

Largest Hedge Fund Investors Hold Outsize Influence

Pension funds and sovereign wealth funds now account for half of all institutional capital in the asset class

Institutional investors now have more than \$2.00tn invested in hedge funds, and more than 5,250 institutions – 45% of the total institutional investor universe – actively invest in the asset class. A small proportion of these investors, though, account for the greatest allocations, with just three investor types representing more than half of all institutional capital in hedge funds. Public pension funds and private sector pension funds represent 9% and 15% of hedge fund investors respectively, but they account for 22% and 19% of institutional capital in the asset class. Similarly, just 24 sovereign wealth funds invest in hedge funds, but collectively they account for 10% of invested capital. This is in contrast to endowments and foundations active in the asset class: numbering 602 and 956 investors respectively, these institutions both allocate an average of 19% of their assets to hedge funds. However, despite the large number of both groups investing nearly a fifth of their total assets in hedge funds, the relatively small size of foundations and endowments means that the sum of their total investments are only on par with sovereign wealth funds, each accounting for 10% of institutional capital.

For more information and analysis, see the full *March Hedge Fund Spotlight* here:
<http://docs.preqin.com/newsletters/hf/Preqin-Hedge-Fund-Spotlight-March-2018.pdf>

Key Hedge Fund Investor Facts:

- **Preqin tracks 5,287 institutional investors active in hedge funds** as of the end of 2017. Collectively, they have \$2.06tn allocated to the asset class.
- The **largest number of active institutions are foundations**, of which there are 956. This is followed by private sector pension funds (776) and fund of hedge fund managers (684).
- However, **public pension funds have the greatest share of capital invested (22%)**, and together with private sector pension funds (19%) and sovereign wealth funds (10%) they account for more than half of all institutional capital invested in hedge funds.
- **Eighty-three percent of endowments and 66% of foundations invest in hedge funds**. Just 34% of sovereign wealth funds and 29% of insurance companies do, the only investor types with a minority active in hedge funds.
- **Endowments and foundations both have average allocations to hedge funds of 19%**, the highest levels. Insurance companies have the lowest allocations, averaging just 4%.
- **Average return expectations have stayed level or gone up across all investor types** between 2016 and 2017. Insurance companies have the highest expectations (6.8%), while sovereign wealth funds have the lowest (4.4%).

Amy Bensted, Head of Hedge Fund Products:

“Hedge funds have become an important part of the portfolios of many institutional investors. Almost 5,300 institutions globally are active in the asset class today: collectively they invest more than \$2tn in hedge funds, accounting for 58% of the total capital in the industry. However, more than half of this \$2tn is invested by just three investor types: public and private pensions and sovereign wealth funds. Although many more endowments and foundations are actively investing in hedge funds, typically with much higher allocations to the asset class, their total allocations are only on par with these groups, due to the sheer size of many of these pension and sovereign wealth funds.

It is perhaps not surprising that the largest investors carry a great deal of influence in the asset class. However, beyond these large and influential investors there are thousands of other institutions all using hedge funds within their portfolios today. Each has their own unique challenges, so gaining an understanding of their needs on both a macro and an individual level is an important first step for fund managers seeking to raise capital from institutional investors in 2018.”

Preqin is the leading source of information for the alternative assets industry, providing insight and analysis gathered by its global teams of dedicated researchers. Founded in 2003, the company is a frequent source of intelligence used in the global financial press, through its online databases, regular publications and bespoke data requests.

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