

The 2009 Preqin Global Hedge Fund Investor Review



Private Equity • Real Estate • Hedge Funds • Infrastructure

2009 Preqin Global Hedge Fund Investor Review

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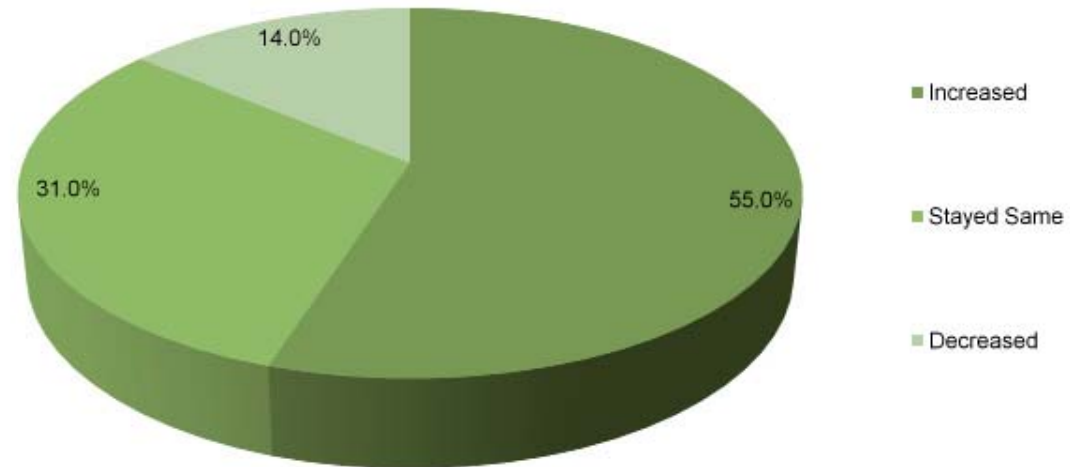
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Executive Summary

The stories of high redemptions, fund collapses and negative returns in the press every day are testament to just how hard hedge fund managers have been hit during the financial turmoil of 2008. Having enjoyed strong returns and growing investor confidence over recent years, the climate for hedge funds has changed, with many hedge fund managers being forced to adapt in order to weather the storm.

In such an environment institutional investors are becoming an increasingly vital source of capital for hedge funds. When times get tough a manager needs assets that are going to stick, and institutional investors have proved to have more staying power in the asset class through these tough times than the high net worth sector. Preqin calculates that 44.8% of the average hedge fund's assets under management are coming from institutional means, with this high percentage the result of significant growth in recent years. We found that 55% of hedge fund managers have experienced a rise in the proportion of their investment coming from the institutional sector over

Fig. A: How has Hedge Fund Managers' Institutional Investor Client Base Changed Over the Past Three Years?



the past three years, with only 14% experiencing a decrease. It is vital that managers continue to add institutional backing, and are proactively forming relationships with institutional investors today if they are to gain new commitments in the future.

The potential for growth in the institutional investor contribution to the hedge fund market is substantial, with over two thirds of the 2,000 institutional investors on the Preqin Hedge Investor Profiles database having unfilled target allocations to the

asset class. In addition, Preqin has identified 160 institutional investors that are poised to make their first investments in hedge funds in the next 12 – 18 months.

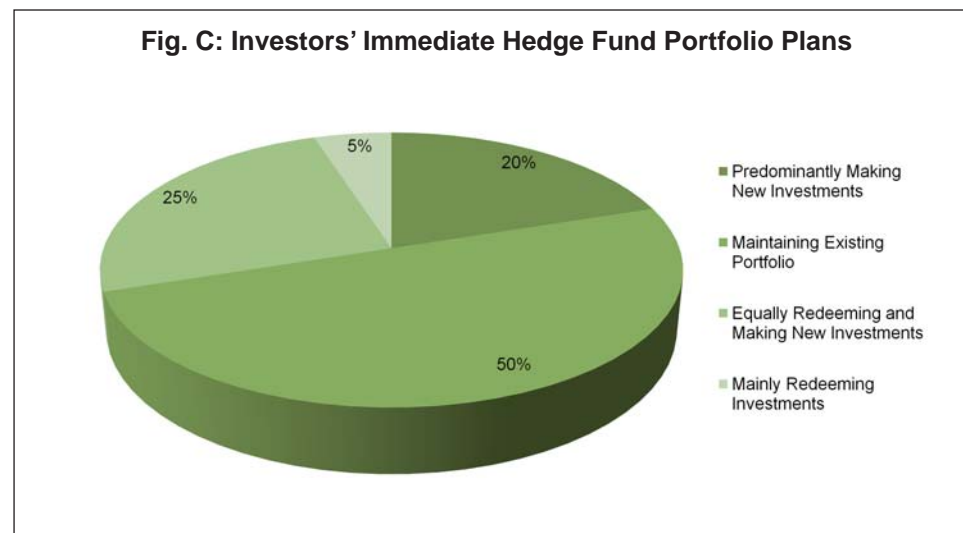
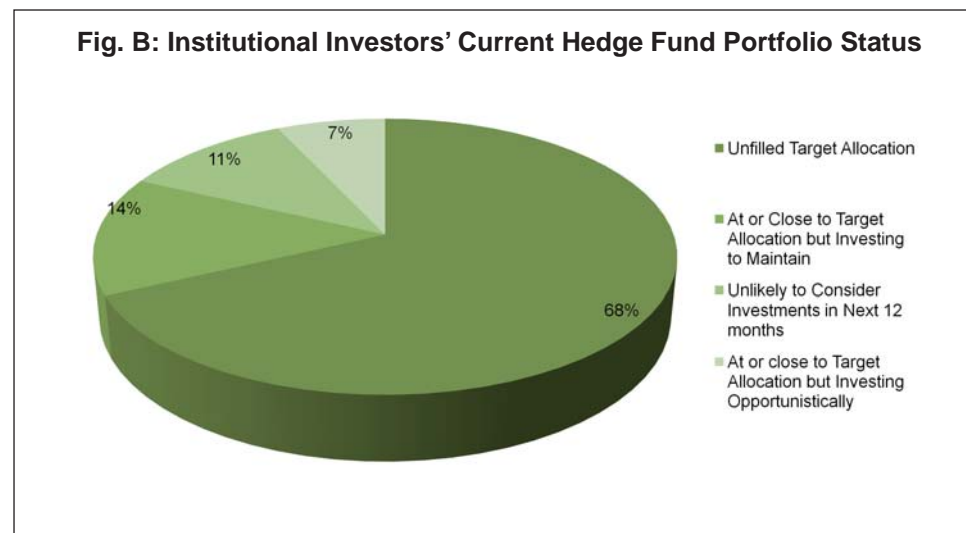
Pension plans are the fastest growing source of capital for hedge funds, with over 70% of all investors actively considering their first investments being either public pension funds or private sector pension funds. While it is certainly likely that these investors may have put their initial investments on hold until

the market becomes more stable, they remain positive about the long term prospects of the asset class, and with their large pools of capital they are set to become even more dominant members of the investor community in the future. Although pension funds remain somewhat hesitant to make new investments in hedge funds in the current market, it is nonetheless important for managers to be forming relationships and communicating with these potential investors if they are to be successful in obtaining commitments in the future when the market becomes more receptive.

Unsurprisingly 75% of investors we surveyed while compiling this year's publication reported that their hedge fund investments have not met their expectations in the past 12 months. Predominantly this has not dampened their opinion of the asset class, with 46.6% of the investors we have interviewed over the past few weeks stating that their long term outlook on the hedge fund industry remains positive. However many institutional investors have put their hedge fund investments on ice during these unstable times. Based on our discussions with institutions we found that there is much uncertainty amongst investors, with half of all investors unsure when they

will next commit to the asset class. Just under 30% of the investors we spoke to stated that they would wait at least 6 months before they begin investing again in order to assess how managers have performed during these difficult conditions.

Investors are using the turbulent times in order to reassess what managers and types of funds they should trust their capital with. Another important trend that is becoming evident is that institutions are changing the style of funds they are looking to commit to – for example a large Scandinavian public pension fund told Preqin that they are intending to invest in



more liquid and transparent strategies through the market crisis.

With some hedge fund strategies disappearing in the wake of the credit crisis and new strategies emerging as a result of a new financial climate, we will see institutional investors overhauling their approach to hedge fund investments, with institutions such as endowments and family offices/foundations, which have always been at the forefront of the industry, leading the institutional market into new frontiers. To keep pace with the changing face of the institutional arena, hedge fund managers will need to keep abreast of all the latest developments and trends that these investors are influencing.

The 2009 Preqin Global Hedge Fund Investor Review is therefore an essential tool for all hedge fund managers and marketers seeking to attract institutional investment in the coming year. Preqin has compiled this publication to show both the latest trends in investor appetite, and also to provide detailed profiles for the most important investors that hedge fund managers should be targeting in order to gain commitments. Profiles for third party

marketing firms and prime brokers, plus information on advisors helps to complete this balanced overview of the market for institutional investment, while expert opinion from leading names in the industry provides food for thought on what the future holds, and what managers should be doing to ensure success in 2009 and beyond.

With some estimates predicting the size of the hedge fund industry shrinking by as much as 30% in the next year as a result of the credit crunch, it is clear that the market is in a process of consolidation, and will emerge smaller, but stronger in the longer term. The current financial crisis will serve to accentuate the best firms and strategies, with many of the lesser-performing firms falling along the way. Those managers that navigate the current climate with positive results can then expect large inflows of assets when financial stability returns.

Institutional investment interest in the asset class has remained strong, with the average institutional make-up of hedge funds increasing all the time. Institutional investors are carefully tracking managers through these tough times to assess which funds have

produced acceptable returns through the market crisis. In order to attract these institutional coffers, hedge fund managers need to act today and form early relationships with the key institutional investors of tomorrow if they are to benefit fully when the market recovers.

Third Party Marketer

Atlantic-Pacific Capital

Ivan Wanat – Principal

Founded – 1995

Headquarters – US

www.apcap.com

“The Role of a Third Party Marketer”

Founded in 1995, Atlantic-Pacific Capital is the largest independent placement agent for alternative investment funds. APC has raised in excess of \$35 billion for over 40 transactions. The firm has an established brand within the private equity, hedge fund, real estate and infrastructure community and is dedicated to maintaining relationships with over 4,000 alternative investors worldwide.

Ivan Wanat is Principal at Atlantic-Pacific Capital

whom he joined in March 2007. Previously, Mr. Wanat was a Vice President with the Private Fund Group of Credit Suisse, where he performed all aspects of capital raising for top-tier hedge fund managers, targeting institutional investors globally. He was responsible for deal management and coordination of all marketing activities for several hedge fund advisors and actively sourced, evaluated and performed due diligence on hedge fund managers seeking a distribution partner.

Preqin: What do you see as the primary role for a 3rd party marketer and what are their main advantages?

IW: 3rd party marketers provide important services before the start of a marketing campaign that are sometimes overlooked. To prepare for the fund raise, services include providing strategic advice on fund structure and terms, preparing to properly position and differentiate the fund versus its peers, in addition to enhancing the fund’s marketing materials. Once the stage is set to begin speaking with investors, the 3rd party marketer should make educated introductions to investors that are well-suited for the

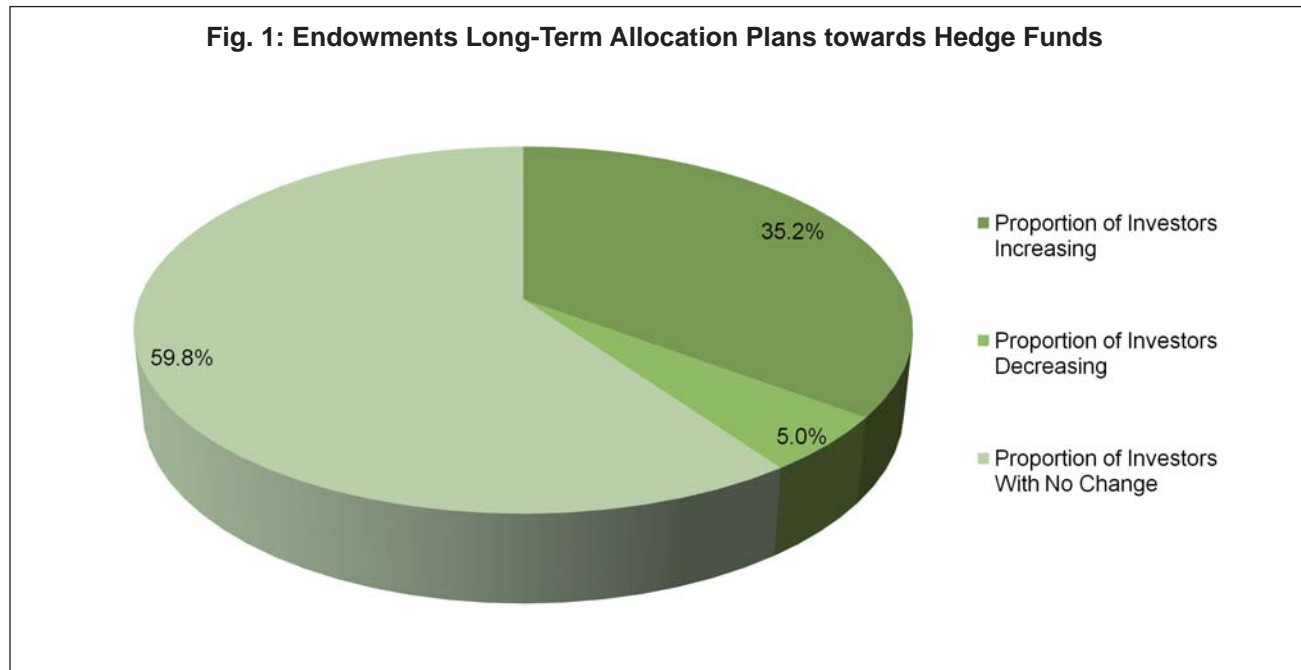
fund, and then assist interested investors through their due diligence process. Running an organised and efficient process to track investor activity and follow-up is also an important component of a 3rd party marketer’s service.

The real advantage involves leveraging the strength of 3rd party marketer’s brand to get the proper attention of investors with whom they have longstanding, established relationships. Most investors, particularly institutions, do not have the resources to evaluate the hundreds of funds that float across their desk in a given month: they are forced to pass on many potentially appealing funds because they don’t have the time to thoroughly review each fund and conduct due diligence. Value is added to both the hedge fund manager and the investor when a fund is brought to the investor’s attention by a marketer that is known and trusted by the investor, who has properly packaged the fund and conducted thorough due diligence. This focused outsourcing of the marketing process allows the hedge fund manager to spend most of their time and attention where it should be: managing the portfolio on behalf of its investors.

Endowments Investing in Hedge Funds

Endowments have historically proven themselves to be some of the most sophisticated investors in hedge funds and will continue to be an important source of capital for this asset class in the future. Endowments were early entrants into the asset class and as a result many have built large portfolios of diversified fund investments. Many large endowments such as Yale and Harvard have developed sophisticated hedge fund programs led by experienced investment teams and dedicated management companies making them a model for new investors in the asset class.

Endowments have been investing in the asset class not only as a means of diversification and for growth, but most importantly for the preservation of capital for future generations. An endowment's main obligation is to balance the spending needs of the current generation and that of the future. With this



in mind, endowments have different investment objectives in comparison to other institutional investors. Endowments invest with a long term approach and are therefore more willing to lock away capital for longer periods of time and encounter more investment risk as a result. Endowments also have high return expectations with an average annualised target of 8.9% per annum.

Using Preqin's Hedge Investor Profiles database of 305 endowments that are investing in or considering

investing in hedge funds, we found the average allocation to be 18.4% of assets under management (AUM), and the target allocation to be 19.4% of AUM.

Fig. 1 shows the breakdown of the intentions of endowments with regards to their long term target allocations. As endowments have been investing heavily in the asset class over a number of years, many of the larger endowments are approaching or are simply seeking to maintain their allocations

Tufts University Endowment

Endowment Plan

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Tufts University Endowment is an active investor in hedge funds, investing both directly and through fund of hedge funds. It has a 40% target allocation to alternative investments and has committed approximately USD 650 million to hedge fund investments. The endowment has invested in a total of 30 hedge funds and is seeking to maintain these investments over the course of the next 12 months. The endowment operates an "open-door policy" for managers and will invest opportunistically. It will consider a number of different strategies and will invest on a global scale. The endowment does not invest with emerging managers or seed funds but it will consider investments in spin-out teams that have a proven track record and experience within the industry.

Total Assets (mn):	1,600 USD	
Target to Hedge Funds (mn):	650 USD	40%
Committed to Hedge Funds (mn):	650 USD	40%

Strategy Preference

Funds of Hedge Funds, Macro, Any, CTA, Currency

Preferences

Global	N.America	Europe	Asia	Emerging Mkts	First-Time Funds
•	•	•	•		•

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UCLA Foundation

Endowment Plan

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UCLA Foundation is a large investor in hedge funds. It has a long-term target allocation of 25% to be invested in hedge funds, though it can invest up to 28% of AUM in hedge funds. The foundation does not have any strategic preference but prefers to make direct fund investments and is unlikely to consider fund of funds. The foundation aims to invest between 20-40% of its allocation to long/short equity funds, event driven funds and relative value vehicles. It also looks to maintain a slightly lower exposure to directional strategies, around 5-20% of its hedge fund allocation. The foundation has invested in several distressed debt funds and may invest in credit focused funds in the future. The foundation will consider investments on a global scale and has invested in several Asian focused funds. UCLA Foundation will not invest more than 15% of its hedge fund portfolio to any one single manager and will not allow its investment to exceed 20% of a hedge fund's total assets under management. The foundation uses Albourne Partners as its consultant and will not consider investments in any hedge fund that is not associated in Albourne's "On-going Due Diligence" category. The foundation will invest in funds with a lock-up period with the time restrictions dependent upon a manager's historical performance. Over the course of 2009 the foundation will be seeking to maintain investments with approximately 30 managers but may make substitutions depending on manager and fund performance. Typical fund investments are in the region of USD 5 to 15 million.

Total Assets (mn):	1,304 USD	
Target to Hedge Funds (mn):	326 USD	25.0%
Committed to Hedge Funds (mn):	326 USD	25.0%

Strategy Preference

Distressed Securities, Macro, Multi-Strategy, Event Driven, Long/Short Equity, Relative Value Arbitrage, Any, Directional, Credit

Preferences

Global	N.America	Europe	Asia	Emerging Mkts	First-Time Funds
•	•	•	•	•	

General Consultant Albourne Partners

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2009 Preqin Global Hedge Fund Investor Review: Order Form

The newly released 2009 Preqin Global Hedge Fund Investor Review is the ultimate guide to institutional investors in hedge funds, featuring both profiles for 400 leading investors, plus comprehensive analysis on this increasingly important sector of the market.

Key Features Include:

- Full profiles for 400 of the top institutional investors worldwide, including full investment plans, fund preferences, key direct contact information, financial information, plans for 2009
- Detailed analysis and league tables of largest and most important institutions and advisors
- Information on investors in emerging managers
- Listings for prime brokers and third party marketers
- Interviews and contributions from leading names in the industry



www.preqin.com/InvestorReview

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\$300 / £175 / €185 *(contains all underlying data for charts and graphs contained in the publication. Only available alongside purchase of the publication).*

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