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Alternative UCITS Barometer

Quarter 1, 2015

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Introduction

ML Capital Asset Management, the investment manager and promoter of the MontLake UCITS Platform, is delighted to present the **17th edition** of the quarterly ML Capital Alternative UCITS Barometer (Barometer).

The Barometer is designed to help identify and anticipate key trends in the demand for the major strategies within the Alternative UCITS sector.

The capital introductory team at ML Capital survey a diverse range of **60 investors** who collectively manage almost **$600 billion** and today invest upwards of **$65 billion** into Alternative UCITS, reflecting the widening of the investor base for regulated alternative products in Europe. Respondents range from insurance and pension funds to private banking organisations, with a significant constituent of financial advisers that deal with the primary source of Alternative UCITS inflows, the mid-net-worth investor.

Commenting on the highlights of the latest Barometer, Kenneth Sim, Sales Director of ML Capital;

"2014 was an interesting year for the hedge fund sector and for the Liquid Alternatives space in particular. Asset levels are now at all-time highs, and as investors attempt to de-risk their investment portfolios, we are predicting a significant increase in the overall asset level within the Alternative UCITS sphere in 2015.

Many investors that we speak to are at present actively seeking to allocate to strategies that can achieve solid returns less dependent on pure market movements. The focus is squarely on areas such as Alternative Fixed Income, Multi Strategy and Global Macro funds at present, with a healthy uptick towards the Emerging Market sector, with the Asian region specifically at the forefront.

We anticipate that the bulk of the flow will be directed to either those managers that have conservatively positioned their portfolios, or to those strategies such as Global Macro and Alternative Fixed Income which generate their returns from a variety of sources and are less dependent on the overall direction of equities.

CTA and Managed Futures strategies are especially well positioned to attract substantial flows as they tend to thrive in volatile markets. Our latest results verify this with a tenfold increase predicted by investors looking to aggressively move into the strategy".

We hope that the Barometer will provide a useful insight into current appetite levels across some of the major sectors of the regulated fund universe.

Should you have any questions then please do not hesitate to contact a member of our Cap Intro or Fund Hosting teams.

Cyril Delamare, CEO

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Q1 Barometer Highlights

Global Macro and CTAs in High Demand

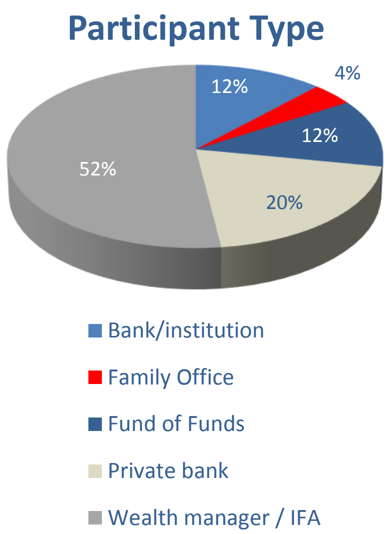
This quarters Barometer has identified that investors are on the lookout for Global Macro and CTA strategies, in a search for uncorrelated returns and downside protection. Demand levels have exploded since the last quarter with 70% of respondents searching for new managers across both sectors.

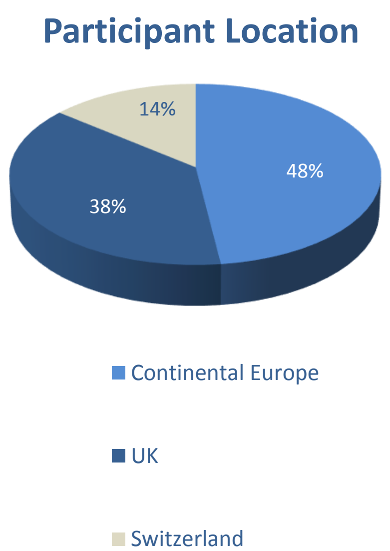
Emerging Markets Back in Strong Demand

We are seeing heavy demand for Global Emerging Markets strategies this quarter, with over 50% of respondents planning to raise their allocations to the space. There is also a strong level of demand shown for new allocations to Asian focussed funds, with an almost fivefold increase in projected inflows this quarter.

Europe Continues to Attract Investor Interest

Despite ongoing structural concerns in the Eurozone, investor appetite continues to climb for European Long Short Equity funds, with 58% of allocators planning to increase their exposure. This is a positive sign for the space and clearly indicates that of those investors surveyed, there is a consensus that the region offers the opportunity of good returns.





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Looking to launch a regulated fund?

ML Capital can help you.

Whether it is a standalone fund structure or a new sub-fund of an existing umbrella, ML Capital's structuring team will be able to advise you on the best way forward.

- Investment Manager and Promoter to Regulated Funds
- Dedicated UCITS and QIAIF platforms with access to top tier service providers
- Structuring expertise - Re-domiciliation, Mergers
- UCITS & QIAIF infrastructure support, enabling you to focus on your investment strategy
- Cross border distribution expertise and fund registration
- Experienced sales team for retail and institutional distribution

ML Capital: your one stop shop for investment managers looking to launch a European regulated fund.

For more information please contact info@mlcapital.com or +44 207 925 2748

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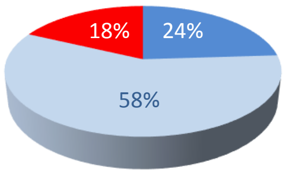
Long/Short Equities

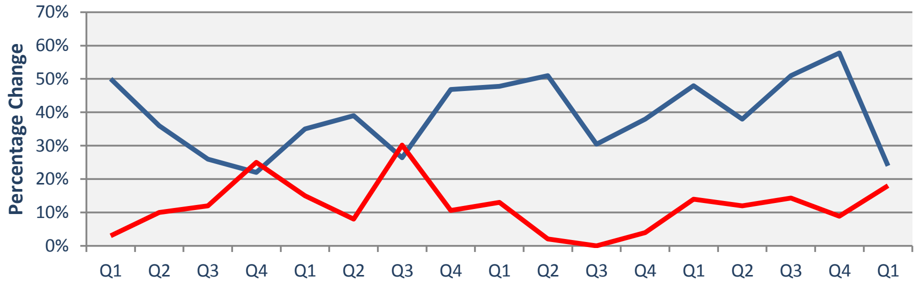
• MORE • SAME • LESS

Trending

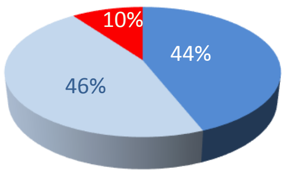
• MORE • LESS

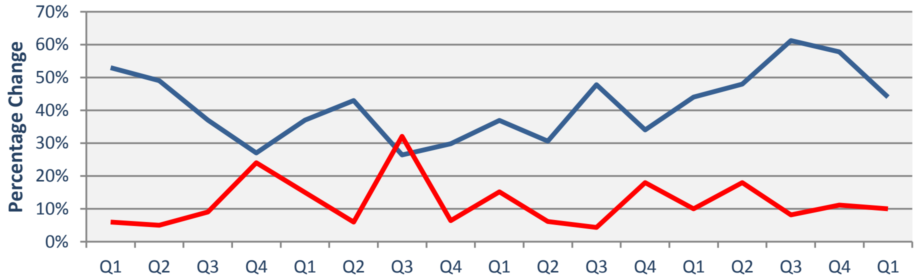
Global Long/Short



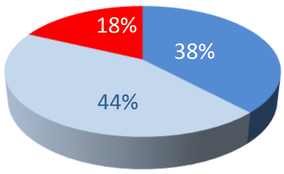


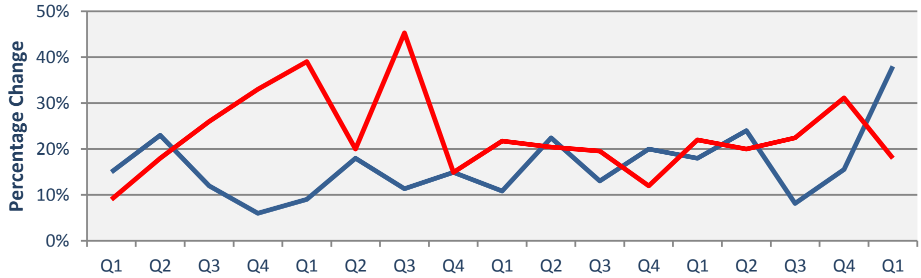
US Long/Short



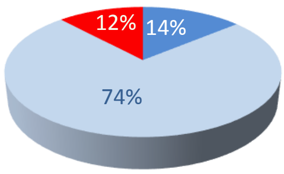


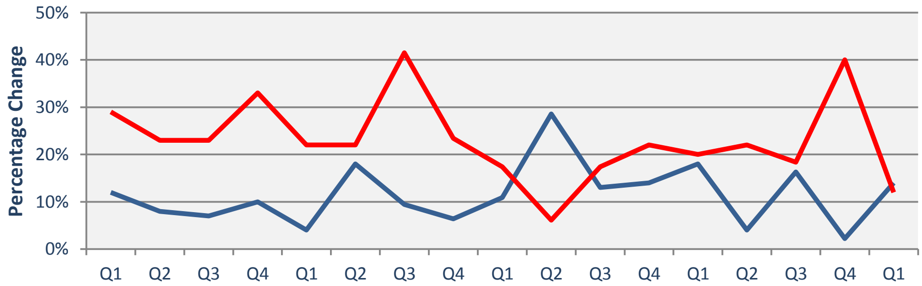
UK Long/Short





Japan Long/Short





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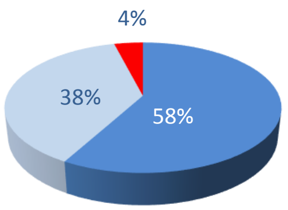
Long/Short Equities

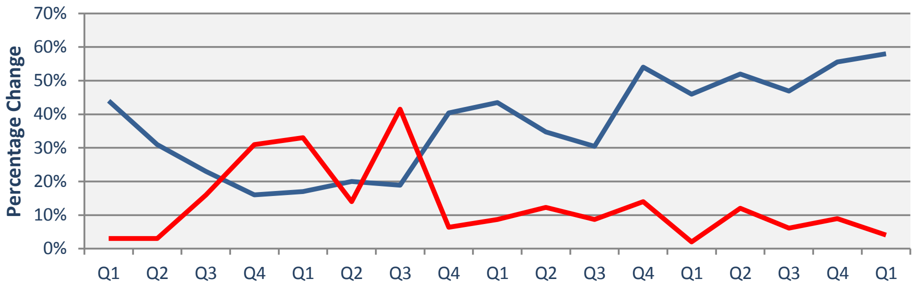
• MORE • SAME • LESS

Trending

• MORE • LESS

European Long/Short





Commentary

US Equity related strategies saw substantial levels of inflows in 2014. Although, this may well slow in 2015, with a high number of investors saying that they plan to focus more attention towards the European and Emerging Markets sectors.

Despite an accelerating economy in the United States, US dollar strength could trigger further bouts of volatility for the market. Many US hedge fund managers have greatly reduced their net exposure levels to help deal with this volatility and demand levels for US strategies, while still relatively strong at 44%, have fallen over the last six months by almost one third.

While the vast majority of bank analysts are predicting another good year for US equities, in contrast, a number of investors have concerns that too many US companies focussed more on share buy backs than on increasing the efficiency of their operations. The potential combination of rising interest rates and falling levels of profitability is another scenario the bears are pointing to.

Interest in European funds is at all-time highs with 58% of allocators surveyed planning to increase their allocations. While there are very mixed views on its prospects, the European consumer appears to be in recovery mode, with some analysts predicting that retail sales are set for its fastest quarter on quarter expansion since 2006.

Within the relatively diverse UK Equity sector, demand is also very strong and also at all-time highs (40%). Notably, 2015 is an election year that is likely to result in another hung parliament with no clear cut party with a majority. This, and the attendant uncertainties with its relationship with the EU, have clearly held back UK equities. However, these issues are priced into the market and therefore looking a little farther out and factoring in key positives such as improving labour markets and strong economic momentum, a growing number of European investors are predicting strong returns to be had from overweighting their UK holdings.

The most dramatic findings within the space has been the fall off in interest for Global L/S funds, with a drop of over 50%, despite a generally good year for the strategy.

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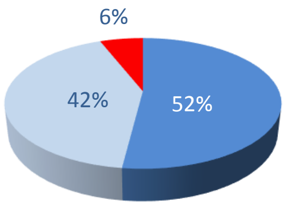
Emerging Markets

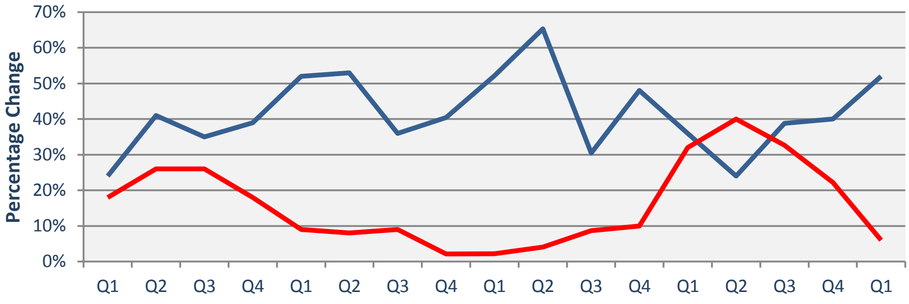
• MORE • SAME • LESS

Trending

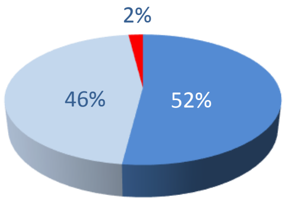
• MORE • LESS

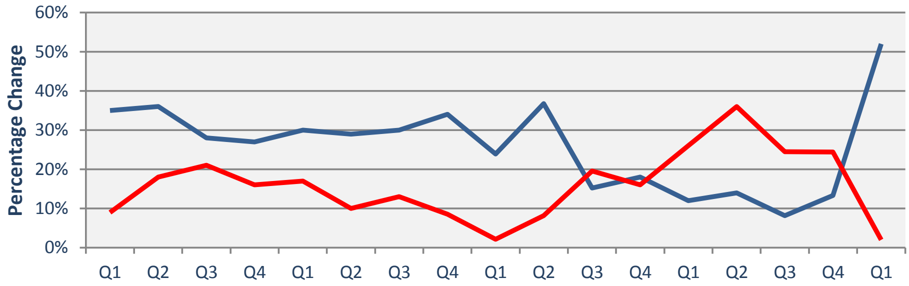
Global Emerging



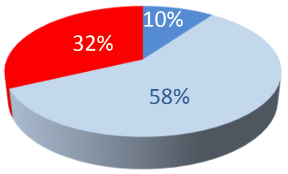


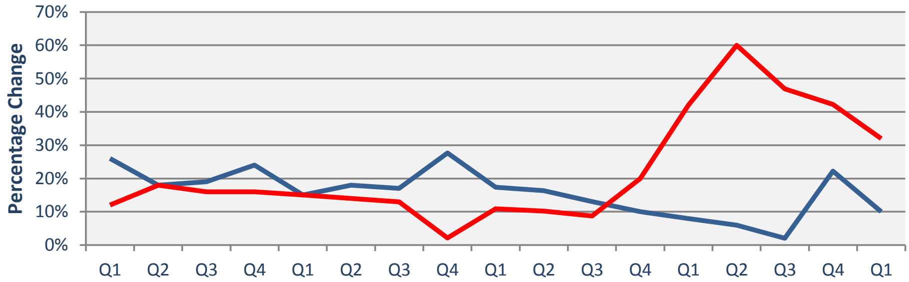
Pan-Asia





Latin America





Commentary

Despite facing considerable obstacles, the resurgence in demand for Emerging Market strategies has continued this quarter, with over 50% of respondents planning to move more assets into the sector. While this is still shy of its highest levels of demand shown back in the early part of 2013, it is a doubling of its lowest level of confidence in Q2, 2014, when only 24% had planned to commit to making new allocations.

While overall the results are very encouraging for managers of EM focussed funds, commodity producers such as Russia and Venezuela face significant headways due to the recent collapse in the price of oil.

On the other hand, the Indian market - due to the significant structural reforms implemented alongside a positive business environment as an energy importer - is reaping the benefits of lower oil prices and is gaining a lot of attention from the international investment community. The average Indian focussed hedge fund delivered returns of c 40% in 2014 according to figures from Mizuho Eurekahedge.

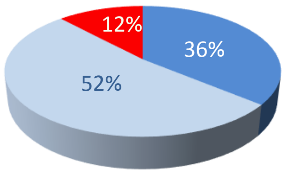
Relative Value

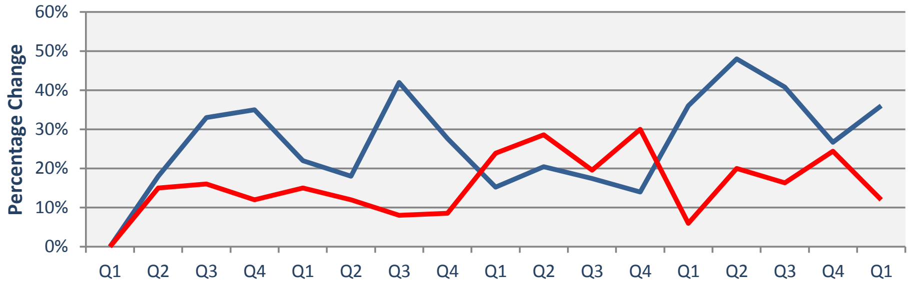
Trending

• MORE • SAME • LESS

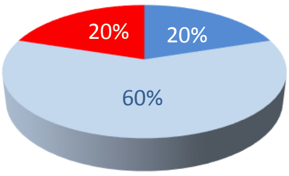
• MORE • LESS

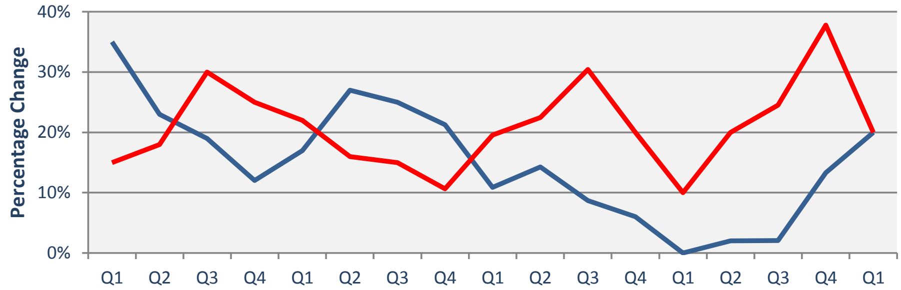
Market Neutral



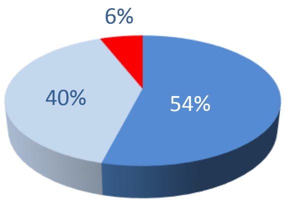


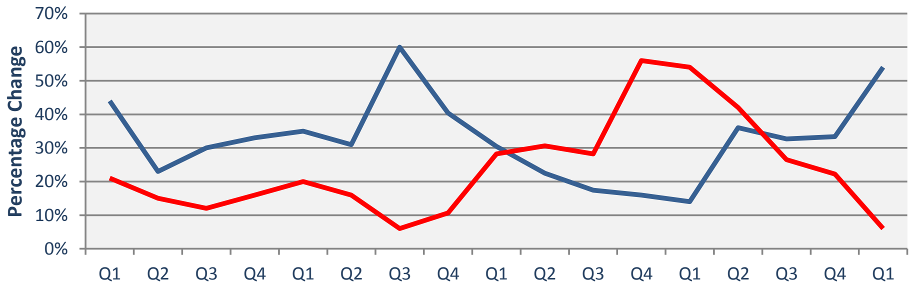
Convertible Arbitrage





Fixed Income





Commentary

With a “risk off” mentality currently prevailing with many investors, there has been a significant move back towards all three Relative Value strategies this quarter.

Demand patterns for the sector as a whole have been very volatile over the last few years, especially so for the Market Neutral sector.

The biggest winner is Flexible Bond funds where 54% of investors now plan to up their allocations. Market Neutral at 36% also shows considerable support whilst there is also growing demand for dedicated Convertible Arbitrage funds (20%).

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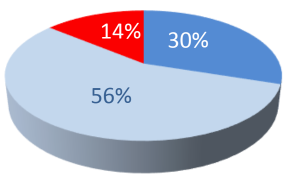
Event Driven

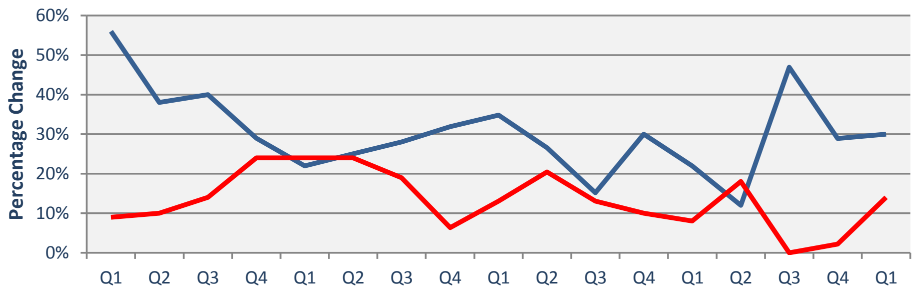
• MORE • SAME • LESS

Trending

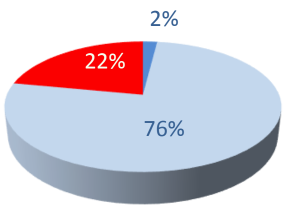
• MORE • LESS

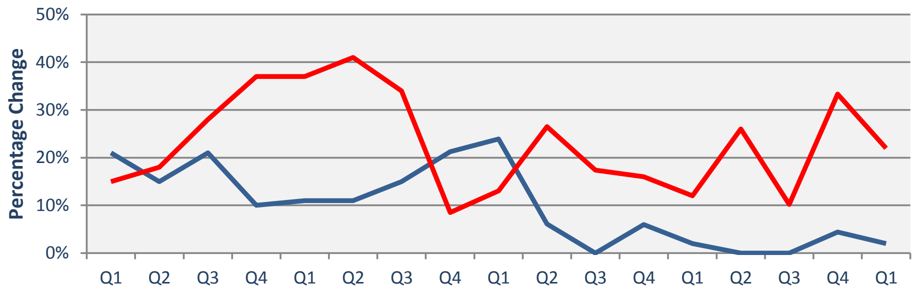
Multi-Strategy



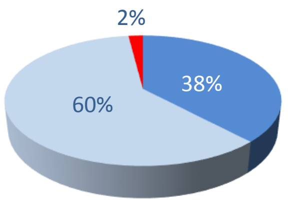


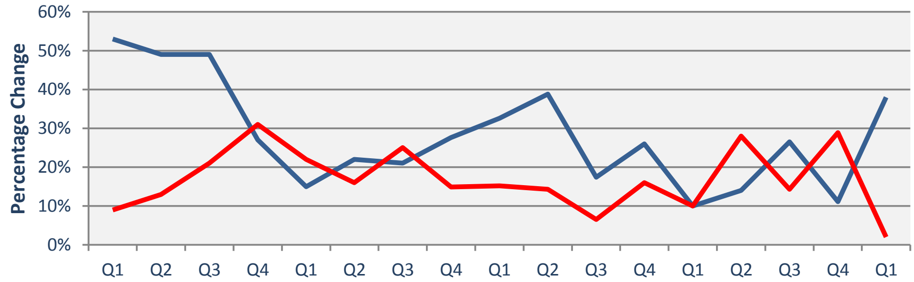
Distressed





Merger Arbitrage





Commentary

The Event Driven sector, following a strong 2013 has fared less well in 2014, with JPM showing figures of an overall return for the year of c 1%. This marks the worst annual returns for the sector since 2011.

However, a broad Event Driven fund can be attractive as an alternative to pure equity exposure and perhaps for this reason, investor demand has remained relatively resilient with demand for diversified Event Driven funds stabilising at 30% this quarter.

A wider level of demand is shown for the pure Merger Arbitrage strategy, with a rise in demand of almost four times from last quarter to nearly 40%. This is as popular as the strategy has been for over three years, with investors hoping for attractive risk adjusted results from the strategy.

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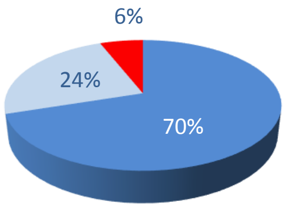
Macro & CTA

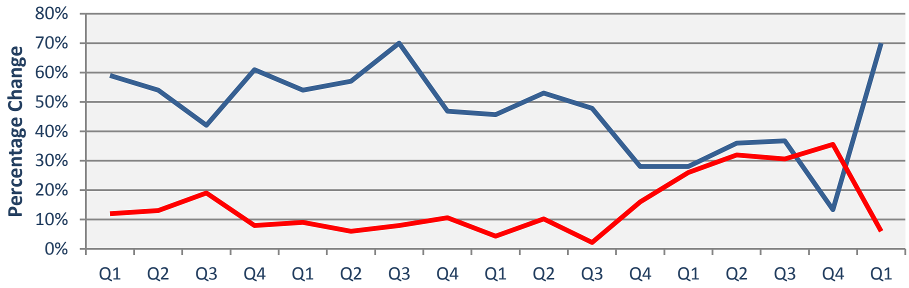
• MORE • SAME • LESS

Trending

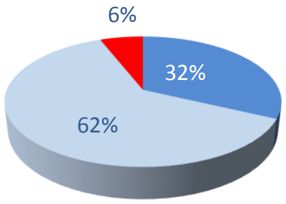
• MORE • LESS

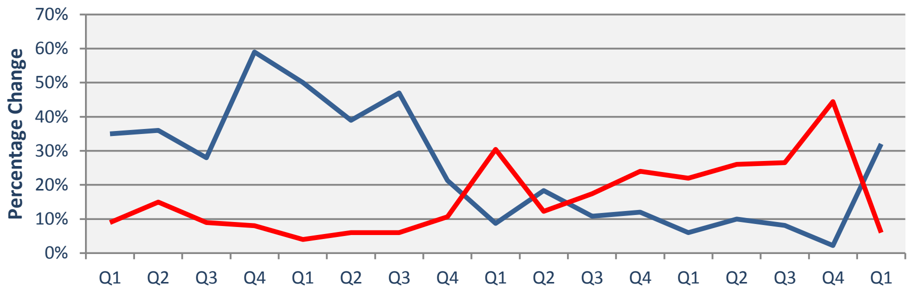
Global Macro-Discretionary



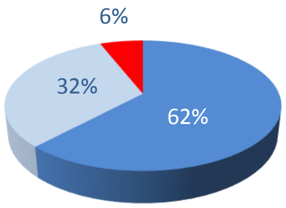


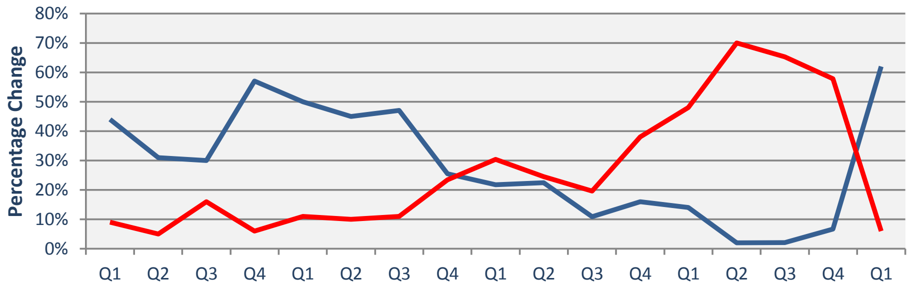
Global Macro Systematic





Managed Futures / CTAs





Commentary

Investors now believe that the environment is looking very healthy for Macro and CTA type strategies, with increased volatility, rising interest rates, political instability, crashing oil prices and the surging dollar. All of these factors should result in many different opportunities for the best Macro and CTA managers who thrive on volatile markets.

In 2014, CTAs as a whole delivered strongly and the sector was up 9.60% on average as funds were bolstered by big gains on oil and currency futures positions towards the year end.

However, 2014 marks the first in four years when the average annual returns moved into positive territory.

Global Macro had more mixed results in 2014, with many discretionary managers delivering disappointing results. Regardless, and driven by the search for less correlated strategies, demand for Discretionary Global Macro is very high, with 70% indicating an increase in their macro allocations.

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Source Data

Emerging Markets

	More	Same	Less
Global Emerging	52.0%	42.0%	6.0%
Latin America	10.0%	58.0%	32.0%
Pan-Asia	52.0%	46.0%	2.0%

Relative Value

	More	Same	Less
Fixed Income	54.0%	40.0%	6.0%
Convertible Arbitrage	20.0%	60.0%	20.0%
Market Neutral	36.0%	52.0%	12.0%

Event Driven

	More	Same	Less
Multi-Strategy	30.0%	56.0%	14.0%
Distressed	2.0%	76.0%	22.0%
Merger Arbitrage	38.0%	60.0%	2.0%

Macro & CTA

	More	Same	Less
Global Macro Discretio'	70.0%	24.0%	6.0%
Global Macro Systemat'	32.0%	62.0%	6.0%
Managed Futures/CTA	62.0%	32.0%	6.0%

Long / Short Equity

	More	Same	Less
Global L/S Equity	24.0%	58.0%	18.0%
UK L/S Equity	38.0%	44.0%	18.0%
US L/S Equity	44.0%	46.0%	10.0%
European L/S Equity	58.0%	38.0%	4.0%
Japan L/S Equity	14.0%	74.0%	12.0%

Further Statistics

Press Reported

Total Press Reported Alt UCITS Assets	USD $ 265 bn
Total Press Reported Hedge Fund Assets	USD $3,000 bn

Barometer Participants

Highest Surveyed Alt UCITS Allocation	USD $ 20 bn
Lowest Surveyed Alt UCITS Allocation	USD $ 650 k
Highest Surveyed Hedge Allocation	USD $250 bn
Lowest Surveyed Hedge Allocation	USD $ 10 m
Highest Surveyed Avg Alt UCITS Ticket	USD $ 250 m
Lowest Surveyed Avg Alt UCITS Ticket	USD $ 500 k

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About ML Capital

ML Capital is a forward looking and leading independent investment management firm specializing in European regulated fund structures, headquartered in Dublin, Ireland. As an award winning platform provider, we partner with the very best of investment managers to bring to market the latest most appropriate fund structures to comply with the raft of incoming regulatory requirements, whilst meeting the ever increasing expectations of investors.

ML Capital handles all aspects of the fund structuring and launch on investment managers' behalf. Through our dedicated network we offer fund sales and distribution if required and have had comprehensive coverage of investors in all key European markets for the past 20 years.

Our goal is to provide the most appropriate fund structures to maximize distribution opportunities across all key markets. Our solutions bring together market leading service providers with some of the very best minds in the regulated fund space; providing well managed European investment products with the highest levels of service and governance. We ensure that all incoming investors and partners come in with the full knowledge that they are investing into structures that are designed to protect and preserve investor interest.

About The MontLake UCITS Platform

The MontLake UCITS Platform, domiciled in Ireland and regulated by the Central Bank of Ireland provides investment managers with a turnkey solution for launching a UCITS fund under its umbrella structure. Typical time to market is 10 weeks, or less, with the platform offering immediate access to a wide range of investors through ML Capital's distribution network.

Funds placed on the platform by ML Capital will benefit from top-tier service providers including Citi for custody, administration and trustee services, KPMG for audit, and Bridge Consulting for oversight and directorships. ML Capital has also ensured that managers utilising the MontLake UCITS Platform will have unfettered access to a network of the leading prime brokerage firms.

For more information on ML Capital please visit our website www.mlcapital.com or our platform website www.montlakeucits.com.

ML CAPITAL

IRELAND

26 Upper Fitzwilliam Street
Dublin 2
Ireland

+353 1535 0912

SWITZERLAND

Rue de la Cloche 8
1201
Geneva

+41 (0) 22 318 56 70

UK

30 St James's Square
London
SW1Y 4AL

+44 (0)207 9252 748

info@mlcapital.com

www.mlcapital.com

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