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Media Release

Credit Suisse Releases 9th Annual Hedge Fund Investor Survey

New York, February 28, 2017 – **Credit Suisse today releases its ninth annual Hedge Fund Investor Survey entitled "Shifting Tides," in which responses from over 320 institutional investors representing $1.3 trillion of hedge fund investments, were analyzed on a number of topics including:**

- **Key industry trends and forecasts**
- **Growth and return prospects for the industry**
- **Strategy preference and allocations plans**

Key highlights from the 2017 Credit Suisse Annual Hedge Fund Investor Survey:

- Overall sentiment was positive for hedge fund industry growth with investors forecasting a **3.5% increase in new inflows** during 2017. This occurring as the industry begins the year at an all-time high for assets under management of $3.018T.

- Investors appear to be making real headway in the push for **better alignment of terms**, with **61%** of respondents reporting that they had at least one manager in their portfolio with a hurdle rate, while **57%** said their management fees were lowered in the past 12 months.

- **Global Macro-Discretionary** was specified by investors as the most preferred strategy for 2017 with 26% net demand. **Fixed Income Arbitrage/Relative Value,** with 18% net demand, was ranked as the second most in demand strategy by investors. **Emerging Markets-Equity** rounded out the top three, also with 18% net demand.

Robert Leonard, Managing Director and Global Head of Capital Services at Credit Suisse, said:

"Institutional investors remain strongly committed to hedge funds playing a role in their portfolios. However, they also appear to be following through and making real changes to their hedge fund allocations. This includes increased concentration with funds in their portfolios, adding strategies that are less correlated with equities and terms/structures that better align their long-term interests with those of their managers."

"Importantly, after years of discussion, it appears that there is now real progress being made by institutional investors and hedge fund managers in finding an equitable middle ground. While still an ongoing dialogue, it is nevertheless encouraging and a positive sign for the hedge fund industry going forward."

Other findings from the Survey included:

- **Sector Funds:** Investors reflected a pivot from broad based Equity strategies towards sector focused ones. Top Equity Sector strategies include Healthcare (#5) with 16% net demand, Financials (#7) with 15% net demand and TMT (#12) with 10% net demand.

Net demand for Equity Long/Short Fundamental declined, falling from #5 last year to #13 this year.

- **Quantitative/Systematic**: Other strategies identified by investors for potential allocations in 2017 include systematic strategies like Equity Market Neutral – Quantitative (#4) with 17% net demand and Global Macro – Systematic (#6) with 15% net demand. This is a continuation of the trend from last year's survey highlighting increased investor interest in quantitative strategies.

- **Ongoing commitment:** 87% of investors indicated that they would maintain or increase their hedge fund exposures in the coming year. This is identical to last year, when 87% of investors also indicated that they would be maintaining/increasing their hedge fund allocations.

- **Target Returns**: only 30% of investors said that their hedge fund portfolios had met or exceeded their expectations this year, down from 45% last year. Looking forward, investors shared that they were targeting annual returns of 7.2% for their hedge fund portfolios in 2017, above the industry average returns of 5.5% last year.

- **New launches**: There remains significant appetite for start-up funds, with slightly less than half (44%) of respondents reporting investing in a start-up fund last year. Of those who allocated to a new launch last year, about 75% reported receiving discounted or founders' share class terms.

- **Key Factors in Selecting Hedge Funds**: The top three factors indicated for selecting hedge funds in an institutional portfolio were returns after fees, non-correlation with other investments, pedigree of risk takers and core team stability. Investors also considered risk management skills to be a very important factor in manager selection as well.

- **Drivers of Redemptions**: As in years past, mostly idiosyncratic factors drove redemptions – 80% of investors redeeming cited individual manager underperformance, while another 52% cited changes at manager (whether style drift or investment professional turnover, among others).

- **Significant Developments in 2017**: When asked about potentially significant developments that might occur this year, investors mentioned additional fund closures, more fee compression, better alignment of terms and a decrease in the amount of financial regulations impacting hedge funds.

The survey, produced by Credit Suisse's Hedge Fund Capital Services Group, is one of the most comprehensive in the industry —focused on pension funds, endowments, foundations, consultants, private banks, family offices and funds of hedge funds—and with respondents diversified across all regions.

For a copy of the complete survey, please click here.

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