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- Blair Hedges, Head of Operational Due Diligence, LIONGATE CAPITAL
- David Woodhouse, Chief Due Diligence Officer, FAUCHIER PARTNERS

Meet the regulators:

- Didier Millerot, Deputy Head, Asset management Unit, DG International Market & Service, EUROPEAN COMMISSION and responsible for conception, negotiation and implementation of UCITs and AIFM standards
- Thomas Biolsi, Associate Regional Director, New York Office, U.S. SECURITIES AND EXCHANGE COMMISSION on registration and current inspection priorities

Industry leaders in hedge fund operations and risk:

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- Gabriel Bousbib, CEO, Gottex Solutions Services & Member of the Executive Committee, GOTTEX FUND MANAGEMENT
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Leading allocators to hedge funds:

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Welcome to the September edition of *Hedge Fund Investor Spotlight*, the monthly newsletter from Preqin, providing insights into institutional investors in hedge funds. This month *Hedge Fund Investor Spotlight* contains information from our industry-leading online product: *Hedge Fund Online*.

Hedge Funds in a Post-Crunch World

Feature Article

page 3

The Evolving Institutional Landscape in a Post-Crunch World

This month's feature article looks at how the credit crunch and economic turbulence of recent months has impacted on institutional investors' attitudes towards hedge funds.

Please see page 3 for more information

Investor in Focus

page 9

Emerging Markets

Each month *Investor in Focus* examines a particular group of investors, using data from Preqin's *Investor Profiles Online* service. This month we examine emerging market investors.

Please see page 9 for more information

Strategy in Focus

page 11

Emerging Markets

Each month *Strategy in Focus* examines a particular hedge fund strategy, using data from Preqin's *Investor Profiles Online* service. This month we examine emerging markets.

Please see page 11 for more information

Products and Services

page 13

Preqin is the industry's leading source of information on institutional investors in hedge funds. Our information is available in three principal formats:

- Online Profiles
- Publications
- Data Downloads

Please see page 13 for more information

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Investor News

page 16

This month's *Investor News* section identifies some of the most important new developments in the institutional investor universe. Full profiles for all institutions featured in *Investor News* can be viewed on our online service.

Featured this month:

- San Diego County Employees' Retirement Association
- Novartis Pension Fund
- Oakley Capital Absolute Return

Please see page 16 for more information

If you would like to receive *Hedge Fund Spotlight* each month please email spotlight@preqin.com.

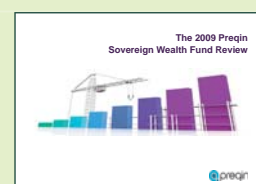
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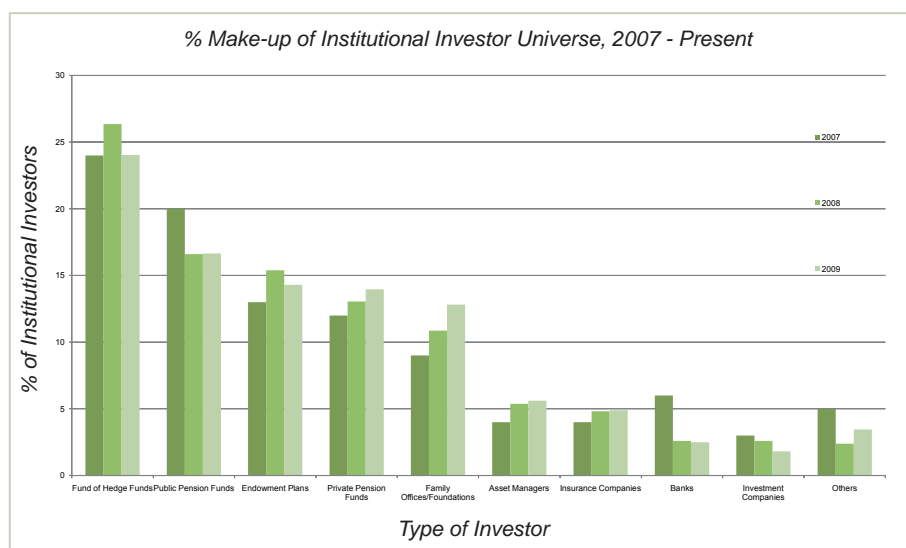
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Hedge Funds: The Evolving Institutional Landscape in a Post-Crunch World

Up until last year, the hedge fund market was booming, with growing numbers of investors, increasing assets and stellar returns all contributing to the asset class's evolution into a mainstream choice of investment. However, in 2008 this all changed: the majority of funds performed abysmally, hundreds of hedge funds folded and a number of high profile scandals, contributed to a massive loss of investor confidence in the asset class. At the beginning of 2009, withdrawals were outpacing investments being made thus causing a huge contraction in the industry from USD 1.9 trillion to USD 1.3 trillion. In this article we examine the impact that this has had on the institutional investor universe.

Fig. 1:



At Preqin we speak with institutional investors on a daily basis, allowing us to gauge investor trends and appetite for the hedge fund market. The past 12 months were a difficult period for hedge funds, as very few new investments were being made and activity within the industry slowed down considerably. April 2009 signalled a change to this however, as activity started to pick up and investments started to be made, suggesting that consumer confidence was being restored to the industry. Institutional interest in hedge funds has also returned and the influence of these investors continues to dominate the asset class – a Preqin Hedge Fund Special Report released last month showed that institutional pressure has caused a decrease in management fees. In the past few months we have witnessed several new institutions making maiden investments or allocations to hedge funds, including Florida State Board of Administration, Employees' Retirement System of Texas and University of Kentucky Endowment. But 2008's disappointing returns and well-publicised scandal has left some institutional investors far more wary of the asset class.

Fig. 1 shows the percentage make-up of the institutional universe in September 2007, 2008 and 2009. We can see

that funds of funds, pension funds, endowments and family offices/foundations have dominated the asset class in recent years. From 2007 to 2008, the growth in the number of funds of funds investing in hedge funds well outpaced the growth in other investor types, but in 2009 this growth was reversed, as investors pulled capital out of these vehicles following poor performance. This, coupled with the revelation that a number of high profile funds of funds invested in the Madoff funds, slowed the growth of the multi-manager industry, although funds of funds still outnumber all other groups of investors.

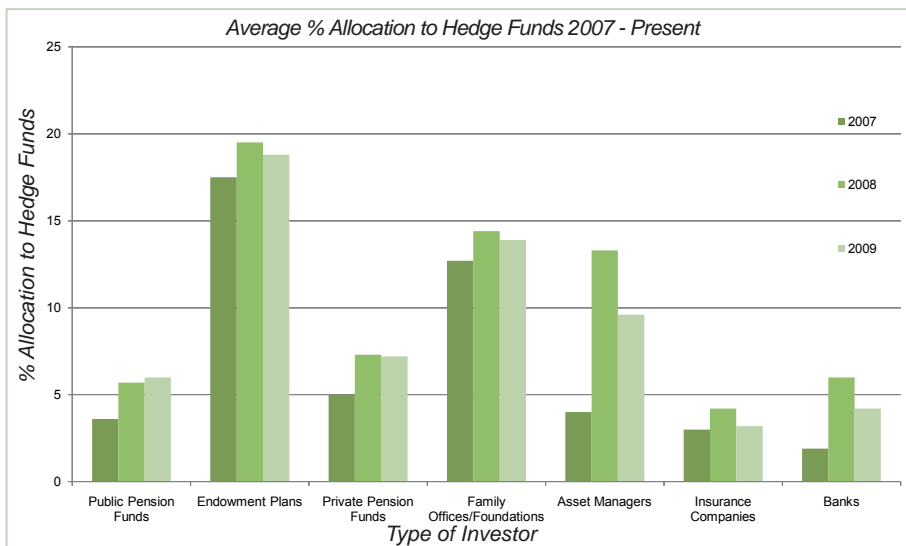
Fig. 1 also shows a clear growth in the number of private sector pension funds active in hedge funds. In 2007 there were 138 private sector pension funds active in hedge funds, and today this figure has more than doubled to 334. Private sector pension funds started investing in hedge funds later than other groups of investors – such as public pension funds and endowments – and as such there is much growth potential for the group, especially compared to endowments, at which hedge fund use is almost universal. Add to this the fact that changing legislation means that new private sector funds are being formed, and we predict that

this group of institutional investors will continue to grow as a prominent source of capital for hedge funds.

Changing Allocations

Fig. 2 shows that for all groups of investors – except public pension funds – the mean allocation to hedge funds has fallen since 2008. In 2007 and 2008 all investors increased their allocations to hedge funds – many by a considerable margin. For instance, asset managers, on average, more than tripled their allocations to hedge funds from 4% (2007) to 13.3% (2008), probably to capitalise on the investment opportunities being created out of the economic turbulence which was being exploited by hedge fund managers at the time. This year, investors have been very conservative in changing their exposure to hedge funds, and in most cases decreases in allocations have been small – less than one percentage point. This indicates that investors are not actively looking to boost the amount of capital they invest in the asset class, but are, by and large, seeking to keep their exposure relatively stable. Hedge funds on the whole did not perform well in 2008, and many did not produce the absolute returns that they had promised their investors. Although there has been some dissatisfaction with the asset class, most areas of investors' portfolios performed badly last year, and therefore these institutional

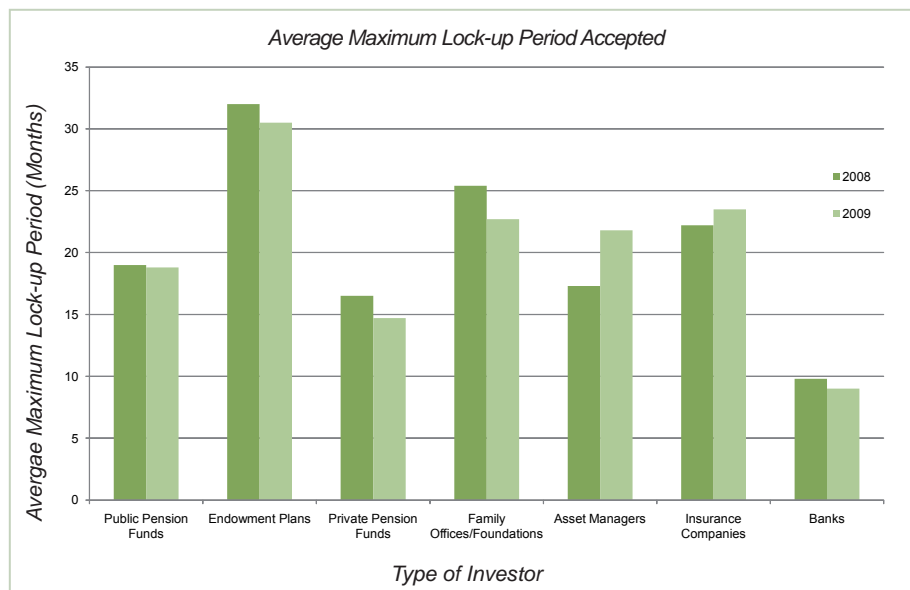
Fig. 2:



investors are maintaining or only slightly reducing their allocations to hedge funds, rather than drastically cutting their exposure, in order to assess hedge funds through the year. Moreover, investors are still attracted to the diversification and liquidity that hedge funds bring to their alternatives holdings. Some institutional investors have been forced to reduce their hedge fund exposure slightly in order to free up capital to honour their call-up commitments to private equity funds.

Changing Liquidity Requirements

Fig. 3:



At Preqin we track the maximum lock-up period associated with a hedge fund that an institutional hedge fund investor will accept when considering an investment. In the large part, institutional investors are now searching for greater liquidity from their hedge fund managers and all investors except asset managers, and insurance companies are now looking for funds with shorter lock-up periods.

In 2008, many investors found that their hedge fund holdings had been gated or that their portfolios were less liquid than they had believed. By having capital locked-up for shorter periods of time, investors are able to react quicker to the changing economic environment; with increased liquidity they can now switch strategy or take advantage of opportunistic investments more easily

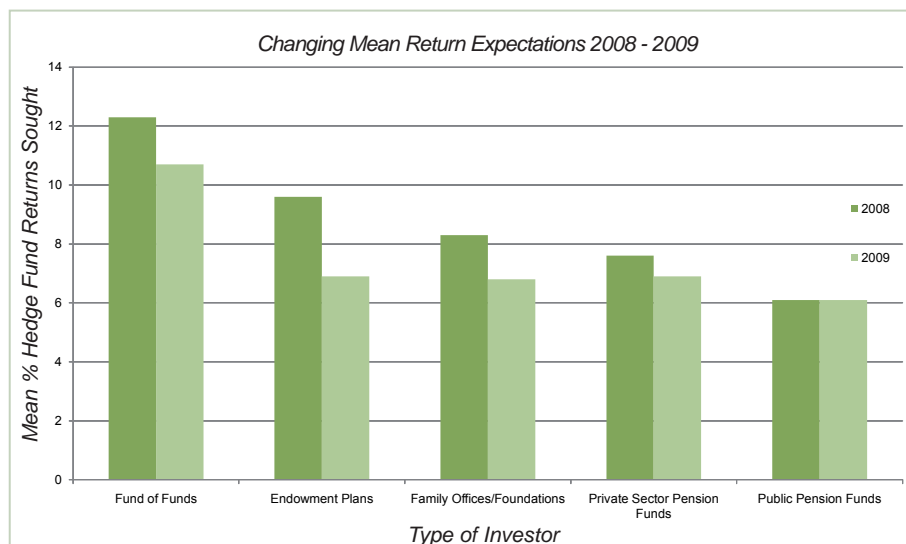
than in 2008. Interestingly, asset managers and insurance companies are now willing to accept longer lock-up periods than they were pre-2008. They seem to be moving towards an endowment and family office/foundation approach, allocating capital with a longer investment horizon in mind; possibly to gain access to strategies that generate higher returns but which require institutional commitment for a longer time frame (for instance distressed hedge funds).

Changing Return Expectations

All groups of investor – except public pension funds, which already had the most modest return expectations – have reduced their expectations in terms of annualised returns produced by their hedge fund investments. The most marked change has been in the endowments group, which has reduced its return expectations from 9.6% per annum to 6.9% per annum. Endowments' pursuit of higher returns last year might have led them to invest in highly volatile, high-risk funds, which in turn led to losses in the downturn. As a consequence this year they are now seeking more conservative investments for asset protection rather than growth.

There appears to be consolidation across all groups of institutional investors (except funds of funds) in terms of the

Fig. 4:

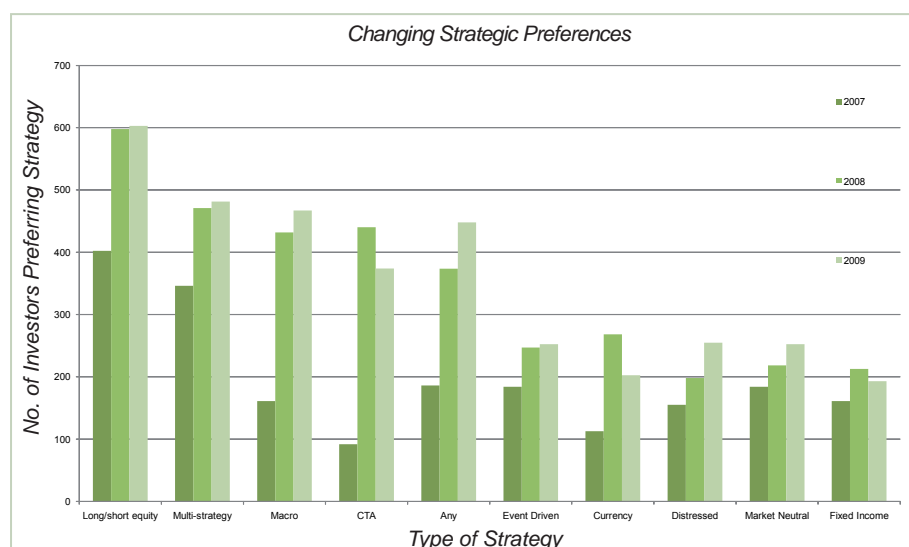


returns they expect to see from their hedge fund holdings; whereas last year they were seeking returns from 6% to just under 10%, all groups of institutional investors are now searching for hedge funds that can produce annualised returns of between 6% and 7%. Investors are becoming more realistic in their expectations for hedge funds in 2009 and are looking for funds that can produce stable, conservative returns. This marks a change from previous years, when, many institutional investors were adding hedge funds to boost returns which led to too much exposure to over leveraged and highly volatile funds.

Conclusions

The institutional investor landscape is broadening – even just a few years ago hedge funds could expect to garner investment from just two or three groups of institutional investors, primarily funds of hedge funds, public pension funds and endowments, while we are now witnessing rapid growth in the numbers of private sector pension funds, family offices and foundations making their first investments in the asset class. This, coupled with increasing saturation of the older hedge fund institutional market, has meant that hedge funds are being utilised by an increasingly broad spectrum of investor. Growth in the number of new entrants to the asset class is outpacing growth in the more

Fig. 5:



established investor market and we predict that these new institutional investors will become increasingly important sources of capital for hedge funds. However, the turbulence of the past 12-18 months has made institutional investors much more conservative than they were this time last year. Most institutions have reduced their exposure to hedge funds, although in the main part not significantly, and are searching for hedge funds that produce more conservative returns and have shorter lock-up periods. During the hedge fund boom, many investors sought huge returns from highly leveraged, highly volatile funds and were caught out when the market turned. However today, the institutional market appears to be returning to the core ideal of investment in hedge funds: to diversify portfolios, for asset protection not outsized growth, and to produce returns uncorrelated to the broader equity markets.

Amy Bensted

We used the Preqin Hedge Fund Investor Profiles database of 2,382 institutional investors active in hedge funds (as of 1st September 2009) for all of the figures detailed in the report.

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Investor in Focus: Emerging Markets

Institutional investors from emerging market regions are relative newcomers to the hedge fund investor universe – most emerging market investors currently active in the asset class have been investing for a maximum of three years. They tend to be conservative investors – typically allocating around 3.4% of total assets to hedge funds. The majority of institutional investors in these emerging regions also only allocated to funds of funds and “classic” hedge fund strategies, such as long/short equity and other market neutral funds.

There is a large fund of hedge funds presence in the emerging markets; these form just under a quarter of all investors in hedge funds in these regions, with asset managers and private sector pension funds also being important sources of capital. The emerging market countries of Asia – particularly China and India – are the largest emerging market regions to be investing in hedge funds. However, when selecting managers, emerging market investors tend to search on a global scale,

with over half of all institutional investors based in emerging markets stating they have a global hedge fund mandate.

The emerging markets are growing in importance as a source of capital for hedge fund managers. Although these investors currently represent only a very small proportion of all institutions active in hedge funds, there is much growth potential in terms of the number of institutional investors and capital available for investment, and we predict that over the next few years we will see many more institutions based in these regions making their first investments in the asset class.

Amy Bensted

Fig. 1:

Key Facts Emerging Markets	
Average allocation to HF	\$226 mn/3.4%
Most favoured investment approach	Fund of hedge funds
# of funds in portfolio	7
Typically been investing in hedge funds for	2-3 years

Fig. 2:

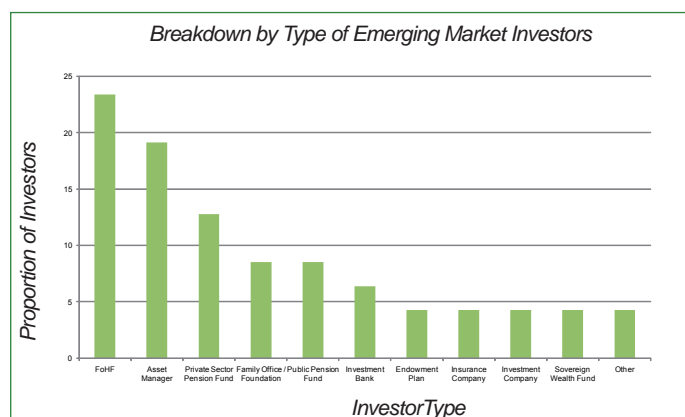


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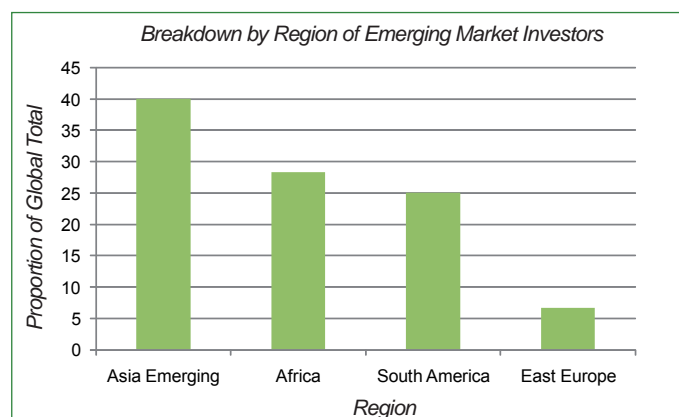


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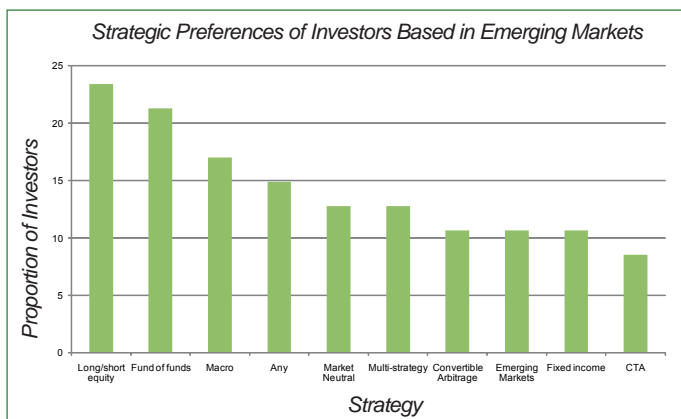
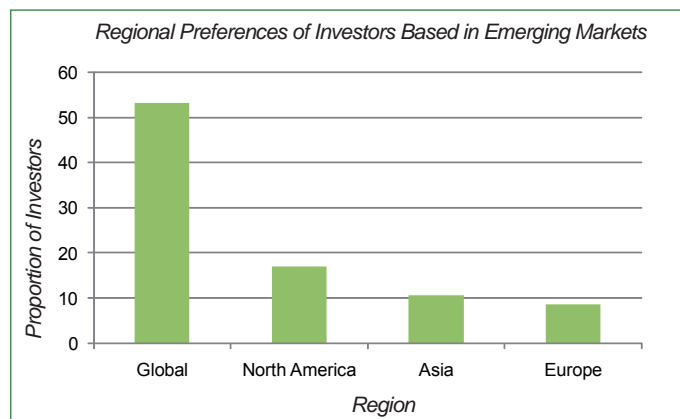


Fig. 5:



Preqin currently holds profiles for 340 investors with an active interest in this sector, including 161 North America based, 140 Europe-based and 39 Asia and Rest of world based institutions.

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Strategy in Focus: Emerging Markets

Emerging market funds are becoming increasingly lucrative and in H1 2009 they returned 20.18%, the strategy's best H1 return since 1999¹. However, being what is considered a more risky strategy, emerging market hedge funds have always been approached with great caution and never more so than at present, when the market turmoil has led to some investors withdrawing investments in this strategy. This caution is owing to factors such as political instability, domestic infrastructure problems, currency volatility and limited equity opportunities, which, alongside the decreasing confidence in hedge funds generally, has led to less interest from newer investors.

Fig. 1:

Key Facts: Emerging Markets Investors	
% of institutional HF investors which state emerging markets as a preference	14.3%
Average AUM of an emerging market investor	USD 22 billion
Average allocation to hedge funds of an emerging market investor	13.8%
Average returns sought from emerging market investments	8.0%
Most favoured investment approach (fund of hedge funds, direct hedge funds, mixture of both)	Direct

As we can see from Fig. 2, emerging market hedge funds are particularly popular with funds of hedge funds and endowments. Funds of hedge funds have the resources and knowledge to

Fig.2:

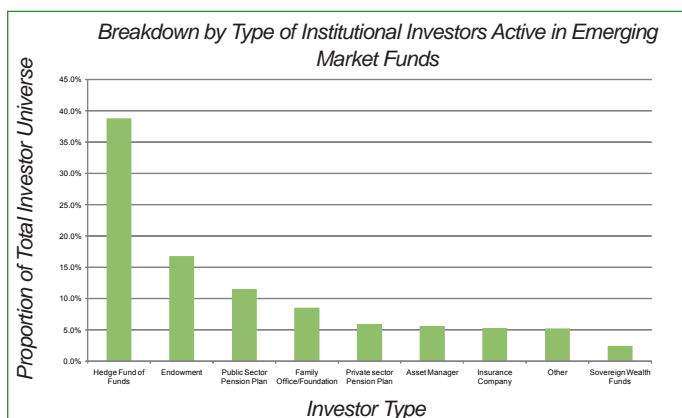
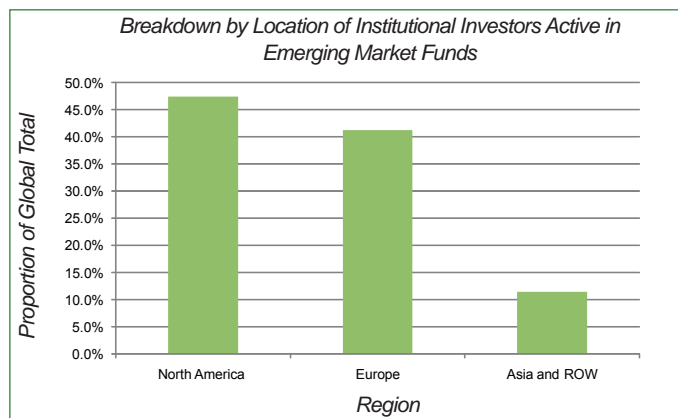


Fig. 3:



¹ HFRI Emerging Markets Index

Strategy in Focus: Emerging Markets

invest in more risky strategies and are driven by high returns. Many have set up vehicles concentrating solely on emerging market hedge funds and some have even launched vehicles located within emerging market economies in order to provide them with a better understanding of the opportunities within the area. Nearly half of all institutional investors investing in emerging markets are based in North America and over one-third are based in Europe. Regions such as North America and the UK are home to more sophisticated and experienced investors willing to take on this riskier strategy.

While we do not expect many new investors to adopt this strategy in 2009, there remains an interest in it, amongst the more experienced investors. Hyposwiss Private Bank, Swiss National Accident Insurance Institution and funds of hedge fund manager Pangea Capital are all firms that have recently expressed an interest in this area.

Katy Johnson

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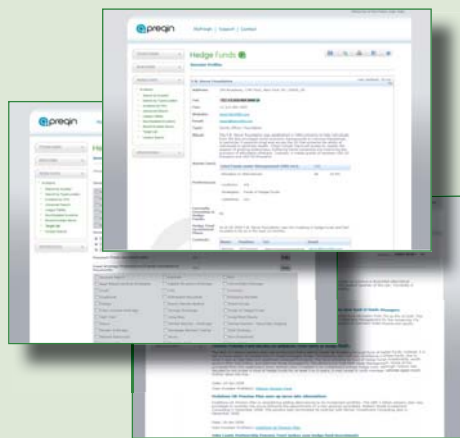
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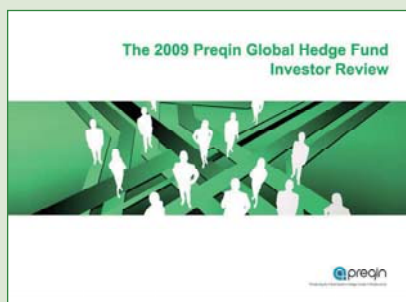
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Information: <http://www.iirusa.com/gaimopseurope/welcome-page.xml?registration=KN2219preqwb>

Hedge Funds Regulatory Climate 2009

Date: 14 - 15 October, 2009

Location: JW Marriott Hotel, London, UK

Sponsor: Hedgestar®

An ambience of regulatory pressures now prevail upon the Alternative Investments Industry. With the April publication of the EU directive on managers of alternative investments and the recently announced proposals to overhaul financial regulations in the US, this conference shall initiate a timely discussion on the way forward for the Alternatives Sector.

Information: <http://www.hedgestar.com>

Regulation of Alternative Investment Fund Managers

Date: 14 October, 2009

Location: Dexter House, London, UK

Sponsor: IBC Global Conferences

IBC's Regulation of Alternative Investment Fund Managers is a one day conference launched in response to the draft EU directive on Alternative Investment Fund Managers.

Information: <http://www.iir-events.com/IIR-Conf/page.aspx?id=21848>

Hedge Funds World Latam 2009

Date: 19 - 21 October, 2009

Location: Four Seasons, Miami, USA

Sponsor: Terrapinn

Now in its 5th year, Hedge Funds World LatAm remains the industry's definitive hedge fund industry event for the LatAm investment community, presenting LatAm's unique opportunities at a time of global market distress.

Information: <http://www.terrapinn.com/2009/latam/>

The 3rd Annual Funds Forum China 2009

Date: 21- 22 October, 2009

Location: Marriot Shanghai Hongqiao Hotel, China

Sponsor: JFPS Group

Embracing Identifying investment opportunities at Home and Abroad, Racing to Seize the Profit Commanding Point after the Crisis, the 3rd Annual Funds Forum China 2009 will be held on Oct 21st to 22nd, which is the largest funds forum in China. Last year, almost 300+ senior executives from Sino-foreign Funds, Banks, Insurances, Trusts and Management companies joined 2 days event.

Information: <http://www.fundsforumchina.com/>

Private Banking Congress 2009

Date: 21 - 22 October, 2009

Location: Marriot Shanghai Hongqiao Hotel, China

Sponsor: JFPS Group

Embracing Seizing High Net Worth Individual Needs and Diagnosing Industry Development Trends after the Crisis, Forging China's Local Hundreds-Year-Old Private Banks, The Private Banking Congress 2009 will be held on Oct 21st to 22nd. 150+ senior executives from Sino-foreign banks, Swiss banks and family offices as well as regulators will join 2 days event.

Information: <http://www.privatebankingcongress.com/>

Conferences Spotlight: Other Conferences

CONFERENCE/EVENT	DATES	LOCATION	ORGANISER
Due Diligence for Fund of Funds & Hedge Funds	9 - 10 September 2009	London	IIR
World Alternative Investment Summit Canada	14 - 16 September 2009	Niagra Falls	Canadian Hedge Watch
Hedge Fund Activism and Shareholder Value Summit	22 - 23 September 2009	San Diego	IMN
7th Annual Alternative Investments Summit	22 - 23 September 2009	San Diego	IMN
Meeting of the Hedge Fund Business Operations Association	24 - 25 September 2009	New York	Financial Research Associates
Hedge Fund Regulation 2009	30 September 2009	London	InvestoRegulation
3rd Annual Hedge Fund General Counsel Summit	1 October 2009	Old Greenwich, CT	Incisive Media
Hedge Funds World Asia 2009	5 - 8 October 2009	Hong Kong	Terrapinn
Hedge Funds Regulatory Climate: Opportunities and Threats 2009	14 - 15 October 2009	London	Hedgestar
Hedge Funds World LatAm 2009	19 - 21 October 2009	Miami	Terrapinn
GAIM Fund of Funds	19 - 21 October 2009	New York	IIR
Global Hedge Fund Summit	25 - 27 October 2009	Bermuda	Institutional Investor
Hedge 2009	3 - 5 November 2009	London	Terrapinn
Hedge Funds World Africa 2009	17 - 20 November 2009	South Africa	Terrapinn
Gaim Ops Europe	30 Nov - 2 Dec 2009	Geneva	ICBI
Hedge Funds World Zurich 2009	1 - 3 December 2009	Zurich	Terrapinn

Regulation of

Alternative Investment Fund Managers

Engaging with the AIFM Directive & Understanding its Impact



Conference Highlights Include:

- Demystifying the EU Directive on Alternative Investment Fund Managers & Understanding Exactly how it will Impact You
- Determining the Key Threats & Opportunities that will Emerge
- What Interaction will it have with the Existing UCITS Directive?
- Hear Direct Response from both the Hedge Fund & Private Equity Industry
- The European Fund Passport – What Benefit to You?
- The Case for Further Regulation of Alternative Investment Fund Managers
- Legal Issues Facing the Hedge Fund Industry
- Jurisdictional Challenges & Opportunities
 - Ireland
 - Luxembourg

Speakers Include:

Didier Millerot, Deputy Head of Unit, Asset Management
EUROPEAN COMMISSION

Jarkko Syrjälä, Director, International Relations
INVESTMENT MANAGEMENT ASSOCIATION

Rhonda Ryan, Vice President, Head of Private Equity
Funds Group - London, AIG INVESTMENTS

Paul Mack, Partner & COO, IVEAGH LTD

John Godden, Founder & CEO, IGS GROUP

David Aldrich, Managing Director, BNY MELLON

Tim Pearce, Partner, SIMMONS & SIMMONS

Stéphane Janin, Director, Head of International Affairs Division
AFG (French Asset Management Association)

Charles Muller, Deputy Director General, ALFI

Representative
IRISH FUNDS INDUSTRY ASSOCIATION

Monty Raphael, Special Counsel, PETERS & PETERS

Duncan Black, Partner, FIELD FISHER WATERHOUSE

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Investor Spotlight:

Investor News

Universities Superannuation Scheme hires UBS Global Asset Management Fund Services as administrator for its newly implemented absolute return strategies program.

Despite the current market crisis and the scrutiny that the asset class has been under following last year's poor returns, Universities Superannuation Scheme (USS) has been pushing forward throughout 2009 with its plans to expand its hedge fund holdings. USS believe that hedge funds still represent a "compelling investment opportunity" and has earmarked over GBP 1 billion to be invested in the asset class over the medium term. In order to build its new fund of funds, USS hired Luke Dixon and Emily Porter as portfolio managers for its absolute return program earlier in the year, and this month appointed UBS Global Asset Management – Fund Services to provide administration services. More managers will be hired over the next two years as USS looks to build its core strategies hedge fund portfolio to a total of about 25 managers, each running about GBP 50 million.

San Diego County Employees' Retirement Association remains an active investor in hedge funds and seeks outsourced CIO.

Despite reducing its target allocation to hedge funds from 20% to 14% of its total assets at the end of 2008, San Diego County Employees' Retirement Association (SDCERA) is still adding new managers to its portfolio, and this month it awarded a USD 30 million mandate to Perella Weinberg Partners Asset Based Value Opportunity Fund II. Furthermore, SDCERA is currently negotiating contracts with a consulting firm to assist with outsourcing the CIO position left vacant following the resignation of David Deutsch at the beginning of the year. Deutsch left SDCERA following disagreements with the investment board, over issues including his use of hedge funds in the retirement plans portfolio.

Fort Worth Employees' Retirement Fund overhauls its hedge fund portfolio and begins the search for new managers.

The USD 1.46 billion pension fund has ramped up its allocation to absolute return strategies from 12% to 18% after reviewing its hedge fund holdings with the help of its advisor Albourne Partners. It has redeemed several holdings and has rewarded additional funding to some existing managers. Redemptions have been made from hedge funds managed by Marathon Asset Management, Plainfield Special Situations Fund and Harbinger Capital. The pension plan has already made two new hedge fund investments: USD 8 million to Vicis Capital, a multi-strategy vehicle, and USD 14 million to Contrarian Capital Fund I. Following the rebalancing of

its portfolio and its new investments, Fort Worth is now searching for between four and six new hedge funds to add to its holdings in order to reach its new increased target allocation. On the advice of Albourne Partners, Fort Worth Employees' Retirement Fund now only invests directly.

Novartis Pension Fund awards GBP 30 million hedge fund mandate.

The UK pension fund has hired BlueCrest Capital for a fund of hedge funds mandate. Prior to this, Novartis had invested in a fund of hedge funds managed by Goldman Sachs Hedge Fund Strategies, but terminated the contract as it wanted broader exposure to the asset class rather than focusing on niche investments. The pension fund is advised on its hedge fund portfolio by Harcourt Investment Consulting.

Oakley Capital Absolute Return expects its fund of hedge funds to be fully invested by year-end 2009.

The fund of hedge funds manager is in the process of carrying out due diligence on a number of managers so that it can invest its 17% cash holdings. Oakley Capital Absolute Return is looking to increase its core holding by adding some macro managers to its portfolio. It is seeking managers that have invested a significant proportion of their own capital in their fund to ensure alignment of interests. It is looking for hedge fund managers raising funds of approximately USD 350 million.

PFA Pension announces redemption requests.

PFA Pension is in the process of winding down its hedge fund portfolio and has submitted redemption requests to all of its managers. It will continue investing in some of the funds until 2012 due to long lock-up periods. PFA's decision to terminate its hedge fund portfolio came after it resolved that all future investments in the asset class should be through managed accounts, as these offer better control over investments. It does not however plan on investing in hedge funds in the foreseeable future as it is looking to concentrate on other areas of its investment portfolio.

Katy Johnson

Each month Spotlight provides a selection of the recent news on institutional investors in hedge funds.

More news and updates are available online for Investor Profile Online subscribers.

Contact us for more information - info@preqin.com