

Preqin Research Report

Investors in Focus: European Banks

Key Facts: European Banks Investing in Hedge Funds

Average allocation to hedge funds (of a European bank)	7.4%
Average # of hedge funds within a European bank's portfolio	15+
Typically been investing in hedge funds for...	10 years and over

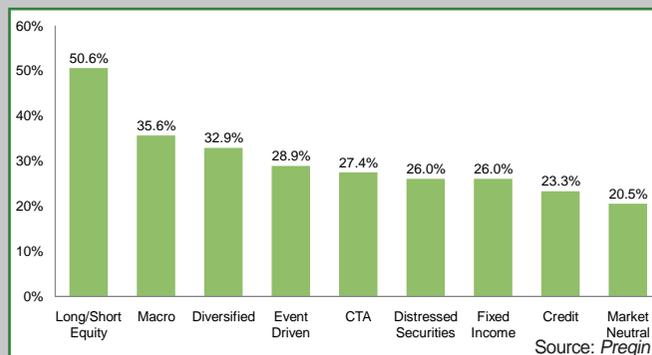
Source: Preqin

The European banking industry has been under much scrutiny over the last two years and as regulation, stress testing and other ongoing continent and EU-wide issues remain the focus of much attention, the pressure on this market sector is likely to continue well into the future. European banks have traditionally been large supporters of the hedge fund industry and since the financial crisis, they have had to adapt to the changes within the industry, both in terms of client demands and what they look for in the hedge funds they invest in.

Banks are an important source of funds of funds based in Europe, with 15% of all European funds of funds being subsidiaries of units of European banks. The country with the highest proportion of its banks investing in hedge funds is Switzerland, which is also home to over a third of all funds of funds that are subsidiaries of European banks. Many European banks from other countries choose to head their fund of funds units from Switzerland. This could be because of tax and regulation breaks, proximity to clients or proximity to the funds they invest in. Countries in Southern Europe, such as Spain and Italy, are also important centres for both banks that invest in hedge funds on behalf of their clients and for their subsidiary funds of funds.

European banks invest in a variety of hedge fund strategies, both to diversify portfolio risk and to access the best performing vehicles. "Traditional" liquid strategies such as long/short equity, macro and CTA funds are currently very popular as they enable investors to tap into liquid sources of alpha in a period where liquidity is paramount. About 40% of all banks invest in funds of funds to some extent; this might include exposure to their own funds of funds, or other multi-manager vehicles. Over the course of 2010 there has been an increase in the number of firms offering UCITS-style hedge funds to their clients, both to attract cautious

Fig. 1: Strategic Preferences of European Banks and Their Fund of Hedge Funds Subsidiaries



and liquidity-minded investors, and to pre-empt regulation within the industry.

European banks are truly global investors, with nearly 70% stating that they look for hedge fund investments on a global basis. As long-term investors in the asset class, often with links and offices in many regions across the globe, European banks are able to assess hedge funds based both within Europe and elsewhere in the world. This ability to search for and carry out due diligence on funds regardless of location has enabled these investors to source funds in regions which may be untapped by other European investors.

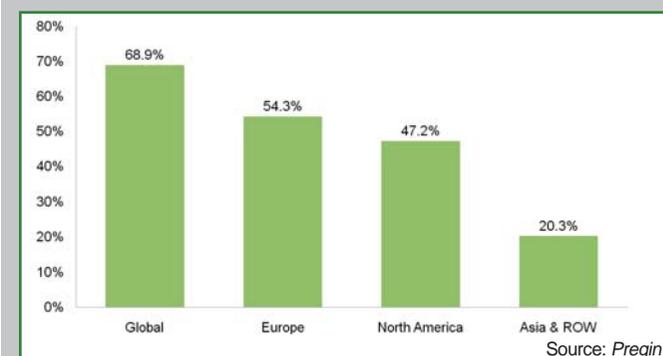
European banks are an important source of capital for hedge funds throughout the world. Through their investment banking activity, fund of funds units and retail offerings, European banks are one of the most prolific groups of investors in hedge funds in Europe. This sector of the market has come under much scrutiny following the market crisis, but it has started to recover and adapt to changes within the industry. Liquidity is one of the key concerns for these investors, and the uptake and distribution of UCITS-style funds is one of the ways in which we are seeing the banking sector adapt to the changing environment.

Top 5 European Countries in Terms of Proportion of Banks Investing in Hedge Funds

Country	Proportion of Country's Banks Invest in HF
Switzerland	25.0%
Italy	13.9%
UK	11.1%
France	11.1%
Spain	8.3%

Source: Preqin

Fig. 2: Geographical Preferences of European Banks and Their Funds of Hedge Funds Subsidiaries



Top 5 Countries in Terms of the Funds of Hedge Funds Units Associated with European Banks

Country	Top Locations of European Bank's HFoF Arms
Switzerland	34.3%
UK	14.3%
Italy	11.4%
Spain	8.6%
Sweden	8.6%

Source: Preqin



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