Hedge Fund Investor Spotlight

March 2009 / Volume 1 - Issue 3

www.preqin.com

Welcome to the third edition of Hedge Fund Investor Spotlight, the monthly newsletter from Preqin, providing insights into institutional investors in hedge funds. Hedge Fund Investor Spotlight contains information from our industry-leading online product: Preqin Investor Profiles Online. This month's issue also contains details from our latest publication, The 2009 Preqin Global Hedge Fund Investor Review.

Emerging Markets Special

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

Publisher: Preqin Ltd.
Scotia House, 33 Finsbury Square, London. EC2A 1BB

Tel: +44 (0)20 7065 5100 w: www.preqin.com

Other Free Publications:
• Private Equity Spotlight
• Infrastructure Spotlight
• Real Estate Spotlight

Hedge Fund Investor Spotlight is just one of the regular free publications produced by Preqin. Below are details of other publications regularly released by Preqin, along with details on how to register for your free copy.

Private Equity Spotlight:

Private Equity Spotlight is Preqin's free monthly newsletter, keeping you updated with vital information on private equity Fund Performance, Fund Raising and LPs. Each month's issue contains a special feature article on topics of interest.

To download recent issues and to register to receive Private Equity Spotlight, please visit:

www.preqin.com/spotlight

Infrastructure Spotlight:

Infrastructure Spotlight is Preqin's free monthly newsletter, containing exclusive research and analysis from our industry-leading publications and online databases.

To download recent issues and to register to receive Infrastructure Spotlight, please visit:

www.preqin.com/spotlight

Real Estate Spotlight:

Real Estate Spotlight is Preqin's free monthly newsletter, containing exclusive research and analysis from our industry-leading publications and online databases.

To download recent issues and to register to receive Real Estate Spotlight, please visit:

www.preqin.com/spotlight

Feature Article:
Emerging Markets in the Spotlight

For this month's feature article Preqin undertook an in depth review of institutional hedge fund investors with exposure to emerging markets and their appetite for investing in these markets. Whilst emerging markets have not been left unscathed by the turbulent market conditions, institutional investors still remain attracted to these regions and are continuing to look outside traditional and developed markets for new and interesting investment opportunities. Emerging markets are typically defined as high growth economies that are in a transition phase between developing and developed status. These markets vary significantly in size from giant resource rich economies, through to countries at the very basic levels of development. The opening up of many of these markets such as China in the last decade has provided expansion in the number of investment opportunities available for institutional investors.

What Attracts Institutional Investors to Emerging Markets?

Investments in emerging markets are associated with much greater risk due to political instability, domestic infrastructure problems, currency volatility and limited equity opportunities. As these economies are in a transition stage and hence less stable, emerging markets provide opportunities for investors who are looking to add some risk to their hedge fund portfolio in exchange for higher potential returns. They are also a valuable means for institutional investors seeking to diversify their portfolios geographically. However, investing in emerging markets is not suitable for all institutional investors' risk tolerance or investment objectives.

Institutional Investors' Future Emerging Markets Allocation Plans

Using the Preqin Hedge Investor Profiles database we analysed the breakdown of emerging market investors seeking to increase, decrease or maintain their allocations to emerging markets. The results show that investor appetite for these regions remains positive. Despite a difficult economic climate, approximately three-quarters of institutional investors are either seeking to increase or maintain their allocations to emerging markets.

How Much Exposure Do Investors Currently Have?

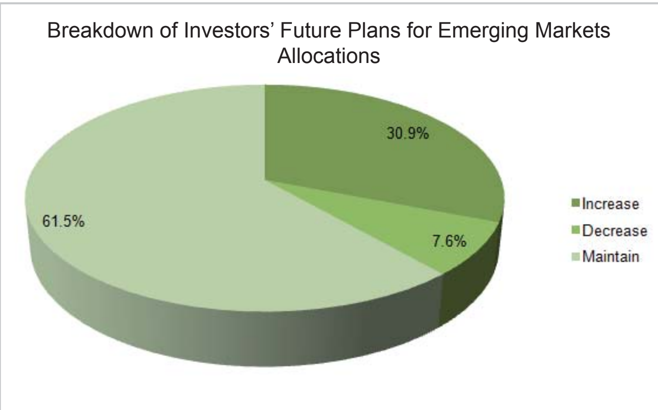
Of those institutional investors with exposure to emerging markets, on average 21% of their portfolio is allocated to hedge funds with exposure to such regions.

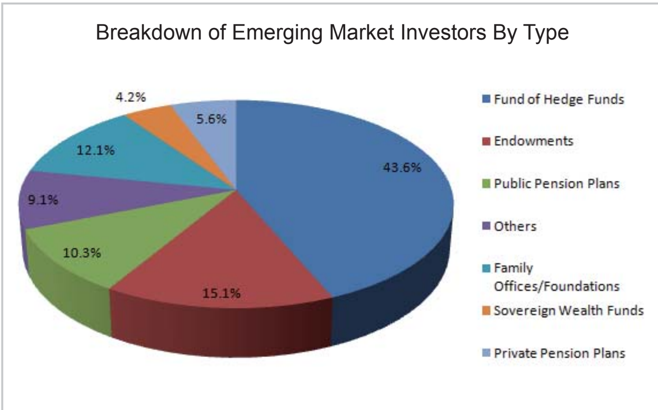
Breakdown of Emerging Market Investors by Type

Fund of Hedge Funds

As the largest institutional investor type, fund of hedge funds managers have the greatest exposure to emerging markets through their underlying hedge fund investments. Fund of hedge funds represent very popular investment vehicles for institutional investors seeking to gain exposure to emerging markets for the first time or who may not have the capability and in-house investment teams to undertake such

Fig. 1 & 2





investments directly. As such, fund of funds managers are offering vehicles specifically targeting hedge funds operating outside the traditional markets of the US and Europe. Some fund of funds managers are now being established in these markets, such as Brazil-based Arsenal Investimentos.

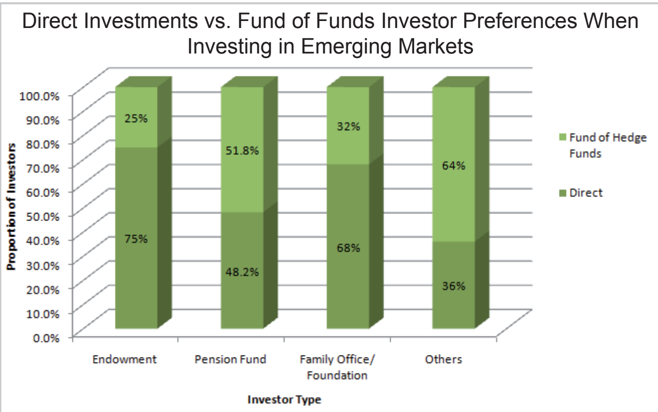
Endowment Plans

Endowments are another keen group of investors in emerging markets. Driven by high returns, endowments were some of the first institutional investors to invest in emerging markets and as such have the experience and confidence to invest directly, with 75% choosing to invest this way. With long-term investment horizons, endowments have the capacity to undertake riskier investments, making commitments to these regions an attractive investment opportunity. For example, University of Virginia Investment Management Company specifically allocates 15% of its hedge fund portfolio to Asia and 5% to Latin America.

Public Pension Plans

A trend that we have witnessed is the increasing number of public pension funds that are beginning to increase their exposure to emerging markets for diversification purposes. Unlike endowments, public pension funds have a higher propensity to invest in emerging markets through fund of hedge funds, with 51.8% opting to invest this way. However, we predict that as pension funds become more experienced investors in these markets, they will begin to increase their direct investments. Public pension plans have also been using their investments in emerging markets to spread their wealth into countries which are less economically developed as part of their socially responsible investment programs.

Fig. 3:



Strategic Preferences

Many investors use traditional hedge fund strategies such as long/ short equity when gaining exposure to emerging markets. However, distressed debt strategies have increasingly become more favourable with institutional investors seeking to take advantage of strategies that are delivering positive returns in such difficult market conditions.

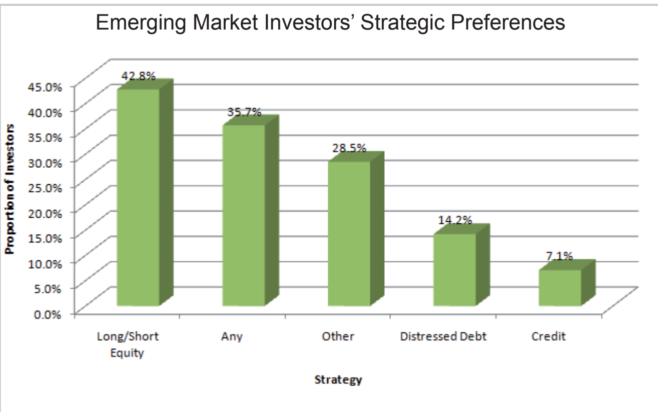
Emerging Market Regional Preferences

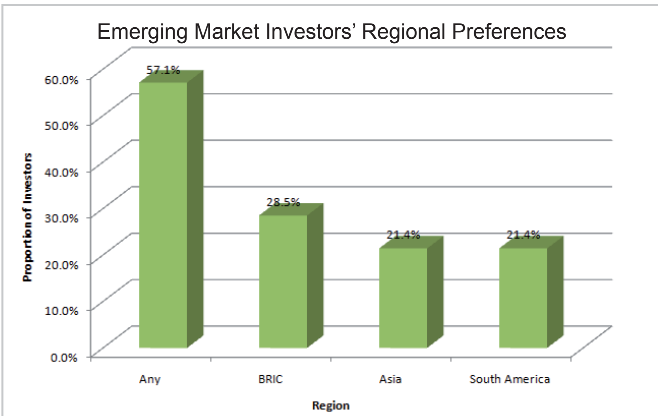
In addition to the strategic preferences of emerging market investors, we analysed the regional preferences of institutional investors on the Preqin database. Over 50% of institutional investors stated that they have no set emerging market preferences, opting instead to invest in attractive opportunities as and when they arise. Nearly one-third of investors expressed an interest in the BRIC economies. Several institutional investors Preqin interviewed noted that they are very interested in investing with hedge fund managers that have exposure to South America in particular.

Where are Emerging Market Investors Based?

Over half of all institutional investors investing in emerging markets on the Preqin database are located in the

Fig. 4 & 5:





US and more than one-third are in Europe. This is unsurprising given that the US and Europe are home to some of the largest institutional hedge fund investors in the world. In Northern Europe, Scandinavian investors, which traditionally have been viewed as relatively conservative institutions, are beginning to diversify their investment portfolios away from a dependence upon established markets by looking towards emerging markets for new hedge fund opportunities. Whilst Asian investors represent a significantly smaller proportion of emerging market investors, we predict that this will significantly rise over the next few years, especially when taking into account the rising prominence of Asian sovereign wealth funds.

Domestic Managers vs. Regionally-Based Managers

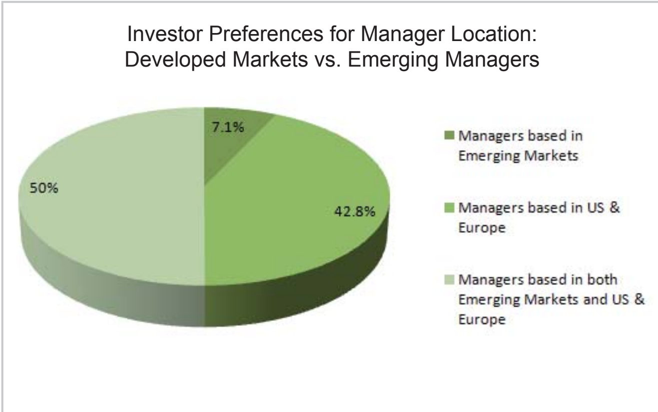
Half of all emerging market investors will consider investing with developed market-based hedge fund managers as well as those based in emerging markets. Only a small proportion of institutional investors, approximately 7.1%, choose only to invest with managers based in emerging markets. As investors become more confident investing in such regions, the numbers investing with managers based in emerging markets will begin to increase.

The Future for Emerging Markets

Emerging markets have received strong inflows of investor capital in recent years and we predict that this will continue to be the case as investors seek to diversify their investment portfolios and look for additional methods of generating returns in turbulent financial times. In addition, these markets offer excellent investment opportunities for those institutions that have a long-term investment horizon and are prepared to add significant levels of risk in order to reap the potential long-term rewards.

Angela FitzGerald

Fig. 6:



Guest Article:
"Challenges Facing an Emerging Markets Based Hedge Fund Manager in 2009"

3 Degrees Asset Management (3 Degrees) is one of the leading Asian distressed debt and special situations firms. The firm was founded in 2002 and has focused mainly on late stage event driven distressed investing in the inefficient markets of Southeast Asia. The flagship fund, The Asian Debt Fund (ADF), is regularly ranked first in its peer group. 3 Degrees is the only distressed debt firm headquartered in Southeast Asia, as it believes inefficiencies – and opportunities – are at their greatest in this area. Moe Ibrahim is the founder and managing principal of 3 Degrees Asset Management.

Preqin - What do you think the main challenges of gaining investment as an Asian-based fund manager are?

Most studies suggest that managers who are geographically close to their investments generate higher returns, while managers who are close to their investors find it easier to raise funds. Our approach has been to focus intensively on generating the best returns for our shareholders, as we believe that over the longer term, particularly through more volatile and difficult markets, the ability to outperform will be recognised and rewarded, even by investors in further-flung markets. So far, this has been borne out, and we think it will be even more appreciated as markets finally emerge from their current conditions.

Preqin - What are your expectations in terms of where your money will come from? Do you expect it to be predominantly from Asian investors or in other regions globally?

No, we don't expect any one part of the world to dominate our funds. Having said that, what we do is highly specialised and tends to be appreciated in bigger, more developed markets, where investors have an appreciation for where distressed debt strategies fit within an overall portfolio – and also for funds that really stick to distressed debt without drifting into other styles such as high-yield or equity. As a result, we do have a large percentage of our funds coming from Europe, after which, Asia.

Preqin - Have you found any certain type of investors in any specific locations particularly receptive to your funds?

Family offices in Europe have been very supportive in the past. Our key priority is capital preservation, and we believe that family offices appreciate how this priority leads to an optimum performance over the longer term. That said, we also have very supportive fund of funds investors who have the same appreciation for our approach.

Preqin - In light of recent economic turbulence have you found investors to be more wary of allocating capital to Asian focused hedge funds?

The current turbulence is so severe as to make everyone wary of everything, and until the dust settles, it's hard to think of an asset class that investors are as happy to sink funds into as they used to be. That said, in our space, Asia is actually significantly better off than the rest of the world. Although the distressed debt opportunity set in the US and Europe may be set to grow more quickly than that in Asia, we believe that there will be a problem finding liquid exits for those opportunities, even in a couple of years' time. In Asia, banks are still solvent – from a global perspective, exceptionally so – and corporate balance sheets read far, far better than they did in the Asian crisis. As a result, although we do expect to see a pick-up in distressed opportunities in Asia, from good but over-extended corporations as well as banks that are increasingly reflecting changed accounting rules, we will still see enough liquidity to provide exits, which makes this a period when returns could be at their highest. Although we also think Asian economies are likely to rebound faster than the rest of the world as well, which will help other asset classes, we expect that investors are likely to remain wary of these other asset classes because of the global level of connectivity in these asset classes. As distressed assets are generally unconnected, there is likely to be a warmer reception for this strategy – and this is something we are already beginning to see, even if it is early days.

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.

www.preqin.com/InvestorReview

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

2009 Preqin Hedge Fund Investor Review Order Form - Please complete and return via fax, email or post

I would like to purchase the 2009 Preqin Global Hedge Fund Investor Review:

☐ £395 + £10 Shipping ☐ $795 + $40 Shipping ☐ €495 + €25 Shipping

Additional Copies

☐ £95 + £5 Shipping ☐ $180 + $20 Shipping ☐ €115 + €12 Shipping

(Shipping costs will not exceed a maximum of £15 / $60 / €37 per order when all shipped to same address. If shipped to multiple addresses then full postage rates apply for additional copies)

Name:

Firm: Job Title:

Address:

City: Post / Zip Code: Country:

Telephone: Email:

PAYMENT OPTIONS:

☐ Cheque enclosed (please make cheque payable to ‘Preqin’) ☐ Please invoice me

☐ Credit Card ☐ Visa ☐ Amex ☐ Mastercard

Card Number: Expiration Date:

Name on Card:

Preqin - Scotia House, 33 Finsbury Square, London, EC2A 1BB
w: www.preqin.com / e: info@preqin.com / t: +44 (0)20 7065 5100 / f: +44 (0)87 0330 5892 or +1 440 445 9595

Investors in Focus: Scandinavian Insurance Co.

Insurance companies make up one-quarter of all institutional hedge fund investors in Scandinavia. Hedge funds were only formally regulated very recently in Norway and Denmark and as such many of the insurance companies active in the asset class are new to hedge fund investment. As illustrated in Fig. 4. approximately three-quarters of these institutions invest in fund of funds as a straightforward means of creating a diverse portfolio of funds. However, investments are more diverse than that suggests, as 73% of firms include additional direct investments within their portfolio, with multi-strategy and long/short equity approaches being particularly popular. However, as a result of the global economic turmoil some insurance companies are liquidating single manager investments to concentrate their resources in fund of funds in order to lower risk.

Fig. 3 shows that hedge fund investments by Scandinavian insurance companies are concentrated in Europe. Investment remains heavily regulated throughout the region, and until recently, many regional investors were restricted to investing in euro-zone funds. However, investors have been quick to diversify, with 61.9% now investing in the US, and nearly half adopting global strategies. In the long-term this figure is likely to grow as firms become more experienced investors in the asset class. As Fig. 2 shows, the region's most prominent investors in hedge funds are from Finland, which was one of the first countries to introduce a regulatory framework. Varma Mutual Pension Insurance Company is the largest investor by some margin. Investments are managed in-house, comprise 14.5% of assets, and are invested in a highly diversified global portfolio.

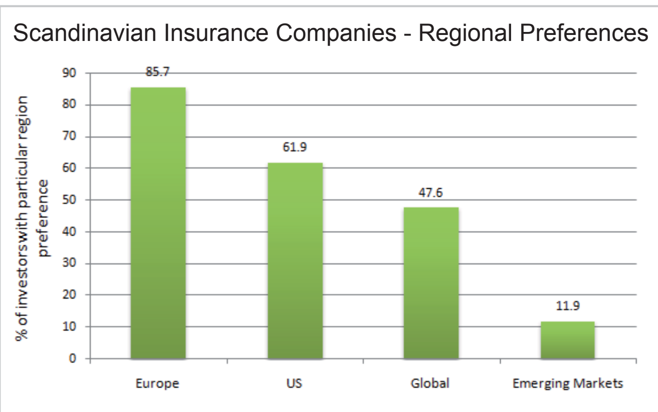
Fig. 1:

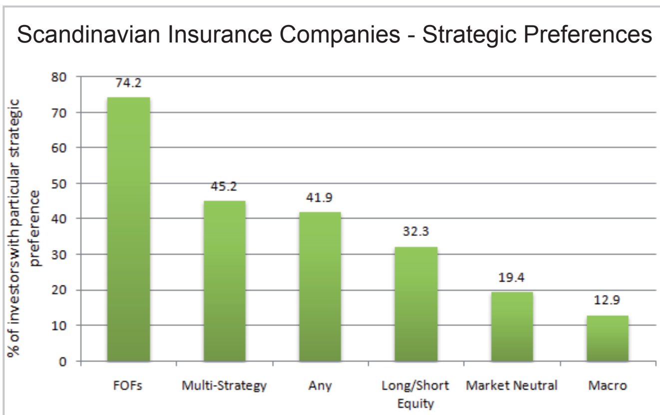
Key facts - Scandinavian Insurance Companies	
% of Scandinavian Insurance Companies investing in hedge funds	72.7%
Average allocation to hedge funds	2.5%/EUR 319 mn
Average target allocation to hedge funds	4.2%/EUR 476 mn
Most favoured investment approach	Combined approach: both fund of hedge funds and strategic direct investments
Average number of hedge funds in a Scandinavian insurance company's portfolio	8.3

Fig. 2:

Top 10 Scandinavian Insurance Companies Investing in Hedge Funds	Country	Allocation to HF (EUR mn)
Varma Mutual Pension Insurance Company	Finland	3,900
Ilmarinen Mutual Pension Insurance Company	Finland	857
Gjensidige Forsikring	Norway	668
OP Bank Group Life & Pensions	Finland	650
Nordea Life & Pensions	Finland	600
SPP Life Insurance	Sweden	482
Suomi Mutual Life Assurance Company	Finland	420
Skandia Liv	Sweden	384
PFA Pension	Denmark	299
Vital Forsikring	Norway	258

Fig. 3 & 4:





Richard Wells

Conferences Spotlight: Forthcoming Events:

Feature Conference

Emerging Managers 2009

Date: April 26-28, 2009
Location: The Doral Golf Resort and Spa, Miami, FL
Sponsor: Financial Research Associates

The 2009 Emerging Managers Conference offers practical insight given by our top-notch speaking faculty of investors, manager of managers, consultants and fund managers active in the emerging manager space. Come hear the latest on establishing a successful emerging manager program, the manager selection process and much more!

Information: www.frawebinars.com/conference.aspx?ccode=b709

Other Conferences

CONFERENCE/EVENT	DATES	LOCATION	ORGANISER
Hedge Funds World Middle East 2009	10 - 12 March 2009	Dubai	Terrapinn
7th Hedge Fund Tax, Auditing, Accounting, & Administration Forum	18 - 20 March 2009	New York	Financial Research Associates
Hedge Funds World Espana 2009	24 - 26 March 2009	Madrid	Terrapinn
GAIM Asia 2009	21 - 23 April 2009	Hong Kong	ICBI
Hedge Fund Institutional Investment Conference	26 - 28 April 2009	San Francisco	Institutional Investor
GAIM Cayman 2009	26 - 29 April 2009	Cayman Islands	IIR
2009 Emerging Managers Conference	26 - 28 April 2009	Miami	Financial Research Associates
Hedge Fund Operations	27 - 29 April 2009	London	IIR Conferences
Emerging Managers Summit	6 - 8 May 2009	Chicago	Opal Financial Group
Hedge Fund Leadership Forum	19 May 2009	New York	Argyle Executive Forum
8th Annual Hedge Fund Operations	21 - 22 May 2009	London	IBC
European Fund of Hedge Funds Summit 2009	3 - 5 June 2009	Monte Carlo	Marcus Evans
15th Annual GAIM International	16 - 18 June 2009	Monaco	ICBI
Hedge Fund Operations	27 - 29 April 2009	London	IIR Conferences
Emerging Managers Summit	6 - 8 May 2009	Chicago	Opal Financial Group
Hedge Fund Leadership Forum	19 May 2009	New York	Argyle Executive Forum
15th Annual GAIM International	16 - 18 June 2009	Monaco	ICBI

Investor Spotlight: Investor News

Maryland State Retirement and Pension System seeks hedge fund managers
The USD 32 billion retirement plan recently carved out a 10% allocation to hedge funds and currently only has 2% committed to the asset class. It is now actively looking for managers to fill out its allocation. It has no set timeframe for new manager hires and will fund the move with assets from the public equity and fixed income portfolios, which are over-allocated.

Jacksonville Police & Fire Pension Fund alters asset allocation to make room for hedge funds
The USD 800 million pension fund's plan to change its asset allocation is dependent on the removal of state legislature that currently restricts the fund's investment options. The State Legislature will make a decision on whether to approve the fund's changes on March 3rd. If the restrictions are lifted, Jacksonville plans to add hedge funds to its portfolio and will begin issuing RFPs to select managers.

Iowa State University Foundation targets hedge fund increase
The USD 527 million foundation has announced plans to boost its allocation to alternative investments and is planning to increase its hedge fund allocation as part of the move. It is currently monitoring market fluctuations as it believes that hedge fund products could offer numerous opportunities for diversification and enhanced returns. Specifics on investment size and funding source have yet to be determined. The foundation is advised by Cambridge Associates.

Gildi Pension Fund has placed all new investments on hold
In September 2008, the EUR 1.73 billion pension fund announced plans to add to its fund of hedge funds investments by mid-2009, and in December 2008 revealed that it was looking at single manager funds. However, Gildi has now placed new investment plans on hold in light of the poor economic climate. This applies not just to hedge funds, but across all asset classes. Its assets under management have fallen somewhat, and it felt it was prudent to shelve new commitments for the time being. Gildi was one of Iceland's first investors in alternatives, making its initial allocation in 2004.

City of Lincoln Police and Fire Pension Plan is considering increasing its allocation to alternatives
The USD 135 million pension plan will carry out a complete asset allocation review this month to determine whether to increase its exposure to alternatives, or alter the mix of its portfolio to better reflect current circumstances. The decision will be made in consultation with its general advisor, Smith Hayes Financial Services Corporation.

Fort Worth Employees' Retirement Fund restructures hedge fund portfolio
As part of its plans to move into direct investments, the retirement system made a number of changes to its investment portfolio. The firm redeemed investments from Tudor Raptor, and fund of hedge funds Sand Spring, due to staff changes and performance issues. The retirement system also opted against investing with Highbridge Capital Management and decided to reduce its USD 50 million allocation with Commonwealth to USD 32 million. The retirement system has seen large loses in its equities and fixed income portfolios but was very satisfied with the performance of its hedge fund portfolio last year. To date it has made 24 direct hedge fund investments.

Folksam seeks to liquidate part of its hedge fund portfolio
The EUR 19.5 billion Swedish insurance company is in the process of rationalising its hedge fund investments. At the start of the year it was invested in three hedge fund vehicles. Two of these were single manager funds and the other was a fund of funds vehicle. However, given the economic downturn, it decided to withdraw from its single manager fund investments. The first of these has already been liquidated, while the second will be liquidated in April. The liquidations do not, however, preclude a return to the asset class in the long-term. Folksam will now focus its hedge fund investments entirely through the Belair Sustainable Alternatives SRI Fund, which it helped to co-found alongside Harcourt Investment Consulting. The insurance company invested an initial EUR 180 million in the fund, which has strict socially responsible investment rules. These stipulate, among other criteria, that it must not invest in funds involved in 'unethical' industries, such as tobacco or arms. The fund pursues a multi-strategy approach, investing globally, potentially including emerging markets.

Fresno County Employees' Retirement Association cuts fund of hedge fund investments
Following consultation with its advisor Wurts & Associates, the trustees of the retirement system opted to reduce its allocation to fund of hedge funds from 8.7% to 4% at a February board meeting. The retirement system will continue to invest in the asset class but at a slower pace.

Ascom Pensionskasse reviews hedge fund portfolio
The CHF 1 billion pension fund plans to review its hedge fund investments and current hedge fund managers during 2009. The review is subject to the approval of the pension's investment committee and will depend on market conditions. If it goes ahead it may make manager line-up changes by terminating those seen to be underperforming.

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