

Preqin Hedge Fund Special Report: Future Fund Searches and Mandates

August 2012



Methodology

Preqin, the alternative assets industry’s leading source of data and intelligence, welcomes you to [Preqin Hedge Fund Special Report: Future Fund Searches and Mandates](#), a unique look into hedge fund investors’ plans for the future.

This special report draws on Preqin’s Hedge Fund Investor Profiles online service, the industry’s most detailed and up-to-date source of information on institutional investors actively investing in hedge funds. The database is the result of regular direct contact with industry professionals around the world, and includes details of current fund searches and mandates, investment preferences, past investments, direct contact information for key decision makers, and more.

For more information, please contact us at info@preqin.com, or visit our website at www.preqin.com/hfip.

We hope that you find the information in this report useful and interesting. All feedback and suggestions you may have for improvements to future editions of this study are welcome.

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Editor:
Amy Bensted

Production Editor:
Alex Jones

Sub Editors:
Helen Kenyon
Sam Meakin

Preqin:
New York: +1 212 350 0100
London: +44 (0)20 7645 8888
Singapore: +65 6407 1011

Email: info@preqin.com
Web: www.preqin.com

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Institutions on the Hunt

Over recent years the institutional market for hedge funds has increased in prominence and this growth looks set to continue, with institutional investors becoming vital to the success of both established and emerging hedge fund managers alike.

Investments in the hedge fund space have become increasingly attractive to a wide range of different types of institution, from pension funds to foundations, and many groups are looking to make new hedge fund investments in the coming months.

Preqin employs dedicated teams of multi-lingual analysts that directly contact and build relationships with industry professionals at institutions investing in hedge funds worldwide. Through this communication with investors, we are able to find out exactly which types of fund they are looking to invest in and what open mandates they may be looking to award. All of this unique information is fully searchable through our “Future Fund Searches and Mandates” feature on Preqin Hedge Fund Investor Profiles.

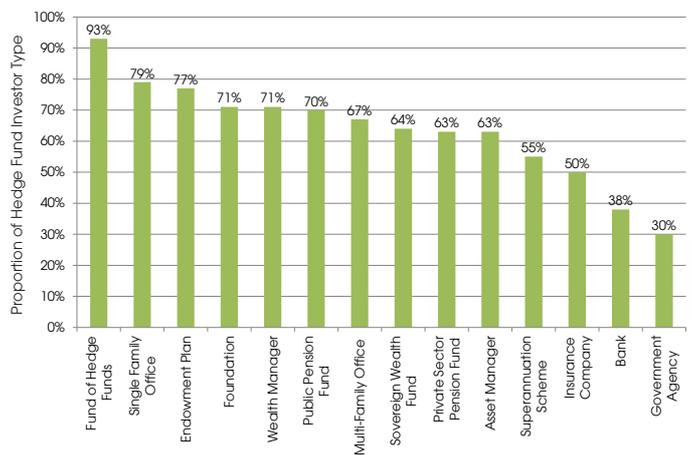
In this special report, we examine in more detail those investors looking to make new investments in the coming year, and assess which strategies and structures look attractive to the institutional market.

As shown in Fig. 1, the majority of investors are intending to make new hedge fund investments in the coming months. In particular, 79% of family offices and 77% of endowment plans are looking to make new investments in the hedge fund space. Although these investors tend to be at their targeted level of exposure to hedge funds in capital terms, they regularly redeem and replace funds in their continued search for alpha and above-benchmark returns. Examples of family offices and endowments searching for new funds are BH Family Office, which plans to add more hedge funds to its portfolio over the next 12 months as part of a move to increase its hedge fund allocation, and Kamehameha Schools Endowment, which plans to invest in new hedge fund managers on an opportunistic basis.

Interestingly, public pension funds are more active in new searches for fund managers than their corporate and private sector counterparts, with 70% of all public retirement plans looking to add new funds in the coming year. With their large average ticket size, this means a significant amount of capital is set to flow into the asset class from this important group of investors over the next year.

This is encouraging news, indicating that many investors have retained confidence in hedge fund investment, despite challenging market conditions. As such, there are great opportunities to be had for hedge fund managers looking to source fresh capital from new investors, with a wealth of investors that can be targeted for capital raising.

Fig. 1: Proportion of Institutional Investors Searching for New Funds in the Next 12 Months by Investor Type



Source: Preqin Hedge Fund Investor Profiles

Regional Breakdown of Future Fund Searches

North America is set to be the most active region with respect to hedge fund investing over the next 12 months, with 80% of all North American investors searching for new funds. The region boasts a diverse investor base comprising a large number of sophisticated hedge fund investors, including both funds of hedge funds and plain vanilla LPs such as foundations and endowments.

Unsurprisingly given the sophistication of the hedge fund industry in North America, the region is likely to be key for managers that are fundraising over the next 12 months, with a considerable amount of hedge fund capital coming from US-based institutions in particular.

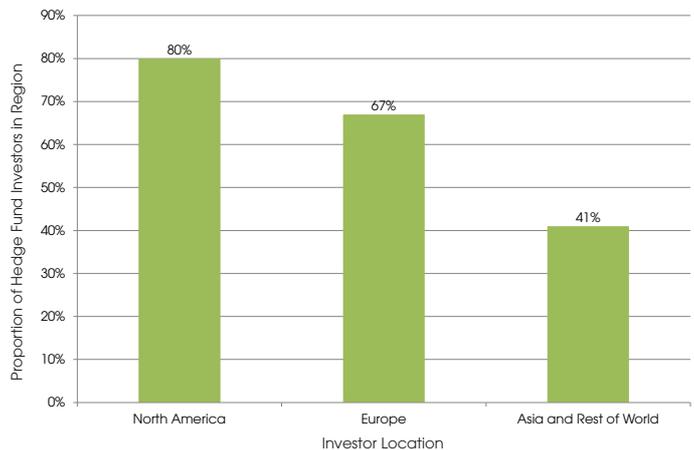
Despite volatile financial markets in Europe at present, investors in this region remain positive when it comes to allocating new capital to hedge funds. Around two-thirds of European institutional investors are looking at hiring new managers in the coming year, an encouraging sign for the region's otherwise uncertain economic outlook.

"...investors in Europe remain positive when it comes to allocating new capital to hedge funds..."

Asia and Rest of World-based investors are proportionally less likely to make new hedge fund investments in the next 12 months, with 41% of investors seeking new managers. Despite this caution, as the nascent hedge fund industry in Asia and Rest of World continues to develop and mature, it is likely that we will continue to see more institutional investors gaining exposure to the asset class as they look to broaden their investment focus.

Countries such as China and South Korea have also begun to gradually loosen regulations with regards to the hedge fund industry, which will allow managers to gain access to a wealth of investors within these previously untapped markets.

Fig. 2: Proportion of Investors in Each Region Searching for New Funds in the Next 12 Months



Source: Preqin Hedge Fund Investor Profiles

The new **Future Fund Searches and Mandates** feature of the **Preqin Hedge Fund Investor Profiles** online service is a vital tool for hedge fund managers seeking to attract institutional capital, allowing users to search for investors based on their forward-looking plans and fund searches.

Finding the right investors for your fund can be challenging, and therefore being able to pinpoint particular institutions that are looking for a specific fund type is vital in today's crowded market. Our database allows users to identify potential investors quickly by filtering on a range of criteria, as well as providing access to the direct contact details of key decision makers, helping ensure that marketing efforts are targeted.

Hedge Fund Investor Profiles is the industry's most accurate, up-to-date, and comprehensive source of intelligence on hedge fund investors around the world. For more information on how we can help you, please visit:

www.preqin.com/hfip

Structures and Strategies Sought in the Year Ahead

Commingled Direct Funds

Commingled direct hedge fund managers can expect to see the largest inflows over the next 12 months, with 79% of investor searches including commingled direct funds. Much of this capital will come from multi-manager funds, as funds of hedge funds continue to represent the most prominent group making new direct investments, as demonstrated in Fig. 3. Much of the capital stemming from multi-managers is being driven by inflows coming from their fundraising efforts for their vehicles, and so as their funds grow so do their allocations to single-manager vehicles.

Many institutions of other types are also looking to invest directly in hedge funds, with public pension funds representing a significant 11% of all investors looking at single-manager funds in the next 12 months, as shown in Fig. 3. As they become more sophisticated in their hedge fund investment approach, many public pension funds are beginning to allocate more capital to direct opportunities and as a result are moving away from solely investing via funds of hedge funds. For instance, the Korean Teachers' Credit Union is considering making its maiden commitment to single-manager hedge funds in the next 12 months, having gained initial experience in the sector by investing via multi-managers.

Foundations are another key investor type looking to invest directly in hedge funds, representing 6% of all investors looking at single-manager funds in the next 12 months. An example of such an investor is the Oklahoma State University Foundation, which is considering direct investments with managers that trade in a variety of strategies over the next 12 months.

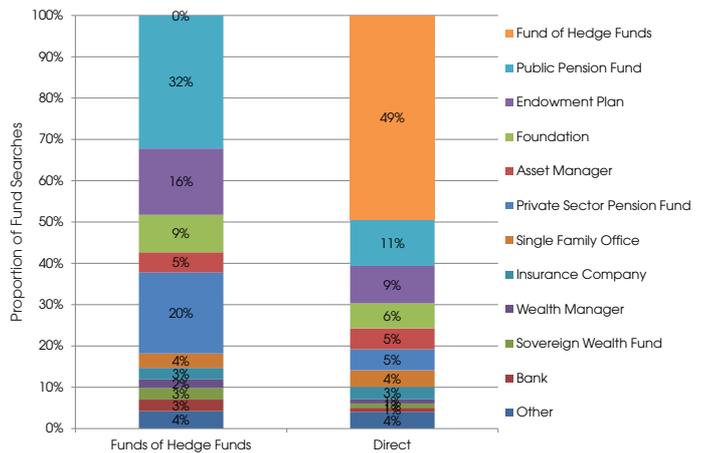
Funds of Hedge Funds

Funds of hedge funds have faced a challenging period in the wake of the financial crisis due to poor performance and subsequent investor redemptions, as well as a general shift towards single-manager funds as investors become more experienced.

Despite this increasingly common transition, funds of hedge funds continue to be sought by institutional investors for a variety of reasons, with 41% of all investor searches including multi-managers. Funds of hedge funds are still the vehicle of choice for the newest investors in the asset class, and are also being utilized alongside direct investments by more experienced institutional investors hoping to access niche strategies or emerging regions.

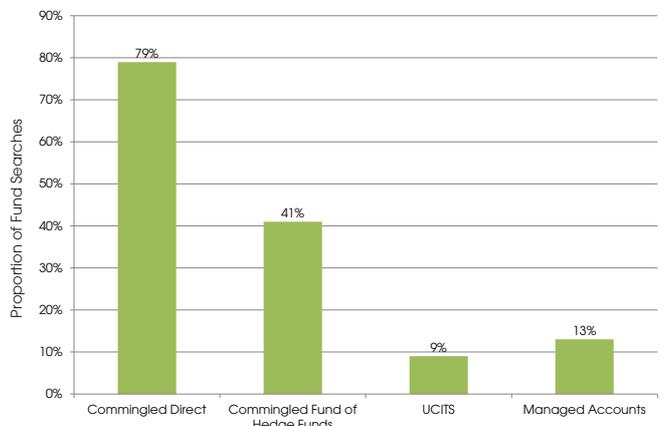
Nearly one-third of all investors looking to invest in funds of funds over the next 12 months are public pension funds, as shown in Fig. 3. This shows that despite the trend of public pension funds moving towards direct investment, many continue to seek the expertise of funds of hedge funds during these times of heightened market volatility.

Fig. 3: Breakdown of Investors Searching for Funds of Hedge Funds vs. Direct Investment by Investor Type



Source: Preqin Hedge Fund Investor Profiles

Fig. 4: Hedge Fund Structures Sought in the Next 12 Months



Source: Preqin Hedge Fund Investor Profiles

A further 20% of all investors searching for multi-managers in the next year are private sector pension funds, meaning that more than half of all investors looking at funds of funds in the next year are pension funds. Pension funds are key backers of funds of hedge funds, with many such institutions aware of the need for diversification of their investment portfolios.

Managed Accounts and UCITS Funds

Managed accounts have become an increasingly attractive route into the asset class in recent years. Growing numbers of institutional investors are now seeking greater transparency and liquidity in response to ongoing economic instability, and the various scandals that have rocked the industry over the past few years. As shown in

Fig. 4, 13% of all investor searches over the next 12 months include this fund structure. By investing in managed accounts, investors are able to monitor their hedge fund portfolios more closely, ensuring that returns are generated through genuine trades and monitoring the risk of their capital being gated by the fund manager.

“The European-regulated UCITS wrapper for hedge funds has continued to grow in popularity, accounting for 8% of investor searches...”

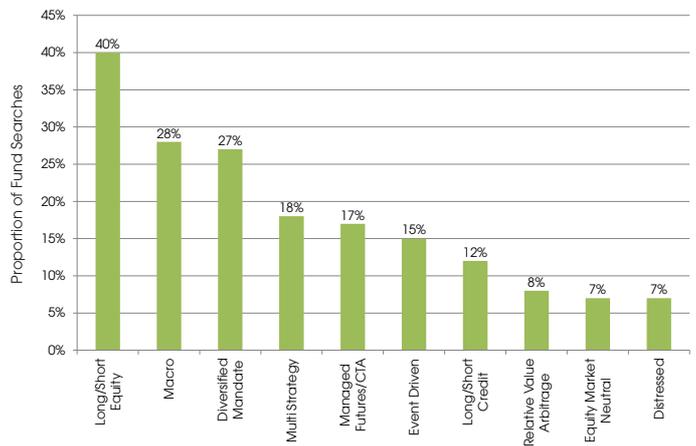
The European-regulated UCITS wrapper for hedge funds has also continued to grow in popularity, with 8% of investor searches seeking UCITS-compliant hedge funds. Such fund structures offer investors increased liquidity, with less risk during turbulent times. Although up-and-coming structures such as UCITS have continued to gain traction with institutional investors, it is worth noting that traditional fund structures continue to dominate portfolios.

Strategies Being Sought by Hedge Fund Investors

Long/short equity continues to be an attractive hedge fund strategy, with 40% of investor searches over the next 12 months including this as one of the strategies under consideration, as shown in Fig. 5. Macro hedge funds are also seen as attractive by investors looking to take advantage of geopolitical events, currency movements, inflation, and interest rate changes. An example of such an investor is the New Mexico Public Employees’ Retirement Association, which is planning to increase its exposure to the global macro space.

Multi-strategy funds are also proving attractive in 2012, with 18% of investor searches considering this approach. This surge in interest has been driven by the flexibility of these funds to allocate across asset classes and strategies, in addition to the relatively low volatility and more consistent return characteristics of such funds. The changing shape of the hedge fund investor base is also supporting demand for this sector, as institutions increasingly look to make direct investments. For example, San Antonio Fire and Police Retiree Healthcare Fund intends to target multi-strategy hedge fund managers across the next 12 months, as it moves to fill its 4% allocation to hedge funds.

Fig. 5: Fund Strategies Sought in the Next 12 Months by Institutional Investors



Source: Preqin Hedge Fund Investor Profiles

Future Fund Searches and Mandates

The difference between success and failure in attracting institutional capital is often the ability to identify which investors are most interested in your fund.

To help with this task, Preqin Hedge Fund Investor Profiles now allows subscribers to identify likely investors in their fund by searching for institutional investors by their future investment plans.

Preqin updates these details by speaking directly to investors - saving you time and ensuring our intelligence is up to date and accurate.

- **Future Investment Plans** - Investor profiles now include details of investors' future fund searches, detailing whether they are targeting specific hedge fund strategies, regions of focus, or particular hedge fund structures.
- **Future Fund Searches and Mandates** - Forward-looking search for all the institutional investors that are looking to invest in funds that match your criteria.
- Filter potential investors by location, type, strategy preferences for the next 12 months, structural preferences for the next 12 months, regional preferences for the next 12 months and likely timeframe for their next fund commitment.

Future Plans, Searches and Mandates

Date of Plans: Q3 2012

Next 12 Months:

Strategies Targeting: Long Bias, Long/Short Equity, Macro

Structures Targeting: Commingled Direct

Regions Targeting: Europe, North America, Global

Summary: As of Q3 2012, [Investor Name] planned to increase its allocation to the hedge fund asset class over the next 12 months on an opportunistic basis. The [Investor Name] primarily looks to invest in long/short equity hedge funds along with global macro and long only funds. It will also consider investing in emerging managers.

Hedge Funds

Fund Searches and Mandates

Select all required filter criteria

- Investor Type
- Investor Location
- Strategy Preferences - Fund Searches and Mandates
 - Event Driven
 - Global Macro
 - Long Short
 - Relative Value
 - Others
 - Include Opportunistic Investors
- Structural Preferences - Fund Searches and Mandates
- Region Preferences - Fund Searches and Mandates
 - Asia Pacific
 - Europe
 - North America
 - Emerging Markets
 - Global
 - Rest of World
 - Include Opportunistic Investors
- Timeframe of Next Commitment

Keyword Search:

Investor Name	Strategies	Regions	Structures	Date Inserted
[Investor Name]	Diversified	Emerging Markets, Global	Commingled Direct	06/08/2012
[Investor Name]	Opportunistic, Diversified, Event Driven, Macro	Global	Commingled Direct	02/08/2012
[Investor Name]	Diversified, Long/Short Equity, Macro	Asia Pacific, Global	Commingled Direct	02/08/2012
[Investor Name]	Diversified, Opportunistic	Global, North America	Commingled Direct	02/08/2012
[Investor Name]	Macro, Managed Futures / CTA	Global	Commingled Direct	02/08/2012
[Investor Name]	Diversified	Global	Commingled Direct	02/08/2012
[Investor Name]	Currency, Diversified, Long / Short Credit	North America	Commingled Direct	02/08/2012

Whether you're hoping to grow the assets of a niche Asia-focused fund of hedge funds, or launch a US global macro fund, access to Hedge Fund Investor Profiles can help.

[Hedge Fund Investor Profiles](#)

For more information and to arrange a walkthrough of the service, please visit:

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Outlook for the Future

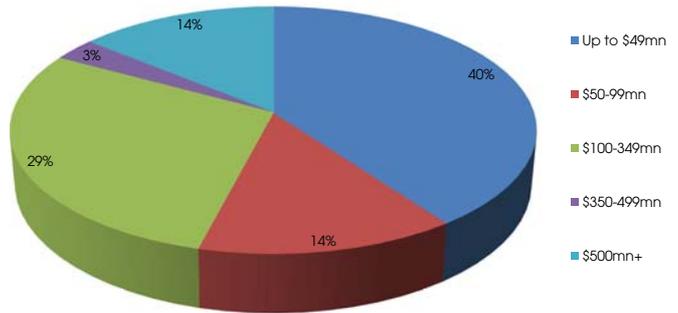
How Much Capital Is Being Earmarked for New Hedge Fund Investment?

As shown in Fig. 6, 40% of investors planning to invest fresh capital in hedge funds over the next 12 months have set aside up to \$49mn for these investments. A further 14% indicated that they would commit \$500mn or more to hedge funds in the next 12 months, which shows that a significant proportion of investors are looking to allocate large sums of capital to the asset class. This is encouraging news for the industry and could mean significant growth of hedge fund assets, driven by these large investors in the asset class.

Thirty-one percent of investors active in the next 12 months plan to make one or two new hedge fund investments, while a further 36% are seeking three to five new hedge funds, as shown in Fig. 7. With over 3,700 investors on the Preqin Hedge Fund Investor Profiles database, this shows that there is the potential for thousands of new investments to be made by the institutional market.

In order to receive one of these mandates, hedge fund managers need to be aware of how institutional investors source and select vehicles. As shown in Fig. 8, a significant one-fifth of investors said that returns were the most significant factor when deliberating over a fund, following another disappointing year for hedge fund performance. Consequently, hedge fund marketers looking to tap into this market will need to show evidence of the potential for strong returns and a solid track record in order to attract increasingly discerning investors. An additional 20% of investors surveyed said that the source of the returns and the strategy used by the fund was the most important factor. Investors typically look to select funds that complement their existing hedge fund portfolios as well as their wider holdings, and therefore getting access to the right fund is paramount.

Fig. 6: Amount of Fresh Capital Institutional Investors Expect to Invest in Hedge Funds over the Next 12 Months

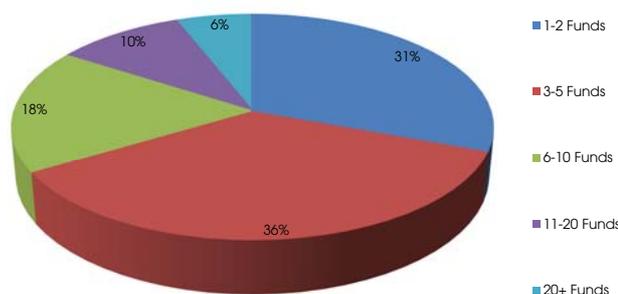


Source: Preqin Hedge Fund Investor Profiles

Outlook for the Future

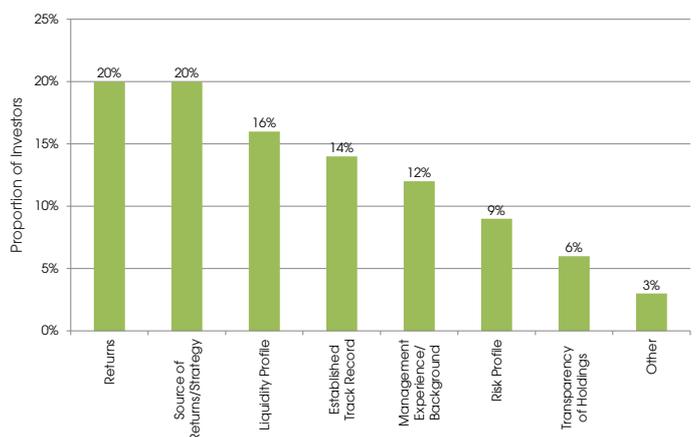
Institutional investors remain committed to hedge funds, with the majority of the community looking at making fresh investment in the asset class in the near future. As investors seek a wide range of strategies and structures – from long/short equity through to UCITS structures – all managers can benefit from institutional inflows in the future; however, finding these investors is the key to successfully growing a hedge fund. Those fund managers that can identify, research, and approach the right investors will be successful in picking up these vital institutional mandates.

Fig. 7: Number of Hedge Funds Institutional Investors Expect to Add to Their Portfolio over the Next 12 Months



Source: Preqin Hedge Fund Investor Profiles

Fig. 8: Most Important Factor to Institutional Investors When Shortlisting Hedge Funds



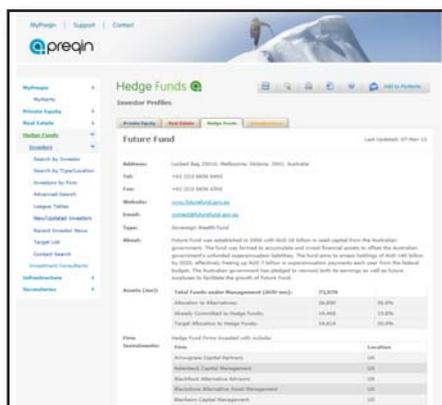
Source: Preqin Hedge Fund Investor Profiles

Preqin Hedge Fund Investor Profiles

Preqin's **Hedge Fund Investor Profiles** online service is utilized by the top asset managers in the industry through to the newest emerging funds. Fund managers, consultants and marketers all find the service an invaluable tool to profile and identify potential investors, understand industry trends, and ensure they are up to date on the latest developments in the institutional investor universe.

The **Hedge Fund Investor Profiles** online database is a vital fundraising tool, featuring details of over 3,700 institutional investors in hedge funds, with more being added every day.

Our team of dedicated research analysts ensure that our intelligence is up to date, to help you keep ahead in a competitive market.



If you want any further information, or would like to apply for a demo of our products, please contact us:

New York:

One Grand Central Place
60 E 42nd Street
Suite 2544, New York
NY 10165

Tel: +1 212 350 0100

Fax: +1 440 445 9595

London:

Equitable House
47 King William Street
London
EC4R 9AF

Tel: +44 (0)20 7645 8888

Fax: +44 (0)87 0330 5892

Singapore:

Asia Square Tower 1 #07-04
8 Marina View
Singapore 018960

Tel: +65 6407 1011

Fax: +65 6407 1001

Email: info@peqin.com

Web: www.peqin.com

Key features include:

- Hedge fund allocations, sample investments and fund preferences, key contacts, investment plans, and more. Pinpoint the most appropriate investors for your specific strategy and view the best way to approach their decision makers.
- Investors' future plans and preferences for the coming 12 months, allowing you to track and search future capital raising opportunities.
- Intricate search options to build target lists from the global hedge fund investor universe.
- Customizable email alerts to ensure you are among the first to know when specific investors change their plans/outlook.
- Details of consultant use - see which key influencers need to be considered.
- Intelligence on which specific investors have allocated to particular hedge fund managers.
- Industry news - keep up to date on the changing plans of hedge fund investors around the world.
- Live league tables of the top hedge fund investors - keep abreast of which institutions are the largest allocators.
- Premium subscribers can download targets and contact details to Excel.

Preqin also regularly releases research and information on institutional investors in hedge funds, both as free special reports and as part of our monthly Spotlight newsletter. To register to receive more research and analysis, please visit: www.peqin.com/research