

Content Includes:

Following the referendum on the UK's membership of the EU, Preqin surveyed over 140 alternative investment fund managers and over 50 institutional investors to find out their views on the impact Brexit will have on their investments.

Location of Business Operations

Only 7% of UK-based alternative fund managers are currently considering moving operations outside the UK, although a further 17% are uncertain at this early stage after the Brexit vote.

UK and EU Investments

A higher proportion of hedge fund managers will make more UK investments as a result of Brexit in the year ahead than private capital firms, although the reverse is true in the longer term.

Views on Performance

Majority of both fund managers and investors believe that Brexit will not have a negative impact on the performance of their portfolio in the next 12 months.

Preqin Special Report: Impact of Brexit on Alternative Assets

July 2016





The Alternatives Industry in the UK and EU

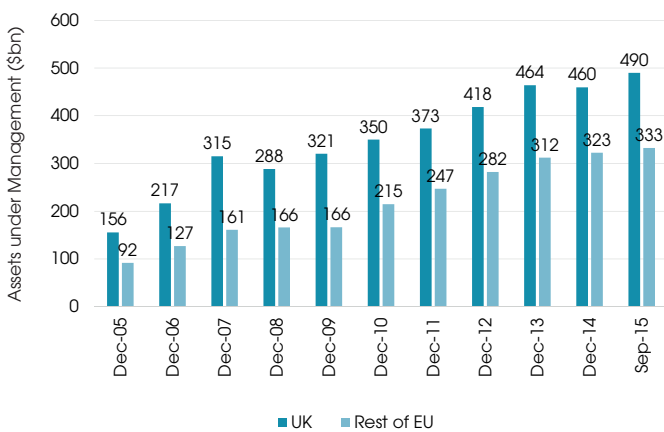
Both the UK and EU (excl. UK) alternatives industries have grown in recent years, although the assets under management* (AUM) of the UK industry is larger for both private capital** and hedge funds. UK private capital AUM stands at a record \$490bn, an increase of \$30bn between the end of Q4 2014 and the end of Q3 2015 (the most recent data available, Fig. 1). Private capital AUM in the rest of the EU stands at \$333bn as of Q3 2015, and has seen a 55% increase in assets from December 2010, compared

to 40% growth for the UK industry as a whole in the same period.

There is a much wider spread between the size of UK and rest of EU hedge fund industries, mainly due to London's role as a financial centre and the high concentration of hedge funds based there (Fig. 2). As of March 2016 (the most recent data available), AUM of the UK hedge fund industry was \$472bn, nearly 3.5 times the size of the EU hedge fund industry.

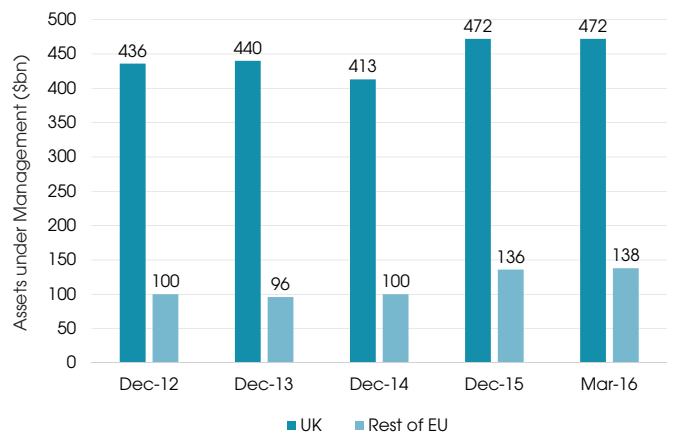
In most alternative asset classes, UK fund managers are outnumbered by those headquartered in the rest of the EU, with the exception of natural resources and hedge fund managers that are predominantly based in the UK (Fig. 3). The numbers of institutional investors in each alternative asset class follow a similar trend to the locations of fund managers, with the exception of natural resources (Fig. 4).

Fig. 1: Private Capital Assets under Management over Time: UK vs. Rest of EU, 2005 - 2015



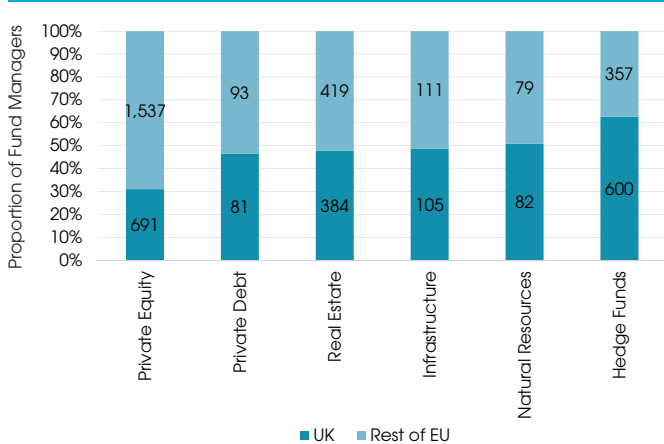
Source: Preqin

Fig. 2: Hedge Fund Assets under Management over Time: UK vs. Rest of EU, 2012 - 2016



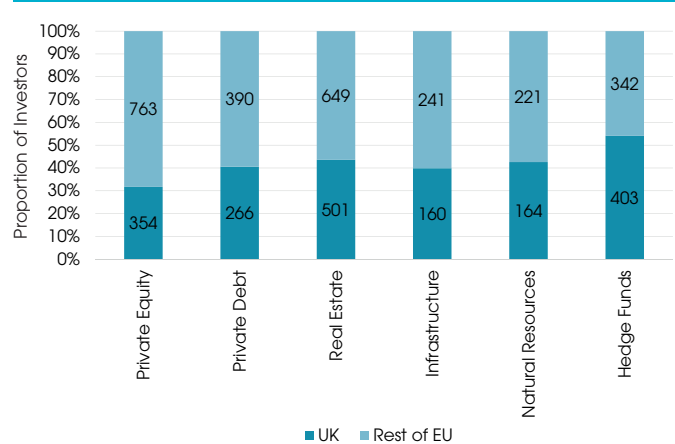
Source: Preqin

Fig. 3: Number of Fund Managers by Asset Class: UK vs. Rest of EU (As at 1 July 2016)



Source: Preqin

Fig. 4: Number of Institutional Investors by Asset Class: UK vs. Rest of EU (As at 1 July 2016)



Source: Preqin

* Private Capital AUM is defined as uncalled capital commitments plus unrealized value of portfolio assets

**Private Capital includes Private Equity, Venture Capital, Real Estate, Infrastructure, Private Debt and Natural Resources

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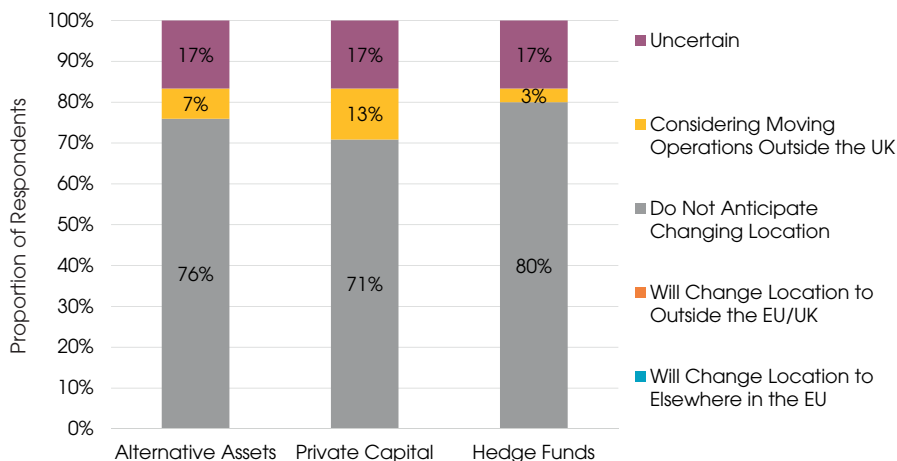
Fund Manager Views on Brexit

The referendum on the UK's membership of the EU on 23 June 2016 saw a majority vote in favour of leaving the Union, with the result leading to volatility and uncertainty both politically and in the markets. In light of the result, Preqin surveyed 142 alternative investment firms (75 closed-end private capital fund manager and 67 hedge fund managers) to determine their future investment plans in the UK and the rest of the EU over both the short and long term, as well as the impact Brexit is likely to have on their portfolios and business operations.

While there will be no immediate exodus of UK-based alternative asset fund managers, there are notable proportions of managers that are considering their position (7%) or are uncertain (17%) about their operations remaining in the UK (Fig. 5). Private capital fund managers are more likely to be considering a move than hedge fund managers (13% vs. 3% respectively). No UK-based respondents stated that they will definitely move some of their business operations from the UK as a result of Brexit, and the vast majority are not anticipating any changes to business operations in the future.

The largest proportion (45%) of private capital managers believe the Brexit decision will have no effect on their

Fig. 5: UK-Based* Fund Manager Views on Whether Brexit Will Lead to a Change in the Location of Their Business Operations



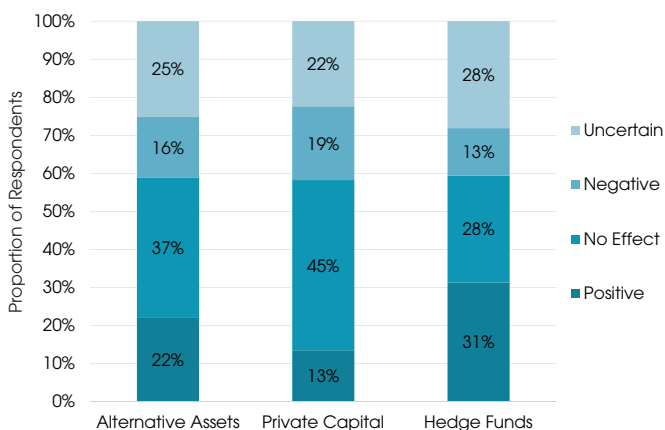
Source: Preqin Fund Manager Survey, July 2016

portfolio in the next 12 months (Fig. 6). Hedge fund managers were more positive regarding the short-term impact, with 31% stating they thought the referendum results were set to have a positive impact. Shortly after the results of the referendum were announced, perhaps unsurprisingly, approximately a quarter of all respondents remain uncertain of the implications.

Fund managers are much more uncertain of the longer term impact of Brexit on their portfolios (stated by 38%

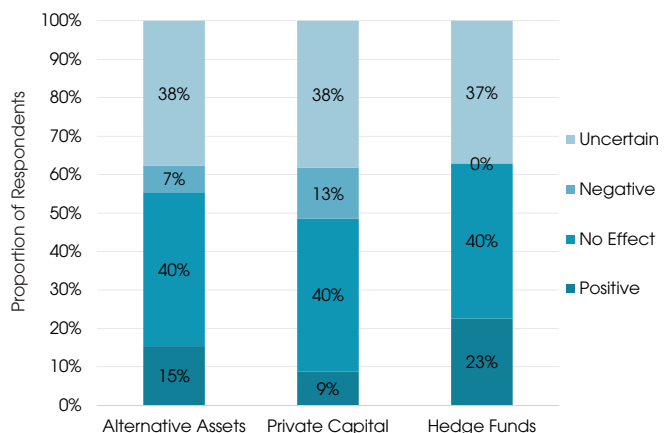
of respondents), although 40% believe it will have no effect in the long term (Fig. 7). Again, hedge fund managers were more optimistic, with no respondents believing it will negatively affect their portfolio, and 23% believing that the longer-term impact will be positive. Private capital firms are more nuanced in their views on the long-term impact, with similar proportions believing the impact will be positive (9%) and negative (13%).

Fig. 6: Fund Manager Views on the Impact of Brexit on the Performance of Their Portfolios in the Next 12 Months



Source: Preqin Fund Manager Survey, July 2016

Fig. 7: Fund Manager Views on the Impact of Brexit on the Performance of Their Portfolios over the Longer Term



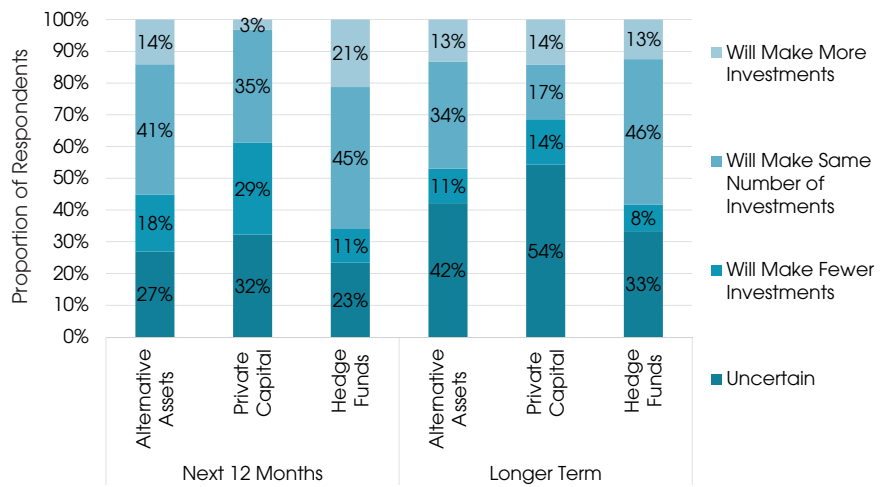
Source: Preqin Fund Manager Survey, July 2016

*UK-Based refers to managers with one or multiple offices in the UK.



The largest proportion (41%) of managers will continue to make the same number of investments in the UK in the next 12 months as expected before the result of the referendum was announced (Fig. 8). Private capital managers are more bearish than their hedge fund counterparts: 29% believe they are likely to make fewer UK investments, compared with 11% of hedge fund managers. In the longer term, again there is a greater level of uncertainty, with more than half of private capital managers and a third of hedge fund managers unsure of the impact of Brexit on the number of UK investments they will make in the longer term, with very similar proportions thinking that UK investments could increase or decrease.

Fig. 8: Fund Manager Views on the Impact of Brexit on Future Investments in the UK



Source: Preqin Fund Manager Survey, July 2016

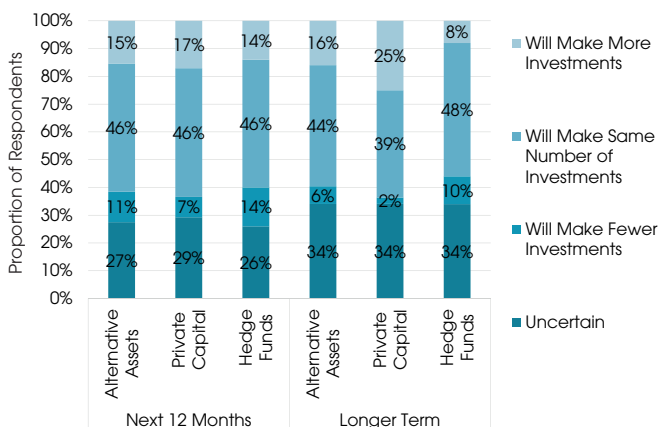
Hedge fund managers are split on the impact of Brexit on the number of investments they make in the rest of the EU over the next year: 14% will seek to make more investments, while the same proportion will make fewer investments (Fig. 9). Private capital fund managers are more assured of EU prospects over both the short and long term; in particular, a quarter of private capital managers plan to make more investments in the EU in the longer term, compared with

just 2% that anticipate making fewer investments.

The initial impact of the Brexit announcement on hedge fund performance has been mixed. While 27% of hedge fund managers reported it has had a positive effect on their recent performance, more managers have seen either a negative effect (34%) or

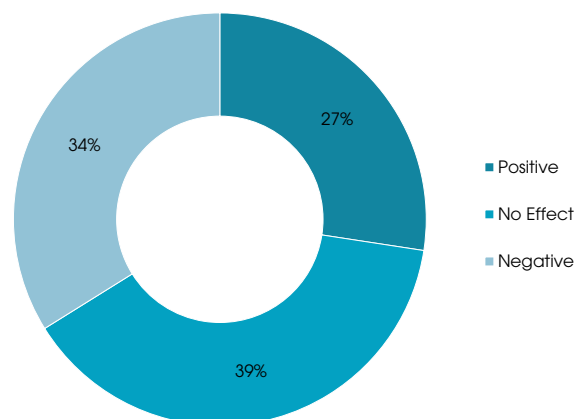
no effect (39%, Fig. 10). Of those that saw an impact, many managers were seeing a minimal negative impact on absolute returns of between 0% and -2.5%, although one manager stated that this was “outperformance relative to the public markets”. Others felt that “Brexit just caused more volatility [for their fund]”, while another manager saw “new opportunities” in the market.

Fig. 9: Fund Manager Views on the Impact of Brexit on Future Investments in the Rest of the EU



Source: Preqin Fund Manager Survey, July 2016

Fig. 10: Hedge Fund Manager Views on the Impact of Brexit on Their Performance since the Result of the Referendum



Source: Preqin Fund Manager Survey, July 2016

Data Source:

Preqin’s online products contain detailed information on more than 24,000 alternative assets fund managers worldwide, covering private equity, venture capital, hedge funds, real estate, infrastructure, private debt and natural resources.

For more information, please visit: www.preqin.com



Investor Views on Brexit

Preqin also surveyed 50 institutional investors globally to discover what impact the UK's decision to exit the EU will have on their portfolios. While most institutional investors in alternatives felt that Brexit would not have an impact on the performance of their portfolios in the next 12 months, more felt the impact would be negative (29%) rather than positive (15%). In a similar vein to the fund manager survey, more investors felt the impact would be positive for hedge fund performance (35%) than for private capital (12%). More hedge fund investors felt it would be positive than private capital investors (35% vs. 12%, Fig. 11).

The impact of Brexit on institutional investment in UK alternatives is set to be

significant; 41% of investors will invest less in the UK in the next 12 months as a result of Brexit, with investors more likely to invest less in UK-focused private capital strategies (43% of respondents) than they are in hedge funds (31%, Fig. 12). In the longer term, more alternative investors seeking to reduce exposure to UK investments than are seeking to increase exposure. However, the majority believe there will be no change to their UK investment activity over the longer term.

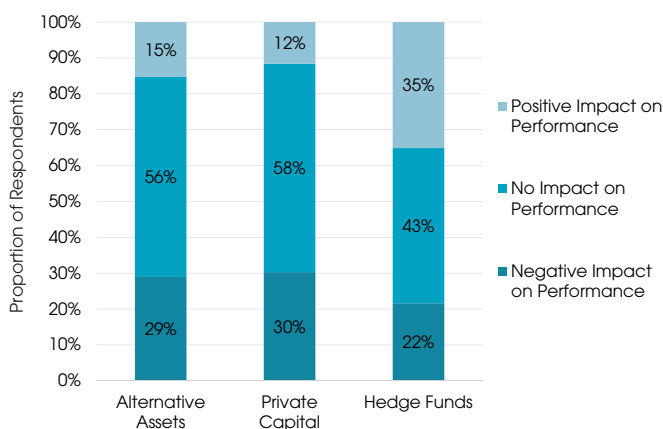
Seventy percent of investors believe Brexit will have no impact on their alternative investment activity in the rest of the EU in the next 12 months, although significantly more investors consider

themselves likely to invest less in the EU over the coming 12 months (23%) than more (7%, Fig. 13).

In the longer term, the majority of investors (75%) feel that there will be no impact on their investments in the EU, but also there is a skew towards more investors feeling that a long-term reduction in EU investments is more likely (15%) than an increase (10%).

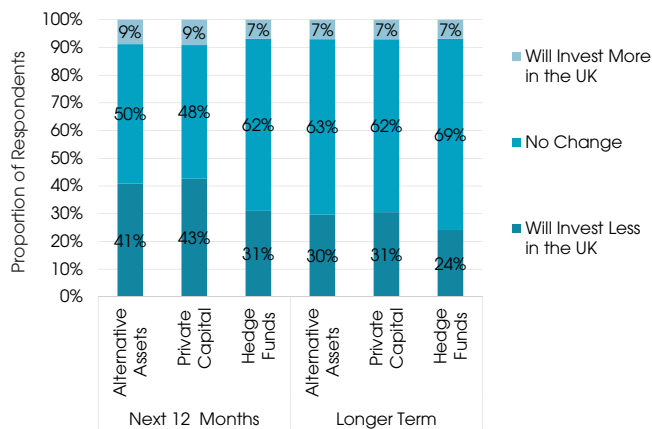
Almost a quarter (24%) of investors will invest with fewer UK-headquartered fund managers in both the short and long term (Fig. 14). However, the vast majority anticipate no changes to their manager relationships across both timeframes.

Fig. 11: Investor Views on the Impact of Brexit on the Performance of Their Alternative Asset Portfolios



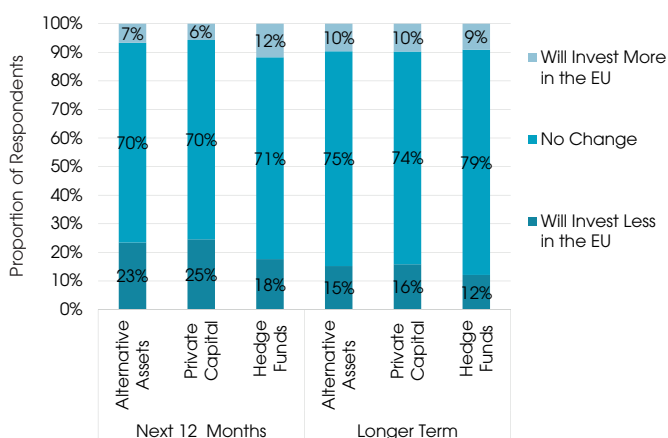
Source: Preqin Investor Survey, July 2016

Fig. 12: Investor Views on the Impact of Brexit on Future Alternative Investments in the UK in the Next 12 Months



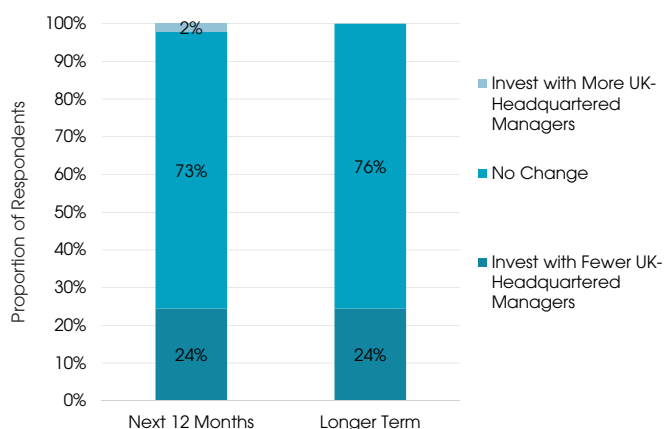
Source: Preqin Investor Survey, July 2016

Fig. 13: Investor Views on the Impact of Brexit on Future Alternative Investments in the Rest of the EU in the Next 12 Months



Source: Preqin Investor Survey, July 2016

Fig. 14: Investor Views on the Impact of Brexit on Investment with UK-Headquartered Alternative Fund Managers



Source: Preqin Investor Survey, July 2016

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One Grand Central Place
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New York
NY 10165

Tel: +1 212 350 0100

Fax: +1 440 445 9595

London:

3rd Floor
Vintners' Place
68 Upper Thames Street
London
EC4V 3BJ

Tel: +44 (0)20 3207 0200

Fax: +44 (0)87 0330 5892

Singapore:

One Finlayson Green, #11-02
Singapore 049246

Tel: +65 6305 2200

Fax: +65 6491 5365

San Francisco:

One Embarcadero Center
Suite 2850
San Francisco
CA 94111

Tel: +1 415 316 0580

Fax: +1 440 445 9595

Hong Kong:

Level 9, Central Building
1-3 Pedder Street
Central, Hong Kong

Tel: +852 3958 2819

Fax: +852 3975 2800

Manila:

Pascor Drive
Sto. Niño
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