CalPERS Withdraw From Hedge Funds - Start of a Trend?

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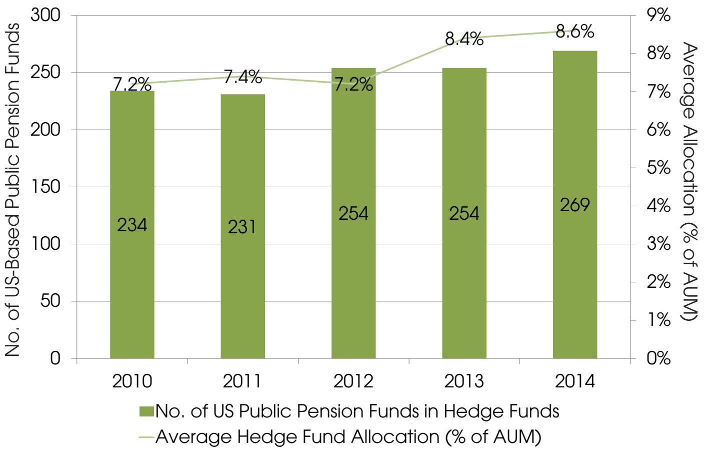
Following the decision by the **California Public Employees' Retirement System** (CalPERS) to withdraw from their exposure to hedge funds, Preqin looks at the wider trends of US state pension plans' exposure and activity in the hedge fund asset class.

The general trend is that US public pension funds are on average increasing their allocations to the asset class, and these allocations have been growing steadily over recent years. Please see below for further analysis, as well as commentary from **Preqin's Head of Hedge Fund Products, Amy Bensted**.

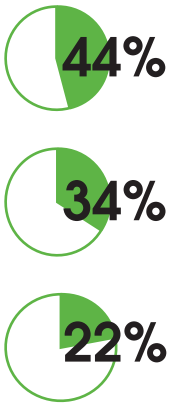
For more information and any further queries, please contact **info@preqin.com** or call **+44 (0)20 7645 8888.**

Fig. 1: Total Number of Active US-Based Public Pension Funds in Hedge Funds and Average Allocation Over Time, 2010 - 2014 YTD



Source: Preqin Hedge Fund Analyst

Fig. 2: Key Stats on Public Pension Fund Involvement in Hedge Funds



44% of hedge funds are funded by public pension funds

34% of hedge funds managers reported an increase in capital coming from public pension funds in H1 2014

22% of institutional capital invested in hedge funds is from public pension funds

Source: Preqin Fund Manager & Investor Survey, June 2014

Fig. 3: Largest US-Based Public Pension Funds by Allocation to Hedge Funds

Investor	State	Assets Under Management ($bn)	Allocation to Hedge Funds (% of AUM)	Current Allocation to Hedge Funds ($bn)
Teacher Retirement System of Texas	Texas	124.0	9.2	11.4
New Jersey State Investment Council	New Jersey	81.2	10.6	8.6
Maryland State Retirement and Pension System	Maryland	45.0	17.0	7.7
Ohio Public Employees' Retirement System	Ohio	88.6	7.0	6.2
Texas County & District Retirement System	Texas	24.5*	24.6*	6.0*

** Data as of December 2013. All other data as of June 2014*

Source: Preqin Hedge Fund Analyst

Comment:

"With CalPERS joining the ranks of a handful of other high profile US pension schemes cutting back on hedge funds, there could be concerns that these public retirement systems are losing faith in the asset class as a collective. For now at least, this does not seem to be the case, and in fact, there are more US public pension funds than ever before allocating capital to hedge funds, and these investors are investing the most they ever have in the asset class. Public pension funds have increasingly recognized the value of hedge funds as part of a diversified portfolio, and although CalPERS' withdrawal from the asset class will spark some investors to look more closely at their current allocation model, the importance of hedge funds as a source of risk-adjusted returns for these investors is likely to continue to prove attractive for US retirement schemes.

With much of the recent criticism on hedge funds focusing on the apparent under performance of the asset class compared to the equity markets, it is important to recognize how investors are judging the performance of these funds. Preqin's recent research highlights that investors are not using hedge funds to produce outsized returns, but instead to produce uncorrelated, risk-adjusted returns. Over short and longer time frames, hedge funds have in general met investor needs for risk-adjusted returns. However 2014 has been a period of relatively turbulent returns when looking at Preqin's monthly benchmarks; in times like this, investor calls for changes in fee structures and better alignment of interests become more vocal, and this clearly has had an impact on CalPERS' decision."

Amy Bensted, Head of Hedge Fund Products