

RBC Dexia Poll: Greater Governance To Increase Alternatives Allocation As Regulation Drives Domicile Selection

London, April 26, 2010 – RBC Dexia Investor Services said today that a clear majority of hedge funds in its latest survey (61%) believed greater governance of alternative investments could result in an increased allocation to the sector, with a significant number of alternative fund launches – both on and off-shore – expected in coming months. The poll defined governance as including structure, independent valuation, transparency and third-party control.

After the recent financial tumult led to mass redemptions, a shift to increased regulation and transparency was inevitable. Interestingly, respondents were divided on the notion that increased regulation could affect asset allocation – just over half (52%) either thought it had no impact (40%) or had no opinion (12%). However a significant minority (30%) felt that greater regulation could lead to increased allocation in alternatives, while only 18% thought it would result in a decrease in allocation to the alternatives market.

But the influence of regulation on fund domicile is crucial for the largest investment managers and ongoing regulatory change is encouraging a growing number of managers to explore a wider range of domicile options than before. As many as 92% of those with assets under management of more than USD 1 billion agreed that regulatory influence was important in domicile selection, as compared with only 64% of those who had funds below this threshold. Just under half of the respondents (49%) were planning to launch new onshore funds with as many as 40% planning to launch new funds in offshore centres.

Greater governance was seen as more important than regulation and respondents expect it to result in an increased allocation to alternatives. When asked how they would manage a requirement for greater governance, 40% responded they would hire more staff. This is compared to the 35% (mainly those with assets under management less than USD 1 billion) that would outsource. As with greater governance comes greater cost, the smaller players will likely investigate third-party outsource solutions to satisfy this market need.

“The alternatives sector suffered during the recent turmoil, but our survey shows that good governance and more transparency will only increase the global appetite for these types of funds,” said Rob Wright, Global Head of Product & Client Segments at RBC Dexia. “Use of a specialist service provider has gained recognition amongst hedge fund managers since the financial crisis. And it is clear that they are in a position to enable funds to develop and implement new structures in an efficient and cost-effective way.”

Other findings from the survey include that 60% of respondents either ran or invested through managed accounts. When asked the main driver behind their managed accounts, the majority (47%) mentioned liquidity. This appears to be a direct result of the recent financial crisis, as managed accounts offer greater flexibility for managers and investors in comparison with the wave of redemptions at the peak of the crisis.

RBC Dexia surveyed a range of alternative asset managers to understand the key trends and opportunities facing the alternative investment market. The results reflect feedback from 57 respondents worldwide. In total 50% of respondents represented single manager funds, 39% funds of funds and 9% both. A significant 42% of respondents were handling assets under management worth USD 1 billion or greater. Respondents were genuinely global with 47% having their main location in Europe (40% continental Europe and 7% UK), 37% in North America, 14% in Asia-Pacific and 2% in the Middle East. The respondents were senior representatives of their organisations.

About RBC Dexia Investor Services

RBC Dexia Investor Services offers a complete range of investor services to institutions worldwide. Our unique offshore and onshore solutions, combined with the expertise of our 5,300 professionals in 16 markets, help clients grow their business and sustain enhanced performance through efficiency improvements and robust risk management practices.

Equally owned by RBC and Dexia, the company ranks among the world's top 10 global custodians with USD 2.5 trillion in client assets under administration.

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