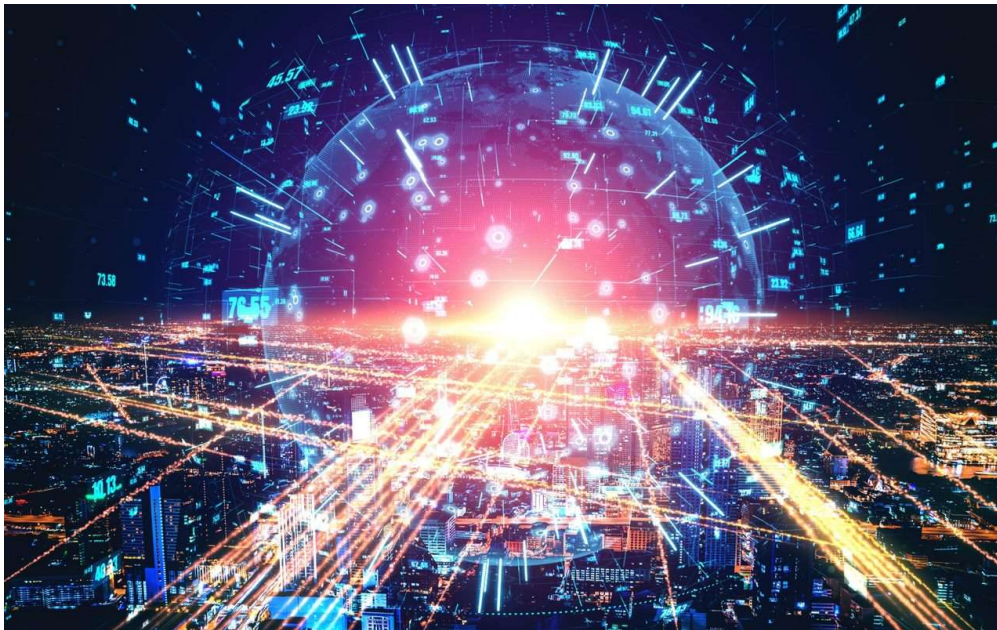


Investing in alternatives: how to generate absolute returns in a crowded field

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Strong internal processes help GPs run leaner and enable other teams to focus outward



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Outperformance over time, among other factors, has led to significant growth in the assets under the management of alternative asset classes (Alt AUM). After growing at a frenetic annualised pace of 10.2% between 2004 and 2020, Alt AUM is expected to continue its growth trajectory at 9.8% until 2025 to reach \$17.2tr. Within alternative investments, private equity (PE) is expected to grow much faster, at a CAGR of 15.6% until 2025, to reach \$9.1tr.

That growth in AUM and its overall importance in the investment mix, has also led to Limited Partners (LPs) demanding ever greater returns. While one way for General Partners (GPs) to find that outperformance has been to target newer, more exotic avenues for investment (cryptocurrency, NFTs, etc), rising fee competition and cost pressures have also led LPs, commensurately, to look inward at their own systems to amplify overall performance.

Among other protocols, LPs are increasingly demanding a focus on transparency and seamless data sharing from their GPs to enable more informed risk management decisions, thereby forcing the need for greater integration and fluidity between systems and processes.

Surprisingly, a large part of the investment management world still relies on outdated in-house manual systems, prodigious workflows, and multiple disparate third-party vendors. A majority of global investors in alternatives believes that inconsistent reporting formats (73%) and insufficiently detailed information (66%) from fund managers are critical challenges hindering the investment process.

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Equipped AI, a provider of financial solutions to the alternative assets industry, notes the annual revenue of the market for deal flow management is estimated to be worth \$5.7bn and is projected to grow at an annual rate of ~20%.

Investment managers continue to highlight the enormous struggle to get a clear bird's eye view of their respective pipelines and expected performance, due to the sheer limitations of multiple, disjointed systems. A lot of interest is in the areas of reporting, fund operations and ESG compliance management through integrated technology stacks to help drive insights from a mix of proprietary and public data.

Another challenge faced by GPs is in having access to a coherent management of data across multiple sources. Not only can the missed opportunity from poor analysis of large data sets be a hindrance on overall fund performance, but such oversight can lead to an inadequate leveraging of

developing macroeconomic themes.

The alternative investment space lends itself to cutting-edge artificial intelligence (AI) driven tools given that predictive modelling using machine learning (ML) can noticeably enhance IRRs. It therefore comes as no big surprise that most fund managers are actively looking to harness big data in more impactful ways including ML and other advanced data science applications.

This trend will increase significantly over the coming years. The key drivers of that dynamic change will be external providers, including technology firms, data providers, consultancies, and professional services firms, who have the scale and business models to develop practical solutions.

Another topic that has gained escalating prominence is sustainability. While the ESG metrics have been around for over two decades, it is only now that we see shareholder activism leading to ESG becoming an increasingly vital part of the investment equation. As a result, ESG presents both as an opportunity and a challenge.

While none of the prominent vendors in the market currently provide a dedicated ESG assessment tool, ESG compliance has led to investment managers assembling more and more diverse data sets with a growing desperation for solutions to help with the intelligent management of a growing deluge of information.

I welcome the elusive search for alpha within the public markets finding its way into the alternative space with a vengeance. While the cost of money has democratized access, the ability to efficiently navigate the mechanics of the deal flow management will continue to differentiate and unlock that critically important competitive advantage.