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UP TO $400 BILLION OF MONEY 'IN PLAY' FOR HEDGE FUNDS IN 2012

Coming year set to bring significant opportunities for hedge funds

New York, NY, January 13, 2012 – The hedge fund industry faces challenges in 2012, but also a year of significant opportunity, according to a Barclays Capital report, *The Money Trail*, released today.

The report contains analysis based on a survey of 165 investors conducted at the firm's recent Prime Services Hedge Fund Symposium hosted in New York, as well as one-on-one investor interviews and other industry analysis. The surveyed investors manage approximately $4 trillion in assets under management (AUM), of which approximately $500 billion is allocated to hedge funds. This represents one quarter of the hedge fund industry's total AUM.

With an uncertain macro economic environment ahead and the recent volatility in global markets, hedge fund investors plan on making considerable changes over the coming year. However, some of these changes will present significant opportunities for hedge funds, with 56% of the surveyed investors planning to increase their hedge fund allocations over the next twelve months, more than seven times the number that plan to decrease their allocations. Endowments and foundations, private banks and public pensions are the most likely allocators of new capital to hedge funds in 2012.

"Our analysis indicates that investors are likely to allocate approximately $80 billion of new capital to the hedge fund industry this year," said Ajay Nagpal, Head of Prime Services at Barclays Capital. "2012 has the potential to be the most significant year for new capital allocations to hedge funds since 2007."

In addition to the approximately $80 billion of new assets, investors are likely to reallocate some $300 billion of existing hedge fund assets within and across hedge fund strategies. In total, the hedge fund industry could see between $350 billion and $400 billion of money 'in play' over the next twelve months – almost one fifth of the current total hedge fund industry AUM.

Of the new flows, investors plan to allocate most to global macro and systematic / volatility strategies, as they look to add more tactical and trading-oriented strategies with relatively low correlation to equities. Reallocations will be most significant within equity and credit strategies, reflecting a combination of investors' redemptions from poor performers, their belief in mean reversion and a preference for more specialized products within these strategies.

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Pendulum Swinging Toward Smaller Managers

Based on investor preferences, the trend of an increasing share of allocations going to funds with less than $1 billion in AUM is set to continue in 2012. During the first nine months of 2011, small hedge funds doubled their share of new flows, compared to full year 2010 (18% of total hedge fund net flows vs. 9%). For 2012, that trend is likely to continue, with investors indicating a 77 percentage point tilt in favor of allocating to small funds. This compares with only a 10 percentage point tilt toward increasing allocations to large funds (AUM>$5bn).

"Smaller managers are frequently seen by investors to be more agile in adapting their existing strategies to generate alpha," said Louis Molinari, Head of Capital Solutions in Prime Services at Barclays Capital. "With the greater transparency, and better fee and liquidity terms that many new and smaller funds offer, investors continue to gain confidence with investing in this segment of the hedge fund industry."

Other key trends identified in *The Money Trail* include:

- Investor diversification across hedge fund managers continues
  - 60% of investors plan to increase the number of managers in their portfolio compared to 25% who plan to maintain current levels and 15% who plan to reduce them
  - 40% of investors plan to both increase their allocation to hedge funds as well as the number of managers in their portfolios, compared to only 1% who plan to cut both
- Liquidity remains a top investor priority
  - some 90% of current hedge fund allocations have been to funds that had either no initial lock-up or only a one-year lock up
  - the majority of investors who are looking to make changes to their liquidity profile want to increase allocations to more liquid strategies

Barclays Capital's Prime Services business provides clients across the globe with a cross-asset class offering for financing, clearing and execution. The firm offers unique frameworks for asset protection, margining solutions, industry intelligence and insight, analytics and execution technologies. Barclays Capital has been recognized for its leadership in numerous industry polls and surveys, including 113 Best in Class Awards in *Global Custodian*'s 2011 Prime Brokerage survey, 130 Best in Class Awards in *Global Custodian*'s 2011 OTC Derivatives Prime Brokerage survey, and Best Prime Broker Technology provider at *HFMWeek*'s 2011 US Service Provider awards.

Notes

The findings of *The Money Trail* are based on the responses of a relatively small number of investors, and may not be representative of the entire hedge fund industry.