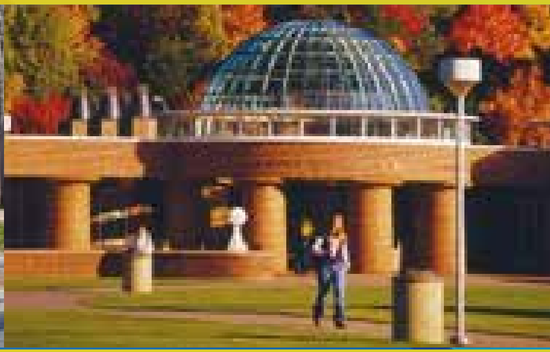
Connecticut Hedge Fund Association

QUINNIPIAC UNIVERSITY

SCHOOL OF BUSINESS

Alternative Investment Institute



INSTITUTIONAL INVESTOR SURVEY FALL 2014

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EXECUTIVE SUMMARY

The Alternative Investment Institute at Quinnipiac University conducted its biannual institutional investor survey in conjunction with the Connecticut Hedge Fund Association. Our purpose is to gather insights into the view of institutional investors about their current market beliefs and opinions on various investment strategies. In particular, we focused on the role of hedge funds in institutional portfolios. We received responses from investors who together manage $1.12 trillion dollars in assets. All of our survey respondents are located in the United States.

The questions answered reveal a snapshot of how large asset managers are currently making their investment decisions.

SOME HIGHLIGHTS INCLUDE:

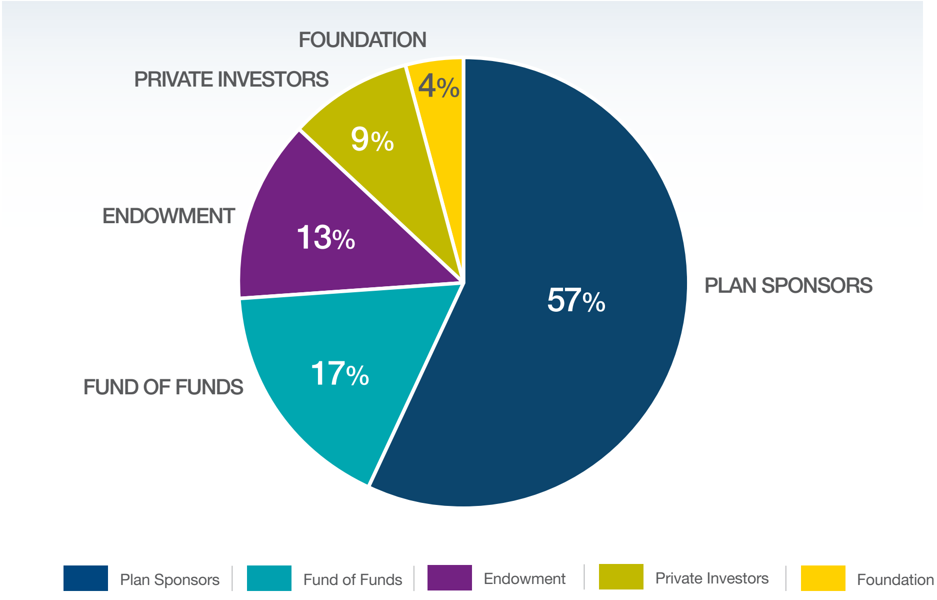
1. Our sample of investors favors U.S. equities, private equity, and hedge funds over fixed income and commodities.
2. They are investing directly in hedge funds, though some also use funds-of-funds. This is consistent with the increasing “institutionalization” of the hedge fund industry.
3. Event driven, long/short equity, and global macro funds are the most popular strategies in our sample.
4. Over half of the investors surveyed had additional liquidity restrictions, such as gates or side-pockets, that affect 5% or more of their hedge fund allocation during the financial crisis.

SPECIAL THANKS TO THE CONNECTICUT HEDGE FUND ASSOCIATION

SURVEY RESPONDENTS

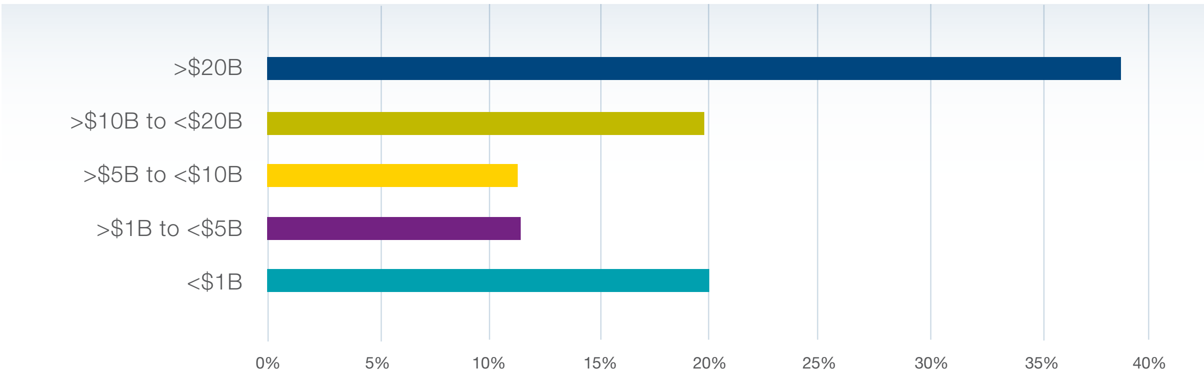
FIGURE 1: INSTITUTIONS IN SAMPLE % OF RESPONDENTS

Figure 1 gives the distribution of investor types. We have broad representation of institutional investors in the survey. Nearly 60% are plan sponsors, while the rest are funds-of-funds, endowments, private investors, and foundations.



The survey respondents represent approximately $1.12 trillion in assets under management. Figure 2 shows that over 35% of the investors who responded manage at least $20 billion. This is the largest group of respondents and largely populated by plan sponsors. One interesting point is 80% of the respondents manage at least $1 billion.

FIGURE 2: TOTAL ASSETS UNDER MANAGEMENT % OF RESPONDENTS

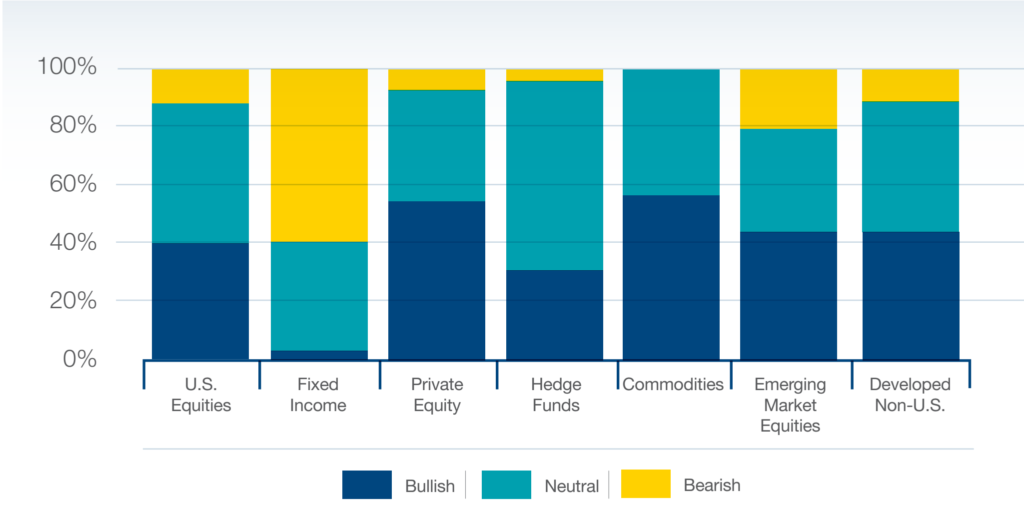


INVESTMENT STRATEGY

Our first series of questions asked investors about their current strategy and beliefs. In particular, we are interested in how large institutional investors are allocating their assets to different asset classes, strategies, and regions.

We first asked for their general opinion on some common investment types. These responses are shown in Figure 3. Our survey indicates generally favorable attitudes towards equity asset classes, such as U.S., private equity, and developed non-U.S. Investors are more split in their beliefs about emerging markets and are relatively neutral on hedge funds as an asset class. The highest level of bullishness is for private equity. One interesting point is no one has shown any bearish views on commodities. As expected the highest level of bearishness (58.2% of respondents) is for fixed income.

FIGURE 3: How would you characterize your view of today's investment climate for the following asset classes?



We then asked each investor how they anticipated their allocations changing over the next 12 months. These responses are shown in Figure 4. While our respondents may be bullish on U.S. equities, they do not plan on allocating additional capital to these managers during the next year. However, they do wish to increase their allocations to hedge fund and private equity managers. These anticipated allocation decisions suggest that the alternative investment industry will continue to grow into the near future.

INVESTMENT STRATEGY

FIGURE 4: What changes do you anticipate making to your target asset allocation over the next 12 months?

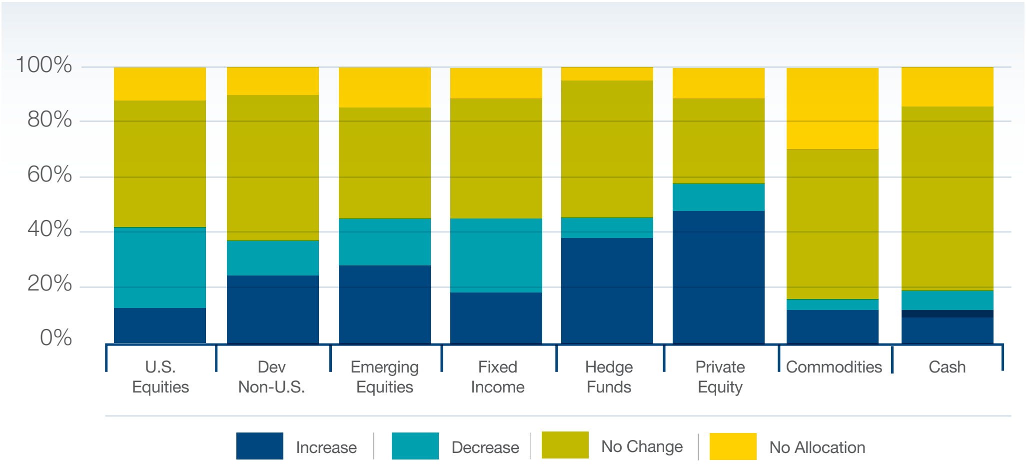


FIGURE 5: Are your recommended allocations to the following geographic regions increasing, decreasing, or staying about the same?

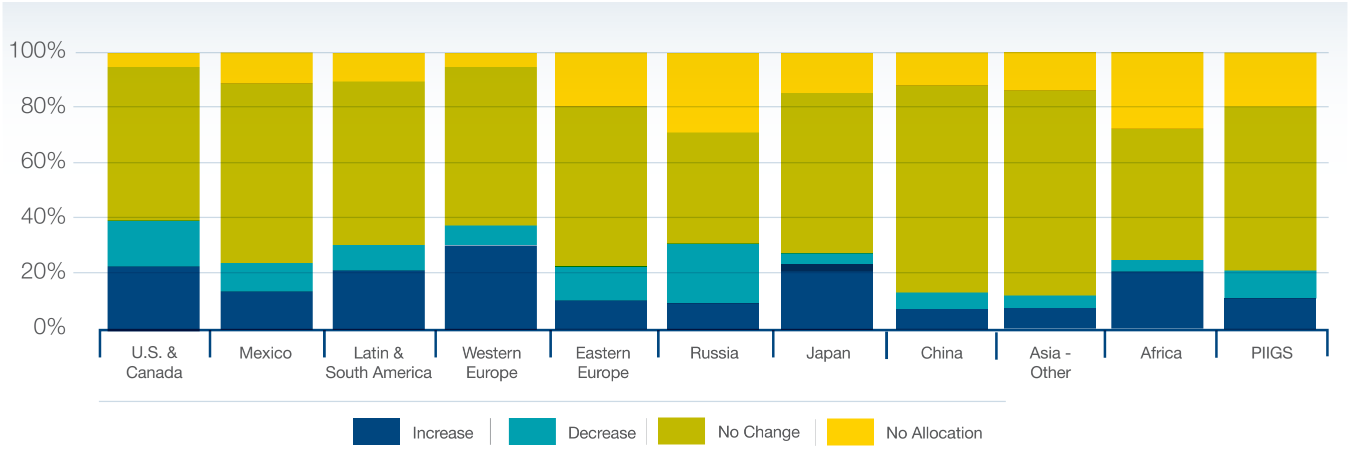
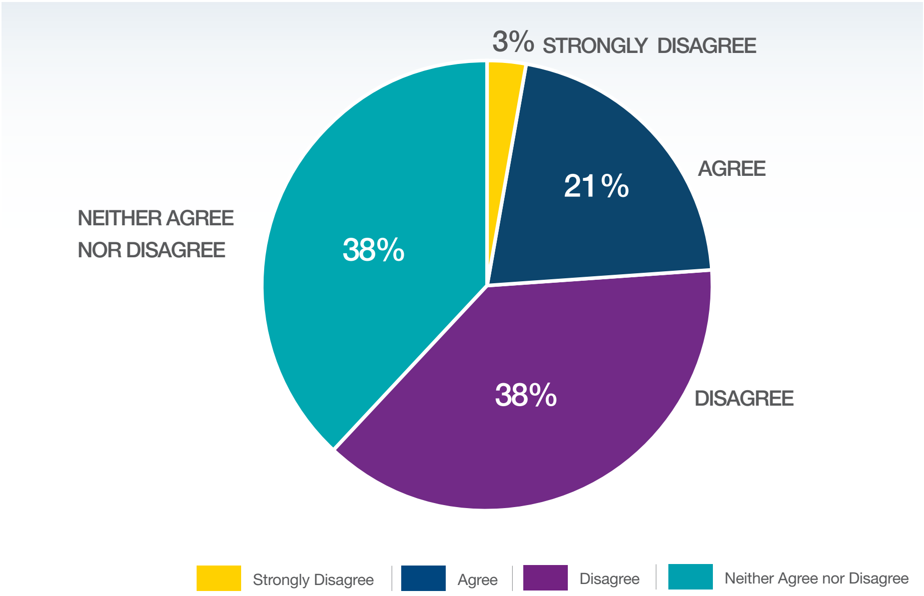


Figure 5 shows the how investors are changing their regional allocations. In particular, our sample is increasing their allocation to Western Europe and decreasing their capital invested in Russia. And, while 40% of the sample remains bullish on U.S. equities, there is a roughly equal split between investors who are increasing their allocations in the U.S. & Canada and those reducing their exposure.

INVESTMENT STRATEGY

Finally, we asked how recent actions by the United States Federal Reserve have affected investor tolerance for financial risk. As shown in Figure 6, about 20% of investors surveyed believe that risk tolerance has decreased, while roughly 40% believe that there is no significant decrease. These attitudes could explain why our sample of investors remains bullish on equities.

FIGURE 6: I have seen a significant decrease in investor tolerance for financial risk since the beginning of the "FED Taper" decision.



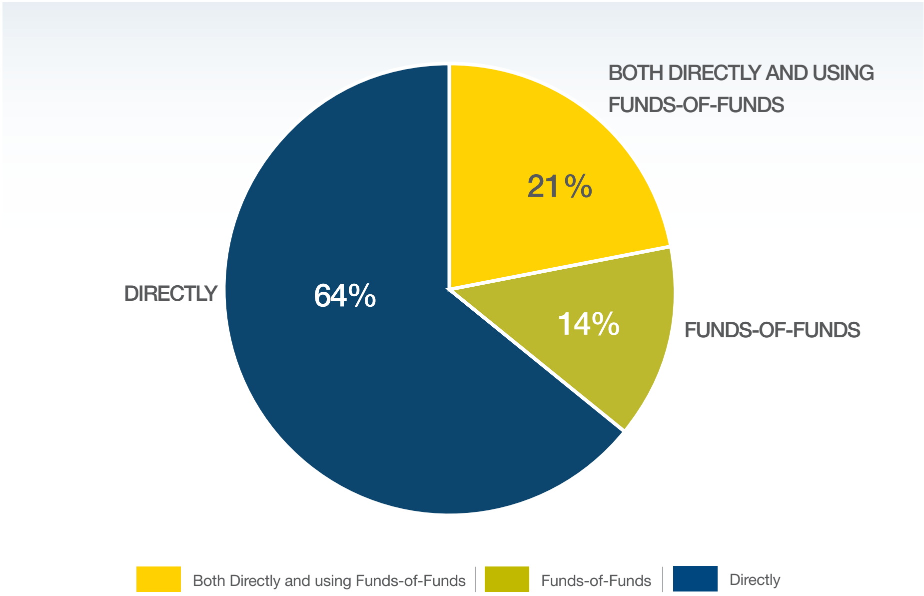
HEDGE FUND ALLOCATION DECISIONS

We chose our sample of investors because of their use of hedge funds. Almost two-thirds of our sample invests directly in hedge funds, as shown in Figure 7. The rest of the sample uses funds-of-hedge funds or a combination of direct investment and funds-of-funds.

The fact that so many respondents feel comfortable investing directly in hedge funds is evidence of the "institutionalization" of the hedge fund industry. As more hedge funds have the client service, risk management, accounting, and back-office support to mitigate fears of operational risk, more institutional investors of all sizes will invest directly.

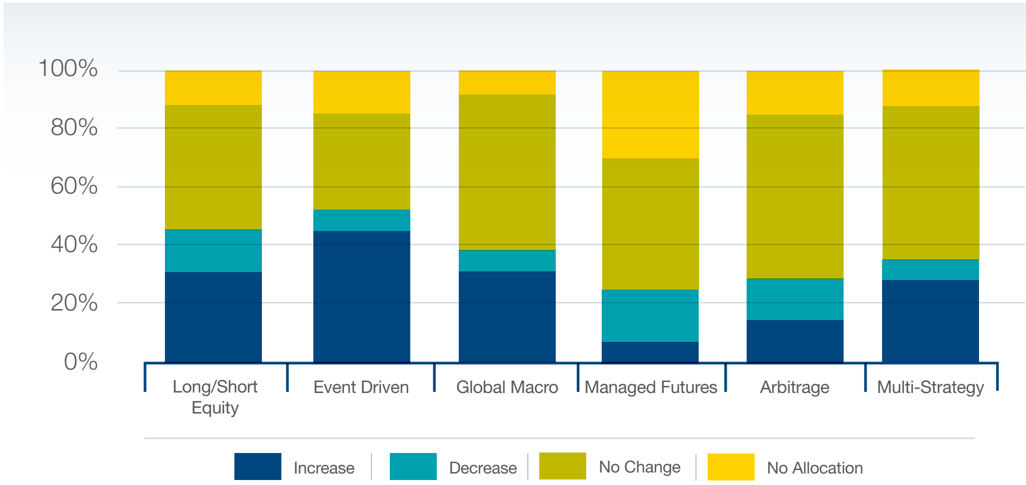
INVESTMENT STRATEGY

FIGURE 7: How are you currently allocating to hedge funds?



We also asked our sample about their primary rationale for hedge fund investing. 60% of our sample invests with hedge fund managers in order to reduce risk through portfolio diversification. The remaining 40% of investors primarily choose hedge funds for their absolute return potential.

FIGURE 8: Within hedge funds, which strategies are you increasing, which are you decreasing, and which are you keeping the same?



INVESTMENT STRATEGY

As shown in Figure 8, long/short equity, event driven, global macro, and multi-strategy managers are receiving the most allocation increases, while managed futures and general arbitrage are receiving the fewest. In particular, our sample of investors seems to favor event driven strategies, with nearly 50% of respondents increasing their allocations to these managers.

We also asked a series of questions on how institutional investors make their hedge fund allocation decisions. Roughly two-thirds of our sample uses a consultant when choosing hedge funds. The same percentage requires more than three years of performance data before they are willing to invest, as shown in Figure 9. Therefore, only about 20% of our sample is willing to invest with what might be considered "emerging managers".

FIGURE 9: How long of a performance track record do you require before making an investment?

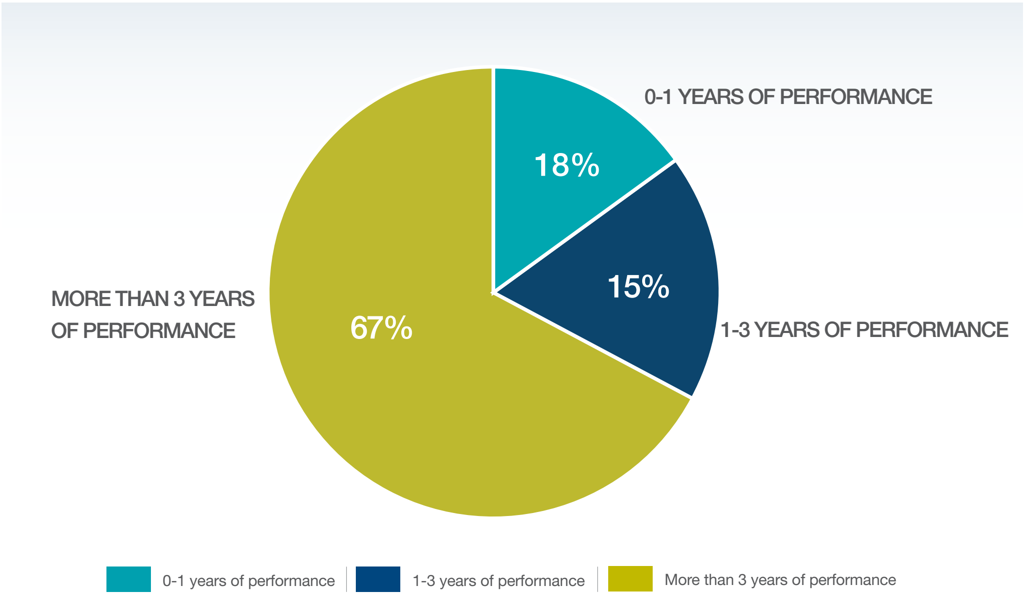
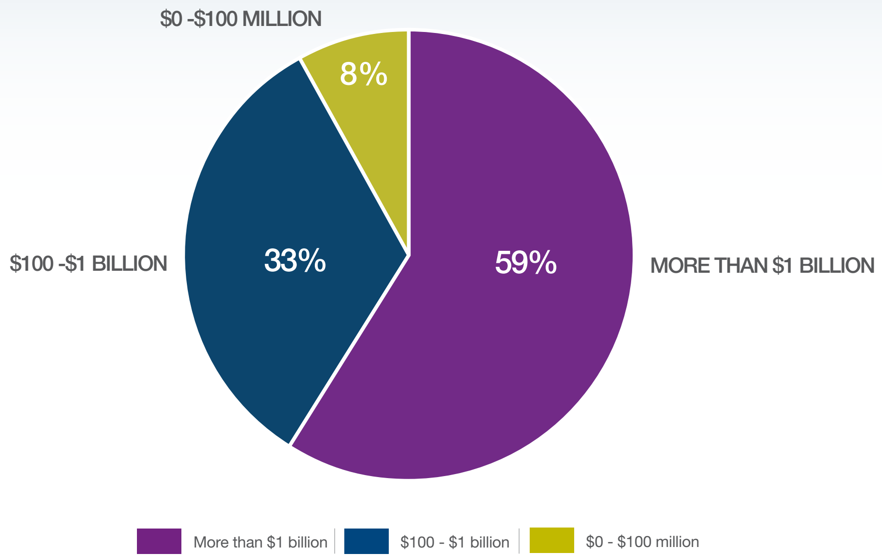


Figure 10 indicates that more than half of the investors in our sample choose hedge funds with more than $1 billion in assets under management. About 7% of our sample responds that their average hedge fund manager has less than $100 million in assets under management.

INVESTMENT STRATEGY

FIGURE 10: What is the average size (AUM) of the hedge funds you invest with?



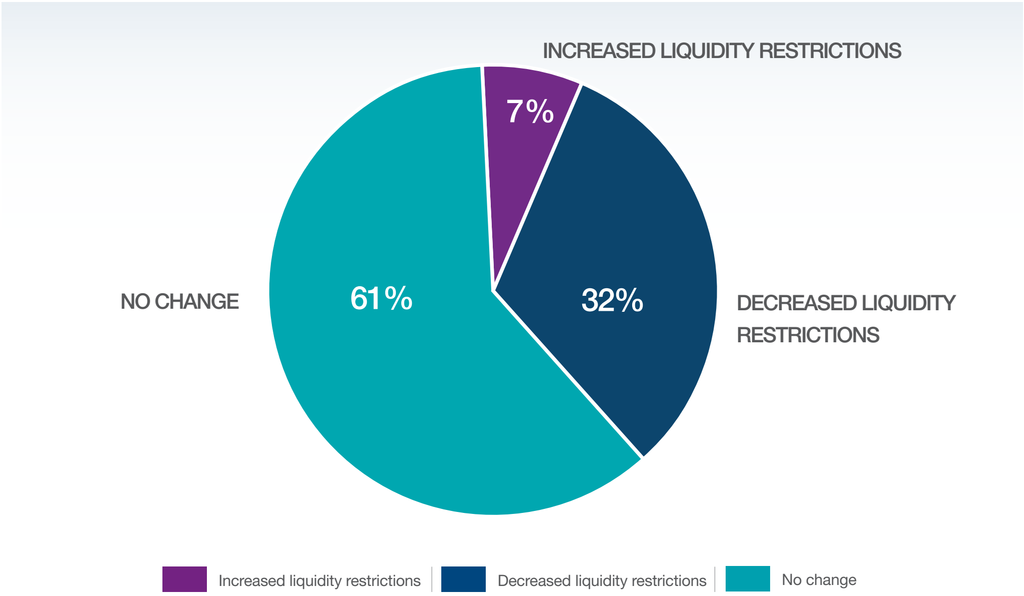
Taken together, these answers indicate that institutional investors are allocating to large funds with longer track records, a trend that is also seen in general industry data. This further supports the hypothesis that the hedge fund industry is consolidating, with new investment going to the largest firms. This has important return implications, as academic research suggests that smaller hedge fund managers outperform larger ones.

Our final two questions, shown in Figures 11 and 12, relate to the liquidity restrictions associated with hedge fund investing. During the financial crisis, many hedge fund investors reported that they were unable to access their capital, as managers placed additional restrictions on withdrawals.

We first asked if the investor had seen any change in their hedge funds' liquidity restrictions since the crisis. 60% of our sample answered that they have seen no change, while almost a third reported a decrease in liquidity restrictions. This indicates that some managers may be responding to investor complaints by increasing access to capital. However, this may also lead to further use of discretionary restrictions by hedge fund managers in the future, if current lock-ups and withdrawal frequencies are not adequate.

INVESTMENT STRATEGY

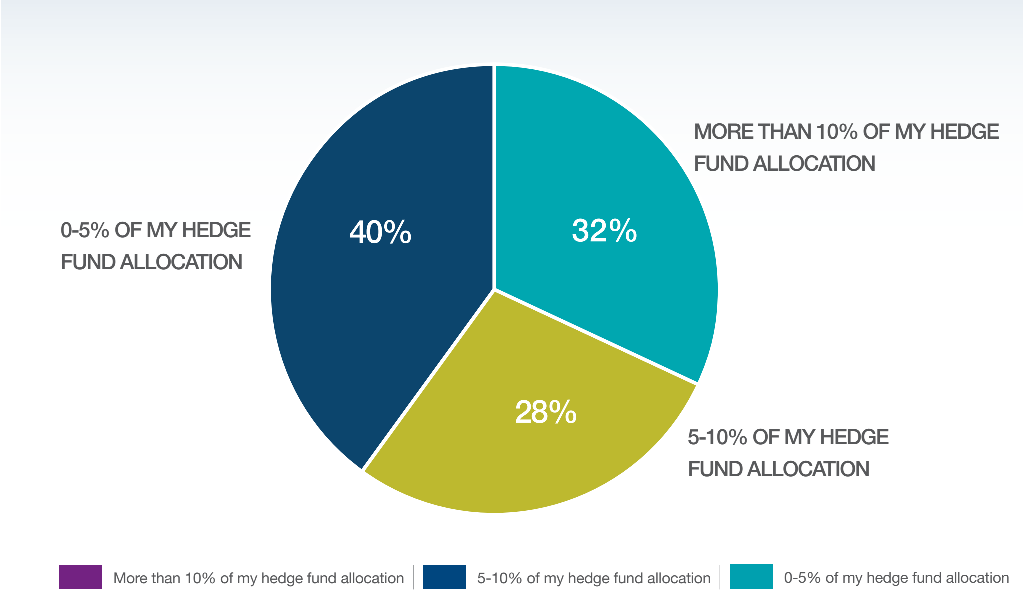
FIGURE 11: Have your hedge fund managers changed their liquidity restrictions recently?



Finally, we asked for the percentage of their hedge fund portfolio that saw some kind of extraordinary liquidity restriction during the financial crisis. Almost one-third of respondents had more than 10% of their hedge funds enact some kind of restriction that was above and beyond the normal contracting environment. This suggests that a large percentage of hedge fund investors unexpectedly lost access to at least some portion of the hedge fund investments during the crisis.

INVESTMENT STRATEGY

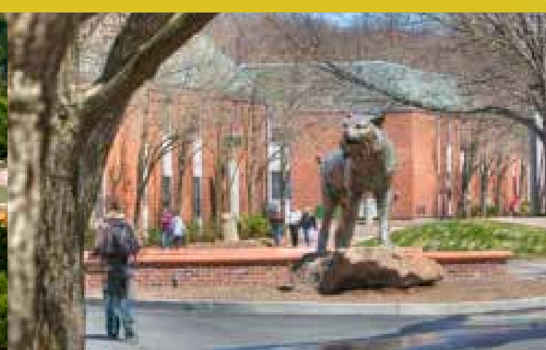
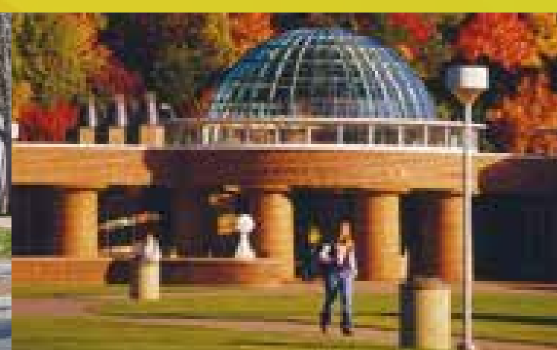
FIGURE 12: During the crisis, what percentage of your hedge fund allocation was subject to additional liquidity restrictions, such as gates or side-pockets?



SUMMARY

In summary, the Alternative Investment Institute of Quinnipiac University Spring 2014 Institutional Investor Survey found that, from its pool of respondents:

1. Institutional investors favor U.S. equities, private equity, and hedge funds over fixed income and commodities.
2. Institutional investors are investing directly in hedge funds, though some also use funds-of-funds.
3. The strategies that are the most popular in our sample are event driven, long/short equity, and global macro funds.
4. During the financial crisis over half of the investors surveyed had additional liquidity restrictions, such as gates or side-pockets, affect 5% or more of their hedge fund allocation.

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