Trustee Education Initiative

- Joint initiative between AIMA and CAIA to help trustees and other fiduciaries better understand and manage the risks and opportunities associated with hedge fund investing
- First paper “The Way Ahead: Helping trustees navigate the hedge fund sector” was published in January 2015
  - Practical guidance about how existing investors have managed issues and challenges associated with their hedge fund investments
  - Detailed the advantages of allocating to hedge funds

How much have investors earned from hedge funds?

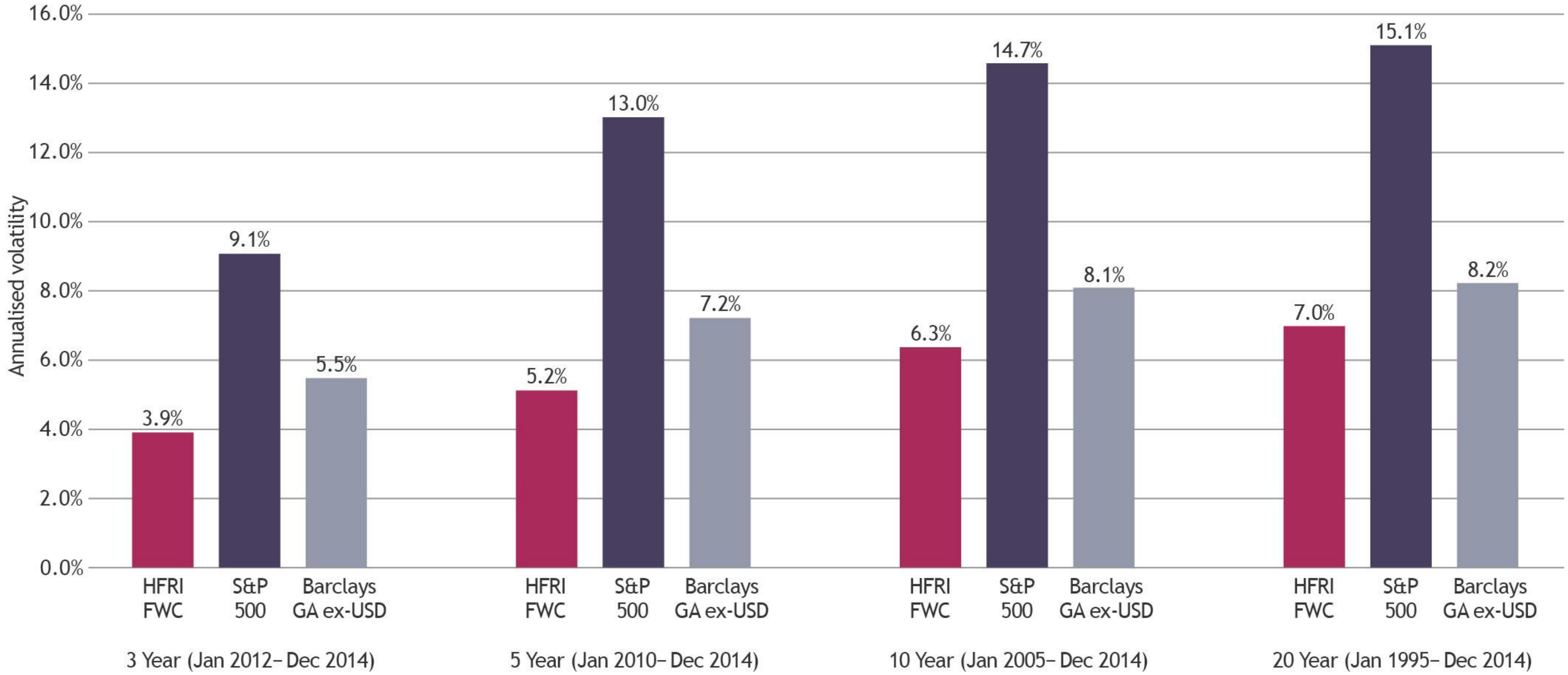
- Investors have earned about $1.5 trillion from hedge funds, *after fees have been deducted*, over the last ten years
- The HF industry's post-crisis growth can be attributed to performance gains far more than capital raising or "asset-gathering"

Year	Net asset flows ($bn)	Performance-based AUM change ($bn)
2005	$46.9	$85.9
2006	$126.5	$232.7
2007	$194.5	$209.4
2008	($154.5)	($306.9)
2009	($131.2)	$324.2
2010	$55.5	$261.8
2011	$70.6	$20.1
2012	$34.4	$209.9
2013	$63.7	$312.2
2014	$76.4	$140.3
Total change since 2005	$382.9	$1,489.5

Source: Hedge Fund Research

Why do investors allocate to hedge funds?

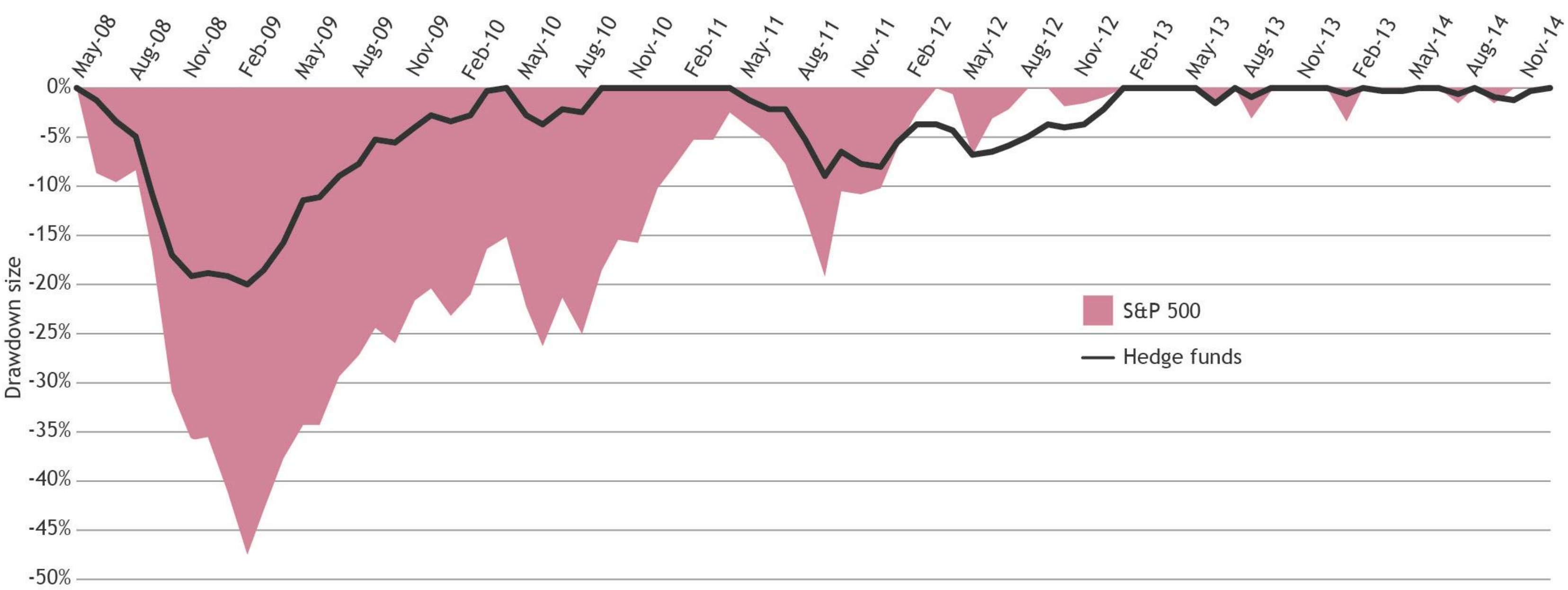
- Low correlation
  - HFs tend to exhibit a low correlation to other more traditional investments in the portfolio
  - Insertion of hedge funds in a diversified portfolio could significantly improve risk-return profile



Source: AIMA research

Why do investors allocate to hedge funds?

- Downside protection
  - Hedge funds are designed to provide greater protection against the large drawdowns or peak-to-trough losses sometimes experienced by main asset classes
  - Hedge funds outperformed the main standalone asset classes over the 10 years to 2014 with a cumulative return of 74%, with a maximum drawdown of 21.4%



Source: AIMA

Substitutes or diversifiers?

Diversifiers

- Global macro funds
- Managed futures funds / CTAs
- Equity market-neutral funds

Substitutes

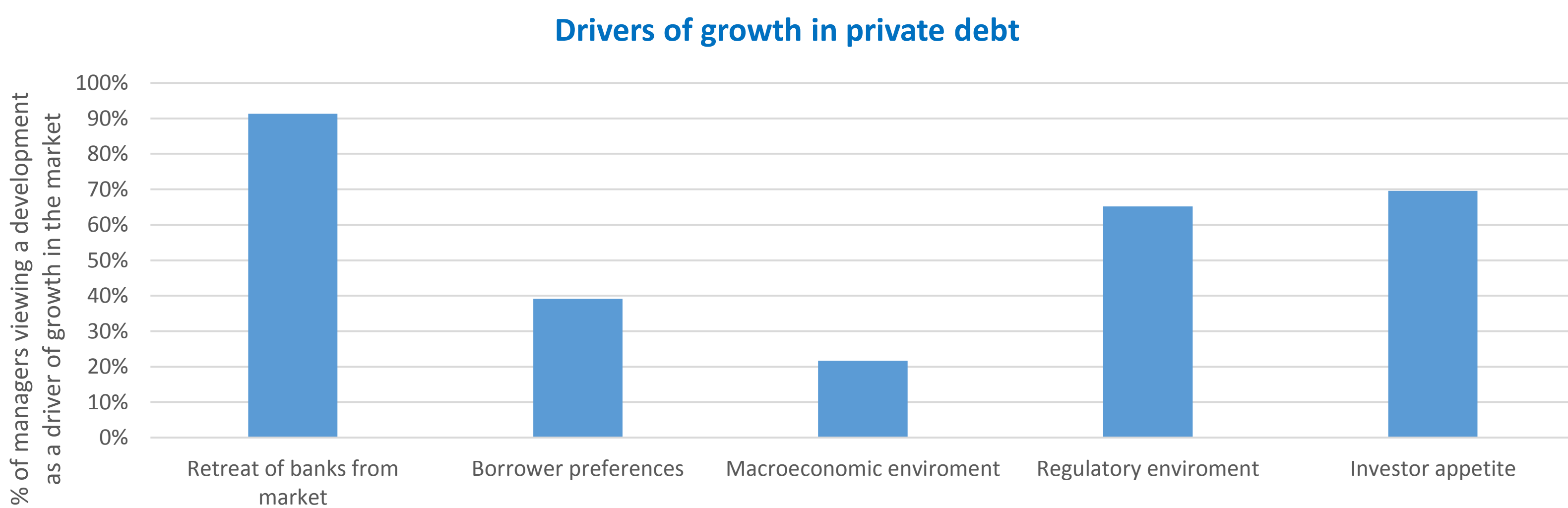
- Long/short equity funds
- Long/short credit funds
- Event driven funds
- Fixed income arbitrage funds
- Convertible arbitrage funds
- Emerging markets funds

Key takeaways

- Different investor mandates should lead to different overall asset allocations in a given investment portfolio, resulting in a different level of risk adjusted returns, and a different role for hedge funds in the portfolio
- The breadth of the hedge fund universe allows the investor to evaluate and classify hedge funds according to a series of risk factors and use different strategies in portfolio construction
- Institutional investors are moving away from the traditional portfolio of investing in bonds and equities and are increasingly using hedge funds as volatility dampeners
- Investors who believe that public markets will exhibit increasing uncertainty and volatility should consider increasing their allocations to unconstrained strategies

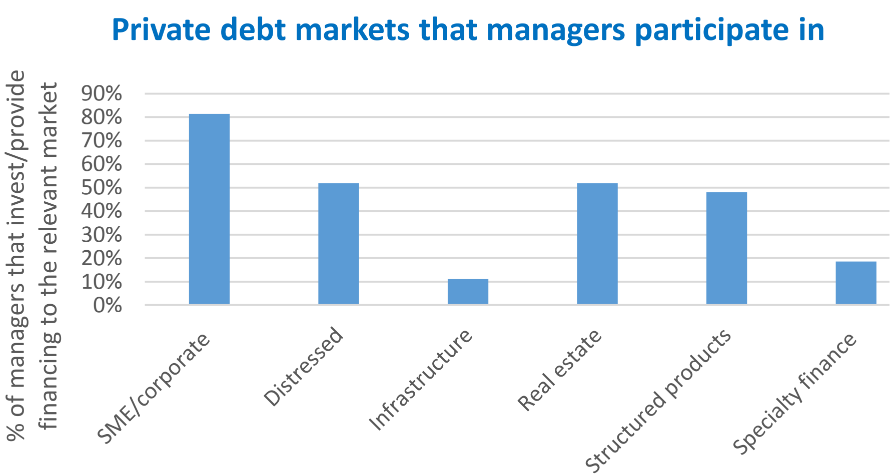
Private debt and AIMA's research

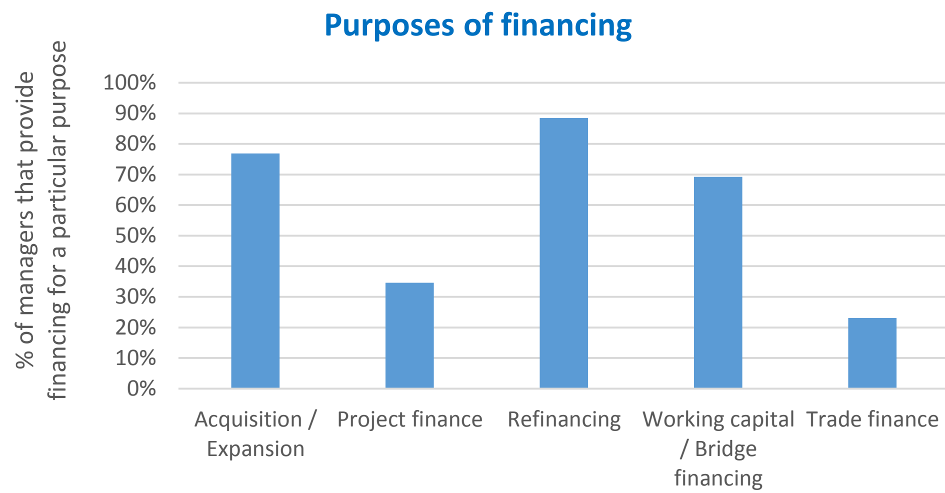
- Private debt is defined as investments in or strategies related to loans (whether by funds themselves or bought on the secondary market); private debt securities (securities privately placed with or issued directly funds or a group of funds, including forms of private securitisations); other instruments with debt or hybrid debt characteristics used for the financing of companies or projects by asset managers.
- We consider distressed debt investments, mezzanine financing, real estate and infrastructure financing as well as other forms of opportunistic and short term lending such as bridge financing to all fall within the definition of private credit.
- Asset management firms participating in the AIMA private debt survey account for assets under management of approximately \$530bn - \$85bn of which is allocated to private debt strategies.

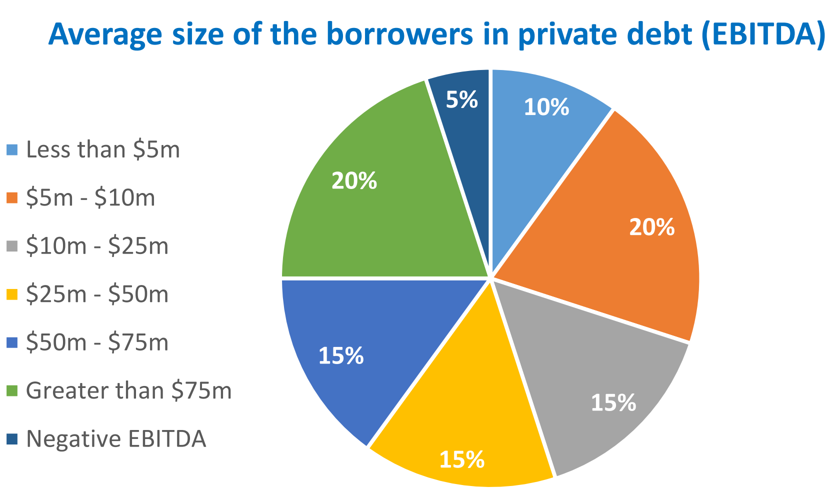


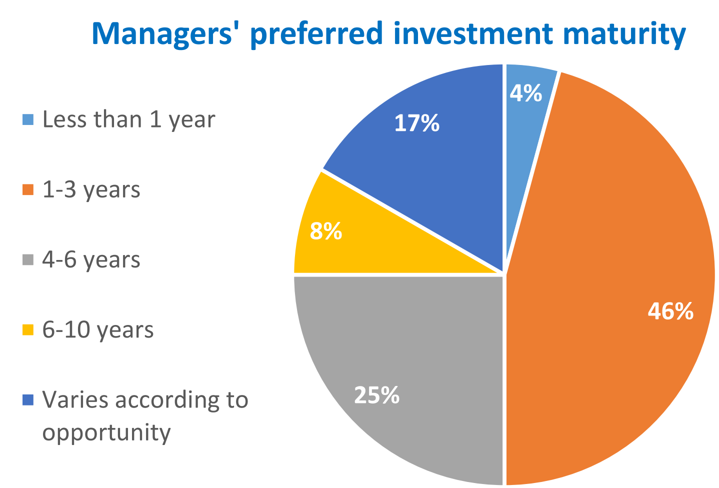
Project findings

Asset managers are playing an increasingly crucial role in financing the real economy



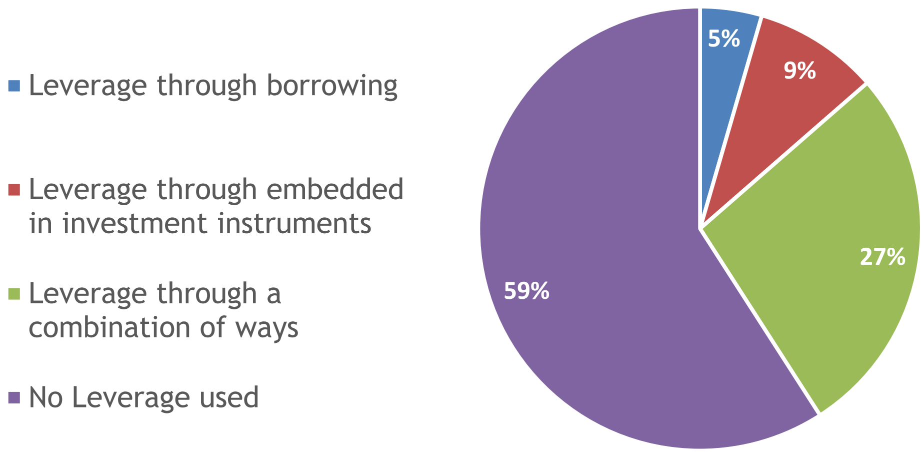


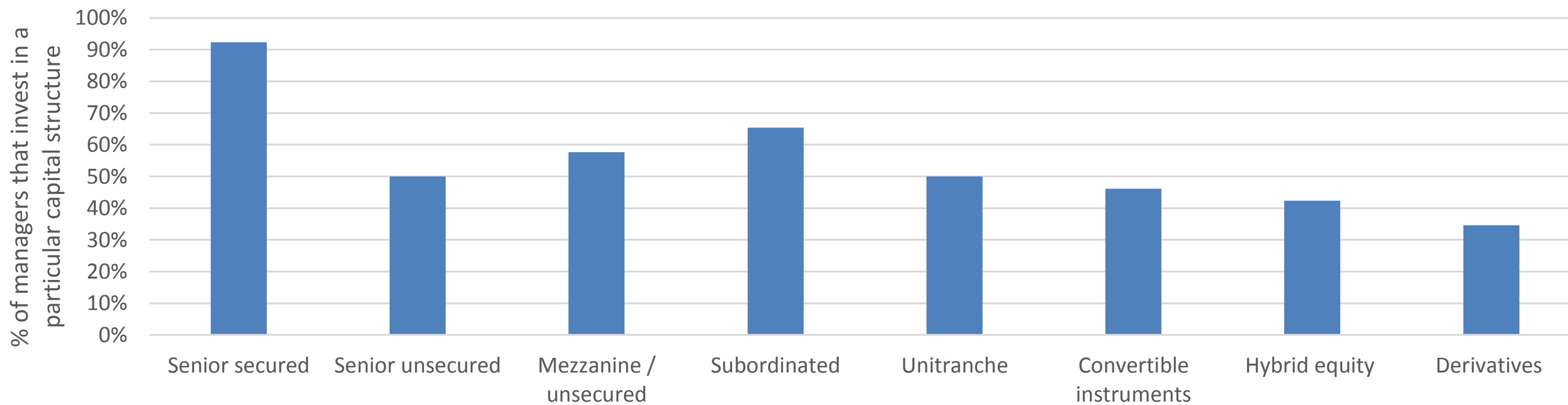




Private debt project findings

Managers use minimal leverage and senior secured investment is preferred





Private debt: What can CMU accomplish?