The Greenwich Roundtable

Quinnipiac University

THE GREENWICH ROUNDTABLE
AND
QUINNIPIAC UNIVERSITY

SURVEY OF INVESTORS' PREFERENCES

2008

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The Greenwich Roundtable is a non-profit research and education group focused on alternative investing. Its members are sophisticated private and institutional investors who collectively represent over $6.9 trillion in assets under management. This group largely influences the investment preferences for the alternative investment community.

Quinnipiac University is a private, coeducational university with 5,400 undergraduate and 2,000 graduate students in schools of business, health, communications, and law. The College of Liberal Arts contains the division of education. Quinnipiac consistently ranks among the top universities with master's degree programs in the Northern region in US News and World Report's America's Best Colleges and is home to the nationally renowned Quinnipiac University Polling Institute.

Executive Summary

The key findings of this most recent Quinnipiac University-Greenwich Roundtable survey are shocking. The Great Credit Crisis of 2007-2008 has unfolded into a global market meltdown. A massive repricing of risk is under way. Alternative investments have always been on the leading edge of capital allocation. Investors who commit capital to alternatives are the clearing mechanism for the marketplace. Thus it is our belief that the behavior of the Limited Partners is a leading indicator. More specifically, the fund of fund's investor is the canary in the coal mine. Their behavior in the form of hedge fund redemptions is setting the price of the markets. In the equity markets, for example, the absence of buyers on the floor of the major stock exchanges has caused the smallest sell order by a hedge fund to allow prices to gap down. Hedge funds are being redeemed by their investors because they are liquid, un-gated or they are underperforming. Thus the behavior and the preference of these investors is an early warning system for market action.

According to our survey, some interesting clues lie in which strategies will get new money. It seems as though distressed, global macro, CTAs and then, maybe, equity long-short will be walking away with fresh capital. Weaker buying convictions were expressed in strategies such as convertible arbitrage, emerging markets, private equity, and short-term trading. Unfortunately, investors where quite clear in their preference to sell equity long-short, credit, event-driven strategies and anything leveraged.

Some other interesting responses unfolded insomuch as investors are/were bullish on the U.S. dollar, gold and, now at $50, oil. Investors are/were bearish on European stocks and bonds as well as emerging market bonds. But the most surprising event captured in the survey was the higher frequency of managers throwing up their gates or suspending redemptions. Not too long ago, this event would have marked the beginning of a death spiral for a manager. Today, as one endowment investor put it, "managers are using gates as a liquidity management tool. I don't like it but we have no choice." Indeed we may see some sort of investor backlash as a result of this phenomenon. Above all, investors are obsessed with liquidity and the liquidity of their underlying managers.

We intend to survey investors in the beginning of 2009. So stay tuned….

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Survey Methodology

The current Greenwich Roundtable/Quinnipiac University survey of Limited Partners focuses on recent market events and what effect these events had on their investment decisions. The survey was administered via phone from a Quinnipiac University call center to investors over the three-week period between Oct. 6-Oct. 24, 2008. Of the 260 investors contacted, 91 completed the full survey for a 35% response rate. Overall, investors were bearish on long-short equity, credit, and event-driven strategies, as well as strategies using [high] amounts of leverage. Investors also expressed concern with managers' liquidity and their increasing suspension of redemptions. Finally, they expressed real concern over the health and viability of the U.S. financial system.

The current Quinnipiac University survey of our Greenwich Roundtable members focuses on recent market events and what effect, if any, these events had on their investment decisions. Quinnipiac student volunteers contacted the survey participants by phone between Oct. 3 and Oct. 24, 2008.

First, before going into specific strategies and portfolio allocations, we did a quick reality check into the mindset of the alternative investment community. In the last survey, the focus was on the topic of the due diligence process. The key take away in that survey was that managers and advisors take due diligence seriously. Therefore, in light of recent market turmoil, extreme price gyrations, and disruptions, it is fitting that the first question deals with any attitudinal changes toward due diligence and manager selection.

Q-1. Have recent market events significantly changed your overall approach to due diligence and manager selection?		
Answer Options	Response Percent	Response Count
Yes	33.33%	30
No	65.56%	59
Not Applicable	1.11%	1
	answered question	90
	skipped question	1

Question 1 shows that by a nearly two-to-one margin respondents said there has been no change in their overall approach to due diligence issues. However, while more than 65% see no difference in their methodology, one-third said that they are now rethinking their positions. However, their allocations to fund managers remain largely the same (71.26%), Question 2 also shows almost 22% have decided to lower their allocations while only 6.9% have decided to up the ante.

Q-2. Are your overall recommended allocations to hedge funds higher/lower, or about the same as 15 months ago?		
Answer Options	Response Percent	Response Count
Higher	6.90%	6
Lower	21.84%	19
About the same	71.26%	62
	answered question	87
	skipped question	4

Q-3. Which strategies are getting increased allocations?

Drilling deeper into the issue, Question 3 asks respondents which strategies are getting increased allocations. Twenty-one of the respondents were focused on the distressed arena citing in particular credit, debt, and securities. Global macro strategies were cited by 14 respondents and seven named macro as their allotment shift. As part of the global subset, eight respondents specifically mentioned commodity trading advisors (CTAs). Ten persons said equities and long/short strategies were now in play. Following closely behind were the nine that cited the fixed-income markets and five each who were shifting their allocations to the credit markets and multi-strategies. Four respondents mentioned the real estate market. The following strategies received two mentions each: convertible arbitrage, emerging markets, private equity, hedge funds and fixed-income hedges, trading, and managed futures.

Q-4. Which strategies are getting decreased allocations?

“We are significantly decreasing allocations to equity long/short strategies.”

Conversely, Question 4 asked: “Which strategies are getting decreased allocations?” The overwhelming response cited by 23 individuals was long/short equities. “We are significantly decreasing allocations to equity long/short strategies,” was a typical reply.

Given the stock market’s recent gyrations this is not surprising. In addition, four respondents specifically mention long-biased, long-only equities, long only, or long strategies while two stated short buys and short only. Meanwhile, four said they were decreasing allocations to the credit markets while three are pulling back from event-driven scenarios and anything leveraged. As with the previous question dealing with increased allocations, there were several strategies receiving two responses each: convertible arbitrage, and the fixed-income market. One survey participant, who did not foresee any decreased allocations, admitted that it was “challenging to implement” certain strategies.

Q-5. Which strategies will have no change in allocations?

“All of our strategies are changing. Nothing is safe.”

The follow-up Question 5, “which strategies will have no change in allocations?” drew an interesting result. Thirteen respondents said they wouldn’t change a thing but an equal number said either all or most of their strategies would be changed. “All of our strategies are changing,” one respondent answered, adding that “nothing is safe.”

Again, much as in the case of both increased and decreased allocation plans, nine people named long/short strategies as a hold followed by some who saw “arbitrage opportunities” while others opted to stay with fixed-income, credit, and distressed markets. Rounding out the field with two citations each were emerging markets, commodities, event driven, macros, and global strategies.

Q-6. Please indicate whether you are bullish, bearish, or neutral on the category.			
Answer Options	Bullish	Bearish	Neutral
US stocks	40.23%	52.87%	6.90%
US bonds	34.83%	53.93%	11.24%
European stocks	18.60%	74.42%	6.98%
European bonds	17.65%	61.18%	21.18%
Emerging markets	44.19%	50.00%	5.81%
Emerging bonds	29.76%	58.33%	11.90%
Oil	40.23%	39.08%	20.69%
Gold	47.67%	27.91%	24.42%
Other commodities	36.90%	42.86%	20.24%
Private equity	35.37%	50.00%	14.63%
Venture capital	31.33%	53.01%	15.66%
US dollar	49.41%	36.47%	14.12%
Euro	11.76%	74.12%	14.12%
		answered question	89
		skipped question	2

Survey participants were then asked their evaluations of 13 markets (Question 6) and whether they were bullish, bearish, or neutral. Respondents were bullish on only three of the markets. The U.S. dollar drew the most bullish sentiment with 49.41% leaning in that direction. Meanwhile, 36.47% said they were bearish and 14.12% were market neutral. Gold drew the second highest bull response with 47.67%, nearly 20 points (27.91%) ahead of the bears. Neutral sentiment garnered 24.42%. Oil prices, which peaked at nearly $140 a barrel in the summer, have been heading south since and fell below $50 in November 2008. Given the fluctuations and current trends, it is of little surprise that while 40.23% of the respondents maintain a bullish attitude, bears were only slightly behind at 39.08% with slightly more than 20% holding a neutral position.

Bears ruled the other 10 investment categories, with the strongest bearish sentiment found in Europe. Nearly three-quarters of the respondents (74.42%) were bearish on European stocks as opposed to 18.6% expressing bullish tendencies. Almost 7% took a neutral stance. Close behind the European stocks category was the euro which saw a 74.12% bearish sentiment but fewer survey participants (11.76%) maintained a positive stance than European stocks. As with the U.S. dollar, 14.12% were market neutral. Sixty-one percent in the survey were bearish on European bonds while 21.18% held neutral positions, the second highest only behind gold. Meanwhile, 17.65% were bullish.

As for the U.S. markets, there was less bearish sentiment for stocks and bonds than their European counterparts. Almost 54% in the survey viewed bonds as a bear market and slightly less than 53% on stock market. However, 40.23% were bullish on stocks and 34.83% on bonds. Market neutrals for bonds and stocks came in as 11.24% and 6.9%, respectively.

In emerging market bonds, the bulls ran far behind the bears. Slightly less than 30% in the survey said they were bulls as opposed to 58.33% taking the opposite view. Almost 12% took a neutral position. Respondents were almost equally divided on emerging markets with about 44% expressing bullish sentiments while half remained bears. About 6% were neutral, the least neutral stance of any of the 13 investment categories.

Commodities (excluding gold and oil) responses were spread across the board. About 37% said they were bulls while 42.86% were bearish and slightly more than 20% were neutral. Again, these responses may be attributable to the recent wide price fluctuations in the commodities market.

Results for private equity and venture capital were almost in lockstep with each other. There were more bears for venture capital (53%) than private equity (50%). As for bullish sentiment, private equity saw a 35.37% response while venture capital came in with 31.33%. Neutrals for private equity and venture capital were about even at 14.63% and 15.66%, respectively.

Q-7 Which of the following categories best describes your recent experiences with fund managers and their gates? Fund managers are throwing up their gates:		
Answer Options	Response Percent	Response Count
Much more frequently	30.95%	26
More frequently	52.38%	44
About the same	7.14%	6
Less frequently	0.00%	0
Not at all	9.52%	8
	answered question	84
	skipped question	7

In the wake of market turmoil, even fund managers have not been exempt from falling or even vanishing profits. Anecdotal stories abound on how funds have slammed the gate on investors seeking to redeem their investments—sometimes placing a cap on the percentage of withdrawals and, in some cases, freezing the accounts altogether. In Question 7, respondents were asked to gauge, based on recent experiences, the frequency that fund managers were throwing up their gates. Seventy participants answered "much more frequently" (30.95%) or "more frequently" (52.38%). No one answered less frequently, while 7.14% said gating was about the same and 9.52% said they had not seen gates at all.

Q-8 Have concerns over gates caused you to significantly reconstruct your portfolio?		
Answer Options	Response Percent	Response Count
Yes	26.37%	24
No	61.54%	56
Not Applicable	12.09%	11
	answered question	91
	skipped question	0

Despite this increased usage by fund managers, when asked whether concerns over gates had led to significant reconstruction of their portfolios (Question 8), slightly more the one-quarter of the respondents said that the usage of gates have become a driver for portfolio reconstruction. More than 60% said that gates did not lead to significant changes in their portfolios. Participants who answered in the affirmative where then asked to explain their methodologies. Liquidity was the common theme among seven respondents. One survey participant said he/she was "much more aware of liquidity" while another echoed that he/she was placing a "greater emphasis on manager liquidity." One went as far to say that the portfolio reconstruction would involve moving "as much liquidity as possible away from illiquid managers." Five respondents said they were avoiding funds with gates, placing smaller allocations to funds with gates, or looking for anyone whose gates were fully redeemed. One respondent said that he/she redeemed more than originally planned because of the gates. Another common thread for portfolio reconstruction was better matches. Survey participants said they "emphasized managers with few mismatches between redemption terms and their underlying portfolio," were "looking for a better match (of) liquidity with underlying assets," and "matching capital requirements on both sides."

"One went as far to say that the portfolio reconstruction would involve moving "as much liquidity as possible away from illiquid managers."

Q-9. Have recent events caused you to reduce portfolio risk?		
Answer Options	Response Percent	Response Count
Yes	59.34%	54
No	34.07%	31
Not Applicable	6.59%	6
	answered question	91
	skipped question	0

"Increase cash levels and increase allocations to managers without exposure."

When asked whether recent events caused the survey participants to reduce portfolio risk (Question 9), almost 60% said that it had as opposed to 34% that did not. Those who did change their portfolios to reduce risk were then asked what strategies they employed. Of the 54 respon-

dents who repositioned their portfolios, more than half said they shifted their strategies toward liquidity and cash. "We're increasing cash levels, increasing managers without exposure," "taking some money off the table and more cash into the portfolio," "reducing leveraged strategies and those with illiquid components," were typical comments by the participants. Strategies employed included redemptions, reduced equity exposures, liquidation of investment accounts, and increasing managers without exposure. Another major theme echoed a response to Question 3—moving away from highly leveraged investments.

"We are definitely selling managers that utilize leverage."

Q-10. Have recent events caused you to reduce portfolio leverage?		
Answer Options	Response Percent	Response Count
Yes	34.09%	30
No	22.73%	20
Not Applicable	43.18%	38
	answered question	88
	skipped question	3

Question 10 asked whether market conditions caused them to reduce portfolio leverage, one-third replied "yes", 22.73% said "no", and 43.18% said it was not applicable. Strategies used by those who were reducing leverage included the following: allocating away from leveraged managers ("we're reducing exposure to managers who employ a high degree of leverage" and "selling managers that utilize leverage"), accumulating cash, redemptions ("we do not reinvest proceeds from positions that have been sold"), selling positions, and lowering positions.

"Rebalancing to more liquid managers and strategies," and "not investing in hedge funds with asset liability management issues."

Q-11. Have recent events caused you to increase portfolio liquidity?		
Answer Options	Response Percent	Response Count
Yes	66.29%	59
No	25.84%	23
Not Applicable	7.87%	7
	answered question	89
	skipped question	2

When asked specifically if they had increased portfolio liquidity (Question 11), two-thirds (66.29%) of the survey participants said they had while one-quarter (25.84%) had not. It is clear from this survey that cash is now king. Participants expressed the need for "more liquid strategies than illiquid (ones)," "rebalancing to more liquid managers and strategies," and "not investing in hedge funds with asset liability management issues." It is also clear that need for liquidity trumped risk reduction and avoidance of leverage as reasons for portfolio changes. Strategies to increase cash included accumulating cash, less fixed-income employment, redemptions, selling positions and putting more in cash, investing in managers with more frequent terms and liquidity, and the sale of equities.

Q-12. Do you have serious concerns about the health and viability of the overall US financial system?		
Answer Options	Response Percent	Response Count
Yes	57.78%	52
No	38.89%	35
No Opinion	3.33%	3
	answered question	90
	skipped question	1

In Questions 12 and 13, respondents were asked their views on two major events of the past year—U.S. financial system and the housing market. Fifty-seven percent that they had serious concerns about the health and viability of the financial system while 38.89% said they were not concerned. Only 3% had no opinion.

Q-13. Which of the following categories best characterizes your view on when will we see a bottom in the housing market?		
Answer Options	Response Percent	Response Count
We are currently at the bottom	0.00%	0
In 1 - 2 Months	1.14%	1
In 3 - 6 Months	15.91%	14
In 7 - 12 Months	54.55%	48
The bottom is more than a year away	28.41%	25
	answered question	88
	skipped question	3

The collapse of the housing market and its spillover into other financial sectors is far from over, according to the respondents. No one said the housing market had reached bottom and only 17% see the end within one-to-six months. The majority (54.55%) see the bottom occurring seven-to-12 months from now while 28.41% don't see light at the end of the tunnel until more than a year.

Q-14. Would you describe your investment horizon as:		
Answer Options	Response Percent	Response Count
Short-term, less than 3 months	2.25%	2
Medium-term, 3 months to 3 years	40.45%	36
Long-term, greater than 3 years	57.30%	51
	answered question	89
	skipped question	2

Q-15. What are you?		
Answer Options	Response Percent	Response Count
Short-term, less than 3 months	1.20%	1
Medium-term, 3 months to 3 years	36.14%	30
Long-term, greater than 3 years	62.65%	52
	answered question	89
	skipped question	2

Survey participants were then asked to describe their investment horizons and where they are presently (Questions 14 and 15). The majority of the respondents, 51 or 57.3%, described their investment horizon as long term, meaning greater than three years while the current long-term positions are at 62.65%. Forty-percent see their investment horizon in the medium term (three months to three years) and currently at 34.14% in that position. Only 2% pegged their horizon as short term (less than three months) and current position at 1.2%.

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