VANTAGEPOINT | H1 2016

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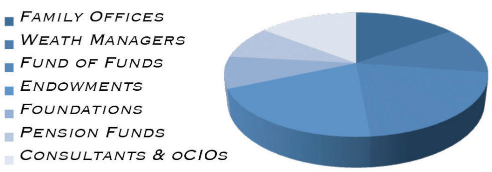
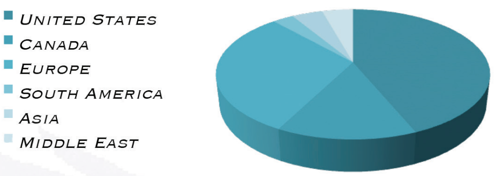
In The Vantage Point newsletter, the principals of the firm look to share their insights and feedback on hedge fund market trends gathered from hundreds of calls with institutional investors across the globe. The purpose of this letter is to provide hedge fund managers and allocators with color on the investor landscape. After compiling and analyzing our investor feedback, we sit down as a group to identify the predominant trends in the fundraising environment. Investor data and sentiment is based on our conversations over the last two quarters.

INVESTORS SURVEYED BY TYPE



Investors Surveyed By VantagePoint in Q1 & Q2 2016

INVESTORS SURVEYED BY LOCATION



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2016 HIGHLIGHTS

(i) Pickup in market neutral activity

(ii) Shift from equity to credit exposure

(iii) Consolidation in the fund of funds space

(iv) Increased flows into hedge funds from Switzerland & UK

2016: A DEFINING YEAR FOR HEDGE FUNDS

2016 has started off as a year for the books. A perfect storm of market volatility, return stagnation, and negative headlines have put hedge funds in the crosshairs of investors and observers alike. Many investors and fund managers have been asking "What's next?" In his first quarter letter, Dan Loeb wrote "There is no doubt that we are in the first innings of a washout in hedge funds." From our vantage point, the second half of 2016 & 2017 will be defined by a few key trends: (1) stale launch activity and a wave of closures amongst performance laggards and funds unable to grow (2) asset flows into high performing brand name managers and smaller capacity constrained funds that demonstrate alpha generation (3) increasing fee pressure (4) a shift in the investor landscape.

For the first time since 2008, we have seen a drop in fund launches concurrent with a rise in closures. This trend will continue. First time managers have to weigh costs vs. benefits of starting their own funds; many managers have said that investment opportunities have dwindled while non-portfolio related activities eat up much of their time. Raising capital without significant organizational resources has put a major burden on fund principals. Lower Fees [especially in the early stages] combined with the increased costs of managing capital have made successful fund launches a rare occurrence. In regards to closures, we've seen a few varieties of late: First, we've seen the high profile headline grabs of $1bn+ funds with stellar track records decide to close down or turn into family offices. Many have weighed the benefits of managing outside capital and have determined that the cost and (in certain cases) performance drag is not worth the burden.

Second, there are funds that have taken significant performance hits, and lack the track record and stable investor base needed to weather the storm. Lastly, we have seen a wave of closures amongst smaller managers [sub $100m] who have been unable to garner institutional investor interest. Many of these funds have closed down despite solid track records. With limited capital flowing to emerging managers, the competition has been fierce. We think these trends will continue over the next couple of years, but that the managers who survive will thrive. The key characteristics we've seen amongst emerging managers who've weathered the storm have been as follows:
(1) they have built a loyal investor base of patient capital (2) they haven't overextended themselves; keeping overhead costs and organizational infrastructure in line with their asset base (3) they are taking advantage of their nimble size, operating in inefficient markets and avoiding crowded trades (4) they are producing alpha with low correlation to the dramatic market swings.

These "emerging funds" referenced above have become a key part of the ever-shifting fund landscape. To simplify the current landscape, let's separate hedge funds into a four buckets (1) emerging and unproven (2) emerging performers (3) established and underperforming, and (4) brand name performers. Even in uncertain times, brand name performers have proven themselves over multiple market cycles and continue to have stable asset bases and loyal followings despite non-performing years. They continue to thrive and many will continue to see growth. In many cases, these funds have morphed over time from single strategy funds into multi-asset mega-managers covering a variety of alternative strategies for the world's largest pensions, sovereign wealth funds and insurance companies. Investors perceive them as offering stability and peace of mind, when what they really offer the largest investors is capacity. Outside of the brand names, the group that will see the strongest growth over the coming years will be what we define as emerging and proven managers. These are relatively smaller (sub $1bn) fund managers that are exploiting inefficiencies that the larger funds are too big to take advantage of. They may be sector specialists or arbitrageurs who have honed their skills at brand name shops and are now running capacity constrained strategies. They have taken the appropriate steps to build organizations that exhibit best operational practices while staying nimble enough to capitalize on their areas of expertise. These groups have continued to be a favorite amongst investors with flexibility in their absolute return mandates; especially family offices, fund of funds, outsourced CIOs, endowments and foundations. As the 2nd half of the year unfolds and we move into 2017, we will continue to see many of the other two groups - established and underperforming and emerging and unproven - decide to close shop.

MANAGER MATRIX

ESTABLISHED & UNDERPERFORMING	BRAND NAME PERFORMERS
EMERGING & UNPROVEN	EMERGING PERFORMERS

During this time, we have seen almost as much change on the investor side as we have on the fund side. There have been a number of headline grabbing articles about investors such as CALPERs, AIG, and MetLife who have reduced exposure or exited the space altogether. The exiting of the big names is not surprising, as these investors have such large asset pools that their minimum investment size, coupled with their investment guidelines, prohibited them from investing in anything but the largest hedge funds out there. Given that many of the largest hedge funds are beta driven and many of them are all in the same underlying investments, investors have been faced with concentration risk and correlation of investments. Insurance companies have also de-allocated because of mark to market concerns. Insurance companies have to put more regulatory capital up as their portfolio holdings books get marked down; as such they are increasing their allocations to private equity where books aren't marked monthly. Below the surface there have been other dramatic shifts as well: wealth advisors building internal Fund of funds, European investors becoming the most active since the financial crisis, and fund of funds moving from an offering based model to a solutions based model.

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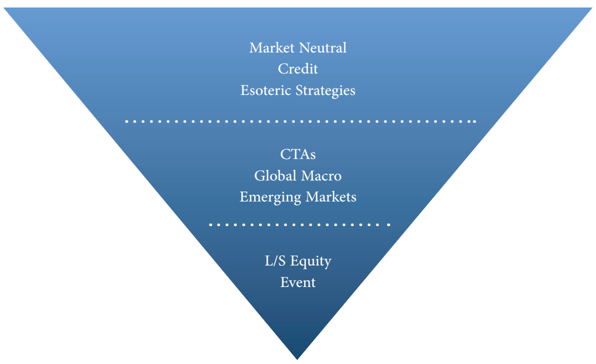
As we've entered 2016, we have seen a clear divide between the investors who are willing to invest in emerging managers vs. those strictly looking for brand names. As consultants, pensions, and sovereign wealth funds have continued to funnel capital into the largest managers (both for perceived safety in size and capacity needs), a number of investors with flexible mandates have continued to get more opportunistic in looking at smaller funds. These investors (a selective group of family offices, fund of funds, oCIOs, endowments, foundations, private banks and insurance companies) continue to find opportunities in the smaller hedge fund space.

STRATEGY DEMAND OVER TIME



CURRENT STRATEGIES REPRESENTED BY VANTAGEPOINT

- Global Equity Arbitrage Market Neutral
- U.S. L/S Equity Catalyst
- L/S Equity & Event
- Asia (Ex Japan) Long Only
- L/S Equity Low Net Healthcare
- L/S Equity Technology

OFF THE CUFF INVESTOR COMMENTARY

- Investors are sitting on cash – anywhere from 5-25%, unsure of what strategies to focus on. U.S. equities aren't cheap. Money being rotated to credit, private equity and real estate.
- Long term bullish on hedge funds. There is a huge disparity in performance between top performers and bottom dwellers. It is all about manager selection.
- More capital moving to opportunistic and private credit. Direct lending has been a focus. CTAs are interesting again for their downside protection, Quant and market neutral for their uncorrelated return streams.
- Credit has become interesting, investments are flowing there and will continue to do so as bankruptcies start to tick up outside the energy space
- Hedge funds are in a 5/6 year period of comparing unfavorably to the market. Sentiment will change once the market has a sustained downturn and hedge funds look good again on a risk adjusted basis.
- Willing to lock up capital to get alpha
- Less directional strategies are more interesting, trading strategies as well
- For a lot of funds, performance hurdles over a benchmark that is representative of the market risk makes sense

COMMITMENTS BY INVESTOR TYPE

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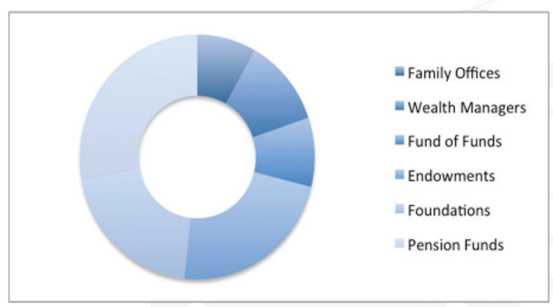

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INVESTOR INTEREST BY FUND SIZE

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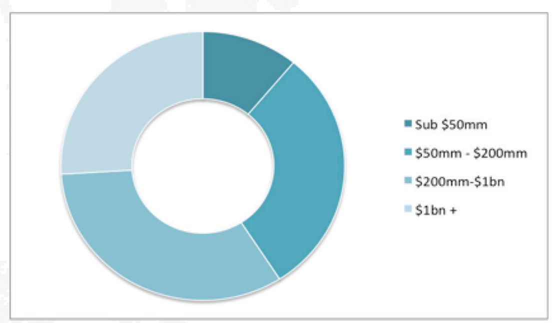

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VantagePoint Alternative Investments is a boutique third-party fund placement group focusing exclusively on raising capital for single strategy hedge funds and private equity funds.

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