

Welcome to the first edition of **Hedge Fund Investor Spotlight**, the new monthly newsletter from Preqin, providing insights into institutional investors in hedge funds. **Hedge Fund Investor Spotlight** contains information from our industry-leading online product: **Preqin Investor Profiles Online**. This month's issue also contains details from our latest publication, **The 2009 Preqin Global Hedge Fund Investor Review**.

Are Investors Satisfied with Performance?

Feature Article

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Investor Expectations: Are Investors Satisfied with Performance?

We surveyed 50 institutional investors to gauge their thoughts on how their portfolios performed in light of their expectations and the market turbulence of 2008. We also question whether or not they feel that the fees charged by their hedge fund managers are justified.

Please see page 3 for more information

Investors in Focus

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UK Public Pension Plans

Each month **Investors in Focus** examines a particular group of investors using data from Preqin's **Investor Profiles Online** service. This month we examine UK public pension plans, looking at their strategic and regional preferences, levels of exposure, and identify some of the most important players.

Please see page 6 for more information

Investor News

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This month's **Investor News** section identifies some of the most important new developments in the institutional investor universe. Full profiles for all institutions featured in **Investor News** can be viewed on our online service.



Included this month:

- Telenor Pension Fund decides to withdraw from funds of hedge funds.
- West Yorkshire Pension plans to boost hedge fund exposure.
- San Diego City Employees' Retirement System seeks market neutral managers.

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Products and Services

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- Online Profiles
- Publications
- Data Downloads

We take an in-depth look at our products, and how they can help you to identify and approach potential investors. Includes information on ordering and registering for your free trial.

Please see page 8 for more information

If you would like to receive **Hedge Fund Spotlight** each month please email spotlight@preqin.com.

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Feature Article: Are Investors Satisfied with Performance?

In these uncertain times it is vital for hedge fund managers to understand the needs of investors and how they feel about the asset class in order to effectively promote funds to the institutional market. In this first edition of the Preqin Hedge Fund Spotlight we present the results of our recent investor survey, gauging the thoughts of 50 institutional investors on the issues at the forefront of the hedge fund industry today: do investors feel the fees charged by managers are justified and how have their portfolios performed in light of their expectations and the market turbulence of 2008.

Hedge Fund Manager Fees

As the hedge fund industry develops and adapts to counter the current market conditions, we have seen a power shift whereby investors have an increasing influence over the terms and conditions associated with hedge funds. With liquidity being of key importance to all investors, managers are becoming increasingly concerned about redemptions and are looking for

longer term investors who have more stickability with their capital.

At the same time institutional investors are increasingly becoming concerned about the makeup of investors in funds they are already invested with, or are considering as a new investment, as if there are high levels of redemptions they may be hit with fund liquidations. Lock-up periods, once viewed as a negative by investors, are increasingly being welcomed as a safety net that provide both the manager and the investor with much needed security. We have seen managers reward investors for their loyalty by reducing fees. For example, RAB Capital has cut the charges on its flagship Special Situations strategy in return for a three year lock-up period from investors.

Perhaps unsurprisingly the largest proportion of respondents stated that hedge fund manager fees are too high. Although we have mentioned the increased adaptability of hedge fund managers, this is not an immediate process and will take time for investors and managers expectations to achieve an acceptable balance. This point

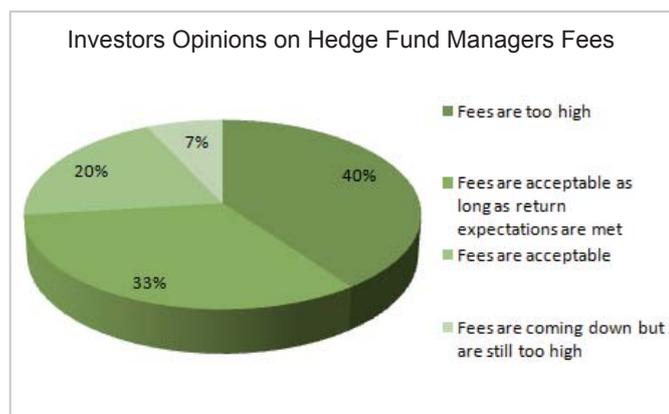
has also been emphasized by the negative returns posted by many hedge fund managers. Hedge funds are theoretically supposed to be able to provide returns in any market environment and be uncorrelated to market conditions; however, many have struggled to achieve this. This has led to some resentment from investors who demand a better level of performance for the fees that they are paying.

Fig. 1 shows that a total of 33% of all respondents stated that fees were acceptable as long as return expectations are met. A further 20% accepted the level of fees they were paying and 7% noted that although they accepted that fees were coming down and becoming more realistic, they were still too high.

Expectations

Fig. 2 shows the levels of returns expected by different types of institutional investor. Fund of hedge funds managers seek the highest levels of returns. Due to the double layer of fees associated with these funds, it is important that fund of hedge funds provide strong returns in order to make them a feasible investment option – with many investors demanding high returns to justify the cost of investment. Fund of hedge funds also have sophisticated investment teams and are very

Fig. 1 & 2:



knowledgeable towards the market. Due to the nature of their investments they gain access to a number of funds and due to their diversity, can gain exposure to some high risk funds that are capable of producing very high returns. The expected return level within fund of funds also varies greatly. Some niche focused fund of hedge funds seek to generate high returns of over 20%, whereas some large, highly diversified funds have more moderate expectations of around a constant 5%.

Historically, endowment plans and family offices and foundations have been some of the most sophisticated investors in hedge funds and the earliest entrants into the market, with endowments such as those of Yale and Harvard having included large allocations to hedge funds in their portfolios for many years. A number of these investors have dedicated investment teams and look to invest in funds directly, avoiding the extra layer of fees. This group is less risk averse and are therefore willing to gain exposure to a number of strategies which are higher risk, but can potentially produce stronger returns. They are also able to tap into emerging strategies and detect themes which will generate greater returns than the less experienced institutions such as pension funds.

Public pension funds have the most modest return expectations of all those institutional investors on the Preqin database. As a result of more accountability and greater liabilities, public pension funds are the amongst the most risk averse investors. They look to hedge funds to help diversify their portfolios and typically invest in hedge funds for portfolio stability rather than profitability.

Are investors satisfied with their returns?

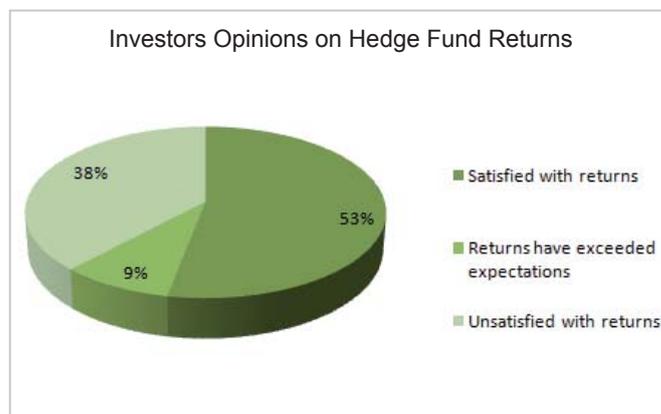
As part of our survey into investor attitudes towards hedge funds we wanted to find out whether institutional

investors were satisfied with their hedge fund returns. Fig. 3 shows the results of our findings.

Just over half of all respondents surveyed noted that they were satisfied with their hedge fund returns. The investors we spoke to stated that although returns are lower than they had been previously, hedge funds were still one of the best performing aspects of their investment portfolio. Also a number of the more sophisticated investors indicated that they expected returns to drop in light of market conditions and were therefore unsurprised by the performance levels. Although the returns were down on previous years, they saw the investments as more long term and believed that in the next 12-24 months returns would pick up in light of a number of potential new investment opportunities.

A total of 38% of those investors surveyed said that they were unsatisfied with returns. Due to the market conditions, very few investment funds across all asset classes have achieved positive returns. Although these investors believe that returns have fallen short, most were looking to continue investing in the asset class and felt that hedge funds would produce good returns in the medium to longer term. A small but not insignificant 9% stated that returns had exceeded expectations. Some funds have managed to benefit from the financial conditions, such as those taking short positions on certain financial institutions and a small percentage of investors, who had successfully chosen and gained access to these funds, achieved very significant returns.

Fig. 3:



Conclusions

It is clear that the pressure caused as a result of the market downturn over the past 18 months is causing the hedge fund industry to evolve at a faster rate than we have witnessed before. No longer able to rest on their laurels, managers must take heed of what their investors want in order to adapt their funds and the terms associated with their hedge funds in order to attract new investment. In light of very public scandals such as the Madoff affair, institutional investors will be carrying out more stringent due diligence on potential managers and will be evaluating just how much value these investments represent. Many institutional investors are demanding lower fees, often in return for locking their capital away for longer, as a response to poor performance of numerous strategies. Despite all this more than half of all institutional investors were satisfied with the returns of their hedge fund portfolios in 2008. It clear that institutional investors look set not only to remain as a key part of the industry, but also to rise in importance as new sources of capital for hedge funds, and managers need to understand exactly what these investors are demanding if they are to survive these uncertain times.

Amy Bensted / Ben Cluny

2009 Preqin Global Hedge Fund Investor Review: Order Form

The newly released 2009 Preqin Global Hedge Fund Investor Review is the ultimate guide to institutional investors in hedge funds, featuring both profiles for 400 leading investors, plus comprehensive analysis on this increasingly important sector of the market.

Key Features Include:

- Full profiles for 400 of the top institutional investors worldwide, including full investment plans, fund preferences, key direct contact information, financial information, plans for 2009
- Detailed analysis and league tables of largest and most important institutions and advisors
- Information on investors in emerging managers
- Listings for prime brokers and third party marketers
- Interviews and contributions from leading names in the industry



www.preqin.com/InvestorReview

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Investor in Focus: UK Public Pension Plans

UK public pension funds represent a relatively new group of institutional investors in hedge funds, with over 55% of all the UK retirement schemes on the Preqin database having made their first investments from 2007 onwards. 2007 witnessed the greatest growth in this sector, however, this was followed by a marked slowdown with many investors putting their maiden allocations on hold during the uncertain months of 2008. However, 2009 looks set to be another growth year for hedge funds gaining capital from the UK pension fund market, with at least 10 public pension plans intending to make their maiden investment in the next 12 months. As a result of their emerging nature and resultant limited experience in the market, UK public pension funds most commonly invest in large, well known European and US based fund of hedge funds. However there are exceptions to this rule with some pension funds such as the Hampshire County Council Pension Fund choosing to invest all their capital directly.

Richard Wells

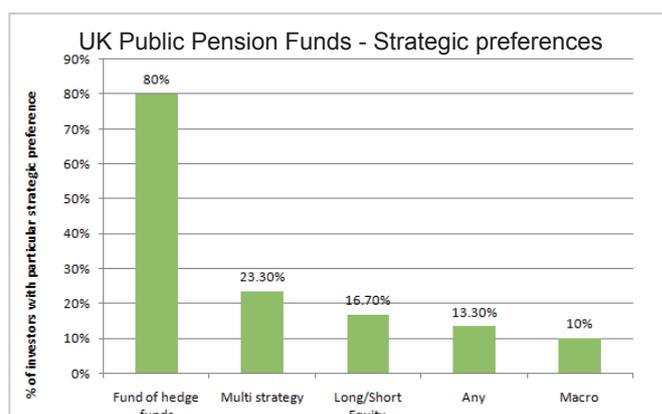
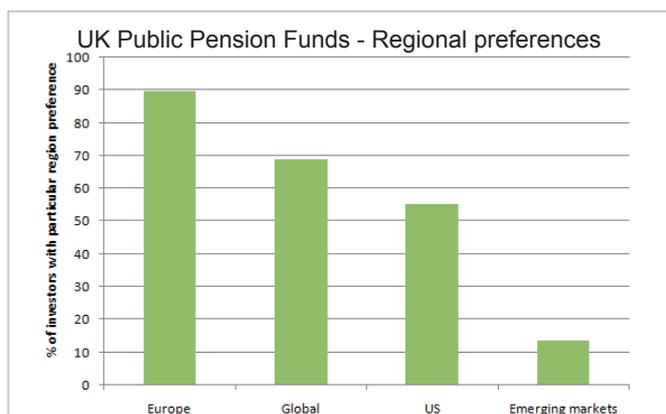
Fig. 1:

Key facts - UK Public Pension Funds	
% of UK public pension plans investing in hedge funds	37.5%
Average allocation to hedge funds	4.18%/GBP 88.1 mn
Average target allocation to hedge funds	5.06%/GBP 106.7 mn
Most favoured investment approach	Fund of hedge funds
% investing in or considering investment in emerging manager hedge funds	35.7%
Average # of hedge funds in a UK pension fund portfolio	3.2
Typically been investing in hedge funds for...	18-24 months

Fig. 2:

Fig.4 – Top 10 UK Public Pension Funds in HF	Allocation to HF (£mn)
Avon Pension Fund	445
West Yorkshire Pension Fund	352
Civil Aviation Authority Pension Scheme	278
South Yorkshire Pensions Authority	129
Lancashire County Council Pension Fund	110
Royal County of Berkshire Pension Scheme	105
Bedfordshire County Council Pension Fund	96
Shropshire County Council Pension Fund	96
Leicestershire County Council Pension Fund	90
Hampshire County Council Pension Fund	88

Fig. 3 & 4:



Conferences Spotlight: Forthcoming Events:

Featured Conferences:

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Date: 27th & 28th January 2009

Location: Frankfurt

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27 & 28 January, 2009 | Hotel Hessischer Hof, Frankfurt, Germany

Conference Chairmen:

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- The key challenges and opportunities in the restructuring and distressed debt markets for 2009
- Bond restructurings - the next wave, the new rules
- Valuable insight on recent cases including IKB and its practical implications
- Winning strategies for investing in under performing businesses
- How to successfully restructure real estate portfolios
- The restructuring of German banks: key aspects to consider if investing at equity level
- From loan to own strategies - advanced techniques for transforming debt into corporate control
- What the banks will be doing in 2009
- The most recent developments in the spanish distressed debt market
- The challenges and practical realities involved in valuing distressed assets
- Achieving effective inter-creditor dialogue within a complex restructuring and how to determine who has what rights and claims

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Conferences Spotlight: Forthcoming Events:

Other Conferences:

CONFERENCE/EVENT	DATES	LOCATION	ORGANISER
GAIM USA 2009	26 - 29 January 2009	Miami	IIR
Corporate Financing Within and Beyond the Credit Crunch	27 - 28 January 2009	London	IIR Conferences
Distressed Debt & Restructurings	27 - 28 January 2009	Frankfurt	C5
Distressed Debt Conference	28 January 2009	London	FT Global Events
The 2009 Hedge Fund Financial Statement Preparation Seminar	30 January 2009	New York	Financial Research Associates
Global Asset Allocation Summit	1 - 2 February 2009	Carlsbad	Opal Financial Group
2nd Annual International Pension Funds & Investment Performance	5 - 6 February 2009	Barcelona	Fleming Gulf
DBR Restructuring & Turnaround Summit 2009	12 February 2009	New York	Dow Jones Events
The 8th MedTech Investing Conference	12 - 13 February 2009	Switzerland	Campden Media
Hedge Funds Masterclass 2009	17 - 20 February 2009	Hong Kong	Terrapinn Financial
Asset Allocation Summit	23 - 26 February 2009	Sydney	Terrapinn
14th Annual European Hedge Fund Conference	23 - 25 February 2009	Geneva	Institutional Investor
3rd Annual Marketing and Client Servicing for Hedge Funds	24 - 25 February 2009	New York	Financial Research Associates
Family Alternative Investment Conference	24 - 25 February 2009	Monte Carlo	Campden Media
P&I and AIMSE Hedge Fund Conference	26 February 2009	New York	Pensions & Investments
Fund Forum Emerging Markets 2009	2 - 5 March 2009	London	ICBI
Hedge Funds World Middle East 2009	10 - 12 March 2009	Dubai	Terrapinn
Hedge Funds World Espana 2009	24 - 26 March 2009	Madrid	Terrapinn
GAIM Asia 2009	21 - 23 April 2009	Hong Kong	ICBI
Hedge Fund Institutional Investment Conference	26 - 28 April 2009	San Francisco	Institutional Investor
GAIM Cayman 2009	26 - 29 April 2009	Cayman Islands	IIR
Hedge Fund Operations	27 - 29 April 2009	London	IIR Conferences
Emerging Managers Summit	6 - 8 May 2009	Chicago	Opal Financial Group
Hedge Fund Leadership Forum	19 May 2009	New York	Argyle Executive Forum
15th Annual GAIM International	16 - 18 June 2009	Monaco	ICBI

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Profiles include background, contact details, investment plans, preferences, assets under management, firms previously invested with and more.

Investor News section keeps you up to date with the latest developments in the market.

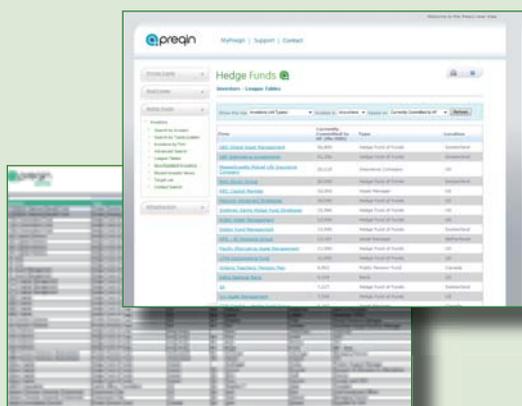
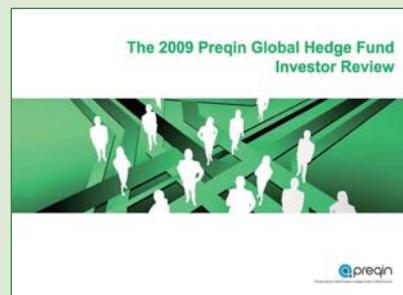
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Investor Spotlight:

Investor News

UK based West Yorkshire Pension Fund plans to boost hedge fund exposure in 2009.

The GBP 352 million pension fund plans to increase its allocation to hedge funds over the next few months. It has set no specifics for this increased exposure but will look at a range of strategies. The fund has a preference for fund of hedge fund vehicles and targets returns of around 7.5%. West Yorkshire made its maiden commitment to hedge funds in 2005 and was amongst the first UK pension funds to invest in the asset class.

Alchemy Ventures seeks to dramatically grow hedge fund portfolio over the next 12-24 months.

The Californian based asset manager plans to add 20-30 vehicles to its existing portfolio of managed accounts over 2009 alone. As well as investing in emerging manager funds, Alchemy also has a capital lending program for emerging managers. Alchemy is seeking liquid strategies that are executed via electronic DMA, such as long/short equity, market neutral, intraday, CTA, global macro, selective arbitrage, tactical trading and foreign exchange.

Future Fund reveals long-term plans to step up its exposure to alternatives.

The AUD 63.4 billion Australian sovereign wealth fund plans to increase its allocation to alternatives from 0.6% to 15%. Consultant Watson Wyatt will work on the plan in tandem with the fund's internal investment team. As yet, however, there has been no specific timeframe set for its implementation.

United Nations Joint Staff Pension Fund gives green light to hedge funds.

The UN pension fund is set to make its maiden commitment to fund of hedge funds in 2009. The move marks a shift from the traditional equity and debt investment strategy of the pension fund and other UN international intergovernmental organisations. In addition the fund is also seeking experienced consultants for the analysis, selection, placement and monitoring hedge funds and has also advertised for new senior investment officers for alternative investments and fixed income.

New Hampshire Retirement System ups allocation to hedge funds from 1% to 4%.

The USD 5 billion retirement system has increased its allocation to hedge funds and plans to invest USD 50 million in the first half of 2009. When selecting new hedge funds New Hampshire seeks managers with a proven track record, transparency at fund level, and quarterly liquidity. Separately, the retirement system has allocated another 2% of its portfolio to pursue opportunistic investments in alternatives.

New Illinois consolidated pension board planned.

Alexi Giannoulas, treasurer of Illinois State Treasury - Technology Development Fund has proposed a plan that would see the state's five pension funds merge into a single retirement system, saving the state as much as USD 82 million in administrative and management fees. The new "Illinois Public Employees' Retirement System Board", would have combined assets of around USD 70 billion but has yet to require approval from state lawmakers. However, not all Illinois pension funds are in agreement - Teachers' Retirement System of the State of Illinois (TRS) is opposing the plan as it feels it would be an expensive and risky move during these turbulent times. TRS also noted that by merging into one large pension fund, it will lose its ability to invest in emerging and minority owned funds.

San Diego City Employees' Retirement System seeks market neutral managers.

The USD 4 billion retirement system is in the initial stages of undertaking a manager search for additional market neutral hedge fund managers to achieve greater diversification within the strategy. Acting on recommendations from its consultant Callan Associates the retirement system is seeking to add two to three new managers to its hedge fund portfolio. It did not set a time frame for the selection and investment procedure.

Swedish pension fund boosts hedge fund portfolio.

Arkitekternas Pensionskassa the private sector pension fund for Swedish architects has added Jupiter Asset Management to its hedge fund portfolio. The fund carried out its due-diligence and selection procedure through its in-house investment team in the fourth quarter of 2008. Arkitekternas Pensionskassa has around 13% of total assets invested in the hedge fund asset class and has a target allocation of 15%. It uses Nordea as a discretionary advisor for its hedge fund activities.

Telenor Pension Fund decides to withdraw from funds of hedge funds.

The NOK 6.3 billion pension plan has announced that it will no longer be investing through fund of hedge funds. Instead, it is set to focus solely on investments in single-manager funds. The pension plan had lost confidence in these funds, due to what it saw as high fees and significant underperformance. The fund withdrew its fund of hedge funds investments, worth around NOK 150 million, and sold two funds managed by Storebrand and DnB NOR Asset Management. Some of the proceeds from this redemption have already been invested in an undisclosed energy hedge fund. Although Telenor has decided to not invest in fund of hedge funds for at least 2 to 3 years, it may invest in multi-manager vehicles again much further down the line.

Angela Fitzgerald

Each month Spotlight provides a selection of the recent news on institutional investors in hedge funds.

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