

Catalyst Financial: Survey of Allocators' Investing Trends 2015

Survey Executive Summary

Allocation appetite among investors remains strong and largely unaffected by high profile exits of some pension funds and lackluster industry performance in 2014.

In 2015, investors will likely pay more attention to fund performance than portfolio characteristics. High fees and unfriendly investor terms keep allocators at bay. However, hedge funds appear to have become more 'investor friendly' in 2014.

The top preference in the hedge fund space continues to be L/S Equity strategies. There is a renewed interest in Global Macro strategy probably stemming from an alpha rich environment associated with central bank policy divergency and global growth dispersion.

The interest in Commodities and Energy strategies has exploded! For 2015, we are expecting a huge hike in interest in Commodities and Energy strategies, likely as investors see favorable price entry points as well as distressed debt opportunities in oil-related companies.

Emerging Markets continue to lose their appeal in 2015. This is not surprising given the global sentiment with slowing growth in China, Russia, Brazil and the likely interest rate hike in the US. The bright spots would include Africa, Mexico and India.

Private Equity remains the most attractive investment substitute to hedge funds, and there is significantly increased interest in Real Estate funds.

Catalyst Financial Partners is an investor events firm for the private funds industry. We link together best-in-class, private investment funds and sophisticated, active investors. We have established ourselves as one of the leading, independent cap intro providers.

We welcome you to contact us to discuss joining our cap intro events



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Survey of Allocators' Investment Trends

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Scope of Survey

The alternative investing industry stands close to \$3 trillion in AUM with an average performance of 3.3% in 2014. This was far below the general S&P 500 return of 13.7%, but in spite of poor performance, investors continued to demonstrate their interests in alternative investing space and the industry raked in about \$75 billion in 2014, according to HFR.

As advisors to the alternative investing industry, it is imperative we know the trends of this massive industry. Accordingly, in this survey, we explore trends across time for the years 2013-2015, as well as showing how compelling hedge funds are compared to other alternative investment products such as private equity and liquid alternatives.

Executive Summary

Allocation appetite among investors remains strong and largely unaffected by high profile exits of some pension funds and lackluster industry performance in 2014.

In 2015, investors will likely pay **more attention to fund performance than portfolio characteristics**. This was a flip of previous years' preferences, signaling that investors now demand meaningful investment returns, regardless of what product advantages, such as non-correlation benefits, a product may bring.

High fees and unfriendly investor terms keep allocators at bay. However, hedge funds appear to have become more 'investor friendly' in 2014.

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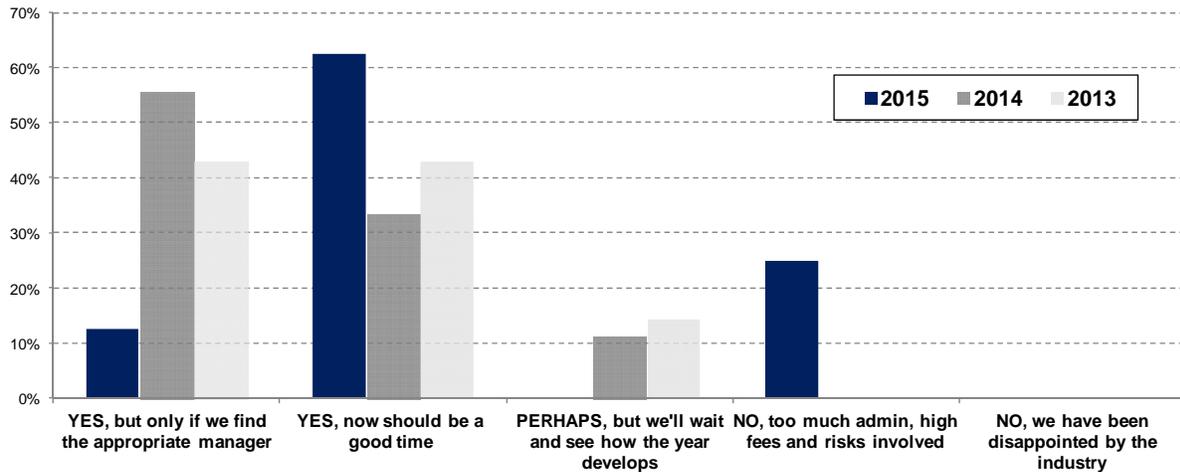
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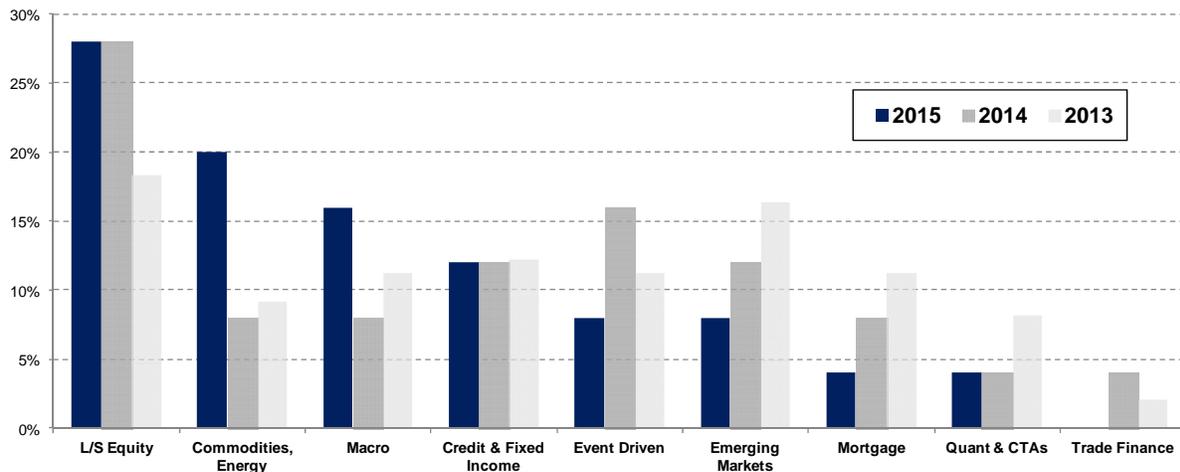
Survey Results

1. In 2015, would you consider allocating to hedge funds?



- **Allocation appetite appears generally strong but mixed.** Most of the allocators indicate that they are looking to make investments to hedge funds. Departing from earlier years, a significant portion of investors now dismisses hedge funds based on the admin hassle and risks involved.

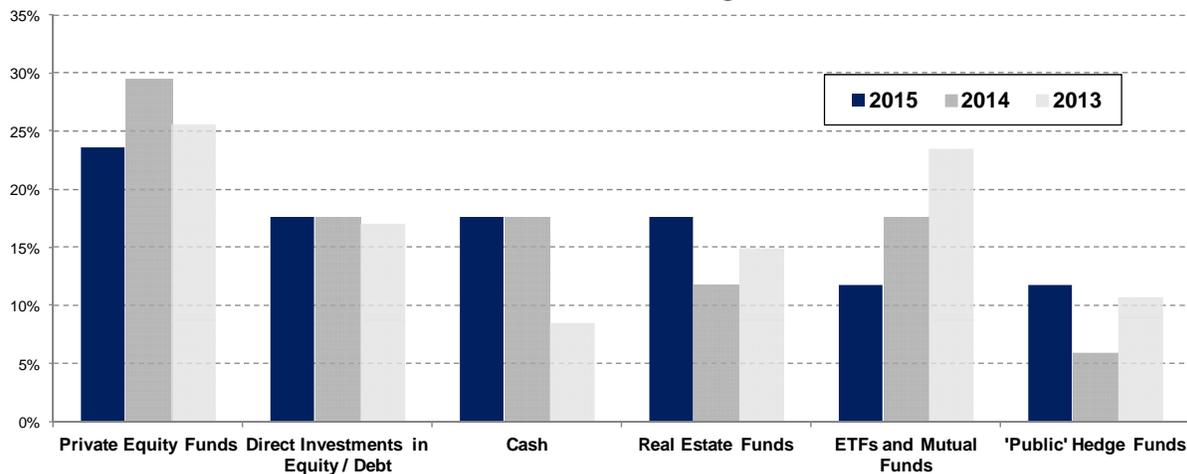
2. Within the hedge fund space, what sectors do you think would be especially interesting in 2015?



- **The top preference is L/S Equity strategies.** The trend to invest in funds that look at company fundamentals as US economic growth continues. The Fed and other external factors have less of an impact.
- **Interest in Commodities and Energy strategies explodes!** For the coming year, we are expecting a huge hike in interest in Commodities and Energy strategies, likely on the back of investors seeing good price entry points as well as distressed debt opportunities in oil-related companies.

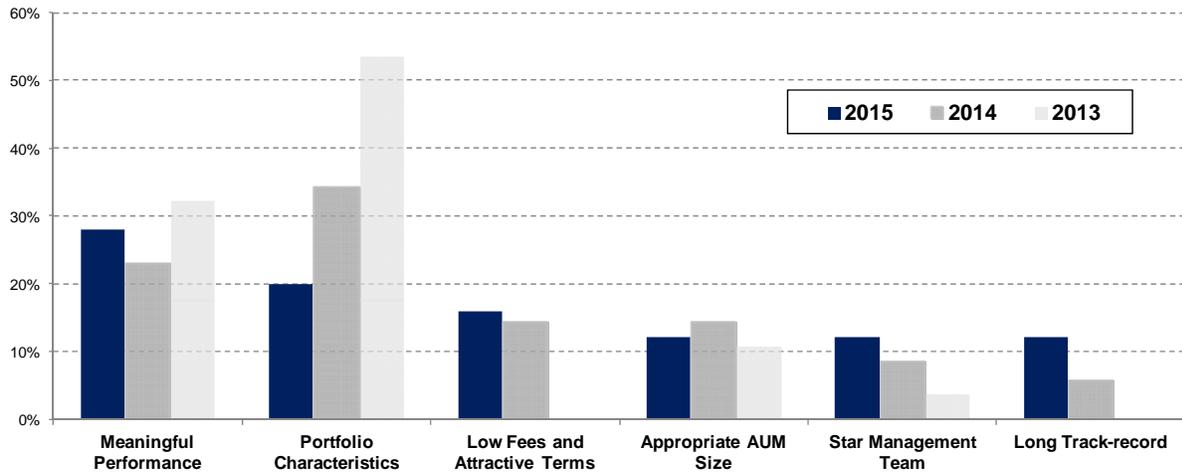
- **Investors are shying away from Event Driven strategies**, a departure from last year's trend.
- **Macro Strategies also have become favorable.** The policy divergence of central banks worldwide gives rise of the opportunity on top-down approach on betting on economic trends across the world.
- **Emerging Markets continue to lose their appeal in 2015.** This is not surprising given the global sentiment with slow growth in China, Russia, Brazil and the likely pending interest rate hike in the US. The bright spots would include Africa, Mexico and India. There is less interest in Mortgage strategies too.

3. What other investment opportunities would you consider, if unwilling or unable to consider hedge funds?



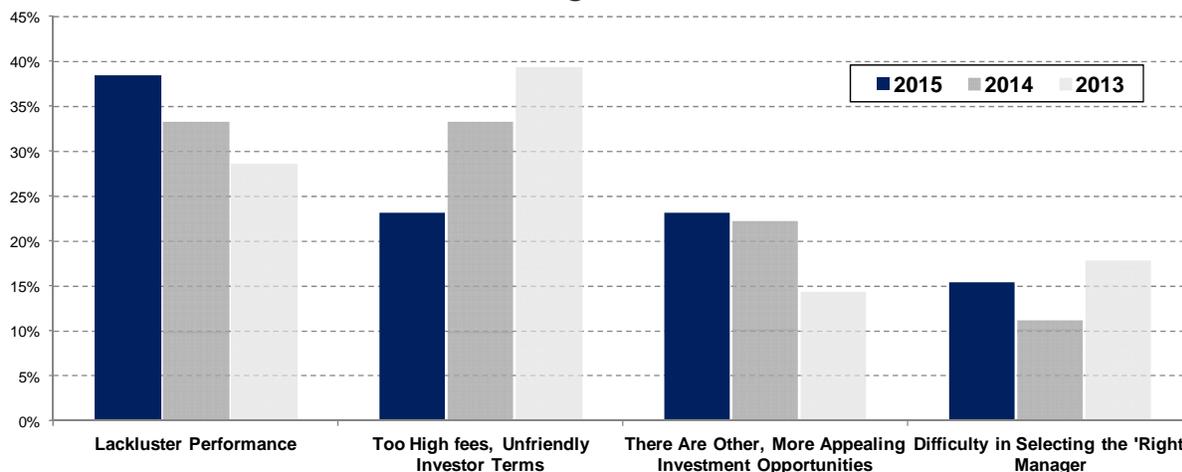
- **Private Equity is the most attractive investment substitute to hedge funds.**
- Interests in Direct Investments and Cash remain relatively steady across the time horizon.
- **ETFs and mutual funds are less attractive substitutes to hedge funds.**
- **There is more interest in Real Estate Funds.**
- "Public" Hedge Funds divert some interests from traditional hedge funds. It might be partially due to the more liquid terms of these fund vehicles.

4. What are the most important criteria for a hedge fund that you would consider investing in?



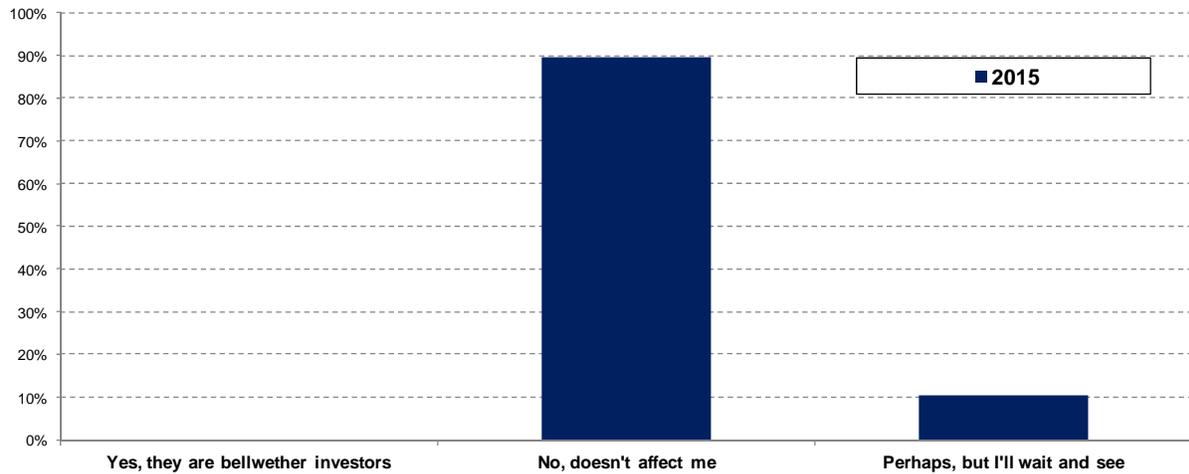
- **Performance and a Long Track Record are more important:** the focus for investors is on positive investment returns and on the sustainability and reliability to produce them.
- **Portfolio Characteristics drop significantly as criteria:** How an investment product fits in an investor's portfolio and what portfolio benefits it may bring, appears less important.
- **Low fees & Attractive terms remain an important criterion for investors.**

5. What are the considerations that discourage you most in investing in hedge funds?



- Again, investors show their emphasis on investment returns, with **Lackluster Performance growing in significance why investors are discouraged by hedge funds.**
- **High fees and unfriendly investor terms keep allocators at bay.** However, hedge funds seem to have become more 'investor friendly' in 2014 while this consideration is less significant for investors now than it was the past.

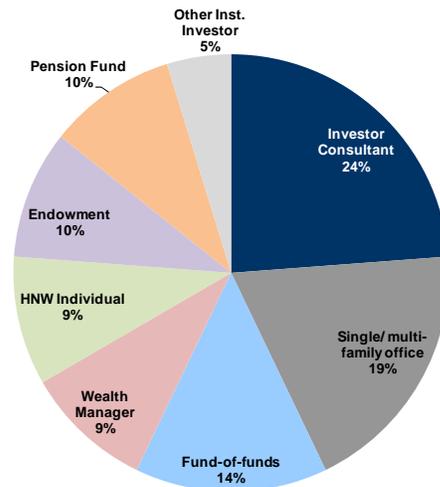
6. Has the withdrawal of some prominent large hedge fund investors (like CalPERS in CA, PFZW in Holland) made you more skeptical to investing in a hedge fund?



- **Investors seem generally not affected by some large pension funds' decision to exit hedge fund investing.**

What type of allocators participated in the survey?

- **Over 500 allocators were sent the survey in early 2015, of which a portion responded.** The largest groups of responders were investor consultants and family offices.
- **Eight types of allocators responded.** There was no analysis made on the basis of allocator type; the survey responders were anonymous and the answers aggregated.



About the Authors

Carl Berg runs Catalyst Financial Partners, an investor events firm for the private funds industry. The firm links alternative investment managers and investors together through investor events. It has established itself as one of the leading, independent cap intro providers.

He also works with selected alternative investment firms in a capital raising capacity and consults with investors on their allocation decisions.

Susan Weerts is a contributing writer to Seekingalpha.com since 2009. Current research areas are strategic trading games on ETF and its underlying index, market-neutral L/S strategy. She is also a consultant on China-related business.
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