

Content Includes:

Preqin Special Report: Investors in US-Based Hedge Funds

April 2014

Types of Investors

We examine what types of investors are allocating capital to US-based hedge funds.

US-Based Managers

We look at which US-based managers have received the largest number of commitments from both US-based investors and non-US-based investors.

Strategies Targeted

We take a look at the strategies sought by institutional investors when investing in US-based hedge funds.

Manager Requirements

We review what investors look for in US-based hedge fund managers when allocating in the region.





Foreword

The US is the established centre of the hedge fund industry, with the country home to approximately 70% of all industry capital. Assets under management of these firms are continuing to grow, with managers in the region able to attract and retain investments from investors globally. The hedge fund industry in the US consists of a vast range of hedge fund managers, from small start-up managers with a few million dollars in assets, to the largest hedge fund manager in the world, Bridgewater Associates, which currently manages more than \$150bn in assets.

As a result of this wide and varied hedge fund manager universe, and the fact that many of the funds within the US are established and well-known, the region attracts commitments from investors based around the globe. Institutional investors are becoming more demanding with regards to their hedge fund investments and many are willing to invest globally in order to find the most suitable funds for their portfolios. The US is well placed to take advantage of these inflows, although with the large number of managers based within the US, it is important that managers have a way of differentiating themselves in order to attract investors as a result of standing out amongst their various competitors.

In this report, we assess all investors that have a current preference for investing in US-based funds in order to help hedge fund managers based in the US to identify which areas to target when seeking institutional capital. We analyze which institutional investor groups are investing in US-based managers and what types of funds these investors are typically targeting for investment. This includes a look at how US-based investors are allocating to domestic managers, in addition to analysis of investors based in other regions that look to allocate to managers based in the US. With the outlook for the US hedge fund industry looking positive in 2014 amidst an ever-competitive fundraising environment, it is imperative that managers understand all sources of potential capital.

The report uses data from Preqin's [Hedge Fund Investor Profiles](#) online service, which contains profiles for more than 4,500 active institutional investors in hedge funds.

In Numbers: US-Based Hedge Funds



87% of investor commitments made by US-based investors are into US-based funds.



45% of investor commitments made by non-US-based investors are into US-based funds.



39% of commitments made by US investors into US-based funds are in long/short strategies.



Average assets under management of a non-US-based investor in US-based funds, significantly larger than the average AUM of a domestic investor in these funds (\$5bn)



62% of investments made by non-US-based investors in US-based funds are to managers with more than \$5bn in assets (compared to 58% of investments made by US-based investors)



38% of non-US-based investors in US-based funds are willing to invest in managers with a two-year track record or less



Bridgewater Associates is the hedge fund manager that has received the most commitments from US-based investors.



18% of investments made by non-US-based investors in US-based funds are in macro strategies funds, compared to the 9% of US-based investments the strategy represents.

Preqin's **Hedge Fund Investor Profiles** is the industry's leading source of intelligence on institutional investors in hedge funds. The detailed information on investors' current fund searches and open mandates is all sourced and updated as a result of direct communication with investors by our large team of multi-lingual analysts to ensure all profiles are accurate and contain exclusive, extensive intelligence.

Preqin's **Hedge Fund Investor Profiles** features detailed profiles of over 4,500 hedge fund investors of all different types. Profiles include details of investors' current fund searches and open mandates, current and target allocations to hedge funds, key contact details, geographic and strategy preferences and much more.

For more information on how Preqin's hedge fund investor data can help you, or to arrange a demonstration, please visit:

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US-Based Investors in US-Based Hedge Funds

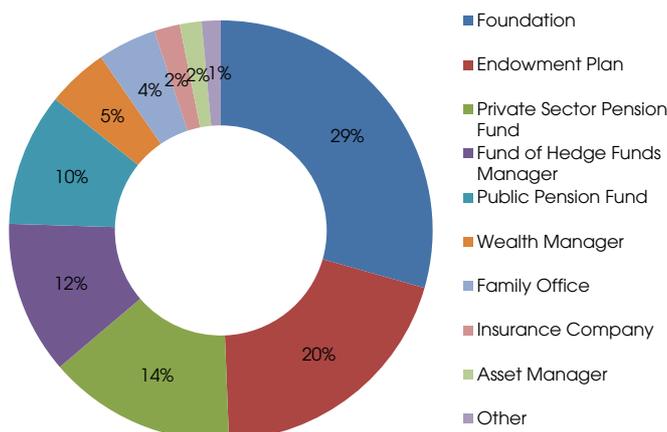
With the US being the dominant force within the hedge fund industry in terms of assets under management, it is unsurprising that the majority of active institutional investors in US-based managers are themselves based within the US. The vast majority (87%) of investor commitments made by US-based investors are into US-based-funds, and so it is clear that domestic investors are a prime source of capital for US-based fund managers. In this section, we assess what US-based investors are typically looking for when allocating to domestic managers.

Breakdown of US-Based Investors in US-Based Funds

Institutional investors based in the US are extremely important for the global hedge fund industry, representing approximately 55% of all institutional capital invested in hedge funds. The institutional investor landscape within the US consists of a large number of foundations and endowment plans, and these investors have developed a strong interest in hedge funds. It is these two investor types that represent the largest proportion of the total number of US-based investors actively investing in US-based hedge funds, with foundations and endowment plans representing 29% and 20% of these investors respectively. Other significant groups within the US allocating to US-based funds include private sector pension funds, fund of hedge funds managers and private wealth institutions.

Public pension funds account for 10% of this investor base, but represent the most significant investor group in terms of assets invested in hedge funds; public pension funds represent 29% of all capital invested in hedge funds by these investors, compared to just 14% of capital which is represented by foundations. Public pension funds in the US have been increasing their hedge fund allocations over recent years (the average hedge fund allocation of US-based public pensions has increased from 7.1% at the end of 2012 to 8.6% as of April 2014) and these investors are a significant driver of industry growth due to the large amounts of capital that these firms can allocate.

Fig. 1: Breakdown of US-Based Investors in US-Based Funds by Investor Type (In Terms of Number of Investors)



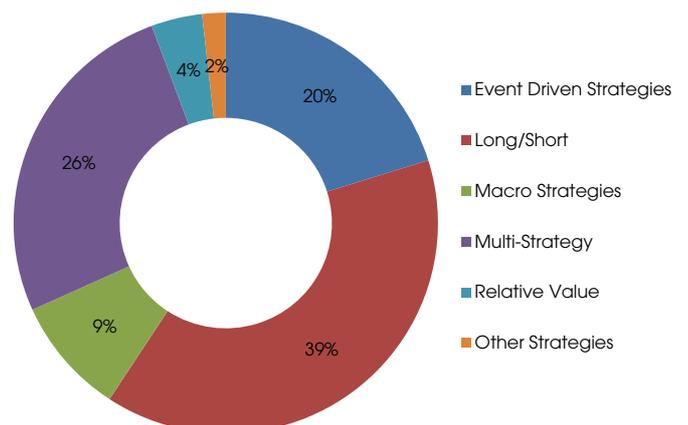
Source: Preqin Hedge Fund Investor Profiles

Where are US-Based Investors Allocating Their Capital?

Fig. 2 shows the core strategies of US-based hedge funds invested in by US-based investors in terms of the number of commitments each strategy currently has from institutional investor portfolios. Long/short strategies are the most sought, representing 39% of current investments made by US-based investors into US-based funds. Long/short equity remains the most targeted hedge fund strategy among institutional investors and many US-based investors look to gain exposure to this strategy through investments with domestic managers. Multi-strategy and event driven funds also receive a substantial number of commitments from domestic investors, with these strategies receiving 26% and 20% of investments respectively.

The largest hedge fund managers dominate the industry, with approximately 64% of total industry assets managed by firms with more than \$5bn in assets. As a result, it is to be expected that these large firms dominate in terms of the number of investor commitments, with firms with more than \$5bn in assets representing 58% of all known investor commitments made by US-based investors into US-headquartered funds (Fig. 3). Thirty-two percent of commitments were made into firms with \$1-5bn in assets, with just 10% of commitments allocated to firms with less than \$1bn in assets. However, this does not mean there are no opportunities for smaller managers to obtain allocations from the institutional community; different groups of investors have different objectives from their investments and there are a large number of investors that target smaller managers. Smaller funds can provide a number of benefits to investors including being more nimble, providing more attractive fund terms and offering the potential for higher returns. However, the selection process is more difficult when searching for smaller managers rather than the best known funds, and as a result, it tends to be investors with significant resources that actively target these managers.

Fig. 2: Breakdown of Core Strategies of US-Based Funds Invested in by US-Based Investors



Source: Preqin Hedge Fund Investor Profiles

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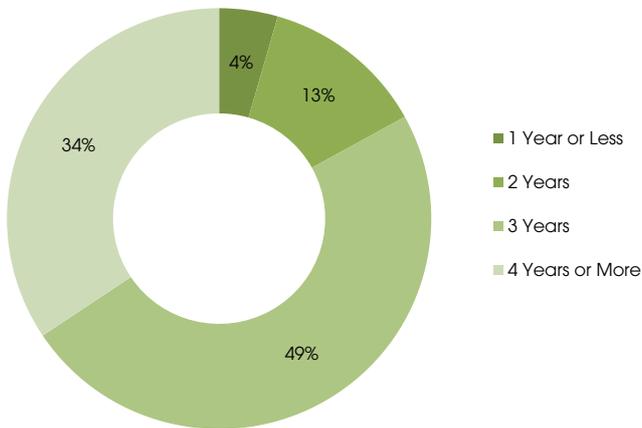
The focus on established managers among these investors is further highlighted in Fig. 4, with 83% of investors requiring at least a three year track record before allocating to a fund manager. As shown in Fig. 1, the investor base in the US consists of a large number of smaller endowments and foundations and these firms typically lack the resources to effectively assess emerging managers. These investors may also favour the return characteristics typically associated with larger managers in terms of lower volatility and more consistent returns. Pension funds in the US also tend to target established firms due to their relative lack of experience in hedge fund investing and also as a result of their ticket sizes being too large for smaller managers to handle. The 17% of investors that are willing to invest in managers with two years track record or less does, however, still represent a significant number of investors, meaning that there are plenty of opportunities for newer managers to attract capital from some of the more experienced investors in the region.

The largest hedge fund manager in the world today, Bridgewater Associates, has received the most commitments from US-based investors, and the remainder of the list of the top 10 invested with managers consists of some of the largest names in the industry (Fig. 5).

Outlook

Investors based within the US will undoubtedly continue to be the key source of capital for US-based hedge fund managers, and the varied investor base within the region means that there should be

Fig. 4: Minimum Track Record Requirements of US-Based Investors in US-Based Funds



Source: Preqin Hedge Fund Investor Profiles

Fig. 3: Sizes of US-Based Managers Invested in by US-Based Investors (In Terms of Number of Commitments)



Source: Preqin Hedge Fund Investor Profiles

opportunities for managers of all strategies and sizes to obtain capital over the coming year. These investors allocate substantial capital to hedge funds and this amount is expected to increase further in the future as new investors make their first allocations and existing investors increase their level of investment. Although the largest established managers with billions of dollars in assets are the most sought by investors, there remains a large group of investors willing to invest with smaller managers and it is vital that these managers understand the investor landscape in order to identify and attract the most suitable investors for their funds.

Fig. 5: Top 10 US-Based Fund Managers Invested in by US-Based Investors (In Terms of Number of Commitments)

Rank	Manager
1	Bridgewater Associates
2	Och-Ziff Capital Management
3	Davidson Kempner Capital Management
4	Farallon Capital Management
5	King Street Capital Management
6	Blackstone Alternative Asset Management
7	D.E. Shaw & Co.
8	Canyon Partners
9	Eton Park Capital Management
10	Taconic Capital Advisors

Source: Preqin Hedge Fund Investor Profiles

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Preqin’s **Hedge Fund Investor Profiles**, constantly updated by our team of dedicated analysts, features detailed profiles of over 2,300 US-based hedge fund investors with a preference for investing in the US, including direct contact details, current and target allocation to hedge funds, investment plan overviews, known investments, and more.

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Non-US-Based Investors in US-Based Funds

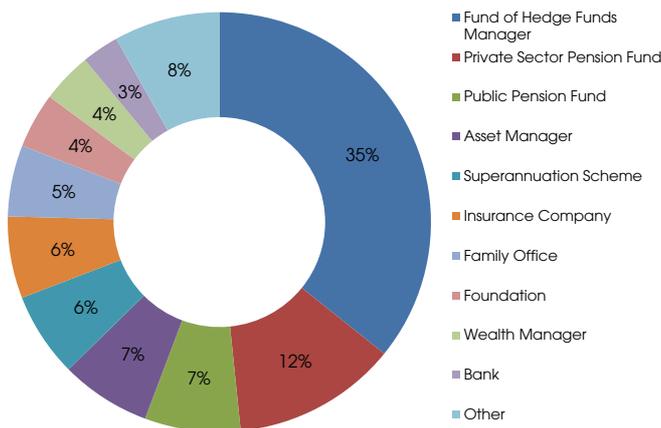
As well as receiving significant commitments from US-based institutional investors, the US is also a common destination for those investors outside of the region looking for new investments. Investors based in other regions look to allocate to US-based managers for a variety of reasons, including to increase geographical diversification or to tap into the high number of large established managers headquartered in the US. With approximately 45% of all hedge fund commitments made by non-US investors being into US-based funds, there are plenty of opportunities for US-based fund managers to secure capital from investors based in Europe, Asia-Pacific and other regions worldwide. In this section, we assess how non-US-based investors are allocating to US-based managers and how their investment strategy differs from domestic investors in these funds.

Breakdown of Non-US-Based Investors in US-Based Funds

Europe is the most significant region outside of the US for commitments to US-based funds, representing 55% of non-US investors that currently have a preference for investing in the US (Fig. 6). The most prominent countries are the UK and Switzerland, representing 40% and 25% of the European total respectively. Asia-Pacific represents 24% of non-US investors in US-based funds, with Australia and Japan combined making up 69% of these investors. US-based managers can also secure commitments from other countries in North America, most notably Canada, and to a less extent other regions such as the Middle East, South America and Africa.

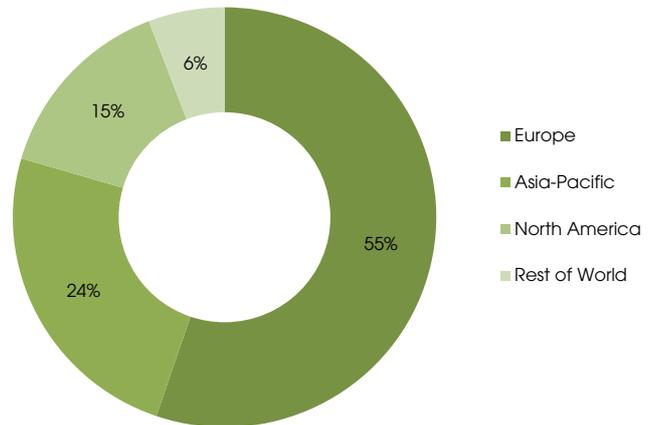
Outside of the US, fund of hedge funds managers are the main allocators to US-based managers, with these firms representing 35% of all non-US-based investors in US-based funds (Fig. 7). Fund of hedge funds managers often have a global outlook on their investments and so are willing to allocate to regions worldwide in order source the most suitable managers for their portfolios.

Fig. 7: Breakdown of Non-US-Based Investors in US-Based Funds by Investor Type (In Terms of Number of Investors)



Source: Prequin Hedge Fund Investor Profiles

Fig. 6: Breakdown of Non-US-Based Investors in US-Based Funds by Region (In Terms of Number of Investors)



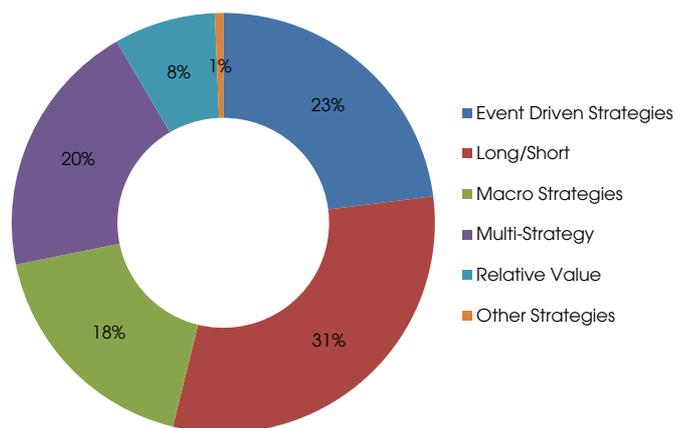
Source: Prequin Hedge Fund Investor Profiles

These firms are also likely to have the resources to be able to conduct due diligence on managers around the globe. Pension funds within Europe and Asia-Pacific are also significant allocators to hedge fund managers based within the US; these investors typically prefer to invest in larger managers with a strong track record, and many of the most established hedge fund managers are headquartered in the US.

Where are Non-US-Based Investors Allocating Their Capital?

The breakdown of the strategies of US-based funds invested in by non-US-based investors is presented in Fig. 8. Similar to the investments made by their US-based counterparts, the main strategy allocated to in terms of the number of investor fund commitments is long/short, with this strategy representing 31% of investments. One notable difference is the higher proportion

Fig. 8: Breakdown of Core Strategies of US-Based Funds Invested in by Non-US-Based Investors



Source: Prequin Hedge Fund Investor Profiles



of investments allocated to macro strategies by non-US-based investors; these investors typically favour the increased liquidity associated with these strategies and the US is home to some of the largest macro funds with the longest track records.

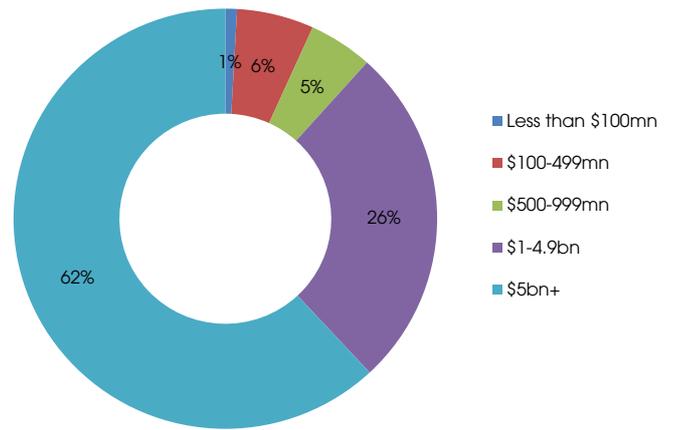
Similar to the investments made by their US-based counterparts, the majority of commitments (62%) made by non-US-based investors into US-based firms are to the largest managers with more than \$5bn in assets (Fig. 9). Investors based within other regions are likely to be attracted to the large established managers when investing in the US, as when investing with smaller managers, they can prefer to invest with local firms in order to boost emerging managers in their home region. However, some investors, notably fund of hedge funds managers, look to tap into the large number of emerging managers based in the US in order to gain access to niche strategies. There is a greater choice of managers based within the US, and spin-offs formed following the implementation of the Volcker Rule, have caused the number of funds to grow further, leading to a wider set of opportunities for investors.

The minimum track record requirements of non-US-based investors in US-based funds are presented in Fig. 10. Interestingly, these investors seem more willing to consider newer fund managers than domestic investors in US-based funds, with 38% of investors willing to consider managers with a two year track record or less. This is likely to be because investors that are investing outside of their home region are typically more established; the average assets under management of a non-US investor in US-based funds is \$33bn compared to the average \$5bn assets under management of domestic investors in US funds. As a result, these investors are more likely to have the resources to analyze lesser known funds. The list of the top 10 managers invested in by non-US based investors differs from those most invested in by US investors; different names on the list include Paulson & Co., Moore Capital Management, BlackRock Proprietary Alpha Strategies, York Capital Management, Tudor Investment Corporation and Claren Road Asset Management (Fig. 11).

Outlook

Institutional investors based outside of the US will continue to include US-based managers as an important part of their hedge fund portfolios due to the wealth of experience, large number of

Fig. 9: Sizes of US-Based Managers Invested in by Non-US-Based Investors (In Terms of Number of Commitments)



Source: Preqin Hedge Fund Investor Profiles

managers and diversification of strategies that exist in the most established hedge fund region. Managers need to ensure that they are aware of opportunities globally, in terms of which investors are looking to allocate to the US, in order to effectively target those investors which are most likely to be interested in investing in their funds. Investors based outside the US that are looking to allocate to US-based managers often boast a substantial asset base and as a result these investors can be a significant source of capital for hedge fund managers in the US.

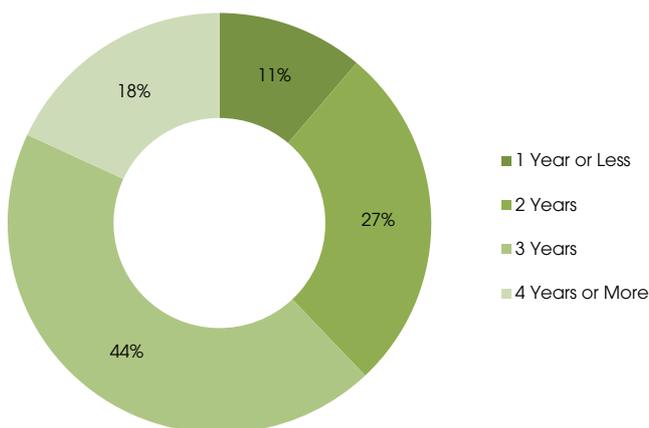
Preqin's **Hedge Fund Investor Profiles** features comprehensive information on over 430 investors based in Europe and Asia that have a preference for investing in US-based funds.

View these investors' strategy preferences, AUM and track record requirements, future investment plans, attitudes towards first-time funds and more.

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Fig. 10: Minimum Track Record Requirements of Non-US-Based Investors in US-Based Funds



Source: Preqin Hedge Fund Investor Profiles

Fig. 11: Top 10 US-Based Fund Managers Invested in by Non-US-Based Investors (In Terms of Number of Commitments)

Rank	Manager
1	Paulson & Co.
2	Och-Ziff Capital Management
3	Moore Capital Management
4	BlackRock Proprietary Alpha Strategies
5	D.E. Shaw & Co.
6	Canyon Partners
7	Bridgewater Associates
8	York Capital Management
9	Tudor Investment Corporation
10	Claren Road Asset Management

Source: Preqin Hedge Fund Investor Profiles

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April 2014

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