



# Investors' Approach to Alternative Investments: Proactive or Passive?

In this excerpt from the [2013 Preqin Investor Network Global Alternatives Report](#), Leopold Peavy examines how proactive and sophisticated investors in alternatives are based on Preqin's interviews with institutional investors from around the globe in April 2013.

The alternative investor universe has grown considerably in the past decade, with many investors now seeing alternative assets as an integral part of their portfolios. As institutions become more active and experienced in alternative investment, many are gaining more confidence in navigating fund opportunities and are also more proactive with their approach.

In light of the global economic downturn and greater pressure on investors to be prudent with capital and selective with where it is allocated, in April 2013 Preqin interviewed 70 institutional investors from around the globe to find out just how proactive and sophisticated they are in relation to committing to alternatives. Investors may need to consider managing a variety of areas: risk exposure, returns requirements, liquidity allowances, and capital and staff resources. This article explores what proportion of the alternative investment community considers itself proactive, how investors source investments and the resources they have to do so.

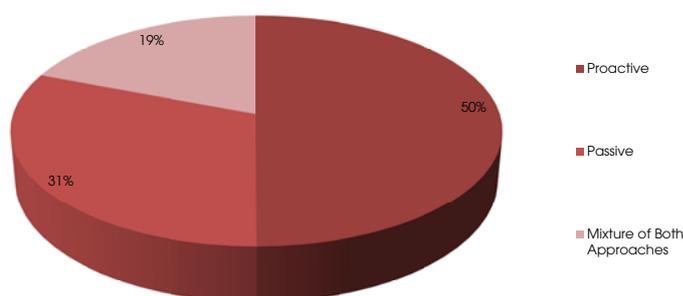
## Sourcing Alternative Investment Opportunities

As Fig. 1 shows, 50% of investors interviewed stated that they have a proactive approach to sourcing new alternative asset fund investments, meaning they actively review and source new investment opportunities. Thirty-one percent of investors interviewed declared a passive approach to sourcing new investment opportunities, relying exclusively on third parties to present viable fund opportunities. The remaining 19% stated that they employ a mixed approach to sourcing alternative asset fund investments.

With greater transparency on fund manager activity available than ever before, investors can be proactive in sourcing funds themselves, cross-referencing information given to them by third parties, and making fund suggestions for third parties to undertake due diligence on.

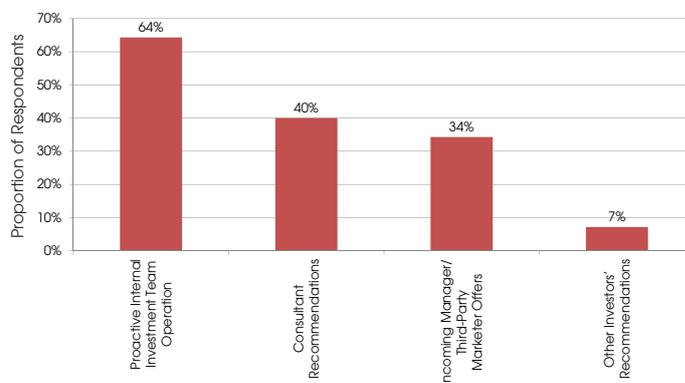
Investors in alternatives use various methods to source alternative assets fund opportunities, often concurrently. Fig. 2 shows that 40% of investors interviewed gain access to funds following recommendations from their consultant, while just over a third (34%) depend on incoming fund manager, placement agent and third-party contacts to commit to funds. Sixty-four percent of investors interviewed have an investment team tasked with finding appropriate opportunities and 7% find funds following recommendation from a fellow investor. One Europe-based government agency stated that it uses "mostly an internal team but sometimes uses an external consultant when [it] wants to examine profit and risk more closely". One Middle East-based bank interviewed typically "speaks to existing managers and finds out what competitors are doing".

Fig. 1: Investors' Attitudes Towards Sourcing Alternative Asset Fund Investments



Source: 2013 Preqin Investor Network Global Alternatives Report

Fig. 2: Investors' Sources of Alternative Asset Fund Investments



Source: 2013 Preqin Investor Network Global Alternatives Report

Preqin's interviews with investors confirm that alternative investments have grown in importance for investors over the years, with almost half (49%) of investors interviewed stating that their investment teams have given more attention to managing alternative assets in the last two years than in the past. Only 8% of investors said that they have given alternative investments less attention over the last two years, and 42% indicated that their level of attention to alternative investments has stayed the same.

## Alternative Investment Staff Resources

Many investors in the asset class have established an internal team with multiple employees specializing in alternatives. The majority



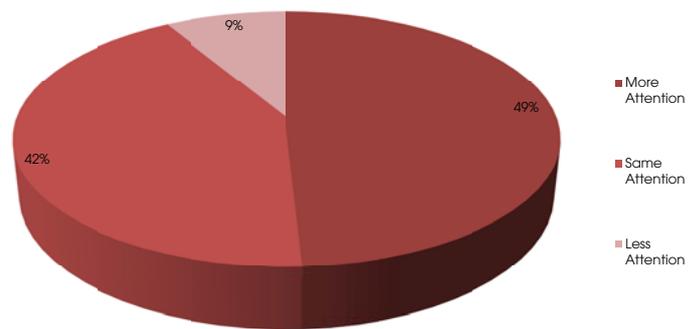
of investors (67%) we spoke to employ more than two investment professionals to oversee alternatives, including 16% that have alternative investment teams of more than five people. In one case, a large Asia-based bank has 18 individuals on its alternative investments team. The largest proportion (51%) of investors we spoke to have teams of between two and five individuals. Despite the growing number of alternative investment teams across the globe, 15% of investors interviewed have their investment activities completely outsourced to investment consultants, asset managers or other third-party investment managers.

### Outlook

Proactivity in sourcing and making alternative investment fund commitments is often dictated by an investor's circumstance; those investors with fewer resources may have to completely or almost completely outsource alternative investment decisions to a third party.

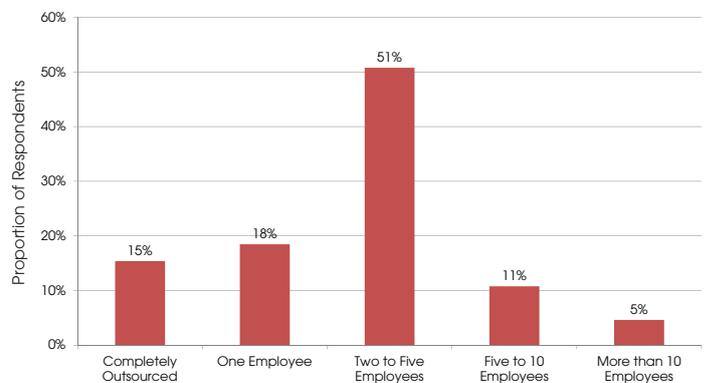
However, those with resources to actively source funds perhaps should consider the way their peers manage their alternative investment portfolios when looking after their own. With 69% taking either a proactive or somewhat proactive approach to sourcing funds, investors that take a passive stance out of preference may reflect on the difference greater internal focus could make on gaining access to better funds. With the chasm between top quartile funds and the rest so acute, investors having insightful, objective fund manager information at their disposal and being proactive in using it, could prove crucial to building and maintaining a successful portfolio.

Fig. 3: Attention Given by Investors to Managing Alternative Investments Over the Last Two Years Compared to the Past



Source: 2013 Preqin Investor Network Global Alternatives Report

Fig. 4: Size of Investors' Internal Alternative Investment Teams



Source: 2013 Preqin Investor Network Global Alternatives Report

## 2013 Preqin Investor Network Global Alternatives Report

The Report is the most comprehensive review of the alternatives industry aimed exclusively at institutional investors ever undertaken. It includes in-depth analysis on:



- ▶ **Methods of investing** in alternative assets.
- ▶ **Performance** of alternative assets, including industry benchmarks.
- ▶ Alternative **funds open for investment**, including league tables.
- ▶ **Consistent performing** managers, and top performing funds.
- ▶ **Terms and conditions, funds of funds, secondary market**, and more.

**Plus** hear from some of the industry's most significant voices, including David Rubenstein, Josh Lerner, and Luke Ellis.

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