



Asia-Pacific-Based Institutional Investor Universe

Based on the newly-launched [Preqin Special Report: Asia-Pacific Hedge Funds, September 2013](#), Graeme Terry and Ivan Jincheng Han provide an overview of the Asia-Pacific-based institutional investor universe and their future investment plans.

Over recent years, the Asia-Pacific region had been growing in prominence in the investment community at large. Driven by the rapid economic growth of countries like China, one of the key developments has been the rapid expansion of the financial markets in the region. This development offered hedge fund managers in the region a multitude of investment opportunities, and also indirectly led to a gradual maturing of institutional investors in the region, with increasing numbers of investors based in Asia-Pacific looking to invest in hedge funds in search of higher yield and diversification.

Investor Location and Firm Type

Unsurprisingly, most of the investors in the region hail from the highly-developed capital markets. Asia-Pacific-based investors are largely concentrated in the developed economies of Japan (32%), Australia (31%), Hong Kong (11%) and Singapore (10%). Japan is home to a number of the largest investors in Asia-Pacific, including the asset manager Pension Fund Association, which currently allocates more than \$4bn to hedge funds.

Nearly 40% of investors based in the Asia-Pacific region are in the retirement fund sector (Fig. 1). Superannuation schemes from the more mature markets in Australia and New Zealand are the leading investor type, making up 17% of the Asia-Pacific-based investor pool, with fund of hedge funds managers and private sector pension funds each representing approximately 16% of investors. Besides fund of funds managers and pension funds, insurance companies and private wealth institutions, such as asset and wealth managers and family offices, form a significant number of the remaining investors based in the region.

Investor Allocations to Hedge Funds

Although superannuation schemes and private sector pension funds are the leading investors in Asia-Pacific in terms of numbers, institutions

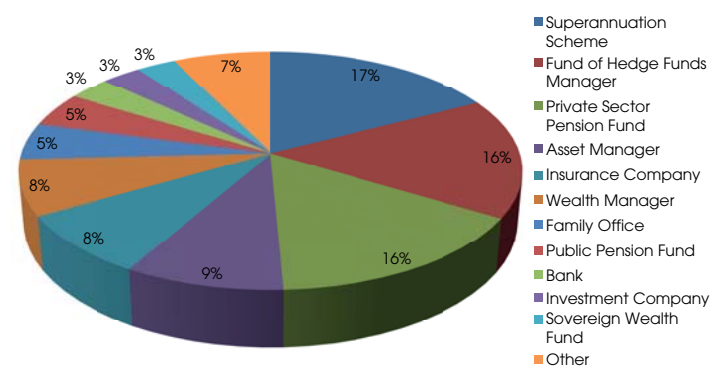
that make investments on behalf of high-net-worth individuals and their families are the leading allocators in terms of the proportion of their assets that target hedge fund investments in the region. On average, institutions that represent private wealth (e.g. wealth managers and family offices) from the region allocate 17% of their total assets to hedge funds, significantly more than that of private sector pension funds (13%) and superannuation schemes (4%), as shown in Fig. 2. This can be attributed to the higher risk tolerance and sophistication of these investors, which typically have been investing in hedge funds for a longer period compared to superannuation schemes and pension funds, that tend to generally operate under certain risk and allocation constraints and are less experienced investors in hedge funds.

The outlook for hedge funds among Asia-Pacific-based institutional investors appears positive, with 41% of investors surveyed by Preqin in Q3 2013 based in the region looking to increase their hedge fund allocations over the coming 12 months (Fig. 3). A further 45% of investors expect to maintain their hedge fund allocations, with just 14% of investors expecting their hedge fund allocations to decrease over the coming year. With such a large proportion of investors looking to put more money to work in the asset class, and a significant proportion directing this towards the Asia-Pacific region, we can expect hedge fund assets in the region to grow significantly in the near future.

Investor Perception of Hedge Fund Performance

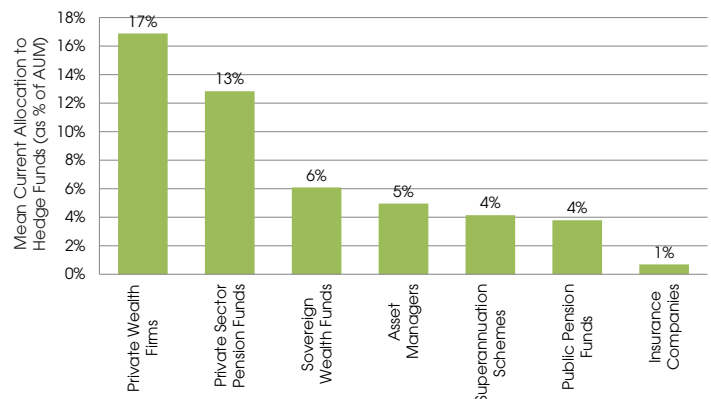
In interviews conducted by Preqin in Q3 2013, the majority of Asia-Pacific-based institutional investors in hedge funds stated that the asset class had met or exceeded their expectations in the last 12 months. Forty-three percent of Asia-Pacific-based investors interviewed felt that hedge funds had met their expectations and a further 38% stated that the asset class had outperformed their expectations (Fig. 4). Only 10% of investors in a similar global study indicated that hedge fund investments had exceeded expectations, highlighting that Asia-Pacific

Fig. 1: Breakdown of Asia-Pacific-Based Investors by Type



Source: Preqin Special Report: Asia-Pacific Hedge Funds, September 2013

Fig. 2: Mean Current Allocations of Asia-Pacific-Based Investors to Hedge Funds by Investor Type (as % of AUM)



Source: Preqin Special Report: Asia-Pacific Hedge Funds, September 2013

investors have been more satisfied with hedge fund returns than their global counterparts. This can largely be attributed to many investors in the region directing capital to local managers, and Asia-Pacific funds performing particularly well over the past 12 months. This also shows a substantial improvement on last year, as a previous Preqin study of Asia-Pacific-based investors in March 2012 revealed that 68% of investors felt hedge funds had fallen short of expectations over the previous 12 months as a result of disappointing performance during 2011. In terms of strategies, those trading equities, such as long/short equity, were commonly cited by Asia-Pacific-based investors as having exceeded expectations, while a number of investors felt that funds with a debt focus such as fixed income strategies had fallen short of expectations.

This strong performance of hedge funds relative to expectations has led to an increase in investor confidence in hedge funds; 43% of Asia-Pacific-based investors surveyed revealed that their confidence in the asset class had grown in the past 12 months, and 48% of them felt that it was unchanged (Fig. 5). Only about 10% of respondents reported a decrease in confidence in hedge funds over the past 12 months. With funds in the region performing well and confidence on the increase (Fig. 5), this is leading to more investors looking to increase their allocations to hedge funds in the future (Fig.3).

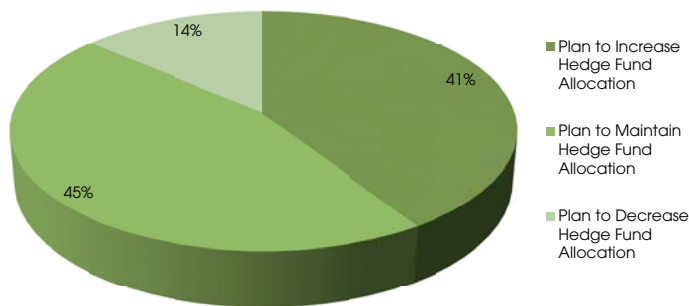
Despite the largely positive outlook among Asia-Pacific-based investors, general concerns remain with regards to the hedge fund industry looking

forward. A number of Asia-Pacific-based investors said they expected hedge fund returns to be lower in 2013 than 2012, suggesting that there are still concerns about the ability of hedge funds to produce consistent returns as a result of a drop-off in performance in Q2 2013. Risk profile was cited as a key consideration in the fund selection process by 48% of Asia-Pacific-based investors surveyed (Fig. 6) and a number of respondents mentioned volatility as a key issue for the industry currently. Volatility of returns is typically higher in Asia-Pacific funds than in other funds globally and this is something which may worry more conservative investors. A number of investors also indicated that transparency and performance remain key issues for the industry going forward.

Key Investment Considerations of Asia-Pacific Investors

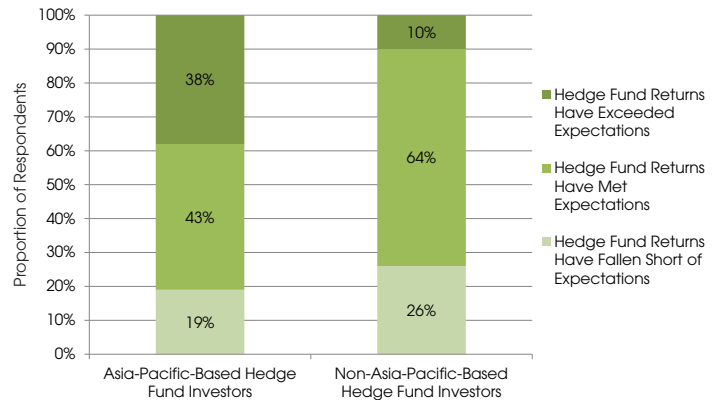
Although, in general, investors based in the region are looking into alternative assets in order to achieve greater returns over traditional assets, Fig. 6 shows that returns are not the most common consideration when these investors are assessing hedge fund managers. Eighty-three percent of respondents feel that how fund managers achieve their returns is a key consideration when they assess managers, with 65% highlighting performance as a key factor. This is similar to the trend noticed in Preqin's global investor study and highlights that investors are keen to thoroughly assess the strategy of funds rather than simply selecting funds with positive short-term performance. Other than fund

Fig. 3: Asia-Pacific-Based Investor Plans for their Hedge Fund Allocations over the Next 12 Months



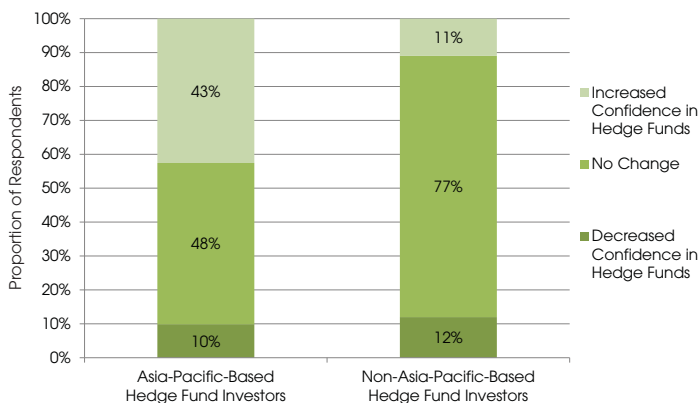
Source: Preqin Special Report: Asia-Pacific Hedge Funds, September 2013

Fig. 4: Hedge Fund Portfolio Performance Relative to Expectations of Institutional Investors: Asia-Pacific Based vs. Non-Asia-Pacific-Based Hedge Fund Investors



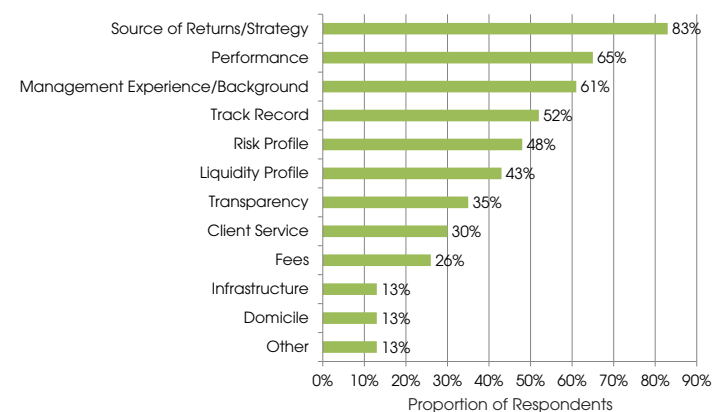
Source: Preqin Special Report: Asia-Pacific Hedge Funds, September 2013

Fig. 5: Change in Investor Confidence in Hedge Funds over the Last 12 Months: Asia-Pacific-Based vs. Non-Asia-Pacific-Based Hedge Fund Investors



Source: Preqin Special Report: Asia-Pacific Hedge Funds, September 2013

Fig. 6: Key Factors Used by Asia-Pacific-Based Institutional Investors to Evaluate Hedge Fund Managers



Source: Preqin Special Report: Asia-Pacific Hedge Funds, September 2013



strategy and performance, investors firmly believe that the track record of both the fund and fund manager is an important factor, with 61% of the Asia-Pacific-based investors surveyed naming the experience and background of fund managers as an important consideration and 52% looking into the track record of funds.

Strategic and Geographical Preferences

Fig. 7 shows the breakdown of the top 10 hedge fund strategies that investors from Asia-Pacific will be looking to invest in over the next 12 months. Diversified portfolios are the most common, followed by the traditionally sought after and currently successful long/short equity vehicles, as well as macro funds. Macro and managed futures funds are more sought after among Asia-Pacific-based investors than among all investors globally; long bias strategies are also more prominent in the region. Investors based in Asia-Pacific are also showing a significant interest in investing in fixed income and credit strategies in comparison to their non-Asia-Pacific-based peers. This indicates that investors based in Asia-Pacific have recognized that the deepening credit markets in the region are providing hedge fund managers with ample trading opportunities; this can provide investors with an alternative means of gaining credit exposure.

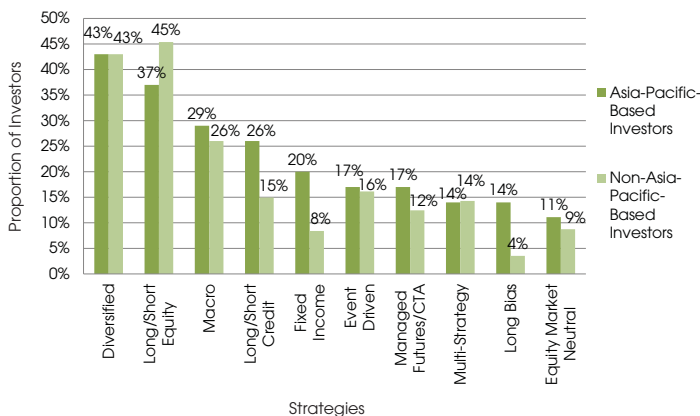
Most of the investors from Asia-Pacific will look to invest globally over the coming year (70%). However, investors based in Asia-Pacific continue to maintain a healthy interest in their home region, with 43% of these

investors expressing interest in gaining further hedge fund exposure in Asia-Pacific. This is in contrast with North America and Europe, with only 23% and 20% of Asia-Pacific-based investors specifically targeting these regions respectively.

Outlook

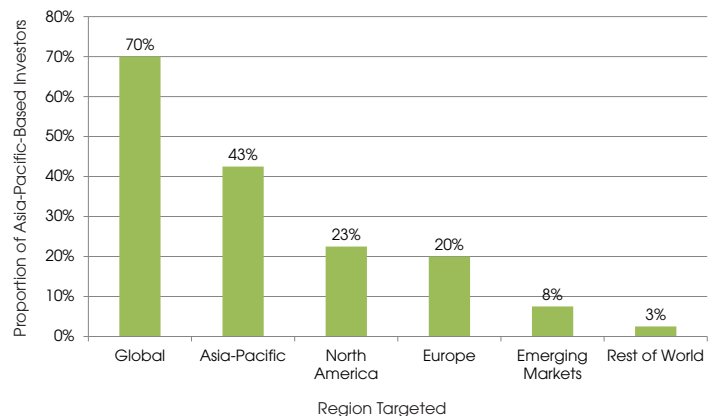
Asia-Pacific has been a growing region in the hedge fund industry in recent years as both investors and managers have realized the potential of this emerging region for alternative investments. However, the industry in the region has still yet to reach the share of wealth contributed by the wider economy in Asia-Pacific, meaning that there remains the potential for substantial growth in the future. Asia-Pacific-based firms represent approximately 13% of all hedge fund managers tracked by Preqin, but these firms represent less than 4% of total industry capital, largely due to the fact that funds within Asia-Pacific are both newer and smaller than those in the established regions of North America and Europe. However, hedge fund investment activity in the region seems to be in fairly good health, with encouraging performance recorded by Asia-Pacific funds over the past 12 months leading to investors within the region looking to increase their allocations to hedge funds over the next year.

Fig. 7: Breakdown of Hedge Fund Mandates Issued by Strategies Targeted: Asia-Pacific-Based Investors vs. Non-Asia-Pacific-Based Investors



Source: Preqin Special Report: Asia-Pacific Hedge Funds, September 2013

Fig. 8: Breakdown of Hedge Fund Mandates Issued by Asia-Pacific-Based Investors by Region Targeted



Source: Preqin Special Report: Asia-Pacific Hedge Funds, September 2013

Data Source:

The newly-launched [Preqin Special Report: Asia-Pacific Hedge Funds, September 2013](#) provides a detailed overview of the hedge fund industry in Asia-Pacific with a complete breakdown of institutional investors based in the region, as well as their future investment plans, including the strategies and regions they plan to target over the next 12 months. Click [here](#) to download your free copy today.

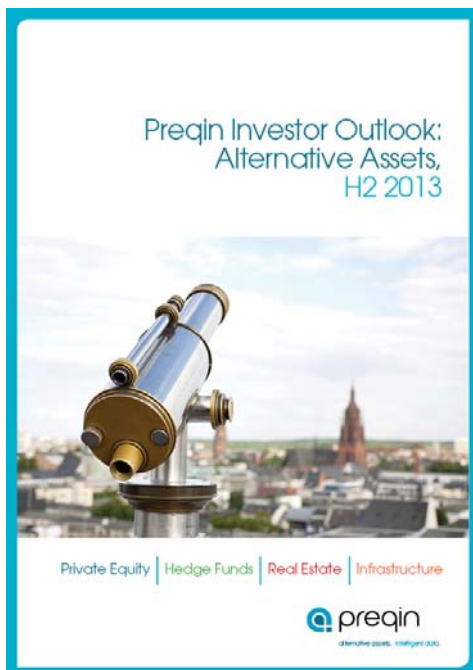
The report draws on data from Preqin's [Hedge Fund Investor Profiles](#) which contains detailed profiles for all 438 Asia-Pacific-based investors, including current and target allocation to hedge funds, strategy and regional preferences, future investment plans, key contact information and more.

For more information, or to register for a demonstration, please visit:

www.preqin.com/hedge

Preqin Investor Outlook: Alternative Assets, H2 2013

Based on the results of extensive interviews with 450 institutional investors in alternative assets, Preqin Investor Outlook: Alternative Assets, H2 2013 features in-depth analysis on:



- ▶ Investor appetite in the year ahead
- ▶ Strategies and geographies targeted
- ▶ Key issues in the industry today
- ▶ Satisfactions with returns
- ▶ Fund terms and conditions and more

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