

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**.

Know Your Advisors

Feature Article

page 3

Know Your Advisors: Vital Considerations for Investors and Fund Managers

With more than 57% of the institutional investors listed on the Preqin database using external advisors to assist with their hedge fund investments, this month's feature article examines how advisors are of vital importance to the alternative investment world.

Please see page 3 for more information

Investors in Focus

page 7

European Family Offices and Foundations

Each month **Investors in Focus** examines a particular group of investors, using data from Preqin's **Investor Profiles Online** service. This month we examine **European Family Offices and Foundations**, 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

Market Neutral

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

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:

- Powys County Council Pension Fund poised to enter the asset class through fund of hedge funds investments.
- Muirfield Invest plans to add more managers to its portfolio.

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

© 2009 Preqin Ltd.

OUT NOW

The 2009 Preqin
Global Hedge Fund
Investor Review



www.preqin.com/InvestorReview

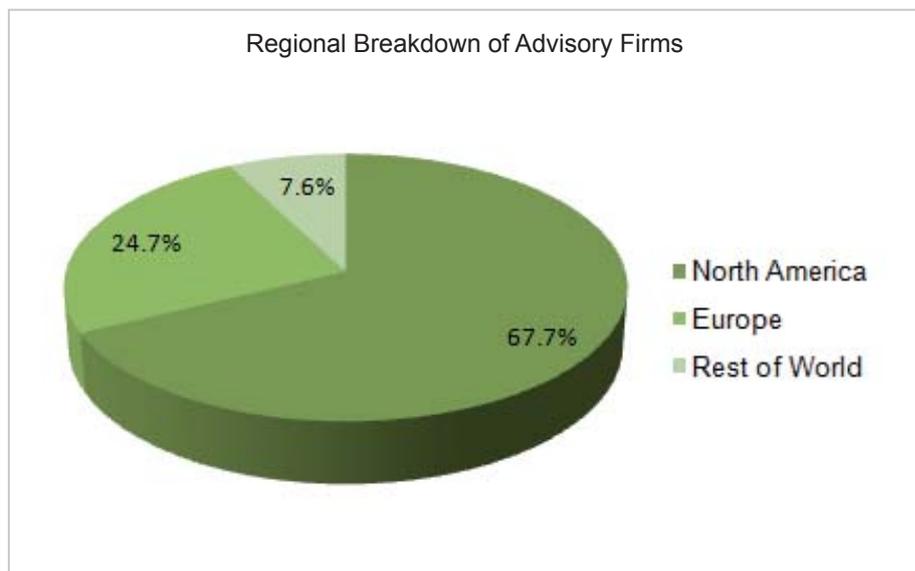
Know your Advisors: Vital Considerations for Investors and Fund Managers

With more than 57% of the institutional investors listed on the Preqin database using advisors to assist with their hedge fund investments, it is clear that advisors are of vital importance to the alternative investment world. On the Preqin database we track over 100 advisory and consultancy groups that work with institutional investors and family offices to assist in their alternatives portfolio. These advisors range from large general consultants, which work with investors on all aspects of investment activity, through to advisory groups working for institutional investors and their hedge fund portfolios on a discretionary or non-discretionary basis. In a discretionary role, the advisor manages money for the client, making investment decisions on the client's behalf on matters such as which strategies to pursue and which specific funds to invest in. In a non-discretionary role, the advisor makes presentations and recommendations to the client regarding which funds to invest in, but the ultimate decision as to whether to invest remains with the investor itself.

Institutional investors (excluding fund of hedge funds) using an advisor generally have higher allocations to hedge funds, at an average of 11.8% of total assets, compared to investors that make all investment decisions in-house, which have an average allocation of 9.6%.

Many investors use advisors because they do not have the resources to maintain an in-house investment team or conduct thorough due diligence on funds, and therefore outsource

Fig. 1:



their investments to advisors as a cost-effective solution. Many advisory units have specialist teams to focus specifically on hedge funds and therefore have a greater understanding of the asset class and the usefulness of hedge funds within institutional portfolios. These consultants that place a higher value on the asset class will be encouraging their clients to allocate a greater percentage of their total AUM to hedge funds. An example of such an advisor is Rocaton Investment Advisors, which screens potential clients to gauge their appetite for alternative investments, particularly hedge funds.

Regional Breakdown of Advisory Firms

Fig. 1 shows that the majority of alternative investment advisory firms are based in North America, which is unsurprising as this remains the hub of alternative investment activity. The largest hedge fund managers and institutional investors, and as a result advisory groups, are all based in the US. Nearly one-quarter of advisory firms are based in Europe, leaving less than 8% based outside of the two primary regions. This correlates with the prominence and maturity of hedge fund investment activity in the respective regions. Many of the larger advisory firms that are headquartered in North America or Europe now have offices in one or several locations in Asia, as a result of the demand from Asian investors wishing to add hedge

fund investments to their portfolios and also to be able to source new fund opportunities for investors around the world looking to invest there. Advisors based in Asia benefit from local knowledge when researching investment opportunities in the region, as well as providing the opportunity to work for clients that are based there. Albourne Partners, a consultant originally formed to advise just on hedge fund investments but which is now also active in private equity, has offices in Japan and Hong Kong, as well as Singapore.

Key Advisors Active in Hedge Funds

Fig. 2 shows the breakdown of advisors active in hedge funds used by various types of institutional investors. Cambridge Associates was established in 1973 after having completed a review of Harvard University's investments, when Harvard's treasurer suggested that the research should be sustained on a continuous basis. Following this, Cambridge has focused on university endowments and foundations as its key client base and as we can see from Fig. 2 it is a leading advisor for such investors. We can also see from Fig. 2 that it is one of the most prominent advisors in the US, which is where the majority of endowments are based. New England Pension Consultants (NEPC) plays a significant role in advisory services for public pension funds. NEPC was set up in 1986 as an investment consultant and although today its client base mainly still consists of pension funds it does advise other groups of institutional investors. Fig. 3 shows that NEPC is mainly prominent in the US. Another prominent advisor is Mercer Investment Consulting, a large global player in providing advice both to public and private sector pension funds. Although most fund of hedge funds have the resources to carry out their investment activities in-house, Fig. 2 shows us that some still use the help of an external advisor in order to improve their coverage of certain strategies

Fig. 2:

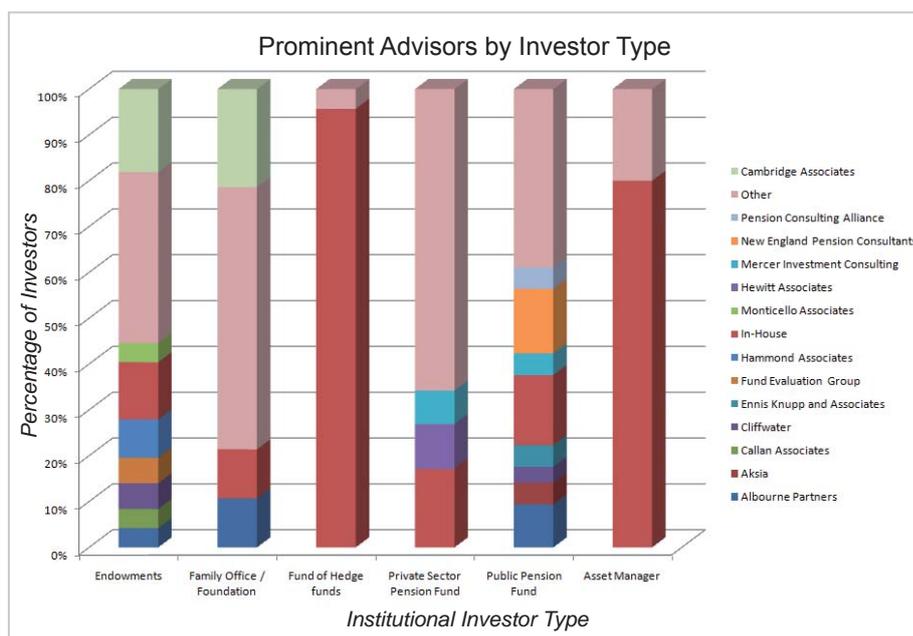


Fig. 3:

Investor Location	Prominent Advisors
Europe	Albourne Partners, Harcourt Investment Consulting, Hewitt Associates, Mercer Investment Consulting, Watson Wyatt
North America	Albourne Partners, Callan Associates, Cambridge Associates, Cliffwater, Hammond Associates, New England Pension Consulting, RogersCasey
Asia	Cambridge Associates, GFIA
Rest of World	Frontier Investment Consulting, Ivy Asset Management, Watson Wyatt

or geographies, or to assist with due diligence tasks. Private sector pension funds use a more diverse array of advisors to consult on their hedge fund portfolios compared to other investor types. This trend is particularly striking in Northern European countries, where private pension plans tend to use small niche advisory firms located in their region.

Advice Given by Advisory Firms during the Market Turmoil and Beyond

Following the tumult of 2008, many advisory firms recommended that their clients put some of their investments in alternatives – including hedge funds

– on ice until greater stability returned to the global markets. However, Q2 2009 has marked a turning point for many hedge funds. Not only have positive returns been posted by many funds in the past few months, but some vehicles have also been generating record breaking performances. As a result, advisors that were wary of allocating new capital to the asset class towards the end of last year are once again recommending hedge funds as a tool to reduce portfolio volatility. Watson Wyatt is one advisor that has recently placed emphasis back on hedge fund investments when in April it lifted a freeze on hedge fund recommendations that was implemented in 2008. Previously,

Watson Wyatt, whose clients have about USD 18 billion invested in the asset class, had deterred its clients from investing, but is now recommending direct hedge fund investments, multi-strategy funds, credit strategies and market neutral strategies to all its clients. Mercer and New England Pension Consulting have followed suit and have recently begun advising clients to make new hedge fund investments again, albeit with some caution.

Conclusions

It is clear that advisors and consultants are a key part of the institutional

investor market in hedge funds. Hedge funds, with their perceived lack of transparency and sometimes complex strategies, can be bewildering for the inexperienced institutional investor, and as such advisory firms are an indispensable means of navigating the complex asset class. Although hedge fund consultancy is dominated by a few extremely large advisory firms, such as Cambridge Associates, NEPC, Watson Wyatt and Cliffwater, it is still extremely important to gain the attention of the smaller groups of advisors, as these are the ones that will be vital in order to gain the attention of a new group of institutional investor such as Northern European private sector pension funds.

At Preqin we have just launched a new Advisory service available to all our Premium Subscribers – with listings for 100 noteworthy advisors in alternative assets worldwide, between them responsible for advising over \$2 trillion of investment. This service is crucial for those managers looking to get their fund noticed by a wide audience of institutional investors.

Katy Johnson

For a trial of Preqin's Advisory information or Investor Profiles Online
please visit: www.preqin.com or email info@peqin.com

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.

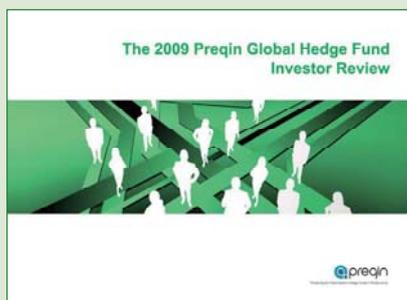
Database constantly updated by our team of dedicated analysts

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



Fund of Funds Download

With over 550 fund of hedge funds listed and contact details, including phone number and email address, for more than 1,750 individuals at these firms, the Fund of Funds download is a vital tool for all hedge funds looking to promote their fund to the multi-manager market. The fund of funds on this download are distributed across the globe, with interest in a wide range of strategies and fund types

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

Emerging Managers Download

With contact details on over 525 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@peqin.com

W: www.preqin.com



Private Equity • Real Estate • Hedge Funds • Infrastructure

Investors in Focus: European Family Offices and Foundations

European family offices and foundations are experienced investors in hedge funds, many having started investing more than 10 years ago. This is reflected in an average allocation of nearly 10% of total assets to hedge funds, and relatively large portfolios of funds. Wellcome Trust is one of the largest foundations investing in hedge funds, allocating 20% of assets, which amounts to roughly \$3.9 billion. On average, however, European family offices and foundations tend to be smaller than their US-based counterparts. As Fig. 3 shows, their portfolios include both single funds and multi-manager funds. Perhaps due to their relatively smaller scale, 54.5%

invest in fund of hedge funds. This is largely reflective of many foundations seeking the diversification that they could not effectively achieve by investing in a portfolio of direct funds. On the other hand, half of family offices and foundations in Europe state they will invest in any investment strategy. This flexibility comes principally from family offices. The combination of a long-term investment horizon and a lack of scrutiny from trustees and boards gives family offices the potential to be highly agile investors, with the ability to take greater risks and enter and exit investments rapidly. Geographically speaking, over 60% of these family offices and foundations

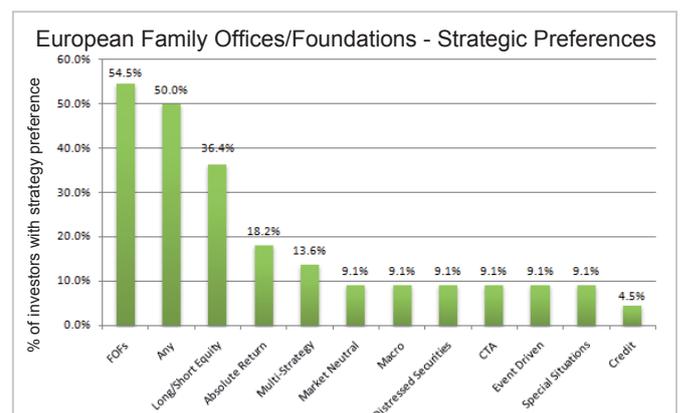
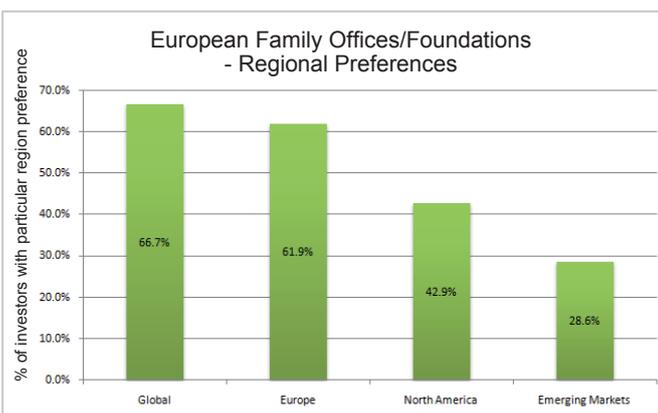
are found in the UK, Germany and Switzerland. As Fig. 2 indicates, two-thirds invest globally, with a majority also identifying European funds as a preferred destination for their investments. A significant, and growing, percentage of the flexible family offices also invest in emerging markets.

Richard Wells

Fig. 1:

Fig. 1. Key Facts - European Family Offices/Foundations	
% of European family offices/foundations investing in hedge funds	51.4%
Average allocation to hedge funds	9.9%/USD 416.24mn
Average target allocation to hedge funds	10.1%/USD 425.9mn
Most favoured investment approach	Both direct & fund of hedge funds
Average # of hedge funds in European family offices/foundations' portfolios	18.1
Typically been investing in hedge funds for...	10+ years
Key European family offices/foundations investing in hedge funds include:	Wellcome Trust, Compagnia di San Paolo, FvS Family Office, Esmee Fairbairn Foundation, Henry Smith Charity, Harald Quandt Holding, Omega Capital.

Fig. 2 & 3:



Strategy in Focus: Market Neutral

The turmoil of 2008 proved to be a difficult time for market neutral hedge fund managers, who faced intense scrutiny following negative returns correlated to the market downturn. However, despite the demand for such managers dropping in 2008, there is still an important place for market neutral funds in the hedge fund industry and such managers have experienced a revival in interest in recent months. Investors that are currently looking for new managers are likely to look at market neutral funds because they typically provide low volatility and can offer diversification by investing in a range of subcategories of equities.

Fig.3 shows that fund of hedge funds are the largest institutional investor in market neutral strategies. This is unsurprising as most fund of hedge funds aim to create a diversified portfolio of hedge funds for their clients and market neutral can be helpful to achieve this. Public pension funds are also a key source of capital for market neutral managers seeking new investment. These plans look to hedge funds to generate relatively

Fig. 1:

Fig. 1. Key Facts - Market Neutral investors	
% of institutional HF investors which state market neutral as a preference	11.8%
Average AUM of a market neutral investor	USD 11.6 billion
Average allocation to hedge funds of a market neutral investor	12.4%
Average returns sought from market neutral investments	8%
Most favoured investment approach (fund of hedge funds, direct hedge funds, mixture of both)	Access market neutral strategies both directly and through FoHF
Average lock-up period for market neutral hedge funds	1 month

stable returns with a low risk profile and market neutral funds traditionally are an excellent choice to fulfil these objectives.

For the remainder of 2009, we predict that market neutral strategies will continue to gain renewed interest from investors. Investors are looking for investments than can provide their portfolios with diversification as well as having a low correlation to overall market performance, which market neutral managers can provide. Although the market turmoil exposed weaknesses in some market neutral

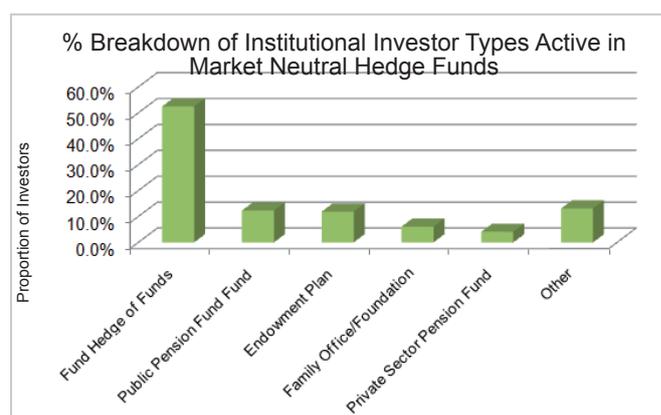
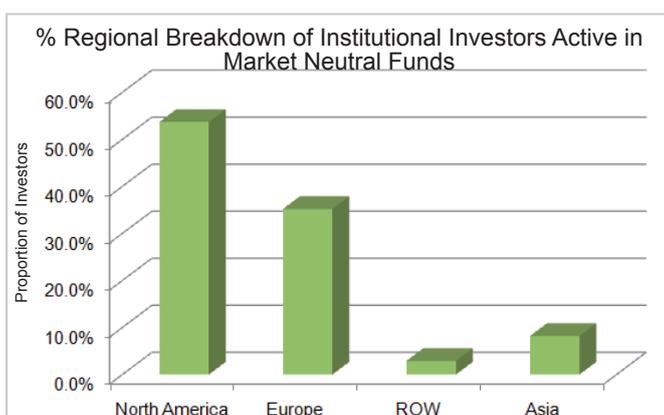
managers, the managers that have survived the difficult times in 2008 will be well placed to pick up capital from investors looking to invest in a strategy which offers solid returns with relatively low volatility.

Preqin currently holds profiles for 244 investors with an active interest in this sector, including 131 US based institutions, 86 European and 27 based in Asia and Rest of World. For more information, please visit:

www.preqin.com/hedge

Katy Johnson

Fig. 2 & 3:



Conferences Spotlight: Forthcoming Events:

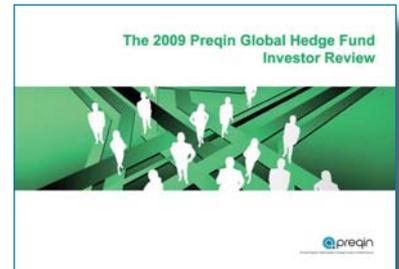
CONFERENCE/EVENT	DATES	LOCATION	ORGANISER
Emerging Managers Summit	7 - 9 June 2009	Chicago	Opal Financial Group
15th Annual GAIM International	16 - 18 June 2009	Monaco	ICBI
World Alternative Investment Summit Canada	14 - 16 September 2009	Niagra Falls	Canadian Hedge Watch
Hedge Fund Activism and Shareholder Value Summit	22 - 23 September 2009	San Diego	IMN
Hedge Funds 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
Gaim Ops Europe	30 Nov - 2 Dec 2009	Geneva	ICBI
Hedge Funds World Zurich 2009	1 - 3 December 2009	Zurich	Terrapinn

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

SkyBridge Capital makes new seed investment.

SkyBridge Capital has committed USD 50 million to UK-based hedge fund firm WyeTree Asset Management. In addition to providing WyeTree with long-term strategic capital, SkyBridge will seek to enhance its investment in WyeTree by providing business-building support. SkyBridge made the investment in WyeTree from its SkyBridge Capital II Fund. Typically the firm commits USD 25 – 50 million to each underlying fund.

Oakland County Employees' Retirement System considers maiden hedge fund allocation.

The USD 692 million retirement system is looking into the possibility of long/short equity managers. If Oakland goes ahead, the move will be its first commitment to the asset class. Asset Consulting Group has been assisting the retirement system on a potential move.

Muirfield Invest plans to add more managers to its portfolio.

The USD 40 million Swedish investment company is planning to increase its exposure to hedge funds by investing in additional funds by the end of the year. Muirfield typically invests USD 1-2 million per vehicle and seeks annualised returns of 8-12%. The firm prefers not to commit capital to funds with lock-up restrictions and will not invest with emerging managers. It has yet to decide on specifics for the new investments.

Culross Global Management to launch new credit focused fund of hedge funds.

The two new funds are expected to start raising capital in the next few months, although no specifics in terms of capacity or terms and conditions have been decided upon yet. The funds will differ in terms of liquidity, with one being a liquid portfolio of eight funds and the other again being a concentrated portfolio, but more illiquid, with each designed to tap into different investor demands within the alternatives market. The illiquid fund of funds is likely to have a maximum lock-up of around 2 years.

Powys County Council Pension Fund poised to enter the asset class through fund of hedge funds investments.

The GBP 270 million UK pension fund is looking to invest in a fund of hedge funds manager after receiving a presentation on the asset class from Fauchier Partners. The mandate awarded will range from 3% to 5% of the fund's AUM, depending on a decision from the pension funds trustees. This will be the pension fund's first investment in hedge funds and it is being advised on the move by Hewitt Consulting.

Grupo Icato looks for macro and CTA managers.

The BRL 1 billion Brazilian family office is seeking to replace some of its long/short equity managers with macro and CTA hedge fund managers. Grupo Icato has yet to decide how much it will allocate to the move but it typically invests BRL 3-5 million per hedge fund as an initial investment. It will look for funds with lock-ups of no longer than 12 months and managers with substantial track records.

Lehigh University Endowment set to focus on direct hedge fund managers.

The endowment is looking to change its investment portfolio over the next 12 months by redeeming some of its fund of hedge funds investments in favour of direct managers. The USD 950 million endowment is not looking at any strategies in particular, and plans to consider opportunities on a case-by-case basis. It typically invests USD 5-20 million per vehicle.

Employees' Retirement System of Texas to make its maiden hedge fund investment in 2009.

The USD 20 billion Texas retirement system plans to invest 1-2% of its total assets under management in hedge funds. It currently allocates 4% of AUM to alternative investments. The retirement system is set to make its maiden investment in the next few months but has yet to determine strategies and geographical preferences. It will look for managers with a five-year track record and sizeable assets under management. It intends to avoid funds with lock-up periods in order to retain liquidity within its portfolio.

Texas Municipal Retirement System considers first foray into hedge funds.

The USD 14.6 billion retirement system is mulling over hedge fund investments as part of an ongoing move towards diversification. Its board of trustees met with advisor RV Kuhns at the end of March to discuss the possibilities of investing in new asset classes, including hedge funds. The board will meet again in June to review a revised investment policy which will cover broader issues along with more detailed asset class policies.

HG Holdings plans new investments and revamps hedge fund portfolio.

The foundation currently invests in five hedge funds and hopes to increase this amount over the remainder of 2009. Specifically, it will be looking for long/short equity and distressed debt managers, and has a preference for funds based in the US or Europe. No other specifics have been set at this time.

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