



Investment Consultants: What Role Do They Play?

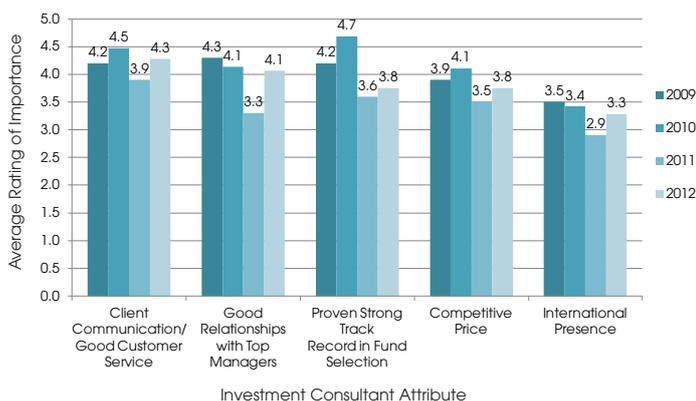
Dami Sogunro examines the changing attitudes of investors towards the use of alternatives investment consultants, as well as private equity consultants' current investment preferences.

As a result of the changing global investment landscape, investors are approaching new investments with far more caution than they did in the past, and automatic re-ups are becoming rare. Other methods of accessing alternatives are being explored by institutions keen to extract as much value from their investments as possible. Alternatives investment consultants are often seen as a useful tool for many investors seeking exposure to alternative assets investments as they can offer investors both specialist and broad investment advice that can be useful in navigating the broad array of opportunities and products available in the alternatives landscape.

A significant proportion of investors across all of the alternative asset classes utilize an external investment consultant when making new investments. Fig. 1 shows that almost half (46%) of private equity investors use an external investment consultant. Comparatively, 61% of investors in hedge funds use an investment consultant, along with the majority (51%) of real estate investors. For some, it may be because they do not have the resources to conduct their own research whereas others may be looking to tap the expertise of a consultant on a particular market or method of investment that they have not previously had exposure to.

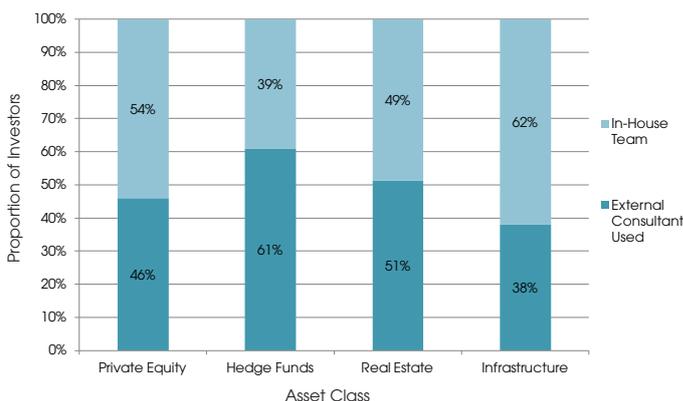
When asked about the attributes they consider most important when reviewing alternative investment consultants in a recent Preqin survey, many investors highlighted the importance of consultants' expertise and skills; this is demonstrated in Fig. 2, which lists clients' responses by average score of importance. Client communication and customer service continues to be one of the most important factors for investors when considering consultants, with an average score of 4.3 in 2012. Investment consultants' relationships with top fund managers is also an important factor for investors, receiving an average score of 4.1 in 2012; this represents a significant increase from a score of 3.3 in 2011.

Fig. 2: Attributes Clients Consider When Reviewing Alternatives Investment Consultants (1 – Low Importance; 5 – High Importance)



Source: 2013 Preqin Alternatives Investment Consultant Review

Fig. 1: Proportion of Investors Using Alternatives Investment Consultants by Asset Class

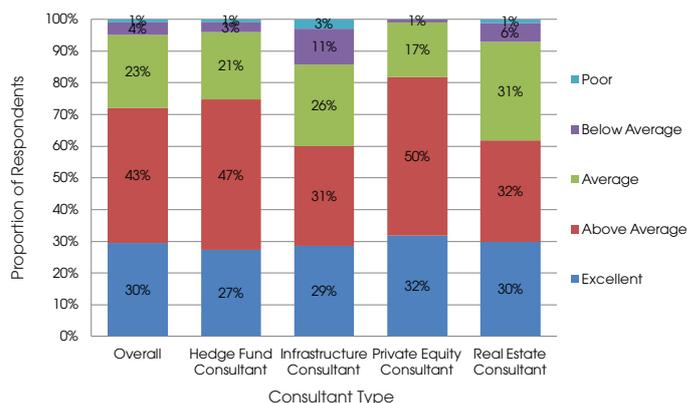


Source: 2013 Preqin Alternatives Investment Consultant Review

Clients also consider a strong track record in fund selection to be particularly important in selecting an investment consultant, receiving an average score of 3.8 in 2012. Fund selection is therefore a core part of the service investment consultants offer their clients. When asked whether consultants are fulfilling this requirement, nearly three-quarters (73%) of investors that use a consultant ranked their consultant as either above average or excellent at fund selection (Fig. 3). This is an improvement on last year, when two-thirds (66%) gave their consultant these rankings. Given the saturated fundraising market, it is positive to see that above satisfactory fund selection can be achieved.

When viewing the separate alternative asset classes independently, it can be seen that investors are especially positive about the private equity asset class, with 82% rating the advice received as excellent or above average.

Fig. 3: Investor Opinions Regarding Success of Alternatives Investment Consultants in Fund Selection



Source: 2013 Preqin Alternatives Investment Consultant Review



Private Equity Investment Consultant Survey

Communicating with consultants can provide an important access point for understanding investors' changing demands, and showcasing a fund to the appropriate investment consultants can allow fund managers to approach a wider audience with potential interest in their fund. The investment preferences of alternatives investment consultants often determine which regions, strategies, and, ultimately, fund managers that investors will commit capital to. As a result, understanding consultants' preferences will aid GPs in raising capital in a difficult fundraising climate.

In order to gain a better understanding of investment consultants' preferences regarding investments, Preqin conducted a survey in September 2012 with 80 alternative assets investment consultants from around the world that have over \$1.5tn worth of alternative assets under advisement. The results of this survey are published in The 2013 Preqin Alternatives Investment Consultants Review.

Consultants' Regional Preferences

Similar to the results of Preqin's survey in 2011, North America (65%) and Asia (51%) were cited by consultants as the regions presenting the best private equity investment opportunities over the next 12 months, as shown in Fig 4. There was, however, a notable drop in the proportion of firms naming Asia as presenting the best opportunities, from 65% in last year's survey to 51% this year.

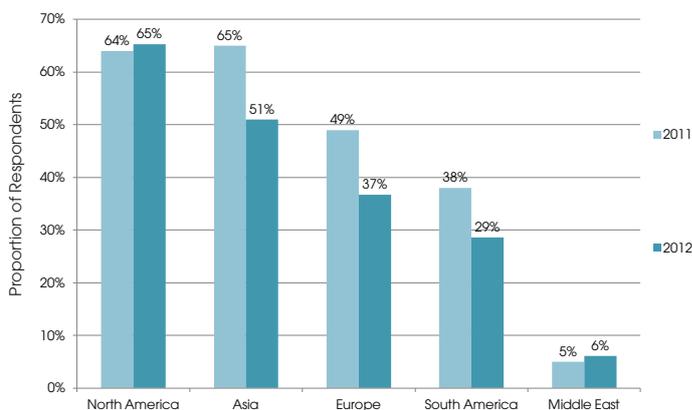
South America also suffered a notable decrease of nine percentage points in comparison to last year, with only 29% of respondents rating it as a region which possesses the best opportunities. However, emerging markets are still viewed relatively favourably, and such regions can still expect to attract significant levels of investment in the coming year.

Attitudes towards Various Fund Strategies

Investment consultants were also asked which strategies they believe are presenting the best opportunities in the current private equity market (Fig. 5). They were asked to rank the level of attractiveness of a specific list of fund types on a scale of one to five, with five being the most attractive and one being the least attractive. Consultants ranked small to mid-market buyout funds as presenting the most attractive investment opportunities at present, with the fund type receiving an average ranking of 3.7. In contrast, large to mega buyout funds received the lowest ranking of all fund types from investment consultants, with an average ranking of 2.3. Secondaries, distressed private equity and growth vehicles all received relatively high rankings of 3.6, 3.4 and 3.2 respectively.

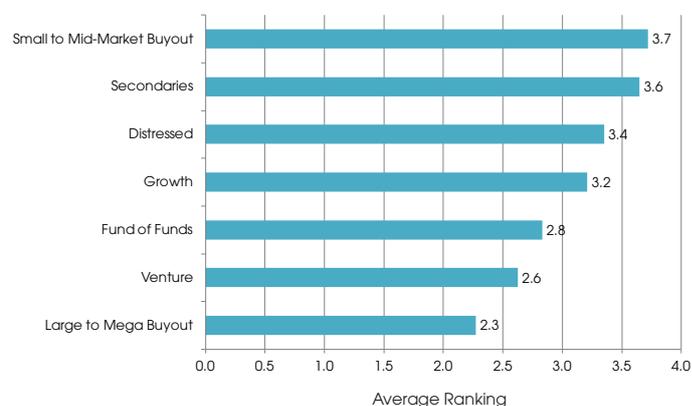
Interestingly, the fund types that consultants view as the most attractive at present differ from the strategies being targeted by investors in 2013. Preqin's Chart of the Month (page 8) shows the fund type preferences of institutional investors in private equity throughout 2013 from Preqin's December 2012 survey of 100 LPs. Similarly to investment consultants, the majority (51%) of investors are targeting small to mid-market buyout funds. However, a significant 28% of investors are targeting venture capital funds, a contrast to the low rating of 2.6 the fund type received from surveyed investment consultants. In addition, though growth received a higher rating from investment consultants than large to mega buyout, a larger 23% of investors are targeting large to mega buyout in 2013 compared to the 14% targeting growth investments.

Fig. 4: Regions Viewed by Alternatives Investment Consultants as Presenting the Best Opportunities in Private Equity, 2011-2012



Source: 2013 Preqin Alternatives Investment Consultant Review

Fig. 5: Alternatives Investment Consultant Attitudes to Different Fund Types at Present (5 - Most Attractive; 1 - Least Attractive)



Source: 2013 Preqin Alternatives Investment Consultant Review

Overall, it is possible to see that alternatives investment consultants provide an important insight into the alternatives assets universe. Situated between fund managers and investors, the unique position of consultants means that they can provide insight into key aspects of the market as well as taking on an influential role. With uncertain economic conditions continuing to prevail, it is more important than ever for all groups in the alternative universe, from fund managers, to investors, to the consultants themselves, to understand the market from multiple perspectives in order to ensure future success in their fundraising and investments.

Subscriber Quicklink:

Subscribers can click [here](#) to see access detailed profiles for 380 investment consultants advising on real estate investments.

This article draws upon information from the [2013 Preqin Alternatives Investment Consultant Review](#). The Review contains over 340 investment consultant profiles, offering the most comprehensive source of intelligence on this important section of the market.

To find out more, or to purchase your copy, please visit:

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2013 Preqin Alternatives Investment Consultant Review

The 2013 Preqin Alternatives Investment Consultant Review contains over 340 investment consultant profiles, offering the most comprehensive source of intelligence on this important section of the industry.

The Review provides consultant profiles detailing information on the types of services offered, asset classes covered, key financial information, direct contact information for relevant contacts and much more. It is also a vital tool for fund managers and marketers looking to build relationships with these important custodians of institutional investor capital. The Review is also an important resource for consultants seeking to maintain an accurate overview of the market, and for investors utilizing and considering the services of consultants.

Key content includes:

- Vital analysis on all aspects of the alternatives investment consultant universe. Includes key trends plus information on the market's make-up.
- Listings for 1,800 investors in alternatives showing which consultants they are advised by in specific asset classes.
- Specific intelligence on activity in private equity, real estate, hedge funds and infrastructure included in all analysis and profiles.
- Comprehensive profiles for over 340 investment consultants.
- Profiles include key individual contact information, areas of speciality, financial information, service coverage etc.
- Views on the current alternatives landscape from our recent survey of investment consultants.
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- League tables.



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