



CONVERGENCE
OPTIMAL PERFORMANCE

**Alternative Asset Management Industry¹
Convergence Insights
Twelve Months Ended December 31, 2015**

Q4 2015 Industry Headline-Alternative Asset Management Firms Continue to Grow!

- ***INDUSTRY ASSETS GROWTH OF 10% AND FUNDS GROWTH OF 5%***
- ***BUSINESS OPERATING COMPLEXITY GROWTH OF 2%***
- ***GROWTH IN BUSINESS AND OPERATING COMPLEXITY INCREASED HEADCOUNT 7%+ AND REDUCED SELF-ADMINISTRATION BY 2%***
- ***REGULATORY OVERSIGHT CONTINUES TO INTENSIFY WITH REGULATORS PER MANAGER GROWTH OF 1+% AND REGULATORY ACTIONS GROWTH OF 28%***

Convergence determines business complexity by tracking up to 31 different factors to develop various insights into how Managers manage capacity, infrastructure and meet new Regulatory and Investor requirements. Each factor directly influences workload, cost and risk incurred by an alternative manager to support the investment process. A good illustration of a complexity factor is Average Fund Type per Manager. No one will argue that the manager's business and operating risk increases when they begin advising an entirely new type of fund. For example, a hedge fund manager who adds a private equity fund will incur an entirely new set of functional and complexity challenges. Our empirical data enables Investors to examine trends and peer and competitor intelligence. This is designed to improve infrastructure, select best-fit vendors and enhance the overall Manager Due Diligence process.

Source of Convergence's Insights

Convergence's Q4 2015 insights are drawn from data we source daily from 16,500+ Form ADV and Brochure filings made by Registered Investment Advisors of which roughly 7,000+ advise alternative assets. In Q4 2015, 1,488 Advisors of alternative assets updated their Form ADV. Our analytical approach allows us to present an empirical view on how the industry and its participants growing and changing.

Please go to www.convergenceinc.com for more detailed information call or John Phinney or George Gainer at 203-956-4824 or George Evans at 215-704-7100

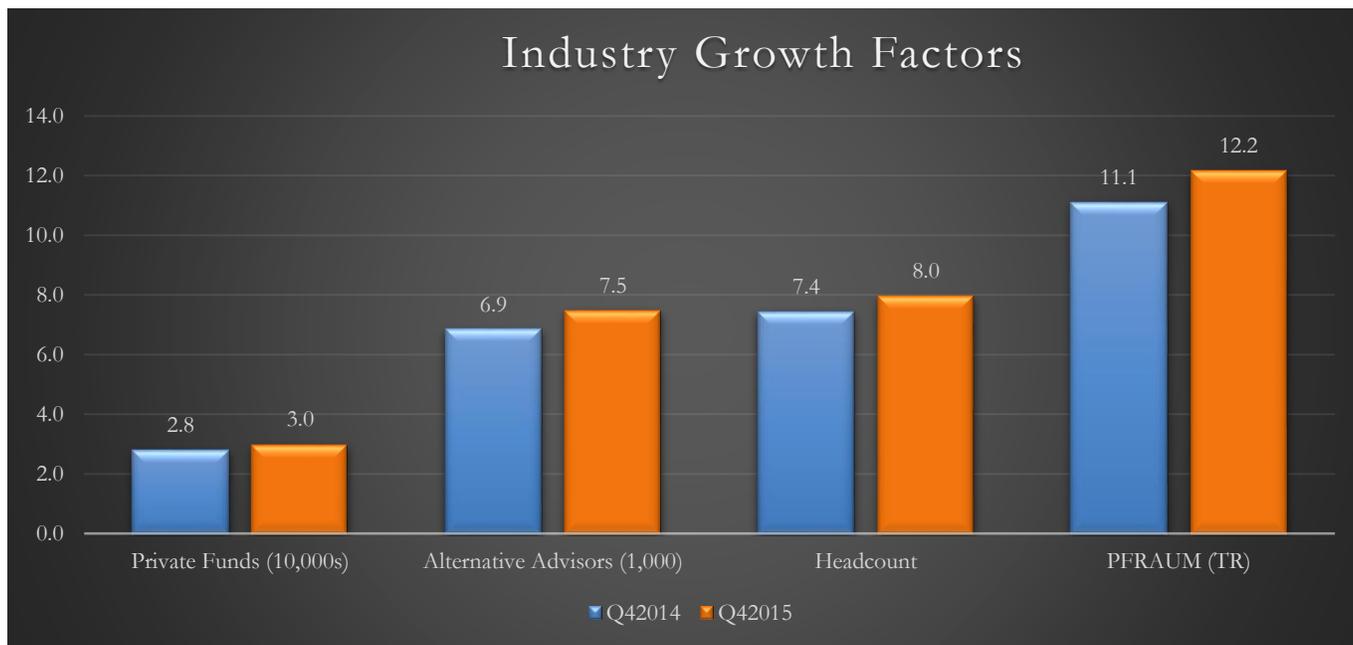
¹ An Alternative Asset Manager is defined as an RIA that reports advising Private Funds where the aggregate value of their net Private Fund Gross Assets under Management is 50% or more of the Managers Total Regulatory Assets under Management.

Profiling Industry Growth

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“The number of Alternative Asset Managers and their assets are growing despite reduced leverage, weaker performance returns, increased industry regulation and by banks who are reducing their balance sheets and shedding alternative asset management and proprietary trading businesses. Alternative investments remain attractive to investors seeking better returns from asset classes less correlated with traditional equity and fixed income markets.

The number of Private Funds, Alternative Asset Managers, Private Fund Assets under Management² and Headcount grew 5%, 9%, 10% and 8%, respectively. Headcount growth is attributed to the growth we see in the various complexity factors we follow. Please see the Business Complexity and Risk section of this paper for more information on this topic.



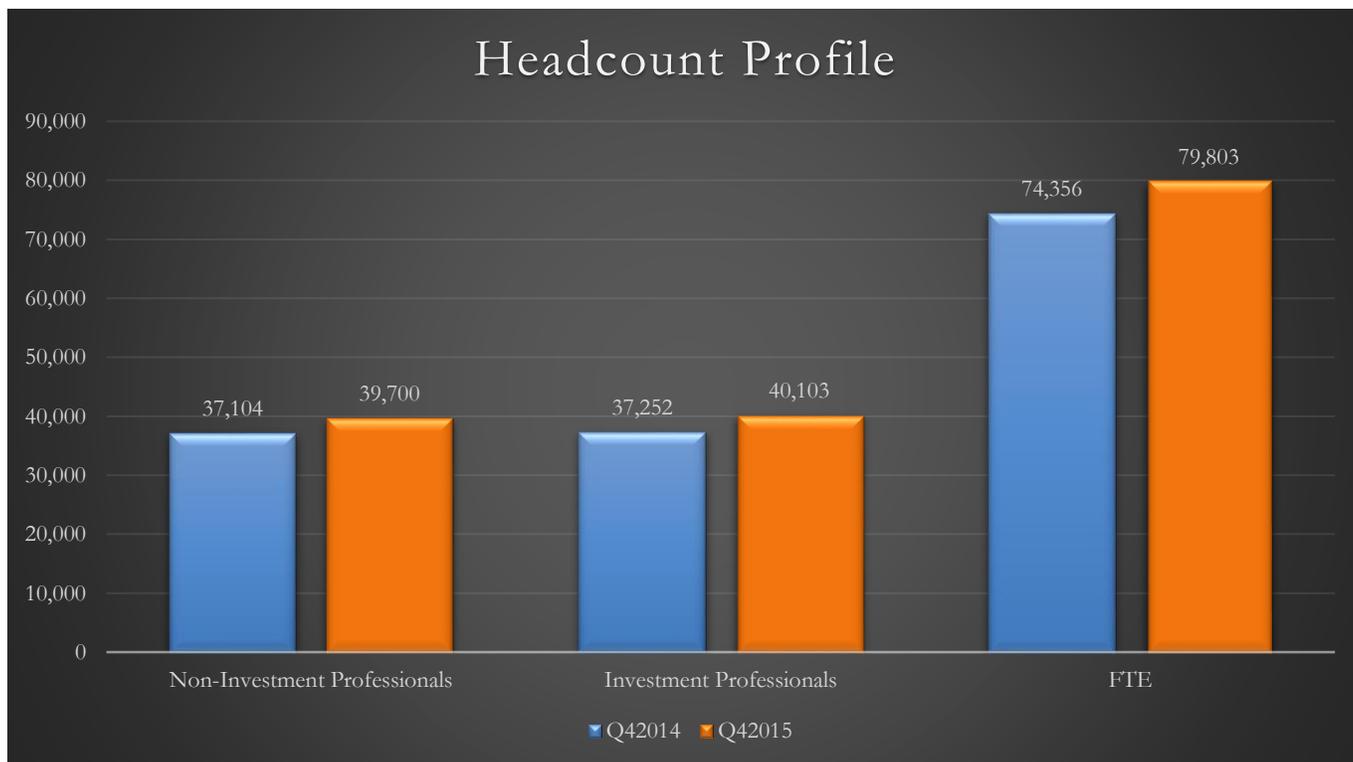
² Regulatory assets under management includes the value of securities portfolios for which an Advisor provides continuous and regular supervisory or management services as of the date of filing this Form ADV without deducting the value of liabilities or other debt.

Leadership and Staffing

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“Alternative Asset Managers cannot avoid hiring more middle and back office professionals to support increased business complexity and greater regulatory and investor requirements.”

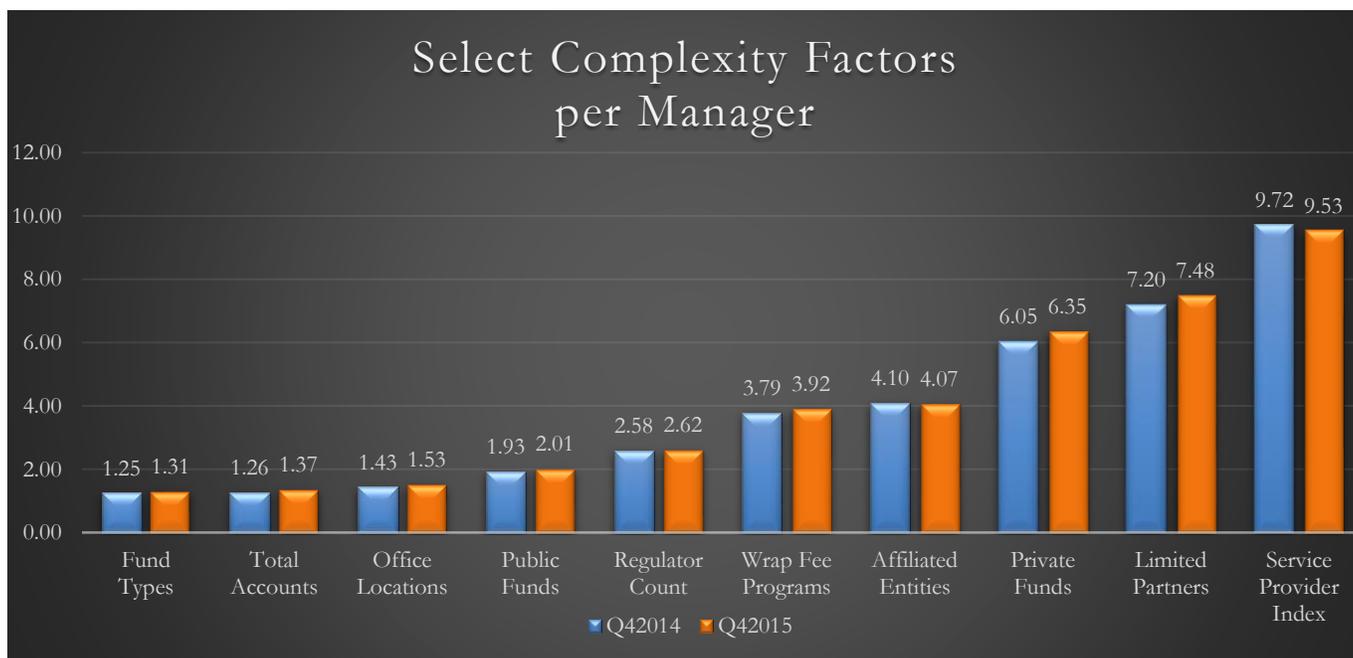
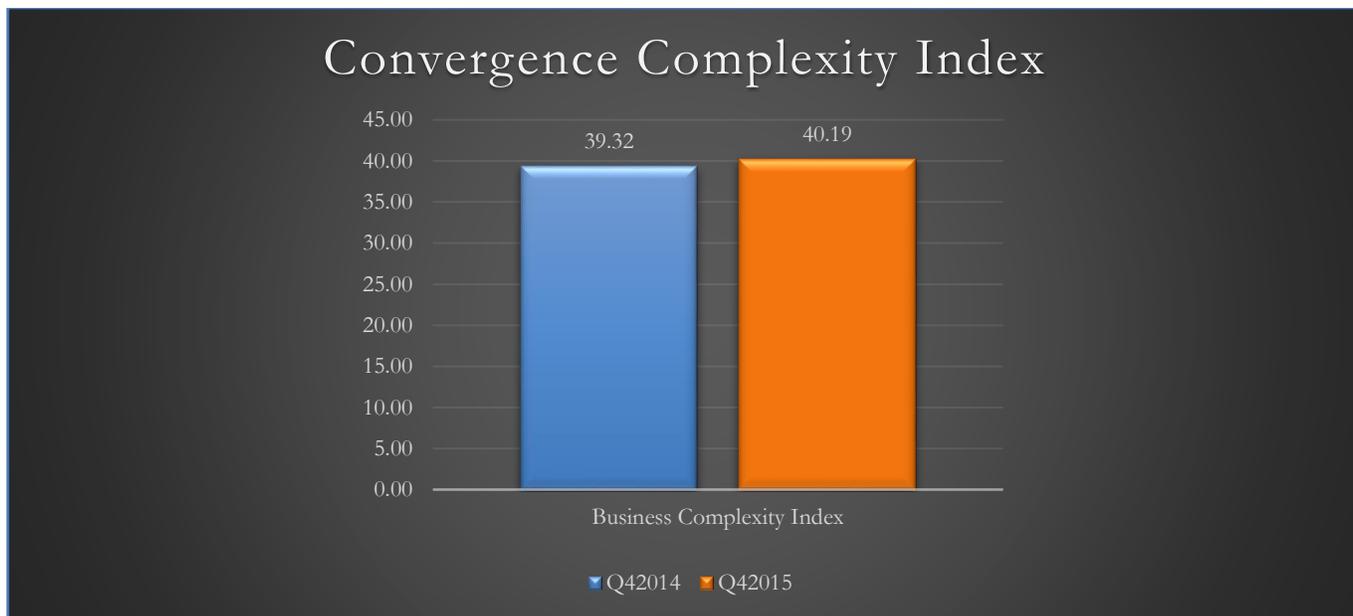
Total Headcount reported by Managers grew 7% to 79,803. This growth in staff reflects the growth in funds advised, the broadening of fund structures to capture new distribution channels and the management of increased business complexity. The number of Investment Professionals grew 8% to 40,103 representing 50.3% of alternative industry staff while Non-Investment grew 7% to 39,700. Convergence believes complexity drives staff levels and that differences we see between complexity and headcount levels are based on the Manager’s culture and choice of service provider and that culture. We estimate industry-wide personnel related cost grew by \$1.02bn year-over year using an average all-in cost of \$187.5k per person. All-in cost includes base compensation and allocated overheads or both investment and non-investment staff and is based on the Convergence estimates of per head cost derived from various industry sources.



Business Complexity and Risk

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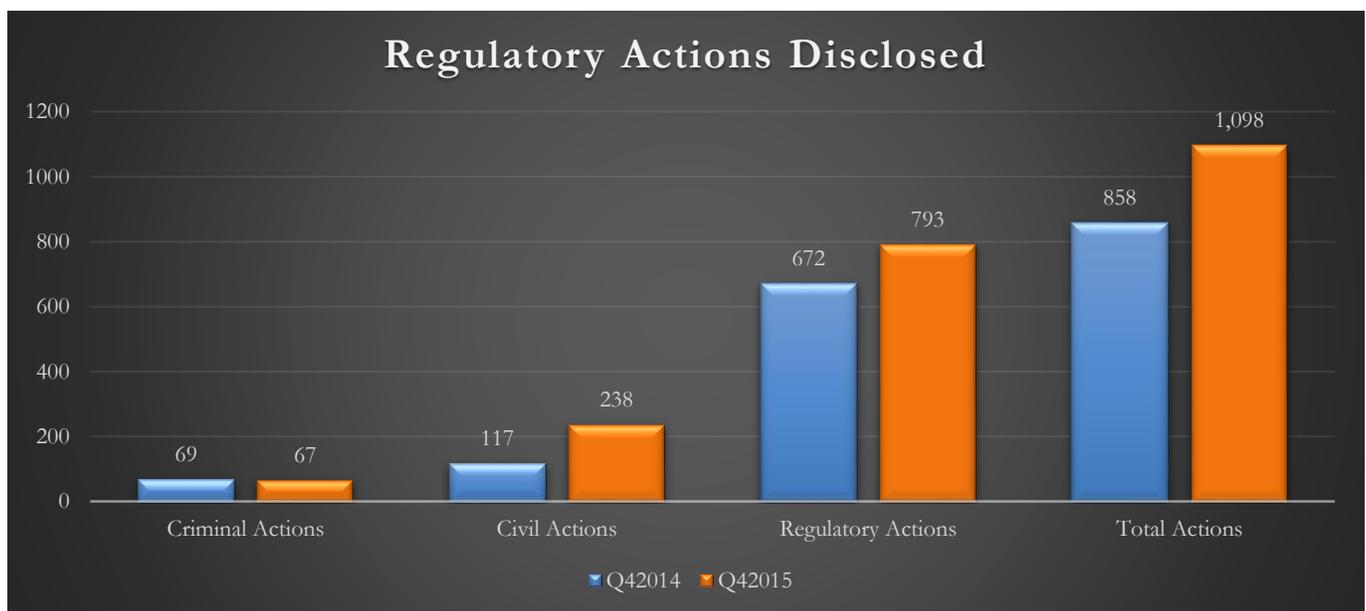
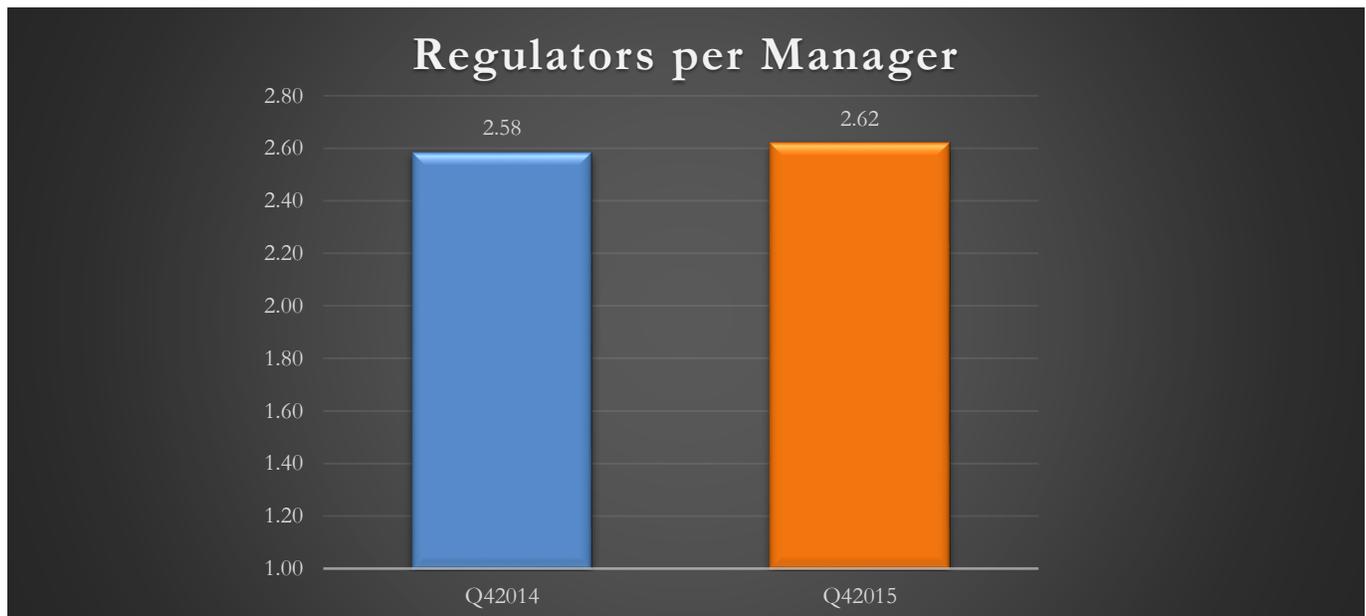
“Convergence’s Complexity Index is a composite value of select complexity factors representing complexity and risk. The “Index” increased by 2% to 40.19 from 39.32. Growth was driven by growth in affiliates, wrap fee programs, regulators, limited partners, total funds, private funds and public funds, and offset slightly by a decline in Service Providers.”



Industry Regulation

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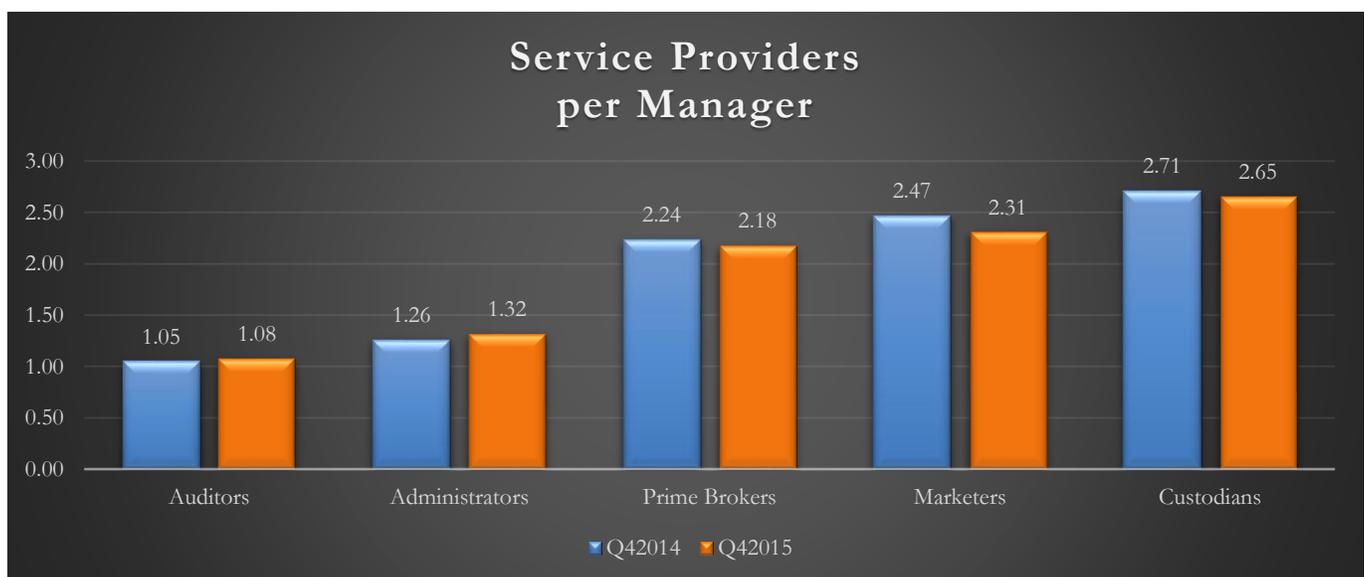
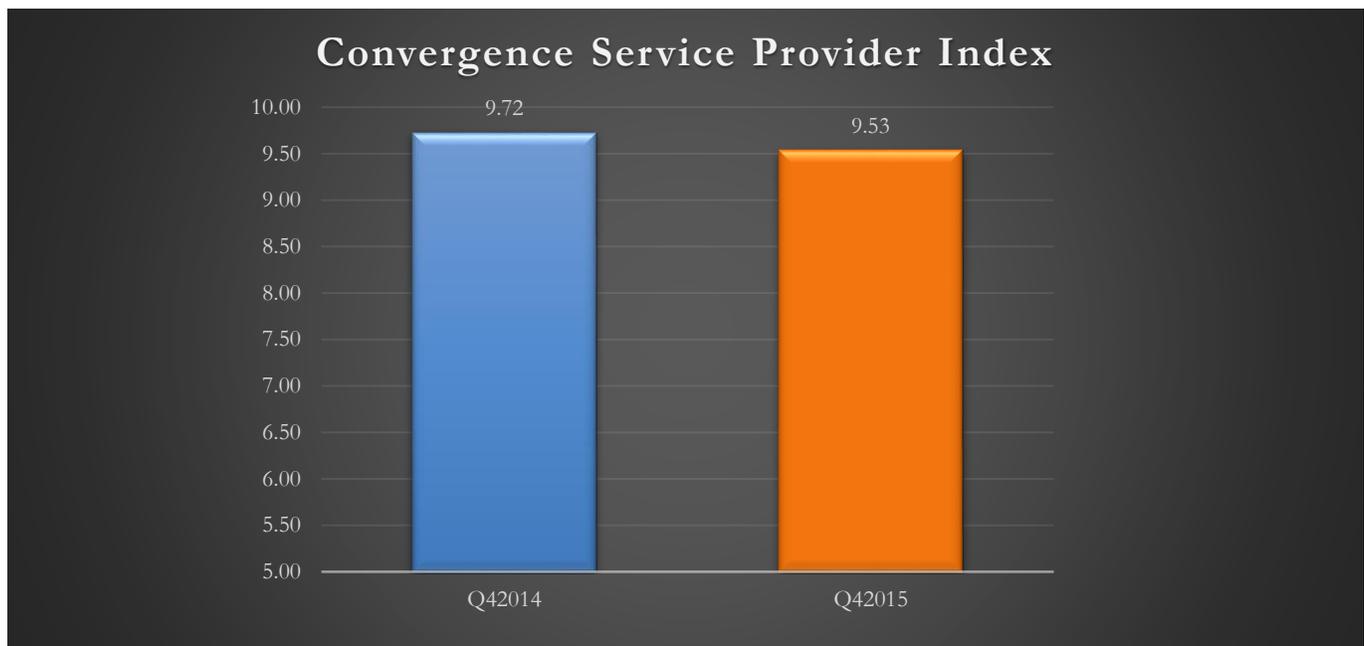
“As expected, the regulatory environment continues to grow and intensify. The average number of regulators disclosed per Manager grew 1.4% to 2.62 from 2.58. This increased level of regulation largely stems from new jurisdictions where business is being conducted and is consistent with the changes we see in fund types and strategies. Additionally, the number of regulators has a strong correlation to the number of regulatory citations disclosed by Managers. Regulatory Actions reported by our manager universe grew 28% from 858 to 1,098.



Service Providers

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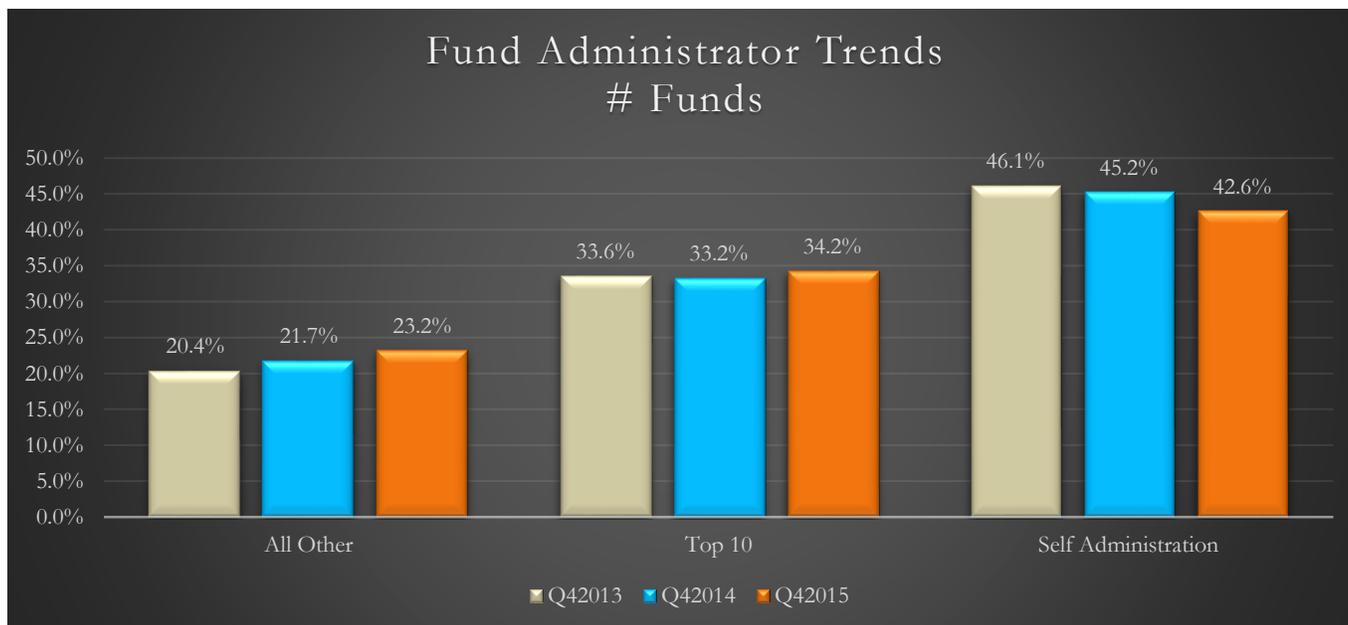
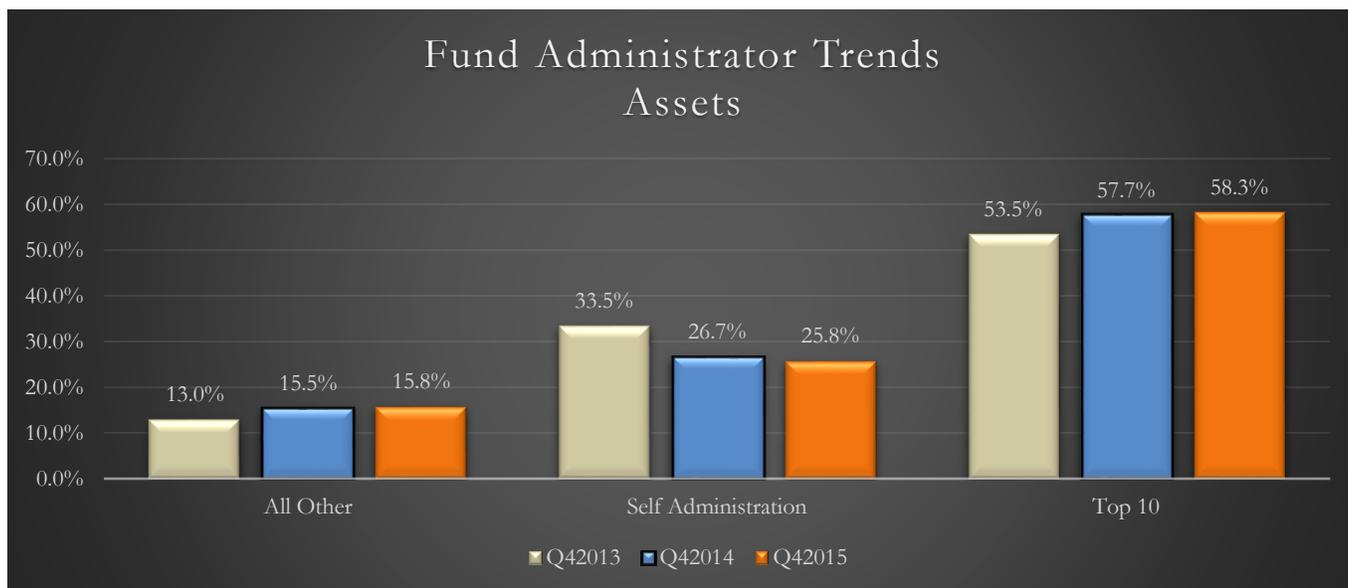
Our Service Provider Index declined by 1.9% driven by consolidation of Prime Brokers and related Custody business. Banks continue to be more selective using their balance sheet to fund these businesses and consolidation continues. Small increases to per Manager Auditors and Administrators was noted suggesting increased diversification in service providers per manager as well as an increase “shadow administration.”



Service Providers-Trends in Fund Administration

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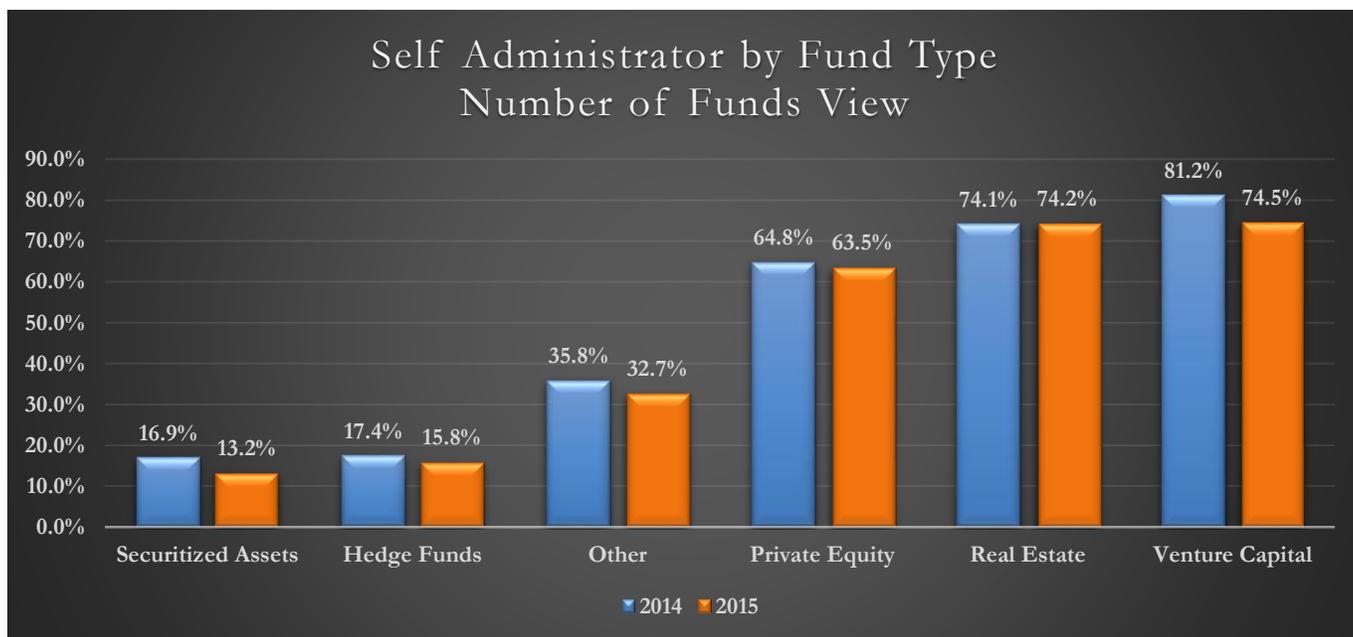
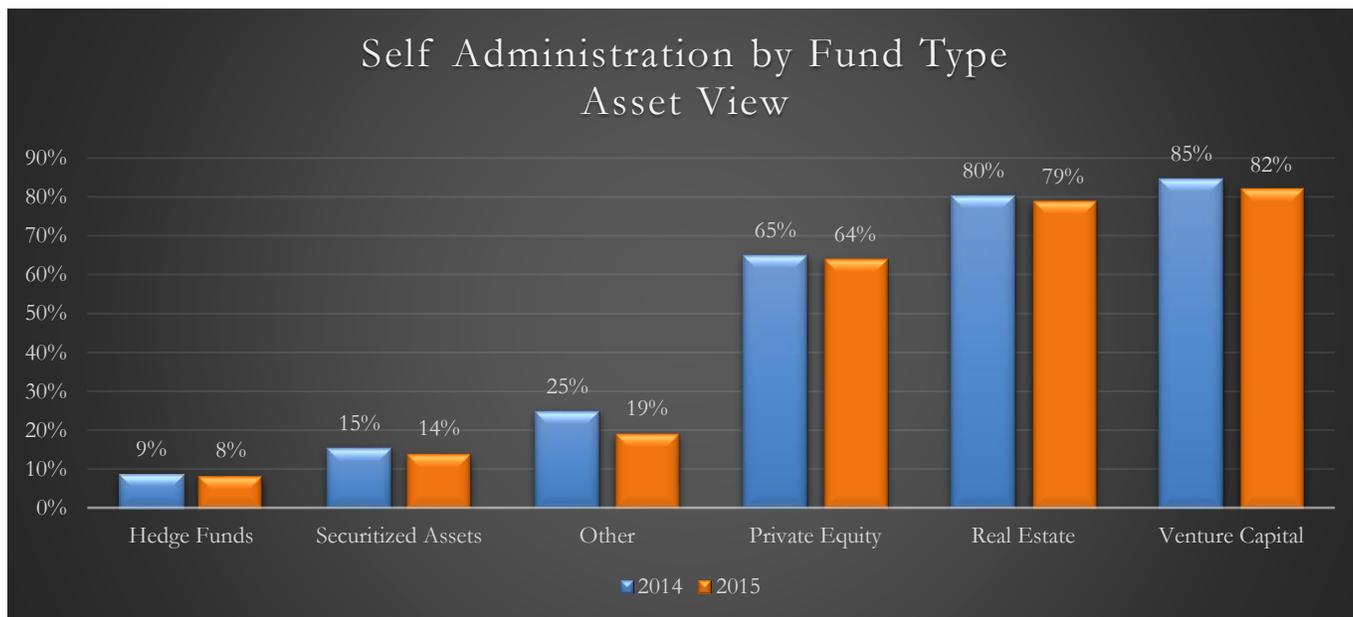
The “Top 10” Administrators service 58.3% of reported assets versus 15.8% for “All Other Administrators” and 25.8% for Self-Administration. Yet the 3-year Asset growth rate for the Top 10 was 1.04% compared to 1.9% for “All Other”, while Self-Administered assets declined 12%. Looking at the growth rate of Funds, “All Other Administrators” grew the number of funds they service at a faster than the “Top 10” clocking in at a 3-Year CAGR of 7% versus 3% for the Top 10. This suggests that smaller Managers are willing to hire Administrators outside of the Top 10.



Trends in Fund Administration-Self-Administration

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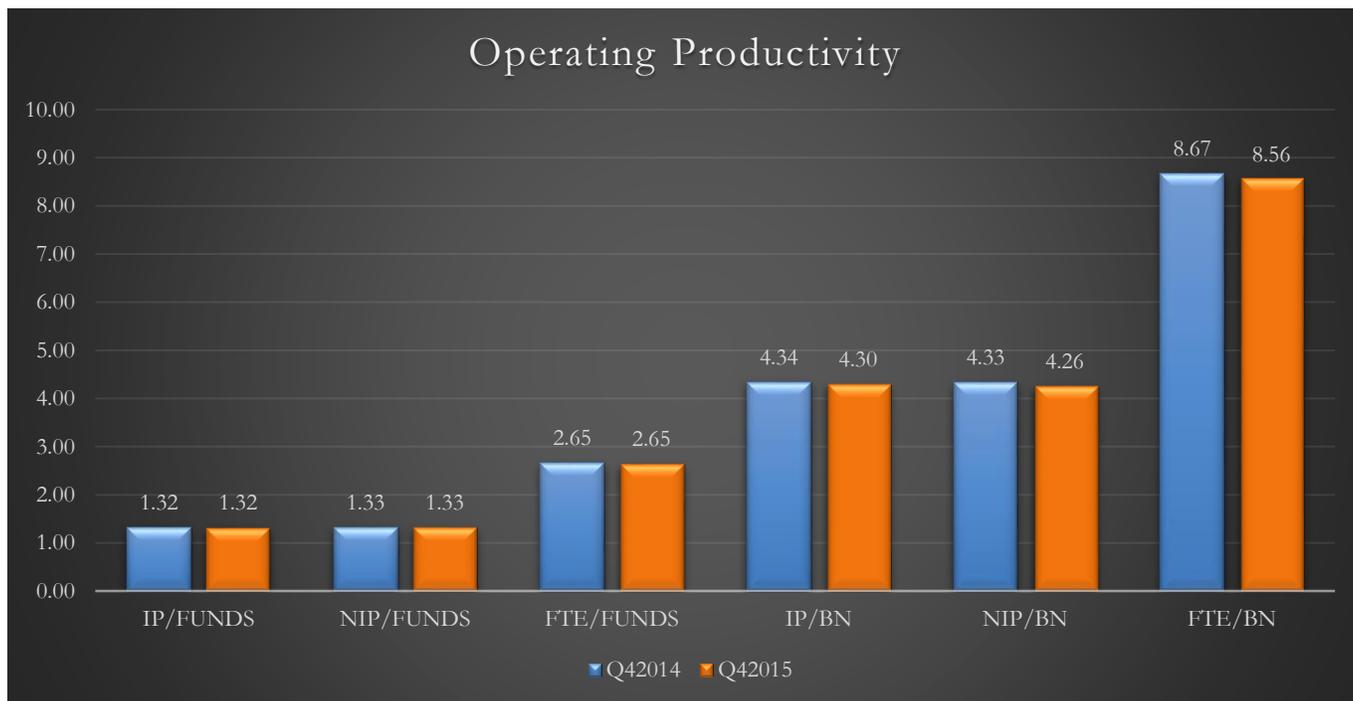
Self-Administration continues to decline. When looking at the value of Fund Assets subject to self-administration we see material year-over-year percentage declines in the following Fund Types: Other Funds (-22%), Securitized Asset Funds (-8%), Hedge Funds (-4%) and Venture Capital Funds (-3%), while the actual number of self-administered funds for this same group fell 9%, 22%, 9% and 8%, respectively. The changes in Securitized Assets is driven by Advisors now reporting an Administrator where in the prior period they did not.



Operating Productivity

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“Operating Productivity, defined as the number of staff needed to support private funds and the number of staff per billion dollars of regulatory assets under management, improved slightly year-over as shown in the decline in headcount needed to support funds and assets. Increased hiring levels were offset the growth in private funds, total accounts, office locations and regulators. Convergence continues to believe this condition creates opportunities for Administrators and Middle Office Service providers who are able to take on the incremental work needed by managers to grow.



Convergence monitors the universe of alternative managers each day seeking to identify and bring to our clients evidence of key industry trends. Our clients leverage our enriched empirical data to help focus their efforts on growing assets, maintaining or improving margins and lowering the operating risk driven by business complexity.

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