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Samir Pandiri & Jim Whitaker on Alternatives

Samir: The biggest trend in the industry has been really the shift to alternatives. When people talk about alternatives, what they're thinking about are hedge funds, private equity firms, real estate investments, investments in commodities, or other hard assets, which are non-traditional securities, the bonds, the fixed income that they would normally have.

Jim: The alternatives industry is about \$2.4 trillion now. Our large institutional clients are allocating upwards of 25% of their portfolios to alternatives.

Samir: Alternatives are becoming much more mainstream. That's a huge sea change that's here to stay for the long term.

Jim: As a result of the credit crisis one of the more significant changes we saw from the alternative side, was an increased focus on managing counter party exposure and counter party risk.

Samir: The other thing that regulations are trying to do, is they are really designed to help protect the investor and the investor assets.

Jim: What it all really means is increased cost for our clients.

Samir: Regulation can be turned around into a huge advantage to really drive the demand and increase, you know, liquidity in the market.

Jim: What I hear most from clients is, I want to get back and focus on managing capital, that's what I'm paid to do.

Samir: The landscape has become much more complex. Regulators on a global basis want to make sure that there's good risk management and transparency around client assets. The second thing that's, you know, driving regulatory change, is really the complexity of the products and services.

Jim: To our alternative investment clients, they came out of a more lightly regulated environment, and what that means is they need to have an infrastructure to meet those requirements ... legal, compliance, regulatory folks. That expansion of their infrastructure changes the economics in their business model because it puts additional costs on them to that.

Samir: Looking at where interest rates are and, where yields are, you know, we really think this is a structural change that will be there for a very long period of time. And really, I think the punch line here is, alternatives are really no longer alternative, they're really very main stream.

Readiness Checklist

- Are you able to achieve transparency into your alternative investments?
- Are you ready to meet regulatory requirements?
- Can you evaluate forward-looking risk?

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