For Immediate Release
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Hedge Fund Industry Assets to More than Double in 5 Years: Citi Prime Finance Survey

Institutions Expected to Increase Hedge Fund Allocations

Hedge Fund Firms Set to Compete Head to Head with Traditional Asset Managers in Regulated Alternative & Long-Only Products

NEW YORK – Assets invested with hedge fund firms could more than double by 2016, according to a just-released survey from Citi (NYSE: C) Prime Finance. The study finds that pension funds, endowments, foundations and other institutional investors are increasingly embracing the risk management and diversification that hedge funds offer, and that hedge funds are developing new products that compete with traditional, long-only managers. These trends could contribute to a sharp rise in hedge fund assets over the next few years.

In the third of its annual market-leading surveys of hedge fund industry trends, the newest, titled Institutional Investment in Hedge Funds: Evolving Investor Portfolio Construction Drives Product Convergence, finds that institutional investors are refocusing allocations based on risk budgets rather than dollar-weighted allocations alone. The survey and its findings and forecasts are the result of more than 80 hours of in-depth interviews with 73 industry participants, including institutional allocators, hedge fund managers, large traditional asset managers, consultants and fund of funds managers. Participants represent $821 billion in assets allocated, managed or under advisement in the hedge fund industry.

"We see a **second wave of institutional allocations** to hedge fund strategies, as well as **new allocations to long-only strategies** managed by hedge fund firms," said Sandy Kaul, U.S. Head of Business Advisory Services at Citi Prime Finance, which provides trade execution, financing and business services to many of the world's leading and emerging alternative asset management firms.

The **first wave** of institutional allocations to alternative investments occurred from 2003 to 2007, when institutions poured more than $1 trillion into the asset class. Investors at that time followed the example of Yale University and other leading endowments that were able to significantly outperform traditional 60 percent equity / 40 percent bond portfolios during the 2000 to 2002 market downturn by incorporating hedge funds and other diversified investments into their portfolios.

"While institutions have been allocating to hedge funds for years, such investments were considered to be on the periphery of core portfolio holdings," said Alan Pace, Head of Citi Prime

Finance. “That is no longer the case. Today, with investors more focused on risk alignment within the overall portfolio, hedge fund allocations will play a **central role** in institutional portfolios in the years ahead.”

According to the new survey, global assets invested with hedge fund firms could rise from today’s record $2.1 trillion to more than $5 trillion as a result of two emerging trends. First, is the potential for market-leading institutional investors to increase allocations to hedge fund strategies by **$1.0 trillion** in order to better insulate against risk and to help ensure more diversified portfolios.

Second, the survey revealed a **“convergence zone,”** in which hedge funds and traditional asset managers will increasingly compete head-to-head to offer a broad set of equity and credit strategies. The survey observes that there could be an additional **$2.0 trillion** in new allocations to hedge fund firms in the form of regulated alternatives and long-only products. Supporting this, the survey found that mature hedge fund firms are leveraging their deep infrastructures and resources towards creating these offerings.

Other key findings of the Citi Prime Finance survey include:

- Know Your Investor - **Hedge funds need to better understand** how each institution is using alternative investment strategies. Knowing how to present their funds to most effectively address each type of portfolio configuration is becoming a **key requirement for hedge funds**.

- New Opportunities in Unconstrained Long Product – Traditional asset managers are moving away from strictly benchmarked strategies to offer more **unconstrained long products**. These lower fee offerings may be the area where hedge funds and traditional asset managers compete most directly for allocations.

- Changing Role of Intermediaries – The role of intermediaries, such as consultants and funds of funds, is **shifting** and hedge fund marketing teams are increasingly utilizing these relationships to promote their funds, raise assets and extend their relationships into the long-only areas of their institutional client organizations.

The full report, along with other industry analysis and reporting can be viewed at:

http://citibank.com/icg/global_markets/prime_finance/business_advisory.jsp

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