

March 2010 / Volume 2 - Issue 3

Welcome to the March 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.

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UCITS - the Future of Regulated Funds?

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 UCITS.

Investors in Focus

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US Investors Investing in European Hedge Funds

This month's Investors in Focus looks at US investors in European hedge funds, examining their strategic hedge fund preferences.

Strategy in Focus

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Fixed Income

Each month Strategy in Focus examines a particular hedge fund strategy, using data from Preqin's Hedge Investor Profiles service. This month we look at fixed income.

What would you like to see in Hedge Fund Spotlight?

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London: Scotia House, 33 Finsbury Square, London. EC2A 1BB
+44 (0)20 7065 5100

New York: 230 Park Avenue, 10th Floor, New York, NY 10169
+1 212 808 3008

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

Investor News

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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:

- Milwaukee County Employees' Retirement System
- Cambridge University Endowment
- KTOs Capital Partners

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The 2010 Preqin
Global Hedge Fund Investor
Review

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Feature Article: Are UCITS the Future of Regulated Funds for Institutional Investors?

One of the key topics in the hedge fund industry over the last year has been the growing presence of the highly-regulated onshore versions of European hedge funds known as “Undertakings for Collective Investment in Transferable Securities” or UCITS III. The rise in investor demand is evident in the increasing number of managers offering UCITS products and pursuing certain hedge fund strategies through UCITS vehicles. In order to better understand this shift, Preqin carried out a survey of 50 institutional investors and 60 fund of funds managers to discuss their investment preferences and views on the future of the hedge fund industry in relation to regulated hedge fund vehicles. Investor concerns about transparency, liquidity and risk management as well as future regulatory oversight through the proposed Alternative Investment Fund Manager Directive (AIFMD) are among the contributing factors to a rise in the demand for and numbers of UCITS-compliant funds.

Investors’ Perspective on UCITS

Preqin surveyed institutional investors from Europe and North America, including public sector pension funds, private sector pension funds, endowments, family offices, foundations, insurance companies, banks and asset managers. Both large and small investors were surveyed with total assets under management ranging between \$40 million and \$60 billion. According to Preqin’s survey results, 8% of all respondents currently invest in a UCITS vehicle (Fig. 1), and all of these are European based. The US investors surveyed were less familiar with AIFMD, particularly as US investors must comply to a different set of rules enforced by the US Securities and Exchange Commission (SEC); for US investors, a UCITS fund must be pre-approved by the local regulatory authority. These figures are likely to positively shift in favour of UCITS funds in 2010, as over a third of investors surveyed (35%) stated that they are considering investing in such a

vehicle in the next 6-12 months, including two US College Endowments and a US-based charitable foundation.

At the end of 2009, Preqin surveyed institutional investors to ascertain their outlook on regulation of the hedge fund industry. In total 83% felt that the industry needed increased regulation. Enforced use of external auditors and administrators, restrictions on leverage and enforced registration with financial authorities were all cited by investors as possible changes to the industry. UCITS funds are increasingly being viewed as the ultimate regulatory framework within the EU. The changes brought about by the introduction of UCITS III, and the proposals for the UCITS IV structure, are increasing the number of hedge fund strategies that can be applied to this framework and as a result more UCITS vehicles are being launched. This in turn is attracting an increasing number of investors, many of which are looking for more regulated funds to add to their hedge fund portfolios.

Fig. 1:

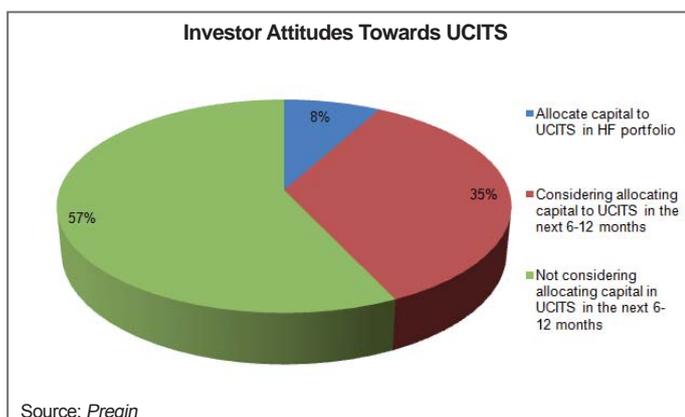


Fig. 2:

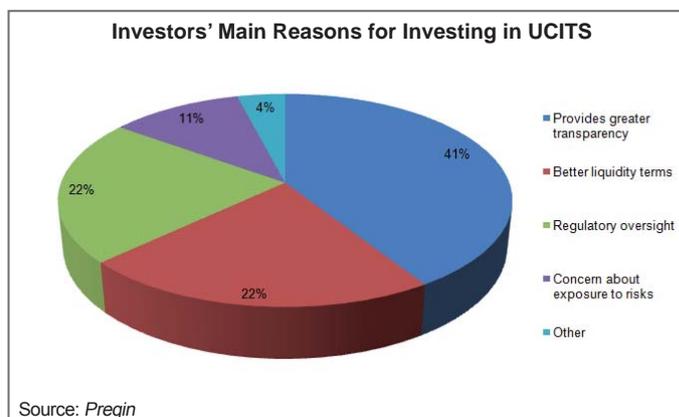


Fig. 3:

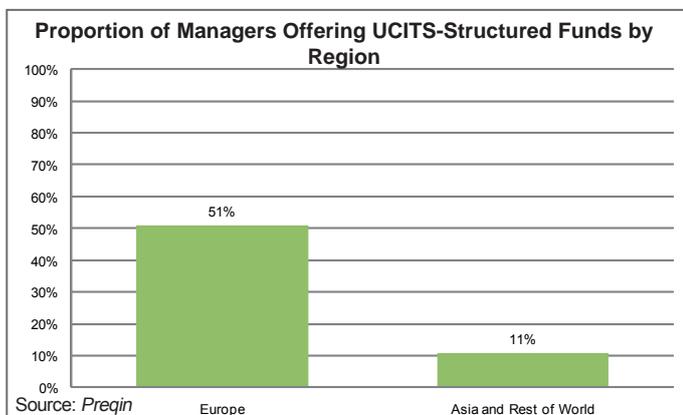
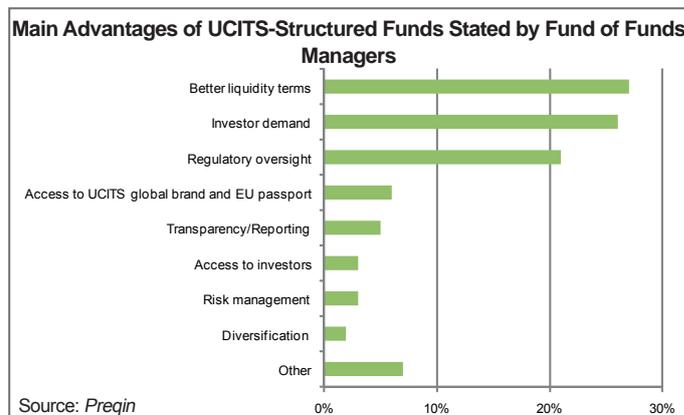


Fig. 4:



In addition to increased regulation of the industry, over half of institutional investors (53%) are seeking more liquidity and transparency in their hedge fund portfolios following the financial crisis. Furthermore, the Madoff affair and other high-profile scandals have led to many hedge fund investors becoming more cautious and conservative in their approach to investing. 41% of the investors that are currently investing or considering investing in UCITS this year stated the main reason was that UCITS provided greater transparency, 22% said the reason was due to better liquidity terms, a further 22% gave regulatory oversight as the top reason, and 11% said in order to reduce their exposure to risk (Fig. 2). Recent market turbulence has led to some investors choosing to

invest in a UCITS structure as it serves to reduce the risk of operational losses.

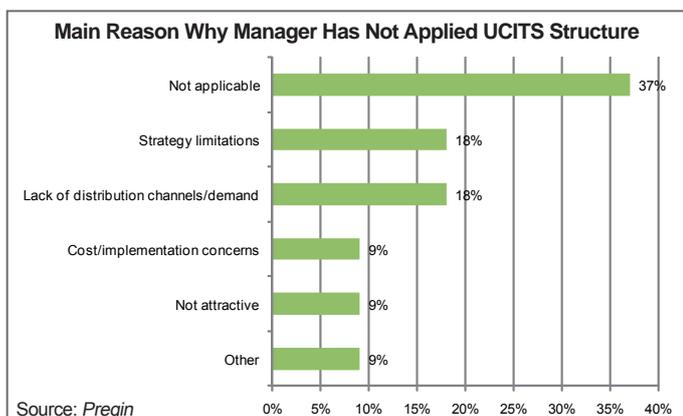
Managers' Perspective on the Growth in Demand for UCITS Funds

Preqin surveyed 60 fund of funds managers from across the globe to report their views on UCITS funds. Managers from 13 countries were asked about their current hedge fund offerings and future plans in terms of fund launches. Figure 3 shows the regional distribution and proportion of managers offering UCITS funds - none of the surveyed North American managers currently offer UCITS products. In contrast 51% of all European managers surveyed offer UCITS funds. Among the North American fund managers surveyed, five were considering launching a UCITS

the US provided they receive local regulatory approval. Interestingly, 11% of managers from ROW (including Hong Kong, Singapore, Japan, and Israel) offer UCITS products.

European managers are the predominant source of UCITS vehicles. Developed in Europe, the purpose of UCITS was to harmonize domestic EU markets for collective investment schemes and many hedge fund managers have not failed to notice the value of the UCITS brand as a way to attract investors and increase distribution channels. In addition, the proposed Alternative Investment Fund Manager Directive may mean that regulations will be enforced upon fund managers and as a result many are turning to UCITS structures to pre-empt any future changes in European fund legislation. 6% of managers named access to the UCITS global brand and EU passport as an important benefit of UCITS (Fig. 4). However, more than a way to sidestep future regulation, managers are launching UCITS vehicles to appeal to a wider audience of investors (26%). A further 27% of managers cite better liquidity terms for investors as a significant advantage of UCITS funds.

Fig. 5:

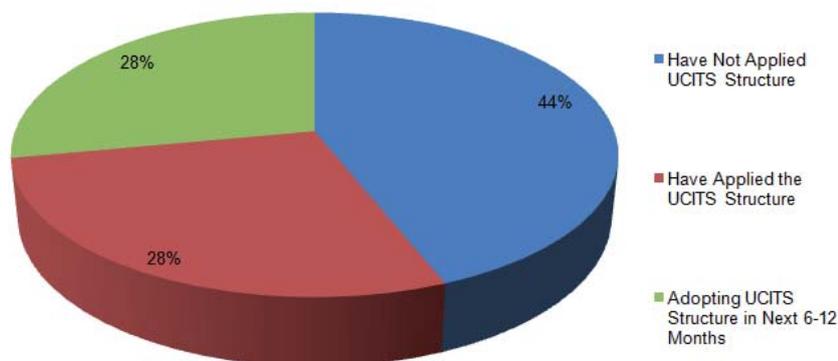


fund in the next 6-12 months, and two US-based managers were currently adopting a UCITS style in their portfolio. Generally, an investment manager of a UCITS product must be domiciled in the EU; however, a US-based manager may be allowed to manage a UCITS product from

The popularity of UCITS has historically been in the long-only space, but with UCITS III it has moved into other hedge fund strategies, such as derivatives and credit. Nevertheless, the structure cannot

Fig. 6:

Proportion of Managers That Have Applied the UCITS Structure to Their Hedge Fund Strategies



Source: Preqin

be applied to all strategies, as confirmed by Preqin's survey results. Strategy limitations represent the second most common reason stated by managers as to why they currently do not deploy funds within the UCITS space. According to Preqin's survey, 44% of managers have not applied the UCITS structure in their portfolio because they considered it inapplicable to their type of fund. 44% of managers have not applied the UCITS structure to their hedge fund strategies (Fig. 6); however, 28% of managers are currently running a UCITS platform, and a further 28% are adopting UCITS style in their hedge fund portfolio. These results reflect the growing popularity of UCITS or UCITS-like funds, with this trend likely to continue in 2010.

Conclusion

Institutional investors have expressed a growing interest in UCITS funds over the last year following concerns regarding regulation, liquidity and transparency of traditional hedge fund investments. Investor appetite for UCITS products is growing outside of Europe, where the structure was developed, in places such as Asia, Latin America and the Middle East. UCITS vehicles are able to provide higher levels of transparency and liquidity, which is appealing to many

investors, although investors still need to carry out detailed due diligence.

Managers, many of which are seeking to attract new investors following drops in their assets under management over the past 18 months, are accommodating investor demands by offering UCITS products. It is more often larger managers that are able to do this, but UCITS or UCITS-like structures are also being offered by some small boutiques. UCITS has become more

commonplace, but managers are unlikely to replace all existing funds with UCITS-compliant funds. It is more likely they will run UCITS funds alongside their existing traditional hedge funds in order to offer a wider choice of funds to their investors. UCITS is not suited for all strategies, thus to maintain a diversified range of products managers will continue to run traditional hedge funds or use other structures to regulate their funds (such as QIFS or SIFS). Certainly, UCITS offers solutions for mitigating hedge fund risks and is designed to limit volatility. It is still an evolving product, and will continue to draw new investors in the future if it succeeds in delivering consistent returns.

Nicole Rubbi-Clarke

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

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2010 Preqin Global Hedge Fund Investor Review: Order Form



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
- Listings and analysis for 116 third party marketers and 62 prime brokers
- Analysis of emerging manager investors
- Exclusive information gained through direct contact with institutional investors



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Investors in Focus: US Investors with a Preference for European Fund Managers

The US market is established as the global centre for hedge fund activity, both in terms of the number of funds and the number of investors active in the asset class. With such a broad range of funds and experienced managers in the US, many US-based institutions only invest domestically. However, increasingly, we are witnessing investors looking further afield when selecting new funds to add to their portfolios, and today, 17% of all US investors state Europe as an active preference when searching for new hedge fund opportunities. In terms of allocation to these funds, US-based investors that invest in European-based hedge funds have, on average, 20% of their portfolio invested in such funds. Most US investors are looking to make direct investments, with 68% of all US investments in Europe being in single manager vehicles. The US fund of funds market is well developed and US investors are predominantly making their fund of funds investments in US-based managers, through which they are likely to have some exposure to European and Rest of World funds. However, when US institutional investors are searching for single manager strategies to add to their portfolios, many are going to Europe directly to access the best funds and opportunities in this region.

UK fund managers are very attractive to the US market – the lack of a language barrier, developed hedge fund market and wide choice of funds in the UK allows US institutional investors to satisfy their search for European vehicles with fewer logistical and due diligence issues.

US investors look to take advantage of different global market hedging opportunities by investing in Europe, and long/short equity funds are the predominant fund choice for US investors when selecting European funds. However, a variety of

Fig. 1:

US Investors with a Preference for European-Based Hedge Funds	
% of US investors that state a preference for European-based hedge funds	17%
% of European funds in US investors' portfolios	20%
Most favoured investment approach (direct hedge funds, funds of hedge funds, mixture of both)	Direct
Average allocation to hedge funds	13.9%

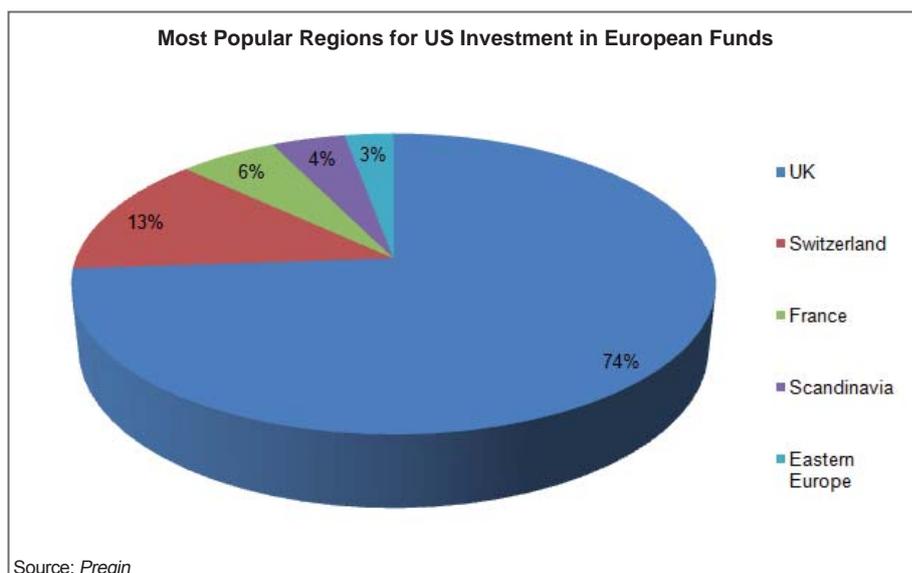
Source: Preqin

Fig. 2:

Top European Firms Selected by US Investors	Type
Lansdowne Partners	Single Manager
Brevan Howard Asset Management	Single Manager
GAM	Single Manager / Fund of Hedge Funds
Lazard Asset Management	Single Manager
The Children's Investment Fund Management	Single Manager

Source: Preqin

Fig. 3:

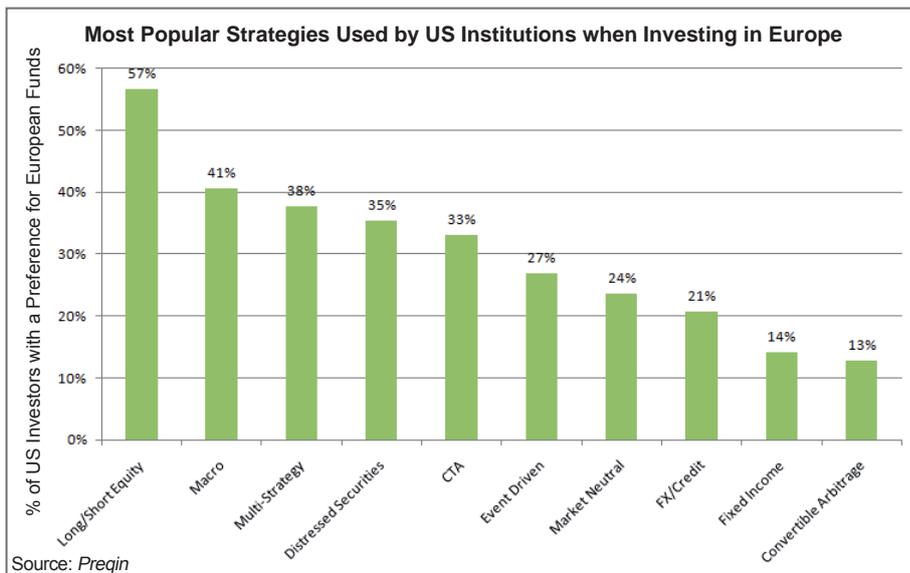


European fund strategies are commonly used by US investors including macro, multi-strategy, distressed, CTA and event driven, which suggests that many European managers will benefit from marketing their vehicles to investors in the US.

It is largely the most experienced investors in the US as well as the largest allocators to hedge funds that are looking outside their domestic region for new hedge fund opportunities. Funds of hedge funds, public sector pension funds and endowments are all important sources of US capital for European fund managers, with newer, less experienced groups of investors such as private sector pension funds investing in Europe to a lesser extent.

Amy Bensted

Fig. 4:



Preqin tracks 212 US institutional investors with a current appetite for European fund vehicles. This includes 66 funds of hedge funds, 51 endowment plans, 41 public sector pension funds and 24 family offices and foundations.

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

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18th March, Geneva

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- The proposed EU Alternative Investment Fund Managers Directive - & the impact on hedge fund managers considering re-domiciling in the EU
- Exploring the Value in UCITS & the Benefit of an EU passport

Panel Discussions

Regulator & Commentator Panel

- Deliberating the pros and cons of key jurisdictions

Manager & Investor Panel

- Hear investor requirements & the decision making process of managers on type and location of their funds

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LOMBARD ODIER DARIER HENTSCH & CIE
Kevin Mudd
KMG CAPITAL MARKETS, Luxembourg
Angus Donaldson, CLAREVILLE CAPITAL
Paul Mack, IVEAGH LTD
Peter Spinnler, ROBECO

Regulators & Supervisory Bodies

Joe Bannister
MALTA FINANCIAL SERVICES AUTHORITY
Charles Muller, ALFI
Grellan O'Kelly, IRISH FINANCIAL REGULATORY
Gary Palmer, IFIA

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Strategy in Focus: Fixed Income

Market volatility, deleveraging and the collapse of large financial institutions in 2008 severely impacted fixed income hedge funds. Some institutional investors, wary of the risks associated with this kind of vehicle during the crisis, pulled their capital out of fixed income funds and did not reallocate to this sector over the course of 2009. However, there has remained some interest in the sector, with 12% of all investors on the Preqin database having stated a preference for fixed income hedge funds. As the hedge fund industry recovers and investors regain confidence in the asset class, we are witnessing fixed income hedge fund managers growing in popularity once again. There has been some new activity in the fixed income hedge fund sector since Q3 2009, with investors such as the Austrian private sector pension fund APK-Pensionskasse beginning to actively search for fixed income hedge fund managers. However, in general, most private sector pension funds remain relatively wary of investing in this field and are unlikely to make any new investments in fixed income hedge funds

Fig. 1:

Key Facts - Fixed Income Investors	
% of institutional HF investors which state fixed income as a preference	12%
Median AUM of a fixed income investor (\$mn)	1,800
Average allocation to hedge funds of a fixed income investor	14.9%
Average returns sought from a fixed income investment	6.9%
Most favoured investment approach (direct hedge funds, funds of hedge funds, mixture of both)	Mixture of fund of hedge funds and direct hedge funds
Average lock-up of a fixed income hedge fund	10.2 months

Source: Preqin

until at least Q2 2010. Funds of hedge funds have also shown a revived interest in fixed income funds in 2010 and currently 30% of all multi-manager firms will consider investment in these funds. The largest proportion of fixed income investors are based in Europe, with firms such as the Paris-based incubation platform NewAlpha Advisers actively looking for fixed income managers to seed over 2010.

Preqin tracks 214 investors in fixed income funds: 107 US-based, 81 European-based and 26 Asia and Rest of World-based.

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Amy Bensted

Fig. 2:

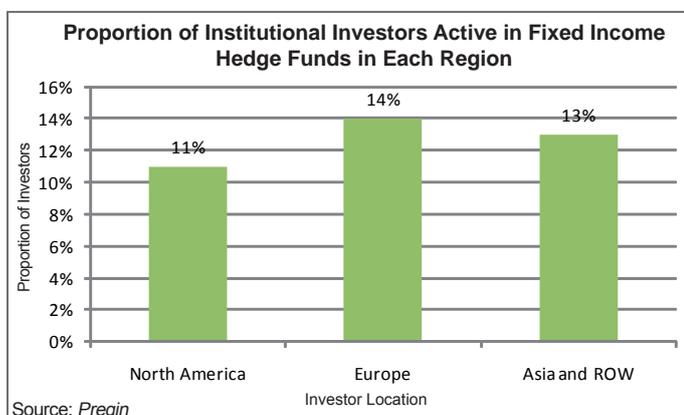
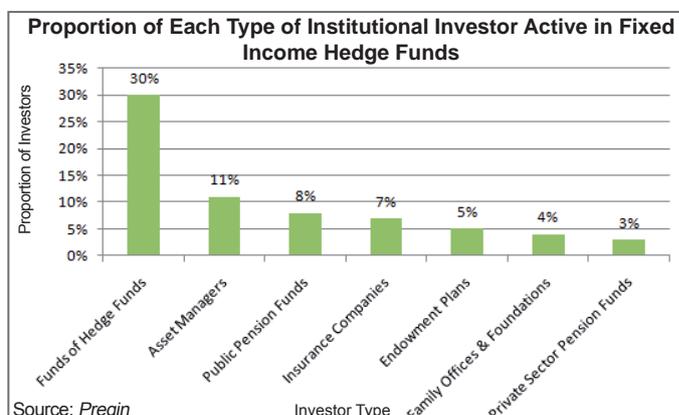


Fig. 3:



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.



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See detailed profiles for over 2,500 investors of all types globally - pension funds, insurance companies, banks, foundations, endowments, family offices, fund of hedge funds and others.

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

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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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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
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
Hedge Fund Managed Accounts	26 - 29 April 2010	London	IIR
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
GAIM 2010	14 - 17 June 2010	Monaco	ICBI
Hedge Funds World Asia 2010	13 - 15 September 2010	Hong Kong	Terrapinn

Hedge Fund Re-Domiciliation for Managers

Date: 18th March 2010
Location: Warwick Hotel Geneva
Sponsor: IBC

Comparing Key Jurisdictions & Their Attractiveness/Identifying the most appropriate jurisdiction for your needs - strengths and weaknesses/
 Factors to be assessed before making the move/The proposed EU Alternative Investment Fund Managers Directive/Impact on hedge fund managers considering (re-) domiciling in the EU/UCITS and the benefit of an EU passport/Jurisdiction comparison: tax benefits / regulation / cost/benefit analysis / perception.

Information: www.iir-events.com/IIR-Conf/page.aspx?id=25047

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.saltconference.com

Investor Spotlight: Investor News

California State Teachers' Retirement System looks for investment consultant to aid hedge fund search.

The USD 134 billion retirement system is currently looking for an investment consultant to help with its search for hedge fund managers. It hopes to hire a consultant by the second quarter of the year and plans to begin searching for hedge funds once the consultant is in place. It plans to invest in as many as five hedge funds in the long term and will target direct vehicles. It announced its hedge fund plans in August 2009, when it revealed that it intended to invest 5% of its investment portfolio in hedge funds in order to add diversification and to correlate inflation.

School Employees' Retirement System of Ohio looks to increase hedge fund allocation and hire additional managers.

The retirement system, which oversees USD 9.2 billion, has announced plans to increase its allocation to hedge funds during 2010, which could mean making additional investments. It can invest as much as 10% of its total investment portfolio in hedge funds but currently only has around 6.1% allocated. SERS only invests in direct hedge funds and is assisted by its investment consultant, Aksia. SERS invests in hedge funds through two pools of capital – a dedicated absolute return allocation and a portable alpha equities substitute. The retirement system is globally diversified in its hedge fund commitments but will not invest in emerging markets. In terms of strategies, it strives to create a varied portfolio and will invest in long/short equity, event driven and market neutral funds. It will invest in funds with lock-up periods of a maximum of two years.

Pennsylvania Public School Employees' Retirement System seeks new hedge fund consultant for its USD 3.5 billion allocation to absolute returns.

PSERS has announced that it is seeking a new consultant for its 7.5% allocation to absolute return strategies. The pension fund has issued an RFP, with a deadline for

proposals set for April 5, 2010. PSERS's absolute return strategies portfolio has recently expanded, due in part to a decision to close down its portable alpha portfolio last year. The consultant is expected to take on the role of specialty advisor with responsibilities to include aiding in due diligence, performance and risk monitoring and overall portfolio strategy. Recent manager hires include Brevan Howard Asset Management, with a USD 350 million mandate in global macro/relative value strategies, and Oppenheimer Capital for USD 200 million in structured alpha strategy. Pennsylvania Public School Employees' Retirement System is likely to consider new strategies on the advice of the chosen consultant.

Milwaukee County Employees' Retirement System has made its first investments in hedge funds.

The pension fund first began seeking investment in hedge funds in September 2009, when it issued an RFP for a manager with a five-year track record and a vehicle with at least USD 300 million in assets. At the beginning of this year it compiled a short list of six long/short fund of funds managers, and it has now selected ABS Investment Management and K2 Advisors for this initial foray into the asset class. Marquette Associates assisted the pension fund on its search for its first hedge fund managers.

New Asian seeding fund launched to capitalize on opportunities being created out of a recovering market.

KTOs Capital Partners has launched its Asian Rising Star Fund. KTOs will provide capital to start-up funds across various strategies including long/short equities, macro funds and CTAs. It has already seeded four vehicles – a Japanese long/short equity hedge fund, an Asian multi-strategy fund, an Asian macro fund and a long/short fund focused on Greater China. KTOs plans to seed eight to 10 managers in total, and it will be searching for an event-driven Japan-focused fund, an Asian CTA and long/short strategies over 2010.

Cambridge University Endowment plans to increase its hedge fund allocation.

The GBP 970 million endowment plans to increase its hedge fund allocation to 20% of total assets and intends to add as many as four new managers to its portfolio. It plans to focus on credit, distressed and macro strategies and will only invest in direct hedge fund vehicles. When investing in a fund, it seeks returns of 400 basis points above LIBOR. The endowment will invest on a global scale, including emerging markets, but with some exceptions based on levels of stability. It will invest with emerging managers and spin-off teams, but will not seed funds. It requires fund managers with a track record, preferring 18 months to two years of experience. The endowment typically invests GBP 5-10 million per fund, but has no minimum level. It will invest in funds that have a lock-up period, and reviews such restrictions on a case-by-case basis. Cambridge University Endowment carries out all investment decisions and due diligence in-house.

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.

In the last month, Preqin analysts have added 41 new investors and updated 483 existing investor profiles.

For more information about Hedge Investor Profiles, please contact info@preqin.com