Preqin Investor Outlook: Alternative Assets H2 2016

Private Equity | Hedge Funds | Real Estate | Infrastructure | Private Debt | Natural Resources

preqin

alternative assets. intelligent data.

Contents

Data Pack for Preqin Investor Outlook: Alternative Assets, H2 2016

The data behind all of the charts featured in the report is available for **free** in an easily accessible data pack. The data pack also includes ready-made charts that can be used for presentations, marketing materials and company reports.

To download the data pack from Preqin's **Research Center Premium**, please visit:

www.preqin.com/investoroutlook

Foreword

The term 'alternative assets' is becoming ever more inaccurate. Four-fifths of institutional investors have exposure to at least one alternative asset class and almost half have exposure to three or more. Of the institutional investors globally managing at least $1bn in assets, 88% invest in at least one alternative asset class and 58% invest in at least three. Far from being an alternative, these asset classes are central elements in the portfolios of the vast majority of investors.

This report brings together the results of a series of in-depth interviews conducted by Preqin's analysts with over 490 institutional investors from across the globe, plus the detailed data on more than 12,000 institutional investors available to subscribers of Preqin's online services, to give a picture of investors' plans and concerns surrounding private equity & venture capital, private debt, hedge funds, real estate, infrastructure and natural resources.

Institutional investors remain committed to alternative assets, and in most cases, far more investors expect to grow their allocations to these sectors than expect to reduce them. It is undoubtedly a challenging time for institutional investors, however. Across all alternative asset classes, investors are finding it harder to identify attractive investment opportunities than a year ago, and, with a record-high 2,798 private capital funds being marketed and 13,725 hedge funds open for investment, choosing the right investment manager to navigate a challenging landscape is a very difficult prospect. For fund managers looking to secure institutional capital meanwhile, standing out from the crowd is harder than ever.

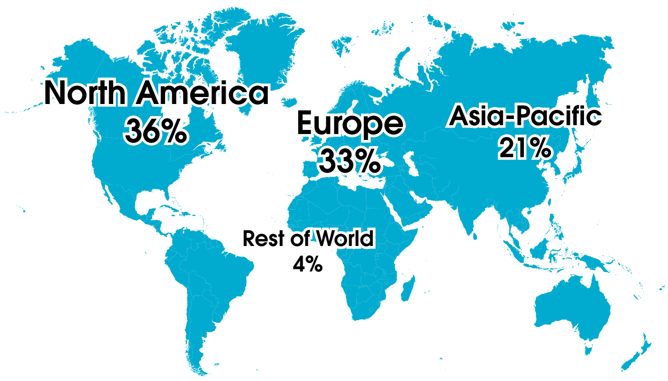
The hedge fund sector may be at something of a watershed. For the first time ever, we see more investors planning to reduce their exposure to hedge funds in the longer term than plan to increase it. There have been signs of investors losing patience with hedge funds and this result, along with outflows from hedge funds in H1 2016, may indicate a significant number have lost faith with the asset class. However, if fund managers can respond to demands for better terms and build upon the improved performance which started in March 2016, then the value of these funds, in a time where wider markets are proving volatile, may be reaffirmed to investors.

Preqin's online services are indispensable fundraising and investor relations tools 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 do not hesitate to contact at us at info@preqin.com or at our New York, London, Singapore, Hong Kong or San Francisco offices.

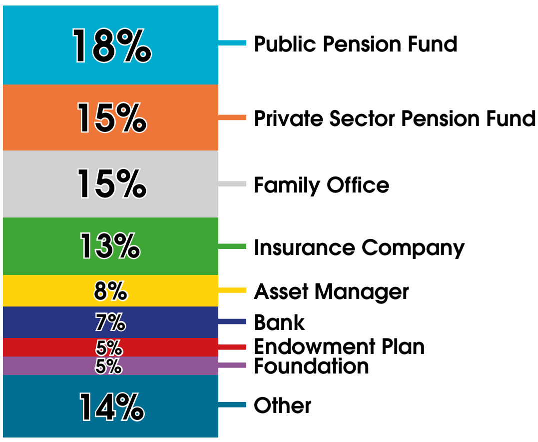
Breakdown of Respondents

Respondents by Investor Location



Source: Preqin

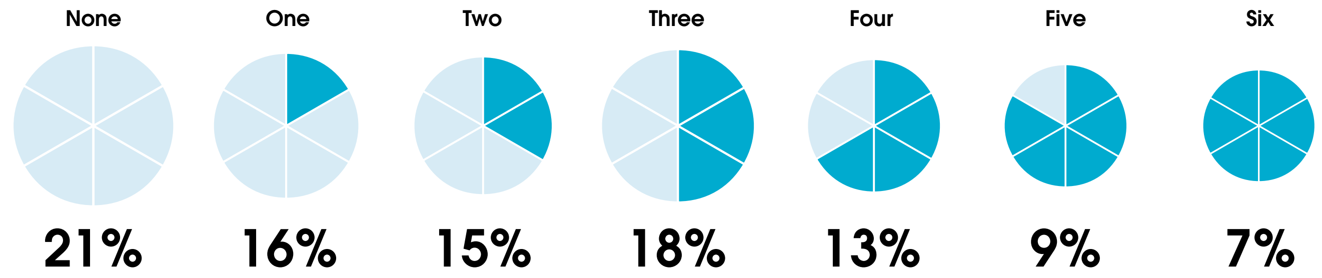
Respondents by Investor Type



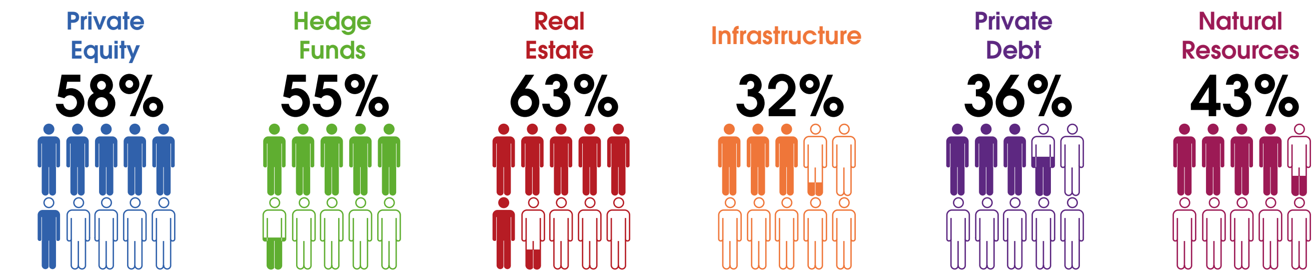
Source: Preqin

Participation in Alternative Assets

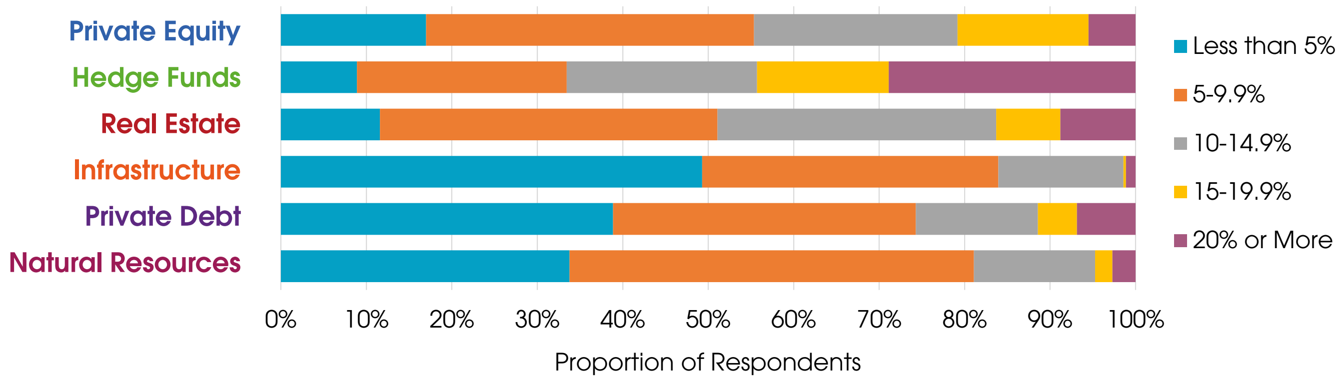
Institutional Investors by Number of Alternative Asset Classes Invested In



Proportion of Institutional Investors Allocating to Each Alternative Asset Class



Breakdown of Institutional Investors in Alternative Assets by Target Allocation to Each Asset Class (As a % of AUM)

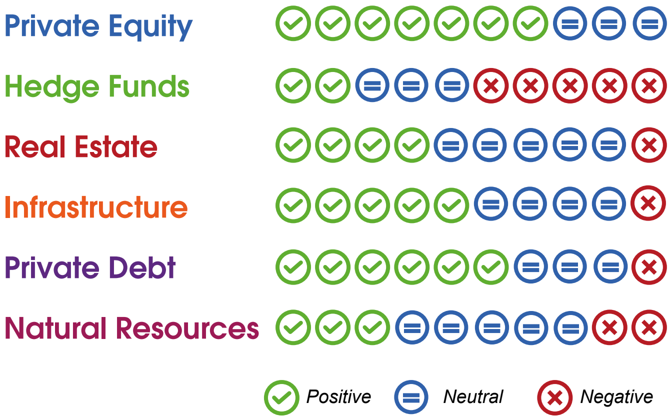


Institutional Investors' Plans for Allocations in the Longer Term


Source new investors for funds
Identify new investment opportunities
Conduct competitor and market analysis
Benchmark fund performance
Develop new business

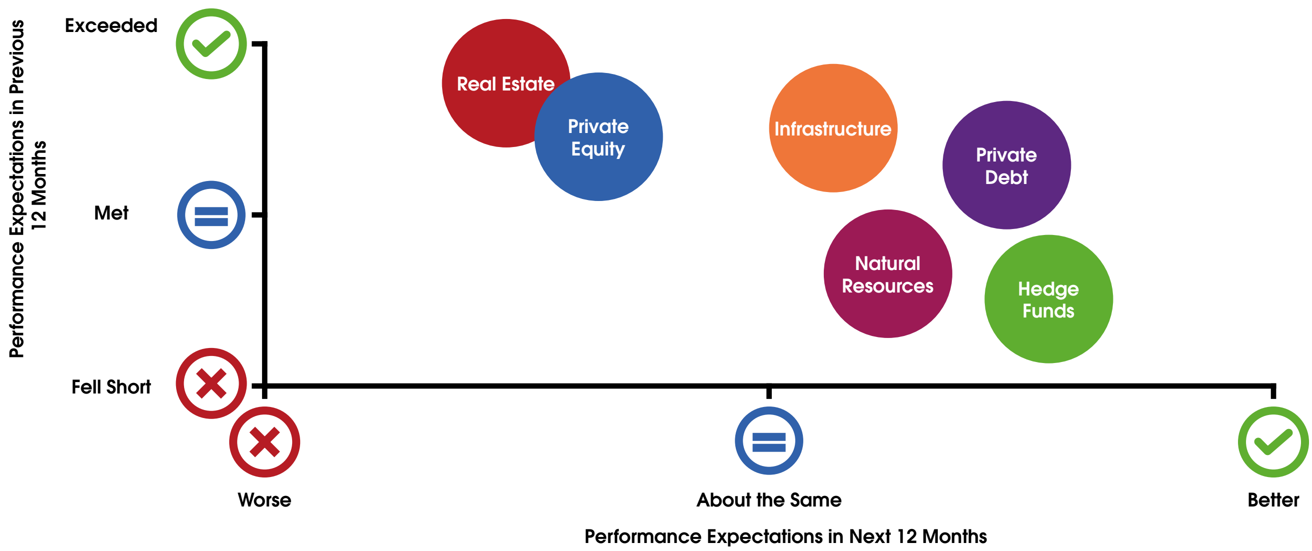
Performance Expectations

Institutional Investors' General Perception of Alternative Asset Classes

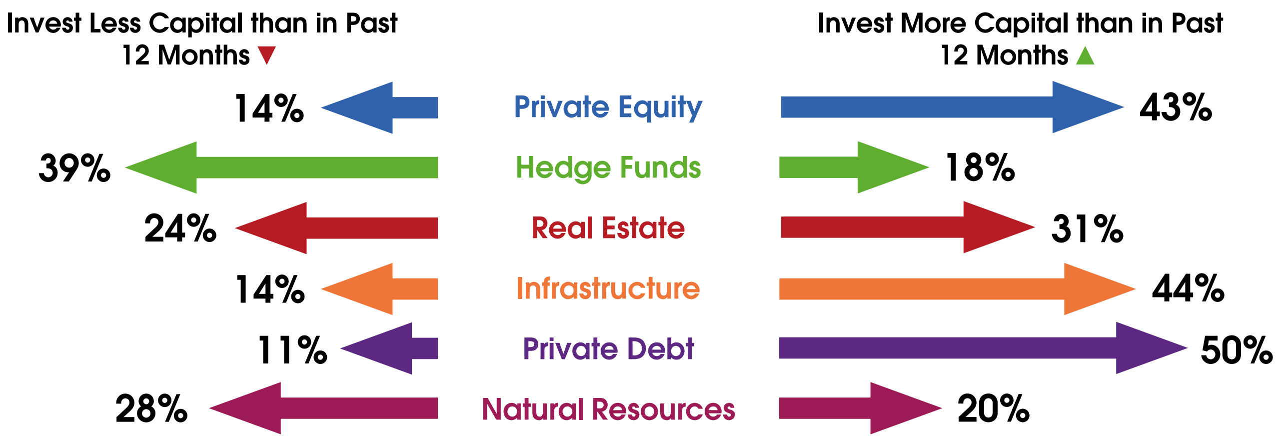


> **Our Products and Services**
>
> Preqin's data and intelligence is available through a range of different mediums:
>
> - Industry-leading online databases
> - Premium publications
> - Data feeds and API
> - Complimentary research reports, accessible through our Research Center
>
> For more information on how Preqin can help you, please contact info@preqin.com.

Institutional Investor Views on Alternative Assets Performance

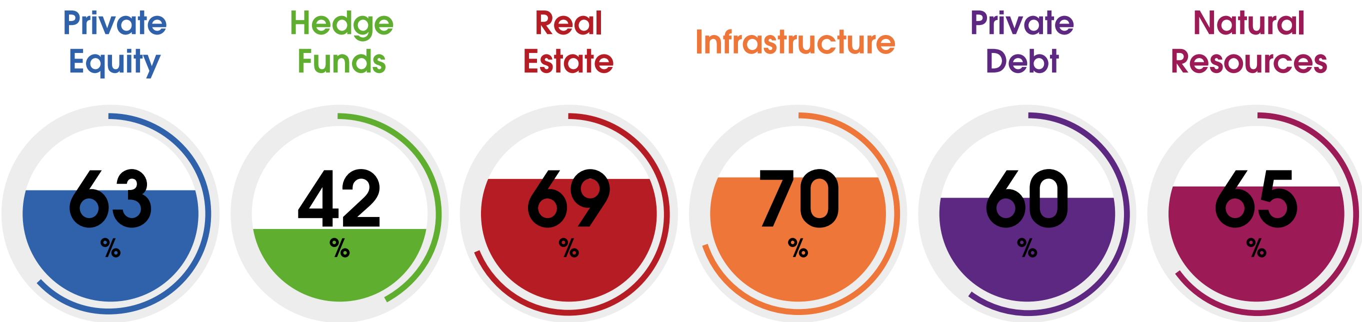


Institutional Investors' Plans for the Coming Year

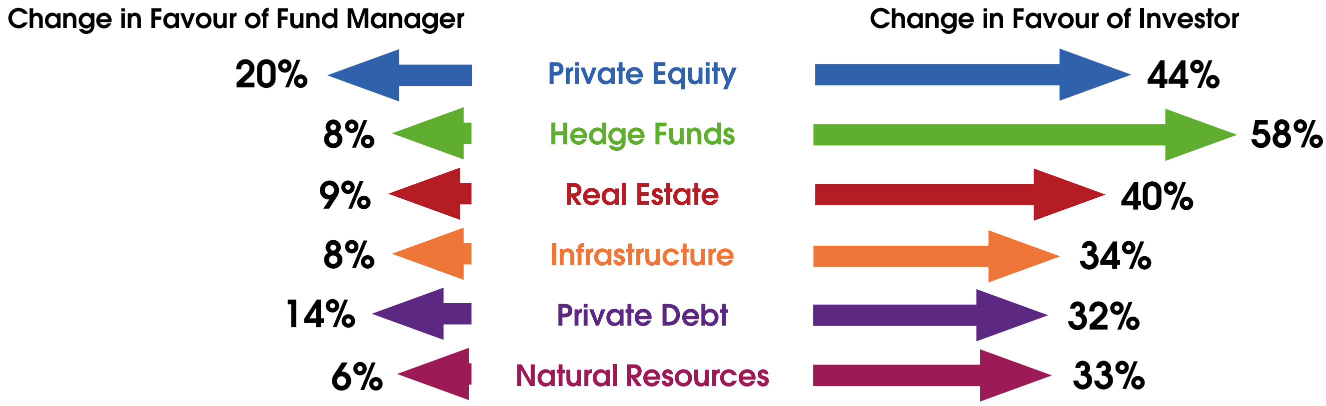


Fund Terms and Alignment of Interests

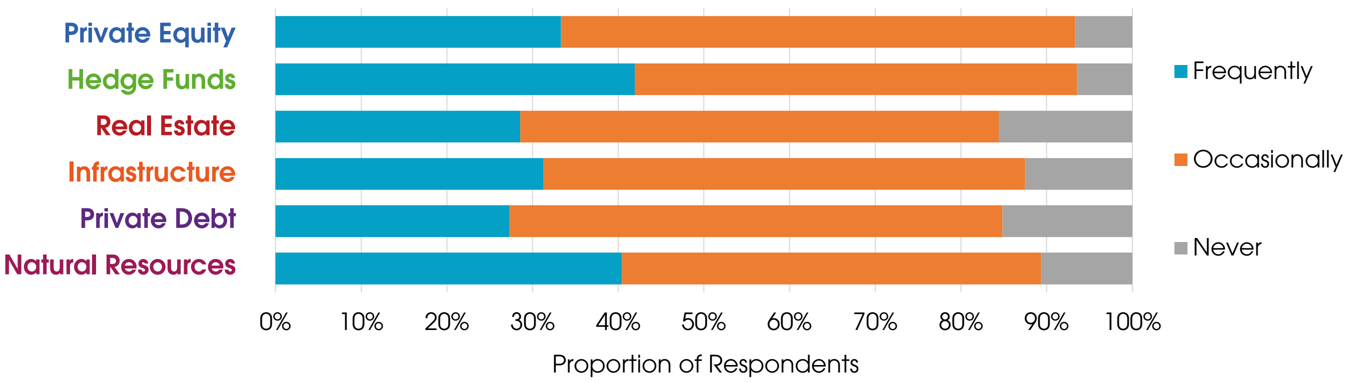
Proportion of Institutional Investors that Feel Fund Manager and Investor Interests Are Properly Aligned



Institutional Investor Views on Changes in Prevailing Fund Terms over the Past 12 Months

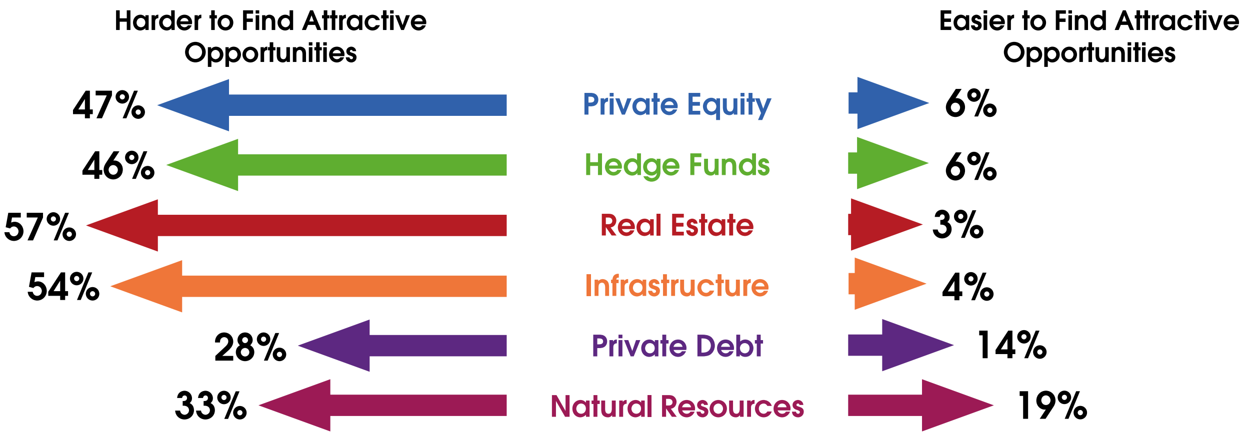


Frequency with Which Institutional Investors Have Decided Not to Invest in a Fund Due to the Proposed Terms and Conditions

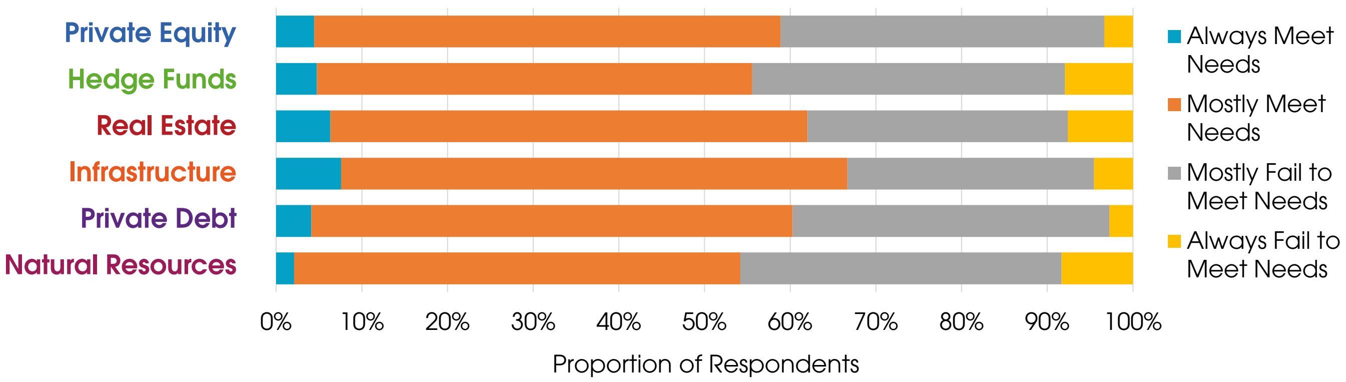


Fund Selection and Marketing

Institutional Investor Views on the Difficulty of Sourcing Investment Opportunities Compared to 12 Months Ago



Institutional Investor Views on the Frequency with Which Fund Manager Marketing Documents Meet Their Needs



Private Equity

Investor Appetite High Despite Uncertainty in the Market

At the start of the year, the **Preqin Investor Outlook: Alternative Assets, H1 2016** highlighted the fact that distributions were driving investor satisfaction and activity in private equity. With full-year 2015 data now available, we are able to understand exactly the scale of these distributions. More than $443bn was distributed in 2015 from private equity* funds compared with capital calls of $226bn, surpassing the previous record level of $424bn distributed in 2014.

As we look ahead to the remainder of 2016, Preqin's latest investor survey results confirm that, unsurprisingly, investors continue to ride high on this wave of distributions. The vast majority (89%) of investors surveyed feel that their private equity portfolio has met or exceeded expectations; 59% of investors plan to make investments in the second half of the year and 43% intend to commit more capital in the next 12 months than they did in the previous 12 months.

The survey results also confirm that investors continue to grow in sophistication and explore alternative ways in which to maximize their returns. Nearly 40% of survey respondents are already utilizing co-investments and direct investments; and with 47% and 32% of investors looking to increase their activity in these alternative structures respectively over the longer term, fund managers will have to adjust accordingly to meet this demand.

High valuations are the biggest challenge investors believe they face in operating their private equity program in 2016, although with so much uncertainty in the wider financial and political arenas, they may want to adhere to the old adage "be careful what you wish for".

The impact of Brexit has clearly already influenced investor sentiment towards Europe, with 35% of survey respondents naming Europe as a region they are now actively avoiding that they would have considered previously.

Despite the challenges facing investors, the outlook for private equity in H2 2016 is positive. Avid investor demand for the asset class, as well as private equity's proven track record during times of economic downturn, means we anticipate fundraising in the remainder of the year to remain robust.

Investor Appetite

89%
Proportion of surveyed investors that feel their private equity investments have met or exceeded their expectations over the past 12 months.

87%
Proportion of respondents that expect to commit more or the same amount of capital in the next 12 months as in the past 12 months.

47%
Proportion of respondents that believe it is more difficult to identify attractive investment opportunities in the current market compared to 12 months ago.

LP and GP Relationship

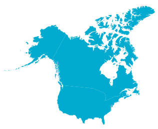
44%
Proportion of respondents that have seen changes in fund terms and conditions in favour of LPs over the past 12 months.

32%
Proportion of investors interviewed that consider past performance the most important factor when looking for a fund manager.

44%
Proportion of surveyed investors that intend to increase their number of GP relationships in the next two years.

Evolution of the LP Universe

47%
Proportion of investors interviewed that expect to increase their investment activity through co-investments.



60%
Proportion of respondents that believe North America presents the best opportunities in the current financial climate.

86%
Proportion of surveyed investors that take fund managers' ESG policies into consideration.

Private equity refers to the core asset class centred on the buyout and venture capital industry, together with other closely related strategies, including growth, turnaround, private equity secondaries and private equity funds of funds.

Satisfaction with Private Equity

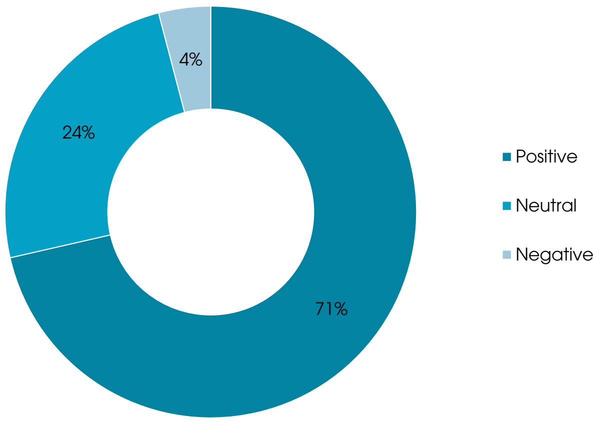
Institutional investors generally have a more positive perception of the private equity industry as compared to the first half of this year: 71% of investors interviewed in June 2016 are optimistic about the asset class as a whole (Fig. 2.1), while just under two-thirds (65%) felt the same when asked at the end of 2015.

Levels of institutional investor satisfaction with private equity remain high, with the vast majority (89%) of investors surveyed stating that their fund investments within the asset class have either met or exceeded expectations over the past year (Fig. 2.2). Although nearly a quarter of investors believe that private equity has surpassed their expectations, this is down 12 percentage points from the high (35%) seen in 2015. This leaves only 11% of respondents feeling that their private equity investments have fallen short of expectations, a four-year low.

Over the first half of the year, there has been no significant change in investors' confidence in private equity to achieve portfolio objectives in the past 12 months, as cited by three-quarters of respondents (Fig. 2.3). Equal proportions (13%) of investors stated that their confidence in the asset class had increased or decreased in the last year.

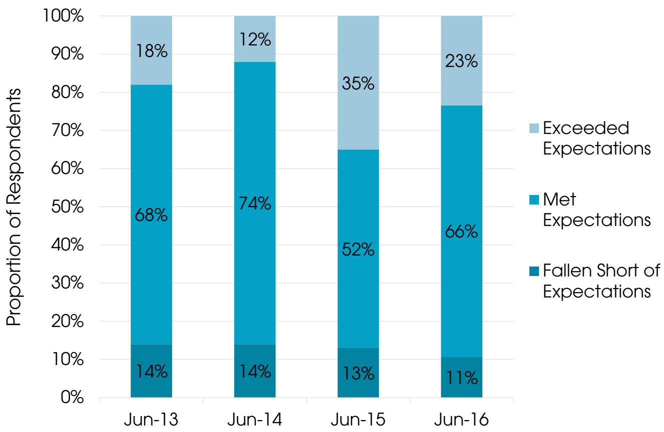
Fig. 2.4 reflects the optimistic perception of the asset class: over half (56%) of investors surveyed intend to increase their allocation to private equity over the longer term, with only 7% looking to decrease their commitments to the asset class.

Fig. 2.1: Investors' General Perception of the Private Equity Industry at Present



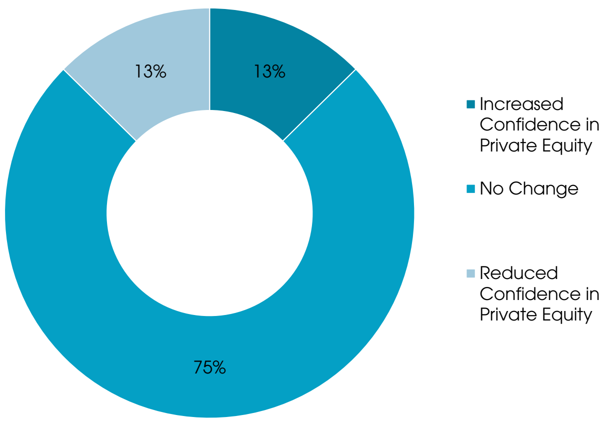
Source: Preqin Investor Interviews, June 2016

Fig. 2.2: Proportion of Investors that Feel Their Private Equity Fund Investments Have Lived up to Expectations over the Past 12 Months, 2013 - 2016



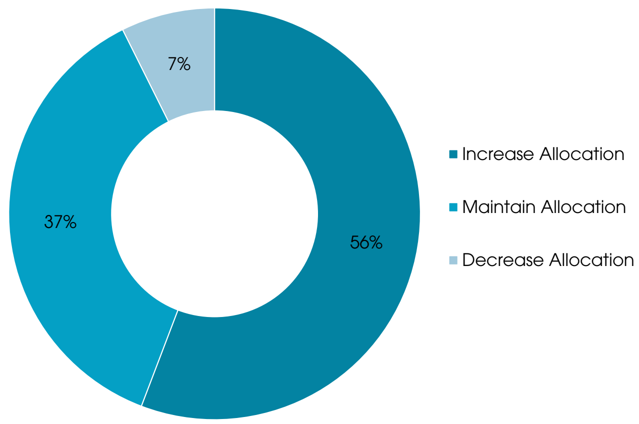
Source: Preqin Investor Interviews, June 2013 - June 2016

Fig. 2.3: Investors' Change in Confidence in the Ability of Private Equity to Achieve Portfolio Objectives in the Past 12 Months



Source: Preqin Investor Interviews, June 2016

Fig. 2.4: Investors' Intentions for Their Private Equity Allocations in the Longer Term



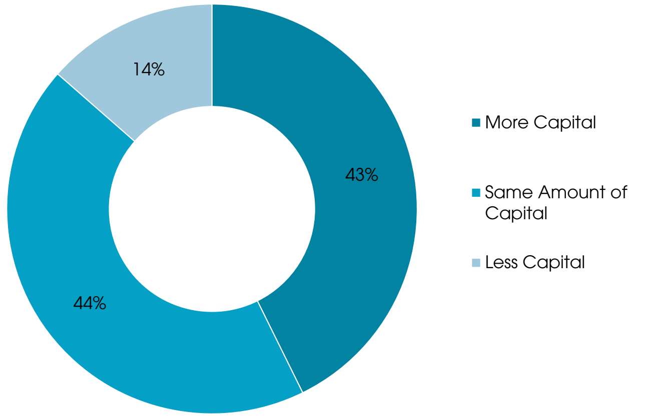
Source: Preqin Investor Interviews, June 2016

Investor Activity in the Year Ahead

Investors' expected activity in the next 12 months continues to be encouraging: the majority (87%) of institutions plan to commit the same amount or more capital in the next 12 months compared to the previous 12 months, and a significant 43% expect to commit more in the coming year (Fig. 2.5). The majority (59%) of investors intend to make a commitment to private equity in H2 2016; however, nearly a quarter (24%) of respondents are unsure as to when their next commitment may be (Fig. 2.6).

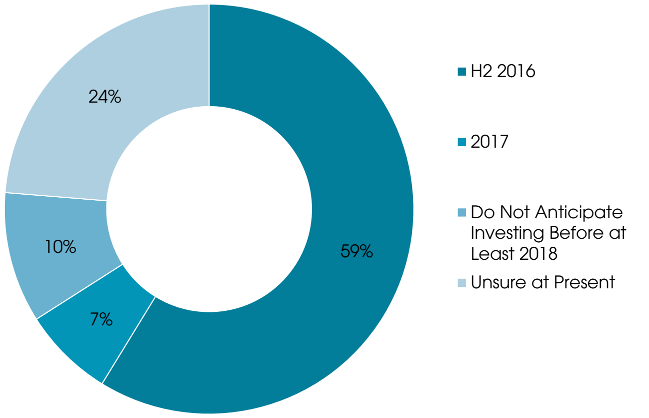
As seen in Fig. 2.7, nearly half of the investors surveyed plan to make small commitments to private equity, of less than $50mn; however, a notable proportion (15%) expect to commit $350mn or more to the asset class in the next 12 months. Over a third (34%) of investors also plan to make only one or two commitments in the next year, although a significant 27% expect to make at least seven commitments in the same period (Fig. 2.8).

Fig. 2.5: Investors' Expected Capital Commitment to Private Equity Funds in the Next 12 Months Compared to the Past 12 Months



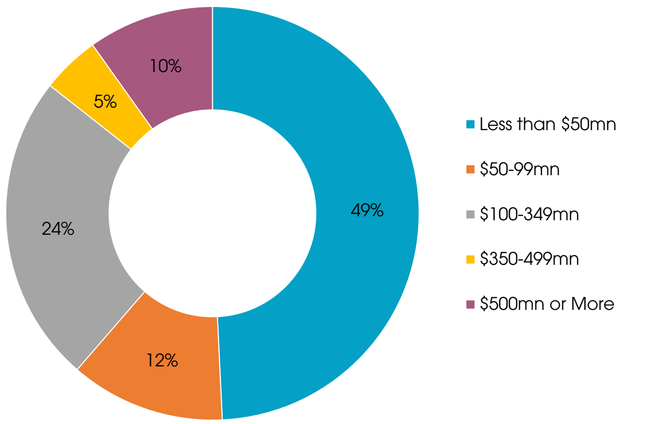
Source: Preqin Investor Interviews, June 2016

Fig. 2.6: Timeframe for Investors' Next Intended Commitment to Private Equity



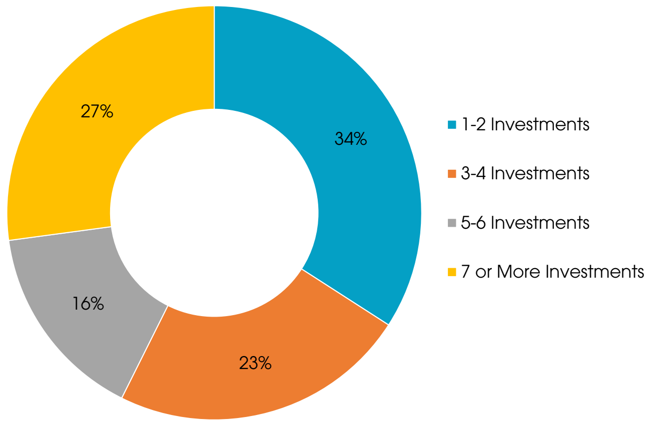
Source: Preqin Investor Interviews, June 2016

Fig. 2.7: Amount of Fresh Capital Investors Plan to Invest in Private Equity over the Next 12 Months



Source: Preqin Investor Interviews, June 2016

Fig. 2.8: Number of Private Equity Fund Commitments Investors Plan to Make over the Next 12 Months



Source: Preqin Investor Interviews, June 2016

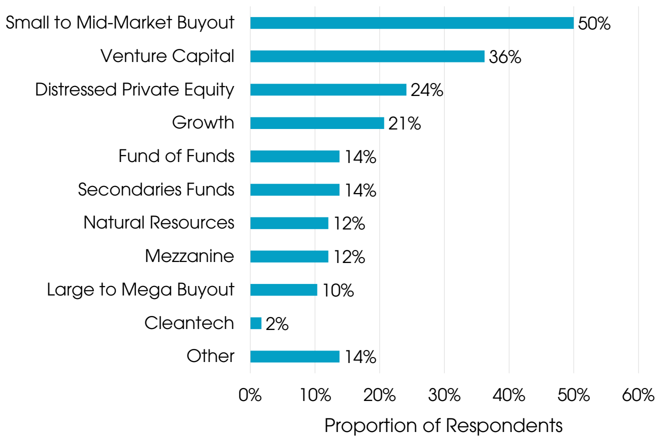
Strategies and Geographies Targeted

The survey results show that small to mid-market buyout funds continue to be the most favoured fund type among investors; half of those surveyed consider these funds to present the best opportunities in the private equity market at present (Fig. 2.9), although this is down 11 percentage points from the beginning of this year. Venture capital funds are also considered by over a third (36%) of respondents to present the best opportunities in the current financial climate.

North America continues to dominate as the region investors believe currently presents the best opportunities: 60% of institutions have a preference for the continent, followed by Europe (35%), Asia (26%) and other regions (4%, Fig. 2.10). North America's dominance has lessened, however, with a 15% decrease in the proportion of investors with a preference for the region compared to the end of 2015. Likewise, Europe has seen a 29% decrease and, in contrast, Asia a 30% increase. In the wake of the Brexit vote, it is unsurprising that over a third (35%) of investors are avoiding investing in Europe (Fig. 2.11). Investment in Africa is also being questioned by institutions: 30% of respondents are avoiding investing in the continent due to the current financial climate. Furthermore, uncertainty, possibly driven by the political instability of the US presidential elections, has caused 13% of investors to reconsider investment in North America.

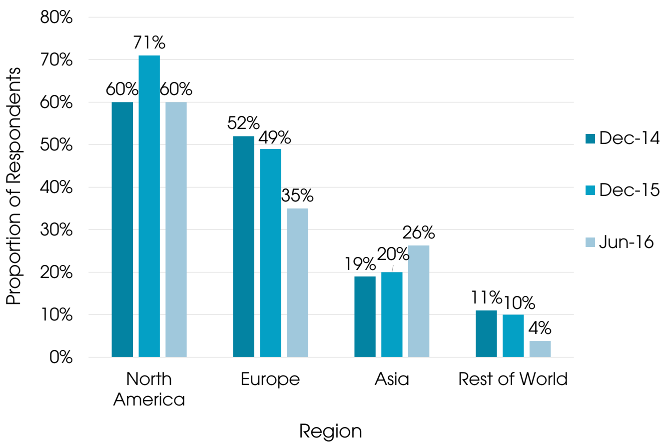
Fig. 2.12 illustrates the draw of emerging Asia as a market for investment: 32% of investors surveyed cited the emerging regions within Asia as attractive destinations for investment. More specifically, a fifth of respondents view India as a desirable market, followed by 14% looking at China.

Fig. 2.9: Fund Types Investors View as Presenting the Best Opportunities in the Current Financial Climate*



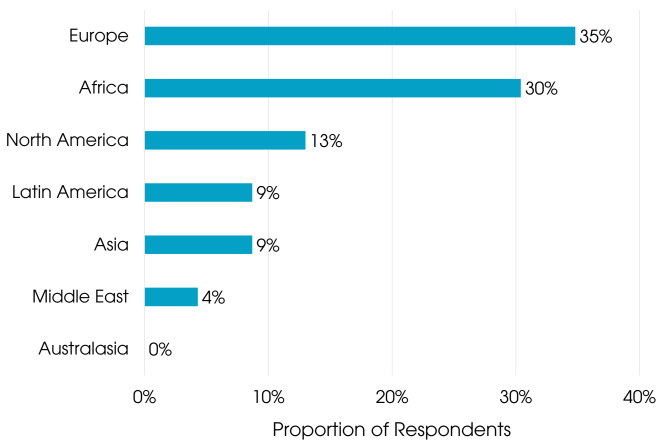
Source: Preqin Investor Interviews, June 2016

Fig. 2.10: Regions Investors View as Presenting the Best Opportunities in the Current Financial Climate*



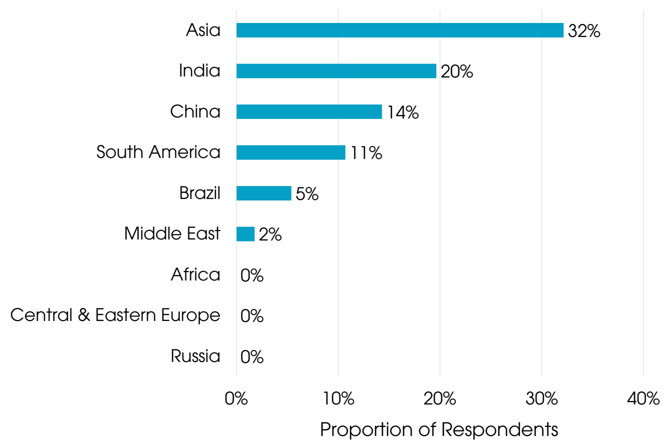
Source: Preqin Investor Interviews, June 2016

Fig. 2.11: Regions Investors Are Avoiding Due to the Current Financial Climate* that They Would Have Considered Investing in Previously



Source: Preqin Investor Interviews, June 2016

Fig. 2.12: Emerging Markets Investors View as Attractive* at Present



Source: Preqin Investor Interviews, June 2016

**Respondents were not prompted to give their opinions on each region/fund type individually but to name those they felt best fit these categories; therefore, the results display the regions/fund types at the forefront of investors' minds at the time of the survey.*

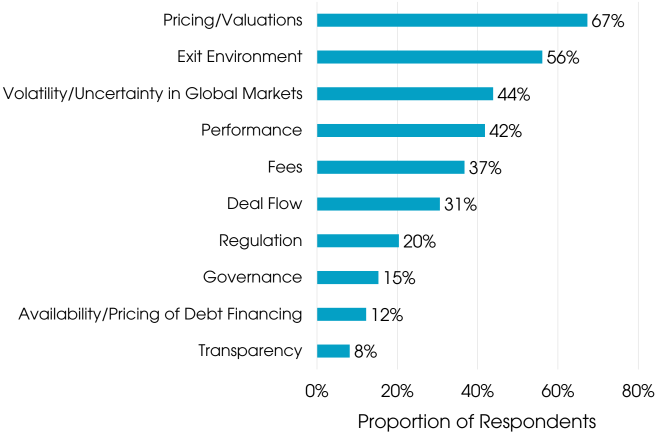
Key Issues and Challenges

High valuations of private companies remain the biggest concern for investors within the asset class, acknowledged by over two-thirds (67%) of LPs as the leading challenge in operating an effective private equity program in 2016 (Fig. 2.13). For over half (56%) of investors surveyed, the exit environment was also a concern, and volatility and uncertainty in global markets (44%) and performance (42%) were also cited by LPs.

As seen in Fig. 2.14, institutional investors place most value on the past performance and length of track record of private equity fund managers when looking for a new fund manager, as reported by 32% and 28% of respondents respectively. Additionally, nearly a quarter (24%) of LPs consider strategy the most important factor when seeking a new fund manager.

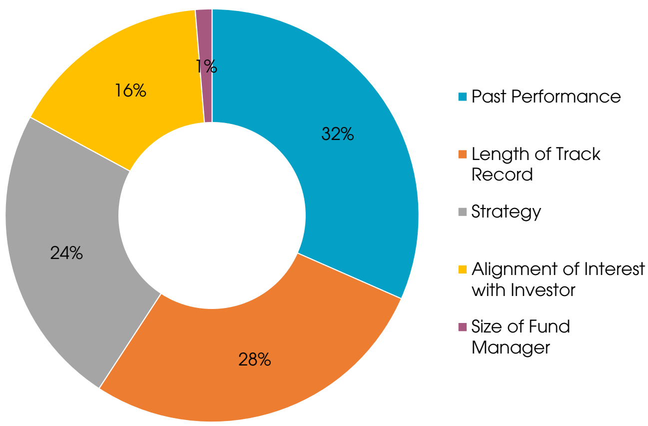
The majority (61%) of investors expect returns from their private equity portfolios to be about the same in the next 12 months as in the last 12 months (Fig. 2.15). Discouragingly, a significant proportion (28%) of respondents believe their investments will perform worse in the coming year, while only 11% expect them to outperform the last 12 months' returns. Furthermore, nearly half (47%) of investors surveyed are finding it more difficult to source attractive investment opportunities now than 12 months ago, with only 6% finding it easier (Fig. 2.16).

Fig. 2.13: Biggest Challenges Facing Investors Seeking to Operate an Effective Private Equity Program at Present



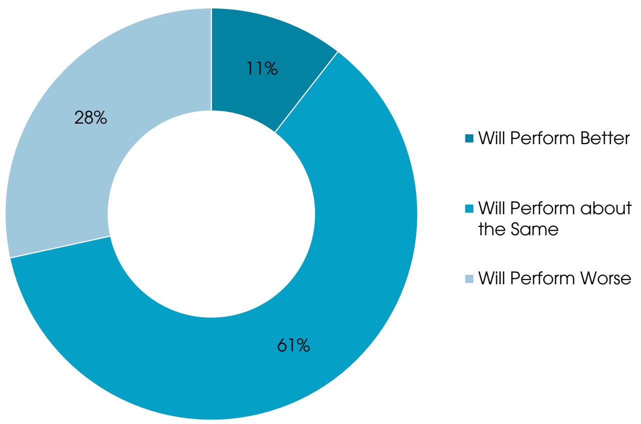
Source: Preqin Investor Interviews, June 2016

Fig. 2.14: Investor Views on the Most Important Factor to Consider when Looking for a Private Equity Fund Manager



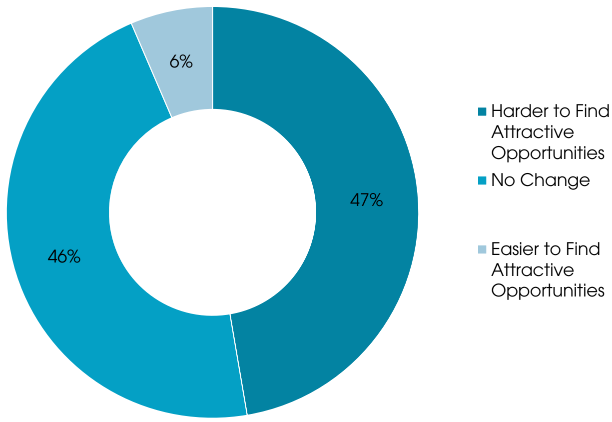
Source: Preqin Investor Interviews, June 2016

Fig. 2.15: Investors' Return Expectations from Their Private Equity Portfolios in the Next 12 Months Compared to the Past 12 Months



Source: Preqin Investor Interviews, June 2016

Fig. 2.16: Investor Views on the Difficulty of Identifying Attractive Investment Opportunities Compared to 12 Months Ago



Source: Preqin Investor Interviews, June 2016

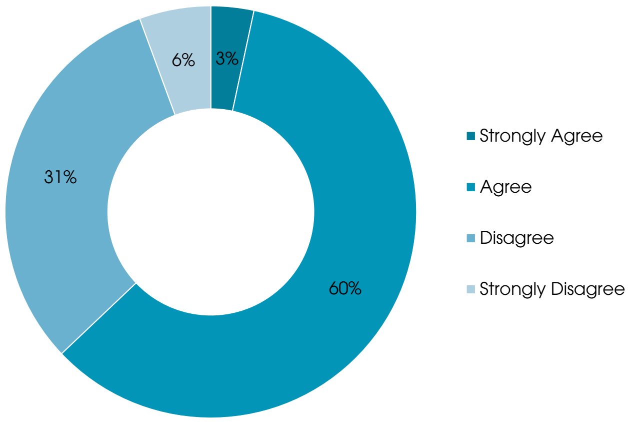
Fund Terms and Alignment of Interests

Encouragingly for the industry, nearly two-thirds (63%) of investors surveyed believe that fund manager and investor interests are currently aligned (Fig. 2.17). A significant 44% of respondents noted changes to private equity fund terms and conditions over the past 12 months in favour of the LP, which greatly eclipses the proportion reporting changes in favour of the GP (20%, Fig. 2.18). The level of competition in the current marketplace for institutional capital looks to be driving favourable changes for LPs.

Thirty-nine percent of surveyed investors that have seen changes in terms over the past 12 months have witnessed improvements in management fees, followed by 28% of LPs reporting improvements in transparency, how performance fees are charged, and hurdle rates (Fig. 2.19).

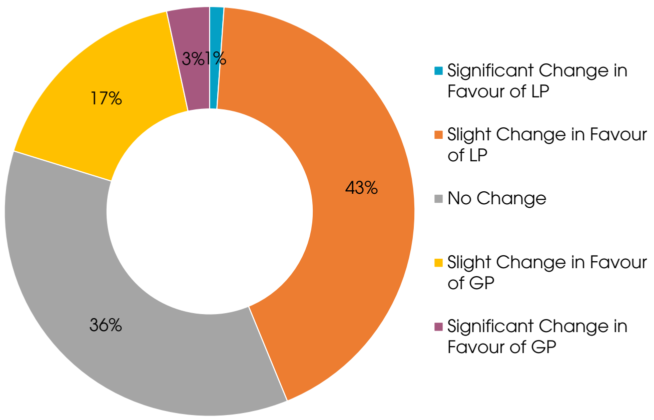
The **Preqin 2016 Private Capital Fund Terms Advisor** found that fund managers with a 2015/2016 vintage fund, or with a fund currently in market, are setting higher hurdle rates than in previous years, meaning that they have to reach higher performance targets before charging carried interest. Despite the improvement seen in management fees, two-thirds of investors still want to see further improvements in this area in the coming year. Furthermore, the majority (53%) of respondents want to see further improvements in transparency, the ways in which performance fees are charged and hurdle rates. With fees a considerable concern and 93% of respondents citing terms and conditions as having frequently, or on occasion, been a reason for not committing capital to a fund in the past (Fig. 2.20), it seems private equity GPs may need to re-evaluate certain fee structures to attract the required commitments.

Fig. 2.17: Extent to Which Investors Believe LP and GP Interests Are Properly Aligned



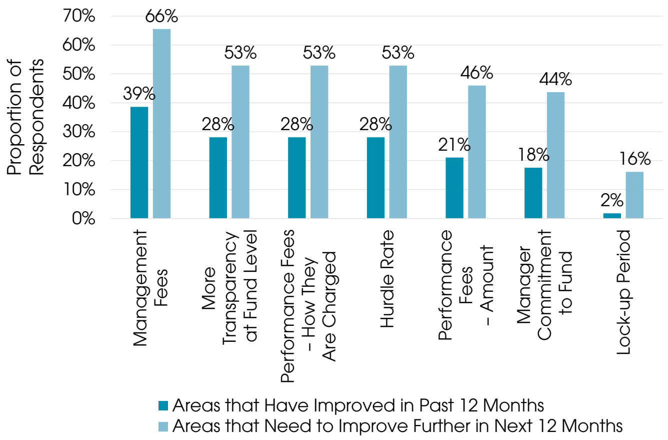
Source: Preqin Investor Interviews, June 2016

Fig. 2.18: Proportion of Investors that Have Seen a Change in Private Equity Fund Terms and Conditions over the Past 12 Months



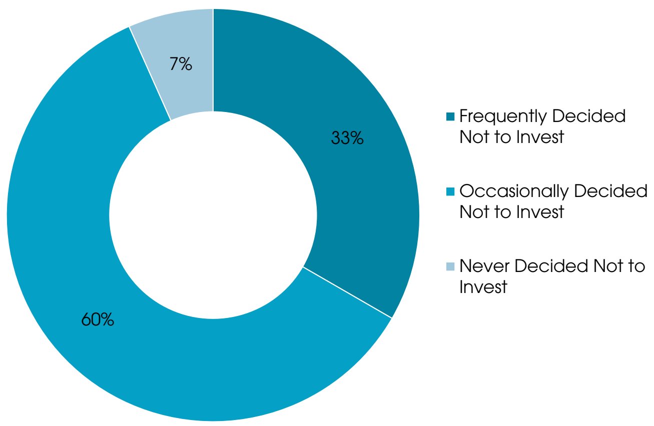
Source: Preqin Investor Interviews, June 2016

Fig. 2.19: Areas of Fund Terms Investors Feel Have Shown the Most Improvement over the Past 12 Months and that Need to Improve Further in the Next 12 Months



Source: Preqin Investor Interviews, June 2016

Fig. 2.20: Investors that Have Previously Decided Not to Invest in a Fund Due to the Proposed Terms and Conditions



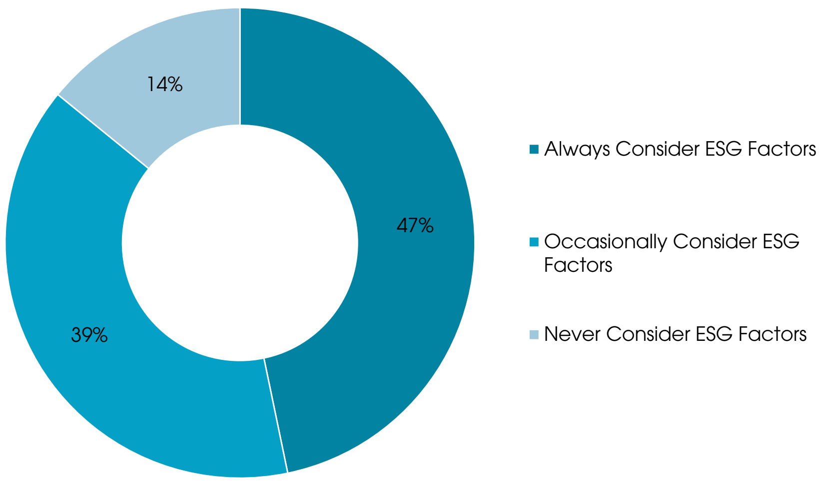
Source: Preqin Investor Interviews, June 2016

Fund Selection and Marketing

Environmental, Social and Governance (ESG) Factors

The vast majority (86%) of investors interviewed consider ESG policies when looking to commit to a fund, with nearly half (47%) always considering these policies before investing (Fig. 2.21). Of the investors that do consider ESG factors, over two-thirds had no specific preference in terms of ESG private equity investment; however, of the LPs that did cite a preference, environmentally responsible investing was the most prevalent policy (56%, Fig. 2.22). However, the majority (52%) of respondents also seek socially responsible investments and a notable proportion (48%) look for a fund that considers local investments.

Fig. 2.21: Investors that Consider Environmental, Social and Governance (ESG) Factors when Investing in Private Equity Funds



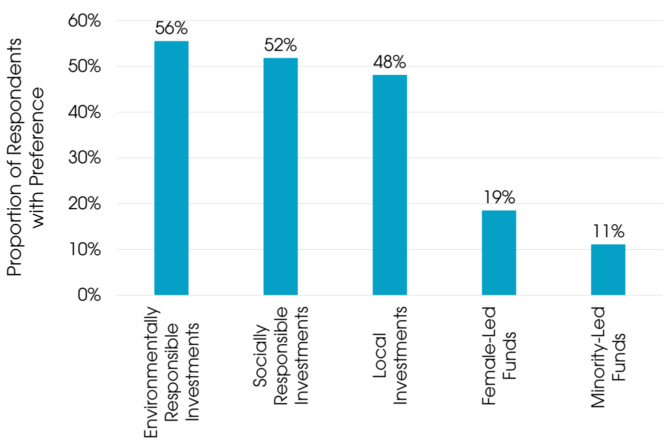
Source: Preqin Investor Interviews, June 2016

Communicating with Investors

Regular communication and receiving appropriate updates and documentation from fund managers can help to build new or improve current relationships with potential and existing investors by helping to avoid future conflicts through the management of expectations. With transparency an issue among many investors surveyed, documentation from fund managers needs to be sufficiently informative to meet the needs of investors.

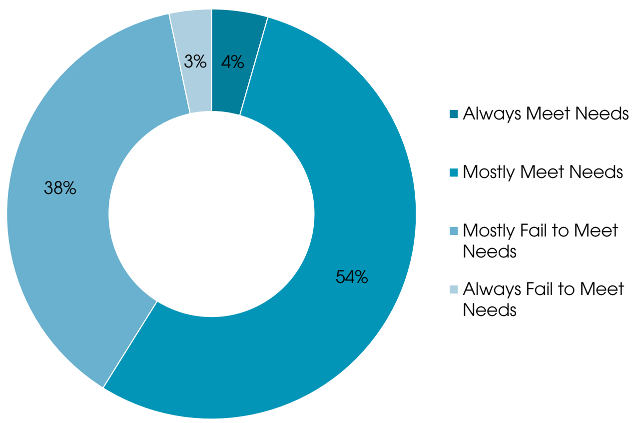
In terms of GP marketing materials and fund-level information, over half (54%) of investors reported that content mostly meets their needs, while only 4% of respondents found that marketing documents always met their needs (Fig. 2.23). Furthermore, 71% of investors report that updates received from GPs detailing performance and holdings also mostly meet their needs.

Fig. 2.22: Private Equity Investors' Environmental, Social and Governance (ESG) Preferences



Source: Preqin Investor Interviews, June 2016

Fig. 2.23: Investor Views on the Frequency with Which Fund Manager Marketing Documents Meet Their Needs



Source: Preqin Investor Interviews, June 2016

Data Source:

The **Fund Searches and Mandates** feature on Preqin's **Private Equity Online** is the perfect tool to pinpoint those institutions that are seeking new funds for investment now.

For more information, please visit: www.preqin.com/privateequity

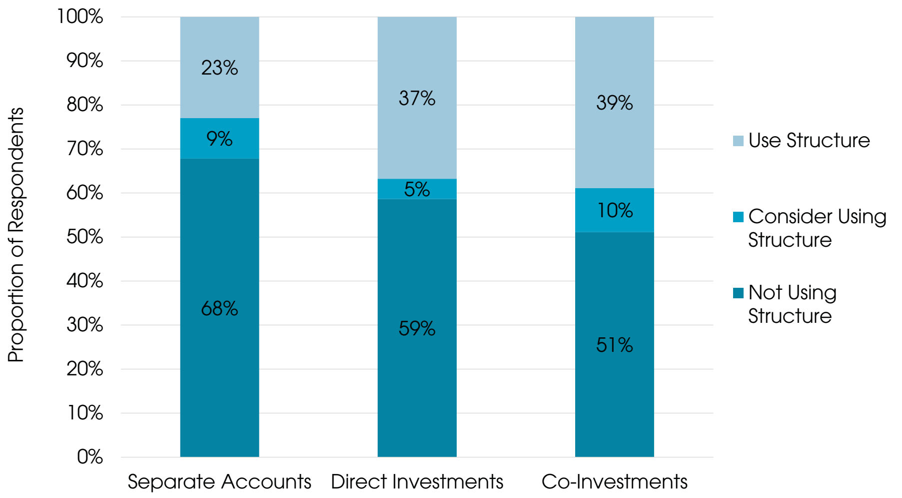
Alternative Methods of Accessing the Asset Class

Separate accounts and co-investments offer LPs exposure to the private equity asset class through alternative methods, providing potential benefits such as lower fees, better returns and more control over their investments, while retaining the experience of a third-party fund manager. However, as the limited partner universe becomes more sophisticated and investors grow more comfortable in the private equity asset class, many have begun investing directly in portfolio companies on a proprietary basis.

As illustrated in Fig. 2.24, co-investments are the most utilized alternative structure by those investors surveyed, with 39% of respondents currently seeking access to the private equity market via this method, and a further 10% considering implementing this structure into their portfolios. Direct investments are also used by 37% of LPs interviewed, of which 58% have made three or more commitments to direct investments, with a significant 8% having made more than 10 direct commitments (Fig. 2.25).

In the longer term, nearly a third (32%) of institutional investors will be looking to increase their activity in direct investments (Fig. 2.26). Co-investments look likely to remain a preference of LPs, with nearly half (47%) planning to increase their level of private equity co-investment activity. Virtually no investors plan to decrease their level of investment in alternative structures.

Fig. 2.24: Investor Participation in Alternative Methods of Accessing Private Equity



Source: Preqin Investor Interviews, June 2016

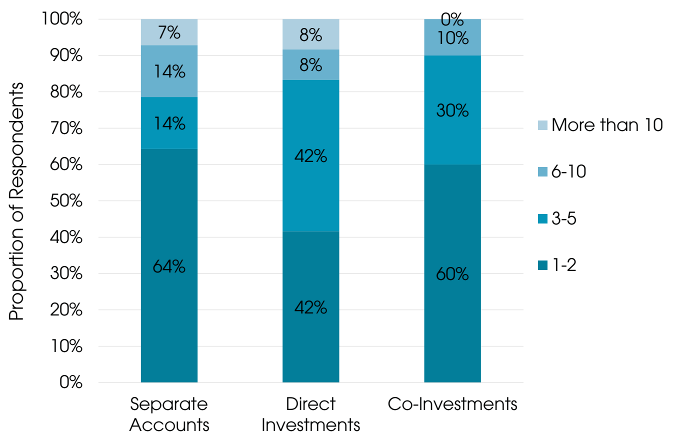
Download the Data Pack

View all the charts and tables featured in this report in our handy Excel data pack. It includes ready-made charts that can be used for presentations, marketing materials and company reports.

To download the data pack for **free**, please visit:

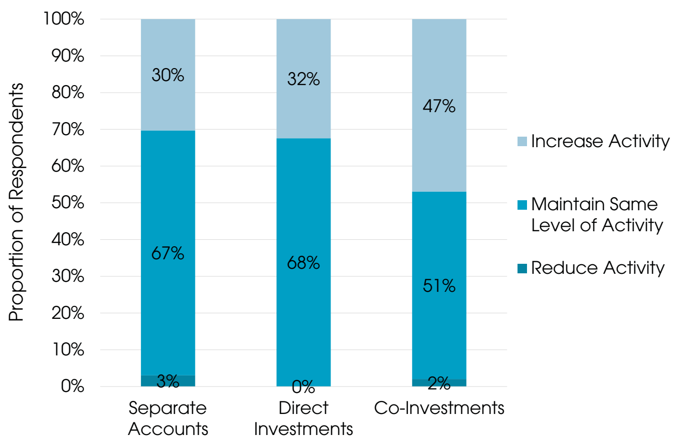
www.preqin.com/investoroutlook

Fig. 2.25: Number of Commitments Investors Made to Alternative Structures over 2015 by Type



Source: Preqin Investor Interviews, June 2016

Fig. 2.26: Investors' Expected Level of Activity in Alternative Structures in the Long Term



Source: Preqin Investor Interviews, June 2016

Hedge Funds

Investors Express Concerns over Hedge Fund Performance and Fees in Mid-2016

Investor concerns surrounding the performance of hedge funds have risen to unprecedented levels: four out of every five of the investors we interviewed in June 2016 expressed disappointment with hedge funds for failing to meet their return expectations over the past 12 months. To put this into context, the previous highest levels of investor dissatisfaction with returns were recorded by Preqin in December 2012, when 41% of investors stated their return goals had not been met in the previous 12 months. By the end of June 2016, the Preqin All-Strategies Hedge Fund benchmark had lost 1.14% over the previous 12 months.

With institutional investors expressing unparalleled levels of dissatisfaction with returns, what does this mean for the hedge fund industry? Firstly, fees are at the forefront of investors' minds. Although investors have reported to Preqin that they have seen improvement in fund terms and conditions in their favour over the past 12 months, the majority of investors still believe that fund manager interests are not aligned with their own, and are seeking further improvements, particularly in regards to the levels of fees and how they are charged. Therefore the value of hedge funds may be under scrutiny in the current environment and fund managers will not only be looking to improve their returns in order to win over a more sceptical client base, but also to ensure that their fees are competitive and in line with investor expectations.

Transparency remains an ongoing and important consideration for investors. Although fund managers may themselves be struggling to perform as well as they would hope – and a recent Preqin survey indicated that 50% of fund managers reported that their funds had not delivered their targeted returns in H1 2016 – it is important that they continue to have open channels of communication and disclose information on the sources of risks and returns to their investors.

Finally, retaining investor capital as well as fundraising could become increasingly challenging over the rest of 2016 and into 2017. Our June survey indicates that significant numbers of investors, approximately 39% of those we spoke to, plan to reduce the amount of capital they have invested in hedge funds over the next 12 months. In contrast, less than half this figure (18%) plan to increase their exposure. In our survey at the end of December we noted a similar trend, with more investors planning to cut their holdings in hedge funds than add fresh capital over the course of 2016. Over H1 there were outflows of approximately $34bn, indicating that more investors have indeed been moving capital out of hedge funds than putting fresh capital to work. With more investors indicating they plan to cut their hedge fund exposure in our June 2016 survey compared to our December 2015 survey, there may be further outflows, which could potentially accelerate in the second half of the year.

Although the hedge fund sector is undeniably facing many difficulties in the second half of 2016, there remain opportunities for fund managers among these challenges. The volatile market conditions may provide the perfect environment to prove their worth. All leading hedge fund benchmarks posted positive returns over the second quarter of 2016; if funds can continue to harness volatility and to add gains over the rest of the year, investor sentiment may improve. Indeed, investors are predicting that the performance of the industry will improve over the rest of the year (see Fig. 3.4, page 18).

Performance

79%

Proportion of investors that believe hedge funds have not met their return expectations over the past 12 months (to June 2016).

61%

Proportion of investors that have become more negative towards hedge fund investments as a result of hedge funds not meeting return expectations.

Fees

58%

Proportion of investors that believe fund manager and investor interests are misaligned.

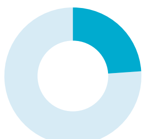
73%

Proportion of investors that are seeking further improvements to management fees over the course of the next 12 months.

New Investments in Hedge Funds

39%

Proportion of investors that plan to reduce their exposure to hedge funds over the next 12 months.



24%

Proportion of investors that will be looking to add new funds to their portfolios over the rest of 2016.

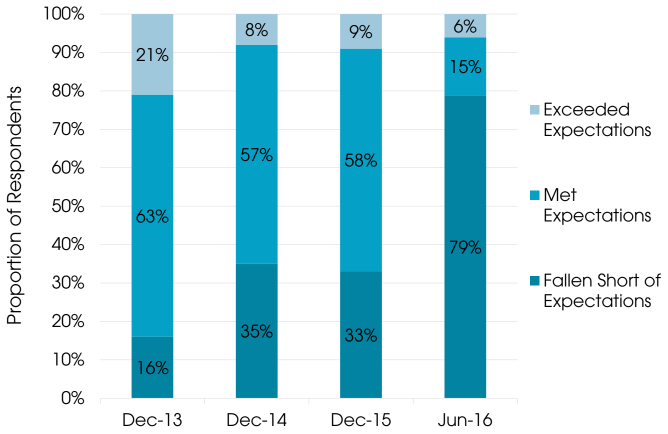
Satisfaction with Hedge Funds

In our **H1 2016 Preqin Investor Outlook** we noted that significant numbers of investors – approximately a third of the 150 we interviewed at the end of 2015 – were disappointed with the returns of their hedge fund portfolios over the course of 2015. The returns environment of H2 2015 proved challenging for many hedge funds, which, compounded by a slow start to H1 2016, has not improved the outlook of many investors in regards to the 12-month performance of the asset class. In fact, the results of our June 2016 interviews reveal a dramatic shift in the levels of disappointment with the performance of hedge funds: approximately four out of every five investors interviewed stated that their hedge fund investments have not lived up to expectations in the last 12 months (Fig. 3.1). This represents the highest level of concern over performance noted by Preqin since we began tracking this data in 2008.

When looking at performance over the shorter term – the first half of 2016 – the return expectations of more investors were met or exceeded (44%), largely as a result of stronger Q2 gains, although significantly, the majority (56%) still feel their portfolio returns fell short of their expectations over the six months to June 2016 (Fig. 3.2).

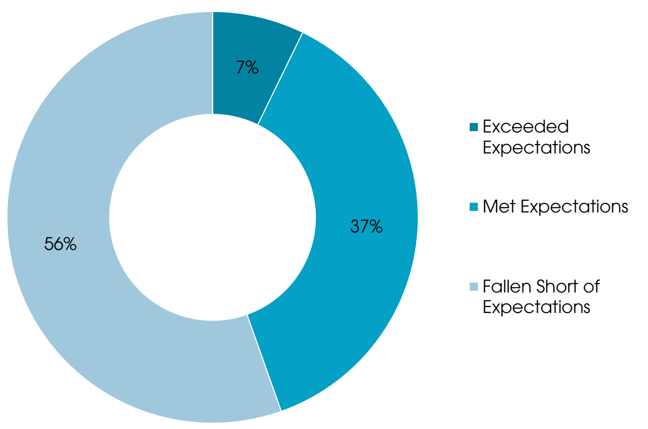
CTAs notched up returns of 3.27% over H1 2016, nearly two percentage points above the Preqin All-Strategies Hedge Fund benchmark (+1.36%). Consequently, CTAs were the only strategies for which more than half of investors in these products felt performance expectations had been met, as cited by 92% and 63% of investors in systematic and discretionary CTAs respectively (Fig. 3.3). At the other end of the scale, funds of hedge funds and activists disappointed large numbers of investors in these vehicles: 88% and 100% of investors in these strategies respectively stated that their returns had failed to meet expectations.

Fig. 3.1: Proportion of Investors that Feel Their Hedge Fund Investments Have Lived up to Expectations over the Past 12 Months, December 2013 - June 2016



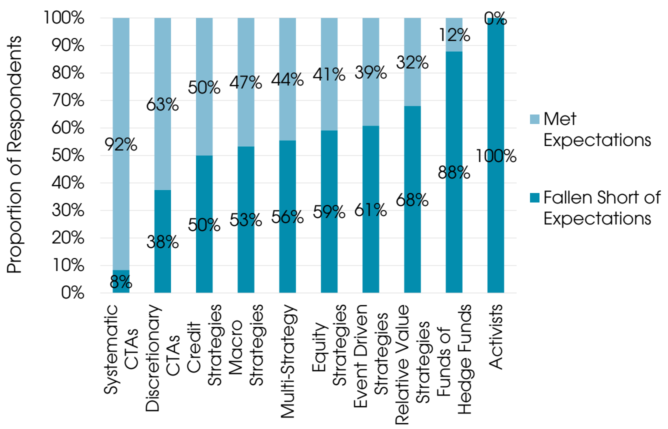
Source: Preqin Investor Interviews, December 2013 - June 2016

Fig. 3.2: Investor Views on Whether Their Hedge Fund Investments Have Lived up to Expectations over H1 2016



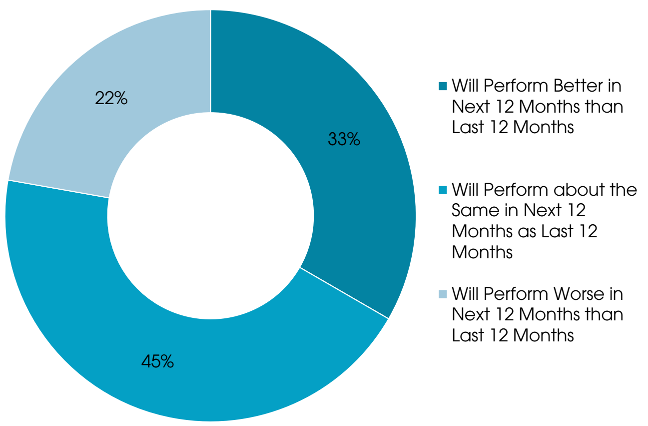
Source: Preqin Investor Interviews, June 2016

Fig. 3.3: Hedge Fund Portfolio Performance in H1 2016 Relative to Expectations of Institutional Investors by Strategy



Source: Preqin Investor Interviews, June 2016

Fig. 3.4: Investors' Return Expectations from Their Hedge Fund Portfolios in the Next 12 Months Compared to the Last 12 Months



Source: Preqin Investor Interviews, June 2016

Investor Perception and Key Issues

It is unsurprising, given the significant levels of investors disappointed with the returns of their hedge fund portfolios over the past year, that performance is ranked as a leading issue in the industry today, together with fees, which are cited by the same proportion (49%) of investors as a key issue facing the hedge fund industry over the next 12 months (Fig. 3.5).

Investor concerns have led to some institutions becoming more negative towards hedge funds over the past 12 months, as reported by 28% of investors interviewed by Preqin in June 2016 (Fig. 3.6). In contrast, only 8% of respondents have become more positive towards the asset class over the year. The largest proportion (47%) of those investors whose outlook on hedge funds has improved stated that this was because the asset class offered better opportunities in the current market environment (Fig. 3.7). In contrast, the failure of hedge funds to meet portfolio expectations (cited by 61% of respondents) while still charging high fees (34%) were the leading reasons cited by those investors whose outlook on the sector has worsened over the past 12 months, continuing the theme that performance, fees and ultimately the value of hedge funds are under scrutiny by institutions in 2016.

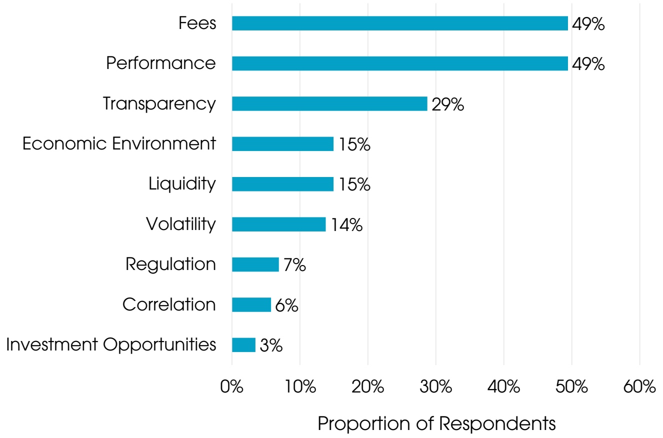
Data Source:

Preqin's **Hedge Fund Online** provides detailed information on over 5,000 institutional investors, including manager requirements, current and target allocations to hedge funds, target returns, future plans and much more.

For more information, please visit:

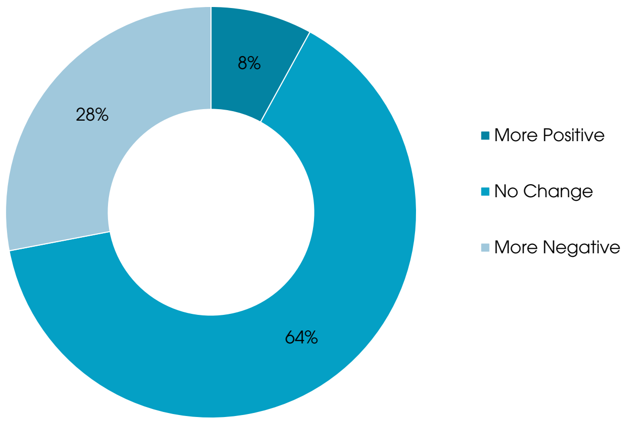
www.preqin.com/hfo

Fig. 3.5: Key Issues Facing the Hedge Fund Industry in H2 2016 According to Institutional Investors



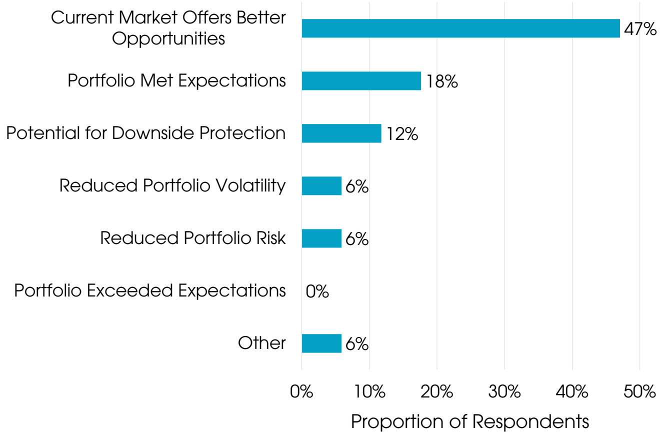
Source: Preqin Investor Interviews, June 2016

Fig. 3.6: Investors' Change in Attitude towards Hedge Funds in the Past 12 Months



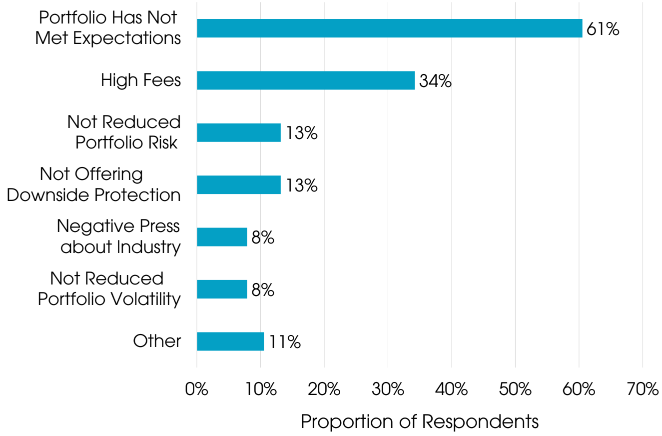
Source: Preqin Investor Interviews, June 2016

Fig. 3.7: Reasons Why Investors Have Become More Positive about the Hedge Fund Industry in the Past 12 Months



Source: Preqin Investor Interviews, June 2016

Fig. 3.8: Reasons Why Investors Have Become More Negative about the Hedge Fund Industry in the Past 12 Months



Source: Preqin Investor Interviews, June 2016

Fund Terms and Alignment of Interests

According to investors, fees and performance are the key issues facing the hedge fund sector in 2016 (see page 19). These concerns have manifested in an increased proportion (58%) of investors reporting to Preqin that they believe investor and manager interests in regards to terms and conditions are not aligned – an increase from 49% in June 2015 (Fig. 3.9).

Despite institutional investors' dissatisfaction with the alignment of interests with hedge fund managers, 58% of the investors we surveyed reported seeing a shift in fund terms and conditions in favour of the investor (Fig. 3.10), up from 40% in June 2015. This can be seen in the proportion (63%) of respondents witnessing improvements in management fees, as well as the performance fees levied and the way in which they are charged (both 32%, Fig. 3.11).

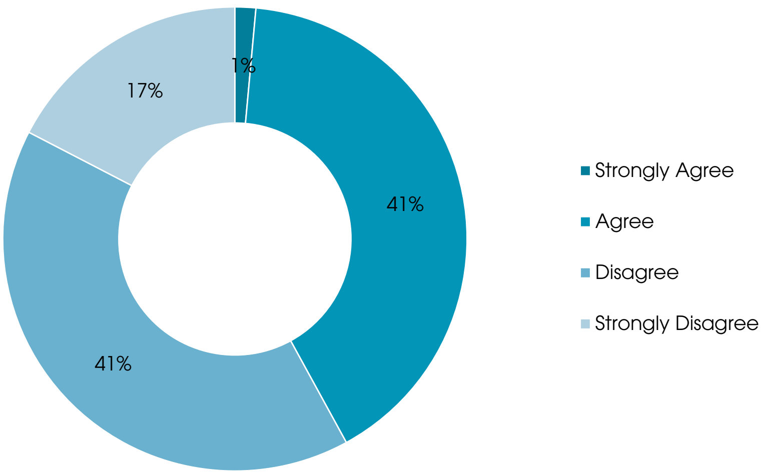
However, large numbers of investors are seeking further improvement to these terms over the next year: 73% of the institutions that participated in this study are seeking improved management fees, 60% improvements in how performance fees are charged (along with 57% seeking funds to have meaningful hurdle rates in place) and 54% improvements in the levels of performance fees charged. Alongside this, only a small proportion (27%) of investors have seen improved transparency at fund level, and more than double (56%) are seeking improved transparency in the year to come.

Clearly, investors are paying close attention to how much they are paying for hedge funds, in a period when the performance of the asset class has disappointed large numbers of investors. With 94% of investors deciding not to invest in a hedge fund that they otherwise would have because of fees (Fig. 3.12), hedge fund managers that review the fee structures they have in place, and listen to investor calls for changes to these prevailing terms and conditions, may be more successful in securing institutional capital and improving the outlook of investors whose interests are currently misaligned.

Communicating with Investors

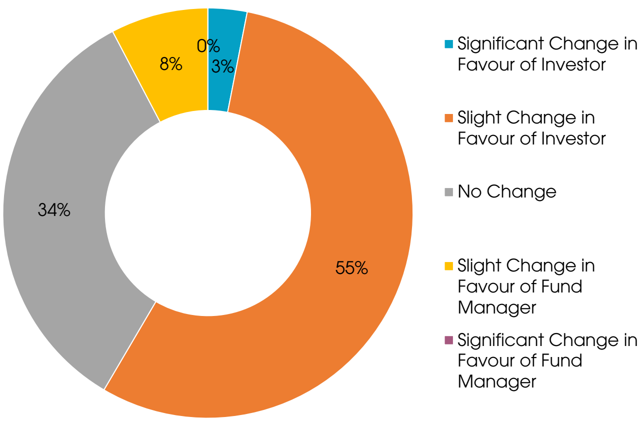
Receiving appropriate updates and documentation from fund managers can build new, or improve existing,

Fig. 3.9: Extent to Which Investors Believe Investor and Fund Manager Interests Are Properly Aligned



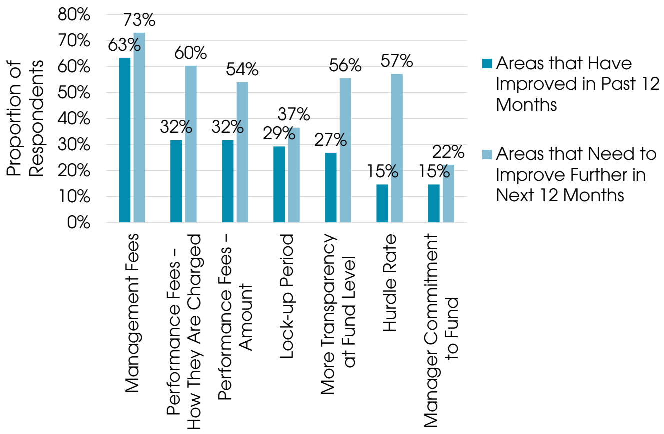
Source: Preqin Investor Interviews, June 2016

Fig. 3.10: Proportion of Investors that Have Seen a Change in Fund Terms and Conditions over the Past 12 Months



Source: Preqin Investor Interviews, June 2016

Fig. 3.11: Areas of Fund Terms Investors Feel Have Shown the Most Improvement over the Past 12 Months and that Need to Improve Further in the Next 12 Months



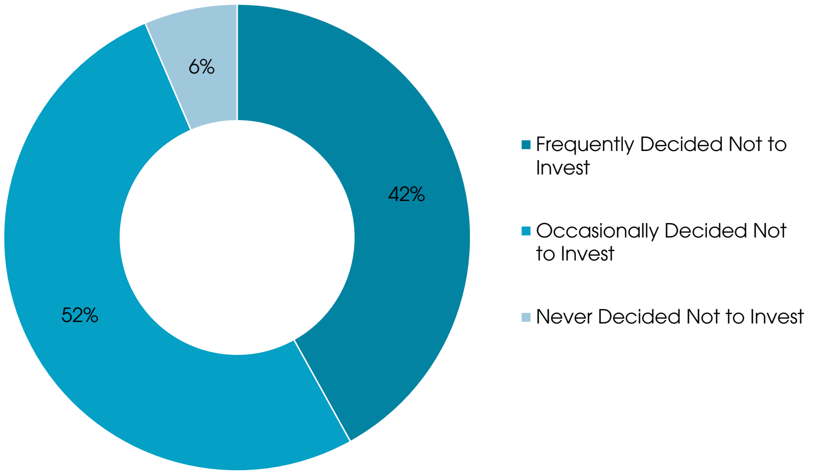
Source: Preqin Investor Interviews, June 2016

relationships with investors by explaining the source of returns within a fund as well as the risks involved with the strategy. In light of recent performance difficulties, communicating with investors is crucial in explaining what has driven returns – for better or worse – so that investors can make informed decisions about their portfolios. Transparency continues to be one of the leading issues at the forefront of investors' minds, for which a large number are seeking improvement (Fig. 3.11). With this in mind, Preqin asked: is the documentation fund managers are distributing sufficiently meeting the needs of investors?

The outlook on hedge fund marketing documentation is mixed. Although hedge fund managers are largely meeting the needs of more than half (56%) of investors in regards to marketing documentation about their vehicles, a significantly large proportion (44%) believe that these documents are not sufficient for them to make decisions regarding new investment (Fig. 3.13). In the current fundraising environment, in which there are high levels of concern around performance and many investors have a cooling attitude to the asset class, fund managers may need to review the materials they send to investors to ensure they are educating them on how the strategy works, as well as the risks involved, while educating institutions on the value their fund can provide within portfolios, even when costs are under scrutiny.

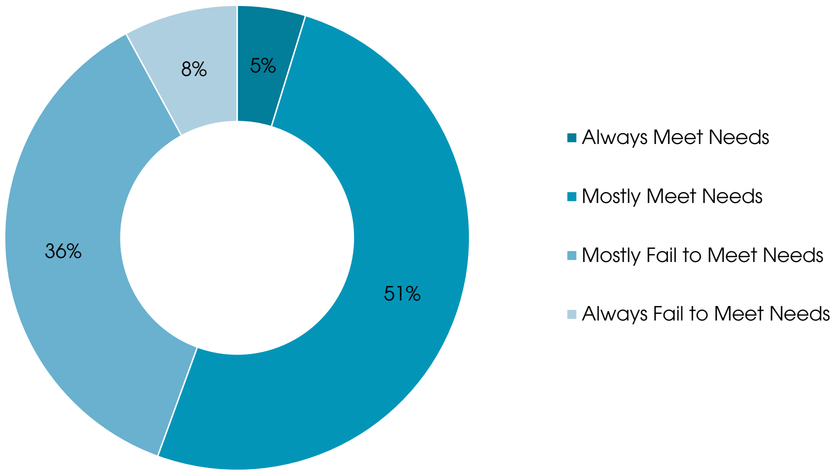
The regular updates hedge fund managers provide to investors, regarding performance and underlying holdings, are largely meeting the needs of 66% of institutional investors interviewed (Fig. 3.14). However, 31% of respondents believe that these documents mostly fail to meet their needs, and 3% believe these documents always fail to meet their needs. Given that this is a significant proportion of institutional investors, and concerns around performance and transparency are growing in 2016, fund managers should re-evaluate how they communicate with the investors in their funds to ensure that they are providing sufficient information to help their investors make informed decisions, as well as to build a long-term, trusted relationship with these institutions.

Fig. 3.12: Investors that Have Previously Decided Not to Invest in a Fund Due to the Proposed Terms and Conditions



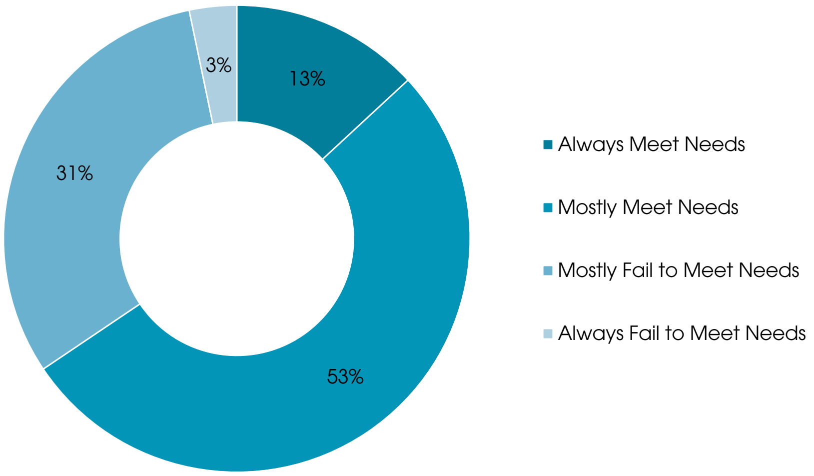
Source: Preqin Investor Interviews, June 2016

Fig. 3.13: Investor Views on the Frequency with Which Fund Manager Marketing Documents Meet Their Needs



Source: Preqin Investor Interviews, June 2016

Fig. 3.14: Investor Views on the Frequency with Which Fund Manager Performance and Holdings Updates Meet Their Needs



Source: Preqin Investor Interviews, June 2016

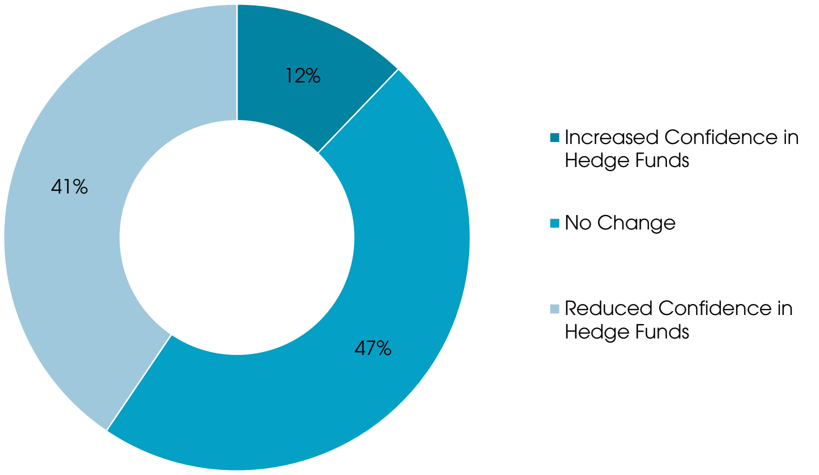
Investor Activity in the Year Ahead

Amid increasing investor frustration with hedge fund performance, a large proportion (41%) of the investors we interviewed have lost some confidence in the ability of hedge funds to achieve portfolio objectives (Fig. 3.15). This in turn has led to some indications that retaining investor capital and fundraising may become more challenging over the next 12 months: 39% of the investors that participated in our June 2016 survey indicated they will allocate less capital to hedge funds over the next 12 months, compared with just 18% of surveyed institutions that plan to increase their exposure to the asset class (Fig. 3.16).

Over the first half of 2016, we have seen net outflows of approximately $34bn (to 30 June 2016). The results of the Preqin study indicate that the difficulties that fund managers have seen in retaining capital over the first half of the year are likely to continue over the rest of 2016 and into early 2017.

When looking over the course of the next six months, the largest proportion (55%) of investors intend to keep their hedge fund portfolios approximately the same (Fig. 3.17). Among the remaining investors, approximately 24% will be searching for new funds as they either plan to invest more capital in the asset class by expanding their fund line-up (10% of investors), or redeem and replace, keeping their existing portfolio approximately the same size (14% of respondents).

Fig. 3.15: Investors' Change in Confidence in the Ability of Hedge Funds to Achieve Portfolio Objectives over the Past 12 Months

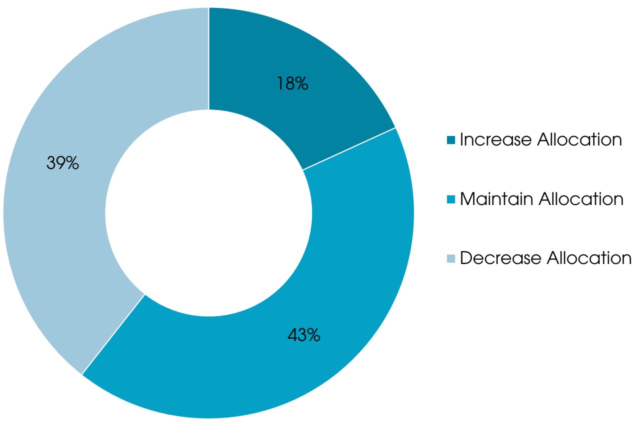


Source: Preqin Investor Interviews, June 2016

Looking more widely across all of the investors that are searching for new funds in the next 12 months, as tracked on Preqin's **Hedge Fund Online**, 36% will be seeking one or two new funds and 41% plan to invest in three to five new vehicles over this period (Fig. 3.18). Three-quarters of the institutions with new investments planned tracked by Preqin intend to deploy less than $50mn in the new funds they are seeking (Fig. 3.19) – an increase from 59% at the same point last year. With a large number of investors with fresh investments planned looking for only small numbers of funds, and more investors planning smaller allocations to new funds, this further indicates that fundraising will be a challenging task faced by many hedge funds over the next year.

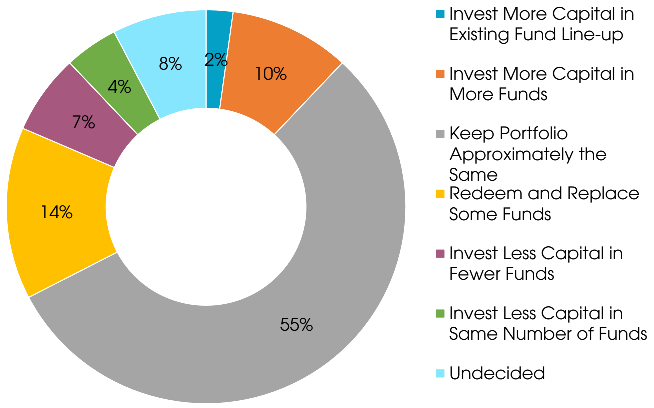
The four strategies rated by the greatest number of investors as meeting expectations in H1 2016 – systematic CTAs, discretionary CTAs, credit strategies and macro strategies (see page 18) – are also the four leading strategies to which investors plan to allocate more capital over the rest of 2016 (Fig. 3.20). In particular, investors look set to weight

Fig. 3.16: Investors' Intentions for Their Hedge Fund Allocations in the Next 12 Months



Source: Preqin Investor Interviews, June 2016

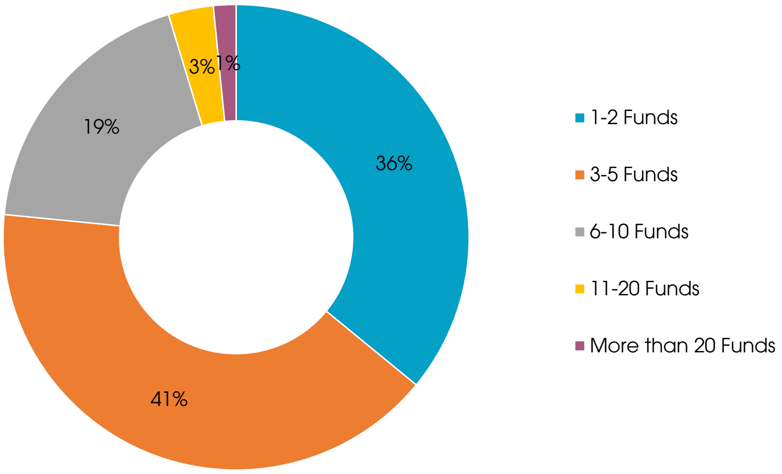
Fig. 3.17: Investors' Plans to Change Hedge Fund Portfolio Composition in H2 2016



Source: Preqin Investor Interviews, June 2016

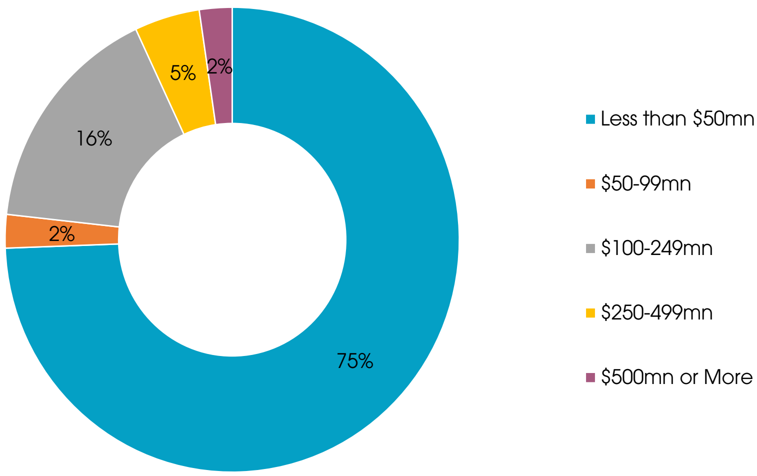
towards macro strategies and CTAs; these are diversifying products which can be successful in generating alpha in the current volatile global markets and add some downside protection when wider portfolios may be struggling. In contrast, the largest proportions of respondents are planning to reduce their exposure to funds of hedge funds (18%), event driven strategies (18%), equity strategies (17%) and relative value strategies (15%).

Fig. 3.18: Number of Hedge Funds Institutional Investors Expect to Add to Their Portfolios over the Next 12 Months



Source: Preqin Hedge Fund Online

Fig. 3.19: Amount of Fresh Capital Institutional Investors Plan to Invest in Hedge Funds over the Next 12 Months



Source: Preqin Hedge Fund Online

Data Source:

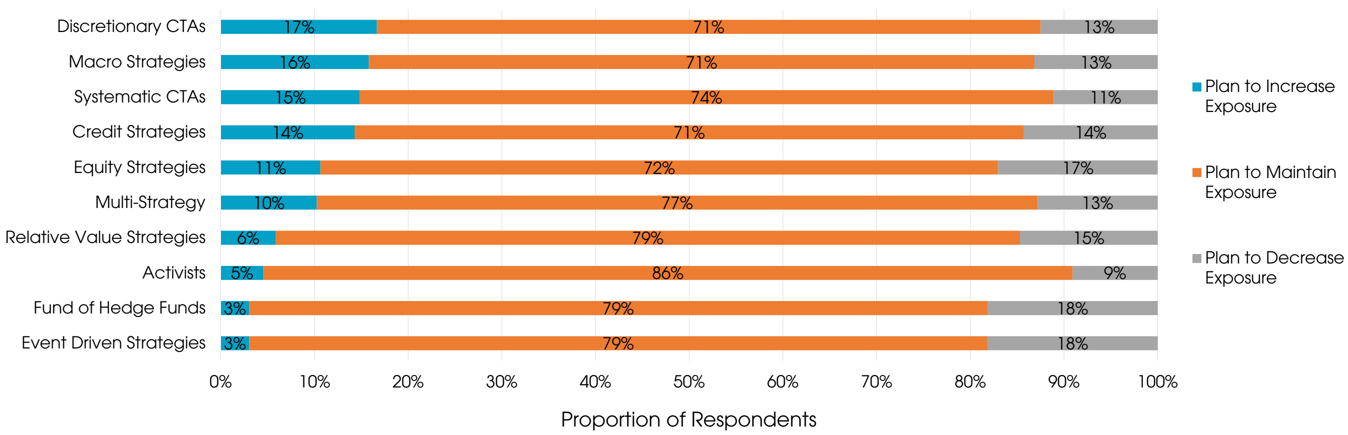
View detailed profiles of 390 institutional investors in hedge funds actively searching for new investments via the **Fund Searches and Mandates** feature on Preqin's **Hedge Fund Online**.

Preqin tracks the future investment plans of investors in hedge funds, allowing you to source investors actively seeking to invest capital in new hedge fund investments.

For more information, or to register for a demo, please visit:

www.preqin.com/hfo

Fig. 3.20: Investors' Allocation Plans for H2 2016 by Strategy



Source: Preqin Investor Interviews, June 2016

Real Estate

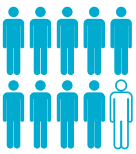
Delivering for Investors, but Pricing a Growing Concern

Institutional investors remain largely satisfied with the role real estate plays in their portfolios, with 89% stating the performance of the asset class met or exceeded their expectations over the past 12 months. However, investors are not necessarily expecting this strong performance to continue: while 48% of investors interviewed by Preqin in June 2016 expect real estate to perform about as well in the next 12 months as in the past year, 39% expect it to perform worse. The biggest concern in the institutional community surrounds asset pricing, with 72% naming this as a key issue facing the real estate market, and the majority (57%) believing it is harder to find attractive investment opportunities now than it was a year ago.

Despite these concerns, investors do not seem to be reducing their activity in real estate. Just under one-third of institutions expect to allocate more capital to the asset class in the next 12 months than they did in the past year, with 45% expecting to allocate about the same amount. Over the longer term, we can expect that real estate will to continue to expand as an investable asset class for the institutional market, with 35% of respondents expecting to increase their allocation, and just 14% anticipating a decrease in their exposure to real estate.

Investors largely feel that their interests are aligned with those of the fund managers they commit capital to, as reported by 69% of respondents. When asked where alignment could be improved, investors named management fees and the basis of charging performance fees as key areas where they would like to see change. Firms bringing funds to market should be aware that fees can be a deal-breaker, with 84% of respondents stating they had previously decided not to invest in a fund due to the proposed terms and conditions. Marketing documents are also important, with 38% of respondents saying marketing materials mostly or always fail to meet their needs.

Investor Satisfaction



89%

Proportion of investors that feel their real estate investments have met or exceeded their expectations over the past 12 months.

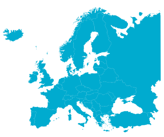
72%

Proportion of investors that see the pricing and valuation of assets as the key issue facing the industry in the next 12 months.

Investor Appetite

57%

Proportion of investors that feel it is harder to find attractive investment opportunities compared to 12 months ago.



63%

Proportion of investors that currently see Europe as presenting the best real estate investment opportunities.

Plans for Coming Year

71%

Proportion of investors that plan to commit more capital to co-investments in the next 12 months than the previous 12 months.

35%

Proportion of investors that plan to increase their allocation to real estate in the next 12 months, with 51% maintaining their allocation.

Data Source:

Preqin's **Real Estate Online** contains detailed profiles of over 5,300 institutional investors actively or considering investing in real estate funds.

Information includes their plans for investment in the coming months, allocation information, full contact information for key decision makers, past investments and more.

For more information, please visit:

www.preqin.com/reo

Satisfaction with Real Estate

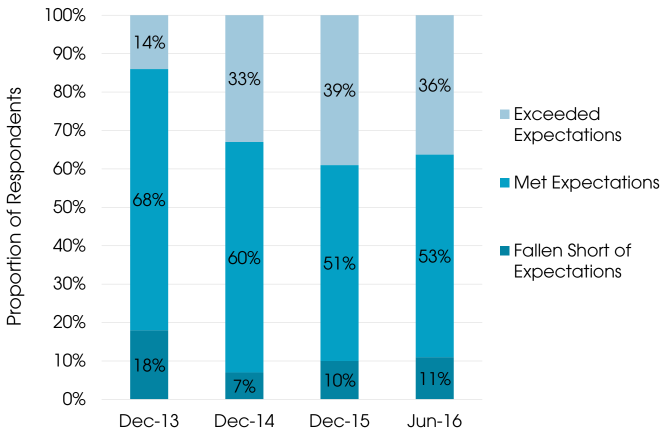
With continued strong distributions from private real estate funds over the past year, institutional investors remain satisfied with their real estate investments; real estate fund managers have distributed $186bn and $194bn back to investors in 2014 and 2015 respectively, while only calling up $115bn and $93bn. As seen in Fig. 4.1, a relatively large proportion (36%) of investors interviewed in June 2016 have seen their investments exceed their expectations over the last 12 months, and a further 53% felt their real estate investments lived up to expectations. In contrast, only 11% of respondents found that their real estate investments did not meet their expectations.

Uncertainty in the markets, particularly in the UK following the Brexit vote and the subsequent halt in redemptions from some UK-focused property funds for retail investors, has led to a slight shift in investors' overall view of the asset class. Of the investors interviewed by Preqin in June 2016, 41% currently have a positive perception of the real estate industry, representing a reduction from the 52% of investors surveyed in December 2015; the proportion of investors that hold a negative view of the industry has remained relatively low (12%, Fig. 4.2).

Furthermore, there has been little change in investors' confidence in the ability of their private real estate investments to achieve portfolio objectives, with equal proportions of respondents reporting an increase in confidence as reporting a decrease (19%, Fig. 4.3).

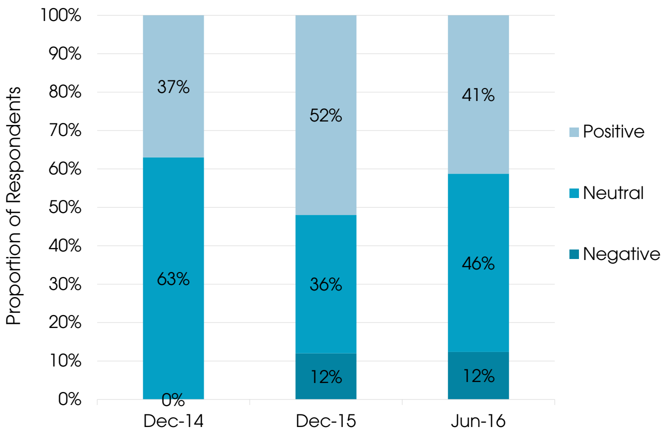
While there are some challenges in the market at present (see page 29), investors remain confident in the asset class's ability to deliver returns in the long term, with 35% planning to increase their allocation to real estate over a longer period, compared with just 14% that plan to reduce their exposure to property investments (Fig. 4.4).

Fig. 4.1: Proportion of Investors That Feel Their Real Estate Investments Have Lived up to Expectations over the Past 12 Months, December 2013 - June 2016



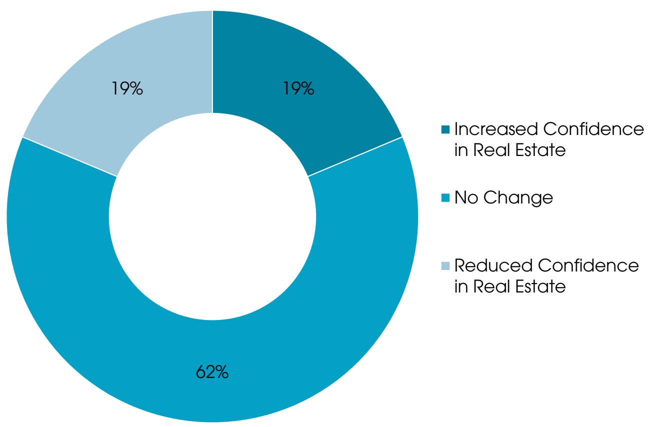
Source: Preqin Investor Interviews, December 2013 - June 2016

Fig. 4.2: Investors' General Perception of the Real Estate Industry at Present, December 2014 - June 2016



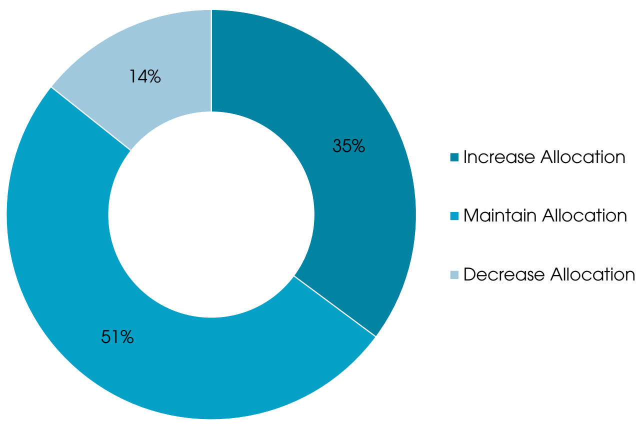
Source: Preqin Investor Interviews, December 2014 - June 2016

Fig. 4.3: Investors' Change in Confidence in the Ability of Private Real Estate to Achieve Portfolio Objectives in the Past 12 Months



Source: Preqin Investor Interviews, June 2016

Fig. 4.4: Investors' Intentions for Their Private Real Estate Allocations in the Longer Term



Source: Preqin Investor Interviews, June 2016

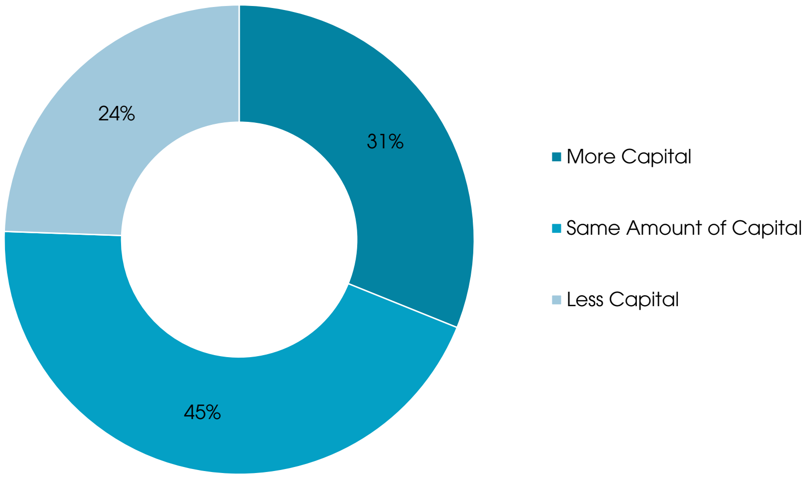
Investor Activity in the Year Ahead

Encouragingly, investors will also be active in the asset class over the short term, with nearly a third (31%) of all investors interviewed planning to commit more capital to the real estate industry in the coming 12 months than they did in the previous year (Fig. 4.5). As seen in Fig. 4.6, this capital will be allocated across a number of different methods at varying levels as investors seek to maximize the performance of their real estate portfolios.

As competition for assets increases, 49% of fund managers surveyed by Preqin in June 2016 reported that there is more competition for assets in the current market than 12 months ago (for more information, see Preqin's **Real Estate Fund Manager Outlook**); investors are keen to gain greater levels of exposure to those assets they deem attractive. Seventy-one percent of surveyed investors are planning to ramp up their co-investment activity in the year ahead, as investors seek the deal-sourcing capabilities of fund managers to gain access to assets that may be otherwise unavailable through direct investments, thus making co-investments particularly attractive. The largest proportion (23%) of investors will reduce their exposure to direct investments over the next 12 months compared to any other route to market; however, in each type of investment, bar listed, larger proportions of investors are seeking to deploy more capital over the next 12 months than are seeking to reduce that amount.

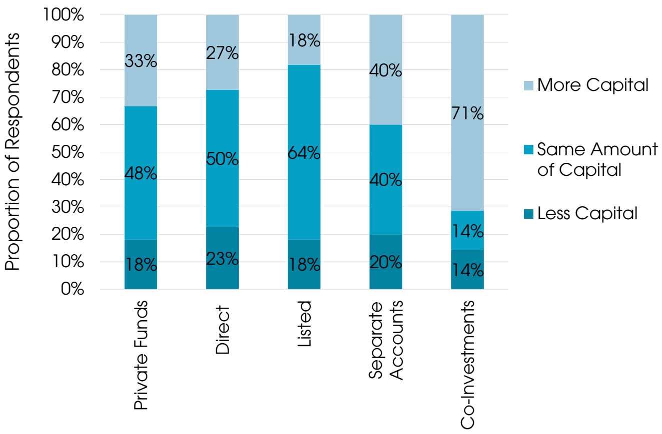
As investors look to allocate more capital to the industry, institutions are comfortable deploying large amounts of capital in relatively few private real estate funds; nearly a quarter of investors are planning to commit $300mn or more in fresh capital to private vehicles in the coming 12 months (Fig. 4.7), while 56% of investors intend to commit to just one or two investment opportunities (Fig. 4.8). Encouragingly for fund managers in an extremely competitive fundraising market, 40% of respondents seek to increase the number of fund manager relationships they maintain over the next two years (Fig. 4.9); this indicates that although investors are planning to commit to relatively few private real estate funds, when investors do deploy capital, many will aim to build a new fund manager relationship.

Fig. 4.5: Investors' Expected Capital Commitment to Real Estate in the Next 12 Months Compared to the Past 12 Months



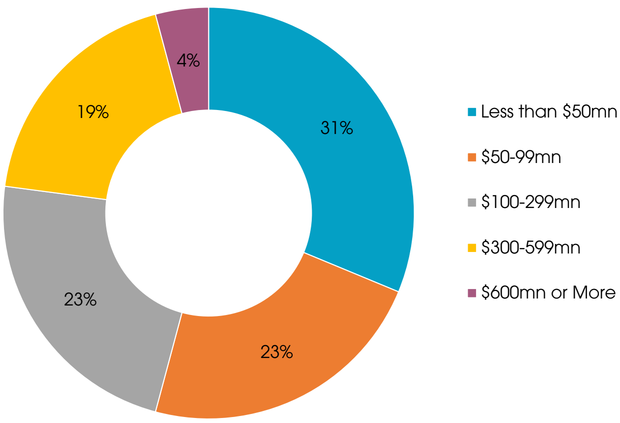
Source: Preqin Investor Interviews, June 2016

Fig. 4.6: Investors' Real Estate Investment Preferences for the Next 12 Months Compared to the Past 12 Months



Source: Preqin Investor Interviews, June 2016

Fig. 4.7: Amount of Fresh Capital Investors Plan to Invest in Private Real Estate Funds over the Next 12 Months

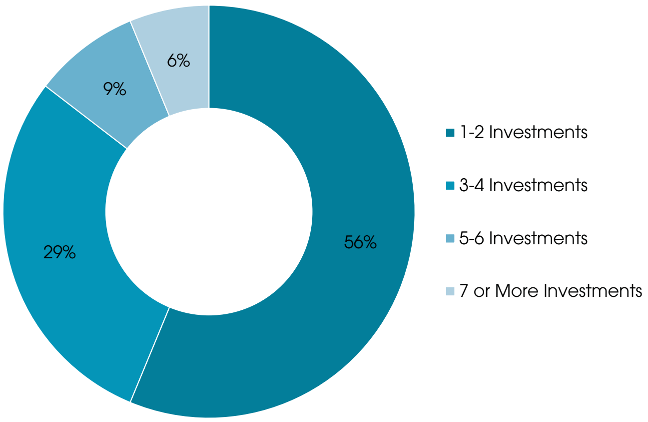


Source: Preqin Real Estate Online

Investor appetite for core, opportunistic and real estate debt strategies over H1 2016 has increased (Fig. 4.10). The greatest increase in appetite over the first half of the year has been for debt vehicles: nearly a fifth of all active investors in the next 12 months are targeting this strategy, compared with just 10% six months ago. Debt strategies have been strong performers in recent years, which could explain the increased demand.

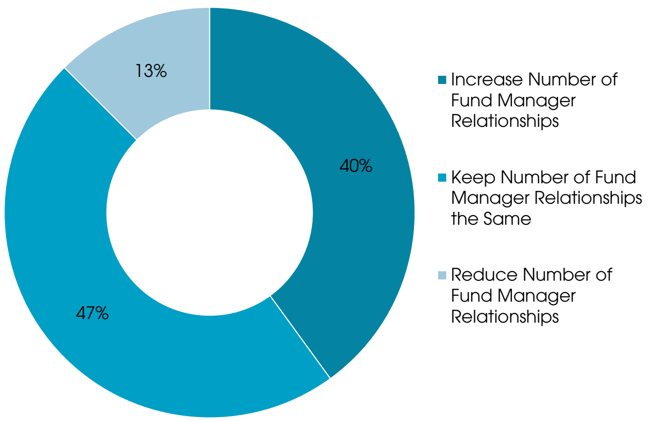
Most investors feel that the established markets represent the best opportunities for property investment (Fig. 4.11). However, 63% of all investors interviewed believe that Europe currently presents the best investment opportunities in the current financial climate, a significantly greater proportion than the 37% that view North America as the most attractive region. This is perhaps a reflection that investors view the US market to be at a more advanced point in the cycle than some European markets, and it is interesting that the Brexit vote does not seem to have dampened demand for European exposure.

Fig. 4.8: Number of Private Real Estate Fund Commitments Investors Plan to Make over the Next 12 Months



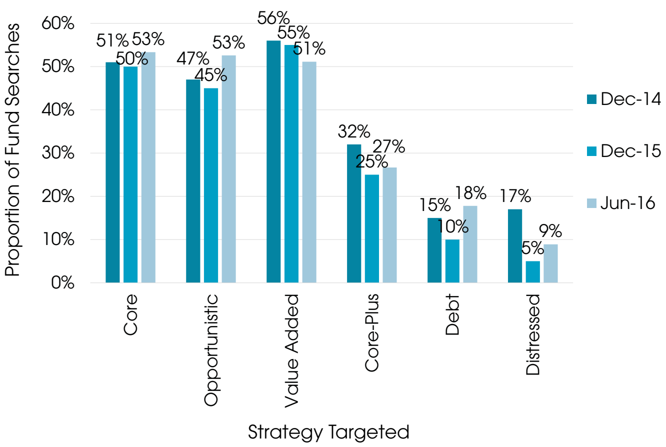
Source: Preqin Real Estate Online

Fig. 4.9: Investors' Intentions for the Number of Fund Manager Relationships They Maintain over the Next Two Years



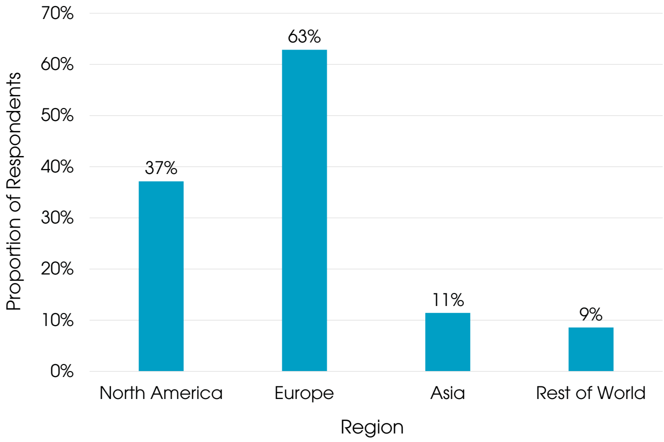
Source: Preqin Investor Interviews, June 2016

Fig. 4.10: Strategies Targeted in the Next 12 Months by Private Real Estate Investors, December 2014 - June 2016



Source: Preqin Real Estate Online

Fig. 4.11: Regions Investors View as Presenting the Best Opportunities in the Current Financial Climate



Source: Preqin Investor Interviews, June 2016

Download the Data Pack

View all the charts and tables featured in this report in our handy Excel data pack. It includes ready-made charts that can be used for presentations, marketing materials and company reports.

To download the data pack for **free**, please visit:

www.preqin.com/investoroutlook

**Respondents were not prompted to give their opinions on each region/fund type individually but to name those they felt best fit these categories; therefore, the results display the regions/fund types at the forefront of investors' minds at the time of the survey.*

Key Issues and Challenges

Pricing remains the key issue in the real estate market for both fund managers and investors: 72% of investors interviewed view rising valuations as an area of concern (Fig. 4.12), while 51% of fund managers surveyed by Preqin in June 2016 reported that targeted returns are being reduced due to asset valuations (for more information see Preqin's **Real Estate Fund Manager Outlook** report).

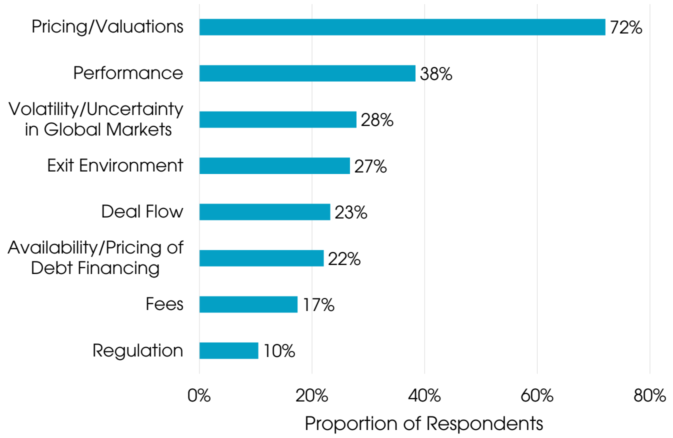
Correspondingly, the effect of high entry valuations for assets on the eventual performance of a fund was cited as a key issue by 38% of investors. Macroeconomic shocks over the past year have led to 28% of investors naming volatility and uncertainty in global markets as the key issue for the industry in the year ahead.

While nearly half of respondents feel that valuations will not affect the returns from their real estate portfolios in the next 12 months, 37% believe it will have an adverse effect and lead to lower returns, compared with 15% that believe current pricing will achieve higher returns (Fig. 4.13). Correspondingly, 39% anticipate worse performance in the coming year, with 13% forecasting stronger performance (Fig. 4.14).

Valuations for assets are increasing due to high demand for institutional-quality real estate and a parallel rise in direct participation from institutional investors. As such, 57% of respondents feel it is harder to find attractive investment opportunities in the current market than 12 months ago, with only 3% stating opportunities are easier to find (Fig. 4.15).

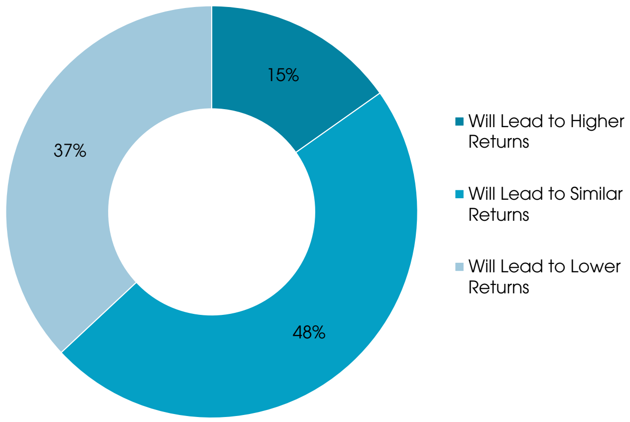
Fund managers must be aware of these concerns when trying to secure investor capital; a long and strong track record will help allay investors' fears over operating in a competitive and uncertain

Fig. 4.12: Investor Views on the Key Issues for the Real Estate Market in the Next 12 Months



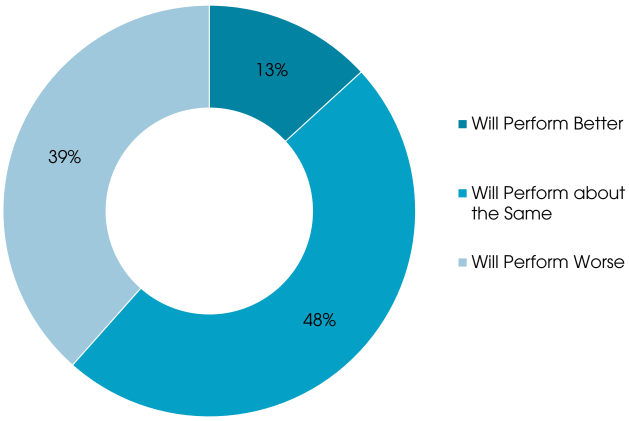
Source: Preqin Investor Interviews, June 2016

Fig. 4.13: Investor Views on How Asset Valuations Will Affect Expected Returns in the Next 12 Months Compared to the Past 12 Months



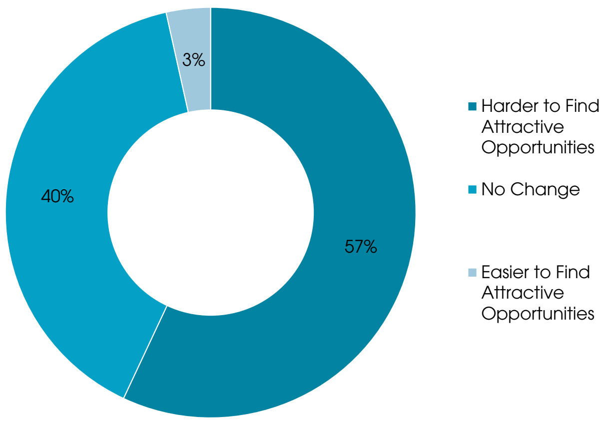
Source: Preqin Investor Interviews, June 2016

Fig. 4.14: Investors' Return Expectations from Their Real Estate Portfolios in the Next 12 Months Compared to the Past 12 Months



Source: Preqin Investor Interviews, June 2016

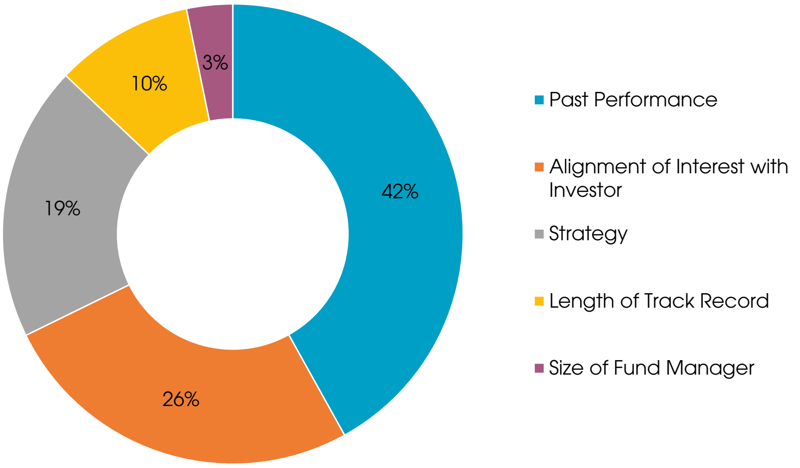
Fig. 4.15: Investor Views on the Difficulty of Identifying Attractive Investment Opportunities Compared to 12 Months Ago



Source: Preqin Investor Interviews, June 2016

environment. Consequently, the largest proportion (42%) of surveyed investors consider past performance as the most important factor in selecting a new fund manager (Fig. 4.16), while a quarter of all investors believe that the alignment of interests between investors and fund managers is the most important consideration (for more information on alignment and fund terms, see page 31). One respondent, whose investment remit targets one specific region, cited the fund manager's knowledge of local markets as the most important factor.

Fig. 4.16: Investor Views on the Most Important Factor to Consider when Looking for a Real Estate Fund Manager



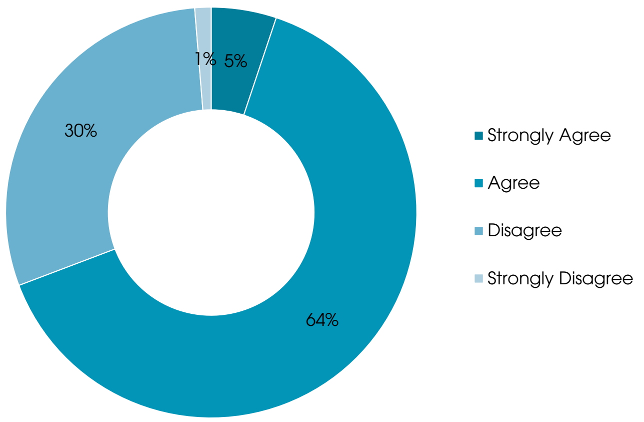
Source: Preqin Investor Interviews, June 2016

Fund Terms and Alignment of Interests

Encouragingly for the industry, 69% of investors interviewed agree that their interests are aligned with those of their fund manager (Fig. 4.17). Competition for institutional capital has pushed managers to offer more attractive terms and conditions to investors in order to secure commitments, and while the majority (51%) of respondents feel there has been no change in private real estate fund terms and conditions in the past 12 months, a significant 40% believe there have been changes in favour of the investor, far above the 9% that have seen changes in favour of the manager (Fig. 4.18).

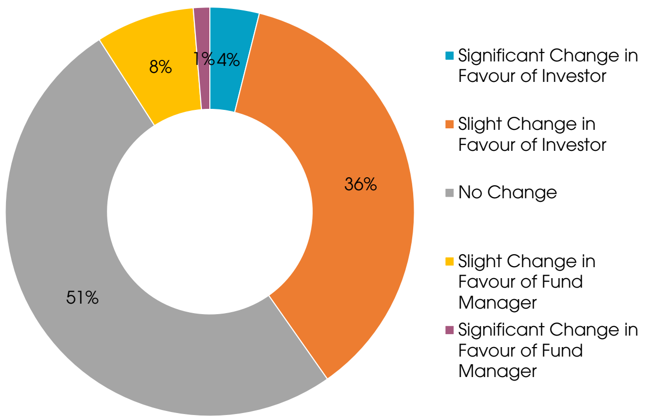
Notable proportions of surveyed investors have seen improvement in the last year in management fees (44%), transparency (31%) and how performance fees are charged (31%, Fig. 4.19). However, the majority of surveyed investors still want to see improvements in both management and performance fees over the next year. With 84% of investors deciding not to invest in a private real estate fund that they otherwise would have because of fees (Fig. 4.20), real estate firms need to ensure they can justify their fee structures in order to secure capital from an institutional market that is looking closely at fund terms and conditions.

Fig. 4.17: Extent to Which Investors Believe Fund Manager and Investor Interests Are Properly Aligned



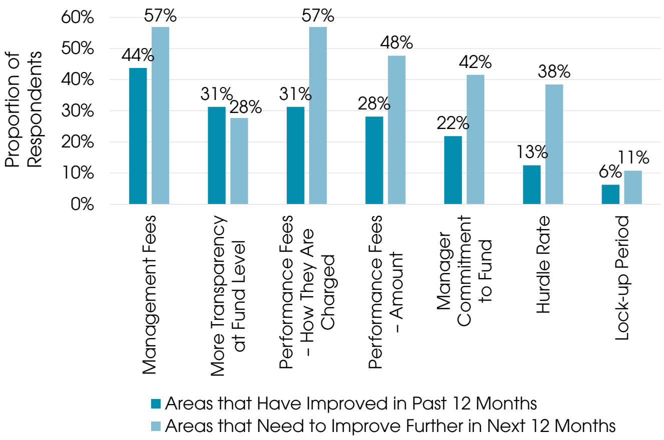
Source: Preqin Investor Interviews, June 2016

Fig. 4.18: Investor Views on whether There Has Been a Change in Private Real Estate Fund Terms and Conditions over the Past 12 Months



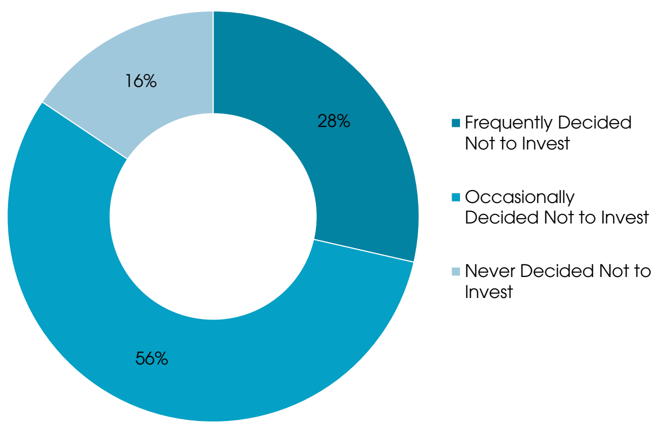
Source: Preqin Investor Interviews, June 2016

Fig. 4.19: Areas of Fund Terms Investors Feel Have Shown the Most Improvement over the Past 12 Months and that Need to Improve Further in the Next 12 Months



Source: Preqin Investor Interviews, June 2016

Fig. 4.20: Proportion of Investors that Have Previously Decided Not to Invest in a Fund Due to the Proposed Terms and Conditions



Source: Preqin Investor Interviews, June 2016

Fund Selection and Marketing

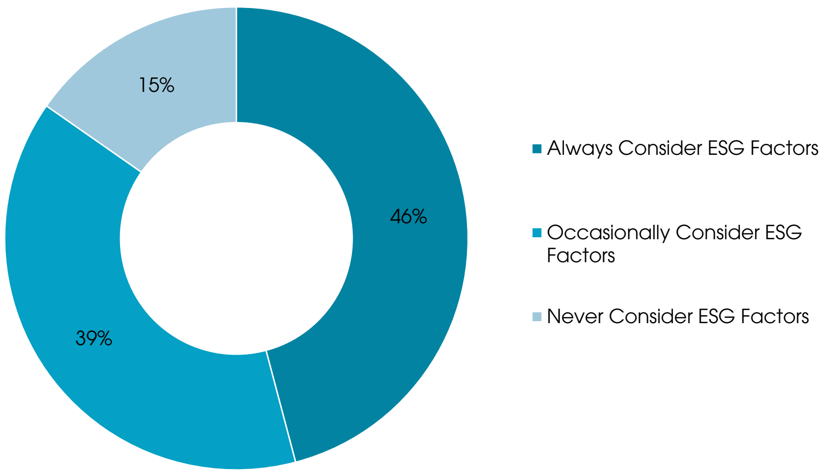
Environmental, Social and Governance (ESG) Factors

The vast majority (85%) of investors consider ESG factors when investing in real estate, with 46% always taking these factors into account and 39% occasionally (Fig. 4.21). Of all respondents, 72% do not have a specific preference with regards to ESG real estate investment, but of those that did indicate a preference, the largest proportion (58%) consider local investments, although relatively large proportions also look for environmentally (46%) and socially (38%) responsible investments (Fig. 4.22).

Communicating with Investors

Receiving appropriate updates and documentation from fund managers can build new or improve relationships with potential and existing investors by helping to avoid future conflicts through the management of expectations and regular communication. With transparency an issue among many investors surveyed, is the documentation fund managers are distributing sufficiently meeting the needs of investors?

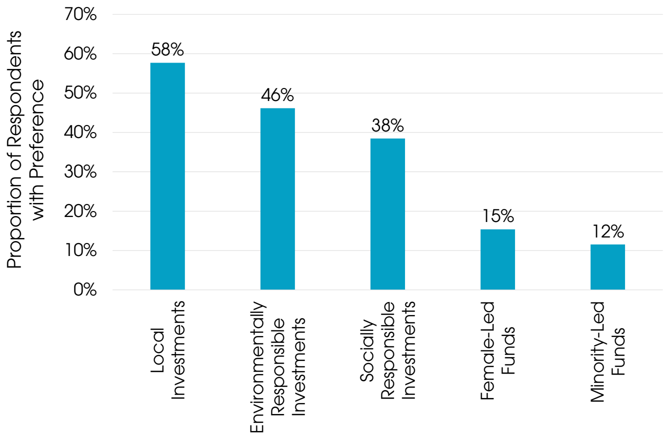
Fig. 4.21: Investors that Consider Environmental, Social and Governance (ESG) Factors when Investing in Private Real Estate Funds



Source: Preqin Investor Interviews, June 2016

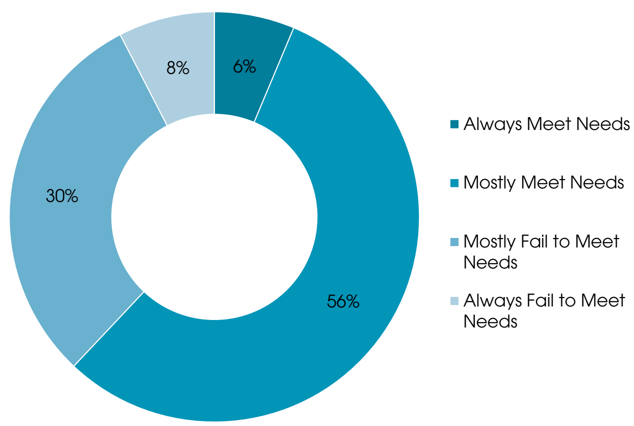
According to surveyed investors, real estate fund managers are mostly meeting the needs of investors in regards to marketing documentation about their vehicles (Fig. 4.23). Furthermore, managers are meeting the needs of greater proportions of investors regarding performance updates on holdings, with 62% of surveyed institutions stating that these documents at least mostly meet their needs.

Fig. 4.22: Real Estate Investors' Environmental, Social and Governance (ESG) Preferences



Source: Preqin Investor Interviews, June 2016

Fig. 4.23: Investor Views on the Frequency with Which Fund Manager Marketing Documents Meet Their Needs



Source: Preqin Investor Interviews, June 2016

Data Source:

The **Fund Searches and Mandates** feature on Preqin's **Real Estate Online** is the perfect tool to pinpoint those institutions that are seeking new real estate funds for investment now.

For more information, please visit:

www.preqin.com/reo

Infrastructure

Strong Performance Exceeds Investors' Expectations

Infrastructure has performed consistently for institutional investors over the past 12 months. Twenty-nine percent of investors interviewed by Preqin in June 2016 feel the performance of their infrastructure portfolios has exceeded expectations in the past year, with just 11% reporting that it has fallen short of expectations. As a result of high distributions, low correlation to other asset classes and low volatility compared with other private capital strategies, 51% of respondents have a positive perception of the asset class, significantly more than the 13% that have a negative impression.

These results are encouraging for future infrastructure fundraising as investors look to re-invest capital back into the asset class; 44% of surveyed investors are expecting to commit more capital to infrastructure in the next 12 months compared to the previous 12 months, and only 14% are looking to reduce their exposure.

Despite this promising outlook for infrastructure, there are a number of concerns among the investor community that managers looking to secure fresh commitments will need to be aware of and allay. Fifty-three percent of respondents cited pricing and valuations as a key issue for the industry in 2016, with a further 42% naming performance as a key concern. Dry powder is already at record levels and continuing to grow quickly, with this compounded by increased levels of direct participation in the asset class from investors: 42% of investors that invest directly are looking to increase this type of exposure and none are looking to decrease their direct allocations. This is leading to large amounts of capital chasing limited viable assets and concerns among investors that entry valuations are being pushed up, which in turn will have a negative effect on the eventual performance of the vehicles and the net returns investors receive.

However, while investors face the challenge of identifying the managers that can deliver consistent, strong risk-adjusted returns within such a competitive market, record distributions and increased appetite for the asset class should lead to strong fundraising in the years to come, with 50% of investors looking to increase their exposure to the asset class over the longer term.

Industry Perception

29%

Proportion of investors that feel their infrastructure investments have exceeded expectations over the past 12 months, up from 18% in December 2015.

54%

Proportion of investors that believe it is harder to find attractive investment opportunities than one year ago.

Investor Appetite

44%

Proportion of investors that expect to commit more capital to infrastructure in the next 12 months than in the past 12 months.

50%

Proportion of investors that plan to increase their allocation to infrastructure over the longer term.

Key Considerations

87%

Proportion of investors that have previously decided not to invest in a fund due to the proposed terms and conditions.

52%

Proportion of investors that always consider environmental, social and governance (ESG) factors when investing in infrastructure funds, the largest proportion among alternative asset classes.

Data Source:

See detailed profiles for over 2,800 institutional investors actively or considering investing in infrastructure on Preqin's **Infrastructure Online**, including their plans for investments in the coming months, allocation information, direct contact details, past investments and more.

For more information, please visit:

www.preqin.com/infrastructure

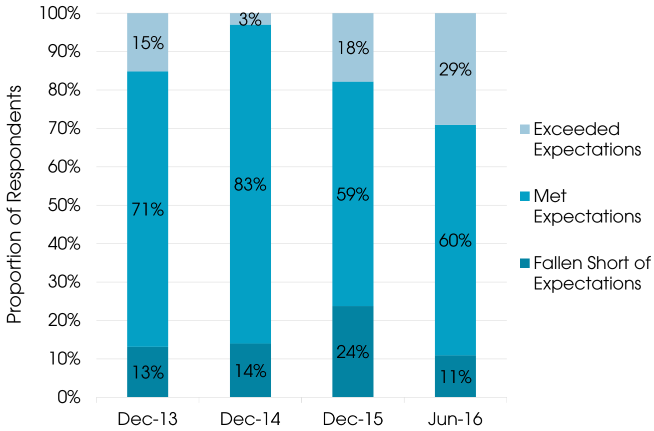
Satisfaction with Infrastructure

Institutional investor satisfaction with their infrastructure portfolios has improved over the first half of 2016, with 29% of investors interviewed by Preqin in June 2016 reporting that their investments had exceeded expectations over the past year, and 60% that their expectations had been met, up from 18% and 59% respectively in December 2015 (Fig. 5.1). Furthermore, only 11% reported that their investments had fallen short of expectations, a marked reduction on 24% at the end of 2015.

Consistent performance by infrastructure funds coupled with high distributions from fund managers led a majority (51%) of investors to report a positive perception of the asset class, far above the 13% with a negative view (Fig. 5.2).

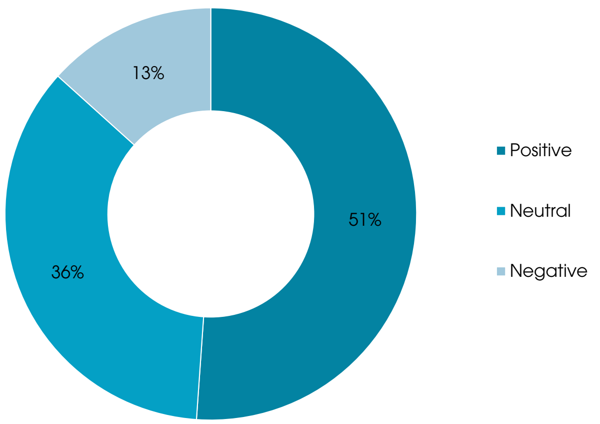
Furthermore, investors were also confident that infrastructure can continue to deliver the returns they seek, with 23% of respondents indicating that they had increased confidence in the ability of the asset class to achieve portfolio objectives, compared with just 14% whose confidence had waned over the past year (Fig. 5.3). As a result, investors are willing to increase the prominence of infrastructure within their portfolios: half of the investors surveyed plan to increase their allocation to the asset class over the longer term, compared with only 8% that plan to decrease it (Fig. 5.4).

Fig. 5.1: Proportion of Investors that Feel Their Infrastructure Fund Investments Have Lived up to Expectations over the Past 12 Months, December 2013 - June 2016



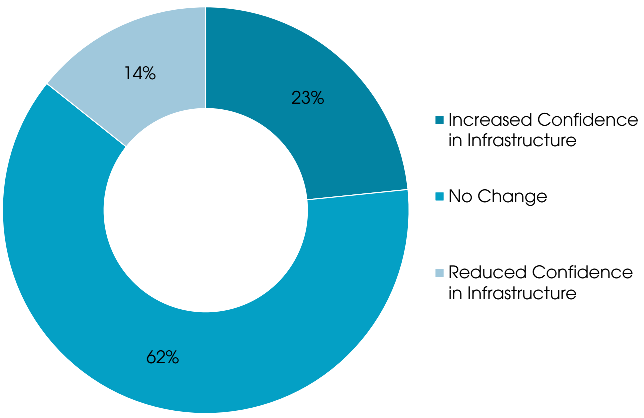
Source: Preqin Investor Interviews, December 2013 - June 2016

Fig. 5.2: Investors' General Perception of the Infrastructure Industry at Present



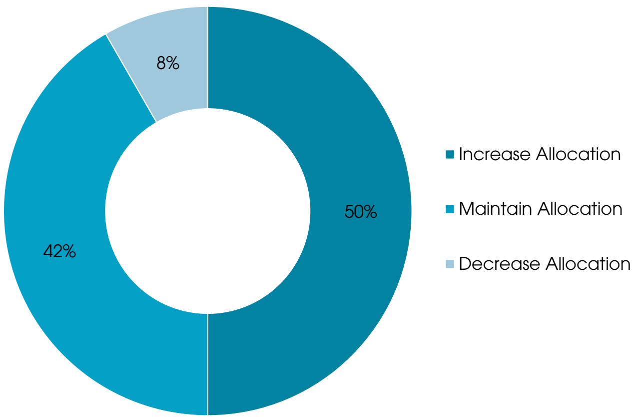
Source: Preqin Investor Interviews, June 2016

Fig. 5.3: Investors' Change in Confidence in the Ability of Infrastructure to Achieve Portfolio Objectives in the Past 12 Months



Source: Preqin Investor Interviews, June 2016

Fig. 5.4: Investors' Intentions for Their Infrastructure Allocations in the Longer Term



Source: Preqin Investor Interviews, June 2016

Investor Activity in the Year Ahead

With positive investor sentiment towards infrastructure (see page 34), institutional investment in the asset class is set to increase: 44% of investors expect to commit more capital to infrastructure in the next 12 months than the previous 12 months, with only 14% expecting to commit less (Fig. 5.5). The majority (56%) of investors interviewed are planning to make their next commitment to infrastructure in H2 2016, with 8% expecting to do so in 2017 and 13% not planning to invest before at least 2018 (Fig. 5.6).

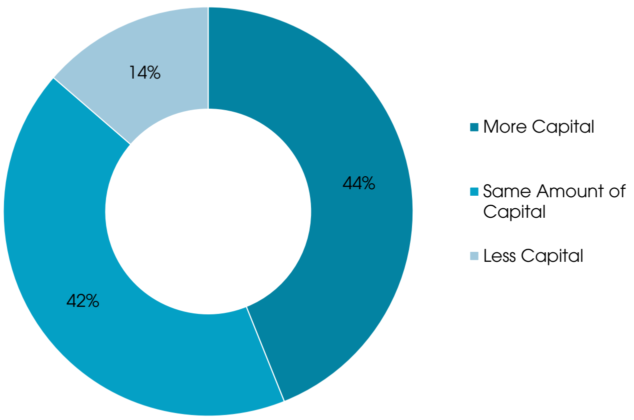
Among investors profiled on Preqin's **Infrastructure Online** that will be making new commitments in the next 12 months, half plan to make only one or two commitments; however, nearly a quarter anticipate making five or more commitments, including 15% intending to make seven or more (Fig. 5.7). While most investors will be making fewer commitments, investors are writing larger tickets: over half of active investors plan to invest at least $100mn in the year ahead, including 17% that plan to invest $350mn or more (Fig. 5.8).

Encouragingly for infrastructure fund managers in a competitive fundraising environment, respondents are also broadening their search for fund managers: 40% of investors expect to increase their number of fund manager relationships over the next two years and 46% expect to maintain the number of relationships at current levels.

Investment Opportunities: Regions

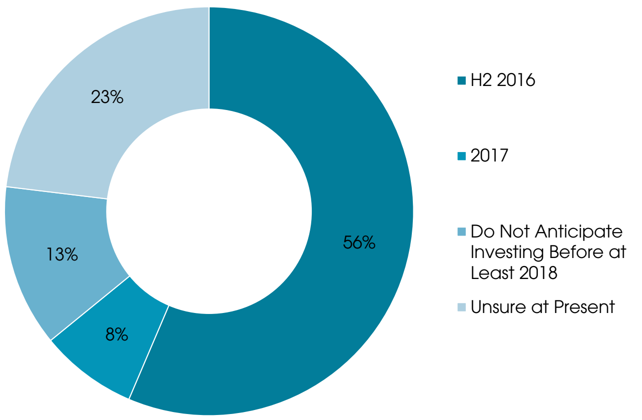
Investor appetite for infrastructure remains heavily in favour of developed markets, with 59% of investors each identifying North America and Europe

Fig. 5.5: Investors' Expected Capital Commitment to Infrastructure in the Next 12 Months Compared to the Past 12 Months



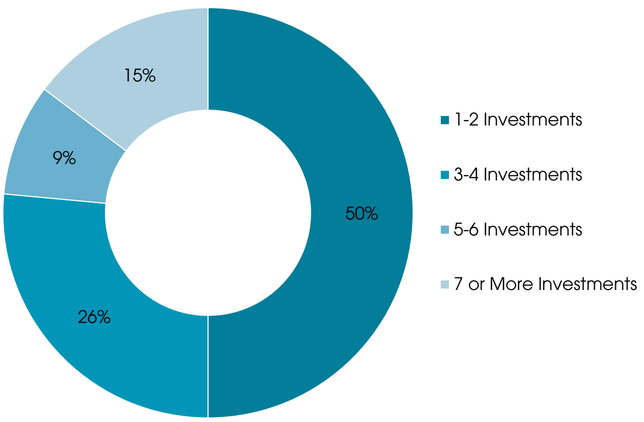
Source: Preqin Investor Interviews, June 2016

Fig. 5.6: Timeframe for Investors' Next Intended Commitment to Infrastructure



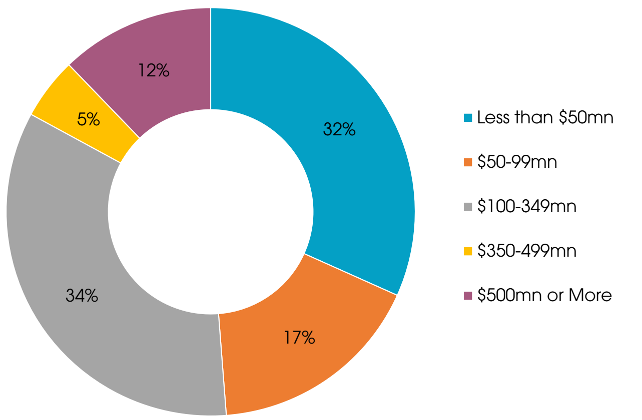
Source: Preqin Investor Interviews, June 2016

Fig. 5.7: Number of Infrastructure Commitments Investors Plan to Make over the Next 12 Months



Source: Preqin Infrastructure Online

Fig. 5.8: Amount of Fresh Capital Investors Plan to Invest in Infrastructure over the Next 12 Months



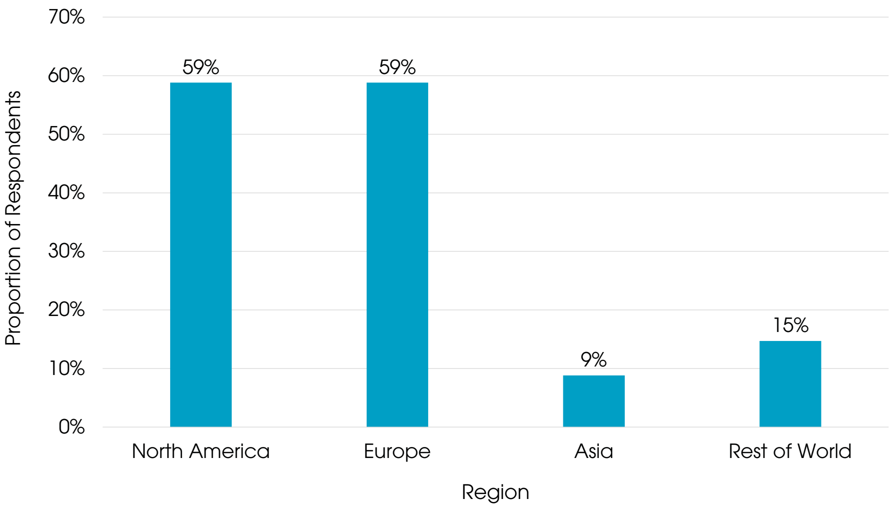
Source: Preqin Infrastructure Online

as the two regions that present the best opportunities in the current financial climate (Fig. 5.9). Contrastingly, just 9% of investors identified Asia, and 15% countries outside these regions, as the most promising targets for investment.

However, some institutional investors are avoiding Europe due to the economic and political uncertainty following the result of the UK's Brexit decision. Twelve percent of all investors interviewed are avoiding infrastructure opportunities in Europe that they would otherwise have considered investing in, while an additional 10% will be specifically avoiding the UK.

Although investment remains weighted towards North America and Europe, a significant proportion (33%) of investors in emerging markets expect to invest more capital in these areas over the next 12 months than they did in the past 12 months, with none expecting to invest less. Over the longer term, half of these investors expect their level of investment in emerging markets to increase, and none expect it to decrease. Within emerging markets, investors identified China and India as presenting the best opportunities (both cited by 20% of respondents).

Fig. 5.9: Regions Investors View as Presenting the Best Opportunities in the Current Financial Climate*

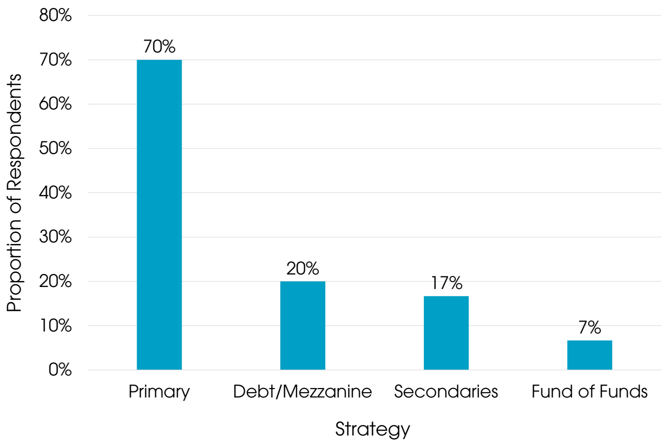


Source: Preqin Investor Interviews, June 2016

Investment Opportunities: Strategies and Project Stages

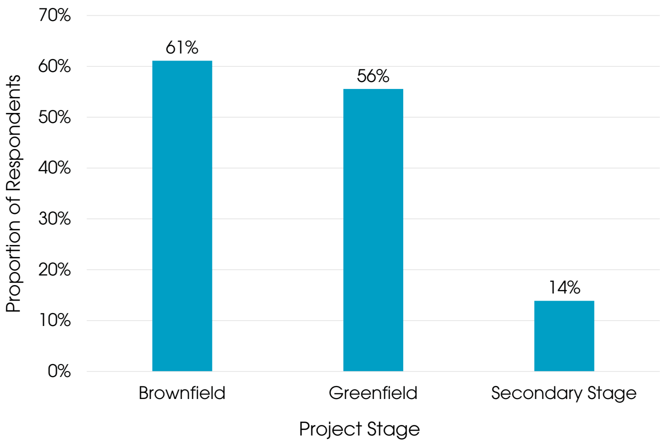
Seventy percent of investors identified primary infrastructure as offering the best opportunities at present, followed by debt/mezzanine investments (20%), secondaries (17%) and funds of funds (7%, Fig. 5.10). In terms of specific project stages, 61% of investors considered brownfield projects as offering the best opportunities, followed by greenfield (56%), while only 14% identified secondary stage assets as presenting the best opportunities in the current financial climate (Fig. 5.11).

Fig. 5.10: Strategies Investors View as Presenting the Best Opportunities in the Current Financial Climate*



Source: Preqin Investor Interviews, June 2016

Fig. 5.11: Project Stages Investors View as Presenting the Best Opportunities in the Current Financial Climate*



Source: Preqin Investor Interviews, June 2016

**Respondents were not prompted to give their opinions on each region/strategy/project stage individually but to name those they felt best fit these categories; therefore, the results display the regions/fund types at the forefront of investors' minds at the time of the survey.*

Key Issues and Challenges

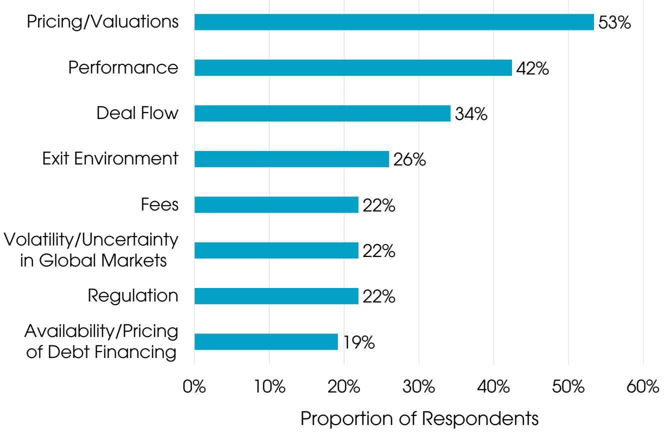
High pricing and valuations for assets remains a prominent concern for 53% of infrastructure investors interviewed, while other issues connected to pricing were at the forefront of investors' minds, with concerns over high valuations potentially affecting performance (42% of respondents) and the ability to source viable assets (34%, Fig. 5.12).

With increased participation among institutional and strategic investors, as well high levels of dry powder among infrastructure firms, 54% of investors are finding it harder to find attractive investment opportunities than a year ago, compared with only 4% that consider it easier (Fig. 5.13).

The median return investors targeted for their infrastructure portfolio was between 8% and 10%, although nearly a quarter of respondents targeted returns above this range. With valuations high, the ability of fund managers to successfully generate returns is an ongoing concern for investors. Nevertheless, respondents were balanced on the prospects for the asset class over the next year, with a similar proportion believing returns will improve as predicting returns will decline (25% and 22% respectively, Fig. 5.14).

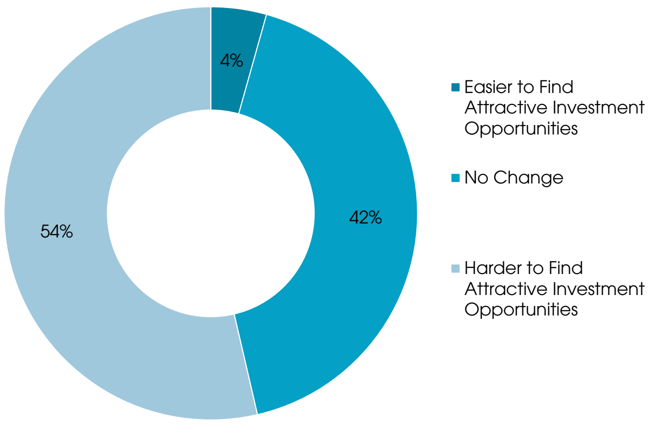
These factors feed into investors' fund manager selection processes. When asked for the most important criterion they use to assess fund managers, 34% of investors concentrate on past performance, followed by strategy (29%, Fig. 5.15). Only 3% of investors consider the size of the fund manager to be the most important factor, suggesting that there are opportunities for smaller firms that are able to demonstrate a differentiated strategy or strong past performance.

Fig. 5.12: Investor Views on the Key Issues for the Infrastructure Market in the Next 12 Months



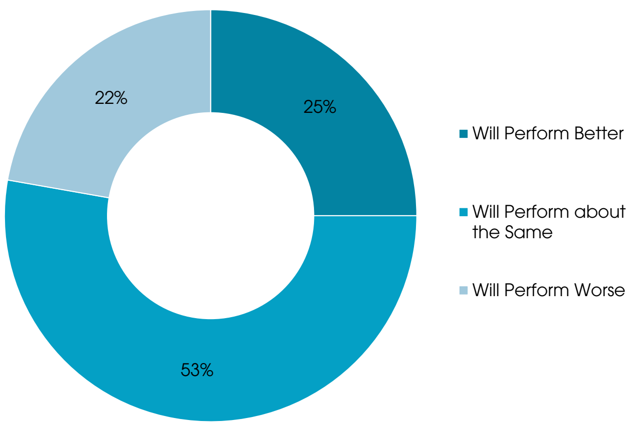
Source: Preqin Investor Interviews, June 2016

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



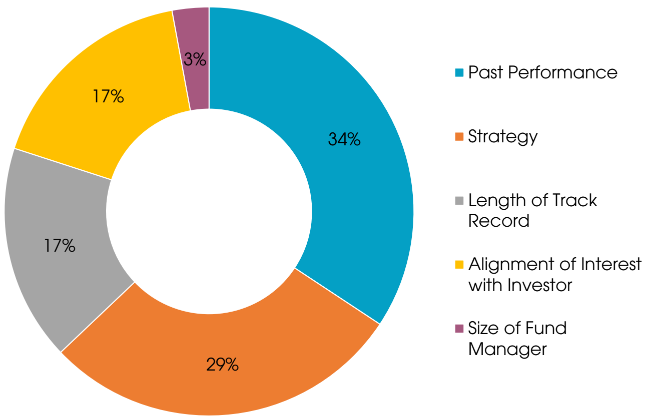
Source: Preqin Investor Interviews, June 2016

Fig. 5.14: Investors' Return Expectations from Their Infrastructure Portfolios in the Next 12 Months Compared to the Past 12 Months



Source: Preqin Investor Interviews, June 2016

Fig. 5.15: Investor Views on the Most Important Factor to Consider when Looking for an Infrastructure Fund Manager



Source: Preqin Investor Interviews, June 2016

Fund Terms and Alignment of Interests

Seventy percent of surveyed institutional investors in infrastructure feel that their interests are appropriately aligned with those of their fund managers (Fig. 5.16). Nevertheless, there remains a significant minority (30%) that believe further improvements are required.

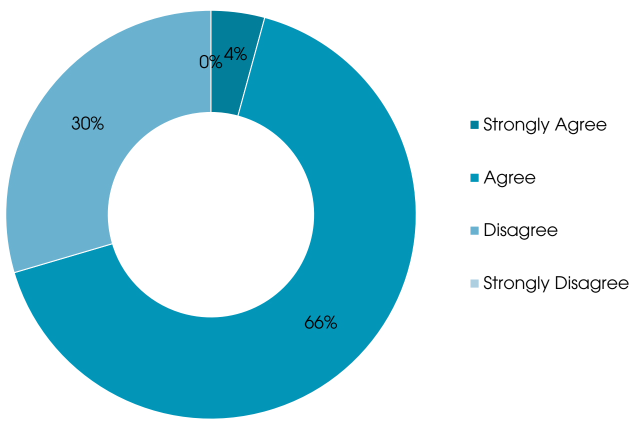
Over half (58%) of investors have observed no noticeable change in infrastructure fund terms or conditions in favour of either party over the last 12 months (Fig. 5.17). Among those who had, however, a significantly greater proportion believed that fund terms had changed in favour of investors (34%) than fund managers (8%).

Among the areas in which investors had seen improvement were management fees (45% of investors), fund level transparency (38%) and the level of performance fees (31%, Fig. 5.18).

Despite some improvements, investors believe that there is further work to be done on the issue of fees, specifically management fees (63%), the size of performance fees (53%) and how performance fees are charged (51%). Hurdle rates also remain an area of potential disagreement between investors and fund managers: none of the infrastructure investors surveyed reported that hurdle rates had improved over the past 12 months, but 46% identified this as an area in need of further improvement.

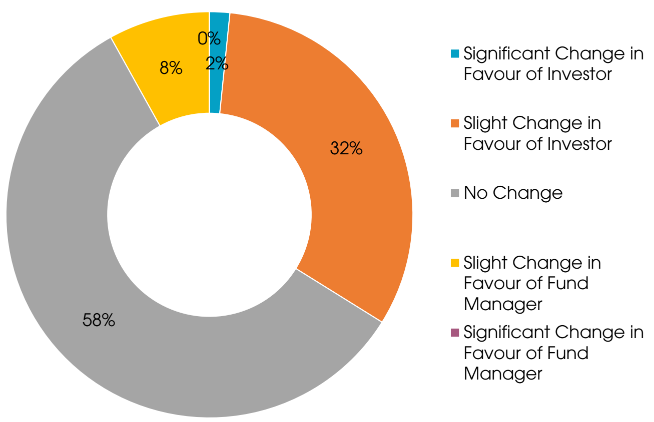
Clearly, fees will continue to have a large impact on how investors view the asset class and choose funds for investment. Eighty-seven percent of investors have previously decided not to invest in an infrastructure fund that they otherwise would have because of fees (Fig. 5.19).

Fig. 5.16: Extent to Which Investors Believe Fund Manager and Investor Interests Are Properly Aligned



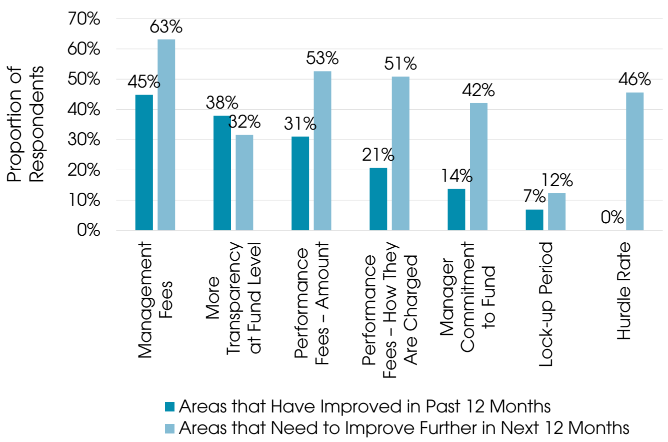
Source: Preqin Investor Interviews, June 2016

Fig. 5.17: Investor Views on whether There Has Been a Change in Infrastructure Fund Terms and Conditions over the Past 12 Months



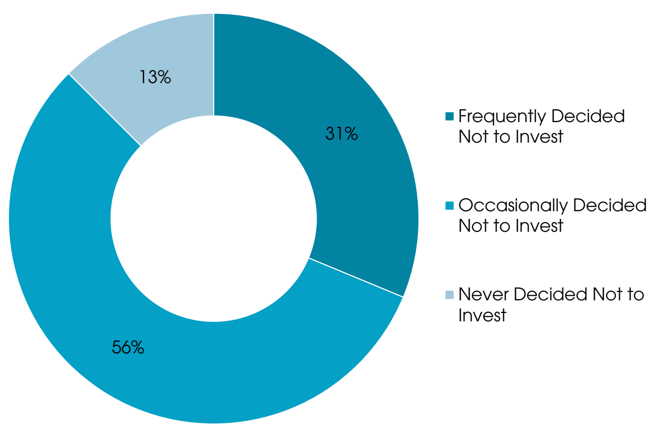
Source: Preqin Investor Interviews, June 2016

Fig. 5.18: Areas of Fund Terms Investors Feel Have Shown the Most Improvement over the Past 12 Months and that Need to Improve Further in the Next 12 Months



Source: Preqin Investor Interviews, June 2016

Fig. 5.19: Proportion of Investors that Have Previously Decided Not to Invest in a Fund Due to the Proposed Terms and Conditions



Source: Preqin Investor Interviews, June 2016

Fund Selection and Marketing

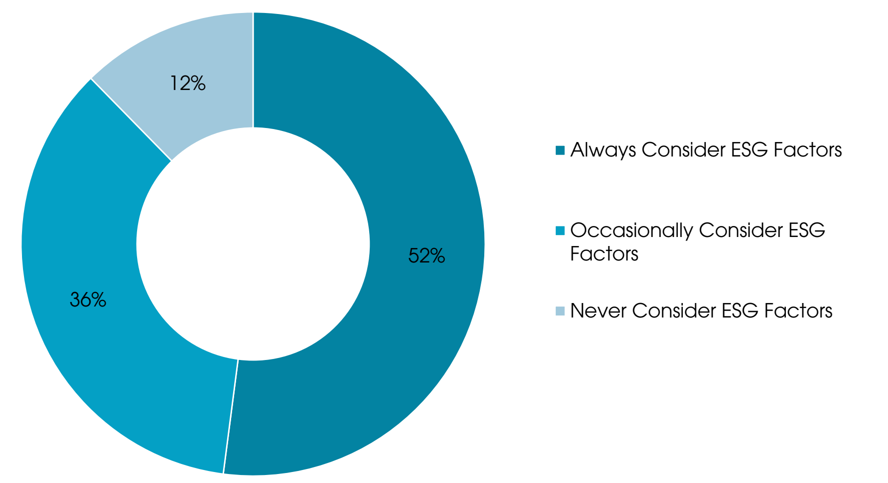
Environmental, Social and Governance (ESG) Factors

When identifying new funds to invest in, many institutional investors have been paying close attention to environmental, social and governance (ESG) factors in recent years, a trend which extends to infrastructure.

Investors scrutinize ESG policies when investing in infrastructure funds to a greater extent than for other alternative asset classes: 52% of investors surveyed always consider ESG factors when investing in infrastructure funds, with a further 36% occasionally doing so (Fig. 5.20). This compares with 47%, 46% and 46% always considering ESG factors for private equity, real estate and natural resources investment respectively. Furthermore, the 12% of infrastructure respondents that reported they never consider ESG factors is the lowest among all alternative asset classes.

Of those investors with a specific ESG preference for vehicles that they would invest in, 70% look for environmentally responsible investments, 50% local investments and 45% seek socially responsible investments (Fig. 5.21). Institutional investors were less likely to have an explicit preference for the management of the fund, with only 10% reporting a preference for female-led funds and 5% for minority-led funds.

Fig. 5.20: Investors that Consider Environmental, Social and Governance (ESG) Factors when Investing in Infrastructure Funds



Source: Preqin Investor Interviews, June 2016

Fund Marketing

Approximately two-thirds of investors reported that the marketing documents they receive from fund managers meet their needs, although only 8% reported that these documents always meet their needs. However, in a competitive fundraising environment, it is important for fund managers to adapt their marketing documents in order to secure capital from the 34% of respondents that feel marketing from infrastructure fund managers fails to meet their needs.

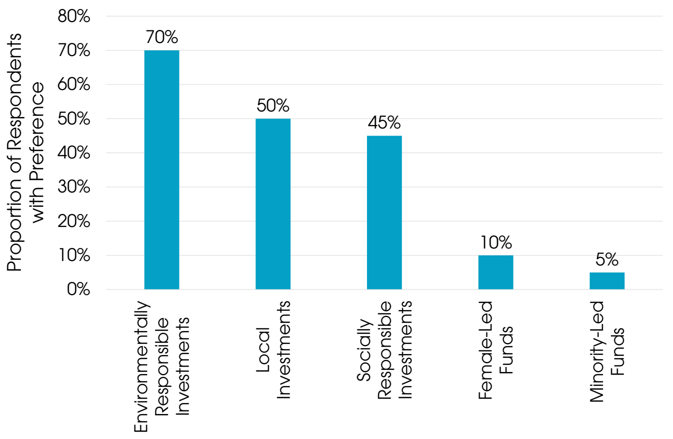
Data Source:

The **Fund Searches and Mandates** feature on **Infrastructure Online** is the perfect tool to pinpoint those institutions that are actively seeking new infrastructure funds for investment now.

For more information, please visit:

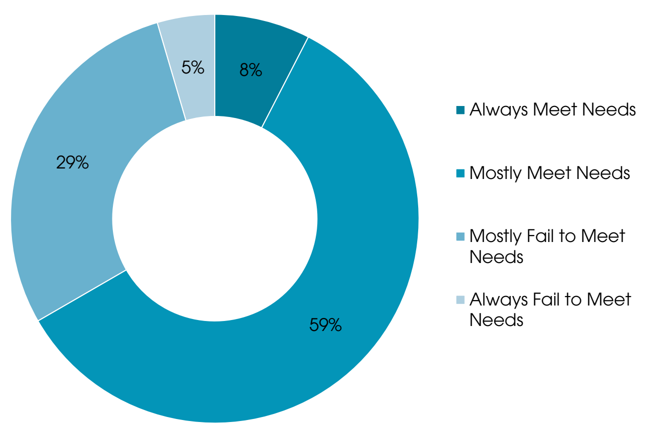
www.preqin.com/infrastructure

Fig. 5.21: Infrastructure Investors' Environmental, Social and Governance (ESG) Preferences



Source: Preqin Investor Interviews, June 2016

Fig. 5.22: Investor Views on the Frequency with Which Fund Manager Marketing Documents Meet Their Needs



Source: Preqin Investor Interviews, June 2016

Alternative Methods of Accessing the Asset Class

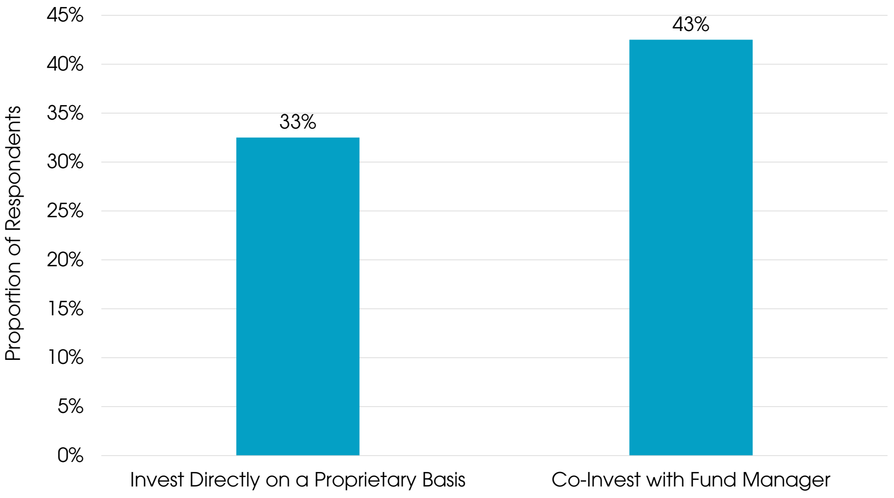
Direct Investments

While unlisted infrastructure funds remain the primary method of exposure to infrastructure for many institutional investors, direct investments have come to play an important role for sophisticated investors looking to gain greater exposure to particular assets, either by co-investing alongside a fund manager or investing directly on a proprietary basis. Forty-three percent of investors surveyed currently make use of co-investments, while a third make proprietary direct investments (Fig. 5.23); however, there remains 53% of the total population that do not make use of either of these methods at present.

Interestingly, investors will be ramping up their direct participation in the year ahead, with no investors planning to reduce their exposure to any alternative investment method. The majority (63%) of respondents will be increasing their level of co-investment activity, while 42% plan to increase their proprietary direct investment activity (Fig. 5.24). Furthermore, 64% plan to invest more capital in PPP/PFI projects over the next 12 months.

For the majority (79%) of investors that planned to increase their participation in these routes to market, this would be in addition to their current unlisted fund commitments, as opposed to replacing them, suggesting that there will remain a continued role for unlisted infrastructure funds in investors' portfolios.

Fig. 5.23: Investors' Direct Participation in Infrastructure Investment

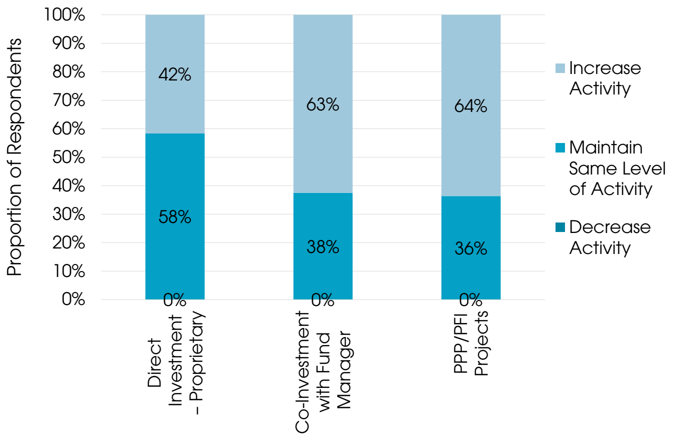


Source: Preqin Investor Interviews, June 2016

Separate Accounts

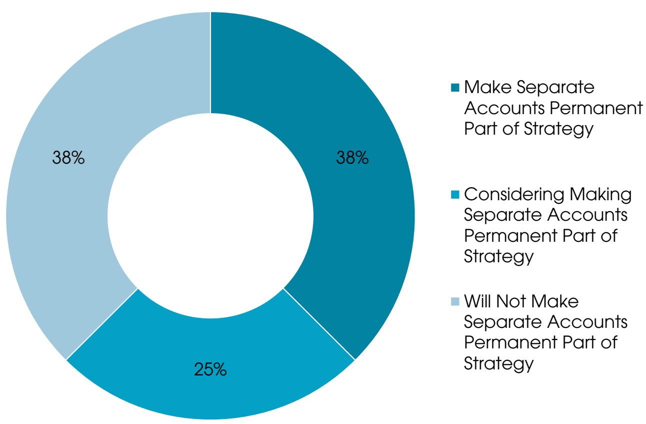
Separate accounts can be an effective way for institutional investors with the necessary resources to invest in infrastructure, offering greater flexibility and influence over the investment strategy than the traditional commingled infrastructure vehicle. Among investors surveyed by Preqin, 21% currently make use of separate account mandates; of those, 38% are looking to make these structures a permanent part of their investment strategy, and a further 25% are considering doing so (Fig. 5.25). Among investors not currently using separate accounts, 4% plan to make use of separate accounts in future while a further 40% are considering doing so.

Fig. 5.24: Investor Plans to Increase/Decrease Use of Alternative Investment Methods over the Next 12 Months Compared to the Past 12 Months



Source: Preqin Investor Interviews, June 2016

Fig. 5.25: Proportion of Investors Currently Using Separate Accounts that Expect to Make These a Permanent Part of Their Investment Strategy



Source: Preqin Investor Interviews, June 2016

Private Debt

Are Expansion and Change on the Horizon?

Institutional investment continues to be the lifeblood of the private debt industry entering the second half of 2016. Preqin's research teams around the globe have interviewed 161 investors to ascertain their sentiment on a range of topics within the industry. These include regions and strategies currently targeted, as well as issues pertinent to private debt investing in 2016. The story of 2016 thus far has been dominated by Europe-focused fundraising surpassing that of the North American market, led by large fund closures by the likes of KKR, Ares Management and Avenue Capital Group among others, all of which can be found on Preqin's **Private Debt Online**.

The North American alternative lending sector represents nearly half ($18bn) of all capital secured by funds closed so far in 2016 and, as supported by investor sentiment summarized on page 42, is likely to continue receiving a strong flow of new commitments and investment throughout the rest of the year. Although North America is historically the most active region for private debt investment, the market share held by Europe-focused managers has grown substantially: fundraising reached an all-time peak of $32bn in 2015, and is outpacing all other regions in 2016 year-to-date at $15bn in commitments. The establishment of strong markets for direct lending, distressed debt and mezzanine throughout Europe has encouraged managers and institutional investors alike, with $37bn currently being sought by funds focused on Europe.

Investors interviewed in June 2016 agree that the private debt market is due for expansion over the next five years, with a substantial 94% of respondents suggesting that the market size is likely to increase; the remaining 6% believe the size of the market is likely to stagnate at current levels. Further supporting the positive outlook from the investor community is the 45% and 6% of investors that expect to make private debt fund commitments in H2 2016 or H1 2017 respectively. As more than half of the investors interviewed are likely to allocate to the asset class in the coming 12 months, managers across strategies and sizes will strive to demonstrate value and offer the best match possible for would-be private debt fund investors in the year to come. When those commitments do come, however, nearly half of investors expect to pay fees on invested capital rather than committed capital, a development sparked by robust competition in the private debt space. The split is even more pronounced within direct lending, as only 4% of respondents would expect to pay fees on committed capital within the strategy. With the recent shake-ups in the European economic environment, alternative lenders will be seeking ways to take advantage of newly formed opportunities over the near and longer terms.

Investor Views

94%
Proportion of investors that expect the size of the private debt market to increase over the next five years.

84%
Proportion of investors satisfied with the performance of their private debt investments in the past 12 months.

4%
Proportion of investors surveyed that expect to pay fees on committed capital for direct lending funds.

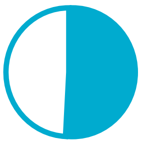
Fundraising Climate

88%
Proportion of investors in private debt that are currently at or below their target allocation to the asset class.

47%
Proportion of investors that view North America as currently presenting the best private debt opportunities.

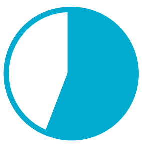
$97bn
Amount of capital currently targeted by North America-focused private debt funds in market.

Investor Appetite



51%
Proportion of investors surveyed that expect to make their next private debt investment either in H2 2016 or H1 2017.

46%
Proportion of investors that plan to commit more capital to private debt in 2016 as compared to 2015.



56%
Proportion of investors looking to invest in direct lending funds in the next 12 months.

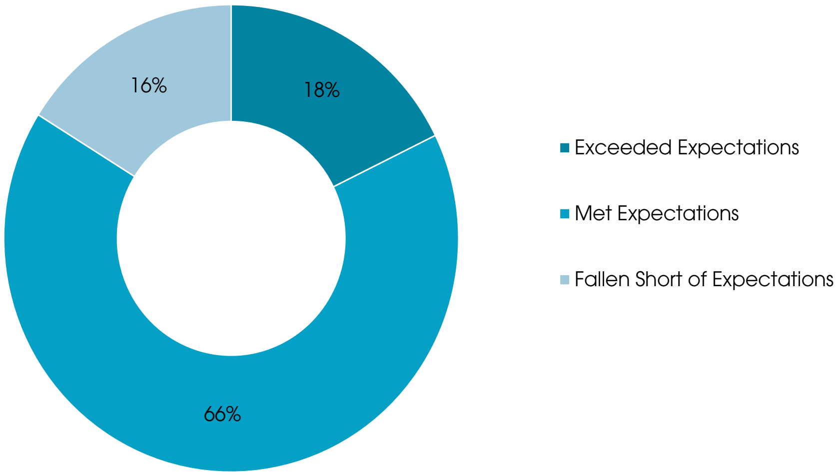
Satisfaction with Private Debt

As shown in Fig. 6.1, the vast majority (84%) of investors interviewed are satisfied with the performance of their private debt investments, stating that their expectations had been met or exceeded over the past 12 months. The proportion (18%) that cited their expectations had been exceeded has not changed since December 2015, but there has been a two percentage point increase in the proportion (16%) of respondents whose private debt investments have fallen short of expectations.

Overall, the prevailing view of private debt in the past 12 months has been largely positive, and has left investors with satisfying results. However, it is not surprising to see expectations generally in line with results, as the performance of private debt investments can often be somewhat easier to project than other alternative asset classes with more volatile return potential.

As was the case in the **H1 2016 Investor Outlook**, more than half (59%) of investors surveyed currently hold a positive view of the asset class (Fig. 6.2). As of July 2016, 32% of respondents stated a neutral view, while 9% reported a negative perception of the asset class.

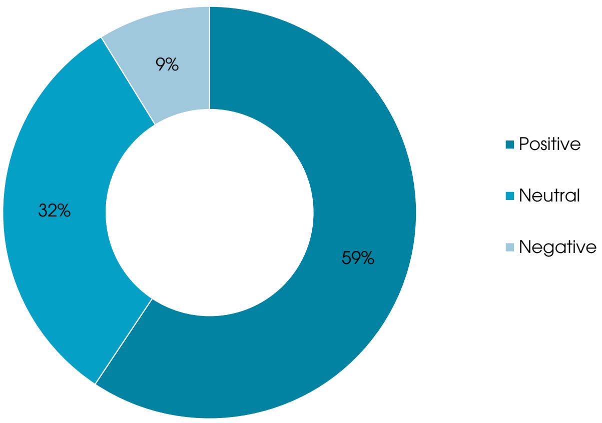
Fig. 6.1: Proportion of Investors that Feel Their Private Debt Investments Have Lived up to Expectations over the Past 12 Months



Source: Preqin Investor Interviews, June 2016

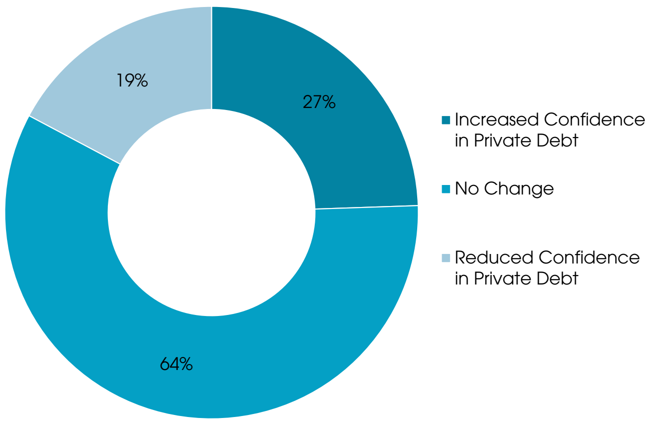
Fig. 6.3 shows that 27% of respondents have gained confidence in the asset class's ability to achieve portfolio objectives over the past 12 months, while 19% stated that their confidence has dropped since mid-2015. Furthermore, more than two-thirds (64%) of respondents reported that their confidence level has not changed in the past 12 months, indicating investors in the asset class are possibly committed over the longer term and hold steady views of their investments at present.

Fig. 6.2: Investors' General Perception of the Private Debt Industry at Present



Source: Preqin Investor Interviews, June 2016

Fig. 6.3: Investors' Change in Confidence in the Ability of Private Debt to Achieve Portfolio Objectives in the Past 12 Months



Source: Preqin Investor Interviews, June 2016

Data Source:

Private Debt Online is the leading source of data and intelligence on the growing private debt industry. This comprehensive resource tracks all aspects of the asset class, including fund managers, performance, fundraising, investors and more.

www.preqin.com/privatedebt

Evolution of the Investor Universe

Institutional investors have largely been increasing their exposure to the private debt asset class since 2009; the first half of 2016 saw a continuation of this trend. Preqin's **Private Debt Online** contains information on more than 2,200 institutional investors that are either actively investing in private debt opportunities or looking to make their maiden commitment.

Types of Active Investors

Private debt managers in recent years have shown the ability to provide strong risk-adjusted returns which also aid investors in diversifying income streams. As of July 2016, Preqin tracks 25 institutional investor types whose portfolios incorporate private debt strategies in various ways. As shown in Fig. 6.4, public and private sector pension funds make up the largest proportion (32%) of all active investors in private debt, followed by foundations (13%). Participation by insurance companies, endowment plans and family offices remains strong, although these institutions are greatly outnumbered by pension funds.

Locations of Private Debt Investors

As shown in Fig. 6.5, North America-based investors once again dominate the private debt investor landscape, representing 59% of participants. However, Europe-based institutions have seen strong growth in private debt activity in recent years, and currently account for 26% of private debt investors. The development of the European lending market has been a target for investors on both sides of the Atlantic.

Since the beginning of 2016, there has been a three percentage point increase in the proportion of active private debt investors from Asia and Rest of World. Activity from India-based investors such as Metis, a multi-family office currently allocating 46% of total assets to private debt strategies, is partly responsible for the uptick in global private debt growth that is expected to continue throughout 2016.

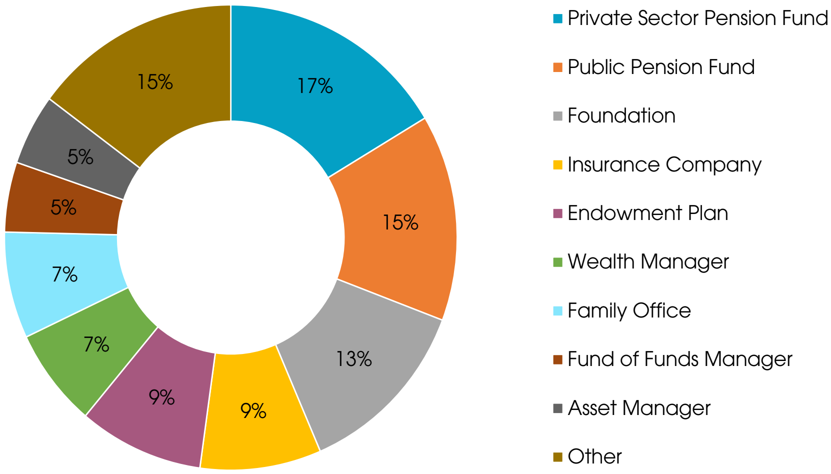
Source of Allocation

As private debt becomes increasingly prevalent within institutional portfolios, the allocation source of these investments can be telling as to the goals and strategy of each institution. More than half (54%) of all investors invest in private debt through their private equity allocation (Fig. 6.6). The proportion of investors with a separate private debt allocation sits at 12%, up slightly from 11% six months earlier. This closing gap speaks to the maturation cycle of private debt and the amount of participants in the sector that see fit to break out the allocation and analysis in its own vertical. Only 6% of investors are allocating from a fixed income bucket, indicating that many allocators view private debt to be better suited to non-traditional capital sources, such as general alternatives (11%).

Average Current Allocation by Investor Type

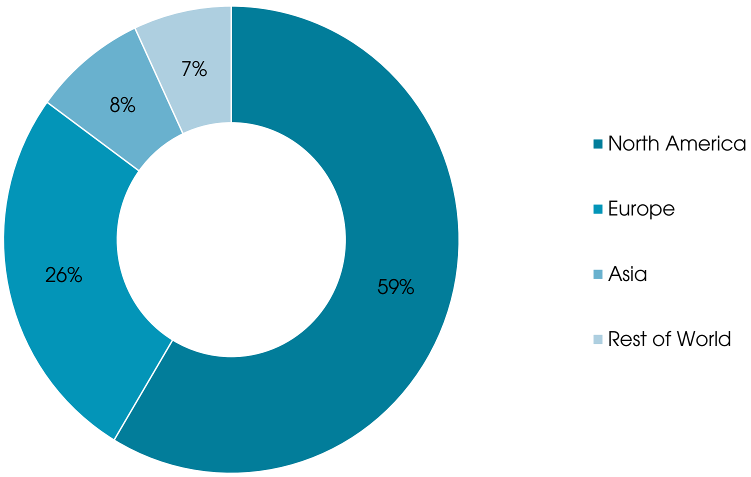
The average allocation to the asset class by private debt investor type is telling as to how different types of institutions are using various strategies to incorporate alternative lending into their portfolios. Family offices continue to lead the way with an average current allocation of 21.8% of total assets (Fig. 6.7). Family

Fig. 6.4: Institutional Investors in Private Debt by Type



Source: Preqin Private Debt Online

Fig. 6.5: Institutional Investors in Private Debt by Location



Source: Preqin Private Debt Online

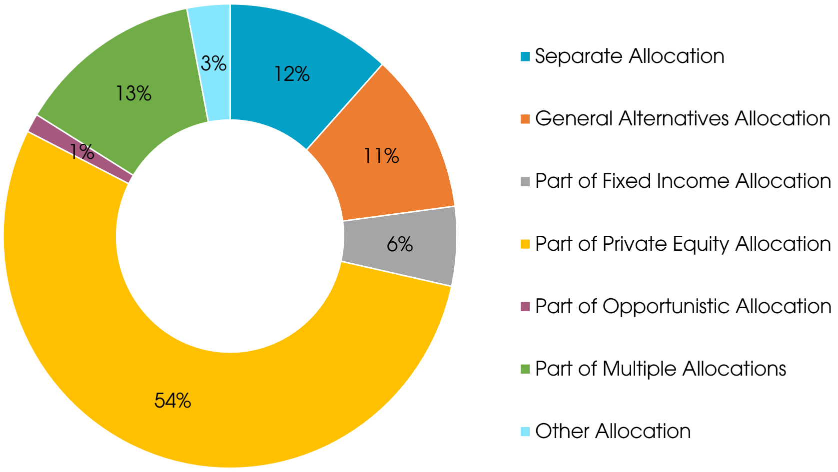
offices often have more flexibility in mandates and investing goals due to the smaller pool of underlying investors that may not be as restricted as other types of investors.

Public and private sector pension funds, along with insurance companies, have relatively lower average current allocations at 3.5%, 2.8% and 2.9% respectively. Nonetheless, as the largest investors by assets under management, and the most prevalent investor types by number, they control a significantly larger portion of private debt capital when compared with other investor types, and thus serve as the cornerstone investors for many private debt managers.

Outlook

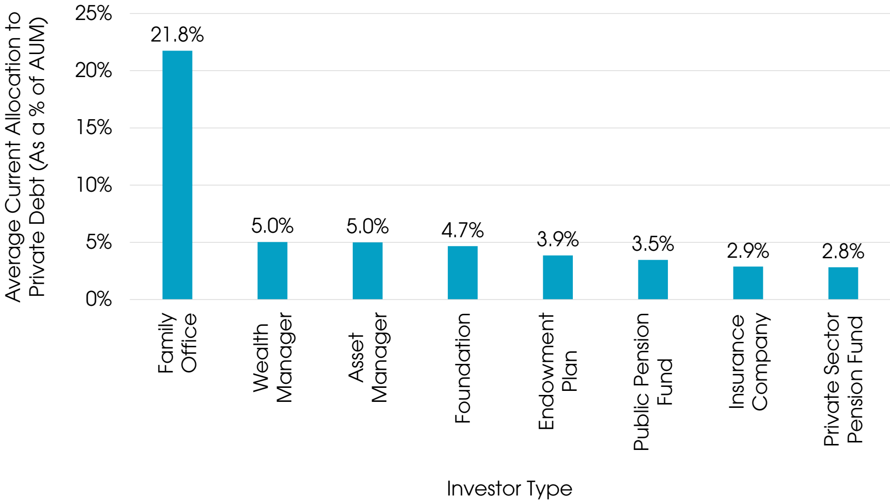
The development and maturation of the private debt asset class within Europe has been the leading growth story throughout the first half of 2016. Paired with consistency in returns, due to historically low corporate default rates and relatively unattractive yields on traditional fixed income vehicles, direct lending, distressed debt and mezzanine financing appear to keystone the globally expanding presence of private debt.

Fig. 6.6: Institutional Investors in Private Debt by Source of Allocation



Source: Preqin Private Debt Online

Fig. 6.7: Average Current Allocation to Private Debt by Investor Type (As a Proportion of AUM)



Source: Preqin Private Debt Online

Data Source:

Access comprehensive information on more than 2,200 investors in private debt worldwide with Preqin's **Private Debt Online**. Profiles include current and target allocations, strategic and geographic preferences, past investments, full contact information for key decision makers and more.

Plus, view detailed information on investors' future investment plans with the **Fund Searches and Mandates** feature. Search for potential new investors by their current investment searches and mandates, including fund structure, fund strategy and regional preferences.

For more information, please visit:

www.preqin.com/privatedebt

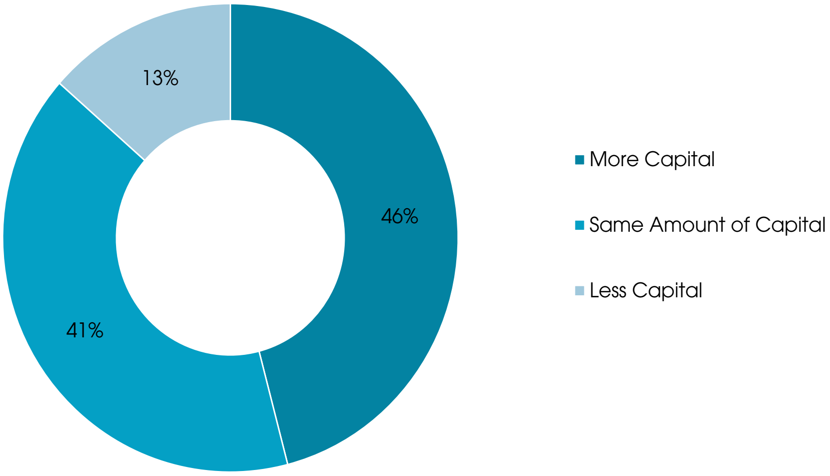
Investor Activity in the Year Ahead

Investor sentiment towards the private debt asset class remained positive throughout the first half of 2016. According to Preqin's most recent investor interviews, participation rates across the various private debt strategies are poised to keep growing in the coming months and years. With $146bn sought by managers currently raising funds in the asset class, competition will be challenging in both established regions and new frontiers; however, demand for exposure is expected to remain strong as investors seek to meet allocation targets in H2 2016. Nearly half (46%) of investors surveyed in June 2016 plan to commit more capital to private debt opportunities in the coming year than in the past 12 months, and a further 41% plan to commit the same amount of capital (Fig. 6.8).

The vast majority (88%) of investors are currently at or below their target allocation to private debt as of June 2016 (Fig. 6.9). Managers raising or launching private debt funds will have a broad group of investors to target, as more than a third (38%) of investors are currently under-allocated to private debt. However, in order for managers to surpass the record fundraising levels seen in 2015 ($94bn), funds that close in H2 2016 would need to raise $66bn in total.

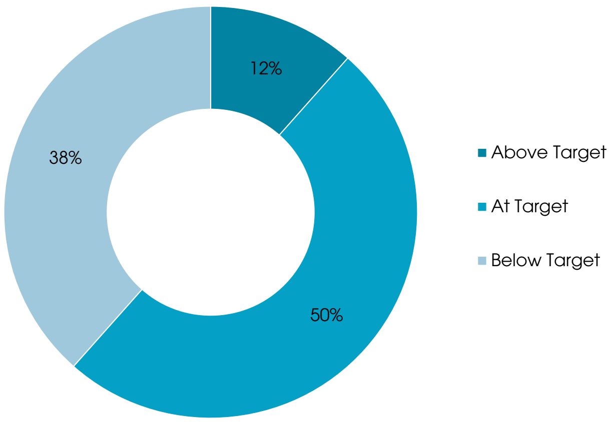
When selecting private debt fund managers, almost a quarter (23%) of investors indicated that strategy is the most important factor to consider (Fig. 6.10). Of the respondents that stated other factors (30%), the explanation most commonly supplied was "all of the above", suggesting that all factors in manager selection are vital to institutional investors. Alignment of interests was the least cited factor (3%).

Fig. 6.8: Investors' Expected Capital Commitment to Private Debt Funds in the Next 12 Months Compared to the Past 12 Months



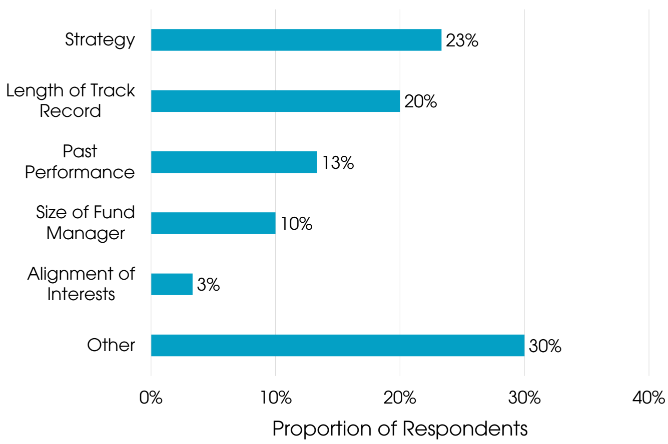
Source: Preqin Investor Interviews, June 2016

Fig. 6.9: Investors At, Above or Below Their Target Allocation to Private Debt



Source: Preqin Investor Interviews, June 2016

Fig. 6.10: Investor Views on the Most Important Factor when Selecting a Private Debt Fund Manager



Source: Preqin Investor Interviews, June 2016

Strategies and Geographies Targeted

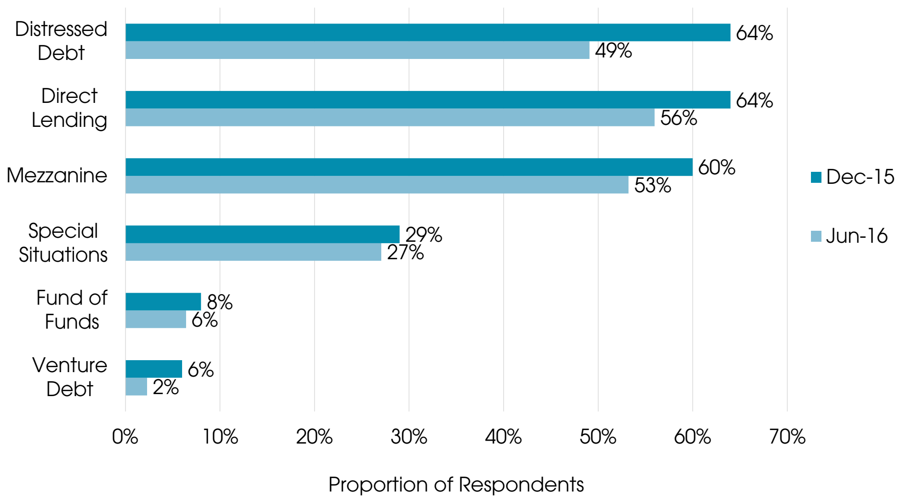
Fund Type Preferences

According to Preqin's **Private Debt Online**, 56% of investors with active mandates in private debt are seeking to make at least one direct lending commitment within the next 12 months, the largest proportion among strategies in the asset class (Fig. 6.11). Direct lending accounts for the highest number of funds currently in market (131) and the largest amount of capital sought ($54bn) compared with other strategies. The second largest amount of capital ($44bn) is being sought by distressed debt funds; the strategy is targeted by 49% of investors in the next 12 months. Distressed debt funds are currently targeting 2.6x more capital on average per fund than direct lending vehicles ($1.0bn vs. $413mn).

Investor demand for mezzanine exposure in the next 12 months has declined to 53% as of June 2016 from 60% in December 2015. Special situations funds are currently being targeted by 27% of investors, a slight decrease from 29% at the end of 2015. Moving towards the more niche categories within private debt, the proportions of investors seeking to make fund of funds and venture debt commitments have both decreased over the past six months, and currently stand at 6% and 2% respectively.

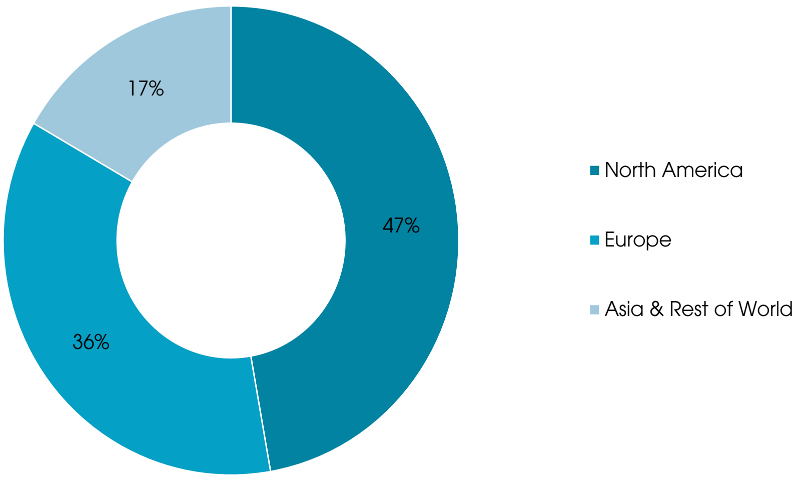
As investor sentiment continues to be the main driver of successful fundraising cycles, direct lending and distressed debt have so far reaped the most benefits from the current global economic climate. Fierce competition for allocations remains within the industry, as more and more vehicles come to market in hopes of successful closings. With assets so highly contested, the differentiation, scope and terms of a fund will be vital for fund managers looking to secure investor commitments to private debt in 2016.

Fig. 6.11: Strategies Targeted by Private Debt Investors in the Next 12 Months, December 2015 vs. June 2016



Source: Preqin Private Debt Online

Fig. 6.12: Regions Investors View as Presenting the Best Opportunities in the Current Financial Climate



Source: Preqin Investor Interviews, June 2016

Geographic Preferences

According to Preqin's most recent investor interviews, 47% of respondents currently view North America as the region presenting the best opportunities in private debt over the next 12 months (Fig. 6.12). North America has traditionally attracted the most activity within the asset class, although growing investor interest in European exposure has been a large part of the story in recent years. There are currently 171 North America-focused private debt funds in market, by far the most of any region, targeting $97bn in aggregate capital. Fund managers focused on Europe have a total of 77 vehicles on the road, collectively targeting more than $37bn. Currently, 36% of respondents see Europe as presenting the best opportunities within private debt, followed by 17% citing other regions including Asia, emerging markets and the Middle East.

Investor enthusiasm for private debt has picked up over the first half of 2016, with many global investors making maiden commitments to the space, fuelling growth in the asset class. Led by the uptick in sentiment towards Europe-focused funds, private debt fundraising is still bolstered by the strong North American direct lending and distressed debt segments.

Natural Resources

Performance Concerns Continue to Dominate Investors' Thinking

Following a challenging few years for natural resources investments, with many commodity prices continuing to trend near historic lows, concerns over performance are understandably at the forefront of investors' minds. Nearly two-thirds (65%) of investors interviewed by Preqin in June 2016 stated that performance over the past 12 months had fallen short of their expectations, and 56% of those surveyed named performance as a challenge to operating a successful natural resources portfolio currently.

However, despite these concerns, and reassuringly for the continued emergence of natural resources as a distinct asset class, investors are committed to the asset class over the longer term: a larger proportion of respondents (24%) are expecting to increase their allocation to natural resources over the longer term than reduce their exposure (20%).

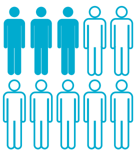
Despite this, the majority (53%) of investors are unsure as to when they will make their next commitment; it appears that they are taking more of a wait-and-see approach to the asset class, likely looking for some uptick in performance before making fresh commitments to natural resources.

The majority (74%) of investors continue to see the strongest opportunities in energy, significantly more than the 26% that cited metals & mining. This, however, is a fall from the 88% of investors that believed the energy sector presented the best opportunities in Preqin's December 2015 survey, indicating that continued performance concerns may have dented investors' confidence in energy.

The struggling performance of natural resources funds has brought the issue of terms and conditions into sharp focus; with investors unhappy with performance, they are even more focused on issues such as fees which further eat into their net returns. Eighty-nine percent of investors interviewed have either frequently or occasionally decided not to allocate to a fund that they otherwise would have due to the proposed terms and conditions. With a record 264 funds on the road currently seeking capital and investors cautious about fresh allocations, managers need to take care to justify the fees they are looking to charge if they are to secure a successful fundraise.

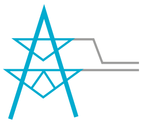
While 65% of investors feel manager and investor interests are properly aligned, this leaves over a third that believe interests are not currently aligned, although fund terms do seem to be trending in favour of investors: 33% reported a change in favour of investors in the past 12 months, compared with only 6% seeing a change in favour of managers.

Industry Perception



29%

Proportion of investors with a positive perception of natural resources at present, up from 17% in December 2015.



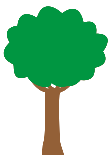
74%

Proportion of investors that currently view energy strategies as presenting the best opportunities.

Key Concerns

56%

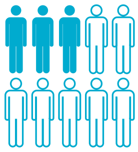
Proportion of investors that feel performance is the biggest challenge in operating an effective natural resources portfolio at present.



86%

Proportion of investors that at least occasionally consider ESG policies in fund manager due diligence.

Plans for Coming Year



32%

Proportion of investors that believe their natural resources portfolio will perform better in the next 12 months than the previous 12 months.

50%

Half of investors plan to increase their co-investment activity in the next 12 months.

Download the Data Pack

View all the charts and tables featured in this report in our handy Excel data pack. It includes ready-made charts that can be used for presentations, marketing materials and company reports.

To download the data pack for **free**, please visit:

www.preqin.com/investoroutlook

Satisfaction with Natural Resources

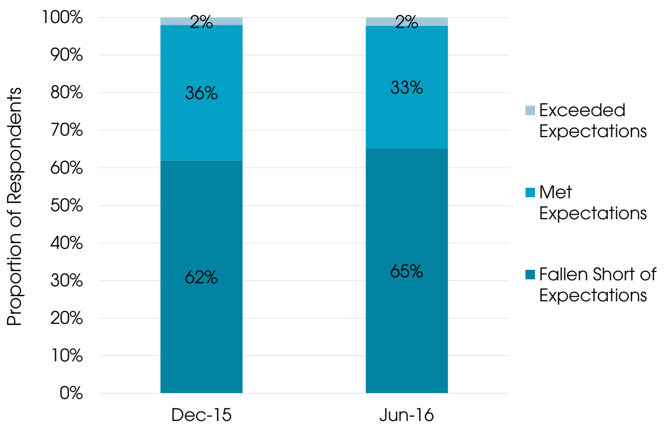
Macroeconomic factors have had a significant effect on the performance of natural resources investments in recent times, and this is clearly reflected in how the asset class is viewed by investors.

Investors remain dissatisfied with natural resources investment: while a third have seen their portfolios meet expectations, nearly two-thirds (65%) of those interviewed in June 2016 stated that their natural resources investments have fallen short of expectations over the last 12 months, an increase from 62% of respondents to Preqin's previous survey in December 2015 (Fig. 7.1).

Furthermore, a greater proportion of natural resources investors now have less confidence in the asset class than those that have gained confidence over the past year: 26% of respondents reported reduced confidence in the ability of their natural resources investments to achieve portfolio objectives, while just 13% have seen their confidence in natural resources increase (Fig. 7.2).

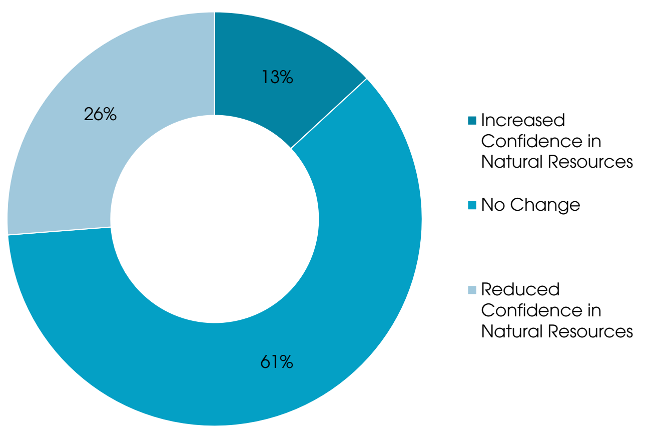
Despite these concerns, only a quarter of investors hold a negative view of the natural resources industry at present, and encouragingly, 29% hold a positive view of the industry, a significant increase from 17% in Preqin's December 2015 survey (Fig. 7.3). Most respondents are planning to maintain their natural resources allocation over the longer term in this environment, although there is a greater proportion of investors looking to increase their allocation than reduce it (Fig. 7.4).

Fig. 7.1: Proportion of Investors that Feel Their Natural Resources Investments Have Lived up to Expectations over the Past 12 Months, December 2015 vs. June 2016



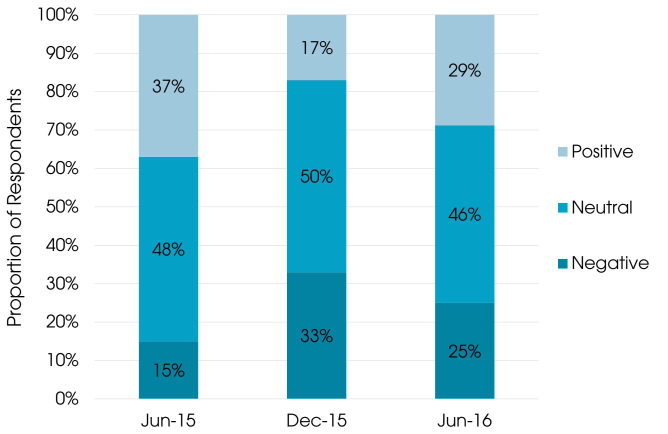
Source: Preqin Investor Interviews, December 2015 - June 2016

Fig. 7.2: Investors' Change in Confidence in the Ability of Natural Resources to Achieve Portfolio Objectives in the Past 12 Months



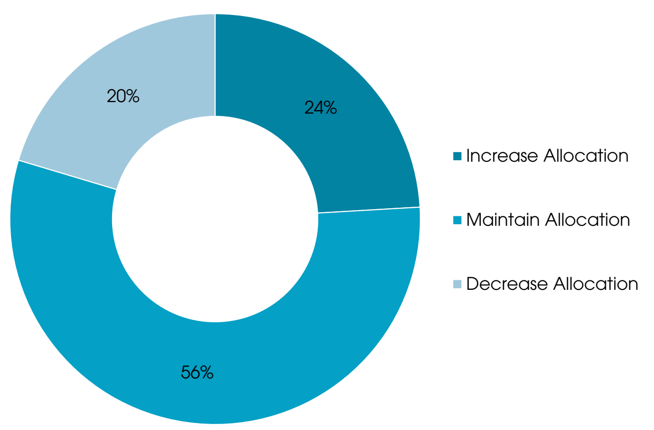
Source: Preqin Investor Interviews, June 2016

Fig. 7.3: Investors' General Perception of the Natural Resources Industry, June 2015 - June 2016



Source: Preqin Investor Interviews, June 2015 - June 2016

Fig. 7.4: Investors' Intentions for Their Natural Resources Allocations in the Longer Term



Source: Preqin Investor Interviews, June 2016

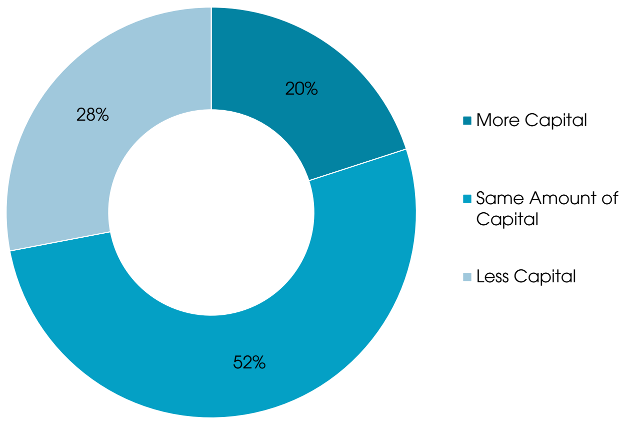
Investor Activity in the Year Ahead

Similar to the longer term view, the largest proportion of surveyed investors will invest the same amount of capital in natural resources in the coming 12 months as they did in the previous year. However, investors appear to be cutting back on further investment in the short term, with 28% of respondents planning to invest less capital in the year ahead compared with 20% planning to invest more (Fig. 7.5). The greater proportion of investors reducing rather than increasing their capital commitments in the next 12 months, against the reverse trend in the long term, gives the view that investors may be waiting for commodity prices to show signs of recovery before allocating capital to the industry.

A quarter of investors interviewed are expecting to be active in the asset class over the remainder of 2016 (Fig. 7.6), far below the 59% of private equity investors interviewed that plan to invest in the asset class over the rest of 2016. The majority (53%) of natural resources investors were unsure as to when they would make their next commitment to unlisted natural resources funds, and could potentially make commitments in the next 12 months.

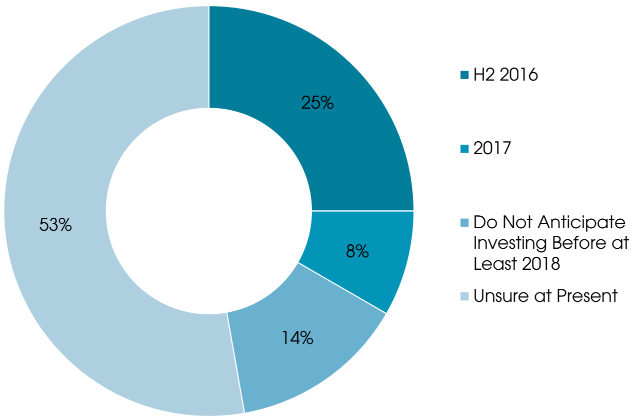
Of those investors profiled on Preqin's **Natural Resources Online** that have stated their intention to be active in the asset class over the next 12 months, the majority are intending to commit small amounts to a relatively low number of funds. As seen in Fig. 7.7 and Fig. 7.8, 64% of active natural resources investors are planning to commit less than $50mn in fresh capital to unlisted natural resources funds, while 89% are planning to make either one or two commitments in the year ahead.

Fig. 7.5: Investors' Expected Capital Commitment to Natural Resources Funds in the Next 12 Months Compared to the Past 12 Months



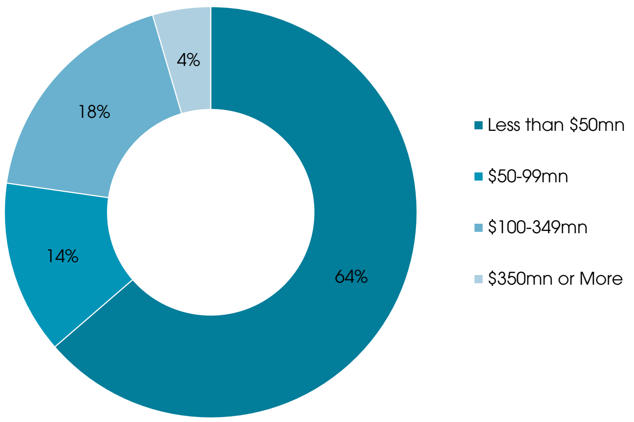
Source: Preqin Investor Interviews, June 2016

Fig. 7.6: Timeframe for Investors' Next Intended Commitment to Unlisted Natural Resources Funds



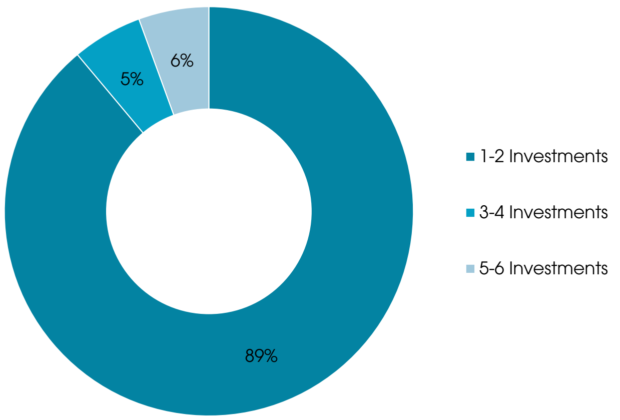
Source: Preqin Investor Interviews, June 2016

Fig. 7.7: Amount of Fresh Capital Investors Plan to Invest in Unlisted Natural Resources Funds over the Next 12 Months



Source: Preqin Natural Resources Online

Fig. 7.8: Number of Unlisted Natural Resources Fund Commitments Investors Plan to Make over the Next 12 Months



Source: Preqin Natural Resources Online

Strategies and Geographies Targeted

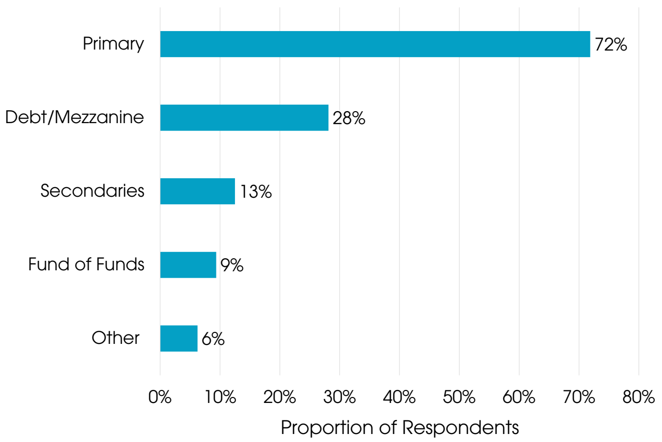
The vast majority (72%) of surveyed investors still feel primary vehicles present the best opportunities in the current market, although debt vehicles have become increasingly prominent, with 28% of respondents believing exposure to natural resources debt/mezzanine vehicles also presents strong opportunities (Fig. 7.9).

The dominance of energy strategies in the natural resources market continues, with almost three-quarters of surveyed investors believing energy strategies present the best opportunities in the current market (Fig. 7.10). Metals & mining and agriculture/farmland strategies were cited by 26% and 19% of respondents respectively as presenting the best opportunities.

North America was viewed as the region with the most natural resources investment potential at present by 63% of respondents, significantly more than for any other region (Fig. 7.11). However, when examining these results by investor location, all respondents based in North America and 80% of respondents in Europe cited their domestic market as presenting the best opportunities (Fig. 7.12). For investors outside these two regions, the results were more evenly distributed across geographies, with 44% believing Asia presents the best opportunities and a third of respondents each citing North America and regions outside North America, Europe and Asia.

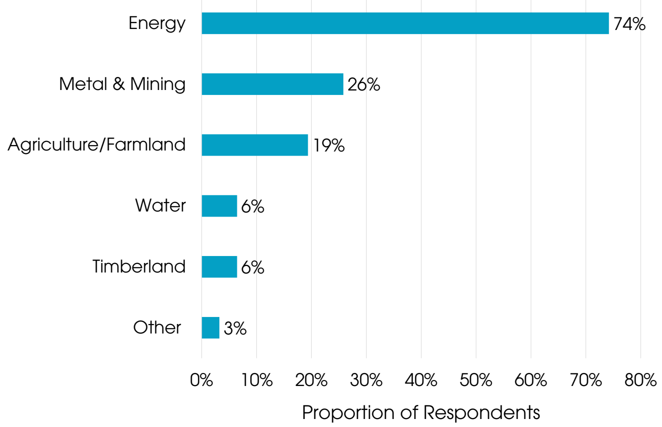
Investors will look towards opportunities in emerging markets, although most of this activity will occur in the longer term: 12% of respondents are looking to increase their allocation to emerging markets in the next 12 months, compared with 38%

Fig. 7.9: Fund Types Investors View as Presenting the Best Opportunities in the Current Financial Climate*



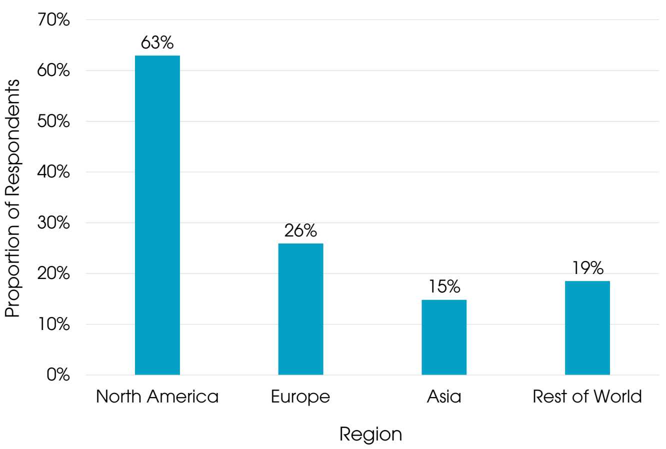
Source: Preqin Investor Interviews, June 2016

Fig. 7.10: Strategies Investors View as Presenting the Best Opportunities in the Current Financial Climate*



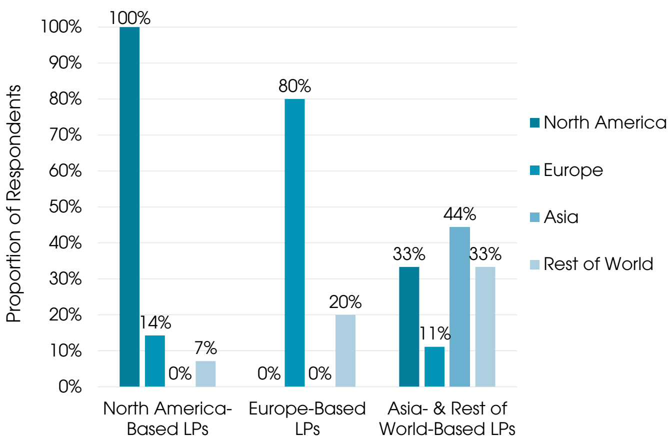
Source: Preqin Investor Interviews, June 2016

Fig. 7.11: Regions Investors View as Presenting the Best Opportunities in the Current Financial Climate*



Source: Preqin Investor Interviews, June 2016

Fig. 7.12: Regions Investors View as Presenting the Best Opportunities in the Current Financial Climate* by Investor Location

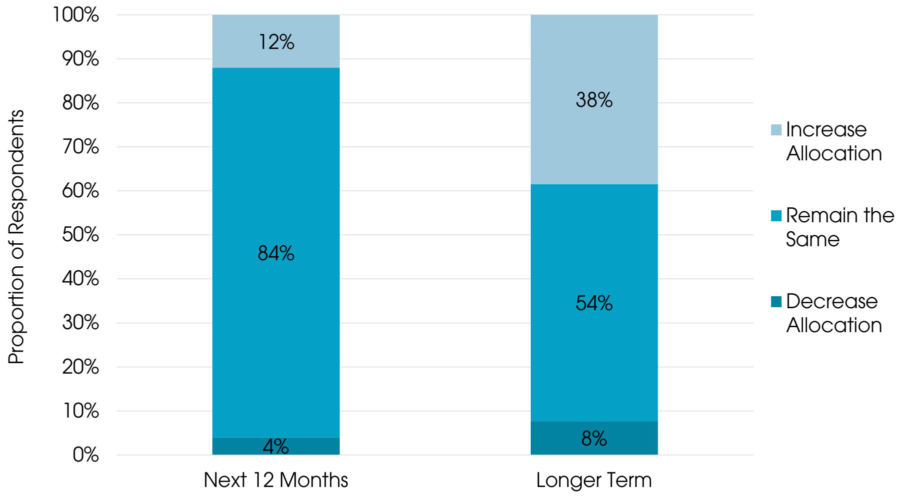


Source: Preqin Investor Interviews, June 2016

**Respondents were not prompted to give their opinions on each region/fund type individually but to name those they felt best fit these categories; therefore, the results display the regions/fund types at the forefront of investors' minds at the time of the survey.*

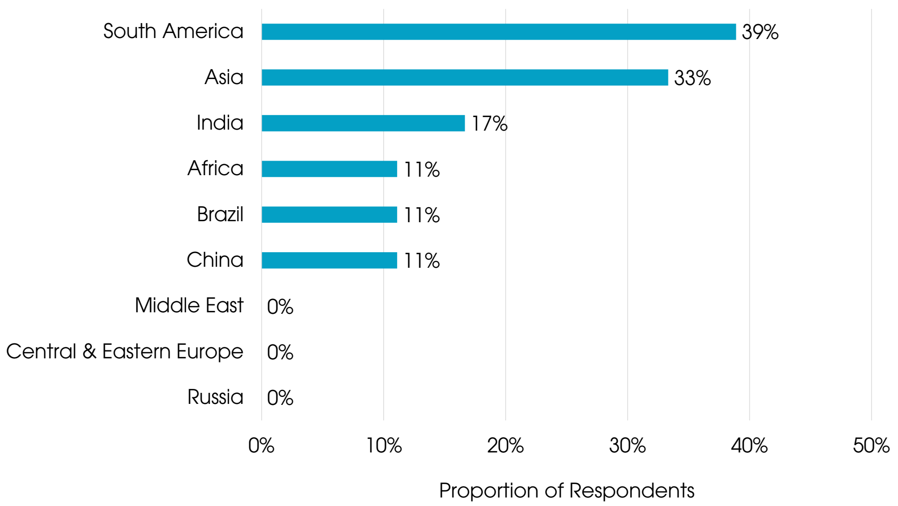
over the longer term (Fig. 7.13). Natural resources investment in South America was cited by the largest proportion (39%) of surveyed investors as the most attractive emerging market, although emerging regions in Asia also attracted a notable proportion of respondents (33%, Fig. 7.14). No respondents felt that Russia, Central & Eastern Europe or the Middle East were attractive regions for natural resources investment at present.

Fig. 7.13: Investors' Intentions for Their Emerging Markets Allocation



Source: Preqin Investor Interviews, June 2016

Fig. 7.14: Emerging Markets Investors View as Attractive at Present



Source: Preqin Investor Interviews, June 2016

Research Center Premium

All of the free research reports, newsletters, statistics and tools Preqin offers can be found in one place: Preqin's **Research Center Premium**.

Browse industry reports and newsletters: explore our complete archive of research reports and newsletters looking at key trends across private equity, hedge funds, real estate, infrastructure, private debt and natural resources.

Keep track of the latest industry stats: access charts and league tables, powered by Preqin's award-winning online services, to find out the latest stats on fundraising, deals, dry powder, industry AUM and more.

Access fund performance benchmarking tools: see what the typical returns have been for funds of different vintages, geographical foci and strategies.

Download charts and presentation slide decks: download the data from all the charts, league tables and slide decks included in our research reports and presented by Preqin at recent conferences.

For more information, please visit: www.preqin.com/rcp

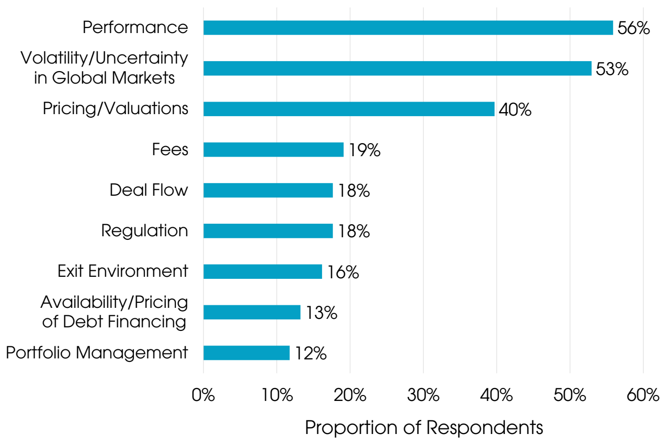
Key Issues and Challenges

With natural resources not meeting a large proportion of investors' return expectations (see page 48), performance was unsurprisingly cited by the majority (56%) of investors as the key challenge facing the natural resources industry, although factors influencing performance – volatility and uncertainty in global markets and pricing – were also cited by large proportions of respondents (53% and 40% respectively, Fig. 7.15). Interestingly, the proportion of respondents that see pricing as a key issue facing natural resources has increased from 16% in Preqin's December 2015 survey.

As mentioned, investors are concerned over valuations of assets and the effect this has on their ability to source attractive investment opportunities. While nearly half of surveyed natural resources investors have seen no change in their ability to identify attractive opportunities in the past 12 months, a third have found it more difficult and just 19% have found it easier (Fig. 7.16)

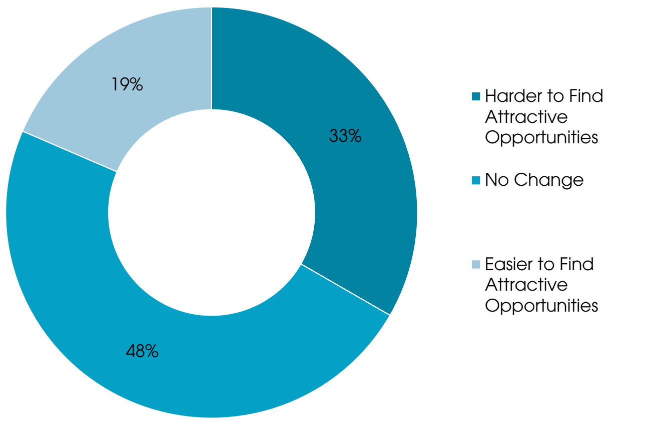
Despite these concerns, surveyed investors were optimistic about the returns from their natural resources portfolio in the short term, with nearly a third of respondents believing that investments will perform better in the next 12 months than the previous year (Fig. 7.17). Unsurprisingly, when selecting new fund managers, being able to demonstrate strong past performance was the primary factor that respondents take into account when sourcing a new relationship, above the 22% citing the length of a manager's track record or the strategy they follow (Fig. 7.18).

Fig. 7.15: Biggest Challenges Facing Investors Seeking to Operate an Effective Natural Resources Program at Present



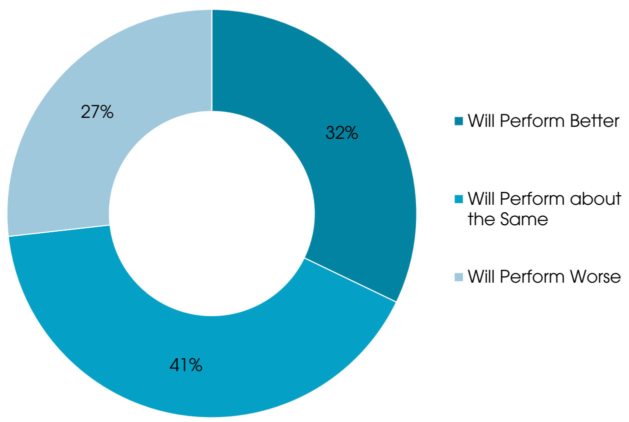
Source: Preqin Investor Interviews, June 2016

Fig. 7.16: Investor Views on the Difficulty of Identifying Attractive Investment Opportunities Compared to 12 Months Ago



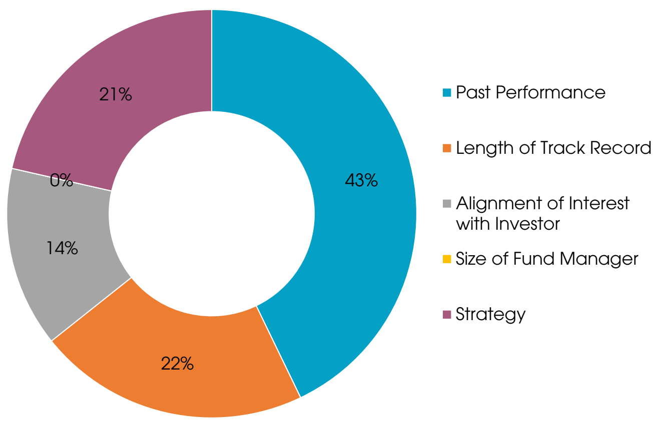
Source: Preqin Investor Interviews, June 2016

Fig. 7.17: Investors' Return Expectations from Their Natural Resources Portfolios in the Next 12 Months Compared to the Past 12 Months



Source: Preqin Investor Interviews, June 2016

Fig. 7.18: Investor Views on the Most Important Factor when Selecting an Unlisted Natural Resources Fund Manager



Source: Preqin Investor Interviews, June 2016

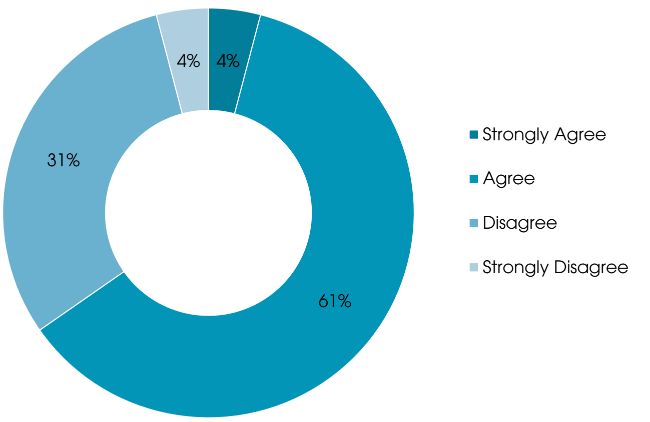
Fund Terms and Alignment of Interests

Nearly two-thirds of surveyed investors agree that fund manager and investor interests are properly aligned (Fig. 7.19), with a third of investors stating that they have seen a change in natural resources fund terms and conditions over the past 12 months in favour of the investor (Fig. 7.20). Contrastingly, only 6% of investors have seen changes in favour of the fund manager, the smallest proportion among all alternative asset classes surveyed, indicating that managers are willing to make concessions in the current environment to improve their relationships with investors.

As seen in Fig. 7.21, this shift in the alignment of interests has largely stemmed from improvement in the areas of performance fees (as reported by 46% of respondents) and management fees (38%), although a notable proportion (31%) have seen positive changes in managers' commitments to their own funds. However, the majority (53%) of investors still felt further improvements were needed in management fees and in the way in which performance fees are structured.

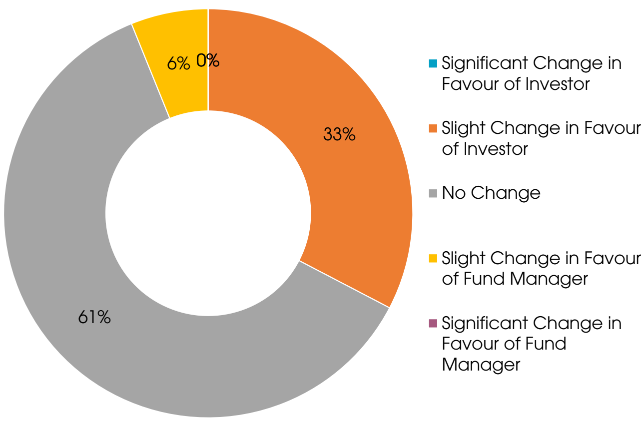
Clearly, fees will continue to have a significant impact on how investors view the asset class, especially when performance has been placed under intense scrutiny. With 89% of investors either frequently or occasionally deciding not to invest in a natural resources fund that they otherwise would have because of the proposed terms and conditions (Fig. 7.22), natural resources firms must tailor products accordingly in order to continue securing institutional capital.

Fig. 7.19: Extent to Which Investors Believe Fund Manager and Investor Interests Are Properly Aligned



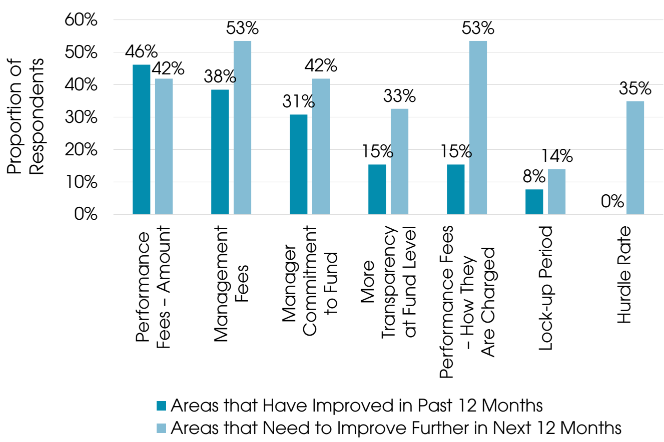
Source: Preqin Investor Interviews, June 2016

Fig. 7.20: Investor Views on whether There Has Been a Change in Natural Resources Fund Terms and Conditions over the Past 12 Months



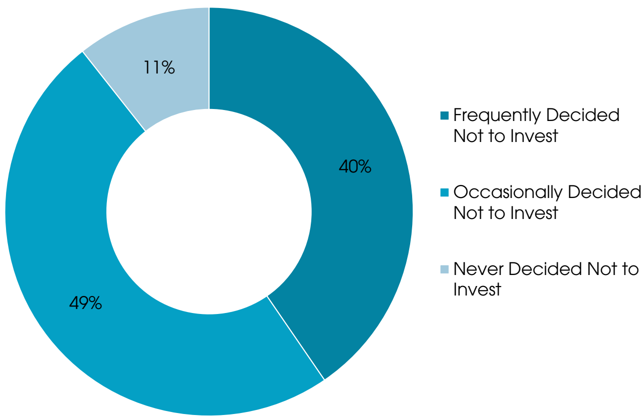
Source: Preqin Investor Interviews, June 2016

Fig. 7.21: Areas of Fund Terms Investors Feel Have Shown the Most Improvement over the Past 12 Months and that Need to Improve Further in the Next 12 Months



Source: Preqin Investor Interviews, June 2016

Fig. 7.22: Proportion of Investors that Have Previously Decided Not to Invest in a Fund Due to the Proposed Terms and Conditions



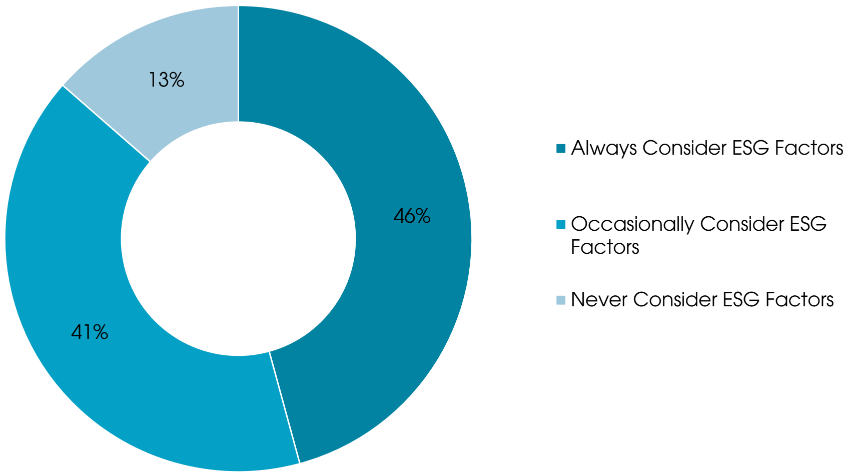
Source: Preqin Investor Interviews, June 2016

Fund Selection and Marketing

Environmental, Social and Governance (ESG) Factors

ESG policies are increasingly affecting institutional investors' choice in where to place their capital. When sourcing new fund investments, 87% of natural resources investors interviewed consider ESG factors at least occasionally, including 46% that always consider ESG policies as part of their due diligence (Fig. 7.23). Of those investors with a specific preference for the type of ESG policy they follow, the majority (62%) target environmentally responsible factors – an important area for the industry given the extraction and cultivation of mineral resources – while notable proportions (both 46%) also target socially responsible and local investments (Fig. 7.24).

Fig. 7.23: Investors that Consider Environmental, Social and Governance (ESG) Factors when Investing in Natural Resources Funds

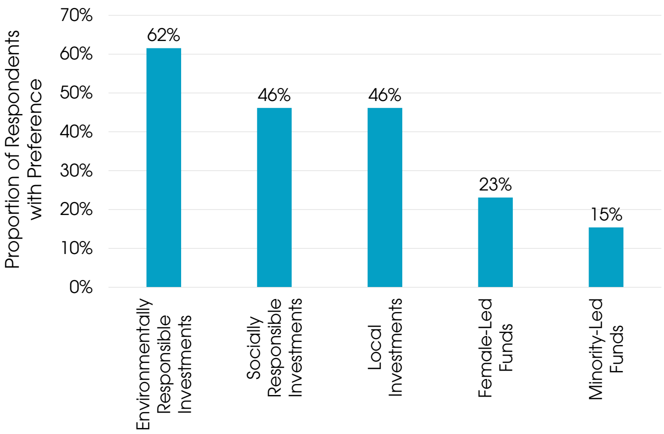


Source: Preqin Investor Interviews, June 2016

Marketing

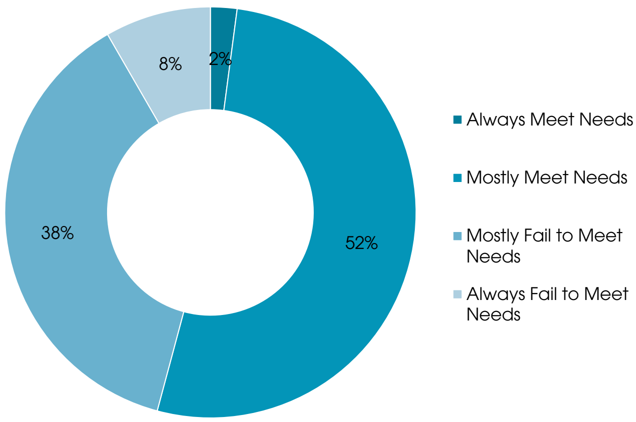
Receiving appropriate updates and documentation from fund managers can build new or improve relationships with potential and existing investors by helping to avoid future conflicts through the management of expectations and regular communication. The majority (54%) of surveyed natural resources investors find that marketing documentation at least mostly meets their needs (Fig. 7.25). However, in a competitive fundraising environment, it is important for fund managers to review their processes in order to effectively market their vehicles and secure institutional capital; 38% of respondents find this documentation mostly fails to meet their needs, and 8% find that marketing never meets their needs.

Fig. 7.24: Natural Resources Investors' Environmental, Social and Governance (ESG) Preferences



Source: Preqin Investor Interviews, June 2016

Fig. 7.25: Investor Views on the Frequency with Which Fund Manager Marketing Documents Meet Their Needs



Source: Preqin Investor Interviews, June 2016

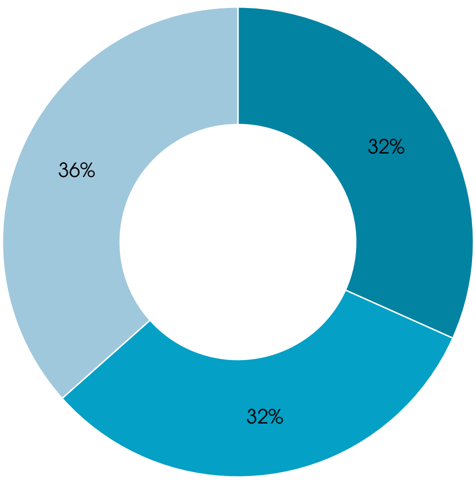
Alternative Methods of Accessing the Asset Class

Recent years have seen a rise in investor appetite for alternative structures, which can offer investors a variety of benefits over the traditional commingled fund model, including greater control over their natural resources portfolio, lower fees and a greater level of exposure to attractive assets.

Thirty-two percent of natural resources investors interviewed will invest directly in assets on a proprietary basis, while a further 32% will co-invest alongside fund managers (Fig. 7.26). Investors look set to ramp up their level of co-investment activity in the year ahead, with 50% of respondents planning to increase co-investment activity compared to the previous 12 months, and none decreasing their level of activity (Fig. 7.27). As co-investments are an accessible way of gaining more exposure to attractive assets, a smaller proportion (22%) of respondents will seek to increase levels of direct investment on a proprietary basis in the next year. This is due to the significant human and capital resource it requires to source, invest and monitor natural resources assets. Most investors with PPP/PFI exposure (86% of respondents) will maintain their level of activity in the coming 12 months, with no surveyed investors planning to increase activity in this area.

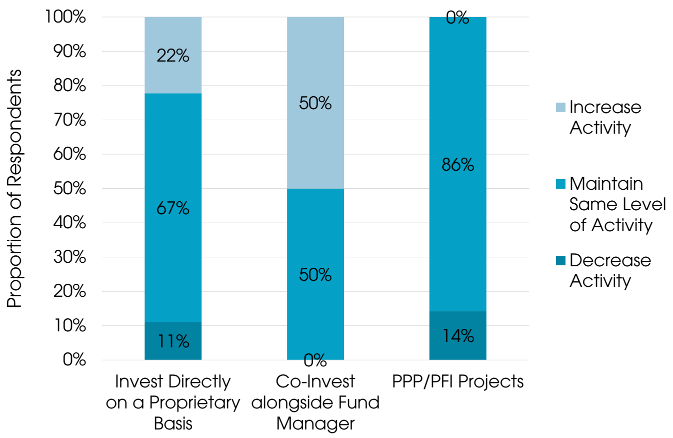
Despite seeking to utilize these alternative methods on a greater scale in the coming year, the majority (60%) of investors plan to add these methods to their portfolio alongside their current fund commitments, with only 40% intending to replace their unlisted fund holdings with these methods (Fig. 7.28).

Fig. 7.26: Investors' Direct Participation in Natural Resources Investment



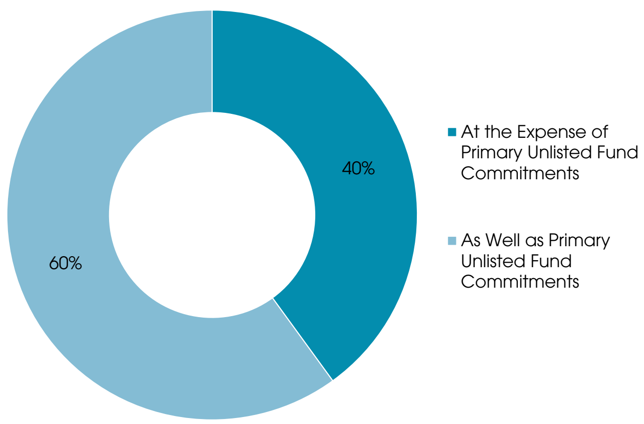
Source: Preqin Investor Interviews, June 2016

Fig. 7.27: Investors' Expected Activity in Natural Resources in the Next 12 Months Compared to the Past 12 Months



Source: Preqin Investor Interviews, June 2016

Fig. 7.28: Investor Views on How Increased Direct Investment Activity Will Affect Primary Unlisted Fund Commitments



Source: Preqin Investor Interviews, June 2016

Data Source:

See detailed profiles for over 2,000 institutional investors actively or considering investing in natural resources on Preqin's **Natural Resources Online**, including their plans for investments in the coming months. For more information, please visit:

www.preqin.com/naturalresources

Preqin Investor Outlook: Alternative Assets H2 2016

preqin

alternative assets. intelligent data.

Preqin: Alternatives Data and Intelligence

With global coverage and detailed information on all aspects of alternative assets, Preqin's industry-leading online services keep you up-to-date on all the latest developments in the private equity, hedge fund, real estate, infrastructure, private debt and natural resources industries.

Source new investors for funds and co-investments

Find the most relevant investors, with access to detailed profiles for over 9,600 institutional investors actively investing in alternatives, including current fund searches and mandates, direct contact information and sample investments.

Identify potential fund investment opportunities

View in-depth profiles for over 2,700 private capital funds currently in market and over 13,700 hedge funds open to new investment, including information on investment strategy, geographic focus, key fund data, service providers used and sample investors.

Find active fund managers in alternatives

Search for firms active in alternative investments. View information on key contacts, firm fundraising/AUM and performance history, key investment preferences, known investors and more.

See the latest on buyout, venture capital and infrastructure deals and exits

View details of more than 210,000 buyout, venture capital, real estate and infrastructure deals, including deal value, buyers, sellers, debt financing providers, financial and legal advisors, exit details and more. Identify forthcoming exits and expected IPOs.

Benchmark performance

Identify which fund managers have the best track records, with customizable fund performance benchmarks and performance details for over 22,000 individual named private equity, real estate, infrastructure, private debt, natural resources and hedge funds.

Examine fund terms

See the typical terms offered by funds of particular types, strategies and geographical foci, and assess the implications of making changes to different fees.

View detailed profiles of service providers

Search for active administrators, custodians, prime brokers, placement agents, auditors and law firms by type and location of funds and managers serviced. Customize league tables of service providers by type, location of headquarters and total known number of funds serviced.

Find out how Preqin's range of products and services can help you:

www.preqin.com

If you want any further information, or would like to apply for a demo of our products, please contact us:

New York:
One Grand Central Place
60 E 42nd Street
Suite 630, New York
NY 10165
Tel: +1 212 350 0100
Fax: +1 440 445 9595

London:
Vintners' Place
68 Upper Thames Street
London
EC4V 3BJ
Tel: +44 (0)20 3207 0200
Fax: +44 (0)87 0330 5892

Singapore:
One Finlayson Green, #11-02
Singapore 049246
Tel: +65 6305 2200
Fax: +65 6491 5365

San Francisco:
One Embarcadero Center
Suite 2850
San Francisco
CA 94111
Tel: +1 415 316 0580
Fax: +1 440 445 9595

Hong Kong:
Level 9, Central Building
1-3 Pedder Street
Central, Hong Kong
Tel: +852 3958 2819
Fax: +852 3975 2800

Manila:
Pascor Drive
Sto. Niño
Parañaque City
Metro Manila 1700
Philippines

Email: info@preqin.com
Web: www.preqin.com