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SEI White Paper: Retail Alternatives Offer Long-Term Growth Opportunities for Private Fund Managers

SEI Names Six Areas to Focus on for Success in Retail Alternatives Market

OAKS, PA -- (Marketwired) -- 06/12/13 -- A white paper released today by [SEI](#) (NASDAQ: SEIC) shows managers are increasingly turning to retail alternatives in an effort to diversify their revenue streams, earn more consistent fees, and market their capabilities with greater latitude. According to the paper, "[The Retail Alternatives Phenomenon: What Enterprising Private Fund Managers Need to Know](#)," retail alternatives are one of the fastest growing segments in the asset management industry, creating much needed opportunities for private fund managers as the growth rate of institutional allocations to alternative investments seems to be slowing. In fact, industry analysts, such as global management consulting firm McKinsey & Co., predict alternatives will double their share of the U.S. mutual fund market and account for nearly a quarter of all retail revenue by the end of 2015. [The paper](#) outlines six key areas that managers must take advantage of in order to capture the growing retail alternatives market.

"Private funds have seen the growth in institutional allocations to alternative investments slow in recent years, but the rapidly expanding retail alternatives market could provide managers with new outlets for their capabilities and help create new revenue streams," said [Ross Ellis](#), Vice President, [Knowledge Partnership](#) for SEI's [Investment Manager Services](#) division. "While there is a vast opportunity, moving into the retail space can present its own unique challenges, so it's important that managers go in with eyes wide open and understand the operational and compliance nuances before making the leap. Those managers who do the due diligence and take a long-term strategic approach will be able to make the best decisions for their businesses, which will ultimately determine their success in the retail alternatives space."

The paper reveals that while there is a whole new area of opportunity, many private fund managers will face significant hurdles in the retail landscape, which is distinctly different from the alternative market in terms of product development, marketing and distribution, the regulatory and operational environment, and fee structures. The paper identifies six key

areas that private fund managers must focus on in order to succeed in the retail marketplace:

- **Distribution.** With more than 300,000 registered advisors spread across a variety of US sales channels, the distribution of retail alternatives can be a complex maze that also includes specialty consultants and intermediary platforms. Managers need to develop marketing strategies, understand platform requirements, and maintain specialized sales teams.
- **Education.** With nearly half of individual investors (48 percent) saying they have little or no understanding of alternatives, and nearly two-thirds (64 percent) saying they would need to learn more before investing, managers will need to provide educational content that helps financial professionals and also helps advisors clearly explain alternative strategies to clients.
- **Track Record Requirements.** Funds typically need to have a minimum performance track record, as well as meet assets under management requirements before intermediary gatekeepers will consider them for inclusion on their platforms. Given the shortage of long-term performance track records for retail alternative products -- Morningstar found that only 36 percent of U.S. retail alternative funds had 5-year performance data -- managers looking to enter the retail space should begin strategic planning efforts in a registered format as soon as possible.
- **Strategy Suitability.** Some strategies commonly employed by managers are better suited to the retail space than others, since mutual funds face greater limitations than private funds when it comes to investment strategies. Managers should consider both liquidity restrictions and diversification requirements when deciding what strategies to offer and the vehicle through which to offer them.
- **Product Packaging.** Private fund managers will need to determine which retail vehicle is the best for packaging their chosen strategy. When making any product-packaging decision, managers should factor in the requirements and costs of both short- and long-term distribution. It's important that managers fully understand the various fee structures associated with each distribution channel in order to make the best selection.
- **Fund Structure.** Depending on the investor base and distribution channels selected, as well the operational and financial resources at their disposal, managers must consider whether they will be a direct sponsor or sub-advisor of the fund, and whether to launch a stand-alone fund or join in a shared trust structure. Regardless of which structure is chosen, a private fund manager should consider partnering with an experienced mutual fund service provider to expedite the transition into the retail market.

The 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, which includes statistical source information, visit www.seic.com/RetailAlternatives.

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. for hedge funds 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 March 31, 2013, through its subsidiaries and partnerships in which the company has a significant interest, SEI manages or administers \$495 billion in mutual fund and pooled or separately managed assets, including \$206 billion in assets under management and \$289 billion in client assets under administration. For more information, visit www.seic.com.

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