2012 Preqin Global Investor Report: Hedge Funds

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Foreword

Although 2011 was another disappointing year for hedge fund performance, 2012 has had a strong start, despite the global economy still experiencing great uncertainty and the sovereign debt crisis in Europe being far from resolved. Institutional investors appear unfazed by any performance issues of the previous year and the hedge fund industry is continuing to grow as inflows outpace outflows in 2012 and new funds come to market.

In this report we take a closer look at institutional investors across the globe using data taken from Preqin's Hedge Fund Investor Profiles database of 3,400 institutional investors. We examine in more depth how these investors source new hedge fund managers and how best to attract the institutional capital so vital to a fund's success. In addition, we present the latest information on institutional searches for the next 12 months and reveal what types of funds are most popular amongst the institutional market in 2012. Finally, we are delighted to include an interview with Philippe Paquet, Deputy CEO at NewAlpha.

For more information on Preqin's hedge fund products, please visit www.preqin.com/hedge

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The Investment Process: Institutional Investor Portfolios

With institutional investment on the increase, and fund managers becoming ever more aware of the importance of the backing of this sector, knowledge of the sourcing and investment process of this group of investors is vital to all managers looking to gain institutional assets. With this in mind, Preqin conducted in-depth interviews with over 100 institutional investors to ascertain more details on their entire investment process, from how they find new investments through to the point they redeem from a fund.

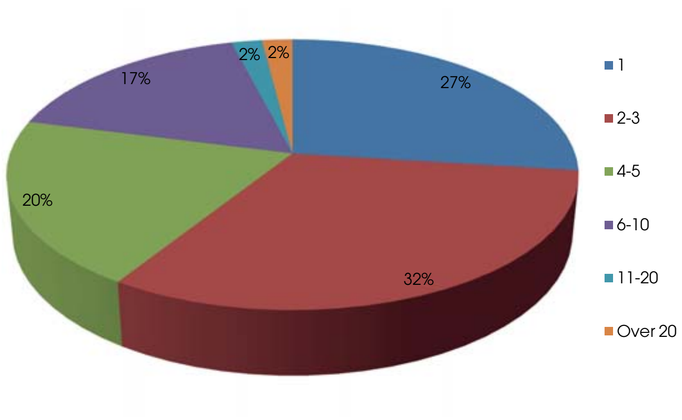
Sourcing New Funds

Compared to other alternative assets, hedge funds are liquid investments and are typically added to investment portfolios by institutional investors in order to diversify risk, add a liquid source of alpha and tap into new sources of returns. As the institutional community matures, their portfolios of hedge funds become more complex and multilayered as they add funds over a long time frame. With this in mind, we first asked investors how many new funds they add to their holdings on a yearly basis.

Thirty-two percent of investors surveyed revealed that on average they make two to three new hedge fund investments per year (Fig. 1), while 27% stated that they would make one new investment and 20% typically make four or five. With 3,400 investors on the Preqin Hedge Fund Investor Profiles database, this shows that there is the potential for thousands of new investments to be made each year from the institutional market. In order to gather one of these mandates, managers need to be aware of how institutional investors source and select vehicles to allocate capital to.

Institutional investors use a variety of sources to find new hedge funds to add to their portfolios. Consultants are widely used by investors to identify new vehicles to invest in; however, alongside this, 38% of participating institutions also look to source managers from the fund proposals they receive directly from the managers themselves, as well as through building their own relationships with the hedge fund community through networking events and conferences. A further 20% use database providers to search for funds open to new capital inflows. With so many avenues being used by institutional investors to find new funds, the savvy manager should use as many tools as possible to get their funds noticed by the institutional market. Managers should not only ensure that they know who the best contact is at the institution for direct marketing, but they should also establish good relationships with consultants and take the fund on the road at conferences.

Fig. 1: Typical Number of New Hedge Fund Investments Made Each Year By Institutional Investors

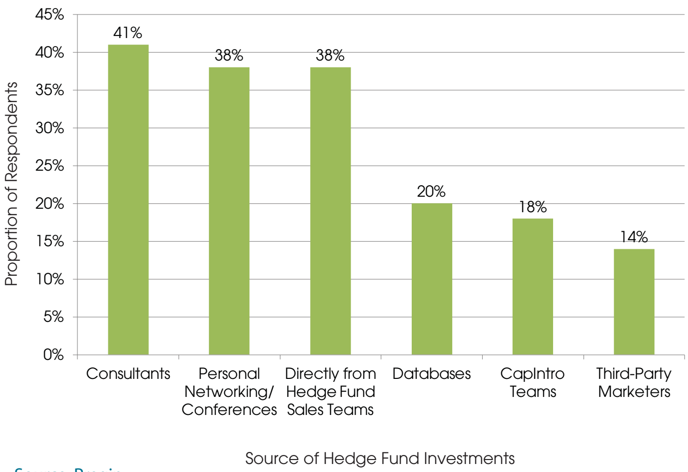


Source: Preqin

The Decision Making Process

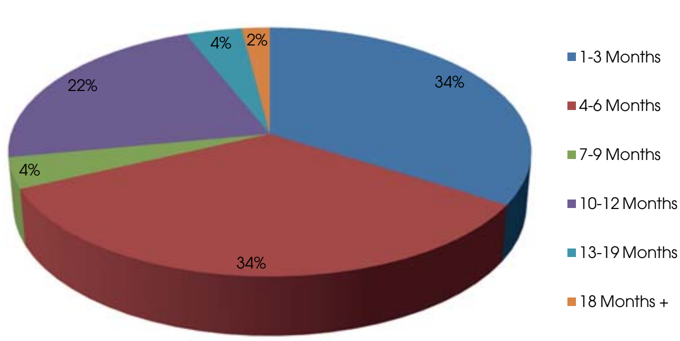
So, once a fund has caught the attention of an institutional investor, how long does it take for them to allocate capital? Two-thirds of the participants in the study make an investment up to six months from the first time they view the fund. The length of the decision making

Fig. 2: Methods Utilized by Investors to Source Hedge Funds



Source: Preqin

Fig. 3 Average Time Between Being Sent a Fund Proposal and Making an Investment



Source: Preqin

process varies depending on the type of investor, however, with some more cautious investors taking over 18 months mulling over a potential investment. Investors with larger investment teams have the resources to make a decision quickly and efficiently and are often quicker to allocate to strategies they see as offering the best potential during a certain period. Smaller, more cautious investors may be restricted by the decision making time of their boards, as well as preferring to observe the fund over a longer period of time to assess performance over longer time frames.

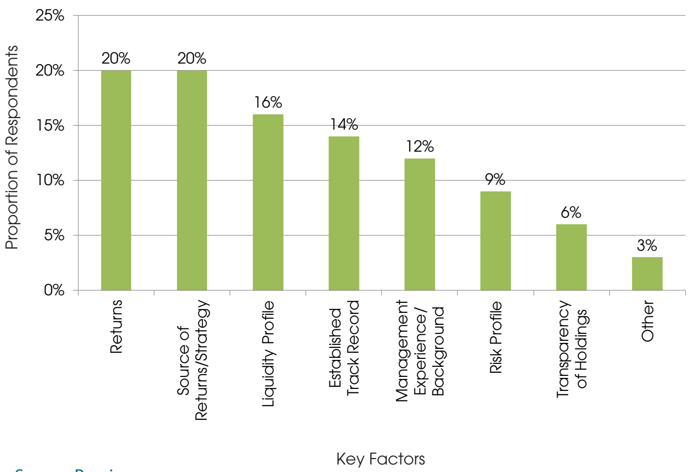
Making Your Impression on the Institutional Market

Due to current fundraising conditions, managers hopeful of attracting institutional capital need to stand out from the crowd to be noticed. To find out more on this topic, we asked investors what is the main factor they look for when short-listing fund proposals. A significant proportion of investors, 20%, said that returns were the most significant factor when deliberating over a fund. Investors look for funds with a proven track record of good performance, as although historical performance should not be used to predict future returns, it can provide the investor with insight into how the fund has fared during periods of volatility in the past. An additional 20% of the surveyed investors also said that the source of the returns and the strategy used by the fund was an important factor. Investors look to pick funds that complement their existing portfolios of hedge funds as well as their wider holdings, and therefore getting access to the right strategy is important. As market conditions continue to change, choosing the right strategy to invest in may also be the difference between generating strong returns and losing capital.

Liquidity also plays an important part for some investors when assessing potential hedge fund investments. Liquidity has been a key concern for investors since the financial crisis and remains so for institutions allocating to the asset class. In times of market volatility, the ability to shift capital between funds is important for institutional investors, with many being caught with their capital gated in 2008. Therefore, even though investors do look to stay in funds for relatively long periods, having the comfort of short lock-ups or redemption notice periods can be a reassurance that they can access their money should the returns environment turn hostile again.

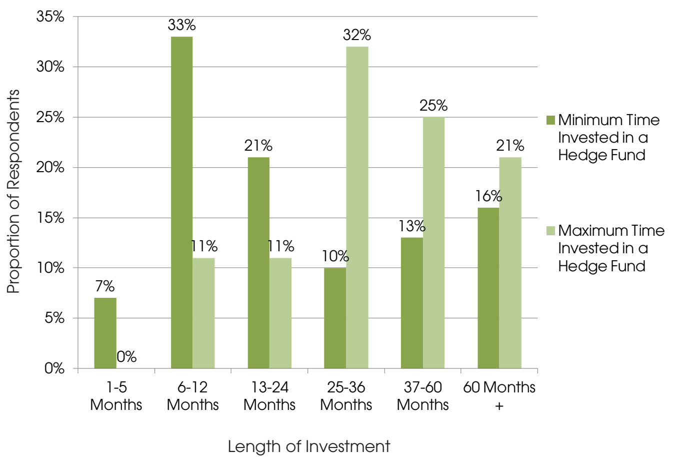
Acquiring institutional support offers many benefits for the growing hedge fund. Firstly, the institutional ticket size is larger than their high-net-worth counterparts, and gaining a few key investments from the institutional market can catalyze future fund growth. In addition, institutional assets are often reported to be "stickier" – that is these investors remain invested in funds for a longer period of time than private individuals. With this in mind we asked institutional investors what their typical holding period of an underlying fund is. Fig. 5 shows that around one-third of investors involved in the study invest in a hedge fund for six months to one year as a minimum. Thirty-two percent invest in a hedge fund for a maximum of 25 months to three years. However, one-fifth of investors are open to keeping capital invested in a fund for over five years, with 16% stating that five years is the minimum amount of time they would stay invested in a fund. This shows that for many funds, the institutional market can be a long-term and stable source of investment for those funds that meet

Fig. 4: Key Factors Investors Assess When Shortlisting Funds



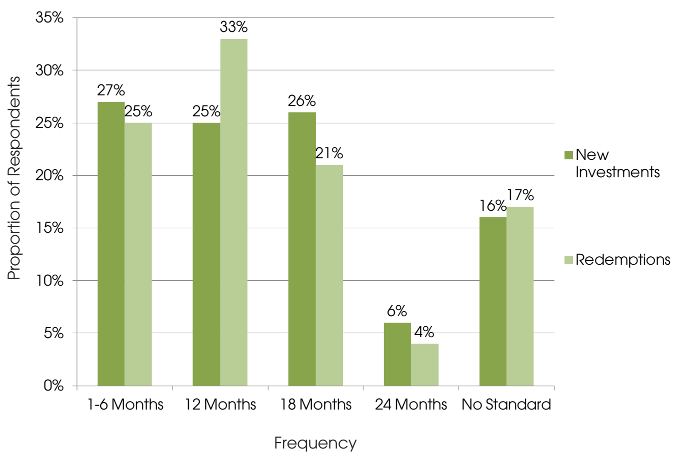
Source: Preqin

Fig. 5: Average Time Invested in a Hedge Fund



Source: Preqin

Fig. 6: Typical Frequency of Redemptions and New Investments



Source: Preqin

the institution's portfolio objectives. Despite this, however, a not insignificant 7% of institutional investors surveyed would redeem from a fund in less than six months if a fund fails to deliver on its initial promise.

Portfolio Turnover

Fig. 6 shows that the majority of investors in hedge funds make at least one redemption per year. Twenty-seven percent of investors add new investments up to every six months, with 78% of the investors surveyed making investments within an 18 month time frame. With the pattern being similar for redemptions, it is clear that most investors regularly redeem and replace managers in the management of their portfolios. This creates many opportunities for hedge fund marketers. Not only is fresh capital coming into the asset class from new investors, as well as from existing investors increasing their allocations, but also significant amounts of additional capital is being redeemed and reallocated by investors at their targeted exposure to the asset class. Therefore fund managers have a broad spectrum of investors to target in their fundraising efforts.

Improve Returns or Return Money

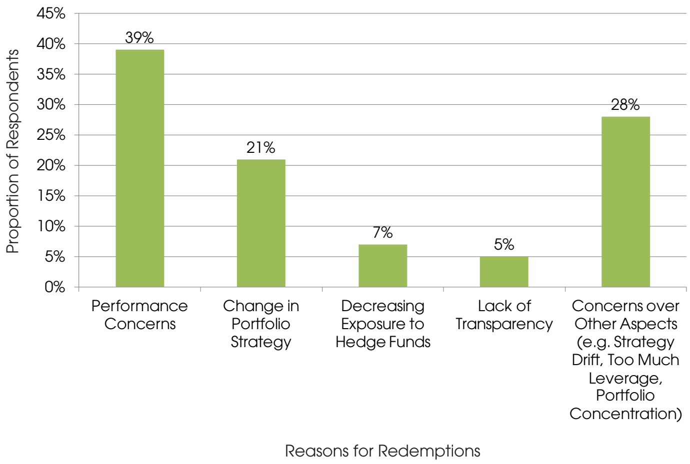
The financial crisis of 2008 has left investors increasingly cautious and more diligent at reviewing their hedge fund portfolios, and so unsurprisingly a significant proportion of investors surveyed (39%) make redemptions due to performance concerns. Indeed, the ongoing performance issues that have dogged the asset class in recent years have led to investors looking ever more closely at how well their managers are performing. Managers that cannot meet institutional portfolio objectives will face pressure from investors to improve or face redemption requests. One-fifth of institutions that participated in this study stated that redemptions usually stemmed from an internal change in portfolio strategy, as they seek to rebalance their overall alternatives and wider portfolios, leading them to cut a hedge fund from their roster.

Summary

Our study shows that hedge fund marketers can anticipate a number of good opportunities to raise capital from institutional investors over the next 12 months. Institutional investors have accumulated large and complex portfolios of investments over time. By gradually adding new funds to their portfolio, as well as redeeming from funds which they have allocated to over longer time frames, the flow of capital in and out of institutional portfolios is very dynamic. This offers exciting opportunities for hedge fund managers marketing their vehicles in a competitive fundraising environment. Institutional investors have also indicated that they can be long-term sources of capital to hedge funds, with most choosing to invest up to three years, and nearly 50% have indicated that they would keep their capital in a fund for longer should the vehicle perform as projected.

Returns are key for investors following another disappointing year for hedge fund performance. Consequently, hedge fund marketers looking to tap into this market will need to show proof of strong returns and a solid track record in order to woo discerning investors. Post investment, managers need to live up to investor performance expectations or face redemption requests.

Fig. 7: Institutional Investor Reasons for Making Portfolio Redemptions



Source: Preqin

Institutional Plans for the Year Ahead

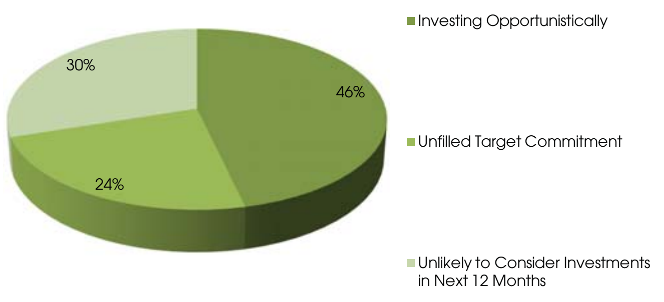
What does the future hold for the hedge fund industry? Over the last few years we have seen the rising prominence of the institutional market for hedge funds and this growth does not look set to stop. With institutional investors now becoming vital to the success of both established and emerging hedge fund managers, we examine, using Preqin's database of 3,400 investors, their future plans for investment in the next 12 months.

As Fig. 8 demonstrates, 70% of the institutional investors on the Preqin database plan to allocate fresh capital to hedge funds to some extent in the next 12 months. The majority of these are looking to invest on an opportunistic basis in the next year by continually assessing the market and allocating capital when they see a good opportunity. However around a quarter of all investors are under their target exposure to hedge funds and have indicated that they will be actively looking for managers and issuing requests for proposals.

Using Preqin's data on institutional plans for future allocations and fund searches, we estimate that institutional investors have around \$80bn - \$120bn set aside for fresh investments in hedge funds in the next 12 months. With new investors setting their first allocations all the time, this figure could grow even higher as institutions begin to tap into hedge funds for their maiden investment in the asset class.

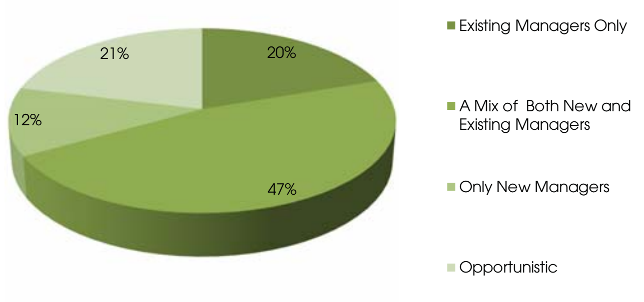
With the expected influx of capital into hedge fund vehicles over the next 12 months, is this capital likely to be directed towards investment with new managers, or managers with which investors have an established relationship? The vast majority of investors on the Preqin database plan to seek investment with new managers to some extent over the next 12 months, compared to 20% of investors that are focusing solely on maintaining existing relationships with managers. A relatively small proportion of investors, 12%, plan to invest only with new managers over the next 12 months. An additional 47% of investors are planning to consider investing in new managers over the next 12 months, while maintaining or increasing their investments in current funds. With a further 21% looking at new proposals on an opportunistic basis, there is great potential for hedge fund managers to seek capital from previously untapped institutional sources.

Fig. 8: Institutional Investor Plans for New Investment in the Next 12 Months



Source: Preqin Hedge Fund Investor Profiles

Fig. 9: Institutional Investor Plans for Manager Searches in the Next 12 Months



Source: Preqin Hedge Fund Investor Profiles

Hedge Fund Strategies Sought in the Year Ahead

Positive capital flows into hedge funds are expected over the next year. Investors have become much more focused on their searches for funds, with track record, strategy and fund performance returning to the top of the list of most sought after features of a hedge fund. Following a challenging few years for funds of funds, we are now seeing a revival of interest in the multi-manager sector. In this section we examine in closer detail which strategies are most sought after in the next 12 months and which structures of funds institutions are looking to allocate to.

Forty-one percent of investors planning to add to their hedge fund portfolios over the next 12 months include long/short equity as one of the strategies under consideration. Investors searching for long/short equity managers include Colorado Fire and Police Pension Association which, having invested in two long/short managers in 2012 to date, is searching for a further four funds to add to its holdings over the rest of the year. Macro hedge funds are also a popular choice with investors seeking to take advantage of currency movements, geo-political events and inflation and interest rate changes. For instance Korea Investment Corporation is actively increasing its allocation to hedge funds over 2012 and 2013 and is searching for a diverse range of funds, including macro funds, for this move. CTA funds are also proving attractive in 2012, with many new searches for managed futures managers being initiated in Q2 2012. For example, AP-Fonden 1 is currently searching for new fund investments and has told Preqin analysts that CTA funds will be favoured.

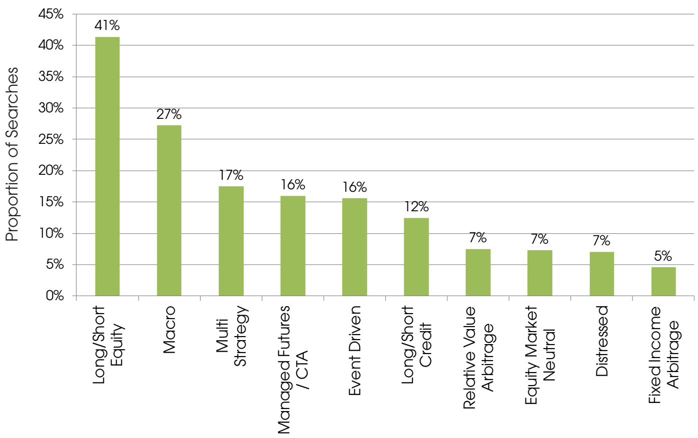
Commingled direct managers can expect to see the largest inflows over the next 12 months, with 80% of investors including an allocation to single-manager funds. As fund of hedge funds managers are the most prominent group making new investments in the next 12 months, much of this capital will continue to be siphoned via multi-manager funds; however, other groups of institutional investors are beginning to allocate more capital to single-manager funds, often at the expense of their fund of hedge funds managers. For instance, Finnish State Pension Fund has been moving from funds of funds over the recent past and looks set to redeem the rest of its multi-manager exposure over the rest of the year. It currently has a portfolio of 21 single-manager vehicles and four funds of funds.

However, the future is looking far more positive for funds of funds following the difficult fundraising environment of the past three years. Funds of hedge funds are being sought by 44% of investors that have plans to make new allocations in the next 12 months. Much of the new investment being made by the multi-manager market is being driven by inflows coming into their fund of funds vehicles at the top end, so as their funds grow, so do their allocations to single-manager vehicles. Funds of hedge funds are still the vehicle of choice for the newest investors in the asset class, and are also being utilized alongside direct investments by the more experienced institutional investor to access niche strategies or emerging themes and regions.

Managed accounts are continuing to grow in popularity amongst the liquidity- and transparency-hungry institutional market. Twelve percent of investors plan to make new investments through separately managed accounts set up by hedge funds and 8% look to invest in managed account funds of funds.

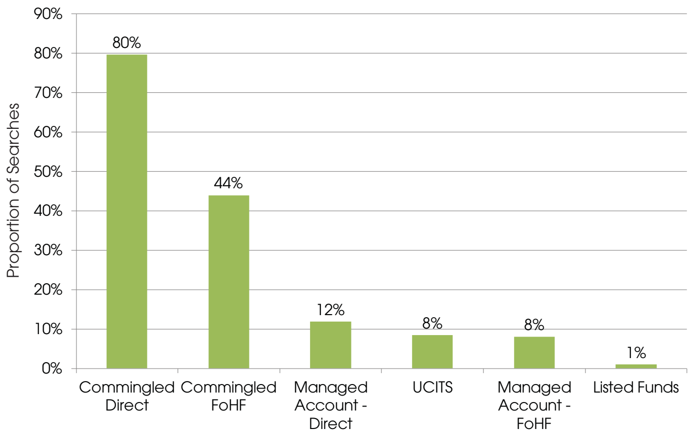
The European regulated UCITS wrapper for hedge funds continues to grow in popularity, with 8% of searches including a UCITS fund (this rises to 19% for Europe alone). The increasing prominence of UCITS vehicles and managed accounts over the past five years can be attributed to a demand for liquidity and transparency from the investor community, as both offer advantages in these areas over traditional commingled offshore funds.

Fig. 10: Strategies Sought by Institutional Investors in the Next 12 Months



Source: Preqin Hedge Fund Investor Profiles

Fig. 11: Structures Sought by Institutional Investors in the Next 12 Months



Source: Preqin Hedge Fund Investor Profiles

Interview with Philippe Paquet
- Deputy CEO, NewAlpha Asset Management

What is the latest news from NewAlpha?

We have just announced the first seed investment for the French seeding platform, Emergence, that was launched in January 2012. In Emergence, we have seven French investors and a total commitment of €120mn ($170mn) from investors such as CDC and other large and respected investors. This first investment is with a new French manager based in Paris called Eiffel and its credit long/short strategy.

Have you seen any changes in the appetite of French investors recently?

Interestingly, yes. French investors over the past three years have been very defensive when it comes to alternatives and in particular hedge funds. We can say in a very simple way that the French investors came on board in the investment space a little later than others, so didn't enjoy the good returns of the early 2000s. Instead, they had maybe a couple of years of good returns, and then they had the 2008 crisis. This is why many investors, pension funds and retirement schemes for example, have been relatively disappointed by hedge funds in general. But we are seeing with the news of this morning, and a continuation of the successful launch of Emergence, that the most sophisticated end of the investor spectrum in France is now much more receptive.

Why do you think this is?

First of all, time is passing, the bad memories of 2008 are fading, and new people are arriving. Secondly, French investment managers have not raised a lot of money over the past two or three years, but they have done a lot when it comes to adapting their products and in particular using the UCITS structure. Some emerging managers have been very successful in transforming their existing product into a UCITS product, and they are much more investable for investors in France because of the European official stamp. Finally, the most sophisticated French investors no longer see hedge funds as a separate asset class, but as sources of uncorrelated returns for specific asset buckets: long/short equities with equities, CTAs and macro with fixed income, etc. This new perspective helps to re-create interest and demand.

Are your investors predominantly French, and what type of investors are you seeing?

The very large majority are French. We have a British investor and a Swiss investor also. They are mostly insurance companies, and a few pension schemes. They're not pension funds because the retirement system here is much more reliant on mutual insurance. We do also have family-owned corporate investors, investing their financial assets to diversify and protect their capital. We have 17 investors in total.

How are the new regulations, such as the AIFMD and Solvency II, affecting business?

In general, the French mentality is very cautious and therefore the tighter the regulations, the more likely they are to invest. More specifically, emerging manager seeding is not impacted negatively by these regulations. I would even say that these regulations create opportunities for us. For instance, some successful managers with offshore products are looking for seed investors for their UCITS vehicles; many investors are eyeing them, but are waiting for the vehicle to get above some thresholds before investing given their investment constraints. Seeding ignites and boosts their development.

What is the outlook on European managers in the current market, based on your experience?

Looking at the investment industry here in Europe, we're constantly meeting with investment managers and seeing that the quality of managers is increasing. We're seeing managers spinning out from their existing employers, generally hedge funds; there are of course some traders coming from investment banks looking to use their expertise and become more entrepreneurial. The quality is improving and the diversity is going up. We're seeing managers based in Madrid, Zurich, Sweden... that might be a consequence of the fact that NewAlpha has gained a good reputation over the past few years. In general, the prospects are extremely favourable and we are meeting with investors saying publically that they are willing to commit to the emerging manager space. And not only in hedge funds, but also in other asset classes such as long-only equities. Increasingly, investors want to maximize their portfolio construction in the way that the bulk of their money is now with active investment, and they are increasingly speaking to investment managers to ensure that their returns are strong. Now the other point, which is getting more and more popular, is if you want to find a manager with consistent returns, you are increasingly looking at entrepreneurial managers. Generally they are more motivated, and more focused on their natural expertise.

What advantages does NewAlpha offer investors wanting to invest in emerging managers, rather than just selecting them themselves?

These days, we are structuring a new product that will be a European product and we are very experienced in structuring these seeding ventures, providing investors with a great deal of liquidity and aligning interests in the short, medium and long term with seeding managers. We expect it to be on the market in the last quarter of 2012. Separately, we are in conversation with investors, generally sophisticated investors on the continent, to offer them a dedicated advisory service where we propose they use our origination, selection and monitoring capabilities. We have contacts with about 72 prime brokers around the world; we have our brand name which is known among those looking for strategic investors. We just recently sent a press release to around 700 recipients, prime brokers, investors, prospective investors, etc. That attracts interest from candidates…!

We are happy to offer investors the ability to originate managers, to analyze managers and provide a different perspective. We have the tools to help sort through the emerging managers according to a certain set of criteria, depending on investors' interests and constraints. We can help the investors that are interested in the emerging manager space to benefit from the growth of the emerging manager. It's very difficult to monetize the risk which is generally attached to the emerging manager, so this is a good service.

The most sophisticated investors have already experienced the entire cycle of hedge fund investing. Ten to fifteen years ago, they invested in funds of funds, then they started to look at investing directly and now they are looking for the smaller managers. Now, they know we have smaller names and instead of just asking for a discount on management fees, they understand they can get a much higher total return by doing a partnership with these emerging managers, and with a lower level of risk on their capital because seeding gives you more transparency. This is why I'm very optimistic on our business.

What are your plans for the next year or so? Will you be focusing on particular strategies?

Except for specific mandates from investors, we are fully opportunistic with our commingled products: we don't want to limit ourselves to specific fund types, strategies, or geographical focus. Successful hedge fund seeding is based on a subtle balance between different perspectives. We look at past performance, if the manager has a past. But what if he doesn't have one? We've had some people that had good return numbers and a good way of marketing themselves, but were not suitable for the investors. We also meet with others that show average numbers, but they are really good marketers and we believe that they will be a strong prospect. In this case, it is better to partner with them than with the first, given the fact that seeding is also a bet on the growth of the manager.

So, there are so many criteria when selecting and partnering with early-stage managers that we can't restrict ourselves when it comes to strategies. The investment strategy is a very fine point within a larger picture. We have a longer-term perspective than traditional fund of hedge funds investors that may be looking to invest for two to three years; we look to be invested for around three years and benefit from the partnership for seven to ten years.

Investors to Watch

Firm Name	Type	Country	Total Assets (mn)	HF Allocation		Notable Investment Plans
				% of AUM	Amount (mn)	
Tages Capital SGR	Fund of Hedge Funds	Italy	EUR 280	100	EUR 280	The EUR 280 million fund of hedge funds manager plans on making a number of changes to its portfolio in the near future. The firm seeks investment opportunities internationally and it has a particular interest in long/short equity, event driven and global macro-oriented managers over the course of the next 12 months. Typically, Tages Capital invests in managers with assets under management of at least EUR 200 million and a track record of more than three years.
Louisiana State Employees Retirement System	Public Pension Fund	US	USD 9,250	9.4	USD 870	Following the liquidation of some of its existing holdings in funds of hedge funds, LASERS is now in the process of making an addition to its hedge fund portfolio. It aims to invest up to USD 300 million in a fund of hedge funds vehicle that has a customized strategy. It has a target allocation to hedge funds of 10% of its total assets under management.
Adventist Health System	Foundation	US	USD 4,000	24	USD 960	USD 4 billion health system Adventist is set to make a number of additions to its hedge fund portfolio in order to fulfil its 25% target allocation to the asset class. It currently invests in approximately 80 hedge funds across a number of strategies and will look to explore opportunities with global macro-centred managers. It feels that in the current climate these structures will offer the system considerable returns. The health system's appetite for smaller emerging funds has increased over the course of the last year. Previously it allocated around 75-80% of its portfolio to core managers with proven track records, about 15% to satellite managers that have some track record and good growth potential, and 5% to emerging managers. However, this could change following its revived outlook on younger fund managers.
Wealth Management Partners	Asset Manager	Netherlands	USD 700	5	USD 35	The EUR 700 million firm is set to invest in a number of hedge funds as it aims to boost its single-manager portfolio. The firm has exposure to both commingled direct and fund of hedge funds structures, but after making a number of redemptions from the latter it is planning to boost its direct hedge fund portfolio over the next year. Funds with a long/short equity and managed future focus would be of particular interest to the institution, which currently invests 5% of its total assets in hedge funds. Over the longer term it is hoping to reach its target allocation of 12% invested in hedge funds. Liquidity is a key requirement of this investor, with UCITS structures and funds with short or no redemption policies often being favoured.
Korea Investment Management	Fund of Hedge Funds	South Korea	USD 550	100	USD 550	The USD 550 million fund of hedge funds manager will look to make additions to its manager portfolio in the immediate future. The investment manager has no set target with respect to the number of investments it will make, but it will consider investing in liquid strategies including global macro, CTA and long/short equity across a plethora of regions. The fund of hedge funds manager generally invests in more established names with considerable track records and assets under management. It manages more than 40 active funds, over 30 of which are offered to retail clients and the rest offered to institutional clients. Each fund on average invests in over five funds, and it has a hedge fund investment pool exceeding 50 underlying funds.

Opinions of Key Institutional Investors

"Larger funds have smaller returns due to a lack of investment opportunities available to them. They also tend to offer poorer fund terms, transparency and flexibility when treating with investors." **An Australian fund of hedge funds manager**

"We believe that hedge funds investing in asset-backed securities are providing the best opportunities for 2012." **A UK-based fund of hedge funds manager**

"The European sovereign debt crisis is yet to have any impact on our hedge fund portfolios. However, managers using the current economic climate as an excuse for poor performance may cause us to decrease our hedge fund allocation in the future." **A UK-based private sector pension fund**

"Despite our hedge fund portfolio failing to meet expectations, we will continue investing in them as we believe that hedge funds can still outperform traditional investments like equities and bonds." **A Taiwanese insurance company**

"We got out of funds of funds at the end of last year. Although it is difficult establishing our own portfolio of single funds, we're already seeing the returns are worth it" **A US-based insurance company**

"Flexibility is the key for hedge funds in this market, and funds that are too big in size will limit their flexibility in making investments. We ourselves will maintain a fluid hedge funds investment strategy to match changing market conditions." **A Taiwanese insurance company**

"Emerging managers are interesting and offer many advantages. However we lost out on one once, and are reluctant to try a small fund again. We tend to look at managers with at least €1bn in assets under management now." **A Norwegian pension fund**

"We will invest in funds with more liquid strategies that are able to change exposures and take advantage of opportunities as they arise. We will also choose managers that offer us higher liquidity, which allows us to manage our exposure. We feel that the markets are dislocated, and feel positively about strategies like Asia-Pacific event driven and relative value." **An Australian asset manager**

"Given the market uncertainty, we will only invest in strategies that we believe are more neutral, such as relative value and market neutral. We will avoid directional strategies altogether." **A New Zealand-based fund of hedge funds manager**

"Despite the uncertainty surrounding the sovereign debt crisis we believe there has also been a positive impact on the industry in that more opportunities have been created for investors." **A UK-based institutional investor**

"We've seen an improvement in the amount of transparency funds are offering us over the past few years. This is great news! If only the same could be said for fees...." **A US-based public pension fund**

North American Investors in Hedge Funds

North America is the most active region with respect to hedge fund investing, with a plethora of investors coming from the US and Canada. Fig. 12 shows the regional breakdown of hedge fund investors in North America. Unsurprisingly the most active region is the Middle Atlantic area, where 25% of hedge fund investors are situated. New York especially boasts a considerable investor base, with a large number of foundations in the region. Moreover, it is a hub for more sophisticated hedge fund investors, with a large number of fund of hedge funds managers based there. In addition to established investors, a number of new investors have emerged in New York in recent years. Earlier this year the police, fire and civil-employee pensions of New York City expanded into hedge funds.

There are also significant concentrations of investors elsewhere on the east coast of the US, with the East North Central and South Atlantic regions constituting 15% and 14% of the investor base respectively. These divisions represent good capital-raising opportunities, with a considerable amount of hedge fund capital being directed from these regions.

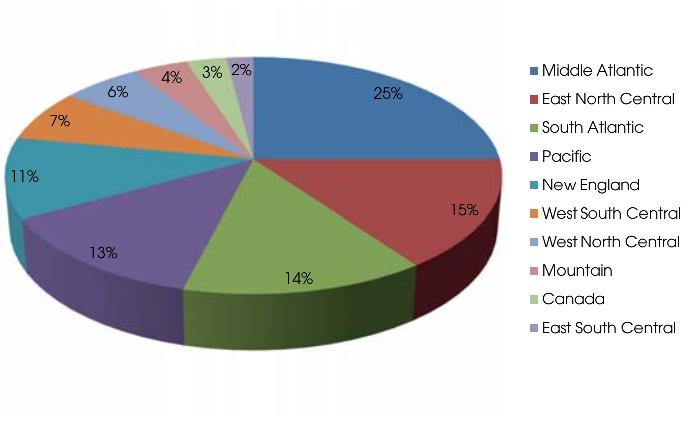
The Pacific region is also home to a considerable proportion of North American hedge fund investors, accounting for 13% in total, with a large proportion of these investors located in California. The state is one of the largest domiciles for sophisticated investors in hedge funds, with a number of fund of hedge funds managers coming from the region, in addition to other institutions.

Fig. 13 shows the breakdown of hedge fund investors in the US and Canada by investor type. The most active institutions are foundations and endowments, constituting 29% and 23% of the investor base respectively. The asset class is seen as attractive by many foundations that are seeking to add diversification to their portfolios. The liquidity concerns that many of these institutions experienced immediately after the financial crisis have generally been corrected and as a result the hedge fund universe has experienced greater capital inflows. In addition to larger institutions increasing their allocations, many smaller foundations and endowments have made maiden forays into hedge funds.

Public pension funds are also active in the asset class, representing 14% of the investor base. Although the number of these institutions is less than that of foundations and endowments, the larger average ticket size of public pension funds means that the amount of capital invested in the asset class by this investor group is considerable.

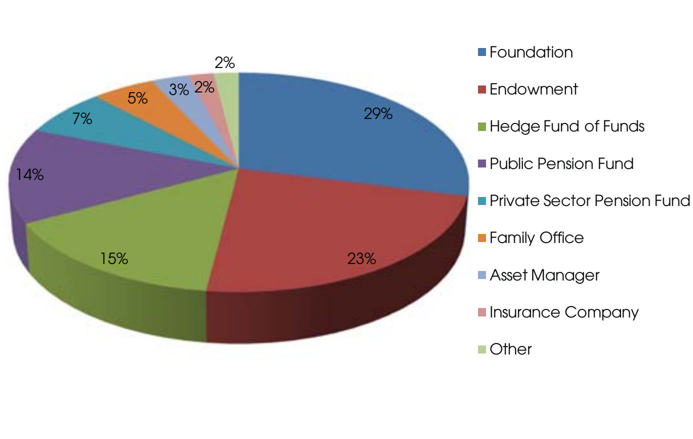
Fund of hedge funds represented only 15% of the total investors in this region, a smaller proportion than these investors make up in Europe. This is indicative of both the prevalence of multi-manager investors in Europe and the considerable number of foundations and endowments in North America.

Fig. 12: Make-up of North American Hedge Fund Investor Universe by Region



Source: Preqin Hedge Fund Investor Profiles

Fig. 13: Make-up of North American Hedge Fund Investor Universe by Investor Type



Source: Preqin Hedge Fund Investor Profiles

European Investors in Hedge Funds

As shown in Fig. 14, the UK is the European hub of hedge fund investment. It is home to around 39% of European hedge fund investors, with the largest number of investors being located in London. The UK landscape is widely diversified by investor type with funds of funds, public and private sector pension funds, insurance companies, foundations and family offices all being found with active hedge fund portfolios there.

Switzerland is another important source of capital for hedge funds, with its world-renowned private banking and wealth management industry. Twenty-two percent of European investors are based in the Alpine nation, with a large proportion of investors domiciled in Zurich and Geneva. Zurich boasts a strong investor base stemming from its heavy insurance and pension fund cluster, along with the largest asset management community in the country. Geneva also possesses a strong private banking industry as well as an established commodity trading community.

Other key European regions include Scandinavia and Benelux, with 19% of European institutional investors domiciled in these regions. Paris is also a good destination for fund marketers looking to raise capital from the institutional community; however France as a whole is still relatively cautious when investing in hedge funds, representing just 3% of the European market.

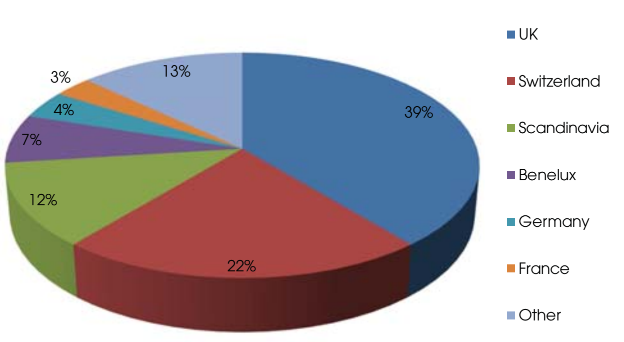
As shown in Fig. 15, private sector pension funds represent the largest proportion of the European investor universe after funds of hedge funds. The number of private sector pension funds active in hedge funds has been steadily increasing over recent years and these investors have become one of the fastest growing groups in terms of importance to the hedge fund industry. Since the onset of the financial crisis we have seen that private sector pension funds have become more demanding in their liquidity and transparency requirements as well as the returns they expect from their hedge fund investments.

Public pension funds have continued to demonstrate their commitment to the hedge fund asset class over recent years by increasingly adding hedge funds to their portfolios. The importance of public pension funds among European institutional investors is highlighted in Fig. 15, which shows that a significant 13% of the European hedge fund investor base is made up of public pension funds. With their large assets under management, the average of 5.1% of total assets that they invest in hedge funds equates to a very significant amount of capital being directed into hedge funds from these institutions.

Family offices and foundations are also valuable sources of capital for managers, representing 11% of the European investor universe. Both family offices and foundations are typically long-term, results-orientated investors and have shaped the institutional universe through innovative and extensive use of hedge funds within their investment portfolios. Family offices remain good targets for hedge funds as they are known to have accumulated large and diverse portfolios of small, emerging managers and niche strategies.

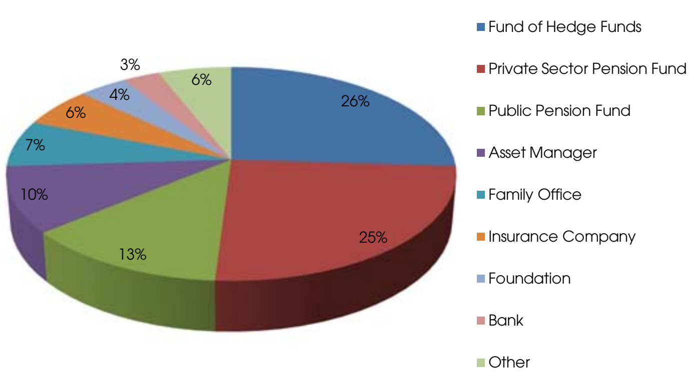
Insurance companies also represent a significant proportion (6%) of the European hedge fund investor base due to the vast insurance industry that exists across Europe. Despite typically having small allocations to the asset class, often limited by local regulations and restrictions, the assets insurance companies invest in hedge funds can often be noteworthy due to their relative size.

Fig. 14: Make-up of European Hedge Fund Investor Universe by Country/Region



Source: Preqin Hedge Fund Investor Profiles

Fig. 15: Make-up of European Hedge Fund Investor Universe by Investor Type



Source: Preqin Hedge Fund Investor Profiles

Asia-Pacific Investors in Hedge Funds

Fig. 16 shows that the majority of Asia-Pacific institutional investors in hedge funds are based in Australia and Japan, and the number of hedge fund investors in these countries is significantly higher than in the next most prevalent regions: Hong Kong (9%), South Korea (6%) and Singapore (6%). Investors from Australia and Japan make up a combined 69% of the entire pool of hedge fund investors in the Asia-Pacific region, which can be attributed to their highly developed and extensive superannuation and pension fund industries.

As Fig. 17 demonstrates, the Asia-Pacific institutional investor landscape is dominated by various forms of pension systems. Forty-two percent of the total pool of hedge fund investors in the region is made up of superannuation schemes (24%), private sector pension funds (14%) and public pension funds (4%).

Superannuation schemes have continued to be active investors in alternative assets as they seek to secure solid returns. Preqin data shows that nearly 23% of the total number of Asia-Pacific investors in hedge funds is made up of Australian superannuation funds, which also account for 61% of the institutional investors in hedge funds based in Australia.

As in Australia, Japan has a highly developed pension industry with a multitude of pension funds, such as industry- and region-specific pension funds. In response to a rapidly aging population and increasing pension liabilities, Japanese pension plans have been increasing their exposure to hedge funds and other alternative assets over recent years. Such institutions have sought to diversify their portfolio away from bonds and equities in the face of Japan's slower equity markets and low bond yields.

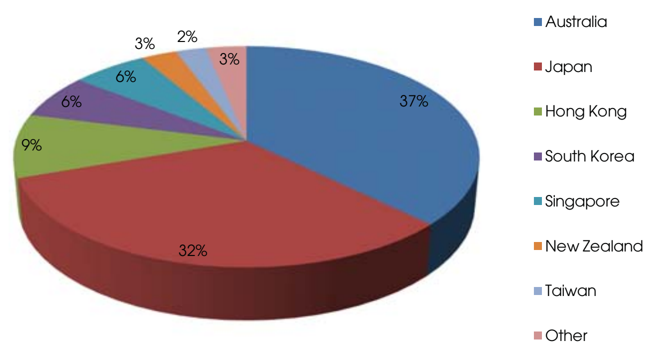
As a result, Japan's institutional investor landscape largely consists of pension funds. Preqin's data shows that nearly 49% of institutional investors in Japan are either private or public pension funds, making up nearly 16% of the regional total.

However, Japanese pension funds' involvement in hedge funds might suffer a slowdown following the recent AIJ Investment Advisors incident, which led to severe losses for over 90 Japanese pension funds. This setback to the hedge fund industry has led to calls for greater due diligence and transparency from the pension industry, and may also lead to greater usage of funds of funds or gatekeepers.

Aside from pension funds, other prominent types of institution investing in hedge funds in the region include insurance companies and funds of funds.

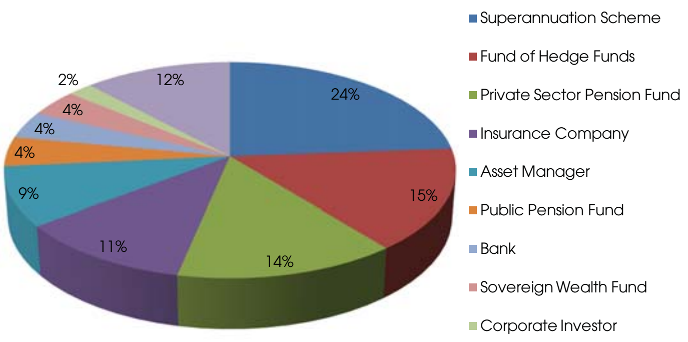
In the longer term, there may be a gradual shift in terms of the geographical breakdown of institutional investors in the region. Countries like China and South Korea have begun to gradually loosen regulations with regards to hedge fund investors and managers, opening up the industry to capital from these previously untapped markets. South Korea, for example, now allows the launching of hedge funds in the country, with its first hedge fund launched in December 2011.

Fig. 16: Make-up of Asia-Pacific Hedge Fund Investor Universe by Country



Source: Preqin Hedge Fund Investor Profiles

Fig. 17: Make-up of Asia-Pacific Hedge Fund Investor Universe by Investor Type



Source: Preqin Hedge Fund Investor Profiles

Rest of World Investors in Hedge Funds

As shown in Fig. 18, the Middle East is home to the largest proportion of Rest of World-based institutional hedge fund investors, with 45% of investors domiciled in this region. The wealth management industry in the Middle East has become an attractive source of institutional capital for hedge funds due to the size of the market and its expected growth. Interest in hedge funds amongst institutional investors in this region is growing. The United Arab Emirates makes up 36% of the hedge fund investors in the Middle East, making it the largest hub within the region.

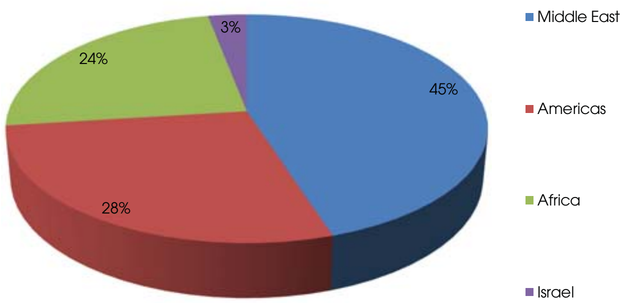
Other key areas in the Rest of World region include the Americas and Africa, with 28% and 24% of Rest of World-based investors respectively. Brazil is the most active country in the Americas region, whereas the Africa region is dominated by institutional investors from South Africa.

The Rest of World institutional landscape is widely diversified in terms of investor type. As shown in Fig. 19, the most active institutions in Rest of World are funds of hedge funds and private sector pension funds. The majority of funds of hedge funds and pension funds in this region are domiciled in Brazil and South Africa and comprise a large and fast-growing component of the asset pool. Private sector pension funds have become one of the fastest growing institutions in terms of importance to the hedge fund industry, with the number of pension funds actively investing in hedge funds steadily increasing over recent years.

In terms of the number of investors, asset managers, family offices and sovereign wealth funds are also important hedge fund investors in the region. Sovereign wealth funds in particular are likely to allocate large sums to hedge funds, due to their large pools of capital and fewer restrictions on their investment portfolios.

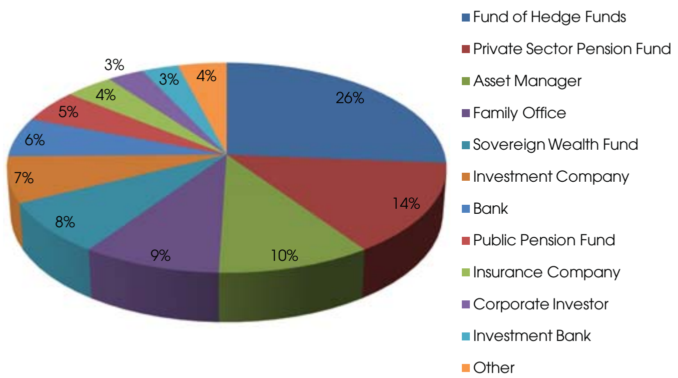
Many countries in the Rest of World region are still emerging economies, with the political interference and red tape associated with this territory. However, as the nascent hedge fund industry in the region continues to develop and mature, it is likely that we will continue to see more institutional investors gaining exposure to the asset class.

Fig. 18: Make-up of Rest of World Hedge Fund Investor Universe by Region



Source: Preqin Hedge Fund Investor Profiles

Fig. 19: Make-up of Rest of World Hedge Fund Investor Universe by Investor Type



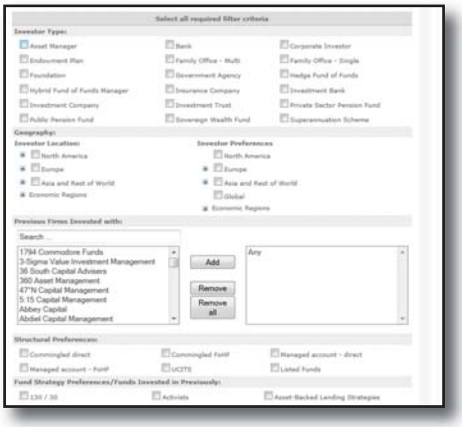
Source: Preqin Hedge Fund Investor Profiles

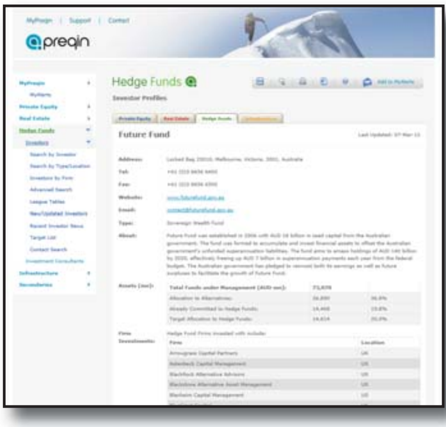
Preqin Hedge Fund Investor Profiles

Preqin's Hedge Fund Investor Profiles online service is utilized by the top asset managers in the industry through to the newest emerging funds. Fund managers, consultants and marketers all find the service an invaluable tool to profile and identify potential investors, understand industry trends, and ensure they are up to date on the latest developments in the institutional investor universe.

The Hedge Fund Investor Profiles online database is a vital fundraising tool, featuring details of over 3,400 institutional investors in hedge funds, with more being added every day.

Our team of dedicated research analysts ensure that our intelligence is up to date, to help you keep ahead in a competitive market.





Key features include:

- Hedge fund allocations, sample investments and fund preferences, key contacts, investment plans, and more. Pinpoint the most appropriate investors for your specific strategy and view the best way to approach their decision makers.
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- Intricate search options to build target lists from the global hedge fund investor universe.
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