

# Preqin Wealth Manager Outlook: Alternative Assets

The Opinions of Leading Wealth Managers on the Private Equity, Private Real Estate, Infrastructure and Hedge Fund Markets and Their Expectations for the Next 12 Months.

H2 2012



# Methodology and Data Sources

Preqin, the alternative assets industry's leading source of data and intelligence, welcomes you to the H2 2012 edition of [Preqin Wealth Manager Outlook: Alternative Assets](#), a unique look into wealth managers' current views and opinions on the private equity, private real estate, infrastructure and hedge fund markets for the next 12 months.

Preqin Wealth Manager Outlook draws on the results of a survey conducted in May 2012 of 35 alternative asset wealth managers from around the world, representing several billion dollars' worth of alternative assets under management.

Preqin's Investor Profiles online services provide detailed and up-to-date information on institutional investors actively investing in alternatives, including investment preferences, past investments, direct contact information for key decision makers, and plans for investments in the next 12 months and beyond.

For more information, please contact us at [info@preqin.com](mailto:info@preqin.com), visit our website at [www.preqin.com](http://www.preqin.com) or click on the links below to the relevant asset classes:

[Private Equity](#)

[Real Estate](#)

[Infrastructure](#)

[Hedge Funds](#)

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 study are welcome.

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# Wealth Managers in Alternatives

Wealth managers and their clients represent a significant part of the private investor universe, pooling together capital from several different types of private investors in alternatives. Private investors such as family offices, foundations, endowments, high-net-worth individuals and ultra high-net-worth individuals make use of the services of wealth managers all over the world.

Preqin's online services track over 300 wealth managers around the world that are actively investing and advising their clients on their investments in alternative assets including private equity, private real estate, infrastructure and hedge funds.

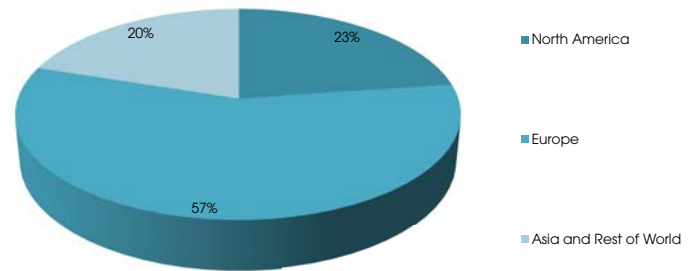
*"...83% of wealth managers invest in hedge funds, and over 70% invest in private equity and private real estate..."*

In order to investigate the investment plans of this important sub-sector of the investor universe, Preqin conducted in-depth interviews with 35 wealth managers, all of which are active investors in one or more alternative assets, representing a global sample of the wealth management industry. Of these firms, over 50% are Europe-based entities, with North America and Asia & Rest of World respondents making up 23% and 20% of respondents respectively. Overall, Europe is seen to be a key hub of wealth manager activity worldwide and most European respondents were headquartered in the UK or Switzerland.

For alternative asset fund managers, the majority of fundraising capital flows from institutional investors, such as public and private sector pension funds, corporate investors, and sovereign wealth funds. Wealth managers and their clients offer an alternate, yet also complementary, source of capital.

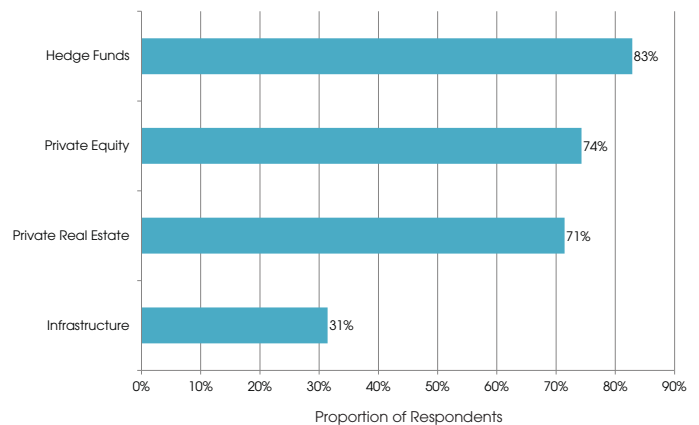
Wealth managers can play an important role in fundraising for alternative asset fund managers. As shown in Fig. 2, 83% of wealth managers are active in the hedge funds space, and over 70% invest in private equity and private real estate, while almost one-third of respondents actively participate in the infrastructure space. This sub-group of investors is vital to the alternatives industry, as a number of wealth managers have the flexibility to invest in different asset classes as and when required, either due to perceived opportunities, or upon the request of their clients.

Fig. 1: Geographical Breakdown of Wealth Manager Respondents



Source: Preqin

Fig. 2: Proportion of Wealth Manager Respondents that Invest in Each Alternative Asset Class



Source: Preqin

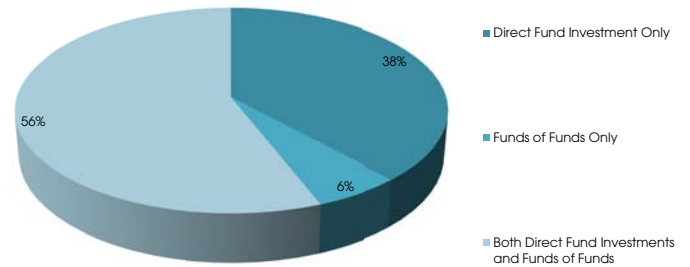
# Wealth Managers' Approach to Alternative Investments

Wealth managers utilize several avenues when searching for alternative asset investments on behalf of their clients. Identifying the correct fund structure that wealth managers prefer to invest in, along with their preferred method of initial communication with new and prospective managers, is vital for alternative asset fund managers hoping to source capital from this group of private investors.

More than half (56%) of wealth managers active in alternatives will invest in alternatives funds either directly or through a fund of funds structure. As shown in Fig. 3, 38% of wealth managers choose to only make direct fund investments when investing in alternatives, and just 6% look to invest solely via funds of funds.

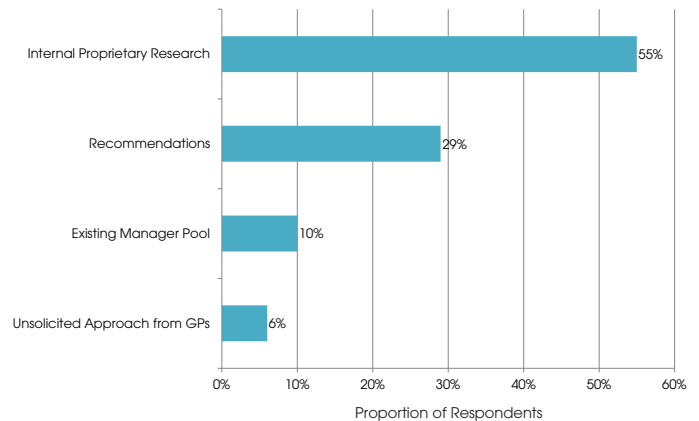
Wealth managers investing in alternatives take a highly active approach in sourcing and evaluating the investments they both recommend to and make on behalf of their clients. Fig. 4 shows the primary process through which these gatekeepers identify potential investment opportunities for their advisory and discretionary mandates.

Fig. 3: Wealth Managers' Preferred Alternatives Fund Structures



Source: Preqin

Fig. 4: Wealth Managers' Primary Method of Sourcing New Investment Opportunities



Source: Preqin

*"...56% of wealth managers active in alternatives will invest in alternatives funds either directly or through a fund of funds..."*

Only 10% of wealth managers primarily source investment opportunities by turning to their existing manager pool. Instead, the vast majority (84%) actively seek and identify new investment opportunities in more proactive ways. This is either through their own internal proprietary research, or based upon recommendations from their peers and other market participants. It is noteworthy that more than half (55%) of wealth managers primarily rely on their own in-house investment research when sourcing investments in alternatives. Just 6% primarily source new investments by investigating funds that directly approach them for capital.

# Wealth Managers' Experience in Alternative Investments

Wealth managers are responsible for significant flows of capital into the alternative assets industry. As such, their level of satisfaction with past investments and plans for future investments are of importance to alternative asset managers.

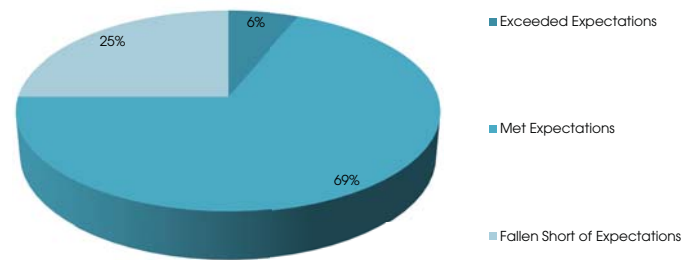
As can be seen in Fig. 5, wealth managers are mainly satisfied with their investments in alternatives. Sixty-nine percent feel that their investments in such assets have met their performance expectations, while 6% stated that their investments in alternatives have exceeded expectations. However, one-quarter of wealth managers have found that their investments in alternatives have fallen short of their expectations.

*“Sixty-nine percent [of wealth managers] feel that their investments in alternatives have met their performance expectations...”*

On the whole, wealth managers that actively invest in alternatives expect to increase their level of activity in the market over the next 12 months, when compared to the previous 12 months, as shown in Fig. 6. Fifty-three percent of wealth managers interviewed by Preqin expect to increase or significantly increase their exposure to alternatives, while a further 3% that did not make investments in 2011 intend to invest in the next 12 months. Just 6% of wealth managers expect to commit less to alternatives over the coming 12 months, and no wealth managers expect to significantly reduce the level of their clients' commitments to alternatives.

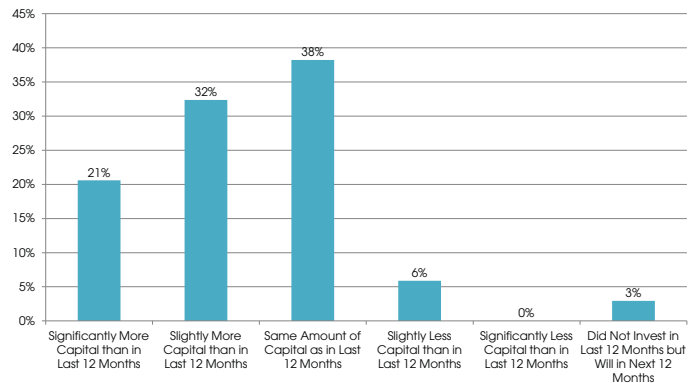
Fund managers should be buoyed by the fact that wealth managers have such a positive outlook towards alternatives. While a small proportion of wealth managers intend to invest less in alternatives across the coming 12 months, the overall level of investment from this particular group of private investors is not expected to decline.

Fig. 5: Proportion of Wealth Managers that Feel Their Alternatives Fund Investments Have Lived up to Expectations



Source: Preqin

Fig. 6: Amount of Capital Wealth Managers/Clients Plan on Committing to Alternatives in Next 12 Months Compared to the Last 12 Months



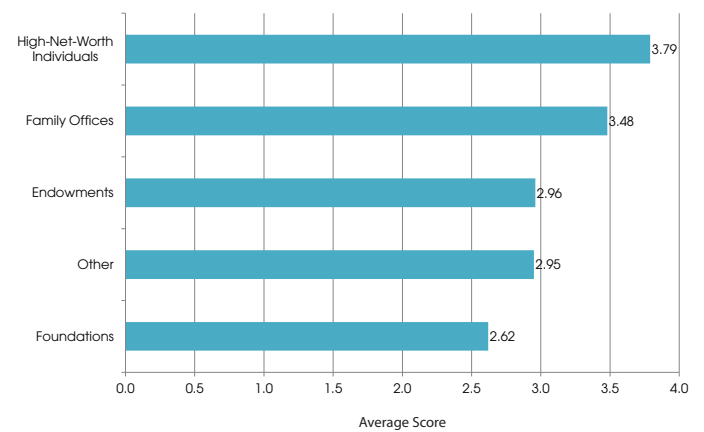
Source: Preqin

# Wealth Managers' Expectations for Alternative Investments

With private investors such as family offices and high-net-worth individuals making up a significant proportion of the universe of investors in alternatives, what do the wealth managers of these investors think are the most attractive geographies for alternative investments? Which of these private investors are likely to be the most active? Preqin asked wealth managers for their current views.

Wealth managers were asked to rate on a scale of one to five, with five being highly likely and one being highly unlikely, which client types are likely to invest more in alternatives in the next 12 months. Of all the client types that wealth managers provide services to, high-net-worth individuals were on average rated as being the most likely to invest more in alternatives in the next 12 months. They were closely followed by family offices. Foundations, with an average score of 2.62, were stated to be the least likely of the various client types to invest more in alternatives in the next 12 months.

Fig. 7: Wealth Managers' Expectations of the Types of Client that Are Most Likely to Invest More in Alternatives (5 - Highly Likely; 1 - Highly Unlikely)

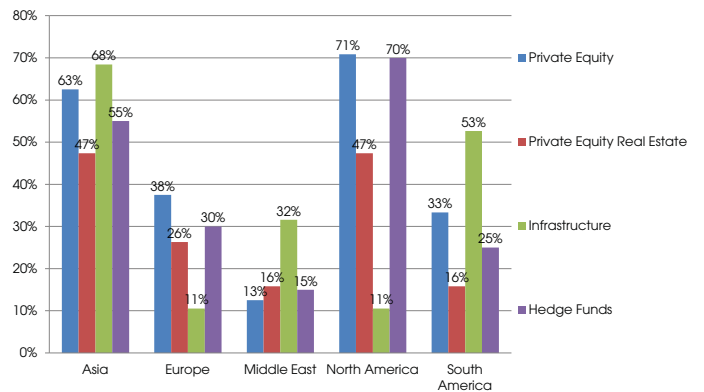


Source: Preqin

*“Just over one-quarter of wealth managers believe Europe will be an attractive investment destination for alternatives...”*

Geographically, on average across all alternative assets, more than half of all respondents feel Asia and North America will present attractive investment opportunities over the next 12 months, with average percentages of 58% and 50% respectively. Just over one-quarter of wealth managers believe Europe will be an attractive investment destination for alternatives over the next 12 months. Nineteen percent of wealth managers believe that the Middle East represents the least attractive region for investment in the next 12 months, while South America was named by just under one-third of wealth managers as offering attractive investment opportunities across all alternative assets. Over half (53%) stated that infrastructure would be an attractive investment choice in the region over the next year.

Fig. 8: Regions Viewed by Wealth Managers as Presenting Attractive Opportunities in Alternatives



Source: Preqin

# What Can Fund Managers Do to Stand Out?

Wealth managers receive information on, and proposals from, a high number of managers of private equity, private real estate, infrastructure and hedge funds. So what can alternatives fund managers do to stand out from the crowd, and what are the common mistakes they should try to avoid? Preqin asked wealth managers what fund managers could do to improve their chances of receiving an investment from them and their clients.

“Some of the best ways to approach wealth managers are through conferences and networking events. If we meet you face to face, we are more willing to work with you and negotiate possible dealings in the future.” **A Chinese wealth manager that actively invests in private equity, private real estate and hedge funds.**

“Offer original and scalable products; clear, concise and honestly benchmarked data; be a specialist and invest at the source. Possess a proven track record and process.” **A UK-based wealth manager that actively invests in private equity and hedge funds.**

“Better alignment of the fee structure with the risk.” **A US-based wealth manager with \$245mn invested in alternatives.**

“Have a track record, consistency and low volatility.” **A Swiss wealth manager.**

“The onus lies on fund managers to sound wealth managers with their unique product proposition. It is very important to understand the volatility and working of the product and its expectations.” **An India-based wealth manager that invests in private equity and private real estate.**

“Gain respect from peers so that they will invest themselves and/or refer their clients who are looking for opportunities.” **A wealth manager that actively invests in hedge funds.**

“Continue to share simple and insightful research. Provide advisory tools and advisors. Share ‘true value’ investment opportunities - and build reputation on sharing such opportunities as well as delivering on result commitments.” **A United Arab Emirates-based wealth manager.**

“Reduce unit sizes to allow smaller commitments. Be realistic on fees.” **A UK-based wealth manager that invests in private equity and hedge funds.**

“Differentiate themselves from competitors, offer transparent products and report on a regular basis.” **A UK-based wealth manager.**

“Fund managers should endeavour to put more information on their websites. Archival information on fund performance and track records of their funds would be beneficial.” **A UK-based wealth manager that invests in hedge funds.**

# About Preqin

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Preqin provides information products and services to fund managers, investors, placement agents, law firms, investment banks and advisors in alternative assets across the following main areas:

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

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

- Hard copy publications
- Online database services
- Tailored data downloads

Preqin regularly releases research and information on fundraising and all other aspects of the alternative assets 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/research](http://www.preqin.com/research)

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