

# Credit Suisse Mid-Year Survey of Hedge Fund Investor Sentiment

Credit Suisse Capital Services  
Summer 2016

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

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## Part I - Introduction and Executive Summary

### Overview

The Credit Suisse Annual Global Hedge Fund Investor Survey published earlier this year was entitled “Staying the Course” and provided interesting insights into investors’ mindset towards hedge funds at the beginning of the year. Given the eventful first half of 2016, we also wanted to take a fresh look at investors’ hedge fund investment activity at the mid-year point as well as at their levels of interest going forward.

The Annual Investor Survey anticipated moderate growth for the hedge fund industry in 2016 with projected industry assets above \$3 trillion by year end. But respondents also highlighted concerns over macro events, crowded trades and market liquidity as main industry threats.

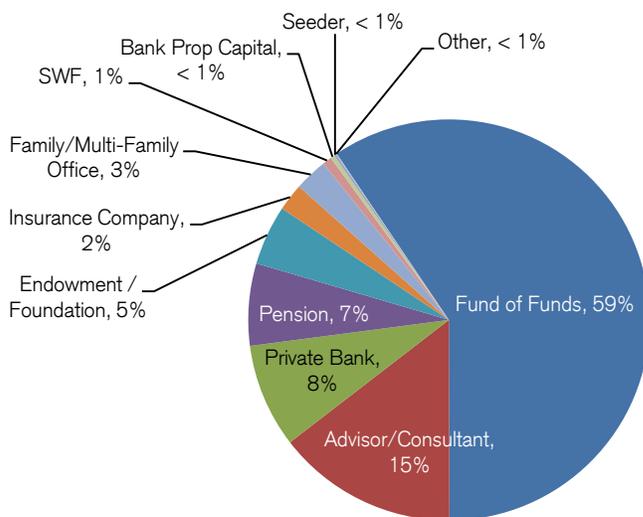
Despite challenging headlines, our Mid-Year Survey of Hedge Fund Investor Sentiment indicates continued appetite to allocate to hedge funds in the second half of the year, and many of the strategies investors favored in the Annual Survey continue to remain in focus.

Our survey polls over 200 respondents representing nearly \$700 billion in hedge fund investments.

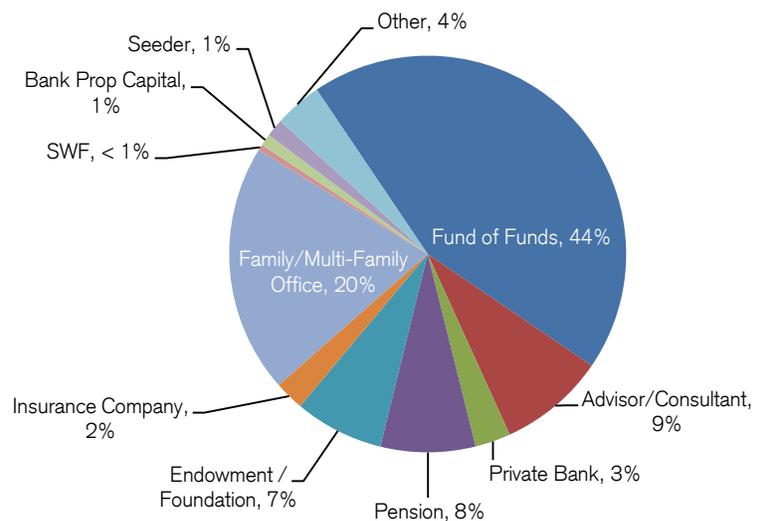
Investors from all regions participated with a breakdown as follows:

Region	Number of Responses
Americas	140
EMEA	52
APAC	17
<b>Total</b>	<b>209</b>

INVESTOR BREAKDOWN  
By AuM (in \$USD)



INVESTOR BREAKDOWN  
By number of responses

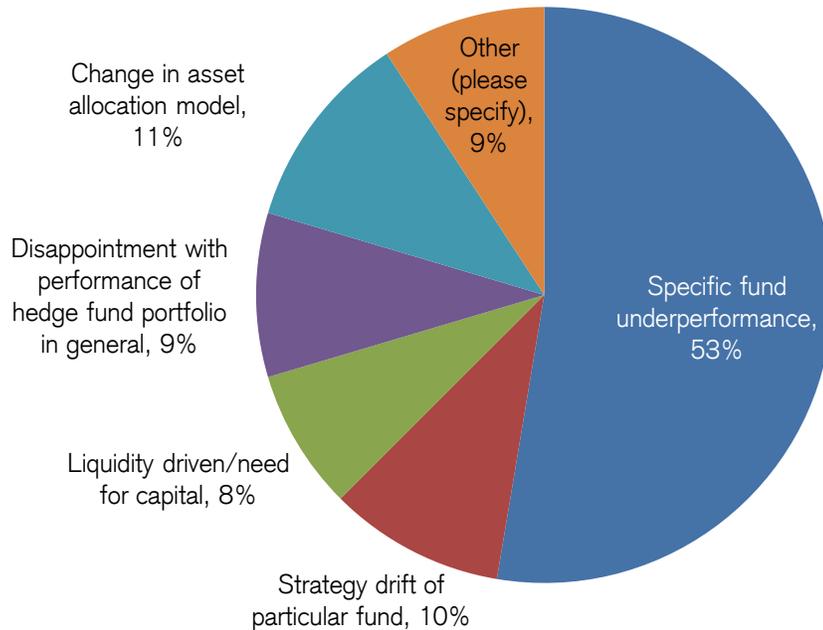


EXECUTIVE SUMMARY – WATCHFUL WAITING

- **More than 80% of respondents reported redeeming from hedge funds** in the first half of 2016.
- Some institutional investors, such as pension funds and endowments, had lower rates of redemptions than the average. **31% of pension funds surveyed had no redemptions**, while **25% of endowments and foundations reported no redemption activity** during the first half of the year.
- **Redemptions were selective and targeted at specific funds**, rather than reducing exposure to the industry as a whole – over 60% of those who redeemed were driven by specific manager underperformance or an individual fund's strategy drift.
- Of those investors who did redeem from hedge funds during the first half of the year, **82% expect to recycle that capital** to other hedge fund managers rather than other asset classes (9% reported being undecided as to where to allocate the recycled capital).
- Looking ahead, **76% of US investors** said that they would likely make allocations to hedge funds during the second half of the year. **86% of APAC investors** and **64% of EMEA** based investors indicated that they were also likely to do so.
- The main drivers of future allocations? **Opportunistic allocation driven by strategy or manager performance (60%)**, or continued outperformance of current hedge fund allocations (12%).
- The top 3 most popular strategies being considered for second half allocations are **Equity Long/Short, Equity Market Neutral and Global Macro**, which were also three of the top strategies in our Annual Investor Survey earlier this year.
- With respect to preferred structures for investing in hedge funds (other than a traditional Master/Feeder), investors indicated interest in **Liquid Alternatives (13%)**, **Risk Premia vehicles (10%)**, **Co-Investment opportunities (8%)** and **Long-Only funds (7%)**.
- Looking ahead, investors indicated the greatest appetite for **Globally focused funds (67%)** with investors also considering regional allocations to **North America (57%)**, **Developed Europe (41%)** and then **Asia-Pacific/ex-Japan (29%)**.

## Part II – Reflecting on 1H2016 and Second Half Forecast

### What were the MAIN drivers of redemptions in 1H2016?



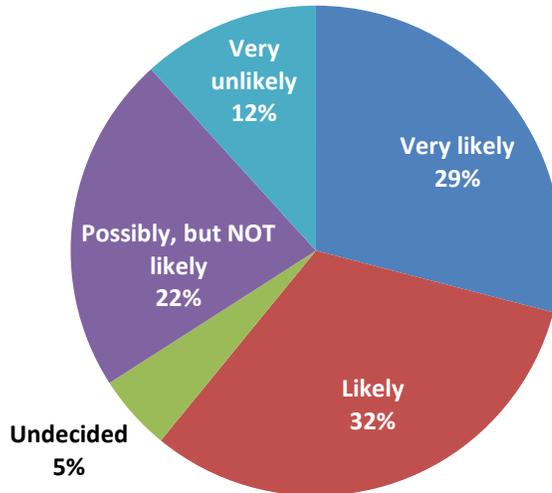
- **84%** of respondents redeemed from hedge funds in the first half of 2016.
- Digging into drivers of redemptions, **53%** of investors reported individual fund underperformance as a main driver, while **10%** indicated specific fund strategy drift as their main reason for redeeming.
- Only **9%** said redemptions were a result of disappointment with their hedge fund portfolio in general.

### Which investors had the lowest rates of redemptions?

Pensions	31% no redemptions
Endowments & Foundations	25% no redemptions
<b>All (Survey Average)</b>	<b>16% no redemptions</b>
Family Offices	13% no redemptions
Fund of funds	9% no redemptions

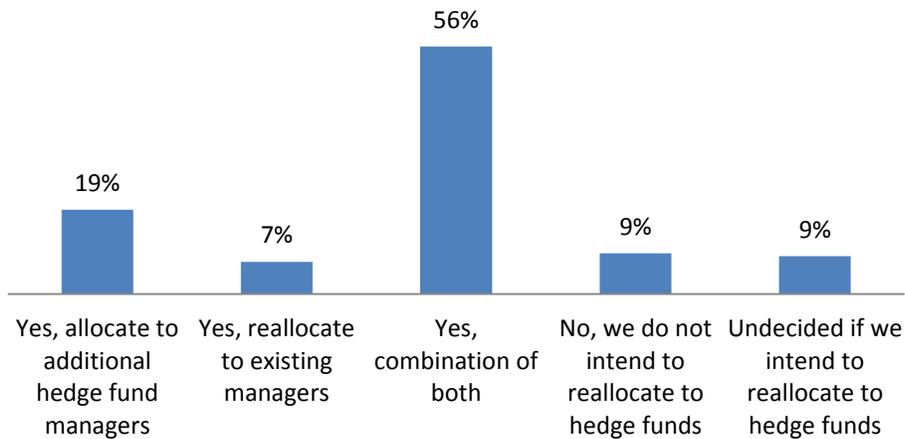
- Institutional investors are often considered to be the “stickiest” types of capital by hedge funds.
- **Pension fund** investors indicated that they had the lowest rate of redemptions with **31%** reporting that they had no redemptions during the first half of this year.
- One quarter of **endowments & foundations** shared that they had no redemptions in their hedge fund portfolios during the first half of the year.
- **Family offices** and **fund of funds** indicated a slightly higher rate of redemptions than the survey average.

### How likely are investors to further redeem from hedge funds in 2H2016?



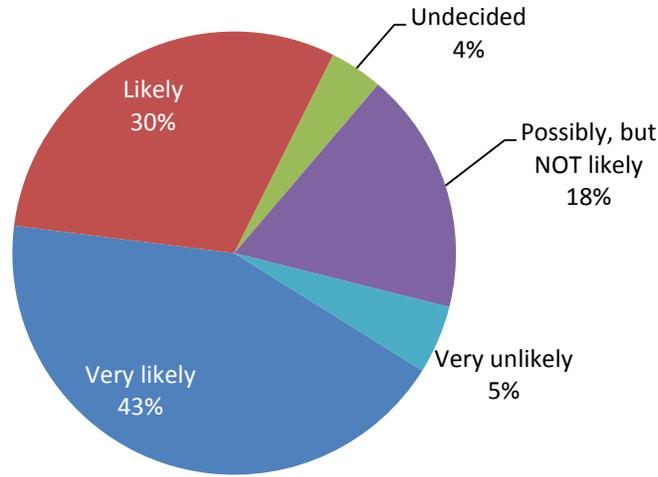
- **61%** of investors indicate they are likely or very likely to redeem from hedge funds in the second half of the year, which is down from the **84%** who redeemed in the first half of the year.

### Will investors reallocate redeemed capital to hedge fund managers?



- For investors who redeemed in the first half of 2016, **56%** intend to recycle that capital to a combination of both existing and additional hedge fund managers. **19%** of investors said that they intend to recycle those allocations by adding hedge fund managers, while **7%** intend to reallocate to existing managers already in their portfolios.

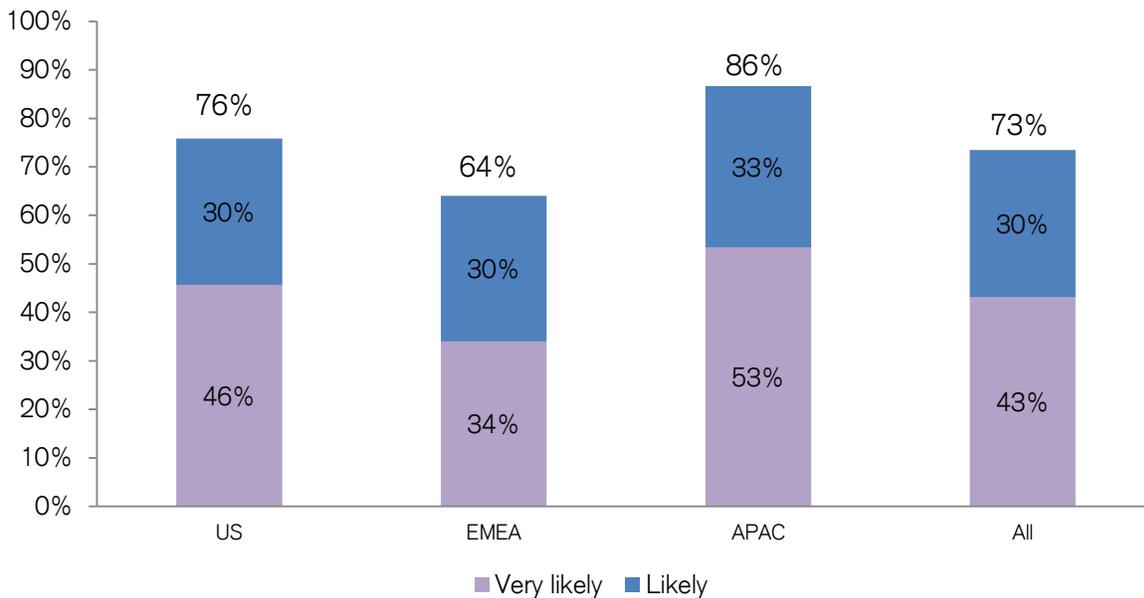
### How likely are investors to allocate capital to hedge funds in 2H2016?



- Respondents indicated that hedge funds can still expect to receive additional capital in the second half of the year as **73%** reported being “likely” or “very likely” to allocate during that time.

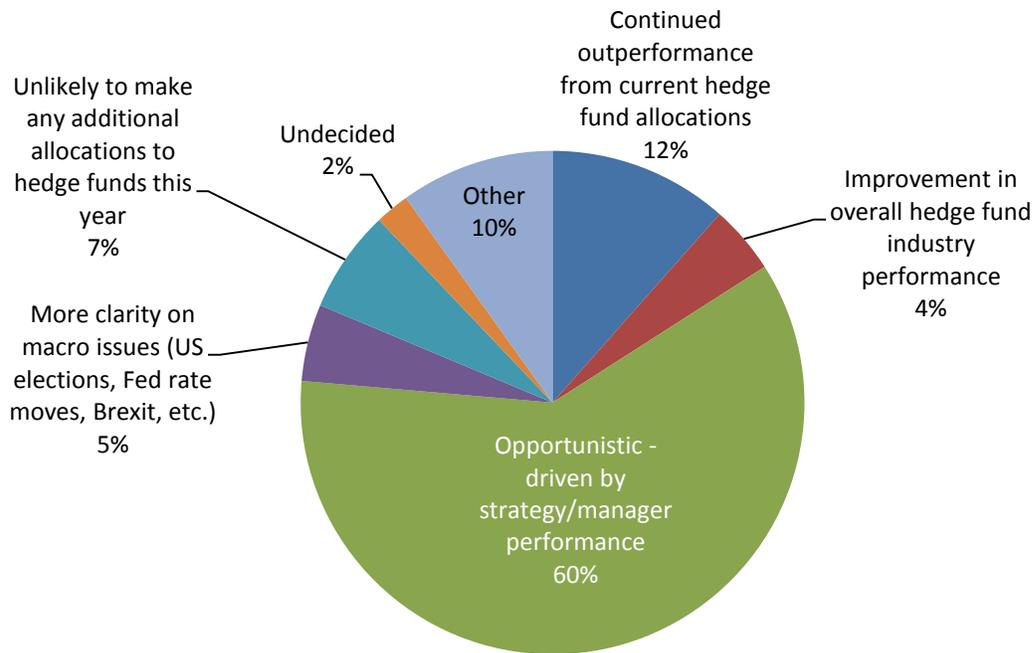
### Regional Breakdown

Investors Likely or Very Likely to Allocate to Hedge Funds in 2H2016, By Region



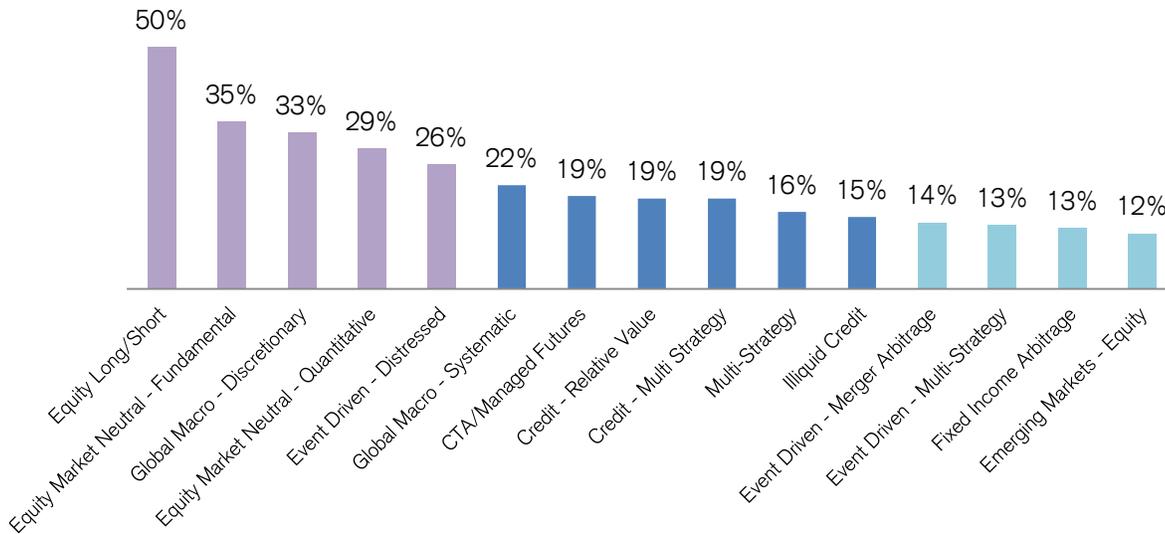
- **46%** of investors based in the US are “Very Likely” and **30%** are “Likely” to allocate capital in the second half of the year. **64%** of investors based in Europe and **86%** of investors based in Asia said they would be “Very Likely” or “Likely” to allocate during that same time period.

## What will be the MAIN driver of possible future allocations?



- Investors indicated that the most significant driver of potential future allocations will be **opportunities driven by strategy or manager performance (60%)**.
- **12%** of investors cited continued **outperformance of their current hedge fund portfolio** to be the primary driver of their additional allocations going forward.
- **5%** said that they were waiting for **more clarity on a number of macro issues** before making any further allocations.

## Which strategies have the most investor interest for 2H2016?



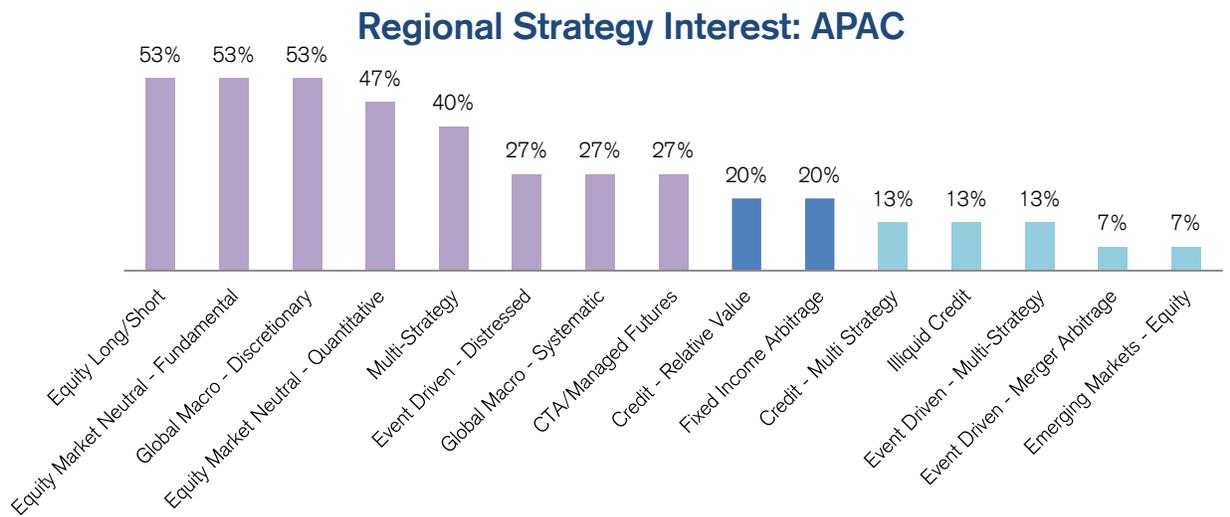
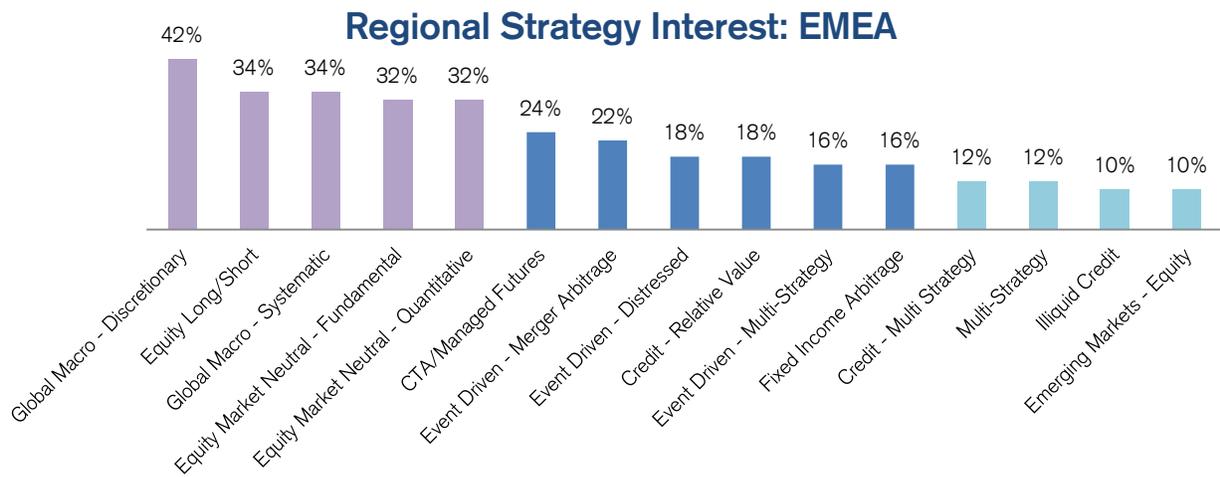
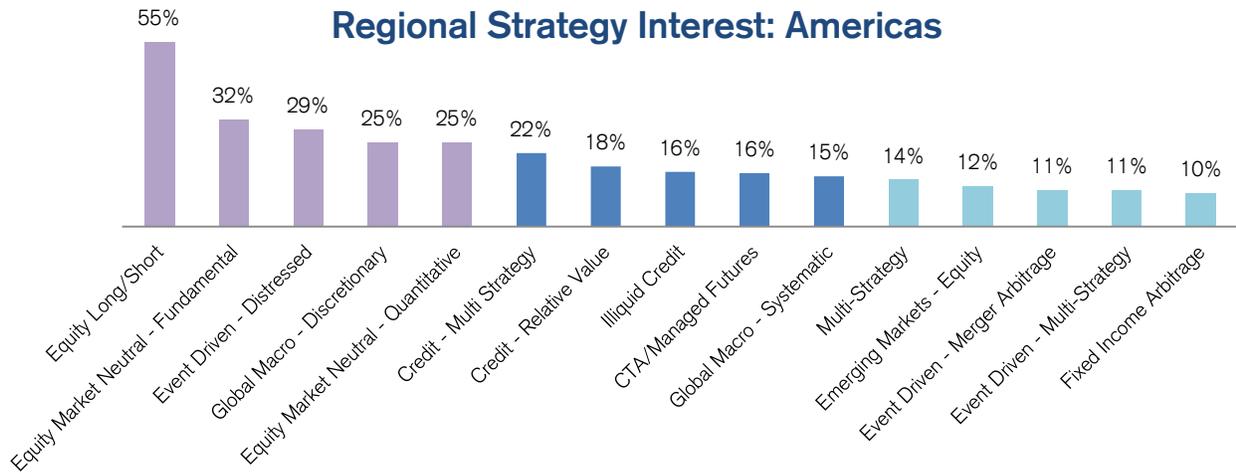
## 2016 Annual Investor Survey Results – Strategy Appetite

Top Strategies in the 2016 Annual Investor Survey (1Q2016)

1. Equity Market Neutral (Fundamental & Quantitative)
2. Global Macro Discretionary
3. Long Short Equity - Trading
4. Long Short Equity - Fundamental
5. Long Short Equity - General

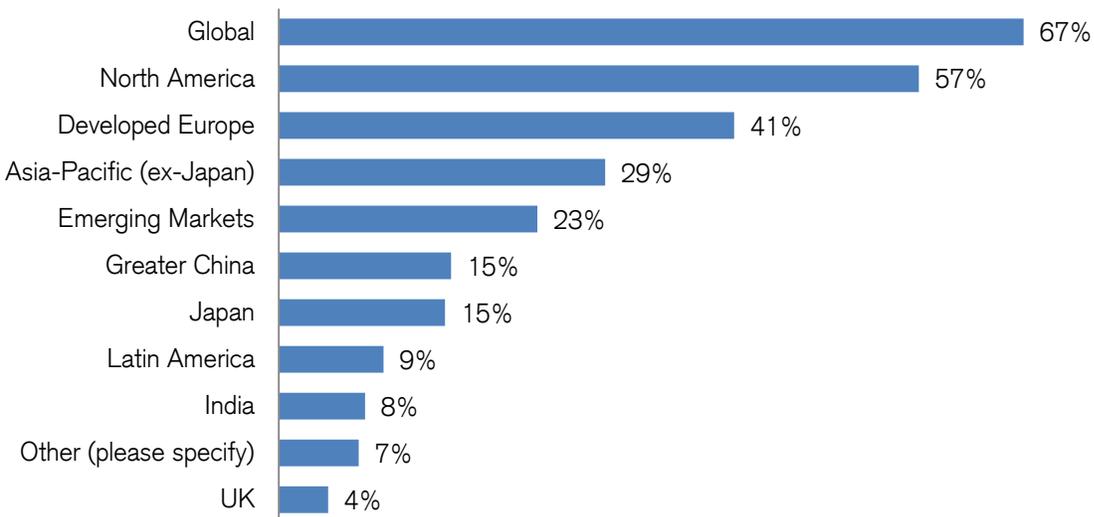
- Investor interest by strategy for the second half of the year proved to be very similar to what we saw in our Annual Investor Survey earlier this year with a slight change in order.
- **Equity Long/Short, Equity Market Neutral and Global Macro** were the top ranked strategies of interest going forward in our Mid-Year Survey.
- **CTA/Managed Futures** strategies also maintained their popularity from earlier in the year.

## Regional Breakdown of Strategy Appetite, By Investor Region



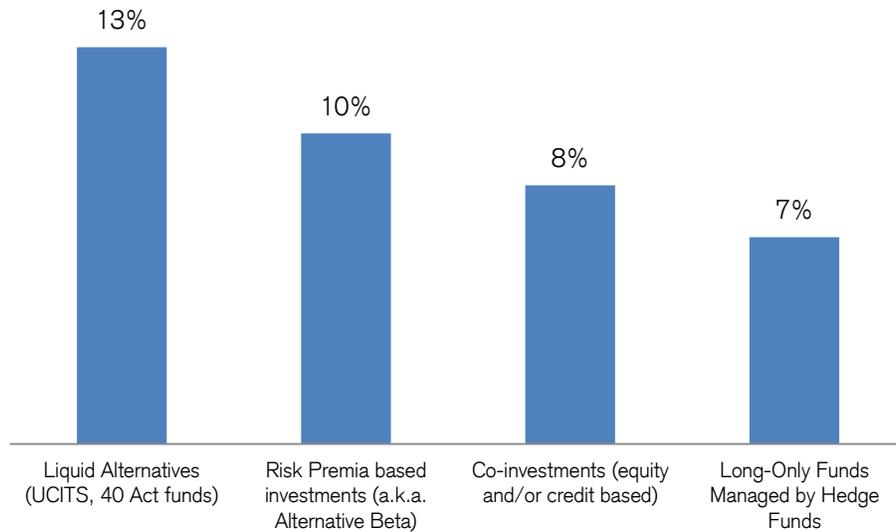
- There were some noticeable differences in investor appetite between regions. Investors based in the Americas are more focused on **Equity Long/Short** and **Equity Market Neutral** strategies with more interest in **Global Macro** funds coming from their European counterparts.
- **Event Driven** and **Fixed Income Arb** strategies had less appeal for investors in the Americas, whereas **Credit Multi-strategy**, **Multi-strategy (General)** and **Emerging Markets- Equity** strategies garnered less interest from European investors.

### Which regions are of most interest in 2H2016?



- Finally, we asked investors what regional strategy focus are they most likely to allocate to in the second half of the year.
- Two-thirds expect to allocate to funds which have a **Global** focus and more than half to **North American** focused funds. **Developed Europe** and **Asia-Pac/ex- Japan** were 3<sup>rd</sup> and 4<sup>th</sup> respectively.
- Country specific investors focused on **Greater China and Japan**, while the **U.K.** had the lowest interest levels surveyed.

### Aside from the traditional Master/Feeder, which vehicles are of most interest in 2H2016?



- Master/Feeder structures remain the most popular structure to utilize hedge fund strategies, but investors continue to show interest in alternate approaches.
- Looking to the second half of the year, investors reported appetite for a number of alternative structures: **Liquid Alternatives**, **Risk Premia investments**, **Co-Investment Opportunities** and **Long-Only funds** managed by hedge funds.
- In addition, investors also indicated a preference for **Illiquid Credit** funds, which is included in the strategy section of our survey, as it is somewhat of a hybrid between alternate structure/strategy.

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