

December 2009 / Volume 1 - Issue 12

Welcome to the December 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 newly released *2010 Preqin Global Hedge Fund Investor Review*.

Overview of Institutional Investor Universe

Feature Article

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Overview of the Global Hedge Fund Institutional Investor Universe: 2009

This month's Feature Article looks at the hedge fund institutional investor universe and examines how it has changed in the past year.

Investors in Focus

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North American Public Sector Pension Funds

This month's Investors in Focus looks at North American Public Sector Pension Funds, examining their regional and strategic hedge fund preferences.

Strategy in Focus

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Long/Short Equity

Each month Strategy in Focus examines a particular hedge fund strategy, using data from Preqin's Hedge Investor Profiles service. This month we examine long/short equity.

Conferences Spotlight

page 12

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

Investor News

page 13

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:

- Horizon21
- Boeing Company Pension Fund
- Liongate Capital Management

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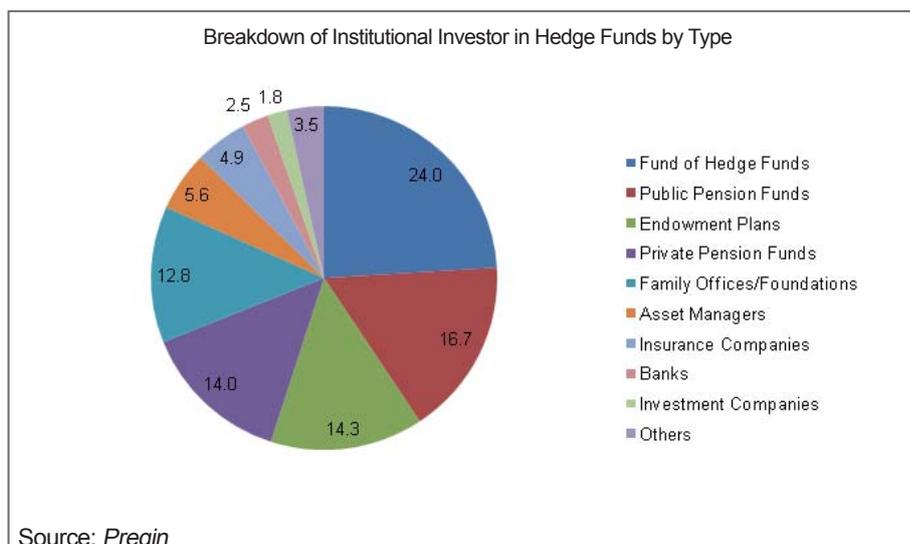
Feature Article: Overview of the Global Hedge Fund Institutional Investor Universe: 2009

When the last Preqin Global Hedge Fund Investor Review was published in October 2008, the world's markets were still in the throes of financial meltdown. Hedge funds did not escape the tumult unscathed and the industry underwent a significant contraction. By the first quarter of 2009, total hedge fund assets were much lower than at their peak and hundreds of hedge funds had closed. However, the hedge fund industry has rallied over the course of 2009, and the picture at the end of the year is much more encouraging. Not only has positive performance returned to the asset class but several hedge fund indices agree that some strategies have been posting their best performances for 10 years or more. The rapid recovery of hedge funds has spurred many investors to begin making new investments in funds - the industry is starting to accumulate assets and is returning towards \$2 trillion in total capital managed.

Breakdown of Investor Universe by Investor Type

Preqin's online database, Hedge Investor Profiles, currently holds information on 2,500 institutional investors worldwide that are either actively investing, or considering investment, in hedge funds. The liquid nature of hedge funds has proven to be very attractive to institutional investors over the course of 2009 and many investors have been choosing hedge funds over other forms of alternative assets in order to diversify holdings without the restraints of capital being locked up for long periods of time. Consequently, the number of active investors on the Preqin database has grown by 16% from 2008.

Fig. 1:



Funds of Hedge Funds

Funds of funds continue to dominate the asset class in terms of numbers of investors (24% of all investors), as well as the amount of assets they direct into hedge funds. However, 2009 has been a difficult time for funds of hedge funds; some investors questioned their value following poor performance in 2008 and due diligence procedures being called into question after several high-profile firms were found to be exposed to the fraudulent Madoff funds. As a result, some investors pulled their capital out of funds of funds in favour of investing directly over 2009, and consequently the growth in the number of funds of funds on the Preqin database is slower compared to other groups of investors. Nevertheless, funds of hedge funds are still a vital source of capital for hedge fund managers and are the largest

allocators to hedge funds of all the institutional investor types.

Public Pension Funds

Public pension funds are the next largest group of investors on the Preqin database, representing approximately 17% of all institutional hedge fund investors. Public pension funds have become an established group of investors within the institutional hedge fund investor universe. Their exposure to hedge funds has remained at approximately the same level as in 2008, each allocating on average 6% of total assets to hedge funds. Public pension funds have an average target allocation of 7.4% of total assets to hedge funds and as such are expected to be making new investments over 2010 in order to increase their exposure to the asset class. Funds of hedge funds are still

Fig. 2:

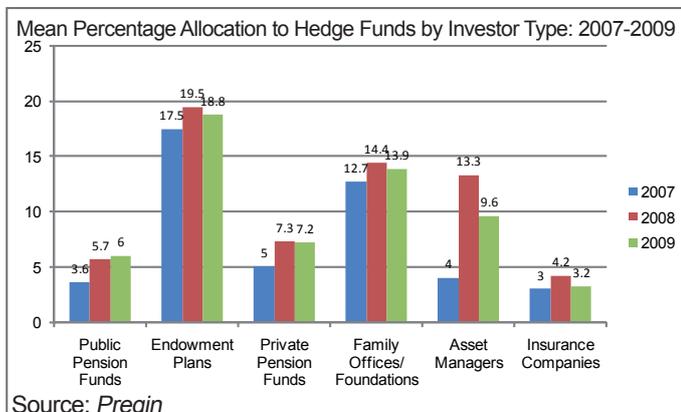
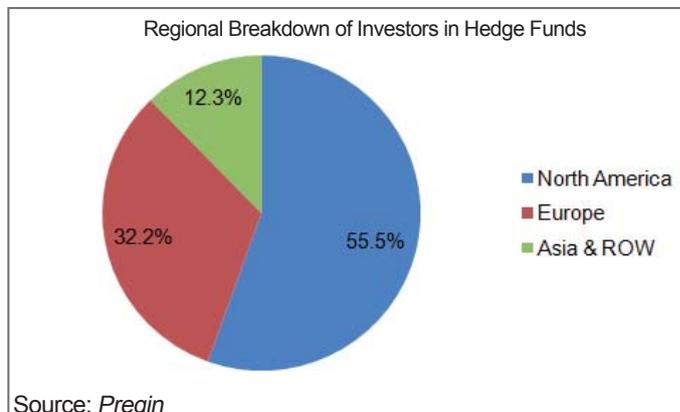


Fig. 3:



the predominant type of vehicle used by public pension boards which make hedge fund investments – 54% of public pension funds only make funds of funds investments and 32% invest both directly and through funds of funds. Just 14% of public pension funds make solely direct hedge fund investments; however this is an increase from 2008, and we expect this trend towards direct investments to continue in 2010.

Endowments

Endowment plans make up 14% of all institutional investors active in hedge funds. Endowment plans have been investing in hedge funds for many years and are one of the more sophisticated groups of investors active in the asset class. Direct investments are the most common choice of fund structure for endowments, with approximately 40% only making investments directly in funds. A further 31% invest both directly and in funds of funds, and 29% invest in funds of funds only. Endowments have, on average, slightly reduced their exposure to hedge funds over the course of 2009, with the mean allocation to hedge funds now standing at approximately 18.8% of total assets (down from 19.5% in 2008). With a mean target of 18.6% of total assets to be invested in hedge funds, we expect the level of investment to remain stable over the next 12 to 18 months. Endowments

are the largest allocators to hedge funds of all institutional investor types and most have built up substantial portfolios of funds over many years. As such, many have reached their optimal exposure to the asset class and are unlikely to commit any more capital to hedge fund investments. However, because of the large sizes of their portfolios, they have a high natural turnover of funds and will rebalance their investments relatively frequently in order to take advantage of the best opportunities and strategies.

Private Sector Pension Funds

We have witnessed a rapid growth in the number of private sector pension funds investing in hedge funds over the past three years. Changes in legislation and funding gaps have led to private sector funds considering alternatives to traditional investment options. Today, they represent 14% of all institutional investors active in the asset class and constitute the largest single group of investors actively considering their first investments in hedge funds in 2010. As an emerging group of hedge fund investors, their mean allocation to hedge funds is relatively modest, at 7.2% of total assets with a mean target exposure of 7.5%. However, this exposure is still higher than their public pension counterparts. More private sector pension funds are investing directly in hedge funds compared to 2008 (13%

vs. 9% respectively), but this remains a relatively uncommon occurrence, with most using funds of funds or a mixture of both funds of funds and direct investments when allocating to hedge funds.

Family Offices/Foundations

Like endowments, many family offices and foundations have been investing in hedge funds for many years and have built up large and diversified portfolios of funds. Currently, family offices and foundations invest an average of 13.9% of their total assets in hedge funds – many having reduced their exposure slightly over the course of 2009 in order to rebalance their portfolios and to free up capital for call-ups of more illiquid investments. However, as a group, family offices and foundations remain committed to their hedge fund investments, with many planning to increase their exposure over the course of 2010. On average, family offices and foundations target an allocation of 15.9% of total assets to be invested in hedge funds and as such, we can expect this group to make many new investments over the course of 2010. Predominantly, family offices and foundations invest in hedge funds directly, but they also make strategic fund of funds investments in order to access new strategies or regions, with 42% of family offices and foundations investing both directly and in

funds of funds. 35% only invest directly in hedge funds, and the remaining 23% invest in hedge funds via funds of funds only.

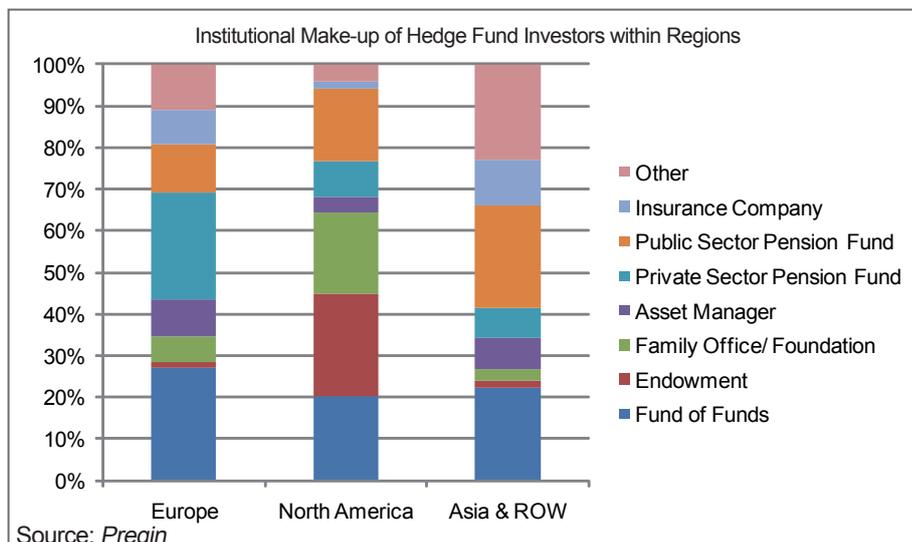
Insurance Companies

Insurance companies allocate a relatively small portion of their AUMs to hedge fund investments. However, because of their generally large size, this equates to a significant amount of capital. Due to market volatility and short-term liquidity issues, many insurance companies reduced their exposure to hedge funds over 2009 - from 4.2% in 2008 to 3.2% in 2009. However, over the longer term, this group of investors remains confident in its approach to the asset class and, on average, insurance companies have a long-term target allocation of 5.4% of total assets to be invested in hedge funds. 55% of insurance companies invest both directly and through funds of funds, with 17% investing just directly and 28% investing just via funds of funds. This "core-satellite" approach to hedge fund investments allows insurance companies to build large portfolios of hedge funds whilst also being able to pinpoint particular strategies that offer the best opportunities for strong returns in 2010.

Asset Managers

Asset managers are a large and diverse group of investors on the Preqin database – covering multi-family offices, multi-pension fund managers and multi-asset fund of funds managers. The group may be diverse but it is unified by a large allocation to hedge funds, with asset managers, on average, allocating 9.6% of total assets to hedge funds. This is significantly lower than in 2008, when they were, on average, investing 13.3% of assets under management in the asset class. Asset managers invest in a similar way to funds of hedge funds: they tend to have large portfolios of funds and make many new investments each year. Many have had to redeem some of their hedge fund holdings over the past

Fig. 4:



12 months in order to generate capital for call-ups of more illiquid investments (such as private equity funds) and in turn have reduced their exposure to hedge funds over the course of 2009. However, going forwards, asset managers intend to allocate much more capital to hedge fund investments: on average, asset managers have a long-term target hedge fund allocation of 15.4% of total assets. 45% of asset managers invest in a mix of both funds of funds and direct investments. 41% invest all their hedge fund capital directly in funds and 14% solely invest in funds of funds.

Overview of Investors by Region

North America

The largest number of hedge fund investors are based in North America, accounting for 55.5% of investors globally. The US is home to most of these investors, with 52% of all investors based in the US alone and the remaining 3.5% based in Canada. The hedge fund industry in North America is well established, and as a result this region is home to a wide variety of institutional investors active in hedge funds. The distribution of investor types in North America is fairly even, with

approximately equal numbers of funds of funds, endowments, family offices and foundations and public pension funds investing in hedge funds. The US is a significant region for university endowments investing in hedge funds, with 95% of all endowments active in the asset class based in this country. Public pension plans are another significant group of North American institutional investors, and at Preqin we track approximately 200 public retirement schemes in North America that currently invest in hedge funds.

Europe

Europe is home to just less than a third of all institutional investors active in hedge funds today. Within Europe, the UK is the largest centre for hedge fund activity, with 14.3% of all global institutional investors based here. Second to the US, the UK is the next most populous region in terms of hedge fund managers and consequently hedge fund investors. Within Europe, funds of funds and private sector pension funds dominate the institutional investor landscape. In the past decade, new legislation has resulted in the creation of many new private sector pension funds in this region, and the need for

these pension funds to cover liabilities has seen them branching out into alternative assets including hedge funds. Switzerland is the third-largest country in terms of institutional investors actively investing in hedge funds. Switzerland is home to many funds of funds, with 13% of all such multi-manager firms based in this region.

Asia and Rest of World

Asia and Rest of World investors account for just over 12% of all institutional investors active in hedge funds today. Although this is a relatively small proportion of the total, some of the world's largest investors in hedge funds are based in this region. Perhaps one of the most important groups of investors based in Asia and Rest of World are sovereign wealth funds, which have massive pools of readily available capital to be invested in hedge funds. This group includes Government of Singapore Investment Corporation, which invests \$9 billion in hedge funds and nearly \$70 billion in alternative assets as a whole. Within Asia and Rest of World, Australia and Japan are home to the highest number of hedge fund investors. Superannuation schemes are the predominant source of institutional capital for hedge fund managers in Australia. In Japan, the institutional landscape is more diverse, as many large funds of funds are based there (or have an Asian office in Japan). In addition, the private pension schemes of large Japanese corporations and insurance companies are significant allocators to the asset class.

Conclusions

The hedge fund industry is much altered from the beginning of 2008. There has been a contraction of the asset class, with industry assets under management dipping considerably below their peak and a large number of hedge funds - emerging and established alike - having disappeared altogether. However, the outlook for 2010 is more positive; the funds that weathered the downturn of

Fig. 5:

Countries with the Most Institutional Investors in Hedge Funds

Country	Percentage of Global Investors
US	52.0%
UK	14.3%
Switzerland	4.9%
Australia	3.1%
Canada	3.1%
Germany	2.4%
Japan	2.1%
Netherlands	1.8%
Sweden	1.7%
France	1.3%

Source: Preqin

2008 and early 2009 are in a strong position to gain new investment over the next 12 months. In 2009, there was a consolidation of the industry, funds have deleveraged and new strategies that were previously out of favour with institutional investors have come to the forefront of the asset class.

Today, hedge fund managers can look to a wide variety of institutional investors when seeking new capital. Even just a few years ago, hedge funds could expect to gain investment from just two or three groups of institutional investors, primarily funds of hedge funds, public pension funds and endowments, predominantly based in North America and Europe. In recent years, however, there has been a rapid growth in the number of private sector pension funds, insurance companies, sovereign wealth funds and other types of institutional investor making their first investments in the asset class. This coupled with an increasing saturation of the older hedge fund institutional market has meant that hedge funds are being utilised by an increasingly broad spectrum of investors. Growth in the number of new entrants into the asset class is outpacing growth in the more established investor market and as a result these new institutional investors will become increasingly

important sources of capital for hedge funds. Investors from less established regions are increasingly adding hedge funds to their portfolios, and we have witnessed an increase in the proportion of Asia and Rest of World-based investors active in hedge funds over 2009.

The turbulence of the past 12-18 months has affected the way in which investors use hedge funds. Direct investment is becoming more popular, with many institutions eschewing the extra fees and disappointing returns of some funds of funds by opting to re-allocate capital to single manager hedge funds. Whereas in previous years we saw institutions increasing their allocations, over 2009 many kept their exposure similar to that of 2008. However, with more institutional and less high-net-worth capital now active in hedge funds, the proportion of capital in the asset class coming from institutional pockets is ever increasing.

Amy Bensted

This is an excerpt from Preqin's newly released 2010 Global Hedge Fund Investor Review.

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- 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: North American Public Sector Pension Funds

Fig. 1:

Key Facts: North American Public Sector Pension Funds	
% of North American public sector pension funds investing in hedge funds	72.4
Average allocation to hedge funds	7.0%, USD 602 mn
Average target allocation to hedge funds	8.3%, USD 714 mn
Most favoured investment approach	Funds of Hedge Funds
Average # of hedge funds in North American public sector pension funds' portfolios	10-15
Typically been investing in hedge funds for...	4-6 years

Source: Preqin

Nearly three-quarters of all North American public sector pension funds invest in hedge funds. This group represents 16% of all North American investors active in hedge funds. In more recent years, changes in pension legislation has enabled public pension plans to commit to the asset class on a larger scale. North America is the hub of the industry and as such public pension funds in this region have access to a large range of opportunities in hedge funds. As public bodies, public pension funds are somewhat cautious when it comes to investing in alternatives

and many of them have relatively low allocations to hedge funds, in terms of percentage of assets under management. However, as many pension funds are very large, this often equates to a significant allocation in dollar amounts.

Many public sector pension funds in North America use funds of hedge funds to gain exposure to the asset class. Generally, pension funds use funds of hedge funds to create a large and diversified portfolio through a single investment. This investment style also offers pension funds the opportunity to

gain access to strategies and investment styles that they may not have much knowledge of. Increasingly, however, public pension funds are investing directly in hedge funds and we expect to see more pension funds in the US allocating capital to single manager, single strategy hedge funds in 2010. Significant strategies for such investors include CTA and macro.

The majority of North American public sector pension funds prefer to invest in funds based in the region. Many investors like to visit the managers they

Fig. 2:

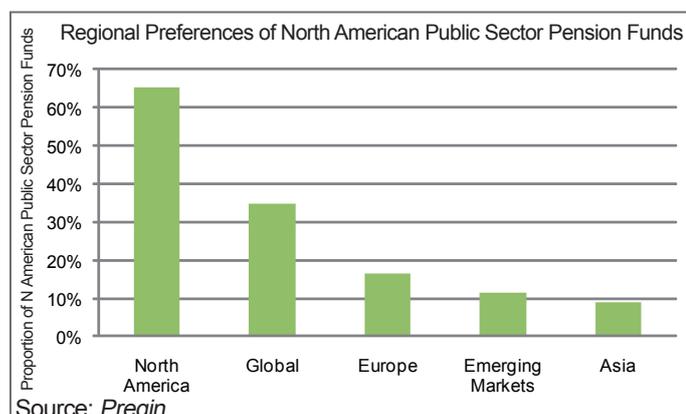
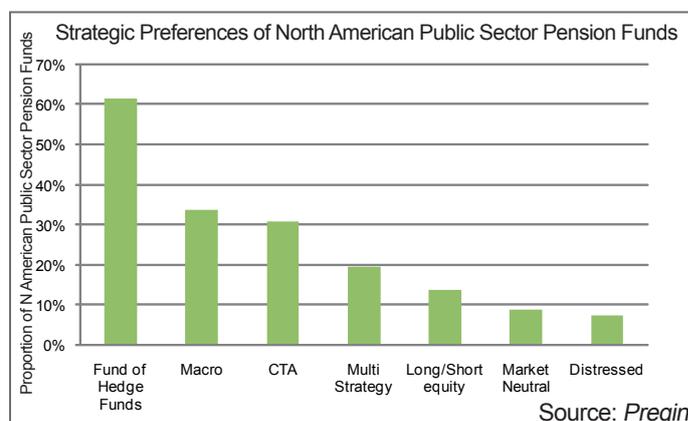


Fig. 3:



invest with and want to be able to contact these firms without the concerns of time delays or long-distance travel. However, many of these pension funds employ North American managers to run global mandates for them, and their hedge fund investments are often diversified on a global scale.

Katy Johnson

The information and data contained in this article was taken from Preqin's Hedge Investor Profiles.

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www.preqin.com/hedge

Fig. 4:

Top 10 North American Public Sector Pension Funds	
Investor	Allocation to HF (\$mn)
California Public Employees' Retirement System (CalPERS)	14,325
Florida State Board of Administration	5,958
Ontario Teachers' Pension Plan	5,760
California State Teachers' Retirement System (CalSTRS)	4,600
New York State Common Retirement Fund	3,888
CPP Investment Board	3,495
Teacher Retirement System of Texas	3,320
New Jersey State Investment Council	3,300
North Carolina Department of State Treasurer	3,208
Washington State Investment Board	2,532

Source: Preqin

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Strategy in Focus: Long/Short Equity

Fig.1:

Key Facts - Long/Short Equity	
% of institutional HF investors that state long/short equity as a preference	36%
Median AUM of a long/short equity investor (\$bn)	1.4
Average allocation to hedge funds of a long/short equity investor	13.8%
Average returns sought from long/short equity investments	8.2%
Most favoured investment approach (funds of hedge funds, direct hedge funds, mixture of both)	Mixture of both
Average lock-up of a long/short equity fund (months)	2.6

Source: Preqin

Long/short equity ranks as the most popular single strategy on the Preqin database, with 620 institutional investors stating an active interest in this type of vehicle. As the “traditional” hedge fund strategy, its use is extremely widespread and its popularity has continued to grow throughout 2009. Despite the market downturn, investors are still choosing long/short equity funds in order to add a liquid source of alpha to their portfolios, to hedge out market risk and to diversify their equity holdings. Over 70% of all funds of funds have some exposure to long/short equity hedge funds, and nearly 40% of

other kinds of asset managers have a strategic preference for these funds. Endowments, family offices and foundations are other groups of large investors in the sector, all predominantly investing in long/short equity funds directly. A relatively large proportion of pension funds and insurance companies also invest in long/short strategies, but this tends to be through a mixture of both funds of funds and directly, and many of the newer investors in hedge funds tend to invest in long/short equity solely through funds of hedge funds. For instance, the Milwaukee County Employees’ Retirement System set a

maiden allocation to hedge funds in 2009 and is searching for one or more funds of funds in the first half of 2010 to fill a long/short equity mandate.

Investment in long/short equity hedge funds is universally popular, with 35-38% of all investors in all regions both currently investing in long/short equity funds and actively searching for these funds over 2010.

Amy Bensted

Preqin currently holds profiles for 620 institutional investors with an active interest in this sector, on its industry-leading product Hedge Investor Profiles. For more information, or to register for trial access, please visit

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Fig.2:

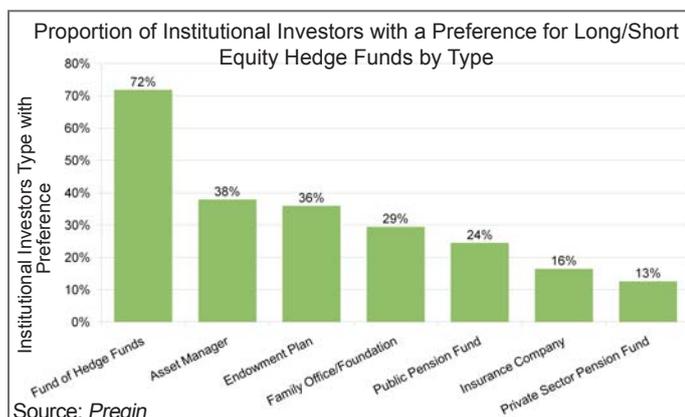
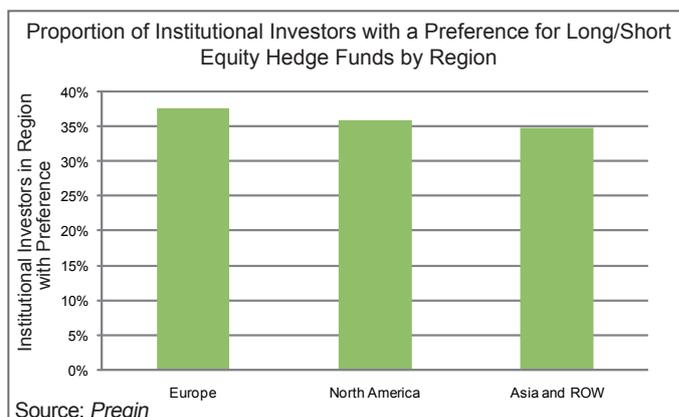


Fig.3:



Preqin: Hedge Fund Services

Preqin maintains a range of products for professionals involved with sourcing institutional investors for hedge fund vehicles, all based on our detailed database of over 2,500 institutions. With online services, data downloads and publications all available, Preqin can help you to identify and contact future investors.



2010 Preqin Global Hedge Fund Investor Review

In this year's Review we have included 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. We have also included analysis and listings of investors with a preference for the 10 most important fund strategies.

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Conferences Spotlight: Forthcoming Events

Featured Conferences

Institutional Investor's European Pensions Symposium

Date: January 21 - 22, 2010

Location: New York City

Sponsor: DealFlow Media

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Information: http://www.dealflowmedia.com/conferences/ai_conference_10.cfm

Other Conferences

CONFERENCE/EVENT	DATES	LOCATION	ORGANISER
Institutional Research Meeting	13 - 14 January 2010	London	Institutional Investor Institute
GAIM USA 2010	19 - 21 January 2010	Boca Raton	IIR USA
The Activist Investor Conference	21 - 22 January 2010	New York	DealFlow Media
European Pensions Symposium	3 - 5 February 2010	Rome	Institutional Investor
GAIM Ops Cayman	28 February - 3 March 2010	Grand Cayman	IIR USA
Asset Allocation Summit Asia 2010	15 - 17 March 2010	Hong Kong	Terrapinn
AsiaHedge Forum 2010	17 - 18 March 2010	Hong Kong	HedgeFund Intelligence
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
Hedge Funds World Asia 2010	13 - 15 September 2010	Hong Kong	Terrapinn

Investor Spotlight: Investor News

New hedge fund manager hires expected in the new year for Boeing Company Pension Fund.

The Chicago-based aerospace company will begin seeking new hedge fund managers in the first quarter of 2010. The new hires will follow a decision regarding the investment structure of the pension fund's hedge fund holdings. Boeing recently increased its allocation to hedge funds up to 6% of its total assets.

Aletti Gestielle Alternative looks for new managers.

The EUR 850 million fund of hedge fund manager plans to add 15-20 new vehicles across its eight fund of hedge fund vehicles over the next 12 months. It will focus on long/short equity, macro, CTAs and merger arbitrage vehicles. It typically invests EUR 1-15 million per hedge fund and will invest in funds with lock-up periods of no more than 12 months.

Liongate Capital Management builds its Dubai team with plans for new hires.

The fund of hedge funds manager opened an office in Dubai in November, which is presently being set up by Fahad Al-Bader. Al-Bader, a senior executive officer, moved from London and is pressing ahead with plans to build up a team to help grow Liongate's business in the MENA region. The firm plans to make several hires in the near future.

Texas Tech University System Endowment adds to hedge fund portfolio.

The endowment has recently added three new hedge fund managers to its investment portfolio and will continue to search for additional managers during 2010. It currently has 25% of its assets under management allocated to hedge fund investments and is advised on its investments in the asset class by Hammond Associates. The endowment looks for hedge funds with global exposure, but predominantly invests in funds that are based in the US.

China Investment Corporation (CIC) hires new managing director responsible for hedge fund investments.

CIC has hired Bill Lu, former portfolio manager at Tudor Investment Corp., as its new managing director of hedge funds and public market investments. Lu replaces Felix Chee and is CIC's third hedge fund portfolio manager since 2007. The sovereign wealth fund has been actively investing in hedge funds over the course of 2009, having made several investments totalling at least USD 1.5 billion in recent months.

Fort Worth Employees' Retirement Fund increases exposure to hedge funds via two new funds.

Fort Worth has recently added two new hedge funds to its investment portfolio: the PFM Diversified Fund and the Moon

Capital Fund. Each fund has been allocated USD 15 million, on the recommendation of Fort Worth's consultant, Albourne Partners. In July of this year, Fort Worth boosted its absolute return asset allocation by six percentage points up to 18%. These new investments follow the retirement fund's announcement in August of its intention to hire four to six new managers.

London Borough of Lambeth Pension Fund is seeking diversified hedge fund managers for its USD 70 million mandate.

London Borough of Lambeth Pension Fund recently announced that it would be looking to hire at least one new manager for its USD 70 million fund of hedge funds mandate. The pension fund has a preference for diversified exposure to all types of hedge fund. The decision is likely to be reached by the end of the month.

Pacific Alternative Asset Management announces new managing director hire.

The USD 15.6 billion fund of hedge funds has hired Maarten Nederlof as managing director and head of portfolio solutions. Prior to joining PAAMCO, Nederlof served two years as managing director and global co-head of the hedge fund capital group at Deutsche Bank, and spent four years prior to this as managing director and portfolio manager at K2 Advisors.

Horizon21 to decide on the future of its hedge fund activities after closing all four of its funds of funds this year.

Horizon21 recently took the decision to close its last remaining fund of hedge funds, after having wound down its three other funds of hedge funds earlier in the year following poor returns. At present, Horizon21 is discussing options regarding the future of its hedge fund activities, namely whether to rebuild its funds of funds, move into single manager funds, or abandon hedge funds altogether. It expects to reach a decision by the end of the year.

College of Notre Dame of Maryland boosts hedge fund exposure.

The endowment for the College of Notre Dame of Maryland, which manages USD 30 million, is planning to increase its hedge fund investments to 20% of assets under management. Currently it has 8% of assets allocated to the asset class.

First hedge fund commitment for St. Petersburg Employees Retirement System.

The retirement system, which has assets under management of USD 240 million, is planning to make its first hedge fund investment. It intends to focus on fund of hedge funds vehicles and plans to add two vehicles to its investment portfolio at the beginning of 2010. Each manager will be awarded a USD 10 million mandate.

Nicole Rubbi-Clarke

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 Profile subscribers. Contact us for more information - info@preqin.com

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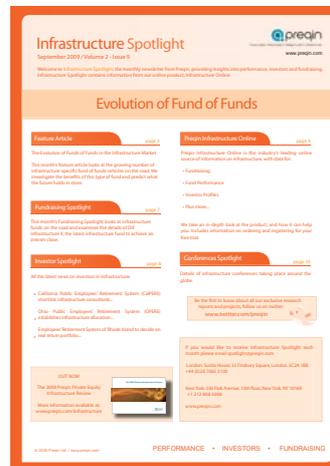
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