

October 2009 / Volume 1 - Issue 10

Welcome to the October edition of *Hedge Fund Investor Spotlight*, the monthly newsletter from Preqin, providing insights into institutional investors in hedge funds. This month *Hedge Fund Investor Spotlight* contains information from our industry-leading online product: *Hedge Investor Profiles*.

## Hedge Fund Investor Survey

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Hedge Fund Institutional Confidence a Year On: Have Investors Recovered from the Crash?

At the end of September 2009 Preqin analysts surveyed more than 50 institutional investors with known activity in hedge funds to garner their thoughts on various issues key to the industry today; we examine the results.

### Investor in Focus

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North American Family Offices/Foundation

Each month *Investor in Focus* examines a particular group of investors, using data from Preqin's *Hedge Investor Profiles* service. This month we examine North American Family Offices and Foundations.

### Strategy in Focus

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CTA/Managed Futures

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This month's *Investor News* section identifies some of the most important new developments in the institutional investor universe. Full profiles for all institutions featured in *Investor News* can be viewed on our online service.

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- Quilvest Switzerland
- World Bank Pension Plan
- Adept Capital Partners

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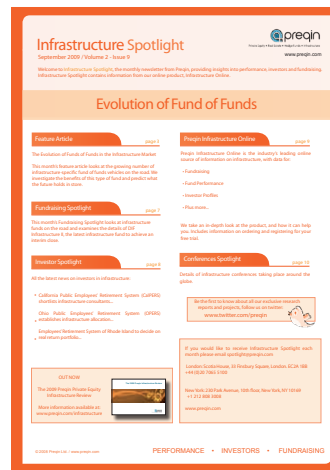
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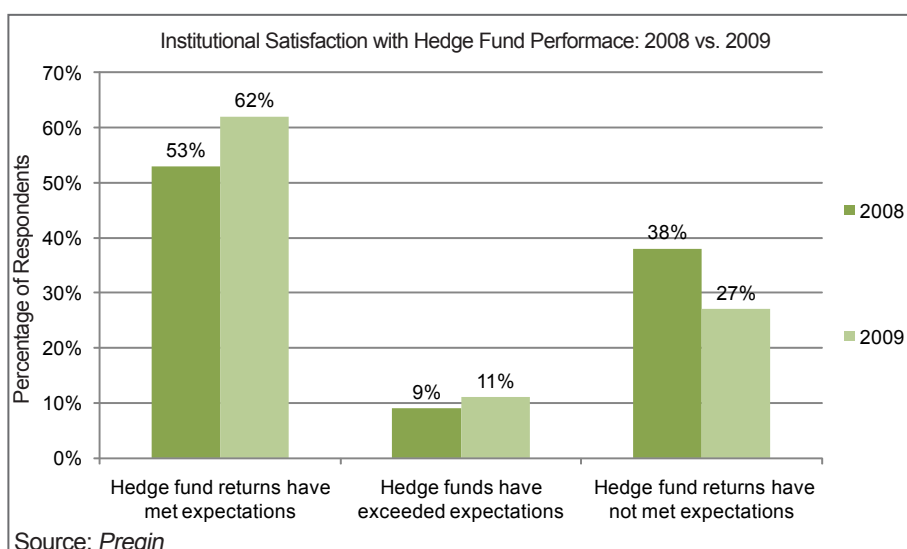
# Prequin Hedge Fund Survey: Institutional Confidence One Year On: Have Investors Recovered from the Crash?

At the end of September 2009 Prequin's analysts surveyed more than 50 institutional investors with known activity in hedge funds to garner their thoughts on various issues key to the industry today. Prequin carried out a similar survey in October 2008 – just as the global financial markets crashed. In this article we look at how the results of this year's survey compare to 2008's and examine investor confidence on the cusp of a new decade. We surveyed a variety of institutional investors including private and public sector pension funds, endowment plans, family offices, foundations and insurance companies. The survey also encompassed a large cross section geographically, with investors based in Europe, North America, Asia and Rest of World.

## Investor satisfaction and confidence

Institutional investors are, on the whole, more satisfied with the returns of their hedge fund portfolios today, compared to a year ago. In 2008, just under 40% of all surveyed investors were dissatisfied with

Fig. 1:



their hedge fund investments following returns which had not met expectations – today this figure stands at around 27%. As shown in Fig. 1, 62% of investors surveyed in 2009 stated that return expectations have been met, and a

further 11% stated hedge fund returns have exceeded their expectations.

Although the industry as a whole was successful in outperforming public markets following the crash, a significant proportion of investors remained dissatisfied with their investments

in hedge funds in 2008. In addition, the fact that hedge funds are a relatively liquid investment meant that investors that were satisfied and dissatisfied alike were seeking redemptions from existing investments in order to rebalance other distressed areas within their portfolios. In some cases investors in the more successful strategies have found themselves over-exposed to the asset class, and as a result have been making redemptions in order to rebalance.

As a result, many hedge funds disappeared altogether and the industry shrank considerably, from \$1.93 trillion at its peak to approximately \$1.3 trillion today (source: Hedge Fund Research). Today returns are back in positive territory and some strategies have been producing their best performances for five years or more. This bounce back

Fig. 2:

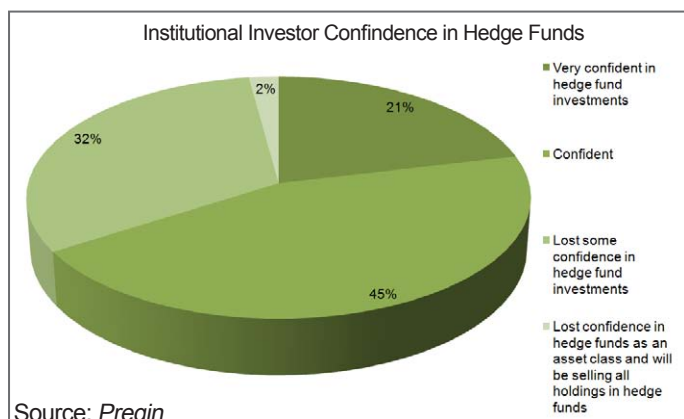


Fig. 3:

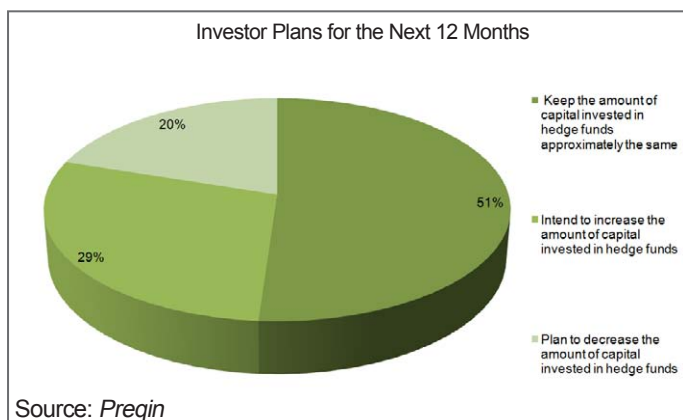
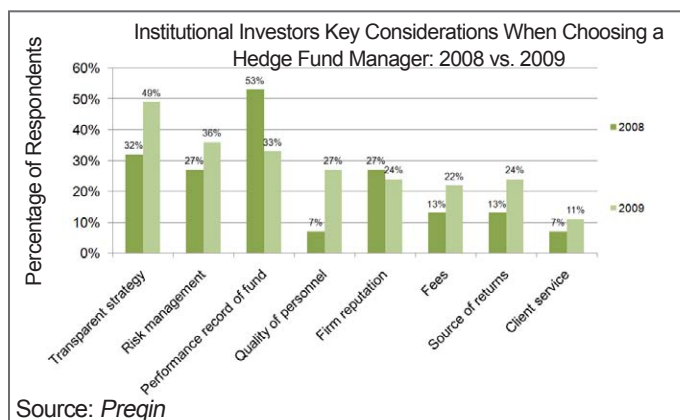


Fig. 4:



has helped to restore some of the investor confidence that was lost in 2008; with 73% of investors stating that they are satisfied with hedge funds returns in 2009 up from 62% in 2008. In addition institutions are once again investing in the asset class following their temporary suspension of activity at the end of 2008 and we have recently witnessed new investments being made by institutions such as Alaska Retirement Management Board and New Zealand Assets Management.

Fig. 2 shows that 66% of institutional investors are either confident or very confident that their hedge fund

investments meet their investment objectives. There still remains a degree of apprehension about the asset class following the disappointing returns, high-profile scandals and gating of capital which characterised the end of last year. However, if returns remain strong and managers have learnt from the lessons of the crash, then investor confidence in the asset class should be restored to pre-2008 levels.

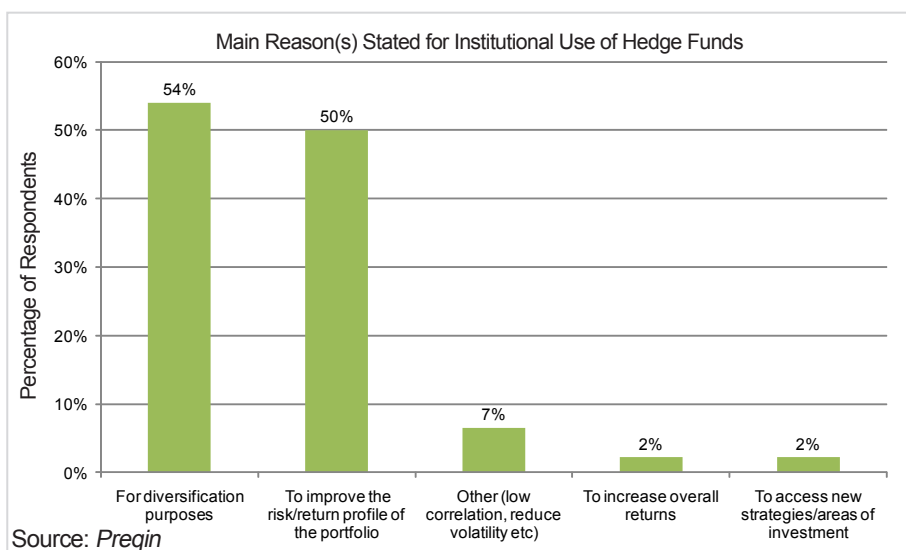
As a result of this increased investor satisfaction, there is once again a net positive balance of investors planning to increase their allocation to the asset class: 29% of the investors surveyed

plan to increase their investments, compared to only 20% planning to decrease them (and the balance of 51% plan to maintain their investment at current levels.) Among the institutions planning to reduce their investments in hedge funds, it was interesting to note that in some cases this was due to short-term liquidity reasons. One European foundation told Preqin that it was cutting some hedge funds from its portfolio "unwillingly; ...because of their outperformance, hedge funds' relative proportion of the total portfolio now exceeds the maximum allowable by the board so I am forced to redeem to bring the proportion into line with the strategic allocation."

### What are investors looking for in hedge fund managers?

Fund transparency has replaced fund performance as the greatest consideration for investors when selecting new hedge fund managers. Risk management and firm reputation have also grown in importance to hedge fund investors following the high-profile hedge fund scandals which have dogged the industry in the past 12 months. Last year the performance record of a fund was the most important criteria used by institutional investors to assess new hedge fund opportunities; however investors now are more conservative in their reasons for investing in hedge funds. As Fig. 5 shows, most investors choose hedge funds for portfolio

Fig. 5:



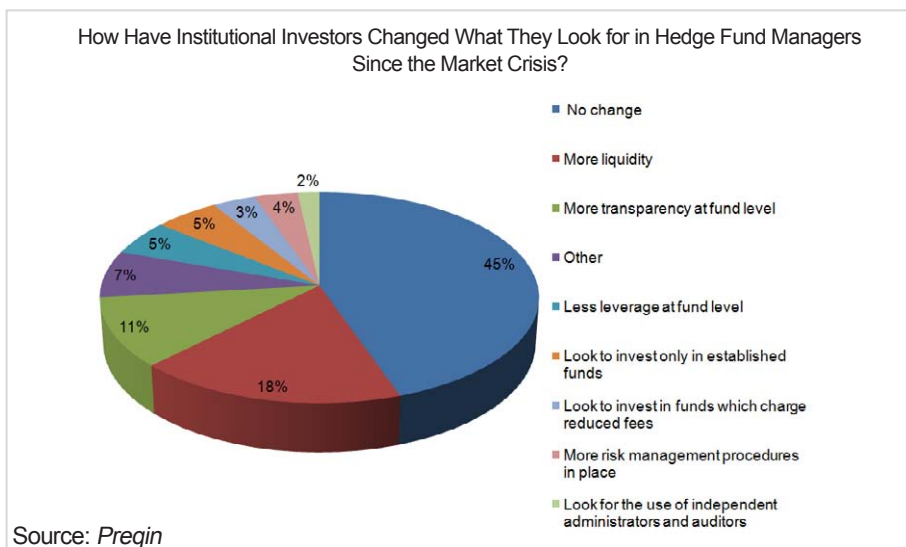
diversification and to improve the risk/return profile of their portfolio rather than to produce outsized returns.

Just under half of all investors surveyed stated that they have not altered what they look for in hedge fund managers since the market crisis at the end of 2008. Of the investors which have altered their search criteria, 52% are now looking for increased liquidity, and a third look for more transparency at fund level. While fees are a key issue for institutional investors, they do not specifically set out to invest in funds that charge lower fees, preferring instead to negotiate fees with funds that exhibit characteristics which are more important to them, such as greater liquidity and transparency.

### Conclusions

Institutional confidence in hedge funds is returning after the global crisis in 2008. A significant degree of investor confidence was lost last year following disappointing returns and several high-profile fund collapses and scandals. However these investors are beginning to make new investments and have been more satisfied with their hedge fund performance over 2009, than in 2008. The hedge fund industry has changed: with less in assets under management

Fig. 6:



and fewer funds. Institutional investors are now the key source of capital to hedge fund managers – providing over 70% of the total assets in the industry – therefore it is vital for managers to understand the needs and demands of these investors if they are to be successful in their search for institutional support.

Liquidity and transparency are key issues for the institutional investor. Funds that can provide this will be very attractive

the “2&20” structure that has been implemented traditionally.

### Future Preqin Surveys

In the coming weeks Preqin will be releasing a report examining investors’ attitudes towards fees. This detailed report will include the results from the second Preqin hedge fund investor survey.

Preqin’s Hedge Investor Profiles is an online database which contains information about institutional investors in hedge funds. To find out more about this industry-leading product, or to register for trial access, please visit:

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Amy Bensted

Preqin’s Hedge Investor Profiles contains more information about institutional investors in Hedge Funds.

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to the institutional investor over the next 12 months. Also those hedge fund managers that are flexible in the terms and conditions associated with their funds will be more successful at gaining institutional support. The issue of fees has been at the forefront of the hedge fund industry in 2009, and institutional investors are becoming increasingly dissatisfied with

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# Investor in Focus: North American Family Offices/ Foundations

North America is home to the largest number of family offices and foundations in the world and many are highly established investors in hedge funds, having entered the asset class over 15 years ago. Today just under half of all family offices and foundations invest in hedge funds, investing on average 14% of total AUM in the asset class. As long-term investors in the asset class, family offices and foundations are an attractive source of capital for a hedge fund manager, offering

hedge funds both stability and long-term assets.

North American family offices and foundations access the asset class using a mixture of both fund of funds and direct fund investments. 54% of family offices and foundations make strategic investments in funds of funds; the relative size of some of these investors means that they are either too small or lacking in the resources to make direct investments,

so funds of hedge funds offer them a way of gaining a portfolio of funds through a single investment.

However, many family offices and foundations also make direct investments alongside their fund of funds investments, or solely make direct investments. They tend to consider a broad array of hedge fund strategies when making new investments; by not limiting themselves to a prescribed strategic allocation they are

Fig. 1

### Key Facts: North American Family Offices/Foundations

% of North American family offices/foundations investing in hedge funds	48.9%
Average allocation to hedge funds	14%, USD 174.3
Average target allocation to hedge funds	16.1%, USD 200.4
Most favoured investment approach	Both direct & fund of hedge funds
Average # of hedge funds in North American family offices/foundations' portfolios	10
Typically been investing in hedge funds for...	15 years

Source: Preqin

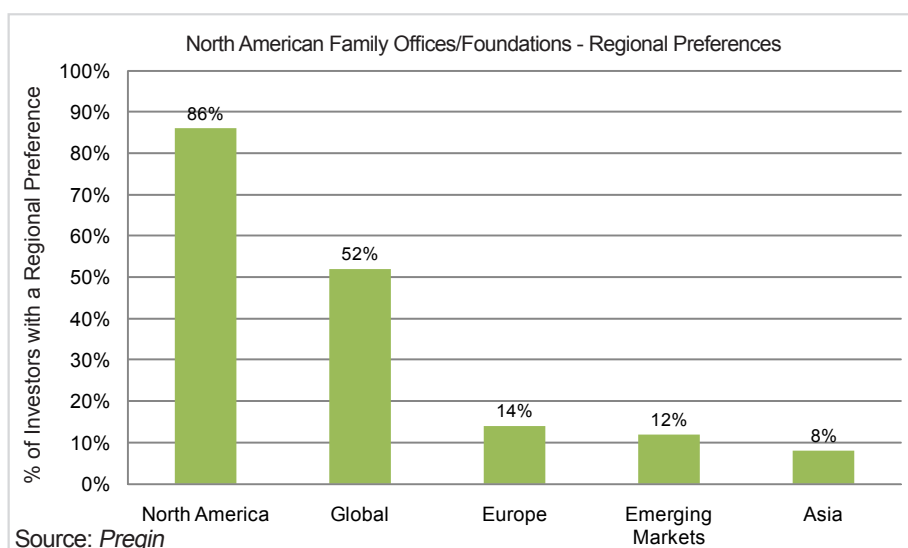
Fig. 2:

### Top 10 North American Family Offices/ Foundations in Hedge Funds

Investor	Allocation to HF (\$mn)
Howard Hughes Medical Institute Endowment	3,894
William and Flora Hewlett Foundation	1,512
J. Paul Getty Trust	1,210
Catholic Health East	1,008
Rockefeller Foundation	927
Kresge Foundation	900
Doris Duke Charitable Foundation	700
Carnegie Corporation of New York	644
Spruce Private Investors	600
UPMC Health System	546

Source: Preqin

Fig. 3:



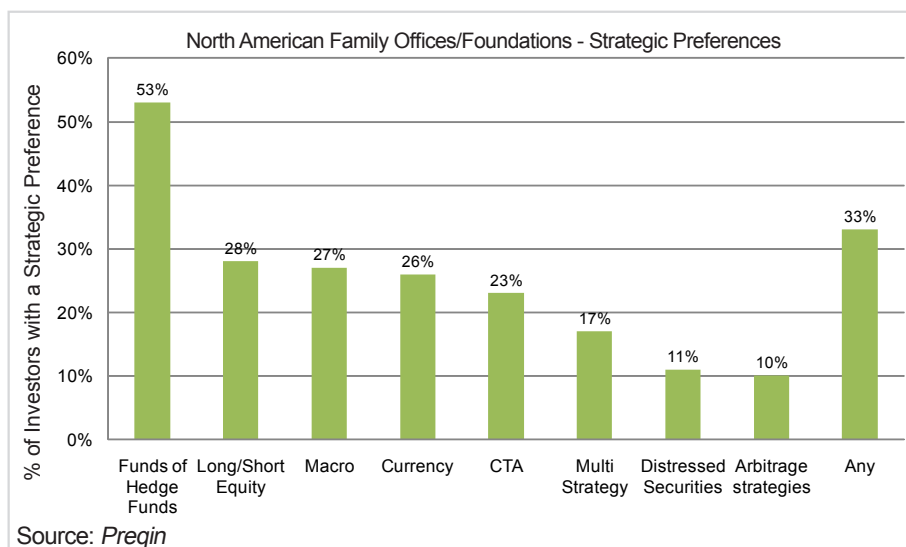
Source: Preqin

able to be more flexible in their investment decisions and respond more quickly to a changing economic landscape. They are also governed with fewer restrictions in comparison to other institutional investors and they are not constrained by a drawn out decision making process before deciding whether to invest in a fund or not.

The majority of North American family offices and foundations have a preference for investing domestically; however 52% will consider funds on a global scale.

Suganniya Kanaganayagam

Fig. 4:



The information and data contained in this article was taken from Preqin's Hedge Investor Profiles. To find out more and register for trial access of Preqin's Hedge Investor Profiles visit: [www.preqin.com/hedge](http://www.preqin.com/hedge)

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# Strategy in Focus: CTA/ Managed Futures

Over the past months there has been a surge in the number of institutional investors stating CTA as a strategic preference. The credit crisis and financial meltdown in 2008 resulted in a pressing need for institutional investors to find investment products that provided their portfolios with both transparency and liquidity. CTAs are a highly liquid strategy with very short or no lock-up periods and have been an attractive fund choice for investors during the downturn. Investors, though more positive about hedge funds in the second half of 2009, remain cautious when making new commitments and are choosing funds such as CTAs which can offer liquidity as well as diversification to their portfolios.

Public pension funds are at present one of the largest sources of capital for CTA managers, and managed futures in general are very popular amongst retirement boards. Currently, more public pension funds are actively searching for CTA investments than long/short equity funds. Endowments and family offices/foundations are another type of large institutional investor in managed futures as they seek to improve the liquidity of their portfolios and rebalance their

hedge fund allocations which became overweighted in certain areas following the gating and illiquidity of the hedge fund industry in the latter half of 2008.

Katy Johnson

Prequin currently holds profiles for 377 institutional investors with an active interest in this sector, including 243 North American-based, 101 European-based and 33 Asia and Rest of World-based institutions.

Fig. 1:

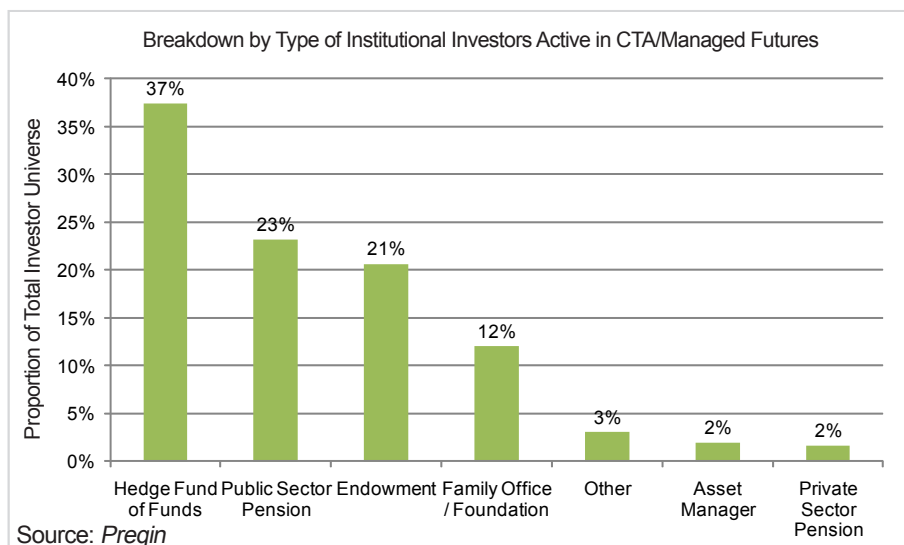


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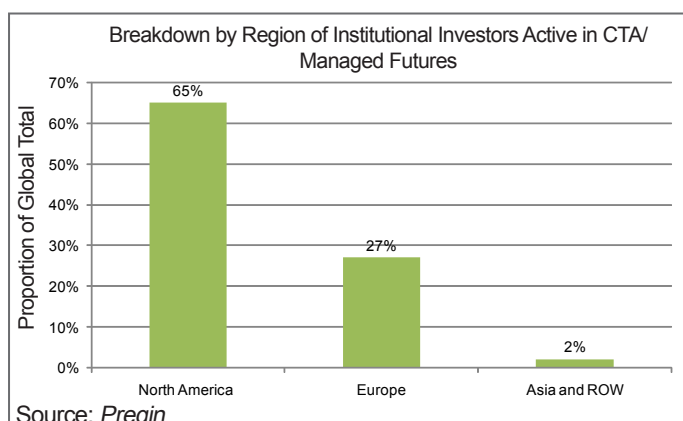


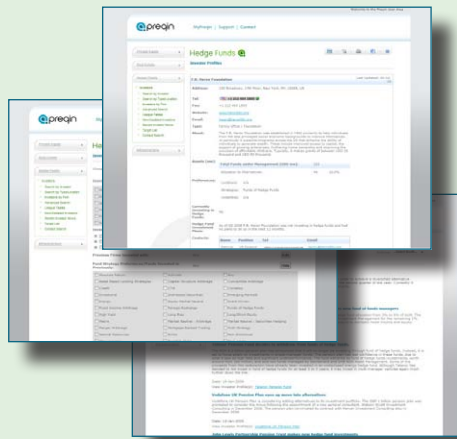
Fig.3:

Key Facts - CTA Investors	
% of institutional HF investors which state CTA as a preference	16%
Average AUM of a CTA investor	USD 3.8 billion
Average allocation to hedge funds of a CTA investor	14%
Average returns sought from CTA investments	8%
Most favoured investment approach (fund of hedge funds, direct hedge funds, mixture of both)	Direct

Source: Prequin

# Preqin: Hedge Fund Services

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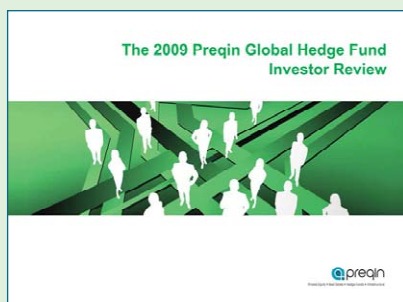
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## 2009 Preqin Global Hedge Fund Investor Review

The 2009 Preqin Global Hedge Fund Investor Review is the ultimate guide to institutional investors in hedge funds, featuring both profiles for 400 leading investors, plus comprehensive analysis on this increasingly important sector of the market.

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# Conferences Spotlight: Forthcoming Events

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### Hedge Funds World Latam 2009

**Date:** 19-21 October 2009

**Location:** Four Seasons, Miami, USA

**Sponsor:** Terrapinn

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**Information:**  
[www.terrapinn.com/2009/latam/](http://www.terrapinn.com/2009/latam/)

### Terrapin Hedge 2009

**Date:** 3-5 November 2009

**Location:** Hilton London Tower Bridge, UK

**Sponsor:** Terrapinn

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**Information:**  
[www.terrapinn.com/2009/hedge/](http://www.terrapinn.com/2009/hedge/)

### HedgeCo Capital Introduction Round Table Fall 2009

**Date:** 10 November, 2009

**Location:** US Trust Building, 114 W. 47th St., New York, NY 10036

**Sponsor:** HedgeCo

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**Information:**  
<http://events.hedgeconetworks.com/fall-2009>

Other Conferences

CONFERENCE/EVENT	DATES	LOCATION	ORGANISER
Hedge Funds Regulatory Climate: Opportunities and Threats 2009	14 - 15 October 2009	London	Hedgestar
Hedge Funds World LatAm 2009	19 - 21 October 2009	Miami	Terrapinn
GAIM Fund of Funds	19 - 21 October 2009	New York	IIR
Global Hedge Fund Summit	25 - 27 October 2009	Bermuda	Institutional Investor
Hedge 2009	3 - 5 November 2009	London	Terrapinn
Hedge Funds World Africa 2009	17 - 20 November 2009	South Africa	Terrapinn
Gaim Ops Europe	30 Nov - 2 Dec 2009	Geneva	ICBI
Hedge Funds World Zurich 2009	1 - 3 December 2009	Zurich	Terrapinn

# HedgeCo

Fall 2009

## Capital Introduction Round Table

HedgeCo would like to invite you to the Fall 2009 Capital Introduction Round Tables. Some of the top managers listed on HedgeCo will be sitting down to speak with investors about the investment strategies utilized to create alpha for their funds. This will also be a good time to meet the members of the HedgeCo staff. This event is for qualified investors only.

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# Investor Spotlight: Investor News

## **Peak Partners announces new fund of hedge funds vehicles and targets new managers**

The fund of hedge funds manager has announced the addition of two new funds that it hopes to launch by the end of the year. Its Mont Blanc Green Fund will focus on green investing and will seek 20 underlying managers using long/short or long only. Mont Blanc Crest, a distressed fund of hedge funds, will start with 20 managers which it hopes to increase to 25 in the long term.

## **Yankee Advisers considers emerging market hedge fund amongst new investments**

The USD 20 million fund of hedge funds firm is looking to add up to two new managers in the next 12 months and intends to focus on global equity and event driven strategies. It is also keen to find an emerging market hedge fund to add to its portfolio. It typically commits USD 1 million to each new investment and will invest in lock-ups of no longer than 12 months.

## **The Family Office Co. makes new seed investment**

The Bahrain-based multi-family office has revealed that it has created a partnership with 3-Sigma Value Investment Management and has seeded its new vehicle, 3-Sigma Value Offshore, a long/short equity hedge fund. The Family Office Co. decided to invest with 3-Sigma because of the high level of transparency and liquidity of the fund, as well as the proven uncorrelated returns of the long/short manager's previous hedge fund.

## **Adept Capital Partners searches for Indian-based hedge fund managers**

The fund of hedge funds manager, which manages USD 150 million, is looking to add 15-20 new managers across its fund of hedge funds vehicle over the next 12 months and has a preference for funds based in India. It plans to focus on quantitative and macro strategies and will commit as much as USD 150 million to the move. Adept avoids funds with lock-up periods and looks for annualised returns of 20%.

## **Evanston Capital Management seeks new hedge funds including emerging market funds**

The fund of hedge funds manager is looking to add as many as five new investments in the next 12 months and plans to commit as much as USD 500 million. It intends to focus on credit, distressed debt, global macro and emerging market hedge funds. Evanston will invest with emerging managers and spin-off teams but does not seed funds. It seeks returns of 5% above T-Bill and will invest in lock-ups of no longer than 36 months.

## **Global Investment House focuses on long/short equity and convertible arbitrage strategies**

Global Investment House currently manages USD 300 million in five funds of hedge funds and is looking to add three to seven new managers in the next 12 months, investing USD 10-30 million. It plans to focus on convertible arbitrage and long/short equity strategies and carries out extensive due diligence before making any investments. The firm will not invest in funds with less than USD 400 million under management. It will invest in funds with lock-up periods, which it reviews on a case-by-case basis, depending on strategy. It typically invests USD 2-10 million per hedge fund and seeks annualised returns of 10%.

## **Quilvest Switzerland switches from multi-strategy to long/short**

The fund of hedge funds manager, which manages USD 600 million across its vehicles, has announced that it will liquidate two of its multi-strategy fund of hedge funds vehicles: the QSAM All Weather fund and the QSAM Diversified Non-Equity fund, in order to concentrate on long/short investments. It will also recommend investors in its other multi-strategy fund to switch their investments to its global long/short equity portfolio.

## **World Bank Pension Plan targets event driven, market neutral and statistical arbitrage managers**

In recent months the USD 14.5 billion pension plan has made a number of redemptions from its hedge fund portfolio, redeeming from managers it felt did not perform well or were exposed to riskier strategies. It is now looking to replace some of these investments and plans to focus on event driven, market neutral and statistical arbitrage strategies on a global scale. Typically World Bank will not invest in a fund unless it has at least USD 100 million in assets, and its normal bite size is in the region of USD 10-20 million per fund.

## **APK-Pensionskasse seeks fixed income and CTA managers**

The EUR 2.2 billion pension fund is looking to invest an additional EUR 80 million in around four or five hedge funds over the next 12 months. It is currently looking for managers that are active in the fixed income and CTA space. It will employ a global mandate and will consider both funds of hedge funds and direct managers. The pension fund is keen to avoid investing in managers that are highly leveraged and typically looks for managers that have at least a two-year track record and assets under management of EUR 100 million and more.

Katy Johnson

Each month Spotlight provides a selection of the recent news on institutional investors in hedge funds. More news and updates are available online for Hedge Investor Profile subscribers. Contact us for more information - [info@preqin.com](mailto:info@preqin.com)