

Investor Survey 2023

The Bundesverband Alternative Investments e.V. (BAI) presents the 2023 Investor Survey, the 10th and with 109 participating German institutional investors combining more than € 2.4 trillion AuM the most comprehensive BAI survey to date. In addition, for the 3rd time we surveyed 114 BAI member companies: worldwide operating asset managers and service providers. This report highlights our annual survey results with a hope of providing you with a deeper understanding of how and why institutional investors in Germany invest in alternative assets – not just today, but also in the future.

The BAI Investor Survey has been an important component of BAI's research activities since 2013. The framework for institutional investments in Alternatives is subject to constant dynamic changes. Therefore, the range of questions is continuously updated and adjusted to meet the needs of the investors and BAI member companies. Inflation and a change in central bank monetary policy keeps investors and the private markets on edge. At the same time, private capital is urgently needed to modernize and transform both companies and infrastructure, all that have been systematically captured in the survey once again.

Founded 1997 in Bonn, the currently 287 BAI association's members are based in any field of the professional alternative investments business. The objective of our association's work is to improve the level of public awareness, create internationally competitive and attractive conditions for alternative investments by representing the interests of the industry. The BAI's annual Investor Survey helps to increase transparency in the alternative investments market. The results will hopefully serve as a valuable source of information for you.

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This document is **interactive**. Whenever you see the **hand symbol** you can click on the buttons to get more graphics and in-depth information.

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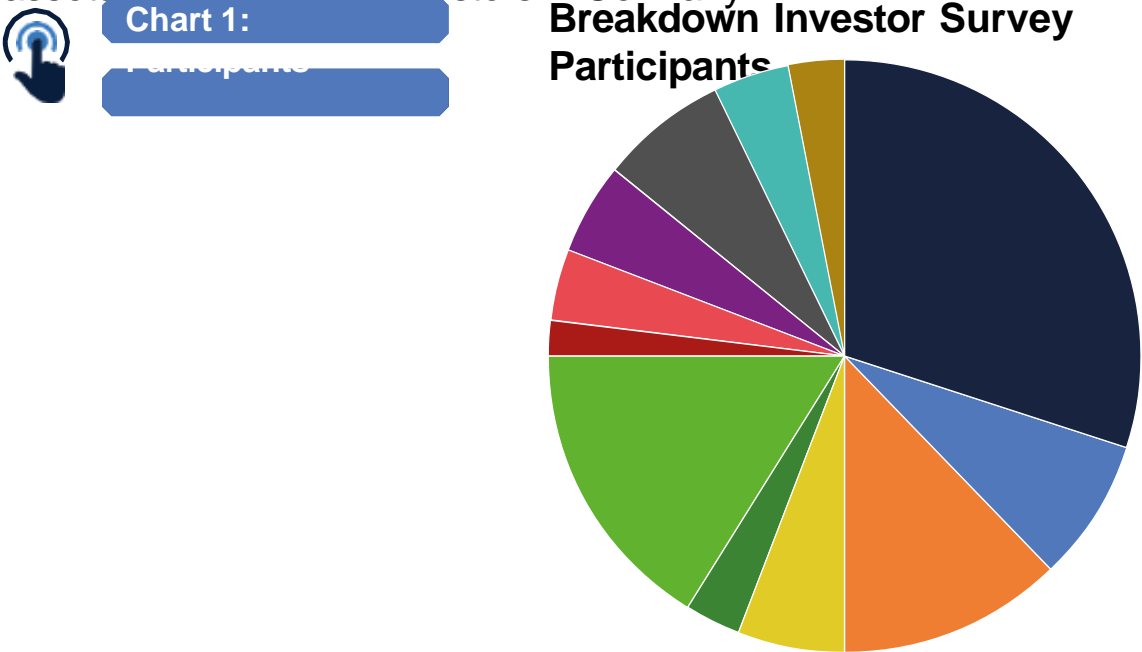
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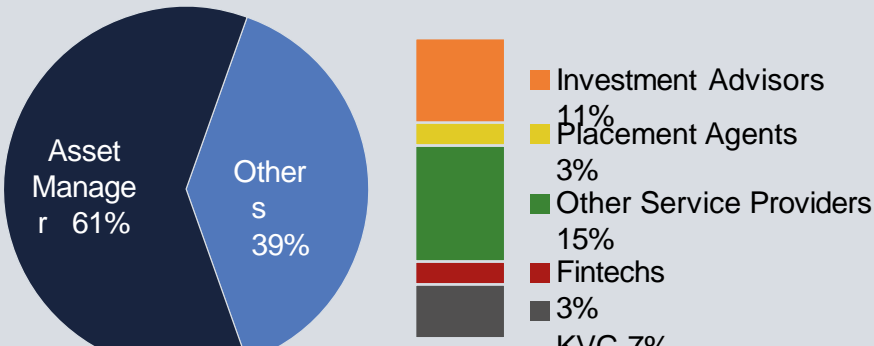
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109 institutional investors across Germany participated in the 2023 BAI Investor Survey. We refer to this group as limited partners (LPs) in the following. This year, the survey included LPs that invest over € 2.4 trillion in balance sheet assets, which represents around 2/3 of the balance sheet assets for institutional investors in Germany.



In addition, we received responses from 114 BAI member companies, mainly globally operative asset managers as well as service providers. We refer to this group as general partners (GPs) in the following.

Breakdown BAI Member Survey Participants



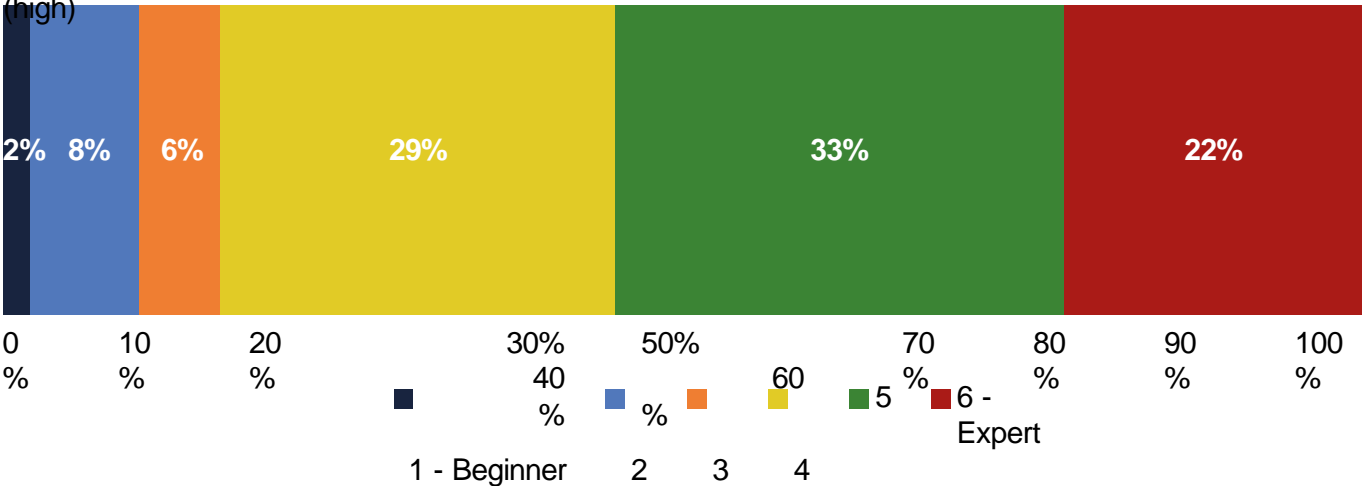
The graphics summarize the profile of this year's respondents. The participating LPs and GPs represent a broad cross section of the alternative investments industry in terms of lines of business and size.



field of alternative investments

Experience in Alternative Investments

Investors gave a self-assessment on a scale from 1 (low) to 6 (high)

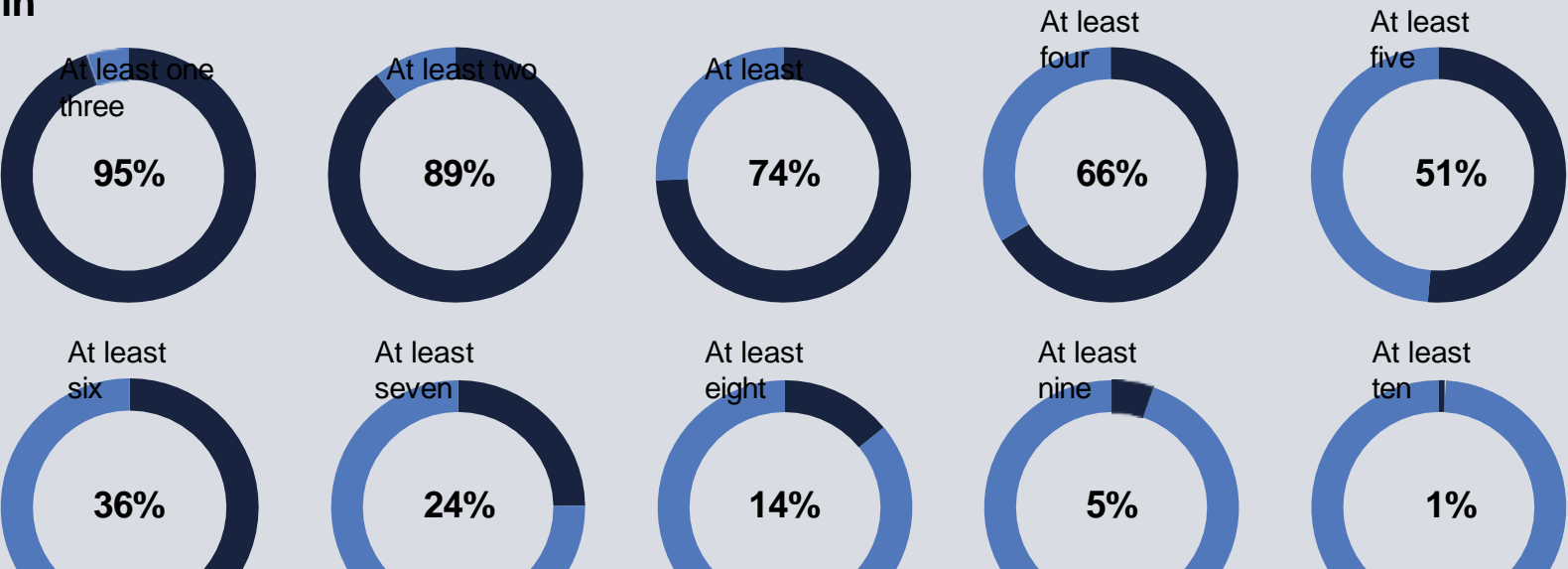


- 22% consider their alternative team to be experts
- Compared to previous years, fewer rate their team at entry-level

The experience is also reflected in highly diversified alternative portfolios

- Meanwhile, almost every institutional investor in Germany allocates to alternatives
- Three out of four investors are already invested in at least three alternative asset classes
- Compared to the previous year, more investors are invested in four or five different alternative asset classes

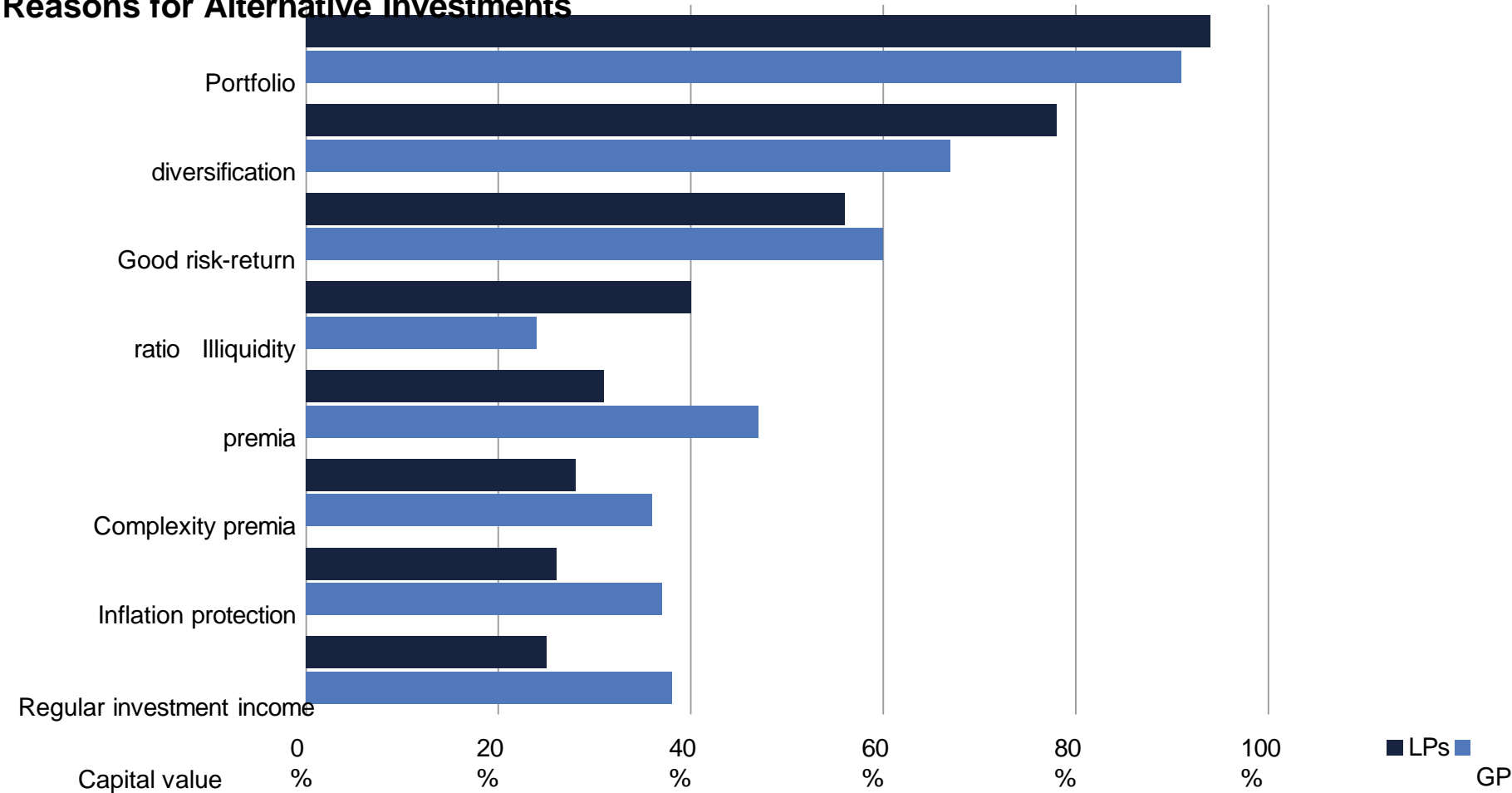
Number of Alternative Asset Classes Invested in



We asked LPs about the key drivers for investing in alternatives. In addition to the LP survey, GPs were asked to assess the investors' drivers.

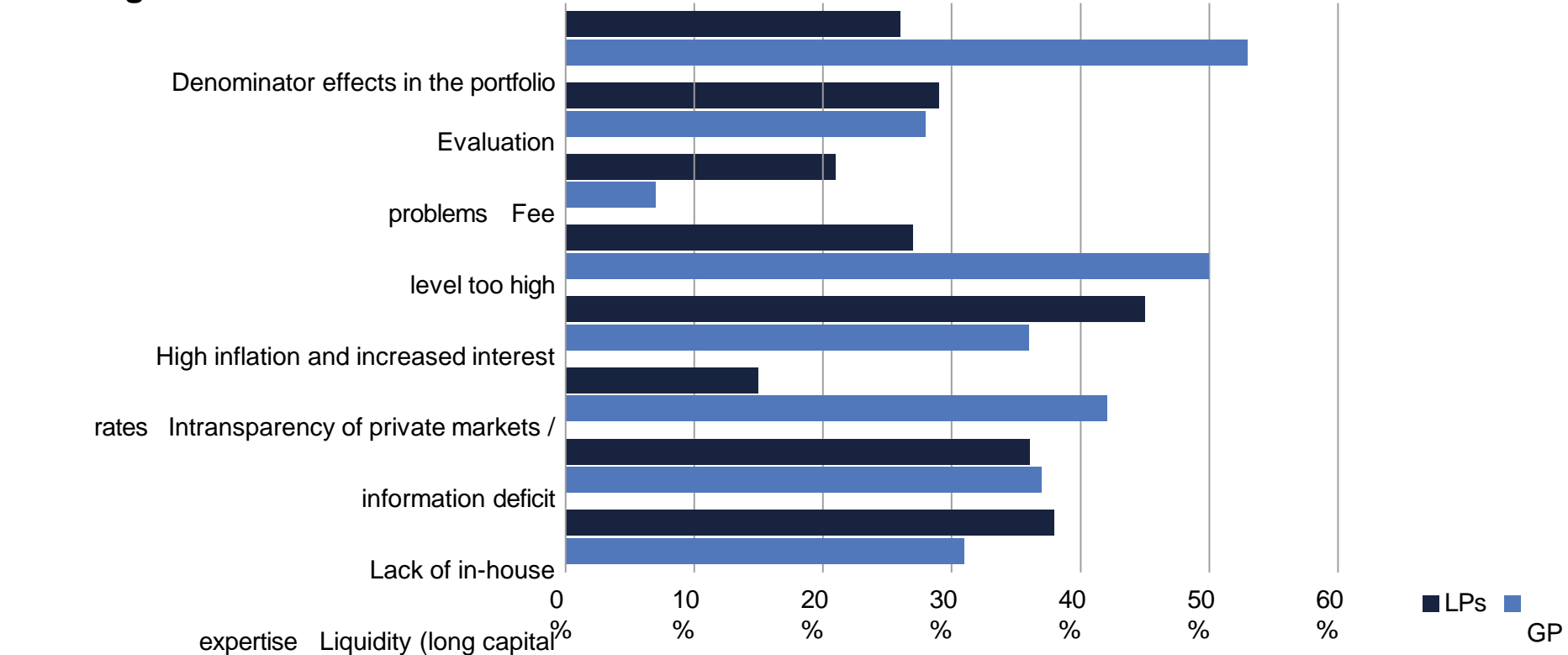
- Investors continue to see a good risk-return ratio in alternative investments
- GPs underestimate the relevance of complexity premia for LPs
- Inflation protection more in focus compared to previous years
- ESG goals are not among the major reasons for investing in alternatives

Reasons for Alternative Investments



Again, in addition to the LPs, GPs should assess the investors' biggest challenges when investing in alternatives.

Challenges with Alternative Investments



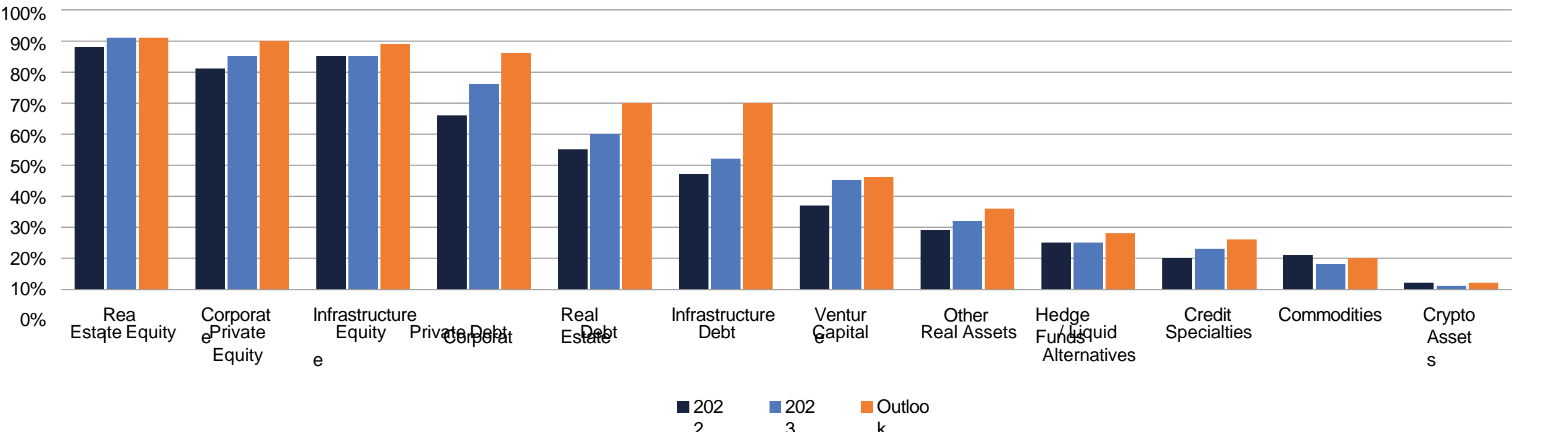
Liquidity is an issue for investors for the first time in many years: Fixed-income investments can no longer be sold to fund private markets investments, resulting in a potential risk of investment halt in the private markets. Investors now need to perform scenario analysis to ensure they are prepared for every possible eventuality. Otherwise, they could become a “forced seller” in the market.

- Challenges are mostly individual per investor
- Continuous development of in-house teams' competencies is now paying off for investors
- Inflation protection not yet manifested as a challenge among many investors

Institutional investors allocating to each asset class – last year and this year. The outlook adds the planned entries of new investors to each asset class.

- Considerable market entries projected for most asset classes
- Private equity and infrastructure equity have almost caught up with real estate as the traditional go-to asset class in Germany
- Alternative credit: Largest expected increase due to new investors for infrastructure debt – corporate private debt and real estate debt also attracting new investors
- The outlook for hedge funds & liquid alternatives in Germany remains uncertain: Are first-time investors able to compensate the withdrawals of present in-vestors?
- Crypto is stalling and has not yet developed into the new asset class for institutional investors

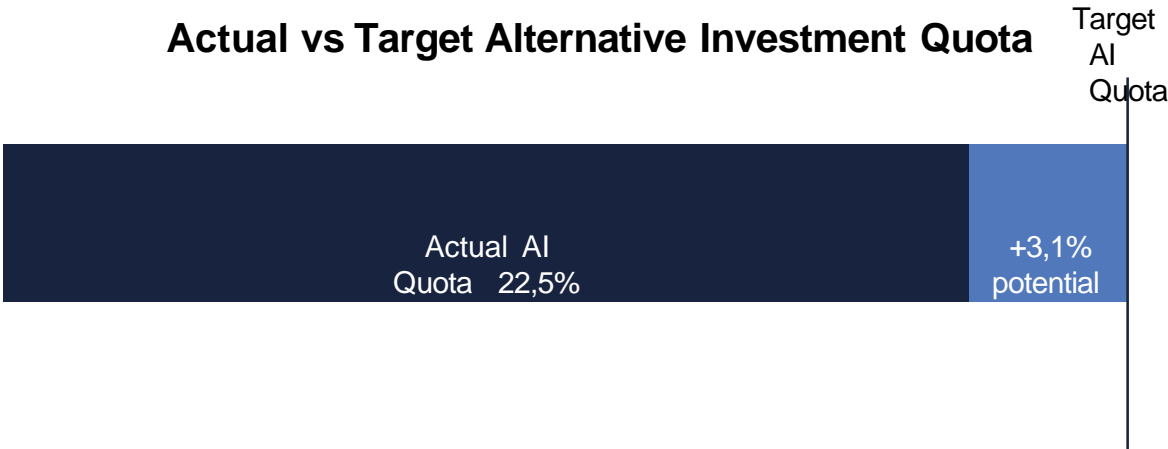
Proportion of Investors allocating to each Asset Class



alter- native investments almost unchanged compared to previous years

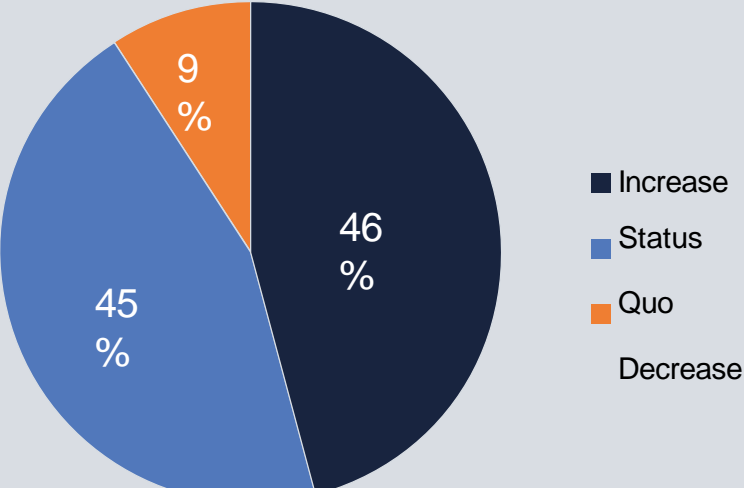
significant differences among individual investors: The SAA for alternative investments ranges from low single digits to as high as 90% for some foundations and SFOs.

In addition, some corporates, pensions and especially German “Versorgungswerke” already manage or are aiming for an AI-quota of over 50%.



Investor risk appetite remains healthy in 2023 and beyond, with continued interest in the private markets landscape. This is mirrored in the second chart: 46% of investors want to increase their alternatives allocation, only 9% want to reduce it.

Alternative Investments in a Portfolio Context



The charts provide an overview of intended allocation adjustments per asset class for already allocating investors.

- Significant fund inflows expected for private equity, private debt and infrastructure (equity & debt)
- Real estate: More fund outflows than inflows expected for the first time in a while
- Mixed evidence for real estate debt: On the one hand, new investors are looking to invest in real estate debt, while on the other hand, present investors mainly planning to maintain the status quo or even reduce their allocation
- Hedge funds and liquid alternatives cannot turn the tide in their favor



Chart 1: Real

Chart 2: Corporate Private

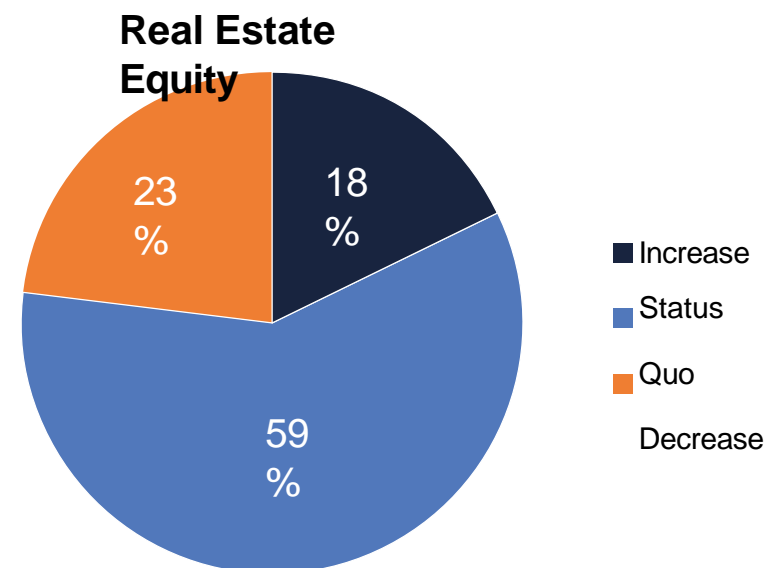
Chart 3: Infrastructure

Chart 4: Corporate Private

Chart 5: Real Estate

Chart 6: Infrastructure

Chart 7: Hedge Funds / Liquid Alternatives

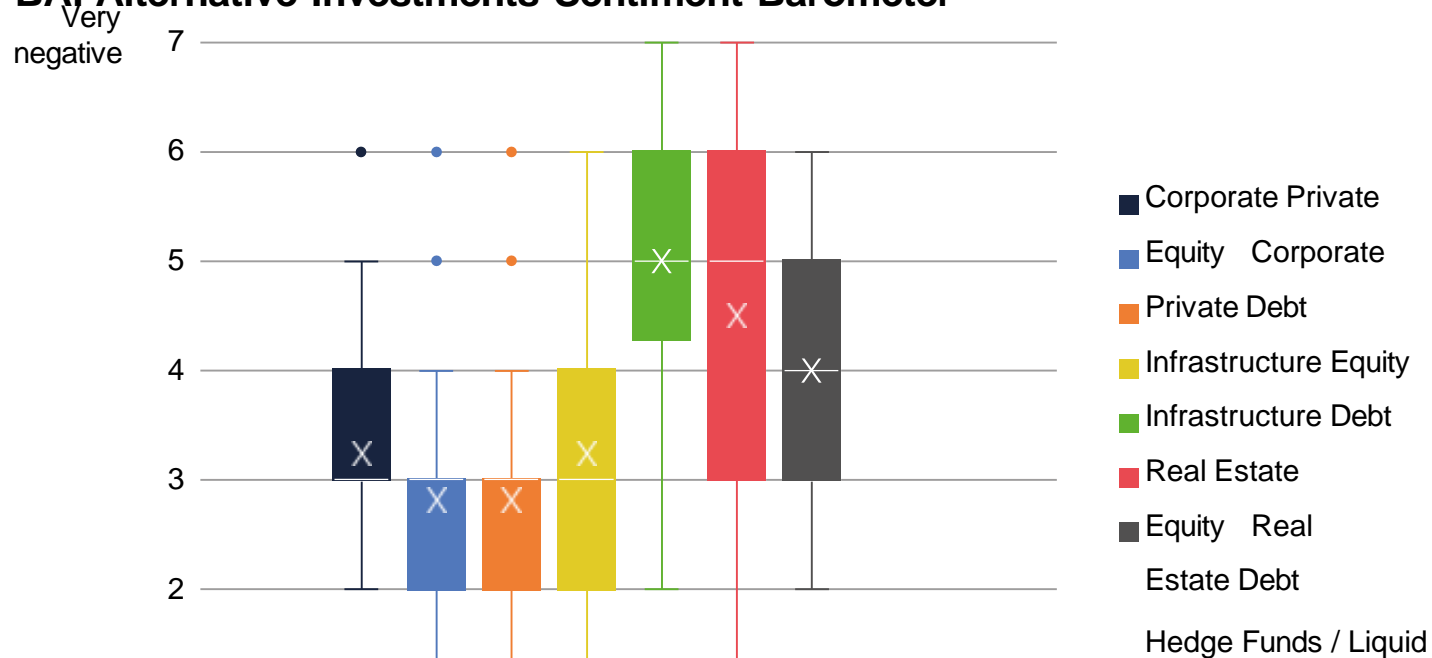


Sentiment Barometer

Investors were asked to assess the present investment environment for various asset classes on a scale from 1 (very positive) to 7 (very negative).

- Overall, investors evaluate the best investment environment for corporate private debt and infrastructure equity
- Slightly positive sentiment for private equity
- Surprisingly, opinions on infrastructure debt vary widely. Overall, the average view on the asset class is slightly positive
- Same for real estate debt, but the average view is slightly negative
- Neutral view on hedge funds & liquid alternatives
- Real estate equity is considered by far the most negative

BAI Alternative Investments Sentiment Barometer



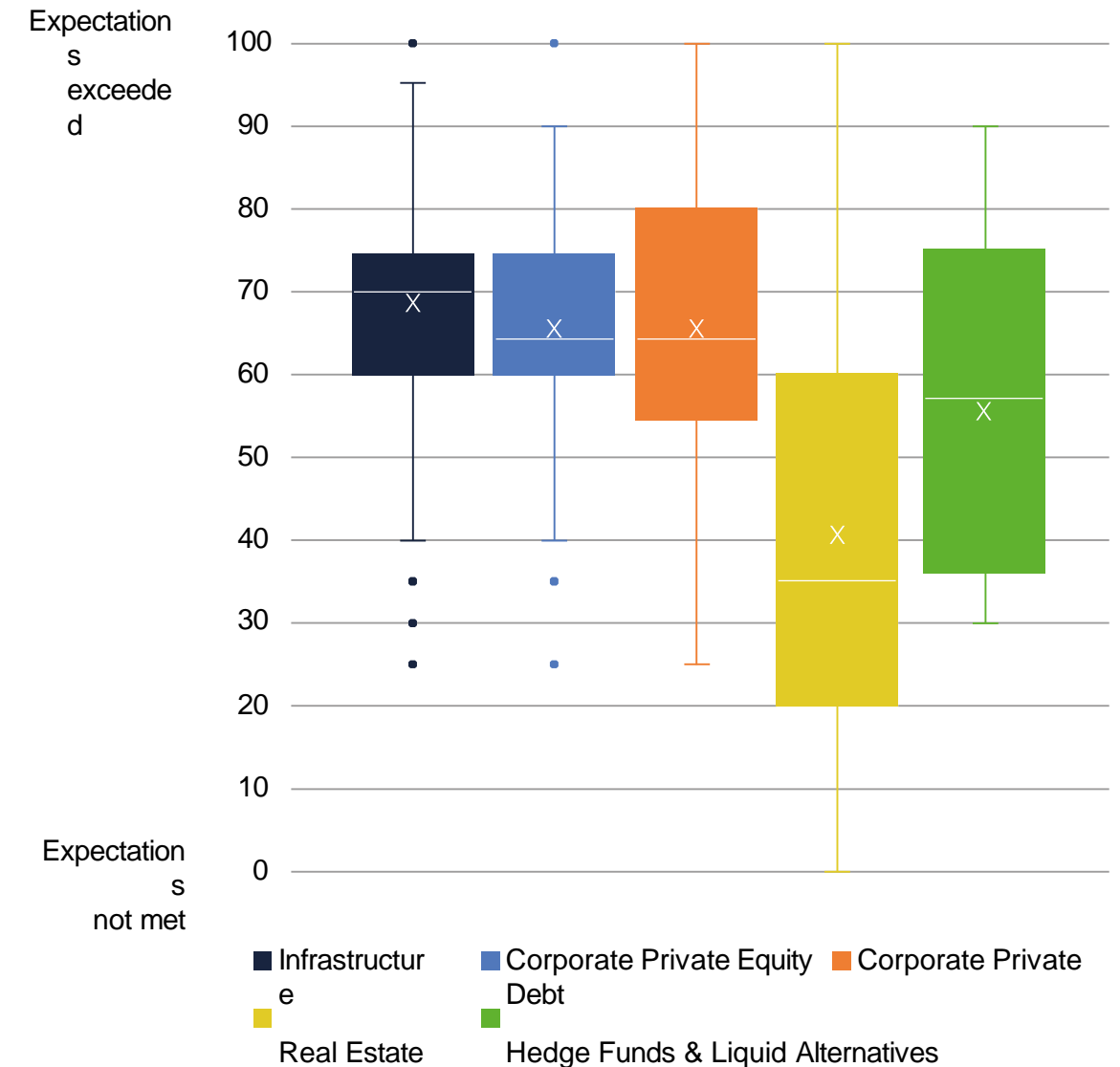
How to read our boxplots: the box represents the interquartile range (IQR) which is defined as the distance between the 1st quartile and the 3rd quartile (50% of observations within this range). The middle line of the box represents the median. The x in the box represents the mean. The whiskers (vertical lines) extend from the ends of the box to the minimum value and maximum value within 1.5 times the IQR. A data point is considered an outlier if it exceeds a distance of

environment over the last 12 months

We asked investors to what extent their investments have met their expectations over the past 12 months on a scale from 100 (expectations exceeded) to 0 (expectations not met).

- On average, infrastructure investments performed the best in relative terms
- Followed closely by private equity and private debt that also exceeded expectations on average
- All three asset classes show a few outliers on the downside
- Vast sentiment range for real estate, with a slight tendency to the negative
- Hedge funds & liquid alternatives show no negative outliers: overall, a slightly positive sentiment picture

Have the Asset Classes Delivered what they Promise?



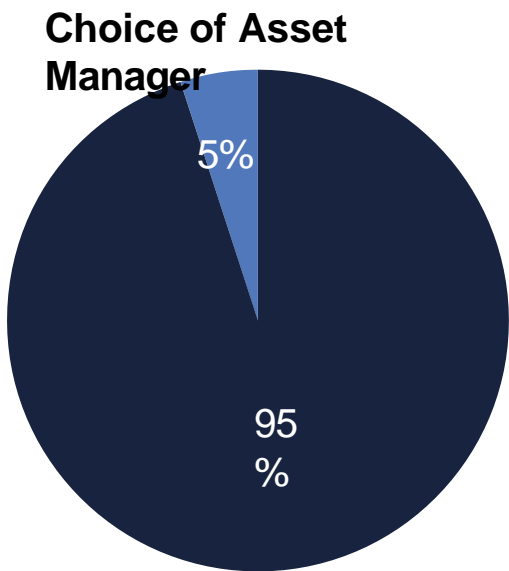
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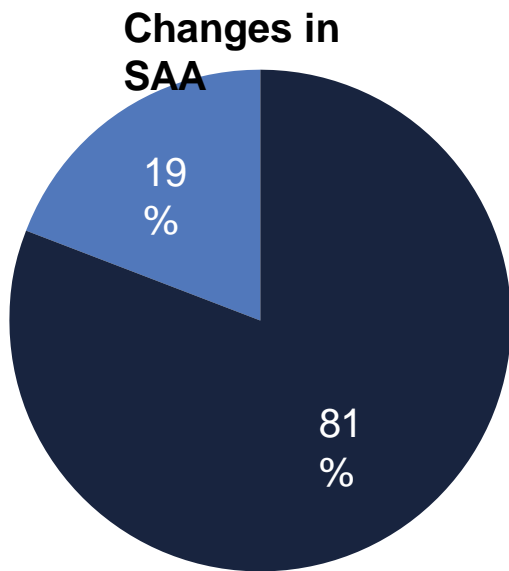
Only 5% of investors strive for significant changes in their manager selection.

Likewise, only 19% plan to revise their SAA and only 26% are working on tactical asset allocation changes.



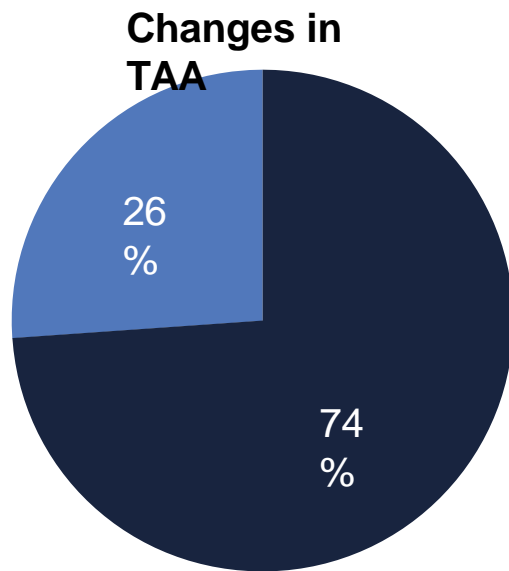
■ In general, we are sticking with our managers in the prevailing market

■ We are working on significant changes in our manager selection



■ no significant changes

■ significant changes

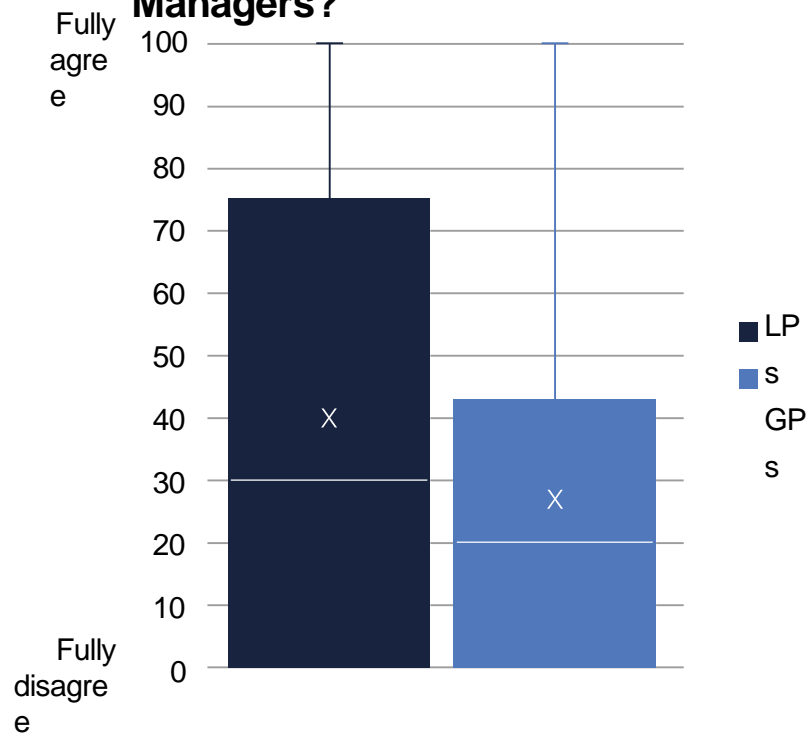


■ no significant changes

■ significant changes

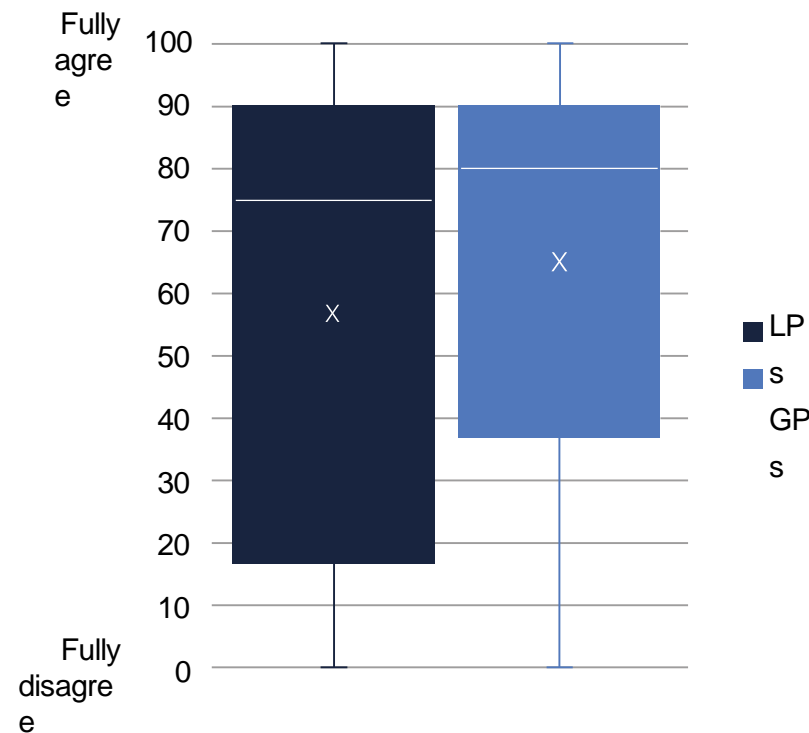
We asked both investors and asset managers for their views on various trending topics on a scale from 100 (fully agree) to 0 (fully disagree).

Do LPs avoid Mega Managers?



Opinion on mega managers is mixed. Asset managers slightly underestimate the share of investors that tend to avoid mega managers.

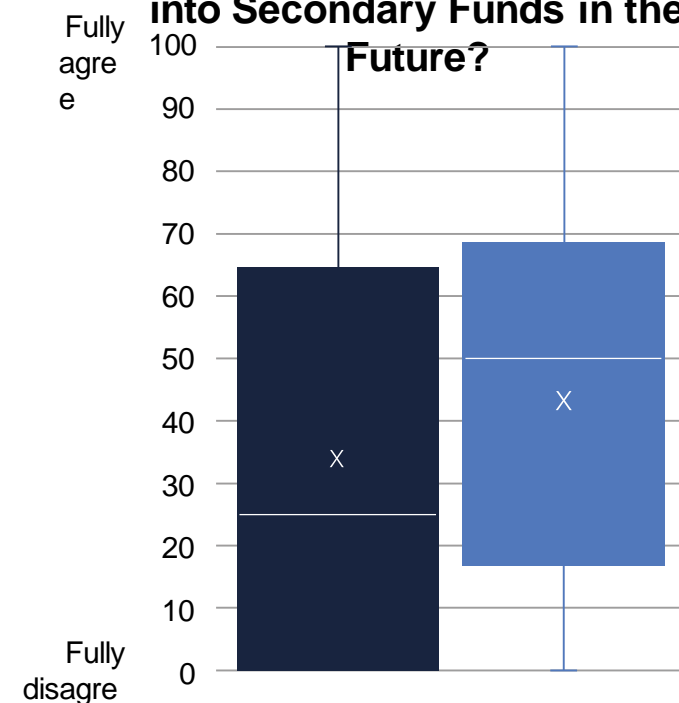
Do LPs avoid First-Time



Again, opinion on first-time managers is mixed. Investors tend to avoid managers who are launching their first fund. However, this is far from true for everyone, and GPs slightly overestimate the proportion of investors who avoid first-time managers.

Chart 1: Secondary Funds Chart 2: Co-Investment

Do LPs increase Investments into Secondary Funds in the Future?



LPs: We plan to invest more into secondary funds in the future
GPs: We plan to launch more secondary funds in the future

Many managers have been launching secondary as well as co-investment funds lately. The LP-demand for them is increasing. But is this demand being over-estimated by the GPs? At least, that may be what our data indicate for secondary funds.

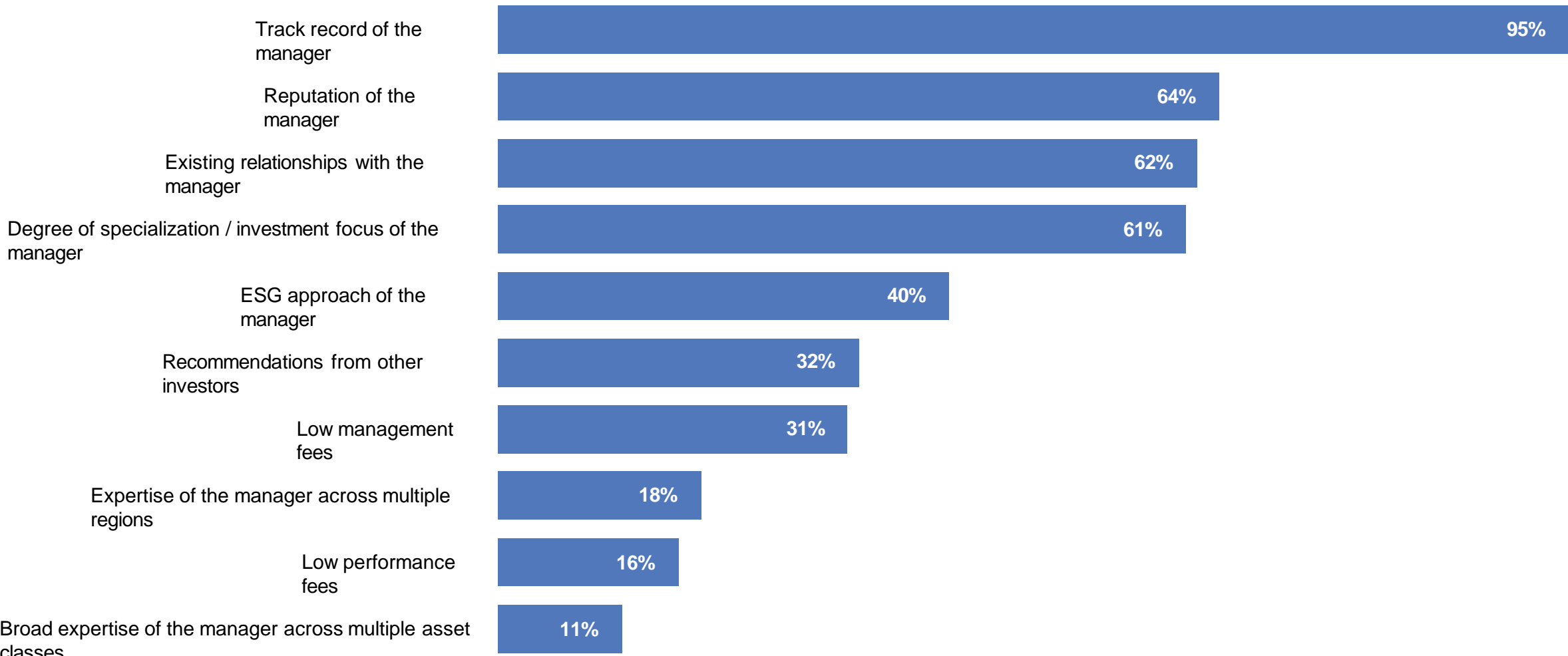
How to read our boxplots: the box represents the interquartile range (IQR) which is defined as the distance between the 1st quartile and the 3rd quartile (50% of observations within this range). The middle line of the box represents the median. The x in the box represents the

reputation are key for being selected as fund manager

We asked investors about their priorities in their manager selection process (multiple answers possible).

- Investors are looking for specialized managers with a clear investment focus rather than managers with broad expertise across multiple asset classes
- Performance fees are not paramount, the same usually applies to management fees
- The ESG approach is increasingly moving into the spotlight

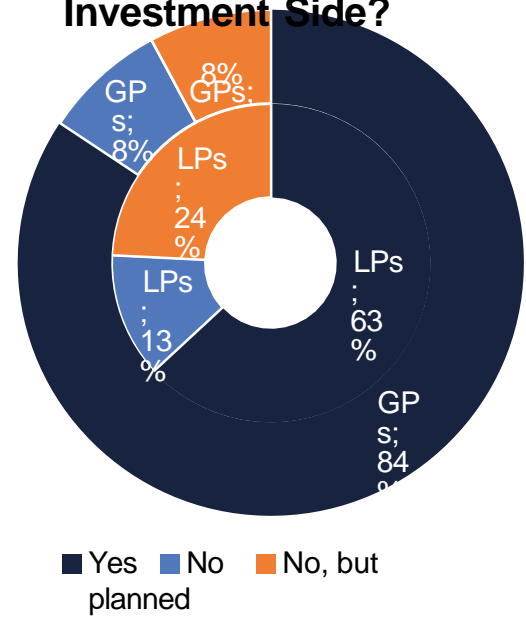
Priorities in the Manager Selection Process



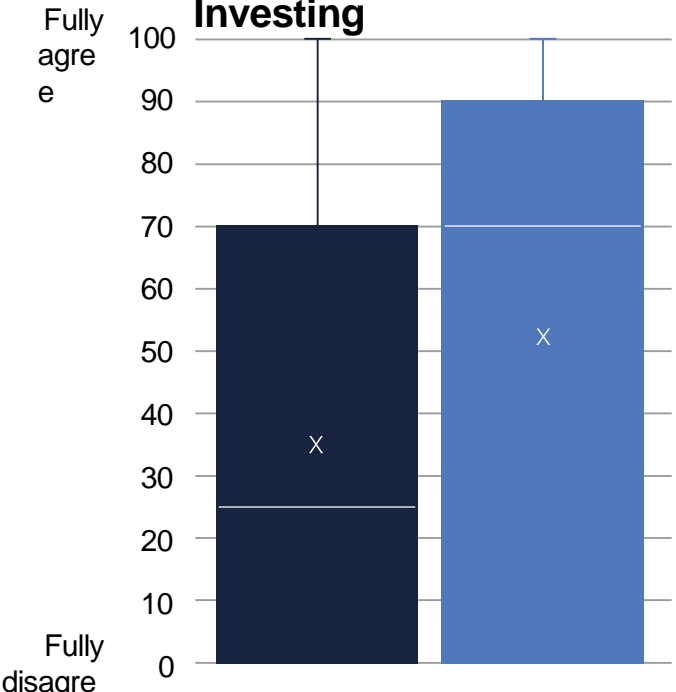
Environmental, Social, and Governance (ESG) factors and impact investing continue to be at the forefront of portfolio considerations.

- Little change observed compared to previous years. The proportion of investors pursuing an ESG strategy has manifested itself
- 84% of BAI members now pursue an ESG strategy on the investment side

Do you Pursue an ESG Strategy on the Investment Side?

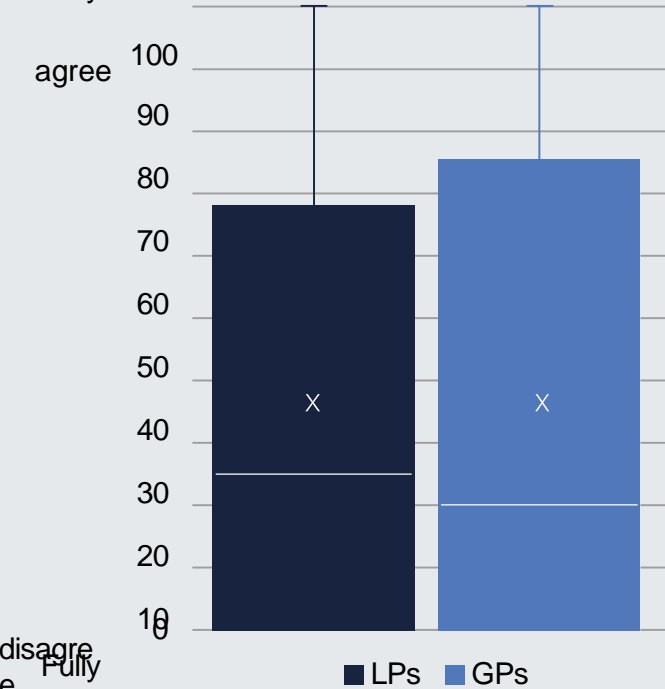


Private Markets are better suited for ESG Investing



Overall, the opinions of the individual LPs and GPs differ widely on this question. The majority of GPs believe that private markets are tailor-made for ESG investing. Conversely, most investors disagree that private markets are better suited for ESG

Greenwashing is a bigger Problem in Public Markets than in Private Markets

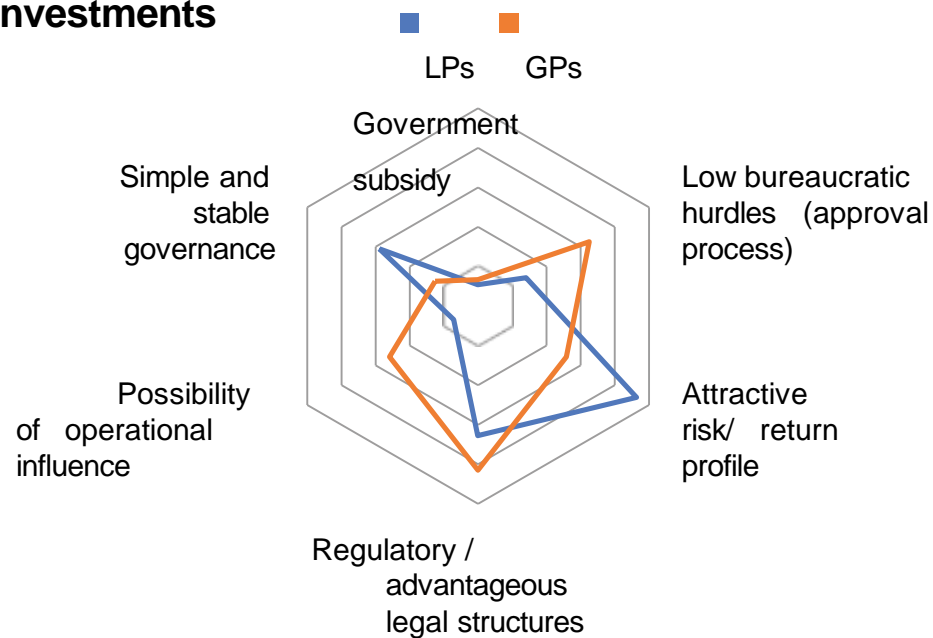


Once again, individual opinions differ widely. Overall, both groups, investors and asset managers, agree on this issue: The majority sees no major greenwashing problems in public markets compared to private ones.

Germany competes internationally for private funding for infrastructure investments. 94% of BAI member companies invest the funds investors

A look at the portfolios of German institutional investors also shows that they primarily invest in foreign projects.

Importance of local Factors for Infrastructure Investments

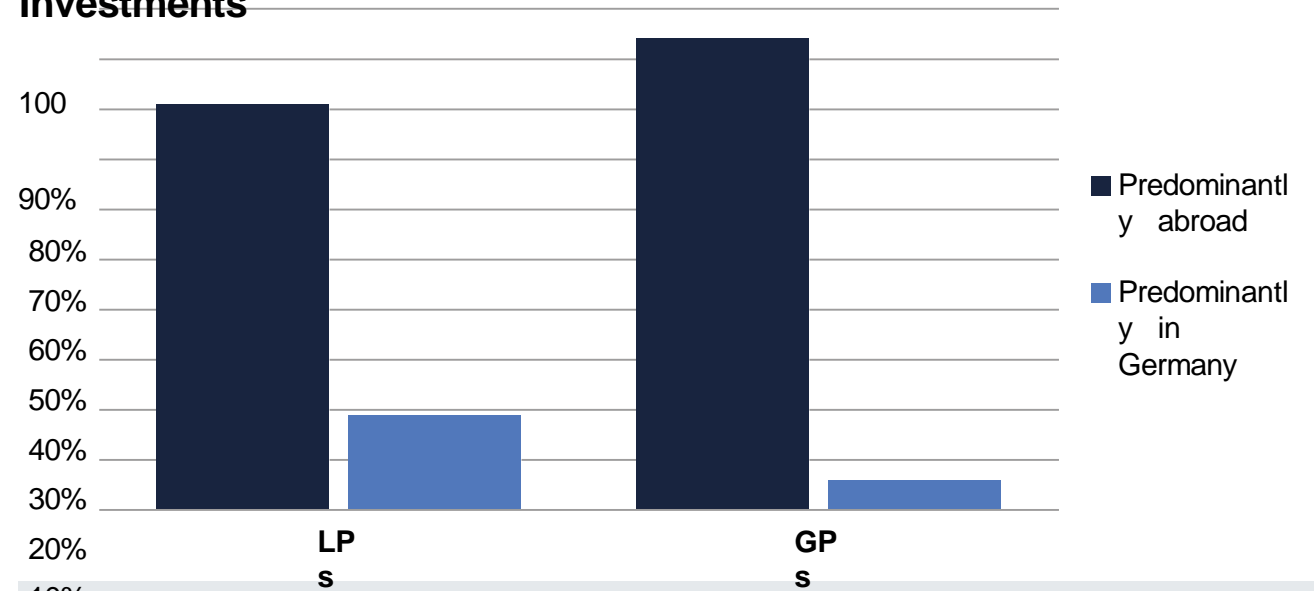


■ Attractive risk/return opportunities, as well as advantageous local legal structures and simple and stable governance, are the primary concern for investors

■ For GPs, in addition, the possibility of operational influence and low bureaucratic hurdles during the project approval process is of significant importance

– State subsidies are mostly irrelevant in the decision making

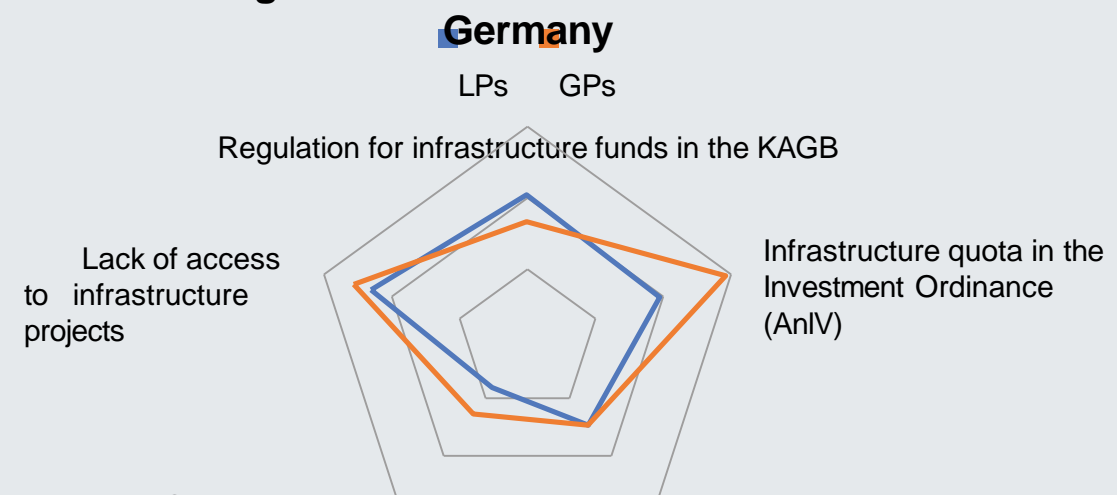
Geographic Allocation of Infrastructure Investments



Regarding Germany, insufficient access to infrastructure projects remains the biggest hurdle for LPs and GPs.

In addition, the regulation must be coherent. Good examples, such as the infrastructure quota in the Investment Ordinance (AnIV), should be pursued further and be expanded.

Challenges for Infrastructure Investments in Germany



Alternative Investments		Navigator	Debt			Equity
Strategy		Examples	Senior	Junior	Mezzanine	Equity
Public Market {Mainly Liquid}	Liquid Alternatives (and other)	<ul style="list-style-type: none"> Hedge Fund Strategies within regulated UCITS vehicles Crypto Assets 				
	Hedge Funds	<ul style="list-style-type: none"> Equity Strategies Macro Strategies Event Driven Strategies 				
	Commodities	<ul style="list-style-type: none"> Energy Metals Agricultural 				
Private Markets {Mainly Illiquid}	Corporate	<ul style="list-style-type: none"> Private Debt incl. Direct Lending Private Equity Venture Capital 				
	Real Estate	<ul style="list-style-type: none"> Residential Real Estate Commercial Real Estate Social Real Estate 				
	Infrastructure	<ul style="list-style-type: none"> Transportation Communication Energy / Renewables 				
	Other Real Assets	<ul style="list-style-type: none"> Aviation Shipping Raw Materials incl.Timber 				
	Special Situations	<ul style="list-style-type: none"> Insurance Linked Securities Trade Finance 				

The Bundesverband Alternative Investments e.V. (BAI) is the asset class- and product-spanning representation of interest for Alternative Investments in Germany.

Our goals

- We are improving the level of public awareness for alternative strategies and asset classes
- We are creating internationally competitive and attractive (regulatory) conditions for the investment in Alternative Investments
- We are representing the interests of the industry to politics and regulators
- We are serving as a catalyst between professional German investors and recognized worldwide providers of Alternative Investments
- products and services We are supporting scientific research in the field of Alternative Investments

Founded 1997 in Bonn, the association's members are resident in any field of the professional Alternative Investments Business. 287 national and international companies are members of the BAI. The members directory can be found [here](#).

Conferences and Events

- **BAI Real Assets Symposium**
October 19, 2023, The Westin Grand, Frankfurt
- **BAI ESG Workshop**
November 20, 2023, Frankfurt School, Frankfurt
- **BAI Private Debt Symposium**
March 5, 2024, Scandic Hotel Hafenpark, Frankfurt
- **BAI Alternative Investor Conference (AIC)**
22-24 April, 2024, Kap Europa, Frankfurt