

Preqin Research Report

Strategy in Focus: Market Neutral Hedge Funds

Fig. 1: Key Facts: Investors in Market Neutral Hedge Funds

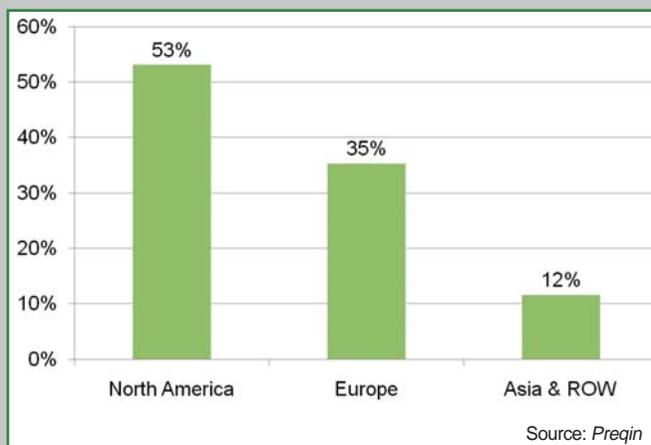
% of institutional hedge fund investors that state market neutral as a preference	11.7%
Median AUM of a Market Neutral investor	USD 1.8 bn
Average allocation to hedge funds of a Market Neutral investor	13.1%
Average returns sought from Market Neutral investments	8%
Most favoured investment approach (funds of hedge funds, direct hedge funds, both)	Mixture of both

Source: Preqin

Market neutral hedge funds are a preference of 11.7% of the institutional investors on Preqin's Hedge Fund Investor Profiles database. There has been a drop in their popularity amongst institutional investors over the past year as investors have rebalanced their portfolios, moving away from market neutral strategies into other hedge fund strategies such as global macro. In 2009 just over 15% of the investors on Preqin's database stated a preference for market neutral funds. Despite a drop in its use amongst institutional investors, it remains one of the more commonly used strategies. As market conditions change and hedge fund investors continue to tap into the best sources of returns, demand from the increasingly important institutional sector of the market may begin to grow once again. Recently, Ferd External Managers, a NOK 3.4 billion investment company, has added two market neutral managers to its investment portfolio. Also following the trend is San Diego County Employees Retirement Association, which manages USD 7.4 billion and is in the process of looking for managers within the market neutral sector.

The average market neutral investor has around USD 1.8 billion in assets under management and allocates 13.1% of total assets to hedge funds. On average, market neutral investors seek returns of 8% from their hedge fund investments.

Fig. 2: Breakdown of Institutional Investors in Market Neutral Hedge Funds



North America represents the hub of market neutral investing. As seen in Fig.2, 53% of market neutral investors are based in North America. Investors from Asia and Rest of World do not currently represent a large source of investors in market neutral strategies, with these investors currently being more active in other strategies such as multi-strategy, long/short equity and distressed securities. However, interest in hedge funds is growing in Asia and Rest of World and as a result we can expect more capital to flow into market neutral funds as these investors become more experienced in hedge fund investment.

Funds of hedge funds are by far the most significant source of capital for market neutral hedge fund managers. Public pension funds and endowments are also important for such fund managers, as together they represent just under a quarter of all market neutral investors.

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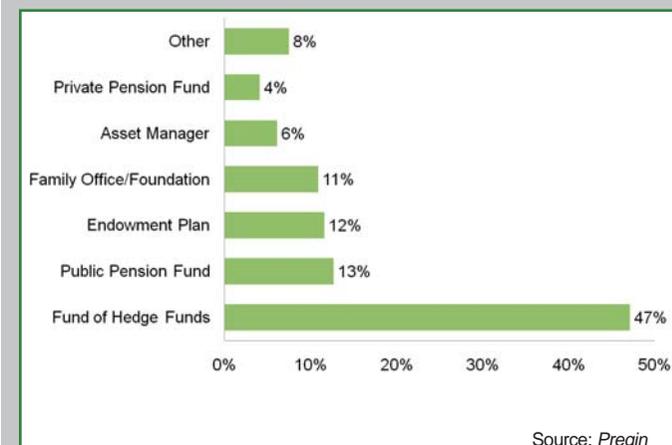
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Fig. 3: Breakdown of Institutional Investors Active in Market Neutral Funds by Type



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