Welcome to the latest edition of Hedge Fund Spotlight, the monthly newsletter from Preqin providing insights into the hedge fund industry, including information on investors, funds, performance and more. Hedge Fund Spotlight uses information from our online product Hedge Fund Online, which includes Hedge Fund Investor Profiles and Hedge Fund Analyst.

December 2012
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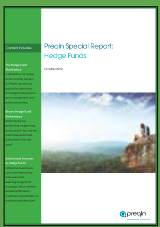
FEATURED PUBLICATION:

Preqin Special Report: Hedge Funds



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Hedge Fund Spotlight

December 2012

Feature Article

Liquidity in the Hedge Fund Market Place

What are the most liquid hedge fund strategies? Does liquidity come at the cost of lower returns? Is liquidity still a key concern for investors? We explore these issues in three linked feature articles:

Industry News

In this month's news section we take a closer look at liquidity issues, and what strategies hedge fund investors are targeting in the coming 12 months.

The Facts

You can download all the data in this month's Spotlight in Excel
Wherever you see this symbol, the data is available for free download on Excel. Just click on the symbol and your download will begin automatically. Feel free to use the data in any presentations, but please remember to cite Preqin as your source.

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Liquidity:
Overview of Hedge Fund Liquidity Structures

Ross Ford, Joe Childs and Graeme Terry explore investor concerns for greater liquidity in hedge funds. What strategies offer the highest levels of liquidity? What is the risk/return profile across the liquidity spectrum? Why do investors seek more liquid hedge fund strategies, and what are the maximum lock-up periods accepted by investors?

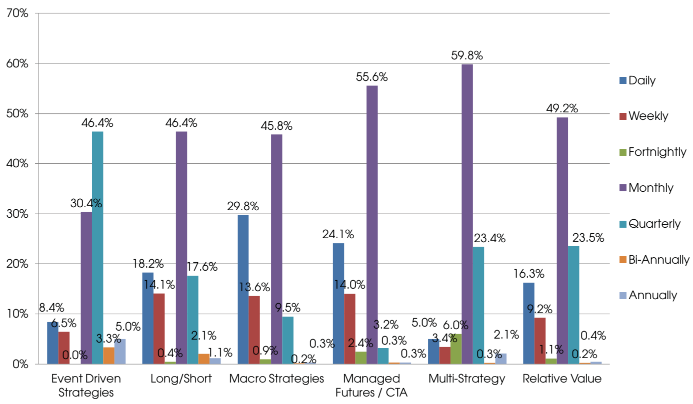
Liquidity – At What Cost?

Liquidity has been an important issue for investors and fund managers alike following the credit crisis in 2008. Fund structures have evolved to take advantage of this new liquidity-driven environment and there has been significant growth in the use of UCITS and managed accounts which can offer the liquidity many institutional investors are seeking. As our recent feature article on CTAs in November's Hedge Fund Spotlight demonstrated, strategies which can offer investors liquidity have thrived: over two times as many investors allocate to CTAs now than in 2008. In the current economic climate of increased market volatility, liquidity continues to be an important factor for investors when considering where to place their capital. Investors have learnt lessons from the global financial crisis in 2008, following gating of assets, a lack of understanding of the illiquid nature of some of their investments and overleveraged funds. In this edition of Hedge Fund Spotlight, we examine the liquidity of different hedge fund strategies, and how funds of different liquidity profiles have performed over the past few years. Preqin also conducted in-depth interviews with over 50 institutional investors to gauge their current sentiment towards liquidity in the hedge fund industry. Four years on from the credit crisis, has investor appetite for liquidity been sated?

Hedge Funds Liquidity Variation By Strategy

Preqin data shows that 46% of the hedge funds listed on the Preqin Hedge Fund Analyst database offer their investors monthly liquidity. The mean redemption notice period for all hedge fund strategies is 1.4 months with a mean redemption frequency of 35 days. The average lock-up period for all single-manager hedge fund strategies is 5.85 months. Fig. 1 shows how the different liquidity terms offered vary across the various top level hedge fund strategies.

Fig. 1: Liquidity Offered by Top Level Hedge Fund Strategies



Source: Preqin Hedge Fund Analyst

Fig. 2 shows the liquidity spectrum of the main groupings of hedge fund strategies; for the sake of comparison, CTAs have been separated from macro strategies. CTA and other macro strategies provide investors with the greatest amount of liquidity, allowing investors access to their capital, on average, more than once per month with the shortest notice period of all hedge fund strategies (two weeks notice for CTAs and three weeks for all other macro strategies). In cases where a lock-up is in place, these also tend to be short, at an average of 2.3 months and 2.9 months for CTAs and other macro strategies respectively. The underlying assets held by CTAs and macro funds tend to be more liquid than some of their counterparts in the wider hedge fund industry. CTAs may have daily or weekly holdings and the systematic models used continually rebalance holdings. Some macro strategies, such as those that trade foreign exchange markets, may have daily or intra-daily trading. As a case in point, 47% of all foreign

Fig. 2: Single-Manager Hedge Funds - Mean Liquidity Terms Offered By Top and Lower Level Strategies

Liquidity Profile	Core Strategy	Mean Redemption Frequency (Months)	Mean Redemption Notice (Days)	Mean Lock-Up (Months)
Most Liquid	Managed Futures / CTA	0.7	14	2.3
	Macro Strategies	0.8	21	2.9
	Relative Value	1.3	36	4.3
	Long/Short	1.5	31	5.8
	All Hedge Fund Strategies	1.4	35	5.9
	Multi-Strategy	1.6	44	6.5
	Event Driven Strategies	2.7	62	10.4
Most Illiquid	Other	2.1	71	10.3

Source: Preqin Hedge Fund Analyst

exchange funds offer their investors daily liquidity. The underlying liquidity of their assets is matched by liquidity at the fund level: any liquidity mismatches would not be tolerated by the investor market.

At the other end of the spectrum, event driven hedge funds offer their investors the lowest levels of liquidity of any hedge fund strategy, with the majority of funds only offering quarterly redemptions. On average, investors can only access their capital every 2.67 months with a two month notice period. Event driven hedge funds can also have significant lock-up periods; for event driven funds which initially lock-up capital the time period amounts to over 10 months. Event driven hedge funds look for inefficiencies caused by corporate events; in order to create value from these positions investments are often held for significant periods of time. Event driven managers often need to impose liquidity restrictions on investors in order to fulfil their investment period and ensure they do not need to exit an investment prematurely before value is created. Distressed hedge funds are one of the most illiquid hedge fund strategies; on average they offer their investors access to their capital every 3.65 months with 106 days notice.

Beyond event driven strategies there are a few other niche hedge fund strategies that tend to exhibit very illiquid characteristics. These include asset and mortgage-backed lending funds and insurance-linked strategies. For instance, the average mortgage-backed lending fund has a mean redemption frequency of 2.3 months with at least 81 days notice. For these funds which are providing credit in illiquid markets, the liquidity restrictions on the underlying assets can be significant; therefore, investors in these funds may be required to have less access to their capital than those strategies which may only have daily holding periods.

Within the extremes of the liquidity spectrum lie relative value and long/short funds. Long/short strategy funds exhibit the greatest variation in redemption periods from fund to fund. Relative value funds offer their investors more frequent access to capital than long/short funds (an average redemption frequency of 1.3 months compared to 1.5 months for long/short funds), but this is coupled with a longer notice period (36 days versus 31 days).

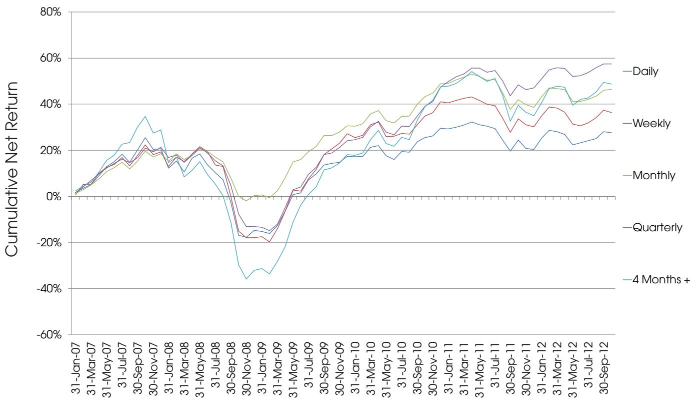
Liquidity: At What Cost?
Overview of Hedge Fund Performance

Liquidity and the Performance of Hedge Funds

From the first section of this report it can be seen that there are clear differences between strategies when it comes to liquidity (Fig. 2). In addition, when looking within strategies there can be significant variation from fund to fund (Fig. 1). The frequency and degree to which investors are permitted to access their capital is an important consideration for them when assessing new hedge fund opportunities, but the likely liquidity also needs to be balanced with the potential returns available. Infrequent redemption periods provide managers with a degree of stability and facilitate the pursuit of longer term investment strategies. Regular redemption periods enable the quick release of capital during times of crisis, but does this come at the cost of comparatively lower returns?

Less Liquidity, Greater Returns?

Fig. 3: Performance of Long/Short Hedge Funds with Different Redemption Periods, January 2007 - October 2012



Source: Preqin Hedge Fund Analyst

As an example, Fig. 3 demonstrates the returns of funds within the long/short sector differentiated by their redemption frequency. Over the full 70-month period it shows that funds providing investors with access to capital on a quarterly basis have performed significantly better than funds with more frequent redemption periods.

Daily redemption and weekly redemption long/short funds have posted cumulative returns of 28% and 36% respectively since 2007. Although this compares favourably with public markets – the S&P 500 index declined 0.43% over the same period – it is short of the 46% generated by funds with monthly liquidity, the 58% posted by quarterly redemption funds and the 49% returned by funds with less-than-quarterly redemptions. So does it follow that less frequent access to capital results in better returns for investors?

As shown in Fig. 3, funds with redemption terms less frequent than each quarter (4 months +) noticeably outperformed other long/short funds during 2007, posting 29% for the year. By the end of 2008, however, the performance of these vehicles had declined significantly and more steeply than funds with more frequent liquidity. The cumulative return for the two years to December 2008 stood at -32% for funds providing redemption opportunities on a less than quarterly basis. This drawdown occurred at a crucial period for investors, when liquidity was vital as investors faced credit drying up in other areas of their portfolio and called for capital to be returned. The combination of being locked into a fund with capital redemption periods only every few months and very poor market returns can explain the dissatisfaction and concern that many investors expressed at this time with less liquid hedge funds, as well as the growing appeal of more liquid funds, which offered investors greater opportunities for asset protection.

Quarterly redemption funds also faced a sizeable drawdown during 2008, dropping to a 24-month return of -13% at the end of the year. This was not as severe as the decline faced by less liquid funds, and was of a similar magnitude to the fall experienced by daily and weekly redemption long/short funds. The subsequent performance of funds offering quarterly redemptions has outstripped that of funds with more readily available capital.

The indication, therefore, is that less liquid hedge funds have provided superior long-term performance in recent years, despite also suffering considerable drawdowns. However, for many investors it can be difficult to maintain such a long-term investment horizon, particularly when faced with the falling values and uncertainty witnessed in 2008. Investors faced a liquidity squeeze in 2008, and funds with longer redemption periods often exacerbated the problem and contributed more to poor portfolio performance.

Liquidity of Strategies & Stability of Returns

As discussed previously, different levels of liquidity made available to investors tend to reflect the nature of the underlying strategies of hedge funds. Therefore, in addition to investment horizon, it is important for investors to consider whether a fund offering infrequent liquidity is likely to balance this with better returns or lower volatility. Is it possible to achieve superior performance or stability via a similar fund that provides more frequent access to capital?

Fig. 4 and Fig. 5 depict the volatility level and returns of hedge funds with different strategies and different redemption periods. Fig. 4 relates to the two years to the end of 2008; Fig. 5 demonstrates the same data for the longer period of January 2007 to October 2012.

Performance Differences: Strategies, Liquidity and Time

For a number of hedge fund strategies, the provision of less liquidity over the long term has led to higher volatility but has also yielded better returns. This is true in the case of long/short, relative value and multi-strategy funds, where quarterly redemption vehicles outperformed monthly redemption funds, albeit at the price of higher volatility, in the period 2007-2012. However, the same quarterly redemption funds struggled during the period 2007-2008, when credit and liquidity were widely squeezed amid the collapse and state-backed bailout of a number of financial institutions.

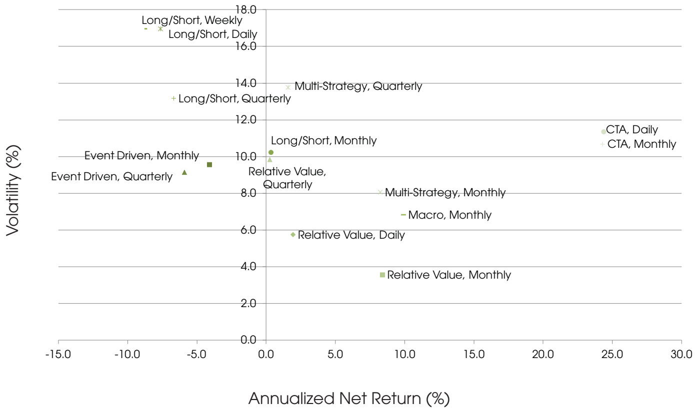
Relative value funds offering daily and monthly liquidity terms posted attractive returns and low volatility in both the 2007-2008 and 2007-2012 periods, emphasizing that the strategy delivers absolute returns regardless of market direction. Moreover, monthly redemption relative value funds experienced both higher returns and lower volatility than their daily redemption counterparts. This suggests that investors in relative value funds, which tend to employ comparatively high leverage, can access better performance if they are able to sacrifice daily liquidity for less frequent access to capital. The least liquid relative value funds – those with quarterly redemption periods – demonstrated higher levels of volatility. Over the longer term this has been matched with higher annualized returns but over the two years to the end of 2008 performance was only just in positive territory.

The risk-return profiles of multi-strategy and long/short funds tell a similar story to that of relative value vehicles. Quarterly redemption funds balanced higher volatility with better returns than monthly redemption funds in the long term, but in the shorter term between 2007 and 2008, low or negative returns were achieved with greater volatility.

CTAs and managed futures funds are typically more liquid than other alternative investment strategies. Figs. 4 and 5 show little difference between the risk-return profiles of daily and monthly redemption vehicles. However, daily redemption CTAs have performed slightly better with lower volatility since 2007 than those offering monthly redemptions.

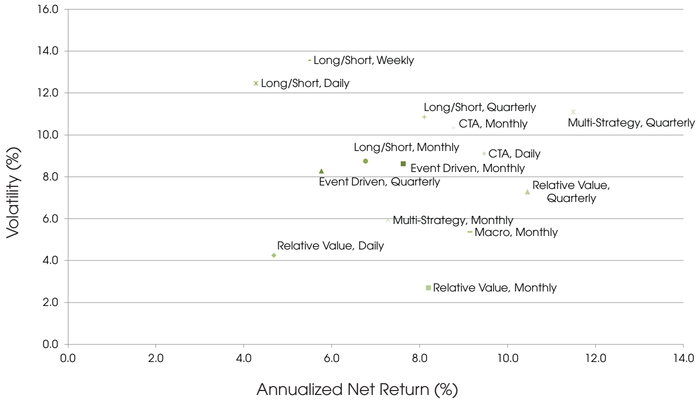
Monthly redemption event driven funds have also posted better returns than less liquid counterparts, with quarterly redemption funds generating lower returns in both periods. This is somewhat counter-intuitive because, in contrast to CTAs, event driven strategies tend to be comparatively illiquid, with longer investment horizons designed to capture the value as portfolio companies are restructured. However, it is worth noting that from the limited data available, there are indications that event driven funds offering less-than-quarterly redemption periods (bi-annually or annually, for example) have performed better since 2007 than those with more frequent redemption terms.

Fig. 4: Comparison of Hedge Fund Risk-Return Profiles by Strategy and Redemption Frequency, January 2007 - December 2008



Source: Preqin Hedge Fund Analyst

Fig. 5: Comparison of Hedge Fund Risk-Return Profiles by Strategy and Redemption Frequency, January 2007 - October 2012



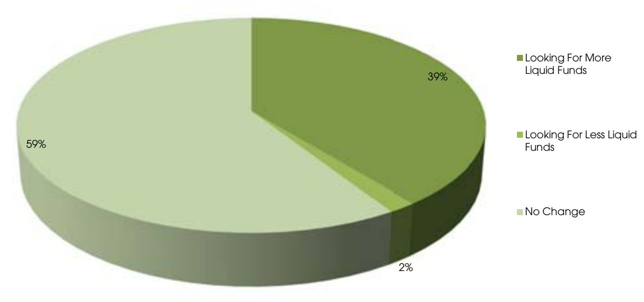
Source: Preqin Hedge Fund Analyst

In the same way that managers must match the liquidity terms afforded investors to the likely liquidity of their own investments, investors themselves need to match fund liquidity terms with their investment horizons. Investors that are prepared to and are able to tie-up their capital for a sustained period are more likely to benefit by accepting less frequent redemption terms. However, faced with market uncertainty and negative returns, it is often difficult for investors to accept or justify less liquidity. With the credit crisis still so fresh in the memory, have the liquidity expectations of hedge fund investors changed?

Liquidity: Preqin Investor Survey
What Do Hedge Fund Investors Want?

Preqin recently conducted detailed interviews with more than 50 leading institutional investors in hedge funds in order to find out more about their current views on the issue of liquidity. Fig. 6 shows that 39% of investors surveyed are looking for more liquidity in their hedge fund portfolios than they were three years ago. While this is not as significant a proportion as the results of a similar study last year (in September 2011, 75% of investors indicated that they were looking for more liquidity than they were in 2008), it suggests that a number of investors have been taking steps to improve liquidity in recent years and are continuing to do so. The reduced figure likely represents a levelling out as investors achieve the desired level of liquidity in their portfolios.

Fig. 6: Change in Hedge Fund Investor Attitudes Towards Liquidity Over the Last Two To Three Years



Source: Preqin Hedge Fund Institutional Investor Survey - November 2012

Current Liquidity Preferences

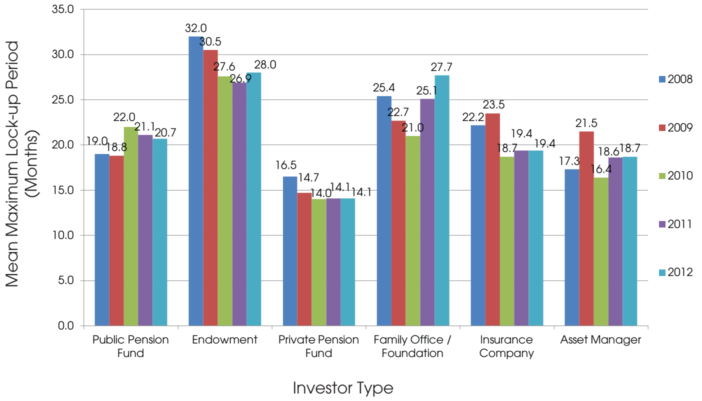
In most cases, the average maximum lock-up restrictions accepted by each investor group has remained relatively consistent from 2011 to 2012, as shown in Fig. 7. Few investors are currently willing to accept a lock-up period of more than three years. Endowments and foundations have shown an increase in the average maximum lock-up they will accept over the past year. These investor groups are typically long-term investors and the results suggest that they will continue to accept longer lock-ups in cases where the strategy is appropriate for such a restriction. The stronger performance of more illiquid funds is also proving attractive to those investors with longer investment horizons that can afford to lock capital in for more prolonged periods of time.

Fig. 8 shows the current liquidity preferences of institutional investors in terms of redemption frequencies and notice periods. The majority of investors are looking for at least quarterly liquidity, and there has been a sizeable increase in investors looking for funds with weekly and daily liquidity over the past year, 23% and 20% respectively compared with 7% and 3% in 2011. The greater liquidity requirement is also highlighted by a reduction in the proportion of investors accepting semi-annual and annual liquidity, dropping to 5% and 7% respectively in comparison to 8% and 9% respectively in 2011. These results show that despite investors' lock-up restriction preferences stabilizing (or even increasing for some investors), investors continue to seek funds which have greater underlying liquidity and more regular access to capital. The previous section demonstrated that funds with longer than quarterly redemptions can produce stronger returns. However, following the higher volatility and larger drawdown in 2008 many investors are willing to forego the potential for stronger returns in order to tap into funds which can offer more stable sources of alpha.

Why Choose Liquidity?

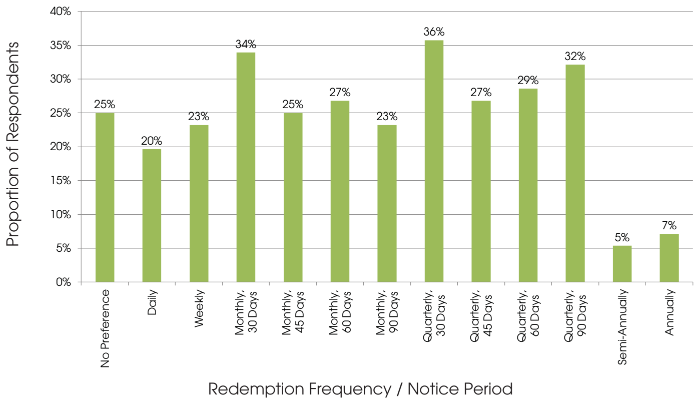
Despite some evidence to show that less liquid funds can offer better performance, what is the appeal of liquidity to institutional investors? There can be a number of reasons why institutional investors may

Fig. 7: Mean Maximum Lock-Up Period by Hedge Fund Investor Type



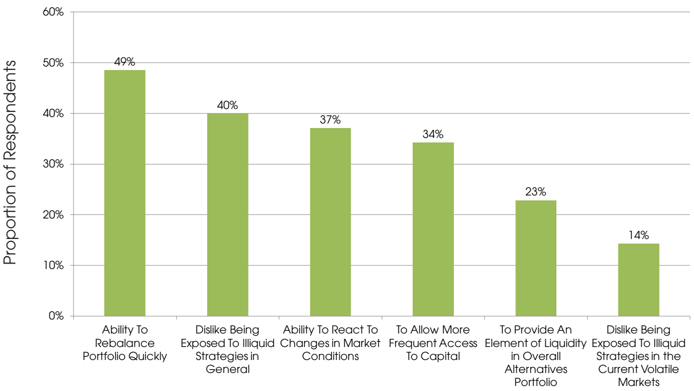
Source: Preqin Hedge Fund Institutional Investor Survey - November 2012

Fig. 8: Hedge Fund Investors' Preferred Fund Redemption and Notice Periods



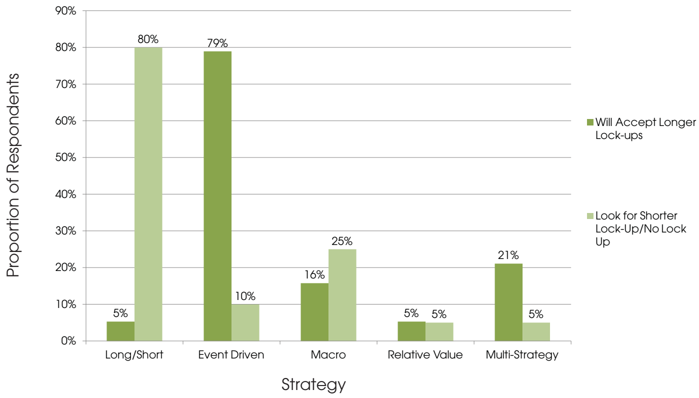
Source: Preqin Hedge Fund Institutional Investor Survey - November 2012

Fig. 9: Reasons Why Hedge Fund Investors Seek More Liquid Hedge Funds



Source: Preqin Hedge Fund Institutional Investor Survey - November 2012

Fig. 10: Hedge Fund Investors' Lock-up Restriction Preferences by Strategy



Source: Preqin Hedge Fund Institutional Investor Survey - November 2012

look for additional liquidity in their hedge fund portfolios, as indicated by the responses in Fig. 9. The most commonly cited reason was in order to allow investors to rebalance their portfolios quickly, with 49% of investors surveyed indicating this as a reason for targeting more liquid funds. This is important to investors as it means that they can change their portfolio if a manager is underperforming. It also allows them to take advantage of new opportunities, both in terms of fund offerings as well as opportunities in the wider markets, as the financial climate continues to evolve.

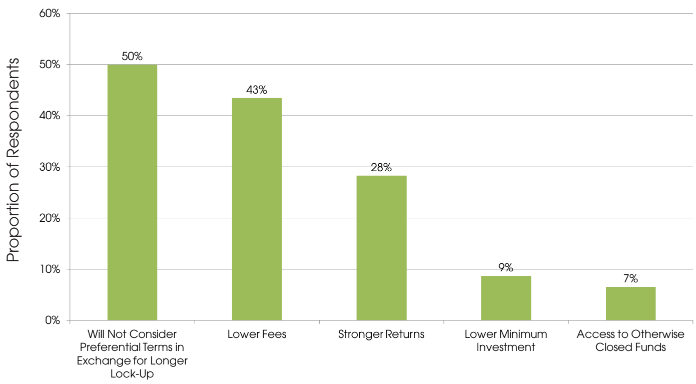
Similarly, a number of investors choose liquid funds because they allow more frequent access to capital and an ability to react to changes in market conditions. Forty percent of respondents indicated that they do not like being exposed to illiquid strategies in general, with 14% stating they are unwilling to be exposed to illiquid strategies in the current volatile markets. Twenty-three percent of surveyed investors state that they look for liquidity in hedge funds in order to add a degree of liquidity to their overall alternative assets portfolios. With other alternative assets such as private equity funds locking investor capital in for 10 years or more, hedge funds can be a useful tool to provide some much needed liquidity in this segment of their portfolios.

Most investors will assess redemption frequencies and lock-up restrictions based on a number of factors, with one of the key issues being the fund strategy. Investors are likely to be willing to accept longer lock-ups for illiquid strategies where funds are specifically targeting illiquid assets. Fig. 10 shows that event driven strategies are where investors are most likely to accept a longer lock-up, with distressed hedge funds in particular being cited as a fund strategy where illiquidity would be accepted by investors. Eighty percent of investors interviewed said that they would prefer shorter lock-up periods or no lock-ups for long/short strategies with long/short equity the most commonly cited strategy. Other strategies mentioned with regards to shorter lock-ups include strategies such as liquid macro, managed futures and liquid credit strategies.

Why Lock Up Capital?

Fig. 11 shows that half of the investors surveyed indicated that they would not accept a longer lock-up for a reduction in fees or other more

Fig. 11: Hedge Fund Investor Consideration of Preferential Terms in Exchange for Longer Lock-up Periods



Source: Preqin Hedge Fund Institutional Investor Survey - November 2012

favourable terms, representing a considerable increase from the 34% that suggested this in 2011. A number of investors commented that liquidity is more important than a small saving on fees, while others prefer to consider the strategy of the fund rather than the specific terms offered. Forty-three percent of investors indicated that they would accept a longer lock-up period if this was coupled with correspondingly lower fees. Twenty-eight percent of respondents indicated they would accept less liquidity in exchange for higher returns, highlighting that a number of investors are still willing to accept longer lock-ups if they feel they can get access to better performing funds as a result. Our study shows that less liquid hedge funds can often perform better than more liquid funds, suggesting that there can be a number of benefits for investors that choose to accept illiquidity in their portfolios.

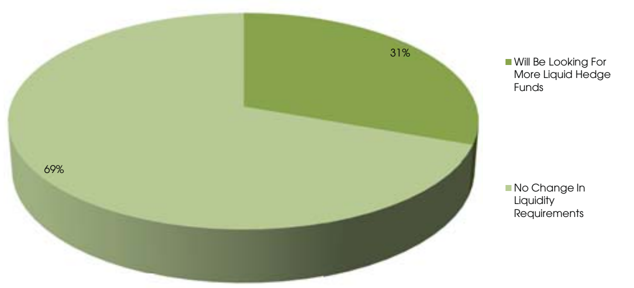
Fig. 12 shows the liquidity plans of institutional investors for the coming 12 months. Thirty-one percent of respondents indicated that they will be searching for funds that they perceive as "more liquid" over the next year. While this is less than half of respondents, it highlights that a significant proportion of investors are continuing to improve the liquidity profile of their portfolio, whereas many investors have already reached the desired level of liquidity within their hedge fund holdings. Investors that already have substantial liquidity in their portfolios indicated that they would maintain this outlook in 2013, while other investors are more flexible regarding liquidity if they have longer term investment horizons and do not need to have ready access to capital with their wider alternative holdings over the next 12 months (for instance for capital call-ups from private equity managers).

Outlook

There is a liquidity spectrum within the hedge fund industry, with some strategies being inherently less liquid than others. Within strategies there is also a high degree of variation as some funds offer daily redemption frequencies and others offer up to annual capital redemption. Funds which offer monthly or greater redemption frequencies tend to perform better than their more liquid peers. However, in crisis periods funds offering less-than-monthly access to capital have underperformed more liquid funds.

Funds which offer quarterly redemptions appear to offer the best balance between investor liquidity requirements and performance. Many investors seem to agree with this, with funds that offer quarterly redemptions being among the most commonly sought. Funds with semi-annual or annual redemptions are falling out of favour with institutional investors. This has been coupled with a significant growth in demand for funds which can offer daily or weekly liquidity, despite evidence that these funds produce lower returns.

Fig. 12: Hedge Fund Investor Searches for Funds in 2013



Source: Preqin Hedge Fund Institutional Investor Survey - November 2012

However, on the whole hedge fund investors' calls for greater liquidity appear to be abating as fewer investors state that they are seeking more liquidity than in previous years. This may be because they have adjusted their portfolios over the past four years and have reached a satisfactory level of liquidity, or because stronger performance of more illiquid funds has proved appealing to some groups. Nonetheless, with around a third of investors continuing to search for more liquid funds in 2013, it is clear that the issue of liquidity will remain a key topic for at least the 12 months ahead for a significant proportion of institutional investors and the hedge funds they invest in.

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Preqin Global Data Coverage

As of 6 December 2012

Fund Coverage: 27,932 Funds

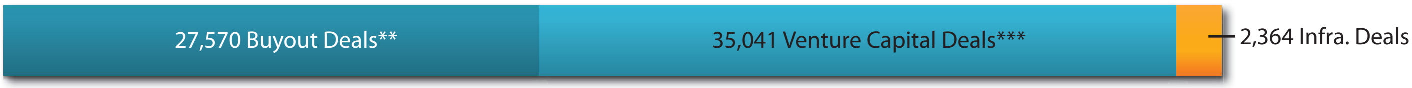
Firm Coverage: 13,789 Firms

Performance Coverage: 9,947 Funds (IRR Data for 4,710 Funds and Cash Flow Data for 2,179 Funds)

Fundraising Coverage: 11,530 Funds Open for Investment/Launching Soon

Including 1,981 Closed-Ended Funds in Market and 497 Announced or Expected Funds

Deals Coverage: 64,975 Deals Covered; All New Deals Tracked



Investor Coverage: 10,108 Institutional Investors Monitored,

Including 7,241 Verified Active**** in Alternatives and 74,853 LP Commitments to Partnerships

Alternative Investment Consultant Coverage: 430 Consultants Tracked

Fund Terms Coverage: Analysis Based on Data for Around 6,500 Funds

Best Contacts: Carefully Selected from Our Database of over 223,068 Active Contacts

Plus

Comprehensive coverage of:

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Preqin Industry News

Olivia Harmsworth rounds up the latest hedge fund industry news based upon intelligence gathered by Preqin analysts. Preqin Online subscribers can click on the investor name to view the full profiles.

As shown in this month's feature, liquidity is a key issue for many hedge fund investors, and often dictates which strategy they will target. Many investors are seeking more liquid strategies in return for a lower risk portfolio, despite the possibility of lower returns. The Chart of the Month shows institutional investor exposure to funds with suspended redemption and current exposure to instigated gates, side pockets and funds under high water marks. As the chart demonstrates, the majority of respondents (62%) have previously invested in a fund with instigated gates or suspended redemption. In comparison, 56% of investors are currently invested in a hedge fund with side pockets, gates or suspended redemptions. This demonstrates that a large number of funds are limiting access to capital, or have done so in the past. Eighty-two percent of respondents indicated that they are currently invested in funds which are below their high water marks, further demonstrating the general volatility in the hedge fund asset class.

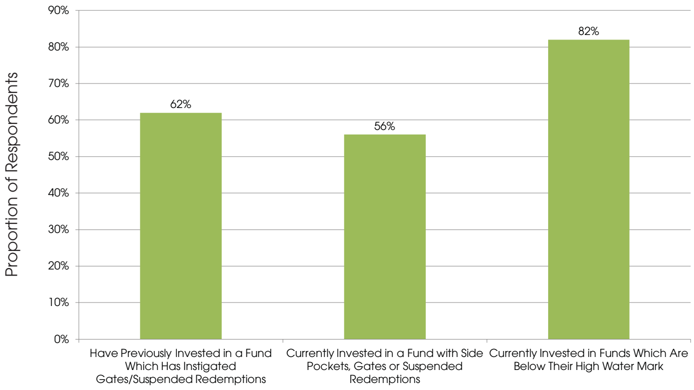
In order to maintain greater access to their invested capital, a number of investors are specifically targeting more liquid hedge fund strategies, or those with shorter lock-up periods. KBC Asset Management is one such example; it plans to invest €40-50mn in 15 to 20 new hedge funds. The asset manager predominantly has exposure to event driven strategies, and is looking for further exposure to long/short equity, macro and relative value strategies. Baylor University Endowment Fund is specifically targeting liquid hedge fund strategies, and will not invest in hedge funds which impose hard lock-up periods. The endowment plan is currently operating below its target hedge fund allocation of 20%, and plans to make two to six new hedge fund investments over the coming 12 months. Strategies that it is currently invested in include allocations to long/short equity, distressed asset and debt, short credit and fundamental value hedge funds.

Similarly, many fund of hedge funds managers have restrictions on the lock-up periods they are willing to commit to, or the strategies they are targeting for their investors. One such example is CUBE Capital, which prefers to invest with experienced hedge fund managers and will not allocate to funds with a lock-up period of more than one year. The $800mn fund of hedge funds manager is looking to add distressed hedge funds with a European focus to its portfolio over the coming year; the group will also consider allocations to a variety of US-focused strategies. It currently manages two funds of hedge funds and invests in a portfolio of approximately 30 underlying hedge funds across a variety of strategies.

An example of an investor looking to diversify its portfolio is Jewish Community Foundation of Greater Hartford; the foundation is looking to wind down its existing investment with TIFF in the coming 12 months, with the goal of committing to two to four funds of hedge funds. The foundation is seeking established managers which provide global exposure to diversified strategies, and it will not consider seeding funds, emerging managers or spin offs; however, it is willing to accept lock-ups. It will only consider potential managers recommended by its investment consultant Colonial Consulting.

A number of investors are looking to make their maiden contribution to the hedge fund asset class, including National Bank of Kazakhstan, which is looking to invest in hedge funds through its newly formed investment arm, National Investment Corporation of the National Bank of Kazakhstan. Over the next 12-24 months it will be looking to gain exposure to hedge funds on a global scale.

Chart of the Month: Institutional Investor Exposure to Funds with Suspended Redemption, and Current Exposure to Instigated Gates, Side Pockets and Funds Under High Water Marks



Source: Preqin Hedge Fund Institutional Investor Survey - November 2012

Data Source:

Do you have any news you would like to share with the readers of Spotlight? Perhaps you're about to launch a new fund, have implemented a new investment strategy, or are considering investments beyond your usual geographic focus?

Send your updates to spotlight@preqin.com and we will endeavour to publish them in the next issue.

Preqin gathers industry news from our direct communication with hedge fund investors and fund managers. To find out how we can help you, please visit:

www.preqin.com/hedge

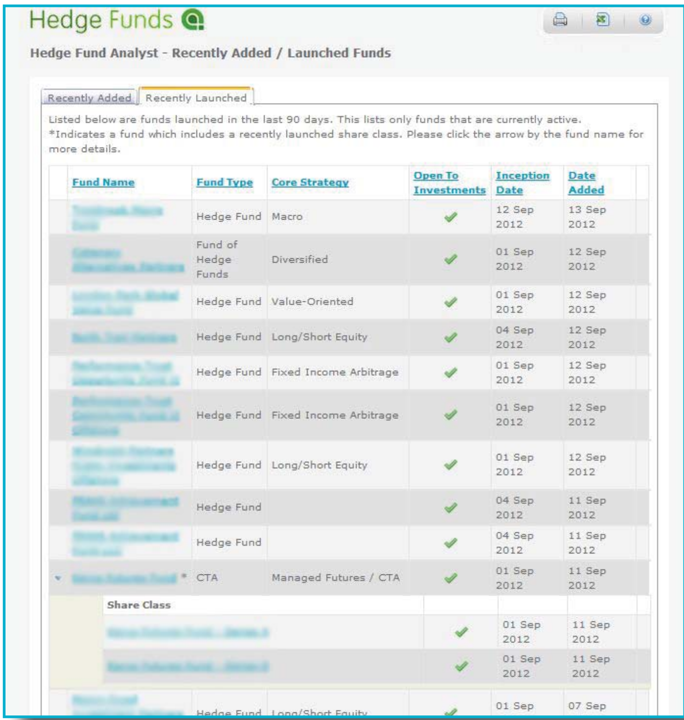
Preqin Hedge Fund Analyst

www.preqin.com/hfa

Hedge Fund Analyst provides all the latest data and intelligence on hedge funds in one place. Information is updated on a daily basis by a team of skilled research analysts based around the globe, providing you with one single comprehensive resource.

Hedge Fund Performance

Fund-by-fund and industry level performance data covering over 3,700 funds, with 2,500 reporting monthly returns, providing you with a true market overview. You can also compare funds to specific segments of the market, including by strategy, fund structure, geography and more, using the fully customizable benchmarks function.



Hedge Funds

Hedge Fund Analyst - Recently Added / Launched Funds

Recently Added | Recently Launched

Listed below are funds launched in the last 90 days. This lists only funds that are currently active.
*Indicates a fund which includes a recently launched share class. Please click the arrow by the fund name for more details.

Fund Name	Fund Type	Core Strategy	Open To Investments	Inception Date	Date Added
[illegible]	Hedge Fund	Macro	✓	12 Sep 2012	13 Sep 2012
[illegible]	Fund of Hedge Funds	Diversified	✓	01 Sep 2012	12 Sep 2012
[illegible]	Hedge Fund	Value-Oriented	✓	01 Sep 2012	12 Sep 2012
[illegible]	Hedge Fund	Long/Short Equity	✓	04 Sep 2012	12 Sep 2012
[illegible]	Hedge Fund	Fixed Income Arbitrage	✓	01 Sep 2012	12 Sep 2012
[illegible]	Hedge Fund	Fixed Income Arbitrage	✓	01 Sep 2012	12 Sep 2012
[illegible]	Hedge Fund	Long/Short Equity	✓	01 Sep 2012	12 Sep 2012
[illegible]	Hedge Fund		✓	04 Sep 2012	11 Sep 2012
[illegible]	Hedge Fund		✓	04 Sep 2012	11 Sep 2012
[illegible] *	CTA	Managed Futures / CTA	✓	01 Sep 2012	11 Sep 2012
Share Class					
[illegible]			✓	01 Sep 2012	11 Sep 2012
[illegible]			✓	01 Sep 2012	11 Sep 2012
[illegible]	Hedge Fund	Long/Short Equity	✓	01 Sep	07 Sep

Hedge Fund Profiles

Analyze industry overview statistics of the current fund universe as well as searchable in-depth fund profiles showing all the key information for over 8,100 individual hedge funds (14,500 including share classes).

Hedge Fund Managers

Search over 4,900 fund manager profiles from across the world and view key preferences and personnel contact details. With a subscription to Hedge Fund Investor Profile you can also view the investors in individual funds.

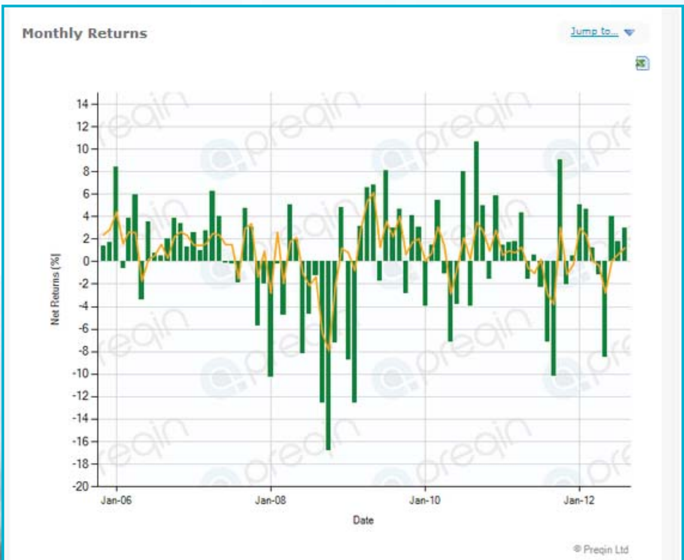
Fund Terms and Conditions

Fund-by-fund and industry level fund terms and conditions data for over 4,000 vehicles provide a market overview, enabling you to see the current trends for specific fund types, structures and investment focuses.

Additional Features

Hedge Fund Analyst also features:

- **Profiles of administrators, custodians, prime brokers, auditors and law firms.**
- **League tables** – live and customizable league tables.
- **Download centre** – premium subscribers have unlimited downloads and can access historical performance data.
- **Compatibility with analysis software.**



Preqin Performance Benchmarks: October 2012

Joe Childs examines the latest hedge fund performance benchmarks for October 2012.

Fig. 1: Summary of October 2012 Performance Benchmarks (Net Return, %)

	September 2012	October 2012	Year To Date	Last 12 Months
Hedge Funds (All Strategies & Regions)	**1.61**	**0.23**	**6.58**	**5.11**
Long/Short	1.94	0.19	6.97	4.62
Event Driven Strategies	1.53	0.82	6.68	5.66
Relative Value	0.89	0.60	6.48	7.28
Macro Strategies	1.09	-0.06	4.39	3.33
Multi-Strategy	1.47	-0.60	5.14	4.15
North America	1.90	0.28	10.11	9.95
Europe	1.28	0.71	5.77	4.92
Asia-Pacific	1.66	0.74	5.47	3.10
Emerging Markets	2.56	0.35	7.85	4.64
USD	1.83	0.26	7.32	5.47
EUR	0.78	-0.06	3.48	2.55
GBP	0.44	0.35	3.02	2.43
JPY	0.39	-0.10	-0.66	-1.48
AUD	1.55	1.19	7.06	5.86
BRL	1.03	-0.43	7.85	8.88
Funds of Hedge Funds (All Strategies & Regions)	**0.96**	**-0.21**	**3.11**	**1.63**
Multi-Strategy	0.91	-0.22	3.04	1.72
USD	1.06	-0.22	3.31	1.82
EUR	0.78	-0.44	1.49	-0.34
UCITS Hedge Funds (All Strategies & Regions)	**1.32**	**0.30**	**4.96**	**3.09**
USD	1.88	-0.30	5.52	2.32
EUR	0.96	0.12	3.74	2.11
CTAs (All Strategies & Regions)	**-1.09**	**-2.51**	**-0.58**	**0.69**
USD	-1.13	-2.52	-0.34	1.33
EUR	-1.49	-3.35	-4.93	-4.55

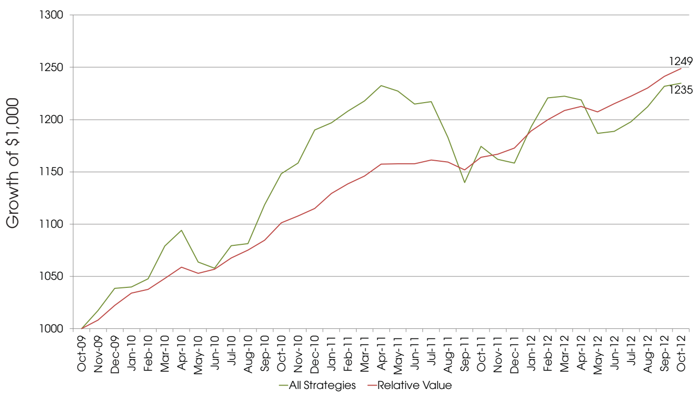
Source: Preqin Hedge Fund Analyst

Hedge funds employing relative value strategies posted returns of 0.60% in October 2012 and are up 7.28% since November 2011, making it the top performing strategy over the last 12 months.

Fig. 2 shows the cumulative performance of relative value funds over the last three years compared to the benchmark of all hedge funds. Relative value vehicles posted lower returns than other strategies in 2010 and the first half of 2011. However, lower volatility and lower correlation with equity markets has led the strategy to deliver more stable performance since July 2011.

Add hfperformance@preqin.com to your monthly performance distribution lists to ensure your fund information remains accurate and is updated regularly.

Fig. 2: Hedge Fund Performance: Relative Value vs. All Strategies, November 2009 - October 2012

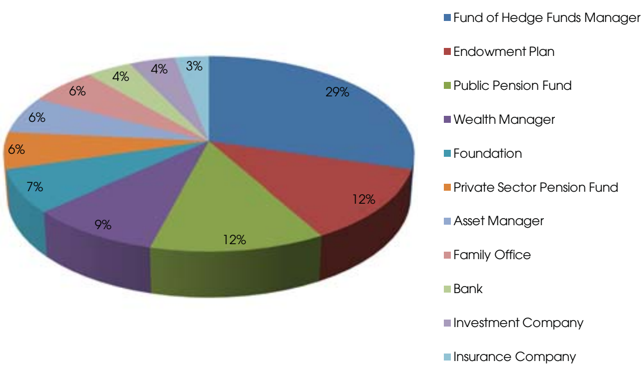


Source: Preqin Hedge Fund Analyst

Fund Searches and Mandates

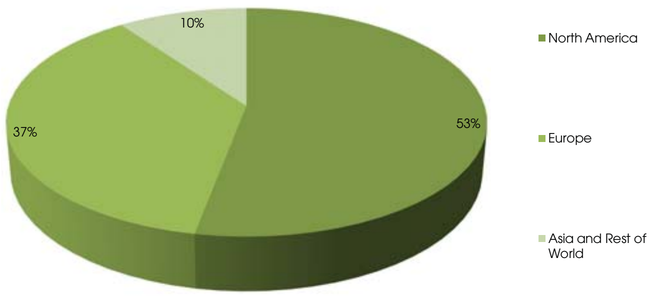
Which hedge fund structures are investors targeting? Which types of investors are initiating searches? Sarah Corran analyzes the latest hedge fund searches and mandates issued by investors.

Fig. 1: Hedge Fund Searches Issued by Investor Type, November 2012



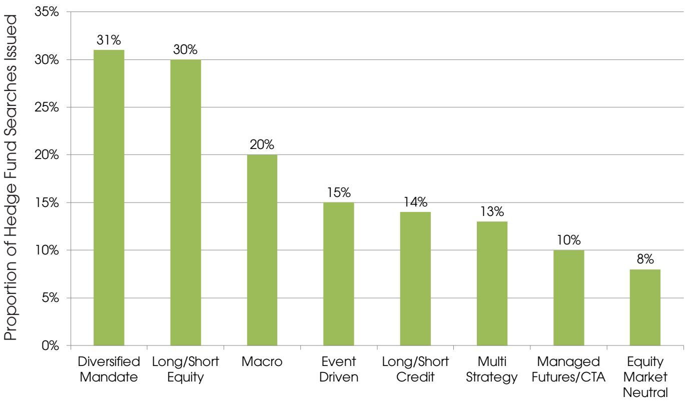
Source: Preqin Hedge Fund Investor Profiles

Fig. 2: Hedge Fund Searches Issued by Investor Location, November 2012



Source: Preqin Hedge Fund Investor Profiles

Fig. 3: Hedge Fund Searches Issued by Strategy, November 2012



Source: Preqin Hedge Fund Investor Profiles

Subscriber Quicklink:

Subscribers can click here to access the Fund Searches and Mandates feature on Preqin Hedge Fund Investor Profiles, which allows you to filter hedge fund investors on Preqin's database by their strategy, structural and regional preferences for planned future investments within specific time frames.

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www.preqin.com/hedge

Fig. 4: Examples of Fund Searches Issued in November 2012

Investor	Investor Type	Location	Fund Search Details
Quantum Global Wealth Management	Asset Manager	Switzerland	Quantum Global Wealth Management is looking to make one to two new hedge fund investments over the next 12 months and will do so by investing directly. The asset manager has previously invested both directly and through fund of hedge funds vehicles. Typically, it has invested across a range of hedge fund strategies and geographic regions in order to diversify its clients' exposure to the asset class.
Woori Absolute Partners	Fund of Hedge Funds	Singapore	Woori Absolute Partners launched its latest vehicle, Woori NewAlpha Fund, in August 2012 and is actively looking to provide seed capital to Asian emerging managers through the fund. It is open to investing in a wide variety of strategies and will consider spin-off managers on a case-by-case basis.
Phillips Academy Endowment Andover	Endowment Plan	US	Phillips Academy Endowment Andover is planning to add at least one fund to its hedge fund portfolio in the coming 12 months. The endowment is seeking to invest directly in a hedge fund manager, which provides global exposure to relative value arbitrage and long/short equity strategies. The endowment typically prefers to invest with established managers, but is willing to consider seeding funds, emerging managers and spin offs.

Source: Preqin Hedge Fund Investor Profiles

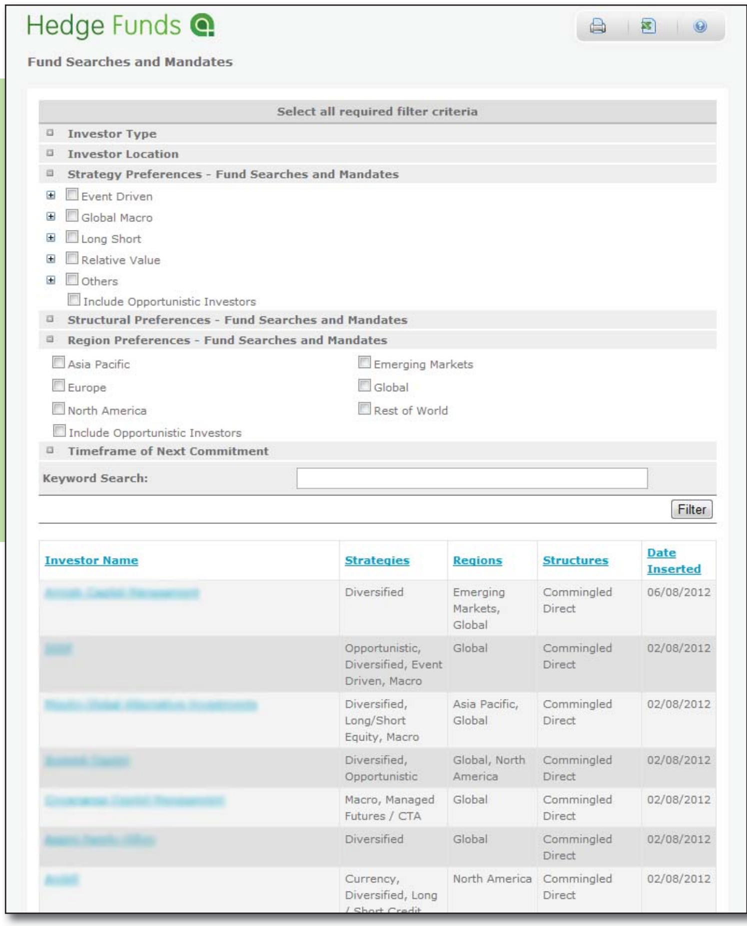
Future Fund Searches and Mandates

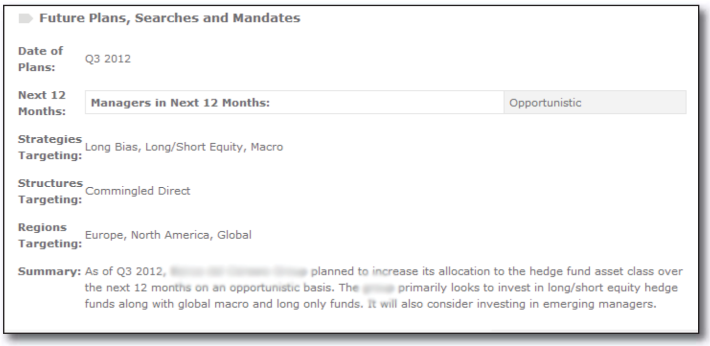
The difference between success and failure in attracting institutional capital is often the ability to identify which investors are likely to be most interested in your fund.

To help with this task, Preqin Hedge Fund Investor Profiles now assists subscribers to identify likely investors in their fund by searching for institutional investors by their current searches and mandates.

Preqin updates these details by speaking directly to investors - saving you time and ensuring our intelligence is up to date and accurate.

- Future Investment Plans - Investor profiles now include details of investors' future fund searches, detailing whether they are targeting specific hedge fund strategies, regions of focus, or particular hedge fund structures.
- Future Fund Searches and Mandates - Forward-looking search for all the institutional investors that are looking to invest in funds that match your criteria.
- Filter potential investors by location, type, and also strategy, structural and regional preferences for the next 12 months, and likely timeframe for their next fund commitment.





Whether you're hoping to grow the assets of a niche Asia-focused fund of hedge funds, or launch a US global macro fund, access to Hedge Fund Investor Profiles can help.

Hedge Fund Investor Profiles

For more information and to arrange a walkthrough of the service, please visit:
www.preqin.com/hfip

Foundations Investing in Hedge Funds

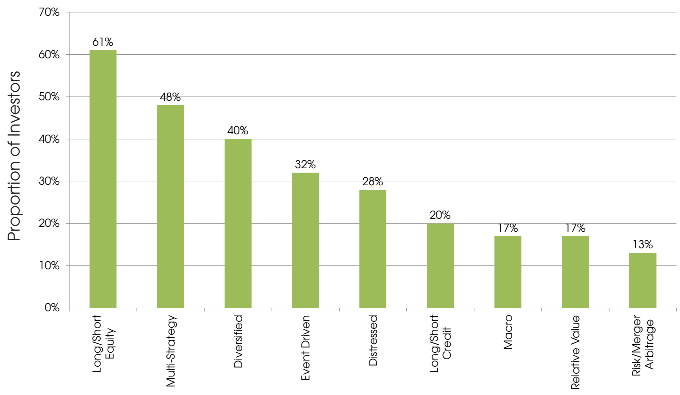
Katherine Johnson looks at the key statistics concerning foundations investing in hedge funds, including geographical and regional preferences of these investors.

Fig. 1: Key Facts: Foundations Investing in Hedge Funds

Median Assets Under Management ($mn)	696
Average Allocation to Hedge Funds	16.50%
Average Target Allocation to Hedge Funds	18.30%
Most Favoured Investment Approach (Direct, Funds of Hedge Funds, Both)	Both
Average Number of Hedge Fund Investments in Portfolio	8

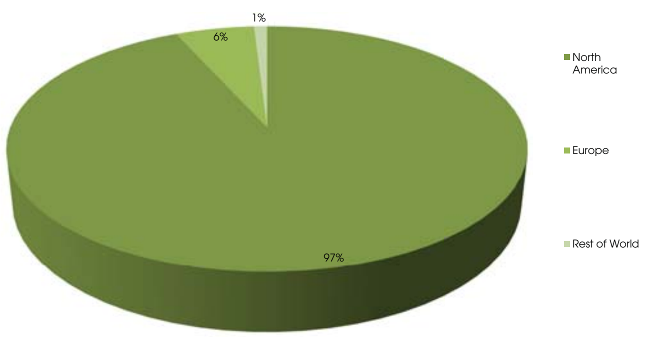
Source: Preqin Hedge Fund Investor Profiles

Fig. 2: Strategic Preferences of Foundations Investing in Hedge Funds



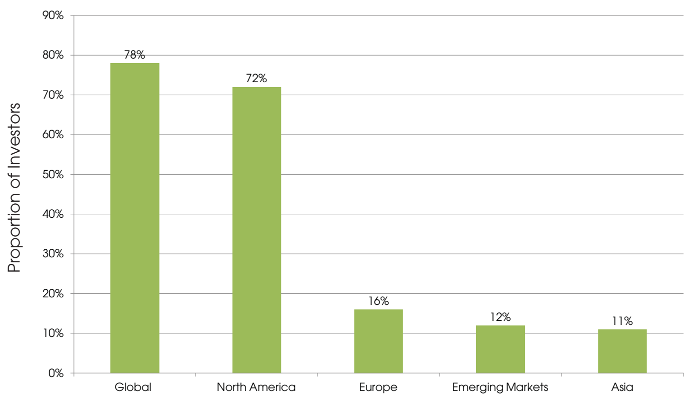
Source: Preqin Hedge Fund Investor Profiles

Fig. 3: Geographic Location of Foundations Investing in Hedge Funds



Source: Preqin Hedge Fund Investor Profiles

Fig. 4: Regional Preferences of Foundations Investing in Hedge Funds



Source: Preqin Hedge Fund Investor Profiles

Fig. 5: Three Leading Foundations Investing In Hedge Funds

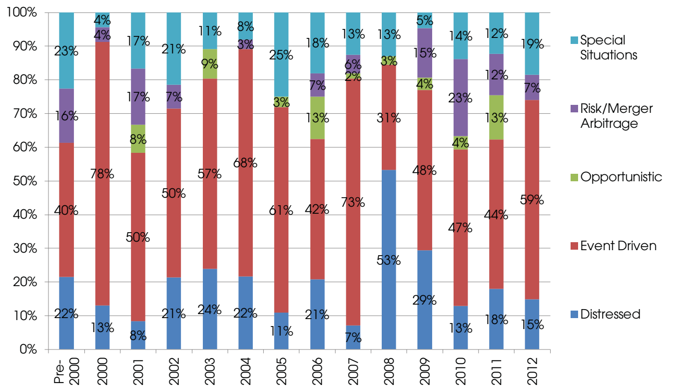
Investor	Investor Location	Assets under Management ($mn)	Allocation to Hedge Funds (% of AUM)
Wellcome Trust	UK	23,192	17.0
Robert Wood Johnson Foundation	US	9,000	28.0
Dignity Health	US	5,469	8.5

Source: Preqin Hedge Fund Investor Profiles

Event Driven Funds

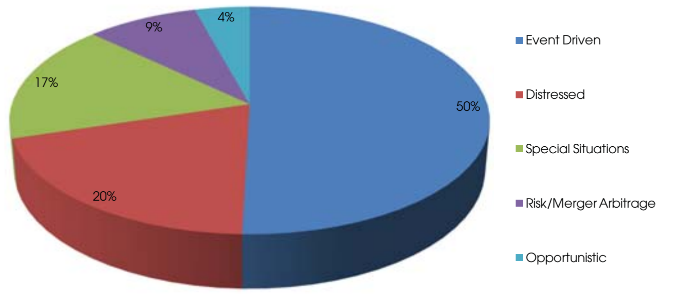
Ross Ford examines the key stats on event driven hedge funds, including a breakdown by strategy and by regional focus.

Fig. 1: Event Driven Strategies Launched by Year of Inception



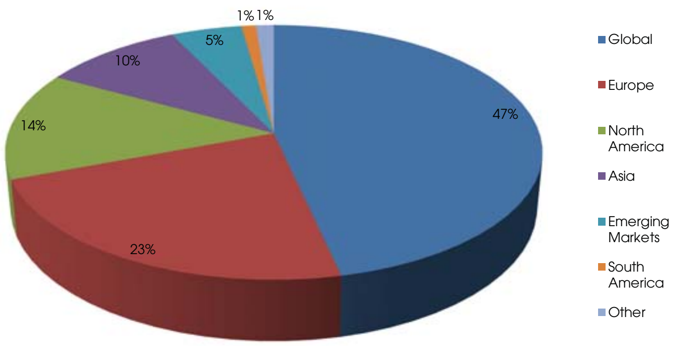
Source: Preqin Hedge Fund Analyst

Fig. 2: Breakdown of Event Driven Funds by Strategy - Number of Funds



Source: Preqin Hedge Fund Analyst

Fig. 3: Breakdown of Event Driven Funds by Regional Focus - Number of Funds



Source: Preqin Hedge Fund Analyst

Subscriber Quicklink:

Subscribers can click here to access a list of all 1,613 event driven funds currently tracked on Preqin's Hedge Fund Analyst database.

Hedge Fund Analyst provides all the latest data and intelligence on hedge funds in one place, including fund performance, fund strategies, fund managers and fund terms.

For a demo of Hedge Fund Analyst, or to get information on how this useful tool can help you, please visit:

www.preqin.com/hfa

Fig. 4: Examples of Event Driven Funds

Fund Name	Firm	Firm Location	Inception Date	Core Strategy	Size ($bn)
King Street Capital Ltd.	King Street Capital Management	US	01-Apr-1995	Event Driven	10.5*
King Street Capital Ltd. follows a long/short credit strategy with a focus on distressed and event driven situations. The fund invests in securities at all level of capital structure, from bank debt to equity, and seeks to generate returns from both long and short positions over various market cycles.					
Mason Capital Ltd	Mason Capital Management	US	01-Jul-2000	Event Driven	8.5
Mason Capital Ltd principally employs three event-driven investment strategies: merger arbitrage, distressed securities, and special situations. Mason opportunistically selects investments in these three areas which it believes will generate attractive risk-adjusted returns. The fund trades a variety of instruments, including, but not limited to equities, derivative and convertible securities, debt instruments, warrants, forward and futures contracts.					
Canyon Value Realization Master Fund, L.P.	Canyon Partners	US	01-Nov-1993	Special Situations	7.8
Canyon Value Realization Master Fund, L.P. is a hedge fund focused on situations such as significant transitions in credit quality, impending corporate events, complex capital structures, hedging opportunities, and orphan securities.					

*Estimate

Source: Preqin Hedge Fund Analyst

Conferences Spotlight

Conference	Date	Location	Organizer
Hedge Fund Brazil Forum	18 - 19 March 2013	Brazil	Latin Markets
GAIM OPS CAYMAN	21 - 24 April 2013	Grand Cayman	IIR USA
GAIM International 2013	June 2013	Monte Carlo	ICBI
Hedge Funds World LatAm 2013	18 - 19 June 2013	Miami	Terrapinn
The 19th Annual Alpha Hedge West Conference	September 2013	New Orleans	Institutional Investor
Hedge Funds World Asia 2013	3 - 5 September 2013	Hong Kong	Terrapinn
Hedge Funds World Zurich 2013	19 - 20 November 2013	Zurich	Terrapinn