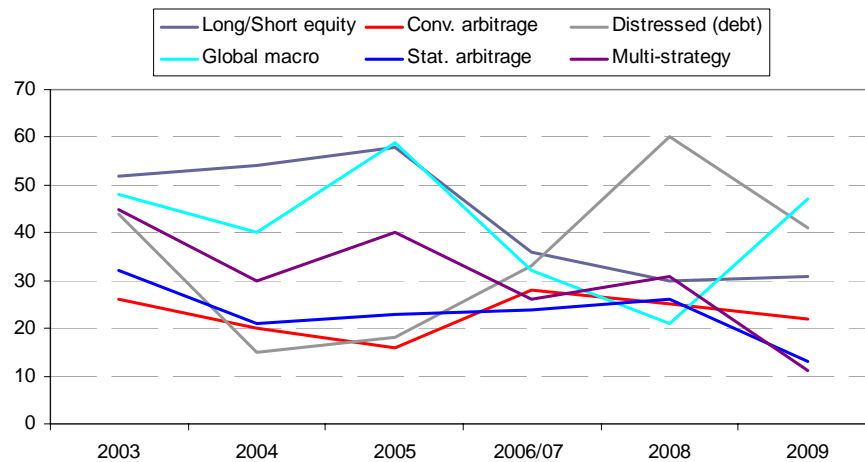


## ANALYSIS OF ALLOCATION PLANS ACROSS STYLES

An excerpt from “An Analysis of the Deutsche Bank Alternative Investment Survey”, August 2009

By Dr. Erik Benrud, Drexel University

Since its introduction in 2003, the annual Deutsche Bank Alternative Investment Survey has provided insight into the allocation plans of hedge fund managers and investors. The graph below describes the percent of respondents who indicated they would add allocations to the indicated styles in each of the indicated years.



The table below provides the actual percentages as well as a correlation of the trend for each series (last column). The strongest trends are the negative trends in long/short equity and multi-strategy, with trend correlation coefficients of -0.8476 and -0.8168 respectively. Long/Short equity began falling out of favor in 2006, and multi-strategy had a big decline in 2009. It is interesting to note that most of the trends are negative, which could indicate that hedge funds themselves were falling out of favor over the period, and investors were considering other types of investments both traditional and alternative.

The percent (%) of respondents who indicated they would “add” to their allocations to the indicated hedge fund style. The last column is the correlation of each row with a time trend.							
	2003	2004	2005	2006/2007	2008	2009	Trend Corr.
<b>Long/Short equity</b>	52	54	58	36	30	31	-0.8476
<b>Conv. Arbitrage</b>	26	20	16	28	25	22	0.0850
<b>Distressed (debt)</b>	44	15	18	33	60	41	0.4260
<b>Global macro</b>	48	40	59	32	21	47	-0.3564
<b>Stat. arbitrage</b>	32	21	23	24	26	13	-0.6765
<b>Multi-strategy</b>	45	30	40	26	31	11	-0.8168

The table below gives the correlations of the intended additions with each other. Since there are only a few observations, the correlations should be considered only descriptive; however, some of them are quite strong.

	Statistic	<b>Conv. Arbitrage</b>	<b>Distressed (Debt)</b>	<b>Long/Short Equity</b>	<b>Global Macro</b>	<b>Multi- Strategy</b>
<b>Distressed (Debt)</b>	Corr. coef.	0.644				
	(p-value)	(0.167)				
<b>Long/Short Equity</b>	Corr. coef.	-0.578	-0.731			
	(p-value)	(0.230)	(0.099)			
<b>Global Macro</b>	Corr. coef.	-0.657	-0.592	0.684		
	(p-value)	(0.157)	(0.216)	(0.134)		
<b>Multi- Strategy</b>	Corr. coef.	-0.09	-0.116	0.708	0.236	
	(p-value)	(0.865)	(0.827)	0.115	(0.653)	
<b>Stat. Arbitrage</b>	Corr. coef.	0.394	0.253	0.338	-0.154	0.875
	(p-value)	(0.439)	(0.628)	(0.512)	(0.771)	(0.022)

Based upon the correlations, it seems that the conditions that make Global Macro more attractive to investors seem to also make convertible arbitrage less attractive. Investors tended to increase and decrease allocations to convertible arbitrage and distressed debt at the same time. Additional analysis found that interest rate changes could explain changes in the intended allocations to convertible arbitrage and distressed debt, which should not be surprising.

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