

March 2009

2009 Alternative Investment Survey

A closer look at the hedge fund industry



Hedge Fund Capital Group: Primary contacts

London

Sean Capstick	+ 44(20)754-56282	sean.capstick@db.com
Penelope Millar	+ 44(20)754-77825	penelope.millar@db.com
Angharad Fitzwilliams	+ 44(20)754-52972	angharad.fitzwilliams@db.com
Julia Renton	+ 44(20)754-52903	julia.renton@db.com

New York

Scott Carter	+ 1(212)250-4950	scott.carter@db.com
Jon Olstein	+ 1(212)250-0683	jon.olstein@db.com
Pamela Speer Weldon	+ 1(212)250-4698	pamela.speer@db.com
Linsey Lebowitz Hughes	+ 1(212)250-6138	linsey.lebowitz@db.com
Kalina Ranguelova	+ 1(212)250-3616	kalina.ranguelova@db.com
Arelis Pineda	+ 1(212)250-0490	arelis.pineda@db.com

Hong Kong

Harvey Twomey	+ 852-2203-6797	harvey.twomey@db.com
Marlin Naidoo	+ 852-2203-6211	marlin.naidoo@db.com
Michelle Lim	+ 852-2203-6995	michelle-gm.lim@db.com

Singapore

Victoria Le	+ 65-642-35542	victoria.le@db.com
-------------	----------------	--------------------

Sydney

Damien Jasczyk	+ 61(2)8258-2855	damien.jasczyk@db.com
----------------	------------------	-----------------------

Tokyo

Masa Yanagisawa	+ 81(3)5156-6591	masa.yanagisawa@db.com
-----------------	------------------	------------------------

Contents page

Key Findings 2009: Although smaller, the hedge fund industry remains resilient	2
Acknowledgement	4
Methodology and Context	5
Key Findings 2009: In depth	11
Investors: Focus	
Strategy	25
Region	42
130/30	49
UCITS III.....	51
Secondary Market	52
Managed Accounts	54
Investors: The changing landscape	59
Seeders	70
Consultants	71
Hedge Fund Managers:	
Evolution of terms and future pressures	77

Key Findings 2009: Although smaller, the hedge fund industry remains resilient

The hedge fund industry remains solid.

- **Hedge funds as diversifiers.** For 72% of investors, diversification to other asset classes remains the main benefit of investing in hedge funds.
- **Cash levels remain high.** Respondents are sitting on \$294bn of cash. In 6 months' time they expect to have reduced this to approximately \$212bn. This suggests that \$82bn of cash will be invested in the next 6 months.
- 68% of respondents expect hedge fund assets to be down \$168bn this year, taking the **industry to \$1.33tn.**

"The industry is hurt but not broken."

Nevertheless, the landscape is changing.

- **Investors, like hedge funds, have de-levered.** 72% of investors have reduced their exposure to leverage and 63% are not interested in applying leverage to their own portfolios this year.
- **Continued consolidation and a premier league of hedge funds are emerging.** 50% of our respondents invest in hedge funds with an average AUM of between \$800mn - \$4bn, ensuring the larger funds continue to grow, and hopefully thrive.

"Risk management is now the second most important factor for investors when selecting a manager."

Recent events have made investors more attentive.

- **Risk management** moves to being the second most important factor when selecting a manager.
- **Transparency** joins the top 5 manager selection criteria. Historically, investors have indicated the "3Ps": Performance, Philosophy and Pedigree to be the most important characteristics when selecting a manager. However, this year, Risk Management has displaced Philosophy as the second most important criteria and Transparency is now fourth, pushing Manager Pedigree to fifth place.
- **Increased appetite for managed accounts.** 43% of investors are now considering making a proportion of their investments through managed accounts presumably because of the additional transparency, liquidity and reporting benefits.

“Investors overwhelmingly predict global macro to be the best performing strategy.”

Investment intentions.

- Strategy preferences and **predicted best performers in 2009 are: Macro, CTA, L/S**. Investors overwhelmingly predict global macro to be the best performing strategy, followed by CTAs and Equity L/S, perhaps pointing to the attraction of liquidity. However, these strategies were rivaled by Distressed and Credit L/S, among the least liquid.
- The **US is predicted to be best performing region this year**. 46% of investors think that the US will be best performing region in 2009. Eastern and Central Europe and Russia are predicted to perform the worst.
- Despite the fact that 71% of respondents think the markets (MSCI World) will be down 0-<-20% this year, **92% think their own portfolios will deliver positive performance**. 40% even think they will conclude 2009 with +5 – 10% performance.

“Over 75% of investors expect there to be net outflows from the industry in 2009.”

But there are still caveats.

- **Net outflows expected from the industry in 2009**. Over 75% of investors expect there to be net outflows from the industry and 30% think these outflows will be over \$200bn.
 - **Biggest challenges facing managers** in the next 12 months are primarily **redemptions**.
 - How the markets behave, however, is also a huge component in how fast the industry bounces back.
-

Acknowledgement

“The industry size and complexion will change.”

“Regulatory momentum is building.”

“Market disruptions have historically always created great opportunities.”

The Hedge Fund Capital Group would like to thank all investors that have participated in the Deutsche Bank 2009 Alternative Investment Survey. This is now the seventh year we have conducted the survey. The survey is one of the leading and largest global investor hedge fund surveys, however, it is only with the help of our investor network that we can accomplish this.

2008 was a difficult year for hedge funds and hedge fund investors alike. In a market under extreme duress, where banks and markets fail, hedge funds have of course also struggled. Most hedge fund strategies produced double digit losses in 2008, making it the worst year on record for hedge fund performance. Hedge funds also saw \$155bn net outflows in 2008¹, as many investors headed for the sidelines or rebalanced their portfolios.

Many of the big managers that were at the forefront of the hedge fund scoreboard a decade ago are no longer there, but they have been replaced by other prominent managers. This is exactly the nature of the hedge fund industry: permanent self-reinvention.

The hedge fund industry is, however, going to survive. We firmly believe that the industry size and complexion will change, and where once the industry was left much on its own, the regulatory momentum is building. However, none of this is necessarily negative. Market disruptions have historically always created great opportunities and it is surprising what a few months of positive performance can mean for the state of any sector in the financial industry.

Deutsche Bank’s Hedge Fund Capital Group

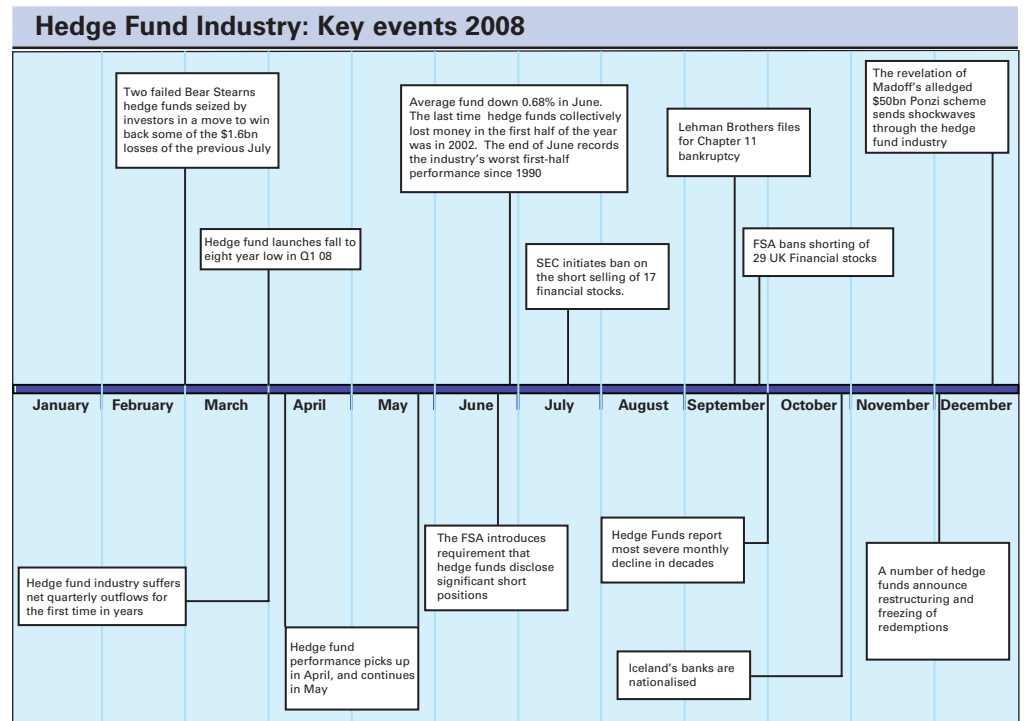
Deutsche Bank’s Hedge Fund Capital Group is a global team of specialists based in London, New York, Hong Kong, Singapore, Tokyo and Sydney. The primary role of the group is to provide capital introduction services to our hedge fund clients and expertise on investor sentiment gained through our global investor network. The group also plays a strategic role, helping hedge funds and investors navigate the industry and investor concerns.

If you would like further information on the survey, or to request a copy, please contact Angharad Fitzwilliams, angharad.fitzwilliams@db.com.

¹ HFR Global Hedge Fund Industry Report – 4th Quarter, 2008

Methodology and Context

In February of this year, we asked our global investor network to participate in this year's survey. The context in which they have been answering the survey has been well documented, but is nonetheless so extraordinary that it is worth setting out below:



Source: Deutsche Bank, Hedge Fund Capital Group

"A total of 1,000 investors have participated in the survey."

A total of **1,000 investors** have participated in the survey, more than ever before. They collectively manage more than **\$1.1 trillion** in hedge fund assets.

The responses we have received provide invaluable insight into global investor sentiment with regard to the hedge fund industry. Our respondents comprise a wide variety of investor types, ranging from funds of funds to family offices and foundations, from all across the globe. The information that follows includes their perspectives on the outlook for the industry in general, as well as specific trends they see developing in the alternatives space in 2009.

Investor Categories: Survey respondents in 2009	
Fund of funds	51%
Bank	9%
Family office	13%
Consultant	7%
Pension	5%
Wealth management	7%
Insurance	4%
Corporation	1%
Government	0%
Foundation and Endowment	3%

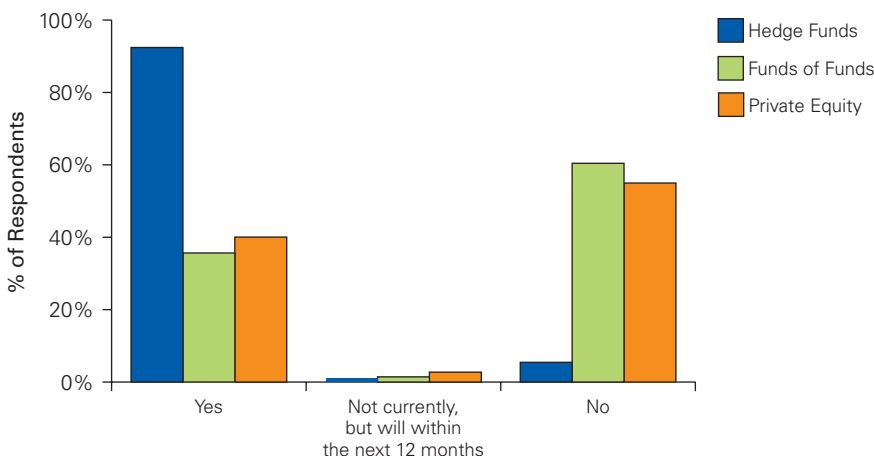
Direct Investments

Over 90% of the investors who completed the survey said they invested directly into hedge funds. In contrast, only 36% of the same group said they invested directly into funds of funds, and 40% into private equity.

Furthermore, unlike in other areas, where investors are often looking to change strategies or asset classes in the next 12 months, only a very small number of respondents were planning on changing their investment mandates. It seems investors, in this more difficult environment, will be focusing on what they know and arguably do best: single strategy hedge funds and allocation to them.

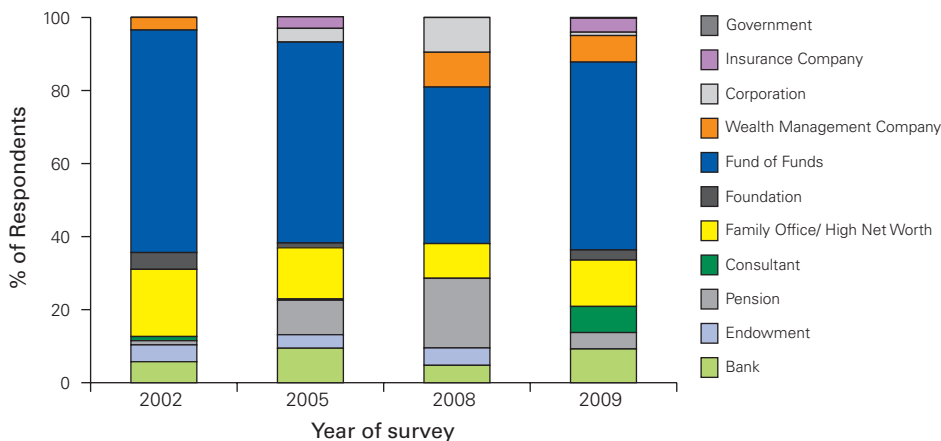
“Respondents will be focusing on allocating to single strategy hedge funds.”

Do you invest directly in the following



Source: 2009 Deutsche Bank Alternative Investment Survey

Type of organization



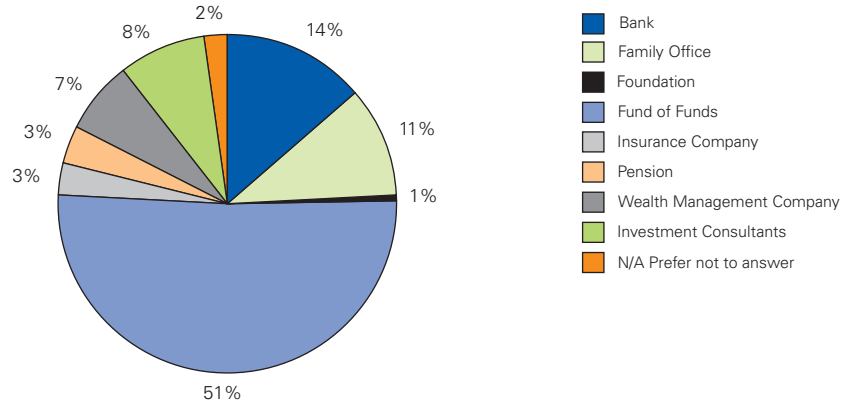
Source: 2009 Deutsche Bank Alternative Investment Survey

“Fund of funds comprise almost 51% of total respondents.”

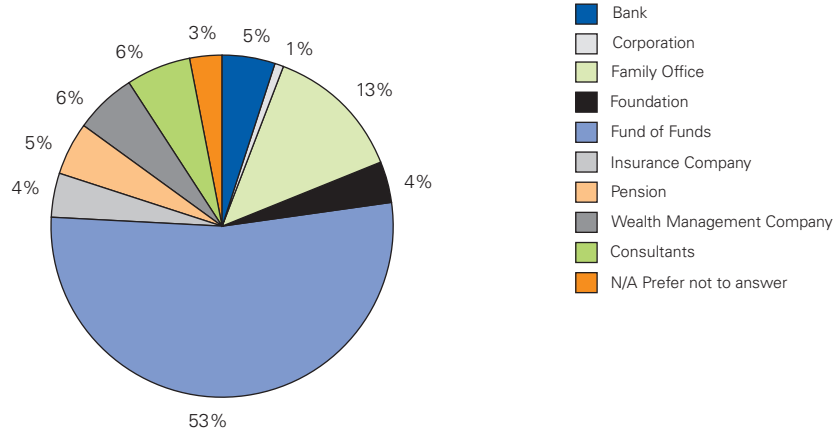
As the regional breakdown shows, the percentage of respondents made up by investment consultants is noticeably smaller in Asia, where banks and insurance companies are relatively more prevalent. The percentage of banks that completed the survey in the US, however, is significantly smaller than those of Europe and Asia. This is probably due to the higher percentage of private banks outside the US.

How would you describe your firm?

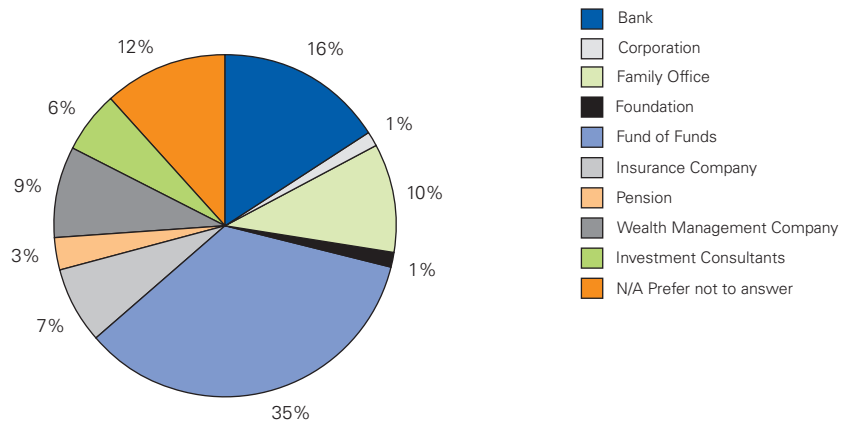
Europe



Americas



Asia



Source: 2009 Deutsche Bank Alternative Investment Survey

Foundation denotes both Foundations and Endowments throughout the survey. Please note, the findings above are taken from investor responses to the survey.

Key Findings: In depth

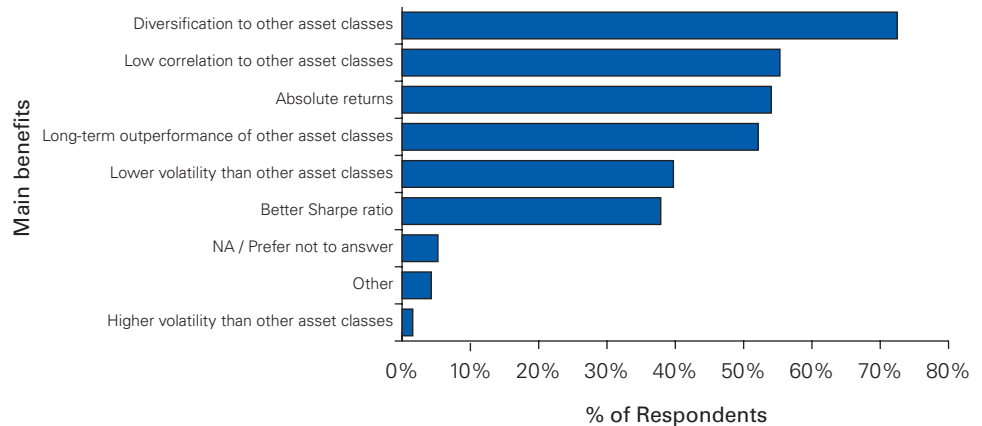


Key Findings 2009: In depth

The hedge fund industry remains solid.

- **Diversification:** For 72% of investors, diversification to other asset classes remains the main benefit of investing in hedge funds. This means investors will be sticking with the asset class.

What are the main benefits of hedge fund investments?



Source: 2009 Deutsche Bank Alternative Investment Survey

Diversification is the most attractive aspect of hedge fund investing by a considerable distance as shown by the graph above. We see these results as very promising signs for the hedge fund industry. Firstly, whilst the correlation across all asset classes increased significantly at the height of the crisis in 2008, the Hedge Fund Research Index (HFRI) outperformed both the S&P 500 and the MSCI World for 2008. So, whilst many hedge funds collectively ended the year in negative territory, the losses were on average far less severe than those of other asset classes.

This has been particularly well recognised by investors who have both long only and hedge fund portfolios.

Secondly, the small but significant number of hedge funds that generated returns anywhere between 5% and 50% last year demonstrates that it is possible for hedge funds to generate absolute returns even in the most severe market conditions.

Lower volatility than other asset classes and a better sharpe ratio are also important to investors, but to a lesser extent. Almost 40% of investors chose these two aspects as two of the main benefits of hedge funds, whilst only 1.5% responded saying that higher volatility than other asset classes was beneficial; considering the events of 2008, amid record levels of volatility, this is hardly surprising.

- **Cash levels remain high:** Respondents are sitting on \$294bn of cash. In 6 months time they expect to have reduced this to approx. \$212bn. This perhaps suggests that \$82bn of cash will be re-invested over the next 6 months.

The reasons for redemptions have been well documented. Clearly, performance has been a driver, but client pressures have compounded the withdrawals. Investors, under pressure from their own investors, have been forced to redeem from even the best performing managers. Investors have therefore been raising cash to meet these redemptions (which, in many cases, were on a smaller scale than anticipated) as well as to be able to move opportunistically going forward. In some cases, investors have been confused by market behaviour, and in 2009 cash has been seen as the only safe “asset class”.

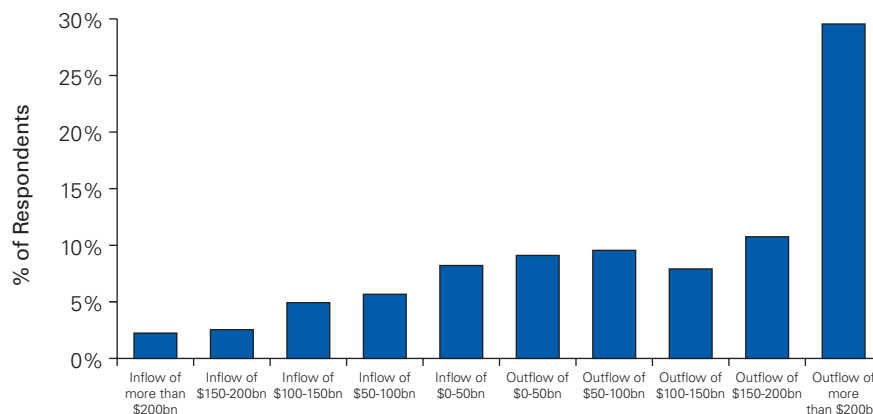
Nearly 50% of investors are currently holding between 5 and 30% cash, a significant holding and an increase from last year’s survey. It is interesting to note there was a high percentage of respondents for which this question was not relevant or that preferred not to answer – perhaps indicating the concerns about disclosing high cash levels, while still charging fees.

We also asked investors what their average cash position was during the first 6 months of 2008, when an overwhelming 50% of investors responded that they were holding 10% cash. Only 11% were holding 20-30%; 35% still refused to disclose. However, by the second half of 2008, that 50% that were holding 10% cash had reduced to 34%, with those investors holding between 20-30% and 30-40% increasing to 18% and 8% respectively. These changes reflect the deteriorating market outlook, then as investors moved to raise their cash levels and expected cash levels to continue to remain high.

However, while levels are expected to remain high relative to cash levels seen prior to this crisis, investors expect to redeploy a substantial percentage by the end of the first half 2009. Respondents are currently sitting on \$294bn of cash. Should things remain stable, in 6 months’ time, they expect to have reduced this to approximately \$212bn, suggesting that \$82bn of cash will be perhaps invested back into the industry over the next 6 months.

- 66% of investors expect there to be **outflows in 2009 of \$168bn taking the industry to \$1.33trillion.**

The hedge fund industry is at \$1.5 trillion as of 31 December, 2008, how much do you think will flow into hedge funds in 2009?



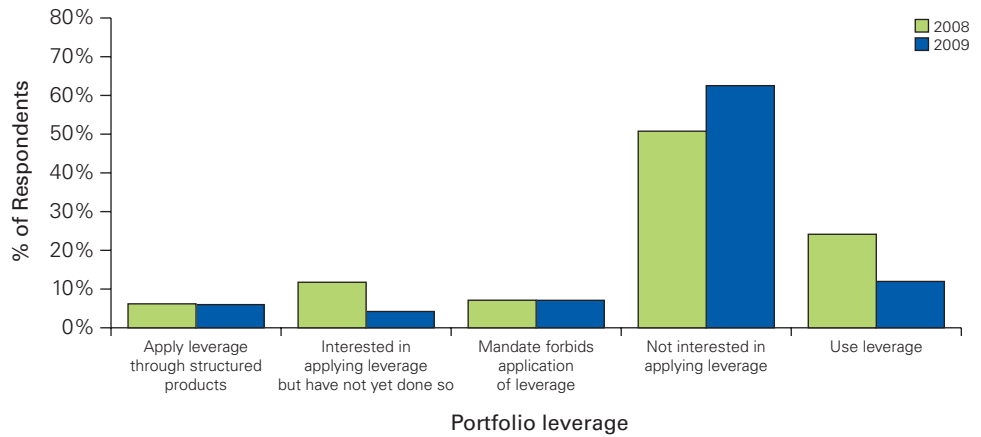
Source: 2009 Deutsche Bank Alternative Investment Survey

Despite the compelling evidence that suggests investors will be putting cash back into hedge funds over the next 6 months, it is clear that the majority still expect the industry to experience net outflows for 2009 (67% overall). This is clearly bad news for the industry, but it is certainly not unexpected. Furthermore, a positive quarter for both investors and managers and this trend could easily be reversed.

Nevertheless, the landscape is changing.

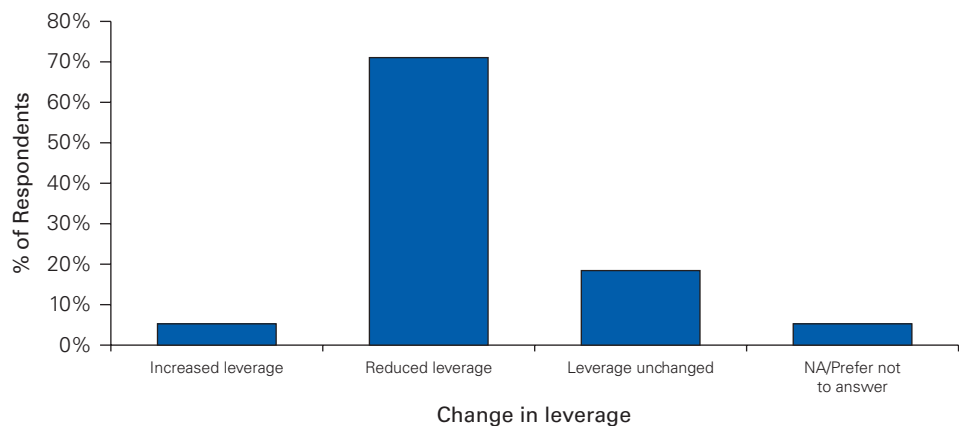
- **Investors, like hedge funds, have de-levered:** 72% of investors have reduced their exposure to leverage and 63% are not interested in applying leverage to their own portfolios this year.

Do you apply leverage to your portfolio?



Source: 2009 Deutsche Bank Alternative Investment Survey

How has your leverage changed over the last 12 months?



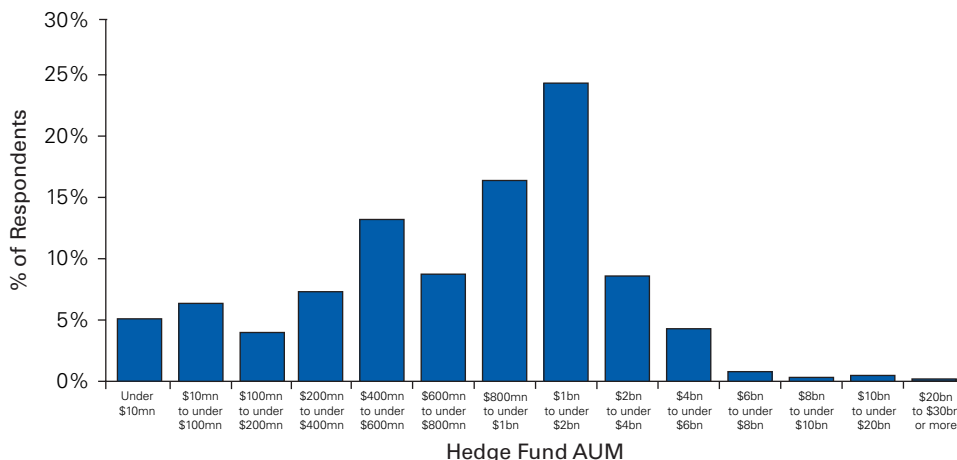
Source: 2009 Deutsche Bank Alternative Investment Survey

There has been a clear change in investors' approach to leverage since the beginning of 2008. In last year's survey, over 24% of investors said that they used leverage, and a further 12% implied that they were interested in doing so. However, these figures have fallen significantly in the space of 12 months, to 12% and 4% respectively.

The significant reduction of leverage has of course also contributed to the smaller size of the industry as a whole. Leverage, that had historically been an attractive means of achieving outsized returns for many funds and investors alike, proved to be the downfall of many, as market volatility and magnified losses took their toll. As a result, much like the funds in which they invest, investors dramatically reduced leverage on their own portfolios. However, leverage is a function of Manager confidence. If market stability returns it would be logical to expect hedge funds to re-lever.

- **Continued consolidation and a premier league of hedge funds are emerging.** 50% of our respondents invest in hedge funds with an average AUM of between \$800mn - \$4bn ensuring the larger funds continue to grow and, hopefully, thrive.

What is the average size of the hedge funds you are invested in?

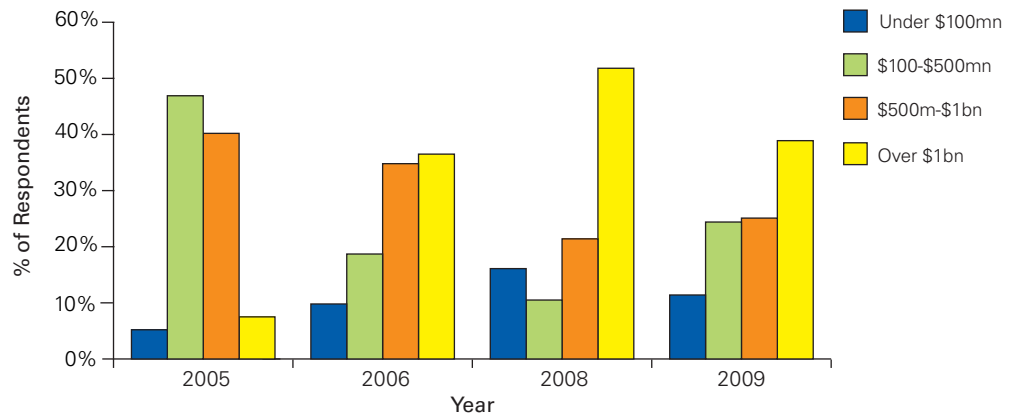


Source: 2009 Deutsche Bank Alternative Investment Survey

As a result of the current financial crisis, as well as calls for more intense scrutiny of hedge funds from politicians and regulators alike, we expect the industry to change in such a way that leaves fewer funds, with higher quality managers, and more effective rules regarding transparency and risk management.

Size is becoming increasingly important for two main reasons: firstly, higher quality managers with strong track-records will naturally attract more investors and larger tickets. Secondly, as the banks continue to deleverage and shrink their balance sheets, smaller accounts, which generate less income for their prime brokers, will be the first to suffer.

What is the average size of the hedge funds you invest with?



Source: 2009 Deutsche Bank Alternative Investment Survey

There is a marked reluctance on the part of investors compared to previous years to allocate to managers with a small AUM, as shown in the graph above.

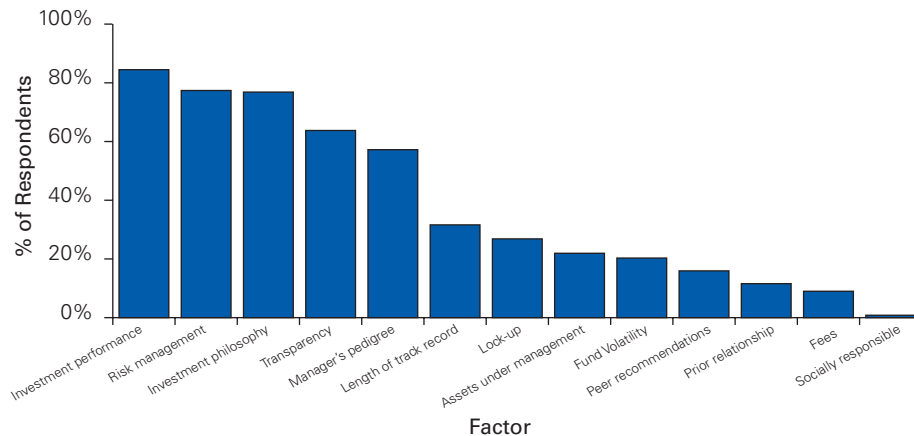
Clearly substantial consolidation is expected within the industry this year and we anticipate that investors will be particularly keen to ensure that any new allocations made are to managers who will survive the current crisis.

Recent events have made investors more attentive.

Historically, investors have indicated the “3Ps”: Performance, Philosophy and Pedigree to be the most important characteristics when selecting a manager. However this year, Risk Management has displaced Philosophy as the second most important criteria and Transparency is now fourth, pushing Manager Pedigree to fifth place.

- **Risk Management** moves to being the second most important factor when selecting a manager.

What FIVE factors are most important when assessing a hedge fund manager?



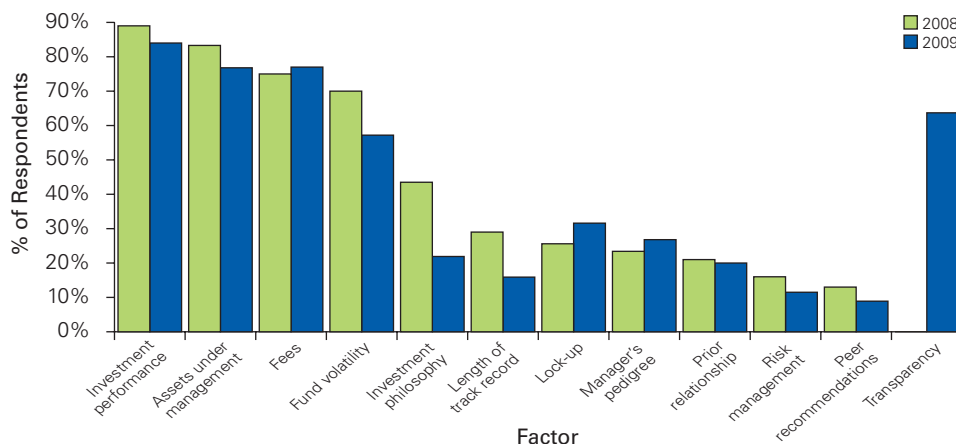
Source: 2009 Deutsche Bank Alternative Investment Survey

78% of investors specified risk management as the second most important factor when selecting a manager. Risk management has been gaining on the “3Ps” since 2005 and in 2008 replaced manager pedigree. This year it displaced manager pedigree and investment performance.

In the post-Madoff era, this concentration on risk management is an expected development. Furthermore, with the continued institutionalization of the industry, investors have become more risk aware, needing to meet higher institutional standards with regard to their risk management processes.

- **Transparency** joins the top 5 manager selection criteria.

What FIVE factors are most important when assessing a hedge fund manager?



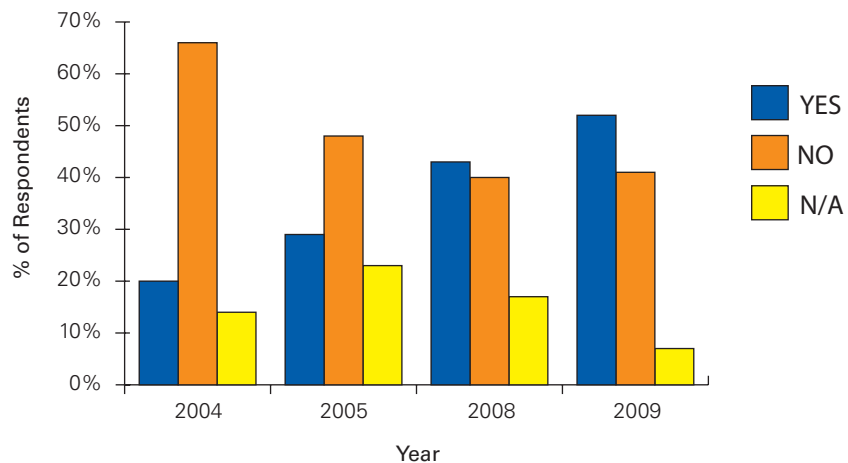
Source: 2009 Deutsche Bank Alternative Investment Survey

The focus on transparency was also borne out when we asked investors what their biggest challenges when it comes to investing. In a year where almost every aspect of investing raised its own set of problems, lack of transparency came in third place, behind selecting/monitoring managers and poor returns. It was perceived to be even more of a problem than redemptions from their own investors – the headline item of the year.

- Increased appetite for **managed accounts**: 43% of investors are now considering making a proportion of their investments through managed accounts which offer considerable transparency, liquidity and reporting benefits.

As the liquidity crisis intensified and investors focused increasingly on transparency and risk management, managed accounts seem to have become more attractive to a large percentage of the investors surveyed. 43% of investors said they would be more likely to make a proportion of their investments through managed accounts in the future. With 9% of investors already using managed accounts, a significant portion of the universe is now considering moving to this form of investment.

Do you use managed accounts?



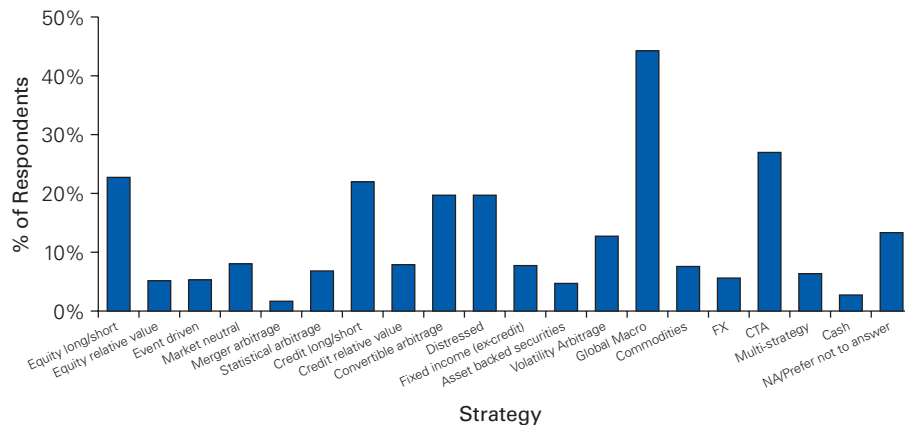
Source: 2009 Deutsche Bank Alternative Investment Survey

This trend to a more liquid and transparent form of investment has been increasing steadily since we started asking investors about managed accounts in 2004 (only 20%). In addition, it is not just investor sentiment that impacts the increased interest. As raising capital becomes ever more challenging, managers that may previously not have considered running a separate account are recognizing the benefits of this structure in terms of attracting new, and retaining existing, pools of capital.

Investment intentions.

- **Strategy preferences and predicted best performers in 2009: Macro, CTA, L/S.** Investors overwhelmingly predict global macro to be the best performing strategy, followed by CTAs and Equity L/S, perhaps pointing to the attraction of liquidity. However, these strategies were rivaled by Distressed and Credit L/S, among the least liquid.

Which hedge fund strategies do you predict will perform BEST in 2009?



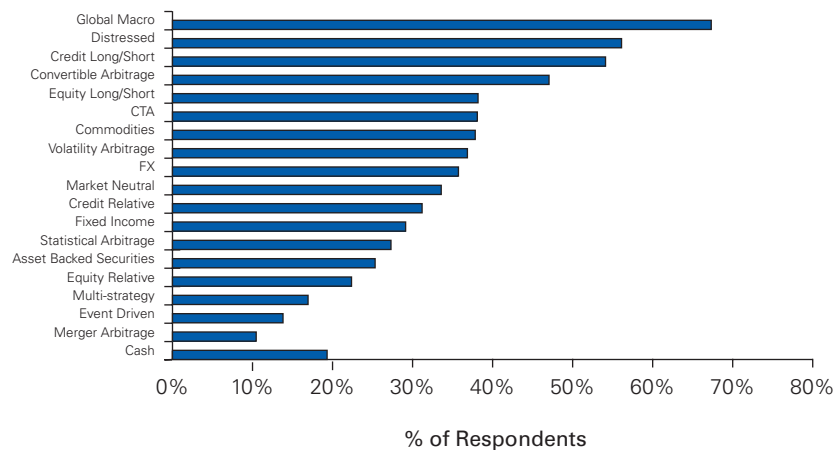
Source: 2009 Deutsche Bank Alternative Investment Survey

Global macro was one of the few strategies to earn positive returns in 2008, and it is now being rewarded for it. The proportion of investors planning to add allocations to this space has more than doubled from 21% last year to 47% in 2009. 60% of insurance companies who responded to the survey are planning to increase their global macro allocations.

CTAs were the best performing strategy last year outside of short-biased funds. As a result, the proportion of investors adding allocations to this space has remained high, growing slightly from 28% last year to 31% this year. Part of the continued demand for this strategy is arguably as a result of CTAs good liquidity relative to other strategies at a time when the ability to make quick redemptions has skyrocketed in importance. Over 40% of both banks and investment consultants are planning to add allocations to this space.

Equity long/short remains in roughly the same position as last year, with 30% planning to allocate to the space. Notably fewer investors are planning to reduce their positions this than last year. More than a third of family offices, fund of funds, insurance companies, and wealth management companies are planning to allocate to the space.

Percentage of respondents planning to increase allocations by strategy



Source: 2009 Deutsche Bank Alternative Investment Survey

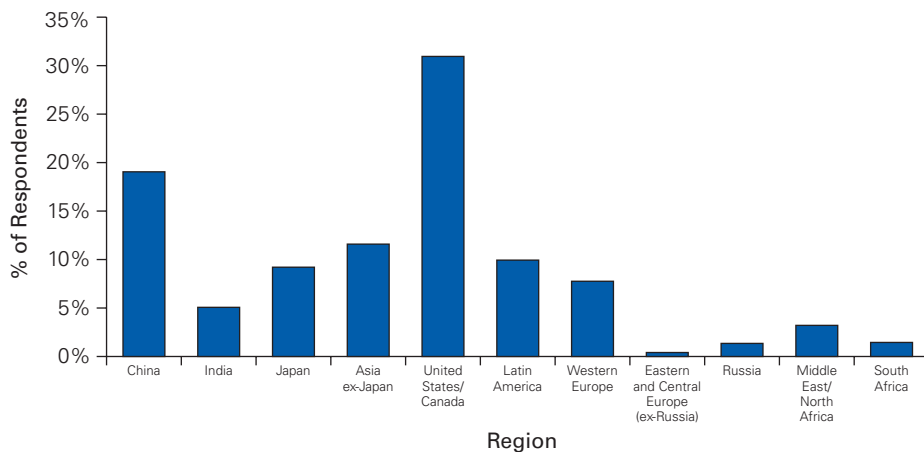
While down from 37% planning allocations in our 2008 survey, **credit long/short** remains a popular strategy going forward into 2009 with over 30% of respondents planning to allocate. The strategy is particularly popular with wealth management companies and investment consultants, with over 25% of each group planning to allocate to this strategy.

The **distressed space** has by far the largest proportion of investors planning to add allocations this year. This is unsurprising given the record declines in nearly every asset class in 2008. However, many investors have been burned by bad performance in the space in 2008. The fact that investors are planning to add versus reduce allocation by a four to one margin could be seen as a broadly bullish take on the market overall. Nearly half of all banks, foundations, and wealth management companies are planning to allocate to this strategy.

- **USA is predicted to be best performing region.** 46% of investors think that the USA will be best performing region in 2009. Eastern and Central Europe and Russia are predicted to perform the worst by 41% of investors.

The majority of investors predict that the best performing regions for hedge fund investments in 2009 will be the United States and Canada. The percentage of investors that predict this has doubled since last year, from 23% to 46%.

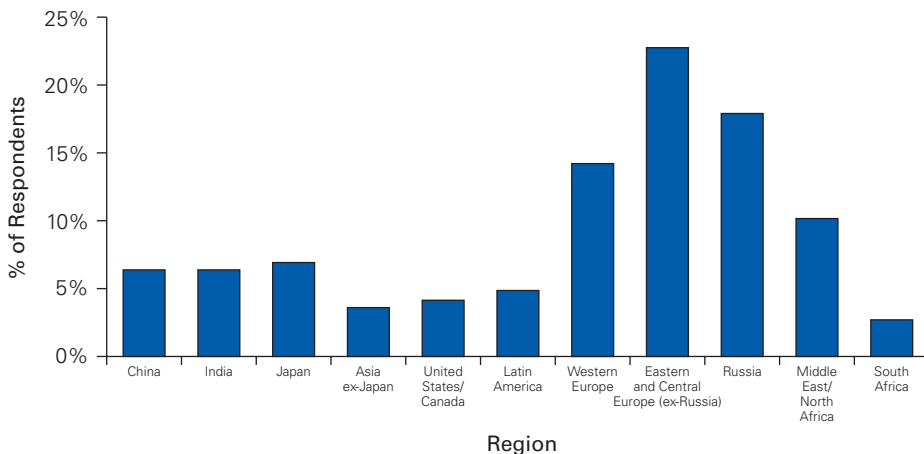
Which regions do you predict will perform BEST in 2009?



Source: 2009 Deutsche Bank Alternative Investment Survey

One of the most significant contrasts to our 2008 survey, however, is the emphasis on China as a region that is expected to perform well in 2009. In last year’s survey, only 10% of investors felt that China would be the best-performing region of 2008; for 2009, however, that figure has risen to over 18%.

Which regions do you predict will perform WORST in 2009?



Source: 2009 Deutsche Bank Alternative Investment Survey

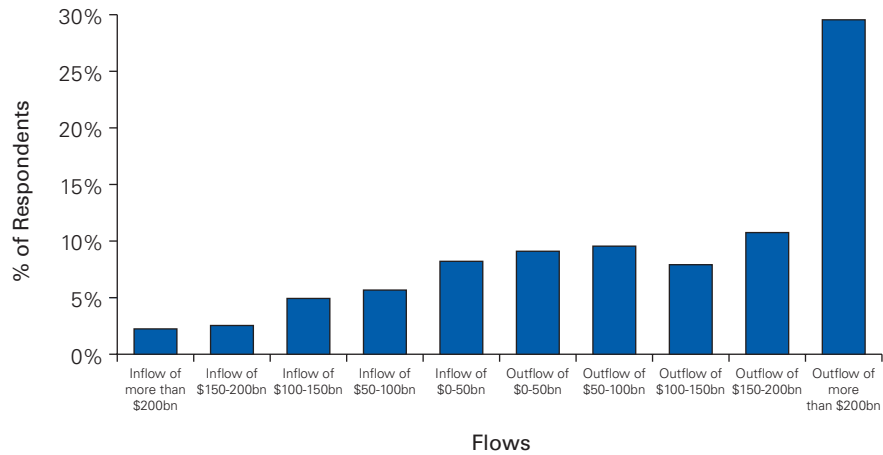
58% of our respondents predict that Eastern and Central Europe (including Russia) will be the worst performing region for hedge fund investments in 2009 (up from just 17% last year). This is perhaps surprising given that the MSCI Emerging Europe finished down -68.36% for 2008; how much further can it fall.

- Despite the fact that 71% of respondents think the markets (MSCI World) will be down 0- < -20% this year, 92% think their own hedge fund portfolios will deliver positive performance. 40% even think they will conclude 2009 with +5 – 10% performance.

But there are still caveats.

- **Net outflows expected from the industry in 2009.** Over 75% of investors expect there to be net outflows from the industry and 30% think these outflows will be over \$200bn.

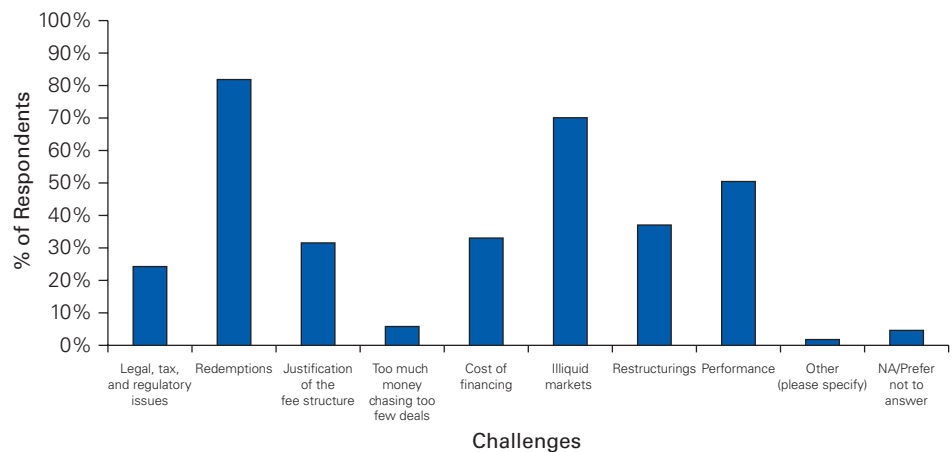
The hedge fund industry is at \$1.5 trillion as of 31 December, 2008, how much do you think will flow into hedge funds in 2009?



Source: 2009 Deutsche Bank Alternative Investment Survey

- Redemptions are still the biggest challenge facing managers in the next 12 months.

What are the biggest challenges your managers face over the next 12 months?



Source: 2009 Deutsche Bank Alternative Investment Survey

The question of survivability is likely to be a key in influencing investors' allocations this year, particularly given the number of managers expected to close in 2009. Investors overwhelmingly indicated that they felt the continued pressure over redemptions would be the greatest challenge for managers in 2009. The top 3

challenges highlighted when our respondents were asked what the top challenges were managers faces in the next 12 months were:

- (1) Redemptions: 82%
- (2) Illiquid markets: 70%
- (3) Performance: 50%

Many managers and investors are still experiencing redemptions. Although these have slowed down since 2008, managers and investors are still suffering. This is reflected by our responders, who predict outflows in 2009 of \$168bn from the industry. While markets remain volatile and performance elusive, redemptions will continue to be an ongoing concern for managers throughout 2009.

- How the **markets behave** however is also a huge component in how fast the industry bounces back.

January and February this year, relative to the second half of 2008, have proven to be relatively good months for many hedge funds. We also feel that although managers and investors are both still experiencing redemptions, in many cases these have now slowed. A few good months performance for funds should have a calming effect on the industry. A few good quarters should have a very positive effect on the industry. Whether this will happen, we have yet to see.

Strategy Appetite & Regional Focus

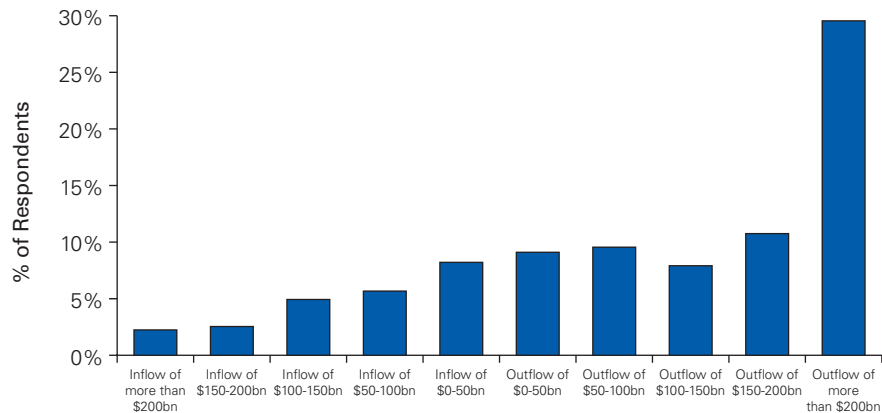
“Accurate figures on the size of the hedge fund industry are hard to find.”

Flows & Returns

After record years in 2006 and 2007, hedge fund asset flows faltered and then reversed during 2008. The industry experienced over \$194bn in net inflows in 2007, but these strong flows were followed by \$155bn net outflows in 2008, signaling the first negative net asset flow since 1994 and taking total assets in hedge funds to just over \$1.4tn¹.

Estimates of the total amount of outflows from hedge funds last year vary widely and accurate figures are hard to find. This is because there is no single definition of what a hedge fund is and further, there is no completely accurate view on what comprises the hedge fund universe. For example, Hedge Fund Intelligence have recently estimated the universe to be at \$1.808tn², in comparison with the \$1.4tn estimated by HFR³. It was with this background in mind, we asked our investors the following question:

The hedge fund industry is at \$1.5 trillion as of 31 December, 2008, how much do you think will flow into hedge funds in 2009?



Source: 2009 Deutsche Bank Alternative Investment Survey

1 HFR Global Hedge Fund Industry Report – 4th Quarter 2008

2 Hedge Fund Intelligence March 2009

3 HFR Global Hedge Fund Industry Report – 4th Quarter 2008

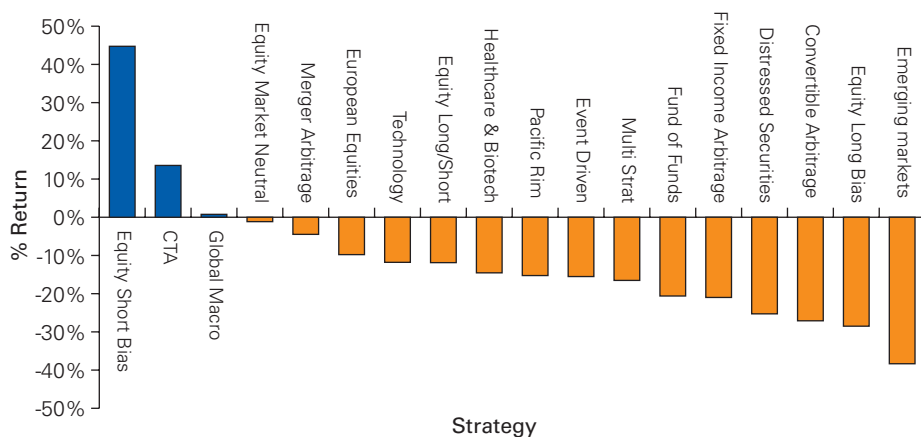
Over 75% of respondents expect there to be outflows from the industry in 2009. Furthermore, 30% think these outflows will stand at over \$200bn.

Taking these industry figures into account, and in the context of our survey's responses, we estimate the hedge fund industry to end the year 2009 at approximately \$1.33tn¹.

However, hedge fund strategies have not lost their appeal.

Hedge funds continue to be seen as a diversifier to traditional investment. Even the alternative strategies most highly correlated to the equity markets (e.g. long/short equity) participated far more substantially in the market upside than in the downside.

Hedge Fund Strategy Performance 2008 through December

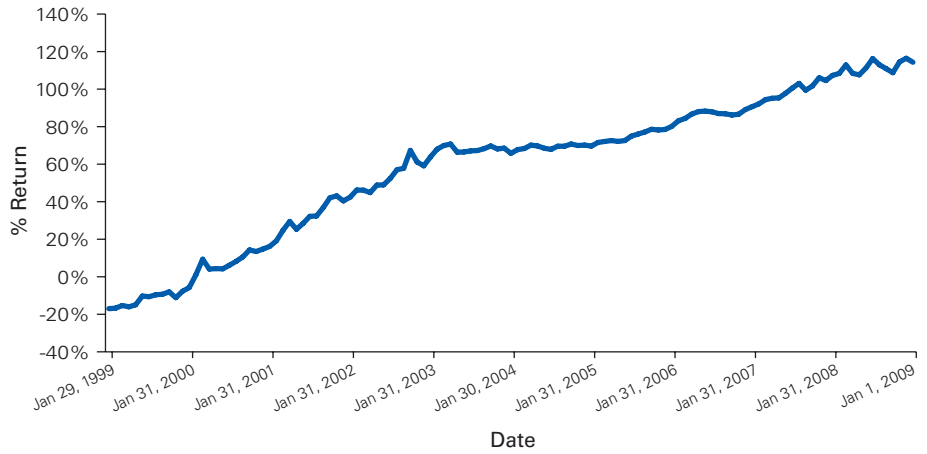


Source: BarclayHedge, December 2008

While certain hedge fund strategies have experienced performance difficulties, others have excelled in the crisis environment demonstrating their ability to deliver alpha and generate uncorrelated market returns. For example, macro managers are mostly active in liquid instruments across all asset classes and regions and have the ability to generate returns both on the long and on the short side. Furthermore, their focus on global macro analysis enables them to detect thematic trends that bottom-up-driven managers may fail to incorporate in their investment process. All of these points are illustrated in the 2008 performance graph above and two graphs below.

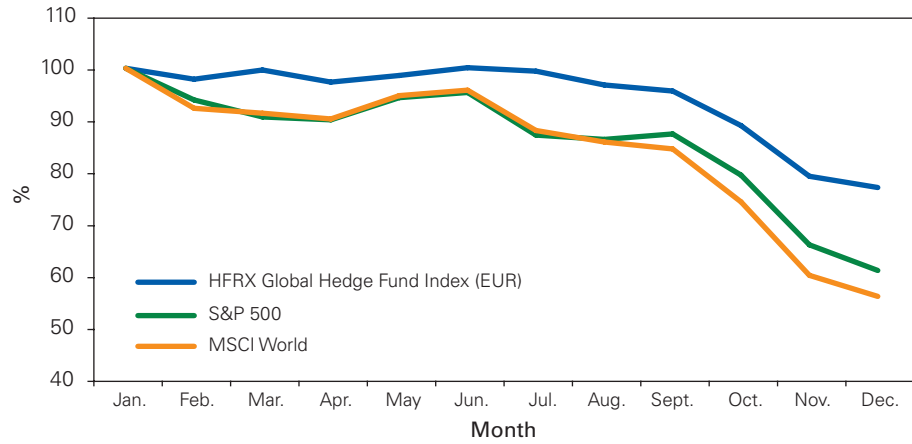
¹ Deutsche Bank Hedge Fund Capital Group

HFR Composite less MSCI World % Return (1998-2008)



Source: Bloomberg

Hedge Fund Performance vs Leading Indices (2008)

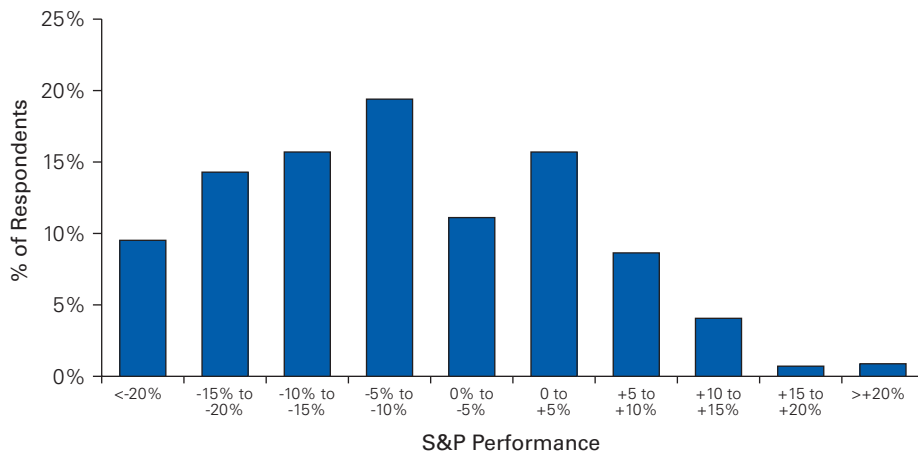


Source: Bloomberg

"The HFRX in 2008 outperformed the S&P 500 and MSCI World."

Performance Predictions

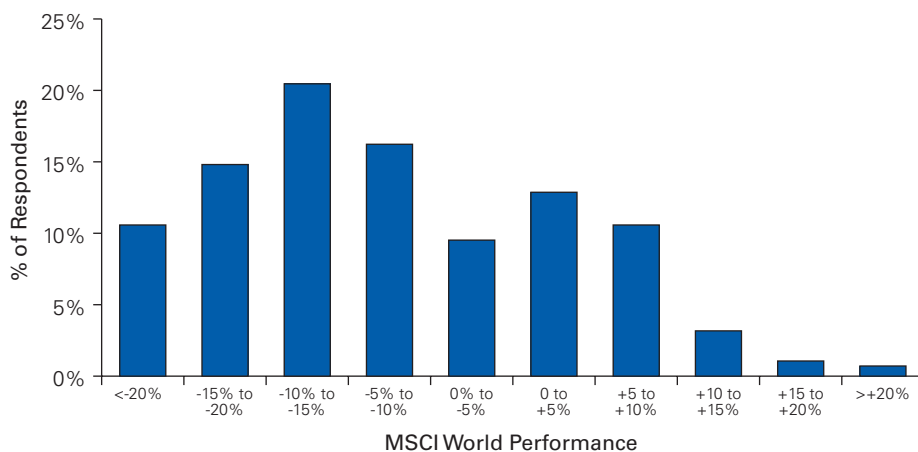
What returns do you forecast for 2009 in the S&P 500?



Source: 2009 Deutsche Bank Alternative Investment Survey

57% of investors believe the S&P 500 will finish the year in negative territory. This is despite the fact that as a region, respondents expect the US to perform the best in 2009. 20% of investors predict the S&P 500 in 2009 will end the year down between -5% to -10%.

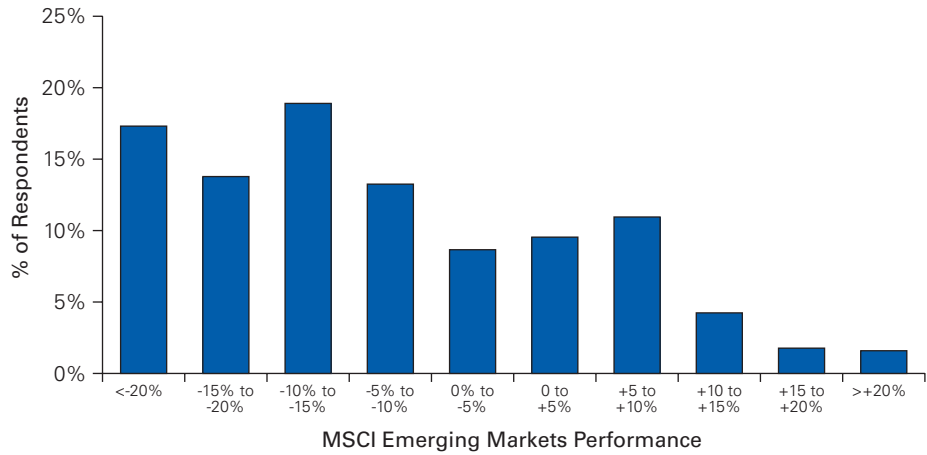
What returns do you forecast for 2009 in the MSCI World?



Source: 2009 Deutsche Bank Alternative Investment Survey

Investors have a similar view on the MSCI World 20% of investors indicated that the index will end the year down between -10% to -15%. The inclusion here of emerging countries perhaps drags investors predictions lower, as is highlighted by the graph below.

What returns do you forecast for 2009 in the MSCI Emerging Markets?

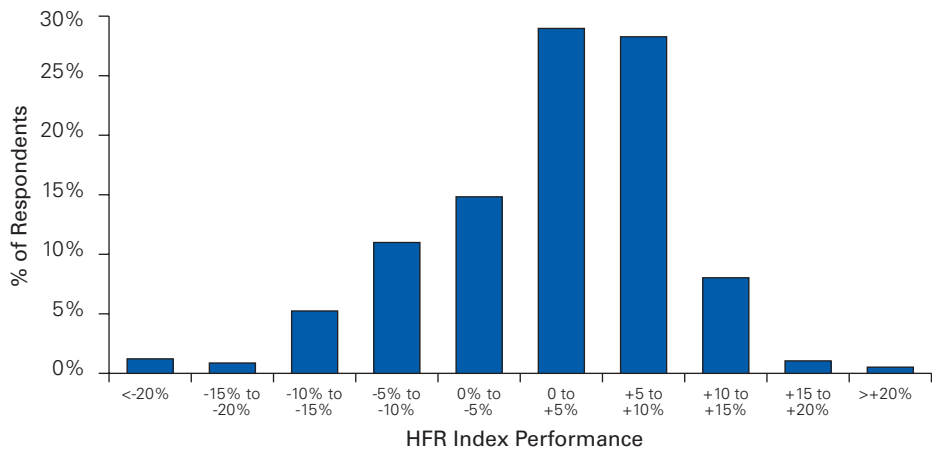


Source: 2009 Deutsche Bank Alternative Investment Survey

61 % of investors predict the MSCI Emerging Markets will finish the year in negative territory and a number forecast double digit negative returns. Over 17% estimate the index will finish the year down -20% or more. This indicates negative sentiment towards emerging markets – reflecting the index’s decline in 2008 to end the year down -49.37%.

As always, investors are more confident in the performance expectations regarding themselves and hedge funds, than they are on the markets in general. It should be reassuring that, despite difficulties encountered across the industry in 2008, they remain confident about their ability to perform going forward.

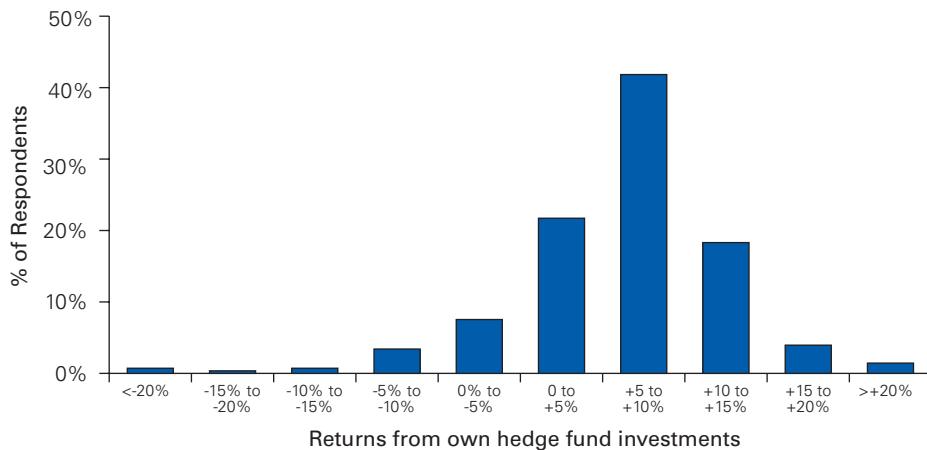
What returns do you forecast for 2009 in the HFR Hedge Fund Index?



Source: 2009 Deutsche Bank Alternative Investment Survey

Over 50% of investors predict the HFR index will produce 0–10% performance this year. The HFR Index ended 2008 down -23.25%; arguably all the more reason investors believe it will perform well in 2009, as managers take off leverage, become accustomed to the volatile markets and learn from their mistakes.

What returns do you forecast for 2009 in your own hedge fund investments?



Source: 2009 Deutsche Bank Alternative Investment Survey

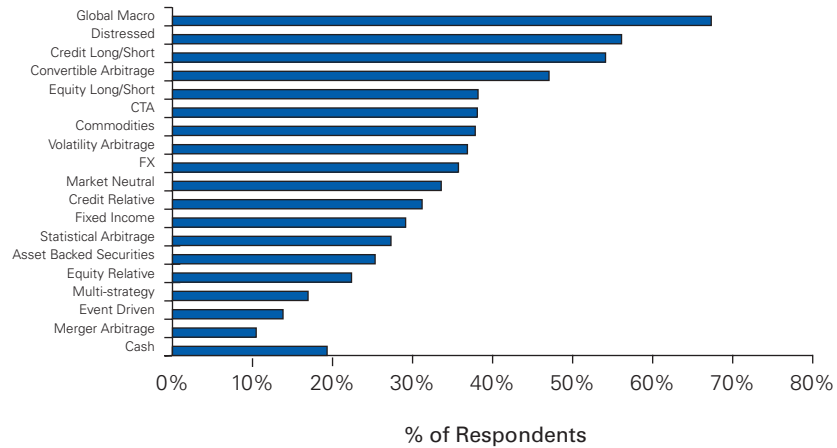
Investors are slightly more buoyant again about their own portfolios with over 40% predicting they will conclude 2009 with +5–10% performance. It is, however, worth noting that in 2008 investors predicted they would finish the year +10%.

Strategy Allocations

The graphs in this section show investor appetite for 19 different hedge fund strategies. Global Macro, Distressed, CTA, Credit Long/Short, and Convertible Arbitrage lead the pack in terms of additional allocations. Merger Arbitrage, Event Driven, Multi-strategy, Cash, and Asset-backed securities look to be the least popular strategies with investors going into 2009.

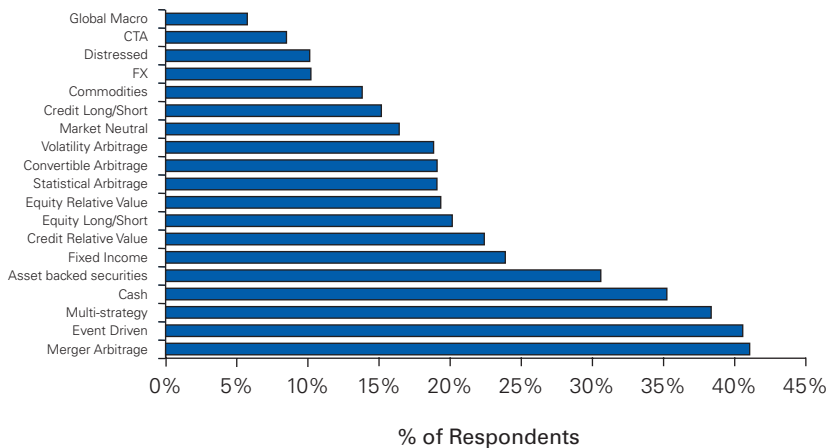
Comparing intentions to add versus reduce allocations, we see that for 14 out of 19 strategies, more investors plan to add allocations than reduce them. Furthermore, investors plan to reduce versus add cash by a two to one margin. Thus looking at the strategies overall we might come away with a tentatively positive outlook for 2009.

Percentage of respondents planning to increase allocations by strategy



Source: 2009 Deutsche Bank Alternative Investment Survey

Percentage of respondents planning to reduce allocations by strategy

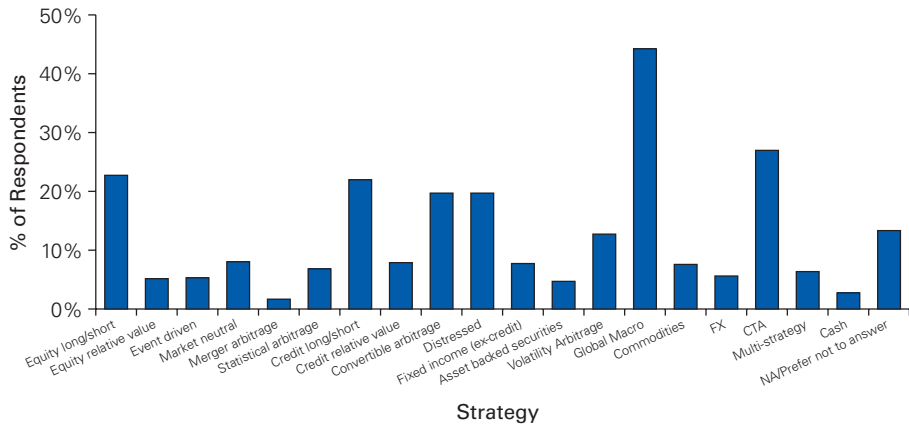


Source: 2009 Deutsche Bank Alternative Investment Survey

“Investors are planning on reducing allocations to Event Driven and Merger Arbitrage”

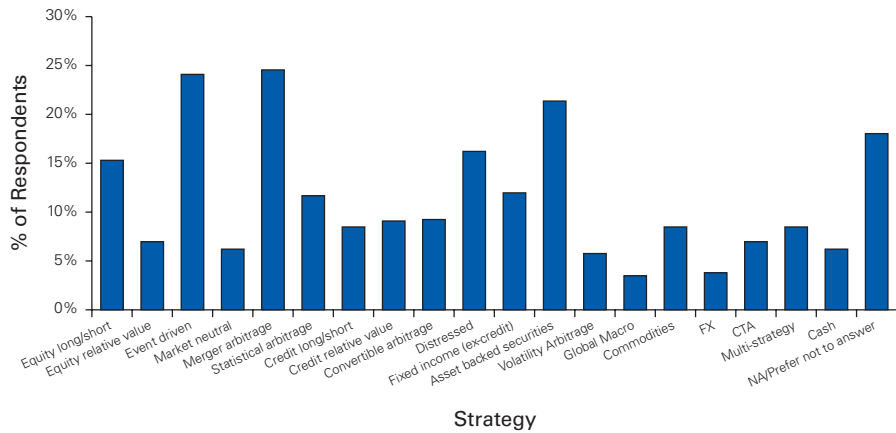
Which hedge fund strategies do you predict will perform BEST in 2009?

“Global Macro is predicted to be the best performer in 2009.”



Source: 2009 Deutsche Bank Alternative Investment Survey

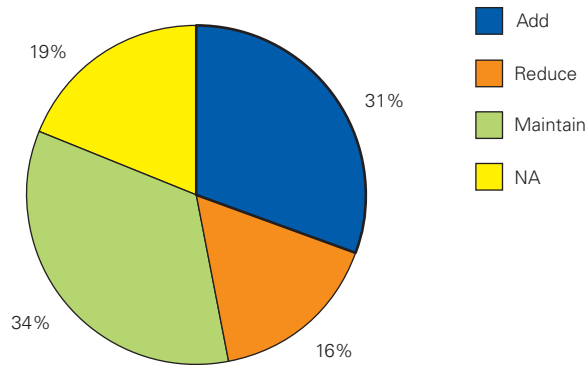
Which hedge fund strategies do you predict will perform WORST in 2009?



Source: 2009 Deutsche Bank Alternative Investment Survey

Allocation Plans

Equity long/short: Allocation plans

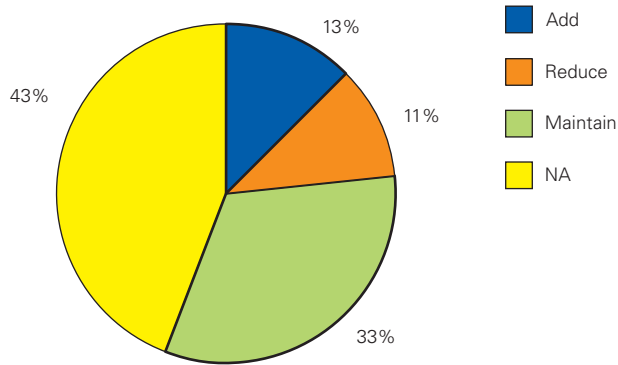


Source: 2009 Deutsche Bank Alternative Investment Survey

“30% of investors are planning to allocate to equity long/short.”

Equity Long/Short remains in a similar position to last year, with 31% of respondents planning to increase allocations to the space. However, notably fewer investors are planning to reduce their positions than in 2008. More than a third of family offices, fund of funds, insurance companies, and wealth management companies are planning to increase allocations to the space.

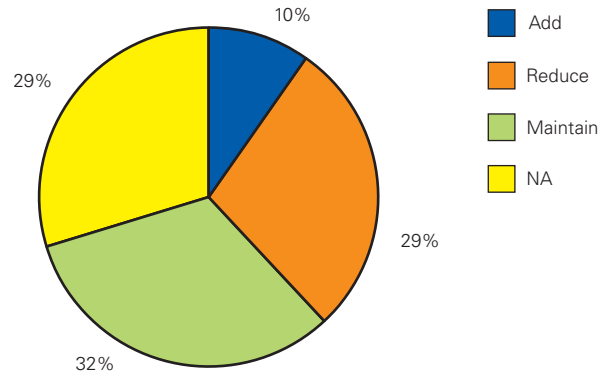
Equity relative value: Allocation plans



Source: 2009 Deutsche Bank Alternative Investment Survey

Equity Relative Value has fallen further out of favour in 2009, with the number of investors planning to allocate decreasing from 19% last year to 13% this year. The proportion of those planning to reduce allocations has also increased from 8% to 11%. The high number of N/A responses may also indicate further reductions to the strategy.

Event driven: Allocation plans

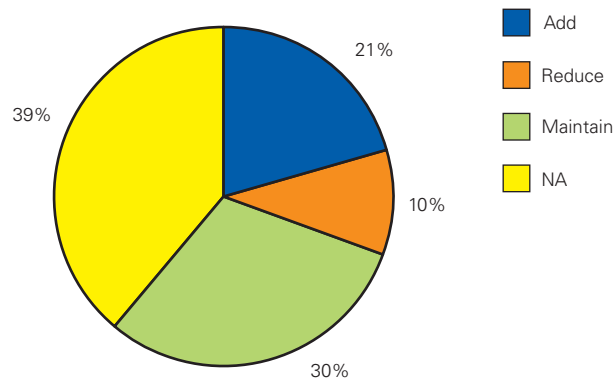


Source: 2009 Deutsche Bank Alternative Investment Survey

“Consultants are the investor set that is most supportive of Event Driven”

Event Driven continues to decline in popularity, with three times as many investors planning to reduce as allocate. However, it is worth noting that investment consultants were the most supportive of the strategy, with 15% planning to allocate.

Market neutral: Allocation plans

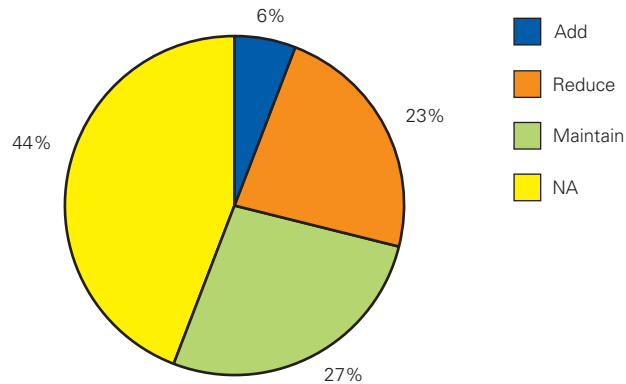


Source: 2009 Deutsche Bank Alternative Investment Survey

“Despite relatively good performance in 2008, interest in Market Neutral declines.”

Market Neutral performed well in 2008 relative to many other hedge fund strategies. However, interest in the space has still declined. 21% of investors are looking to allocate to the strategy as opposed to 26% last year. This may indicate that many investors expect markets to recover, and do not want to miss out on the upswing. Furthermore, still twice as many investors plan to increase rather than reduce allocations.

Merger arbitrage: Allocation plans

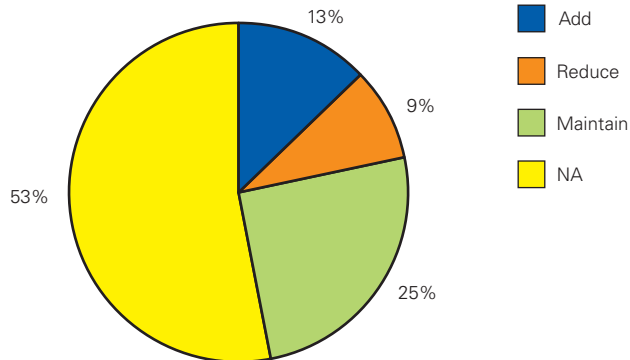


Source: 2009 Deutsche Bank Alternative Investment Survey

“Merger arbitrage is the strategy with the highest level of planned reductions.”

For the second year in a row, Merger Arbitrage is the strategy with the highest level of planned reductions. Clearly this reflects the global slowdown in M&A transactions.

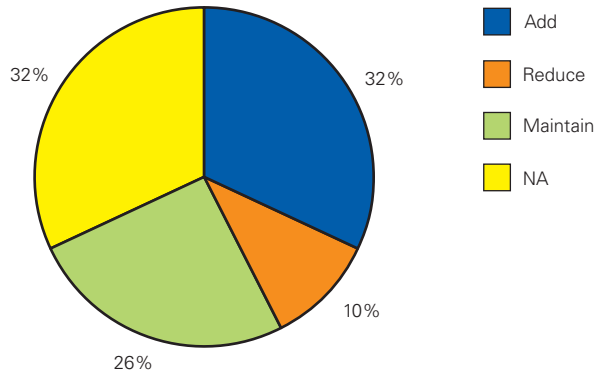
Statistical arbitrage: Allocation plans



Source: 2009 Deutsche Bank Alternative Investment Survey

The number of investors planning to allocate to Statistical Arbitrage has halved this year from 26% to 13%. However, the proportion of investors reducing their exposure to this strategy has remained the same at roughly 9% year over year.

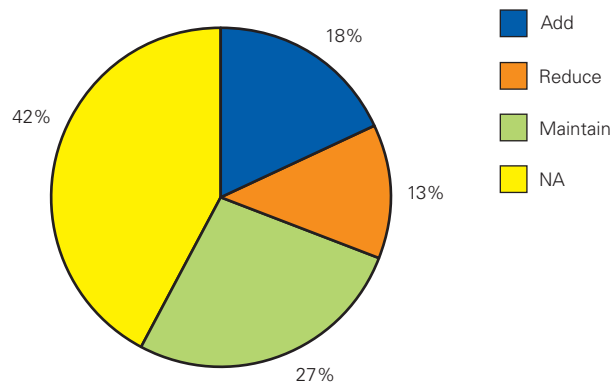
Credit long/short: Allocation plans



Source: 2009 Deutsche Bank Alternative Investment Survey

While down from 37% planning allocations last year, Credit Long/Short remains a popular strategy going into 2009 with 32% of investors planning to allocate. The strategy is particularly popular among wealth management companies and investment consultants, with over 35% of each group planning to allocate to this strategy.

Credit relative value: Allocation plans

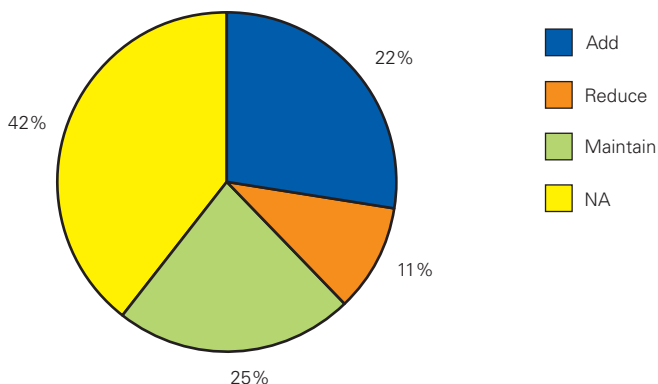


Source: 2009 Deutsche Bank Alternative Investment Survey

“Is credit relative value falling in popularity due to investor concerns regarding companies underlying credit worthiness?”

Credit Relative Value has seen planned reductions increase from 8% last year, to 13% in 2009. This might be considered surprising given the large numbers of companies that are in distress. However, uncertainty regarding the value and liquidity of the underlying credit may be one reason investors are increasingly averse to this strategy.

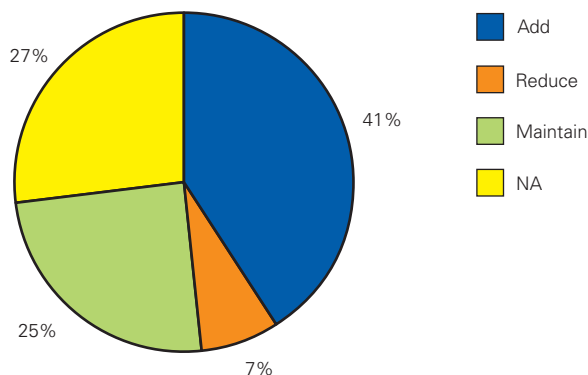
Convertible arbitrage: Allocation plans



Source: 2009 Deutsche Bank Alternative Investment Survey

Despite the dislocations in the Convertible Arbitrage space in the second half of 2008, this strategy has seen sustained interest from investors. The proportion of those planning to allocate has remained virtually the same year over year. Part of this attention is likely due to those seeking to benefit from distressed prices in the strategy. Fund of funds and family offices are particularly keen to invest in the space with 26% and 24% respectively planning to add allocations.

Distressed: Allocation plans

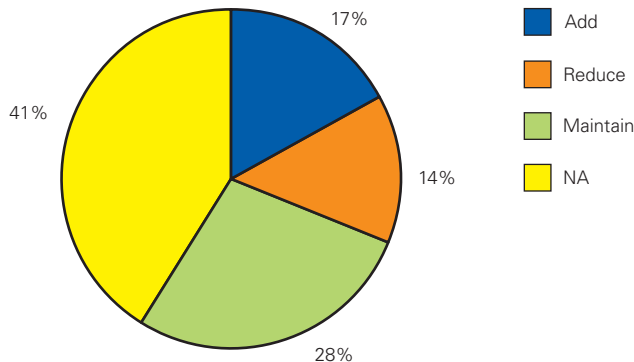


Source: 2009 Deutsche Bank Alternative Investment Survey

“A massive 41% of investors are planning to add to the distressed space in 2009.”

The Distressed space has one of the largest proportion of investors planning to add allocations this year. Investors are planning to add versus reduce allocations by a four to one margin. Nearly half of banks, foundations, and wealth management companies are planning to allocate to this strategy.

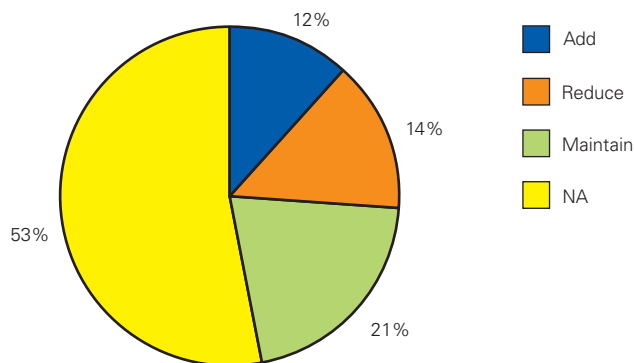
Fixed income (ex-credit): Allocation plans



Source: 2009 Deutsche Bank Alternative Investment Survey

There remains roughly the same level of appetite for fixed income strategies year over year, with 17% of investors planning to add allocations versus last year’s 21%. This space is most popular with corporate investors and fund of funds.

Asset backed securities: Allocation plans

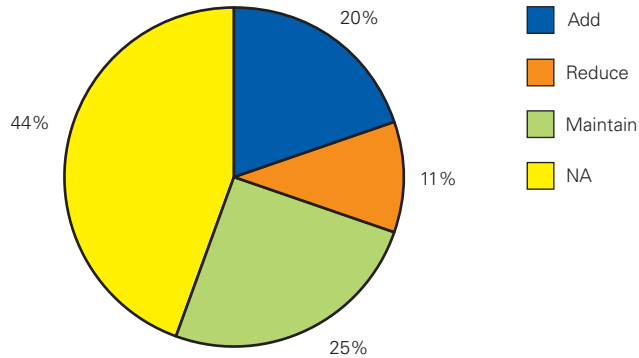


Source: 2009 Deutsche Bank Alternative Investment Survey

“Pension plans have above average additional allocations to the strategy, arguably because the long-term recovery of these assets is compatible with their own.”

Given the continued erosion in the value of asset backed securities, it is unsurprising to see that only 12% of investors plan to add to their allocations in this space. Furthermore this is a decline of 50% over last year when 21% of investors planned to add allocations. However, 25% of foundations who responded to the survey expressed intent to add to their allocations in this space. Pensions also planned slightly above average additional allocations. This may demonstrate a view that the long-term recovery of these assets is compatible with their own investment horizons.

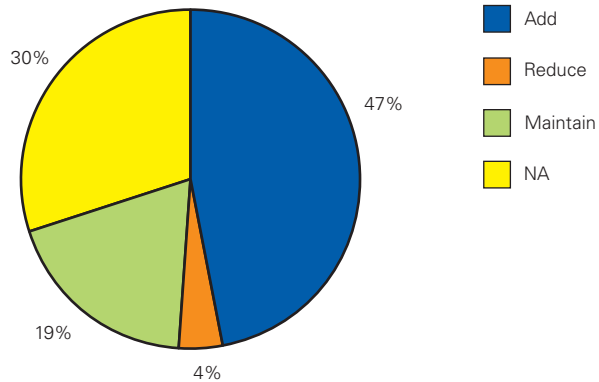
Volatility arbitrage: Allocation plans



Source: 2009 Deutsche Bank Alternative Investment Survey

Investors plan to add versus reduce allocations by a two to one margin. This is perhaps surprising given the difficult time many volatility funds faced last year. Both banks and fund of funds are planning to add allocations to this space at an above average level, both near 25%.

Global Macro: Allocation plans

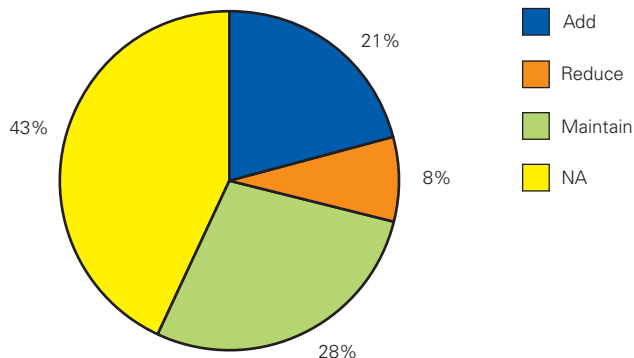


Source: 2009 Deutsche Bank Alternative Investment Survey

“60% of insurance companies who responded are planning on increasing their global macro allocations.”

Global Macro was one of the few strategies to earn positive returns in 2008, and it is now being rewarded for it. The proportion of investors planning to add allocations to this space has more than doubled from 21% last year to 47% in 2009. Half of all banks, fund of funds, pensions, wealth management companies, and consultants are planning to add allocations in this space. 60% of insurance companies who responded to the survey are planning to increase their global macro allocations.

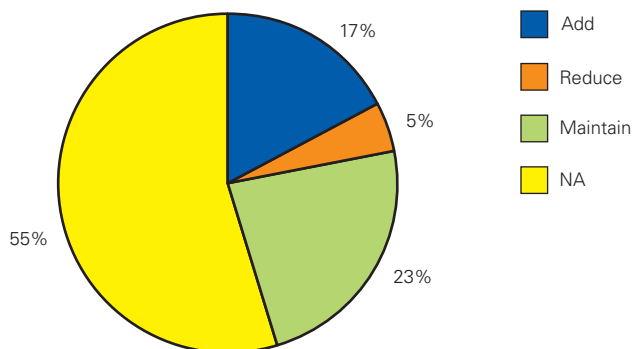
Commodities: Allocation plans



Source: 2009 Deutsche Bank Alternative Investment Survey

While those planning to add allocations to the commodities space have declined from 36% in 2008 to 21% this year, the proportion planning to add is still double that planning to reduce allocations. Nearly a third of all family offices and a quarter of wealth management companies are planning to add allocations to this strategy.

FX: Allocation plans

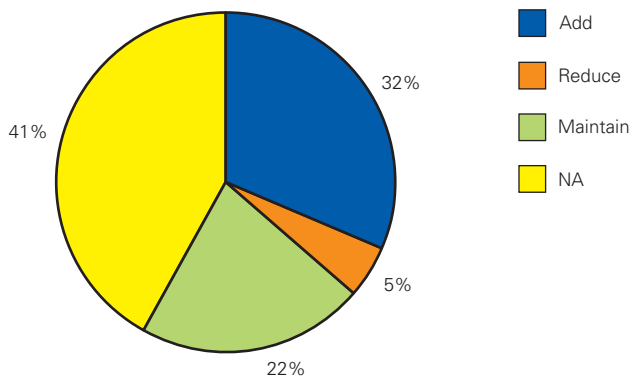


Source: 2009 Deutsche Bank Alternative Investment Survey

“There is a desire to retain exposure and hedging in a space that has become increasingly volatile.”

17% of investors plan to increase allocations to FX. While this is a decline over last year’s 21%, the proportion of those decreasing allocations has also fallen from 11% to 5%. This may reflect a desire to retain exposure and hedging in a space that has become increasingly volatile in the midst of the credit crunch.

CTA: Allocation plans

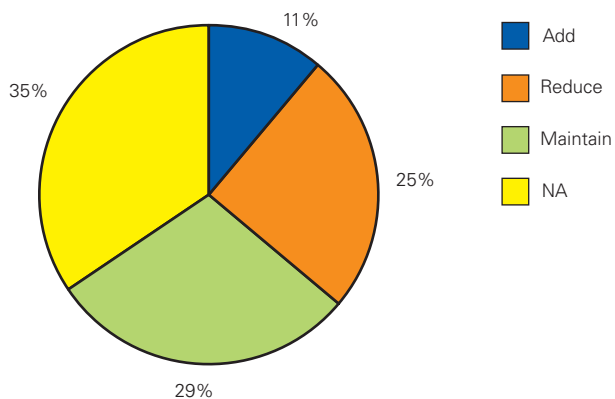


Source: 2009 Deutsche Bank Alternative Investment Survey

“CTAs often have better liquidity than other strategies.”

CTAs were the best performing strategy last year outside of short-biased funds¹. As a result the proportion of investors adding allocations to his space has remained strong, growing slightly from 28% last year to 32% this year. Part of the continued demand in this strategy is likely due to CTAs having better liquidity relative to other strategies, at a time when the ability to make quick redemptions has increased in importance. Over 40% of both banks and investment consultants are planning to add allocations to this space.

Multi-strategy: Allocation plans



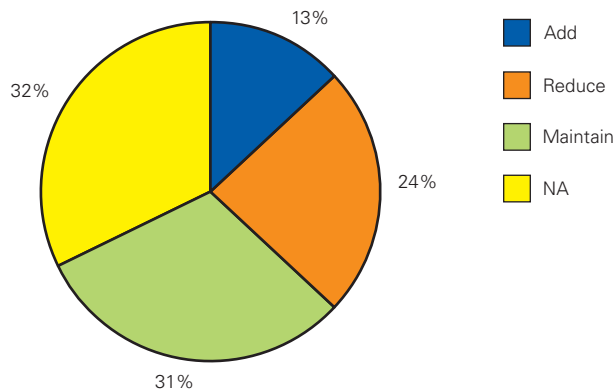
Source: 2009 Deutsche Bank Alternative Investment Survey

“Multi-strategy allocation plans have halved since 2008.”

Down on average 17% in 2008, multi-strategy funds have lost some of their previous popularity going into 2009. The proportion of investors planning to allocate to this space has fallen from 31% last year to 11% this year. Many investors felt that multi-strategy funds suffered from their disproportionate coverable arbitrage exposure in 2008.

¹ Past performance is not an indication of future results.

Cash: Allocation plans



Source: 2009 Deutsche Bank Alternative Investment Survey

In the last quarter of 2008 investors rapidly increased their cash positions, sometimes by three or four times. This increase could amount to as much as \$300bn of cash sitting on the sidelines, waiting to be reinvested. Going into 2009, investors expect to reduce their cash allocations by a two to one margin. Asia, the Middle East, and Europe are the regions where investors expect to reduce cash allocations the most. Wealth management companies and insurance companies both plan to reduce their cash allocations by over 30%.

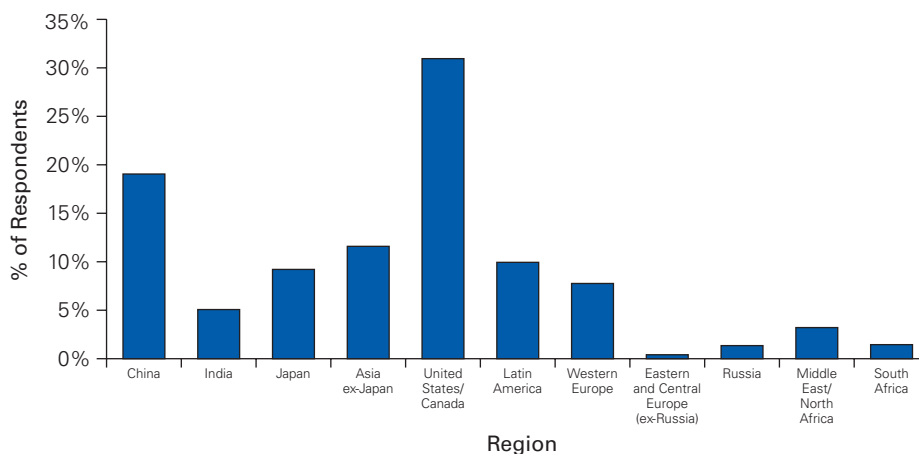
Regional Focus

“The US and Canada are predicted by investors to be the best performing regions in 2009.”

Where will investors put their money in 2009?

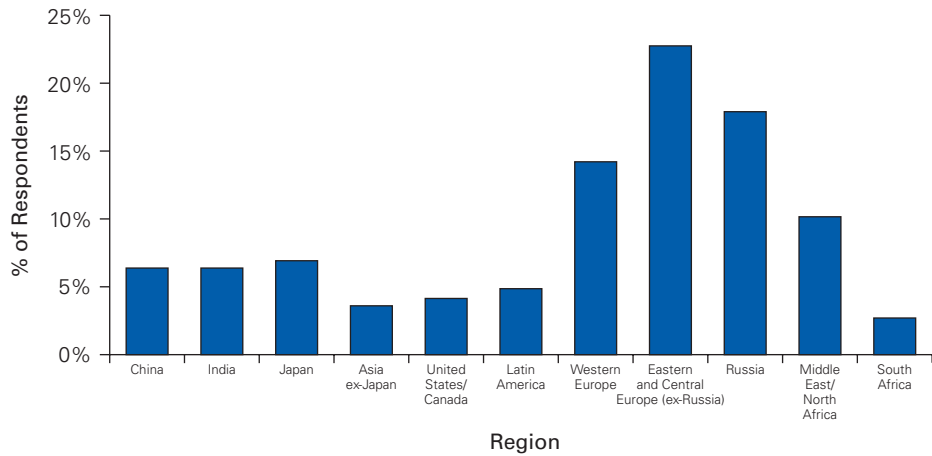
The majority of investors predict that the best performing region for hedge fund investments in 2009 will be the United States and Canada. The percentage of investors that predict this has doubled since last year, from 23% to 46%. One of the most significant contrasts to last year’s survey, though, is the emphasis on China as a region that is expected to perform well in 2009. In last year’s survey, only 10% of investors felt that China would be the best-performing region of 2008; for 2009, however, that figure has risen to over 18%.

Which regions do you predict will perform BEST in 2009?



Source: 2009 Deutsche Bank Alternative Investment Survey

Which regions do you predict will perform WORST in 2009?



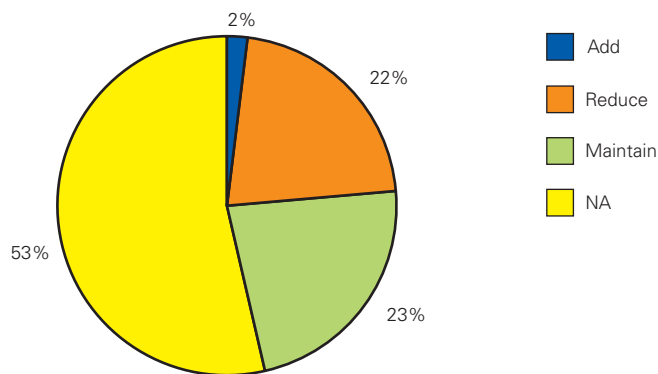
Source: 2009 Deutsche Bank Alternative Investment Survey

“Dedication to a variety of different regions remains”

It is worth noting that, despite the number of reductions in allocations across the board, the percentage of investors looking to maintain their allocations at the same levels ranges between 20% and 35% across all markets, including Eastern Europe and Russia. This shows that, whilst redemptions are clear for all to see, dedication to a variety of different regional focuses remains amongst investors in the hedge fund space.

54% of the respondents predict that Eastern and Central Europe (including Russia) will be the worst performing region for hedge fund investments in 2009 (up from just 17% last year). Accordingly, it seems that the most significant reduction in allocations in 2009 will be in these regions.

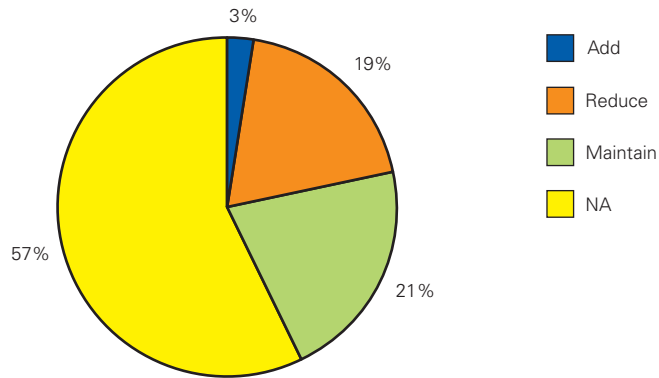
Do you intend to add to, reduce, or maintain your allocations to Eastern and Central Europe (ex-Russia)?



Source: 2009 Deutsche Bank Alternative Investment Survey

The percentage of investors planning to allocate to Eastern and Central Europe (excluding Russia) has fallen from 18% in 2008 to just 2% this year. The percentage of investors who plan to reduce their allocations has jumped from 4% to 22%.

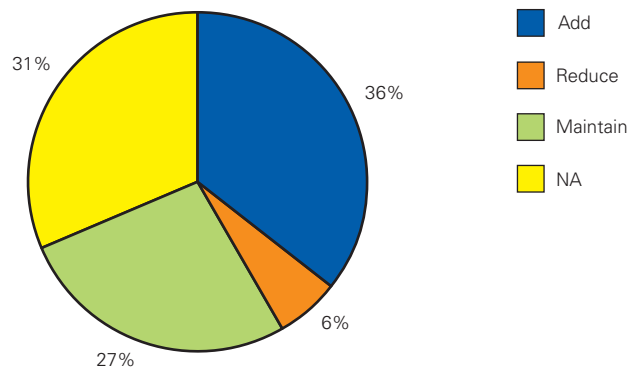
Do you intend to add to, reduce, or maintain your allocations to Russia?



Source: 2009 Deutsche Bank Alternative Investment Survey

Only a tiny percentage of investors this year (3%) are planning on adding to their Russian allocations and 19% are planning on reducing them.

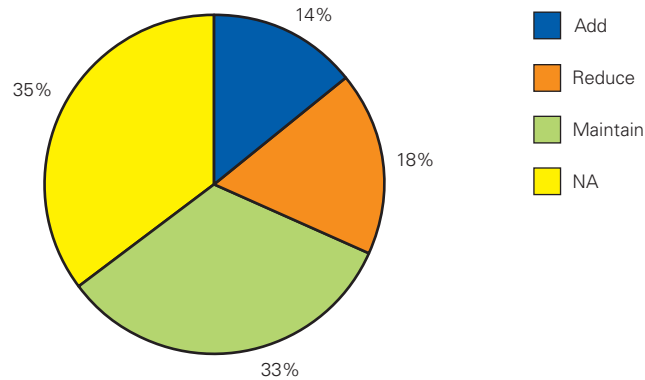
Do you intend to add to, reduce, or maintain your allocations to the United States/Canada?



Source: 2009 Deutsche Bank Alternative Investment Survey

Taking the regional graphs into consideration, it is not surprising that over 36% of the investors surveyed said that they would add to their allocations in North American-focused funds this year, and a further 27% would maintain the allocations they already have. Only 6% said that they would be reducing their allocations to this region.

Do you intend to add to, reduce, or maintain your allocations to Western Europe?

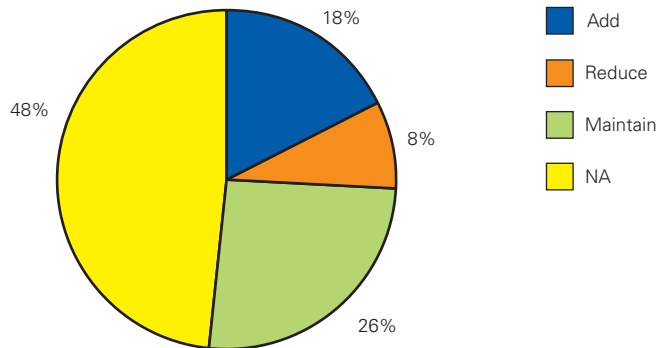


Source: 2009 Deutsche Bank Alternative Investment Survey

“Most investors plan to reduce their allocation to Western Europe.”

More investors plan to reduce their allocations to Western Europe than increase them. Last year’s survey suggested that, despite Western Europe being predicted to be one of the worst performing regions going into 2008, 21% of investors still intended to add to their allocations in the region, whilst a further 36% planned to maintain their allocations there. For 2009, though, these figures have fallen to 14% and 33% respectively.

Do you intend to add to, reduce, or maintain your allocations to China?

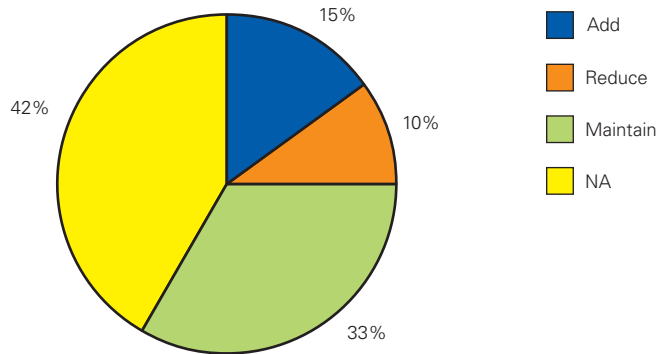


Source: 2009 Deutsche Bank Alternative Investment Survey

“18% of investors said they would add to their allocations to China.”

Nearly 18% of investors said that they would add to their allocations to China in 2009, compared to only 8% who plan to reduce their allocations (in the 2008 survey, this figure was 10%). This emphasises the relatively positive focus on China going into 2009.

Do you intend to add to, reduce, or maintain your allocations to Japan?

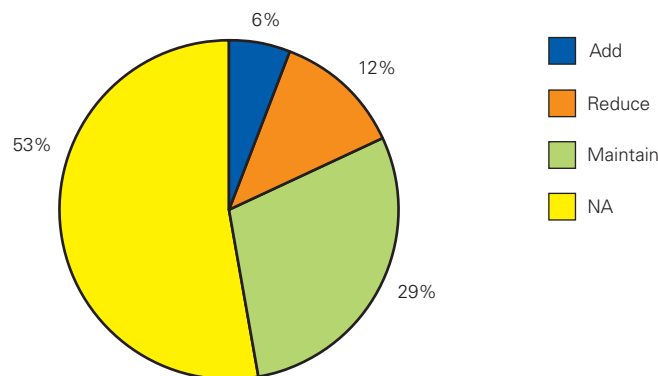


Source: 2009 Deutsche Bank Alternative Investment Survey

“Investors continue to want to add to Japan focused funds.”

There are more investors that intend to add to their allocations to Japan-focused funds (15%) than there are those that plan to reduce their allocations (10%). However, this still demonstrates a significant reduction from last year, when we recorded that as many as 26% of investors were planning to increase their allocations to Japan-focused funds.

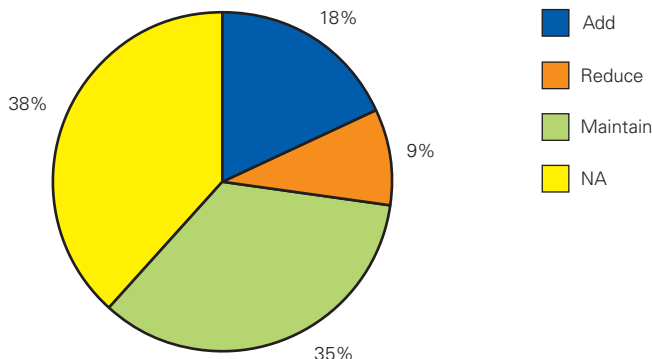
Do you intend to add to, reduce, or maintain your allocations to India?



Source: 2009 Deutsche Bank Alternative Investment Survey

Last year was the first time we asked our investors about their views on funds that focussed on India. 25% of those surveyed said that they planned to increase their allocations to such funds, compared to just 6% that said they would be reducing their allocations. The numbers this year are markedly different: the percentage of investors planning to reduce their allocations has reached 12%, whilst the percentage of those looking to increase their allocations has reduced to 6%. This might be a reflection of the performance of the region in general in 2008.

Do you intend to add to, reduce, or maintain your allocations to Asia (ex-Japan)?

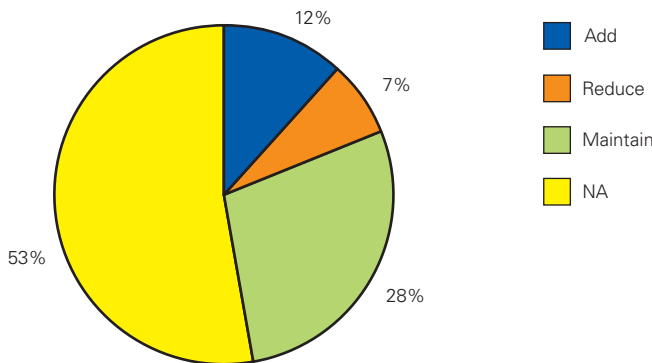


Source: 2009 Deutsche Bank Alternative Investment Survey

Funds that focussed on Asia (ex-Japan) last year were also popular with investors: 32% of those surveyed indicated that they would increase their allocations to the region. The figure this year has fallen to 18%, whilst the percentage of those looking to reduce their allocations has more than doubled, from 4% in 2008 to over 9% in 2009.

“Investors are still increasing their allocations to Latin America.”

Do you intend to add to, reduce, or maintain your allocations to Latin America?



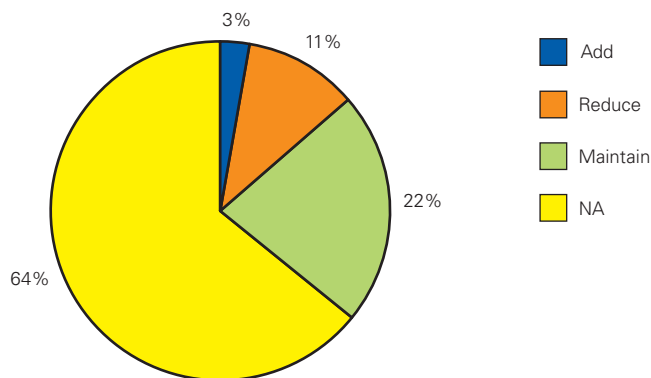
Source: 2009 Deutsche Bank Alternative Investment Survey

Nearly 12% of investors surveyed said that they would be increasing their allocations to funds that focused on Latin America, compared to as many as 30% of investors in 2008. However, the relatively strong performance of Latin American hedge funds in 2008 (compared to other emerging markets funds) is perhaps reflected in the fact that the percentage of investors looking to reduce their allocations has only risen by 2%, from 5% to 7%.

“There has been a reduction in investor appetite for the region.”

In 2008, no investors were looking to reduce their allocations to funds that invested in the Middle East and North Africa; in 2009, this figure has risen to 11%. Furthermore, the percentage of investors looking to add to their allocations has reduced, from 32% to less than 3%. These regions demonstrate the most extreme change in investor sentiment, reflecting the sharp decline in the economic outlook for both the Middle East and North Africa.

Do you intend to add to, reduce, or maintain your allocations to the Middle East and North Africa?

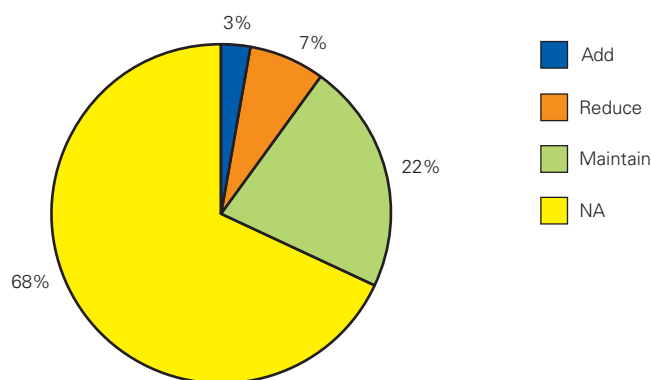


Source: 2009 Deutsche Bank Alternative Investment Survey

“According to investors the most difficult region to source” (ME/Africa)

18% of investors also said this region was the hardest to source, making it by far the most difficult region for investors to find suitable funds in which to invest.

Do you intend to add to, reduce, or maintain your allocations to South Africa?



Source: 2009 Deutsche Bank Alternative Investment Survey

Funds that invest in South Africa have seen a significant decline in interest from investors. The percentage of investors looking to exit the region has increased from 2% last year to over 7% in 2009. The percentage of investors looking to add to their allocations has also changed, from 14% down to just 2.6%.

130/30

“Bridges the gap between long-only and hedge funds.”

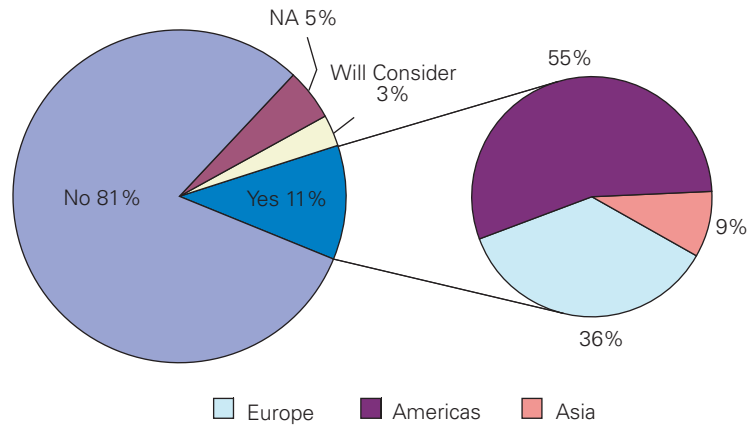
“UCITS III allows 200% gross exposure.”

Confusion over terminology: 130/30 and UCITS III

130/30 is perceived as a product which bridges the gap between long-only and hedge funds. It generally uses leverage and some shorting. 130/30 has become the term for a broad suite of strategies.

Confusion often arises with regard to terminology: the terms 130/30 and UCITS are often used in the same sentence. Since the UCITS directive in 2002, there has been rapid product development and numerous absolute return products have come onto the market in the UCITS wrapper. It is possible to wrap most 130/30 products and their derivatives in a UCITS wrapper since UCITS III allows 200% gross exposure. While outright shorting is still not allowed, UCITS products can run long/short strategies providing they are structured using certain types of derivative positions. For this reason UCITS products are becoming particularly popular amongst various types of investment managers.

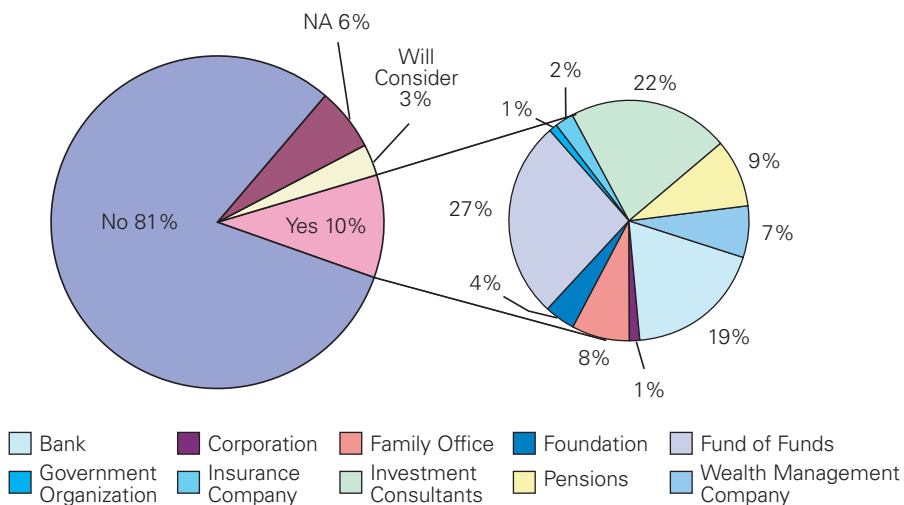
Do you make direct investments in 130/30 strategies?



Source: 2009 Deutsche Bank Alternative Investment Survey

Leverage and performance are currently perceived to be the main issues with 130/30 strategies. The reputation of leverage is so devalued amongst investors that it is detrimental to 130/30.

Do you make direct investments in 130/30 strategies? (by investor type)



Source: 2009 Deutsche Bank Alternative Investment Survey

UCITS III

The UCITS industry is now €5.6 trillion¹. There has been significant growth in the last 10 years and growth is predicted to increase by 20% per annum in Europe and 25% in Asia². Excluding markets where the directive does not apply, it seems that there is increasing appetite for UCITS products as investors are keen on absolute return products without the stricter constraints of 130/30.

“UCITS has become valued for many reasons”

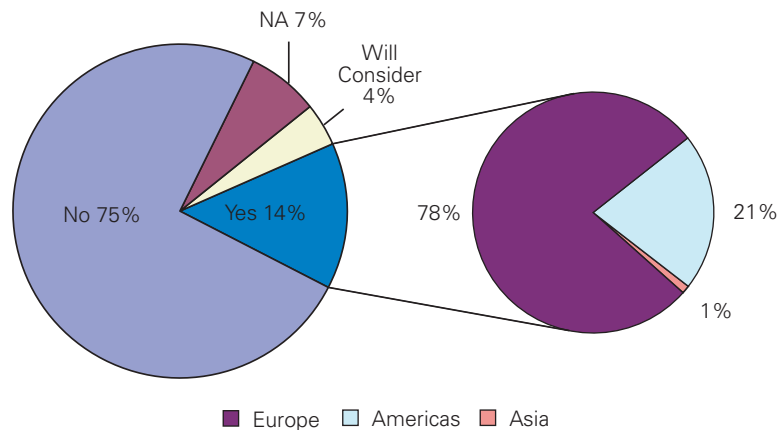
First implemented in 1985, the legal framework for promoting the cross-border sale of funds (UCITS) gained traction worldwide with the most significant refinements in the framework under the heading of UCITS III in 2002. UCITS and its framework aimed to create a level playing field for selling funds in the EU. Its success has attracted institutional investors as well as retail clients inside and outside the EU. The areas in which UCITS III products are generally allowed to be distributed in Europe, South Africa, Asia and South America but restrictions may apply.

UCITS has become extremely valued for many reasons: compliance, risk controls, distribution and state-of-the-art administration. UCITS III also means an enormous number of different funds and styles of funds that can potentially be sold worldwide. Rapid product development has led to the availability of innovative UCITS III products such as absolute return focused UCITS III offerings.

“Growing interest from hedge fund managers in UCITS.”

Many asset managers are using UCITS III as their main channel for potentially globalising their businesses with considerable interest outside the EU. We have seen a growing interest from our hedge fund managers and institutional long only client base in this area.

UCITS III: Region



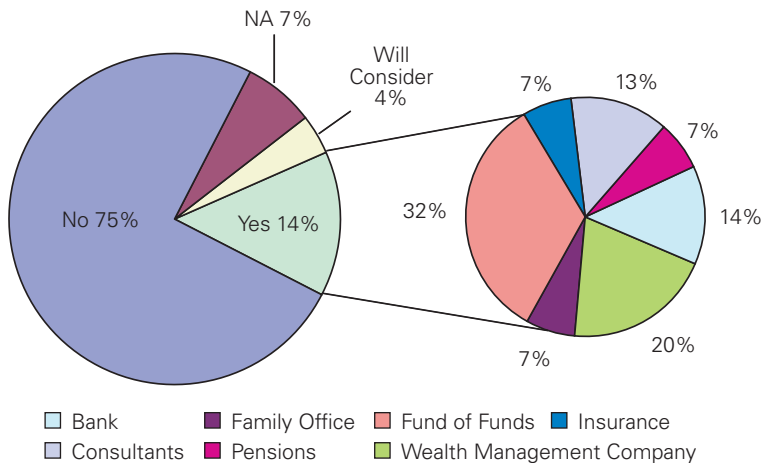
Source: 2009 Deutsche Bank Alternative Investment Survey

A significant proportion of those investors who answered our survey already have investments via a UCITS III wrapper. 14% of respondents said they are already invested in a UCITS III product and a further 4% are considering doing so in the next 12 months. We did not ask this question in 2008 so cannot draw on historical data.

1 Financial Times, 22 January 2009
2 Financial Times, 22 January 2009

Deutsche Bank was relatively surprised when looking at the regional breakdown of where existing investors are based that 21% were based in America. This is more than one would imagine given that UCITS products cannot be distributed in the region. We suspect this figure comes from global entities answering for their European or Asian counterparts.

UCITS III: Investor type



Source: 2009 Deutsche Bank Alternative Investment Survey

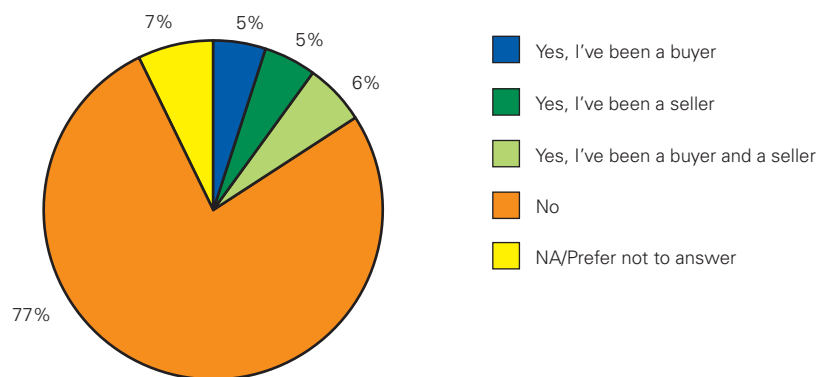
“Investors expect the secondary market to grow”

Secondary Market

There has been a secondary market for hedge funds in existence for several years. Historically this had always been to allow investors to allocate to closed or difficult to access hedge funds at a premium to NAV in small size. 2008 saw a different type of opportunity opening up, with a number of managers who had suspended redemptions or invoked gates being offered at significant discounts (upwards of 20 – 25%) by investors who sought liquidity.

The market still remains relatively small but is expected to grow substantially this year as buyers and sellers move closer to a mutually acceptable price. Only 16% of investors surveyed had already participated in the secondary market, however a further 21% indicated that they expected to do so in 2009.

Have you participated in the secondary market for hedge fund stakes in 2008?

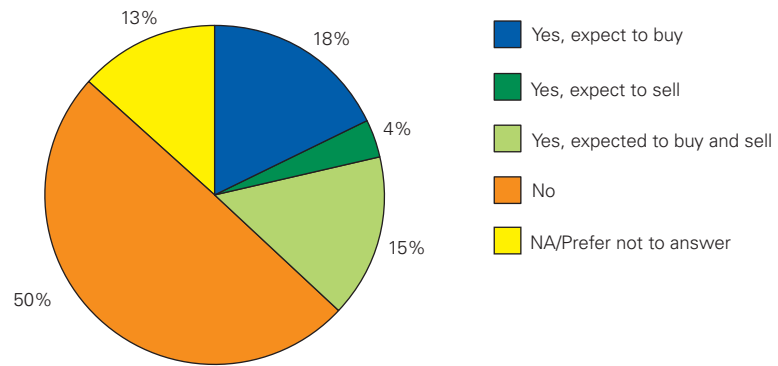


Source: 2009 Deutsche Bank Alternative Investment Survey

“37% of investors expect to participate in secondary market in 2009”

While the numbers of buyers and sellers was relatively evenly balanced from those that had already engaged in transactions, over 18% of those expecting to participate in the market were looking to buy with only 4% stating that they were sellers and a further 15% expected to buy and sell. In January and February at Deutsche Bank, we have actually seen far more indications of interest from sellers, however these results may suggest that should these sellers be forced to reduce their price out of necessity to raise cash, there will be a price at which a good number of buyers come into the market.

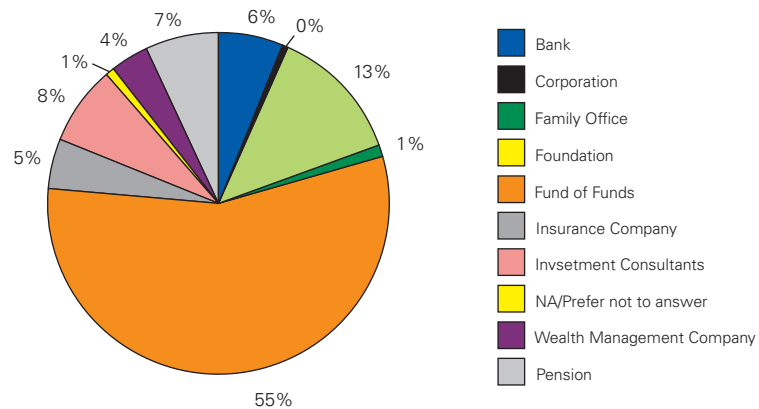
Do you expect to participate in the secondary market for hedge fund stakes in 2009?



Source: 2009 Deutsche Bank Alternative Investment Survey

Fund of funds comprised over 50% of those expecting to participate and there was also strong interest from family offices, consultants and the end institutions (pensions and insurance companies).

Those expecting to participate in the secondary market by firm type



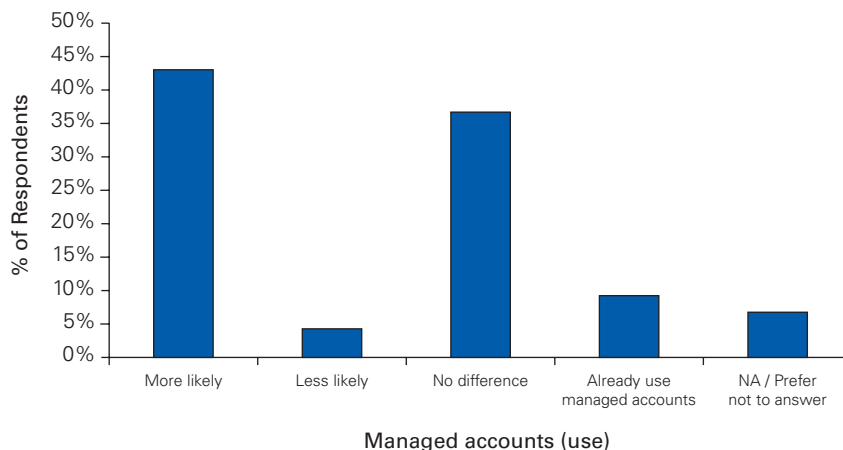
Source: 2009 Deutsche Bank Alternative Investment Survey

“43% of investors are now more likely to make investments via managed accounts.”

Managed Accounts

As the liquidity crisis has intensified and investors focus increasingly on transparency and risk management, managed accounts have become more attractive to a considerable number of the investors surveyed. 43% of investors said that given the current environment they would be more likely to make a proportion of their investments through managed accounts in the future. With 9% of investors already using managed accounts, a significant portion of the universe is now considering moving to this form of investment.

Following the events of 2008, will you be more likely to make a proportion of your investments through managed accounts in the future?

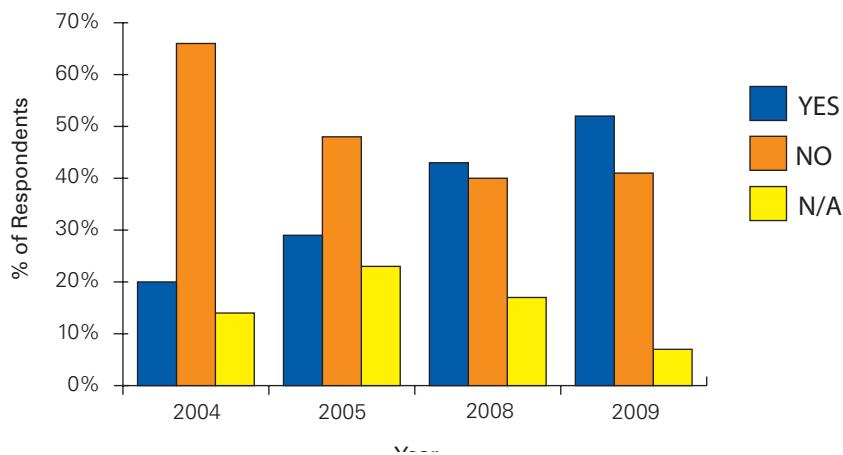


Source: 2009 Deutsche Bank Alternative Investment Survey

“More managers to look at providing managed accounts for investors.”

This trend to a more liquid and transparent form of investment has been increasing steadily since we started asking investors about managed accounts in 2004 (see graph below). In addition, it is not just investor sentiment that impacts the increased interest. As raising capital becomes ever more challenging, managers that may previously not have considered running a separate account are recognizing the benefits of this structure in terms of attracting new, and retaining existing, capital.

Do you use managed accounts?



Source: 2009 Deutsche Bank Alternative Investment Survey

“Transparency and Reporting are the most attractive feature of managed accounts.”

Although liquidity is clearly an important driver for the growing interest in investing via a managed account, in this environment of heightened vigilance, respondents named improved transparency/reporting as the most attractive feature of managed accounts, making it the most attractive feature for the highest number of investors (96%). This was closely followed by improved liquidity and validation of assets, indicating the challenges faced by investors subject to managers gating or freezing redemptions.

Furthermore, in the post Madoff era, investors seem to be understandably keen to have a mechanism to validate the existence of a manager’s assets, either through an independent third party or by owning the assets in their own managed account.

What do you consider to be the most attractive features of managed accounts?¹



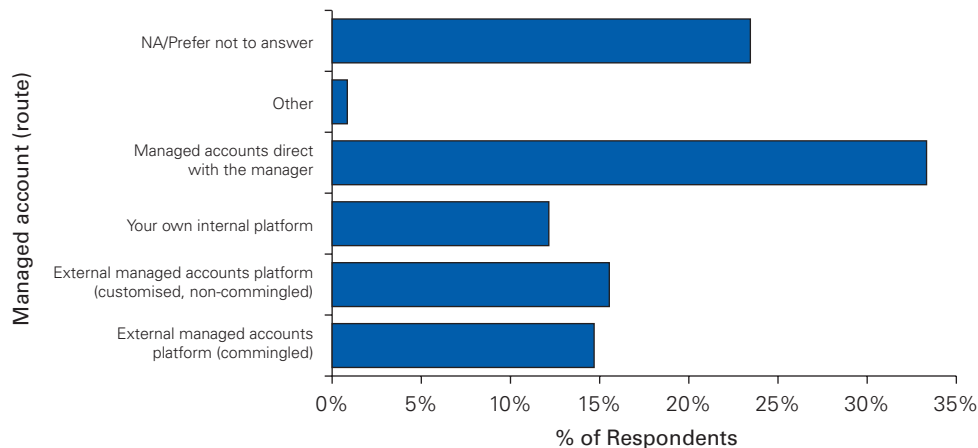
Source: 2009 Deutsche Bank Alternative Investment Survey

“Concerns about the quality of fellow investors”

However, the risks presented by being co-mingled with other investors, that became obvious in the redemption cycle of the last year, are arguably still important to many investors, as 45% would be most likely to use an account directly with the manager or their own platform. This reflects the increasing interest we see from institutional investors looking to set up their own managed account platforms where they are the sole investor – taking advantage of increased liquidity and transparency, but countering co-investor risk. Of course, the cost (financial and administrative) of establishing such platforms is onerous for both manager and investor, so ticket size needs to justify the expenditure of significant resource. As a result, we see that 16% of investors would opt for an established external managed account platform but would still wish to be the sole investor (non-commingled accounts).

¹ Weighted average graphs: Investors were asked to value each category in order of importance. If a category was ranked first, the score was weighted accordingly, in order to accurately reflect respondent sentiment.

If you were to use managed accounts, which of the following routes would you be likely to use?

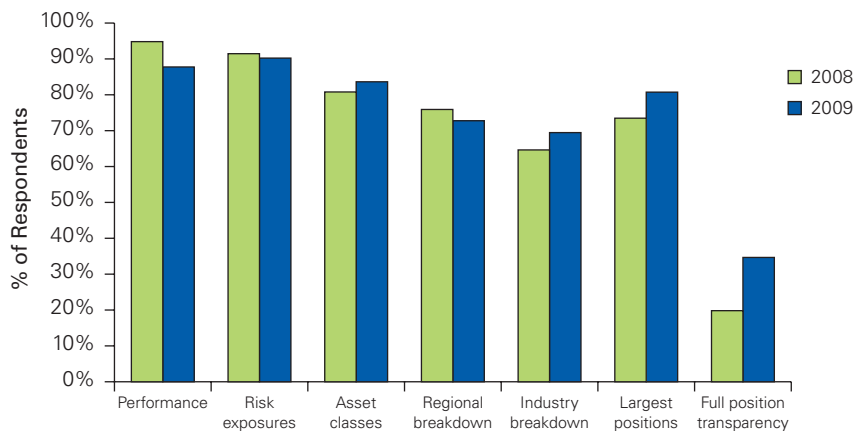


Source: 2009 Deutsche Bank Alternative Investment Survey

“Setting up ones own managed account platform versus a co-mingled platform.”

However, 14% of investors would choose to go through an external managed accounts platform but in this case would be happy to be comingled with other investors while still benefitting from enhanced liquidity, transparency and asset verification. However, a similar percentage (14%) would choose to go directly through a platform on a non-customised, comingled basis. In a environment where investors are under pressure to produce performance, a managed account platform on a comingled basis might be the most cost effective solution.

What kind of portfolio information will you require from hedge fund managers?



Source: 2009 Deutsche Bank Alternative Investment Survey

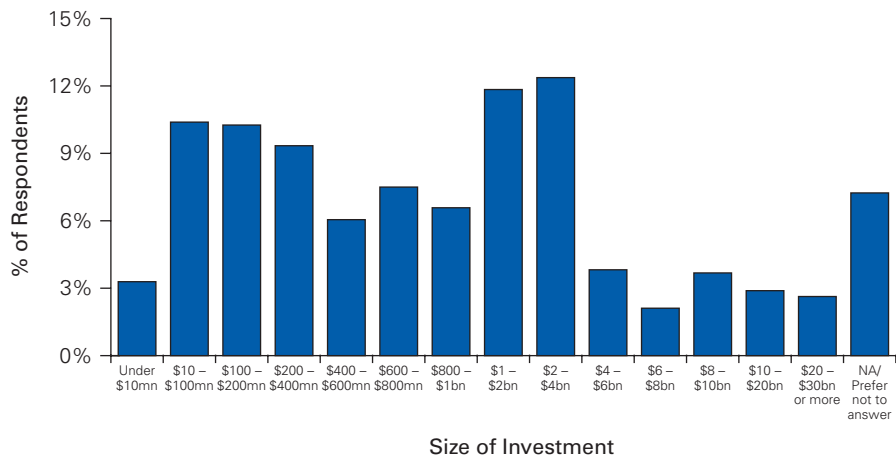
The fact that investors are now demanding such detailed information from managers also reveals why many are choosing to look at managed accounts. Much of this information transparency is only available from a managed account.

Investors: The changing landscape

2008 proved to be a seminal year for hedge fund investors. As assets under management shrunk for both managers and investors, the consolidation that had been noticeable in the industry for some time continued at a rapid pace.

This consolidation is reflected by respondents to this year's survey, with a cluster of investors having between \$1 and \$4bn invested in hedge funds. AUMs here continue to grow year on year, although 2009 will very likely see the continued shrinking of assets.

How much do you have invested in hedge funds?

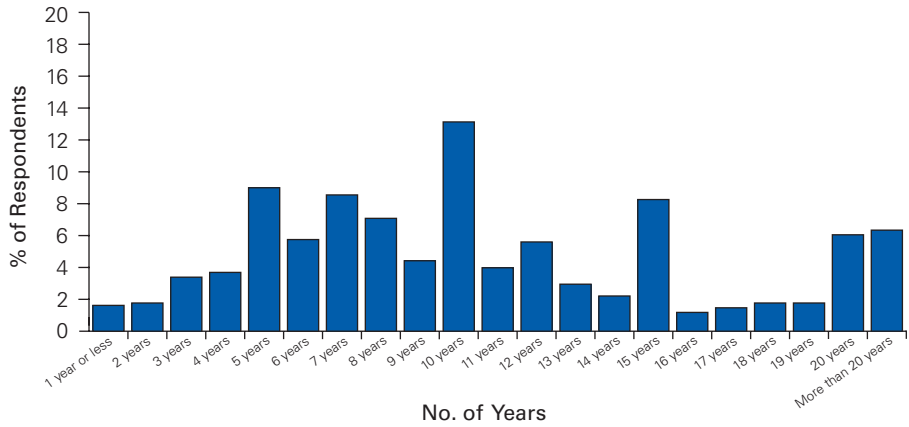


Source: 2009 Deutsche Bank Alternative Investment Survey

However, although the industry size is reducing, the longevity and experience of the investors that took part in our survey is arguably testimony to their staying power. Investors that have been investing in hedge funds for between 5 and 10 years or more make up the majority percentage, demonstrating their dedication to this business.

See graph on previous page.

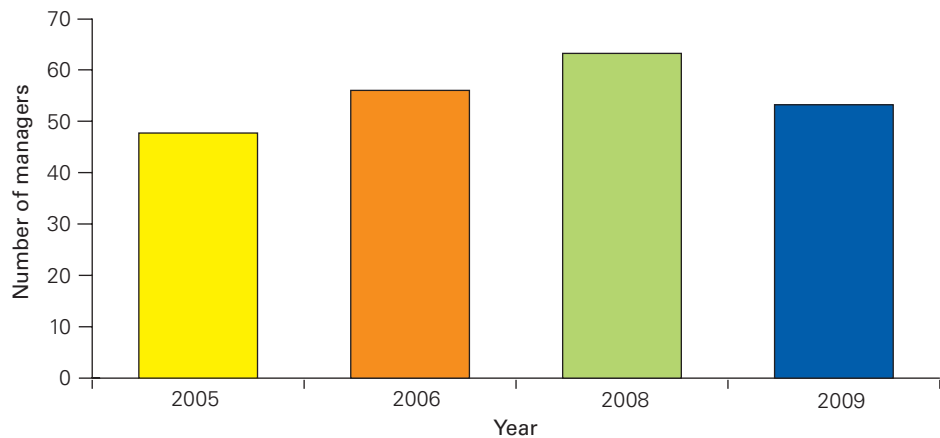
How long has your firm been investing in hedge funds?



Source: 2009 Deutsche Bank Alternative Investment Survey

As shown in the graph below, the average number of direct hedge fund allocations has dropped in 2009. Until 2008 it had been increasing steadily, but this year it fell to 54 from a peak of 63. This of course, also arguably contributes to the consolidation argument as investors focus only on those managers that have good performance, infrastructure and fundamentals to satisfy the most prudent of investors. It also reflects an increasing trend from investors to have fewer investments in order to try and ensure they can monitor them all with the required diligence and detail.

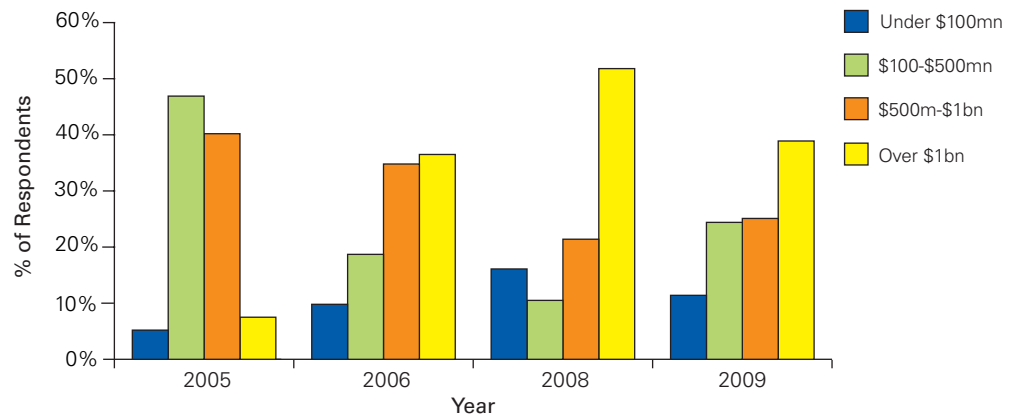
How many managers do you invest with directly? (2005 – 2009)



Source: 2009 Deutsche Bank Alternative Investment Survey

A similar trend, reflecting the heavy redemptions seen across the industry, is noticeable in the decline in average size of hedge funds with whom respondents are invested. Although funds with AUMs of \$1bn or more make up the largest proportion of most investors' portfolios, the percentage allocation has declined from 52% to 40%.

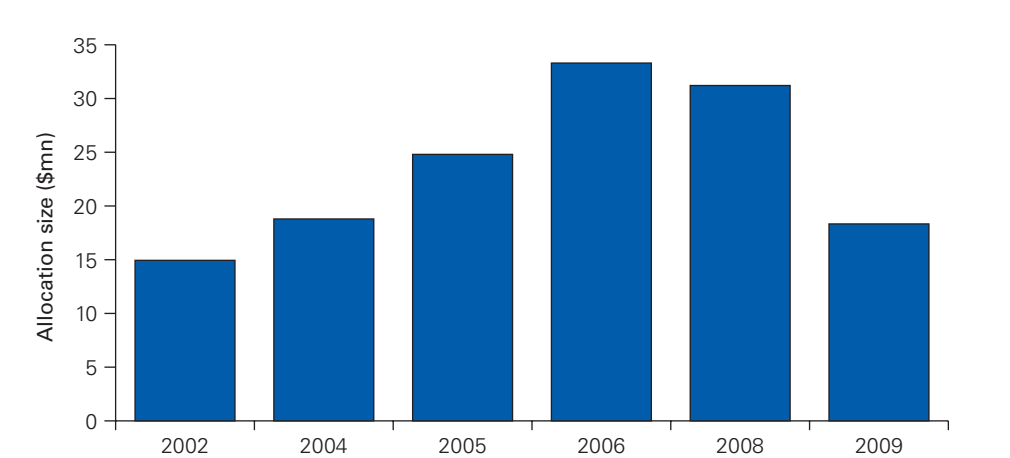
What is the average size of the hedge funds you are invested in?



Source: 2009 Deutsche Bank Alternative Investment Survey

The average ticket size has also dropped this year, perhaps reflecting investors' increased cautiousness – even managers that are high conviction have to be sized in using a prudent approach. The average size of a single hedge fund allocation, which grew steadily until 2006, dropped off slightly in 2008, only to almost halve in 2009. However, this decline cannot be blamed on the market conditions of 2008 or 2009. It shows that the consolidation of the industry has now been slowly happening for sometime.

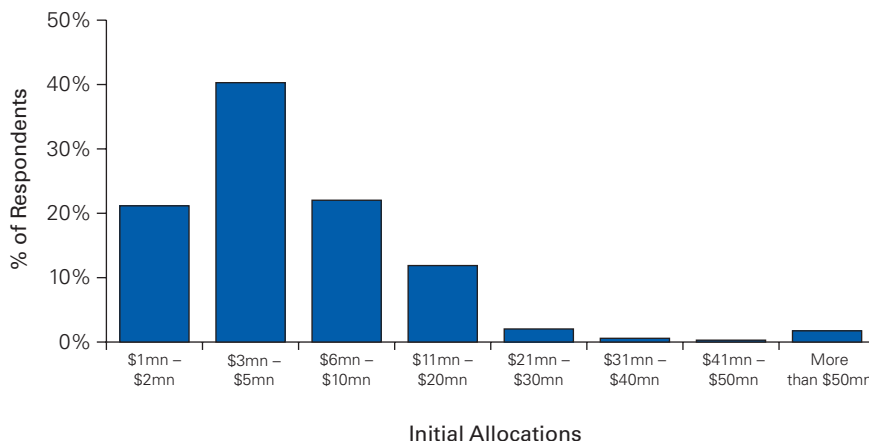
Average hedge fund allocations since 2002



Source: 2009 Deutsche Bank Alternative Investment Survey

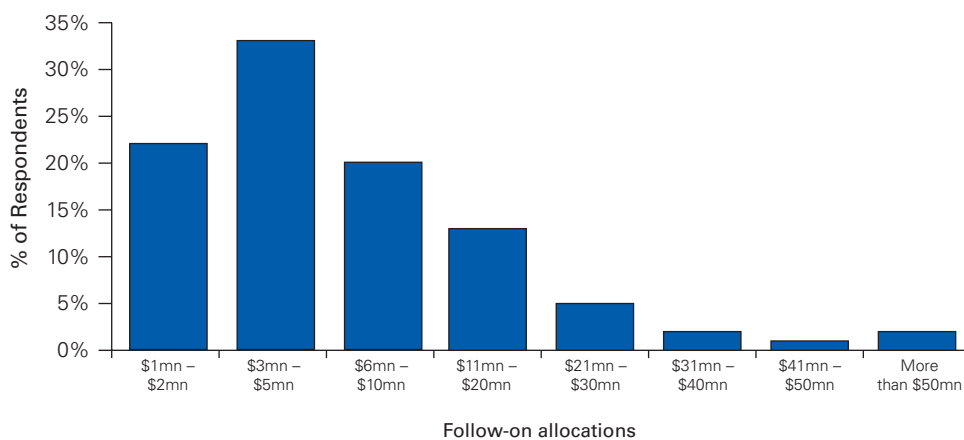
Over 60% of investors responded that their initial ticket sizes are between \$1mn-\$5mn, with follow-on allocations not significantly larger.

How large were your initial allocations to hedge funds last year?



Source: 2009 Deutsche Bank Alternative Investment Survey

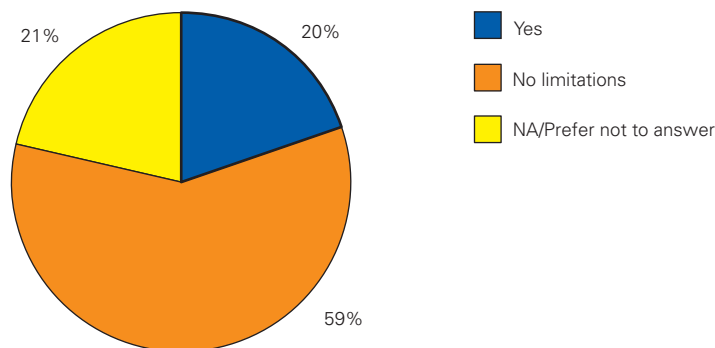
How large were your follow-on allocations to hedge funds last year?



Source: 2009 Deutsche Bank Alternative Investment Survey

Unsurprisingly, nearly 60% of respondents have no limitations on the percentage of assets they can allocate to hedge funds. Of the 20% that do have restrictions, the majority can invest between 10-30% of their assets under management into hedge funds.

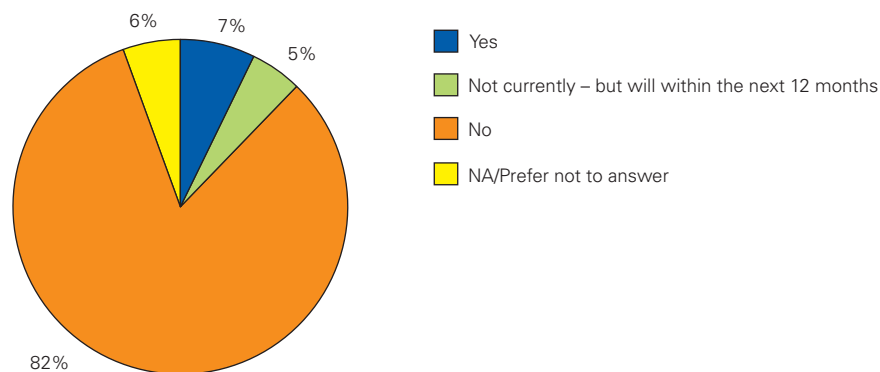
Does your mandate limit your hedge fund allocation to a certain percentage?



Source: 2009 Deutsche Bank Alternative Investment Survey

The number of investors looking to invest in hedge funds replicators is set to increase in 2009, as the graph below shows.

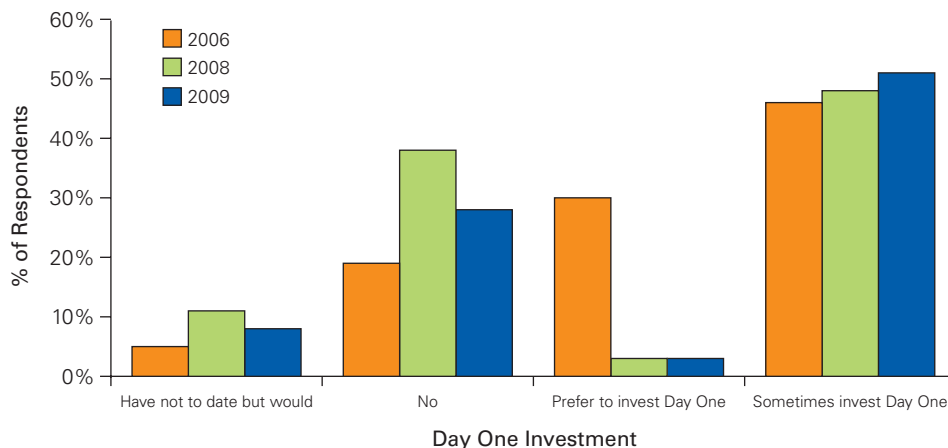
Do you make direct investments in hedge fund replicators?



Source: 2009 Deutsche Bank Alternative Investment Survey

Investors, increasingly cautious, have reduced their allocations to managers Day One. For the same reasons that the number of new launches dropped dramatically in 2008, investors, constrained by prudence, caution and uncertainty, have scaled back allocations to managers that do not have a proven track record.

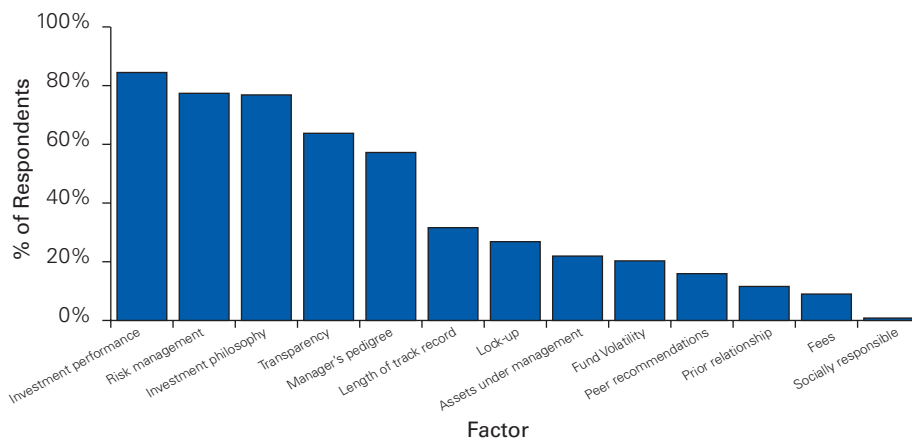
Do you invest Day One?



Source: 2009 Deutsche Bank Alternative Investment Survey

As mentioned before, while investors remain committed to hedge funds, the challenging market conditions have sparked a renewed focus on risk management. Risk management moves to being the second most important factor when selecting a manager, and transparency becomes one of the top 5 manager selection criteria.

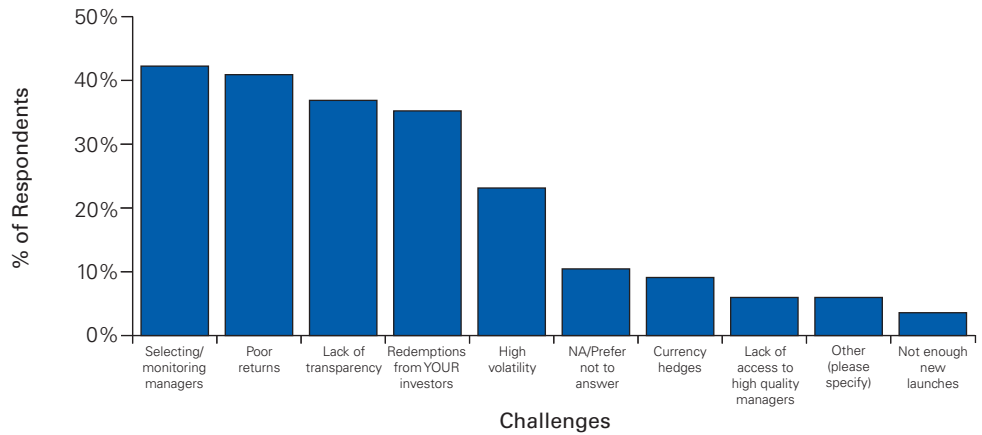
What FIVE factors are most important when assessing a hedge fund manager? (2008 – 2009)



Source: 2009 Deutsche Bank Alternative Investment Survey

The focus on transparency was also borne out when we asked investors what their biggest challenges are when investing in hedge funds. In a year where almost every aspect of investing raised its own set of problems, lack of transparency came in third place, behind selecting/monitoring managers and poor returns. It was perceived to be even more of a problem than redemptions from their own investors – the headline item of the year.

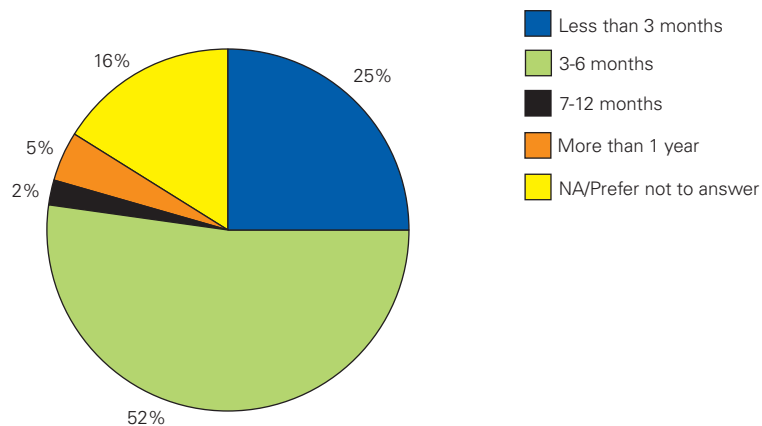
What are your biggest challenges when it comes to investing? Select all that apply



Source: 2009 Deutsche Bank Alternative Investment Survey

While the focus on manager selection criteria has changed, the due diligence process does not seem to have altered significantly. As has typically been the case, over 50% of investors need between 3-6 months to carry out full due diligence, although a quarter of respondents say they can move in less than 3 months.

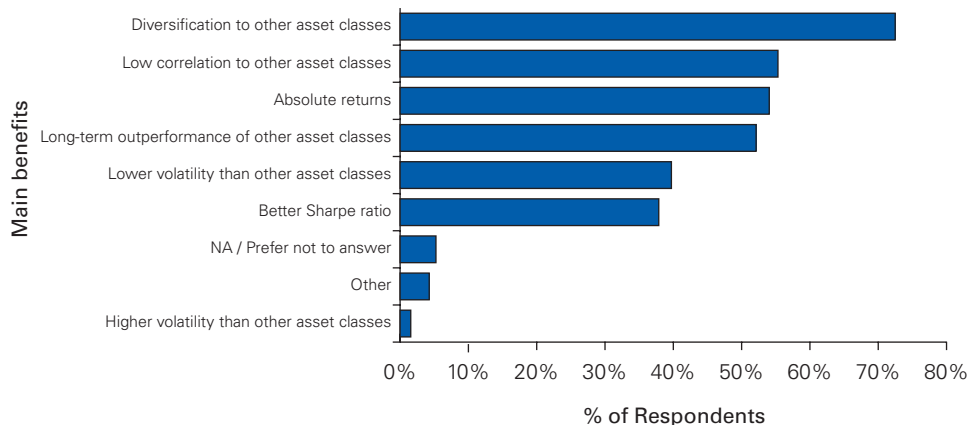
How long does your due diligence process take (on average)?



Source: 2009 Deutsche Bank Alternative Investment Survey

We asked respondents to name the main benefits of hedge fund investments (by checking all that applied). Diversification and low correlation to other asset classes were the two most regularly cited benefits. Investors recognize that although 2008 was the worst year on record for hedge funds, an average of down 18.75%¹ was a significant outperformance relative to traditional asset classes' performance. In addition, the entrepreneurial nature of the hedge fund industry, its ability to move nimbly and flexibly, arguably makes it well placed to partake in the upside more quickly than its traditional counterparts.

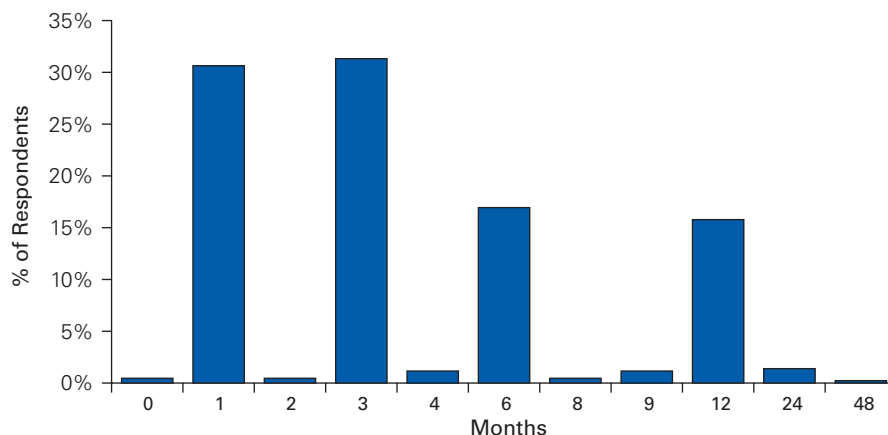
What are the main benefits of hedge fund investments?



Source: 2009 Deutsche Bank Alternative Investment Survey

Respondents to the survey display the ability to be relatively nimble, in their responses to rebalancing their portfolios. A considerable percentage state that they rebalance their portfolios once a month, although our analysis suggests that this includes tweaking positions and hedging through FX. A similar number rebalance every 3 months, perhaps a function of the most common notice period for redemptions requiring 45 days' notice (whether bi-annual, quarterly or monthly).

How often do you rebalance your portfolio?

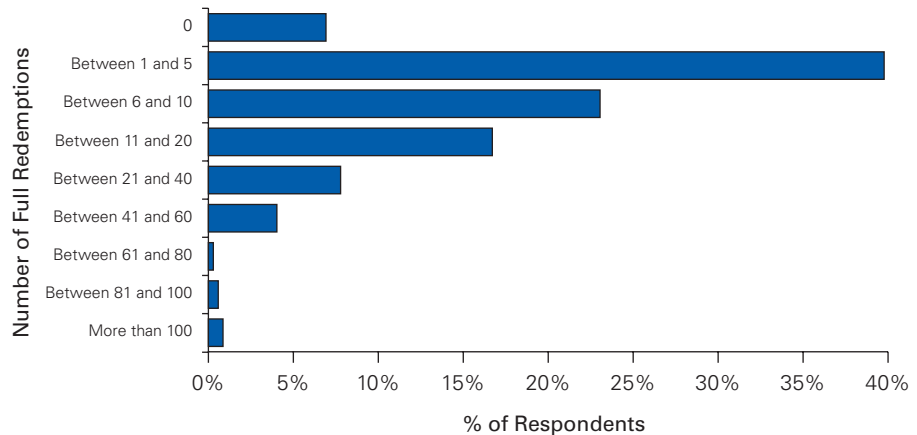


Source: 2009 Deutsche Bank Alternative Investment Survey

1. HFRI Fund Weighted Composite Index

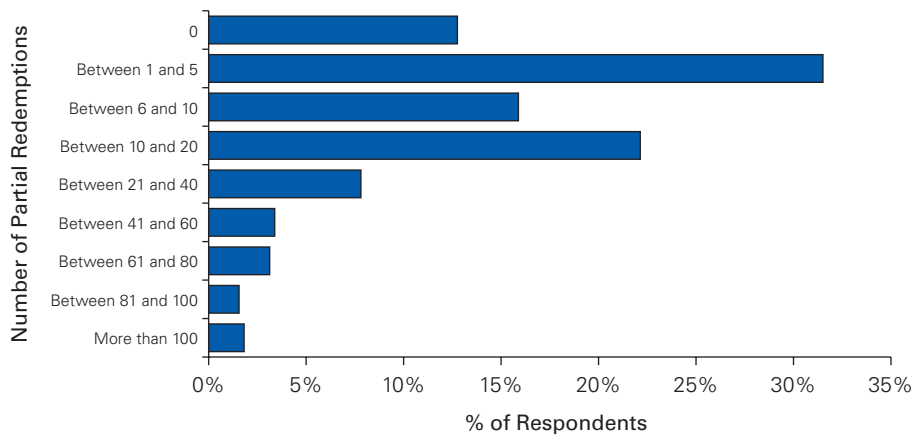
Redemptions will of course have contributed to the rebalancing reflected by investors in the survey. Nearly 40% of investors redeemed between 1 and 5 managers in full – just under 10% of the average number of managers in a portfolio. The number of partial redemptions was, however, higher with a large percentage of investors partially redeeming between 1 and 20 managers.

How many full redemptions have you made in the last 12 months?



Source: 2009 Deutsche Bank Alternative Investment Survey

How many partial redemptions have you made in the last 12 months?

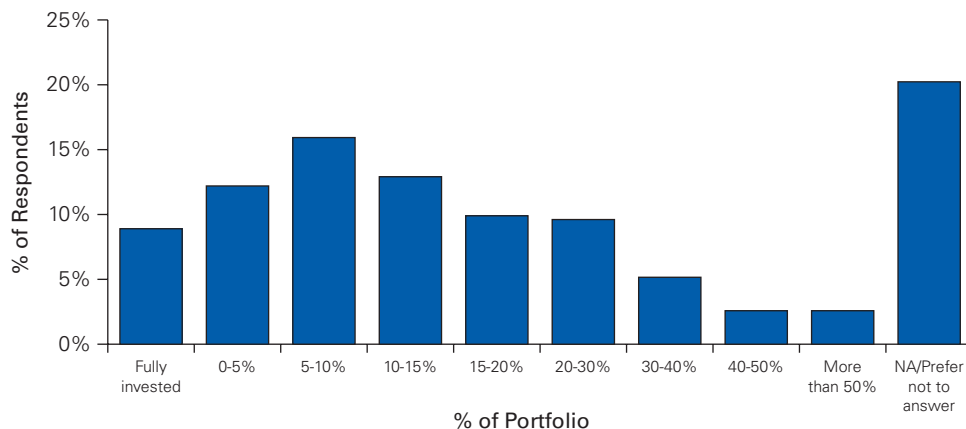


Source: 2009 Deutsche Bank Alternative Investment Survey

The reasons for redemptions have been well documented. Clearly, performance has been a driver, but client pressures have compounded the withdrawals. Investors, under pressure from their own investors, have been forced to redeem from even the best performing managers. Investors have therefore been raising cash to meet these redemptions (which, in many cases, were on a smaller scale than anticipated) as well as wanting to be able to move opportunistically in 2009. In some cases, investors have been confused by the market behaviour, and cash has been seen as the only safe “asset class”.

Nearly 50% of investors are currently holding between 5 and 30% cash, a significant holding and an increase from last year's survey. It is interesting to note the high percentage of respondents for which this question was not relevant or that preferred not to answer – perhaps indicating the concerns about disclosing high cash levels, while still charging fees.

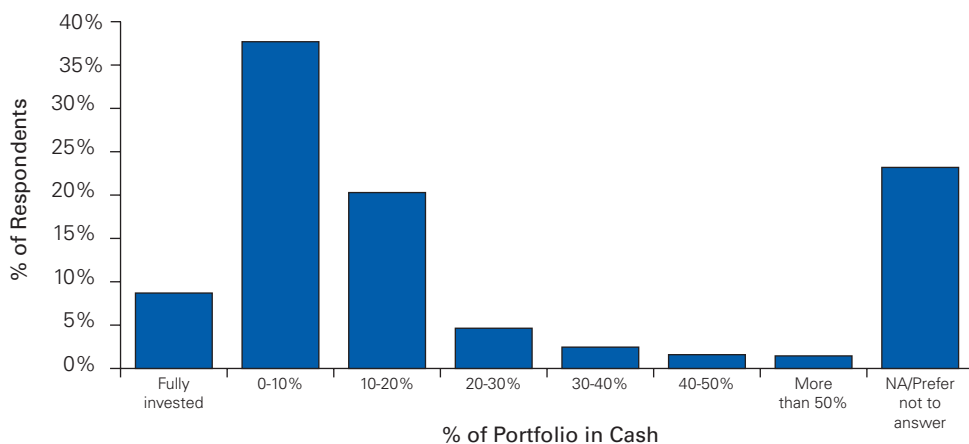
How much cash are you currently holding?



Source: 2009 Deutsche Bank Alternative Investment Survey

We also asked investors what their average cash position was during the first 6 months of 2008, when an overwhelming 50% of investors responded that they were holding 10% cash. Only 11% were holding 20-30% and 35% still refused to disclose. However, by the second half of 2008, that 50% that were holding 10% cash had reduced to 34%, with those investors holding between 20 -30% and 30-40% increasing to 18% and 8% respectively. These changes reflect the deteriorating market outlook, as investors moved to raise their cash levels and investors expect cash levels to continue to remain high.

What will your cash position be in 6 months' time?

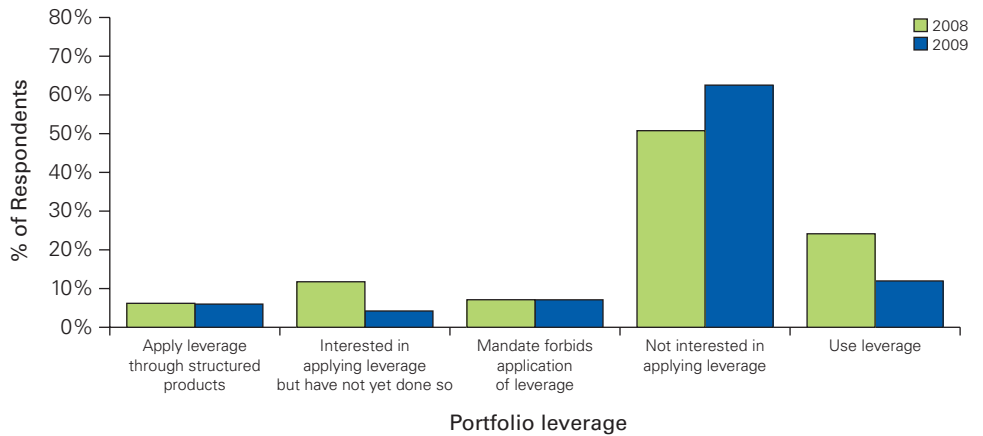


Source: 2009 Deutsche Bank Alternative Investment Survey

However, while levels will remain high relative to cash levels seen prior to this crisis, investors expect to redeploy a substantial percentage by the end of the first half of 2009. Respondents are currently sitting on \$294bn of cash. In 6 months' time, they expect to have reduced this to approximately \$212bn, suggesting that \$82bn of cash will be invested back into the industry over the next 6 months.

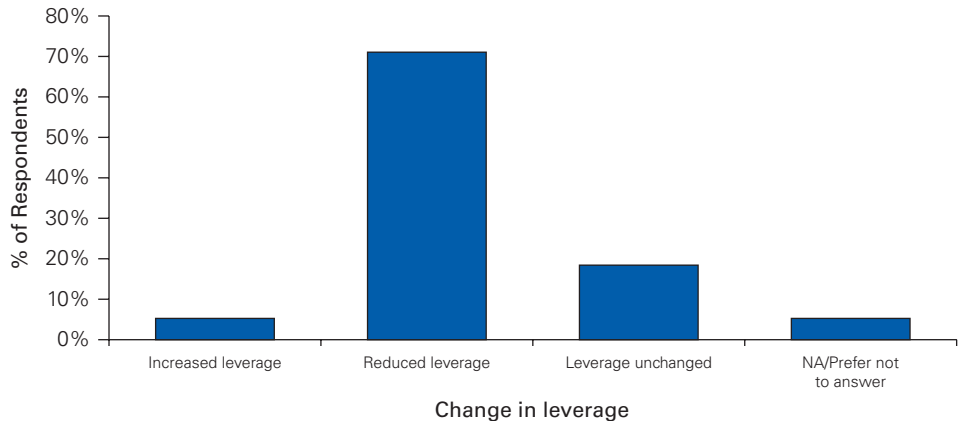
The move to cash has been one of the noticeable trends of 2008, reducing the size of invested assets. The significant reduction of leverage has of course also contributed to the smaller size of the industry as a whole. Leverage that had historically been an attractive means of achieving outsized returns for many funds and investors alike, proved to be the downfall of many, as market volatility and magnified losses took their toll. As a result, much like the funds in which they invest, investors significantly reduced leverage on their own portfolios.

Do you apply leverage to your portfolio?



Source: 2009 Deutsche Bank Alternative Investment Survey

How has your leverage changed over the last 12 months?



Source: 2009 Deutsche Bank Alternative Investment Survey

Seeders

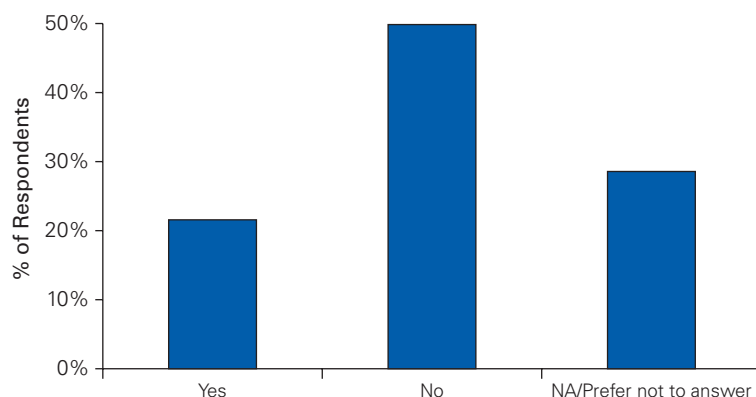
The institutionalisation of hedge fund investing, coupled with the continued deterioration of financial markets, have made it increasingly hard to raise money for new launches. Previously, hedge funds that started with small sums of capital could find investors to commit to invest once the critical level of assets was reached (approx. \$50mn). However, we believe that the institutionalisation of the hedge fund investing community is pushing this critical level to a minimum \$100mn.

Seeding, therefore, has become a very popular route for new and emerging managers to overcome the hurdle of reaching the critical size, in order to gain visibility and profitability from Day One. There have also been a number of investors moving into this space, looking to benefit from the upside of seeding a successful manager. Both seed investors and hedge fund platforms have found, in the seeding business, a solution for diversifying risk and smoothing returns while securing capacity rights.

The current environment continues to provide a large pool of talent looking for seeding deals. Seeders have an increasing ability to secure talented individuals on terms that are favourable to the seed investor.

In our survey, we looked to see how many of our respondents seeded managers. We were surprised to find that a significant 20% of investors seed managers in order to get discounted fees, participation in economics or equity stakes.

Do your seed managers get discounted fees, participation in economics, or equity stakes?

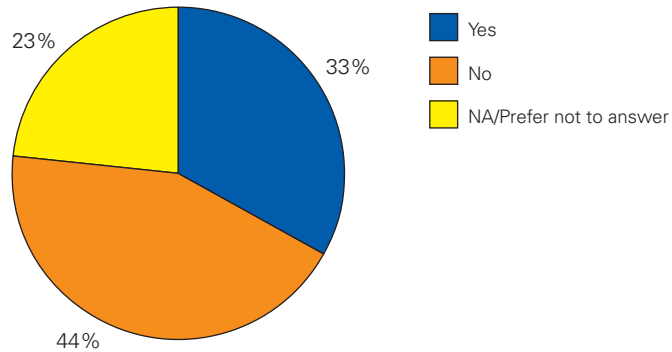


Source: 2009 Deutsche Bank Alternative Investment Survey

It seems that whilst the number of Day One investors is falling, the number of those investors willing to seed for some form of shared economics is increasing. Investors are no longer willing to take the risk of a Day One allocation without something extra such as shared economics.

The average seeding tickets from this investor set is also increasing. 31% of investors seed with tickets of \$10mn or less; however, 51% give managers a ticket between \$10mn – \$100mn. The increase in ticket sizes is no doubt due to the fact that seeders realize managers have to reach a much greater critical mass before other investors can participate in the fund.

Do you require a fee for seeding?

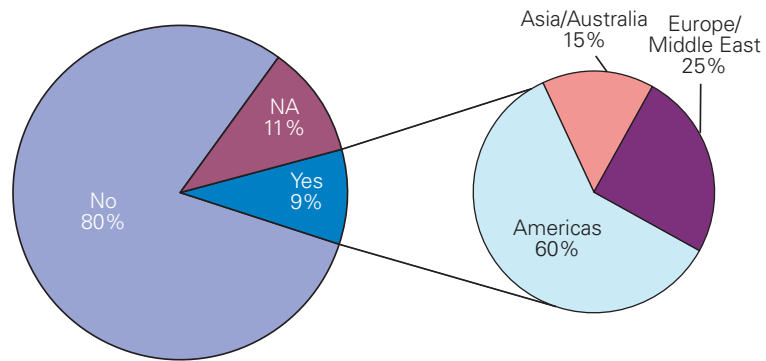


Source: 2009 Deutsche Bank Alternative Investment Survey

Consultants

Investment consultants form the bridge between investment managers and pension funds. In the U.K., they are used by more than 80-95%¹ of pension funds to provide overall advice on investment matters. In the US, this percentage stands at more like 70-80%². The use of consultants by other institutional investors is much lower. These high percentages highlight the importance of this investor set and furthermore the impact they can have on allocations to the hedge fund industry.

Do you use consultants?

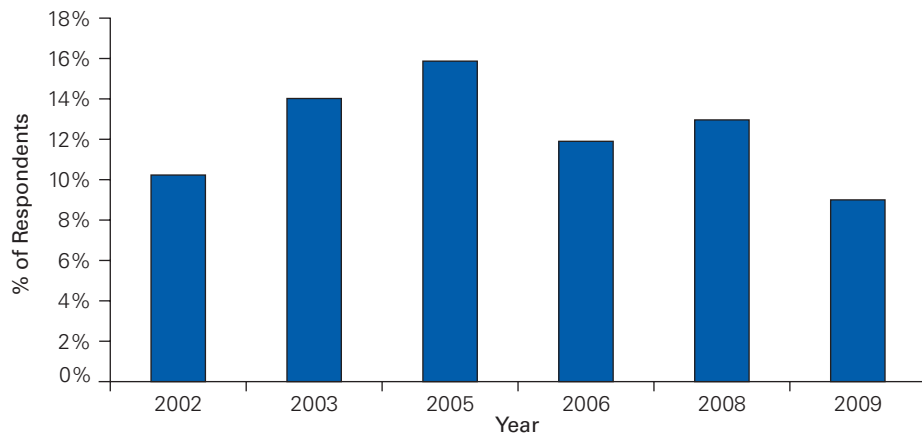


Source: 2009 Deutsche Bank Alternative Investment Survey

1 Deutsche Bank Hedge Fund Capital Group research
2 Prequin 2009 Global Hedge Fund Investor survey

When we asked investors if they used a consultant, over 9% of respondents said they employ the skills of a consultant. Since 2002, this percentage of respondents has remained relatively flat.

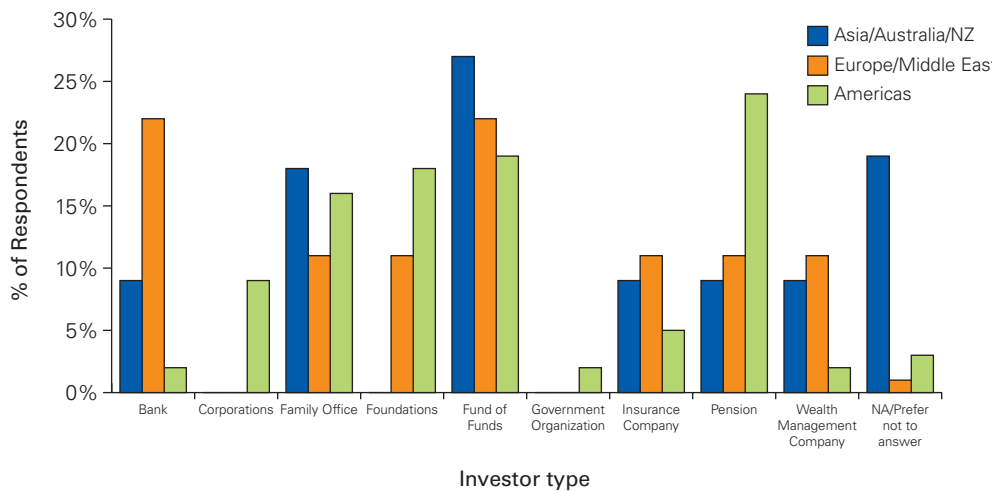
Percentage of respondents using consultants (2002 – 2009)



Source: 2009 Deutsche Bank Alternative Investment Survey

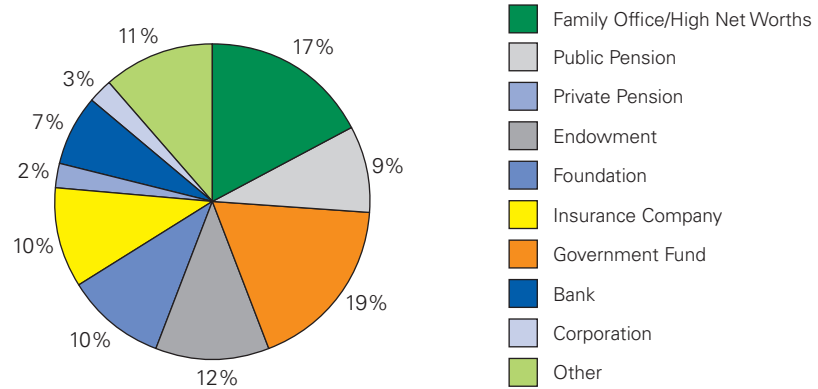
Furthermore, all varieties of investors claim they use consultants.

Consultant clients by region



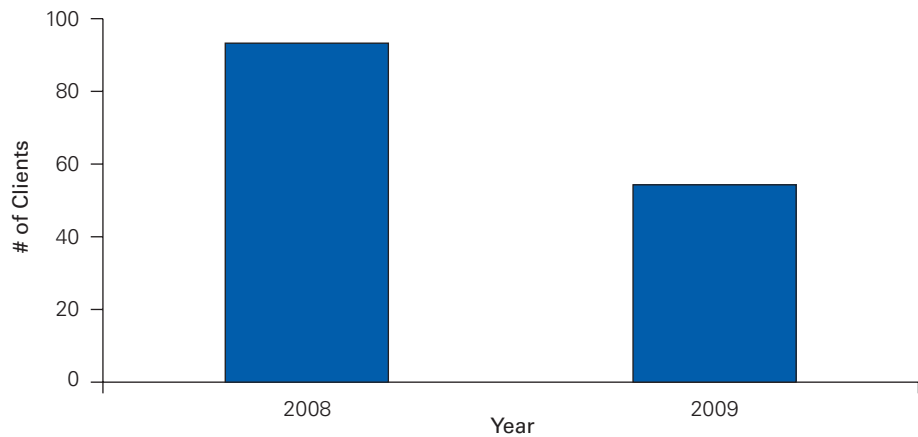
Interestingly, when we asked consultants who their client base were, they did not mention funds of funds, but they did cite the more institutional types of investor, as you can see in the graph below.

Consultants: Client breakdown



Source: 2009 Deutsche Bank Alternative Investment Survey

Average consultant: Client base



Source: 2009 Deutsche Bank Alternative Investment Survey

It seems that the number of clients consultants are advising on hedge funds and funds of funds has shrunk considerably since last year. This is no surprise. In the last couple of years the amount channelled into the alternatives space has been considerable and therefore a slow down in allocations from consultants and their clients is to be expected.

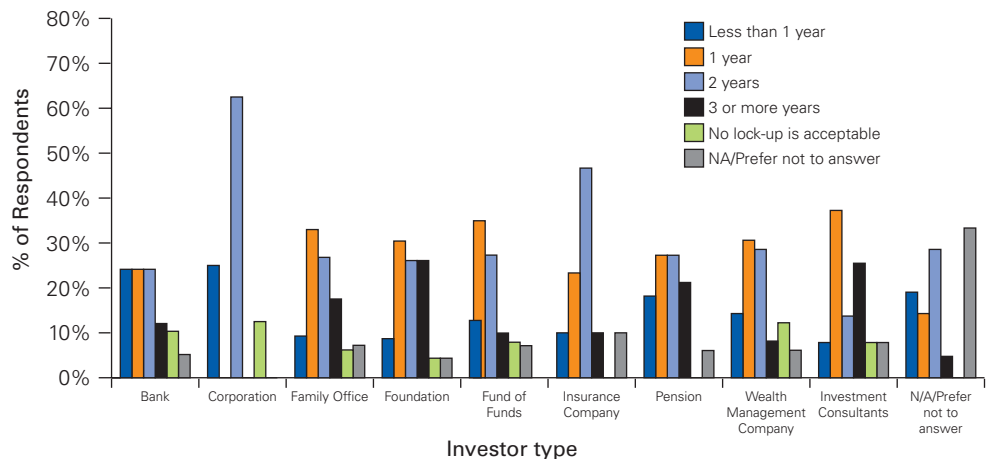
We believe, however, hedge fund investing will remain on the consultant agenda. Hedge funds will face more detailed due diligence in the future, as will the rest of the industry. Qualitative due diligence will become more important and rigorous than simply checking off a list of due diligence questions. Many plans are also seeking greater transparency and are debating whether separately managed accounts are the best vehicle given the additional resources required to analyze the data.

Hedge Fund Managers: Evolution of terms and future pressures

2008 proved to be a highly unprecedented year for hedge funds and their investors in the most challenging of market circumstances. Performance notwithstanding, never before had we seen such a raft of managers invoking gates, suspending redemptions and increasing sidepockets along with numerous other means to dissuade and prevent investors from redeeming. Investors were forced to employ a number of these measures themselves as they too were impacted by sizeable redemptions from their underlying clients. The liquidity mismatch that had long been recognised in the industry as potentially damaging finally came to the fore as both managers and investors were caught out in a rapidly deteriorating AUM environment.

With this in mind, we felt it was particularly important in this year’s survey to ascertain investors’ current appetite for allocating capital to managers with lock-ups and long notice periods as well as their views on the various measures taken by managers to limit redemptions.

What is the longest lock-up that you will accept on new hedge fund investments?

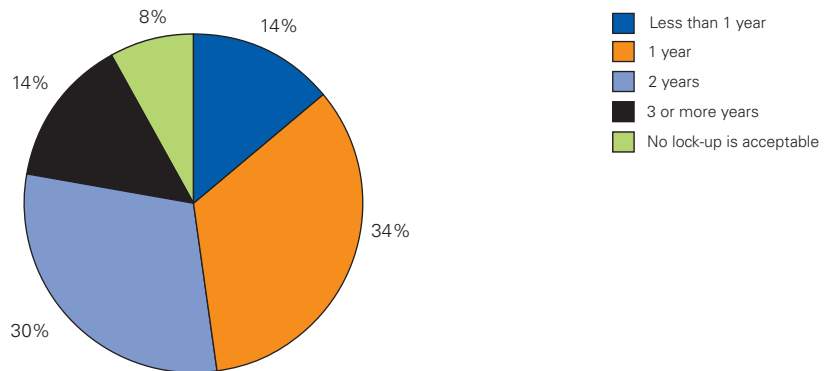


Source: 2009 Deutsche Bank Alternative Investment Survey

“Less willingness to accept lock-ups”

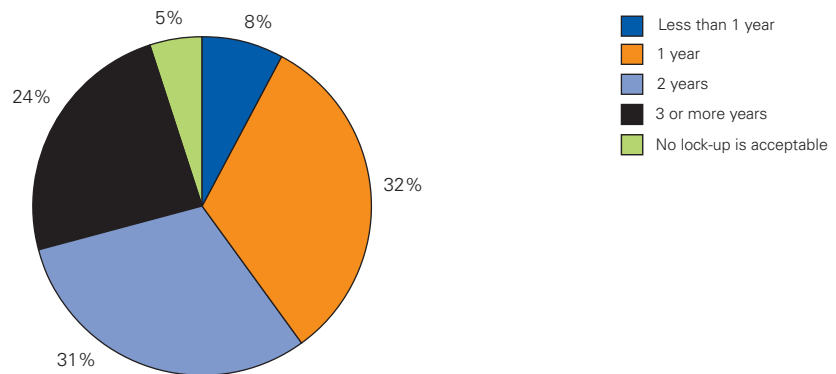
We noticed this year less willingness on the part of investors to have their capital locked up by comparison with 2008. The majority of investors, irrespective of investor type, said that they could not accept a lock up of greater than 1 year. As we would expect, the appetite amongst more institutional investors, including insurance companies, foundations, pensions and investment consultants was greater for 2 – 3 year locked up product.

Maximum Lock-up You are Willing to Accept (2009)



Source: 2009 Deutsche Bank Alternative Investment Survey

Maximum Lock-up You are Willing to Accept (2008)

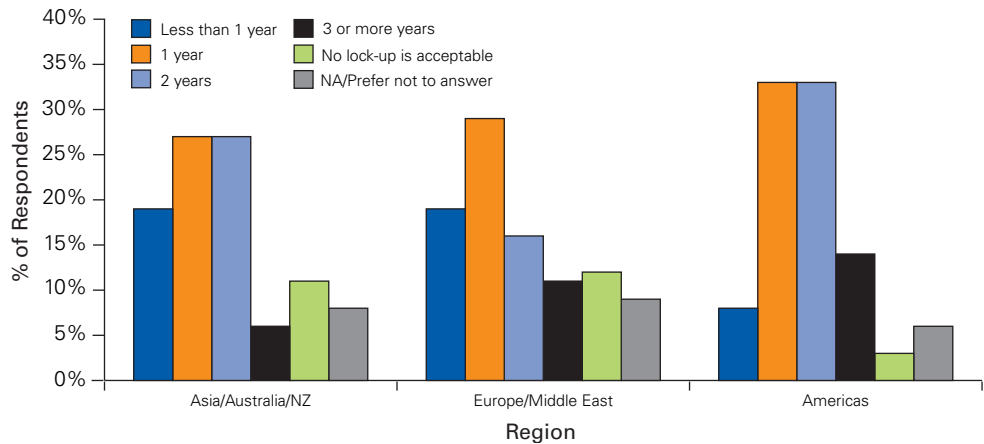


Source: 2008 Deutsche Bank Alternative Investment Survey

“European investors continue to be the most opposed to lock-ups”

On a regional basis, European investors continue to be the most opposed to long lock-ups, with 10% stating that no lock-up was acceptable and only 25% able to accept lock-ups of 2 years or more, compared with 34% and 45% from their Asian and US counterparts respectively. US investors continue to be the least resistant to locks, with only 8% indicating that a lock-up of 1 year or less would be required.

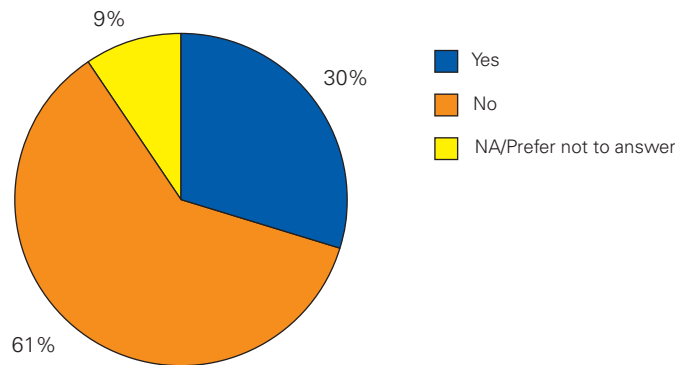
What is the longest lock-up that you will accept on new hedge fund investments?



Source: 2009 Deutsche Bank Alternative Investment Survey

When asked if they would accept longer lock-ups in exchange for lower management fees, 30% of investors said that they would consider so doing. We have historically seen managers launch share classes with lower fees to compensate investors for illiquidity and it would appear that investors increasingly find this a palatable option.

Would you accept longer lock-ups in exchange for lower management fees?

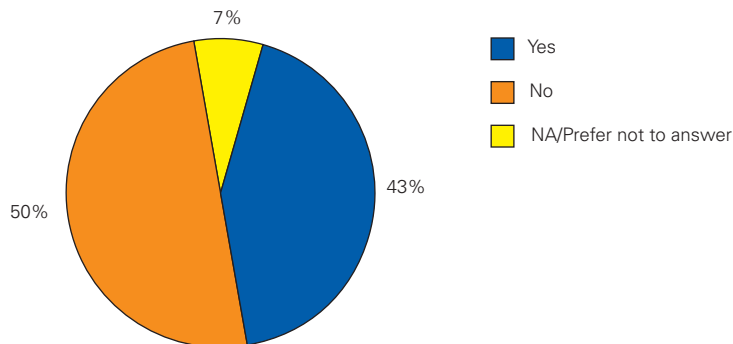


Source: 2009 Deutsche Bank Alternative Investment Survey

Another way that managers have found to soften the blow of longer lock-ups is to structure Hedge Fund / Private Equity hybrid products. This would include funds set up with an investment period of two to three years where the capital is called and reinvested, followed by a liquidation period where any realizations are distributed to the partners. Over 40% of investors said that they would consider investing in such

a vehicle suggesting that investors will be prepared to lock up capital for illiquid strategies, but will look to be compensated for this risk and would not expect to pay performance fees until such point as the profits are realised.

Would you consider a hedge fund with a private equity-style structure for less liquid assets?

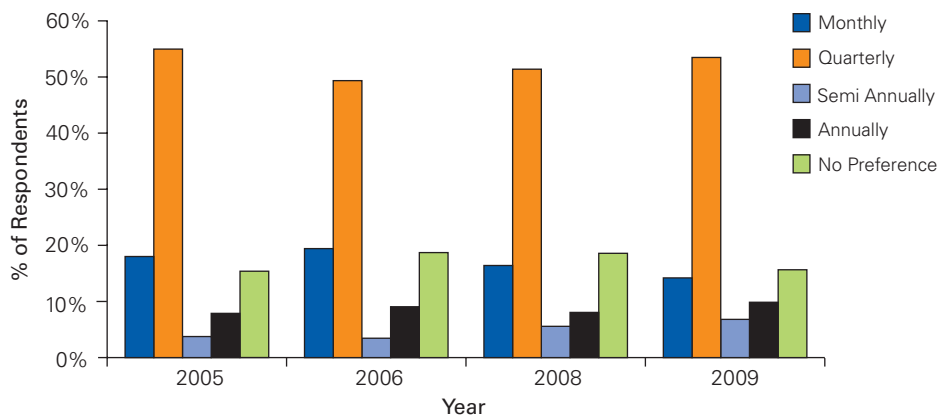


Source: 2009 Deutsche Bank Alternative Investment Survey

“Quarterly liquidity continues to be the preferred option”

After the initial lock-up, investors’ overwhelming preference is for quarterly liquidity, with almost 50% of investors stating that this was required. A smaller number of investors, predominantly end institutions and consultants, would continue to accept semi-annual/annual liquidity. These numbers have not changed significantly since we first asked the question in 2005.

What liquidity do you require, even in the case of a lock-up?

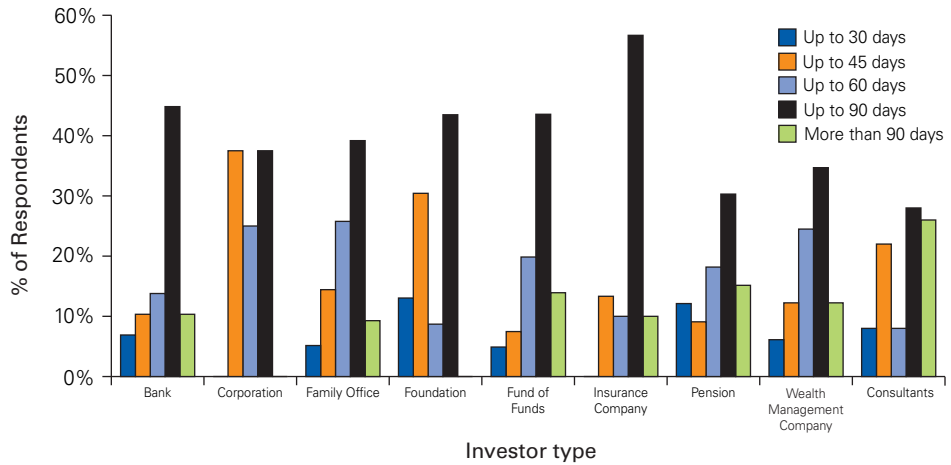


Source: 2009 Deutsche Bank Alternative Investment Survey

“90 days’ notice maximum acceptability for the majority of investors”

The maximum notice period acceptable for most investors, irrespective of type, is 90 days or fewer.

What is the maximum notice period acceptable?

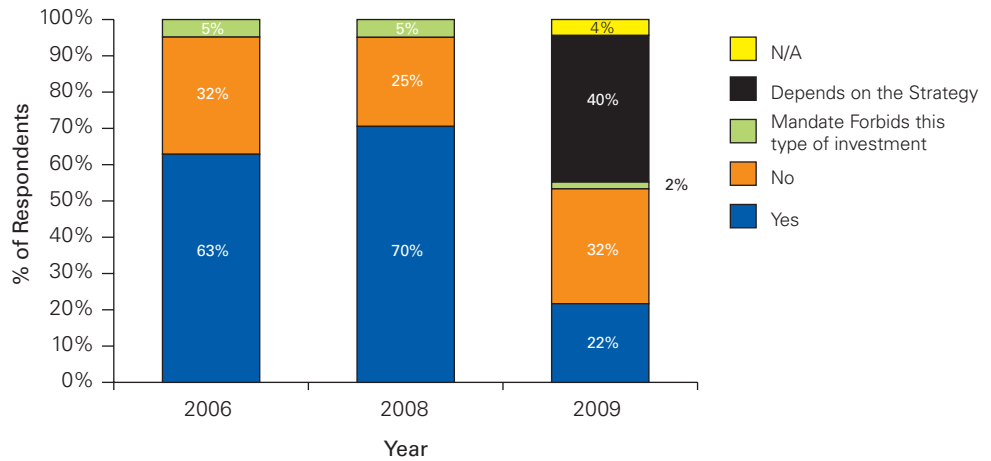


Source: 2009 Deutsche Bank Alternative Investment Survey

In the light of 2008’s challenging environment, we surveyed investors as to whether they were willing to accept longer lock-ups and less favourable liquidity terms than in 2008. Understandably the majority response was negative, however, it was interesting to note that a select group of investors were prepared to accept both conditions and these again tended to be predominantly institutional investors.

The issue of sidepockets rose to the fore last year as several managers moved illiquid positions in their portfolios into sidepockets. When asked if they were able to invest into managers with sidepockets most investors expressed that this would depend on the underlying strategy, however 32% of investors indicated that they could not or would not invest into a manager with with a sidepocket.

Would you consider investing in a hedge fund with a side-pocket?



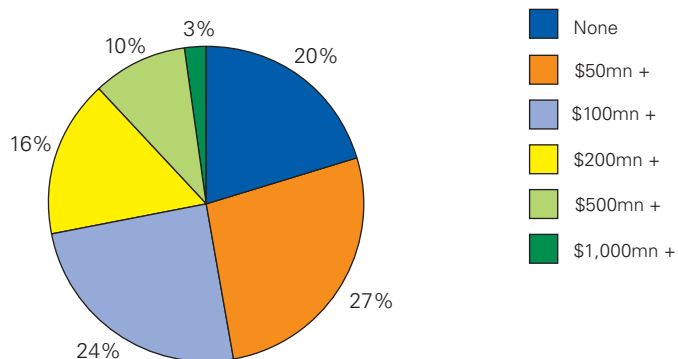
Source: 2009 Deutsche Bank Alternative Investment Survey

“Over half of investors only allocate to funds above \$100 million”

2008 proved to be a very difficult year for new start-ups looking to raise capital, with far fewer launches raising assets of > \$50mn by comparison with other years. We noticed a marked reluctance on the part of investors compared to previous years to allocate to managers with a small AUM. When we first asked the question back in 2002 as to whether investors required a minimum AUM before investing, almost two

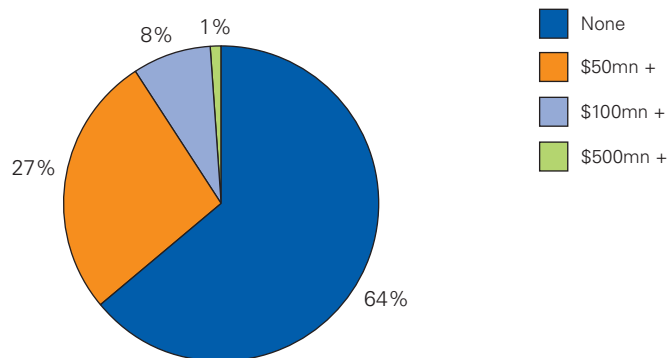
thirds of investors said that they had no minimum requirement. In 2009, this had dropped dramatically to only 20% of investors who had no such restriction. Indeed, this year, over half of investors indicated that they would not allocate to a manager with less than \$100mn AUM.

Do you require a minimum AUM before investing? (2009)



Source: 2009 Deutsche Bank Alternative Investment Survey

Do you require a minimum fund AUM before investing? (2002)

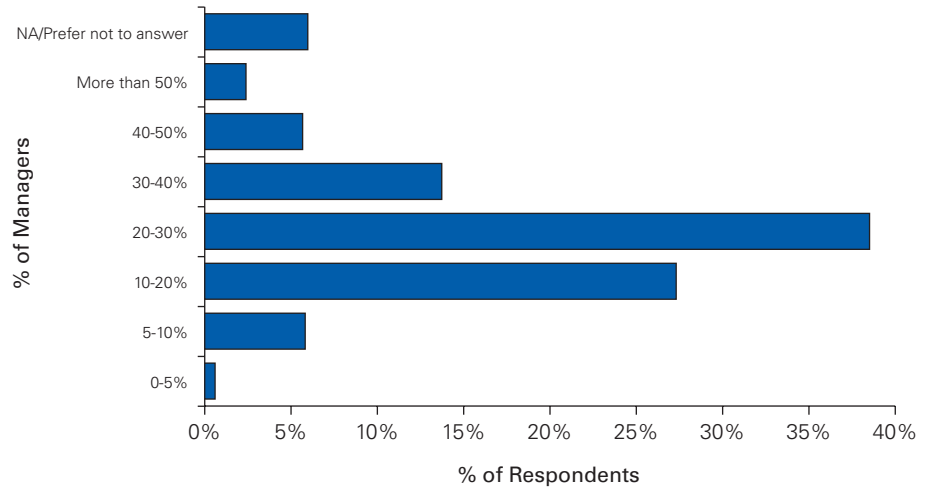


Source: 2002 Deutsche Bank Alternative Investment Survey

“Question of survivability is key”

The question of survivability is likely to play a key role in influencing investors’ allocations this year, particularly given the number of managers expected to close in 2009. 25% of investors predicted that more than 30% of managers would go out of business, with a further 40% assuming that between 20 – 30% would not survive. Clearly a significant amount of consolidation is expected within the industry this year and we would therefore anticipate that investors will be particularly keen to ensure that any new allocations made are to managers who will survive the current crisis.

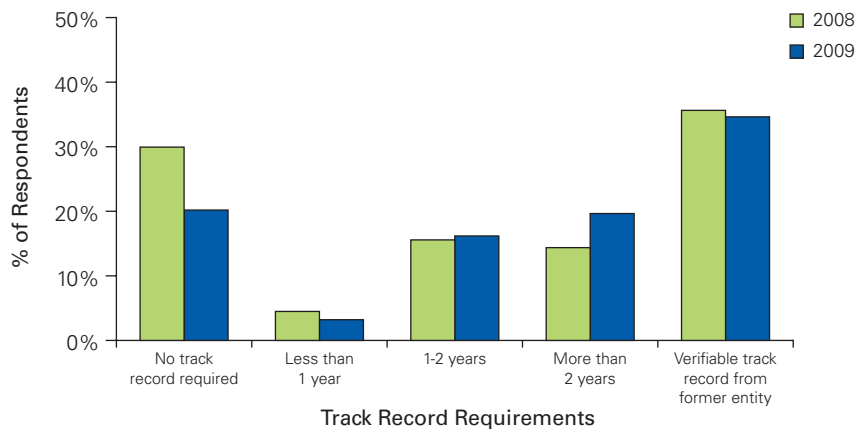
What percentage of hedge fund managers will go out of business in 2009?



Source: 2009 Deutsche Bank Alternative Investment Survey

Investors’ appetite for new launches had also decreased from last year, with only 20% saying that they would be able to allocate to a manager with no track record, compared with 30% in 2008. Indeed, over 20% of investors in this year’s survey expressed a preference for a track record of >2 years, illustrating the increased caution with which they are approaching their investment decisions. However, it is worth noting that as in 2008, over 30% of investors can consider a new launch provided that the manager has a verifiable track record from a former entity.

Do you require hedge funds to have a track record before you invest?

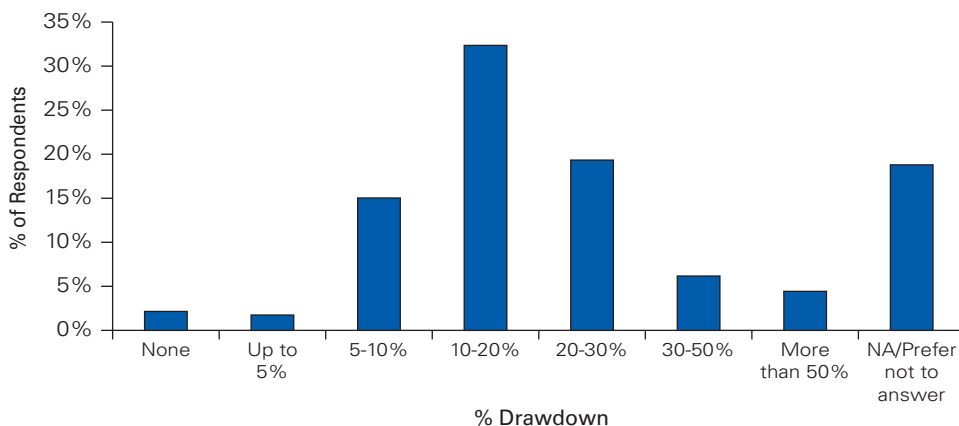


Source: 2009 Deutsche Bank Alternative Investment Survey

“Investors will allocate to managers with significant drawdowns”

In spite of their requirement for longer track records, we did note that investors will be quite flexible about investing in a manager who has experienced a significant drawdown. In what should prove to be heartening reading for the many hedge funds who experienced a challenging 2008, a third of investors would consider investing in a fund with a drawdown of 10 – 20%, with a further 25% of those surveyed expressing a willingness to allocate to managers with drawdowns greater than 20%.

Would you consider investing in a fund which experienced a maximum drawdown of ...?



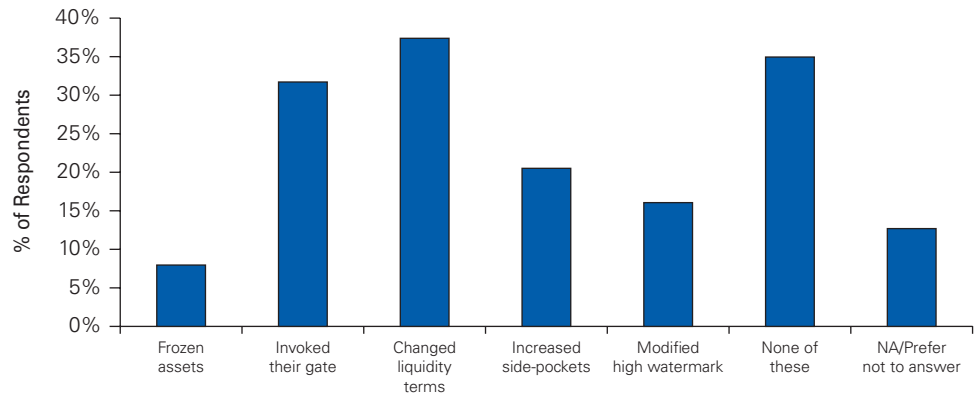
Source: 2009 Deutsche Bank Alternative Investment Survey

We have noticed therefore that investors are seemingly willing at the start of 2009 to be forgiving of poor performance given then challenging market circumstances faced by funds in the last year, but how would they react to the various measures put in place by managers to restrict their redemptions and how likely would they be to allocate new/further capital to these managers?

“Only 8% of investors would allocate to a manger that had frozen assets”

The response to this question varied significantly depending on which particular route managers had chosen to go down. Almost 40% of those surveyed said that they would invest with a fund which had changed its liquidity terms and a third said that they would also consider allocating to a manager who had invoked their gate. There was far less appetite for managers who had increased sidepockets or modified high watermarks with only 21% and 16% respectively of investors willing to look at such managers. There was even less appetite for managers who had frozen their assets with a mere 8% of respondents who would consider an investment. It should also be noted that over a third of investors said that they would not allocate to a manager who had put any of these measures in place.

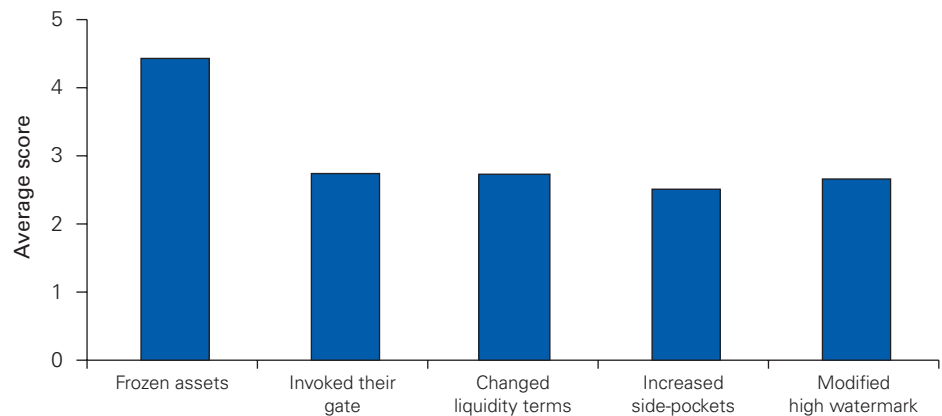
Would you invest in a hedge fund which has experienced the following? Please check all that apply.



Source: 2009 Deutsche Bank Alternative Investment Survey

We also asked investors to rank which of these actions they perceived to be the most damaging to a funds' reputation and, as expected, given that over 90% of investors indicated that they would not consider allocating to a fund that had frozen its assets, this had far the highest score. There was not a marked difference between the results for the other measures outlined.

Rank in order which of the following is perceived as most damaging to a funds' reputation¹.

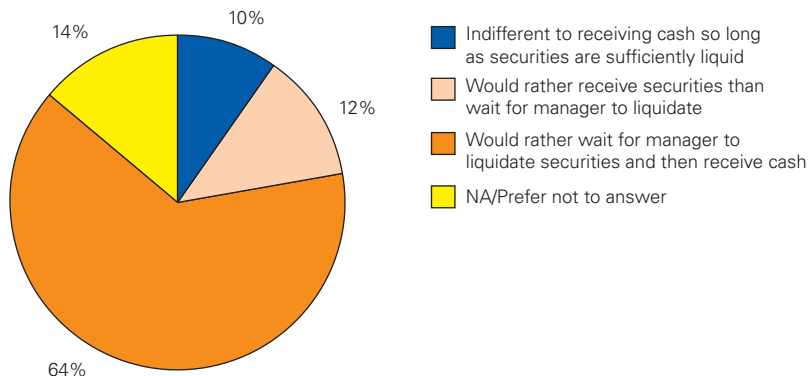


Source: 2009 Deutsche Bank Alternative Investment Survey

In addition, we asked investors what their view was with respect to receiving securities upon submission of a redemption notice. Two-thirds of investors stated that they would rather wait for the manager to liquidate the securities and then receive cash. 12% said that they would rather receive the securities than wait for the manager to liquidate with 10% indifferent to receiving cash provided that the securities were sufficiently liquid.

¹ Weighted average graphs: Investors were asked to value each category in order of importance. If a category was ranked first, the score was weighted accordingly, in order to accurately reflect respondent sentiment.

What is your view with respect to in-kind distributions from hedge funds (i.e. receiving securities upon submission of a redemption notice)?



Source: 2009 Deutsche Bank Alternative Investment Survey

“Redemptions will be the biggest challenge for managers in 2009”

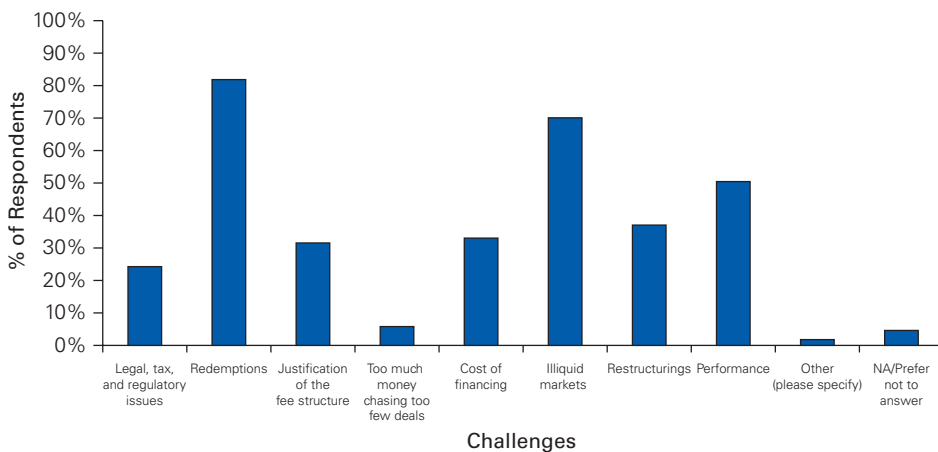
Finally, we asked investors what they considered to be the biggest challenges that their managers were likely to face over the next 12 months.

The top 3 challenges highlighted were:

- (1) Redemptions
- (2) Illiquid markets
- (3) Performance

Investors overwhelmingly indicated that they felt the continued pressure over redemptions would be the greatest challenge for managers in 2009.

What are the biggest challenges your managers face over the next 12 months



Source: 2009 Deutsche Bank Alternative Investment Survey

Global Disclaimer:

This material is for discussion purposes only and is not an offer, or solicitation of an offer, to buy or sell any security or financial instrument or to participate in any trading strategy. The information, contained herein is the Deutsche Bank's Hedge Fund Capital Group's summary, interpretation and analysis of the assumptions, estimates, views, predictions and opinions of the investors that participated in the 2009 Alternative Investment Survey as of the date of this publication. No representation is made by Deutsche Bank that the information contained herein is accurate or complete. Any projections are based on a number of assumptions as to market conditions and there can be no guarantee that any projected results will be achieved. Past performance is not a guarantee of future results.

This material was not produced, reviewed or edited by Deutsche Bank's Research Department. Any opinions expressed herein may differ from the opinions expressed by other Deutsche Bank departments including the Research Department.

The information contained in this material is provided on the basis that it is intended solely for your own internal use, and on the basis that you have such knowledge and experience in financial and business matters to be capable of evaluating the merits and risks associated with such information.

An investment in a hedge fund or a managed account involves a significant degree of risk, which each prospective investor must carefully consider before subscribing to purchase an interest in such a fund or agreeing to establish a managed account. Returns generated from an investment in a hedge fund or a managed account may not adequately compensate investors for the business and financial risk assumed. Hedge funds and managed accounts are subject to those market risks common to other types of investments, including market volatility. Furthermore, there may be restrictions on transferring hedge fund interests. In addition, certain trading techniques and strategies employed by hedge funds and managed accounts, such as the use of leverage, may increase the adverse impact to which an investment may be subject. Investors should invest in a hedge fund or open a managed account only if they are able and prepared to bear the risk of investment losses, including the potential loss of their entire investment.

Other risks associated with hedge funds investments include, but are not limited to, the fact that hedge funds: can be highly illiquid; are not required to provide periodic pricing or valuation information to investors; may involve complex tax structures and delays in distributing important tax information; are not subject to the same regulatory requirements as mutual funds; often charge higher fees and the high fees may offset the fund's trading profits; may have a limited operating history; can have performance that is volatile; may have a fund manager who has total trading authority over the fund and the use of a single adviser applying generally similar trading programs could mean a lack of diversification, and consequentially, higher risk; may not have a secondary market for an investor's interest in the fund and none may be expected to develop; may have restrictions on transferring interests in the fund; and may trade a substantial portion of their trades on foreign exchanges.

"Deutsche Bank" means Deutsche Bank AG, its branches and affiliated companies as the context requires. Deutsche Bank AG, including its subsidiaries and affiliates, does not provide legal, tax or accounting advice. This communication was prepared solely in connection with the promotion or marketing, to the extent permitted by applicable law, of the matters addressed herein, and was not intended or written to be used, and cannot be used or relied upon, by any taxpayer for purposes of avoiding any U.S. federal tax penalties. The recipient of this communication should seek advice from an independent tax advisor regarding any tax matters addressed herein based on its particular circumstances. www.db.com

DEUTSCHE BANK SPECIFICALLY DISCLAIMS ALL LIABILITY FOR ANY DIRECT, INDIRECT, CONSEQUENTIAL OR OTHER LOSSES OR DAMAGES INCLUDING LOSS OF PROFITS INCURRED BY YOU OR ANY THIRD PARTY THAT MAY ARISE FROM ANY RELIANCE ON THIS DOCUMENT OR FOR THE RELIABILITY, ACCURACY, COMPLETENESS OR TIMELINESS THEREOF.

Deutsche Bank is authorised under German Banking Law (competent authority: BaFin - Federal Financial Supervising Authority) and regulated by the Financial Services Authority for the conduct of UK business.