



Deloitte.

2015 Alternative
Investment Outlook
Complex ground, new frontiers

Deloitte Center
for Financial Services

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Foreword

Dear colleagues:

In many ways, the financial services industry is on more solid footing than it has been for quite some time. The U.S. economy continues to improve, although concerns remain in both Europe and some emerging markets. Investors are generally seeing solid performance, and profitability in many sectors is quite strong.

But concerns — some new, some old — are keeping industry executives on their toes. Whether it's the evolving threat of cybercrime, the rising cost of regulatory compliance, or pressure coming from nontraditional competitors, financial services leaders have challenges aplenty. Agility, innovation, and collaboration will be important to capitalize on new opportunities for growth in 2015.

The alternatives industry was subject to some challenging press coverage in 2014. For example, one article raised the concern that private equity investment performance may have hit its high-water mark.¹ Another article focused on how the relative underperformance of hedge funds and their high fees has caused some institutional investors to reexamine their hedge fund investing strategy.² These articles and others like them have raised the issue of the overall health of the alternatives industry. However, it is likely that the concern is somewhat overstated and the real story is a bit more nuanced.

Over the long term, many hedge funds have outperformed the S&P 500 and on a risk-adjusted basis, strategies including distressed securities, convertible arbitrage, and several others have all done well. The private equity sector shares a similar story. Performance after the global financial crisis has lagged the broader market, as measured by the S&P 500. However, over a 10-year horizon, private equity rose 11.4 percent on an annualized basis, as compared to the S&P 500's 5.2 percent.³ In this sense, alternatives have held true to their core value proposition of strong risk-adjusted returns and low correlation to the broader market.

Our views on industry trends and priorities for 2015 are based on the firsthand experience of many of Deloitte's leading practitioners, and industry luminaries supplemented by research from the Deloitte Center for Financial Services.

Producing industry outlook reports has the result of exposing the authors to second-guessing; hindsight is 20/20. Nevertheless, we believe it is important to reflect on what we said a year ago, and put our prior prognostications to the test by analyzing what we got right — and perhaps not exactly right — in our 2014 outlook. You will find this "Looking back" analysis leading off this year's edition, followed by a "Looking forward" summary of our views on the coming year.

The bulk of the report then explores a number of key issues of importance for the industry, each including a specific look at the "Focus for 2015" and a "Bottom line" that provides some actionable takeaways for industry leaders to consider.

We hope you find this report insightful and informative as you consider your firm's strategic decisions for 2015. Please share your feedback or questions with us. We welcome the opportunity to discuss the report with you and your team.

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Looking back

In 2014, the theme of Deloitte's Alternative Investment Outlook was "Championing Growth: Finding Agility in Uneven Conditions." This title reflected the dedication and skill that managers would need to apply to achieve success as the alternatives industry emerged from the shadows of the global financial crisis. In many ways, this theme gave an accurate sense of the industry last year.

The 2014 Alternative Investment Outlook focused on three key topics:

Attracting new assets with scale and differentiating strategies. This topic focused on the growth of the largest alternative managers. This trend was driven largely by institutional investors and their attraction to the operational and compliance infrastructure of the overall firms. The prediction that this trend would continue and that the larger funds would continue to get bigger turned out to be accurate.

The next prediction was that smaller firms could compete by focusing on niche sectors, such as energy or health care. While this was true for some of the smaller firms, it turned out to be more of a challenge for others. Simply put, the larger firms are able to bring expertise in many of these niche sectors, making it more challenging for the smaller organizations to find an edge.

The final prediction of this section was that alternative managers would increasingly engage the retail investor through "liquid alternatives," including registered investment companies and undertakings for collective investment in transferable securities, or UCITs. This was an accurate prediction, as more than 60 new liquid alternative funds launched in 2014 through August.⁴

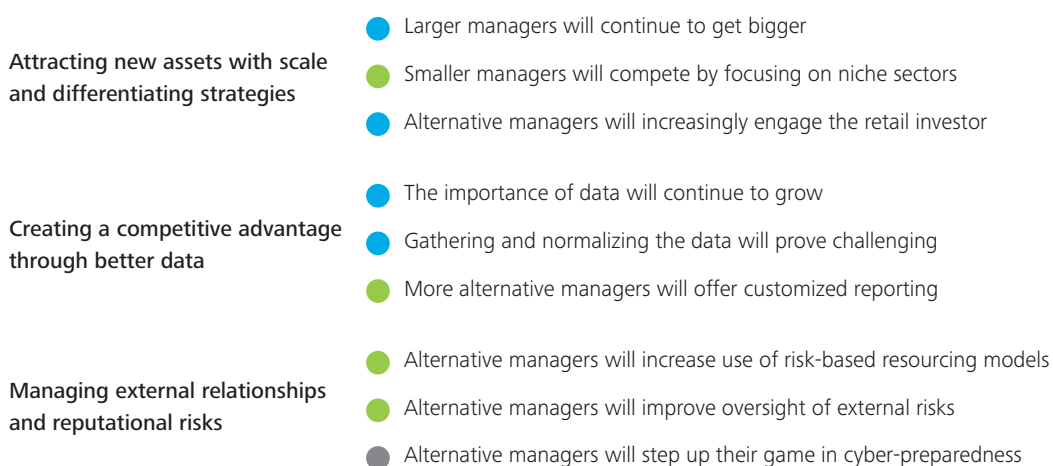
Creating a competitive advantage through better data.

The next section examined the growth in the importance of data to satisfy the requests for accurate and timely reporting from regulators and institutional investors. Key among these reporting needs is the ability to deconstruct alternative investments into risk and attribution themes to give investors a clearer view into their exposure across strategies and geographies. The 2014 Alternative Investment Outlook discussed the challenges of gathering and normalizing the data, which is often held across a variety of systems, some of which are external to the manager. It also highlighted that leading alternative managers were customizing reporting based on client demand, and we predicted that more managers would follow suit in 2014. While this was an accurate prediction, there is still a wide variance in the adoption and use of data across the industry, and the data revolution is still in a very early stage.

Managing external relationships and reputational risks. The final section of the 2014 Alternative Investment Outlook pointed out that 94 percent of financial industry respondents to Deloitte’s 2013 global risk management survey said that executives are spending more time on risk oversight than they were five years ago.⁵ We predicted that alternative managers would be more strategic about how they manage risk in an era of limited resources and would increase their use of risk-based resourcing models that are designed to identify the most significant risks and optimize the resources across them. While this did happen at some asset managers in 2014, many more organizations could benefit from similar approaches. Risks associated with

outsourcing and the challenges with managing third-party vendor risk were highlighted. As expected, alternative managers have stepped up their oversight of these external risks; however, there is still work to be done. Finally, the report highlighted the need for alternative managers to fortify their defenses against cyberattacks. While many firms have increased investment in this area, others have not. This is a problem that extends well beyond the alternative investment industry and one that needs significant attention.

Figure 1: Alternative investments industry 2014 focus



Key:
 ● Turned out as expected
 ● Partially turned out as expected
 ● Did not turn out as expected or unresolved

Source: Deloitte Center for Financial Services analysis

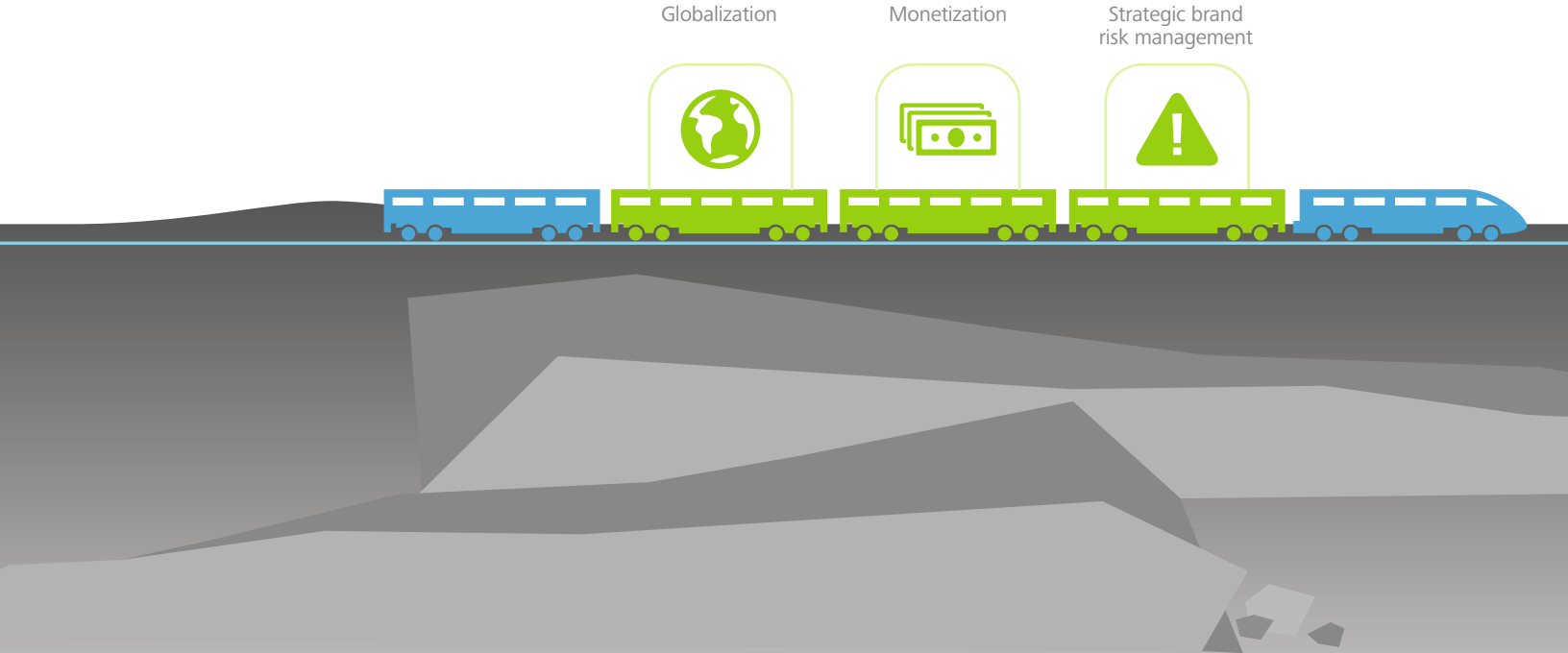
Looking forward

In many ways, the alternatives industry is still among the most nimble and adaptive sectors of the financial industry, producing tremendous innovation across many aspects of the business.

The alternative investment industry looks ahead to 2015 as the broader market compiles an impressive performance streak. The performance of alternatives looks relatively weaker, causing some to question the long-term fundamentals of the industry. Others are pointing out that the very appeal of alternatives is that they are intended to be inversely correlated to the broader market and that it would be more of a concern if alternative investments were performing in lockstep with the broader indices.

From Deloitte’s perspective, with a view of the industry across organizations of many sizes and shapes, there are both challenges and opportunities. The prevailing sense is that the alternative industry is strong overall, but rapidly evolving amidst existing and emerging complexities. In many ways, the alternatives industry is still among the most nimble and adaptive sectors of the financial industry, producing tremendous innovation across many aspects of the business.

Figure 2: Three focus areas for 2015



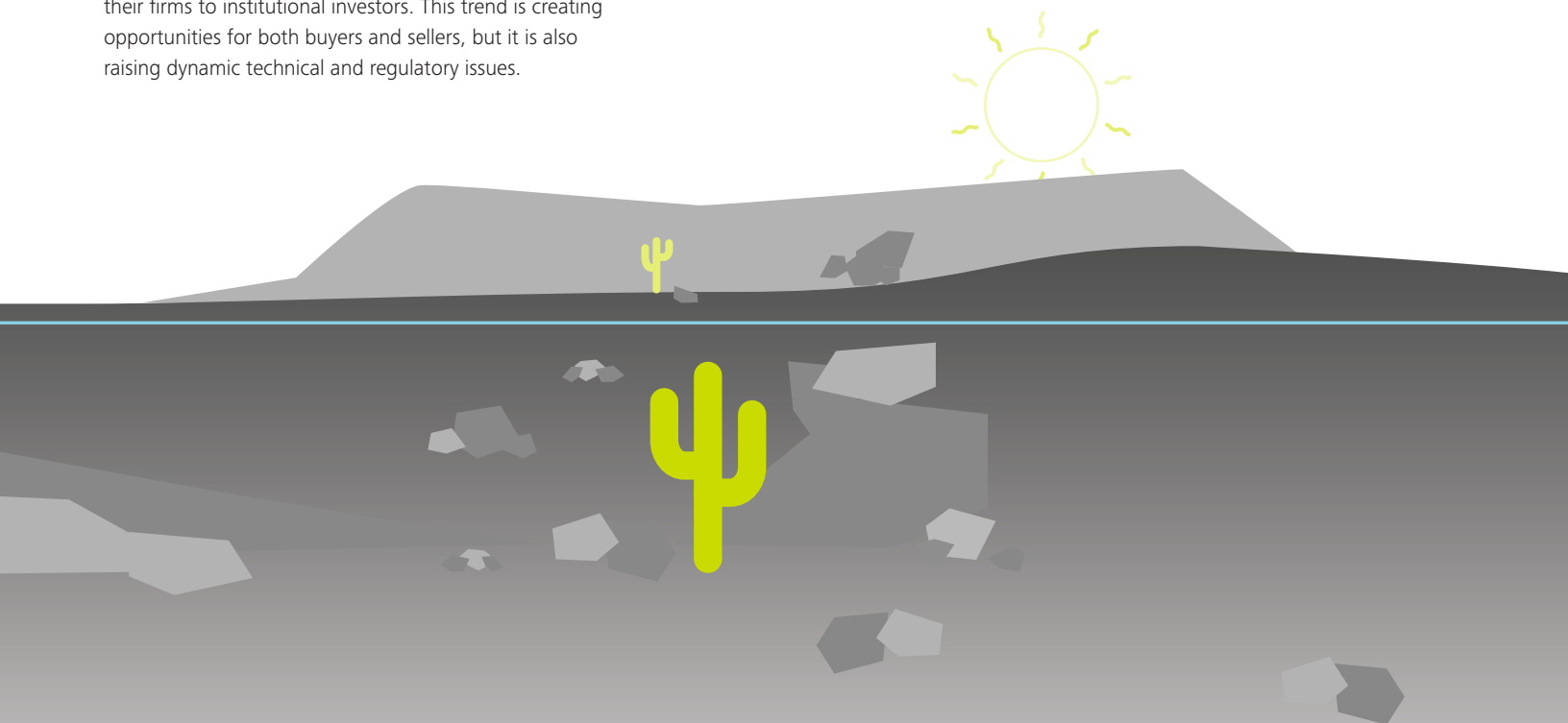
The 2015 Alternative Investment Outlook focuses on three key issues:

Globalization. Increasingly, companies of all sizes are being affected by international markets, events, and opportunities. Communications and travel technology continue to shrink the world, many foreign economies are expanding more rapidly than the U.S. economy is growing, and, as a result, wealth is being created around the world. Conversely, Europe is facing many challenges and will see the U.S. dollar continue to appreciate against the Euro. This is generating tremendous opportunity for alternative managers in the form of both new investment opportunities and new investors. However, it is also dramatically increasing the complexity of running an alternative investment manager.

Monetization. Growing numbers of hedge funds and private equity managers are raising capital — or “monetizing” their businesses — by selling stakes in their firms to institutional investors. This trend is creating opportunities for both buyers and sellers, but it is also raising dynamic technical and regulatory issues.

Strategic brand risk management. Many industry observers believe that brand resilience and the management of reputational risk are becoming as important in attracting assets as investment performance. As managers become more risk-aware, more money will be spent to identify and mitigate risks. The concept of a brand narrative around any event impacting the firm, solid corporate communications providing information and transparency to investors and regulators, and the building of goodwill through these actions has become paramount. In the financial services industry, trust is essential — especially for alternative managers acting as fiduciaries. The loss of trust can be fatal, and trust is reflected in an organization’s brand.

The following pages explore these topics in more depth and highlight expectations for the coming year. While all topics are examined independently, it is prudent to remember that they are interrelated and interdependent as part of an increasingly complex industry.



The global perspective

Focus on excellence and growth will come.



Alternative investment managers are looking at the global investment landscape for two key reasons:

- First, managers are aware that significant wealth is being created around the world as emerging economies expand and developed economies recover, and they are very interested in managing that wealth. Extending into new geographies with new products gives managers access to these new investors.
- Second, with the cost of breaking even climbing, managers are entering new geographies for investment opportunities. By looking at investment opportunities on a global scale, many managers are able to participate in far more diverse and differentiated investment strategies. The global market offers a variety of ways in which alternative managers can participate. Some managers are setting up extensive local operations in the geographies they wish to serve while others are collaborating with local firms. Certain firms are choosing to handle the operations and technology internally while others are primarily outsourcing. There is no "right" answer; it all depends on the manager, the opportunity, and the geography.

According to Deloitte's 2014 Global Economic Outlook, the trend of weakness in developed countries and strength in emerging markets appears to be reversing. However, emerging markets are still growing at a faster rate than developed nations, and their long-term prospects appear strong. There also appears to be a shift in capital flowing back to the United States now that U.S. monetary policy is changing.⁶ The net result is that there continues to be a significant pool of international wealth that is interested in alternative investments. As discussed in the 2014 Alternative Investment Outlook, much of this money is coming from institutions, including sovereign wealth funds, pensions, and endowments.

From an investing standpoint, having a global reach allows alternative managers the flexibility to take advantage of a wide range of opportunities. The marketplace has seen a dramatic shift in next wave of buyers and what they are looking for in products and services. Products continue to vary widely by institution and geography, but areas of continued interest include credit funds, especially those that focus on distressed assets, and energy.

This growth of investors and investments from a variety of geographies is adding significant complexity to the operations of alternative managers. Each new jurisdiction entered brings new legal, regulatory, tax, valuation, and processing issues into play. This complexity is hitting the back office, increasing cost, and adversely affecting return on investment. Firms that do not fully understand and plan for the financial impact of global expansion might not receive the benefit they expect from an investment. In short, if alternative managers only evaluate opportunities by the same standards they use for their U.S. investments, they are unlikely to understand the full cost of owning investments outside of the United States.

For example, an alternative manager may see distressed real estate as an opportunity and decide to invest in single-family homes in a foreign market. By the manager's domestic standards, the deal may look very attractive. However, unless the manager has done similar deals in the same market, the manager could very easily underestimate the costs of day-to-day operations. These costs can include property management under local regulations such as eviction standards and the reconciliation of books and records across currencies. Managers should also take into consideration local laws, regulations, and customs, which can vary widely by jurisdiction. In an example like this, it is possible that a manager's assets and revenues could remain relatively stable while the net return could be lower than anticipated due to the structural complexity and

associated costs of the deal. You take on unnecessary risk when you engage in activities you do not fully understand or have not appropriately evaluated. In 2015, the firms that prioritize due diligence and bring in tax, legal, and regulatory advice up front are most likely to be satisfied with their global portfolios. Alternative managers that spend a little more time up front to ensure that they have a true understanding of what they are asking the back office to do, and the risks they are taking on, are likely to do better in the long term.

Focus for 2015

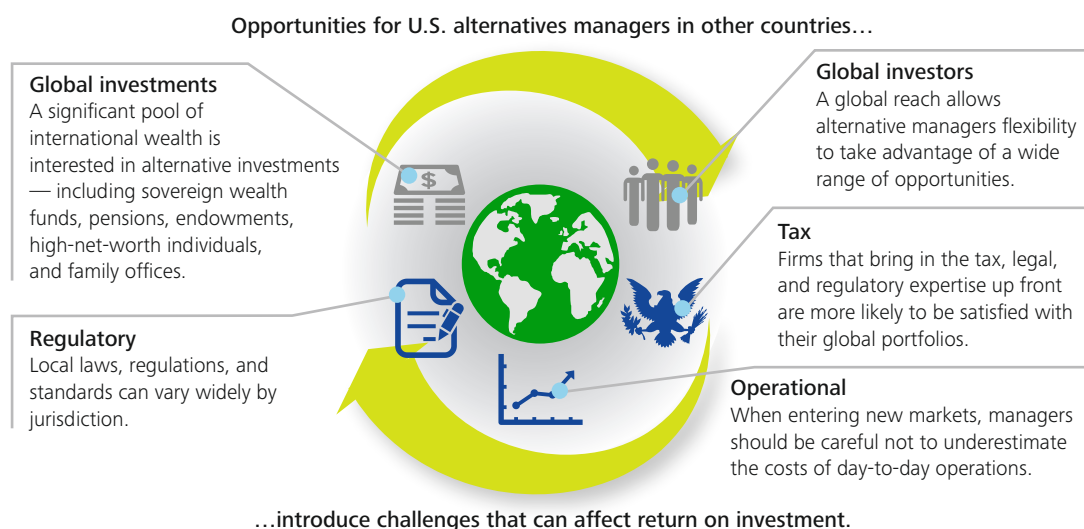
The largest asset managers are best able to participate in the global market. They have the scale and infrastructure to go almost anywhere and the resources to see that they do it well. Yet they are still able to be nimble, launch niche products, and respond quickly to opportunity. In many ways, they have the best of both worlds, and it is increasingly challenging to compete against them. Smaller firms will look to compete by leveraging partnerships and relying on outside expertise in areas such as distribution and operations. In addition, spending on up-front due diligence is expected to rise as managers seek to

fully understand the implications of deals that they are undertaking. As one industry executive recently put it, “You need to kick the bricks, ride the elevators, and understand the tenants” in each deal.

The bottom line

In order for firms to compete, they must continue to think globally. There is simply far too much wealth and far too many investment opportunities outside the United States to ignore. The complexity of alternative operations will continue to increase as firms expand globally across various jurisdictions and investments. Complex operations will continue to be a cost of doing business internationally, and the largest firms, which have the resources to address this complexity, have an advantage. Spending the time and effort to understand the full tax, regulatory, and operational implications of each deal may seem expensive, but it can mitigate surprises on the back end and should prove to be a good long-term investment.

Figure 3: Going global adds complexity



Source: Deloitte Center for Financial Services analysis

Monetization strategies move forward

Monetization transactions are expected to continue in 2015, although they raise important business and technical issues for both buyers and sellers.



In 2014, a significant uptick occurred among hedge funds and private equity managers raising capital by selling a piece of their businesses. At the same time, that interest was matched by institutional investors seeking to make such acquisitions. Such “monetization” has created an active marketplace, where new entrants launching funds specifically to purchase minority interest stakes in alternative investment managers are joining a number of firms already in the space. These transactions are expected to continue at a healthy pace throughout 2015, although they raise important business and technical issues for both buyers and sellers, including agreement on the nature and extent of the relationship between the parties involved.

There are a number of reasons why monetization transactions are so popular. Key drivers include personal issues for firm principals, such as succession planning and/or retirement planning, which require an “institutionalization” of the business. The demographics of firm principals, many of whom are baby boomers, suggest that this trend is likely to continue for many years to come.

Another key driver is the desire of some alternative managers to raise a base of capital to expand their businesses. Having fresh capital to invest in the business allows managers greater flexibility in expansion planning. They can launch new products, diversify their investor base, expand their investment focus beyond its current footprint, improve their distribution capabilities, or do all of these at the same time.

Finally, as we saw in the late 2000s, some monetization transactions may serve as a precursor to an initial public offering (IPO), allowing managers to establish a price point for a future offering. Given where the financial markets are today, it appears to be a good time for sellers to consider monetizing a piece of the business, while buyers appear to believe current valuations justify the purchase price based on future opportunities for growth. It’s no wonder that some industry participants refer to these monetization deals as providing “acceleration capital” to managers, allowing them to take their businesses to the next level.

What do buyers seek in these transactions? Typically, they look for a manager who has a strong track record in his or her area of expertise, and usually, but not always, is committed to running the business for the foreseeable future. Buyers also look for a manager who has been able to build a business that is supported by a solid operational and compliance infrastructure and that has a stable investor base. In 2015, the growing complexity of operations and compliance brought in by increased regulation, cyberthreats, and product expansion, as well as the need for operational efficiency brought on by continued fee pressure, may indicate that buyers will place even more emphasis on the infrastructure side of the business. Managers seeking out new and flexible sources of capital are finding it with investors who are looking for a stable organization, strong leadership, and a desire to create a franchise beyond the original founders of a fund.

From the manager’s perspective, it is important to identify a strategic partner with the resources to help implement expansion plans and build out the business by launching new products, entering new geographies, and/or targeting new types of investors. Most managers want a strategic partner to make their business stronger. This long-term approach, where a manager looks for a partner able to help drive the future of the business, is expected to generate continued interest in 2015.

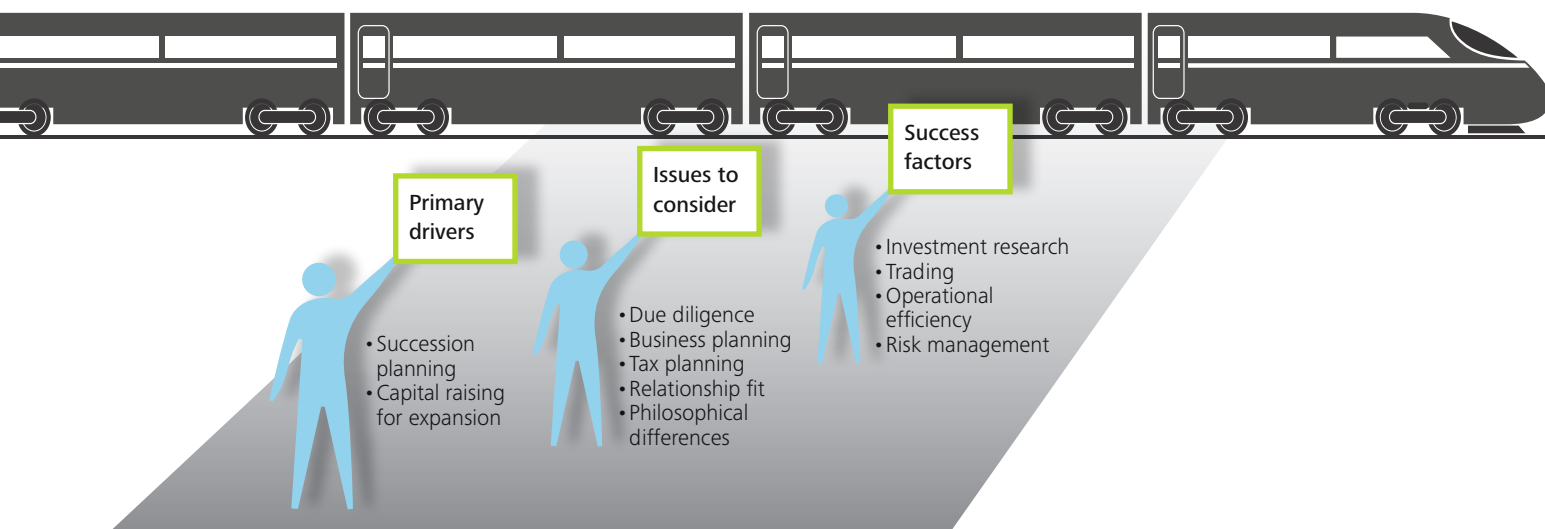
Like any other important business relationship, due consideration is appropriate on both sides before entering into a transaction. Of course, formal due diligence is important from both the financial and tax perspective, but the buyer and seller also need to be able to look each other in the eye and say, “Yes, I can work with this person or with this organization.” To protect both sides, there should be an agreement outlining the level of participation that the strategic investor will have in the ongoing business. Some people will be comfortable with a passive approach while others, particularly on the buyer side, may be more interested in having an active role in managing and developing the underlying business. As one industry executive recently commented, “Don’t break the fabric of the culture -- be there as an advisor and a sounding board.

It is impossible to say which approach is the better model for operating. It depends on the perspective of the buyer and seller. Again, it’s critical to have a mutual understanding prior to entering into the strategic relationship.

There are a number of obstacles to success in closing a deal. Valuation is one key area of negotiation. Just as calculating the fair value of a security held in a portfolio is an imprecise science, deciding the fair price for a manager can be a challenge. In addition, in times of transition such as the alternatives industry is experiencing currently, valuation becomes even more important — especially given the trend toward a more regulated environment and ongoing fee pressure. There are typically other negotiating points as well, including the allocation of purchase price, the right to claw back purchase price, earn-out provisions, and “key person” provisions.

From the buyer’s perspective, “key person” risk is of paramount consideration. Succession planning and due diligence are key. As discussed earlier, the existing management is often a critical aspect of the deal, and the buyer needs to be comfortable that the manager or the management team running the business will continue to be engaged. This often includes investor relations as well

Figure 4: Riding the monetization train



Source: Deloitte Center for Financial Services analysis

as the investment/trading side of the business. Speaking of investor relations, there must be mutual agreement on when and how communication to existing investors should be made, as well as when and how communication should be made to the public.

Taxes typically rise to the top of key considerations in a strategic transaction; it is important that both the buyer and seller understand the tax implications of the transaction they are contemplating. The buyer will want to ensure that the purchase price will be recovered through amortization deductions. From the seller's perspective, the objective typically is to maximize the long-term capital gain arising from the transaction. These two outcomes are not mutually exclusive, but care must be taken to optimize the result for both sides. Taxes paid by alternative asset managers is an issue that is being reviewed by the Treasury Department and is widely discussed in the media; as a result, possible implications, including government and media scrutiny, should be taken into consideration when evaluating a deal.⁷ Finally, both sides must seriously consider exit strategies before entering into a transaction. Key issues include put options, call options, so-called "tag along" and "drag along" rights, and other exit-strategy issues that may differ depending on whether the exit strategy is an IPO, an effective redemption, or a sale to a third party. In addition, timing when these rights or obligations may be exercised is important to decide up front, as is a mechanism for establishing a valuation for the exit.

Focus for 2015

We expect that 2015 will bring more monetization deals to the fore, provided the capital markets continue on an upward trajectory. The pace of deals may pick up a bit, but strategic buyers need to make sure to balance new transactions with the onboarding of managers on deals just closed. This onboarding, which would include sharing leading practices in investment research, trading, operational efficiency, and risk management, is critical to the success of a deal. The deal sizes are also not likely to change, as most firms appear to be interested in similar types of targets. However, we may see more cross-border transactions as the globalization of the hedge fund business continues. Cross-border deals are by their nature more complex, and this may increase the time needed for onboarding even more.

The bottom line

As deal momentum continues in 2015 due to succession planning needs and the desire of managers to raise a stable base of capital for expansion, expect monetization to continue. Done well, these transactions represent an opportunity for both sides of the deal and allow managers to "accelerate" the business. Monetization deals reflect the continued maturation of the alternatives industry, and perhaps represent a harbinger of greater consolidation. However, it is essential that proper due diligence and business and tax planning be done up front, and that both sides see eye-to-eye and have realistic and reasonable expectations. It is also essential that managers carefully evaluate the investor relations and public relations aspects of the deal, and consider the potential impact of both on their brand and reputation.

Embracing strategic risk management to protect and grow a business

An argument can be made that brand and reputation are at least as important as investment performance to the vitality of an investment organization.



Investment managers are very well acquainted with the concept of risk management. Alternative managers, in particular, understand that investment risk, if well-managed, can lead to enhanced portfolio returns. As such, alternative managers frequently embrace risk to generate superior investment performance. This management of investment risk has always been a key part of the value proposition of alternative managers: it is core to what they do, and, in many ways, it is the lifeblood of the alternative investment industry.

However, the management of other types of risks that the industry faces, including operational, technology, and regulatory risk, has not always been viewed the same way as investment risk. This is not to say that these other risk types are not considered important by alternative managers. In fact, many alternative managers are allocating significant resources to managing these risks. For example, over the last few years, many alternative managers have incurred the cost of becoming registered advisers and dealt with the global regulatory focus on conflicts of interest. However, the spending to mitigate these other risks has usually been considered a necessary cost of doing business and a defensive strategy, rather than a proactive way to generate additional value for the organization and its clients.

This traditional view of risk management is beginning to change as some alternative managers are realizing that a “risk event,” whether stemming from a valuation error, a conflict of interest, or a data breach, can have a significant negative impact on their brand and their reputation. They also understand that the trust of their customers, employees, and business partners is essential to their future livelihood. In fact, an argument can be made that brand and reputation are at least as important as investment performance to the vitality of an investment organization. Just as poor investment performance will usually lead to fewer assets under management, a negative headline can do the same. For example, cyberattacks in other industries have affected revenues of companies, harmed brands, and cost senior executives their jobs.

This growing realization of the importance of brand is causing some alternative managers to move away from the defensive view of risk management toward a more proactive and strategic approach. These firms understand that if managed correctly risk management is a competitive differentiator and can be transformed into an asset that drives brand equity and provides a measurable, positive return in the form of increased asset retention and new asset flows.

“In world-class companies, risk is positioned in strategy, not in compliance.”

— *Chief risk officer, Deloitte & Touche LLP*

In 2015, it is expected that the alternative investment industry will increase adoption of some of the leading risk-management approaches that other industries are already using. While each organization will have a different approach to risk management, there are three common building blocks that many firms are likely to adopt:

Governance. Proper governance entails getting the entire organization, typically led by a chief risk officer with guidance and input from the CEO and board, to work together to make risk a strategic enabler. The board, executive management, and business units each have individual responsibilities and are all accountable for collaborating across the organization’s silos to continuously identify, prioritize, and manage risks. A standard cadence is established in which business unit risk leaders meet to discuss emerging risk trends and mitigation strategies, escalating key themes and concerns to the board and executive management as needed. Proper governance creates a more manageable and meaningful risk process within an organization, setting the appropriate “tone at the top,” and driving accountability and transparency. Risk management must become part of the very ethos of the firm in order to be truly effective.

Standardized risk reporting. Enhanced risk reporting creates better visibility into emerging risks and helps drive risk-based decisions during the governance process. To ensure effective risk reporting, the process must be fully aligned with the company’s strategic goals and objectives. The process must also filter out any irrelevant, excessive, disjointed, or obsolete data. In the coming year, alternative managers are expected to make more use of risk-reporting dashboards on computers and mobile devices to capture emerging risks affecting the organization’s strategy. By giving an updated view of vulnerabilities and their potential impact, dashboards are critical to effectively prioritizing and mitigating risks. Dashboards must be updated periodically — daily or weekly, depending on the risk —

with an aggregated version prepared monthly or quarterly. A dashboard should also provide the board and executive management with the ability, at a glance, to evaluate the most relevant risks that could affect reputation, share price, corporate strategy, and, most importantly, assets under management.

Risk sensing. The ability to identify emerging risks and risk trends quickly and thus allow for a more nimble and effective response to risk is a critical skill in today’s complex financial environment. Known as risk sensing, this skill involves a combination of human analysis and sophisticated technology that continuously analyzes massive amounts of structured and unstructured data in near real time. This can provide highly relevant information specific to strategic decision making that tries to help executives peek around the corner to see what is ahead.

Firms can build risk sensing into their operations by embedding it in the formal governance process and standardizing the reporting resulting from it. Key decision-makers must be able to digest easily the information derived from risk sensing. Among other benefits, an operationalized risk-sensing capability provides an organization with the ability to continuously adapt its risk management focus based on data from both traditional and social media, and to adjust its response accordingly.

Because risk sensing can help executives understand how customers, competitors, suppliers, and regulators view the risks facing an organization, it is expected that these capabilities will gain traction in the alternatives industry. It is even possible that once alternative managers become adept at using risk-sensing tools, they may be able to incorporate them into their investment management process. In other words, they may be able to gather data on companies that they own or are targeting, in order to understand the risk these companies face.

Focus for 2015

One emerging reputational risk that can create irreparable brand damage for an organization is a cyberbreach. The level of this threat continues to rise and is expected to be a key focus in the coming year. The impact of cyberbreaches in other industries is a leading indicator of the potential impact in the alternative investment space. It is difficult to overstate the importance of protecting proprietary and confidential organization information as well as clients' personally identifiable information.

While much of the attention on cyber risk is focusing on outside entities hacking into systems, alternative managers are also expected to invest heavily in protecting systems from "insiders," including their employees, vendors' employees, and independent contractors. This concern about the "inside threat" extends well beyond cybersecurity and into such areas as regulatory compliance, trade secrets, and other confidential information.

The bottom line

Organizations that view risk management as a strategic enabler are expected to have a long-term advantage in the alternative investment industry. While an up-front investment is required, in return an organization will be better prepared to withstand market disruptions, cyberattacks, regulatory scrutiny, and many other risks. Anticipating the risks of tomorrow and pivoting quickly in response is critical to every firm. In addition, managers who make risk management a part of the core value proposition of their firms will have a compelling story to share with current and prospective clients. In an increasingly competitive industry, it is very possible that this could lead to higher client retention and the attraction of new assets. For organizations that value long-term wealth creation, for both owners and their clients, strategic risk management can be essential to achieving that goal.

Figure 5: Building a brand and reputation risk management program



Strategic impact

- Identify opportunities to positively impact brand perception
- Strive to reduce or eliminate "traditional" crisis situations/brand attacks
- Further differentiate the organization's brand from its competitors
- Create "what if" scenario planning to positively alter our strategic focus
- Link internal strategies with brand strategies to create differentiation

Source: Deloitte Center for Financial Services analysis

Key takeaways



Looking ahead, the alternative investment industry is, in many ways, in a state of transition. Many factors, including increased regulation and globalization, are combining to make the industry more costly, more competitive, and more complex than ever before. There are concerns that some of these issues portend a challenging future for the industry. However, ample evidence exists that the core value proposition of alternatives, which is in offering attractive risk-adjusted returns, remains. Therefore, while it can be expected to change significantly, the alternatives industry remains healthy at its core.

The three trends we have just examined — globalization, monetization, and strategic risk management — are very timely and important. Alternative managers must continue to think globally if they want to be relevant in today's

worldwide economy. Monetization is expected to continue as owners look to retire and transition ownership of their firms or to raise stable capital for expansion. Moreover, in today's era of instant communication and social media, the risk to brand from one key operational, regulatory, or technological mishap can be devastating.

In this increasingly competitive and complex frontier, not every asset manager will thrive. The firms that take the time to be thoughtful about what the future holds, map that vision of the future with their key value proposition, and have a willingness to invest in a plan of action are likely to lead. Doing so will become increasingly challenging and will require alternative managers to think and act in new and different ways, but can result in a vibrant and healthy business.

Endnotes

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