Hedge Fund Investor Spotlight

www.preqin.com

May 2009 / Volume 1 - Issue 5

Welcome to the May 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.

Fund of Hedge Funds

Feature Article

page 3

Fund of Hedge Funds & the Hedge Fund Industry

Fund of funds are a vital source of capital for both established and emerging hedge funds. In this month's feature article we examine this group of investors in detail, assessing what requirements fund of hedge funds have when looking for new managers and what strategies and regions they will be allocating capital to over the course of the next 12 months.

Please see page 3 for more information

Investors in Focus

page 7

North American Private Sector Pension Funds

Each month Investors in Focus examines a particular group of investors, using data from Preqin's Investor Profiles Online service. This month we examine North American Private Sector Pension Funds, looking at their strategic and regional preferences, and identify some of the most important key facts.

Please see page 7 for more information

Strategy in Focus

page 8

Global Macro

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

Please see page 8 for more information

Investor News

page 11

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.

Included this month:

- Sacramento County Employees' Retirement System eyes up distressed debt and credit managers.

- Tesco Pension Scheme increases its target allocation and looks for currency managers.

Please see page 11 for more information

Products and Services

page 10

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

- Online Profiles
- Publications
- Data Downloads

We take an in-depth look at our products, and how they can help you to identify and approach potential investors. Includes information on ordering and registering for your free trial.

Please see page 10 for more information

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:
The Growing Importance of Fund of Funds as Investors in Hedge Funds

Fund of funds are a vital source of capital for hedge fund managers. With over 560 fund of hedge funds on the Preqin Hedge Investor Profiles database, they represent the largest group of institutional investors in hedge funds that we track. Located around the globe and with expert knowledge of many areas of the industry, fund of funds are extremely flexible in their investment decisions and have the expertise to invest in new and esoteric hedge fund strategies. The fund of hedge funds that we track vary considerably – from firms managing one modestly sized multi-manager, multi-strategy vehicle to large firms managing tens of single strategy, single regional focused fund of funds, each catering for a very specific niche.

Breakdown of Fund of Hedge Funds Managers by Size

Fig. 1 shows the breakdown of the fund of hedge funds firms we currently track on the Preqin Hedge database by assets under management. Nearly 40% of fund of funds operations are between $1 billion and $5 billion in size. The average assets under management for a fund of hedge funds business on our database is USD 4.78 billion. However, as shown by Fig. 1, it is clear that the size of fund of funds is skewed towards the smaller end of the scale, with 40% of all the firms we track being smaller than $1 billion, compared to 23% being greater than $5 billion. There are a few extra-large fund of funds firms in the market, with just under 5% of the firms we track having more than $20 billion in assets under management.

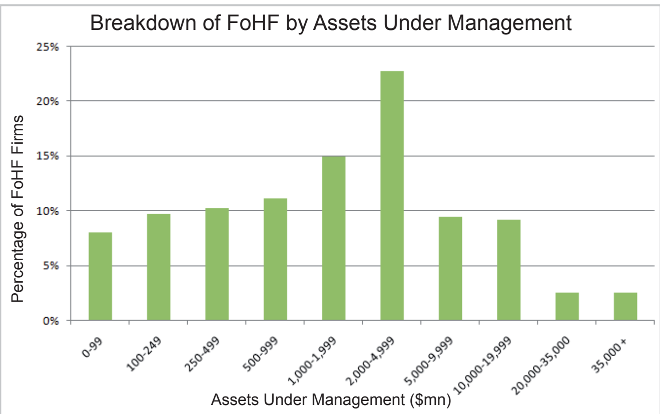
Fund of Hedge Funds Portfolio Size

There is a large degree of variation between funds of hedge funds in terms of the sizes of their portfolios. Obviously this is linked to the level of assets under management. However, some firms prefer to keep their portfolios small and concentrated in order to avoid return dilution, whilst many others prefer to have large, well diversified portfolios in order to avoid over-reliance on any particular underlying manager or strategy.

New Investments in the Next 12 Months

The average fund of hedge funds intends to make 8-14 new investments over the course of 2009. There is much variation with some of the largest multi-managers, such as FIM Advisers, planning to make up to 50 new investments over the next 12 months. Some fund of funds are holding off from making investments completely during the current market downturn and plan to resume investing in the latter half of 2009. With the large amount of hedge fund assets that fund of funds have under management, they are the biggest allocator to hedge funds in terms of sheer number of investments and are often the first port of call for a hedge fund when looking for new capital.

Fig. 1 & 2:



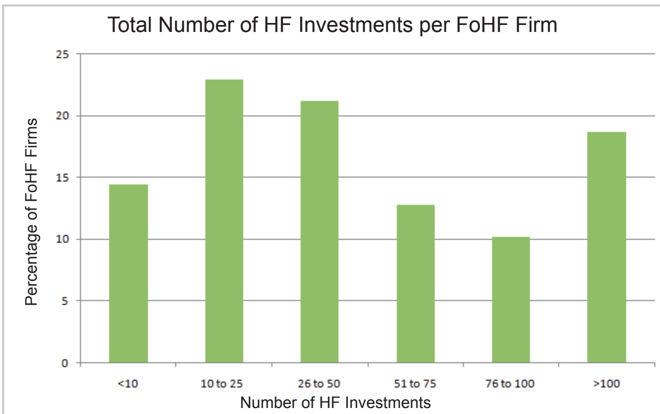
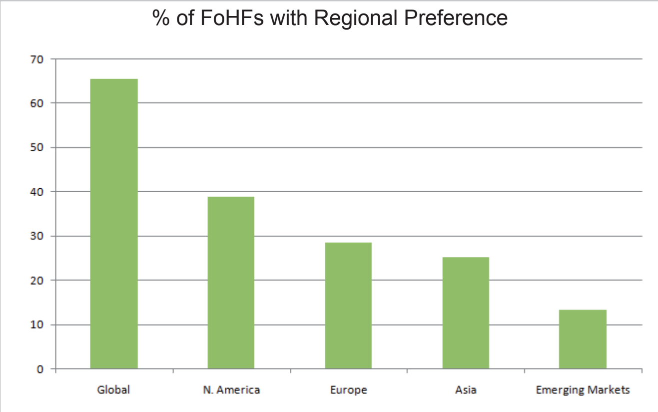
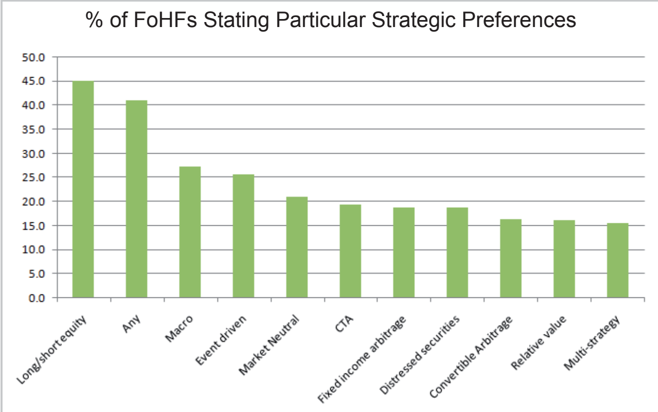


Fig. 3 & 4:

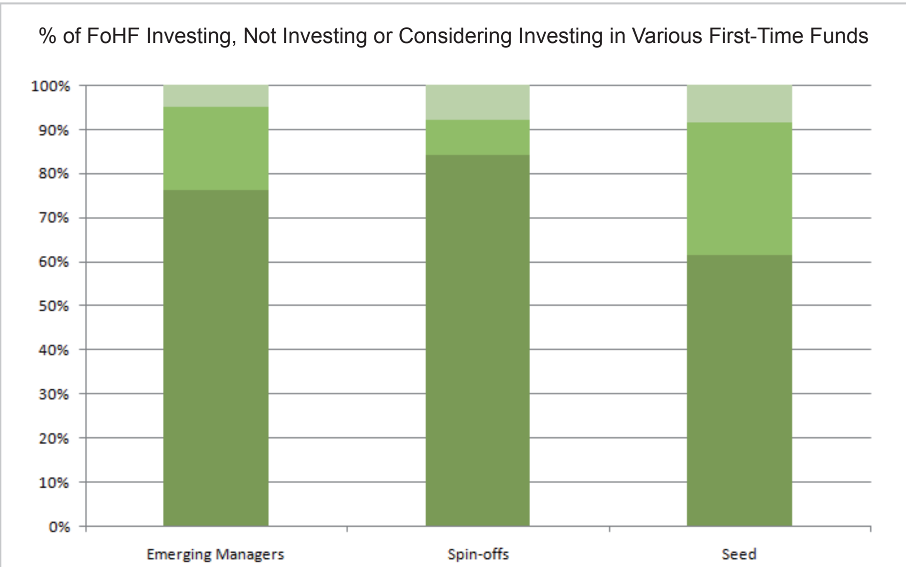




Regional Breakdown of Fund of Hedge Funds

Half of the fund of hedge funds investor profiles on the Preqin Hedge database are headquartered in North America. Specifically, 39.9% of these North American fund of funds are managed from New York. The US is the most developed hedge fund region in the world, with the highest density of hedge funds being managed out of Manhattan. Fund of hedge funds set up shop here to be part of this community, to have easy access to some of the biggest and brightest funds, and to attract the most talented investment managers to their firm. Europe is another important region for fund of hedge funds. 48% of European fund of hedge funds are managed from the UK and 25.5% are run out of Switzerland, which shows again that fund of funds management is concentrated within specific regions. Increasingly, fund of hedge funds are popping up in new and previously under-represented regions such as Australia, South Africa and the Middle East. As emerging market investments become more important, we expect more fund of funds to set up shop in regions like Asia in order to be able to assess hedge funds in such areas with greater ease.

Fig.5:



Regional Preferences

Nearly two-thirds of fund of hedge funds consider themselves truly global investors – allocating capital to a variety of regions worldwide in order search for the best alpha producing capabilities, regardless of fund location. Fund of funds are often the largest investors in emerging regions. For example, 68% of the investors we track that invest in South America are fund of hedge funds. Fund of hedge funds, with their strong management teams and sole dedication to selecting the best hedge funds, have the ability to screen hundreds of hedge funds each year in many areas across the globe. They often have multiple offices in order to have onsite access to the managers in each particular region they look to invest in.

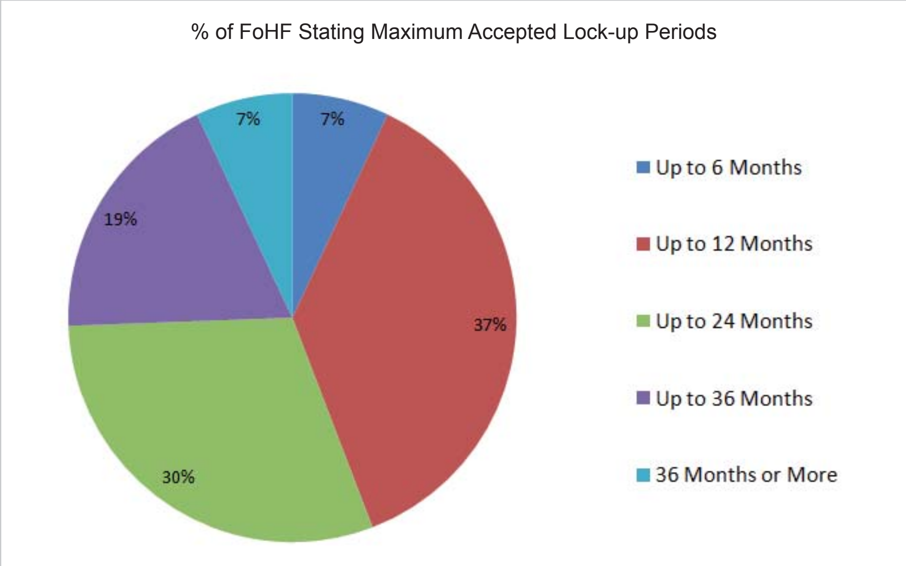
Strategic Preferences

45% of all fund of hedge funds use long/short equity funds as part of their overall investment strategy. Long/short equity funds can be varied by sector, global region and the percentage long or short bias, which allows these multi-managers a large choice of funds to choose from when constructing their portfolios. Many fund of hedge funds will consider any style of underlying fund, they often use a much more fundamental approach to hedge fund investing as compared to other institutional investors. By being less rigid in their selection of funds, they are able to respond to changing market conditions and to redistribute capital to strategies that are performing better or are expected to perform well at any particular time. Fund of hedge funds also are large investors in other well established hedge fund strategies such as global macro, event driven and market neutral. In the past 12 months we have witnessed fund of funds investing more in distressed and credit strategies, and from our conversations with these investors we expect them to continue investing more capital in such strategies through 2009.

Attitudes Towards First-Time Funds

Fund of hedge funds are the most prolific investors in first-time funds of all the investors on the Preqin Hedge Investors Profiles database. Over three-quarters of all fund of hedge funds will invest in emerging managers, with a further 5% actively considering doing so as part of their future plans. Many fund of hedge funds are also very keen to seed emerging manager funds, with nearly 70% of all fund of funds either doing so already or considering doing so in the next 12-18 months. Fund of funds, with their extensive knowledge of the asset class, are more willing and able to assess a wider scope of hedge funds, including emerging managers, in order to tap into the best opportunities in the market. By investing in these younger, “hungrier” managers, fund of funds can get early access to the best performing funds of the future. Many fund of funds manage emerging manager specific vehicles in order to offer their investors a risk controlled way of gaining access to first-time funds. For example, Investcorp Asset Management runs the Investcorp Early Stage Fund, which has funded more than 50 emerging manager vehicles over the past 10 years.

Fig. 6:



Maximum Lock-up Periods

Lock-ups do not deter fund of hedge funds from investing in a hedge fund. However fund of funds firms are also restricted by the liquidity limitations of their own funds. Therefore if a multi-manager offers a large degree of liquidity to its investors it is in turn limited in the length of time it can lock its capital away in underlying funds. The average lock-up accepted by a fund of hedge funds is 22.6 months, and only a quarter of fund of hedge funds will invest in a fund with a lock-up of more than two years. From our conversations with fund of funds managers we found that most managers prefer to negotiate lock-ups to be as short as possible and will only invest in funds with a lock-up of three years or more where it is demanded by the strategy.

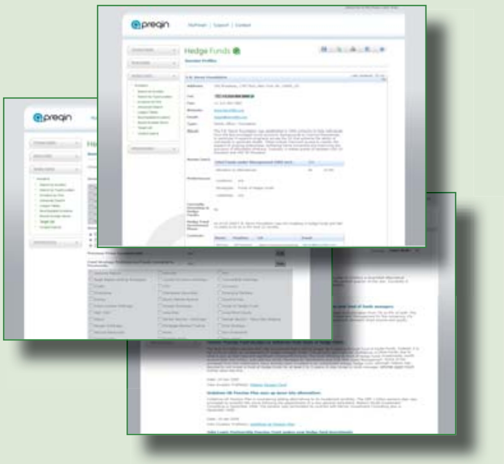
Conclusions

Fund of hedge funds are an extremely large and diverse group of investors. They are located across the globe and manage a diverse range of funds, from small, sector focused portfolios to large funds investing in a large number hedge funds of varied strategies and locations. Fund of funds are a significant backer of first-time funds, with the majority either investing in emerging managers as part of their usual multi-manager vehicles, or offering specific emerging manager fund of funds to allow investors access to a tailored portfolio of first-time funds. Fund of hedge funds are key investors for any type of hedge fund manager. Gaining the attention of a fund of hedge funds early in fundraising will increase the chances of raising capital from other institutional investors further down the line.

Amy Bensted

Preqin: Hedge Fund Services

Preqin maintains a range of products for professionals involved with sourcing institutional investors for hedge fund vehicles, all based on our detailed database of over 2,200 institutions. With online services, data downloads and publications all available, Preqin can help you to identify and contact future investors.



Investor Profiles Online

See detailed profiles for over 2,200 investors of all types globally - pension funds, insurance companies, banks, foundations, endowments, family offices, fund of hedge funds and others.

Profiles include background, contact details, investment plans, preferences, assets under management, firms previously invested with and more.

Investor News section keeps you up to date with the latest developments in the market.

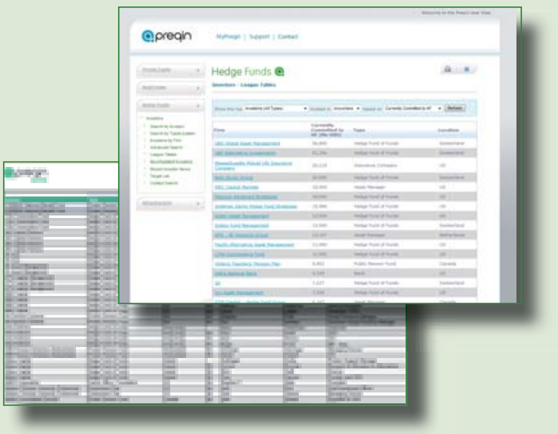
Database constantly updated by our team of dedicated analysts

To register for your free trial please visit:
www.preqin.com/hedge

2009 Preqin Global Hedge Fund Investor Review

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.

For more information please visit:
www.preqin.com/InvestorReview



Emerging Managers Download

With contact details on over 450 institutions who have expressed an interest in investing in emerging managers our Emerging Manager Download is an excellent way of targeting the best potential investors for your fund. Investors include Hedge Fund of Funds, public pensions, endowments and family offices and foundations.

For more information please visit:
www.preqin.com/hedge

Preqin Ltd. Scotia House, 33 Finsbury Square,
London, EC2A 1BB
T: +44 (0)20 7065 5100
F: +44 (0)87 0330 5892
E: info@preqin.com
W: www.preqin.com

Private Equity • Real Estate • Hedge Funds • Infrastructure

Investors in Focus:
North American Private Sector Pension Funds

North American private sector pension funds are relative newcomers to hedge funds. Nearly 30% of those known to be investing in the asset class made their maiden investment after 2007. Fig. 1 shows that there is great potential within this investor class for further investment, with target allocations out-stripping current commitments by a sizeable margin. Fig. 3 highlights that the vast majority of these pension funds still invest locally, with relatively few identifying Europe and emerging markets as preferred investment locations. However, a substantial and increasing proportion do search for new global investments. As Fig. 4 illustrates, the majority of this global exposure likely comes through fund of hedge funds. This is most likely to allow exposure to a wide range of strategies, without the need for similarly wide-ranging in-house expertise. Where they have deviated from fund of funds, they have largely stuck with more risk-averse strategies. It is worth noting, however, that some larger pension plans are now investing in distressed funds to try to take advantage of the current economic downturn. It is likely that, as a class, private sector pension funds will follow the pattern of other investor classes, and gradually increase both the size and diversity of their hedge portfolio as they grow more experienced in investing in the asset class. Furthermore, North American private sector pension funds constitute 14.8% of all investors considering a maiden investment in hedge funds on Preqin's database. With the widespread redemptions by high-net-worth individuals impacting upon manager capital, the unfilled allocations and potential for new investors within this investor class should lead to strong growth in the importance of private sector pension funds in the hedge fund investment landscape.

Richard Wells

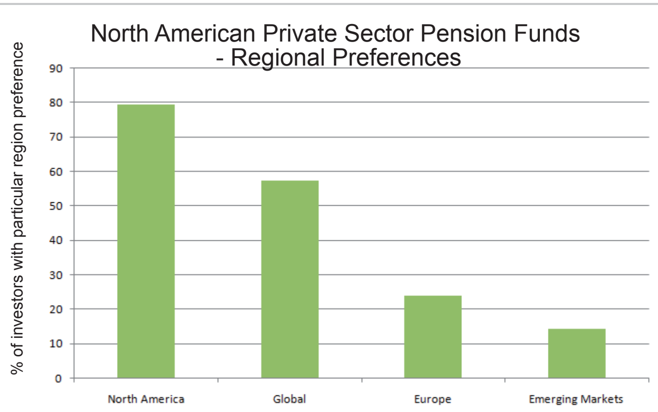
Fig. 1:

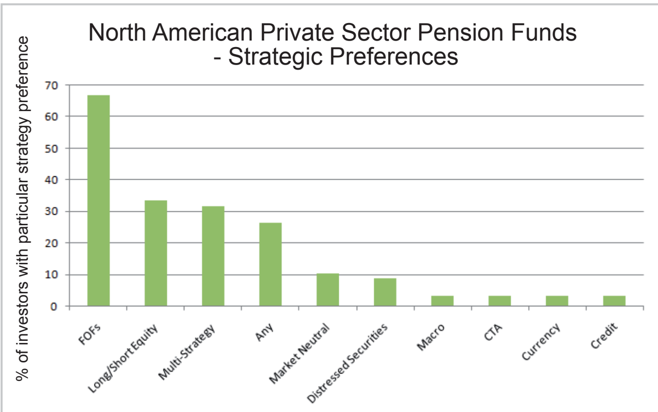
Key Facts - North American Private Sector Pension Funds	
% of North American private sector pension funds investing in HFs	45.10%
Average allocation to hedge funds	7.97%/USD 532.33mn
Average target allocation to hedge funds	11.61%/USD 775.45 mn
Most favoured investment approach	Fund of Hedge Funds
Average number of HFs in a North American private sector pension fund's portfolio	5.6
Typically been investing in hedge funds for…	2 years

Fig. 2:

Top 10 North American Private Sector Pension Funds in HFs	Allocation to HFs ($ mn)
Kroger Company Defined Benefit Retirement Plan	3790
Weyerhaeuser Company Master Retirement Fund	3075
World Bank Pension Plan	2800
General Electric Pension Trust	2035
Boeing Company Pension Fund	1700
ITT Industries Pension Fund	1060
Eli Lilly & Company Pension Plan	959
Church Pension Group	948
Northrop Grumman Pension Plan	654
YMCA Retirement Fund	583

Fig. 3 & 4:





Strategy in Focus: Global Macro

Over recent years, global macro hedge funds have been relatively out of favour with institutional investors. However, due to the recent imbalance in global markets, macro funds have been able to capitalize and during 2008 were amongst the few hedge fund strategies to post positive returns. This ability to generate absolute returns during the economic crisis has led to a marked increase in interest in the strategy.

Fig. 1:

Key Facts - Global Macro Hedge Fund Investors	
% of hedge fund investors that state global macro as a preference	19.60%
Average AUM of a global macro investor	USD 8.3 billion
Average allocation to hedge funds	13.20%
Average returns sought from HF investments	8.30%
Most favoured investment approach (fund of hedge funds, direct hedge funds, mixture of both)	Direct hedge fund managers

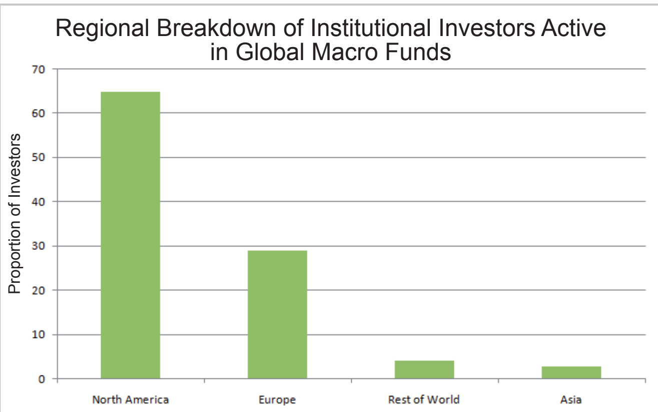
Fig. 2 shows that North America is currently the largest source of global macro investors. Whilst this is in the large part due to North America being the most populous area in terms of hedge fund investors, it is also because investors based in the region are some of the most experienced institutions in the asset class and are better positioned to be able to assess which strategies will be the best performing during various stages of the market cycle. Europe is also an important source of capital for global macro managers, particularly the large fund of hedge funds in the UK and Switzerland. Fig. 1 shows fund of hedge funds are the most common institutional investor allocating capital to global macro strategies, with other groups of institutions such as public pension plans and endowments are also proving to be important targets for global macro managers raising new capital.

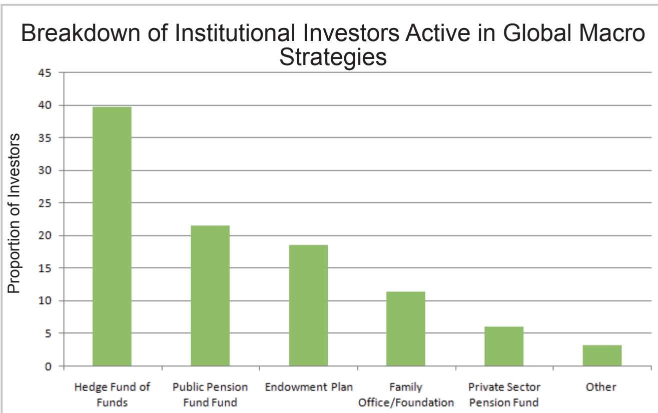
Institutional global macro investors tend to access the strategy through investment in single manager hedge funds rather than multi-manager vehicles in order to capture the potential for high returns directly without diluting these returns through fund of hedge funds.

In 2009, we predict that global macro will be amongst the most popular strategies being selected by institutional investors. Hedge fund investors, having regained confidence in these funds following good performance last year, will commit more capital to macro funds. Institutions that had put their investments on hold during the market turbulence but are once again looking to invest will be keen to commit to strategies such as global macro that can generate attractive returns during periods of economic uncertainty.

Katy Johnson

Fig. 2 & 3:





Conferences Spotlight: Forthcoming Events:

CONFERENCE/EVENT	DATES	LOCATION	ORGANISER
Hedge Fund Leadership Forum	19 May 2009	New York	Argyle Executive Forum
Volatility Forecasting & Trading Strategies	20 May 2009	New York	iGlobal
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
Emerging Managers Summit	7 - 9 June 2009	Chicago	Opal Financial Group
15th Annual GAIM International	16 - 18 June 2009	Monaco	ICBI
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
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

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

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:

☐ £465 + £10 Shipping ☐ $795 + $40 Shipping ☐ €495 + €25 Shipping

Additional Copies

☐ £110 + £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)

I would like to purchase the 2009 Preqin Global Hedge Fund Investor Review Data Pack in MS Excel Format:

☐ $300 / £175 / €185

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

Investor Spotlight: Investor News

Sacramento County Employees' Retirement System eyes up distressed debt and credit managers.
The Californian retirement system is currently looking to add distressed debt and credit managers to its investment portfolio. Typically, the retirement system will commit USD 25-100 million per fund and will invest in funds with lock-up periods of no longer than a year. Sacramento is also considering hiring an external hedge fund consulting specialist or a third party due diligence monitoring firm.

FRM Capital Advisors to seed up to six new hedge funds in the next 12 months.
The USD 340 million seeding subsidiary of Financial Risk Management (FRM) has already seeded two credit hedge funds since its inception at the beginning of 2008. FRM Capital Advisors is now seeking funds with a broad mandate spread across the spectrum of hedge fund styles across the globe. The amount of capital it deploys per vehicle varies dependent upon fund strategy. In return for providing seed capital, the fund will receive a share of the hedge fund managers' fee income as well as returns from the underlying funds, potentially generating annual returns of 15-20%.

Tesco Pension Scheme increases its target allocation and looks for currency managers.
The GBP 3.4 billion private pension scheme has announced plans to increase its target hedge fund allocation from 9% to 12% in the next 12 months. It will look for currency managers on a global scale and will use the help of its consultant, Hewitt Associates, to review potential managers. Typically the scheme invests around USD 100 million per hedge fund and will invest in funds with lock-up periods of no more than 36 months.

Georgia Firefighters' Pension Fund may soon be allowed to carry out investments in alternatives, as the state is considering changing its legislation on public pension fund investment policies.
The state of Georgia in the US is currently considering a proposal to allow mid-sized public pension funds to invest in alternative assets, which has previously been prohibited. The proposal, which if passed will come into effect on 1st July 2009, allows mid-sized pension funds to invest 1% of their total assets under management in alternatives, rising to 5% in the fifth year of investment. The two largest pension funds in the state, Georgia Employees' Retirement System and Georgia Teachers' Retirement System, have been excluded from the proposal, and will remain unable to invest in alternatives regardless of the outcome of the decision. It is possible that Georgia Firefighters' Pension Fund will initially be the only pension fund allowed to invest in alternatives, and be used as a test case, before other similar sized pension funds are allowed to follow suit. In this case, it may be allowed to invest 5% of its total assets straight away.

University of Kentucky Endowment makes maiden investment in hedge funds.
The US endowment has allocated capital to three absolute return focused hedge funds with the aid of its consultant RV Kuhns & Associates. Kentucky had been planning a move into the asset class since the summer of 2008, when it set aside 10% of its assets under management, approximately USD 95 million, to be invested in hedge funds.

Industriens Pensionsforsikring looks for new managers.
The USD 10 billion private pension fund has announced plans to increase its hedge fund investments to as much as 3% of its total assets under management. It plans to look for CTA and currency managers on a global scale, excluding emerging markets. Industriens Pensionsforsikring invests both directly and through fund of hedge funds.

PGGM is looking to invest further in hedge funds over the course of 2009.
The EUR 72 billion asset manager, which at present maintains an allocation to hedge funds of 1.4% of assets under management, is looking to commit approximately another EUR 430 million this year to the asset class. In particular, it is looking to take advantage of the current economic downturn by targeting opportunities available in distressed funds. PGGM is likely to be looking at global mandates, investing in both single manager funds and fund of hedge funds.

Swiss National Accident Insurance Institution (SUVA) to increase hedge fund allocation.
The Swiss insurance company has announced plans to increase its 5% allocation to hedge funds. It has yet to decide on a new target allocation but will look at all strategies on a global scale, including emerging markets. SUVA typically looks for managers with at least five years' track record and with USD 1 billion in assets at fund level. It will not invest in first-time funds and only invests in direct hedge fund managers.

Angela FitzGerald

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

preqin