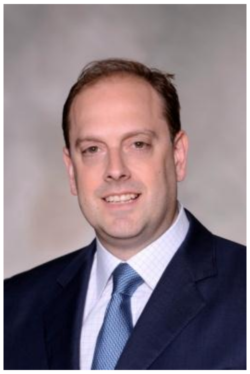
Who’s Investing in Alts, and Why



Robert Mirsky,
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“Our survey found the hedge fund industry is poised to keep growing at about 10% a year over the next five years, as it has since the financial crisis.”

The 2015 edition of KPMG’s annual hedge fund manager survey covered more than 100 managers globally. Some key trends emerged:

A shifting investor base – The role of public assets is growing, especially for large managers, which translates into heightened transparency and reporting demands. Most respondents believe pension funds will be their primary source of capital, and expect public and sovereign funds to account for one-fourth of all inflows. Of small hedge funds, 45% expect growth from high new worth and family office investors.

More customization of fees – This is the new normal; 84% of those we surveyed say customization will be more prevalent in the next five years. While 37% have reduced their fees since 2008, and 26% expect reductions in the next five years, customization has as much to do with the alignment of interests as with lowering of fees. Expect more use of hurdle rates and high water marks, as well as tiering or scaling, so fees drop as assets grow.

New markets – The Asia/Pacific region is growing in importance; 44% of managers have seen growth there, and 41% have seen expansion in the Middle Eastern and African markets. Growth has continued in North America, which is still the biggest market, but declined in Europe, perhaps due to the impacts of AIFMD. Managers say they are likely to domicile new master funds offshore, with 63% identifying Cayman as the likely destination.

Barriers to growth – Regulation is named a threat by 77% of managers, while 46% name underperformance. Three in four expect the number of managers to stay the same or contract in next five years.

Becoming solution providers – Managers report growing demand for customized products; 68% use or expect to develop funds-of-one or managed accounts. They expect to increase their development of liquid alts products; it appears that a true retail client base is emerging. UCITS are also growing in popularity because they have two important benefits: they can use performance fees and they make AIFMD go away. They are also seen as a recognized brand. It's important for managers to recognize, however, that regulated products create operational demands that must be taken into account and can grow exponentially.

The data and research referenced in this summary are credited to the speakers involved, and do not necessarily reflect the views of SEI.