



Large Institutional Investors Driving Hedge Fund Industry Growth: \$1bn Plus Investors

As a follow on to our feature article, [Madeleine Stretton](#) takes a look at the institutional investors in hedge funds with more than \$1bn allocated to the asset class, including the investment preferences of these influential investors, their future plans and which investors are new to the \$1bn Club.

In an ever-competitive fundraising environment, it is vital that hedge fund managers are able to effectively identify new sources of investor capital. The largest investors in hedge funds are extremely important to the industry in terms of the amount of capital they invest, and many large institutions have increased their hedge fund allocations over the previous year; it is these investors that are vital in driving inflows to the industry. In this article, we analyze the largest institutional investors in hedge funds – those which currently allocate more than \$1bn to the asset class.

Forty-six institutions have joined this exclusive club of investors, with more than \$1bn invested in hedge funds in the 12 months since Preqin last conducted this study in May 2013. This is an increase compared to the 26 institutional investors that joined the “\$1bn Club” between 2012 and 2013, highlighting the fact that many of these large investors are actively increasing their hedge fund allocations. Preqin now tracks 203 investors within this category (excluding fund of hedge funds managers) that have aggregate capital of approximately \$650bn dedicated to the hedge fund asset class.

Characteristics of \$1bn Plus Hedge Fund Investors

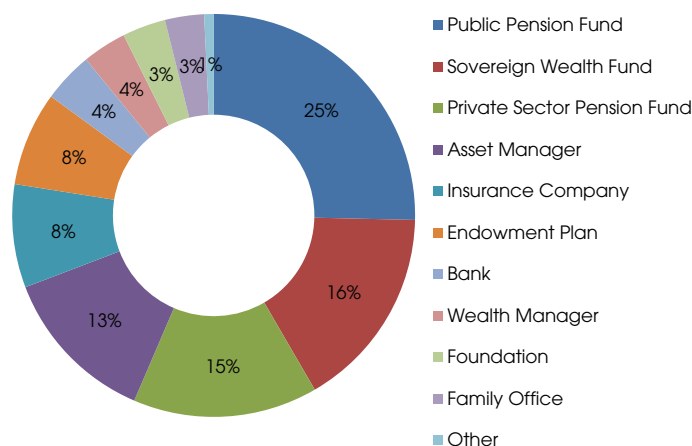
Public pension funds are the largest group of investors, in terms of capital invested in hedge funds, within the \$1bn Club, with these investors representing 25% of all capital committed to hedge funds by \$1bn plus investors (Fig. 1). Large public pension funds in the US, in particular, have been active in increasing hedge fund exposure in recent years and these investors have been vital in driving inflows to the industry. One notable example of this is Ohio Public Employees’ Retirement System; the \$88.6bn pension fund has been

substantially increasing its hedge fund allocation in recent years and still has scope to invest further in order to reach its newly approved hedge fund target allocation of 8% of total assets.

Since the last Preqin study of \$1bn plus investors in 2013, we have seen a substantial increase in the proportion of capital invested by sovereign wealth funds, with the proportion of capital these firms represent increasing from 7% to 16%. Four of these sovereign wealth funds are based in Asia-Pacific, and combined these firms currently allocate approximately \$47bn to hedge funds. Private sector pension funds also represent a significant portion of capital within the \$1bn plus investors group, with these investors accounting for 13% of total capital invested in hedge funds, and these firms represent the biggest proportion of the club in terms of number of investors.

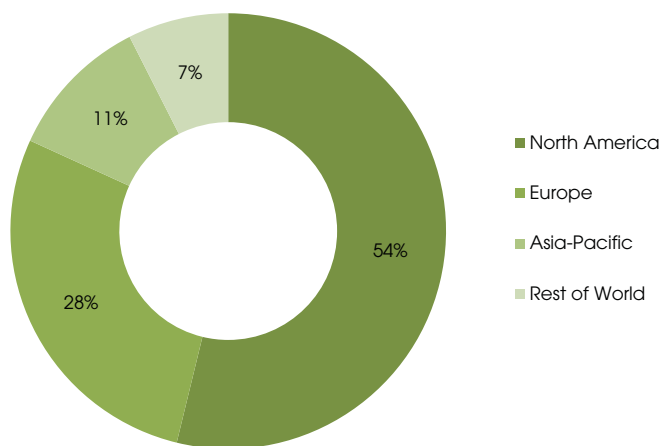
The majority of investors within the \$1bn plus group are based in North America, although over the last 12 months, the proportion of \$1bn investor capital represented by this region has decreased from 67% to 54% (Fig. 2). This is due to the increase in the number of investors based in Europe, Asia-Pacific and other regions, which now allocate more than \$1bn to hedge funds, highlighting that large hedge fund investors are emerging in regions outside of North America. The proportion of capital coming from investors based in Europe has increased from 24% to 28% over the last 12 months, as a result of new entrants to the club and increased allocations from those investors that allocate more than \$1bn to hedge funds. One such investor is Netherlands-based asset manager MN, which has approximately \$9bn invested in hedge funds. There has also been an increase in capital invested by Asia-Pacific investors, which

Fig. 1: \$1bn Plus Investors: Capital-Weighted Breakdown by Investor Type



Source: Preqin Hedge Fund Investor Profiles

Fig. 2: \$1bn Plus Investors: Capital-Weighted Breakdown by Investor Location



Source: Preqin Hedge Fund Investor Profiles



now account for 11% of the total capital invested in hedge funds. Additionally, regions outside of North America, Europe and Asia now account for 7% of capital invested in hedge funds by \$1bn plus investors, primarily as a result of large sovereign wealth funds in the Middle East.

Who Are The New Entrants?

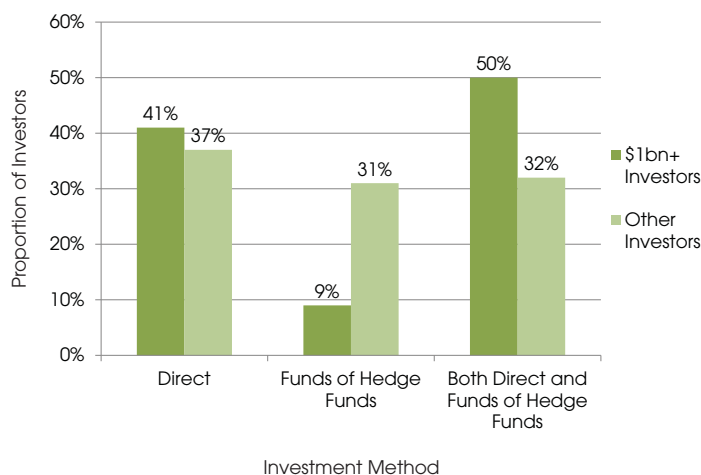
Over the last 12 months, 46 investors have joined the ranks of the group of investors which allocate over \$1bn to hedge funds. Insurance companies make up the largest proportion of these new entrants, accounting for 22% of the new investors with over \$1bn in hedge fund capital. One insurance company new to the club is DNB Life, which currently has approximately \$1.1bn invested in hedge funds. There have also been a large number of pension funds entering the \$1bn Club this year, both private sector and public, and collectively these pensions represent 37% of new entrants between 2013 and 2014. Geographically, North America has continued to dominate the surge of investors joining the \$1bn plus group over the past 12 months, with the region home to 52% of new entrants.

Comparison with Other Institutional Investors

Fig. 3 shows a breakdown of the structural preferences of \$1bn plus investors compared to those of the remaining hedge fund investor universe. One notable difference is their reduced preference for funds of hedge funds; only 8% of \$1bn plus investors make investments in hedge funds solely through funds of hedge funds, while 31% of other investors employ this investment approach. These largest investors in the hedge fund industry are typically the most established and experienced, and as a result many of these investors have the resources available to move away from multi-manager vehicles and into direct investing. However, half of \$1bn plus investors invest via a combination of single-manager hedge funds and funds of hedge funds, indicating that many still rely on multi-manager vehicles, for instance to assist with gaining exposure to emerging managers and niche strategies.

Investors with more than \$1bn invested in hedge funds have, on average, been investing in the industry for over a decade (Fig. 4). These investors also have a significantly larger number of hedge funds within their portfolios, 33 for larger investors compared to 14 for the remainder of the hedge fund investor universe. Interestingly, the average hedge fund target allocations for the two groups of investors are similar at 13.6% for \$1bn plus investors and 14.4% for the remaining hedge fund universe. Investors with more than \$1bn invested in hedge funds are allocating a greater amount of capital and so are likely to target a larger portfolio of funds in order to avoid allocating too much to a single investment. However,

Fig. 3: Preferred Method of Investing in Hedge Funds: \$1bn Plus Investors vs. All Other Investors



Source: Preqin Hedge Fund Investor Profiles

the similar target allocations suggest that both larger and smaller investors place equal importance on hedge funds in terms of their asset allocation.

For all institutional investors, track record and experience are important qualities when selecting hedge fund investments. As shown in Fig. 4, investors outside of the \$1bn Club require an average minimum track record of 3.4 years, whereas the larger investors require a slightly lower 2.9 years of experience. Conversely, the investors within the \$1bn plus group have higher minimum assets under management requirements, at an average of \$700mn, compared to \$402mn for other investors. A primary reason for this is that many of these large investors have large ticket sizes for individual hedge fund investments and their policies prevent them from making investments that would dominate the assets of an underlying fund manager.

Where are \$1bn Plus Investors Looking to Invest in the Next 12 Months?

With large amounts of hedge funds within their portfolios, and the continued demand for the best risk-adjusted returns, it is likely that \$1bn plus investors will continue to actively source new investments over the coming year. In terms of strategy focus over the next 12 months, long/short equity is the most favoured by \$1bn plus investors, with 50% targeting this strategy (Fig. 5), an eight percentage point increase from the proportion of this group that were targeting the strategy in May 2013. One \$1bn plus investor

Fig. 4: Key Facts: \$1bn Plus Investors vs. All Other Investors

Key Facts	\$1bn+ Investors	Other Investors
Mean Allocation to Hedge Funds (% of AUM)	14.8	14.3
Mean Target Allocation to Hedge Funds (% of AUM)	13.6	14.4
Typical Number of Hedge Funds in Portfolio	33	14
Average Track Record Required	2.9 Years	3.4 Years
Average Assets under Management Required for Underlying Funds (\$mn)	700	402
Time Period Typically Been Investing For	12 Years	8 Years

Source: Preqin Hedge Fund Investor Profiles



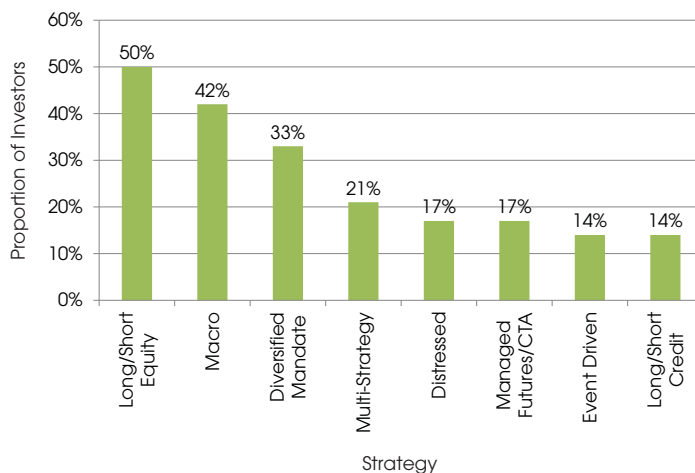
that is planning to make new long/short equity commitments over the next 12 months is Texas Treasury Safekeeping Trust Company. The \$3.6bn endowment plan is looking to allocate approximately \$100mn to two to four new hedge fund investments and will be primarily focusing on long/short equity and healthcare-focused strategies. Macro strategies are also prominent within the portfolios of large institutional investors and 42% of \$1bn plus investors plan to include this strategy in new investments.

Although over half of the \$1bn plus investors currently hold fund of hedge funds vehicles in their portfolios, only 26% of these investors will be targeting commingled funds of hedge funds for new investments over the coming year (Fig. 6). This is as a result of investors tending to stay invested in a fund of funds for longer and also investors moving more capital towards direct investments. Some of the large investors that do allocate to funds of hedge funds do so via managed accounts as these are typically more accessible to larger investors due to their higher level of capital and resources; 9% of \$1bn plus investors are targeting managed account funds of hedge funds over the coming 12 months. However, direct investments in hedge funds will dominate search activity, with 87% of \$1bn plus investors targeting investments in commingled single-manager funds.

Outlook

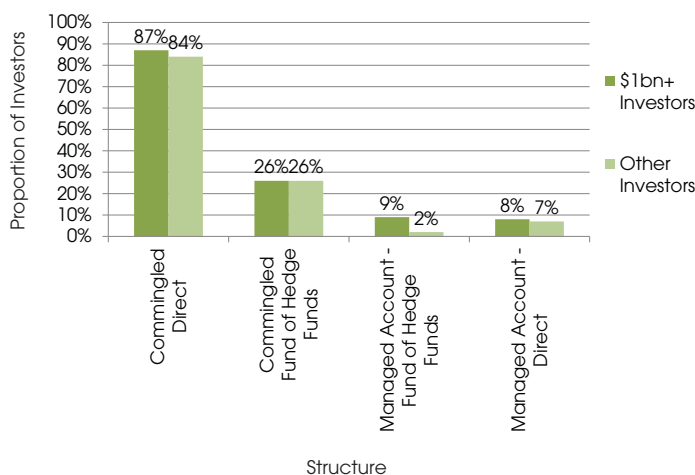
With their high level of investment experience and substantial capital base, the \$1bn plus investor network will continue to be a key driver of growth in the hedge fund industry over the coming year. With these investors allocating approximately \$650bn to hedge funds, an 18% increase from this time last year, it will be important for hedge fund managers to attract inflows from these prominent institutional investors. With some of the largest hedge funds becoming closed to new investment, these investors may be looking to find new investment opportunities. This could present an opportunity for those mid-to large hedge fund managers with more than \$700mn in assets - the mean hurdle that must be reached before a fund becomes viable for a \$1bn investor - to secure investment from this important section of the institutional investor universe.

Fig. 5: Strategies Sought by \$1bn Plus Investors over the Next 12 Months



Source: Preqin Hedge Fund Investor Profiles

Fig. 6: Structures Sought over the Next 12 Months: \$1bn Plus Investors vs. All Other Investors



Source: Preqin Hedge Fund Investor Profiles

Data Source

Subscribers to Preqin's **Hedge Fund Investor Profiles** can click [here](#) to view a league table of the largest institutional investors in hedge funds in terms of capital allocated to the asset class.

Filter investors in the league table by investor type and location for more precise results and to pinpoint the largest investors of interest to you.

For more information, or to register for a demonstration, please visit:

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