



SS&C Intralinks®

# 2023 LP Survey

Insights on alternative investments

Produced in association with  private**equity**wire

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## Editor's Note

Welcome to the seventh annual SS&C *Intralinks LP Survey*, produced in association with Private Equity Wire.

This annual report aims to provide a global overview of limited partner (LP) sentiment when it comes to the performance and resilience of alternative asset portfolios in an ever-changing world. In this latest survey, the findings highlight investor sentiment across a host of themes influenced by a set of economic and geopolitical challenges: rising interest rates, record-high inflation, an energy supply crisis, a conflict in Ukraine and a sudden sell-off of buyouts due to pension and sovereign wealth capital calls.

In light of these factors, we raised some of the most pressing questions that general



**Meghan McAlpine**  
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partners (GPs) want to know the answers to. For example, do investors expect to increase their allocations to alternatives over the next 12 months, and if so, by how much? Which asset classes do they expect to generate the best risk-adjusted returns? Is there a fund size sweet spot that LPs favor? Where do LPs stand when it comes to impact fund exposure? Do LPs have an appetite for continuation funds? Just how many LPs would divest from a manager that did not meet their environmental, social and corporate governance (ESG) reporting requirements?

Our thanks to the 200 global investors who provided their insights for this survey, notably on the performance of their alternative asset investments and their likely allocation targets for the year ahead.

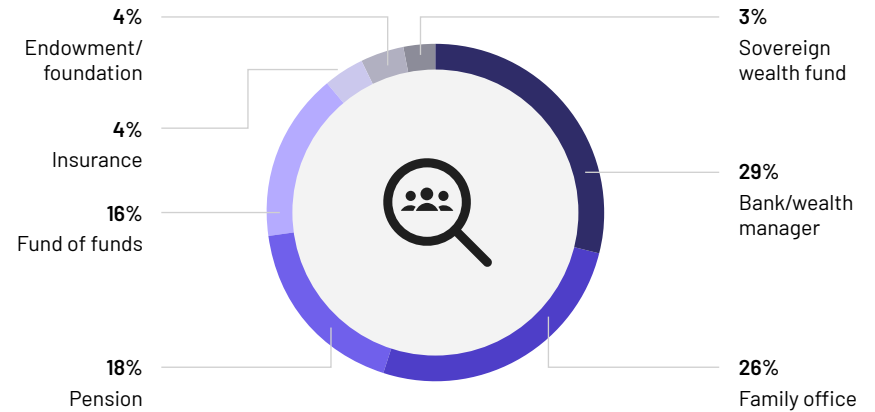
## Executive Summary

- Alternative asset portfolios performed better than expected in 2021, despite supply-chain and travel uncertainty that lingered from the pandemic – so much in fact that nearly 86 percent of investors surveyed said performance was in line with or exceeded their expectations.
- Seventy percent of investors expect to increase their allocation to alternatives over the next 12 months. Some 32 percent of investors said they will increase their allocation to alternative assets by 10 percent or more.
- Private equity generated the best risk-adjusted returns of alternative assets for over 36 percent of investors over the past 12 months. But private equity and hedge fund managers will be tested with newfound challenges over the next year (e.g., inflation, rising interest rates and flatter multiples), so return expectations may have to be adjusted over this period.
- Pension and sovereign wealth funds grappling with capital calls are feeling the consequences of the denominator effect. LPs looking to meet capital calls in this environment could be faced with lower returns or increased reliance on secondaries and continuation fund opportunities, which are rising in number.
- LPs revealed their sector favorites. Technology remains the preferred sector for LPs (nearly 30 percent) to invest in. This is despite inflation rising – when tech stocks historically have not fared well. Investors also want more exposure to Renewables as part of the energy transition, followed by Infrastructure.
- Transparency and GP technology still have a way to go. For example, the biggest frustration for investors around GP technology is disparate LP dashboards with multiple logins.
- Engaging with LPs on ESG policy and targets was expected to be a higher priority for more GPs than what was revealed. Especially when nearly 49 percent of LPs intend to increase their ESG due diligence when dealing with GPs.
- If GPs want to improve their relationships with their LPs, they should make more of an effort to meet them in person or more frequently over virtual calls. The next 12 months will be demanding for portfolio managers, and the more they are in touch with their LPs, the better aligned they will be when investment or divestment opportunities and cash flow issues arise.

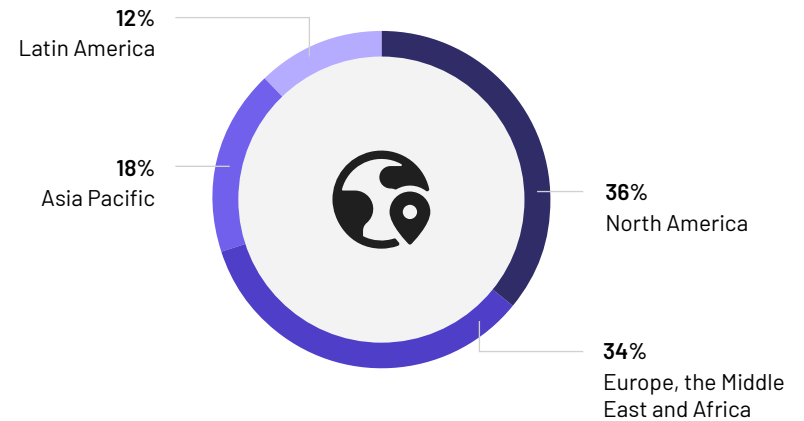
## 2023 LP SURVEY

Within the institutional investment community, banks and wealth managers comprised the largest category of LPs (29 percent) participating in our survey, followed by family offices (26 percent), pension funds (18 percent), fund of funds (16 percent), insurance companies (four percent), endowments and foundations (four percent) and sovereign wealth funds (three percent). North America represented the largest geographic sample at 36 percent, followed by Europe, the Middle East and Africa (EMEA) with 34 percent, Asia Pacific (APAC) at 18 percent and Latin America (LATAM) with 12 percent.

### Types of investors surveyed



### Investors surveyed by geography



# Performance Sentiment Insights

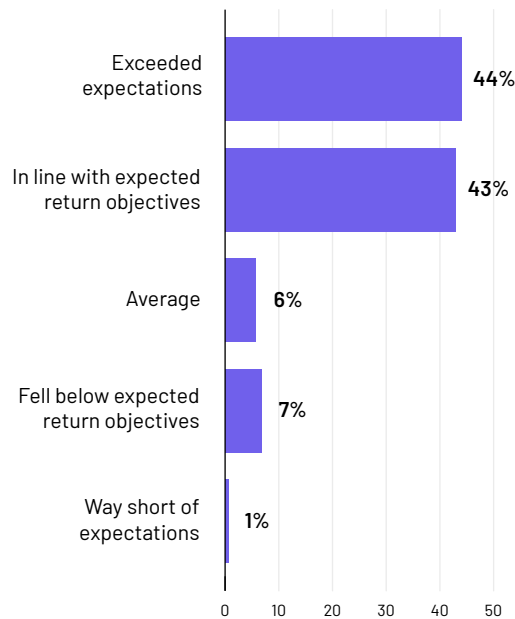
The past 18 months have tested institutional investors' faith in alternative assets and their ability to perform above public markets under extreme economic conditions. According to our findings, that resolve has paid off.

The majority of LPs surveyed said their alternative asset portfolios performed better than expected in 2021, despite the uncertainty that the lingering pandemic had on global trade and travel restrictions across international borders. Some 87 percent of investors surveyed said their alternative portfolio performance was in line with or exceeded their expectations over the past year. Just under six percent of LPs noted that performance was "average" (See Figure 1).

Yet, not all LPs were happy with their portfolio's performance. Just over seven

percent of investors reported that their alternative portfolio performed below or "way short" of return objectives and expectations.

**Figure 1: How would you assess the performance of your alternatives portfolio for 2021?**

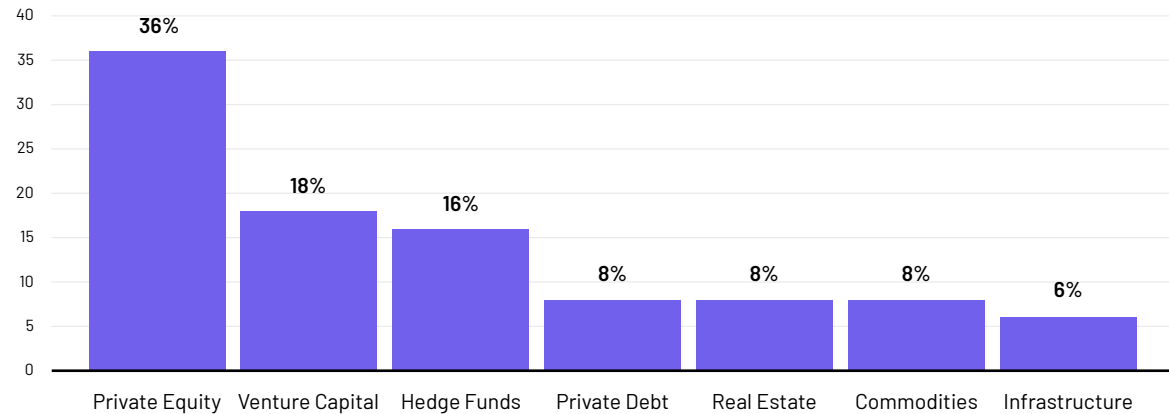


But those with exposure to private equity can revel in that they chose a steady winner. Private equity generated the best risk-adjusted returns for over 36 percent of investors over the past 12 months (See Figure 2).

Hedge funds performed slightly lower than venture capital assets. Venture capital was the second-best performing asset class for nearly 18 percent of LPs, with hedge funds generating the third best risk-adjusted returns for 16 percent of investors (See Figure 2).

Infrastructure had the least number of respondents, with just over five percent claiming the asset class generated the lowest risk-adjusted returns. Yet, more LPs are expecting to invest in this asset class over the next 12 months as it can provide an inflationary buffer (See Figure 2).

**Figure 2: Which asset class generated the best risk-adjusted returns?**



**Capital calls and alternative exit routes**

According to the research, almost half of respondents in a separate survey said they expect a decrease in returns for their buyout strategies in the second half of the year. This has sparked GPs to look for alternative exit routes, with private mergers and acquisitions (M&A) becoming a strong favorite.

Those with assets for sale are being advised to take advantage of the still active M&A

market and the GP-led secondary market to accelerate processes in the “event of a near-term reversal of fortunes.”

Pension and sovereign wealth funds are grappling with capital calls and are feeling the effects of the denominator effect, as the relative drop in the value of their equities has left some overexposed to private equity (See Figure 3). This development has seen an estimated USD 33 billion of private market

stakes held by these investor types sold in the first half of 2022. The majority of assets sold were buyouts, according to Jefferies. This is a significant trend compared to 2021’s USD 19 billion private market sell-off.

“Where you see the decreases in allocation, I suspect that’s a confluence of events,” says Fiona Anderson Wheeler, managing director, investor relations at BC Partners.

Sometimes sell-offs have nothing to do with performance, as Wheeler explains: “One of those is increased capital outflows to meet pensions liabilities as opposed to inflows of capital into pension funds. It isn’t a matter of wanting to reduce allocations, but rather keeping liquidity in mind.”

**LPs still can’t get enough of alternatives**

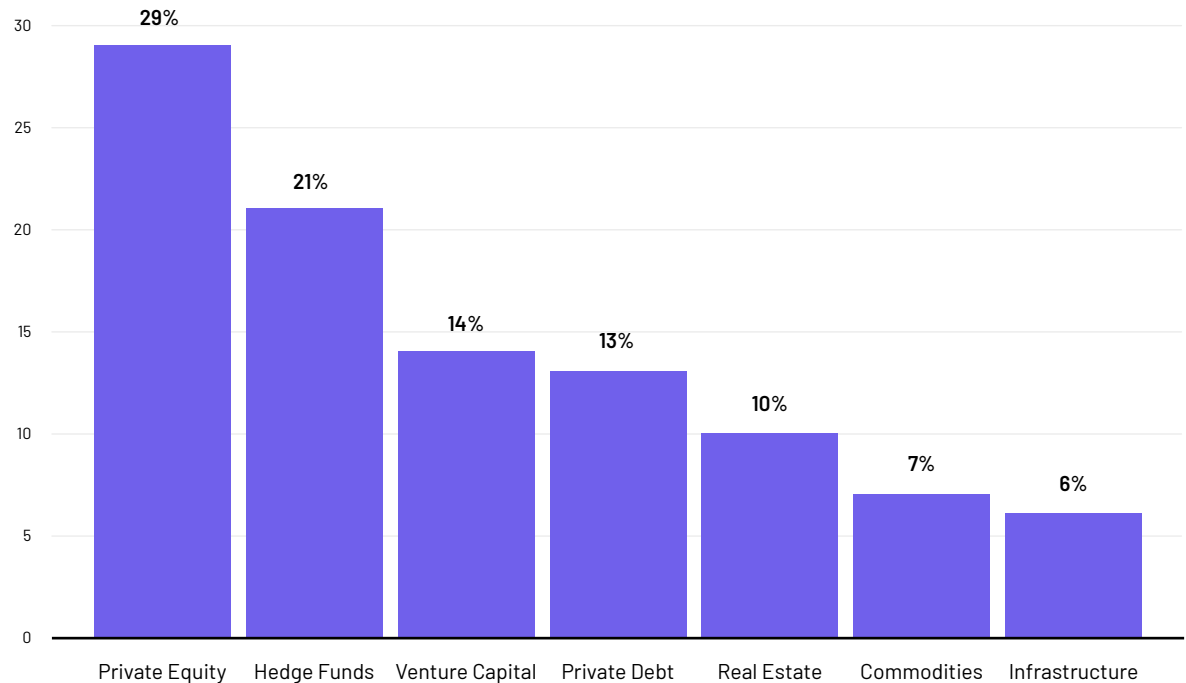
With big brand investment houses raising ever-larger alternative asset funds, it’s not surprising to see nearly 18 percent of

those surveyed with current allocations to alternatives in excess of USD five billion assets under management (AUM). However, the sweet spot when it comes to manager AUM for alternatives for over 44 percent of investors is less than USD 250 million.

AUM across all alternative asset classes is expected to shift northward, according to Preqin research. From 2015 to the end of 2021, AUM across all alternative asset classes increased at a common annual growth rate (CAGR) of 10.7 percent. As of the end of 2015, AUM stood at USD 7.23 trillion, rising to USD 13.32 trillion by the end of 2021. Preqin expects AUM growth to accelerate to 11.7 percent and reach USD 23 trillion in 2026.

Our findings mirror Preqin’s predictions. More than 70 percent of investors we surveyed said they expected to increase their allocations to alternatives over the next 12 months, with just over 29 percent saying they would not.

Figure 3: On an absolute basis, which asset class do you expect to be overweighted?



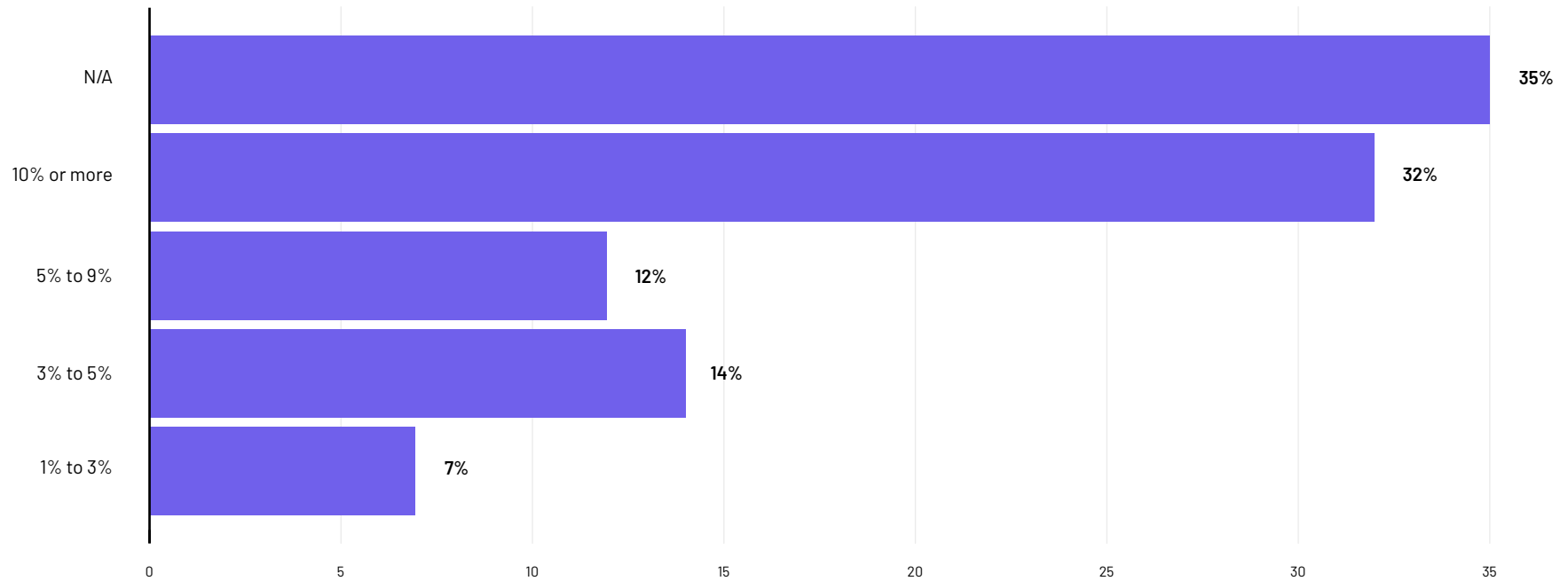
“The increase in asset allocation to alternatives was not surprising to see,” says BC Partners’ Wheeler.

“Across the board, you continue to see allocators recognizing that private equity,

in particular, provides outsized returns and therefore [they are] seeking to add more,” she says.

Of those investors who do expect to increase allocations to alternatives, 32 percent said

Figure 4: If yes, by how much?



they were looking to increase by 10 percent or more. The next most popular percentage rise was between three and five percent, followed by five to nine percent (See Figure 4). Just under seven percent were considering a one to three-percent

increase, with the remaining keeping allocations unchanged.

For a consecutive year, private equity is the most overweight asset class, followed again by hedge funds.

“With public equity markets down, private equity has become a victim of its own success insofar as the performance has been very strong in both a relative and absolute sense,” says Wheeler.

“As a consequence of the denominator effect, a lot of people are now over-allocated and have been forced to look at secondaries in their portfolios to free up liquidity to meet these new re-up demands,” she says.

On the other side of the coin, venture capital is the most underweight asset class for just over 24 percent of investors. Hedge funds have also come in second for underweight asset exposure for investors (See Figure 3).

Wheeler says while some of the findings were spot on, she was surprised at others. “I would have expected allocations to Infrastructure to have been higher, as it is very much seen as an inflation hedge; as well as Real Estate to a somewhat lesser degree,” she says.

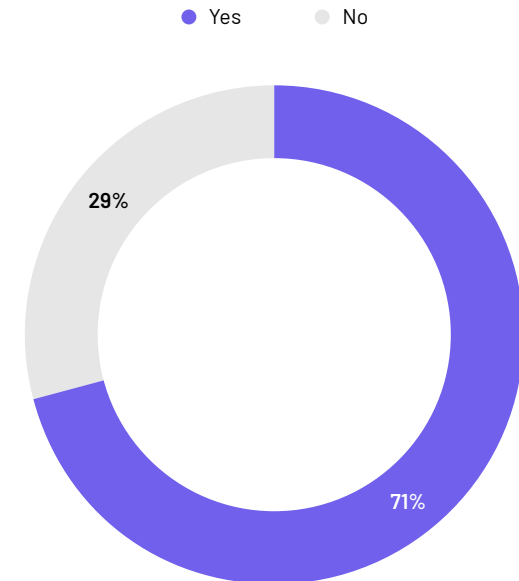
“I was also surprised to see hedge funds at number two, as in my experience allocators have been rotating out of the asset class. I

suspect macro strategies may be attracting capital, as they have traditionally been seen as a hedge to market volatility, rather than flows into more traditional long/short equity funds, where it’s trickier to generate alpha amidst high correlations,” says the investor relations manager.

Wheeler raises a serious point. With great market volatility and inflation come great opportunities, which has been the case for some GPs with global macro hedge funds, which were up on average 8.5 percent in the first half of the year, according to data provider HFR.

These returns are unique to macro strategies and are in stark contrast to the wider hedge fund industry, which were on average down 5.6 percent, according to a *Financial Times* report, with “equity-focused funds particularly hard hit.”

Figure 5: Do you expect to increase your allocation to alternatives over the next 12 months?



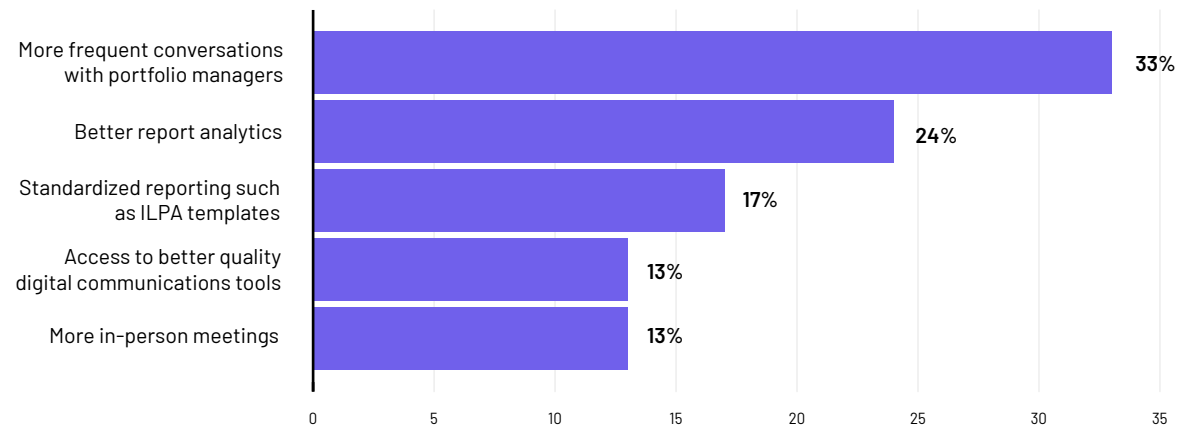
# GP Selection Intelligence

With fundraising processes being pushed into 2023, manager selection will prove key in the upcoming months if macro and geopolitical risks continue to increase, according to our research.

Over this period, LPs are wanting to see improved relationships with their GPs. That bond could become stronger with more frequent conversations with portfolio managers, say over 33 percent of LPs.

Despite peak performance over the past year from most GPs, their investors still see room for improvement in areas such as better report analytics, access to better quality digital communication tools (e.g., regular virtual meetings and bespoke portals), standardized – reporting–such as ILPA templates – and

**Figure 6: What would help improve your relationship with GPs?**



more in-person meetings, now that borders have opened.

With dry powder at record levels, LPs are increasingly concerned that GPs will struggle to prosecute attractively priced deals in the current environment. They feel that this is an important facet of how they assess GPs.

## Fund size matters

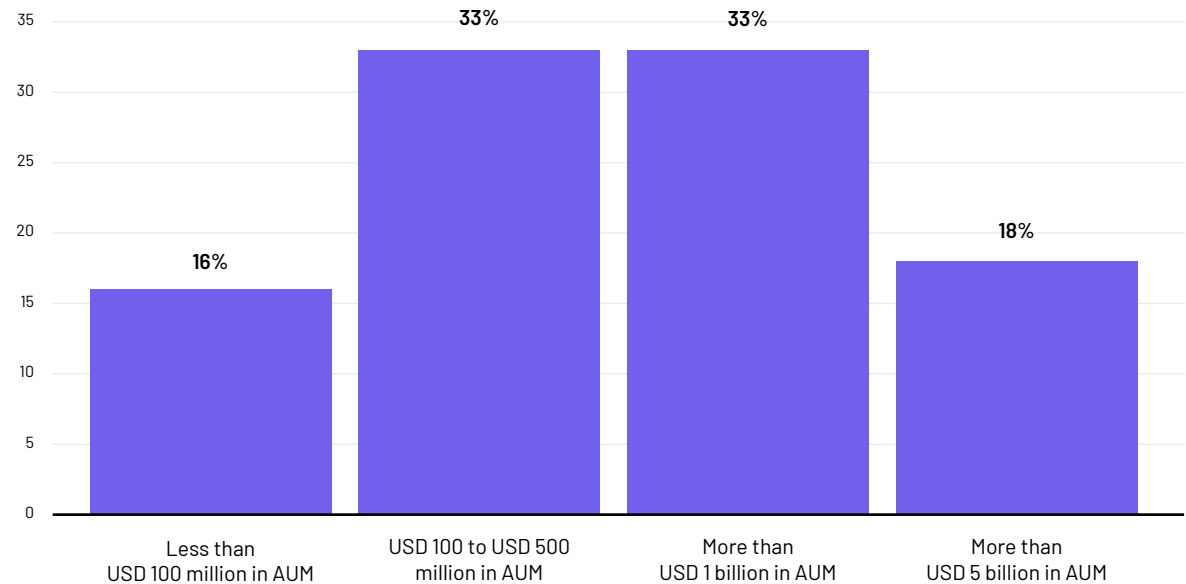
LPs are preferring fund manager AUM size in two ranges. According to our research, the USD 100 million to USD 500 million and USD one billion and above ranges are the fund size sweet spots for most investors (See Figure 7). However, those looking for long-term inflation protection over the next couple of years are

likely to seek more exposure to big brand asset owners who have a compelling infrastructure story to tell. These brands are raising record fund sizes of over USD 10 billion to cover LP demand and the capital required for projects addressing the world’s energy transition.

In April 2022, Squared Capital closed the ISQ Global Infrastructure Fund III at USD 15 billion to invest in Renewables and the energy transition, Supply Chains and Logistics, Digital Infrastructure and Transportation.

Weeks earlier, private equity firm KKR raised USD 17 billion – almost USD 10 billion larger than its previous infrastructure fund. Stonepeak’s USD 14 billion Infrastructure Fund IV was almost double its 2018 USD 7.2 billion predecessor fund. Brookfield and Global Infrastructure Partners are both targeting USD 25 billion for new infrastructure funds, according to reports in February.

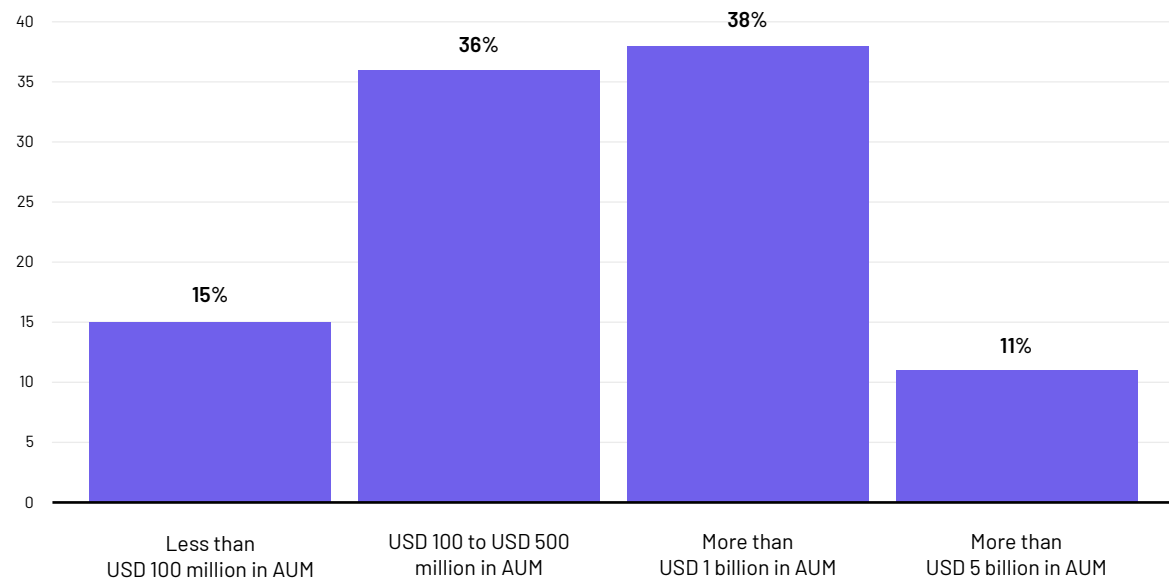
Figure 7: What fund manager AUM size did you strongly favor over the last 12 months?



A slight increase in the number of LPs looking to invest over the next 12 months in funds with an AUM over USD one billion was indicated in the survey (See Figure 8). Despite the ever-larger fund sizes, not all investors are biting. The number of LPs shifting away from funds with USD five billion in AUM and above was also indicated.

“Investors are telling us that they are concerned with how much money is being raised, with one LP saying that they will not allocate capital to existing GPs raising funds over USD 20 billion or new GPs that raise funds USD 15 billion or higher,” says BC Partners’ Wheeler.

Figure 8: What fund manager AUM size will you be favoring over the next 12 months?



**Funding new frontiers**

Smaller debut infrastructure funds from private equity GPs are also emerging, many of which are multi-asset managers carving out a future for themselves in the core-plus space. GI Partners was among the first private equity managers to move into the infrastructure fund market with a strategy targeting assets in

data centers and tech-enabled infrastructure. Others include EQT, Carlyle and Intermediate Capital Group (ICG).

More and more big brand asset managers in the private equity and hedge fund space are entering new territory to meet fundraising cycles as frequently as every 18 months.

**//**

Infrastructure remains resilient and less volatile and that's what people want right now. Overall, demand for infrastructure is accelerating fundraising and asset rotation. Many funds are in the market because they do not want to miss the window.

—

CEO of a European private equity investor targeting core-plus infrastructure opportunities

This is where sector specialist teams from these outfits can make a compelling case for a new fund or fund spin-out opportunity. Neither process, however, will be easy to sell to savvy LPs, according to placement agents.

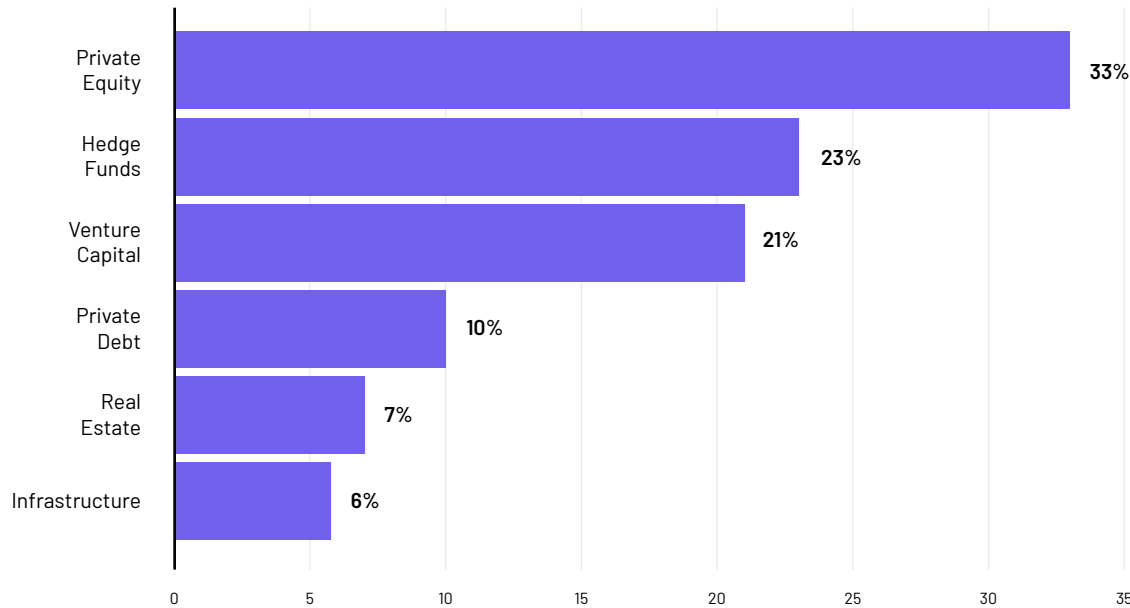


We are in an environment where there's less certainty with smaller funds of USD 100 million or less, which tend to be new strategies. People want to be with proven managers who have long track records.



European GP targeting alternative assets in Europe and North America

Figure 9: In which asset classes will you be favoring emerging managers over the next 12 months?



The main driver for LPs to allocate to emerging managers are niche strategy options, according to 29 percent of those surveyed. The next most popular drivers include attractive return potential (reported by just under 28 percent), followed by a desire to access new talent (just above 22 percent). Other incentives include added portfolio diversification and the likelihood that a GP will negotiate better fees (just under five percent).

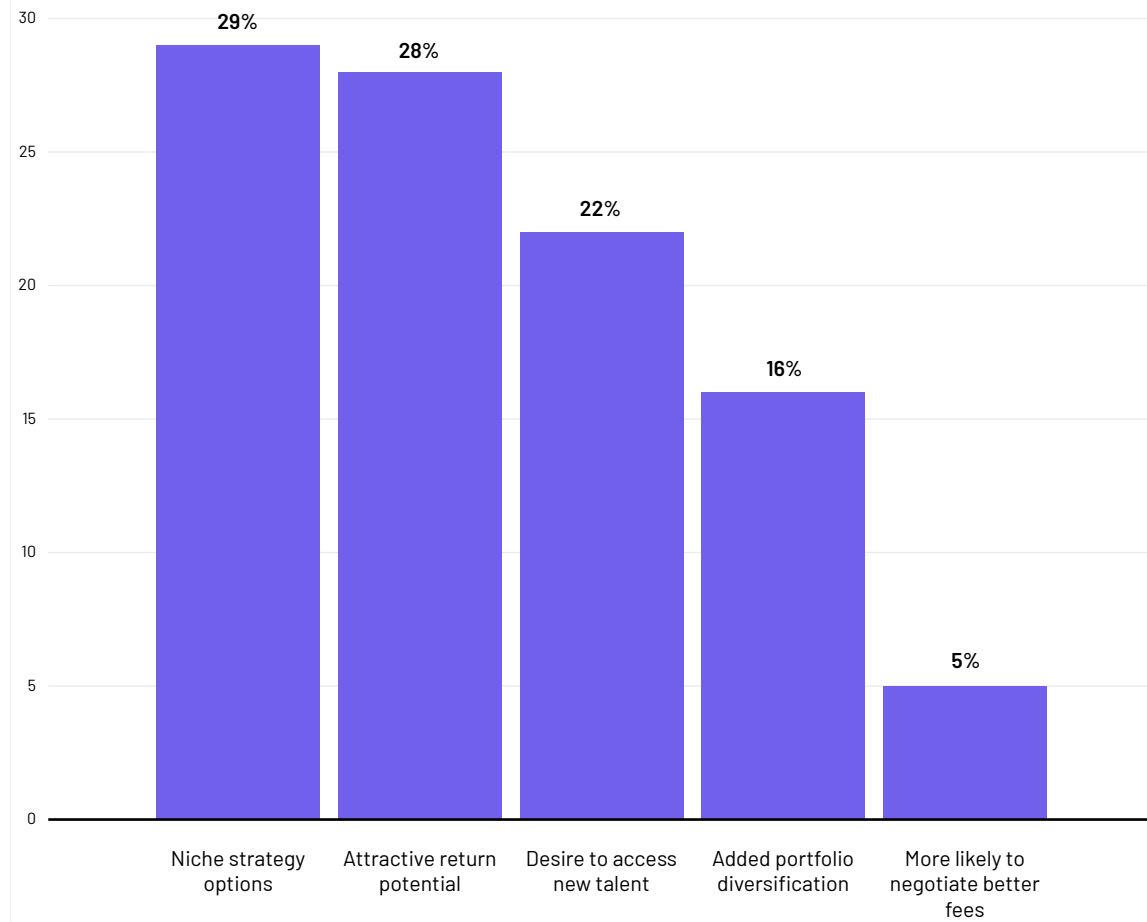
“While there may be [an] appetite to invest with emerging managers, that’s probably going to be the hardest area to raise capital,

simply because people are having to make some very difficult choices and are prioritizing re-ups with proven managers who have long track records, in lieu of new relationships,” says Wheeler.

She explains: “Re-ups have essentially taken up all of 2022 allocations, and in many instances, the first half of 2023 as well, [so] it will be difficult to add emerging managers.”

However, for those considering allocating capital to emerging managers over the next 12 months, private equity is the favored asset class. Just under 33 percent of investors said they would be looking for emerging managers with a private equity strategy, followed by hedge funds, venture and private debt (See Figure 9). Investors seem more hesitant to commit to emerging managers in the real estate and infrastructure segments.

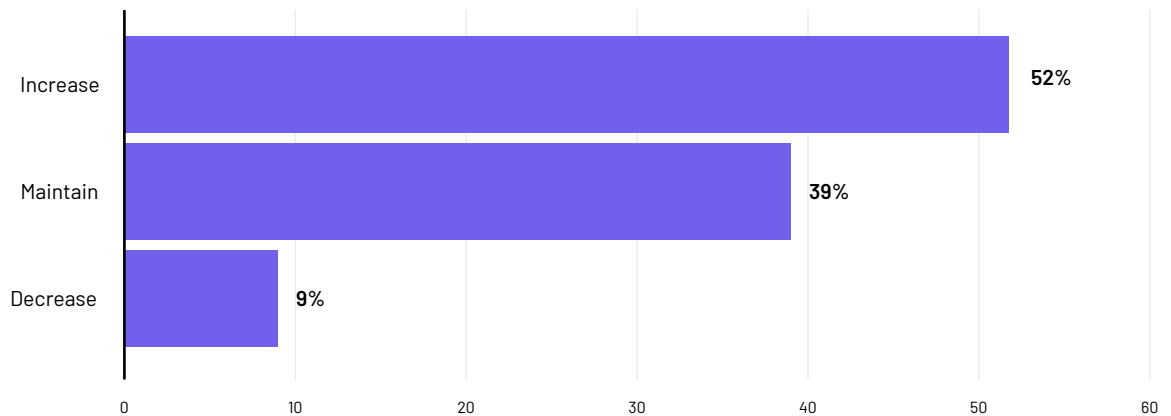
Figure 10: What is the main driver behind allocating to emerging managers?



# Transparency, Reporting and ESG

The number of GP relationships an LP has or plans to change says as much about them as it does about the GPs they have entrusted their capital with. The good news is that more than half of LPs (52 percent) said they would increase the number of GP relationships over the next 12 months (See Figure 11). Just over 38 percent said they planned on maintaining the number of GP relationships. But close to nine percent said it was time for a change and they would be decreasing the number of GP relationships.

**Figure 11: Are you planning to increase, decrease or maintain the number of GP relationships you have over the next 12 months?**



The level of transparency a GP has with their LPs when it comes to portfolio management fee structures and ESG reporting also determines whether an LP will make fresh commitments. Despite alternatives maturing and becoming asset classes in their own right, LPs believe there is still room for improvement

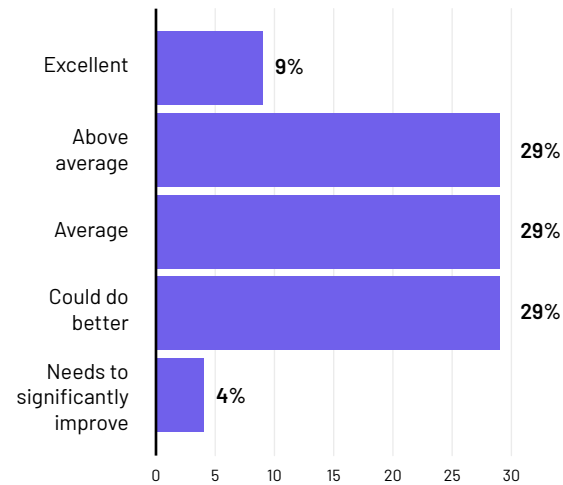
when it comes to transparency. So much "in fact" that a third of investors said GPs "could do better" or "significantly improve" their transparency policies.

That said, 38 percent of LPs are very happy with the level of transparency their GPs

are providing and have labeled their approaches as "excellent" or "above average" (See Figure 11).

Transparency is no longer just nice-to-have, but an essential communication and data tool used by GPs to meet LP requirements,

**Figure 12: How would you rate the level of transparency provided by managers?**



especially now that alternatives are attracting more attention from financial regulators.

Hedge fund managers, for example, are calling in legal and compliance expertise to address new EU rules on pre-marketing and reverse solicitation which, according to HedgeWeek, could “upend” hedge funds’ capital-raising activities in the bloc. All of these changes are part of the AIFMD review and could impact

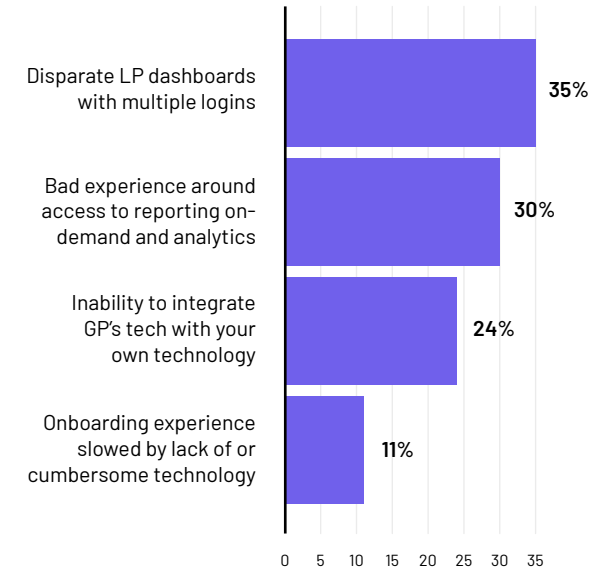
more than half of hedge funds in Europe. The reforms are pending ratification later this year by the European Council (EC) and European Union (EU).

With greater reporting standards required of investors and their GPs, technology capabilities will help ease their growing administrative burden. GPs are also seeing that technology, such as bespoke portals and data analysis, can help keep LPs updated on their portfolios 24/7. Some GPs outsource some of these capabilities as it is more cost-effective, advanced and time-efficient since it takes the strain off internal staff.

Just under 65 percent of LPs are “moderately satisfied” with their GPs’ tech capabilities when it comes to reporting, with more than 26 percent “being very satisfied.” Yet, some GPs could be in dangerous waters with their LPs, especially those who were providing unsatisfactory reporting capabilities.

Unsatisfactory capabilities come down to a host of issues, the most frustrating for LPs being disparate LP dashboards with multiple logins. Other frustrations include bad experiences around access to reporting on-demand and analytics (See Figure 13).

**Figure 13: What are your biggest frustrations around your GP’s technology?**



But these frustrations can be eased through improved technology, which could boost an LP's ability to monitor investments when convenient for them. This could be something independent service providers may be best equipped to address.

LPs have conveyed to us which areas of technology they believe would boost their ability to better monitor GP investments. These include overall improved portfolio monitoring, the ability to aggregate information across multiple managers in one place, scraping data from PDF files, and a better ability to forecast cash flows.

Emerging managers are more likely to outsource their fund administration and ESG reporting because they are not justifying the costs of legacy reporting systems established players use. In the hedge fund space, for example, where generally speaking legacy accounting and reporting

systems have often not been updated, management is finding it more difficult to retain talent that has become overworked by non-core activities.

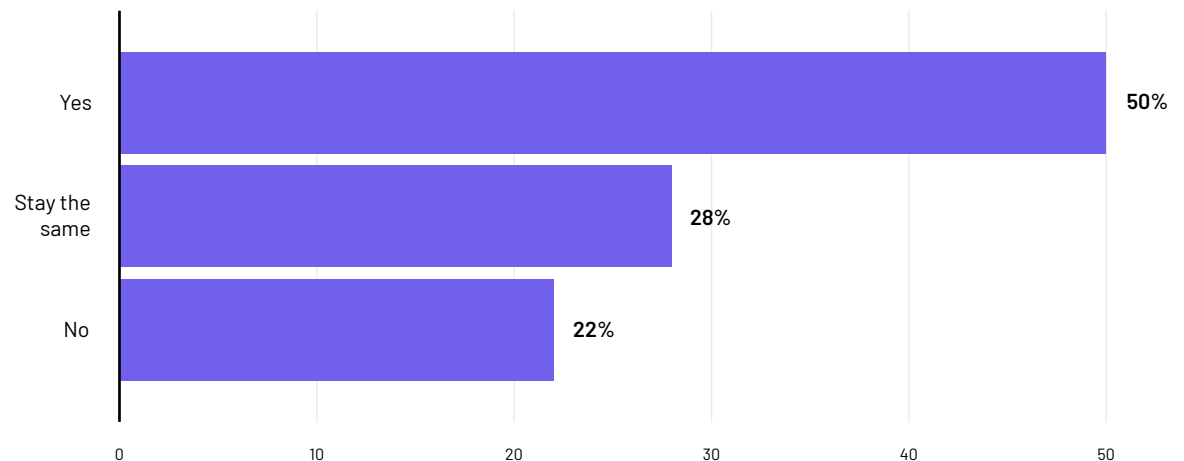
**ESG data: Is it worth the investment?**

ESG data can be used not only to determine credit ratings of assets and funds, but to establish the risk profile of a portfolio company and future performance. LPs said they did

consider ESG criteria in the investment process as becoming more important and increasingly in line with a manager's ability to generate alpha in their funds.

But ESG onboarding takes time, money and technology. GPs are increasingly concerned that ESG data requests will take away from their core responsibilities of portfolio management and will start to become more

**Figure 14: Do you intend to increase your ESG due diligence when dealing with GPs?**



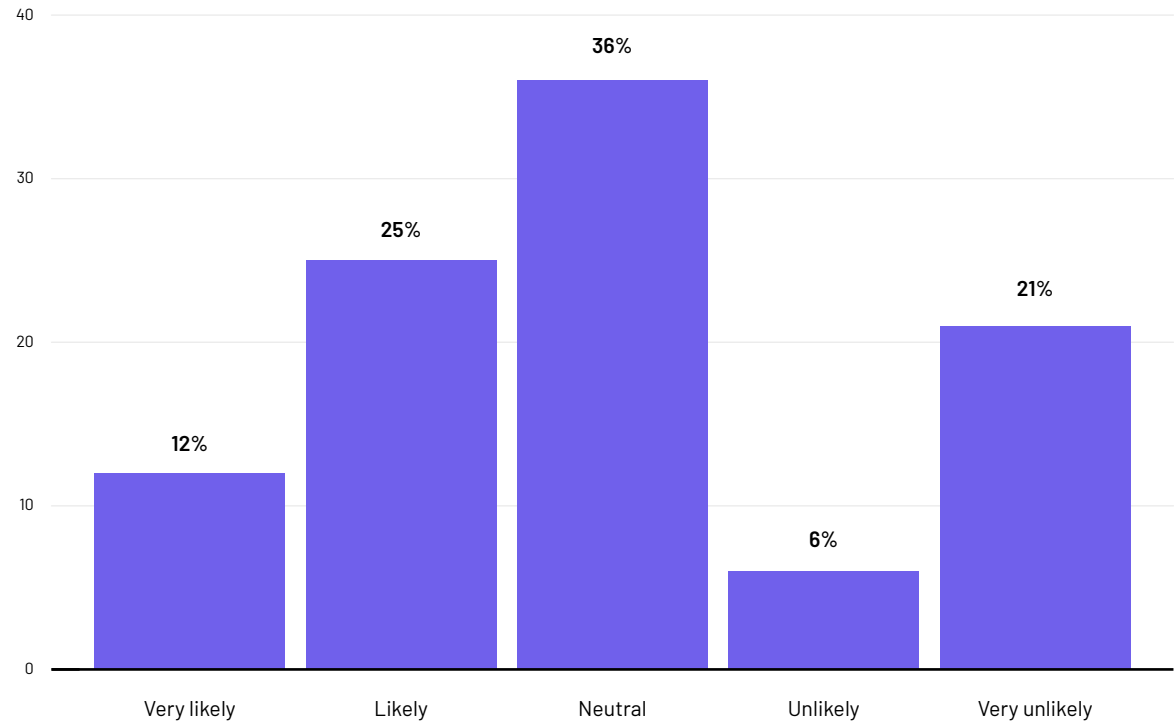
costly and complex as LPs ask for more bespoke ESG strategies.

More than a third of LPs told us that there has been no meaningful increase in ESG data. Close to another third are receiving increased ESG data but have yet to investigate a solution to help make use of it. The balance is either outsourcing ESG data analysis or using an internal analytical solution.

Engaging with LPs on ESG policy and targets was expected to be a higher priority for more GPs than what was revealed. Especially since 49 percent of LPs said they intended to increase their ESG due diligence when dealing with GPs (See Figure 14).

More than 38 percent of LPs revealed that they “rarely” or have “never” engaged in ESG reporting with their GPs. But other LPs are getting more attention and care, with just over 23 percent frequently engaging with

**Figure 15: How likely are you to divest from a manager if they were not willing to show you their updated ESG policy on an annual basis?**



GPs on ESG reporting, the majority (37 percent) and engaging on this topic “occasionally.”

This apathy or confusion toward ESG reporting should soon become a thing of the past, once

GPs learn that more investors (more than a third) are willing to divest from a manager if they are not supplied with an updated ESG policy on an annual basis (See Figure 15).

# Asset Allocation Trends

Despite private equity remaining the most attractive alternative strategy for LPs, only seven percent of those surveyed are committing to an increase to the asset class of 20 percent or more. Most (over 47 percent) are only looking to increase by less than five percent, with nearly 30 percent set on the five to nine percent range (See Figure 16).

BC Partners' Wheeler was expecting LP strategies to be taking a different direction in some asset classes, namely private debt.

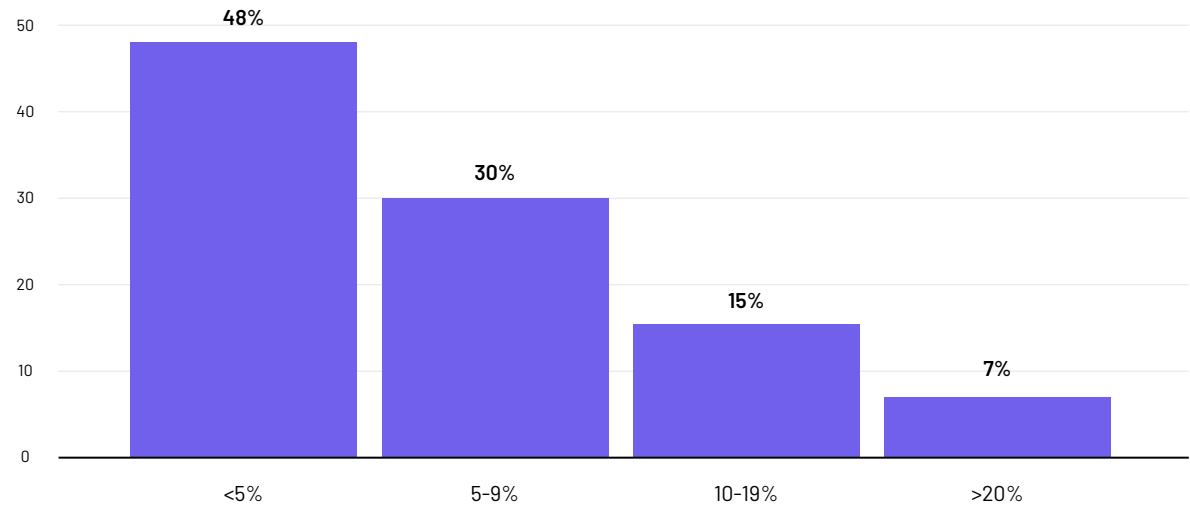
"I think it's surprising that more capital isn't going into lending strategies," she says.

She adds, "The extent to which banks have retrenched is growing, and private debt funds are filling in the gap. Opportunistic

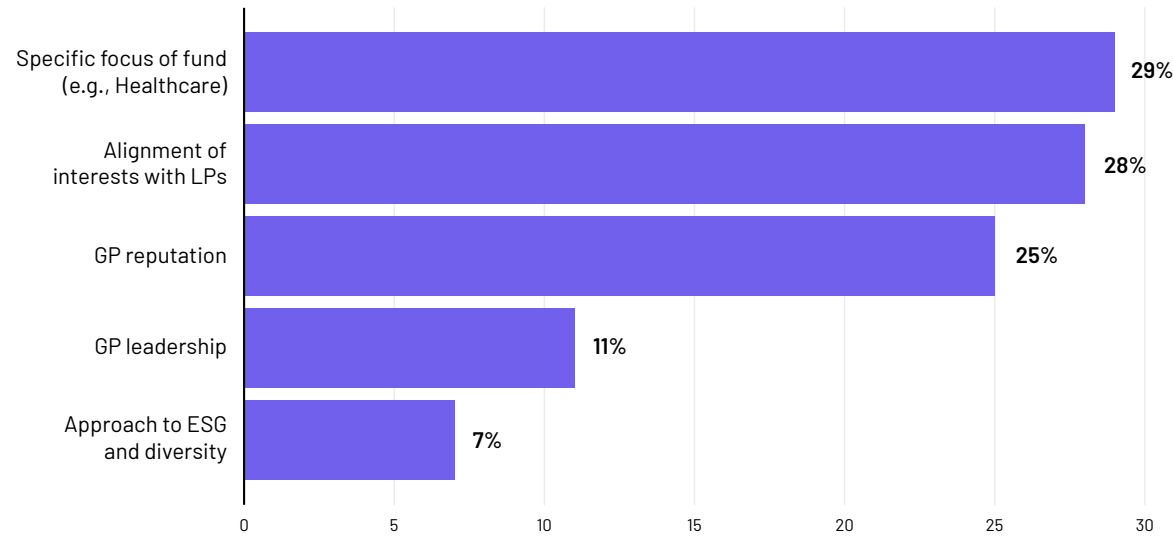
credit is particularly compelling when facing market uncertainty, given some strategies are generating equity-like returns but with considerably less risk given [the] senior[ity of]

their positions in the capital structure." Beyond performance, what other factors do investors consider when making private equity allocations? A fund's sector focus and the

**Figure 16: How much do you expect to increase your allocation to private equity strategies over the next 12 months?**



**Figure 17: Beyond performance, can you rank the the other factors behind your PE allocations?**



alignment of interests between GPs and LPs surprisingly outrank a GP’s reputation. A GP’s leadership also does not hold as much sway over allocation decision-making as many may believe. Nor does a firm’s approach to ESG and diversity.

**Impact funds: Most LPs are still on the fence**  
Based on research by EY and the Impact

Investing Institute, there is a conservative estimate of GBP 58 billion flowing to impact investing in the U.K. alone.

While many pension funds and other LPs, including family offices, express their desire to increase their allocations to assets that provide a measurable social and/or environmental impact,

many are waiting for better data and reporting frameworks to invest considerably or consistently in impact- labeled funds.

This is evident in LP responses, with just under 38 percent saying they would not expect to increase their exposure to private-equity-operated impact funds over the next 12 months, and another 38 percent undecided. Only just over 24 percent of investors will likely increase their exposure to impact funds.

According to EY’s survey results, more than half of the GBP 58 billion (55 percent) is earmarked for private companies, with 35 percent in private debt and 20 percent in private equity. Approximately 90 percent of the EY respondents reported that 2020 financial returns from impact investing were either in line with or exceeded their benchmarks and investment targets, bucking the misconception that impact investing generates below-average returns.

Their research also found that investors are waiting it out to see which government or regulatory policies will drive the impact investment market. Healthcare, affordable and clean energy, and sustainable cities and communities were reported as the top three focus areas for impact investment.

**Are continuation funds here to stay?**

Secondaries are nothing new in the private equity world and have given LPs a quick exit route, with decent returns when capital calls are coming due. However, the rise of GP-led secondaries, or “continuation funds”—whereby a private equity firm sells one or more of its portfolio companies to a new fund it manages—is causing mixed feelings among institutional investors.

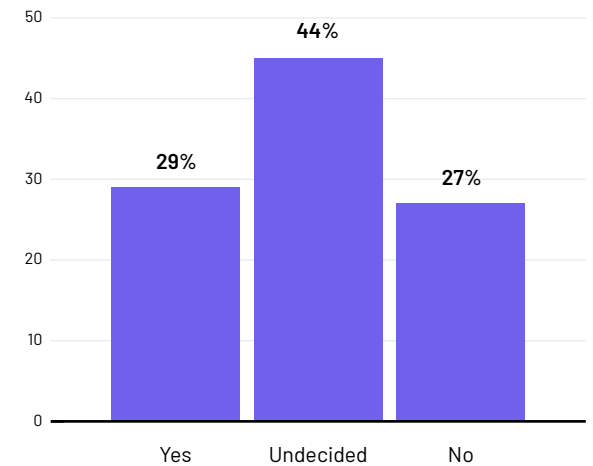
There have been reports about U.S. Securities and Exchange Commission (SEC) Chairman Gary Gensler scrutinizing continuation funds

as part of his larger review of the private equity industry’s transparency. Concerns include whether valuations in the private market will be fairly priced if a GP is acting as both the buyer and seller. Gensler has also expressed concern that certain LPs have been gaining an unfair advantage over others when it comes to co-investment deals. It might not be long before the same is questioned over continuation fund deals.

The amount of capital raised by GP-led secondaries funds has doubled in recent years—from USD 27 billion in 2019 to USD 65 billion in 2021, according to Raymond James’ Cebile Capital unit. While continuation funds are on the rise, there isn’t a rush in LP demand for them. Just over 26 percent of LPs we surveyed said they would not buy into one if offered the chance. But slightly more (29 percent) said they would, with the balance of investors undecided (See Figure 18).

But these figures could change over the next 12 months, now knowing that some 47 percent have not been offered a continuation fund investment opportunity.

**Figure 18: Would you roll over your investment or buy into a continuation fund if offered the opportunity?**



# Macro and Sector Outlook

What a difference a year makes! This time last year, new COVID-19 variants were wreaking havoc on global trade and travel. Today, the issues LPs are most concerned about are arguably more diverse and complex, yet fortunately, not as life-threatening. That said, some LPs are still concerned about a resurgence of COVID and new variants (two percent), yet are overall less concerned this will impact the performance of their portfolios.

When it comes to making fresh commitments, North American fund managers and their access to regional alternative assets will attract the lion’s share of capital allocations over the next 12 months, said over 56 percent of LPs. The U.K. and Europe will also attract considerable capital for nearly 27 percent of investors (See Figure 19).

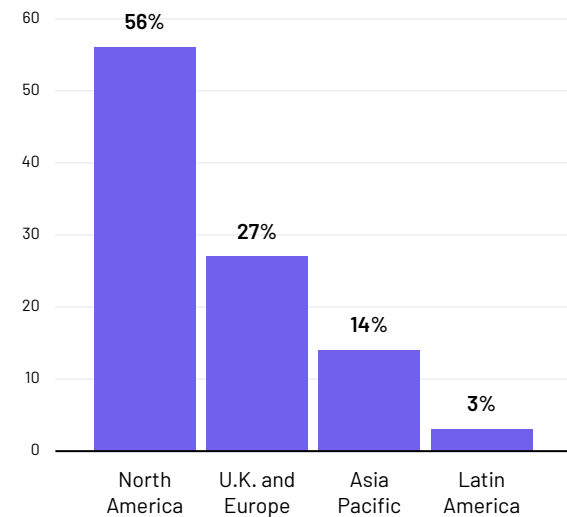
GPs, such as Vision Ridge Partners, which invests across real assets and private equity, are targeting niche market disruption investment opportunities in both markets. The firm’s founder, Reuben Munger, said the firm will focus predominately on North American targets for now but is also seeing opportunities arise from the Ukraine conflict.

“We have been focused on how niche opportunities within Agriculture can create an enduring market position, given the various disruptions and changes taking place in the marketplace,” said Munger in the *Private Equity Wire’s 2022 Performance Insight Report*.

“This also translates into core other parts of power infrastructure – as market volatility and

cost concerns are causing disruptions, they are also creating significant opportunity,” he said.

**Figure 19: Which region will you be favoring over the next 12 months when making capital allocations into alternatives?**



Asia Pacific is also growing in popularity with fund strategies, yet Latin America is not gaining the speed it possibly could.

**What everyone’s talking about: inflation**

Of all the market factors, inflation is leading the discussion among LPs, naturally is influencing fundraising strategies and fund caps, according to Recep Kendircioglu, co-portfolio manager and head of infrastructure investments at Manulife Investment Management. In November 2021, his firm closed its USD 4.65 billion Manulife Infrastructure Fund II.

“The discussion among limited partners last year was more about finding an alternative to fixed income. Today, that discussion is much more about inflation,” says Kendircioglu.

That said, more investors are expected to seek inflation hedge strategies this year and next. This development could mean more exposure

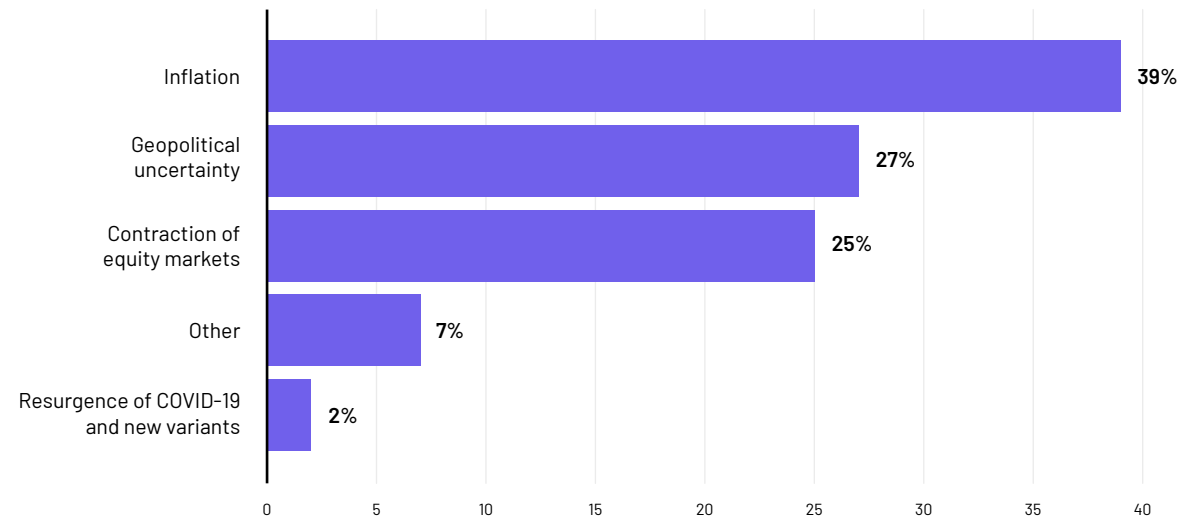
to “hard” asset classes, such as Infrastructure, which could tell a very different tale about risk-adjusted returns come this time next year (See Figure 20).

Geopolitical uncertainty and any sustained contraction in the equity markets are concerns LPs and GPs are taking seriously, as they impact the welfare of their portfolios.

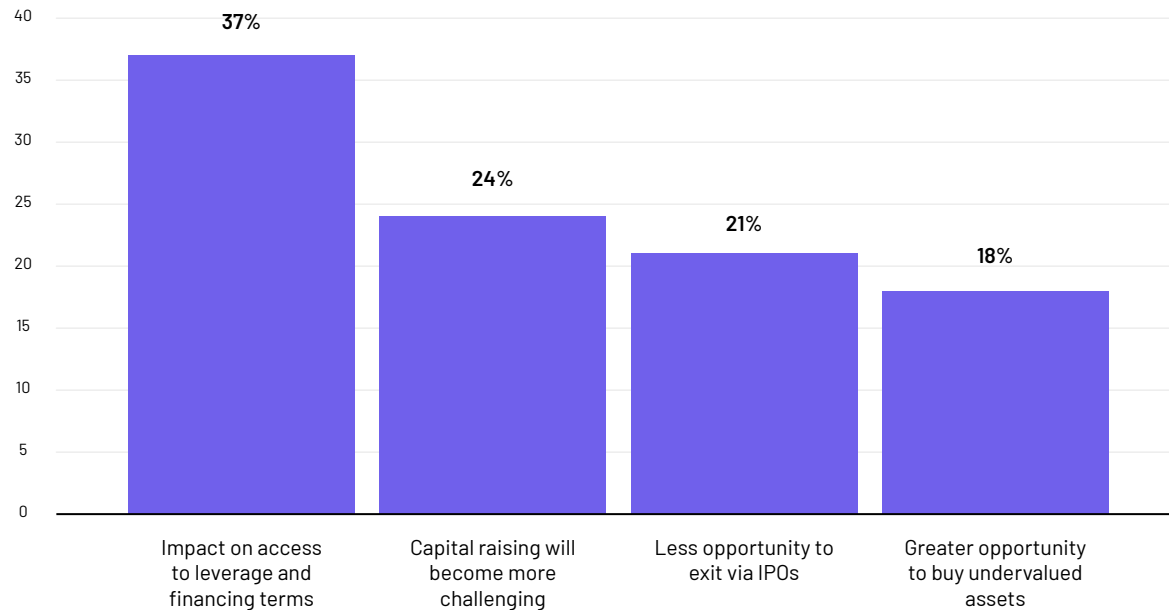
**If higher rates mean flatter multiples, then what?**

The next 12 months will present a new set of portfolio management and dealmaking challenges that could easily put even more pressure on GPs to meet past performance success.

**Figure 20: What are you currently most concerned about when it comes to the welfare of your alts portfolio?**



**Figure 21: If interest rates continue to rise, what will be the biggest impact on the PE space?**



Interest rates are expected to rise again, but perhaps not as much as first anticipated. However, if more uncertainty hovers over rising rates, LPs believe the biggest impact on the private equity space will be access to leverage and fair financing terms, which could impact or delay deal closings.

Capital raising is also expected to become more challenging, according to 24 percent of investors. Other concerns include fewer opportunities to exit via IPOs (21 percent), while others see a silver lining and find the changing economic landscape as an opportunity to buy undervalued assets (18 percent).

When LPs were asked what action they would take to generate higher returns if rising interest rates flatten multiples, LP responses were diverse, highlighting that investors can have different allocation strategies or capital call responsibilities. This reiterates the importance of frequent communication between GPs and LPs so both parties are aligned and forewarned of any shifts in asset allocations or cash flow (See Figure 21).

Should multiples flatten, some of the actions one LP would take include: “invest[ing] funds that specialize in shorting to gain more exposure to private debt while ensuring there is ample cash.” Another LP had shared a similar approach to invest in “opportunistic shorting and continue investing in GP economics.”

One LP said they would reduce exposure to hedge funds and increase in venture capital. Yet, other LPs said their hedge fund exposure is partly determined by what their funds would do

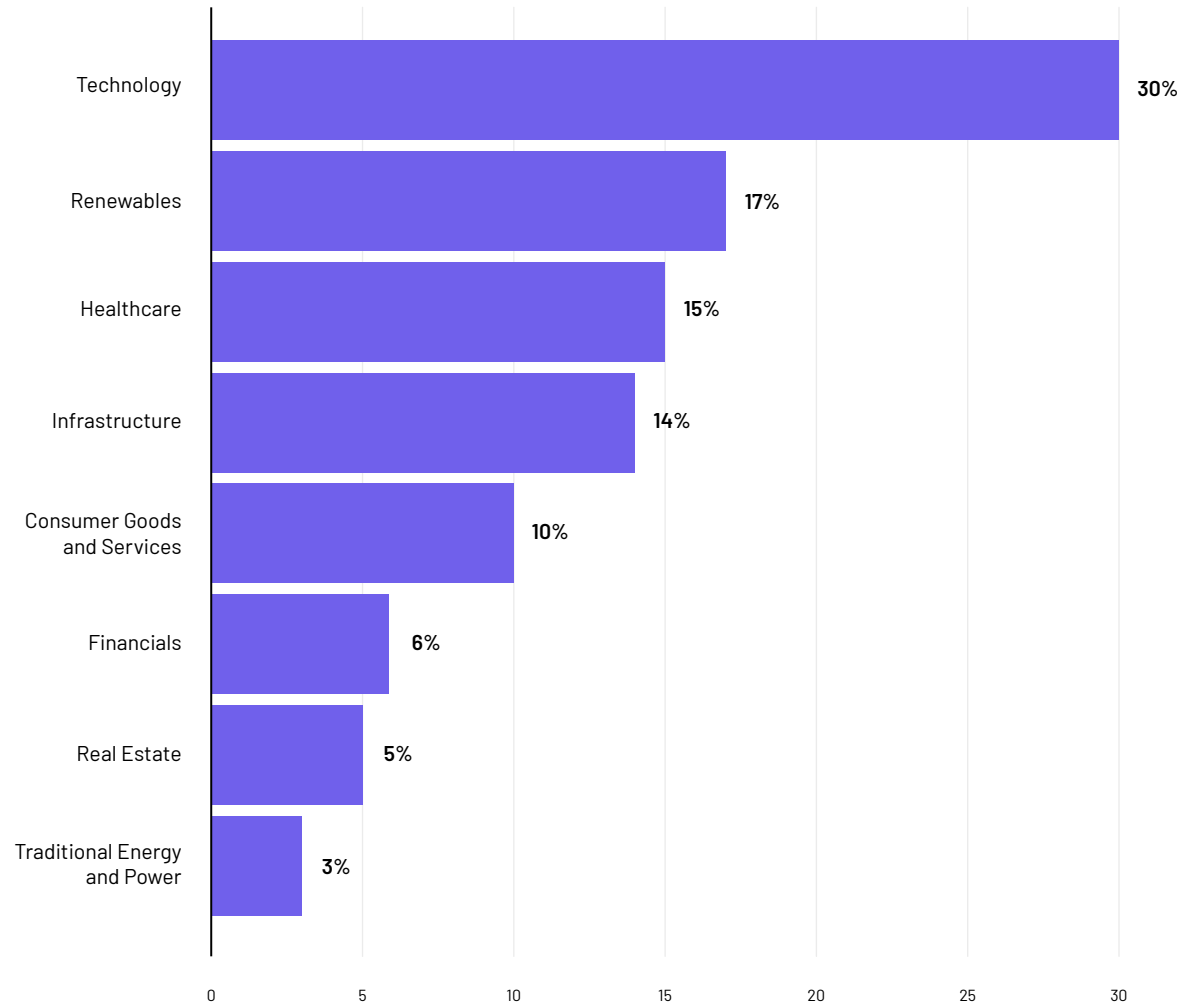
as multiples flatten. Others even see flatter multiples as an opportunity to "slowly allocate towards regions that could benefit from this."

**Sector selection**

Even though technology assets lose their luster in times of higher inflation, as investors look to more stable long-term plays like Infrastructure, Technology is still the top sector that LPs want to see managers invest in over the next year. Renewables is the second sector favorite, followed by Healthcare and Infrastructure (See Figure 22).

Despite energy company profits this year, traditional Energy and Power are not a top priority for LPs. Financials and Real Estate are also losing their appeal, according to the survey.

**Figure 22: Which one of the following sectors do you most want to see managers invest in?**



# Looking Forward

For the second consecutive year, alternative fund managers have largely met or exceeded LP performance expectations in what can be considered one of the most uncertainty-laden environments on record. However, celebrations have had to be short-lived, thanks to a heady cocktail of challenges and opportunities that have been added to the 2022/23 post-pandemic mix: inflation, rising interest rates, flatter multiples, the AIFMD review, sky-high fuel and energy prices and food and commodity shortages linked to the conflict in Ukraine (at the time of writing).

Despite these obstacles, the majority of LPs (71 percent) will increase their allocations to alternatives over the next 12 months. Many LPs are betting on private equity and macro hedge fund strategies to provide the best risk-adjusted returns over the next year.

Other asset classes could also prove growth drivers to others, such as private debt, which is set to replace bank debt on private market deals. Access to more private debt will ease LP concerns over leverage and financing terms. Private market leverage could also help push through the backlog of deals held up by a lack of bank debt on the market, pushing up deal numbers for the next 12 months. GPs with more opportunistic strategies will see interest rate rises as an opportunity to buy undervalued assets.

In light of these challenges, emerging managers are still coming to market. The main driver for LPs to allocate to emerging managers are niche strategy options, according to 29 percent of those surveyed, followed by a desire to access new talent (22 percent).

GPs, whether established or emerging, would be wise to keep on their toes when it comes to data transparency and ESG risk reporting if they want to retain and improve their relationships with new and existing investors. Nearly half of LPs said they intended to increase their ESG due diligence of GPs.

LPs revealed that the one thing that would probably improve their relationship with any GP was to hold more frequent conversations with portfolio managers and be provided better report analytics. Those GPs that embrace technology through bespoke in-house systems or outsourced services will be in a better position to navigate the dealscape of the next 12 months which, if history repeats itself, will be another record year for alternatives.

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