



UCITS Alternative Index Industry Survey

Q2 2011

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1. Introduction

Alix Capital, Index Provider of the UCITS Alternative Index, is delighted to present the first edition of the UAI Quarterly Industry Survey. Based on answers from market participants, the report provides insight information on the evolution and key aspects of the UCITS hedge fund industry.

The survey is divided in 3 sections. The first section provides information on the type of investments and vehicles that respondents are currently using. The second part focuses on strategy allocation and future trends. Finally, the last part covers structure issues specific to UCITS investments.

The study was sent to all market participants receiving the UCITS Alternative Index performance updates. 118 contributors responded to the survey. We take this opportunity to warmly thank all respondents.

We hope the UAI Quarterly Investor Survey will provide useful insights about the state and evolution of UCITS hedge funds.

UCITS Alternative Index Team

Geneva, June 20th 2011

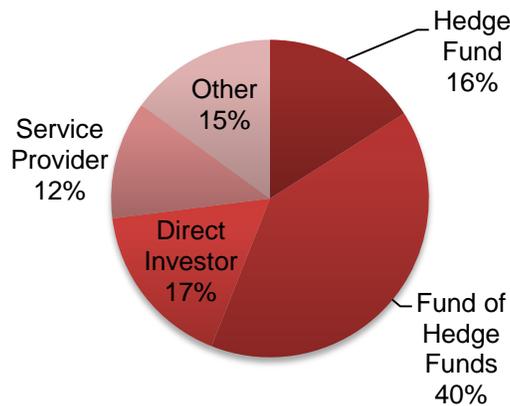
Key Findings

- 77% of respondents are already invested in UCITS hedge funds, while 32% of them invest exclusively in UCITS hedge funds.
- Long/Short Equity, CTA and Macro are the most popular strategies.
- Investors are wishing for more Event-Driven and Commodity UCITS hedge funds.
- 82% of those already invested in UCITS plan to increase their UCITS allocation in Q3 2011
- A third of respondents believe the UCITS structure is not more expensive than that of offshore.
- Two thirds of investors are concerned investing in UCITS funds via a swap structure

2. Scope of the study and participants profile

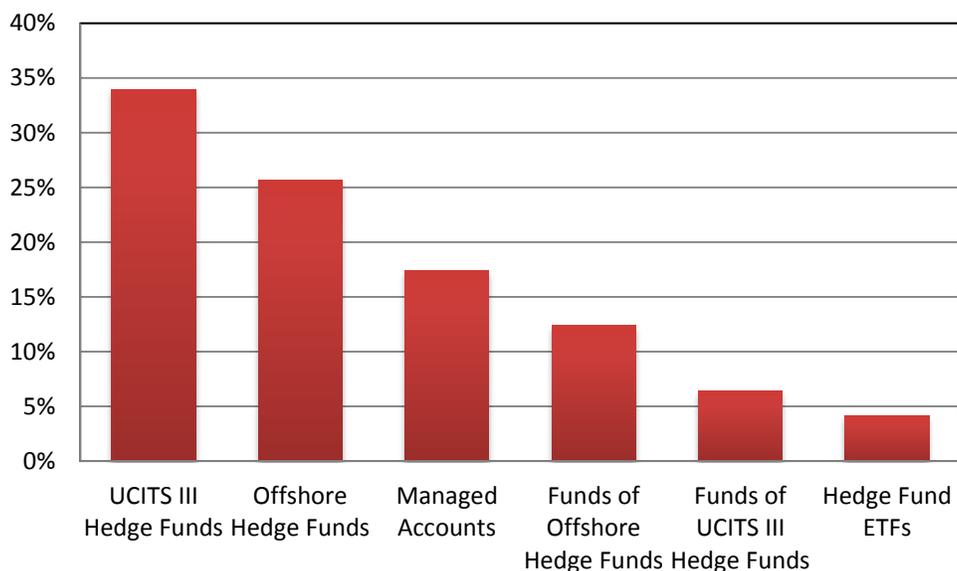
The UAI Quarterly Industry Survey was sent to all UCITS Alternative Index recipients (approximately 5000 industry professionals). As of the June 9th 2011, 118 persons had returned the questionnaire. Among respondents, 40% are funds of hedge fund managers, 17 direct investors and 16% hedge funds managers. Viewed differently, 57% of the respondents are hedge funds investors.

What best describes your activity?



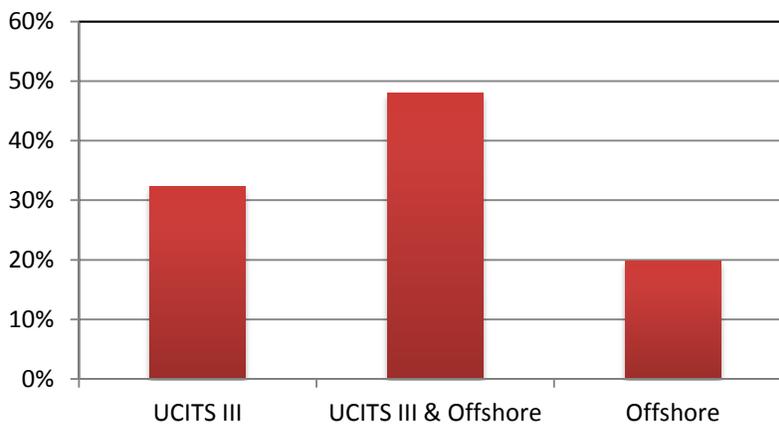
A majority of respondents already use UCITS hedge funds compared to offshore investments. Most respondents invest in UCITS hedge funds, followed by offshore hedge funds and managed accounts. In total, 77% of respondents are already invested in a UCITS hedge fund. 25% of investors invest in funds of offshore hedge funds and 14% invest in funds of UCITS hedge funds.

Which vehicle(s) do you currently use to invest in alternative investments?



Comparing UCITS versus offshore structure for hedge fund allocation, we note that 32% of respondents are invested exclusively in UCITS, 48% in both offshore and UCITS, and 20% exclusively in offshore. This observation is quite interesting as it shows that offshore and UCITS are complementary for the majority of hedge funds investors. There are several reasons why investors are using both structures, ranging from regulatory aspects to access to specific (less liquid) strategies. This demonstrates that the majority of investors tend to adopt a best of both world approach in term of legal structure. This also probably means that when there is an UCITS equivalent, a number of regular offshore investors are now also considering UCITS vehicles.

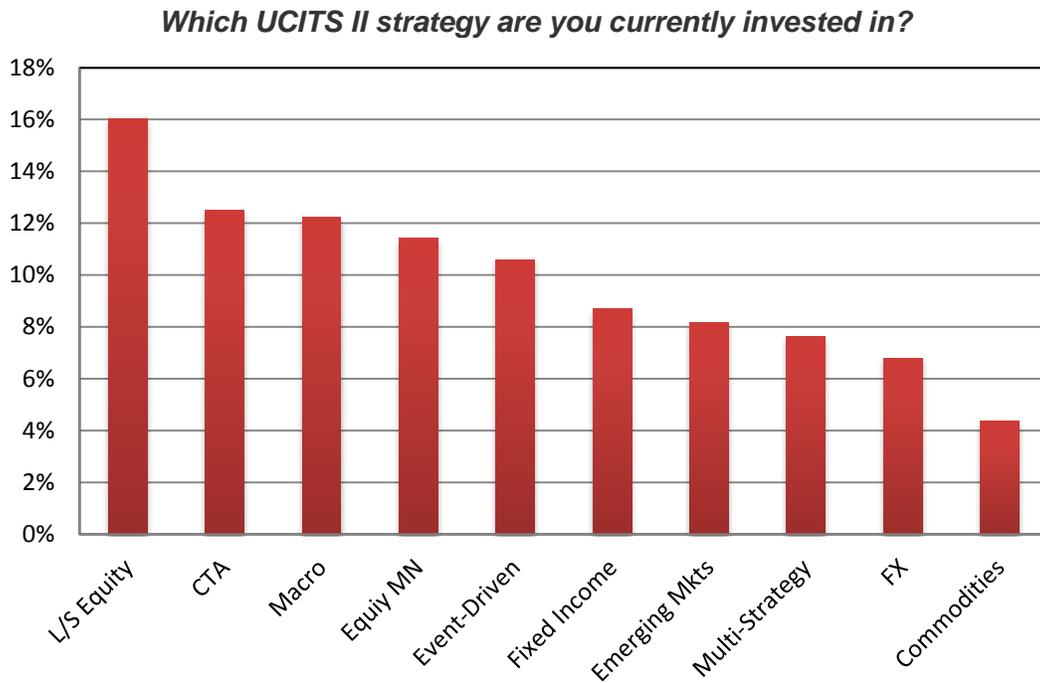
Which of the following do you use to invest in alternative investments?



Additionally, our study revealed that 12% of investors investing exclusively in offshore funds are considering using UCITS hedge funds in the future. At the same time 82% of those already invested in UCITS are planning to increase their UCITS exposure.

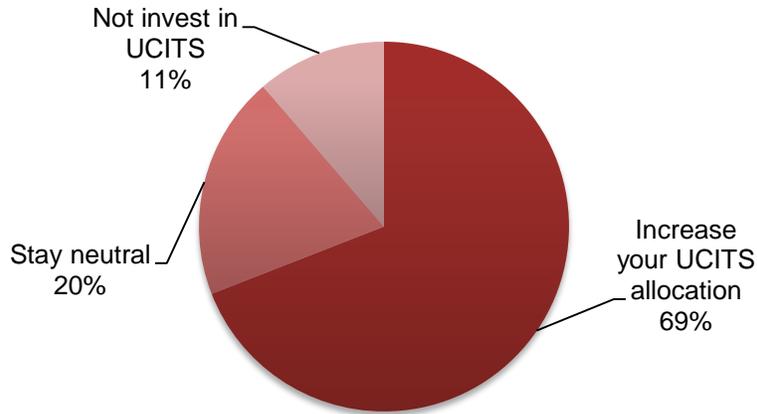
3. Investment trends in the UCITS hedge fund industry

This part of the survey focuses on investor’s strategy current and future strategy allocation. When asked about their current investments, respondents mainly answered Long/Short Equity, followed by CTA and Macro. FX and Commodities come in last place. Respondents were allowed multiple answers.



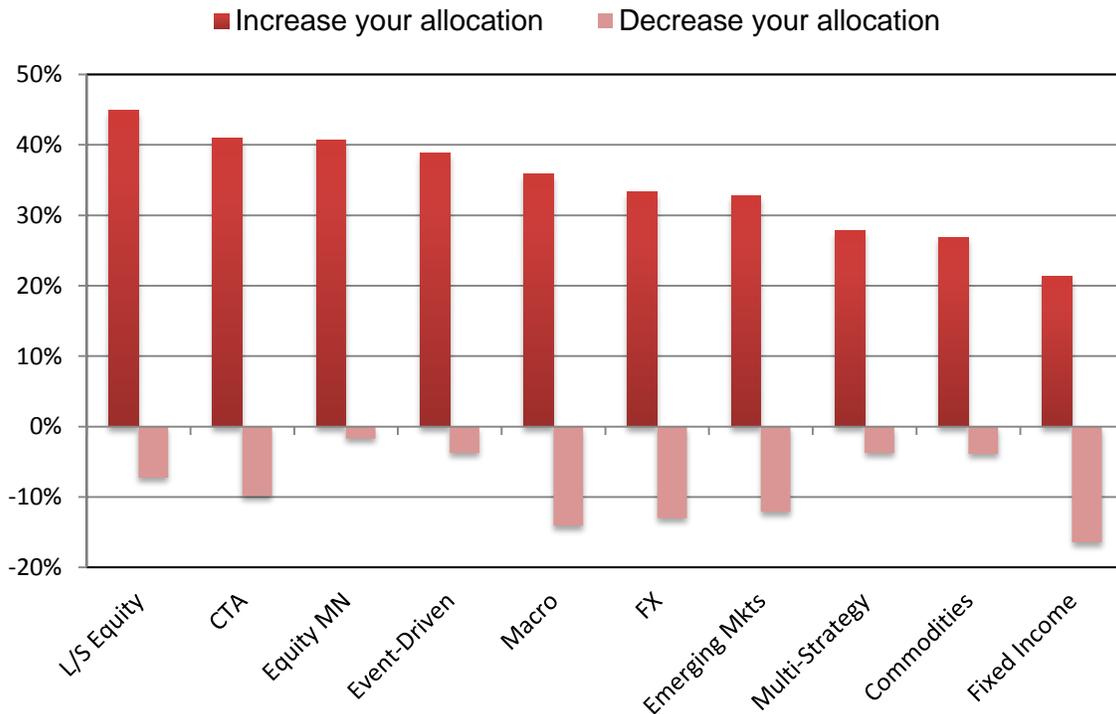
With regards to futures allocation, a large majority of investors plan to increase their UCITS hedge funds exposure over the next quarter, while 20% wish to remain neutral. None of the respondents indicated that they wished to reduce their allocation to UCITS.

In Q3 2011, do you plan to:



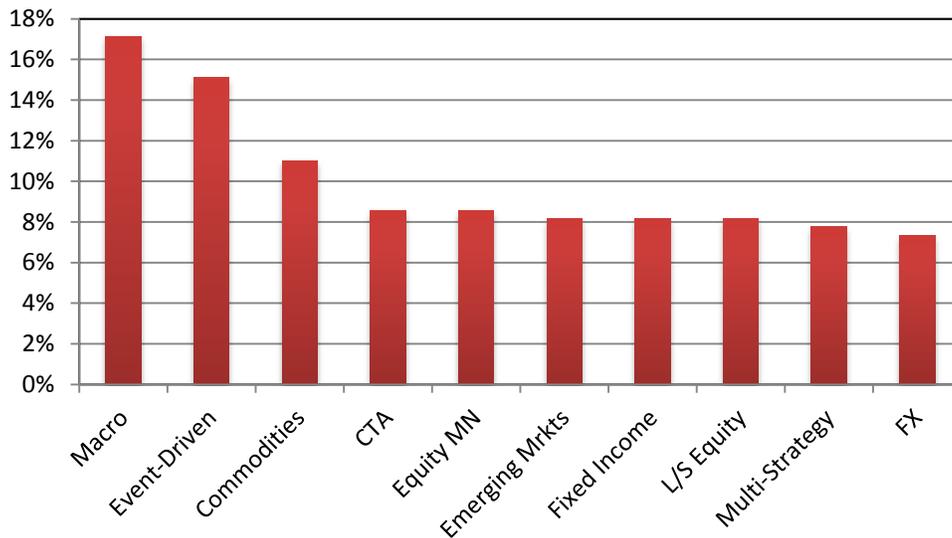
Further looking into strategies, our study shows that investors are likely to increase their allocation in every category rather than decrease it. The only strategy where we see as much forecasted increase than decrease is Fixed Income. Long/Short Equity is the most sought after strategy, followed by CTA and Equity Market Neutral. Strategies for which respondents are more likely to reduce their investments are Fixed Income, Macro and FX.

In Q3 2011, for each of these UCITS III hedge fund strategies, do you plan to:



The graph below summarizes investor expectations in terms of strategy offering. We see that Event-Driven and Commodity funds in a UCITS format may draw interest from investors. Currently, there are only around 20 UCITS funds in each of these strategies. FX and Multi-Strategy are the less demanded strategies. Most investors seem satisfied with the number of existing Long-Short Equity managers, which is the highest at the moment in the UCITS universe.

In which of these UCITS strategies would you like to see more managers?

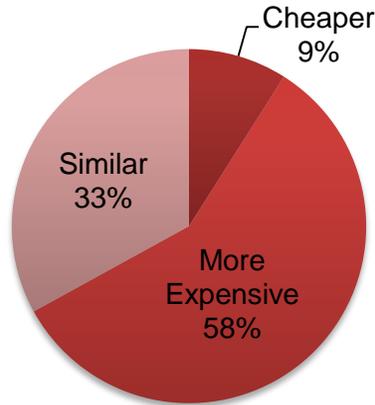


4. Current issues about UCITS hedge funds

This section addresses the main common concerns of UCITS hedge fund investors. Those concerns range from cost issues to technical implementation of UCITS funds.

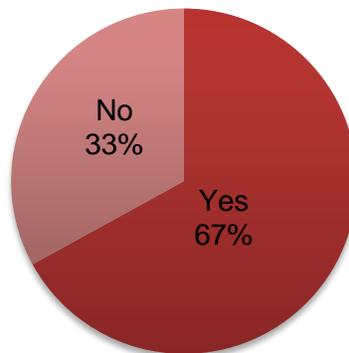
Although the UCITS structure is generally perceived to be more expensive than the offshore one, a surprising 40% of respondents consider it similar if not cheaper. Generally UCITS funds tend to be considered more costly due to higher regulatory and operational charges. However, some investors omit the fact that offshore funds are generally less transparent in term of total expenses ratios than UCITS, thus hardly allowing for any true comparison.

Compared to offshore funds, do you think the UCITS structure is:



As awaited, a large majority of respondents believe the UCITS framework is safer than the offshore structure. Reasons for this are widely admitted to be the higher regulation and better liquidity. It is a confirmation that investors regard UCITS investments as a practical solution for potential diversification with reliable asset protection.

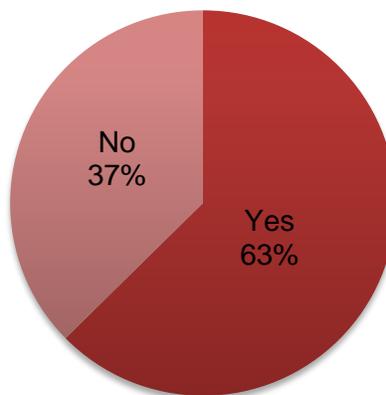
Compared to offshore funds, do you think the UCITS structure is safer for investors?



Many concerns have been raised regarding the use of swap structures to implement hedge fund strategies in a UCITS format. While most funds are using a direct approach (i.e. direct holding of the underlying securities), some providers employ a total return swap (TRS) to replicate the performance of a portfolio. The use of TRS is usually perceived to be more expensive and potentially riskier than the direct methodology due to counterparty risk. Indeed, our survey shows that 63% of respondents are concerned with the TRS structure.

It seems that the TRS approach is not the first choice solution, and that providers using TRS will need to further convince investors about the benefit of such a structure.

As of today, is it a concern for you to invest in UCITS hedge funds using total return swap structures?



5. About UCITS Alternative Index

The UCITS Alternative Index series is the industry's leading benchmark for the UCITS hedge funds universe. The series of indices track the performance of both global and strategy specific UCITS hedge funds. Index rules and statistics are accessible on the UCITS Alternative Index website www.ucits-alternative.com. UCITS Alternative Index is a registered trademark. Alix Capital is the exclusive Index Provider to the UCITS Alternative Index.

At the end of May 2011, the UCITS Alternative Index is composed of more than 700 constituent hedge funds and funds of hedge funds, totaling EUR 115 billion assets under management.

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