

Alternative Assets Industry Hits Record Size in 2016

Preqin's largest ever performance analysis examines assets under management, horizon returns, public market equivalents and top performing funds. Key findings include:

❖ Alternative Assets Industry Reaches Record \$7.8tn in Assets under Management

The alternative assets industry has reached a record size as of the end of 2016, the latest data available. Hedge funds saw their assets hit a record \$3.25tn, despite net investor outflows through the year. Private capital funds, meanwhile, increased their assets by over 7%, from \$4.27tn as of the end of 2015 to \$4.59tn 12 months later. Private equity funds represent the largest proportion at \$2.58tn, followed by real estate (\$785bn), private debt (\$605bn), natural resources (\$501bn) and infrastructure (\$388bn) funds*.

❖ Private Capital Funds Outperform Public Markets Over Longer Term

Looking at the median returns reported by public pension funds, over the five years to the end of 2016 private equity funds have generated a median net annualized return of 11.4%, while real estate funds have returned 11.3%. This compares to 5.2% for hedge funds, and 9.1% for listed equity. In fact, private equity funds have seen median net IRRs exceed 10% for every vintage year since 2007, while real estate fund median net IRRs have surpassed 14% in every vintage year from 2009 onwards. Only two vintage years in the 21st century, 2005 and 2006, have seen median private equity returns fall below 10%.

❖ Private Capital Funds Return Record Levels of Capital to Investors in 2016

The distributions returned from private capital funds to their investors have exceeded total capital calls in every year since 2013. The difference between the two, the net capital flow to investors, has been increasing: distributions outstripped capital calls by \$121bn in 2013, but in 2016 net capital flow to investors totalled \$402bn. The level of called-up capital fell from \$656bn in 2015 to \$507bn in 2016, while global distributions rose from \$858bn to \$909bn in the same period.

❖ Investors Report High Satisfaction with Alternative Assets Performance

The majority of investors reported to Preqin in June 2017 that they were satisfied with the performance of their investments across most asset classes. However, there is a sharp divide in opinion: over the three years to the middle of 2017, more than a fifth of investors in private equity, real estate, private debt and infrastructure said that these asset classes had surpassed their performance expectations. Conversely, across the same period 50% of natural resources investors and 70% of hedge fund investors felt that their portfolios had underperformed.

❖ Top Performing Funds Have Top Performing Successors

There is a strong correlation between the quartile performance of private capital funds and that of their successors. Thirty-five percent of top-quartile predecessor funds have top-quartile successors, while just 14% are followed by a bottom-quartile vehicle. At the other end of the scale, 38% of bottom-quartile private capital funds are succeeded by another bottom-quartile vehicle, while only 14% have successors which reach the top quartile.

For more information and analysis, see the sample pages of the 2017 edition here:

<https://www.preqin.com/docs/reports/2017-Preqin-Alternative-Assets-Performance-Monitor-Sample-Pages.pdf>

Members of the financial press are eligible to request a complimentary copy. If you interested in obtaining a digital version of the book, please contact our dedicated press team at press@preqin.com

**Some funds are counted into more than one private capital asset class, due to the nature of their underlying investments.*

Preqin is the leading source of information for the alternative assets industry, providing insight and analysis gathered by its global teams of dedicated researchers. Founded in 2003, the company is a frequent source of intelligence used in the global financial press, through its online databases, regular publications and bespoke data requests.

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