

March 26, 2013



SEI Study: Hedge Fund Managers Face Tough Business Climate and Heightened Investment Expectations

Study Identifies Six Requisites for Long-Term Success

OAKS, PA -- (Marketwire) -- 03/26/13 -- A new study conducted by SEI (NASDAQ: SEIC) in collaboration with Minard Capital LLC finds that hedge fund managers must rethink their business models, provide tailored solutions, and offer multi-faceted client communications. This amidst a climate in which investors are heavily scrutinizing the industry's value proposition. SEI's insights are based on the company's [sixth annual global survey](#) of institutional investors, as well as insights from nearly 50 hedge fund managers, investors, and consultants who participated in roundtable discussions in New York and London organized and moderated by Minard Capital.

"With an increasingly crowded field of competitors, rising institutional demands, and a decade of disappointing overall returns, hedge funds are at a critical juncture," said [Ross Ellis](#), Vice President, [Knowledge Partnership](#) for SEI's [Investment Manager Services](#) division. "Based on what we heard from institutional investors and fund managers, it's time for the industry to make an evolutionary leap in proving its worth to a hungry yet hesitant investor base."

"Success in identifying, securing, and retaining institutional and private client assets today requires new tactics. These include a defensibly true and transparent investment process and a competitive edge that is verifiable internally and corroborated by the investor," said Rachel S.L. Minard, Founder and CEO of Minard Capital. "Managers must know how to defend their edge against competitors, investment instruments, and vehicles investors now have at their disposal to meet their risk/return targets."

The study, "[6 Ways Hedge Funds Need to Adapt Now](#)," identifies key challenges hedge fund firms must meet if they hope to succeed in the long term:

- *Sustainable edge.* With 7 in 10 survey respondents asserting that "there are too many look-alike strategies in the industry," institutional investors are raising the bar for manager selection. To be competitive, hedge fund firms should focus on articulating a differentiated investment approach, a clear process, and proof that their edge can be

sustainable.

- *Adaptability.* Roundtable participants noted that the combination of converging investment structures, shifting investor demands, and challenging market conditions are causing hedge fund managers to rethink their business models and develop multi-faceted solutions that package their capabilities most effectively.
- *Clear value added.* Investors are increasingly concerned with how much "true alpha" they are getting for the hedge fund fees they pay. While most of the institutions surveyed are still planning to maintain or modestly increase hedge fund allocations, only 38 percent reported being satisfied with risk-adjusted hedge fund returns, down from 62 percent a year ago. Moreover, 6 in 10 of the institutions surveyed believe it is possible to meet investment objectives without allocating to hedge funds.
- *The right fit.* Today's investors have complex needs and want hedge funds to serve multiple objectives within an overall portfolio mix. Poll results suggest that rather than "pitching products," fund managers should use an interactive, problem-solving approach to match their capabilities to investors' specific objectives. It also calls on institutional investors and consultants to develop clear, focused mandates based on realistic expectations.
- *Scale or sizzle.* Size presents challenges and opportunities at either end of the hedge fund scale. While large funds still attract the majority of institutional assets, and have advantages in building institutional-quality processes, their performance has collectively lagged that of smaller funds. Meanwhile, while small funds may be better equipped to offer competitive returns, emerging strategies, and undiscovered investment talent, they often fail to pass the screens consultants frequently employ when selecting managers.
- *Business and marketing acumen.* SEI's roundtable participants resoundingly agreed that running a sustainable hedge fund business is as difficult as achieving strong investment performance. Notably, participants also felt that asset growth often depends less on investment performance than on effective marketing and sound business management. Managers need to make strategic use of outsourcing, adopt marketing best practices, and invest more on compelling client communication in order to grow their businesses.

The study is published by the [SEI Knowledge Partnership](https://www.seic.com/6WaysToAdapt), which provides ongoing business intelligence and guidance to SEI's investment manager clients. To request the full paper, visit www.seic.com/6WaysToAdapt.

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 Buy-Side Technology as "Best Outsourcing Provider to the Buy Side" and "Best Fund Administrator," by Hedge Funds

World Middle East as "Best Service Provider," by Global Investor as "Hedge Fund Administrator of the Year," and by HFMWeek as "Most Innovative Fund Administrator (Over \$30B AUA)" in the U.S. and "Best Administrator - Technology Provider" in 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, 2012, through its subsidiaries and partnerships in which the company has a significant interest, SEI manages or administers \$458 billion in mutual fund and pooled or separately managed assets, including \$201 billion in assets under management and \$257 billion in client assets under administration. For more information, visit www.seic.com.

About Minard Capital

Founded in 2011 by Rachel S.L. Minard, Minard Capital LLC is an independent, global marketing strategy firm headquartered in San Francisco. The firm is the first outsourced marketing consulting firm dedicated to providing the marketing strategy, investor introductions and targeted sales process necessary for alternative investment firms to win and retain global institutional mandates. It is fee-for-service consultancy dedicated to delivering more efficient and effective marketing and branding tactics to raise a firm's assets, brand profile and sales efficiency. For more information, please visit www.minardcapital.com.

Company Contact:

Dana Grosser
SEI
+1 610-676-2459
dgrosser@seic.com

Media Contact:

Jason Rucker
Braithwaite Communications
+1 215-564-3200 x 110
jrocker@gobraithwaite.com

Source: SEI