CREDIT SUISSE

Onwards and Upwards

The 2014 Credit Suisse Global Survey of Hedge Fund Investor Appetite and Activity

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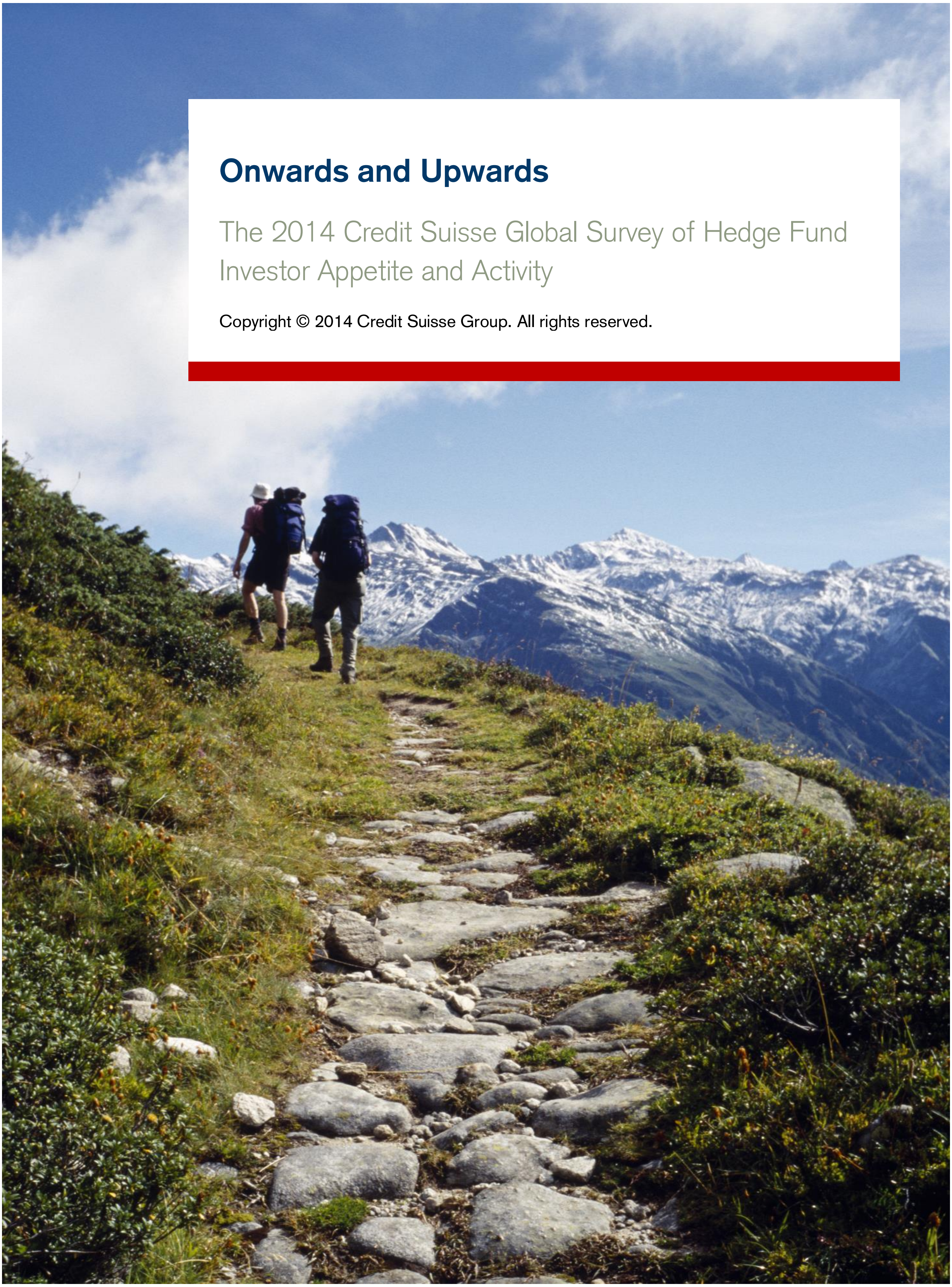

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Table of Contents

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PART 1 – COMMENTARY AND KEY FINDINGS

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Investors at a Glance: Selected Highlights

The Participants

- **Scope**: Over 500 respondents participated, representing $1.16 trillion in collective Single-Manager Hedge Funds (SMHF) allocations.
- **Type:** The investor base was well diversified and included 23% Family Offices, 21% institutional fund of Hedge Funds (FoHFs), 14% Advisor/consultants, 12% Pensions & Insurance and 7% Endowments.
- **Regions:** Participation was globally representative, with 47% of total respondents headquartered in the Americas, 42% in Europe, Middle East and Africa (EMEA) and 11% in Asia.

Key Industry Trends and Forecasts

- **Asset Flow Forecasts**: On average, investors expect the industry to grow 12% in 2014, with the upper quartile predicting 20% growth.
- **Market Return Predictions:** Markets are predicted to return between 1.9% and 9.1% on average this year across a range of assets. Investors are most optimistic about Equity markets across regions, predicting returns of between 7.4% and 9.1%. Hedge Funds are predicted to return 7.1% on average, with 98% of investors predicting positive returns for hedge funds in 2014.
- **Strategy Return Predictions:** 49% of respondents predict that Long/Short Equity once again will be the top performing strategy this year. Event Driven and Global Macro behind follow closely behind as numbers two and three respectively.
- **Risks:** Investors consider crowded trades/herd behaviour and risk complacency due to low volatility environment as the top two sources of risk to the industry.
- **Start-up Appetite:** There remains a healthy appetite for start-ups, with 65% of respondents theoretically able to invest on day one. However, an increasing number of investors demand fee discounts or equity share in exchange for early investment.
- **Fee Structure Incentive:** 39% of investors prefer management fee discounts as a fee structure incentive versus 12% who indicated a preference in performance fee discounts. The inclusion of hurdle rates was highlighted by 38% of investors as a preferred fee structure incentive.
- **Reasons for Redemptions:** 40% of investors highlighted manager underperformance as the key reason for the redemptions they made in 2013 followed by 33% highlighting a top down shift in strategy as their key reason.

Strategy Appetite

- **Overall:** Event Driven saw an increase in net demand of 19%. Net demand for CTAs decreased by 17%, while Systematic Macro funds also saw a decrease in demand of 13%.
- **Equity Strategies**: Equity market neutral and TMT sector long/short equity funds saw an increase in net demand of 12% and 11% respectively. Net demand for Emerging Markets Equity fell from 32% last year to 11% this year.
- **Fixed Income/Derivative Strategies**: Fixed Income strategies in general decreased in net demand, with Structured Credit decreasing by 22% and Emerging Market Fixed Income decreasing by 20%.
- **Other Strategies**: Net demand for CTAs decreased by 17%, while Systematic Macro funds also saw a decrease in demand of 13%.
- **By Geographic Focus**: Developed Europe and Japan saw the largest increase in regional net demand of +19% and +17% respectively, taking these to the top two regions preferred by investors. Emerging Markets saw the largest decrease in regional demand (-32%) to 10% from 42% last year.

Alternative Routes to Absolute Return

- **UCITS/Regulated Funds:** 26% of investors plan to increase their allocations this year, up from 21% last year, with the majority of these coming from Retail Intermediaries in EMEA.
- **Managed Accounts:** Appetite decreased slightly to 30% from 35% last year, distributed evenly across investor types and regions.
- **Long-Only:** Appetite increased slightly to 28% from 27% last year, distributed evenly across investor types and regions.
- **40-Act:** Appetite increased slightly to 15% from 13% last year. This was skewed towards institutional intermediaries (25% indicated increasing allocations) and investors located in the US.
- **Alternative Routes:** Other alternative formats have also seen strong demand, such as Direct Lending, where 20% of investors are looking to increase allocations/begin allocating, and Hybrid PE vehicles, favoured by 18% of investors.

Introduction

As we begin 2014, it looks like the global hedge fund industry is in for another year of strong growth and performance, at least according to the nearly 500 institutional investors that responded to our latest survey. Investors are predicting hedge fund industry assets under management to grow by an average of 12% this year to reach an all-time high of $2.8T, with an upper quartile forecast reaching $3T. If accurate, this average forecast would mean at least an additional $300B for the industry in 2014, coming from both performance and inflows of fresh capital.

Event Driven strategies reflected the greatest year-on-year increase in investor appetite, nearly doubling in magnitude from the prior year and placing the strategy at the top of the list for this year. New issues volumes, a market ripe for idiosyncratic growth and cash rich balance sheets prime for corporate activity are among the key reasons driving demand for event driven strategies.

Equity Long/Short stayed near the top of the list for the second year in a row, as it was in the top spot last year and claimed second this year. This appears to be linked to many investors' expectations that 2014 will be a year of less correlation and more differentiation, creating more opportunities. Despite modest returns over the past 2 years, Global Macro also continues to be of interest to allocators and was predicted to be in the top 3 best performing strategies for 2014. The strategy continues to be an important part of investors' portfolios in today's risk on environment."

On the other hand, investors seem to be indicating less interest in emerging markets strategies, as Emerging Markets Equities saw a drop of 23% in year over year net demand, while net demand for Emerging Markets Credit fell by 20% from this time last year. As significantly, was the decrease in net demand for ABS/Structured Credit strategies, which fell by 22%.

There were also some interesting developments regarding where in the world investors see the best opportunities for hedge fund investing during the coming year. Investors continue to buy into the European recovery, indicating 43% net demand (a significant increase in magnitude from last year) for investing in the region. Japan, with the ongoing developments surrounding "Abenomics", followed with a net demand of 33% (reflecting an even greater increase from last year). Interest in North American focused strategies remained relatively flat, with a slight uptick from 14% to 15% net demand.

Once again this year we explore investor attitudes around alternate hedge fund structures. Investors commented on a range of structures, including managed accounts, UCIT's, long-only funds and '40 Act funds. Interestingly, only 14% of institutions responding indicated that they currently had an allocation to '40 Act funds, while another 7% said they were considering an initial allocation. 79% of respondents said that they had no allocation to '40 Act funds and no plans to start one. This may be is an effect of such structures being oriented more towards retail investors at the moment.

Interest in new hedge fund launches continues to remain strong, though investors' ability and willingness to invest on day one appears to be highly selective. Investors identified such factors as a manager's pedigree, strength of previous track record and operational infrastructure as all being key determinants of their willingness to invest. When asked about actually investing on day, only 6% indicated that they would likely do so without some type of economic concession.

Crowded trades and herd behavior remained the number one concern for managers heading into the year. Regulatory changes, however, faded from the second most frequently mentioned concern last year down to fifth this year. It seems that investors believe the industry is adjusting to the myriad of new regulations that have been (and still are being) implemented over the past year.

We very much appreciate all of our friends who have once again taken the time to complete this survey and provide these valuable insights into the institutional investor mind set. We also look forward to working with all of you once again this year, best wishes for success in 2014!

Robert Leonard
Global Head, Credit Suisse Capital Services

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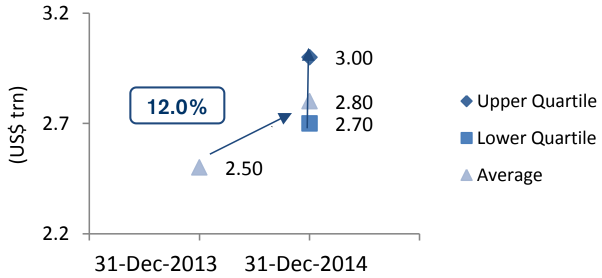
I. Where Investors' Assets Are Likely to Flow in 2014

1. Current Investor Sentiment towards the Hedge Fund Industry

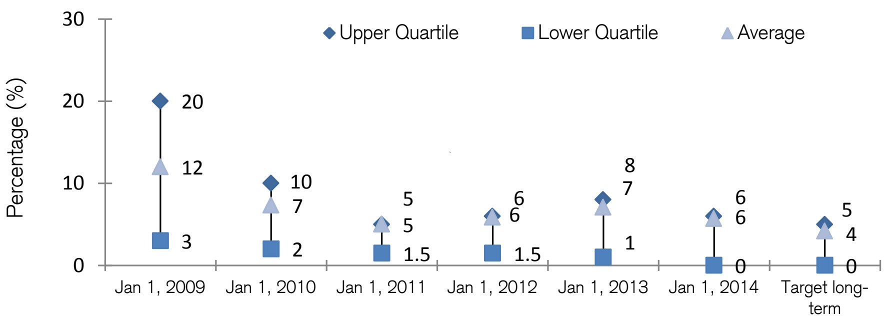
Having forecast the strong rate of growth in the hedge fund industry in 2013, institutional investors predicted hedge fund industry assets under management to grow by an average of 12% this year to reach an all-time high of $2.8T, with an upper quartile forecast reaching up to $3T. If accurate, this average forecast would mean at least an additional $300B for the industry in 2014, coming from both performance and new capital inflows.

Hedge fund industry AuM forecast



We also see a continued trend in decreasing allocations to cash as a percentage of FoHFs overall portfolios, with the upper quartile reflecting a decrease to 5%. The *average* percentage has also declined to 4%, markedly off of the post crisis high of 12%, respectively.

Allocation to cash as a percentage of FoHFs' overall portfolios



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2.1. Where Investors' Assets Are Likely to Flow in 2014 – by Strategy

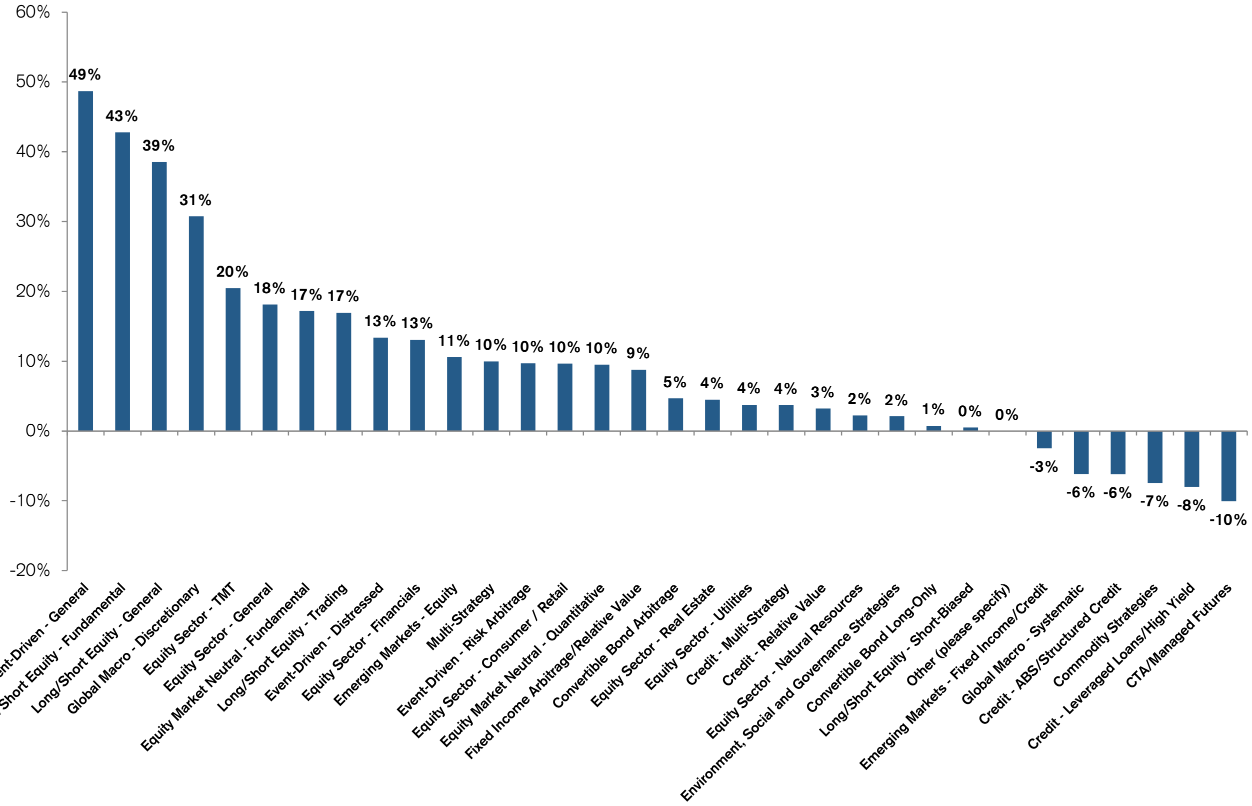
Stakeholders across the hedge fund industry continue to come to adapt to an ever changing landscape. Regulatory reform continues to be in full swing as banks, hedge funds and investors adapt business models to plan for and accommodate these changes. Our survey examined investor appetite by strategy to understand how investors are adapting to the landscape. The chart below ranks investors' net demand (percentage increasing or considering increasing minus percentage decreasing or considering decreasing.

On the outset, we note that several of strategies which featured prominently in our 2013 report with regards to investor net demand continue to remain strategies of interest in 2014, with the exception on Emerging Markets Equity. Topping this year's survey is Event Driven with a significant 49% of net demand versus 30% in 2013. Market sentiment appears to be moving to a more favorable environment for Event Driven strategies to flourish in 2014. M&A activity is currently running at a third of normal levels which should pick up with growing business confidence, financing remains relatively cheap, and corporates are finding it cheaper to buy than build, which typically has a longer payback time.

Closely following Event Driven is interest for a variety of Equity related strategies. Net demand for Long/Short Equity – Fundamental is 43% (placing the strategy second place on the list), a rise from 34% in 2013. In addition, sector specific strategies have also seen a rise in interest levels compared to previous years. TMT has 20% net demand (compared to 9% net demand in 2013) and Financials has 13% net demand (compared with 9% in 2013).

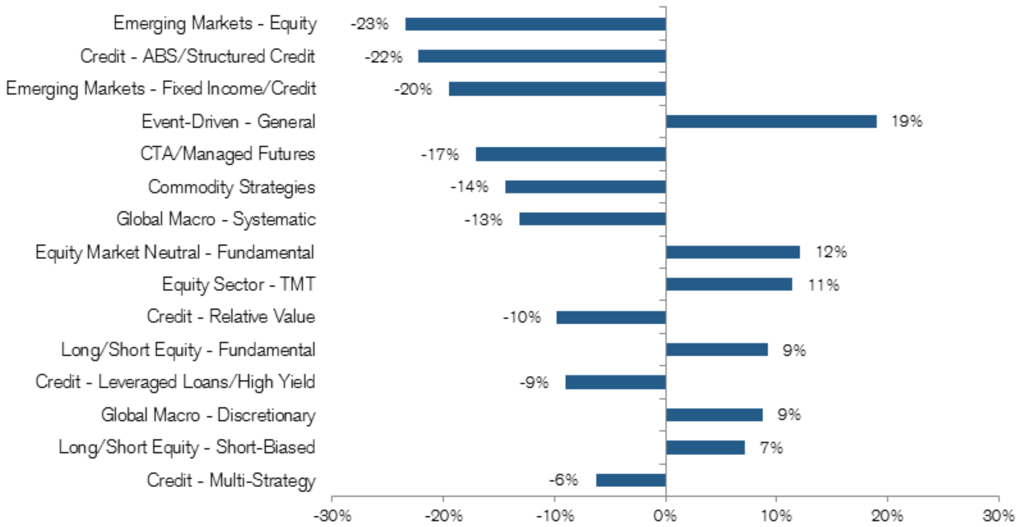
On the other hand, we see a downward trend in appetite for Emerging Markets in both equities and fixed income. Net demand for Emerging Markets – Equity has fallen from 2nd place in 2013 (with net demand of 34%) to 11th in 2014 (with net demand 11%). Similarly, Emerging Markets – Fixed Income/Credit net demand has decreased from 17% to -3%, implying on a net basis, investors intend to reduce their capital allocated to this strategy over the coming year.

All principal strategies, ranked by current net demand



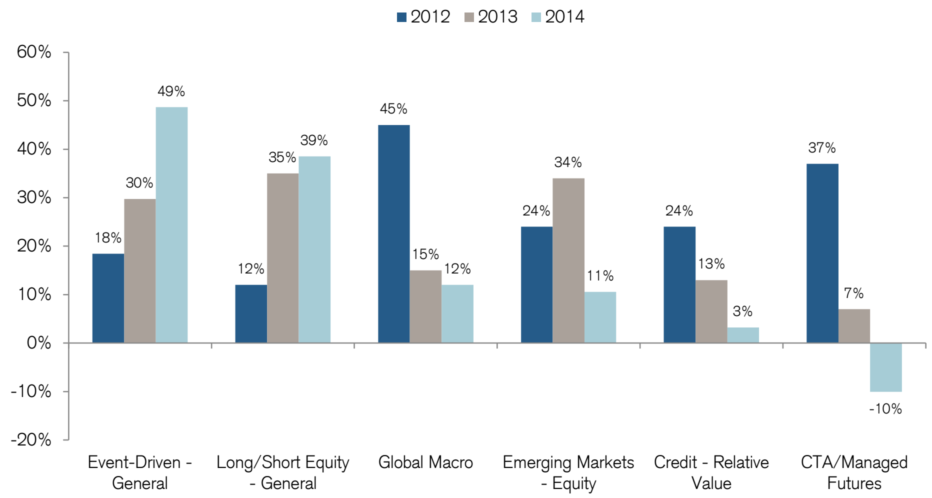
Per the chart below, we rank the largest absolute swings in net demand on a year-on-year basis, once again highlighting the investor's ability to adapt quickly to changing market dynamics. Event Driven- General has shown the greatest positive swing YoY with 19% increase in net demand for reasons discussed earlier. However, it is also worth noting a growing interest in Equity Market Neutral – Fundamental (+12%) and Equity Sector – TMT (+11%). The majority of other Equity related strategies are not visible on the below chart, implying a relatively constant net demand year on year. On the reverse side, Emerging Market – Equity (-23%), Credit-ABS/Structured Credit (-22%), Emerging Markets – Fixed Income/Credit (-20%) all showed the greatest declines in interest YoY.

Top fifteen biggest year-on-year "swings", ranked by absolute year-on-year change in net demand



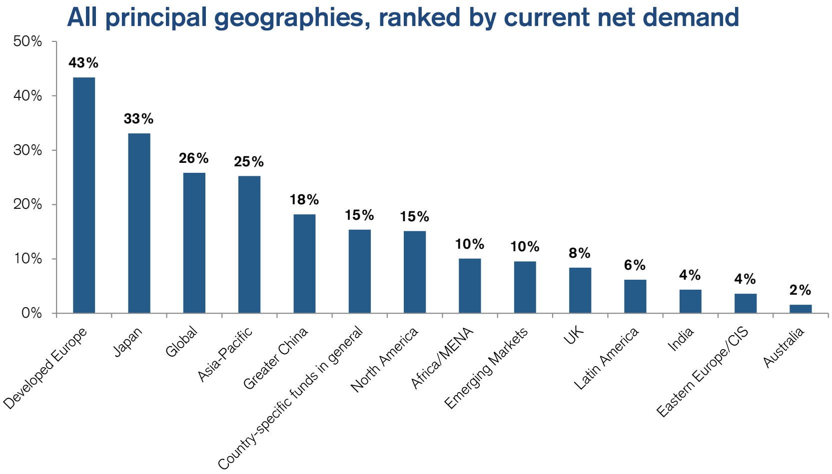
The graph below shows the evolution of net demand over the past three years across the main strategies. Over this period, net demand has been relatively volatile across all strategies reflecting the ever changing nature of the macroeconomic environment over the past 3 years. However, viewed in aggregate, we observe some lessening of appetite for Macro strategies, as tail risk across the Eurozone and beyond diminishes and provides an improved environment for stock pickers to flourish.

Yearly evolution of net demand across main strategies



2.2. Where Investors' Assets Are Likely to Flow in 2014 – by Region

In this section, we examine investor appetite by region for the year ahead. Developed Europe appears to have dominated net demand in this year's survey with 43% of investors indicating confidence in the region's on-going recovery and potential returns. Japan was also ranked highly by investors, with 33% net demand, achieving a 2nd place ranking. In last years' survey we also highlighted a favorable outlook on Japan, given the inflation targeting and asset purchasing measures implemented by the newly elected government. In this regard, investors seem pleased with the results and consequently have indicated in this year's survey that they have increased their conviction for Japan. A weaker Yen and welcomed rising inflation should continue to bode well for the Japanese economy and its export industry.



Year-on year swings in net demand by region can provide more clarity on the changing of investor appetite. The graph below highlights a significant decrease in appetite for the Emerging Markets with a 32% decrease in net demand YoY. The strategy experienced a relatively difficult 2013 with regards to hedge fund returns, and on-going Fed tapering is likely to have further impacts as investors continue to pull money away from overseas markets. Nevertheless, it is important to highlight that Emerging Market related strategies still remain a significant longer term focus, as structural and economic maturity begin to produce positive returns. Building on the results from our 2013 survey, Developed Europe and Japan continue their YoY increases with a +19% and +17% rise in net demand respectively.

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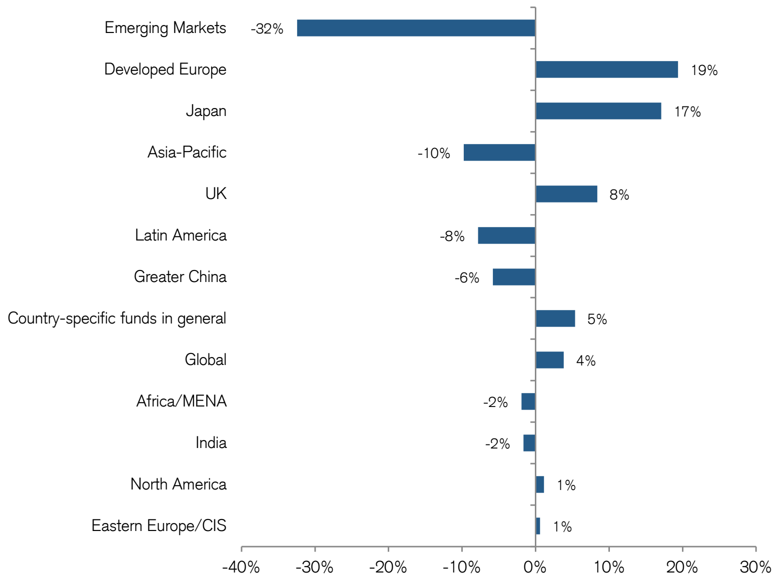
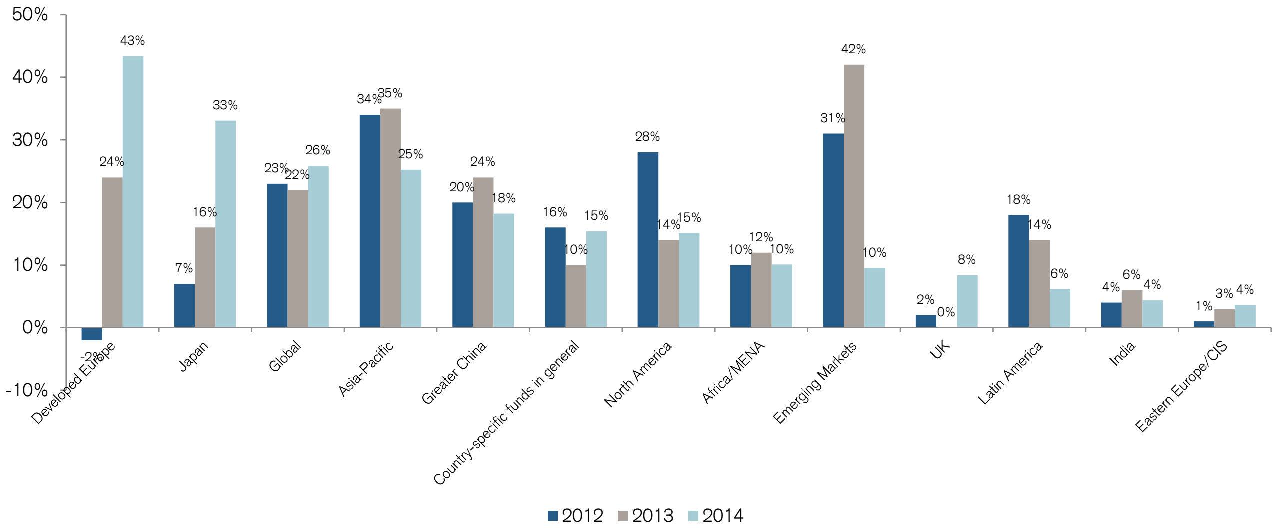
Top ten biggest “swings”, ranked by absolute year-on-year change in net demand



When viewed over the course of the past 3 years, the strength of increased investor net demand for Developed Europe and Japan is quite visible. During the same time period, net demand for Global and China focused strategies have remained consistently strong, while net demand for Emerging Markets and Latin American focused strategies has tailed off this past year. Net demand for North America focused strategies increased from 14% in 2013 to 15% this year, after posting a decrease between 2012 and 2013.

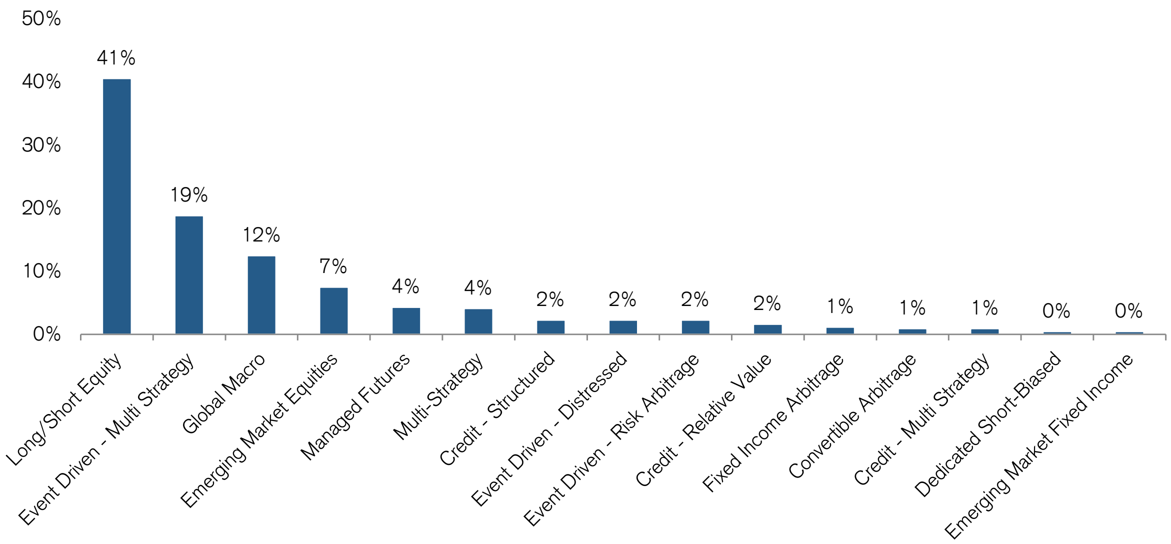
Yearly evolution of net demand across all regions



II. Return Expectations for 2014

Entering 2014, we asked investors about their return expectations for a range of hedge fund strategies. In comparison to a year ago, our survey indicates that investors remain confident in risk assets and are less worried about macro uncertainly than in previous years. Following a strong year for hedge funds inflows and returns in 2013, allocators feel optimistic in early 2014 and indicate high expectations for Equity-based strategies. Further the focus on the European recovery and Japan headlines of last year have unlocked opportunities to find value. Indeed, our survey shows increased interest in equity markets, Developed Europe and Asia as compared to the prior year.

Investors' predictions on best performing hedge fund strategies in 2014



When asked which strategy would perform best in 2014, allocators indicated a clear preference for Long/Short Equity, choosing the strategy 41% of the time – by far the most popular choice. The strategy remains the top favourite for a second year in a row after a standout 2013 in which Long/Short Equity funds topped the year's performance charts with high double digit returns of 17.73% (as measured by the Credit Suisse Hedge Fund Index below). Close behind Long/Short Equity in the returns ranking for 2013 was Event Driven-Multi-Strategy. Investors expect the rally to continue with 19% voting for the strategy to outperform in 2014, an increase compared with the 8% who voted for it the previous year. Notably next in line with 12% of allocator's votes is Global Macro, a less obvious choice as the strategy under-performed the likes of Emerging Market Equities and Multi-Strategy funds last year but secured a higher percentage of votes and remains an important part of investors' portfolios into 2014.

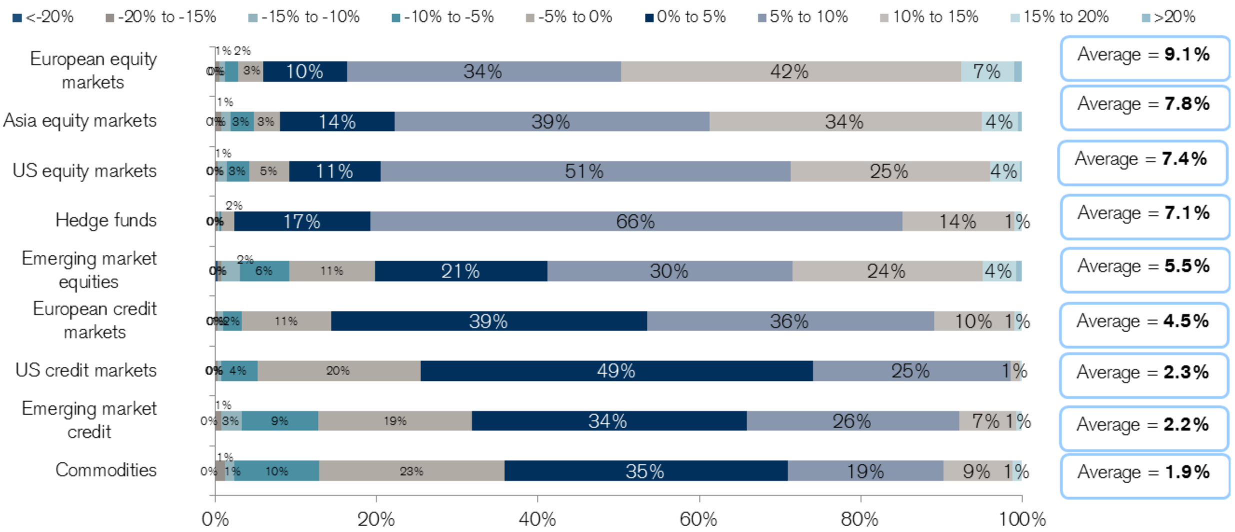
As seen in the table below, Hedge Fund performance was positive in 2013, (as measured by the Credit Suisse Hedge Fund Index) with 12 out of 14 strategies producing positive returns and 5 producing returns greater than 10%. Long/Short Equity was the top performer, followed by Event Driven Distressed and Event Driven Multi-Strategy. Managed Futures produced negative returns for the third straight year but still outperformed Dedicated Short Funds considerably.

Hedge fund performance in 2013

Broad Index	9.73%
Convertible Arbitrage	6.03%
Dedicated Short Bias	-24.95%
Emerging Markets	8.81%
Equity Market Neutral	9.27%
Event Driven	15.47%
Distressed	16.00%
Event Driven Multi-Strategy	15.28%
Risk Arbitrage	4.89%
Fixed Income Arbitrage	3.80%
Global Macro	4.32%
Long/Short Equity	17.73%
Managed Futures	-2.56%
Multi-Strategy	11.23%

When asked to choose between a range of return scenarios for individual asset classes/regions, investors predicted that European equity markets as well as Asia and US Equity Markets would outperform all others with average expected performance of 9.1%, 7.8% and 7.4%, respectively. The key changes from last year for the top three spots were the drop off of Emerging Market Equities and the increase in conviction for European Equities. Given the significant inflows into Europe noted in 2013, it is clear that allocators expect the momentum of 2013 to continue into 2014.

Investors' predictions on market returns for 2014



Expectations for 2014 appear to be centred around continuing the positive momentum from 2013 with focus on Long/Short Equity and Event Driven strategies. Not surprisingly, as these top strategies have topped the performance charts for 2 years now. Looking back at 2013, returns by strategy looked similar to 2012 but with greater bifurcation as top performing strategies such as Long/Short Equity and Event Driven outperformed more significantly while other asset classes such as Fixed Income Arbitrage dropped off. Further, investors are looking around the world for opportunity in equities; at 49%, a strong subset of investors predicts that Developed Europe will put up above 10% returns this year and 38% expect the same for Asia, where interest in Japan is driving predictions.

While Equities looks to be the front-runner yet again in 2014, investors continue to see upside in Macro Strategies, perhaps as central banks deregulate and developed world economies increasingly look comfortable standing on their own feet. In Credit, expectations are more moderate but highlight opportunities in Europe, with 11% of allocators predicting above 10% returns in the region.

Further, return expectations continue to be more optimistic about the potential for higher hedge fund returns in 2014, with a forecast of 7.1% average return for the industry versus a forecast of 6.9% at this time last year, and 5.4% the year prior. Additionally, investors continue to believe in the ability of hedge fund allocations to protect capital with just 2% of our respondents expecting negative returns for the Hedge Fund asset class in 2014.

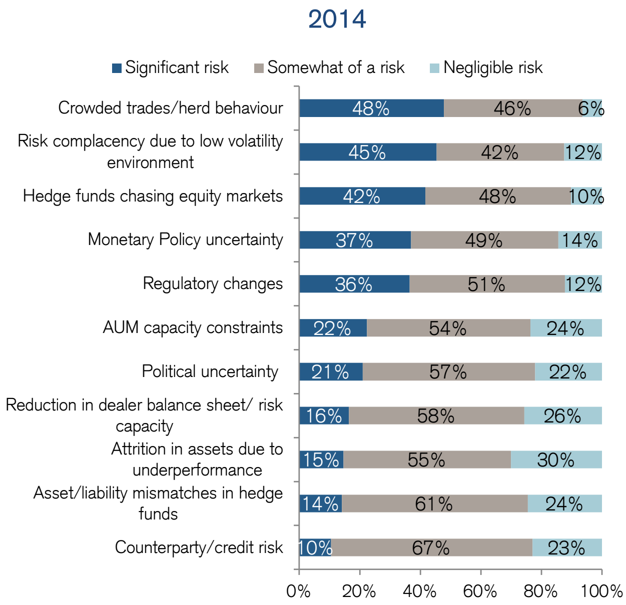
III. Update on Key Industry Trends and Developments

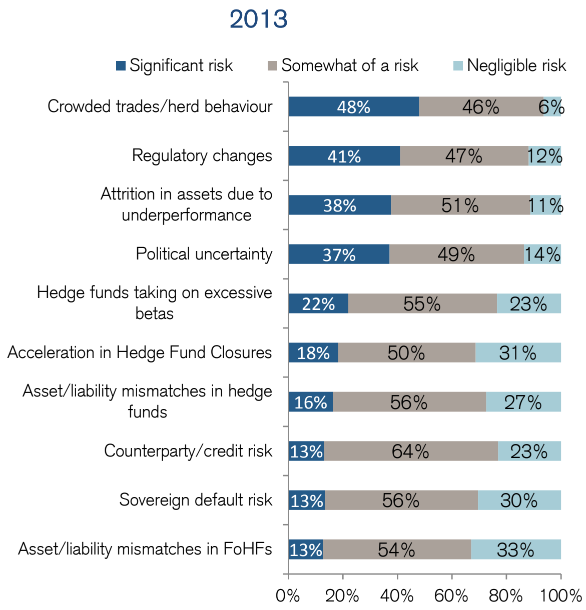
1. Sources of Risk to the Hedge Fund Industry in 2014

As with the last three surveys, investors have continued to express crowded trades and herd mentality as the single biggest threat to the industry in 2014, given the increasing challenge they pose in differentiating hedge fund performance. Given the low market volatility over the past year, risk complacency was highlighted as the second biggest threat.

The risk of regulatory changes and attrition in assets due to underperformance fell to fifth and ninth place respectively, from the second and third most significant risks highlighted in the 2013 survey.

Investors' views on sources of risk for the hedge fund industry over the coming year





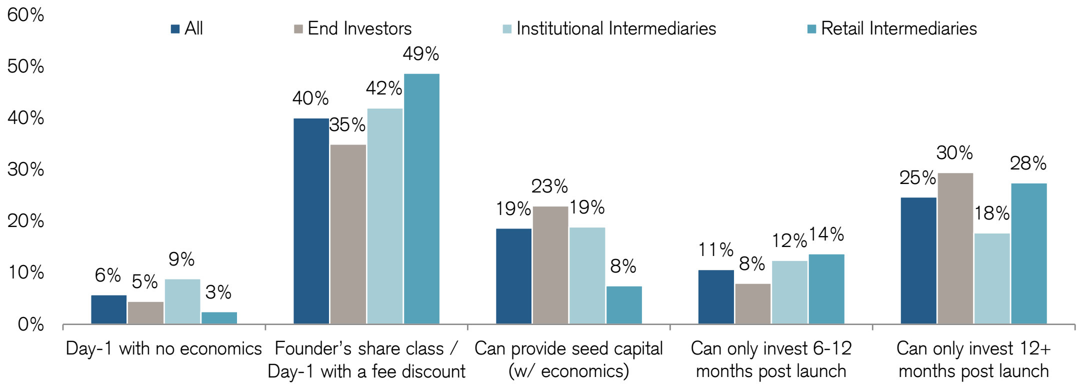
For the first time in three years, hedge funds chasing equity markets and Monetary policy uncertainty were considered significant risks to the industry. This is somewhat intuitive in the context of the large scale of stock market optimism toward the end of 2013 when we conducted the survey.

Regulatory risk, previously ranked #2 last year, dropped down the rankings as the industry beds down current proposed regulations.

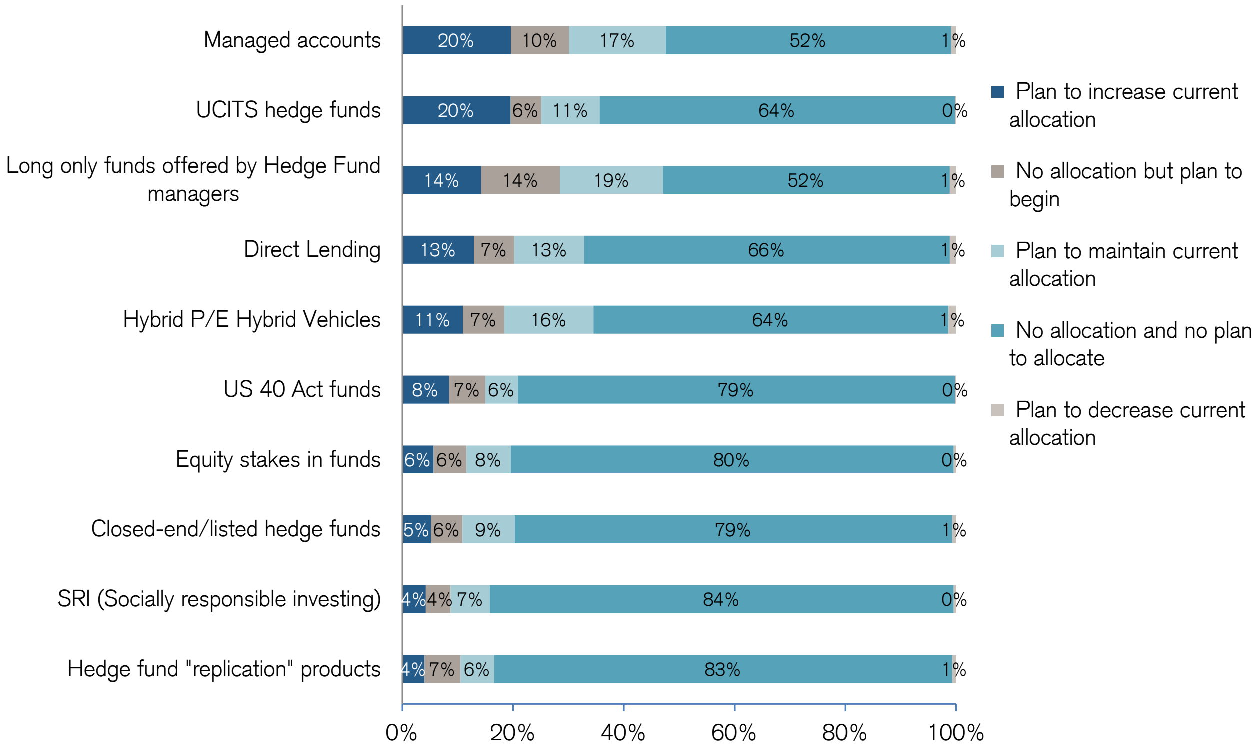
2. Appetite for Start-ups

Start-ups continue to generate considerable interest among our survey respondents and overall demand remains healthy. 59% of the respondents can either invest in Day 1/provide seed capital, however economics (preferential terms or fee discounts) have become a prerequisite for investment.

Investor appetite for start-ups and yearly evolution in ability to invest day one



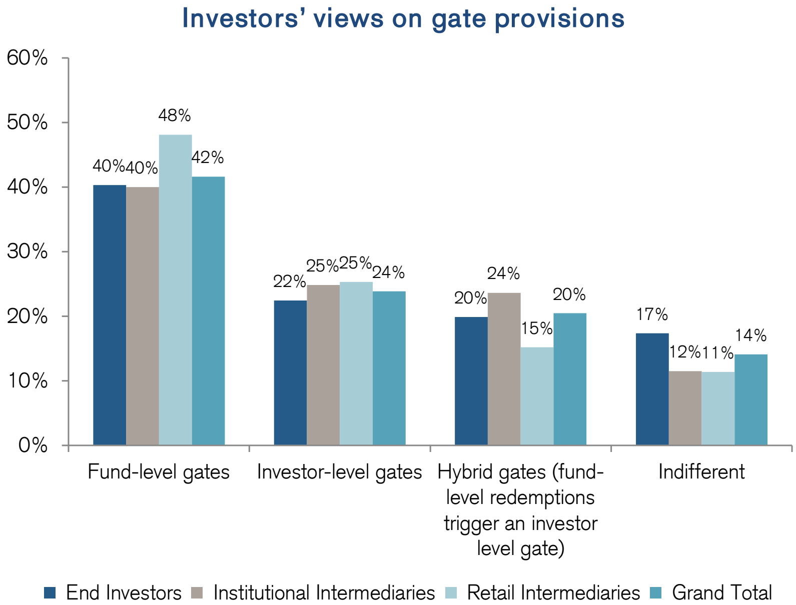
3. Interest in other formats for investing into Hedge Funds

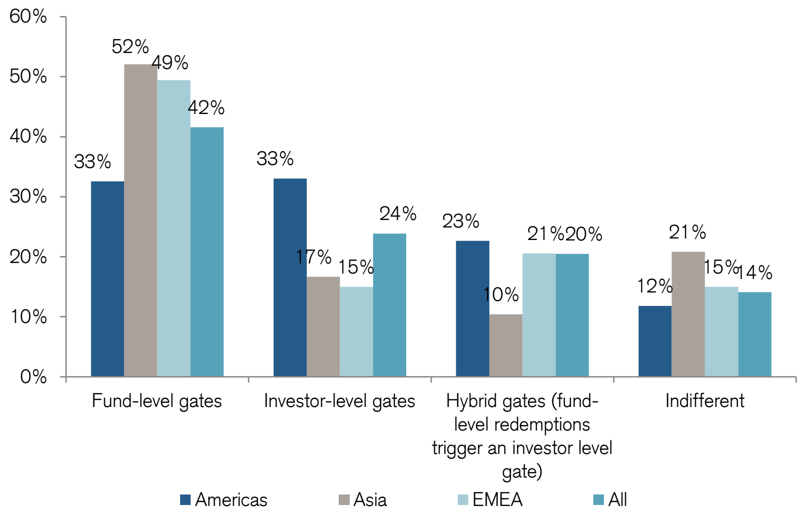


The alternatives landscape continues to evolve with new product offerings and innovative structures, as managers look to access new pools of capital and allocators look for innovative solutions to help them achieve their risk/return objectives. Managed accounts continue to be the most popular alternative format for investing into hedge funds - 30% of respondents indicated plans to either begin allocating to the product or increase their current allocation, in addition to the 37% already using managed accounts. However, this dropped from last year's figure of 35% of investors looking to either begin allocation or increase allocations. Interest for long only funds offered by Hedge Funds managers was also significant, with 28% of investors planning to increase their allocations or begin allocations.

4. Terms and Fees

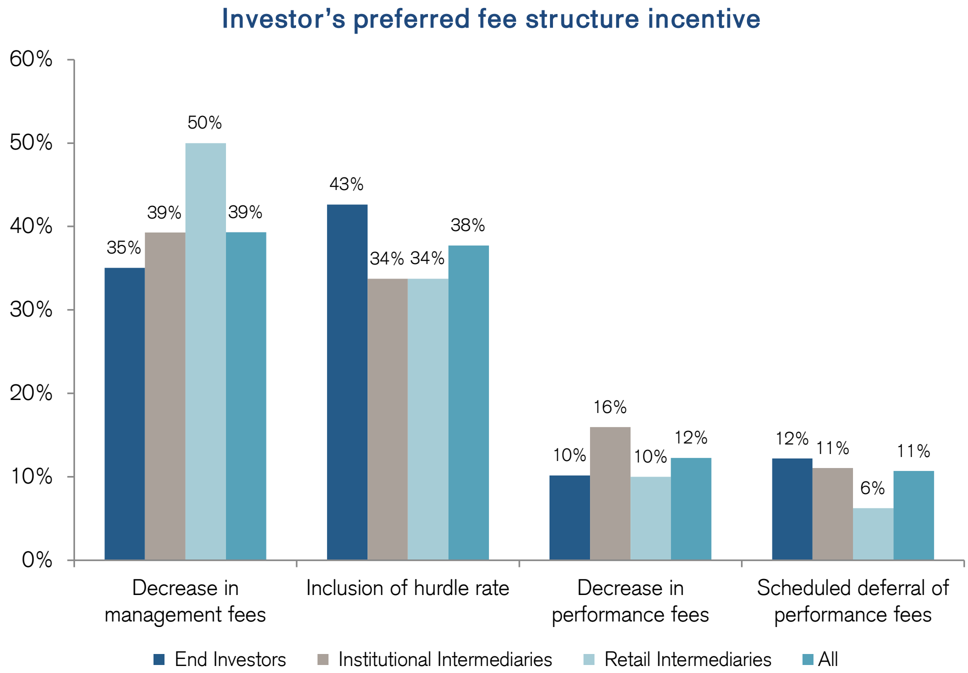
Amongst the options available to managers for improving asset/liability matching, fund level gates are still viewed as most acceptable to investors, especially for retail intermediaries, compared to investor-level and hybrid gates.





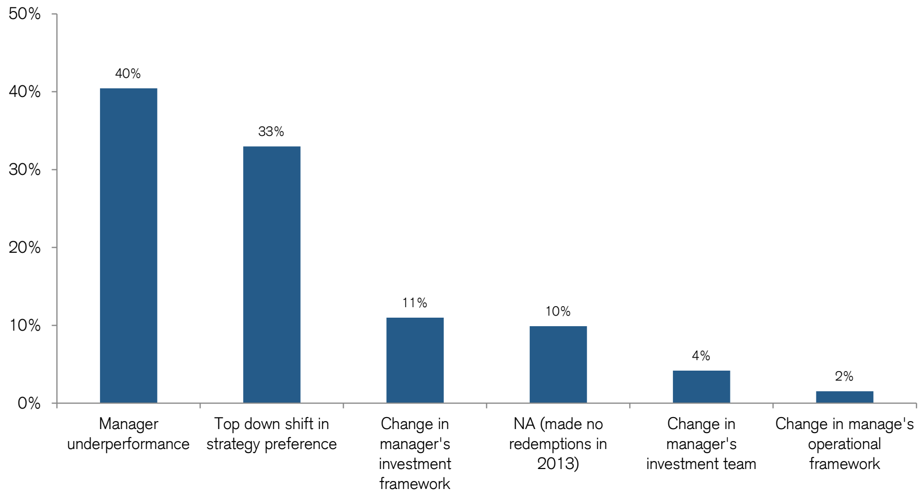
Regionally, fund level gates are strongly preferred by Asia and EMEA based investors, while preference by America based investors is evenly split between fund-level and investor-level gates.

When asked about their preferred fee structure, investors regarded a discount in management fees as the most preferable fee structure incentive, particularly for retail intermediaries which are traditionally more fee sensitive, while inclusion of hurdle rate is also highly preferred particularly by end investors.



5. Key Drivers of Redemptions

90% of our respondents redeemed from managers in 2013 and identified the top reasons for redemptions as manager underperformance (40% of redemptions), followed by top down shift in strategy preference (33% of redemptions).



6. Most Significant Developments in 2014

We also asked institutional investors to predict what might be the most significant developments for the hedge fund industry in 2014, below are listed some of the common themes that emerged.

Capacity constraints: Respondents also expect there to be capacity constraints at the manager and strategy levels for larger hedge funds. In addition, some respondents have raised the possibility that large hedge funds will start to return capital and it may provide room for newer and mid-sized funds to raise additional capital.

Regulatory developments: The regulatory environment remains dynamic and respondents expect the regulatory landscape to continue evolving across all regions. In particular, many investors cited new regulations such as AIFMD and its potential impact. Others referenced continued progress on enhanced transparency.

UCITS and other fund structures: We continue to see interest in UCITS vehicles and greater embrace of retail market vehicles by hedge funds (e.g., 40 Act vehicles). Investors expect increasing retail participation in hedge funds and further expansion of products that target retail investors. Investors also expect to see continued proliferation of absolute return long only strategies to take share from traditional long only active management.

Performance: Our respondents generally expect hedge fund strategies to perform well in 2014. That said, investors went on to predict increased dispersion among hedge fund performance as the environment for pure stock picking strategies continues to improve.

Fees and terms: Investors expect continued hedge fund fee compression for all but the top tier established managers. Most expect to see fee reductions in the form of founder's share classes from new launches, as well as for larger allocations from institutional investors.

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PART 2 – DATA APPENDICES

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Appendices Table of Contents

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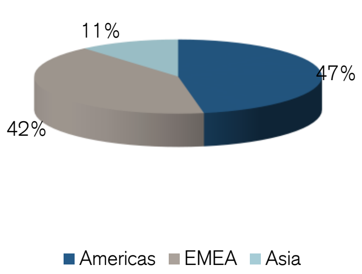
Appendix I – The Participants

1. Breakdown of Participants

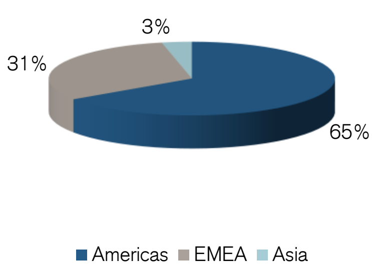
- The respondents manage an aggregate $1.164 trillion in Single-Manager Hedge Funds ("SMHFs") and $10.6 trillion in firm assets.
- We had 505 responses globally.
- Our survey respondents were well diversified by type, by region, and by size.

Breakdown of participants by location of their headquarters

Regional distribution (by number)



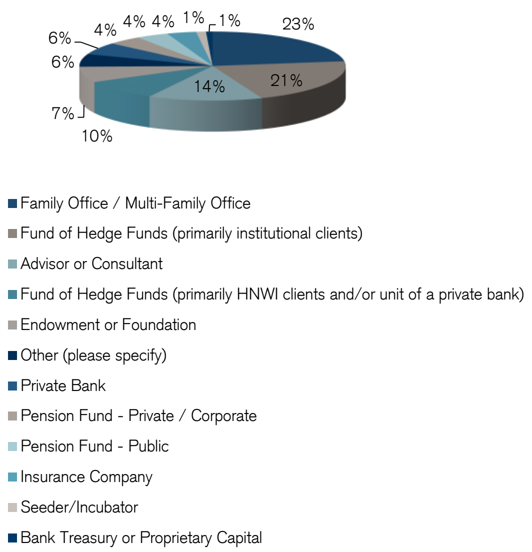
Regional distribution (by SMHF assets)



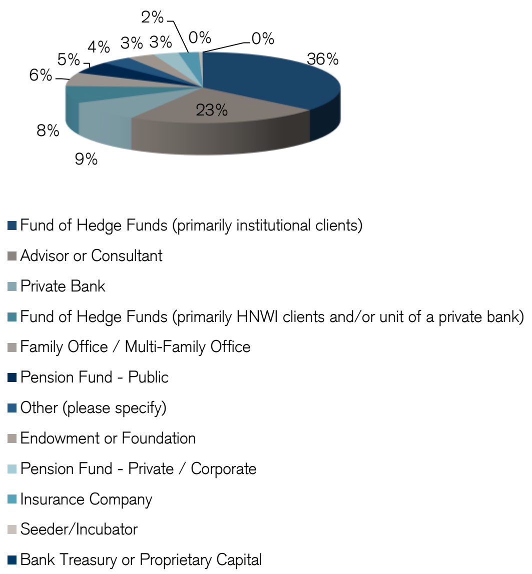
- Americas represented the largest region by number of respondents and by assets. While Asia-based investors account for 11% of respondents by number, they account for 3% by AuM.

Breakdown of participants by investor type

Distribution of categories (by number)



Distribution of categories (by SMHF assets)

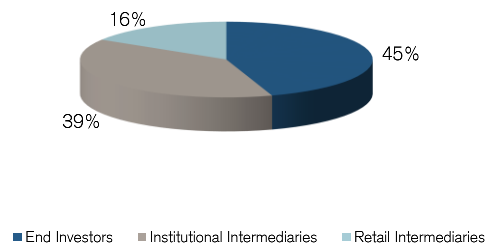


- Family Offices are the largest sector by number making up 23% of respondents but only represent 6% by assets, whereas Institutional FOHFs are the largest by asset making up 36% of the respondents and 21% by number.
- Pension Funds/Insurance Companies are also well represented, making up 12% of respondents by number and 10% by assets

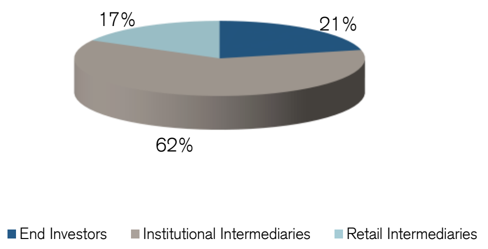
As in our previous survey reports, to avoid displaying 12 line items per data point, we have aggregated the12 investor types into 3 broad categories based on similarities in their behaviour:

- "End Investors" – Endowment/Foundation, Family Office, Bank Treasury/Proprietary Capital and Pension Funds and Insurance Companies;
- "Institutional Intermediaries" – Advisor/Consultant, FoHF with primarily institutional investors and Seeder/Incubator;
- "Retail Intermediaries" – Private Bank and FoHF with primarily retail investors.

Distribution of categories (by number)

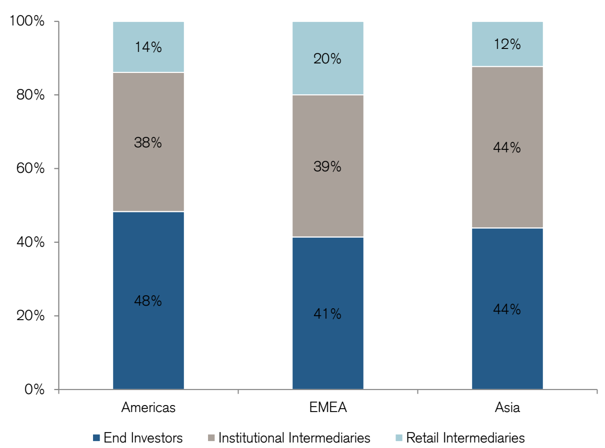


Distribution of categories (by assets)

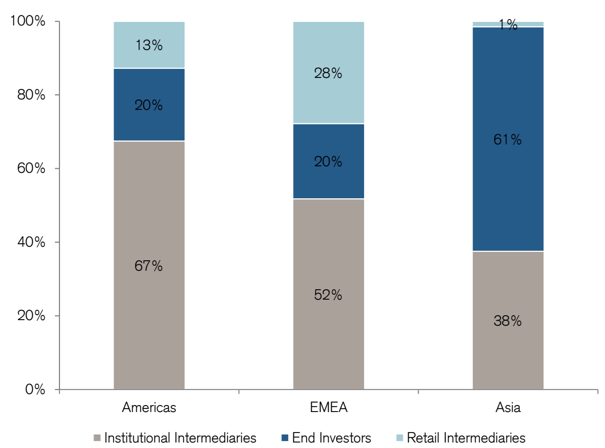


- End Investors make up the largest category by number (45%); Institutional Intermediaries make up the largest category by assets (62%).

Regional distribution of categories (by number)



Regional distribution of categories (by assets)



- Across Americas, EMEA and Asia, Institutional Intermediaries represent 38%, 39% and 44% respectively by number. By assets, this proportion increases to 67%, 52% and 38% respectively.

Distribution of SMHF AuM of respondents

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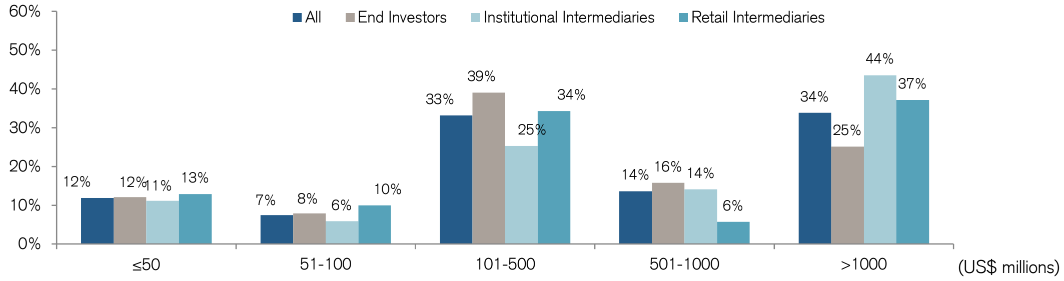
By investor category

Average AuM

- All: $2,560 million
- End Investors: $1,159 million
- Institutional Intermediaries: $4,220million
- Retail Intermediaries: $2,837 million

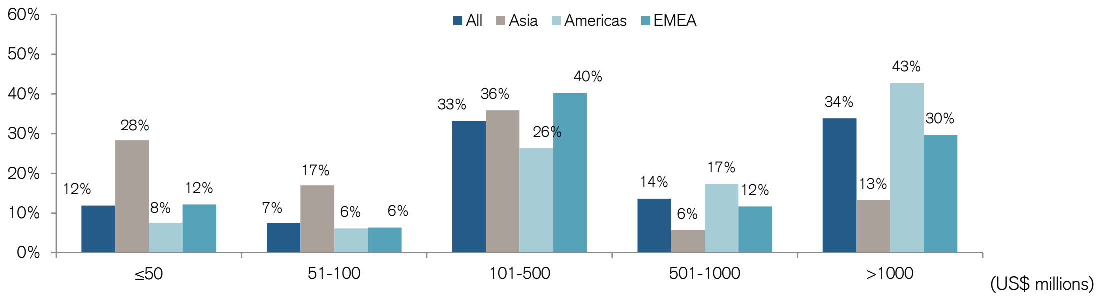


- The average amount of assets allocated to Single-Manager Hedge Funds amongst our respondents is $2.56 billion. 43% of respondents have in excess of $500 million invested into SMHFs, and only 12% have less than $50 million.
- Institutional Intermediaries have the highest average asset size, with nearly half having more than $1 billion in assets.
- End Investors' SMHF assets are much smaller on average, with an average hedge fund portfolio size of $1.2 billion, and 12% managing under $50 million.

By investor region

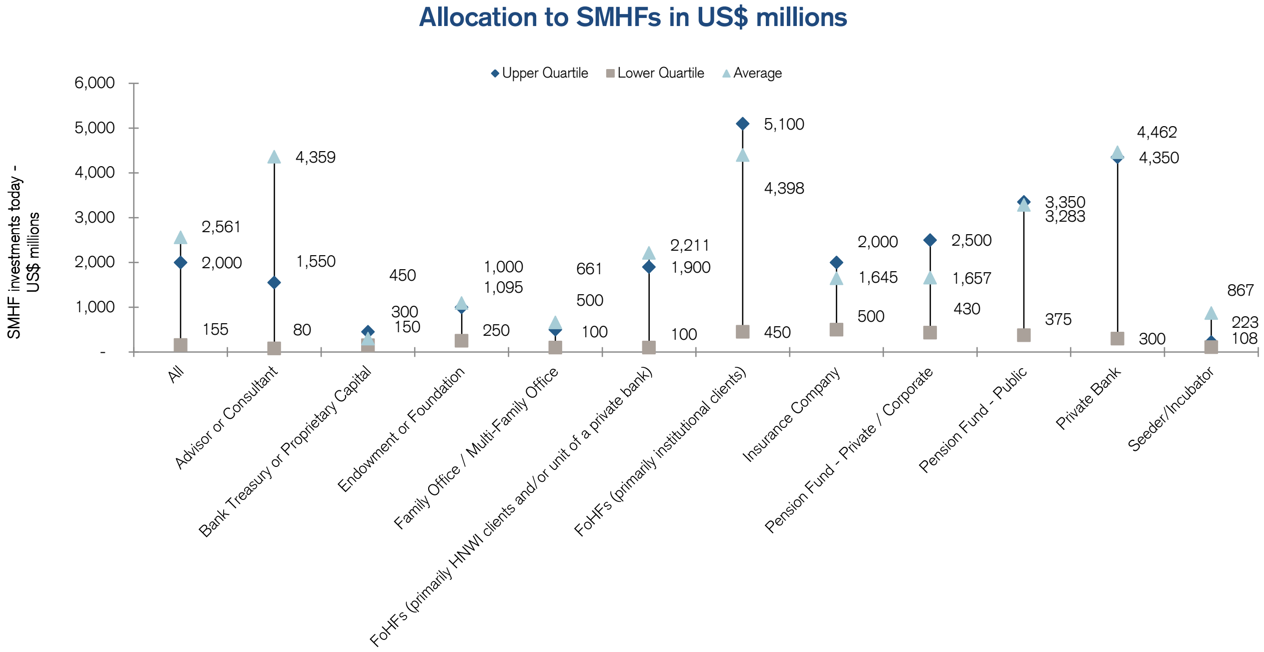
Average AuM

- Americas: $3,582 million
- EMEA: $1,918 million
- Asia: $746 million

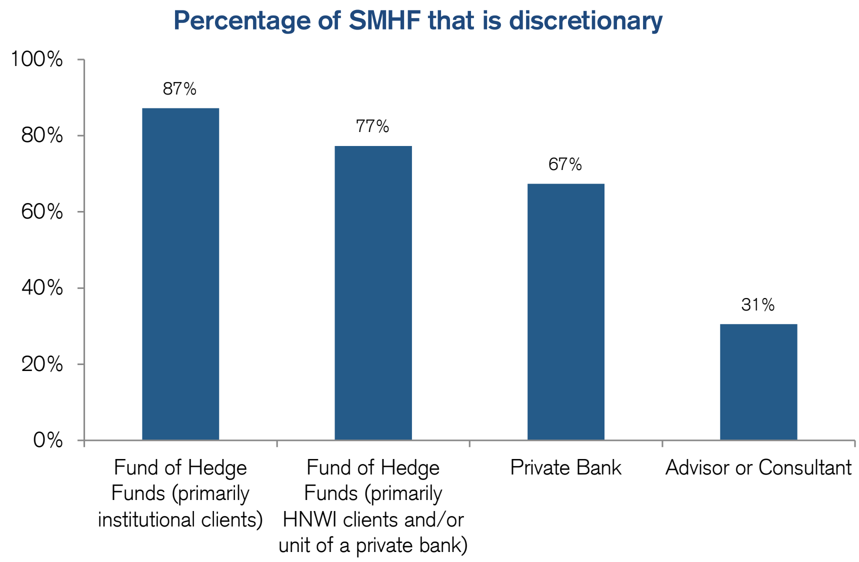


- 43% of investors in the US have more than $1 billion in SMHF assets. Asia has the highest percentage of smaller investors, with 28% having less than $50 million in SMHF assets, and only 13% having more than $1 billion allocated.

2. Portfolio Characteristics

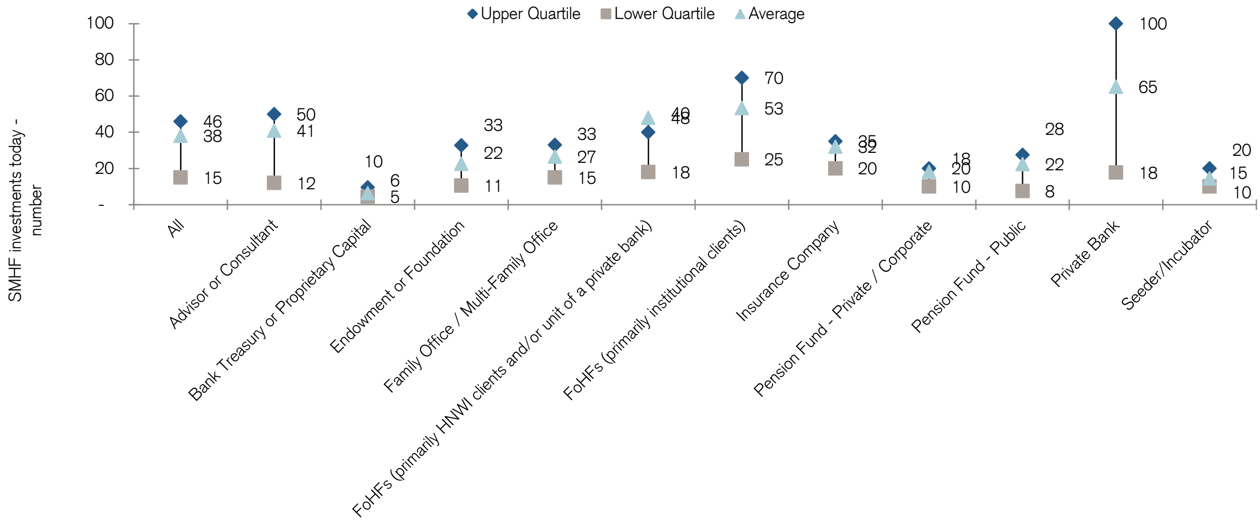


- The average size of single-manager hedge fund portfolios is $2.56 billion. Family Offices and Bank Treasury or Proprietary Capital have the smallest portfolios on average, and Institutional FOHFs, Advisors/Consultants, Public Pensions and Private Banks have the largest.
- In this question, we also asked respondents their target allocation to Hedge Funds by year-end (in dollar terms). The average asset-weighted target increase in SMHF assets is 8.83%.



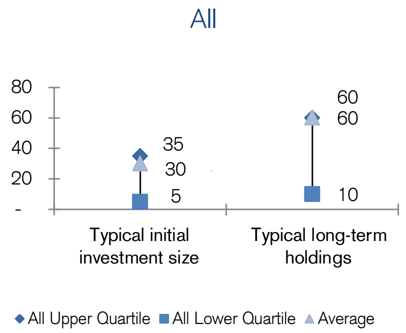
- Institutional FOHFs have a higher proportion of their SMHF allocation as discretionary (87% on average), while Advisors/Consultants have on average 31% of SMHF assets that are discretionary.

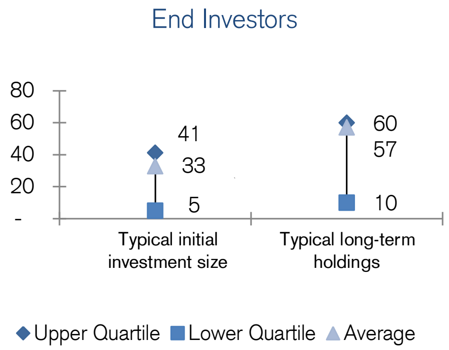
Total number of distinct single-manager fund investments within hedge fund portfolios

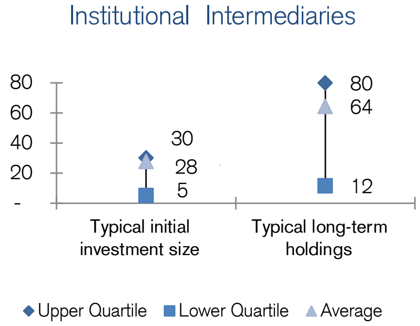


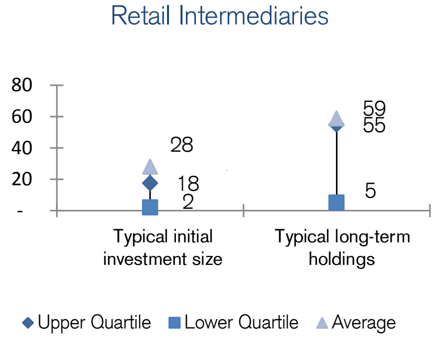
- The average portfolio concentration is 38 investments, which is slightly less concentrated than the average of 37 a year ago.
- On average, Bank Treasury or Proprietary Capital and Seeders/Incubators have the most concentrated portfolios, whereas Private Banks and Institutional FOHFs have the most diversified portfolios.

Typical allocation size in US$ millions, both initially and as a longer-term target



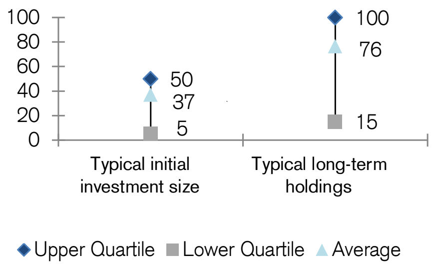




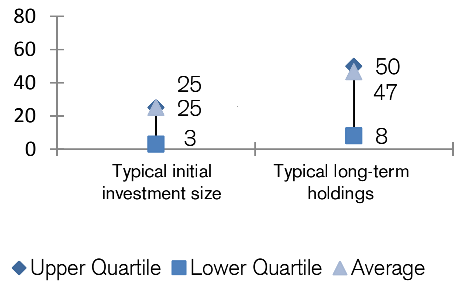


- The average initial investment size of all respondents is $30 million; however, this typically increases over time by 100% to $60 million.
- End Investors have the highest average initial investment size at $33 million; however, Institutional Intermediaries have the highest average long-term holding at $64 million

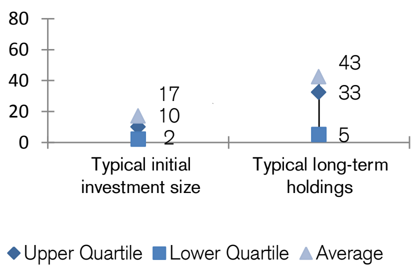
Americas



EMEA

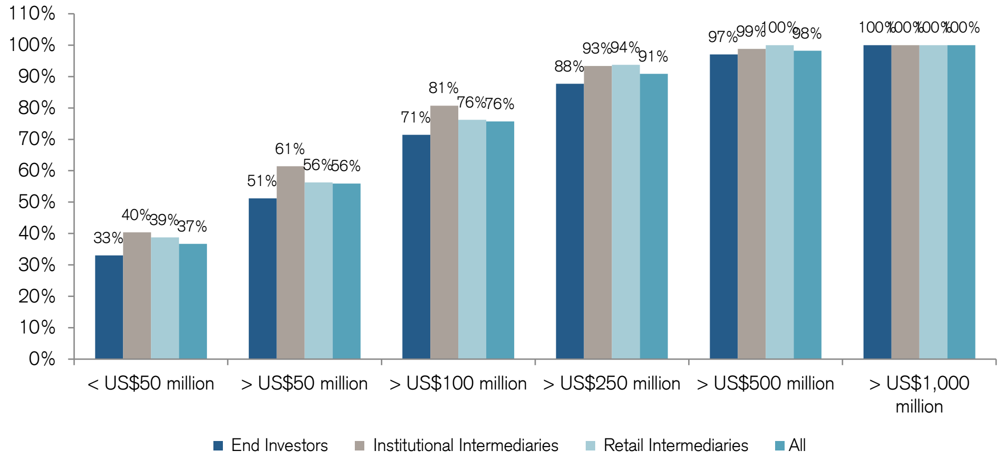


Asia



- Investors in America have the highest average initial investment size at $37 million and also have the highest average long-term holding at $76 million.

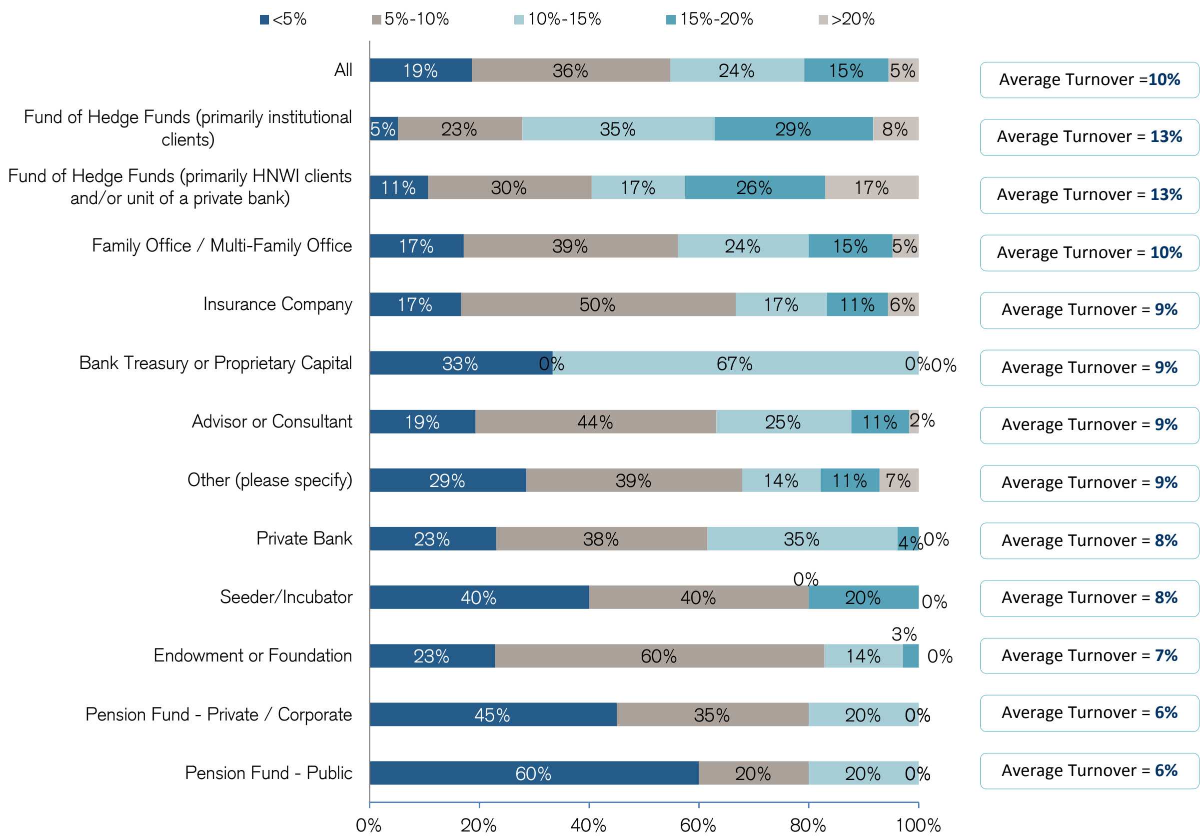
Minimum Fund AUM



- Only about a third (37%) of our investor universe is able to consider investing with funds under $50M in AuM. That number jumps to just over half (56%) when the AuM are over $50M.
- At $100M in AuM, three quarters (76%) of investors are able to consider investing. Once a fund is over $250M in AuM, the vast majority on investor universe is able to invest.

Typical annual turnover of different investors' portfolios

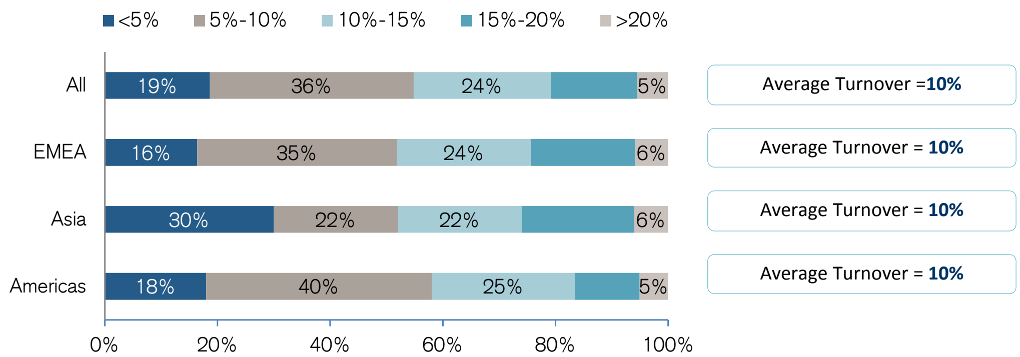
(Ranked in order of average turnover)



- The average turnover of a typical hedge fund portfolio is 10% per annum.
- FoHFs appear to have the highest turnover, redeeming on average approximately 13% of holdings per year. Pensions redeem on average 6% of holdings in a typical year.

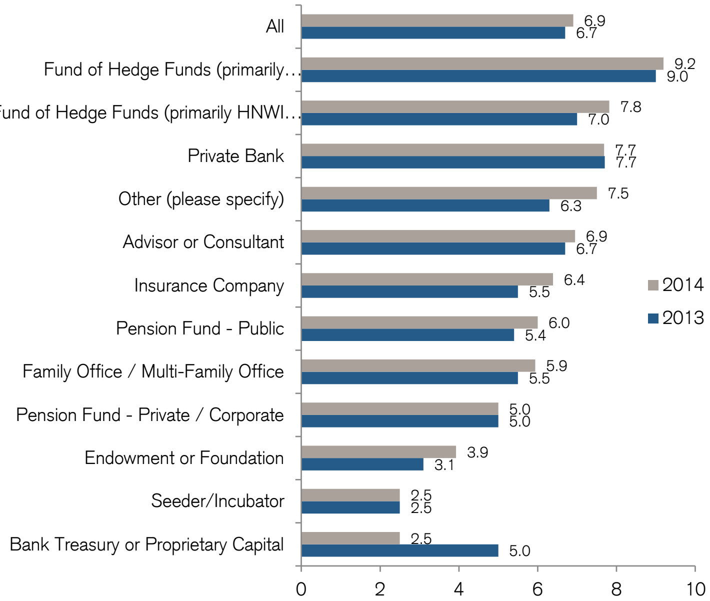
Typical annual turnover by region

(Ranked in order of average turnover)



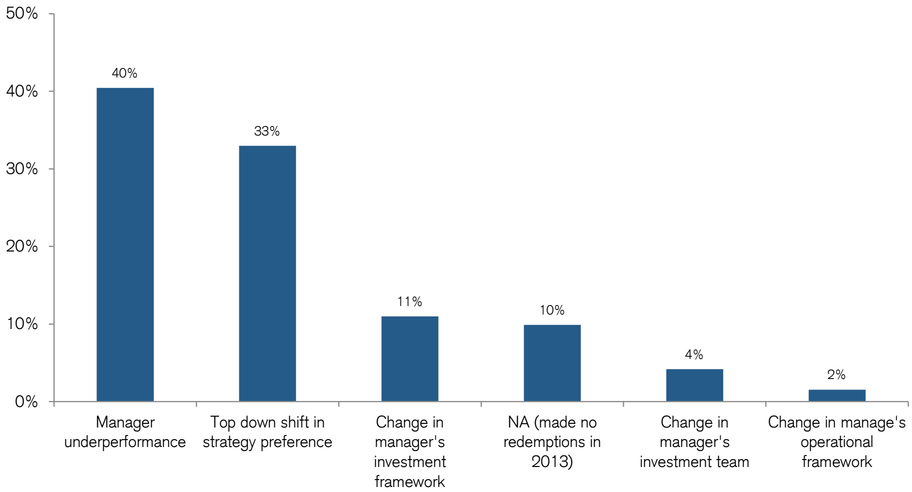
- There is little difference in the average number of funds redeemed per year across the regions, with Europe, Asia and US reporting the same average number of redemptions per year

Number of new hedge fund allocations in 2013/2014



- The average number of new investments respondents expect to make in 2013 is 6.9, which is marginally higher than the number made in 2013.

Key Drivers of Redemptions in 2013



- Manager underperformance was rated as the key contributor for redemptions in 2013 by 40% of the respondents, while 33% rated a top down shift in strategy as the key driver.

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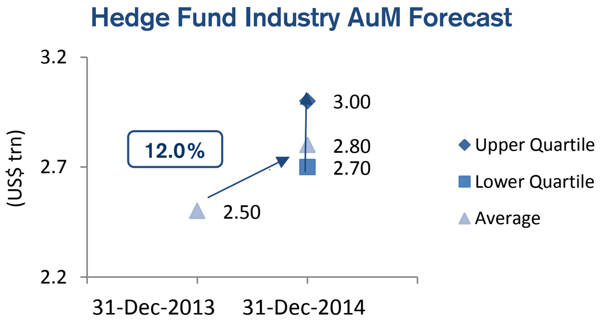
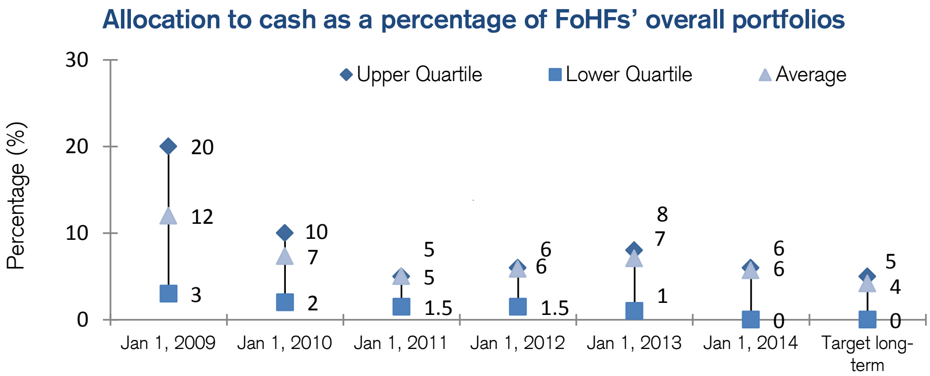
Appendix II – Key Industry Trends and Forecasts

1. Forecasts and Risks

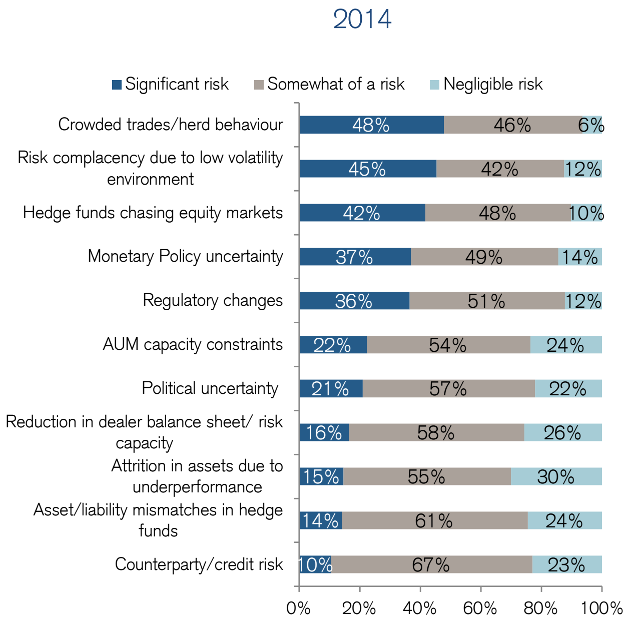


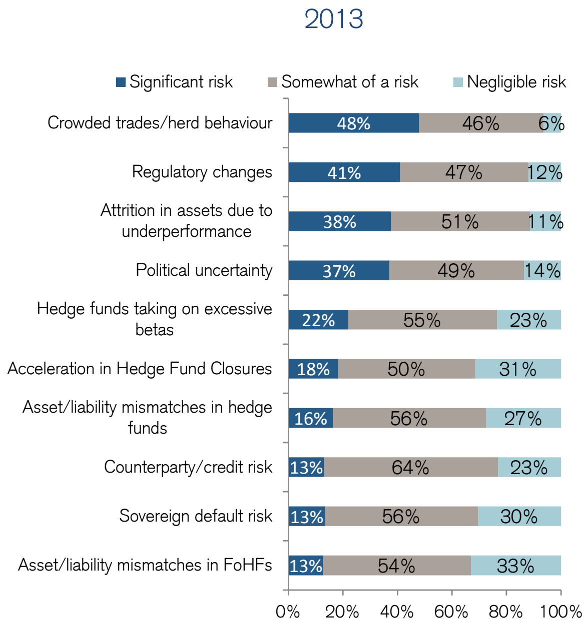
- We asked investors for their forecast of total hedge fund industry assets by the end of 2014, assuming the industry ended 2013 with $2.5 trillion in assets. Investors predict a 12% increase in industry assets to $2.8 trillion, with a lower quartile forecast of $2.70 trillion and an upper quartile range reaching $3 trillion.



- Fund of Hedge Funds decreased their average cash allocation from 7% at the beginning of last year to 6% at the beginning of this year. This level is 3% above their long-term target cash allocation.

Investors' views on sources of risk for the hedge fund industry over the coming year





- Just as in our last three surveys, investors are convinced that crowded trades and herd mentality pose the single biggest threat to the industry, by making it more difficult for Hedge Funds to achieve truly differentiated performance.
- In addition, investors now regard risk complacency due to a low volatility environment as the second biggest threat to the hedge fund industry in 2014.
- The risk of regulatory changes and attrition in assets due to underperformance, which were the second and third greatest risk respectively in 2013, have dropped down to the fifth and ninth place, respectively, this year while hedge funds chasing equity markets (beta) and monetary policy uncertainty take more importance this year.
- Other potential risks identified by investors included AUM capacity constraints, political uncertainty, reduction in dealer balance sheet (Basel III) and asset/liability mismatches between Hedge Funds and their clients (impacting liquidity).

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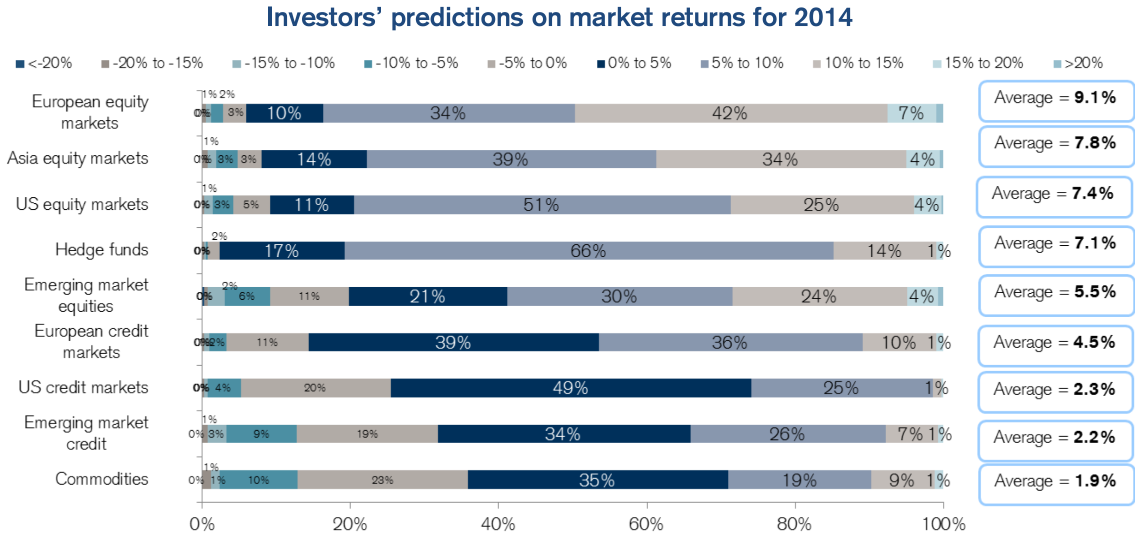
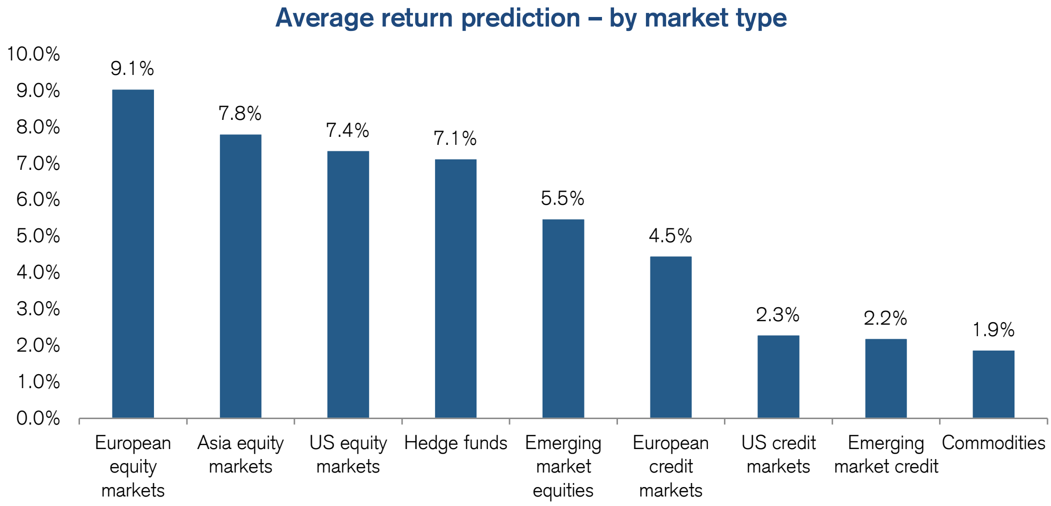
2. Market Returns





- On average, investors predict markets to return between 1.9% and 9.1% this year, with investors most optimistic about Equity markets across regions, predicting Equity markets to return between 5.5% and 9.1% this year.
- EM and US Credit, and commodities are predicted to return the least in 2014. However, 63% of investors predicted that commodities would return between 0% and 15%, while 60% of investors for EM Credit and 73% of investors for US credit respectively, predicted that these strategies would return between 0% and 10%.
- Return expectations for Hedge Funds in 2014 appear optimistic, forecasting 7.1% versus a forecast of 6.9% last year, with just 2% of the investors expecting negative returns in the year.

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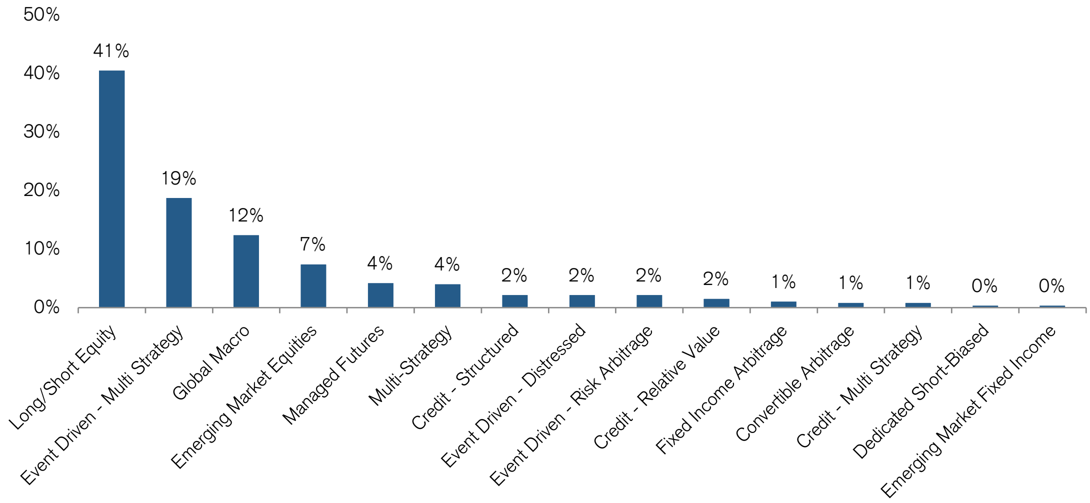
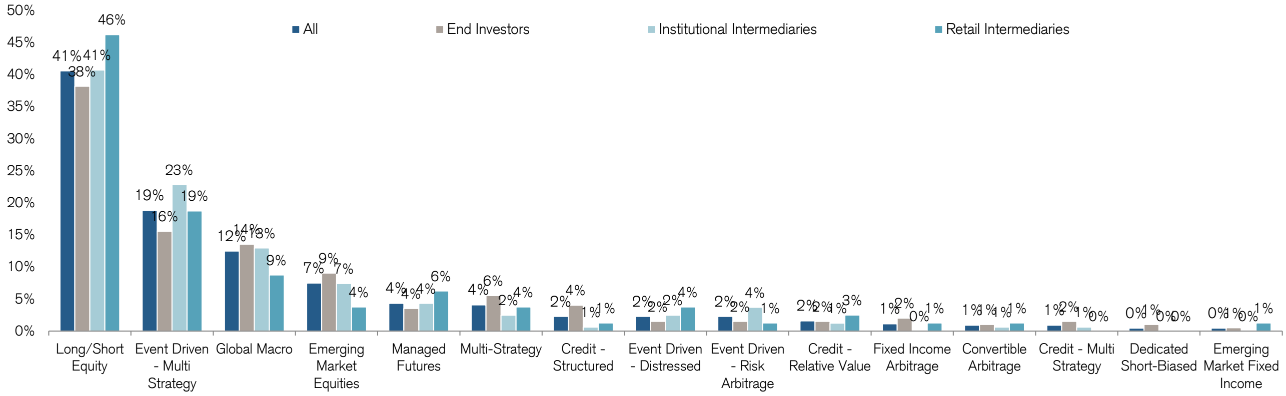
Investors' predictions on best performing hedge fund strategies in 2014

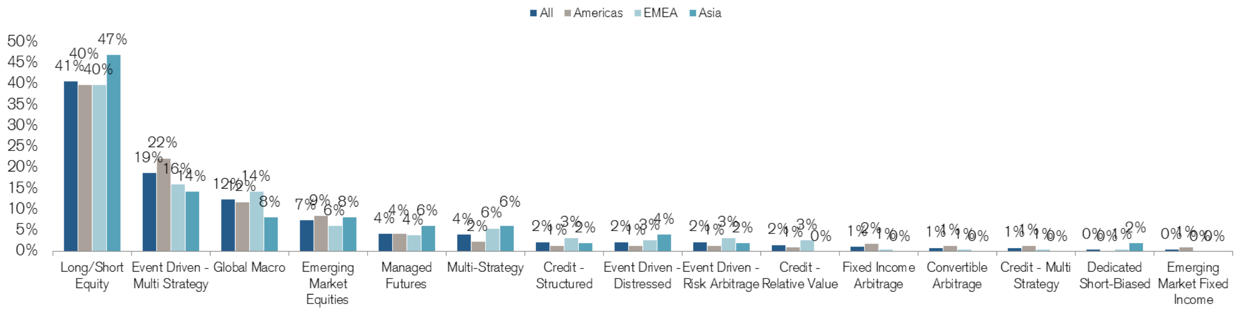


- The largest number of investors (41%) predict that Long/Short Equity will be the top performing strategy this year, while the fewest predict that Dedicated Short-Biased and Emerging Fixed Income will be the best performing strategy this year.

Investors' predictions on best performing hedge fund strategies in 2014 – by investor type



Investors' predictions on best performing hedge fund strategies in 2014 – by region

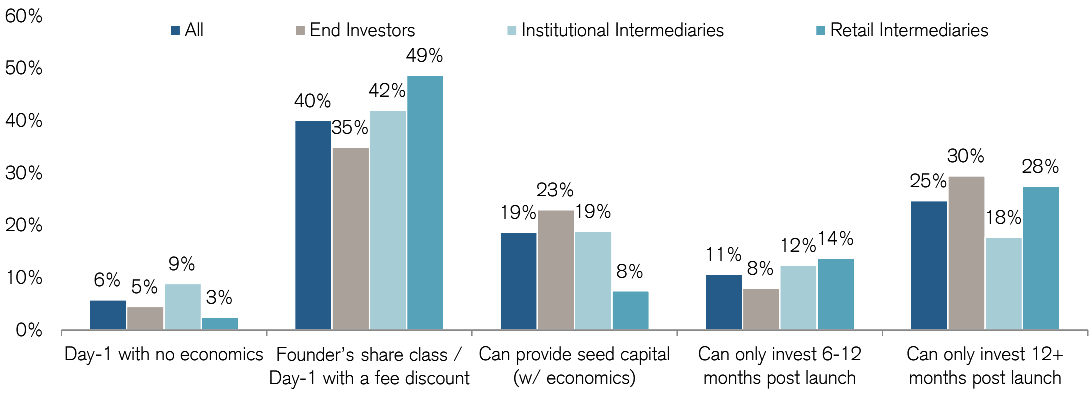


- By investor type, there are slight discrepancies within almost all strategies: As with last year, Retail Intermediaries are slightly more bullish than other investor types on Long/Short Equity and Managed Futures, however, less bullish on Global Macro, Multi-strategy and Credit-Structured.

- By region, while there is not a great deal of dispersion within each strategy, investors from Asia are slightly more bullish on Long/Short Equity, while US investors are slightly more bullish on Event-Driven. In addition, investors from EMEA are on par with the average across the regions, and are particularly bullish on Global Macro.

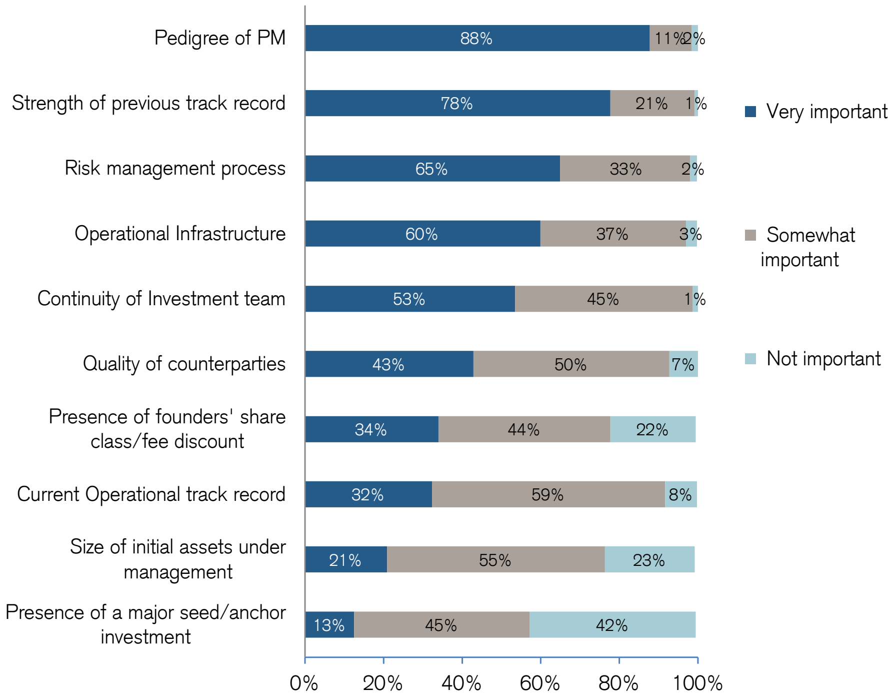
3. Appetite for Start-Ups

Ability to Invest Day-one



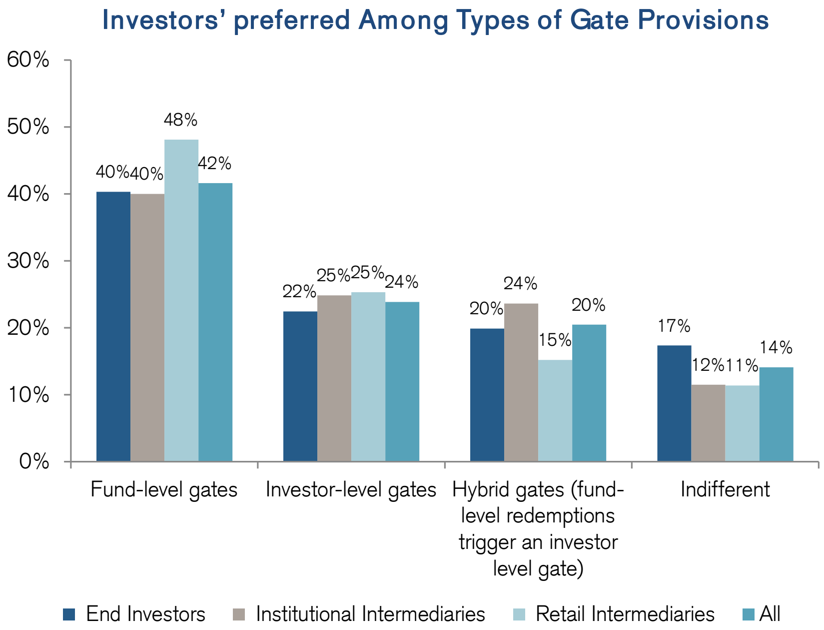
- Unsurprisingly, a very small percentage of total investors (6%) are likely to invest day one without incentives. That number jumps to 11% when seed economics are offered and to 40% when a Founder's Share Class is involved. Of the remaining subset of investors, 11% are likely to invest after 6 months and 25% are likely to invest after the 12 month mark.

Important Aspects when Investing in Start-ups

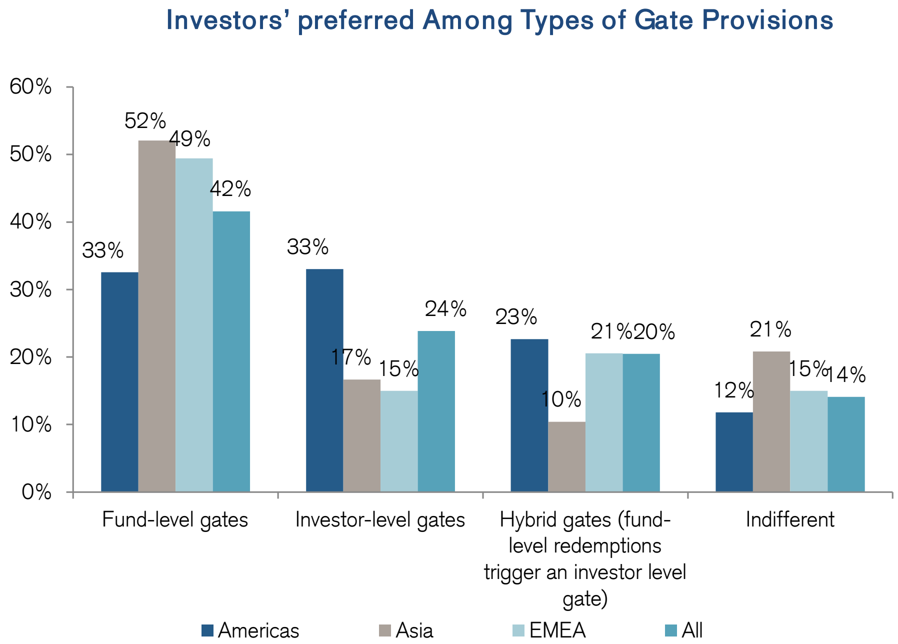


- 88% of investors highlighted the pedigree of the PM as a key aspect when investing in start-ups. Strength of track-record and the risk framework were also highlighted as essential, with fewer investors emphasising the importance of the presence of a seed/anchor investor and the size of initial assets under management.

4. Fees and Economics

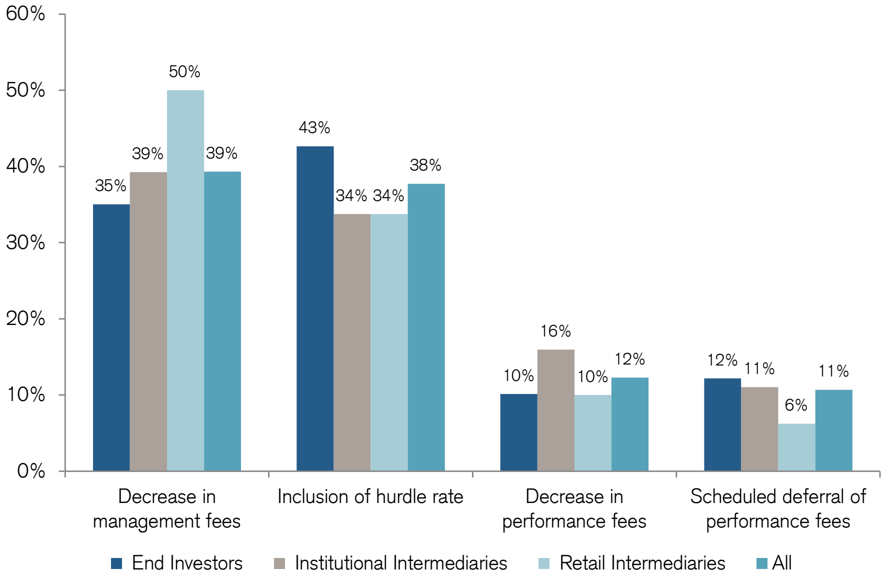


- Fund-level gates are the most favoured across investor types, particularly from retail investors, while end investors are the most indifferent to what type of gate provision the fund has.



- Regionally, fund level gates are strongly preferred by Asia and EMEA based investors, while preference by America based investors is evenly split between fund-level and investor-level gates

Investor's Preferred Fee Structure Incentive

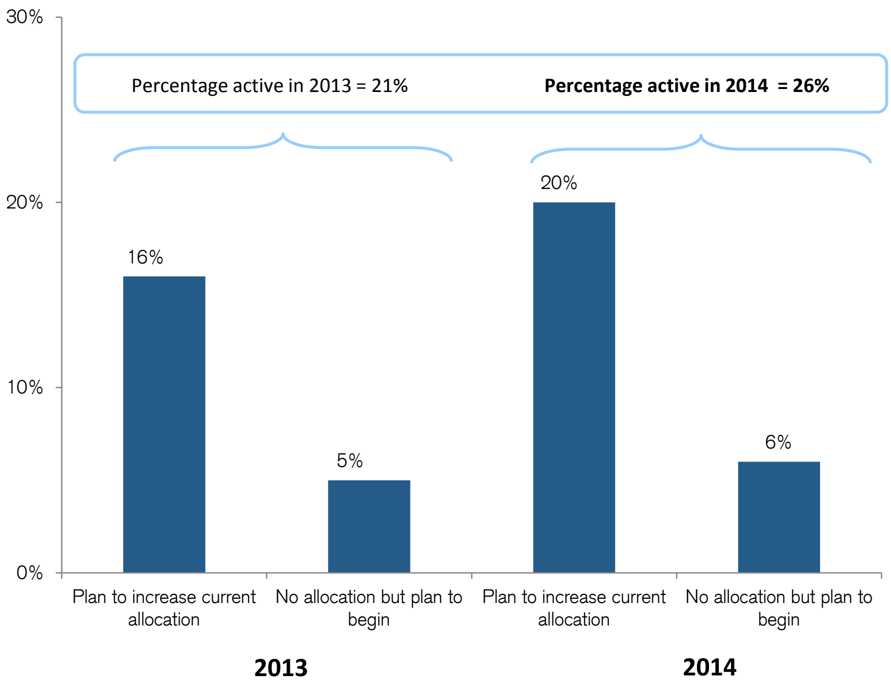


- Over three times as many investors prefer management fee discounts to performance fee discounts as a fee structure incentive (39% versus 12%). The inclusion of hurdle rates was highlighted by 38% of investors as their preferred fee structure incentive.

Appendix IV – Alternative Routes to Absolute Return

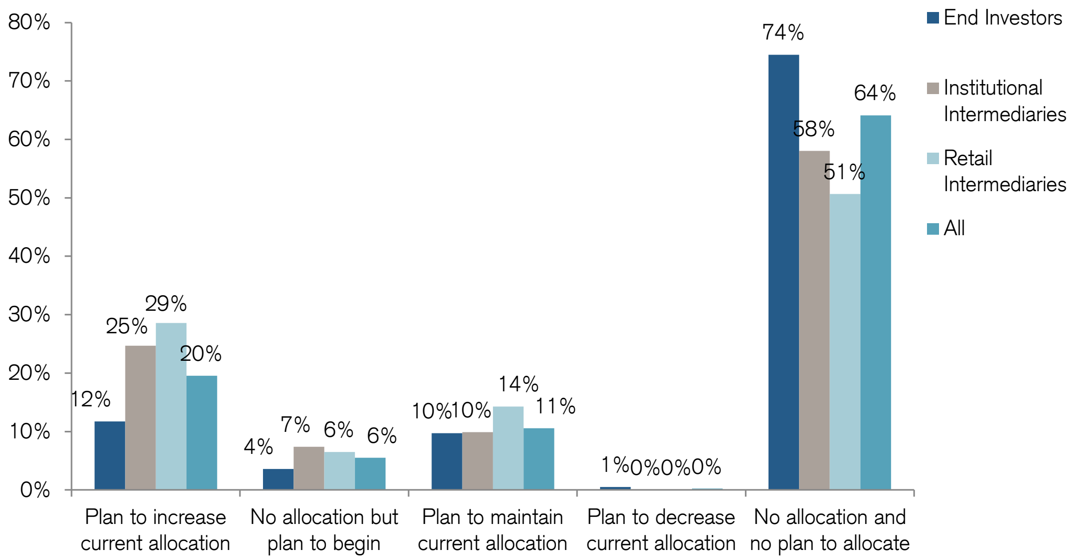
1. UCITS/Regulated Funds

Year-on-year comparison of appetite for UCITS Hedge Funds



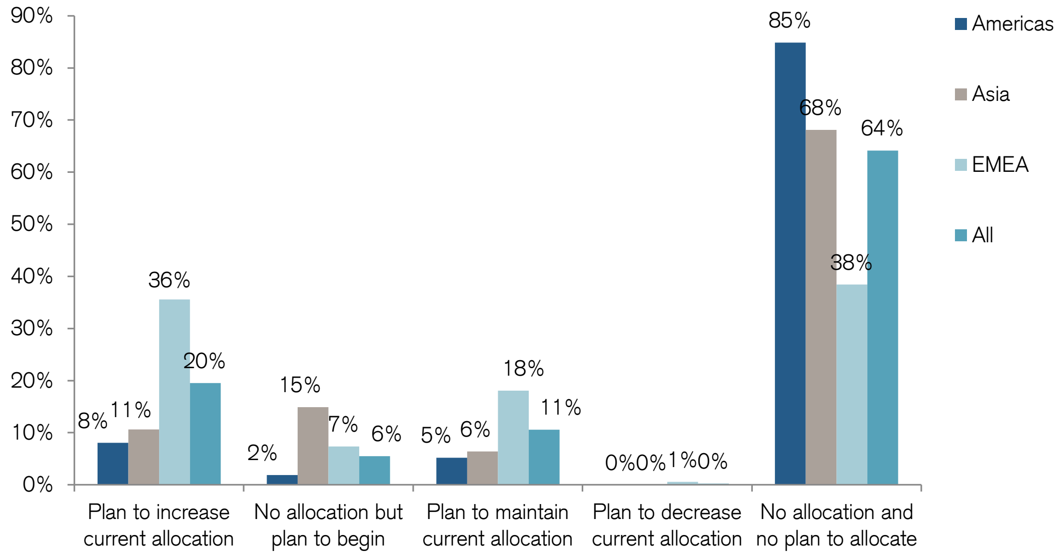
- The percentage of investors planning to increase or beginning allocations to UCITS Hedge Funds has increased to 26% this year, from 21% last year.

Appetite for UCITS Hedge Funds – by investor type



- For the second year in a row, Retail Intermediaries have the most active interest in UCITS, with 29% planning to increase allocations, versus 12% for End Investors.

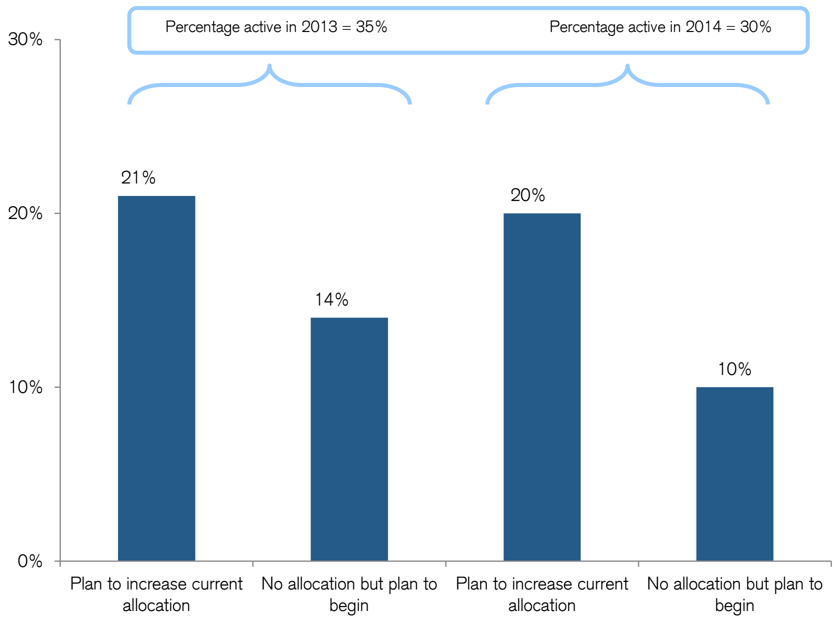
Appetite for UCITS Hedge Funds – by region



- European investors are the most active in UCITS, with 36% planning to increase their allocation, versus 8% of investors in the Americas.

2. Managed Accounts

Year-on-year comparison of appetite for managed accounts



- The percentage of investors planning to increase or beginning allocations to managed accounts has decreased to 30% this year, from 35% last year.

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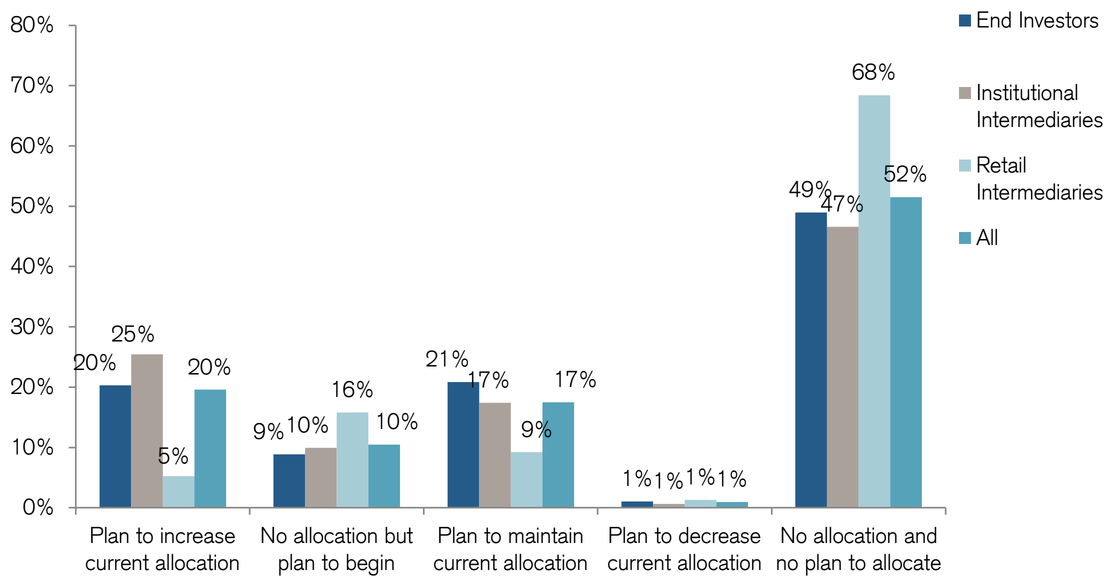
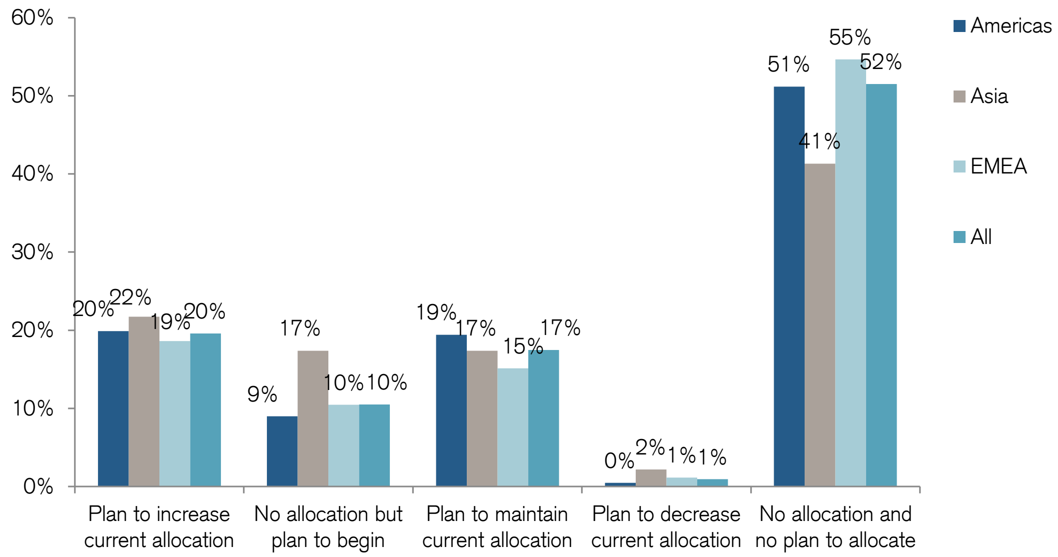
Appetite for managed accounts – by investor type



- Appetite for managed accounts is primarily driven by Institutional and End Investors, with a higher than average proportion of retail investors looking to begin allocations (16%).

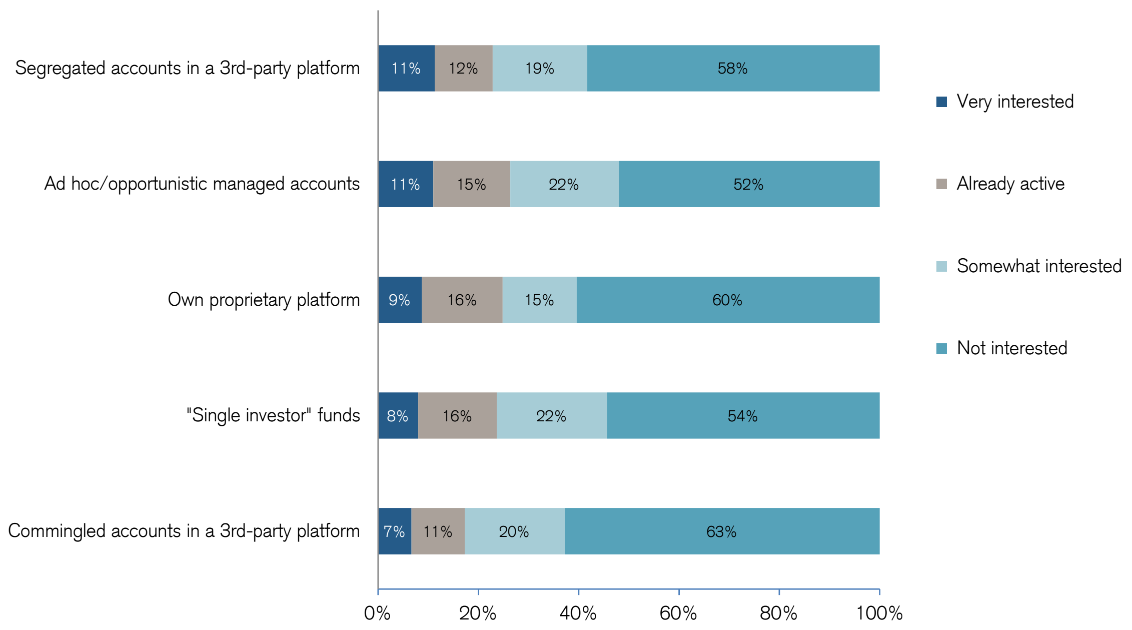
Appetite for managed accounts – by region



- There is a fairly even distribution of managed accounts appetite across regions, although there is higher than average proportion of investors planning to begin allocations among investors in Asia.

Credit Suisse

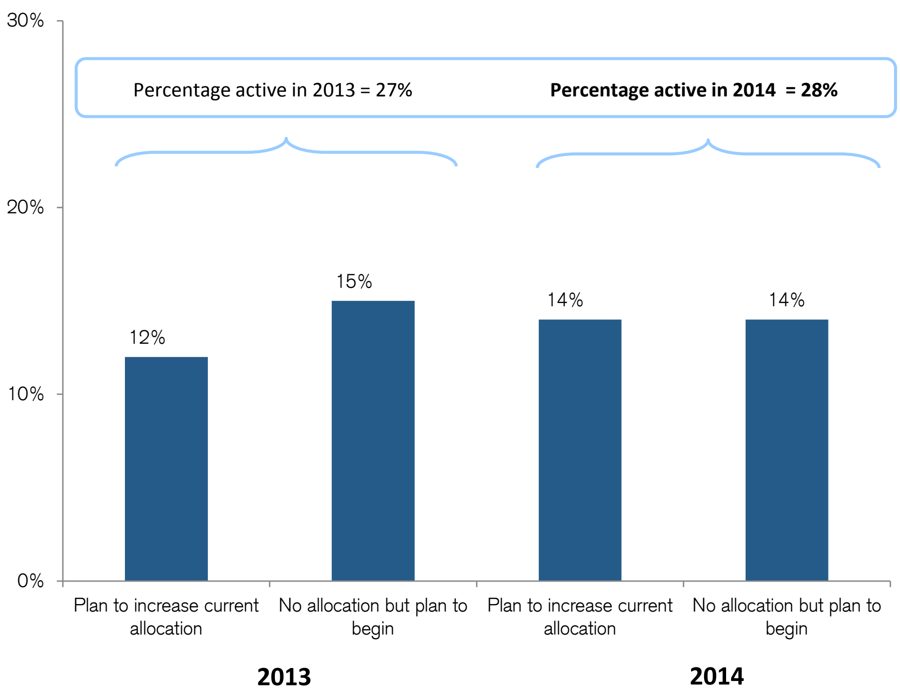
Routes for Investing Into Managed Accounts



- Investors highlighted segregated accounts in 3rd-party platforms and Ad hoc/opportunistic managed accounts as the most common routes for investing into Managed Accounts.

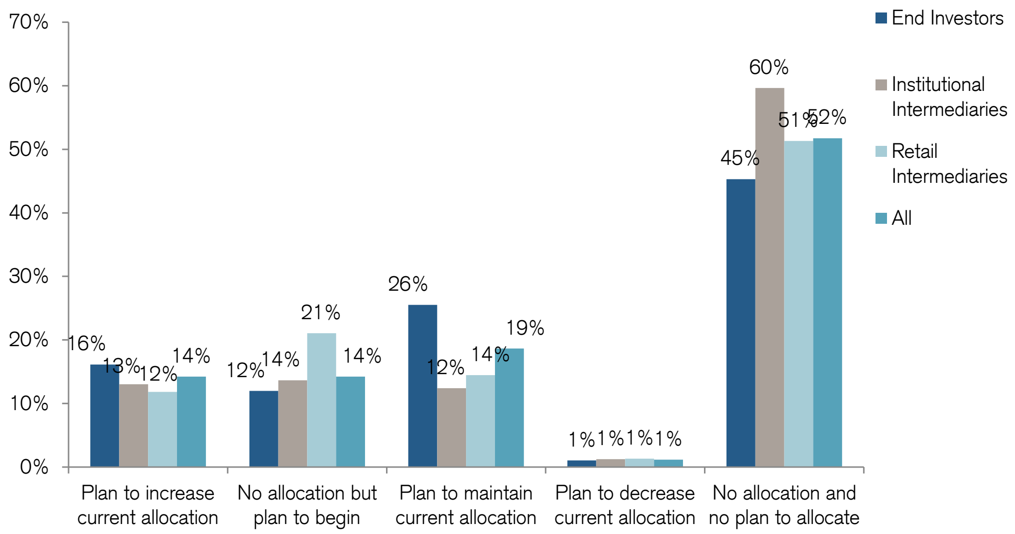
3. Long-Only

Year-on-year comparison of appetite for long only



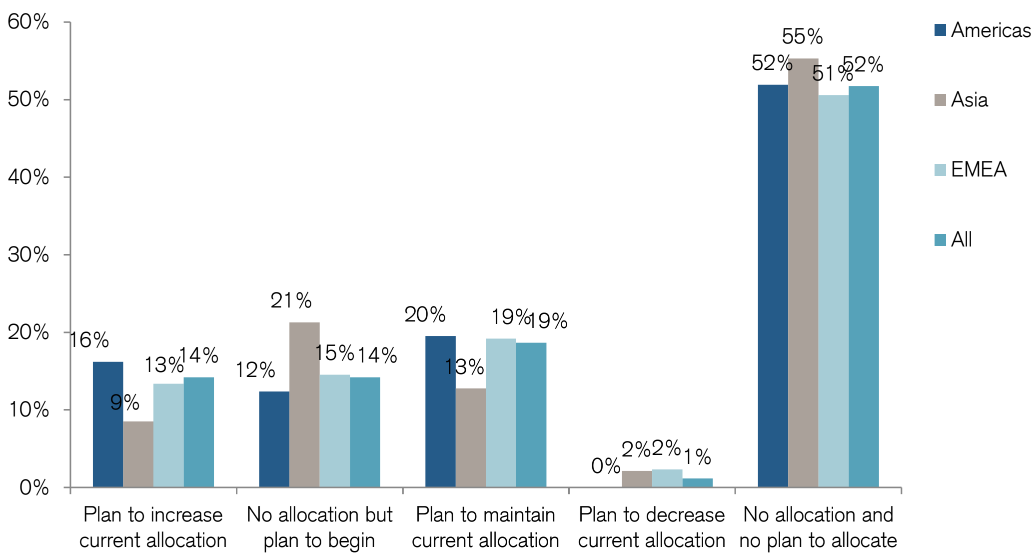
- The percentage of investors with some level of activity in Long-only funds has increased to 28% this year, from 27% last year.

Appetite for long only – by investor type



- Breaking long-only appetite by investor type, there is a larger than average proportion of retail investors planning to increase allocations this year, while a higher proportion of end-investors indicated looking to maintain their current allocations.

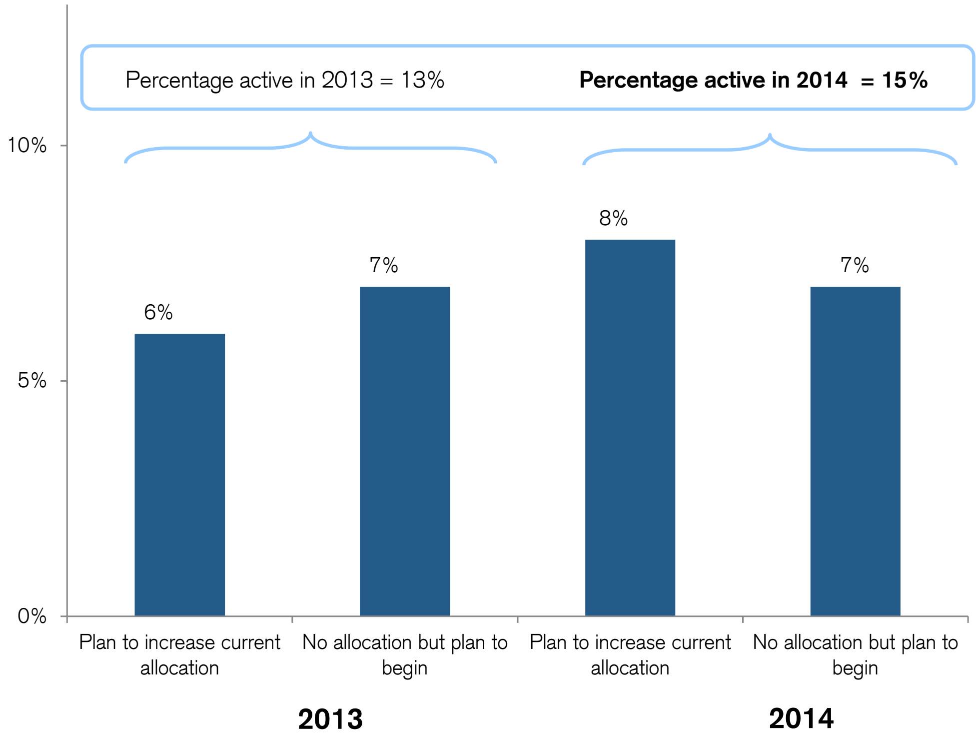
Appetite for long only – by region



- There is a fairly even distribution of long-only appetite among the different regions, although there are a slightly higher proportion of investors in Asia looking to begin allocating to long-only funds.

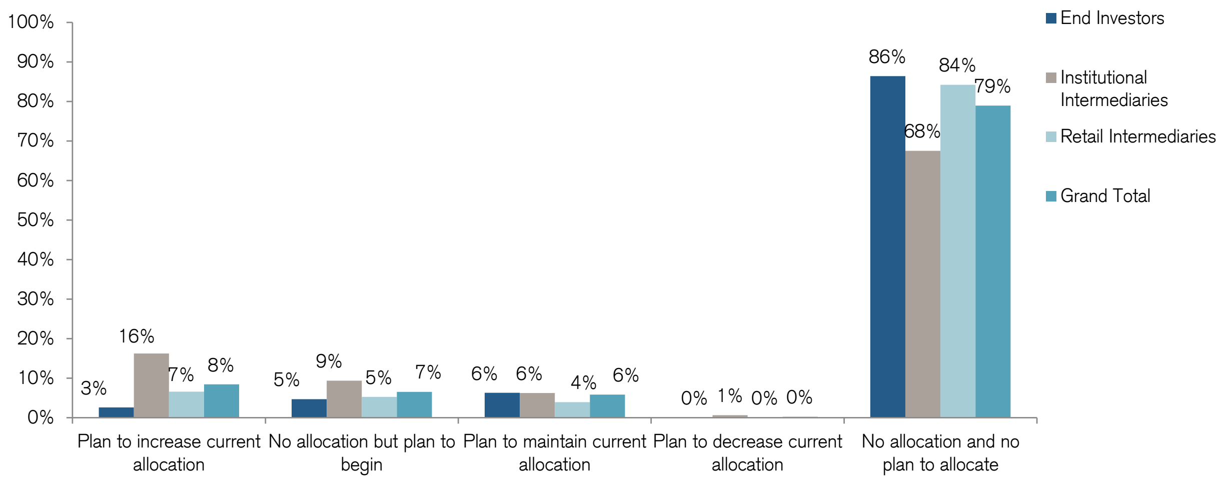
4. 40 Act Funds

Year-on-year comparison of appetite for 40 Act



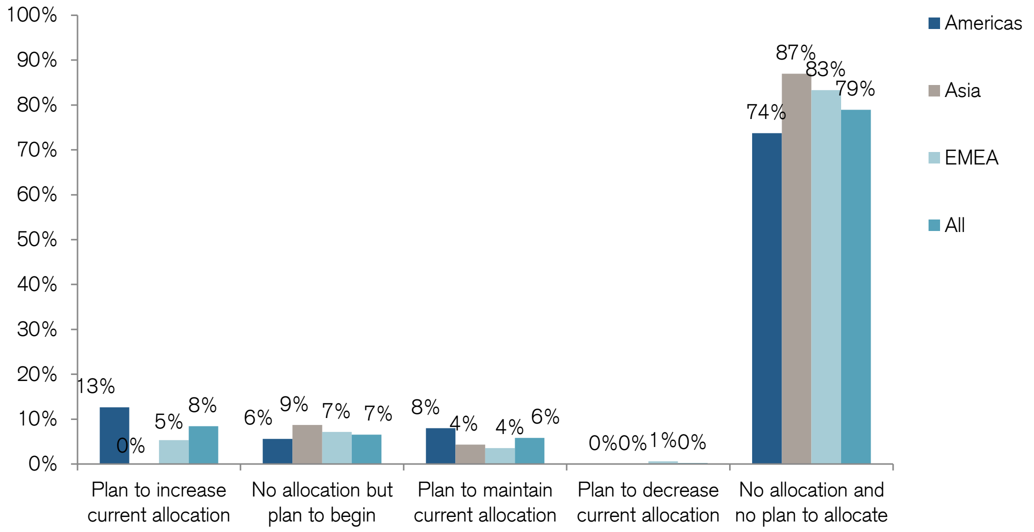
- The percentage of investors planning to increase or beginning allocations to 40 Act funds increased slightly to 15% from 13% in the previous year.

Appetite for 40 Act – by investor type



- Looking at a breakdown by investor type, Intuitional Intermediaries have the most active interest in 40 Act funds, with 27% of them looking to increase or being allocating and an additional 6% maintaining their current allocations. Interestingly, very few investors planned to decrease their current allocations.

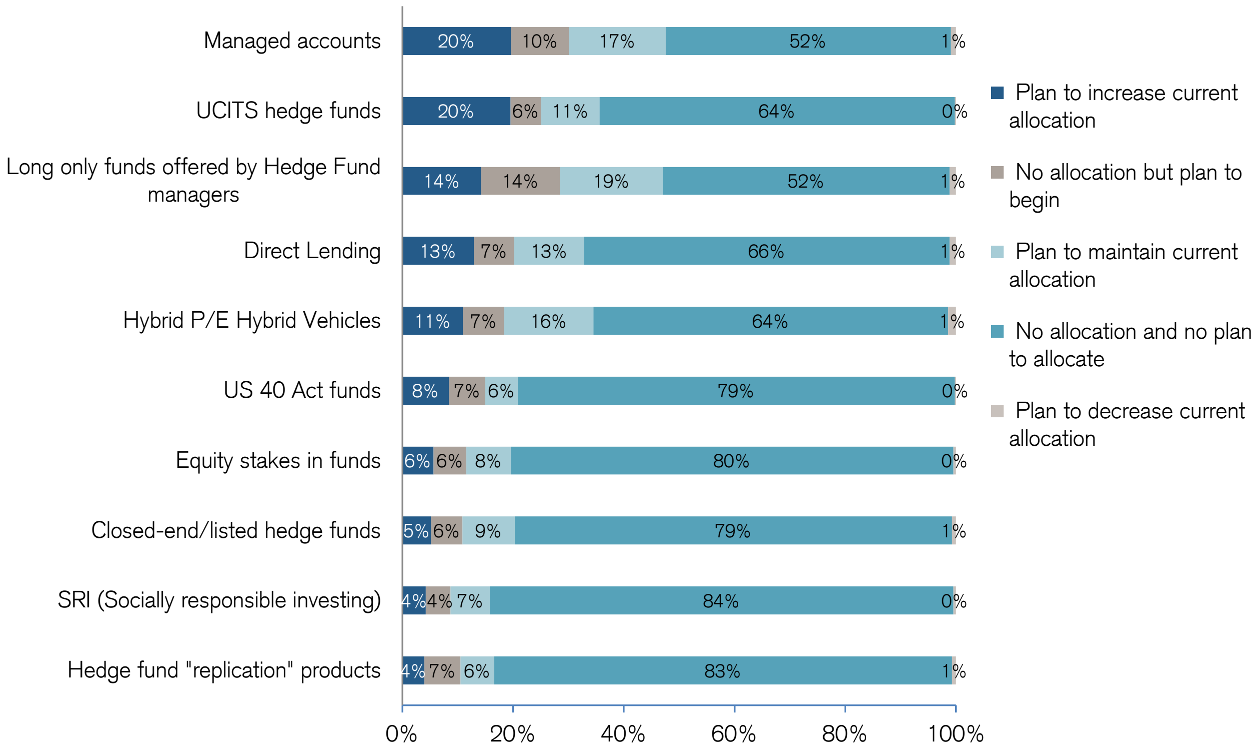
Appetite for 40 Act – by region



- Breaking 40 Act fund appetite down by region, appetite is skewed towards US investors maintaining or increasing allocation.

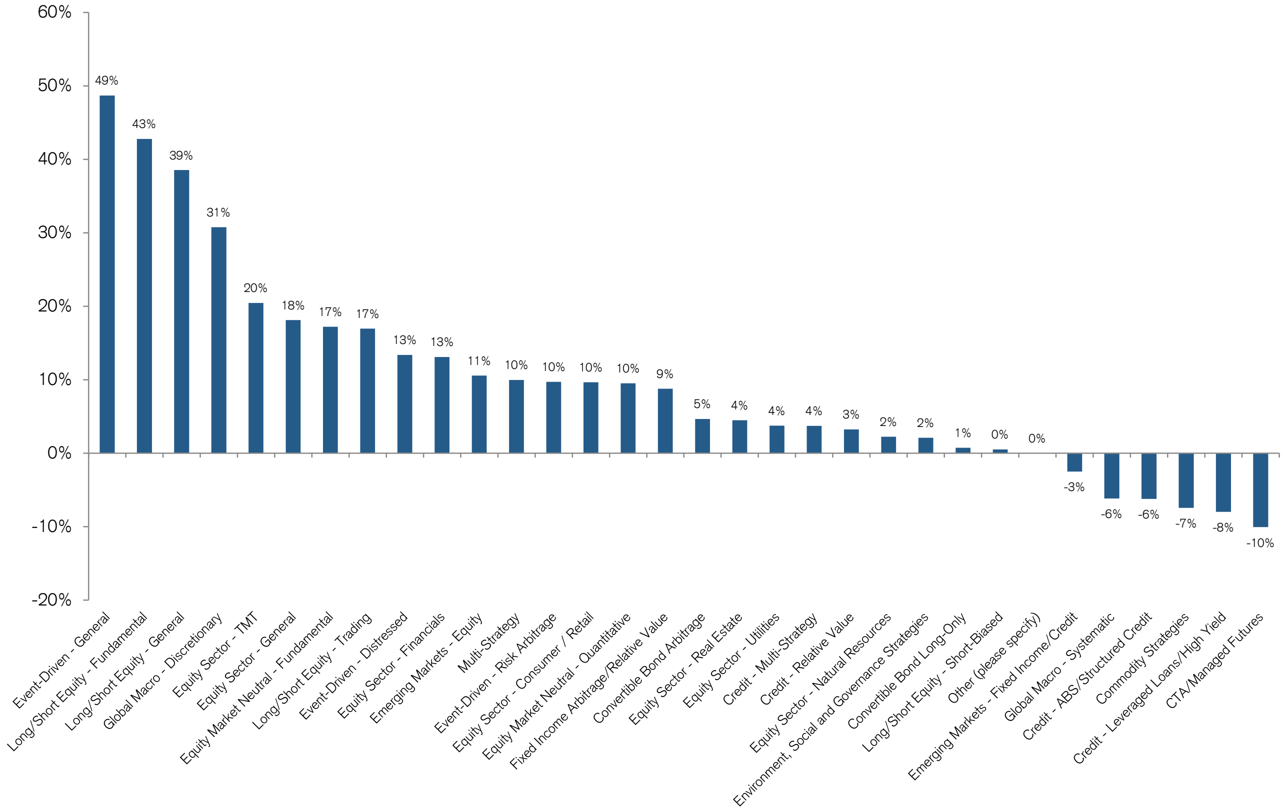
5. Alternative Investment Formats and Structures

Other formats investors' absolute-return investments can take

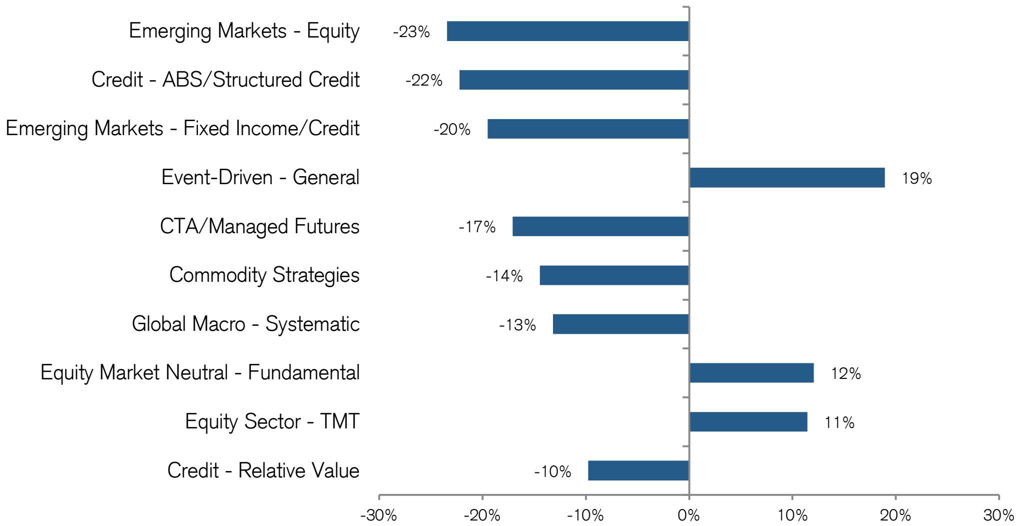


Appendix V – Strategy Appetite

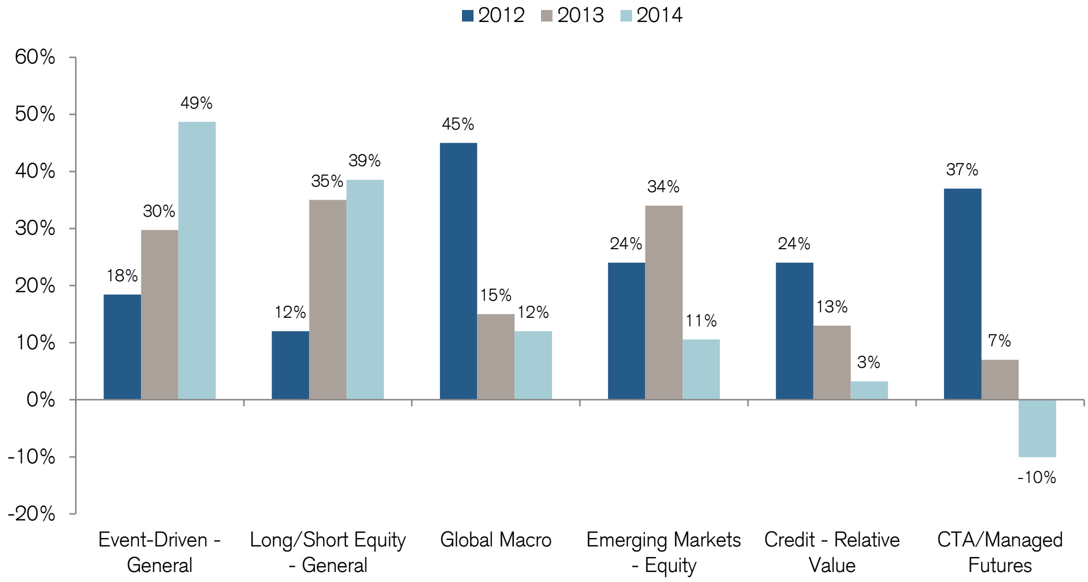
All principal strategies, ranked by current net demand



Top ten biggest “swings”, ranked by absolute year-on-year change in net demand



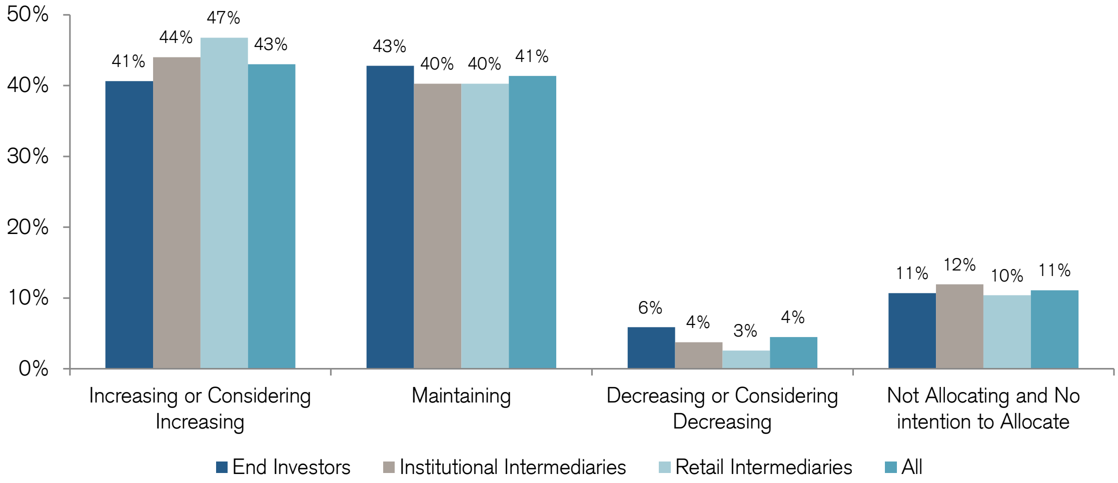
Yearly evolution of net demand across main strategies



1. Equity Strategies

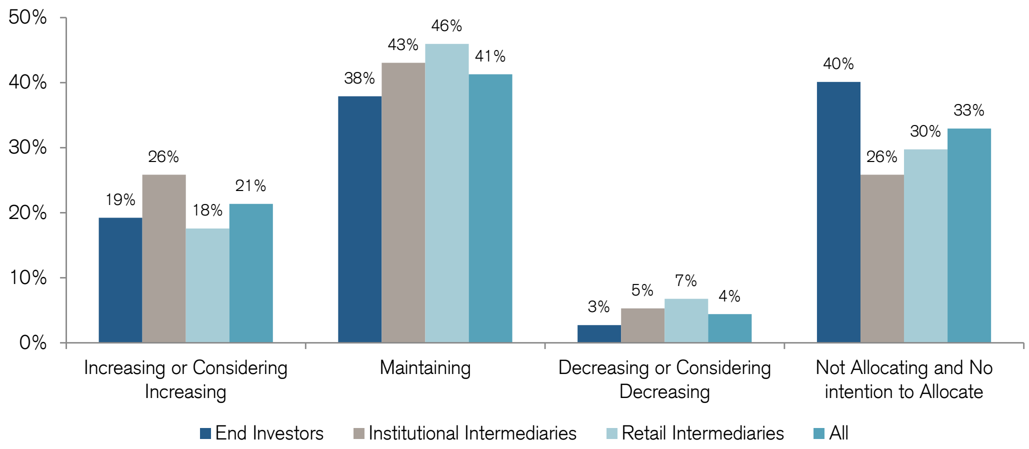
Long/Short Equity – General

- Percentage actively increasing or considering increasing allocations: **43%**
- Net percentage actively increasing or considering increasing allocations: **39%**



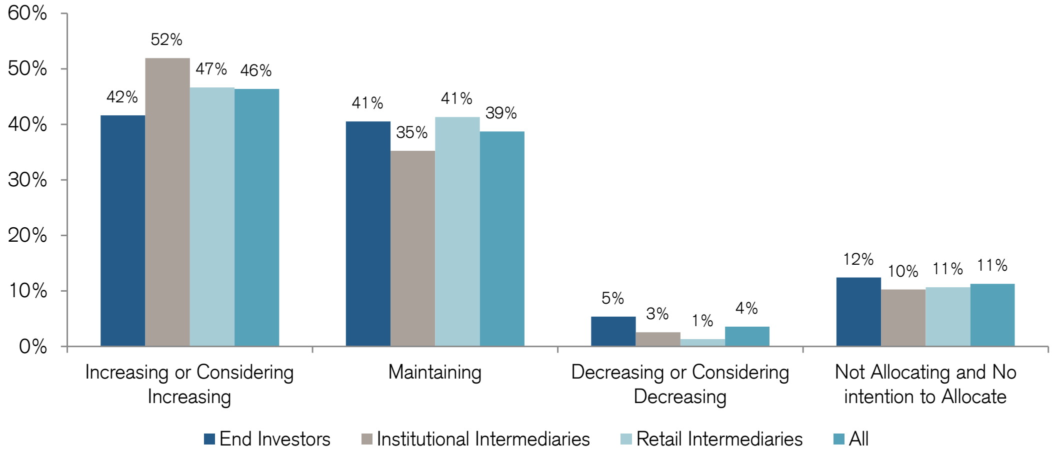
Long/Short Equity – Trading

- Percentage actively increasing or considering increasing allocations: **21%**
- Net percentage actively increasing or considering increasing allocations: **17%**



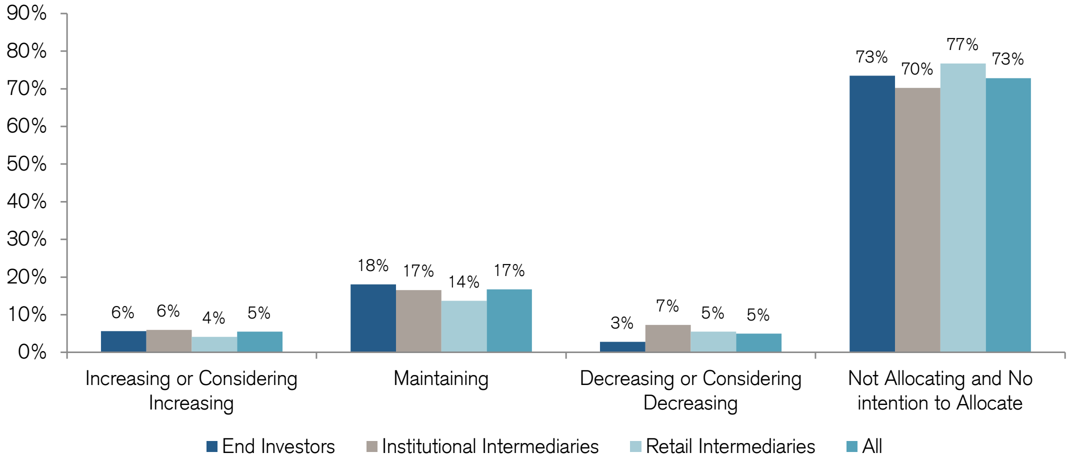
Long/Short Equity – Fundamental

- Percentage actively increasing or considering increasing allocations: **46%**
- Net percentage actively increasing or considering increasing allocations: **42%**



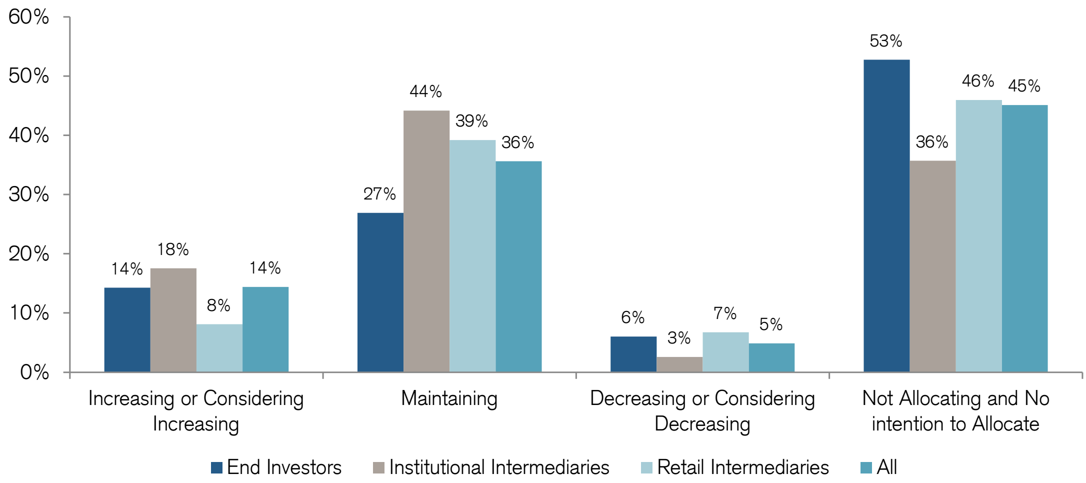
Long/Short Equity – Short-Biased

- Percentage actively increasing or considering increasing allocations: **5%**
- Net percentage actively increasing or considering increasing allocations: **0%**



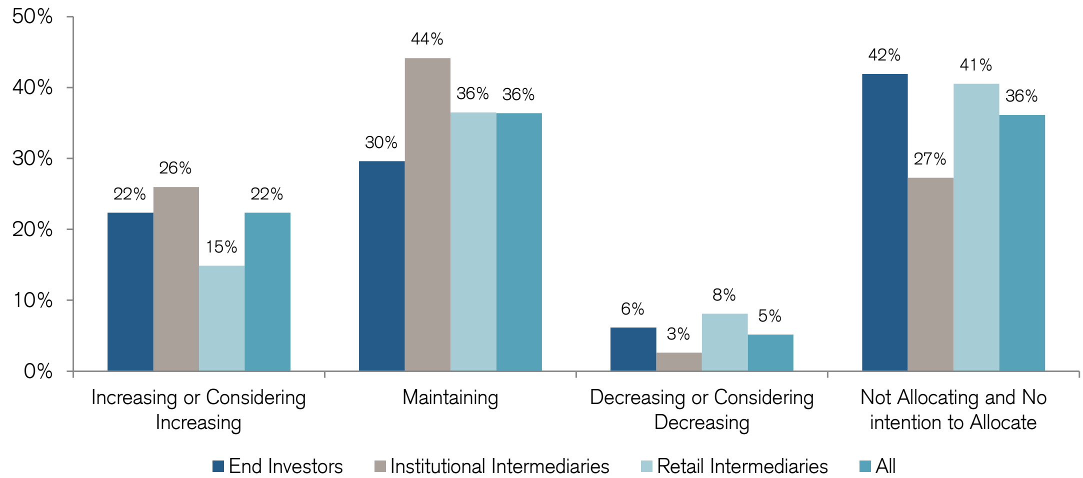
Equity Market Neutral – Quantitative

- Percentage actively increasing or considering increasing allocations: **14%**
- Net percentage actively increasing or considering increasing allocations: **9%**



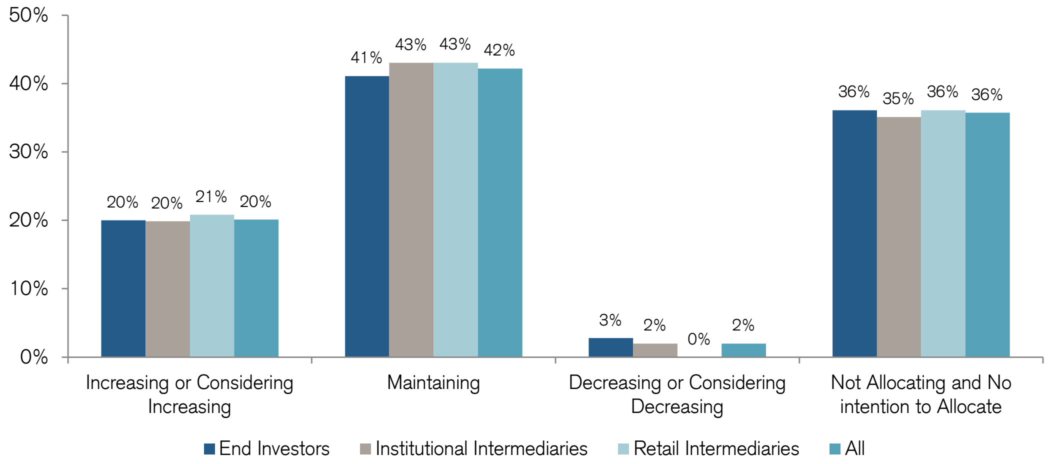
Equity Market Neutral – Fundamental

- Percentage actively increasing or considering increasing allocations: **22%**
- Net percentage actively increasing or considering increasing allocations: **17%**



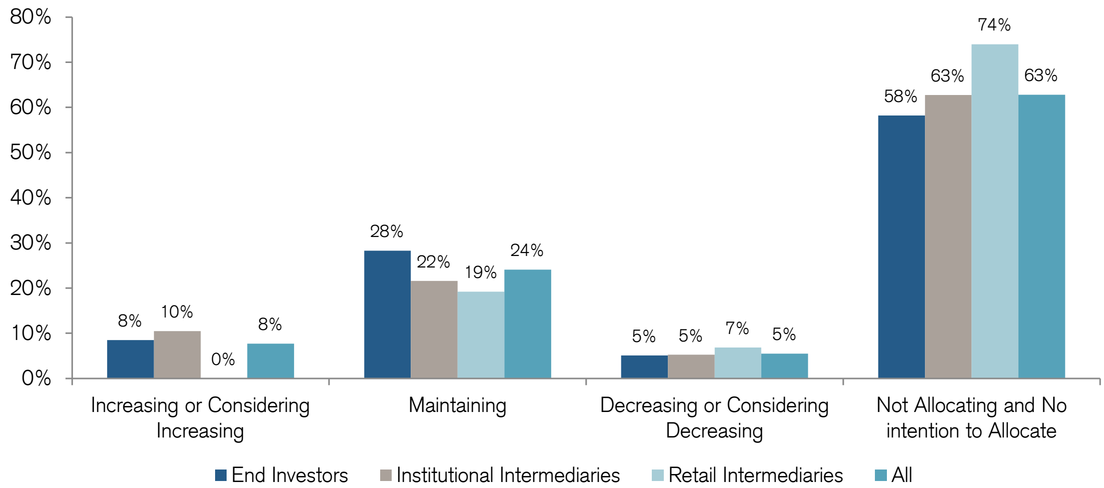
Equity Sector – General

- Percentage actively increasing or considering increasing allocations: **20%**
- Net percentage actively increasing or considering increasing allocations: **18%**



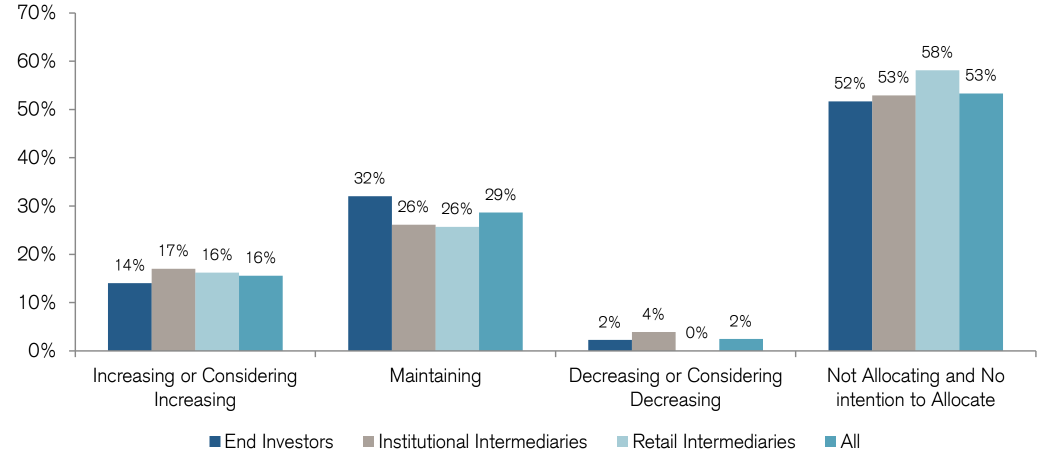
Equity Sector – Natural Resources

- Percentage actively increasing or considering increasing allocations: **8%**
- Net percentage actively increasing or considering increasing allocations: **3%**



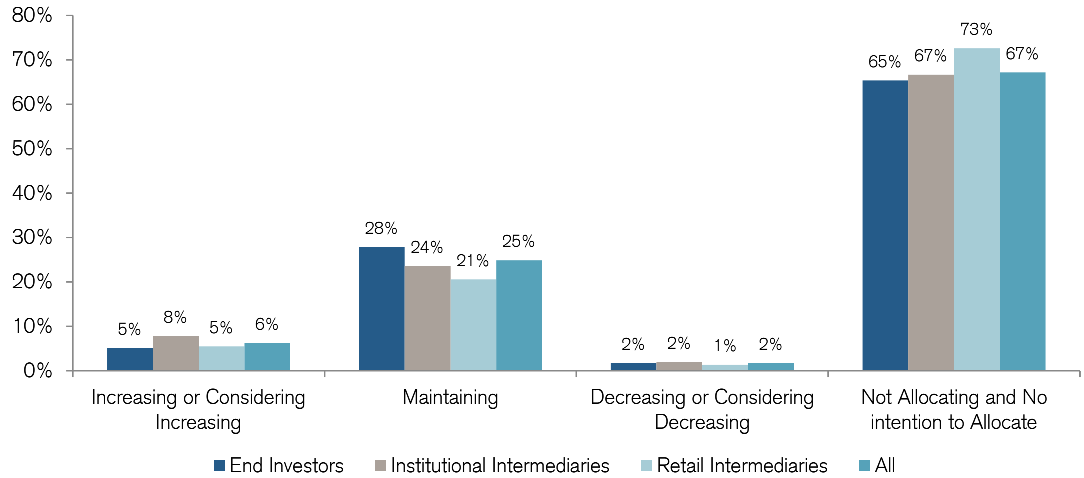
Equity Sector – Financials

- Percentage actively increasing or considering increasing allocations: **16%**
- Net percentage actively increasing or considering increasing allocations: **14%**



Equity Sector – Real Estate

- Percentage actively increasing or considering increasing allocations: **6%**
- Net percentage actively increasing or considering increasing allocations: **4%**



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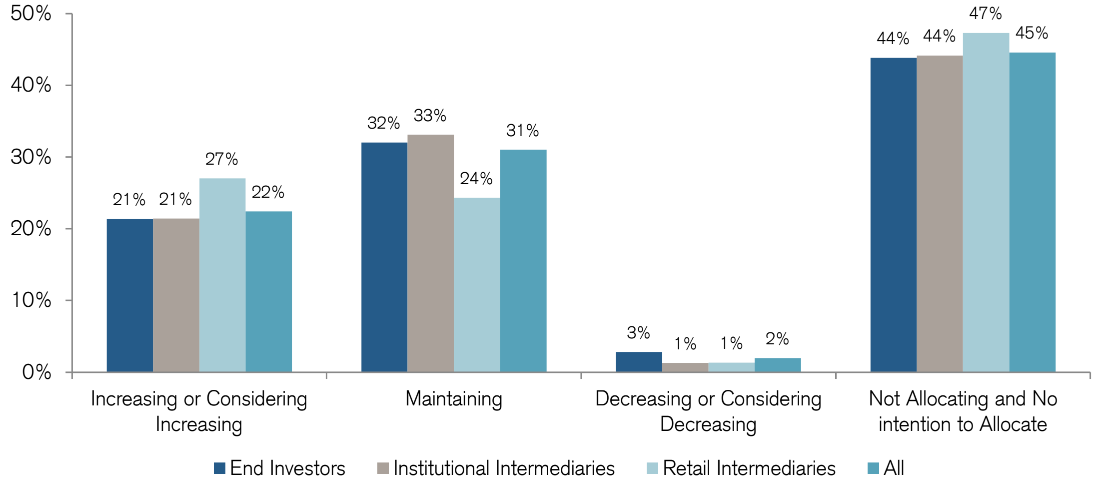
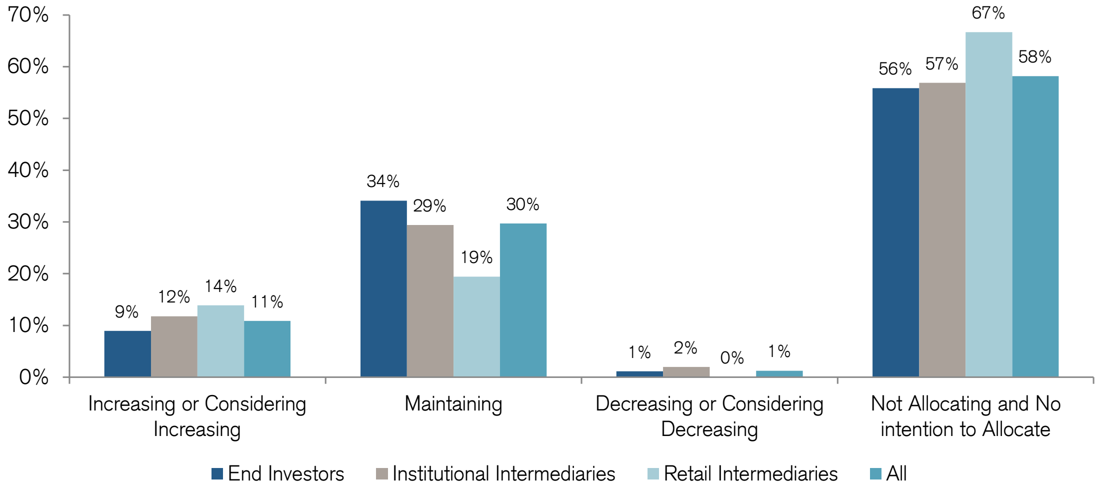
Equity Sector – TMT

- Percentage actively increasing or considering increasing allocations: **22%**
- Net percentage actively increasing or considering increasing allocations: **20%**



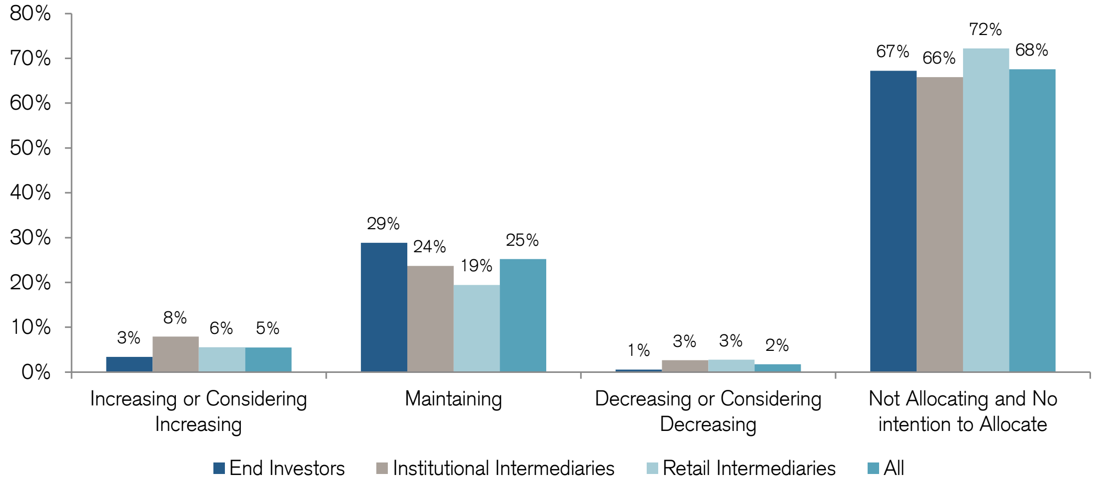
Equity Sector – Consumer/Retail

- Percentage actively increasing or considering increasing allocations: **11%**
- Net percentage actively increasing or considering increasing allocations: **10%**



Equity Sector – Utilities

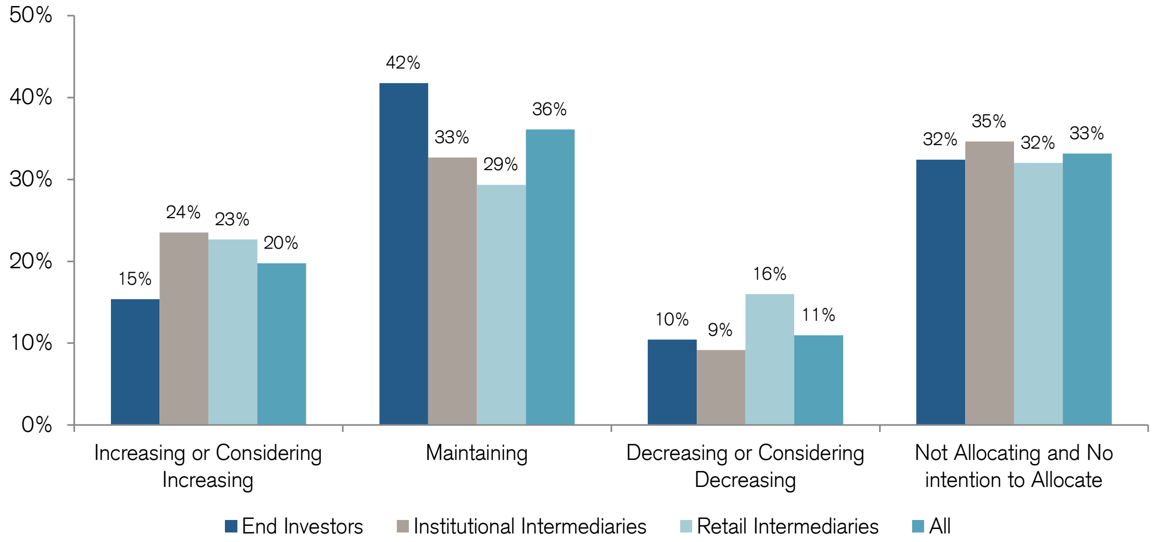
- Percentage actively increasing or considering increasing allocations: **5%**
- Net percentage actively increasing or considering increasing allocations: **3%**



2. Fixed Income/Derivative Strategies

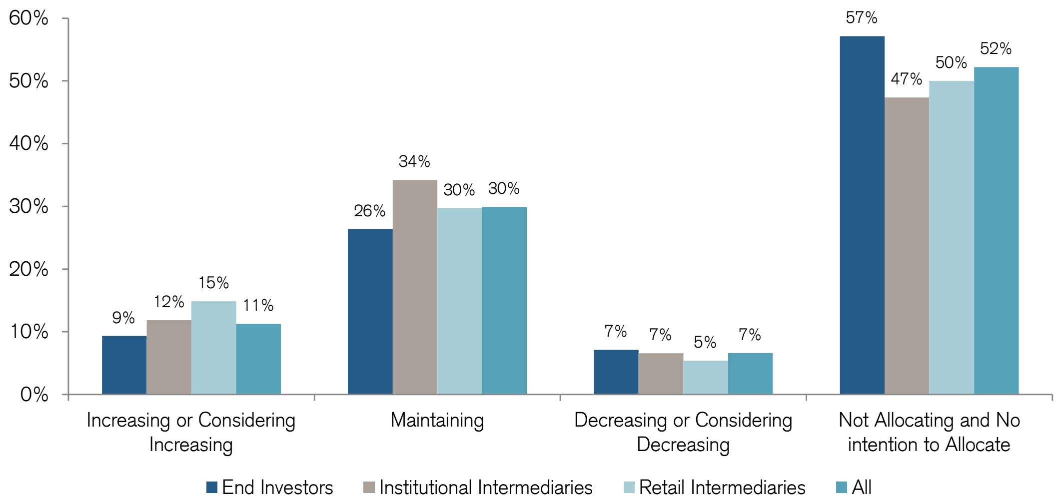
Fixed Income Arbitrage/Relative Value

- Percentage actively increasing or considering increasing allocations: **20%**
- Net percentage actively increasing or considering increasing allocations: **9%**



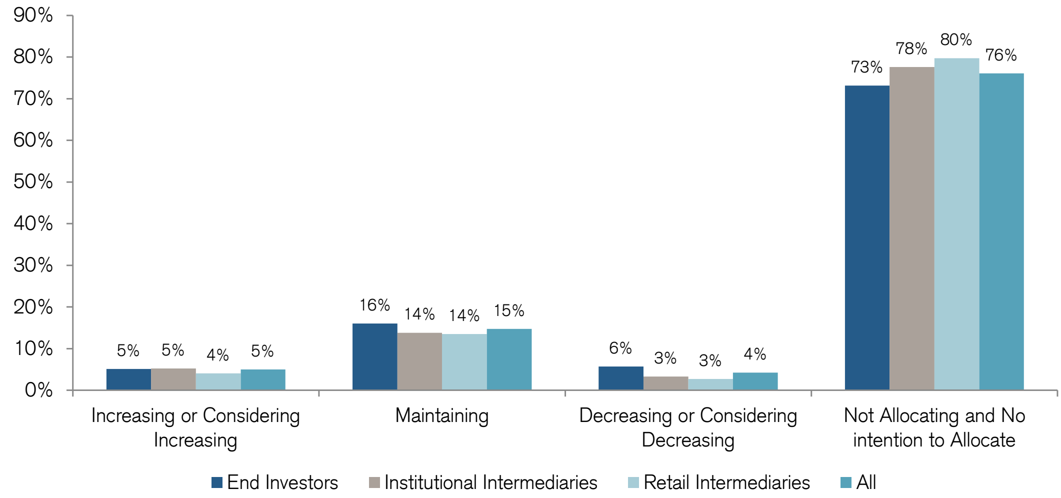
Convertible Bond Arbitrage

- Percentage actively increasing or considering increasing allocations: **11%**
- Net percentage actively increasing or considering increasing allocations: **4%**



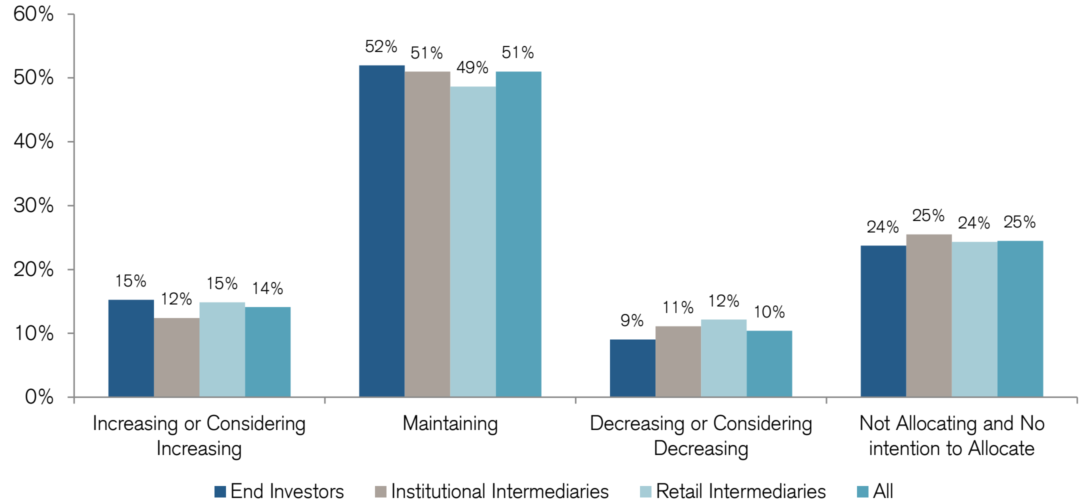
Convertible Bond Arbitrage – Long-Only

- Percentage actively increasing or considering increasing allocations: **5%**
- Net percentage actively increasing or considering increasing allocations: **1%**



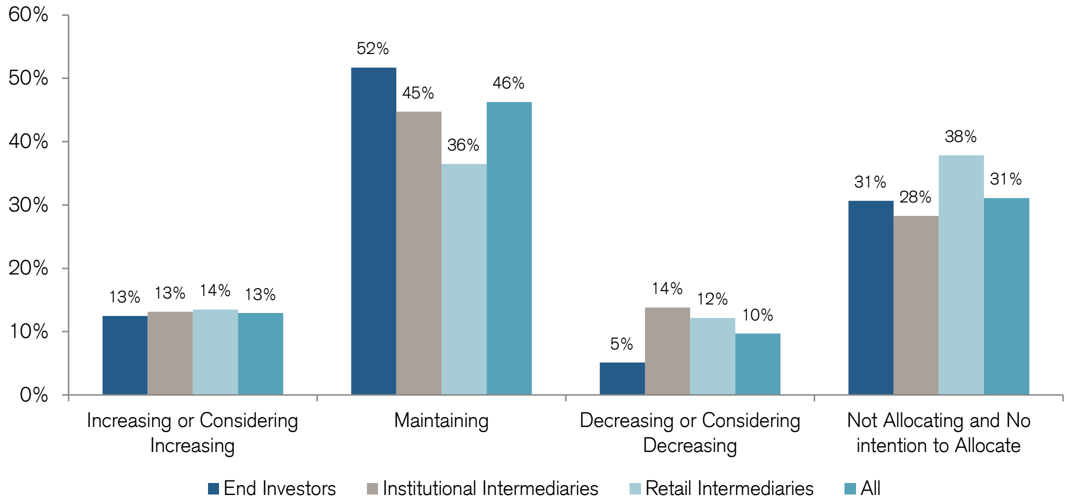
Credit – Multi-Strategy

- Percentage actively increasing or considering increasing allocations: **14%**
- Net percentage actively increasing or considering increasing allocations: **4%**



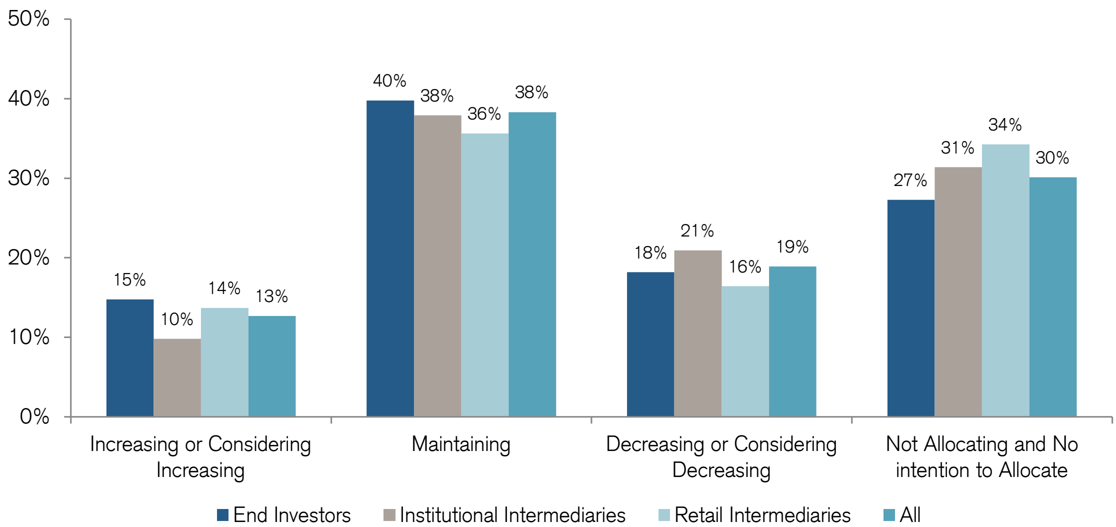
Credit – Relative Value

- Percentage actively increasing or considering increasing allocations: **13%**
- Net percentage actively increasing or considering increasing allocations: **3%**



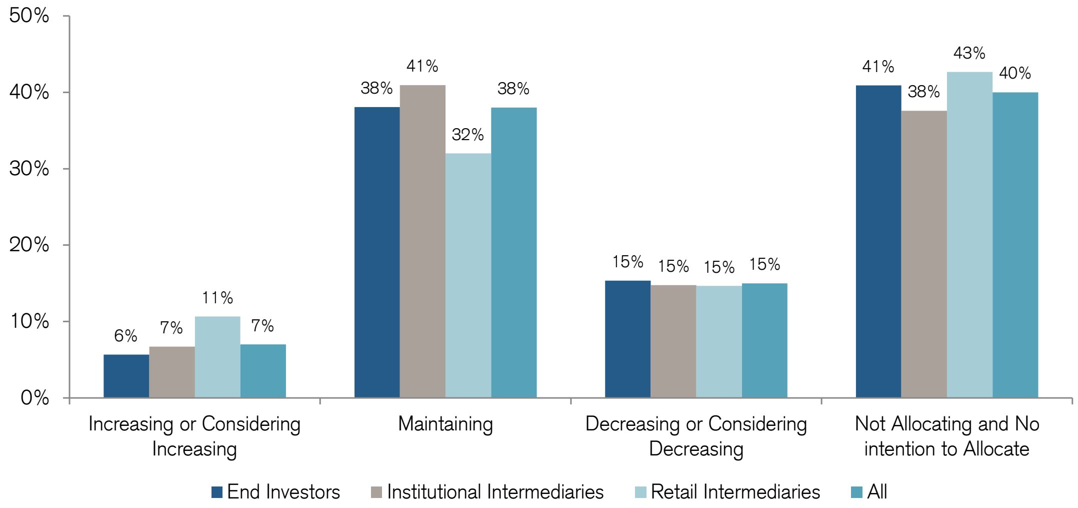
Credit - ABS/Structured Credit

- Percentage actively increasing or considering increasing allocations: **13%**
- Net percentage actively increasing or considering increasing allocations: **-6%**



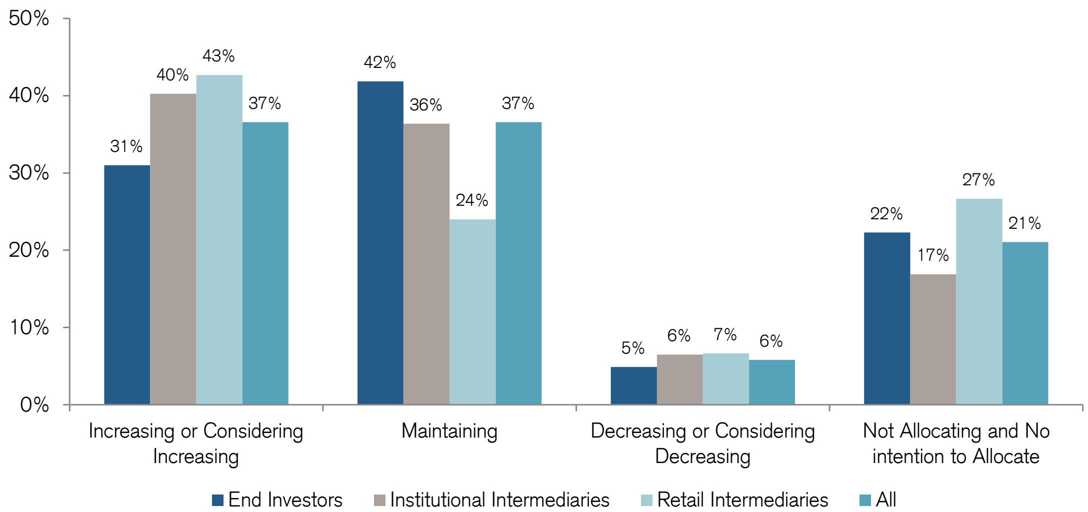
Credit – Leveraged Loans/High Yield

- Percentage actively increasing or considering increasing allocations: **7%**
- Net percentage actively increasing or considering increasing allocations: **-8%**



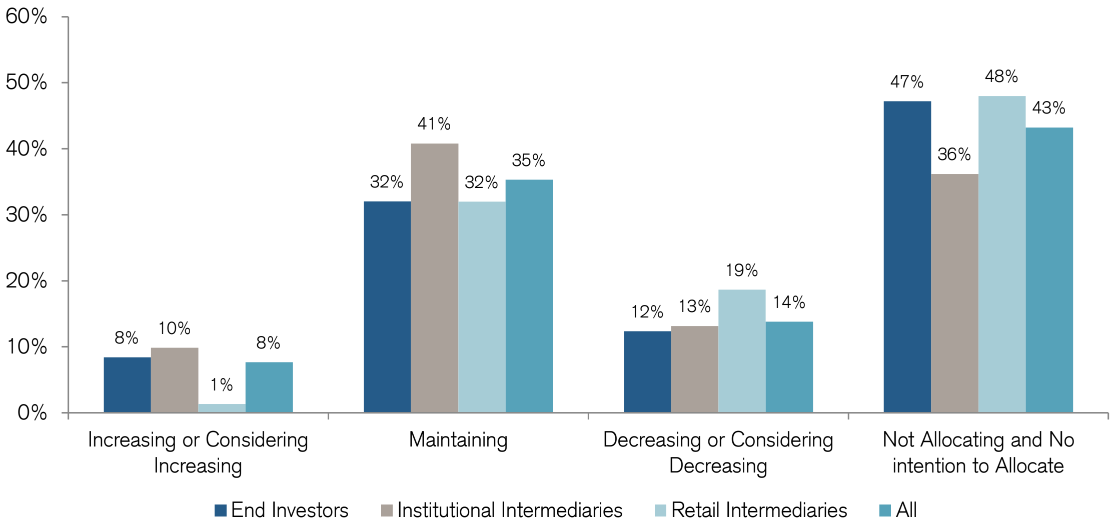
Global Macro - Discretionary

- Percentage actively increasing or considering increasing allocations: **37%**
- Net percentage actively increasing or considering increasing allocations: **31%**



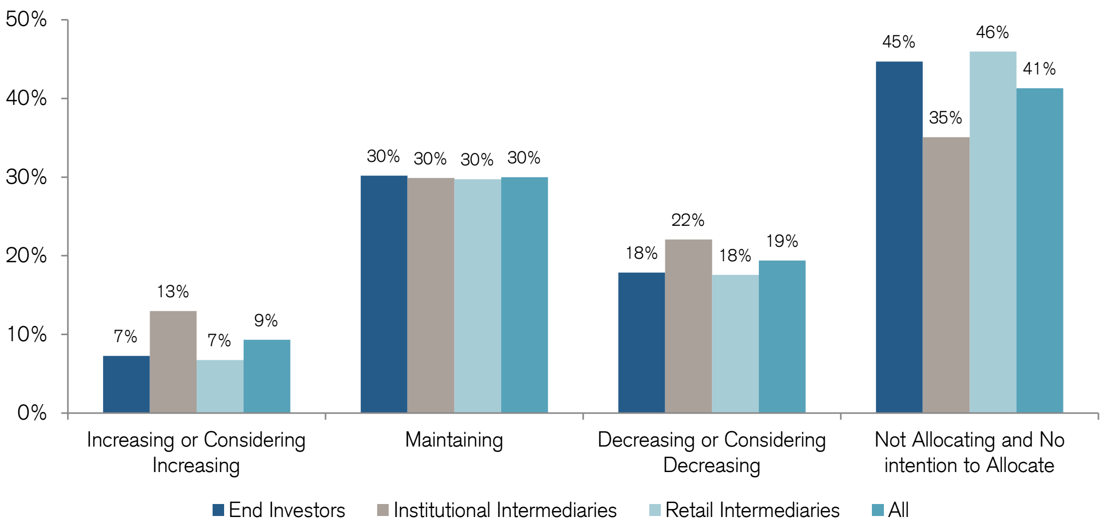
Global Macro - Systematic

- Percentage actively increasing or considering increasing allocations: **8%**
- Net percentage actively increasing or considering increasing allocations: **-6%**



CTA/Managed Futures

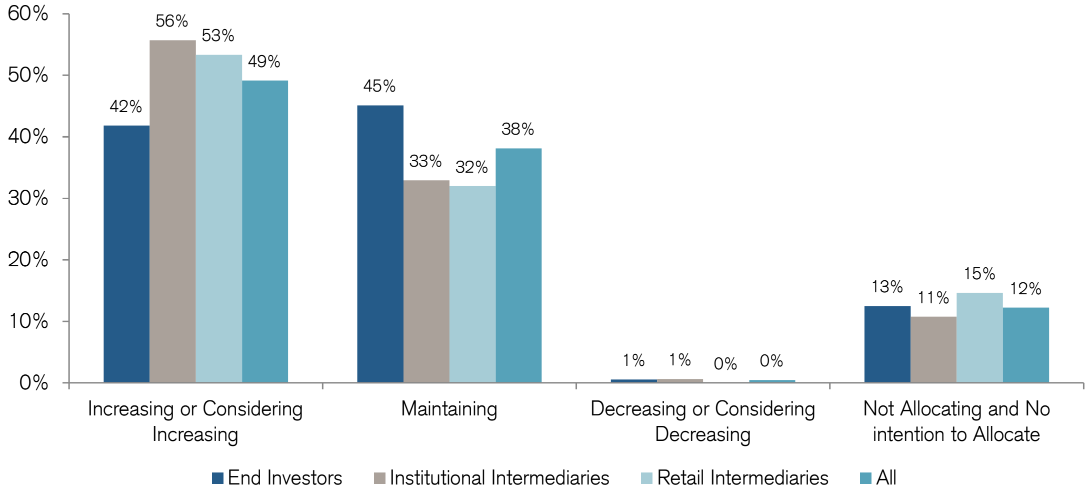
- Percentage actively increasing or considering increasing allocations: **9%**
- Net percentage actively increasing or considering increasing allocations: **-10%**



3. Other Strategies

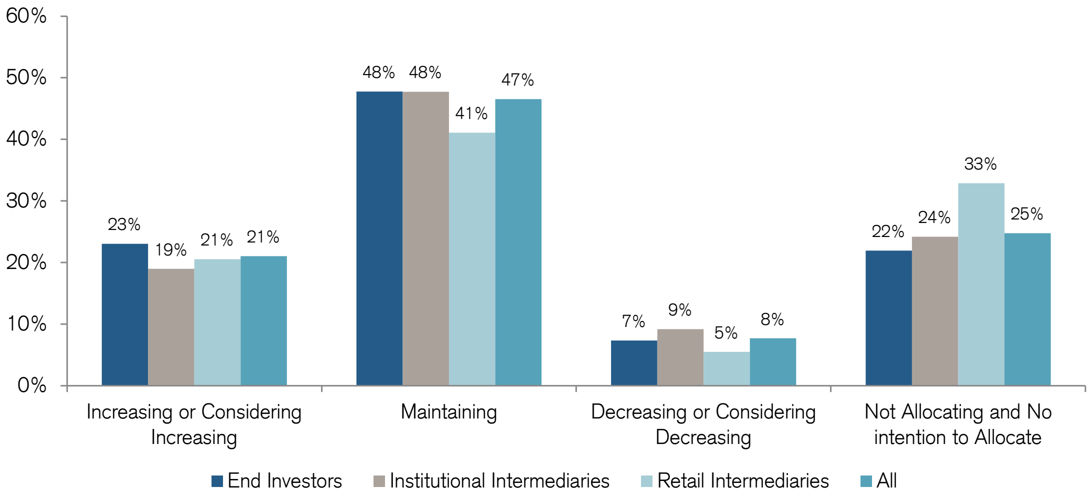
Event-Driven – General

- Percentage actively increasing or considering increasing allocations: **49%**
- Net percentage actively increasing or considering increasing allocations: **49%**



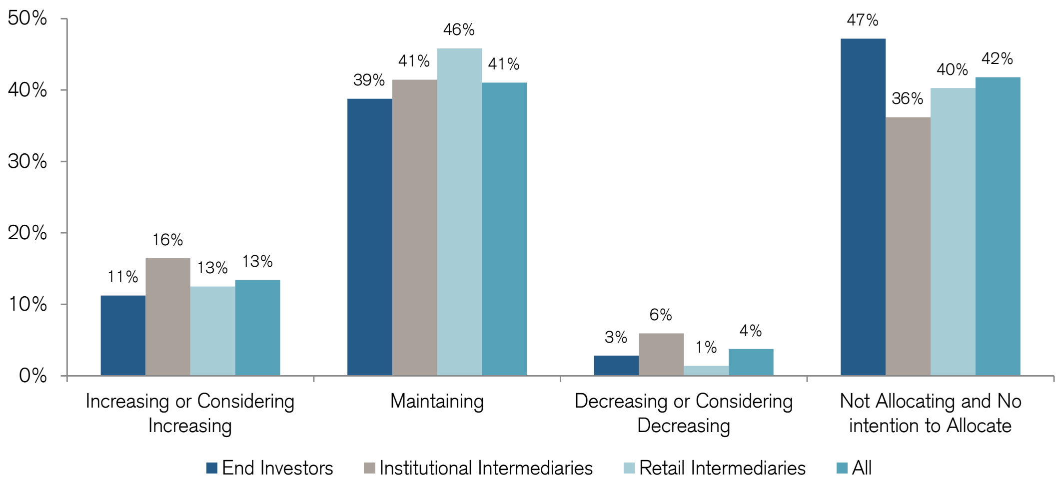
Event-Driven – Distressed

- Percentage actively increasing or considering increasing allocations: **21%**
- Net percentage actively increasing or considering increasing allocations: **13%**



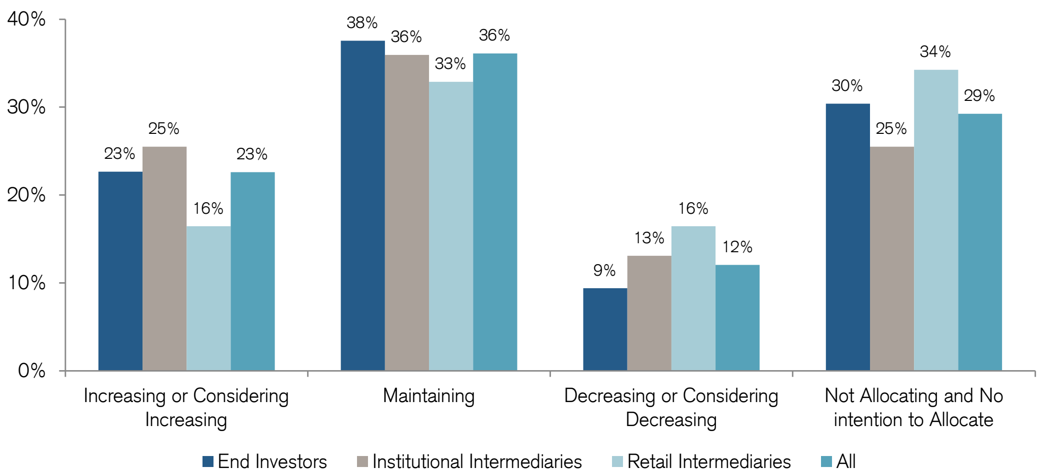
Event-Driven – Risk Arbitrage

- Percentage actively increasing or considering increasing allocations: **13%**
- Net percentage actively increasing or considering increasing allocations: **9%**



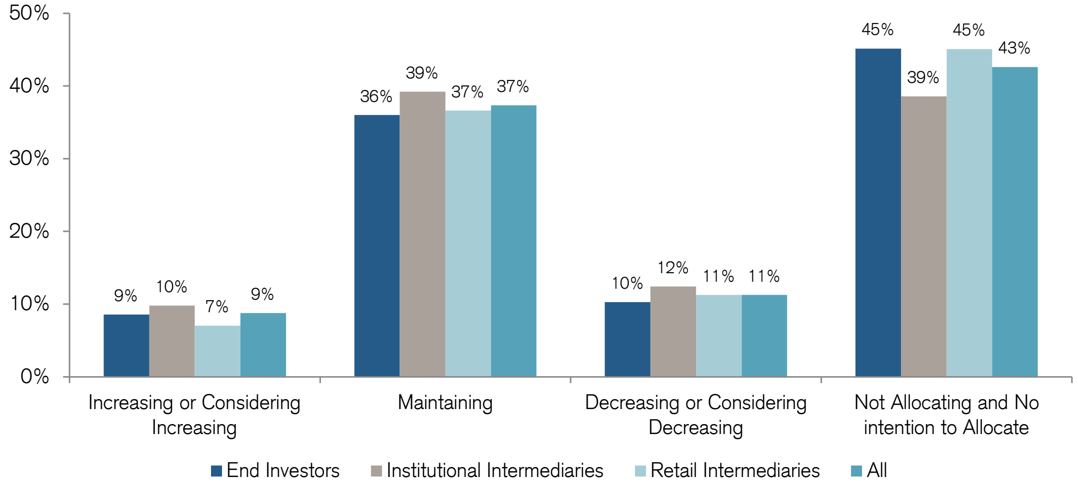
Emerging Markets – Equity

- Percentage actively increasing or considering increasing allocations: **23%**
- Net percentage actively increasing or considering increasing allocations: **11%**



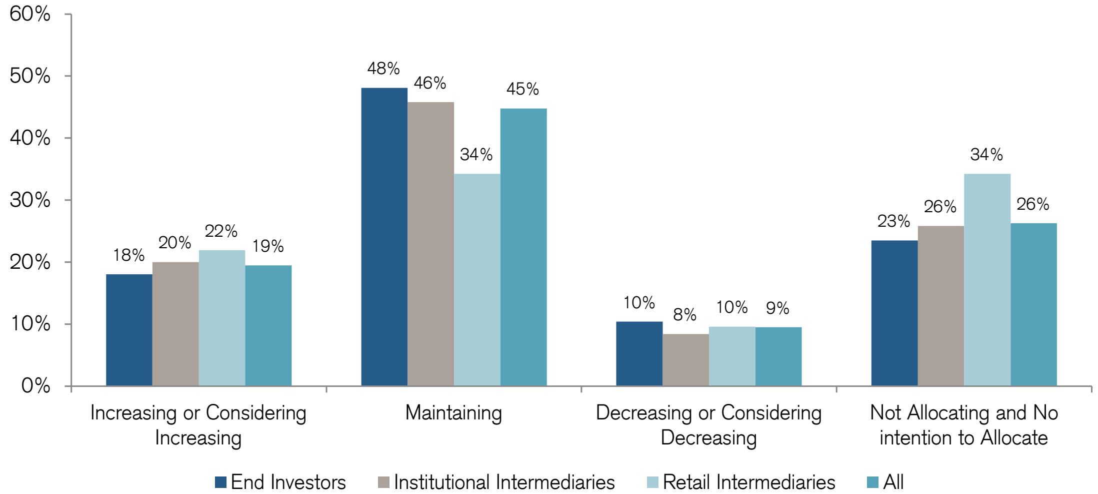
Emerging Markets – Fixed Income/Credit

- Percentage actively increasing or considering increasing allocations: **9%**
- Net percentage actively increasing or considering increasing allocations: **-2%**



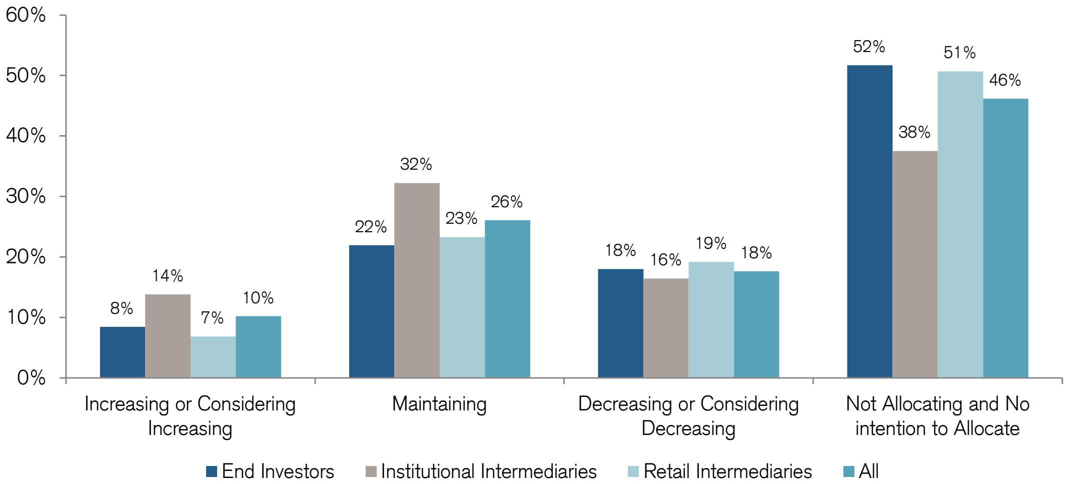
Multi-Strategy

- Percentage actively increasing or considering increasing allocations: **19%**
- Net percentage actively increasing or considering increasing allocations: **10%**



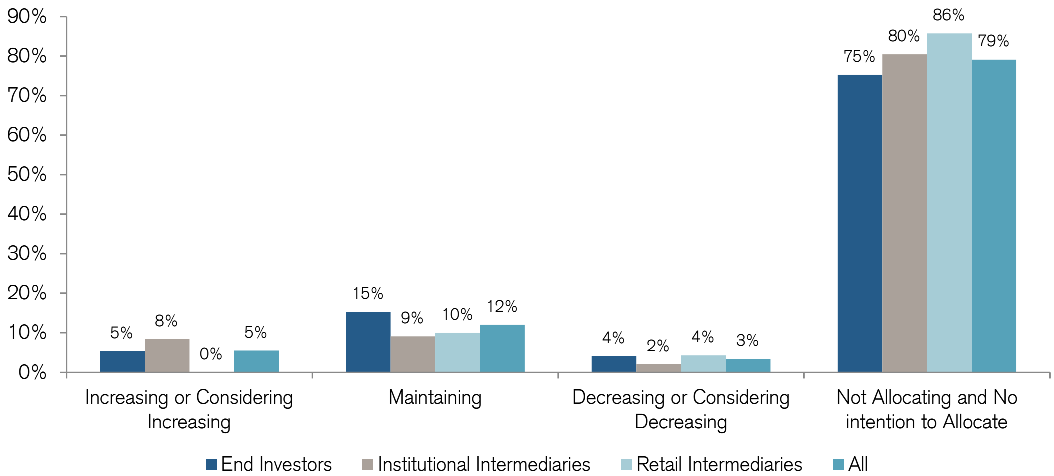
Commodity Strategies

- Percentage actively increasing or considering increasing allocations: **10%**
- Net percentage actively increasing or considering increasing allocations: **-8%**



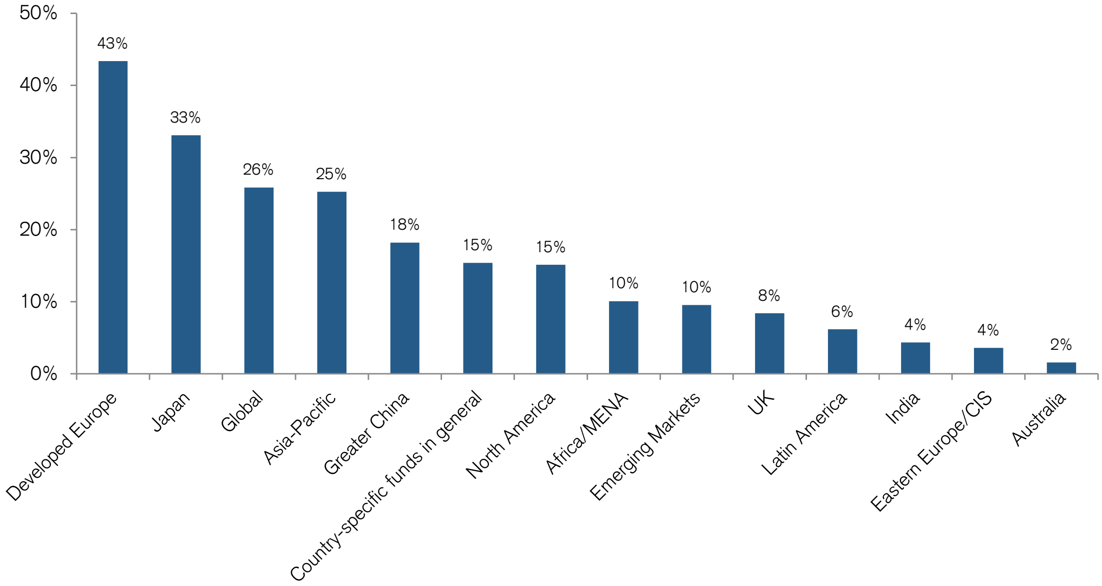
Environment, Social and Governance (Socially Responsible Investing) Strategies

- Percentage actively increasing or considering increasing allocations: **5%**
- Net percentage actively increasing or considering increasing allocations: **2%**

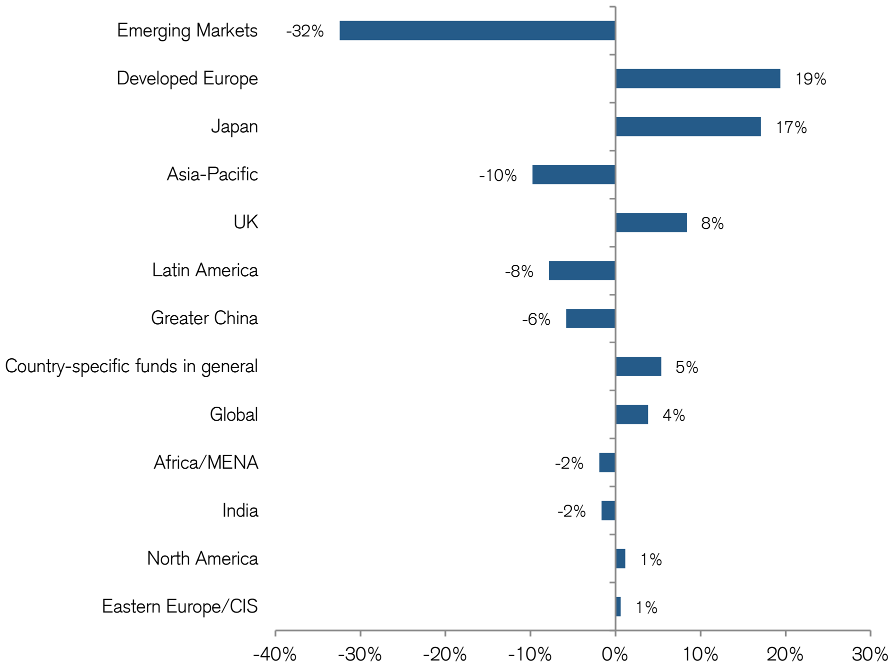


4. By Geographic Focus

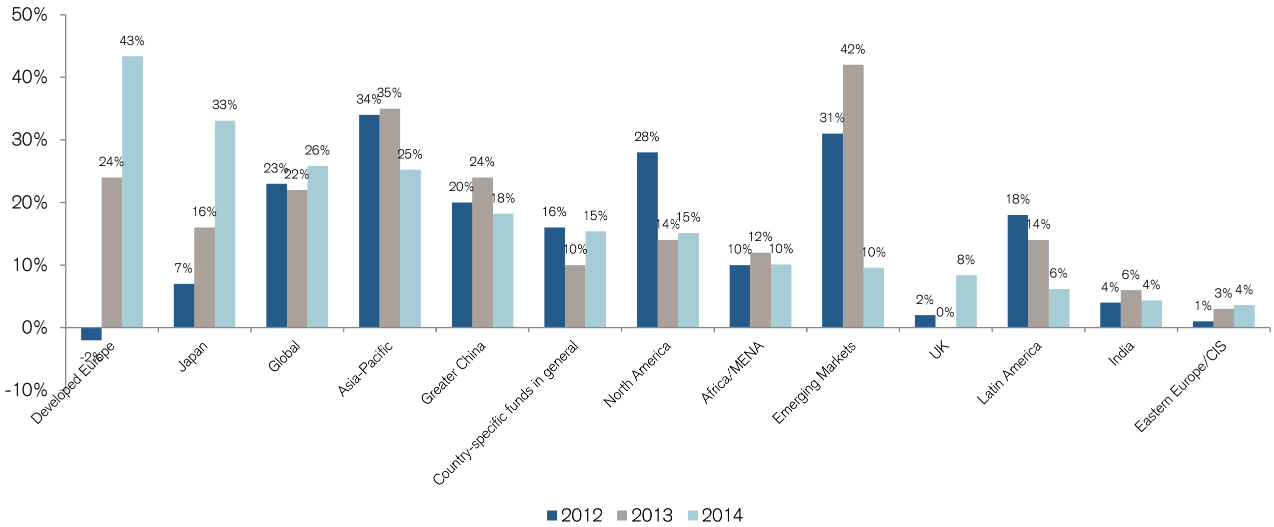
All principal geographies, ranked by current net demand



Top ten biggest "swings", ranked by absolute year-on-year change in net demand



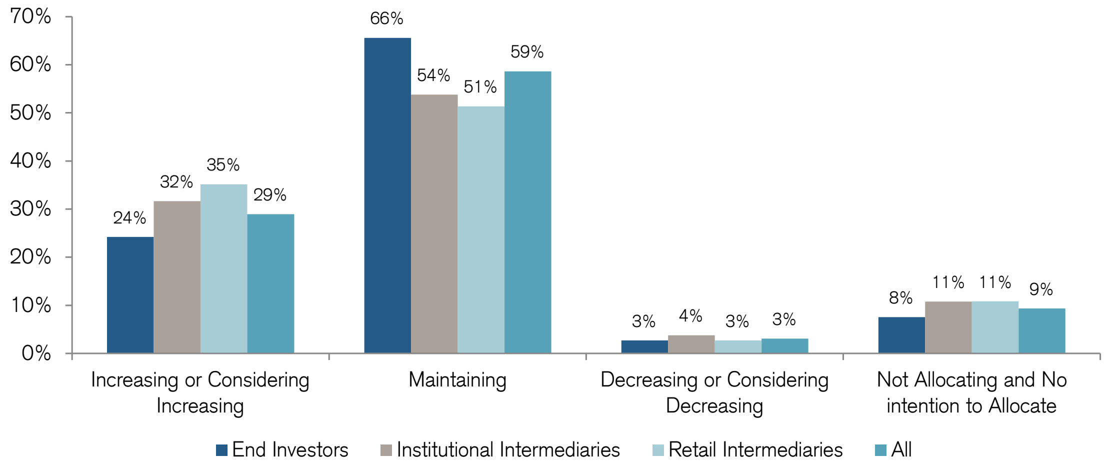
Yearly evolution of net demand across all regions



5. Regional Breakdown

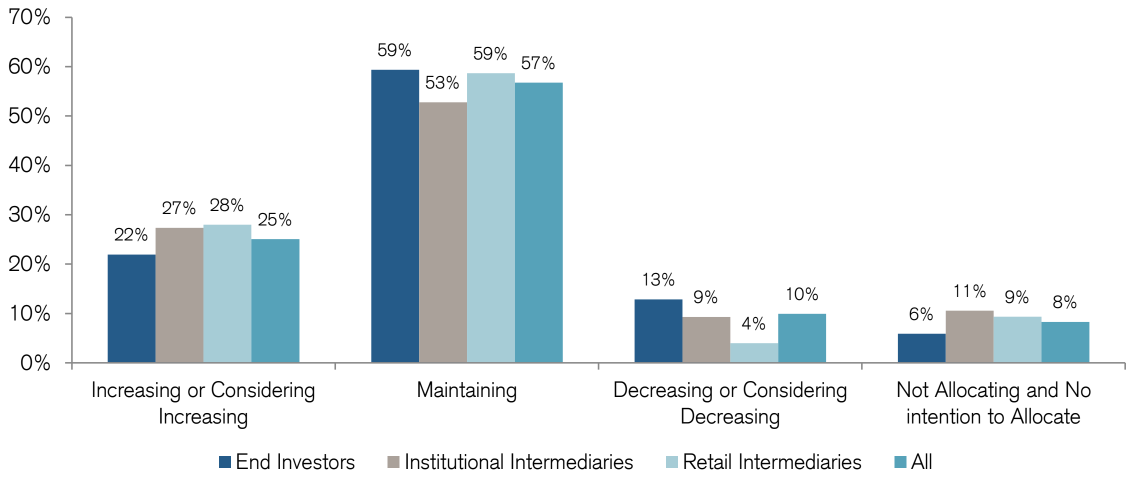
Global

- Percentage actively increasing or considering increasing allocations: **29%**
- Net percentage actively increasing or considering increasing allocations: **26%**



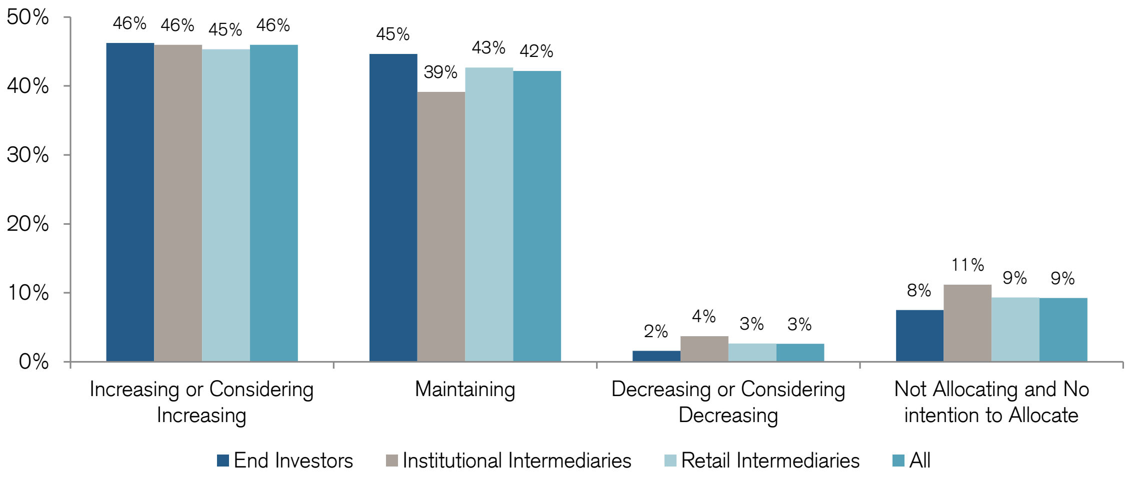
North America

- Percentage actively increasing or considering increasing allocations: **25%**
- Net percentage actively increasing or considering increasing allocations: **15%**



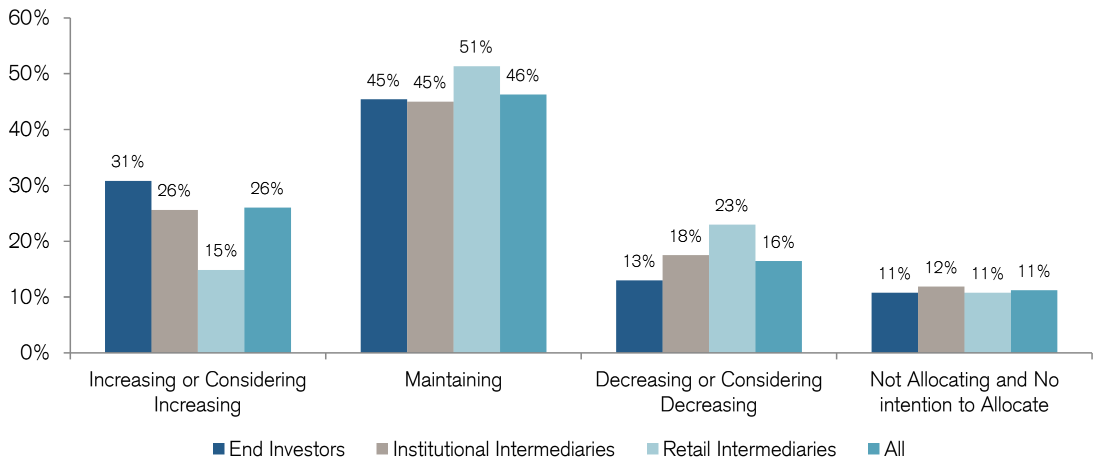
Developed Europe

- Percentage actively increasing or considering increasing allocations: **46%**
- Net percentage actively increasing or considering increasing allocations: **43%**



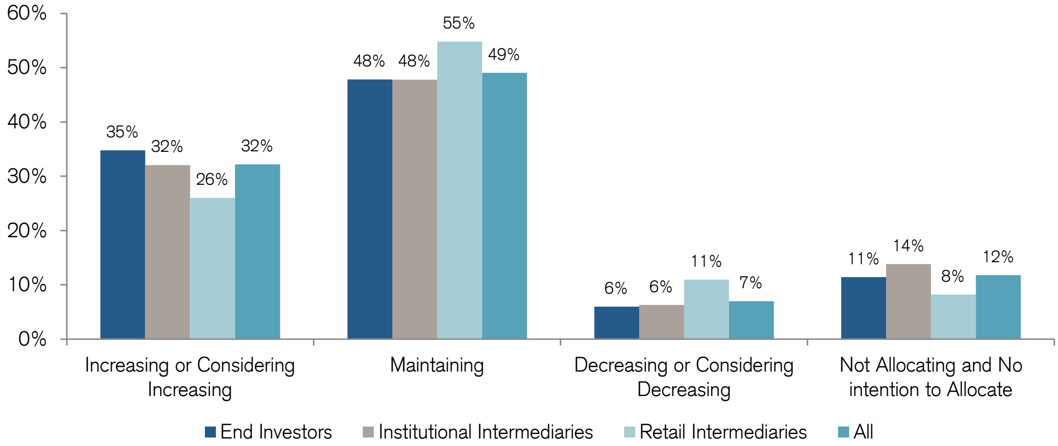
Emerging Markets

- Percentage actively increasing or considering increasing allocations: **26%**
- Net percentage actively increasing or considering increasing allocations: **10%**



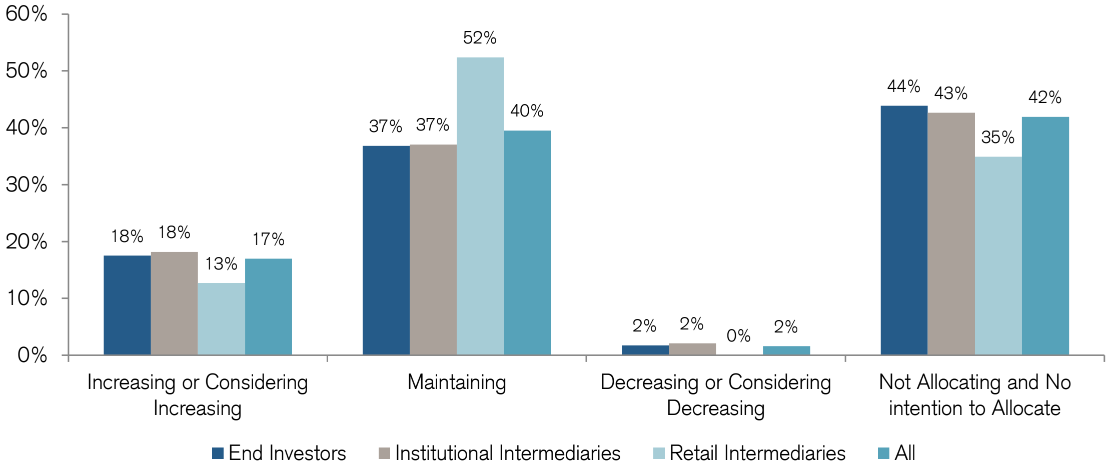
Asia-Pacific

- Percentage actively increasing or considering increasing allocations: **32%**
- Net percentage actively increasing or considering increasing allocations: **25%**



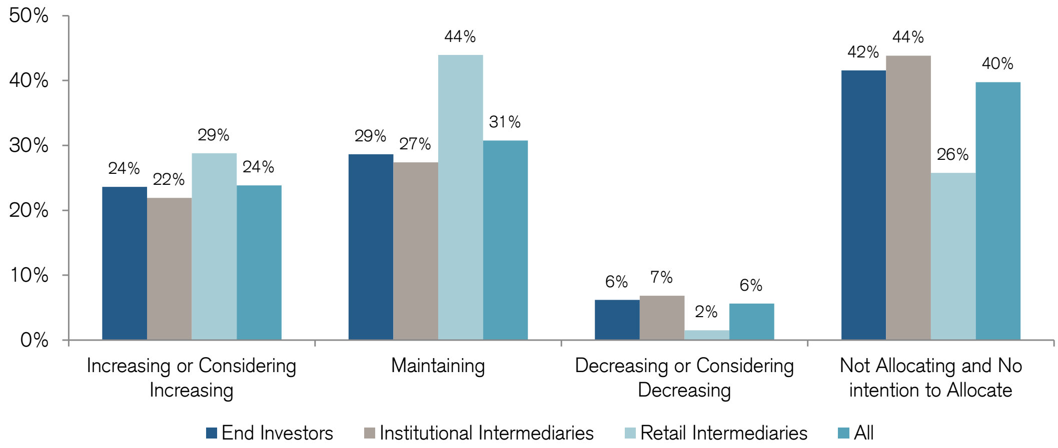
Country-Specific Funds in General

- Percentage actively increasing or considering increasing allocations: **17%**
- Net percentage actively increasing or considering increasing allocations: **15%**



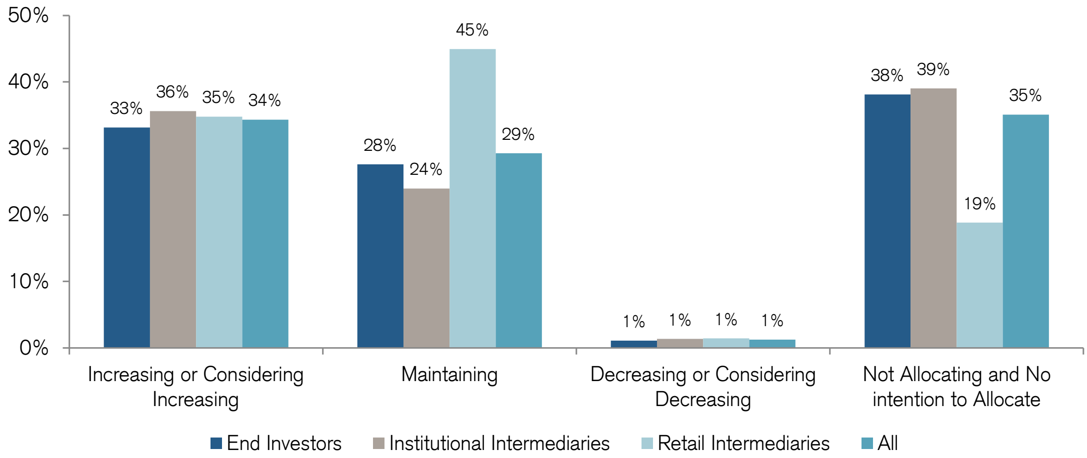
Greater China

- Percentage actively increasing or considering increasing allocations: **24%**
- Net percentage actively increasing or considering increasing allocations: **18%**



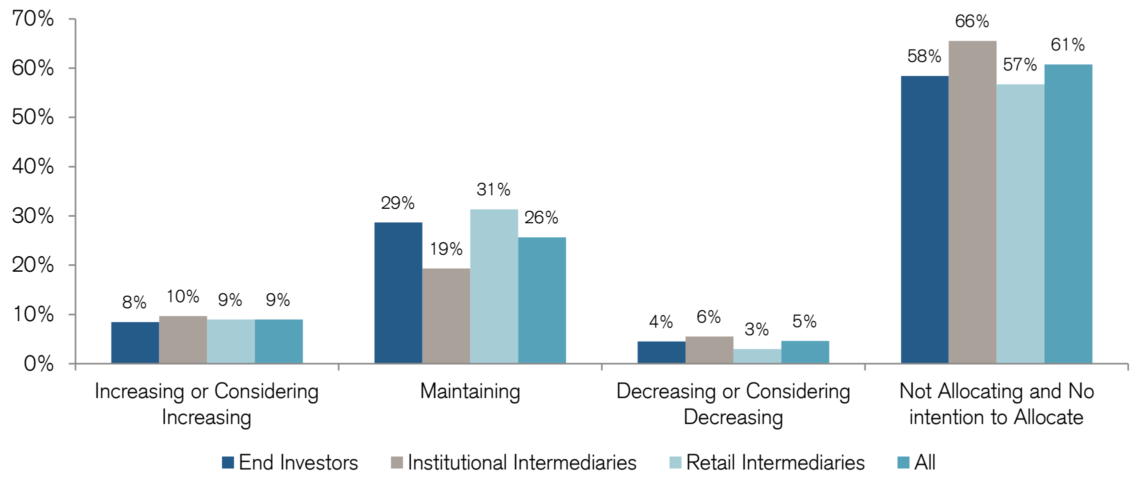
Japan

- Percentage actively increasing or considering increasing allocations: **34%**
- Net percentage actively increasing or considering increasing allocations: **33%**



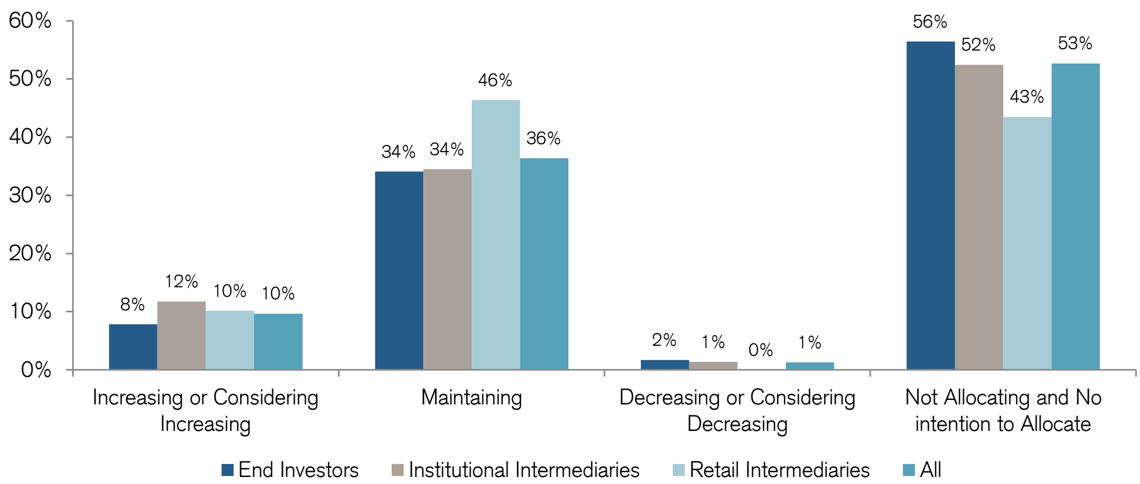
India

- Percentage actively increasing or considering increasing allocations: **9%**
- Net percentage actively increasing or considering increasing allocations: **4%**



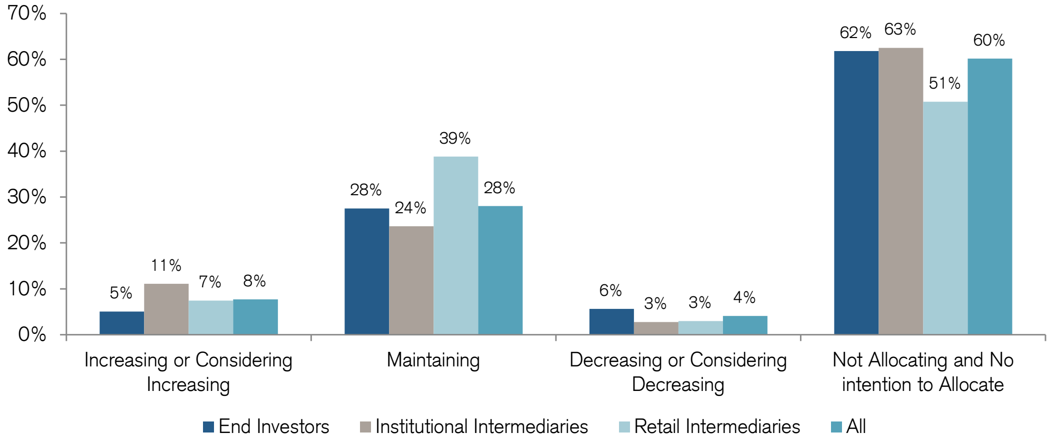
UK

- Percentage actively increasing or considering increasing allocations: **10%**
- Net percentage actively increasing or considering increasing allocations: **9%**



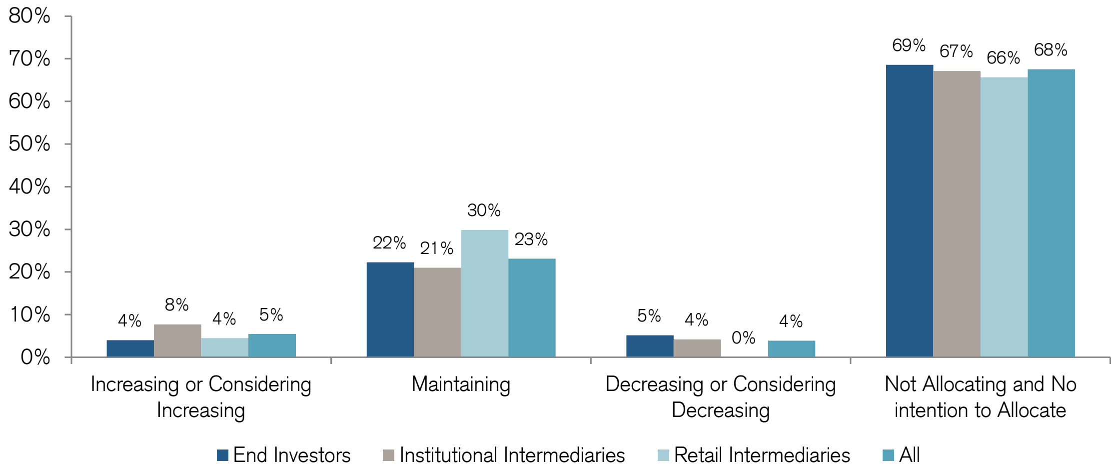
Eastern Europe/CIS

- Percentage actively increasing or considering increasing allocations: **8%**
- Net percentage actively increasing or considering increasing allocations: **4%**



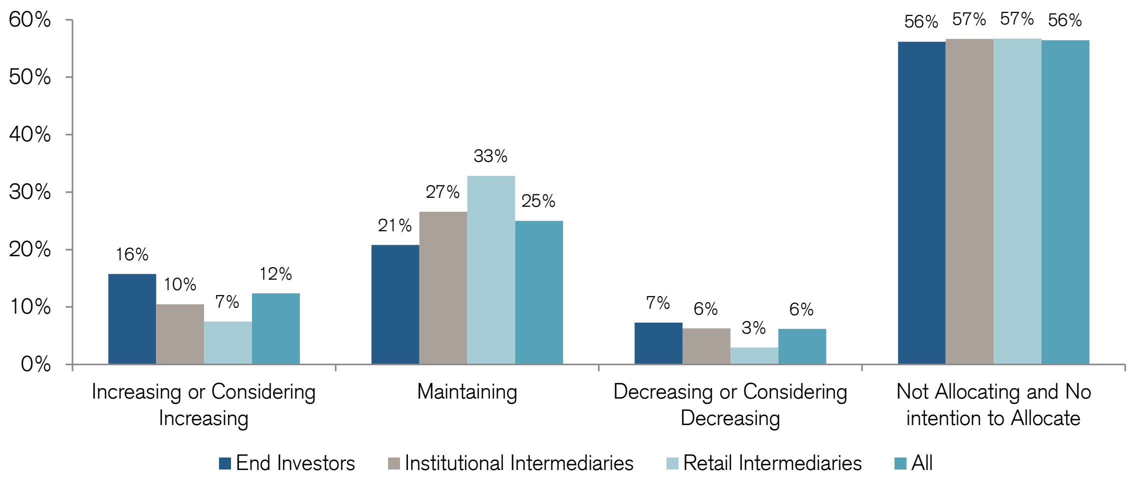
Australia

- Percentage actively increasing or considering increasing allocations: **5%**
- Net percentage actively increasing or considering increasing allocations: **1%**



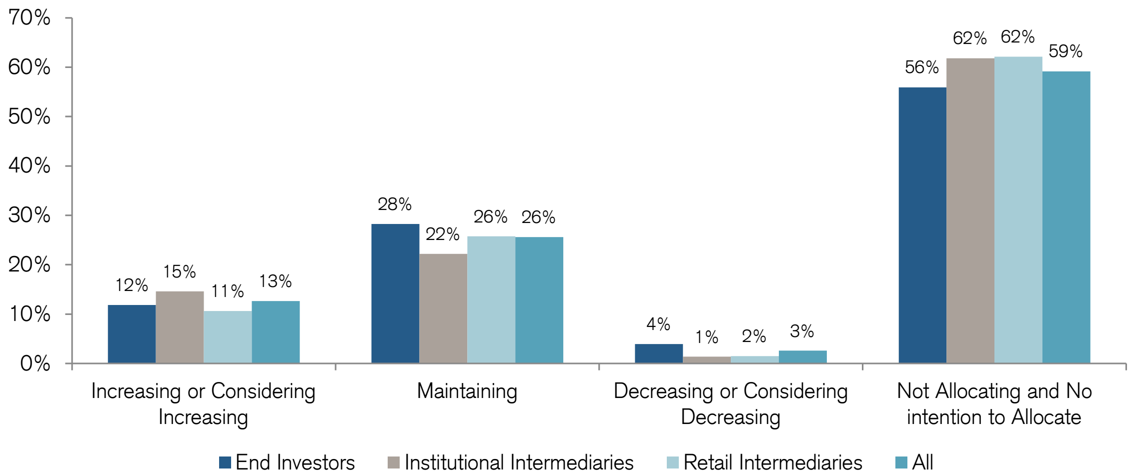
Latin America

- Percentage actively increasing or considering increasing allocations: **12%**
- Net percentage actively increasing or considering increasing allocations: **6%**



Africa/MENA

- Percentage actively increasing or considering increasing allocations: **13%**
- Net percentage actively increasing or considering increasing allocations: **10%**



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