

AKSIA'S 2014 HEDGE FUND MANAGER SURVEY

Markets

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Macro Environment

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Regulatory Conditions

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Industry Trends

Aksia is pleased to present its annual hedge fund manager survey, providing candid opinions of leading institutional caliber managers across hedge fund strategies. We appreciate all those who participated and are encouraged by the continued growth in the number of respondents and their significance in the industry. Our 2014 survey, conducted during the end of October and early November 2013, includes responses from 198 managers representing over \$1 trillion in hedge fund assets under management.

In last year's survey, managers appeared comfortable with the stability of financial markets and were bullish on financial assets. This time last year, managers noted the biggest risk for 2013 as the impact of the Fiscal Cliff, while Europe was identified as both high risk and an expected upside surprise. In the end, the more optimistic scenarios played out in the markets this year and, on the whole, managers appeared to be well-positioned.

This year, managers remain largely confident about the functioning of financial markets, as financing is improving and concerns over counterparty risk continue to abate. While political ineptitude remains a problem, central bank policies received positive accolades. Managers view Fed tapering and rising rates as the biggest risks for 2014, but also see a rising interest rate environment as more helpful than hurtful to their strategies.

Selected Highlights:

- Report cards are out! Overall, the U.S. Congress gets a D on its handling of the economy and stimulating growth, though 38% of managers gave them an F, by far the worst among those receiving grades.
- Managers think the biggest risk for 2014 is the potential impact of Fed tapering. Respondents are not optimistic on the Fed's ability to manage stimulus withdrawal, with 75% saying they expect it to have a significant negative impact on markets.
- More than half the managers surveyed expect tapering to begin in March 2014. Event Driven managers are the most skeptical with 46% thinking that tapering won't take place before Q2 2014.
- 46% of managers see a rising rate environment as a tailwind for their strategy and only 10% see it as a negative.
- EM and Asia-focused managers are the least optimistic on fundamentals for emerging markets over the next year, with only 14% and 19% expecting improvement, respectively.
- Managers said they need to deliver, on average, annualized returns of 9% to keep investors happy.
- 76% of respondents believe central clearing houses for derivatives reduce systemic risks, with the heaviest users of OTC derivatives the most emphatic.
- Despite the passage of the U.S. JOBS Act, only 1% of respondents said they will advertise.
- Only 10% of hedge funds actively apply ESG/SRI policies to their portfolios, but many would consider it if required by investors.
- More than 70% of managers indicated that they have no plans to offer 40 Act products.

STATE OF THE MARKETS

Fed Tapering: When?

With Fed tapering continually dominating the news cycle, managers offered their predictions as to when tapering might take place.

- Slightly more than half of respondents expect tapering to begin in March 2014
- Event Driven managers are most skeptical about tapering actually taking place by March

Most Respondents Eyeing March Taper



Rising Rates: Impact on Hedge Funds

Managers do not seem concerned about the prospect of rising interest rates.

- 46% of respondents expect a positive impact while only 10% expect a negative one
- Tactical Trading managers appear to be the primary beneficiaries, with 53% expecting a positive effect and only 3% expecting a negative one

Impact of Rising Rates on Hedge Fund Strategies



Report Card: Managing the Economy & Growth

The grades are in and Mom's not going to be happy!

- Despite all of the headlines about Europe, managers felt that European governments have a better handle on domestic economies than the U.S. Congress (38% gave Congress an 'F')
- Central banks are the leaders of the class, with the exception of laggard Brazil

Manager Grades

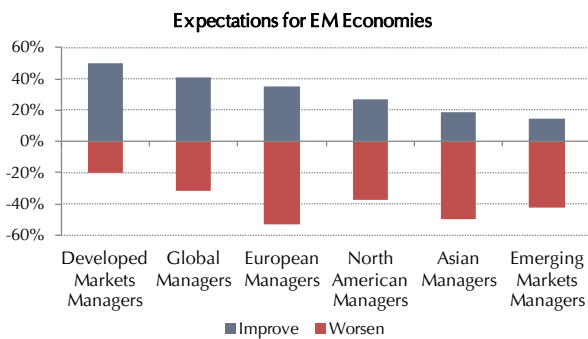
	Bank of Japan/ Prime Minister	B
	The Fed	B-
	Bank of England	B-
	ECB	B-
	China	C+
	N. European Governments	C+
	Central Bank of Brazil	C
	U.S. President	C-
	S. European Governments	C-
	U.S. Congress	D

STATE OF THE MARKETS

Emerging Markets: Outlook

Managers had mixed expectations for the fundamentals of emerging market economies over the coming year.

- Expectations for worsening (37%) edged out those for improvement (33%)
- Interestingly, EM managers were the least optimistic whereas developed markets managers were the most optimistic (14% and 50% expecting improvement, respectively)



THE GOOD, THE BAD, AND THE BUBBLY

Biggest Upside Surprise in 2014

- Global Economic Growth (14% of respondents)
- No Fed Tapering (13%)
- European Recovery (13%)
- HM: Washington Gets its Act Together

Biggest Risk in 2014

- Impact of Fed Tapering (33%)
- Rising Interest Rates (25%)
- Political Uncertainty (12%)
- HM: Cyber Attacks

Next Bubble

- Equity Markets (24%)
- Real Estate / Housing (20%)
- Credit (13%)
- HM: Social Media IPOs

HM = Honorable Mention

Municipal Bond Market: Outlook

Managers are more bearish than bullish on the fundamentals of U.S. municipal bond issues for 2014.

Expectation for Fundamentals of U.S. Municipal Bonds

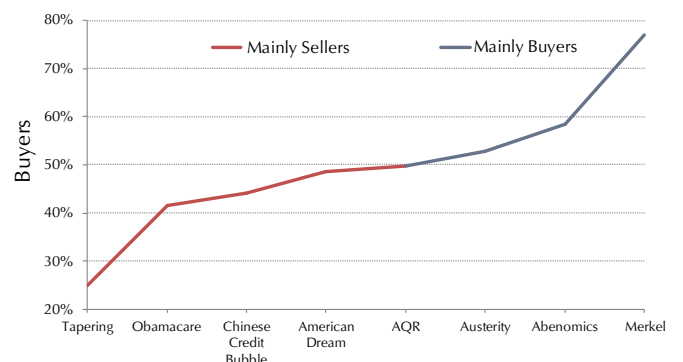


Buying or Selling?

Managers weighed in on whether they were “Buying” or “Selling” the following statements:

- The Fed will withdraw stimulus without a significant negative impact on markets (75% Selling)
- “Obamacare” will be considered a success in the long term (58% Selling)
- The Chinese credit bubble story is overblown as the government is capable of managing the issue (56% Selling)
- The “American Dream” of home ownership will still be attainable for most without Fannie and Freddie (51% Selling)
- The asset-quality-review (AQR) and new stress tests will yield more surprises in Germany and France than in Spain and Italy (50/50 Split)
- Austerity backlash is a decreasing risk in Europe, as much of the worst is over (53% Buying)
- “Abenomics” will put the Japanese economy on a sustainable growth path (58% Buying)
- With the election behind her, Angela Merkel will shift toward deepening Europe’s political integration (77% Buying)

Who's Buying?



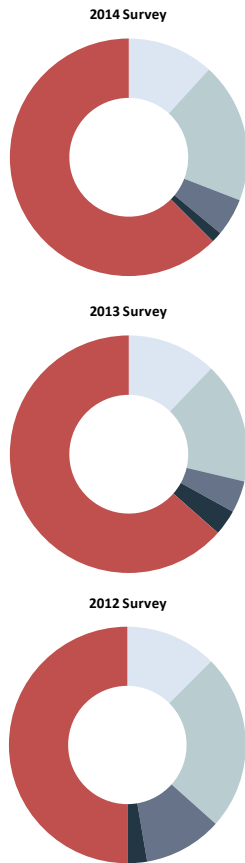
STATE OF THE INDUSTRY

Counterparty Risk: Any Concerns?

The use of CDS spread triggers to manage counterparty risk remains similar to last year’s survey findings. Concern over counterparty risk appears to have stabilized since our 2012 survey, when more managers were likely to have triggers in place.

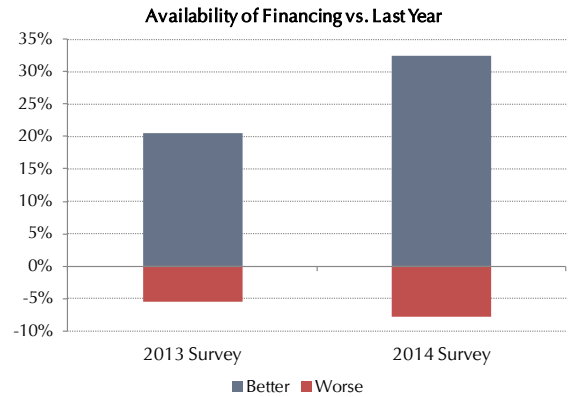
Do you have a CDS spread trigger at which point you will move balances away from counterparties?

- Yes; 0 to 400
- Yes; 400 to 600
- Yes; 600 to 800
- Yes; >800
- No



Financing: Better or Worse?

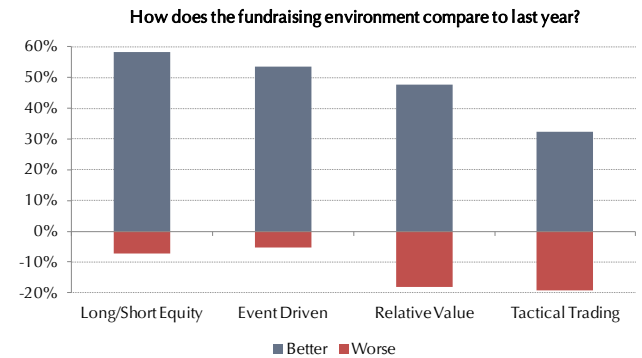
The availability of financing appears to be better today than it was at this point last year, with a nearly 60% bump in the number of managers who stated that rates and/or availability have improved.



Fundraising: Better or Worse?

Managers across the spectrum of sizes and strategies reported that the fundraising environment is improving.

- 50% of managers say they are finding it easier to raise capital than last year, with only 11% finding it more difficult
- The largest improvements were seen among Long/Short Equity managers



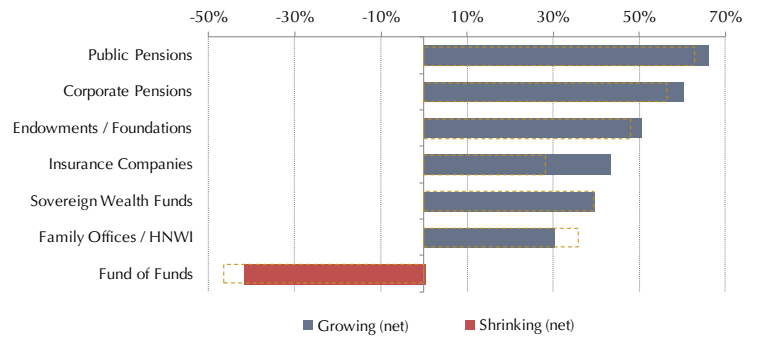
STATE OF THE INDUSTRY

Investor Base: Where's the Growth?

We asked managers which investor types are growing or shrinking as a percentage of their AUM. It appears that public pensions, corporate pensions, and endowments/foundations continue to lead the growth of industry assets, while Fund of Funds continue to shrink.

- Relative Value managers are seeing stronger growth from public and corporate pensions than any other managers
- Family offices and endowments/foundations appear to favor Event Driven and Long/Short Equity managers
- Managers of smaller funds (<\$500M in AUM) reported their largest investor growth among endowments/foundations and family offices; they struggled to gain traction with SWFs that seem to favor managers with over \$10B in AUM

Which investors are growing or shrinking as a percentage of your AUM?
Dashed line represents last year's responses

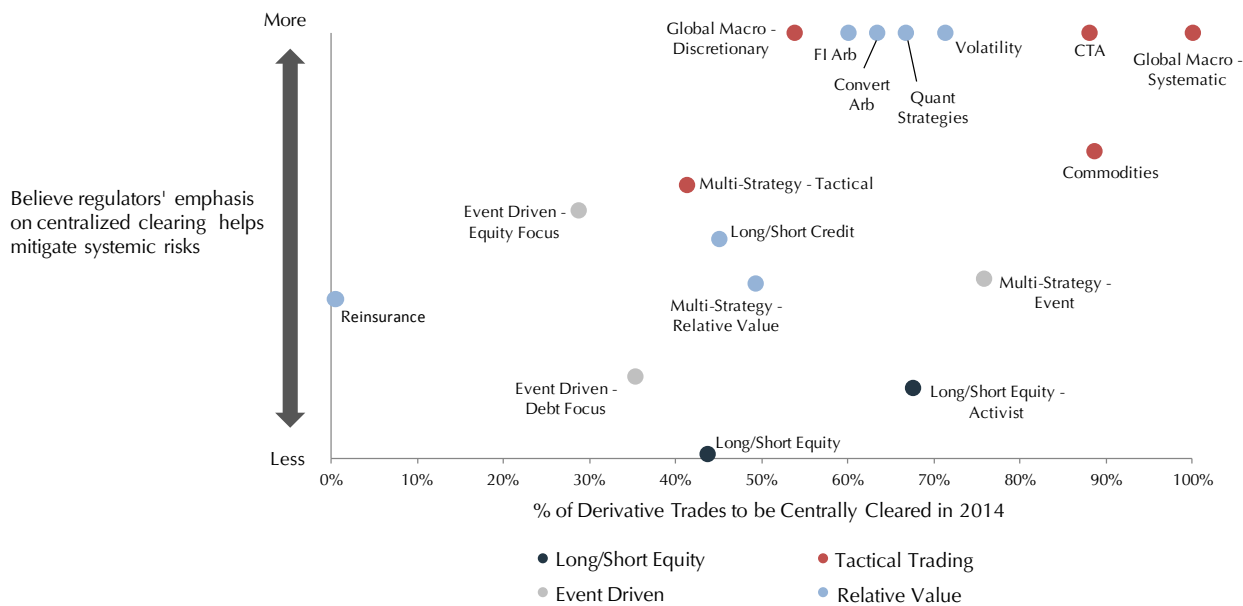


Derivative Centralized Clearing: What's Your Opinion?

While most managers believe that clearing houses help mitigate systemic risks, funds with strategies that heavily utilize OTC derivatives are much more likely to hold that opinion.

- 60% percent of managers expect the majority of their derivative trades to be cleared centrally in 2014
- 76% of managers believe that greater emphasis by regulators on centralized clearing helps mitigate systemic risks

Managers on Central Clearing of Derivatives



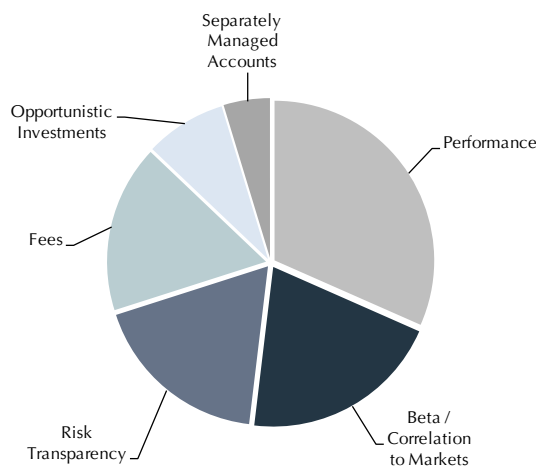
INVESTOR PRIORITIES

Investors: What's Most Important?

The top three priorities for current and prospective investors appear to be performance, beta/correlation, and risk transparency. Despite the headlines around fees, investors do not appear to be as focused on the issue.

- 90% funds under four years old ranked performance as the number one issue, which was the highest among the various age groups
- 92% of managers consider separately managed accounts as a low priority issue

What is most important to investors?

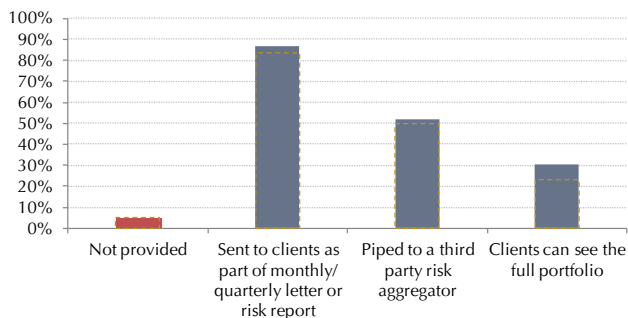


Risk Reporting: More Transparency?

Over the past three years, there has been a gradual increase in transparency provided by hedge funds to investors.

- Nearly 90% of hedge funds provide regular risk reporting to investors
- The number of managers providing full portfolio transparency has increased by over 30% since last year

For your flagship fund, detailed risk reporting is:
Dashed line represents last year's responses

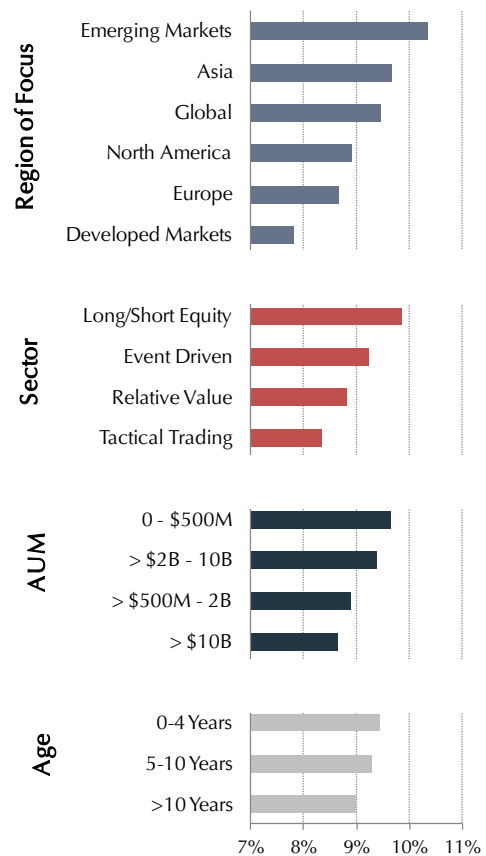


Performance: What Are Investors' Expectations?

Most managers (57%) believe that investors expect annualized returns between 8-10%.

- Of all survey demographics, EM managers felt they had the highest return hurdle to avoid net redemptions (10.3%) while developed markets managers had the lowest (7.8%)
- Perhaps unsurprisingly, the youngest and smallest funds believe they need to outperform their older/larger peers

Annualized Return Needed to Avoid Net Redemptions

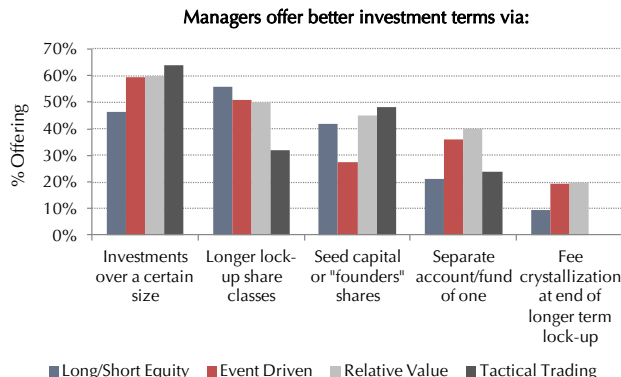


INVESTOR PRIORITIES

Better Fees & Terms: Do You Offer?

We asked managers how they offer lower fees/better investment terms to investors.

- Long/Short Equity managers are most likely to have longer lock-up share classes and least likely to have discounts for larger investors
- Conversely, Tactical Trading managers are most likely to offer deals for large investments and least likely to offer deals for long lock-ups



CO-INVESTING

There has been an increase in managers offering co-investment and other opportunistic funds to investors. We asked managers about their experience and plans for co-investment opportunities.

- 32%** Have offered co-investment opportunities
- 28%** Would consider or are currently considering

SOCIALLY RESPONSIBLE INVESTING

While the vast majority of managers do not apply environmental, social, and corporate governance ("ESG") and SRI investing, many would consider it if required by investors.

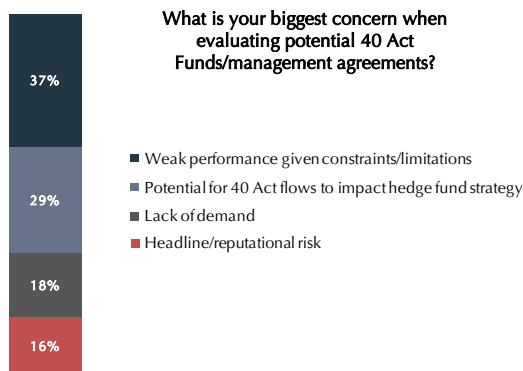
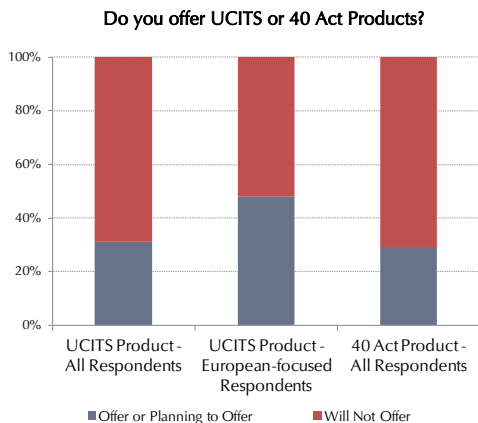
- 10%** Formally apply environmental, social, and corporate governance ("ESG") or SRI policy
- 40%** Would consider adopting a policy if required by investors

REGULATORY DEVELOPMENTS

40 Act & UCITS: Are Managers Interested?

The Jumpstart Our Business Startups (JOBS) Act in the U.S. has ushered in the opportunity for hedge fund managers to launch 40 Act Funds. As with UCITS, this would allow managers to offer more liquid products to retail investors. We polled managers to see if they currently offer, or plan to offer, a 40 Act and/or UCITS product.

- Few managers currently offer 40 Act (12%) or UCITS (20%) products, and less than 30% of managers plan on offering either
- European-focused managers had the highest percentage of UCITS offerings (30%) by a significant margin, with another 17% planning to offer them in the future



REGULATORY DEVELOPMENTS

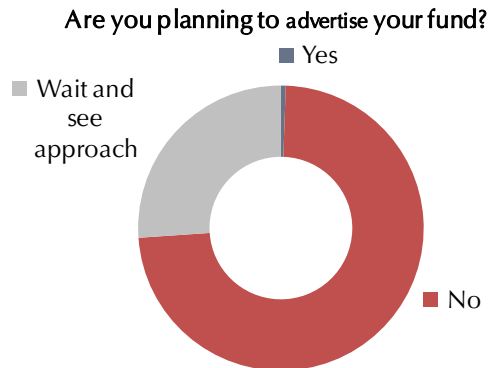
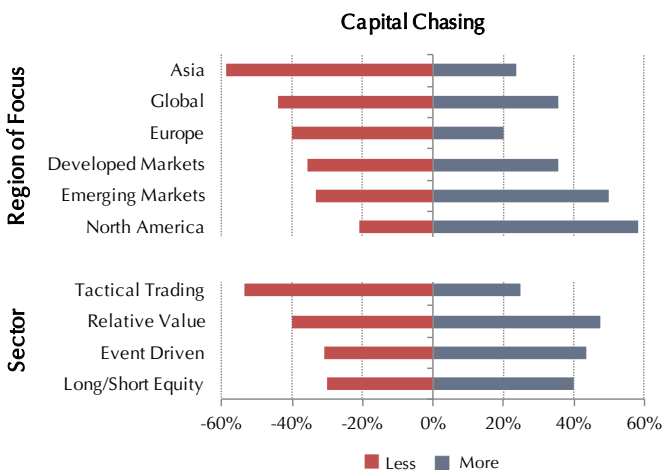
Competition for Trades: More or Less?

Considering the growth of AUM in the hedge fund industry and the reduction of proprietary trading activity at investment banks, we asked managers if, on a net basis, there is more or less capital chasing the same opportunities than there was three years ago.

- Asian-focused managers are overwhelmingly seeing less capital in their markets while North American-focused managers are seeing the most
- Relative Value managers see the most competition, whereas Tactical Trading managers see the least

Advertising: Yes or No?

The recently implemented JOBS Act eases restrictions on hedge fund advertising. When asked how this might impact their marketing strategies, only 1% of respondents said they planned to advertise their funds.



DISCLAIMER

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Survey Respondent Demographics**Sector Breakdown**

Long/Short Equity	28%
Event Driven	25%
Relative Value	20%
Tactical Trading	12%
Multi-Strategy	15%
	100%

AUM Breakdown (firm hedge fund assets)

Up to \$500mm	16%
\$500mm to \$1bn	12%
\$1bn to \$2bn	23%
\$2bn to \$5bn	21%
\$5bn to \$10bn	14%
Above \$10bn	14%
	100%

Regional Breakdown (strategy focus)

Asia	10%
Emerging Markets	4%
Europe	13%
Global - All	35%
Global - Developed	8%
North America	30%
	100%

Firm Age Breakdown

0 - 2 years	5%
3 - 4 years	11%
5 - 7 years	16%
8 - 10 years	13%
> 10 years	55%
	100%

Survey Responses**What investor types are growing/shrinking as a percent of your AUM?**

	Public Pensions	Corporate Pensions	Sovereign Wealth Funds	Endowments / Foundations	Insurance Companies	Family Offices / HNWI	Fund of Funds
Growing	70%	65%	42%	57%	46%	47%	20%
Shrinking	5%	5%	4%	7%	4%	17%	61%
No Change	25%	30%	54%	36%	50%	36%	19%
	100%	100%	100%	100%	100%	100%	100%

When do you expect the Fed to begin tapering its Treasury and/or MBS purchases?

December 2013	4%
January 2014	8%
March 2014	51%
Later in 2014	29%
Not likely in 2014	8%
	100%

What is your expectation for the fundamentals of U.S. municipal bond issuers over the next 12 months?

Improve	20%
Worsen	46%
Stay at current levels	34%
	100%

What is your expectation for the fundamentals of EM economies over the next 12 months?

Improve	33%
Worsen	37%
Stay at current levels	30%
	100%

What impact will a rising rate environment have on your strategy?

Positive	46%
Negative	10%
No impact	44%
	100%

How does the fundraising environment compare to 2012 (last year)?

Better	50%
Same	39%
Worse	11%
	100%

What annualized rate of return do you believe your flagship fund needs to earn in order to avoid net redemptions by investors?

0-4%	2%
5-6%	10%
7-8%	35%
9-10%	31%
11-12%	9%
13-15%	8%
> 15%	5%
	100%

How would you rank clients' and/or prospects' current priorities/interests?

	Most Important					Least Important
	1	2	3	4	5	6
Performance	83%	10%	5%	2%	0%	0%
Fees	1%	25%	24%	33%	14%	3%
Risk Transparency	4%	19%	37%	28%	9%	3%
Beta/Correlation to Markets	9%	36%	22%	22%	7%	4%
Separately Managed Accounts	0%	0%	2%	5%	52%	40%
Opportunistic Investments	3%	10%	10%	10%	18%	50%
	100%	100%	100%	100%	100%	100%

For your flagship fund, detailed risk reporting is (select all that apply):

Sent to clients as part of monthly/quarterly letter or risk	87%
Piped to a third party risk aggregator	52%
Clients can see the full portfolio	30%
Not provided	5%

For any of your funds, do you offer investors lower fees/better terms via any of the following? (Select all that apply):

Separate account/fund of one	35%
Seed capital or "founders" shares	44%
Longer lock-up share classes	56%
Investments over a certain size	64%
Fee crystallization at end of longer term lock-up	15%

Do you currently offer a UCITS product?

Yes	20%
No, but we plan to	11%
No, and we are not planning to	69%
	100%

Do you currently manage a 40 Act product?

Yes	12%
No, but we plan to	17%
No, and we are not planning to	71%
	100%

What is your biggest concern when evaluating potential 40 Act funds/management agreements?

Potential for 40 Act flows to impact hedge fund strategy	29%
Headline/reputational risk	16%
Lack of demand	18%
Weak performance given constraints/limitations	37%
	100%

With the JOBS Act enacted, do you plan to advertise your fund(s)?

Yes	1%
No	73%
Taking wait and see approach	26%
	100%

Regarding offering co-investment opportunities to investors, select all that apply:

Have offered and will continue to do so as appropriate	31%
Have offered in the past, but don't plan to again	1%
Currently considering offering to investors	13%
Would consider if there was sufficient investor demand	20%
Would not offer to investors	8%
Not appropriate for my strategy	37%

Regarding ESG and socially responsible investing, which statement is most appropriate to your position?

We have an ESG/SRI policy and actively apply this to our portfolio	10%
We have a broad ESG/SRI policy that is less formally applied	14%
We do not have an ESG/SRI policy but would consider if required by investors	40%
We do not have an ESG/SRI policy and are not considering	36%
	100%

Have you recently launched (over the past 12 months) a more levered fund/share class with the same strategy as your flagship strategy?

Yes	3%
No	84%
No, but we are considering offering one	7%
No, but we did launch one more than 12 months ago	6%
	100%

How would you rate the availability of financing (term & rate) today versus 12 months ago?

Much better	5%
Better	27%
Same	60%
Worse	8%
Much worse	0%
	100%

What percentage of your derivative trades do you expect will be cleared through a clearing house next year?

0-25%	29%
25-50%	11%
50-75%	23%
75-100%	37%
	100%

Do you think a greater emphasis by regulators on centralized clearing houses helps mitigate systemic risk?

Yes	76%
No	24%
	100%

Do you have a CDS spread trigger at which point you will move balances away from counterparties?

Yes; 0 to 400	12%
Yes; 400 to 600	19%
Yes; 600 to 800	5%
Yes; >800	1%
No	63%
	100%

Considering the growth of AUM in the hedge fund industry and the reduction of proprietary trading activity at investment banks, on a net basis, is there more or less capital chasing the same opportunities than there was three years ago?

Significantly more	9%
Slightly more	32%
The same	23%
Slightly less	23%
Significantly less	13%
	100%