

PREQIN INVESTOR UPDATE: ALTERNATIVE ASSETS H2 2018

Private Equity • Venture Capital • Hedge Funds • Real Estate
Infrastructure • Private Debt • Natural Resources

FOREWORD

With nearly four out of every five institutional investors globally allocating capital to alternative assets, these products have emerged as a mainstream investment option over the past decade. Although central banks have started to adapt interest rate policies, interest rates in many economies remain at very low levels; investors have diversified in their quest for yield as well as in a bid to reduce long-term risks within their portfolios.

In June 2018, we surveyed 530 institutional investors to discover more about their views on alternative assets – private equity, real estate, infrastructure, natural resources, private debt and hedge funds.

In this Investor Update, we dive into these results, as well as data taken from our award-winning platform, to determine what investors are looking for from alternative assets and how these products are meeting their needs. We also provide an outlook on their future plans for alternative assets going forwards.

Some key themes emerged from our conversations with investors:

- **Institutional portfolios of alternative assets are growing more diverse:**

In June 2015, 39% of the institutions tracked by Preqin allocated capital to three or more different alternative assets; today, that figure stands at 50%. Diversification is the primary reason why investors have stepped into alternative assets, above high absolute returns.

- **Investors' needs from alternative assets are changing:**

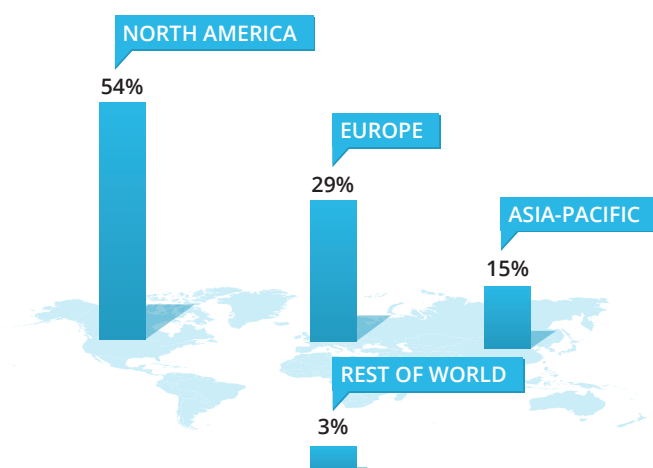
Asset pricing and high valuations are a concern across many private capital asset classes, with many investors believing equity markets have peaked. Investors, which have often seen performance above expectations in recent years, believe that the opportunity for outperformance may be constrained going forwards. Across private equity, real estate and infrastructure, investors' return expectations have fallen significantly since 2015.

- **Interest in emerging markets and Asia is growing:**

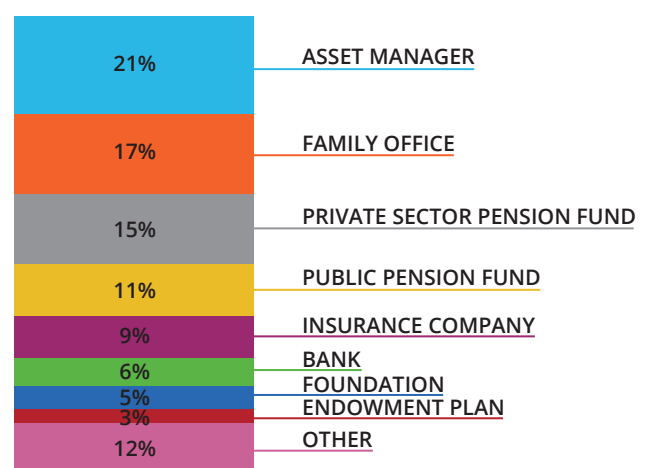
Although North America and Europe continue to dominate investor thinking for their alternative assets portfolios, Asia and other emerging markets feature highly on the agenda across alternative asset classes. With concerns around high pricing in developed markets, investors are looking elsewhere for new opportunities.

We hope you find this report useful and welcome any feedback you may have. For more information, please visit www.preqin.com or contact info@peqin.com.

RESPONDENTS BY INVESTOR LOCATION



RESPONDENTS BY INVESTOR TYPE

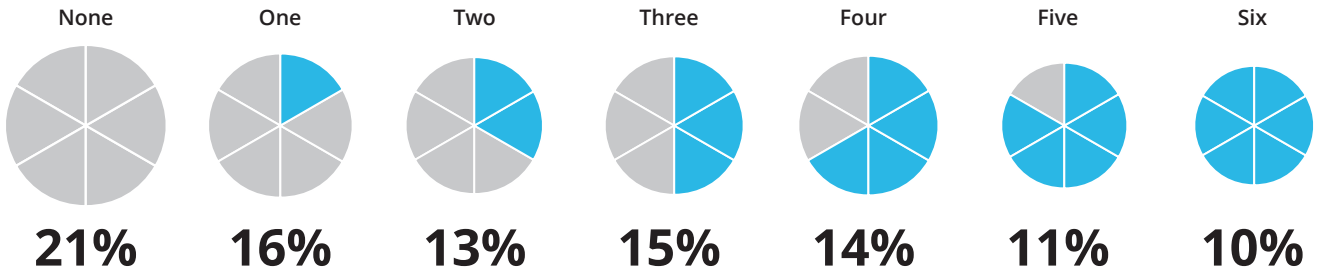




SECTION ONE: ALTERNATIVE ASSETS OVERVIEW

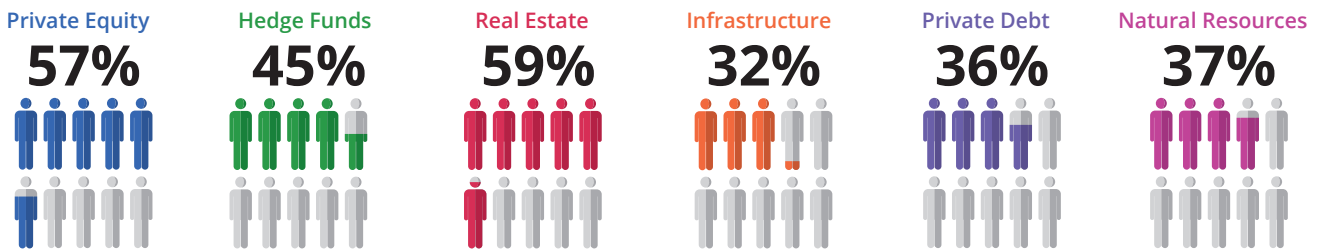
PARTICIPATION IN ALTERNATIVE ASSETS

INSTITUTIONAL INVESTORS BY NUMBER OF ALTERNATIVE ASSET CLASSES INVESTED IN



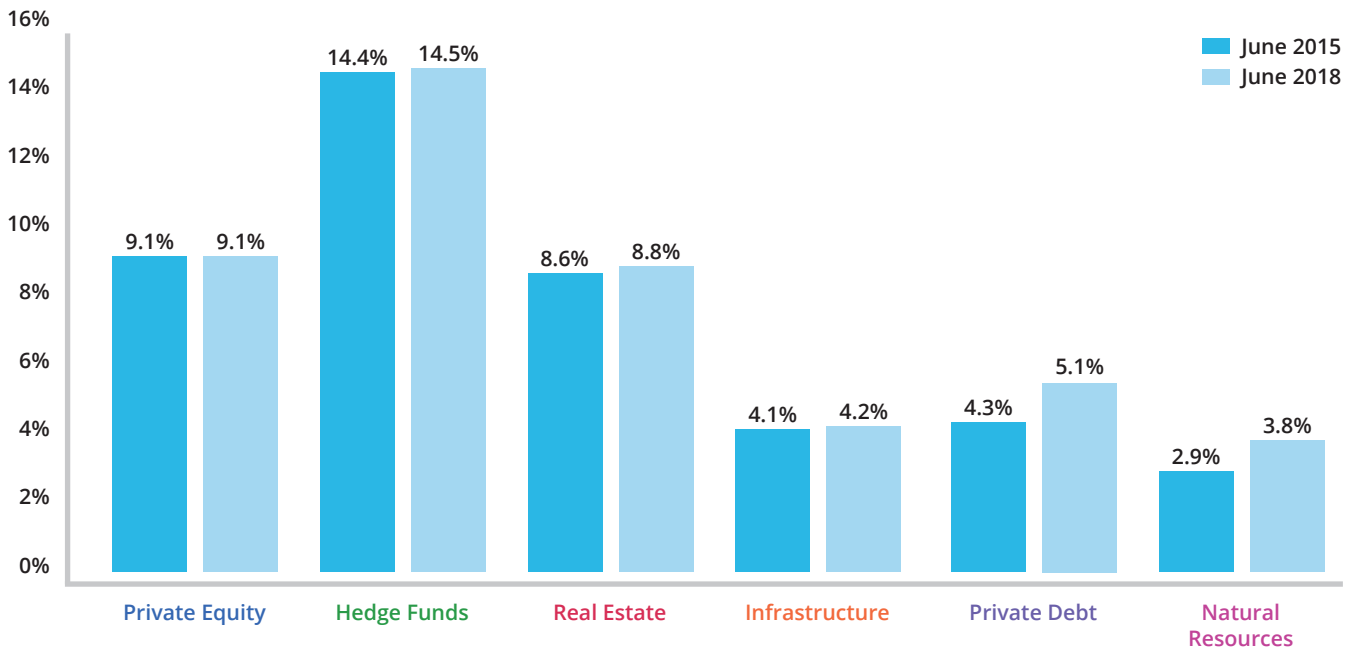
Source: Preqin

INSTITUTIONAL INVESTORS ALLOCATING TO EACH ALTERNATIVE ASSET CLASS



Source: Preqin

INVESTORS' AVERAGE CURRENT ALLOCATION TO EACH ASSET CLASS (AS A % OF TOTAL ASSETS), 2015 vs. 2018



Source: Preqin Investor Interviews, June 2015 - June 2018

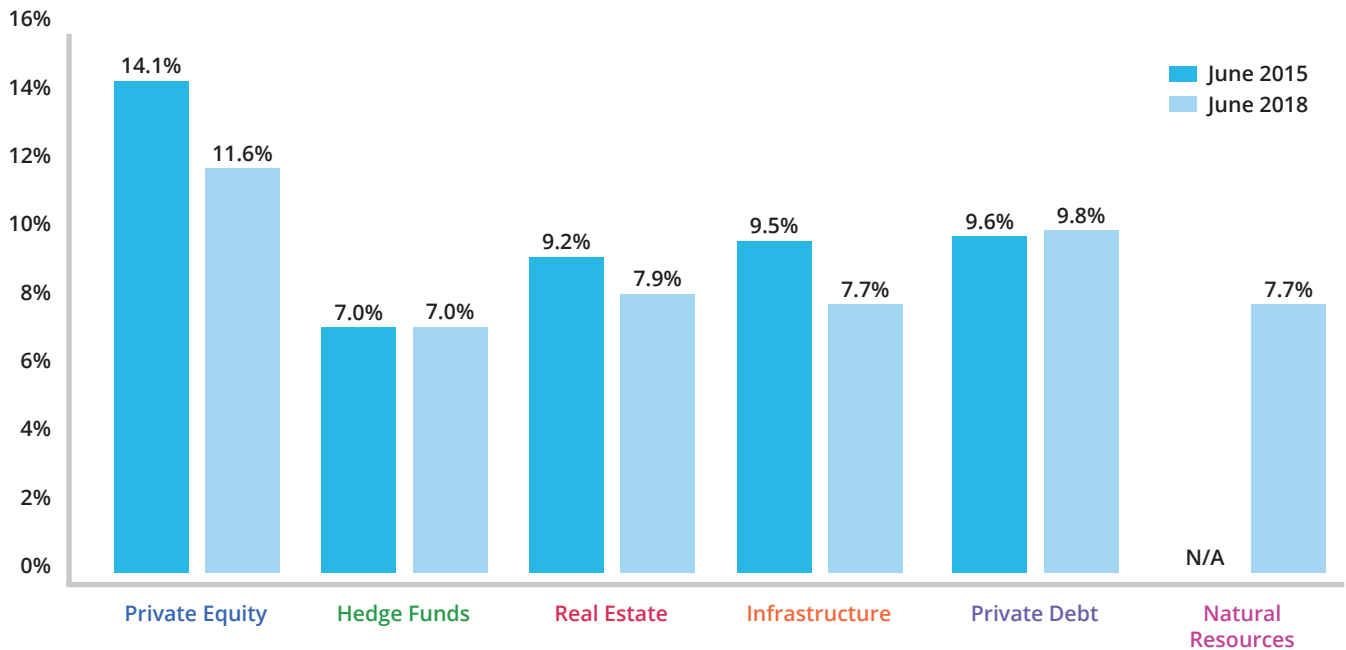
WHAT ARE INVESTORS LOOKING FOR?

INSTITUTIONAL INVESTORS' MAIN REASONS FOR INVESTING IN ALTERNATIVE ASSETS

Private Equity	Hedge Funds	Real Estate	Infrastructure	Private Debt	Natural Resources
Diversification	Diversification	Diversification	Diversification	Diversification	Diversification
High Absolute Returns	Low Correlation to Other Asset Classes	Reliable Income Stream	Reliable Income Stream	Reliable Income Stream	Inflation Hedge
High-Risk Adjusted Returns	High-Risk Adjusted Returns	Inflation Hedge	Inflation Hedge	High-Risk Adjusted Returns	Low Correlation to Other Asset Classes

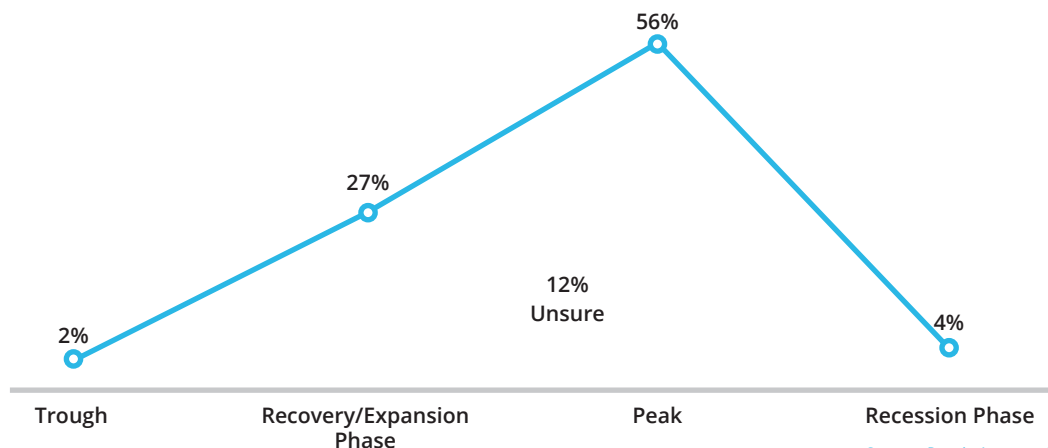
Source: Preqin Investor Interviews, June 2018

AVERAGE ANNUAL RETURNS SOUGHT BY INVESTORS FOR EACH ASSET CLASS, 2015 vs. 2018



Source: Preqin Investor Interviews, June 2015 - June 2018

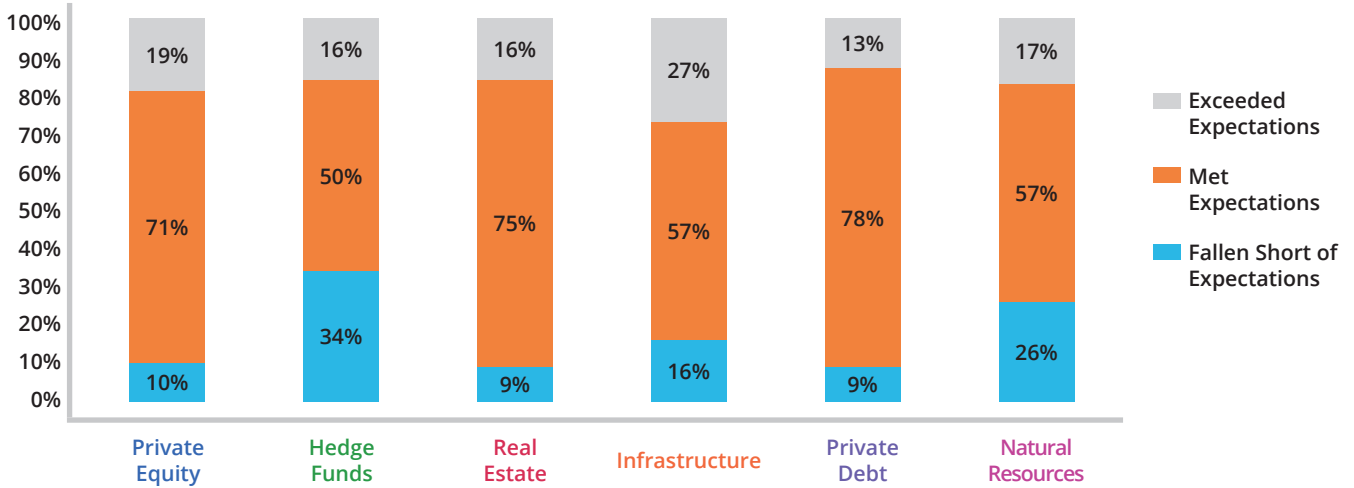
INVESTOR VIEWS ON WHERE WE ARE IN THE EQUITY CYCLE



Source: Preqin Investor Interviews, June 2018

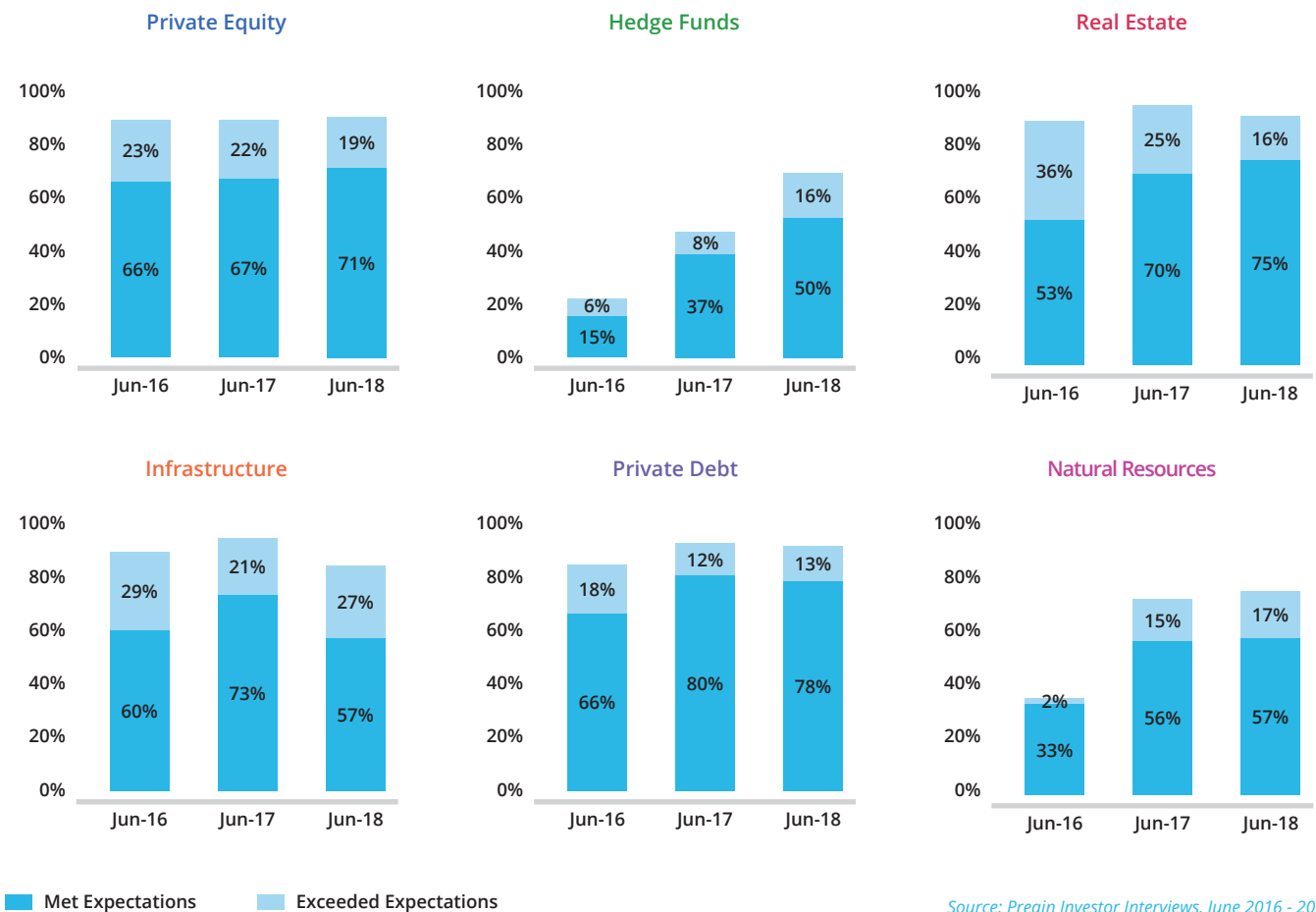
ARE ALTERNATIVES DELIVERING?

INSTITUTIONAL INVESTOR VIEWS ON PORTFOLIO PERFORMANCE OVER THE PAST 12 MONTHS BY ASSET CLASS



Source: Preqin Investor Interviews, June 2018

PROPORTION OF INVESTORS SATISFIED WITH PORTFOLIO PERFORMANCE OVER THE PAST 12 MONTHS BY ASSET CLASS, 2016 - 2018



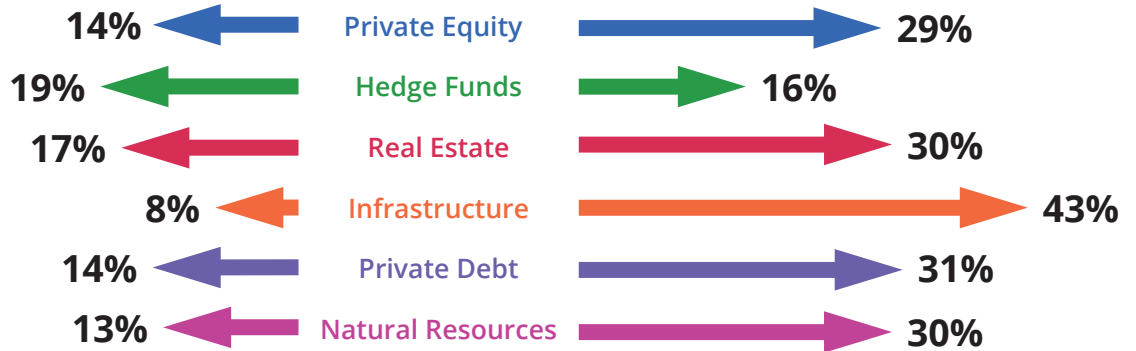
Source: Preqin Investor Interviews, June 2016 - 2018

WHAT ARE INVESTORS PLANNING?

INSTITUTIONAL INVESTORS' PLANS FOR THE COMING YEAR

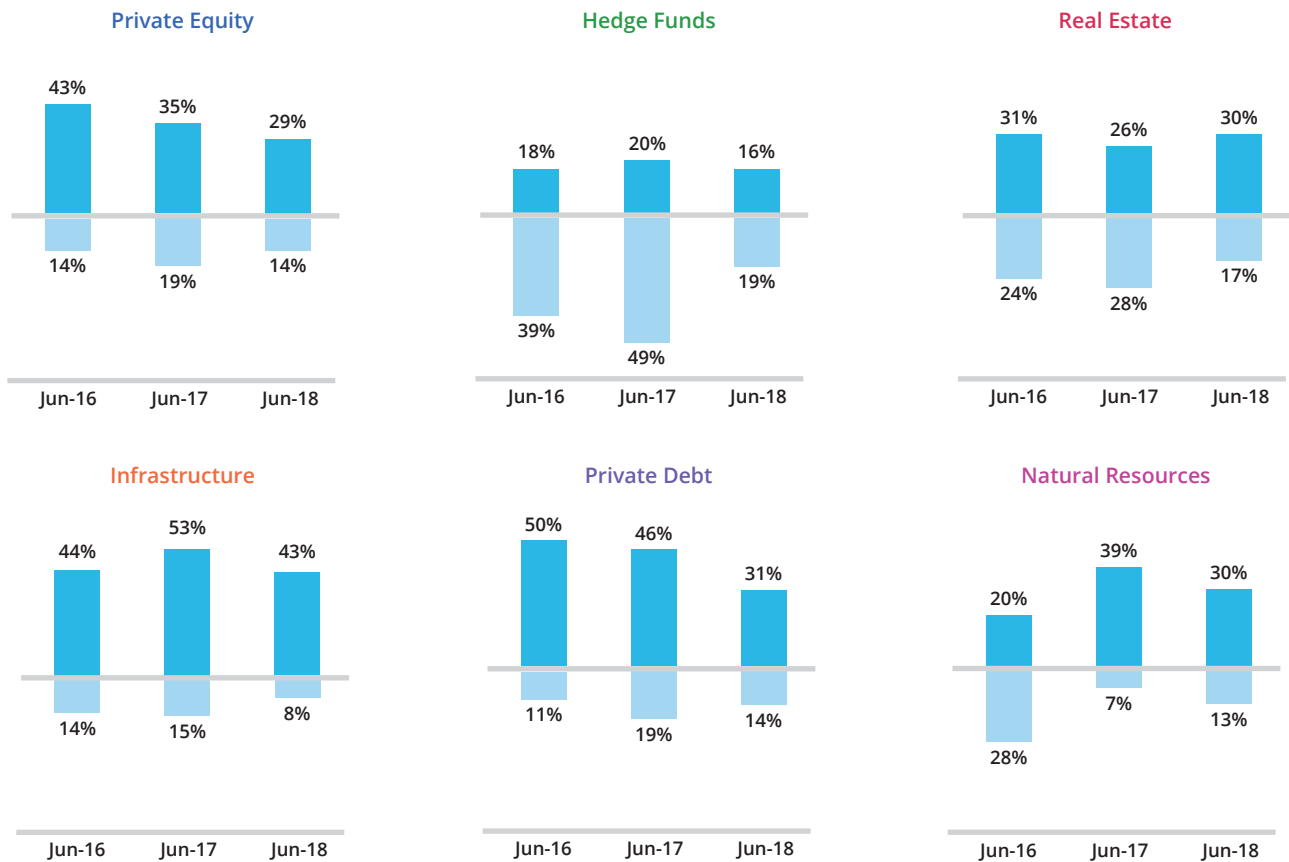
Invest Less Capital than in Past 12 Months ▼

Invest More Capital than in Past 12 Months ▲



Source: Preqin Investor Interviews, June 2018

INSTITUTIONAL INVESTORS' PLANS FOR THE COMING YEAR, 2016 - 2018



■ Invest More Capital than in Past 12 Months
 ■ Invest Less Capital than in Past 12 Months

Source: Preqin Investor Interviews, June 2016 - June 2018



SECTION TWO: ASSET CLASS BREAKDOWNS

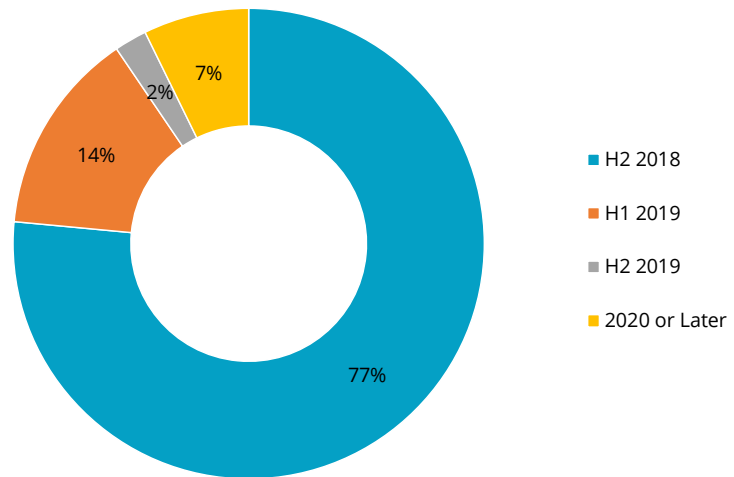
PRIVATE EQUITY

Eighty-six percent of surveyed investors plan to maintain or increase their investments in private equity in the coming year. Over three-quarters (77%) of respondents intend to commit capital to a private equity fund in the second half of this year, while a further 16% expect to make a commitment in 2019 (Fig. 1).

Small to mid-market buyout funds continue to present the best opportunities, according to the largest proportion (44%) of respondents (Fig. 2). While the deal market is competitive, there are more businesses in the lower middle market resulting in more choice. The proportion (25%) of investors targeting venture capital investments has remained at a similar level to previous years, while the proportion of respondents that feel growth funds are presenting the best opportunities has fallen from 30% in 2017 to 21% in 2018.

North America was cited by 55% of surveyed investors as presenting the most favourable investment opportunities at present, followed by Europe (35%, Fig. 3). A notable proportion of investors plan to

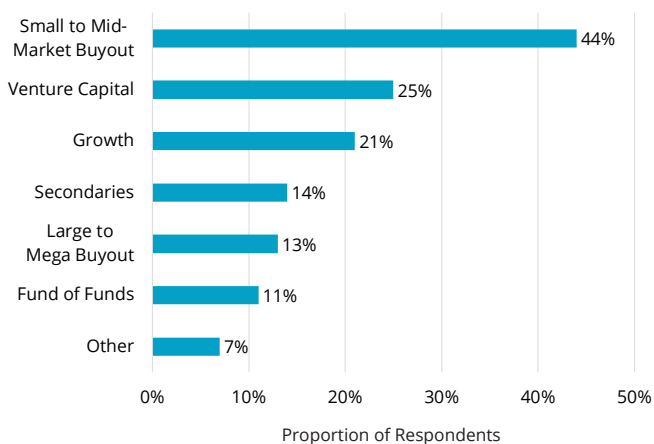
Fig. 1: Timeframe for Investors' Next Intended Commitment to a Private Equity Fund



Source: Preqin Investor Interviews, June 2018

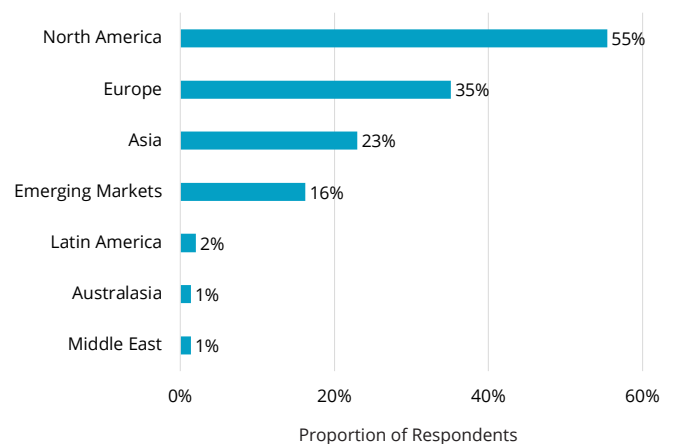
target Asia (23%) and emerging markets (16%). With high valuations still seen as the key issue facing the industry in the next year, investors may target regions outside North America and Europe in search of relative value.

Fig. 2: Fund Types that Investors View as Presenting the Best Opportunities over the Next 12 Months



Source: Preqin Investor Interviews, June 2018

Fig. 3: Regions that Investors View as Presenting the Best Opportunities over the Next 12 Months



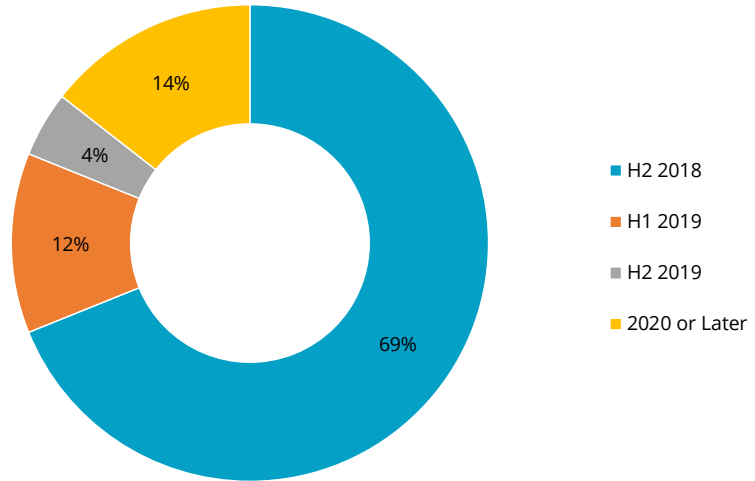
Source: Preqin Investor Interviews, June 2018

HEDGE FUNDS

Hedge fund performance has varied so far in 2018, and approximately a third (34%) of surveyed investors reported that hedge funds had not met expectations over the past 12 months (see page 5). However, they are upbeat about the prospects for the asset class going forwards: 32% of respondents believe their hedge fund portfolio will perform better in the next 12 months compared to the previous year, and the majority (51%) expect returns to be about the same.

Over two-thirds (69%) of investors plan to make their next hedge fund investment in H2 2018, while 16% will look to invest in 2019; the remaining 14% do not expect to invest until at least 2020 (Fig. 4). Fifty-nine percent of respondents believe that equity markets have peaked, resulting in a larger proportion of investors looking to position their portfolios defensively than aggressively (33% vs. 6% respectively). The largest proportion (28%) of investors plan to increase their exposure to systematic CTAs over the next 12 months, which can provide returns uncorrelated to other hedge fund strategies and equity markets (Fig. 5). Similarly, nearly 3x as

Fig. 4: Timeframe for Investors' Next Intended Hedge Fund Investment



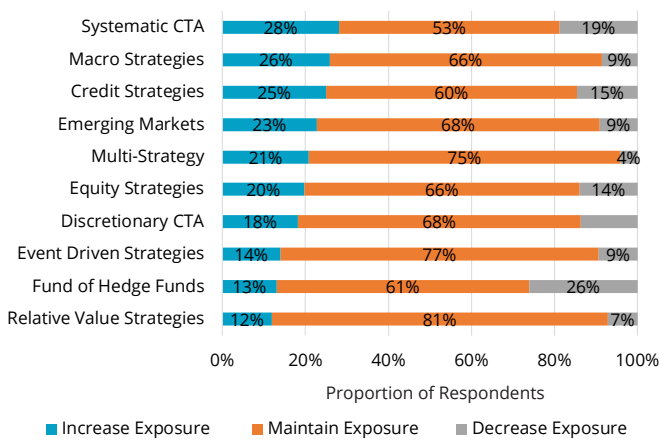
Source: Preqin Investor Interviews, June 2018

many investors plan to increase their exposure to macro strategies than reduce it. Institutions may look to add these strategies to their portfolios for downside protection in the event of an equity market correction.

The majority (63%) of investors view North America as presenting the best opportunities in the year ahead, reflective

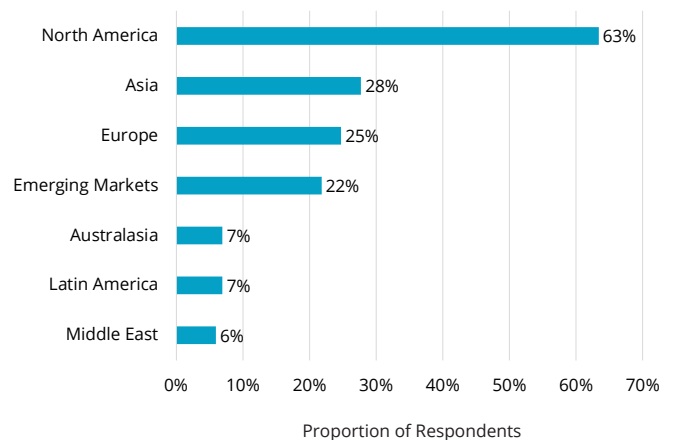
of the size of the hedge fund industry in the region (Fig. 6). However, notable levels of investors are looking towards Asia (28%) and emerging markets (22%) following strong returns in 2017, when funds investing in each region produced, on average, returns topping 15%.

Fig. 5: Investors' Hedge Fund Allocation Plans for the Next 12 Months by Top-Level Strategy



Source: Preqin Investor Interviews, June 2018

Fig. 6: Regions that Investors View as Presenting the Best Opportunities over the Next 12 Months



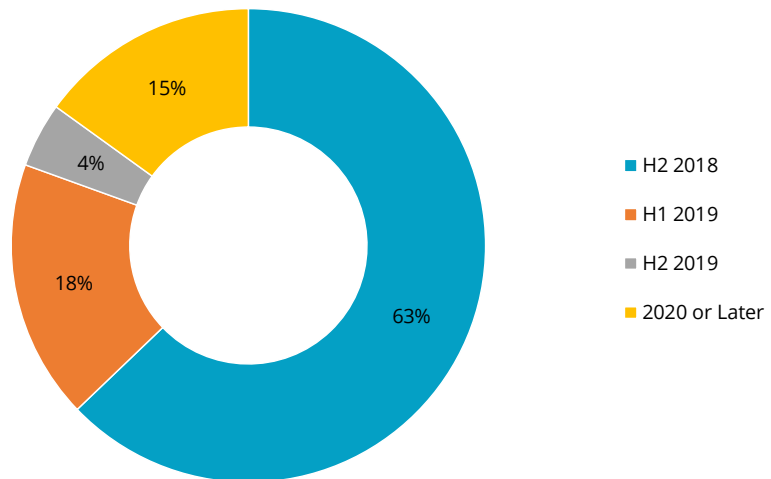
Source: Preqin Investor Interviews, June 2018

REAL ESTATE

Nearly two-thirds of surveyed real estate investors plan to make their next fund investment in H2 2018 (Fig. 7) – a potential boon for the industry which has experienced slower fundraising totals across the second quarter of the year. Fifteen percent of the investor population have indicated they will not invest until at least 2020, with concerns over cycle risk the likely driver of the delay in activity.

Moves down the risk/return spectrum are evident in Fig. 8: in recent years, opportunistic vehicles have captured large amounts of capital, yet only a fifth of surveyed investors feel that these high-risk funds present the best opportunities over the coming year. We are seeing firms that typically seek higher-risk vehicles opt for value-added funds instead; as such, they have captured the largest proportion of fundraising in 2018 so far and, based on the results of this survey, are likely to continue to do so over H2 2018. Further evidence of the de-risking of portfolios is presented in the two strategies identified as currently offering the next best opportunities: core and core-plus.

Fig. 7: Timeframe for Investors' Next Intended Commitment to a Real Estate Fund

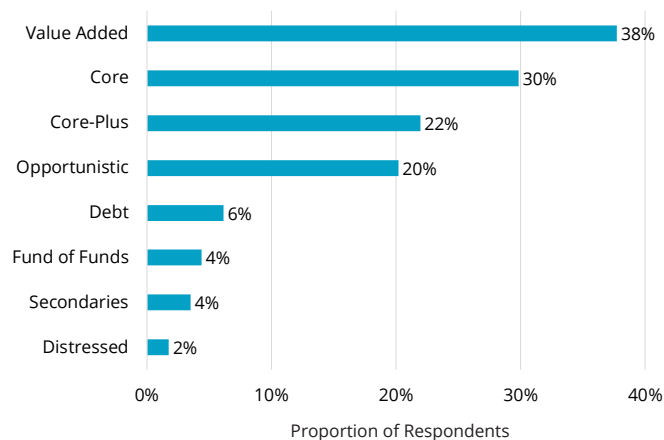


Source: Preqin Investor Interviews, June 2018

The developed markets of North America and Europe remain the best opportunities for real estate investment, as stated by the greatest proportions of surveyed institutions (Fig. 9). However, when compared to the H1 2018 survey, these proportions have fallen by 13 and nine percentage points respectively, while for emerging markets the proportion has risen

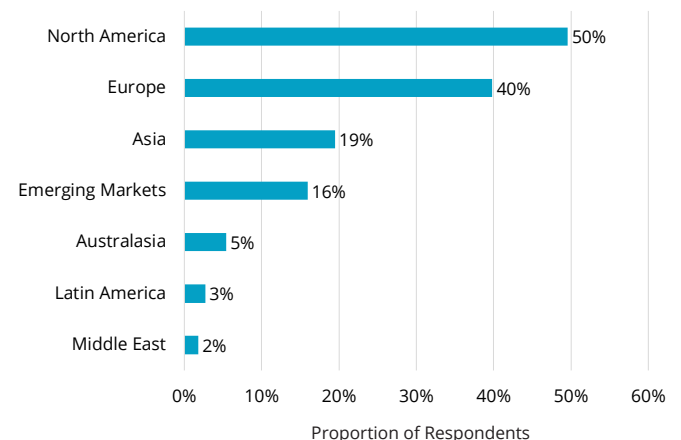
from 6% to 16%. This may be indicative of investors looking beyond developed regions in search of attractive assets at relative value.

Fig. 8: Strategies that Investors View as Presenting the Best Opportunities over the Next 12 Months



Source: Preqin Investor Interviews, June 2018

Fig. 9: Regions that Investors View as Presenting the Best Opportunities over the Next 12 Months



Source: Preqin Investor Interviews, June 2018

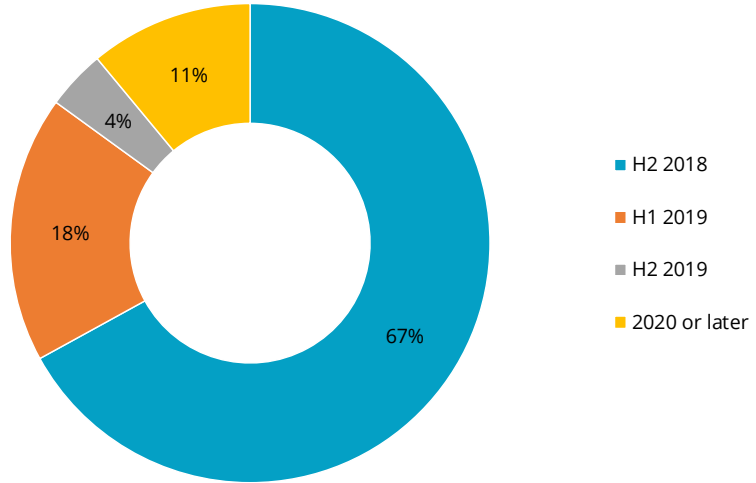
INFRASTRUCTURE

Sixty-seven percent of investors active in infrastructure are planning to make their next commitment to the asset class in the second half of 2018 (Fig. 10), while 22% of investors plan to invest in infrastructure in 2019. A further 11% have longer-term views for their investments in the asset class, aiming to make a commitment in 2020 or later.

Thirty-seven percent of investors believe that core-plus funds will present the best opportunities in the market over the next 12 months (Fig. 11), a sizeable increase on the 20% of respondents favouring the strategy at the end of 2017. As the market for core funds becomes increasingly crowded, this could explain the migration of investors towards riskier assets – there has been a reduction in the number of investors viewing core strategies as offering favourable opportunities from 35% to 29%.

There has been little change in investor sentiment with respect to the most attractive regions since the end of 2017:

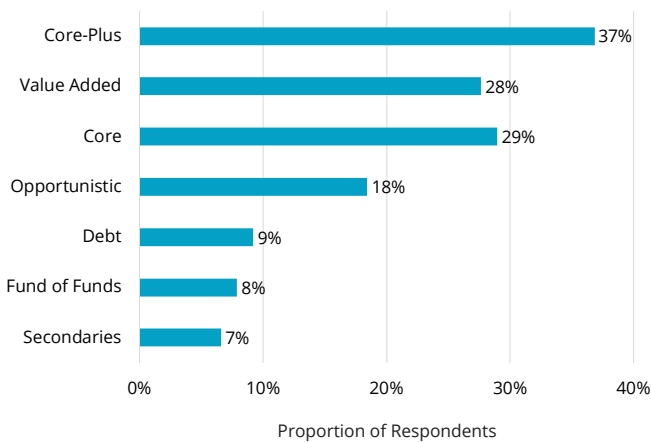
Fig. 10: Timeframe for Investors' Next Intended Commitment to an Infrastructure Fund



Source: Preqin Investor Interviews, June 2018

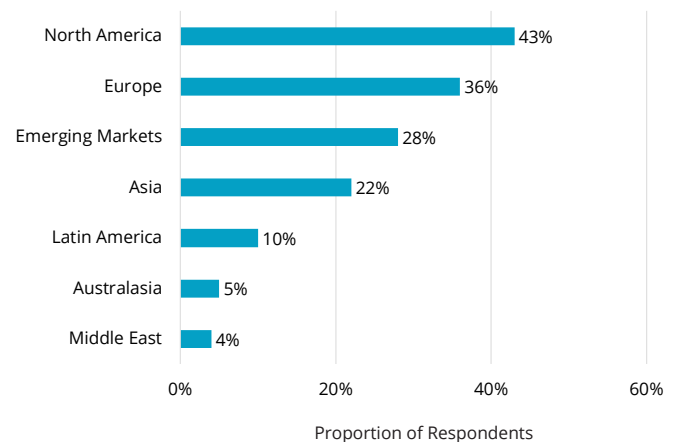
unsurprisingly, North America is viewed by the largest proportion (43%) of investors as presenting the best opportunities over the next 12 months (Fig. 12). Europe is close behind with 36% of respondents, followed by emerging markets (28%) and Asia (22%).

Fig. 11: Strategies that Investors View as Presenting the Best Opportunities over the Next 12 Months



Source: Preqin Investor Interviews, June 2018

Fig. 12: Regions that Investors View as Presenting the Best Opportunities over the Next 12 Months



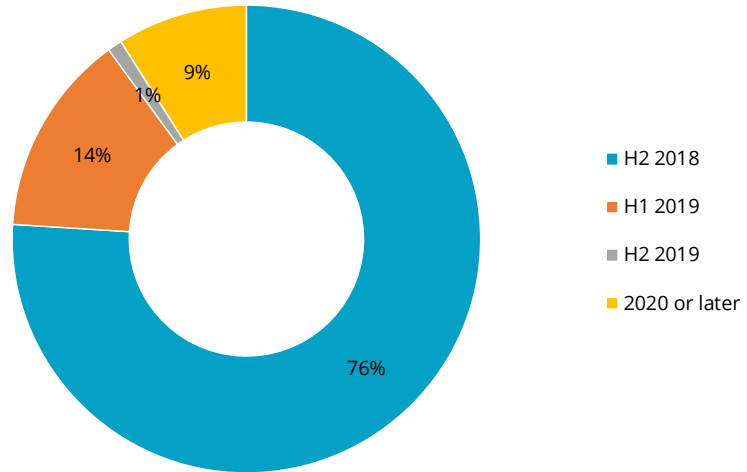
Source: Preqin Investor Interviews, June 2018

PRIVATE DEBT

Over three quarters (76%) of investors active in private debt intend to commit fresh capital to the asset class in the second half of 2018 (Fig. 13), indicating that LPs perceive an attractive risk/return proposition in the current uncertain economic environment. Nine percent of investors are looking further into the horizon, with plans to make commitments in 2020 or beyond.

As was the case a year ago, investors believe direct lending presents the best opportunities at the current time, as cited by 31% of respondents (Fig. 14). At this stage last year, 40% of investors felt mezzanine strategies presented the best opportunities; however, the proportion (20%) of respondents that currently believe this to be the case has halved, with many investors seemingly looking to take less risk and allocate to assets further up the capital structure. Twenty-one percent and 19% of investors look favourably upon distressed debt and special situations funds respectively.

Fig. 13: Timeframe for Investors' Next Intended Commitment to a Private Debt Fund

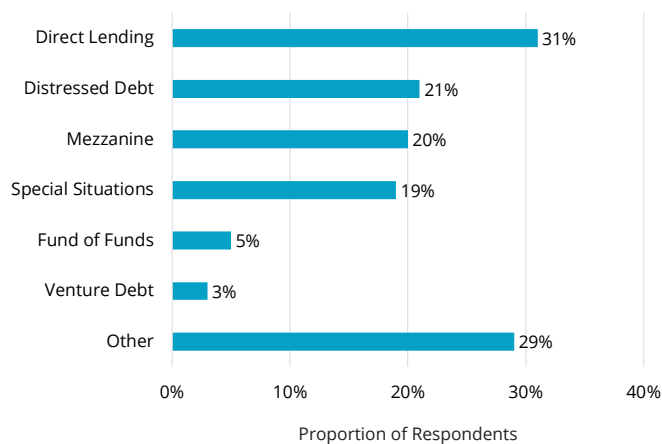


Source: Preqin Investor Interviews, June 2018

Importantly, Europe (47%) has overtaken North America (43%) as the region investors are viewing as presenting the best opportunities (Fig. 15). Europe has attracted significant attention in private debt in recent years, as the market matures and investors look to diversify their private debt exposure. Outside the

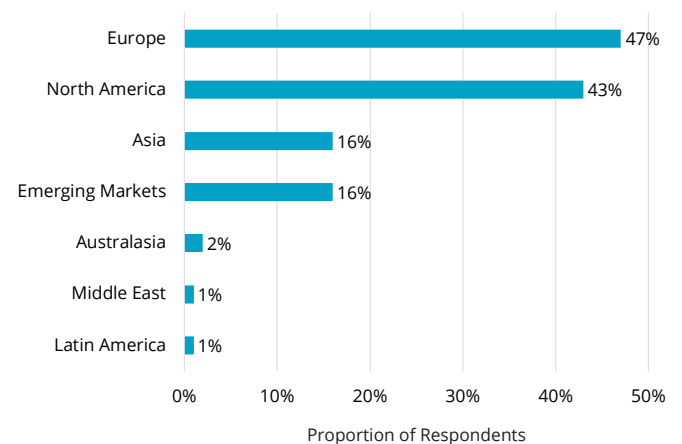
more developed private debt markets, there is muted interest from investors, with only 16% of investors naming each of Asia and emerging markets as presenting the best opportunities.

Fig. 14: Fund Types that Investors View as Presenting the Best Opportunities over the Next 12 Months



Source: Preqin Investor Interviews, June 2018

Fig. 15: Regions that Investors View as Presenting the Best Opportunities over the Next 12 Months



Source: Preqin Investor Interviews, June 2018

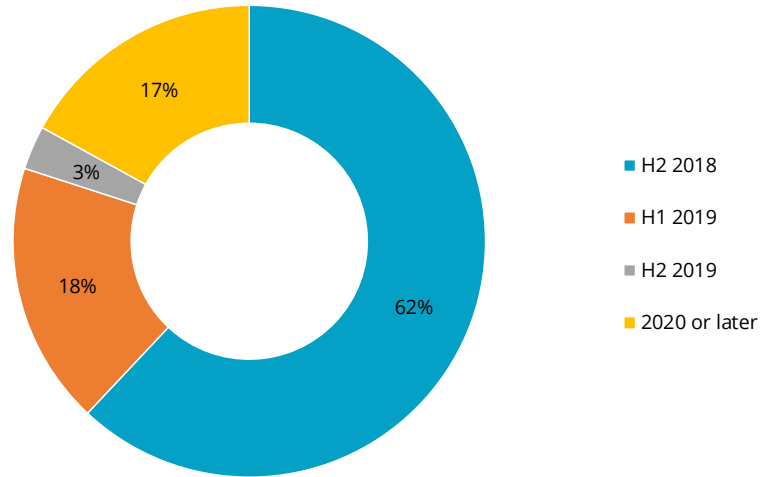
NATURAL RESOURCES

The majority (62%) of investors in natural resources plan to make their next commitment to the asset class in the second half of 2018, while 18% intend to invest in the first half of 2019, suggesting an active year ahead for the industry (Fig. 16). A further 17% of respondents have longer-term views to invest in 2020 or beyond.

Foundations and public pension funds represent equal proportions (14%) of investors that invest in natural resources funds (Fig. 17), with private sector pension funds (13%) not far behind. Fund of funds managers make up just 3% of investors looking to make investments in the asset class.

North America was cited by 47% of respondents as presenting the best opportunities in the next 12 months, followed by emerging markets (26%) and Asia (21%, Fig. 18). The proportion of investors that believe Europe offers the best opportunities over the next

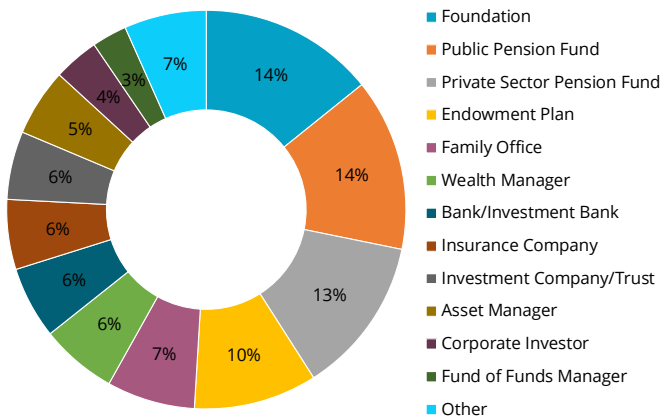
Fig. 16: Timeframe for Investors' Next Intended Commitment to a Natural Resources Fund



Source: Preqin Investor Interviews, June 2018

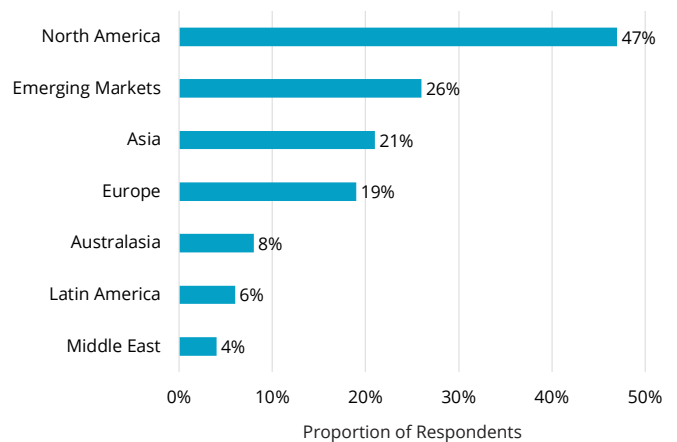
12 months, however, has fallen from 35% a year ago to 19%. This may reflect uncertainty surrounding the UK's impending exit from the EU, including whether deal flow in other EU countries will be affected as a result.

Fig. 17: Investors in Natural Resources by Type



Source: Preqin Investor Interviews, June 2018

Fig. 18: Regions that Investors View as Presenting the Best Opportunities over the Next 12 Months



Source: Preqin Investor Interviews, June 2018

COMING SOON

THE HOME OF ALTERNATIVES

We're excited to unveil Preqin Pro, a new experience for the industry's most comprehensive data and tools. Built around your workflow, it's now easier and faster to find what you're looking for to make data-driven decisions.



GET TO WHAT YOU WANT, 5X FASTER

Lightning-fast search and performance upgrades



MORE CONNECTED THAN EVER

All asset classes integrated in one place



HARNESS THE DATA

Interactive visual analytics turn data into actionable insight



Contact info@preqin.com to hear more about the changes



PREQIN INVESTOR UPDATE: **ALTERNATIVE ASSETS**

H2 2018

PREQIN

More than 60,000 alternative assets professionals rely on our global data, tools, insights and intelligence to achieve their objectives:

- Preqin currently tracks 14,578 investors on its online platform, 10,629 of which are actively investing
- 2,342 investor profiles have been added to in 2018 to date
- There are 94 research analysts currently working on investor products at Preqin, with a total of 21 languages spoken across the company
- In 2018 so far, there have been 22,289 full updates completed on investor profiles, with 11,746 updates conducted through direct contact with investment firms
- Our dedicated research analysts have conducted 15,529 direct communications with investors in 2018 so far
- There are currently 1,733 investors actively investing in alternative assets, and a further 743 are considering investing

New York ■ London ■ Singapore ■ San Francisco ■ Hong Kong ■ Manila ■ Guangzhou

info@preqin.com
www.preqin.com