

Welcome to the May 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.

A New Era For Funds of Hedge Funds

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A New Era For Funds of Hedge Funds

This month we examine the fund of hedge funds industry, consider the impact of the economic downturn on the sector and examine fund of hedge funds managers investment preferences.

Investors in Focus

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UK Public Pension Funds

This month's Investors in Focus looks at UK public pension funds and their strategic investment preferences.

Strategy in Focus

page 9

Multi Strategy

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 investors in multi- strategy funds.

What would you like to see in Hedge Fund Spotlight?

Send us your comments or ideas,
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Conferences Spotlight

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

Investor News

page 12

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:

- Lincolnshire Couty Council Pension Fund
- Ivy Management
- Hermes BPK Partners



Download all data in this month's Spotlight in Excel

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Dear Spotlight reader

We are very pleased to offer a 15% discount for Spotlight readers for places at the Gaim International conference in Monaco this June.

Gaim 2010 is the 16th annual gathering for the alternatives industry, with around 1000 global hedge funds and investors attending every year. The carefully researched objective programme answers the questions shaping the industry e.g. How to survive in an environment where liquidity is king? How will the alternatives landscape evolve? How to achieve transparency? What are the benefits/downsides of Managed Accounts and UCITs 3?

In addition, there is an extensive structured networking agenda for fund managers to meet the right investors for their fund.

Amy Bensted, PREQIN, is moderating the panel discussion "New Retail Distributors & Fund Platforms" on Tuesday 15 June with a selection of hedge fund investors.

Kindest regards

Mark O'Hare

For all bookings & enquiries, please contact the Gaim 2010 team &

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Feature Article

A New Era for Funds of Hedge Funds

It has been a turbulent two years for the fund of hedge funds industry and only now, nearly midway into 2010, it appears a degree of stabilization has been reached. Post global economic downturn, the funds of funds universe was hit by steep declines brought on by an above average number of redemptions and trading losses. In 2009, the hedge fund industry displayed positive returns despite the high numbers of redemptions taking place; however the fund of hedge funds industry was less quick to recover and investor sentiment was low. Recent launches of new vehicles are one sign investor interest is returning, and that funds of funds remain a vital source of capital for hedge fund managers today. There are over 560 funds of hedge funds on the Preqin Hedge Investor Profiles database, and they still represent the largest group of institutional investors in hedge funds that we track. However, while the number of institutional investors in the asset class has grown, the total number of funds of hedge funds has remained level – according to Preqin’s

database the industry has not grown since last year.

Breakdown of Fund of Hedge Funds Managers by Size

The fund of hedge funds universe varies in size as shown in Fig. 1, with the smallest fund of hedge funds managers on our database managing USD 4 million and the largest with USD 30.6 billion in assets under management. Within this broad spectrum, the largest group of funds of hedge funds (21%) have between USD 2 billion and USD 5 billion in assets under management. Fig. 1 shows that the majority of fund of hedge funds we track are smaller than USD 1 billion (66%), although there are several large firms in the market with assets over USD 10 million (7%). The average assets under management of fund of hedge funds firms on our database is USD 2.75 billion, compared to USD 4.78 billion last year.

Largest Funds of Hedge Funds

Topping the list as the largest fund of hedge fund manager on Preqin’s Hedge

Investor Profiles database in terms of assets under management is HSBC Alternative Investments, which currently manages USD 30.6 billion. With USD 27.1 billion invested in the hedge fund asset class, Blackstone Alternative Asset Management is another major player with a well-diversified client base, including ultra-high-net-worth individuals, private and public pension funds, insurance companies and endowments. UBS Alternatives & Quantitative Investments is also a significant fund of hedge funds manager, with USD 26.6 billion invested in a range of hedge fund strategies.

Consolidation Within the Industry

Over the last year, many firms have consolidated or merged their funds. In March 2009, Man Group merged its individual fund of hedge funds managers, RMF and Man Glenwood Strategies, into a single business under the Man Investments brand. Individual firms have also consolidated, for example France’s HDF Finance has merged several of its funds since 2009.

Fig. 1:

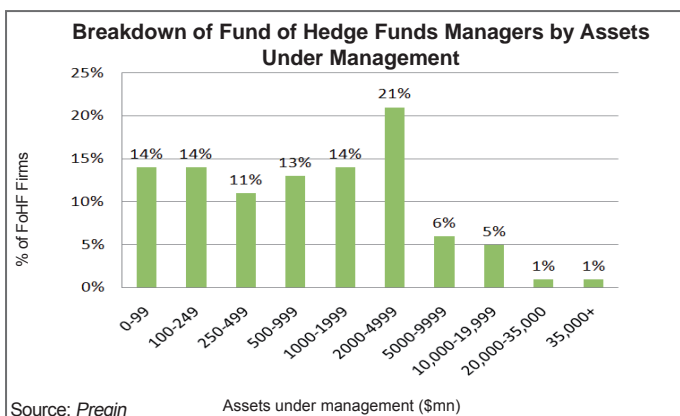


Fig. 2:

Top Five Largest Fund of Hedge Funds		
Manager	Primary Location	Funds Under Management (USD bn) as of March 31 2010
HSBC Alternative Investments	London	30.6
Blackstone Alternative Asset Management	New York	27.1
USB Alt. & Quantitative	Zurich	26.6
Grosvenor Capital Management	Chciago	22.5
Man Investments	London	20.7

In the first quarter of this year, the firm managed 26 funds of hedge funds. By April 2010, this number was down to 18 funds of hedge funds. Alongside the mergers there have been several notable acquisitions or rebrands. The most recent example, from April 2010, is SkyBridge, which announced that it would be acquiring the funds of hedge fund and seeding business of Citigroup Alternative Investments. Such adjustments have helped these firms better cope with the repercussions of the economic downturn, but not all firms survived. Ivy Asset Management, a subsidiary of BNY Mellon Asset Management, saw its assets drop from upwards of USD 14 billion to USD 5 billion at year-end 2009. BNY decided to pull the plug on Ivy, after the drop in assets connected to the Bernard Madoff scandal. The firm, which has been in business since 1984, will shutter its five

funds of hedge funds and BNY will be focusing its funds of funds activity on its EACM subsidiary.

Fund of Hedge Funds Portfolio Size

Fig. 3 shows that the portfolio size of fund of hedge funds varies. Most commonly, fund of hedge funds have between 10-50 hedge fund investments in their portfolio. As expected larger fund of hedge fund operators tend to have more hedge fund investments than their smaller counterparts. Our research indicates that firms generally prefer to have a well diversified portfolio in order to avoid over-reliance on any particular underlying manager or strategy. However, some firms prefer to keep their portfolios small and concentrated in order to avoid return dilution.

Regional Breakdown of Fund of Hedge Funds

The majority of funds of hedge funds are headquartered in North America or Europe. 48% of fund of hedge funds on the Preqin Hedge database are primarily based in North America and a further 40% are situated in Europe. The top two global financial centres, New York and London, have the highest concentration of funds of funds, 20% and 17% respectively of the total investor universe. With nearly half of all funds of funds based in North America, the region has a significant number of the largest funds. Europe is also important for funds of hedge funds, particularly the UK and Switzerland. 45% of all European funds of hedge funds are located in the UK, while 25% are based in Switzerland. Approximately 6% of all funds of hedge funds are managed in Asia, including Hong Kong, Japan,

Fig. 3:

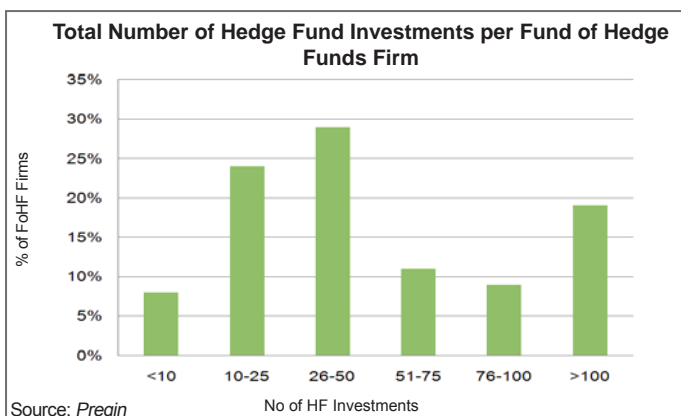
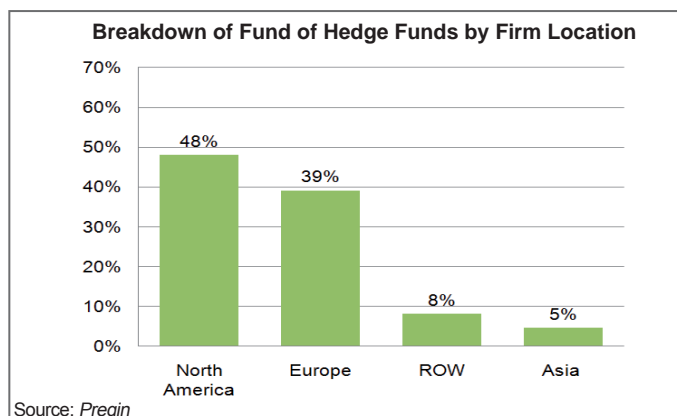


Fig. 4:



Singapore and South Korea. The region holds several large funds of funds, as does the Middle East.

Regional preferences of funds of Hedge Funds

82% of all fund of funds consider hedge fund managers on a global basis in order to access the best opportunities in the asset class.

Emerging market investments are becoming increasingly important, and a number of funds of funds are setting up offices in countries such as Brazil in order to better access investment opportunities in the area. For example, Gems Advisors runs its subsidiary Gems Investimentos out of São Paulo. 33% of fund of hedge funds state emerging markets as one of their strategic preferences (see Fig. 5). In March 2010, Geneva-based Bedrock Alternative Asset Management launched its second fund of hedge funds, the Bedrock Brazil Fund, which plans to make investments in six to eight Brazilian managers.

Strategic Preferences of Funds of Hedge Funds

52% of all funds of hedge funds consider multi-strategy. Other strategies that are of particular importance in 2010 are macro strategies and long/short equity, which are equally popular with 42% of fund of funds stating a preference for these strategies. Other well-established hedge fund strategies, such as CTA, distressed securities and market neutral, are listed high on the list of fund of hedge fund strategic preferences (see Fig. 6).

Demands from investors for increased regulatory oversight, greater transparency and better liquidity has led to changes in the structures of funds offered by fund of funds managers. 2010 has seen a sharp increase in the launch of UCITS-compliant funds as well as the number of firms offering managed account structures to their investors. 3A, Investec, Thames River and HSBC have all launched UCITS-compliant funds of funds since mid-2009. In Q1 2010, Man

Fig. 5:

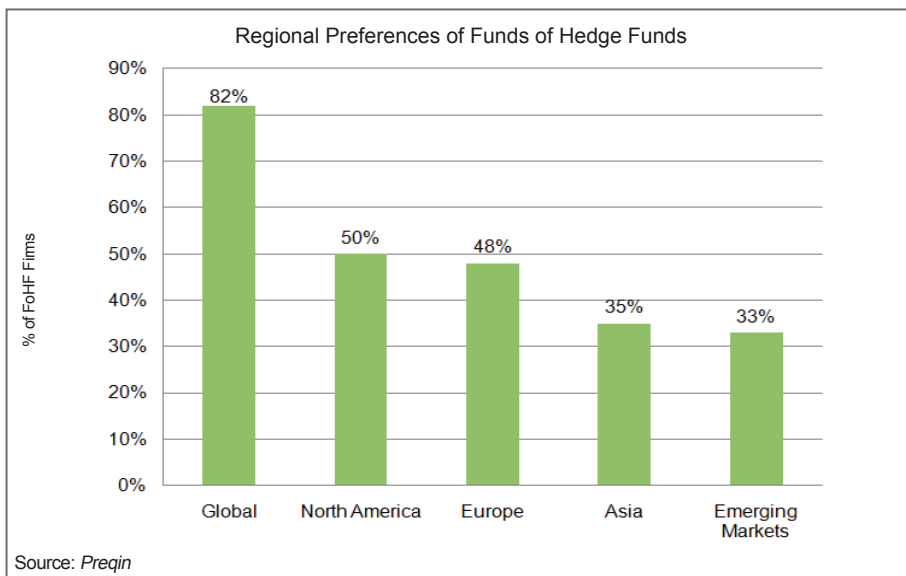
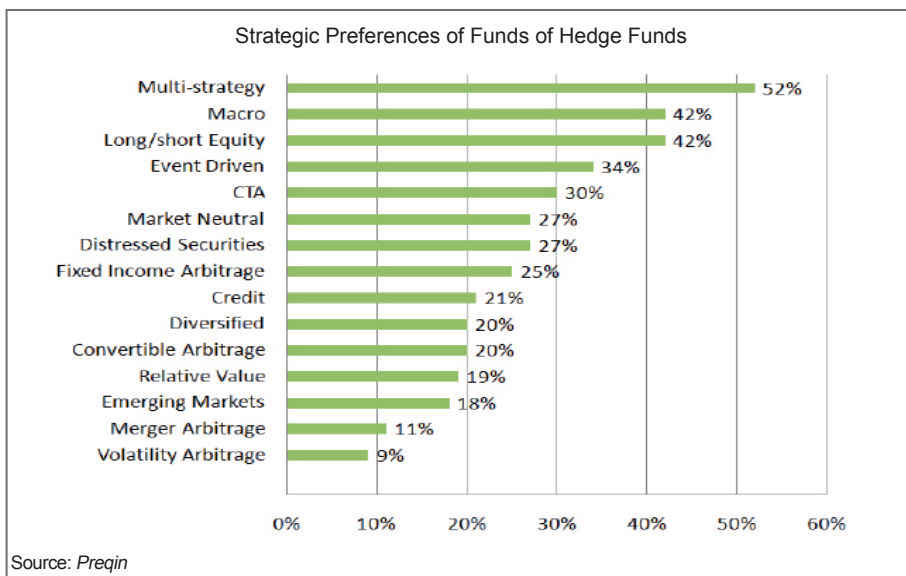


Fig. 6:



Investments was awarded a managed account mandate by the GBP 23 billion University Superannuation Scheme (USS). As part of this arrangement, USS will have full transparency over manager selection.

Outlook

Funds of funds have come under considerable scrutiny since the market

crisis of 2008. 2009 was a difficult year for firms managing such vehicles and net outflows of capital coupled with poor returns saw the closure of many firms. The industry has undergone many changes over the past two years and its recovery has been relatively slow in comparison to their single manager counterparts. However, recovery is occurring, and capital flows are now positive, with many institutional investors



resuming their searches for funds of funds to manage their hedge fund assets in 2010.

Most funds of hedge funds have had to adapt to the current environment in order to continue to attract investors and maintain a competitive edge. New structures to cater for this new era of increased transparency and liquidity in the industry have been indispensable in appealing to the institutional market, and

in 2010 we have witnessed a dramatic rise in UCITS and managed accounts within the funds of funds market. There has been a large ongoing consolidation within the industry. Both individual firms and funds have merged interests in order to strengthen their offerings following losses in 2008 and 2009. As a result the industry has remained relatively static in size over the past year. However, going into the second half of 2010, many firms are

gearing up to launch new funds, and new firms are coming to the market with first funds. As new funds are launched and existing funds of funds continue to search for new managers to add to their platforms, this group of investors will be an increasingly important source of capital to hedge fund managers.

Nicole Rubbi-Clarke

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Risk Perception



Lawrence MacDonald
Lehman Eyewitness
Author Of "A Colossal Failure
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- Meet 300+ Active Investors In The Alternatives World In Just One Week
- Use Our Unrivalled Structured Networking To Meet The Right Investor For Your Fund
- Learn From The Top Hedge Fund Brands & The Renowned Industry Stars

Investor Goals

- Discover 2010's Top Performing Hedge Funds & Hedge Fund Strategies
- Take Part In Our Structured Networking To Meet Funds Of Interest To You
- Benefit From Our New Investor-Driven & Comprehensive Programme

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Nancy Blunck
PERMANENT FUND ALASKA



Ricardo Weiss
FAPES-BNDES PENSION
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BBVA PRIVATE
PENSION FUND, PERU

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- Discover How To Fine-Tune Your Strategy
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What's New For 2010?

- More Institutional Investors Than Ever Before
- New UCITS & Managed Account Investor Summit
- Hone Your Business Skills At 3 New Inspiring Mini-Workshops
- New Academic Research On Hedge Fund Asset Allocation
- New Special Focus Investor Groups
- New Asset Allocation & Manager Selection Focus Day
- New Range Of Hedge Fund Strategies In Focus:
- New Enhanced Ways of Connecting & Promoting Your Fund



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: UK Public Pension Funds

Fig. 1:

Key Facts: UK Public Pension Funds	
% of UK Public Pension Plans Investing in Hedge Funds	53%
Average allocation to hedge funds	5.3%
Average target allocation to hedge funds	7.8%
Most favoured investment approach	Funds of Hedge Funds
Average number of hedge funds in a UK pension fund portfolio	6
Typically been investing in hedge funds for...	3 years

There was a significant increase in the proportion of UK public pension schemes investing in hedge funds over the course of 2009 a trend that continued into the first half of 2010. Today 53% of all UK public pension funds invest in hedge funds, a significant increase from Q1 2009 when only 38% had exposure to the asset class. This increase in the number of UK pension funds active in hedge funds, coupled with the increasing tendency for pension funds to allocate larger sums to the asset class, will lead to this group of investors becoming an increasingly important source of capital to the hedge fund industry over the next 12 to 18 months.

UK public pension funds are relatively conservative in their strategic

preferences. Most UK public pension funds favour the funds of hedge fund approach when allocating to the asset class. As newcomers with little experience in the asset class, this approach enables public pension funds to diversify their holdings and spread risk across their hedge fund portfolio with only a few investments. Other strategies utilized by UK public pension funds include long/short equity and multi-strategy, which are favoured by 28% and 23% of all such investors respectively.

The majority of UK public pension funds will consider investing in hedge funds that are located in Europe. In addition to being a well-established hedge fund market, Europe is also easily accessible to investors based in the UK and there

are fewer logistical concerns when it comes to due diligence. Many investors within this group look outside of their domestic region. A significant proportion of UK public pension funds look to invest on a global scale, which allows them to gain access to a wide variety of managers and to invest in some of the top performing funds.

Katy Johnson

Preqin tracks 55 UK Public Pension Fund investors with an interest in hedge funds

For more information about Hedge Investor Profiles, or to register for a demo, please visit:
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Fig. 2:

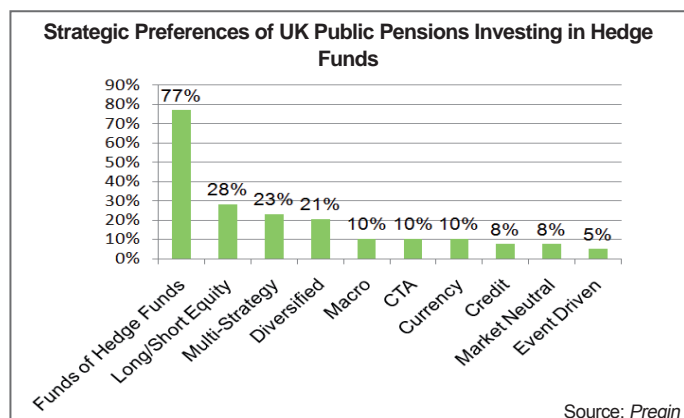
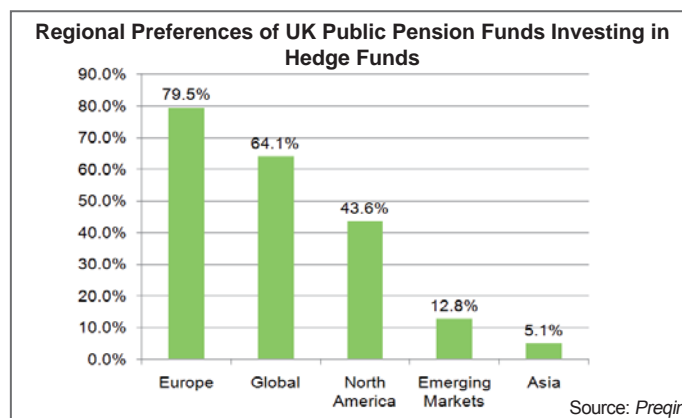


Fig. 3:



Strategy in Focus: Multi-Strategy

Fig. 1:

Key Facts: Investors Active in Multi-Strategy (Single Manager) Funds	
% of institutional investors which state multi-strategy as an active preference	16%
Median AUM of multi-strategy investor (\$bn)	2.2
Average allocation to hedge funds of a multi strategy investor	10.1%
Average returns sought from multi strategy investments	7.9%
Average lock-up of a multi strategy fund (months)	7

This month we examined investors in multi-strategy hedge funds. Only a relatively small proportion of the institutional investors on the Preqin database, 16%, state a preference for such vehicles, with most investors either investing in funds of funds in order to diversify their portfolios or preferring to invest in a range of strategy-specific funds instead. However multi-strategy funds can offer the institutional market reduced volatility, steady sources of returns and reduced exposure to any one style asset class or investment style, thus reducing portfolio concentration risks. This risk mitigated diversification is appealing to the more conservative institutional investor and use of this type of fund is common amongst the

superannuation schemes of Australasia as well as public pension funds in Europe and North America. They are also used to a lesser extent by insurance companies and asset managers (Fig. 2). The multi-asset, multi-style nature of multi-strategy funds often necessitates this kind of fund to be larger than the average single strategy hedge fund. As a result, it is mainly investors with larger ticket sizes that will commit to such funds. As such it is the investors with the most assets under management and the largest allocations to hedge funds that tend to be active in the multi-strategy space. Investors in multi-strategy funds use this kind of vehicle for asset protection, rather than asset growth within their hedge fund portfolios, and on

average seek absolute returns of 7.9% from their multi-strategy managers.

Amy Bensted

Preqin monitors 274 institutional investors with an interest in multi-strategy hedge funds and 261 multi-strategy funds of funds.

For more information about Preqin's hedge fund services please visit:

www.preqin.com/hedge

Fig. 2:

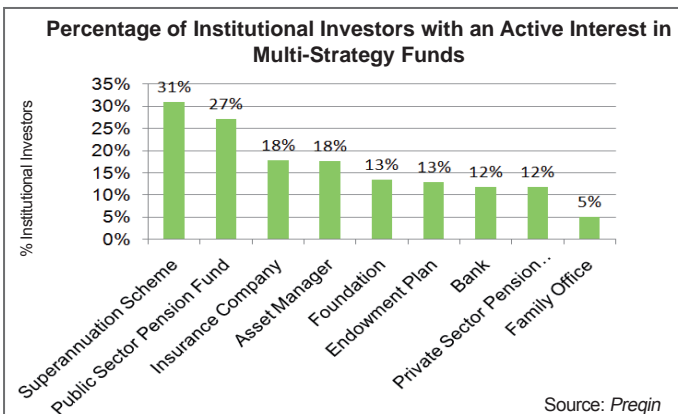
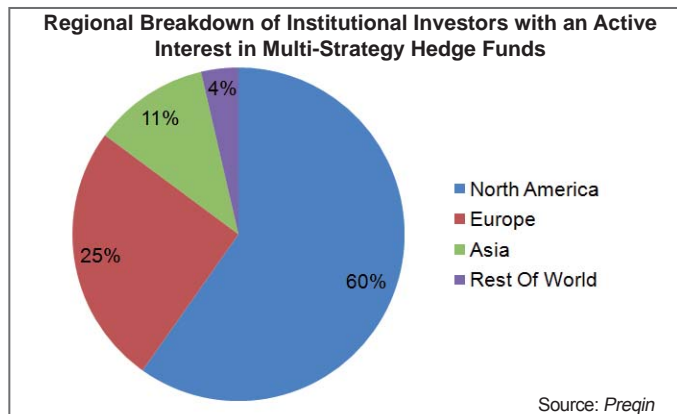
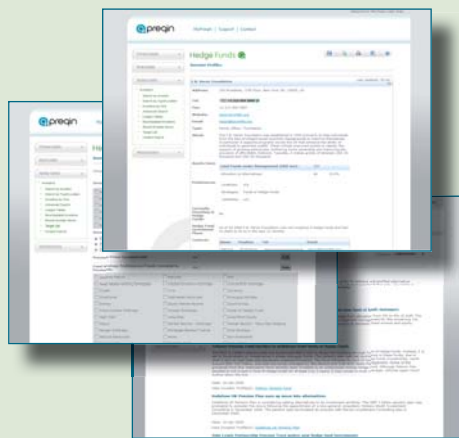


Fig. 3:



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.



Hedge Investor Profiles

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.

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

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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

Conferences

Conference/Event	Dates	Location	Organizer
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

IBC's 9th Annual Hedge Fund Operations

Date: 8th & 9th June 2010

Location: Guoman Charing Cross Hotel, London

Organiser: Claire Barnes

A unique opportunity to address the day-to-day issues of a hedge fund COO, this conference brings together key players in the industry to network and debate the operational and performance trends and priorities for hedge funds through 2010.

Information:

www.informaglobalevents.com/hedgerefundopshfsf

Gaim International 2010

Date: 14-17 June 2010

Location: Monaco

Organiser: ICBI

The 16th annual gathering for the alternative investment industry, Gaim 2010 brings together the most powerful investors and top performing hedge funds in Monaco. With 150+ speakers, including the Wellcome Trust, Fortress Investment Group, Eclectica, Universities Superannuation Scheme, CERN Pension Fund, Georgetown University, Barclays Pension Fund and many more.

Information:

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Investor Spotlight: Investor News

Ivy Asset Management to shut up shop.

Ivy Asset Management, a subsidiary of BNY Mellon Asset Management, has seen its assets decrease from upwards of USD 14 billion to USD 5 billion at year end 2009. BNY has decided to pull the plug on Ivy, after the dramatic decline in assets connected to the Bernard Madoff scandal. The firm, which has been in business since 1984, will shutter its five funds of hedge funds. At the start of the year, BNY merged its other two funds of funds operations, Mellon Global Alternative Investment and EACM Advisors.

New Mexico Public Employees Retirement Association adds another manager to its roster and puts two funds on watch.

New Mexico has been steadily adding new hedge funds to its holdings since 2009 and it has invested in six new fund of funds in 2010. The number has been bolstered to four following its USD 20 million investments in LIM Asia multi-strategy fund. In addition to this, New Mexico has put State Street Global Advisors and Artio Global Investors on its watch list following performance concerns. These firms manage a combined USD 585 million on behalf of the pension fund.

Hermes BPK Partners launches its third fund of funds.

Hermes BPK was formed last year after the UK fund manager, Hermes, decided to bring in an external team to manage its fund of hedge funds in order to reduce the amount of resources it was devoting to alternatives. It was launched with USD 800 million in seed capital from BT Pension Scheme. It runs two existing funds: its flagship product, Hermes BPK Fund, a multi-strategy low volatility vehicle; and Hermes BPK Restructuring Fund, its USD 363 million credit strategy specialist. Its new fund of funds, Hermes BPK Trading Fund will invest in CTAs in conjunction with other selected trading-oriented strategies in order to generate absolute returns over 10%. The fund was seeded by USD 100 million of institutional capital.

Denver Employees' Retirement Plan searches for a fund of hedge funds manager.

The USD 1.7 billion retirement plan, which does not currently invest in hedge funds, has announced plans to start a search for a fund of hedge funds manager. It intends to award the manager with USD 85 million by the end of the second quarter of 2010. The move is being funded by the axing of its core fixed income managers. It will use the help of its consultant, Summit Strategies Group, for the search.

BFC Asset Management announces the launch of a new fund and anticipates another launch during 2010.

The fund of hedge funds manager is gearing up to launch its first fund of hedge fund which it hopes to launch on 1st June of this year. The fund will focus on long/short equity managers on a global scale. It will look for around 7-10 managers and will commit approximately USD 10 million per hedge fund. BFC's other plans for 2010 include launching a second fund of hedge funds that will concentrate on either event driven or distressed strategies.

F&C Asset Management to acquire Thames River Capital.

London-based F&C Asset Management announced that it will buy Thames River Capital for up to GBP 54 million in a move to expand its client base and boost its hedge fund portfolio. The process will be completed by the summer 2010, when Thames River Capital will become a wholly owned subsidiary of F&C. The current staff at Thames River will remain and the team will work autonomously within F&C. The firm has agreed to pay an initial GBP 33.6 million and provided Thames River meets its targets, it will pay an additional GBP 20 million over the course of the next two years. F&C was spun off from Friends Provident in 2009, and since that time it had been seeking to grow its hedge fund business.

Hong Kong Monetary Authority Investment Portfolio plans to enter hedge fund arena this year.

In April 2010, Hong Kong Monetary Authority announced that it would be entering the hedge fund arena. The sovereign wealth fund plans to shift part of its exchange fund assets into alternatives. Exchange fund is divided into two portfolios – the backing portfolio and the investment portfolio. The backing portfolio holds highly liquid US dollar denominated securities, while the investment portfolio is invested primarily in the bond and equity markets of the member countries of the Organisation for Economic Co-operation and Development.

Lincolnshire County Council Pension Fund to enter hedge fund space.

The GBP 1.3 billion pension fund has issued an official tender for an alternatives investment manager. The portfolio will be approximately 10-15% of total assets under management with an initial investment of GBP 100 million, including allocations in the hedge fund arena. Earlier this year, Lincolnshire County Council Pension Fund hired JLT Employee Benefits to assist in its search for a portfolio manager of this portfolio of alternatives. The pension fund plans to have a diversified portfolio investing across a range of strategies, such as commodities, active currency and natural resources.

Katy Johnson

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