

# The Administrative Trials and Tribulations of Alternative Assets Investing

By Paul Finlayson and Najiba Miraki

There was a time when non-market traded, or so-called alternative, assets were a small, sleepy portion of the institutional investment plan. With plans seeking return sources greater than traded securities, alternative allocations have increased substantially in the past decade. Commensurate with alternative asset allocation increases, there has been escalation in internal and external diligence demands on investment plans owning these operationally demanding assets.

Non-market traded assets such as private equity, hedge funds, infrastructure and real estate share a common data challenge: the manager is the source of information, including activity details and valuation appraisals. The depth and quality of the information for accounting and analysis depends on the willingness, and sometimes the ability, of the manager to disclose information. Managers are increasingly responding to the demands, but the asset owner thirst for data has only increased due to audit, analytical and regulatory reporting requirements.

The depth and quality of alternative assets data has improved. Studies indicate private equity fair valuations have improved but remain conservative, with returns continuing to move with public markets. Similarly, hedge fund estimated valuations track nicely with final valuations. Accounting granularity of fundings and distributions has increased and providing more information has

become part of the manager reporting routine.

Despite meaningful improvements, data and statement standardization challenges remain. Information continues to arrive in an array of statement formats via disparate delivery or retrieval channels. Valuations typically arrive long after the period they represent and are not consistent in composition. These industry realities require the investor to deploy specialized talent, time and systems infrastructure to collect, ingest, validate and report information. The increased asset owner demands on the manager have

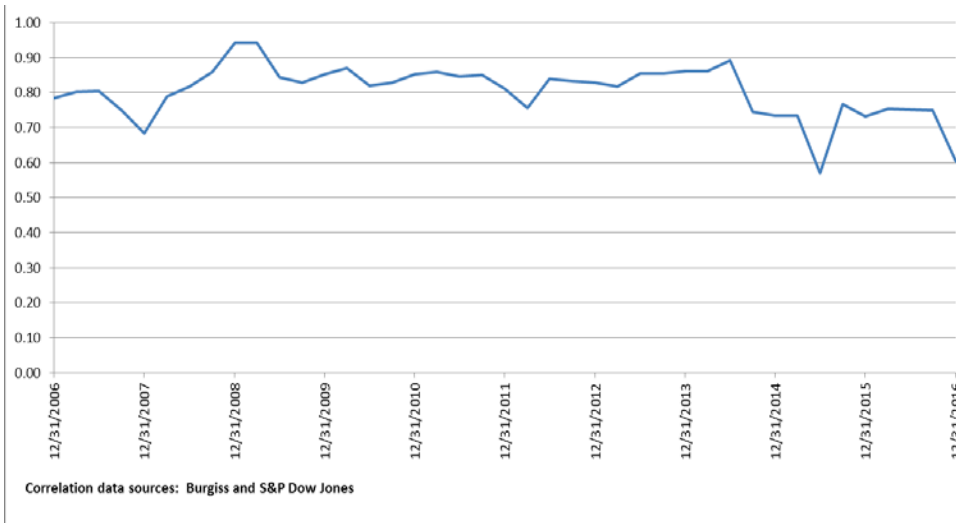
created a fiduciary dichotomy between asset owner needs and plan performance requirements.

To help address alternative assets diligence needs, an entire industry of specialized service providers has emerged. Valuation and fee verification services exist. Fund news data flows freely and daily from specialist arms of traditional news outlets. Emerging technologies, such as blockchain, hold promise of efficient and secure information exchange. Traditional public market transfer agency channels are now offering secure exchange. The success of these capabilities



Photo illustration © 2017, Depositphotos.com

## S&P 500 and Pooled PE/VC Returns Correlation (3 years rolling)



CONTINUED ON PAGE 6

## MESSAGE FROM PRESIDENT THE CONTINUED FROM PAGE 1

Landers, of CorPERS members Global Governance Advisors. Kelly and Landers led a discussion on the financial benefits and importance of good corporate governance. You can view their presentation on Facebook Live [here](#).

The morning continued with Tim Barron of Segal Marco Advisors and Brad Ramirez of CorPERS member Segal Consulting, with a presentation asking what comes first the actuarial assumption or the investment allocation. Aakar Vachhani of Fairview Capital Partners discussed the next generation investment opportunities

available to public safety plans.

Mark Dearman of CorPERS member Robbins Geller Rudman & Dowd LLP led a discussion on the opioid epidemic. Ronald King presented for a second time, now discussing the risk cyber security poses for public safety plans. The final presentation of the conference was given by Wally Gomma of ACAP Health, on healthcare costs and what can be done.

The full presentations from the conference can be viewed at [www.NCPERS.org/psc](http://www.NCPERS.org/psc). The 2018 Public Safety Conference will be held in Las Vegas, Nevada at Caesar's Palace. ♦

---

## HEDGE FUNDS CONTINUED FROM PAGE 2

MACs may appeal to a broad range of institutional clients seeking a return stream with low correlation to risk assets. In our view, in contrast to hedge funds, they should be inexpensive, offer daily liquidity and low leverage levels, and should not short individual securities. They should also seek to reduce overall portfolio volatility.

We believe transparent security selection, asset flexibility across global markets unconstrained by indices, and a focus on capital preservation are also key requirements.

## Conclusion

In our view, MACs can be a viable alternative to hedge funds for institutional investors and we believe the credentials of Newton's absolute return and relative return MACs are worthy of consideration. However, we advise investors to review each MACs category to determine which type best fits their investment requirements. ♦ [Disclosures Link](#)

---

<sup>1</sup>Financial Times, December 28, 2016.

---

## ALTERNATIVE ASSETS CONTINUED FROM PAGE 4

requires the cooperation of the asset manager considerate of impacts on their primary business of generating returns.

Industry-wide data standards, data availability and workflow technology are all improving. However, the non-standard nature and escalating transparency demands of alternative assets will

continue to exact a tangible administrative cost on the plan. For the foreseeable future, the asset owner must consider and quantify the erosive effects of non-marketable administration expense on the alpha promised by these attention intensive investments. Transparency, standardization and technology advances have been made, but it is a process that will take time to fully actualize, requiring the cooperation of both the asset owner and manager as well the evolution and adaption of new technology. ♦

## Disclosure:

Northern Trust Corporation, Head Office: 50 South La Salle Street, Chicago, Illinois 60603 U.S.A., incorporated with limited liability in the U.S. Global legal and regulatory information can be found at [www.northerntrust.com/disclosures](http://www.northerntrust.com/disclosures).

**Paul Finlayson** is a Senior Vice President and Alternative Assets Service Product manager with Northern Trust.

**Najiba Miraki** is a Vice President and Alternatives Asset Service Product Manager with Northern Trust.