

Investors Look to Diversify with Alternative Assets

Half of investors now allocate to three or more asset classes, up from two-fifths in 2015

According to Preqin's latest survey of alternative assets investors*, institutional portfolios of alternative assets are growing more diverse: in June 2015, 39% of investors allocated to three or more different alternative assets; that figure now stands at 50%. Across all asset classes, investors report that diversification is a main reason for investing in alternative assets. Investors also cite reliable income stream as a reason for allocating to real estate, infrastructure and private debt, as well as citing low correlation to other asset classes as a reason to invest in hedge funds and natural resources. Across most asset classes, larger proportions of investors plan to invest more capital in alternatives than those that plan to invest less in the coming year. This appetite comes in a period of relatively strong performance: across all asset classes, portfolio performance over the past 12 months has met or exceeded investor expectations. However, the majority (56%) of institutional investors believe that the equity market is at a peak, and investors' return expectations for private equity, real estate and infrastructure have fallen from June 2015.

For more information and analysis, see the full *Alternative Assets Investor Update: H2 2018* here: <http://docs.preqin.com/reports/Preqin-Investor-Update-Alternative-Assets-H2-2018.pdf>

Key Investor Sentiment Facts:

- **Seventy-nine percent of institutional investors allocate capital to alternative assets**, and half invest in three or more asset classes. The largest proportion of investors have exposure to private equity and real estate funds (57% and 59% of investors respectively).
- Across all asset classes, **investors cite diversification as a main reason for investing in alternatives**.
- **Portfolio performance met or exceeded expectations for most investors across all asset classes**. A significant 27% of investors reported that infrastructure had exceeded expectations over the past 12 months.
- Across most asset classes, **more investors plan to increase investments in alternatives in the coming year than those that plan to invest less**, with a notable 43% that plan to invest more in infrastructure.
- While the largest proportion (47%) of private debt investors view Europe as presenting the best opportunities in the next 12 months, **in all other asset classes investors cite North America as the region of most interest**.
- **The majority of investors (56%) believe the equity market to be at its peak**, and investors' return expectations for private equity, real estate and infrastructure have fallen to 12%, 7.9% and 7.7% respectively.

Amy Bensted, Head of Hedge Funds:

"The diversification benefits of alternative assets continue to attract institutional investors. Four out of five institutions now have exposure to at least one alternative investment fund, and one in ten have exposure across all six asset classes. Investors seek to diversify into alternative assets for many different reasons: for private equity, it's the potential for high absolute returns; for real estate, infrastructure and private debt it is to add a reliable income stream; and for hedge funds to reduce correlation to other assets. Investors also seek a range of returns from these alternative assets – from 7% annualized for hedge funds, to 12% annualised for private equity. Across the alternative assets, most investors have found alternatives to live up to these expectations over the past 12 months.

However, most institutions surveyed believe that we are at the peak of the equity cycle. With concerns over high asset pricing and its effect on future exit profitability, investors believe that the opportunity for outperformance might be constrained in the future. However, alternatives are nonetheless producing strong risk adjusted returns for many investors, and because assets can help protect investors in the event of a market correction, alternatives remain a mainstay of most investment portfolios."

***Results based on a survey of 530 institutional investors in June 2018.**

Preqin is the home of alternative assets, providing industry-leading intelligence on the market and cutting-edge tools to support participants at every stage of the investment cycle. More than 60,000 industry participants in over 90 countries rely on Preqin as their indispensable source of data, solutions and insights.

Preqin's data and analysis is frequently presented at industry conferences, and is used in the global financial press and academic journals & white papers. We are always happy to support journalists by providing reports, custom data and one-on-one interviews.

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