

2024 STATE OF ALTERNATIVES STUDY

Innovation Tops the Agenda

Clearwater's commitment to innovation is driven by the challenges that our clients face every day. Each year, Clearwater reinvests ~25% of our annual revenue back into research and development. This investment allows us to develop cutting-edge technology offerings that not only address specific pain points, but also ensure our clients remain leaders in their industries.

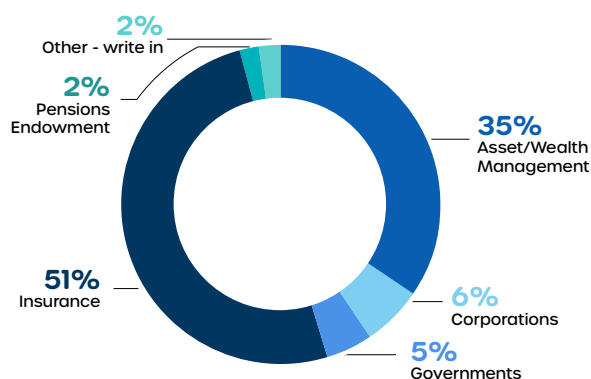
To support this vibrant innovation, we regularly engage with clients and industry peers to discuss pressing issues, assess the current economic environment, and understand the impact that these conditions have on their investment decisions.

In this spirit, Clearwater recently surveyed institutional asset owners and asset managers about their investments in alternatives, both today and looking forward, and received over 230 responses from clients representing over \$10 trillion in assets under management (AUM).

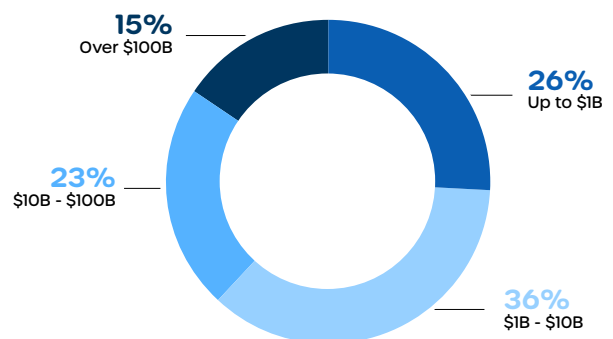
Our 2024 State of Alternatives study reveals profound insights into the current state and future trends of the investment management industry. This study presents a comprehensive overview of the perceptions, strategies, and hurdles institutions face managing alternative investments.

Participants spanned an array of business types, primarily insurance companies (51%) and asset/wealth management firms (35%), with contributions from government (5%) and corporations (5%). Participants' AUM represented a broad range, with 26% managing up to \$1B, 36% managing between \$1-10B, 23% managing between \$10-100B, and 15% managing over \$100B.

What is your business type?



What is your approximate AUM?

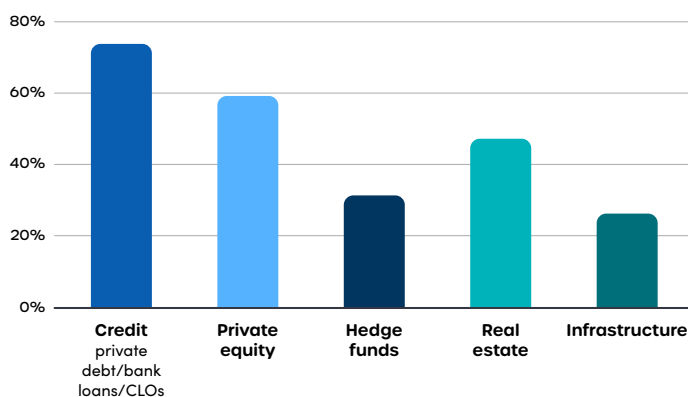


Q: What alternative strategies are most popular among investors?

We asked which types of alternatives and private strategies our clients are invested in or managing.

Among the responses, credit-related instruments (private debt, bank loans, CDOs) and real estate emerged as their primary alternative investment strategies, indicating a strong interest in these areas despite regulatory complexities and operational challenges being prominent barriers to entry. One strategy that stands out from previous years is private equity, demonstrating an uptick in popularity year-over-year and suggesting a shift in preference.

What alternatives/private strategies do you invest in or manage?



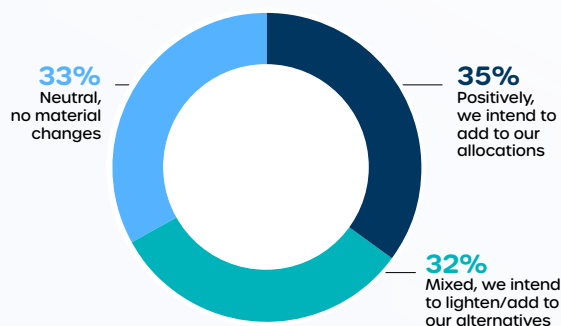
Private equity and real estate are more traditional and common categories in alternative investments, and as such, also have clearer regulatory frameworks and operational procedures, making them more appealing to investors.

On the other hand, the intricate nature and long-term commitment of infrastructure projects, along with the sophisticated strategies used by hedge funds, may discourage investors who prefer quicker returns or less complex investment vehicles.

Q: How are investors feeling about alternative markets?

We asked how current market conditions have changed participants' views on investing in alternatives. Based on our responses, investors continue to have an openness toward alternatives even in the face of increased scrutiny and global economic uncertainty. Our survey showed cautious optimism among investors. Approximately 35% of investors hold favorable views of current market conditions and are planning to increase their investments in alternative assets.

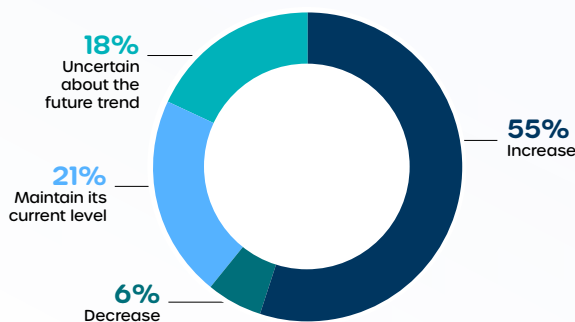
How have current market conditions changed your views on investing in alternatives?



Nevertheless, respondents shared a level of caution. A noteworthy portion (32%) of investors expressed mixed sentiments that may prompt reallocation strategies, while an equally comparable group (33%) intends to maintain their existing stance. This suggests either contentment with current allocations or a strategic wait-and-see approach due to market volatility.

Further analysis reveals that over half of participants (55%) are contemplating an increase in their alternative investment commitments over the next five years, suggesting confidence in the sector's future growth. Additionally, 21% plan to keep their stakes steady.

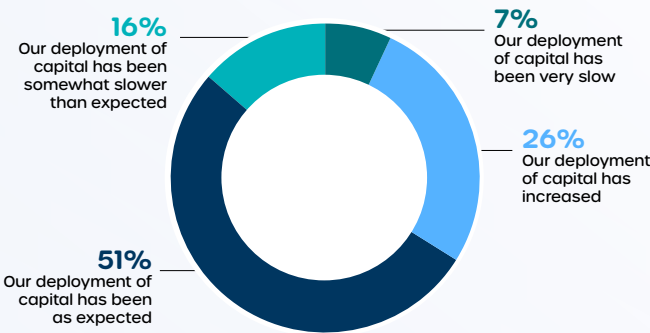
How do you expect your investment in alternative assets to evolve over the next 5 years?



A small fraction (6%) anticipates a decrease in their alternative exposure over the next 5 years, while 18% remain undecided, reflecting the fluid nature of investor sentiment and market dynamics.

Regarding allocation strategies, our survey suggests that half of investors (51%) are actively deploying capital in line with their expectations, suggesting a stable environment for alternative investments. Notably, over a quarter of investors (26%) have even scaled up their capital deployment, signaling a strong appetite and favorable conditions for alternative investments.

**Given the rising demand for alternatives
by many investors, how has your
deployment of committed capital changed?**



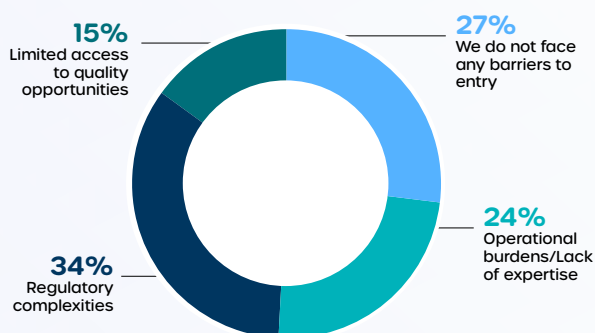
Approximately 16% of investors have experienced slower deployment, while a small percentage (7%) face significant delays, possibly indicative of operational inefficiencies or a more cautious approach to market engagement.

Q: What barriers exist that prevent investors from capitalizing on alternative investments?

With so many responses indicating a continuation or increase in alternative allocations, we asked respondents what their most significant barrier to entry is when considering alternative market investments.

The fact that nearly a quarter of investors (27%) reported no barriers to entry suggests that many of these once “alternative” investments are now mainstream and investors are better equipped to handle these challenges.

What has been the most significant barrier to entry that you have faced when looking to invest in alternative markets?



Still, the responses tell a familiar story — navigating regulatory complexity and day-to-day operations continue to present the most daunting challenges for many investors getting into alternative investments. Over 34% of respondents believe regulatory complexity when managing private assets poses the leading hurdle, while operational challenges concern 24%.

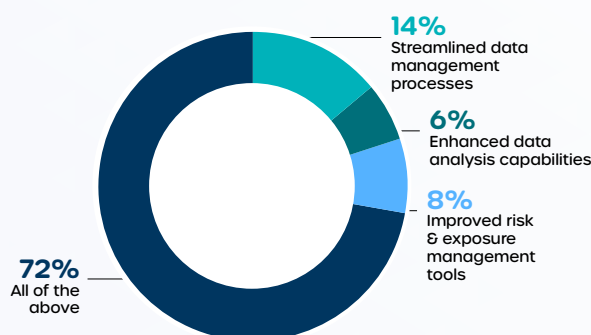
These insights underscore the urgent need within the financial community for more streamlined regulatory processes and operational efficiencies in alternative investments.

Q: What would improve operations and support?

We asked what improvements would most significantly enhance an investor's ability to manage alternative investments.

A notable proportion of the market (27.5%) pointed to data standardization as the key area for improvement, suggesting that inconsistencies in data formats and protocols are hindering effective management. Similarly, 18.5% suggest that closer integration with service providers could lead to more efficient processes and faster responsiveness.

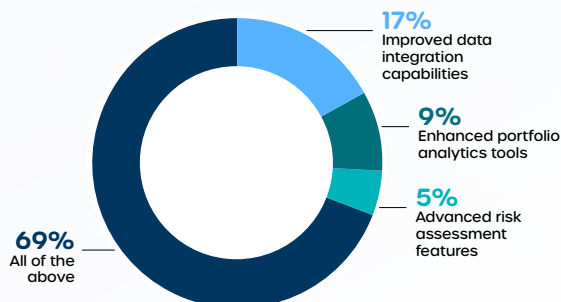
Which improvement would most enhance your ability to manage alternative investments effectively?



Most importantly, the survey underscores a pressing need for advancements in operational efficiency and software capabilities. A whopping 72% of responses indicated a need to improve all focus areas listed.

On the software front, we polled respondents on the ways investment management software could be improved to better support investments in alternatives. Survey responses called for enhancements in data integration (17%), portfolio analytics (9%), and risk assessment (5%).

In what ways do you believe investment management software could better support your investment process, specifically in the alternative investment sector?



Once again, an overwhelming majority (69%) agreed that a comprehensive technology upgrade is essential.

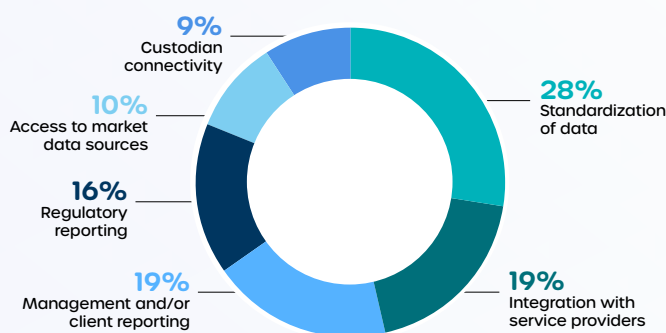
These findings indicate a clear consensus around the importance of innovation in technological infrastructure to support the growing complexity and scale of alternative investment portfolios. It also reveals a clear demand for better technology to efficiently manage alternative investments and mitigate the impact of the potential barriers.

Q: Is better data the key to improving operations?

We asked investors where they felt they had the biggest opportunity to improve their alternative investment operations.

The responses indicate a unanimous desire for progress across the board. A deep dive into the operational aspects of investment management reveals the need for enhanced data capabilities and portfolio analytics tools to better support alternative investment processes.

Where do you feel you have the most significant opportunity to improve your operations over alternatives?



Respondents singled out data standardization as the primary focus for development, with over a quarter (27.5%) recognizing it as a top priority. This was closely followed by the need for enhanced data integration with service providers, and improvements in management and client reporting, garnering 18.5% and 18.9%, respectively. Access to market data sources (10.3%) and regulatory reporting (16.3%) were also noted as significant. Despite the prevalence of data concerns, only 8.6% of the respondents see a substantial need for fostering better custodian relationships.

Investors want technology solutions that can streamline data management and improve risk and exposure management, with 72% of participants identifying these improvements as critical to 2024 and beyond.

Taken together, these insights show that enhancing data governance and strengthening integrative systems are seen as pivotal drivers for the future of investment management and alternative investments. Moreover, standardization of data, custodian connectivity, and integration with service providers will offer key opportunities for operational efficiency and effectiveness.

The Future of Alternative Investments Depends on Operational Efficiency

Investment managers face complex challenges in the alternative investment space, and the insights from this study offer valuable guidance to inform strategic planning and enhance adaptability. As this survey indicates, to thrive in the alternative investments market, the journey this year and beyond will rely heavily on operational efficiency -- particularly in data management and technological innovation.

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