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SEI Study: Funds of Hedge Funds Must Adapt Business Model to Remain Competitive

Despite Declining Assets, 72 Percent of Investment Professionals Believe FoHFs Still Play Valuable Role in Institutional Investment Portfolios

OAKS, PA -- (Marketwire) -- 12/05/12 -- According to a global study released today by SEI (NASDAQ: SEIC), there are signs of optimism for funds of hedge funds (FoHFs) as both investors and managers see the model as resilient and relevant to the long-term investing landscape, despite declining assets and recent negative headlines seeming to signal their decline. In fact, nearly three-quarters of investors and consultants polled (72 percent) believe FoHFs still play a valuable role in institutional investment portfolios, while 84 percent of those polled believe that FoHFs will exist 20 years from now -- assuming they evolve to address growing investor concerns. The report, titled "The Evolving Funds of Hedge Funds Model: Seven Ways to Reinvention," reveals the need for FoHFs to adapt to meet evolving investor needs and business challenges, while providing insights to help them remain relevant and competitive.

According to the paper, most investors and consultants believe FoHFs have a window of opportunity to reinvent their business models to address recent dissatisfaction and disconnection with investors, as well as concerns over transparency, liquidity, and fees. When it comes to fees, more than two-thirds of investors and consultants surveyed (68 percent) believe they are generally too high for the value delivered. Despite the concern over fees, increased transparency and liquidity were identified as the most important factors in making FoHFs more competitive by investors and consultants. Managers believe that increased liquidity and a greater ability to generate demonstrable alpha are the most important factors in making FoHFs more competitive. The study outlines seven areas where FoHFs can achieve the innovation necessary to change investor perspectives and become more resilient and flexible moving forward, including providing greater customization, more concentrated or specialized portfolios, and completely revamping fee structures.

"The study shows that while there is certainly a need for funds of hedge funds to adapt to be more competitive, the fact remains that their core value proposition and what they offer is still relevant to investors," said Ross Ellis, Vice President, Knowledge Partnership for SEI's Investment Manager Services division. "The headlines are awash with messages that call for

funds of hedge funds to change their fee structures and improve transparency, but that's really only one aspect of it. While some managers are closing up shop, others are innovating to meet the evolving needs of investors. We hope this paper will help the industry better understand the challenges and opportunities that exist for funds of hedge funds. The reality is that the model is still valuable and important, and the window is open for managers to create a fund of hedge funds version 2.0 that captures this opportunity."

The study results suggest that despite recent struggles, many investors still believe FoHFs are a vital resource for specialized advice and expertise unavailable internally. In fact, 4 in 5 investors see FoHFs as an ongoing component of their investment portfolios. According to the study, nearly half of investors polled (48 percent) said the top reason their organization invests in FoHFs is "to achieve better risk-adjusted returns." The next most cited reasons by investors were "to augment our manager selection capabilities/expertise" (44 percent) and "to get around small portfolio size and limited organizational resources" (39 percent).

The study 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, visit www.seic.com/EvolvingFOHF.

About SEI's Investment Manager Services Division
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About SEI
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Source: SEI