Looking Ahead
Outlook for the Alternatives Industry

Featuring Results of the State Street 2019 Alternatives Survey
Managers and investors align on overall industry outlook...

Industry participants are broadly optimistic that asset levels will rise and that alternatives will occupy a larger position within institutional portfolios.

Overall outlook for asset levels in the alternatives industry over the next five years

- Alternative investors:
  - Very optimistic (annual increase >10%): 6%
  - Optimistic (annual increase 1%-9%): 79%
  - Flat: 12%
  - Pessimistic (annual decrease 1%-9%): 3%
  - Very pessimistic (annual decrease >10%): 20%

- Alternative managers:
  - Very optimistic (annual increase >10%): 20%
  - Optimistic (annual increase 1%-9%): 54%
  - Flat: 18%
  - Pessimistic (annual decrease 1%-9%): 4%
  - Very pessimistic (annual decrease >10%): 4%

Believe that alternative investment strategies will represent a greater proportion of institutional portfolios in five years

- Alternative Investors: 85%
- Alternative Managers: 72%

Source: State Street Alternatives Survey 2019
...but disagree on which strategy will be the biggest winner. Alternative investors are most bullish about infrastructure, with 35 percent citing it as the top destination for allocations over the next five years. Managers most frequently cite private equity as the most attractive category.

Of the following strategies, which will attract the most institutional investor allocations over the next five years?

Source: State Street Alternatives Survey 2019
Managers and investors agree on shifting industry dynamics
Majority see increasing regulatory and investor scrutiny, emergence of stronger investing relationships.

<table>
<thead>
<tr>
<th>Percent making prediction</th>
<th>Alternative Managers</th>
<th>Alternative Investors</th>
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<tbody>
<tr>
<td>Regulatory scrutiny of the alternatives industry will intensify</td>
<td>86%</td>
<td>84%</td>
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<tr>
<td>Institutional investors’ board-level oversight of alternative investment programs will intensify</td>
<td>70%</td>
<td>72%</td>
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<tr>
<td>Investing relationships will become deeper (longer, more concentrated with trusted providers)</td>
<td>59%</td>
<td>64%</td>
</tr>
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Source: State Street Alternatives Survey 2019
Transparency remains problematic

One-third of alternative asset managers believe investors are satisfied with the transparency of data they receive from their managers; only 15 percent of investors agree.

Agree or disagree:
“Alternative investors are satisfied with the transparency of data they receive from their managers”

Source: State Street Alternatives Survey 2019
With challenges on the horizon, are business models ready?

Against a market backdrop expected to grow more challenging, only a small minority say alternative managers’ operational infrastructure is in excellent shape.

Of the managers and investors we surveyed:

- **56%** believe industry competition will make it more difficult to find alpha-generating opportunities.
- **63%** expect industry consolidation of alternative fund managers to accelerate.

Source: State Street Alternatives Survey 2019
State Street Alternatives Survey 2019

- State Street engaged Citigate Dewe Rogerson to field a global survey of 113 alternative investment industry participants from 25 countries during April 2019.
- The respondent base includes alternatives managers running hedge, private equity, real estate, infrastructure and private credit strategies, as well as institutional investors representing pension funds, family offices, insurance companies, sovereign wealth funds, endowments and foundations.

Respondents by Geography
- Continental Europe: 37%
- North America: 31%
- UK: 19%
- Africa/Middle East: 4%
- APAC: 9%

Respondents by Institution
- Alternative Asset Managers: 63%
- Alternative Investors: 37%

Respondents by AUM
- Less than $1bn: 20%
- $1bn to $9.99bn: 13%
- $10bn to $49.99bn: 68%
- $50bn to $99.99bn: 3%
- $100bn to $499.99bn: 1%
- $500bn or more: 1%

Source: State Street Alternatives Survey 2019
Important Information

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