The Retail Alternatives Phenomenon

What enterprising private fund managers need to know

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It is no overstatement to say that the move toward alternative investing has been among the farthest-reaching developments in institutional investing over the last quarter century. The past decade has seen two waves of particularly rapid growth. Between 2005 and 2007, global alternative asset classes managed by various types of managers[1] nearly doubled, from $2.9 trillion to $5.7 trillion. After a pause in 2008, as shocked investors regained their bearings and took stock, the importance of non-correlation and hedging truly hit home. Global alternative assets under management (AUM) then rose to a record level of $6.5 trillion by the end of 2011, with a growth rate far outpacing that of traditional asset classes during this period.[2]

Now a **third** wave of growth in alternative investing is underway, only this time it is encompassing the mainstream. Alternatives are migrating from institutional to retail markets, just as the use of asset allocation models did several decades back.

[1] Including investments in hedge funds, private equity funds, real estate, infrastructure, and commodities in vehicles including LPs, funds of hedge funds, managed accounts, mutual funds and Undertakings for the Collective Investment in Transferable Securities (UCITS).

[2] McKinsey & Company, *The Mainstreaming of Alternative Investments*, June 2012.

Alternative strategies traditionally utilized by hedge funds are increasingly being packaged as mutual funds in the U.S. and as UCITS in the European market. And why not? It is not just institutions who desire diversification and non-correlated returns—individuals do, too.

Based on the recent growth of hedge-style mutual funds, the blend of alternative strategies with the transparency, liquidity and regulatory oversight of regulated retail investment vehicles has growing appeal to financial advisors and their clients. Even in the defined contribution (DC) retirement plan market, which has tended to skew conservative, non-traditional investments, such as real estate investment trusts (REITs), are gaining traction, paving the way for an array of alternative strategies.

For private fund managers, this is a sea change that could open up a whole new area of opportunity—indeed, one that could potentially dwarf the institutional market. Yet, to those steeped in the rarefied world of hedge funds and private equity, the retail landscape is like a foreign country—one that is distinctly different in terms of its culture, product development, marketing and distribution, regulatory framework and operational environment, not to mention fee structures.

While the challenges involved in stepping across this chasm are not to be underestimated, a number of leading private fund managers have not only made the leap into the retail market, but have also committed to expanding their retail footprints in the years to come. This paper explores the opportunities this trend presents to private fund managers, as well as the decisions and hurdles they will need to navigate along the way.

Key Findings

- Retail alternatives—that is, investment strategies traditionally utilized by private hedge and private equity funds packaged for individuals, generally as mutual funds or UCITS—are a rapidly emerging sector of the asset management industry.
  - Assets in U.S. alternative mutual funds and Exchange Traded Funds (ETFs) have more than doubled since 2008, and now represent 883 portfolios with more than $550 billion in assets.[3] Alternative UCITS have grown on a similar trajectory.
  - Nearly three-quarters of financial advisors currently utilize alternative strategies, and an equal percentage say they have increased their usage over the past year.[4]
  - Some well-known private fund managers, including AQR, Morgan Stanley Alternatives Investment Partners, Blackstone Group, Carlyle Group, Apollo Global Management and Visium Asset Management, have already launched or filed for retail products.
  - Industry analysts, such as McKinsey & Company, predict that alternatives' share of the U.S. mutual fund market will double from 2010 to 2015, and they are expected to account for nearly one-fourth of all retail revenue by the end of that period.
- This trend presents private fund managers with a vast new market at a time when the growth of institutional allocations to alternatives may be slowing. In addition to its size and growing momentum, the retail market offers private fund managers the chance to diversify their revenue streams, earn more consistent fees, and market their capabilities with fewer restrictions.

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[3] Strategic Insight SIMFUND.

[4] *Financial Advisor*, "Ready or Not, Alternative Investments Are Going Mainstream," December 6, 2012; *Financial Advisor*, Private Wealth, Skybridge Capital, "Alternative Investments Survey 2012," August 2012.

- Retirement plans, especially DC plans, may be the most attractive target for private fund managers. They are also a logical point of entry to the retail market, in that managers can market through professional plan consultants and platform gatekeepers rather than directly to individuals, allowing for economies of scale and more efficient routes for investor education.
  - DC plans had nearly $5.1 trillion in assets at the end of 2012, about 60% of them managed via mutual funds.[5]
  - While the DC market historically has been out of reach to alternatives, plan sponsors have begun investing in real estate, inflation-protected Treasurys and commodities in search of greater yield potential. Multi-asset strategies that provide one-stop allocation solutions are also gaining traction.
  - Alternatives are also entering the DC market through asset allocation products, such as target-date funds. Alternative managers may participate either by managing sleeves within asset allocation portfolios or by introducing stand-alone products.
- For private fund managers, however, moving into the retail market will be no easy matter. Beyond dealing with cultural and regulatory differences, they will need to develop specialized distribution expertise and infrastructure, commit substantial resources to education, and be willing to wait for profitability.
  - The distribution of retail alternatives is complex, involving a maze of sales channels, specialized consultants and intermediary platforms. To be successful, managers will need to develop marketing strategies, understand platform requirements, maintain specialized sales teams and populate key industry databases, among other steps.
  - Another major challenge is educating advisors and investors on how alternative strategies work and how they fit into investor portfolios. Based on survey data, nearly half of individual investors say they have little or no understanding of alternatives, and 64% said they would need to learn more before investing—although about half said they would consider alternatives if recommended by their advisors.[6]
  - Distribution platforms generally require a three-year track record, among other metrics, to consider including an alternative fund on a retirement plan menu. Given the dearth of long-term retail alternative product performance track records, managers who want to compete in the retail space should thus incubate strategies in a registered format as soon as possible.[7]
  - Private fund managers should also remember that the institutional market remains a major source of opportunity. Institutional allocations to alternatives continue to increase, and institutions have also shown some interest in hedge strategies packaged with retail vehicles.
  - Before launching a retail alternative product, managers must thoughtfully consider a number of decisions, including the suitability of the investment strategy, the best vehicle for retail packaging, whether to be a direct sponsor or sub-advisor of the fund, whether to launch a stand-alone fund or join in a shared trust structure and pricing.

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[5] Investment Company Institute.

[6] Financial Advisor, Op. Cit., December 6, 2012.

[7] Recent SEC no-action letters technically do not allow the inclusion of performance of a predecessor partnership (such as a hedge fund) in the summary prospectus of a mutual fund.

Alternatives Go Mainstream

Given market conditions in the last five years, the demand for retail alternatives is not difficult to understand. It appears that individual investors are moving to absolute-return investing and embracing alternative strategies for the same reasons institutional investors have: they need to tamp down volatility, hedge against major downturns and bridge the gap between actual and targeted returns. It's no surprise that nearly three-quarters of financial advisors are currently using alternatives, according to Cogent Research,[8] and a poll done by *Financial Advisor* and *Private Wealth* magazines found that 75% of advisors had increased their clients' allocations to alternatives in the prior year (see Figure 1).[9]

FIGURE 1. ADVISOR USE OF ALTERNATIVES

Advisor usage: **74%** of advisors utilize alternative strategies

Change in advisor usage: **75%** of advisors in the past year have increased their allocation to alternative assets

Investor demand: **53%** of investors would consider using alternative investments

Source: *Financial Advisor*, *Private Wealth*, Skybridge Capital, "Alternative Investments Survey 2012," August 2012

Retail alternative products are most often offered as mutual funds, with a small percentage packaged as ETFs. Alternative ETFs, however, are typically invested in commodities (such as the $63 billion SPDR Gold Trust and the $11 billion iShares Gold Trust[10]) while mutual funds are the primary vehicle for hedge and private-equity-style strategies.

A groundswell of interest

Advisor and investor demand for retail alternatives has been growing at a healthy pace. Assets in domestic U.S. alternative mutual funds and ETFs have more than doubled since 2008, reaching a record $554 billion at the end of 2012, according to Strategic Insight. Annual net flows since 2008 have averaged $50 billion, albeit with a slowdown in 2012, presumably due to the strong equity market rally (see Figure 2). Based on a somewhat differing definition of the marketplace, McKinsey estimates that assets in retail alternatives have grown by 21% annually since 2005, and now stand at roughly $700 billion; its definition encompasses a broader range of products including commodities, currencies, managed futures, and market-neutral strategies.[11]

Fund managers' participation in the retail alternative market has also taken off, growing from 353 portfolios offered by 112 investment managers in 2008 to 883 portfolios offered by 267 investment managers at the end of 2012 (see Figure 3).

[8] *Financial Advisor*, Op. Cit., December 6, 2012.

[9] *Financial Advisor*, Op. Cit., August 2012.

[10] As of February 2013.

[11] McKinsey & Company, Op. Cit.

What are "retail alternatives," anyway?

The lack of clarity starts with the term "alternatives," which has itself been only fuzzily defined. The absence of a standard definition has been a continuing source of confusion within both the industry and the investor population.

Lipper offers an inclusive definition that serves as a general guide, defining funds as alternative if they "invest in alternative assets, usually by using a derivative hedge strategy and is therefore a member of either a hedge fund sector (unregulated funds) or an alternative sector (regulated retail or wholesale funds)." It further describes alternative investments as "portfolios that generate correlation benefits to traditional, long-only-constructed funds, as well as portfolios that implement a hedge fund–like strategy often incorporating one or a combination of the following: leverage, derivatives, short positions and/or multiple asset classes." Other research firms have similar but not identical definitions.

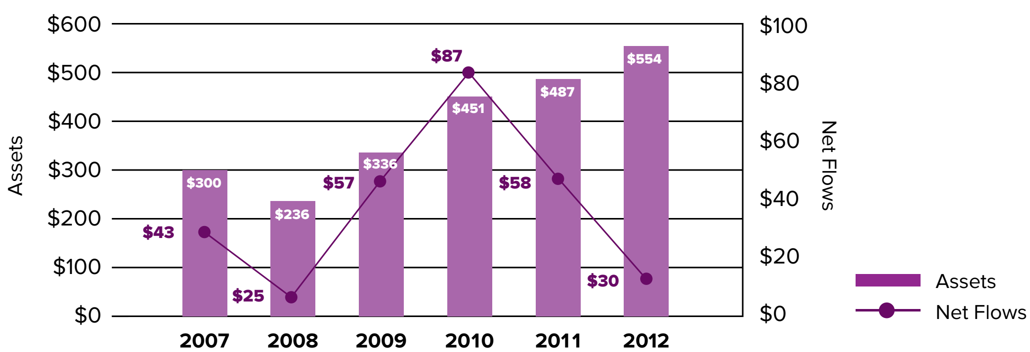
Retail alternatives—also known as liquid alternatives, registered alternatives, '40 Act[12] alternatives, and Newcits—refers to alternative strategies packaged in vehicles that provide daily (or for UCITS, no fewer than twice monthly) pricing and liquidity, in accord with U.S. and European regulations for investments that are broadly marketed to the public. Typically, these are structured as mutual funds in the U.S. and UCITS in Europe, but they may also be packaged as ETFs or managed accounts (although researchers do not always include ETFs in their definitions of the retail alternatives marketplace).

[12] The Investment Company Act of 1940, an act of Congress.

Alternative UCITS, sometimes dubbed "Newcits," have displayed a similar growth trajectory to mutual funds. From just €5.4 billion at the start of 2002, their AUM grew to €37.6 billion as of January 2009, mushrooming to nearly €150 billion as of October 2011, according to PerTrac.[13] With all UCITS funds adding up to €5.63 trillion at year-end 2011,[14] alternative UCITS account for a small but growing percentage. It is important to note that while UCITS are structured in accordance with European Union (EU) regulations, they are marketed across 70 countries, and an estimated 40% of total worldwide sales occur outside the EU.[15] This arguably makes them the vehicle of choice for managers who want to market both in the U.S. and globally.

Industry analysts and databases are also devoting more attention to retail alternatives, another sign that alternatives are quickly becoming a core retail asset class. This development is especially significant because it reflects rising interest from financial advisors and distribution platform gatekeepers. Morningstar, a leading investment research firm, has been significantly expanding its alternatives coverage, adding categories ranging from commodities to multi-asset and market-neutral strategies; in 2012, it also began rating alternative mutual funds and inaugurated a Fund Manager of the Year Award for the alternatives category. Strategic Insight and Lipper have likewise increased their coverage of retail alternatives.

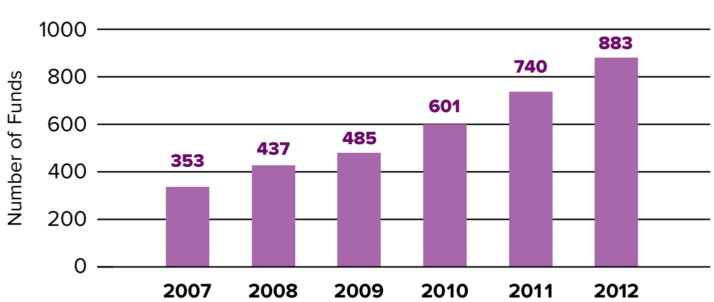
FIGURE 2. ASSETS/NET FLOWS IN U.S. ALTERNATIVE MUTUAL FUNDS AND ETFS ($ BILLIONS)



Source: Strategic Insight SIMFUND

Note: The following categories are included as part of the alternatives mutual fund and exchange traded product market sizing: alternatives, commodities, currency, GTAA, non-traditional bond, and world allocation.

FIGURE 3. NUMBER OF U.S. ALTERNATIVE MUTUAL FUND AND ETF PORTFOLIOS



Source: Strategic Insight SIMFUND

[13] PerTrac, "The Coming of Age of Alternative UCITS Funds," January 2012.

[14] Efama, "Investment Fund Industry Fact Sheet," December 2011. UCITS grew to €6.3 trillion by year-end 2012.

[15] UCITS XXV special publication, April 2013.

High-profile trailblazers

Until recently, most alternative mutual funds and ETFs have been launched by traditional managers, including some industry giants, such as BlackRock, as well as smaller firms and specialized boutiques. Most traditional managers in this space have developed alternatives expertise either by acquiring or investing in an alternatives-focused firm, or by outsourcing the investment function to sub-advisors specializing in alternative strategies.

For a variety of reasons, cultural differences and start-up costs being not the least of them, private fund managers have been slower to climb on board the trend. Industry sources say only 19 hedge fund firms have moved into the retail market thus far, either by translating selected hedge fund strategies into mutual fund form or by developing alternative strategies specifically for the retail market, although "expectations are that the trend will build over the long term."[16]

Private equity and hedge fund firms that have either already launched or filed for retail products include such attention-getting names as AQR, Morgan Stanley Alternative Investment Partners, Kohlberg Kravis Roberts, Blackstone Group, Carlyle Group, Apollo Global Management and, more recently, Visium Asset Management. In some cases they have set minimums as low as $2,500. Among those that have entered the retail space, AQR has made the most decisive moves, having thus far launched 20 mutual funds that have attracted $9.2 billion in assets.[17]

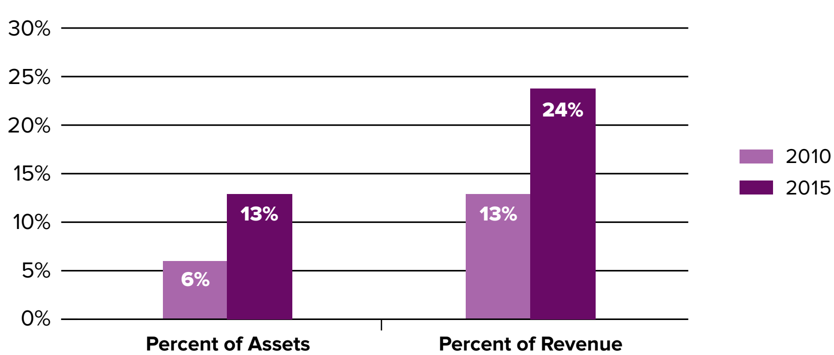
A nascent trend

Forecasts suggest that retail alternatives' growth to date is just the beginning. By 2015, they are expected to account for $25 billion in revenues—a quarter of all retail revenue—and a majority of retail revenue growth, according to a global, multi-year study by McKinsey & Company[18] (see Figure 4). The study also predicts that by 2015, alternatives will represent 13% of the mutual fund market, more than double their 2010 share.

A recent Casey Quirk study is similarly bullish on the retail market, predicting that individual investors will drive the demand for alternative strategies. It predicts that AUM in those strategies will grow at a compound annual rate of 10.2% among mass affluent investors and 9.3% in the high-net-worth segment, as opposed to 7.7% among institutions.[19]

Other studies by Cerulli Associates and Financial Research Corporation differ somewhat in their specific numbers, but agree on the direction and magnitude of the trend: retail alternatives have not only arrived, but are growing with strong momentum.[20]

FIGURE 4. GROWTH FORECASTS FOR ALTERNATIVE MUTUAL FUNDS' MARKET SHARE



Source: McKinsey & Company

[16] *Hedge Fund Alert*, "Hedge Funds Plodding Into Mutual Funds," April 10, 2013.

[17] Ibid.

[18] McKinsey & Company, Op. Cit.

[19] Casey Quirk, The Complete Firm, February 2013.

[20] *Investment News*, "Alternative mutual fund strategies set for rapid growth: Cerulli," July 17, 2012; *Investment News*, "Embracing liquid alternatives for investors at all levels," November 25, 2012.

The Appeal to Private Fund Managers

The migration of alternatives into the retail space comes at a propitious time for private fund managers. While institutional investors have spearheaded the growth of alternatives and continue to increase their allocations, the industry is maturing, suggesting that allocations may not grow as rapidly in the future as they have in the past.

Private funds are also facing performance challenges. As detailed in recent SEI studies,[21] today's climate of slower economic growth, low yields and elevated asset-class correlations make it difficult for hedge and private equity funds to live up to their past outperformance. As a result, institutional investors are increasingly questioning hedge and private equity fund fee structures, seeking better value for their investments. They are also continuing to escalate their demands for transparency and intensify their due diligence processes.

This is not to say that the institutional market is no longer attractive. On the contrary, with its huge base of "sticky" assets and emphasis on non-correlated returns, it continues to present growth opportunities. Indeed, recommending that institutional investors "go big or go home," some investment consultants suggest that institutions should increase their allocations to alternative investments to the 35% to 40% range.[22] Industry publications also regularly report new institutional alternative allocations in excess of $100 million or even $500 million.

At the same time, with upwards of 15,000 hedge funds and private equity funds[23] vying for market share, the competition for new assets has increased dramatically. Smaller managers have particularly been at a disadvantage despite their nimbleness and ability to pursue niche opportunities.[24] Among hedge funds, for example, the fraction with more than $1 billion in AUM has garnered more than 60% of institutional hedge fund assets.[25] In the current market climate, private funds also find themselves competing with traditional long-only managers. The retail market offers private funds a vast new market for their capabilities—one free from restrictions on the number and type of investors that funds may accept.

Moreover, since the passage of the Dodd-Frank Act in 2010, the regulatory differences between private funds and retail funds have diminished in the U.S. market. Many hedge and private equity fund managers are now required to register with the SEC as investment advisors, removing one disincentive to entry into the retail arena.

Beyond the sheer size and potential of the retail market, it offers several other advantages to private fund managers:

- **A more diversified revenue stream.** Retail products can help private fund firms to diversify their client bases as well as their product lines, reducing vulnerability to redemptions by individual clients and the resulting AUM volatility. To avoid being subject to the rules and regulations under the Investment Company Act of 1940, private funds rely on Section 3(c)1 or 3(c)7 exemptions, resulting in limitations as to the number of investors allowed in each fund.[26]

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[21] SEI, *6 Ways Hedge Funds Need to Adapt Now*, March 2013; *Adjusting to New Realities*, January 2013; *7 Ways to Reinvention*, December 2012.

[22] *Pensions & Investments*, "'Go big' in alternatives, conference attendees urged," April 23, 2013.

[23] Private Equity Growth Capital Council (PEGCC); The European Private Equity and Venture Capital Association (EVCA); Hedge Fund Research (HFR), December 2012.

[24] SEI, Op Cit, March 2013.

[25] SEI, Op Cit, March 2013.

[26] 3(c)1 funds may have no more than 100 accredited investors, while 3(c)7 funds may have no more than 500 qualified purchasers.

- **A steady flow of fees.** The prospect of more consistent revenues is particularly attractive to private equity firms whose fee structures, which typically incorporate a performance fee, can be highly profitable but may take years to realize. Rather than opening another private equity fund to increase a firm's assets under management, a retail market product can provide a single product vehicle that could be a continuous source of capital. While mutual fund fees are typically much lower than those charged for private funds, the offset is the potential for an exponentially higher volume of investors and greater consistency of fee revenues.

- **Greater latitude in marketing.** Compared to private funds, which historically have been prohibited from advertising and marketing broadly, retail funds also enjoy much greater freedom to market to their huge pool of potential investors. Even though the recent federal JOBS Act has expanded private funds' ability to market broadly, they remain subject to restrictions on the number and type of investors they can accept. It also remains to be seen how liberally the provisions of the JOBS Act will be interpreted as rules.

"Institutional investors are increasingly questioning hedge and private equity fund fee structures, seeking better value for their investments."

Taking Stock of the Opportunity

While private fund managers have long viewed the institutional market as their mainstay, the retail market far outstrips it in scale. The Investment Company Institute (ICI) estimated that over 90 million individuals, and 44% of all households, own mutual funds in the U.S., with the total net assets in the U.S. mutual fund market at the end of 2012 to be $13.0 trillion.[27] (Europe has another $8.2 trillion in UCITS funds.[28]) Retail fund managers are able to access this huge market without the barriers associated with private funds, including large minimum investments and net-worth qualifications.

Of course, even among investors who are committed to investing in alternatives, they represent only a slice of total portfolio assets. But, according to Morningstar, a 10% allocation to alternatives is "a bare minimum" for investors who want meaningful diversification, and some advisors and brokerage houses are recommending weightings of up to 30% or even more.[29] Given the enormous size of the retail market, even a 5% share ultimately represents a major opportunity, albeit one that could take some years to unfold.

Commingled fund vehicles

Mutual funds have been the primary vehicle for retail packaging of alternative strategies. As of the end of 2012, excluding ETFs and money-market funds, total long-term mutual funds held $10.3 trillion in assets—surpassing the size of the institutional market by about $3 trillion. In 2012, net flows to mutual funds and ETFs totaled $236 and $188 billion, respectively, while single-manager hedge funds saw net flows of only $34 billion and funds of hedge funds experienced net redemptions

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[27] Investment Company Institute, *Trends in Mutual Fund Investing*, February 2013; *2012 Investment Company Fact Book, 52nd edition*, 2012.

[28] Efama, *Quarterly Statistical Release*, March 2013; converted from € to US dollars using €1: US$1.30.

[29] *Morningstar*, "Alternative Investments: How much is enough?," April 4, 2012.

of more than $22 billion.[30] Alternative UCITS garnered $24 billion in net flows, ending the year at $247 billion in assets across 1,423 portfolios.[31] While privately placed alternative investment vehicles remain in demand, the potential opportunity and the faster current growth rate for retail alternatives should not be overlooked.

Targeting retirement plans

Encompassing defined contribution (DC) plans, defined benefit (DB) plans, and Individual Retirement Accounts (IRAs), the U.S. retirement market may be the most attractive retail market segment based on its size and momentum alone. Retirement plans presently have $19.5 trillion in assets, with IRAs and DC plans accounting for almost 54% of that figure. The ICI estimates that mutual funds managed over $5.4 trillion of those assets. Additionally, some retirement market segments are expanding more rapidly than most institutional segments. While institutional assets have continued to grow, increasing by $1 trillion between 2008 and the end of 2011, the overall rate of growth in institutional assets has slowed markedly since 2008.[32]

Retirement plans are also a logical point of entry for private fund managers seeking a foothold in the retail market. Marketing retail alternatives through professional plan consultants and retirement platform gatekeepers, rather than directly to individuals, not only allows for economies of scale, but also requires less in the way of individual educational efforts and lead time.

A focus on the DC market

Within the retirement plan market, DC plans, especially the 401(k) market, appear to be the most promising segment for managers of retail alternatives. Certain private equity giants, such as Blackstone and the Carlyle Group, have either already introduced products targeting the 401(k) segment or reportedly have plans to do so.

While it would be premature to entirely dismiss corporate DB plans as a potential market for retail alternatives, they appear to be on an inexorable downward spiral. A number of plan sponsors are already unwinding their plans due to high administrative costs and the difficulties of fully funding plans in the face of ballooning liabilities. State and local DB plans are also struggling with pressures for cost containment and have seen their growth slow. Indeed, in the ten years ending 2012, DC plans grew at an annualized rate of 7.4% compared to 5.0% for state and local government plans and 4.4% of private DB plans.[33] Large public pension systems are increasingly using their scale to drive down fees while reducing their number of managers to lower administrative costs. At the same time, many smaller state and local government pension plans lack the access or the capacity to invest in alternatives to any meaningful degree.

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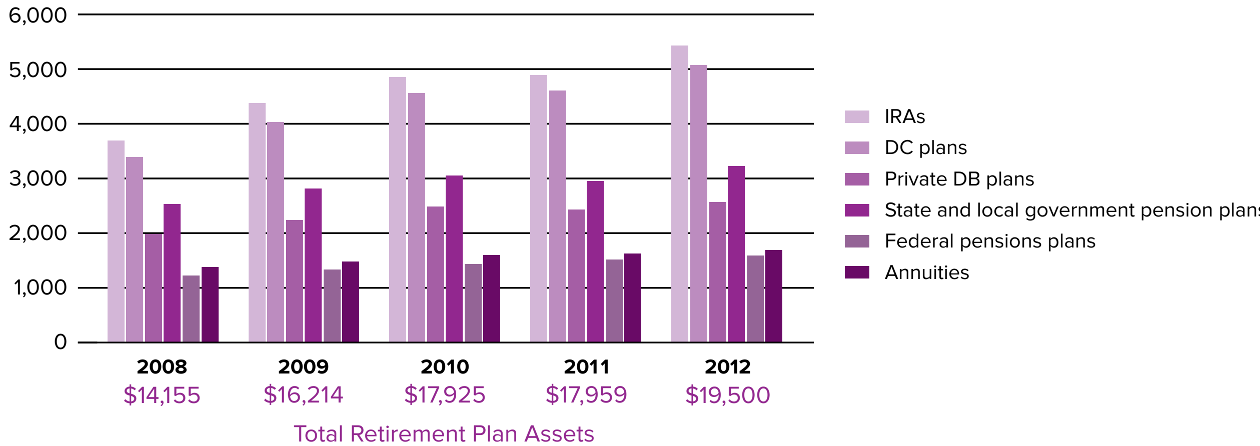
[30] Hedge Fund Research, *HFR Global Hedge Fund Industry Report*: *Year End 2012*, January 2013.

[31] Strategic Insight.

[32] Investment Company Institute, *The U.S. Retirement Market, Fourth Quarter 2012*, March 2013; The Foundation Center, *Foundation Growth and Giving Estimates*, 2012; National Center for Education Statistics, *Digest of Education Statistics*, 2010 & 2011; NACUBO, *2012 NACUBO-Commonfund Study of Endowments*, February 2013.

[33] Investment Company Institute, *The U.S. Retirement Market*, *Fourth Quarter 2012*, March 2013.

FIGURE 5. U.S. TOTAL RETIREMENT PLAN MARKET ASSETS ($ BILLIONS)



* IRAs are estimated.

Sources: Investment Company Institute, *The U.S. Retirement Market, Fourth Quarter 2012*, March 2013. Data sourced from: Investment Company Institute, Federal Reserve Board, National Association of Government Defined Contribution Administrators, American Council of Life Insurers, and Internal Revenue Service Statistics of Income

Meanwhile, more than 60 million Americans are saving for retirement through employer-based DC plans, which ended 2012 with nearly $5.1 trillion in assets (see Figure 5), of which close to 60% were managed via mutual funds. Over 70% of DC assets are in 401(k) plans, resulting in a $3.6 trillion market that is forecast to grow at about 6% a year through 2016.[34] (The remaining DC plan assets are spread across 403(b) and 457 plans, among other formats.)

DC plans have been successful partly because high-balance participants can bear a larger proportion of costs, and because demographics are fueling their growth. The number of Americans aged 65 and older is expected to more than double to 89 million by 2050, according to Census Bureau data.

Historically, the DC market has been out of reach to alternative investments, but that has been changing as the low-interest-rate environment has pushed plan sponsors to seek new and higher-yielding income streams. DC plans increasingly are offering Real Estate Investment Trusts (REITs), Treasury Inflation-Protected Securities (TIPs), and commodities strategies in plan lineups. DC plan assets in all three categories grew substantially over the course of 2012, according to Pensions & Investments surveys; REITs grew 44% to $3.6 billion, TIPS rose 19% to $8.7 billion, and commodities assets were up 60%, reaching $800 million.[35]

At present, alternative products are being introduced into the DC market primarily through asset allocation products, particularly target-date funds (TDFs). With the memory of 2008 still vivid, managers have sought better diversification in an effort to mitigate the risks of potentially major market downturns in the future. While the absolute amounts in alternative DC plan assets are relatively small, they are paving the way for broader use of alternative strategies over the long term.

Alternative fund managers may seek to penetrate the DC market not only by managing sleeves in asset allocation portfolios, but also by offering stand-alone core options. These need not be confined to plain vanilla products; some alternative managers, such as Putnam Investments, have already found some success with sophisticated absolute-return strategies; Putnam launched a number of absolute-return strategies in 2009, and by the end of 2012, those products had attracted $2.8 billion. More recently, managed volatility and inflation-hedging strategies have been attracting interest in the DC market.

[34] Investment Company Institute, Ibid.

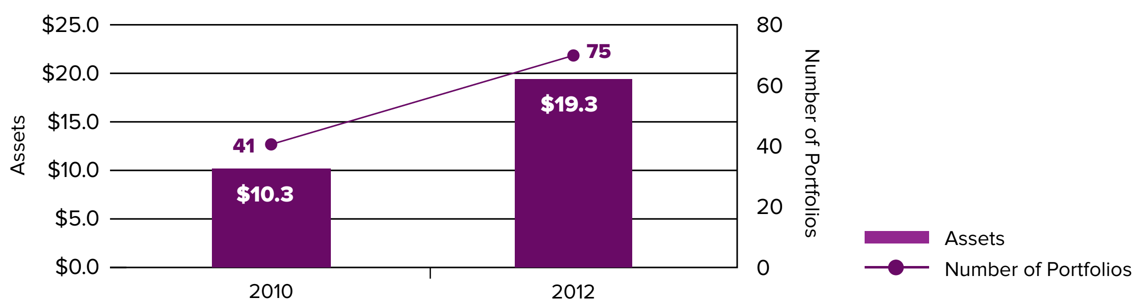
[35] *Pensions & Investments*, "Retirement plans still showing lots of love for non-traditional asset classes," February 4, 2013.

Still, investment managers who target the 401(k) market should do so with their eyes wide open. One important characteristic of the 401(k) market is that employers must act as fiduciaries when selecting investment choices for their plans. That means sponsors must act in the best interests of their workers as they assess the suitability and costs of plan options, even if it takes years for them to compile a full slate of offerings. They must also judge which strategies will be understandable to plan participants.

Some have suggested that additional mechanisms are needed to evaluate and vet alternative investment options for the DC market. Commented David John, deputy director of the Retirement Security Project at the Brookings Institute, "There needs to be either licensing, a seal of approval or some level of higher oversight so people don't find that they are investing in something that really isn't suitable for their stage of life."[36] Clearly, continuing efforts to educate plan sponsors and intermediaries will be needed in order to realize the opportunities in the DC market.

Another way to address these concerns is through the use of multi-asset alternative fund options that provide one-stop asset allocation solutions. This kind of packaged solution not only allows plan sponsors to control the risk/return profile of the alternative investments they offer, but also avoids structuring plan menus with a confusing array of options. Multi-alternative mutual funds have already captured significant assets and flows in the non-retirement retail market. Between 2010 and the end of 2012, assets in retail multi-alternative funds increased 87%, while the number of funds grew 83%; in 2012 alone, the category attracted more than $4 billion in net flows (see Figure 6). Some of the newer fund launches include Goldman Sachs' Retirement Portfolio Completion Fund, Oppenheimer's Diversified Alternatives Fund and Janus' Diversified Alternatives Fund. Asset managers may be able to build on this success as they address the DC market.

FIGURE 6. RECENT GROWTH OF MULTI-ALTERNATIVE MUTUAL FUNDS ($ BILLIONS)



Source: Strategic Insight SIMFUND

Some institutional demand

Asset managers should not overlook the fact that institutional investors have also exhibited some interest in alternative strategies registered under the 1940 Act. SEI's latest survey of hedge fund investors at 107 institutions found that about one in four were planning to direct part of their hedge fund allocations to registered products, with banks, family offices and smaller institutional investors leading the way. They most frequently cite improved liquidity and transparency as the reasons they invest in these types of products, with regulatory oversight and the ability to access quality managers at relatively low cost named among other motivations.[37]

Of course, private fund managers may be reluctant to see high-fee private fund business shift to lower-fee vehicles. However, they could see net gains if retail products help them attract new clients from the ranks of small and mid-sized institutions that historically have had less access to alternative investments than their larger peers.

[36] Bloomberg, "KKR to Carlyle Target $3.6 Trillion in 401(k)s Accounts," April 4, 2013.

[37] SEI, Op. Cit., March 2013.

Understanding the Hurdles

On one level, private funds can think of the retail market as adding another spoke to their distribution networks. But of course, it is by no means that simple. Even for traditional managers, launching alternative mutual funds can be a stretch, as many lack the specialized investment capabilities, absolute-return mindset, and risk management expertise that alternative strategies demand.

For private fund managers, the move into the retail market is an even greater leap—one that requires a substantial commitment of time and resources. By one attorney's estimate, the start-up costs for an alternative mutual fund can be $100,000 to $200,000 greater than those for launching a hedge fund.[38]

From the standpoint of private fund managers, retail investment vehicles have some inherent limitations, including:

- Daily liquidity requirements of traditional open-end mutual funds, which means that managers must keep sufficient cash on hand to handle redemptions, potentially hindering some investment strategies. By law, UCITS funds must provide liquidity at least twice monthly, but in practice most offer it more frequently. (For further information on this and other considerations, see Figures 7 and 8 on pages 20 and 22.)
- Regulatory restrictions that limit the types of investment strategies managers can offer in mutual fund and UCITS form.
- Transparency and disclosure requirements, including quarterly statements of portfolio holdings, that may go against the grain for private fund managers who are accustomed to keeping their methods close to the vest or wish to control to whom and when they provide such information.
- Lower fees and margins, with no performance fee to provide upside potential, although greater volume could be a compensating factor.
- Increased governance requirements, such as independent board members, regular board meetings and the appointment of a fund Chief Compliance Officer, which some managers may find daunting.

In order to launch a successful registered fund, we believe that private fund managers must also come to grips with some major marketplace challenges.

[38] *Hedge Fund Alert*, "Hedge Funds Plodding into Mutual Funds," April 10, 2013.

More complex distribution networks

Distribution of alternative mutual funds entails navigating a maze of sales channels, specialized consultants, and intermediary platforms. More than 300,000 registered advisors are spread across various distribution channels, which include National Broker/Dealers (NBDs), Independent Broker/Dealers (IDBs), banks, insurers, Registered Investment Advisors (RIAs), and Regional Broker/Dealers. Each of these channels presents managers with unique characteristics and its own set of pros and cons. For example, the RIA channel is a much more diverse and disjointed group through which to distribute, while the NBD channel requires a more centralized distribution process focused on broker/dealer home offices.

Regardless of which channel managers elect to pursue, they may consider taking a number of key steps. These include gaining platform access, deploying a wholesaling force and developing and implementing a marketing strategy. To succeed in the retail alternatives space, asset managers typically require a dedicated distribution team or sales force. They must also devote personnel and ongoing resources to populating key databases (e.g., eVestment Alliance, Wilshire, PSN) with quantitative and qualitative data that these third-party vendors provide to distribution platform research teams for fund screening, evaluation and selection purposes.

Because gaining access to distribution platforms is a time-consuming and resource-intensive process, alternative managers must carefully weigh which platforms to target based upon sales potential, the likelihood that they will be selected and the potential stickiness of assets raised. The methods that platforms use to evaluate alternative investments are rapidly evolving, and the level and type of due diligence conducted often vary significantly from platform to platform.

When selling through intermediary channels, managers must also recognize that they have two targets beyond the platform gatekeeper—namely, the advisor and the advisor's end clients—and should frame their educational efforts accordingly, as discussed below. In any case, they should expect the learning curve to be substantial, especially for individual investors.

Daunting as all this may be for traditional mutual fund managers, it is even more so for private fund managers who lack retail distribution expertise and infrastructure. Penetrating the DC market is particularly challenging, as it requires tailoring distribution strategies to the size of retirement plans. For example, sales efforts aimed at small to mid-sized plans (less than $250 million) generally need to focus on financial advisors and wholesalers. On the other hand, the most effective way to tackle the large plan (greater than $250 million) or mega-plan (greater than $1 billion) markets is via DC consulting firms, such as AON Hewitt, Mercer, Callan Associates, and NEPC. While these names may be familiar to private fund managers, DC-focused consultants are not the same as those operating in the institutional market. Because large and mega plans hold more than 45% of private DC assets,[39] it is important that those who want to compete in the DC market not only get to know these consultants, but also become familiar with their often unique selection processes and data needs.

Some private fund managers are dealing with these challenges by teaming up with traditional asset managers. For example, Aurora Investment Management elected to offer its multi-strategy mutual fund through Natixis Global Asset Management, and Arden Asset Management has partnered with Fidelity Investments.[40]

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[39] U.S. Department of Labor, *Private Pension Plan Bulletin: Abstract of 2010 Form 5500 Annual Reports*, 2011.

[40] *Business Wire*, "Natixis Global Asset Management Launches Aurora Horizons Fund," March 27, 2013; *Wall Street Journal*, "Fidelity Offers Hedge-Fund Access Via Arden Tie," December 6, 2012.

Pressing educational needs

Alternative strategies are varied, complex and often abstruse, even to investment professionals, such as financial advisors and intermediary platform gatekeepers. Even when they understand the broad concepts behind a strategy, they need a deeper understanding of its workings and how it fits into investor portfolios.

Not surprisingly, individual investors are even less equipped to make alternative investment decisions. According to a recent survey conducted by Natixis, 48% of investors said they have “little or no understanding” of alternative investments. Moreover, 64% said they would need to learn more about alternative strategies before investing in them, although just over half said they would consider using alternatives if their advisor so recommends.[41]

Thus, any asset manager who hopes to build a robust retail alternatives business must provide thoughtful educational content that is not only illuminating for financial advisors and gatekeepers, but also helps advisors clearly explain and discuss alternative strategies with their clients. These efforts are particularly important in the DC market, where participant education is a standard part of money managers’ DCIO offerings. Asset managers will need dedicated resources and an experienced marketing staff to create thoughtful marketing materials that make alternative investment processes relevant and easily understandable to plan participants.

In the meantime, broad awareness of the retail alternatives trend is slowly being raised by the extensive educational efforts already being undertaken by fund managers and broker/dealer home offices. For instance, Janney Montgomery Scott, an independent broker-dealer, recently began offering a two-day alternative investments “boot camp” to help advisors explain, communicate and implement alternative strategies for their clients. Altegris, a manager of alternative mutual funds, has a multi-pronged alternatives education campaign including six animated YouTube videos aimed at advisors and investors. The firm also sponsors the Altegris Academy, which publishes white papers on alternatives and holds an annual advisor conference.

These and similar campaigns should help to chip away at the educational gap that currently exists. Still, asset managers need to understand that, despite the growing popularity of retail alternatives, it will take time for them to be widely understood and accepted by the investing public.

Track record and asset requirements

In the realm of private funds, institutions may give promising start-ups a chance, even if they have little or no official track record. But in the retail world, funds must typically have a certain minimum performance track record, as well as meet firm and fund AUM requirements, before intermediary platform gatekeepers will even consider them. In the case of DC retirement plans, a three-year track record is generally the minimum to be considered for the fund menus offered to plan participants. Similarly, Morningstar will only rate funds that have a three-year track record. As of February 2013, the firm found that only 51% of retail alternative funds had a three-year track record and just 36% could claim five years of performance.

This suggests that managers who want to enter the retail alternative space would be well advised to begin strategic planning efforts well in advance of fund launch dates.

In certain cases, platforms may consider using the performance of private fund strategies as proxies for a new fund’s track record or as a metric in the evaluation of the fund. Gatekeepers at intermediary distribution platforms evaluate funds in much the same way as an endowment’s or public pension plan’s investment committee. Platform due diligence teams will look at the alternative manager’s staffing and alternatives expertise, investment philosophy and process, performance, pricing, strategy experience, and other factors. However, the metrics that are evaluated can vary significantly among gatekeepers, and understanding these differences is critical for successful distribution.

[41] Natixis Global Asset Management, *Global Investor Survey*, September 2012.

"Managers entering the retail marketplace need to have a thorough understanding of the various fee structures associated with each distribution channel."

Before Taking the Plunge

Managers who want to launch a retail alternative fund must plan thoughtfully, think strategically, and factor in a variety of considerations as they decide whether and how to go to market.

Suitability of strategies

The first requisite for a retail offering is a viable investment strategy. The Investment Company Act of 1940 makes mutual funds subject to much greater limitations on investment strategies than private funds. For example, traditional open-end mutual funds may invest no more than 15% of their assets in illiquid investments.[42] The use of leverage is also limited; a fund's net assets must be at least three times aggregate borrowings immediately after any borrowing. Mutual funds must also satisfy requirements for quarterly asset diversification.[43]

Thus, some strategies commonly employed by hedge funds are better suited to retail packaging than others. Long/short equity, market-neutral, merger arbitrage, global macro, currency, managed futures, and other multi-asset strategies are all potential candidates for open-end mutual fund packaging, as long as the use of illiquid assets and leverage remains within allowable limits.

Private fund managers who consider offering their strategies as lower-cost mutual funds may rightly be concerned with the potential for cannibalization of their existing business. Some have dealt with this by offering different versions of their strategies—a more aggressive strategy with higher return potential for private fund clients, and a more conservative version for the mutual fund market.

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[42] Closed-end funds, however, are not subject to the 15% illiquidity restriction. Managers should consult with legal counsel to further discuss the applicability of these and other investment restrictions.

[43] *Hedge Fund Law Review*, "How Can Hedge Fund Managers Organize and Operate Alternative Mutual Funds to Access Retail Capital?," February 1, 2013.

Packaging for the retail market

Another fundamental question is which retail vehicle to use for packaging the strategy. Open-ended mutual funds are the most widely used option overall, and they have a greater than 50% share of the DC market in the U.S. They are also favored by financial advisors; according to Cogent Research, 75% of advisors who use alternatives name mutual funds as the preferred vehicle.

Closed-end funds are also a viable vehicle, but one with a relatively small footprint within the mutual fund market, adding up to less than $250 billion in AUM at year-end 2012, with bond funds the largest segment.[44] To date, they have not been widely used in DC plans although they are more prevalent in IRAs. For private fund managers looking to ease into the registered '40 Act world, setting up a closed-end fund rather than an open-ended mutual fund is an option worth entertaining, as assets can be raised through a one-time Initial Public Offering (IPO) rather than through ongoing marketing via a distributor. Continuously offered closed-end funds, commonly referred to as registered hedge funds, are also becoming a popular choice among private fund managers. They can be structured to permit shareholders to invest in the fund on a periodic basis—they are generally structured to provide for monthly subscriptions with quarterly or semi-annual liquidity offered through repurchase offers.

Any product-packaging decisions should factor in the requirements and costs of both near- and long-term distribution. Most major platforms charge managers fees to participate, such as 12b-1 fees, NSCC networking fees, and revenue sharing in the form of asset-based fees. Clearly, managers entering the space need to have a thorough understanding of the various fee structures associated with each distribution channel. For example, managers that distribute funds through RIA networks are commonly required to pay asset-based fees averaging 40 basis points (bps).

Managers may be able to offset some of these costs by introducing mutual fund share classes with 12b-1 and/or shareholder servicing fees. Those targeting the DC space may want to consider offering a suite of R-class shares that support fee requirements across the wide DC plan spectrum, although it may be advisable to defer that move until the fund has gained the critical mass required for a successful DCIO strategy. While a recent PIMCO survey found that revenue-based fees for recordkeeping are trending downward due to new federal fee-disclosure rules, these fees are not going away. DCIO-focused money managers can expect to pay a wide range of recordkeeping fees, regardless of the types of retail vehicles they offer. Managers may also consider offering such strategies as separate accounts or collective investment trusts. As with traditional U.S. open-end mutual funds, these structures are all subject to requirements for daily pricing and liquidity (for both subscriptions and redemptions). At the same time, they differ substantially in terms of regulatory requirements and market potential. Thus, it is vital that fund managers think through the implications of their packaging choices in advance of any decision (see Figure 7 on page 20).

As noted above, if managers wish to market in Europe, UCITS are the vehicle of choice and are subject to rules and regulations similar to those governing mutual funds. However, the European regulatory climate is in flux, and managers contemplating a move into that market should take care to keep abreast of new developments.

[44] Investment Company Institute, *2012 Investment Company Fact Book, 52nd edition*, 2012.

UCITS and AIFMD: Converging EU Regulations

Asset managers who are interested in launching alternative funds in Europe or globally need to be aware that regulatory frameworks are in flux.

Twenty-five years ago, European regulators established the UCITS Directive, creating the mutual-fund-like UCITS structure and enabling the marketing of UCITS across member states. More recently, in response to the global financial crisis, regulators adopted the Alternative Investment Fund Managers Directive (AIFMD), which aims to increase oversight and harmonize regulation of non-UCITS funds that are domiciled or marketed in the EU. AIFMD is bringing a battery of new rules for non-UCITS funds with a timeline stretching out to 2018. Managers with fully-compliant funds will be rewarded with a "passport" for marketing them to professional investors throughout the EU.

While the AIFMD explicitly does not apply to UCITS funds, the UCITS V and impending UCITS VI Directives are being aligned more closely with AIFMD. Regulators are also signaling that the UCITS product may be reined back, suggesting that alternative strategies may come under the purview of AIFMD. More imminently, some EU member states are considering restricting their private placement regimes in response to AIFMD. Thus, managers who want to offer alternative strategies in the European market should know that the heyday of Newcits may be over, and funds may need to be AIFMD-compliant in the future.

FIGURE 7. RETAIL PRODUCT PACKAGING CONSIDERATIONS

(See Figure 8 for additional operational and compliance considerations.)

FUNCTION	CONSIDERATIONS	IMPLICATIONS VS. PRIVATE FUNDS
Product Structure (Wrapper)	Must determine appropriate vehicle (open-end mutual fund, ETF, closed-end fund, continuously offered closed-end fund, etc.). For example: – There are no hard lock-up periods for investors in open-end mutual funds (early redemption fees, however, may be charged) – Traditional open-end funds price their NAV daily and provide daily liquidity (closed-end funds and hedge funds registered under only the 1940 Act, however, are not subject to these daily requirements)	Not all strategies work well in every vehicle; the decision regarding which structure to choose must take into consideration the investment strategy and firm's goals.
Product and Common Investment Restrictions	– Open-end mutual funds may have no more than a 15% allocation to illiquid securities – Limited leverage (300% asset coverage requirement) – Limits to investment strategies (such as short sales, use of derivatives, commodities, etc.) – Diversification standards (if the fund desires to operate as a registered investment company under Subchapter M and issue IRS Form 1099s to its investors)	Not all strategies can be implemented in retail structures due to investment restrictions, and various wrapper/structure options carry their own limitations. Managers should consult with legal counsel to learn more about various regulatory restrictions.
Pricing	The expenses of individual mutual funds differ considerably across the array of available products. The asset-weighted average and median total expense ratios for U.S. open-end mutual funds were: Bond: 0.61%/0.89% Hybrid: 0.79%/1.20% Equity: 0.77%/1.33%	The retail marketplace typically requires a substantially lower management fee and total expense ratio than private funds. A larger number of investors (with smaller balances) is required to deliver the same total fee revenue.
Performance	The majority of retail alternative funds have limited track records.	Determine if comparable private fund performance can be used as a proxy or to generate confidence in the investment process and strategy.
Investment Minimums	Minimum for mutual funds can be as low as $1,000 or even less.	Have access to a much larger investor base.

Source: SEI Knowledge Partnership; Investment Company Institute, 2013. Expense ratio data in Pricing section includes index mutual funds but excludes ETFs.

Direct sponsorship vs. a sub-advisory role

Fund managers may sponsor their own mutual funds, which means being responsible for fund distribution and operations. Alternatively, they may act as sub-advisors for a fund or a sleeve within a multi-strategy fund. While direct sponsorship offers greater control over the product and its distribution, marketing and brand-building, many private funds have chosen to be sub-advisors, allowing them to focus on investment management while the sponsoring firm handles distribution, administration and back-office functions.

Structure and governance

Fund managers who directly sponsor mutual funds must choose whether to offer stand-alone funds or structure them as part of a shared trust (also known as a series trust). With a stand-alone fund, managers generally have more control over brand-building and infrastructure decision-making but must establish a board of directors, build operating systems and hire service providers on their own—a costly and time-consuming endeavor.

The alternative is subscribing to a shared trust, a type of mutual fund operating platform most commonly offered by mutual fund administrators. In essence, a shared trust is a turnkey fund operation service that provides a fund operating infrastructure and independent board of directors that are shared by multiple independent funds, each managed by its own advisor. While a stand-alone fund structure gives managers greater control over fund infrastructure decision-making, a shared trust potentially offers lower operating costs, operational efficiencies through a leveraged platform, access to trust-level selling agreements, and a much shorter time to market.

In either scenario, partnering with an experienced and trusted mutual fund administrator will greatly facilitate the transition to the retail market. An administrator can also add value by serving as a sounding board and resource regarding legal, regulatory, operational and distribution approaches.

Operations, reporting and compliance

Private fund managers who move into the retail arena can expect greater operational and compliance demands than those to which they are accustomed (see Figure 8). Regulation of '40 Act funds makes them subject to requirements that private funds often avoid, including mandatory disclosure of fund holdings, updating of the prospectus, and proxy voting reporting. Fund managers must carefully adhere to existing regulations and stay abreast of any pending and future changes.

The Investment Company Act of 1940 is the primary statute governing managers of mutual funds. However, under certain structures, managers must also comply with the Securities Act of 1933, which aims to ensure that buyers of securities receive complete and accurate information before they invest, and the Securities Exchange Act of 1934, which governs the secondary trading of securities on exchanges.

The '40 Act regulates the organization of mutual fund and other companies focused on investing, reinvesting and trading in securities, and who may offer their own securities to the investing public. In the latter regard, the Act requires these companies (i.e., mutual funds) to disclose their financial condition and investment policies to investors when stock is initially sold and on a regular basis thereafter. The Act also focuses on disclosure of information about the fund and its investment objectives to the investing public.[45]

As retail alternatives grow in complexity and popularity, the SEC, FINRA and other regulatory bodies are increasing their scrutiny of such funds. Managers of retail alternatives often look to service providers with specialized expertise to help them manage fund administration, operations and compliance, as a qualified private fund provider may not have all the skills and experience needed to support a regulated '40 Act product.

[45] SEC, *The Investment Company Act of 1940*, as amended through P.L. 112-90, approved January 3, 2012.

FIGURE 8. MUTUAL FUND OPERATIONAL, STRUCTURAL, AND GOVERNANCE CONSIDERATIONS[46]

FUNCTION	CONSIDERATIONS	IMPLICATIONS VS. PRIVATE FUNDS
Costs	Significant overhead and administration costs	Manager may have to subsidize funds until assets reach break-points where costs are covered.
Certain Registration and Reporting Processes	Numerous registration requirements, such as: – Filing and updating of prospectus and statement of additional information – Adviser must register with the SEC Numerous reporting requirements, such as: – Proxy vote reporting – Disclose fund's holdings – Semi-annual and annual shareholder reports	Greater registration, reporting and filing requirements; but regulation is also increasing in private fund arena, and even private fund investors are demanding additional transparency.
Board of Directors	Independence requirements[47]	Less control than a private fund structure. Additionally, the corporate governance structure may take on a more formalized/complex format as most mutual fund boards meet at least quarterly and receive various reports from the advisor and other service providers.
Service Providers	Engagement of fund service providers, including: – Transfer agent – Custodian – Distributor – Fund accountant/administrator – Auditor	Use of providers not mandated for private funds (although investors may require it). Extensive start-up and due diligence efforts.
Compliance	Fund must establish a greater number of compliance policies and approve them annually. Must engage independent auditors.	Additional regulatory reporting is time- and resource-consuming and requires higher degree of transparency.
Performance	Various regulations govern the manner in which performance is disclosed to investors of mutual funds. No-action letters dictate the circumstances and manner in which the performance of predecessor funds (including hedge funds) may be disclosed.	Performance between private and public funds may vary because of the different fee and expense structures as well as potential limitations on investment strategies. Must clearly disclose potential investment strategy and pricing differences and note how conflicts of interest between private and public funds are addressed.

Source: SEI Knowledge Partnership

[46] Legal counsel should be consulted to learn more about various regulatory restrictions, as well as various compliance, reporting and governance requirements.

[47] In practice, the vast majority of mutual fund boards have a majority of independent directors, many with over 75% independent directors.

Pricing

While private funds have recently faced substantial fee pressures, retail fund pricing remains substantially lower and generally includes no performance fee. Average mutual fund expense ratios vary significantly, but total fees of 1.00–1.50% or less are common for funds employing traditional style box strategies. Because alternative mutual fund strategies may be more complex and costly to manage than traditional long-only strategies, particularly if they involve the use of derivatives or higher-cost trading, they generally command annual charges in the range of 1.50%–2.50%—still far less than the 1.75–2.00% or more in management fee plus 20% performance fee commonly charged by many private funds. Despite the lower fees, retail business may still be attractive to private fund managers if they can build a large enough client and asset base.

Conclusion

The market for retail alternatives is huge, growing and still in its infancy, offering exciting long-term opportunities for private fund managers who seek to diversify their revenue streams and find new outlets for their capabilities. A number of well-known private fund management firms have already moved into the retail arena and are actively working to establish their competitive leadership.

It is vital, however, that entrepreneurial fund managers take a balanced and realistic view of the opportunity in retail alternatives. Capitalizing on its potential is no easy matter. Private fund managers who want to succeed will need to overcome a number of obstacles, devote substantial time and resources to educational efforts and find ways to fill their gaps in fund infrastructure and distribution expertise. They must also be willing to make investments, both in the substantial start-up process and ongoing, as fund operations may need to be subsidized for some indefinite period of time; profitability will not come overnight.

Of course, opportunities remain in the institutional market. Institutions continue to incrementally increase their alternative allocations, and undoubtedly some hedge fund and private equity managers will want to remain institutionally-focused. But for those who are willing to take a long-term strategic view, desire a new investor base with different revenue sources or want to be evangelists for their investment processes, retail alternatives may be too important and promising a trend to ignore.

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SEI (NASDAQ:SEIC) is a leading global provider of investment processing, fund processing and investment management business outsourcing solutions that help corporations, financial institutions, financial advisors and ultra-high-net-worth families create and manage wealth. As of March 31, 2013, through its subsidiaries and partnerships in which the company has a significant interest, SEI manages or administers $495 billion in mutual fund and pooled or separately managed assets, including $206 billion in assets under management and $289 billion in client assets under administration.

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