Content Includes:

The Hedge Fund Marketplace
A breakdown of hedge funds currently tracked by Preqin, as well as a look at the latest data on hedge fund launches and management and performance fees.

Recent Hedge Fund Performance
What are the top performing hedge funds by structure? How has the asset class performed, particularly in the last year?

Institutional Investors in Hedge Funds
Institutional investors are now more demanding than ever when selecting hedge fund managers. What are their requirements? Which investment opportunities do they find most attractive?

Preqin Special Report: Hedge Funds

October 2012

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Foreword

Since its inception in 1949, the hedge fund industry has been constantly evolving in order to take advantage of the ever changing financial environment and growing hedge fund investor base. Shifting regulatory regimes, advancements of providers of third-party services, and an explosion in technological developments have all had a major part to play in shaping the universe of hedge funds we see today.

Preqin first began offering hedge fund services in 2007. The past five years have seen some of the most challenging times for hedge funds as well as some of the best opportunities. The 2008 crisis and ongoing global financial uncertainty, as well as the shock-waves left by the Madoff implosion, undoubtedly had negative impacts on the asset class. Hedge fund industry assets under management shrunk in the immediate wake of the financial crisis, and the onslaught of consolidation that was predicted in 2009 has started to occur in 2012, particularly in the fund of funds sector. However, during this period institutional investors have begun to allocate to hedge funds in greater numbers as they look to diversify their portfolios away from traditional assets and look for ways to meet their funding liabilities. As a result, hedge funds are becoming a mainstream asset of choice for thousands of institutions across the globe, rather than a niche alternative asset. This has led to a recovery in the hedge fund industry's assets under management, and fund managers have launched new vehicles in order to tap into both investor interest from the institutional sector and some of the more interesting opportunities to come out of the market crisis.

Preqin is pleased to announce the launch of a new hedge fund service: Hedge Fund Analyst. Hedge Fund Analyst is a new online service providing detailed fund and fund manager profiles, including full terms information, service provider listings and performance data. Coupled with our existing Hedge Fund Investor Profiles database, Hedge Fund Analyst can be a vital tool for managers looking to benchmark their funds against their peers' vehicles, service providers on the hunt for new funds, and allocators looking for new opportunities in the ever expanding market.

In this report we cover some key topics in the hedge fund industry today and showcase the depth and variety of services Preqin can offer. The hedge fund industry is now a truly global one, and our analysts based in the US, London and Singapore are ideally placed to remain in daily contact with hedge fund managers, funds of funds, institutional investors and other service providers. Preqin's strong industry connections allow us to provide our clients with the latest data and the most valuable, pertinent and comprehensive analysis.

We hope you find this report a useful and valuable overview of Preqin's hedge fund services. As always, we welcome any feedback and suggestions you may have.

Amy Bensted
Head of Hedge Fund Products

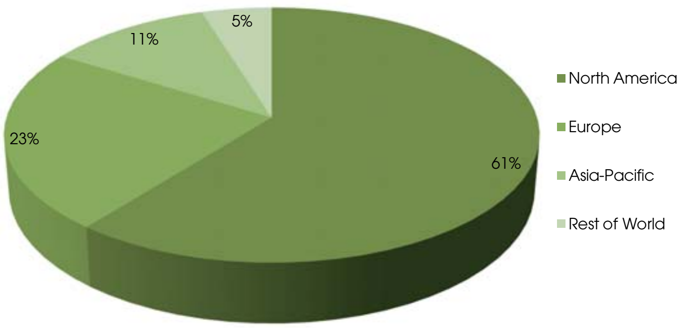
Fund Manager Overview

The hedge fund industry has undergone rapid expansion in the past 20 years. From a small niche alternative for family offices, high-net-worth individuals and a handful of university endowments, it is now becoming a mainstream alternative to traditional equity and bond managers for a huge variety of institutional investors. The size of the industry has correspondingly boomed, with a broader range of strategies in the marketplace than ever before. Here we examine the 4,800+ fund managers on Preqin's Hedge Fund Analyst by their location and the strategies they manage.

Figs. 1 and 2 show the breakdown of hedge fund managers and fund of hedge funds managers by the location of their headquarters. North America has the highest concentration of hedge fund managers, with 61% of all single-manager hedge funds based in the region. Twenty-three percent of single-manager hedge funds are based in Europe, with 16% located in Asia and Rest of World. With a large number of hedge fund managers being based in North America, it is no surprise to see that correspondingly there is a high proportion of fund of hedge funds managers also based there, in order to tap into the opportunities the region has to offer.

When looking at the ratio of direct fund managers to fund of funds managers in each region, Europe has a higher proportion of fund of funds managers than the other regions. Of the 1,230 hedge fund firms located in Europe, 29% manage funds of hedge funds. This is a much greater proportion than is seen in North America and in Asia and Rest of World, where 17% and 16% manage funds of hedge funds respectively.

Fig. 1: Hedge Fund Managers by Location of Headquarters



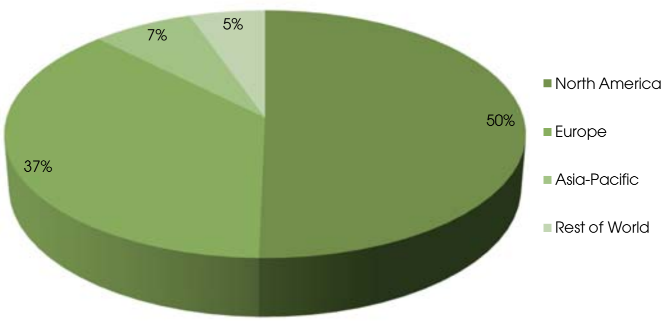
Source: Preqin Hedge Fund Analyst

Strategies by Region

Fig. 3 shows the proportion of managers in each region tracked on Hedge Fund Analyst that employ the various core hedge fund strategies for their funds. Long/short strategies are most commonly employed, with 70% of all hedge fund managers having a long/short fund amongst their line up. Sixty-three percent of North American fund managers offer long/short funds as part of their fund line-up. However, in other regions the percentage of managers offering long/short funds is much higher, particularly in Asia-Pacific, where 85% of fund managers seek to tap into this less complex equity-based strategy. North American managers dominate the event driven fund market, with 17% of North American managers offering event driven funds and 75% of all event driven funds being managed by North American managers.

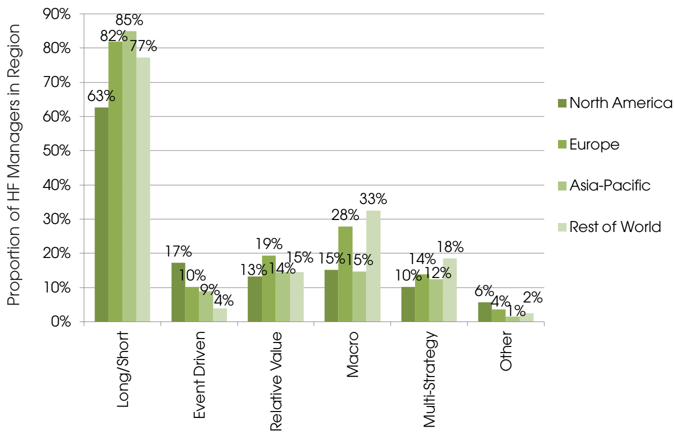
Europe and Rest of World have the highest proportion of firms managing macro funds, with 28% and 33% of all managers based in these regions respectively offering a macro vehicle. Rest of World-based managers also have a higher proportion of multi-strategy vehicles than other regions, with 18% of these firms having at least one multi-strategy fund in their line-up.

Fig. 2: Fund of Hedge Funds Managers by Location of Headquarters



Source: Preqin Hedge Fund Analyst

Fig. 3: Strategies Employed by Hedge Fund Managers Based in Each Region



Source: Preqin Hedge Fund Analyst

Fig. 4: Top 10 Hedge Fund Managers by Assets under Management

Name	Location	AUM	Strategies Managed
Bridgewater Associates	North America	$121 billion as at 31 December 2011	Macro and Multi-Strategy
Man Investments	Europe	$41.4 billion as at 30 June 2012	CTA, Distressed, Equity Market Neutral, Event Driven, Fixed Income, Long/Short Equity, Long/Short Credit, Macro, Multi-Strategy and Special Situations
Brevan Howard Asset Management	Europe	$36.7 billion as at 30 June 2012	CTA, Fixed Income, Foreign Exchange, Long/Short Credit, Long/Short Equity, Macro, Multi-Strategy and Relative Value Arbitrage
BlueCrest Capital	Europe	$31.1 billion as at 30 June 2012	CTA, Equity Market Neutral, Fixed Income, Long/Short Credit, Long/Short Equity, Macro, Multi-Strategy, Relative Value Arbitrage, Special Situations and Statistical Arbitrage
Och-Ziff Capital Management	North America	$29.5 billion as at 01 March 2012	Distressed, Fixed Income Arbitrage, and Multi-Strategy
Winton Capital Management	Europe	$28.5 billion as at 30 June 2012	CTA and Multi-Strategy
BlackRock Proprietary Alpha Strategies	North America	$26.9 billion as at 30 June 2012	Commodities, Equity Market Neutral, Fixed Income Arbitrage, Long Bias, Long/Short Credit, Long/Short Equity, Macro, Mortgage-Backed Strategies and Special Situations
Baupost Group	North America	$23.8 billion as at 31 December 2011	Value-Oriented
Paulson & Co.	North America	$22.6 billion as at 31 Dec 2011	Distressed, Equity Market Neutral, Event Driven, Fixed Income, Long/Short Credit, Long/Short Equity and Risk/Merger Arbitrage
Cairn Capital	Europe	$21.9 billion as at 29 February 2012	Fixed Income and Long/Short Credit

Source: Preqin Hedge Fund Analyst

Fig. 5: Top 10 Fund of Hedge Funds Managers by Assets under Management

Name	Location	AUM	Strategies Managed
Blackstone Alternative Asset Management	North America	$39 billion as at 12 March 2012	Commodities, Diversified, Fixed Income and Sector Focused
HSBC Alternative Investments	Europe	$29.8 billion as at 31 July 2011	CTA, Distressed, Diversified and Event Driven
UBS Alternative and Quantitative Investments	North America	$26.1 billion as at 01 January 2012	Diversified, Event Driven and Long/Short Equity
Grosvenor Capital Management	North America	$22.7 billion as at 31 December 2011	Diversified, Long/Short Equity and Relative Value Arbitrage
BlackRock Alternative Advisors	North America	$21 billion as at 14 March 2012	Diversified, Long Bias, Long/Short Credit, Long/Short Equity, Insurance-Linked Strategies and Relative Value Arbitrage
Permal Investment Management	North America	$20 billion as at 31 December 2011	Diversified, Foreign Exchange, Long/Short Equity and Macro
Goldman Sachs Hedge Fund Strategies	North America	$19.1 billion as at 31 December 2011	Diversified and Long/Short Equity
Man Investments	Europe	$19 billion as at 01 June 2012	Commodities, Diversified and Statistical Arbitrage
Lyxor Asset Management	Europe	$16.4 billion as at 30 June 2011	Long/Short Equity
Pacific Alternative Asset Management Company	North America	$15.3 billion as at 1 March 2012	Distressed and Event Driven

Source: Preqin Hedge Fund Analyst

Overview of Funds in the Hedge Fund Marketplace

Fund Structure

The Preqin Hedge Fund Analyst database tracks funds and related vehicles encompassing single-manager funds, funds of hedge funds, CTAs, funds of CTAs, and UCITS-compliant vehicles.

As shown in Fig. 6, single-manager direct hedge funds account for 66% of the total hedge fund universe. Funds of hedge funds (which are the largest allocator to single manage funds) constitute 22% of all vehicles in the hedge fund space, and CTA funds account for 11%. Funds of CTAs are a small sector of the universe, comprising just 1% of all the funds on the Preqin database. CTAs are a common investment choice for funds of funds, although this tends to be through a diversified multi-strategy or macro vehicle, rather than a pure fund of CTAs.

Alternative UCITS funds have been growing in importance in the hedge fund sector since the introduction of UCITS III and latterly UCITS IV. Today around 8% of the single-manager hedge funds and 5% of CTAs on the Preqin database are UCITS compliant.

Single-Manager Hedge Funds

In terms of number of funds, long/short funds dominate the hedge fund universe, with 44% of all funds tracked being a long/short fund of some description. Long/short equity is the most common strategy within the overall long/short category; three-quarters of all funds under the long/short category are long/short equity funds, and long/short equity funds account for 33% of hedge funds overall.

As shown in Fig. 7, the universe of hedge funds is more evenly distributed across strategies when broken down by value rather than number of funds. A third of all industry capital represented on Preqin's Hedge Fund Analyst database is managed under long/short strategies.

The second most commonly employed strategy by fund managers is global macro, accounting for 25% of the funds on Hedge Fund Analyst and 27% of aggregate value.

Event driven funds, although relatively small in number (10% of the funds on the Preqin database), account for a larger proportion of the total capital managed, with 14% of industry assets under management accounted for by such vehicles.

Relative value funds represent approximately the same proportion of the industry when compared in terms of the number of funds as they do when evaluated by aggregate value (10% and 9% respectively). Non-directional equity market neutral proves to be the leading sub-strategy within relative value, as such vehicles represent 30% of all single-manager relative value funds.

Multi-strategy funds continue to be a significant part of the hedge fund industry, accounting for 8% of all assets managed across the direct hedge funds on the Preqin database.

Finally, other strategies such as asset-backed lending, insurance-linked, mortgage-backed securities and specialist credit combine to represent 3% of single-manager hedge funds on Preqin Hedge Fund Analyst.

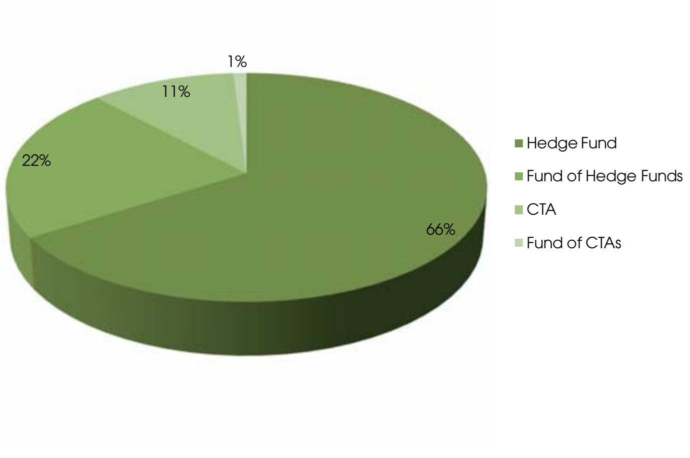
Funds of Hedge Funds

The breakdown of the fund of funds industry by strategy is similar whether analyzed by number of vehicles or by aggregate value (Fig. 8).

Multi-strategy vehicles are the most common in the fund of funds sector, with more than 50% of funds of hedge funds investing in a range of strategies. This provides diversification for investors in funds of hedge funds and allows managers the flexibility to invest in strategies and underlying funds that they believe will outperform. The next most common investment strategy for funds of hedge funds is long/short. Funds of hedge funds allocating to a portfolio of underlying long/short funds constitute 28% of the fund of hedge funds universe. Within this long/short category, investments primarily in long/short equity make up a significant 83% of long/short-focused funds of hedge funds.

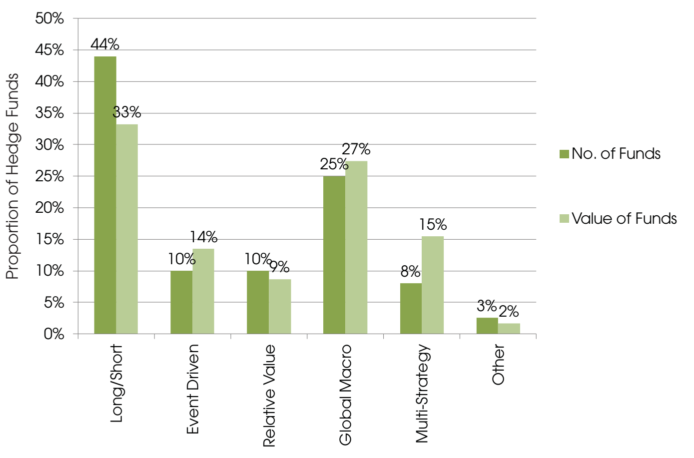
Global macro-, relative value- and event driven-focused funds of funds represent lower proportions of the industry as specialized

Fig. 6: Breakdown of Hedge Fund Universe by Type



Source: Preqin Hedge Fund Analyst

Fig. 7: Breakdown of Direct Hedge Funds by Strategy



Source: Preqin Hedge Fund Analyst

investment vehicles. Fig. 8 indicates that global macro-focused funds of funds represent 13% of funds of hedge funds overall, while 8% predominantly invest in event driven funds and 6% in relative value vehicles.

Those funds of hedge funds within the relative value category display a distinct preference for equity market neutral and relative value arbitrage funds.

Domicile

Fund domiciles offer hedge fund managers varying tax and regulatory climates in which to house their vehicles and the opportunity to benefit from certain fiscal and regulatory advantages relevant to their particular jurisdiction.

Indisputably, the two most used domiciles across the hedge fund universe are Delaware in the US and the Cayman Islands. As highlighted by Fig. 9, together they account for 68% of all direct hedge funds. However, the same does not apply in the fund of hedge funds space, with Fig. 10 showing that 42% of funds of hedge funds are domiciled in either the Cayman Islands or Delaware.

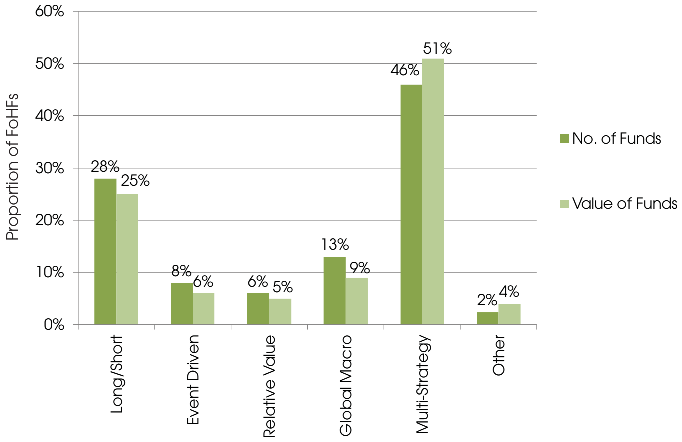
The Cayman Islands account for 39% of single-manager hedge funds and 27% of funds of hedge funds. Delaware is weighted more towards single-manager hedge funds, accounting for 29% of the total number compared to 15% of all funds of hedge funds.

Looking at Europe, Luxembourg and Ireland are the domiciles preferred by the most managers. Ireland is fast becoming a prominent player, with 7% of single-manager hedge funds and 5% of funds of hedge funds opting to domicile their funds there. Ireland has also capitalized on its status as a prime location for UCITS funds, having attracted 40% of all UCITS-compliant hedge funds, second only to Luxembourg which has amassed more than half of all UCITS funds.

At the fund of hedge funds level, Luxembourg houses 18% of the total number of funds of hedge funds, more than all of the other European jurisdictions combined, including Switzerland, Ireland, France, Liechtenstein, Sweden and the Netherlands.

Switzerland, which houses 5% of funds of hedge funds, is the sixth most commonly used jurisdiction for these vehicles. Domiciles not listed individually in Fig. 10 account for 5% of funds of hedge funds.

Fig. 8: Breakdown of Funds of Hedge Funds by Strategy



Source: Preqin Hedge Fund Analyst

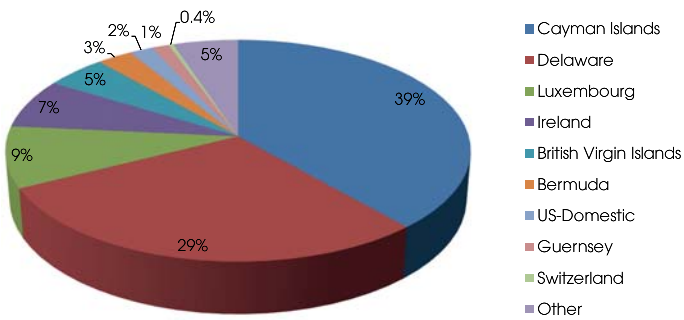
Preqin's Hedge Fund Analyst features in-depth profiles for over 8,000 individual hedge funds (14,500 including share classes), showing investment strategy, terms and conditions, performance data, key contact information, and more.

Hedge Fund Analyst provides all the latest data and intelligence on hedge funds in one powerful online database. Information is updated on a daily basis by a team of skilled research analysts based around the globe, providing you with one single comprehensive resource on the hedge fund industry

For more information, please visit:

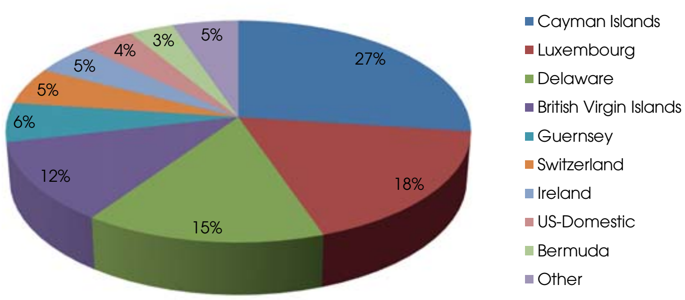
www.preqin.com/hfa

Fig. 9: Breakdown of Direct Hedge Funds by Domicile



Source: Preqin Hedge Fund Analyst

Fig. 10: Breakdown of Funds of Hedge Funds by Domicile



Source: Preqin Hedge Fund Analyst

Hedge Fund Launches in 2012

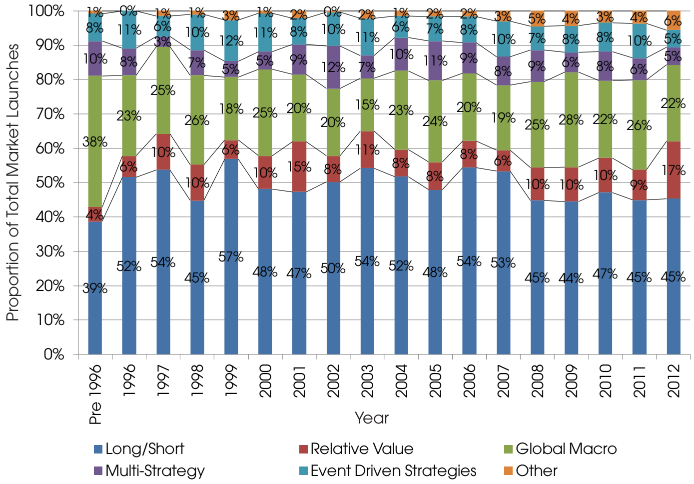
With industry funds under management returning to pre-crisis levels and with new fund launches reaching a peak in 2010, 2012 has so far seen a solid start with 387 funds launched in the year to date. Market conditions are proving to be volatile and the European sovereign debt crisis is far from resolved, and as a result the landscape of fund launches over the past few years has shifted towards strategies which can take advantage of these uncertain times. Here we examine a top level overview of strategies launched each year and look at some of the year's fund launches.

Fig. 11 shows the strategy weightings of new funds launched each year. Long/short strategies have continually proved the most commonly launched strategy, averaging around half of all launches across each year. However, since the start of the financial crisis in 2007, long/short launches have fallen from a peak of over 50% to 45% in 2012.

The proportion of global macro launches reached a peak in 2009 at 28% of all fund launches, but has since fallen to 22% of all fund launches so far in 2012.

Relative value funds have shown a marked increase in their share of total fund launches over the past 12 months, representing 17% of all funds launched in 2012 so far. The strategy has performed well over the past few years and increasing demand from investors is leading to growth in this sector.

Fig. 11: Annual Hedge Fund Launches by Strategy



Source: Preqin Hedge Fund Analyst

Fig. 12: Examples of Hedge Funds Launched in 2012

Fund Name	Inception Date	Strategy	Firm Location
IKEN Commodity Alpha Fund	01-Jul-2012	Managed Futures/CTA	London
Launched by ex-Schneider quartet George Hutson, James Brueton, Christophe de la Celle and Tobias Tofari, the strategy was previously offered via managed accounts. IKEN's maiden offering, this CTA fund has a market neutral long/short oil strategy, with multi-layered hedging for uncorrelated low-risk returns.			
MNJ Japan Absolute Return Fund	01-Feb-2012	Equity Market Neutral	Singapore
The MNJ Japan Absolute Return Fund is focused on the systematic trading of Japanese stocks. The fund employs the same relative value strategies used by MNJ Capital's existing fund, the MNJ Asia-Pacific Absolute Return Fund, to create diversified portfolios with low correlation to the equity markets.			
AC – Risk Parity 17 Fund	01-Aug-2012	Macro	Germany
Aquila Capital launched AC-Risk Parity 17 Fund, the third UCITS fund in their "Risk Parity" offering, on 1 August. The fund follows the AC-Risk Parity 7 and 12 vehicles, which account for more than $1.5bn of the assets under management of the $5.0bn German firm. AC-Risk Parity 17 will invest in equities, bonds, commodities and interest rates based on a risk parity allocation approach.			
Glasnost Fund	01-Sep-2012	Macro	Switzerland
The Glasnost Fund is the maiden fund from Switzerland-based Gougenheim Investments. Gougenheim was founded by former head of Unigestion's hedge fund unit Philip Gougenheim. The fund will offer weekly liquidity, and full transparency of positions on a monthly basis. The firm has already announced the planned launch of a UCITS version of the fund for Q2 2013.			
Polaris Global Macro Multi-Manager Fund	01-Aug-2012	Macro	US
Polaris Global Macro Multi-Manager Fund is managed by Polaris Investments, founded in 1990. The fund will focus on building a portfolio of global macro managers that exhibit low correlation to each other and the wider markets. The fund is domiciled in Delaware and requires a minimum investment of $250,000.			
Braddock Structured Opportunities Fund	01-Jul-2012	Mortgage-Backed Lending Strategies	US
Braddock Structured Opportunities Fund invests in non-agency residential mortgage-backed securities and other structured finance securities such as commercial mortgage-backed securities, asset-backed securities and collateralized debt obligations. It has a 12-month soft lock-up with monthly redemptions.			

Source: Preqin Hedge Fund Analyst

Hedge Fund Fees

Hedge fund managers are still under pressure from institutional investors to offer concessions on their fees. Over half of all investors have seen improvements over the past four years but want further changes to the management and performance fee structures on offer.

A 2&20 fee structure used to be synonymous with the hedge fund industry; however, Preqin data shows that only 42% of single-manager hedge funds now use the perceived industry standard. The mean management fee for all single manager hedge funds tracked by Preqin is 1.60%, 20% lower than the 2% historical 'standard'. The current mean performance fee for single-manager hedge funds is 18.69%, whereas in 2011 this figure stood at 19.20%.

Breakdown by Location and Strategy

Fig. 13 shows the mean management and performance fees charged by single-manager hedge funds based on their location. Preqin has found that, on average, Asia-Pacific-based hedge fund managers charged the lowest management and performance fees. Asia remains an emerging hub for hedge fund investments and, as such, Asia-based managers must be relatively flexible on fee structure to ensure that they remain appealing to the institutional market. With many Europe-based fund managers now offering UCITS products, the average management and performance fees charged by Europe-based fund managers are below those charged by managers based in other areas. North America, however, is the traditional home of the hedge fund market and investor base, and the mean performance fee charged by hedge fund managers based in the region continues to exceed those charged elsewhere.

When looking at specific fund types, there is a wide variation in fees charged across the spectrum of hedge fund strategies. Commodity trading advisors (CTAs) for example, charge a performance fee that is above the industry standard, but charge a management fee below 2%, as shown in Fig. 14. Alternative UCITS funds, by nature a more retail vehicle, charge a much lower average management and performance fee, with 78% of the UCITS-compliant funds charging a management fee below 2%. The mean management fees of funds of funds, meanwhile, have fallen over the past year from 1.35% in 2011 to 1.39% in 2012. Their performance fees have shown another decline to a mean value of 8.00%, down from over 10% in 2011. Fixed income arbitrage funds are a relatively inexpensive option in terms of both management fees and performance fees, whereas macro funds need to post strong returns in order to justify their top-tier management and performance fees. Some strategies couple lower management fees with higher performance incentives, risk/merger arbitrage for instance, whereas other strategies such as global macro tend to offer the opposite.

Outlook

Following Preqin's initial study of hedge fund fees in 2009, there have been notable changes in the fees charged by single-manager hedge funds, with a 2% management fee and 20% performance fee no longer the accepted industry standard. The changes to management fees have been the most significant, with these fees having come under the most scrutiny from institutional investors in the past four years. After suffering a sharp decline in the initial wake of the events of 2008, the mean management fee for a hedge fund seems to have reached a plateau of around 1.65%, a level which appears to be becoming more palatable for investors and fund managers alike.

Fig. 13: Mean Hedge Fund Management and Performance Fees by Fund Manager Location

Region	Mean Management Fee (%)	Mean Performance Fee (%)
Asia-Pacific	1.54	18.55
Europe	1.60	18.84
North America	1.65	19.70
Rest of World	1.76	19.35

Fig. 14: Mean Hedge Fund Management and Performance Fees by Fund Structure

Fund Type	Mean Management Fee (%)	Mean Performance Fee (%)
Single Manager Hedge Fund	1.65	19.21
CTA	1.76	20.32
UCITS	1.51	16.44
Fund of Hedge Funds	1.30	8.00

Fig. 15: Mean Hedge Fund Management and Performance Fees by Fund Strategy

Fund Strategy	Mean Management Fee (%)	Mean Performance Fee (%)
Fixed Income Arbitrage	1.34	15.14
Foreign Exchange	1.46	18.00
Risk/Merger Arbitrage	1.47	19.57
Convertible Arbitrage	1.49	17.14
Long Bias	1.57	17.13
Special Situations	1.57	18.92
Relative Value Arbitrage	1.58	19.07
Long/Short Equity	1.62	19.08
Long/Short Credit	1.65	18.79
Event Driven	1.67	19.12
Equity Market Neutral	1.69	19.44
Statistical Arbitrage	1.74	20.98
Multi-Strategy	1.75	19.49
Macro	1.76	19.75
Distressed	1.58	19.09

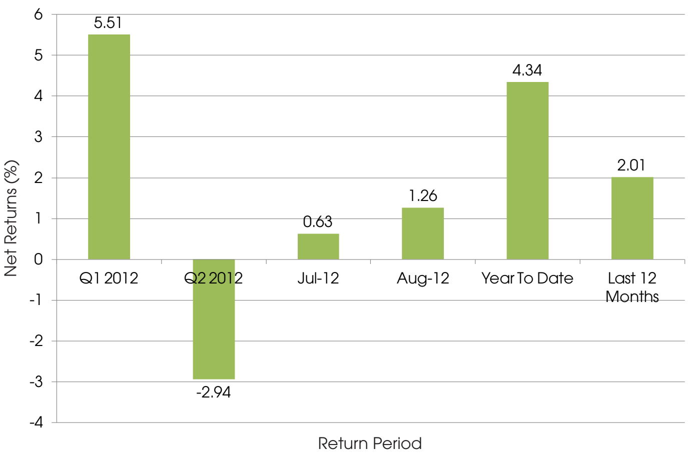
Recent Performance of Hedge Funds

Data from Preqin's Hedge Fund Analyst database shows that hedge funds generated positive returns in both July and August 2012, somewhat mitigating the decline seen in the previous quarter. Net returns of 0.63% in July and 1.26% in August followed negative performance in Q2 2012, when May's return of -2.68% offset the broadly neutral months of April (-0.34%) and June (0.07%).

Fig. 16 shows the cumulative performance of hedge funds over various recent periods. The strong start to the year, with hedge funds posting returns of 5.51% in Q1 2012, was the best quarterly performance since a return of 6.67% was generated in Q4 2010. This has contributed to a performance gain of 4.34% in 2012, compared to performance of -0.72% over the same period in 2011. Cumulative returns for hedge funds over the last 12 months stand at 2.01%.

The annualized performance of hedge funds over the two years leading up to August 2012 was 5.75%. Over the three-year and five-year periods annualized returns were 8.17% and 6.60% respectively.

Fig. 16: Performance of Hedge Funds (As at August 2012)



Source: Preqin Hedge Fund Analyst

Geographic Focus

Hedge funds focusing primarily on North America posted returns of 1.34% in August, bringing performance for these funds to 5.84% in 2012 and 5.27% in the last 12 months (Fig. 18). Europe-focused vehicles have not fared as well, generating a return of 0.74% in August and 3.48% in the first eight months of 2012.

Hedge funds targeting the Asia-Pacific region are in negative territory (-1.30%) for the last 12 months despite posting 0.60% in August and 2.77% in the year to date. Emerging markets funds gained 1.26% in August to take 2012 performance to 4.34% and returns over the previous year to 2.01%.

Currency Denomination

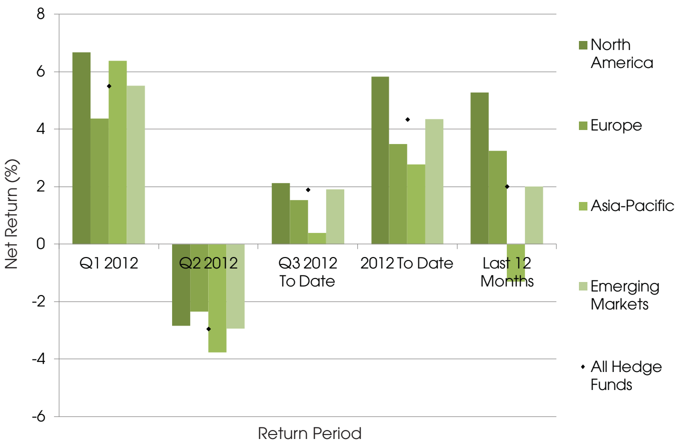
Fig. 19 provides a comparison of the 2012 cumulative hedge fund performance denominated in various selected currencies. US dollar (USD) funds generated returns of 5.13% to August 2012 and Australian dollar (AUD) vehicles posted 4.00% in the same period. Euro (EUR) and sterling-denominated (GBP) returns in 2012 have been more muted, currently standing at 2.64% and 1.48% respectively.

Fig. 17: Year to Date (January - August 2012) Net Returns of 15 Top Performing Hedge Funds

Fund Name	Manager Name	Core Strategy	Year To Date (%)
Elevated Value Focus	Elevated Capital	Long/Short Equity	31.93
Barnegat Fund - Series B	Barnegat Fund Management	Fixed Income Arbitrage	31.78
Asean Small Cap Fund	ASEAN Investment Management	Equity Market Neutral, Long Bias	31.46
Clinton Retail Opportunity Partnership	Clinton Group	Distressed	31.14
BDC Fund II	Southland Capital Management	Long/Short Equity	28.46
Cambrian Europe - Class A	Atlantic Investment Management	Value-Oriented	27.61
Hildene Opportunities Fund II, LP	Hildene Capital Management	Distressed	27.30
Nubuke Africa Multi Strategy Fund - Class A2	Nubuke Investments	Multi Strategy	26.22
Quantedge Global Fund	Quantedge Capital	Macro	25.56
Nest Ações FIC FIA	Nest Investimentos	Long Bias	24.88
Fixed Income Strategies Fund	Danske Invest	Fixed Income Arbitrage, Relative Value Arbitrage	24.81
Shaker Investments Tower Fund	Shaker Investments	Long/Short Equity	24.31
Pine River Fixed Income Fund	Pine River Capital Management	Fixed Income Arbitrage	23.98
Mangrove Partners Fund	Mangrove Partners	Multi Strategy	24.41
Grandmaster Capital Fund LP	Grandmaster Capital Management	Long/Short Equity	22.15

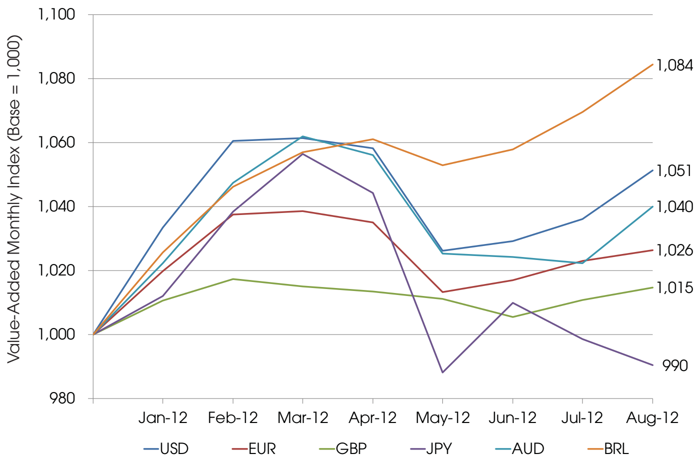
Source: Preqin Hedge Fund Analyst

Fig. 18: Performance of Hedge Funds by Geographic Focus (As at August 2012)



Source: Preqin Hedge Fund Analyst

Fig. 19: Performance of Hedge Funds Denominated in Selected Currencies, January - August 2012



Source: Preqin Hedge Fund Analyst

Hedge funds denominated in the Brazilian real (BRL), which typically invest domestically, posted gains of 8.43% to August. The decline seen across hedge funds in May was less severe for BRL funds compared to vehicles denominated in most other currencies, while the subsequent performance of these funds (2.98% in the last three months) has also outstripped the industry in general (1.97% across all hedge funds).

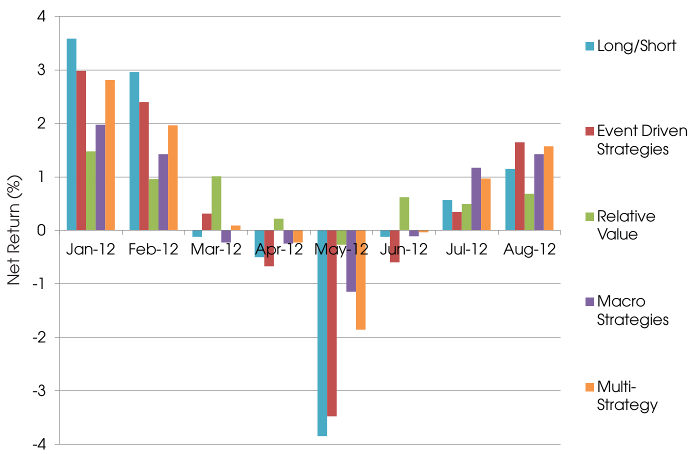
Despite returns of 5.65% in the first quarter of 2012, Japanese yen (JPY) funds are currently down for the year, posting -0.95% as of August. In August 2012 they declined by 0.81%, compounding the effect of negative performance in April, May and July.

Strategic Focus

Long/short funds have not performed as well as other strategies during 2012, despite offering superior returns during Q1 2012. The strategy generated a return of 1.73% across July and August of this year but a challenging second quarter, including performance of -3.85% in May (Fig. 20), and the effect of difficult conditions in September 2011 (-5.22%) have contributed to long/short funds posting -0.52% over the last 12 months.

Multi-strategy and relative value vehicles have been the major contributors to recent hedge fund performance. As shown in Fig. 21, multi-strategy funds are up 5.31% in 2012 and 4.99% over the last year. Hedge funds following relative value strategies were up just 0.68% in August 2012, but positive returns while other strategies were negative have led to these vehicles generating returns of 5.30% in 2012 and 6.41% over the last 12 months.

Fig. 20: Monthly Performance of Hedge Funds by Strategy, January - August 2012



Source: Preqin Hedge Fund Analyst

Fig. 21: Performance of Hedge Funds by Strategy

Q1 2012	Q2 2012	Q3 2012 To Date (Aug-2012)	Year To Date (Aug-2012)	Last 12 Months (Sep-11 - Aug-12)
Long/Short 6.52	**Relative Value** 0.57	**Macro Strategies** 2.61	**Multi-Strategy** 5.31	**Relative Value** 6.41
Event Driven 5.78	**Macro Strategies** -1.51	**Multi-Strategy** 2.56	**Relative Value** 5.30	**Multi-Strategy** 4.99
Multi-Strategy 4.92	**Multi-Strategy** -2.12	**Event Driven** 2.00	**Macro Strategies** 4.28	**Macro Strategies** 3.96
Relative Value 3.49	**Long/Short** -4.45	**Long/Short** 1.73	**Long/Short** 3.54	**Event Driven** 1.67
Macro Strategies 3.18	**Event Driven** -4.70	**Relative Value** 1.17	**Event Driven** 2.82	**Long/Short** -0.52

Source: Preqin Hedge Fund Analyst

Performance of UCITS Funds, Funds of Hedge Funds and CTAs

UCITS Hedge Funds

Hedge funds that are structured to comply with the European UCITS directives generated returns of 0.88% in August to post 3.27% in the year to date (Fig. 23). Relative value and macro strategy UCITS vehicles have been the key drivers of this performance, posting year to date performance of 4.44% and 4.04% respectively.

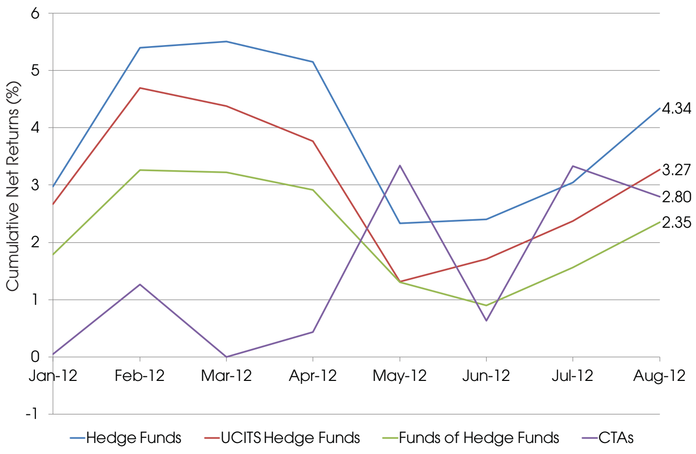
Funds of Hedge Funds

The performance by funds of hedge funds in 2012 so far has echoed that of single-manager vehicles. As Fig. 24 shows, multi-manager funds generated returns of 0.66% in July and 0.78% in August to bring year to date performance to 2.35%. However, a negative return (-0.84%) over the last 12 months reflects the fact that funds of hedge funds experienced a more challenging final quarter in 2011 than single-manager funds.

CTAs

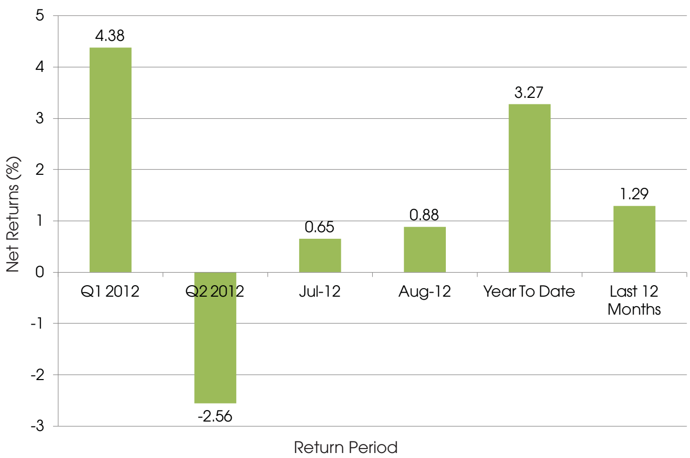
Fig. 25 shows that the performance of CTAs edged into negative territory in August (-0.51%) after posting 2.68% in July. Firms dealing in managed futures were broadly neutral in their performance in the first half of 2012 but by the end of August had generated a year to date return of 2.80%.

Fig. 22: Cumulative Performance of Different Fund Types, January - August 2012



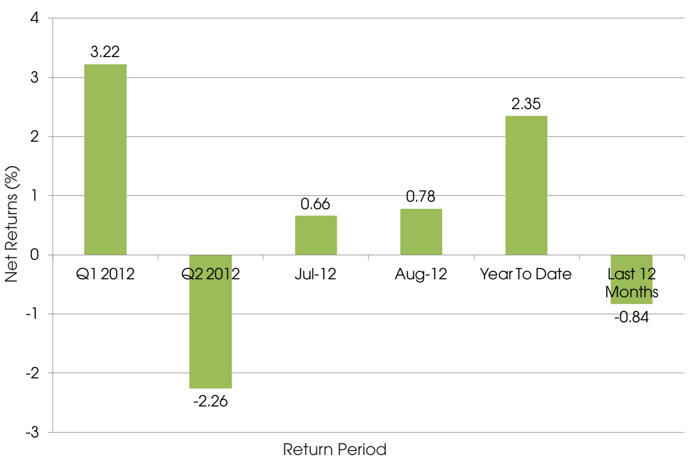
Source: Preqin Hedge Fund Analyst

Fig. 23: Performance of UCITS Hedge Funds (As at August 2012)



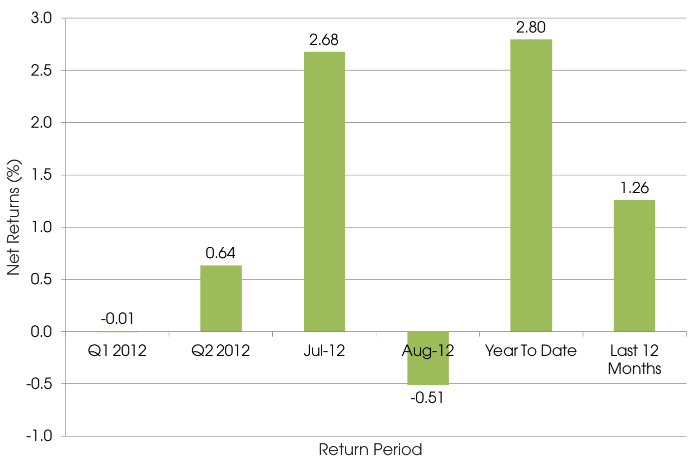
Source: Preqin Hedge Fund Analyst

Fig. 24: Performance of Funds of Hedge Funds (As at August 2012)



Source: Preqin Hedge Fund Analyst

Fig. 25: Performance of CTAs (As at August 2012)



Source: Preqin Hedge Fund Analyst

League Tables: UCITS Funds, Funds of Hedge Funds and CTAs

Fig. 26: Year to Date (January - August 2012) Net Returns of Top 10 Performing UCITS Hedge Funds

Fund Name	Manager Name	Core Strategy	Year To Date (%)
Avaron Emerging Europe Fund - B Unit	Avaron Asset Management	Value-Oriented	16.84
Dexia Bonds Euro High Yield - Class I	Dexia Asset Management	Value-Oriented	14.66
Sycomore L/S Opportunities I Fund - Sycomore L/S Opportunities I	Sycomore Asset Management	Long/Short Equity	12.77
Global Navigator Fund - GBP A	Tideway Investment Partners	Macro	12.65
LFP JKC Asia Value	JK Capital Management	Relative Value Arbitrage	11.05
European Absolute Alpha - Ordinary Class - GBP	Martin Currie	Long/Short Equity	10.20
GAM Star Global Rates - EUR	GAM	Macro	9.89
Renaissance Russia Debt Fund - Class C Institutional	Renaissance Asset Managers	Fixed Income Arbitrage	9.48
Dexia Bonds Global High Yield - Class I	Dexia Asset Management	Value-Oriented	9.39
Bond Global Select Fund	Quaesta Capital	Macro	9.28

Source: Preqin Hedge Fund Analyst

Fig. 27: Year to Date (January - August 2012) Net Returns of Top 10 Performing Funds of Hedge Funds

Fund Name	Manager Name	Core Strategy	Year To Date (%)
Ceres Agriculture II - Class B (2x)	FourWinds Capital Management	Commodities	26.55
HSBC Special Opportunities Fund - US Dollar Class	HSBC Alternative Investments	Event Driven	11.35
Kairos International Sicav - America - Class A USD	Kairos Partners	Diversified	11.25
Galileo Pacific Fund	GL Funds	Long/Short Equity	10.33
DGC Equity Funds World - EUR Class	Notz Stucki Group	Long Bias	10.32
Shaked Opportunity Fund	Shaked Capital Advisors	Multi Strategy	8.67
Private Advisors Hedged Equity Fund (QP) Ltd	Private Advisors	Long/Short Equity	7.72
Pluscios Catalyst Fund	Pluscios Management	Event Driven	7.54
Acantias Offshore Fund - USD	Ayaltis	Distressed	7.38
Signet Global Multi-Strategy Fund - Gold	Signet Capital Management	Long / Short Credit	7.36

Source: Preqin Hedge Fund Analyst

Fig. 28: Year to Date (January - August 2012) Net Returns of Top 10 Performing CTAs

Program Name	Manager Name	Year To Date (%)
Clarke Global Magnum Program	Clarke Capital Management	57.26
Lynx 1.5 (Bermuda) - Class D USD	Brummer & Partners	56.38
eFED Commodity Futures Fund	Ebullio Capital Management	36.93
LJM Aggressive Strategy	LJM Partners	36.83
Clarke Global Basic Program	Clarke Capital Management	32.73
Ram Aggressive Program	RAM Management Group	32.71
Clarke Millennium Program	Clarke Capital Management	30.92
LJM Moderately Aggressive Strategy	LJM Partners	28.26
Harmonic Alpha Plus Macro Fund - Class USD	Harmonic Capital Partners	27.89
Tulip Trend Fund - K AUD	Progressive Capital Partners	26.19

Source: Preqin Hedge Fund Analyst

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Hedge Fund Analyst provides all the latest data and intelligence on hedge funds in one place. Information is updated on a daily basis by a team of skilled research analysts based around the globe, providing you with one single comprehensive resource.

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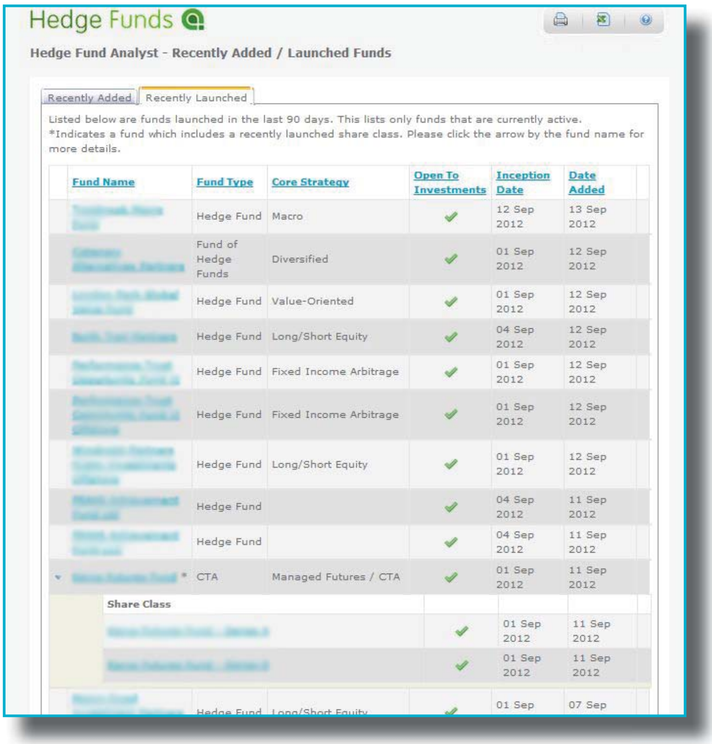

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In-depth searchable profiles on over 3,800 institutional investors interested in hedge funds, allowing you to find investors with appetite for specific types of fund, identify key contacts at specific firms and discover detailed forward-looking investment plans.

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With future fund searches and mandates, search for institutional investors that are actively looking to invest in funds that match your criteria based on their future investment plans.

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Access regularly updated information on the latest developments in the hedge fund institutional investor universe.

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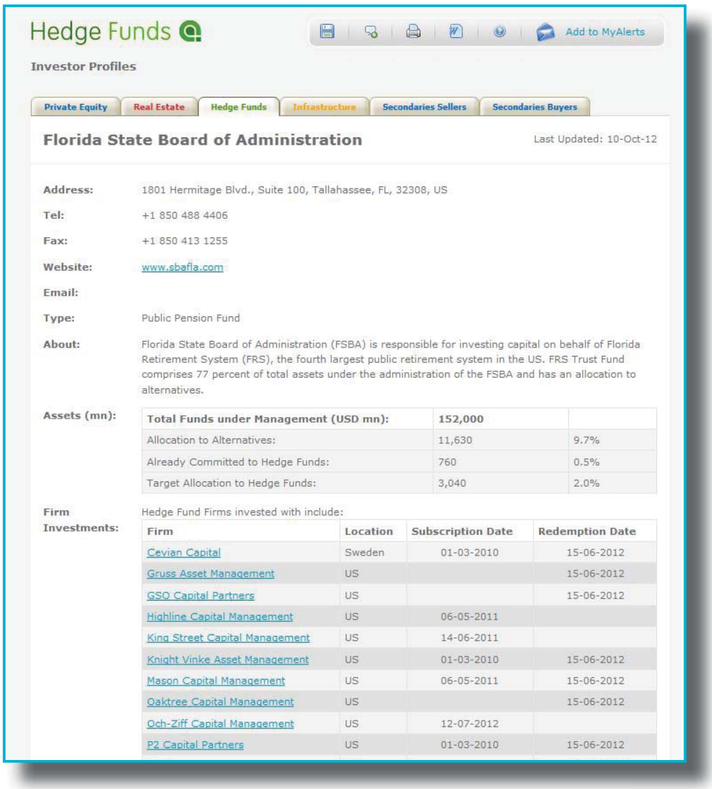
- **Premium subscribers** can also download data straight to excel for further analysis and have unlimited downloads.



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Florida State Board of Administration

Last Updated: 10-Oct-12

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Website: www.sbafla.com

Email:

Type: Public Pension Fund

About: Florida State Board of Administration (FSBA) is responsible for investing capital on behalf of Florida Retirement System (FRS), the fourth largest public retirement system in the US. FRS Trust Fund comprises 77 percent of total assets under the administration of the FSBA and has an allocation to alternatives.

Assets (mn):

Total Funds under Management (USD mn):	152,000	
Allocation to Alternatives:	11,630	9.7%
Already Committed to Hedge Funds:	760	0.5%
Target Allocation to Hedge Funds:	3,040	2.0%

Firm Investments: Hedge Fund Firms invested with include:

Firm	Location	Subscription Date	Redemption Date
Cevian Capital	Sweden	01-03-2010	15-06-2012
Gruss Asset Management	US		15-06-2012
GSO Capital Partners	US		15-06-2012
Highline Capital Management	US	06-05-2011	
King Street Capital Management	US	14-06-2011	
Knight Vinke Asset Management	US	01-03-2010	15-06-2012
Mason Capital Management	US	06-05-2011	15-06-2012
Oaktree Capital Management	US		15-06-2012
Och-Ziff Capital Management	US	12-07-2012	
P2 Capital Partners	US	01-03-2010	15-06-2012

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Asset Weighted Breakdown of Investors by Type and Region

In recent years the hedge fund investor landscape has fundamentally changed due to the rising prominence of institutional investment in hedge funds. A wide range of different types of institution have become increasingly attracted to investing in hedge funds as they look to diversify their portfolios and tap into new sources of alpha in the wake of the financial crisis. Here we examine which sources of institutional capital are most prominent in the institutional investor arena.

Over the past five years institutions such as pension funds, insurance companies and endowments have become some of the largest investors in hedge funds, with institutional investors currently representing around 65% of the capital at work in hedge funds. As such, there are great opportunities to be had for hedge fund managers looking to source fresh capital from institutional investors, with a wealth of different investors, each with different investment objectives and constraints, that can be targeted for capital raising, as shown in Fig. 29.

Public pension funds are one of the most prominent groups of institutional investor active in the hedge fund space and currently represent over a fifth of all institutional capital invested in hedge funds. The number of public pension funds investing in hedge funds has increased significantly over the past five years from around 196 known to be allocating to hedge funds in 2007 to around 377 today. The sheer size of the public pension fund market, as well as their increasing uptake of hedge funds, is shaping the new institutional era of hedge fund management. Often with significant assets under management, the average 6.9% of total assets that they invest in hedge funds equates to a very large amount of capital being directed into hedge funds from these institutions.

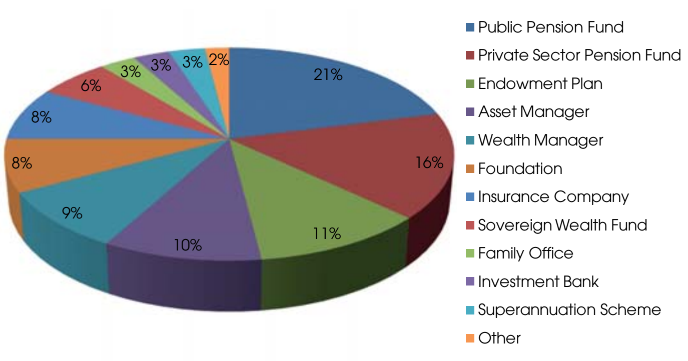
Endowment plans have played a central role in institutional activity in hedge funds over the past 15-20 years and today represent 11% of all institutional capital at work in hedge funds. The proportion was even higher in the early 2000s before pension fund capital began to flow into the asset class. It was the early adoption of the industry by endowments that has led to much of its success today: were it not for the early uptake and successful creation of large portfolios of hedge funds by endowments such as Yale and Harvard, it is unlikely we would see such backing from more conservative investors, such as pension funds or insurance companies, today.

As shown in Fig. 30, North America is the most active institutional market for hedge funds, with 64% of institutional hedge fund capital coming from this region. The US boasts a diverse investor base comprising a large number of sophisticated hedge fund investors, including both funds of hedge funds and a broad range of institutions from private wealth managers through to union-backed pension funds.

The European institutional market is another prominent source of hedge fund capital, with a wealth of investors based in the UK, the European hub of hedge fund investment, as well as Switzerland, with its world-renowned private banking and wealth management industry.

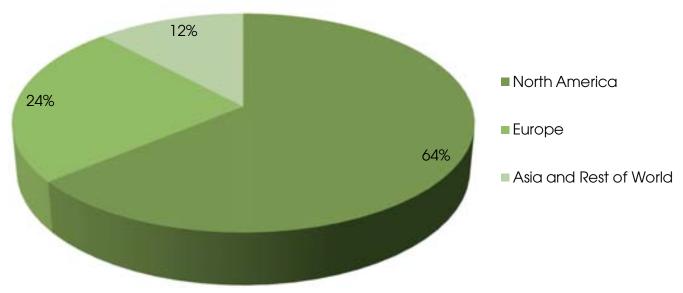
As the nascent hedge fund industry in Asia and Rest of World continues to develop and mature, it is likely that we will see an increase in the proportion of hedge fund capital coming from institutions in these regions. Despite the hedge fund industry in developing economies being much younger than its American or European counterparts, these markets potentially represent the greatest growth opportunities for managers. Countries such as China and South Korea have begun to gradually loosen regulations with regards to the hedge fund industry, which will allow the institutional investor base within these previously untapped markets to grow.

Fig. 29: Breakdown of Institutional Capital Invested in Hedge Funds by Investor Type



Source: Preqin Hedge Fund Investor Profiles

Fig. 30: Breakdown of Institutional Capital Invested in Hedge Funds by Region



Source: Preqin Hedge Fund Investor Profiles

Institutional Investor Requirements from their Hedge Fund Investments

Institutional investors are now more demanding than ever when it comes to selecting hedge fund managers. A recent Preqin study indicated that 43% of institutional investors believe hedge funds have fallen short of expectations over the past 12 months, leading to nearly a quarter of investors stating that their confidence in hedge funds has decreased over the previous year as a result. Despite disappointing returns in many investors, the majority of institutions on Preqin's database look set to continue investing in hedge funds for the long term. Here we examine the requirements that investors have when selecting funds to add to their portfolios, and whether these have changed following lower-than-expected returns.

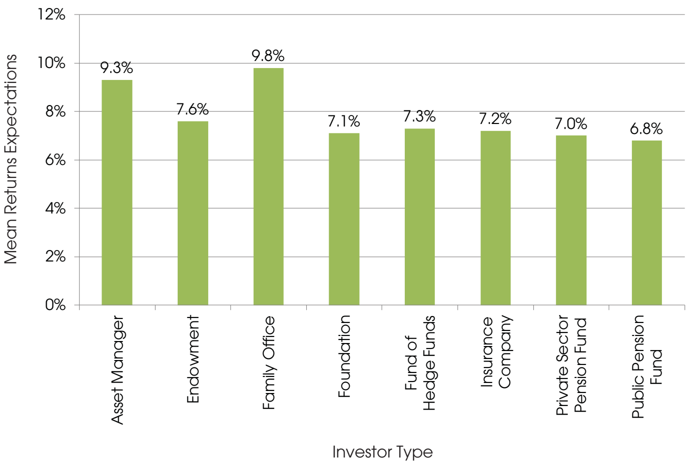
Fig. 31 examines the average returns expectations across several different groups of institutional investor. Institutional groups that have generally been investing in hedge funds for the longest period – family offices, endowments and asset managers – typically have the highest returns expectations, with family offices leading all investors by seeking mean annualized returns of 9.8%. Foundations and pension funds have the lowest average returns expectations, with these investor groups aiming to avoid taking too much risk and instead aiming for stable sources of low-volatility returns.

Over recent years there has been a decrease in investors targeting funds with a track record of less than three years. This was reflected by 34% of investors interviewed in 2011 saying they would invest in such a vehicle compared too 54% in 2009. This outlook has been maintained over the course of 2012, with 34% again indicating they would be willing to invest in a fund with less than a three-year track record. Foundations and pension funds in particular prefer to invest in funds with longer track records, seeking investment in the perceived security of established names. Asset managers and funds of hedge funds are more likely to invest in emerging managers as a result of greater resources while some of the larger endowment plans are also keen to invest in more embryonic managers.

In terms of assets under management requirements, 74% of institutional investors will invest in managers with less than $500mn in assets, a slight reduction on the 78% that indicated this in 2011. This suggests that investors are shifting to search for more established funds and those showing greater success in growing funds under management.

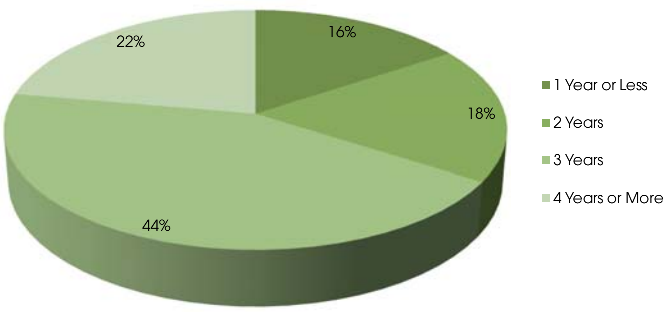
Public pension funds are most likely to look for larger funds, with 62% requiring assets under management of at least $500mn. Funds of funds, family offices and asset managers are those most likely to invest in smaller managers as these investors have the resources to conduct the necessary due diligence on emerging funds.

Fig. 31: Mean Hedge Fund Returns Expectations by Institutional Investor Type



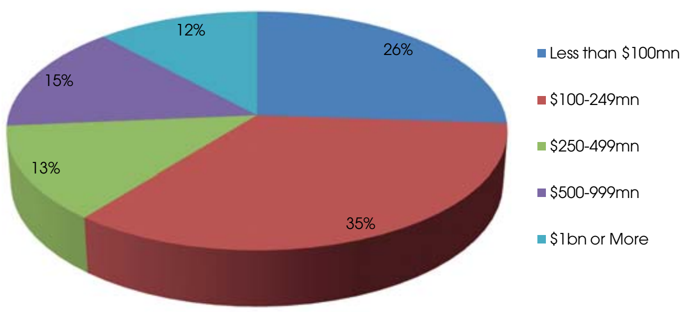
Source: Preqin Hedge Fund Investor Profiles

Fig. 32: Minimum Fund Manager Track Record Required by Institutional Investors



Source: Preqin Hedge Fund Investor Profiles

Fig. 33: Minimum Fund Manager Assets under Management Required by Institutional Investors



Source: Preqin Hedge Fund Investor Profiles

Institutional Fund Searches over the Next 12 Months

In these times of heightened concern over hedge fund performance and the ability of the asset class to fulfil portfolio objectives, developing a pipeline of fresh leads of investors grows ever more important. Preqin's "Fund Searches and Mandates" feature tracks detailed mandates of the 750 investors currently actively searching for new fund investments. Here we examine in more detail the types of investors searching for new funds and the strategies and structures they are seeking to invest in.

Fig. 34 shows the breakdown of investor mandates issued in the first, second and third quarters of 2012 by the type of investor issuing the fund search. Funds of hedge funds are consistently the group issuing the greatest number of mandates. This is of little surprise, considering that this group of investors typically has higher turnover rates than other types of institutional investors and actively redeems and rebalances to take advantage of market trends.

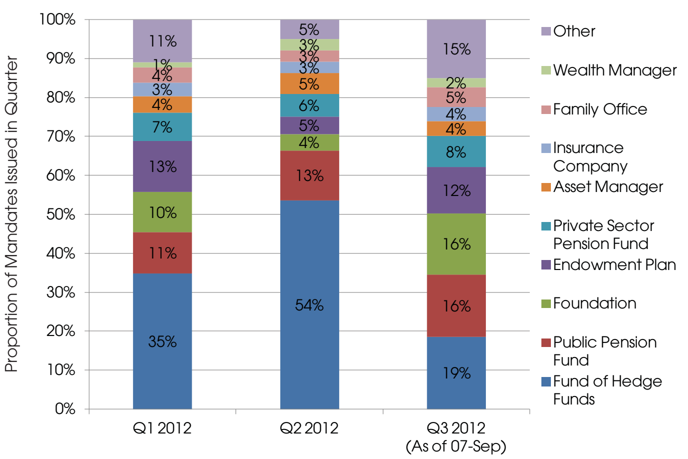
Despite the fact that there has been a contraction of the fund of hedge funds industry following firms shuttering or merging since 2008, the number of mandates from these institutions remains high. In Q2 2012, when other investor groups were more conservative with the fund searches they issued, fund of funds mandates dominated the fund search landscape, with more than 50% of searches issued coming from this group.

Beyond multi-manager funds, public pension funds are the most active type of institutional investor seeking new hedge funds, with the proportion of the total number of fund mandates issued by this group rising throughout the year. A number of public retirement systems are aiming to increase allocations and add new funds to their existing portfolios over the next 12 months. Public pension funds have been steadily growing their exposure to hedge funds over the past five years and are more likely to increase the number of managers in their portfolios than funds of hedge funds as they seek to fill bolstered target allocations. Additionally, the gradual shift being made by public pension funds from investment solely in funds of hedge funds to investment in a diversified portfolio of single-manager vehicles with some additional fund of funds exposure has led to the overall size of their portfolios, in terms of number of funds, growing.

Interestingly, there is a significant disparity between the activities of public pension funds and their private sector counterparts. Private sector pension funds issue about half of the number of mandates that their public sector counterparts do (8% of the total in Q3 2012 as of 7th September, compared to 16% made by public pension funds). Private sector pension funds have become more conservative in their hedge fund activities since 2008 and have been trending towards traditional investment opportunities in the face of poor returns and complex strategies.

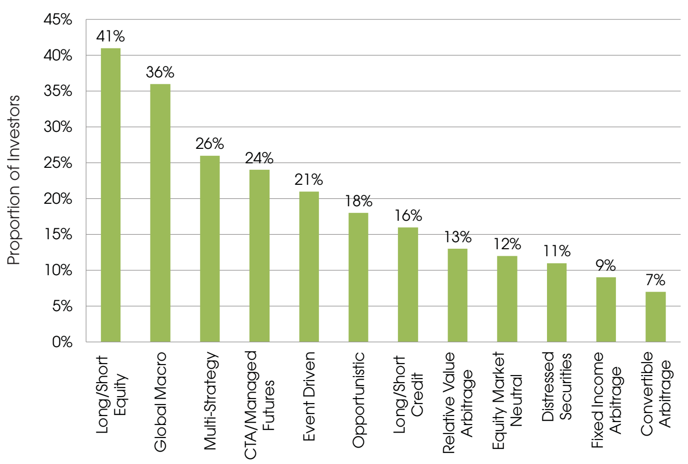
Liquid hedge fund strategies are the most commonly sought among investors issuing mandates recently. Underwhelming performance and market volatility has made greater liquidity a more attractive quality to institutional investors. Despite coming under scrutiny from institutional investors in 2012, long/short equity remains the most commonly searched-for strategy, with global macro following as the second most commonly sought fund strategy. Fig. 35 shows that 41% and 36% of investors are seeking long/short equity and global macro funds respectively. The uncertain macroeconomic environment has made global macro strategies, including managed futures, of considerable interest to investors. Less liquid strategies are receiving a lower level of interest from investors. For example, just 11% of investors are seeking funds with a distressed securities focus.

Fig. 34: Breakdown of Mandates Issued in Each Quarter of 2012 by Investor Type



Source: Preqin Hedge Fund Investor Profiles

Fig. 35: Strategies Sought by Investors over the Next 12 Months

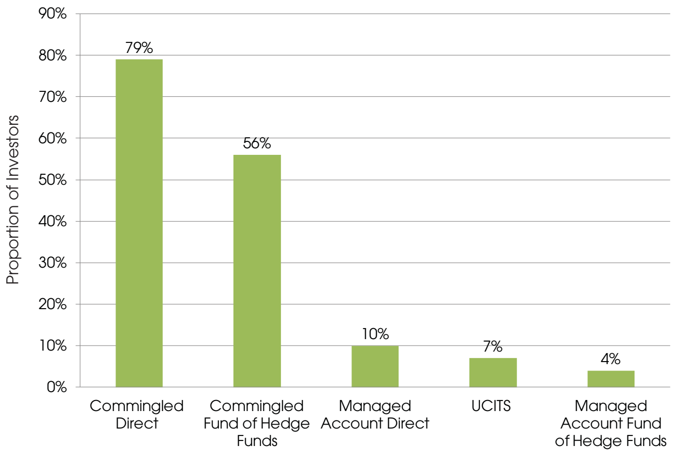


Source: Preqin Hedge Fund Investor Profiles

Nearly 80% of investors have an interest in direct funds as part of their future searches, as highlighted by Fig. 36. The significant proportion of new investments being sought by funds of funds is one of the leading drivers behind the high level of interest in single-manager funds. Additionally, many institutional investors are increasing their allocations to single-manager funds as they acquire the knowledge and experience necessary to construct their own portfolios of funds. An example of this is the Korea Teachers' Credit Union pension fund, which will be looking to make its maiden investments in single-manager funds over the next 12 months.

Fifty-six percent of the investors looking to make hedge fund investments over the next year are seeking fund of funds vehicles as part of their mandate. Although relatively niche, managed account versions of single-manager funds are being sought by 10% of investors as they seek more liquid and transparent structures. UCITS funds are being sought by 7% of the investors actively seeking new funds in the next 12 months.

Fig. 36: Structures Sought by Investors over the Next 12 Months



Source: Preqin Hedge Fund Investor Profiles

Fig. 37: Sample of Open Investor Searches

Name	Type	Region	Description of Search
Western Research & Management	Fund of Hedge Funds	US	The fund of hedge funds manager plans on making a number of additions to its portfolio over the next year. It will look to increase the number of managers in its vehicle from seven to between 12 and 15. It has an interest in liquid strategies including long/short equity, managed futures and global macro-oriented funds.
Rady Children's Hospital Foundation	Foundation	US	The foundation invests 8% of its total assets in hedge funds and has a target allocation of approximately 18%. It plans on making investments in a number of long/short equity funds and is seeking US-oriented vehicles for the move.
Swiss National Accident Insurance Institution	Insurance Company	Europe	The insurance company will look to invest in two to four hedge funds over the next 12 months. It has a particular interest in global macro managers based in Asia.
TFL Pension Fund	Private Sector Pension Fund	Europe	The pension fund is planning to almost double its hedge fund allocation from 8% to 15%. It will look to expand the number of managers it has relationships with and will consider a wide range of strategies including long/short credit and equity, event driven and multi-strategy oriented funds.
Korean Teachers' Credit Union	Public Sector Pension Fund	Asia	The pension fund intends to make a number of new investments over the next 12 months. It invests in funds of hedge funds, but it plans on making its maiden investments in single manager funds as part of its expansion strategy. It will consider various strategies, but has a preference for arbitrage-oriented investments as opposed to CTA and long/short equity funds.

Source: Preqin Hedge Fund Investor Profiles

Finding the right investors for your fund can be challenging, and therefore being able to pinpoint particular institutions that are looking for a specific fund type is vital in today's crowded market.

Preqin's Hedge Fund Investor Profiles database allows users to identify potential investors quickly by filtering on a range of criteria, as well as providing access to the direct contact details of key decision makers, helping ensure that marketing efforts are targeted.

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