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SEI Survey: Investors' Continued Commitment to Hedge Funds Comes With Rising Expectations

Institutions Look Beyond the Numbers as Transparency and Liquidity Risk Surpass Performance as Top Concerns Facing Hedge Fund Managers

OAKS, Pa., Jan. 25 /PRNewswire-FirstCall/ -- In the wake of the investment scandals, market dislocations, and regulatory scrutiny of the past year, transparency and liquidity risk have surpassed poor performance as the top concerns for institutional investors investing in hedge funds, according to a global survey report released today by SEI (Nasdaq: SEIC) in collaboration with Greenwich Associates. The survey report, entitled "The Era of the Investor: New Rules of Institutional Hedge Fund Investing," points to a need for hedge fund managers to institutionalize responses to transparency demands and to demonstrate clear sources of alpha to retain and gain assets among an increasingly demanding institutional investor base.

The survey revealed a continued commitment to hedge fund investing among institutions as nearly 80 percent of all survey respondents said they have no plans to change their hedge fund allocations in the next 12 months, while 15 percent expect to increase their allocations. What will change is their demand for transparency. Over 70 percent of respondents reported requesting more detailed information from managers than they did a year ago. While the type of information sought ranged from counterparty and leverage exposure data to sector and position-level detail, over 80 percent of the respondents reported a focus on funds' valuation methodologies. Investors also continue to exert influence on fee structures, as nearly one in five respondents reported negotiating fee arrangements different than the standard "2 and 20" for single-manager funds and "1 and 10" for funds of hedge funds over the last year.

"Investors remain committed to hedge funds but that commitment comes with increased expectations," said Phil Masterson, Managing Director for SEI's Investment Manager Services division. "The balance of power has clearly shifted and managers must meet the growing demand for transparency and increase their focus on operational effectiveness if they want to be successful in this 'Era of the Investor.'"

With respect to manager selection, institutional investors are even more focused on a manager's ability to identify and clearly explain the alpha source from which the performance is derived. Another critical factor in manager selection was compliance infrastructure, with nearly 50 percent of respondents citing it as "very important." Independent administration and a separation of investment management and operations management roles were also identified as high-ranking factors in manager selection.

For hedge fund managers, the survey clearly points to the need to focus on the fundamentals as they face greater scrutiny and demands from investors. The survey reveals that investors are concerned with issues such as liquidity risk, valuation methodology, and whether performance characteristics are in line with stated strategies. It also points to institutional investors' willingness to look beyond short-term performance and focus on other traditional indicators of quality, such as a firm's management team, investment process, and operations and compliance infrastructure.

For fund managers to remain competitive, the survey emphasized the need for firms to proactively enhance their transparency and investor communications and reporting. Fund managers also have an opportunity to add value by helping educate the investment committees and boards of institutional investors, given that investors cited that as their second greatest challenge.

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 17-page white paper, please visit www.seic.com/NewRules.

About SEI's Investment Manager Services Division

SEI's Investment Manager Services division provides comprehensive operational outsourcing solutions to global investment managers focused on mutual funds, hedge and private equity funds, exchange traded funds, collective trusts, and separately managed, as well as institutional and private client, accounts. The division applies operating services, technologies, and business and regulatory knowledge to each client's business objectives. Its resources enable clients to meet the demands of the marketplace and sharpen business strategies by focusing on their core competencies. The division has been recognized by Buy-Side Technology as "Best Fund Administrator" and by HFMWeek as "Best Funds of Hedge Funds Administrator." For more information, visit www.seic.com/ims.

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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,

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