

Preqin/Global ARC Study of Asian Institutional Hedge Fund Investments



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Foreword

For a generation, the needs of Asian institutional investors have been well served by traditional long-only investing. Despite notable periods of volatility, the growth of Asia-Pacific economies have provided the region's pension funds, sovereign wealth funds, central banks and social security funds with steady returns. But the past few years have illustrated that despite long-term economic growth, this type of passive investing places these increasingly important pools of capital at greater risk.

The response from many of the region's institutional investors has been to take a more active role in portfolio construction and management. In many cases, this has involved allocating capital to alternative asset classes such as hedge funds and private equity. To date, however, there has been very little research on the needs and interests of Asian institutional investors. How are their needs and attitudes different from those who allocate to alternative investments in the rest of the world? Are they encouraged by recent changes in the industry such as lower fees and greater transparency? Do they plan to allocate more to hedge funds? And if so, which ones?

Global ARC is pleased to work with Preqin, the world's leading research firm covering the alternative investment sector, in order to answer some of these important questions. Using in-depth surveys with key members of the Asian institutional community Preqin assesses several aspects of the Asia-Pacific hedge fund industry today. The resulting report examines how hedge funds have performed for their Asian investors over the past 12 months and how those investors expect them to perform in 2012. It also uncovers some notable differences between the views of Asian institutional investors and those of the rest of the world pertaining to hedge fund terms and conditions. Some of these views have already resulted in tangible change to the way that hedge funds deliver their services to Asian institutional investors.

Global ARC and Preqin have a shared interest in continuing to explore these important issues from both within the Asia-Pacific region and around the world through their respective presence in Asia, Europe and North America. For further information regarding this report please contact Amy Bensted, Head of Hedge Fund Research at Preqin (abensted@preqin.com) or Christopher Holt, Managing Director of Global ARC (christopher@global-arc.net).

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Investor Perception of Hedge Fund Performance in 2011

2011 was a difficult year for hedge funds. With overall fund performance back in negative territory, investors have been disappointed with the returns of the hedge funds in their portfolios. Despite this, institutional investor confidence in hedge funds remains strong, which signals that inflows could continue in 2012.

Hedge Fund Performance Fell Short of Investors' Expectations over 2011

Fig. 1 shows Asia-Pacific institutional investors' satisfaction with hedge fund performance as compared to their global peers. Institutional investors in Asia-Pacific were noticeably dissatisfied with hedge fund performance in 2011, with 68% stating that the performance of hedge funds did not meet their expectations, and the remaining 32% stating that performance had met expectations. This is in contrast to investors outside of Asia-Pacific, where 60% stated that hedge funds had either met or exceeded expectations and 40% stated that hedge fund returns had not performed as well as they had hoped.

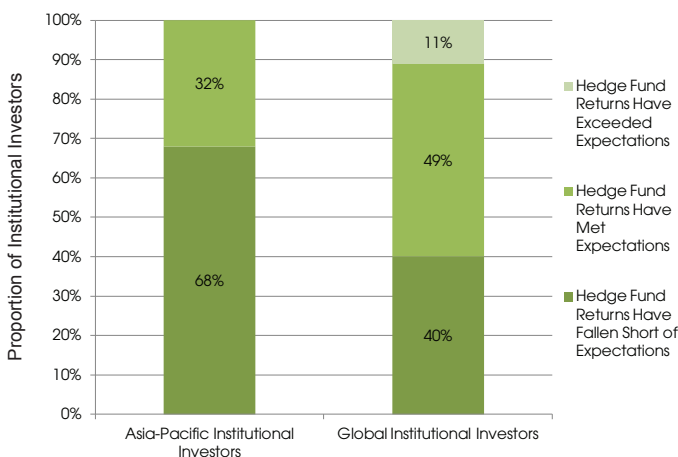
The failure of hedge funds to meet the expectations of many investors globally can be attributed partially to the challenging conditions experienced in 2011 due to market volatility. However, the proportion of investors in Asia-Pacific that felt hedge funds had not met their expectations was significantly higher than the global average. This could be reflective of the higher expectations of investors in Asia-Pacific due to the strong economic recovery in the region after the financial crisis.

Confidence in Hedge Funds Remains Strong

So how have these disappointing returns affected institutional outlook on the asset class? Fig. 2 shows that the majority of institutional investors in Asia-Pacific still believe in the viability of the asset class, with 23% of interviewees stating an increase in confidence in hedge funds over the course of 2011 and 53% stating that their confidence in the asset class has remained unchanged from the previous year. Twenty-three percent of Asia-Pacific institutional investors said they had lost some confidence in hedge funds, a higher proportion than investors based elsewhere (14%). This is reflective of the failure of hedge funds to meet the expectations of the majority of investors in Asia-Pacific.

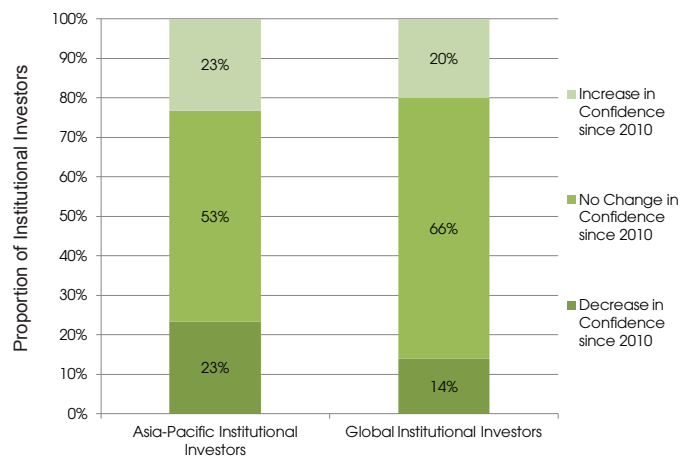
Despite being disappointed with performance in 2011, the confidence of the majority of Asia-Pacific investors in hedge funds has remained unchanged or has increased. When questioned further on why confidence remained un-dented, several investors stated that they believe that hedge funds will still be able to outperform traditional asset classes and meet their overall portfolio objectives despite the recent failure to meet performance expectations.

Fig. 1: Institutional Investors' Hedge Fund Portfolio Performance Relative to Expectations over 2011



Source: Preqin

Fig. 2: Changes in Institutional Investor Confidence in Hedge Funds over 2011



Source: Preqin

Hedge Fund Inflows Expected in 2012

Following a turbulent 2011, Asia-Pacific investors remain committed to their hedge fund portfolios in 2012. Institutions from this region and across the globe look set to maintain or increase their allocations to hedge funds, which means the industry can continue to grow in the next 12 months.

Continuing the theme of retained confidence despite poor returns as demonstrated in the previous section, Fig. 3 demonstrates that the bulk of Asia-Pacific investors are looking to expand or maintain their allocation levels to hedge funds.

Thirty-seven percent of Asia-Pacific institutional investors intend to increase their allocation to hedge funds – similar to the proportion for investors based elsewhere, which indicates that hedge fund assets under management should continue to grow in the coming 12 months. The proportion of investors looking to decrease their allocations is slightly lower in Asia-Pacific than elsewhere, at 7% as compared to 9%.

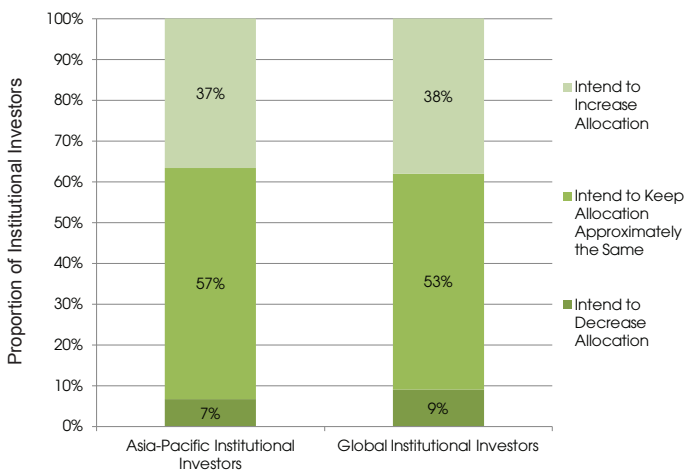
Asia-Pacific Investor Appetite for New Manager Relationships Continues into 2012

So where is this fresh institutional capital being directed? Asia-Pacific investors are likely to devote a significant proportion of their investments in 2012 to managers they have not previously invested with. As Fig. 4 demonstrates, 23% of Asia-Pacific investors stated that they would focus solely on adding new managers. Another 23% stated that they would consider new managers on an opportunistic basis, and 42% plan to maintain existing relationships as well as adding some new managers. Only 12% stated that they would solely be looking to maintain existing relationships.

Compared to their global peers, Asia-Pacific investors are more than twice as likely to focus exclusively on establishing new relationships with hedge fund managers. This could mean that there will be significant inflows into new relationships from Asia-Pacific investors, stemming from a desire to improve portfolio returns which were unsatisfactory to many. It shows that while some investors may not be happy with all of their current managers, they believe satisfactory returns are still possible through hedge fund investments.

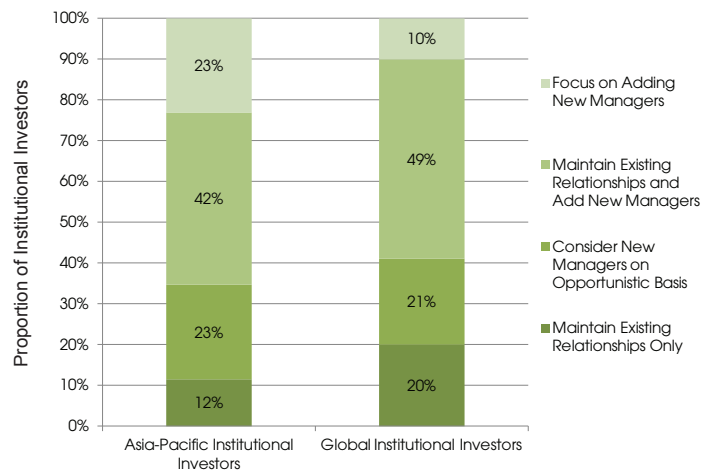
As such, there are great opportunities to be had for hedge fund managers to access fresh capital from new investors. In addition there is also greater onus on hedge fund managers that already have Asia-Pacific institutional investor backing to perform and meet investors' expectations.

Fig. 3: Institutional Investors' Hedge Fund Allocation Plans for 2012



Source: Preqin

Fig. 4: Institutional Investors' Plans for Hedge Fund Manager Selection



Source: Preqin

Asia-Pacific Investors' Strategic and Structural Hedge Fund Preferences for 2012

With fresh capital likely to flow into the hedge fund industry over 2012 we now turn our attention to where this capital is likely to be invested, in terms of both strategies and structures sought.

Strategic Preferences for Hedge Fund Investors in 2012

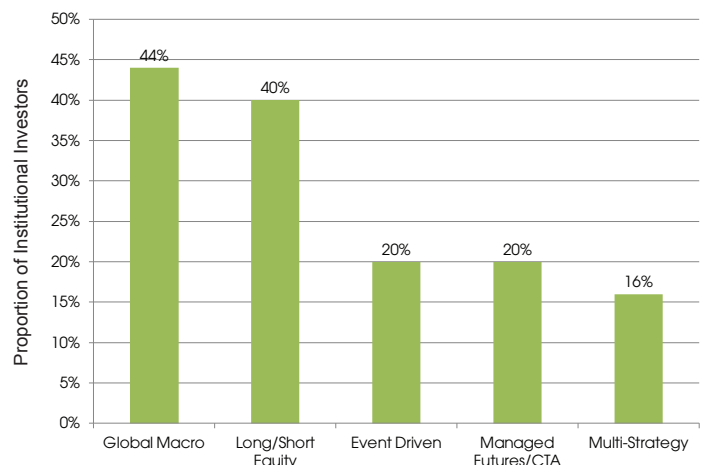
Investors in Asia-Pacific generally display a preference for diversification and investment versatility with regards to their hedge fund investment plans for 2012. Asia-Pacific investors on Preqin's database heavily favour global macro and long/short equity hedge funds over other fund strategies; as Fig. 5 shows, 44% of investors in Asia-Pacific that are looking to invest in 2012 will look at global macro funds, and 40% will look at long/short equity funds. This is significantly more than the next three preferred fund types, namely event driven (20%), managed futures/CTA (20%) and multi-strategy (16%). Strategic preferences among Asia-Pacific investors are largely similar to their global peers, but display a higher degree of concentration within the top five preferred strategies.

How Institutional Investors in Asia-Pacific Gain Exposure to Hedge Funds

Fig. 7 shows a comparison between the preferred methods of gaining exposure to hedge funds of Asia-Pacific institutional investors and global institutional investors. Similar to their global peers, Asia-Pacific investors will heavily favour commingled direct hedge funds for new investments in 2012, with 76% expressing a preference for this structure compared to 79% of their global peers. Commingled funds of hedge funds remain an interesting investment proposition to 24% of both Asia-Pacific and global institutional investors.

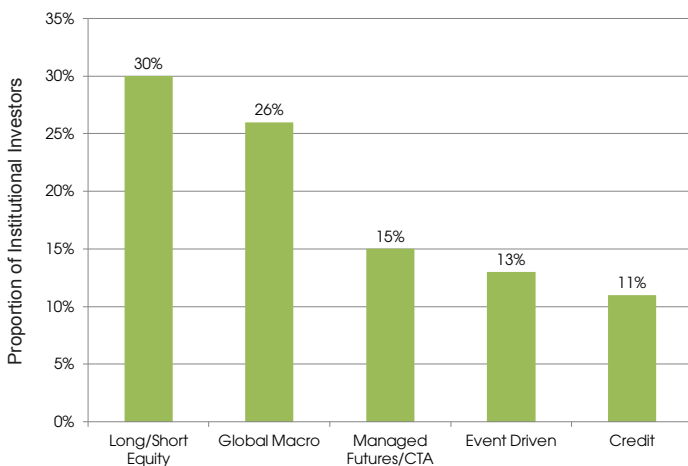
Managed accounts are popular in the Asia-Pacific region, with 12% of the Asia-Pacific investors that are looking to allocate to direct hedge funds in 2012 planning to do so via separately managed account vehicles. With the heightened demand for transparency and liquidity that has dominated investor selection processes in 2012, managed accounts are becoming increasingly popular amongst the institutional investor community.

Fig. 5: Top Five Hedge Fund Strategies Being Sought by Asia-Pacific Institutional Investors in the Next 12 Months



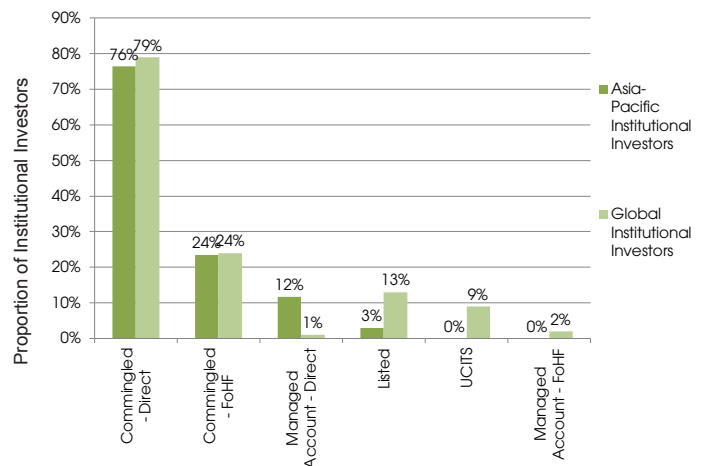
Source: Preqin

Fig. 6: Top Five Hedge Fund Strategies Being Sought by Global Institutional Investors in the Next 12 Months



Source: Preqin

Fig. 7: Hedge Fund Structures that Institutional Investors Feel Present the Best Opportunities for Hedge Fund Investments in 2012



Source: Preqin

Asia-Pacific Investors' Geographical Hedge Fund Preferences for 2012

With investors set in terms of strategic preferences for the next 12 months, which regions is this capital likely to flow into?

Fig. 8 shows that 83% of Asia-Pacific investors in hedge funds will consider investing in Asia-Pacific, followed by 61% looking to invest in North America and 44% in Europe.

It is not surprising that Asia-Pacific investors tend to prefer gaining some form of exposure to their domestic region. It can be especially important to those relatively new to the asset class to test the waters with commitments to markets more familiar to them before broadening their investment focus at a later point. Many investors also stated a preference for funds in more mature hedge fund markets in North America and Europe, with a Japanese investor stating that it invests purely in North America and Europe due to the presence of more experienced managers and the availability of a more developed support infrastructure for the managers there compared to Asia-Pacific, where there are many emerging managers. An Australian investor expressed confidence that a recovering North America and Europe will provide viable investment opportunities for hedge funds after the economic uncertainty subsides.

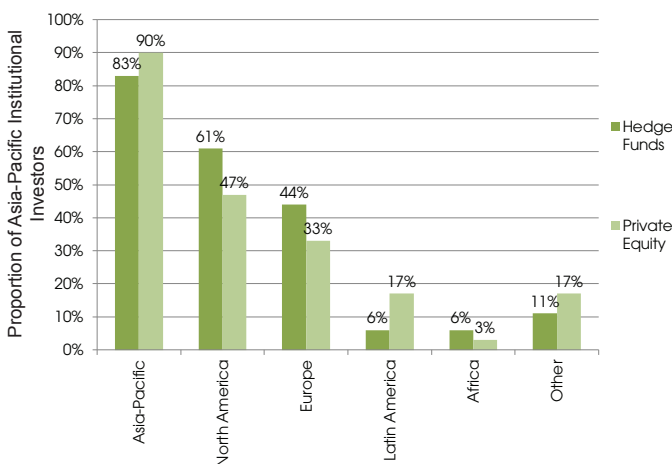
Preqin also interviewed a sample group of Asia-Pacific institutional investors in private equity on their geographical preferences when investing in that asset class. Fig. 8 shows that 90% of the investors in private equity stated that they will consider investing in the Asia-Pacific region, while 47% will consider North America and 33% will consider Europe. The results show that as compared to private equity, hedge fund investors have a more marked preference for

geographical diversification across Asia-Pacific, North America and Europe. While both sets of investors are keen for exposure beyond Asia-Pacific, hedge fund investors are more concerned with balancing their portfolio to include commitments to established markets.

Although most Asia-Pacific institutional investors will consider investing in their domestic region, they are still generally looking to maintain geographically diversified hedge fund portfolios.

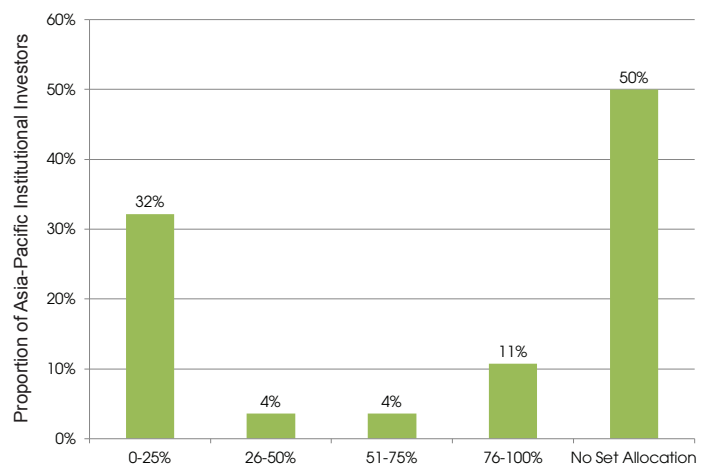
Fig. 9 shows that 50% of Asia-Pacific investors in hedge funds have no set allocation to Asia-Pacific through their hedge fund investments and invest opportunistically in the region. Thirty-two percent have a fixed allocation of 25% or less of their hedge fund assets. Nineteen percent of Asia-Pacific investors surveyed have a fixed allocation of more than 25% to Asia-Pacific hedge funds.

Fig. 8: Hedge Fund and Private Equity Regional Preferences of Asia-Pacific Institutional Investors



Source: Preqin

Fig. 9: Proportion of Hedge Fund Portfolio that Asia-Pacific Institutional Investors Allocate to Asia-Pacific



Source: Preqin

Hedge Fund Geographical Scope Preferences

More than 80% of Asia-Pacific institutional investors have exposure to their domestic region through their hedge fund portfolios. With this in mind we asked investors how they have acquired this Asia-Pacific hedge fund exposure.

Hedge Funds with Global Geographical Scope Are Preferred by Investors

When asked about the geographic scope of the hedge funds they prefer to invest in, the majority of Asia-Pacific investors expressed a preference for global funds. This approach is markedly different to the approach of Asia-Pacific investors to private equity, with 60% preferring country-specific private equity funds, as Fig. 10 shows.

Greater China Considered to Have Best Investment Opportunities for Hedge Funds

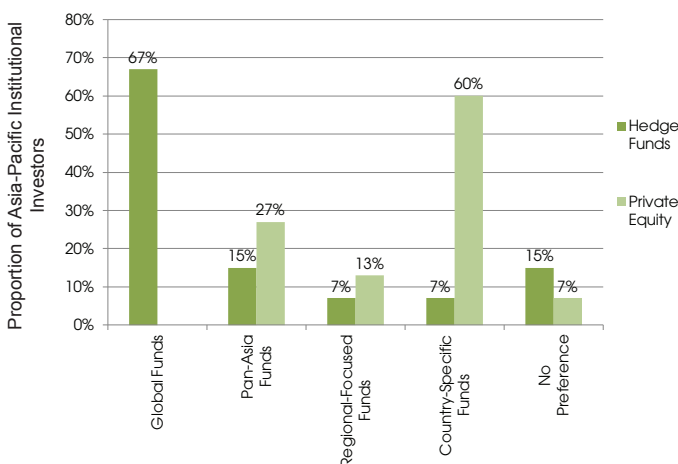
Fig. 11 shows that Asia-Pacific hedge fund investors believe Greater China presents the best investment opportunities for hedge funds in 2012, with 44% stating this as a preference. ASEAN came second in terms of popularity, with 33% of Asia-Pacific investors stating this region as a preference. Japan came in third for hedge fund investors, with 28%, followed by Australasia (22%).

When queried, an Australian investor stated that he had a preference for the mature, liquid markets, such as Hong Kong and Singapore, and felt that the liquidity of those markets makes them ideal for the current economic climate. Several

investors also stated that they will invest in South Korea, which has just enacted several regulatory changes to encourage the development of the domestic hedge fund industry.

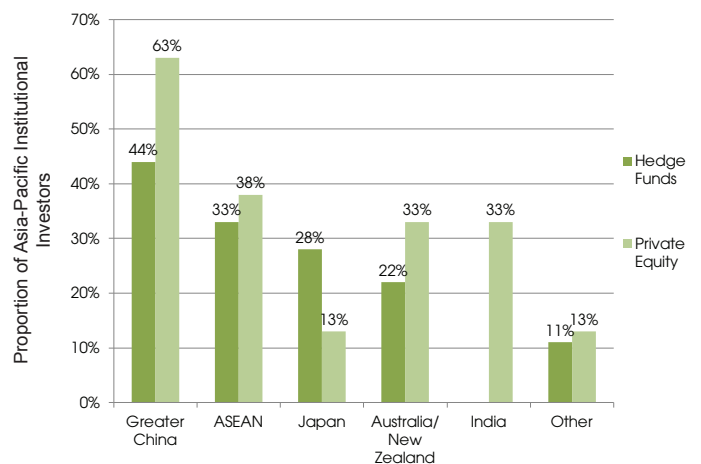
Asia-Pacific investors were also asked about their opinions on where they felt the best opportunities were for private equity investment. Greater China again came out as the most popular, with 63% stating the region as presenting the best investment opportunities for private equity. ASEAN again came second in terms of popularity, with 38% of private equity investors thinking that the region provides good opportunities. The proportion stating Japan as providing attractive opportunities in private equity (28%) was significantly lower than the proportion that stated the country provides attractive hedge fund investment opportunities.

Fig. 10: Geographic Scope Preferences of Asia-Pacific Institutional Investors for Accessing Asia-Pacific



Source: Preqin

Fig. 11: Asia-Pacific Countries or Regions that Asia-Pacific Institutional Investors Feel Present Good Opportunities for Hedge Fund and Private Equity Investments



Source: Preqin

Timeline for New Investments in Asia-Pacific and Long-Term Outlook on the Region

We asked Asia-Pacific investors about their future plans, in terms of both the planned timing of their next hedge fund investment and their longer-term plans for portfolio allocations to hedge funds and private equity.

Fig. 12 shows that a significant proportion (46%) of Asia-Pacific hedge fund investors intend to invest opportunistically in Asia-Pacific hedge funds as and when attractive opportunities arise or when further investment is deemed necessary from an overall portfolio perspective. However, 25% of investors stated a definite intention to invest in 2012, and a further 4% intend to make an investment in 2013. Seventeen percent will be looking to make their next Asia-Pacific hedge fund investment at a later date.

When investors that do not plan to invest in an Asia-Pacific hedge fund in the next two years were asked about the reasons behind this, some stated that they had no specific plans to invest in any particular region, instead investing with managers with more open geographic mandates. So while they may commit to a fund that does decide to invest in Asia-Pacific, these investors could not be certain of that eventuality. An Australian investor that expressed an opportunistic outlook said that this was because it invests in global funds of hedge funds, and the timeline for the next commitment to an Asia-Pacific hedge fund was dependent on the underlying managers selected.

Most Hedge Fund Investors Plan to Maintain Their Asia-Pacific Portfolio

Asia-Pacific hedge fund investors were also asked about their longer-term intentions for their Asia-Pacific hedge fund allocations. As shown in Fig. 13, most investors (65%) were content with their current exposure and planned to maintain their allocation to the

Asia-Pacific region. However, significant proportion of investors (31%) are looking to increase their longer-term allocations to Asia-Pacific, while only 4% are looking to decrease their Asia-Pacific portfolios.

Asia-Pacific investors are even more enthusiastic towards private equity investment in this region, with 75% planning to increase their allocation in the long run, reflecting the increasing popularity of private equity in the region among institutional investors globally.

Fig. 12: Asia-Pacific Institutional Investors' Timeline for Next Addition to Asia-Pacific Hedge Fund Portfolio

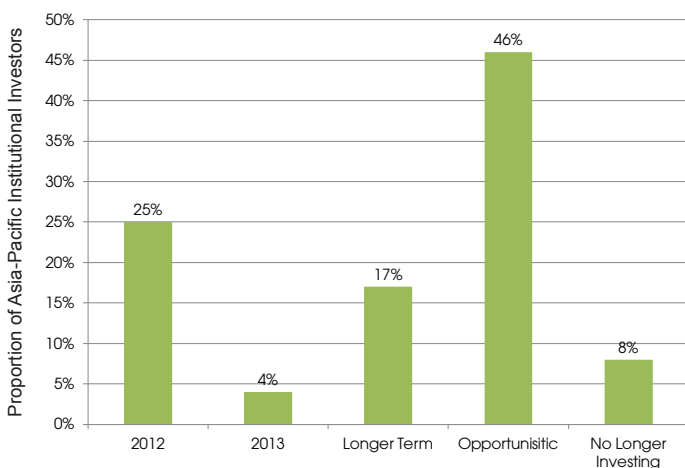
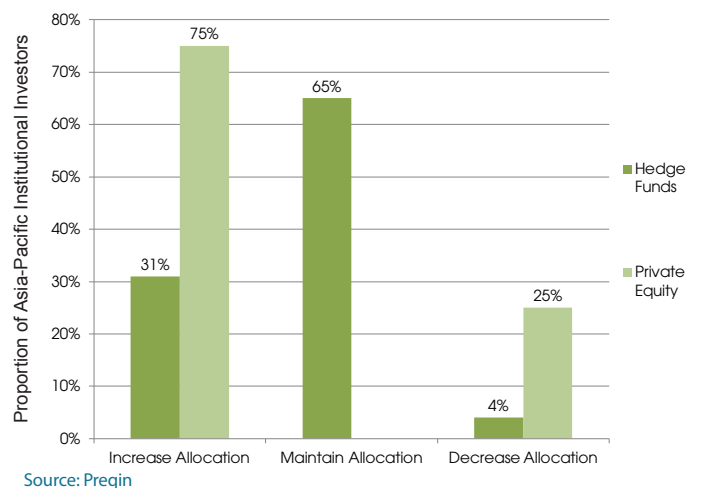


Fig. 13: Asia-Pacific Institutional Investors' Longer-Term Intentions for Their Asia-Pacific Hedge Fund and Private Equity Allocations



What Do Asia-Pacific Institutional Investors Look for in Hedge Funds?

Asia-Pacific investors are seeking to add new funds to their portfolios over the course of 2012. With the institutional market maturing in this region, they are becoming increasingly demanding of their managers and looking to see institutional quality infrastructures in place before they commit capital to new vehicles.

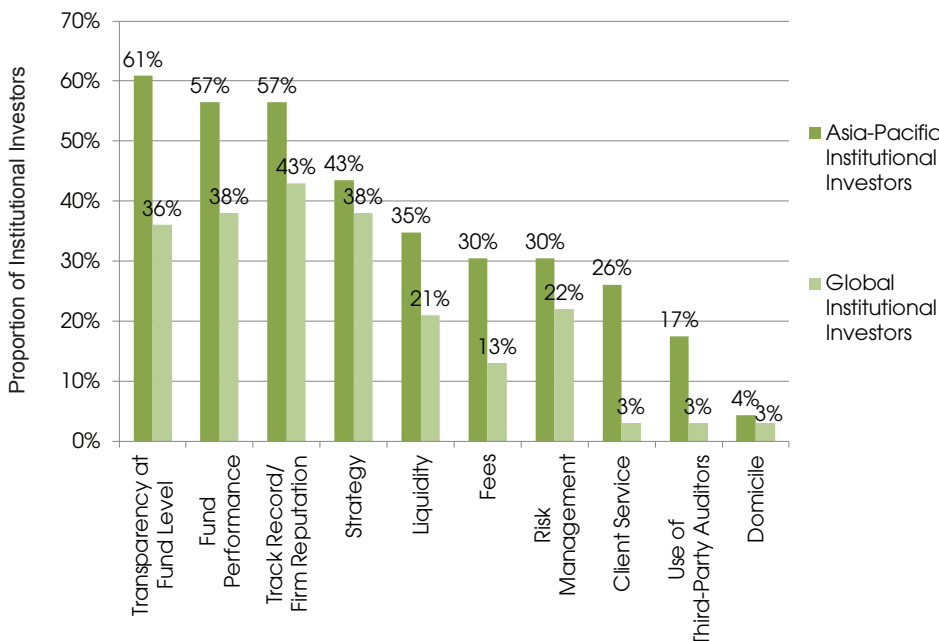
Fig. 14 shows that transparency at the fund level is the most important consideration for Asia-Pacific investors when seeking new managers, with 61% of the investors stating that it is a key criterion for manager selection. This is followed by fund performance (57%), track record/firm reputation (57%), fund strategy (43%) and liquidity (35%).

This was somewhat different from the preferences of their global peers, which most commonly stated track record/firm reputation (43%) as a key criterion, followed by strategy (38%), fund performance (38%), transparency at fund level (36%) and risk management (22%).

The focus on transparency at fund level from the Asia-Pacific market can be attributed to the increasing levels of oversight that investors in the region are demanding from their hedge fund investments in a market that is continuing to develop and evolve. A significant 43% of Asia-Pacific investors stated that they had rejected funds on the basis of a lack of transparency over 2011 (see Fig. 19), reflecting the importance of this parameter.

Similar to their global peers, fees are not an issue of great importance to Asia-Pacific investors when compared to other criteria such as transparency. When queried, 74% of Asia-Pacific investors stated that they had not rejected funds on the basis of unreasonable fees in 2011 (Fig. 19), highlighting the fact that investors are typically willing to pay higher fees if they feel they are getting a good deal in return with respect to other fund criteria.

Fig. 14: Attributes Most Sought by Institutional Investors when Searching for New Hedge Fund Opportunities



Source: Preqin

Asia-Pacific Outlook on Hedge Fund Terms and Conditions

Hedge fund fees have come under notable scrutiny since the credit crisis. The traditional “2&20” model for management and performance fees no longer appears to be the norm in the industry and much of the reduction has been ascribed to pressure from the institutional community for greater alignment of interests between investors and the fund managers that serve them.

Are Fund Terms Shifting in Investors’ Favour?

Fig. 15 shows that over the past 12 months, the majority view among global investors was that hedge fund terms have not changed in favour of either fund managers or investors, with 65% stating this as the case. In contrast, Asia-Pacific investors had a broader range of views on the matter, with over half stating that fund terms and conditions had changed in favour of the investor. Twenty-six percent said they have seen significant changes in favour of investors, while 41% said they had seen no change.

Investors were also asked about which specific areas of fund terms and conditions they had witnessed improvements in. Fifty-five percent of investors based in Asia-Pacific stated that there had been improvement in management fees, compared to 27% of investors based outside the region, as Fig. 16 shows. Preqin research has found that pressure from institutional investors has caused a shift away from the traditional 2% management fee, with the average fee now 1.6%. Despite this progress, the management fee is still an area many investors want to see further changes to in the next 12 months, with 65% of Asia-Pacific respondents and 43% of global respondents wanting to see management fees fall further during 2012 (Fig. 17).

Although there have been some concessions to investors in terms of the management fee, only around 10% of Asia-Pacific investors surveyed felt there had been any notable changes in the

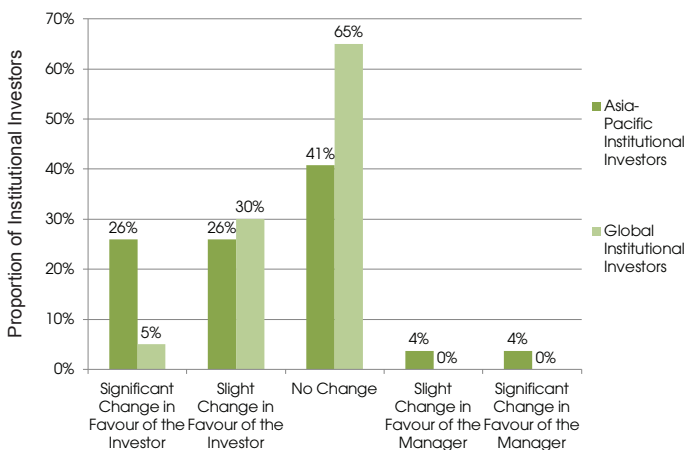
performance fee over the past 12 months (Fig. 16). As many funds struggled to meet their return targets in 2011, institutional investors increasingly questioned whether the standard 20% performance fee was justified. It is no surprise that 48% of global investors and 31% of Asian respondents want to see improvement in performance fees over the next 12 months (Fig. 17).

Fig. 16 shows that only 5% of Asia-Pacific investors surveyed by Preqin believed that advances have been made in terms of the redemption fee during the past 12 months. This is an area that could see changes going forwards, however, with 37% of global and 27% of Asia-Pacific respondents wanting to see managers take action on redemption fees in the next 12 months (Fig. 17). In 2011, a number of investors were caught out by unfavourable redemption policies, including some notable Australian superannuation schemes.

Mixed Results in Transparency and Liquidity

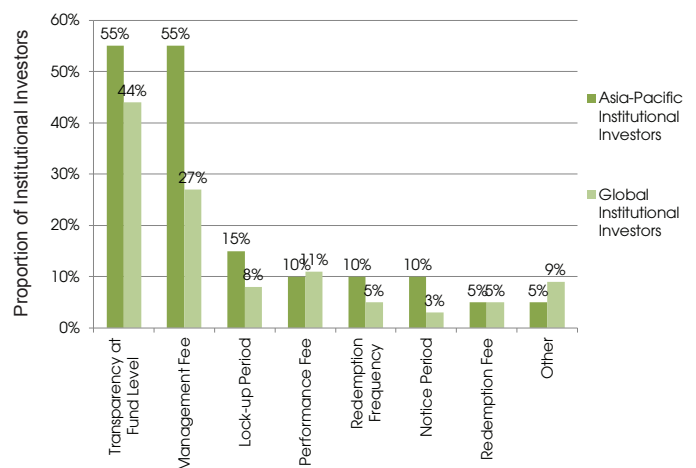
Fig. 16 shows that managers have responded to investor demand for greater transparency, and both global and Asia-Pacific investors felt that transparency was the most improved aspect of hedge fund conditions. Despite the progress made over the course of the past 12 months, there is still sentiment that managers can do more, with half of global investors wanting to see further improvements in fund transparency throughout the next 12 months (Fig. 17). In Asia however investors are slightly more satisfied with transparency, although 27% of respondents still wish to see further improvements

Fig. 15: Institutional Investor Opinion on Changes in Fund Terms over the Past 12 Months



Source: Preqin

Fig. 16: Areas of Fund Terms that Institutional Investors Feel Have Shown Most Improvement over the Past 12 Months



Source: Preqin

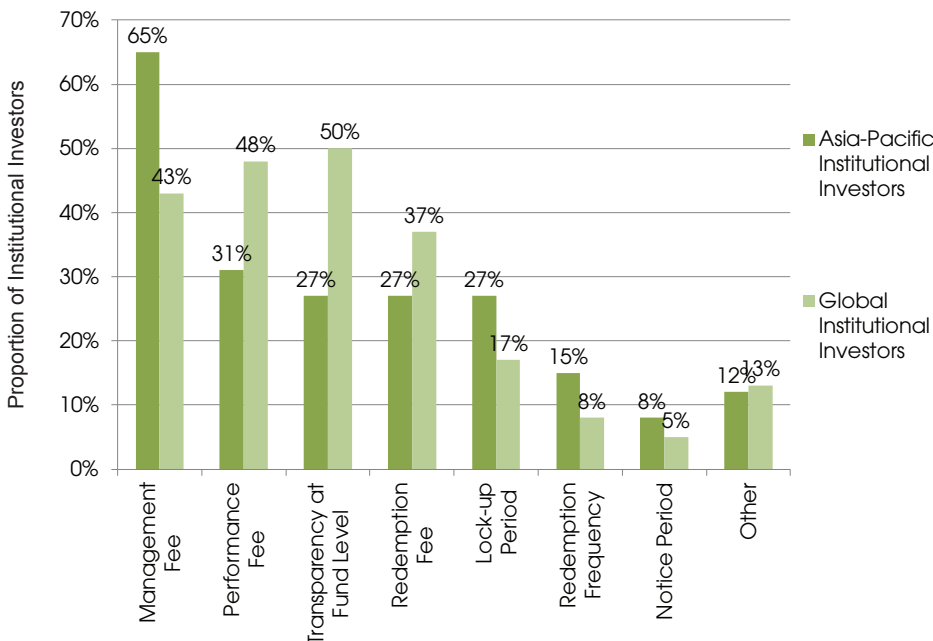
in that area going forwards. It is clear that managers which offer increased transparency and better reporting will find it easier to attract institutional capital going forwards.

Fig. 17 shows that lock-up periods are still an important issue among Asia-Pacific institutional investors in hedge funds; 27% of investors stated that this is an area of fund terms that they would like to see improvement on in the next 12 months. As Fig. 16 shows, 15% of Asia-Pacific investors felt they had seen improvement in this area in 2011, but clearly they feel there is more to be done. Instability in global financial markets has caused institutional investors to be more reluctant to accept long lock-up periods. Increasingly, investors will only allow their capital to be locked up when it is clearly justified by the strategy.

Other liquidity-related terms and conditions have attracted less attention from institutional investors based in Asia-Pacific. Ten percent of these investors stated that they had seen improvement in redemption frequencies over 2011, and a further 10% felt similar with regards to notice periods. Asia-Pacific investors appear to be relatively happy with the notice periods being offered by their hedge fund managers, with just 8% of investors stating them as an area that requires improvement. Redemption frequencies are under somewhat more investor scrutiny, however, with 15% of Asia-Pacific institutional investors stating them as an issue where they would like to see improvement.

Institutional investors based outside of the Asia-Pacific region are less concerned about redemption frequencies and notice periods; 8% of global investors stated redemption frequencies as an area where they are looking for improvement, and just 5% named notice periods.

Fig. 17: Fund Terms that Institutional Investors Would Like to See Improved



Source: Preqin

Asia-Pacific Investor Attitudes to Negotiations with Fund Managers

Over the past few years institutional investors have increasingly been negotiating terms with their managers in order to improve the alignment of interests between themselves and the managers of the funds that they invest with. Here we investigate further the Asia-Pacific investor perspective on the issue of negotiations and their reaction to funds with high fees and lack of transparency.

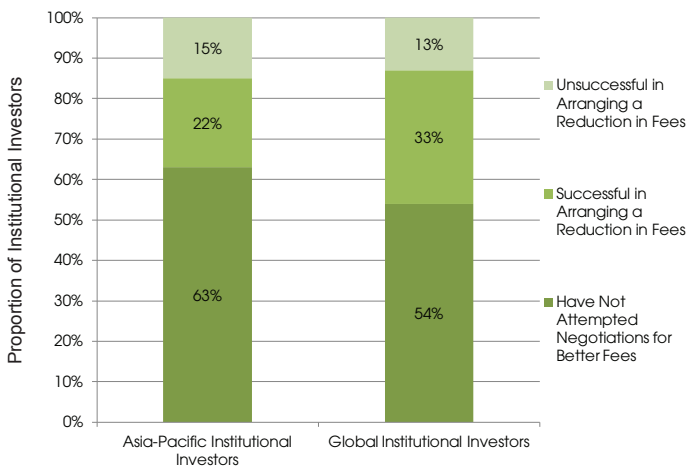
During 2011, 46% of global respondents attempted to negotiate more favourable fee terms, with 33% of all global respondents successful in securing lower fees (Fig. 18). In Asia, a lower proportion (37%) of respondents attempted to negotiate fees, and 40% of those investors were unsuccessful in their negotiations. Sixty-four percent of Asian investors surveyed did not attempt to negotiate lower fees with their managers. Many Asian investors have less experience than investors based in other regions, and this could deter them from discussing the fee structure with managers. Previously, only large investors such as US public pension fund CalPERS, were able to apply pressure on managers to give more favourable terms. Recent poor performance has spurred even small investors to demand better terms, and managers that adapt to the changing market will remain the most attractive to investors.

will improve their chances of attracting institutional capital in the future.

Asia-Pacific investors appear to lag behind their global counterparts in both fund negotiations and in rejecting funds where they feel the fees are too high or there is a lack of transparency. If these investors can become united to voice concerns they have with fees and other fund structures, fund terms may become more favourable for them in the future.

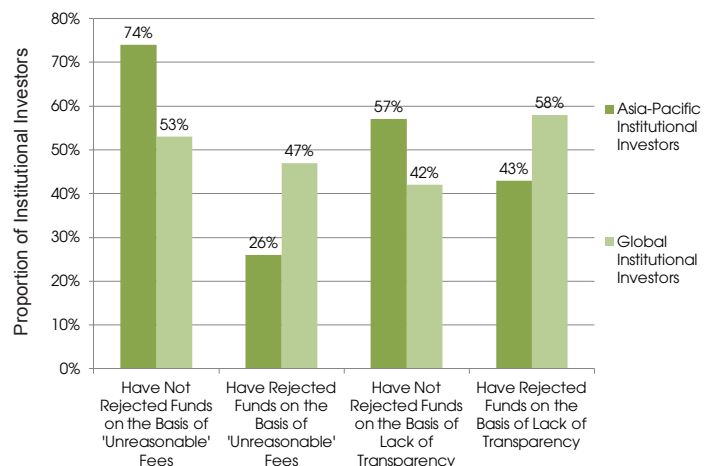
Fig. 19 shows that Asia-Pacific-based investors were also less likely to reject funds based on perceived unreasonable fees and/or lack of transparency. Only one-quarter of respondents based in Asia declined to invest in a fund because of unreasonable fees during the past 12 months. However, 43% rejected a fund because of a lack of transparency. Just under half (47%) of global investors surveyed had rejected a fund in the past year because of perceived unreasonable fees, and 58% had rejected a fund because of issues with transparency. Managers that respond to investors' demands for more favourable fee structures and increased transparency

Fig. 18: Institutional Investors' Fund Negotiation Experiences in the Past 12 Months



Source: Preqin

Fig. 19: Institutional Investor Response to Fund Management and Performance Fees, and Fund Transparency, over the Past 12 Months



Source: Preqin

The Asia-Pacific Outlook on Emerging Managers

The hedge fund industry within the Asia-Pacific region is still in its infancy compared to the established North American and European markets. With many Asia-Pacific funds being small or having relatively short track records, a positive reception from investors in their domestic region could result in the capital vital to grow a successful business.

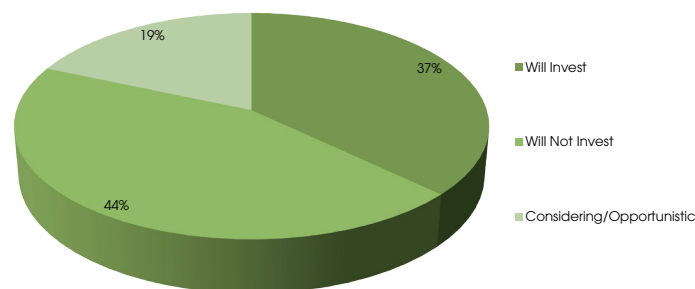
There is significant interest among Asia-Pacific institutional investors in emerging managers (deemed as funds with less than a three-year track record and \$150 million in assets under management) in 2012. As shown in Fig. 20, 56% of Asia-Pacific investors will be investing, or will consider investing, in emerging managers. More specifically, 37% of institutional investors in Asia-Pacific will invest in emerging managers in 2012, and a further 19% of them will consider investing or will invest opportunistically.

Fig. 21 shows a breakdown of the reasons why investors in Asia-Pacific generally hold a positive outlook on emerging managers. Among investors that stated they will be investing, or will consider investing, in emerging managers in 2012, 76% stated that they will invest due to their potential for stronger returns as compared to more established managers. Thirty-five percent stated that these managers will provide them with access to new strategies and 24% reasoned that investing in emerging managers offered them the chance to negotiate better terms with the management group.

Certain Asia-Pacific investors believe that being an early investor in a fund can provide not only access to a source of potentially higher returns but also better opportunities to liaise with fund managers on the management of allocated capital and build closer working relationships.

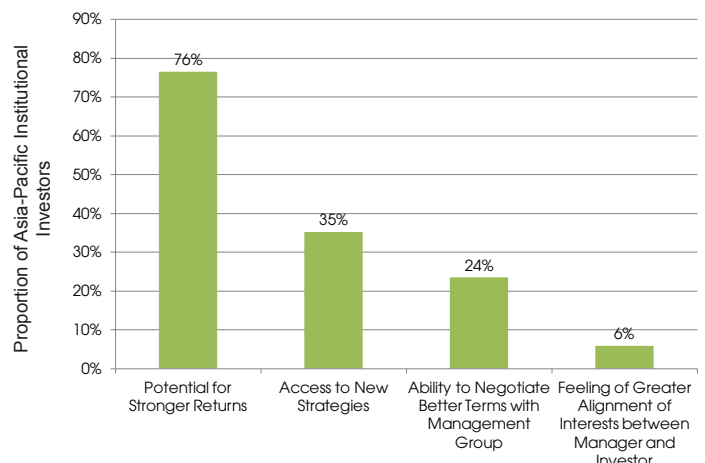
One investor also stated that smaller emerging managers are much more agile and flexible than the more established managers in terms of investments, and provide greater access to new strategies and ways of gaining alpha that are not accessible to larger and more established funds and fund managers. This is especially true for specialist funds that operate in smaller, more specialized markets.

Fig. 20: Attitudes of Asia-Pacific Institutional Investors towards Emerging Managers in 2012



Source: Preqin

Fig. 21: Reasons Why Asia-Pacific Institutional Investors Will Invest in Emerging Managers in 2012



Source: Preqin

Views of Key Asia-Pacific Institutional Investors in Hedge Funds

As institutional investors increasingly look towards alternative assets as a source of superior returns, it is vital for those in the industry to understand the decision making process. We gathered the thoughts of some key Asia-Pacific institutional investors in hedge funds.

“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.” An Australian Fund of Hedge Funds Manager

“We trust in our fund selection program, and we let our investee fund managers set performance targets and geographical allocation instead of imposing strict criteria for them.” A Taiwanese Institutional Investor

“Rather than target specific countries, Asia-Pacific as a region provides great investment opportunities. As such, emerging managers provide interesting investment opportunities, as a lot of them have an Asia-Pacific focus.” A Korean Institutional Investor

“We are risk averse, and will not be looking to invest within Asia-Pacific as many Asia-Pacific-focused funds are run by emerging managers.” A Japanese Asset Manager

“Despite our hedge fund portfolio failing to meet expectations, we will continue investing as we believe that hedge funds can still outperform traditional investments like equities and bonds.” A Taiwanese Insurance Company

“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 Fund of Hedge Funds Manager

“Flexibility is the key for hedge funds in this market, and funds that are too big will limit flexibility in making investments. We ourselves will maintain a fluid hedge fund investment strategy to match changing market conditions.” A Taiwanese Insurance Company

“Countries like Singapore and Hong Kong provide good investment opportunities as they are more developed and liquid markets which also provide exposure to Asia-Pacific.” An Australian Superannuation Fund

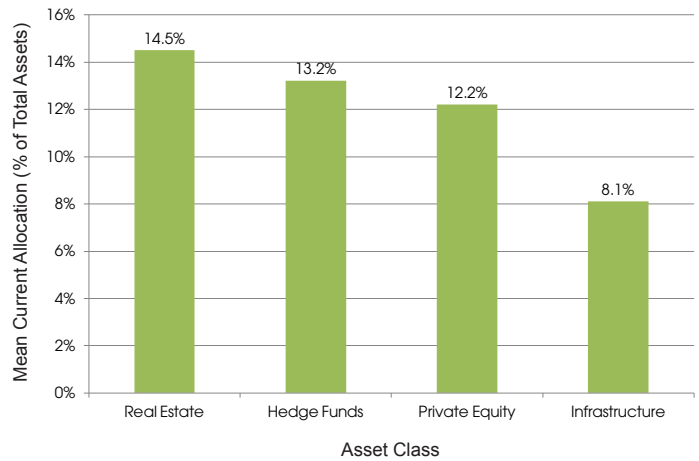
Overview of Asset Managers' Investment in Hedge Funds

Overview of Asset Managers' Investment in Hedge Funds

Median AUM (USD billion)	18.5
Mean Current Allocation to Hedge Funds	13.2%
Mean Target Allocation to Hedge Funds	8.5%
Mean Number of Hedge Funds in Portfolio	29
Typically Been Investing For	7 Years

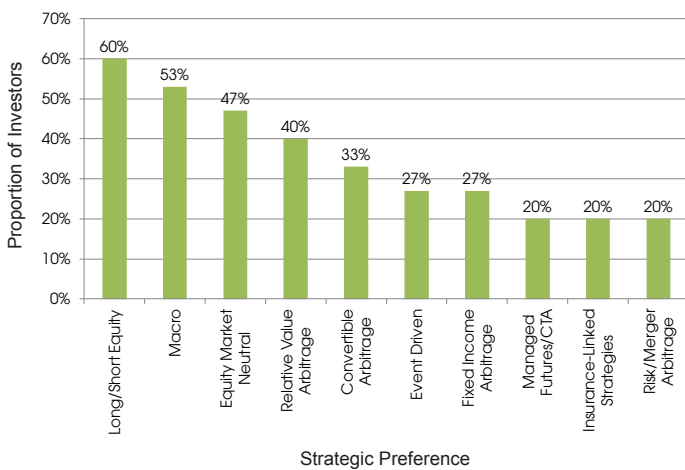
Source: Preqin

Asset Managers' Mean Allocations to Alternative Assets



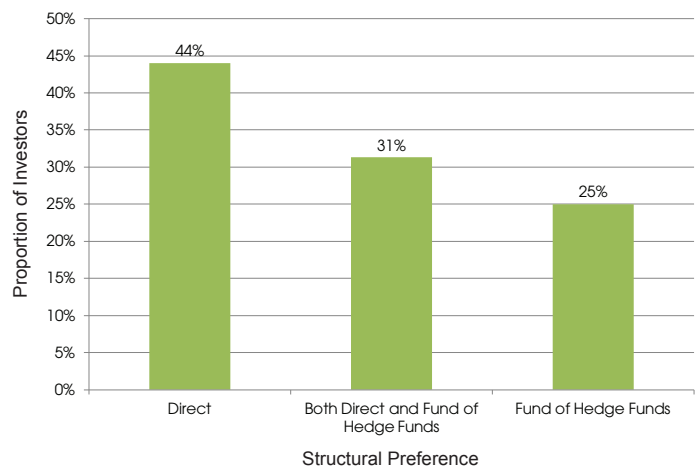
Source: Preqin

Asset Managers' Strategic Hedge Fund Preferences



Source: Preqin

Asset Managers' Structural Hedge Fund Preferences



Source: Preqin

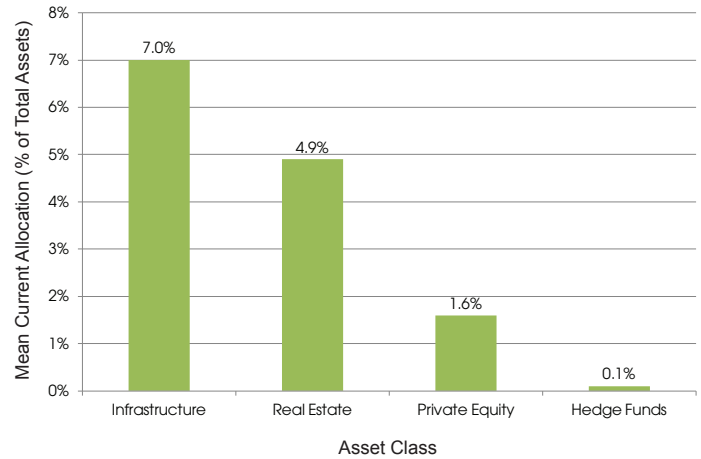
Overview of Banks' Investment in Hedge Funds

Overview of Banks' Investment in Hedge Funds

Median AUM (USD billion)	194
Mean Current Allocation to Hedge Funds	0.1%
Mean Target Allocation to Hedge Funds	N/A
Mean Number of Hedge Funds in Portfolio	13
Typically Been Investing For	10 Years

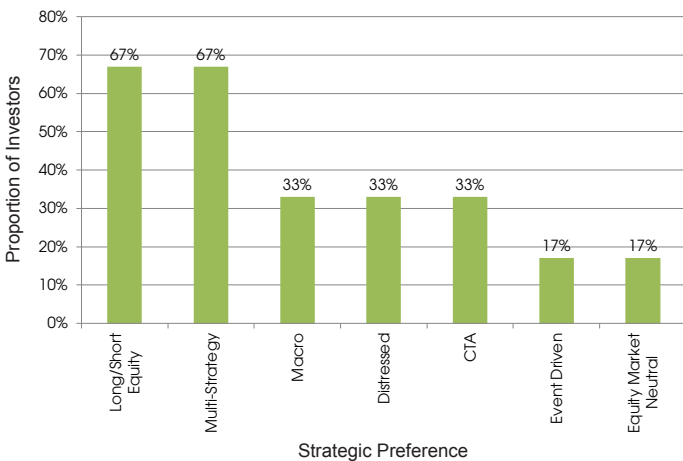
Source: Preqin

Banks' Mean Allocations to Alternative Assets



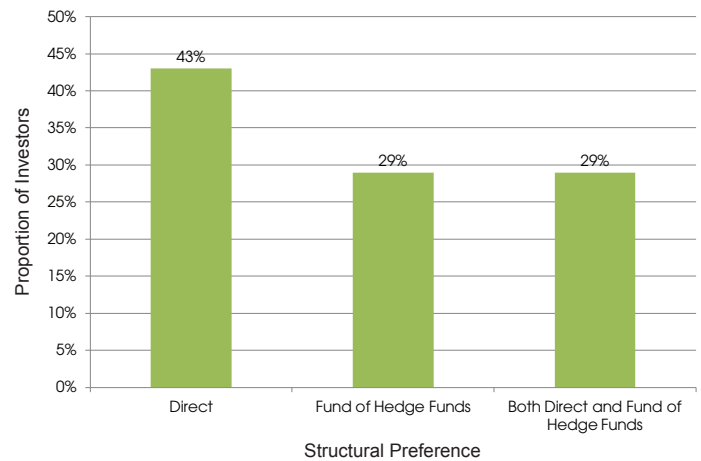
Source: Preqin

Banks' Strategic Hedge Fund Preferences



Source: Preqin

Banks' Structural Hedge Fund Preferences



Source: Preqin

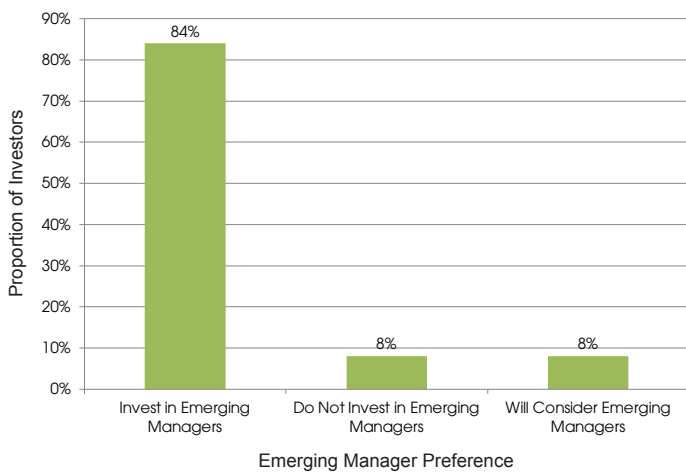
Overview of Funds of Hedge Funds' Investment in Hedge Funds

Overview of Funds of Hedge Funds' Investment

Median AUM (USD billion)	0.3
Mean Number of Hedge Funds in Portfolio	30
Typically Been Investing For	10 Years

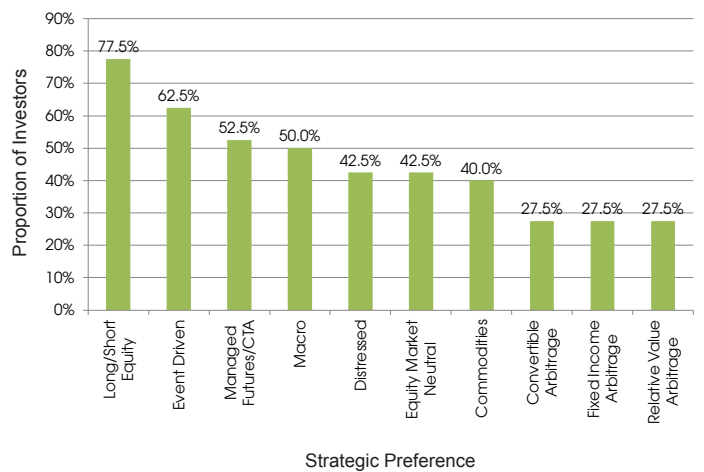
Source: Preqin

Funds of Hedge Funds' Emerging Manager Preferences



Source: Preqin

Strategic Preferences of Funds of Hedge Funds



Source: Preqin

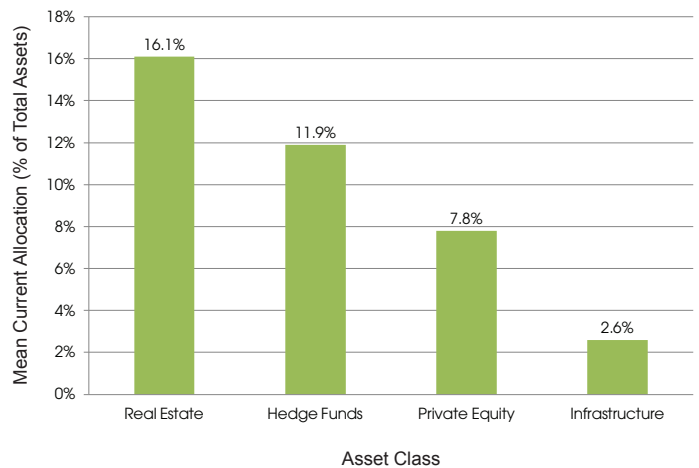
Overview of Family Offices/Foundations/Endowments' Investment in Hedge Funds

Overview of Family Offices/Foundations/Endowments' Investment in Hedge Funds

Median AUM (USD billion)	0.7
Mean Current Allocation to Hedge Funds	11.9%
Mean Target Allocation to Hedge Funds	14.5%
Mean Number of Hedge Funds in Portfolio	8 to 10
Typically Been Investing For	10 Years

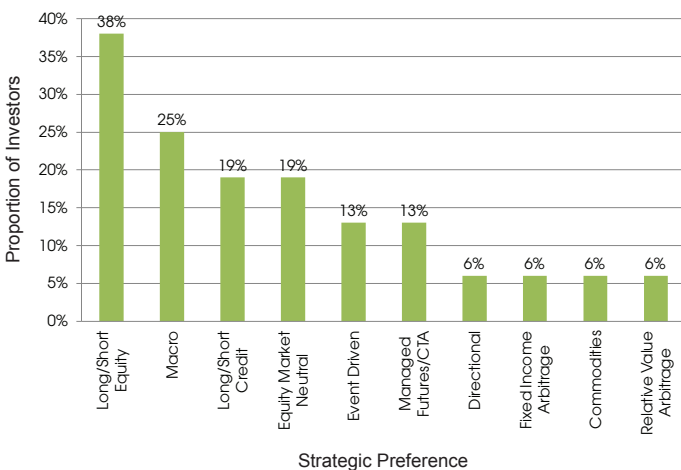
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Family Offices/Foundations/Endowments' Mean Allocations to Alternative Assets



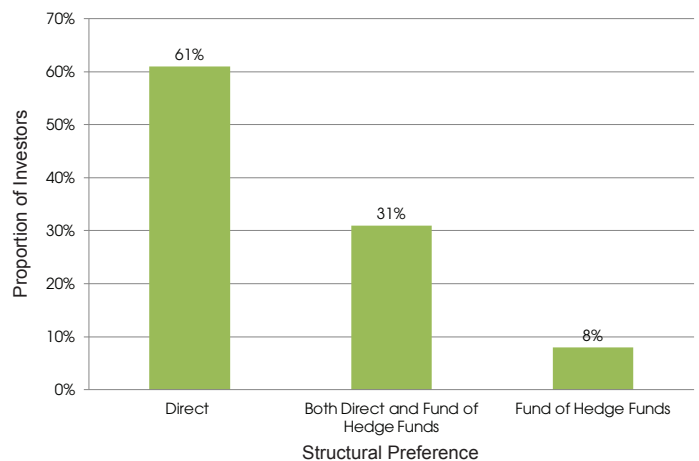
Source: Preqin

Family Offices/Foundations/Endowments' Strategic Hedge Fund Preferences



Source: Preqin

Family Offices/Foundations/Endowments' Structural Hedge Fund Preferences



Source: Preqin

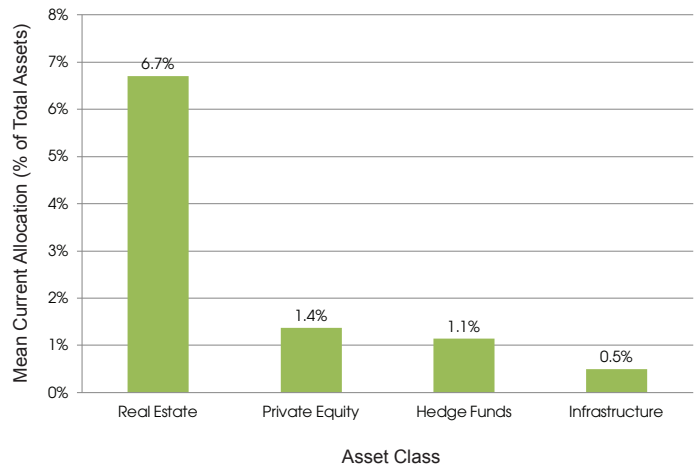
Overview of Insurance Companies' Investment in Hedge Funds

Overview of Insurance Companies' Investment in Hedge Funds

Median AUM (USD billion)	65
Mean Current Allocation to Hedge Funds	1.1%
Mean Target Allocation to Hedge Funds	1.1%
Mean Number of Hedge Funds in Portfolio	25 to 40
Typically Been Investing For	14 Years

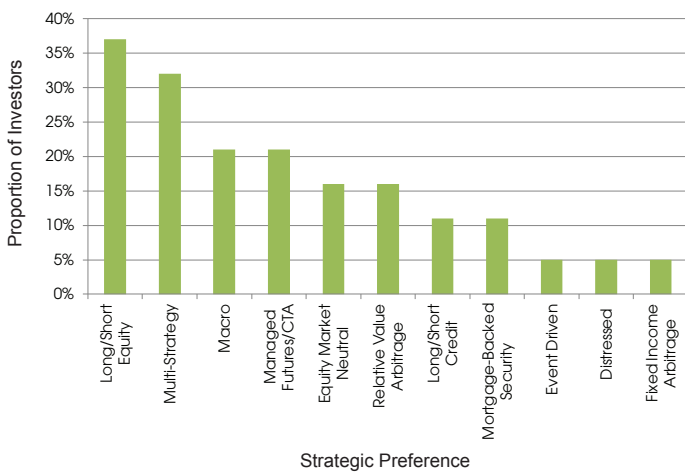
Source: Preqin

Insurance Companies' Mean Allocations to Alternative Assets



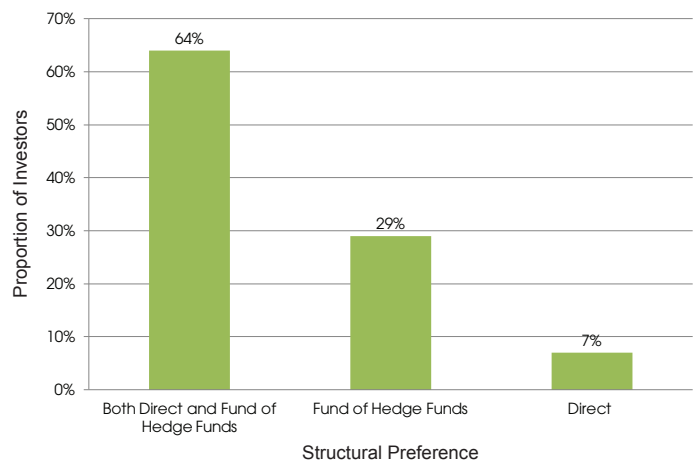
Source: Preqin

Insurance Companies' Strategic Hedge Fund Preferences



Source: Preqin

Insurance Companies' Structural Hedge Fund Preferences



Source: Preqin

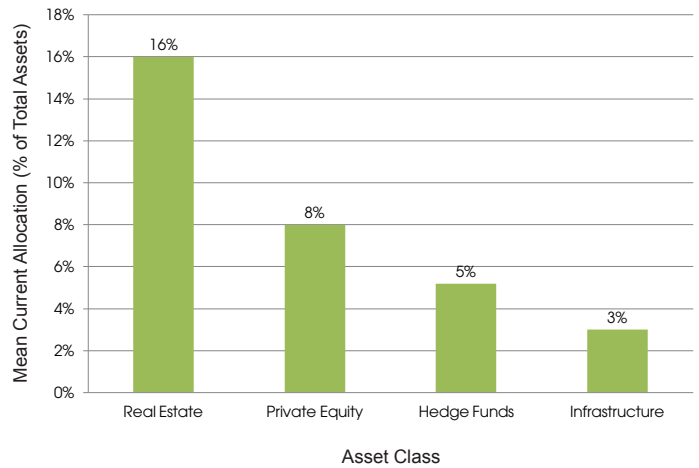
Overview of Pension Schemes' Investment in Hedge Funds

Overview of Pension Schemes' Investment in Hedge Funds

Median AUM (USD billion)	3.1
Mean Current Allocation to Hedge Funds	5.2%
Mean Target Allocation to Hedge Funds	5.4%
Mean Number of Hedge Funds in Portfolio	3 to 6
Typically Been Investing For	6 Years

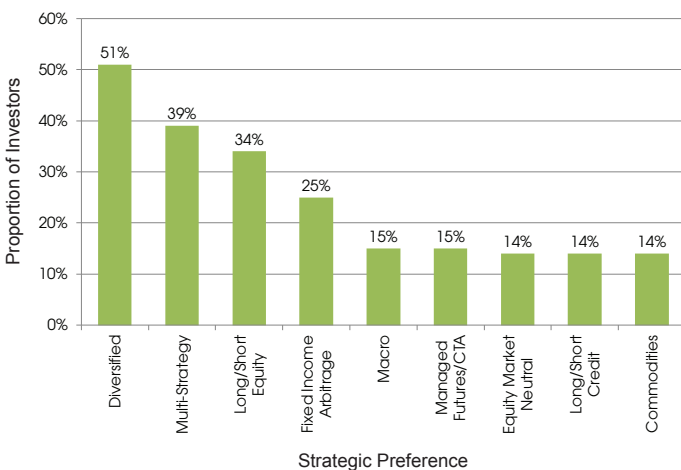
Source: Preqin

Pension Schemes' Mean Allocations to Alternative Assets



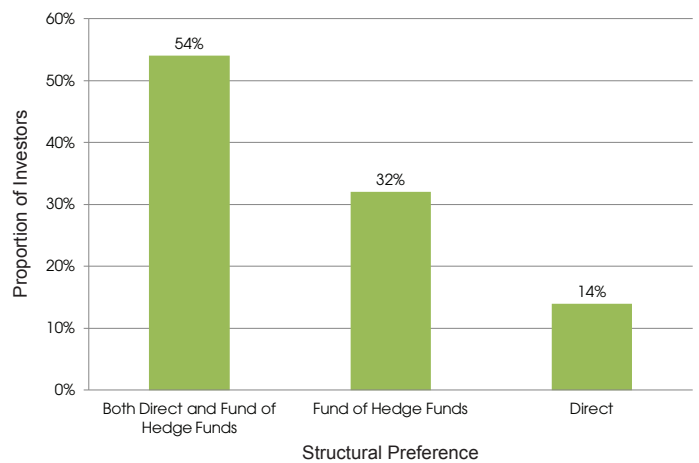
Source: Preqin

Pension Schemes' Strategic Hedge Fund Preferences



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Pension Schemes' Structural Hedge Fund Preferences



Source: Preqin

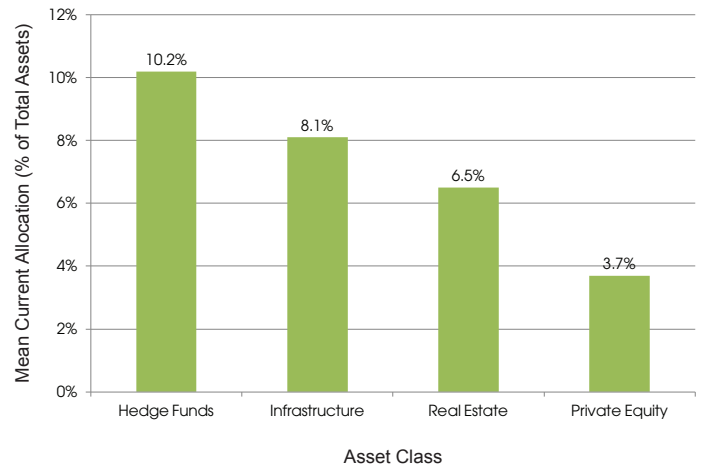
Overview of Sovereign Wealth Funds' Investment in Hedge Funds

Overview of Sovereign Wealth Funds' Investment in Hedge Funds

Median AUM (USD billion)	75
Mean Current Allocation to Hedge Funds	10.2%
Mean Target Allocation to Hedge Funds	15.0%
Mean Number of Hedge Funds in Portfolio	28
Typically Been Investing For	3 Years

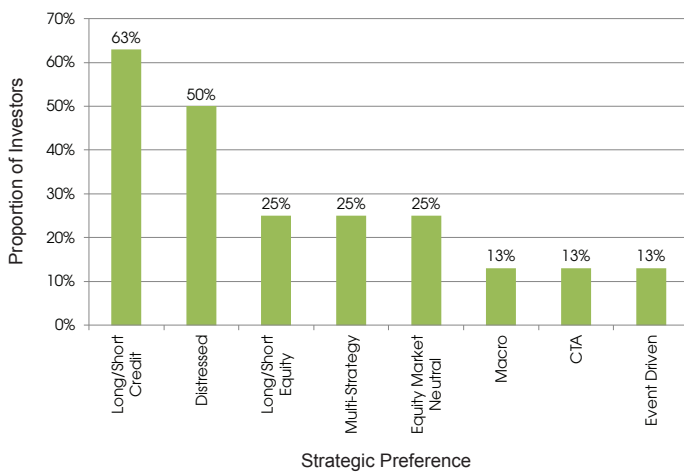
Source: Preqin

Sovereign Wealth Funds' Mean Allocations to Alternative Assets



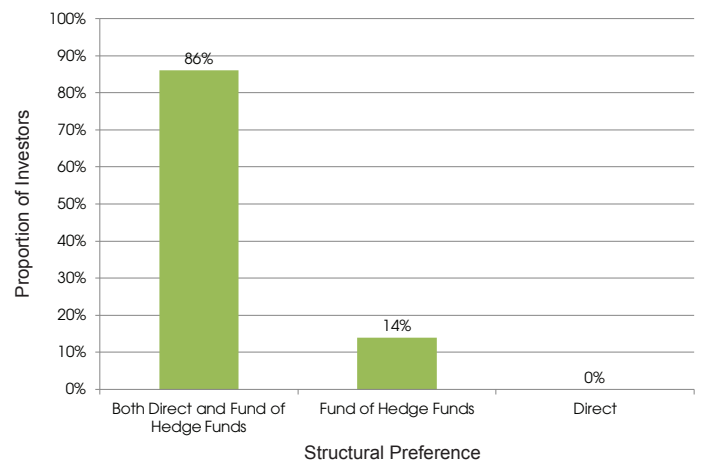
Source: Preqin

Sovereign Wealth Funds' Strategic Hedge Fund Preferences



Source: Preqin

Sovereign Wealth Funds' Structural Hedge Fund Preferences



Source: Preqin

About Global ARC

The Global Absolute Return Congress ('Global ARC')

Founded in 2002, Global ARC convenes meetings of the world's foremost pension funds, sovereign wealth funds, endowments, foundations and asset managers to discuss macroeconomic developments, capital markets, and alternative investments.

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- The Ritz Carlton Millennia, Singapore, February 20th to 22nd 2012
- The Landmark Hotel, London, May 21st to 23rd 2012
- The Hyatt Regency, Boston, October 15th to 17th 2012

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Please check our website www.global-arc.net for updates as we confirm additional keynotes in the coming months.



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- The Emerging Manager Download is a searchable spreadsheet detailing over 700 globally distributed institutional investors that have expressed an interest in emerging managers and spin-off teams, or in providing seed capital.
- The Fund of Hedge Funds Download is a searchable spreadsheet detailing 600 multi-manager hedge funds with full contact details for 2,000 specific individuals.

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