January 26, 2009

SEI and Greenwich Associates Survey: Hedge Fund Managers Should Expect Greater Scrutiny and Transparency Demands From Institutional Investors

Institutions Also to Seek Enhanced Client Reporting and Communication

OAKS, Pa., Jan. 26 /PRNewswire-FirstCall/ -- Institutional investors appear committed to hedge fund investing, but hedge fund managers will face wider-ranging and more in-depth scrutiny of operations and investment processes. Hedge funds fulfilling performance expectations and embracing transparency will be those that retain and capture assets, according to a global survey report released today by SEI (Nasdaq: SEIC) and Greenwich Associates. The survey report, entitled "Hedge Funds Under the Microscope: *Examining Institutional Commitment in Challenging Times*," points to a need for greater transparency and enhanced client reporting and communications from hedge fund managers. These are especially needed in the wake of changing institutional expectations brought on by the worst year on record for hedge fund performance.

SEI collaborated on the survey with Greenwich Associates, initially polling institutional investors in Continental Europe, the United Kingdom, and United States at the end of August. As the financial crisis deepened, the firms re-interviewed respondents in November, to help gauge the impact of market turmoil on institutional attitudes and plans concerning hedge funds.

The initial survey revealed that over 90 percent of institutions polled either increased or maintained their allocations to hedge funds in the last two years. That sentiment remained largely unchanged in November when three out of four investors re-surveyed said they had taken "no action" in response to the crisis. When asked why, 83 percent of those taking no action indicated their commitment to hedge funds has remained unchanged. The remaining respondents had investments that were subject to lock-up provisions. At the same time, while the percentage planning to *increase* target allocations dropped significantly between the first- and second-round surveys (signaling a period of reassessment), only one institution reported lowering its target hedge fund allocation between the first and second rounds.

"The silver lining for hedge fund managers is that institutions appear committed to hedge funds as an asset class," said Phil Masterson, Managing Director for SEI's Investment

Manager Services division. "However, it's not an unconditional commitment. Hedge fund managers must recognize and react to the changing expectations of their institutional clients. Greater transparency and enhanced client reporting and communications--along with fulfilling investor performance expectations--will be the pillars of a hedge fund manager's success."

In fact, performance has regained its spot as the top institutional investor concern, with more than 80 percent of second-round respondents citing poor performance as their biggest concern regarding hedge funds. In a similar survey conducted by SEI in 2007, institutional investors had ranked performance as their third-biggest worry, behind headline risk and transparency. Given the losses from the hedge fund industry, the increased emphasis on performance is to be expected. Investors also cited lack of liquidity, funds not achieving their stated objectives and headline risk as top concerns.

While portfolio transparency was named by just one out of four institutions as a "very important" selection factor in the first-round survey, investors named portfolio transparency as the number one investment criteria demanding more weight in the second survey. In fact, among second-round participants planning to *decrease* allocations by at least 10 percent, the top-ranking reason was lack of transparency.

"Transparency has always been a central concern for institutions investing in hedge funds, but it has taken on added importance in the wake of the financial crisis," says Rodger Smith, Head of the Strategic Consulting Group at Greenwich Associates. "It's likely that institutions will become even more demanding on this count in light of the intense publicity surrounding the Madoff affair."

The survey also noted the increased expectations for enhanced client service, given that client reporting and communications were two of the top areas pointed to as demanding more weight in the midst of the market volatility. Importantly, in the first-round survey, investors indicated that reporting and communications were just as important as performance.

The white paper is published by the SEI Knowledge Partnership, which provides ongoing business intelligence to SEI's investment manager clients. To request a copy of the 22-page white paper, please visit www.seic.com/ims/UndertheMicroscope.

About SEI's Investment Manager Services Division

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About SEI

SEI (Nasdaq: SEIC) is a leading global provider of outsourced asset management, investment processing and investment operations solutions. The company's innovative solutions help corporations, financial institutions, financial advisors, and affluent families create and manage wealth. As of September 30, 2008, through its subsidiaries and partnerships in which the company has a significant interest, SEI administers $431 billion in mutual fund and pooled assets and manages $162 billion in assets. SEI serves clients, conducts or is registered to conduct business and/or operations, from more than 20 offices in over a dozen countries. For more information, visit www.seic.com.

About Greenwich Associates

Greenwich Associates is the premier strategic consulting and research source for providers and users of institutional financial services worldwide. Founded in 1972, Greenwich provides institutional financial services firms and those who participate in its research with accurate, systematic management information that helps them meet their global business needs. For more information on Greenwich Associates, please visit www.greenwich.com

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