

Preqin Research Report

European Investors Investing in US Hedge Funds

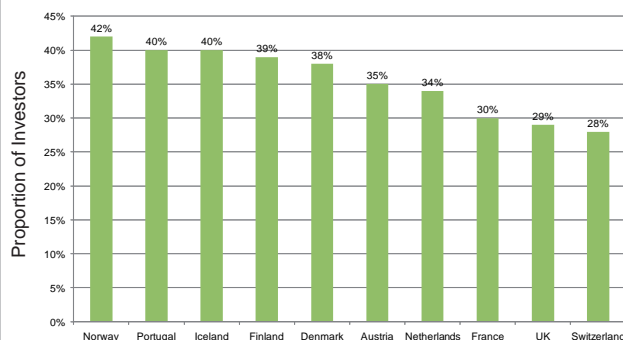
As the hub of the hedge fund industry, the US provides diverse investment options for investors. American fund managers can often boast attractive track records and investment experience, as well as offering funds that are at the forefront of the asset class. As a result, 29% of all European hedge fund investors on the Preqin database state US-based hedge funds as a preference. With these investors invested in, on average, three US-based hedge fund managers, Europe is a vital source of capital for US hedge fund managers, and it is essential for US funds to market their vehicles to these regions if they are to grow in size and increase their global presence.

Countries in which investors are newer to the asset class or have less choice from domestic offerings, such as Portugal and Norway, proportionally invest more in US hedge funds, where they have a larger choice with regards to strategies and can create a more diversified hedge fund portfolio. It also gives them the opportunity to invest in more established hedge fund managers with track records proven both before and after the market crisis. Fewer investors in countries such as the UK and Switzerland have a preference for US-based hedge funds because these investors are able to take

Fig. 1: Top US Hedge Fund Firms Used by European Investors

| Hedge Fund Firm | Type of Firm |
|---|---------------------|
| Paulson & Co. | Single Fund Manager |
| Highbridge Capital Management | Single Fund Manager |
| Atticus Capital | Single Fund Manager |
| Blackstone Alternative Asset Management | Hedge Fund of Funds |
| Goldman Sachs Hedge Fund Strategies | Hedge Fund of Funds |
| D.E. Shaw & Co | Single Fund Manager |
| Moore Capital Management | Single Fund Manager |
| Tudor Investment Corporation | Single Fund Manager |
| Caxton Associates | Single Fund Manager |
| JPMorgan Alternative Asset Management | Hedge Fund of Funds |

Fig. 2: Proportion of European Investors with a Preference for US-Based Funds by Country



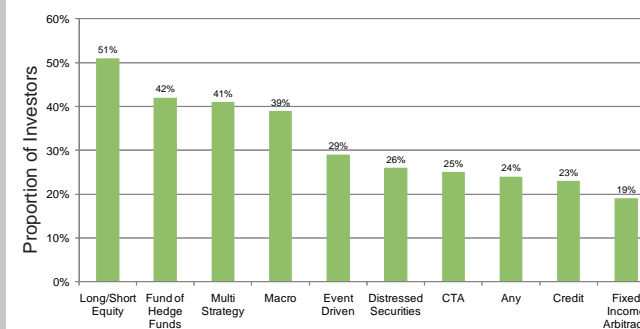
advantage of the well-developed hedge fund industries in their domestic region and therefore have less need to look to managers in other countries such as the US. However, there is a large number of hedge fund investors in these two countries, and together they represent 61% of all European investors with a preference for US-based managers. They are therefore an important source of capital for US hedge fund managers.

By investing in US hedge funds, European investors have the potential to invest in a range of different strategies and are able to build hedge fund portfolios which are diversified not only by style, but also by region. As shown in Fig. 4, European investors investing in US hedge funds will consider a range of investment strategies, and the US offers much greater choice in terms of hedge fund styles to choose from. US long/short equity funds are particularly popular with European investors, with more than half of all investors looking for these funds, surpassing even funds of funds as the most popular choice of US hedge fund for the European investor. Europe is an important source of capital for US hedge fund managers. By broadening marketing efforts to cover Europe, American managers will be able to tap into this market and pick up valuable mandates.

Fig. 3: Key Facts - European Investors with a Preference for US Hedge Fund Managers

| | |
|--|--------|
| % of European investors that state a preference for US based hedge funds | 29% |
| Average number of US hedge funds in their portfolios | 3.5 |
| Most favoured investment approach (direct hedge funds, funds of hedge funds, both) | Direct |
| Average allocation to hedge funds | 8.5% |

Fig. 4: Strategic Preferences of European Investors Investing in US-Based Hedge Funds



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