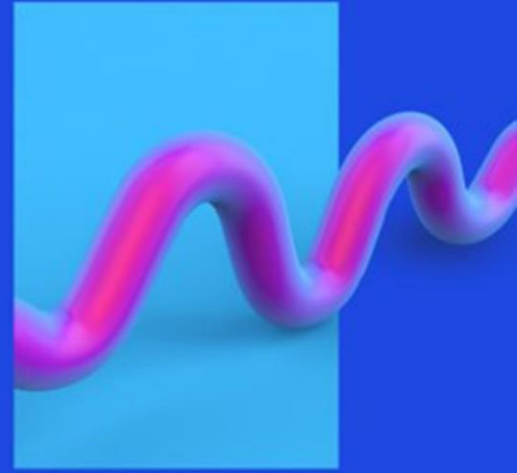




# AIMA's Alternative Preferences Market Report

In collaboration with KPMG in Canada

July 2024



AIMA's 2024 Annual Canada Market Survey benefited in strong response levels from Canadian alternative market industry stakeholders. As in previous years, stakeholders from three key respondent categories - investor, manager, and asset servicer, participated in the survey.

**The survey results affirmed that appetite for alternative products in the Canadian market remains strong. This demand for alternatives is met by Canadian managers who continue to develop innovative alternative products aimed to provide clients exposure to alpha performance outcomes.**

David Bardsley, Partner, Advisory, Management Consulting, Wealth & Asset Management

## Driving forces and challenges in the Canadian alternative investment market

Investors comprised 58% of the overall responses, managers comprised 30% and the balance was comprised of asset servicers. The survey results affirmed that appetite for alternative products in the Canadian market remains strong, a thematic which has evidenced over the past several years.

Survey results support the industry thesis that the Canadian Alternative Market is driven by demand for products by local investors looking to maintain or grow portfolio exposures to alternatives, which is 94% of total investors that participated. This demand for alternatives is met by Canadian managers who continue to develop innovative alternative products aimed to provide clients exposure to alpha performance outcomes.

Importantly, it is reasonably expected that the development of innovative alternative products will continue to put pressure on several market participants, namely asset servicers and dealers. Asset servicers will need to continue evolving their service delivery models to provide holistic servicing solutions across alternative public and private asset classes. Dealers, on the other hand, will need to consider their clients' needs for alternative products as in many respects, dealers are gatekeepers to alternative product approvals and investor access. These factors remain key industry challenges.

Canadian investor survey responses reiterated that strategic intent and appetite has remained largely unchanged from 2023. A wide range of strategies – including but not limited to Equity Long / Short, Credit Long / Short, Multi-Strategy, Private Credit, Real Estate and Mortgage Funds, dominate investor needs.

# Balancing regulatory compliance and innovation in Canada's alternative investment industry

79% of investors currently have exposure to two (or more) alternative strategies; and 60% of respondents confirmed an allocation > 10% of AUM to alternatives. This data remains consistent with 2023 results and indicate strong appetite for alternative products. Most investors indicated the intent to maintain or increase exposure to alternatives – affirming a sentiment that investors seek to diversify their portfolios and alpha by way of increased alternative product exposure.

Canadian managers continue to address investor appetite for alternatives by delivering new investment products. From a structural perspective, prospectus-based funds, offering memorandum hedge fund access and private credit dominate new product launches. Most alternative managers advised these new products will predominantly be managed by existing in-house investment teams, demonstrating strong front office alternatives capabilities as well as talent strength across Canadian based managers being an area of ongoing investment and focus. From a market targeting perspective, Canadian managers' goals are to predominantly pitch their strategies to Canadian based investors. With this in mind, it warrants noting that most managers shared that dealer approval / platform access, internal dealer risk ratings and additional paperwork are still the biggest hurdles to providing alternative product exposure to potential investors.

Asset servicers confirmed a similar sentiment to that expressed by managers - the type of alternative products they expect to see coming into the Canadian market. Given alternative product growth, asset servicers must continue

developing and expanding their end-to-end solutions to service alternative products. Key considerations should include servicing public and private alternative assets while streamlining reporting, valuations, pricing, and data insights. Considering survey results over the past two years, asset servicers should continue evolving their service delivery models with a view to reducing operational risk associated with alternative asset portfolios. Asset servicers also advised that their clients cited distribution, regulatory burden, and industry obstacles / alternative assets misperceptions as key challenges likely to be faced in coming years.

Based on AIMA's 2024 Annual Canada Market Survey, demand for alternative products and corresponding alternative product launches remain very strong in Canada. Given these trends, we foresee Canadian investor demand for alternative products to be a real incentive to Canadian managers to evolve their product propositions to meet investors needs and expectations.

On the back of strong demand for alternative products, traditional industry challenges remain. Regulators and key industry stakeholders need to find a way to work together to improve investor education and how institutions distribute alternative products – with a view to ensuring investors can benefit from fit for purpose alternative products. While regulatory compliance is necessary, there is a balance that needs to be found so as not to stifle Canadian alternative managers from delivering and distributing alternative products and further transforming Canadian alternative asset management industry.

With our deep understanding of the Canadian alternative investment market, KPMG in Canada can assist in navigating regulatory compliance, fostering innovation, and providing strategic insights to meet the strong demand for alternative products.

## Contact us

### David Bardsley

Partner, Advisory, Management  
Consulting, Wealth & Asset  
Management

### Dejan Knezevic

Senior Manager, Management  
Consulting

### Valérie Archambault

Senior Manager, Management  
Consulting