Hedge Fund Spotlight

May 2014

Welcome to the latest edition of Hedge Fund Spotlight, the monthly newsletter from Preqin providing insights into the hedge fund industry, including information on investors, funds, performance and more. Hedge Fund Spotlight uses information from our online product Hedge Fund Online, which includes Hedge Fund Investor Profiles and Hedge Fund Analyst.

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Feature Article

The $1bn Club – Largest Hedge Fund Managers Dominating Industry Assets

This month, we take an in-depth look at the largest hedge fund managers and consider what it takes to be at the top of the industry and to be part of the $1bn Club.

Page 2

Lead Article

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

As a follow on to our feature article, we also take a look at the characteristics of institutional investors in hedge funds with more than $1bn allocated to the asset class, as well as who is new to the $1bn Club.

Page 6

Preqin Industry News

This month's Industry News looks at $1bn plus hedge fund managers and investors, as well as hedge fund launches in Europe.

Page 9

Preqin Investor Network

In this new feature, we examine the activity of the investors on Preqin Investor Network in April to see which fund types, strategies and regions are of current importance to investors.

Page 10

The Facts

You can download all the data in this month's Spotlight in Excel.
Wherever you see this symbol, the data is available for free download on Excel. Just click on the symbol and your download will begin automatically. You are welcome to use the data in any presentations you are preparing; please cite Preqin as the source.

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The $1bn Club – Largest Hedge Fund Managers Dominating Industry Assets

This month, Samuel McKenzie takes an in-depth look at the largest hedge fund managers and consider what it takes to be at the top of the industry and to be part of the $1bn Club.

Following positive performance and investor inflows in recent years, the global hedge fund industry is now worth approximately $2.66tn*. The industry is growing, both in terms of assets and volume, with more than 4,600 fund managers now managing more than 10,500 funds, an increase from May 2013 when there were around 4,150 managers running approximately 10,000 funds. With such a large number of fund managers offering a wide variety of strategies and styles, how does one manager differentiate itself from others in order to entice investors? What ingredients go into making a manager successful and established within such a highly competitive marketplace?

There are currently more than 500 hedge fund managers with $1bn or more in assets under management. With these firms representing approximately 90% of total industry assets, they make up a significant proportion of all capital managed by hedge funds. In this article, Preqin takes an in-depth look at what it takes to be at the top of the industry and to be part of the "$1bn Club".

The $1bn Club: Size and Age Distribution

With more assets than the next three largest fund managers combined, Bridgewater Associates is the largest hedge fund manager today, with around $157bn in assets under management. The Westport, Connecticut-based firm offers investors access to its two flagship funds, Pure Alpha and AllWeather, both of which use a global macro strategy. However, the Pure Alpha fund is now closed to new investments and this presents opportunities for other large funds to pick up inflows that may previously have gone to Bridgewater.

Bridgewater has been managing funds since 1975 and has a track record which is 21 years longer than the $1bn Club average of 18 years. In fact, the mean year of establishment for the mega-fund managers, those with over $20bn in assets, is 1991 (Fig. 1), showing that the largest fund managers are also typically the most established brands. The mean year of establishment for fund managers with $1-4.9bn in assets is 1997. Around 54% of the fund managers with over $1bn in assets have been established since 2000, with the newest fund managers founded in 2012. One of those firms established in 2012 is New-York-based Panning Capital Management, which invests long and short in a range of credit instruments, including investment grade, high-yield, distressed debt and asset- and mortgage-backed securities. This firm was able to benefit from substantial early stage investment, allowing it to launch in November 2012 with $650mn in assets. No fund managers that launched in 2013 are known to have reached the $1bn mark.

There are currently 25 fund managers with more than $20bn in assets. These firms have $834bn in aggregate assets under management, with the average assets under management around $33.4bn. The fact that the largest hedge fund managers typically

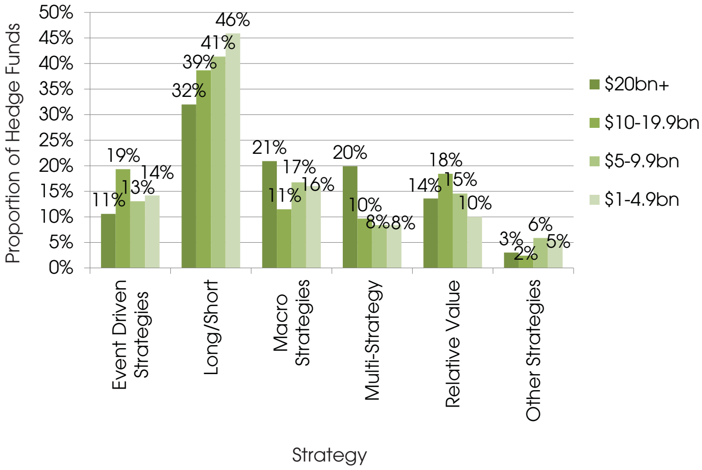
*As at 31 December 2013

Fig. 1: Mean Year of Establishment for Hedge Fund Managers by Assets under Management

Assets under Management	Mean Year Established
$20bn+	1991
$10-19.9bn	1994
$5-9.9bn	1994
$1-4.9bn	1997

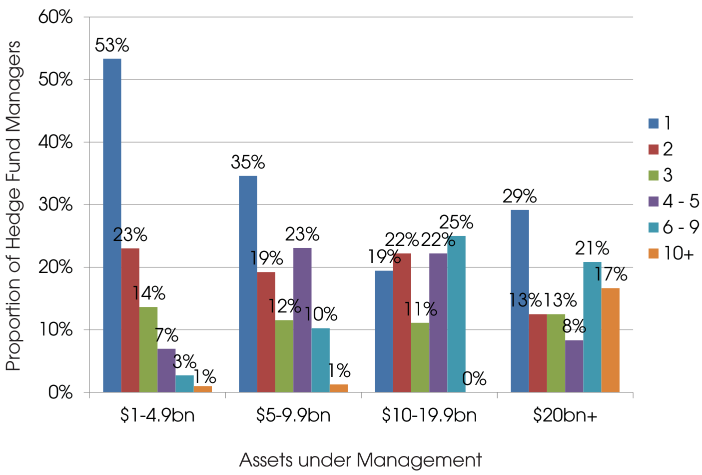
Source: Preqin Hedge Fund Analyst

Fig. 2: Breakdown of Strategies Used by Hedge Funds Belonging to Managers with over $1bn in Assets under Management



Source: Preqin Hedge Fund Analyst

Fig. 3: Breakdown of Number of Core Strategies Offered by Hedge Fund Managers with over $1bn in Assets under Management



Source: Preqin Hedge Fund Analyst

have the longest track record shows that growing assets is a gradual process; these managers have been rewarded for several years of positive performance, leading to investor inflows and dominance of the industry.

Macro and Multi-Strategy Funds Are More Prevalent Among the Largest Managers

In addition to track record, there are some noticeable patterns when looking at the breakdown of strategies employed by fund managers. Long/short is by far the most utilized of all the strategies, with around 42% of all funds managed by $1bn Club members using this strategy. Of the funds belonging to managers with $1-4.9bn in assets, 46% use a long/short strategy, compared to 32% of managers with more than $20bn in assets (Fig. 2). Long/short funds are the most prominent within the overall hedge fund industry; however, often these funds can have a limited capacity as investment opportunities may be restricted by the geography or sector in which the fund principally invests. The same can apply to niche strategies, which explains why only 3% of funds belonging to managers with more than $20bn in assets use such strategies.

Outside of long/short, multi-strategy and macro strategies are the most utilized strategies by the largest hedge fund managers. Forty-one percent of the $20bn plus managers use at least one of these strategies for their funds, most likely as a result of these strategies offering a wide range of opportunities in a variety of geographies and sectors, meaning that these funds have a larger capacity. One manager which recently broke into the elite group of $20bn+ firms using a multi-strategy approach is Israel Englander's Millennium Management. Millennium engages in a broad array of trading and investing strategies and shows that those with the scope to implement such a wide range of strategies can grow into hedge fund powerhouses.

With the most successful multi-strategy funds growing into the largest size categories, the multi-strategy approach is less prominent among smaller managers compared to strategies such as long/short equity; just 8% of funds managed by firms with $1-4.9bn in assets use a multi-strategy approach. The type of strategy offered by a manager is clearly correlated to the size of the manager. Some strategies, such as macro strategies and multi-strategy, have the potential to offer more scope for asset growth than strategies such as long/short equity. Looking further at strategies, is there a correlation between the actual number of strategies offered and the size of a fund manager?

Diversify or Specialize? How the $1bn Club is Split

Fig. 3 highlights the problem facing mid-size fund managers – offer a diverse range of strategies and appeal to a wide group of investors, or specialize in a small number of strategies and aim to be among the best in the market? Offering a wide range of strategies enables a manager to expand its potential investor universe; however, this can place a greater burden on a firm in terms of requiring more portfolio management experts and specialized sales staff across the various strategies.

The data clearly shows that the very largest fund managers are choosing between these two methods, with fewer opting for a middle of the road approach. Of all fund managers with more than $20bn in assets, 29% offer a single strategy through their funds and 38% offer six or more strategies. The number of $20bn plus managers offering between two and five core strategies is significantly less, with only 8% providing exposure to four or five strategies. The medium-sized managers are split fairly evenly, with those between $10bn and $19.9bn offering a varying number of strategies. One thing to note is that outside of the $20bn plus managers, very few fund managers offer 10 or more strategies, showing that this approach is essentially exclusively reserved for the largest fund managers. The managers with $1-4.9bn in assets are noticeably more consistent in their strategic approach. Over half of these managers offer just one strategy, with the number steadily declining as the number of strategies offered increases.

One example of a firm with more than $20bn in assets using the specialization approach is Baupost Group. Baupost uses a value-orientated strategy; however, it returned around $4bn to investors at the end of 2013 due to a reported lack of investment opportunities. Investors evidently see the firm as a successful investment opportunity, but the single, focused approach has led to the funds reaching their upper cap. Conversely, firms like BlueCrest Capital and AQR Capital Management offer a multitude of strategies and have become giants within the hedge fund space using this approach.

Fig. 4: Breakdown of Total Assets under Management of Hedge Fund Managers with over $1bn by Location

Firm Location	No. of Hedge Fund Managers	Total AUM ($bn)
New York	174	938
London	80	346
Connecticut	35	400
California	34	159
Massachusetts	29	190
Illinois	18	96
Hong Kong	13	28
New Jersey	10	65
Texas	9	53
Sao Paulo	6	31
Paris	5	28
Singapore	5	15

Source: Preqin Hedge Fund Analyst

New York is the $1bn Club Headquarters

Fig. 4 shows that New York is home to the largest proportion of fund managers with more than $1bn in assets. Unsurprisingly, New York-based managers have the most assets of any location and, with almost $1tn in aggregate assets under management, New York is the undoubted home of the $1bn Club managers. Connecticut and California also rank high on the list of top locations for $1bn plus managers, with $157bn of Connecticut's $400bn managed by Bridgewater Associates. Totalling up all locations shows that 64% of managers with over $1bn in assets are based in the US. London remains the main hedge fund hub outside of the US for $1bn plus managers, with 80 fund managers managing a total of $346bn in assets. Paris also features on the list as a result of five $1bn plus hedge fund managers managing a total of $28bn. Sao Paulo is the biggest South American hub, with large managers such as Credit Suisse Hedging-Griffo and BTG Pactual primarily employing macro strategies from the Brazilian city. Asia-based managers are situated primarily in Hong Kong and Singapore.

Interestingly, although much of the $1bn Club's assets are focused in a small number of locations, there are a total of 25 countries that house fund managers with over $1bn in assets. Although the US and UK dominate, countries such as Germany, Ireland, Japan and Australia also have at least one manager with at least $1bn in assets.

Overview

The $1bn Club is one which many emerging hedge fund managers strive to be a member of, although there are a number of factors that firms require to grow to this level. The largest fund managers tend to have a longer track record than their smaller counterparts, as in order to reach $1bn in assets firms typically have to show consistent performance through many market cycles to demonstrate that they can outperform various competitors. This enables these firms to grow and outlast the competition and, with many investors targeting managers with a strong previous track record, it presents opportunities for further growth in the future. Larger hedge fund managers are also more likely to gain investments from the largest institutional hedge fund investors; 69% of $1bn Club managers have received at least one commitment from an institutional investor allocating at least $1bn to hedge funds, compared to just 23% of managers with less than $1bn in assets.

The largest fund managers have settled on two approaches – specialization in one core strategy or diversification across several different strategies. Both of these approaches have their own advantages, but the largest fund manager, Bridgewater Associates, has achieved its success through its two flagship funds. Firms that run macro and multi-strategy funds are typically able to grow larger, whereas long/short managers are often limited in their growth. New York, London and Connecticut are undoubtedly the centres of the $1bn Club; however, with the asset class seeing more inflows from investors globally, there are opportunities for managers in more emerging regions such as Brazil and Asia to grow their assets and join the $1bn Club.

Fig. 5: Top 10 Hedge Fund Managers by Assets under Management

Firm	Firm Location	Total AUM ($bn)
Bridgewater Associates	US	157.2
AQR Capital Management	US	53.3
Och-Ziff Capital Management	US	43.5
Brevan Howard Capital Management	Jersey	40.0
BlueCrest Capital	UK	35.8
Standard Life Investments	UK	33.1
D.E. Shaw & Co.	US	32.0
BlackRock Alternative Investors	US	31.3
Viking Global Investors	US	28.1
Man Investments	UK	26.7

Source: Preqin Hedge Fund Analyst

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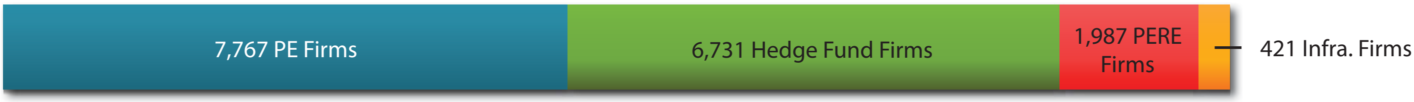
Preqin Global Data Coverage

As of 1 May 2014

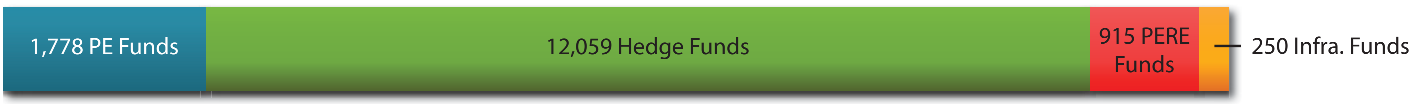
Fund Coverage: 36,625 Funds

Firm Coverage: 16,906 Firms



Performance Coverage: 15,983 Funds (IRR Data for 5,409 Funds and Cash Flow Data for 2,582 Funds)

Fundraising Coverage: 15,002 Funds Open for Investment/Launching Soon Including 2,156 Closed-Ended Funds in Market and 352 Announced or Expected Funds



Deals Coverage: 103,603 Deals Covered; All New Deals Tracked

Investor Coverage: 11,807 Institutional Investors Monitored, Including 8,323 Verified Active**** in Alternatives and 88,749 LP Commitments to Partnerships

Alternatives Investment Consultant Coverage: 470 Consultants Tracked

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**Buyout deals: Preqin tracks private equity-backed buyout deals globally, including LBOs, growth capital, public-to-private deals, and recapitalizations. Our coverage does not include private debt and mezzanine deals.

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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.

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.

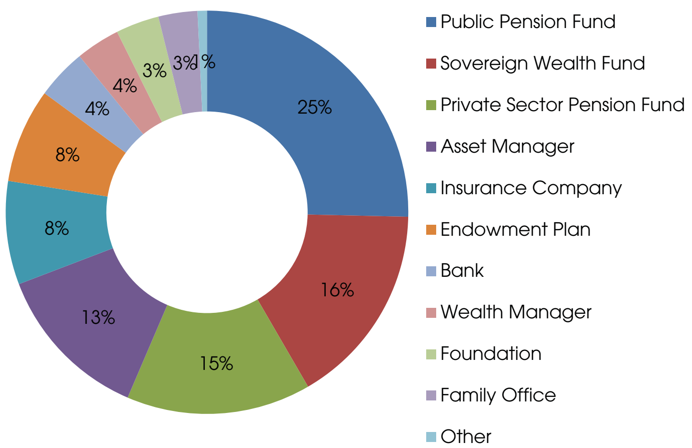
Characteristics of $1bn Plus Hedge Fund Investors

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.

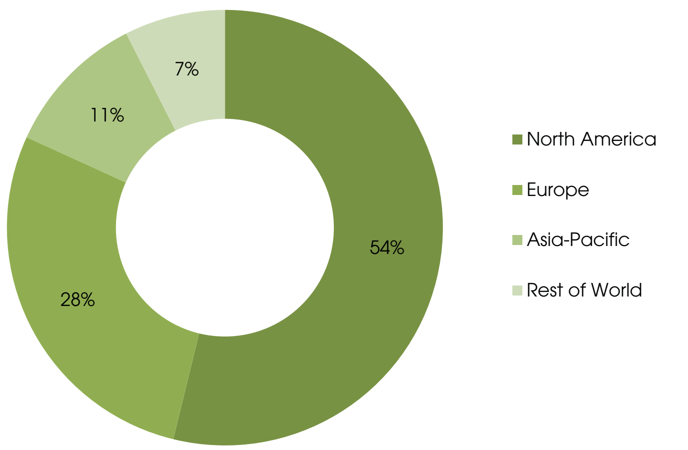
The majority of investors within the $1bn plus group are based in North America, although over the last 12 months, the proportion of $1bn investor capital represented by this region has decreased from 67% to 54% (Fig. 2). This is due to the increase in the number of investors based in Europe, Asia-Pacific 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



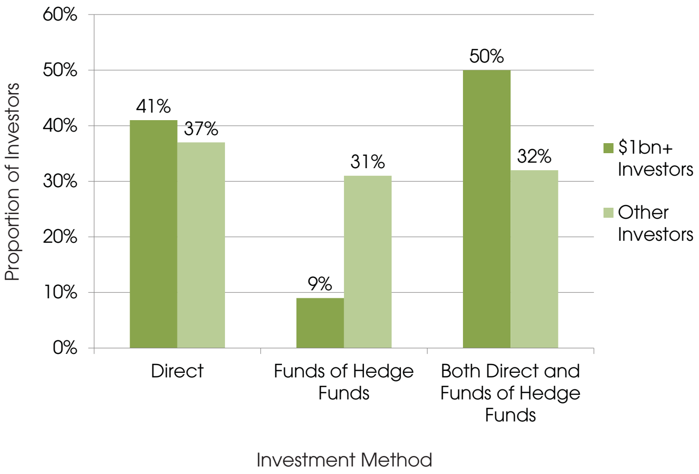
Source: Preqin Hedge Fund Investor Profiles

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.

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



Source: Preqin Hedge Fund Investor Profiles

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, 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

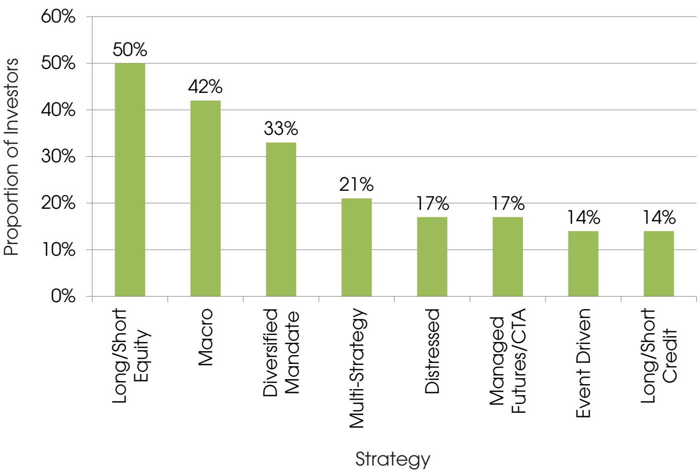
that is planning to make new long/short equity commitments over the next 12 months is Texas Treasury Safekeeping Trust Company. The $3.6bn endowment plan is looking to allocate approximately $100mn to two to four new hedge fund investments and will be primarily focusing on long/short equity and healthcare-focused 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

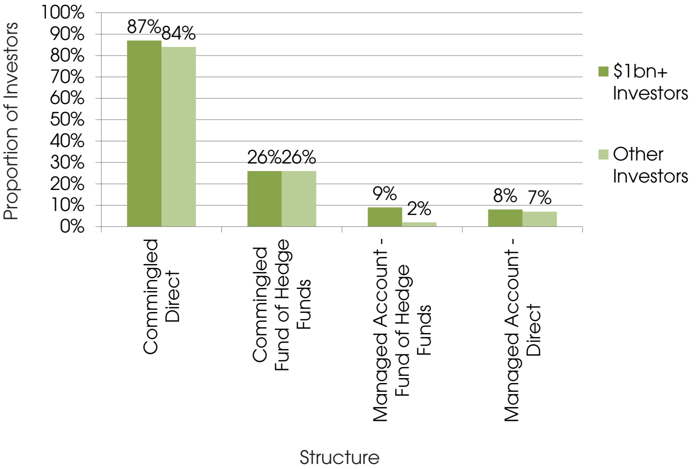
With their high level of investment experience and substantial capital base, the $1bn plus investor network will continue to be a key driver of growth in the hedge fund industry over the coming year. With these investors allocating approximately $650bn to hedge funds, an 18% increase from this time last 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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Editor's View - Industry News

Graeme Terry looks at $1bn plus hedge fund managers that have launched new funds recently, as well as investors with more than $1bn allocated to hedge funds that are planning new investments. Plus, we look at hedge fund launches for the UK compared to the rest of Europe over time.

$1bn Club - Investors Making New Hedge Fund Investments

As shown in our article on $1bn plus investors on page 6, the largest institutional investors in hedge funds are extremely important in driving inflows into the industry. The largest investors have the resources to make substantial commitments to hedge funds and we have seen many of these firms announce plans for new hedge fund investments in the first half of 2014.

Missouri-based Prairie Capital Management has announced that it plans to make new hedge fund investments over the coming year and it will be focusing on long/short credit, long/short equity and multi-strategy vehicles. The $7bn asset manager currently allocates approximately 30% of its total assets under management to a portfolio of around 70 hedge funds.

One investor which could be set to join the '$1bn Club' in the future is Switzerland-based insurance company Bâloise Holding. The CHF 55bn firm currently allocates approximately 1.6% of its total assets under management to hedge funds, placing it just below the $1bn mark. It has a target allocation to hedge funds of 2% and plans to make new investments this year as part of its portfolio turnover.

$1bn Club - Hedge Fund Managers Launching New Funds

Our feature article on page 2 reveals that hedge fund managers with more than $1bn in assets represent approximately 90% of all hedge fund industry capital. These firms are continuously looking for new opportunities to expand their operations in order to ensure that they remain at the top of the industry.

One area that established hedge fund managers have looked to move into in order to further diversify their client base is the fast-growing alternative mutual fund space. The $6.4bn hedge fund manager Lazard Asset Management recently announced plans to move into this space with the launch of the Lazard Fundamental Long/Short Portfolio. This fund has a US focus but it is also permitted to hold non-US securities, and it will be able to invest across the full capitalization range.

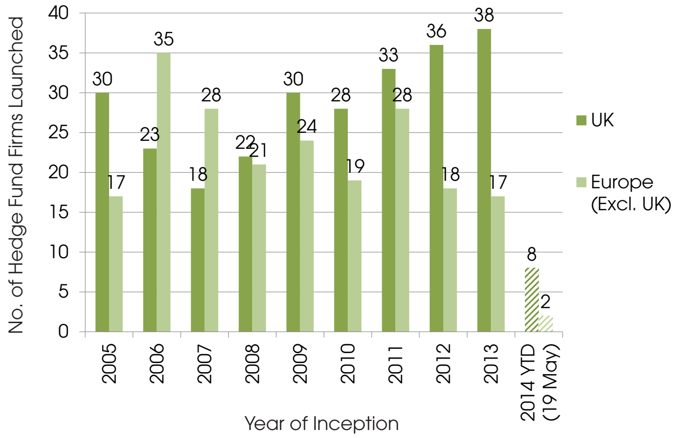
California-based Beach Point Capital Management is another large hedge fund manager that has launched a new fund this year. The $6.1bn firm launched its Beach Point Multi-Asset Credit Fund on 1 March 2014. The fund specializes in distressed debt, high yield bonds, corporate loans and other credit-related market niches but it has discretion to invest in a wide range of investments.

UK Hedge Fund Industry Booms despite a Wider Slowdown in Europe

A recent Preqin blog highlighted the strong position of the UK hedge fund industry, in comparison to the rest of Europe (see Chart of the Month). 2013 was a strong year in terms of new hedge fund firms setting up business in the UK, and UK fund managers have experienced a net increase in assets of $57bn between January 2013 and April 2014.

Are more hedge fund managers now setting up business in the UK?

Chart of the Month: UK- and Rest of Europe-Based Hedge Fund Firm Launches by Year of Inception, 2005 - 2014 YTD (As at 19 May 2014)



Source: Preqin Hedge Fund Analyst

Recent Preqin research has shown that there has been an increase in the number of hedge fund managers setting up business in the UK, despite a general slowdown in the rest of Europe. The Chart of the Month shows that 82 new hedge fund management groups have formed in the UK since 2012, compared with 37 in the rest of Europe. 2013 was the most prolific year for hedge fund manager launches in the UK to date, with 38 new firms setting up business over the course of the year. In contrast, the number of new firms coming into the market in the rest of Europe has fallen from a peak of 35 in 2006 to 17 in 2013.

There have continued to be new hedge fund managers launching in the UK in the early part of 2014. London-based Pathfinder Capital launched its first funds earlier this year in order to provide investors with a structured way to access the potential high-growth opportunities available in frontier markets. The firm was founded by Kevin Virgil, who was formerly of Bank of America Merrill Lynch and UBS. Meanwhile, Vassilis Paschopoulos, former head of European investment-grade bond trading at Deutsche Bank, has launched Balliol Capital, a London-based hedge fund venture which will start trading later this year.

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?

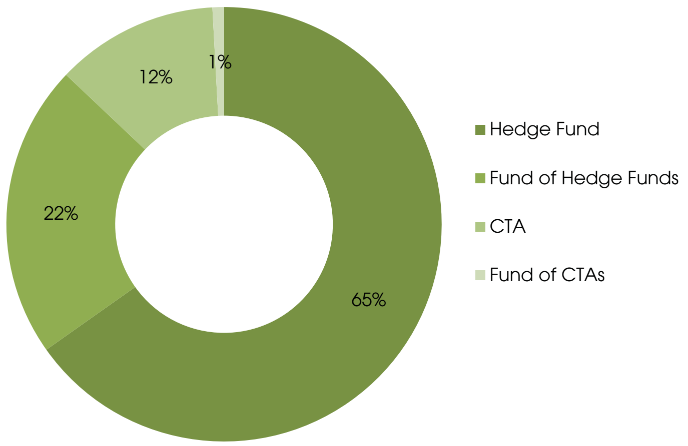
Send your updates to spotlight@preqin.com and we will endeavour to publish them in the next issue.

On the Network This Month: What Are Investors Searching For?

In this new feature, we examine the activity of the investors on Preqin Investor Network to see which fund types, strategies and regions are of current importance to investors, as well as which institutional investor types have been proactive at looking at funds over April.

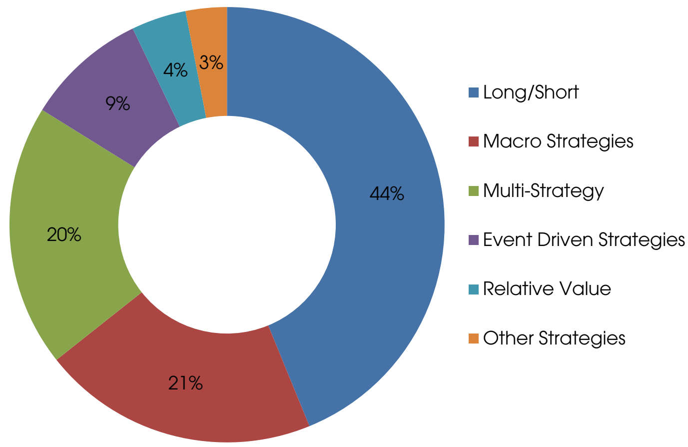
Preqin Investor Network is a unique system designed to help investors source and connect with alternative fund managers. Currently over 6,000 individuals at more than 3,300 institutional investor firms are using the network to find and reach out to the 15,052 alternative investment funds open for investment on the network. If you would like to find out more, please email: pin.info@preqin.com

Fig. 1: Breakdown of Hedge Funds Viewed on Preqin Investor Network by Fund Type, April 2014



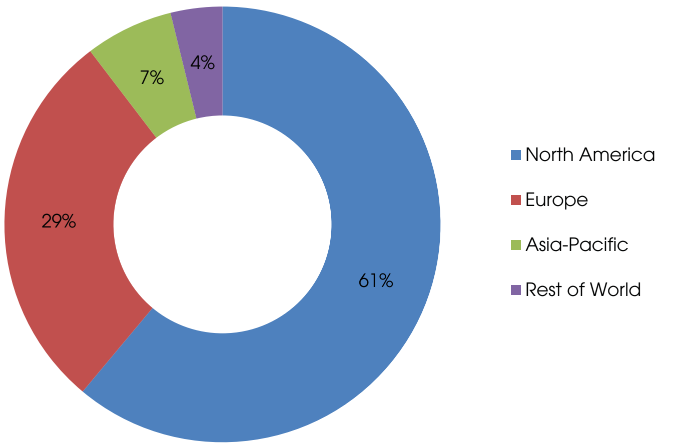
Source: Preqin Investor Network

Fig. 2: Breakdown of Hedge Funds Viewed on Preqin Investor Network by Core Strategy, April 2014



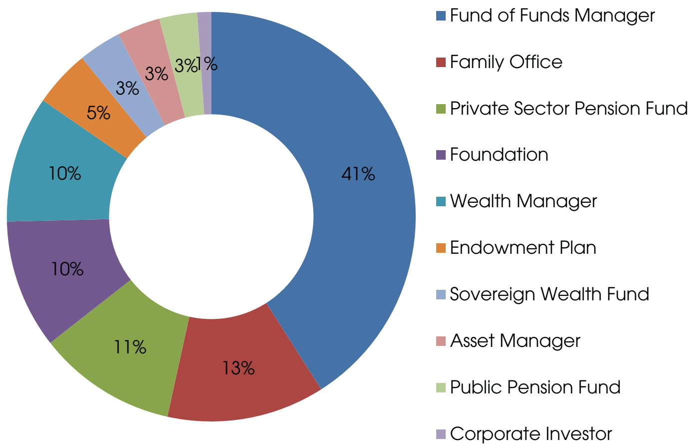
Source: Preqin Investor Network

Fig. 3: Breakdown of Hedge Funds Viewed on Preqin Investor Network by Geographic Headquarters, April 2014



Source: Preqin Investor Network

Fig. 4: Breakdown of Investors Searching Preqin Investor Network by Type, April 2014



Source: Preqin Investor Network

In Numbers: **On the Network This Month**

320 Number of hedge funds added to Preqin Investor Network in April 2014.

12,133 Total number of hedge funds currently available to view on Preqin Investor Network.

67% Of all funds viewed on Preqin Investor Network had less than $300mn in assets under management.

6 Years Median track record (in years) of funds viewed on Preqin Investor Network in April 2014

Preqin Performance Benchmarks April 2014

Preqin's preliminary benchmarks for April 2014.

Fig. 1: Summary of Preliminary April 2014 Performance Benchmarks (Net Return, %)

	April 2014	March 2014	2014 YTD	Last 12 Months
Hedge Funds (All Strategies & Regions)	**-0.15**	**-0.17**	**1.13**	**7.77**
Long/Short	-0.42	-0.37	0.77	9.35
Event Driven Strategies	0.60	0.45	3.89	13.90
Relative Value	0.38	0.25	1.85	5.69
Macro Strategies	0.02	-0.36	-0.04	1.22
Multi-Strategy	-0.13	-0.47	0.67	5.80
Activist	-0.21	0.16	1.57	11.42
Volatility	0.14	-0.01	1.51	6.71
Discretionary	-0.28	-0.03	1.70	11.18
Systematic	0.31	0.00	1.18	5.14
North America	0.11	0.02	2.91	13.58
Europe	-0.43	0.22	2.90	12.23
Asia-Pacific	-0.57	-0.43	-0.63	6.98
Emerging Markets	0.07	0.42	-0.17	2.88
Developed Markets	0.92	-0.11	2.93	10.27
USD	-0.24	-0.33	1.11	7.86
EUR	0.05	-0.35	1.72	6.50
GBP	-1.31	-0.90	-0.47	0.76
JPY	-0.44	-0.61	-1.55	8.16
BRL	0.62	0.97	0.04	2.94
Funds of Hedge Funds (All Strategies & Regions)	**-0.28**	**-0.45**	**0.40**	**4.71**
Long/Short	-0.53	-0.71	-0.21	6.60
Multi-Strategy	-0.36	-0.43	0.36	4.64
Macro Strategies	0.30	-0.49	0.71	-0.45
USD	-0.34	-0.58	0.34	4.77
EUR	-0.89	-0.67	-0.79	2.42
UCITS Hedge Funds (All Strategies & Regions)	**-0.38**	**-0.04**	**0.31**	**3.60**
Long/Short	-0.71	-0.06	0.26	6.58
Relative Value	-0.38	0.04	0.21	2.32
Macro Strategies	0.33	0.02	0.40	-1.08
USD	-0.73	-0.13	-0.71	2.00
EUR	-0.32	-0.15	0.29	3.37
CTAs (All Strategies & Regions)	**0.37**	**-0.72**	**0.37**	**-1.84**
USD	0.36	-0.71	0.41	-1.69
EUR	0.37	-1.16	-0.23	-5.60

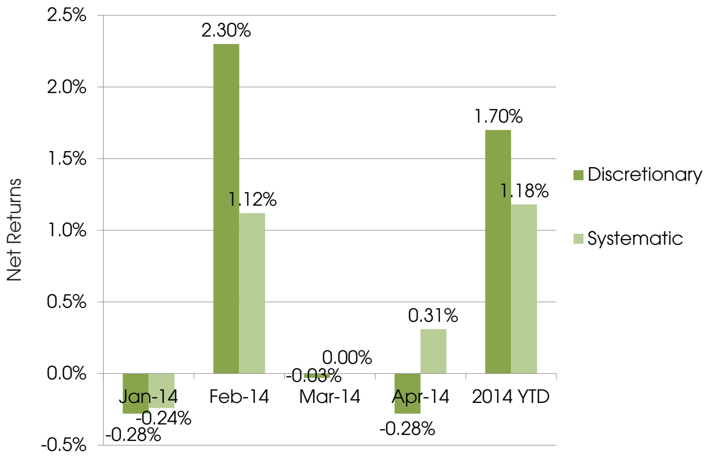
** Please note, all performance information includes preliminary data for April 2014 based upon net returns reported to Preqin in early May 2014. Although stated trends and comparisons are not expected to alter significantly, final benchmark values are subject to change.*

Source: Preqin Hedge Fund Analyst

April 2014 was another underwhelming month for hedge fund performance, with the all strategies and regions benchmark in the red for the second consecutive month, posting a loss of 0.15% (Fig. 1). The benchmark has now suffered a loss in three of the first four months of the year, and cumulative year-to-date returns currently stand at 1.13%. The event driven strategies benchmark was positive for the tenth consecutive month, with monthly gains of 0.60% taking it to year-to-date returns of 3.89%. CTAs posted positive returns in March (+0.37%), representing the first month in which CTAs have outperformed the overall hedge fund benchmark since June 2013.

Fig. 2 shows a comparison of hedge funds with a discretionary and systematic trading style so far in 2014. Discretionary funds have slightly outperformed those with a systematic approach in the first four months of the year, with cumulative returns of 1.70% compared to 1.18%. This is largely as a result of the average 2.30% gains made by discretionary funds in February 2014. Discretionary fund returns far exceeded those of systematic funds in 2013, posting 16.17% compared to 8.61%.

Fig. 2: Hedge Fund Performance: Discretionary vs. Systematic, 2014



Source: Preqin Hedge Fund Analyst

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Sovereign Wealth Funds

We take a look at the sovereign wealth fund universe, including a breakdown of this investor type by location and preferred investment method.

Sovereign wealth funds are becoming increasingly important in the investment industry due to the vast sums of capital that these investors manage. This investor group may be small in terms of numbers (with an estimated 72 sovereign wealth funds currently in operation), but these investors are extremely large in terms of assets, representing approximately $5.38tn in assets according to the 2014 Preqin Sovereign Wealth Fund Review. The majority of sovereign wealth funds that invest in hedge funds are based in Asia-Pacific or the Middle East (Fig. 1).

Sovereign wealth funds have become an important source of investment for hedge fund managers seeking long-term capital; as shown in our lead article on page 6, sovereign wealth funds represent approximately 16% of all capital invested in hedge funds by $1bn plus investors. However, the uptake of hedge funds among sovereign wealth funds is still relatively low, with less than a third of all sovereign wealth funds tracked by Preqin having a current hedge fund allocation. Sovereign wealth funds aim to create diverse investment portfolios and the majority (59%) of these investors that invest in hedge funds do so through a combination of direct investments and funds of hedge funds (Fig. 2).

Subscriber **Quicklink**

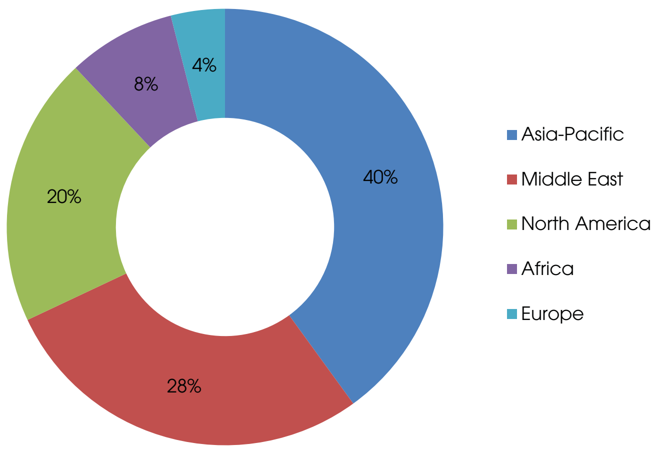
Subscribers to Preqin's **Hedge Fund Investor Profiles** can click **here** to view detailed profiles for all 25 sovereign wealth funds that invest in hedge funds, or are considering doing so in the future. Profiles include extensive information on current and target allocations to hedge funds, strategy, geographic and industry preferences, future investment plans and more.

For more information, please visit: www.preqin.com/hfip

The **2014 Preqin Sovereign Wealth Fund Review** is our largest and most comprehensive review yet of sovereign wealth funds and their investment activity. With more sovereign wealth funds, more information and more investments than ever before, our definitive guide includes profiles of over 70 sovereign wealth funds worldwide.

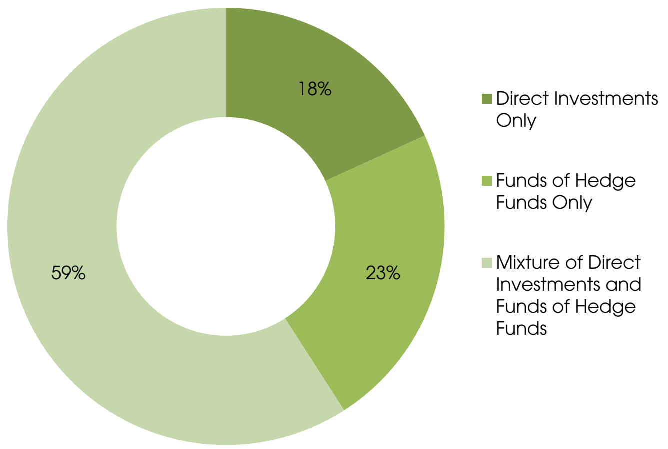
Order your copy now at: www.preqin.com/swf

Fig. 1: Breakdown of Sovereign Wealth Funds Investing in Hedge Funds by Geographic Location



Source: Preqin Hedge Fund Investor Profiles

Fig. 2: Preferred Investment Method of Sovereign Wealth Funds Investing in Hedge Funds



Source: Preqin Hedge Fund Investor Profiles

In Numbers: **Sovereign Wealth Funds**

29% Of all sovereign wealth funds are known to have a current allocation to hedge funds.

$157.6bn Mean assets under management of a sovereign wealth fund investing in hedge funds.

7.2% Mean hedge fund allocation of a sovereign wealth fund investing in hedge funds.

$627bn Estimated assets under management of the largest sovereign wealth fund with an allocation to hedge funds, Abu Dhabi Investment Authority.

57% Of sovereign wealth funds active in hedge funds indicate a preference for investing in macro funds.

4 Number of sovereign wealth funds based in Abu Dhabi that have an allocation to hedge funds.

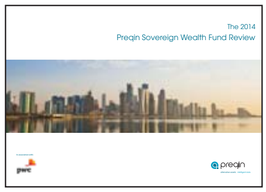
Preqin Premium Publications

Global Alternatives Reports

The 2014 Global Alternatives Reports are the most comprehensive reviews of the alternatives investment industry ever undertaken, and are a must have for anyone seeking to understand the latest developments in hedge funds, private equity, real estate and infrastructure. For more information, please visit: www.preqin.com/reports

2014 Sovereign Wealth Fund Review

The 2014 Sovereign Wealth Fund Review is our largest and most comprehensive review yet of sovereign wealth funds and their investment activity. Our definitive guide includes profiles of over 70 sovereign wealth funds worldwide. For more information, please visit: www.preqin.com/swf



2014 Private Equity Compensation and Employment Review

The 2014 Private Equity Compensation and Employment Review is the industry's leading guide to compensation practices, featuring detailed benchmark remuneration data for 54 positions, incorporating information from over 190 leading firms globally. For more information, please visit: www.preqin.com/compensation

2013 Private Equity Fund Terms Advisor

The 2013 Private Equity Fund Terms Advisor is the most comprehensive guide to private equity fund terms and conditions ever produced. The Advisor contains vital analysis, benchmarks and actual listings of key terms for funds of all types, as well as the latest barometer of LP opinions and more. For more information, please visit: www.preqin.com/fta

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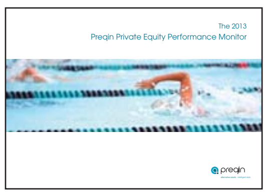


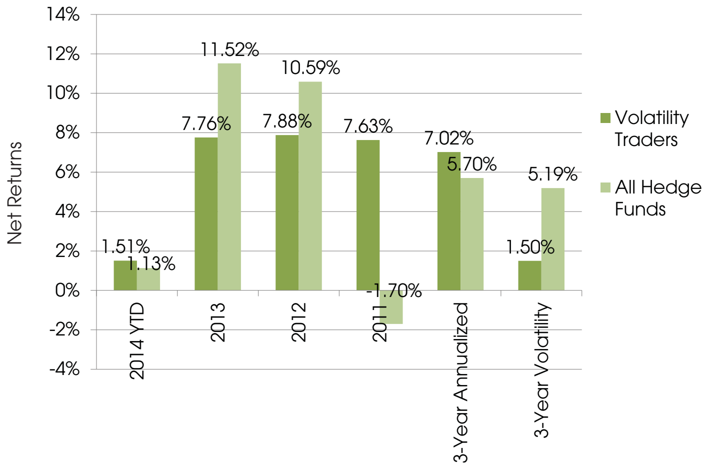
Volatility Traders

We analyze the performance of volatility trading funds over time compared to all hedge funds and consider the benefits these funds can offer to investors.

Volatility trading has evolved significantly as a hedge fund strategy in recent years and this approach is becoming more prominent within the industry. Volatility trading funds can provide benefits to investors as they represent an uncorrelated investment and can thus provide diversification benefits for a portfolio of hedge funds. A number of large hedge fund managers offer funds adopting a volatility trading style, including Amundi Funds, BlueCrest Capital and CQS Management.

Many institutional investors are looking for hedge funds that can deliver consistent risk-adjusted returns, and volatility traders are well placed to take advantage of this interest; the three-year Sharpe ratio for volatility traders as of 30 April 2014 stood at 3.35, compared to 0.71 for hedge funds overall. Fig. 1 highlights the benefits of volatility trading funds; although these funds did not reach the highs of hedge funds overall in 2012 and 2013, they have offered more consistent returns and the average three-year annualized return for volatility trading funds is 7.02%, ahead of the hedge fund average of 5.70%. As expected, these funds also have significantly lower volatility than other strategies, with a three-year average of 1.48% compared to the hedge fund average of 5.21%.

Fig. 1: Performance of Volatility Trading Funds vs. All Hedge Funds (As of 30 April 2014)



Source: Preqin Hedge Fund Analyst

In Numbers: **Volatility Traders**

1.51% Year-to-date returns of the volatility trader benchmark (as of 30 April 2014).

6 Number of negative months for the volatility benchmark since the start of 2010.

58% Of volatility trading funds are managed by firms headquartered in the US.

5 Years Average track record of a volatility trading fund.

1.48% Average three-year volatility of a volatility trader (as of 30 April 2014).

1.60% Average management fee charged by a volatility trading fund.

Data Source

Subscribers to Preqin's **Hedge Fund Analyst** can click **here** to view detailed information on over 500 funds that trade volatility. Profiles include detailed information on geography, strategy and trading information, fund terms and conditions and more.

Subscribers can also view detailed performance information for the **Volatility Benchmark** by clicking **here**. This includes performance profiles for more than 200 funds with a volatility trading style.

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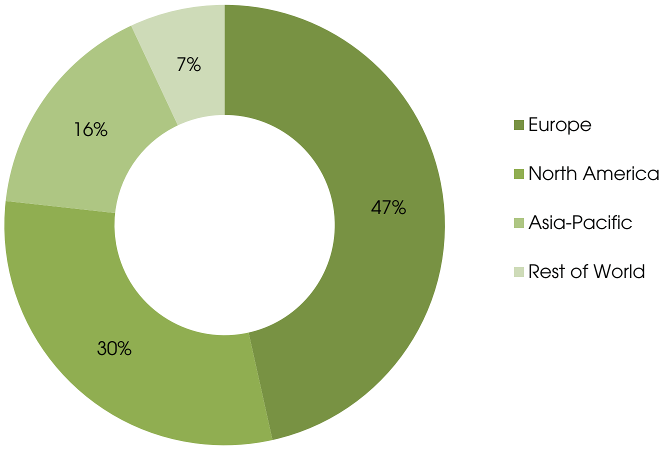
Fund Searches and Mandates

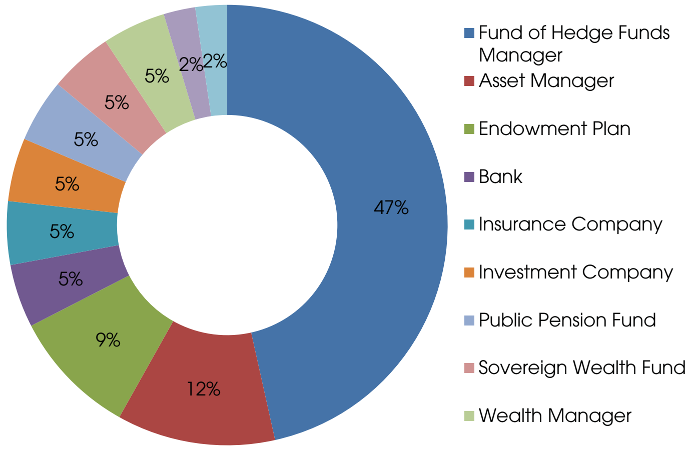
We analyze the fund searches and mandates issued by hedge fund investors in April 2014.

Fig. 1: Breakdown of Hedge Fund Searches Issued by Investor Location, April 2014



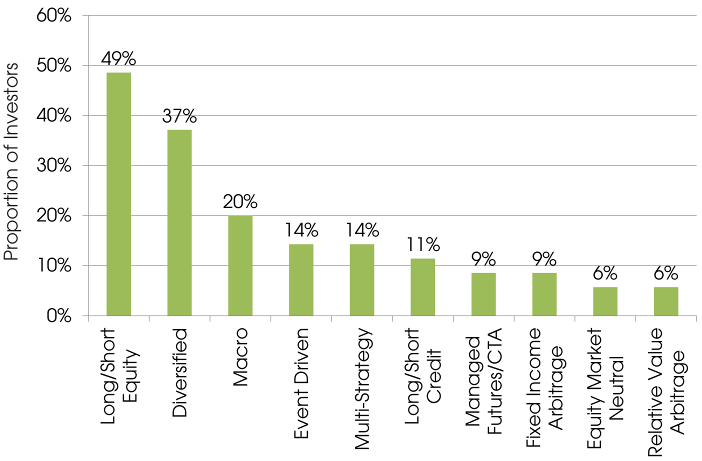
Source: Preqin Hedge Fund Investor Profiles

Fig. 2: Breakdown of Hedge Fund Searches Issued by Investor Type, April 2014



Source: Preqin Hedge Fund Investor Profiles

Fig. 3: Hedge Fund Searches Issued by Strategy, April 2014



Source: Preqin Hedge Fund Investor Profiles

Data Source

Subscribers can click **here** to view detailed profiles of 416 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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Fig. 4: Examples of Hedge Fund Searches Issued in April 2014

Investor	Investor Type	Location	Fund Search Details
Lebanese American University	Endowment Plan	Lebanon	The $381mn endowment anticipates that it will make one or two new hedge fund commitments over the coming year. It will allocate to commingled direct vehicles and plans to focus on long/short equity funds. The endowment currently has 14.2% invested in hedge funds, which is below its strategic target allocation to the asset class of 20%.
Notz Stucki Group	Fund of Hedge Funds Manager	Luxembourg	The $2.9bn fund of hedge funds manager expects to invest in approximately 5-15 new hedge funds over the next 12 months. The Luxembourg-based firm is a global investor and has no real preference with regards to location; however, in the coming year the firm is looking to pay particular attention to managers using long/short equity and long bias strategies.
Bangkok Bank	Bank	Thailand	The bank is looking to make new investments in long/short credit strategies and will invest on a global scale. It will consider investments in both single-manager hedge funds and funds of hedge funds and it is open to investing with emerging managers and spin-off teams.

Source: Preqin Hedge Fund Investor Profiles

Conferences Spotlight

Conference	Dates	Location	Organizer	Preqin Speaker	Discount Code
GAIM International 2014	16 - 18 June 2014	Monte Carlo	ICBI	Amy Bensted	10% Discount - FKN2387SPOT
GFD Luxembourg	17 -18 June 2014	Luxembourg	Informa	--	10% Discount - FKW52769PQL
MFA Forum 2014	18 June 2014	Chicago	MFA	-	-
Emerging Manager Forum	19 June 2014	London	CTA Expo	Amy Bensted	-
FundForum International	23 - 26 June 2014	Monaco	ICBI	-	10% Discount - FKN2394PREQCV1
Catalyst Cap Intro: Emerging Markets Alternative Investing	23 June 2014	New York	Catalyst Financial Partners	-	-
Hedge Funds World Asia 2014	2 - 4 September 2014	Hong Kong	Terrapinn	-	-
Alpha Hedge West conference	21 - 23 September 2014	San Francisco	IMN	-	-
CTA Expo Chicago	23 September 2014	Chicago	CTA Expo	Amy Bensted	-
Catalyst Cap Intro: L/S Equity | Event Driven Alternative Investing	24 September 2014	New York	Catalyst Financial Partners	-	-
Quant Invest 2014	29- 30 September 2014	Paris	Terrapinn	Amy Bensted	-

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Preqin attends and speaks at many different alternative assets conferences throughout the year, covering topics from infrastructure fundraising trends to alternative UCITS.

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For more information, and to register for Preqin's **Research Center Premium**, please visit: www.preqin.com/rcp

GFD Luxembourg		
Date:	17 - 18 June 2014	Information: http://www.iiribcfinance.com/FKW52769PQL
Location:	Luxembourg - Venue TBC	
Organiser:	IBC Events	

Bringing together the major funds distributing Luxembourg products, GFD Luxembourg will provide expert insight into UCITS and AIFMD distribution over the course of the two days (plus 2 focused workshops), allowing you to attend the days that are directly relevant to your funds and your clients.

MFA Forum 2014		
Date:	18 June 2014	Information: http://events.managedfunds.org/mfas-forum-2014/general-info/about-network-2014-and-mfa/
Location:	Four Seasons, Chicago, IL	
Organiser:	Managed Funds Association	

Forum 2014 is MFA's flagship conference highlighting education on managed futures and macro strategies, June 18, Four Seasons Chicago. Forum 2014, created by industry leaders, will engage commodity trading advisors and macro managers with investment allocators for education, business development and networking.

Emerging Manager Forum London		
Date:	19 June 2014	Information: www.emergingmanagerforum.com
Location:	The May Fair Hotel, London	
Organiser:	CTAEXPO LLC	

Emerging Manager Forum London is designed to provide emerging alternative managers, including hedge funds, CTAs and FX traders the foundation of knowledge they need from both an operational and marketing perspective to raise additional clients and the opportunity to network with family offices, capital raisees, professional clients and allocators.

Catalyst Cap Intro: Emerging Markets Alternative Investing		
Date:	23 June 2014	Information: http://catalystforum.com/node/300
Location:	New York City	
Organiser:	Catalyst Financial Partners	

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 Emerging Markets alternative investing sectors. Investors constitute predominantly single and multi-family offices, endowment and foundations, and their advisors, located on the US East Coast corridor, but also internationally.

Contact Catalyst Financial Partners: cap-intro@catalystforum.com | +1 212 966 2993 | www.catalystforum.com