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SEI Study: Private Equity Industry Sees Competition Heating up in Long, Slow Climb to Recovery

Rising Allocations, More Active Secondary Market Are Bright Spots Amid the Challenges

OAKS, PA -- (Marketwired) -- 09/10/13 -- While private equity funds remain flush with cash, a shortage of good investment opportunities and structural challenges are hampering the industry's already sluggish recovery from the financial crisis, according to a study and survey of the industry conducted by SEI (NASDAQ: SEIC).

Updating two previous surveys from 2009 and 2011, SEI's latest study, "*Key Course Adjustments for Breaking Through: Five Ways Private Equity Managers Can Optimize Their Competitive Advantage*," identified some positive industry trends. Allocations to private equity are on the upswing; 36 percent of investors surveyed this year said they are increasing their allocations to the asset class, versus 26 percent in the 2011 survey. Additionally, new sources of capital are surfacing, including institutional investors and sovereign wealth funds in emerging markets.

The survey also found that an increasingly active secondary market is helping managers to exit investments despite the slowing pace of initial public offerings. Sixty-one percent of respondents said they use the secondary market in some way, compared to only 30 percent in 2009, and two-thirds said secondary buyouts will be "a key driver of deal flow" in 2013.

At the same time, the study depicts a Darwinian climate of intensifying competition in which many funds will struggle to survive even as new ones come forward. "Our survey reveals an industry where buy/sell dynamics are out of balance. Private equity funds have a glut of assets, but are starved for quality acquisitions and viable exit opportunities in certain strategies," said Jim Cass, Managing Director for SEI's Investment Manager Services division. "Until that shifts, the industry appears caught between the proverbial rock and a hard place."

Among the key challenges facing the industry, the report cites:

- ***A dearth of acquisition targets.*** Some 4,500 funds with an estimated total of $1 trillion in uncommitted assets are chasing a limited supply of opportunities. In fact, those surveyed named "finding quality investment opportunities" as the industry's greatest challenge, far outstripping concerns with new regulations or tax increases.

- ***A "mountain of dry powder."*** The industry's oversupply of assets is driving up valuations of potential acquisitions at a time when rising equity markets are having the same effect. More than 6 out of 10 survey respondents said the industry's surplus of cash is resulting in more competitive bidding situations, and 45 percent said it is raising sellers' price expectations. It is also making new fundraising more difficult, according to nearly half of the managers surveyed.

- ***Rising performance pressures.*** Investors and consultants are increasingly looking to private equity investments as a source of higher returns, over portfolio diversification. They also rank performance as the second most important factor in fund selection. But many funds are being hobbled by unprofitable investments and the stiff competition for acquisitions. The report finds having invested at the peak, or been unable to invest all of the capital raised, some firms will simply be unable to produce positive returns for their limited partners.

The report suggests five steps private equity fund managers can take to become more competitive:

- Utilize untapped sources of capital.
- Adopt more flexible fee structures.
- Capitalize on the secondary market for exits.
- Leverage technology and operational partnerships.
- Implement standardized filing processes.

The SEI study included a global survey of 654 institutional investors, fund managers, and consultants in the private equity arena. The study was conducted by the SEI Knowledge Partnership, which provides ongoing business and marketplace intelligence to SEI's investment manager clients. To request the full paper, visit www.seic.com/2013PESurvey.

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 as Top Rated by Global Custodian, as "Best Outsourcing Provider to the Buy Side" and "Best Fund Administrator" by Buy-Side Technology and "Most Innovative Fund Administrator (Over $30B AUA)" in the U.S. for hedge funds and "Best Administrator - Technology Provider" in Europe by HFMWeek. 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 June 30, 2013, through its subsidiaries and partnerships in which the company has a significant interest, SEI manages or administers $507 billion in mutual fund and pooled or separately managed assets, including $204 billion in assets under management and $303 billion in client assets under administration. For more information, visit www.seic.com.

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

Media Contact:
Jason Rocker
Braithwaite Communications
+1 215-564-3200 x 110
jrocker@gobraithwaite.com

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