Hedge Funds World Middle East 2010

1st – 3rd March 2010, Jumeirah Beach Hotel, Dubai

http://www.terrapinn.com/2010/hfwme

Dear Spotlight Reader,

Preqin is delighted to have arranged a special invitation and 15% discount for Spotlight readers who would like to attend Hedge Funds World Middle East 2010 taking place from 1st – 3rd March, at the Jumeirah Beach Hotel, Dubai, UAE.

There are certain minds that have extraordinary boundaries - for 11 years Hedge Funds World Middle East has attracted the very best investment gurus and institutional investors.

Hedge Funds World Middle East is the globally renowned No. 1 marketing vehicle and event experience for meeting and creating relationships with MENA investors - a stellar 11-year track record of delivering marketing programmes and investor introductions in the Middle East.

I will be chairing a number of panels at the conference, and hope to have an opportunity to connect with you there.

Kindest regards,

Mark O’Hare
Managing Director
Preqin

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Hedge Fund Investor Spotlight

preqin
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February 2010 / Volume 2 - Issue 2

Welcome to the February 2010 edition of Hedge Fund Investor Spotlight, the monthly newsletter from Preqin providing insights into institutional investors in hedge funds. This month Hedge Fund Investor Spotlight contains information from our industry-leading online product, Hedge Investor Profiles, and the 2010 Preqin Global Hedge Fund Investor Review.

Managed Accounts on the Upswing

Managed Accounts on the Upswing

This month's Feature Article investigates the results of our survey of institutional investors and fund of funds managers, conducted to gauge the scale of interest in managed accounts.

Distressed Securities

This month's Investors in Focus looks at investors in distressed securities, examining their regional and strategic hedge fund preferences.

European Investors Investing in US Hedge Funds

Each month Strategy in Focus examines a particular hedge fund strategy, using data from Preqin's Hedge Investor Profiles service. This month we examine European investors investing in US hedge funds.

A look at the upcoming events in the hedge fund world.

This month's Investor News 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, Preqin Hedge Investor Profiles.

Featured this month:

- Investec Asset Management
- Trafalgar House Pension Trust
- APK-Pensionskasse

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OUT NOW

The 2010 Preqin Global Hedge Fund Investor Review

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Feature Article:
Managed Accounts and UCITS on the Upswing

Looking back over the past 24 months an interesting trend in the hedge fund industry has emerged – the increased popularity of managed accounts. In order to better understand the reasons behind the change, Preqin carried out a survey of 50 institutional investors and 60 fund of hedge funds managers to discuss their investment preferences and attitudes to the future of the hedge fund industry. Investor concerns about transparency, liquidity and risk management were among the contributing factors for the shift towards a managed account structure. There has been a substantial demand for access to hedge fund strategies via separate accounts rather than pooled offerings. Thus, the popularity of managed accounts is on the upswing; however, they have certain drawbacks and not all investors or managers are convinced of their value, as will be discussed.

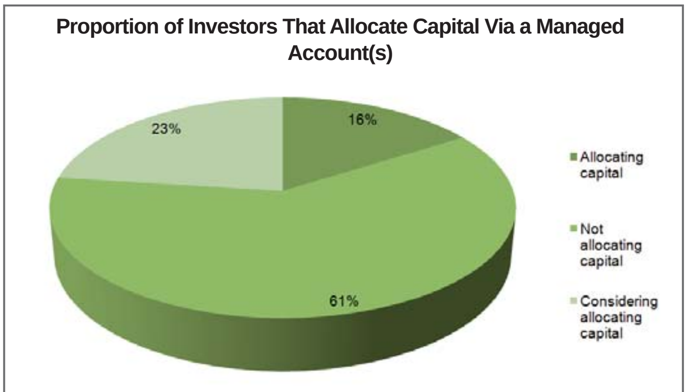
Investors' Perspectives on Managed Accounts

Preqin surveyed a broad spectrum of investors from Europe and North America, consisting of eight different types of institutional investors: public sector pension funds, private pension funds, endowments, family offices, foundations, insurance companies, banks and asset managers. Preqin found that 16% of all institutional investors have allocated capital to a managed account, with a further 23% considering such an allocation over the next 6-12 months (Fig. 1). European investors show a greater interest in managed accounts than their US counterparts, with 19% of European investors having at least one managed account versus 12% of US investors (Fig. 2).

Both large and small investors were surveyed, with a range of total assets under management from approximately $40 million up to $154 billion. A distinct trend emerged that the larger investors, those with hedge fund assets of over $1 billion, were more likely to invest in hedge funds via a managed account structure. This is due in part to the large initial capital requirements for managed accounts, in addition to higher associated management fees. For instance, one smaller US family office stated that it was not opposed to managed accounts, but was not big enough to invest in a such a platform. According to the survey results, costs are the most common barrier to investing in managed accounts. Another deterrent reported by investors was insufficient resources, namely a lack of staff with adequate hedge fund expertise and specialization. This amounts to nearly half (49%) of investors stating resource-related issues as why they are currently not investing in a managed account.

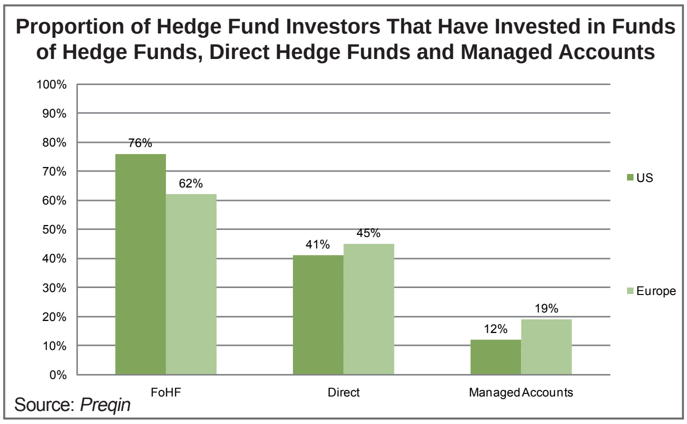
Our survey revealed that investors are looking to managed accounts for transparency, for liquidity and to mitigate exposure to risks. A Preqin survey of institutional investors conducted in November 2009 revealed that 33% of investors were looking for greater liquidity and 20% were looking for more transparency at the fund level. Other reasons why investors have been attracted to man-

Fig. 1:



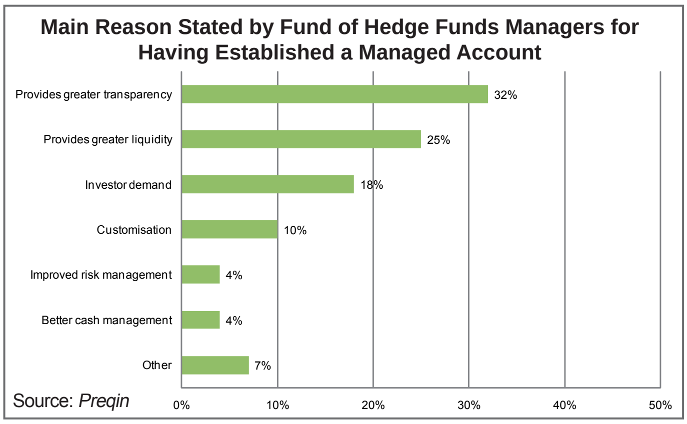
Source: *Preqin*

Fig. 2:



Source: *Preqin*

Fig. 3:



Source: *Preqin*

Fig. 4:

Source: *Preqin*

aged accounts include the provision of greater control or validation of assets, the ability to impose investment guidelines and more flexibility to manage negative performance. A significant proportion of the investors (34%) that said they were not looking to shift to a managed account stated the main reason was due to not seeking new investments at this time. In one case, this was because the investor had only just begun investing in hedge funds and was still in the process of building up its portfolio. In general, these institutions were not opposed to such vehicles, but did not expect to invest in hedge funds via managed accounts until they were more established investors in the asset class.

Fund of Funds Managers' Perspective on the Growth in Demand for Managed Accounts

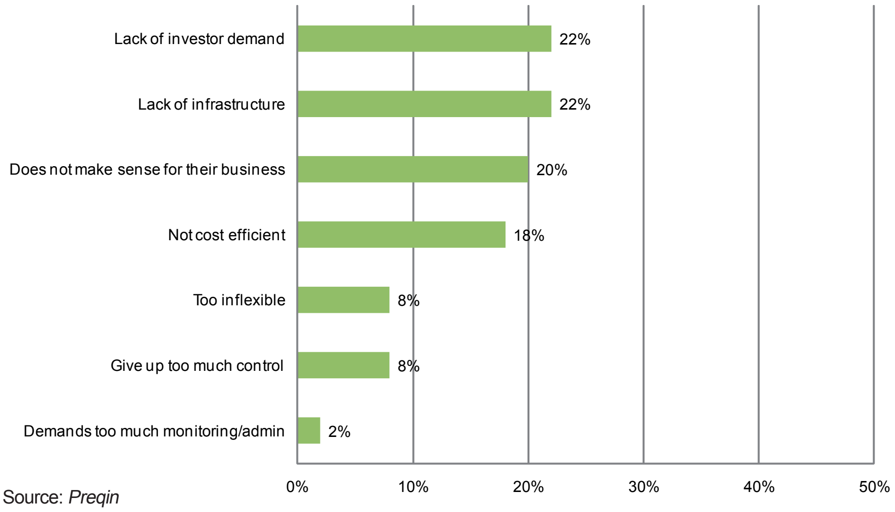
Preqin surveyed 60 fund of hedge funds managers from across the globe to report their perspective on managed accounts. Managers from 13 countries were asked about their current hedge fund offerings. 60% of North American managers, 40% of European managers and 44% of managers from Asia and Rest of World (including Hong Kong, Singapore, Japan and Israel) run a managed account structure. The total assets under management of the surveyed managers varied widely, producing interesting results. The largest managers, those with over $500 million in assets under management, had the largest proportion of firms that had a managed account structure.

When managers were asked why they established their managed accounts (Fig. 3), the top two responses were that they provide greater transparency (32%) and greater liquidity (25%), which are top investor concerns in 2010. Investor demand was the third most common response (18%). These reasons reflect that managed accounts are very much investor driven. Firms that have launched managed accounts to tap into the increased demand for such vehicles need to have strong back office procedures in place to ensure legal and operation simplicity, scalability of strategy, risk control and low trading error. 10% of managers stated the main reason for establishing a managed account was the potential for customization, 4% stated improved risk management and 4% reported cash management as the main advantage. For example, a UK-based manager with $2.3 billion in total AUM was attracted to the managed account as it meant greater control of assets and an improved strategic relationship with investors. The majority of managers questioned, 65%, either currently run a managed account structure or are considering it in the next 6-12 months, as shown in Fig. 4.

Managed accounts do not necessarily tick all the boxes for all managers and they carry some potentially significant drawbacks. These include possible liquidity mismatch, leverage restrictions and high operating costs. The managers surveyed by Preqin named seven main reasons for not running a managed account. As Fig. 5 shows, the two reasons that topped the list at 22% each were lack of investor demand and lack of infrastructure. A further 20% stated that managed accounts were not part of their strategic plan, and 18% said that they were not cost efficient. A large French fund of hedge funds manager with over $10 billion in assets under management stated that the reason for not running a managed account platform was that structurally it was unable to do so. A London-based manager with $500 million in total assets stated it was simply due to not being big enough. Thus, for both large and small managers, infrastructure can be a barrier to running a managed account structure. 8% of fund of funds managers stated that their main reason for not running managed accounts was that either they are too inflexible or they require giving up too much control. Lastly, 2% stated that managed accounts demand too much monitoring. One Japanese fund of hedge funds manager informed Preqin that clients have requested managed accounts, and as a result it is considering them; however, its long-term view is that its existing commingled style is more cost efficient. Several managers mentioned that they would set up a managed account if the ticket size was big enough. Others have ruled it out entirely, such as one $50 billion British fund of hedge funds manager,

Fig. 5:

Main Reason Stated by Fund of Funds Managers for Not Offering Managed Accounts



Source: *Preqin*

which stated that managed accounts demand a great deal of monitoring and administrative hassle. Managed accounts are still evolving and, although not all strategies are well suited to them, they do offer solutions for mitigating hedge fund investment risks, especially liquidity, transparency and risk management. However, for some funds the cost and restrictions of these structures will always be a barrier.

Conclusions

Institutional investors have expressed a growing interest in managed accounts and we predict this trend will continue in 2010. The credit crunch, the Madoff investment scandal, and the gating of assets has led to investors demanding greater liquidity and transparency within their hedge fund portfolios. A shift to a managed account structure provides investors with greater control over their investments, as well as the greater liquidity and transparency that they demand. More managers are accommodating investor demands by offering a managed account platform. It is predominantly larger managers that are able to do this; however, managed account structures are also increasingly being offered by small boutiques. Despite the rise of managed accounts, managers are unlikely to replace all existing pooled funds, as results from the survey showed most investors are still allocating to these funds. Managed accounts are not suited to all strategies, and they are still an evolving area of the hedge fund industry. For investors they are an attractive option, particularly as they offer solutions for mitigating hedge fund investment risks.

Nicole Rubbi-Clarke

For an expanded version of this survey please visit: www.preqin.com/managedaccounts

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This year's Global Hedge Fund Investor Review includes profiles and analysis for the most important 1,000 investors from around the world, all split into separate regions and countries for ease of use. The Review also includes analysis and listings of investors with a preference for the 10 most important fund strategies.

Full contents include:

- Profiles for 1,000 key institutional investors arranged into 23 key regions from around the world, profiles include fund preferences by strategy and geography, key financial information, direct contact details for key personnel, sample investments
- Analysis and league tables for investors from each region
- Analysis for investors in each of the ten most important hedge fund strategies with listings for active investors
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Investors in Focus:
Distressed Securities

Preqin monitors 270 institutional investors with an active interest in distressed securities and the strategy is currently the fifth most popular choice of investment amongst institutional investors. Following the market crisis there has been a flood of distressed assets into the market, which has led to numerous new funds being launched to try to profit from the sector. Figures from Preqin's database indicate a 33% growth in the number of investors interested in distressed securities from 2008, making it one of the fastest growing strategies in terms of institutional investor interest. At present, distressed securities are a key area of interest amongst institutional investors, with many feeling that the time is right to pick up good returns from investments in these types of hedge funds focusing on this area. Distressed funds are a longer-term investment for hedge fund investors, with distressed funds, on average, locking capital away for 20 months. Therefore institutional investors that are active in this type of fund must have longer time horizons for their hedge fund portfolios in order to accept the illiquidity associated with this type of fund.

Fig. 1:

Key Facts – Distressed Securities Investors	
% of institutional HF investors that state distressed securities as a preference	12.2%
Median AUM of a distressed securities investor ($bn)	1.8
Average allocation to HF of a distressed securities investor	15.2%
Most favoured investment approach (funds of hedge funds, direct hedge funds, both)	Direct hedge funds
Average lock-up of a distressed securities fund (months)	20

Source: *Preqin*

Funds of hedge funds are currently the most active investors in distressed securities, followed by endowments. Endowments, with their longer investment horizons and flexibility to invest in newer or emerging strategies, were amongst the first investors to begin allocating capital to distressed hedge funds. However, the once-niche investment style of distressed securities is increasingly attracting mainstream investors like large public sector pension funds. Proportionally, distressed hedge funds are equally popular across the globe. However, because of the size of the North American institutional market, the US is the most common source of capital for distressed managers, with over half of all investors in this strategy based in this region.

Amy Bensted

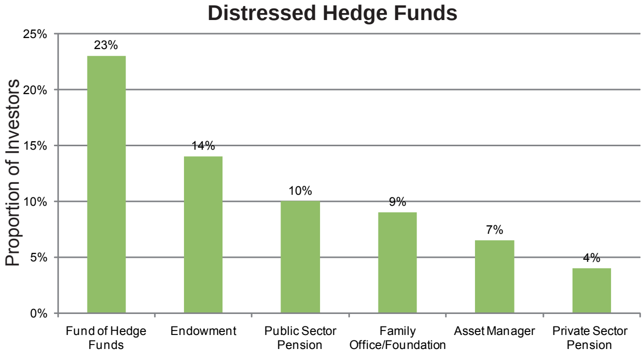
Preqin holds information for 270 investors with an active interest in distressed securities.

For more information about Hedge Investor Profiles, or to register for a demo, please visit:

www.preqin.com/hedge

Fig. 2:

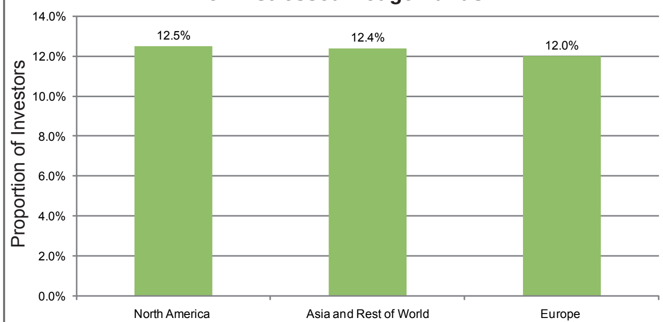
Proportion of Each Investor Type with an Active Preference for Distressed Hedge Funds



Source: *Preqin*

Fig. 3:

Proportion of Investors in Each Region with an Active Preference for Distressed Hedge Funds



Source: *Preqin*

Strategy in Focus:
European Investors Investing in US Hedge Funds

As the hub of the hedge fund industry, the US provides diverse investment options for investors. American fund managers can often boast attractive track records and investment experience, as well as offering funds that are at the forefront of the asset class. As a result, 29% of all European hedge fund investors on the Preqin database state US-based hedge funds as a preference. With these investors invested in, on average, three US-based hedge fund managers, Europe is a vital source of capital for US hedge fund managers, and it is essential for US funds to market their vehicles to these regions if they are to grow in size and increase their global presence.

Fig. 1:

Top US Hedge Fund Firms Used by European Investors	
Hedge Fund Firm	**Type of Firm**
Paulson & Co.	Single Fund Manager
Highbridge Capital Management	Single Fund Manager
Atticus Capital	Single Fund Manager
Blackstone Alternative Asset Management	Hedge Fund of Funds
Goldman Sachs Hedge Fund Strategies	Hedge Fund of Funds
D.E. Shaw & Co	Single Fund Manager
Moore Capital Management	Single Fund Manager
Tudor Investment Corporation	Single Fund Manager
Caxton Associates	Single Fund Manager
JPMorgan Alternative Asset Management	Hedge Fund of Funds

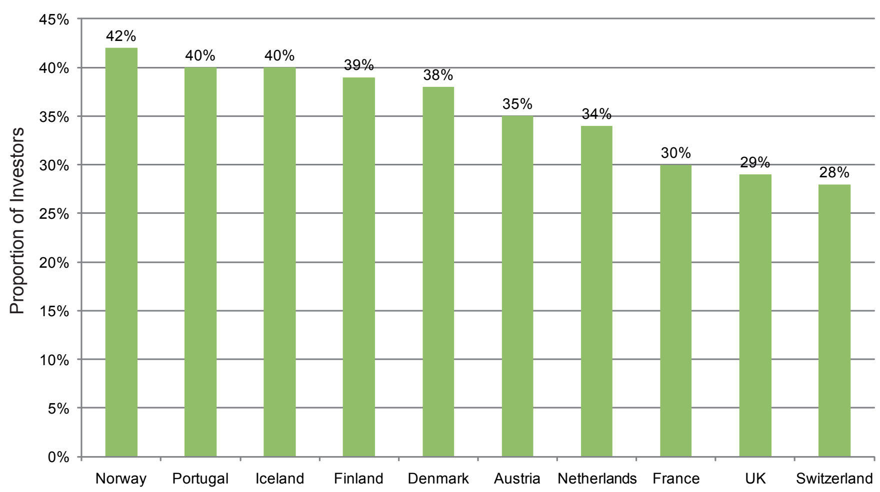
Source: *Preqin*

Countries in which investors are newer to the asset class or have less choice from domestic offerings, such as Portugal and Norway, proportionally invest more in US hedge funds, where they have a larger choice with regards to strategies and can create a more diversified hedge fund portfolio. It also gives them the opportunity to invest in more established hedge fund managers with track records proven both before and after the market crisis. Fewer investors in countries such as the UK and Switzerland have a preference for US-based hedge funds because these investors are able to take advantage of the well-developed hedge fund industries in their domestic region and therefore have less need to look to managers in other countries such as the US. However, there is a large number of hedge fund investors in these two countries, and together they represent 61% of all European investors with a preference for US-based managers. They are therefore an important source of capital for US hedge fund managers.

By investing in US hedge funds, European investors have the potential to invest in a range of different strategies and are able to build hedge fund portfolios which are diversified not only by style, but also by region. As shown in Fig. 3, European investors investing in US hedge funds will consider a range of

Fig. 2:

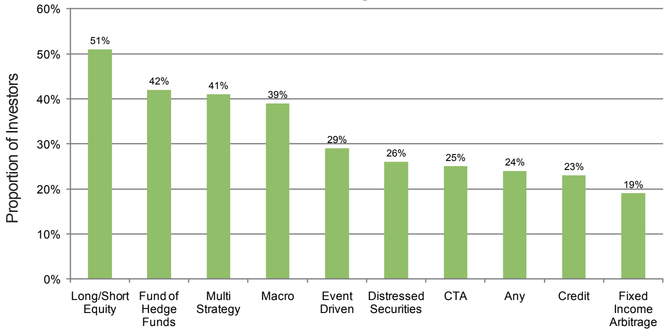
Proportion of European Investors with a Preference for US-Based Funds by Country



Source: *Preqin*

Fig. 3:

Strategic Preferences of European Investors Investing in US-Based Hedge Funds



Source: *Preqin*

Fig.4:

Key Facts - European Investors with a Preference for US Hedge Fund Managers	
% of European investors that state a preference for US based hedge funds	29%
Average number of US hedge funds in their portfolios	3.5
Most favoured investment approach (direct hedge funds, funds of hedge funds, both)	Direct
Average allocation to hedge funds	8.5%

Source: *Preqin*

investment strategies, and the US offers much greater choice in terms of hedge fund styles to choose from. US long/short equity funds are particularly popular with European investors, with more than half of all investors looking for these funds, surpassing even funds of funds as the most popular choice of US hedge fund for the European investor.

Europe is an important source of capital for US hedge fund managers. By broadening marketing efforts to cover Europe, American managers will be able to tap into this market and pick up valuable mandates.

Katy Johnson

The Preqin database contains information on 230 European institutions that actively search for US-based hedge funds. This includes 58 pension funds, 100 funds of funds, 23 family offices/ foundations and 23 insurance companies.

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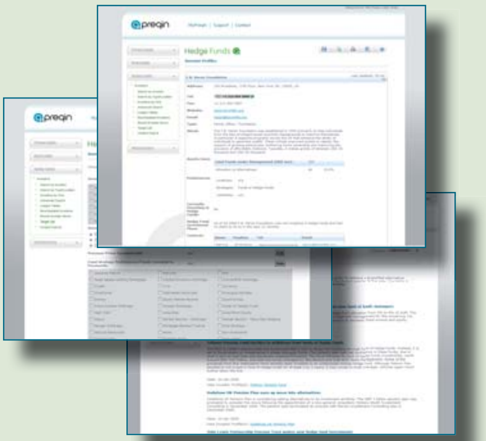

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Profiles include background, contact details, investment plans, preferences, assets under management, firms previously invested with and more.

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With over 550 fund of hedge funds listed and contact details, including phone number and email address, for more than 1,750 individuals at these firms, the Fund of Hedge Funds download is a vital tool for all hedge funds looking to promote their fund to the multi-manager market. The fund of funds on this download are distributed across the globe, with interest in a wide range of strategies and fund types.

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Conferences Spotlight:
Forthcoming Events

Other Conferences

Conference/Event	Dates	Location	Organizer
Hedge Fund Re-domiciliation for Managers	23 February 2010	London	IIR
Hedge Fund Regulation, Reporting & Controls	26 February 2010	London	Infoline
GAIM Ops Cayman	28 February - 3 March 2010	Grand Cayman	IIR USA
Hedge Funds World Middle East 2010	1 - 3 March 2010	Dubai	Terrapinn
Exchange-Traded Funds	10 March 2010	New York	iGlobal Forum
Asset Allocation Summit Asia 2010	15 - 17 March 2010	Hong Kong	Terrapinn
AsiaHedge Forum 2010	17 - 18 March 2010	Hong Kong	HedgeFund Intelligence
Hedge Fund Re-domiciliation for Managers	18 March 2010	Geneva	IIR
Hedge Fund Re-domiciliation for Managers	15 April 2010	Luxembourg	IIR
Fund Forum Asia 2010	19 - 23 April 2010	Hong Kong	ICBI
Global Hedge Fund Summit	2 - 4 May 2010	Bermuda	Institutional Investor
Emerging Managers Summit	19 - 21 May 2010	Chicago	Opal
2010 SALT Conference	19 - 21 May 2010	Las Vegas	Skybridge Capital
The Spring Hedgeworld Fund Services Conference	20 May 2010	New York	HedgeWorld

11th Annual Hedge Funds World Middle East 2010

Date: 1-3 March 2010
Location: Jumeirah Beach Hotel, Dubai, UAE
Sponsor: Terrapinn

Established as the region's largest investment event and the preferred hedge fund event globally - attracting the most investors, the biggest names, and in the best location. Hedge Funds World Middle East is recognised by the industry as the must attend event on the global hedge fund circuit attracting hundreds of delegates each year.

Information: www.terrapinn.com/2010/hfwme/index.stm

Hedge Fund Re-Domiciliation For Managers

Date: 23rd February, London; 18th March, Geneva; 15th April, Luxembourg
Sponsor: IBC Global Conferences

Much is changing in the hedge funds world. Press articles expound the movements of funds and managers to choice jurisdictions. IBC's Hedge Fund Re-domiciliation for Managers brings together industry experts from the UK, Switzerland, Luxembourg and Ireland to debate and discuss the options and the real-life practicalities in making the move. Speakers will consider compliance issues, tax implications, costs and more, to guide you through best practice decision making for your business.

Information: www.infoline.org.uk/r.php?uID=1530

Hedge Funds Regulation, Reporting & Controls

Date: February 26, 2010
Location: TBC, Central London
Sponsor: Infoline

This timely and practical conference explores in detail how the new alternative investment regulations will affect the way you work, sell, invest and do business. The focused agenda will bring you the very latest in hedge fund regulations from the decision makers behind the policies. The event draws together a high profile speaker panel representing key names from hedge fund firms, prime brokers, institutional investors and trusted advisors to the industry.

Information: www.infoline.org.uk/r.php?uID=1530

Exchange-Traded Funds Investing Summit 2010

Date: March 10th, 2010
Location: New York
Sponsor: iGlobal Forum

iGlobal Forum is pleased to announce the newest addition to our resourceful list of expert events! The ETFs Investing Summit 2010 will take a closer look at the vast pool of investment opportunities in the field of the Exchange-Traded Funds and will throw light on the latest developments in this exciting arena. The senior-level speakers will discuss the attractiveness of ETFs in the today's economic circumstances, in addition to exchanging opinions on the latest ETFs innovations, risks and strategies. The ETFs Investing Summit 2010 will be the premier opportunity to meet face-to-face and exchange hands-on experience with key ETF's experts.

Information:
www.iglobalforum.com/etf

SALT Conference 2010

Date: 19-21 May 2010
Location: Bellagio, Las Vegas
Sponsor: SkyBridge Capital

The second annual SkyBridge Alternatives (SALT) Conference provides an unmatched opportunity to connect with global leaders and network with industry peers. Over three days, speakers and attendees from around the world will discuss prevailing issues as well as investment ideas and strategies within the context of a changing economic environment. President Bill Clinton will deliver the keynote address. As SALT 2010 attendance is projected to exceed 750 guests, capacity will be extremely limited.

Information: www.infoline.org.uk/r.php?uID=1530

Investor Spotlight: Investor News

Ilmarinen Mutual Pension Insurance Company will look for additional hedge fund managers.

The €25bn insurance company has announced plans to look for additional hedge fund managers to compliment its current hedge fund portfolio. It will focus on global macro, credit and multi-strategy funds and has set no time frame for the move at present. It plans to maintain its current allocation of 2.3% to the asset class and will either reduce its investments with some existing managers or redeem and replace some of them. Typically it commits between €10-50mn per hedge fund vehicle and looks for managers with around €1bn in assets under management. Ilmarinen will invest in funds with lock-up periods but typically prefers shorter lock-ups.

VBV Pensionskasse looks for global macro hedge funds.

The Austrian public pension fund is looking to add global macro hedge funds to its investment portfolio. It is in the process of compiling a shortlist and has yet to decide whether it will invest in one fund of hedge funds or three direct hedge funds. It is seeking a global investment and will look for established hedge fund managers only. At this time it is investing in a total of 15 hedge funds, with a mixture of funds of hedge funds and direct hedge funds.

Investec Asset Management goes with the UCITS III trend with its launch of three compliant funds.

The $50bn firm has added energy, natural resources and currency UCITS funds to its GSF range. The three Luxembourg-domiciled funds are the Investec GSF Enhanced Global Energy Fund, the GSF Enhanced Natural Resources Fund, and the Investec GSF Emerging Markets Currency Alpha Fund. In recent months, a number of fund of funds managers have launched new UCITS III funds of hedge funds including, 3A SA, Ivy Asset Management and Thames River Capital.

Thames River Capital announces the launch of a UCITS III absolute return fund of hedge funds.

The Thames River Absolute Return Fund is the latest launch of the $13.2bn fund of funds firm. Thames River Capital has already raised $47mn for the fund, which will invest globally with a bias towards the developed world. It will invest in a diversified portfolio of 20-40 absolute return funds, initially focusing on market neutral and macro funds. The firm has set a target return of 5-10% and is offering weekly liquidity. The fund will be managed by Ken Kinsey-Quick and James Rous.

Swiss National Accident Insurance Institution plans to add six to seven new hedge fund managers over 2010.

SUVA has announced plans to add six to seven new hedge funds to its portfolio to replace four funds of hedge funds that it plans to redeem. It will look for a range of strategies, including event driven and credit, and will also consider UCITS-compliant hedge funds. It will invest in vehicles with lock-up periods of no longer than 24 months SUVA invests on a global scale, including emerging markets. When selecting new managers SUVA looks for managers with at least a three-year track record and with $1bn in assets at the fund level. It will not invest with emerging managers or spin-off teams and does not seed funds. All hedge fund investment decisions are made in-house.

APK-Pensionskasse finalises CTA allocations and looks for event driven managers.

The private sector pension fund is in the process of finalizing its new allocation to CTA hedge funds. When this is complete it plans to focus on event-driven managers, but is yet to decide if it will invest in this strategy through funds of hedge funds or direct hedge fund vehicles. The move comes as part of a plan that was announced in Q3 2009 to invest an additional €80mn in hedge funds. As well as CTA hedge funds, the pension fund has also added fixed income hedge funds to its portfolio.

Trafalgar House Pension Trust seeks emerging market managers.

The £420mn pension fund has announced plans to add emerging market hedge fund managers to its portfolio in 2010. It will focus on equity strategies but has yet to decide upon other specifics, such as a timeframe. Trafalgar House will not invest in new managers and will only consider spin-offs if the team has good experience and an excellent track record. The pension trust has, however, seeded funds before, and may consider doing so again should the circumstances be right. Although it has no set maximum lock-up period, it seeks a degree of liquidity in its portfolio and the longest lock-up period of a fund in its current portfolio is one year. It is advised on investments by the Dutch-based advisory firm Cardano, which acts on a non-discretionary basis.

Katy Johnson

Each month Spotlight provides a selection of the recent news on institutional investors in hedge funds. More news and updates are available online for Hedge Investor Profiles subscribers.

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