Hedge Fund Spotlight

October 2011

Welcome to the latest edition of Hedge Fund Spotlight, the monthly newsletter from Preqin providing insights into hedge fund investors. Hedge Fund Spotlight uses information from our online product Hedge Investor Profiles

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The 2011 Preqin Global Hedge Fund Investor Review

More information available at: www.preqin.com/hedge

Feature Articles

As one of the biggest issues to affect the hedge fund industry, fund management fees impact both the alignment of interests and the fundamental relationship between hedge fund managers and investors. This month's Hedge Fund Spotlight contains two feature articles:

Management Fees: 2&20 a Thing of the Past? - We assess the latest trends in fee structures by structure, strategy and geography. How can fund managers position their offerings to be most attractive to investors in a highly competitive fundraising environment? Page 2.

Meeting Expectations? Investors' Views on Hedge Fund Terms - How do institutional investors feel about the key issues? We interviewed investors regarding performance and hedge fund terms to assess industry sentiment. Page 5.

Industry News

Institutional Investor News

Each month Preqin's analysts speak to hundreds of investors from around the world, uncovering vital, exclusive intelligence on hedge fund investment plans. This month's Industry News features important updates on Gorelick Brothers Capital, National Pensions Reserve Fund and Norinchukin Bank, amongst others. Page 8.

Fundraising Assignment

Distressed Securities Emerging Manager

We evaluate institutional investor appetite for a US-based single manager hedge fund with a distressed securities strategy focus that has been seeded with $150mn. Page 10.

The Facts

What does the investor landscape look like in each region? Which investors are most interested in each fund strategy? Which fund strategies are most sought after by each group of investors? This month, The Facts examines:

- UK investors in hedge funds Page 12.
- The latest statistics regarding funds of hedge funds as investors Page 13.
- Conferences - Details of upcoming hedge fund conferences from around the world Page 14.

Data

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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Management Fees: 2&20 a Thing of the Past?

The traditional fee structure of 2% management fee and 20% performance fee no longer holds true across the board, with some investors seeking discounts. Ross Ford uncovers current industry trends.

For several years the hedge fund industry was synonymous with the 2&20 fee structure; however since the onset of the financial crisis, investor pressure and a need to attract new capital has led fund managers to re-evaluate their fees. Preqin has been monitoring the changes post-2008 and in this edition of Spotlight we examine in more detail the current fee structures of single- and multi-manager hedge funds. The data reported in this article relates to management fee data for over 2,000 hedge fund vehicles from around the globe.

The New 2&20?

A 2&20 fee structure has long been perceived to be the industry standard fee structure for single-manager hedge funds; however just 29% of hedge fund managers now use these rates. The mean management fee for the single-manager hedge funds tracked by Preqin is currently 1.6%, 20% below the perceived industry standard of 2%. The mean performance fee for single-manager hedge funds currently stands at 19.2%, which again is below the perceived 20% standard, but by a smaller margin of 4%.

These results suggest that hedge fund managers have responded to the demands made by investors and have continued to drop their management fees in order to attract new investment. This is not limited to new funds but also to older, more established hedge fund brands. There has been a marked trend for established funds to lower their fees, with firms such as D.E. Shaw and Renaissance Technology being amongst those reported to have cut fees in the wake of the crisis.

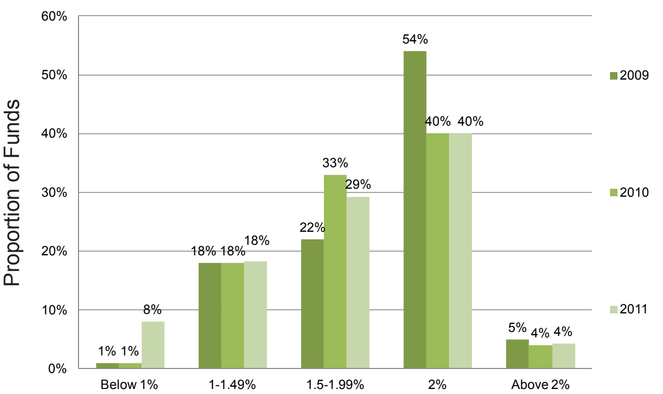
Fig. 1: Mean Hedge Fund Management and Performance Fees

Year	Management Fee	Performance Fee
2010	1.65%	18.89%
2011	1.60%	19.20%

Source: Preqin

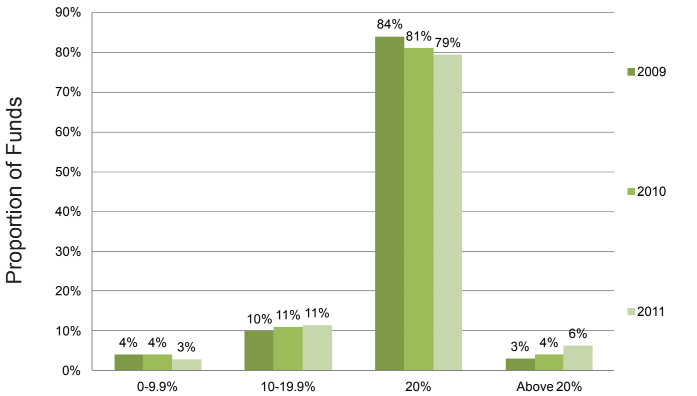
There is a greater reluctance from fund managers to alter the performance fees on their funds and while 2011 figures are slightly below the supposed industry standard, the current mean performance fee level is higher than that seen in a hedge fund fee structure study carried out by Preqin in 2009. In the past, the predominant pressure from investors has been towards a reduction in management fees, as many believed these fees were over-inflated and managers were making too much profit from payments that should ostensibly be priced to cover operational expenditure and overhead costs. However, as our investor feature shows (see pages 5-7), investors have witnessed improvements in the management fees charged by funds, and have now turned their attention to lobbying for a reduction on performance fees. Nearly half of all institutional investors want to see changes in their favour in the performance incentives associated with hedge funds, and this high level of client pressure could result in managers re-evaluating their fund terms in order to continue to attract institutional capital.

Fig. 2: Management Fee Distribution for Single-Manager Hedge Funds, 2009 - 2011



Source: Preqin

Fig. 3: Performance Fee Distribution for Single-Manager Hedge Funds, 2009 - 2011



Source: Preqin

Fig. 4: Mean Hedge Fund Fees by Fund Manager Location

Location	Mean Management Fee	Mean Perfromance Fee
North America	1.64%	19.58%
Europe	1.66%	18.95%
Asia	1.56%	18.79%
Rest of World	1.69%	18.84%

Source: Preqin

Fig. 5: Mean Hedge Fund Fees by Onshore and Offshore Domiciled Funds

Fund Domicile	Mean Management Fee	Mean Performance Fee
Onshore	1.50%	18.66%
Offshore	1.70%	19.42%

Source: Preqin

Management Fees Continue to Shift Towards Lower End of Spectrum While Performance Fees Remain Relatively Stable

Fig. 2 shows how the distribution of management fees has changed since 2009. The proportion of single-manager hedge funds that charge a 2% management fee has declined significantly since 2009, although there has been no significant change over the past year. The most significant change over the past 12 months has been in the proportion of funds charging a management fee of less than 1%. As investors continue to demand lower fees, this shift towards the lower end of the management fee spectrum could see these “cheaper” funds becoming more capable of attracting institutional assets. As a result the distribution of management fees could continue to shift even further to the lower end of the scale in the future.

Fig. 3 shows the distribution of performance fees charged by single-manager hedge funds since 2009. Many more funds charge a 20% performance fee (79%) than charge a 2% management fee (40%), so it appears the 20% performance fee is still a standard in the industry. It is clear that there has been a much smaller degree of change in the distribution of performance fees in comparison to management fees, supporting the hypothesis that managers are not offering investors the same extent of concessions on their incentive benefits. Interestingly, although there has been a slight drop in the proportion of funds that charge 20% performance fees since 2009, the proportion of funds charging rates above this figure has doubled over the past two years. With investor pressure on performance fees increasing in the past year, however, we may see some movement on this distribution if institutions continue to exert their weight en masse.

Breakdown by Manager Location and Domicile

Fig. 4 shows the average management and performance fees charged by single-manager hedge funds based on manager location. Asia-based hedge fund managers charge the lowest average management and performance fee. As Asia is still emerging as a new hub for hedge fund investment, such managers must be relatively flexible on fee structures to ensure that they remain appealing to the institutional market. North American and European fund managers have similar mean management fees, 1.64% and 1.66% respectively, but the average performance fee for North American managers is more than half a percentage point higher. European hedge fund managers are coming under increasing regulatory pressure, with new legislations like the AIFM directive creating a further financial burden for fund managers that are already being squeezed by their investors for lower fees. We could see increased fees charged by funds within Europe if the additional costs created by regulation are passed on to investors. In addition, it is clear that offshore funds have significantly higher fees than their onshore counterparts. Funds domiciled in the offshore tax haven of the Cayman Islands have the highest average management fee, with a mean figure of 1.74%.

Breakdown by Strategy

Fig. 6 shows the average fees charged by fund managers based on their fund’s core investment strategy. The three highest management fees charged tend to be for the more quantitative-based strategies of CTA, macro and statistical arbitrage, with an average management fee of between 1.79% and 1.90%. CTA managers also have the highest average performance fee at 20.56%. The lowest management and performance fees, aside from fund of hedge funds managers, are charged by vehicles that follow a relative value strategy. The average management fees for relative value strategy funds are very similar to that of funds of hedge funds, standing at 1.36%, but this is compensated by a similar performance fee to the rest of the industry (18.67%).

Funds of hedge funds’ fees continue to decline. In 2010 the mean management fee of a multi-manager vehicle stood at 1.44% and the performance fee was 11.54%; however these fees now stand at 1.35% and 10.58% respectively - a significant drop in a one-year period. Funds of hedge funds have been one of the hardest hit groups following the financial crisis, with assets in the sector falling considerably following poor performance and mass investor redemptions. Many of these investors chose to reinvest their capital directly in order to avoid the extra layer of fees, and as a result many funds of hedge funds have had to

Fig. 6: Average Hedge Fund Fees by Core Investment Strategy

Core Investment Strategy	Mean Management Fee	Mean Performance Fee
Credit	1.64%	20.00%
CTA	1.79%	20.56%
Distressed Securities	1.55%	20.51%
Event Driven	1.67%	19.14%
Fixed Income	1.45%	19.18%
Long/Short Equity	1.63%	19.16%
Macro	1.84%	19.20%
Market Neutral	1.63%	19.71%
Multi-Strategy	1.69%	19.39%
Other	1.51%	17.13%
Relative Value	1.38%	19.00%
Special Situations	1.59%	20.25%
Statistical Arbitrage	1.84%	19.00%
Fund of Hedge Funds	1.35%	10.58%

Source: Preqin

adapt their business models in order to win back these more sceptical institutions. Despite this, funds of hedge funds remain a relevant and valuable part of the asset class, and H1 2011 saw the first increase in the multi-manager industry size since 2008. Clearly those funds of hedge funds that can charge more investor-friendly fees and prove that they offer value for money for their due diligence and fund selection services are more likely to be successful at picking up valuable investor mandates.

Outlook

The traditional 2&20 structure is clearly no longer the standard within the hedge fund industry. We have witnessed a large drop from the fees charged in our initial fund study conducted in 2009; however the change in fees has stabilized over the past year, with changes in fees from 2010-2011 being less profound in comparison to those that took place in the immediate aftermath of the industry slowdown in 2009-2010. Management fees continue to be the area showing the greatest degree of fund manager concession, with mean fees gravitating towards 1.5%. As a whole, however, the performance fee of 20% still appears to be relatively untouched from post-crisis industry-wide changes.

Currently the outlook for the industry standard fees appears to be moving towards a 1.5&20 fee model, but with investors turning their attention towards lowering performance fees charged by hedge fund managers the average fee structure may not remain stable. The fundamental economics of a hedge fund remain the most important factor in determining the level of fees charged, with neither investor nor fund manager likely to wish to compromise fund performance or operational capacity in exchange for fee concessions. If current market volatility continues to negatively affect performance at an industry level, then institutional investors may be in a stronger bargaining position to negotiate incentive fees and be able to exert even more pressure on managers to cut down their performance-related bonuses.

Meeting Expectations: Investors' Views on Hedge Fund Terms

In recent years several key issues have become even more important for investors: performance, transparency and alignment of interests in fund terms. Joanna Hammond investigates investor sentiment.

Over the past three years, Preqin has interviewed institutional investors to gather information about how investors view the various features of hedge funds. In 2009, Preqin found that liquidity and transparency were the main concerns for hedge fund investors still adapting to the effects of the economic crisis. A year later, with increasing investor confidence in the industry and positive inflows returning, investors increasingly sought further transparency and better risk management from their managers. While these issues have increased in prominence throughout this period, fund manager fee structures have remained a key issue for hedge fund investors. In this feature we review the results of interviews with over 50 institutional investors on their current outlook on the industry, with a particular focus on views regarding changes in fund terms, and look at how fees influence investors' investment decisions.

Are Hedge Funds Living up to Expectations?

This current period of market volatility is reminiscent of the events of 2008. Investor dissatisfaction in regards to hedge fund returns was greater in 2008 than in the following two years, as shown in Fig. 1. It appears that 2011 has proved to be another disappointing year for the institutional investor, as 40% of respondents felt that their hedge fund investments did not perform as expected. Despite almost one-fifth of institutions seeing better than expected returns in 2010, other years have seen a lower proportion of investors (10%) to have portfolios that outperform their expectations. Fig. 1 also shows that in 2009 and 2010 around 72% of investors felt that returns on their hedge fund portfolios had at least met expectations. In 2008 and 2011 there was increased market turbulence and only around 60% of investors were satisfied with the returns from their hedge fund investments. With an increase in investors disappointed with the returns on their investments in 2011, managers of funds that do not perform as expected are likely to face more scrutiny over their fund terms, particularly the level of performance fee charged.

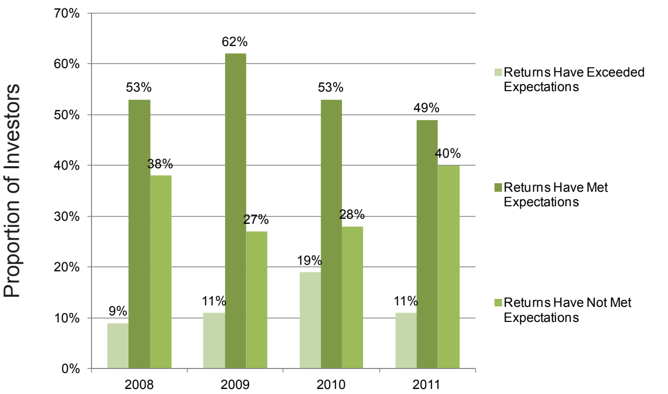
Continued Shifts in Favour of the Institutional Investor

In 2010, Preqin found that 61% of institutional investors in hedge funds believed fund terms had shifted in their favour over the previous 12 months. As shown in Fig. 2, this figure has fallen to 35% in 2011, with the proportion of respondents who believed that there were significant improvements in favour of the investor falling by more than half to 5%. The past 12 months have seen a decline in the pace of investor-friendly developments in fund terms that had been made throughout 2009/10, with 65% of investors saying fund terms had not changed throughout the past year. No investors believe that fund terms have changed in favour of the managers.

Fees Remain a Key Issue

In 2010, almost half of investors interviewed believed that management fees were the most improved area of fund terms over the previous 12 months. In 2011 to date, it appears that management fees have continued to improve in the opinion of investors, with 27% of investors that this is an area of improvement, as shown in Fig. 3. This supports the view that pressure from institutional investors stating has caused a shift away from the traditional 2% management fee to a level around 1.6% (see pages 2-4). Despite these concessions, 43% of

Fig. 1: Investor Opinions on Hedge Fund Portfolio Performance over the Past 12 months



Source: Preqin

Fig. 2: Investor Opinion on Changes in Fund Terms over The Past 12 Months

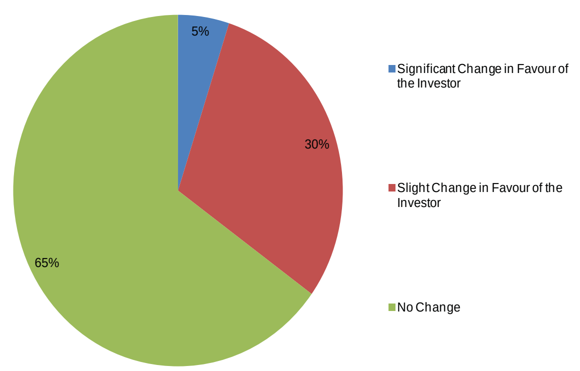


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Fig. 3: Areas of Fund Structures Investors Feel Have Shown Most Improvement over the Past 12 Months

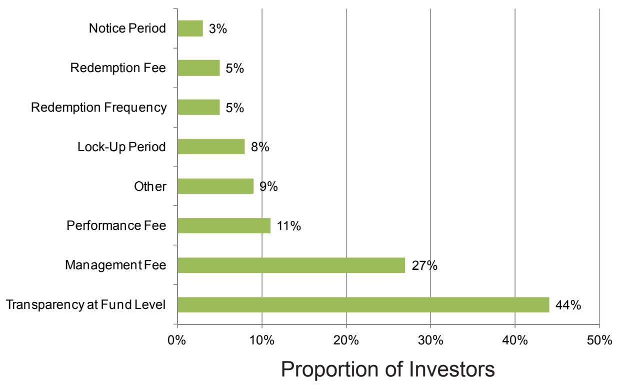

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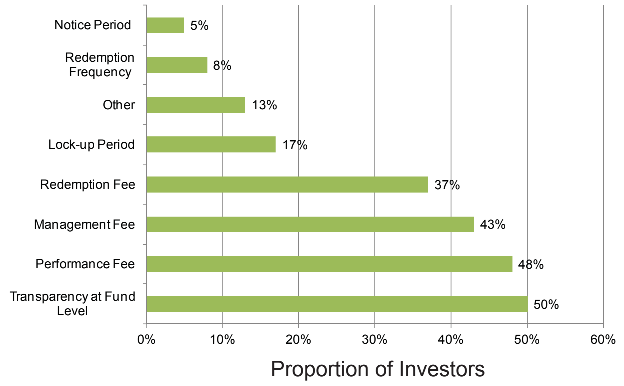
Fig. 4: Areas of Fund Structures That Investors Would Like to See Improvement



Source: Preqin

respondents want to see further reductions in management fees during the next 12 months (Fig. 4).

Only 11% of investors surveyed felt that there had been significant movement in performance fee structures over the previous year (Fig. 3). Unsurprisingly, almost half of institutions want to see changes in their favour in performance fees in the next 12 months (Fig. 4).

Redemption fees could also see changes over the next 12 months. Only 5% of respondents felt that advances had been made in this area over the past year (Fig. 3), but 37% of investors want to see more favourable terms going forwards (Fig. 4). Several investors have been caught unaware by the redemption policies within their portfolios – for instance earlier this year MilitarySuper lost a legal suit against Agora Asset Management, regarding the costs it was liable to pay following the redemption of its investment, it was required to pay AUD 8 million in redemption fees in order to withdraw its AUD 152 million investment from the hedge fund.

Throughout 2011, fee negotiations have continued between investors and their existing and prospective managers. In 2010, 48% of investors had attempted to negotiate lower fees; however this has fallen slightly to 46% in 2011 (Fig. 6). Of those who entered into negotiations with their managers, 71% were successful in securing more favourable terms. The rate of fee negotiations and their probability of success have remained stable since 2008. Despite this, investors are less likely to reject a fund because of the fee structure than they were 12 months ago; in 2011 only 47% of respondents have rejected a fund on the basis of fees (Fig. 7), compared to 65% in 2010. Further advances, particularly in terms of performance and redemption fees, will see managers increase their chances of successfully attracting institutional capital in the future.

As the trend away from the once-standard 2&20 fee structure continues, and with the possibility of further changes anticipated in this area over the next 12 months, Preqin asked investors what they believed to be the main reasons managers offered lower fees. A third of investors stated that managers were prepared

Fig. 5: Investors' Views on Why Managers Offer a Reduction in 2&20 Fees

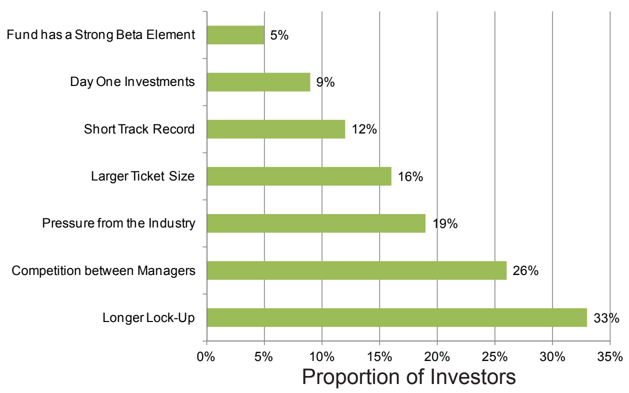


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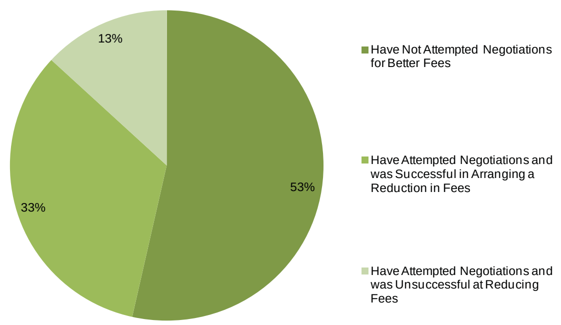
Fig. 6: Investors' Fund Negotiation Experiences in the Past 12 Months



Source: Preqin

to charge lower fees to investors who were willing to accept a longer lock-up period (Fig. 5).

On the other hand, the climate in the wider industry has also caused managers to offer investors lower fees. Over a quarter of respondents felt that heightened competition between managers had resulted in lower fees being offered in order to attract investors into a fund. Pressure from maturing investors has also drawn managers away from the typical 2&20 structure. Following weak performance in the industry, investors have been increasingly vocal about the disparity between the high fees associated with investing in hedge funds and actual returns gained, citing a lack of value for money. Previously, only large investors like US-based public pension fund CalPERS had enough influence to gain favourable terms, but now smaller investors with experience in the industry are demanding lower fees as well. With institutional investors such an important source of capital in the industry, managers must be prepared to adapt in order to remain attractive to investors.

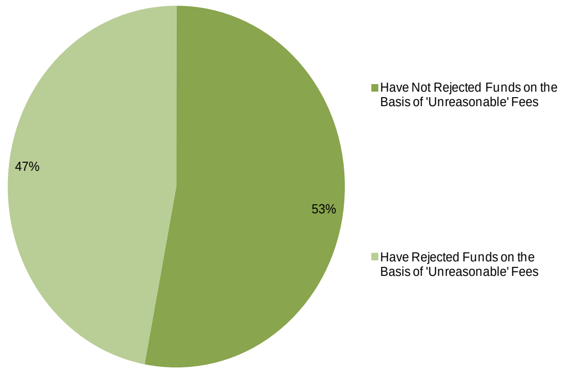
Mixed Results in Transparency and Liquidity

Transparency and liquidity are also important issues for investors in the asset class, and in 2010, investors told Preqin that transparency was the area they would most like to see improve in the next 12 months. Fig. 3 demonstrates that managers responded to the demand for higher transparency, with almost half of investors seeing the most improvement in that area. This followed a challenging period for the industry, as the Madoff scandal, as well as other high-profile cases of criminal activity, caused investors to shun black box strategies and demand more information about how managers run their funds. Despite the progress achieved in recent years, investors still feel that managers can do more, with half of respondents wanting to see transparency improve yet further throughout the next year (Fig.4). In 2010, over 40% of investors said they would like to see improvements in liquidity offered by hedge funds. Despite this, there has been limited progress in this area throughout 2011: only 5% of respondents felt that there had been notable improvements in the redemption frequency offered by managers, and just 8% believed lock-up periods had improved over the past 12 months (Fig. 3). Interestingly, Fig. 4 suggests that investors are largely satisfied with the current level of liquidity in the industry, with 8% and 17% of respondents hoping to see improvements in redemption frequency and lock-up periods respectively. When considering the trade off between fees and liquidity, it is clear that lower fees are favoured by institutional investors.

Outlook

The past three years have seen considerable changes in the hedge fund industry, and in this time institutional investors have become more demanding as the market matures. The impact of high-profile industry scandals, comparatively poor returns, and exposure to illiquid assets in 2008 is clear as investors demand greater transparency at fund level and will continue to do so

Fig. 7: Investor Response to Fund Management and Performance Fees Over the Past 12 Months



Source: Preqin

going forwards. Investor opinion on the performance of their hedge fund portfolios in 2011 is a concern for the industry, and managers should continue to listen carefully to clients about their concerns. The issue of fees is increasingly central to investors, and the departure away from the 2&20 structure looks set to continue, with many institutions pushing for further concessions from their managers. The downward movement in management fees seen in the past 12 months could be followed by changes in performance fee levels over the next year, as more investors apply pressure on managers to justify the present reward structure. Managers to date have been reluctant to budge on their performance incentives; however if investor dissatisfaction in regards to returns continues into the next 12 months, we could see the 20% standard rate falling in order to encourage investors to remain committed to the asset class. If managers continue to respond to demands from institutional investors, positive inflows will remain in the industry, with the managers best able to adapt to the demands of investors reaping the largest rewards.

Industry News

Claire Wilson rounds up the latest headlines, based upon intelligence gathered by Preqin analysts. Preqin Online subscribers can click on the investor name to view the full profiles.

An abundance of state-side investors have revealed plans to add to their hedge fund portfolios in the coming year.

Gorelick Brothers Capital expects to invest around $50mn in between five and 10 new hedge funds over the next 12 months. The $175mn fund of hedge funds manager, which manages three existing multi-manager products, is also planning to launch another vehicle in the near future.

A manager of two funds of hedge funds - AC Investment Management - will invest up to $100mn in new managers in the coming year. The New York-based firm, which has around 40 underlying managers in its portfolio, invests in CTAs, commodities and energy funds. It will not commit to funds with lock-up periods.

Demonstrating their confidence in the asset class, Atlantic Trust is looking to boost its hedge fund allocation. The asset manager plans to commit to a wide range of single-manager funds over the next 12 months. It has a preference for long/short equity vehicles and a current allocation to hedge funds of 8% of total assets.

Walther Cancer Foundation is also looking to increase its allocation to hedge funds in 2012. The $290mn foundation, which currently has a portfolio of 19 single-manager funds, will commit to one more fund in the coming 12 months. It is likely to be a long/short equity fund, although the foundation does also consider absolute return strategies.

Florida State Board of Administration, meanwhile, is in the process of fulfilling its 3% target allocation to the asset class. The $149bn public pension fund expects to add a further 10 managers to its existing portfolio of six funds during the coming 12 months, and will consider global opportunities to invest with long/short equity, event driven and multi-strategy managers. It typically commits between $50mn and $100mn per fund.

$1.25bn Scott and Stringfellow intends to make opportunistic hedge fund investments over the coming 12 months. The investment bank, which has a target hedge fund allocation of 10%, will consider a wide range of strategies to ensure diversity within its portfolio.

A couple of European investors have also announced that they will be looking for more hedge fund investment opportunities in the next year.

The asset manager Valira Asset Management is looking for opportunities to invest in UCITS-compliant funds over the next 12 months. The firm expects to commit capital to established managers, adding to its portfolio of 30 underlying funds split across three funds of hedge funds.

The €23bn Irish sovereign wealth fund National Pensions Reserve Fund will add a number of investments to its portfolio over the next year. It is looking at both single-manager and multi-manager funds managed by experienced firms. The move will bring the fund's allocation to the asset class up to 5% from its current 1.9%.

Elsewhere, Festa Lifeyrissjodur may invest in a new Asian hedge fund. The €417mn public pension fund, which invests through two funds of hedge funds, will deploy its capital opportunistically during the coming year, with the intention of diversifying its portfolio. The Icelandic pension fund generally invests between $5mn and $10mn per hedge fund, but will not commit to vehicles with lock-ups of more than one year.

Finally, flying the flag for Asia-based investors - Tokyo-based Norinchukin Bank may invest in up to 10 hedge funds in the next 12 months. The JPY 69.8tn investor has an existing portfolio of commingled hedge fund and fund of hedge fund investments worth approximately $2.5bn.

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 cwilson@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 regular news can be found on Preqin Hedge Fund Investor Profiles. In the last month Preqin's team of dedicated research analysts have added 35 new hedge fund investors and updated 530 investor profiles.

2011 Preqin Global Hedge Fund Investor Review

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alternative assets. intelligent data.

The 2011 Preqin Global Hedge Fund Investor Review provides profiles and analysis for the most important institutional investors in hedge funds from around the world.

- 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
- Analysis and listings for investors looking to allocate to UCITS or managed account vehicles
- Exclusive results of Preqin investor surveys
- Listings and analysis for 167 third party marketers and 103 prime brokers
- Analysis of emerging manager investors
- Exclusive information gained through direct contact with institutional investors

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Distressed Securities Emerging Manager

Each month, Spotlight examines the make-up of investors that are most likely to be interested in specific fund types. This month, Graeme Terry looks at the best prospects for an emerging single-manager team targeting investors for a distressed securities fund.

Fig. 1: The Assignment

Fund Strategy	Distressed Securities
Fund Geographic Focus	Global
Track Record	18 Months
Assets Under Management	$150mn

Source: Preqin

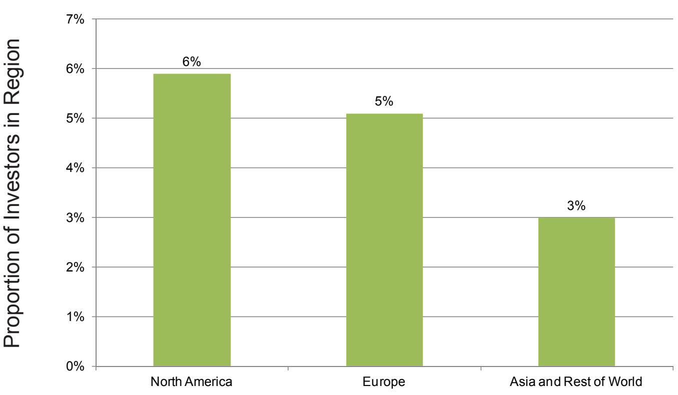
The Long List

This month we are looking at a US-based single-manager hedge fund with a distressed securities strategy focus. The fund is an emerging manager fund that has already obtained $150 million in seed capital, and is looking to gain further capital by marketing to institutional investors. Preqin's Hedge Fund Investor Profiles product shows that 155 institutional investors have show an interest in this type of vehicle. Distressed hedge funds have grown in popularity amongst institutional investors in recent years and 16.4% of all investors on the Preqin database are willing to invest in this strategy. This figure is reduced when the emerging manager criteria is added, as a number of institutional investors still have reservations about investing in new funds.

This fund would appeal to a slightly larger proportion of investors in North America than those in Europe and Asia and Rest of World (Fig. 2.). Potential investors in this region include the Henry J. Kaiser Foundation, as the foundation is willing to invest in both distressed securities funds and emerging managers. In terms of investor type, funds of hedge funds have the highest proportion of investors that would be interested in this fund (14.2%). Potential candidates in the multi-manager space include Swiss firm Ayaltis, which has a preference for investing in distressed securities hedge funds. The fund is also likely to be of interest to endowment plans, with 8% of endowments on the Preqin database indicating an interest in such a product, including the US-based Virginia Tech Foundation. This offering would appeal to a much lower percentage of both public and private sector pension funds, as a number of these investors tend to prefer investing through funds of hedge funds as opposed to directly through single-manager vehicles.

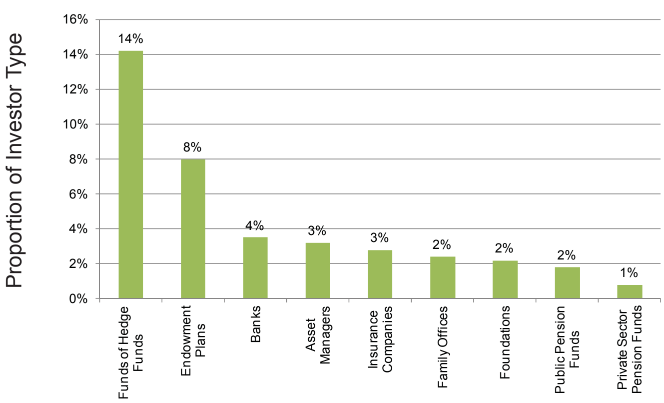
The investor barometer in Fig. 4 highlights how the final list of 155 investors has been obtained from the overall institutional investor universe. By adding various levels of criteria we are able to determine the list of investors that would potentially be interested in investing in a US-based distressed securities hedge fund marketed by an emerging manager. It can be seen that a large percentage of all investor groups are willing to invest in single-manager funds based in North America. The figures are reduced by adding the distressed securities criteria and then reduced further by the addition of the emerging manager criteria. As distressed securities hedge funds have long-term investment horizons they tend to be popular with long-term investors such as endowment plans and foundations. The number of these investors interested drops significantly when the emerging manager criteria is added – particularly amongst foundations – as a number of the smaller investors do not have the resources to carry out the necessary due diligence for new funds.

Fig. 2: Proportional Appetite of Investors by Region



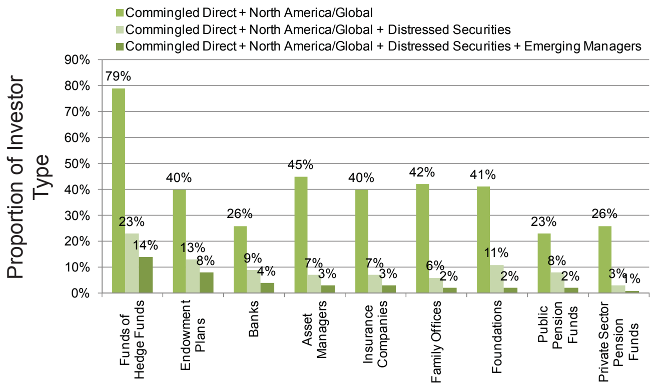
Source: Preqin

Fig. 3: Proportional Appetite of Investors by Investor Type



Source: Preqin

Fig. 4: Investor Barometer: Proportion of Investors with Interest in Fundraising Assignment by Type



Source: Preqin

Data Source:

There are currently 484 investors profiled on Hedge Fund Investor Profiles that express an interest in investment in distressed securities hedge funds. 324 are in North America, 119 in Europe and 41 in Asia and ROW

How can Hedge Fund Investor Profiles help you target the most likely investors for your fund? For more information please visit: www.preqin.com/hedge

Overall this fund could gain significant interest from institutional investors, providing it is marketed correctly. Interest in distressed securities hedge funds has been growing over 2010 and 2011 and it could continue to grow over the next few years as investors in a turbulent market seek funds that have the potential to deliver consistent long-term returns.

The Short List

Fig. 5 reveals the key details of five prominent institutional investors that would be potentially interested in such a fund.

Fig. 5: The Short List

Investor	Type	Location	Manager Criteria	Details
Ayaltis	Fund of Hedge Funds	Switzerland	No Specific Criteria	• 40% of its commitments are to US-based managers. • Has a preference for investing in distressed securities hedge funds. • Will invest with emerging managers.
Virginia Tech Foundation	Endowment Plan	US	$100mn in AUM	• Makes all of its hedge fund investments directly through single-manager funds. • Invests in distressed securities hedge funds. • Willing to invest with emerging managers.
Permal Investment Management	Fund of Hedge Funds	US	No Specific Criteria	• Takes an opportunistic approach to hedge fund investing. • Invests in distressed securities hedge funds. • Will invest with emerging managers providing they have solid previous experience.
W.K. Kellogg Foundation	Foundation	US	No Specific Criteria	• Makes all of its hedge fund investments through single-manager vehicles. • Invests in distressed securities hedge funds. • Will invest with emerging managers.
Mandatum Life Insurance Company	Insurance Company	Finland	No Specific Criteria	• Makes all of its hedge fund investments directly through single-manager funds. • Has a preference for investing in distressed securities hedge funds. • Willing to consider investments with emerging managers.

Source: Preqin

UK Investors

In this month's Regions section, Dami Solebo takes a look at UK-based institutional investors in hedge funds.

Fig. 1: Key Facts: UK Institutional Investors

Mean allocation to HFs	12%
Mean target allocation to HFs	13%
Most favoured investment approach (direct, indirect, funds, funds of hedge funds, mixture of both)	Direct
Typical portfolio size	20-23
Typically been investing for	6 years

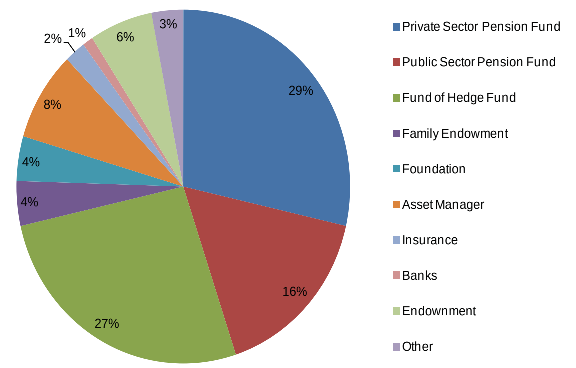
Source: Preqin

Data Source:

Preqin Hedge Fund Investor Profiles currently has detailed profiles for 318 hedge fund institutional investors headquartered in the UK.

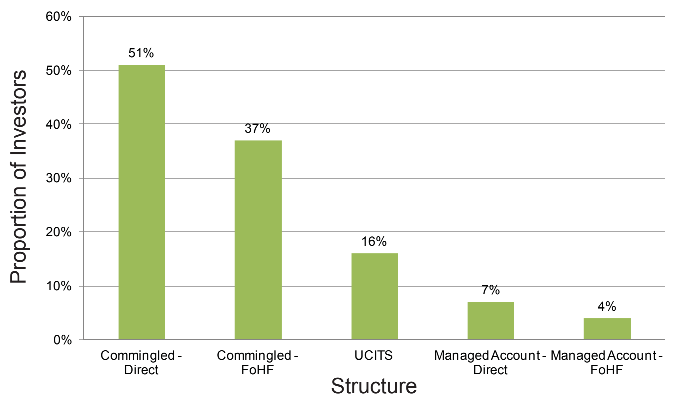
How can Hedge Fund Investor Profiles help you target the most likely investors for your fund? For more information please visit: www.preqin.com/hedge

Fig. 2: Breakdown of UK Institutional Investors by Type



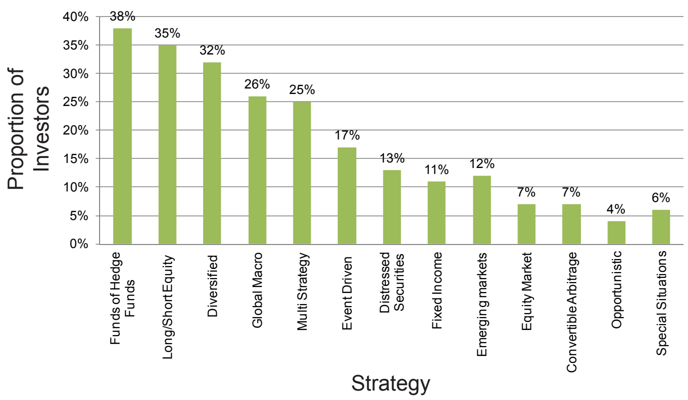
Source: Preqin

Fig. 3: Structural Preferences of UK Institutional Investors



Source: Preqin

Fig. 4: Strategic Preferences of UK Institutional Investors



Source: Preqin

Fig. 5: Key UK Institutional Investors

Investor	Investor Type	AUM (£bn)	Allocation to HF (%)
Universities Superannuation Scheme	Public Sector Pension Fund	32,000	4
Oak Pension Asset Management	Private Sector Pension Fund	18,200	12
Wellcome Trust	Foundation	14,768	16.6
Skandia Investment Group	Asset Manager	13,000	10
Close Asset Management	Asset Manager	10,000	30

Source: Preqin

Preqin Hedge Investor Online subscribers can click on the firm name to see the full profile.

Funds of Hedge Funds

Sarah Corran takes a look at funds of hedge funds as investors.

Fig. 1: Key Facts: Funds of Hedge Funds

Mean AUM ($bn)	2.3
Average number of hedge fund investments in portfolio	42
Average maximum lock-up period accepted by funds of hedge funds (months)	18

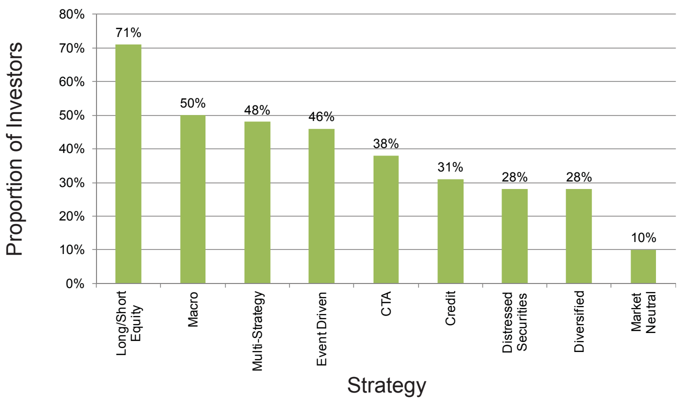
Source: Preqin

Data Source:

Preqin Hedge Fund Investor Profiles currently has detailed profiles for 590 funds of hedge funds around the world.

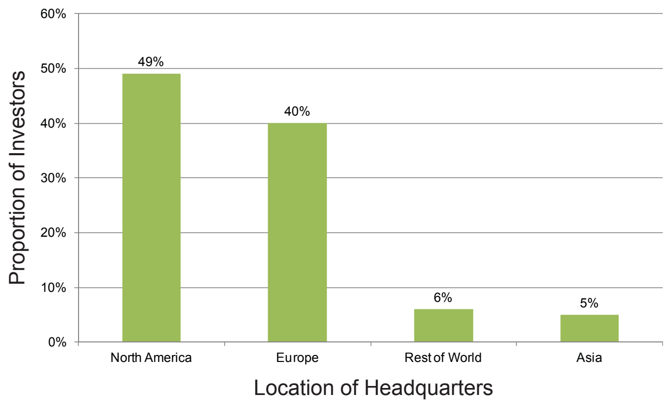
How can Hedge Fund Investor Profiles help you target the most likely investors for your fund? For more information please visit:
www.preqin.com/hedge

Fig. 2: Strategic Preferences of Funds of Hedge Funds



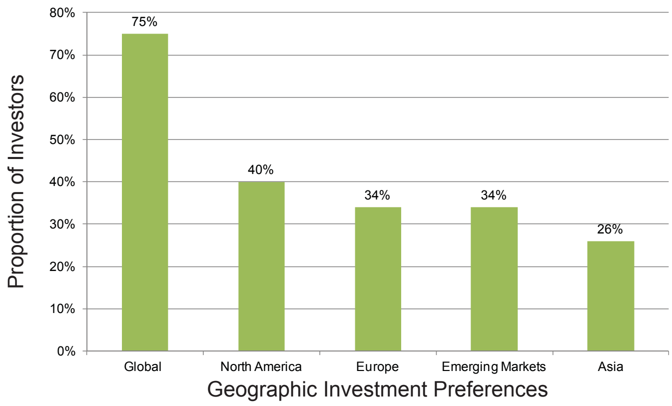
Source: Preqin

Fig. 3: Location of Funds of Hedge Funds



Source: Preqin

Fig. 4: Regional Preferences of Funds of Hedge Funds



Source: Preqin

Fig. 5: Five Leading Funds of Hedge Funds

Name	Location	AUM ($bn)
Daiwa SB Investments	Japan	63.9
BT Investment Management	Austrailia	37.8
HSBC Alternative Investments	UK	28.0
Lyxor Asset Management	France	16.4
Man Investments	Switzerland	15.0

Source: Preqin

Preqin Hedge Investor Online subscribers can click on the firm name to see the full profile.

Conferences Spotlight
Forthcoming Events

Conference	Dates	Location	Organizer
Hedge 2011	12 - 14 October 2011	London	Terrapinn
GAIM Ops Europe 2011	12 - 14 October 2011	Geneva	IIR
FundForum Latin America	18 - 20 October 2011	Sao Paulo	ICBI
MFA's Outlook 2011	20 - 21 October 2011	New York	Managed Funds Association
Hedge Fund CIO Summit	26 October 2011	New York	Alpha Institutes
Philippine Investment Summit for Global Fund Managers	27 October 2011	Makati City	TPGI
The Women's Alternative Investment Summit	3 - 4 November 2011	New York	Falk Marques Group
FundForum USA	7 - 9 November 2011	Boston	ICBI
Hedge Funds World Zurich 2011	15 - 16 November 2011	Zurich	Terrapinn
Hedge Funds Investments Derivatives Asia	16 - 17 November 2011	Singapore	Worldwide Business Research

Hedge Funds World Zurich

Date: 15 - 16 November 2011
Location: Dolder Grand, Zurich
Organiser: Terrapinn

Hedge Funds World Zurich 2011 takes place from 15th - 16th November in Zurich. The conference is the dedicated annual strategic hedge fund conference and exhibition for Swiss based family offices, pension funds and private bankers together with the hedge funds and asset management community which serves them.

Information: http://www.terrapinn.com/2011/zurich