



# AIMA Japan and Eurekahedge Survey June 2017

## Executive Summary

Eurekahedge was commissioned by AIMA (Japan) to conduct a survey of investors with mandates to invest in Japan. The survey itself was conducted in April 2017 to gauge important insights into market sentiment, investment trends, and key regulatory challenges facing the Asian asset management industry, with a particular emphasis on the outlook for Japan. The key findings of this survey can be summarised as follows:

The overall trend for this year's survey was that there was not a significant change in the survey respondents' market outlook, investment trends, or their perceived challenges going forward.

### 1. Respondents Profile

- 81% of our respondents are based in Japan, with Singapore taking up another 16% of respondents.
- 37% of our respondents manage hedge fund exclusively while another 49% manage hedge funds and private equity together with other alternative assets such as real estate, infrastructure, venture capital and private credit.
- Hedge funds and investment advisory companies make up 80% of our respondents. Among investment advisors, roughly three-quarters of respondents manage more than US\$10 billion in assets while among hedge funds, roughly 61% of them manage assets below US\$500 million.

### 2. Investment Trends

- 73% of investors in 2017 indicated no plans to change their current allocations across asset classes. Among those who do, investors plan to decrease their allocations into 'Traditionals' in favour of 'Alternatives'.
- 83% of investors surveyed in 2014 indicated no plans to change their current allocations across asset classes. Among those who do, investors had increased their allocations into 'Traditionals' and reduced their allocations into 'Alternatives'.
- In terms of Yen vs. Foreign currency denominated holdings for 2017, 78% of investors indicated no plans to change their current allocations compared to 84% of investors who shared the same sentiments in 2014.
- For those planning to change their allocations in 2017, investors planned to marginally increase their JPY-denominated assets. Investors surveyed in 2014 had also planned to increase their JPY-denominated assets.
- For allocations within alternatives, 73% of investors surveyed in 2017 indicated no such plans to change their current allocations compared to 86% of investors surveyed in 2014 who shared the same sentiments.
- For those planning to change their allocations within alternatives in 2017, investors planned to reduce their allocations in fund of hedge funds (multi-managers) and hedge funds (single-managers). In contrast, investors surveyed in 2014 indicated a planned increase in their fund of hedge funds holdings as well as in private equity funds whereas allocations into hedge funds showed a planned decrease.

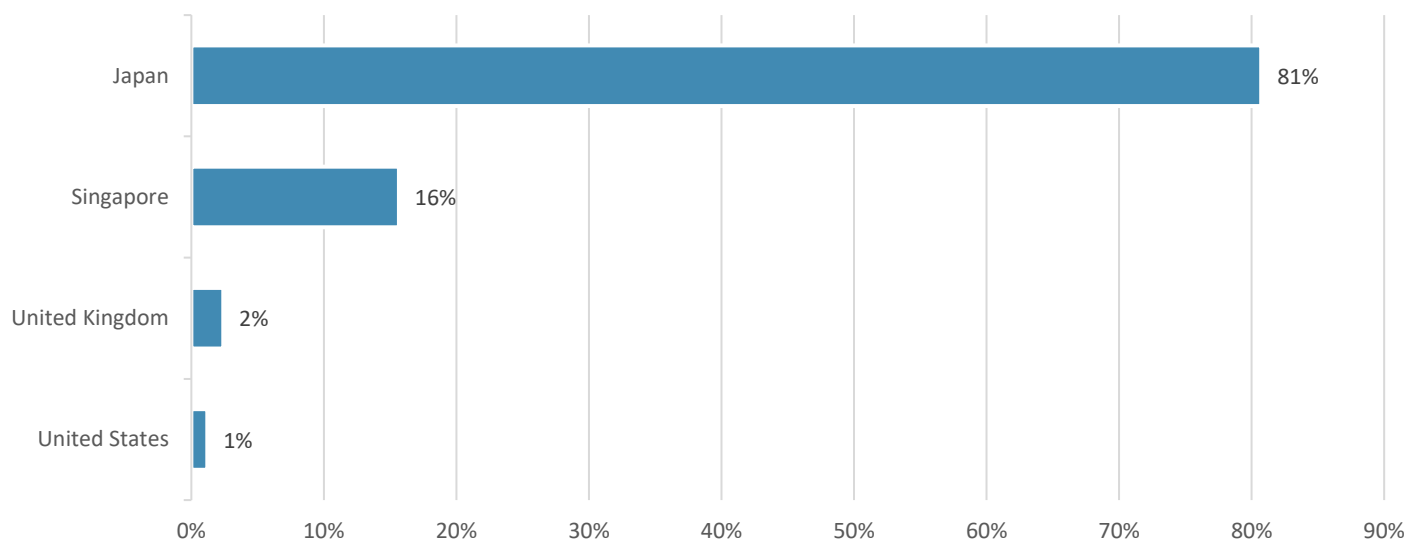
### 3. Challenges going Forward

- Among the regulatory issues, the MIFID2 was seen as the most serious challenge (36%), followed by the Basel III Accords (24%).
- US policy in the Trump administration was perceived to be the most significant geopolitical challenge (31%), followed by China's slowdown and territorial disputes (20%).
- While 42% believe that a financial crisis of the likes of 2008 is unlikely to happen this year, 31% feel its chances cannot be dismissed with the remaining 27% indicating a neutral stance.

## Section I: Respondent Profile

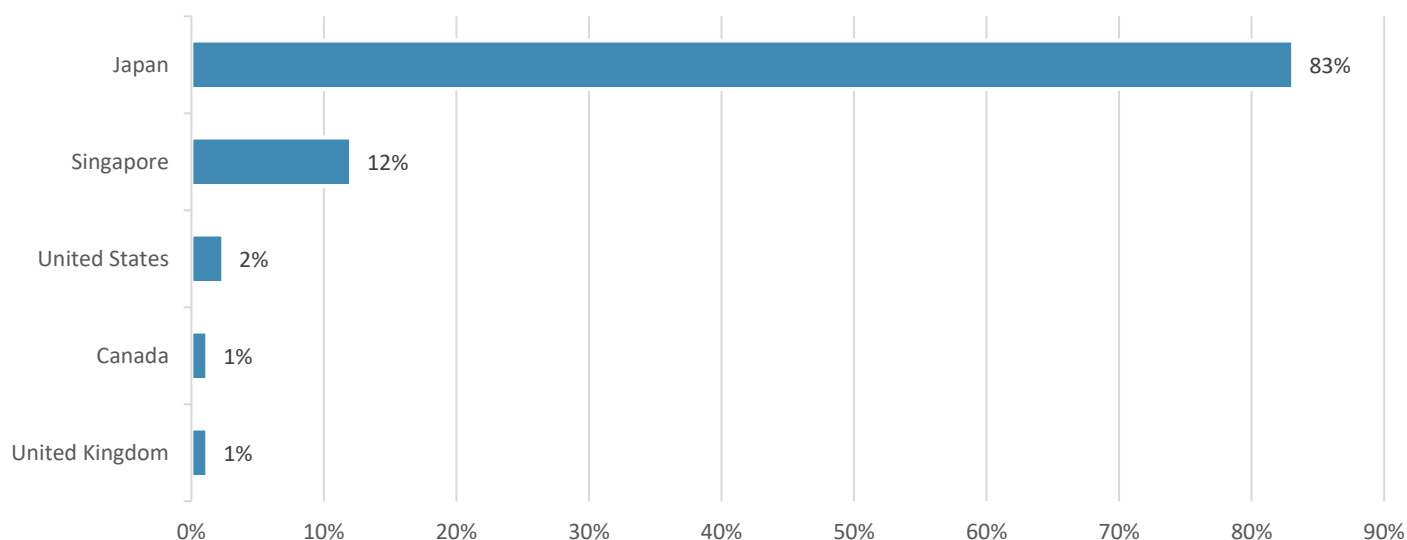
The vast majority of our survey respondents are based in Japan (81%) while another 16% are based in Singapore. The United Kingdom and the United States account for 3% of respondents collectively.

**Figure 1: In your present role, where are you currently based?**



In terms of headquarters location; 83% of our respondents have their company head offices in Japan, while another 12% have theirs in Singapore. The United States, Canada and the United Kingdom account for 4% of respondents collectively.

**Figure 2: Where is your company headquarters located?**

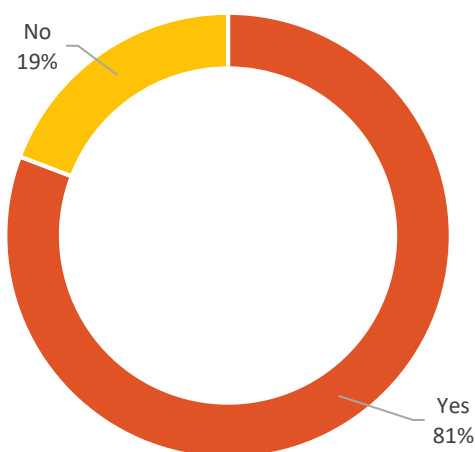


(Due to rounding, numbers presented in the charts may not add up to 100%)

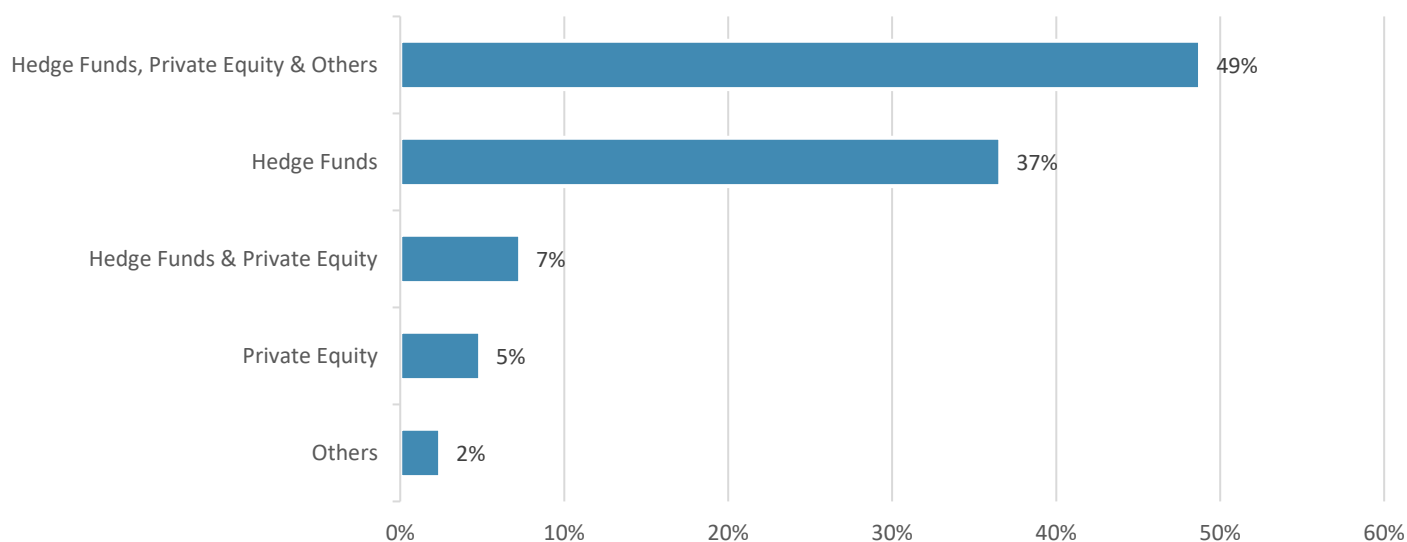
Of our respondents, 81% are from firms which manage alternative investments, with 37% of them managing hedge funds exclusively while 49% manage hedge funds, private equity together with other alternatives though hedge funds and

private equity account for a larger share of alternative investments managed. Respondents whose firms manage private equity funds exclusively account for another 5% while those in the 'Others' category manage alternative investments such as real estate, infrastructure and venture capital among others.

**Figure 3: Does your firm manage alternative investments?**



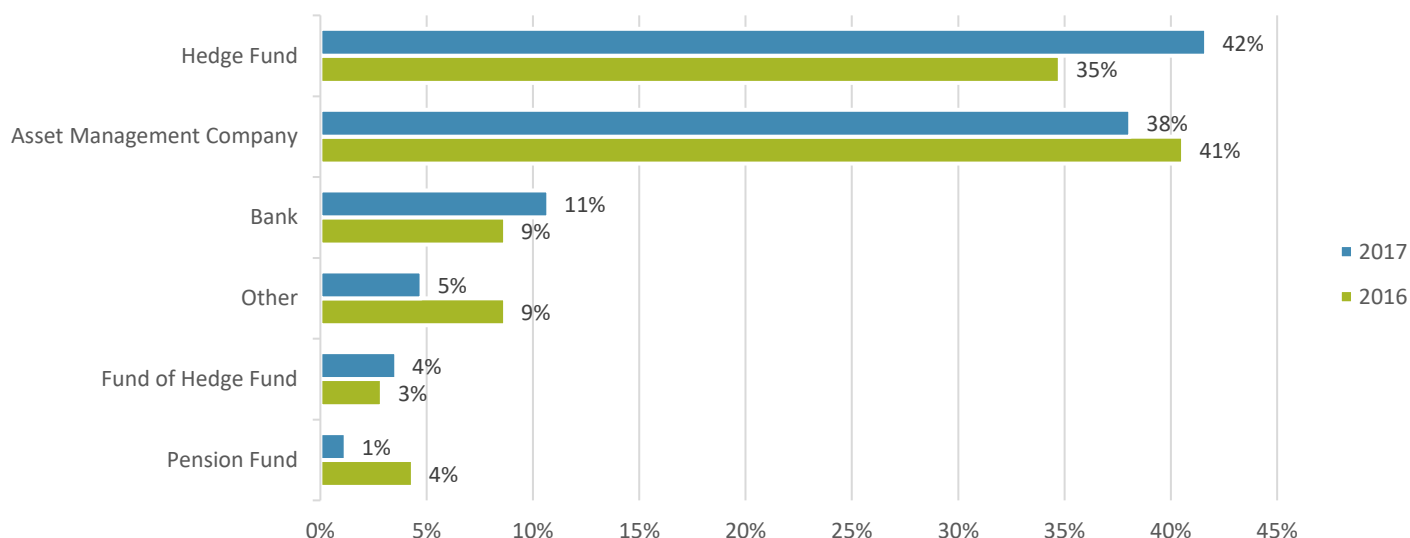
**Figure 4: What types of alternative investments are managed?**



(Due to rounding, numbers presented in the charts may not add up to 100%)

Breaking down our respondents by sector, we find that more than three-quarters of them are from the asset management and the hedge funds sector – taking up 38% and 42% respectively. In 2016, the two sectors accounted for 76% of our respondents in total, with more asset management companies (41%) and fewer hedge fund respondents (35%). Thus while viewing this years survey results, the higher number of responses from hedge fund managers should be kept in consideration.

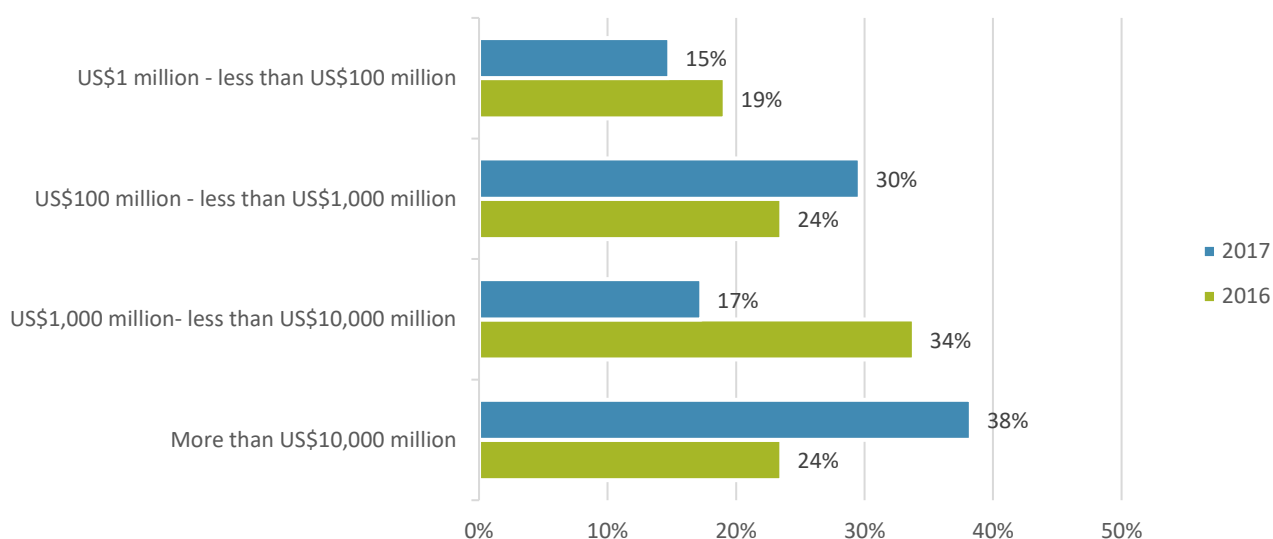
**Figure 5: What sector are you in?**



(Due to rounding, numbers presented in the charts may not add up to 100%)

In terms of assets under management (AUM), 55% of our respondents indicated managing or advising assets upwards of US\$1 billion, of which 38% managed more than US\$10 billion in AUM. Another 15% of our respondents indicated advising between US\$1 million to less than US\$100 million in assets, while those managing AUM between US\$100 million and less than US\$ 1,000 million account for another 30%.

**Figure 6: What is the size of your assets under management (AUM) /advisory AUM?**



(Due to rounding, numbers presented in the charts may not add up to 100%)

## Section II: Investment Trends

This section presents key findings on investments preferences and expectations on portfolio allocations for our respondents going into 2017. The first part of the section looks at the asset mix and expected portfolio level allocations for the investors whom we surveyed. The section concludes by comparing these results with historical results from 2014. Next, we look at the responses from hedge fund managers and their investment preferences as well as their portfolio allocations going into 2017.

In analysing trends on portfolio allocations across asset classes and regions, we have used both the equal and asset-weighted approach. In the equal-weighted approach we have used a simple average method while in the asset-weighted approach considerations have been given to the respondents' assets under management (AUM).

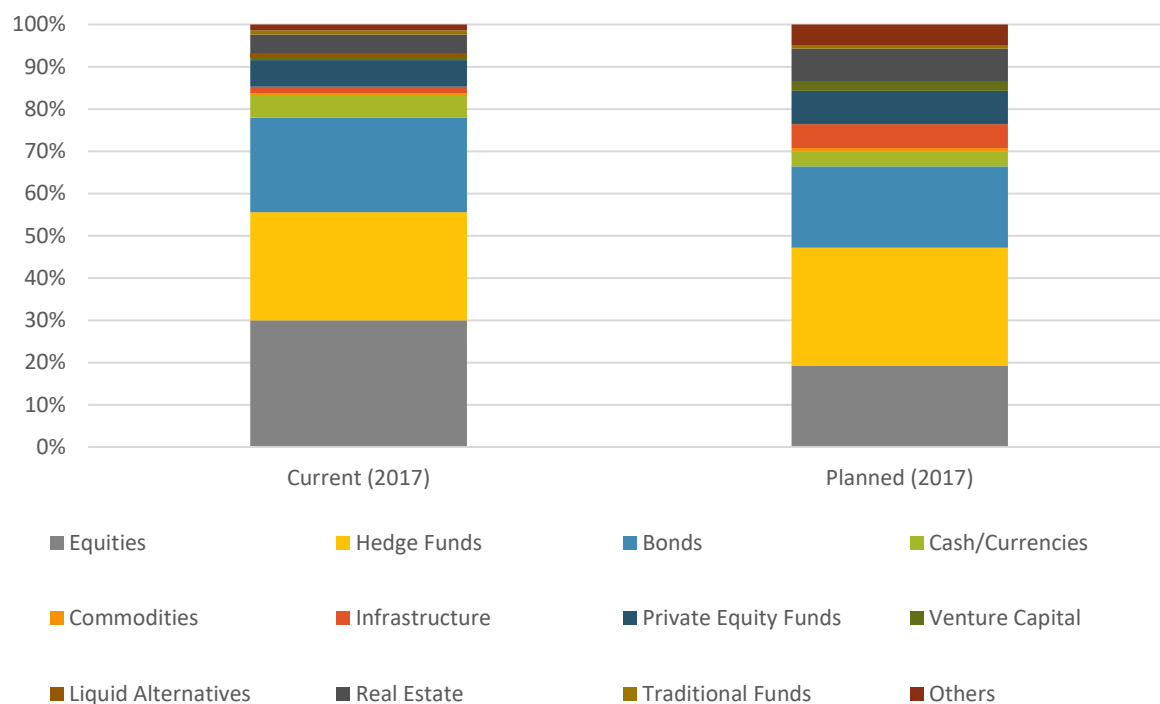
Key summary findings are presented below.

### Investment Trends

- 73% of the respondents did not indicate any change in their overall asset mix for 2017, although respondents who planned a change had indicated a decrease in their allocation into 'Traditionals' (Bonds and Equities) in favour of 'Alternatives' (infrastructure, real estate and venture capital).
- 83% of investors surveyed in **2014** indicated no plans to change their current allocations across asset classes. Among those who do, investors had increased their allocations into 'Traditionals' and reduced their allocations into 'Alternatives'.
- In terms of Yen vs. Foreign currency denominated holdings for **2017**, 78% of investors indicated no plans to change their current allocations compared to 84% of investors who shared the same sentiments in **2014**.
- For those planning to change their allocations in **2017**, investors planned to marginally increase their JPY-denominated assets. Investors surveyed in **2014** had also planned to increase their JPY-denominated assets.
- For allocations within alternatives, 73% of investors surveyed in **2017** indicated no such plans to change their current allocations compared to 86% of investors surveyed in **2014** who shared the same sentiments.
- For those planning to change their allocations within alternatives in **2017**, investors planned to reduce their allocations in fund of hedge funds (multi-managers) and hedge funds (single-managers). In contrast, investors surveyed in **2014** indicated a planned increase in their fund of hedge funds holdings as well as in private equity funds whereas allocations into hedge funds showed a planned decrease.
- Of those planning to change in **2017**, Asia ex. Japan and North America were the preferred geographical areas, while infrastructure, real estate and venture capital were favoured within alternatives. Among hedge fund strategies, Long/Short Equities, Global Macro and Relative Value were the most sought-after strategies.
- 59% indicated better performance while another 33% cited lower fees as the two most important factors that would induce them to increase their allocations within alternatives this year. Only 7% cited increased transparency.
- The vast majority of our hedge fund respondents, 58% expect investor allocations of under US\$100 million, while 38% anticipate allocations within US\$100 to US\$1,000 million in 2017.

Figure 7a shows our respondents' portfolio allocations across asset classes using the equal-weighted approach. Among asset classes, investors currently allocate 26% of their assets into hedge funds, while another 22% is allocated into bonds. Equity holdings account for another 30% of investor allocations. When asked if respondents planned to change their allocations, 73% of them indicated that they are not planning to change their allocations.

**Figure 7a: Current and planned portfolio allocations across asset classes**



**Figure 7b: Planning to change allocations?**

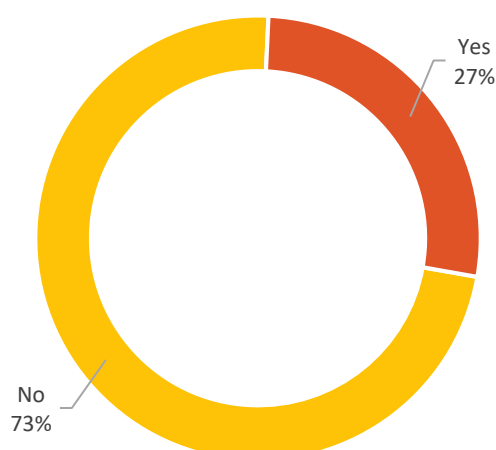
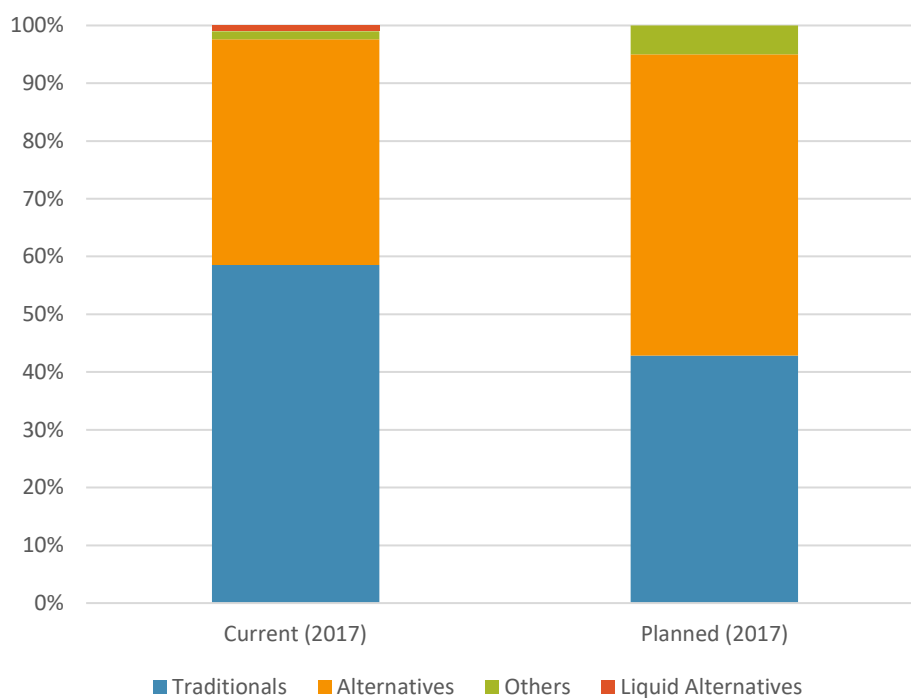


Figure 7c consolidates asset classes into broader categories of 'Traditionals', 'Alternatives', 'Liquid Alternatives' and 'Others' using the equal-weighted approach. As seen in Figure 7c, investors currently allocate larger share of the portfolio into 'Traditionals' (59%) while 'Alternatives' received 39% of market share. As we known earlier, 73% of them are not intending to change their portfolio allocations. Among those who do, investors intend to decrease their allocations into 'Traditionals' marginally, in favour of 'Alternatives' and 'Others'.

Figure 7c: Current and planned portfolio allocations across asset classes



(Due to rounding, numbers presented in the charts may not add up to 100%)

Respondents were asked about the current and planned holdings for JPY-denominated and foreign currency-denominated assets. Using a similar equal weighted approach, we found that 58% of an average respondent’s assets are held in JPY while another 42% of assets are held in foreign currencies. When asked if respondents planned to change their allocations, 78% of respondents indicated that they were not planning to change their allocations. Among those who did there is a tendency to slightly increase their foreign currency-denominated holdings.

Figure 8a: JPY assets vs. Non-JPY assets

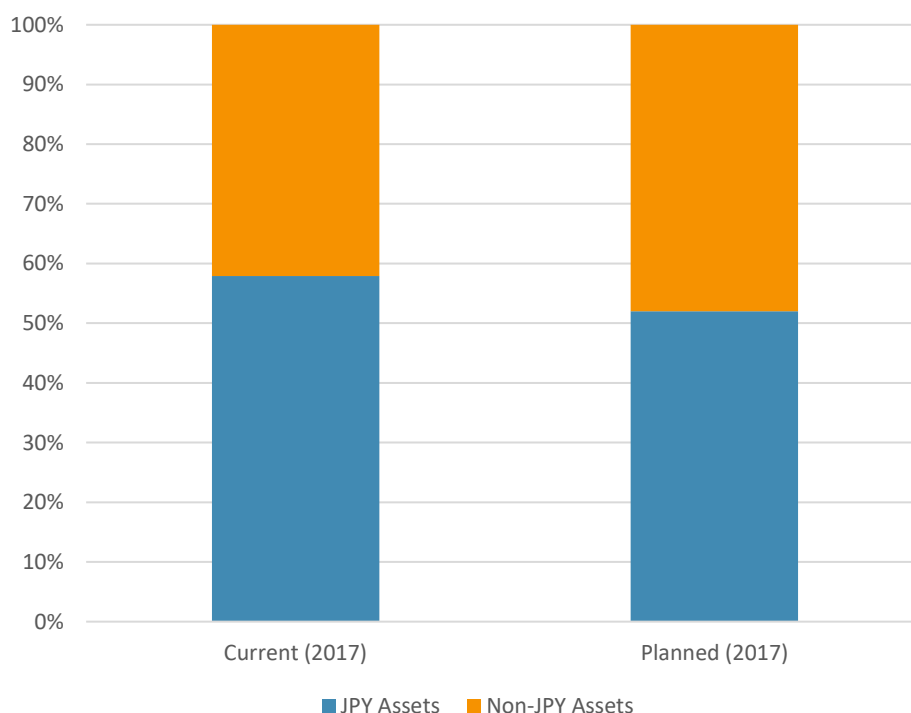


Figure 8b: Planning to change allocations?

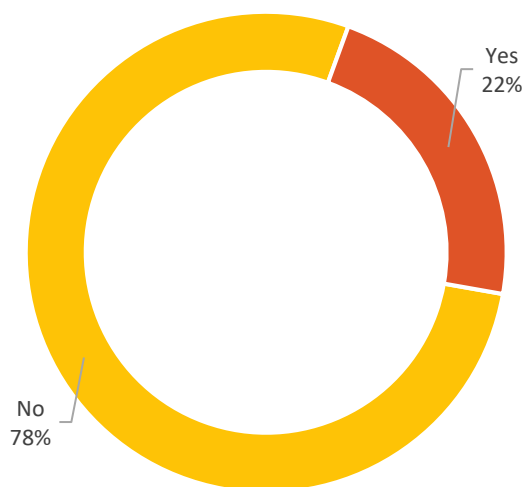


Figure 9a shows the breakdown of assets within the alternative investment sphere for our respondents. The bulk of allocations within the alternative investments space are concentrated into the hedge fund industry, accounting for 53% of asset distribution. Private equity and fund of hedge funds are also popular among investors accounting for 17% and 15% of asset distribution respectively. Venture capital and liquid alternatives account for a minority share – collectively 5% of asset distribution. A majority of our respondents (73%) have indicated that they had no plans to change their allocations.

Figure 9a: Distribution of assets (within alternative investments)

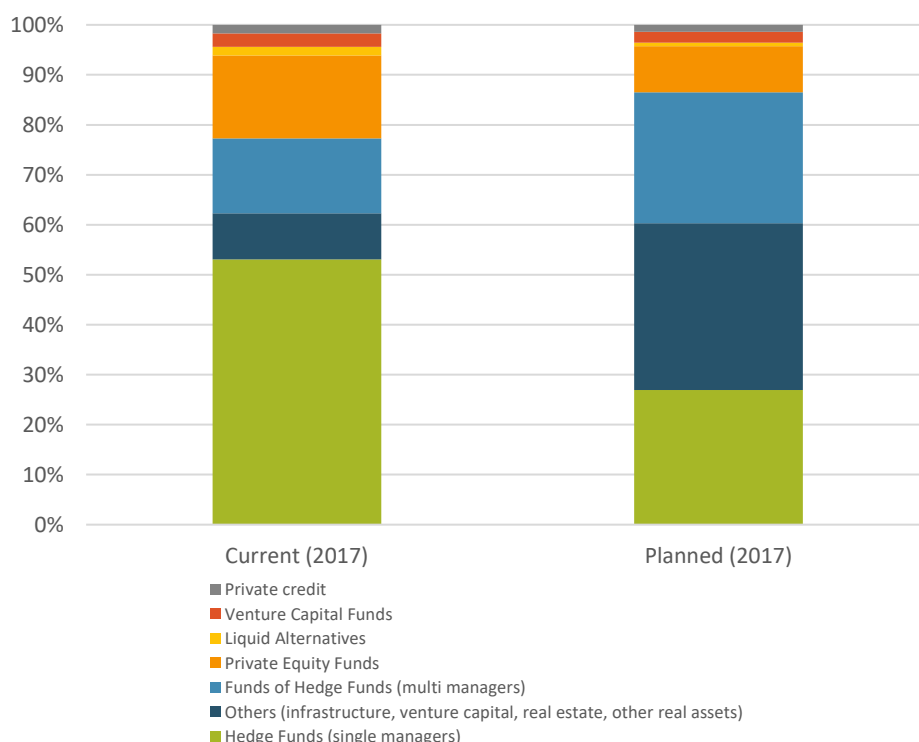
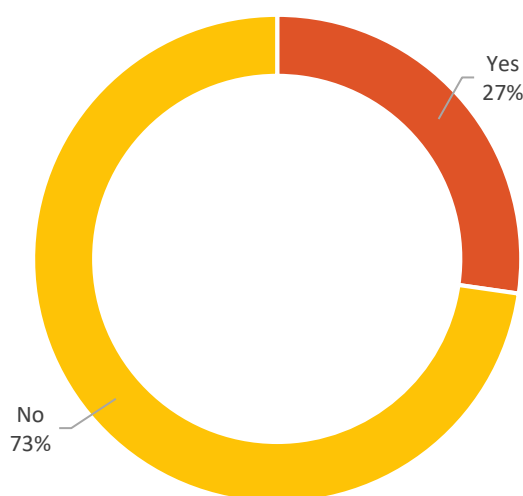


Figure 9b: Planning to change allocations?



(Due to rounding, numbers presented in the charts may not add up to 100%)

For the next part, we use an asset-weighted approach which takes into consideration the respondent's AUM. Using this asset-weighted approach, we find that investors allocated primarily into bonds, hedge funds and equities - 31% of their portfolio assets into bonds, while 19% of their assets are allocated into hedge funds and 33% of their portfolio assets are allocated into equities. As seen earlier, majority of our respondents are not planning to change their allocations in the coming year and for those who do, we note decrease allocations into bonds, equities and hedge funds. On the other hand, we see investors indicating that they would be increasing their allocations into infrastructure and private equity.

Figure 10a: Asset weighted for portfolio allocations

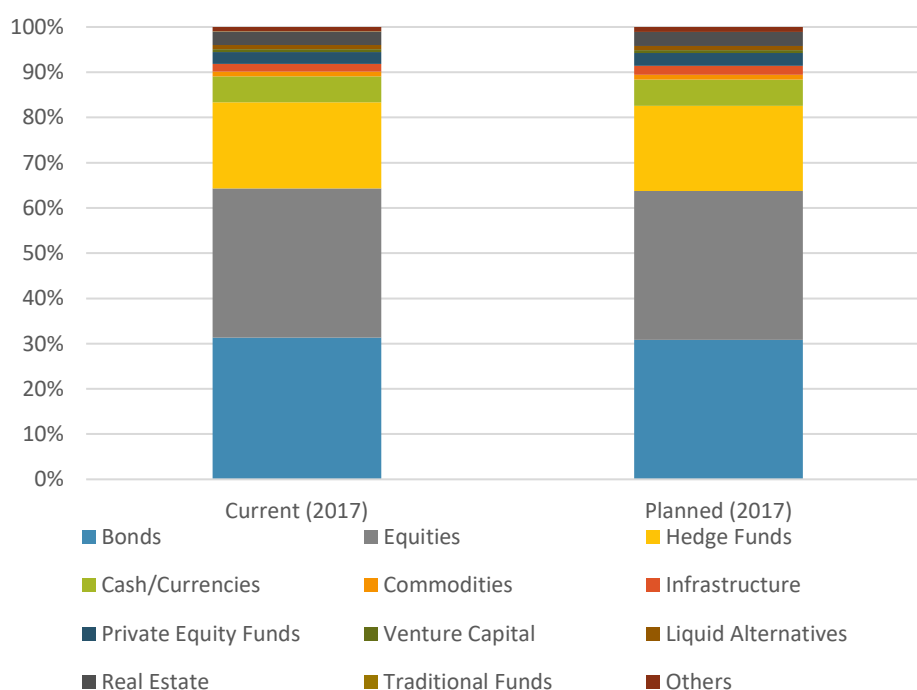
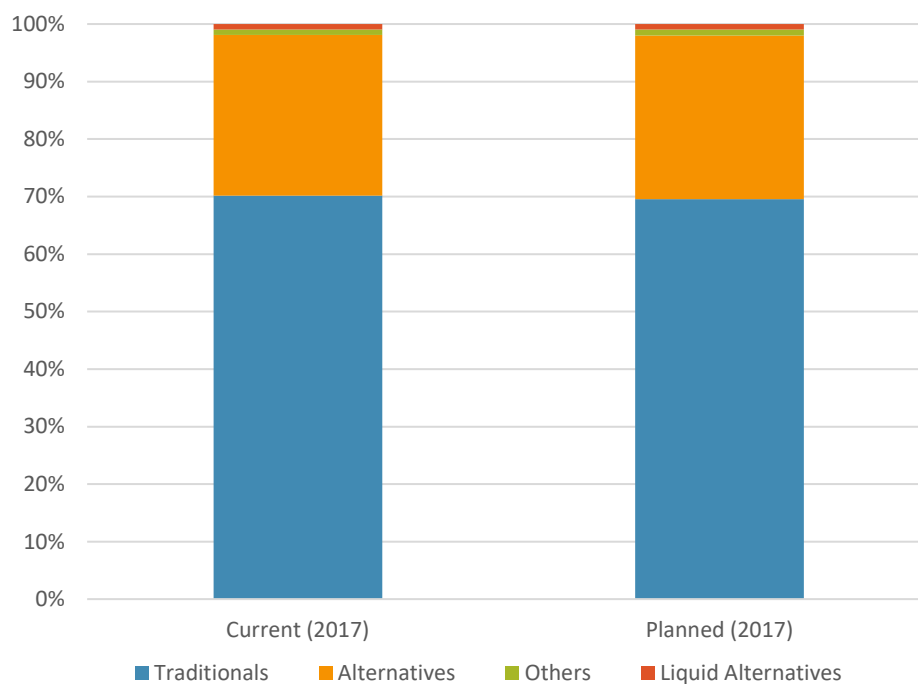
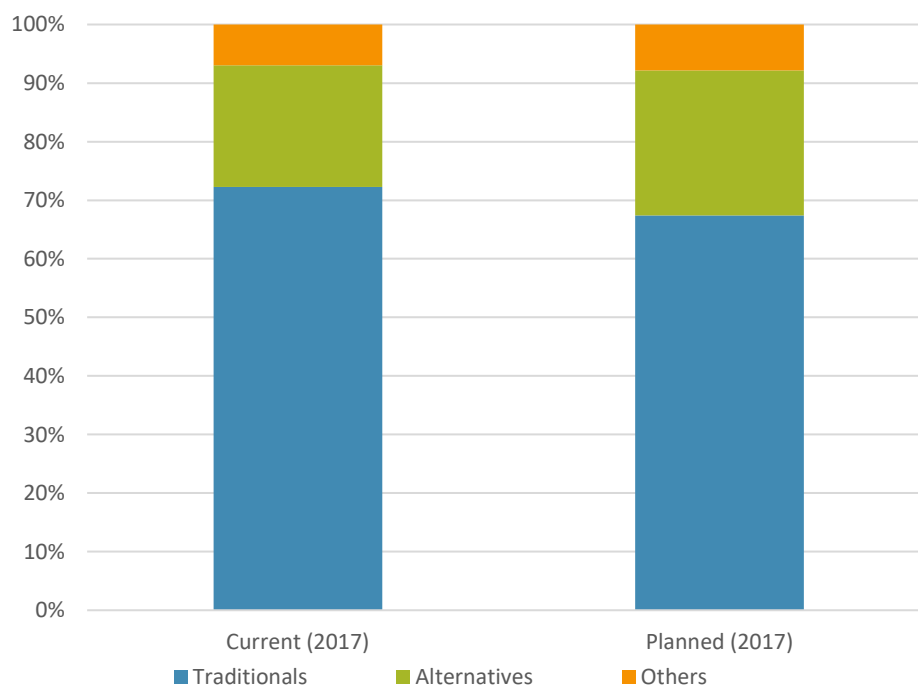


Figure 10b below consolidates asset classes into broader categories of ‘Traditionals’, ‘Alternatives’, ‘Liquid Alternatives’ and ‘Others’ using the asset-weighted approach. In this approach, ‘Traditionals’ account for 70% of the current portfolio while ‘Alternatives’ account for 28%. Investors plan to increase their allocations into ‘Alternatives’ in particular infrastructure and real estate while changes to assets allocations in the ‘Traditionals’ category show that investors are moving out of bonds and equities.

**Figure 10b: Asset weighted for portfolio allocations**

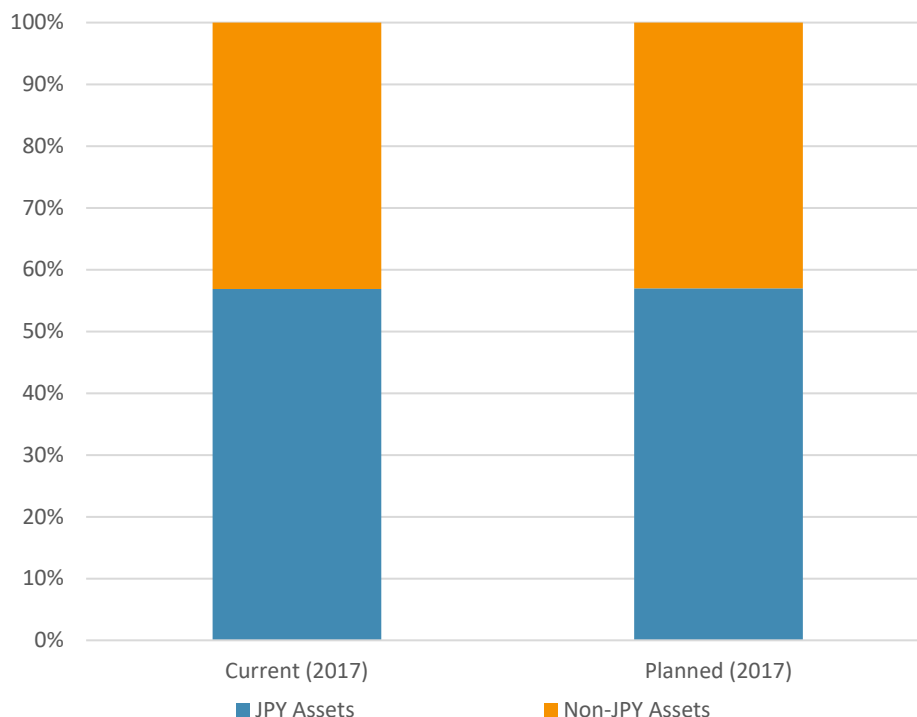


**Figure 10c: Those who indicated a change (Asset-weighted)**

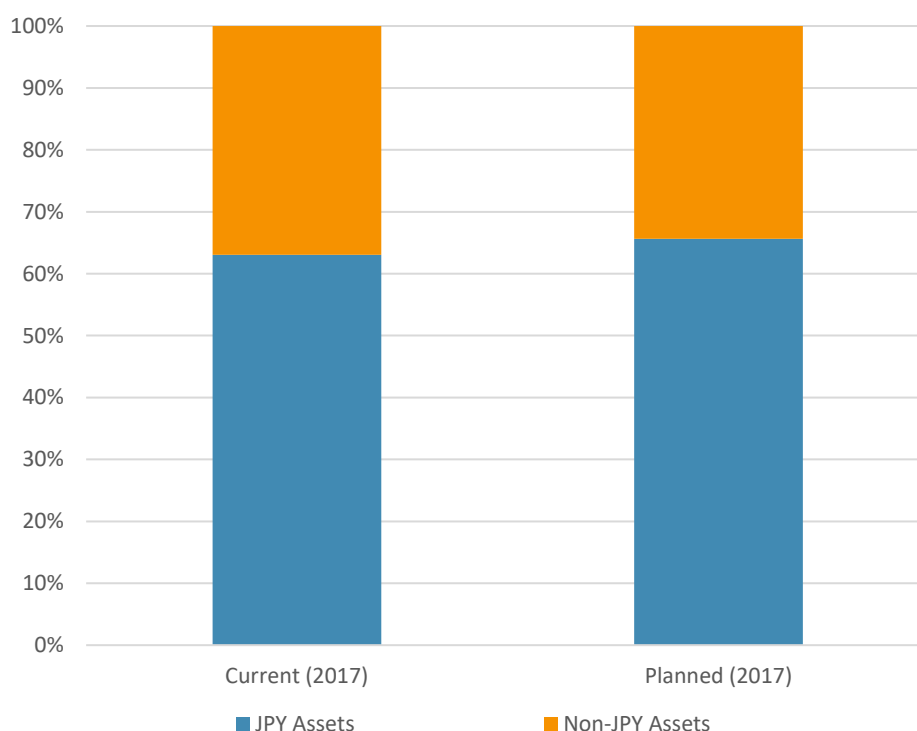


The figure below also takes on a similar asset-weighted approach for asset holdings denominated in yen and foreign currencies. Using this approach, we find that yen-denominated assets account for 57% of a respondent’s asset allocation while 43% of the assets are denominated in foreign currency. A majority of our respondents have indicated that they do not plan to change their allocations, and among those who do, we notice that they plan to increase their Yen-denominated holdings.

**Figure 11a: Asset weighted for JPY vs Non-JPY denominated assets**

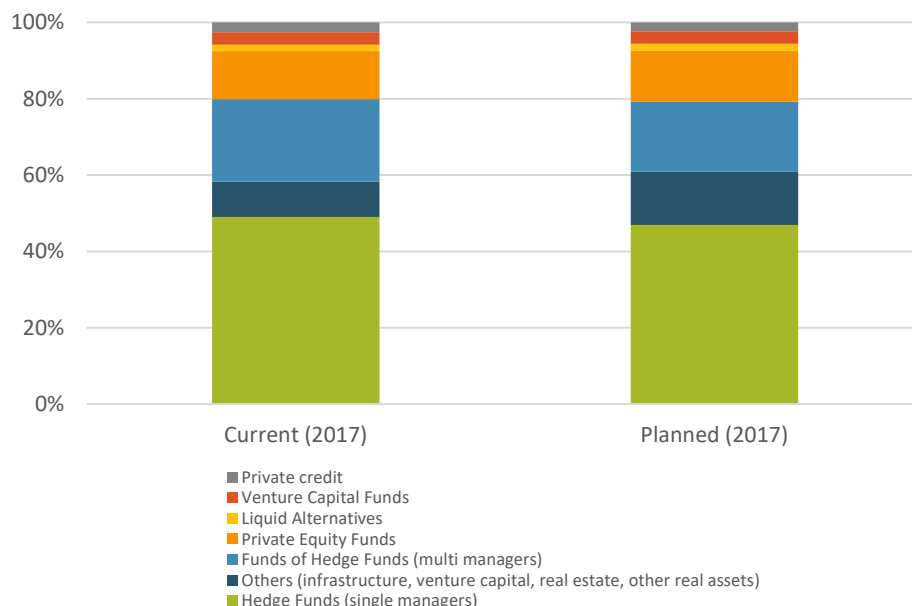


**Figure 11b: For those who indicated a change (Asset-weighted)**

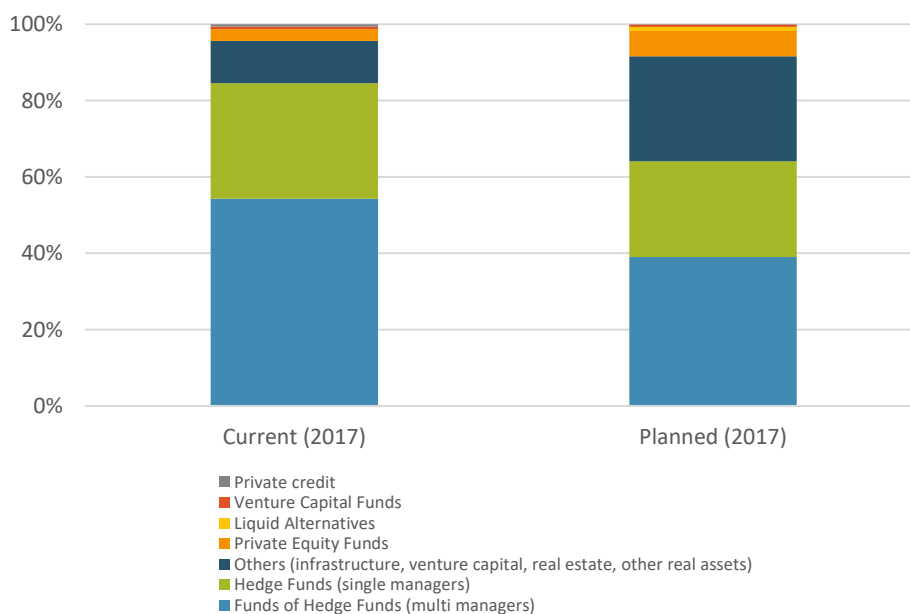


Further the asset-weighted approach shows that the bulk of assets are distributed into hedge funds (49%). Private equity and fund of hedge funds follow next with asset distributions of 13% and 22% respectively while liquid alternatives and venture capital collectively account for another 5%. Majority of respondents indicated no plans to change their allocations and for those who do, they planned to decrease hedge fund and fund of hedge funds allocations while increasing allocations into infrastructure, real estate, venture capital, other real assets and private equity.

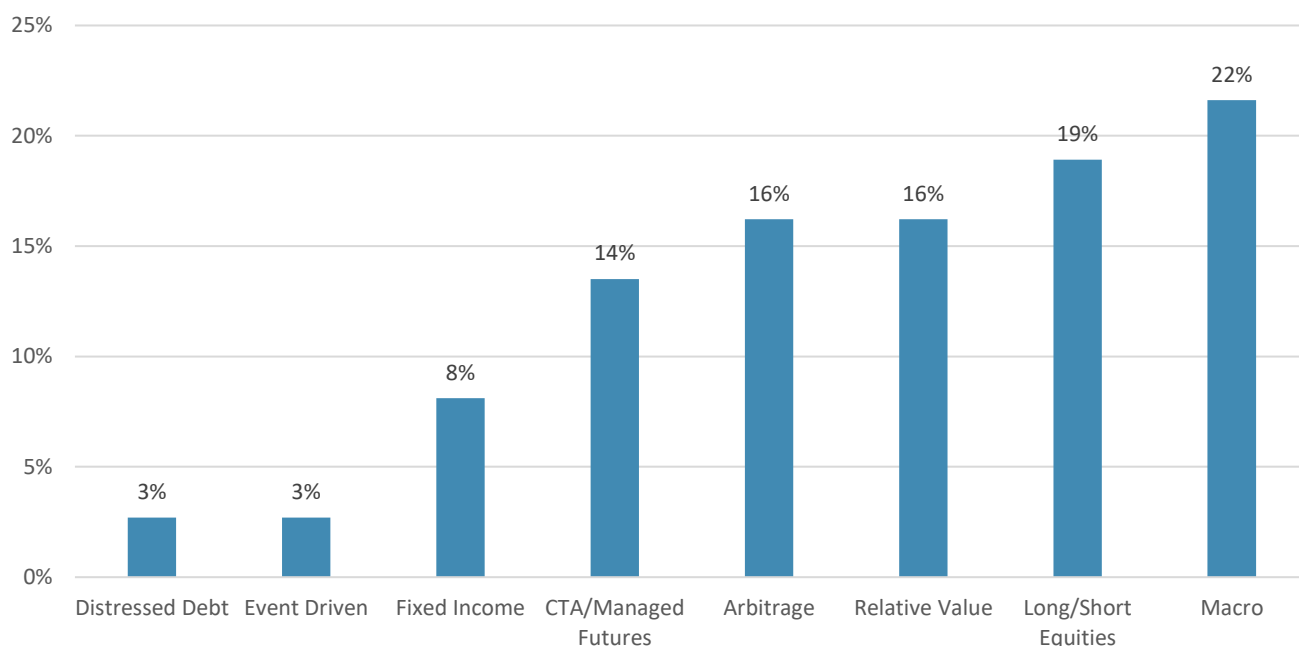
**Figure 12a: Asset weighted for distribution of assets (within alternative investments)**



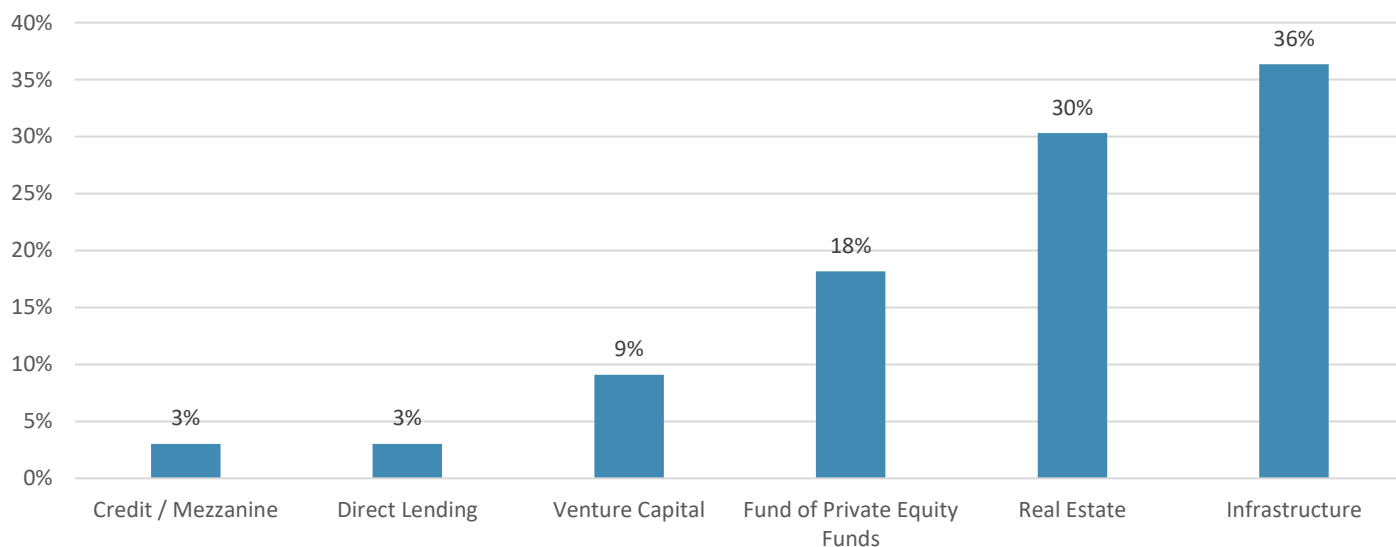
**Figure 12b: Those who indicated a change**



Respondents were asked if they had plans to change their allocations across hedge fund strategies. Majority of our respondents indicate that they had no plans to change their allocations across hedge fund strategies. For those who had indicated a planned increase in hedge fund strategy allocations – macro, long/short equities, relative value and arbitrage strategies were most sought after. Of the respondents, 22% of respondents planned to increase their allocations into macro strategies with another 19% increasing their allocation into long/short equities strategies.

**Figure 13: Top strategies (percentage of respondents who indicated increase in these strategies)**


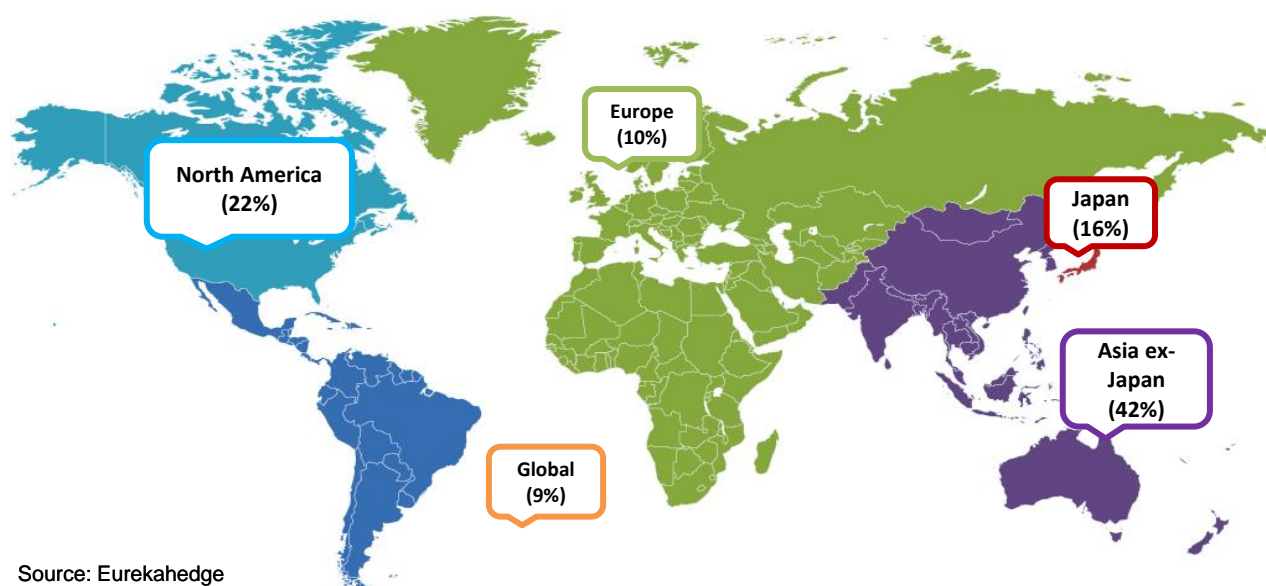
A majority of our respondents who had allocations into private equity indicated that they did not plan to change the share of their allocations. Of those who did indicate changing their allocations within private equity strategies, infrastructure, real estate, fund of private equity funds and venture capital funds were the most sought after strategies.

**Figure 14: Top private equity strategies (percentage of respondents who indicated increase in these strategies)**


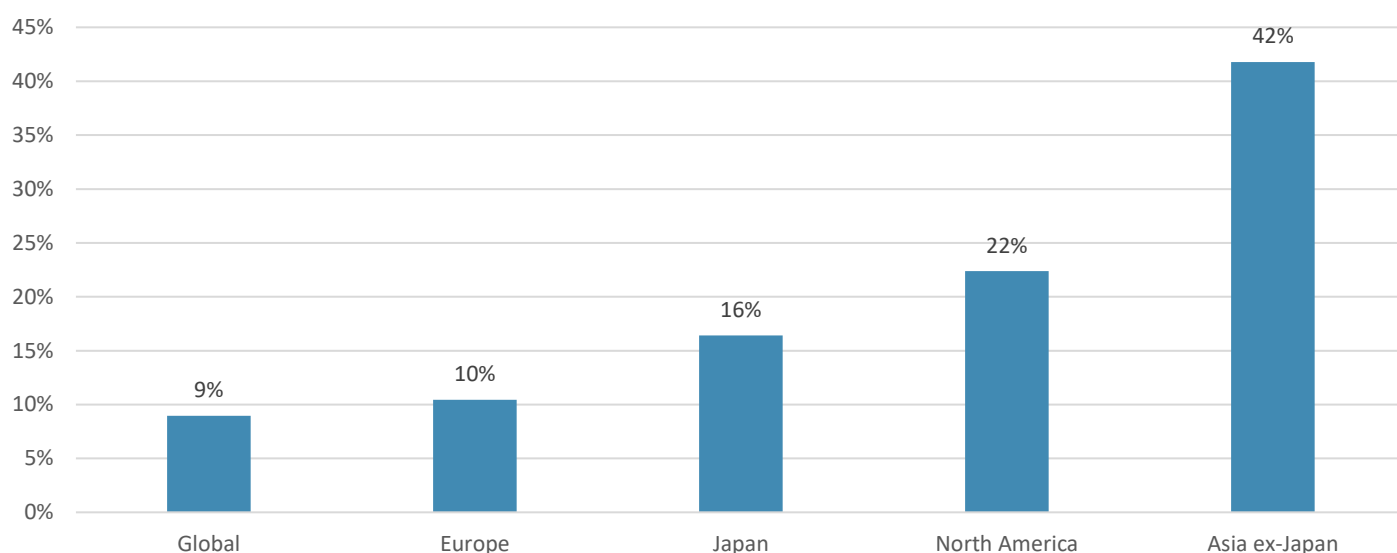
(Due to rounding, numbers presented in the charts may not add up to 100%)

Respondents were also asked about their regional allocations, and majority of them indicated that they had no plans to change their current allocations. However, we also have respondents who indicated that they planned to increase their allocations into North America and Asia ex-Japan as a whole. Within Asia ex-Japan, some investors indicated their interest in dedicated India and China mandates along with those who are looking towards exposure to a broad Southeast Asia mandate as well.

Figures 15a-b: Top Regions (percentage of respondents who indicated increased allocations in these regions)



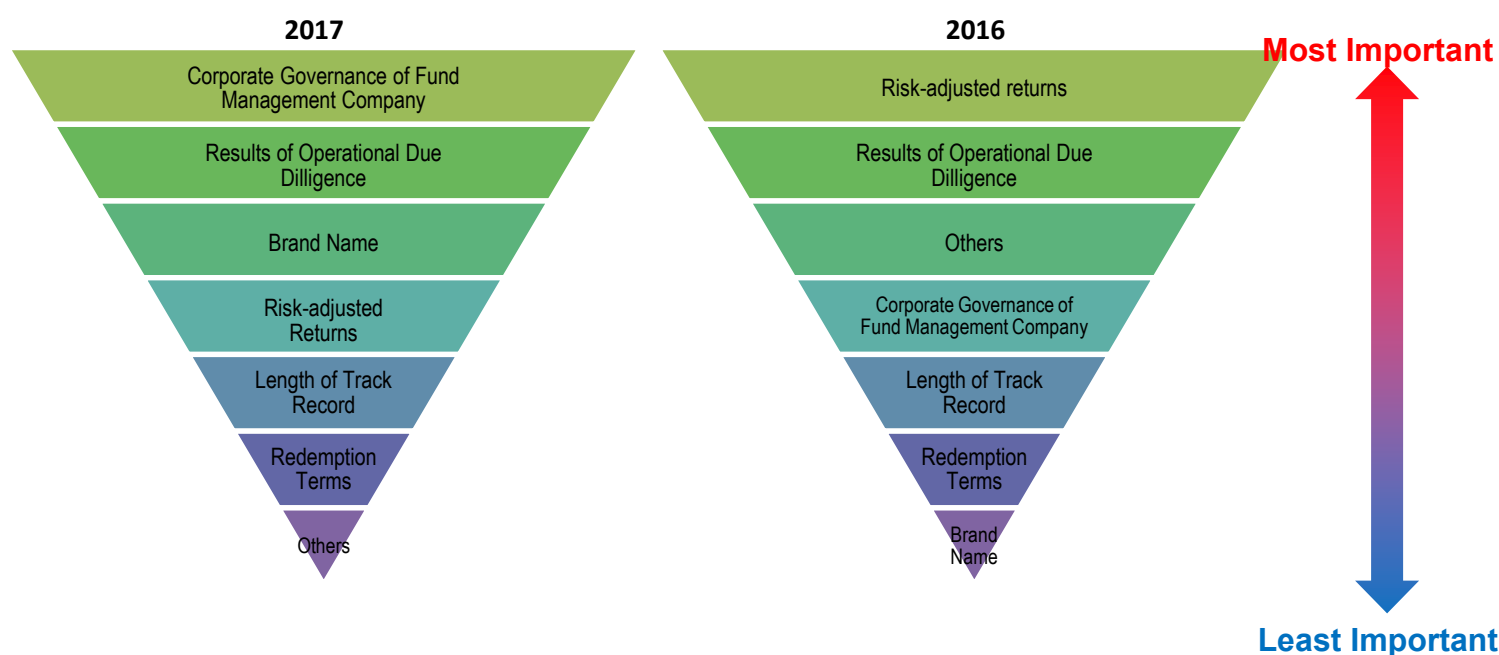
Source: Eurekaledge



(Due to rounding, numbers presented in the charts may not add up to 100%)

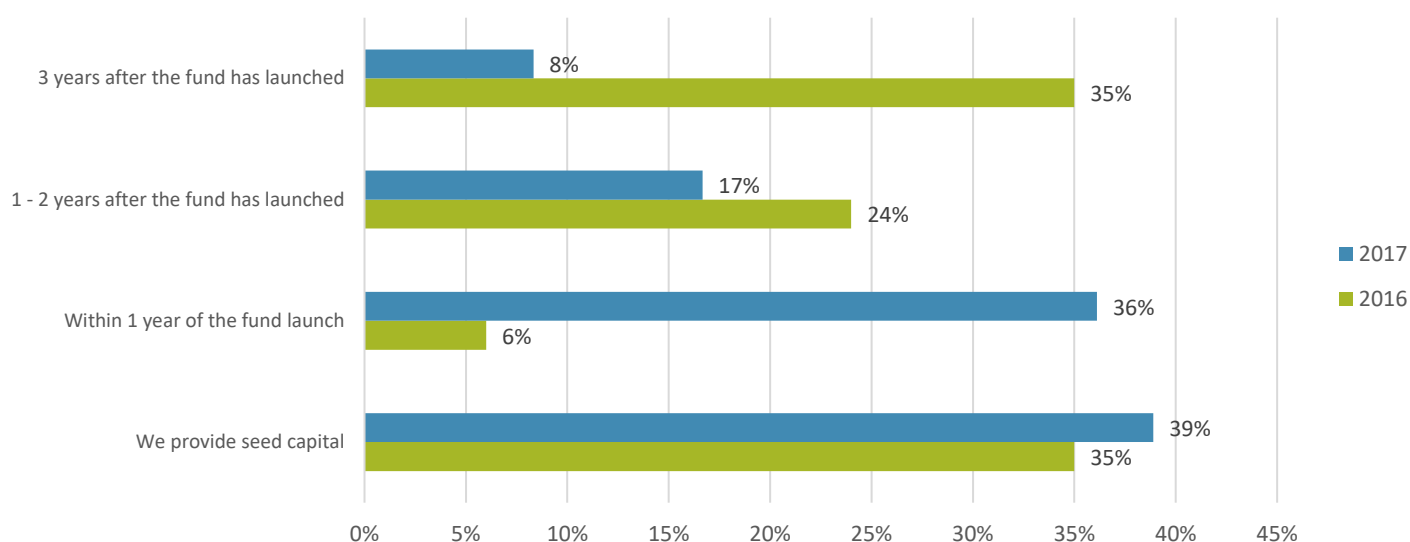
Respondents were also asked to rank factors which they feel would affect their investment decisions. Looking at factors which were ranked as first, 43% of respondents indicated that corporate governance is the most important factor affecting their investment decision, while another 39% indicated that results of operational due diligence was the most important factor for them. Out of our respondents from last year's survey, 42% of them ranked risk-adjusted returns as the most important factor affecting their investment decisions compared to only 2% this year.

**Figure 16: In what order of importance do these factors affect your decision upon an investment (e.g. ODD, Clearance, liquidity)?**



Respondents were also asked about their investment timeline, and we find that views are somewhat divided. 36% indicated that they are able to invest within 1 year while 39% indicated that they are open to providing seed capital. Of the respondents, 17% indicated that they can invest within 1-2 years while 8% were looking at a longer term horizon of after 3 years.

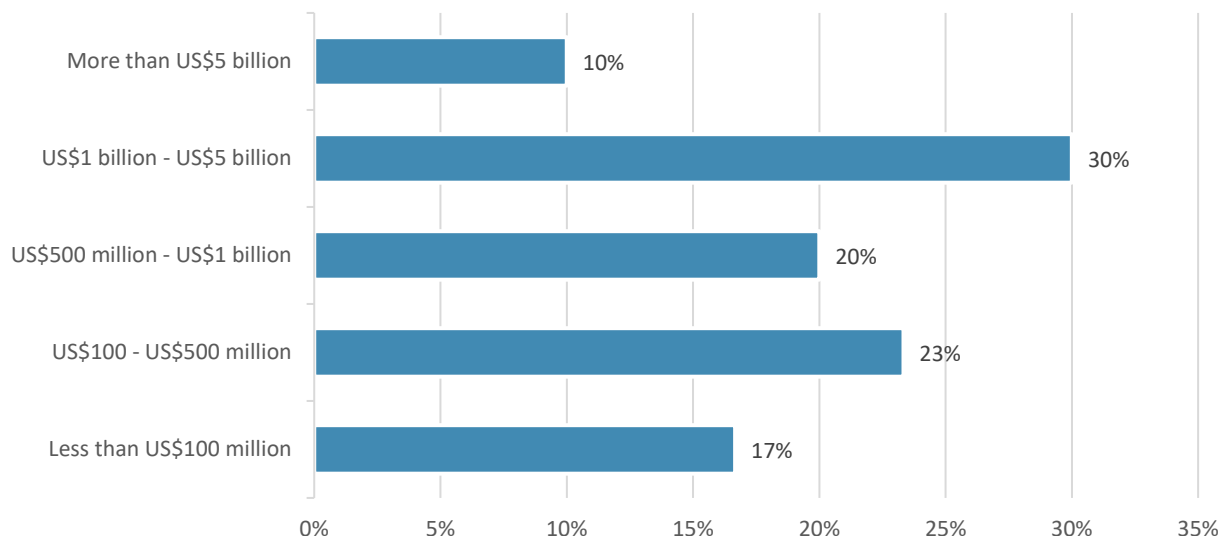
**Figure 17: How early can you invest?**



(Due to rounding, numbers presented in the charts may not add up to 100%)

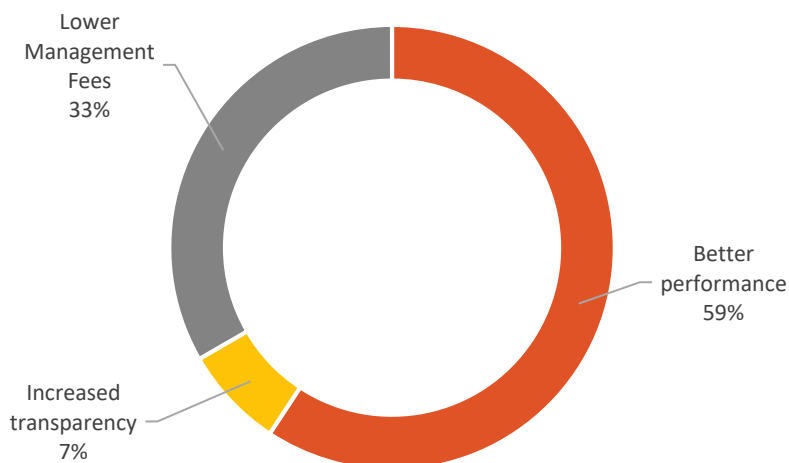
In terms of investors current allocation into alternatives, 60% of them indicated that they allocated upwards of US\$500 million into alternatives collectively with 30% of them allocating between US\$1 billion to US\$5 billion into alternatives. Certainly, these investors belong to large investment advisory companies and banks with more than half of them managing AUM of more than US\$10 billion.

Figure 18: What is your current allocation into alternatives?



In terms of the factors which would lead to investors increasing their allocation into hedge funds or alternatives, majority of them indicated that better performance was a preferred factor followed by lower management fees with 33%. Interestingly, only 7% of respondents felt that increased transparency would influence their allocation decision into hedge funds.

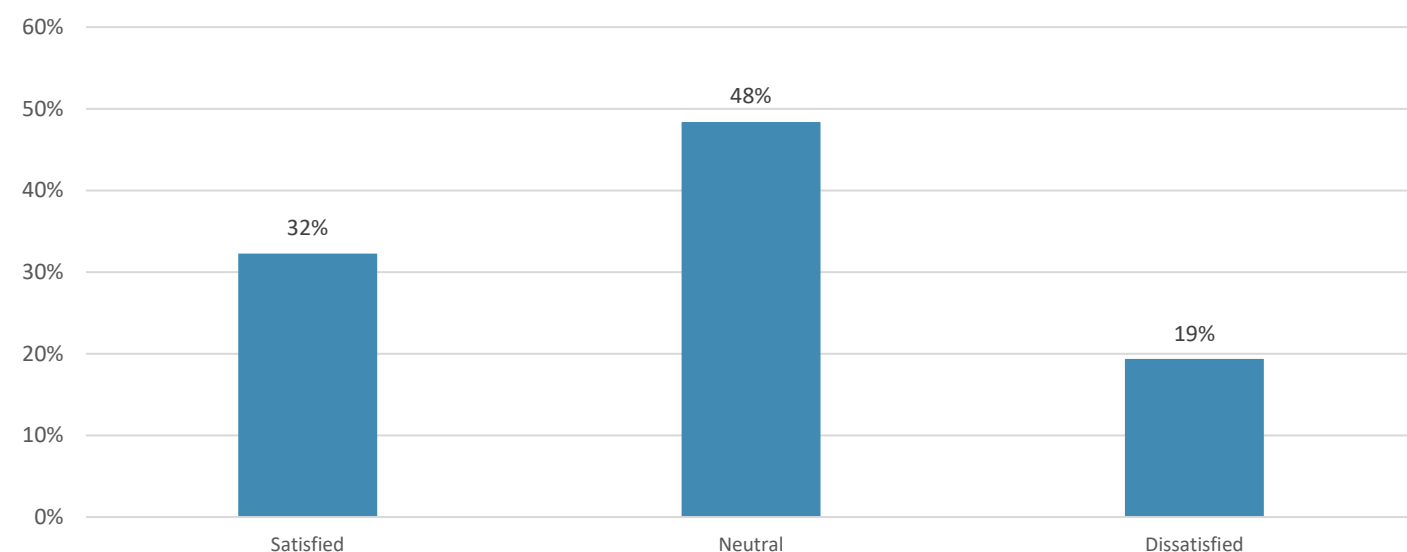
Figure 19: Which of the following is most likely to cause you to increase your allocation towards hedge funds/alternatives?



(Due to rounding, numbers presented in the charts may not add up to 100%)

Opinions were divided when asked about the level of satisfaction with regards to the performance of underlying investments in 2016. Of the respondents, 48% indicated that they were neutral while 32% indicated that they were overall satisfied with the performance of their underlying investments over the past year. On the other hand, 19% of our respondents felt dissatisfied on overall with their returns from their underlying investments in 2016.

**Figure 20: What is your level of satisfaction with regards to the performance of your underlying investments in 2016? (e.g. returns delivered by your underlying equity/fixed income/hedge fund/private equity holdings)**



(Due to rounding, numbers presented in the charts may not add up to 100%)

When asked if respondents planned to increase/scale up their investments, opinions were divided but a slight majority of investors (59%) indicated that they did not plan to increase their investments in 2017. Out of those who planned to increase their investments, we note that 71% of them are planning to increase investments by 20% or more into hedge funds while another 29% indicated a less than 20% increase in investments into hedge funds.

**Figure 21a: Do you plan on increasing your investments into hedge funds in 2017?**

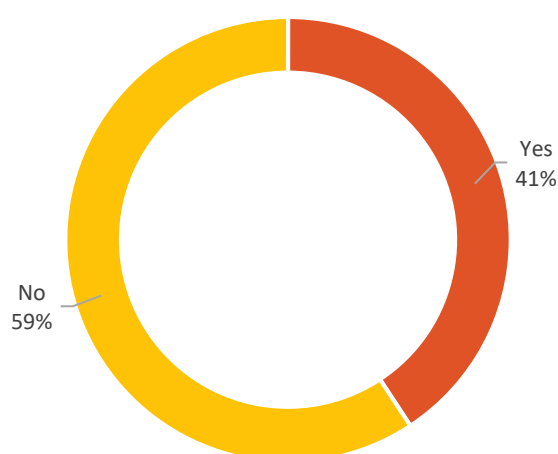
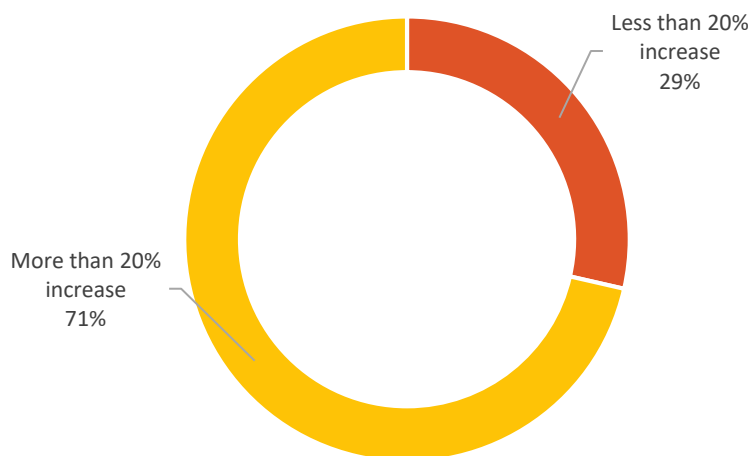


Figure 21b: If you answered ‘Yes’, what is your expected increase in investments?



(Due to rounding, numbers presented in the charts may not add up to 100%)

Among those who had no plans to increase their investments, 13% had indicated that they planned to maintain their current allocations while 81% were either undecided or declined to disclose any details. Overall, those who planned to divest indicated that they plan to reduce their hedge fund allocations in favour of infrastructure and real estate. Within hedge fund strategic mandates, long/short equities, relative value and macro were most sought after by investors surveyed.

Figure 21c: If you answered ‘No’, which of the below is relevant to you?

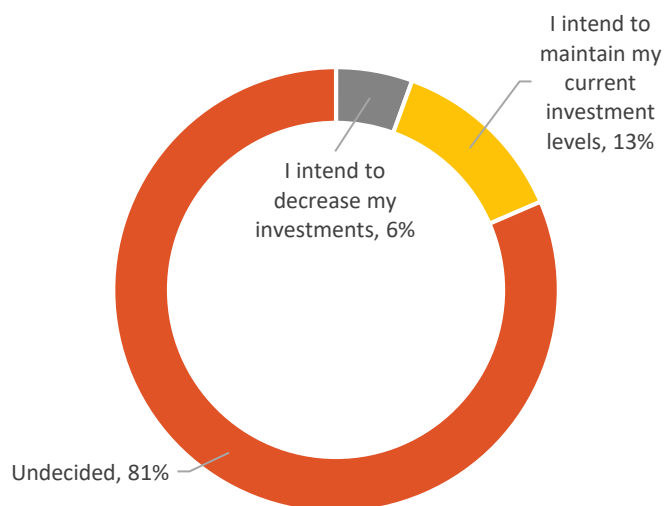
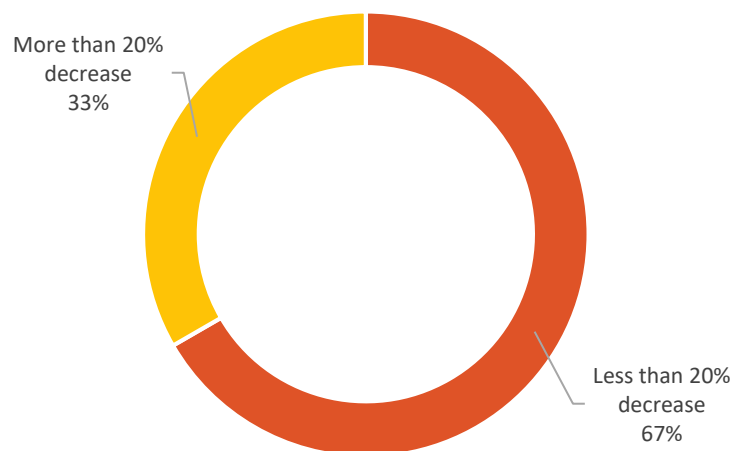


Figure 21d: If you answered 'I intend to decrease my investments', what is your expected decrease in investments?



(Due to rounding, numbers presented in the charts may not add up to 100%)

### Investment Trends Summary

#### What percentage of your portfolio is in each of the following asset classes?

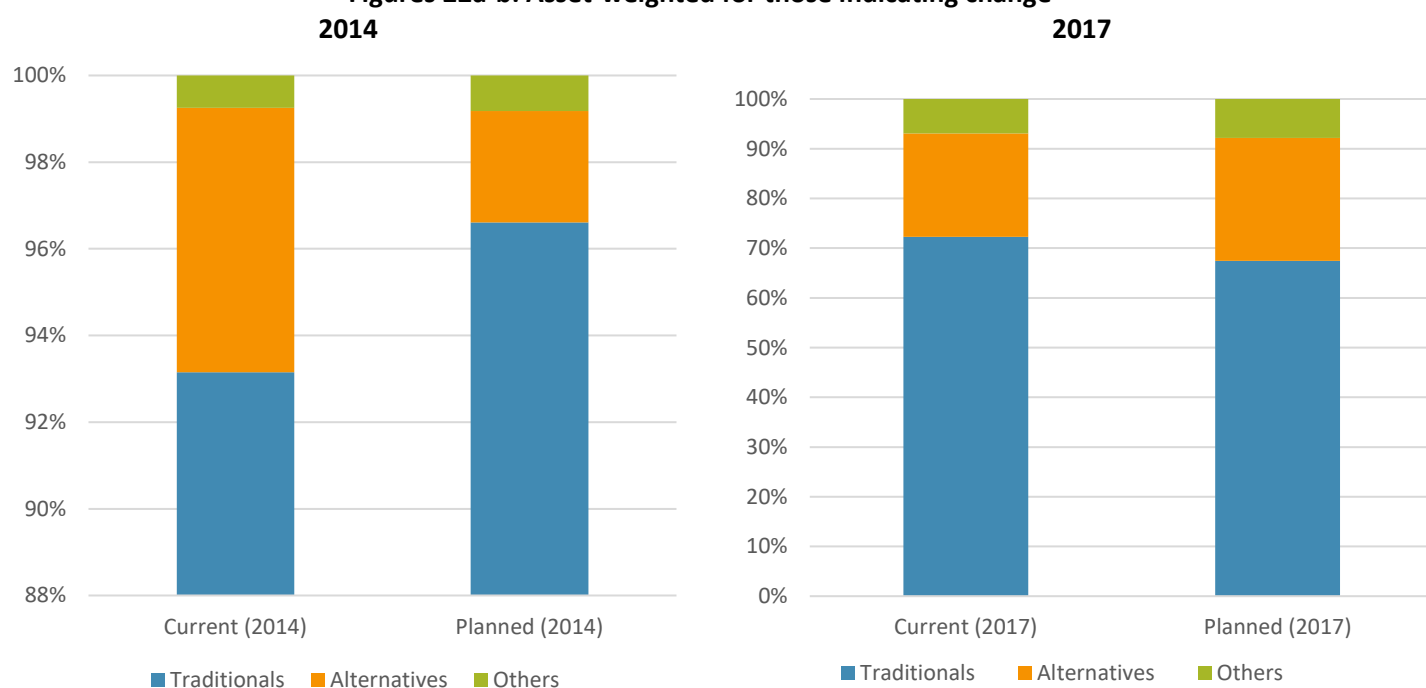
##### Equal-Weighted:

- In the equal weighted approach, investors in 2014 indicated increasing their allocations into 'Traditionals' such as bonds and equities whereas allocations within 'Alternatives' declined.
- Using the same equal-weighted approach, investors surveyed this year have indicated plans to decrease their allocations into bonds and equities in favour of infrastructure, private equity and venture capital allocations.
- For both years 2014 and 2017, majority of our respondents indicated that they did not plan to change their current allocations – 83% (2014) and 73% (2017).

##### Asset-weighted:

- In the asset-weighted approach, investors surveyed in 2014 indicated increase their allocations into 'Traditionals' and reduced their allocations into 'Alternatives'. For those who indicated a change, we note that AUM heavyweights planned to reduce allocations into bonds.
- Using the same asset-weighted approach, investors surveyed this year have indicated plans to decrease their allocations into bonds, equities and hedge funds in favour of infrastructure, private equity and real estate.
- For investors whose firms manage upwards of US\$500 million, 23% of them had indicated that they were unsatisfied with the performance of their underlying investments in 2016. Seen in the figure below, we see declines in the planned holdings into hedge funds and equities this year. The *Eurekahedge Hedge Fund Index* was up 4.55% in 2016 while the MSCI World Index<sup>1</sup> was up 7.37% over the same period.

**Figures 22a-b: Asset-weighted for those indicating change**



(Due to rounding, numbers presented in the charts may not add up to 100%)

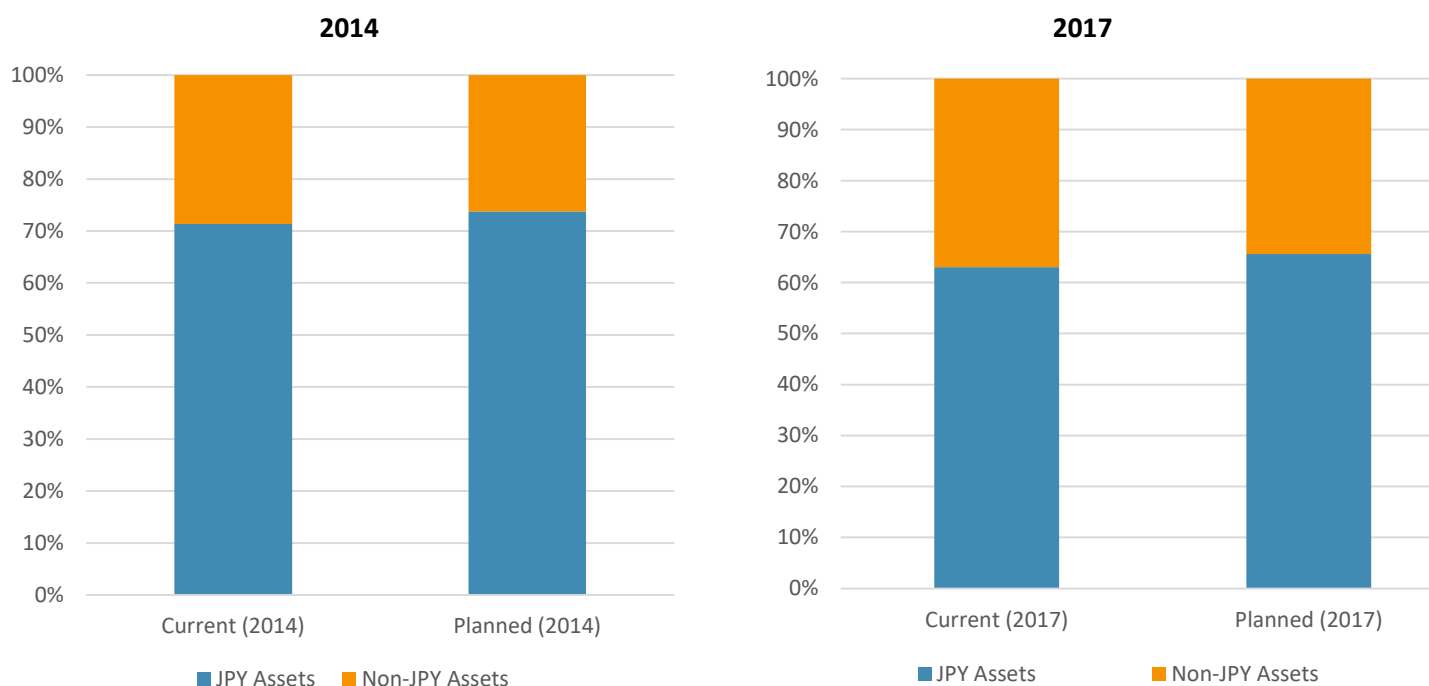
<sup>1</sup> MSCI AC World Index (Local)

**What is your current ratio of Yen-denominated assets vs foreign currency-denominated assets?**
**Equal-weighted:**

- In the equal-weighted approach, investors surveyed in 2014 indicated that they planned to marginally decrease their exposure into Yen-denominated holdings.
- Using the same equal-weighted approach, investors surveyed this year indicated that they planned to decrease their exposure marginally across Yen-denominated assets.
- For both year 2014 and 2017, majority of our respondents had indicated no plans to change their current allocations – 84% (2014) and 78% (2017).

**Asset-weighted:**

- In the asset-weighted approach, investors surveyed in 2014 indicated that they planned to marginally increase their Yen-denominated holdings marginally, with a corresponding decrease in foreign-currency denominated assets.
- Using the same asset-weighted approach, investors surveyed this year indicated that they planned to marginally increase their Yen-denominated holding in favour of foreign denominated assets.

**Figures 23a-b: Asset-weighted for those indicating change**


(Due to rounding, numbers presented in the charts may not add up to 100%)

### What is your current portfolio within alternatives?

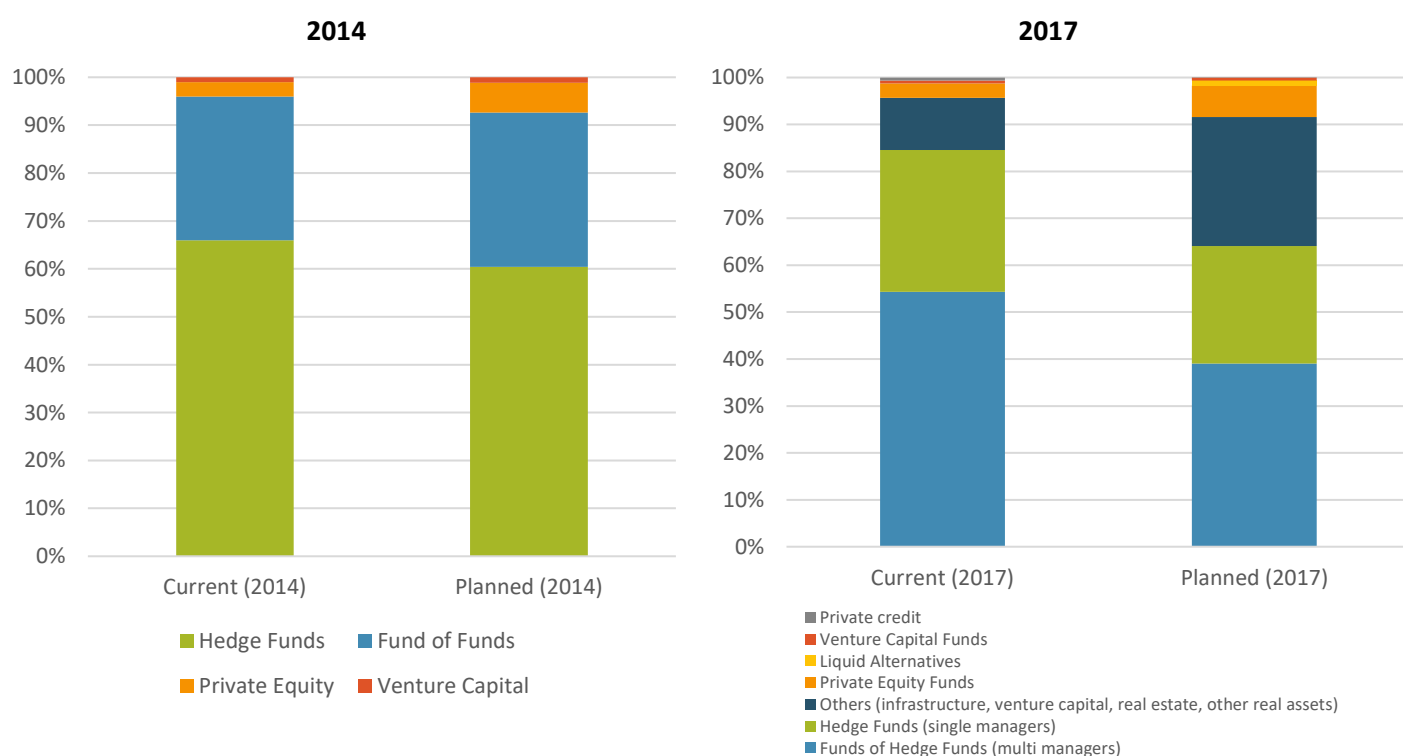
#### Equal-weighted:

- In the equal-weighted approach, investors surveyed in 2014 indicated that they planned to increase their allocations into fund of hedge funds and private equity funds while reducing their allocations into hedge funds.
- Using the same equal-weighted approach, investors surveyed this year indicated that they planned to decrease their allocations into hedge funds while increasing their allocations into infrastructure and real estate as well as an increase into fund of hedge funds.
- For both 2014 and 2017, majority of our respondents indicated that they did not plan to reduce their current allocations – 86% (2014) and 73% (2017).

#### Asset-weighted:

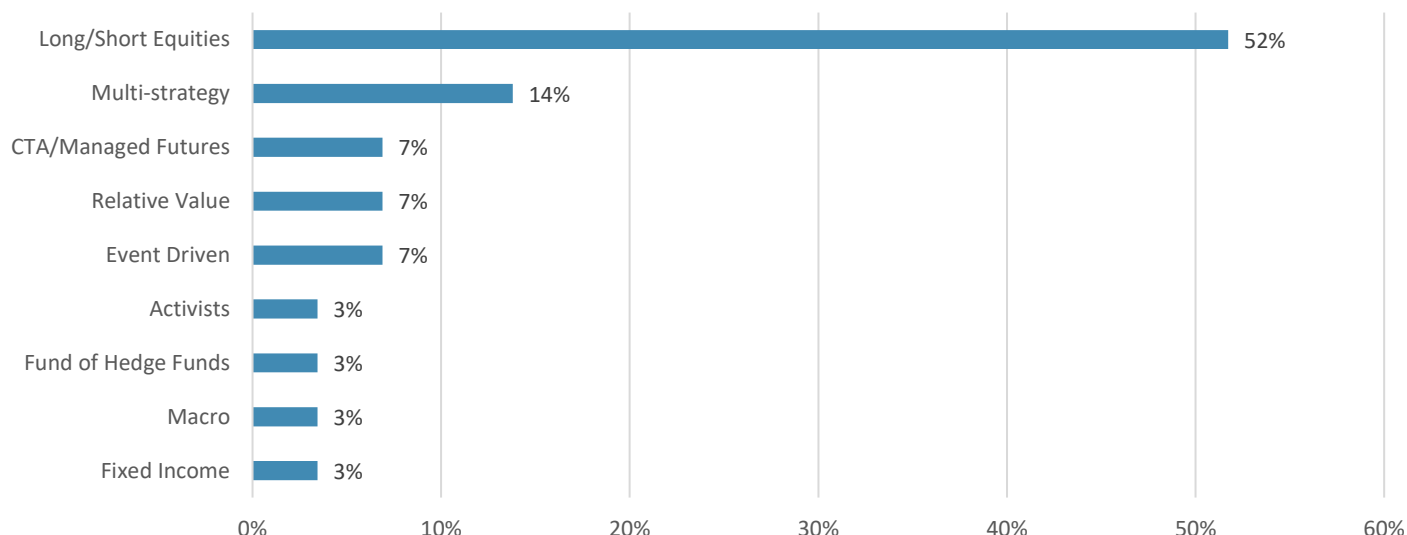
- In the asset-weighted approach, investors surveyed in 2014 indicated that they planned to increase their allocations into fund of hedge funds and private equity while decreasing their allocations into hedge funds as seen in the figure below. Using the same asset-weighted approach, investors surveyed this year indicated that they planned to reduce their allocations into hedge funds and fund of hedge funds in favour of infrastructure, venture capital and real estate.
- For investors managing above US\$500 million, 60% of them indicated that better performance is an important factor in determining their allocations into hedge funds/alternatives, while 30% indicated that lower management fees is an important factor. The double fee structure and lacklustre fund of hedge funds performance could be factors influencing investors' reduced allocations into multi-managers. Nonetheless, it should be noted that the *Eurekahedge Hedge Fund Index* (up 4.55%) still outperformed fund of hedge funds (down 0.10%) vehicles in 2016.

**Figure 24a-b: Asset-weighted for those indicating change**



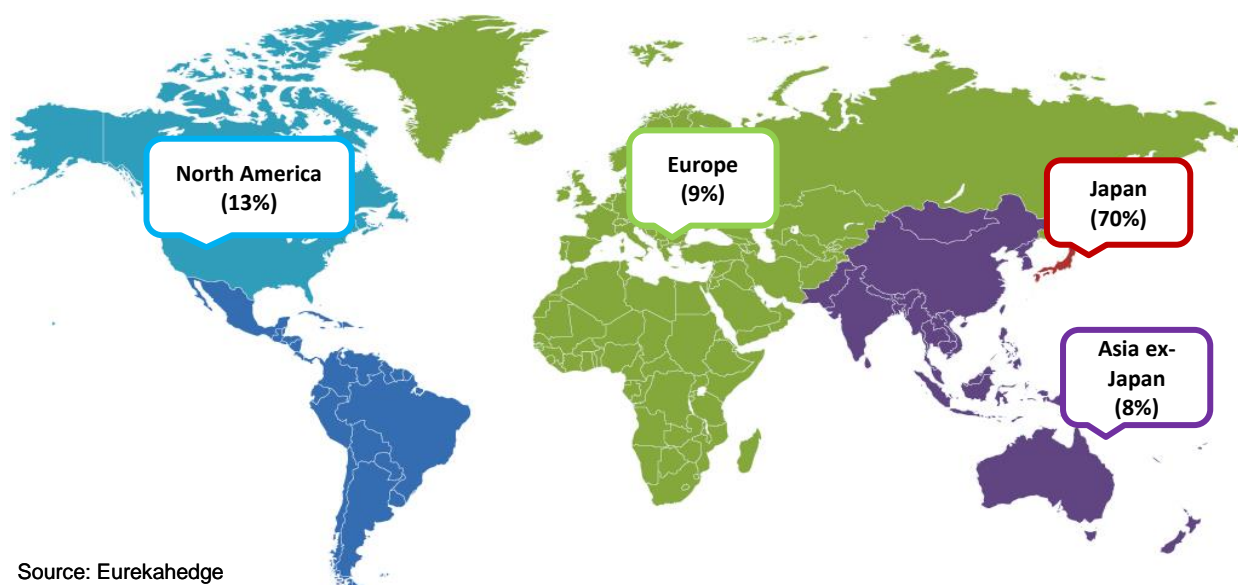
Having gleaned through the key investment trends among investors, the next part focuses on the responses from hedge fund managers. Seen in the figure below, 52% of our respondents are long/short equities mandated hedge funds while 14% are multi-strategy mandated hedge funds. CTA/managed futures, relative value and event driven mandated hedge funds take up 7% of our respondents each while other strategies collectively see 12% of respondents.

**Figure 38: What is your current/primary investment strategy?**



In terms of current portfolio allocations across geographic mandates, we analyse our results using both the equal-weighted and asset-weighted approach. Figures 25a to 25c shows the current portfolio allocations of hedge fund managers by geographic mandates using the equal-weighted approach. Hedge fund managers whom we surveyed have considerable allocations into Japan – the average hedge fund manager surveyed invests 70% of its assets into Japan. This is followed by North American mandate, of which the average hedge fund manager allocates 13% of his/her portfolio to. Asia ex-Japan and European mandates account for 17% of assets collectively whereas we note that hedge fund managers have minimal-to-no exposure into Latin America and Middle East/Africa mandates.

**Figure 25a: Map of current portfolio allocations of hedge fund managers (Equal-weighted)**



Source: EurekaHedge

(Due to rounding, numbers presented in the charts may not add up to 100%)

When asked if respondents were planning to change their allocations this year, majority of respondents (87%) indicated that they had no plans to do so. Among those who indicated a change, managers indicated their plans to increase allocations into Asia ex-Japan, North America and European mandates.

Figure 25b: Planning to change allocations?

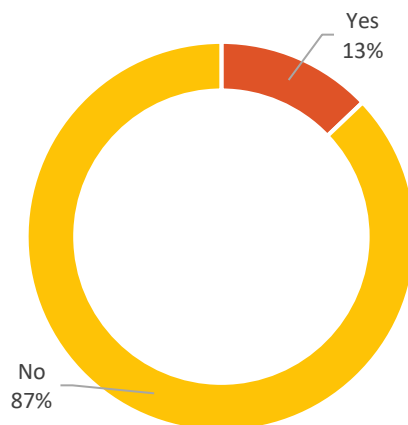
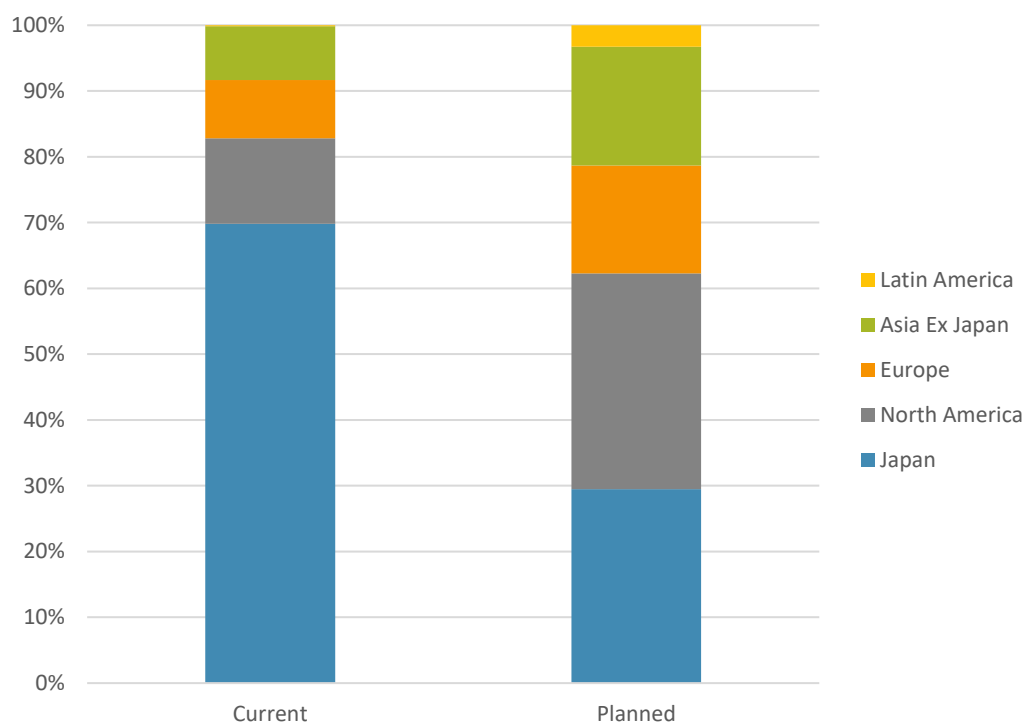


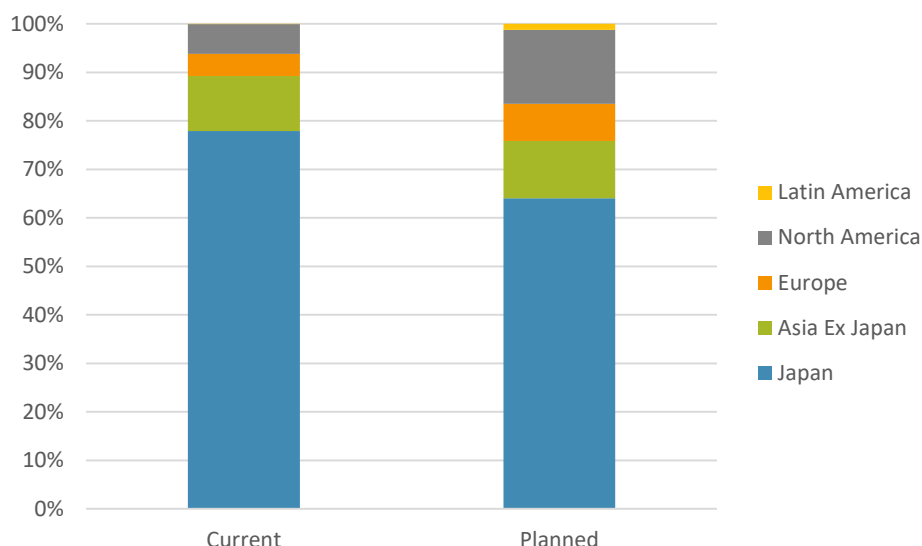
Figure 25c: What is your current portfolio allocation (% share) across the following geographic mandates? (Equal-weighted)



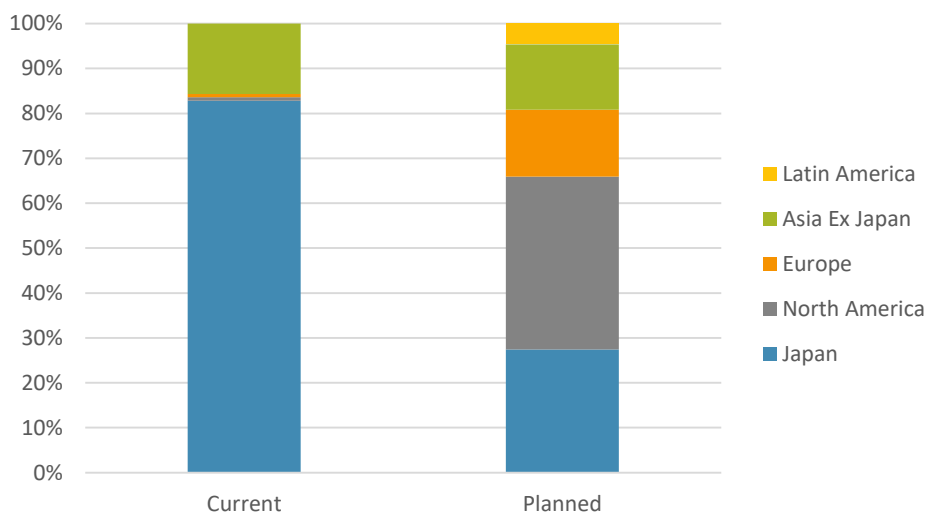
Using the asset-weighted approach, we find that allocations are largely concentrated into Japan (78%) and Asia ex-Japan (11%), while Europe and North American mandates collectively accounted for 11% of portfolio holdings. As mentioned previously, majority of our respondents have no plans to change their regional allocations, and among those who do, Asia ex-Japan, Europe and North American were the three geographic mandates which hedge fund managers planned to

increase their exposures to. These hedge funds tend to be diversified in their regional holdings as compared to their Japan-focused counterparts.

**Figure 26: What is your current portfolio allocation (% share) across the following geographic mandates? (Asset-weighted)**

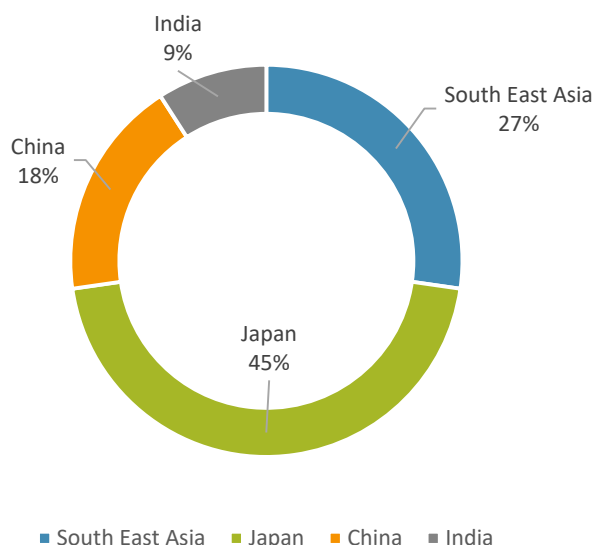


**Figure 26b: For those who indicated a change**



Respondents indicating increasing allocations towards Asian markets were also asked which regions they felt optimistic about. Seen below, 45% of our respondents were optimistic about Japan, a quarter of them were optimistic about Southeast Asia while regions like China and India took 18% and 9% each. Respondents who indicated that they were optimistic about Japan had more than half of their regional exposure into the country.

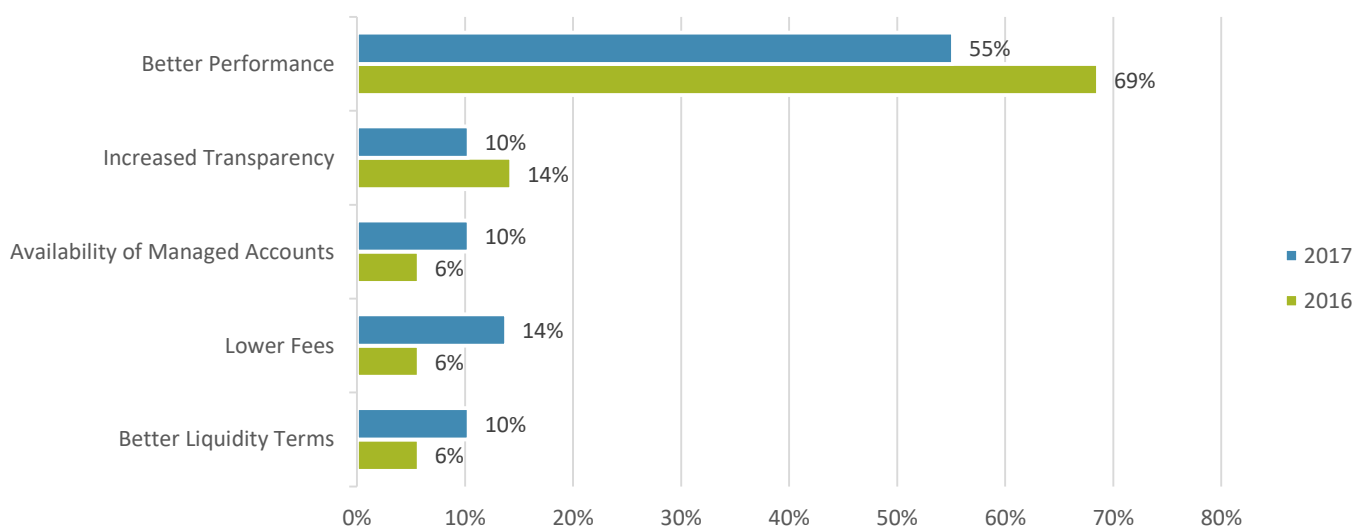
**Figure 27: If you have indicated increasing your allocations towards Asian markets, which regional economies are you most optimistic about?**



(Due to rounding, numbers presented in the charts may not add up to 100%)

We also asked hedge fund managers which factors they felt were most valued by their prospective investors to which, 55% of respondents indicated that better performance was the most important factor valued by potential investors. In this matter, we also noted that there is a consensus between both hedge fund managers and investors in identifying better performance as the important factors influencing investment decisions. Performance in particular has come under scrutiny as of late as hedge fund returns have floundered amid a difficult trading environment.

**Figures 28: Which of the following do you think is the most valued by your prospective investors?**

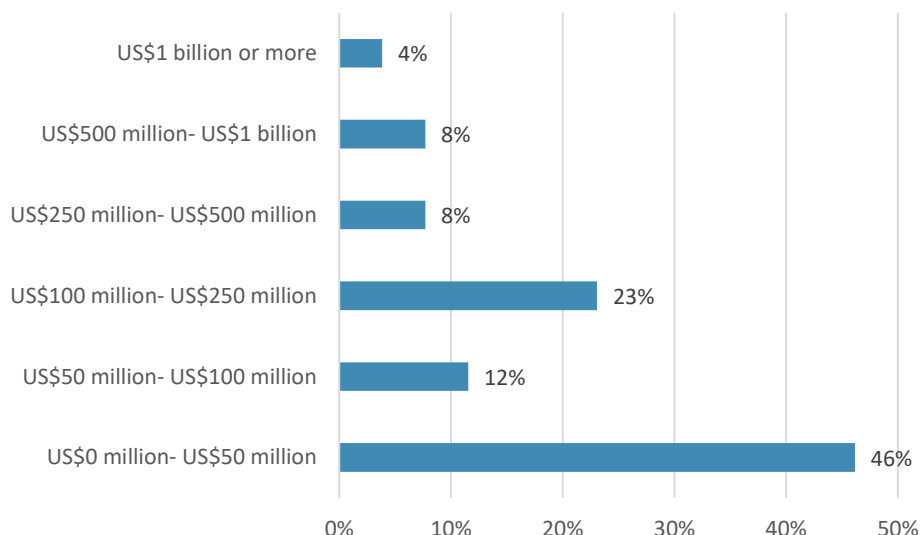


(Due to rounding, numbers presented in the charts may not add up to 100%)

We also asked hedge fund managers on their anticipated level of net investor allocations in FY 2017. Among our respondents, 58% had indicated that they expect investors to allocate below US\$100 million into their funds while 31% of

them have indicated that they expected allocations between US\$100 million and US\$500 million. Another 12% of our respondents had indicated allocations upwards of US\$500 million.

**Figure 29: What is your anticipated level of net investor allocations in FY 2017?**



(Due to rounding, numbers presented in the charts may not add up to 100%)

Opinions were rather unanimous when respondents were asked if they were planning to launch new hedge fund offerings in 2017, to which 69% had indicated that they had no such plans, while another 21% were undecided. Only 10% of respondents felt that launching a new hedge fund offering this year is likely. For those who had indicated that they planned to launch new hedge fund offerings, long/short equities, long only, CTA/managed futures and multi-strategy were most sought after.

**Figure 30a: Do you plan on launching new hedge fund offerings in 2017?**

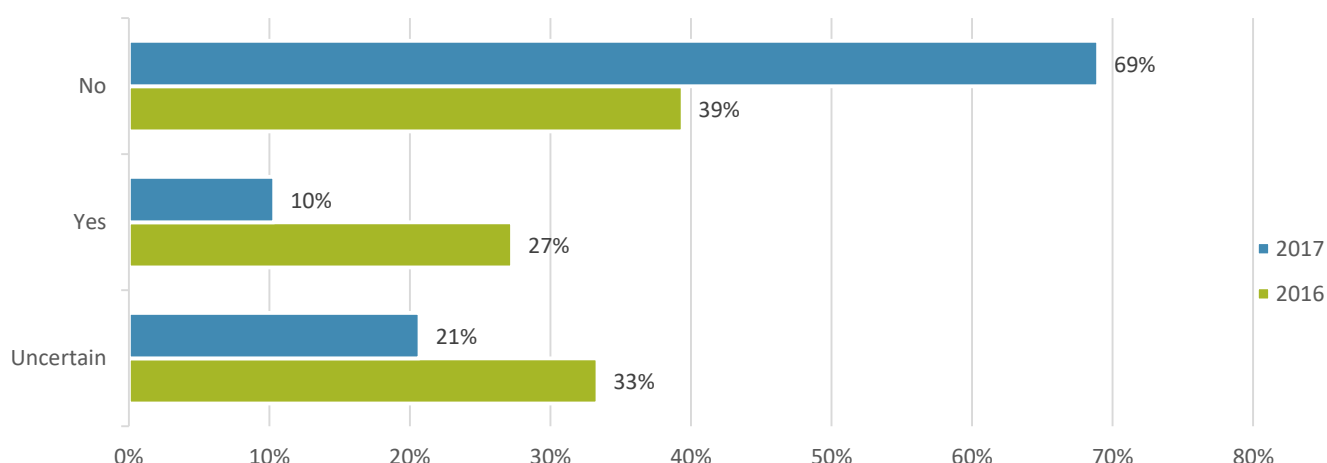
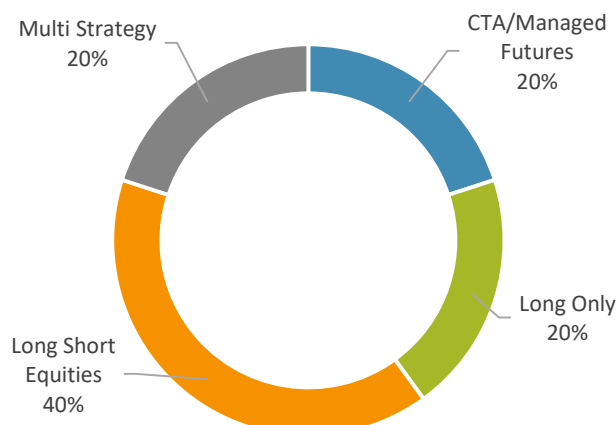


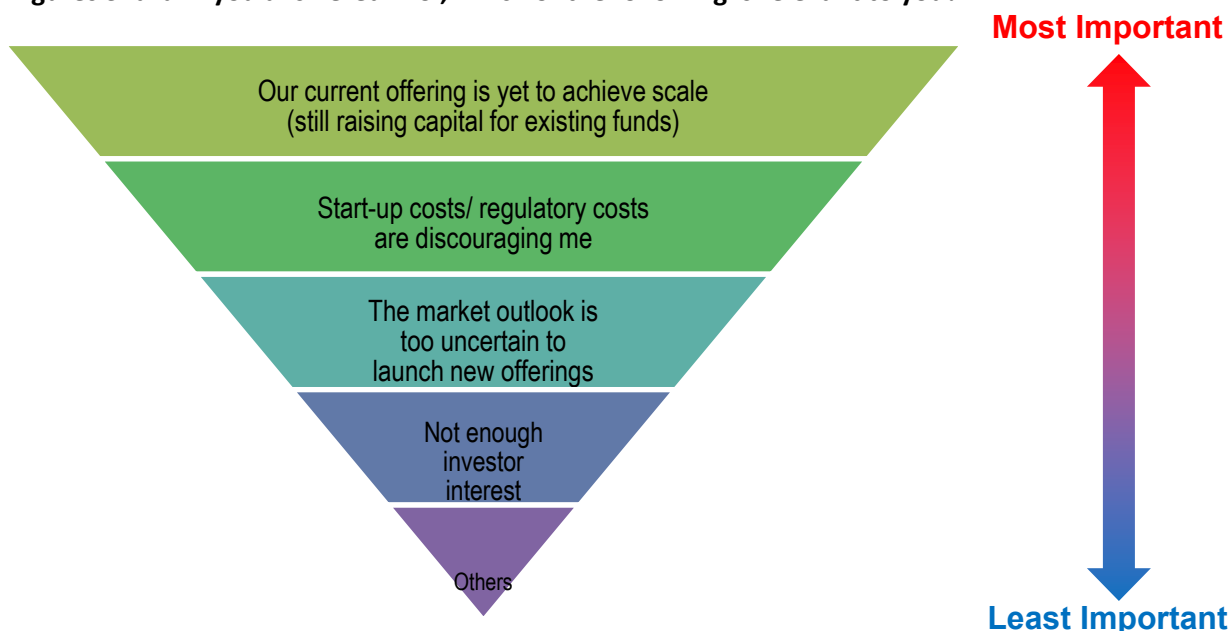
Figure 30b: If you answered 'Yes', which hedge fund strategy are you considering?

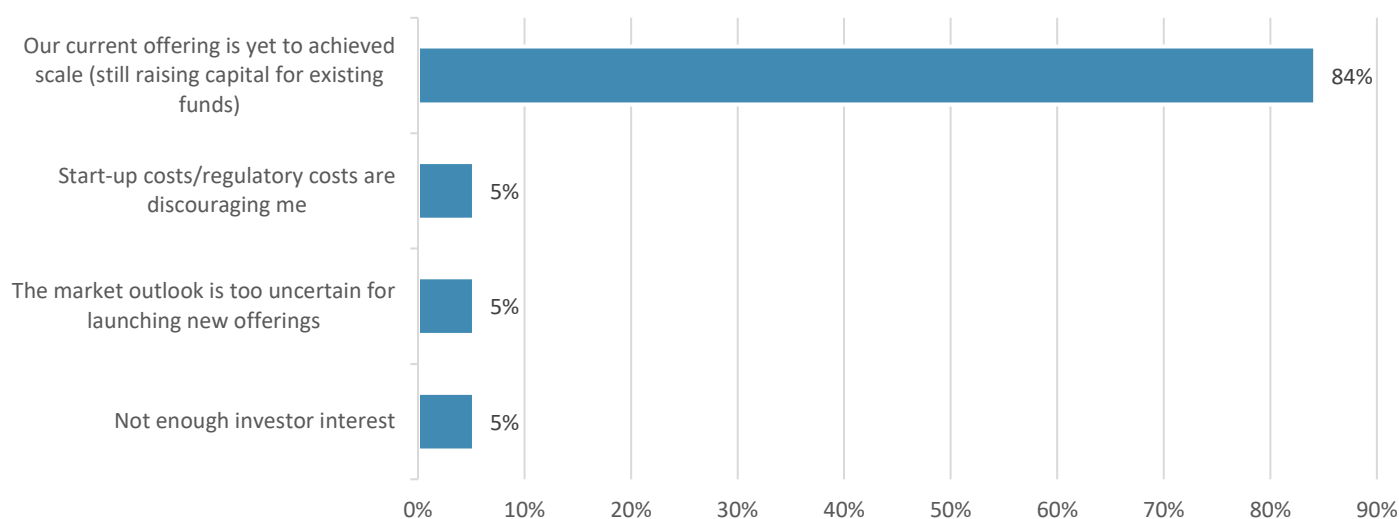


(Due to rounding, numbers presented in the charts may not add up to 100%)

Out of respondents who had no plans to launch new offerings, 84% of them indicated that they are still raising capital for existing funds while another 5% cited concerns over start-up and regulatory costs. Of those who indicated that their existing hedge fund offerings are yet to achieve scale, a majority of them (69%) manage assets under US\$500 million. Indeed, majority of our respondents also viewed 'cost and complexity' as a key factor influencing their opinions on new regulations which is tied to their ability to solicit capital from investors. Among our respondents, 5% of them were also of the opinion that the market outlook is too uncertain to launch new hedge fund offerings.

Figures 31a-b: If you answered 'No', which of the following is relevant to you?

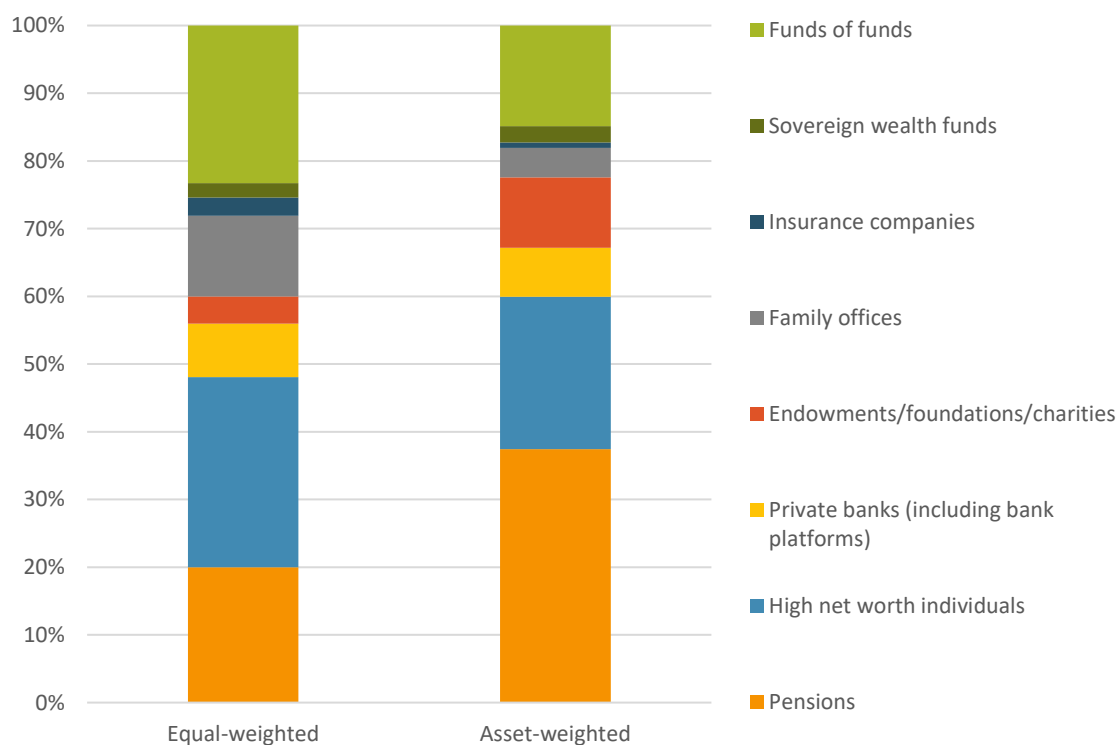




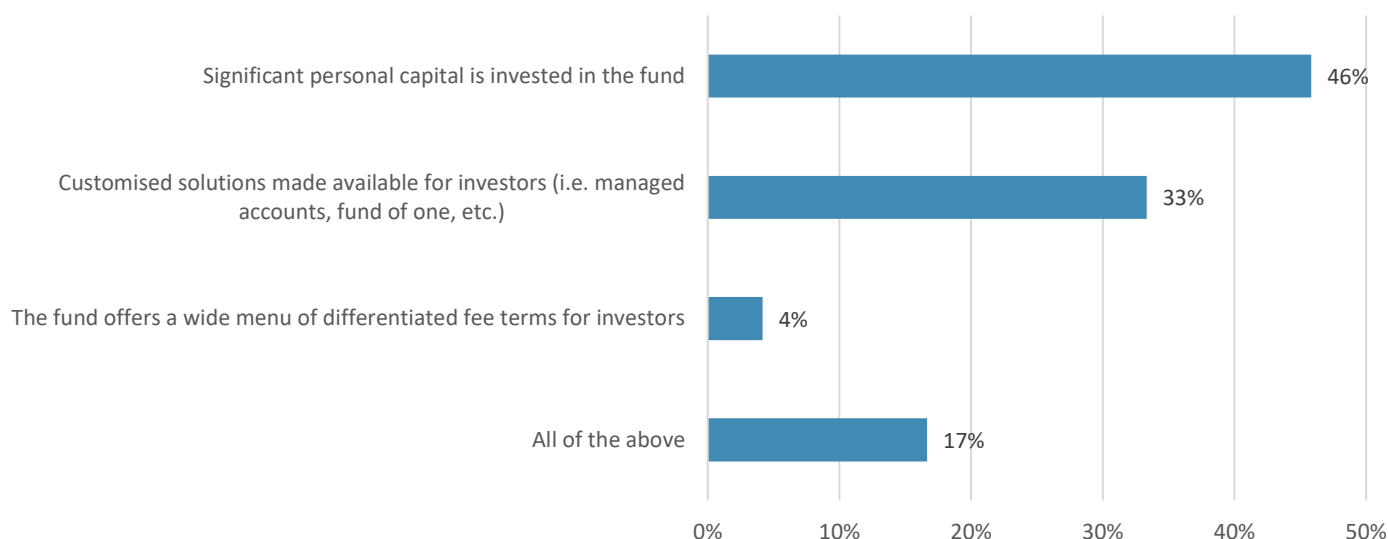
(Due to rounding, numbers presented in the charts may not add up to 100%)

In terms of the investor types, more than three-quarters of the hedge funds' AUM come from high net worth individuals (HNWI), fund of funds and pension funds. The remaining one-quarter would come from investors such as sovereign wealth funds, endowments, and insurance companies as well private banks. In terms of how managers align their interests to investors, 46% of managers indicated that they have significant personal capital invested in the fund. 33% of managers indicated that they offer customised solutions to their investors while another 4% offer differentiated fee terms for investors. Roughly 17% of managers indicated all three options.

**Fig 32: What % of your hedge fund AUM do the following investor types account for?**

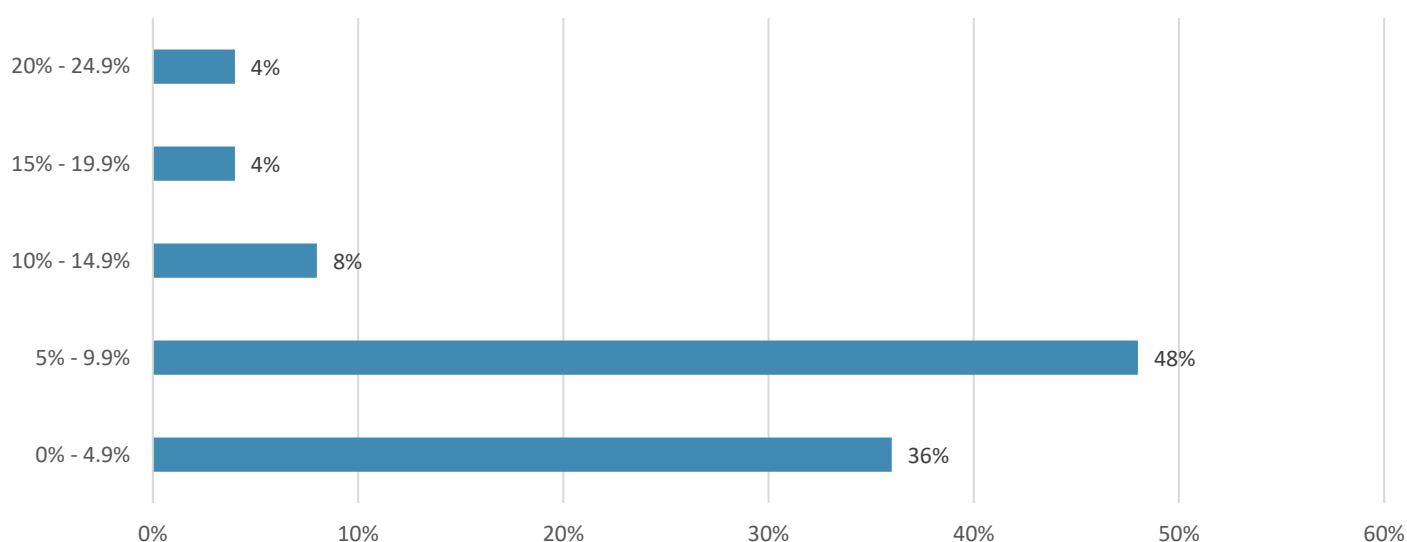


**Fig 33: How do you best describe how you currently align interests with your investors?**



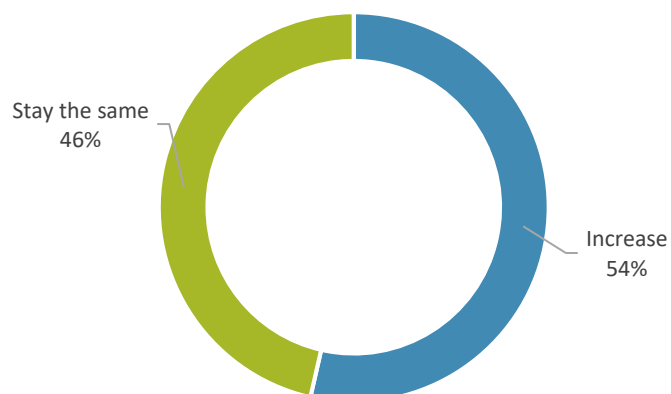
In terms of the cost of regulatory compliance expressed as a percentage of a manager's total costs, 84% of respondents indicated that the cost of regulatory compliance accounts for less than 10% of their total costs. Out of which, 48% of managers indicated the cost of compliance to be between 5% and 9.9% mark, whereas another 36% indicated that the cost of compliance is between 0% and 4.9%.

**Fig 34: What is the cost of regulatory compliance at your firm expressed as a percentage of your total costs?**



Opinions are divided when it comes to expectations on regulatory compliance, with 54% of respondents indicating that costs would like increase while another 46% indicated that it would likely stay the same. Interestingly, none of our respondents felt that regulatory costs would decrease, even in the light of emerging regulatory technology initiatives.

**Fig 35: Looking ahead to 2020, do you expect your regulatory compliance-focused spend to increase, decrease or stay the same?**



## Section III: Challenges

In the final section of the survey results, we gauge the market sentiment with regards to the broad economic and regulatory themes that were of primary concern to respondents. Respondents were first asked regarding their opinions on the overall regulatory landscape. This is then followed by questions on market challenges in 2017 and beyond.

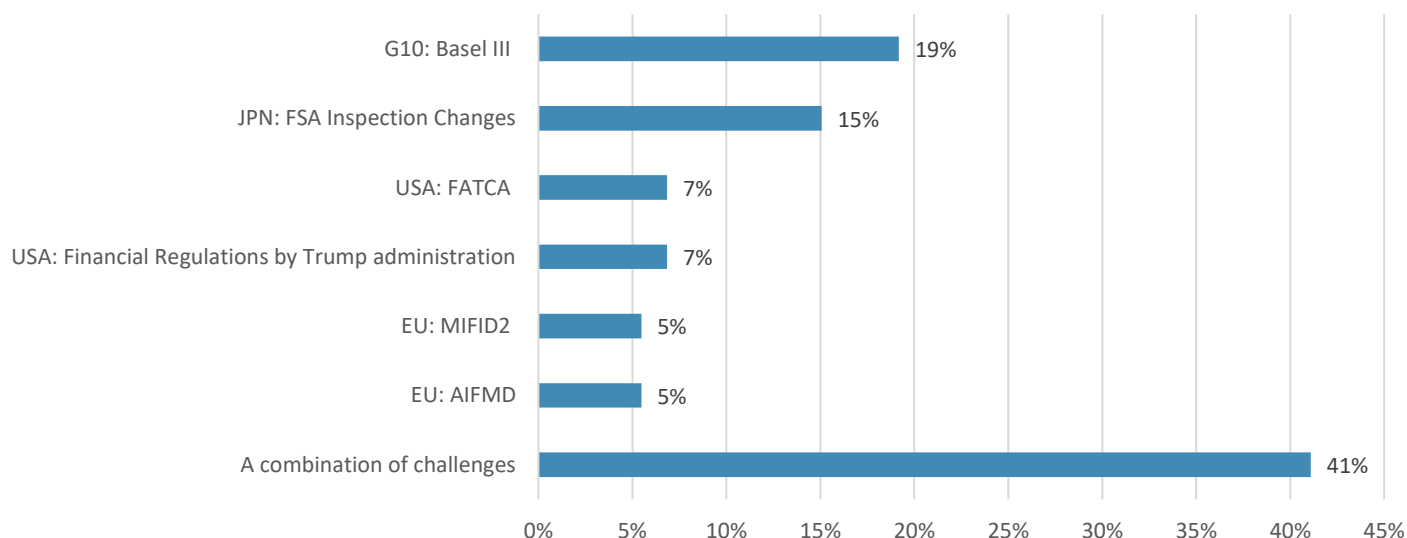
Key summary findings are presented below.

### Interesting insights were gleaned from respondents' view on regulatory and market challenges:

- In terms of challenges and opportunities arising from newly developed regulations, Basel III and J-FSA inspections feature strongly among respondents.
- As for regulations which has impacted their business the most, respondents cited that the MIFID2 regulations as a top regulatory concern (36%) followed by Basel III (24%) and FSA (20%).
- In terms of respondents' views towards complying with new regulations, majority (47%) of our respondents felt that complying with regulations was both costly and complex. Roughly 12% cited a lack of clarity from regulators as a major concern compared to 2% of respondents whom we surveyed last year.
- For challenges in 2017 and beyond, 31% cited US policies in the Trump administration as a cause for concern while 20% indicated worries over a slowing Chinese growth and current territorial disputes.
- 42% believe that a financial crisis of the likes of 2008 is unlikely to happen this year, while 31% feel its chances cannot be dismissed while 27% were on neutral ground.

In terms of the regulatory challenges facing the industry, the result in Figure 46 shows that 41% of the respondents surveyed this year indicated a combination of challenges with FSA and Basel III featuring strongly in their responses. However, we also note that 19% of respondents have indicated have chosen the Basel III as a sole regulatory challenge. 15% of respondents felt that J-FSA was the primary challenge while another 14% indicated regulations from the US (FATCA and Financial Regulations from Trump administration).

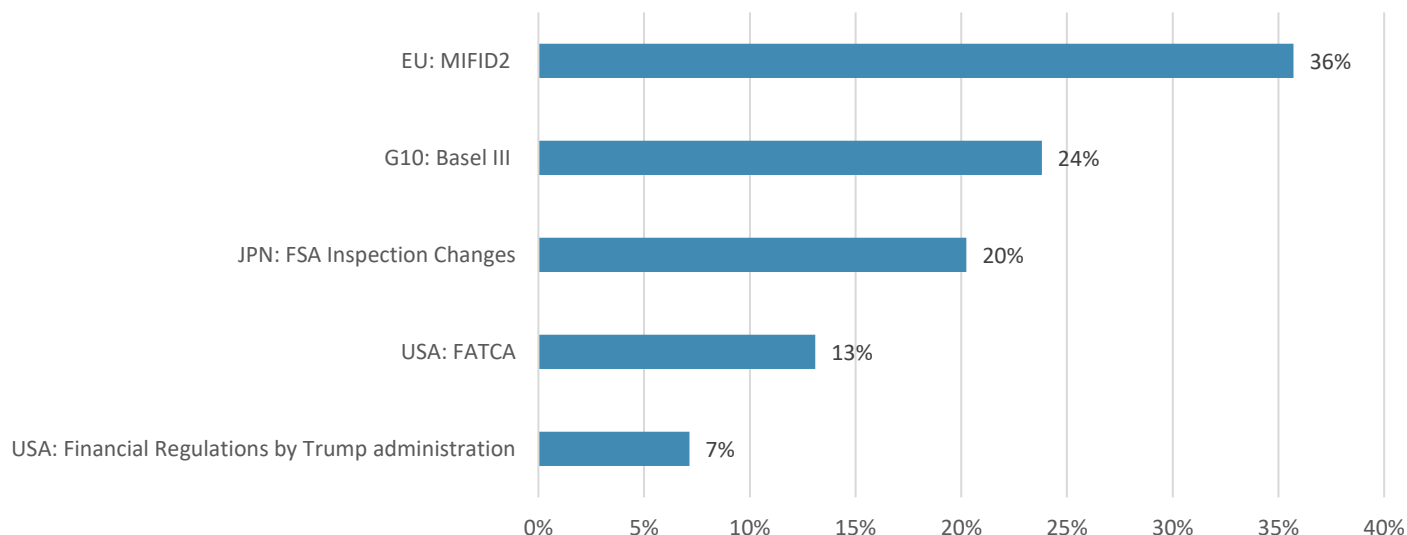
**Figure 36: What are your greatest challenges and opportunities coming from the newly developed regulations in the last two years (including, but not limited to)?**



(Due to rounding, numbers presented in the charts may not add up to 100%)

Respondents were asked to rank the regulations and requirements which have had the most impact on their businesses. Among our respondents, 36% have ranked MIFID2 as the regulation impacting their business the most, followed by increased Basel III inspections taking up 24% of total responses. J-FSA regulations take up another 20% of survey responses. Added regulatory cost arising from increased J-FSA regulation has featured in strongly in our results given that the vast majority of our respondents are based out of Japan.

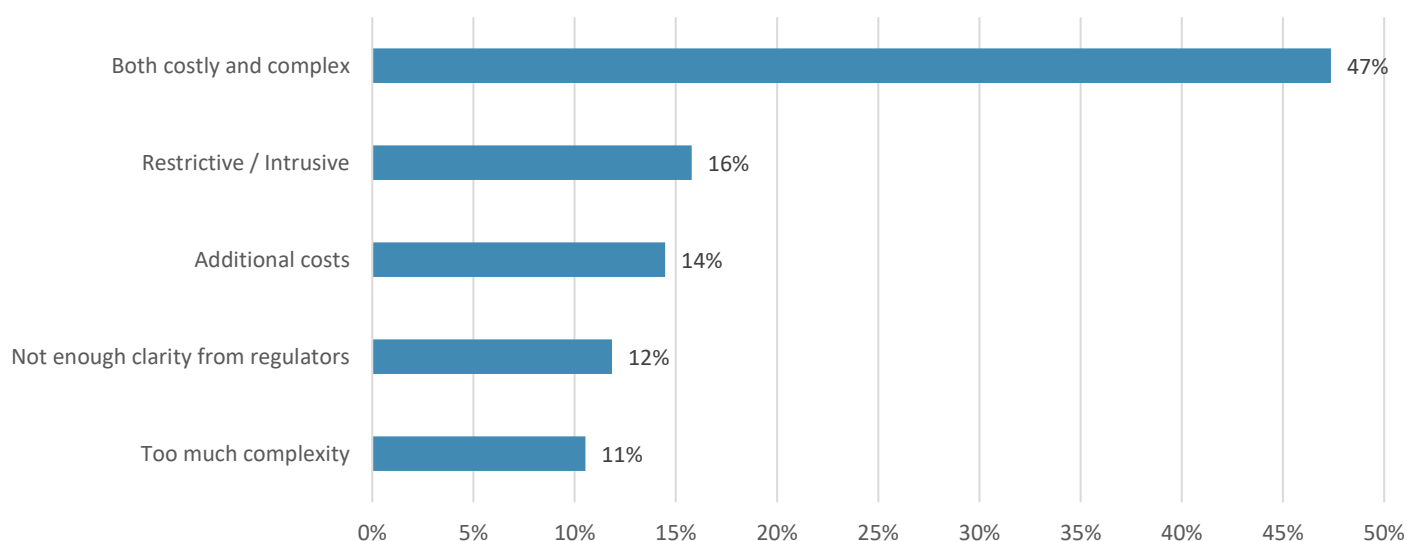
**Figure 37: Please rank in order the regulations and requirements which have impacted your business the most.**



(Due to rounding, numbers presented in the charts may not add up to 100%)

In terms of respondents' views towards complying with new regulations, 47% of our respondents felt that complying with regulations was both costly and complex while another 16% cited that new regulations were restrictive. Worries over only the additional costs arising from such regulations take up 14% of responses while 12% of them indicated that there is not enough clarity from regulators. The remaining 11% felt that new regulations were too complex.

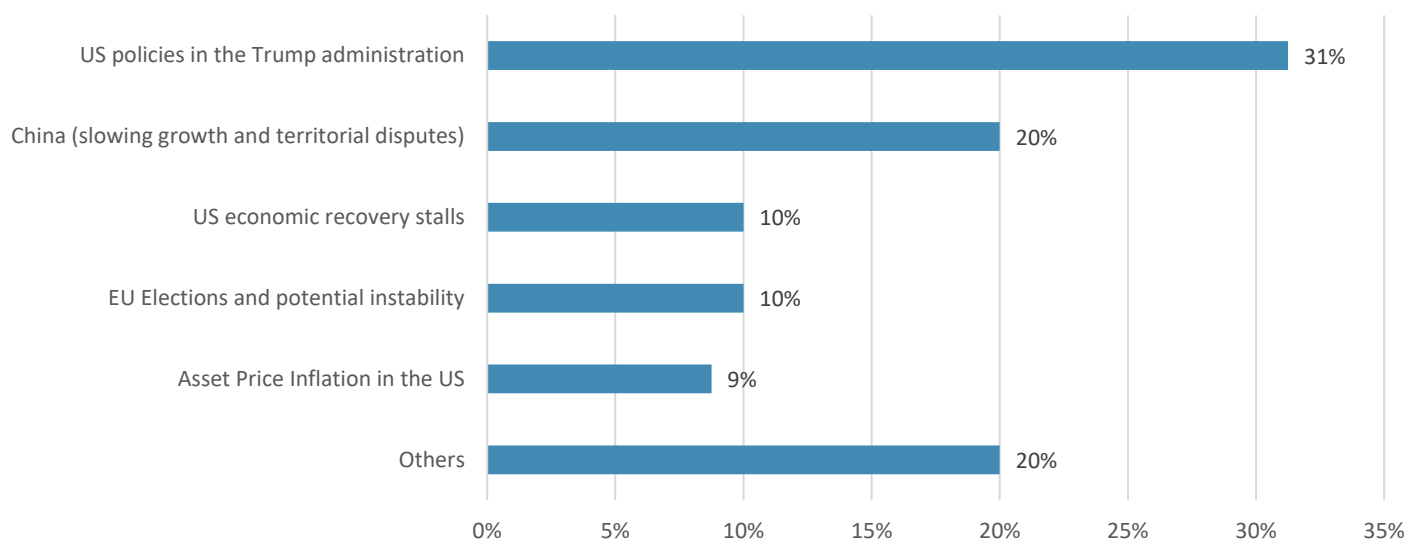
**Figure 38: Which of the below relates best to your view on complying with new regulations in recent years?**



(Due to rounding, numbers presented in the charts may not add up to 100%)

When asked about their biggest worry for 2017 and beyond, respondents gave an overall view that developments in China and the US were of concern – 31% had cited US policy in the Trump administration as a cause of concern followed by 20% with worries over slowing Chinese growth and the current territorial dispute in the South China Sea. Among our respondents, 10% had indicated that the slowdown in US economic recovery as a cause for worry whereas 20% of respondents were divided over other world developments such as asset price inflation in the US, pace of US interest rate hikes and developed market debt levels among others.

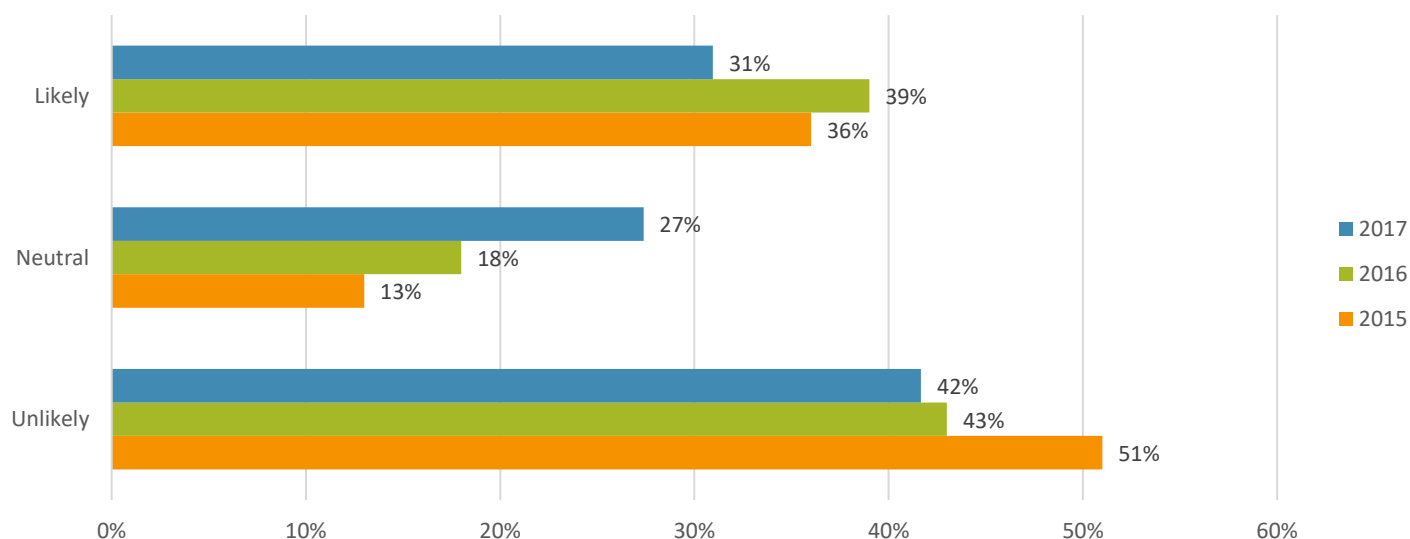
**Figure 39: What is your biggest worry for 2017 and beyond?**



(Due to rounding, numbers presented in the charts may not add up to 100%)

Finally, respondents were asked on the likelihood of the financial crisis in 2008 being repeated in 2017. Opinions on this were divided with 42% of them indicating that it was overall unlikely while another 31% indicated that it was likely. Sentiments were similar in the previous year as well with 43% indicating that a financial crisis was unlikely while 39% felt that such an event was likely.

**Figure 40: Do you think that a financial crisis of the likes of 2008 might be repeated in 2017?**



(Due to rounding, numbers presented in the charts may not add up to 100%)

-END-