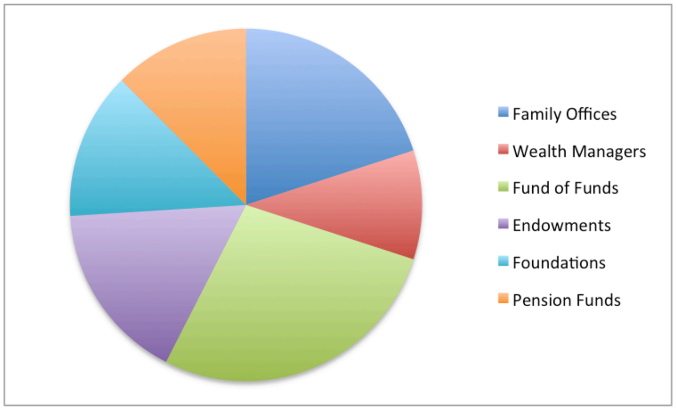
The Vantage Point

Q4 2013

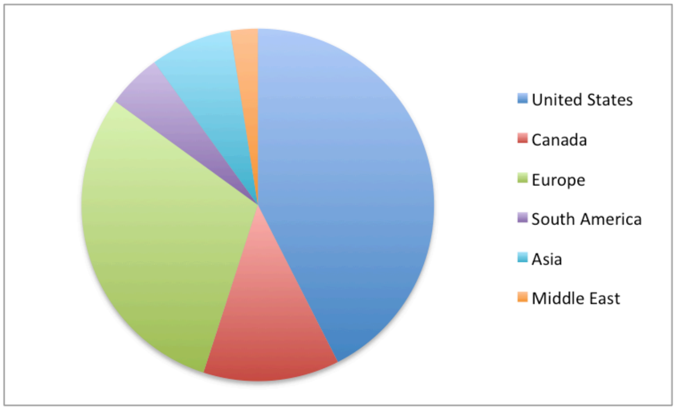
In The Vantage Point newsletter, the principals of the firm look to share their insights and feedback on hedge fund market trends gathered from hundreds of calls with institutional investors across the globe. The purpose of this letter is to provide hedge fund managers with color on the investor landscape. After compiling and analyzing our investor feedback, we sit down as a group to identify the predominant trends in the fundraising environment.

VantagePoint Alternative Investments is a boutique third-party fund placement group focusing exclusively on capital raising for single strategy hedge funds and private equity funds.

Investors Surveyed By Type



Investors Surveyed By Location



KEY THEMES IN FUNDRAISING DURING Q2 & Q3 2013

More Beta

During 2013, we have seen an increase in appetite for higher beta strategies including L/S Equity and Event Driven. Interest in these funds has very much mimicked the overall performance of the equity markets. We expect allocations to this space to continue through the end of the year into 2014.

Inside this Issue:

Credit to Equities

The rise in the US equity markets coupled with the Fed's continued easing has pushed many investors, unable to find suitable yield, to shift their focus away from the credit markets and into equity strategies. One exception to this has been the interest in specialist credit managers such as European Distressed. In 2011 & 2012, some of the most desired strategies were Structured and Distressed Credit. Now, many of those same investors have filled these buckets with high performing funds and have spent much of 2013 looking for L/S Equity funds. Going into 2014, we have seen an uptick in interest for International Equity and European Equity managers.

The Rise of the Specialist

During Q2 and Q3, we witnessed an increase in appetite for specialized investment strategies. Certain investors have filled their main portfolio buckets and have looked to managers focused on niche strategies to round out their portfolio exposure. Family offices & multi-family offices with less rigid portfolio guidelines have taken advantage of this flexibility to capitalize on inefficiencies in niche markets.

Off The Cuff

- We're hearing from certain investors that they are looking at European equities in the belief that, in the medium term there are more opportunities there than in US equities.
- Investors that have credit buckets are rotating out of low yielding strategies in search of niche strategies that offer more attractive yields.
- More and more Fund of Funds (FoFs) have been launching 40 Act vehicles as the rush for 'mass affluent' capital becomes a major theme in fundraising.
- There has been more appetite for activist strategies, especially from pension funds, family offices, and FoFs.
- Institutions that have been unhappy with the performance of their CTA portfolios over the last two years are starting to look for uncorrelated alternatives.
- FoFs and consultants are devoting more time to developing customized portfolios for their clients.

PORTFOLIO CONSOLIDATION

Over the past 12 months, we have heard more investors discuss how they have consolidated their liquid alternatives portfolios. These investors have looked to allocate additional risk to key hedge funds and limit the overall number of LP holdings. This is particularly prevalent with FoFs. Many FoFs are moving away from broad diversification across fund managers; redeeming from some hedge funds and re-allocating to 'their best horses.' These institutions have seen a rise in their risk/returns due to the performance drag of over-diversification. Portfolio concentration is a key theme that will permeate throughout the investor landscape for the foreseeable future.

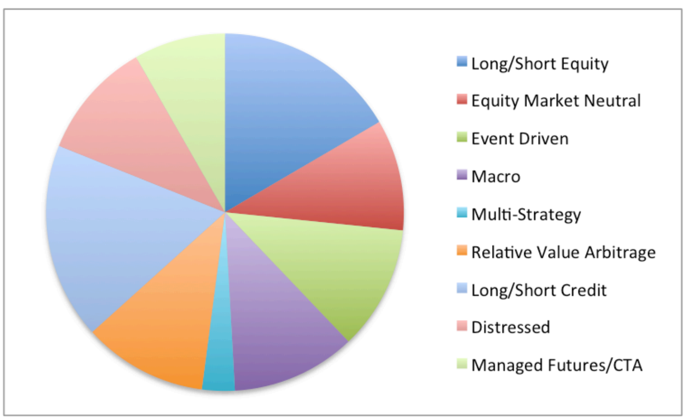
Off The Cuff

- With the run-up in equity markets, institutions have been trying to decide if and when to get into higher exposure equity managers.
- A number of large institutions and family offices say that they have been sitting on cash but plan to put more capital to work in the first half of next year.
- We expect there to be a pick-up in appetite for market neutral funds in 2014.
- Sophisticated Canadian investors (pensions, non-profits, and family offices) have been dialing up their exposure to direct hedge funds. We see Canada playing an increasingly important role in global fundraising.
- Non-profits have been looking for new fixed-income alternatives that are throwing off current cash.
- Interest in Event Driven strategies has picked up considerably while there has been a noticeable softening in Macro interest.

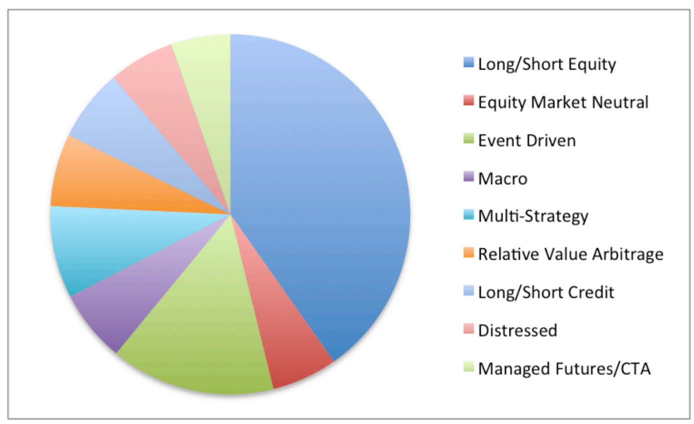
Sept. 2013 Performance		Total Return		
HFRI Indices	**Sept. ROR**	**YTD**	**1 YR**	**3 YR**
HFRI Fund Weighted Composite Index	1.60%	5.58%	7.13%	12.08%
HFRI Equity Hedge (Total) Index	2.61%	9.17%	11.18%	14.58%
HFRI EH: Equity Market Neutral Index	0.42%	3.69%	4.63%	6.66%
HFRI EH: Quantitative Directional	1.45%	6.85%	6.87%	11.69%
HFRI EH: Short Bias Index	-2.59%	-13.61%	-17.34%	-34.42%
HFRI Event-Driven (Total) Index	1.99%	8.98%	12.77%	20.31%
HFRI ED: Distressed/Restructuring Index	1.31%	9.40%	13.73%	23.91%
HFRI ED: Merger Arbitrage Index	0.90%	3.36%	4.48%	8.73%
HFRI Macro (Total) Index	-0.19%	-2.08%	-2.96%	-1.82%
HFRI Macro: Systematic Diversified Index	-0.45%	-3.54%	-5.89%	-4.45%
HFRI Relative Value (Total) Index	1.44%	5.05%	7.57%	19.97%
HFRI RV: Fixed Income-Asset Backed	0.24%	6.06%	9.88%	34.92%
HFRI RV: Fixed Income-Convert Arb Index	1.07%	6.46%	8.38%	14.24%
HFRI RV: Fixed Income-Corporate Index	1.52%	3.64%	6.53%	19.16%
HFRI RV: Multi-Strategy Index	1.28%	5.82%	8.34%	15.42%
HFRI RV: Yield Alternatives Index	1.91%	12.46%	13.06%	35.40%
HFRI Emerging Markets (Total) Index	3.26%	2.07%	7.13%	1.12%

Source: Hedge Fund Research, Inc. www.hedgefundresearch.com

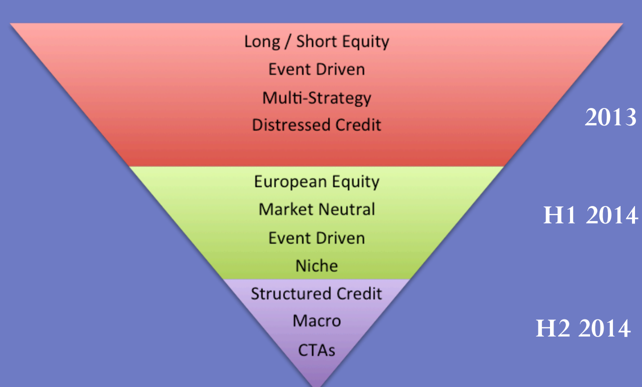
Strategies Requested in H2 2012



Strategies Requested in H2 2013



Strategy Demand Over Time

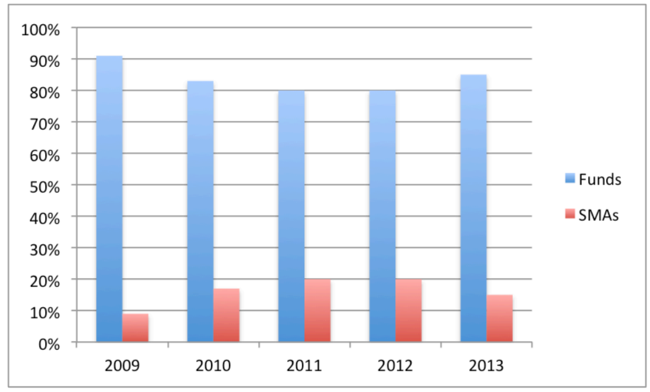


We see a shift in strategy focus coming in 2014. This year has been dominated by investors chasing beta. We see the markets getting choppier in the medium term and performance will be generated by funds focusing on finding alpha in opportunistic areas. The chart on the left illustrates the strategies that we expect will see inflows in the first half of 2014, and those we expect will see inflows towards the end of the year and beyond.

The Shift to Emerging Managers Continues

A continuing trend we are seeing is the move from larger hedge funds to emerging funds. During the height of the financial crisis most investors moved assets to larger, presumably more stable funds. We are now seeing that trend reverse with more institutional investors dedicating a portion of their portfolio - in certain cases significant portions - to smaller, emerging hedge funds as the evidence continues to mount that funds in years 1-5 historically outperform their seasoned peers. The definition of 'emerging manager' varies greatly by investor: from sub $1bn to sub $250mm. It is important to know which investors use which emerging manager definition. Another reason for the move to emerging managers is the need by FoFs and consultants to add value by finding the undiscovered gems. Their clients can go directly to the large brand name managers. These end investors don't need to pay additional fees to gain access to these funds. Finally, we have continued to see large, brand name fund managers closing to new investors, or returning excess capital in order to continue to produce the returns their investors have become accustomed to. This opens the door for flows into emerging funds.

Investor Appetite For Funds Vs. SMAs



Following the market fall of 2008 and the Madoff fraud, the institutional investor market shifted towards separately managed accounts (SMAs) as a panacea for operational risks. Although we continue to see interest in SMAs, particularly amongst sophisticated family offices, FoFs, and pensions with large alternatives teams, there has been a noticeable shift back to commingled vehicles. The main driver for the pullback on SMAs is that the operational infrastructure needed to adequately implement and monitor these investments tends to not outweigh the benefits; particularly as these investors are often asking for, and receiving a higher level of transparency from their managers inside the comingled vehicle.

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