PREQIN INVESTOR OUTLOOK: ALTERNATIVE ASSETS H1 2018

Private Equity ▪ Venture Capital ▪ Hedge Funds ▪ Real Estate
Infrastructure ▪ Private Debt ▪ Natural Resources

CONTENTS

DATA PACK FOR PREQIN INVESTOR OUTLOOK: ALTERNATIVE ASSETS, H1 2018

The data behind all of the charts featured in this report is available to download for free. Ready-made charts are also included that can be used for presentations, marketing materials and company reports.

To download the data pack, please visit: **www.preqin.com/investoroutlook**

FOREWORD

The alternative assets industry has gone from strength to strength in recent years as institutional investors have allocated heavily to alternatives, driven by their search for diversification and improved returns in a low-yield environment. As investors become more sophisticated in their understanding of these investments, the industry continues to evolve and new challenges and opportunities emerge.

In this report, we present the results of our survey of over 550 investors, carried out in December 2017, in which investors were asked for their views on the state of the industry and outlook for the future. As investors go into 2018, sentiment with respect to alternatives remains noticeably positive, with the majority of respondents reporting that their return expectations had been met or exceeded over the past year. Even hedge funds, which have faced negative sentiment in recent years from investors concerned about performance and high fees, saw a notable improvement in both returns and investor sentiment over the course of 2017.

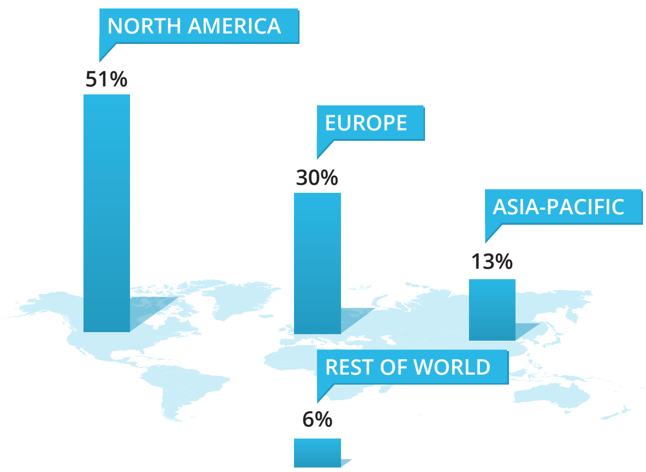
Nevertheless, investors have a number of concerns about alternative assets, particularly in relation to asset valuations and fund performance. With large amounts of dry powder now held by private capital fund managers and high multiples being paid for assets, there is less margin for error and many investors reported concerns that performance could fall across private capital funds in future. Similarly, while the performance of hedge funds as an asset class was much improved in 2017, performance and fees remain investors' top priorities for the asset class.

Looking ahead, the prospect of future interest rate rises and the unwinding of central bank stimulus policies pose new challenges for the alternatives industry, as the low-yield environment which has helped to encourage investment in alternative assets may begin to change. However, the institutional investors Preqin surveyed remain committed to alternatives as part of their portfolios, with the majority planning to maintain or increase their allocation over the longer term across all alternative asset classes.

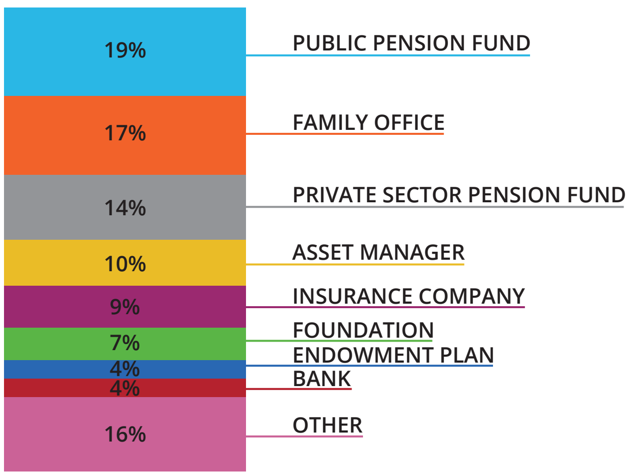
Preqin's online platform is an indispensable fundraising and investor relations tool for any firm managing or looking to manage institutional capital. Thousands of professionals use Preqin every day to source new investors, access exclusive information on new RFPs and fund searches, monitor the market and track competing firms.

To find out how Preqin's services can help your business in the coming months, please contact at us at info@preqin.com or at our New York, London, Singapore, Hong Kong or San Francisco offices.

RESPONDENTS BY INVESTOR LOCATION



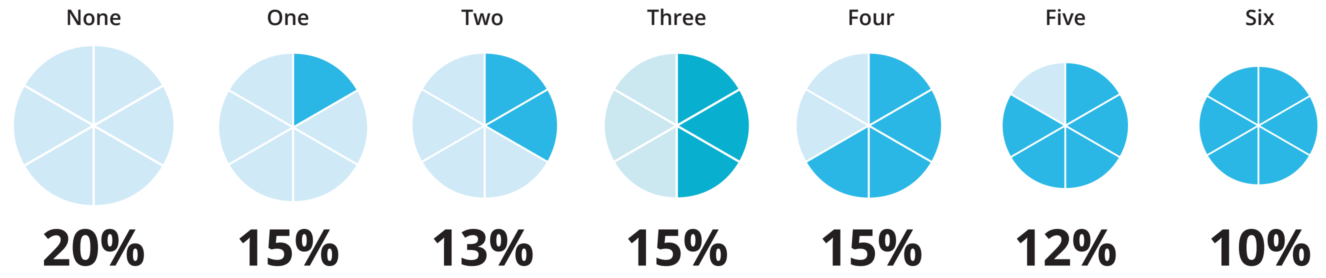
RESPONDENTS BY INVESTOR TYPE



SECTION ONE: ALTERNATIVE ASSETS

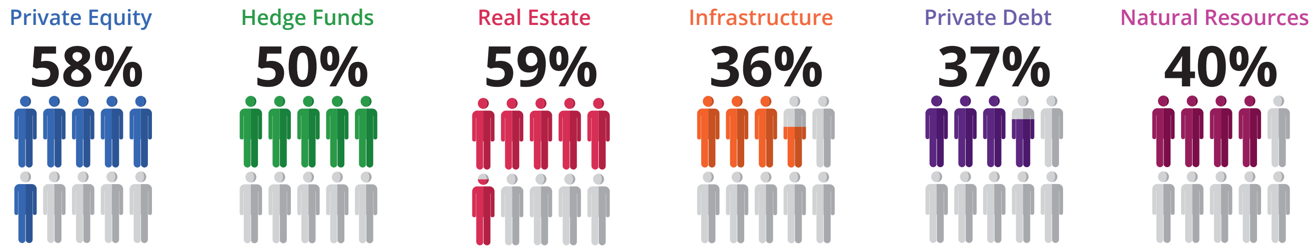
PARTICIPATION IN ALTERNATIVE ASSETS

INSTITUTIONAL INVESTORS BY NUMBER OF ALTERNATIVE ASSET CLASSES INVESTED IN



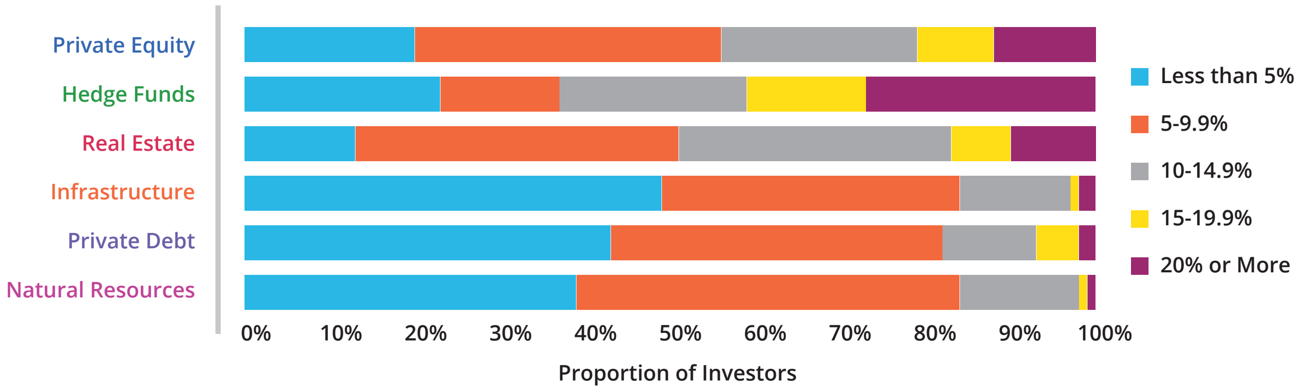
Source: Preqin Online Products

PROPORTION OF INSTITUTIONAL INVESTORS ALLOCATING TO EACH ALTERNATIVE ASSET CLASS



Source: Preqin Online Products

INSTITUTIONAL INVESTORS IN ALTERNATIVE ASSETS BY TARGET ALLOCATION TO EACH ASSET CLASS (AS A % OF AUM)



Source: Preqin Online Products

24-HOUR CLIENT SUPPORT

With teams strategically based in industry hubs across the globe, Preqin offers unrivalled, round-the-clock customer service and data request support through our Preqin Avail service.

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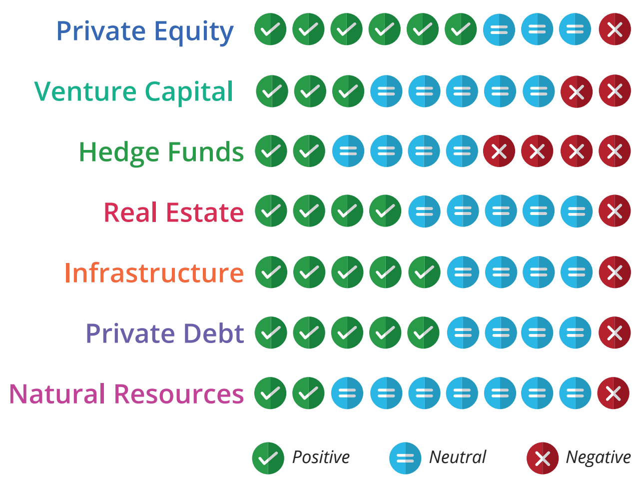
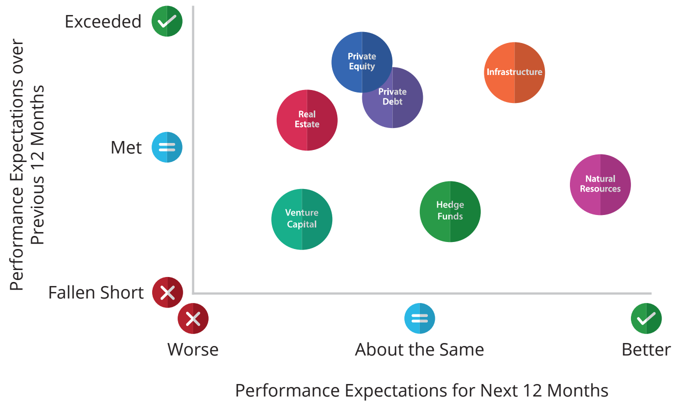
PERCEPTION AND EXPECTATIONS

INSTITUTIONAL INVESTORS' GENERAL PERCEPTION OF ALTERNATIVE ASSET CLASSES



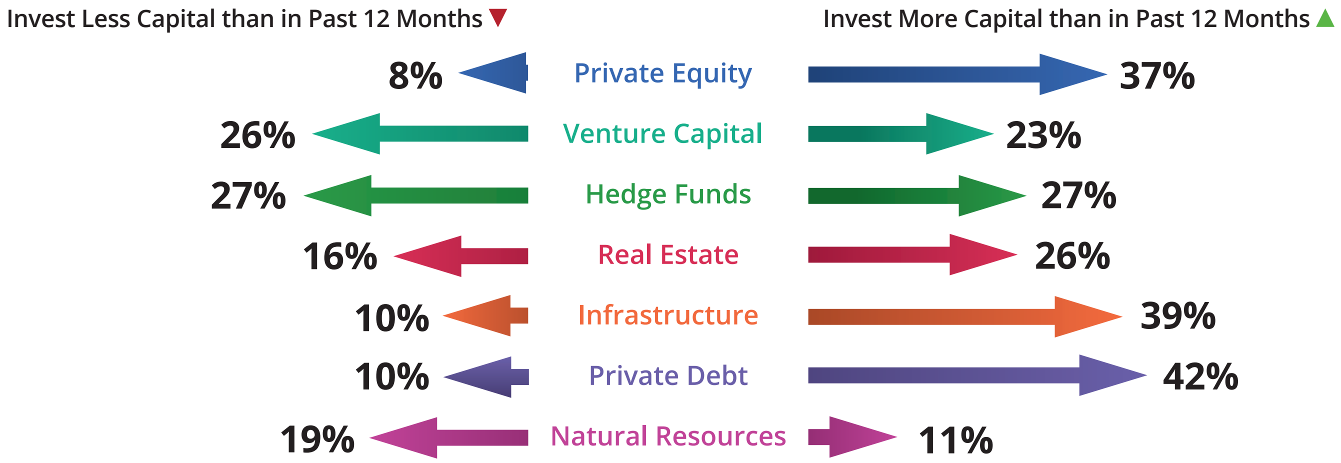
Source: Preqin Investor Interviews, December 2017

INSTITUTIONAL INVESTOR VIEWS ON ALTERNATIVE ASSETS PERFORMANCE



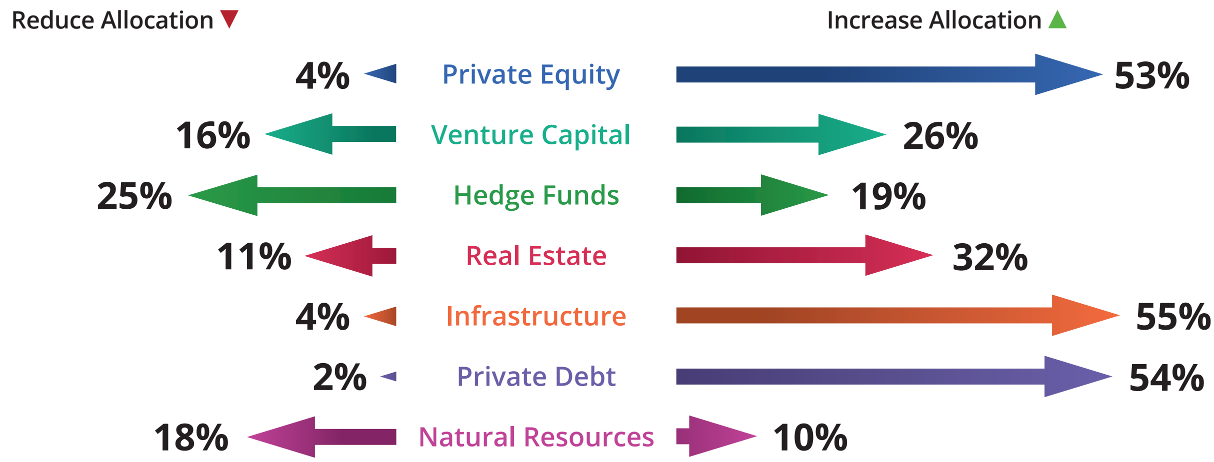
Source: Preqin Investor Interviews, December 2017

INSTITUTIONAL INVESTORS' PLANS FOR THE COMING YEAR



Source: Preqin Investor Interviews, December 2017

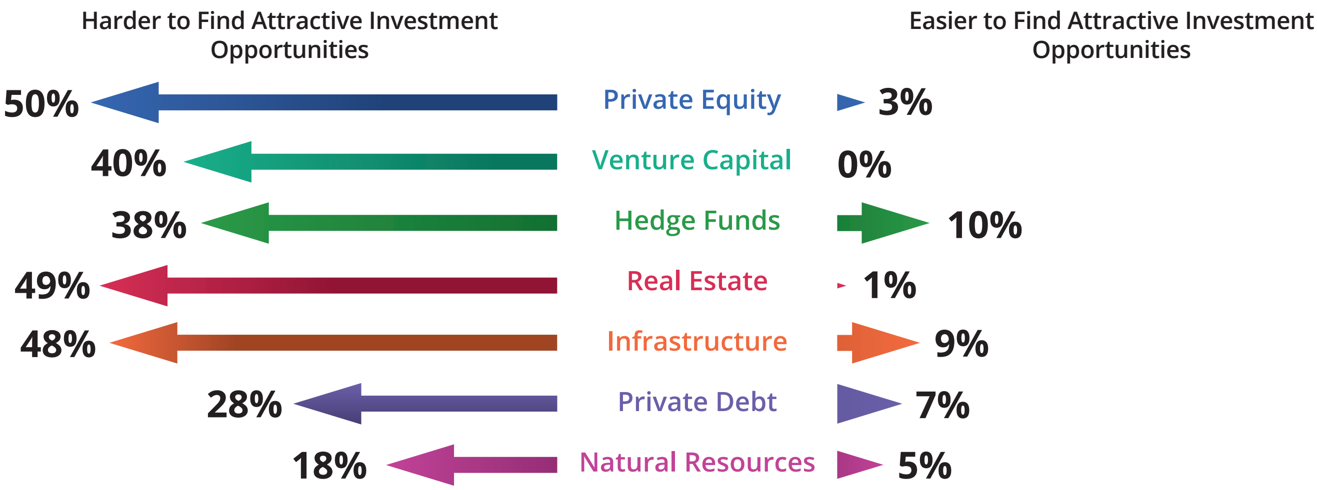
INSTITUTIONAL INVESTORS' PLANS FOR THE LONGER TERM



Source: Preqin Investor Interviews, December 2017

FUND SELECTION AND MARKETING

INSTITUTIONAL INVESTOR VIEWS ON THE DIFFICULT OF SOURCING INVESTMENT OPPORTUNITIES COMPARED TO 12 MONTHS AGO

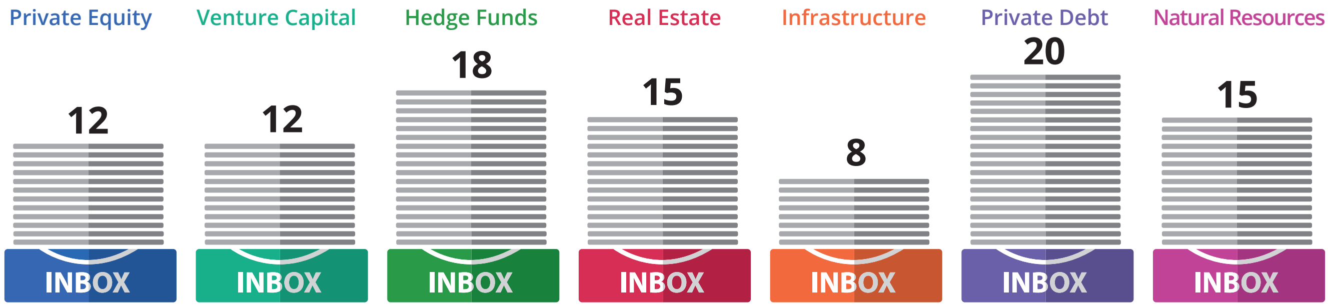


Source: Preqin Investor Interviews, December 2017

AVERAGE NUMBER OF COMMITMENTS INSTITUTIONAL INVESTORS MAKE PER YEAR

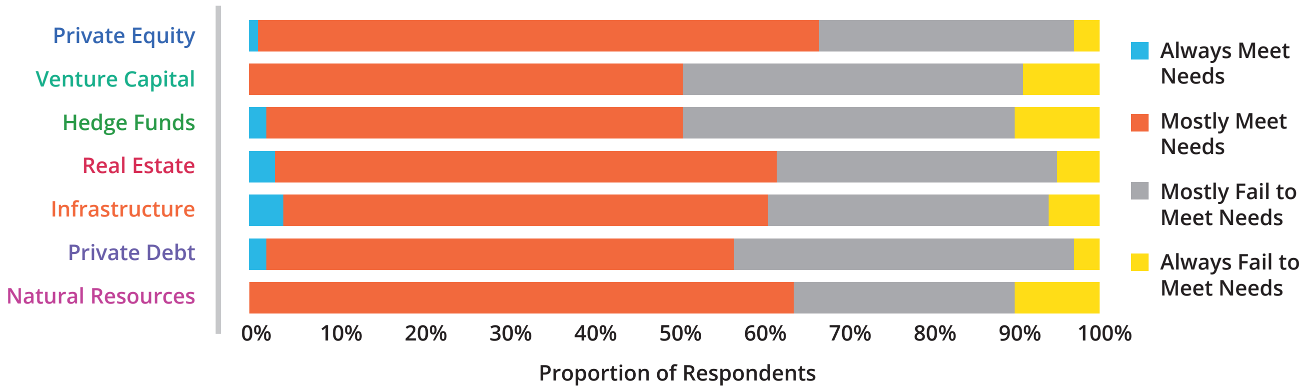
Source: Preqin Investor Interviews, December 2017

AVERAGE NUMBER OF MARKETING DOCUMENTS INSTITUTIONAL INVESTORS RECEIVE PER MONTH



Source: Preqin Investor Interviews, December 2017

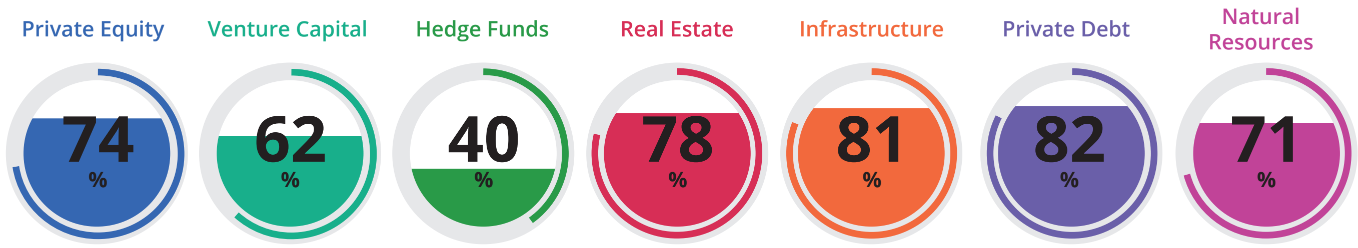
INSTITUTIONAL INVESTORS VIEWS ON THE FREQUENCY WITH WHICH MARKETING DOCUMENTS MEET THEIR NEEDS



Source: Preqin Investor Interviews, December 2017

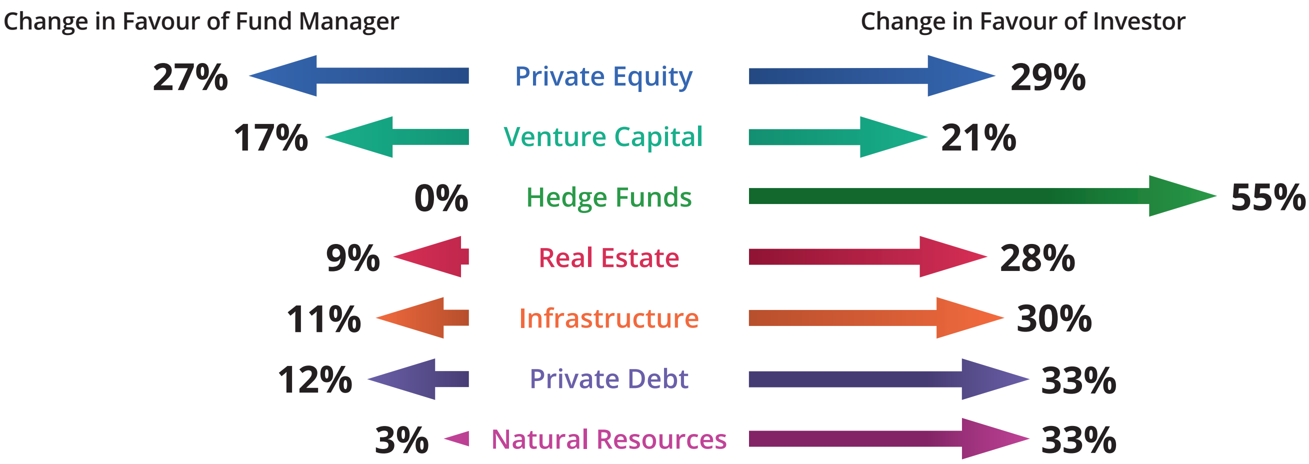
FUND TERMS AND ALIGNMENT OF INTERESTS

PROPORTION OF INSTITUTIONAL INVESTORS THAT FEEL FUND MANAGER AND INVESTOR INTERESTS ARE PROPERLY ALIGNED



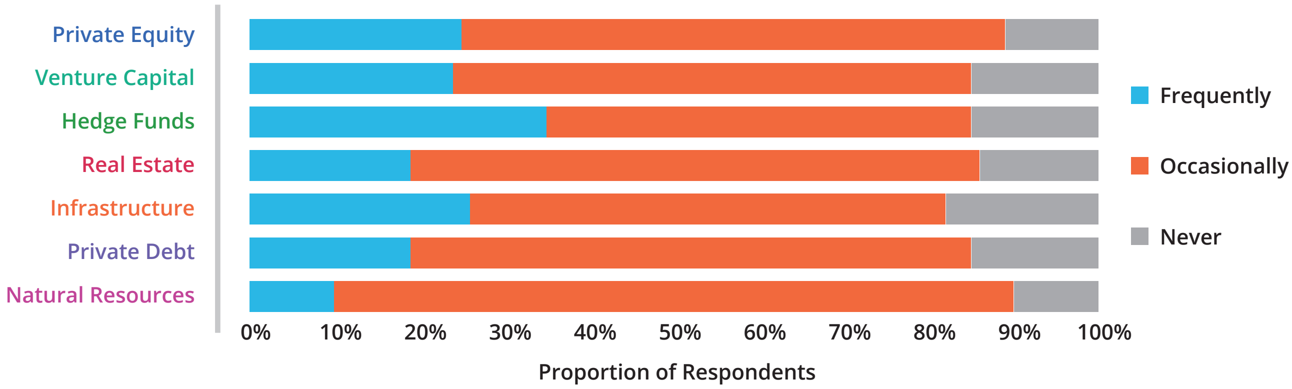
Source: Preqin Investor Interviews, December 2017

INSTITUTIONAL INVESTOR VIEWS ON CHANGES IN PREVAILING FUND TERMS OVER THE PAST 12 MONTHS



Source: Preqin Investor Interviews, December 2017

FREQUENCY WITH WHICH INSTITUTIONAL INVESTORS HAVE DECIDED NOT TO INVEST IN A FUND DUE TO THE PROPOSED TERMS AND CONDITIONS



Source: Preqin Investor Interviews, December 2017

SECTION TWO:
PRIVATE EQUITY

APPETITE PERSISTS DESPITE VALUATIONS CONCERNS

Preqin's survey results show that entry prices for assets have been at the forefront of investors' minds for the past three years; however, the level of concern has now reached new heights – 88% of LPs cited valuations as the biggest challenge facing the private equity industry in 2018. With dry powder levels now exceeding $1tn, bull market conditions and increased competition from direct investors, high pricing looks set to continue for the foreseeable future.

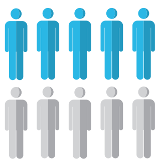
While high pricing is common to most asset classes today, there is clearly unease among investors over the impact it is having on deal flow, and the future impact it may have on returns appears to have dented investor sentiment. Investors surveyed by Preqin in December 2017 were less positive about private equity than 12 months prior: 63% of respondents had a positive view of private equity in December 2017, compared to 84% in December 2016 – the smallest proportion in three years.

Despite the challenges and concerns that investors recognize in the asset class, the prospects for private equity look strong in 2018 as investors seek the most attractive risk-adjusted returns for their capital. Ninety-five percent of investors feel that the performance of their private equity portfolios met or exceeded their expectations in the past 12 months, and 92% of LPs are looking to deploy the same amount if not more capital in 2018 than they did in 2017. Furthermore, 80% of those planning to make a commitment are looking to do so in Q1 2018. The longer-term outlook is also very positive: 53% of LPs plan to increase their allocation to private equity over the long term, up from 48% of respondents in December 2016.

KEY ISSUES

88%

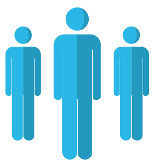
of investors consider valuations to be one of the key issues facing the private equity industry in 2018.



50%

of investors believe it is currently harder to find attractive investment opportunities than 12 months ago.

INVESTOR SATISFACTION



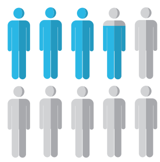
63%

of investors have a positive perception of private equity, down from 84% in December 2016.

38%

of investors reported that their private equity investments over the past three years had exceeded expectations.

FUTURE PLANS



37%

of investors plan to commit more capital to private equity funds over the next 12 months than the past 12 months.

53%

of investors plan to increase their allocation to private equity over the long term.

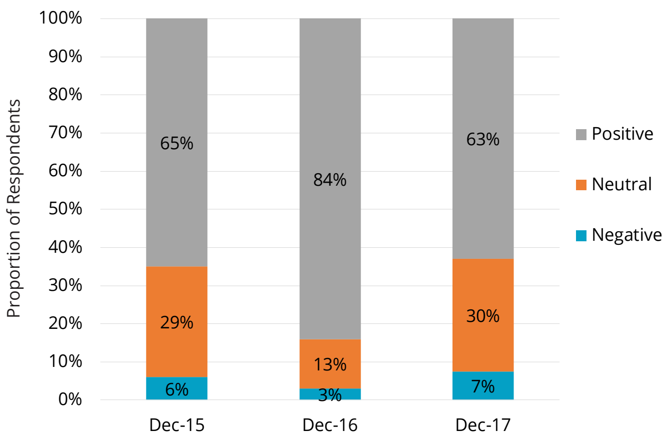
SATISFACTION WITH PRIVATE EQUITY

Among investors interviewed by Preqin in December 2017, 63% reported a positive view of the asset class, a substantial decrease from 84% of those surveyed in December 2016 and the smallest proportion in three years (Fig. 2.1). This is perhaps unsurprising given that the survey results also showed that 40% of LPs feel portfolio companies are currently overpriced and that a market correction is imminent or likely in the next 12 months.

Despite this, the majority (69%) of investors felt that their fund investments had met their expectations over the past 12 months, with a further 26% stating that their expectations were exceeded, up from 24% of those surveyed at the end of 2016 (Fig. 2.2). The same trend is apparent over a three-year timeframe but with an even larger proportion (38%) of investors reporting that their expectations had been exceeded (Fig. 2.3).

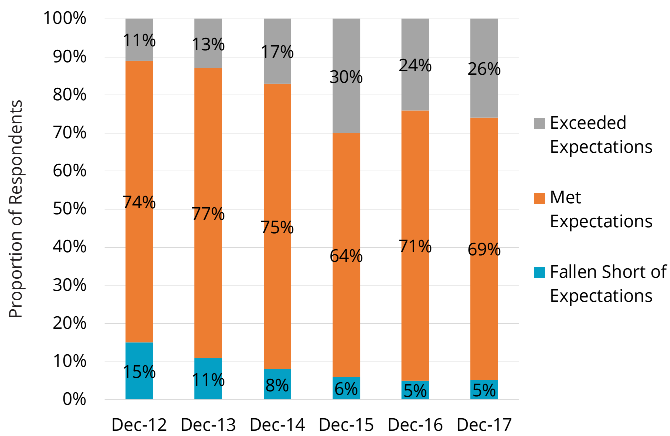
Current high valuations and the potential impact on private equity performance appears to have lowered investors' return expectations: the proportion of LPs with return expectations of 4.1% or more above public markets has decreased by nine percentage points from 2016 (Fig. 2.4). At the same time, there has been an increase in the proportion of investors expecting returns to either be the same as public markets or only +2% more.

Fig. 2.1: Investors' General Perception of the Private Equity Industry, 2015 - 2017



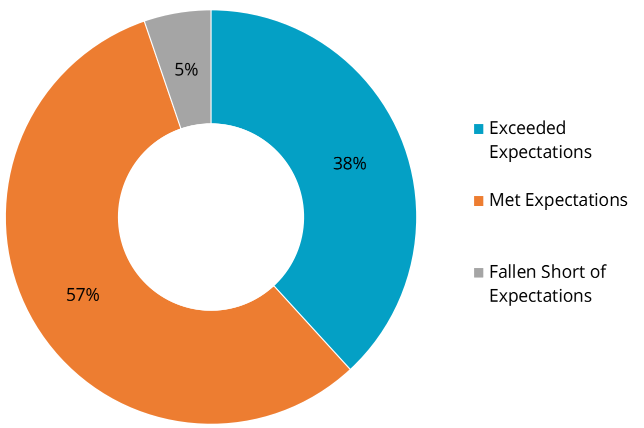
Source: Preqin Investor Interviews, December 2015 - 2017

Fig. 2.2: Extent to Which Investors Feel Their Private Equity Investments Have Lived up to Expectations over the Past 12 Months, 2012 - 2017



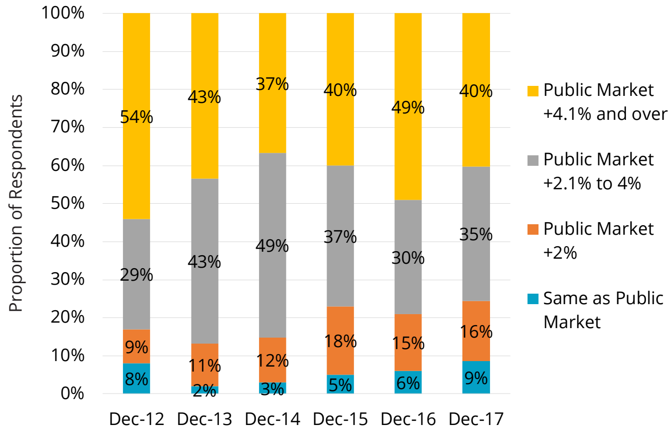
Source: Preqin Investor Interviews, December 2012 - 2017

Fig. 2.3: Extent to Which Investors Feel Their Private Equity Investments Have Lived up to Expectations over the Past Three Years



Source: Preqin Investor Interviews, December 2017

Fig. 2.4: Investor Return Expectations for Their Private Equity Portfolios in the Next 12 Months Compared to the Previous 12 Months, 2012 - 2017



Source: Preqin Investor Interviews, December 2012 - 2017

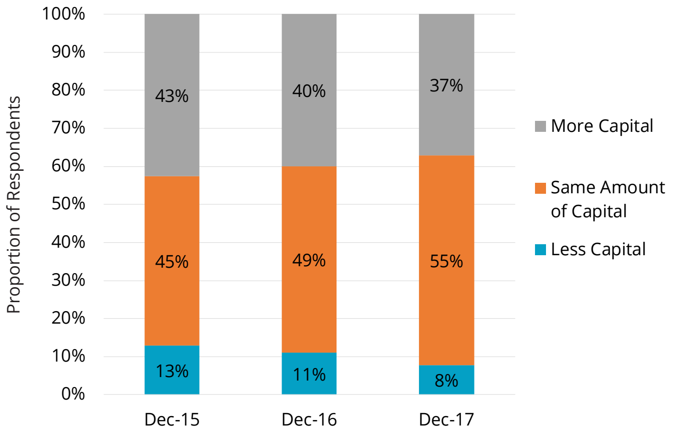
INVESTOR ACTIVITY IN 2018

Despite the challenges facing investors in 2018, the majority remain committed to the asset class. Fifty-five percent of those surveyed plan to invest the same amount of capital in private equity funds as they did in 2017, while a further 37% intend to commit more capital than they did in the past year (Fig. 2.5). Just 8% of respondents plan to invest less capital in 2018 – down three percentage points from the corresponding proportion of investors surveyed at the end of 2016.

The prospect of further growth in private equity over the longer term is strong: 53% of investors surveyed in December 2017 plan to increase their allocation to the asset class over the long term, the largest proportion in the period shown (Fig. 2.6). There has also been a corresponding decrease in the proportion of investors that plan to reduce their allocation over the long term, down to just 4% of respondents in December 2017.

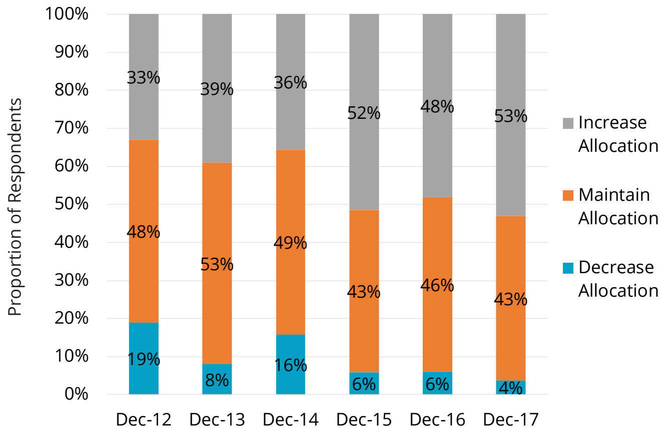
Ninety-two percent of surveyed investors are looking to make their next fund commitment in H1 2018 (Fig. 2.7). With distributions continuing to outstrip capital calls, investors will need to re-invest significant amounts of capital back into the asset class in order to meet target allocations. However, 54% of LPs are looking to maintain the same number of GP relationships in the next two years, while a further 11% plan to decrease the number of managers in their portfolio, in line with the trend of capital being concentrated with fewer, more established players (Fig. 2.8).

Fig. 2.5: Investors' Expected Capital Commitments to Private Equity Funds in the Next 12 Months Compared to the Previous 12 Months, 2015 - 2017



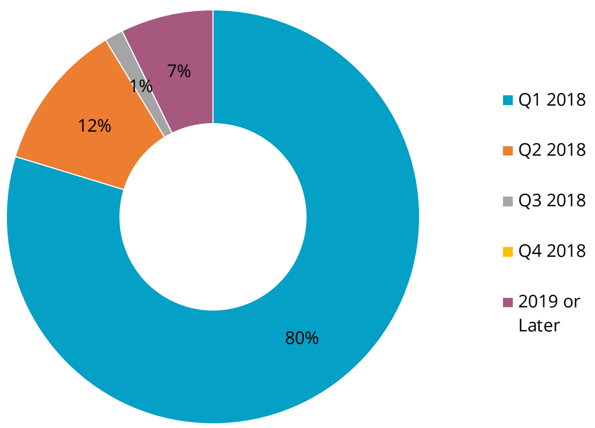
Source: Preqin Investor Interviews, December 2015 - 2017

Fig. 2.6: Investors' Intentions for Their Private Equity Allocations in the Longer Term, 2012 - 2017



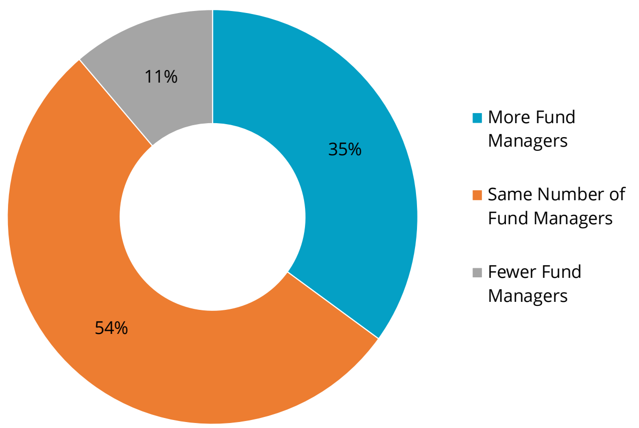
Source: Preqin Investor Interviews, December 2012 - 2017

Fig. 2.7: Timeframe for Investors' Next Intended Commitment to a Private Equity Fund



Source: Preqin Investor Interviews, December 2017

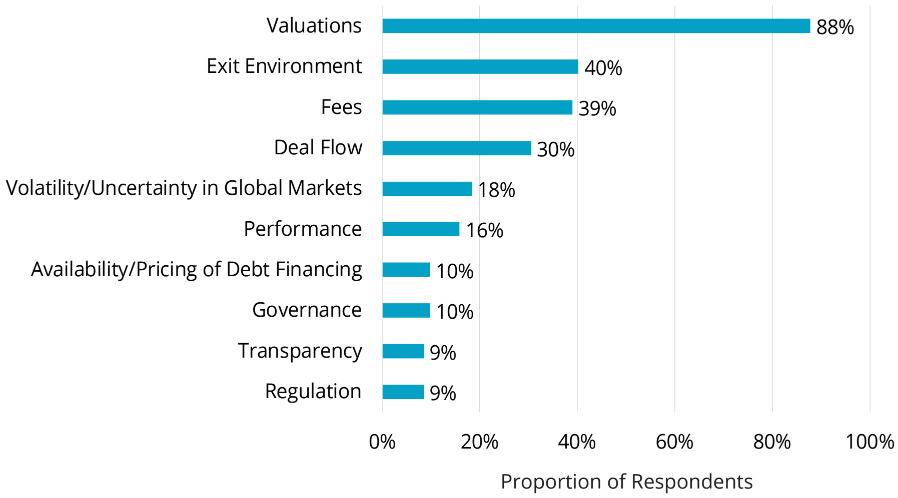
Fig. 2.8: Investors' Expected Change in the Number of Fund Managers in their Private Equity Portfolios in the Next Two Years



Source: Preqin Investor Interviews, December 2017

KEY ISSUES IN 2018

Fig. 2.9: Investor Views on the Key Issues for Private Equity in 2018



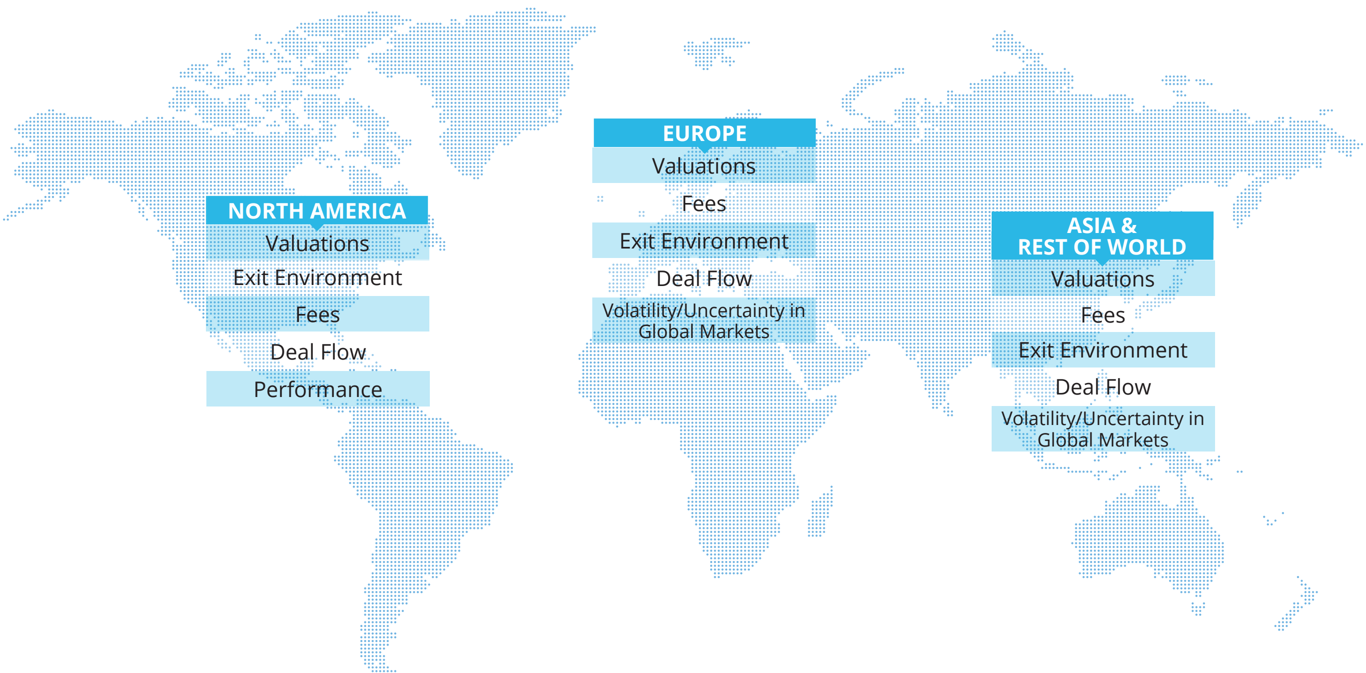
Source: Preqin Investor Interviews, December 2017

High valuations remain the main issue that investors feel will most affect the private equity asset class in 2018, as identified by 88% of respondents (Fig. 2.9) – up 18 percentage points compared to the prior year's survey. Investors' pricing concerns combined with record dry powder levels are making it more difficult for GPs to deploy capital and a significant proportion (30%) of LPs are concerned over future deal flow; half of respondents believe it is now harder to identify attractive investment opportunities compared to 12 months ago – up five percentage points from 2016 (Fig. 2.10). The exit environment and fees also continue to weigh on investors' minds, identified by around two-fifths of investors as key issues. However, investors based in Europe, Asia and Rest of World believe fees will be a bigger issue for the market in 2018 than the slow exit environment.

Encouragingly, over the next 12 months, 72% of investors surveyed feel that current valuations for portfolio companies will lead to similar or higher returns (Fig. 2.11). However, over the longer term, the outlook is not as positive, with over a third (34%) of respondents believing valuations will produce lower returns. In terms of where we are in the current cycle, 81% of investors feel that assets are currently overvalued and that a market correction is likely (Fig. 2.12); however, respondents are undecided as to when a correction will occur – the largest proportion (41%) believe that it is still more than 12 months away.

Equity market movements have had the biggest impact on investors' portfolios in the past 12 months and will do so again

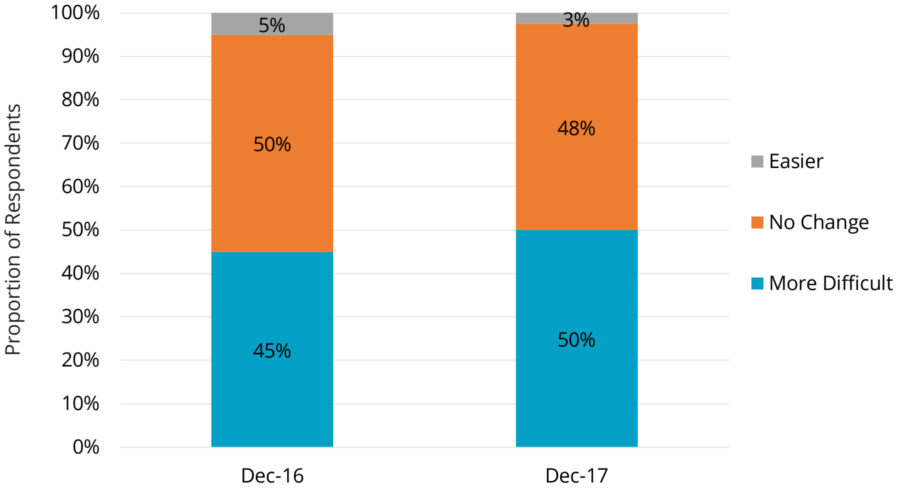
Investors' Top Five Issues for Private Equity in 2018 by Investor Location:



Source: Preqin Investor Interviews, December 2017

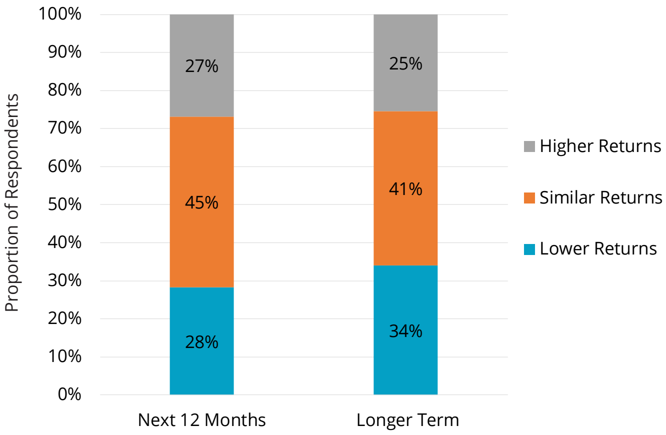
in 2018, as cited by 60% and 64% of respondents respectively (Fig. 2.13). Low interest rates have also had a significant impact on LPs' portfolios in 2017, as cited by nearly half (47%) of respondents. However, with the Federal Reserve raising interest rates three times by the end of 2017, and the UK following suit, there is a significant proportion (34%) of investors that feel the possibility of interest rate rises will have a significant impact on portfolios in the coming year.

Fig. 2.10: Investor Views on the Difficulty of Identifying Attractive Investment Opportunities Compared to 12 Months Ago, 2016 vs. 2017



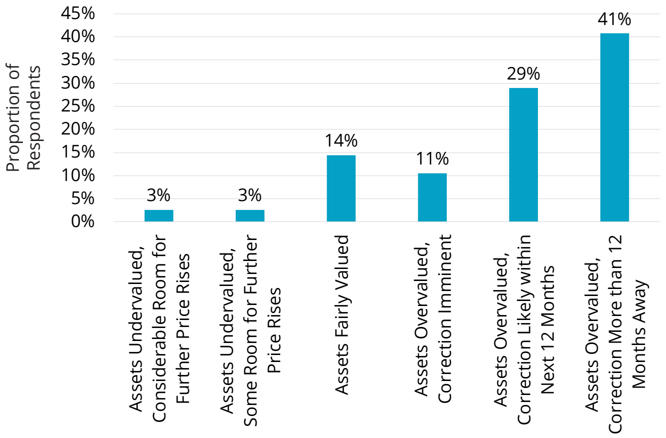
Source: Preqin Investor Interviews, December 2016 - 2017

Fig. 2.11: Investor Views on How Current Valuations for Portfolio Companies Will Impact Private Equity Returns in the Next 12 Months and Longer Term



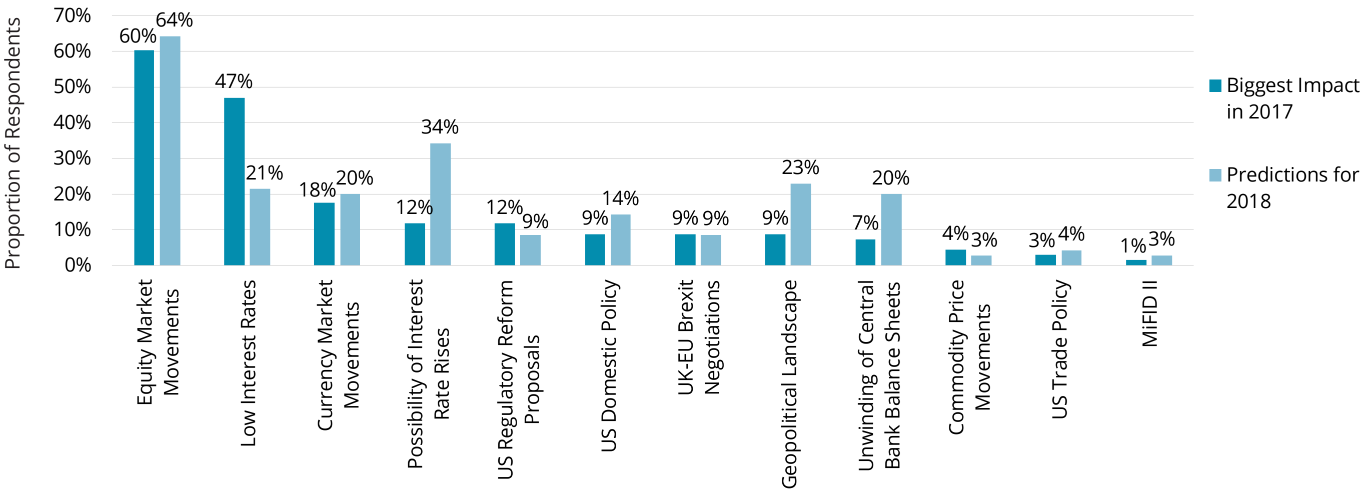
Source: Preqin Investor Interviews, December 2017

Fig. 2.12: Investor Views on Where Private Equity Is in the Current Market Cycle



Source: Preqin Investor Interviews, December 2017

Fig. 2.13: Investor Views on the Macroeconomic Factors that Had the Biggest Impact on Their Private Equity Portfolios in 2017 vs. Predictions for 2018



Source: Preqin Investor Interviews, December 2017

EXPECTATIONS AND OPPORTUNITIES

Nearly two-thirds (65%) of investors are expecting the same level of returns from their private equity portfolios in the coming year as in 2017 (Fig. 2.14). However, 20% of respondents believe their portfolios will deliver lower returns compared to 15% of investors expecting higher returns over the coming year.

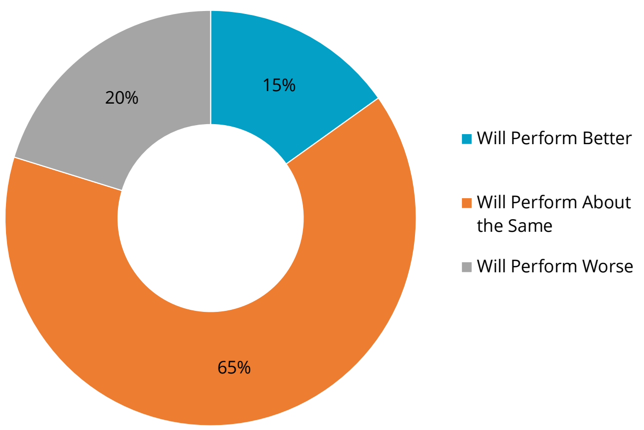
Small to mid-market buyout funds continue to present the best opportunities, according to 49% of LPs surveyed; however, this is a significantly smaller proportion than in previous years (Fig. 2.15). The proportion of LPs favouring growth fund investments has risen by 10 percentage points from just 18% in 2016 to 28% in 2017.

Investors still believe that North America presents the best opportunities in private equity, as cited by 69% of those surveyed, compared with 61% in 2016 (Fig. 2.16). Over half (51%) of LPs believe Europe presents the best opportunities, while significantly more investors view Asia favourably than did so the previous year (32% vs. 20% respectively).

Although the same proportion of LPs believe emerging markets present the best opportunities as at the end of 2016, in terms of allocations, emerging markets are proving to be of increasing interest to investors: 30% of LPs plan to increase their allocation to these regions in the next 12 months. This is a significant increase from 20% of investors surveyed in December 2016.

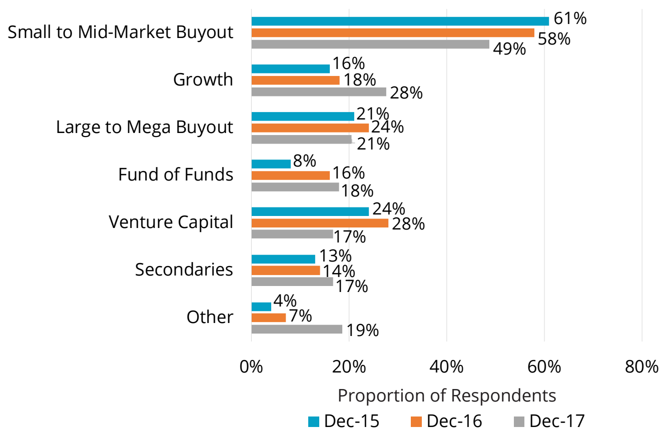
Within emerging markets, over half (51%) of investors surveyed believe China specifically is presenting the best opportunities at present; however, there has also been a notable increase in the proportion of LPs with a preference for Central & Eastern Europe in the past year (Fig. 2.17).

Fig. 2.14: Investor Return Expectations for Their Private Equity Investments in the Next 12 Months Compared to the Previous 12 Months



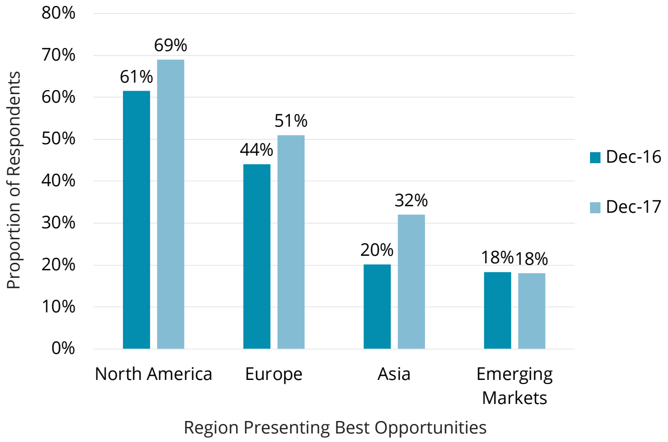
Source: Preqin Investor Interviews, December 2017

Fig. 2.15: Fund Types that Investors View as Presenting the Best Opportunities, 2015 - 2017



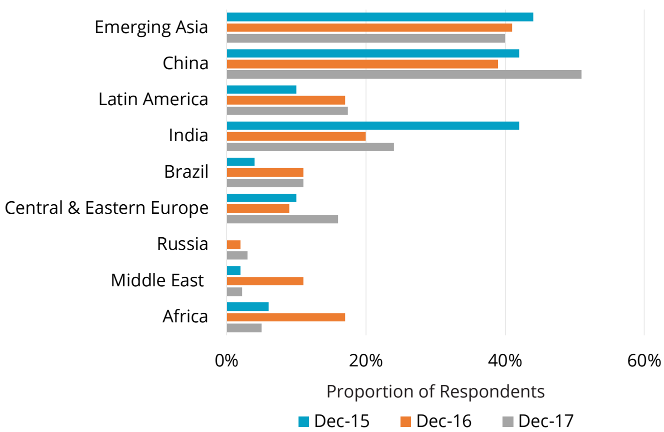
Source: Preqin Investor Interviews, December 2015 - 2017

Fig. 2.16: Regions that Investors View as Presenting the Best Opportunities, 2016 vs. 2017



Source: Preqin Investor Interviews, December 2016 - 2017

Fig. 2.17: Countries and Regions within Emerging Markets that Investors View as Presenting the Best Opportunities, 2015 - 2017



Source: Preqin Investor Interviews, December 2015 - 2017

FUND TERMS AND ALIGNMENT OF INTERESTS

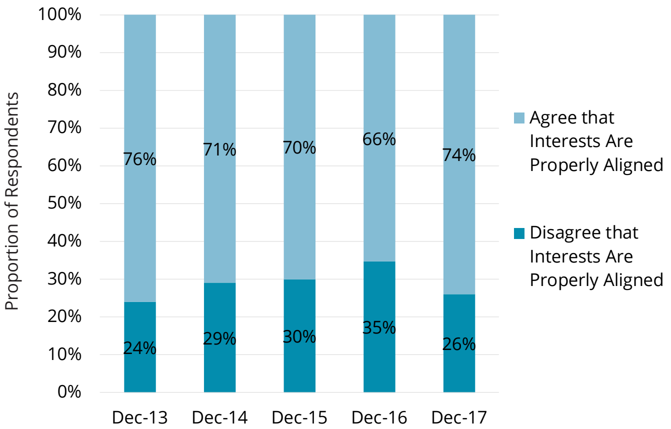
The alignment of interests between GPs and LPs is an important aspect of their relationship, and is intrinsically related to fund terms and conditions. Across the private equity universe, a significant 74% of investors surveyed believe that GP and LP interests are properly aligned, up from 66% in 2016 (Fig. 2.18).

Although investors still see many ways in which fund terms and conditions could improve the alignment of their interests with GPs', there have been some changes in prevailing fund terms over the past 12 months. Similar proportions of investors surveyed have seen changes in fund terms in favour of LPs (29%) and GPs (27%), with the largest proportion (44%) experiencing no change at all (Fig. 2.19).

Nearly a third (32%) of investors surveyed saw some changes in the management fees of private equity funds over 2017; however, the majority (63%) of LPs believe management fees are an area where alignment with GPs can still be improved (Fig. 2.20). Other areas in which LPs want GPs to address key issues are fund-level transparency (45%), the hurdle rate (32%) and how performance fees are charged (29%).

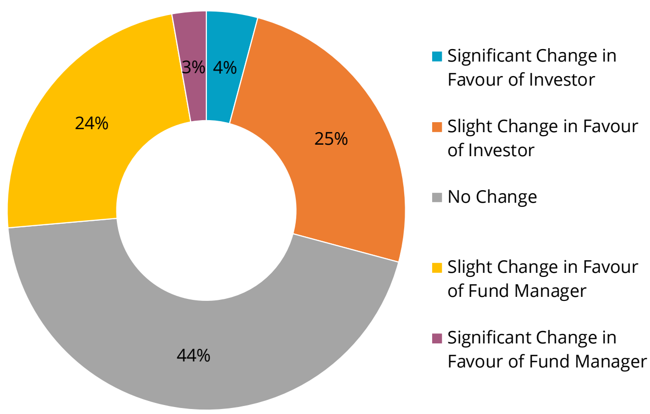
Fund terms and conditions proposed by GPs have a heavy bearing on whether an LP decides to invest in a fund, as demonstrated by Fig. 2.21. One-quarter of LPs have frequently decided not to invest in a fund as a result of the proposed terms and conditions, while a further 64% have occasionally been deterred from making an investment.

Fig. 2.18: Extent to Which Investors Believe that Fund Manager and Investor Interests Are Properly Aligned, 2013 - 2017



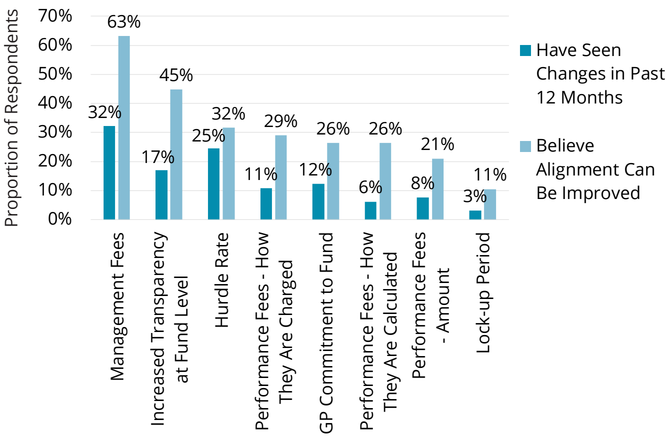
Source: Preqin Investor Interviews, December 2013 - 2017

Fig. 2.19: Proportion of Investors that Have Seen a Change in Prevailing Fund Terms and Conditions over the Past 12 Months



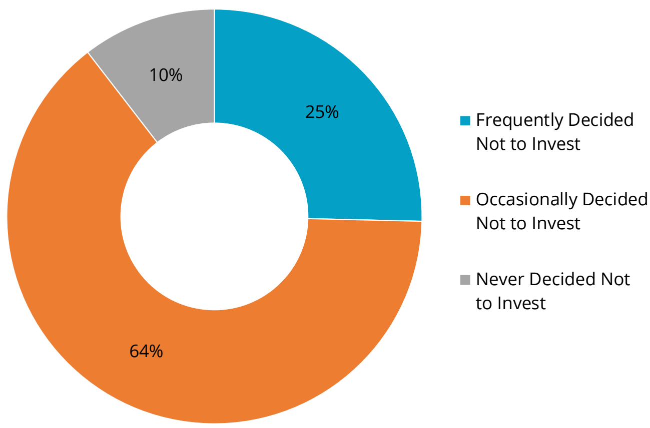
Source: Preqin Investor Interviews, December 2017

Fig. 2.20: Areas in Which Investors Have Seen a Change in Prevailing Fund Terms and Conditions over the Past 12 Months and Where They Believe Alignment Can Be Improved



Source: Preqin Investor Interviews, December 2017

Fig. 2.21: Frequency with Which Investors Have Decided Not to Invest in a Fund Due to the Proposed Terms and Conditions



Source: Preqin Investor Interviews, December 2017

HOW INVESTORS SOURCE AND SELECT PRIVATE EQUITY FUNDS

In our December 2017 interviews with over 250 institutional investors, 50% of respondents revealed that they found it more difficult to identify attractive private equity fund opportunities in 2017 than in 2016. With this in mind, using investors' responses and data from our online platform, we examine in more detail the processes that investors employ to source and screen private equity funds.

KEY STATS: AVERAGE SCREENING PROCESS FOR PRIVATE EQUITY FUNDS

METHODS USED BY INVESTORS TO SOURCE FUNDS:

- Mix of internal sourcing and direct external approaches (73%)
- Only internal sourcing (21%)
- Only direct external approaches (6%)

LEADING FACTORS THAT RESULT IN INVESTORS REMOVING A FUND FROM THEIR SCREENING LIST:

- ✘ Lack of team track record (62%)
- ✘ Unfavourable fund terms (56%)
- ✘ Below-average team track record (52%)

MOST IMPORTANT FACTORS INVESTORS ASSESS WHEN SELECTING NEW FUNDS:

- ✓ Successful team track record (80%)
- ✓ Experienced team (78%)
- ✓ Successful firm track record (58%)

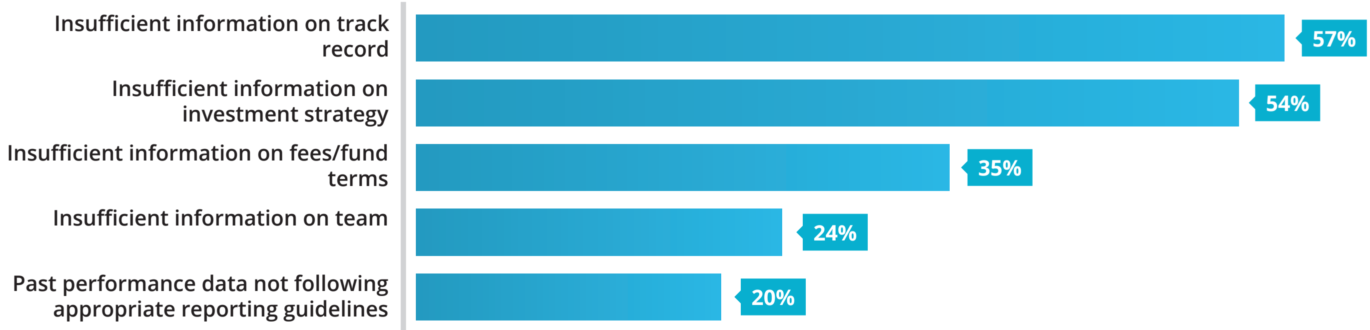
2,296 Private Equity Funds in Market

Investors Screen **145** Private Equity Funds Each Year

15 of These Funds Reach Second-Round Screening

Investors Commit to **4** Funds Each Year

MARKETING MATERIALS FAIL TO MEET THE NEEDS OF 33% OF INVESTORS – WHY?



SAMPLE PRIVATE EQUITY INVESTORS TO WATCH IN 2018

1

LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Type: Public Pension Fund
Location: Pasadena, CA, US
Total Assets: $55bn
Current/Target PE Allocation: 9.4%/10.0%
Intends to commit between $1.2bn and $1.8bn to buyout, special situations and venture capital vehicles.

2

EMPLOYEES' RETIREMENT SYSTEM OF TEXAS
Type: Public Pension Fund
Location: Austin, TX, US
Total Assets: $28bn
Current/Target PE Allocation: 12.5%/13.0%
Will commit between $600mn and $1.45bn across 17-29 funds, focusing on buyout, growth and venture capital.

3

STATE FARM
Type: Insurance Company
Location: Bloomington, IL, US
Total Assets: $250bn
Target PE Allocation: 4.0%
Plans to commit between $650mn and $850mn across 10-12 funds, targeting North America-focused middle-market buyout funds.

4

UMR COREM
Type: Public Pension Fund
Location: Nantes, France
Total Assets: €10bn
Current/Target PE Allocation: 2.5%/3.0%
Will invest in three or four funds, committing €20mn to each fund, targeting buyout, fund of funds, turnaround and early stage investments.

5

TALANX ASSET MANAGEMENT
Type: Asset Manager
Location: Cologne, Germany
Total Assets: €130bn
Current PE Allocation: 2.3%
Will seek to make new commitments over the next 12 months, focusing on Europe, North America and Asia. Is looking to commit to 10-15 funds, investing approximately €400mn.

6

AALTO UNIVERSITY ENDOWMENT
Type: Endowment Plan
Location: Espoo, Finland
Total Assets: €1.1bn
Target PE Allocation: 10.0%
Plans to commit €38mn across three funds, targeting Europe- and North America-focused buyout funds.

7

ENSPIRE CAPITAL
Type: Family Office
Location: Singapore
Total Assets: $150mn
Current PE Allocation: 50.0%
Will invest between $3mn and $5mn in one fund, focusing on investments in Southeast Asia.

8

LEONIE HILL CAPITAL
Type: Family Office
Location: Singapore
Total Assets: $2.3bn
Current PE Allocation: 70.0%
Plans to target 10 funds with an average commitment size of $90-100mn per fund with a focus on buyout, venture capital and growth vehicles on a global basis.

9

MLC
Type: Asset Manager
Location: Sydney, Australia
Total Assets: AUD 100bn
Current PE Allocation: 5.0%
Intends to commit between AUD 400mn and AUD 500mn across 10-15 funds on a global basis.

SECTION THREE: VENTURE CAPITAL

TOUGH COMPETITION BUT HEALTHY APPETITE

Venture capital continues to grow as a prominent private equity strategy and to some it is considered an asset class on its own. High returns and diversification potential have increasingly attracted institutional investors and capital to the space; however, as competition grows within the industry, a sizeable proportion (40%) of investors are finding it increasingly difficult to identify attractive opportunities. Portfolio company valuations, the current exit environment and fees are at the forefront of investors' concerns in 2018.

Regardless, 85% of investors interviewed by Preqin in December 2017 plan to either maintain or increase their allocation to the strategy over the long term. The majority (65%) of investors surveyed are looking to form at least one new manager relationship in the next 12 months, a positive statistic for first-time managers planning to enter this competitive space.

North America-focused venture capital fundraising finished strong in 2017 with $52bn in capital raised. The region will likely continue to see growth in capital commitments, as 80% of investors surveyed by Preqin are targeting the region in 2018. Moreover, 13% of investors plan to increase their North American venture capital portfolio allocations in the next 12 months.

INVESTOR SATISFACTION

40%

of respondents are finding it more difficult to identify attractive opportunities than 12 months ago.

71%

of investors stated their venture capital investments have met or exceeded expectations in the past 12 months.

62%

of respondents agree that fund manager and investor interests are aligned.

CURRENT ENVIRONMENT

41%

of investors target venture capital returns in excess of +4.1% versus public markets.

$52bn

Amount of capital raised by North America-focused venture capital funds closed in 2017.

70%

of investors believe valuations are a key issue facing venture capital in 2018.

LOOKING FORWARD

26%

of investors plan to increase their venture capital allocations in the long term.

63%

of investors plan to maintain or increase their venture capital allocation over the long term.

35%

of investors plan to make seven or more commitments in the next 12 months.

SATISFACTION WITH VENTURE CAPITAL

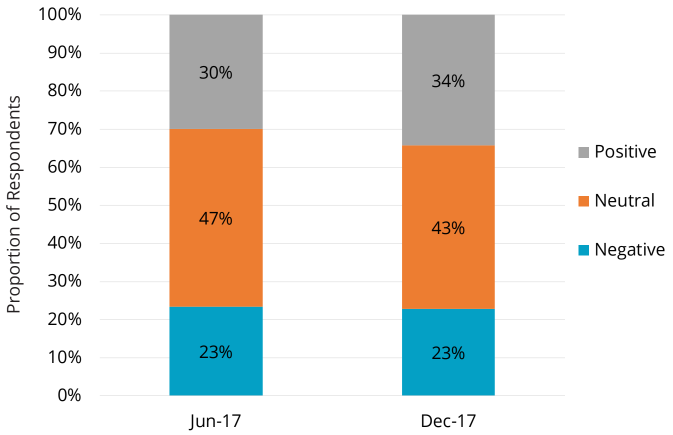
The results of our December 2017 survey suggest that the general opinion of venture capital has slightly improved among institutional investors interviewed in comparison to the previous year, as seen in Fig. 3.1. Nevertheless, the proportion of investors with a negative perception of the industry remains at nearly a quarter (23%).

The majority (71%) of investors reported that their venture capital portfolios performed as expected or better over the past 12 months (Fig. 3.2). However, the proportion of investors that felt their portfolios exceeded expectations dropped from 17% to 8% in comparison to six months prior, and a marginally greater proportion of investors were disappointed by the performance of their venture capital investments than in June 2017 (29% vs. 24% respectively).

Investors appear to be more satisfied with venture capital performance over the longer term. Almost 3x as many investors stated that their investments had exceeded their expectations over the past three years versus the past 12 months (22% vs. 8% respectively). Nevertheless, investors' perception of portfolio performance in both the past 12 months and past three years is more negative in comparison to June 2017.

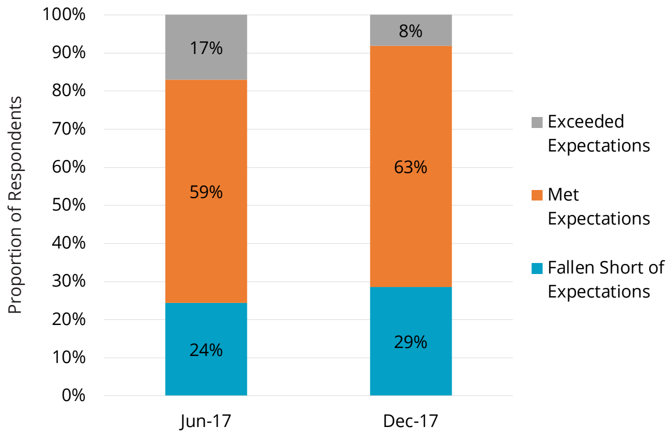
Seventy-eight percent of respondents are equally as confident in the ability of venture capital to achieve portfolio objectives as they were when surveyed in June 2017. Only 3% of investors now feel more confident in the asset class, while 19% are less confident (Fig. 3.4), likely a result of the growing concerns over valuations and volatility in the market.

Fig. 3.1: Investors' General Perception of the Venture Capital Industry, June vs. December 2017



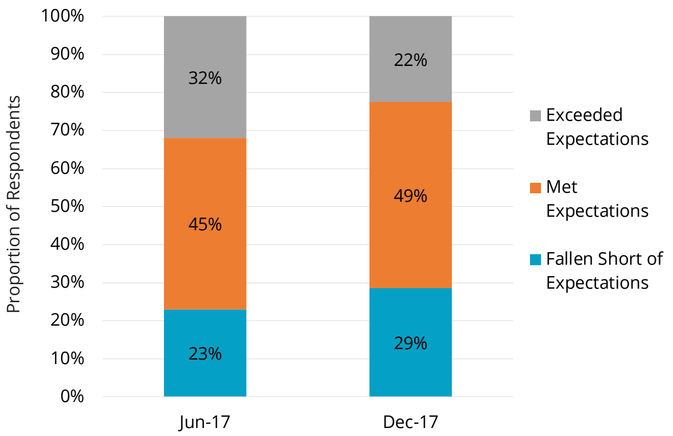
Source: Preqin Investor Interviews, June - December 2017

Fig. 3.2: Extent to Which Investors Feel Their Venture Capital Investments Have Lived up to Expectations over the Past 12 Months, June vs. December 2017



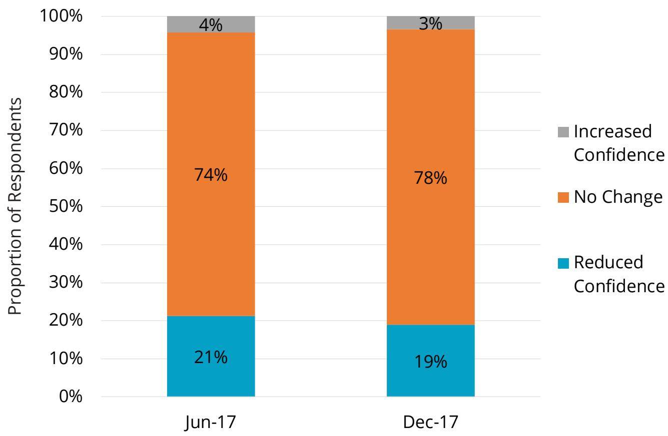
Source: Preqin Investor Interviews, June - December 2017

Fig. 3.3: Extent to Which Investors Feel Their Venture Capital Investments Have Lived up to Expectations over the Past Three Years, June vs. December 2017



Source: Preqin Investor Interviews, June - December 2017

Fig. 3.4: Investors' Change in Confidence in the Ability of Venture Capital to Achieve Portfolio Objectives over the Past 12 Months, June vs. December 2017



Source: Preqin Investor Interviews, June - December 2017

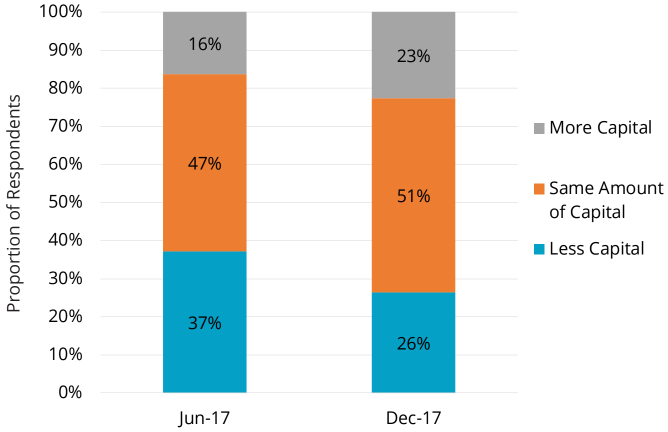
INVESTOR ACTIVITY IN 2018

Over the course of the next year, 74% of investors expect to commit the same amount of capital or more capital to venture capital funds in the next year, while 26% intend to commit less (Fig. 3.5).

Taking a longer-term view, 85% of respondents plan to increase or maintain their allocations to the asset class over the next three years, and just 16% plan to decrease allocations, almost on par with those surveyed six months ago (Fig. 3.6). The largest proportion (56%) of investors with active venture capital mandates plan to spread their investments across five or more vehicles in the next 12 months, with 35% looking to make seven or more commitments (Fig. 3.7). Furthermore, 65% of those surveyed are actively looking to form new manager relationships in the next 12 months, with an additional 14% open to considering commitments to new managers.

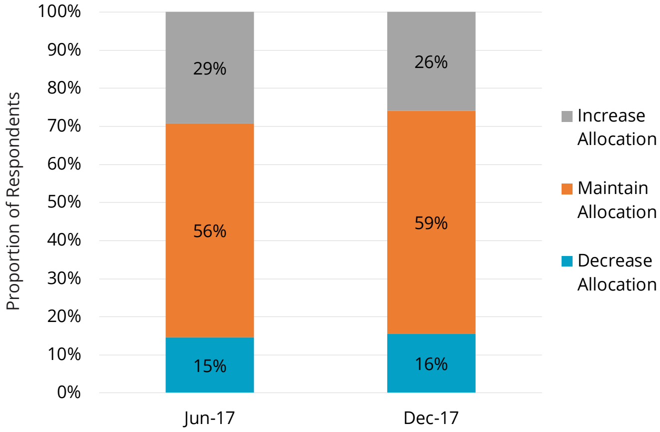
More than half (55%) of investors intend to commit $1-99mn in fresh capital to venture capital funds in the next 12 months, and a further 36% are looking to commit $100-499mn (Fig. 3.8). While just 9% of investors are targeting investments of more than $500mn, the aggregate capital committed by this small group could exceed the other 91% of investors' aggregate commitments in the year ahead.

Fig. 3.5: Investors' Expected Capital Commitments to Venture Capital Funds in the Next 12 Months Compared to the Previous 12 Months, June vs. December 2017



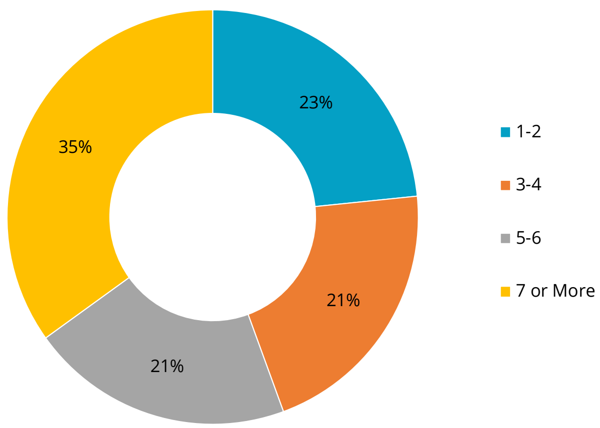
Source: Preqin Investor Interviews, June - December 2017

Fig. 3.6: Investors' Intentions for Their Venture Capital Allocations in the Longer Term, June vs. December 2017



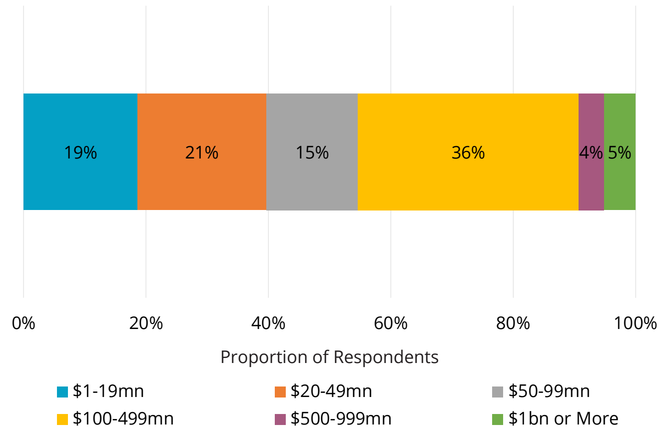
Source: Preqin Investor Interviews, June - December 2017

Fig. 3.7: Number of Venture Capital Fund Commitments Investors Plan to Make over the Next 12 Months



Source: Preqin Venture Capital Online

Fig. 3.8: Amount of Fresh Capital Investors Plan to Invest in Venture Capital Funds over the Next 12 Months



Source: Preqin Venture Capital Online

KEY ISSUES IN 2018

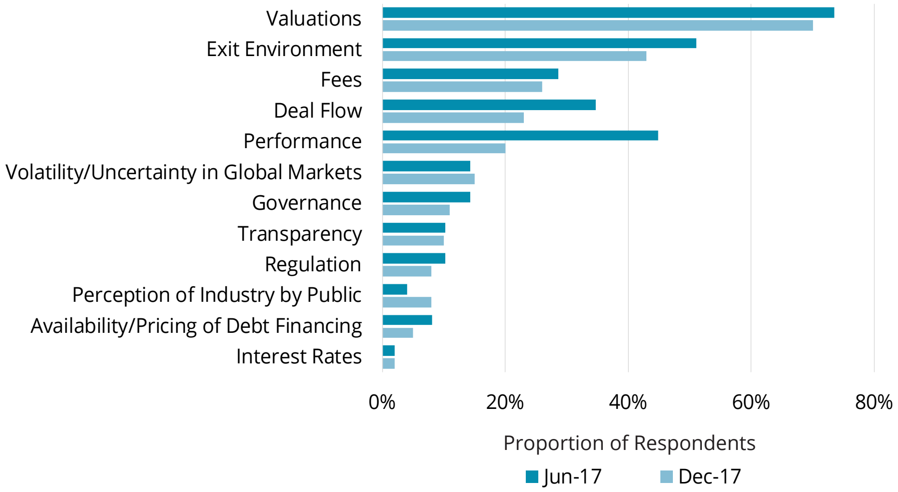
As seen in Fig. 3.10, 40% of venture capital investors interviewed have found it more difficult to find attractive investment opportunities over the past year, an improvement from 58% in June 2017. Most investors (60%) reported no change in the level of difficulty involved in identifying attractive opportunities.

Portfolio company valuations remains the key issue facing venture capital for the majority (70%) of investors interviewed, although this proportion has declined slightly from June 2017 (Fig. 3.9). The state of the exit environment remains the second most prominent issue, cited by 43% of investors in December 2017 versus 51% in June 2017.

Investors' views on transparency and fees in the industry have remained relatively unchanged over the past six months, representing consistent issues in the industry. Nearly 40% of investors do not feel that interests are aligned between fund managers and investors, and when asked in what areas the alignment could be improved, 63% cited fees and 46% cited transparency at fund level.

The most notable change in opinion is in reference to venture capital performance: 20% of respondents cited performance as a key issue in December 2017 compared with 45% in June 2017. Despite this, only 9% of respondents expect better returns in the next year, compared with 16% in June 2017 (Fig. 3.11). Two-thirds of investors believe returns will remain about the same, while a quarter believe that returns will be worse in 2018 compared to the past 12 months.

Fig. 3.9: Investor Views on the Key Issues for Venture Capital in 2017 vs. 2018



Source: Preqin Investor Interviews, June - December 2017

INVESTOR VIEWS ON THE ALIGNMENT OF FUND MANAGER AND INVESTOR INTERESTS

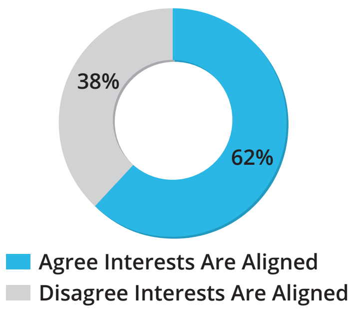
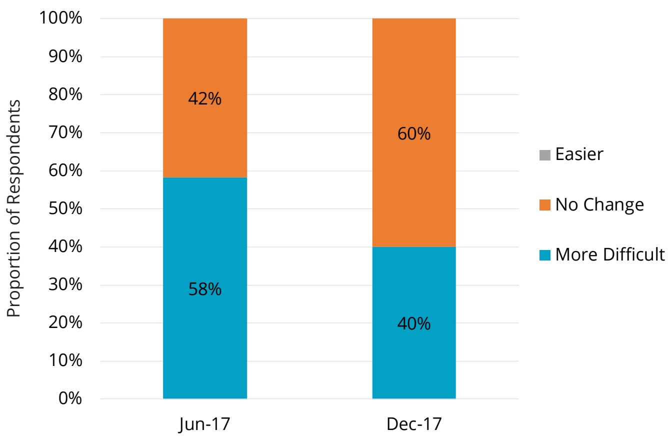
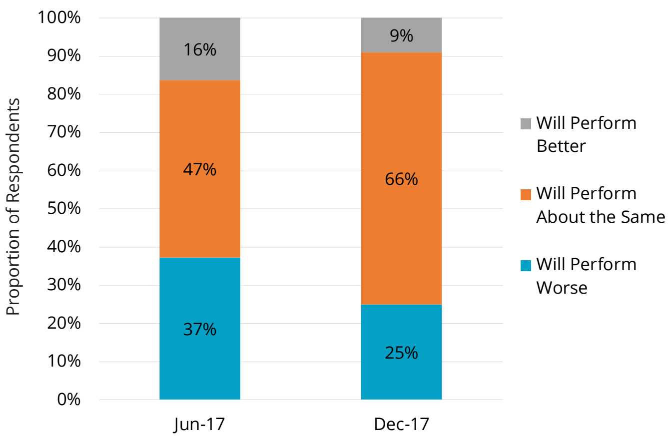


Fig. 3.10: Investor Views on the Difficulty of Identifying Attractive Venture Capital Investment Opportunities Compared to 12 Months Ago, June vs. December 2017



Source: Preqin Investor Interviews, June - December 2017

Fig. 3.11: Investor Return Expectations for Their Venture Capital Investments in the Next 12 Months Compared to the Past 12 Months, June vs. December 2017



Source: Preqin Investor Interviews, June - December 2017

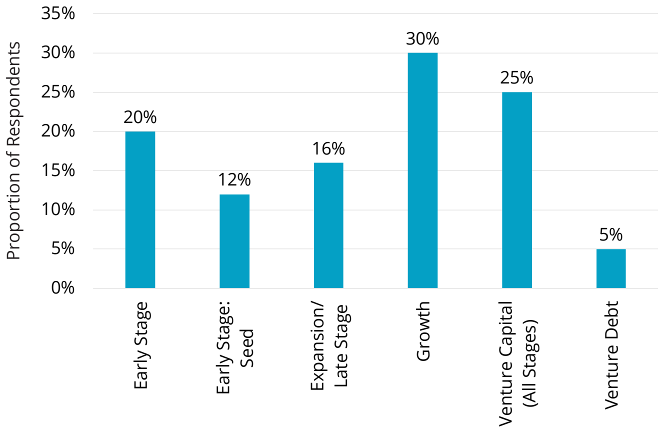
STRATEGIES AND GEOGRAPHIES TARGETED

Early stage strategies remain the most attractive to venture capital investors moving into 2018, as reported by 32% of those interviewed (Fig. 3.12). General venture capital and growth funds follow closely behind, as targeted by 25% and 30% of investors respectively. As expected, the niche strategy of venture debt is targeted by the smallest proportion (5%) of respondents.

Investors across the globe typically commit to funds targeting their domestic regions, as seen in Fig. 3.13. North America-focused funds remain the most likely recipients of commitments from abroad: 75% and 47% of allocators based in Europe and Asia respectively are seeking North American exposure. Venture capital vehicles primarily focused on investments in Asia are sought by the smallest proportions of investors based in both Europe (18%) and North America (22%).

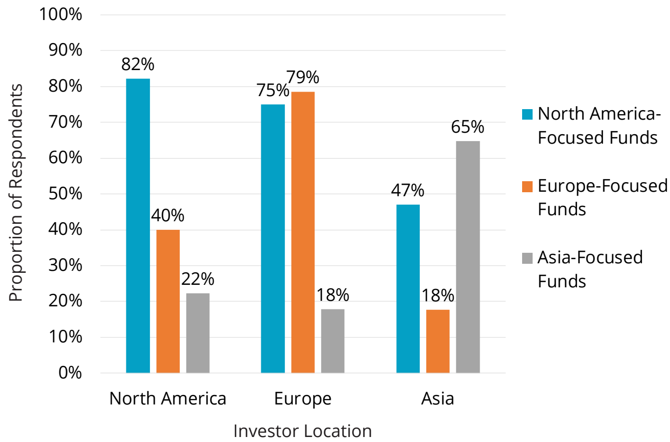
Following 2016's record fundraising year for both North America-focused ($56bn) and Europe-focused ($16bn) venture capital, fundraising activity in 2017 dipped slightly for both regions: 280 North America-focused funds closed on an aggregate $52bn and 86 Europe-focused funds collectively secured $13bn (Fig. 3.14). However, 80% of investors surveyed by Preqin view North America as presenting the best venture capital opportunities in the coming year, while 52% favour European opportunities (Fig. 3.15).

Fig. 3.12: Fund Types that Investors View as Presenting the Best Opportunities



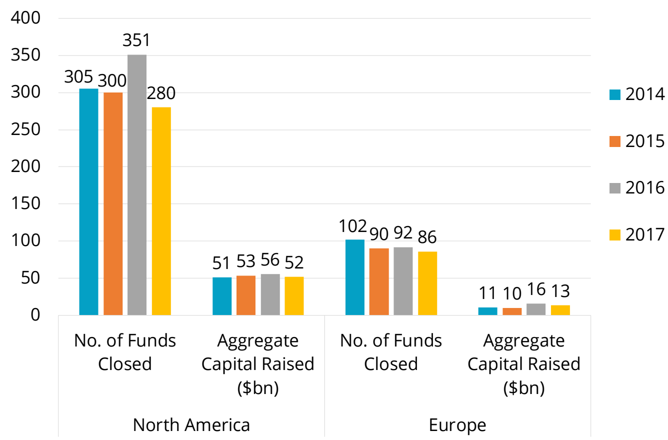
Source: Preqin Investor Interviews, December 2017

Fig. 3.13: Regions Targeted by Venture Capital Investors by Investor Location



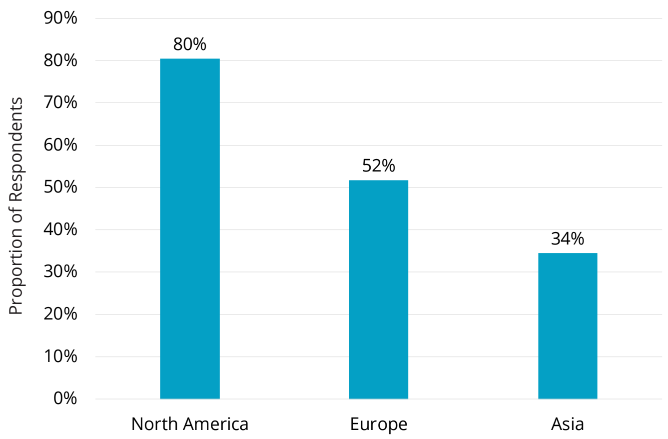
Source: Preqin Venture Capital Online

Fig. 3.14: North America- vs. Europe-Focused Venture Capital Fundraising, 2014 - 2017



Source: Preqin Venture Capital Online

Fig. 3.15: Regions that Investors View as Presenting the Best Opportunities

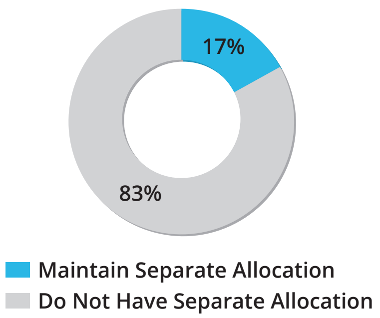


Source: Preqin Investor Interviews, December 2017

IN FOCUS: INVESTING IN VENTURE CAPITAL

While Preqin includes venture capital strategies within the context of private equity, we also join a growing population of investors in acknowledging the unique characteristics of the space that allow it to exist as a standalone asset class. Nearly a fifth (17%) of investors surveyed at the end of 2017 maintain a separate allocation for venture capital within their portfolio.

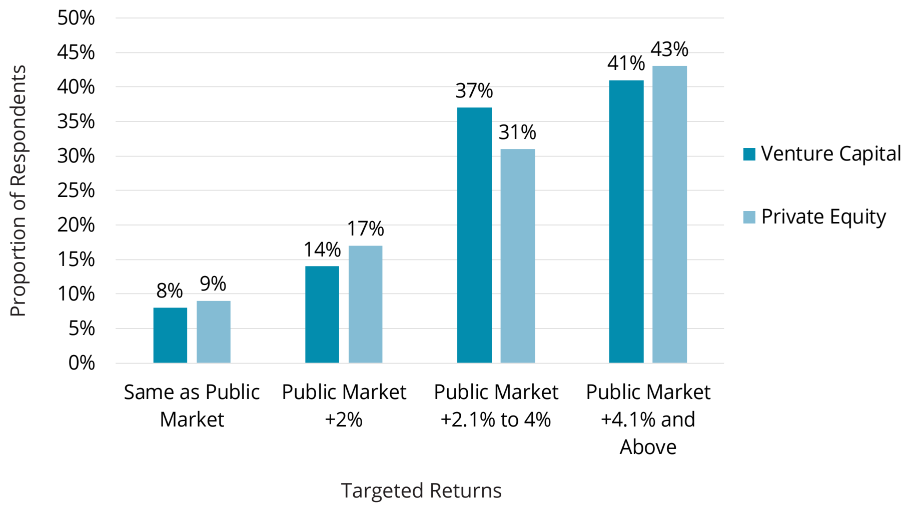
PROPORTION OF INVESTORS THAT MAINTAIN A SEPARATE VENTURE CAPITAL ALLOCATION



As a result of variations in risk/return profiles across strategies, investors typically expect their venture capital investments to outperform public markets by a larger margin than their traditional private equity investments. The majority (78%) of investors target venture capital returns in excess of +2.1% versus public markets, while 74% expect the same from private equity investments (Fig. 3.16). Among the 6,800+ active private equity investors, 68% actively invest in venture capital.

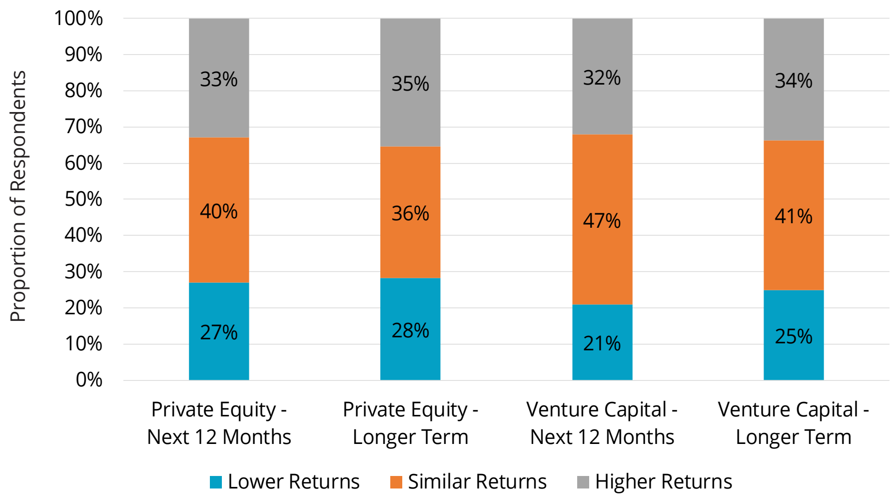
Current portfolio company valuations remain a key concern for 70% of investors. While the ultimate impact of current valuation levels on returns has yet to be seen, looking ahead to the next 12 months and beyond, investors expect venture capital returns to be less impacted by current valuations than private equity returns (Fig. 3.17). Forty percent of investors predict that private equity returns in the next 12 months will be unaffected by current portfolio valuations, compared to 47% that believe venture capital will be unaffected.

Fig. 3.16: Venture Capital Investors' Targeted Returns: Venture Capital vs. Private Equity Investments



Source: Preqin Investor Interviews, December 2017

Fig. 3.17: Venture Capital Investor Views on How Current Valuations for Portfolio Companies Will Impact Returns in the Next 12 Months and Longer Term: Venture Capital vs. Private Equity



Source: Preqin Investor Interviews, December 2017

SECTION FOUR: HEDGE FUNDS

INVESTORS WARM TO HEDGE FUNDS IN 2018

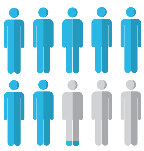
Our latest survey reveals a reversal of the trends we have seen since the middle of the decade in regard to institutional sentiment surrounding hedge funds. In a time when the performance of hedge funds is much improved – hedge fund returns hit a four-year high in 2017 – investor sentiment has turned more positive. In 2017 there was a return to net inflows, following fundraising difficulties in the latter half of 2015 and 2016, and the value of the capital invested by institutional investors has reached record highs of $2.06tn, as at December 2017.

In 2018, there are further signs that fortunes for hedge funds may continue to improve. Our survey results show that the largest proportion of investors believe that equity markets are hitting the peak of the cycle and as a result are positioning themselves more defensively going forwards. Whether this turns out to be true or not, only time will tell, but with a turbulent start to 2018, market volatility looks on the rise, and this could lead to a better environment for hedge fund performance, as well as more capital flowing into hedge funds, particularly those strategies with less correlation to equity markets. Although large proportions of investors surveyed have indicated that they may reduce their exposure to the asset class in 2018, we see similarly high levels with plans to put more capital to work – in fact, the highest levels we have recorded since 2013. And there is more positive news in terms of the size and number of mandates open in 2018. The number of open fund searches we track has grown 25% since 2017, and the average size of each mandate has grown by 40% over the same timeframe. So it looks likely more money will fall into the hands of more managers in 2018.

However, despite the improved outlook among investors for their individual portfolios of hedge funds, perhaps, in regard to the twin issues of performance and fees, it is a case of *plus ça change, plus c'est la même chose*. Performance and fees have topped investor concerns since the start of 2014, and for 2018, this remains unchanged. Investors are still looking for hedge funds to show what they are worth, which means successfully navigating the choppy waters of 2018's markets, as well as continuing to work to better align interests.

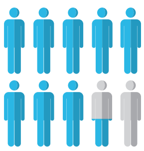
Although we may see little change, in respect to the challenges investors see in the hedge fund sector, we have witnessed continued evolution in the industry today. Our special feature, 'Emerging Trends' on page 36, shows investors' outlook on some of the hot topics in the hedge fund world today: alternative risk premia, cryptocurrencies and artificial intelligence/machine learning.

IMPROVING SENTIMENT...



72%

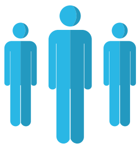
of investors reported that their hedge fund investments met or exceeded expectations in 2017, a significant improvement from 34% in 2016.



85%

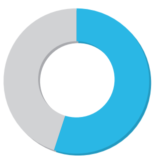
of investors saw an improvement in hedge fund management fees in 2017; however, 64% want to see further improvement in 2018.

...BUT ISSUES REMAIN



70% / 65%

of investors have cited performance and fees respectively as key issues for the hedge fund industry in 2018.



55%

of investors surveyed issued a redemption request in 2017, with performance over the past three years cited by 39% as the reason behind this.

LOOKING FORWARD

27%

of investors are planning to increase their allocation to hedge funds in 2018, up from 20% the previous year.

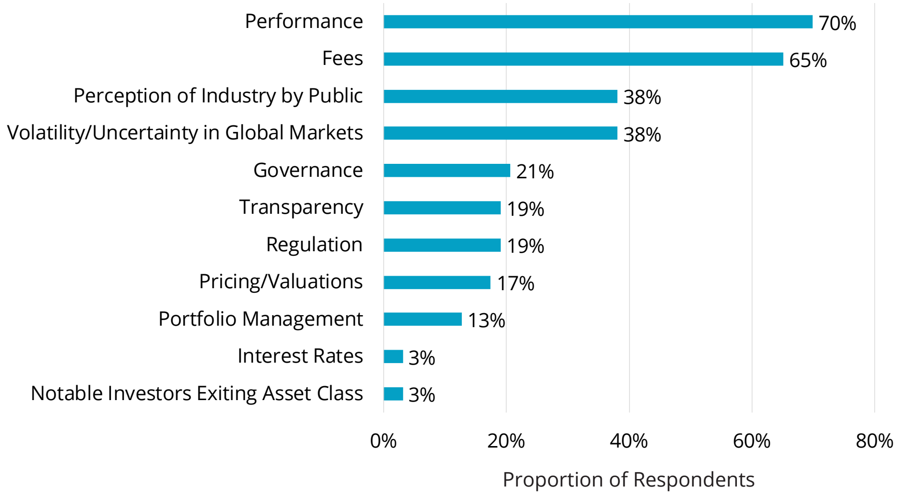
27%

of investors are looking to scale back their allocation to hedge funds in 2018, down from 38% the previous year.

KEY ISSUES IN 2018

Performance and fees remain at the centre of investor debate in the hedge fund industry (Fig. 4.1). While performance remains the key issue for many investors, as returns continue to improve, the fees charged within the hedge fund industry could face greater scrutiny in the coming years: a smaller proportion of investors interviewed by Preqin in December 2017 cited performance as the key issue facing hedge funds in the next 12 months than those interviewed 12 months ago. In contrast, the proportion citing fees as a key issue has increased (albeit slightly).

Fig. 4.1: Investor Views on the Key Issues for Hedge Funds in 2018



Source: Preqin Investor Interviews, December 2017

HEDGE FUND REDEMPTIONS IN 2017

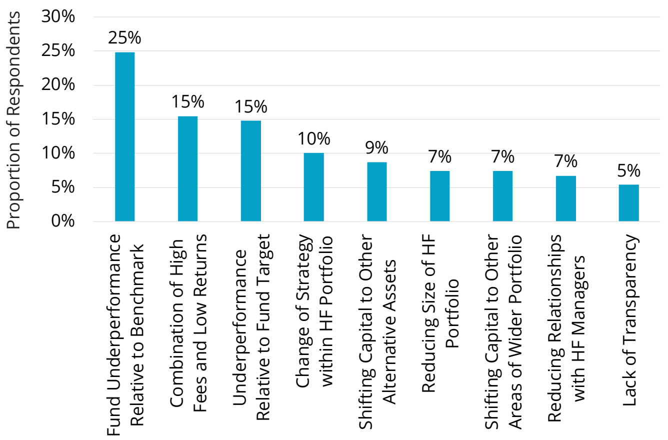
Despite many investors witnessing an improvement in the performance of hedge funds in 2017, as seen on page 30, the majority (55%) of respondents issued a hedge fund redemption request in 2017, up eight percentage points from 2016. As to be expected, the leading reasons behind these redemptions centre around the key issues investors see in the hedge fund market: underperformance relative to a benchmark or target, as well as the level of returns not justifying fees (Fig. 4.2).

MARKET FACTORS IMPACTING HEDGE FUND PORTFOLIOS

With performance remaining an important issue in the industry, we turned our attention to the market events impacting institutional hedge fund portfolios. Equity markets around the world reached record highs throughout 2017; therefore, it is perhaps unsurprising that over half (53%) of respondents felt this had the greatest impact on their hedge fund portfolios in 2017, the largest proportion ahead of low interest rates (45%) and the possibility of rate rises (38%, Fig. 4.3).

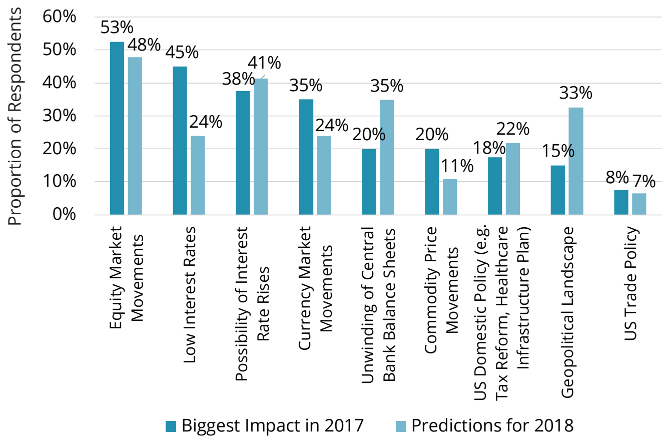
Looking forward, the greatest proportion of respondents predict that equity markets will once again have the biggest impact on their hedge fund portfolios. With central banks such as the Bank of England, Federal Reserve and People's Bank of China announcing interest rate rises towards the end of 2017, a smaller proportion (24%) of investors expect that the low interest rate environment will have the biggest impact on their portfolios in 2018 (vs. 45% that felt it had the biggest impact in 2017). Investors perhaps anticipate that this monetary policy will continue in 2018, with 41% predicting that potential rate rises will have an impact in 2018. Similarly, more respondents expect the geopolitical landscape to have the biggest impact on their hedge fund portfolios in 2018 than was the case in 2017 (33% vs. 15%).

Fig. 4.2: Reasons Why Investors Issued Redemption Requests in 2017



Source: Preqin Investor Interviews, December 2017

Fig. 4.3: Investor Views on the Macroeconomic Factors that Had the Biggest Impact on Their Hedge Fund Portfolios in 2017 vs. Predictions for 2018



Source: Preqin Investor Interviews, December 2015 - 2017

INVESTOR OUTLOOK ON PERFORMANCE

As 2016 drew to a close, the hedge fund industry witnessed widespread levels of investor dissatisfaction: two-thirds of investors surveyed in December 2016 reported that their hedge fund investments had not met their performance expectations over the course of the year, and nearly half (47%) had issued redemption requests in 2016. 2017, however, has seen a resurgence in the hedge fund industry: annual returns sit at a four-year high and investors allocated a net $45bn to the industry over the course of the year.

HEDGE FUND PERFORMANCE IN 2017

Hedge fund performance improved significantly in 2017, and this has not gone unnoticed by the investor community. Nearly three-quarters (72%) of investors reported that their hedge fund investments met or exceeded their return expectations in 2017 (Fig. 4.4), a significant increase from Preqin's December 2016 interviews (34%) and the greatest proportion since 2013 (84%), when the Preqin All-Strategies Hedge Fund benchmark last generated an annual return in the double digits. Indeed, two-thirds of investors reported that returns from at least half of their hedge fund investments met their expectations in 2017, with 13% seeing all returns in line with expectations (Fig. 4.5).

Investors reported the highest levels of satisfaction with the performance of emerging markets-focused and equity strategies (Fig. 4.6), with these benchmarks returning 15.86% and 15.01% respectively in 2017. Respondents had mixed views on activist trading styles: nearly half (43%) reported that activist strategies fell short of expectations, but a significant 24% felt they performed better than expected.

Large levels of investors reported dissatisfaction with the performance of CTAs and macro strategies. Macro strategies generated the second lowest return (+5.57%) of any top-level strategy, while market conditions proved challenging for CTA managers throughout 2017 with these vehicles delivering an annual return of 3.24%, eight percentage points lower than the 11.41% return of hedge funds.

While many investors reported that their hedge fund investments had met expectations in 2017, a not insignificant 29% of investors reported that hedge funds had failed to impress. With regards to the main driver of this underperformance, investors were largely

ANNUAL NET RETURNS OF HEDGE FUNDS (%), 2013 - 2017

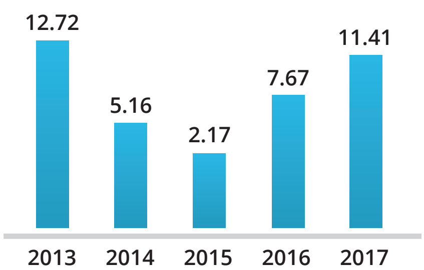
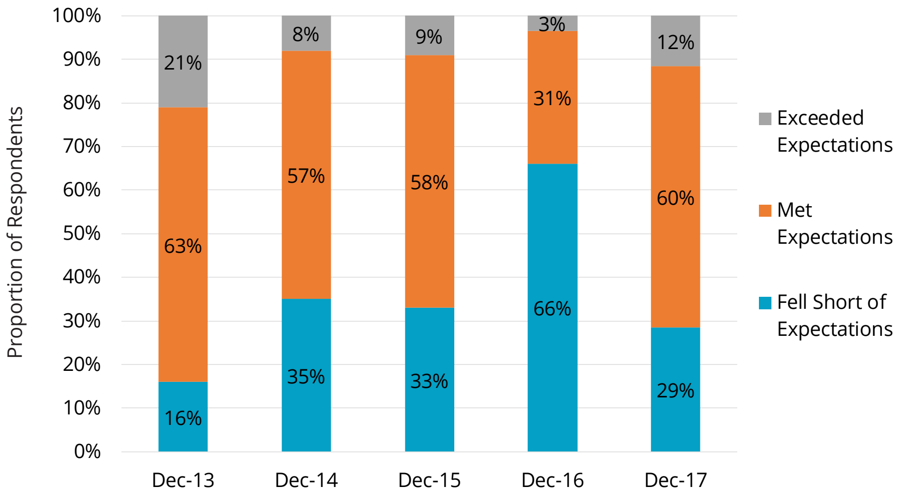
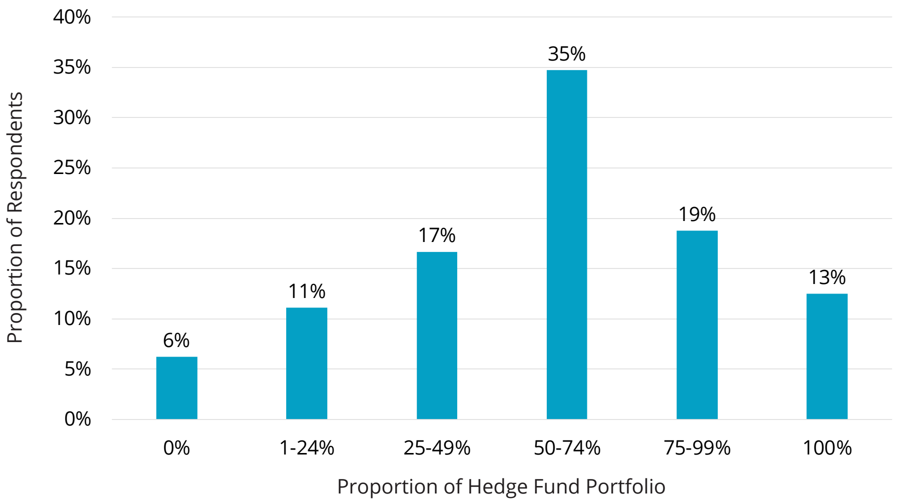


Fig. 4.4: Extent to Which Investors Feel Their Hedge Fund Investments Have Lived up to Expectations in the Past 12 Months, 2013 - 2017



Source: Preqin Investor Interviews, December 2013 - 2017

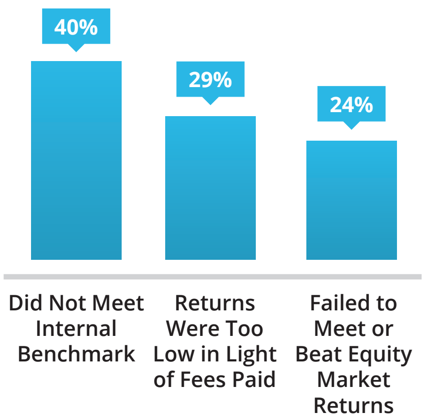
Fig. 4.5: Proportion of Hedge Funds in Investors' Portfolios that Met Performance Expectations in 2017



Source: Preqin Investor Interviews, December 2017

divided: performance relative to their internal benchmark was cited by 40% of respondents, as was performance relative to fees (29%) and returns in light of the extended and continued strong performance of equity markets (24%), as seen below.

TOP THREE REASONS WHY HEDGE FUNDS FAILED TO MEET INVESTORS' EXPECTATIONS IN 2017



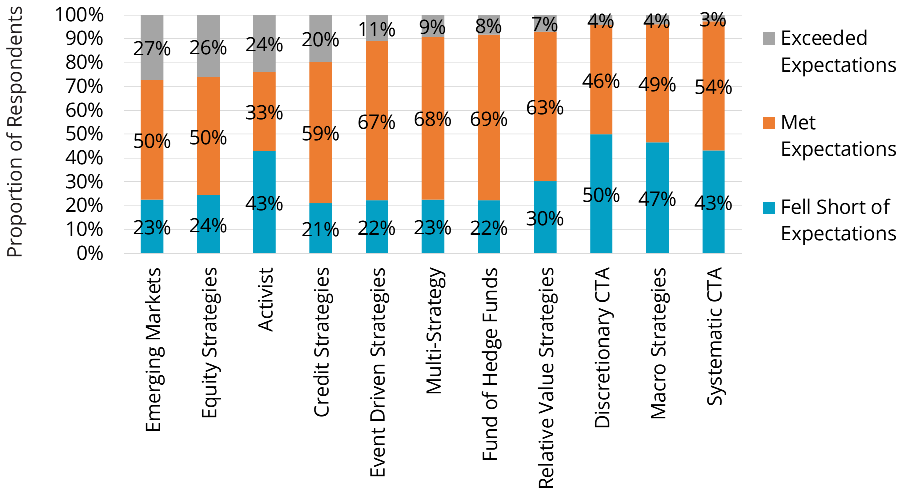
PERFORMANCE AND REDEMPTIONS

Despite the improving performance seen in the industry in 2017, over one-third of investors cited underperformance as a reason behind their decision to reduce their hedge fund exposure. With this in mind, we assessed the length of time for which hedge fund investors will tolerate a fund not meeting their expectations. Twenty-six percent of respondents will remain invested in a fund that underperforms for more than 18 months before considering a redemption (Fig. 4.7), highlighting the long-term nature of many investors' allocations to the asset class and the tolerance they may have for short-term performance issues.

PERFORMANCE IN 2018

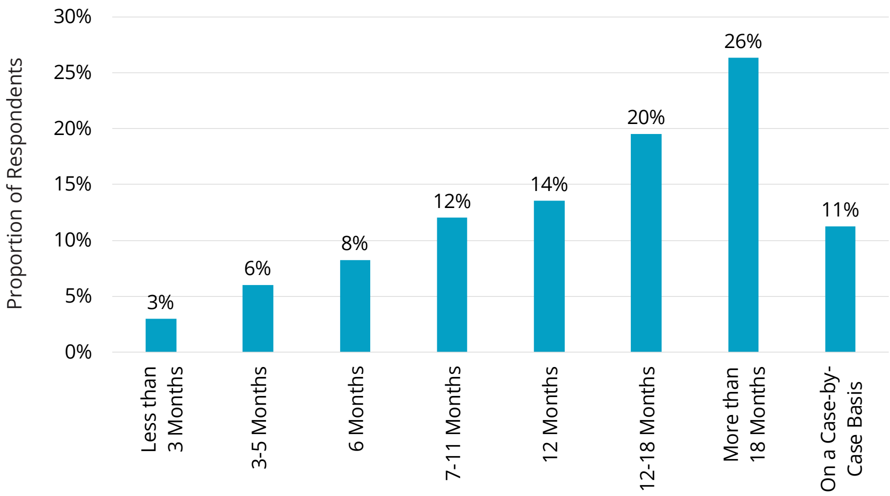
In 2017, hedge funds delivered their highest annual return since 12.72% in 2013, with the Preqin All-Strategies Hedge Fund benchmark reaching 11.41%. Among investors interviewed at the end of 2017, views were mixed as to whether hedge funds would be able to maintain the improved performance. Nearly three-quarters (72%) of investors believe hedge fund performance will either improve in 2018 or remain level with 2017, with the remaining 28% believing hedge fund returns will not be able to return to the level of 2017 (Fig. 4.8).

Fig. 4.6: Investor Views on Hedge Fund Portfolio Performance in 2017 Relative to Expectations by Strategy



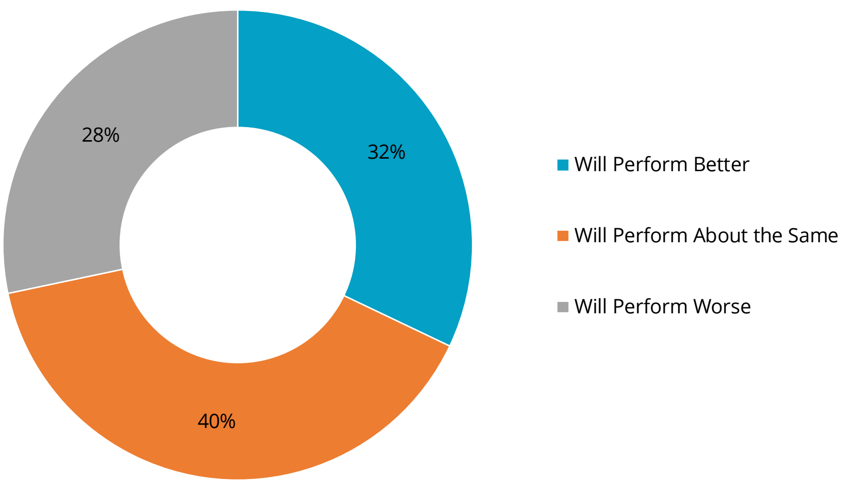
Source: Preqin Investor Interviews, December 2017

Fig. 4.7: Length of Time for Which Investors Will Tolerate Hedge Fund Underperformance before Redemption



Source: Preqin Investor Interviews, December 2017

Fig. 4.8: Investor Return Expectations for Their Hedge Fund Investments in the Next 12 Months Compared to the Past 12 Months



Source: Preqin Investor Interviews, December 2017

INVESTOR OUTLOOK ON FEES

Fees remain a key issue at the forefront of the hedge fund industry. Investors have put pressure on the fee structure of hedge funds in recent years, with many high-profile investors citing fees as a driving factor behind hedge fund redemptions. This pressure is leading to an evolution both in what fee is charged and also how it is levied. While the average levels of management and performance fees have been declining in recent years, managers have also looked to add more provisions as a way of aligning their interests with those of their investors.

INVESTOR SENTIMENT

Investor sentiment with regards to the alignment of interests with their fund managers has improved over the course of 2017: two in five investors interviewed feel their goals are aligned with those of their hedge fund managers, an increase of nine percentage points from 2016 (Fig. 4.9). This stems from the favourable changes investors have seen to hedge fund terms and conditions over the course of the year: the majority (55%) of investors interviewed in December 2017 reported seeing changes to hedge fund terms and conditions in their favour in 2017, with no respondents seeing changes favourable to hedge fund managers (Fig. 4.10).

The improvement in investor sentiment stems from a range of factors surrounding hedge fund terms and conditions – decreasing fees and providing new provisions to protect investor capital are just some of the ways managers have looked to better align interests.

CHANGES IN 2017 vs. AREAS TO IMPROVE IN 2018

The vast majority (85%) of investors interviewed in December 2017 have seen an improvement in the management fees charged by hedge funds over the course of the past 12 months (Fig. 4.11). However, nearly two-thirds (64%) want to see further improvement in 2018, and while the majority of investors seeking changes to fees in 2018 will look for reductions in both the management and performance fee, 31% are looking for improvement solely in the management fee.

While investor concerns with management fees centre on the amount, the attitude of investors towards performance fees is different: 32% of respondents are looking for improvements to how performance fees are charged, compared to 20% that want a reduction in the level of performance fee. As such, the hedge fund performance fee is not so much decreasing as evolving to provide investors with a wider range of options following this demand for change, highlighted by the 34% of investors seeking improvements to the hurdle rate provision in 2018.

Hurdle rates and high-water marks are the most sought-after provisions among the hedge fund investor community, with 55% and 48% of respondents seeking these provisions on their hedge fund investments respectively (Fig. 4.12). Provisions more commonly associated with private equity funds, such as clawbacks, are sought by fewer investors.

INVESTORS PLANNING TO SEEK CHANGES TO FEES CHARGED BY HEDGE FUNDS IN THEIR PORTFOLIO IN 2018

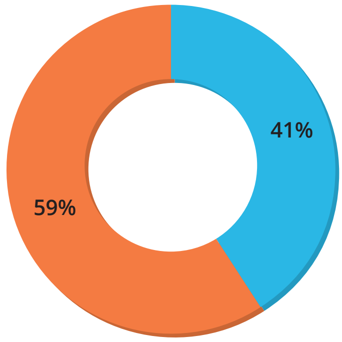
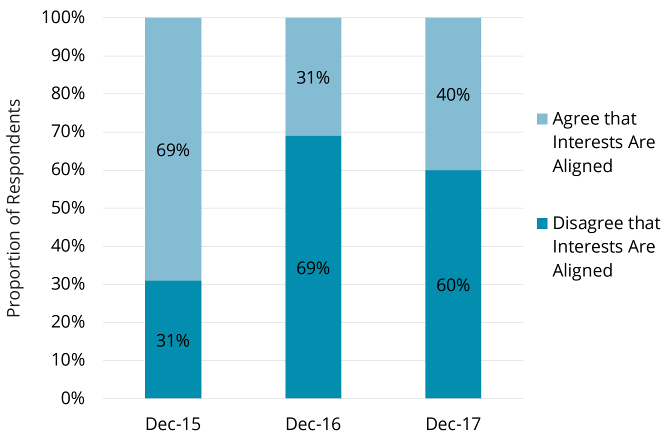
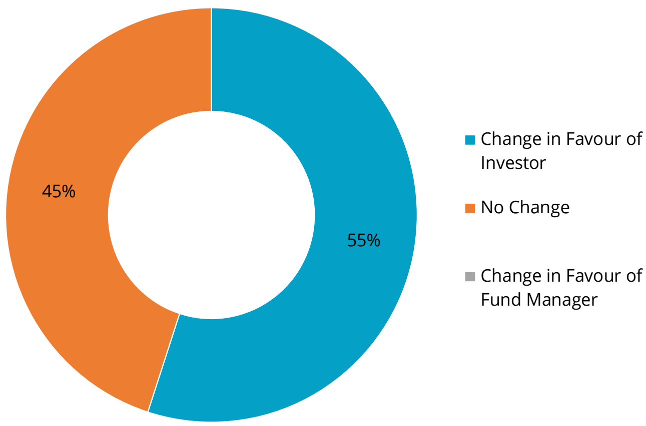


Fig. 4.9: Extent to Which Investors Believe Investor and Fund Manager Interests Are Properly Aligned, 2015 - 2017



Source: Preqin Investor Interviews, December 2015 - 2017

Fig. 4.10: Proportion of Investors that Have Seen a Change in Prevailing Fund Terms and Conditions over the Past 12 Months



Source: Preqin Investor Interviews, December 2017

FEES IN THE FUNDRAISING PROCESS

The importance of a hedge fund's terms and conditions in the fundraising process is emphasized in Fig. 4.13. Eighty-five percent of investors interviewed by Preqin have decided not to invest in a hedge fund due to the proposed terms and conditions.

Fees have also played an important role in a fund manager's ability to retain capital in recent years. Of investor respondents with plans to reduce their exposure to hedge funds, 21% indicated that they are doing so because of high fees and the costs associated with hedge funds, behind only performance (39%) over the past three years as a reason for reducing exposure.

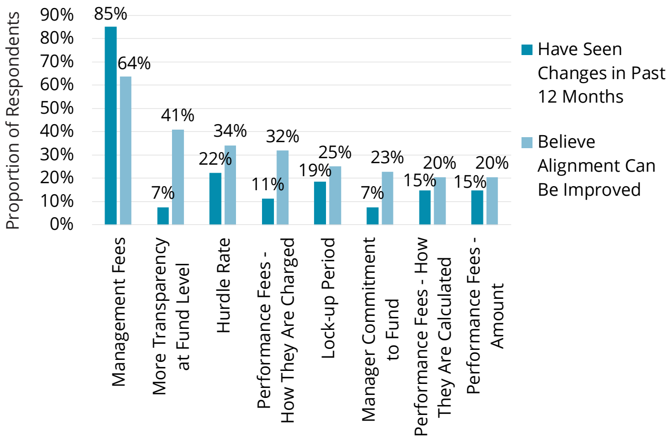
ALIGNING INTERESTS

The greatest proportions of investor (41%) and fund manager (49%) survey respondents indicate a fund manager investing capital in its own fund is the most effective way of aligning interests between the two parties (Fig. 4.14). Greater levels of investors (23%) believe transparency is the most effective way of aligning interests than fund managers (14%). However, a greater proportion of fund managers believe offering all methods shown in Fig. 4.14 proves most effective in a bid to improve alignment.

OUTLOOK

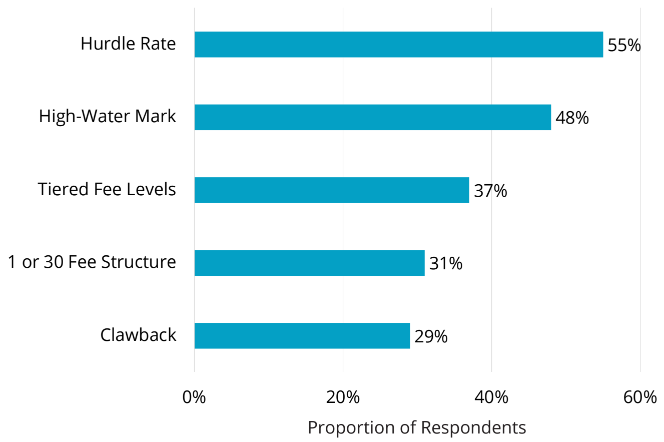
As we move into 2018, fees look set to remain an important issue within the hedge fund universe over the coming year. Two in every five investors interviewed in December 2017 stated plans to seek changes to the fees charged by their hedge fund investments over the course of 2018. Many investors cited the returns not justifying the level of fees charged as the reason behind this; however, as seen in Fig. 4.11, some investors have witnessed positive change in 2017 and will be looking to continue to challenge and reshape the traditional hedge fund fee structure in 2018.

Fig. 4.11: Areas in Which Investors Have Seen a Change in Prevailing Fund Terms and Conditions over the Past 12 Months and Where They Believe Alignment Can Be Improved



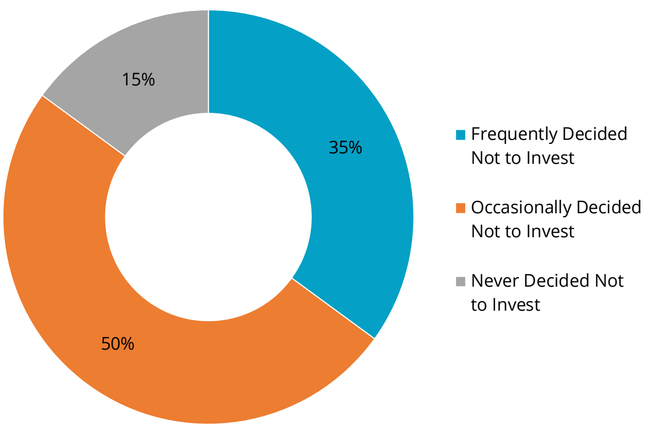
Source: Preqin Investor Interviews, December 2017

Fig. 4.12: Hedge Fund Fee Structures Sought by Investors



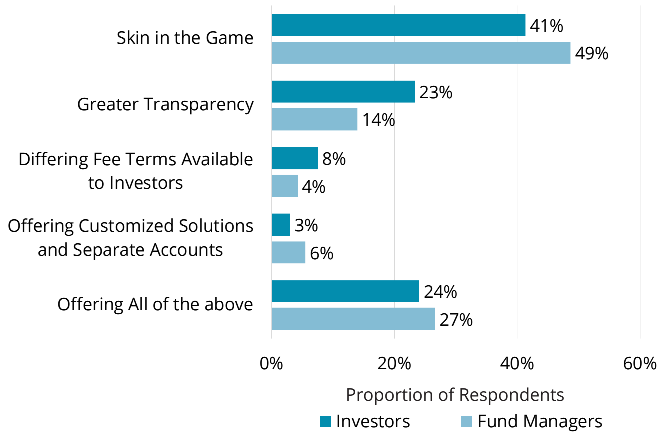
Source: Preqin Investor Interviews, December 2017

Fig. 4.13: Frequency with Which Investors Have Decided Not to Invest in a Fund Due to the Proposed Terms and Conditions



Source: Preqin Investor Interviews, December 2015 - 2017

Fig. 4.14: Investor and Fund Manager Views on the Most Effective Way for Hedge Fund Managers to Align Interests

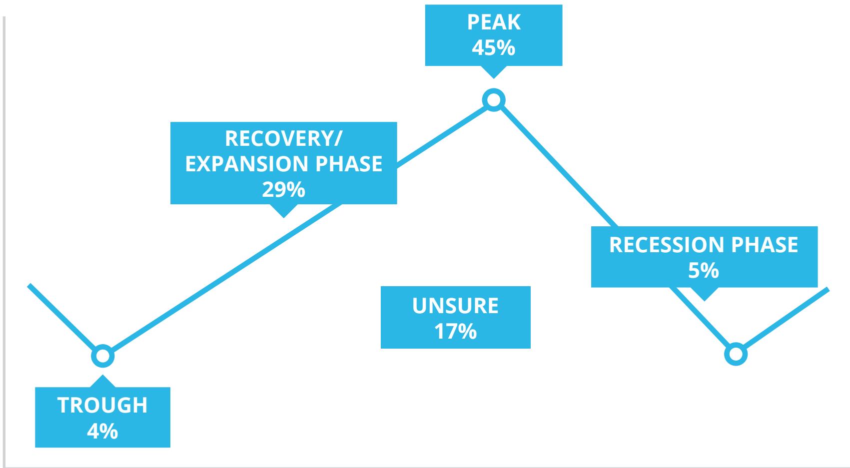


Source: Preqin Fund Manager Survey and Investor Interviews, November and December 2017

INVESTOR ACTIVITY IN 2018

Our December 2017 interviews with institutional investors active in hedge funds reveal the end of a trend we have seen since our December 2014 survey; for the first time in this period, the proportion of investors that plan to reduce their exposure to hedge funds over the next 12 months does not outweigh the proportion planning to increase their exposure. In fact, the greatest level of investors since December 2013 are looking to increase the amount of capital dedicated to hedge funds in 2018. Given that both retaining capital and raising fresh capital has been challenging for the past few years, this is welcome news for hedge fund managers.

Fig. 4.15: Investor Views on Where the Equity Market Is in the Current Cycle



Source: Preqin Investor Interviews, December 2017

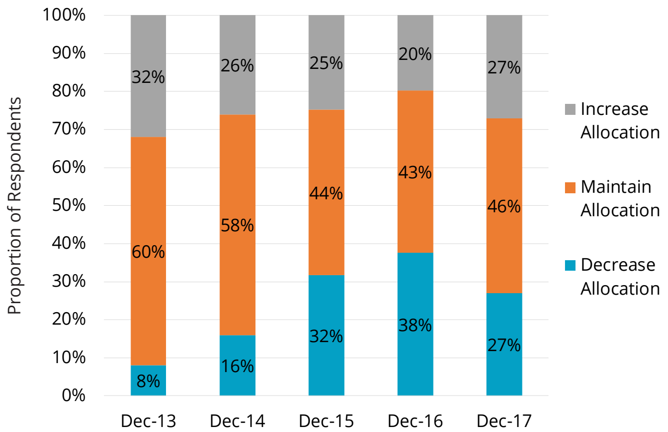
STRATEGIES SOUGHT IN 2018

So, with many investors looking to rebalance in favour of hedge funds in 2018, what is driving this and where is the capital likely to flow? Nearly half (45%) of investors interviewed in December 2017 believe equity markets may have reached a peak in 2017 (Fig. 4.15). With this in mind, nearly 4x as many investors plan to position their portfolios more defensively in 2018 than plan to position them more aggressively (37% vs.10% respectively), although just over half of all investors do not anticipate changing their investment stance in 2018.

As a result, we continue to see strong appetite for diversifying strategies which may protect investors in the case of a market correction. Although a relatively small proportion (31%) of investors interviewed invest through systematic CTAs compared with other strategies, a significant 23% of these plan to increase their weighting towards systematic CTAs over 2018 (Fig. 4.19). CTAs can provide uncorrelated returns to hedge funds and equity markets, a possible reason behind investor demand for this strategy in the coming year. Furthermore, just 8% of investors plan to decrease their exposure to macro strategies funds, with 2.5x more (21%) looking to increase their allocation to these strategies. Although macro strategies generated the second lowest annual return of any top-level strategy in 2017, investors may also be looking to these strategies to add downside protection to their portfolios should the extended equity market run come to a sudden stop.

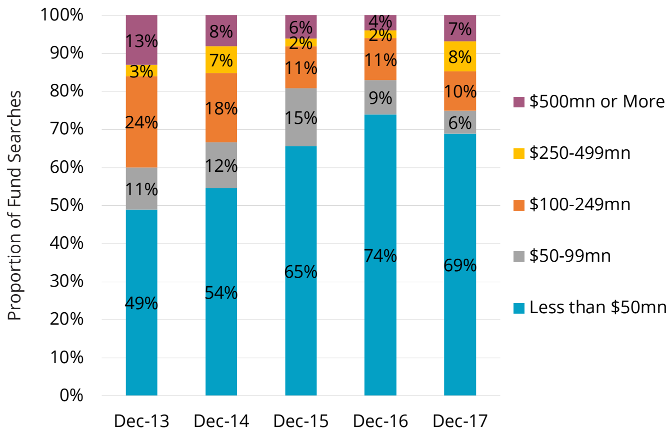
In contrast – with many investors believing that we may have reached the top of the equity market cycle – a greater proportion of investors are looking to

Fig. 4.16: Investors' Intentions for Their Hedge Fund Allocations in the Next 12 Months, 2013 - 2017



Source: Preqin Investor Interviews, December 2013 - 2017

Fig. 4.17: Amount of Fresh Capital Institutional Investors Expect to Invest in Hedge Funds over the Next 12 Months, 2013 - 2017



Source: Preqin Hedge Fund Online

decrease than increase their allocation to equity strategies in 2018 (16% vs. 14% respectively).

STRUCTURES SOUGHT IN 2018

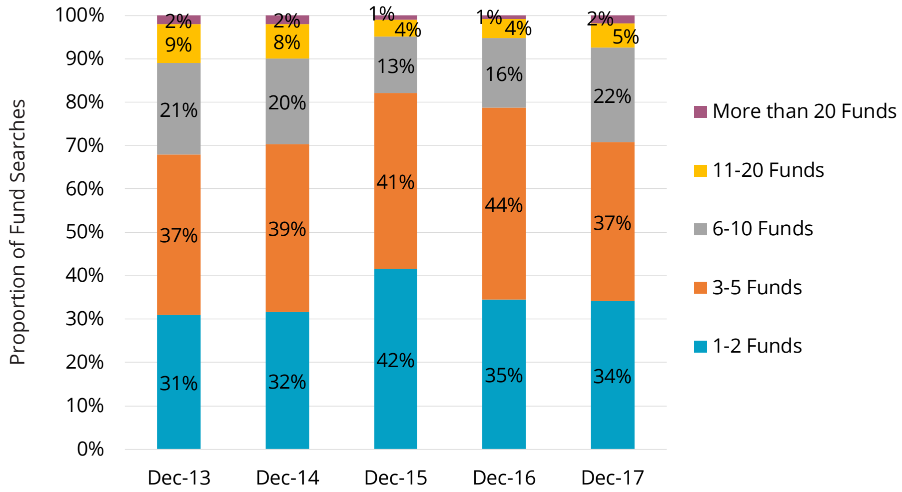
Although fewer investors use UCITS within their hedge fund portfolios than other fund structures such as commingled funds (25% vs. 83%, Fig. 4.20), these investors show a strong appetite for the structure over 2018: nearly half (48%) plan to increase their investments in alternative UCITS over 2018, with no investors surveyed planning cuts to their UCITS holdings.

A significant proportion (27%) of investors in emerging managers are planning to further increase their exposure to this group. In a period when performance and fees are at the forefront of investors' minds, emerging managers have become more attractive for their potential to increase the former and reduce the latter.

MORE CAPITAL DUE TO FLOW INTO HANDS OF MORE MANAGERS

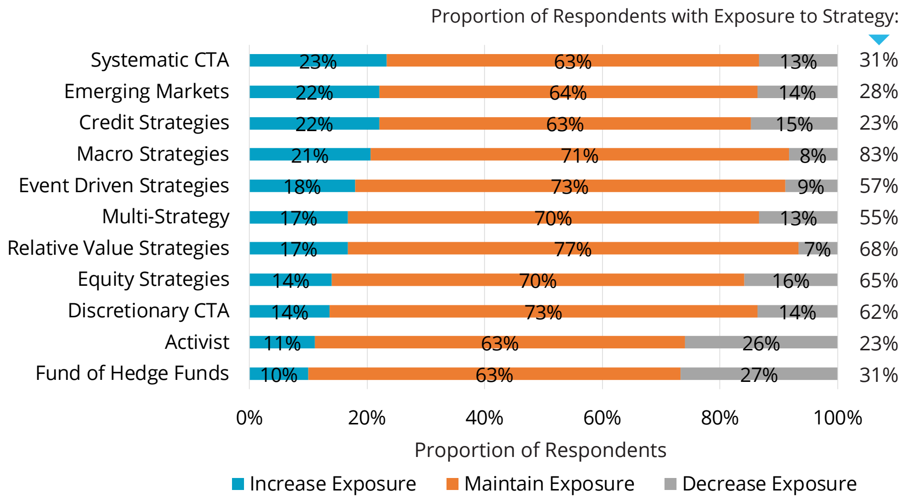
After a period of improved performance, investors are planning to increase their hedge fund allocations in 2018 in terms of both the number and size of the mandates. Using data taken from Preqin's Fund Searches and Mandates feature, which details the planned fund investments for the 12 months ahead, Figs 4.17 and 4.18 show a breakdown of investor searches by the number of new funds they plan to invest in over the next 12 months and the amount of fresh capital they aim to deploy. The proportion (25%) of investors that are planning to put $100mn or more of fresh capital to work in hedge funds over the year ahead is at its highest level since December 2014 (33%). Similarly, this capital is expected to go into the hands of more managers compared to recent years: 29% of investors searching for new hedge funds in 2018 are looking to invest in six or more funds; again, this is the highest level since December 2014.

Fig. 4.18: Number of Hedge Funds Institutional Investors Expect to Add to Their Portfolios over the Next 12 Months, 2013 - 2017



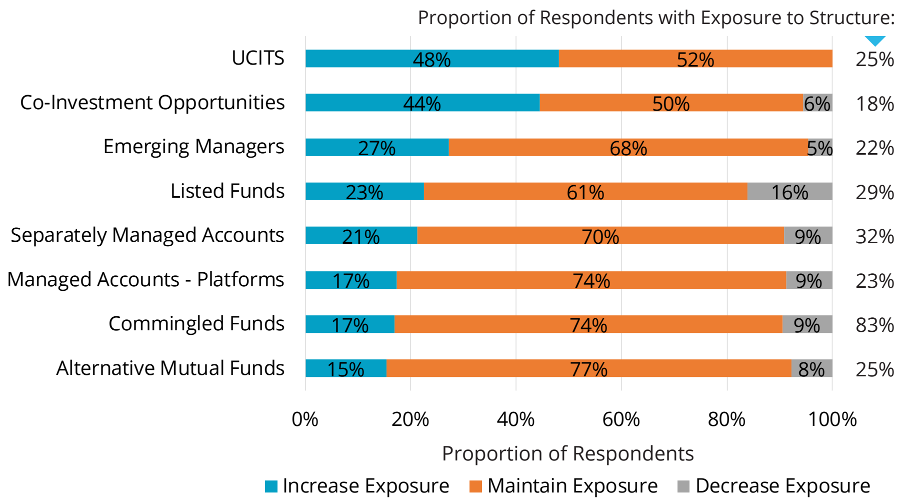
Source: Preqin Hedge Fund Online

Fig. 4.19: Investor Allocation Plans for 2018 by Strategy



Source: Preqin Investor Interviews, December 2017

Fig. 4.20: Investor Allocation Plans for 2018 by Structure



Source: Preqin Investor Interviews, December 2017

EMERGING TRENDS

ALTERNATIVE RISK PREMIA

Alternative risk premia, an actively managed strategy which aims to generate returns above the risk-free rate, is a growing area of the hedge fund universe. Investing through risk premia styles, either as the fund's primary strategy or as an overlay of an existing strategy, the fund typically operates in a similar fashion to a traditional hedge fund, taking long or short positions across asset classes. Risk premia styles include: carry, defensive, liquidity/size, mean reversion, momentum, value and volatility. One in 10 hedge fund investors currently allocate to alternative risk premia vehicles, with almost a third of these investors planning to increase their exposure to these strategies over the course of the coming year. The growth of the market looks set to continue with 12% of investors considering allocating to the strategy in 2018, the greatest proportion among the three emerging trends.

42%

of fund managers have seen increased appetite from institutional investors for alternative risk premia products over 2017.

11%

of all investors actively invest in alternative risk premia, while a further

12%

are considering investing in 2018.

31%

of all investors active in alternative risk premia plan to increase their allocation to the strategy in 2018.

ARTIFICIAL INTELLIGENCE/MACHINE LEARNING (AIML)

Used as a trading style, AIML hedge strategies employ machine learning algorithms to make autonomous trade decisions, using mass amounts of data to compare new and historical trends. Parameters can be put in place with regards to exposure and costs, allowing AIML algorithms to execute trades with reduced human oversight in the expectation of identifying trends humans may miss. Over half (55%) of all investors currently allocating to AIML strategies are looking to increase their exposure to these funds in 2018, indicating the potential for strong growth over the coming year in the sector that some see as the future of the industry. Eleven percent of all investor respondents currently allocate to AIML hedge funds but a further 11% are considering moving into the space over the next 12 months.

60%

of fund managers have seen increased appetite from institutional investors for AIML products over 2017.

11%

of all investors actively invest in AIML funds, and a further

11%

are considering investing in 2018.

55%

of all investors active in AIML funds plan to increase their allocation to the strategy in 2018.

CRYPTOCURRENCY

2017 saw a number of cryptocurrency-focused hedge funds enter the market. Over the course of 2017, Bitcoin continuously hit record highs amid significant volatility, reaching a landmark value in November 2017: one unit of the digital currency became worth over $10,000 for the first time. With such strong returns seen in the cryptocurrency space in the past 12 months, investors have increasingly sought exposure to these instruments and have looked to hedge fund managers to provide products active in the cryptocurrency market. Seven percent of all hedge fund investors currently invest in cryptocurrency funds, with half of these investors looking to increase their allocation to this market throughout 2018. Furthermore, 6% of investors are considering making their maiden investment in the cryptocurrency market over the next 12 months.

65%

of fund managers have seen increased appetite from institutional investors for cryptocurrency products over 2017.

7%

of all investors actively invest in cryptocurrency funds, and a further

6%

are considering investing in 2018.

50%

of all investors active in cryptocurrency funds plan to increase their allocation to the strategy in 2018.

HOW INVESTORS SOURCE AND SELECT HEDGE FUNDS

In our December 2017 interviews with over 200 institutional investors, we found that nearly 4x as many investors reported it was more difficult to source attractive investment opportunities in 2017 than those that reported it was easier (38% vs. 10% respectively). With this in mind, we examine in more detail the processes investors use to source, screen and select funds from the universe of 13,900+ hedge funds currently open for investment.

KEY STATS: AVERAGE SCREENING PROCESS FOR HEDGE FUNDS

METHODS USED BY INVESTORS TO SOURCE FUNDS:

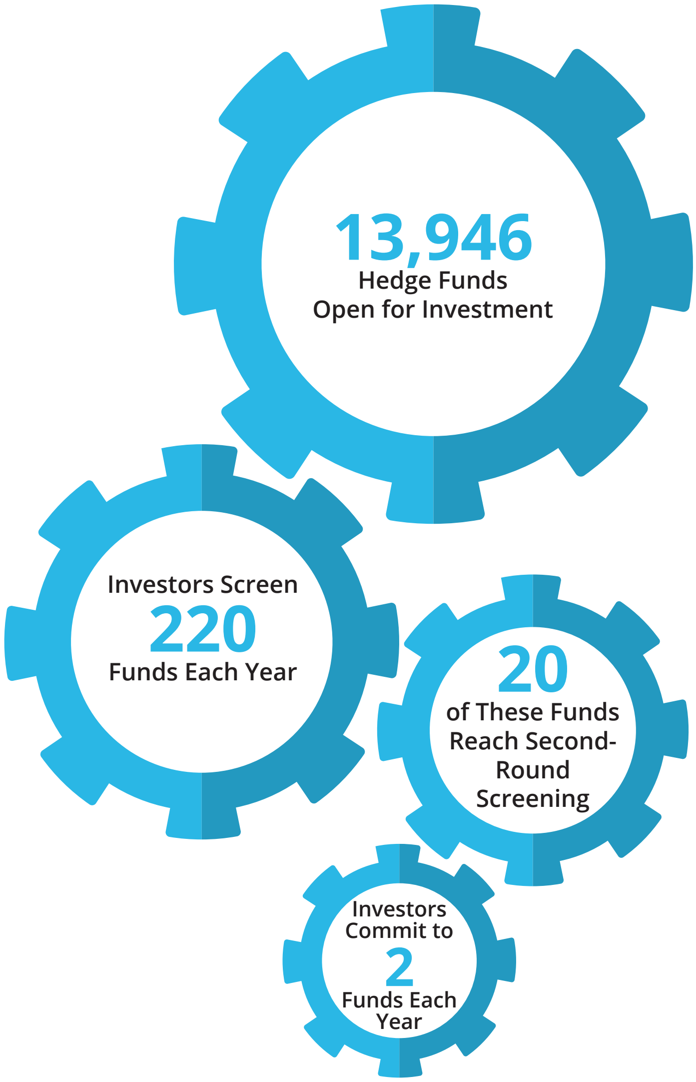
- Mix of internal sourcing and direct external approaches (79%)
- Only internal sourcing (20%)
- Only direct external approaches (1%)

LEADING FACTORS THAT RESULT IN INVESTORS REMOVING A FUND FROM SCREENING LIST:

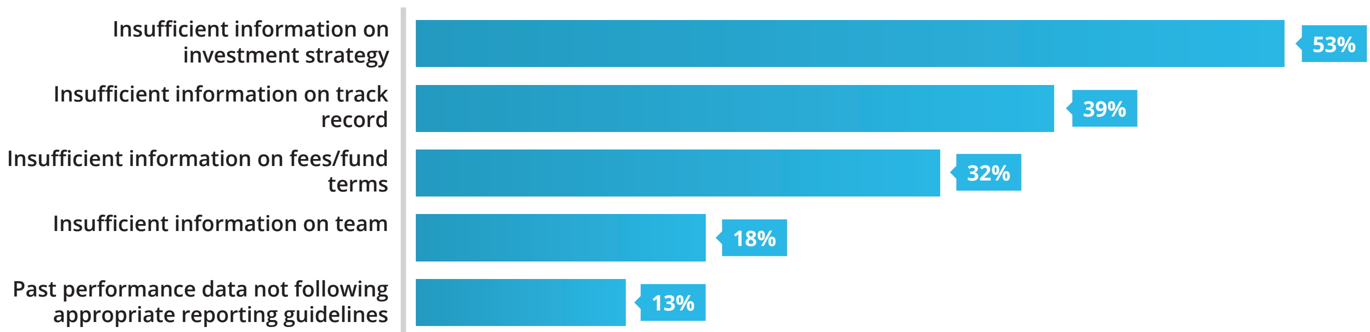
- ✘ Unfavourable fund terms (70%)
- ✘ Lack of team track record (57%)
- ✘ Poor governance (45%)

MOST IMPORTANT FACTORS INVESTORS ASSESS WHEN SELECTING NEW FUNDS:

- ✓ Successful team track record (69%)
- ✓ Experienced team (60%)
- ✓ Successful firm track record (54%)



MARKETING MATERIALS FAIL TO MEET THE NEEDS OF **49%** OF INVESTORS – WHY?



SAMPLE HEDGE FUND INVESTORS TO WATCH IN 2018

1

INFLECTION MANAGEMENT
Type: Fund of Hedge Funds Manager
Location: British Columbia, Canada
Total Assets: $10mn
Looking to add 4-6 new hedge funds over 2018, allocating $10-15mn per investment, and is looking at a wide variety of strategies.

2

SAN FRANCISCO EMPLOYEES' RETIREMENT SYSTEM
Type: Public Pension Fund
Location: San Francisco, CA, US
Total Assets: $22.2bn
Current/Target HF Allocation: 2.6%/15%
Plans to invest an additional $2.5bn in the next year, and expects its total exposure to the asset class to be $3.5bn within two years.

3

ALFRED I. DUPONT TESTAMENTARY TRUST
Type: Foundation
Location: Jacksonville, FL, US
Total Assets: $6bn
Current/Target HF Allocation: 20%/20%
Although looking to maintain its allocation to hedge funds in 2018, the foundation will be looking for new managers over the course of the year. Will consider all strategies.

4

BALLENTINE PARTNERS
Type: Family Office
Location: Wolfeboro, NH, US
Total Assets: $11bn
Current/Target HF Allocation: 8%/10%
Is currently under its target allocation to hedge funds. Is looking to invest globally with new managers over 2018. Will invest with emerging managers, considering those with more than $100mn in AUM and a two-year track record.

5

CHURCH COMMISSIONERS FOR ENGLAND
Type: Endowment Plan
Location: London, UK
Total Assets: £7.9bn
Will consider adding 2-3 new funds in 2018. Is considering long/short equity, quant, global macro or volatility overlay hedge funds.

6

BHF-BANK
Type: Wealth Manager
Location: Frankfurt, Germany
Total Assets: €42.7bn
Current HF Allocation: 1%
Is looking to invest in new hedge funds over 2018. Requires a minimum of a one-year track record and targets single-strategy funds in the event driven space. Invests in traditional hedge funds and UCITS.

7

CIR GROUP
Type: Corporate Investor
Location: Milan, Italy
Total Assets: €980mn
Current HF Allocation: 3%
Is looking for long/short equity and macro hedge funds. Typically invests with US-based hedge fund managers.

8

NONGHYUP LIFE INSURANCE
Type: Insurance Company
Location: Seoul, South Korea
Total Assets: KRW 61.03tn
Target HF Allocation: 1.2%
Considering investing in hedge funds for the first time; will target fund of hedge funds investments via a managed account structure.

9

MITSUBISHI CORPORATION PENSION FUND
Type: Private Sector Pension Fund
Location: Tokyo, Japan
Total Assets: JPY 580bn
Current HF Allocation: 8%
Will consider investing in single- and multi-manager funds in the US and European markets but will not consider investment opportunities in its domestic market.

SECTION FIVE: REAL ESTATE

TAKING THE LONGER-TERM VIEW

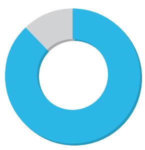
These are challenging times to be operating a real estate portfolio. Interest rates are starting to rise. Fundraising is intensely competitive. Property valuations have been increasing. Return expectations are falling and many participants feel we have already reached the peak of the market. However, these challenges are set against a backdrop where the asset class has flourished since the Global Financial Crisis and delivered for the vast majority of investors that have sought greater diversification of returns within alternative assets. Furthermore, there remains a significant proportion of both fund managers and investors that are either unsure of where we are in the cycle or believe there is still room to grow.

> ***"Real estate is such a vital component of most investors' portfolios that the real question is not 'whether' to participate in the market, but 'how'***

What remains – even in this environment – is strong investor appetite, backed up by a fund manager base that has generally delivered for them in recent years. Distributions have been high, target allocations need to be met and in a low interest rate environment, real estate continues to satisfy the desire for diversification, reliable income streams and attractive absolute returns. As such, participation from the investor community is one of the highest among all alternatives asset classes and looks set to play an important part in asset allocation decisions in the near future. The planned increase in capital over both the next 12 months and the longer term underscores investors' confidence in the industry to achieve expectations in a variable market, while those fund managers that can express a unique value proposition and mitigate investors' pricing concerns will likely be the recipients of capital commitments in 2018.

To correspond with the release of Preqin's **2018 Global Real Estate Report**, Preqin conducted interviews with 244 institutional investors in real estate at the end of December to understand their changing appetite for and attitudes towards the asset class, their concerns and their investment plans for 2018.

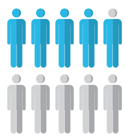
LOOKING BACK



88%

of investors surveyed feel their real estate investments met or exceeded their expectations in 2017.

INVESTOR SENTIMENT



49%

of investors believe it is more difficult to find attractive investment opportunities than 12 months ago.

LOOKING FORWARD

74%

of investors predict that the prospect of interest rate rises will be the key macro factor to impact upon portfolios in 2018.

66%

of respondents feel that valuations are the key issue affecting real estate.

56%

of surveyed investors cite residential properties as presenting the best opportunities.

84%

of investors expect to commit the same amount of, or more, capital to real estate in the next 12 months, up from 76% in 2016.

SATISFACTION WITH REAL ESTATE

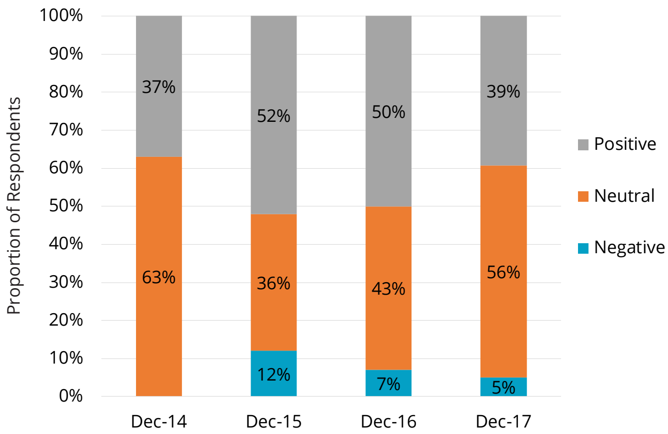
Robust performance and high distributions have driven the largely positive sentiment in recent years, with two in five investors interviewed at the end of 2017 holding a positive perception of the asset class, and the proportion of investors holding a negative view falling for the third consecutive year to just 5% (Fig. 5.1). The ability of closed-end funds to deliver for investors is made even more apparent by the scale of distributions: nearly $900bn has been released back to institutions from fund investments since 2013, including a record $278bn distributed over the whole of 2016.

The effects of this are twofold: firstly, the vast majority of investors surveyed found that the asset class has met their expectations over both the one- (Fig. 5.2) and three-year periods (not shown). Secondly, investors – now flush with capital – have to work hard to reach their target allocations, and as such will be continuing to invest capital in 2018 – at the very least, at the same pace as in 2017 (see page 42).

However, with concerns rife (see page 43), institutions' confidence in the asset class to achieve portfolio objectives has slightly waned: the proportion of investors reporting reduced confidence in real estate over the past 12 months has increased in comparison to one year ago (Fig. 5.3).

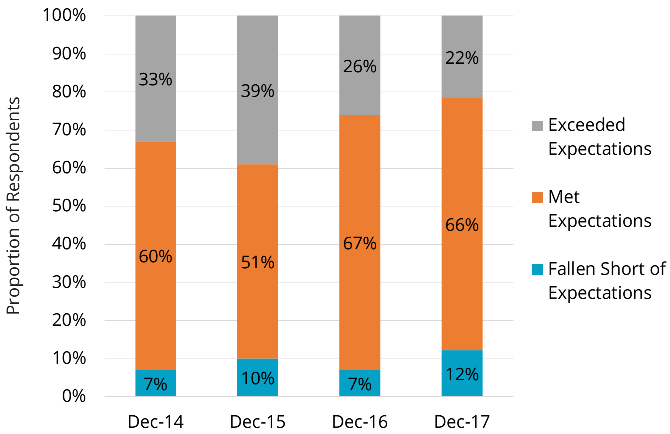
Despite this, investors remain committed to the asset class over the long term, with 32% of institutions surveyed planning to increase the proportion of their total assets allocated to real estate, and a further 57% planning to maintain their current levels of exposure (Fig. 5.4).

Fig. 5.1: Investors' General Perception of the Real Estate Industry, 2014 - 2017



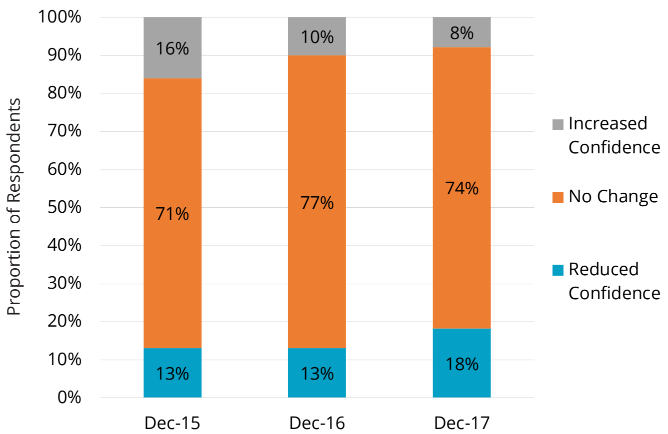
Source: Preqin Investor Interviews, December 2014 - 2017

Fig. 5.2: Extent to Which Investors Feel Their Real Estate Investments Lived up Expectations over the Past 12 Months, 2014 - 2017



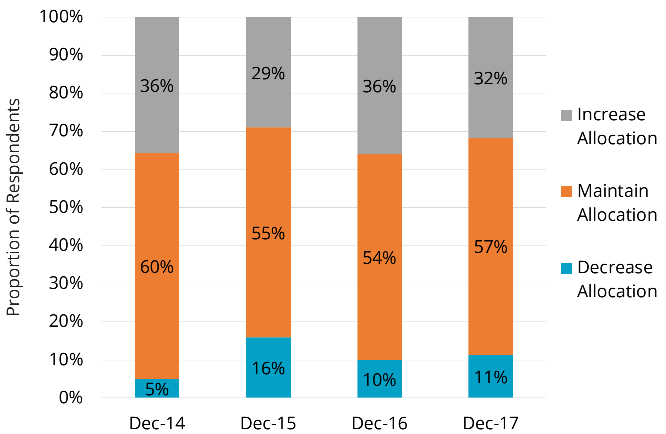
Source: Preqin Investor Interviews, December 2014 - 2017

Fig. 5.3: Investors' Change in Confidence in the Ability of Real Estate to Achieve Portfolio Objectives over the Past 12 Months, 2015 - 2017



Source: Preqin Investor Interviews, December 2015 - 2017

Fig. 5.4: Investors' Intentions for their Real Estate Allocations in the Longer Term, 2014 - 2017



Source: Preqin Investor Interviews, December 2014 - 2017

INVESTOR ACTIVITY IN 2018

STRUCTURAL PLANS

More investors interviewed will be increasing their exposure to direct investment (37%) and listed real estate (32%) than for other routes to market (Fig. 5.5). The smallest proportion of respondents seek to reduce exposure to closed-end and open-ended funds in 2018 (both 9%) – the areas of highest institutional participation. However, all routes appear to predict a net increase in activity over 2018 from investors surveyed. Appetite for alternative structures to the commingled fund model appears to be continuing to grow. Investors are planning to ramp up activity across separate accounts, co-investments and joint ventures over 2018, including nearly half of respondents that are planning more activity in co-investments (Fig. 5.6).

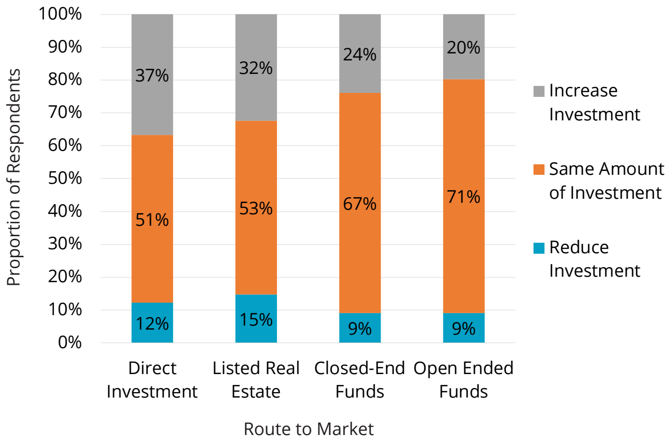
CAPITAL PLANS

Eighty-four percent of investors plan to commit at least the same amount of capital to real estate in the next 12 months as they did over 2017, including 26% that will look to invest more (Fig. 5.7). Significantly, the proportion (16%) of investors surveyed that will commit less capital in the year ahead has reduced from 2016 (24%); this may act as a tailwind for the fundraising market, which struggled in 2017 to surpass the pace of commitments seen in 2016.

RELATIONSHIPS

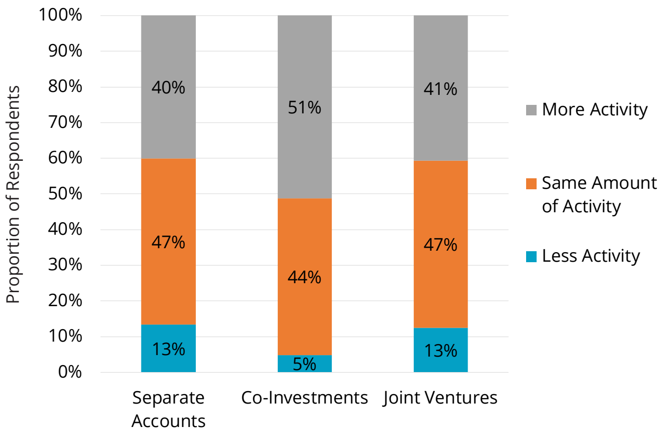
Looking over the next two years, investors are generally looking to maintain the number of fund manager relationships they hold in their portfolios, although the proportion stating they plan to increase this total surpasses those looking to reduce by 10 percentage points (Fig. 5.8). Crucially for the industry – where commitments have gravitated to more established managers – it will be interesting to see if investors will begin to look to form relationships with new firms in the space in an environment where the signs point toward a contraction of returns.

Fig. 5.5: Investors' Intentions for Real Estate Investment in 2018 Compared to 2017 by Route to Market



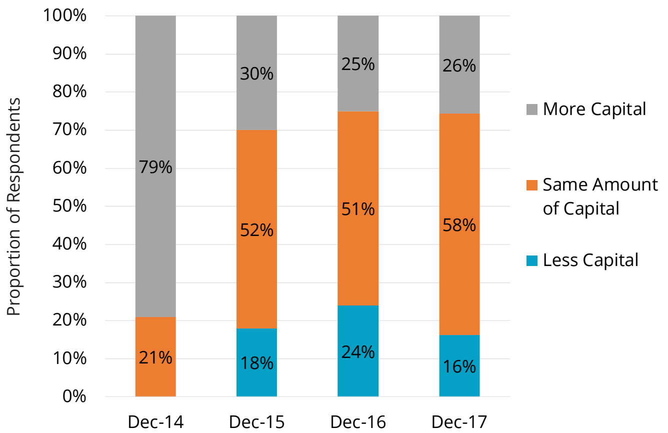
Source: Preqin Investor Interviews, December 2017

Fig. 5.6: Investors' Intentions for Investment in Alternative Real Estate Structures in 2018 Compared to 2017



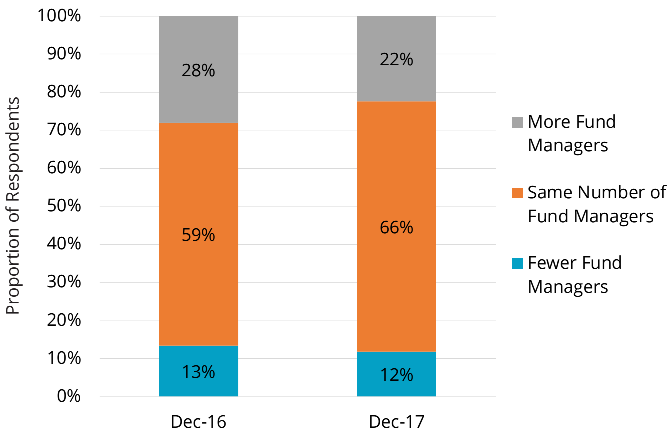
Source: Preqin Investor Interviews, December 2017

Fig. 5.7: Investors' Expected Capital Commitments to Real Estate Funds in the Next 12 Months Compared to the Previous 12 Months, 2014 - 2017



Source: Preqin Investor Interviews, December 2014 - 2017

Fig. 5.8: Investors' Intentions for the Number of Fund Managers in Their Real Estate Portfolios over the Next Two Years, 2016 vs. 2017



Source: Preqin Investor Interviews, December 2016 - 2017

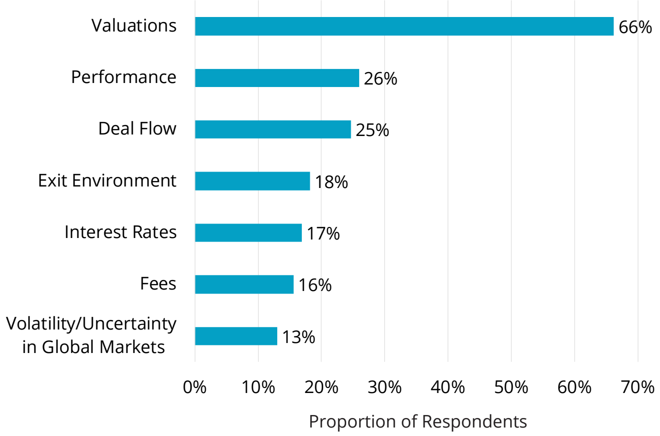
KEY ISSUES IN 2018

For the third consecutive year, investors believe that valuations remain the key issue facing the real estate industry (Fig. 5.9). High entry prices have the potential to have a knock-on effect on the eventual performance of a fund investment, as well as affect the viability of current deal pipelines, which were the two next most cited concerns among institutional investors. Already we are beginning to experience fund managers reducing the targeted returns of vehicles they are bringing to market, although investors appear to understand that the high absolute returns the asset class has delivered in recent years may not continue – 24% of respondents anticipate that their portfolios will perform worse over 2018 (Fig. 5.10).

With fund managers in agreement regarding valuations, it has exacerbated concerns surrounding where we are in the market cycle. Again, both institutional investors and fund managers are in broad agreement about this point – approximately half of respondents from both groups believe we have already reached the peak of the market (Fig. 5.11). However, real estate markets are deep and there remain significant proportions of both groups that feel market expansion will continue.

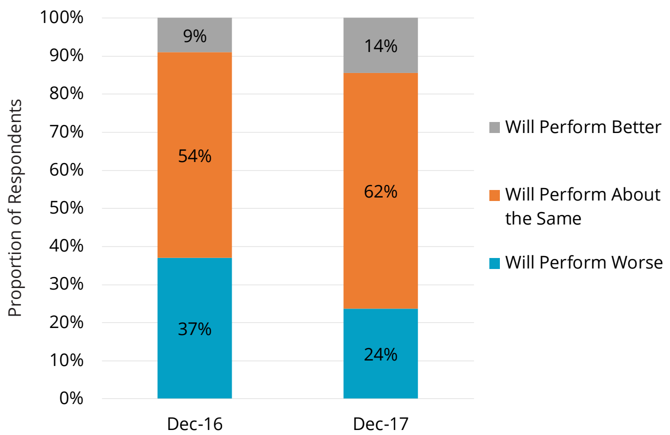
Low interest rates have helped the asset class in recent years, with 68% of investors believing this has had the biggest impact on their portfolios in the past 12 months. However, with potential interest rate rises over 2018, 74% of those surveyed feel this will be the macro factor that has the most significant impact on portfolios in the year ahead (Fig. 5.12).

Fig. 5.9: Investor Views on the Key Issues for Real Estate in 2018



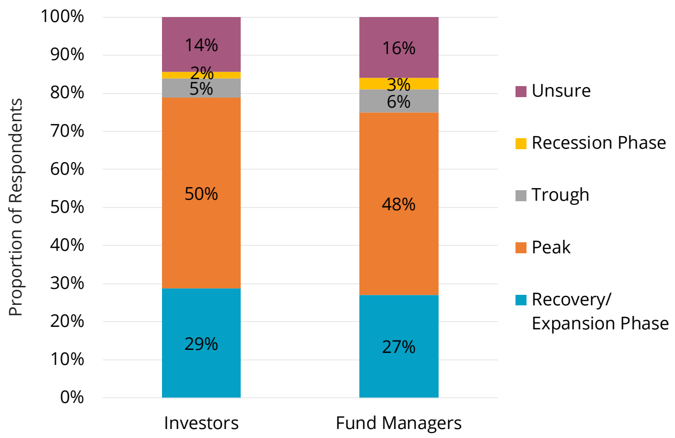
Source: Preqin Investor Interviews, December 2017

Fig. 5.10: Investor Return Expectations for Their Real Estate Portfolios in the Next 12 Months Compared to the Previous 12 Months, 2016 vs. 2017



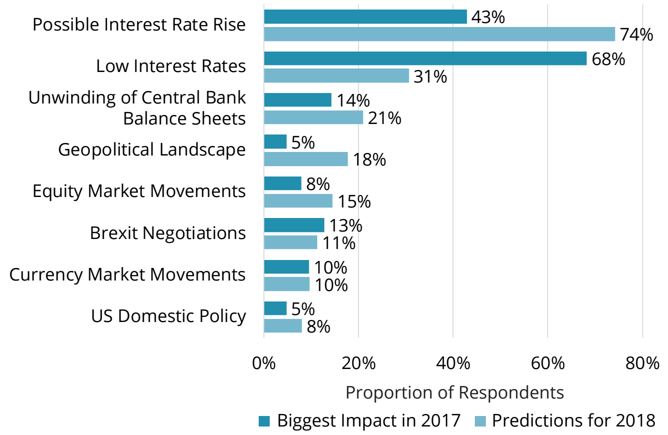
Source: Preqin Investor Interviews, December 2016 - 2017

Fig. 5.11: Investor Views on Where Real Estate Is in the Current Market Cycle: Investors vs. Fund Managers



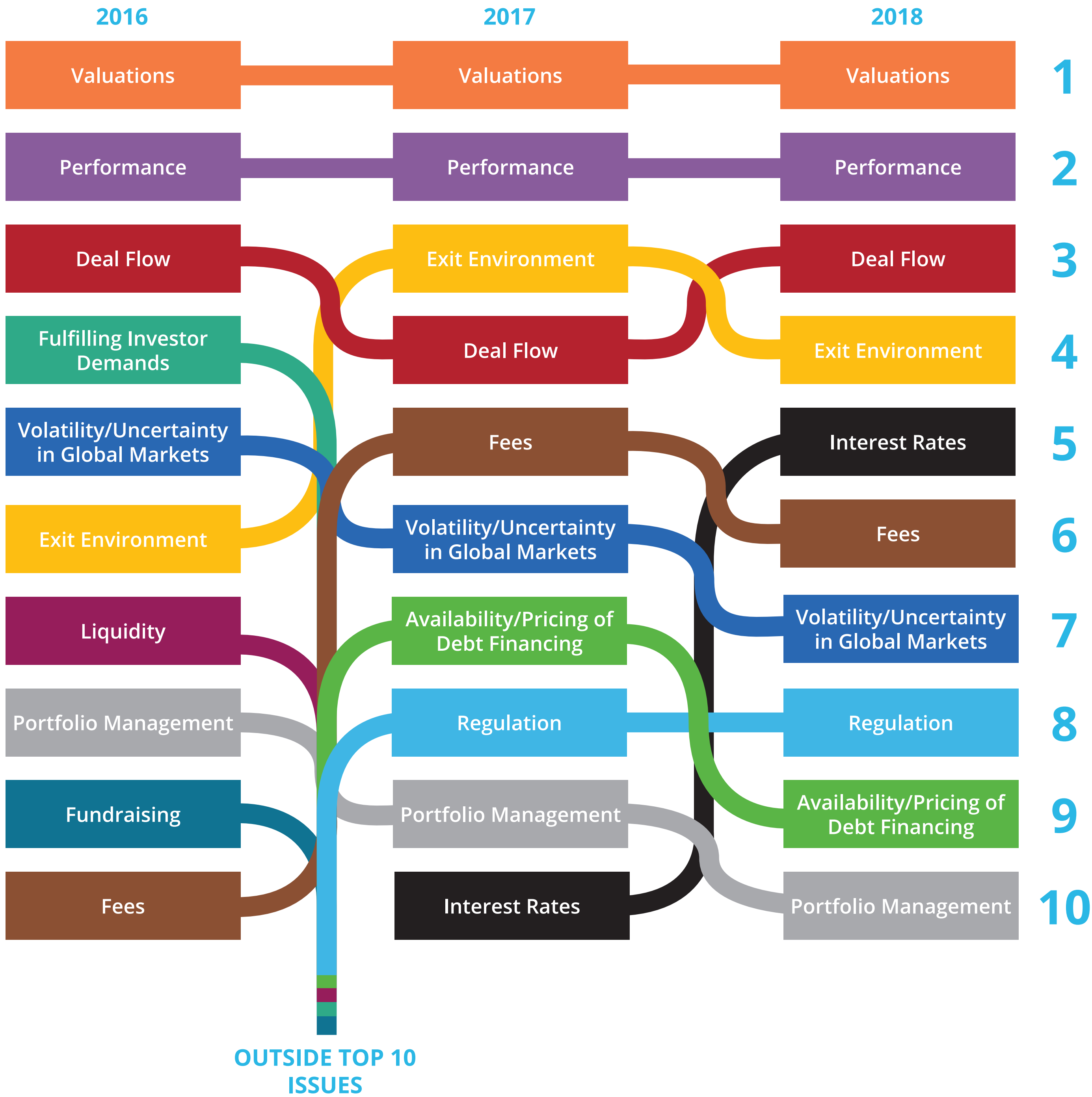
Source: Preqin Fund Manager Survey and Investor Interviews, November and December 2017

Fig. 5.12: Investor Views on the Macroeconomic Factors that Had the Biggest Impact on Their Real Estate Portfolios in 2017 vs. Predictions for 2018



Source: Preqin Investor Interviews, December 2016 - 2017

INVESTOR VIEWS ON THE KEY CHALLENGES FACING THE REAL ESTATE MARKET



Source: Preqin Investor Interviews, December 2015 - 2017

EXPECTATIONS AND OPPORTUNITIES

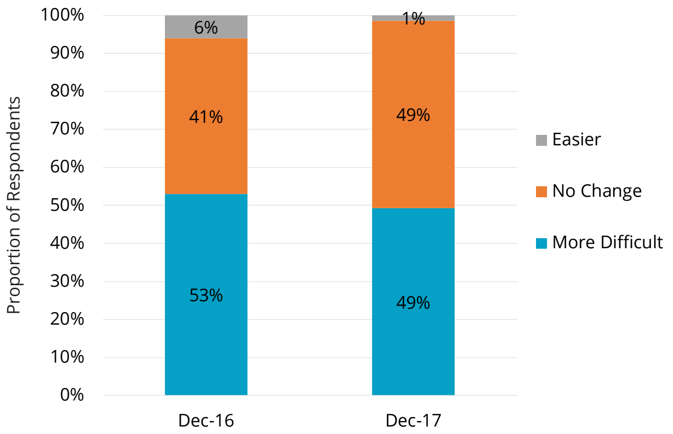
With record numbers of funds in market to choose from, interviewed investors are finding it difficult to source attractive opportunities in the market (Fig. 5.13). This highlights the challenges facing fund managers in marketing their vehicles effectively; knowledge of investors' favoured targets can be of help in understanding current demand.

Developed markets are considered the most promising regions for real estate investment: 63% of investors believe North America presents the best opportunities at present, while 49% stated the same for Europe (Fig. 5.14). All other top-level regional targets were cited by a minority of the investors surveyed.

When asked which strategies they regard as most attractive at present, 42% of investors identified core funds, although value added, core-plus and opportunistic real estate were not far behind (Fig. 5.15). Despite the rising interest and increase in fund searches issued for real estate debt in recent times, only 21% of respondents felt debt strategies were presenting the best opportunities.

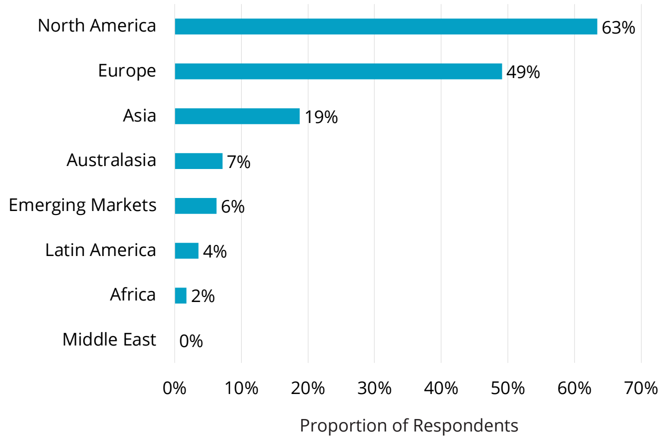
Investors believe the best opportunities within the market lie within the residential sector, with 56% of surveyed investors citing this property type (Fig. 5.16). Beyond this, more traditional commercial property types – industrial and office – were cited as the best targets for investment. In a difficult retail environment, only 13% of investors believe this is where the most attractive opportunities are, while 17% of investors believe the best opportunities can be found within niche real estate (which includes senior housing and student accommodation).

Fig. 5.13: Investor Views on the Difficulty of Identifying Attractive Investment Opportunities Compared to 12 Months Ago, 2016 vs. 2017



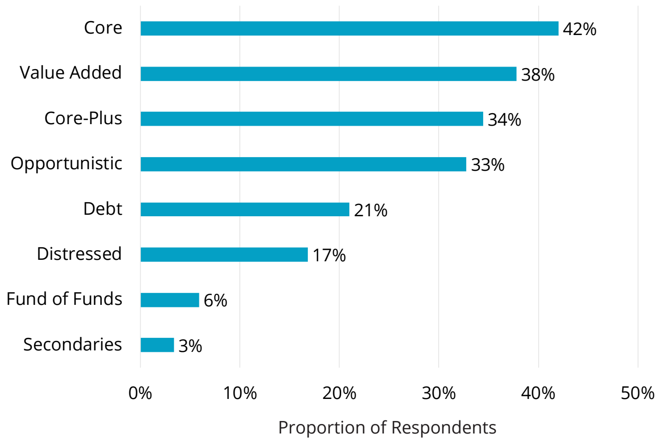
Source: Preqin Investor Interviews, December 2016 - 2017

Fig. 5.14: Regions that Investors View as Presenting the Best Opportunities



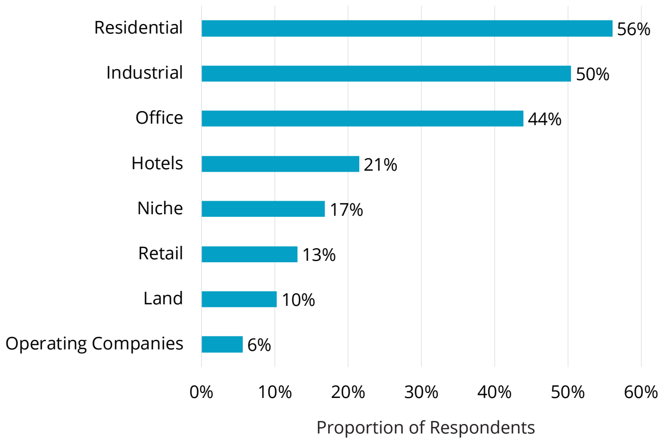
Source: Preqin Investor Interviews, December 2017

Fig. 5.15: Strategies that Investors View as Presenting the Best Opportunities



Source: Preqin Investor Interviews, December 2017

Fig. 5.16: Property Types that Investors View as Presenting the Best Opportunities



Source: Preqin Investor Interviews, December 2017

FUND TERMS AND ALIGNMENT OF INTERESTS

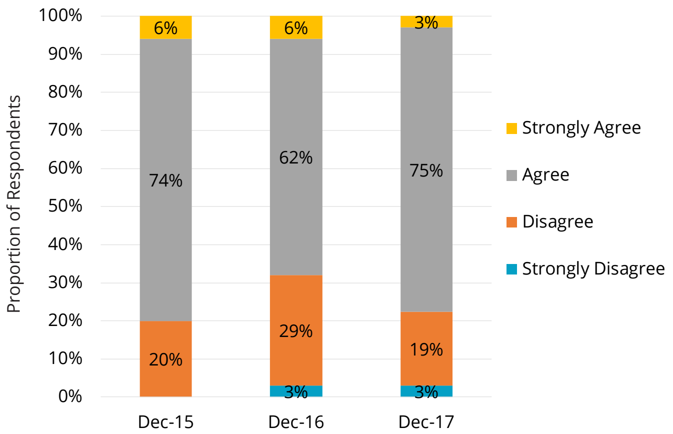
Institutional investors interviewed by Preqin in December 2017 were content with the prevailing fund terms and conditions in the real estate fund market: 78% of institutions agreed that fund manager and investor interests were properly aligned, a significant increase from 68% of investors surveyed at the end of 2016 (Fig. 5.17). Correspondingly, the proportion of investors that did not believe GP interests were properly aligned with their own has reduced to 22% from 32% in 2016.

The majority (63%) of institutional investors surveyed have seen no change in fund terms over the past year, and of those that did, 3x as many saw changes in their favour than those that experienced movement in the opposite direction (Fig. 5.18).

Those investors that are dissatisfied with the current alignment of interests identified a number of areas where improvements can be made (Fig. 5.19). Management fees are of greatest concern to LPs (cited by 64% of respondents). Transparency at fund level (42%) and how performance fees are charged (31%) were also concerns.

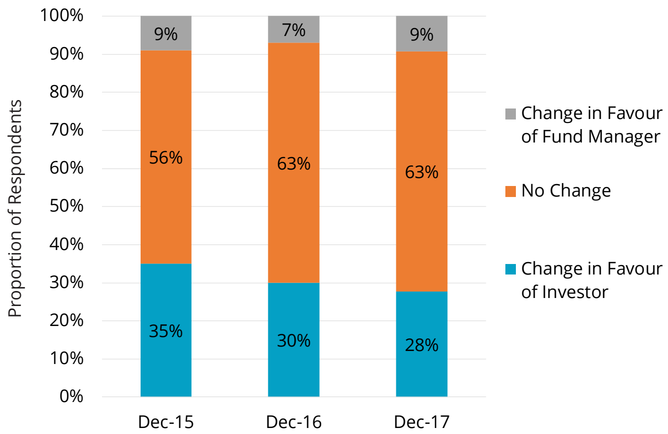
Fig. 5.20 illustrates the importance of fund managers ensuring that the fees they charge are appropriate, particularly given the challenging fundraising market at present. Eighty-six percent of institutional investors have previously decided not to invest in a real estate fund due to the proposed terms and conditions, including 19% that have frequently rejected funds based on their fee structures.

Fig. 5.17: Extent to Which Investors Believe that Fund Manager and Investor Interests Are Properly Aligned, 2015 - 2017



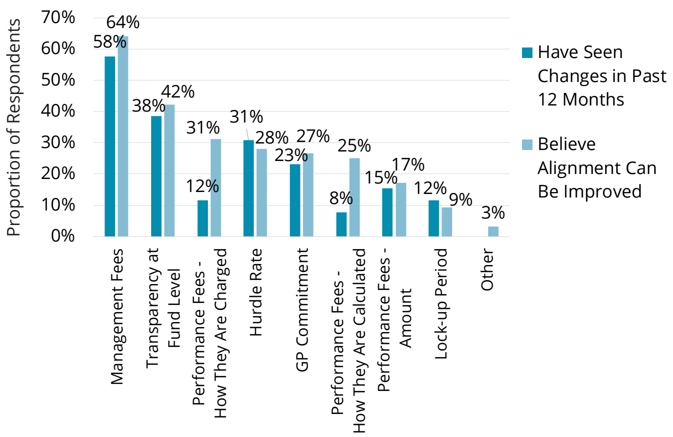
Source: Preqin Investor Interviews, December 2015 - 2017

Fig. 5.18: Proportion of Investors that Have Seen a Change in Prevailing Fund Terms and Conditions over the Past 12 Months, 2015 - 2017



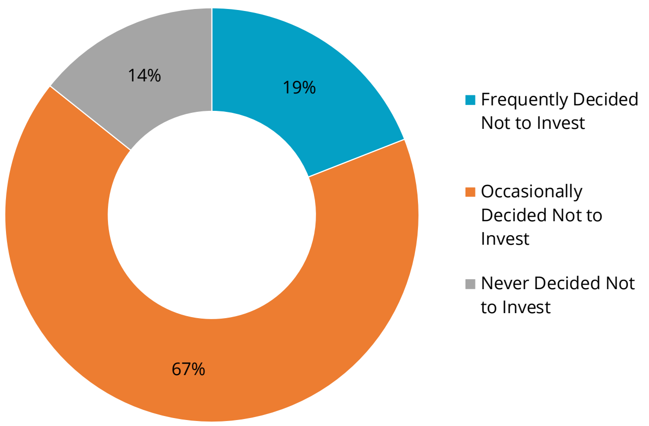
Source: Preqin Investor Interviews, December 2015 - 2017

Fig. 5.19: Areas in Which Investors Have Seen a Change in Prevailing Terms and Conditions over the Past 12 Months and Where They Believe Alignment Can Be Improved



Source: Preqin Investor Interviews, December 2017

Fig. 5.20: Frequency with Which Investors Have Decided Not to Invest in a Fund Due to the Proposed Terms and Conditions



Source: Preqin Investor Interviews, December 2017

HOW INVESTORS SOURCE AND SELECT REAL ESTATE FUNDS

In our December 2017 interviews with 244 institutional investors in real estate, 49% of respondents revealed that they found it more difficult to identify attractive real estate fund opportunities in 2017 than in 2016. With this in mind, using investors' responses and data from Preqin's platform, we examine in more detail the typical process that investors employ to source and screen real estate funds.

KEY STATS: AVERAGE SCREENING PROCESS FOR REAL ESTATE FUNDS

METHODS USED BY INVESTORS TO SOURCE FUNDS:

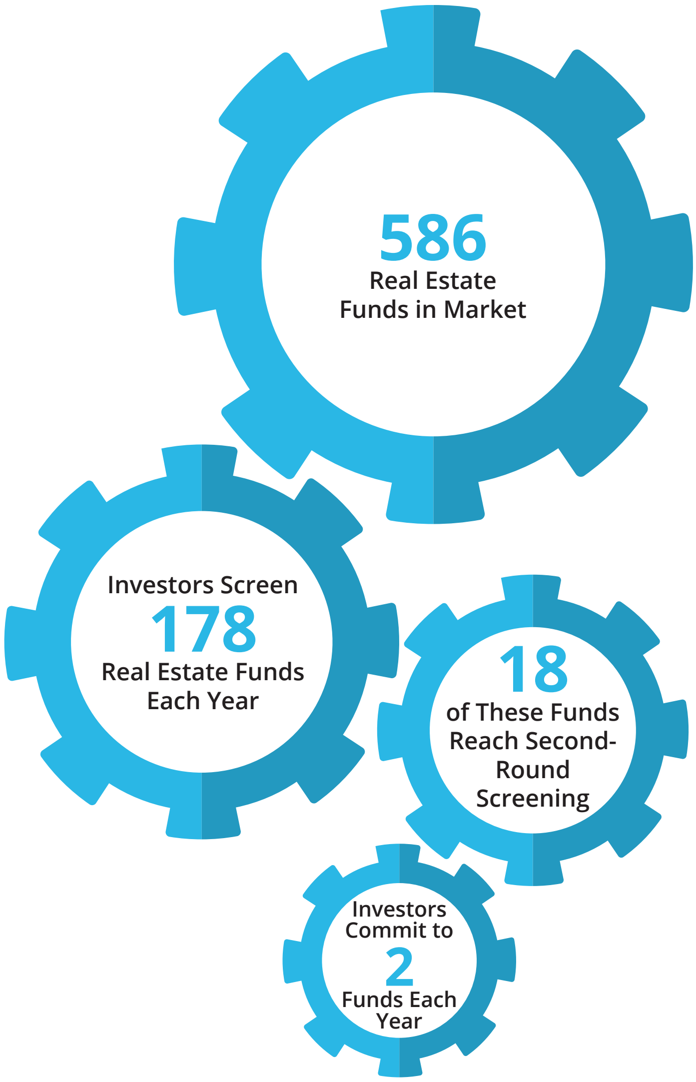
- Mix of internal sourcing and direct external approaches (76%)
- Only internal sourcing (18%)
- Only direct external approaches (6%)

LEADING FACTORS THAT RESULT IN INVESTORS REMOVING A FUND FROM THEIR SCREENING LIST:

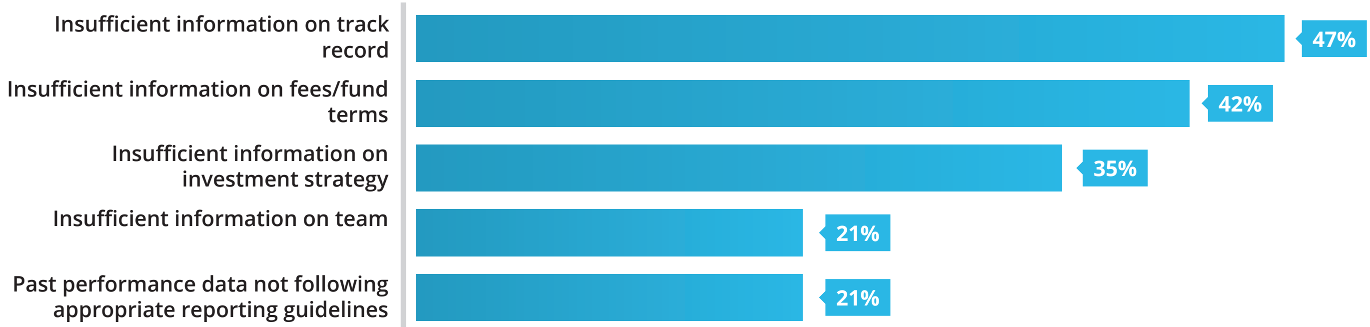
- ✗ Lack of team track record (56%)
- ✗ Unfavourable fund terms (47%)
- ✗ Below-average team track record (47%)

MOST IMPORTANT FACTORS INVESTORS ASSESS WHEN SELECTING NEW FUNDS:

- ✓ Experienced team (74%)
- ✓ Successful team track record (69%)
- ✓ Successful firm track record (60%)



MARKETING MATERIALS FAIL TO MEET THE NEEDS OF **38%** OF INVESTORS – WHY?



SAMPLE REAL ESTATE INVESTORS TO WATCH IN 2018

1

TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS
Type: **Public Pension Fund**
Location: **Springfield, US**
Amount Investing in Next 12 Months:
$100-500mn
Will commit to value added, opportunistic, core-plus, debt, core and distressed vehicles on a global scale, with $100mn earmarked for co-investments in addition to its direct activity.

2

CANADIAN MEDICAL PROTECTIVE ASSOCIATION
Type: **Foundation**
Location: **Ottawa, Canada**
Amount Investing in Next 12 Months:
CAD 40-50mn
Will invest in at least one new value added real estate fund.

3

NIPPON LIFE GLOBAL INVESTORS AMERICAS
Type: **Insurance Company**
Location: **New York City, US**
Amount Investing in Next 12 Months:
$180-280mn
Will invest in 6-7 funds on an opportunistic basis across Asia, Europe and North America.

4

SCHRODERS
Type: **Asset Manager**
Location: **London, UK**
Amount Investing in Next 12 Months:
£2bn
Will invest in five Europe-focused real estate funds on an opportunistic basis.

5

RETRAITES POPULAIRES
Type: **Public Pension Fund**
Location: **Lausanne, Switzerland**
Amount Investing in Next 12 Months:
CHF 100-150mn
Will invest in 10-15 real estate fund of funds vehicles across Asia, Europe and North America.

6

TRYG
Type: **Insurance Company**
Location: **Ballerup, Denmark**
Amount Investing in Next 12 Months:
DKK 1bn
Will commit up to DKK 1bn across three Europe-focused core private real estate funds.

7

STATE OIL FUND OF THE REPUBLIC OF AZERBAIJAN
Type: **Sovereign Wealth Fund**
Location: **Baku, Azerbaijan**
Amount Investing in Next 12 Months:
$500mn
Will invest in 3-4 value added and opportunistic vehicles that provide exposure to Asia-Pacific, Europe and North America.

8

THAILAND GOVERNMENT PENSION FUND
Type: **Private Sector Pension Fund**
Location: **Bangkok, Thailand**
Amount Investing in Next 12 Months:
THB 4bn
Will invest in Asia-Pacific-focused value added, opportunistic and debt vehicles.

9

POLICE MUTUAL AID ASSOCIATION (PMAA)
Type: **Public Pension Fund**
Location: **Seoul, South Korea**
Amount Investing in Next 12 Months:
KRW 100-120bn
Will invest in 3-5 value added, opportunistic, core-plus and debt vehicles on a global basis.

SECTION SIX: INFRASTRUCTURE

STRONG INVESTOR APPETITE CONTINUES

In December 2017, Preqin surveyed over 80 institutional investors actively committing to the infrastructure asset class to gauge their thoughts on the market and their appetite for investment opportunities in 2018.

High levels of capital distributions over the past two years, coupled with strong risk-adjusted returns, have left investors more than satisfied with the asset class. Ninety-three percent of respondents stated that the performance of their infrastructure investments had met or exceeded their expectations in the past 12 months, up from 77% and 89% of survey respondents in 2015 and 2016 respectively. With distributions high, investors have significant capital left to re-invest; it is therefore unsurprising to find that 39% of respondents expect to invest more capital in infrastructure over the next 12 months than in the previous year.

However, despite positive sentiment and continued growth in appetite for infrastructure investment, investors have identified key challenges facing the market that GPs should be aware of and address to ensure a successful fundraise. Increased participation in the asset class has created a competitive deal environment and pushed up prices for infrastructure assets, with 60% of investors surveyed citing asset pricing as a key issue for the industry in 2018. High prices may potentially eat into the eventual returns investors see from their infrastructure portfolios. Furthermore, investors face the challenge of identifying GPs that can achieve the best returns at an acceptable level of risk within a fiercely competitive fundraising market.

The majority (67%) of investors are under-allocated to the asset class as at January 2018, which makes it likely that GPs' strong fundraising efforts will continue. However, the influx of capital to the asset class has contributed to elevated dry powder levels and is likely to result in increased competition among GPs for attractive investment opportunities.

INVESTOR APPETITE

93%

of investors surveyed felt that their infrastructure investments met or exceeded expectations in 2017.

60%

of respondents identified valuations as they key issue for the infrastructure market in 2018.

39%

of investors expect to commit more capital to infrastructure funds in the next 12 months compared to the previous year.

MAKE-UP OF INVESTORS

66%

of investors have less than $10bn in assets under management.

$139bn

Total amount allocated to the asset class by the 10 largest infrastructure investors.

$24.8bn

Estimated current allocation to the asset class of Abu Dhabi Investment Authority, the largest infrastructure investor globally.

EVOLUTION OF INVESTORS

4.1%

Investors' average current allocation to infrastructure, below the average target allocation of 5.6%.

67%

of investors are below their target allocation to infrastructure.

45%

of investors will not invest in first-time funds, the joint largest proportion in the period 2013-2018.

SATISFACTION WITH INFRASTRUCTURE

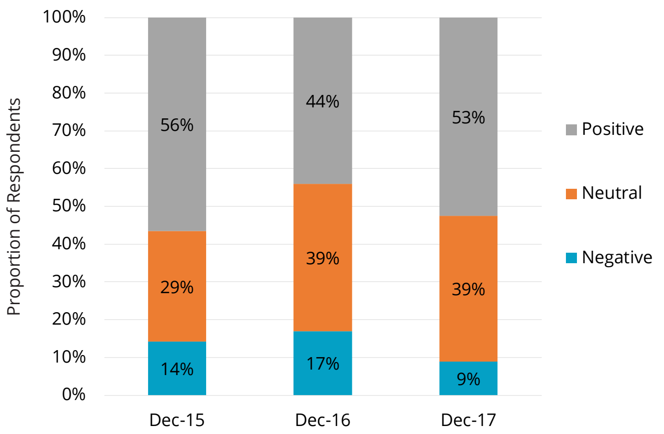
The majority (53%) of surveyed investors have a positive perception of the asset class – up from 44% in 2016 – and, correspondingly, fewer investors have a negative perception of infrastructure investment (Fig. 6.1). This is likely due to strong performance within the asset class in recent years, with funds of vintage 2009 onwards consistently generating median net IRRs around the 10% mark.

As shown in Fig. 6.2, 93% of institutional investors felt that their infrastructure fund investments had met or exceeded their expectations over the past 12 months, an increase from 77% in December 2015. Indicative of the level of investor satisfaction with the asset class, the proportion of respondents that felt their infrastructure investments had fallen short of expectations was substantially lower at 7% (vs. 23% in 2015).

As at the end of 2017, 73% of investors reported no change in their level of confidence in infrastructure to achieve portfolio objectives over the past year – this is a greater proportion than 68% in December 2016 (Fig. 6.3). Likewise, a smaller proportion (12%) reported that their confidence in the asset class diminished over the year. Such views are likely a reflection of the sustained growth within the industry, as well as the ability of the asset class to achieve strong risk-adjusted returns.

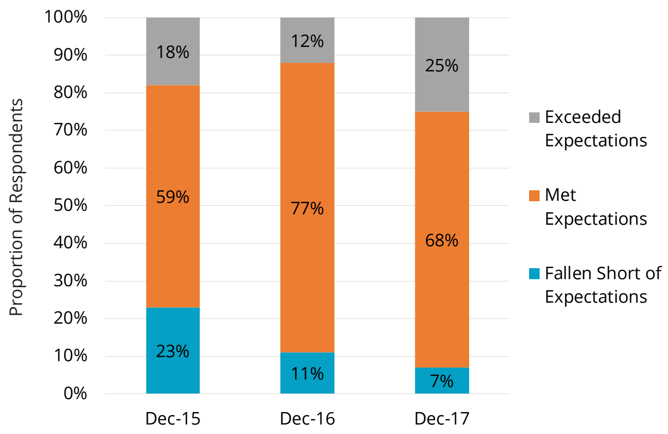
Fig. 6.4 shows that over the longer term, institutions remain committed to the asset class, with 55% of surveyed investors looking to increase their level of exposure and a further 41% planning to maintain their allocation to infrastructure. The fact that only 4% are likely to reduce allocations in the long term is indicative of investors' confidence in the asset class to meet portfolio objectives.

Fig. 6.1: Investors' General Perception of the Infrastructure Industry, 2015 - 2017



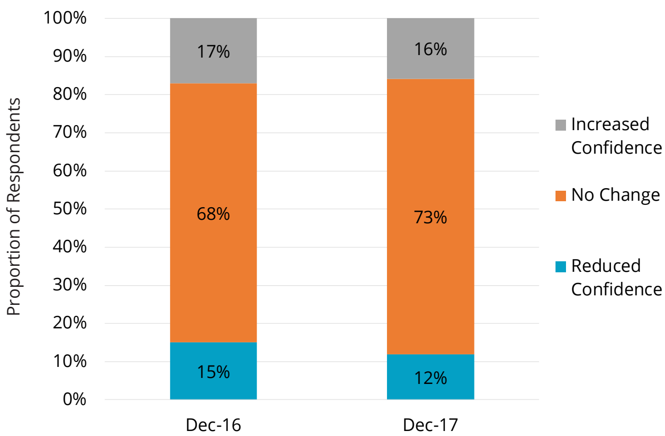
Source: Preqin Investor Interviews, December 2015 - 2017

Fig. 6.2: Extent to Which Investors Feel Their Infrastructure Fund Investments Have Lived up to Expectations over the Past 12 Months, 2015 - 2017



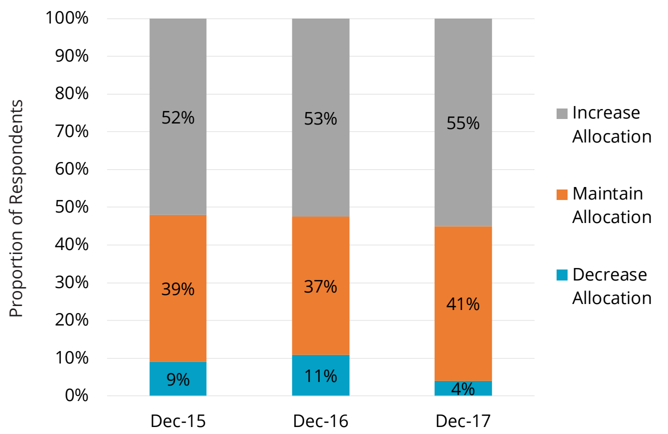
Source: Preqin Investor Interviews, December 2015 - 2017

Fig. 6.3: Investors' Change in Confidence in the Ability of Infrastructure to Achieve Portfolio Objectives over the Past 12 Months, 2016 vs. 2017



Source: Preqin Investor Interviews, December 2016 - 2017

Fig. 6.4: Investors' Intentions for Their Infrastructure Allocations in the Longer Term, 2015 - 2017

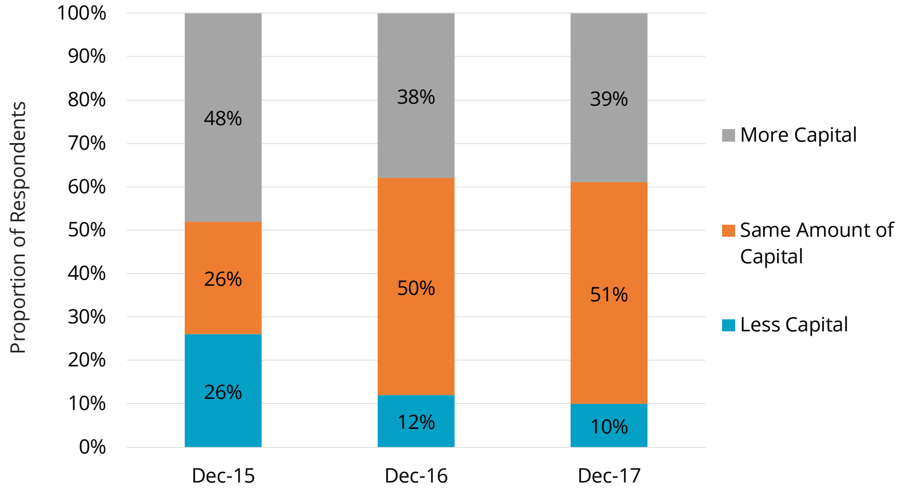


Source: Preqin Investor Interviews, December 2015 - 2017

INVESTOR ACTIVITY IN 2018

Elevated amounts of capital distributed to investors in the past two years mean investors have significant amounts of capital left to re-invest and, with a high level of satisfaction in the asset class, are likely to make further commitments to infrastructure funds in the coming year. This is closely aligned with 39% of survey respondents expecting to invest more capital in the asset class over the next 12 months compared to the previous year (Fig. 6.5).

Fig. 6.5: Investors' Expected Capital Commitments to Infrastructure Funds in the Next 12 Months Compared to the Previous 12 Months, 2015 - 2017



Source: Preqin Investor Interviews, December 2015 - 2017

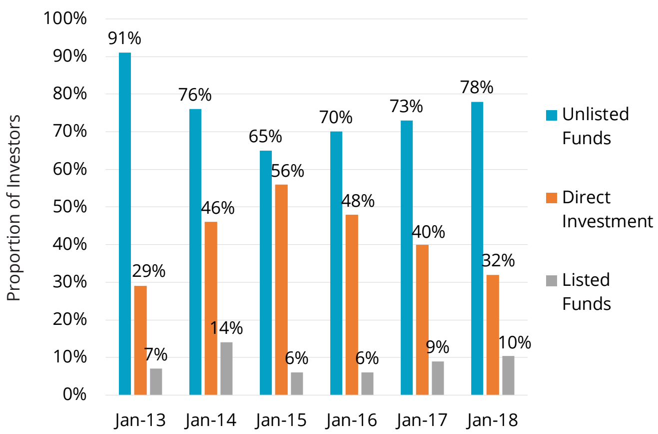
ROUTE TO MARKET

Unlisted funds remain the preferred route to market for infrastructure investors planning to invest in the asset class in the next 12 months, with the proportion of investors accessing the market via unlisted vehicles steadily rising since January 2015 (Fig. 6.6). The proportion of investors looking to make direct investments has decreased over the same period. The influx of new investors to the infrastructure asset class, as well as the resources and expertise investors need to successfully execute direct investment transactions internally, may explain the change over time. The proportion of investors that prefer listed infrastructure vehicles has steadily risen since January 2016, as the market continues to grow and investors recognize the benefits of holding investments in a more liquid format with typically smaller ticket sizes and more diverse industry exposure.

APPETITE FOR ALTERNATIVE STRUCTURES

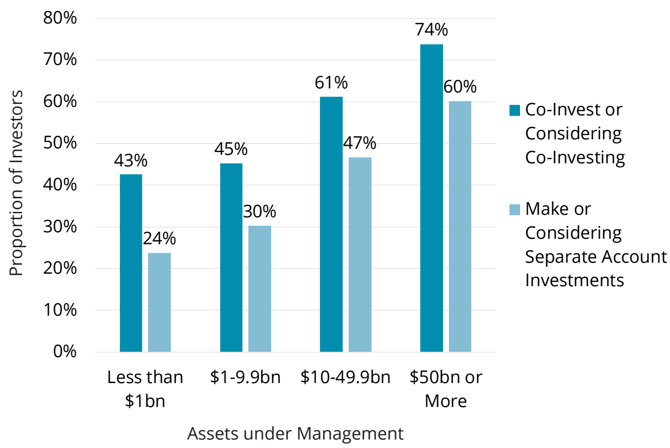
Investor appetite for alternative routes to market has been driven by many factors, including a desire for more control over their exposure and a more customizable fee structure. Twenty-eight percent of infrastructure investors look to utilize separate accounts, with a further 10% considering such structures, compared to 40% and 13% respectively that look to co-invest alongside GPs. There is a discernible correlation between investor AUM and the use of alternative investment methods: 60% of investors with at least $50bn in AUM make or consider separate account investments (Fig. 6.7), while 74% of investors with $50bn or more in AUM co-invest or are considering such opportunities, which reflects the less restrictive nature of such structures in terms of the capital outlay required compared to separate accounts.

Fig. 6.6: Preferred Route to Market of Infrastructure Investors Searching for New Investments in the Next 12 Months, 2013 - 2018



Source: Preqin Infrastructure Online

Fig. 6.7: Investor Appetite for Infrastructure Separate Accounts and Co-Investment Opportunities by Assets under Management



Source: Preqin Infrastructure Online

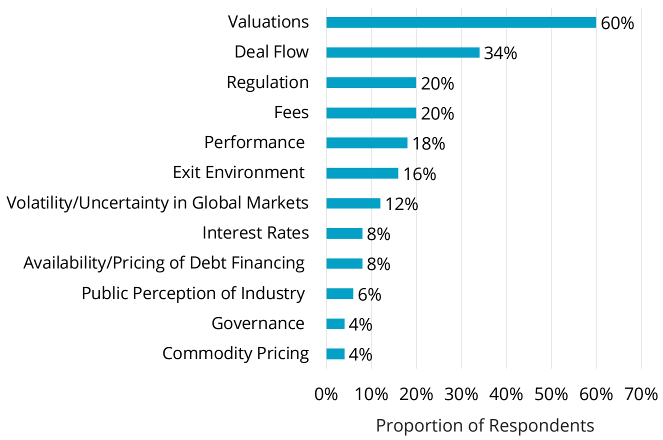
KEY ISSUES IN 2018

Participation in the asset class from strategic and institutional investors has increased over the past decade. While the proportion of investors employing direct investment strategies has declined slightly in recent years, they remain an important component of many institutions' overall investment strategy. Coupled with the large sums of capital raised by fund managers, this has made the infrastructure market more competitive. It is therefore unsurprising to find that the largest proportion (60%) of infrastructure investors interviewed have cited their key concern for the year ahead as the pricing of assets (Fig. 6.8). Deal flow is also a key issue on investors' minds, with high valuations affecting managers' ability to put capital to work.

While 37% of investors believe that infrastructure assets are fairly priced in the current market cycle, 59% feel they have been overvalued – although this includes 39% that feel a correction in the valuations of these assets is over a year away (Fig. 6.9). Growing investor appetite has led to fund managers having a record amount of dry powder to deploy. Furthermore, with plenty of capital and resources at their disposal, direct investment from sovereign wealth funds has resulted in a significant rise in asset prices. Among investors interviewed, 48% found it more difficult to identify attractive fund opportunities in 2017 than in 2016 (Fig. 6.10).

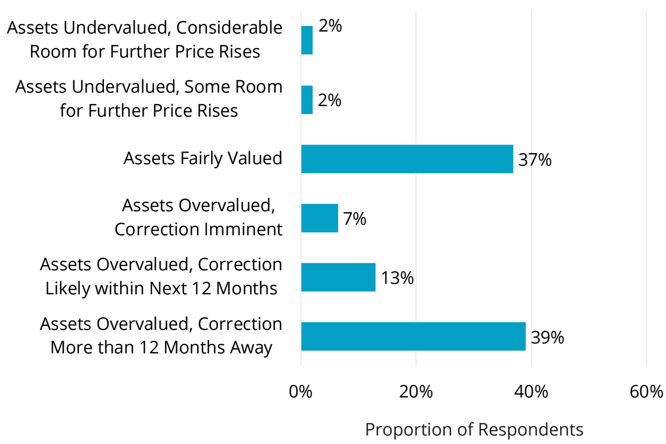
Seventy-two percent of surveyed investors felt that the current low interest rate environment affected their portfolios in the past year, while 39% expect it to impact upon their investments in the next year (Fig. 6.11). While only a quarter of respondents felt the prospect of rising interest rates impacted upon their portfolios, the largest proportion (49%) expect it to have the biggest impact in the next year.

Fig. 6.8: Investor Views on the Key Issues for Infrastructure in 2018



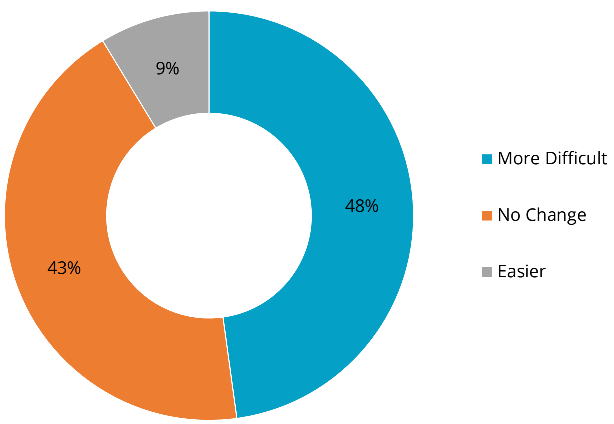
Source: Preqin Investor Interviews, December 2017

Fig. 6.9: Investor Views on Where Infrastructure Is in the Current Market Cycle



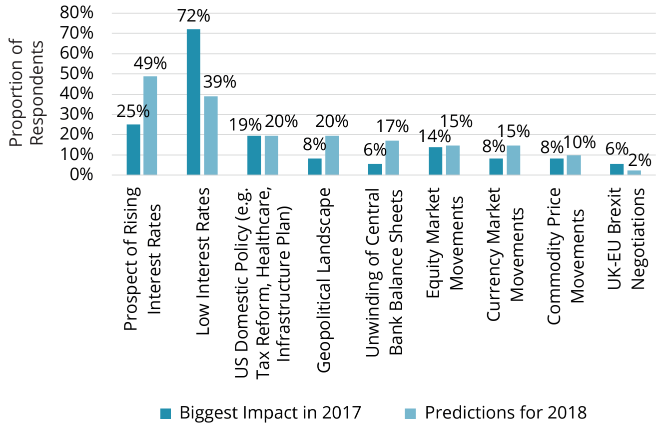
Source: Preqin Investor Interviews, December 2017

Fig. 6.10: Investor Views on the Difficulty of Finding Attractive Investment Opportunities Compared to 12 Months Ago



Source: Preqin Investor Interviews, December 2017

Fig. 6.11: Investor Views on the Macroeconomic Factors that Had the Biggest Impact on Their Infrastructure Portfolios in 2017 vs. Predictions for 2018



Source: Preqin Infrastructure Online


SOURCE
investors for funds
IDENTIFY
new clients and partners
CONDUCT
competitor and market analysis

STRATEGIES AND GEOGRAPHIES TARGETED

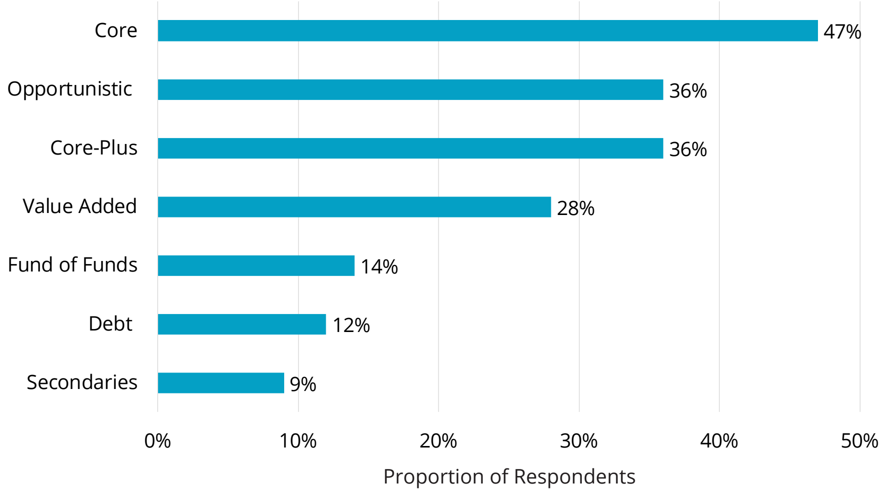
STRATEGIES

Despite the high levels of competition for mature assets, 47% and 36% of investors respectively believe core and core-plus strategies currently present the most attractive opportunities (Fig. 6.12). With 66% of respondents favouring brownfield projects, the demand reflects the stable cash flows generated from such assets. Investors also look favourably on higher-risk opportunistic (36%) and value added (28%) strategies, which may be due to heavy competition for core infrastructure assets.

SECTORS

The largest proportions of investors believe the conventional energy and renewable energy sectors currently present the most attractive opportunities (49% and 46% respectively, Fig. 6.13). Such interest in renewable energy investments reflects a growing number of investors that seek to take advantage of the opportunities created by technological improvements and falling costs in the sector. To meet this demand, investment in energy-related projects, technology and companies will increase in both the conventional and renewable energy markets, creating opportunities for fund managers searching for attractive assets and investors looking to deploy capital.

Fig. 6.12: Strategies that Investors View as Presenting the Best Opportunities



Source: Preqin Investor Interviews, December 2017

REGIONS

Fig. 6.14 shows that over two-thirds (69%) of respondents believe North America presents the most compelling opportunities, while 47% favour Europe, reflecting the large amount of capital sought by funds in market that are primarily targeting these regions. As competition for assets in established markets intensifies, resulting in higher valuations, investors may seek more affordable opportunities in markets elsewhere – at least a quarter of respondents favour Asia and emerging markets.

AGGREGATE CAPITAL RAISED BY UNLISTED INFRASTRUCTURE FUNDS CLOSED IN 2017 BY PRIMARY GEOGRAPHIC FOCUS

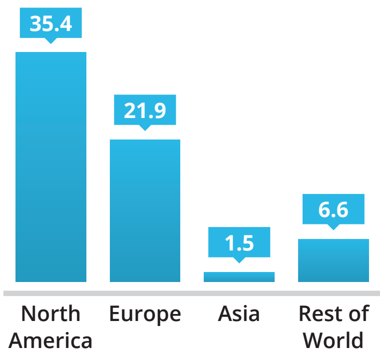
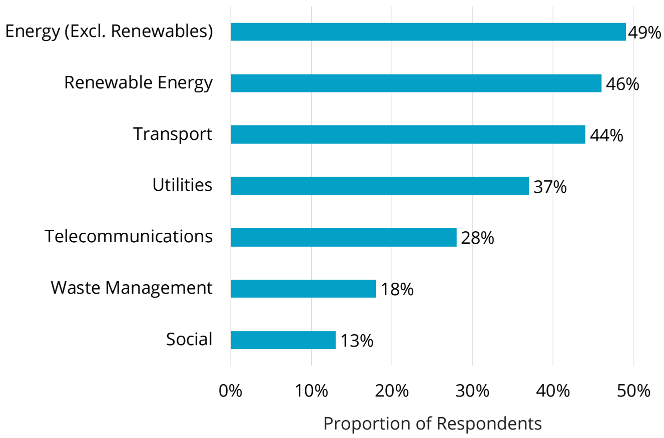
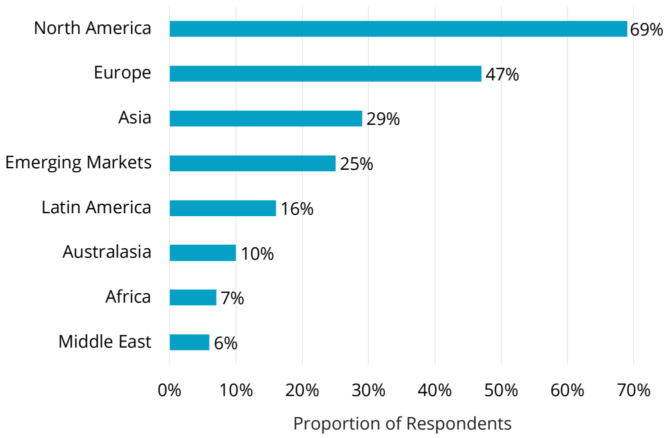


Fig. 6.13: Sectors that Investors View as Presenting the Best Opportunities



Source: Preqin Investor Interviews, December 2017

Fig. 6.14: Regions that Investors View as Presenting the Best Opportunities



Source: Preqin Investor Interviews, December 2017

FUND TERMS AND ALIGNMENT OF INTERESTS

ALIGNMENT OF INTERESTS

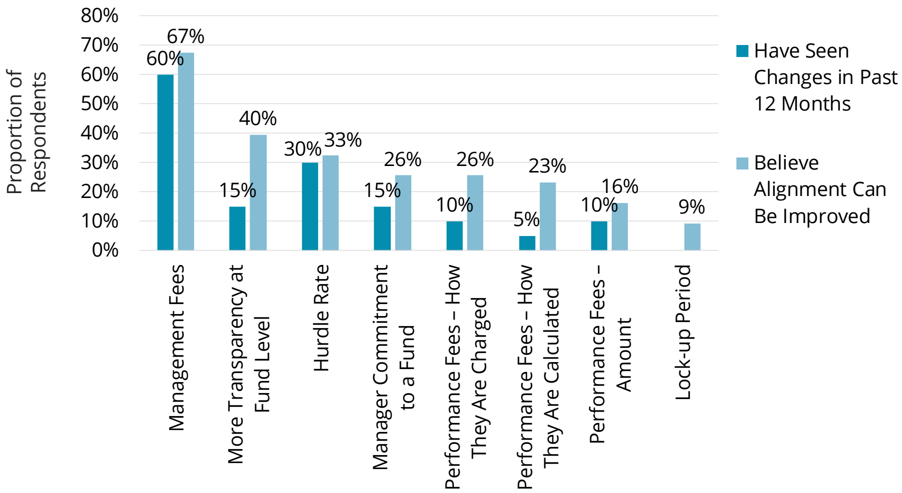
Since it is vital that institutional investors consider fund terms and conditions when looking to put capital to work, it is key for fund managers to ensure their fee structures are appropriate and aligned with the interests of their investors. Eighty-one percent of investors interviewed by Preqin in December 2017 believe that fund manager interests are properly aligned with their own, up from 61% of respondents in December 2016. This provides a strong indication that fund managers have continued to listen to, and address, concerns by adopting terms that meet investors' needs.

DEVELOPMENTS IN PREVAILING TERMS

Thirty percent of investors believe that there have been changes in prevailing fund terms in their favour over the past year, compared to a quarter of investors interviewed at the end of 2016. Fees remain a contentious issue for investors in the infrastructure industry, and in the wider alternative assets universe, amid a highly competitive fundraising environment. Management fees, greater transparency from fund managers and hurdle rates were cited by the largest proportions of investors as areas in which they would like to see improvements (Fig. 6.15). However, 60% of surveyed investors have seen changes to management fees in the past year, while 30% have witnessed changes to hurdle rates, suggesting that GPs are responding to investor concerns.

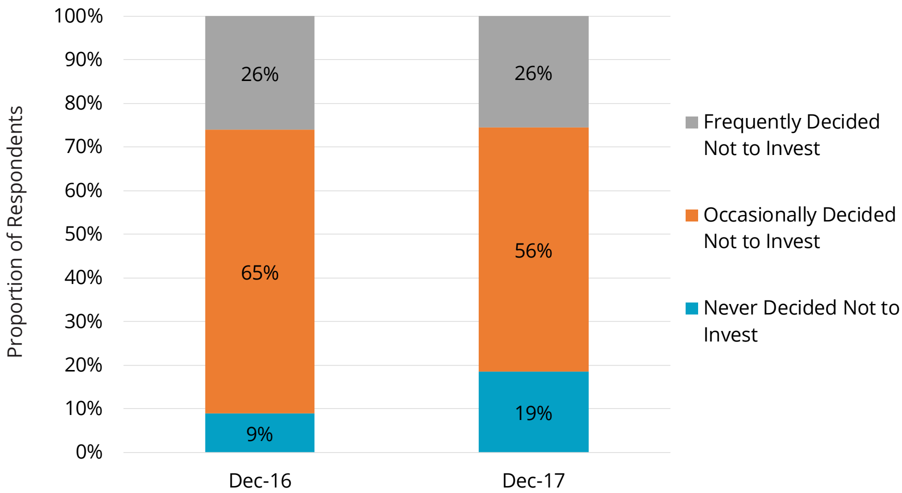
In a competitive fundraising environment which has seen capital increasingly concentrated among fewer fund managers, presenting favourable fund terms and conditions has become an important way for GPs to differentiate themselves from their competitors and entice LPs to make commitments to their funds. Eighty-two percent of investor respondents have either occasionally or frequently decided not to invest in a fund due to the proposed terms and conditions, remaining at a similar level to December 2016 (Fig. 6.16). There is therefore still a way to go in order to improve the alignment of interests between GPs and LPs.

Fig. 6.15: Areas in Which Investors Have Seen a Change in Prevailing Terms and Conditions over the Past 12 Months and Where They Believe Alignment Can Be Improved



Source: Preqin Investor Interviews, December 2017

Fig. 6.16: Frequency with Which Investors Have Decided Not to Invest in a Fund Due to the Proposed Terms and Conditions, 2016 vs. 2017



Source: Preqin Investor Interviews, December 2016 - 2017

HOW INVESTORS SOURCE AND SELECT INFRASTRUCTURE FUNDS

In our December 2017 interviews with over 80 institutional investors, 48% revealed that they found it more difficult to identify attractive infrastructure fund opportunities in 2017 than in 2016. With this in mind, we examine in more detail the processes that investors use to source and screen funds based on data from our online platform and responses to our survey.

KEY STATS: AVERAGE SCREENING PROCESS FOR UNLISTED INFRASTRUCTURE FUNDS

METHODS USED BY INVESTORS TO SOURCE FUNDS:

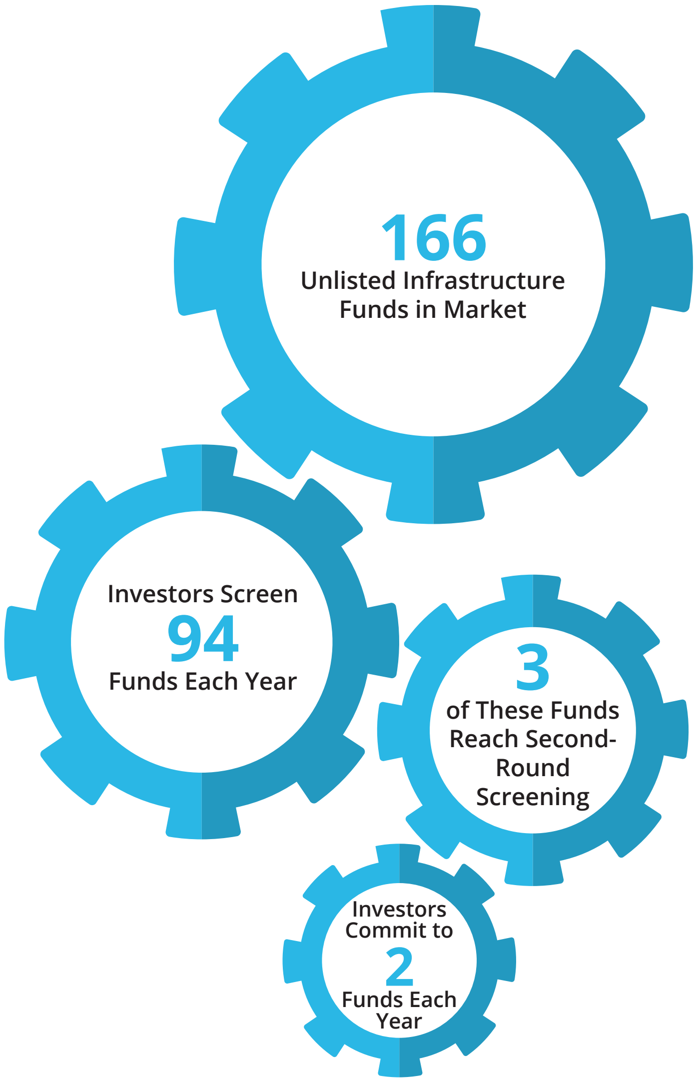
- Mix of internal sourcing and direct external approaches (47%)
- Only internal sourcing (20%)
- Only direct external approaches (2%)

LEADING FACTORS THAT RESULT IN INVESTORS REMOVING A FUND FROM THEIR SCREENING LIST:

- ✗ Lack of team track record (54%)
- ✗ Lack of firm track record (41%)
- ✗ Unfavourable fees/fund terms (41%)

MOST IMPORTANT FACTORS INVESTORS ASSESS WHEN SELECTING NEW FUNDS:

- ✓ Team track record (71%)
- ✓ Team strategy experience (71%)
- ✓ Firm track record (58%)



MARKETING MATERIALS FAIL TO MEET THE NEEDS OF 39% OF INVESTORS – WHY?

SAMPLE INFRASTRUCTURE INVESTORS TO WATCH IN 2018

1

CANADIAN MEDICAL PROTECTIVE ASSOCIATION
Type: Foundation
Location: Ontario, Canada
Amount Investing in Next 12 Months:
CAD 30mn
Expects to invest in one unlisted value added infrastructure fund with a global reach and exposure to a wide variety of industries.

2

NIPPON LIFE GLOBAL INVESTORS AMERICAS
Type: Insurance Company
Location: New York, US
Amount Investing in Next 12 Months:
$150-420mn
Expects to invest in 5-6 unlisted infrastructure funds, targeting all industries (except for energy), focusing on Europe, North America and Rest of World.

3

UMR COREM
Type: Public Pension Fund
Location: Nantes, France
Amount Investing in Next 12 Months:
€60-90mn
Expects to invest in 2-3 funds focused on Europe and North America across a range of industries, using a mixture of new and existing managers in its portfolio.

4

PROFELIA
Type: Public Pension Fund
Location: Lausanne, Switzerland
Amount Investing in Next 12 Months:
CHF 100mn
Expects to make 5-10 investments both directly and through unlisted infrastructure fund of funds vehicles, focusing on Europe.

5

BAYERISCHE VERSORGUNGSKAMMER
Type: Public Pension Fund
Location: Munich, Germany
Amount Investing in Next 12 Months:
€800mn
Expects to invest in 3-4 unlisted infrastructure funds, focused on Europe and North America, targeting a diverse range of assets.

6

EQUITER
Type: Investment Company
Location: Turin, Italy
Will invest in unlisted infrastructure funds opportunistically in the next 12 months, focusing on the renewable energy industry in Europe. Will primarily use existing managers in its portfolio, along with some new ones.

7

NONGHYUP BANK
Type: Bank
Location: Seoul, South Korea
Amount Investing in Next 12 Months:
KRW 200-300bn
Expects to invest in unlisted infrastructure funds, targeting both primary and debt/mezzanine strategies, focusing on the renewable energy and utilities industries across Asia-Pacific.

8

DAIDO LIFE INSURANCE
Type: Insurance Company
Location: Tokyo, Japan
Expects to invest in unlisted infrastructure funds opportunistically, targeting the renewable energy, transportation and utilities sectors with a global reach, primarily focused on developed countries. Will use both new and existing managers in its portfolio.

9

AUSTRALIAN NATIONAL UNIVERSITY ENDOWMENT FUNDS
Type: Endowment Plan
Location: Canberra, Australia
Amount Investing in Next 12 Months:
AUD 10-15mn
Expects to make 2-3 investments both directly and through unlisted infrastructure funds, focusing on brownfield assets and environmentally friendly industries including clean technology and renewable energy.

SECTION SEVEN: PRIVATE DEBT

POSITIVE SENTIMENT BEHIND GROWTH OF PRIVATE DEBT

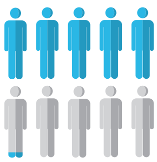
Private debt has remained a growth story fuelled by positive investor sentiment throughout 2017, and seems poised to continue on the same path into 2018 given the results of Preqin's most recent investor survey. It was stated in the **H1 2017 Investor Outlook** that private debt investors were looking to increase exposure throughout the year, and that came to fruition in the form of record fundraising for the asset class, having committed in excess of $107bn across more than 140 funds that closed during the year. Exposure to diverse private credit offerings has become somewhat of a core practice for diversified institutional portfolios at the outset of 2018.

There are currently over 3,100 active institutional investors in private debt that have made a fund commitment or are considering doing so in the near term. North America and Europe remain the most active regions in the asset class for both investors and fund managers – over 93% of capital secured by funds closed in 2017 will be invested in either market. Additionally, the regions combined account for 81% of active investors in private debt.

Sources of allocation across active investor groups can vary, as 57% of investors make commitments through a private equity allocation, with 14% employing a separate private debt allocation (up three percentage points from 2017). Eleven percent of investors in private debt invest from a general alternatives allocation, while 10% allocate as part of multiple allocations.

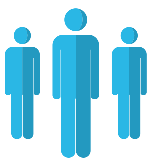
Looking back at investor satisfaction with private debt performance in recent years, 33% of survey respondents contend that their private debt portfolio has exceeded expectations over the past three years, with a further 59% suggesting performance has met expectations in the same timeframe. In the past year, a quarter have seen expectations exceeded, with a further 65% of respondents having seen expectations met. Overall, these figures show a large proportion of investors generally positive on their allocations to private credit, a strong indication that participants will likely uphold varying private debt allocations moving forward.

INVESTOR SENTIMENT



51%

of respondents have a positive general perception of the private debt asset class.



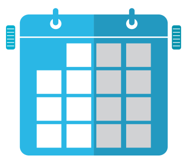
79%

of investors agree that fund manager and investor interests in private debt are properly aligned.

PROSPECTS FOR Q1

46%

of investors believe portfolio companies and assets are fairly valued at the start of 2018.



57%

of investors plan to make their next private debt fund commitment in Q1 2018.

CAPITAL ALLOCATIONS

42%

of investors expect to invest more capital in private debt in the next 12 months compared with the past 12 months.

98%

of investors plan to maintain or increase allocations to private debt in the long term.

SATISFACTION WITH PRIVATE DEBT

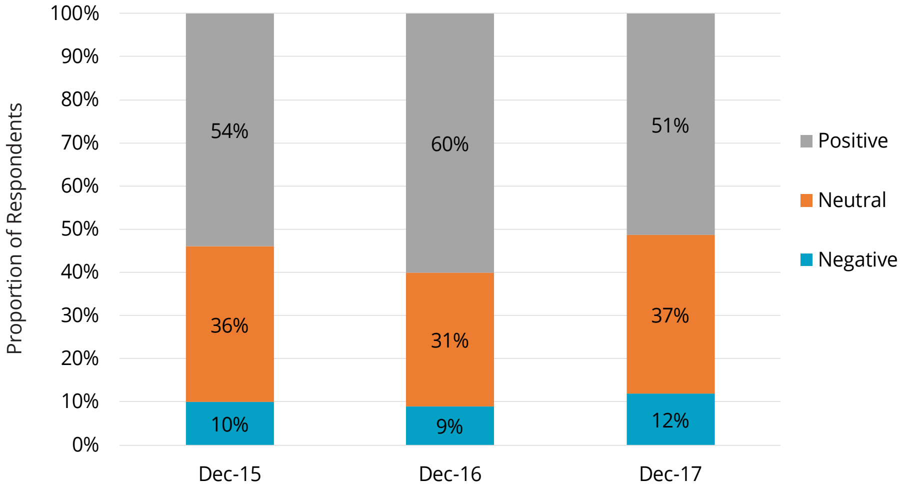
At the end of 2017, Preqin interviewed a sample of the investor community to gauge their perspective on the performance of their private debt investments in 2017, as well as their attitudes towards the market moving forward. As in recent years with private debt, institutional investors have demonstrated positive sentiment and are generally increasing allocations as the market continues a trend of expansion globally.

Similar to the end of 2016, the majority of investors are confident in their private debt investments. More than half (51%) of investors surveyed in December 2017 have a positive perception of the asset class, compared with just 12% that hold a negative view (Fig. 7.1). This is welcome news for fund managers that have been steadily increasing fund target sizes as the private credit market continues expanding after posting a record fundraising year.

Investors that have accessed private debt opportunities in recent years are largely satisfied with their investments, as only 10% and 8% felt investments had fallen short of their expectations over the past one and three years respectively (Figs 7.2 and 7.3). Over the past three years, a third of investors surveyed in private debt have seen expectations exceeded, as have a quarter of investors over the past year. As private debt managers have generally been able to match or surpass the expectations of investors, high levels of investor satisfaction are being reported, which certainly indicates allocators would be likely to continue to make or initiate new private debt fund commitments in coming fundraising cycles.

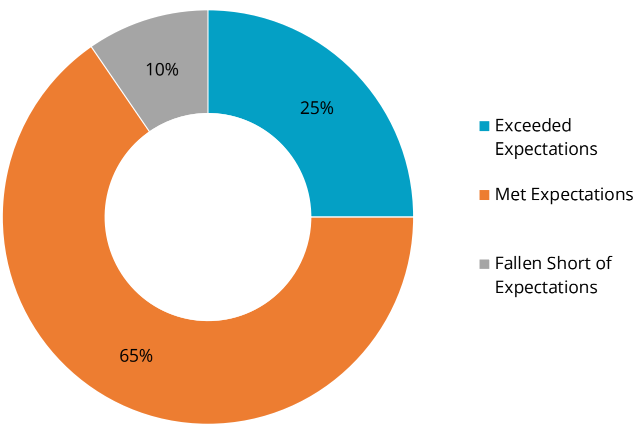
While confidence in the private debt industry is still high, investors are rightly conservative about the prospects for the market moving forward. Despite the proportion of investors reporting increased confidence in private debt falling to 16% in December 2017 from 29% of those interviewed in December 2016, only 6% are less confident in the asset class than they were one year ago, dropping from 10% at the end of 2016. Overall, 78% of investors are just as confident in private debt as they were a year ago.

Fig. 7.1: Investors' General Perception of the Private Debt Industry, 2015 - 2017



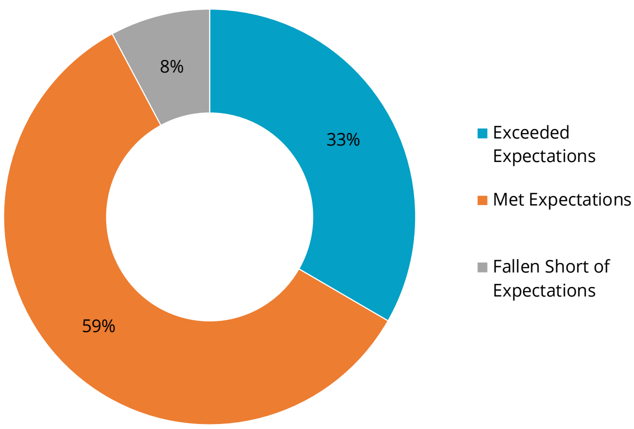
Source: Preqin Investor Interviews, December 2015 - 2017

Fig. 7.2: Extent to Which Investors Feel Their Private Debt Investments Have Lived up to Expectations over the Past 12 Months



Source: Preqin Investor Interviews, December 2017

Fig. 7.3: Extent to Which Investors Feel Their Private Debt Investments Have Lived up to Expectations over the Past Three Years



Source: Preqin Investor Interviews, December 2017

INVESTOR ACTIVITY IN 2018

INVESTOR APPETITE FOR PRIVATE DEBT IN 2018

Forty-eight percent of investors plan to commit the same amount of capital to the asset class in 2018 as in 2017, while 42% will commit more capital (Fig. 7.4). As investors' confidence in the asset class remains high, fund managers are also targeting record levels of fundraising, with more than $158bn in capital commitments being sought as at January 2018. Off the back of a record fundraising year in 2017, it seems that investors may yet again allocate at unprecedented levels to private debt funds.

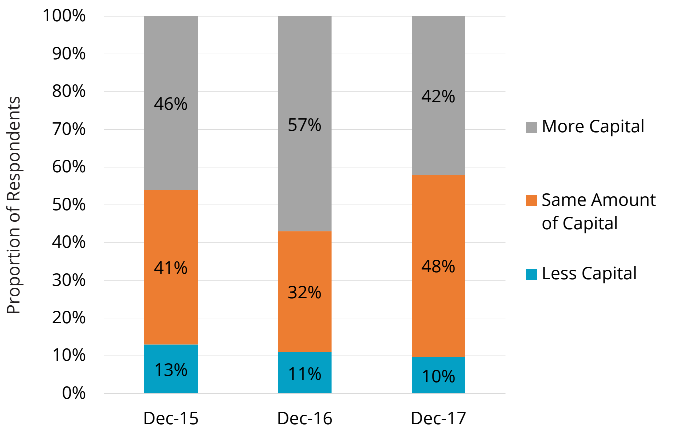
Performance expectations are also optimistic, as 18% of investors expect superior performance from their investments in 2018 compared to 2017, with 62% expecting comparable results (Fig. 7.5). Twenty percent of investors are preparing for less favourable outcomes.

ALLOCATIONS TO PRIVATE DEBT

As more investors put capital into the asset class over the next 12 months, average allocations are also expected to increase over the longer term: 54% of respondents plan to increase their allocations to private debt in the longer term and just 2% plan to decrease them (Fig. 7.6).

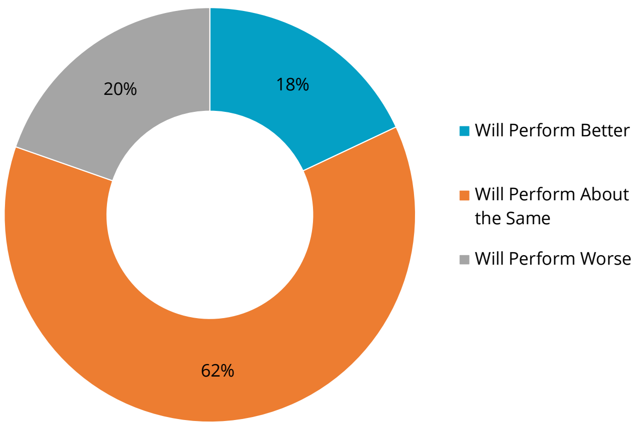
In addition, 47% of investors expect to increase the number of debt fund managers in their portfolios over the next two years (Fig. 7.7). Together, these suggest that institutional investor confidence in the asset class has been and should remain at high levels throughout the year. Expansion of the capital pool is certainly a great sign for fund marketers, which may now have greater access to investor types that have either not been able to or have not chosen to allocate to private credit in the past and could now seek exposure in the space.

Fig. 7.4: Investors' Expected Capital Commitments to Private Debt Funds in the Next 12 Months Compared to the Previous 12 Months, 2015 - 2017



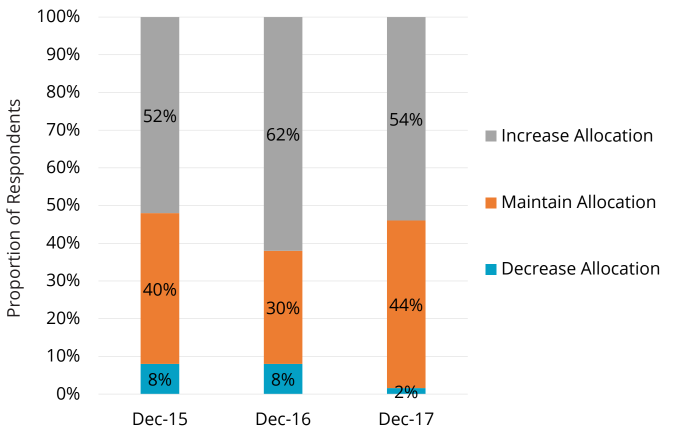
Source: Preqin Investor Interviews, December 2015 - 2017

Fig. 7.5: Investor Return Expectations for Their Private Debt Investments in the Next 12 Months Compared to the Previous 12 Months



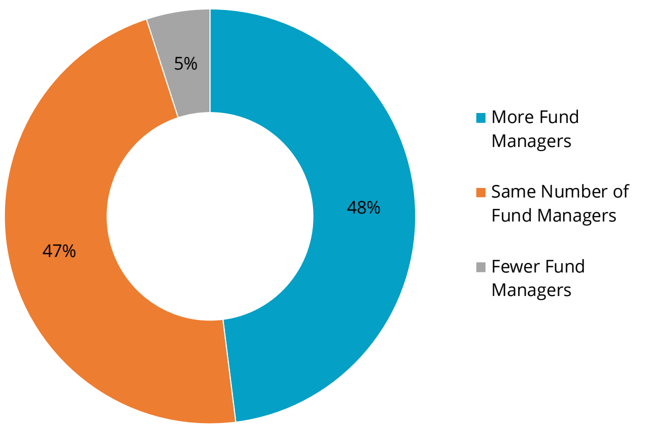
Source: Preqin Investor Interviews, December 2017

Fig. 7.6: Investors' Intentions for Their Private Debt Allocations over the Long Term, 2015 - 2017



Source: Preqin Investor Interviews, December 2015 - 2017

Fig. 7.7: Investors' Intentions for the Number of Fund Managers Relationships in Their Private Debt Portfolios in the Next Two Years



Source: Preqin Investor Interviews, December 2017

KEY ISSUES IN 2018

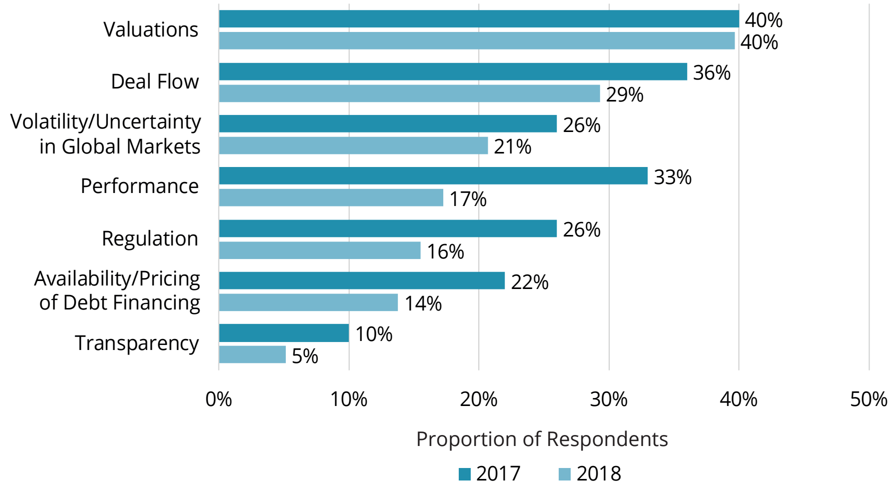
While the outlook for the asset class in both the near and long term is generally positive, investors interviewed at the end of 2017 remain wary of key issues within the market for 2018. The proportion of investors that see the valuations of private debt assets as a key issue has remained steady since December 2016 at 40% (Fig. 7.8). However, all other issues such as deal flow (29%), performance (17%) and regulation (16%) have declined in prominence from one year ago as investor worries ease.

Over a quarter (28%) of investors surveyed are finding it harder to identify attractive investment opportunities than a year ago, compared with 65% that have seen no change and a mere 7% that are finding it easier. This could indicate that there may be increasing levels of capital chasing too few valuable opportunities.

THE CURRENT PRIVATE DEBT MARKET CYCLE

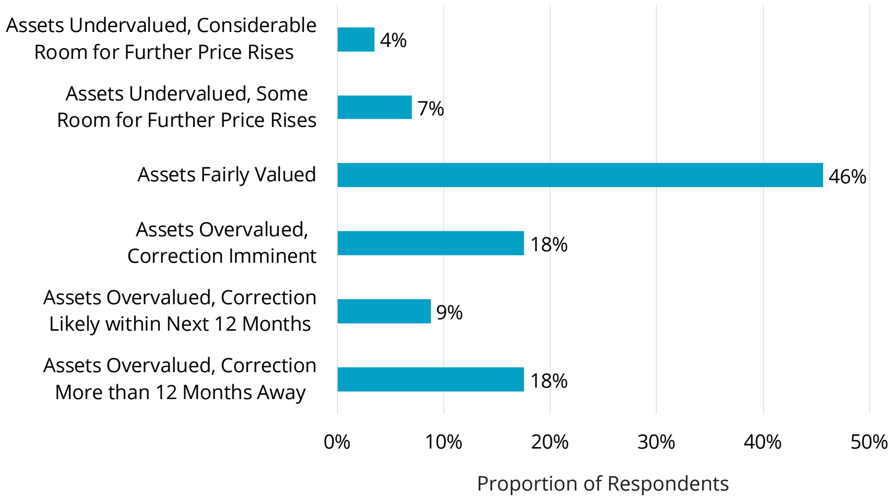
As shown in Fig. 7.9, a small proportion (11%) of investors believe there is room for asset prices to rise in 2018; however, most investors feel that the current private debt market cycle has reached its peak. Opinion is split regarding the precise stage of the cycle: 46% of investors think portfolio companies and assets are valued fairly, while 45% feel that pricing is too high and a correction is due. Nine percent of investors feel the correction is due within the next 12 months and 18% suggest a correction is imminent.

Fig. 7.8: Investor Views on the Key Issues for Private Debt in 2017 vs. 2018



Source: Preqin Investor Interviews, December 2016 - 2017

Fig. 7.9: Investor Views on Where Private Debt Is in the Current Market Cycle



Source: Preqin Investor Interviews, December 2017

FUND TERMS AND ALIGNMENT OF INTERESTS

In December 2017, Preqin interviewed private debt investors regarding their attitudes towards fund terms and conditions, including management fees and illiquidity premiums.

INVESTED vs. COMMITTED CAPITAL

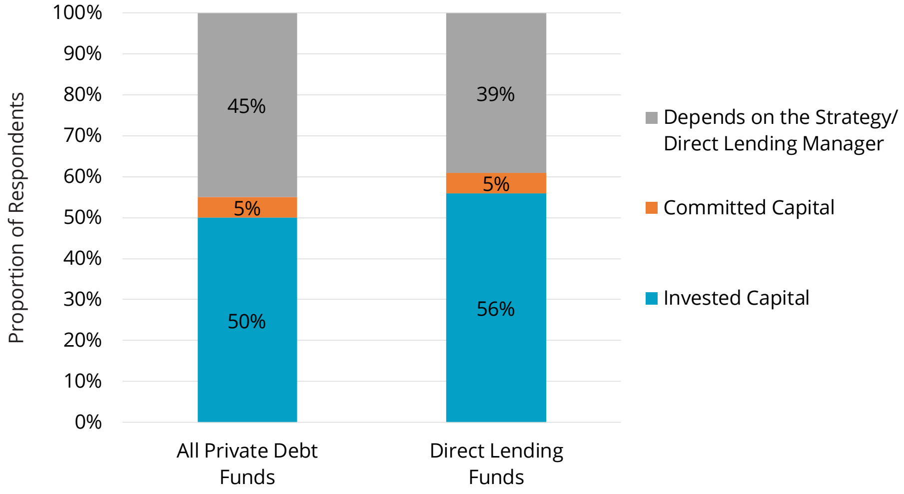
When asked about the structure of management fees for private debt funds across all strategies, half of respondents prefer to pay management fees on invested capital, five percentage points lower than December 2016. Just 5% of investors expect to pay fees on committed capital (Fig. 7.10). The remaining 45% suggested that the fee structure should depend on the specific strategy employed, as private credit fund types can differ greatly regarding how fees are collected given the level of infrastructure, administration and personnel required.

For direct lending funds specifically, 56% of respondents expect to pay fees on invested capital, again lower than in December 2016 (64%). Additionally, 39% of investors stated that the accepted fee structure would depend on the manager, signalling that there remains room for fee diversity within direct lending, likely with more experienced managers maintaining leverage in fee negotiations. Just 5% of respondents within direct lending expect fees to be levied on committed capital, up three percentage points from the same survey one year earlier.

ILLIQUIDITY PREMIUM FOR DIRECT LENDING

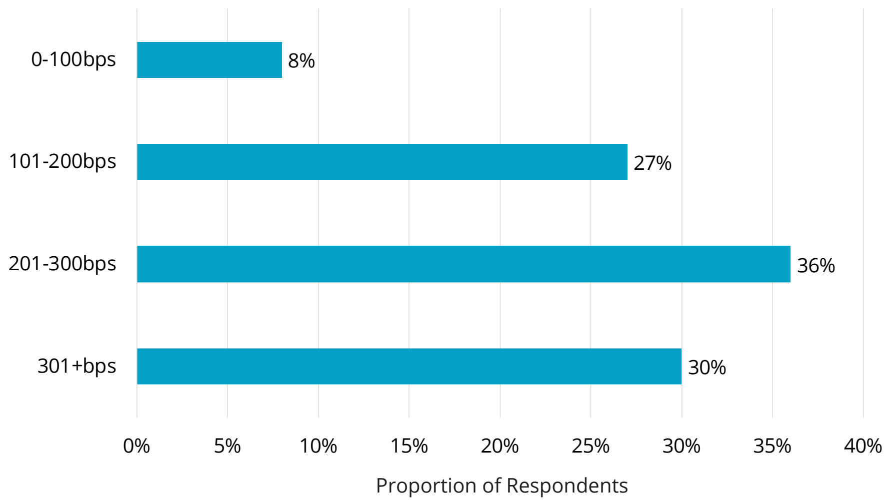
Fig. 7.11 reflects investor opinions on illiquidity premia specifically for direct lending funds. The largest proportion (36%) of investors expect their illiquidity premium to fall within 201-300 basis points for a direct lending fund, given general lifespans of 3-7 years for direct lending funds. Thirty percent of investors surveyed indicated a preference for illiquidity premia above 300 basis points. Only 8% of respondents are accepting of compensation at or below 100 basis points, potentially indicating less of a focus on an illiquidity premium versus traditional assets and a greater focus on strategy-specific advantages.

Fig. 7.10: Investor Views on How Management Fees Should Be Charged: All Private Debt Funds vs. Direct Lending Funds



Source: Preqin Investor Interviews, December 2017

Fig. 7.11: Investors' Preferred Illiquidity Premium for Direct Lending Funds



Source: Preqin Investor Interviews, December 2017

HOW INVESTORS SOURCE AND SELECT PRIVATE DEBT FUNDS

In our December 2017 interviews with institutional investors, 28% revealed that they found it more difficult to identify attractive private debt fund opportunities in 2017 than in 2016. With this in mind, we examine in more detail the processes that investors use to source and screen funds based on data from Preqin's platform and survey of 82 private debt investors conducted in December 2017.

KEY STATS: AVERAGE SCREENING PROCESS FOR PRIVATE DEBT FUNDS

METHODS USED BY INVESTORS TO SOURCE FUNDS:

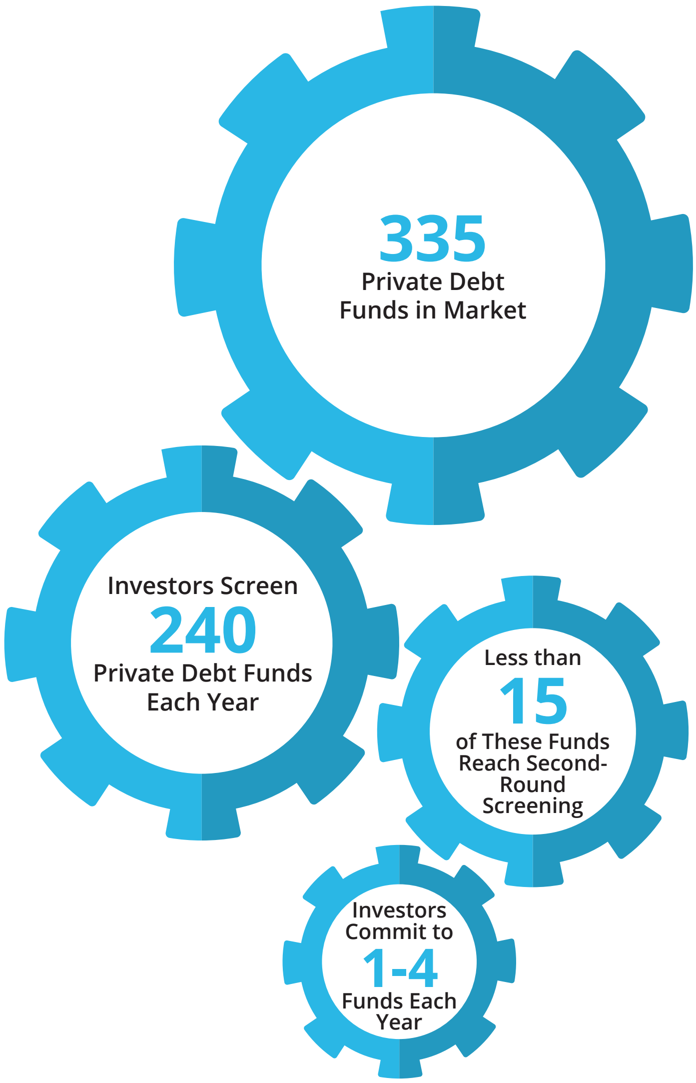
- Through internal investment team (23%)
- Mainly internal or consultant recommendations, some external approaches (15%)
- Mix of internal and external recommendations (43%)

LEADING FACTORS THAT RESULT IN INVESTORS REMOVING A FUND FROM SCREENING LIST:

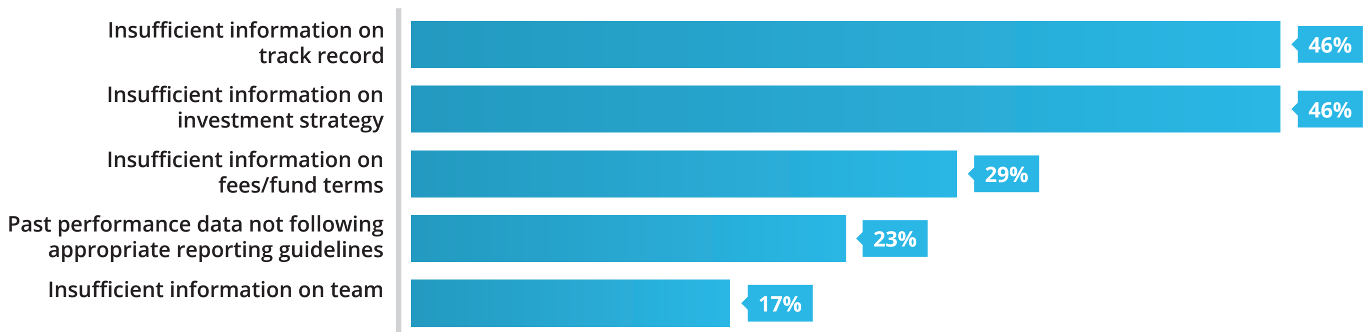
- ✘ Lack of team track record (53%)
- ✘ Lack of firm track record (42%)
- ✘ Unfavourable fund terms (47%)

MOST IMPORTANT FACTORS INVESTORS ASSESS WHEN SELECTING NEW FUNDS:

- ✓ Successful team track record (71%)
- ✓ Experienced team (69%)
- ✓ Successful firm track record (60%)



MARKETING MATERIALS FAIL TO MEET THE NEEDS OF 36% OF INVESTORS – WHY?



SAMPLE PRIVATE DEBT INVESTORS TO WATCH IN 2018

1

FORT WASHINGTON CAPITAL PARTNERS
Type: **Private Equity Fund of Funds Manager**
Location: **Cincinnati, US**
AUM: **$4.7bn**
Will target distressed debt and mezzanine vehicles, focused predominantly on North America, but will also consider opportunities across Europe and Asia. Is open to making new commitments with existing portfolio managers, as well forming new GP relationships.

2

DUPONT CAPITAL MANAGEMENT
Type: **Private Equity Fund of Funds Manager**
Location: **Wilmington, US**
AUM: **$2bn**
Plans to make new commitments to private debt funds over the next 12 months as part of its private equity allocation. Expects to deploy $300mn to special situations vehicles, as well as buyout and venture capital funds, with a focus on opportunities across North America and Europe.

3

GLENDOWER CAPITAL
Type: **Secondary Fund of Funds Manager**
Location: **London, UK**
AUM: **$3bn**
Will look to target distressed debt, special situations and mezzanine vehicles. Will invest on a global scale, with a primary focus on North America, Europe, Asia and, to a lesser extent, emerging markets. Is looking to continue working with existing managers in its portfolio and to form new GP relationships.

4

ZURICH INVEST
Type: **Asset Manager**
Location: **Zurich, Switzerland**
AUM: **CHF 20bn**
Current PD Allocation: **7.5%**
Will target direct lending, distressed debt, mezzanine and special situations vehicles that are mainly focused on Europe, the US and Asia, but will also consider opportunities globally.

5

FONDAZIONE CASSA DI RISPARMIO DI LUCCA
Type: **Foundation**
Location: **Lucca, Italy**
AUM: **€1.2bn**
Current PD Allocation: **4%**
Plans to continue targeting private debt over the next 12 months, with a preference for Europe-focused direct lending and mezzanine vehicles.

6

LOCALTAPIOLA GROUP
Type: **Insurance Company**
Location: **Espoo, Finland**
AUM: **€8.5bn**
Current PD Allocation: **5%**
Plans to commit between €110mn and €120mn across 4-6 mezzanine and direct lending funds.

7

FINNISH INNOVATION FUND (SITRA)
Type: **Sovereign Wealth Fund**
Location: **Helsinki, Finland**
AUM: **€850mn**
Plans to invest in private debt over the next 12 months with a mix of new and existing fund managers. Invests in mezzanine funds and primarily looks to gain exposure to the Nordic region.

8

FTLIFE INSURANCE COMPANY
Type: **Insurance Company**
Location: **Hong Kong**
AUM: **$3bn**
Current PD Allocation: **2%**
Mainly interested in CLOs, direct lending and mezzanine vehicles. Is sector agnostic and has a global outlook, with an interest in Asia, the US and Europe; is also open to the more developed countries within ASEAN, but will not look at emerging markets.

9

KOREA FIRE OFFICIALS CREDIT UNION
Type: **Public Pension Fund**
Location: **Seoul, South Korea**
AUM: **KRW 772bn**
Will target direct lending and mezzanine vehicles that are less than KRW 2.3tn ($2bn) in size and focused on opportunities in OECD countries.

SECTION EIGHT: NATURAL RESOURCES

IMPROVING INVESTOR SENTIMENT CONTINUES

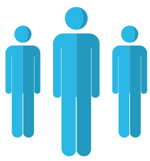
After a few years of concerns over natural resources performance affecting investor sentiment and therefore capital commitments, 2018 was a year of considerable progress. While 21% of investors interviewed at the end of 2017 told Preqin that their investments in natural resources had fallen short of expectations over the past year, this is a significant improvement from 54% of those questioned at the end of 2016. Furthermore, 18% said their natural resources investments had exceeded expectations in 2017.

Despite improving sentiment with respect to the asset class as a whole, investors continue to express concerns that managers looking to secure capital in 2018 need to be aware of and allay if they are to have a successful fundraise. Twenty-seven percent and 25% of investors respectively told us that the key issues in the natural resources space are commodity pricing and volatility in global markets – two very much linked concerns. Investors are looking for fund managers to generate alpha, while at the same time mitigating as much as possible the potential downside of commodity price movements driven by a geopolitical environment that is mostly both uncontrollable and unpredictable.

Despite a number of years of struggling performance driven by commodity price falls, natural resources remain an important part of investors' alternative assets portfolios as they continue to seek diversifying assets that can deliver yield in a continued low interest rate environment.

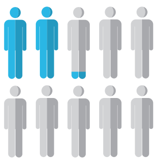
For the asset class to continue to grow it is vital that managers are able to demonstrate that they can successfully deploy capital, as we started to see in H1 2017. Coupled with a considerable number of funds on the road in 2018 and improving investor sentiment, this indicates that 2018 will likely be another strong year for the natural resources asset class.

INVESTOR SENTIMENT



79%

of investors felt their natural resources investments met or exceeded expectations in the past 12 months.



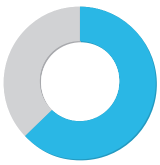
22%

of investors surveyed have a positive perception of the asset class.

CAPITAL ALLOCATIONS

81%

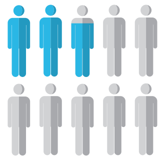
of investors plan to commit the same amount of capital or more to natural resources in 2018 than in 2017.



63%

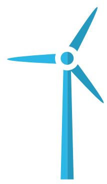
of investors are below their target allocations to the asset class.

LOOKING FORWARD



27%

of investors surveyed consider each of performance and commodity pricing as the key issues for 2018.



44%

of investors see each of conventional energy and renewable energy as presenting the best opportunities.

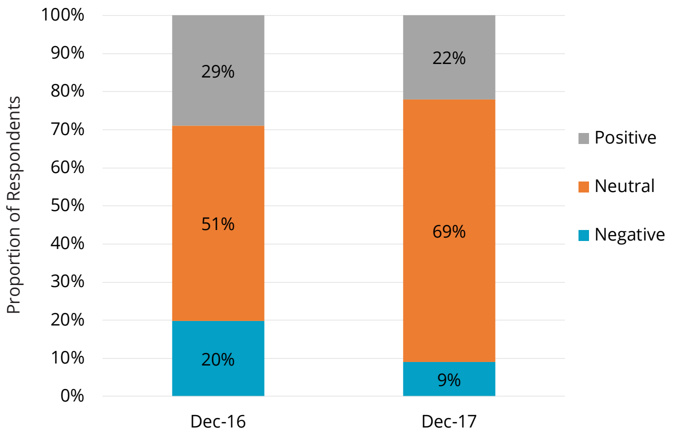
SATISFACTION WITH NATURAL RESOURCES

While the proportion of investors with a negative perception of the asset class has halved compared to our December 2016 investor survey, the proportion with a positive perception has also decreased: 69% of investors interviewed at the end of 2017 have a neutral attitude towards natural resources (Fig. 8.1).

In a reversal from December 2016, the majority (79%) of investors found that the performance of their natural resources investments met or exceeded their expectations over the past 12 months (Fig. 8.2). Furthermore, alongside a short-term improvement in how investors feel their natural resources investments have lived up to expectations, over a longer time horizon a significant 62% reported that their investments have met or exceeded expectations over the past three years, up 17 percentage points from the corresponding proportion in 2016. This shows that the improvement in investor sentiment extends beyond just the past 12 months.

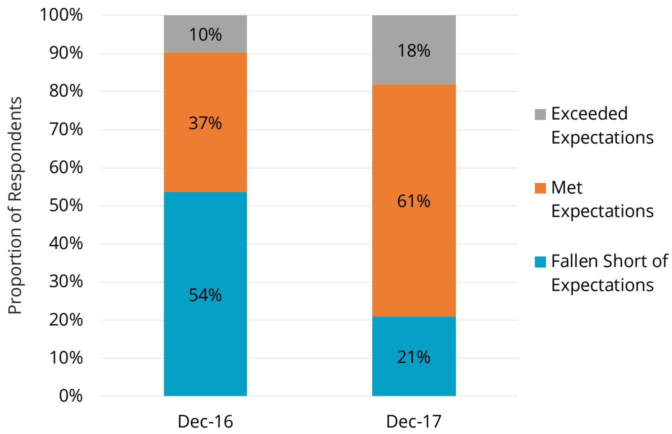
Although fewer respondents have reported increased confidence in the ability of natural resources to achieve portfolio objectives compared to the previous year, the proportion citing reduced confidence in the asset class has fallen by five percentage points to 15% (Fig. 8.4).

Fig. 8.1: Investors' General Perception of the Natural Resources Industry, 2016 vs. 2017



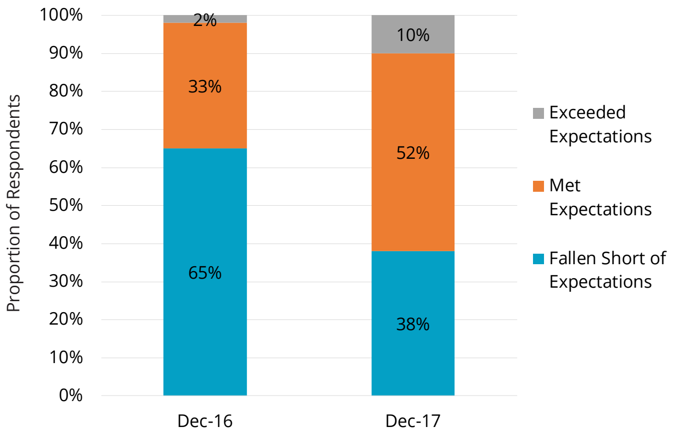
Source: Preqin Investor Interviews, December 2016 - 2017

Fig. 8.2: Extent to Which Investors Feel Their Natural Resources Investments Have Lived up to Expectations over the Past 12 Months, 2016 vs. 2017



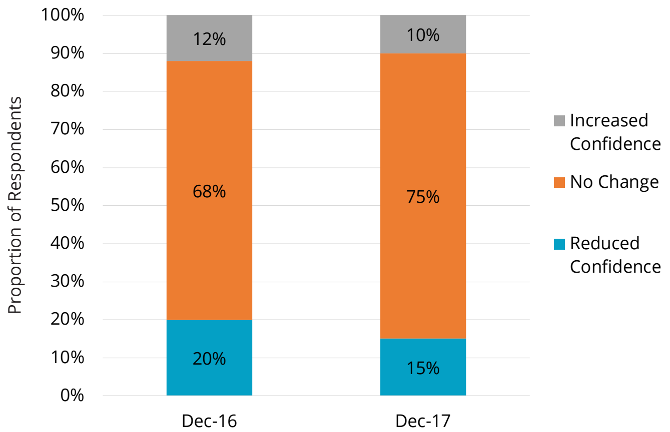
Source: Preqin Investor Interviews, December 2016 - 2017

Fig. 8.3: Extent to Which Investors Feel Their Natural Resources Investments Have Lived up to Expectations over the Past Three Years, 2016 vs. 2017



Source: Preqin Investor Interviews, December 2016 - 2017

Fig. 8.4: Investors' Change in Confidence in the Ability of Natural Resources to Achieve Portfolio Objectives over the Past 12 Months, 2016 vs. 2017



Source: Preqin Investor Interviews, December 2016 - 2017

INVESTOR ACTIVITY IN 2018

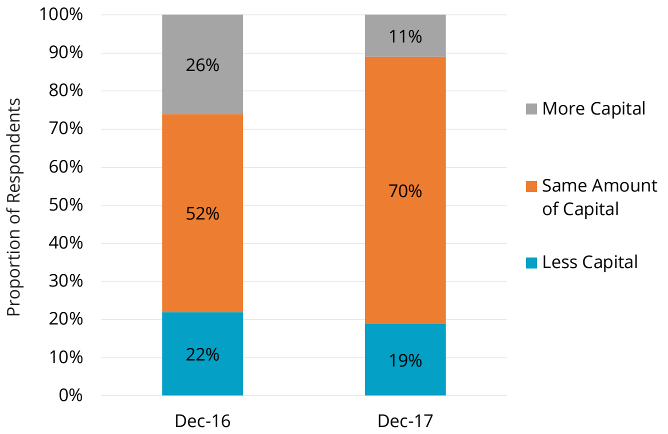
Despite the increasingly positive view of the asset class, when investors were asked about their expected capital commitments to natural resources over the next year compared to the previous year, just 11% expected to commit more capital (Fig. 8.5). In December 2016, over a quarter of respondents had planned to invest more in 2017; those that did are likely satisfied with their investments so far, as 81% of investors are planning to commit at least the same amount of capital in 2018.

Over the longer term, 72% of investors plan to maintain their current allocation to the asset class, while another 10% intend to increase their allocation (Fig. 8.6). Investors appear to be gradually becoming more comfortable with their current allocations to natural resources, with the majority planning to maintain their allocations in both the short and long term.

Preqin data shows that the majority of forthcoming commitments will continue to be smaller in size, with 47% of active investors looking to invest less than $50mn in 2018 (Fig. 8.7). An increasing proportion of investors, seven percentage points more than at the end of 2016 (13% vs. 20%), will look to commit $100-349mn in the coming year.

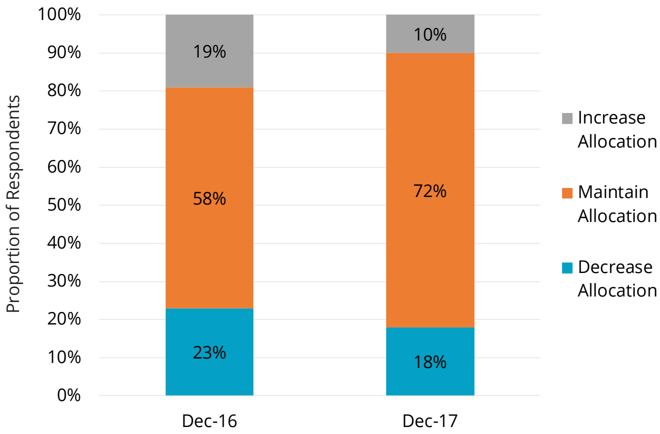
Direct investments and co-investments continue to gain traction among investors, as significant proportions (48% each) plan to increase their investments in these areas in the next 12 months (Fig. 8.8).

Fig. 8.5: Investors' Expected Capital Commitments to Natural Resources Funds in the Next 12 Months Compared to the Previous 12 Months, 2016 vs. 2017



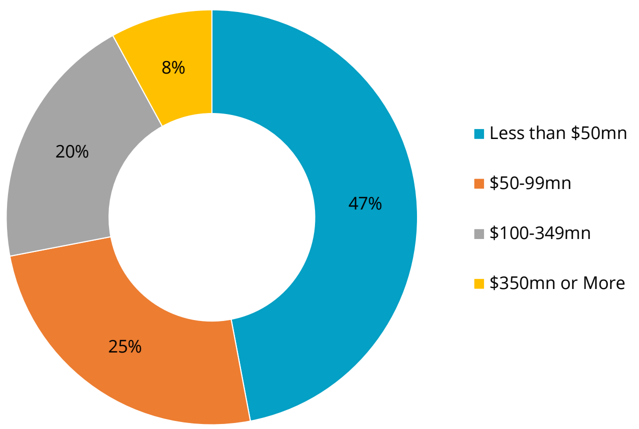
Source: Preqin Investor Interviews, December 2016 - 2017

Fig. 8.6: Investors' Intentions for Their Natural Resources Allocations in the Longer Term, 2016 vs. 2017



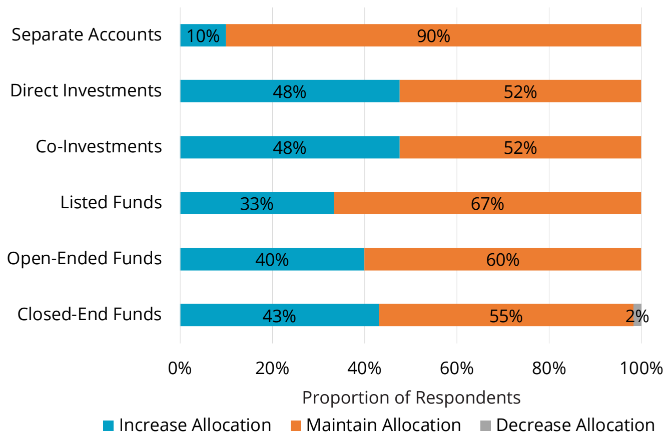
Source: Preqin Investor Interviews, December 2016 - 2017

Fig. 8.7: Amount of Fresh Capital Investors Plan to Invest in Unlisted Natural Resources Funds over the Next 12 Months



Source: Preqin Natural Resources Online

Fig. 8.8: Investors' Intentions for Their Natural Resources Allocations in the Next 12 Months by Structure



Source: Preqin Investor Interviews, December 2017

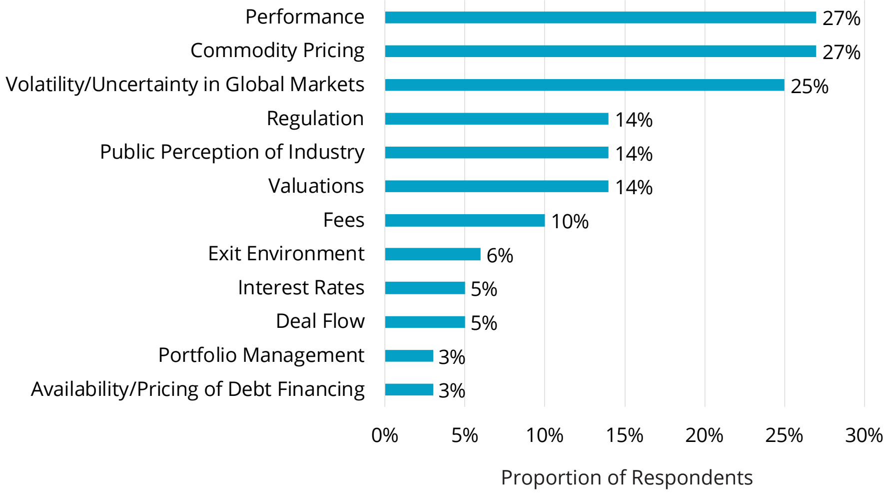
KEY ISSUES IN 2018

Investors' perception of the top three key issues facing the industry has shifted since the end of 2016, when uncertainty in global markets (41%), performance (41%) and the exit environment (30%) were cited by the largest proportions of investors. Investors now identify performance (27%) and commodity pricing (27%) as the top issues for the asset class in 2018 (Fig. 8.9). Performance, as previously discussed, seems to be a longer-term concern, with investors wary of managers' ability to continue to meet or exceed expectations in the future.

Commodity pricing has a major impact on natural resources portfolios, and over one-quarter of investors agree that it will be a key issue for the asset class going forwards. Across strategies, over half of investors feel that each of renewable energy, timberland and water assets are overpriced (Fig. 8.10). Most investors believe that assets within agriculture/farmland, energy and metals & mining are priced about right, and in some cases are relatively cheap.

On a macro level, commodity price movements were the factor identified by the most investors as having the biggest impact on their portfolios in 2017, although the proportion that believe this will have an impact on their portfolios in 2018 is 12 percentage points lower. The largest proportion (46%) of investors interviewed at the end of 2017 feel that commodity pricing will have no effect on their natural resources portfolios in the coming year. Overall, almost half (49%) of investors expect their natural resources investments to perform better in the next 12 months compared to the previous 12 months (Fig. 8.11).

Fig. 8.9: Investor Views on the Key Issues for Natural Resources in 2018



Source: Preqin Investor Interviews, December 2017

INVESTOR VIEWS ON HOW COMMODITY PRICES WILL AFFECT THEIR NATURAL RESOURCES PORTFOLIO IN 2018

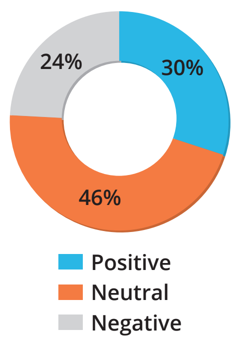
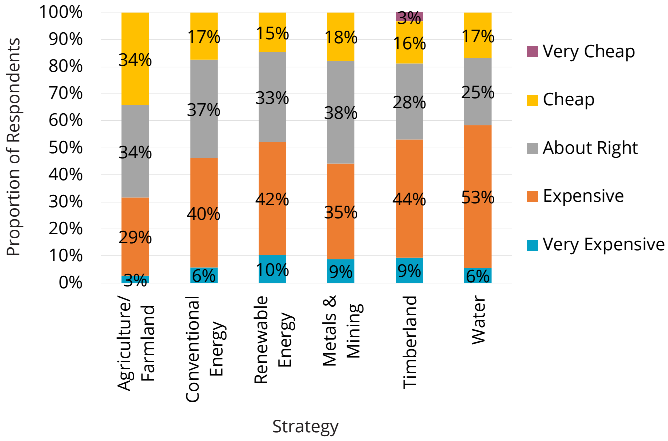
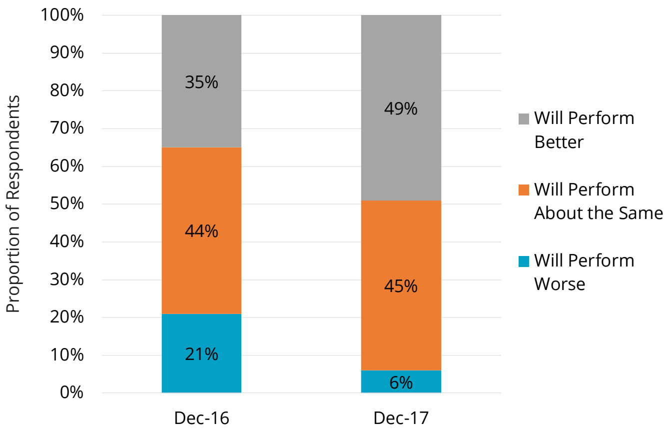


Fig. 8.10: Investor Views on the Pricing of Natural Resources Assets by Strategy



Source: Preqin Investor Interviews, December 2017

Fig. 8.11: Investor Return Expectations for Their Natural Resources Investments in the Next 12 Months Compared to the Previous 12 Months, 2016 vs. 2017



Source: Preqin Investor Interviews, December 2016 - 2017

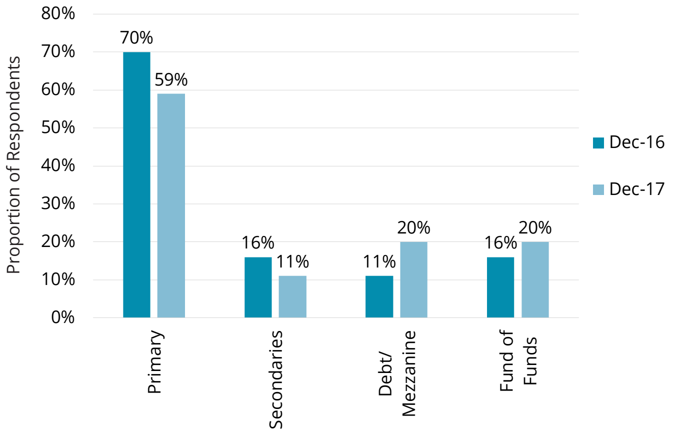
STRATEGIES AND GEOGRAPHIES TARGETED

As shown in Fig. 8.12, institutional investors still feel that primary funds present the best opportunities for investment. With debt and mezzanine funds rising in prominence as a strategy across real assets, it is unsurprising that one-fifth of investors identified debt as providing the best opportunities, a nine-percentage-point increase from December 2016.

As was the case one year ago, the largest proportions of natural resources investors believe that the energy sector, both conventional (44%) and renewable (44%), provides the best opportunities in the current market (Fig. 8.13). Water and agriculture/farmland are viewed as presenting the best opportunities for investment by 26% and 25% of investors respectively.

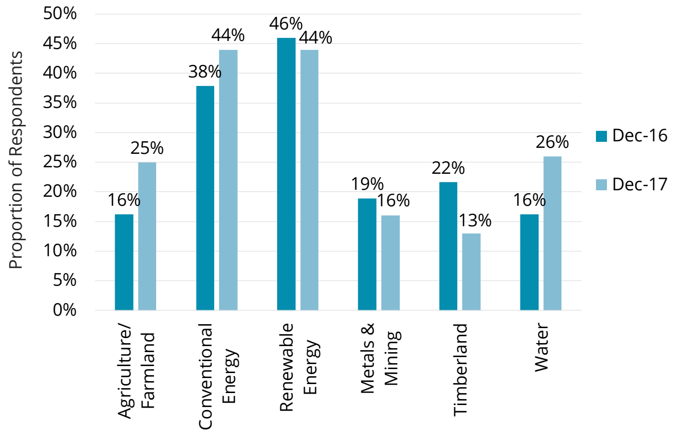
Two-thirds of investors believe that North America currently presents the best investment opportunities in natural resources, followed by Europe (35%, Fig. 8.14). Just under a quarter of investors believe emerging markets provide the best opportunities for investment and, as Fig. 8.15 shows, just 16% are looking to increase their allocation to emerging markets in the coming year.

Fig. 8.12: Strategies that Investors View as Presenting the Best Opportunities, 2016 vs. 2017



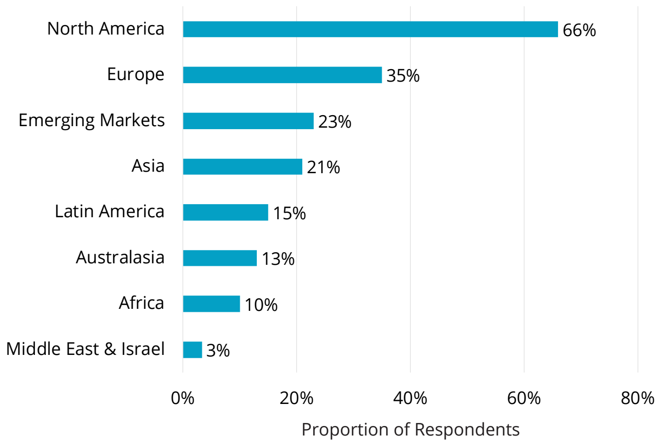
Source: Preqin Investor Interviews, December 2016 - 2017

Fig. 8.13: Sectors that Investors View as Presenting the Best Opportunities, 2016 vs. 2017



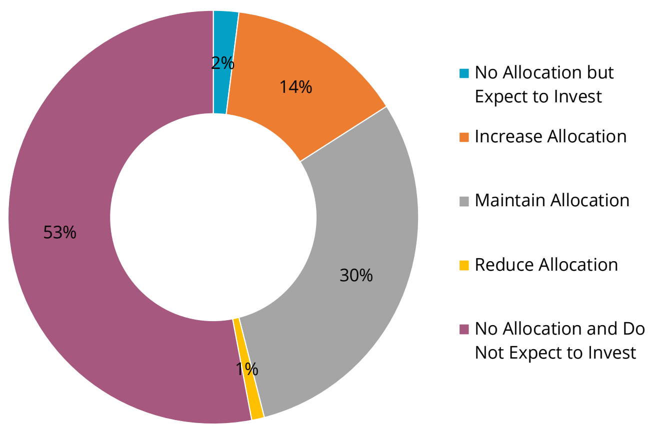
Source: Preqin Investor Interviews, December 2016 - 2017

Fig. 8.14: Regions that Investors View as Presenting the Best Opportunities



Source: Preqin Investor Interviews, December 2017

Fig. 8.15: Investors' Expected Change in Their Natural Resources Allocations to Emerging Markets over the Longer Term



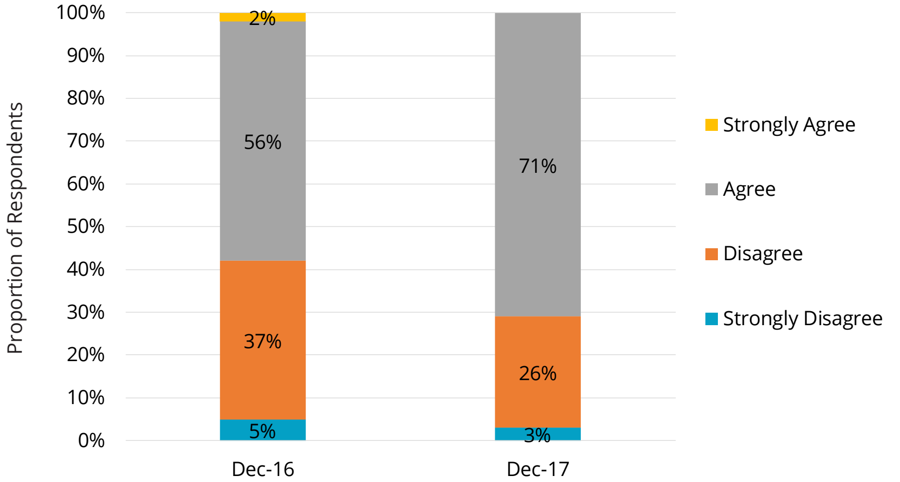
Source: Preqin Investor Interviews, December 2017

FUND TERMS AND ALIGNMENT OF INTERESTS

ALIGNMENT OF INTERESTS

Fund terms and conditions will always be a key consideration for investors when looking to put capital to work due to the effect they can have on net returns and their role in ensuring their interests are properly aligned with those of fund managers. The majority (71%) of investors interviewed by Preqin in December 2017 felt that fund manager and investor interests were properly aligned, an increase of 13 percentage points from the corresponding proportion at the end of 2016 (Fig. 8.16). This suggests that, in a competitive fundraising environment, managers have listened to and addressed concerns by adopting terms and conditions that meet investors' needs.

Fig. 8.16: Extent to Which Investors Believe that Fund Manager and Investor Interests Are Aligned, 2016 vs. 2017



Source: Preqin Investor Interviews, December 2016 - 2017

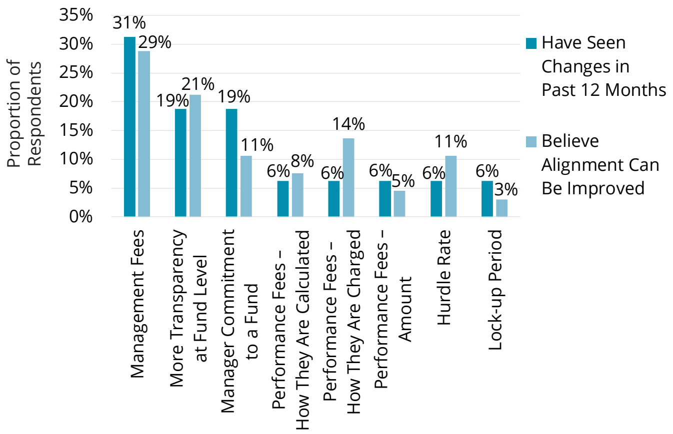
AREAS OF CHANGE

Roughly one-third of investors have seen positive changes in prevailing fund terms and conditions over the past year, likely a result of the increased competition for investor capital. As seen in Fig. 8.17, increased transparency at the fund level and management fees are the areas in which the most investors have both seen change over the past 12 months and believe alignment can still be improved. Fees remain a point of contention as they have a material impact on the net returns investors see from their capital commitments. Nineteen percent of investors have seen changes over the past 12 months in terms of the amount of capital managers commit to a fund, while 14% and 11% would like to see future improvement in how performance fees are charged and hurdle rates respectively.

IMPACT ON INVESTMENT DECISIONS

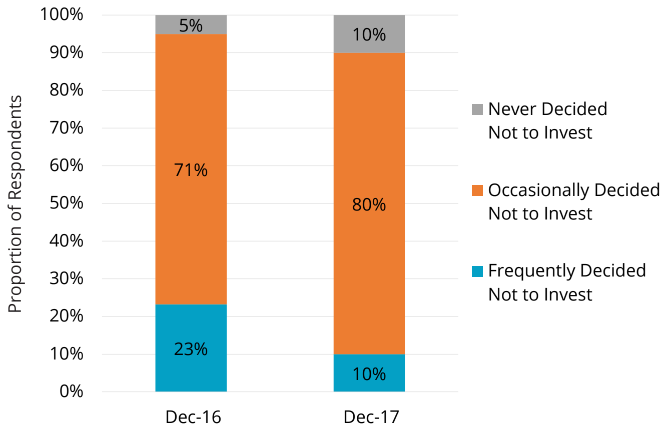
Attitudes towards fund terms and conditions impact a large majority of investors' decisions as to whether to invest in a specific fund, with 80% of LPs occasionally deciding not to invest in a fund due to the proposed terms and conditions (Fig. 8.18). However, the proportion of investors that have never rejected a fund proposal based on the terms and conditions has doubled to 10%. With investors rejecting funds less frequently based on terms and conditions, it is perhaps a sign that fund managers have done a better job of aligning interests in initial fund proposals.

Fig. 8.17: Areas in Which Investors Have Seen a Change in Prevailing Terms and Conditions over the Past 12 Months and Where They Believe Alignment Can Be Improved



Source: Preqin Investor Interviews, December 2017

Fig. 8.18: Frequency with Which Investors Have Decided Not to Invest in a Fund Due to the Proposed Terms and Conditions, 2016 vs. 2017



Source: Preqin Investor Interviews, December 2016 - 2017

HOW INVESTORS SOURCE AND SELECT NATURAL RESOURCES FUNDS

In our December 2017 interviews with over 80 institutional investors, 18% revealed that they found it more difficult to identify attractive natural resources fund opportunities in 2017 than in 2016, and 76% saw no change. With this in mind, we examine in more detail the processes that investors use to source and screen funds.

KEY STATS: AVERAGE SCREENING PROCESS FOR NATURAL RESOURCES FUNDS

METHODS USED BY INVESTORS TO SOURCE FUNDS:

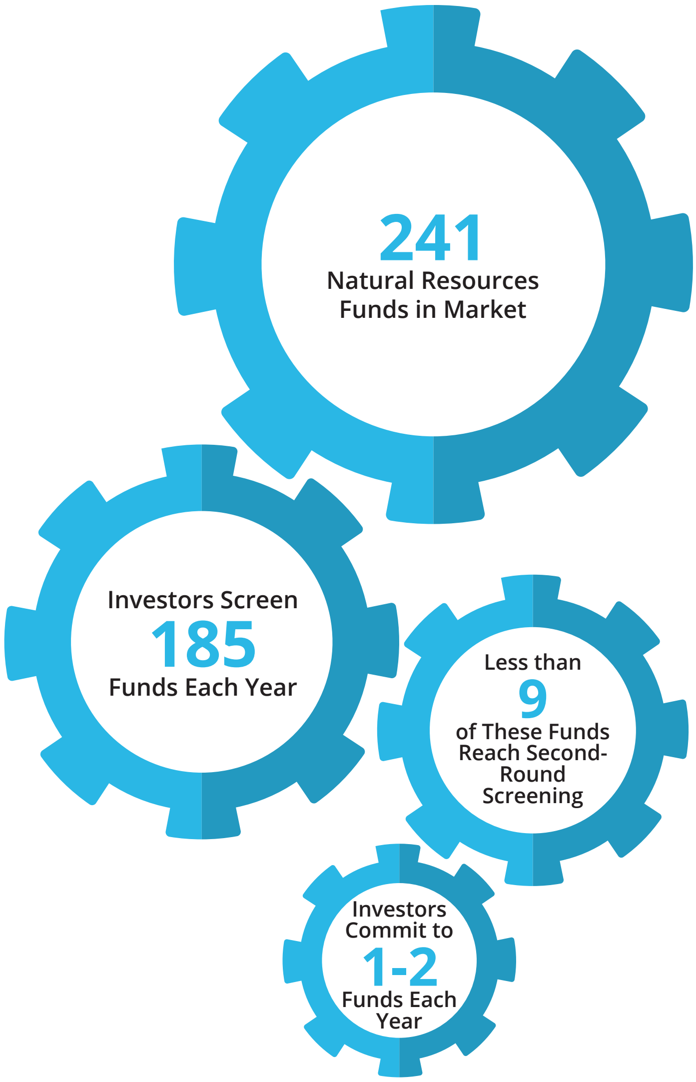
- Only internal sourcing (29%)
- Mainly internal or consultant recommendations, with some external approaches (18%)
- Mix of internal and external recommendations (45%)

KEY REASONS FOR REJECTING A GP:

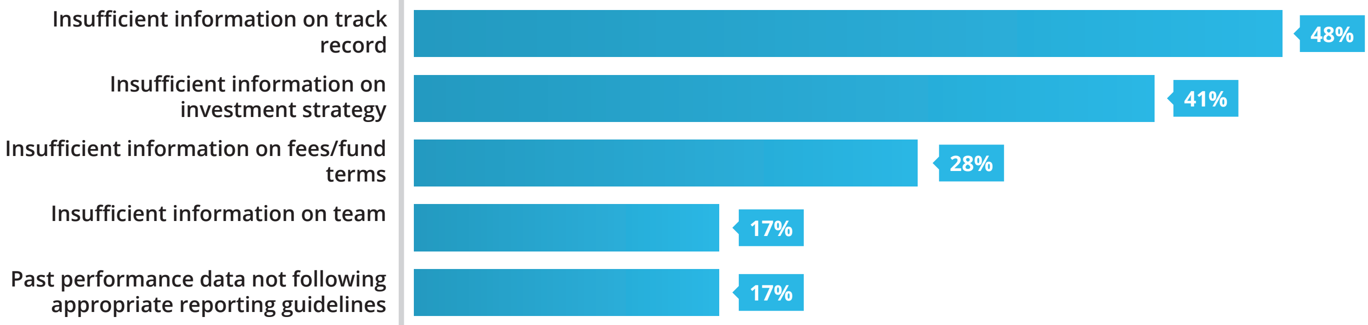
- ✘ Lack of team track record (55%)
- ✘ Lack of firm track record (45%)
- ✘ Unfavourable fees/fund terms (45%)

MOST IMPORTANT FACTORS INVESTORS ASSESS WHEN SELECTING NEW FUNDS:

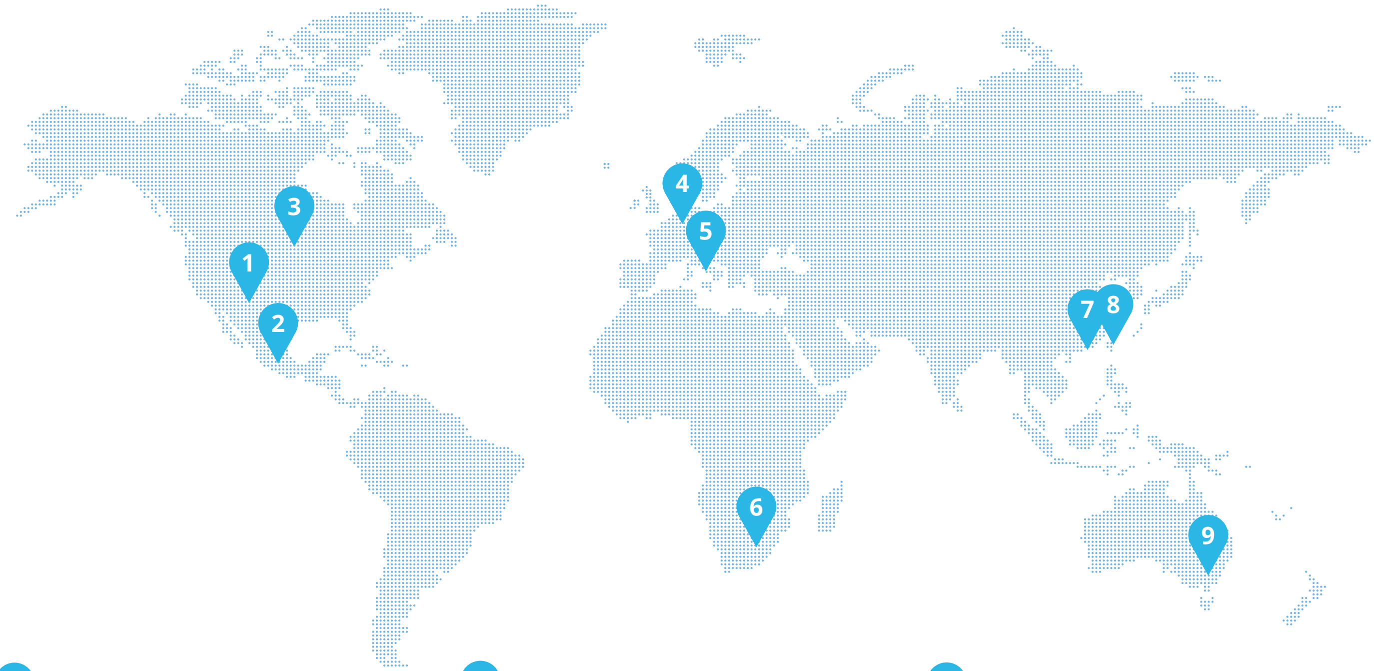
- ✓ Team track record (61%)
- ✓ Team strategy experience (58%)
- ✓ Firm track record (55%)



MARKETING MATERIALS FAIL TO MEET THE NEEDS OF **36%** OF INVESTORS – WHY?



SAMPLE NATURAL RESOURCES INVESTORS TO WATCH IN 2018



1

CITY OF PHOENIX EMPLOYEES' RETIREMENT SYSTEM
Type: **Public Pension Fund**
Location: **Phoenix, US**
AUM: **$2.3bn**
Plan: Recently established a 4% target allocation to natural resources, and began a search for managers in late 2017. The number of managers to be hired and the specific mandates have not been determined.

2

AFORE PROFUTURO
Type: **Private Sector Pension Fund**
Location: **Mexico City, Mexico**
AUM: **MXN 426bn**
Plan: Plans to opportunistically approach fund managers in the asset class over the next 12 months, with a preference for targeting the Mexican timber and energy markets.

3

NORTH SKY CAPITAL
Type: **Private Equity Fund of Funds Manager**
Location: **Minneapolis, US**
AUM: **$1.2bn**
Plan: Will commit to four or five new natural resources funds over the next 12 months. Will look to deploy up to $100mn and will continue to target North America-focused energy and water opportunities.

4

AEVWL
Type: **Public Pension Fund**
Location: **Munster, Germany**
AUM: **€12.5bn**
Plan: Will make new investments over the next 12 months, specifically in unlisted energy and timberland funds targeting Europe and North America. Typically commits €30mn per fund.

5

PREVAER FONDO PENSIONE
Type: **Private Sector Pension Fund**
Location: **Rome, Italy**
AUM: **€410mn**
Plan: Will consider making further investment in European renewable energy throughout 2018, as part of its ongoing private equity and infrastructure strategy. Invests in the region solely via unlisted funds.

6

LIBERTY GROUP
Type: **Insurance Company**
Location: **Johannesburg, South Africa**
AUM: **ZAR 688bn**
Plan: Will invest on an opportunistic basis in the renewable energy sector in the next 12 months. Will consider both unlisted funds and direct investments in South Africa.

7

FTLIFE INSURANCE COMPANY
Type: **Insurance Company**
Location: **Hong Kong**
AUM: **$3bn**
Plan: Will invest solely via unlisted funds over the next 12 months on a global basis. Is interested in the energy and metals & mining industries, including the oil, renewable energy, base and precious metals sectors.

8

CID GROUP
Type: **Private Equity Firm**
Location: **Taipei, Taiwan**
AUM: **$1bn**
Plan: Seeks exposure to the asset class via unlisted funds and will focus on the energy sector across Asia and Greater China over 2018.

9

AUSTRALIAN NATIONAL UNIVERSITY ENDOWMENT FUNDS
Type: **Endowment Plan**
Location: **Acton, Australia**
AUM: **AUD 1.5bn**
Plan: Open to direct investments and commitments through unlisted funds. Will focus on brownfield assets and environmentally friendly industries including renewable energy.

PREQIN INVESTOR OUTLOOK: ALTERNATIVE ASSETS

H1 2018

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