

Content Includes:

Asia-Pacific Hedge Fund Performance

We explore the recent and historical performance of Asia-Pacific hedge funds compared to the wider hedge fund industry, examining returns, volatility, and more.

Investors in Asia-Pacific Hedge Funds

How are hedge fund investors committing to Asia-Pacific? Which strategies are they targeting and how will they be investing in the future? We examine the answers to these key questions, comparing investors based in the region and globally.

Asia-Pacific Hedge Fund Managers

We analyze fund managers targeting Asia-Pacific hedge fund investments, including the results of a recent survey and a comparison between managers based in the region and globally.

Asia-Pacific League Tables

We look at the largest investors and fund managers based in the region, as well as the top performing Asia-Pacific-based hedge funds.

Preqin Special Report: Asia-Pacific Hedge Funds Potential for Record Growth

September 2013





Foreword

Asia-Pacific has been a growing region in the hedge fund industry in recent years as both investors and managers have realized the potential of this emerging region for alternative investments. However, the industry in the region has still yet to reach the share of wealth contributed by the wider economy in Asia-Pacific, meaning that there remains the potential for substantial growth in the future. Asia-Pacific-based firms represent approximately 13% of all hedge fund managers tracked by Preqin, but these firms represent less than 4% of total industry capital, largely due to the fact that funds within Asia-Pacific are both newer and smaller than those in the established regions of North America and Europe.

This is a significant period for the hedge fund industry in the Asia-Pacific region. New developments, in particular the advent of the new Securities Investment Funds Law in China, could lead to significant changes in the region and provide a boost to the hedge fund industry. Despite this, fund launch activity in the region appears to have slowed amid a challenging fundraising environment for hedge fund managers. However, hedge fund investment activity in the region seems to be in fairly good health, with encouraging performance recorded by Asia-Pacific funds over the past 12 months leading to investors within the region looking to increase their allocations to hedge funds over the next year. Investors from beyond the border of Asia-Pacific, which were previously wary of allocating to the region due to the increased volatility and relative lack of track record of funds, are also looking to make their first allocations to the region or to increase their existing exposure.

In Preqin Special Report: Asia-Pacific Hedge Funds, we analyze the Asia-Pacific region in terms of investor appetite for hedge funds, current hedge fund manager activity and hedge fund performance. As part of the report, Preqin conducted detailed surveys with more than 70 leading hedge fund investment professionals in order to analyze attitudes towards hedge funds in the region. The report also utilizes information from Preqin's [Hedge Fund Online](#) service, which tracks over 4,300 active investors in hedge funds and 20,000 hedge funds and share classes.

Key Findings

41% of Asia-Pacific-based investors plan to increase their allocations to hedge funds over the coming 12 months (page 5).

53% of non-Asia-Pacific-based investors plan to increase their allocations to Asia-Pacific hedge funds in the next 12 months (page 8).

56% of Asia-Pacific-based fund managers believe the hedge fund industry assets under management in the region will increase in the next 12 months (page 12).

18.61 is the net return (%) for Asia-Pacific-focused hedge funds, making it the best performing regional benchmark for the 12-month period ending 31 July (page 3).

81% of Asia-Pacific-based investors said that their hedge fund investments had met or exceeded expectations over the past 12 months (page 6).

22.06 is the net return (%) for Asia-Pacific long/short funds for the 12-month period ending 31 July, outperforming the overall long/short benchmark, which returned 12.55% (page 3).

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Overview of Asia-Pacific Hedge Fund Performance

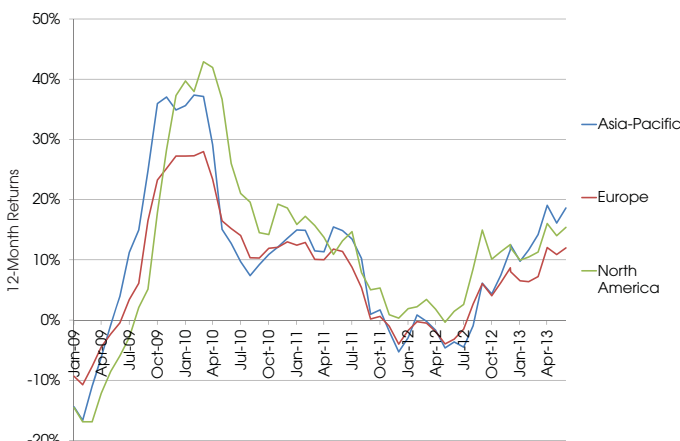
Over recent years, interest in hedge fund investment in Asia-Pacific has grown as fund managers within the region and beyond see profitable trading opportunities in the region. However, the greater volatility of returns, as well as a lack of understanding of the local markets in Asia-Pacific, has been a reason why many investors in the past have avoided too much exposure to the region. In recent years the Asia-Pacific markets have grown in depth and diversity, offering hedge funds a wealth of options to make successful trades in the emerging region. In this section, we examine how funds trading in the region have performed over the short and longer term.

Performance of Asia-Pacific Hedge Funds

Data from Preqin's Hedge Fund Analyst shows that Asia-Pacific-focused hedge funds have outperformed the overall hedge fund benchmarks in both 2013 (as of 31 July) and 2012, as well as on an annualized basis over the past two, three and five years (Fig. 1). A comparison of rolling 12-month returns by regional focus is presented in Fig. 2. This shows that Asia-Pacific hedge funds have had lower returns when compared to their North American counterparts over most of the last three years. However, Asia-Pacific was the best performing region over the 12-month period ending July 2013, posting a return of 18.61% compared to returns of 15.38% and 11.97% achieved by North America- and Europe-focused funds respectively.

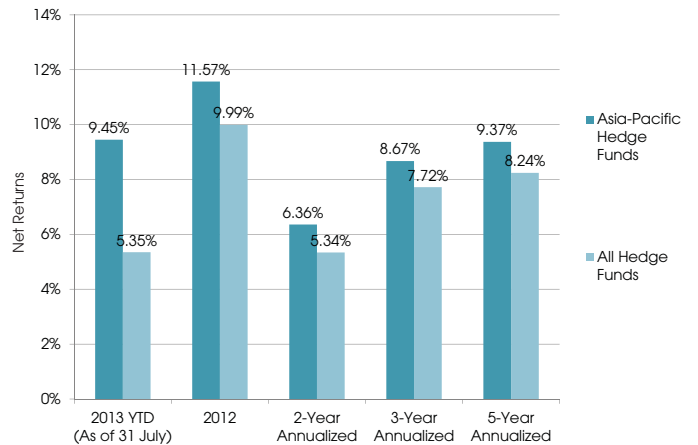
Equity-based funds dominate the hedge fund market in Asia-Pacific and long/short funds in the Asia-Pacific-focused benchmark posted impressive 12-month net returns of +22.06% for the period ending July 2013 (Fig. 3). Preqin's League Tables (page 14) show that all of the top ten performing funds managed by Asia-Pacific firms for the 12-month period ending July 2013 were funds using a long/short approach. Asia-Pacific long/short funds have outperformed the overall long/short benchmark over the past 12 months and also on an annualized basis over the last three and five years. These funds have also significantly outperformed European long/short funds over these periods, although they have fallen slightly short of North America-focused long/short funds on an annualized basis over the last three and

Fig. 2: Rolling 12-Month Returns of Hedge Funds by Regional Focus, January 2009 - July 2013



Source: Preqin Hedge Fund Analyst

Fig. 1: Performance of Asia-Pacific-Focused Hedge Funds vs. All Hedge Funds



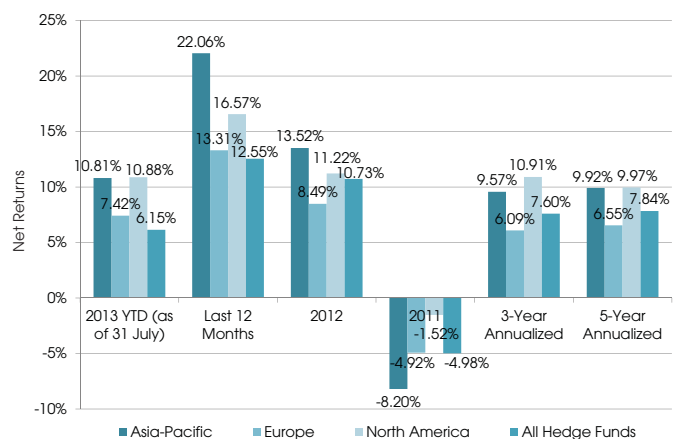
Source: Preqin Hedge Fund Analyst

five years. Asia-Pacific long/short funds outperformed their North American and European counterparts in 2012, with returns of 13.52% compared to returns of 11.22% and 8.49% respectively. However, they also experienced harsher losses in 2011, with a loss of 8.20% compared to losses of 1.52% and 4.92% in North America and Europe respectively.

Volatility and Risk-Adjusted Returns

Fig. 4 shows a comparison of 12-month volatility between June 2009 and June 2013 for Asia-Pacific-focused hedge funds and hedge funds overall. It shows that 12-month volatility for Asia-Pacific hedge funds has been consistently higher than the overall hedge fund average over the last four years. More risk-averse investors may be unwilling to invest in funds with such high volatility of returns as they are keen to identify funds that can offer consistent performance. Asia-Pacific hedge funds have exhibited significantly higher volatility than Europe-focused funds over the last few years, although this has been coupled with higher returns. Asia-Pacific long/short funds tend to exhibit

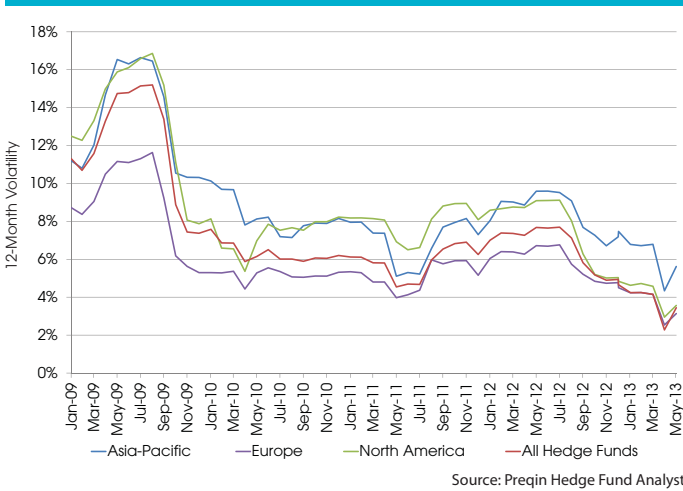
Fig. 3: Performance of Long/Short Hedge Funds by Region



Source: Preqin Hedge Fund Analyst



Fig. 4: Rolling Volatility of Hedge Funds by Region, January 2009 - June 2013



higher volatility than their global counterparts, resulting in higher gains in some periods and higher losses in others. As of 31 July 2013, five-year volatility for Asia-Pacific long/short funds was at 12.55% compared with 10.63% for all long/short funds, 11.24% for North America-focused long/short funds and 6.66% for Europe-focused long/short funds.

The Sharpe ratio, measured with a risk-free rate of 2%, for Asia-Pacific-focused hedge funds for the three-year period ending 31 July 2013 stood at 0.90, compared with the overall hedge fund average of 1.01 (Fig. 5). This indicates that Asia-Pacific hedge funds have produced lower risk-adjusted returns than their global counterparts over this period. However, as of 31 July 2013, the 12-month Sharpe ratio stood at 3.04 for Asia-Pacific hedge funds compared with 2.54 for all hedge funds, suggesting that Asia-Pacific hedge funds have been the most successful in providing attractive risk-adjusted returns over the past year.

Asia-Pacific-Based Funds vs. Asia-Pacific-Focused Funds

Fig. 6 shows a comparison between the performance of Asia-Pacific-based hedge funds focused on the region and Asia-Pacific-focused hedge funds that are managed by firms headquartered outside of the region. The chart shows that in each of the last six years, hedge funds based in the Asia-Pacific region have achieved higher returns in times of positive performance and harsher losses in times of negative performance. Despite the increased volatility, it seems that Asia-Pacific-based funds have produced stronger risk-adjusted returns in recent years, with the three-year Sharpe ratio (measured with a risk free rate of 2% as of 31 July 2013) for these funds measured at 0.77 compared to 0.46 for Asia-Pacific-focused hedge funds headquartered outside of the region. Over the course of the year so far, Asia-Pacific based funds have produced returns which are nearly three times higher than funds which are based elsewhere focusing on the region. This suggests that Asia-Pacific-based managers may have been best placed to generate strong returns off of the burgeoning markets caused by developments such as Abenomics.

Outlook

In the past Asia-Pacific hedge funds have been perceived to be risky investments, with higher risk than their counterparts based in Europe and North America. However, over the past 12 months these funds have been successful in achieving positive performance and providing attractive risk-adjusted returns.

Fig. 5: Rolling Sharpe Ratio of Asia-Pacific-Focused Hedge Funds vs. All Hedge Funds, July 2010 - July 2013

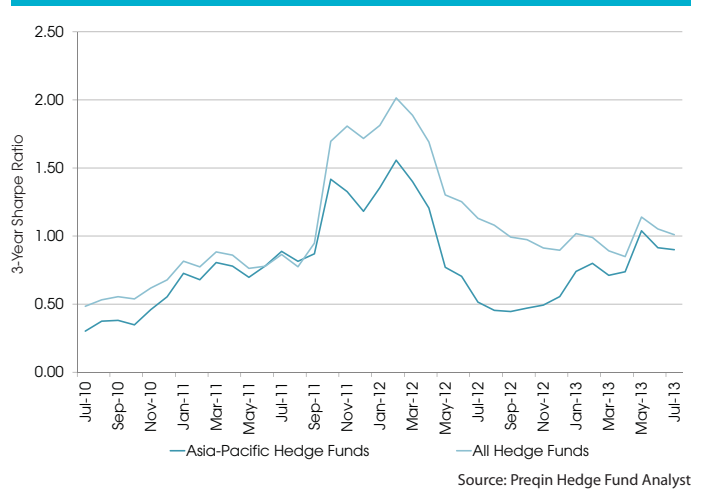
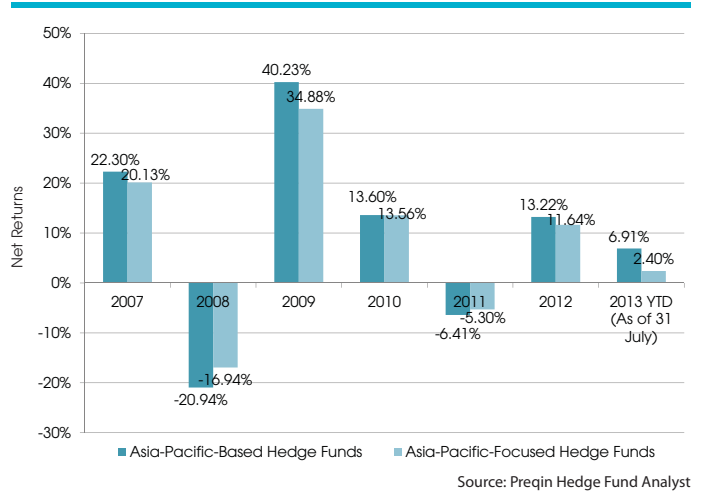


Fig. 6: Performance of Asia-Pacific-Based vs. Asia-Pacific-Focused Hedge Funds, 2007 - July 2013



The impressive performance of Asia-Pacific funds in the last 12 months has attracted the notice of investors both at home and further abroad; this could enable the Asia-Pacific hedge fund industry to grow to record levels in the coming years. Despite these positives, Asia-Pacific hedge funds continue to have higher volatility than the global hedge fund average, and this is something which may continue to deter more risk-averse investors from allocating to the region.

Preqin's Asia-Pacific Hedge Fund Data: A Vital Tool

Preqin tracks in-depth data on the Asia-Pacific hedge fund market. Access detailed profiles of over 2,800 Asia-focused hedge funds and share classes currently open to investment, and over 900 hedge fund investors that have a preference for investing in Asia-Pacific.

Compare individual fund performance to benchmark averages for specific segments of the Asia-Pacific market, including by strategy and fund structure, using Preqin's fully customizable benchmarks. View fund-by-fund and industry-level performance data for over 6,700 vehicles, including over 1,100 focused on Asia-Pacific.

For more information on how Preqin's hedge fund data can help you, or to arrange a demonstration, please visit:

www.preqin.com/hedge



Asia-Pacific-Based Institutional Investor Universe

Over recent years, the Asia-Pacific region had been growing in prominence in the investment community at large. Driven by the rapid economic growth of countries like China, one of the key developments has been the rapid expansion of the financial markets in the region. This development offered hedge fund managers in the region a multitude of investment opportunities, and also indirectly led to a gradual maturing of institutional investors in the region, with increasing numbers of investors based in Asia-Pacific looking to invest in hedge funds in search of higher yield and diversification.

Investor Location and Firm Type

Unsurprisingly, most of the investors in the region hail from the highly-developed capital markets. Asia-Pacific-based investors are largely concentrated in the developed economies of Japan (32%), Australia (31%), Hong Kong (11%) and Singapore (10%). Japan is home to a number of the largest investors in Asia-Pacific, including the asset manager Pension Fund Association, which currently allocates more than \$4bn to hedge funds.

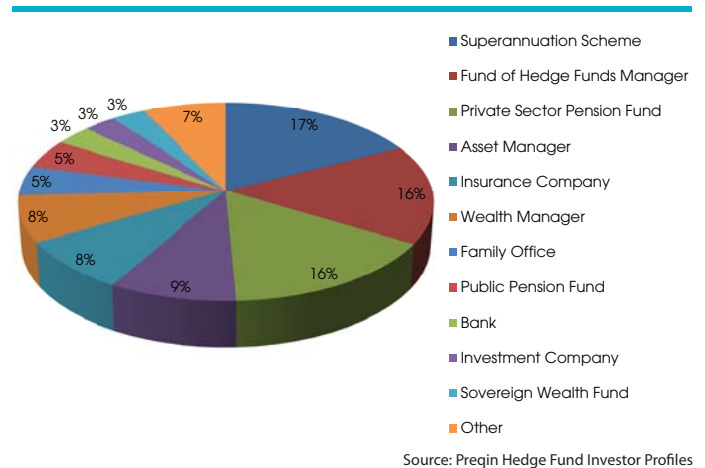
Nearly 40% of investors based in the Asia-Pacific region are in the retirement fund sector (Fig. 7). Superannuation schemes from the more mature markets in Australia and New Zealand are the leading investor type, making up 17% of the Asia-Pacific-based investor pool, with fund of hedge funds managers and private sector pension funds each representing approximately 16% of investors. Besides fund of funds managers and pension funds, insurance companies and private wealth institutions, such as asset and wealth managers and family offices, form a significant number of the remaining investors based in the region.

Investor Allocations to Hedge Funds

Although superannuation schemes and private sector pension funds are the leading investors in Asia-Pacific in terms of numbers, institutions that make investments on behalf of high-net-worth individuals and their families are the leading allocators in terms of proportion of their assets that target hedge fund investments in the region. On average, institutions which represent private wealth (e.g. wealth managers and family offices) from the region allocate 17% of their total assets to hedge funds, significantly more than that of private sector pension funds (13%) and superannuation schemes (4%). This can be attributed to the higher risk tolerance and sophistication of these investors, which typically have been investing in hedge funds for a longer period compared to superannuation funds and pension funds, which typically operate under certain risk and allocation constraints and are less experienced investors in hedge funds.

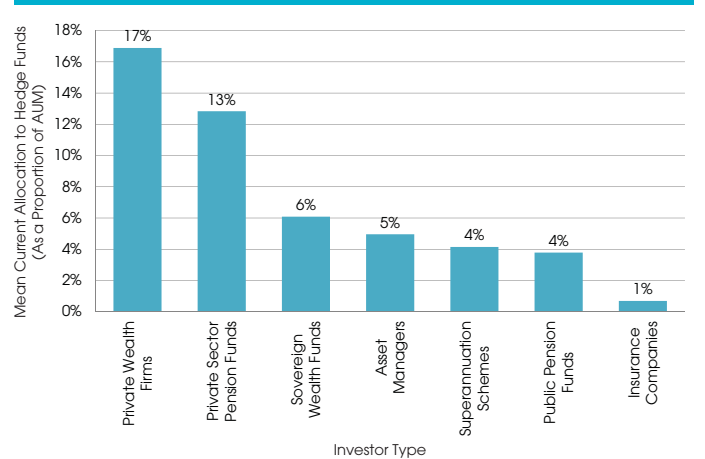
The outlook for hedge funds among Asia-Pacific-based institutional investors appears positive, with 41% of investors surveyed by Preqin in Q3 2013 based in the region looking to increase their hedge fund allocations over the coming 12 months (Fig. 9). A further 45% of investors expect to maintain their hedge fund allocations, with just 14% of investors expecting their hedge fund allocations to decrease over the coming year. With such a large proportion of investors looking to put more money to work in the asset class (and a significant proportion directing this

Fig. 7: Breakdown of Asia-Pacific-Based Investors by Type



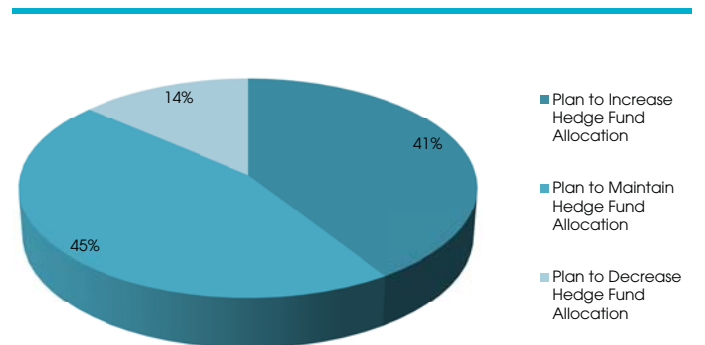
Source: Preqin Hedge Fund Investor Profiles

Fig. 8: Mean Allocations of Asia-Pacific-Based Investors to Hedge Funds by Investor Type



Source: Preqin Hedge Fund Investor Profiles

Fig. 9: Asia-Pacific-Based Investor Plans for their Hedge Fund Allocations over the Next 12 Months



Source: Preqin Investor Survey, Q3 2013

towards the Asia-Pacific region as shown on page 7), we can expect hedge fund assets in the region to grow significantly in the near future.



Asia-Pacific-Based Investor Outlook on Hedge Funds

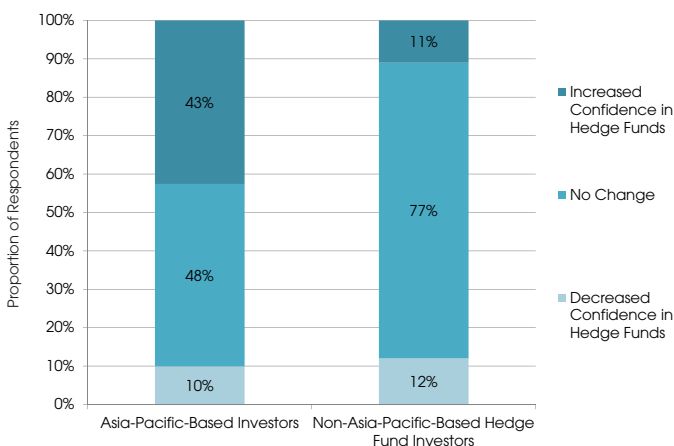
Investor Perception of Hedge Fund Performance

Forty-three percent of Asia-Pacific-based investors surveyed by Preqin in Q3 2013 felt that their hedge fund investments had met their expectations and a further 38% stated that the asset class had outperformed their expectations (Fig. 10). Only 10% of investors in a similar global study indicated that hedge fund investments had exceeded expectations, highlighting that Asia-Pacific-based investors have been more satisfied with hedge fund returns than their counterparts based outside the region. This is likely a result of the strong performance of Asia-Pacific funds over the last 12 months, as many investors in the region direct capital to local managers. This also shows a substantial improvement on the previous year, as a previous Preqin study of Asia-Pacific-based investors in March 2012 revealed that 68% of investors felt hedge funds had fallen short of expectations over the previous 12 months as a result of disappointing performance during 2011. In terms of strategies, those trading equities, such as long/short equity, were commonly cited by Asia-Pacific-based investors as having exceeded expectations, while a number of investors felt that funds with a debt focus had fallen short of expectations.

This strong performance of hedge funds relative to expectations has led to an increase in investor confidence in hedge funds; 43% of Asia-Pacific-based investors surveyed revealed that their confidence in the asset class had grown in the past 12 months, and 48% of them felt that it was unchanged (Fig. 11). Only about 10% of respondents reported a decrease in confidence in hedge funds over the past 12 months. With funds in the region performing well (page 3), this is leading to more investors looking to increase their allocations to hedge funds in the future (page 5).

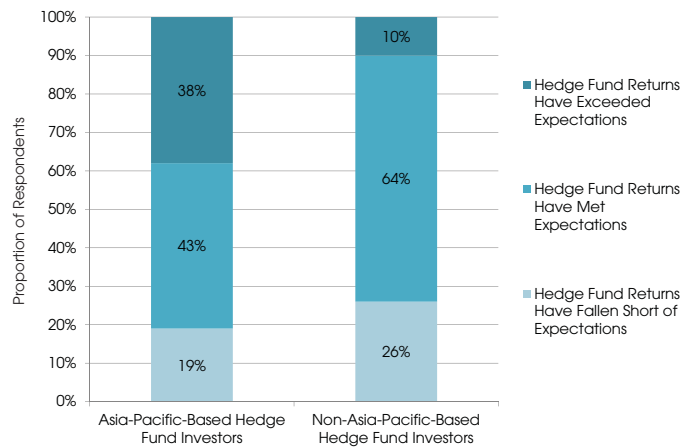
Despite the largely positive outlook among Asia-Pacific-based investors, general concerns remain with regards to the hedge fund industry looking forward. A number of Asia-Pacific-based investors said they expected hedge fund returns to be lower in 2013 than 2012, suggesting that there are still concerns about the ability of hedge funds to produce consistent returns as a result of a drop-off in performance in Q2 2013. Risk profile was cited as a key consideration in the fund selection process by 48% of Asia-Pacific-

Fig. 11: Change in Investor Confidence in Hedge Funds over the Last 12 Months: Asia-Pacific-Based vs. Non-Asia-Pacific-Based Hedge Fund Investors



Source: Preqin Investor Survey, Q3 2013

Fig. 10: Hedge Fund Portfolio Performance Relative to Expectations of Institutional Investors: Asia-Pacific Based vs. Non-Asia-Pacific-Based Hedge Fund Investors



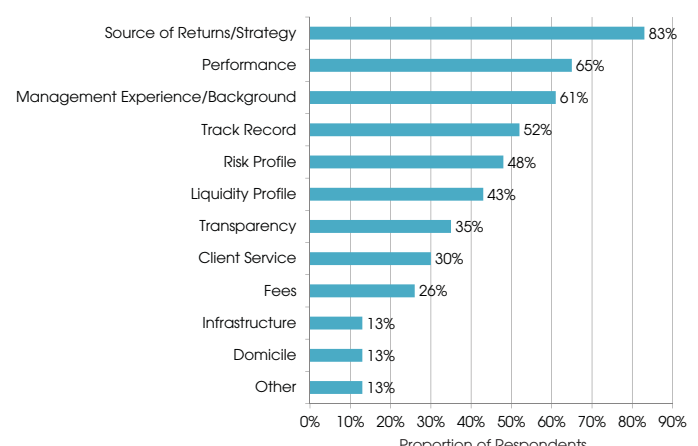
Source: Preqin Investor Survey, Q3 2013

based investors surveyed (Fig. 12) and a number of respondents mentioned volatility as a key issue for the industry currently. As shown on page 4, volatility is typically higher in Asia-Pacific funds than in other funds globally and this is something which may worry more conservative investors.

Key Investment Considerations of Asia-Pacific-Based Investors

Although, in general, investors based in the region are looking to invest in alternative assets in order to achieve greater returns over traditional assets, Fig. 12 shows that returns is not the most common consideration when these investors are assessing hedge fund managers. Eighty-three percent of respondents feel that how fund managers achieve their returns is a key consideration when they assess managers, and 65% highlight performance as a key factor. This is similar to the trend noticed in Preqin's global investor study and highlights that investors are keen to thoroughly assess the strategy of funds rather than simply selecting funds with positive short-term performance.

Fig. 12: Key Factors Used by Asia-Pacific-Based Institutional Investors to Evaluate Hedge Fund Managers



Source: Preqin Investor Survey, Q3 2013

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Fund Searches Overview

Despite the advent of Abenomics in Japan and robust numbers from Southeast Asia, the overall financial outlook of the Asia-Pacific region is looking stormy. Afflicted with concerns like a slowing China and crippling levels of inflation being battled in India, overall growth rates in the region are slowing.

However, a deteriorating macro-economic environment may be the catalyst for further increased interest in hedge funds, as asset managers from the region continue to hunt for higher yields. As mentioned on page 5, 41% of Asia-Pacific-based institutional investors plan to increase their allocations to hedge funds over the coming 12 months and 45% plan to maintain their allocations. As a result, there should be plenty of opportunities for hedge fund managers to attract new investment, with the majority of investors in the region looking to at least maintain their level of exposure over the coming year.

Breakdown of Institutional Investors

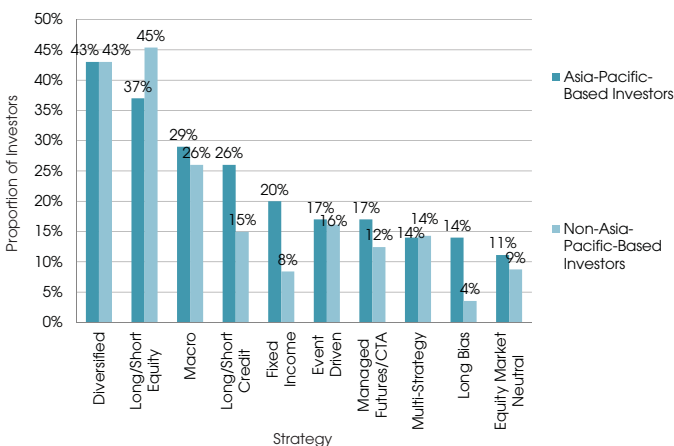
Japan is leading the way in terms of the number of investors with open hedge fund mandates, with 30% of such investors hailing from the country, followed by Singapore (21%) and Australia (16%). A number of Japan-based investors, such as Chugoku Bank, have additional capital to invest in hedge funds over the coming year. Eighty-one percent of Asia-Pacific-based investors searching for new hedge funds will be looking to invest in direct funds, compared to 35% that will invest in funds of hedge funds.

In terms of investor types, Preqin's data shows that insurance companies and wealth managers are the most prominent investor types in the Asia-Pacific region in terms of open mandates, despite making up only 8% of the overall investor pool each. Insurance companies are an attractive target for fund managers due to their potential large ticket sizes, with insurance companies in the region allocating an average of \$68mn per hedge fund.

Strategic and Geographical Preferences

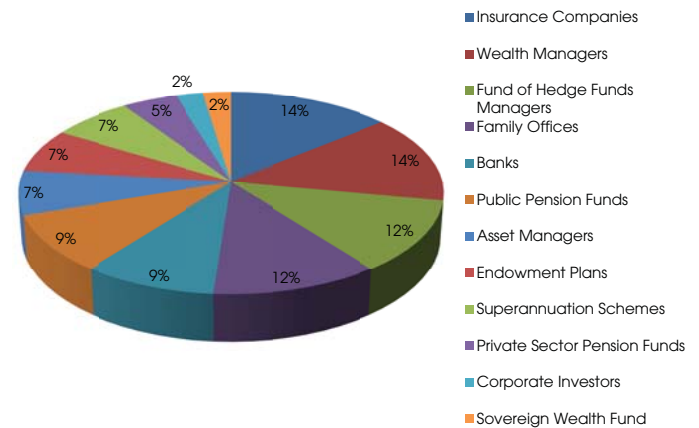
Fig. 14 shows the breakdown of the top ten hedge fund strategies that investors from Asia-Pacific will be looking to invest in over

Fig. 14: Breakdown of Hedge Fund Mandates Issued by Strategies Targeted: Asia-Pacific-Based vs. Non-Asia-Pacific-Based Investors



Source: Preqin Hedge Fund Investor Profiles

Fig. 13: Breakdown of Hedge Fund Mandates Issued by Asia-Pacific-Based Investors by Type, August 2013

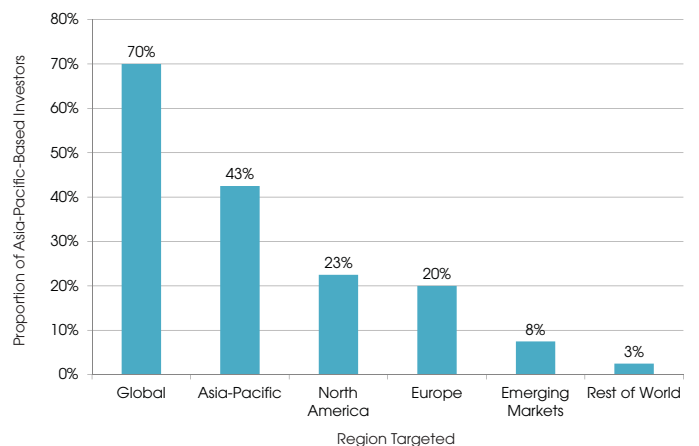


Source: Preqin Hedge Fund Investor Profiles

the next 12 months. Diversified portfolios are the most common, followed by the traditionally sought after and currently successful long/short equity vehicles, as well as macro funds. Macro and managed futures funds are more sought after among Asia-Pacific-based investors than all investors globally; long bias strategies are also more prominent in the region. Investors from the region are also showing a significant interest in investing in fixed income and credit strategies in comparison to their non-Asia-Pacific-based peers. This indicates that investors based in Asia-Pacific have recognized that the deepening credit markets in the region are providing hedge fund managers with ample trading opportunities; this can provide investors with an alternative means of gaining credit exposure.

Most of the investors from Asia-Pacific will look to invest globally over the coming year (70%). However, investors based in Asia-Pacific continue to maintain a healthy interest in their home region, with 43% of these investors expressing interest in gaining further hedge fund exposure in Asia-Pacific. This is in contrast with North America and Europe, with only 23% and 20% of Asia-Pacific-based investors specifically targeting these regions respectively.

Fig. 15: Breakdown of Hedge Fund Mandates Issued by Asia-Pacific-Based Investors by Region Targeted



Source: Preqin Hedge Fund Investor Profiles



Global Investor Appetite for Asia-Pacific

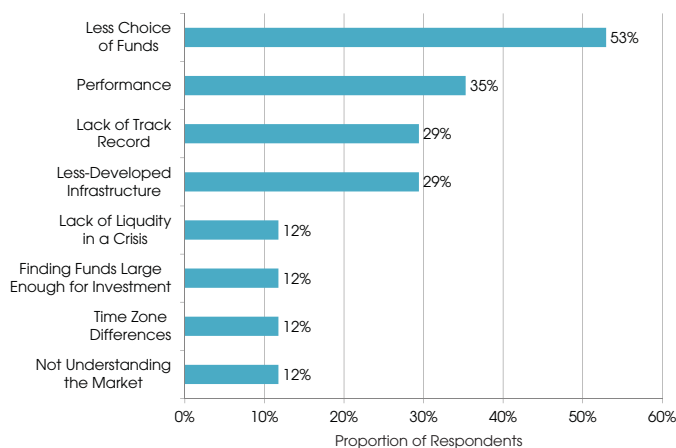
The majority of institutional hedge fund investors will consider investments on a global scale, and, as a result, many investors based in Europe and North America include some exposure to the Asia-Pacific region through diversified funds. According to Preqin's Hedge Fund Investor Profiles, approximately 20% of all investors based outside the Asia-Pacific region have a preference for investing in Asia-Pacific. For most investors, the Asia-Pacific region represents a fairly small proportion of their overall hedge fund holdings; however, there is evidence that interest in this region is growing as investors look to tap into global opportunities in order to further diversify their portfolios and invest outside of established markets.

Current Asia-Pacific Exposure

Investors look to gain exposure to the Asia-Pacific region through their hedge fund allocations in order to add diversification to their portfolios and take advantage of inefficiencies in the market. Investors allocate to the region through a combination of managers based in the Asia-Pacific region and non-Asia-Pacific-based managers with Asia-Pacific exposure. Preqin recently surveyed a number of leading institutional investors in North America and Europe and 35% of these investors indicated that they invest through managers based in the Asia-Pacific region, 24% invest through managers based outside the region, and 41% invest through a combination of the two methods (Fig. 16). Investors look to allocate to Asia-Pacific-based managers in order to take advantage of their local knowledge and boost market awareness. However, some investors prefer investing through non-Asia-Pacific-based managers, which can rotate in and out of regions in order to take advantage of the best opportunities.

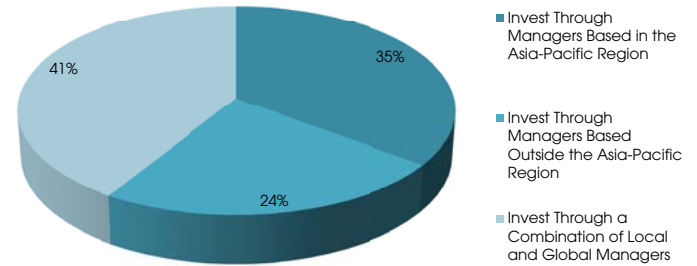
Investing in the Asia-Pacific region provides a number of challenges for investors based outside the region, with the key issues mentioned presented in Fig. 17. More than half of investors surveyed (53%) stated that less choice of funds was a challenge of investing in the region, while performance, less-developed infrastructure, and lack of track record of managers were other common concerns. The industry is still relatively immature in Asia-Pacific; as the track record of funds focused and based in the region grows, and more

Fig. 17: Challenges of Investing in Asia-Pacific-Focused Hedge Funds According to Non-Asia-Pacific-Based Institutional Investors



Source: Preqin Investor Survey, Q3 2013

Fig. 16: Investment Method of Non-Asia-Pacific-Based Investors Allocating to Asia-Pacific-Focused Hedge Funds



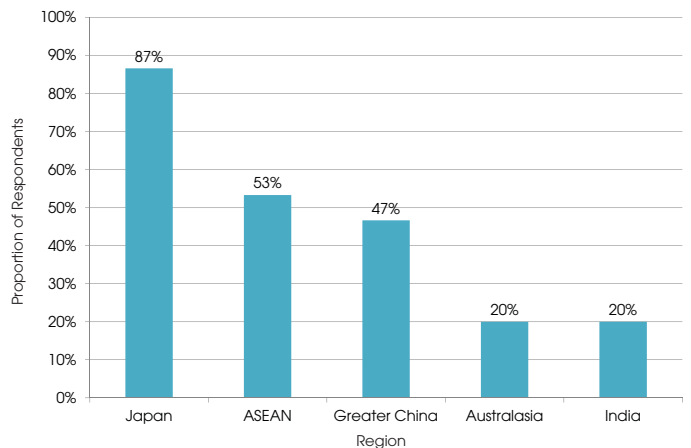
Source: Preqin Investor Survey, Q3 2013

funds come into market, we could see more investors from outside of Asia-Pacific look to gain exposure to the region through hedge fund investments.

Future Asia-Pacific Exposure

The outlook for Asia-Pacific managers seeking investment from non-Asia-Pacific-based investors appears positive, with 53% of investors stating that they plan to increase their hedge fund allocations to Asia-Pacific over the coming 12 months. The countries and regions non-Asia-Pacific-based investors currently see as presenting the best opportunities are shown in Fig. 18. These investors are particularly attracted to equity-based strategies for gaining exposure to the Asia-Pacific region, and long/short equity is the most common strategy through which investors allocate to the region. Eighty-two percent of investors feel that long/short equity is presenting good opportunities in Asia-Pacific currently, with event driven (47%) and macro (41%) the next most sought after strategies. Event driven exposure is typically less common in the region, but investor interest in the strategy has been driven by recent positive performance and opportunities the strategy is presenting within Asia-Pacific.

Fig. 18: Regions within Asia-Pacific Currently Presenting Good Opportunities According to Non-Asia-Pacific-Based Investors

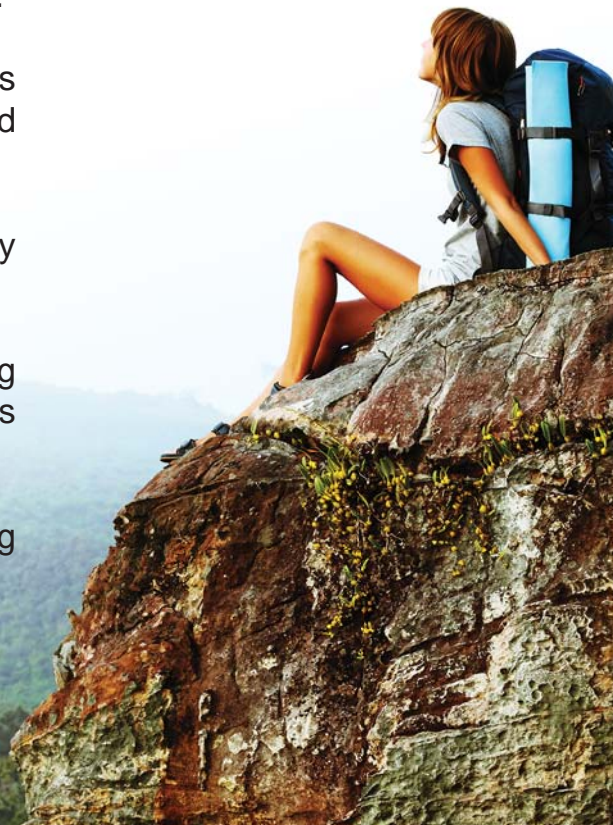


Source: Preqin Investor Survey, Q3 2013

Industry-Leading Global Hedge Fund Data

Hedge Fund Online is an essential tool for sourcing the most up-to-date information on the hedge fund industry in Asia-Pacific and globally.

- **Identify** relevant investors by filtering comprehensive profiles of over 4,300 active hedge fund investors, including over 900 with a preference for Asia-Pacific.
- **Be the first to know** about investors' fund searches and latest mandates, as well as their current and target allocations to hedge funds.
- **Compare** individual fund performance against fully customizable industry benchmarks.
- **Access** profiles for over 12,000 hedge funds, including over with detailed information on strategy, exposures and structures.
- **Analyze** all other aspects of the market, including fund terms, service providers and more.



Hedge Fund Online provides a constantly updated, 360 degree view of the hedge fund industry, and is already utilized by thousands of industry professionals.

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New York
+1 212 350 0100

London
+44 (0)20 7645 8888

Singapore
+65 6305 2200

San Francisco
+1 415 635 3580



Overview of Asia-Pacific-Based Hedge Fund Managers

Data from Preqin's Hedge Fund Analyst shows that Asia-Pacific-based hedge fund managers currently represent less than 4% of total hedge fund industry capital despite the region being home to a substantial number of managers. This is well below the share of assets Asia-Pacific contributes to the overall global financial economy, suggesting there is opportunity for the hedge fund industry in the region to grow significantly in the future.

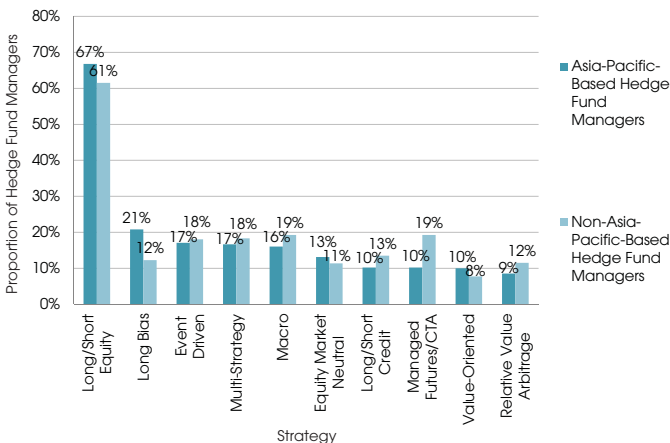
Hong Kong is the leading hedge fund center in the region, with 36% of Asia-Pacific-based hedge fund managers headquartered there, followed by Singapore, with 22% of managers (Fig. 19). Hong Kong leads Singapore by a significant margin despite moves by Singapore's government to make it a leading hedge fund center in recent years. According to Preqin League Tables (page 14), six of the ten largest hedge fund managers in Asia-Pacific are based in Hong Kong, including the \$9.3bn Value Partners, which manages a number of long/short funds focused on the Asia-Pacific region. Other key hedge fund centers in the region include Australia and Japan.

Hedge Fund Strategies and Geographic Focus

Fig. 20 shows a breakdown of the strategies employed by Asia-Pacific-based hedge fund managers as compared to their global counterparts. Unsurprisingly, equity-based hedge fund strategies make up the bulk of the strategies employed by Asia-Pacific-based hedge fund managers. Sixty-seven percent of the fund managers based in the region employ a long/short equity strategy, followed by 21% utilizing a long bias approach. Long bias funds are more common in the Asia-Pacific region than other regions globally as they appeal to investors that are used to the long-only products traditionally used in the region. Australia-based Platinum Asset Management manages a series of long/short equity funds with exposure to regions worldwide and is the largest hedge fund manager in the region, with approximately \$16.7bn in assets under management.

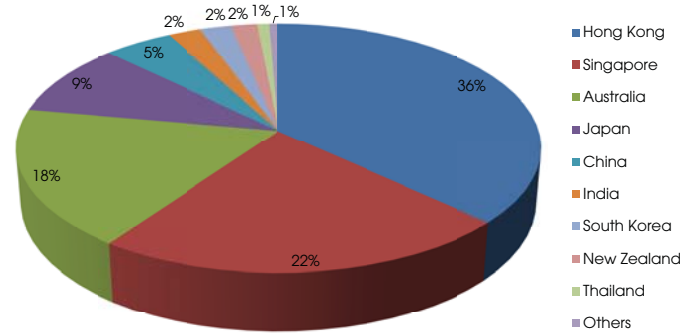
Despite the prevalence of equity-based funds, there are also a number of funds with a more opportunistic and flexible investment mandate across strategies, such as event driven, multi-strategy

Fig. 20: Strategies Offered by Hedge Fund Managers: Asia-Pacific-Based vs. Non-Asia-Pacific-Based Hedge Fund Managers



Source: Preqin Hedge Fund Analyst

Fig. 19: Breakdown of Asia-Pacific Based Hedge Fund Managers by Location



Source: Preqin Hedge Fund Analyst

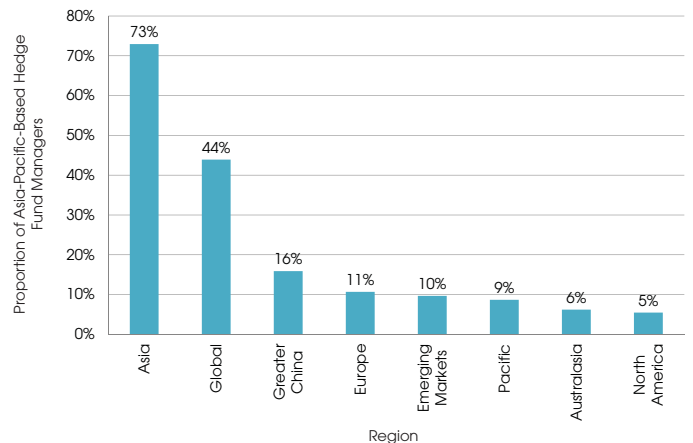
and macro. CTA strategies are less common in the Asia-Pacific region than they are globally, with only 10% of Asia-Pacific managers utilizing a managed futures strategy, despite investors in the region showing an increased appetite for CTAs compared to non-Asia-Pacific-based investors.

Geographically, Asia-Pacific-based hedge fund managers show a strong preference for investing in Asia, with 73% of these fund managers seeking exposure to the region. In contrast, only 44% of Asia-Pacific-based fund managers will seek global exposure. This might result in difficulties in fundraising over the next 12 months, as there is a mismatch between the funds being offered by Asia-Pacific fund managers and the requirements of investors in the region. As mentioned previously on page 7, the majority of the investors based in the region have expressed a preference for a global exposure when investing in hedge funds.

Structures of Asia-Pacific Hedge Funds

A breakdown of the structures of hedge funds managed by firms based within the Asia-Pacific region is presented in Fig. 22. The vast majority of hedge fund vehicles managed in the region are

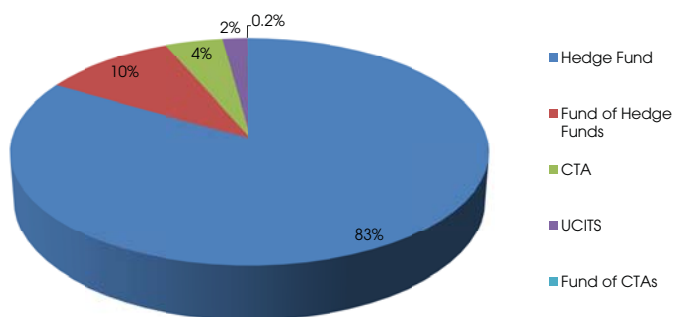
Fig. 21: Regions Targeted by Asia-Pacific-Based Hedge Fund Managers



Source: Preqin Hedge Fund Analyst

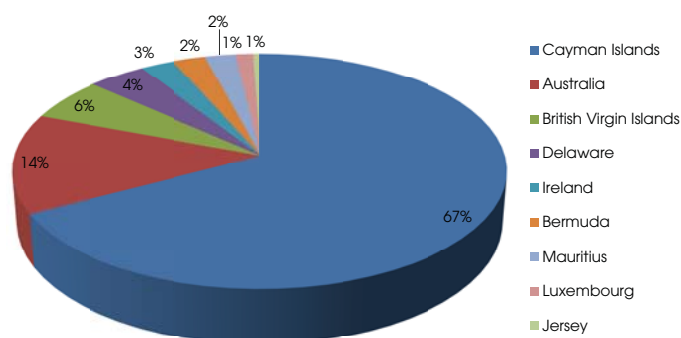


Fig. 22: Breakdown of Asia-Pacific-Based Hedge Funds by Structure



Source: Preqin Hedge Fund Analyst

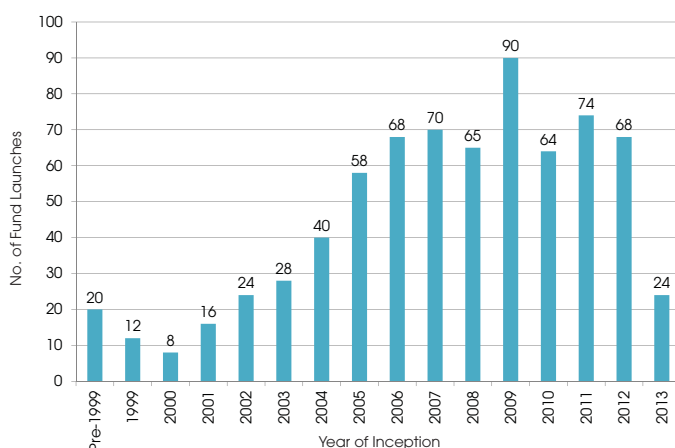
Fig. 23: Breakdown of Domiciles Used by Asia-Pacific-Based Hedge Funds



Source: Preqin Hedge Fund Analyst

single-manager hedge funds, with 83% of all funds falling into this category. The fund of hedge funds industry is smaller within the Asia-Pacific region compared to elsewhere, with funds of hedge funds representing 10% of funds in the region compared to 18% of all funds globally. Assets under management of funds of hedge funds in Asia-Pacific grew significantly between 2009 and 2011, with investors looking to take advantage of growth in Asian markets. However, interest in the structure has slowed and assets have declined from a peak of \$34bn to approximately \$17bn currently. As mentioned on page 10, CTAs are less common within Asia-Pacific, with these funds representing 4% of funds in the region compared to 9% of all hedge funds globally. There are also a small but growing number of UCITS-compliant hedge funds being launched by fund managers in the region, as Asia-Pacific based managers look to use this European regulated standard to launch funds that appeal to investors looking for a regulated structure to invest in hedge funds.

Fig. 24: Hedge Fund Launches by Asia-Pacific-Based Managers by Year of Inception (As at August 2013)



Source: Preqin

Domiciles of Asia-Pacific Hedge Funds

The majority of Asia-Pacific funds are domiciled offshore, with the Cayman Islands the most common destination for these funds (Fig. 23). Australia is a commonly used local domicile within the region, with 14% of Asia-Pacific-based funds domiciled in the country, and unsurprisingly the vast majority of these funds are managed by Australia-based firms. Other domiciles used by Asia-Pacific-based firms include British Virgin Islands (6% of Asia-Pacific-based funds are domiciled here), Delaware (4%), Ireland (3%) and Bermuda (2%).

Fund Launches over Time

The number of Asia-Pacific-based hedge fund launches increased steadily until reaching a peak of 90 fund launches during the market rally in 2009 (Fig. 24). The number of launches

has not returned this peak in recent years, with the level of annual launches dropping to around 60-70 fund launches each year in 2010, 2011 and 2012. In 2013 so far, there have been 24 reported hedge fund launches by Asia-Pacific-based hedge fund managers. In this challenging fundraising environment it seems that many managers in the region are focusing on growing assets in existing vehicles, rather than looking to launch new funds. Additionally, with institutional investors becoming more demanding in their manager requirements, it seems that funds are requiring more assets before launching, and as a result, fund launches are becoming larger but more infrequent. There could still be the opportunity for further fund launches in the longer term, especially in China, with the advent of its new Securities Investment Funds Law and the predicted growth of the renminbi.

Looking for more information on hedge fund investment opportunities in Asia-Pacific? Preqin can help.

Preqin tracks detailed information on the hedge fund industry in Asia-Pacific, helping you to target the right Asia-Pacific-focused vehicles for your portfolio. Access in-depth profiles on all Asia-Pacific-focused hedge funds, including over 2,800 currently open for investment, which feature key contact details, investment preferences, known investors, and more.

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Asia-Pacific-Based Hedge Fund Manager Outlook

Fund Managers' Perceptions

Despite a general slowdown in economic growth in the Asia-Pacific region, the majority of the Asia-Pacific-based hedge fund managers surveyed by Preqin in Q3 2013 believe that there is still a strong appetite for hedge fund investment among institutional investors in Asia-Pacific. Forty percent of respondents noticed an increased appetite for hedge funds among Asia-Pacific institutional investors over the previous 12 months, with a further 40% reporting that they had not seen any noticeable change in appetite (Fig. 25). Only 20% of managers felt that appetite for hedge funds had fallen over the previous year, backing up the trends noted earlier (page 5), which suggest that investors in the region remain keen to increase their hedge fund allocations. Approximately 70% of hedge fund managers in the region stated that the proportion of their capital coming from institutional investors had increased over the previous 12 months, which highlights the growing importance of institutional capital in the region.

In addition, Fig. 26 shows that 56% of the fund managers surveyed by Preqin expect total hedge fund assets in the region to increase over the coming 12 months, with a further 31% of hedge fund managers expecting industry assets in the region to remain around the current level over the coming year. This is in line with the results of the Preqin survey of investors in the region (page 5), which revealed that 41% of respondents are planning to increase their allocations to hedge funds and 45% are planning to maintain their allocations over the next 12 months. These surveys indicate that the outlook for the Asia-Pacific region is positive, with both managers and investors expecting further allocations to the asset class.

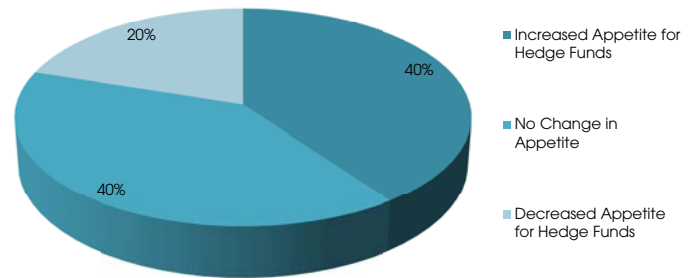
Asia-Pacific Hedge Fund Concerns

Attracting investor capital is a big issue for hedge fund managers in the Asia-Pacific region currently; almost 70% of hedge fund managers surveyed stated that this is the key issue for managers in the region at present. This can generally be attributed to factors such as an increasingly cautious investor base and a generally more competitive fundraising environment in the region. Despite this, most managers (81% of the surveyed funds) have successfully secured capital in the past 12 months and have reported an increase in assets under management in the past year. Despite the difficult fundraising environment, over 70% of Asia-Pacific-based fund managers surveyed by Preqin plan to launch a new fund in the future; however, the bulk of these intend to do so in the longer term and are instead focusing on increasing assets in their existing funds in the next year. Most managers seem confident in their ability to generate returns, with just 14% of managers indicating this as the most important issue. Some managers also commented on fulfilling investor demands and regulation as potential concerns in the near future.

Outlook

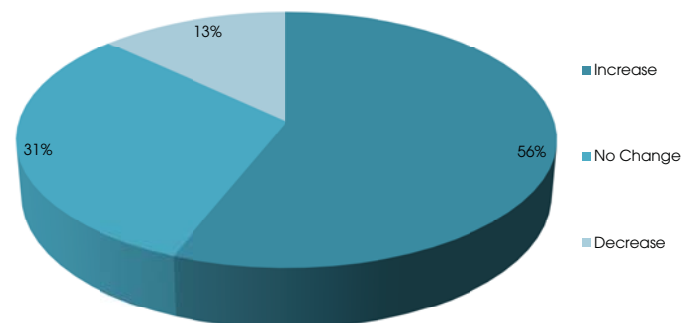
Despite the challenges facing hedge fund managers based in Asia-Pacific, industry consensus, as mentioned earlier, is that overall confidence in and investor appetite for the asset class

Fig. 25: Perceived Change in Institutional Investor Appetite for Asia-Pacific-Focused Hedge Funds in the Past 12 Months by Asia-Pacific-Based Hedge Fund Managers



Source: Preqin Fund Manager Survey, Q3 2013

Fig. 26: Expected Change in Total Asia-Pacific Hedge Fund Industry Assets over the Next 12 Months by Asia-Pacific-Based Hedge Fund Managers



Source: Preqin Fund Manager Survey, Q3 2013

remain strong (page 5). This positive investor sentiment suggests that there could be an opportunity for assets to grow in the short term and there could be further opportunities for expansion over the longer term. Currently, the majority of capital from the region tends to come from a limited number of sophisticated investors in mature markets like Australia and Japan. China, the largest economy in the Asia-Pacific region, contributes only 1% and South Korea only 7% of the pool of investors in hedge funds from the region. Other major economies in the region, such as Indonesia and Thailand, do not even feature within the top 10 countries in terms of number of investors. As financial markets, investors and regulations continue evolving in the region, more and more untapped capital from countries like China will be able to be put to work, and it will be up to fund managers to adapt themselves in order to be able to attract this capital into their funds.



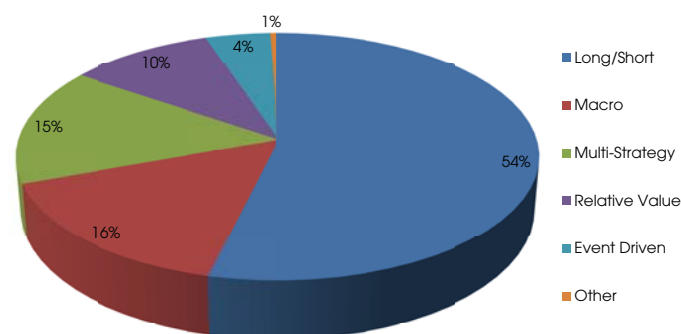
Global Manager Appetite for the Asia-Pacific Region

As well as managers based within the Asia-Pacific region itself, hedge fund firms based outside the region also look to make allocations to Asia-Pacific. Using data from Preqin's Hedge Fund Analyst, 12% of hedge fund managers headquartered outside Asia-Pacific state the region as a key area of focus, while a number of managers are likely to include allocations to Asia-Pacific within their global allocations. In terms of country-specific exposure, Japan is most commonly targeted by hedge fund managers based outside of Asia-Pacific, with countries such as China, Australia, Hong Kong, India and South Korea also attracting significant attention from these managers. Preqin currently tracks more than 700 Asia-Pacific-focused hedge funds managed by firms headquartered outside the Asia-Pacific region.

Managers look to launch Asia-Pacific-focused hedge funds in order to diversify their product range, take advantage of inefficiencies in the market, and gain access to regional investment opportunities. A number of firms specialize in managing funds with an Asia-Pacific focus and the majority of these managers will have a local office within the Asia-Pacific region. In terms of the headquarters of global managers offering Asia-Pacific focused funds, it is unsurprising that the majority of these are based in North America (54%) and Europe (45%), with just a small proportion located in other regions outside of Asia-Pacific (Fig. 27). The US and UK are home to the largest proportions of Asia-Pacific-focused funds, with 51% and 27% of Asia-Pacific-focused funds managed by firms outside the region based in these countries respectively, followed by Switzerland, with 7% of funds.

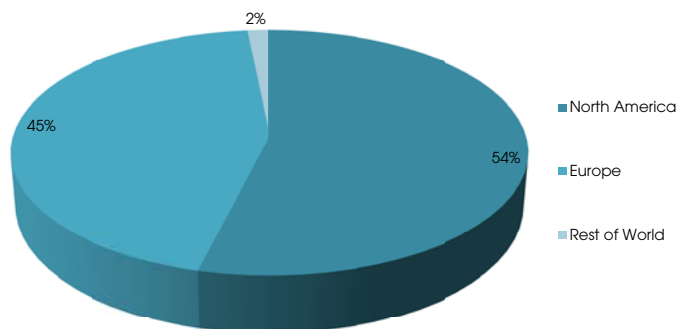
The most common strategy utilized by managers based outside of Asia-Pacific with funds targeting the region is long/short, with 54% of all Asia-Pacific-focused funds following a long/short core strategy (Fig. 28). Within this category, the most common strategies used are long/short equity and long bias, with managers aiming to take advantage of opportunities in Asia-Pacific equity markets. The Asia-Pacific fund range has become more diversified in recent years and there are now also a number of macro, multi-strategy and relative value funds focused on the region. Asia-Pacific-focused event driven hedge funds are less

Fig. 28: Breakdown of Asia-Pacific-Focused Funds Managed by Non-Asia-Pacific-Based Firms by Core Strategy



Source: Preqin Hedge Fund Analyst

Fig. 27: Breakdown of Asia-Pacific-Focused Funds by Non-Asia-Pacific-Based Firms by Manager Headquarters

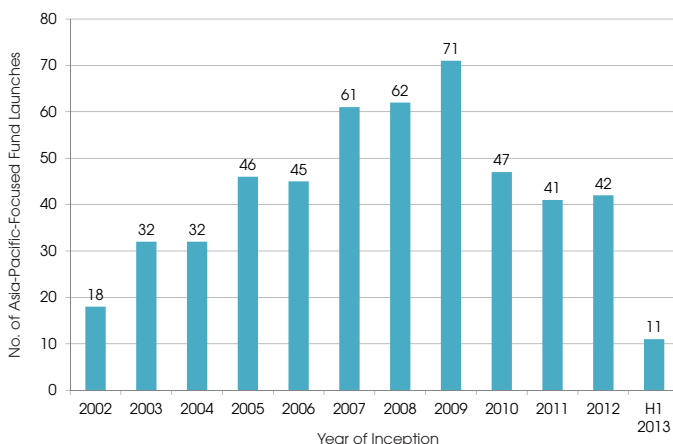


Source: Preqin Hedge Fund Analyst

common, however, with this strategy representing only 4% of all funds focused on the region.

The number of Asia-Pacific-focused funds launched by non-Asia-Pacific-based hedge fund managers annually by year of inception is presented in Fig. 29. The highest number of fund launches focusing on the Asia-Pacific region was over the period between 2007 and 2009, reaching a high of 71 launches in 2009 as a result of strong performance in the region following the market rally. The number of launches of Asia-Pacific-focused funds managed by non-regional managers has declined in recent years as managers have focused on other areas. In 2013 so far, there have been only 11 recorded Asia-Pacific focused hedge fund launches by non-Asia-Pacific-based managers. In contrast, there has been an increase in the number of funds managed by Asia-Pacific-based firms launching in recent years, as investors choose to allocate to fund managers with a local presence. In 2013 so far, over two times as many more Asia-Pacific-based funds have launched than funds targeting the region managed by firms based outside of Asia-Pacific (page 11).

Fig. 29: Breakdown of Asia-Pacific-Focused Fund Launches Managed by Non-Asia-Pacific-Based Firms by Year of Inception



Source: Preqin Hedge Fund Analyst



League Tables

Fig. 30: Top 10 Asia-Pacific-Based Hedge Fund Investors by Capital Currently Allocated to Hedge Funds

Investor	Type	Location	Current Allocation to Hedge Funds (\$bn)
China Investment Corporation	Sovereign Wealth Fund	China	23.0
Future Fund	Sovereign Wealth Fund	Australia	13.6
GIC	Sovereign Wealth Fund	Singapore	7.4
Pension Fund Association	Asset Manager	Japan	4.4
Norinchukin Bank	Bank	Japan	3.1
Dai-ichi Life Insurance	Insurance Company	Japan	2.3
Victorian Funds Management Corporation	Asset Manager	Australia	1.9
Korea Investment Corporation	Sovereign Wealth Fund	South Korea	1.3
Toshiba Employees' Pension Fund	Private Sector Pension Fund	Japan	1.2
BFC Asset Management	Fund of Hedge Funds Manager	Japan	1.0

Source: Preqin Hedge Fund Investor Profiles

Fig. 31: Top 10 Asia-Pacific-Based Hedge Fund Managers by Assets under Management

Manager	Location	Assets under Management (\$bn)
Platinum Asset Management	Australia	16.7
Value Partners	Hong Kong	9.3
SPARX Asia Investment Advisors	Hong Kong	7.1
BlackRock Australia	Australia	6
MCP Asset Management	Hong Kong	5
China Asset Management	Hong Kong	3.5
Tokio Marine Asset Management	Japan	3
Cosmo Investment Management	South Korea	2.9
SAIL Advisors	Hong Kong	2
LIM Advisors	Hong Kong	1.7

Source: Preqin Hedge Fund Analyst

Fig. 32: Top 10 Hedge Funds Managed by Asia-Pacific-Based Firms by Net Return over the Last 12 Months (August 2012 - July 2013)

Fund	Manager	Core Strategy	Net Return
Trophy Fund	Winnington Capital	Long Bias	81.74%
PM Capital Absolute Performance Fund	PM Capital	Long/Short Equity	77.87%
Hayate Japan Equity Long-Short Equity Fund	Hayate Partners	Long/Short Equity	77.21%
Platinum Japan Fund	Platinum Asset Management	Long/Short Equity	61.05%
Pure Heart Natural Selection Fund	Pureheart Capital Asia	Long/Short Equity	52.47%
Ginga Golden Egg Fund	Stats Investment Management	Long Bias	51.04%
Magellan Global Fund	Magellan Financial Group	Long/Short Equity	47.83%
Platinum Unhedged Fund	Platinum Asset Management	Long Bias	47.55%
Platinum International Fund	Platinum Asset Management	Long/Short Equity	47.08%
Pure Heart Value Investment Fund	Pureheart Capital Asia	Value-Oriented	46.60%

Source: Preqin Hedge Fund Analyst

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Fax: +1 440 445 9595

London:

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47 King William Street
London
EC4R 9AF

Tel: +44 (0)20 7645 8888
Fax: +44 (0)87 0330 5892

Singapore:

One Finlayson Green
#11-02
Singapore 049246

Tel: +65 6305 2200
Fax: +65 6491 5365

San Francisco:

580 California Street
Suite 1638
San Francisco
CA 94104

Tel: +1 415 635 3580
Fax: +1 440 445 9595

Email: info@peqin.com
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