

Preqin Research Report Overview of the Global Hedge Fund Institutional Investor Universe: 2009

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When the last Preqin Global Hedge Fund Investor Review was published in October 2008, the world's markets were still in the throes of financial meltdown. Hedge funds did not escape the tumult unscathed and the industry underwent a significant contraction. By the first quarter of 2009, total hedge fund assets were much lower than at their peak and hundreds of hedge funds had closed. However, the hedge fund industry has rallied over the course of 2009, and the picture at the end of the year is much more encouraging. Not only has positive performance returned to the asset class but several hedge fund indices agree that some strategies have been posting their best performances for 10 years or more. The rapid recovery of hedge funds has spurred many investors to begin making new investments in funds - the industry is starting to accumulate assets and is returning towards \$2 trillion in total capital managed.

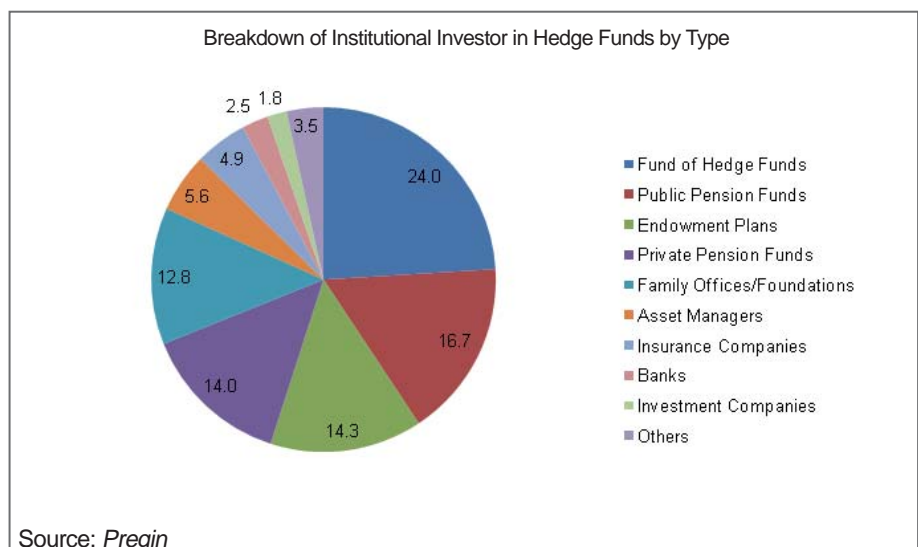
Breakdown of Investor Universe by Investor Type

Preqin's online database, Hedge Investor Profiles, currently holds information on 2,500 institutional investors worldwide that are either actively investing, or considering investment, in hedge funds. The liquid nature of hedge funds has proven to be very attractive to institutional investors over the course of 2009 and many investors have been choosing hedge funds over other forms of alternative assets in order to diversify holdings without the restraints of capital being locked up for long periods of time. Consequently, the number of active investors on the Preqin database has grown by 16% from 2008.

Funds of Hedge Funds

Funds of funds continue to dominate the asset class in terms of numbers of investors (24% of all investors), as well as the amount of assets they direct into hedge funds. However, 2009 has been a difficult time for funds of hedge funds; some investors questioned their value following poor performance in

Fig. 1:



2008 and due diligence procedures being called into question after several high-profile firms were found to be exposed to the fraudulent Madoff funds. As a result, some investors pulled their capital out of funds of funds in favour of investing directly over 2009, and consequently the growth in the number of funds of funds on the Preqin database is slower compared to other groups of investors. Nevertheless, funds of hedge funds are still a vital source of capital for hedge fund managers and are the largest allocators to hedge funds of all the institutional investor types.

Public Pension Funds

Public pension funds are the next largest group of investors on the Preqin database, representing approximately 17% of all institutional hedge fund investors. Public pension funds have become an established group of investors within the institutional hedge fund investor universe. Their exposure to hedge funds has remained at approximately the same level as in 2008, each allocating on average 6% of total assets to hedge funds. Public pension funds have an average target allocation of 7.4% of total assets to hedge funds and as such are expected to be

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Fig. 2:

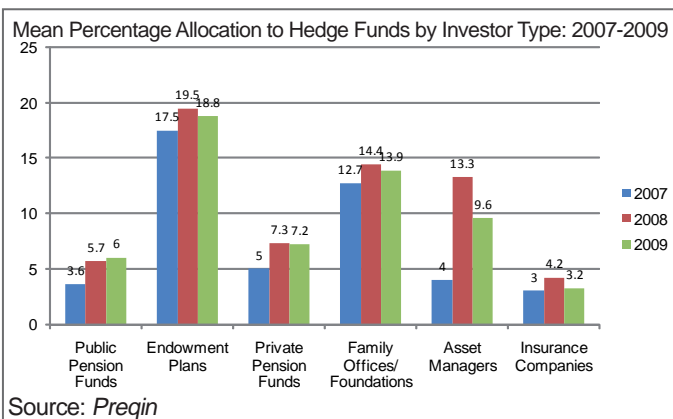
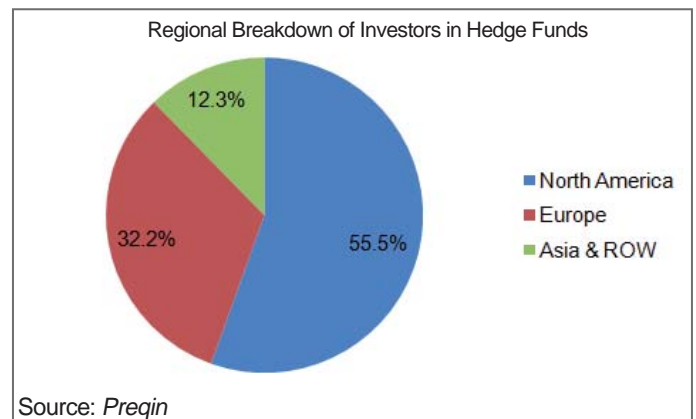


Fig. 3:



making new investments over 2010 in order to increase their exposure to the asset class. Funds of hedge funds are still the predominant type of vehicle used by public pension boards which make hedge fund investments – 54% of public pension funds only make funds of funds investments and 32% invest both directly and through funds of funds. Just 14% of public pension funds make solely direct hedge fund investments; however this is an increase from 2008, and we expect this trend towards direct investments to continue in 2010.

Endowments

Endowment plans make up 14% of all institutional investors active in hedge funds. Endowment plans have been investing in hedge funds for many years and are one of the more sophisticated groups of investors active in the asset class. Direct investments are the most common choice of fund structure for endowments, with approximately 40% only making investments directly in funds. A further 31% invest both directly and in funds of funds, and 29% invest in funds of funds only. Endowments have, on average, slightly reduced their exposure to hedge funds over the course of 2009, with the mean allocation to hedge funds now standing at approximately 18.8% of total assets (down from 19.5% in 2008). With a mean target of 18.6% of total assets to be invested in hedge funds, we

expect the level of investment to remain stable over the next 12 to 18 months. Endowments are the largest allocators to hedge funds of all institutional investor types and most have built up substantial portfolios of funds over many years. As such, many have reached their optimal exposure to the asset class and are unlikely to commit any more capital to hedge fund investments. However, because of the large sizes of their portfolios, they have a high natural turnover of funds and will rebalance their investments relatively frequently in order to take advantage of the best opportunities and strategies.

Private Sector Pension Funds

We have witnessed a rapid growth in the number of private sector pension funds investing in hedge funds over the past three years. Changes in legislation and funding gaps have led to private sector funds considering alternatives to traditional investment options. Today, they represent 14% of all institutional investors active in the asset class and constitute the largest single group of investors actively considering their first investments in hedge funds in 2010. As an emerging group of hedge fund investors, their mean allocation to hedge funds is relatively modest, at 7.2% of total assets with a mean target exposure of 7.5%. However, this exposure is still higher than their public pension counterparts. More private sector pension

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funds are investing directly in hedge funds compared to 2008 (13% vs. 9% respectively), but this remains a relatively uncommon occurrence, with most using funds of funds or a mixture of both funds of funds and direct investments when allocating to hedge funds.

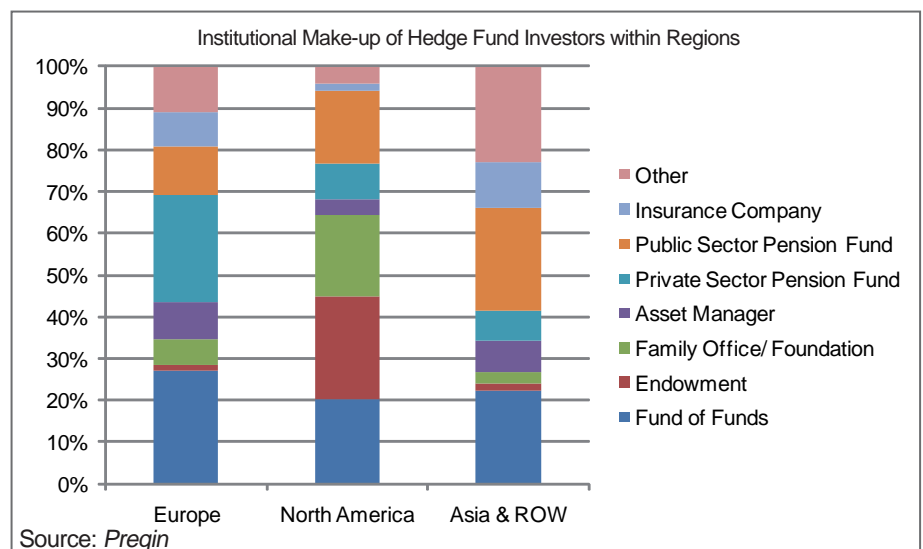
Family Offices/Foundations

Like endowments, many family offices and foundations have been investing in hedge funds for many years and have built up large and diversified portfolios of funds. Currently, family offices and foundations invest an average of 13.9% of their total assets in hedge funds – many having reduced their exposure slightly over the course of 2009 in order to rebalance their portfolios and to free up capital for call-ups of more illiquid investments. However, as a group, family offices and foundations remain committed to their hedge fund investments, with many planning to increase their exposure over the course of 2010. On average, family offices and foundations target an allocation of 15.9% of total assets to be invested in hedge funds and as such, we can expect this group to make many new investments over the course of 2010. Predominantly, family offices and foundations invest in hedge funds directly, but they also make strategic fund of funds investments in order to access new strategies or regions, with 42% of family offices and foundations investing both directly and in funds of funds. 35% only invest directly in hedge funds, and the remaining 23% invest in hedge funds via funds of funds only.

Insurance Companies

Insurance companies allocate a relatively small portion of their AUMs to hedge fund investments. However, because of their generally large size, this equates to a significant amount of capital. Due to market volatility and short-term liquidity issues, many insurance companies reduced their exposure to hedge

Fig. 4:



funds over 2009 - from 4.2% in 2008 to 3.2% in 2009. However, over the longer term, this group of investors remains confident in its approach to the asset class and, on average, insurance companies have a long-term target allocation of 5.4% of total assets to be invested in hedge funds. 55% of insurance companies invest both directly and through funds of funds, with 17% investing just directly and 28% investing just via funds of funds. This “core-satellite” approach to hedge fund investments allows insurance companies to build large portfolios of hedge funds whilst also being able to pinpoint particular strategies that offer the best opportunities for strong returns in 2010.

Asset Managers

Asset managers are a large and diverse group of investors on the Preqin database – covering multi-family offices, multi-pension fund managers and multi-asset fund of funds managers. The group may be diverse but it is unified by a large allocation to hedge funds, with asset managers, on average, allocating 9.6% of total assets to hedge funds. This is significantly lower than in 2008, when they were, on

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average, investing 13.3% of assets under management in the asset class. Asset managers invest in a similar way to funds of hedge funds: they tend to have large portfolios of funds and make many new investments each year. Many have had to redeem some of their hedge fund holdings over the past 12 months in order to generate capital for call-ups of more illiquid investments (such as private equity funds) and in turn have reduced their exposure to hedge funds over the course of 2009. However, going forwards, asset managers intend to allocate much more capital to hedge fund investments: on average, asset managers have a long-term target hedge fund allocation of 15.4% of total assets. 45% of asset managers invest in a mix of both funds of funds and direct investments. 41% invest all their hedge fund capital directly in funds and 14% solely invest in funds of funds.

Overview of Investors by Region

North America

The largest number of hedge fund investors are based in North America, accounting for 55.5% of investors globally. The US is home to most of these investors, with 52% of all investors based in the US alone and the remaining 3.5% based in Canada. The hedge fund industry in North America is well established, and as a result this region is home to a wide variety of institutional investors active in hedge funds. The distribution of investor types in North America is fairly even, with approximately equal numbers of funds of funds, endowments, family offices and foundations and public pension funds investing in hedge funds. The US is a significant region for university endowments investing in hedge funds, with 95% of all endowments active in the asset class based in this country. Public pension plans are another significant group of North American institutional investors, and at Preqin we track approximately 200 public

Fig. 5:

Countries with the Most Institutional Investors in Hedge Funds

Country	Percentage of Global Investors
US	52.0%
UK	14.3%
Switzerland	4.9%
Australia	3.1%
Canada	3.1%
Germany	2.4%
Japan	2.1%
Netherlands	1.8%
Sweden	1.7%
France	1.3%

Source: Preqin

retirement schemes in North America that currently invest in hedge funds.

Europe

Europe is home to just less than a third of all institutional investors active in hedge funds today. Within Europe, the UK is the largest centre for hedge fund activity, with 14.3% of all global institutional investors based here. Second to the US, the UK is the next most populous region in terms of hedge fund managers and consequently hedge fund investors. Within Europe, funds of funds and private sector pension funds dominate the institutional investor landscape. In the past decade, new legislation has resulted in the creation of many new private sector pension funds in this region, and the need for these pension funds to cover liabilities has seen them branching out into alternative assets including hedge funds. Switzerland is the third-largest country in terms of institutional investors actively investing in hedge funds. Switzerland is home to many funds of funds, with 13% of all such multi-manager firms based in this region.

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Asia and Rest of World

Asia and Rest of World investors account for just over 12% of all institutional investors active in hedge funds today. Although this is a relatively small proportion of the total, some of the world's largest investors in hedge funds are based in this region. Perhaps one of the most important groups of investors based in Asia and Rest of World are sovereign wealth funds, which have massive pools of readily available capital to be invested in hedge funds. This group includes Government of Singapore Investment Corporation, which invests \$9 billion in hedge funds and nearly \$70 billion in alternative assets as a whole. Within Asia and Rest of World, Australia and Japan are home to the highest number of hedge fund investors. Superannuation schemes are the predominant source of institutional capital for hedge fund managers in Australia. In Japan, the institutional landscape is more diverse, as many large funds of funds are based there (or have an Asian office in Japan). In addition, the private pension schemes of large Japanese corporations and insurance companies are significant allocators to the asset class.

Conclusions

The hedge fund industry is much altered from the beginning of 2008. There has been a contraction of the asset class, with industry assets under management dipping considerably below their peak and a large number of hedge funds - emerging and established alike - having disappeared altogether. However, the outlook for 2010 is more positive; the funds that weathered the downturn of 2008 and early 2009 are in a strong position to gain new investment over the next 12 months. In 2009, there was a consolidation of the industry, funds have deleveraged and new strategies that were previously out of favour with institutional investors have come to the forefront of the asset class.

Today, hedge fund managers can look to a wide variety of institutional investors when seeking new capital. Even just a few years ago, hedge funds could expect to gain investment from just two or three groups of institutional investors, primarily funds of hedge funds, public pension funds and endowments, predominantly based in North America and Europe. In recent

years, however, there has been a rapid growth in the number of private sector pension funds, insurance companies, sovereign wealth funds and other types of institutional investor making their first investments in the asset class. This coupled with an increasing saturation of the older hedge fund institutional market has meant that hedge funds are being utilised by an increasingly broad spectrum of investors. Growth in the number of new entrants into the asset class is outpacing growth in the more established investor market and as a result these new institutional investors will become increasingly important sources of capital for hedge funds. Investors from less established regions are increasingly adding hedge funds to their portfolios, and we have witnessed an increase in the proportion of Asia and Rest of World-based investors active in hedge funds over 2009.

The turbulence of the past 12-18 months has affected the way in which investors use hedge funds. Direct investment is becoming more popular, with many institutions eschewing the extra fees and disappointing returns of some funds of funds by opting to re-allocate capital to single manager hedge funds. Whereas in previous years we saw institutions increasing their allocations, over 2009 many kept their exposure similar to that of 2008. However, with more institutional and less high-net-worth capital now active in hedge funds, the proportion of capital in the asset class coming from institutional pockets is ever increasing.

2010 Preqin Global Hedge Fund Investor Review



Buoyed by excellent returns over recent months, and attracted by the liquidity benefits of hedge funds over other forms of alternative assets, institutional investors are set to commit significant levels of capital to the asset class in 2010. New investors have been entering the market, and there is much activity planned amongst seasoned investors.

Keeping track of the most important institutional investors is a near-impossible task. Preqin's 2010 Global Hedge Fund Investor Review provides the ultimate solution.

In this year's Review we have included 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. We have also included 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

For more information please visit: www.preqin.com/hfir

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