DECEMBER 2012

AKSIA'S 2013 HEDGE FUND MANAGER SURVEY

Markets - Macro Environment - Regulatory Conditions - Industry Trends

Aksia is pleased to present its annual hedge fund manager survey, providing the candid opinions of leading institutional caliber managers across hedge fund strategies. We are appreciative of all those who participated, and are encouraged by the significant number of new respondents. Our 2013 survey collected responses over the final weeks of October from 168 managers representing approximately $900 billion in hedge fund assets under management.

In last year's survey, managers maintained cautious market outlooks as macro headwinds dominated concerns. However, what managers viewed as the biggest risks to markets in 2012, mainly the European crisis, political ineptitude and slowing growth, have had less of an impact than anticipated.

This time around, managers enter the coming year with a different posture. Overall, managers appear bullish on financial assets, comfortable with the stability of financial markets and, though clearly uncertain on outcomes, less sensitive to the impact of macro/political risks.

Selected Highlights:

- Hedge fund managers are generally bullish: Bulls outnumber Bears by a ratio of 3 to 1.
- 88% of managers surveyed say U.S. housing prices have bottomed.
- In a reversal from last year's survey, managers see a large-scale sell-off of assets by European banks as less likely. Last year, 83% felt it was likely with 29% calling it "definite," compared with 52% and 7%, respectively, this year.
- Pension funds are growing in influence as fund of funds contract. 68% of managers said public pensions were a growing part of their asset base, while 63% report a decline in fund of funds as a percent of their investor base.
- Concerns over counterparty risk seem to be abating: CDS spreads are of decreasing importance for managers when choosing counterparties. Fewer managers are reporting the use of spread triggers (36% this year versus 50% last year) and trigger levels are generally higher than last year.
- 68% of respondents said they offered options for a fee discount (relative to the terms of their flagship fund). The most prevalent options were through longer lock-up commitments and for investments over a certain size.

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STATE OF THE MARKETS

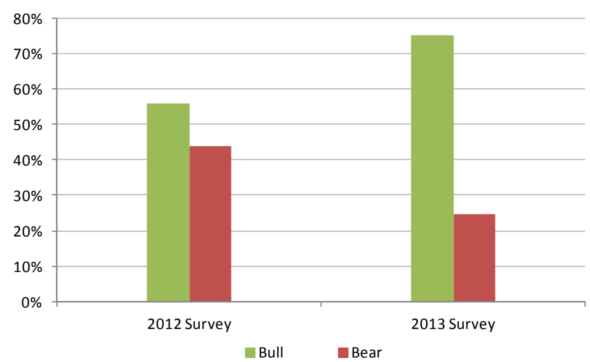
Hedge fund managers are generally constructive on financial assets, market liquidity and stability despite what appears to be an ambivalent view of policymakers' ability to address continued economic headwinds.

Bull/Bear Index[1]

From a broad perspective, hedge fund managers are bullish heading into 2013.

- Bull/Bear Index: respondents were bullish in a ratio of 3:1
- Long/Short Equity managers were the most bullish (84%) while Relative Value managers were least bullish (50%)

Bulls Outweigh Bears Compared with This Time Last Year



2013 Strategy Predictions

We asked managers what they think the three best performing hedge fund strategies will be in 2013:

1. Long/Short Equity
2. Global Macro
3. Event Driven – Equity Focus

THE GOOD, THE BAD AND THE BUBBLY

At the end of each year, Aksia asks hedge fund managers to give their opinions on the biggest potential market risk and upside surprise for the coming year, as well as where they see the next bubble forming.

Below we present the three most common results for 2013 and the percentage of respondents, along with an honorable mention ("HM").

BIGGEST UPSIDE SURPRISE

Europe (15%)
U.S. Housing Market (13%)
Chinese Growth (9%)
HM: Japanese Equities

BIGGEST RISK

Fiscal Cliff (24%)
Europe (19%)
Economic Downturn (9%)
HM: Government Intervention / Moral Hazard

NEXT BUBBLE

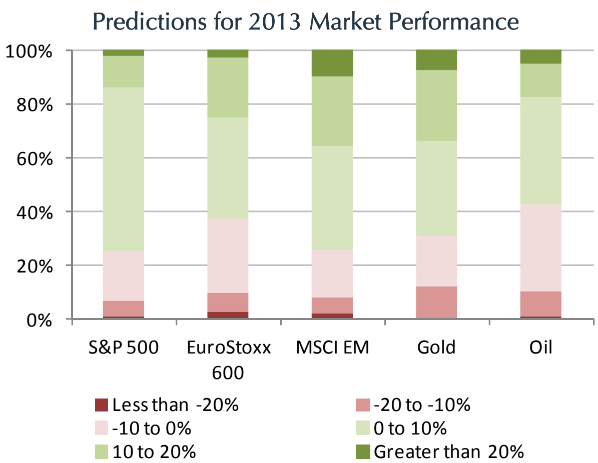
Credit/Fixed Income (32%)
Developed Market Rates / U.S. Treasuries (26%)
Asia/China (6%)
HM: Bubble Prognosticating

[1] Please see the appendix for how we calculated the bull/bear scale

Market Predictions

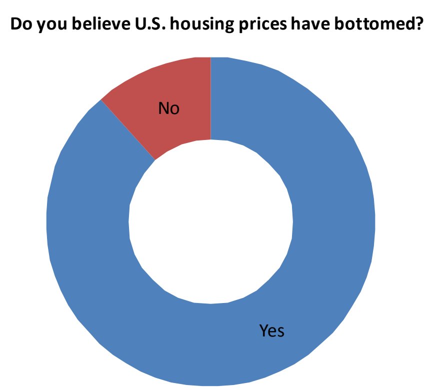
The respondents to our survey were generally positive on financial assets.

- The strongest performance was expected in Emerging Market equities and Gold, with 36% and 34% predicting double digit returns, respectively
- Expectations for the S&P were more muted on the upside, with only 14% predicting >10%
- 42% predicted negative returns for Oil



Nowhere Left to Go But Up

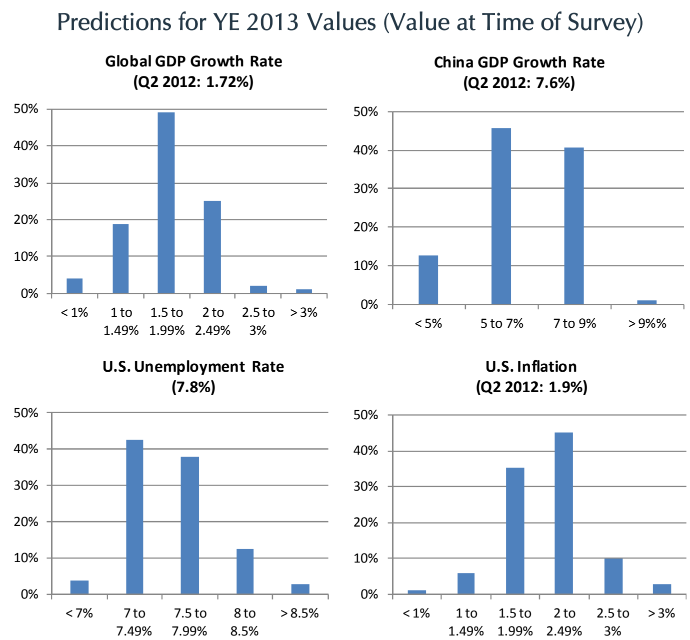
Though headwinds for the sector remain ever-present, hedge fund managers were overwhelmingly convinced that the U.S. housing market has bottomed, with 88% responding in the affirmative.



Interestingly, the bullish stance on financial assets appears to discount a number of macro headwinds for 2013:

- Most managers see Global GDP growth around 2%, well below long-term trend and consensus estimates of 2.52%[2]
- More managers expect China GDP growth to shrink in 2013 than grow
- U.S. unemployment is expected to improve slightly; managers seem to be predicting an unemployment rate at or below the 7.8% consensus[2]
- U.S. inflation is expected to pick up

This may suggest that even with the uncertainty over parts of the global economy, managers feel that there is significant stability in the prices of financial assets.



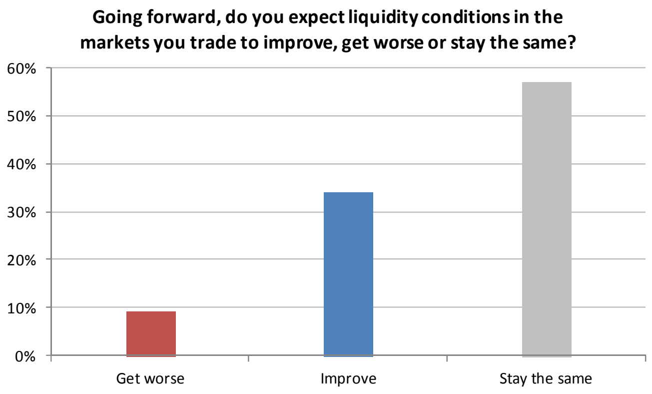
[2] Bloomberg

Financial Market Stability

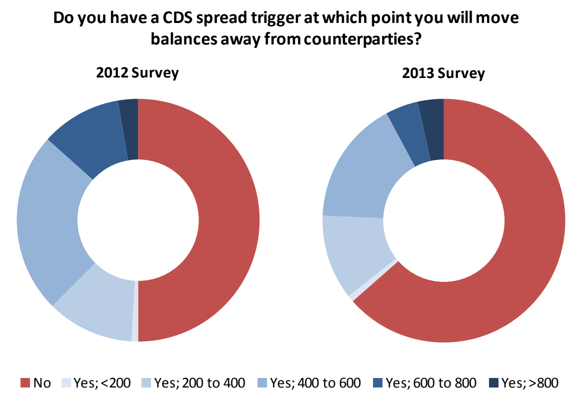
Respondents appear constructive on the conditions of the financial markets. Managers noted improvements in certain market conditions and predict further positive developments in the year ahead.

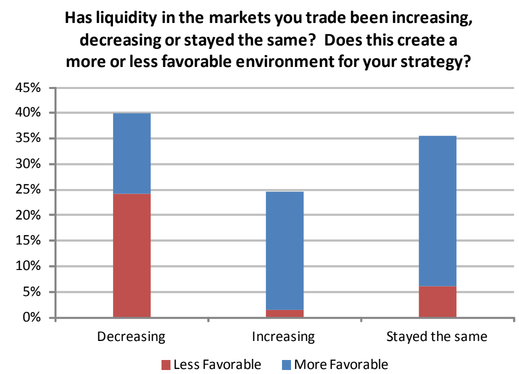
1. Liquidity: From a liquidity perspective, the health of the markets appears, at minimum, stable.
   - 60% of managers surveyed stated that liquidity conditions remained the same or have improved over the previous 12 months
   - 91% of managers see liquidity increasing or remaining the same in their markets over the next 12 months
2. Financing: The functionality of credit markets appears to be improving.
   - Almost 95% of respondents said that access to financing has been stable or improving over the last year
3. CDS Spreads: The concern over counterparty risk during the past several years may be abating.
   - In last year's survey, 50% of respondents had established triggers while this year only 36% had them in place
   - For those that maintained triggers in this year's survey, the level has drifted higher, with 67% set above 400bps versus 57% in 2012

Market Liquidity is Largely Seen as Stable and Improving



Counterparty Risk Diminishing





Liquidity Trends

40% of managers reported liquidity decreasing in their markets over the past 12 months, however 39% of that group saw this as creating a more favorable environment for their strategy. Large majorities of those who have reported increasing or stable liquidity saw it as being more favorable for their strategy (94% and 83%, respectively).

Economic & Macro Issues

Managers' responses to questions surrounding the macro and political landscape show continued uncertainty regarding the future. They also show a reduced concern that potential outcomes will negatively affect markets.

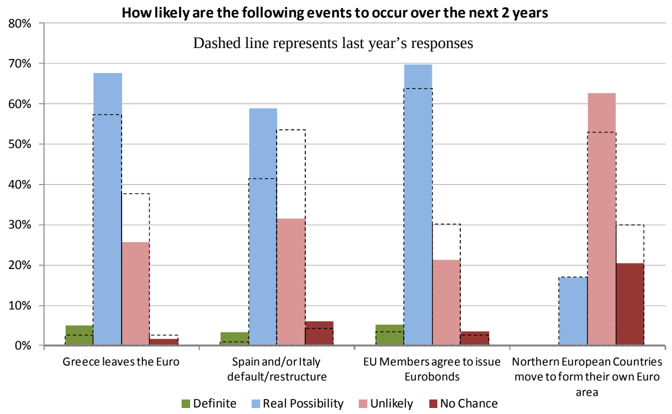
Europe

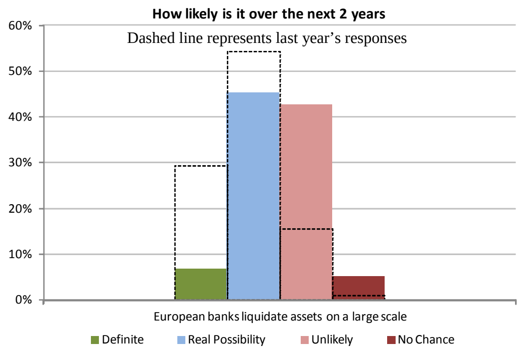
In our 2012 survey, we asked managers for their opinion on several headline issues facing Europe at the time. We asked the questions again in the 2013 survey to see if the outlook changed one year later.

- Interestingly, 73% of managers now believe a Greek exit from the Euro is more likely than not, compared with 60% last year
- Similarly, the prospects for Spain and/or Italy default/restructuring increased to 63% from 42%

Despite the expected likelihood of these outcomes increasing, 63% of managers expect positive performance for the EuroStoxx 600 in 2013, and 25% predict returns in excess of 10%.

European Opinions Shift





Reversal on European Opportunity Set

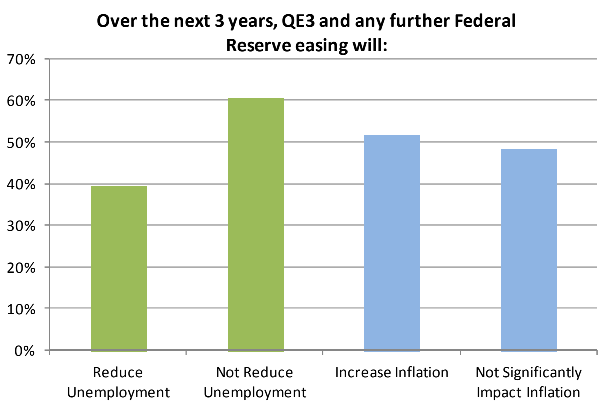
Last year we asked about the possibility of a large-scale sell-off of assets by European banks. 83% of managers felt this was likely, while 29% thought it would definitely occur. One year later, 52% of respondents see it as likely over the next two years, with only 7% calling it "definite". Programs such as the LTRO and OMT have provided banks access to financing, allowing them to avoid forced sales of assets at bargain prices.

U.S.

With regards to the U.S. financial condition:

- 56% of respondents said they do not believe the U.S. faces further downgrades from rating agencies in 2013
- On the impact of further quantitative easing measures by the Fed (over next three years), 52% expect significant inflation as a result and 61% believe Fed attempts to lower unemployment would have no impact

Impacts of QE



STATE OF THE INDUSTRY

As the hedge fund industry continues to mature, dynamics are sure to shift. Based on survey responses, the investor base is one area that is clearly changing. We are also encouraged by trends in fee deals.

Investor Base

We asked managers what types of investors were growing or shrinking within their investor base.

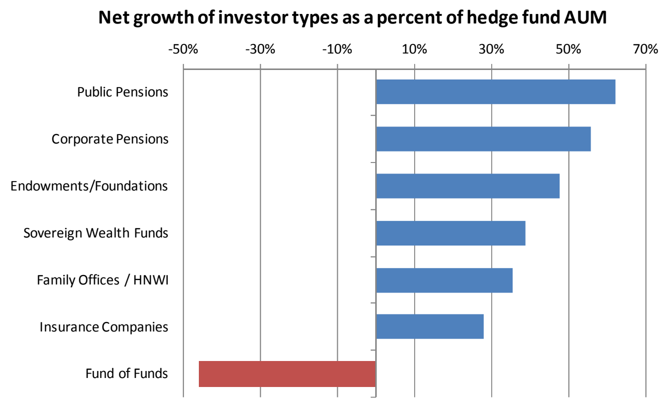
- Public and corporate pensions are growing, with 68% and 61% of managers seeing increases from these groups, respectively
- 63% of respondents reported fund of funds as a shrinking part of their asset base, the only segment in serious decline

Fee Trends

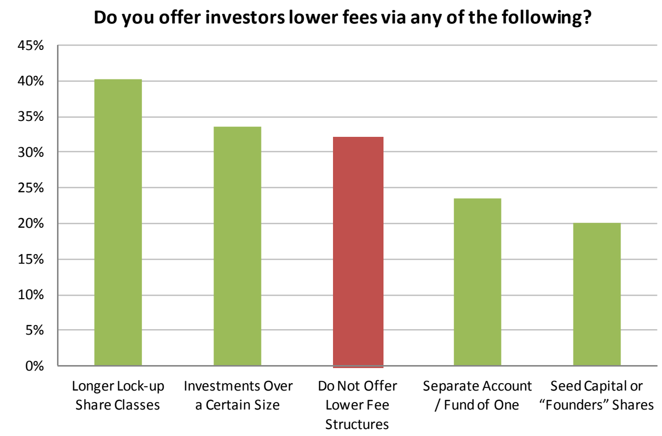
We asked managers if they offered discounted fees (versus their flagship fund) to investors and, if so, in what form.

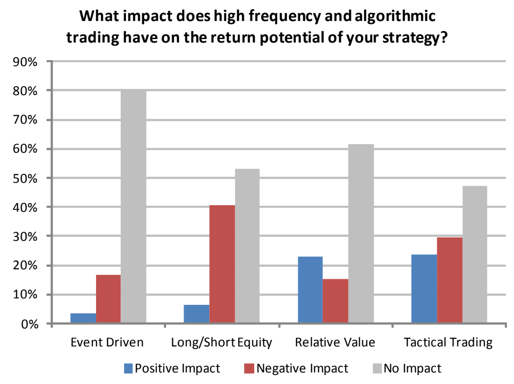
- 68% of respondents said they offered some type of option for discounted fees, with 34% offering two or more
- The most prevalent means for investors to access these discounts were through longer lock-up commitments (40%) and/or making allocations of significant size (34%)

Stark Contrasts in Investor Growth



Fee Deals – Lowering the Hurdle





High Frequency Trading

62% of respondents do not believe that high frequency or algorithmic trading has any impact on the return potential of their strategies.

Time Horizon and Liquidity Terms

In an effort to measure if opportunities in the market were in line with industry liquidity terms, we asked questions regarding holding periods and expected returns.

- 41% of respondents believed the ability to extend the holding period of their investments would increase their expected risk adjusted returns
- However, when asked about their (realized) holding periods over the past 12 months, only 13% reported an increase in holding period
- When asked if investors' liquidity preferences had changed, almost 90% noted that investors are seeking the same or greater liquidity

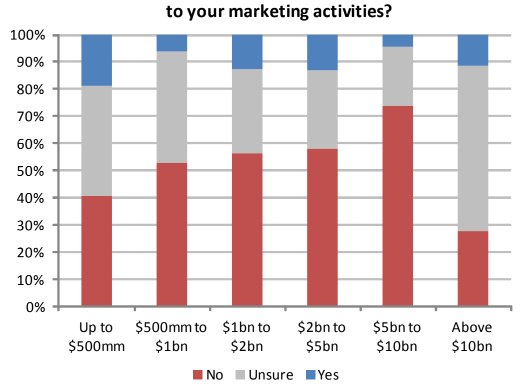
The responses seem to describe a moderate disconnect between investors' liquidity preferences and managers' view of the opportunity set.

The JOBS Act

Even if the final implementation of the JOBS Act allows hedge funds to use general advertising and soliciting, the majority said they would not make any changes to their marketing activities.

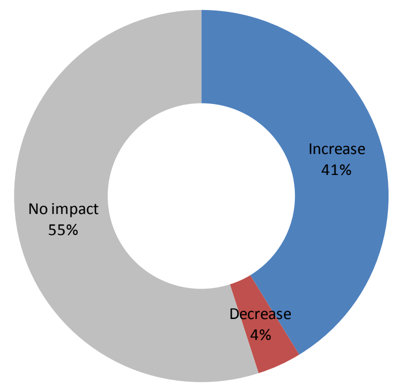
Perhaps not surprisingly, the managers who reported being most likely to change their marketing activities were those managing smaller funds. Interestingly, the largest managers were the most unsure.

Do you expect to make any JOBS Act-related changes to your marketing activities?

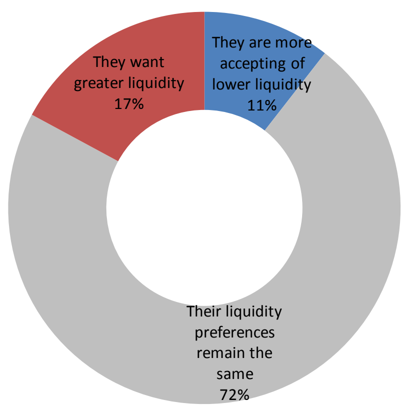


Leaving Money on the Table?

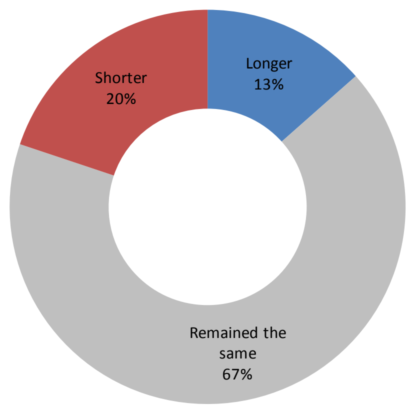
In today's market, would the ability to increase the holding period of your fund's investments or potential investments increase, decrease or have no impact on risk-adjusted returns?



Over the past 12 months, how would you characterize investors' preference for liquidity terms?



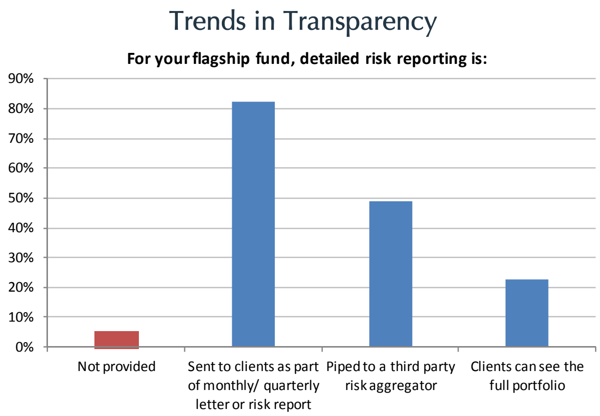
Over the past 12 months, the expected holding period of your fund's investments have become:



Risk Reporting

We asked managers about their risk reporting practices:

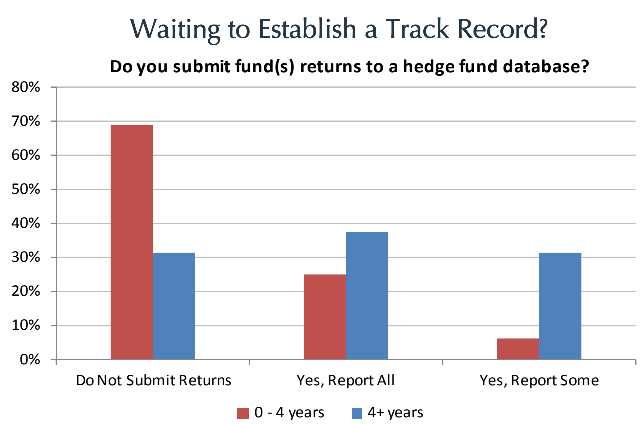
- 82% sent detailed risk reports as part of their monthly/quarterly reports to investors
- 49% piped risk information to third party risk aggregators
- 23% provided clients with their full portfolio
- These results are similar to last year's findings of 82%, 45% and 26%, respectively



Hedge Fund Databases

We asked managers if they reported their returns to a hedge fund database:

- 36% of managers submit all returns to a database, while 35% do not submit any
- Younger funds appear significantly less likely than more established funds to report returns
- This is illustrative of how common database biases originate (e.g. selection bias, backfill bias)



Free Response

Q: What will be the biggest upside surprise in 2013?

A:

Q: What is the biggest risk to markets in 2013?

A:

Q: Where do you see the next bubble forming?

A:

DISCLAIMER

APPENDIX

Bull/Bear Scale

To calculate our bull/bear scale, we assigned each manager a point value based on their predictions for the S&P500, MSCI EM, Euro Stoxx 600, Barclays U.S. HY Spread Level, China GDP Growth, Global GDP Growth and U.S. Unemployment Rate. The value was calculated as follows: If a manager selected an answer choice where the range included the current value, that manager was credited with 0 points, or a neutral response to that question. If the manager selected a more bullish answer choice, the manager received 0.5 points if the choice was the "least bullish", 1.0 if the choice was further bullish, etc. The opposite was true for bearish responses. The manager received -0.5 points if the choice was the "least bearish" response, -1.0 if the choice was further bearish, etc. For those questions where the current value was at the end of the range of response choices, no 0 point option was available. We then summed up the managers' point values. If the total was a positive number, that manager was determined to be "bullish." If that value was negative, that manager was determined to be "bearish." For those managers whose total summed up to zero, the following tiebreakers were used in succession: number of positive/negative responses, largest single bullish/bearish score, and the answer to the question on whether home prices have bottomed.

Survey Respondent Demographics

Sector Breakdown

Event Driven	29%
Long/Short Equity	42%
Relative Value	15%
Tactical Trading	14%
	100%

AUM Breakdown (firm hedge fund assets)

Up to $500mm	20%
$500mm to $1bn	12%
$1bn to $2bn	20%
$2bn to $5bn	20%
$5bn to $10bn	15%
Above $10bn	13%
	100%

Regional Breakdown (strategy focus)

Asia	14%
Emerging Markets	7%
Europe	6%
Global - All	30%
Global - Developed	11%
North America	31%
Other	1%
	100%

Fund Age Breakdown

0 - 2 years	4%
2 - 4 years	7%
4 - 7 years	17%
7 - 10 years	17%
> 10 years	55%
	100%

Survey Responses

What investor types are growing/shrinking as a percent of your AUM?

	Public Pensions	Corporate Pensions	Sovereign Wealth Funds	Endowments / Foundations	Insurance Companies	Family Offices / HNWI	Fund of Funds
Growing	68%	61%	42%	54%	35%	50%	17%
Shrinking	5%	5%	3%	7%	7%	15%	63%
No Change	27%	34%	54%	39%	58%	35%	20%
	100%	100%	100%	100%	100%	100%	100%

For your flagship fund, detailed risk reporting is (select all that apply):

Not provided	5%
Sent to clients as part of monthly/ quarterly letter or risk report	82%
Piped to a third party risk aggregator	49%
Clients can see the full portfolio	23%

Do you submit fund(s) returns to a hedge fund database?

Do Not Submit Returns	35%
Yes, Report All	36%
Yes, Report Some	29%
	100%

For any of your funds, do you offer investors lower fees via any of the following? (choose all that apply)

Longer Lock-up Share Classes	40.3%
Investments Over a Certain Size	33.6%
Do Not Offer Lower Fee Structures	32.2%
Separate Account / Fund of One	23.5%
Seed Capital or "Founders" Shares	20.1%

Over the past 12 months, how would you characterize investors' preference for liquidity terms [for your fund(s)]

They are more accepting of lower liquidity	10.5%
Their liquidity preferences remain the same	72.4%
They want greater liquidity	17.1%
	100%

If the final implementation of the JOBS Act allows hedge fund managers to use general advertising and solicitation, do you expect to make any changes to your marketing activities?

Yes	11.8%
No	52.3%
Unsure	35.9%
	100%

How would you rate the availability of financing (term and rate) today versus 12 months ago?

Much Better	0.8%
Better	19.7%
Same	74.0%
Worse	5.5%
	100%

Do you have a CDS spread trigger at which point you will move balances away from counterparties?

No	63.5%
Yes; <200	0.9%
Yes; 200 to 400	11.3%
Yes; 400 to 600	16.5%
Yes; 600 to 800	4.3%
Yes; >800	3.5%
	100%

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What do you think will be the top 3 best performing sub-strategies in 2013?

	1	2	3	1,2 or 3
Long/Short Equity	13%	5%	3%	21%
Global Macro	6%	4%	6%	16%
Event – Equity Focus (incl. risk arb)	2%	8%	4%	14%
Event – Debt Focus (incl. distressed)	7%	3%	3%	13%
Long/Short Credit (incl. RV credit)	5%	4%	3%	11%
CTA	2%	3%	2%	8%
Commodities	0%	4%	3%	6%
Quant. Strategies (incl. stat arb)	1%	2%	3%	5%
Fixed Income Arb	1%	1%	3%	4%
Convert Arb	0%	1%	1%	2%
				100%

Over the past 12 months, has liquidity in the markets you trade been increasing, decreasing or stayed the same?

Decreasing	40%
Increasing	25%
Stayed the same	35%
	100%

Does this create a more favorable or less favorable environment for your strategy?

Less Favorable	33%
More Favorable	67%
	100%

Going forward, do you expect liquidity conditions in the markets you trade to improve, get worse or stay the same?

Get worse	9%
Improve	34%
Stay the same	57%
	100%

Over the past 12 months, has the expected holding period of your fund's investments become longer, shorter or remained the same?

Longer	13%
Remained the same	67%
Shorter	20%
	100%

In today's market, would the ability to increase the holding period of your fund's investments or potential investments increase, decrease or have no impact on risk-adjusted returns?

Increase	41%
Decrease	4%
No impact	55%
	100%

What impact does high frequency and algorithmic trading have on the return potential of your strategy?

Positive Impact	11%
Negative Impact	27%
No Impact	62%
	100%

How likely are the following events to occur over the next 2 years?

	Definite	Real Possibility	Unlikely	No Chance
Greece leaves the Euro	5%	68%	26%	2%
Spain and/or Italy default/restructure	4%	59%	32%	6%
European banks liquidate assets on a large scale	7%	45%	43%	5%
EU Members agree to issue Eurobonds	5%	70%	21%	4%
Northern European Countries move to form their own Euro area	0%	17%	63%	21%

Over the next 3 years, QE3 and any further Federal Reserve easing will:

Neither reduce unemployment nor significantly impact inflation	27%
Not reduce unemployment but produce a significant increase in inflation	33%
Reduce unemployment with significant increase in inflation	18%
Reduce unemployment without significant inflation impact	21%

Do you think Moody's, Fitch or S&P will downgrade the U.S. in 2013?

Yes	44%
No	56%

Do you believe U.S. housing prices have bottomed?

Yes	88%
No	12%

What are your predictions for the following at the end 2013? (Current value at time of survey)

	Less than -20%	-20 to -10%	-10 to 0%	0 to 10%	10 to 20%	Greater than 20%
S&P 500 (1428)	1%	6%	18%	61%	12%	2%
EuroStoxx 600 (269)	3%	7%	28%	38%	22%	3%
MSCI EM (996)	2%	6%	18%	39%	26%	10%
Gold (1754)	0%	12%	19%	35%	27%	7%
Oil (WTI spot) (92)	1%	9%	32%	40%	12%	5%

10 Year Treasury Yield (1.656%)

Less than 1%	3%
1 to 1.5%	15%
1.5 to 2%	44%
2 to 2.5%	32%
Greater than 2.5%	6%
	100%

Barclays U.S. HY Spread Level (OAS 541bps)

Less than 450bps	4%
450 to 549bps	44%
550 to 649bps	43%
650 to 750 bps	8%
Greater than 750bp:	2%
	100%

China GDP Growth Rate (Q2 2012: 7.6%)

< 5%	13%
5 to 7%	46%
7 to 9%	41%
> 9%%	1%
	100%

Global GDP Growth Rate (Q2 2012: 1.72%)

< 1%	4%
1 to 1.49%	19%
1.5 to 1.99%	49%
2 to 2.49%	25%
2.5 to 3%	2%
> 3%	1%
	100%

U.S. Inflation (YoY % change CPI) (Q2 2012: 1.9%)

< 1%	1%
1 to 1.49%	6%
1.5 to 1.99%	35%
2 to 2.49%	45%
2.5 to 3%	10%
> 3%	3%
	100%

U.S. Unemployment Rate (7.8%)

< 7%	4%
7 to 7.49%	43%
7.5 to 7.99%	38%
8 to 8.5%	13%
> 8.5%	3%
	100%

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