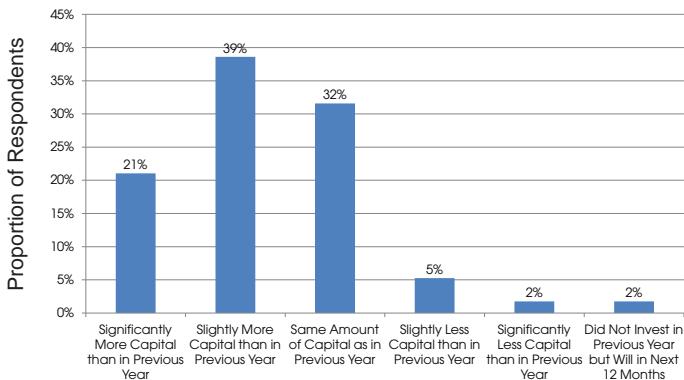
With the significant upheaval in financial markets over the past few years, it is important for private equity fund managers to understand how investors, and the investment consultants they are advised by, feel about investing in private equity. How much are they looking to invest compared to last year, and what are the issues that make them more reluctant to invest?

On the whole, private equity investment consultants and their clients expect to increase their levels of activity in the private equity market in the next 12 months compared to the previous year. 60% of investment consultants interviewed by Preqin expect to either slightly or significantly increase their exposure to the asset class, with another 2% that did not commit in the last year deciding to do so this year. As can be seen in Fig. 3, only 7% expect to commit less, with 5% recommending a slight reduction and 2% expecting to significantly reduce the level of their clients' commitments to private equity.

Investment consultants that actively provide services in the private equity asset class were also asked what they felt was the single most important issue affecting the private equity market at present. The most prevalent issue, named by 22% of consultants, was the alignment of interests between fund investors and fund managers, as Fig. 4 shows.

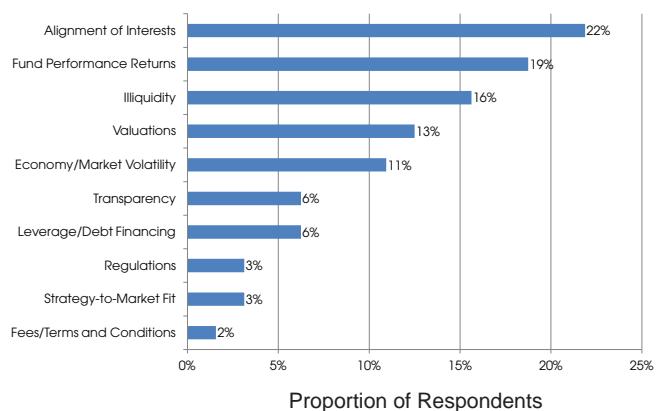
Other key issues mentioned by investment consultants were fund performance and returns (19%) and the illiquidity involved in investing in the asset class (16%). Private equity fund performance has improved following the losses suffered as a result of the downturn, but investors and their consultants are still concerned given the continuing wider economic uncertainty.

Fig. 3: Amount of Capital Alternatives Investment Consultants/ Clients Plan on Committing to Private Equity in Next 12 Months



Source: Preqin

Fig. 4: Alternatives Investment Consultants' Perception of the Most Important Issue in the Private Equity Market



Source: Preqin

Private Real Estate: Key Geographies & Strategies

Current conditions in the private real estate market mean that investment consultants have to be extremely conscientious in picking out the very best opportunities for their clients in order to avoid the poor overall performance that has affected the asset class in recent years. As such, fund managers need to be aware of and receptive to the preferences and outlook of investors and the consultants that advise them.

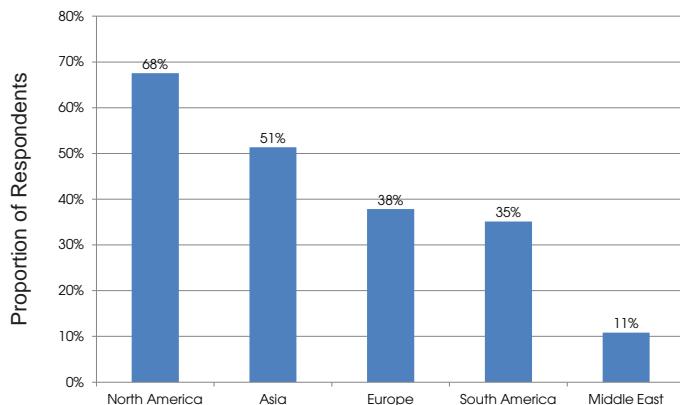
Just over two-thirds of the investment consultants interviewed by Preqin believe that North America will present good investment opportunities over the coming 12 months, as Fig. 5 shows. Investors and investment consultants alike are still keen to take advantage of the opportunities arising from the distressed market.

“...consultants and their clients currently have more of an appetite for risk [within the private real estate asset class...”

Half of respondents believe that Asia, with its developing markets, will offer attractive opportunities in the next year, while around a third believe that Europe and South America present good propositions. The South American private real estate market is still in its infancy, but with many consultants seeing good opportunities to invest the region, it seems likely that more funds with a focus on the region will be raised in the future. The Middle East was the least popular region amongst those surveyed.

Respondents were asked to rank fund types on a scale of 1 to 5, with 5 being the most attractive and 1 being the least attractive in the current market. Opportunistic real estate was ranked highest, with an average ranking of 3.7, as Fig. 6 shows. Both distressed and value added received an average ranking of 3.6.

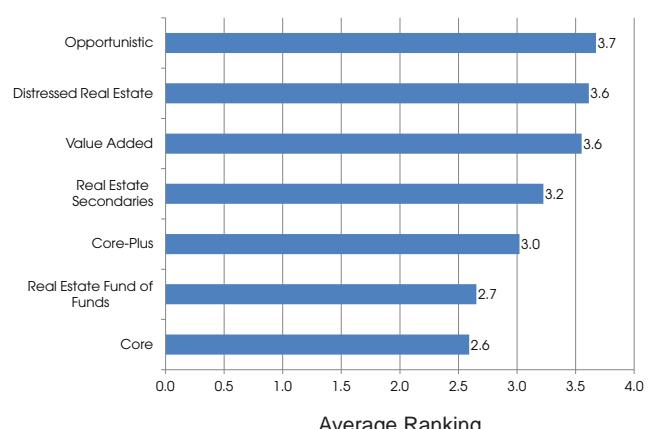
Fig. 5: Regions Viewed by Alternatives Investment Consultants as Presenting the Best Opportunities in Real Estate



Source: Preqin

Core funds were the lowest ranked strategy, with an average score of 2.6. Some market participants believe that core properties are now overpriced as a result of increased demand during the downturn. Core-plus also received a relatively low ranking of 3.0. The results indicate that consultants and their clients currently have more of an appetite for risk, with the medium-to-high risk and return strategies ranked higher by investment consultants.

Fig. 6: Alternatives Investment Consultant Attitudes to Private Real Estate Fund Types (5 - Most Attractive; 1 - Least Attractive)



Source: Preqin

Private Real Estate: Levels of Investment & Key Issues in the Coming Year

Given the severe drop in private real estate fundraising resulting from the economic downturn, what are the prospects for fundraising in the near future? As part of the interviews conducted with alternatives investment consultants, Preqin asked them how much they and their clients were looking to commit to private real estate funds compared to last year and what the major issues were with the asset class.

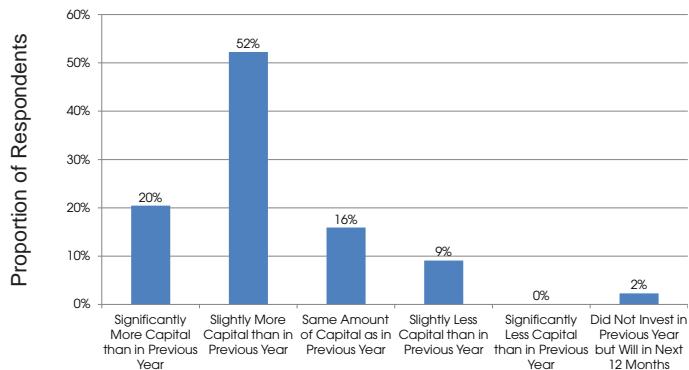
The vast majority of investment consultants expect to commit more capital to the private real estate market than they did in 2010; 72% of consultants will be increasing their commitment level to the asset class. As Fig. 7 shows, more than half of respondents plan to slightly increase the level of their capital commitments in 2011 compared to the prior year and 20% plan to commit significantly more. These results are more positive than those of Preqin's February 2011 Preqin Investor Outlook: Real Estate, where only 45% of investors stated that they would be likely to commit to private real estate funds in 2011.

"Leverage and debt financing was the third most cited key issue by investment consultants, with 15% selecting this as a major concern."

Just 9% of investment consultants will be slightly reducing their level of commitment to the asset class over the next 12 months, and none will be making any significant reductions.

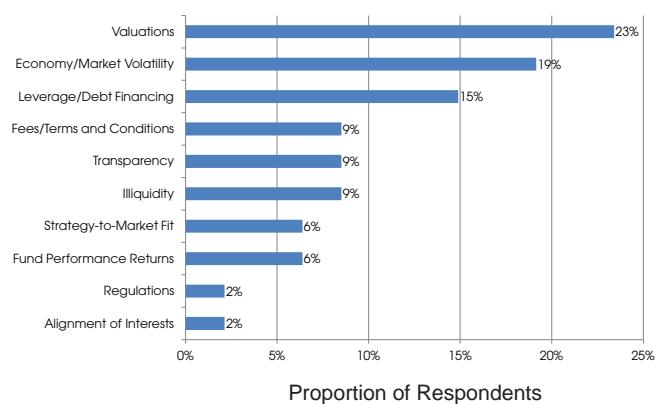
Respondents were asked what they felt was the single most key issue in the real estate market at the present time. As Fig. 8 shows, valuation of investments was the most frequently cited; just less than a quarter of respondents claimed this was an issue. The general economic climate and market volatility was also cited

Fig. 7: Amount of Capital Alternatives Investment Consultants/Clients Plan on Committing to Real Estate in Next 12 Months



Source: Preqin

Fig. 8: Alternatives Investment Consultants' Perception of the Most Important Issue in the Private Equity Market



Source: Preqin

Infrastructure: Key Geographies & Strategies

The number of unlisted infrastructure funds seeking capital is currently at near-record levels, so as the fundraising market continues its recovery, fund managers need to ensure they are in tune with the preferences and opinions of investors and their consultants in order to successfully raise new funds. Preqin therefore asked investment consultants about their current infrastructure fund preferences.

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“...Geographically, Asia was cited by half of infrastructure investment consultants as presenting attracting investment opportunities...”

Geographically, Asia was cited by half of infrastructure investment consultants as presenting attractive investment opportunities over the next 12 months, and Europe was a close second, with 47% of consultants citing the region, as Fig. 9 shows. Emerging markets are of growing importance to the infrastructure sector; in addition to Asia, a significant proportion of investment consultants involved in the infrastructure space told us that they viewed South America as an attractive region in which to invest in the near future.

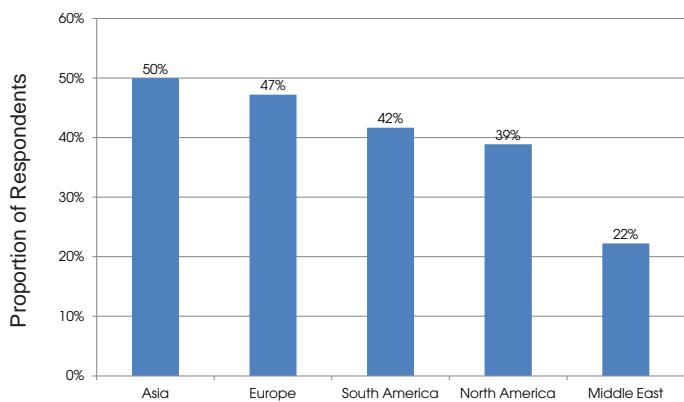
Ranking the level of attractiveness of various strategy types on a scale of one to five, with five being the most attractive and one

being the least attractive, infrastructure investment consultants were also asked which strategy types are presenting the best opportunities in the current market environment.

With an average ranking of 3.7, primary fund investments are seen to present the best investment opportunity in the market at present, as Fig. 10 shows. Conversely, scoring an average ranking of 2.5, funds of funds are viewed by consultants to currently present the least attractive investment opportunity. Debt/mezzanine funds received an average ranking of 3.1.

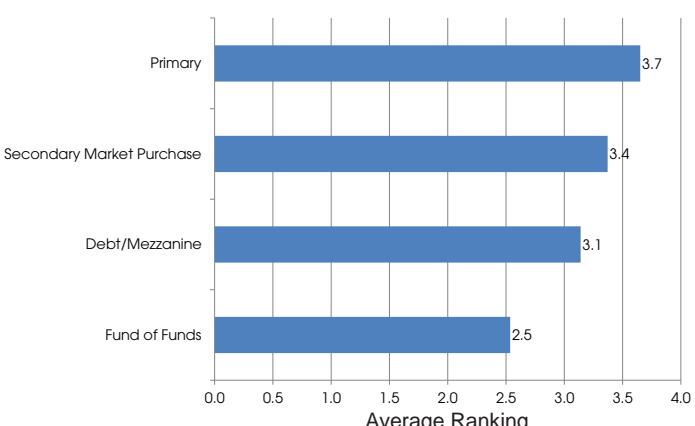
With an absence of dedicated secondaries funds in the industry, investment consultants are willing to recommend secondary market purchases to their clients, with this strategy getting an average ranking of 3.4.

Fig. 9: Regions Viewed by Alternatives Investment Consultants as Presenting the Best Opportunities in Infrastructure



Source: Preqin

Fig. 10: Alternatives Investment Consultant Attitudes to Infrastructure Fund Types (5 - Most Attractive; 1 - Least Attractive)



Source: Preqin

Infrastructure: Levels of Investment & Key Issues in the Coming Year

As the number of unlisted infrastructure funds in market seeking commitments from investors remains high, what can fund managers expect from the market going forward? Preqin asked alternatives investment consultants how much their clients were looking to commit to unlisted infrastructure funds compared to last year and what the key issues are that could potentially discourage them from investing.

The results appear encouraging for fund managers, with none of the investment consultants interviewed by Preqin planning to commit less to infrastructure over the next 12 months compared to the previous year. In fact, the majority of respondents (58%) said that they were planning to increase their levels of commitment, as Fig. 11 shows.

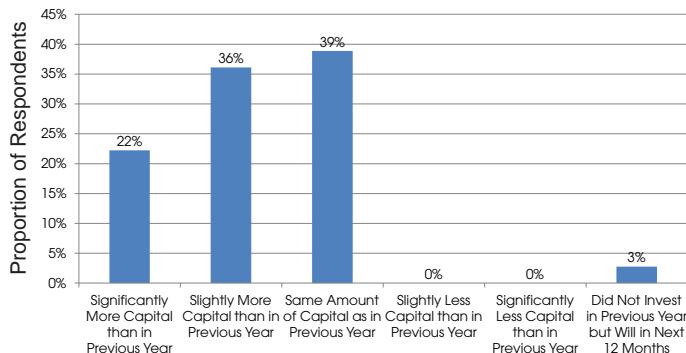
More than one-fifth of respondents plan to significantly increase commitments to the asset class, and a further 36% will increase commitments to a certain degree. Additionally, 3% of consultants told Preqin that their clients had not invested in infrastructure in the last year, but were planning to do so this year. 39% plan to maintain their rate of commitment to the asset class.

“...the issue of management fees and other fund terms and conditions are of greatest concern to investment consultants...”

As shown in Fig. 12, the issue of management fees and other fund terms and conditions are of greatest concern to investment consultants, with 18% viewing fees as the key issue in the current market. This was closely followed by illiquidity (16%), and industry regulations and asset valuations, with 11% each. Only cited by 5% of investment consultants each, fund performance returns

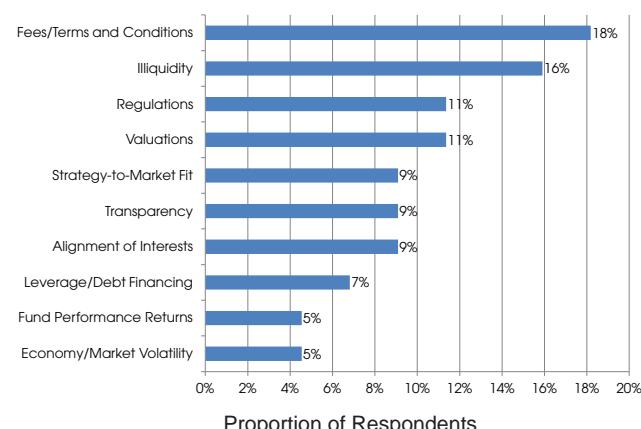
and market volatility were the least cited issues by investment consultants active in the infrastructure sector.

Fig. 11: Amount of Capital Alternatives Investment Consultants/ Clients Plan on Committing to Infrastructure in Next 12 Months



Source: Preqin

Fig. 12: Alternatives Investment Consultants’ Perception of the Most Important Issue in the Infrastructure Market



Source: Preqin

Hedge Funds: Key Geographies & Strategies

With the increasingly institutional make-up of the hedge fund investor universe, what do the investment consultants of these institutions think are the most attractive strategies and geographies for hedge fund investment? Preqin asked the consultants that are active in hedge funds for their current views.

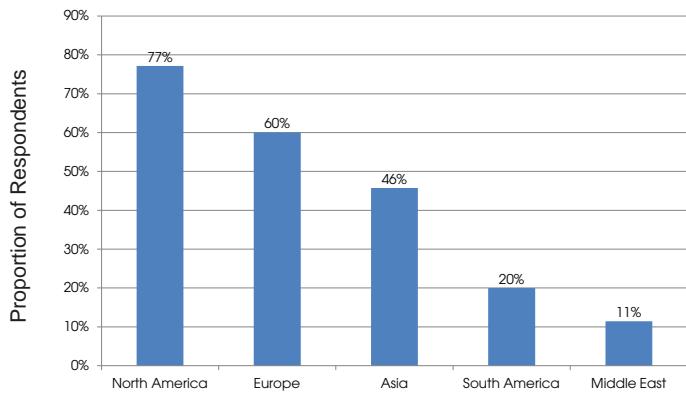
Hedge fund investment consultants feel that the more established markets in the regions of North America (77%) and Europe (60%) will present the best investment opportunities in the asset class over the next 12 months, as Fig. 13 shows. Asia and South America were selected by 46% and 20% of investment consultants respectively.

Preqin also asked the investment consultants interviewed to rank the current attractiveness of the various hedge fund investment strategies on a scale of one to five, with five being highly attractive and one being not at all attractive. Event driven/special situations scored the highest, with an average rating of 3.8, as Fig. 14 shows. Macro follows closely behind with an average score of 3.7. Macro is stated as a preferred strategy by 30% of investors on Preqin's Hedge Fund Investor Profiles database, and event driven by 19%.

"Macro is stated as a preferred strategy by 30% of investors on Preqin's Hedge Fund Investor Profiles database, and event driven by 19%...."

Approximately 40% of hedge fund investors that are planning to add to their hedge fund portfolios over the next 12 months have included event driven specifically as a strategy under

Fig. 13: Regions Viewed by Alternatives Investment Consultants as Presenting the Best Opportunities in Hedge Funds



Source: Preqin

consideration for investment. It was also the second fastest growing strategy in terms of investor mandates in 2010. Investors and their consultants are looking to capitalize on opportunities being created from the volatile financial landscape.

Fig. 14: Alternatives Investment Consultant Attitudes to Hedge Fund Types (5 - Most Attractive; 1 - Least Attractive)



Source: Preqin

Hedge Funds: Levels of Investment & Key Issues in the Coming Year

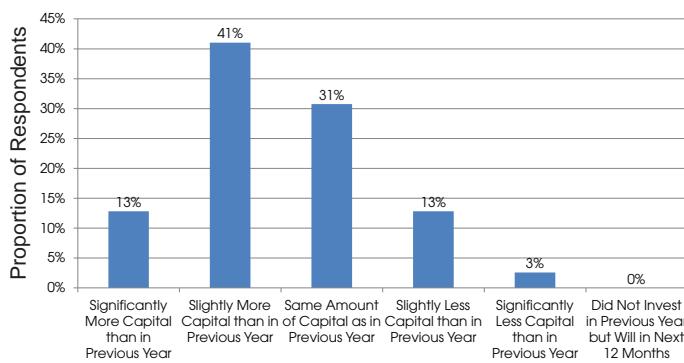
In the years since the credit crunch hedge fund managers have adapted to attempt to meet the requirements of investors. Many funds have altered their approaches to reporting and have improved transparency in order to satisfy the demands of new institutional clients. This approach appears to have increased investor confidence, with substantial inflows into hedge funds in the past year. What does the year ahead now bring, how much are investors and their consultants looking to invest, and what makes funds particularly attractive for investment?

The increasingly positive outlook of investors in the hedge fund market appears to be shared by consultants, with the majority (54%) telling us that they and their clients will invest more capital in the next 12 months than they did in the last year, and nearly a third planning to invest the same amount. A considerable 13% of respondents told us that they would be investing significantly more capital in the next year, as Fig. 15 shows.

With these results in mind, what will investment consultants be looking for in a hedge fund when seeking out new investment opportunities for their clients? Preqin asked the investment consultants interviewed to name the most important attribute they evaluate when searching for a new hedge fund investment.

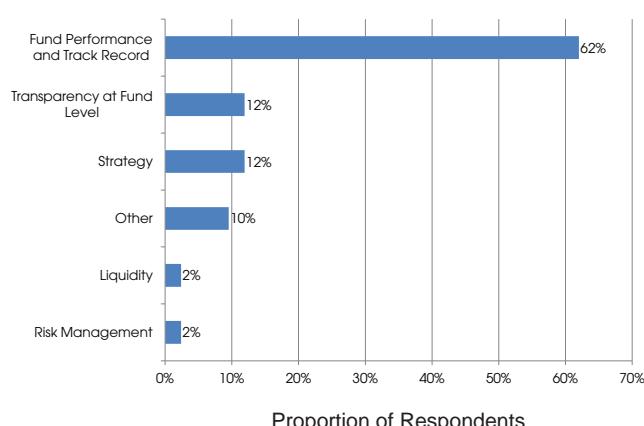
The most commonly stated factor when deciding to make a new commitment was the track record and previous performance of the fund manager, with 62% of investment consultants choosing this as the key attribute, as Fig. 16 shows. With the increasingly institutional make-up of investors in hedge funds, transparency has become an important issue within the market, and many hedge fund managers have improved the level and frequency of reporting in order to adapt to the changing demands of the evolving investor universe. 12% of the investment consultants that Preqin interviewed stated transparency as the key attribute they look for when searching for hedge funds to invest in.

Fig. 15: Amount of Capital Alternatives Investment Consultants/ Clients Plan on Committing to Hedge Funds in Next 12 Months



Source: Preqin

Fig. 16: Alternatives Investment Consultants' Perception of the Key Attribute When Searching for a New Hedge Fund



Source: Preqin

What Can Fund Managers Do to Stand Out?

Investment consultants that are active in the alternatives space regularly receive a large number of investment propositions from managers of private equity, real estate, infrastructure and hedge funds. Nearly 80% of the consultants interviewed by Preqin told us that less than 5% of the proposals they receive actually result in them making an investment. So what can fund managers do to stand out from the crowd, and what are the common mistakes they should try to avoid? Preqin asked the consultants for their opinions.

Common Mistakes that Fund Managers Make

"GPs tend to overstate their track records, not provide enough detail on how they will be successful, don't talk enough about tough situations and what they did to remedy them, don't provide much of the manner in which they will function since a lot of time is spent away from the office, and internal meetings and process and reporting will need to function flawlessly in order to be successful and scale."

"Being overly pushy. Good to stay in touch, but don't pester us. If we want to invest, we'll let you know."

"Not differentiating themselves from every other firm. Tell us what you believe, not what you think we want to hear. We really like it when GPs show true passion for their industry and funds. It's rare talking to a marketing person with high levels of passion."

"Focusing too much on comparative IRRs and multiples rather than on how value was created and how they see the markets, and the possibilities for creating value going forward."

"Overselling, unbalanced presentation; it makes you wonder what else is hidden."

What Should Fund Managers Be Doing to Get the Attention of Investment Consultants?

"GPs should spend time to build better relationships with my firm, ensure they come across with fund, team, and track record credibility. All these things lay the foundation for long-term success, and without them we are not likely to retain interest."

"Generate solid returns; have an edge; demonstrate organizational stability; communicate with limited partners; provide detailed, institutional-quality cash flow notices and reports."

"Making concessions on fees and making an honest and fair appraisal of historic failures as well as successes; offering flexible investment solutions."

"Increase transparency on transaction fees; provide ample and tangible information on progress of portfolio companies in absence of exits."

"Be transparent; propose funds where fund manager can actually lose something if things go bad; avoid selective disclosure and be open/non-arrogant, i.e. send PPM with full disclosure deal by deal."

Preqin: A Direct Approach to Intelligence

Unique, Industry-Leading Data

The alternatives space is ever-evolving and investor preferences are continually changing. Fundraising conditions have never been more competitive and a focused fundraising effort is vital to ensure success in the market.

Preqin's products and services provide comprehensive and exclusive data on investors in private equity, real estate, infrastructure and hedge funds that can help you to achieve your fundraising goals. Our international teams of multi-lingual analysts speak to thousands of investors in alternatives each year, as well as tracking every available news and information source, to ensure that our data is as up-to-date and comprehensive as possible.

Thousands of industry professionals regularly rely on Preqin's data to help focus their investor relations and fundraising activities, with hundreds of top fund managers and 19 of the top 20 placement agents regularly using Preqin products and services to assist them in identifying investor targets and to ensure that they are up-to-date on the latest developments in the institutional investor universe.

Find out how you too can benefit from the industry-leading data that Preqin has to offer by visiting www.preqin.com

Preqin 2012 Private Equity Alternatives Consultant Review



With comprehensive profiles for over 350 investment consultants for institutional investors in alternative assets, the 2012 Review is the ultimate guide to this vital area of the market. Also contains analysis, client information, league tables and more...

Key content includes:

- Vital analysis on all aspects of the alternatives investment consultant universe. Includes key trends plus information on the market's make-up.
- Listings for over 1,500 investors in alternatives showing which consultancy firms they are advised by in specific asset classes.

- Specific intelligence on activity in private equity, real estate, hedge funds and infrastructure included in all analysis and profiles.
- Comprehensive profiles for over 350 investment consultants;
- Profiles include key individual contact information, areas of speciality, plans for 2012 and beyond, financial information, service coverage etc;
- See which firms operate a buy-list, which firms consider first-time managers, and what they look for when considering new opportunities;
- Results of our in-depth survey showing investor satisfaction with their consultants and other key information;
- League tables.

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About Preqin

Preqin Private Equity provides information products and services to private equity and venture capital firms, funds of funds, investors, placement agents, law firms, investment banks and advisors across the following main areas:

- Buyout Deals
- Fund Performance
- Fundraising
- Investor Profiles
- Fund Terms
- Fund Manager Profiles
- Employment and Compensation

Our customers can access this market intelligence in three different ways:

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Preqin regularly releases research and information on fundraising and all other aspects of the private equity industry as both research reports, and as part of our monthly Spotlight newsletter. To register to receive more research and analysis, please visit: www.preqin.com/spotlight

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