

A photograph of a modern building facade with large glass windows and metallic panels. The image is partially obscured by a large, dark, angular shape that frames the top and right sides of the page. The building's interior is visible through the windows, showing people and various displays.

Finding Success as **Alternatives Converge**

2017 SEI Survey of Alternative
Investment Managers

SEI New ways.
New answers.®



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EXECUTIVE SUMMARY

The alternative investments industry has grown by 40% in just four years¹ as institutional and other sophisticated investors continue to broaden their exposure to multiple asset classes and seek to reinvest the proceeds arising from years of healthy returns. Currently, 80% of institutional investors tracked by Preqin are investing in at least one alternative asset class.²

As institutional investors continue reinvesting their profits, inflows to alternatives are likely to pick up pace. In spite of what appears to be a favorable fundraising environment, this growth may obscure an existential threat to managers lurking beneath the surface—a threat that may have profound implications for how alternative managers run their businesses.

A growing number of investors (limited partners or LPs) are choosing to invest directly, circumventing working with managers (general partners or GPs) entirely. In part, they are frustrated by deficiencies in transparency and reporting, and also, in some cases by perceived misalignment of interests as it relates to returns relative to fees.

Positive outlook for alternative assets as a whole aside, the question for many GPs remains: How can managers of alternative investments best position themselves to benefit from asset flows in this environment?

The answer is not as clear cut as it once was. Asset classes are converging, investment vehicles are evolving, and business models are changing, making it difficult to offer an attractive value proposition in an economically sustainable fashion. **Attracting and retaining investors increasingly requires that managers differentiate themselves not only by their performance but also by adopting reporting, accounting and administrative processes that are both simple and effective.**

In short, GPs need to make a number of carefully considered operational decisions that will directly affect their ability to maintain good relations with their investor bases and conduct successful capital-raising activities over the next decade.

To better understand asset managers' views of, and responses to, this changing area, SEI partnered with Preqin to gather insights through an online survey and in-depth personal interviews. The results confirmed that institutional investors continue to exhibit a strong appetite for alternative investments but indicated that demand patterns appear to be changing. These shifts make it more critical than ever that fund managers position themselves strategically in order to maximize their competitiveness.



There is little consensus as to which type of firm is best equipped to meet the needs of institutional investors. Employees of firms involved in a single asset class are much more likely to stress the advantages of focused expertise, while firms managing several asset classes are much more likely to advocate diversified business models.

Investor expectations have changed over the years, and many GPs have heard calls for greater transparency, negotiated fees, more frequent reporting and greater access to portfolio managers. The capital-raising process also has evolved and a growing number of firms are offering customized investment vehicles with unique reporting and accounting requirements.

Many firms plan to use technology to help them meet investor requirements and disseminate the information to a progressively more sophisticated investor community. Partially as a result of automation and increased operational efficiency, fees have come down at many firms, investor onboarding times have improved and some are taking the lead in safeguarding their clients' information by addressing cyberthreats head on. A significant number of managers are finding that they can optimize technology spending by forging partnerships with external specialists in one or more functions.

Operational characteristics that may have once been seen as secondary features are now critical items on due diligence checklists, representing the cost of admission. However, as investors and their advisors develop a growing awareness of the options available, they will no doubt continue to ask for more and develop more stringent requirements. As alternatives converge, vehicles and strategies become less standardized and asset managers' businesses become more complex.

Additionally, it will become increasingly critical that operations are run on integrated platforms that allow firms of all types to support their investment expertise with a streamlined and technology-enabled investor experience. Integrated platforms also give managers the agility needed to experiment with newer, innovative structures and pivot to side vehicles as the market demands.



APPETITE FOR ALTERNATIVES INCREASES

As investors become more sophisticated in their approach and look to diversify their holdings across multiple asset classes and structures while maximizing their portfolios' returns, their appetite for a variety of alternative strategies has increased. Given the additional complexity of their holdings, together with inconsistent reporting from GPs, many larger investors are simultaneously making a concerted effort to streamline the oversight of their fund portfolios. Thus, the opportunities presented by growing demand are tempered by increasingly stringent prerequisites for selection.

Managers of alternative strategies are responding in a variety of ways. Hedge fund managers are expanding beyond their open-ended fund structures with more patient capital supported through close-ended, hybrid funds. Private equity (PE) firms are looking to attract a wider set of investors by diversifying their investment strategies and improving investor servicing through technology and automation, which was once the sole preserve of the hedge fund industry. A number of alternative managers also are looking to tap into the retail market. Meanwhile, a growing number of traditional managers are joining the fray with strategies and fund structures designed to appeal to existing investors in alternatives as well as newcomers to the space.

Superior returns, trusted teams and firm size have traditionally served as key differentiators in the world of alternative investments. Faced with unprecedented opportunities in the alternatives market now estimated by Preqin to total \$7.7 trillion³ worldwide, GPs face higher standards, a more diverse set of benchmarks, as well as new constituents in the form of retail and emerging market-based investors. What do LPs want and how can GPs optimally position themselves to benefit as the industry converges?

In order to answer this question, SEI partnered with Preqin to query GPs and LPs about their views of this changing area. We begin with the results of our GP survey, which was completed in the first quarter of 2017. Nearly 200 GPs from around the world participated, sharing their perspectives on the opportunities and challenges facing them as old models for structures, strategies and operations fall to the side, and hedge funds and PE firms maneuver into each other's traditional turf (see The Survey, page 20). This paper will be followed by another detailing the results of our LP survey, in which we will compare and contrast their perspectives with those of their fund managers.

“*The industry is maturing very rapidly, and you are seeing LPs that are now more sophisticated than they've ever been ... requiring greater flexibility and better product options.*”

Bob Brown, managing partner,
BearTooth Advisors



MARKET OPPORTUNITIES

Investor preferences, asset flows expand

Institutional investors continue to exhibit a strong appetite for alternative investments, but demand patterns are shifting. The GP survey shows managers projecting growing or stable demand for most asset classes, with a broad consensus that demand for private debt and infrastructure, in particular, were poised to grow most over the coming year (Figure 1). While the most exuberance is reserved for these less established asset classes, the outlook is promising for private equity and real estate as well. Less certain is the outlook for hedge funds, with those predicting falling demand outnumbering those expecting demand to rise over the coming year.

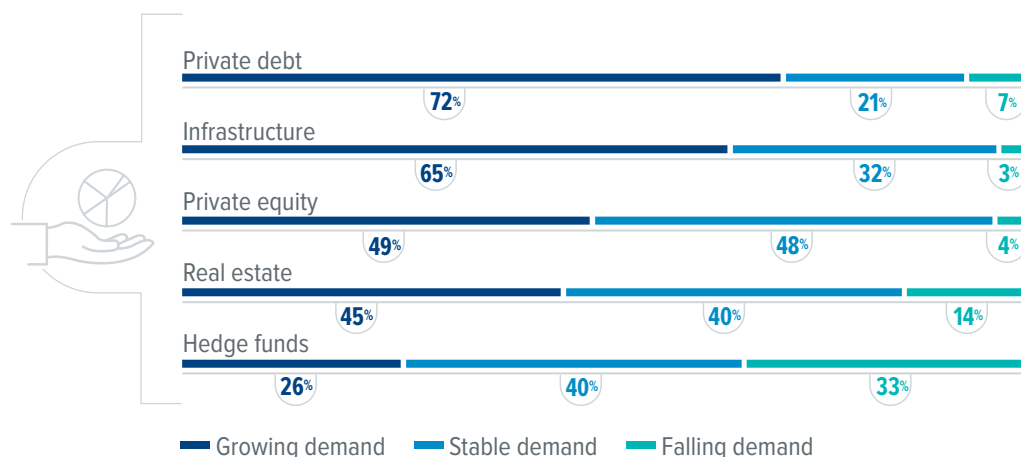
These findings corroborate evidence offered by asset flows. Many hedge funds have faced fundraising challenges, and a number of brand-name funds have closed. Demand for open-end funds has been weak, and lackluster performance caused redemptions to steadily pick up pace throughout 2016, resulting in net outflows of \$110 billion for the year.⁴ Alarming for the hedge fund industry, outflows were not limited to one or two types of hedge funds. With the exception of products managed by commodity trading advisors (CTAs), all strategies suffered net outflows in 2016.

Meanwhile interest in other alternative assets is expanding, as existing LPs allocate more capital alongside new investors. But these investments aren't stagnant, as record (or near-record) amounts of capital are called up by private equity, private debt and real estate funds alike. The net effect of these asset flows has caused the average fund to swell to an unprecedented size. The average private equity fund now has \$532 million in assets, compared to a previous high of \$442 million in 2007.⁵ Significantly fewer in number, the average infrastructure fund now exceeds \$1.3 billion in assets. Even real estate funds, which have grown more modestly over the past several years, now average \$471 million in assets under management.⁶

“There’s a gap in the market, and certain opportunities require flexible capital. Private debt is flexible. It is versatile. It creates an alternative to private equity, which does not necessarily work in emerging and frontier markets because the liquidity is just not there.”

U.K.-based private debt manager

FIGURE 1 What is your expectation of investor demand for each of the following asset classes in 2017?



Note: Numbers may not add up to 100 due to rounding.

Source: 2017 SEI/Preqin GP Survey.

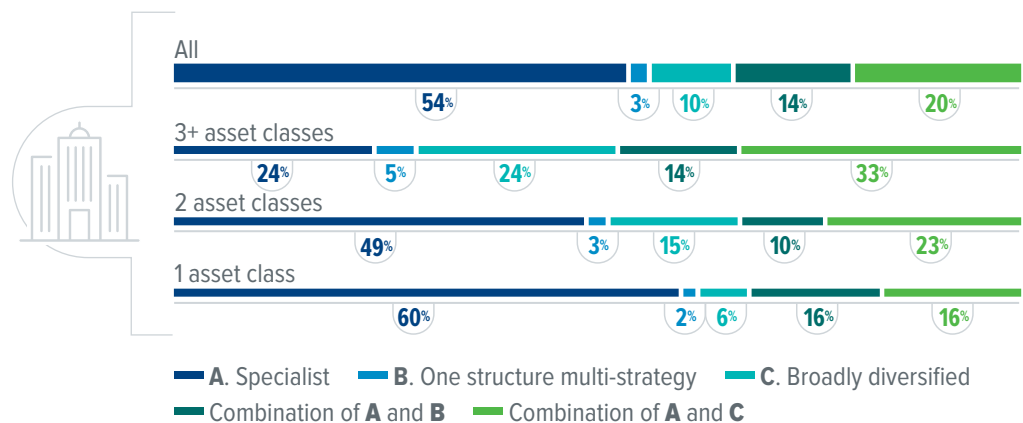
Managers need to position themselves well

Shifting demand patterns make it more critical than ever before that investment managers position themselves flexibly to maximize their competitiveness. Some GPs may face size constraints when it comes to optimizing their strategy's performance. Others may find that larger funds and a more diversified set of asset classes and strategies is a better fit for the type of investors they are seeking. One of the managers interviewed, with both private equity and hedge fund offerings, noted that size and the degree of specialization are linked.

Stated Anthony Porcelli, of discretionary metals manager Orion Commodities Management, "Specialist firms are, by definition, limited in their investment opportunity sets. Naturally, the less-covered a respective market is, the more opportunity there is for market anomalies to occur, which managers use to generate abnormal returns." This often results in smaller, more niche markets focused on by similarly targeted managers. Regardless of whether they are large or small, specialist or diversified, the motivation remains for investment managers to prove they are "asset managers" rather than merely "asset gatherers."

LPs are likely to have their own preferences, but to obtain the manager's perspective, we asked the GPs participating in our survey whether they thought asset class diversity or specialization were preferable. Generally speaking, specialists are seen to be best equipped to meet the needs of institutional investors, but the responses were heavily dependent on who was asked (Figure 2). Employees of firms involved in a single asset class are much more likely to stress the advantages of focused expertise, while firms managing several asset classes are much more likely to advocate for diversified business models.

FIGURE 2 Which type of firm do you think is best equipped to meet the needs of today's institutional investor? (By number of asset classes managed)



Note: Numbers may not add up to 100 due to rounding.

Source: 2017 SEI/Preqin GP Survey.

Perhaps the prevalence of biases toward one's own strategy is positive for the industry as a whole, indicating that employees of both specialist and generalist firms are confident in their ability to execute their chosen strategies well, and service their respective investor segments appropriately.

“We have always invested in people and systems ahead of asset growth ... Asset management, servicing, and operations are all critical contributors to investing success. We prioritize these.”
 Brooke Taube, CEO, Medley

Whether or not GPs feel like they are currently positioned well, they should be asking themselves whether there is anything they can be doing to attract and service investors as the landscape continues to evolve around them. What strategies and investment vehicles are likely to be the most popular? Are new investors likely to have different needs and expectations from existing investors? Will investors accept a move away from tried and true solutions to new strategies or innovative structures? Will existing processes and standards suffice as they move into different asset classes? How will our infrastructure need to change as we adapt fund structures and strategies?

Clearly economics plays an important role not only in what decisions to make, but also the timing of any relevant investment and the time frame needed to optimally implement such decisions. The most prescient managers are prioritizing systems and people capable of managing adaptations. Brook Taube, CEO of Medley, a \$5 billion alternative asset manager, concurred: “We have always invested in people and systems ahead of asset growth. Asset management, servicing and operations are all critical contributors to investing success. We prioritize these and have since inception.”

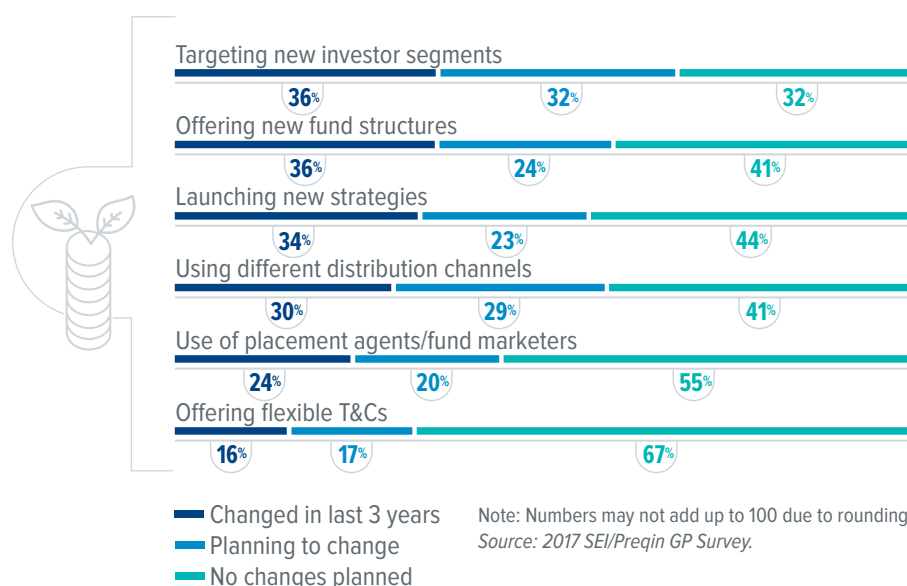


OPERATIONAL CHALLENGES

Focus on marketing, onboarding to meet investor needs

Some GPs have already started asking these questions and are reinventing themselves to meet the needs of alternative investors in 2017 and beyond. The capital-raising process, for example, is evolving. Almost seven out of 10 firms have already started targeting new investor segments or intend to do so in the near future (Figure 3). Six out of 10 are offering new types of fund structures, while others are launching new strategies or exploring different distribution channels. The use of external marketers or placement agents is rising, and some GPs are even offering flexible terms and conditions to their investors.

FIGURE 3 Has your firm changed the way it raises capital over the past three years or is it planning to?

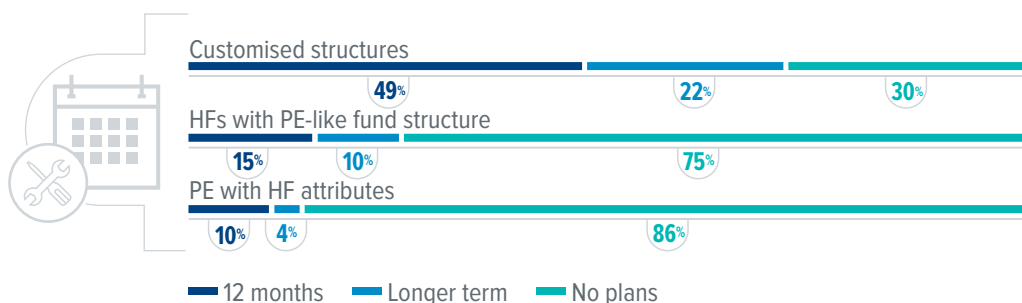


“If you can create an ideal product that’s bespoke, innovative, and tailors itself to the needs of the underlying borrower, that’s obviously more beneficial (than the alternative solutions) ...”

U.K.-based private debt manager

Product development efforts also reveal a lot about how the industry is likely to evolve over the coming years. For example, more than one out of four firms is planning to offer hedge funds with PE-like attributes (Figure 4). They are joined by a smaller group with plans to launch PE funds with hedge fund attributes. Some approaches are more esoteric than others, with one firm reporting its plan to unveil a private debt strategy managed by a hedge fund team that offered monthly reporting but a locked up structure.

FIGURE 4 Do you intend to offer different products in the coming 12 months or longer term?



Note: Numbers may not add up to 100 due to rounding.

Source: 2017 SEI/Preqin GP Survey.

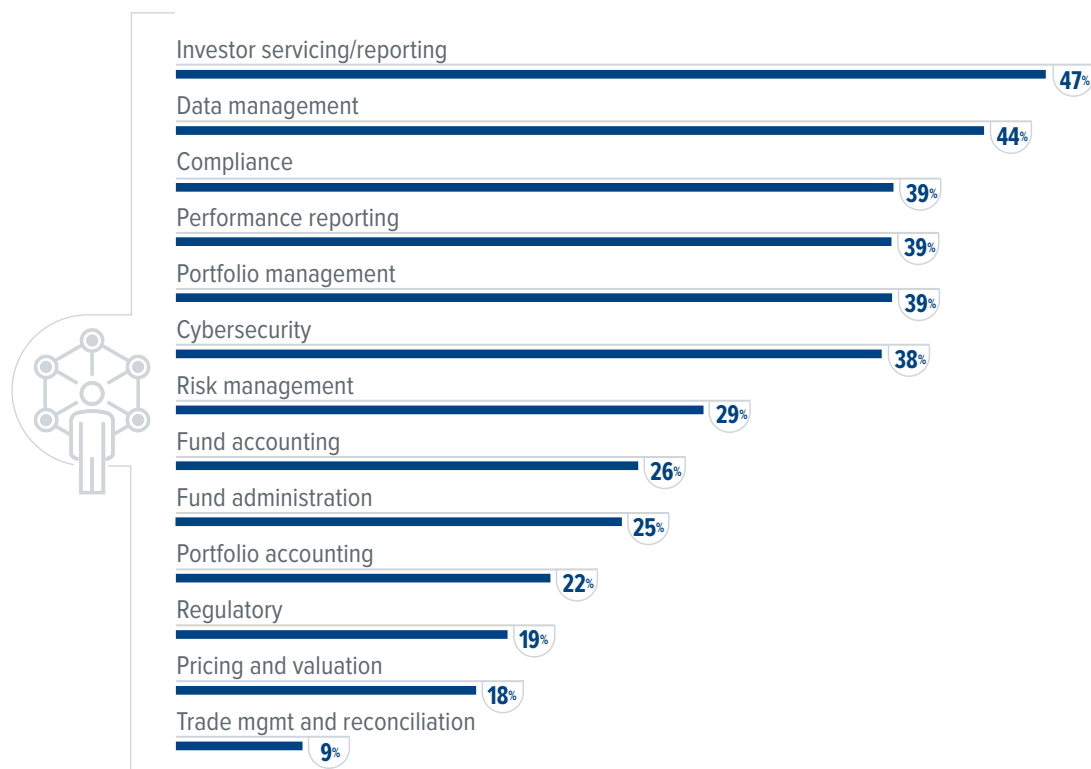
This convergence trend is perhaps first becoming apparent to fundraisers. Bob Brown, managing partner at London-based BearTooth Advisors, noted that CalPERS, the \$300 billion pension fund behemoth, recently discussed potentially changing the treatment of private equity from a discreet alternative asset allocation into merely another class of equity at a recent board meeting, a change the market will likely notice and others may well follow. Brown speculates that more and more investors will evaluate their portfolios and allocations in terms of the underlying risks inherent in a given investment (equity risk) and less on the medium (equity long/short HF versus PE buyout, for example) through which they gain exposure to that risk.

Longer-term transformations aside, the survey indicated that the biggest near-term story is in customization. More than seven out of every 10 firms plan to offer customized investment vehicles, with many planning to launch co-investment vehicles, separately managed accounts or other structures within the coming 12 months. The abundance of investment vehicles—customized or standard—is likely to test the personnel, processes and profitability at many firms. Outsourcing relationships will become more critical and investments in technology internally will need to be judicious. Orion’s Anthony Porcelli agrees, “Many of the most reputable institutional investors prefer customized vehicles ... but for managers with flagship commingled fund vehicles, launching customized investment structures for single investors likely introduces additional costs and operational demands. From this perspective, one may conclude that investors certainly drive such changes.”

Get an upper hand with technology, outsourcing

IT budgets provide fascinating insight into the challenges facing managers and how they plan to stay abreast of their competition, or in some cases, try to gain the upper hand through technology. Investor servicing is most often said to be a top IT priority, with 47% of firms directing more resources at reporting (Figure 5). The management of data comes a close second, with 44% of participants indicating that they would look to beef up their data management capabilities. Compliance remains a top priority as the regulatory environment continues to transform globally. Performance reporting comes in fourth, underscoring the sensitivity of managers to growing calls from investors for more transparent and useful reports.

FIGURE 5 Select the top five areas where your firm will allocate additional IT resources in 2017



Source: 2017 SEI/Prequin GP Survey.

What is particularly interesting about this list is the sheer variety of initiatives toward which IT budgets are being directed. Driven by a combination of customer demands, regulatory needs, competitive pressure and rapid obsolescence, technology budgets seem to swell inexorably year after year. Technology spend already accounts for a growing proportion of management fees, which have in many cases already slipped to 1.5%. Managers therefore find themselves in a quandary as the cost of investing in technology is matched only by its promise as the pace of innovation quickens.

Many firms still take a functional approach to technology, with clear-cut ownership of a function such as compliance or security. But data—the lifeblood of investment firms—ties every part of the firm together, meaning that seemingly disparate technology initiatives are actually interlinked. Managing that data in such a way that it provides maximum utility to employees and optimal transparency to investors is not something that can easily be accomplished with a traditional organizational chart. This explains the mounting demand for data scientists or an increase in roles such as chief data officer (CDO).

A growing number of firms also are finding that they can optimize technology spending by forging partnerships with external specialists in one or more functions. Alternative managers have not been as quick as their long-only counterparts to outsource various aspects of their businesses, but this is changing as their operations become more complex and investor expectations rise. Fund accounting and administration are two of the most commonly outsourced functions, but rapidly intensifying hacking threats have made cybersecurity the most widely outsourced function of all (Figure 6). A private debt survey participant commented, “As technology advances, so do the attacks; data and data retention have become so much more important.” A wide variety of other back- and middle-office functions also are being outsourced by a significant number of firms, including regulatory compliance, data management, trade reconciliation, and so on. Almost one out of three firms outsources investor reporting.

FIGURE 6 Which of the following functions are outsourced by your firm?

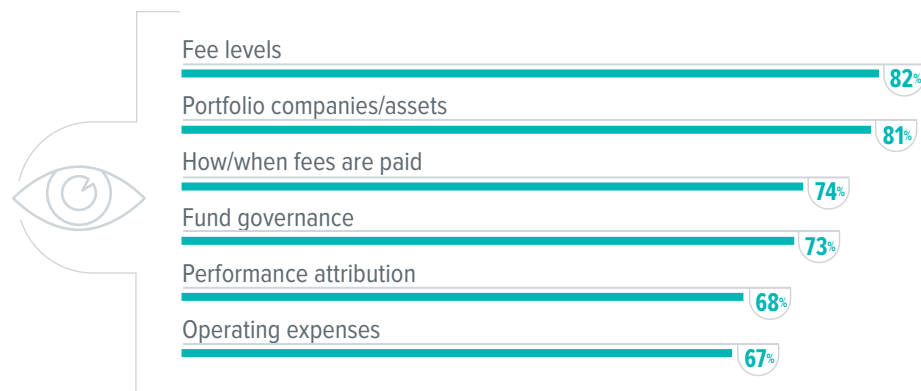


Note: Includes fully outsourced and hybrid solutions.
Source: 2017 SEI/Preqin GP Survey.

Reporting and servicing are still sensitive topics

Transparency has been a hot button issue and a point of contention for many LPs since the financial crisis. After working to accommodate their investors in the intervening years, GPs are now generally inclined to think that current levels of transparency are acceptable. This is particularly true when it comes to fees and holdings, where more than eight out of 10 managers say current levels of transparency are sufficient (Figure 7). Whether or not institutional investors agree with this assessment will be answered by our follow-up survey of LPs. Previous surveys by SEI found that LPs have typically been less enthusiastic about the quality and depth of transparency. Meanwhile, there is less agreement even among GPs regarding transparency of performance attribution or operating expenses, with one out of three disagreeing by saying that current levels of transparency are unacceptable.

FIGURE 7 Do you believe that current levels of transparency to LPs are sufficient in the following areas?



Source: 2017 SEI/Preqin GP Survey.

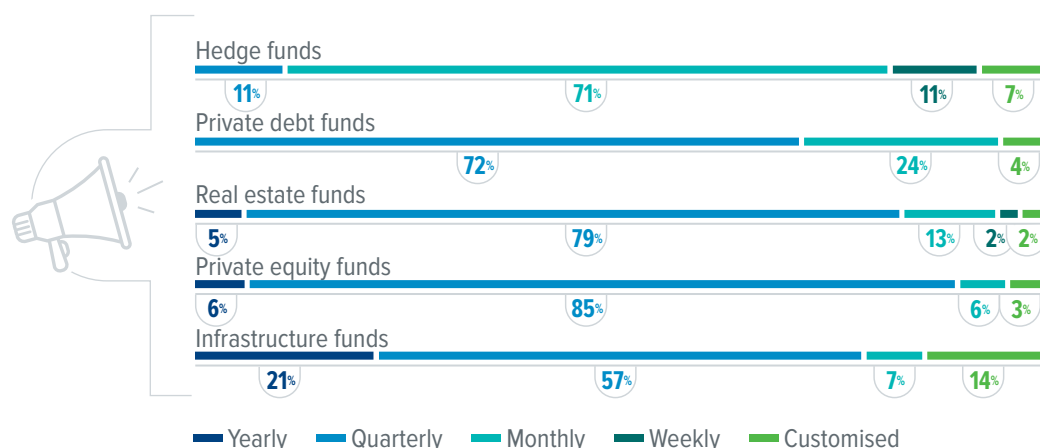
Reporting frequency can vary significantly by asset type and the lack of standardization could make it challenging for firms moving into a new asset class. Monthly reporting is standard among hedge funds, although one out of 10 produces weekly reports (Figure 8). Quarterly reporting is much more common for private equity, private debt and real estate funds, but monthly is not unusual. Infrastructure investments tend to produce the least frequent reports. Quarterly is standard, but one out of five infrastructure managers provides annual reporting.

“... the biggest issue is how different managers within [an LP’s] portfolio provide what should be more of a commodity type service ... From an LP’s perspective, you have to report internally on your portfolio of GPs to a committee ...

It becomes a ‘weakest link’ scenario for the LP: You have 25 funds, and 24 report in a regular, consistent way, and the 25th didn’t. Why continue to spend all your time chasing the 25th manager?”

*Bob Brown, managing partner,
BearTooth Advisors*

FIGURE 8 How frequently do you report to your investors?

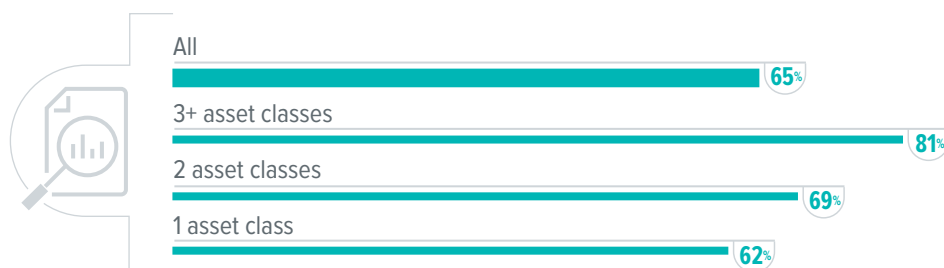


Note: Numbers may not add up to 100 due to rounding.

Source: 2017 SEI/Preqin GP Survey.

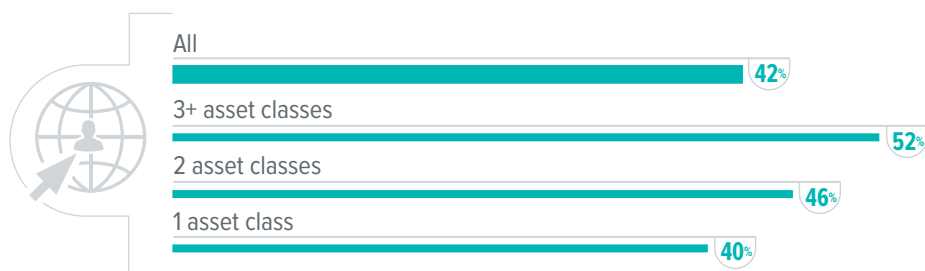
Many firms are moving beyond periodic reports by offering some combination of customization and online access. For example, tailored reports are now offered by approximately two out of three managers (Figure 9). Larger and more diversified firms are more likely to offer it than their smaller competitors. Online account access is still far from universal, with only 42% of firms offering it to their investors (Figure 10). It is more common at larger firms, particularly those managing multiple asset classes. Also, North American GPs are more likely than those in other parts of the world to offer online access.

FIGURE 9 Does your firm make customized reports available to your investors?



Source: 2017 SEI/Preqin GP Survey.

FIGURE 10 Are investor accounts accessible online at your firm?



Source: 2017 SEI/Preqin GP Survey.

The investor perspective is continually changing

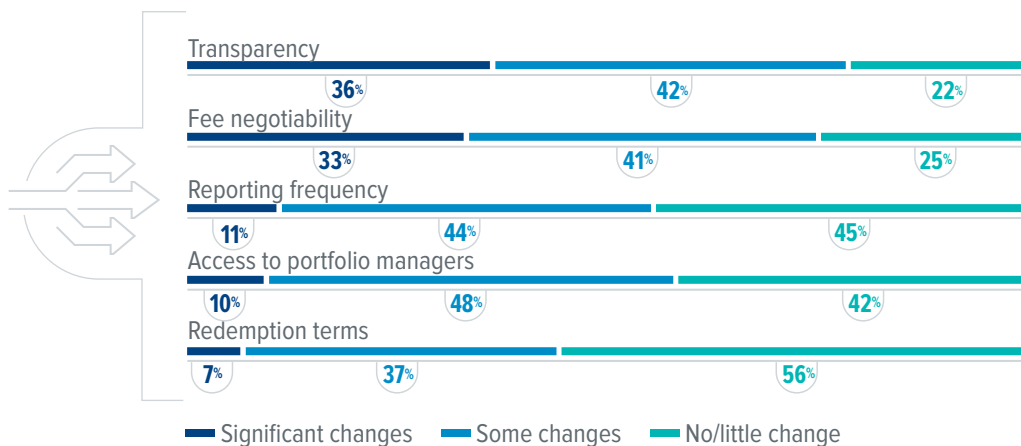
Investor expectations have changed over the past several years, emboldening them to be more demanding. These changes stem from a variety of factors including (but not limited to) a steady flow of new investors unencumbered by traditional standards, disappointing performance of some GPs, the public successes of activist investors, and a growing overlap with other parts of the asset management world where servicing standards are different. Additionally, the growing presence of retail investors is playing a role in shaping expectations. Medley's Taube summarized his firm's response as being "focused on creating innovative investment products that provide retail investors with access to institutional-quality alternative credit with sensible levels of liquidity."

"Investor demands and expectations are always evolving."

Brook Taube, CEO, Medley

Most GPs have been exposed to these changes firsthand, with many of them saying they have seen calls for greater transparency (78%) and negotiated fees (75%) in particular (Figure 11). Specific changes reported by firms in the survey include more calls for environmental, social and governance (ESG) transparency and requests to eliminate performance fees altogether. More frequent reporting and greater access to portfolio managers were other changes sought by investors according to more than 50% of the firms surveyed.

FIGURE 11 In what areas have you seen investor expectations change over the past three years?



Note: Numbers may not add up to 100 due to rounding.

Source: 2017 SEI/Preqin GP Survey.

Investor onboarding is a critical process that can set the tone for client relationships. Almost half of all GPs in the survey say that onboarding times changed over the past three years, but they are split between those reporting faster and slower times (Figure 12). Changes to onboarding times, however, are not correlated to complexity. In fact, firms managing three or more asset classes were the most likely to say onboarding times had not changed at all.

Almost one out of three respondents say fees at their firm are lower than they were three years ago, a predicament facing firms irrespective of their size or location (Figure 13). Most other firms report no change but a small minority claim fees have actually risen over that time. Interestingly, firms with the most diversified products are the most likely to state that fee levels rose.

More than half of the GPs surveyed have seen growing demands for transparency over the past three years (Figure 14). Despite being a common refrain dating back to the financial crisis, investors' desire for more transparency has yet to fade. Larger and more diversified firms in particular say calls for transparency have become louder. A \$3 billion global alternative investment manager who participated in the survey noted that there is an "increased need for transparency from investors, and coupled with their desire for fee compression and the à la carte pricing of fund service providers, [that makes it] burdensome for hedge fund managers, especially the newer launches."

“

“Much of the increased governance burden has both raised the barriers to entry to the sector and reduced entrepreneurialism and creativity.”

Asia-based private equity manager

Compliance has also become a tougher proposition, with three out of four firms saying that regulatory demands have grown (Figure 15) and one survey participant from a global multi-asset manager commenting that “much of the increased governance burden has both raised the barriers to entry to the sector and reduced entrepreneurialism and creativity.” Regulatory pressure is felt by many firms, but the largest and most diversified managers are once again the most likely to say that it has intensified in recent years. Not surprisingly, these same firms were the ones who also list compliance as a top IT budget priority. According to a U.K.-based private debt manager taking part in the survey, “it’s expensive to be compliant; we spend a lot of money on reporting ... to ensure we adhere to the highest disclosure standards.”

Cybersecurity is a widespread and growing concern causing many firms to commit considerable resources in an attempt to combat the shadowy threat. All of the additional attention seems to be helping. Two out of three firms say they are more prepared to meet cyberthreats than they were three years ago, while very few admitted to being less prepared (Figure 16). Cybersecurity efforts appear to be more advanced at North American firms than at firms located in Europe and Asia. GPs based in other areas appear least confident about their level of preparedness. Another recent survey by SEI found that diversified managers are the most likely to see cybersecurity as a significant threat, and are particularly concerned with potential damage to their firms’ reputations as well as client satisfaction.⁷

FIGURE 12 How have investor onboarding times changed over the past three years at your firm?

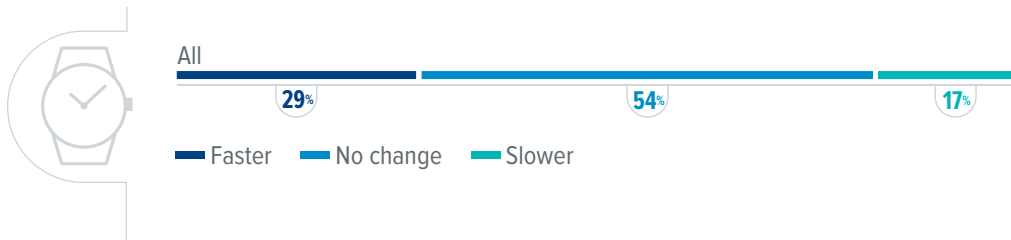


FIGURE 13 How have fee levels changed over the past three years at your firm?

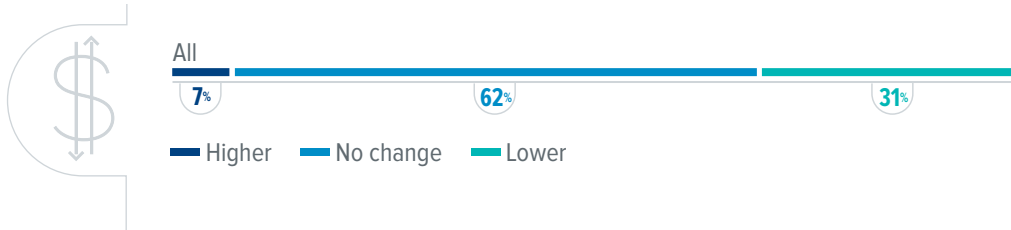


FIGURE 14 How have demands for transparency changed over the past three years at your firm?

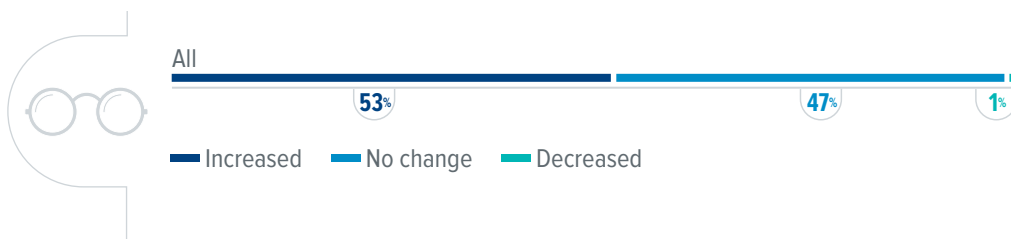


FIGURE 15 How have regulatory demands changed over the past three years at your firm?

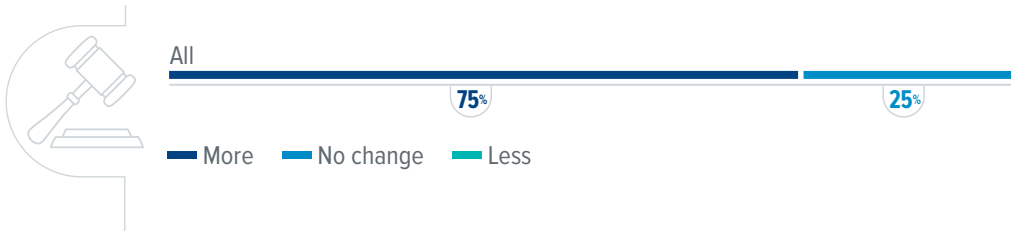
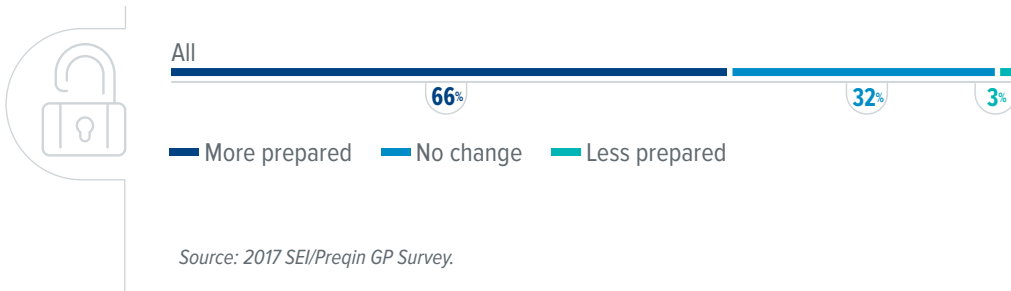


FIGURE 16 How has cybersecurity changed over the past three years at your firm?

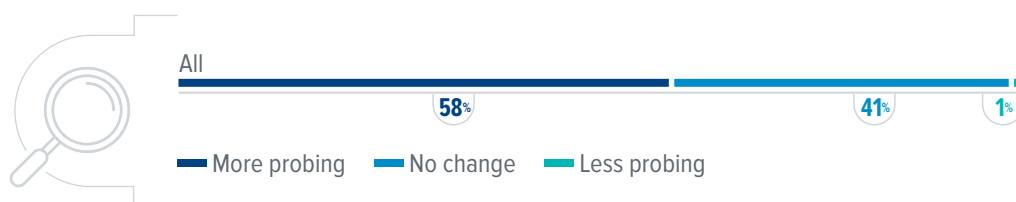


Being transparent is an advantage

All of these factors have conspired to make due diligence an increasingly demanding exercise for managers. A clear majority of firms in the survey (58%) say investor due diligence has become more penetrating over the past several years (Figure 17). Four out of 10 reported no discernable change, and it is virtually impossible to find anyone who claims due diligence has become easier. This is a global phenomenon affecting GPs of all sizes, all strategies and on all continents.

Operational characteristics that may have once been seen as unique features are now critical, if not mandatory, items on due diligence checklists. Just as important—as these merely represent the cost of entry for managers—the base set of requirements, growing choice and awareness mean investors and their advisors will continue to ask for more. Continued calls for additional transparency may irk some GPs, but they would be ill-advised to ignore these demands. Being able to provide investors with access to data that offers clarity is a competitive advantage.

FIGURE 17 How has investor due diligence changed over the past three years at your firm?



Source: 2017 SEI/Preqin GP Survey.





BEST APPROACHES TO FUTURE-PROOF YOUR BUSINESS

The bar will be even higher tomorrow. What can asset managers do to prepare themselves going forward? A single best approach is unlikely in such a fluid environment, and managers seeking to optimize their businesses will need to focus on more than just one aspect to be in a competitive position going forward. Rather, decisions will need to be made in the context of business strategies, market positioning and investor needs.

Still, it is possible to point to some best practices. As alternatives converge and investors continue to reevaluate their approach to investing, the most successful firms are likely to be those that select the best people and strategies from both the private equity and hedge fund worlds. Investors are becoming less concerned with artificial silos when it comes to asset classes and investment vehicles. They want to be offered solutions tailored to their needs and executed by talented teams in a timely and transparent way that meets their mandate.

The same goes for processes and systems. As businesses become more complex, it will become increasingly critical that operations run on flexible, integrated platforms that focus on investor outcomes rather than the underlying technology. Systems will need to be capable of handling closed-end fund structures alongside more liquid portfolios. Listed securities and syndicated loans from around the world need to be accommodated alongside traditional assets. Full data transparency will be expected, with multiple systems being able to talk to one another so managers can provide insights across asset classes, structures and vehicles. More sophisticated infrastructure will also enable multi-strategy funds to customize their risk exposures.

Customized investment strategies, fund structures and investor communications should all be anticipated. Infrastructure must never stand in the way of a manager being able to launch new products, enter new markets or provide better and more timely reports. Broadly diversified managers and specialist GPs alike will need to understand that their operational capabilities form a core part of their value proposition, and ultimately, determine whether they can support their investment expertise with a streamlined and technologically supported investor experience.

Investment acumen, networking skills and self-confidence used to be the key drivers of success for alternative managers. In an increasingly crowded and competitive environment, we can add operational capabilities to the list.

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“... the required response to a maturing industry is a better customer service experience.”

*Bob Brown, managing partner,
BearTooth Advisors*

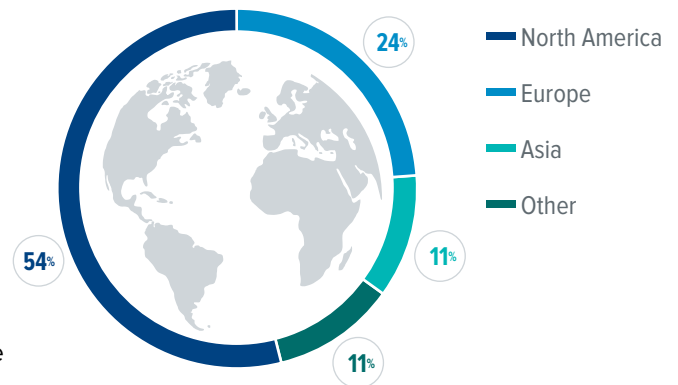


THE SURVEY

SEI and Preqin conducted a survey among 197 GPs across the alternative assets industry during the first quarter of 2017. The largest proportion of responses came from North America, followed by Europe and Asia (Figure 18). Firms range from those with more than \$5 billion under management to others with less than \$100 million (Figure 19). The average employee headcount across all firms surveyed was 52 employees but it varies dramatically by asset size, from 268 employees at the largest firms to only five at the smallest ones (Figure 20).

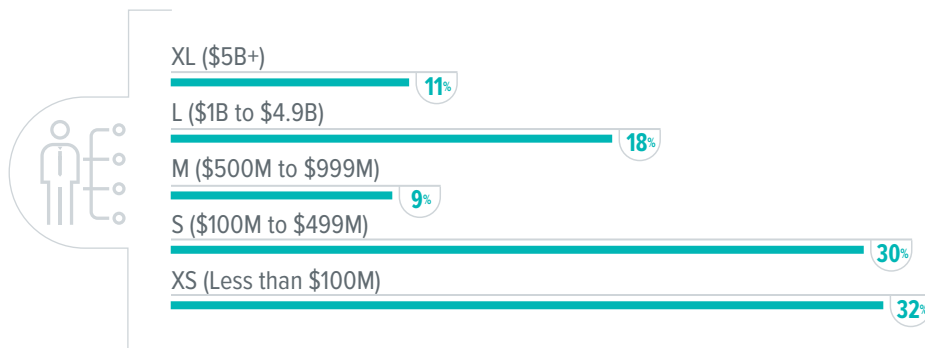
Participating firms manage a wide range of strategies and in some cases are diversified across several asset classes. Private equity is the most commonly managed type of asset, but real estate accounts for the largest average percentage of assets under management (Figures 21 and 22). Median allocations to hedge funds and private equity are each 100%. The fact that more than half of all GPs managing these asset classes devote all of their attention to them highlights the continued prevalence of specialized managers. Firms with assets focused on the real estate space also have a large allocation dedicated to the asset class, showing that while many firms tend to focus on the asset class exclusively, others have at least some exposure to other asset classes. Smaller and less established asset classes, such as private debt and infrastructure, tend to have smaller allocations as a percentage of overall AUM.

FIGURE 18 Where is your firm headquartered?



Note: Numbers may not add up to 100 due to rounding.
Source: 2017 SEI/Preqin GP Survey.

FIGURE 19 What are your firm's assets under management (AUM)?



Source: 2017 SEI/Preqin GP Survey.

FIGURE 20 Average number of employees worldwide

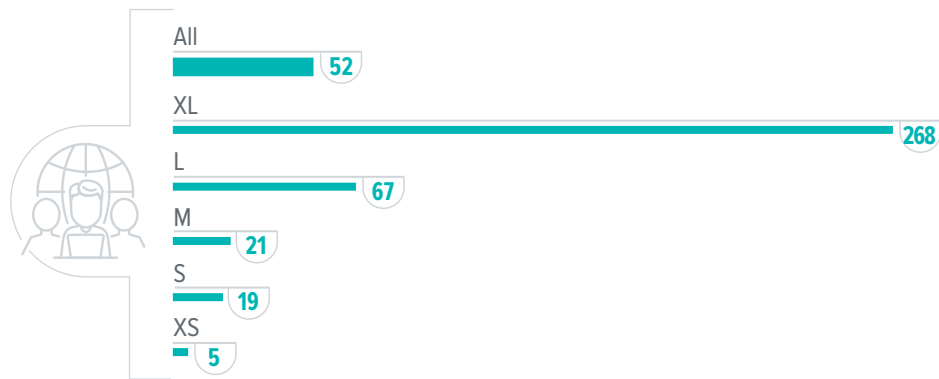


FIGURE 21 Asset classes managed

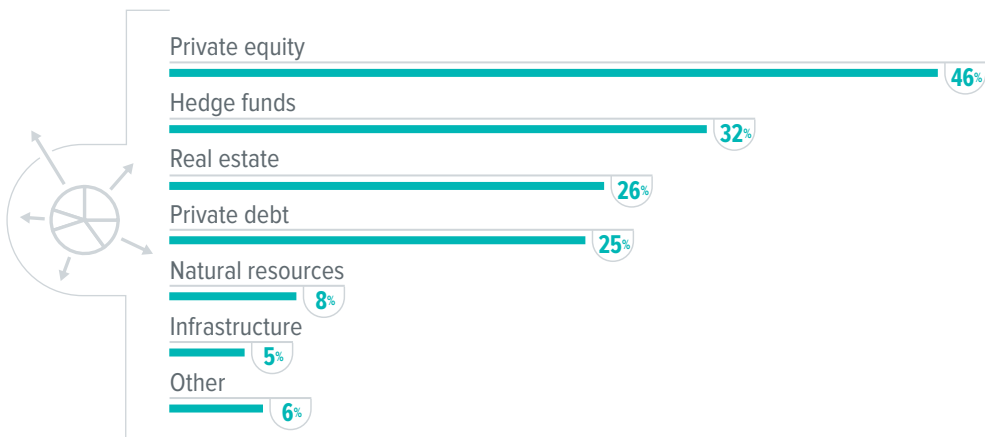
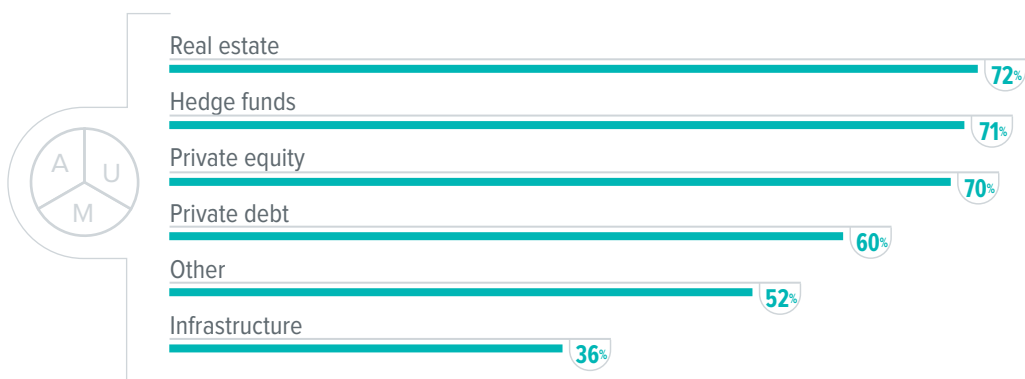


FIGURE 22 Average percentage of AUM accounted for by asset class



Source: 2017 SEI/Preqin GP Survey.

ABOUT SEI

SEI (NASDAQ:SEIC) is a leading global provider of investment processing, investment management, and investment operations solutions that help corporations, financial institutions, financial advisors, and ultra-high-net-worth families create and manage wealth. As of June 30, 2017, through its subsidiaries and partnerships in which the company has a significant interest, SEI manages or administers \$809 billion in hedge, private equity, mutual fund and pooled or separately managed assets, including \$307 billion in assets under management and \$497 billion in client assets under administration. For more information, visit **seic.com**.

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For more information, contact **info@peqin.com** or visit **www.peqin.com**.

Sources:

¹ Preqin data from year-end 2012 to 2016.

² “Preqin Investor Outlook H1 2017,” Preqin, 2017.

³ “Preqin Hedge Fund Online,” Hedge Fund Asset Flows by Strategy, 2015–2016, Preqin.

⁴ “Preqin Hedge Fund Online,” 2017.

⁵ “Preqin Private Debt Online,” 2017.

⁶ “Preqin Real Estate Online,” 2017.

⁷ “Staying Safe in a Perilous World,” SEI, March 2017.





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