PREQIN INVESTOR UPDATE: ALTERNATIVE ASSETS H2 2019

Private Equity
Private Debt
Hedge Funds
Real Estate
Infrastructure
Natural Resources

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Contents

Data Pack

The data behind all of the charts featured in this report is available to download for free. Ready-made charts are also included that can be used for presentations, marketing materials and company reports.

To download the data pack, please visit: www.preqin.com/investoroutlook

Foreword

At the halfway mark of 2019, we see continued enthusiasm for alternatives among investors. Industry assets under management stood at $9.5tn at the end of 2018. Investors we surveyed remain upbeat about the future performance of alternatives, but are aware this may not continue. Amid rising asset valuations and record levels of dry powder, a growing proportion of investors believe we are at the peak of the equity market cycle and that a market correction is imminent.

On the private capital front, most investors are not altering their investment stance in response to the current macroeconomic environment. Performance has satisfied most investors across private equity, private debt, real estate and infrastructure – asset classes that have held up well against global market uncertainty – hence there is no compelling reason to re-adjust their portfolios. Stellar performers, private equity funds have consistently produced impressive double-digit returns over the short and long term. Private equity and private debt are looking particularly favourable, with more investors intending to increase their capital commitments to these asset classes than decrease them over the coming year.

For real estate and infrastructure, it is a different story. Even though performance has mostly met or even exceeded expectations, investors are concerned by asset valuations, and are exercising caution. Compared with investors surveyed at the mid-point of last year, a greater proportion plan to maintain or reduce capital commitments to these asset classes in the next 12 months.

In the hedge fund space, investors are erring on the side of caution and looking to position their portfolios more defensively for asset protection. While the majority are looking to maintain their exposure to the asset class, we expect to see much activity as escalating geopolitical events encourage tactical rebalancing of portfolios.

As the importance of sustainable investing gains worldwide momentum, environmental, social and governance (ESG) policies have become the talk of the town. Our survey shows that more investors are looking to incorporate ESG principles into their mandates.

In this H2 2019 edition of our **Investor Outlook** series, we explore investor sentiment with regard to individual alternative asset classes, and find out how they are planning to position their portfolios in the year ahead. We also speak to CalPERS about how they have integrated ESG factors into their investment portfolio. We extend our sincere gratitude to our fellow Preqin colleagues and contributors.

Current Investor Sentiment

Investors are largely satisfied with alternatives, but future real estate performance is of concern

Private Equity Tops the Table for Investor Satisfaction

Across alternative assets, investors are most satisfied with the performance of private equity funds: a significant 93% of respondents to our latest survey feel that the performance of the asset class has met or exceeded their expectations over the past 12 months. This is hardly surprising since private equity funds have consistently produced double-digit returns across the one-, three-, five- and 10-year timeframes.

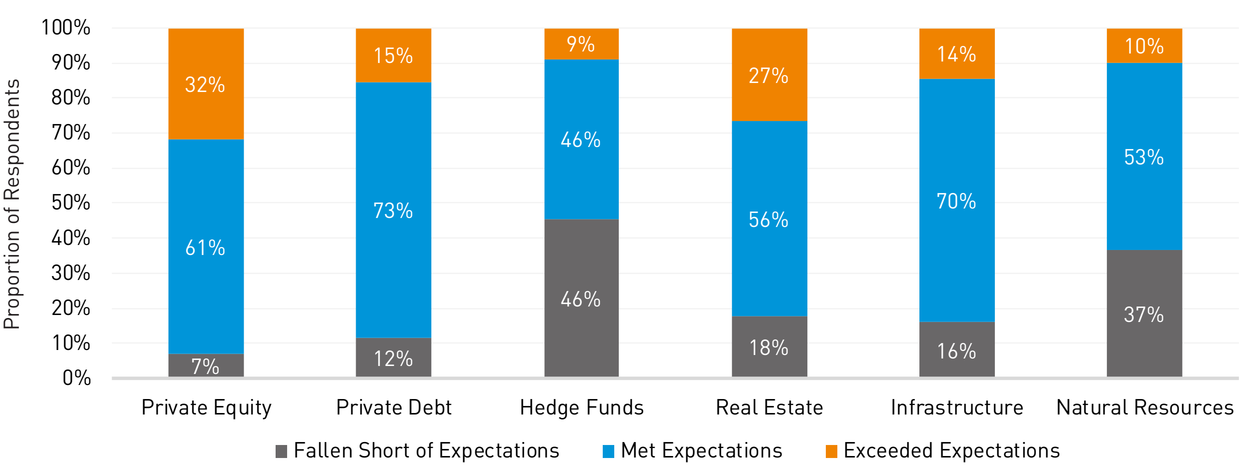
Investors in private debt, real estate and infrastructure funds are also largely satisfied with the performance of those asset classes; but for natural resources and hedge funds, the story is less positive. Over a third (37%) of surveyed investors were disappointed with their natural resources investments over the past year (Fig. 1). That said, performance is not the main motivator for investing in natural resources: investors are primarily drawn by the low correlation to other asset classes and diversification benefits on offer.

Just under half (46%) of hedge fund investors told us that performance had fallen short of expectations over the past year. After returning +12.06% in 2017, hedge funds disappointed investors with a return of -3.08% in 2018. This is unlikely to deter investors going into the second half of 2019 and into 2020, though, given that many investors believe we are at the peak of the equity market cycle – hedge funds will be called upon to deliver more than strong returns going forwards.

Investors Confident of Future Performance

Investors are optimistic about the future performance of alternatives: across each asset class, more than three-quarters of survey respondents are confident that performance will improve in the next 12 months relative to the previous year (Fig. 2). A notable 42% of investors feel hedge fund performance will improve over the next 12 months, and we have already seen performance start to pick up in the first half of 2019: the Preqin All-Strategies Hedge Fund benchmark has a 2019 YTD return of +7.73% as of June.

Fig. 1: Investor Views on the Performance of Their Investment Portfolios over the Past 12 Months



Source: Preqin Investor Interviews, June 2019

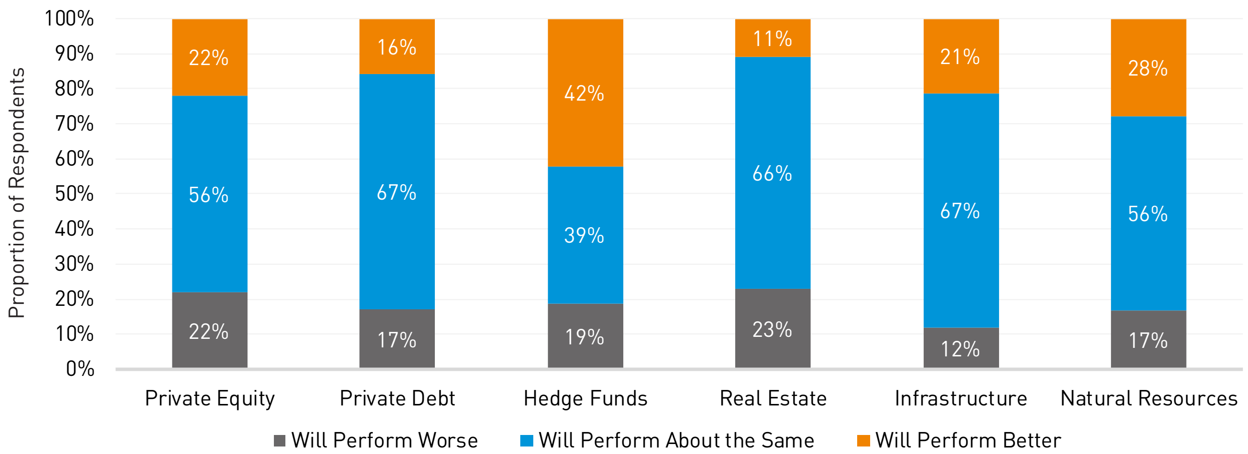
Investors' outlook on real estate performance is the most negative: 11% believe the asset class will perform better in the next 12 months, whereas 23% feel it will perform worse. Real estate has been a star performer in recent years, but there are signs that investors are concerned this strong performance may be about to weaken. Distributions reached record levels in 2016, but dropped off in 2017 and the 2018 figure to September suggests the full-year figure will be even lower.

Capital Inflows Expected to Continue

Across private equity, private debt and infrastructure, more than 80% of investors in each asset class are planning to commit more, or the same amount of, capital over the next 12 months as they did in the previous year (Fig. 3). Given their performance concerns, real estate investors may be taking a more cautious approach to new investments over the next 12 months: 27% are planning to invest less capital compared to the previous 12 months, whereas one year ago, the proportion looking to invest less capital was smaller at 17%.

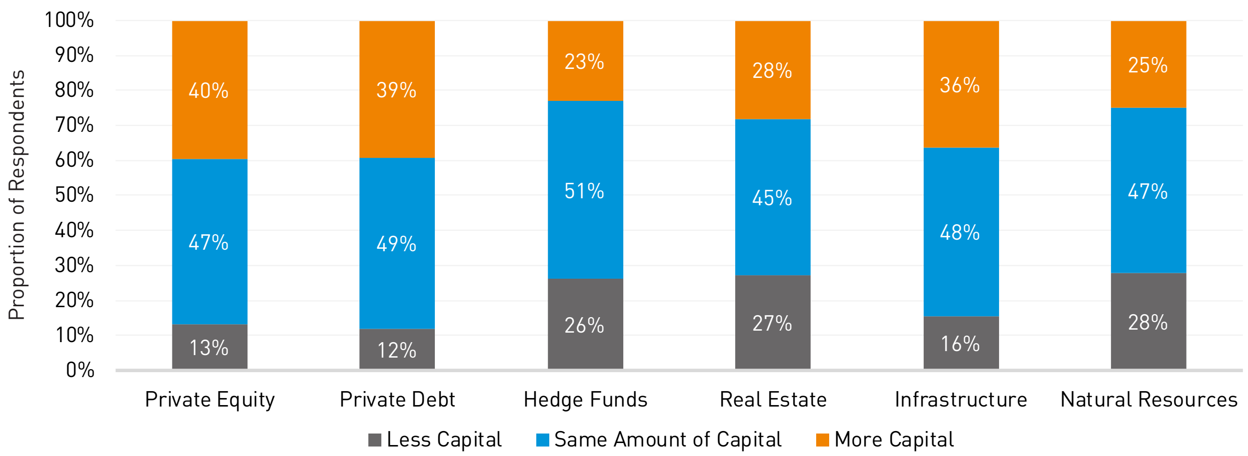
Almost a quarter (23%) of investors are planning to place more capital in hedge funds in the next 12 months, compared with just 16% of those surveyed at the same time last year. Investors are increasingly seeing the benefits hedge funds can offer in times of volatility and will be looking to use these vehicles to protect assets in the event of a market correction.

Fig. 2: Investors' Expectations for the Performance of Their Investment Portfolios in the Next 12 Months Compared with the Previous 12 Months



Source: Preqin Investor Interviews, June 2019

Fig. 3: Investors' Expected Capital Commitments to Each Asset Class in the Next 12 Months Compared with the Previous 12 Months



Source: Preqin Investor Interviews, June 2019

The Market Cycle

Investors largely agree that the market cycle is at its peak, yet most are not altering their stride

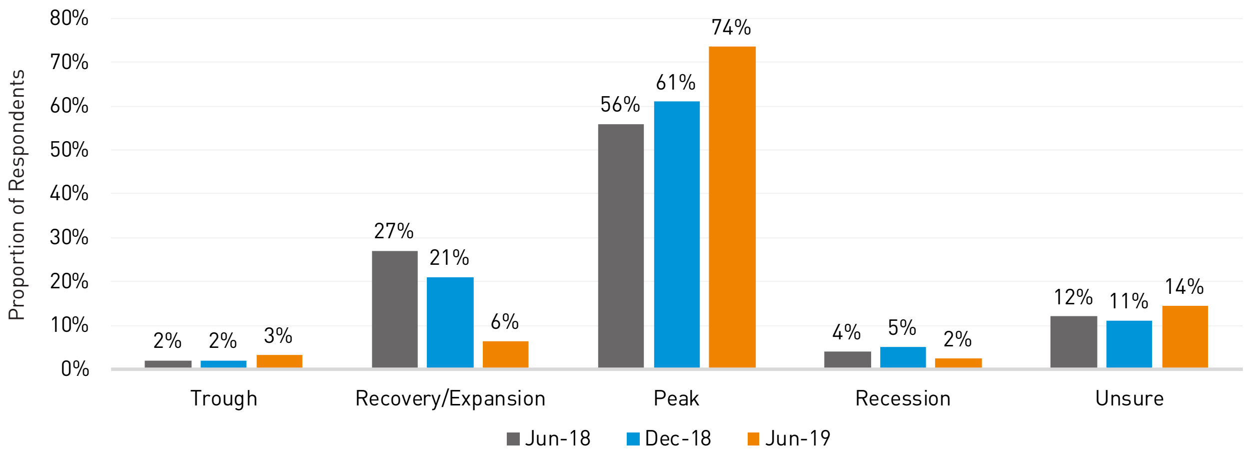
More surveyed investors than ever believe we are now at the peak of the equity market cycle: 74% told us this in our latest investor survey (Fig. 4), an increase from 61% at the end of 2018 and 56% at the start of H2 2018. The question now is not so much *if* we will see a market correction, but how soon?

Rising competition and an abundance of dry powder has kept valuations frothy for some time now. Asset prices cannot continue to increase indefinitely, and although most investors believe we are at the peak of the cycle, respondents are divided across individual asset classes. In both private equity and real estate a majority of investors believe that assets are overvalued, and 48% of investors in these asset classes feel a market correction will occur by the end of 2020 (Fig. 5). For infrastructure and natural resources, however, a majority of investors believe assets are fairly valued and, notably, 27% of natural resources investors say assets are undervalued, with room for further price rises.

For private capital fund managers on the road seeking capital, the good news is that the majority (64%) of surveyed investors are not altering their investment strategy as a result of the current equity market cycle (Fig. 6). Among those that are altering their investments, a greater proportion are looking to put more capital into private capital than less.

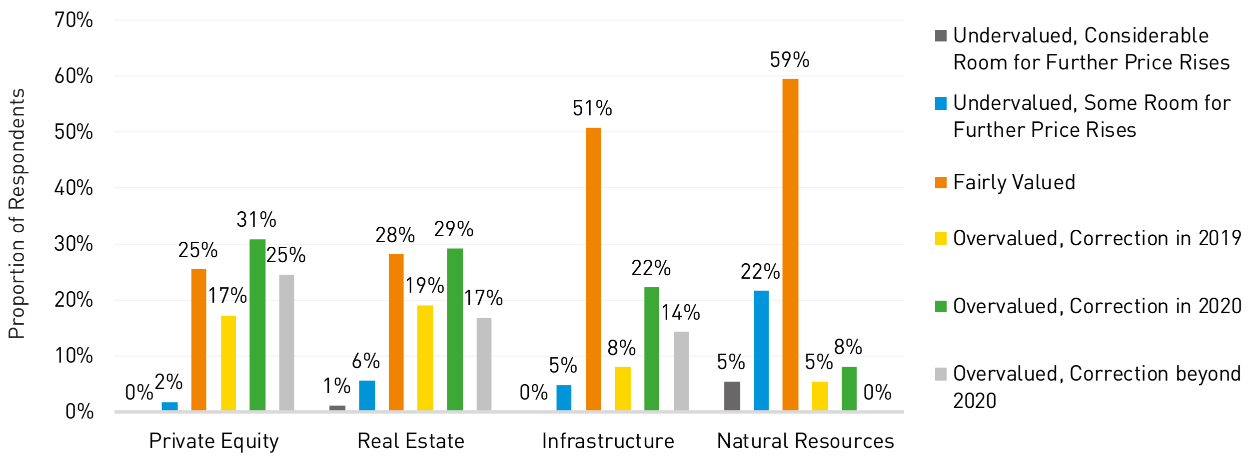
On the hedge fund side, the majority (64%) of investors are intending to alter their investment strategy as a result of the current equity market cycle, looking to place more capital in defensive strategies with asset protection a clear priority (Fig. 7). This is a clear increase from 40% of investors surveyed at the end of 2018 and 33% at the end of H1 2018. With the global macroeconomic outlook increasingly uncertain, more and more investors are looking to hedge funds for the active risk management they can provide.

Fig. 4: Investor Views on Where We Are in the Current Equity Market Cycle



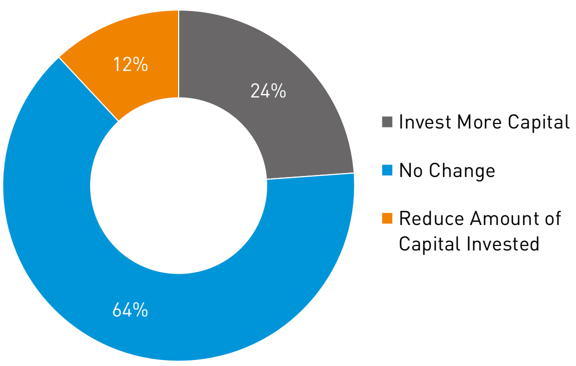
Source: Preqin Investor Interviews, June 2018 - June 2019

Fig. 5: Investor Views on Portfolio Company/Asset Pricing



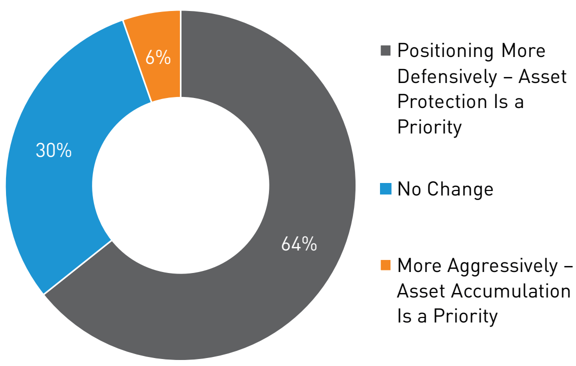
Source: Preqin Investor Interviews, June 2019

Fig. 6: Investors' Intentions for Their Private Capital Portfolios in Response to the Equity Market Cycle



Source: Preqin Investor Interviews, June 2019

Fig. 7: Investors' Intentions for Their Hedge Fund Portfolios in Response to the Equity Market Cycle



Source: Preqin Investor Interviews, June 2019

What Does ESG Mean for CalPERS?

As ESG continues to grow in prominence in the alternatives assets industry, so too does the amount of conversation around it. Here, Preqin speaks to Beth Richtman from CalPERS for their take on the subject

There are many definitions of ESG in the industry – what does this term mean to CalPERS?
For us, ESG integration is about identifying, understanding and addressing short- and long-term risks and opportunities that can impact our returns to help us be a better investor and an effective and responsible asset owner. As a global institutional investor, CalPERS strongly believes long-term value creation requires effective management of three forms of capital: financial, physical and human.

Good corporate governance is an important element of managing financial capital and is vital to ensuring an alignment of interests between a company's management and its shareowners. In our experience, companies with good governance practices deliver better long-term value to investors. We focus on issues such as investor rights, board quality and diversity, reporting, compensation and effective regulation to protect our rights, ensure we have reliable information and give us rights of redress. Governance is important – not just in our public company holdings, but in our relationships with external managers and investment vehicles.

Physical capital refers to the environment. CalPERS believes companies' long-term value creation requires effective management of environmental risks and opportunities. Companies should identify and manage material environmental risks and opportunities that are relevant to their short- and long-term success. Environmental issues may include the following[1]:

1. Company impact on the environment: potential regulatory change, liability, licence to operate, reputational or market access risks posed by the company's environmental impacts, including:
   - emissions, pollution, waste, loss of biodiversity, degradation of natural ecosystems, like deforestation
2. Environmental effects on company: change, volatility or deterioration in the environment that may impact business operations, such as:
   - climate change, extreme weather
   - loss or degradation of ecosystem services, like pollination, decline in biodiversity
   - change in access to clean, affordable and adequate sources of water and other critical natural resources, like food supplies
3. Transition: transition of company's industry and/or customers towards more sustainable products, services or practices, such as:
   - low-carbon economy, technologies improving environmental outcomes
   - sustainability certifications, restoration, adaptation and risk-mitigation business models

Regarding Human Capital, when we think of the managers overseeing our investments, the people who work for the companies – and their suppliers – in our portfolio, the customers who buy our portfolio companies' products, and the communities affected by our portfolio companies' operations, we see human capital as a clear driver of value. Corporations should adopt practices towards the elimination of human rights violations in all countries or environments in which they operate. Additionally, these practices should emphasize and focus on preventing discrimination; harassment of any kind including sexual harassment; and/or violence based on race, colour, religion, national origin, age, disability, sexual orientation, gender identity, marital status or any other status protected by

[1] *https://www.calpers.ca.gov/docs/forms-publications/governance-and-sustainability-principles.pdf*

laws or regulations in areas of a company's operation. Boards should be accountable for companies to develop and implement company policies, procedures, training and internal reporting structures to ensure good human capital management practices.

CalPERS has been a long-term supporter of ESG integration into investment decision-making for your entire fund – what are your reasons for this?
CalPERS' fiduciary responsibility is to sustain its ability to pay benefits for generations of California state employees. This is reflected in our Core Values and Investment Beliefs. We view sustainable investments and ESG integration as necessary to helping us achieve the returns we need to be able to fulfil our commitment to our beneficiaries.

How has your wider Sustainable Investments Programme evolved to where it is today?
CalPERS created the Sustainable Investments team with a total fund mandate. The team's focus is on research, integration, advocacy and engagement. It enables CalPERS to better integrate ESG considerations into our investment process. Over the years the CalPERS Principles have evolved from a guide to proxy voting in public markets, to a broader statement of our views on best practices. We now issue guidance on our engagement with companies, advocate with policy-makers in support of our Investment Beliefs, and engage internal and external managers on our expectations regarding sustainable investment practices.[2]

What are the biggest challenges you face as an investor with regards to ESG?
Access to data and tools that allow us to measure and monitor our exposure to the various ESG topics in financial terms and across asset classes. This is important because it would help us understand our true exposure to an issue, as it may evolve, and think comprehensively about applications across our investment portfolio. Most tools are developed only for listed equity, with data updated annually, and typically aren't built for systematic integration across a portfolio as complex as ours, where materiality of any specific ESG factor may differ across asset classes and strategies.

[2] *https://www.calpers.ca.gov/docs/private-equity-sustainable-investment-guidelines.pdf*

CalPERS

For more than eight decades, CalPERS has built retirement and health security for state, school, and public agency members who invest their lifework in public service. Our pension fund serves more than 1.9 million members in the CalPERS retirement system and the Public Employee Retirement Fund market value currently stands at approximately $376bn making us the largest defined-benefit public pension in the US. Additionally, we administer benefits for more than 1.4 million members and their families in our health program.

https://www.calpers.ca.gov/page/investments/sustainable-investments-program

Investor Attitudes towards ESG

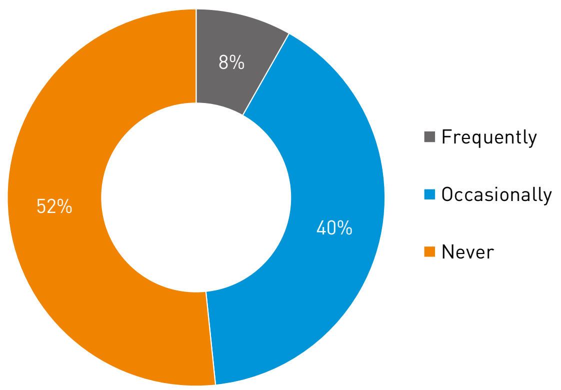
Nearly half of surveyed investors have turned down a fund that did not comply with their ESG program

The discussion around environmental, social and governance (ESG) within alternative assets has never been more lively. Investors are more conscious than ever of the importance of ESG investing and are carefully scrutinizing funds to ensure they meet requirements in this area. Fund managers are well aware of this and are increasingly incorporating ESG principles into their investments.

Across alternative assets, our survey reveals that investors are most likely to have an ESG program already in place for their private equity investments (35% of respondents), whereas natural resources investors (12%) have been much slower on the uptake (Fig. 9).

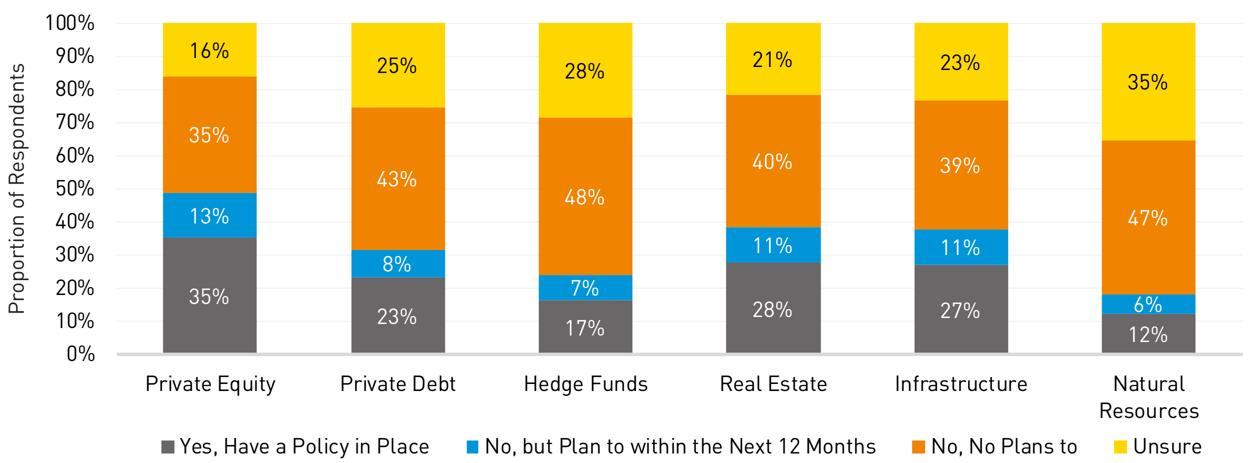
It is evident that ESG policies can have significant influence on investors' decision-making: 48% of surveyed investors have at some point decided not to invest in a fund due to ESG factors (Fig. 8). Among hedge fund investors specifically, 42% would consider issuing a redemption request for a fund they are already invested in due to ESG factors.

Fig. 8: Frequency with Which Investors Have Decided Not to Invest in a Fund Due to ESG Factors



Source: Preqin Investor Interviews, June 2019

Fig. 9: Investors with an ESG Policy in Place for Their Portfolios by Asset Class



Source: Preqin Investor Interviews, June 2019

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Private Equity

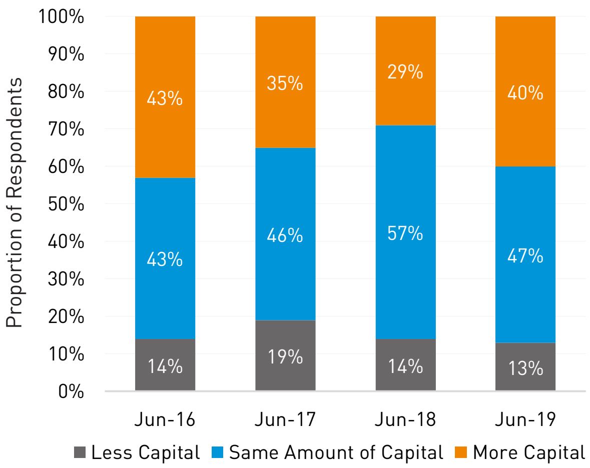
Investors are concerned by valuations and Brexit, but a sizeable proportion are looking to up their commitments

Over the past couple of years, the proportion of surveyed investors looking to reduce their capital commitments to private equity has decreased. A notable 40% of investors are planning to commit more capital to the asset class in the year ahead compared to one year ago, which is the highest figure since our June 2016 survey (Fig. 10).

Asset valuations are a growing concern for investors: 79% feel they present a key challenge for return generation in the year ahead (Fig. 11), up from 72% of investors surveyed at the start of 2019. In such a crowded and challenging marketplace, it is little surprise that 59% of investors believe competition for assets is an issue. Rounding out the top three challenges is the exit environment (38%).

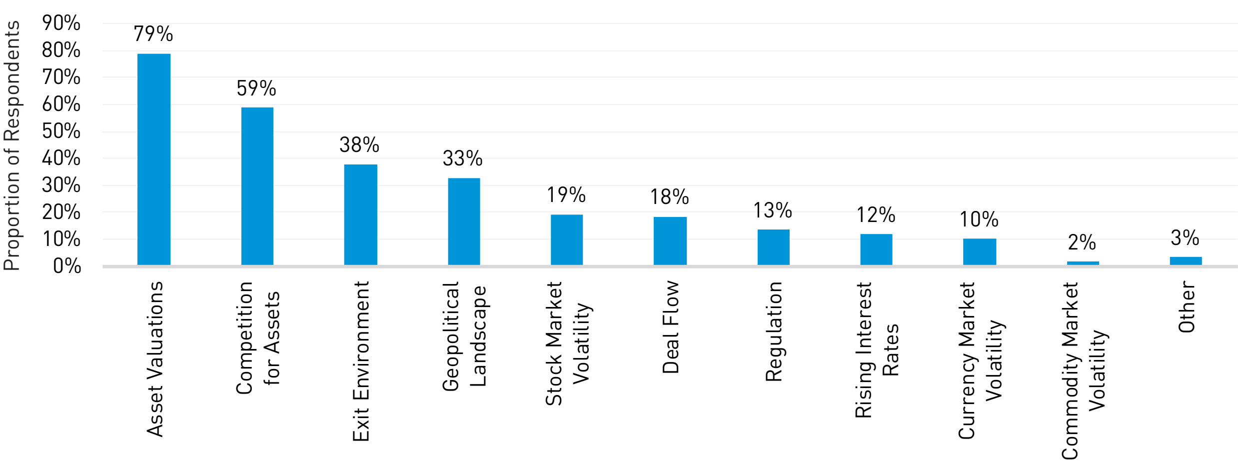
Over the next 12 months, the largest proportion (68%) of private equity investors will target small to mid-market buyout funds (Fig. 12). Growth and secondaries funds are increasingly attractive options to investors, with 47% and 34% respectively planning to target these fund types

Fig. 10: Investors' Expected Capital Commitments to Private Equity Funds in the Next 12 Months Compared to the Previous 12 Months, 2016 - 2019



Source: Preqin Investor Interviews, June 2016 - June 2019

Fig. 11: Private Equity Investor Views on the Key Challenges for Return Generation in the Next 12 Months

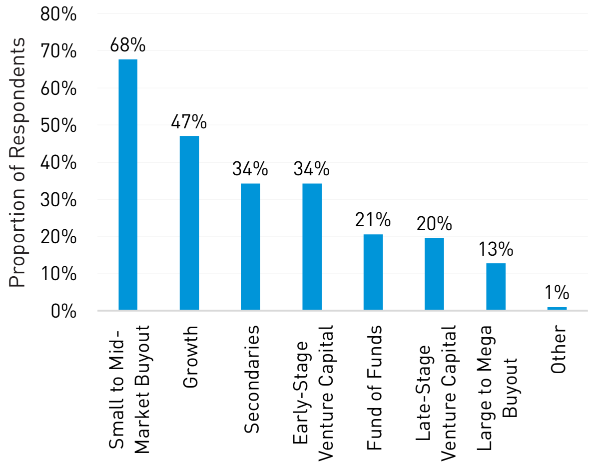


Source: Preqin Investor Interviews, June 2019 in the coming year, up from 21% and 14% at the start of H2 2018.

The established markets of the US and Western Europe (excluding UK) are likely to receive the majority of capital from private equity investors in the next 12 months: 88% and 42% of investors respectively believe each region is currently presenting favourable investment opportunities (Fig. 13). Ongoing Brexit uncertainty and inconclusive negotiations with the EU are perhaps unnerving private equity investors: the UK specifically was cited by 18% of respondents, down from 28% at the start of 2019.

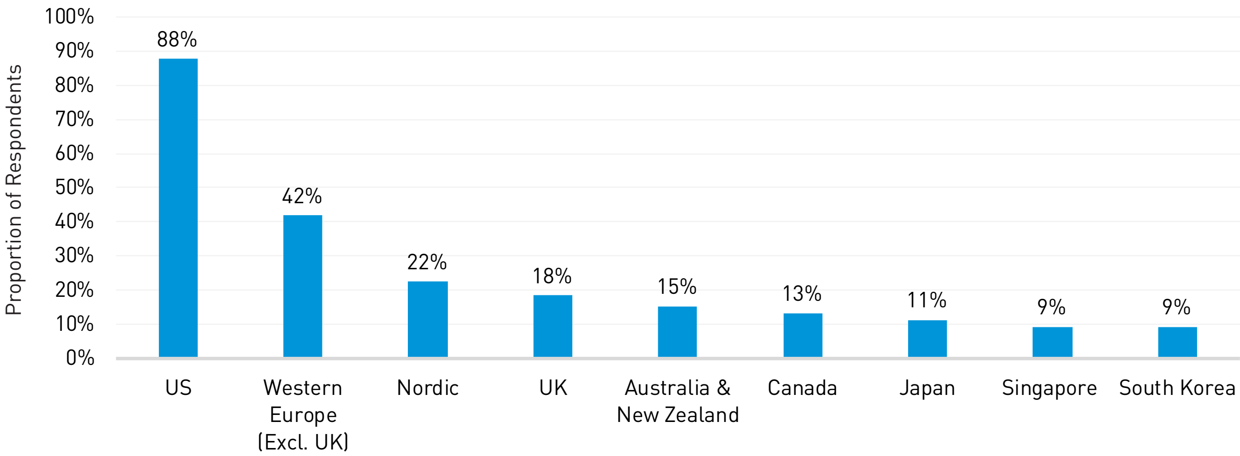
Emerging Asia remains the emerging market of choice for private equity investors: 49% and 39% feel China and India are presenting the best opportunities in emerging markets, while 39% cited other nations within Emerging Asia (Fig. 14).

Fig. 12: Investor Views on Fund Types Presenting the Best Opportunities in Private Equity



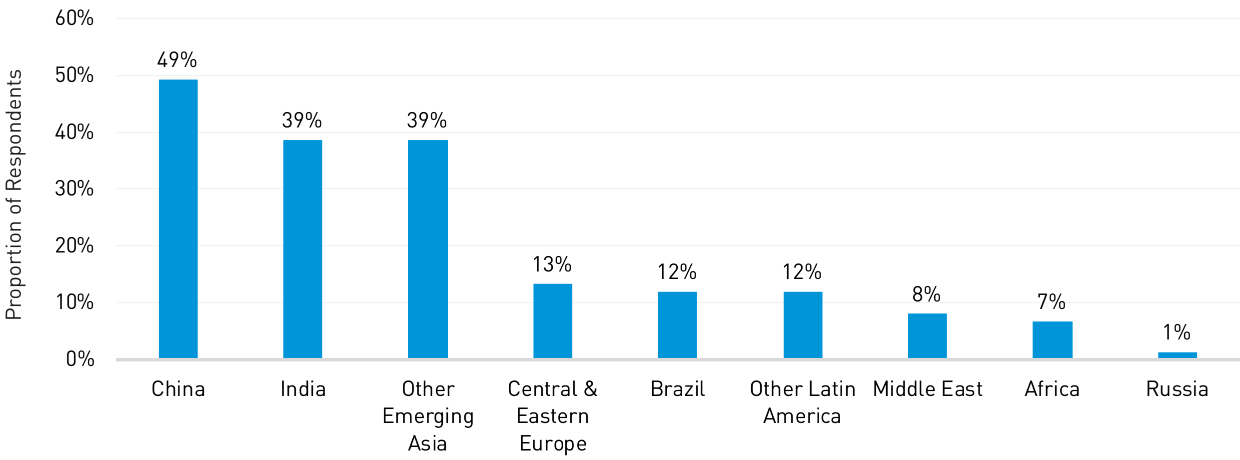
Source: Preqin Investor Interviews, June 2019

Fig. 13: Investor Views on Developed Markets Presenting the Best Opportunities in Private Equity



Source: Preqin Investor Interviews, June 2019

Fig. 14: Investor Views on Emerging Markets Presenting the Best Opportunities in Private Equity



Source: Preqin Investor Interviews, June 2019

Private Debt

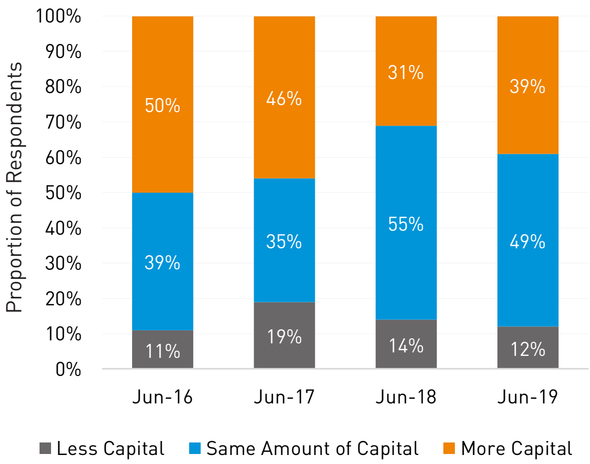
Competition is the primary concern among investors as the asset class continues expanding

Private debt investors remain committed to the asset class, with a significant 88% looking to commit more, or the same amount of, capital to funds over the next 12 months, the largest proportion in the past three years (Fig. 15).

As private debt to continues to grow into an established and standalone asset class, with more players than ever before, competition for lending opportunities becomes a top concern among investors. In our survey, 61% of investors cited this as a key challenge for return generation in the next 12 months (Fig. 16). Other significant challenges include credit spreads (48%) and credit profiles (47%).

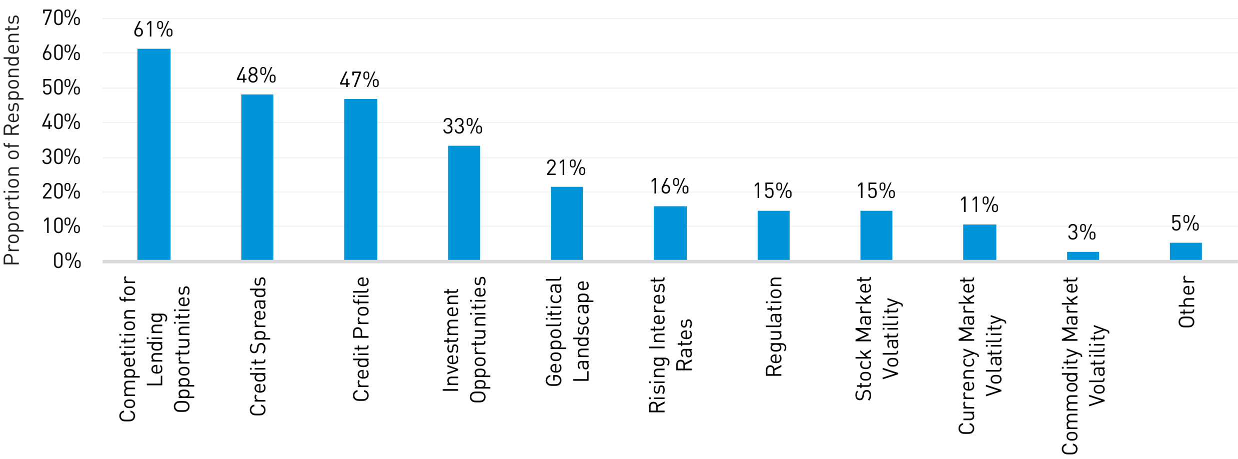
Direct lending remains the most sought-after strategy among private debt investors, with almost half (49%) believing the strategy presents the best opportunities for the coming year (Fig. 17). Appetite for special situations and mezzanine funds is on the up, though: at the start

Fig. 15: Investors' Expected Capital Commitments to Private Debt Funds in the Next 12 Months Compared to the Previous 12 Months, 2016 - 2019



Source: Preqin Investor Interviews, June 2016 - June 2019

Fig. 16: Private Debt Investor Views on the Key Challenges for Return Generation in the Next 12 Months



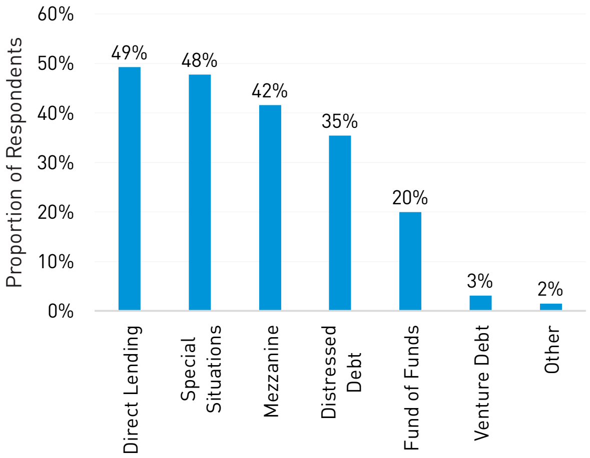
Source: Preqin Investor Interviews, June 2019

of H2 2018, just 19% and 20% of investors intended to target these strategies respectively in the next 12 months, whereas this has now increased to 48% and 42%. Investors are evidently looking to move towards a more favourable risk/return profile in the current market environment.

Most private debt investors will look to target the established markets of the US and Western Europe (excluding the UK) in the year ahead, as Fig. 18 shows. Investors will also be looking at opportunities in the UK, with almost a quarter (23%) believing it presents the best opportunities in private debt right now.

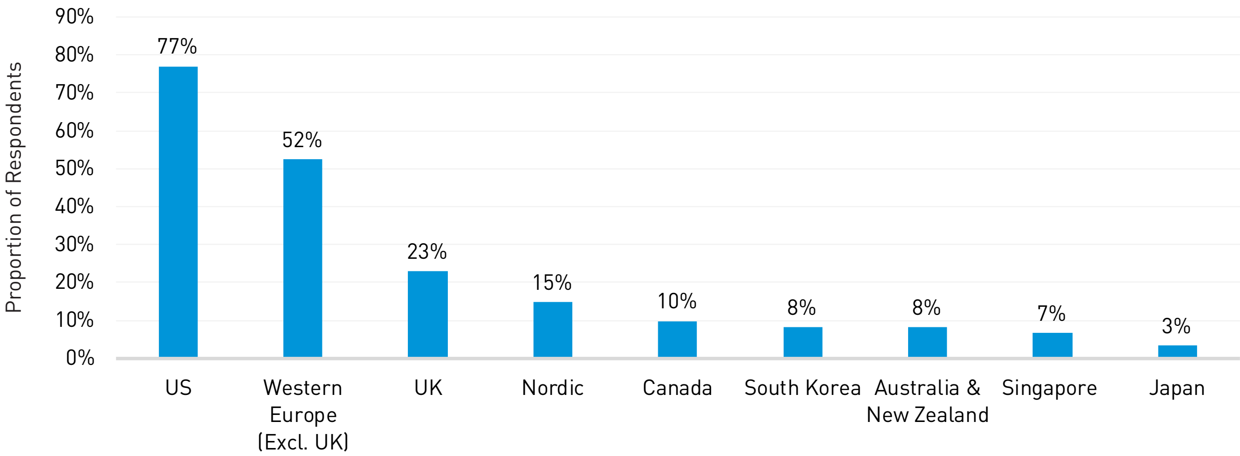
Emerging Asia is likely to receive considerable attention from private debt investors in the near future, as seen in Fig. 19.

Fig. 17: Investor Views on Fund Types Presenting the Best Opportunities in Private Debt



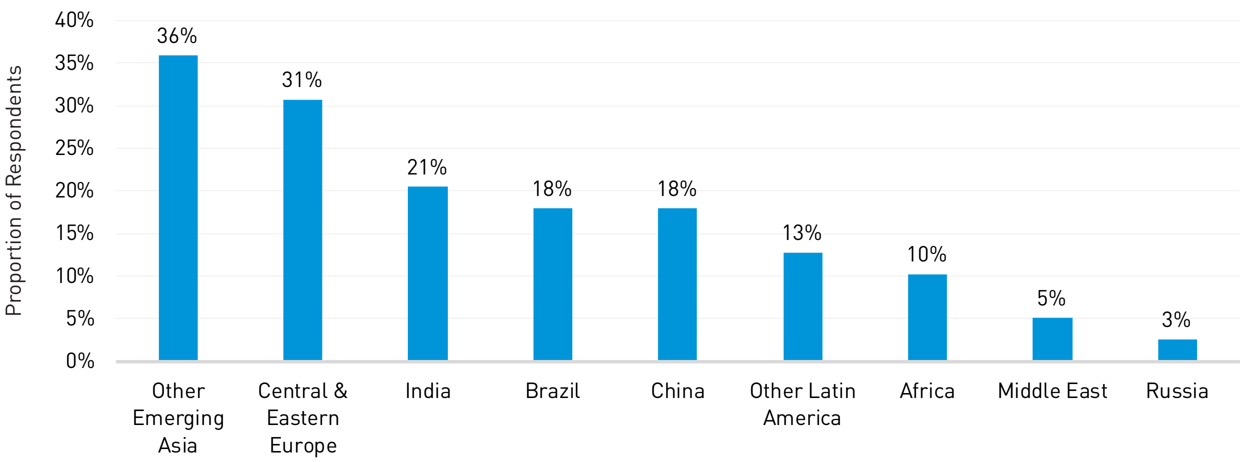
Source: Preqin Investor Interviews, June 2019

Fig. 18: Investor Views on Developed Markets Presenting the Best Opportunities in Private Debt



Source: Preqin Investor Interviews, June 2019

Fig. 19: Investor Views on Emerging Markets Presenting the Best Opportunities in Private Debt



Source: Preqin Investor Interviews, June 2019

Hedge Funds

Investors take steps to position their portfolios more defensively to arm against a market correction

Britain has a new Prime Minister, and one that could take the nation all the way to a no-deal Brexit. US President Trump has escalated a trade war with China and is even (at points) waging war on the home front with the Fed. And the extraordinary geopolitical landscape extends beyond the special relationship that crosses the Atlantic: the slowdown in the eurozone shows few signs of improvement, and rising tensions in the Gulf and elsewhere may impact markets globally.

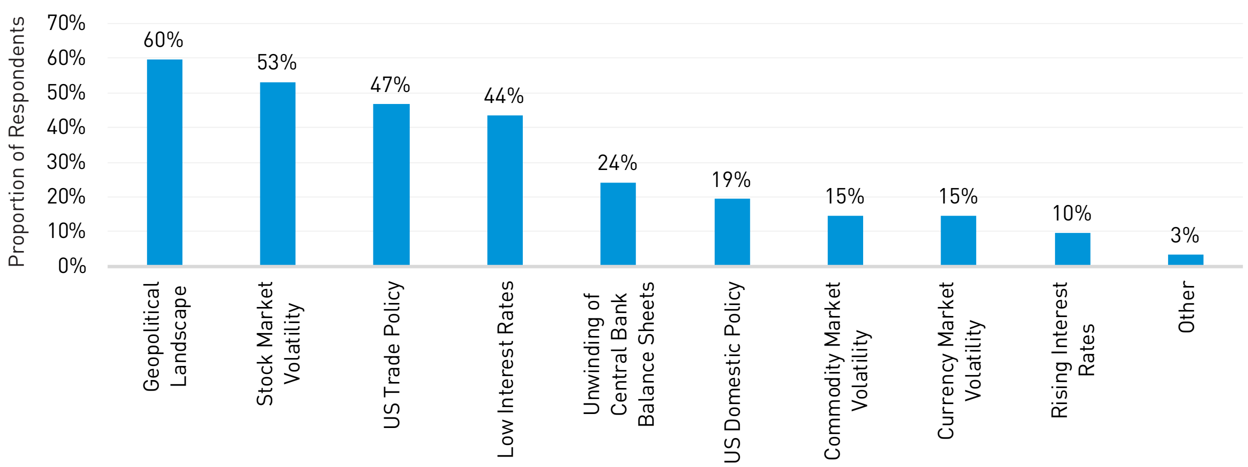
In light of this, the impact of uncertain and escalating geopolitical events on markets is at the forefront of investors' minds when it comes to their hedge fund portfolios: 60% of investors believe this will be a challenge for return generation over the rest of 2019 and into 2020, in addition to the ensuing market volatility (53%, Fig. 20). The sharp declines in equity markets at the end of 2018 showed that markets are not immune to concerns around global trade and slowing of growth.

However, 2019 has witnessed a rally – the S&P 500 was up at +17.35% to June 2019. This poses a dilemma for investors. How should they invest their capital: for protection from further potential market events, or for growth through investment in higher-risk assets?

Our survey reveals a clear answer here. Sixty-four percent of investors are positioning their hedge fund holdings for portfolio protection, almost double the level that we recorded a year ago (33%). Just 5% of investors reported they are looking for more aggressive strategies to help with asset growth.

So, with defence in mind, where are investors looking to invest their capital? Although we are not expecting huge amounts of fresh capital to enter the asset class – the majority of investors are seeking to maintain their exposure (Fig. 21) – we are expecting plenty of activity as investors tactically rebalance. As seen in Fig. 22, market-neutral or non-correlated strategies such as

Fig. 20: Hedge Fund Investor Views on the Key Challenges for Return Generation in the Next 12 Months

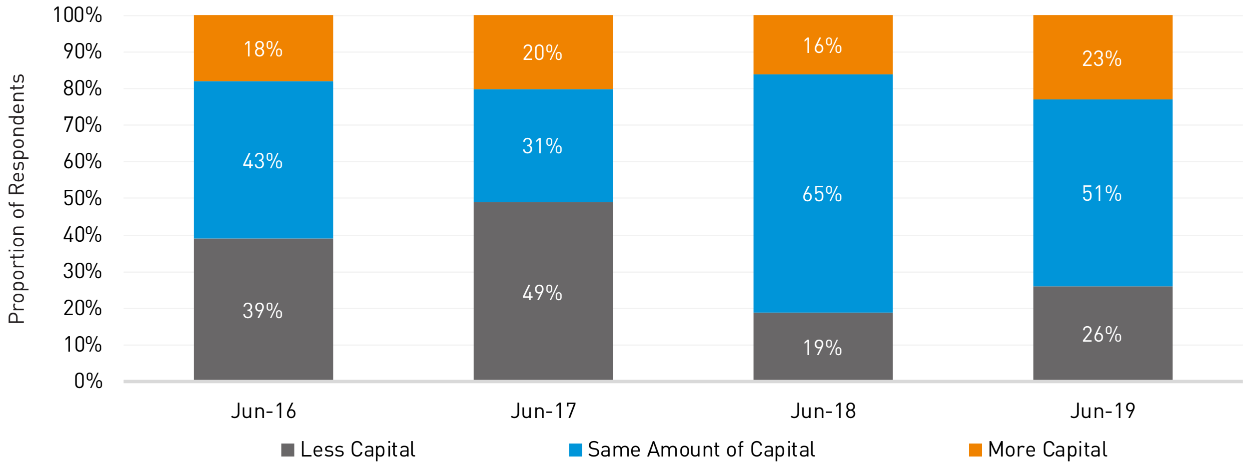


Source: Preqin Investor Interviews, June 2019

relative value and macro are sought by the greatest proportions of investors, whereas a larger proportion intend to weight off event-driven strategies – which may be negatively impacted by an equity correction – than those that plan to increase exposure.

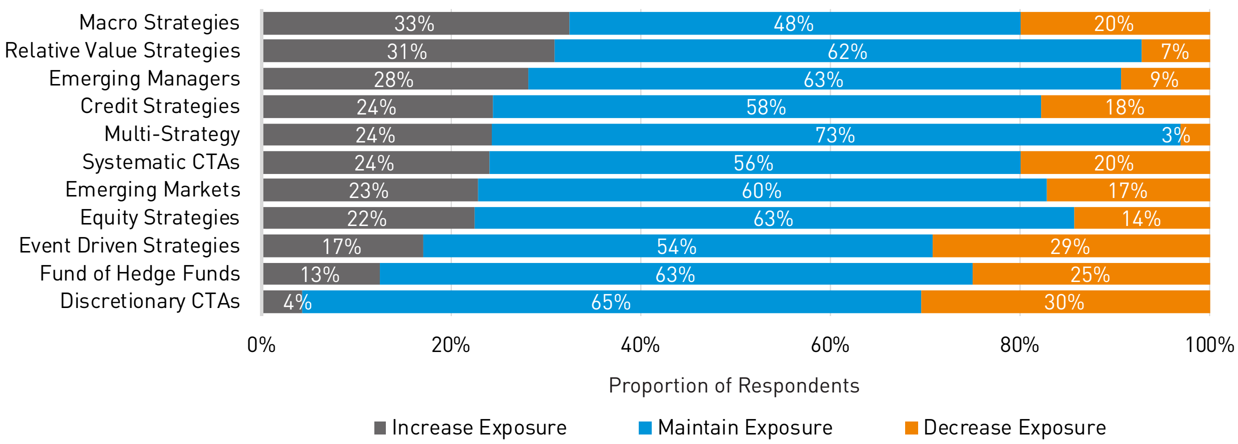
Although defence is a priority for investors, there is some cheering news for smaller managers: at 28%, 3x as many investors plan to increase their exposure to emerging managers than those that plan to decrease (9%), suggesting investors are looking beyond just the largest funds. This data is supported by our **Hedge Fund Asset Flows, Q1 2019** report, which shows that two-thirds of funds with less than $1bn in AUM saw outflows in the quarter.

Fig. 21: Investors' Expected Capital Commitments to Hedge Funds in the Next 12 Months Compared to the Previous 12 Months, 2016 - 2019



Source: Preqin Investor Interviews, June 2016 - June 2019

Fig. 22: Investors' Hedge Fund Allocation Plans for the Next 12 Months by Top-Level Strategy



Source: Preqin Investor Interviews, June 2019

Real Estate

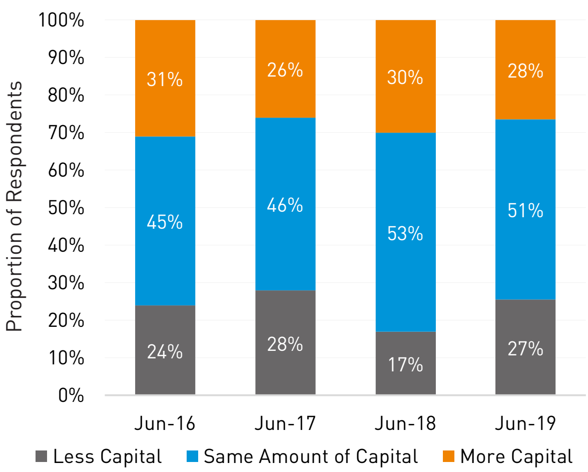
Record valuations and the ensuing market competition are investors' key concerns at present

Investor commitments to real estate funds may decline over the next 12 months, as more than a quarter (27%) of surveyed investors expect to place less capital in the asset class than they did in the previous 12 months (Fig. 23). As distributions fall yet further, investors may feel the need to scale back the pace of new commitments.

As with other private capital asset classes, asset valuations rank as the biggest challenge for return generation among real estate investors (cited by 82%, Fig. 24). Competition for assets is a challenge for 52% of investors; with so many active firms in the market with capital to put to work, and with prices at record levels, it is harder than ever for fund managers to find assets they can add value to.

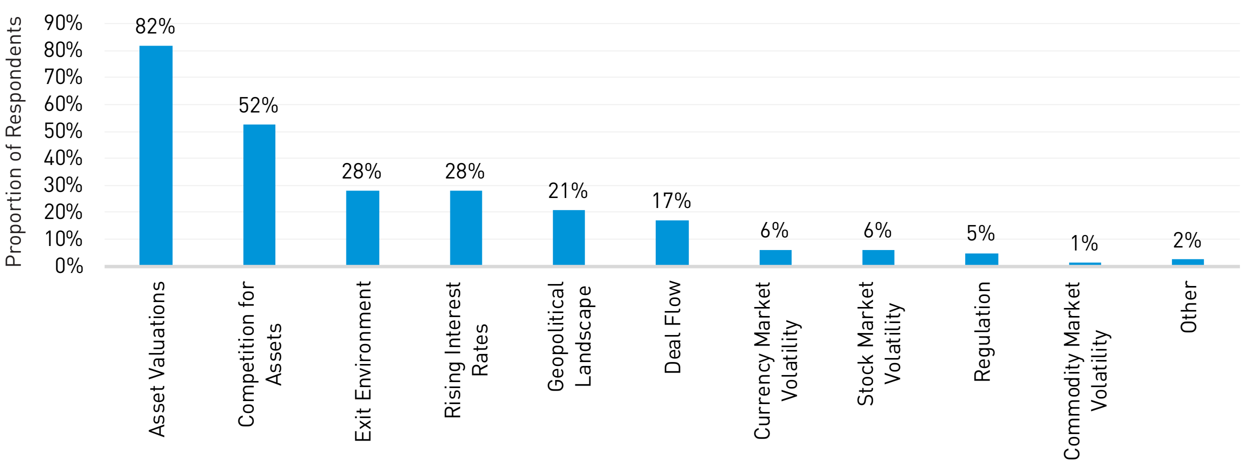
Value-added funds remain the most sought-after strategy among real estate investors, and 46% feel they currently offer attractive investment opportunities (Fig. 25). Investor appetite for opportunistic funds is on the

Fig. 23: Investors' Expected Capital Commitments to Real Estate in the Next 12 Months Compared to the Previous 12 Months, 2016 - 2019



Source: Preqin Investor Interviews, June 2016 - June 2019

Fig. 24: Real Estate Investor Views on the Key Challenges for Return Generation in the Next 12 Months



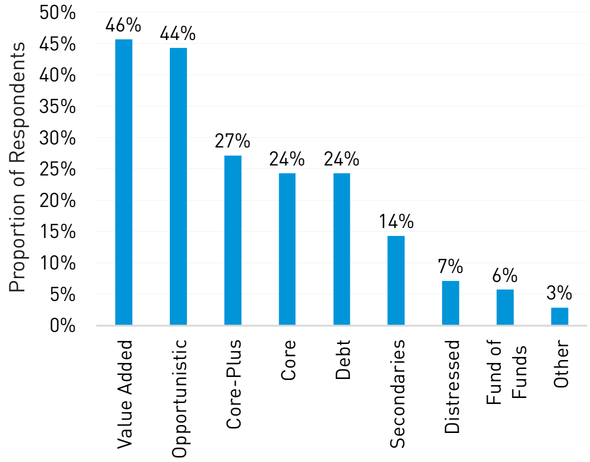
Source: Preqin Investor Interviews, June 2019

rise again having dropped off over the past year: 44% of investors are planning to target the strategy in the next 12 months, up from 20% in June 2018 and 29% in December 2018.

As with previous years, the established markets of the US and Western Europe (excluding the UK) are viewed most favourably among investors: 57% and 52% believe they are presenting the best opportunities at present (Fig. 26).

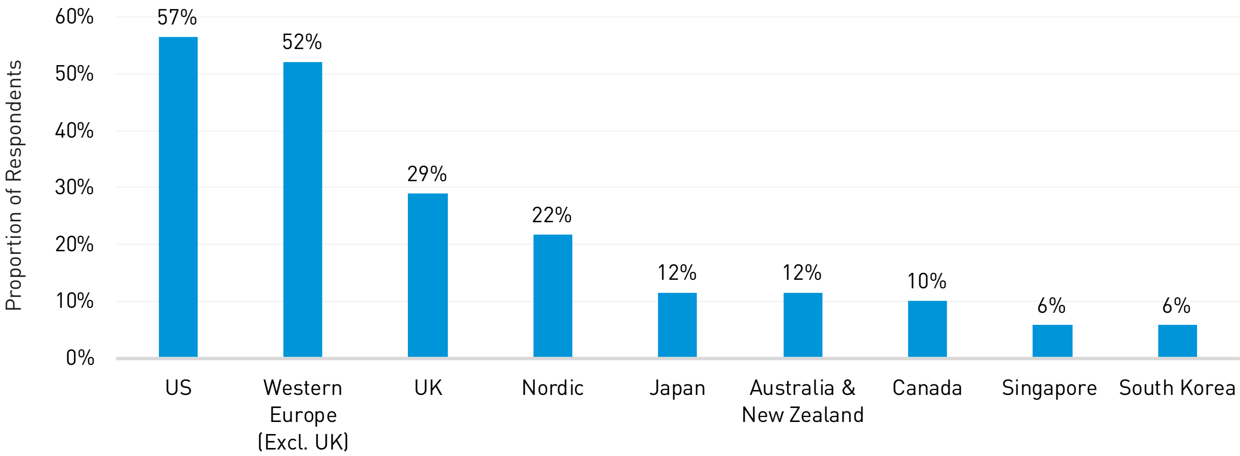
Emerging Asia is the clear favourite among real estate investors targeting emerging markets in the year ahead: a third of investors named each of China and India as presenting the best opportunities, and 31% feel the rest of Emerging Asia is attractive in the present climate (Fig. 27).

Fig. 25: Investor Views on Fund Types Presenting the Best Opportunities in Real Estate



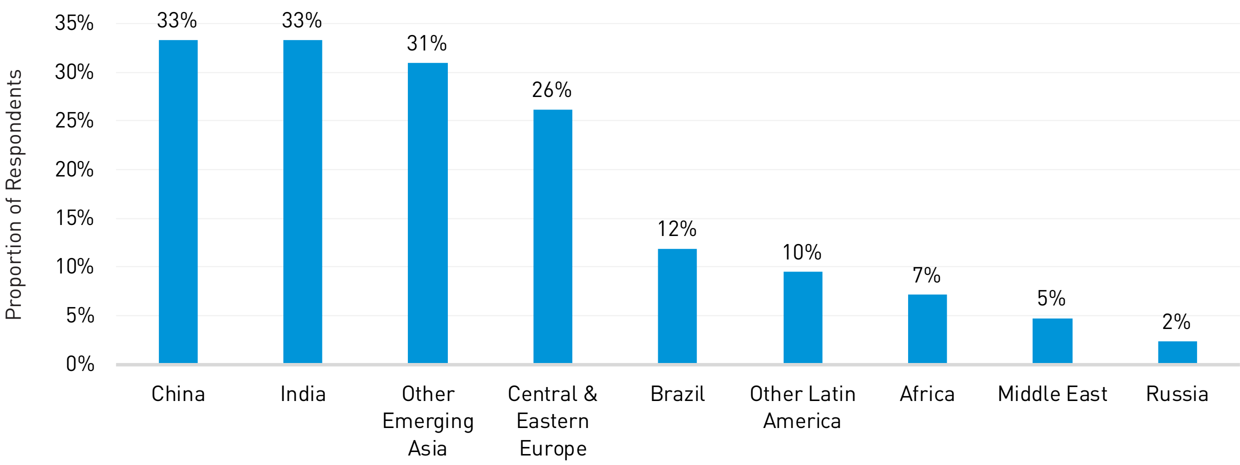
Source: Preqin Investor Interviews, June 2019

Fig. 26: Investor Views on Developed Markets Presenting the Best Opportunities in Real Estate



Source: Preqin Investor Interviews, June 2019

Fig. 27: Investor Views on Emerging Markets Presenting the Best Opportunities in Real Estate



Source: Preqin Investor Interviews, June 2019

Infrastructure

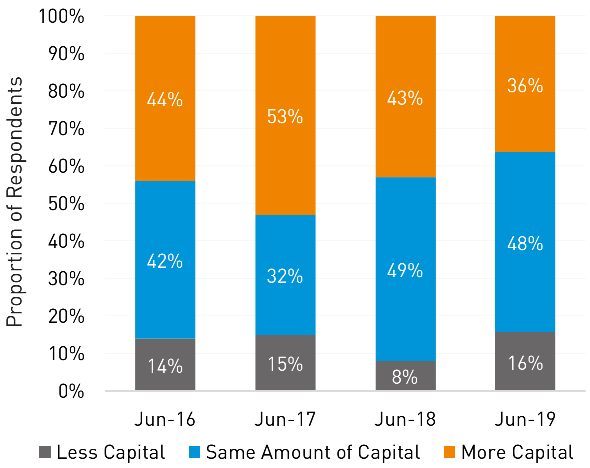
The proportion of investors planning increased commitments falls once again as valuations remain a concern

Over the next 12 months, more than a third (36%) of investors plan to commit more capital to infrastructure funds than they did in the previous 12 months (Fig. 28). While this is still a significant figure and higher than for other alternative asset classes, it is down from 43% of investors surveyed one year ago, and 53% two years ago.

Although the largest proportion (61%) of surveyed investors believe asset valuations are the biggest challenge for return generation in the next 12 months (Fig. 29), this figure is lower than for private equity and real estate. Competition for assets (57%) and deal flow (42%) were the challenges cited by the next largest proportions of infrastructure investors.

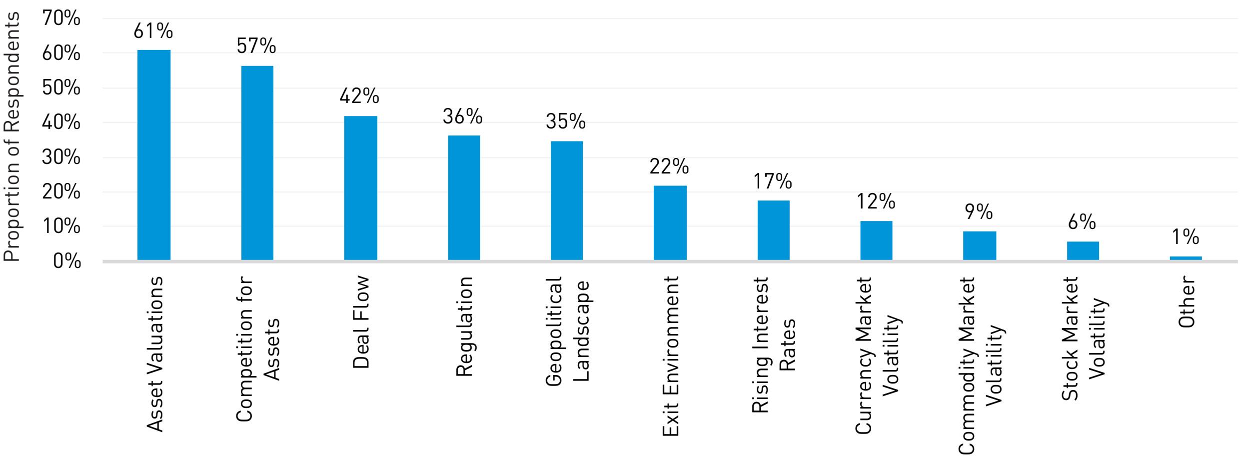
Half of infrastructure investors feel core-plus funds present the best opportunities (Fig. 30), up notably from 37% of those surveyed at the start of H2 2018. Appetite for higher-risk value-added funds also continues to increase, with 31% of investors planning to target this

Fig. 28: Investors' Expected Capital Commitments to Infrastructure Funds in the Next 12 Months Compared to the Previous 12 Months, 2016 - 2019



Source: Preqin Investor Interviews, June 2016 - June 2019

Fig. 29: Infrastructure Investor Views on the Key Challenges for Return Generation in the Next 12 Months



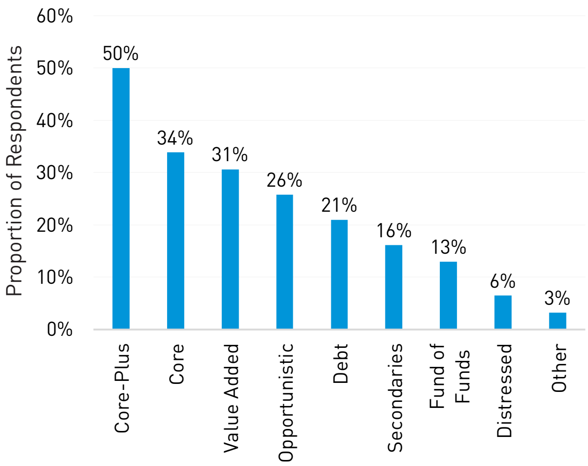
Source: Preqin Investor Interviews, June 2019

strategy in the next 12 months, up from 28% a year ago. After investor interest in core funds tailed off over the first half of 2018, 34% of investors are now looking to target the strategy in the next 12 months, up from 29% one year ago.

The US and Western Europe (excluding the UK) remain the developed markets of choice for infrastructure investors, cited by 79% and 55% respectively as presenting the best investment opportunities (Fig. 31). Thirty-two percent of investors also feel Australia & New Zealand are presenting favourable opportunities.

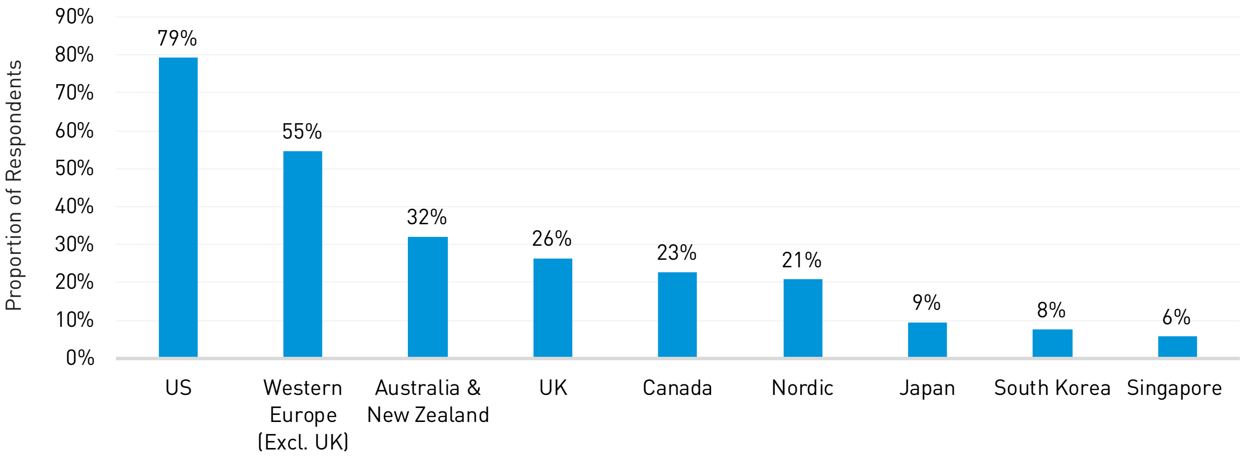
Across emerging markets, India is presenting the best opportunities for infrastructure investment at present, according to 39% of investors (Fig. 32). China was cited by 29% whereas 32% believe other regions within Emerging Asia are most attractive at present.

Fig. 30: Investor Views on Fund Types Presenting the Best Opportunities in Infrastructure



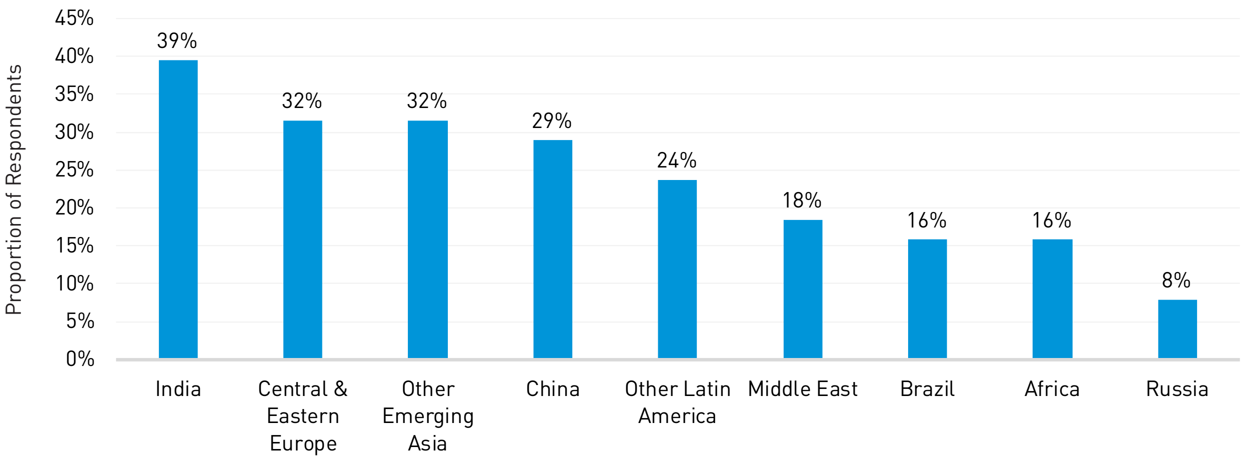
Source: Preqin Investor Interviews, June 2019

Fig. 31: Investor Views on Developed Markets Presenting the Best Opportunities in Infrastructure



Source: Preqin Investor Interviews, June 2019

Fig. 32: Investor Views on Emerging Markets Presenting the Best Opportunities in Infrastructure



Source: Preqin Investor Interviews, June 2019

Natural Resources

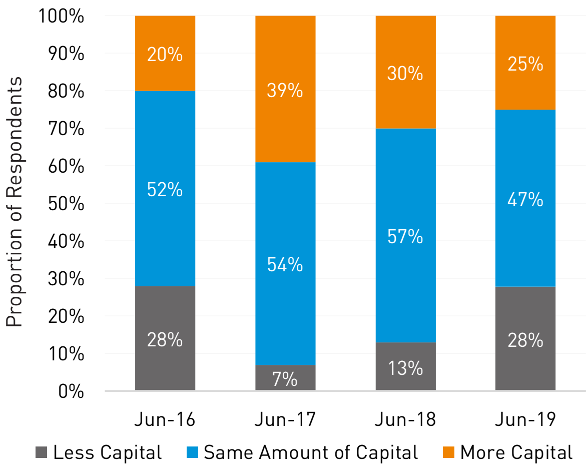
Performance disappoints and investors' capital projections suffer accordingly

Many investors are dissatisfied with the performance of the natural resources asset class in recent months and, for the second consecutive year, the proportion looking to invest more capital in the asset class over the next 12 months has fallen, as Fig. 33 shows. Although high returns are not the primary motivation for a natural resources allocation, a notable 28% of investors plan to invest less capital in the year ahead.

In contrast to other private capital asset classes such as private equity, real estate and infrastructure, where asset valuations are the biggest concern, commodity market volatility is seen as the greatest challenge to return generation among natural resources investors (58%, Fig. 34).

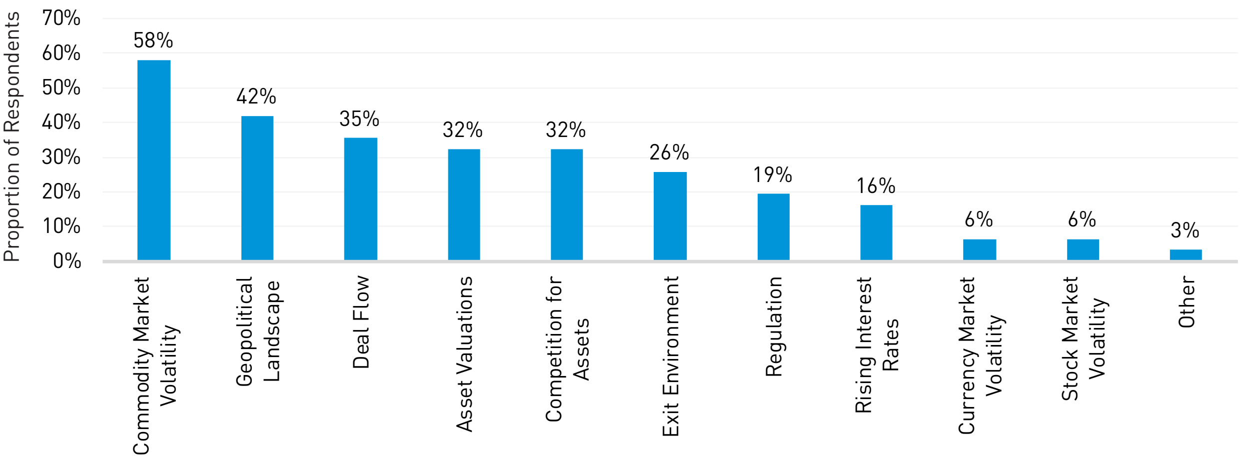
Energy funds focusing on upstream investments are the most appealing to natural resources investors in the current climate, as shown in Fig. 35. Water and agriculture/farmland funds follow, cited by 42% and

Fig. 33: Investors' Expected Capital Commitments to Natural Resources Funds in the Next 12 Months Compared to the Previous 12 Months, 2016 - 2019



Source: Preqin Investor Interviews, June 2016 - June 2019

Fig. 34: Natural Resources Investor Views on the Key Challenges for Return Generation in the Next 12 Months



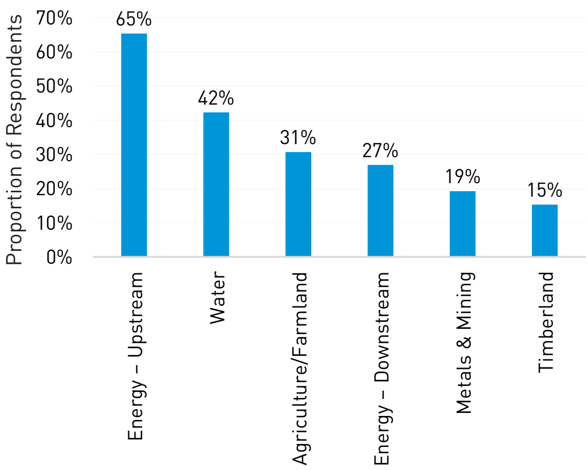
Source: Preqin Investor Interviews, June 2019

31% of investors respectively as presenting the best opportunities at present.

While the US remains the most attractive region within developed markets for natural resources investors (as cited by 68%), Canada (39%) and Australia & New Zealand (29%) are also presenting favourable opportunities (Fig. 36). This contrasts with other asset classes, where Western Europe (excluding UK) features prominently, reflecting how opportunities in natural resources are inherently different.

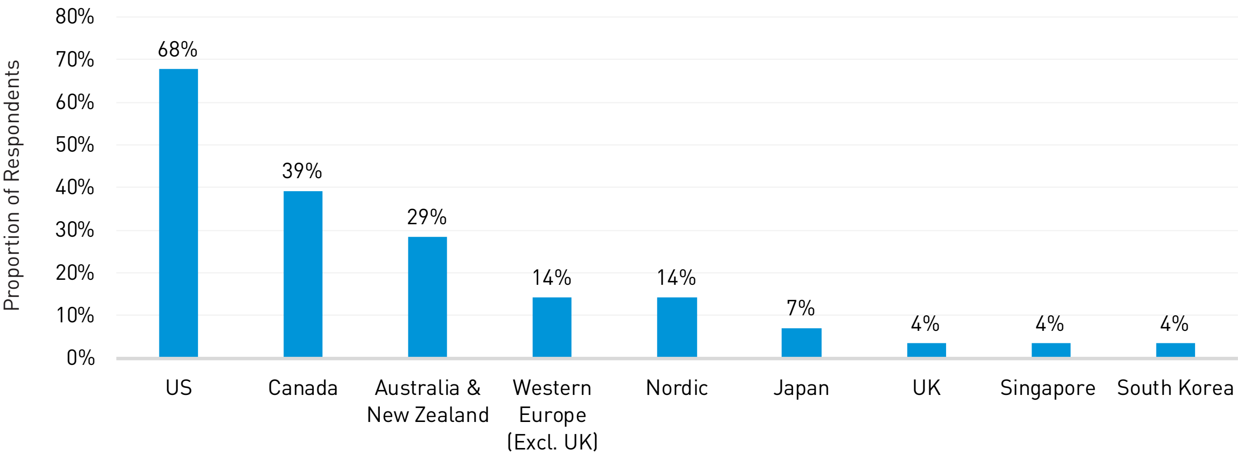
Similarly, the emerging markets that are presenting the best opportunities for investors differ compared with other asset classes. Twenty-nine percent of natural resources investors feel Brazil is an attractive investment destination at present, and other nations within Latin America were also cited by 29% (Fig. 37).

Fig. 35: Investor Views on Fund Types Presenting the Best Opportunities in Natural Resources



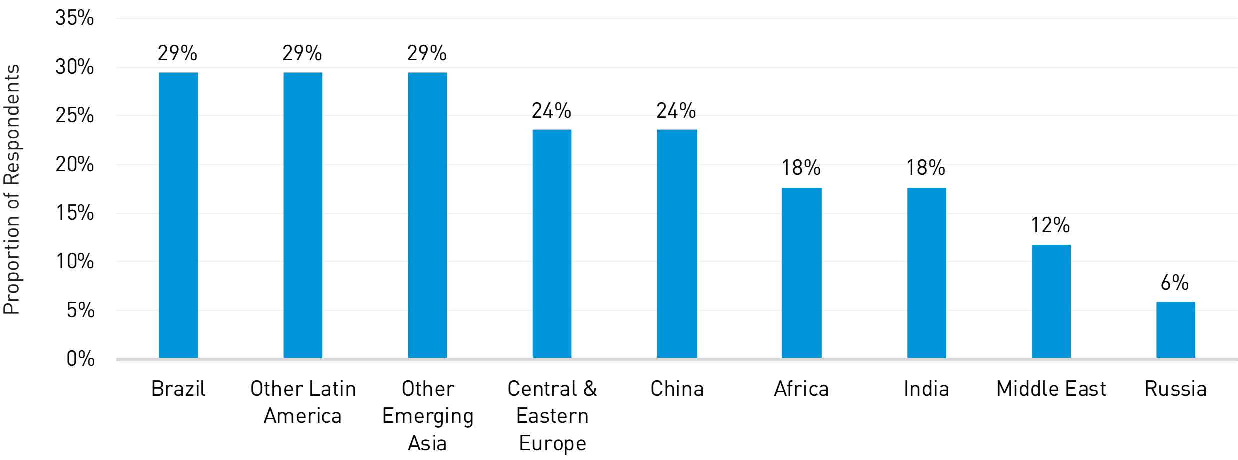
Source: Preqin Investor Interviews, June 2019

Fig. 36: Investor Views on Developed Markets Presenting the Best Opportunities in Natural Resources



Source: Preqin Investor Interviews, June 2019

Fig. 37: Investor Views on Emerging Markets Presenting the Best Opportunities in Natural Resources



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