

# Preqin Research Report

## Investor in Focus: US Investors in Emerging Markets

### Key Facts: Asian Investors with a Preference for US Fund Managers

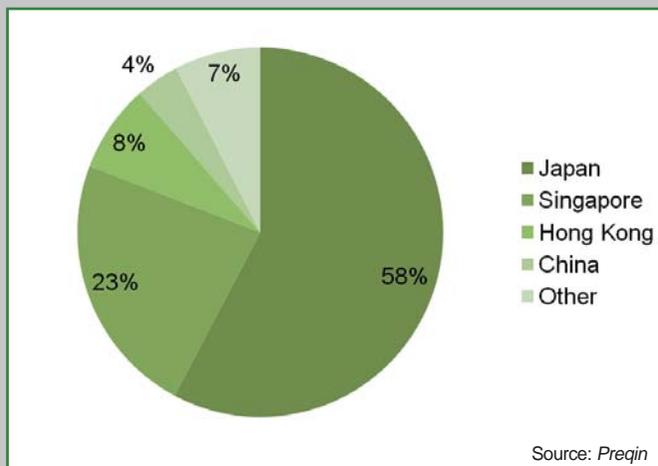
% of Asian investors that state a preference for US-based hedge funds	29.4%
Average number of US hedge funds in their portfolios	2.6
Most favoured investment approach (direct hedge funds, funds of hedge funds, both)	Funds of hedge funds
Average allocation to hedge funds	6.4%

Source: Preqin

Asia is a burgeoning region for institutional investors with an appetite for hedge funds. Many investors in hedge funds from Asia have diversified into the asset class only recently, following turbulence in equity markets and a growing number of opportunities in this segment of the market. The hedge fund industry within Asia is also growing, which despite the downturn, is encouraging more investors in this region to make their first steps in the asset class. However, many investors in Asia consider themselves truly global investors in hedge funds and look for opportunities with fund managers outside the region. The US is the established centre of the hedge fund industry and many Asian investors have turned to fund managers based in North America to manage their hedge fund capital. Using data from Preqin's Hedge Fund Investor Profiles database we have identified that around 30% of all Asian investors have some exposure to US-based managers within their hedge fund portfolios. Each of these have, on average, 2.6 US-based funds amongst their holdings.

Japan, Singapore and Hong Kong are the largest sources of capital for US-based fund managers when fundraising in Asia, as Fig. 2 shows. Insurance companies are the largest group of investors in Asia which invest in US hedge funds. This group represents 24% of all Asian investors with an appetite for US-based fund managers. Daido Life Insurance, a Tokyo-based

Fig. 2: Regional Breakdown of Asian Investors with a Preference for US-based Fund Managers



insurance company, has an allocation of JPY 153 billion to hedge funds. Two-thirds of Daido Life's hedge fund allocation is directed to US (and European) fund managers. Sovereign wealth funds are another important source of capital from Asia for US hedge funds. Both insurance companies and SWFs often manage vast sums of capital, which could mean large inflows of capital from this group when allocating to US managers.

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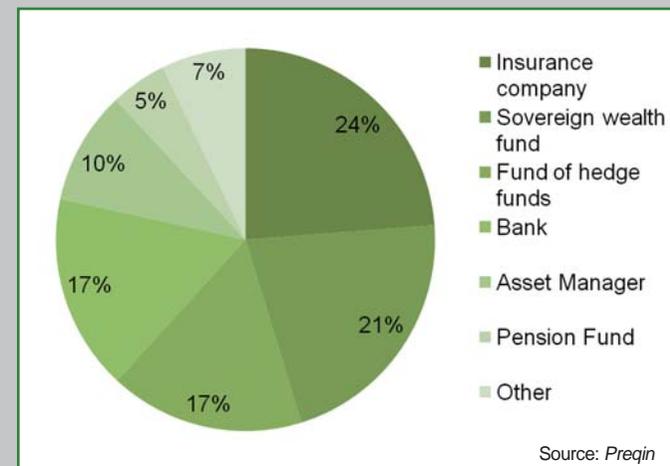
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Fig. 3: Breakdown of Asian Investors with a Preference for US-based Fund Managers



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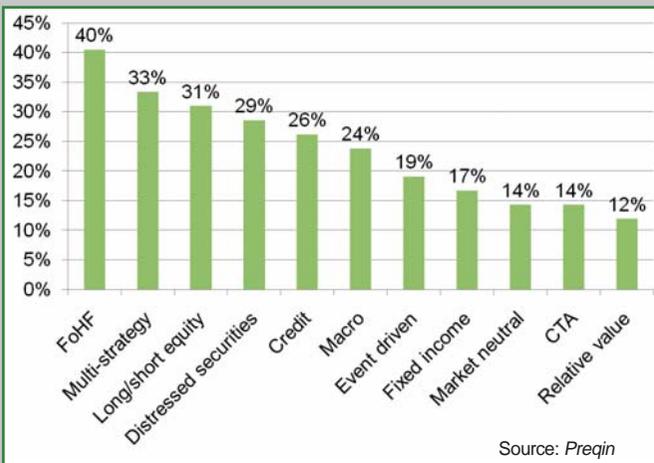
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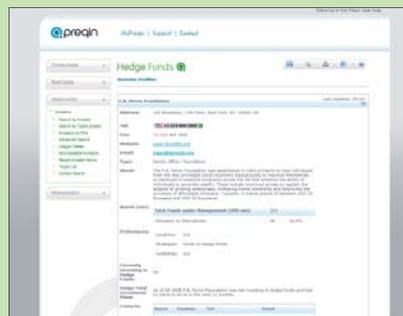
Fig. 4: Strategic Preferences of Asian Institutions Investing with US-based Fund Managers



Funds of funds are the most popular choice of structure for Asian investors when selecting US-based fund managers. By investing in a US-based fund of funds, an Asian investor can access a whole suite of underlying funds to diversify their hedge fund portfolios, thus cutting out the additional due diligence required by investing directly. As a developed centre for the hedge fund industry, the US offers a broad array of strategies for Asian investors to choose from, and as a result many investors in Asia are allocating capital to a wide range of US fund types. Traditional hedge fund styles, such as long/short equity and multi-strategy, are popular alongside more niche styles of funds such as distressed and credit.

China Investment Corporation is an example of a SWF which has invested with US-based fund managers, having invested with Blackstone Group, Morgan Stanley and Oaktree Capital Management since the beginning of 2009. Funds of funds in Asia are another large group of investors in US hedge funds. However, proportionally, just 22% of Asian funds of funds specifically state a preference for US-based hedge funds. Asian funds of funds typically focus investment within their domestic region using the proximity to their fund managers to source the best opportunities locally. The time lag between Asia and North America is an often cited reason for Asian investors to not invest in US funds. With a 12-hour time difference between Singapore and New York, speaking to fund managers can be difficult during normal working hours, which makes conducting due diligence on these funds a real challenge. As a result Asian investors that are invested in US funds tend to invest in the largest firms with international reach through subsidiary distribution offices based in Asia. Smaller fund management groups, which may not have the resources to open dedicated sales offices in other time zones will find it more difficult to market to Asia and will have to be prepared to travel to the region in order to distribute their funds there through road shows and investor meetings.

## Hedge Investor Profiles



Preqin's Hedge Fund Investor Profiles Online is a vital resource for all hedge fund managers and marketing professionals seeking backing from institutional investors.

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**Preqin tracks 143 Asian investors in hedge funds, 42 of which invest in US-based fund managers**



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