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SEI Study: Hedge Fund Managers Must Make Strategies More Understandable Amid Performance Pressure

Risk Management Remains Key Despite Increased Investor Focus on Absolute Returns

OAKS, PA -- (MARKET WIRE) -- 01/23/12 -- Institutional investors continue to deepen their commitment to hedge funds, but expect much more from managers in terms of articulating their value proposition, risk mitigation methodology, and performance expectations, according to the fifth annual global study released today by SEI (NASDAQ: SEIC) in collaboration with Greenwich Associates. The report, entitled "The Shifting Hedge Fund Landscape: Institutions Put Fund Managers to the Test," indicates a need for hedge fund managers to help clients clearly understand their investment strategies, performance expectations, and the tradeoffs between risk and reward to maintain investor confidence and attract new capital.

The study results found that institutional investors' allocation in hedge funds continues to rise, as more than a third (38 percent) of all survey respondents said they plan to increase target allocations over the next 12 months. While that number is lower than in past years, it comes on top of a 54 percent increase in 2010. At the same time, hedge fund allocations represent a greater share of respondents' overall portfolios, at nearly 18 percent, up from 12 percent in 2008. When asked why they invest in hedge funds, absolute return was named as the top objective by nearly a third of respondents, passing non-correlated investment strategies as the top priority.

"Although returns are understandably a top objective, risk management also remains at the front of investors' minds," said Rodger Smith, Managing Director of Greenwich Associates. "Three of the top four goals named by respondents -- accessing non-correlated strategies, diversification, and lowering volatility -- address investment risks. This suggests that institutions today use hedge funds to help them lower portfolio risks in addition to boosting returns."

"The study shows that investors want the best of both worlds when it comes to hedge fund investing -- better returns, as well as lower correlations and better overall management of risk," said Ross Ellis, Vice President, Knowledge Partnership for SEI's Investment Manager

Services division. "To differentiate themselves, managers must articulate the strategy and processes they are using to generate returns, and clearly explain to their investors how they are mitigating risk. In the Era of the Investor™, investors need to be involved and confident in the overall investing process, while pushing towards institutional standards."

Reinforcing the demand for more understandable, less opaque strategies, the overwhelming majority of respondents (82 percent) named long/short equity among the top three strategies they presently employ, followed by event-driven and credit, named by 53 percent and 42 percent, respectively. Only a small group (15 percent) said they intend to divert some share of hedge fund allocations to regulated products such as alternative mutual funds or UCITS in the coming year.

The report also noted that while average annualized returns are down to 6 percent from 9 percent in 2010, only about 7 percent of investors polled reported any level of dissatisfaction with their returns. The survey points to some concern related to hedge fund performance, as investors were split, by a margin of 41-to-25 percent, on the question of whether they would be able to meet return objectives without having hedge funds in their toolkits. Also of note is the fact that direct hedge fund investing continues to gain momentum, as 40 percent of investors said they invest solely via single-manager funds, up from 24 percent in 2010. More than half (56 percent) of respondents with more than $5 billion in assets said they use single-manager funds exclusively.

The white paper is published by the SEI Knowledge Partnership, which provides ongoing business intelligence and guidance to SEI's investment manager clients. To request the full paper, visit http://www.seic.com/2012HedgeResearch.

About SEI's Investment Manager Services Division
SEI's Investment Manager Services division provides comprehensive operational outsourcing solutions to support investment managers globally across a range of registered and unregistered fund structures, diverse investment strategies and jurisdictions. With expertise covering traditional and alternative investment vehicles, the division applies customized operating services, industry-leading technologies, and practical business and regulatory insights to each client's business objectives. SEI's resources enable clients to meet the demands of the marketplace and sharpen business strategies by focusing on their core competencies. The division has been recently recognized by the Money Management Institute as "Service Provider of the Year," by Buy-Side Technology as "Best Fund Administrator" and by HFMWeek as "Best Single Manager Hedge Fund Administrator (Over $30B AUA-US)," and "Best Funds of Hedge Funds Administrator (Over $30B AUA-Europe)." For more information, visit www.seic.com/ims.

About SEI
SEI (NASDAQ: SEIC) is a leading global provider of investment processing, fund processing, and investment management business outsourcing solutions that help corporations, financial institutions, financial advisors, and ultra-high-net-worth families create and manage wealth. As of September 30, 2011, through its subsidiaries and partnerships in which the company has a significant interest, SEI manages or administers $395 billion in mutual fund and pooled assets or separately managed assets, including $162 billion in assets under management and $233 billion in client assets under administration. For more information, visit www.seic.com.

About Greenwich Associates
Greenwich Associates provides research-based strategy management services for financial

professionals. Greenwich Associates' studies provide benefits to the buyers and sellers of financial services in the form of benchmark information on best practices and market intelligence on overall trends. Based in Stamford, Connecticut, with additional offices in London, Toronto, Tokyo, and Singapore, the firm offers over 100 research-based consulting programs to more than 250 global financial services companies. For more information on Greenwich Associates, please visit www.greenwich.com.

Source: SEI