

Mid-Year Survey of Hedge Fund Investor Sentiment

Credit Suisse Capital Services

July 2014



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The Prime Services' Capital Services is a team of over 25 professionals located in New York, London, Hong Kong, Zurich, Geneva, Sydney, Boston, San Francisco, Tokyo and Mumbai who assist in developing flow of capital between hedge fund managers and a broad range of institutional investors (including funds of hedge funds, family offices, private banks, endowments and foundations, and public and corporate pensions) who are seeking to allocate capital to hedge funds. It is critical to our success that we treat both managers and investors as "clients", and we strive to be of equal utility to both communities, providing them with regular insight and information, as well as frequent opportunities to interact with each other.

For more information on this survey or on our Prime Services business generally, please contact:

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Europe	+ 44 20 7888 8165	+ 44 20 7888 1212
Asia	+ 852 2101 7242	+ 852 2101 7141

Part I - Introduction and Executive Summary

Overview

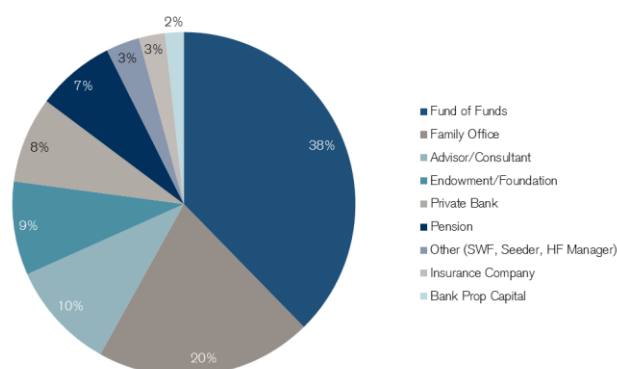
As an extension to our annual global hedge fund investor survey published earlier this year, where investors forecasted an optimistic outlook for 2014, we wanted to take a fresh look at investors' current appetite and level of activity.

Our survey polls 284 respondents from 256 investor groups representing \$544 billion in hedge fund investment. Investors from all regions participated in our mid-year survey, with a breakdown as follows:

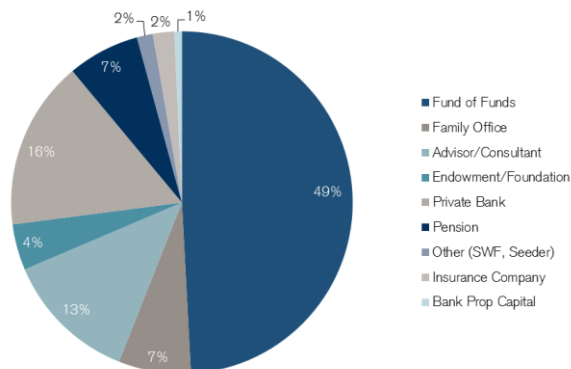
Region	Number of Responses
Americas	162
APAC	25
EMEA	97
Grand Total	284

This was spread across investor type, with a breakdown as follows:

Breakdown by No. of Investors



Breakdown by Investors AUM (in \$bn)



Summary Conclusions

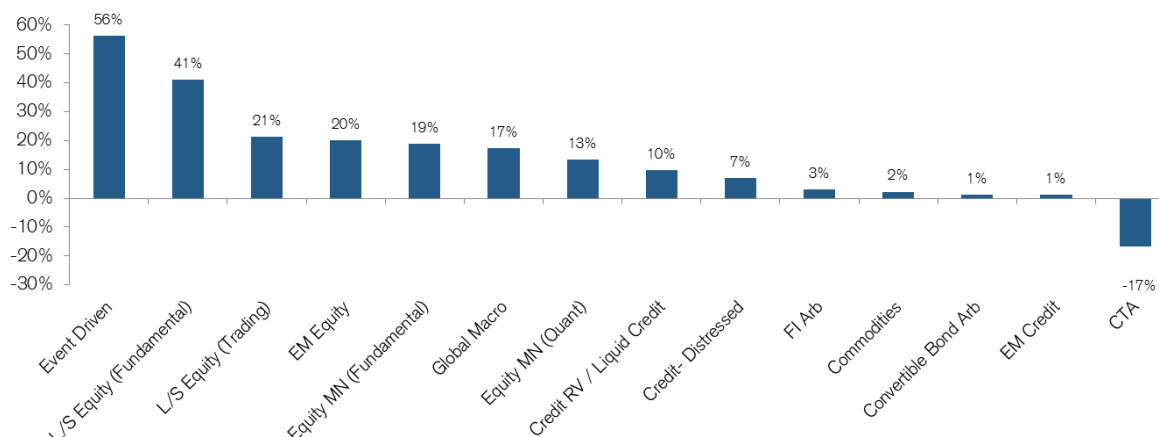
- The top 3 most sought after strategies globally are Event Driven, Long/Short Equity (Fundamental) and Long/Short Equity (Trading). CTA is the least sought after strategy across all regions.
- Demand for Global Macro saw a consistent decrease, while Emerging Market Equities saw a rebound in appetite.
- Although more investors expressed interests in making allocations in the second half of the year (97% in H2 2014 vs. 85% in H1 2014), investors are predicted to make a fewer number of allocations on average (3.4 in H2 2014 vs. 4.1 in H1 2014).
- EMEA based investors are predicted to make a higher number of allocations compared to other regions in H2 2014. Looking at the split by investor type, Bank Prop Capital, Fund of Funds and Private Banks are predicted to make the most allocations, while Pension Funds the least.

Part II – Strategy Appetite

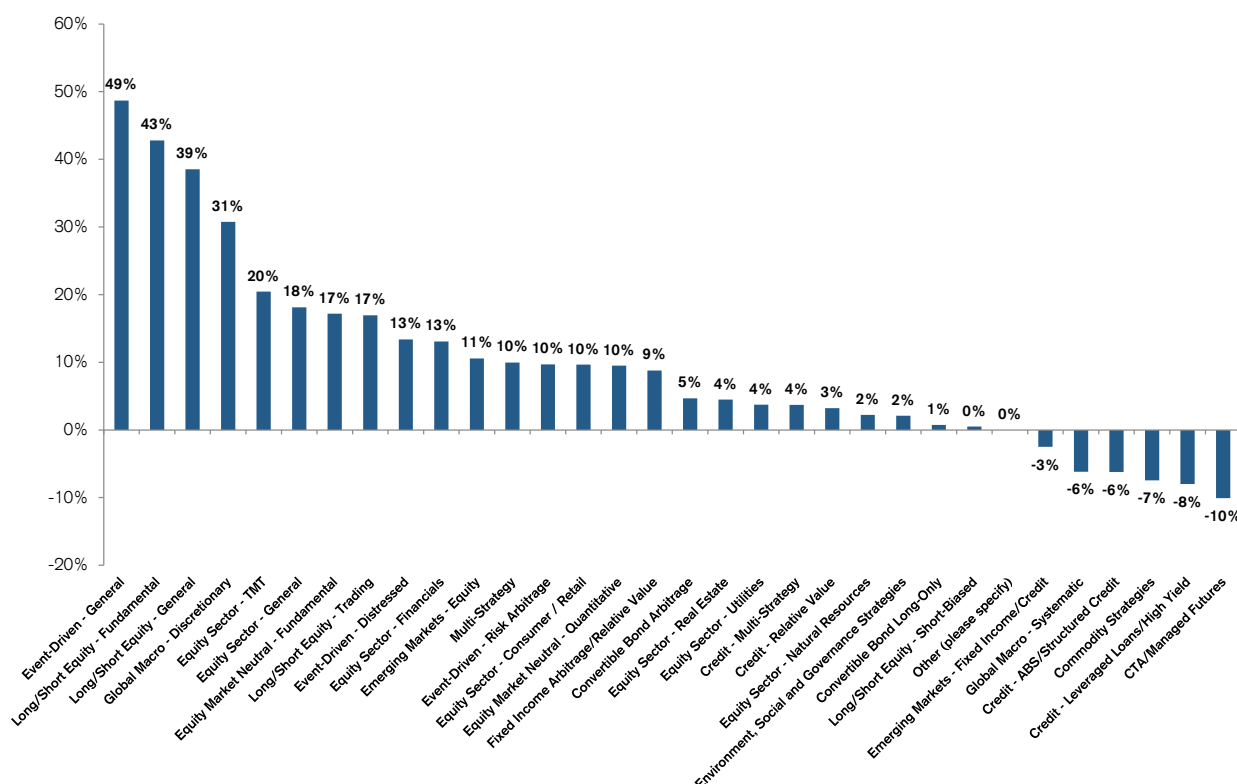
Overview

- The top three strategies ranked by current net demand (% increasing - % decreasing) are Event Driven, Long/Short Equity (Fundamental) and Long/Short Equity (Trading).
- Demand for Global Macro has consistently decreased over the last year; after being among the top 3 most sought after a year ago, the strategy dropped to 4th at the beginning of the year, and is now ranked 6th.
- Emerging Market Equities saw a rebound in appetite since the beginning of the year, with 20% more investors looking to increase rather than decrease allocations in H2 2014, versus 11% at the start of the year.

Global: Net Demand for Principle Strategies (H2 2014)



Rankings from our survey at the beginning of the year (Full year 2014)

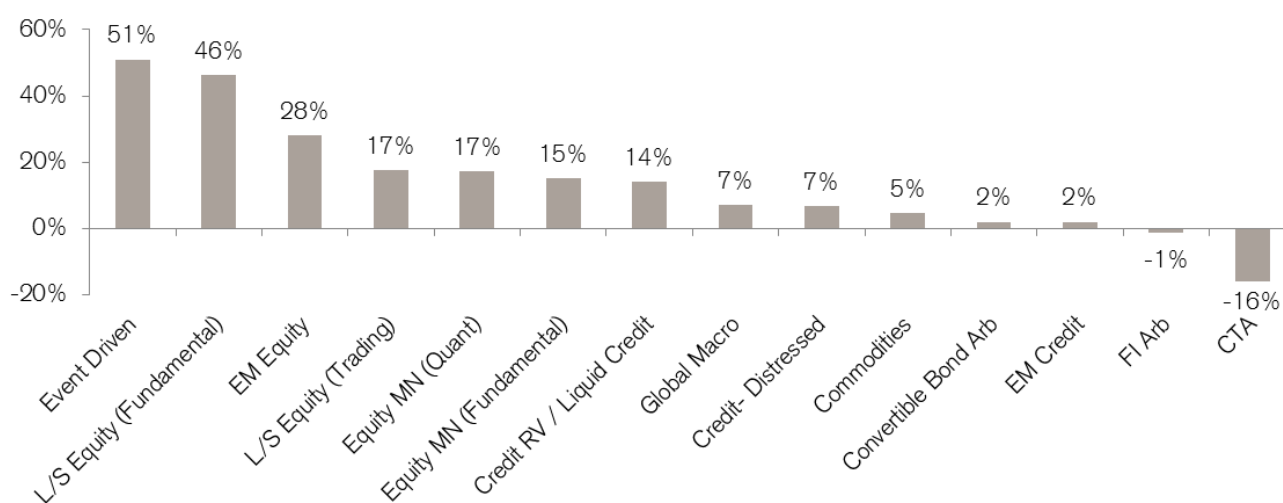


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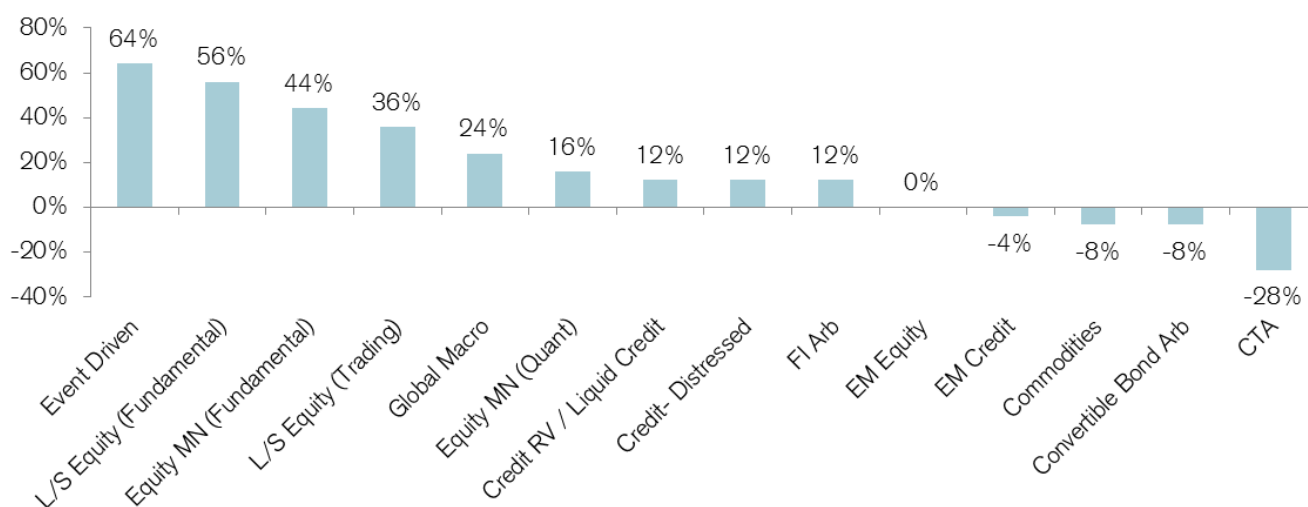
A) Strategy Appetite by Region

- Event Driven and Long/Short strategies are the most sought after across the three regions, while CTAs saw the least demand, particularly in APAC. Event Driven was especially favoured in EMEA with 63% net demand, which is double any other strategy in the region.
- Emerging market equities were particularly favoured by American based investors, with a net demand of 28%. Asia on the other hand, had an equal number of investors looking to increase allocations as those looking to decrease allocations to the strategy.
- Global Macro strategies were particularly favoured by investors in EMEA and APAC, with a net demand of 24% in each region, while demand was much more muted in the Americas (7%).
- APAC investors diverged from their Americas and EMEA based peers, expressing significantly higher appetite for Equity MN and lower appetite for convertible arb, commodities and EM Credit.

Americas: Net Demand for Principle Strategies (H2 2014)

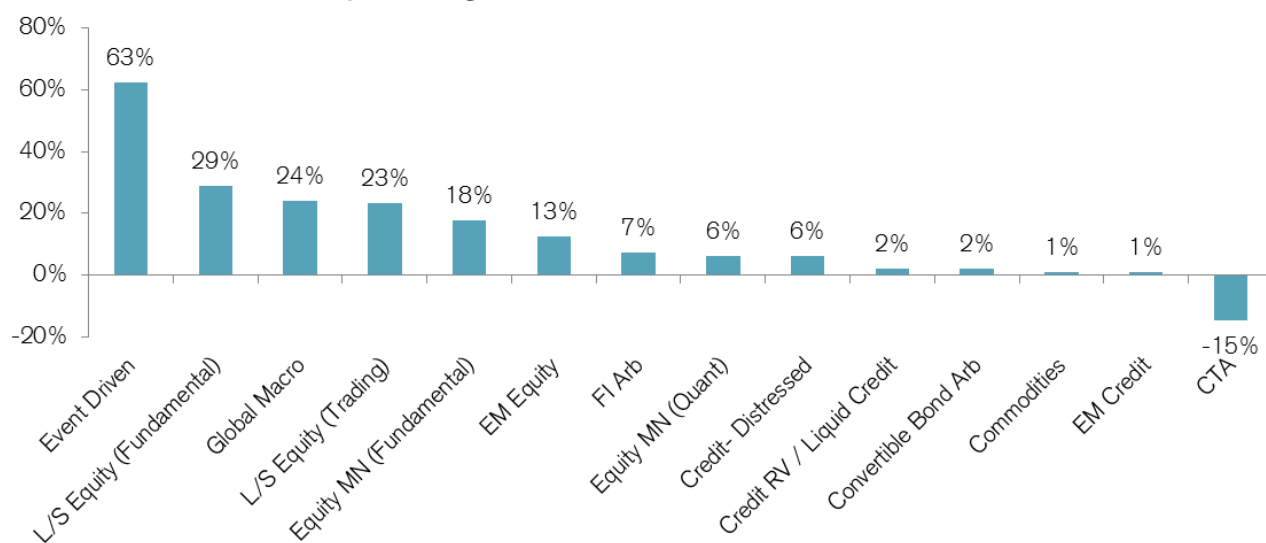


APAC: Net Demand for Principle Strategies (H2 2014)



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EMEA: Net Demand for Principle Strategies (H2 2014)



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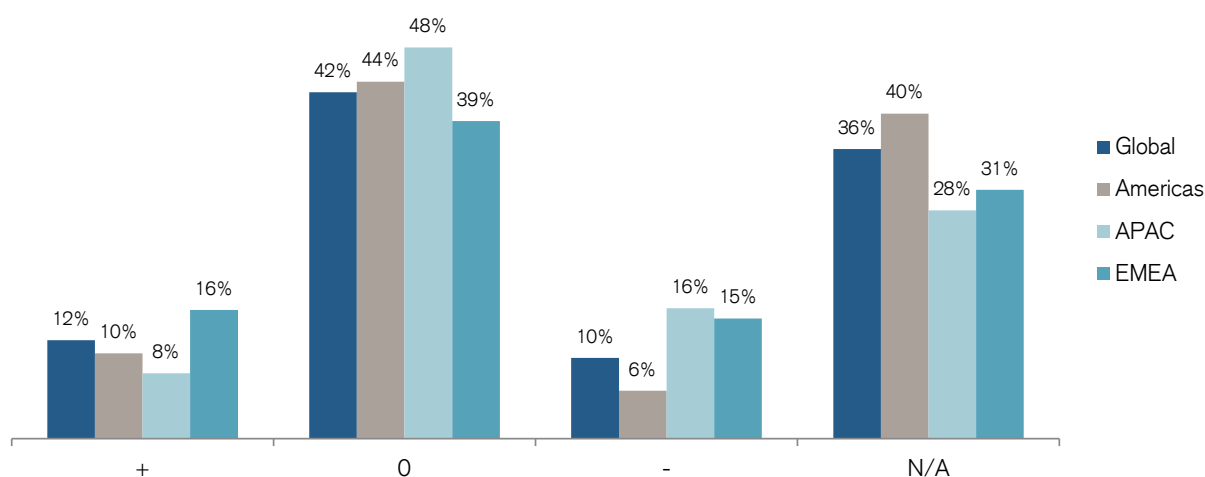
B) Allocation Appetite by Strategy

- Event Driven is likely to see the most gross allocation activity in H2 2014, with 58% of investors planning to allocate, followed by L/S Equity (fundamental), with 49% planning to allocate.
- CTA funds are expected to see redemptions in H2 2014, with a negative net demand of 17% globally.

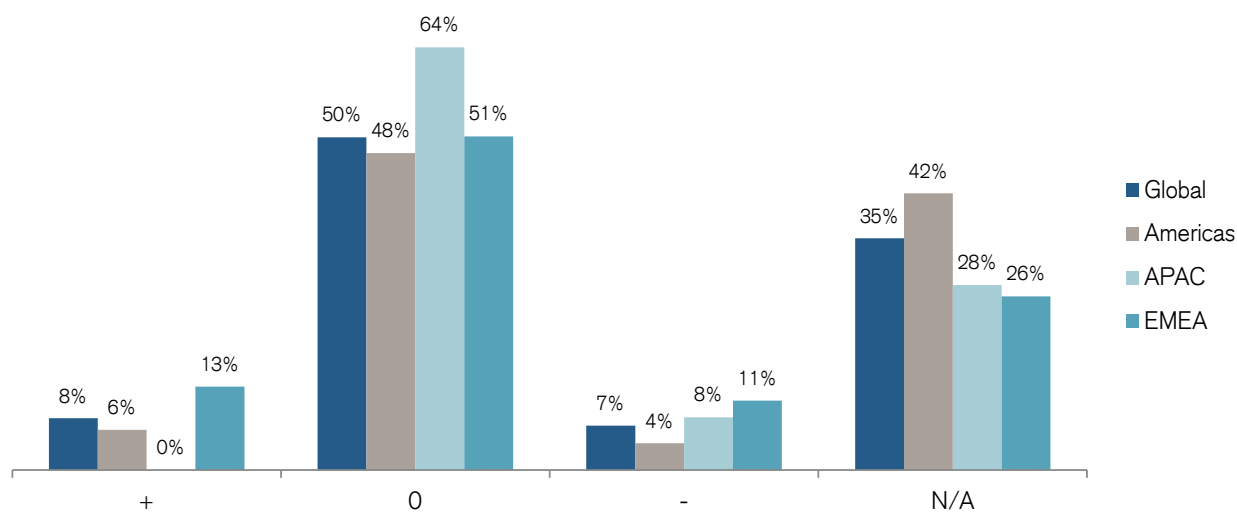
Following is a summary of Investor Allocation Predictions by Strategy:

(+ for increasing allocation, 0 for stable, - for decreasing allocation and N/A for no allocation)

Commodities

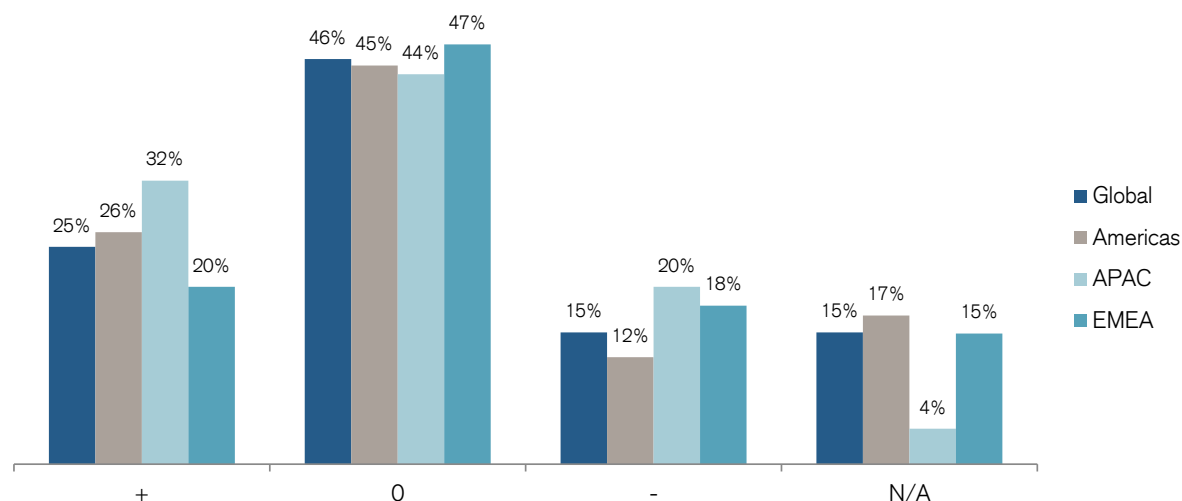


Convertible Bond Arbitrage

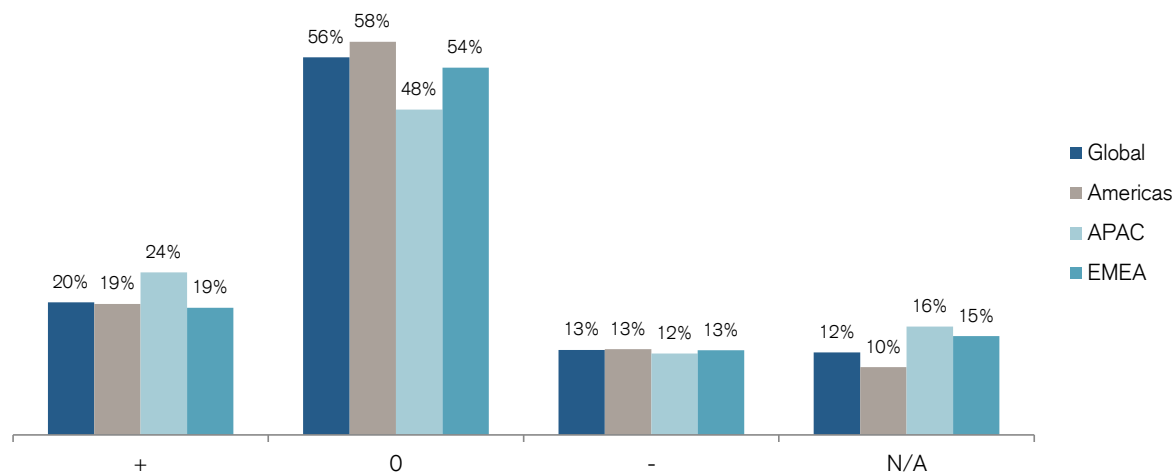


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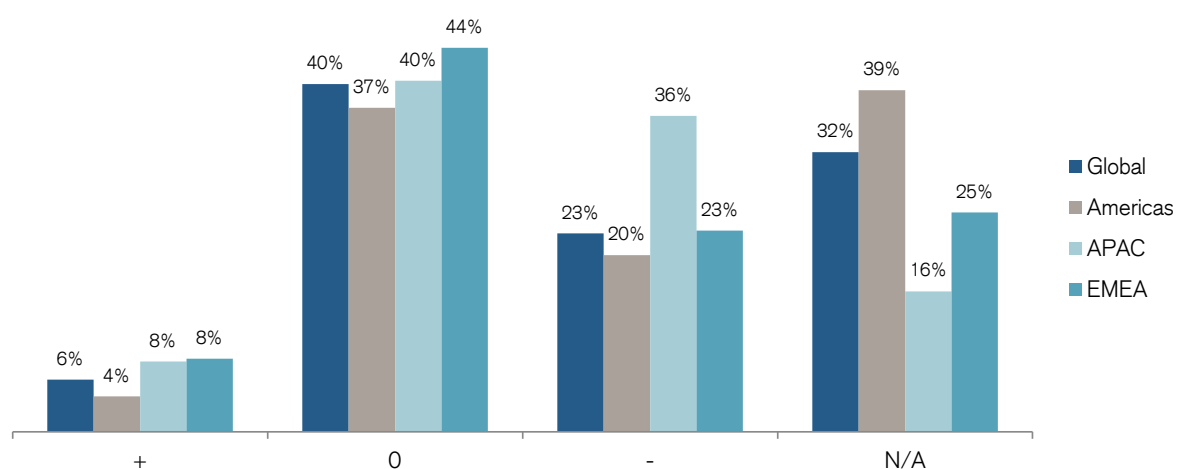
Credit RV / Liquid Credit



Credit- Distressed

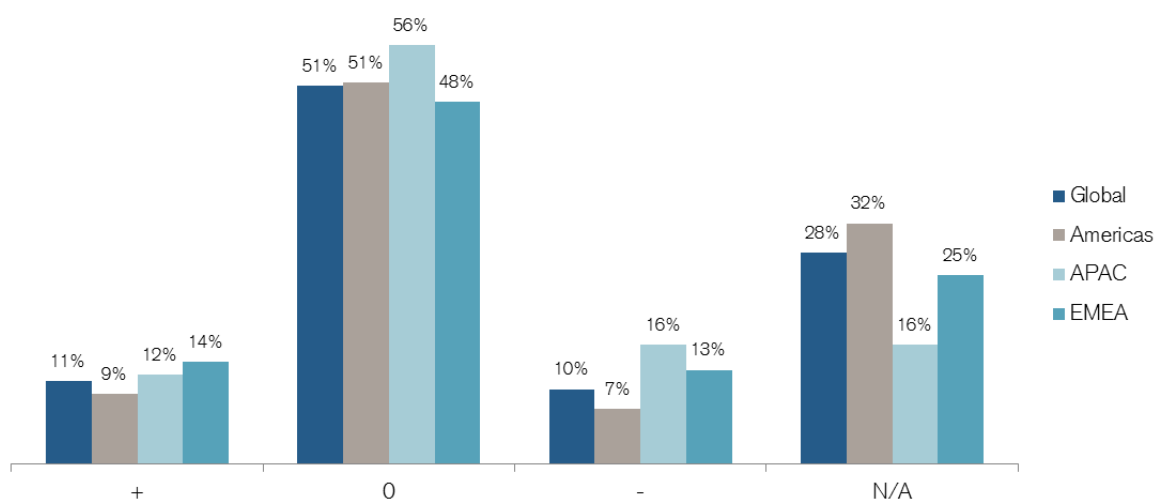


CTA

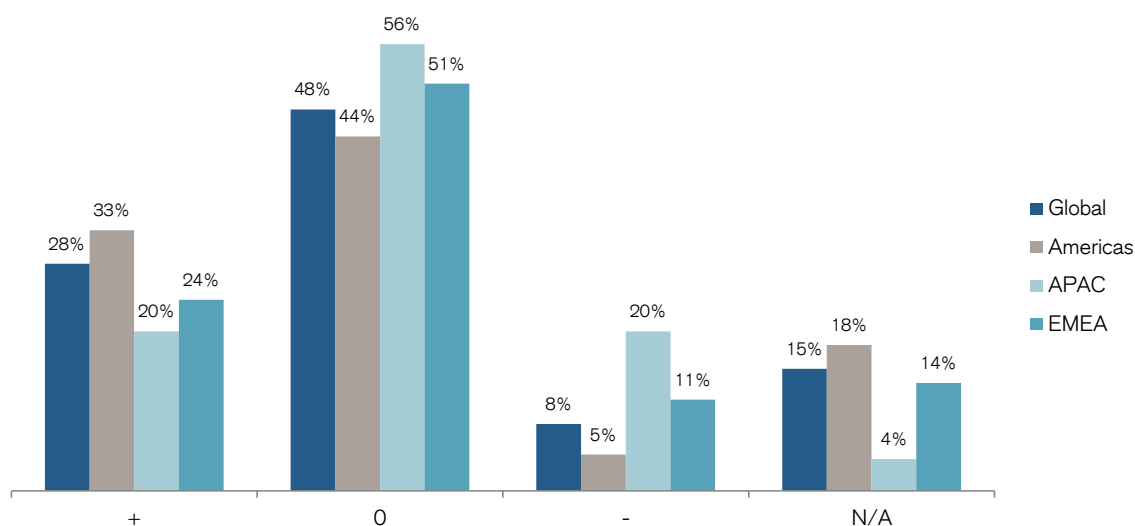


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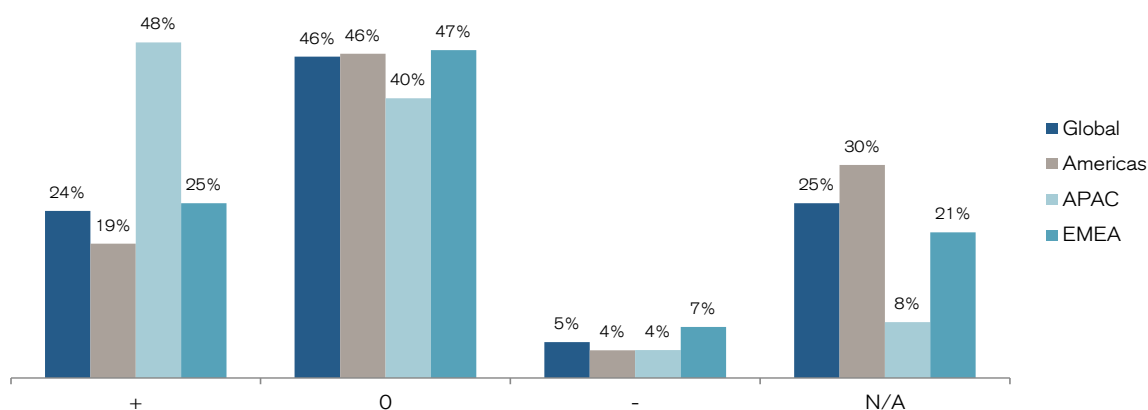
Emerging Markets Credit



Emerging Market Equity

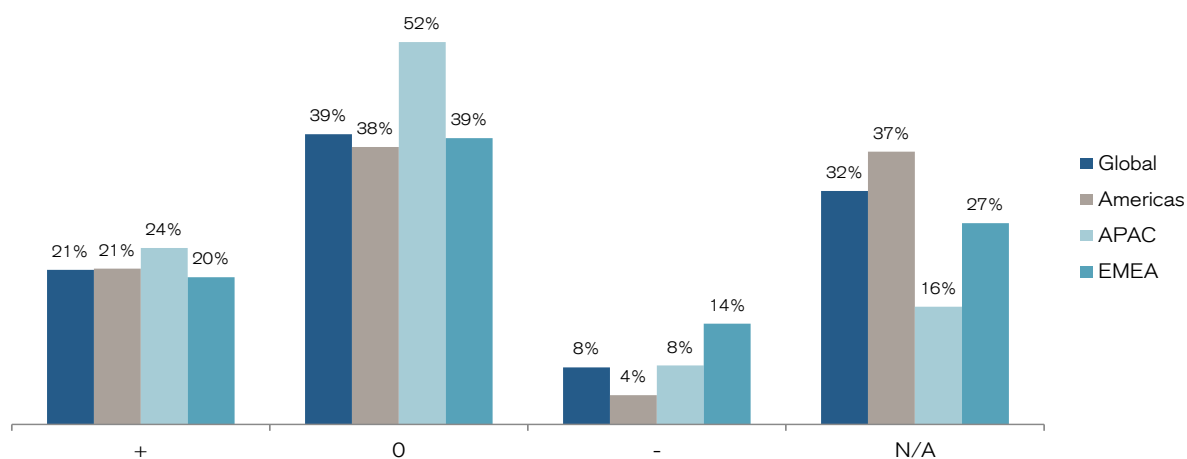


Equity Market Neutral (Fundamental)

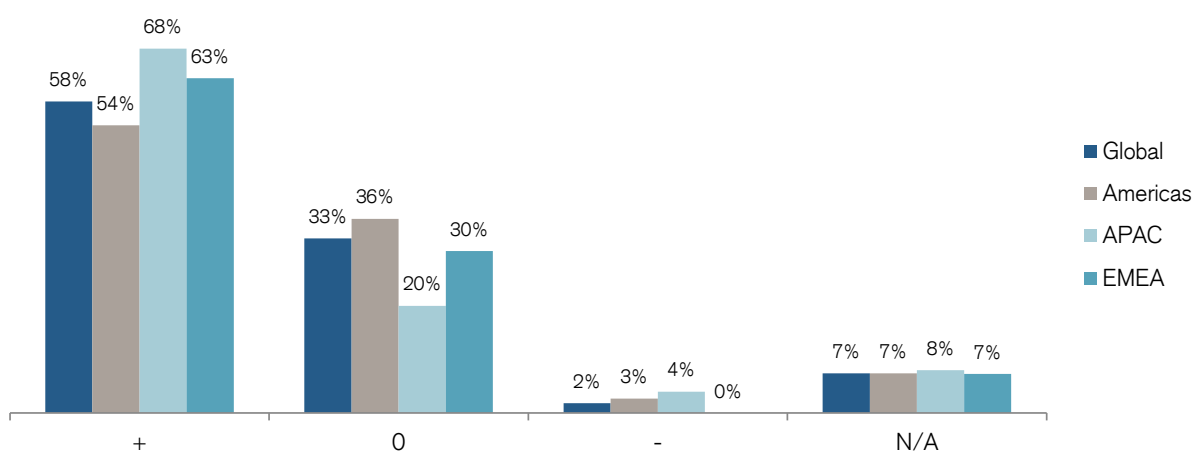


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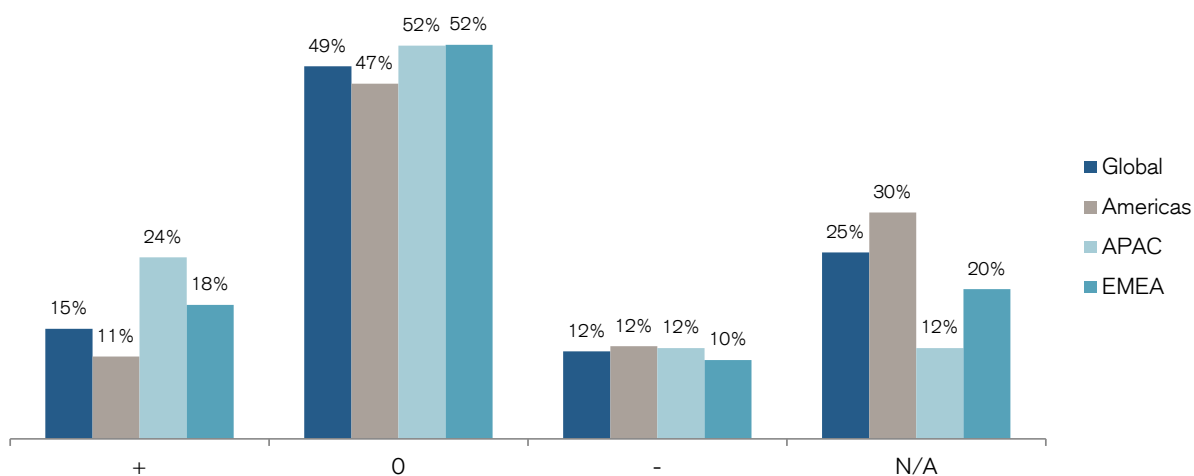
Equity Market Neutral (Quant)



Event Driven

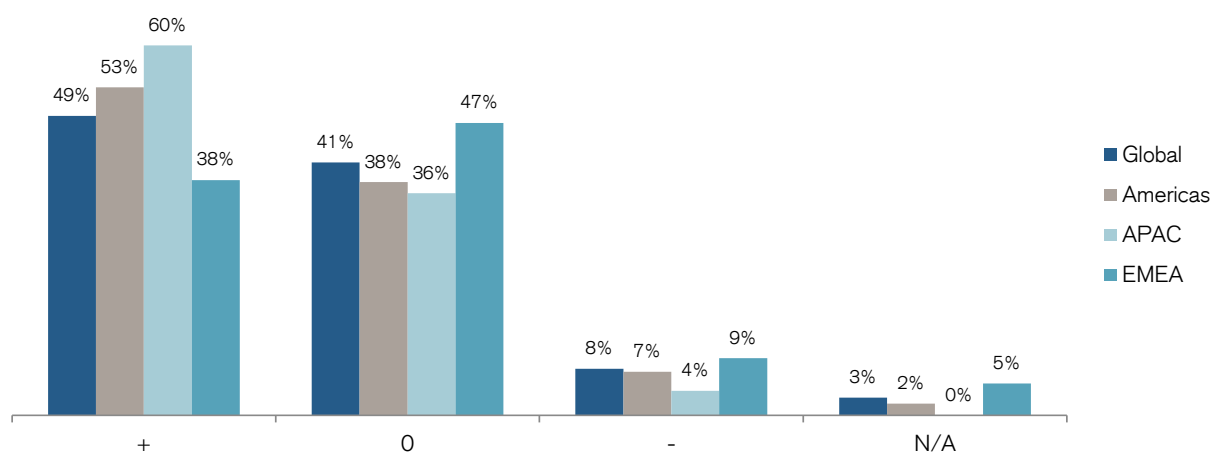


Fixed Income Arbitrage

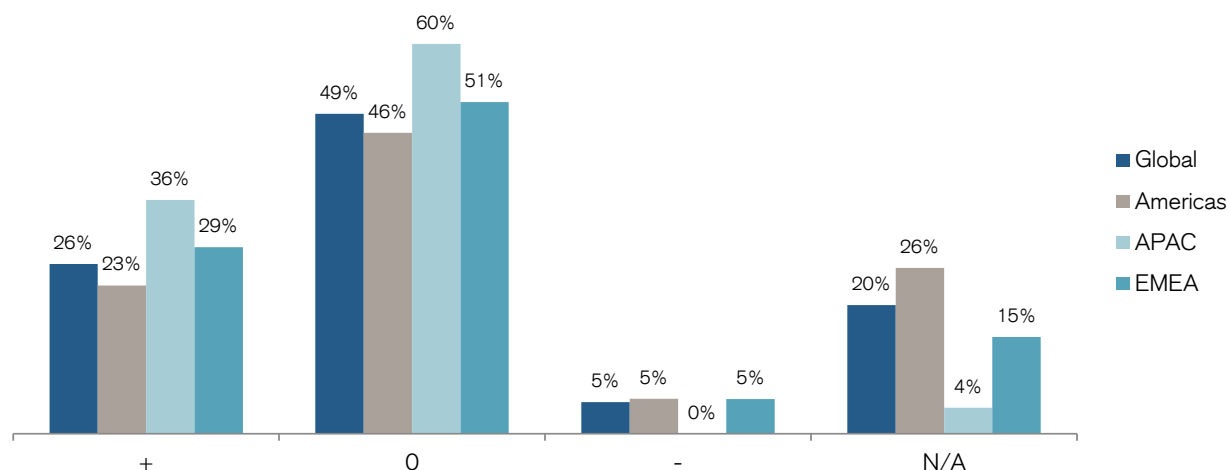


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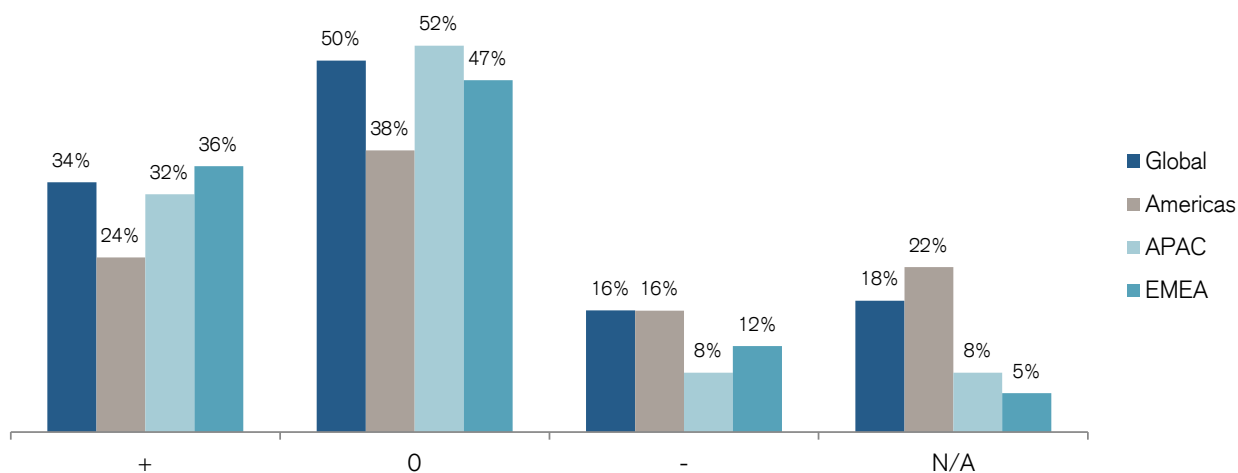
Long / Short Equity (Fundamental)



Long / Short Equity (Trading Oriented)



Global Macro



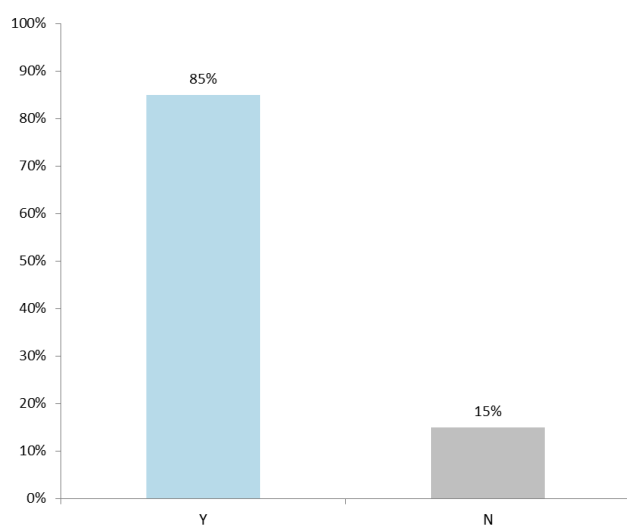
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Part III – Allocation Activity

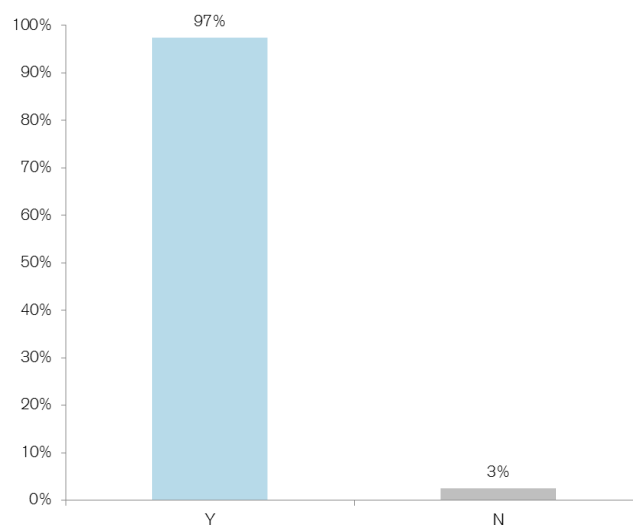
A) Allocation Activity by Region

- Investors are predicted to be even more active in the second half of the year, with 97% of investors that were surveyed intending to make allocations in H2 2014 compared to 85% in the first half of the year.
- The average number of allocations varies between 3.1 and 4.7 per investor. EMEA based investors are predicted to make a higher number of allocations (4.0) compared to other regions in H2 2014.
- Although more investors expressed interest in making allocations in the second half of the year, both Americas and EMEA investors are predicted to make a fewer number of allocations than in the first half.

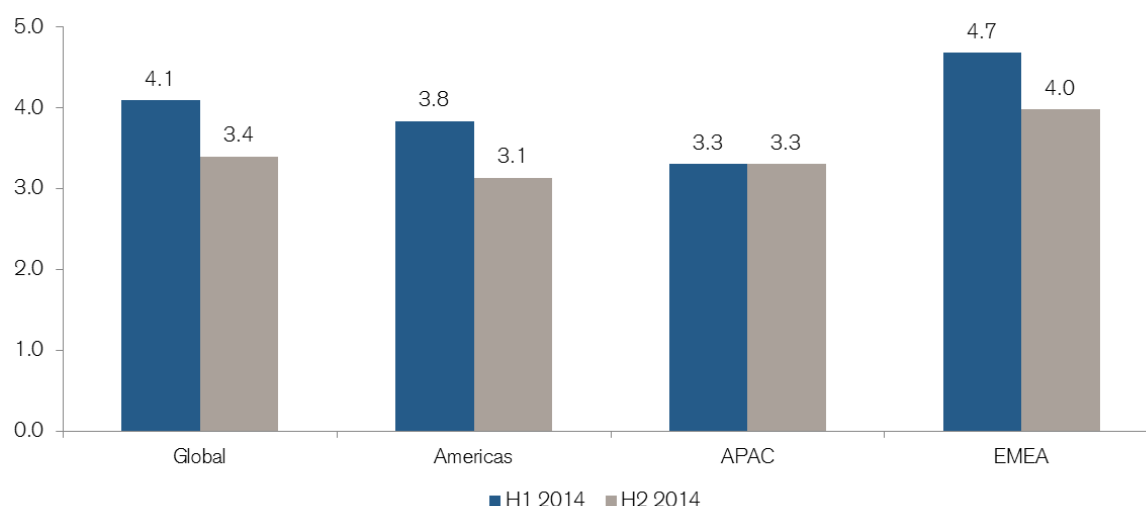
Allocation Distribution H1 2014



Allocation Distribution H2 2014



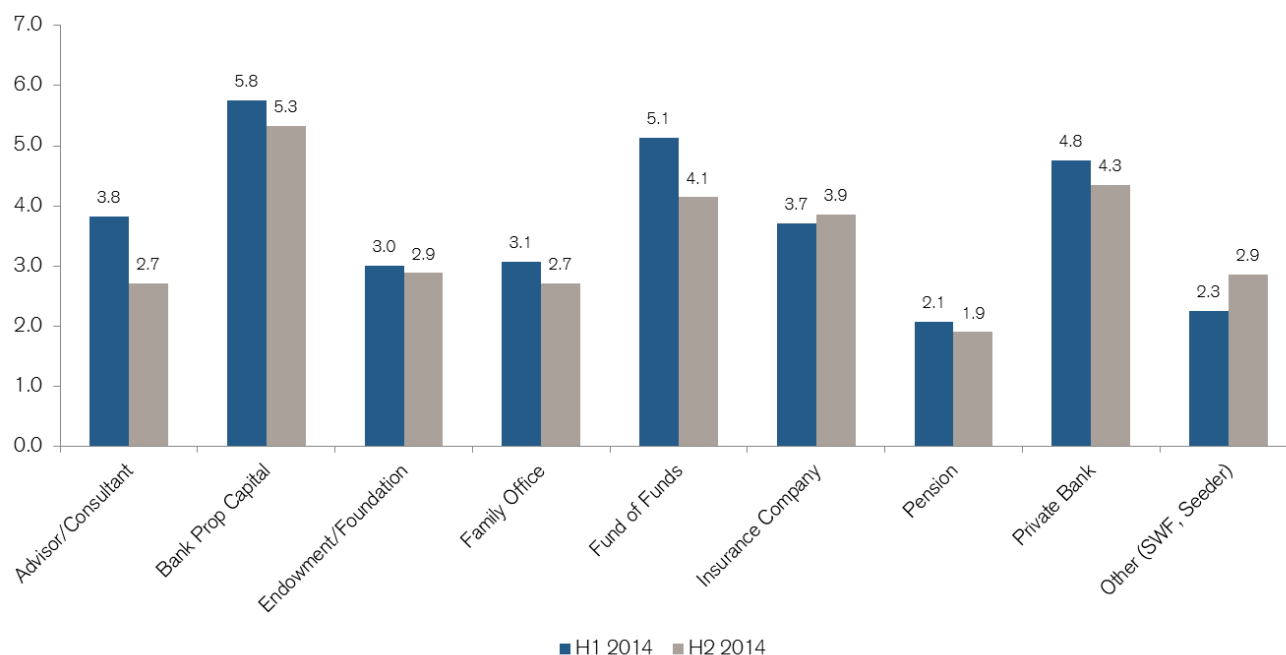
Average Number of Allocations by Investor Region



B) Allocation Activity by Investor Type

- Bank Prop Capital, Fund of Funds and Private banks are predicted to make the most allocations, while Pension Funds the least. Apart from Insurance Companies and the other (including SWF, seeders) category, all other investor types intend to make fewer allocations on average in H2 compared to H1 2014.

Average Number of Allocations by Investor Type



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