



Hedge Fund Institutional Investors Based in Asia-Pacific

An increasing proportion of investors in hedge funds are based in the Asia-Pacific region. Who are these investors and which strategies are they targeting? [Benson Tay](#) examines the hedge fund investor landscape within this dynamic region.

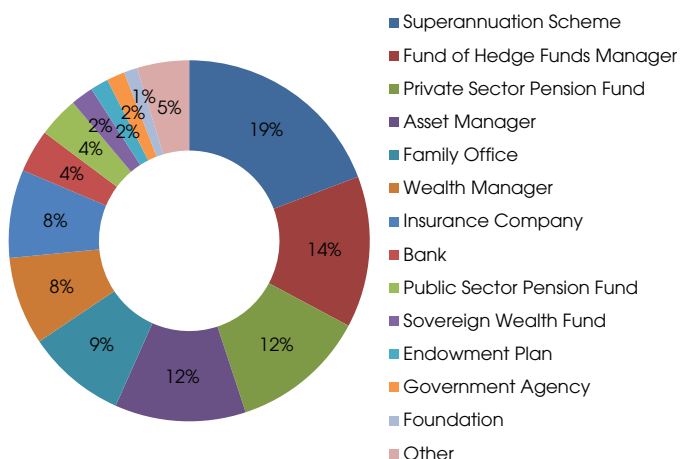
Asia-Pacific is home to just under two-thirds of the world's population and is a burgeoning region encompassing emerging, developing and advanced economies. Rapid growth has led to immense wealth generation that has contributed to a surplus of savings from countries in the region. Given this backdrop, institutional investors based in the region have been growing in prominence over recent years. Entrusted with vast amounts of capital, institutional investors from sovereign wealth funds to pension funds have the responsibility to preserve the value of their assets over varying economic conditions. As a result, an increasing number of institutional investors across the region are actively seeking allocations to hedge funds in search of diversification and risk-adjusted returns. These developments have allowed hedge fund managers to attract large amounts of capital from the region in spite of greater regulatory scrutiny.

Asia-Based Investors

Preqin's [Hedge Fund Investor Profiles](#) currently tracks 494 institutional investors in hedge funds based in the Asia-Pacific region; these investors are largely concentrated in the established financial centres of Australia (32%), Japan (24%), Hong Kong (13%) and Singapore (11%) (Fig. 1).

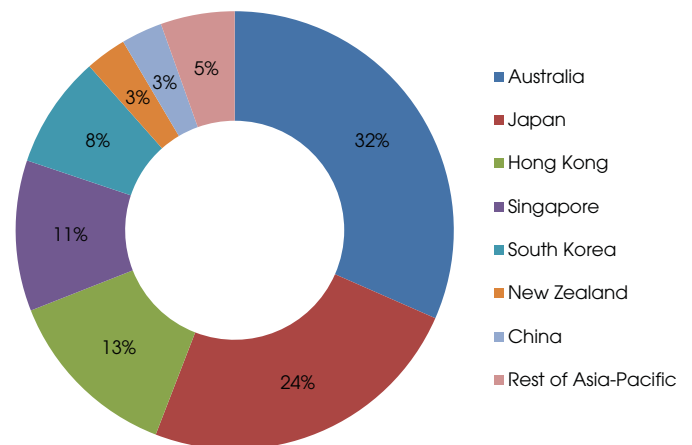
The major investor types in Asia-Pacific are found in the retirement fund sector. Superannuation schemes located in Australia and New Zealand are the most numerous, making up nearly one-fifth of the Asia-Pacific-based investor pool (Fig. 2). Private sector schemes, particularly those in Japan, are another important source of capital from Asia-Pacific, forming 12% of all investors in the region.

Fig. 2: Breakdown of Asia-Pacific-Based Hedge Fund Investors by Investor Type



Source: [Preqin Hedge Fund Investor Profiles](#)

Fig. 1: Breakdown of Institutional Investors Based in Asia-Pacific by Investor Location



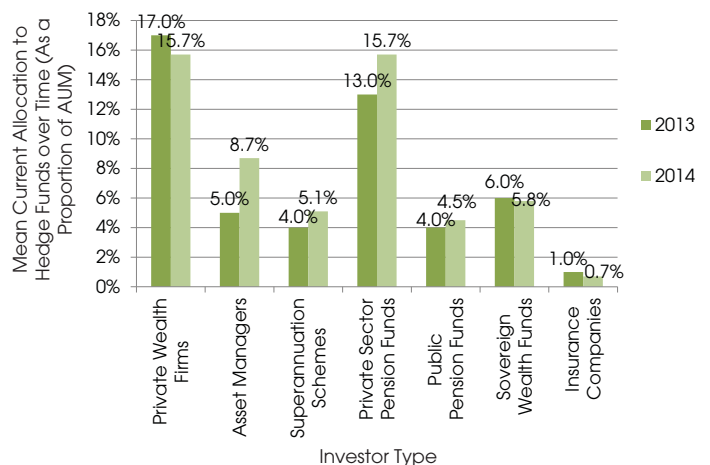
Source: [Preqin Hedge Fund Investor Profiles](#)

Investor Capital and Allocations

Preqin data indicates that there has been an increase in allocations made to the asset class since last year. Investors in this region allocate a significant amount towards hedge funds, making them an important source of capital for managers within the Asia-Pacific region, as well as globally.

As shown in Fig. 3, pension funds within Asia-Pacific have increased the amount they invest in hedge funds by sizeable sums over the course of the past 12 months. In particular, private sector pension funds have grown the size of their portfolios from 13.0% of their

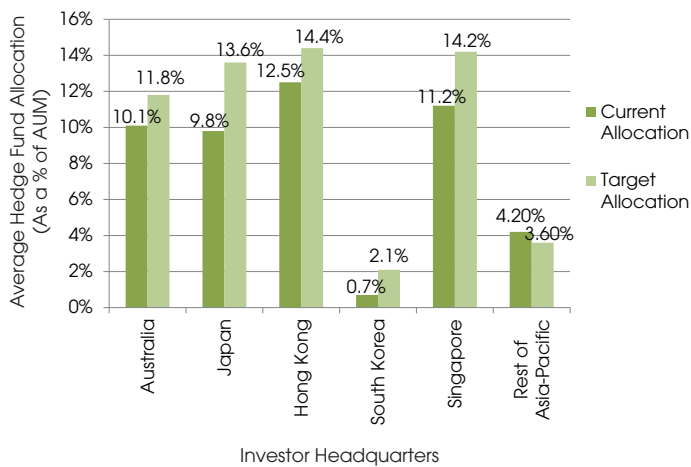
Fig. 3: Mean Current Allocation of Asia-Pacific-Based Investors to Hedge Funds By Investor Type, 2013 - 2014



Source: [Preqin Hedge Fund Investor Profiles](#)



Fig. 4: Average Current and Target Hedge Fund Allocations of Asia-Pacific-Based Investors by Investor Headquarters



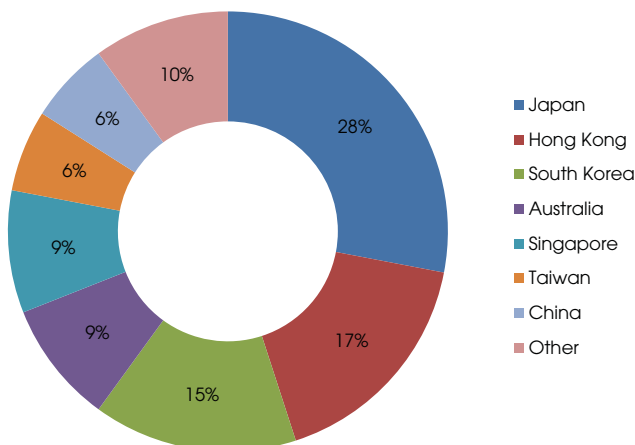
Source: Preqin Hedge Fund Investor Profiles

total assets on average in 2013, to 15.7% today. Superannuation schemes and public pension funds have shown similar trends.

Public and private sector pension funds in Asia-Pacific have the potential to grow their allocations to the asset class over the next 12 months even further; 25% and 18% respectively are under their targeted exposure to the asset class (Fig. 5).

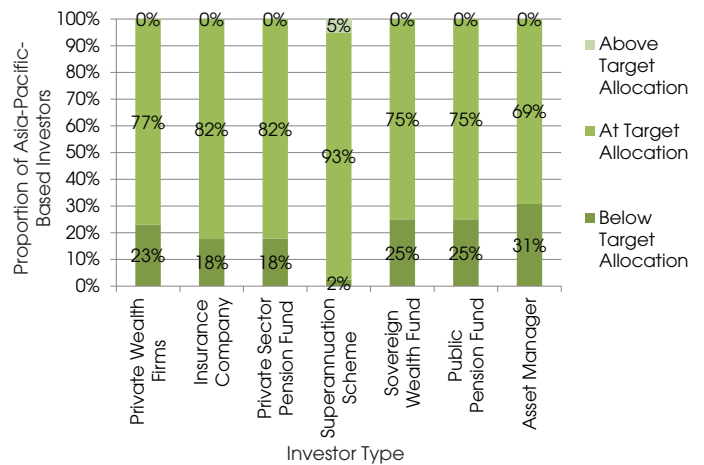
In contrast to pension schemes, private wealth firms (wealth managers and family offices) have shown a reduction in their average allocation to hedge funds over the past 12 months (Fig. 3). Despite this, private wealth firms remain one of the leading allocators in terms of the proportion of their assets invested in hedge funds, investing on average 15.7% of their total assets in the asset class. These private wealth investors have different investment mandates compared to other institutions, which typically operate under more stringent risk and allocation constraints. Although they have cut back on their investments in the past year, there is the potential for more inflows from these investors over the course of the year ahead; as shown in Fig. 5, 23% of private wealth funds are currently under their targeted exposure to the asset class, and therefore can make more capital available to invest in hedge funds.

Fig. 6: Breakdown of Fund Searches and Mandates Issued by Investor Headquarters



Source: Preqin Hedge Fund Investor Profiles

Fig. 5: Proportion of Asia-Pacific-Based Investors At, Above or Below Their Target Hedge Fund Allocations by Investor Type



Source: Preqin Hedge Fund Investor Profiles

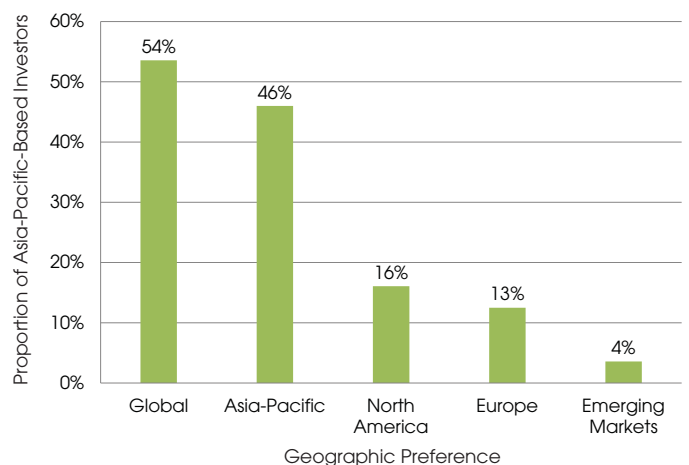
Fund Searches and Mandates

Data from Preqin's [Fund Searches and Mandates](#) online service shows that investors based in Japan are leading the way in terms of new investments sought in the year ahead by Asia-Pacific-based investors. Japan-based investors have already have amassed sizeable portfolios, investing on average over 9% of their assets in hedge funds with a targeted exposure of 13.6%. Significant numbers of investors from Japan look set to seek out new funds in the next 12 months to reach this target.

Next to Japan, Hong Kong is a leading source of potential new investment, with 17% of all Asia-Pacific-based investors searching for new funds based there. The bulk of these searches issued by investors in Hong Kong are from multi-family offices and fund of hedge funds managers. Hong Kong is a magnet for private wealth from China to seek exposure to the wider Asia-Pacific region, due its status as a regional financial hub.

The developed markets of Northeast Asia also look set to contribute substantial inflows towards hedge funds. Fig. 6 shows that investors based in South Korea form 15% of all investors in Asia-

Fig. 7: Geographic Preferences of Asia-Pacific-Based Investors in Hedge Funds



Source: Preqin Hedge Fund Investor Profiles



Pacific searching for new funds, with public pension funds in the country representing the primary investor type. Notably, [National Pension Service](#), the country's largest institutional investor, is considering making its first commitments to hedge funds, along with several other public pension funds. This is a reflection of the recent liberalization of the domestic hedge fund industry in South Korea.

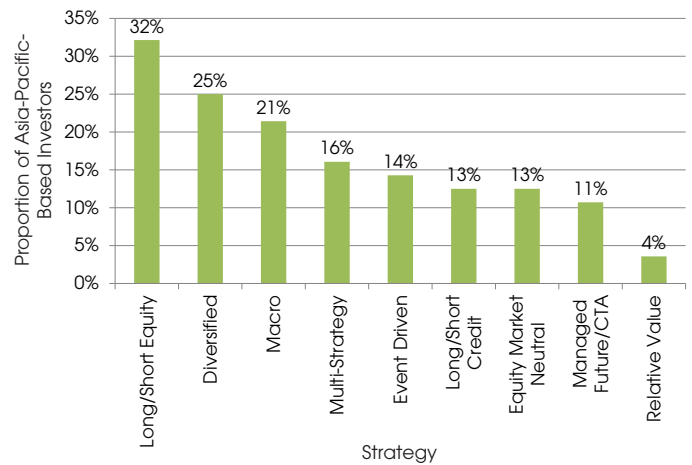
In terms of geographic preferences, more than half of investors from Asia-Pacific will look to invest globally over the coming year. Fig. 7 shows that many of them continue to maintain a healthy interest in their local region, with 46% of these investors expressing interest in gaining further hedge fund exposure in Asia-Pacific. However, there are notably few investors looking to invest in emerging markets, which is perhaps due to the recent outperformance of investments in developed markets, and the corresponding fear of possible destabilizing capital flows from emerging markets as the interest rate environment evolves over the next few years.

Fig. 8 shows the breakdown of the hedge fund strategies that investors from Asia-Pacific will be looking to invest in over the next 12 months. Long/short equity strategies, which showed strong performance in 2013 and make up a large proportion of funds managed from Asia-Pacific, is the most commonly sought strategy among these investors, with macro funds also leading strategy-specific investment searches.

Outlook

Over the past year, Preqin has seen more investors from Asia-Pacific making allocations to hedge funds, and these institutions are investing more money. With local regulatory changes over the years making it easier for these investors to allocate capital to hedge funds, as well as a rapidly growing local industry of fund managers, the region looks set for further growth in the years to come.

Fig. 8: Strategies Sought by Asia-Pacific-Based Hedge Fund Investors in 2014



Source: Preqin Hedge Fund Investor Profiles

Significant inflows to the asset class are expected to come from a wide variety of investors. From asset managers and private wealth firms looking to diversify the portfolios of the growing numbers of wealthy individuals and families in Asia-Pacific, through to retirement schemes turning to the asset class as a result of unfavourable demographic trends necessitating the need to look beyond traditional assets to meet their return thresholds.

As the region continues to mature and grow, there are clear opportunities for fund managers both within Asia-Pacific's borders and those beyond, with investors based in the region currently searching for funds on both a global and a local basis.

Subscriber Quicklink

Subscribers to Preqin's **Hedge Fund Investor Profiles** can click [here](#) to view detailed profiles for 494 Asia-Pacific-based investors currently investing in hedge funds. Profiles include assets under management, investment history, investors' preferences, future plans, searches and mandates and much more.

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