

50% Rise in Public Pension Plans Investing in Hedge Funds

Mean allocation to asset class also increased from 3.6% to 6.6% between 2007 and 2011 YTD

Preqin research shows that the number of public pension systems investing in hedge funds has increased significantly over the past four years. There are now 295 public pension plans worldwide known to be allocating to hedge funds, up from 196 in 2007. The mean allocation to the asset class has also grown in the same period from 3.6% to 6.6%; it is now one percentage point higher than the average private equity allocation of these investors.

Public pension systems and hedge funds:

- Pension systems generally invest in hedge funds for capital preservation and portfolio diversification purposes.
- They seek absolute returns of 6.1%, lower than the average expectations of other investor types which stand at 7%.
- Funds of hedge funds are popular with pension funds – four-fifths of public pension systems that made their first hedge fund investments in 2010 did so through multi-manager allocations.
- 70% of all pension funds investing in hedge funds have funds of funds commitments in their portfolios.
- The top 10 public pension system investors in hedge funds have a collective \$836bn in AUM

Public pension systems' hedge fund portfolio performance:

- As of Q2 2010, hedge funds showed positive one-year returns.
- Hedge funds have outperformed listed equities over a three- and five-year period.
- Hedge funds have outperformed public pension funds' average annualized return expectations of 6.15% by producing average returns of 9.8%.
- Despite negative returns over a three-year timeframe, public pension system investors have increased their allocations to the asset class; this is in stark comparison to the many high-net-worth counterparts that have reduced their hedge fund commitments during the period.

The full report can be found in this month's Hedge Fund Spotlight:

http://www.preqin.com/docs/newsletters/HF/Preqin_Hedge_Fund_Spotlight_March_2011.pdf

Comment:

"Public pension funds are one of the most influential groups of investors, and their increased uptake of hedge funds is shaping the new institutional era of hedge fund management. Pension funds have realistic return expectations, and as they gain more experience of the asset class, there has been a fundamental shift in these investors towards allocating to hedge funds for capital preservation and portfolio diversification."

Amy Bensted, Manager, Hedge Fund Data.

About Preqin:

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Note to Editors:

- Preqin is spelled without the letter 'U' after the 'Q'.

For more information on this release, please contact: Amy Bensted +44 (0)20 7645 9420 or abensted@preqin.com
For general press information, please contact: Tim Friedman +44 (0)20 7645 8880 or tfriedman@preqin.com