Alternative Investment Management Association

Canada

AIMA Canada Investor & Consultant Survey

Results show interest in alternatives and intent to recommend and allocate over the next few years

During the summer of 2013, AIMA Canada conducted a two-stream opinion survey on the attitudes of Canadian investors and consultants toward alternative investments. The survey covered a range of subjects, probing respondent attitudes toward and knowledge of alternatives and desired methods of receiving information on the subject.

Responses to the survey from across Canada were sourced online principally through the web sites and mailing lists of AIMA Canada and Benefits and Pensions Monitor.

Alternative investments were generally segmented into five main areas:

Real Estate – investments into property and buildings as well as, as much as could be surmised, securities linked to these investments

Commodities – including hards (extracted through mining such as gold and including energy such as crude oil) and softs (those which are bred or grown such as pork bellies and wheat)

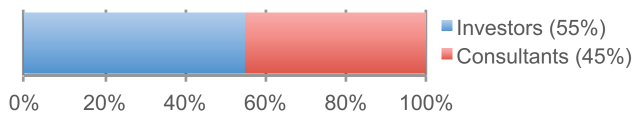
Hedge Funds – which typically are private investment funds which invest in public-market securities using strategies such as long-short equity, convertible bond arbitrage, managed futures or activist investing

Private Equity – whereby private funds invest in private companies (either wholly or a portion) in a variety of transaction types (go-private, leveraged buy-out of a public or private company) and exiting (either as an IPO or sale to a competitor, management team or consolidator)

Infrastructure – which is investment in long-life assets with stable income-flows which generally increase over time (with inflation) and are either social (courts, prisons and hospitals) or economic (land registries and toll roads/bridges)

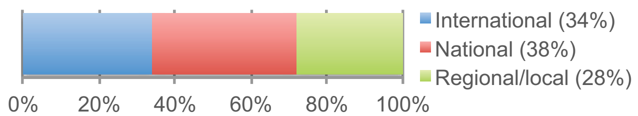
This report relates key findings as well as some detailed statistics of the survey and was developed to illustrate investor and consultant views and forward thinking toward alternatives. Data on interested topics and delivery are discussed generally and were gathered with the intention of developing AIMA Canada programming.

Who took the survey:

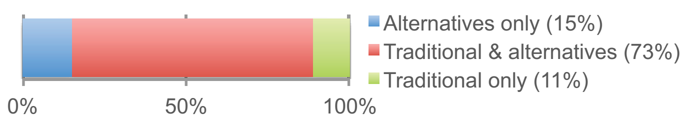


<u>Consultant stream:</u>

Geographic footprint:



Practice focus:

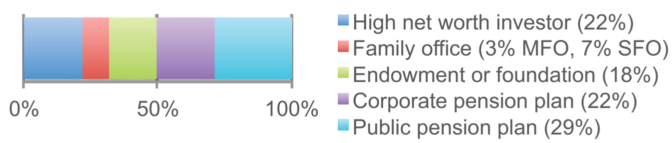


Client AUM:

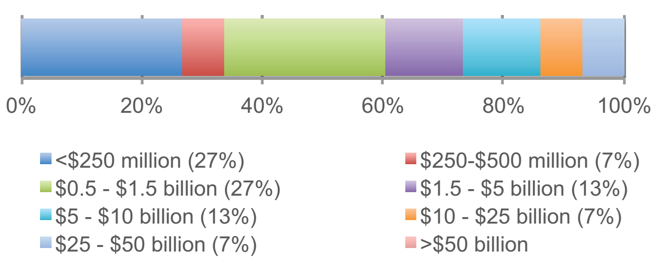
Consultants reported that 10-30% of their clients generally had AUM of $250 million - $10 billion.

<u>Investor stream:</u>

Respondents' role/employer:



AUM of investor:



Many respondents (about 34%, and likely the family offices at 10% and HNIs at 22%) have under $500 million with the next large group being at $500 - $1 billion.

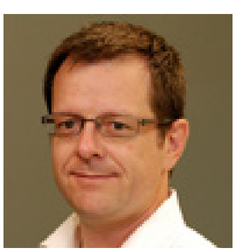
ABOUT THE SURVEY TEAM

This survey was developed by a team of CAIA members and AIMA Canada committee members who would like to thank Benefits and Pensions Monitor for distributing the survey to their over 22,000 daily readers who work in institutional investment, consulting and asset management companies in Canada.

James Burron, CAIA
Chief Operating Officer, AIMA Canada
Past Chapter Executive (Toronto), CAIA Association

Esther Zurba, CAIA
Director, Castle Hall Alternatives
Chapter Executive (Toronto), CAIA Association

Paul Patterson, CAIA
Vice President, Private Investment, Integrated Asset Management
Secretary, AIMA Canada



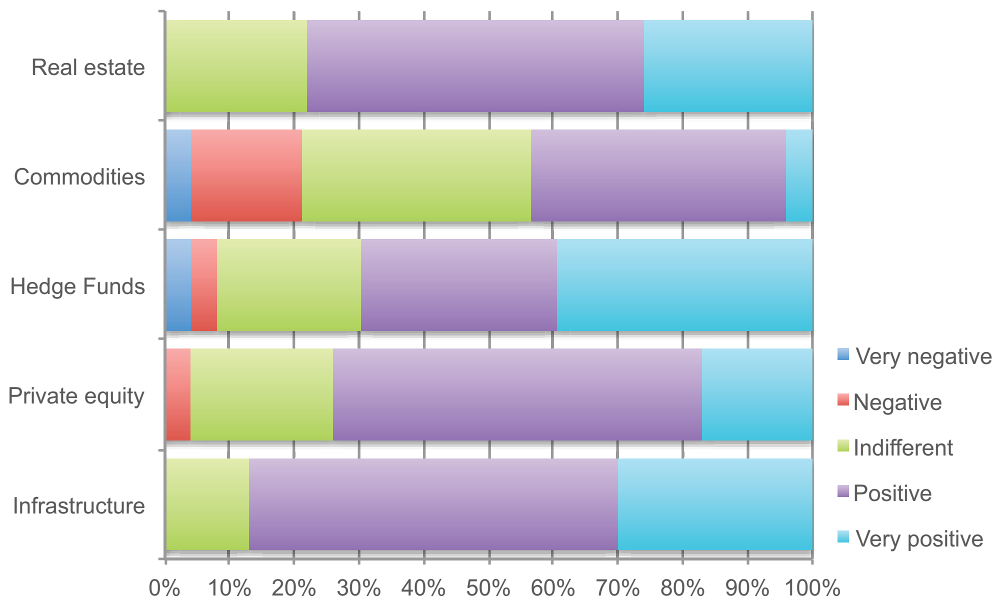
Daryl Purdy, CAIA
Director, Business Development, KCS Fund Strategies Inc.
Past Chapter Executive (Vancouver), CAIA Association

KEY FINDINGS

- Both consultant and investor respondents were well-diversified
- Consultants were generally positive on all 5 areas, with particular emphasis on Hedge Funds, Infrastructure and Real Estate while investors had more negative views in all 5 areas (except Infrastructure) than positive (Real Estate was the most favourably reviewed)
- Investors rated their alternatives knowledge higher in all instances vis-à-vis consultants with both groups stating a high understanding of Hedge Funds and low expertise in Commodities
- Consultants noted having discusses all 5 areas with clients with a large number citing Hedge Fund searches and less activity regarding Commodities
- Consultants that did not discuss, perform searches or consult on alternatives most prevalently cited ‘no client interest’ and only Hedge Funds elicited ‘headline risk’ with ‘lack of internal resources’ for all but Hedge Funds
- Investor responses showed research, target weighting and investing in all 5 areas with a dearth of activity in Hedge Funds
- Reasons for not allocating or investing in particular alternatives varied with ‘lack of board approval’ and ‘regulatory restriction’ common and ‘headline risk’ for all but Commodities and Real Estate
- Stopping at just researching by investors was typically for far-sighted goals of investing in 2-3 years or at some point in time
- Having a target weighting but no allocation reasons were well-diversified with all but Hedge Funds eliciting ‘markets look expensive’ and all but Real Estate having the constraint of ‘no suitable fund/vehicle on offer’
- Both categories of respondents had similar reasons for investing in each of the alternatives with Commodities having the fewest and Hedge Funds (first for investors, second for consultants) and Real Estate (first for consultants, second for investors) having the highest marks
- Both preferred live sessions vs. online as well as showed interest in pursuing designations such as CAIA
- 93% of consultants see alternatives recommendations increasing somewhat or a great deal
- Investors who were not allocating to alternatives but researching or had a target weighting have intention to do so either in the near future or some time later
- Topics of interest were generally bar-belled with a good deal of interest in basic subjects such as Hedge Funds 101 as well as advanced areas such as trending strategies (e.g., risk parity)

CONSULTANT STREAM RESULTS

VIEWS OF ALTERNATIVES



Real estate generally positive with no negative responses and 75% of those responding being positive or very positive.

Commodities mixed with one very negative and one very positive and the balance in between with a skew toward positive.

Hedge Funds were generally favoured with 70% being positive or very positive and fewer than 10% in the negative or very negative camps.

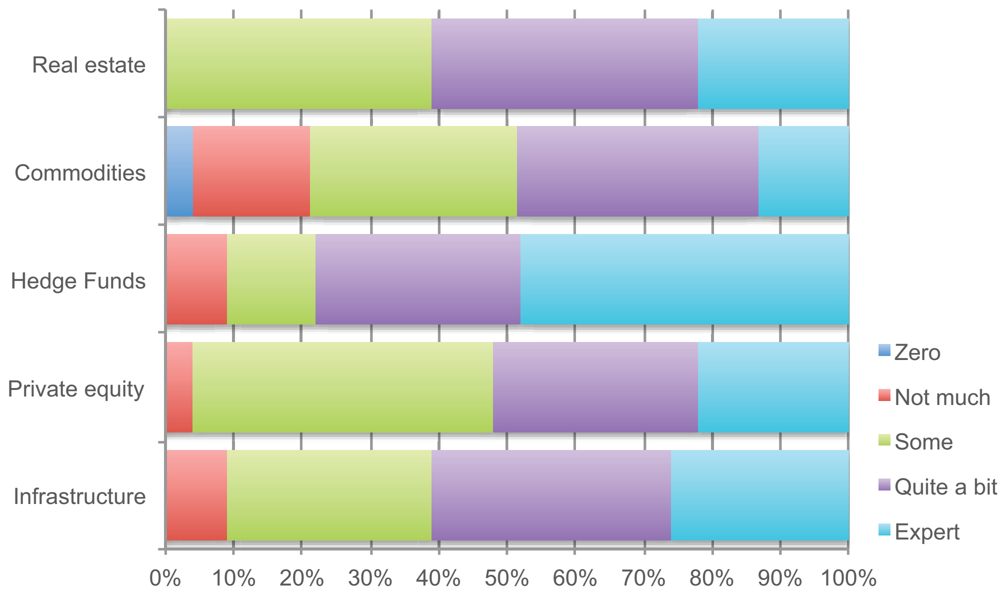
Private Equity was a similar story with grouping in the positive view (57%) and none being very negative.

Infrastructure was almost exactly the same as real estate (no negative/very negative) and over 86% in positive and very positive columns.

Comment – Respondents were generally positive on alternatives overall with traditional alternatives (Real Estate, Private Equity and Infrastructure) having a stronger showing than Hedge Funds and commodities.

CONSULTANT STREAM RESULTS

RATING ONE'S KNOWLEDGE OF ALTERNATIVES

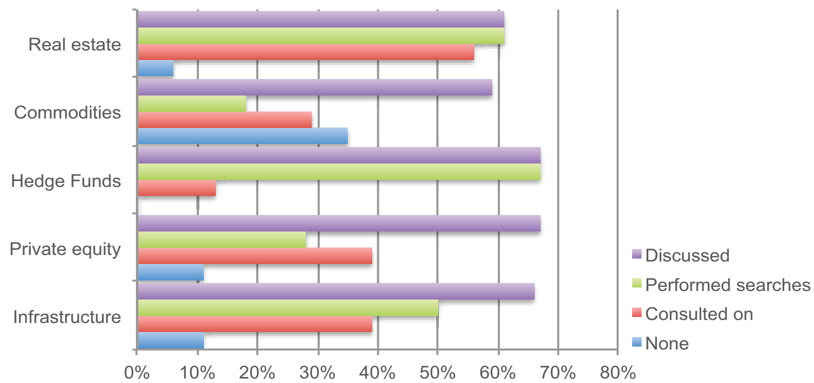


Results for this section approximate that of the previous section but with a skew toward expert knowledge (on average 26% said they were expert in alternatives with almost half of respondents stating they were expert in hedge funds). Overall 60% of respondents said they knew quite a bit or were expert in alternatives with the fewest in Private Equity. Commodities were least known with about 25% stating they knew nothing or not much in that area.

Comment – Since hedge funds typically deal in public markets, many portfolio managers and CFA charterholders would have knowledge of the instruments traded and metrics used. Private Equity, Real Estate and Infrastructure are all private transactions focused on operational expertise that may not be as prevalent among respondents. Commodities may be public or private and involved derivatives (futures, forwards and options on futures) that may not be as well-known.

CONSULTANT STREAM RESULTS

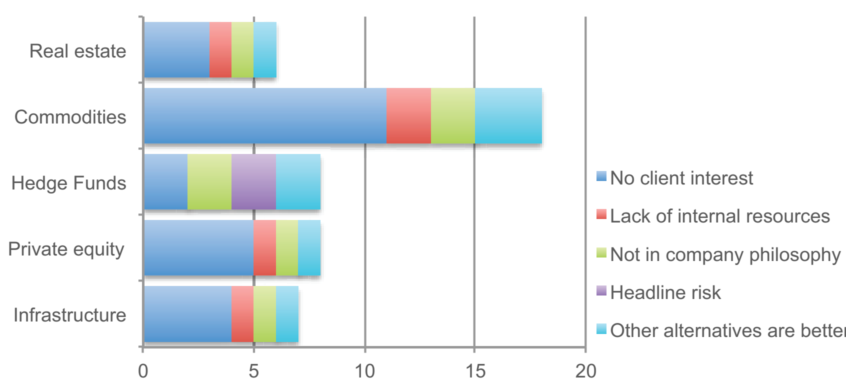
DISCUSSIONS, SEARCHES AND CONSULTING ON ALTERNATIVES



Generally, 60% or more of respondents (59% for Commodities, 62% for Real Estate 67% for Hedge Funds, Private Equity and Infrastructure) have discussed alternatives. Searches and consulting is less prevalent with less interest in Commodities, Private Equity and Infrastructure and much more (95-100% of discussions resulted in searches or consultations) in Real Estate and Hedge Funds.

Comment – Implementation of Real Estate and Hedge Funds may seem more straightforward than that of Commodities, Private Equity and Infrastructure. This also mirrors the stated expertise level of respondents in the various alternatives.

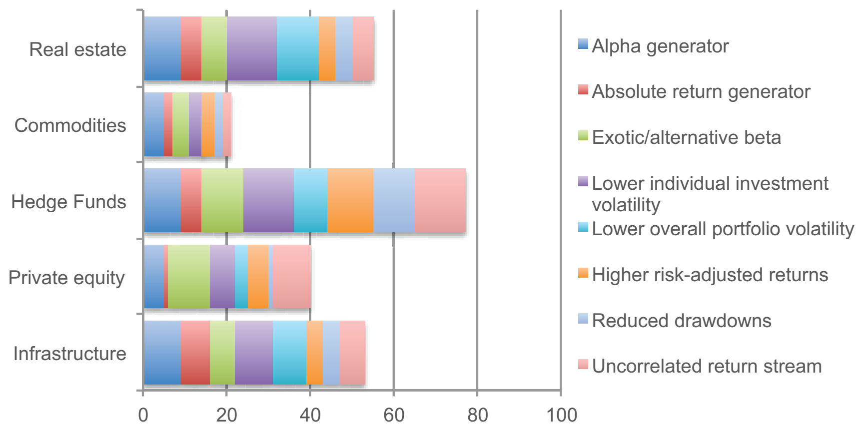
WHY NOT DISCUSS, PERFORM SEARCHES OR CONSULT?



Respondents typically cited lack of client interest for not being active in alternatives – this is particularly so in Commodities where almost as many respondents said so as all the other four combined. Lack of internal resources was not very common, but in that category Commodities were over-represented also. Headline risk was lower than might be expected with Hedge Funds the only one affected by this.

CONSULTANT STREAM RESULTS

THE ROLE OF ALTERNATIVES IN CLIENT PORTFOLIOSS



Real Estate was seen as a volatility dampener both individually (possibly due to stale-dating/ appraisal pricing) and on a portfolio basis (as the high serial correlation of NAVs would produce low correlations with public market investments) although paradoxically it was not really seen as a non-market-related return/alpha provider. It was also not viewed as providing returns regardless of market conditions nor access to exotic/alternative beta.

Commodities had a very low showing with regard to being stable and ameliorating portfolio volatility – which is at odds with a higher regard for it as a provider of uncorrelated return streams. It was the least recommended (by five respondents) and its main benefit was higher risk-adjusted returns.

Hedge Funds received high marks for being an alpha-generator in all markets and, especially, providing exposure to exotic/alternative beta such as credit and liquidity. It also had the highest number of respondents citing it for lowering portfolio volatility, providing higher risk-adjusted returns and providing uncorrelated return streams while tying for second in terms of having individually lower volatility.

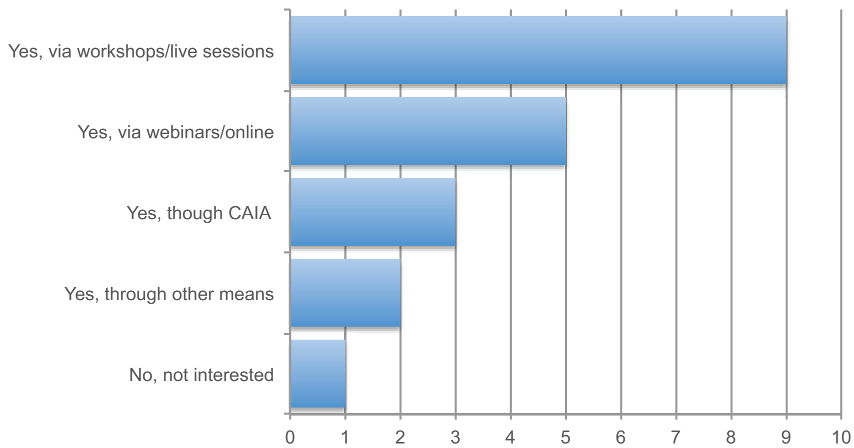
Private Equity was not seen as having low volatility, ameliorating drawdowns nor producing alpha in all market conditions (likely because exits are timed by and priced to public market pricing fluctuations). They were seen to have higher risk-adjusted returns, however.

Infrastructure's benefits were amelioration of drawdowns and lower volatility – artifacts of both its appraisal pricing and usually high cash flow generation which reduces the duration of these assets and (should) provide inflation-adjusted income streams that continue during market corrections.

Comment – The findings (except for Commodities, which not many professed much expertise in) fit the risk and return profiles of each area. Notably, Hedge Funds had the highest number of respondent-benefits, commodities the fewest.

CONSULTANT STREAM RESULTS

LEARNING ABOUT ALTERNATIVES

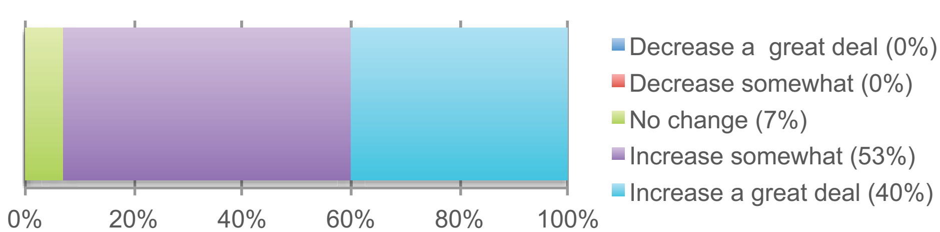


Consultants generally preferred workshops and live sessions to learn about alternative investments with webinars and online courses second. Some had interest in the CAIA designation and a few were not interested at all.

Looking at topics, online was a constant and especially favoured for the more basic topics such as Overview of Alternatives, Hedge Funds 101 and the like with a spike of interest in Benchmarking (an intermediate topic) and a good amount of interest in advanced topics like LDI, risk parity and such. In-person sessions were shunned for intermediate topics but have great popularity for advanced ones.

Consultant staff and client investment staff were not seen as particularly relevant for these sessions – consultant staff especially for intermediate topics and only the most basic ones for client investment staff. Client trustees and board members, however, were seen as more appropriate for education initiatives.

LIKELIHOOD OF RECOMMENDING ALTERNATIVES



Comment – 93% of consultants look forward to more recommendations for alternatives over the next three years.

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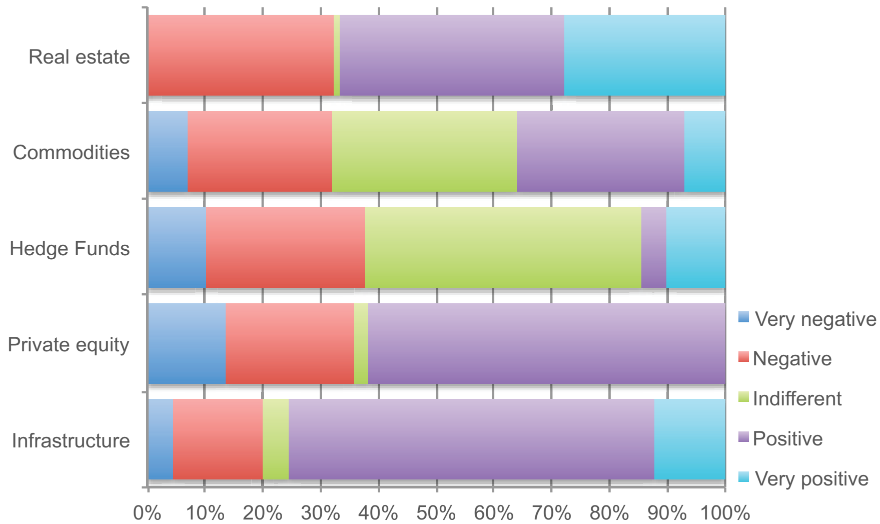
INVESTOR STREAM RESULTS

VIEWS OF ALTERNATIVES



Real Estate had a neutral to favourable view from investors with none citing it as very negative and the bulk noting it as positive (35%) and very positive (25%).

Commodities and **Hedge Funds** were almost exactly the same with a slight edge to Hedge Funds (fewer negatives, more positives). Both were resembled a Gaussian curve with 7% very negative and very positive tails and high (33%) indifferent observations with a positive skew.

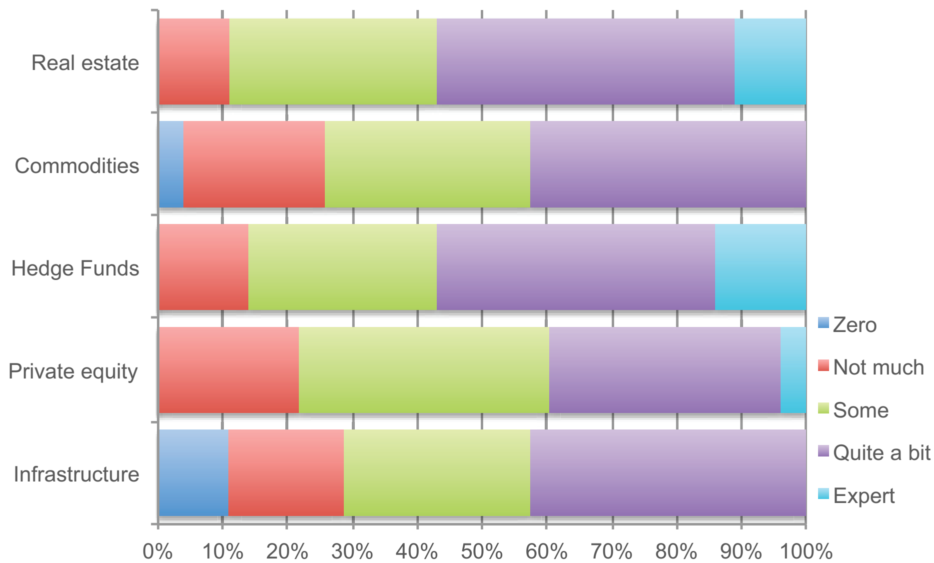
Private Equity was not viewed positively with the highest number of very negative views and no very positive ones. However, it had the highest positive responses (50%).

Infrastructure garnered the highest number of positive views (57%) and very high very positive views (11%) with only one very negative view.

Comment – Given where real estate has been and its generally low volatility (thanks to appraisal pricing) it is not surprising that it was a favourite (as long as investors has side-stepped huge losses in ex-Canada properties) while the other areas can have a more mixed history.

INVESTOR STREAM RESULTS

RATING ONE'S KNOWLEDGE OF ALTERNATIVES

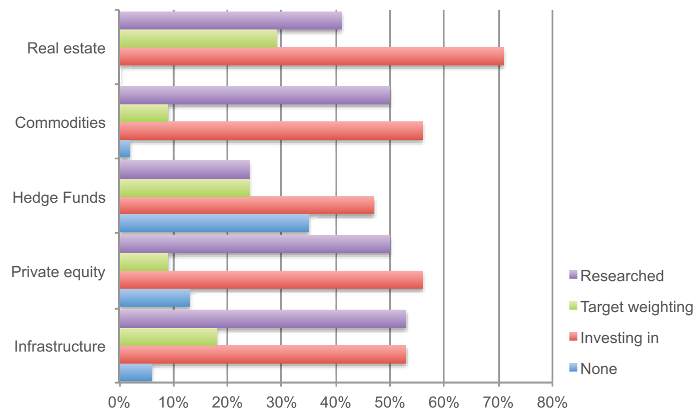


Respondents were generally familiar with all of the categories with 70-78% saying they new some (about 30% of respondents) or quite a bit (about 40% of respondents) with expert knowledge in Real Estate (11%), Hedge Funds (14%) and, to a lesser degree (4%) Private Equity. In contrast, Commodities and Infrastructure were the only areas with respondents reporting zero knowledge and not one respondent standing out as an expert.

Comment – As in the consultant stream, Commodities were lesser-known and many had pretty good insight into the other alternatives (except Infrastructure).

INVESTOR STREAM RESULTS

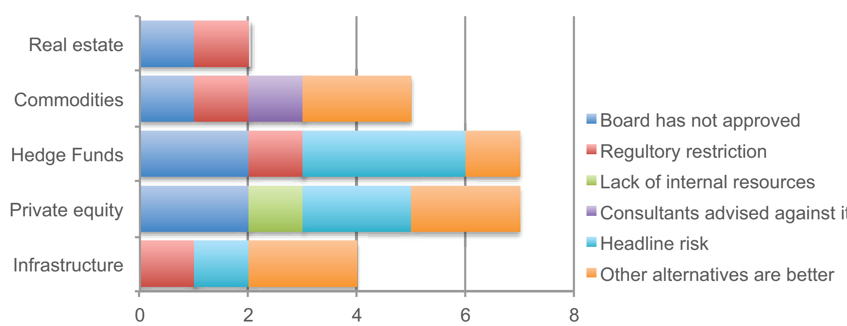
RESEARCH, TARGET WEIGHTINGS AND INVESTMENTS IN ALTERNATIVES



All respondents noted research into (41%), a target weighting in (29%) or investments (71%) in Real Estate. One has to surmise that the investors are also researching and have a target weight, which would lift the prior 2 categories. Of the others, Hedge Funds has the highest number of respondents stating they are doing none of the three activities but all four others have about 50% investment, 11-23% target weightings and about 50% research (except for Hedge Funds which is just 23%).

Comment – All of the alternatives are fairly well represented in portfolios, with Real Estate standing out (even investors' low knowledge of Commodities and Infrastructure did not preclude investment).

WHY NOT LOOK INTO, ALLOCATE TO OR INVEST IN ALTERNATIVES?

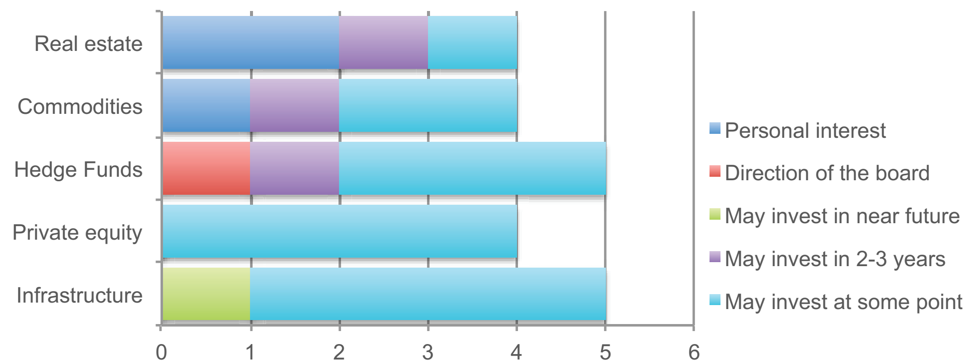


Lack of internal resources and a consultant's advice not to invest were rarely cited as reasons not to be active in alternatives while board approval, regulatory restrictions and chance of headline risk (especially for Hedge Funds and Private Equity) were noted. Some respondents explained that other alternatives than those not pursued were simply better.

Comment – It is good to know that investors have the wherewithal to determine if an alternative investment is appropriate for their situation and the task of educating boards and, as might be possible, regulatory bodies continues.

INVESTOR STREAM RESULTS

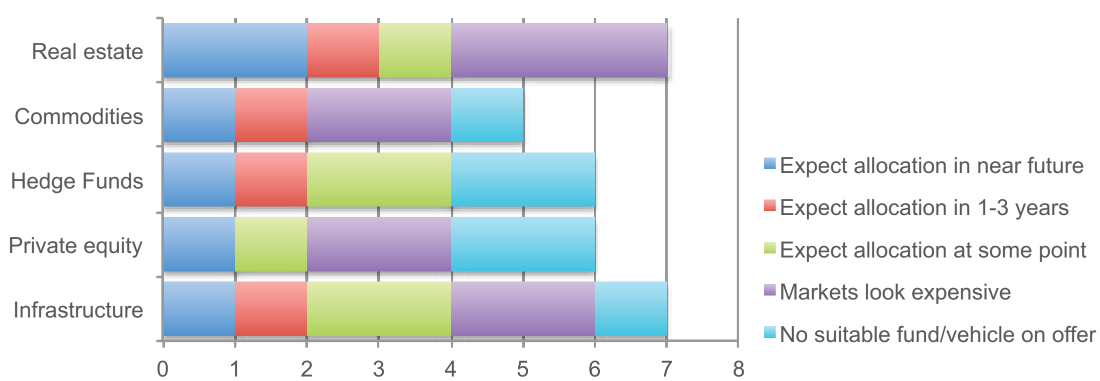
WHY ONLY RESEARCH CERTAIN ALTERNATIVES?



Some research for personal information (notably Real Estate and Commodities) with Hedge Fund research being done at the behest of the board. With an eye to investing in the near to distant future is the most common answer.

Comment – Investing in new areas first requires sober and measured research and reflection on past and current capital markets.

WHY A TARGET WEIGHTING BUT NO ALLOCATION?

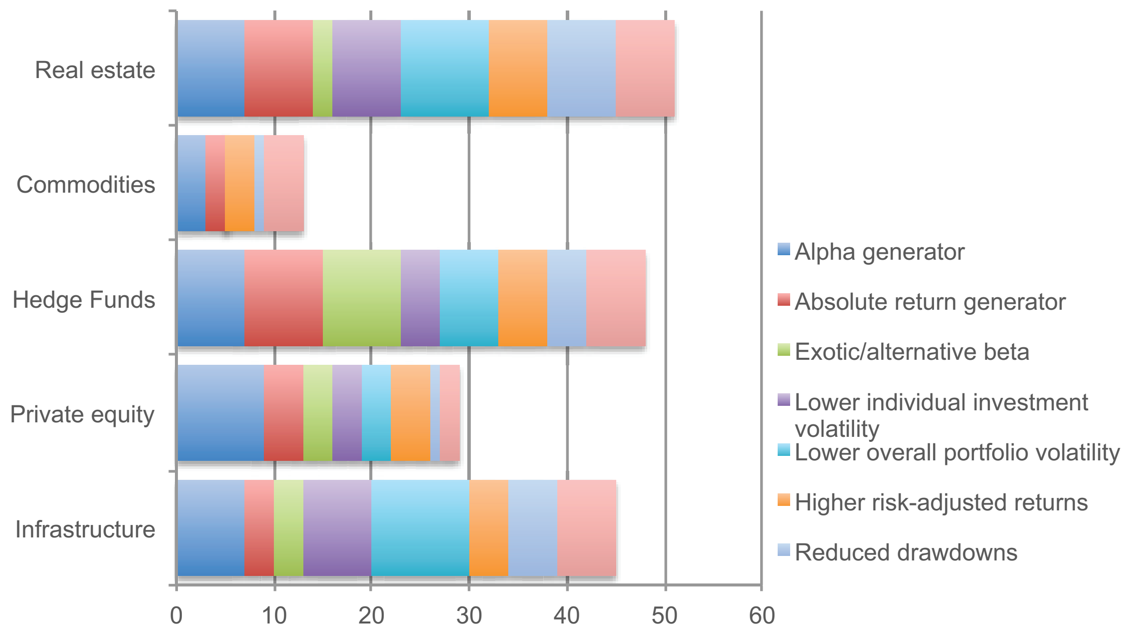


Responses were evenly spread out in this area. Basically allocations are expected in the near to distant future but impediments such as expensive markets (in all cases except for Hedge Funds) and no suitable investment vehicles (in all cases except for Real Estate) were cited.

Comment – The long-short nature of most hedge fund strategies lends credence to them not being in expensive price territory while the other alternatives are long-only. (Some might say Commodities could be long-short also, but that would be as a CTA and termed a Hedge Fund.)

INVESTOR STREAM RESULTS

THE ROLE OF ALTERNATIVES IN A PORTFOLIO



Real Estate was well-represented in all categories except exotic/alternative beta with low individual investment volatility and reduced drawdowns as popular reasons, likely due to appraisal pricing, as well as being seen as both an alpha and absolute return generator.

Commodities' benefit was mostly its non-correlated returns stream and somewhat an alpha generator.

Hedge Funds were the most popular investment for access to exotic/alternative beta such as credit and liquidity and had a strong showing as alpha and absolute return generators as well as having uncorrelated return streams, reducing overall portfolio volatility and providing high risk-adjusted returns.

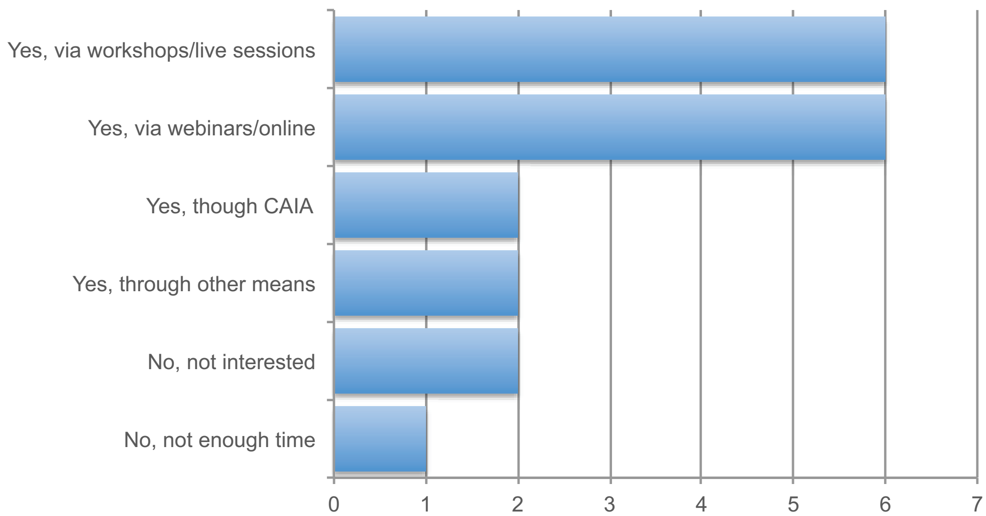
Private Equity was cited as an alpha generator and then, more distantly, as an absolute return generator and producing higher risk-adjusted returns but with a low showing for amelioration of drawdowns.

Infrastructure is seen as reducing overall portfolio volatility as well as generating alpha and having lower individual investment volatility.

Comment – Real estate, hedge funds and infrastructure had more respondents citing more benefits in these areas compared to private equity and (especially) commodities.

INVESTOR STREAM RESULTS

LEARNING ABOUT ALTERNATIVES



Respondents were open to both in-person and online sessions and, to a lesser degree, taking the CAIA designation but more investors than consultants were not interested (saying they were either not interested or did not have the time).

In-person sessions were popular for basic and advanced topics and somewhat for intermediate subjects with on-line favoured throughout but moreso for advanced topics. Investment staff was preferred as the audience for all subjects but only basic topics were noted as appropriate for board members.

Comment – Investors prefer the high-touch and interaction of in-person events (panels, seminars and workshops) over online but do see a place for it. Interesting that they would not see more advanced topics as required for board members.

ABOUT AIMA CANADA

AIMA Canada, a National Group of the Alternative Investment Management Association (AIMA) in Canada, was formed in March 2003 to act as the voice of the alternative investment industry in Canada.

AIMA was established in 1990 as a direct result of the growing importance of alternative investments in global investment management. AIMA is a not-for-profit international educational and research body that represents practitioners in hedge fund, futures fund and currency fund management - whether managing money or providing a service such as prime brokerage, administration, legal or accounting. AIMA's global membership comprises over 1,350 corporate members, throughout 47 countries, including many leading investment managers, professional advisers and institutional investors.

The objectives of AIMA are to provide an interactive and professional forum for our membership and act as a catalyst for the industry's future development; to provide leadership to the industry and be its pre-eminent voice; and to develop sound practices, enhance industry transparency and education, and to liaise with the wider financial community, institutional investors, the media, regulators, governments and other policy makers.

AIMA Canada has over 100 corporate members including hedge fund managers, institutional investors, pension fund managers and consultants, administrators, auditors, lawyers, prime brokers and other service providers.

Additional information on AIMA Canada can be obtained by visiting www.aima-canada.org

ABOUT BENEFITS AND PENSIONS MONITOR

Serving the industry since 1991, Benefits and Pensions Monitor (BPM) is Canada's leading publication reaching plan sponsors in Canada's pensions and benefits market. Published 8 times a year, it is read by corporate management, financial management and HR/benefits management in Canada's largest corporations – December 2012 shows a total circulation of 23,017 with 92.5% of copies delivered to companies with 100 or more employees.

Several years ago, BPM started the exclusive online NEWS ALERTS – a series of emails sent free to registered readers every working day to keep them up to date with industry news & events between issues. Interested parties may register for the service and learn more at www.bpmmagazine.com

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