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Amy Bensted

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Hedge Fund Spotlight

July 2013

Feature Articles

Are Hedge Funds Ready for the AIFMD?

With the Alternative Investment Fund Managers Directive (AIFMD) now implemented into national law by EU member states, we take a look at the impact of this regulation on the industry. Which fund managers are affected by the AIFMD and are they ready for the regulation?

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H1 2013 Performance Round-Up

Following a strong start for hedge funds in Q1, June proved a disappointing month for the asset class. We take a look at hedge fund performance over the first half of 2013, and which regions and strategies were the top performers.

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Industry News

This month's industry news features Preqin's Amy Bensted's view on the news and issues that are at the forefront of the hedge fund industry, including the AIFMD and performance of the asset class in the first half of 2013. Which investors are looking for new funds in this current climate of uncertainty in the European industry?

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You can download all the data in this month's Spotlight in Excel

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New York:
One Grand Central Place
60 E 42nd Street
Suite 2544
New York
NY 10165
+1 212 350 0100

London:
Equitable House
47 King William Street
London, EC4R 9AF
+44 (0)20 7645 8888

Singapore:
One Finlayson Green
#11-02
Singapore 049246
+65 6305 2200

San Francisco:
580 California Street
Suite 1638
San Francisco
CA 94104
+1 415 635 3580

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Are Hedge Funds Ready for the AIFMD?

Following the implementation of the Alternative Investment Fund Managers Directive (AIFMD), Graeme Terry presents the results of our survey of hedge fund managers, analyzing which managers will be affected by the directive and how prepared they are, as well as investors' views on the regulation.

Following years of discussion and amendments, the Alternative Investment Fund Managers Directive (AIFMD) was finally implemented into national law by EU member states on 22 July 2013. New alternative investment fund managers (AIFMs) will be required to comply with the directive going forwards, although existing AIFMs will have until 22 July 2014 to apply for authorization to their regulator. The directive is aiming to provide harmonized regulatory standards across all alternative investment managers and more specifically it requires hedge fund managers to obtain authorization, meet on-going reporting conditions and comply with transparency requirements in order to manage and market hedge funds within the EU.

The AIFMD is designed to increase investor confidence in hedge funds, through the reduction of systematic risk and the enhancement of investor protection. It will lead to a number of changes for hedge fund managers, and detractors of the directive have suggested this will lead to unnecessary additional costs and complexity. Key requirements of the directive include the appointment of a depository, reporting requirements, separation of risk management and portfolio management functions, an appropriate and regularly updated due diligence process and remuneration controls.

Despite the concerns of a number of firms, the AIFMD could have a positive effect on the hedge fund industry by providing a uniform regulated structure. AIFMD-approved managers will be able to passport their funds across the whole of the EU, in a similar fashion to the current UCITS hedge fund passport. This will lead to a consistent standard for all hedge funds marketed in Europe and could present further opportunities for growth in the hedge fund industry in the future as investors look to tap into the regulated AIFMD "brand".

Impact of the AIFMD on Hedge Fund Managers

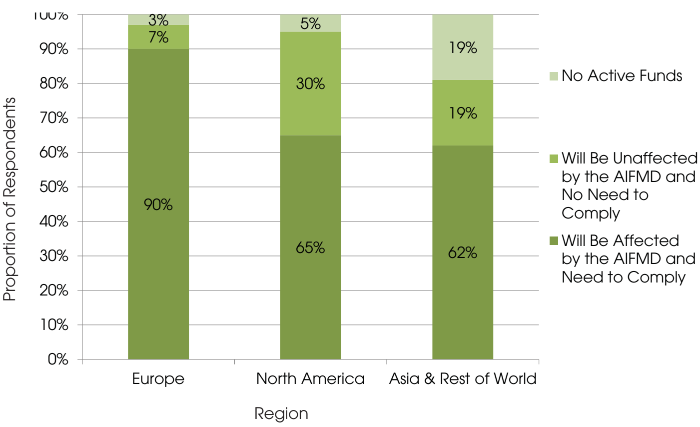
Throughout June and July, Preqin conducted a survey of more than 220 hedge fund managers (including both direct hedge fund managers and fund of hedge funds managers) in order to assess whether or not these managers are ready for the AIFMD. All AIFMs within the EU will be obliged to apply for authorization before 22 July 2014; Preqin's Hedge Fund Analyst currently contains profiles for 892 active hedge fund managers based within the EU. These managers will have to update their processes accordingly to make sure they are ready for all of the requirements of the directive. Other countries such as Norway, Iceland and Liechtenstein, which are member of the European Economic Area but not the EU, are likely to sign up to the directive, and Switzerland has amended its own regulations in order to correspond to the AIFMD.

As the AIFMD will apply to any non-UCITS fund managed or marketed in the EU, North American managers marketing to EU investors will also be affected by the directive. The results of our survey suggest that 65% of North American fund managers feel they will be affected by the AIFMD, as shown in Fig. 1. With 2,890 active hedge fund managers tracked in North America by Preqin's Hedge Fund Analyst, this could amount to a significant number of managers needing further advice on compliance. These managers will face a phased compliance period until the current placement regime expires in 2018. A number of US-based managers plan to rely on 'reverse solicitation' in order to continue doing business with European investors and these firms will need to ensure that all documents do not contain anything which counts as marketing in order to keep in line with the regulations.

Fig. 2 and Fig. 3 show the results of our survey excluding those managers that are unaffected by the AIFMD. The overall results displayed in Fig. 2 show that only 22% of respondents affected by the AIFMD feel that their funds are already AIFMD-compliant, with a further 22% expecting their funds to be compliant by the end of 2013. A significant number of managers (40%) are waiting for final changes and guidance from their regulator, highlighting the fact that there is still a lot of uncertainty regarding the implementation of the directive and managers are looking to their local regimes to guide them. A small number of managers (3%) stated that they will not be ready for the compliance deadline.

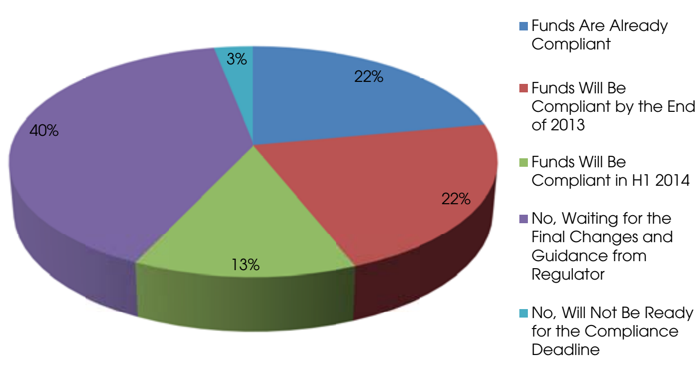
The breakdown of survey responses by region is shown in Fig. 3 in order to assess the differences in preparation between European

Fig. 1: Proportion of Hedge Fund Managers In Each Region Which Stated They Will Need to Comply With the AIFMD



Source: Preqin Hedge Fund Manager Interviews, June - July 2013

Fig. 2: Are Fund Managers Ready for the AIFMD?



Source: Preqin Hedge Fund Manager Interviews, June - July 2013 managers and their North American counterparts. There is a noticeable difference between the two groups, with 64% of European respondents expecting to be ready for the AIFMD by H1 2014, compared to just 51% of North American managers. A substantial number of managers in both regions are awaiting further guidance from their regulator, while a higher proportion of North American respondents stated they would not be ready for the deadline. North American managers will have more time to prepare for the directive due to the phased compliance regime for non-EU managers and as such, they will only have to comply with certain aspects of the directive initially.

When looking at the responses in terms of the assets under management of reporting firms, it is clear that larger fund managers, with more than $1bn in assets, are better prepared for the implementation of the directive, with 65% of respondents expecting to be ready by the end of 2013, as shown in Fig. 4. These firms are likely to be further ahead in the implementation process as they will have much greater resources, and will be more likely to have access to large firms able to fulfil the depository requirements and have the internal resources to deal with the new reporting requirements. These firms are also likely to be able to get the assistance from top advisory firms to help them understand the regulations surrounding the AIFMD and the necessary changes to ensure compliance. Smaller North American managers are less likely to market within the EU and so may fall outside the scope of the directive, while managers with less than €100mn in assets will also be exempt from the directive.

Impact of the AIFMD on Hedge Fund Investors

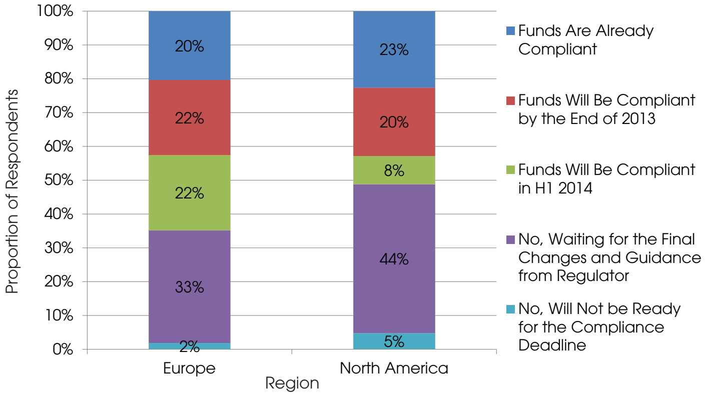
In June 2013, Preqin interviewed more than 90 prominent institutional investors in hedge funds in order to assess their current views on the industry. The vast majority of these investors (94%) said that recent regulations had yet to have any effect on their hedge fund allocations, although many indicated concerns over how they would affect the industry in the future. Of the investors interviewed, 35% said that regulations are positive for the hedge fund industry, while 22% believe additional regulation to be negative, as shown in Fig. 5. The remaining 43% of investors said they were unsure about recent regulatory proposals, suggesting that they are waiting to see how the proposals are implemented before forming a definitive view. A previous Preqin study in December 2012 indicated that 49% viewed regulation as positive for the hedge fund industry, suggesting that more investors have become unsure about the benefits of the proposed regulations in the first half of 2013.

Having a consistent regulated standard for hedge funds along with more transparent reporting could help institutional investors in assessing quality managers. One of the main concerns regarding regulations among institutional investors centres on a lack of clarity and there is a fear that this could lead to a tougher environment and more complications. This is particularly true in the case of the AIFMD as each member state has a different adaptation of the directive, meaning that investors are unclear about how the directive will be implemented within each European country. Many investors within the EU are also concerned that the AIFMD will impact the choice of funds available to them.

Outlook

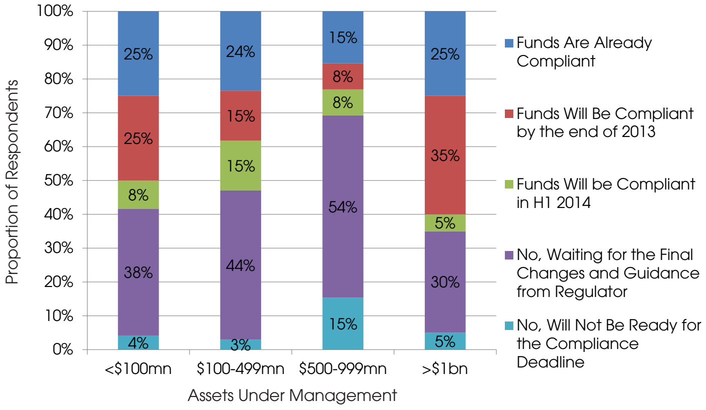
With the imminent launch of the AIFMD, the majority of hedge fund managers still have work to do in ensuring their funds are fully compliant with the regulations. So why should non-EU managers bother with the AIFMD? Preqin's Hedge Fund Investor Profiles tracks 711 investors based within the EU, representing 17% of the investors tracked by Preqin. Combined, these investors represent 22% of the capital invested by institutional investors in hedge funds today (Fig.6); a significant portion

Fig. 3: Are Fund Managers Ready for the AIFMD?: Breakdown by Region



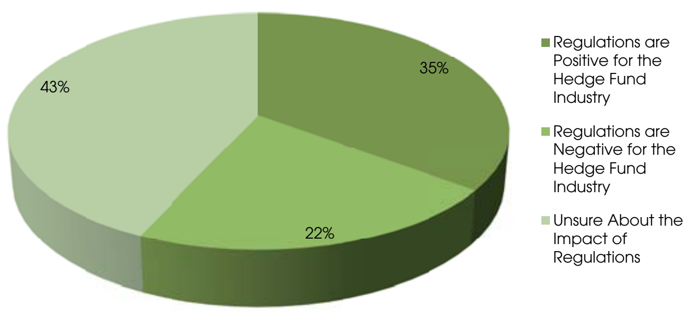
Source: Preqin Hedge Fund Manager Interviews, June - July 2013

Fig. 4: Are Fund Managers Ready for the AIFMD?: Breakdown by Assets Under Management



Source: Preqin Hedge Fund Manager Interviews, June - July 2013

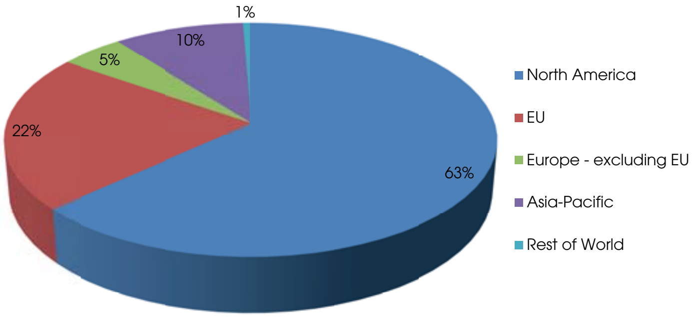
Fig. 5: Hedge Fund Investor Perceptions of Regulations Launched in 2011 - 2013



Source: Preqin Hedge Fund Investor Interviews, June 2013 of the $2.3tn industry. Eighty-three percent of these investors are open to investment opportunities in the hedge fund space globally; therefore those managers outside of the EU considering the financial and time implications regarding compliance may be encouraged to comply, in order to tap into a region which can potentially be a lucrative source of funding for a hedge fund. For investors in the region, it is reassuring to see such a large group of the survey respondents looking to comply with the directive (72% of the fund managers surveyed), which therefore reduces the impact of the AIFMD limiting the amount of funds available for them to invest in.

European managers seem better prepared than their North American counterparts at this stage and the phased compliance period for non-EU managers means that a number of North American funds are likely to see the initial impact of the regulations before altering their processes. Institutional investors have still to be convinced about the benefits of regulation in the hedge fund industry and they will be watching closely to see the effect that the AIFMD has on fund managers. With uncertainty still surrounding the impact of the directive, it may be 2014 before it is possible to assess the full impact of the AIFMD on the hedge fund universe.

Fig. 6: Proportion of Institutional Capital Invested in Hedge Funds By Investor Location



Source: Preqin Hedge Fund Investor Profiles

Subscribers to Preqin's Hedge Fund Analyst can click here to view detailed information on the 892 EU-based hedge fund managers affected by the AIFMD.

Subscribers to Preqin's Hedge Fund Investor Profiles can also click here to view profiles for 711 EU-based investors in hedge funds.

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

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Hedge Fund Performance: Round-Up of H1 2013

The first quarter of 2013 was promising for hedge funds, with all strategies posting positive returns. However, June was a disappointing month, bringing the overall performance of the asset class down in Q2. Graeme Terry takes a closer look at hedge fund performance in the first half of the year.

Hedge funds enjoyed an encouraging start to 2013, with positive returns in the first five months of the year making it 12 consecutive positive months for the industry. However, it proved to be unlucky 13 as negative returns for all strategies in June brought managers back down to earth. Overall, it has still been a relatively positive start to the year, but there is still work to do in order for managers to convince investors that they can deliver consistent risk-adjusted returns.

Returns Down in June as CTAs Continue to Struggle

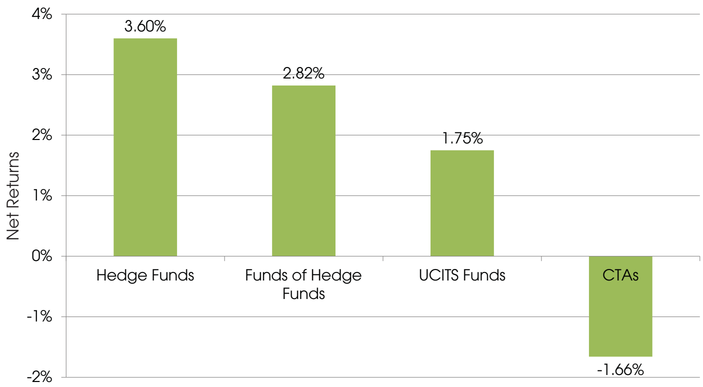
CTAs have continued to struggle for strong returns in the first half of 2013, posting returns of -1.66%, as displayed in Fig. 1. CTAs have posted negative performance numbers in February, May and June and many have failed to generate returns in the current market environment. A lack of trends, compressed volatility and low interest rates have all contributed to low returns in the CTA space. Returns for the other hedge fund categories were positive in H1, although negative returns for June dampened an encouraging start to the year. Funds of hedge funds posted returns of 2.82% over the first half of 2013, with long/short funds of hedge funds the main contributor (+4.06%). UCITS hedge funds continue to show dampened performance compared to the overall hedge fund universe, with returns of 1.75%, although they are slightly up on performance from H1 2012. UCITS employing macro strategies were the main contributor to the poor performance of UCITS hedge funds with negative returns of 2.57%, while long/short funds were the best performing in the UCITS category (+3.91%).

Event Driven Funds Remain on Top

The average single-manager hedge fund ended the first half of 2013 with returns of 3.60%, with strong performance in Q1 (+3.33%) followed by muted returns in Q2 (+0.26%). Event driven funds have been the best performing so far in 2013 with returns of 6.92%, as shown in Fig. 2, taking the strategy to impressive 12-month returns of 16.23%. Distressed hedge funds have been the best performing within this category, positing year-to-date returns of 8.18%. Event driven hedge funds have tended to perform well in spells of positive performance for hedge funds overall, with these funds recording the highest returns of all hedge fund strategies in 2009, 2010 and 2012.

Long/short hedge funds had a strong start to the year as a result of buoyant equity markets, posting returns of 4.19% in Q1, but performance has slowed in Q2 with returns of 0.34%. Value-orientated and long bias funds have been the biggest contributors to this strategy in H1, with returns of 7.01% and 6.43% respectively. Long/short equity (+4.19%) and long/short credit (+3.47%) also achieved positive returns for H1.

Fig. 1: Net Returns of Hedge Funds by Structure, H1 2013



Source: Preqin Hedge Fund Analyst

Relative value funds have had a steady first half of the year with moderate gains recorded in each of the first five months followed by a 0.45% loss in June. Relative value arbitrage was one of the few benchmarks to deliver positive returns for June and has achieved 13 consecutive positive months, taking year-to-date returns to 4.00%. Convertible arbitrage, statistical arbitrage and equity market neutral funds have also delivered positive returns in H1, although fixed income arbitrage funds suffered a loss of 2.79% in June to take 2013 returns to 0.21%.

Multi-strategy funds have had a disappointing start to 2013, faring worse than the overall hedge fund benchmark in H1 2013, with returns of 1.86%.

Macro Strategies Continue to Underperform

Macro strategies have continued to underperform, posting negative returns in H1 2013 (-0.07%) and recording their worst performance since H2 2008. Macro funds posted positive returns in Q1 (1.15%) largely due to a strong January, but were still the worst performing out of the six hedge fund strategy categories during this quarter. Q2 was disappointing for macro funds with marginal gains in April and May (+0.09% and +0.11% respectively) followed by negative returns in June (-1.41%). Macro managers have struggled for a variety of reasons, including a lack of differentiation in global economies, making it difficult for them to capture trends and mispricing in markets.

Asia-Pacific on Top Despite June Decline, as Emerging Markets Suffer

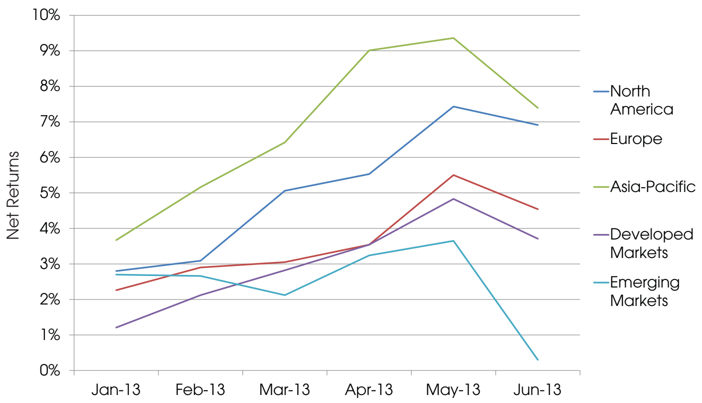
Asia-Pacific-focused funds fared best in the first half of 2013, despite muted returns in Q2, with cumulative year-to-date returns

Fig. 2: Net Returns of Single-Manager Hedge Funds by Strategy

Q1 2013	Q2 2013	H1 2013	Last 12 Months	3-Year Annualized
Event Driven 4.20%	Event Driven 2.61%	Event Driven 6.92%	Event Driven 16.23%	Event Driven 9.71%
Long/Short 4.19%	Relative Value 0.93%	Long/Short 4.55%	Long/Short 11.81%	Long/Short 7.97%
Relative Value 2.61%	Long/Short 0.34%	Relative Value 3.56%	Multi-Strategy 7.47%	Relative Value 7.36%
Multi-Strategy 2.13%	Multi-Strategy -0.27%	Multi-Strategy 1.86%	Relative Value 6.88%	Multi-Strategy 7.05%
CTAs 1.23%	Macro Strategies -1.21%	Macro Strategies -0.07%	Macro Strategies 3.79%	Macro Strategies 6.36%
Macro Strategies 1.15%	CTAs -2.86%	CTAs -1.66%	CTAs -1.91%	CTAs 3.38%

Source: Preqin Hedge Fund Analyst

Fig. 3: Cumulative Net Returns of Hedge Funds by Geographic Focus, H1 2013



Source: Preqin Hedge Fund Analyst

of 7.39%, as Fig. 3 illustrates. Asia-Pacific funds posted strong returns in Q1 2013, boosted by the strong performance of equity funds as a result of rising stock markets, but failed to match this performance in Q2. North America-focused funds were best performing in Q2, with returns of +1.75%, taking H1 returns to 6.91% and representing the best start to a year for these funds since 2009.

Emerging markets-focused funds have suffered most in the first half of the year, with year-to-date returns only just remaining in the black (+0.30%). These funds suffered from a major decline in June, with the average emerging markets fund down more than three percentage points. This represents the worst half-yearly performance of emerging markets funds since the losses suffered in 2011. Funds focused on Europe fared worse than those focused on Asia and North America, but still posted positive half yearly returns (+4.54%).

Outlook

After 12 months of positive returns, losses across almost all benchmarks in June mean that there will once again be uncertainty about the performance prospects of hedge funds. The negative returns suffered in June again show that hedge funds are struggling to produce positive returns in all market conditions, and they have consistently underperformed when compared to benchmarks such as the S&P 500 Index in recent years. Despite this, managers have been able to produce positive returns for most of the past 12 months and they will be aiming to ensure that this latest setback is just a blip rather than a major concern. The last time the industry suffered a similarly poor month was in May 2012, which preceded a run of positive performance, and managers will be hoping for a similar outcome this time around.

Fig. 4: Net Returns of Top 10 Performing Hedge Funds in H1 2013

Fund	Manager	Core Strategy	Net Return in H1 2013 (%)
Northwest Warrant Fund - USD	Northwest Investment Management	Long Bias	178.80
Brightline Capital Partners LP	Brightline Capital Management	Long/Short Equity	102.19
Wave Hill USA Fund - Class B	Wave Hill Capital Management	Long/Short Equity	46.04
Wall Street Capital Partners	Wall Street Resource	Special Situations	41.92
Ginga Service Sector Fund - JPY Class	Stats Investment Management	Long/Short Equity	41.69
Smith Street Capital I	Smith Street Capital	Long Bias	40.48
Senvest Partners LP	RIMA Senvest Management	Long/Short Equity	38.88
Elevated Value Focus	Elevated Capital	Long/Short Equity	38.83
Quam China Focus Fund - Class A	Quam Asset Management	Multi Strategy	38.76
Loyola Capital Offshore Ltd	Loyola Capital Management	Long Bias	38.57

Source: Preqin Hedge Fund Analyst

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Preqin Global Data Coverage

As of 1 July 2013

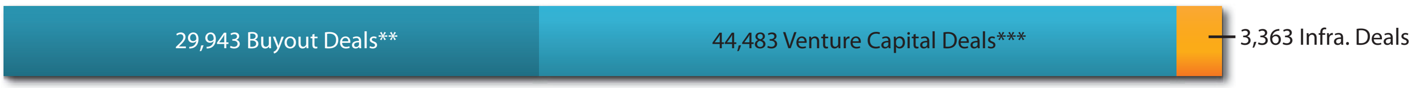
Fund Coverage: 30,431 Funds

Firm Coverage: 14,880 Firms

Performance Coverage: 12,613 Funds (IRR Data for 5,074 Funds and Cash Flow Data for 2,275 Funds)

Fundraising Coverage: 12,664 Funds Open for Investment/Launching Soon Including 1,955 Closed-Ended Funds in Market and 393 Announced or Expected Funds

Deals Coverage: 77,155 Deals Covered; All New Deals Tracked



Investor Coverage: 10,959 Institutional Investors Monitored, Including 7,802 Verified Active**** in Alternatives and 82,840 LP Commitments to Partnerships

Alternatives Investment Consultant Coverage: 447 Consultants Tracked

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****Preqin contacts investors directly to ensure their alternatives programs are active. We emphasize active investors, but clients can also view profiles for investors no longer investing or with programs on hold.

Editor's View – Industry News

Amy Bensted provides her view on the news affecting the hedge fund industry at present, including the AIFMD and H1 2013 performance.

As our feature article (pages 2 - 4) shows, despite the AIFMD now being written into law, uncertainty and inaction still surrounds the new directive. In a financial climate where government intervention can have huge effects on hedge funds, notably in Japan where Prime Minister Shinzo Abe's aggressive efforts to revive his country's economy led to the opportunity for strong gains for long/short equity funds focusing on the region (page 13), the uncertainty surrounding the new European directive is leading to some consternation in the hedge fund management industry. However, many investors remain upbeat about the prospect of regulation in the industry, and the positive impact of regulation could be further inflows into the asset class as institutions feel more comfortable investing in a newly regulated environment. In Q2 2013, 90 European investors instigated new searches for funds, looking to deploy up to $7.5bn between them. These include the Madrid-based fund of hedge funds, BanSabadell Inversión, which is looking for long/short and event driven fund managers, and Railways Pension Trustee Company (Railpen),which is looking to deploy a hefty £450mn in single-manager vehicles as it continues to move from funds of funds to a direct hedge fund portfolio.

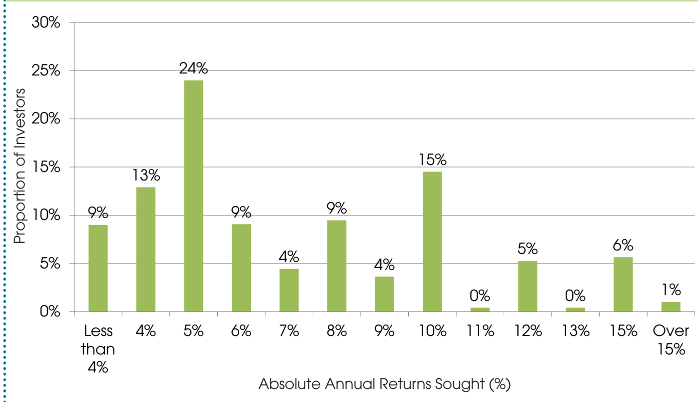
The shadow of the impending AIFMD has been cast across the European landscape when it comes to fund launches; in the first half of 2012, 340 new hedge funds launched into the market place, whereas in 2013, early estimates show this figure at closer to 150, as managers show their "wait and see" attitude through holding back on launching new vehicles. However, there have been some significant European launches over the first half of this year, including a new macro vehicle by the $5.2bn Cantab Capital Partners, CCP Core Macro Fund, which has already accumulated more than $300mn in investor assets.

Not all news on the regulation front has been cause for concern among the hedge fund management industry. The JOBS Act, a regulation which half of fund managers believed would be positive for the industry according to the results of a survey in our 2013 Preqin Global Hedge Fund Report (compared to 20% of managers that felt the same about the AIFMD) was finally approved in the beginning of July. This act lifts the 80-year ban on general solicitation and advertising of private placements and could have significant impact on how funds can attract interest going forwards. However, some of the last minute caveats added to the act by the SEC could mean that many fund managers choose to avoid any potential problems with the regulator and stay away from general solicitation of new investors entirely.

Finally, as our first half round-up of 2013 shows (page 6), a disappointing June has dampened an otherwise strong run of returns for the hedge fund industry. Event driven funds continue to be the stand-out strategy and look set to beat their top of the league performance in 2012, when these funds posted returns of 12.54%. Among the top performers in the strategy for the year is Hildene Opportunities Fund, a $811mn fund which seeks to take advantage of opportunities in the distressed structured finance market. The onshore fund is currently up 17.68% and is closed to new investment.

However, the overall benchmark for hedge funds for year to date (+3.60%) could be on target to satisfy the majority of investors tracked by Preqin. As our chart of the month shows, 59% of investors seek annualized returns of 7% or less from their hedge fund investments. If the industry can recover from its June difficulties and show a similar rebound after its Q2 dip in 2012, then it could be on its way to recovering some of the disappointment in hedge fund performance by investors expressed at the turn of the year.

Chart of the Month: Distribution of Annual Returns Sought by Investors from their Hedge Fund Investments



Source: Preqin Hedge Fund Investor Profiles

The Chart of the Month shows that over a quarter (27%) of hedge fund investors expect an annual return of 10% or more from their hedge fund investments. An additional 26% look for an annual return of between 5% and 9%. However, a notable 46% of hedge fund investors expect an annual return of 5% or less.

In other news:

Long/short equity funds continue to be popular among institutional investors, with 47% of mandates issued in Q2 (see Preqin Quarterly Update: Hedge Funds, Q2 2013) including a long/short equity component. Investors searching for long/short equity include Feri Trust, which is seeking funds to gain exposure to Latin American or Asian markets through long/short equity or distressed vehicles over the rest of the year.

Pension funds continue to take their first steps in the asset class, making up seven of the nine new first-time investors that Preqin has tracked in 2013. These include the City of Omaha Employees' Retirement System, which entered the asset class in 2013 after conducting invitation-only searches earlier in the year, hiring SSARIS for this first investment.

Do you have any news you would like to share with the readers of Spotlight? Perhaps you're about to launch a new fund, have implemented a new investment strategy, or are considering investments beyond your usual geographic focus?

Send your updates to spotlight@preqin.com and we will endeavour to publish them in the next issue.

Preqin Performance Benchmarks: June 2013

Preqin's preliminary benchmarks for June 2013.

Fig. 1: Summary of Preliminary June 2013 Performance Benchmarks (Net Return, %)

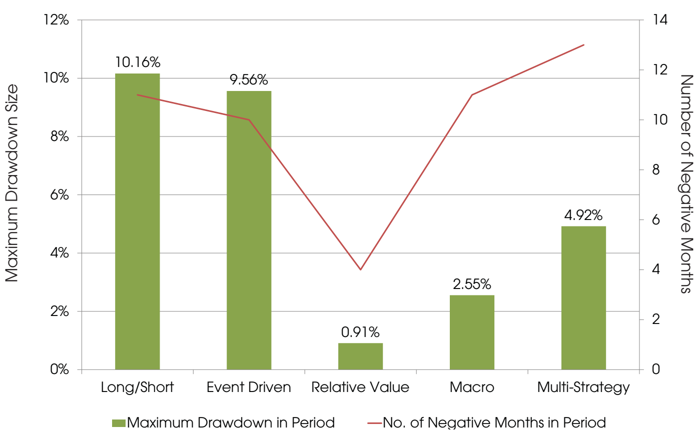
	June 2013	May 2013	Q2 2013	Annualized 3 Years
Hedge Funds (All Strategies & Regions)	**-1.45**	**1.06**	**0.26**	**7.87**
Long/Short	-1.62	1.31	0.34	7.97
Event Driven Strategies	-0.69	2.17	2.61	9.71
Relative Value	-0.45	0.42	0.93	7.36
Macro Strategies	-1.41	0.11	-1.21	6.36
Multi-Strategy	-1.51	0.87	-0.27	7.05
North America	-0.49	1.81	1.75	11.74
Europe	-0.91	1.89	1.45	6.21
Asia-Pacific	-1.80	0.32	0.91	8.87
Emerging Markets	-3.23	0.39	-1.78	6.54
Developed Markets	-1.07	1.25	0.86	7.32
USD	-1.41	1.11	0.43	8.34
EUR	-1.17	0.87	0.05	4.23
JPY	0.11	-0.20	6.31	10.37
GBP	-0.41	0.81	-0.16	2.71
BRL	-2.17	-0.12	-1.80	10.33
Funds of Hedge Funds (All Strategies & Regions)	**-1.77**	**0.73**	**-0.38**	**3.31**
Long/Short	-2.01	1.32	-0.04	3.55
Multi-Strategy	-1.42	0.61	-0.04	3.18
USD	-1.88	0.68	-0.49	3.48
EUR	-2.24	0.51	-1.00	1.26
UCITS Hedge Funds (All Strategies & Regions)	**-1.66**	**0.46**	**-0.60**	**2.93**
Long/Short	-1.81	1.01	-0.08	4.46
Relative Value	-0.49	0.51	0.32	1.72
Macro Strategies	-2.25	-0.75	-2.68	1.08
USD	-2.54	0.36	-1.57	3.03
EUR	-2.02	0.60	-0.72	2.11
CTAs (All Strategies & Regions)	**-1.69**	**-2.06**	**-2.86**	**3.38**
USD	-1.46	-2.34	-2.79	3.48
EUR	-2.54	-2.63	-3.73	0.24

Source: Preqin Hedge Fund Analyst

Preqin's latest market benchmarks show that hedge funds suffered their first negative month in June 2013 since May 2012, posting an average net return of -1.45%. All strategies reported a fall for the month, with the 1.62% loss made by long/short funds particularly notable. Hedge funds targeting emerging markets declined by more than three percentage points and are only marginally positive in the year to date. The performance of macro hedge funds in 2013 tipped into negative territory after a return of -1.41% in June and the 1.69% decline posted by CTAs represents the second consecutive month of losses for this group.

Fig. 2 provides an illustration of the down periods experienced by different hedge fund strategies in recent years. Despite delivering superior returns over the last three years, the long/short and event driven sectors each suffered drawdowns of close to 10% during 2011. These strategies posted 10 and 11 loss-making months out of the last 36 months respectively. Relative value funds minimized both the number of negative months (four) and the size of maximum drawdown (0.91%) over the last three years.

Fig. 2: Negative Performance of Hedge Funds, July 2010 - June 2013



Source: Preqin Hedge Fund Analyst

Japan: Industry Overview

We provide an overview of the hedge fund industry in Japan, including a look at investors, hedge fund managers and performance, as well as some key figures for the region.

Following the re-election of Shinzo Abe as Prime Minister in December 2012, the Japanese government has introduced a series of aggressive measures in an attempt to revive the country's sluggish economy. The Japanese equity markets have experienced turbulence as a result of these measures and this has led to a unique opportunity for hedge fund managers. Japan-focused long/short equity funds in particular have posted strong returns this year and Japan-focused hedge funds have performed better than their global peers in the first half of 2013. Assets among Japan-focused hedge funds had been declining in recent years due to under-performance and these funds have suffered a number of investor redemptions as a result. However, this recent boost in performance has led to renewed interest in the region and trends suggest that this area is likely to continue seeing further allocations over the remainder of 2013.

Japan in Numbers

+14.41%: Impressive year to date performance of Japan-focused funds utilizing a core long/short equity strategy.

51%: Japanese investors that have a preference for long/short equity funds.

7 Years: Average track record of a Japan-focused hedge fund.

2005: Mean first year of investment of a Japanese investor.

79%: Hedge funds managed by Japanese managers that are domiciled in the Cayman Islands.

$299mn: Median size of a Japanese investor's hedge fund portfolio.

53%: Japanese investors that invest in hedge funds solely through direct investments. 47% include an allocation to at least one fund of hedge funds.

12: Median number of hedge funds in a Japan-based investor's hedge fund portfolio.

89%: Japan focused hedge funds that utilize equities as a method of investment.

1.48%: Mean management fee of a Japan-based hedge fund. The mean performance fee is 20.20%

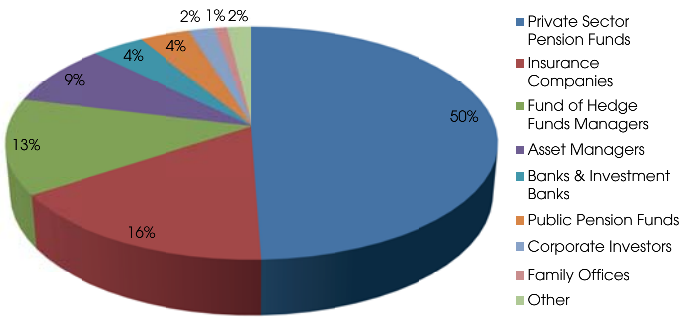
Data Source:

Preqin's Hedge Fund Online service offers a complete resource for those looking for intelligence on the hedge fund market in Japan, including 100 investors and 64 fund managers based in the region, as well as fund-level performance data for 351 Japan-focused funds.

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

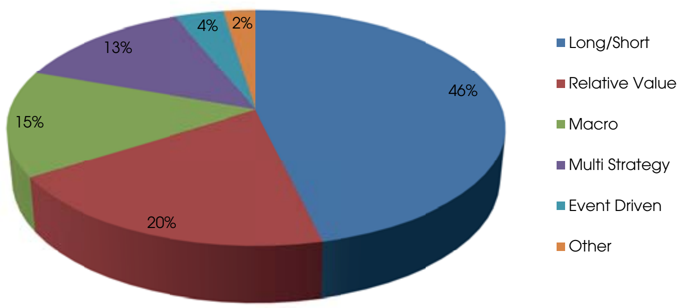
www.preqin.com/hedge

Fig. 1: Breakdown of Japan-Based Hedge Fund Investors by Type



Source: Preqin Investor Profiles

Fig. 2: Breakdown of Hedge Funds Managed by Japan-Based Firms by Strategy



Source: Preqin Hedge Fund Analyst

Fig. 3: Comparison of Japan Long/Short and All Long/Short Hedge Funds Performance

	Japan Long/Short*	All Long/Short*
Cumulative		
1 month	-1.03%	-1.62%
3 months	4.04%	0.34%
YTD	12.32%	4.55%
12 Months	19.59%	11.83%
3 years	21.79%	25.88%
Annualized		
2 years	6.66%	3.99%
3 years	6.79%	7.97%
5 years	5.76%	7.09%
Sharpe Ratio (2%) - 3 years	0.73	0.80

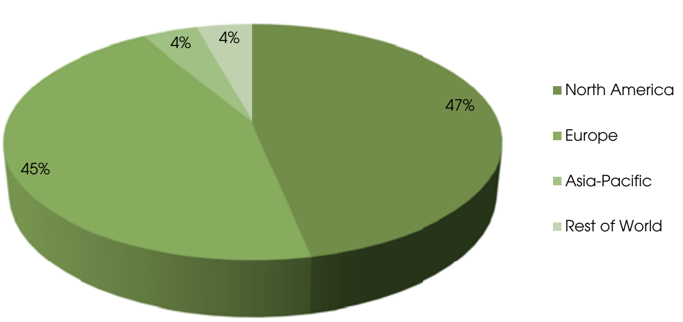
*As at June 30th 2013

Source: Preqin Hedge Fund Analyst

Fund Searches and Mandates

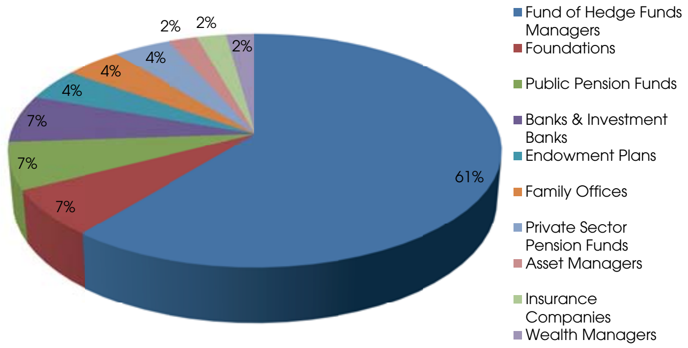
A look at investors' fund searches and mandates issued in June 2013, including breakdowns of investors searching for funds by location and type.

Fig. 1: Breakdown of Hedge Fund Searches Issued by Investor Location, June 2013



Source: Preqin Hedge Fund Investor Profiles

Fig. 2: Breakdown of Hedge Fund Searches Issued by Investor Type, June 2013



Source: Preqin Hedge Fund Investor Profiles

Subscriber Quicklink:

Subscribers can click here to view detailed profiles of 786 institutional investors in hedge funds searching for new investments via the Fund Searches and Mandates feature on Preqin's Hedge Fund Investor Profiles.

Preqin tracks the future investment plans of investors in hedge funds, allowing subscribers to source investors actively seeking to invest capital in new hedge fund investments.

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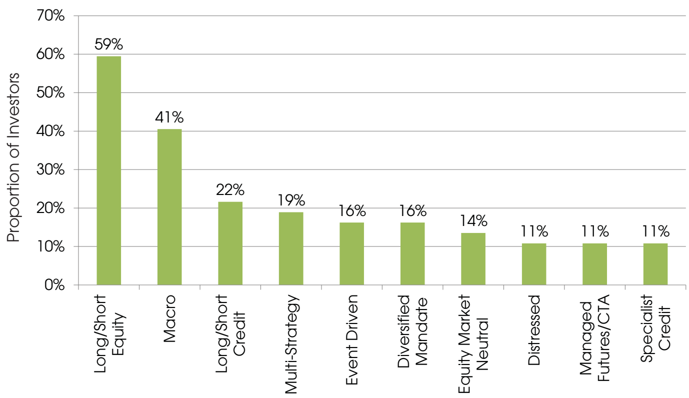
www.preqin.com/hedge

Fig. 3: Hedge Fund Searches Issued by Strategy, June 2013



Source: Preqin Hedge Fund Investor Profiles

Fig. 4: Examples of Fund Searches Issued in June 2013

Investor	Investor Type	Location	Fund Search Details
Rockefeller University Endowment	Endowment Plan	US	The New York-based endowment plan is looking to invest between $60 and $100mn with two new hedge fund managers in the coming 12 months. The endowment is seeking one fund focused on long/short equity, and another absolute return fund which may be either multi-strategy or credit-focused. It will consider managers on a global basis and is seeking exposure to emerging markets through at least one of these investments. The endowment invests in single-manager hedge funds with track records of at least three years and assets under management of at least $100mn. It typically allocates $30-50mn per fund and is willing to accept lock-ups for a maximum duration of 12 months.
Kairos Partners	Fund of Hedge Funds Manager	Italy	The $2bn fund of hedge funds manager is currently focusing on adding Japanese long/short equity investments and expects to make new allocations to this strategy over the next few months. In total it expects to make 10-15 new hedge fund investments over the coming year, and it typically makes new additions to its portfolio every month. The firm has a global investment focus and invests across a diverse range of hedge fund strategies, including allocations to UCITS-compliant hedge funds.
United Mine Workers of America Health & Retirement Funds	Private Sector Pension Fund	US	The $4.5bn pension fund is looking to commit $200-250mn to five new hedge fund managers, with allocations expected in Q4 2013. The pension fund is primarily considering US-based managers, but it will also consider European managers. For the new investments it will be considering strategies such as fixed income, long/short credit, long/short equity and macro. The pension fund will only allocate to single hedge fund managers with track records of at least three years and minimum assets under management of $1bn.

Source: Preqin Hedge Fund Investor Profiles

Conferences Spotlight

Conference	Date	Location	Organizer	Preqin Speaker	Discount Code
2013 K-Alpha Hedge Fund Conference	4 September 2013	Seoul, South Korea	KDB Daewoo Securities		
Hedge Funds World Asia 2013	3 - 5 September 2013	Hong Kong	Terrapinn	Amy Bensted	
Global Alpha Forum	10 - 11 September 2013	New York	Financial Research Associates	Amy Bensted	FMP187 – 10% Discount
Alternative Strategy Mutual Funds Forum	10 - 11 September 2013	New York	IIR USA		
Alpha Hedge West Conference	15 - 17 September 2013	San Francisco	IMN		PQ15 - 15% Discount
Quant Invest 2013	24 - 26 September 2013	Paris	Terrapinn	Amy Bensted	
Global ARC Boston	28 - 30 October 2013	Boston	Global ARC	Mark O'Hare	
FundForum USA 2013	28 - 30 October 2013	Boston	ICBI	Amy Bensted	FKN2373PRSPOT – 15% Discount

2013 K-Alpha Hedge Fund Conference

Date: 4 September 2013
Location: Conrad Hotel, Seoul, South Korea
Organiser: KDB Daewoo Securities

Contact Point: Kwangjin Sim, Head of AI Solution Team
Tel.: +8210 3404 0990
Email: kwangjin.sim@dwsec.com

We cordially invite you to join our exclusive 2013 K-Alpha Hedge fund conference in Seoul. We're confident that K-Alpha will guide to Global & Korean Hedge Fund market with valuable insights. Please come and join our exclusive event, and remember KDB Daewoo is here to support you.

The 16th Annual Hedge Funds World Asia 2013

Date: 3 - 5 September 2013
Location: Harbour Grand, Hong Kong
Organiser: Terrapinn

Information: www.terrapinn.com/hedgefundsasia

This is the executive forum for Asia's hedge funds industry. The event will bring together senior executives from institutional investors, hedge funds and fund of funds to discuss the latest investment strategies, hedge fund allocations, portfolio management tactics and fund structuring.

Alternative Strategy Mutual Funds Forum

Date: 10 - 11 September 2013
Location: India House, New York, NY
Organiser: IIR USA

Information: www.alternativefundsforum.com

The Alternative Strategy Mutual Funds Forum brings liquid alternative fund managers and distributors together to grow assets under management. This is the only program for traditional and non-traditional asset managers to capitalize on the retail market's growing demand for alternative strategy mutual fund products.

5th Annual Global Alpha Forum

Date: 10 - 11 September 2013
Information: www.globalalphaforumcom
Location: The New York Athletic Club, New York, NY
Organiser: Financial Research Associates

You'll hear directly from leading institutional investors, strategists and innovative money managers about new and exciting ways to boost alpha in your portfolio. Subsribers of Preqin are eligible for a 10% registration discount. Mention FMP187 during registration to enjoy this offer.

19th Annual Alpha Hedge West Conference

Date: 15 - 17 September 2013
Information: http://www.imn.org/investment-management/conference/Alpha-Hedge-West/Home.html
Location: Ritz-Carlton, San Francisco, CA
Organiser: Information Management Network (IMN)

Session topics include dynamic investment and dynamic asset allocators, the role of volatility, growth of 40 Act alternatives, and more. Speakers include Joseph Brusuelas of Bloomberg, Jason Huemer of Visium Asset Management, and a debate between Kyle Bass of Hayman Advisors, L.P. and John H Burbank III of Passport Capital.

Quant Invest 2013

Date: 24 - 26 September 2013
Information: www.terrapinn.com/2013/quant-invest/?utm_source=prequin&utm_medium=listing&utm_campaign=prequin
Location: Hotel Lutetia, Paris, France
Organiser: Terrapinn Ltd

Quant Invest and CTA World is the premier business event in Europe for quant and CTA investors and managers and examines the latest strategies and innovations in this dynamic field of finance.

FundForum USA 2013

Date: 28 - 30 October 2013
Information: www.fundforumusa.com/FKN2373PRQSP
Location: Mandarin Oriental Boston
Organiser: ICBI

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