

November 2011

AKSIA'S 2012 HEDGE FUND MANAGER SURVEY

Markets

-

Macro Environment

-

Regulatory Conditions

-

Industry Trends

Aksia is pleased to present the candid opinions of leading institutional-caliber hedge fund managers across the major hedge fund strategies. During the month of October, we invited managers to answer provocative questions on multiple topics, including their predictions for 2012, on the condition their identities be kept confidential. Of the 125 manager respondents, 38% are categorized as Long/Short Equity, 26% as Event Driven, 18% as Relative Value, and 18% as Tactical Trading. We hope you find the results and conclusions presented here to be of interest.

Selected Highlights:

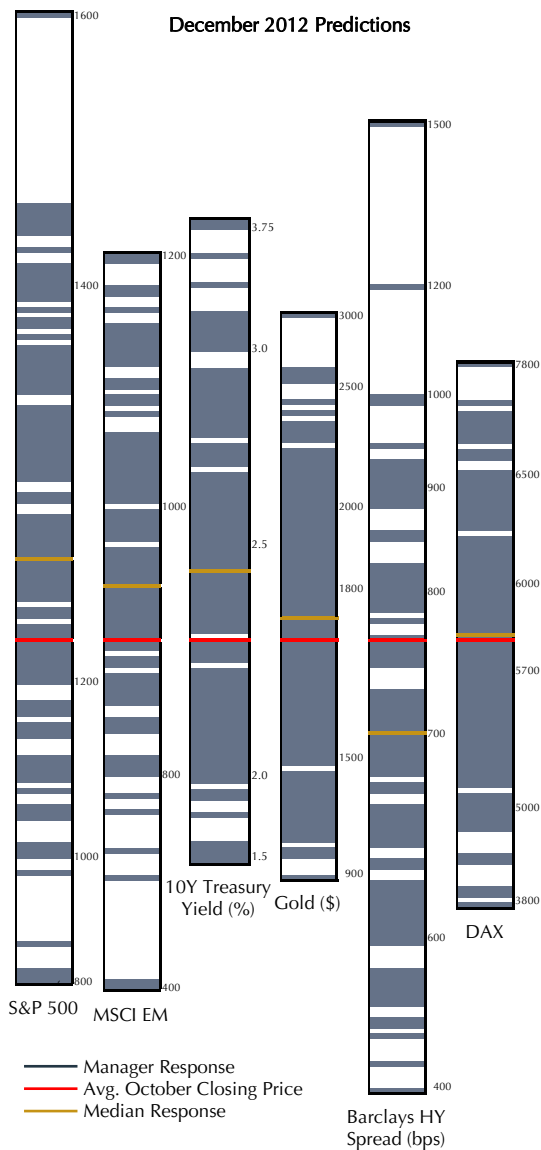
- *Over 40% of managers believe it is “definite” or a “real possibility” that Spain and/or Italy will default or restructure within the next two years, while 65% believe that E.U. members will agree to collectively issue Eurobonds.*
- *Policy makers’ handling of the financial crisis was graded poorly, with the U.S. Congress, the U.S. President, and E.U. leaders receiving the lowest marks. The Fed and emerging market central banks received the highest marks.*
- *While most managers consider high correlations among assets/markets to be a hindrance to their strategies, half of Event Driven managers tend to see them as providing an opportunity set.*
- *Contrary to media reports, the majority of managers view increased regulation as having no effect on their strategy, and certain sectors feel regulation will ultimately help their strategy.*
- *Managers with counterparty CDS trigger policies generally start moving prime brokerage balances when CDS spreads exceed 400bps.*
- *54% of managers send position-level data to third party risk aggregators. 26% of managers allow clients to see their entire portfolio. Younger funds are leading the movement toward portfolio transparency.*



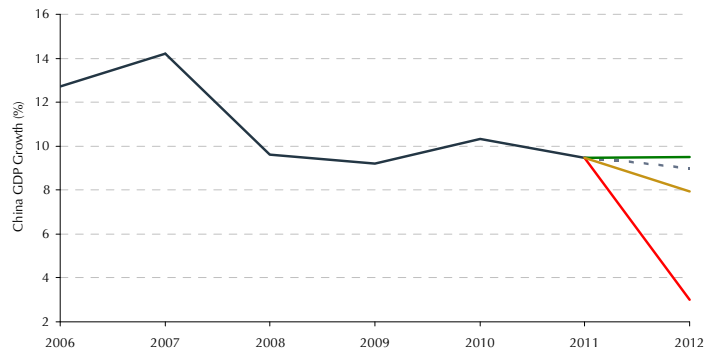
What Are Your Predictions for Markets for December 31, 2012?

In general, hedge fund managers' predictions for values/rates in 2012 roughly averaged where markets currently stand. This could be interpreted to mean there is an expectation that markets will continue to be volatile but remain range-bound. This would correlate with many managers' concerns expressed regularly in meetings regarding growth headwinds, the opacity of government policy, and the leverage still in the system.

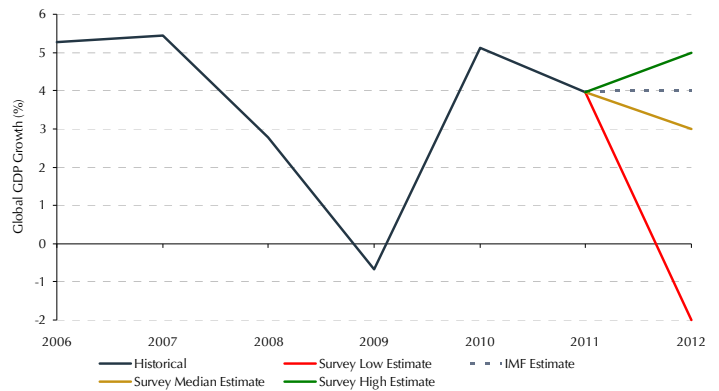
As for predictions on the global growth rate and the China growth rate, managers are more bearish than the IMF. Most managers believe that both global and China GDP growth is likely to be lower than IMF estimates (3% vs. 4% and 7.95% vs. 9%, respectively).



Predictions for China Growth Rate



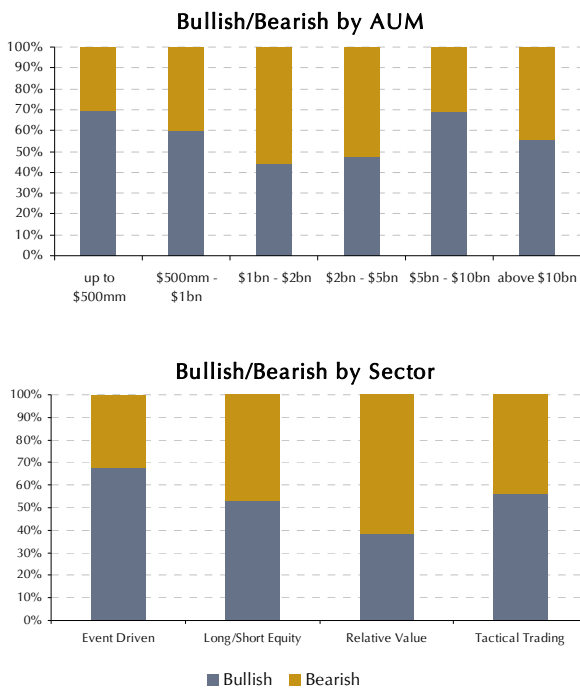
Predictions for Global Growth Rate



* Each blue bar above represents one manager's opinion on the future value for the end of 2012. The red line denotes the average value during the month of October, the time period in which Aksia collected the responses. The gold line denotes the median manager response.

Bullish/Bearish Index

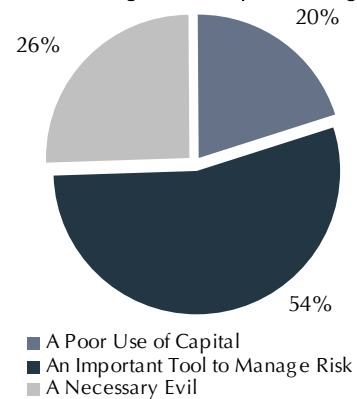
Based on respondents' answers, we put together a bullish/bearish index¹ that can be overlaid against manager strategy, size, or answers to other opinion questions, in order to gain some clarity into different perspectives across the industry. Based on this index, and with respect to market outlook, 62% of Relative Value managers qualify as bearish, while 68% of Event Driven managers qualify as bullish.



What is Your Opinion of Tail Risk Hedges?

Hedge fund managers have a mixed view of tail risk hedges. Those managers who are the most bullish among respondents have a cynical view of tail hedges, calling them "a necessary evil." While most managers believe that tail hedges are an important tool to manage risk, the more bearish managers in our survey view them as "a poor use of capital." Perhaps these managers consider tail risk in security selection, or their security selection reflects an already bearish view, thereby reducing the need for tail hedges.

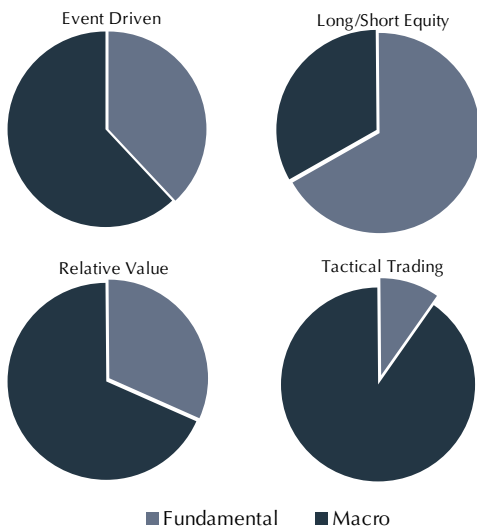
Tail Risk Hedges Are, By and Large:



¹ The bullish/bearish Index was created by first subtracting the average closing price for the S&P 500, MSCI EM, HY spread, DAX, and IMF prediction for global growth from the managers' responses to those questions. A higher level assumed greater bullishness in all cases with the exception of HY spread, where a lower response was considered to be more bullish. Next, that difference was converted into the number of standard deviations away from the average closing price, given all of the managers' responses. The standard deviations of the five responses were summed up and if the manager's total was a positive number, it was determined to be "bullish." If the total was a negative number, the manager was said to be "bearish."

Do You Expect Fundamentals or Macro Factors to Be the Main Drivers of Hedge Fund Performance in 2012?

The majority of hedge fund managers, 57%, feel that macro factors will be the main drivers of performance in 2012. Given that macro factors have been dominant in the market for an extended period, this finding is not surprising. It is worth noting, however, the disparate responses between Long/Short Equity and Tactical Trading managers. The former disagree with the consensus view, with 67% saying fundamentals will lead in 2012, while the latter voice the strongest opinion for macro performance drivers, with 90% in favor.



What Strategy Do You Think Will Perform Best in 2012?

Overall, respondents ranked their choice for the strategy most likely to perform best in 2012 as:

1. Tactical Trading
2. Event Driven
3. Relative Value
4. Long/Short Equity

Manager votes by respective strategy:

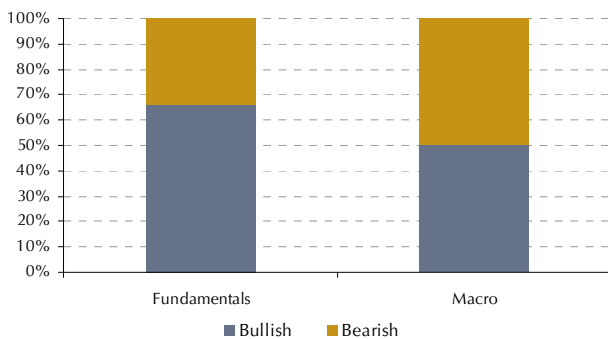


What Do You Think Will Be the Best Performing Sub-Strategies in 2012?

Within sub-strategies, the strategies that received the most votes as likely to perform best were:

1. Global Macro
2. Long/Short Equity – All
3. Event Driven – Debt
4. Event Driven – Equity
5. Long/Short Credit

Bullish/Bearish by Opinion of Performance Drivers



How Would You Grade the Policy Makers' Performance Managing the Economic Crisis?

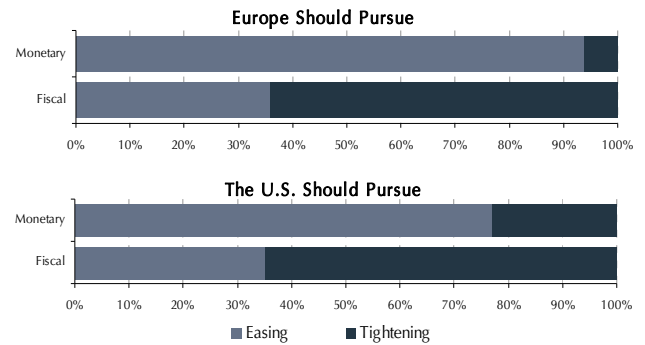
Parents would not be pleased with the report cards of the world's policy makers. The U.S. Congress, E.U. leaders, and the U.S. President received a D grade, which might be generous given that 87%, 76%, and 74% of respondents graded them with either a D or F. The ECB received a C, though skewed toward a lower grade. The Fed and EM Central Banks were the stars of the class, each earning a B.

REPORT CARD

	A	B	C	D	F
Federal Reserve	18%	48%	19%	11%	3%
European Central Bank	1%	14%	41%	29%	16%
US Congress	0%	1%	12%	53%	34%
EU Leaders	0%	2%	22%	47%	29%
EM Central Banks	4%	45%	38%	9%	4%
US President	0%	4%	22%	41%	33%

Europe and the U.S. Should Pursue Which Form of Fiscal & Monetary Policy?

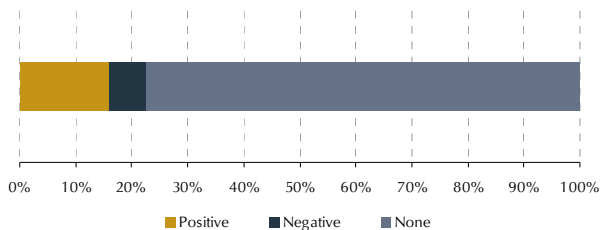
With regard to monetary and fiscal policy in Europe and the U.S., there was general agreement among hedge fund managers on the appropriate course. Both Europe and the U.S. should be moving toward fiscal tightening and monetary easing. The view on European monetary policy was extremely one-sided, with 94% calling for easing.



What Will be the Ultimate Impact of the Fed's "Operation Twist"?

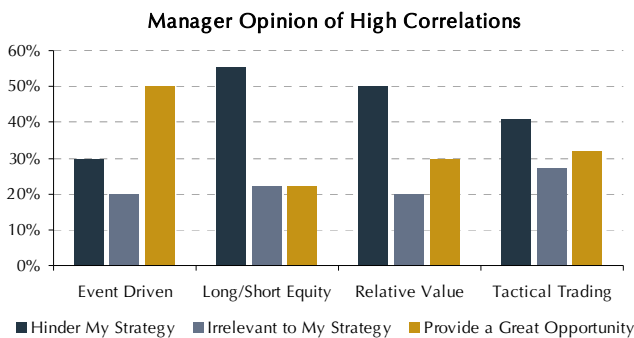
The hedge fund managers we surveyed resoundingly believe that Operation Twist will ultimately have little to no impact on the markets.

Effect of Operation Twist on Markets



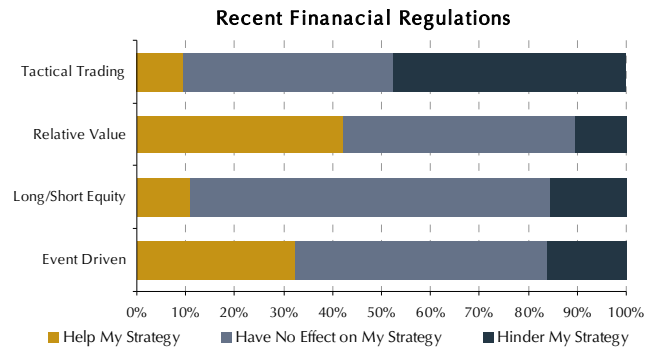
What is the Impact of Correlation Among Markets on Your Strategy?

Correlations among assets/markets remain stubbornly high. Interestingly, hedge fund managers had differing opinions on the relevance of high correlations for the outlook of their respective strategies. While 45% of managers believed it was a hindrance to their strategy, more than half felt it was either irrelevant (22%) or provided opportunities (32%). Event Driven managers, 50% of whom claim to find great opportunities in this environment, were the most bullish. Long/Short Equity managers were the most bearish, with 56% reporting that high correlations hinder their strategy.



What Effect Will Recent Regulation Have on Your Strategy?

The impact of recent financial regulation has been much discussed in the media. A majority (58%) of managers believe impending financial regulations, like the Volcker Rule, Dodd-Frank, and Basel III, will have no effect on their strategy. This was most prevalent among Long/Short Equity managers, with 73% supporting this view. On the other hand, over 40% of Relative Value managers believe these regulations will actually help their strategies. This may be due to the phasing out of bank proprietary trading operations, meaning less competition for some Relative Value managers, with Fixed Income Arbitrage and Quantitative Strategies managers expecting the most benefit. Over 30% of Event Driven managers, particularly those with a debt focus, believe their strategy will benefit. Recent changes in regulatory capital requirements may be behind this optimism as these managers often provide liquidity to banks paring down their balance sheets. In all, 21% of managers surveyed felt recent regulation would help their strategies.



How Likely Are the Following Events to Occur Over the Next 2 Years?

- Greece leaves the Euro
- Spain and/or Italy default (restructure)
- European banks liquidate assets (large scale)
- European Union members agree to issue Eurobonds
- Northern European countries move to create their own Euro area

It is not surprising to see managers vote en masse that European banks will liquidate assets on a large scale, as we have already begun to see this play out. 67% of respondents say it is “definite,” or a “real possibility,” that the E.U. will issue Eurobonds to stem the crisis. This is consistent with the consensus of 83% of managers who believe it is unlikely, at best, that northern European countries move to create their own Euro area.

In the Next Two Years...

60% think that it is a "real possibility" or "definite" that Greece leaves the Euro

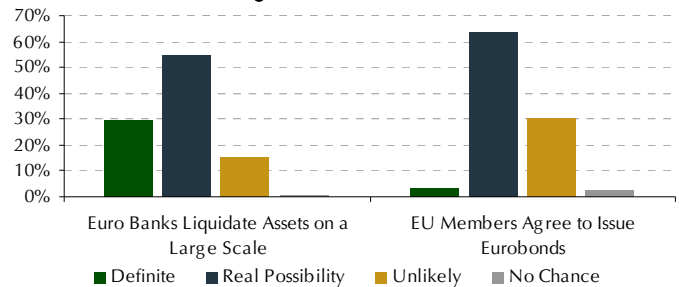


while 83% think that it is "unlikely" or that there is "no chance" that Northern Europe creates its own Euro Area

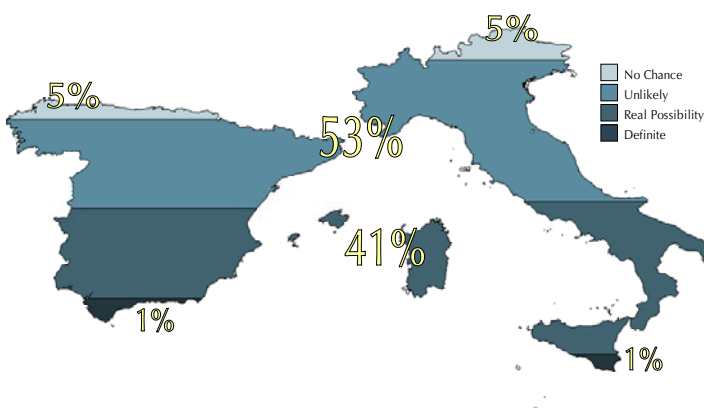


42% of respondents feel it is a “real possibility” or “definite” that Spain and/or Italy will default or restructure in the next two years.

Chances of the Following Events Occurring over the Next Two Years



Chance that Spain and/or Italy Will Default or Restructure



What is the Biggest Risk Markets Face in 2012?

Common themes are European instability, policy/political mistakes, and weak growth.



What Will be the Biggest Surprise of Next Year?

The responses for the biggest surprise of 2012 varied widely. Some of the more common responses included strong growth, U.S. interest rate increase, market rally, and sovereign turmoil.

Where Do You See the Next Bubble Forming?

Common responses were U.S. Treasuries, China (various aspects), gold, social media, and commodities.

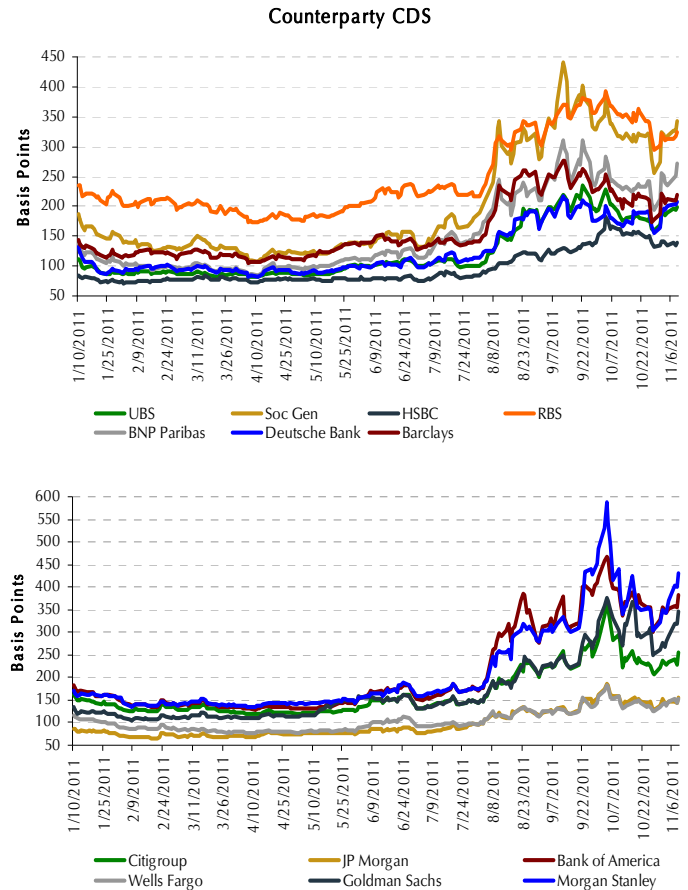


Will Inflation Be a Significant Issue (Producing Negative Consequences) in 2012?

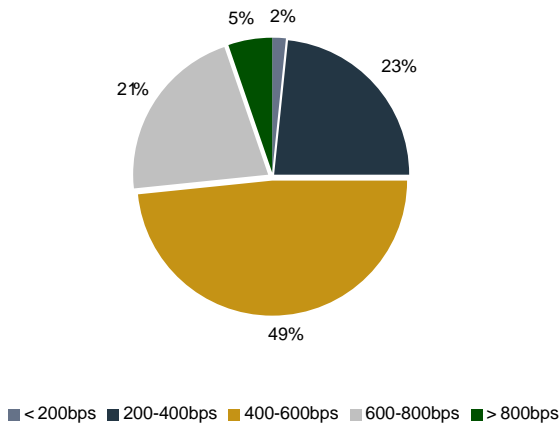
We asked managers if in 2012 inflation will be a “significant issue (producing negative consequences)” in China, India, Brazil, the U.S., or Japan. Respondents did not have any fears about inflation in the U.S. or Japan, by margins of 83% and 95%, respectively. The results were different for Brazil, India, and China, with more managers seeing potential inflation risks in those countries of 59%, 55%, and 55%, respectively.

If You Have CDS Spread Triggers, at Which Point Do You Begin Moving Balances Away From Counterparties?

Approximately 50% of respondents said they did not have a CDS spread trigger for counterparties. As the chart below shows, respondents who have CDS spread triggers for counterparties generally begin to move prime brokerage balances away from them once spreads get above the 400 basis point range. In recent months, spreads on major U.S. and non-U.S. dealer banks have begun to approach these levels.

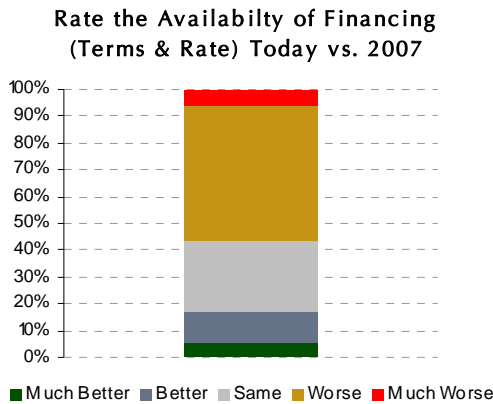


Counterparty CDS Triggers



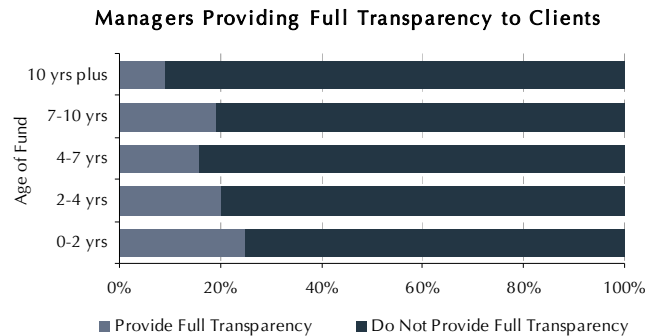
How Would You Rate the Availability of Financing (Terms & Rate) Today Versus in 2007?

56% of respondents find the availability of financing (terms & rate) worse today than in 2007. Event Driven managers were the most negatively impacted, with 74% saying terms and rates were “worse” or “much worse.” Tactical Trading managers have also seen deterioration in this area, with 60% finding the environment “worse” or “much worse.”



For Your Flagship Fund, How are Detailed Risk Reports Provided?

More than 82% of managers surveyed send detailed risk reports to clients on a monthly/quarterly basis, and 54% send position-level risk data to third party risk aggregators. More than a quarter of the respondents said they grant clients full access to the full portfolio. The managers least likely to share their full portfolio with clients were those 10-years or older, as only 9% report doing so. Interestingly, funds two years old or younger were 2.5x more likely to share their full portfolio than funds 10 years or older. The data suggests that we are witnessing a generational shift in industry transparency.



Disclaimer: This document has been prepared by Aksia LLC (“Aksia”) for informational purposes only, and does not constitute an offer to buy or sell any financial instrument whatsoever. The information contained in this survey has been obtained from sources believed to be reliable but Aksia does not represent or warrant that it is accurate or complete. The views, opinions and estimates in this survey are those of Aksia and/or the managers surveyed as of the date of this survey only, are subject to change without notice, and Aksia has no obligation to update the views, opinions or any information contained in this survey. Neither Aksia nor any of its affiliates or representatives accepts any liability whatsoever for any direct or consequential loss arising from any use of this survey or its contents. Aksia is not purporting to provide tax, legal, investment, accounting or legal advice and this information should not and cannot be relied upon as such. The information in this survey is not intended to predict actual results, which may differ substantially from what is reflected herein, and no assurances are given with respect thereto. This document is for institutional investors only. This document is proprietary to Aksia and no part of it may be reproduced, distributed or transmitted without the prior written consent of Aksia.

APPENDIX

What Are Your Predictions for Markets on December 31, 2012?

	S&P 500	MSCI EM	10yr Treasury (%)	Gold	Barclays HY Spread (bps)	DAX	Global Growth Rate (%)	China Growth Rate (%)
Event Driven	1247	918	2.42%	\$ 1,712	679	5707	3.11%	7.49%
Long/Short Equity	1264	953	2.39%	\$ 1,701	721	5896	3.28%	7.44%
Relative Value	1228	917	2.49%	\$ 1,747	786	5535	2.50%	7.54%
Tactical Trading	1236	1016	2.23%	\$ 1,804	737	5976	3.40%	7.92%

What is Your Opinion of Tail Risk Hedges?

	A Poor Use of Capital	An Important Tool to Manage Risk	A Necessary Evil
Event Driven	6.3%	65.6%	28.1%
Long/Short Equity	33.3%	44.4%	22.2%
Relative Value	11.1%	72.2%	16.7%
Tactical Trading	22.2%	38.9%	38.9%

Do You Expect Fundamentals or Macro Factors to be the Main Drivers of Hedge Fund Performance in 2012?

	Fundamental	Macro
Event Driven	37.9%	62.1%
Long/Short Equity	66.7%	33.3%
Relative Value	31.6%	68.4%
Tactical Trading	10.0%	90.0%

What Strategy Do You Think Will Perform Best in 2012?

	Long/Short Equity	Event Driven	Relative Value	Tactical Trading
Ranked 1	30.5%	28.3%	12.5%	31.1%
Ranked 2	14.3%	31.1%	30.8%	23.6%
Ranked 3	23.8%	26.4%	31.7%	17.9%
Ranked 4	31.4%	14.2%	25.0%	27.4%

What Do You Think Will be the Best Performing Sub-Strategies in 2012?

Global Macro	18.8%
L/S Equity (all)	16.2%
ED - Debt	14.9%
L/S Credit	13.0%
ED - Equity	13.0%
Commodities	7.5%
CTA	6.2%
Quant	4.2%
FI - Arb	4.2%
Convert Arb	1.9%

How Would You Grade the Policy Makers' Performance Managing the Economic Crisis?

	A	B	C	D	F
The Fed	18.1%	48.3%	19.0%	11.2%	3.4%
ECB	0.9%	13.8%	40.5%	29.3%	15.5%
Congress	0.0%	0.9%	12.1%	52.6%	34.5%
U.S. President	0.0%	4.3%	21.6%	41.4%	32.8%
E.U. Leaders	0.0%	1.7%	22.4%	46.6%	29.3%
EM Central Banks	4.5%	45.0%	37.8%	9.0%	3.6%

Europe and the U.S. Should Pursue Which Form of Fiscal & Monetary Policy?

	Europe				The U.S.			
	Fiscal		Monetary		Fiscal		Monetary	
	Tightening	Easing	Tightening	Easing	Tightening	Easing	Tightening	Easing
Event Driven	66.7%	33.3%	9.7%	90.3%	67.7%	32.3%	31.0%	69.0%
Long/Short Equity	65.0%	35.0%	4.4%	95.6%	65.9%	34.1%	17.8%	82.2%
Relative Value	70.6%	29.4%	6.7%	93.3%	61.1%	38.9%	31.3%	68.8%
Tactical Trading	52.6%	47.4%	5.3%	94.7%	61.1%	38.9%	16.7%	83.3%

APPENDIX

What Will be the Ultimate Impact of the Fed's "Operation Twist"?

	Positive	Negative	None
Event Driven	9.4%	6.3%	84.4%
Long/Short Equity	21.7%	6.5%	71.7%
Relative Value	10.0%	10.0%	80.0%
Tactical Trading	19.0%	4.8%	76.2%

What is the Impact of Correlation Among Markets/Assets on Your Strategy?

	Hinder My Strategy	Irrelevant to My Strategy	Provide Great Opportunity
Event Driven	30.0%	20.0%	50.0%
Long/Short Equity	55.6%	22.2%	22.2%
Relative Value	50.0%	20.0%	30.0%
Tactical Trading	40.9%	27.3%	31.8%

What Effect Will Recent Regulation Have on Your Strategy?

	Help	Hinder	No Effect
Event Driven	32.3%	16.1%	51.6%
Long/Short Equity	11.1%	15.6%	73.3%
Relative Value	42.1%	10.5%	47.4%
Tactical Trading	9.5%	47.6%	42.9%

How Likely Are the Following Events to Occur Over the Next 2 Years?

	Greece Leaves the Euro	Spain &/or Italy Default/ Restructure	European Banks Liquidate Assets on a Large Scale	E.U. Members Agree to Issue Eurobonds	N. European Countries Move to Form Own Euro Area
Definite	2.6%	0.9%	29.3%	3.4%	0.0%
Real Possibility	57.3%	41.4%	54.3%	63.8%	17.1%
Unlikely	37.6%	53.4%	15.5%	30.2%	53.0%
No Chance	2.6%	4.3%	0.9%	2.6%	29.9%

Will Inflation be a Significant Issue (Producing Negative Consequences) in 2012?

	Yes	No
China	54.5%	45.5%
India	55.4%	44.6%
Brazil	58.7%	41.3%
US	16.5%	83.5%
Japan	5.3%	94.7%

Do You Have a CDS Spread Trigger for Counterparties at Which Point You Start to Move Away From Them?

No	< 200bps	200-400bps	400-600bps	600-800bps	> 800bps
50%	0.9%	11.6%	24.1%	10.7%	2.7%

How Would You Rate the Availability of Financing (Terms & Rate) Today Versus 2007?

	Much Better	Better	Same	Worse	Much Worse
Event Driven	3.2%	3.2%	19.4%	64.5%	9.7%
Long/Short Equity	7.0%	11.6%	37.2%	39.5%	4.7%
Relative Value	4.3%	13.0%	30.4%	47.8%	4.3%
Tactical Trading	5.0%	25.0%	10.0%	55.0%	5.0%

For Your Flagship Fund, Detailed Risk Reporting is:

Not Provided	Sent to Clients	Piped to Third Party Risk Aggregator	Clients Can See Full Portfolio
3.2%	81.6%	54.4%	25.6%