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SEI Study: Hedge Fund Managers Must Prove Their Performance and Transparency Mettle or Suffer Reputational Risk

Investors Expect Frequent Communication and Direct Manager Access Amid Risk Concerns

OAKS, PA -- (MARKET WIRE) -- 02/27/12 -- With significant dollars poised to flow into hedge funds in 2012, managers must address investor transparency and liquidity concerns to take advantage of new funding opportunities, according to the fifth annual global study released today by SEI (NASDAQ: SEIC) in collaboration with Greenwich Associates. The second report in the two-part series, titled "[The New Dynamics of Hedge Fund Competitiveness](#)," indicates a need for hedge fund managers to move beyond portfolio transparency to provide investors with consistent and insightful communications along with direct access to investment teams. Liquidity and the inability to control exit strategies have also emerged as key concerns for hedge fund investors.

"Client expectations are changing, and despite managers demonstrating improvements in reporting, the study shows that portfolio transparency is simply not enough to satisfy investors anymore," said [Ross Ellis](#), Vice President, [Knowledge Partnership](#) for SEI's [Investment Manager Services division](#). "Managers have focused on improving reporting data in recent years, but in order to be successful going forward, their focus must expand to meet emerging client demands for increased personal interaction and dialogue. The playing field has changed and that's clearly the next level of transparency it will take to win in the Era of the Investor™."

Beyond communication, the survey shows that investors want greater detail in terms of security-level disclosure, including leverage detail, valuation methodology, and risk analytics. The study also showed that liquidity has emerged as a key area of concern among investors. Nearly a third of respondents (31 percent) cited ongoing liquidity risk among their biggest hedge fund investing worries, while "an inability to control exit strategy" was named by 46 percent of respondents.

"Evaluating and selecting fund managers has always been a top-of-mind concern for investors," said Rodger Smith, Managing Director of Greenwich Associates. "What this study brought to light is that, as long as they can articulate their value proposition and differentiate themselves from their peers, there is a place for smaller and newer funds in institutional portfolios. In fact, one in five investors polled said they have no asset minimum requirements in order to invest, and while a majority of those surveyed said they seek hedge funds with a history of at least three years, roughly a quarter would consider less, and 14 percent would not eliminate a fund without a track record at all."

Highlighting the increasing inability of investors to distinguish among strategies, 17 percent of respondents said manager selection is the single most important challenge facing hedge fund investors today. While 95 percent of respondents said clarity of investment philosophy is important or very important in the selection process, more than half of respondents (61 percent) said there are too many look-alike strategies in the hedge fund industry. Given that challenge, more than half of respondents (51 percent) said hedge funds are too complex to evaluate without a consultant's help. Respondents were decidedly mixed on the importance of brand in the selection process, while operations are clearly a critical aspect in selecting managers, with 80 percent of those polled agreeing that operational strength is a hallmark of an institutional-quality fund.

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/HedgeResearch2012>.

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 December 31, 2011, through its subsidiaries and partnerships in which the company has a significant interest, SEI manages or administers \$404 billion in mutual fund and pooled or separately managed assets, including \$172 billion in assets under management and \$232 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