

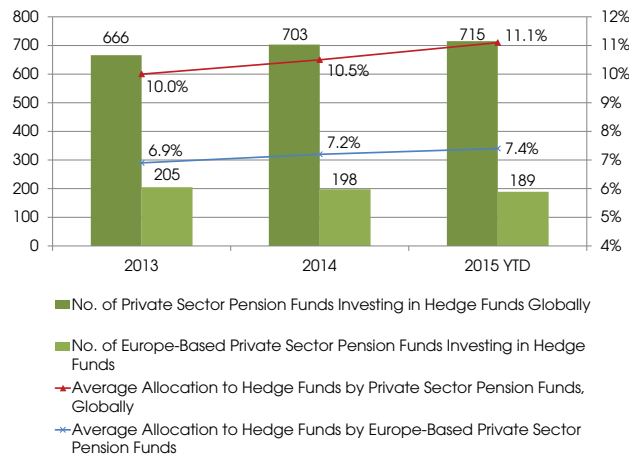
# Railpen Withdraws from Hedge Funds - European Exit

Following the recent news that **Railways Pension Trustee Company (Railpen)** has been unwinding its exposure to hedge funds, Preqin takes a look at the wider trends of Europe-based private sector pension funds' exposure and activity in the hedge fund asset class.

Globally, the number of private sector pension funds investing in hedge funds has risen over recent years. These investors have also increased their exposure to hedge funds; the average allocation of private sector pension funds is over 10% as of December 2015. However, over this timeframe the number of European private sector pension funds investing has fallen. Please see below for further analysis, as well as commentary from **Preqin's Head of Hedge Fund Products, Amy Bensted**.

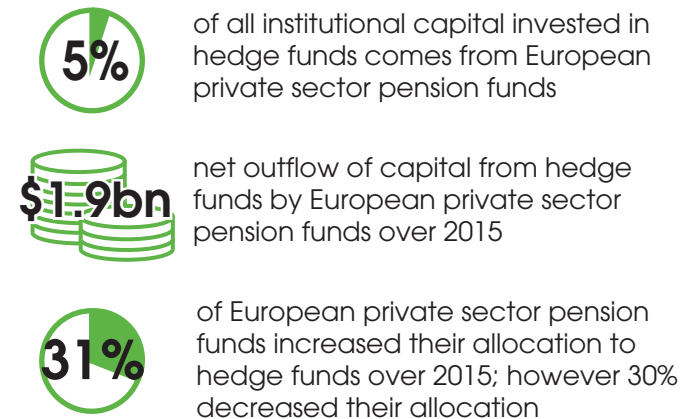
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**Fig. 1:** Breakdown of European and Global Private Sector Pension Funds' Participation in Hedge Funds by Number and Allocation, 2013 - 2015 YTD (As at 30 November 2015)



Source: Preqin Hedge Fund Investor Profiles

**Fig. 2:** Key Stats on Private Sector Pension Fund Involvement in Hedge Funds



Source: Preqin Fund Manager and Investor Surveys, November 2015 and Preqin Hedge Fund Investor Profiles

**Fig. 3:** Top Five Largest European Private Sector Pension Funds by Allocation to Hedge Funds

Investor	Location	Assets Under Management (\$bn)	Allocation to Hedge Funds (% of AUM)	Allocation to Hedge Funds (\$bn)
BT Pension Scheme	UK	61.6	11.5%	7.1
Barclays Pension Fund	UK	38.4	10.0%	3.8
HBOS Final Salary Pension Scheme	UK	18.6	18.8%	3.5
Universities Superannuation Scheme	UK	72.5	3.5%	2.5
ASGA Pensionskasse	Switzerland	11.3	13.0%	1.5

Source: Preqin Hedge Fund Investor Profiles

## Comment:

"Railpen's decision to withdraw from hedge funds appears to be part of a wider movement of some Europe-based private sector pension funds away from the asset class. The number of active private sector pension fund hedge fund investors in Europe has fallen steadily since 2013, and while average allocations to hedge funds of the remaining schemes have risen slightly, they are still far below the global average.

Railpen's exit from hedge funds was part of a wider cost cutting exercise by the investor across its whole portfolio. Indeed fund fees, as well as performance, have also been of concern to many investors. As Preqin's forthcoming 2016 Global Hedge Fund Report shows, returns and fees both rank in investors' top three key concerns for 2016, and significant proportions of investors are seeking improvement to management fees (46%) and performance fees (42%) in the year ahead. Preqin's All-Strategies Hedge Fund benchmark stood at +2.31% YTD as of the end of November 2015; this puts the performance of the sector on track for the worst annual return since 2011.

Although there are signs that some European private sector pension funds are cooling in their outlook towards hedge funds, this group remains an important source of capital to the industry. These institutions represent 5% of all institutional capital invested in hedge funds today, and 26% of all capital invested by private sector pension funds globally. Pension funds within Europe will be looking for hedge fund managers to respond to their concerns surrounding performance and fees in 2016; if this happens then we may see a reversal in this trend towards a smaller participation of these pension schemes in hedge funds. Railpen, for example, has stated it may invest in hedge funds again if a manager can exhibit genuine skill or to access opportunities it may otherwise be unable to access itself.

Amy Bensted, Head of Hedge Fund Products