

Catalyst Financial: Survey of Allocators' Investing Trends 2014

Survey Executive Summary

In 2014, investors continue as last year to pay more attention to a fund's portfolio characteristics than performance. This will allow them to discern inherited risks and systemic ambiguities. This also explains why strategies that are run in a non-discretionary fashion seem to be, as a general observation, more attractive than discretionary.

Investors also prefer funds with more friendly fees and investor terms. This could be expressed in the many types of share classes and discounts that are now offered based on size of investment, lock-up accepted, and maturity of the fund.

Private Equity is the strongest substitute. There is an increased interest in holding cash, which could be explained by profit taking motives or to have cash ready for opportunistic investing in a growth cycle.

Going into 2014, within the hedge fund space, L/S Equity is with a good margin the most preferred strategy destination, followed by Event Driven and Emerging Markets. This continues the drift into equity orientated strategies that took off early 2013.

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

In our pursuit to understand, to see what works – and does not work, and what lies ahead, we now want again take the pulse of what allocators currently think of the industry.

We think this short survey is especially interesting, since it not only explores trends within the hedge fund industry and across time, but also investigates how compelling hedge funds are across different products.

We conducted similar surveys in May 2010 and January 2013, and we compare some of those answers with this survey to see changes through time.

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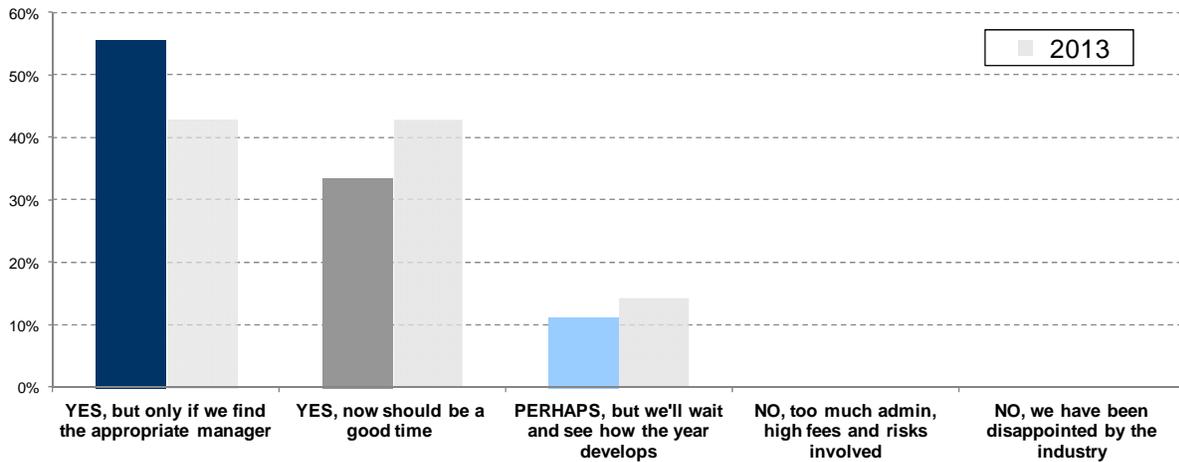
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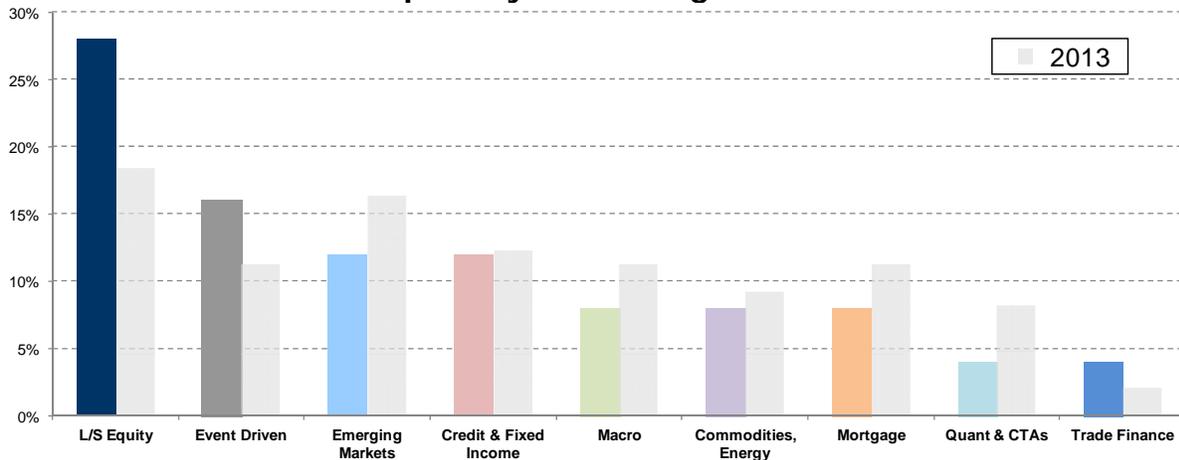
Survey Results

1. In 2014, would you consider allocating to hedge funds?



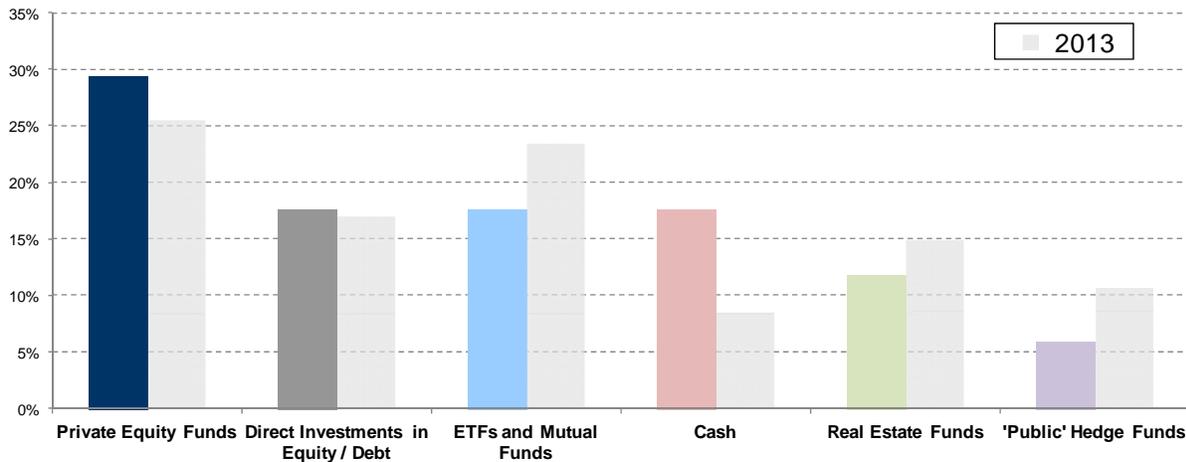
- **Allocation appetite appears strong.** Most of the allocators indicate that they are looking to make investments to hedge funds. Only a small portion of the investors takes a wait and see approach. However, no investors (of the group surveyed) dismiss hedge funds outright.

2. Within the hedge fund space, what sectors do you think would be especially interesting in 2014?



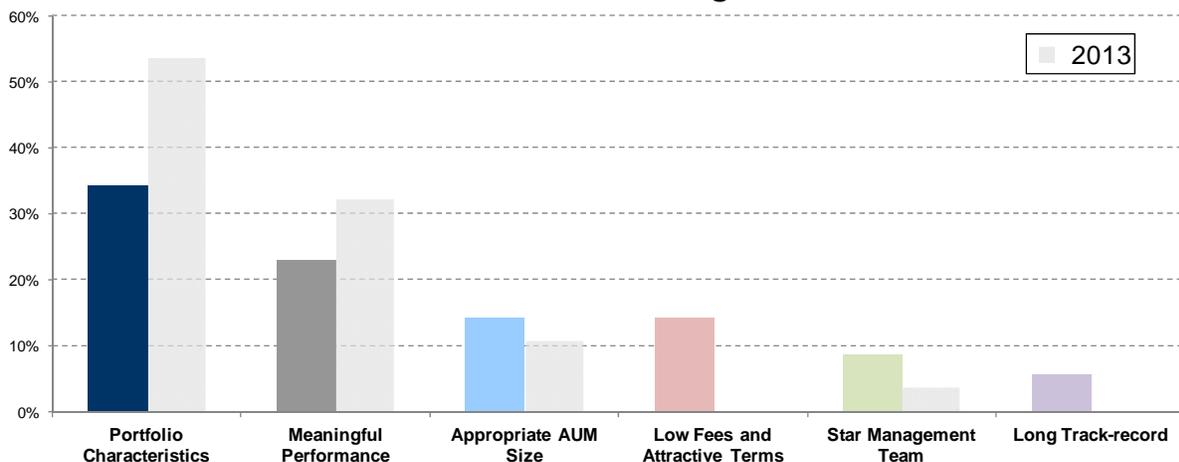
- **The top preference is L/S Equity strategies, followed by Event Driven.** There is a trend to invest in funds that look at companies and their events, and general economic growth.
- **Mortgage, CTAs, Energy and Macro funds are shunned** in place of funds betting on companies, while also major macro and political events are staying on the side lines.
- **Emerging Markets has dropped somewhat in appeal for 2014**, but is still the third most interesting sector for the year.

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



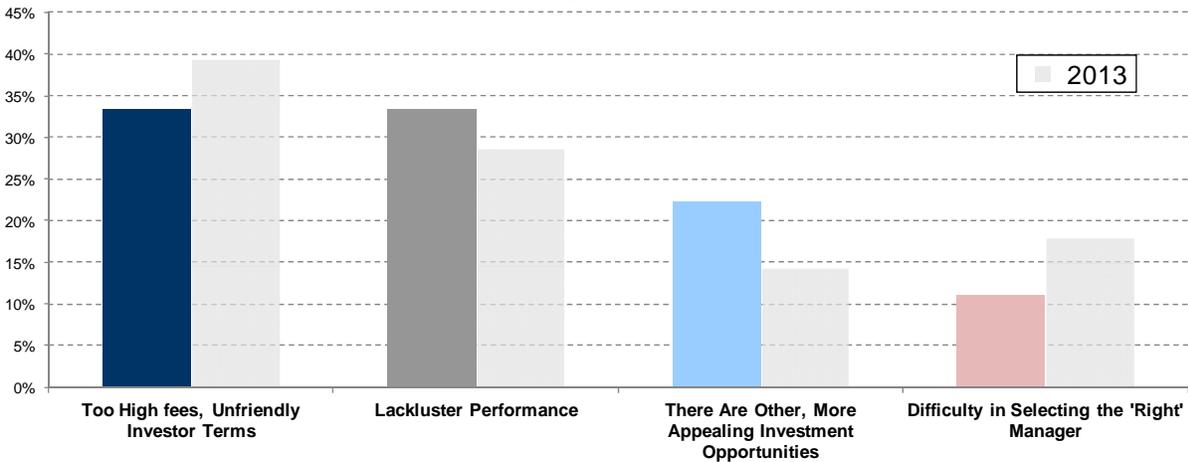
- **Private Equity is the most attractive investment substitute to hedge funds.**
- **ETFs and mutual funds are also an attractive substitute to hedge funds.** However, they are measurably less interesting than a year ago.
- **Cash is a stronger option compared to 2013.** This might indicate that some investors are taking some cash off the table, either from profit taking, or to have cash in hand to be ready for opportunistic investing in a growth cycle.

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



- **Portfolio Characteristics (non-correlation, diversification, etc) is the top reason to allocate to hedge funds.** How a product fits in their portfolio and core investment objective is of highest importance.
- **The performance of hedge funds is the second top reason.**
- **However, Low fees & Attractive terms have become an important criterion for investors.**

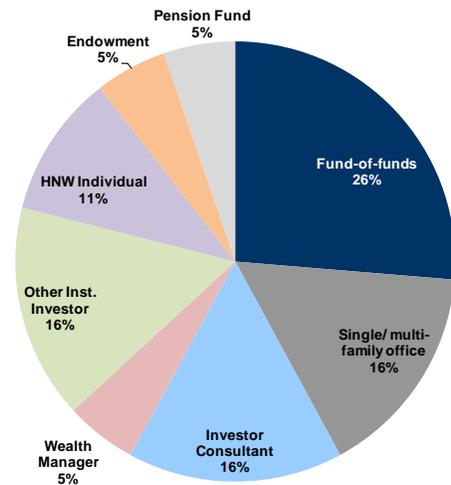
5. What are the considerations that discourage you most in investing in hedge funds?



- **High fees and unfriendly investor terms keep allocators at bay.** And arguably managers that are responding back with deals like Founders Shares, different rates for size of allocation or lock up, or reducing fees outright, are the ones that manage to be more successful in raising capital.
- **Over 20% of respondents thought there are other, more appealing, investment opportunities than hedge funds.** This is a large increase compared to 2013.
- **In our 2010 survey, identifying the 'Right' manager was allocators' top discouraging factor.** For 2014, this has dropped to fourth place.

What type of allocators participated in the survey?

- **Over 750 allocators were sent the survey in early 2014, of which a portion responded.** The largest groups of responders were fund-of-funds 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 ourselves as one of the leading, independent cap intro providers.

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