



# Sovereign Wealth Fund Investors in Hedge Funds

Sovereign wealth funds, the secretive behemoths of the institutional investor universe, have been increasingly turning to alternative assets in recent years. In this exclusive extract from the [2015 Preqin Sovereign Wealth Fund Review](#), we take a closer look at the investments these sovereign entities make in hedge funds.

Although sovereign wealth funds are only small in number – constituting less than 1% of all investors in hedge funds – they represent a significant amount of capital invested in the asset class; approximately 11% of all capital invested in hedge funds by institutions comes from sovereign wealth funds. Sovereign wealth funds typically seek investments with a longer investment horizon compared with other institutions, as they have fewer short-term liabilities due to their common aim to manage and protect the wealth of an entire nation for generations. As a result, when sovereign entities make allocations to hedge funds they tend to stay invested in that fund for longer than other investors. Therefore, gaining investment from a sovereign wealth fund can be a game-changer for a hedge fund manager, both as a result of the large ticket sizes these investors have and the long-term nature of the investment.

In recent years, sovereign wealth funds have become increasingly active in the hedge fund space, with a steadily increasing allocation to the asset class: 33% of sovereign wealth funds currently have an allocation to hedge funds, increasing from 31% in 2013 (Fig. 1). Despite this, the asset class is still utilized by a small proportion of sovereign wealth funds compared to other alternative asset classes. Some sovereign wealth funds, such as National Development Fund of Iran (NDFI), deem hedge funds too risky for their conservative investment approach.

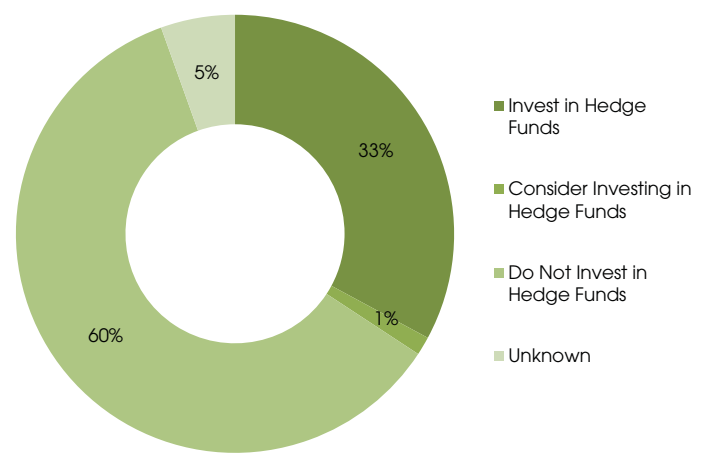
## Sovereign Wealth Funds Investing in Hedge Funds – Location

Sovereign wealth funds located around the world invest in hedge funds, as shown in Fig. 2, but are prevalent in Asia (28%), North America (24%) and the Middle East (24%). Many sovereign wealth funds based in these regions have been investing in hedge funds for a number of years and have become increasingly familiar with the asset class. For example, Abu Dhabi Investment Authority (ADIA) made its maiden hedge fund investment in 1986, while Kuwait Investment Authority (KIA), Alaska Permanent Fund Corporation (APFC) and Alberta Investment Management Corporation (AIMCo) have all been investing in hedge funds for over a decade. These investors also tend to make significant hedge fund commitments when investing in the asset class, such as APFC and Texas Permanent School Fund State Board of Education (SBOE) which typically commit between \$300mn and \$1bn to new hedge funds.

## Sovereign Wealth Funds Investing in Hedge Funds – Regional Preferences

The majority of sovereign wealth funds that invest in hedge funds do so across a variety of regions, largely due to the global mandates that many of these institutions operate, in order to gain exposure to overseas markets. As Fig. 3 demonstrates, 80% of all sovereign

Fig. 1: Proportion of Sovereign Wealth Funds Investing in Hedge Funds



Source: 2015 Preqin Sovereign Wealth Fund Review

wealth fund investors gain exposure to the hedge fund asset class globally, as a way of diversifying their hedge fund portfolios into a wide range of strategies and approaches across many regions.

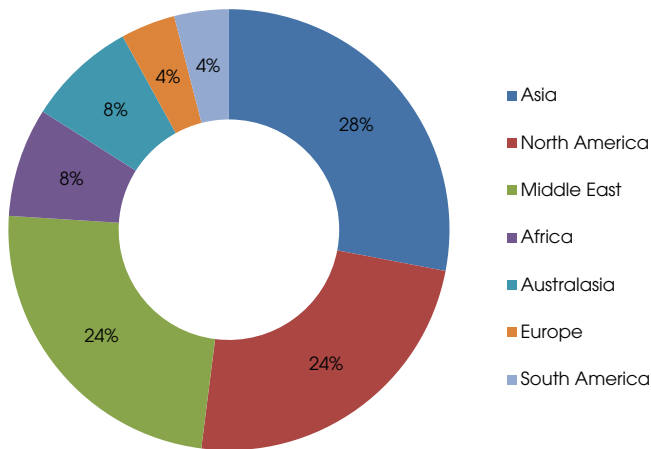
Sixty-eight percent of sovereign wealth funds active in the hedge fund space invest specifically in North America-based hedge fund managers, in line with the region's dominance in the hedge fund industry. Containing a vast number of well-established managers, North America draws commitments from sovereign wealth funds around the globe as well as large sums of capital from investors based in the region. US-based Wyoming State Treasurer's Office is one such investor that will invest in hedge funds on a global scale, but has a specific preference for investing in hedge fund managers located in North America.

Forty-eight percent of sovereign wealth funds investing in hedge funds have a preference for Asia-based hedge fund managers. A large proportion of the sovereign wealth funds that are active in hedge funds are based in Asia; all of these sovereign funds have a preference for investing in local opportunities. China Investment Corporation (CIC) is one sovereign wealth fund that has a particular focus on hedge funds in Asia and emerging markets due to its ease of access and links to these regions.

## Sovereign Wealth Funds Investing in Hedge Funds – Strategy and Structural Preferences

Fig. 4 shows that the majority of sovereign wealth funds that invest in hedge funds are willing to invest in a wide range of hedge fund

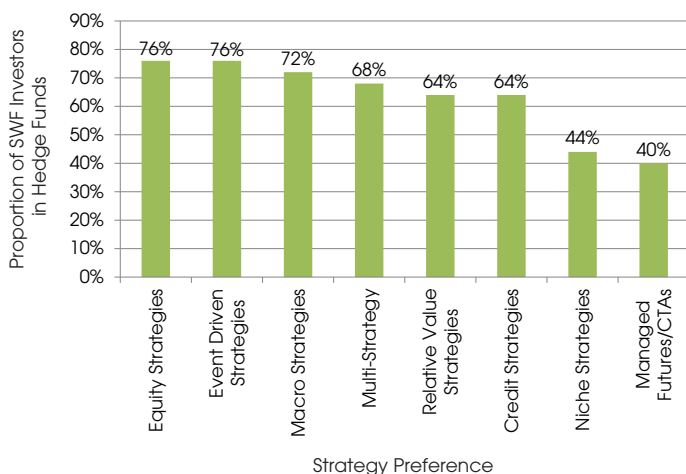
To find out more and to order your copy, please visit: [www.preqin.com/swf](http://www.preqin.com/swf)

**Fig. 2:** Breakdown of Sovereign Wealth Funds Investing in Hedge Funds by Location

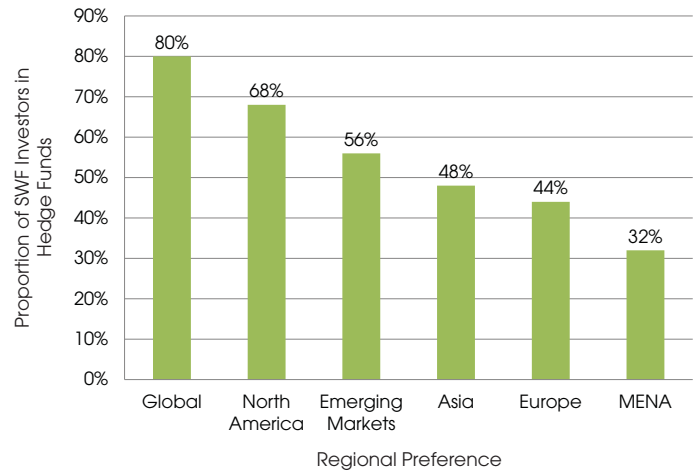
Source: 2015 Preqin Sovereign Wealth Fund Review

strategies in order to diversify their investment portfolios and meet their varying investment objectives. Equities strategies and event driven strategies are the most commonly used among sovereign wealth funds. CTAs/managed futures are less favoured: only four out of 10 sovereign wealth fund investors in hedge funds have a specific preference for such funds.

Fig. 5 shows that the majority (76%) of sovereign wealth funds aim to create diverse investment portfolios through a combination of direct investments and funds of hedge funds. Fig. 5 may also point towards the growing sophistication of sovereign wealth funds when it comes to creating portfolios of funds internally; 20% of sovereign wealth funds now solely utilize fund of hedge funds vehicles, a decline from 24% in 2013. However, a large proportion of sovereign wealth funds still seek the experience and diversification offered by multi-manager funds, despite the extra layer of fees. Just 4% of sovereign wealth funds active in the asset class invest solely through commingled direct investments.

**Fig. 4:** Strategy Preferences of Sovereign Wealth Funds Investing in Hedge Funds

Source: 2015 Preqin Sovereign Wealth Fund Review

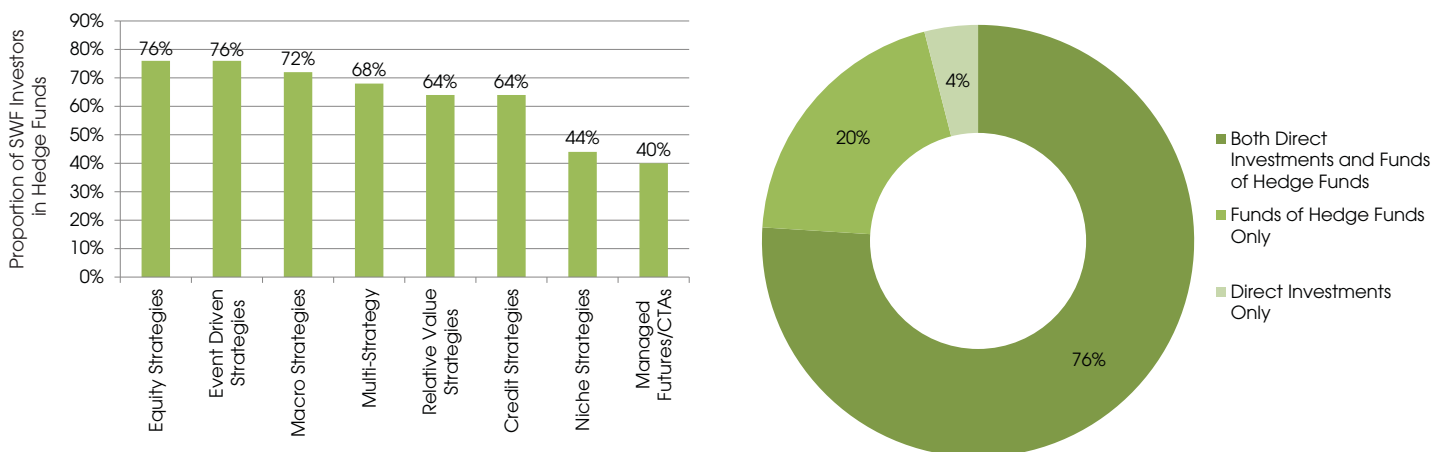
**Fig. 3:** Regional Preferences of Sovereign Wealth Funds Investing in Hedge Funds

Source: 2015 Preqin Sovereign Wealth Fund Review

Thirty-six percent of sovereign wealth fund investors in hedge funds invest in hedge funds through managed account structures (Fig. 6). Given the size and influence of these entities, fund managers that can arrange managed accounts for sovereign wealth funds can be awarded significant sums of capital, which are then likely to remain invested in the fund for several years. In return, the sovereign wealth fund will gain full transparency regarding its investment as well as greater control over the investment; with extremely large and complex portfolios, this can help sovereign funds to gain a better understanding of their hedge fund exposure, as well as the potential to better align the hedge fund return stream to their long-term objectives.

### Outlook

Given the nature of sovereign wealth funds and their specific long-term requirements from their investment portfolios, hedge funds are increasingly being used as part of many sovereign wealth funds' portfolios. Under times of economic stress and stock market volatility, hedge funds offer a favourable alternative in providing

**Fig. 5:** Breakdown of Structural Preferences of Sovereign Wealth Funds Investing in Hedge Funds

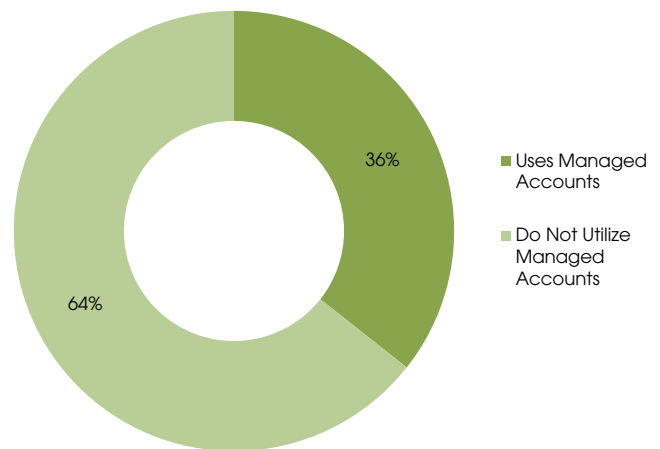
Source: 2015 Preqin Sovereign Wealth Fund Review

To find out more and to order your copy, please visit: [www.preqin.com/swf](http://www.preqin.com/swf)



uncorrelated returns to traditional markets and other asset classes through exposure to a range of unique approaches and opportunities worldwide. For some sovereign wealth funds, long-term preservation and growth of capital is an overriding objective. A lack of understanding about the industry can lead to a perceived idea of excess risk associated with hedge fund strategies, and the short-term liquidity offered by the asset class may not be a viable option for these investors. However, many sovereign wealth funds active in the hedge fund space are equipped with the experience and expertise to profit from the complex strategies and potential rewards offered by the asset class, and therefore hedge funds will remain an important asset class for sovereign wealth funds over the longer term.

**Fig. 6:** Proportion of Sovereign Wealth Funds Investing in Hedge Funds that Utilize Managed Accounts



Source: 2015 Preqin Sovereign Wealth Fund Review

### The 2015 Preqin Sovereign Wealth Fund Review

This article is an extract from the **Preqin 2015 Sovereign Wealth Fund Review**, our largest and most comprehensive review of sovereign wealth funds and their investment activity yet, featuring detailed profiles for 73 sovereign wealth funds worldwide.

Produced in association with PwC, this year's edition has been fully updated, with more content than ever before. The Review contains exclusive information gained via direct contact with sovereign wealth funds and their advisors, plus valuable intelligence from filings, financial statements and hundreds of other data sources.

For more information, to download sample pages or to order your copy, please visit:

[www.preqin.com/swf](http://www.preqin.com/swf)



## HEDGE FUNDS REVIEW



Service Provider  
Rankings Americas  
2015

**WE HAVE BEEN NOMINATED!**

**CLICK HERE TO  
VOTE NOW!**

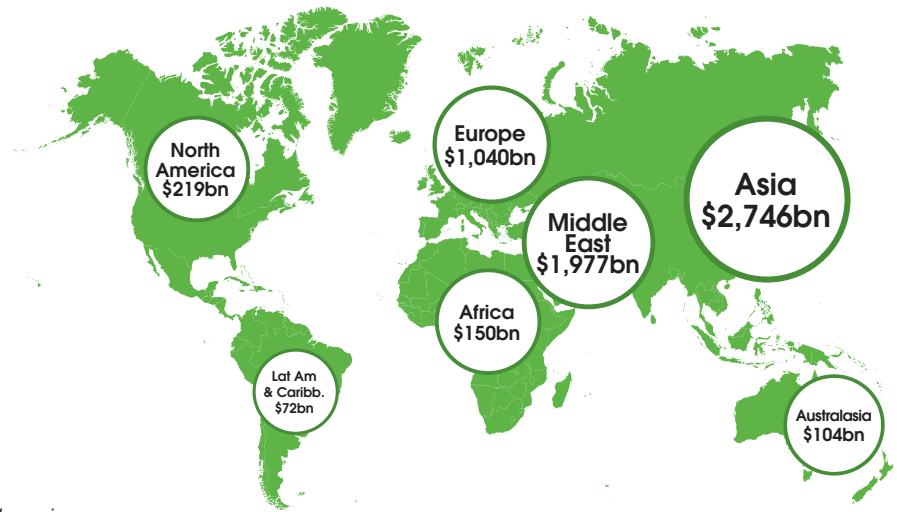
[hedgefundsreviewawards.com/spr](http://hedgefundsreviewawards.com/spr)





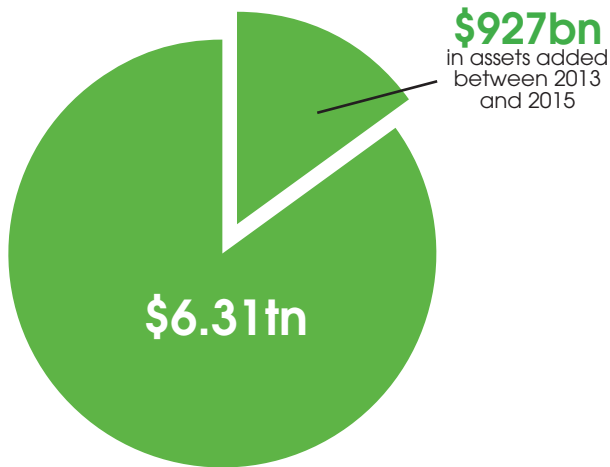
# The Importance of Sovereign Wealth Funds

## Sovereign Wealth Funds Have a Worldwide Presence\*



\*Figures denote total AUM by region.

## Sovereign Wealth Funds Grow in Number and Capital



73

Number of sovereign wealth funds established worldwide.

11

Number of sovereign wealth funds established since 2010.

46

Number of countries that have at least one sovereign wealth fund.

71%

Proportion of sovereign wealth funds that either maintained or increased their assets between 2013 and 2015.

## Sovereign Wealth Funds Are Becoming Increasingly Sophisticated



48% of sovereign wealth funds have been in existence for over a decade.

52%

Proportion of sovereign wealth funds that utilize the services of an external manager.

70%

Proportion of sovereign wealth funds that invest in at least one alternative asset class.



**Real estate** and **infrastructure** are the most favoured alternative asset classes by sovereign wealth funds.

## Sovereign Wealth Funds Invest to Aid National Policies and Stimulate Financial Markets

58%

Proportion of sovereign wealth funds that invest in economic infrastructure.

44%

Proportion of sovereign wealth funds that invest in social infrastructure.

86%

Proportion of sovereign wealth funds that invest in fixed income.

81%

Proportion of sovereign wealth funds that invest in public equities.





**Investment Management Institute**  
165 W. Putnam Avenue, Greenwich, CT 06830  
[www.investmentmanagementinstitute.com](http://www.investmentmanagementinstitute.com)

## **9TH SUMMER ANNUAL ALTERNATIVE INVESTMENT CONSULTANTS SUMMIT**

**Thursday - July 9, 2015 - The Hyatt Regency Greenwich**

Each year IMI has been proud to bring together outstanding leaders in the Alternative Investment Community to share their insights on proven techniques to shorten the sales cycle, offering solutions for needs of institutional and private clients. At this event we feel you will learn some of the challenges that are faced in this industry with managing risk and raising assets.

### **CONSULTANT & FAMILY OFFICE SPEAKERS**

API Asset Performance, Inc.  
Asset Strategy Consultants  
Curcio Webb, LLC  
Captrust Financial Advisors  
Cliffwater LLC  
Dahab Associates  
Fund Evaluation Group  
Global Risk Management

Greer Anderson Capital  
Hedge Fund Association  
IMP Consulting  
Investment Performance Services  
Kamp Consulting Solutions, LLC  
Lowery Dannenberg Cohen & Hart  
McGladrey Wealth Mgmt. LLC  
Mercer

Pension Consultants Alliance  
Segal Rogerscasey  
Towers Watson  
UN Consulting  
Westport Resources  
Manager Analysis Services

For registration information please contact Laura Smith at 203-622-5851 or [lsmith@miny.com](mailto:lsmith@miny.com)

*With Investors Driven Meetings*

New York City, September 21, 2015

# **CATALYST CAP INTRO: L/S EQUITY | EVENT DRIVEN ALTERNATIVE INVESTING**

**Catalyst is a leading, independent, cap intro events producer**

Catalyst Cap Intro Events are sector focused, investor driven events that host hand-picked investment managers and investors that are introduced to each other with a view to become investment partners.

This Catalyst Cap Intro Event focuses only on the **L/S Equity | Event Driven alternative investing** sectors.

Introductions are accomplished through private meetings which are arranged prior the events, in an investor driven fashion based on the merits of each investment manager and the requests made by the investors.



Catalyst Financial Partners has established itself as one of the leading, independent cap intro providers, with an investor events model showing a track record of resulting allocations.

**We welcome you to contact us to discuss joining our cap intro event**



**Catalyst Financial Partners LLC**

118 E 28th Street, Suite 314, New York, NY 10016

Tel: +1 212 966 2993

Email: [info@catalystforum.com](mailto:info@catalystforum.com)

[www.catalystforum.com](http://www.catalystforum.com)