

HEDGE FUNDS:

TRENDS AND INSIGHT FROM THE
INDUSTRY AND INVESTORS

Managed Funds Association

May 2012



Managed Funds Association

Executive Summary

- The hedge fund industry has grown tremendously in the last decade from \$625 billion in assets under management in 2002 to an industry-record \$2.01 trillion in the closing months of 2011.
- This growth has been fueled by investors seeking ways to diversify their portfolios, manage risk, and deliver reliable returns over time.
- Institutional investors, in particular, have had a profound impact on the industry and institutional capital accounts for 61% of global hedge fund assets.*
- This presentation gives an overview of the hedge fund industry, providing insight on investment trends and topics.
- Data included in this presentation comes from Deutsche Bank's Tenth Annual Alternative Investment Survey, the 2012 Credit Suisse Global Survey of Hedge Fund Investor Appetite and Activity, HFR Global Hedge Fund Industry Report and Preqin, Ltd., as referenced in the document.

Contents

Industry Growth	3
Growing Popularity	5
2011 – A Year of Growth	6
Who Invests?	8
Industry Trends	10
Why Invest?	11
Institutional Trends	12
2012 and Beyond	16
Investment Strategies	20



Industry Growth

Growth of the Hedge Fund Industry:

- Hedge fund assets have more than tripled since 2002, driven primarily by increased allocations from institutional investors such as:
 - Public and corporate pensions
 - University and College Endowments
 - Philanthropic Foundations and Charities
- Cash that has been previously redeemed and will be recycled back into the industry is another important source of assets.*
- Institutional investors currently represent 61% of assets invested in the global hedge fund industry.
- The industry is expected to reach an all time high of \$2.26 trillion by the end of 2012, based on investor's performance and net inflow predictions.**

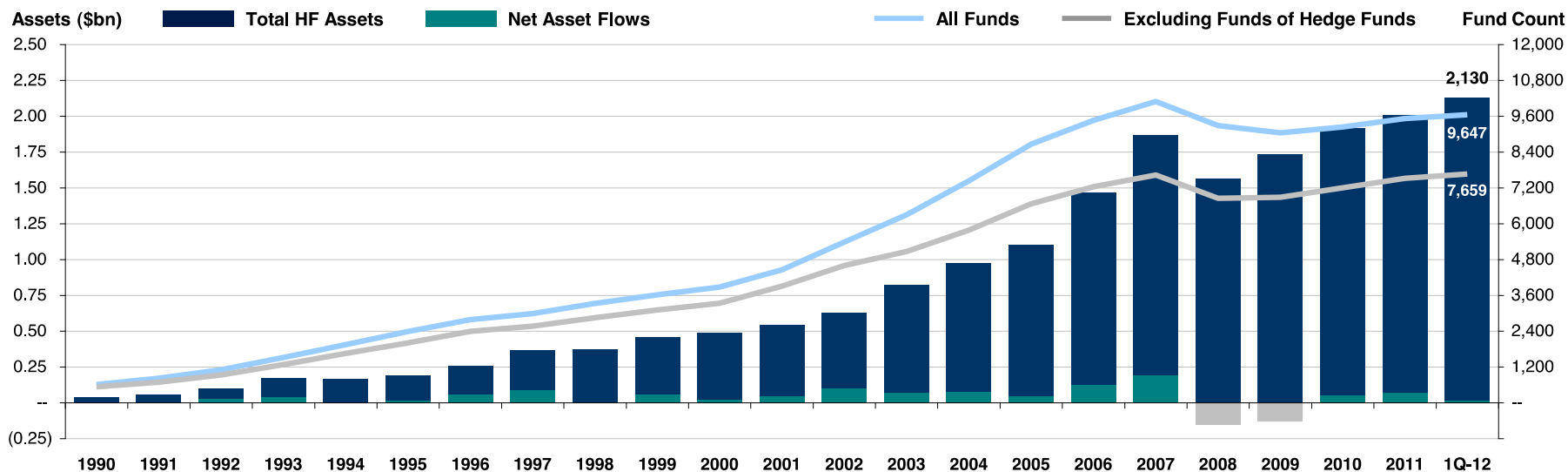
*2012 Credit Suisse Global Survey of Hedge Fund Investor Appetite and Activity

**Deutsche Bank Alternative Investment Survey



Industry Growth

ESTIMATE OF HF ASSETS, NET ASSET FLOWS AND NUMBER OF FUNDS



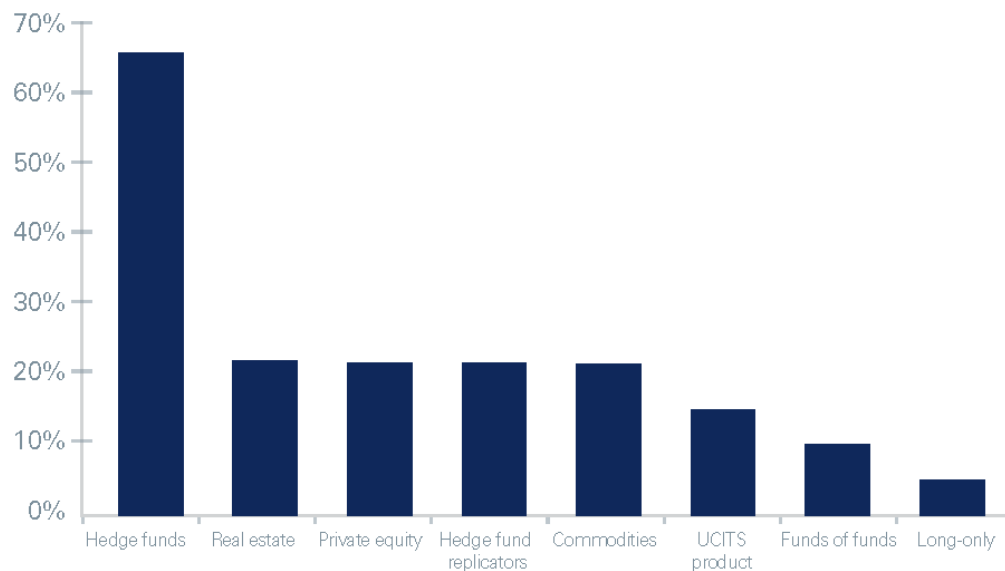


Hedge Funds Growing in Popularity

Investors Favor Hedge Funds:

- Investors are increasingly favoring hedge fund allocations over other investment types.

To which alternative asset classes are they increasing allocations?



Source: 2012 Deutsche Bank Alternative Investment Survey

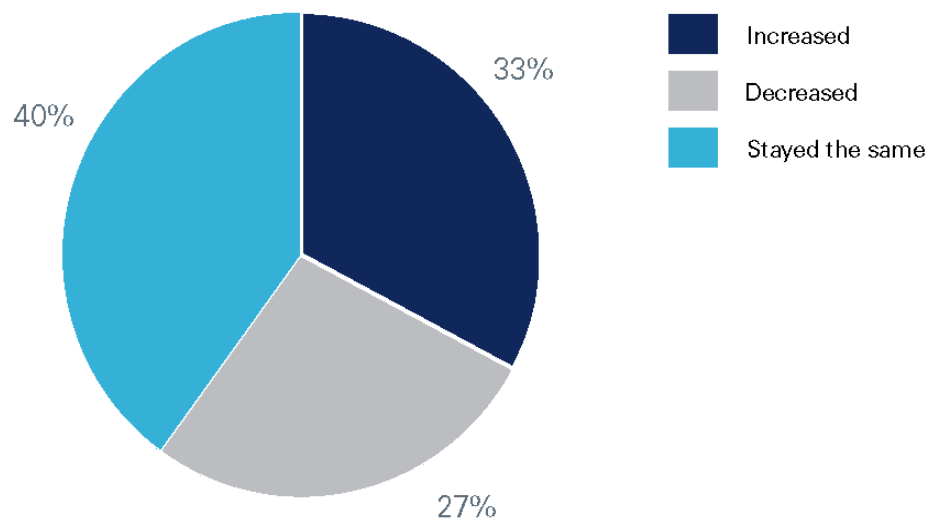


2011 – A Year of Growth

2011 – A Year of Growth

- According to a recent survey, a third of investors grew their hedge fund assets under management (AUM) in 2011.*
- On average, an investor's first asset allocation is \$20 million. Over time, however, the number increases 100%, to \$39 million.**
- Among the institutions with the largest increases in hedge fund allocation were:
 - Endowments and foundations
 - Pension Funds (private and public)
 - Insurance Companies

How has your hedge fund AUM changed during 2011?



Source: 2012 Deutsche Bank Alternative Investment Survey

*2012 Deutsche Bank Alternative Investment Survey

**2012 Credit Suisse Global Survey of Hedge Fund Investor Appetite and Activity

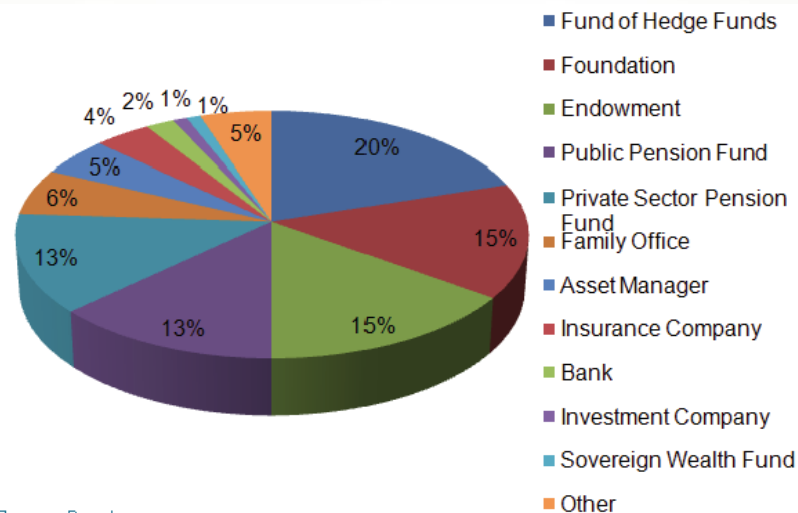


Who Invests in Hedge Funds

Investor Statistics:

- Research firm Preqin released a study recently mapping out the hedge fund investor universe, key findings include:
- Endowments make up 14.7% of hedge fund investors
- Public pension funds represent more than 13% of all investors, with a mean allocation of 7.7% to hedge funds
- Corporate pension funds also represent 13% of hedge fund investors, with a mean allocation of 8.2%.
- Foundations represent one of many groups increasing their hedge fund investments, allocating 5.5% on average.

Breakdown of Institutional Investors in Hedge Funds by Investor Type



Source: Preqin



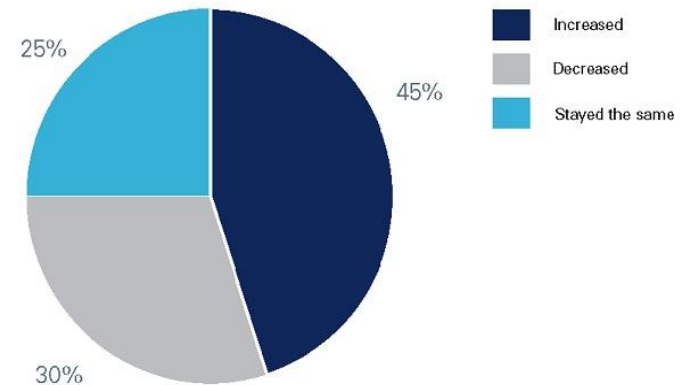
Who Invests in Hedge Funds

Endowments and Foundations:

College and university endowments and philanthropic foundations play a vital role in expanding educational opportunity and enriching the quality of life in our communities. In 2011, 45% of endowments and foundations increased their allocation to hedge funds to help meet their financial needs. These investments help provide scholarships, fund critical research, and enable economic development, health and education-related grants in cities and towns across the U.S.



Endowments & Foundations



Source: 2012 Deutsche Bank Alternative Investment Survey

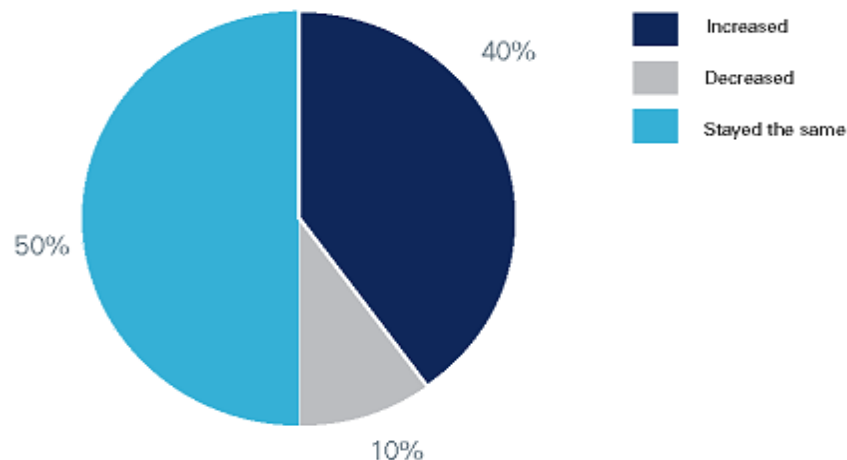


Who Invests in Hedge Funds

Pension funds (Public and Private):

Hedge funds also help provide retirement security for millions of hardworking American families through investments held by pension plans. In 2011, 40% of public and private pension plans strengthened their partnership with hedge funds by increasing their portfolio allocations. A number of plans also took steps to make initial investments with hedge funds to help diversify their portfolio and provide reliable returns over time.

Pension Funds (Private & Public)



Source: 2012 Deutsche Bank Alternative Investment Survey



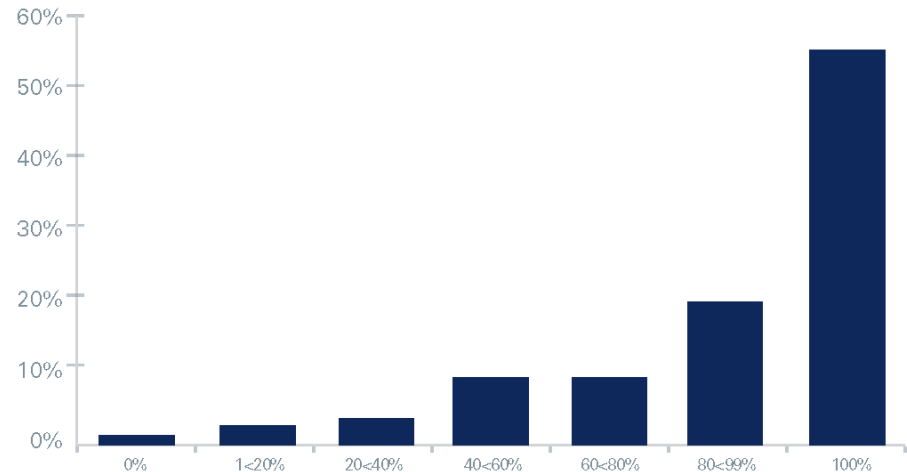


Industry Trends – Direct Investment

Industry Trends: Direct Investment

- According to the Deutsche Bank survey, 55% of investors anticipate having 100% of their hedge fund portfolio directed to single strategy managers.
- This trend underscores the increased sophistication and due-diligence undertaken by institutions in their decision making process.
- Two-thirds of investors routinely take between three to six months to complete due diligence on an investment manager – only a third did so in 2002.

In 2012, what percentage of your/your clients' hedge fund portfolios will be directed to single-strategy hedge funds?



Source: 2012 Deutsche Bank Alternative Investment Survey

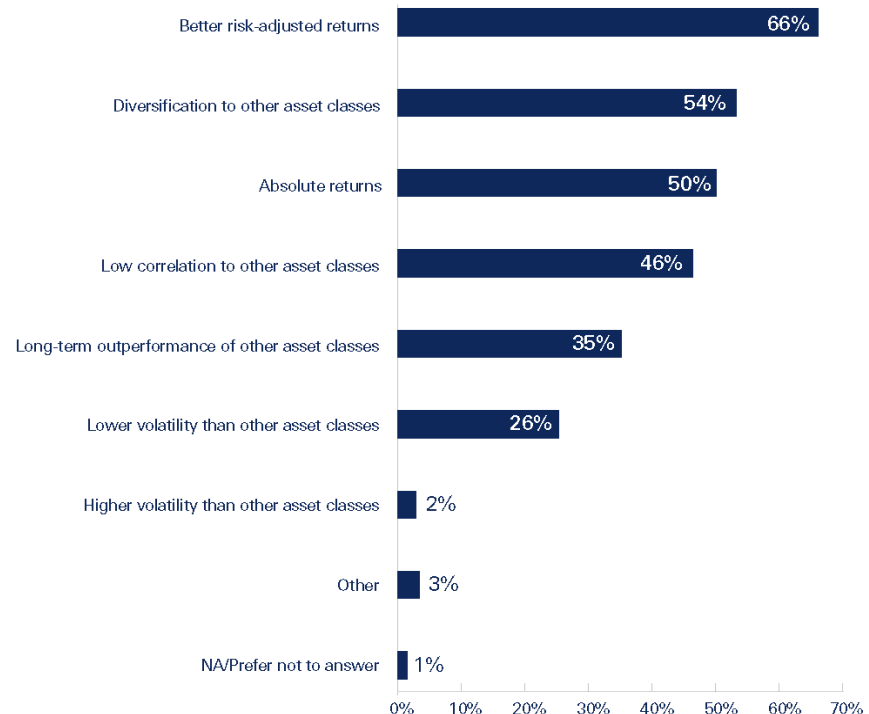
Nearly 40% of investors indicated their boards strongly believe in the validity of hedge funds in 2011, compared to 22% the year before.



Why Invest in Hedge Funds?

- Investors partner with hedge funds to deliver:^{*}
 - Risk-adjusted returns
 - Diversification
 - Low correlation with other investment types
 - Low volatility

What are the three main benefits of hedge fund investments?



Source: 2012 Deutsche Bank Alternative Investment Survey



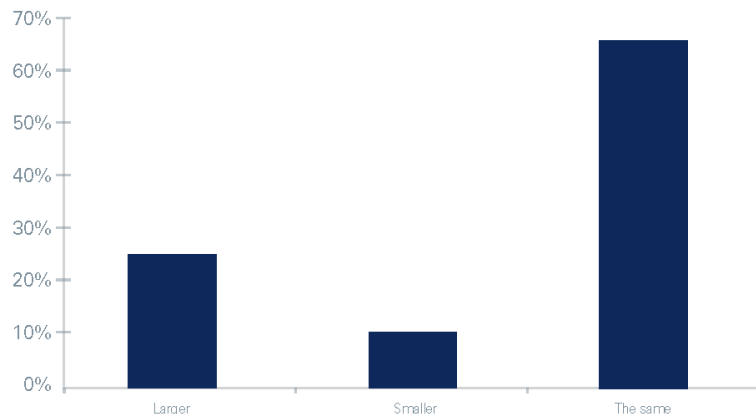
Institutional Trends – Dedicated Hedge Fund Teams

Institutional Trends: Dedicated Hedge Fund Teams

Institutional investors are strengthening their ability to perform due diligence and research potential managers for hedge fund allocations. In recent years, institutions have grown the size of their dedicated hedge fund allocation teams.

- Ninety percent of respondents grew or maintained the size of their hedge fund due diligence teams in 2011.
- Pension plan respondents noted significant growth in this area, with 60% of those surveyed growing their teams in 2011.

How does the size of your own hedge fund investment team compare to 12 months ago?



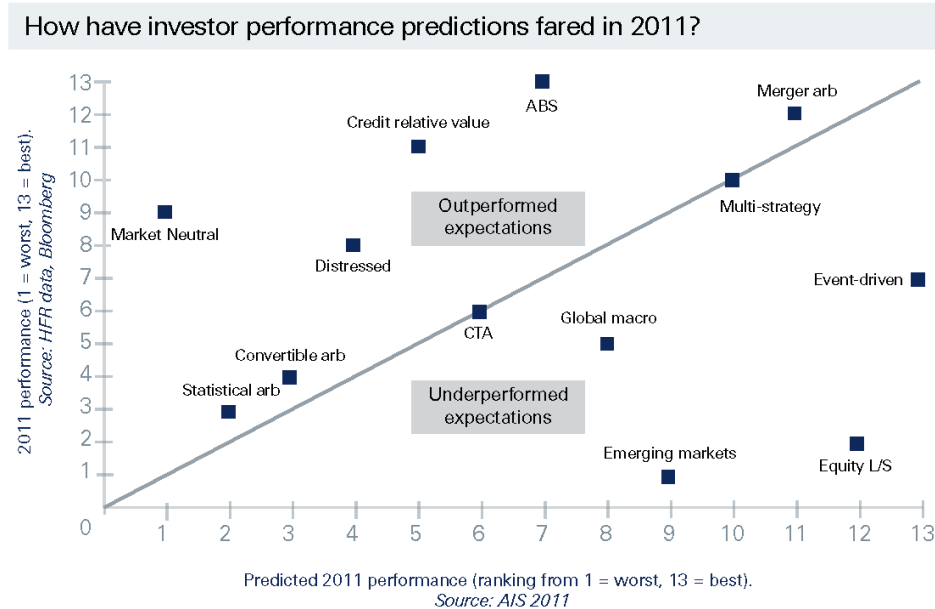
Source: 2012 Deutsche Bank Alternative Investment Survey



Institutional Trends – Meeting Expectations

Investors partner with hedge funds to help diversify portfolios, manage risk and produce reliable returns over time.

- During the challenging investment cycle of 2011, 9 out of 13 hedge fund investment strategies either met or exceeded investors expectations from a year earlier.



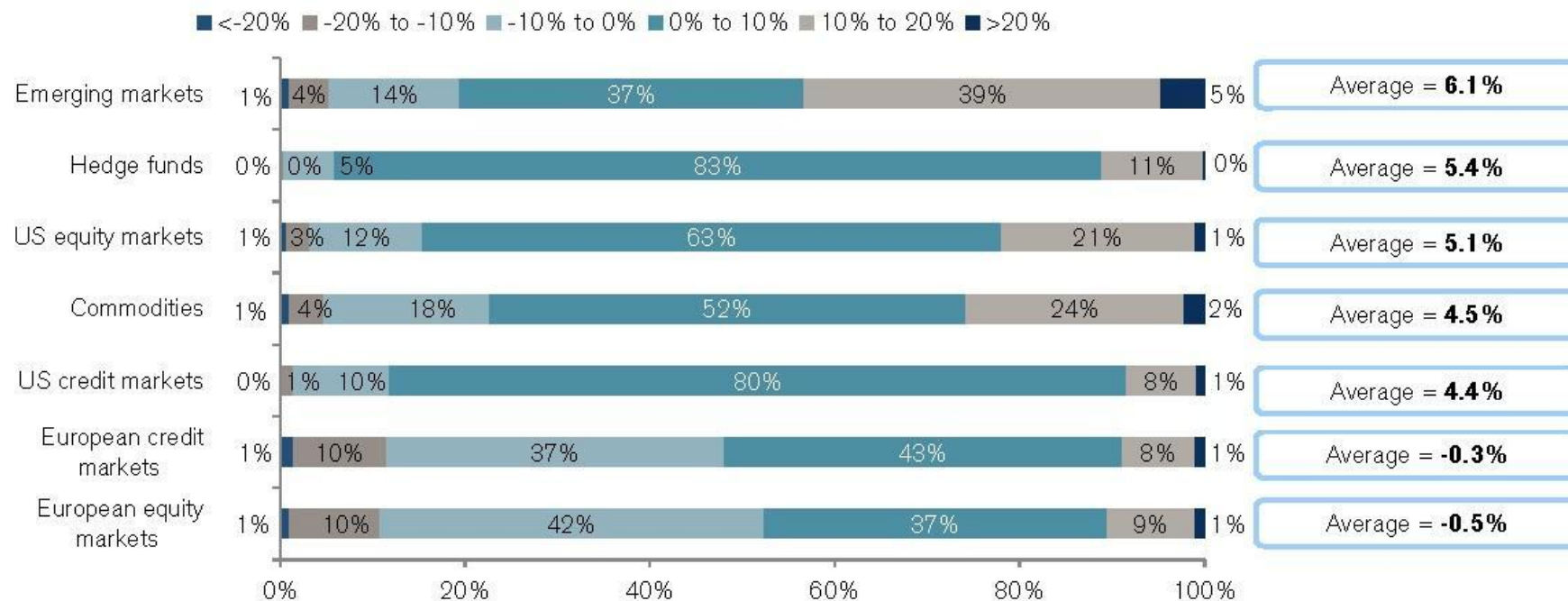
Source: 2012 Deutsche Bank Alternative Investment Survey



Institutional Trends – Meeting Expectations

Investors expect hedge funds to continue to perform well in 2012, with Credit Suisse's survey showing that investors believe in hedge funds' ability to produce absolute returns.

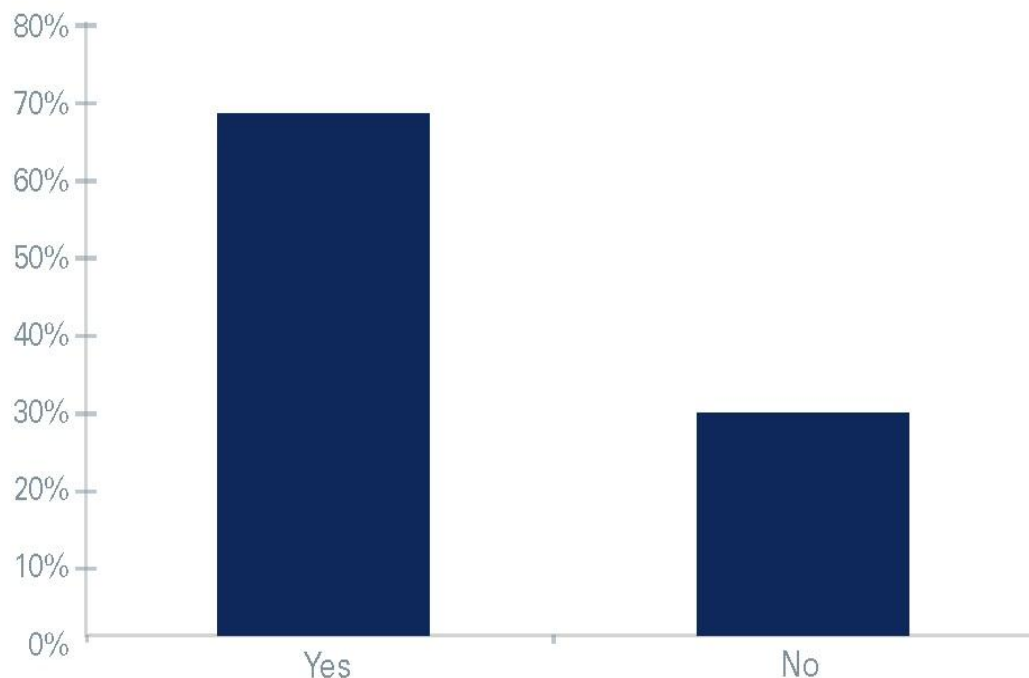
Investors' predictions on market returns for 2012





Institutional Trends: Transparency

Are you happy with the level of transparency you currently receive?



Source: 2012 Deutsche Bank Alternative Investment Survey

- Hedge fund managers often invest their own money alongside that of other investors, forming a partnership with a shared interest in success.
- Communication is a critical component of a successful investor / manager relationship.
- Seventy percent of investors say they are happy with the level of transparency they receive from their managers.

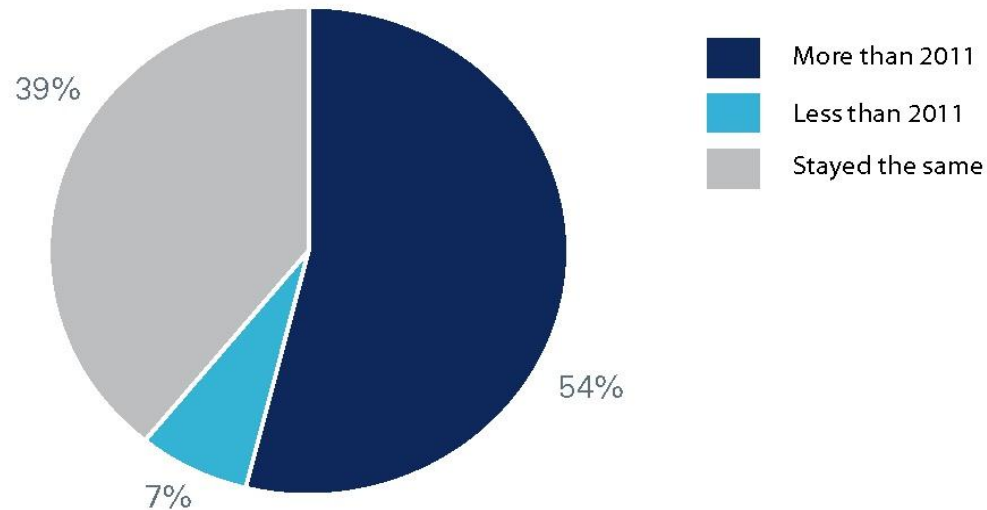


2012 and Beyond

Confidence in Growth

More than half of investors believe capital inflows in 2012 will exceed their inflows in 2011.

Do you expect 2012 inflows to your firm to be:



Source: 2012 Deutsche Bank Alternative Investment Survey

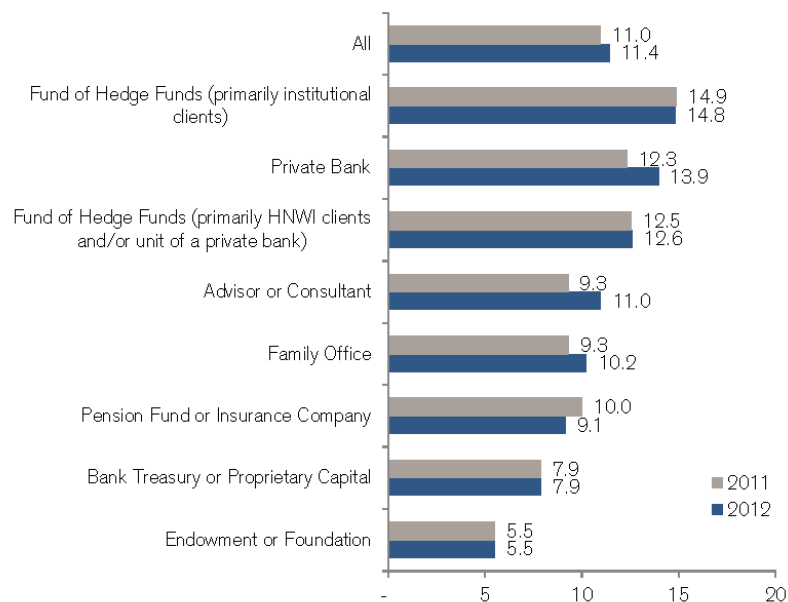


2012 and Beyond

Confidence in Growth

Investors plan on increasing their asset allocations to hedge funds in 2012.

Approximate number of new investments made in 2011 and planned for 2012



- The average number of new investments respondents expect to make in 2012 is 11.4, which is marginally higher than the number made in 2011.

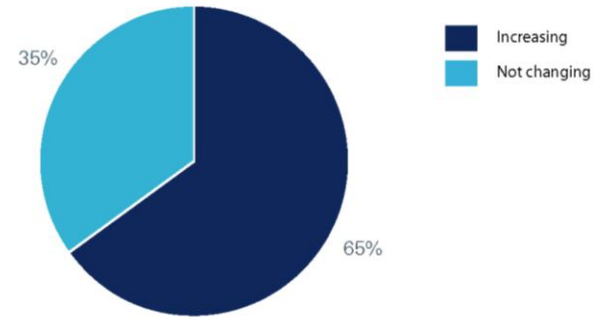


2012 and Beyond

Steady Growth in 2012:

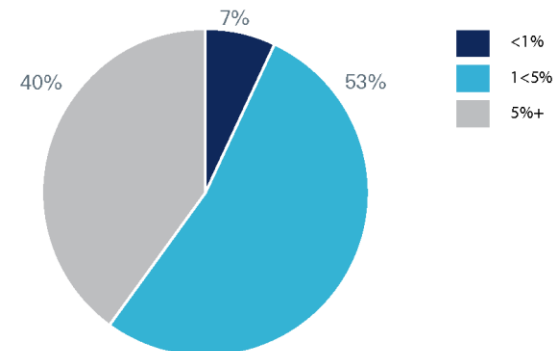
- Sixty-five percent of consultants believe their clients will increase hedge fund allocations in 2012.
- Forty percent of those expecting to increase allocations in 2012 plan to increase by 5% or more.

How are your clients changing the proportion of their portfolios in hedge funds for 2012?



Source: 2012 Deutsche Bank Alternative Investment Survey

By what proportion are your clients changing the proportion of their portfolios in hedge funds for 2012?



Source: 2012 Deutsche Bank Alternative Investment Survey

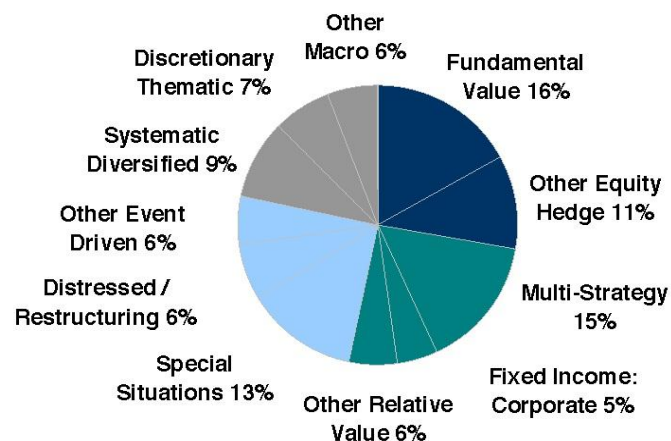


2012 and Beyond

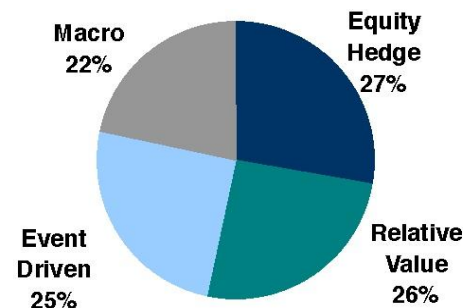
Steady Growth in 2012:

- Since the end of 2008, industry growth has risen 51%, driven largely by macro and relative value strategies.

HF ASSETS BY STRATEGY – 1Q 2012



Sub-Strategy



Main Strategy

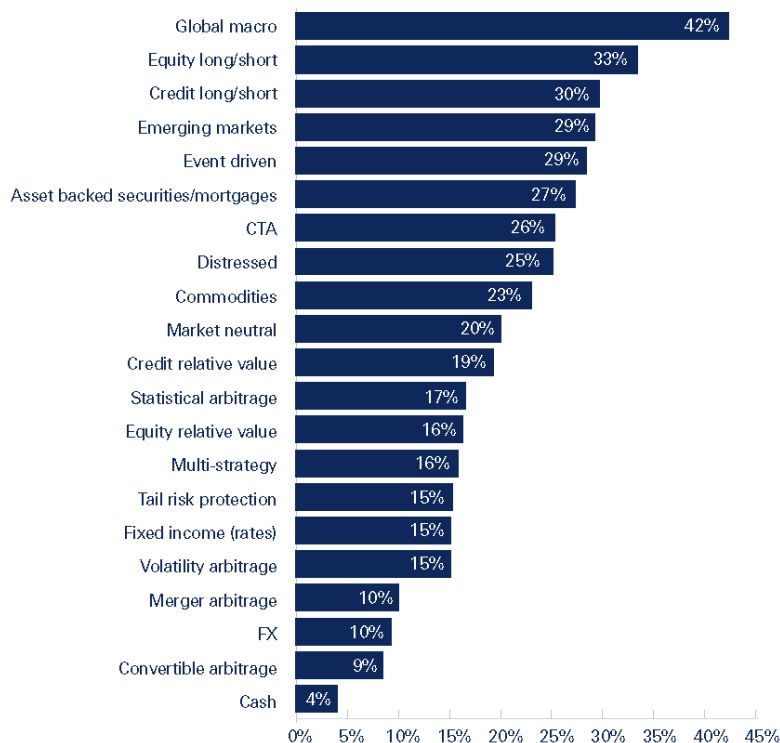


2012 Investment Strategies

Investor Insight:

- Investors identified the following hedge fund strategies as the most promising for 2012:
 - Global Macro
 - Equity long / short
 - Credit long / short
 - Emerging Markets
 - Event Driven

Percentage of respondents planning to increase allocations by strategy



Source: 2012 Deutsche Bank Alternative Investment Survey



Managed Funds Association

For more information contact:

Steve Hinkson

shinkson@managedfunds.org

(202) 730-2600

Or visit:

www.managedfunds.org

Follow us on Twitter: @MFAUpdates