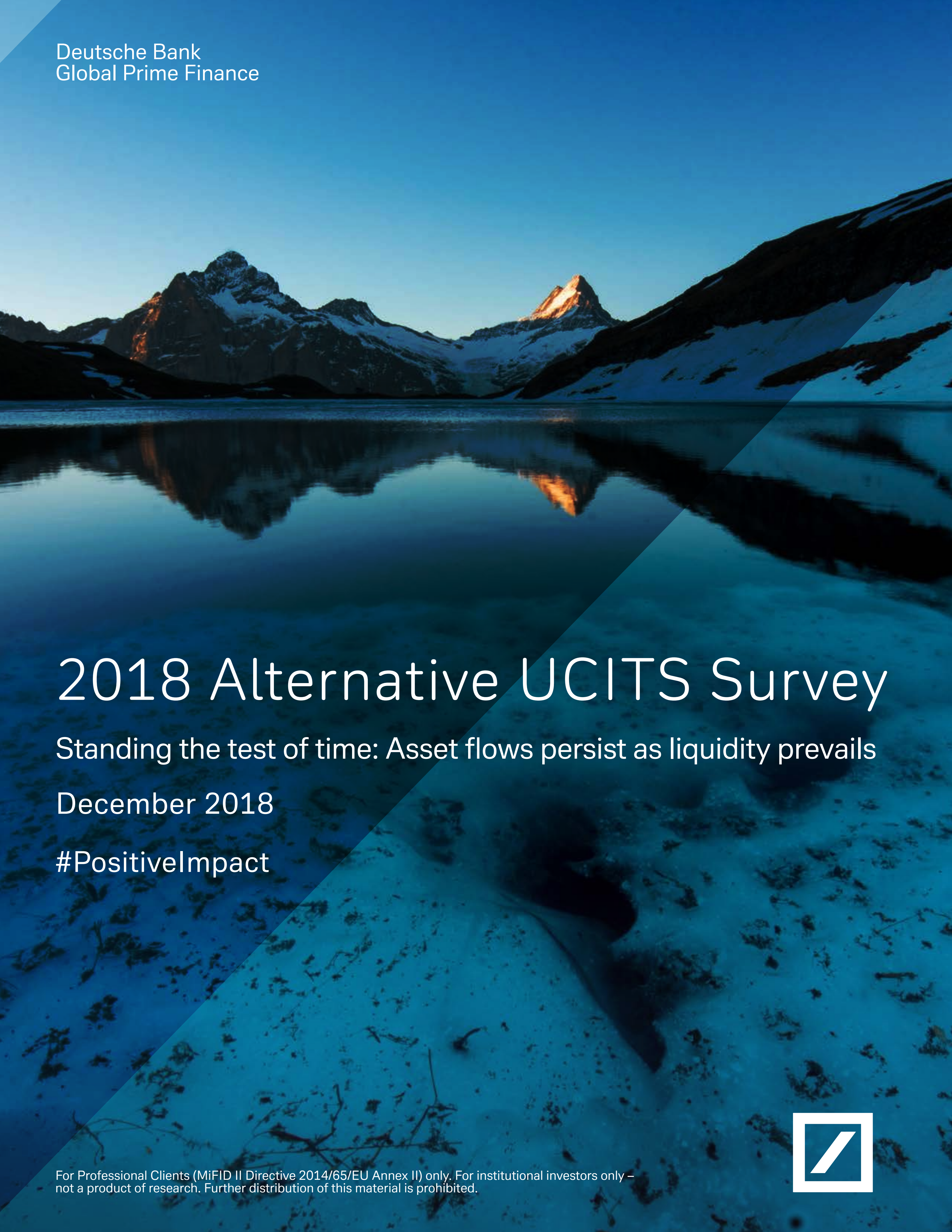

Deutsche Bank
Global Prime Finance

2018 Alternative UCITS Survey

Standing the test of time: Asset flows persist as liquidity prevails

December 2018

#PositiveImpact

Printed in December 2018.

Acknowledgement

Deutsche Bank's Capital Introduction Group would like to thank all investors who have participated in our 2018 Alternative UCITS Survey. It is only with the help of our investor network that we can produce such research. We thank these institutions for taking the time to provide us with invaluable insights into their UCITS allocation process and plans for the future.

This survey is a complement to our annual Alternative Investment Survey, one of the most comprehensive and longest running global hedge fund investor surveys in the industry.

Finally, we would like to thank our colleagues, who contributed to making this year's report particularly insightful.

We hope you find the survey of interest and we look forward to working with you.

Marlin Naidoo
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Contents

Executive summary

Executive summary

Total assets managed by alternative UCITS funds have increased meaningfully, achieving a compounded annualised growth rate (CAGR) of over 18% since January 2014 to reach $374bn as of September 2018.[1] While the size of the alternative UCITS universe remains small relative to that of the overall hedge fund ($3.2tn)[2] and UCITS ($11.5tn)[3] industries, both of these have lower CAGRs of 4.5% and 8% respectively over the same period.[4] In contrast, performance for alternative UCITS funds has been muted, returning a CAGR of 80bps since January 2014 (3.9% cumulative return) during which offshore hedge funds delivered a CAGR of 3.6% (18.2% cumulative return).[5] This backdrop coupled with the findings from our 2018 Alternative UCITS Survey which follows, are testament that the benefits of the UCITS structure such as liquidity, transparency and its regulatory stamp of approval are standing the test of time as asset flows persist.

We invited our global investor network to participate in this survey with the view to better understanding the current investor demand and key themes that are shaping the alternative UCITS industry. The Deutsche Bank Capital Introduction Group is pleased to present our key findings:

Investor demand continues for alternative UCITS despite underperformance

- Once again our findings suggest that the industry is set for further growth– over half of the respondents that invest in alternative UCITS strategies plan to increase their UCITS allocation in the next 12 months.
- Based on survey respondent data, we estimate that these investors collectively will invest $13.7bn in new capital to alternative UCITS in the 12 months following this survey, having already invested $9.5bn through the first three quarters of 2018.*
- 62% of respondents felt their alternative UCITS funds have underperformed in 2018 while the remaining 38% reported performance in line with expectations (27%) or outperformance (11%).

Fund AUM requirements trend downwards as investors favour longer track records

- Although the percentage of UCITS allocators who have minimum AUM requirements has remained almost unchanged when compared to 2016, there is a clear downward shift in the magnitude of these requirements. The percentage of investors who require a minimum AUM of less than $50m has increased to 24% from 15% in 2016. Meanwhile, the percentage of investors who require an AUM of over $50m has fallen from 43% to 35% over the same period.[6] This shift suggests possible supply issues as investor appetite increases for smaller funds.
- The proportion of allocators who require a track record of over 2 years has increased more than threefold to 26% from 8% two years ago.[7]

*No assurance can be given that any forecast or target will be achieved.

1 Absolute Hedge, www.absolutehedge.com,"Q3 2018 Alternative UCITS Report", October 2018; Deutsche Bank analysis; £286.6bn converted at September 30 2018 rate (1 GBP = 1.3033 USD)
2 HFR Industry Reports © HFR., "Global Hedge Fund Industry Report – Third Quarter 2018", www.HedgeFundResearch.com
3 EFAMA, www.efama.org, "EFAMA Investment Fund Industry Fact Sheet", October 2018; €9,9tn converted at September 30 2018 rate (1 EUR = 1.1615 USD)
4 Deutsche Bank analysis based on data from HFR and EFAMA
5 Deutsche Bank analysis based on data from Absolute Hedge and HFR
6 Deutsche Bank 2016 Alternative UCITS Survey, October 2016
7 Deutsche Bank 2016 Alternative UCITS Survey, October 2016

Asia alternative UCITS strategies have become increasingly popular

- Asia alternative UCITS strategies have seen a significant increase in popularity over the past two years. 25% of investors are planning to allocate to Asia, up from 15% in our previous survey.[8]
- Allocators are finding it difficult to source funds in the region. The percentage of investors reporting that they struggle to source Asia including Japan strategies has doubled in the past 2 years from 19% to 39%.[9]

Fundamental equity long/short is the most sought after strategy

- Fundamental equity long/short proved to be the most sought after alternative UCITS strategy, up from second most in demand in our 2016 Alternative UCITS Survey.[10] 44% of responding UCITS investors are planning to add to the strategy in the 12 months following this survey.

Environmental, social and governance (ESG) is a key focus

- 29% of respondents are looking to increase their allocation to socially responsible / environmental, social and governance (ESG) strategies within an alternative UCITS format. Furthermore, with 21% expecting to allocate to offshore funds of the same nature, ESG/SRI is the most sought after offshore strategy among our respondents.

Risk Premia to see commitment from UCITS investors

- Nearly half of responding investors currently allocate to alternative risk premia UCITS funds. Of these investors, 59% expect to increase their allocation in the next twelve months, with almost a third expecting this increase to be over USD100m.

Author: Maria Gendelman, Capital Introduction Group, EMEA

Editors: Marlin Naidoo, Global Head of Capital Introduction & Hedge Fund Consulting
Christine Leysen, Global Prime Finance Sales, EMEA

8 Deutsche Bank 2016 Alternative UCITS Survey, October 2016
9 Deutsche Bank 2016 Alternative UCITS Survey, October 2016
10 Deutsche Bank 2016 Alternative UCITS Survey, October 2016

Methodology & investor profile

Methodology & investor profile

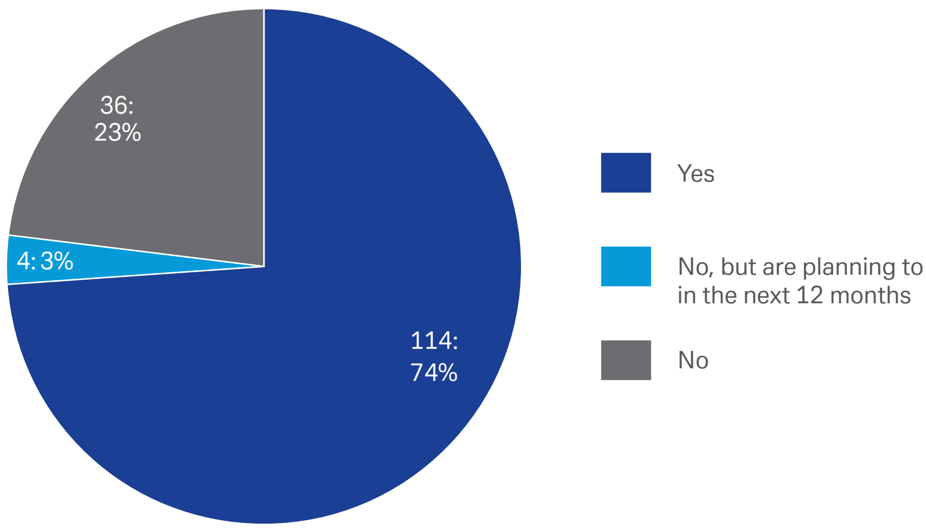
Methodology

Deutsche Bank's Capital Introduction Group invited our global investor network to participate in this survey during autumn 2018.

Of the 154 global hedge fund allocators who completed our survey, 114 told us they actively allocate to alternative UCITS strategies. These 114 allocators collectively manage and/or advise on $600bn of hedge fund assets and $150bn in alternative UCITS assets, representing 40% of the $374bn overall assets of the alternative UCITS industry.[11]

Our respondents comprise a wide variety of investor types, predominantly from Europe. The information that follows explores their views on the ever-evolving alternative UCITS marketplace.

Do you/your client(s) allocate to alternative UCITS funds?



Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018

Terminology

For the purpose of this survey, "alternative UCITS" refers to absolute return strategies (including hedge fund and alternative beta / risk premia strategies) run within a UCITS compliant framework.

"Hedge fund assets" may include assets invested in hedge fund, alternative UCITS, alternative '40 Act and alternative beta / risk premia strategies.

"Alternative risk premia UCITS" refers to risk premia strategies run within a UCITS compliant framework.

Institutional investors, for the purposes of this survey are defined as public and private pension funds, sovereign wealth funds, endowments, foundations and insurance companies.

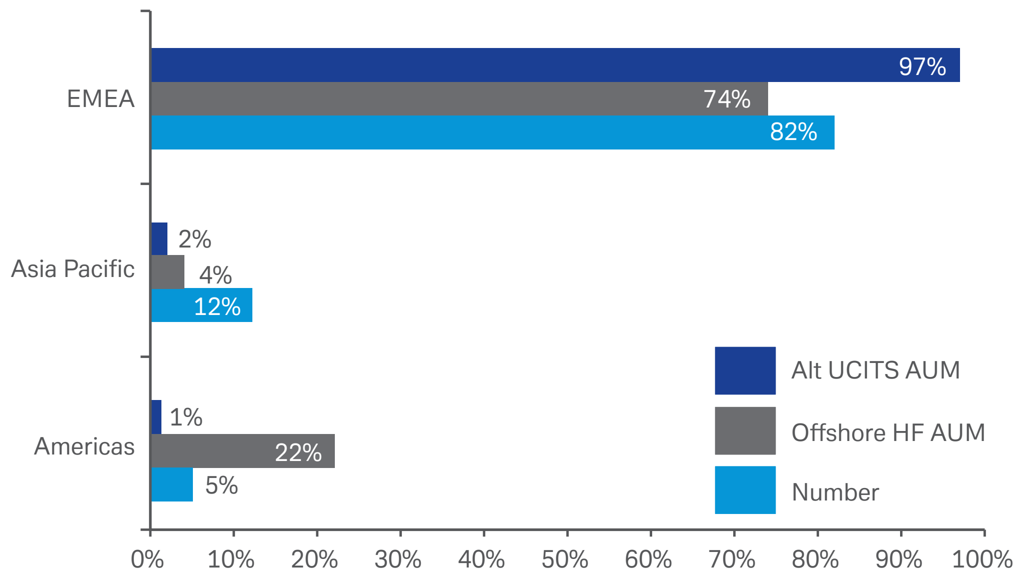
Unless otherwise stated, analysis around these specific strategies is based upon data drawn from respondents investing in such products. Please note that throughout the publication, percentages may not total 100% in some graphs due to rounding.

11 Absolute Hedge, www.absolutehedge.com,"Q3 2018 Alternative UCITS Report", October 2018; £286.6bn converted at September 30 2018 rate (1 GBP = 1.3033 USD)

Investor profile:

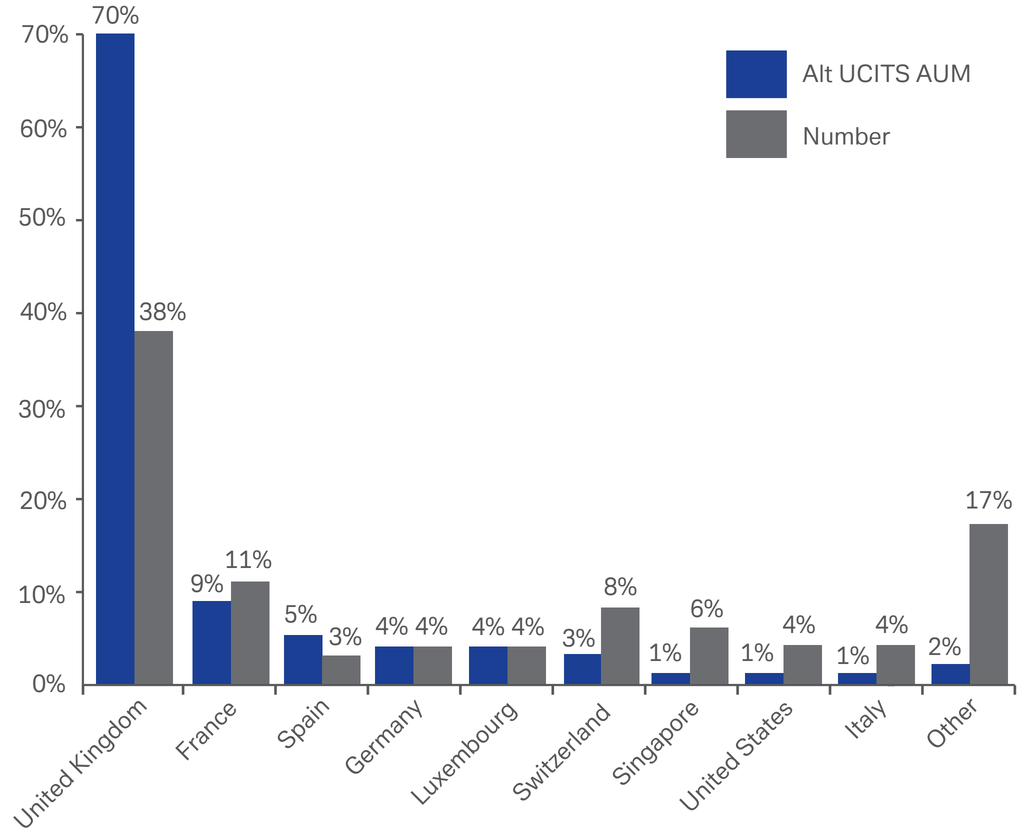
- Alternative UCITS allocators from 21 different countries responded to the survey.
- As anticipated, the vast majority of these 114 respondents are based in EMEA representing 97% by alternative UCITS assets under management ("Alt UCITS AUM") and 82% by number.
- By country, the majority of allocators are based in the United Kingdom, accounting for 70% by Alt UCITS AUM and 38% by number.
- Funds of hedge funds are the largest investor group to contribute to the survey, representing 55% by Alt UCITS AUM and 48% by number. Investment consultants and advisors follow, representing 29% by Alt UCITS AUM and 12% by number.
- One third of UCITS allocators who responded to our survey manage more than $500m in Alt UCITS assets, including 19% who manage more than $1bn in Alt UCITS AUM.
- Fundamental equity long/short, event driven and discretionary macro are the most common alternative UCITS strategies currently invested in by respondents.
- EMEA based UCITS allocators, on average, allocate 56% (median: 50%) of their total HF assets into UCITS strategies. When looking at all UCITS allocators who answered our survey, this statistic is 51% (median: 43%).

Breakdown of alternative UCITS allocator respondents by region



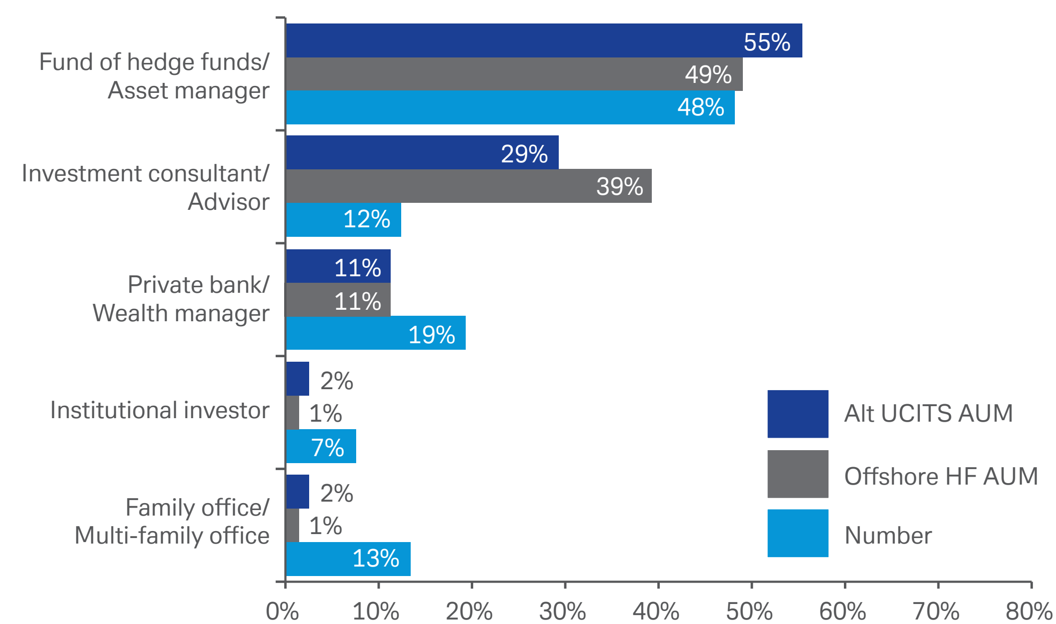
Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018

Breakdown of alternative UCITS allocator respondents by country



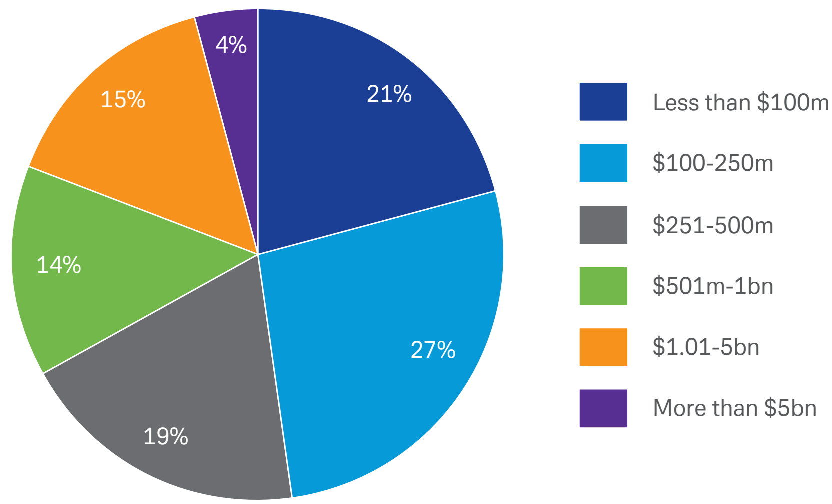
Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018

Breakdown of alternative UCITS allocator respondents by investor type



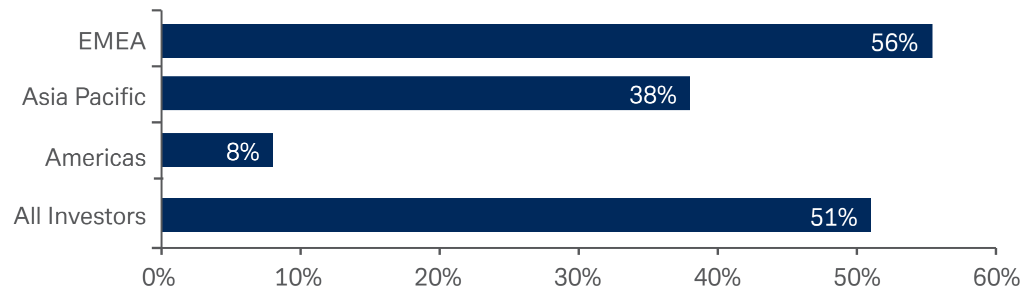
Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018

Breakdown of alternative UCITS allocator respondents by size of alternative UCITS portfolio



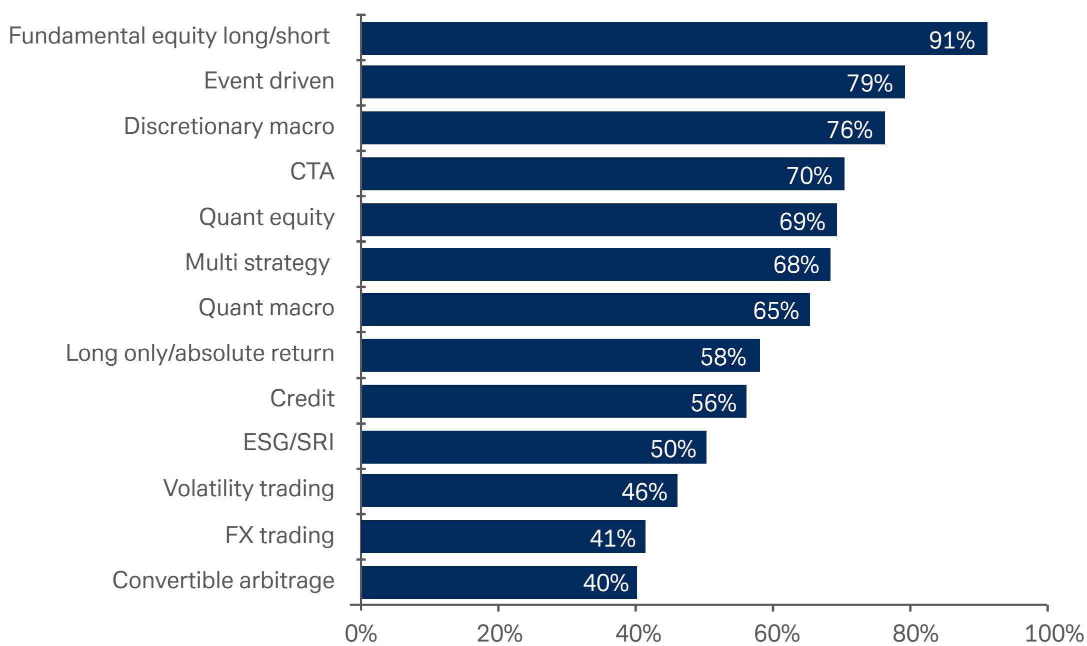
Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018

Average proportion of investor hedge fund AUM allocated to alternative UCITS, by region



Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018

Alternative UCITS strategy allocations, by number



Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018

Investment Criteria

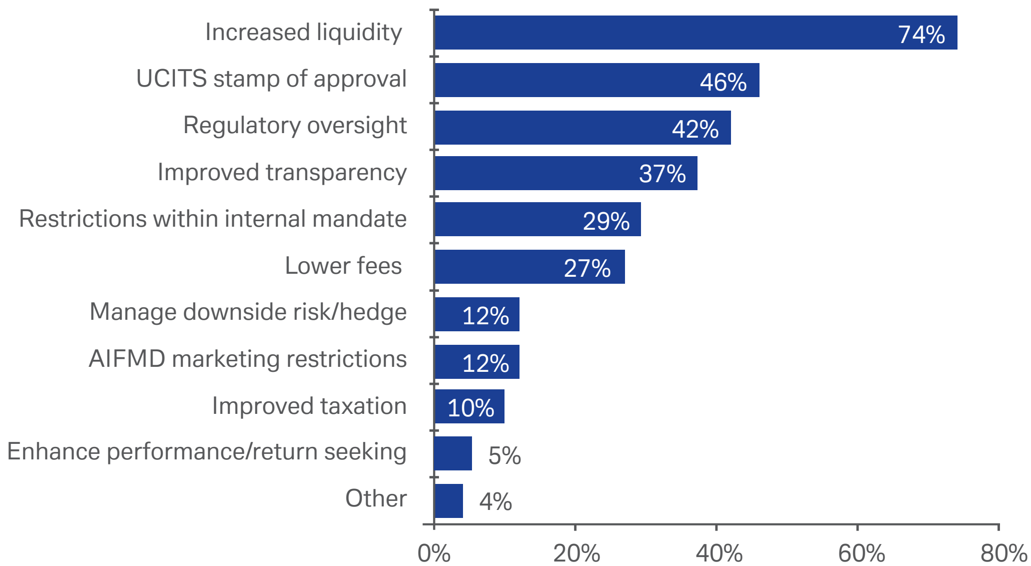
Investment Criteria

Section highlights

- Increased liquidity remains the most commonly cited benefit of investing in alternative UCITS funds, followed closely by a growing appreciation for the UCITS stamp of approval.
- Minimum fund AUM requirements are trending downwards.
- The proportion of alternative UCITS allocators who require a track record of over 2 years has increased by more than threefold to 26% from 8% in 2016.[12]

"UCITS are very reliable and liquid investments"
Family office / Multi-family office, Latin America

What are the main reasons for investing in alternative UCITS strategies?



Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018

In line with our previous survey,[13] the most commonly cited benefit of investing in alternative UCITS funds continues to be increased liquidity. Almost three quarters (74%) of our respondents stated liquidity as one of the main motivations for their allocations. The UCITS stamp of approval and regulatory oversight were the next most popular reasons for investing in alternative UCITS strategies, respectively.

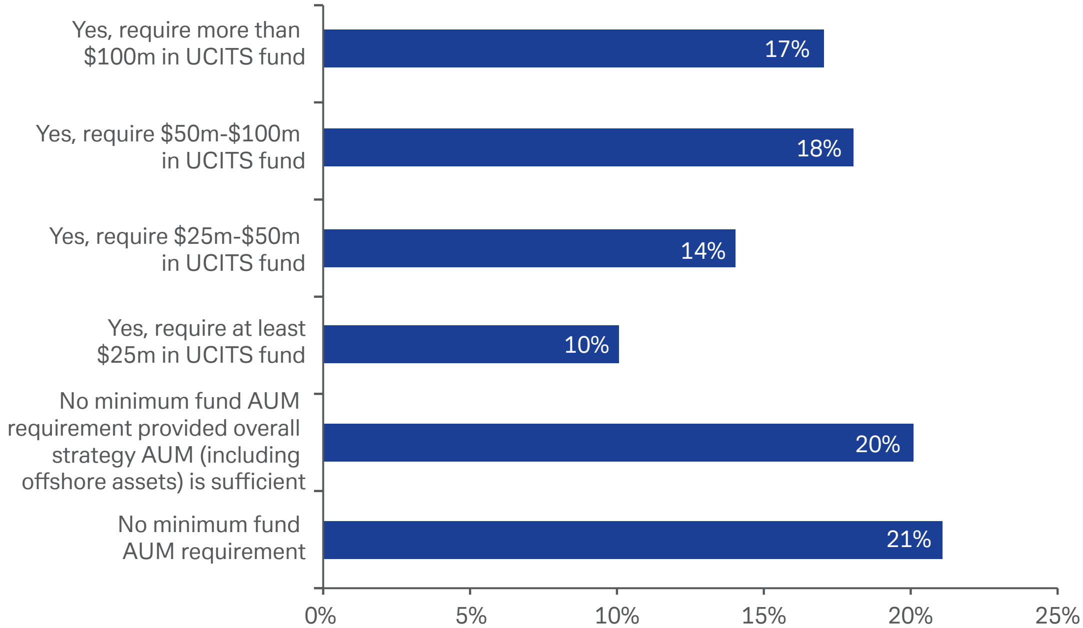
"Transparency, understanding of the investment philosophy & alignment is a key element to have a happy long term investor, no matter what the returns are in good and bad times."
$600m fund of hedge funds / asset manager, Europe

Key benefits that alternative UCITS funds provide include:

- Liquidity: A maximum of bi-monthly liquidity allows investors to withdraw their cash quickly.
- Standardization: UCITS funds offer a basic level of transparency, reporting, analytics and performance data which allows investors to streamline their internal processes.
- Tax: European regulated vehicles have tax benefits in some jurisdictions.
- Oversight: UCITS rules on minimum diversification, maximum concentration and counterparty exposure limits are appealing to investors.
- Investment Size: Lower minimum investment requirements enable investors to access alternative strategies that were previously inaccessible due to high minimum investment thresholds.

12 Deutsche Bank 2016 Alternative UCITS Survey, October 2016
13 Deutsche Bank 2016 Alternative UCITS Survey, October 2016

When considering an investment in alternative UCITS funds, do you have minimum FUND AUM requirements?



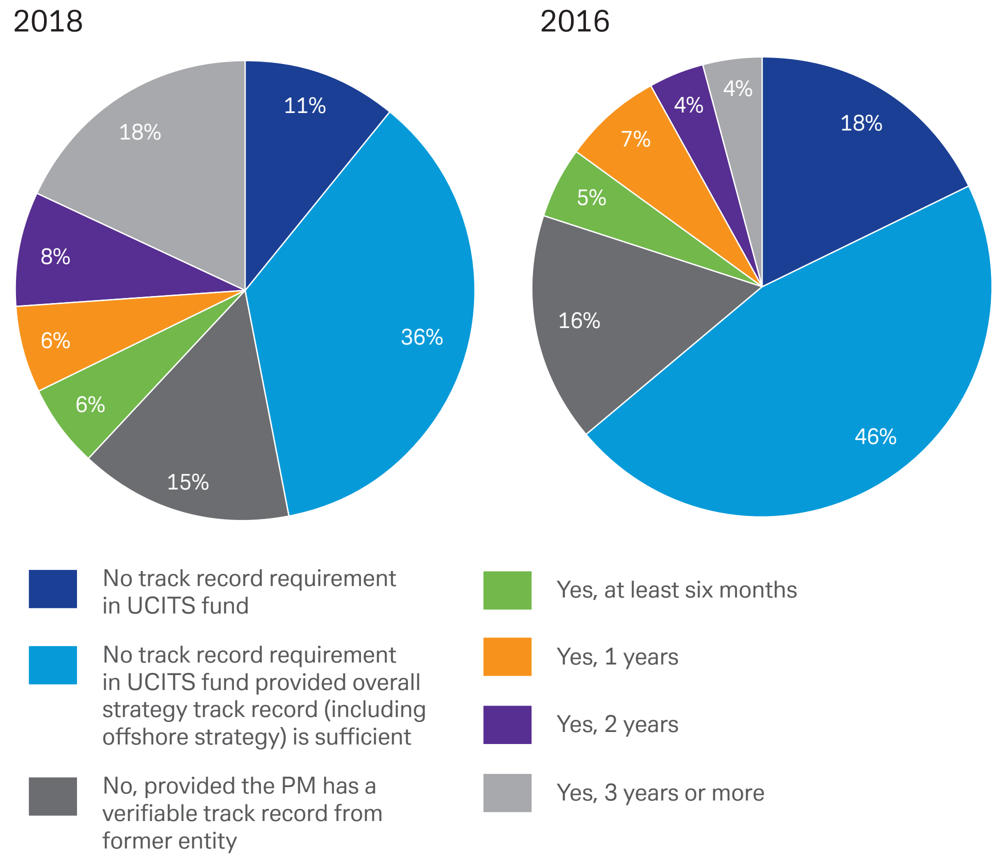
Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018

Just over one in five (21%) alternative UCITS investors have no minimum AUM requirement when considering a potential fund allocation. Furthermore, we found that one in five UCITS allocators have no minimum fund AUM requirement provided overall strategy AUM (including offshore assets) is sufficient.[14] This is consistent with what we found in our previous Alternative UCITS Survey two years ago where these numbers were 20% and 22% respectively.[15]

Although the percentage of UCITS allocators who have minimum AUM requirements (59%) has remained almost unchanged when compared to 2016 (58%)[16], there is a clear downward shift in what these requirements are. The percentage of investors who require a minimum AUM of less than $50m has increased to 24% from 15% in 2016.[17] Meanwhile, the percentage of investors who require an AUM of over $50m has fallen from 43% to 35% over the same period.[18] This shift suggests possible supply issues as investor appetite increases for smaller funds.

14 We estimate sufficient assets to be roughly $100m.
15 Deutsche Bank 2016 Alternative UCITS Survey, October 2016
16 Deutsche Bank 2016 Alternative UCITS Survey, October 2016
17 Deutsche Bank 2016 Alternative UCITS Survey, October 2016
18 Deutsche Bank 2016 Alternative UCITS Survey, October 2016

Do you have a minimum FUND track record requirement when considering an investment in an alternative UCITS fund?



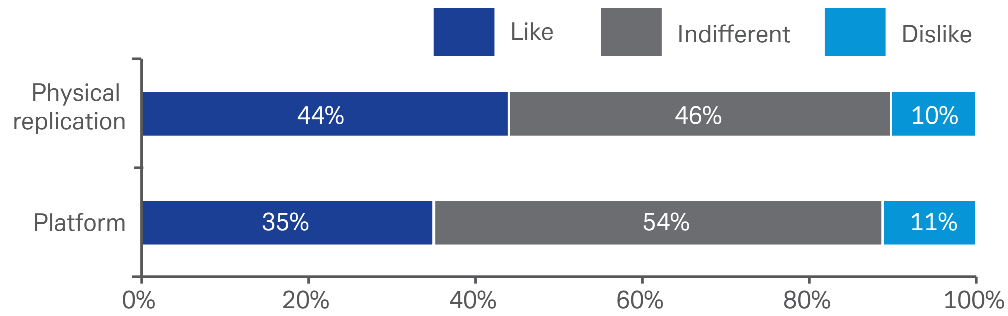
Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018; Deutsche Bank 2016 Alternative UCITS Survey, October 2016

The percentage of UCITS allocators who require a fund track record in the current UCITS format prior to investing in an alternative UCITS fund has doubled since our 2016 survey.[19] 38% of allocators require a fund track record in the current UCITS format prior to investing in an alternative UCITS fund whereas two years ago only 20% of UCITS allocators had such a requirement.[20]

Over the same time period there has been a clear increase in what these requirements are. The proportion of clients that require a track record of two years has also doubled since our 2016 survey while the proportion of clients that require a track record of three years or more has seen the biggest change, increasing from 4% in 2016 to 18% now.[21]

19 Deutsche Bank 2016 Alternative UCITS Survey, October 2016
20 Deutsche Bank 2016 Alternative UCITS Survey, October 2016
21 Deutsche Bank 2016 Alternative UCITS Survey, October 2016

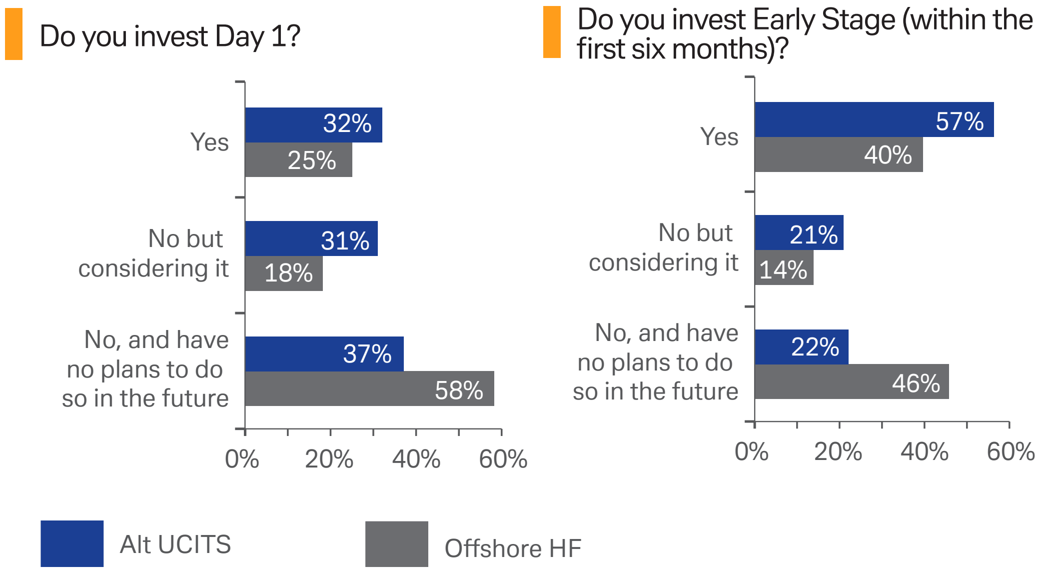
When investing in alternative UCITS funds, what are your preferences with respect to the following fund structures?



Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018

UCITS funds can take exposure either through swaps on the strategy held in another vehicle (synthetic replication) or through holding the underlying instruments directly in the fund (physical replication). Investors are aware of these differences; 44% of our respondent said they like UCITS structures which physically replicate the strategy in UCITS.

Platforms provide benefits such as security, reporting, transparency and monitoring. This may however, come at an additional cost that can sometimes deter investors. Nevertheless, the majority of investors appear to focus on the strategy and fund itself, and less on the hosting platform/entity. This is reflected in the data as 54% of investors are indifferent to whether the fund is hosted on a platform or not.



Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018

When it comes to early stage investing, alternative UCITS are often different from offshore hedge funds. In most cases, when investing early stage in alternative UCITS, the firm is already set up, trading and running money in the same or similar strategy. As a result, operational risk is significantly lower for early stage UCITS investors when compared to early stage offshore investors. This is reflected in our results with a greater number of allocators investing in, or considering to invest day 1 and early stage in alternative UCITS funds versus offshore hedge funds.

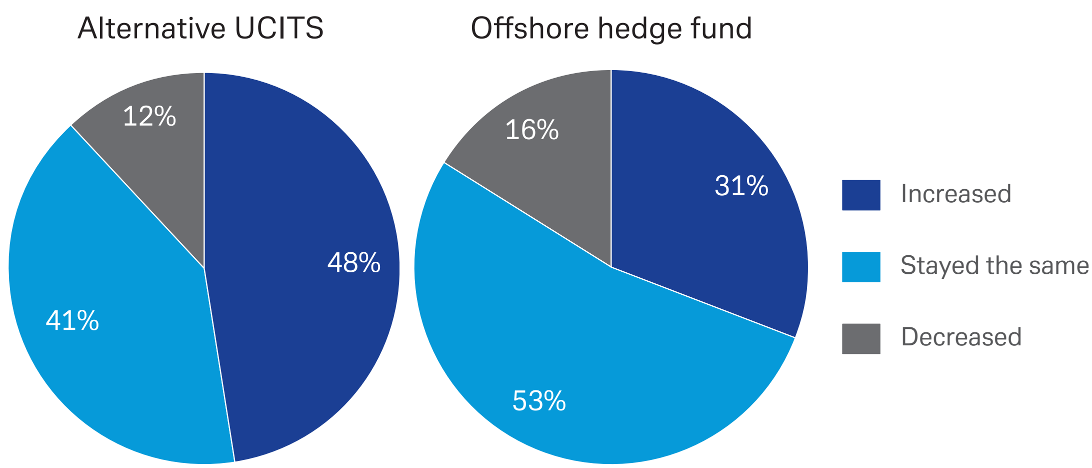
Asset Flows

Asset Flows

Section highlights

- Over half of UCITS allocators expect to increase their allocation to alternative UCITS in the next 12 months whereas only one third say the same for their offshore hedge fund allocation.
- One in four alternative UCITS allocators expect to invest an additional $100m or more to the industry in the 12 months following this survey.
- Asia Pacific investors are an increasingly relevant investor demographic for the alternative UCITS industry as 69% of allocators in the region plan to increase their allocation in the following 12 months.

How did your AUM/AUA change in 2018?



Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018

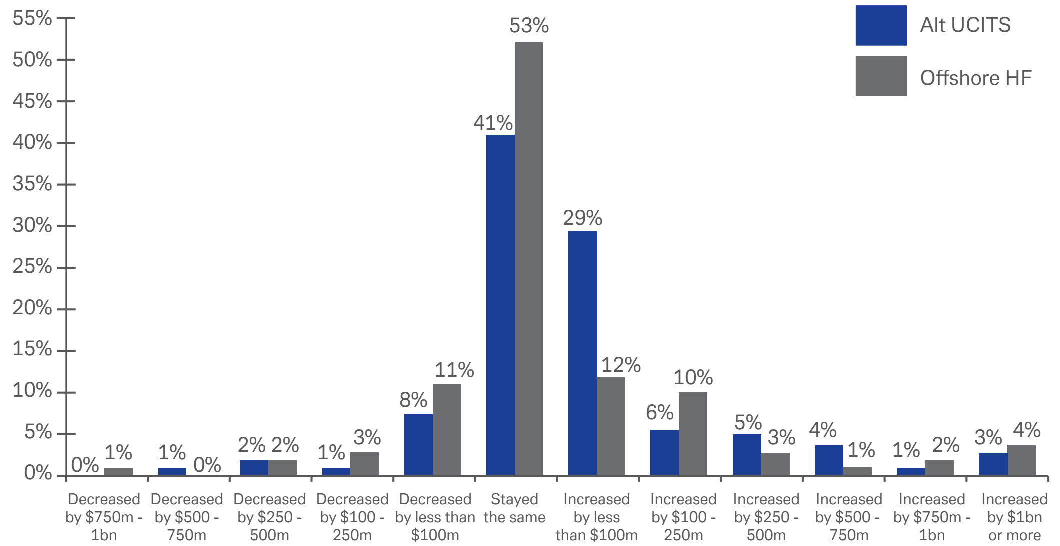
48% of UCITS allocators increased their allocation to alternative UCITS funds thus far in 2018 while only 31% increased their allocation to offshore hedge funds over the same time period. In our previous survey, this was 68% and 33% respectively[22]. Although this points to a potential slowdown in the rate of growth of the alternative UCITS industry, overall, our results still suggest that the growth rate for alternative UCITS may continue to outstrip that of offshore hedge funds with respect to investors that invest in both structures.

Investment consultants and advisors as well as private banks and wealth managers were the key drivers for growth in alternative UCITS strategies in 2018. 62% and 59% of these investor groups, respectively, increased the size of their alternative UCITS portfolios in 2018.

Of the 48% of respondents who grew their alternative UCITS allocation, 19% said they invested over $100m of additional capital in alternative UCITS strategies. 8% of investors saw an increase of over $500m in their UCITS portfolios.

22 Deutsche Bank 2016 Alternative UCITS Survey, October 2016

How did your AUM/AUA change in 2018, by size of allocation?

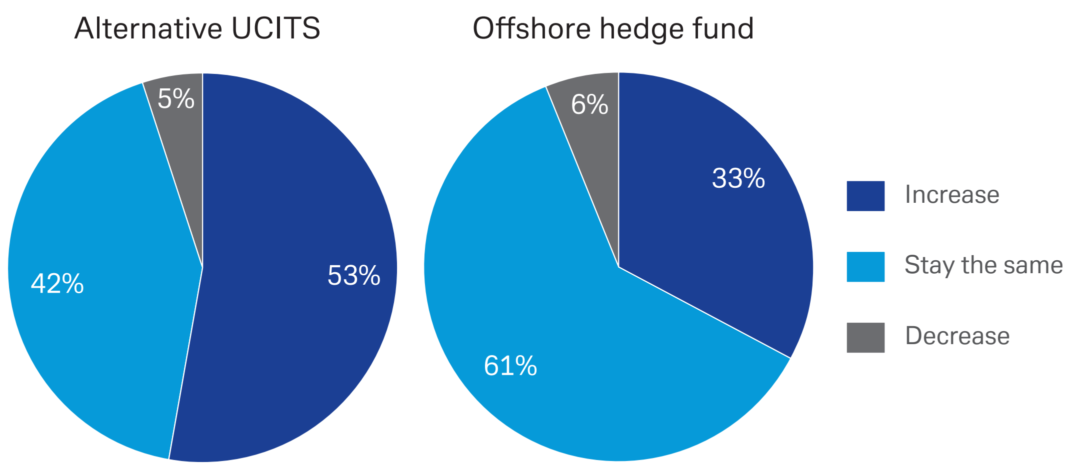


Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018

Survey results estimate that responding UCITS allocators invested a combined $9.5bn in additional capital to alternative UCITS through to the third quarter of 2018, approximately $84m on average per investor. In comparison, the same group of allocators invested an estimated combined $7.4bn in additional capital to offshore hedge funds over the same period, approximately $65m on average per investor.

"I am convinced the overall quality and number of alternative UCITS funds will continue to improve." $100bn private bank / wealth manager, Europe

How do you expect your AUM/AUA to change over the next 12 months, based on year to date inflows/outflows?

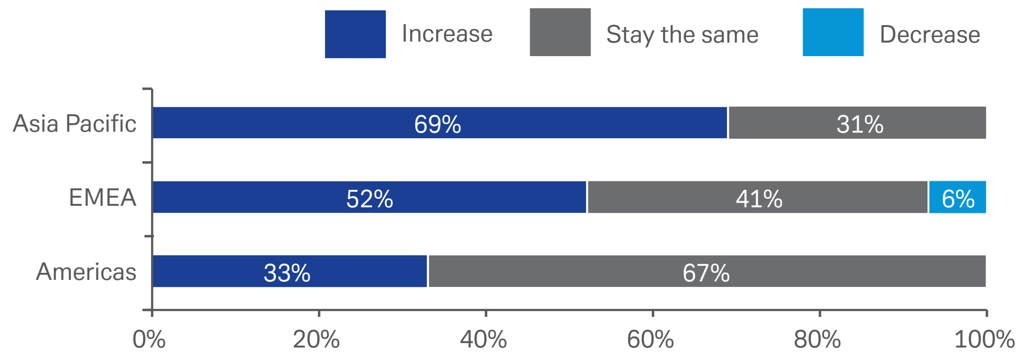


Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018

More than one in two UCITS allocators expect to increase their allocation to alternative UCITS in the 12 months following this survey with an average allocation of $121m per investor. In comparison, only 33% said they are looking to increase their allocation to offshore hedge funds during the same time period (average allocation, $90m). In our 2016 survey, 66% of respondents expected to increase their allocation to alternative UCITS with an average allocation of $110m per investor, while 26% expected to increase their allocation to offshore hedge funds.[23]

23 Deutsche Bank 2016 Alternative UCITS Survey, October 2016

How do you expect your alternative UCITS AUM/AUA to change during the next 12 months, based on year to date inflows/outflows, by region?



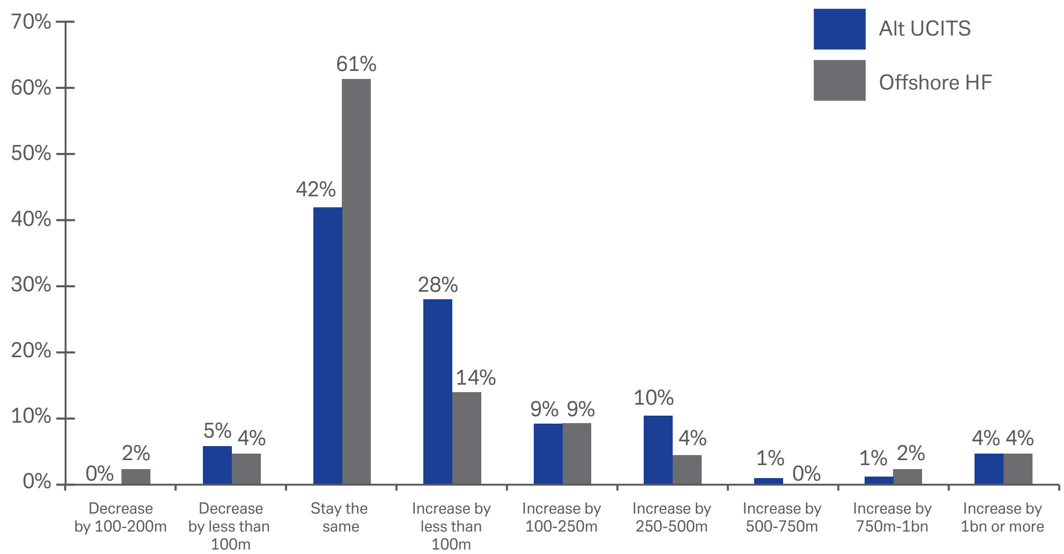
Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018

69% of Asia Pacific allocators are planning to increase their allocations to alternative UCITS in the next 12 months. This marks a 50% increase from the 46% of Asia Pacific investors who increased their allocation to alternative UCITS in 2018 so far. These results highlight the growing relevance of Asia Pacific investors in the alternative UCITS industry.

52% of all EMEA respondents are planning to add to alternative UCITS in the next 12 months, up slightly from the 49% who did so in 2018 YTD.

With respect to the Americas, 33% of investors plan to increase their allocation to alternative UCITS. This is the same percentage as the proportion of investors who increased their allocation to alternative UCITS in 2018 YTD.

How do you expect your AUM/AUA to change over the next 12 months, based on year to date inflows/outflows, by size of allocation?



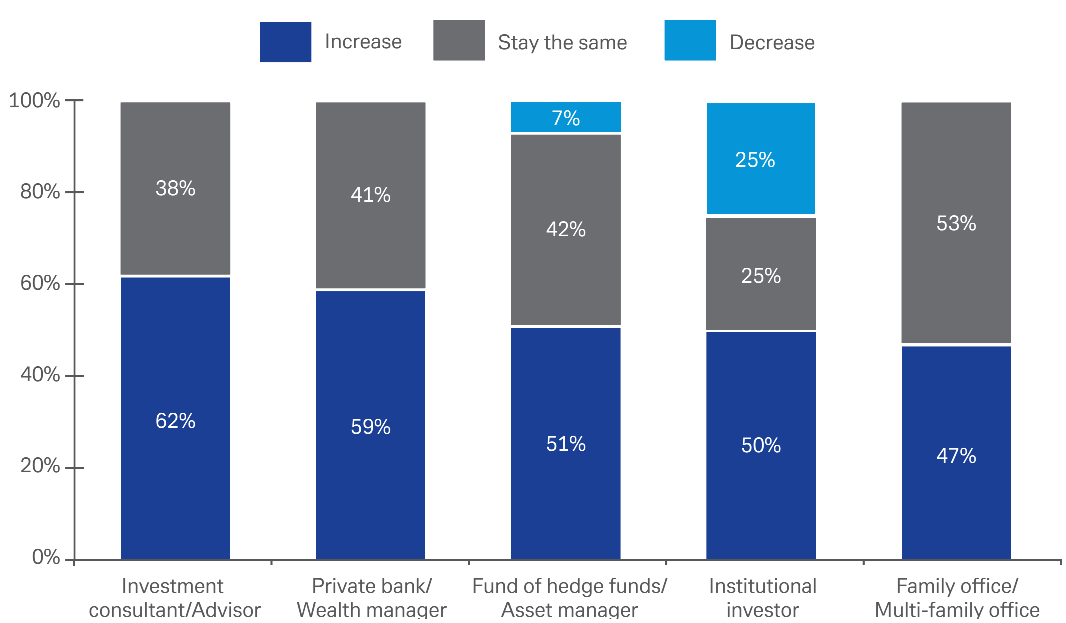
Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018

When analysing the size of change in alternative UCITS AUM/AUA, it is encouraging to find that one in four UCITS allocators expect to increase the size of their alternative UCITS allocation by more than $100m in the next 12 months. Even more encouraging, unlike what we saw in 2018 thus far, no respondents plan to decrease their allocation to alternative UCITS by more than $100m.

Based on survey results, we estimate that responding investors will collectively invest a total of $13.7bn in new alternative UCITS capital in the 12 months following this survey, compared to $9.5bn in 2018 YTD.*

"Alternative UCITS have come of age and there is growing institutional demand" $10bn institutional investor, Middle East

By how much do you expect your AUM/AUA to change in the next 12 months, based on year to date inflows/outflows, by investor type?



Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018

*No assurance can be given that any forecast or target will be achieved.

Would you say that you/your client(s) are investing in alternatives UCITS funds at the expense of traditional offshore hedge funds?

	2018 Survey	2016 Survey
Yes	65%	67%
No	35%	33%

Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018; Deutsche Bank 2016 Alternative UCITS Survey, October 2016

When we asked alternative UCITS allocators if they would say that they/their client(s) are investing in alternatives UCITS funds at the expense of traditional offshore hedge funds, 65% said this was the case. As can be seen in the table above, this statistic has remained almost unchanged since our 2016 survey.[24]

24 Deutsche Bank 2016 Alternative UCITS Survey, October 2016

Allocation Plans

Allocation Plans

Section highlights

- Fundamental equity long/short is the most sought after alternative UCITS strategy, with 44% of UCITS allocators planning to add to the strategy in the next 12 months, 38% on a net basis.
- 29% of respondents are looking to increase their allocation to socially responsible / environmental, social and governance (ESG) strategies within an alternative UCITS format. Furthermore, with 21% expecting to allocate to offshore funds of the same nature, ESG/SRI is the most sought after offshore strategy among our respondents.
- Discretionary macro remains among the top five most sought after strategies but continues to be the most difficult to source for investors.
- 25% of investors are planning to allocate to Asia, up 50% from our previous survey in 2016.[25]

Fundamental equity long/short proved to be the most sought after alternative UCITS strategy, up from second most in demand in our 2016 Alternative UCITS Survey.[26] 44% of responding UCITS investors are planning to add to the strategy in the 12 months following this survey, 38% on a net basis. This is in line with our 2018 Alternative Investment Survey where one in every five respondents said they were planning to add to fundamental equity long/short funds in 2018, making it the second most in demand strategy in that survey.[27]

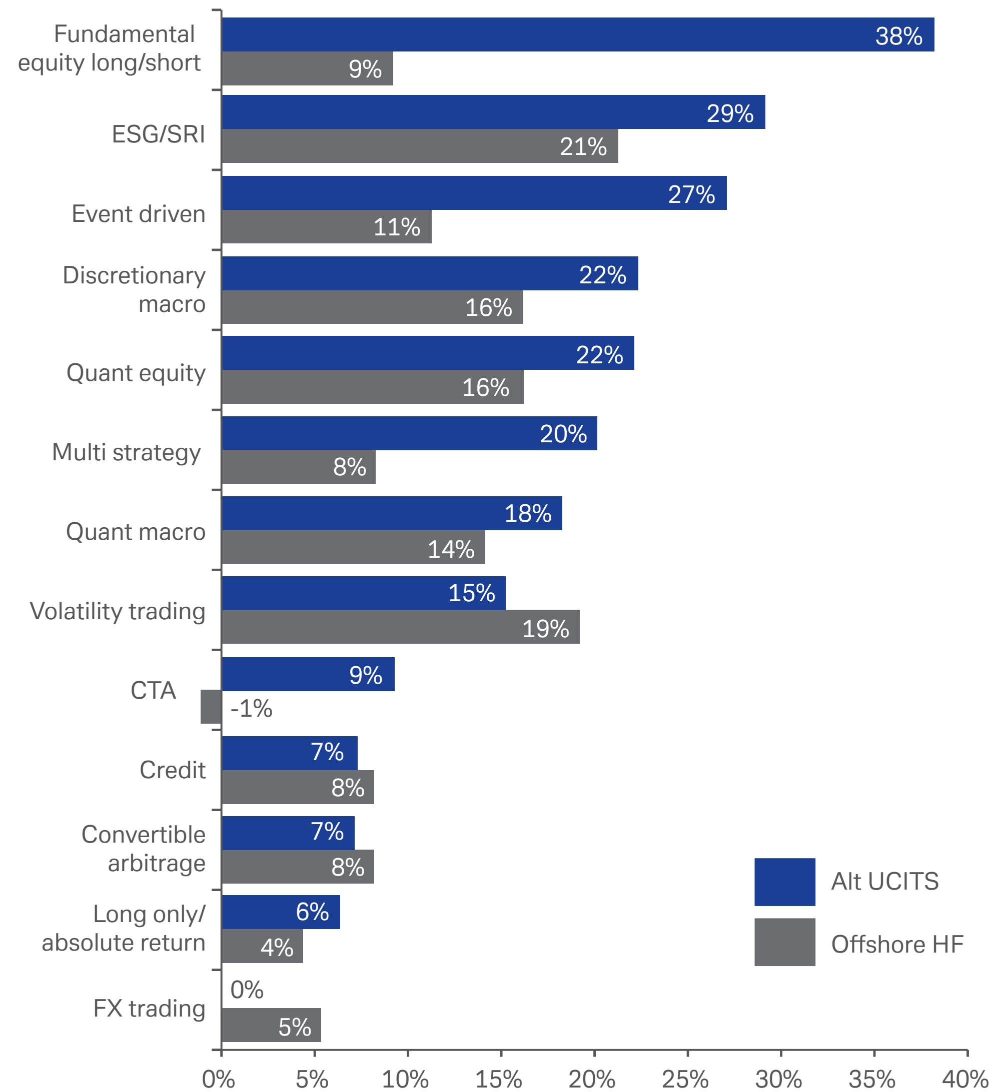
In our 2018 Alternative Investment Survey, the increased proportion of investors allocating to socially responsible / environmental, social and governance (ESG) investments was one of the largest changes we saw year on year.[28] One in two respondents currently allocate to socially responsible / environmental, social and governance (ESG) UCITS strategies. With 29% of respondents looking to add to the strategy within an alternative UCITS format, it is the second most in demand strategy on a net basis. Furthermore, with 21% expecting to allocate to offshore funds of the same nature, ESG/SRI is the most sought after offshore strategy among our respondents. The growing awareness of ESG factors has escalated in recent years due to the increased number of social and environmental movements across the globe, accelerated by social media.[29]

Macro strategies have consistently appeared in the top five of the most in demand alternative UCITS strategies.[30] This is partly driven by the lack of supply due to the difficulty of replicating offshore macro strategies in a UCITS format. In particular, higher exposure and leverage to fixed income instruments in such strategies have made it hard to launch them in the UCITS format.

25 Deutsche Bank 2016 Alternative UCITS Survey, October 2016
26 Deutsche Bank 2016 Alternative UCITS Survey, October 2016
27 Deutsche Bank 2018 Alternative Investment Survey, February 2018
28 Deutsche Bank 2018 Alternative Investment Survey, February 2018
29 Deutsche Bank Capital Introduction Group, December 2018
30 Deutsche Bank 2016 Alternative UCITS Survey, October 2016; Deutsche Bank 2014 Survey, "From alternatives to mainstream (part two)", September 2014

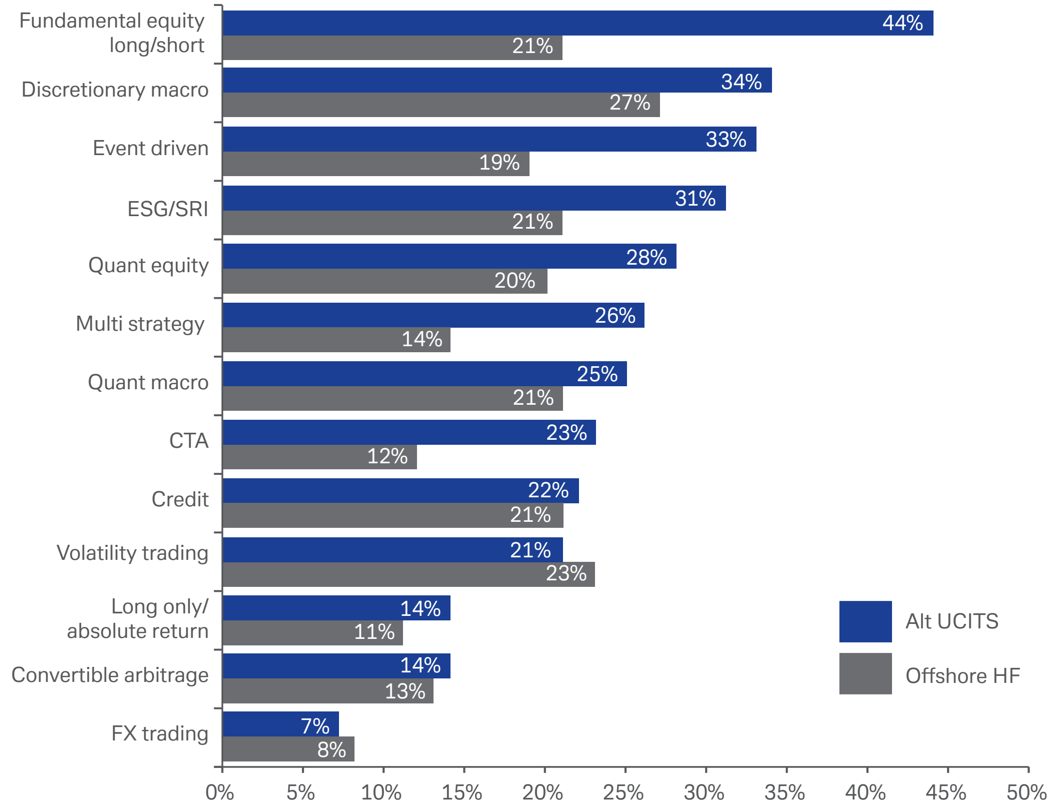
In the Performance chapter of this survey, we see that 56% of respondents felt that alternative UCITS credit strategies performed in line with investor expectations, while 11% felt the strategy outperformed. Despite this, (on a net basis) only 7% of respondents plan to increase their allocation to the strategy. We believe that this is driven by the current stage of the credit cycle.

NET allocation plans by strategy



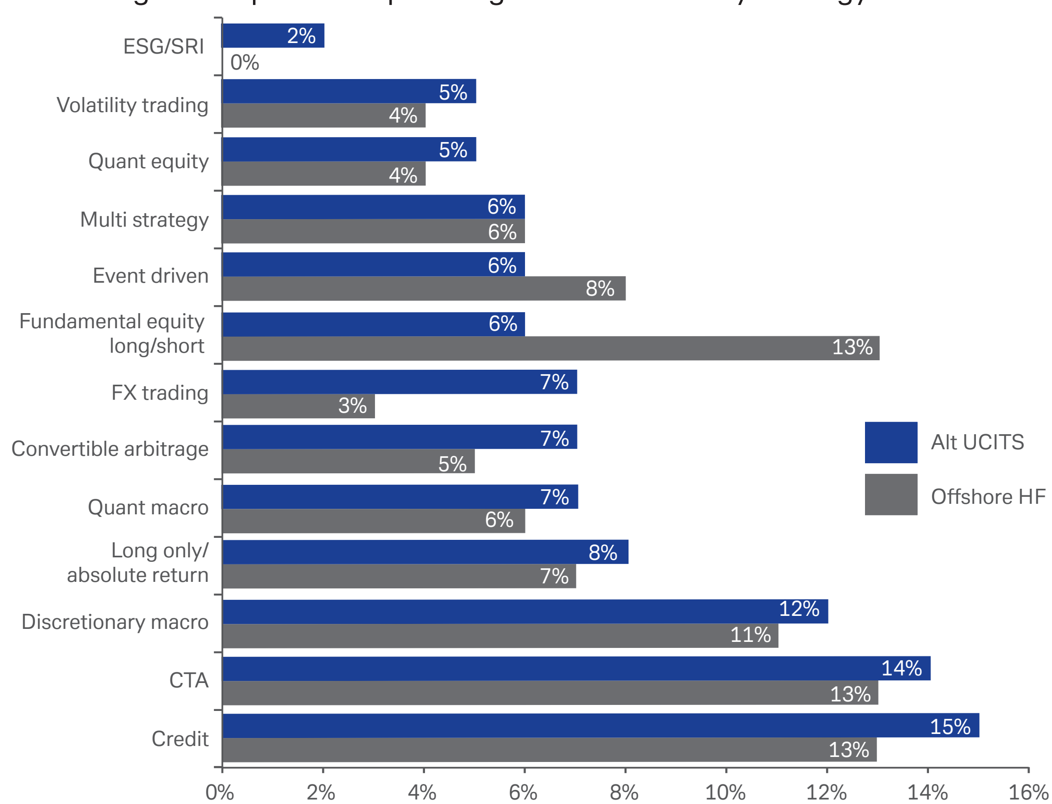
Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018

Percentage of respondents planning to INCREASE by strategy



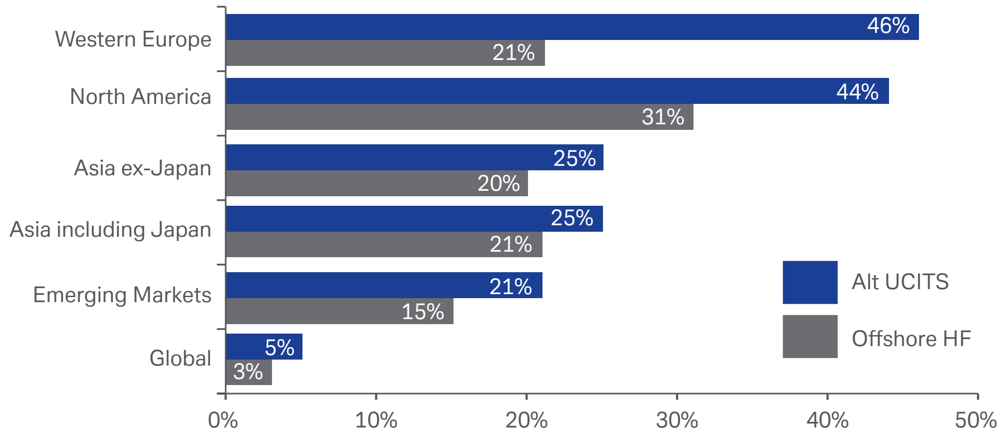
Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018

Percentage of respondents planning to DECREASE by strategy



Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018

To which regions are you/your client(s) currently planning to increase allocations?

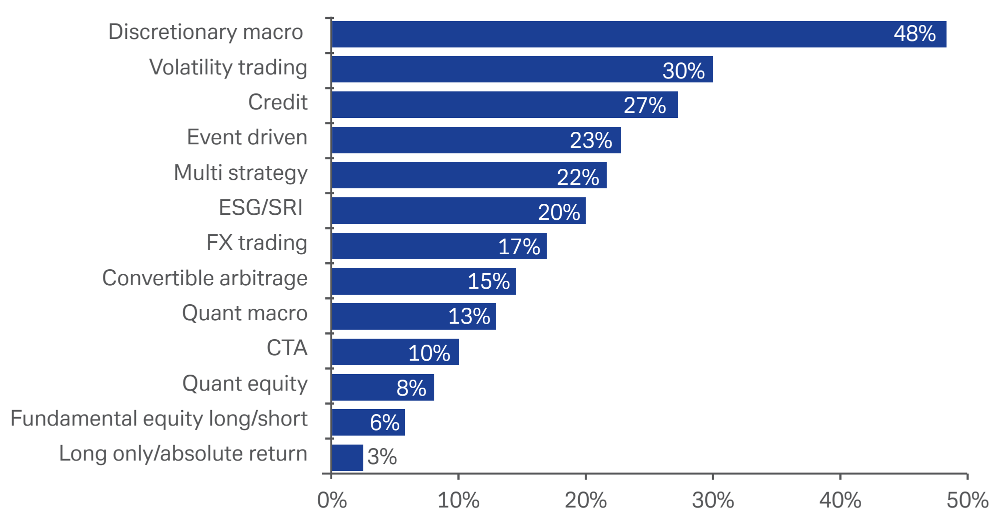


Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018

46% of UCITS allocators plan to increase their allocations to Western Europe. This is closely followed by North America with 44% of investors planning to increase their allocation to the region. These statistics differ from our 2016 survey where North America was the most sought after region with 56% of investors planning to increase their alternative UCITS allocations in the region while only 33% said the same for Western Europe.[31] The most interesting change, however, is the increase in appetite for Asia strategies. In 2016, only 18% and 15% of UCITS allocators were planning to increase their allocation to Asia ex-Japan and Asia including Japan respectively compared to a quarter of investors currently planning to allocate these two regions.[32]

"…We also see a lack of truly differentiated strategies within UCITS and a limited new launch calendar - capacity management for the largest funds is an increasing priority." $550bn asset manager, Europe

Which alternative UCITS strategies do you find the most difficult to source?

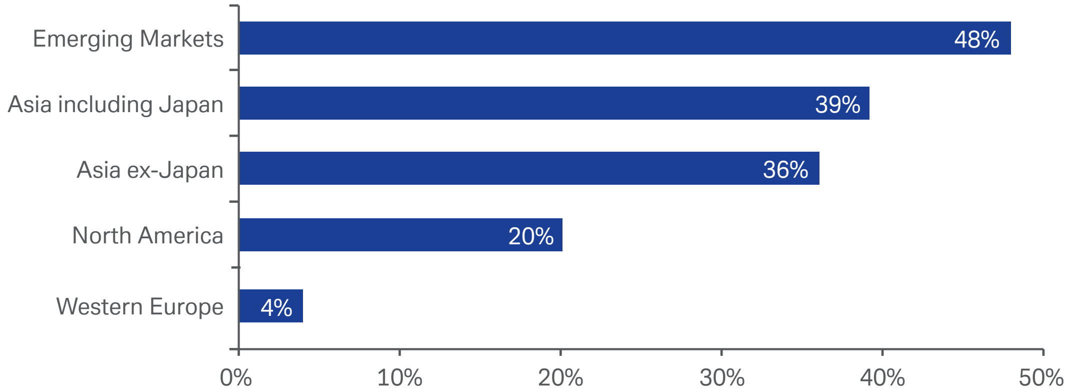


Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018

Consistent for over four years now, discretionary macro strategies appear to be the most difficult alternative UCITS strategies to source.[33] As highlighted earlier, such strategies are hard to source as higher exposure and leverage to fixed income instruments mean macro strategies can be more difficult to launch in a UCITS format. Similarly, given the liquidity characteristics associated with credit and event-driven strategies, it is unsurprising to find that respondents face difficulties finding them in an alternative UCITS framework.

31 Deutsche Bank 2016 Alternative UCITS Survey, October 2016
32 Deutsche Bank 2016 Alternative UCITS Survey, October 2016
33 Deutsche Bank 2016 Alternative UCITS Survey, October 2016; Deutsche Bank 2014 Survey, "From alternatives to mainstream (part two)", September 2014

Which investment regions do you find most difficult to source when investing in alternative UCITS?



Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018

A near mirror image of the earlier regional allocation plans graph, we see that investors are struggling to source Emerging Markets and Asia strategies in the UCITS format. This is a significant change from 2016, when North America was the hardest to source.[34] As predicted in our 2016 survey, the implementation of AIFMD made it much more challenging for US managers to approach European investors without a UCITS fund.[35] In combination with greater institutionalisation of the UCITS investor base and increased requirements for liquid strategies from a solvency and capital treatment perspective, many US managers have launched UCITS funds thereby making it much easier to access this type of strategy in a UCITS framework.

The percentage of investors reporting that they struggle to source Asia including Japan strategies has doubled in the past 2 years from 19% in 2016 to 39% in our current survey, while the percentage of investors who report they find it difficult to source Asia excluding Japan strategies has increased from 26% to 36%.[36]

34 Deutsche Bank 2016 Alternative UCITS Survey, October 2016
35 Deutsche Bank 2016 Alternative UCITS Survey, October 2016
36 Deutsche Bank 2016 Alternative UCITS Survey, October 2016

Performance

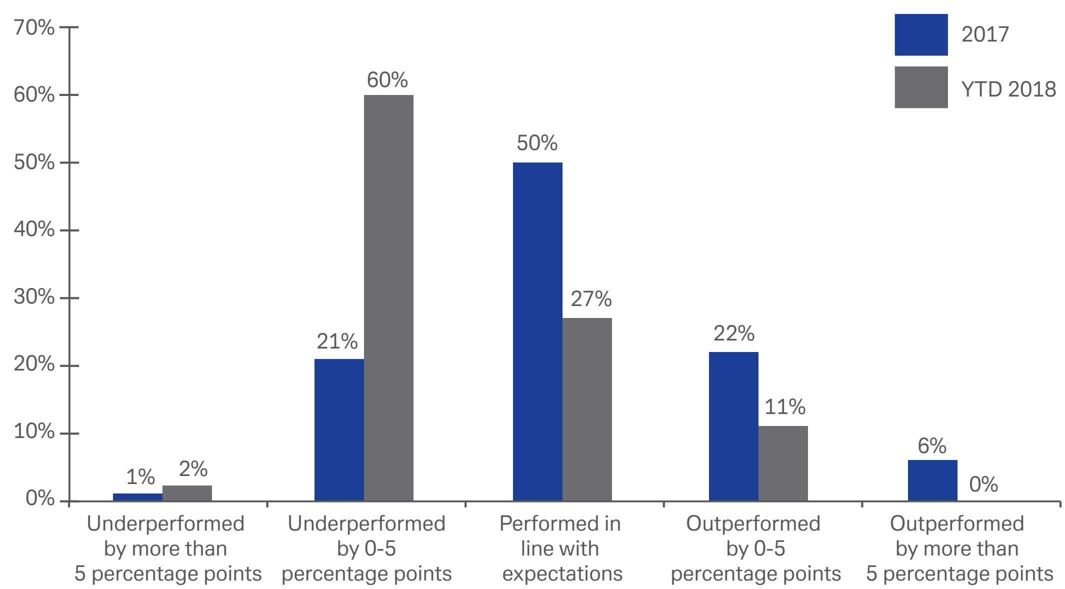
Performance

Section highlights

- 62% of respondents felt their UCITS allocations had underperformed versus 38% who felt performance was either in line with or better than their expectations.
- Quant macro reportedly outperformed the most with 18% of allocators saying performance in this strategy exceeded their expectations while CTA, discretionary macro and quant equity strategies appear to have underperformed the most versus expectations.

"Alternative UCITS funds have a lot of promise, but so far many have not delivered on it in terms of performance"
$1bn private bank / wealth manager, Asia

How was FY 2017 and 2018 YTD performance of your alternative UCITS portfolio relative to your expectations?

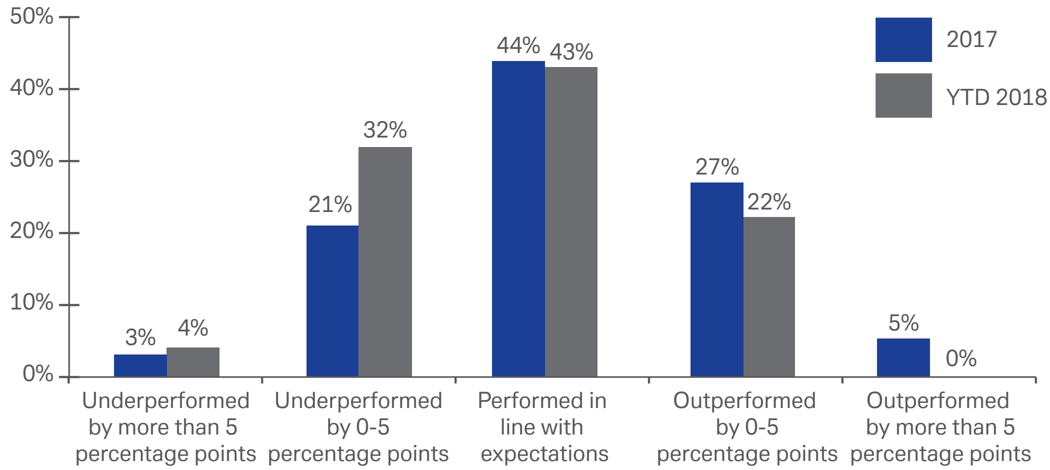


Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018

78% of respondents felt their alternative UCITS portfolio either outperformed or performed in line with their expectations in 2017. However, when asked how their alternative UCITS allocations performed against their expectations in 2018 YTD, more investors felt their allocations had underperformed (62%) than felt performance was either in line with or better than their expectations (38%).

With respect to performance, offshore allocations appear to have performed slightly better when compared to alternative UCITS with 65% of allocators saying their offshore hedge fund portfolio either outperformed or performed in line with their expectations.

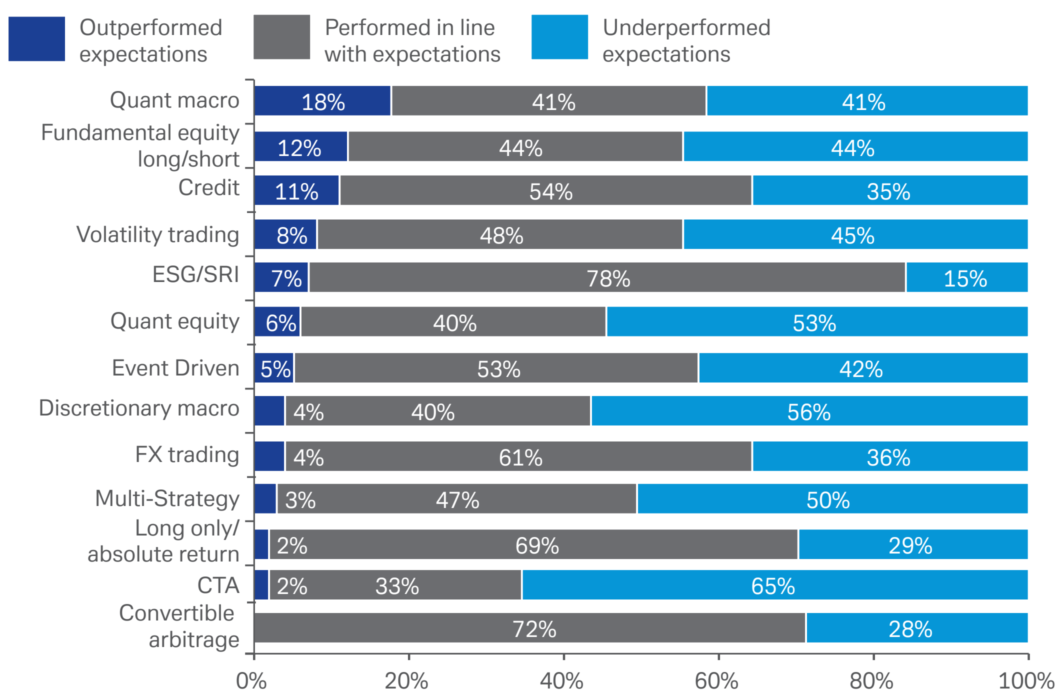
How was FY 2017 and 2018 YTD performance of your offshore hedge fund portfolio relative to your expectations?



Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018

"Generally, it has been challenging to find top quality UCITS funds across a range of strategies." $500bn fund of hedge funds / asset manager, Europe

How has YTD 2018 performance been relative to your expectations on your alternative UCITS portfolio, by strategy?

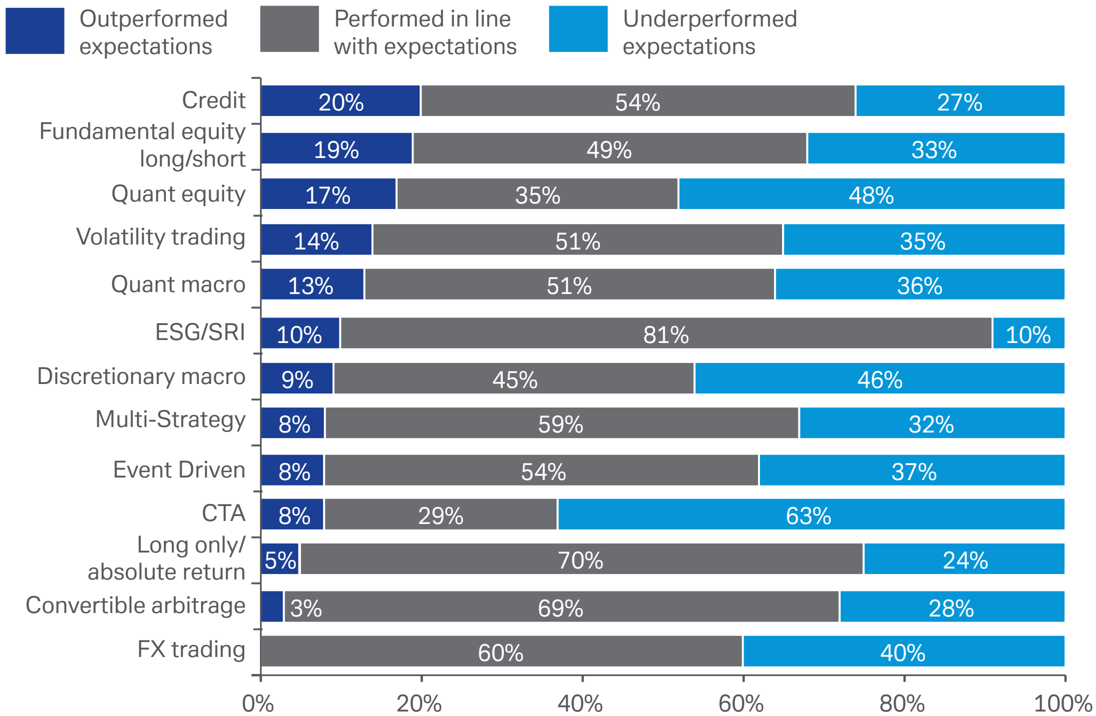


Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018

Within alternative UCITS, quant macro and fundamental equity long/short reportedly outperformed the most with 18% and 12% of allocators (respectively) saying the performance of these two strategies exceeded their expectations. CTA, discretionary macro and quant equity strategies across both UCITS and offshore funds appear to have underperformed the most versus expectations.

Alternative UCITS ESG/SRI strategies were the least disappointing in terms of performance with only 15% of allocators saying the strategy underperformed versus their expectations 2018 YTD.

How has YTD 2018 performance been relative to your expectations on your offshore hedge fund portfolio, by strategy?



Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018

Fees

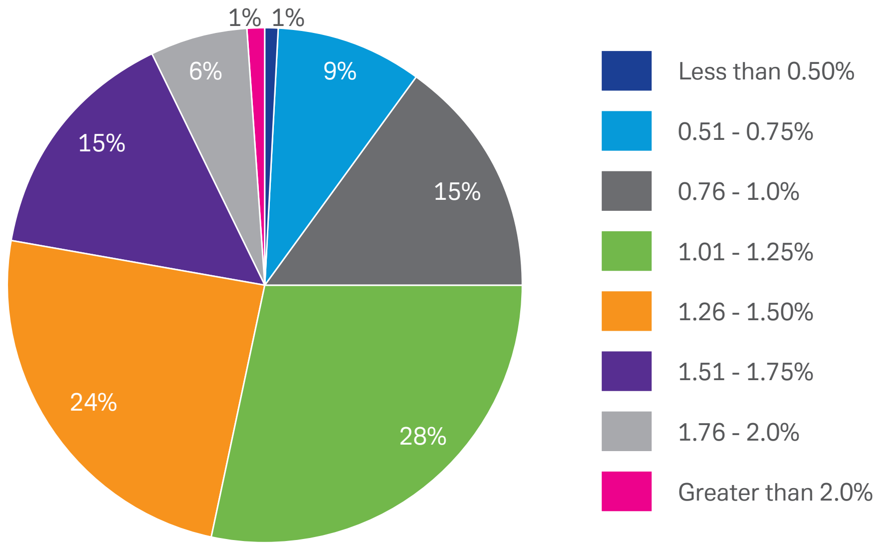
Fees

Section highlights

- The average TER paid by respondents is 1.23%, versus 1.37% from two years ago.[37]
- Respondents pay a performance fee of 12.4%, down from 13.6% in our 2016 Survey.[38]
- Institutional investors pay the lowest fees: average TER of 0.95% and average performance fee of 11.26% (28bps and 111bps less that the broad average, respectively).

For the purpose of this survey, total expense ratio (TER) is the total cost associated with managing and operating an investment fund. TER includes management fees and additional expenses but does not include performance fees.

What is the average TER charged by the alternative UCITS funds in your portfolio?

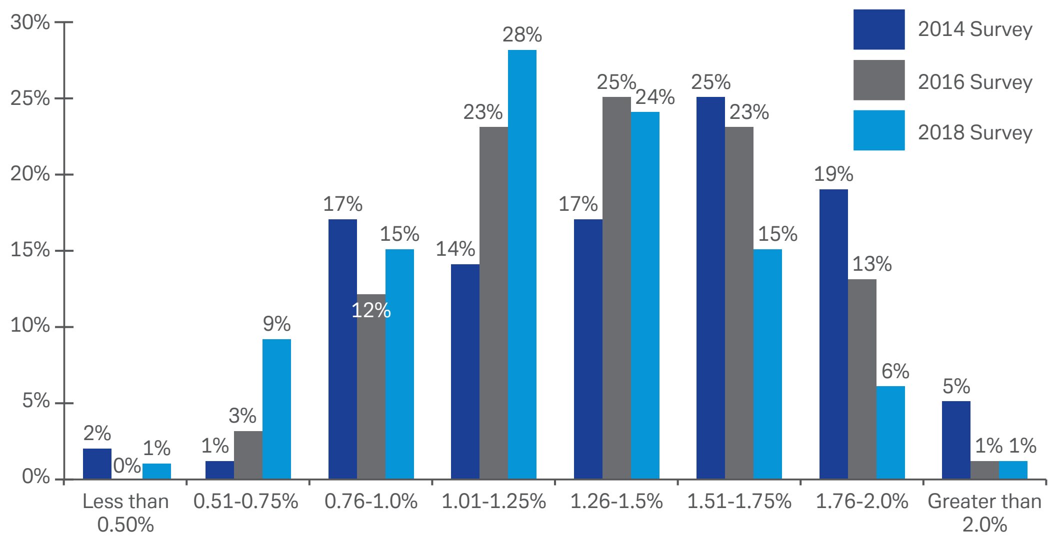


Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018

As shown in the chart above, over three quarters of alternative UCITS investors we surveyed pay an average TER of 1.50% or below. This year, the average TER paid by investors is 1.23% (median: 1.13%) compared to the 1.37% (median: 1.38%) two years ago.[39]

37 Deutsche Bank 2016 Alternative UCITS Survey, October 2016
38 Deutsche Bank 2016 Alternative UCITS Survey, October 2016
39 Deutsche Bank 2016 Alternative UCITS Survey, October 2016

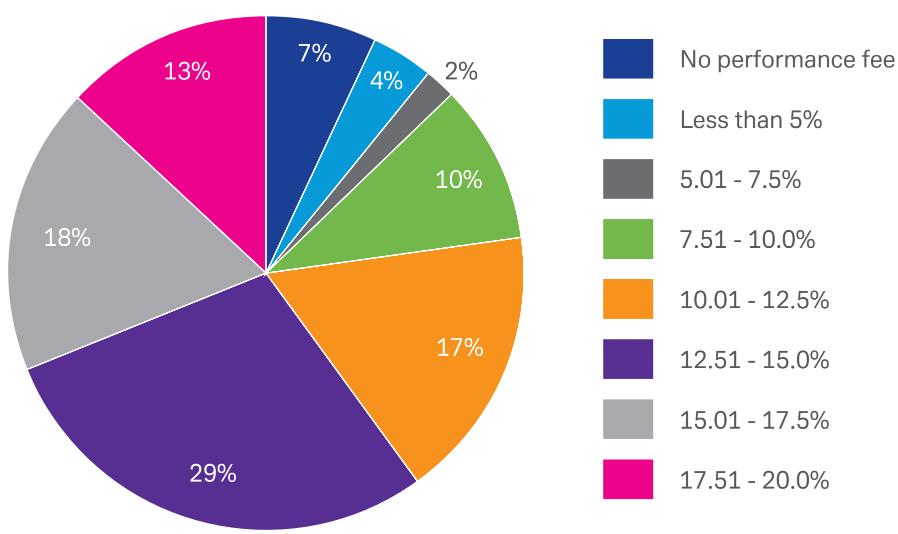
What is the average TER charged by the alternative UCITS funds in your portfolio?



Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018; Deutsche Bank 2016 Alternative UCITS Survey, October 2016; Deutsche Bank 2014 Survey, "From alternatives to mainstream (part two)", September 2014

The most commonly reported average TER paid by UCITS allocators is between 1.01% and 1.25%. In 2016, this was a TER between 1.26% and 1.50%[40] while in 2014 the most common average management fee paid by investors was between 1.51% and 1.75%.[41] This trend is illustrated in the graph above. We predict that fees are likely to see continual pressure in coming years.

What is the average performance fee charged by the alternative UCITS funds in your portfolio?

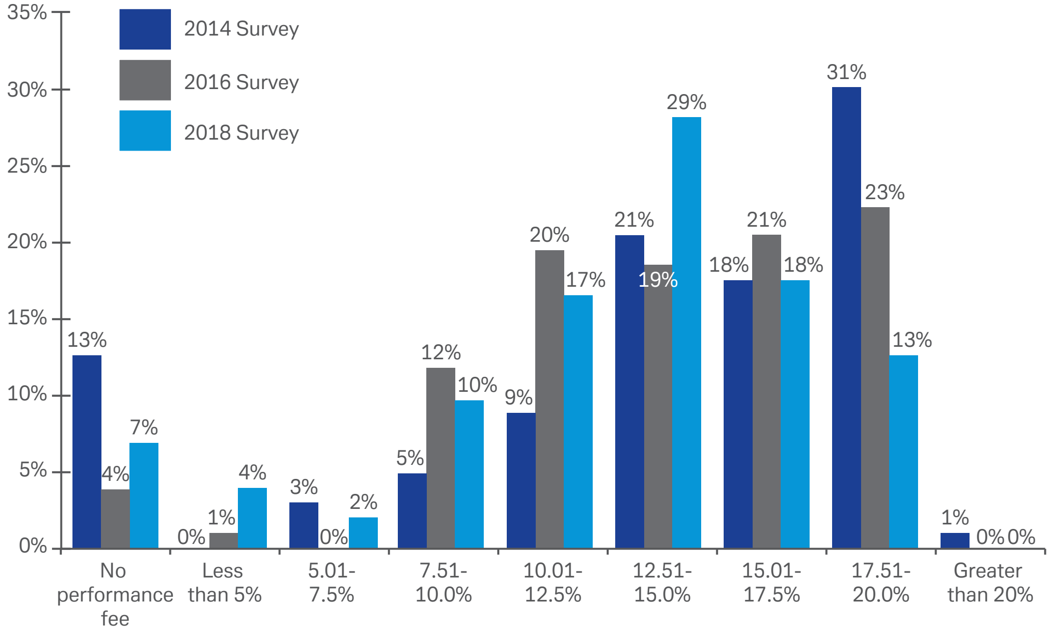


Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018

Our findings suggest that performance fees for alternative UCITS funds are trending downwards. Over two thirds (69%) of responding UCITS investors pay an average performance fee of 15.0% or less for their alternative UCITS funds. This includes 7% who do not pay a performance fee at all. The average performance fee that alternative UCITS investors pay is 12.4% (median: 13.8%), down from 13.6% (median: 13.8%) two years prior.[42]

40 Deutsche Bank 2016 Alternative UCITS Survey, October 2016
41 Deutsche Bank 2014 Survey, "From alternatives to mainstream (part two)", September 2014
42 Deutsche Bank 2016 Alternative UCITS Survey, October 2016

What is the average performance fee charged by the alternative UCITS funds in your portfolio?



Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018; Deutsche Bank 2016 Alternative UCITS Survey, October 2016; Deutsche Bank 2014 Survey, "From alternatives to mainstream (part two)", September 2014

It is no surprise that when compared to the average fees paid on their total hedge fund portfolio, investors seem to pay less for their alternative UCITS allocations. In our Alternative Investment Survey published earlier this year, we saw that on average investors pay 17.43% performance fee on their total hedge fund portfolio.[43] This is 506 basis points higher than the alternative UCITS average.

"…managers need to further reduce TER" $1.5bn investment consultant / advisor, Europe

Average TER/Management Fee: Alternative UCITS versus Hedge Fund

Investor type	Alternative UCITS portfolio	Hedge fund portfolio
Institutional investor	0.95%	1.55%
Family office / Multi-family office	1.11%	1.69%
Investment consultant / Advisor	1.21%	1.49%
Fund of hedge fund / Asset manager	1.27%	1.48%
Private bank / Wealth manager	1.29%	1.59%
All respondents	1.23%	1.56%

Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018; Deutsche Bank 2018 Alternative Investment Survey, February 2018

Average Performance Fee: Alternative UCITS versus Hedge Fund

Investor type	Alternative UCITS portfolio	Hedge fund portfolio
Institutional investor	11.26%	17.51%
Private bank / Wealth manager	11.32%	18.04%
Family office / Multi-family office	12.33%	17.82%
Fund of hedge fund / Asset manager	12.81%	17.14%
Investment consultant / Advisor	12.82%	16.83%
All respondents	12.37%	17.43%

Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018; Deutsche Bank 2018 Alternative Investment Survey, February 2018

43 Deutsche Bank 2018 Alternative Investment Survey, February 2018

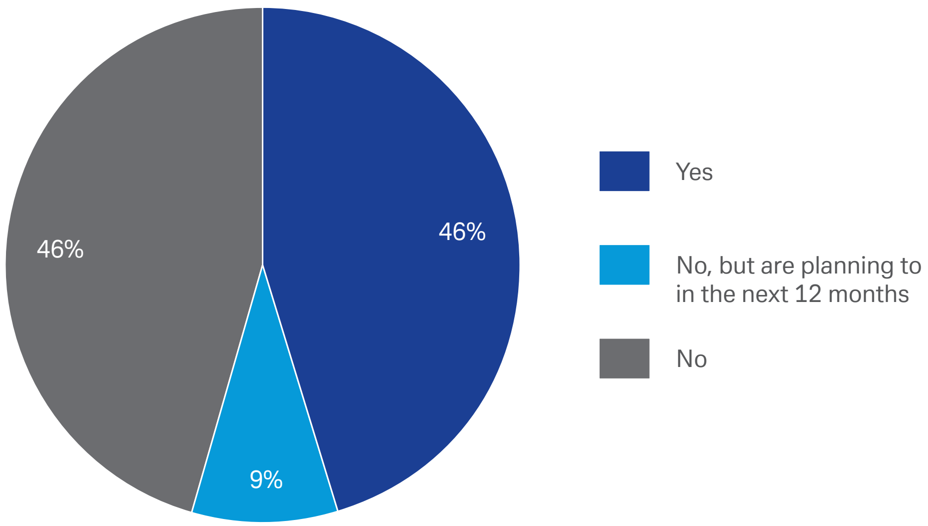
Alternative Risk Premia

Alternative Risk Premia

Section highlights

- 59% of investors who allocate to alternative risk premia UCITS funds expect to increase their allocation in the next 12 months with 30% expecting this increase to be over $100m.
- The average TER paid by investors for their alternative risk premia UCITS allocations is 0.88%, 35 basis points lower than the alternative UCITS average.
- The average performance fee paid by investors for their alternative risk premia allocations is 6.56%, 584 basis points lower than the alternative UCITS average.

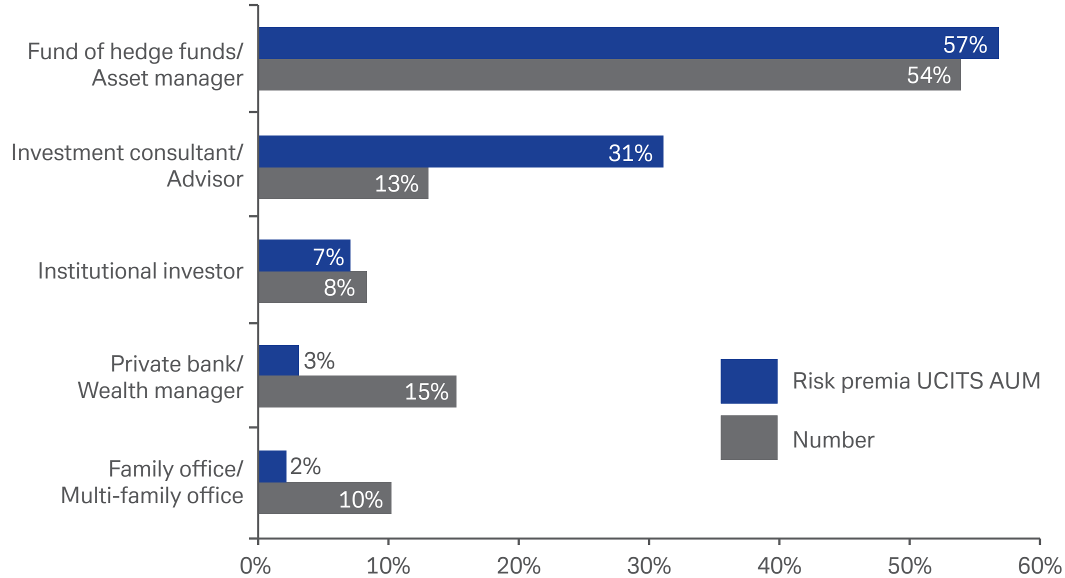
Do you/your client(s) allocate to alternative risk premia UCITS funds?



Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018

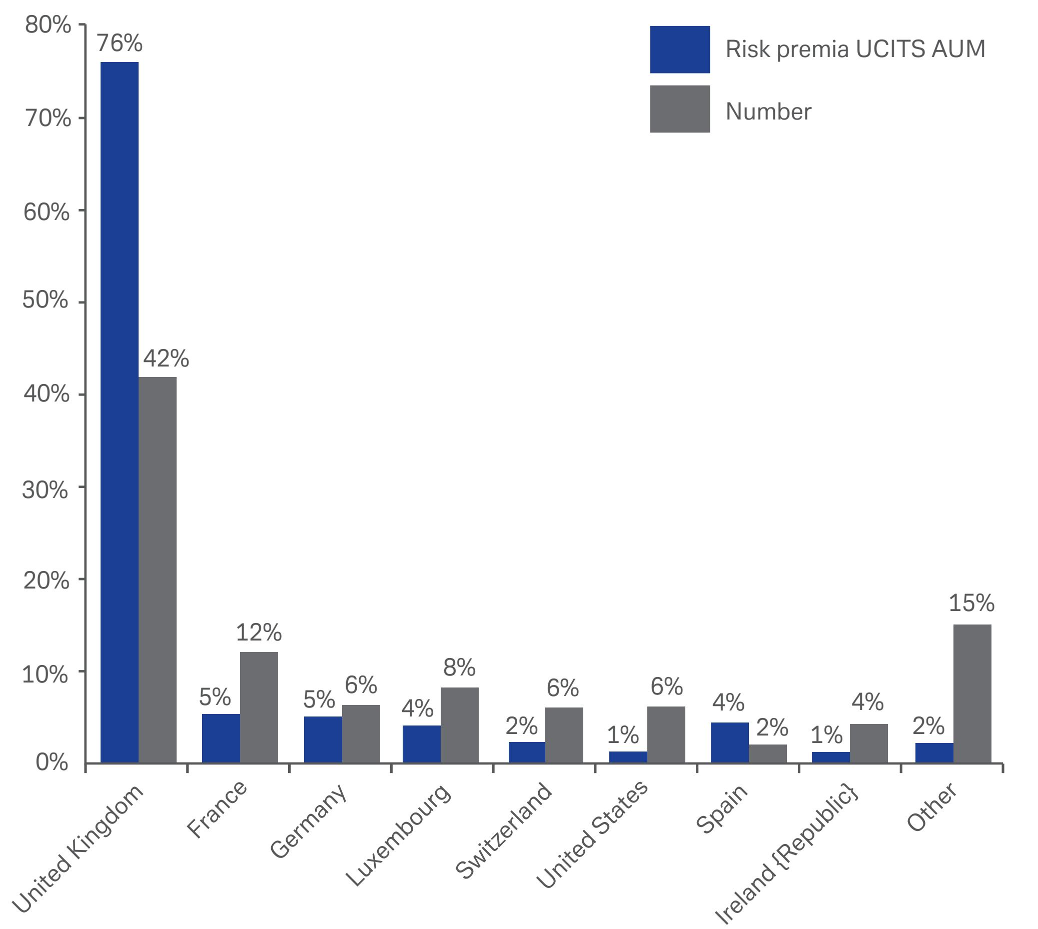
Of the 114 respondents who allocate to alternative UCITS strategies, 55% either allocate to alternative risk premia UCITS or are planning to do so in the next 12 months. The 52 respondents who actively allocate alternative risk premia UCITS are predominantly European fund of funds, asset managers and private banks /wealth managers who are looking for ways to add diverse return streams to their broad liquid portfolios in a cost-effective way.

Breakdown of respondents that currently invest in alternative risk premia UCITS strategies by investor type



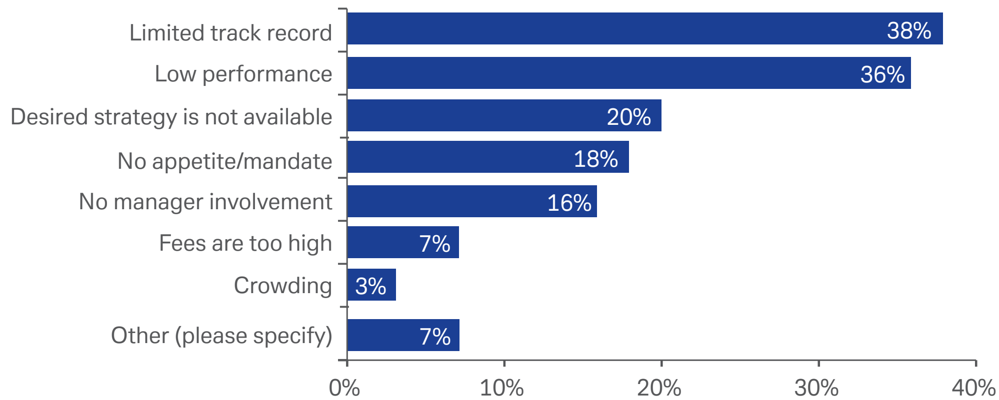
Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018

Breakdown of respondents that currently invest in alternative risk premia UCITS strategies by country



Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018

What would you say are the main reasons for why you/your client(s) do not allocate to alternative risk premia UCITS funds?

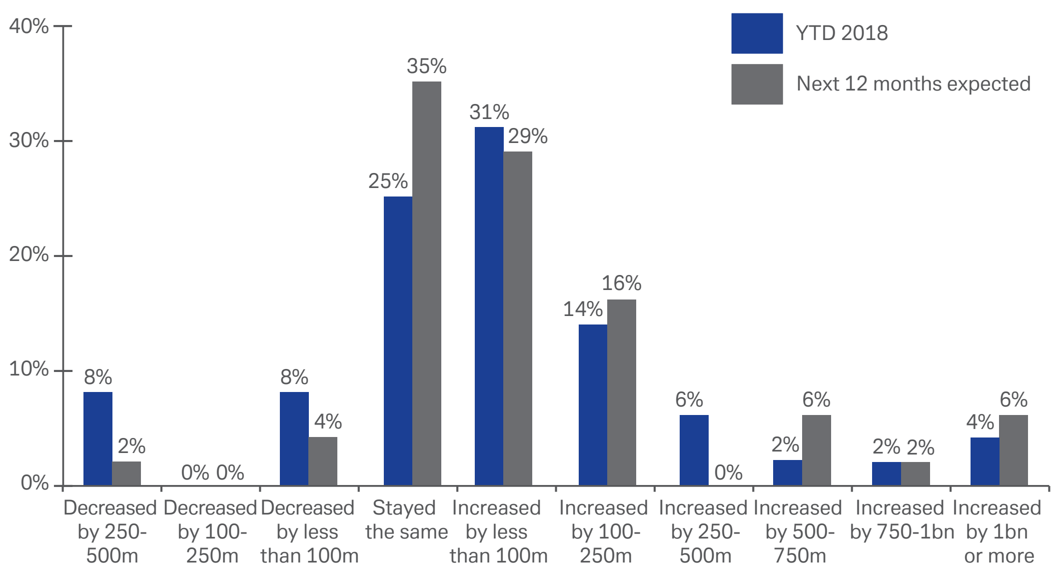


Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018

We asked respondents who do not allocate to alternative risk premia UCITS strategies what their main reasons are for choosing not to allocate. The most common response among these investors was a lack of track record. These findings reflect our recent conversations with allocators. Some investors do not feel that risk premia strategies have established a sufficient enough track record as a standalone strategy when compared to its more mainstream peers. This lack of tenure implies that investors may not have confidence in how the strategy will perform in extreme market scenarios.

The second most common response is poor performance which does not come as a surprise given challenging recent performance. This has caused investors to take longer to include alternative risk premia UCITS strategies as part of their investment mandate.

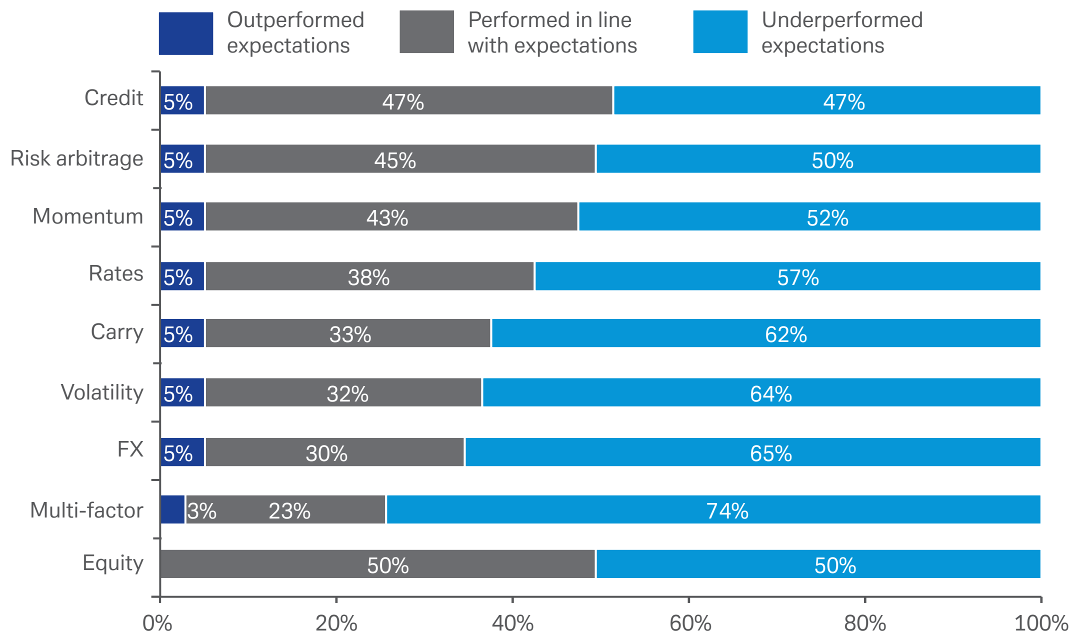
How did your alternative risk premia UCITS AUM/AUA change in 2018 and how do you expect your allocation to change in the next 12 months, by size of allocation?



Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018

Our survey suggests that risk premia strategies are trending upwards as the expected allocations over the next 12 months exceed the allocations in 2018 thus far. 59% of investors who allocate to alternative risk premia UCITS funds expect to increase their allocation to such strategies in the next 12 months with 29% expecting this increase to be over $100m. It is encouraging that while 16% of alternative UCITS risk premia allocators decreased their allocation to these strategies in 2018 YTD, only 6% plan to decrease their allocation in the 12 months following this survey.

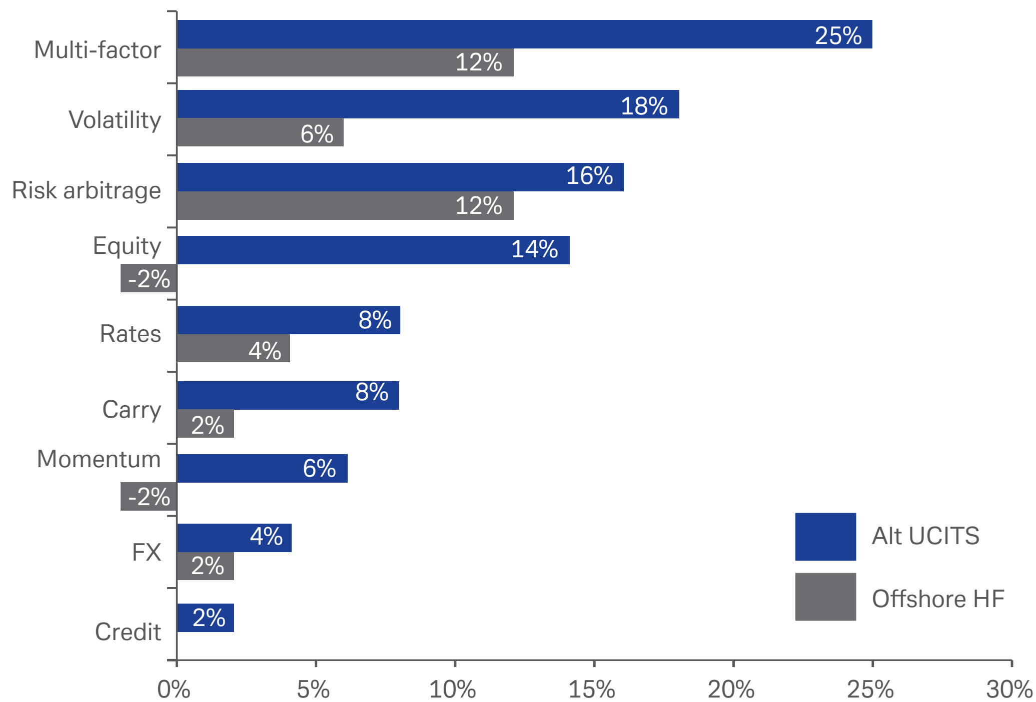
How has YTD 2018 performance been relative to your expectations on your alternative risk premia UCITS portfolio, by strategy?



Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018

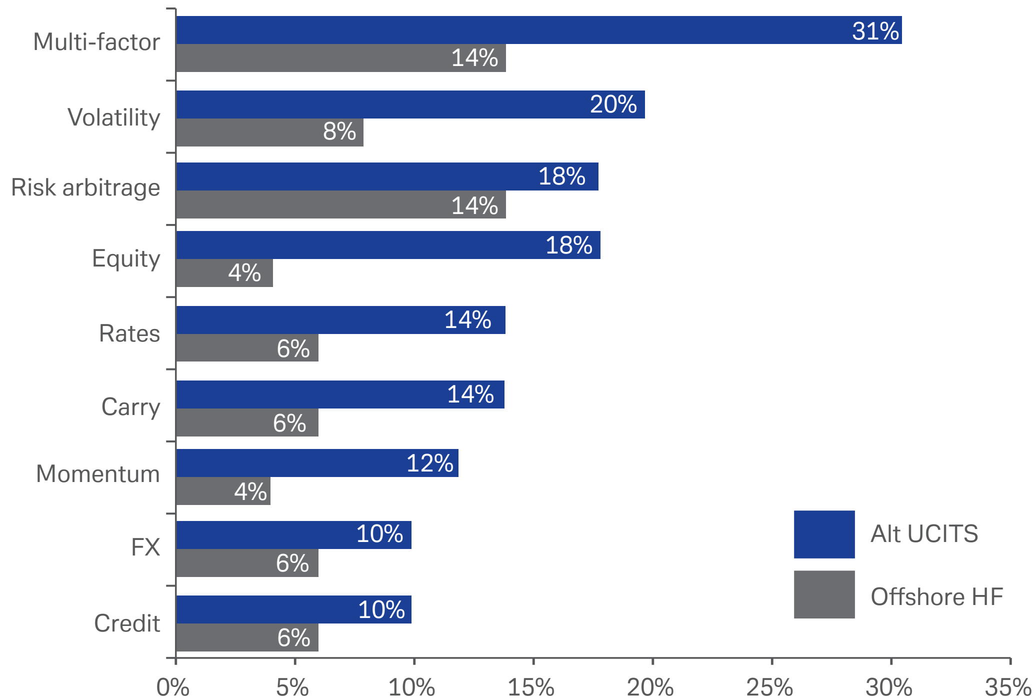
Risk premia performance has been challenged through 2018, and it is no surprise that investors feel their allocations have underperformed across the board, with multi-factor, FX and volatility risk premia strategies proving to be the most disappointing.

NET allocation plans by alternative risk premia strategy



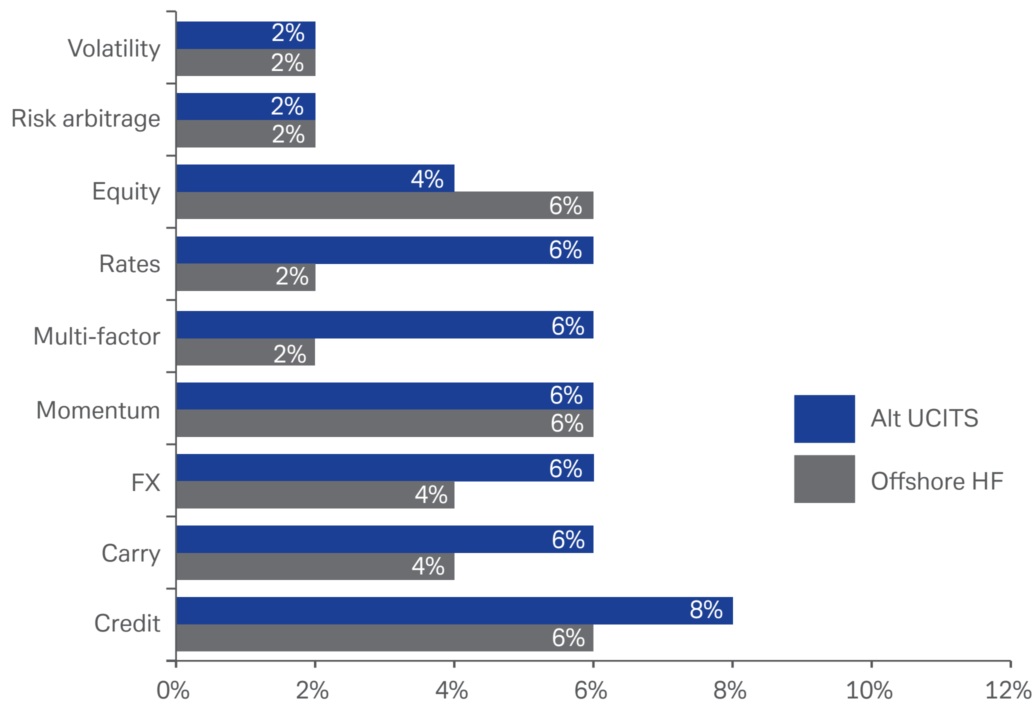
Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018

Percentage of respondents planning to INCREASE by alternative risk premia strategy



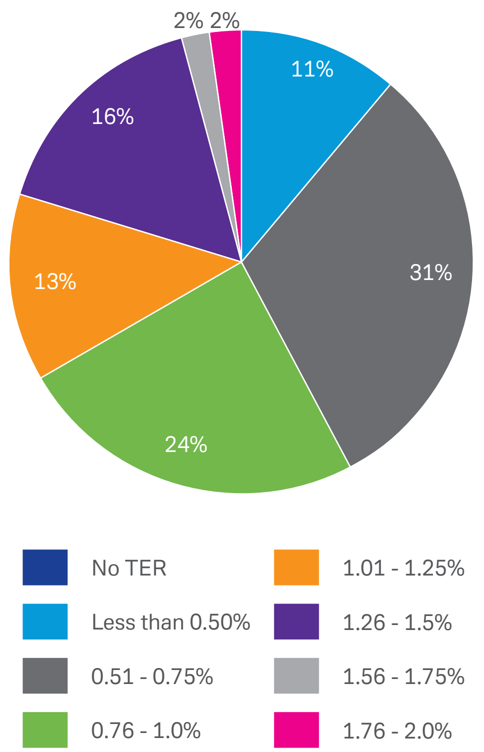
Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018

Percentage of respondents planning to DECREASE by alternative risk premia strategy

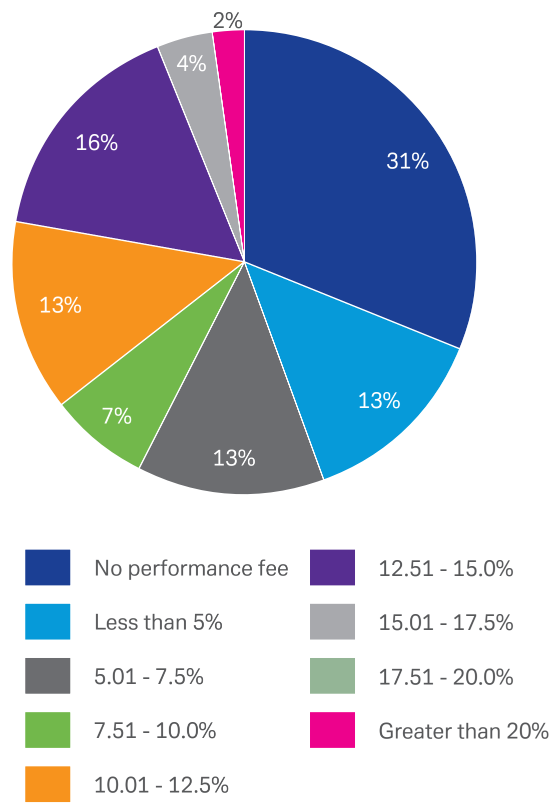


Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018

What is the average TER charged by the alternative risk premia UCITS funds in your portfolio?



What is the average performance fee charged by the alternative risk premia UCITS funds in your portfolio?

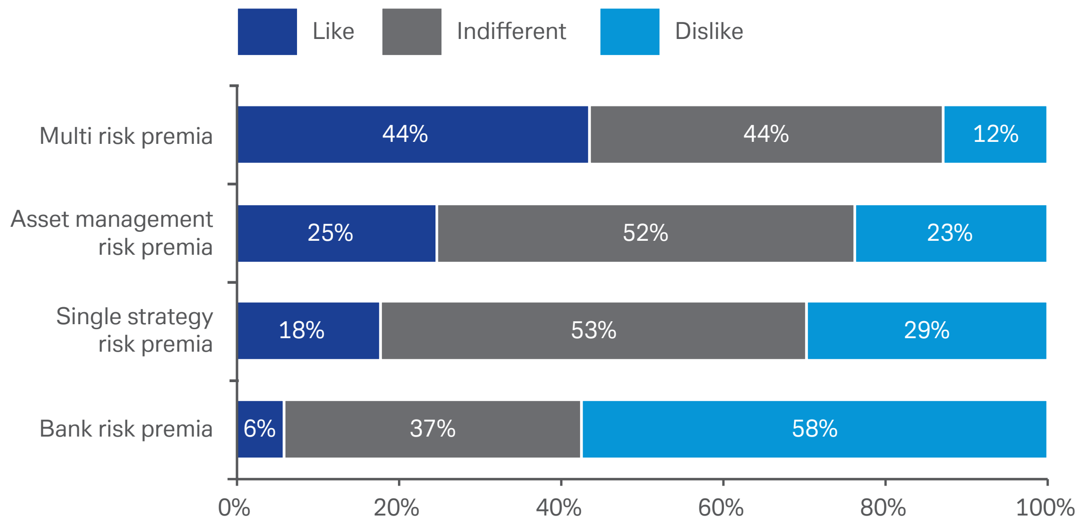


Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018

Two thirds of the alternative risk premia UCITS investors we surveyed pay an average TER of 1% or below, while only 4% pay over 1.5%. Overall, the average TER paid by these investors for their alternative risk premia UCITS allocations is 0.88% (median: 0.88%), 35 basis points lower than the alternative UCITS average.

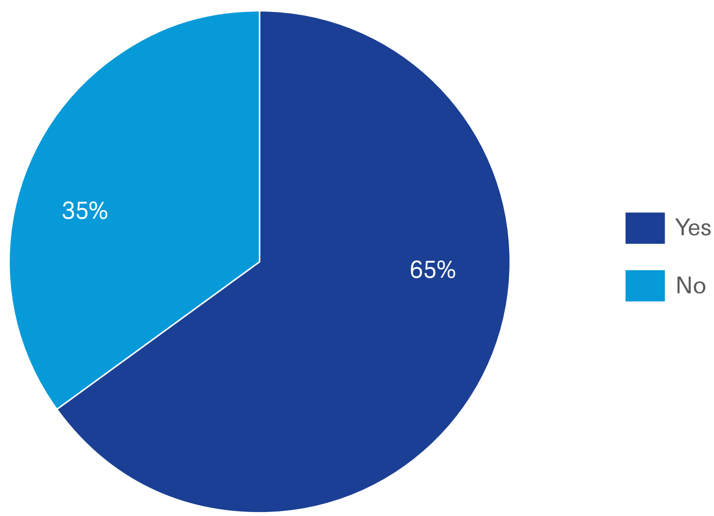
While the majority of investors are paying no or low performance fees, there is a small percentage of investors paying over 15% performance fee for risk premia. It is likely that these strategies have significantly lower management fees, which make it possible for managers to charge higher performance fees. Our results show that alternative risk premia investors pay, on average, a performance fee of 6.56% (median: 6.26%) for their alternative risk premia UCITS allocations. This is 584 basis points lower than the overall alternative UCITS equivalent.

When investing in alternative risk premia UCITS funds, what are your preferences with respect to the following fund structures?



Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018

Would you say that you/your client(s) are investing in alternatives risk premia UCITS funds at the expense of traditional offshore hedge funds?



Source: Deutsche Bank 2018 Alternative UCITS Survey, December 2018

65% of alternative risk premia UCITS allocators said that they/their client(s) are investing in alternatives risk premia UCITS funds at the expense of traditional offshore hedge funds. This result is in line with the 65% of alternative UCITS allocators investing in alternatives UCITS funds at the expense of traditional offshore hedge funds.

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