



US Investors in Hedge Funds

The US is home to a significant proportion of investors in hedge funds, but which strategies are they targeting, and which geographies are they looking to invest in? [Charlie James](#) examines US-based investors in hedge funds.

The US is a significant player in the hedge fund universe, with the assets under management of hedge funds in the country approaching \$1.6tn, and a substantial number of investors which currently invest in hedge funds are located there. The US hedge fund industry was deeply affected by the shockwaves of the credit crisis, the collapse of Lehman Brothers and the reputational damage caused by the Madoff implosion. This had a significant impact on US-based institutions and their investments in hedge funds. Using Preqin's Hedge Fund Investor Profiles service, which profiles over 2,500 institutional US-based hedge fund investors, we have analyzed the current sources of hedge fund capital in the US, and have looked at where fresh capital is set to be invested by US institutions in 2013.

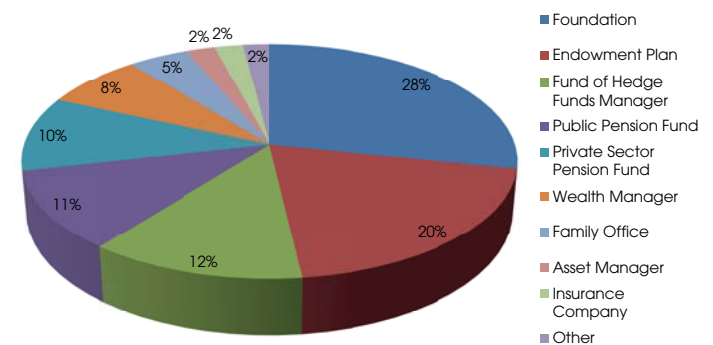
Overview of Types of Investors in the US

Fig. 1 shows the number weighted breakdown of the US investor universe by institutional type and Fig. 2 shows the asset weighted breakdown (excluding funds of hedge funds to avoid double counting of assets from investors which allocate via funds of hedge funds). As Fig. 1 shows, at 28% foundations represent the most significant investor type in the US in terms of sheer numbers. Despite representing a comparatively smaller number of institutions in the US (11% and 10% respectively), public and private sector pension funds combined account for approximately half of all capital invested in hedge funds by US investors (excluding funds of funds), at 30% and 19% respectively. The larger relative size of pension funds compared to foundations in terms of assets under management has resulted in their average allocations to hedge funds being significantly larger; the mean allocation of a US public pension fund stands at \$609mn compared to \$112mn for a US foundation.

Endowment plans are the second most prominent investor type in the US, representing one-fifth of all US-based hedge fund investors (Fig. 1) and 21% of total capital committed to the asset class, excluding investments from funds of funds (Fig. 2). Endowment plans in the US can represent significant assets under management, with over 80 endowments in the US managing pools of capital in excess of \$1bn. This, coupled with their large mean allocation to hedge funds of 19% of assets under management, means that this investor group represents a significant amount of capital directed into the hedge fund space.

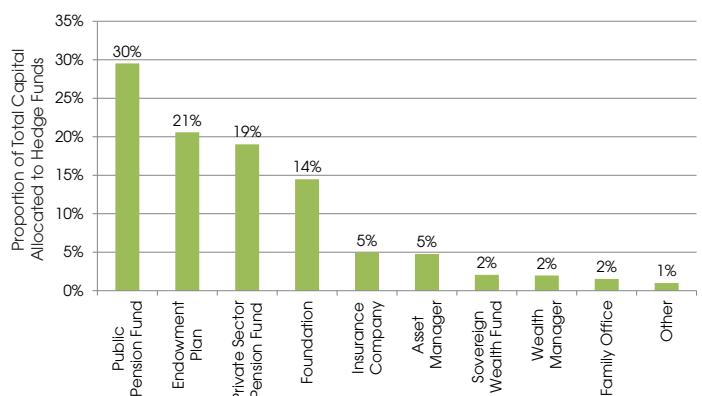
Looking at a breakdown of US states investing in hedge funds by the proportion of total US hedge fund capital they represent (Fig. 3), New York accounts for the highest amount of US investor capital in the asset class (17%). The next most prominent state in terms of capital invested in hedge funds is California, representing 12% of all capital invested in hedge funds by US investors. The states in the top 10 list of US investors are all home to significant public pension funds with sizeable allocations to hedge funds, such as Teacher Retirement System of Texas, New York State Common Retirement Fund and Virginia Retirement System.

Fig. 1: Breakdown of US-Based Hedge Fund Investors by Investor Type



Source: Preqin Hedge Fund Investor Profiles

Fig. 2: Breakdown of Total Capital Allocated to Hedge Funds by US-Based Investors by Investor Type



Source: Preqin Hedge Fund Investor Profiles

Fig. 3: Top 10 US States Investing in Hedge Funds by Proportion of Total US Hedge Fund Capital

State	Proportional Representation of Total US Hedge Fund Capital
New York	17%
California	12%
Texas	9%
Illinois	6%
Massachusetts	5%
Pennsylvania	5%
New Jersey	4%
Ohio	4%
Michigan	4%
Virginia	3%

Source: Preqin Hedge Fund Investor Profiles



Destinations of US-Based Hedge Fund Investments

As Fig. 4 demonstrates, US-based hedge fund investors have a strong preference for domestic managers. Nine out of the 10 hedge fund managers most frequently utilized by US-based investors are headquartered in the US, with the UK's Brevan Howard Asset Management being the only non-US firm to reach the top 10 most commonly employed fund managers by US investors.

Preqin data shows Och-Ziff Capital Management is the most commonly used hedge fund manager by US investors. Davidson Kempner Capital Management, Bridgewater Associates and Farallon Capital Management are also commonly used hedge fund managers by US-based investors

Fig. 5 shows the regional preferences of investors. Eighty-seven percent of US-based hedge fund investors expressed a preference for global exposure from their hedge fund investments. Again the relationship between US investors and US investments is strong, as 78% have a preference for hedge funds with exposure to North America. These figures are significantly more than those for other regions; 24% of investors look for exposure to emerging markets while 14% look to invest in Asia-Pacific. Due to the uncertain financial environment experienced in Europe, 18% of investors have indicated a preference for this region.

In recent years investors have moved towards a focus on single-manager funds at the expense of funds of hedge funds. This preference

Fig. 4: Top 10 Fund Managers Most Frequently Utilized by US-Based Investors

Rank	Hedge Fund Manager	Manager HQ
1	Och-Ziff Capital Management	US
2	Davidson Kempner Capital Management	US
3	Bridgewater Associates	US
4	Farallon Capital Management	US
5	King Street Capital Management	US
6	Blackstone Alternative Asset Management	US
7	Brevan Howard Asset Management	UK
8	Eton Park Capital Management	US
9	Taconic Capital Advisors	US
10	Grosvenor Capital Management	US

Source: Preqin Hedge Fund Investor Profiles

for commingled direct investment vehicles is evident in Fig. 6, which shows that over two-thirds (69%) of investors indicate that this is a structure that they currently, or plan to, pursue, whereas a lower 57% have highlighted commingled funds of hedge funds. In addition, 9% showed a preference for the liquid and transparent managed account structure.

Hedge Fund Strategies Sought by US-Based Investors in 2013

Understanding investors' plans for 2013 will be crucial for the successful navigation of the fundraising environment this year and

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beyond. Fig. 7 outlines the strategies sought by US-based investors during 2013. Globally, multi-strategy hedge fund are a less sought-after strategy in recent years and investors are increasingly turning to selecting a range of funds across a diverse spectrum of strategies instead in order to achieve the portfolio diversification and low volatility that they seek from hedge funds. In the course of the next 12 months, 55% of US investors plan to look at investing in a group of diversified single-strategy funds whereas investors targeting specific multi-strategy vehicles account for a smaller 21%.

The most commonly sought strategy among US institutional investors over the next year is long/short equity, following some strong returns in 2012 and a solid start to 2013. Concerning macro funds, the liquid approach and ability to profit from big market moves makes these funds a potentially useful strategy to have exposure to in times of uncertainty, and helps to explain why macro remains prevalent in US investor fund searches for 2013 despite some disappointing performance over recent years. However, CTA funds, which had shown strong growth in investor interest over the past few years, have declined in representation in investor mandates, with just 10% of US institutions including CTAs as part of their search.

With the effects of the market crisis in 2008 still being felt and the continuing problems within the Eurozone, the current economic environment lends itself to investments into event driven, long/short credit and distressed strategies by those investors which can tolerate illiquidity. Nineteen percent, 16% and 11% of US-based investor searches include event driven, long/short credit and distressed hedge funds respectively.

Outlook

The US represents the dominant player in both the hedge fund investor and manager universes. Foundations are the most common type of hedge fund investor found in the region, although in terms of capital invested public pension funds are a significant driver of hedge fund growth in the country.

The wide variety of US-based investors in hedge funds means that fund managers have the potential to access significant pools of investor capital regardless of fund size or fund manager experience. Many of the large US public pension funds choose to invest in large, well known fund of funds entities whereas some of the smaller investors instead look to back some of the niche or smaller fund groups. This means that both large and small, and experienced and emerging managers alike can gain some US institutional capital through the correct identification and profiling of investors in the region.

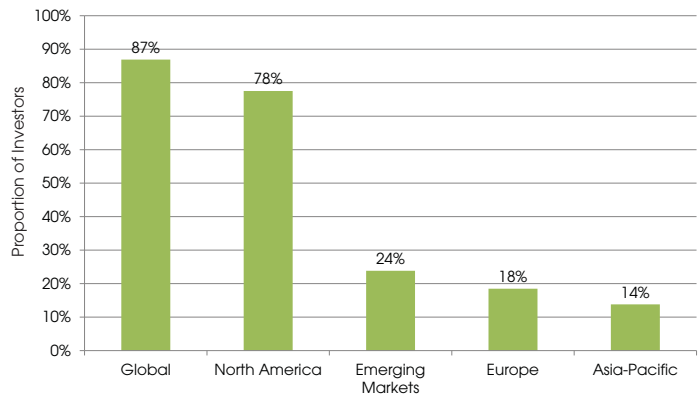
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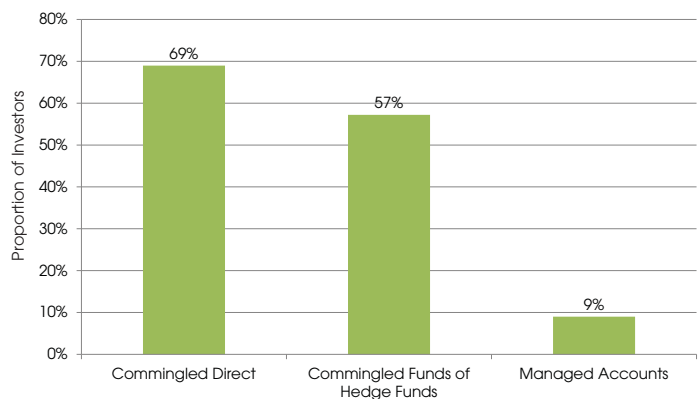
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Fig. 5: Regional Preferences of US-Based Investors in Hedge Funds



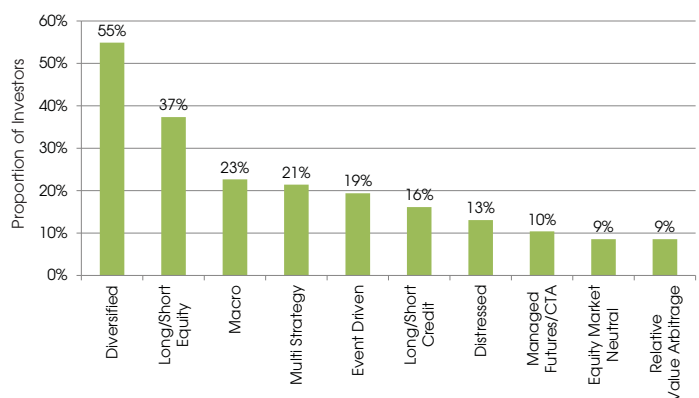
Source: Preqin Hedge Fund Investor Profiles

Fig. 6: Structural Preferences of US-Based Investors in Hedge Funds



Source: Preqin Hedge Fund Investor Profiles

Fig. 7: Strategies Sought by US-Based Hedge Fund Investors in 2013



Source: Preqin Hedge Fund Investor Profiles

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