Hedge Fund Investor Spotlight

June 2010 / Volume 2 - Issue 6

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Welcome to the June 2010 edition of Hedge Fund Investor Spotlight, the monthly newsletter from Preqin providing insights into institutional investors in hedge funds. This month Hedge Fund Investor Spotlight contains information from our industry-leading online product, Hedge Investor Profiles.

Tapping Into Institutional Sources of Capital

How to Tap Into Institutional Sources of Capital

Preqin estimates that institutions account for 72% of the hedge fund industry's total capital. The latest survey of institutional investors provides valuable insight into how best to approach this essential source of capital.

US Foundations

Over 65% of US foundations have hedge fund investments. Spotlight takes a look at their strategic investment preferences.

Event Driven

An in-depth look at event driven hedge funds using data from Preqin's Hedge Investor Profiles service.

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

A round up of the most important new developments in the institutional investor universe. Full profiles for all institutions featured in Investor News can be viewed on our online service, Preqin Hedge Investor Profiles.

Featured this month:

- BBC Pension Trust
- Ascentia Capital Partners
- Finles Capital Management

What would you like to see in Hedge Fund Spotlight?

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The 2010 Preqin Global Hedge Fund Investor Review

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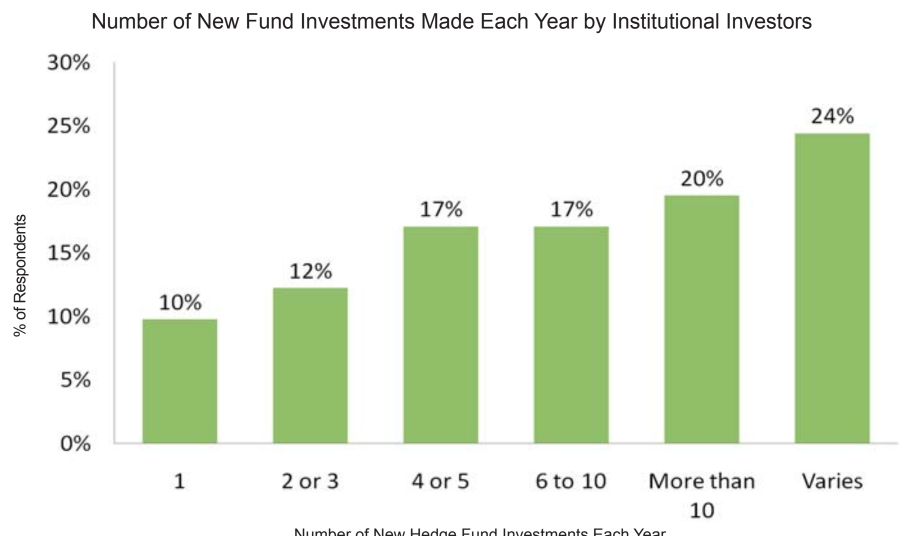
Feature Article

How to Tap Into Institutional Sources of Capital

After the fundraising difficulties of the last two years, 2010 has seen increased interest in hedge funds from the institutional market, with new investments being both made and sought.

With a healthier environment for capital raising, hedge fund marketers are increasingly seeking institutional support. In May 2010, Preqin surveyed 50 global investors from an array of institutions (including family offices, foundations, endowments, pension funds and funds of funds) to find out more about how they wish to be marketed to and what processes they use when selecting new hedge fund managers.

Fig. 1:

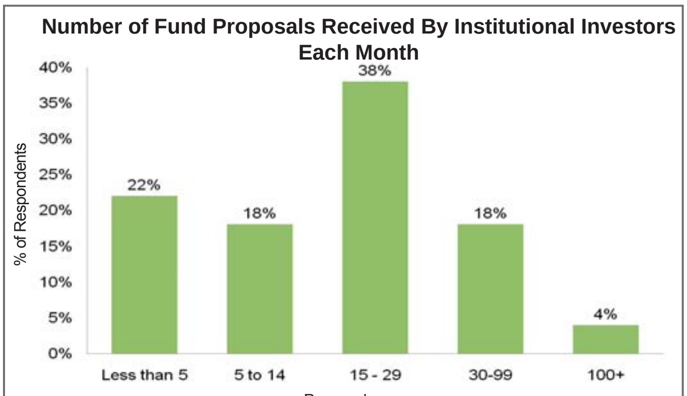


Source: *Preqin*

Number of Institutional Investor Fund Investments Made Per Year

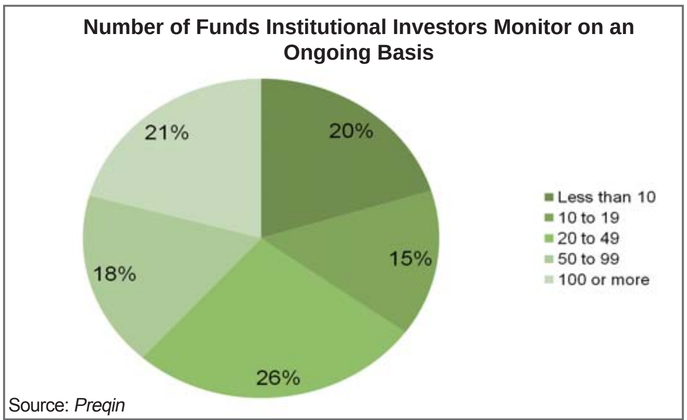
Fig.1 shows the breakdown of the surveyed investors in terms of the number of new investments in hedge funds they make each year. Nearly a quarter of the respondents stated that the number of investments they make varies from year to year. In some years they may not make any investments but in others they may make one or more depending upon the performance of their current portfolio, opportunities in the market and available capital from their hedge fund allocation. 56% of the surveyed investors make 10 or fewer investments each year with the remaining 20% making over 10 new fund investments on an annual basis. The number of fund investments that can be made by an institutional investor depends upon the amount of capital they have available, as well as their investment horizons. Funds of funds tend to be the most prolific investors in new

Fig. 2:



Source: *Preqin*

Fig. 3:



Source: *Preqin*

funds on an annual basis. Conservative, long-term investors, such as public pension funds, generally make fewer new investments on an annual basis.

Number of Fund Proposals Received Monthly by Institutional Investors

The largest proportion of respondents (38%) stated that they receive between 15 to 29 fund proposals each month, with this number varying depending upon how well known that investor is, the size of the institution and its current status in terms of hedge fund investments (Fig. 2). With institutional investors receiving dozens of fund proposals for every fund investment they actually make, it is vital that fund managers market their funds in the correct way in order to be attractive to this market.

The number of funds an institutional investor will monitor as a potential investment over the medium to long-term time frame will vary depending upon the size of the investor; both in terms of its hedge fund portfolio and its internal investment resource. Institutional investors will monitor funds on an ongoing basis for both performance and fund volatility and it is important to maintain relationships with the institutional market even if the fund was previously rejected by an investor. Of the surveyed institutions, 72% informed Preqin that if they reject a fund the first time round they would reconsider the same vehicle at a later date as both the market and the investor's portfolio objectives change with time.

Time Frame for the Decision Making and Due Diligence Process

The median minimum time from receiving a fund proposal to actually investing in a fund for an institutional investor is three months with the median maximum period being six months. As Fig. 4 shows, the decision making process varies greatly between institutional investors. Those that are accountable to boards or other monitoring authorities such as pension funds or foundations will take the longest to carry out the due diligence on funds. Less restricted investors such as family offices and funds of funds will carry out all due diligence a lot quicker.

How do Institutional Investors Source New Managers?

It is clear that the institutional market is a vital source of capital for all hedge fund managers. Preqin's latest estimate for the percentage of the total hedge fund capital coming from institutional investors and funds of funds is 72%. With such investors receiving significantly more proposals per fund that they actually invest in, marketers should ensure that they approach institutional investors in the right way to get their attention and to be added to the institution's list of funds for ongoing monitoring.

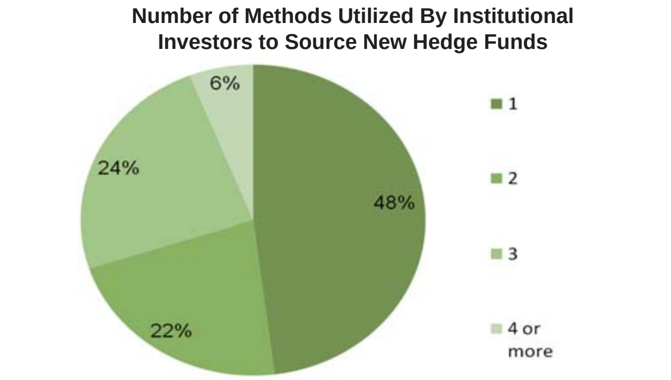
Just under half of all institutional investors use one source to find new hedge fund managers. These are predominantly investors that make all of their hedge fund investments via their consultants. Consultants and advisors are often crucial to fundraising in the institutional market. Many investors do not have the resources or experience to examine potential fund managers themselves and to monitor hedge funds on an ongoing basis. Of the institutional investors surveyed, 52% use consultants to source new hedge fund managers. It is crucial that hedge fund marketers form relationships with the key players in the advisory market. By connecting with the right consultants and advisors, hedge fund marketers can in turn increase the number of institutions they are able to connect to. Preqin monitors 200 consultancy firms and over 1,000 relationships between investors and consultants.

52% of institutional investors surveyed use two or more sources to find new hedge funds – with most investors utilizing two or three potential sources of new funds (see Fig. 6). Second to consultants sourcing funds directly from fund marketing teams and through networking/ conferences, other recommendations are commonly used by investors to source new investments. A fifth of the surveyed investors will invest in funds introduced to them by third party marketers or via capital

Fig. 4:

Source: *Preqin*

Fig. 5:



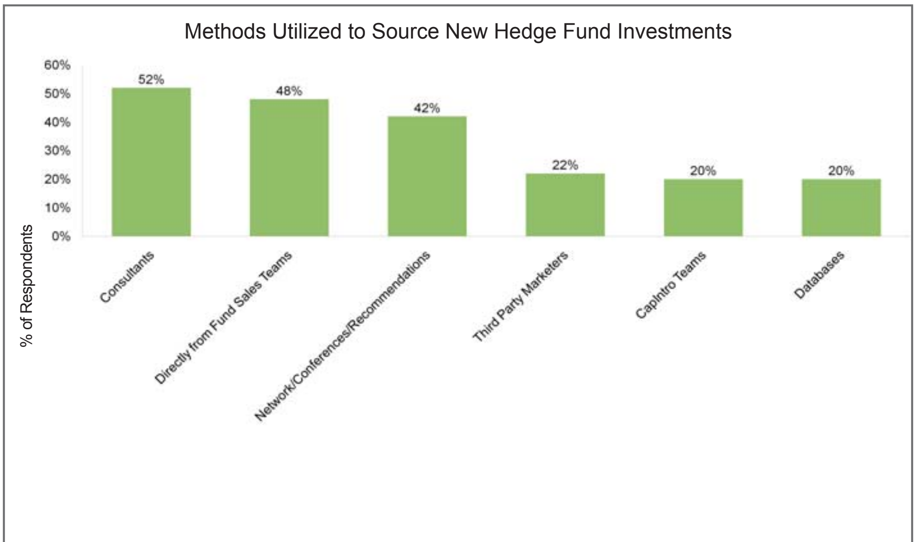
Source: *Preqin*

introduction teams at prime brokers, and the same percentage use databases of funds to source new investments.

Funds of funds typically use the widest range of methods in order to obtain information on the largest number of funds possible. Endowments, public pension funds, foundations and asset managers rely heavily on consultants to provide them with information and potential funds to invest in. Family offices with their own in-house investment teams tend to source new funds directly from hedge fund sales teams or through personal networks, recommendations or via conferences. Sourcing directly through hedge fund sales teams is a common approach for all groups of institutional investor – for instance private sector pension funds use direct marketing sources to the same extent as they use funds sourced through their consultants.

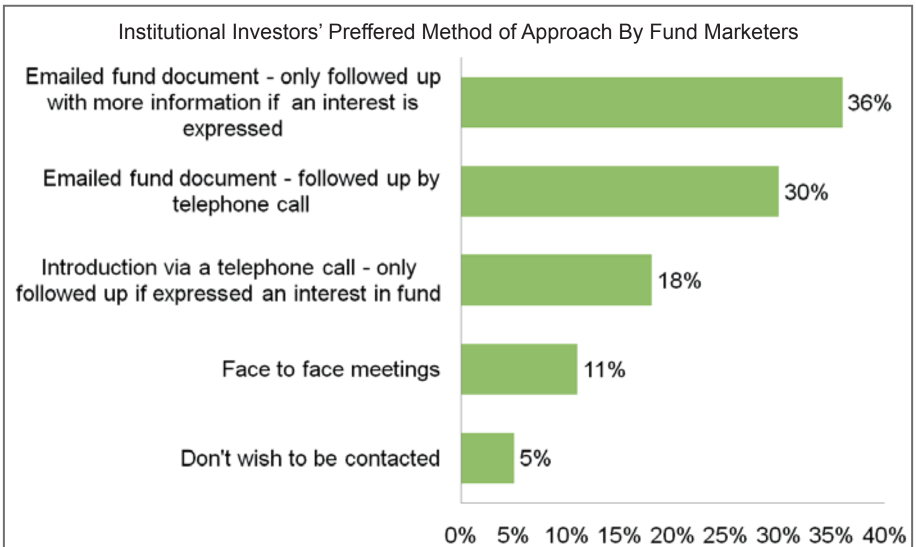
US investors rely much more heavily on consultants to source new hedge fund investments than their European and Asian counterparts; whereas European investors are far more likely to prefer to be marketed to directly – either by email or phone calls from hedge fund sales teams or through the general network and conference scene. Asian investors tend to source potential funds in a different way to US and European institutions –with many such investors preferring introductions via third party marketers or cap-intro teams.

Fig. 6:



Source: *Preqin*

Fig. 7:



Source: *Preqin*

How should a hedge fund sales team approach an institutional investor?

As Fig. 7 shows, most of the investors surveyed preferred an email with the fund proposal as the first point of contact. Just over half of all the investors that preferred email as the initial marketing approach would not want to be followed up with a marketing phone call or meeting unless an interest in the fund is expressed. However, a lack of response should not indicate a lack of interest as many investors are keen to monitor funds over time before making an investment. To a lesser extent institutional investors are willing to be marketed to via a phone call or through face to face meetings. Only 5% of institutional investors do not wish to be contacted at all by fund marketers.

Summary

Institutional investors have begun to invest in hedge funds over the tail end of 2009 and into 2010. The institutional sector of the hedge fund market has become more important in the wake of the market tumult, as such investors have stuck to the asset class in much greater numbers than the high-net-worth sector. Marketing to these investors can be difficult and a knowledge of where they source funds and what funds they are investing in is essential, as is getting in touch with the right people at the institution with the right proposal.

Consultants are important to many institutional investors – by forming relationships with consultants or other advisory groups a hedge fund manager can be promoted to a variety of institutions. Direct marketing of funds is also welcomed by institutional investors, with most preferring to be emailed a pitch book or other promotional materials as the first point of contact. Institutional decision making tends to take between three and six months, therefore if marketers can form longer-term relationships with investors then a fund could be reconsidered further down the line even if it was initially rejected.

Amy Bensted

2010 Preqin Global Hedge Fund Investor Review:
Order Form

This year's Global Hedge Fund Investor Review includes profiles and analysis for the most important 1,000 investors from around the world, all split into separate regions and countries for ease of use. The Review also includes analysis and listings of investors with a preference for the 10 most important fund strategies.

Full contents include:

- Profiles for 1,000 key institutional investors arranged into 23 key regions from around the world, profiles include fund preferences by strategy and geography, key financial information, direct contact details for key personnel, sample investments
- Analysis and league tables for investors from each region
- Analysis for investors in each of the ten most important hedge fund strategies with listings for active investors
- Listings and analysis for 116 third party marketers and 62 prime brokers
- Analysis of emerging manager investors
- Exclusive information gained through direct contact with institutional investors

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Investors in Focus:
US Foundations

Fig. 1:

Key Facts: US Foundations	
% of US foundations investing in hedge funds	64%
Average allocation to hedge funds	14.5%
Average target allocation to hedge funds	16.3%
Most favoured investment approach	Direct, Funds of Hedge Funds.
Average number of hedge funds in a US foundation portfolio	8
Typically been investing in hedge funds for...	7 - 10 years

US foundations are one of the more experienced categories of institutional investors in hedge funds, with many such investors having been active in the asset class since the turn of the 21st century. As a result, a large proportion of this investor group, 64%, are actively investing in the asset class today, with a further 4% of all US foundations considering making maiden investments in hedge funds in the next 6 to 12 months.

On average, foundations allocate 14.5% of total assets to hedge funds and have a target allocation of 16.3%. With 43% of US foundations currently under their target allocation to hedge funds, this sector of the institutional market has the potential to inject large additional sums of money into the asset class over the course of the next 12 months. US foundations are relatively conservative in their approach to hedge fund investment, Fig. 2 shows 80% of such investors use funds of funds to some extent to gain exposure to the asset class and over half invest in funds directly. Many US foundations invest both directly and via funds of funds when constructing their portfolios. 45% of foundations invest in both funds of funds and make direct investments, 35% invest solely in fund of funds and the remaining 20% only invest directly into hedge funds.

Long/short equity, macro and CTA are popular strategies for foundations. However, over 30% of US foundations take a more opportunistic approach to selecting hedge fund strategies and will diversify their portfolios according to market conditions or the opportunities available. Fig. 3 shows US foundations have a preference for investing in domestic hedge funds but over 50% will search globally for the best opportunities in the arena.

Sugi Kanaganayam

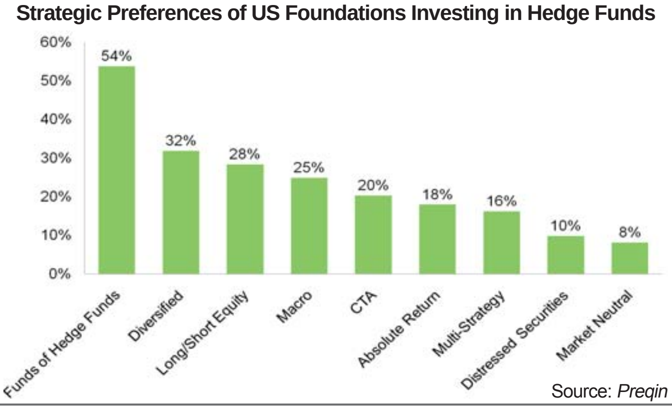
Preqin currently monitors 247 US foundations which are either already invested in hedge funds or are considering doing so in the next 12 months

In the past month Preqin analysts have added 26 new investors and updtaed 250 existing profiles.

For more information visit:
www.preqin.com/hedge

Fig. 2:

Strategic Preferences of US Foundations Investing in Hedge Funds



Source: *Preqin*

Fig. 3:

Regional Preferences of US Foundations Investing in Hedge Funds

Source: *Preqin*

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Strategy in Focus:
Event Driven

Fig. 1:

Key Facts: Investors Active in Event Driven Funds	
% of institutional investors that state event driven as an active preference	12%
Median AUM of an event driven investor ($bn)	1.55
Average allocation to hedge funds of an event driven investor	14.1%
Average returns sought from event driven investments	8.3%
Average lock-up of an event driven fund (months)	11
Most favoured investment approach	Direct HF

According to Preqin's database, there has been an upsurge of interest in event-driven hedge funds in 2009, which has carried over into 2010. Event-driven funds are predicted to offer some of the best returns this year due in part to the relative uncertainty in the overall market and the increase in the number of event-driven deals, such as mergers and distressed acquisitions taking place. Currently 12% of all institutional investors express an active interest in event-driven funds (Fig. 1). Half of such investors are based in North America (the majority are US-based), with a further 38% located across 16 countries in Europe (with 16% based in the UK) (Fig. 2). The remaining 12% of institutional investors are situated in Asia and Rest of World. Event-driven strategies are typically used by large institutional investors, that have the expertise and flexibility to allocate to a variety of strategies.

According to Preqin's database, which currently holds profiles for 301 investors with an active interest in event-driven funds, the majority (58%) of institutional investors active in event driven hedge funds are funds of hedge funds (Fig. 3). These investors represent the most important sources of capital for event driven managers, followed by endowment plans (11%) and public sector pension funds (10%). Some of the largest public pension funds stating this preference, include CalPERS, Texas TRS and New York State Common Retirement Fund. The demand for event driven hedge funds has increased this year with strong returns encouraging other institutions to invest in event driven strategies, including asset managers, foundations, private sector pension funds, insurance companies, family offices and investment banks.

The outlook for event driven hedge funds this year is good as it is likely they will experience continued growth, as more institutional investors across the globe add these funds to their portfolio.

Nicole Rubbi-Clarke

Preqin tracks 301 institutional investors with an appetite for event driven hedge funds. Of these 150 are based in North America, 114 are based in Europe and 37 are located in Asia and ROW.

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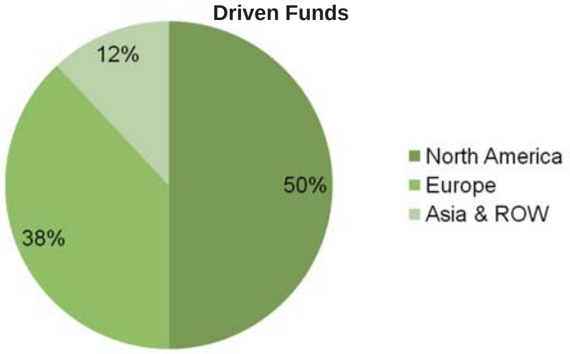
Fig. 2:

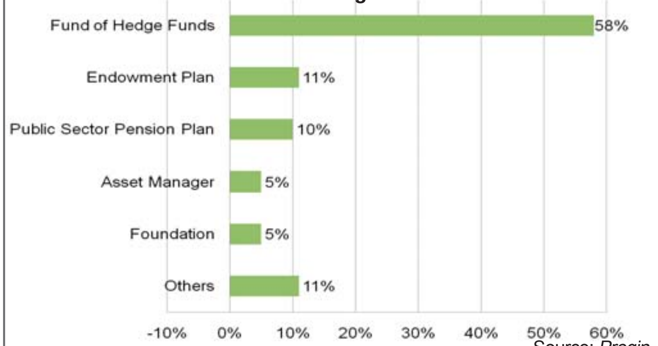
Regional Breakdown of Institutional Investors Active in Event Driven Funds



Source: *Preqin*

Fig. 3:

Breakdown by Type of All Institutional Investors Active in Event Driven Hedge Funds



Source: *Preqin*

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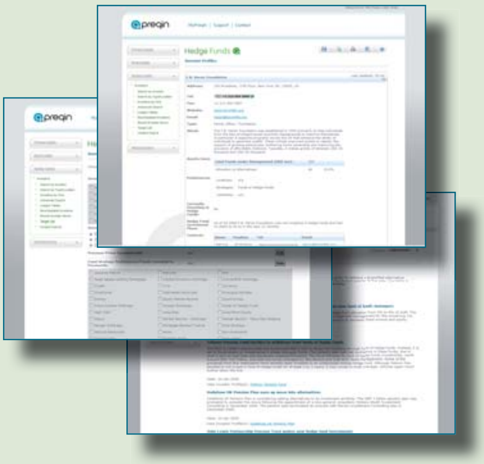
Preqin: Hedge Fund Services

Preqin maintains a range of products for professionals involved with sourcing institutional investors for hedge fund vehicles, all based on our detailed database of over 2,500 institutions. With online services, data downloads and publications all available, Preqin can help you to identify and contact future investors.



Hedge Investor Profiles

See detailed profiles for over 2,500 investors of all types globally - pension funds, insurance companies, banks, foundations, endowments, family offices, fund of hedge funds and others. Profiles include background, contact details, investment plans, preferences, assets under management, firms previously invested with and more.

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

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Conferences Spotlight:
Forthcoming Events

Conferences

Conference/Event	Dates	Location	Organizer
GAIM 2010	14 - 17 June 2010	Monaco	ICBI
The Fundamentals of UCTIS Risk Management	16 - 17 June 2010	London	Infoline
Hedge Fund Summit	20 - 22 June 2010	Palm Beach	Marcus Evans
Hedge Fund Tax 101	22 June 2010	New York	Financial Research Asociation
Hedge Fund Investor Symposium	22 - 23 June 2010	New York	Institutional Investor
UCTIS 3 & 4 Risk Management	22 June 2010	London	Infoline
National Advanced Forum on Hedge Funds and Investment Advisors	24-25 June 2010	New York	American Conference Institution
Hedge Funds & Investment Advisors	24 - 25 June 2010	New York	American Conference Institution
Fund Forum International 2010	28 June - 1 July 2010	Monaco	ICBI
Alternative Assets Forum: Investing in Emerging Hedge Fund Managers	30 June 2010	New York	NYSSA

Investor Spotlight:
Investor News

Ascentia Capital Partners allocates to one new hedge fund and looks for two more.

Ascentia has recently added hedge fund manager Armored Wolf to its Alternative Strategies Mutual Fund. The firm is concentrating on adding a merger arbitrage and a long/short equity hedge fund to the fund of funds going forward. It is still accepting candidates for both mandates, but will not hire any managers that charge performance fees. It is looking to allocate USD 3-5 million per hedge fund. The mutual fund combines the benefits of hedge funds with the features of mutual funds in order to achieve a product that is regulated, transparent and liquid.

Montana Board of Investments will not invest in hedge funds.

The public pension fund that oversees all the investments of the government institutions of Montana has announced that it has scrapped any plans to begin investing in hedge funds. The pension fund first began looking into hedge funds in August 2008 when it announced that it was looking for fund of hedge funds managers. However, in April 2009 some of the shortlisted managers from the search were struck off due to exposure to the Madoff Ponzi scheme. Montana made its final decision not to invest in the asset class due to high fees, lack of transparency and liquidity issues.

Finles Capital Management looks for liquid investments.

The fund of hedge funds manager is in the process of adding hedge funds across its portfolio. It is particularly interested in liquid investments and plans to commit to macro, managed futures and CTA hedge funds. It targets managers with assets under management of around EUR 25 million and a track record of two years. Finles invests on a global scale and typically commits EUR 1-5 million per vehicle. It currently manages nine vehicles.

BBC Pension Trust considers adding new managers.

The pension fund of the state-owned broadcaster is in talks with its consultant, Watson Wyatt, about the possibility of adding more hedge funds across its portfolio. Currently the pension fund invests in only one direct vehicle, a long/short offering from a UK manager. It has set no time frame for its decision.

Investcorp is searching for seed opportunities in mid-sized hedge funds.

Investcorp, the USD 4.4 billion fund of funds and seeding platform, is interested in providing “secondary seeding” to funds that are around USD 400-500 million in size, but which are either still too small to be of interest to large institutional investors or have lost assets over the past two years. Investcorp believes that there is opportunity for investment in funds of this size as they have already built up a substantial track record, but are not gaining the interest of institutional investors in the current environment. Investcorp is particularly interested in credit, distressed debt, convertible arbitrage, long/short equity and global macro funds.

Reyl Asset Management launches new fund of hedge fund in a joint venture with FRM Capital Advisors.

Geneva-based Reyl Asset Management has recently launched Reyl Accelerator Fund, a fund of hedge funds specializing in seed and early stage investments. The new fund will be advised by FRM Capital Advisors, with the consultant responsible for selecting emerging hedge fund managers as well as sourcing and structuring investment opportunities. Reyl Asset Management is targeting a diversified portfolio with a preference for strategies such as directional trading, relative value, long/short equity, and credit. It currently manages four funds of hedge funds vehicles and is investing with approximately 15-20 hedge fund managers.

City of Omaha Police and Fire Retirement System re-considers hedge funds.

The public pension fund, which manages the retirement assets of the Omaha Police and Retirement System, has announced that it is re-considering investing in hedge funds. Omaha first considered investing in the asset class back in 2006 but decided against a maiden allocation at that time. Currently it is looking to get away from the traditional format of its portfolio and thinks that hedge funds will help to diversify its investments.

Katy Johnson

This is just a selection of recent news on institutional investors in hedge funds. More news and updates are available online for Hedge Investor Profiles subscribers.

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