Aksia's 2015 Hedge Fund Manager Survey

Markets - Macro Environment - Regulatory Conditions - 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 quality of respondents and their significance in the industry. Our 2015 survey, conducted during November and early December of 2014, includes responses from 187 managers representing over $1 trillion in hedge fund assets under management.

In last year's survey, managers reported a continued trend of confidence in the functioning of financial markets. The main concerns entering 2014 revolved around Fed tapering and interest rate increases, though there was general agreement that most central banks were doing a decent job. Managers also identified equity markets as the next bubble. One year on, equity markets have continued to trend upwards while the impact of the taper has been limited and rate increases remain on hold.

This year, consensus reigns as there appears to be little divergence in managers' views of markets. That said, our survey captures some negative trends in liquidity and the availability of financing. U.S. fixed income has replaced equity markets as the most cited area for the next bubble. AIFMD begins to show its impact on managers' marketing efforts in Europe, while the JOBS Act appears to have offered little incentive for hedge funds to advertise.

Selected Highlights:

- Signs of concern? Managers say that liquidity and financing are becoming more challenging. The percentage of managers reporting the worsening availability of financing more than doubled (17%) versus last year's survey (8%) and tripled (5.5%) from our 2013 survey. A third of respondents said that liquidity in their markets was worse than last year.
- Somewhat surprisingly, despite the uproar about high-frequency trading (HFT), 82% of managers said HFT has no impact on their strategy's performance (vs. 62% in our 2013 survey). Those believing HFT has a negative impact dropped from 27% in 2013 to only 11% in 2015.
- 87% of managers say new AIFMD requirements create significant challenges for their firm. A majority (59%) reported that they are becoming fully reliant on reverse solicitation in European countries. Smaller, younger firms are impacted the most.
- Industry transparency continues to improve: 61% of managers report sending risk data to independent risk aggregation firms. This positive trend is illustrated in our annual survey, as only 49% and 52% reported the practice in the 2013 and 2014, respectively.
- Despite the headlines around the growth of liquid alternatives, the survey finds no change in the number of hedge funds offering UCITS or 40 Act products. The 19% offering UCITS and 15% offering 40 Act products is in line with last year's survey (19% and 12%, respectively).
- Santa's 'Naughty or Nice' list: when asked whether some world leaders should be getting an iPhone 6 or a lump of coal, Fed Chair Janet Yellen topped the iPhone list (68% positive). The U.S. Congress received a stocking full of coal (95% negative), which speaks volumes considering President Putin actually received less coal (93% negative).

STATE OF THE MARKETS

Naughty or Nice?

Santa Claus asked managers for help with his 'Naughty-or-Nice' list this year. Those who are nice received a new iPhone 6, while the naughty received coal!

- Central bankers were more popular than most politicians, with the Fed, ECB, and BOE chiefs getting an iPhone 6.
- First termer Janet Yellen was highest on the 'nice' list – maybe she got the iPhone 6 Plus.
- As for politicians, PM Abe tops the 'nice' list while Chancellor Merkel just made it. The remainder of our pols will have to find warmth from burning their stockings full of coal.

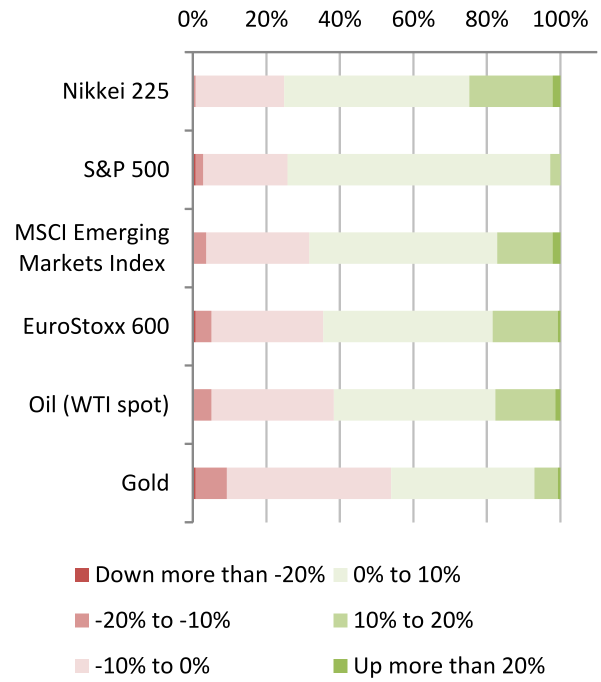
Do the following deserve coal or an iPhone 6 for the holidays?

Land of the Rising Stocks

We asked managers for their 2015 market predictions.

- Make way for the Nikkei! Managers are most optimistic for Japan, with over 25% expecting >10% returns.
- The outlook for the S&P 500 was positive, but managers see limited upside with only 3% calling for >10% returns.
- Survey results indicate that managers are still concerned about gold, as 54% expect the metal to be down in 2015.

What are your predictions for the following during 2015?



THE GOOD, THE BAD, AND THE BUBBLY

Biggest Upside Surprise in 2015

The most widely held predictions for upside surprise were in **Europe** and in the continued strength of the **U.S. economy**. There were bullish views on Japan and the recovery of oil in 2015 as well.

Biggest Risk in 2015

Broadly, managers see the biggest risk in **central bank missteps** and the knock-on effects. European deflation and/or recession, China, and geopolitics were also dominant themes. Concerns about liquidity also appeared.

Next Bubble

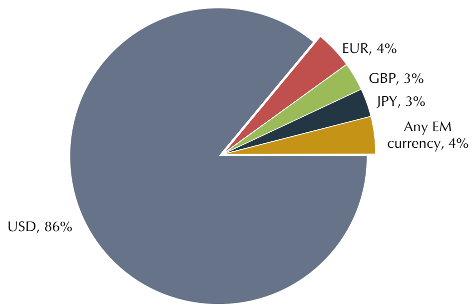
By far, respondents were most concerned about a bubble in credit. Both **sovereign and corporate credit** were noted as worries. Real estate and tech were also flagged by many managers.

STATE OF THE MARKETS

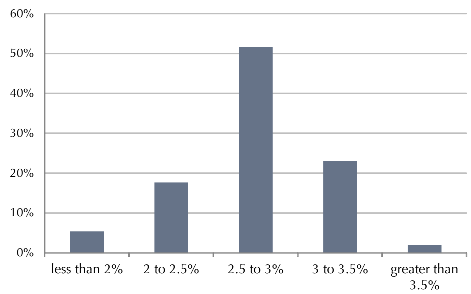
More 2015 Predictions

Managers holler for the dollar! There is a clear consensus regarding the strength of the U.S. Dollar in 2015, with 86% of managers picking the greenback as their top performing currency. No surprise, managers expect higher rates in 2015… maybe this year they will be right. Consensus has rates at 2.5 to 3% at year-end, while 25% of managers expect a more dramatic move, calling for a U.S. 10-year yield above 3%.

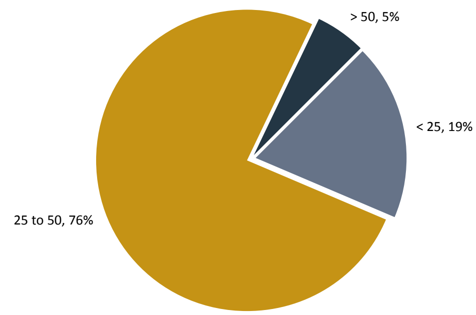
What will be the top performing currency of 2015?



What will be the yield of the U.S. 10-year Treasury on Dec. 31, 2015?



What will the peak of the VIX be in 2015?

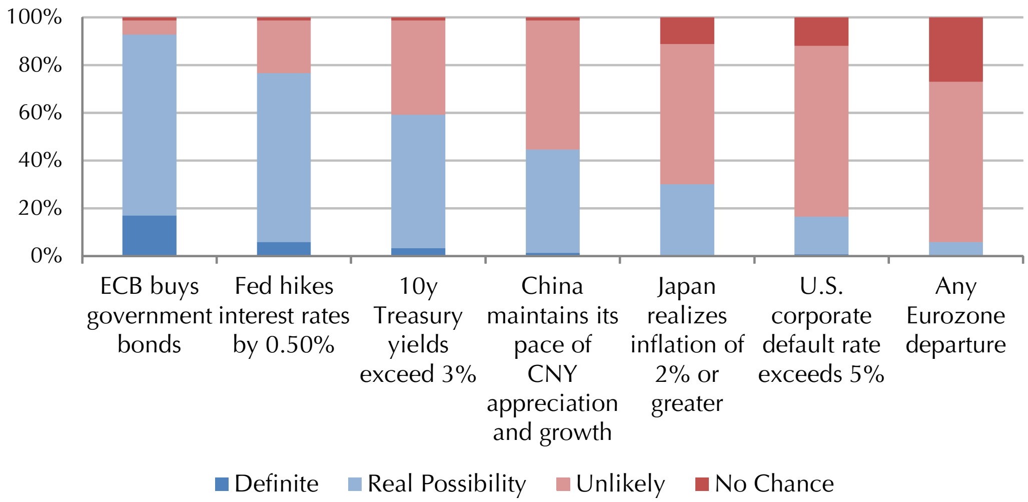


2015 Market Events

We surveyed managers to find out their expectations for various market events in 2015.

- In our 2013 survey, 73% of respondents believed there was a real possibility that Greece would leave the Euro within 2 years. Two years on, only 6% feel there will be any departure from the Eurozone in 2015.
- Only 17% of managers are certain that the ECB will begin to buy government bonds in 2015. With only 7% thinking it is unlikely, the majority (76%) of managers have a more hedged view, saying it is a 'real possibility.'
- Managers also think defaults will remain low, as 83% saw it either 'unlikely' or 'no chance' that the U.S. corporate default rate would exceed 5%.

How likely are the following events to occur in 2015?



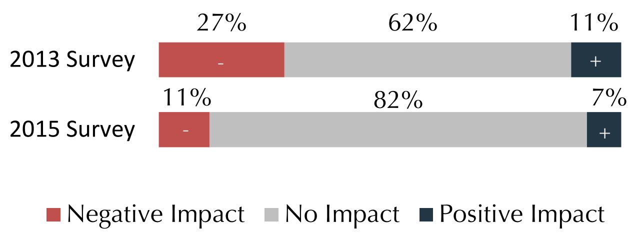
STATE OF THE INDUSTRY

High-Frequency Trading

Given the success of *Flash Boys* and the focus on HFT this past year, we brought back a question from our 2013 survey to see if managers felt HFT or algorithmic trading impacted the return potential for their strategy.

- Somewhat surprisingly, 82% of this year's respondents said it had no impact, vs. 62% two years ago. Further, this year only 11% said it had a negative impact, down from 27% in 2013.

What impact does high-frequency and algorithmic trading have on the return potential of your strategy?

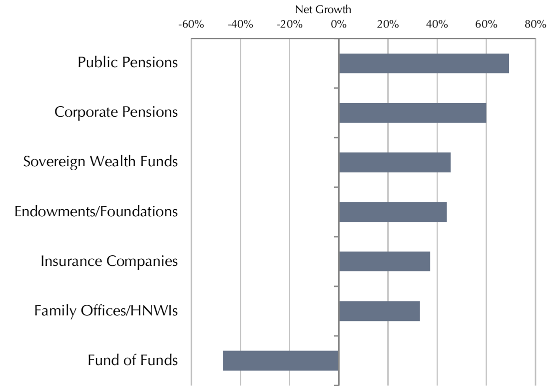


AUM Growth by Investor Type

A majority of managers report client growth (as a percentage of AUM) from public pensions, corporate pensions, and endowment/foundations.

- Asia-focused managers report the least growth from public pensions, with 40% reporting growth and 13% saying public pension investment was shrinking.

Which investors are growing or shrinking as a percentage of your AUM?

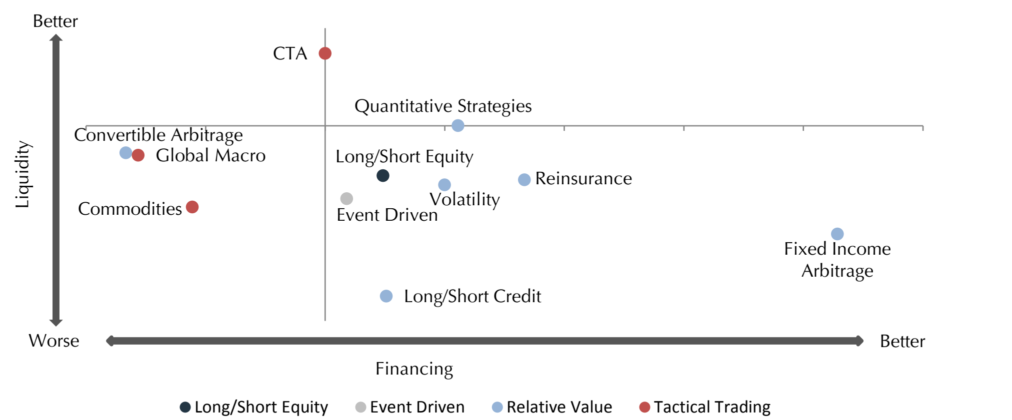


Financing and Liquidity: Better or Worse?

Managers were surveyed about liquidity and financing within their markets.

- While the overwhelming majority of managers find the availability of financing to be the same or better (83%) than a year ago, the survey found that the percentage of managers reporting worse conditions (17%) has more than doubled since last year (8%) and tripled since our 2013 survey (5.5%). Managers in the Tactical Trading space were more likely to say it was worse while Emerging Markets and Asia-focused managers reported the most stable to improving financing environment.
- One-third of managers said liquidity in their markets was worse than it was 12 months ago. Nearly 46% of managers focused on North America saw conditions worsening. From a strategy standpoint, Long/Short Credit and Fixed Income Arbitrage managers were most impacted. CTAs were the only strategy to report better liquidity conditions.

How would you rate the availability of financing (term & rate) and liquidity today vs. 12 months ago?



Note: Each dot represents the net percentage of respondents stating that conditions have improved vs. worsened since 12 months ago. For instance, more "Quantitative Strategies" managers felt that the availability of financing had improved rather than worsened. The same managers were equally divided when it came to liquidity.

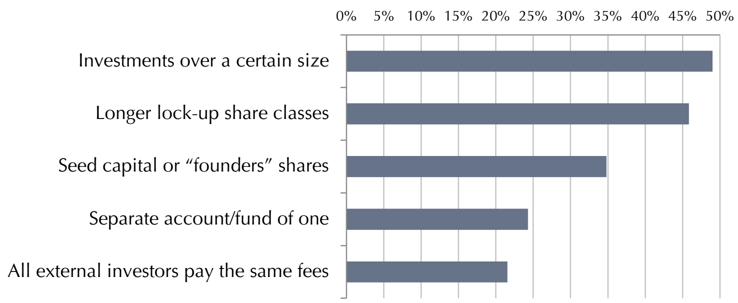
INVESTOR PRIORITIES

Better Fees and Terms?

We asked managers about offering lower fees/better investment terms to investors.

- As we've found in previous surveys, managers are most likely to offer fee breaks in exchange for larger investments and longer lock-ups. Managers older than 5 years were more likely to offer fee discounts than younger funds, 53% to 27%.
- Emerging Markets managers were the least likely to offer any discount, with 55% saying they charge all clients the same fees.

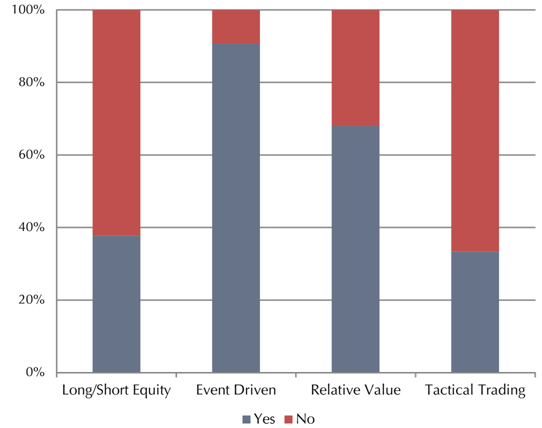
Managers offer better investment terms for:



Co-Investment Opportunities

Nearly 62% of managers said they would offer co-investment opportunities to clients. Event Driven (91%) and North America-focused managers (79%) were the most likely to offer the opportunity to co-invest.

Do you offer (or would you consider offering) co-investment opportunities to investors?

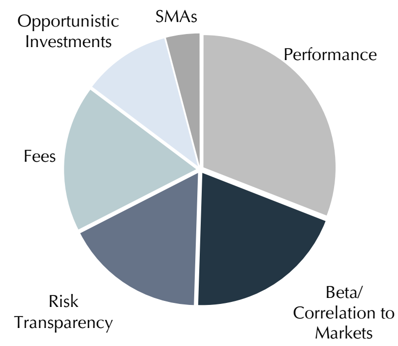


Investor Priorities

While fees dominate public discussion of the industry, managers report clients' top priority to be performance, followed by beta/correlation to markets.

- Beta and correlation appears to be of particular interest when investors consider managers focused on developed markets, with 59% of developed market managers ranking beta/correlation as higher priority.

What is most important to investors?

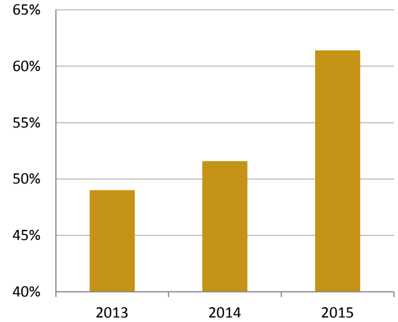


Increasing Transparency

Over the past three years, our survey has captured the trend of increasing transparency in the number of managers reporting data to third party risk aggregators.

- This year 61% of managers reported using independent risk aggregators, which is an increase over the last two years of survey findings (2014: 52%, 2013: 49%).
- Asia and Emerging Market focused managers are least likely to provide risk reporting to clients, with 18% not providing any risk reporting.

Managers reporting data to third party risk aggregators

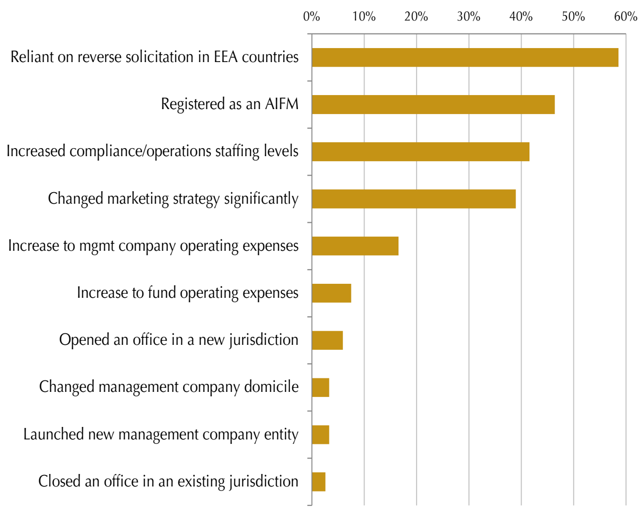


REGULATORY DEVELOPMENTS

AIFMD

87% of managers have faced significant challenges regarding AIFMD. A majority of managers (59%) reported becoming fully reliant on reverse solicitation in EEA countries. Smaller managers appear to be impacted most. Younger managers were far less likely to register as an AIFM (none of our respondents under 5 years old registered), and are much more reliant on reverse solicitation for fundraising.

Has the Alternative Investment Fund Managers Directive (AIFMD) impacted your firm in any of the following ways?

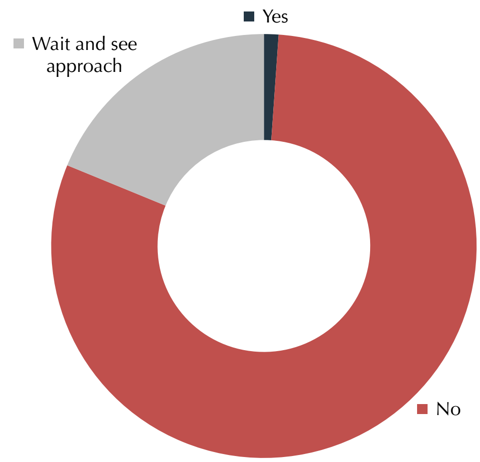


Advertising: Yes or No?

With the JOBS Act in effect for over a year now, it appears institutional managers have balked at advertising.

- Over 80% of respondents said they would not advertise, versus 73% in last year's survey.
- The percentage of managers taking a wait and see approach decreased from 26% to 19%.

Are you planning to advertise your fund?

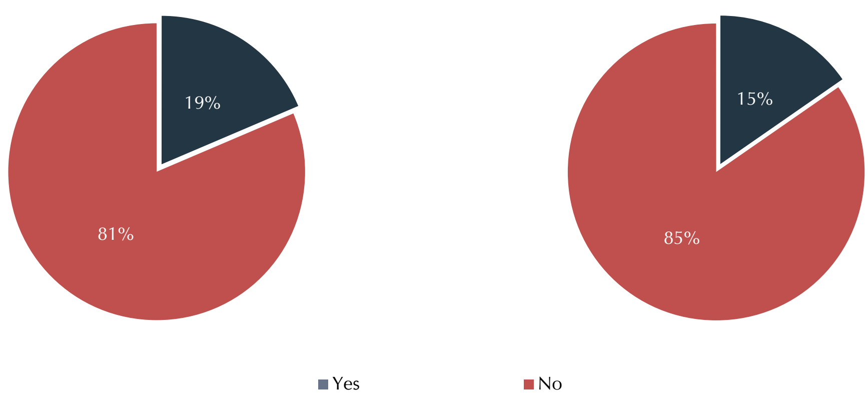


40 Act & UCITS: Are Managers Interested?

While liquid alternatives have been a much discussed topic, our survey did not find an increase in managers entering the space. Similar to last year, 85% of managers did not offer a 40 Act product (87% in 2014) and 81% did not offer a UCITS product (80% in 2014). Of those managers who did offer these products, it was more likely to be older, established funds (10+ years). Tactical Trading strategies were most likely to be offered in UCITS or 40 Act (43% and 25%, respectively).

With regard to 40 ACT and UCITS products, do you:

Currently offer a UCITS product? *Currently manage a 40 Act product?*



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DISCLAIMER

Survey Respondent Demographics

Sector Breakdown

Long/Short Equity	26%
Event Driven	30%
Relative Value	28%
Tactical Trading	16%
	100%

AUM Breakdown (Firm Hedge Fund Assets)

Up to $500mn	14%
$500mn - $1bn	9%
$1bn - $2bn	18%
$2bn - $5bn	25%
$5bn - $10bn	16%
Greater than $10bn	18%
	100%

Regional Breakdown (Strategy Focus)

North America	40%
Europe	10%
Asia	9%
Developed Markets	15%
Emerging Markets	6%
Other	20%
	100%

Firm Age Breakdown

0 - 2 years	4%
3 - 4 years	7%
5 - 7 years	22%
8 - 10 years	11%
> 10 years	56%
	100%

Survey Responses

Santa is seeking your input on determining the appropriate gift for each of the below. Are they more deserving of a lump of coal or an iPhone 6 this holiday season?

	Janet Yellen	Shinzo Abe	Mario Draghi	Angela Merkel	Mark Carney	President Obama	Dilma Rousseff	Vladimir Putin	U.S. Congress
Lump of Coal	32%	37%	38%	46%	47%	87%	89%	93%	95%
iPhone 6	68%	63%	62%	54%	53%	13%	11%	7%	5%
	100%	100%	100%	100%	100%	100%	100%	100%	100%

What are your predictions for the following during 2015?

	Nikkei 225	S&P 500	MSCI Emerging Markets Index	EuroStoxx 600	Oil (WTI spot)	Gold
Down more than -20%	0%	1%	0%	1%	0%	1%
-20% to -10%	1%	2%	4%	4%	5%	9%
-10% to 0%	24%	23%	28%	30%	33%	44%
0% to 10%	50%	71%	51%	46%	44%	39%
10% to 20%	23%	3%	15%	18%	16%	6%
Up more than 20%	2%	0%	2%	1%	2%	1%
	100%	100%	100%	100%	100%	100%

Which of the following will be the best performing currency in 2015?

USD	86%
EUR	4%
GBP	3%
JPY	3%
Any EM currency	4%
	100%

What will be the yield of the U.S. 10 Year Treasury on December 31, 2015?

less than 2%	5%
2 to 2.5%	18%
2.5 to 3%	52%
3 to 3.5%	23%
greater than 3.5%	2%
	100%

What will the peak of the VIX be in 2015?

< 25	19%
25 to 50	76%
> 50	5%
	100%

How likely are the following events to occur in 2015?

	Fed hikes interest rates by 0.50%	U.S. corporate default rate exceeds 5%	10y Treasury yields exceed 3%	ECB buys government bonds	Any Eurozone departure	Japan realizes inflation of 2% or greater	China maintains its pace of CNY appreciation and growth
Definite	6%	1%	3%	17%	0%	0%	1%
Real Possibility	71%	16%	56%	76%	6%	30%	44%
Unlikely	22%	71%	40%	6%	67%	59%	54%
No Chance	1%	12%	1%	1%	27%	11%	1%
	100%	100%	100%	100%	100%	100%	100%

What impact does high-frequency and algorithmic trading have on the return potential of your strategy?

Positive impact	7%
No impact	82%
Negative impact	11%
	100%

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	72%	64%	47%	50%	42%	46%	16%
Shrinking	2%	4%	1%	7%	5%	13%	61%
No Change	26%	32%	52%	43%	53%	41%	23%
	100%	100%	100%	100%	100%	100%	100%

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

Much Better	2%
Better	17%
Same	64%
Worse	17%
Much Worse	0%
	100%

How would you rate the liquidity in the markets/products that you trade today vs. 12 months ago?

Much Better	1%
Better	13%
Same	53%
Worse	32%
Much Worse	1%
	100%

For any of your funds, do you offer investors lower fees via any of the following?

No, all of our external investors pay the same fees	22%
Separate account/fund of one	24%
Seed capital or "founders" shares	35%
Longer lock-up share classes	46%
Investments over a certain size	49%
Other	8%

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

	Most Important 1	2	3	4	5	Least Important 6	
Performance	76%	13%	9%	2%	0%	0%	100%
Fees	2%	31%	24%	24%	15%	5%	100%
Risk Transparency	5%	14%	32%	32%	13%	4%	100%
Beta/Correlation to Markets	10%	33%	20%	21%	10%	6%	100%
Separately Managed Accounts	1%	1%	2%	7%	36%	53%	100%
Opportunistic Investments	6%	9%	14%	14%	26%	32%	100%

Do you offer (or would you consider offering) co-investment opportunities to investors?

Yes	62%
No	38%
	100%

For your flagship fund, detailed risk reporting is:

Sent to client as part of monthly/quarterly letter or risk report	85%
Piped to 3rd party risk aggregator	61%
Clients can see full portfolio	31%
Not Provided	6%

Has the Alternative Investment Fund Managers Directive (AIFMD) impacted your firm in any of the following ways?

	Become fully reliant on reverse solicitation in EEA countries	Registered as an AIFM	Increased compliance/ operations staffing levels	Changed marketing strategy significantly	Incurred noticeable increase to management company operating expenses
Yes	59%	46%	42%	39%	17%
No	41%	54%	58%	61%	83%

	Incurred noticeable increase to fund operating expenses	Opened an office in a new jurisdiction	Changed management company domicile	Launched new management company entity/entities	Closed an office in an existing jurisdiction
Yes	8%	6%	3%	3%	3%
No	92%	94%	97%	97%	97%

What would you regard as the biggest challenge deriving from AIFMD?

Changes to marketing rules	63%
Structural changes to the firm	6%
Annex IV reporting	10%
Other	8%
No significant challenges	13%
	100%

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

Yes	1%
No	80%
Taking wait and see approach	19%
	100%

With regard to 40 Act and UCITS products, do you:

	Currently offer a UCITS product?	Currently manage a 40 Act product?
Yes	19%	15%
No	81%	85%
	100%	100%

What percentage of your derivative trades do you expect will be cleared through a clearing house in 2015?

0-25%	36%
25-50%	8%
50-75%	19%
75-100%	37%
	100%

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

No	67%
Yes; 0 to 400bps	11%
Yes; 400-600bps	16%
Yes; 600-800bps	3%
Yes; >800bps	3%
	100%