

Alternative Investing by Institutions: Opportunities and Challenges

A Survey By Clearwater Analytics, Q1 2022

We surveyed institutional asset owners and asset managers on their investment in alternatives today and looking forward. We received insights from 110 respondents, representing over \$5 trillion in AUM. Of those, 80% are asset owners and 20% are managers.

The survey revealed alternative investments are dominated by private credit and private equities, with over 70% reporting some allocation, and real estate, with 68% reporting.

When asked if current and expected market conditions like inflation and potential recession will impact their allocations, we found that 36% said yes, while 42% said they would stay the course. As we know, alternative investing often requires staying the course given liquidity and time horizons. The remaining 22% planned to move alternative allocations of various types.

Investors adding alternatives continue to focus on the top three of private credit, private equity, and real estate. Additionally, infrastructure is getting more attention with 44% looking to add. And an adventurous 7% plan to invest in crypto.

So why are alternatives attractive to many institutional investors?

As we'd expect, 80% of respondents said yield and returns are a driver; however, a bit surprisingly, diversification was the top choice at 82%. Alternatives provide strategies, exposures, and names not available in the public markets – it was clear respondents consider this. Further, one of the significant

differentiators of investing in alternatives is liquidity – both on the way in and the way out. We asked about capital deployment and found that one-third said it was slow to very slow. With all the focus on alternatives, perhaps demand is outstripping supply.

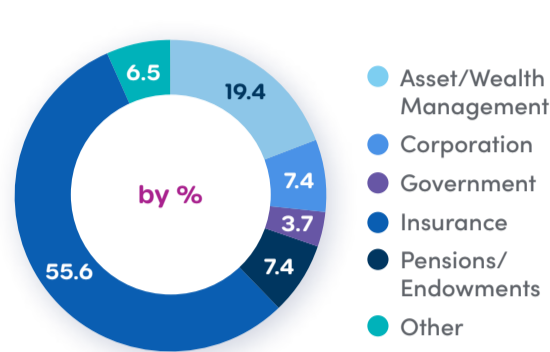
We included a couple of questions on operational and related challenges of alternative investing. Some institutions outright pass on alternatives due to these challenges. As expected, data was the theme – availability of data, automation, and combining alternative data with public portfolio data, were all highly cited challenges. And, of course, data quality was cited, but interestingly at a modest level with only 28% ticking that box. Additionally, we asked what operational processes could use improvement when it comes to alternatives. Our survey showed 40% or more cited custodian/service provider connectivity and data standardization. Transparency was the top choice for improvement, specifically client and management reporting on alternatives at 57% and related regulatory reporting at 32%.

Alternatives continue their march toward the mainstream – perhaps we shouldn't call them alternatives anymore. Investors can certainly achieve higher returns and diversification with a well-constructed alternatives portfolio, if they can navigate the capital deployment, operational, and data transparency considerations.

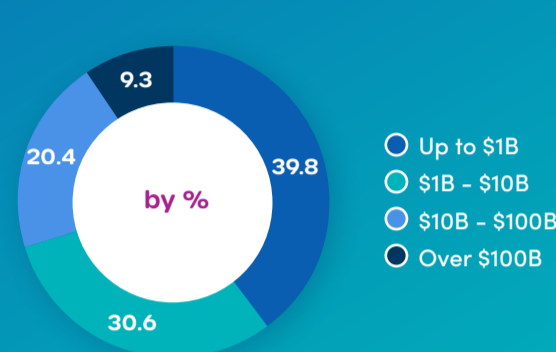
Clearwater is dedicated to helping our clients overcome these challenges in this important segment of the investment universe.

Detailed Survey Data

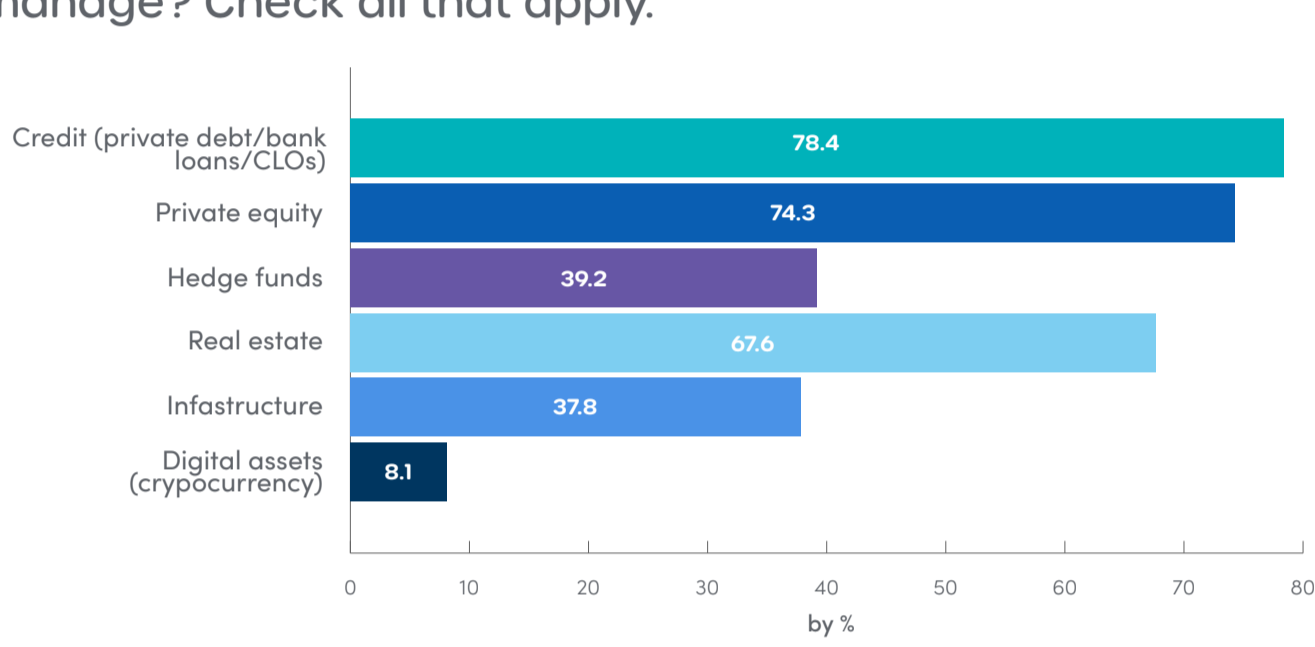
1. What is your business type?



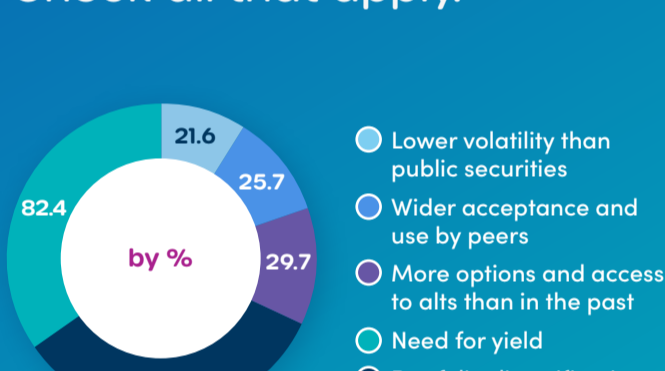
2. What is your total AUM?



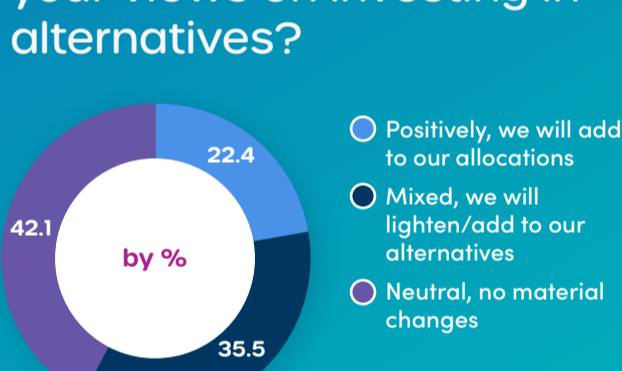
3. What alternatives/private strategies do you invest in or manage? Check all that apply.



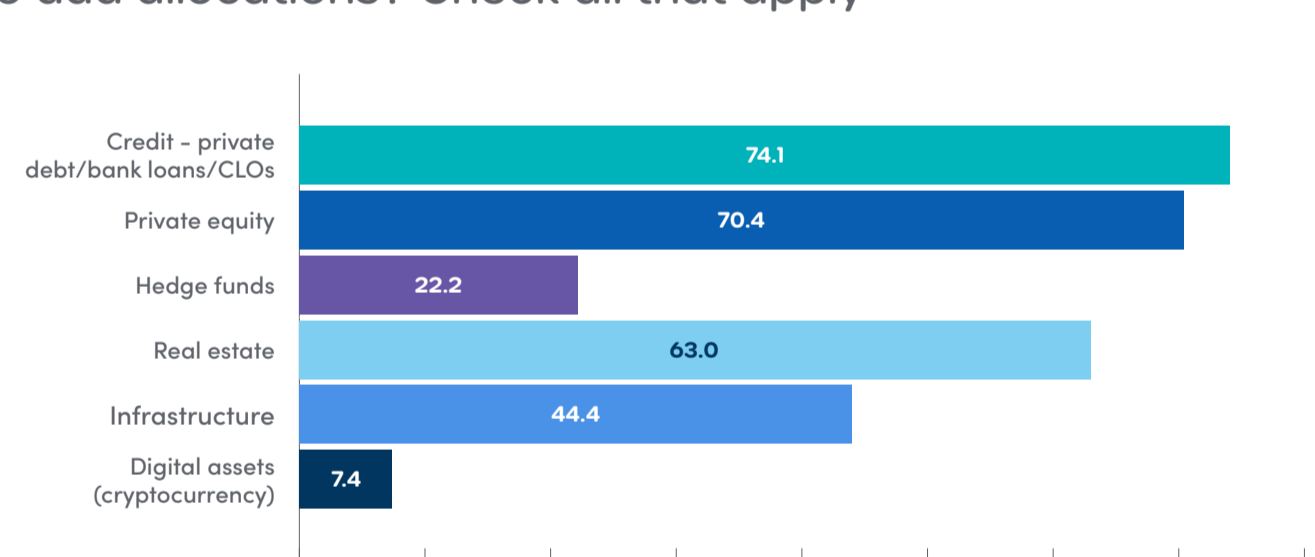
4. What has driven you to allocate to alternatives? Check all that apply.



5. Have current and expected market conditions changed your views on investing in alternatives?



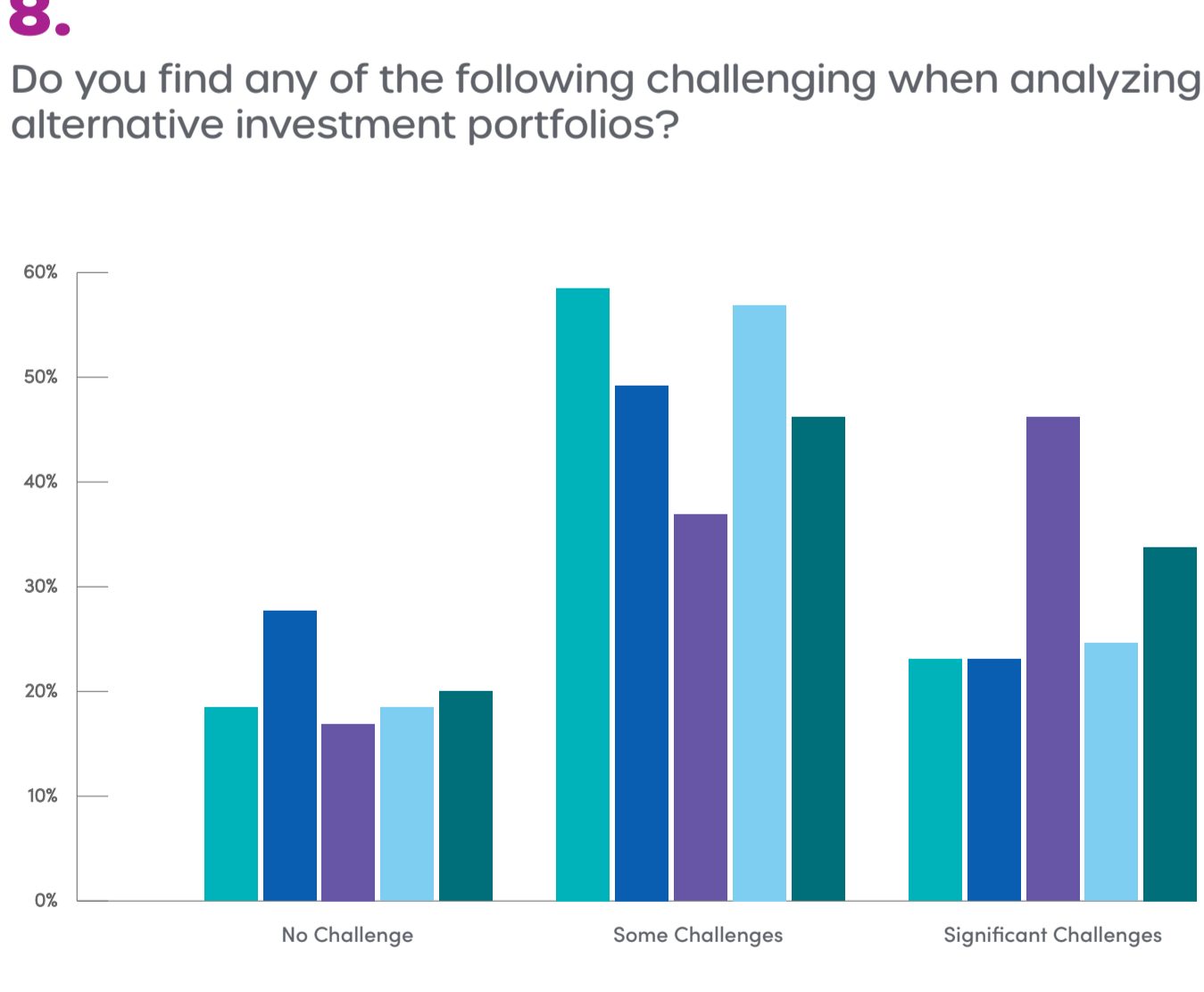
6. Please select the alternative asset classes to which you plan to add allocations? Check all that apply



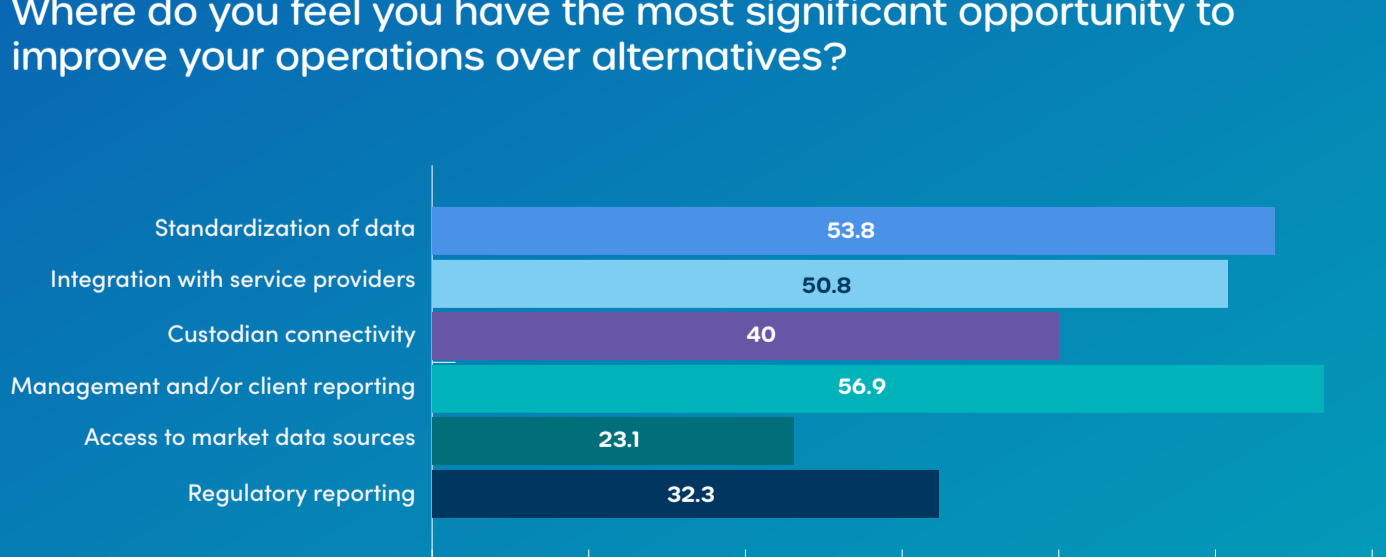
7. Given the rising demand for alternatives by many investors, what has been your experience with deployment of committed capital?



8. Do you find any of the following challenging when analyzing alternative investment portfolios?



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



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