TABLE OF CONTENTS

1. Current state of Asia’s hedge fund industry
2. Global hedge fund industry
3. Trends in Asia-Pacific hedge funds
4. Challenges, opportunities, thoughts and conclusions
ASIAN HEDGE FUNDS

Classic hedge fund structure:

- Open-ended company
- Domiciled in the Cayman Islands, Luxembourg, Dublin, BVI and similar jurisdictions
- Corporate governance compliance – independent directors, independent fund administrators, independent auditors, etc.
- Monthly or quarterly dealing
- Heavy equity orientation
- Directional
ASIAN INDUSTRY CHARACTERISTICS

- Low barrier to entry
- About 760 funds, managing $138 billion in June 2013; peaking at $200 billion in 2007, 481 in Asia
- About 40% have only $25 million under management
- Mainly in Hong Kong & Singapore (Japan has collapsed)
- China has huge sunshine fund industry
- 226 funds over US$100 million
Performance of Asia-Pacific-Focused Hedge Fund vs All Hedge Funds

<table>
<thead>
<tr>
<th>Period</th>
<th>Net Returns (Asia-Pacific)</th>
<th>Net Returns (All Hedge Funds)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013 YTD</td>
<td>9.45%</td>
<td>5.35%</td>
</tr>
<tr>
<td>(As of 31 July)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>11.57%</td>
<td>9.99%</td>
</tr>
<tr>
<td>2-Year Annualized</td>
<td>6.36%</td>
<td>5.34%</td>
</tr>
<tr>
<td>3-Year Annualized</td>
<td>8.67%</td>
<td>7.72%</td>
</tr>
<tr>
<td>5-Year Annualized</td>
<td>9.37%</td>
<td>8.24%</td>
</tr>
</tbody>
</table>

Source: Prequin
ASIA-PACIFIC HEDGE FUND COMMUNITY, STRATEGY MIX

- Long short equities: 67%
- Multi Strategy: 9%
- Fixed income: 5%
- Event driven: 3%
- Market neutral: 2%
- Relative value: 3%
- Macro: 3%
- Distressed: 1%
- CTA managed funds: 4%
- Long only: 3%

Source: GFIA
ASIA NEW LAUNCHES/CLOSURES 1H2013, BY STRATEGY

6 New Launches
- Long short equities: 67%
- Fixed income: 17%
- Macro: 17%

10 Closures
- Long short equities: 70%
- Relative value: 20%
- CTA/managed futures: 10%

Source: GFIA
## THE GLOBAL BILLION DOLLAR CLUB

<table>
<thead>
<tr>
<th>Location</th>
<th># of firms</th>
<th>AUM US$bn Jul 2013</th>
<th>% of total HF assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York, USA</td>
<td>175</td>
<td>922.78</td>
<td>36.9%</td>
</tr>
<tr>
<td>London, UK</td>
<td>57</td>
<td>267.33</td>
<td>10.69%</td>
</tr>
<tr>
<td>California, USA</td>
<td>28</td>
<td>123.26</td>
<td>4.93%</td>
</tr>
<tr>
<td>Connecticut, USA</td>
<td>24</td>
<td>206.35</td>
<td>8.25%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>17</td>
<td>27.59</td>
<td>1.1%</td>
</tr>
<tr>
<td>Massachusetts, USA</td>
<td>15</td>
<td>124.85</td>
<td>4.9%</td>
</tr>
<tr>
<td>Singapore</td>
<td>9</td>
<td>16.33</td>
<td>0.65%</td>
</tr>
<tr>
<td>Sydney, Australia</td>
<td>5</td>
<td>19.24</td>
<td>0.76%</td>
</tr>
<tr>
<td>China</td>
<td>2</td>
<td>10</td>
<td>0.4%</td>
</tr>
<tr>
<td>Melbourne, Australia</td>
<td>2</td>
<td>1.87</td>
<td>0.07%</td>
</tr>
<tr>
<td><strong>TOTAL GLOBAL BILLION DOLLAR CLUB</strong></td>
<td><strong>389</strong></td>
<td><strong>2,040</strong></td>
<td><strong>81.6%</strong></td>
</tr>
</tbody>
</table>

Source: HFI, Prequin
### BILLION DOLLAR CLUB, ASIA

<table>
<thead>
<tr>
<th>Location</th>
<th>Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>ADM**, Azentus, Brevan Howard, Clearwater**, Janchor, LIM, Macquarie, Myriad, Och-Ziff, Ortus, Pacific Alliance, Penta, Senrigan, Turiya</td>
</tr>
<tr>
<td>China</td>
<td>Hillhouse, Prime</td>
</tr>
<tr>
<td>Japan</td>
<td>Horizon*, Indus*</td>
</tr>
<tr>
<td>Singapore</td>
<td>Dymon, Henderson*</td>
</tr>
<tr>
<td>Australia</td>
<td>QIC, Kaiser, Amazon, Boronia, Platinum</td>
</tr>
</tbody>
</table>

*managers based in multiple locations  
** distressed manager with AUM in PE structures
GLOBAL HEDGE FUND INDUSTRY
ESTIMATED GROWTH OF ASSETS/NET ASSET FLOW, 1990 – 3Q2013

Source: HFR
GLOBAL HF COMMUNITY, BY FIRM AUM TIER, 3Q 2013

by firm AUM size

- <$5 bn: 68%
- $1-$5 bn: 22%

by # of firms

- <$5 bn: 52%
- $1-$5 bn: 14%
- $500 mil-$1 bn: 12%
- $250-$500 mil: 9%
- $100-$250 mil: 7%
- <$100 mil: 6%

Source: HFR
GLOBAL HF COMMUNITY BY REGION INVESTMENT FOCUS (BY ASSETS)

Q3 2012
- Americas: 39.39%
- Asia: 3.85%
- Europe: 7.16%
- Other: 49.61%

Q3 2013
- Americas: 38.85%
- Asia: 4.14%
- Europe: 7.4%
- Other: 49.61%
GLOBAL BILLION DOLLAR CLUB – FIRMS WITH MORE THAN US$5BN UNDER MANAGEMENT

<table>
<thead>
<tr>
<th>Rank</th>
<th>Firm</th>
<th>Country</th>
<th>AUM US$bn Jul 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Bridgewater Associates</td>
<td>USA</td>
<td>81.9</td>
</tr>
<tr>
<td>2</td>
<td>J.P. Morgan Asset Management</td>
<td>USA/UK</td>
<td>50.60</td>
</tr>
<tr>
<td>3</td>
<td>Brevan Howard Asset Management</td>
<td>UK/USA/HK</td>
<td>39.73</td>
</tr>
<tr>
<td>4</td>
<td>BlueCrest Capital Management</td>
<td>Channel Islands</td>
<td>34.21</td>
</tr>
<tr>
<td>5</td>
<td>Och-Ziff Capital Management Group</td>
<td>USA/UK</td>
<td>33.9</td>
</tr>
<tr>
<td>6</td>
<td>BlackRock</td>
<td>USA/UK/Australia/Singapore</td>
<td>28.7</td>
</tr>
<tr>
<td>7</td>
<td>Baupost Group</td>
<td>USA</td>
<td>28.5</td>
</tr>
<tr>
<td>8</td>
<td>Man GLG</td>
<td>UK</td>
<td>28.1</td>
</tr>
<tr>
<td>9</td>
<td>Standard Life Investments</td>
<td>UK</td>
<td>27.28</td>
</tr>
<tr>
<td>10</td>
<td>Winton Capital Management</td>
<td>UK</td>
<td>24.3</td>
</tr>
<tr>
<td>71</td>
<td>Hillhouse</td>
<td>China</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: HFI
### TOP 10 FUNDS OF HEDGE FUNDS BY ASSET

<table>
<thead>
<tr>
<th>Firm</th>
<th>Total assets (end June 2013) in US$bn</th>
<th>% growth in 6 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blackstone Alternative Asset Management</td>
<td>49</td>
<td>8.44%</td>
</tr>
<tr>
<td>Towers Watson</td>
<td>26.8</td>
<td>32.67%</td>
</tr>
<tr>
<td>HSBC Alternative Investments</td>
<td>26.76</td>
<td>6.5%</td>
</tr>
<tr>
<td>UBS Global Asset Management A&amp;Q</td>
<td>25.44</td>
<td>-0.05%</td>
</tr>
<tr>
<td>Grosvenor Capital Management</td>
<td>23</td>
<td>3.4%</td>
</tr>
<tr>
<td>Goldman Sachs Asset Management</td>
<td>22.89</td>
<td>0%</td>
</tr>
<tr>
<td>Permal Investment Management</td>
<td>22.54</td>
<td>23.1%</td>
</tr>
<tr>
<td>Morgan Stanley</td>
<td>21.1</td>
<td>3.79%</td>
</tr>
<tr>
<td>Blackrock Alternative Advisors</td>
<td>18.28</td>
<td>1.01%</td>
</tr>
<tr>
<td>Pacific Alternative Asset Management</td>
<td>15.3</td>
<td>3.38%</td>
</tr>
</tbody>
</table>

Source: HFI
ASSETS RAISED BY NEW FUNDS, IN US$BN

- **H1 2012**
  - US/Americas: 11
  - Europe: 3.6
  - Asia: 3.5

- **H1 2013**
  - US/Americas: 8.2
  - Europe: 3.1
  - Asia: 1.08

Source: HFI
NUMBER OF NEW FUNDS LAUNCHED

- **H1 2012**
  - US/Americas: 34
  - Europe: 37
  - Asia: 39

- **H1 2013**
  - US/Americas: 43
  - Europe: 34
  - Asia: 32

Source: HFI
GLOBAL HF LAUNCHES/LIQUIDATIONS

Source: HFR
GLOBAL # OF FUNDS: HEDGE FUNDS VS FUND OF FUNDS

Source: HFR
TRENDS IN ASIA-PACIFIC HEDGE FUNDS
## TOP 10 ASIA-PACIFIC-BASED HF INVESTORS BY CAPITAL CURRENTLY ALLOCATED TO HFS

<table>
<thead>
<tr>
<th>Investor</th>
<th>Type</th>
<th>Country</th>
<th>Current allocation to HFs (US$bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China Investment Corp</td>
<td>SWF</td>
<td>China</td>
<td>23</td>
</tr>
<tr>
<td>Future Fund</td>
<td>SWF</td>
<td>Australia</td>
<td>11.7</td>
</tr>
<tr>
<td>Nikko Asset Management</td>
<td>Asset manager</td>
<td>Japan</td>
<td>7.8</td>
</tr>
<tr>
<td>GIC</td>
<td>SWF</td>
<td>Singapore</td>
<td>7.4</td>
</tr>
<tr>
<td>Pension Fund Association</td>
<td>Asset manager</td>
<td>Japan</td>
<td>4.4</td>
</tr>
<tr>
<td>Norinchukin Bank</td>
<td>Bank</td>
<td>Japan</td>
<td>3.1</td>
</tr>
<tr>
<td>Dai-Ichi Life Insurance</td>
<td>Insurance company</td>
<td>Japan</td>
<td>2.3</td>
</tr>
<tr>
<td>Victorian Funds Management Corp</td>
<td>Asset manager</td>
<td>Australia</td>
<td>1.9</td>
</tr>
<tr>
<td>Korea Investment Corp</td>
<td>SWF</td>
<td>Korea</td>
<td>1.3</td>
</tr>
<tr>
<td>Toshiba Employees’ Pension Fund</td>
<td>Private sector pension fund</td>
<td>Japan</td>
<td>1.2</td>
</tr>
</tbody>
</table>

Source: Preqin, Sep 2013
BREAKDOWN OF ASIA-PACIFIC-BASED INVESTORS BY TYPE

- Superannuation Scheme: 17%
- Fund of hedge funds manager: 16%
- Private sector pension fund: 16%
- Asset manager: 9%
- Insurance company: 8%
- Wealth manager: 8%
- Family office: 5%
- Public pension fund: 5%
- Bank: 3%
- Investment Company: 3%
- SWF: 3%
- Other: 7%

Source: Preqin
MEAN ALLOCATIONS OF ASIA PACIFIC-BASED INVESTORS TO HEDGE FUNDS BY INVESTOR TYPE

- Private wealth firms: 16%
- Private sector pension funds: 12%
- Sovereign wealth funds: 6%
- Asset managers: 4%
- Superannuation schemes: 3%
- Public pension funds: 3%
- Insurance companies: 1%

Source: Preqin
Breakdown of Hedge Fund Mandates Issued by Asia-Pacific-Based Investors by Region Targeted

Source: Preqin Hedge Fund Investor Profiles
Breakdown of Hedge Fund Mandates Issued By Strategies Targeted

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Asia-Pacific Based Investors</th>
<th>Non-Asia-Pacific Based Investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diversified</td>
<td>43%</td>
<td>43%</td>
</tr>
<tr>
<td>Long/Short Equity</td>
<td>37%</td>
<td>45%</td>
</tr>
<tr>
<td>Marco</td>
<td>29%</td>
<td>26%</td>
</tr>
<tr>
<td>Long/Short Credit</td>
<td>26%</td>
<td>15%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>20%</td>
<td>8%</td>
</tr>
<tr>
<td>Event Driven</td>
<td>17%</td>
<td>16%</td>
</tr>
<tr>
<td>Managed Futures/CTA</td>
<td>17%</td>
<td>12%</td>
</tr>
<tr>
<td>Multi-Strategy</td>
<td>14%</td>
<td>14%</td>
</tr>
<tr>
<td>Long Bias</td>
<td>14%</td>
<td>4%</td>
</tr>
<tr>
<td>Equity Market Neutral</td>
<td>11%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Source: Preqin
Asia-Pacific-Based Investor Plans for their Hedge Fund Allocations over the Next 12 Months

- Plan to Increase Hedge Fund Allocation: 41%
- Plan to Maintain Hedge Fund Allocation: 45%
- Plan to Decrease Hedge Fund Allocation: 14%

Source: Preqin Investor Survey, Q3 2013
Hedge Fund Portfolio Performance Relative to Expectations of Institutional Investors: Asia-Pacific Based vs. Non-Asia-Pacific-Based Hedge Fund Investors

- **Asia-Pacific-Based Hedge Fund Investors**
  - 19% Hedge Fund Returns Have Fallen Short of Expectations
  - 43% Hedge Fund Returns Have Met Expectations
  - 38% Hedge Fund Returns Have Exceeded Expectations

- **Non-Asia-Pacific-Based Hedge Fund Investors**
  - 26% Hedge Fund Returns Have Fallen Short of Expectations
  - 64% Hedge Fund Returns Have Met Expectations
  - 10% Hedge Fund Returns Have Exceeded Expectations

Source: Preqin Investor Survey, Q3 2013
Change in Investor Confidence in Hedge Funds over the Last 12 Months: Asia-Pacific-Based vs. Non-Asia-Pacific-Based Hedge Fund Investors

- **Asia-Pacific-Based Hedge Fund Investors**
  - Increased Confidence in Hedge Funds: 43%
  - No Change: 48%
  - Decreased Confidence in Hedge Funds: 10%

- **Non-Asia-Pacific-Based Hedge Fund Investors**
  - Increased Confidence in Hedge Funds: 11%
  - No Change: 77%
  - Decreased Confidence in Hedge Funds: 12%

Source: Prequin Investor Survey, Q3 2013
HOW ASIA-PACIFIC-BASED INSTITUTIONAL INVESTORS EVALUATE HF MANAGERS

- Source of Returns/Strategy: 83%
- Performance: 65%
- Management Experience/Background: 61%
- Track Record: 52%
- Risk Profile: 48%
- Liquidity Profile: 43%
- Transparency: 35%
- Client Service: 30%
- Fees: 26%
- Infrastructure: 13%
- Domicile: 13%
- Other: 13%

Source: Preqin Investor Survey, Q3 2013
Investment Method of Non-Asia-Pacific-Based Investors Allocating to Asia-Pacific-Focused Hedge Funds

- 41% Invest Through Managers Based in the Asia-Pacific Region
- 35% Invest Through Managers Based Outside the Asia-Pacific Region
- 24% Invest Through a Combined of Local and Global Managers

Source: Preqin Investor Survey, Q3 2013
CHALLENGES OF INVESTING IN ASIA-PACIFIC HEDGE FUNDS

- Less Choice of Funds: 53%
- Performance: 35%
- Lack of Track Record: 29%
- Less-Developed Infrastructure: 29%
- Lack of Liquidity in Crisis: 12%
- Finding Funds Large Enough for Investment: 12%
- Time Zone Differences: 12%
- Not Understanding the Market: 12%

Source: Preqin Investor Survey, Q3 2013
Regions Targeted by Asia-Pacific-Based Hedge Fund Managers

Source: Preqin HedgeFund Analyst
Regions within Asia-Pacific Currently Presenting Good Opportunities According to Non-Asia-Pacific-Based Investors

Source: Prequin Investor Survey, Q3 2013
Strategies Offered by Hedge Fund Managers: Asia-Pacific-Based vs. Non-Asia-Pacific-Based Hedge Fund Managers

![Bar chart showing the proportion of hedge fund managers by strategy and region. The chart compares Asia-Pacific and non-Asia-Pacific investors across various strategies such as Long/Short Equity, Long Bias, Event Driven, Multi-Strategy, Marco, Equity Market Neutral, Long/Short Credit, Managed Futures/CTA, Value Oriented, and Relative Value Arbitrage.]

Source: Preqin Hedge Fund Analyst
ASIA PACIFIC HEDGE FUNDS PERFORMANCE

Pre financial crisis performance

2003-2007 Annualised

Post financial crisis performance

2008-2012 Annualised

SOURCE: GFIA
CHALLENGES, OPPORTUNITIES, THOUGHTS AND CONCLUSIONS
GLOBAL CHALLENGES

• Industry institutionalizing
• Smaller number of larger tickets
• Pensions have very little appetite for high beta
• Higher governance, transparency, infrastructure expectations
• Fee breaks for larger tickets and longer lock-ups
• “Small” is US$1bn to US$3bn

Higher barriers to entry
ASIAN CHALLENGES

• Scalability of strategies
• Profitability of businesses
• Competition from Long Only Small Cap
• Shortage of domestic institutional capital
• Short track record
• Less liquidity, shallower markets make hedging difficult
• TALENT NOT AN ISSUE!!
OPPORTUNITIES

• Is Asian long short a differentiated alpha source?
  - With a few managers yes, but industry wide unproven
  - China – good; India – poor
  - Very correlated with global liquidity flows
  - Japan scores surprisingly well here

• Does Asia have more mispriced opportunities?
  - Yes, BUT
    o The ability to hedge is more limited
    o The stress in a liquidity shock is higher

• What does Asia offer that’s unique?
  - Credit cycle – great opportunities in the illiquid space
  - Currencies and interest rates – differentiated macro opportunities
  - Direct lending
  - Small Cap investing
OPPORTUNITIES

• China resembles US 50 years ago
• HNWs
• Lack of regulation
• Traditional fund managers geared towards retail
• Banks function poorly as allocators and deployers of capital
• US industry an asset gatherer from institutions
• European industry an asset gatherer from retail
THOUGHTS

• Last cycle characterized by institutionalization, multi-product sale to public markets (Och Ziff, Partners Group)
• Cash/talent business converted to capital business
• Capital raising dominated by FoFs
• The next cycle? Return to our roots?
• Return/HNW-driven
• Direct, not intermediated access
• Single product
• China will be key (Gottex and China Vstone)
CAREER THOUGHTS!

• A career lasts 40 years and not 10
• No easy money:
  - 4 out of 5 hedge funds close within five years of launch
  - 90% of funds fail to achieve scale
• Worst capitalized and managed industry in the world!
• HFs don’t train or look after staff:
  - Only 1% HF staff get paid serious money
  - Intense pressure
• Manage your HF career aggressively (no one else will manage it for you)
• Network furiously – enter hedge funds only after 10 years in a major financial institution
• Know your enemy
• IF YOU HAVE A WIFE, KIDS & MORTGAGE, DON’T YOU HAVE ENOUGH TO WORRY ABOUT?
CONCLUSION

• Darwinian culling will continue
• Industry bifurcating – institutional/HNW
• Fees will be maintained for the survivors
  - Long biased beta fund fees pressurized
• Liquidity premium strategies to thrive (tapering)
• New capital will remain tight and sale cycles long
• Fund of funds industry to continue to transform
• Allocations to Asia will increase (albeit slowly)
• Asian institutional and HNW investors are the future