

29% of Institutional Investors Intend to Increase Hedge Fund Investment over the Next 12 months

But fewer investors are satisfied with hedge fund performance than at the same point last year

Preqin surveyed 50 global hedge fund investors from various institutions on their current hedge fund portfolios and their investment plans for the next 12 months.

Key findings include:

- 29% of surveyed investors plan to allocate more capital to hedge funds over the next 12 months. 56% plan to invest the same amount in the asset class and just 15% plan to make cuts to their hedge fund portfolios.
- 26% of institutional investors are below their target allocation to hedge funds. 64% of those surveyed are at their current targeted exposure and 10% are currently over-exposed to hedge funds.
- 37% of institutional investors intend to increase the number of relationships they have with hedge fund managers over the next 12 months. 53% intend to maintain the current number of funds they are invested with and 10% plan to reduce the number of managers they invest with.
- Over the longer term (three to five years), 46% of surveyed investors intend to increase their exposure to hedge funds.
- 69% of investors feel that the hedge funds within their portfolios have either met or exceeded return expectations. This is a drop from 73% of investors in a similar survey conducted in 2009.

Please see the full report following this press release for further details.

Comment:

“Despite a slight drop in investor satisfaction in hedge fund returns over the past 12 months, institutional investors are beginning to invest more capital in hedge funds in greater numbers than they were a year ago. With 29% of institutional investors planning to allocate more capital to hedge funds in the next 12 months and just 15% looking to make cuts, the balance of inflows into the asset class is positive. Furthermore, 37% of institutional investors are planning to add new funds to their portfolio in the next 12 months and are actively seeking relationships with new fund managers.

The long-term outlook for the asset class is even more positive, with 46% of investors planning to increase their exposure to hedge funds over the next three to five years. It is clear that institutional investors still believe hedge fund investments are a valuable part of their portfolios. Recovery in terms of asset flows into the industry has already begun and the Preqin survey suggests it is likely to increase steadily over the medium to long term”.

Amy Bensted, Manager, Hedge Fund Data

Ends

About Preqin:

Preqin is the leading source of information for the alternative assets industry, providing data and analysis via online databases, publications and bespoke data requests.

Preqin has built a reputation in the alternative assets industry for providing the most comprehensive and extensive information possible. Leading alternative assets professionals from around the world rely on Preqin's services daily, and its data and statistics are regularly quoted by the financial press. For more information, please visit: www.preqin.com

Note to Editors:

- Please note that Preqin has completely replaced Private Equity Intelligence as the official company name.
- Preqin is spelled without the letter 'U' after the 'Q'.

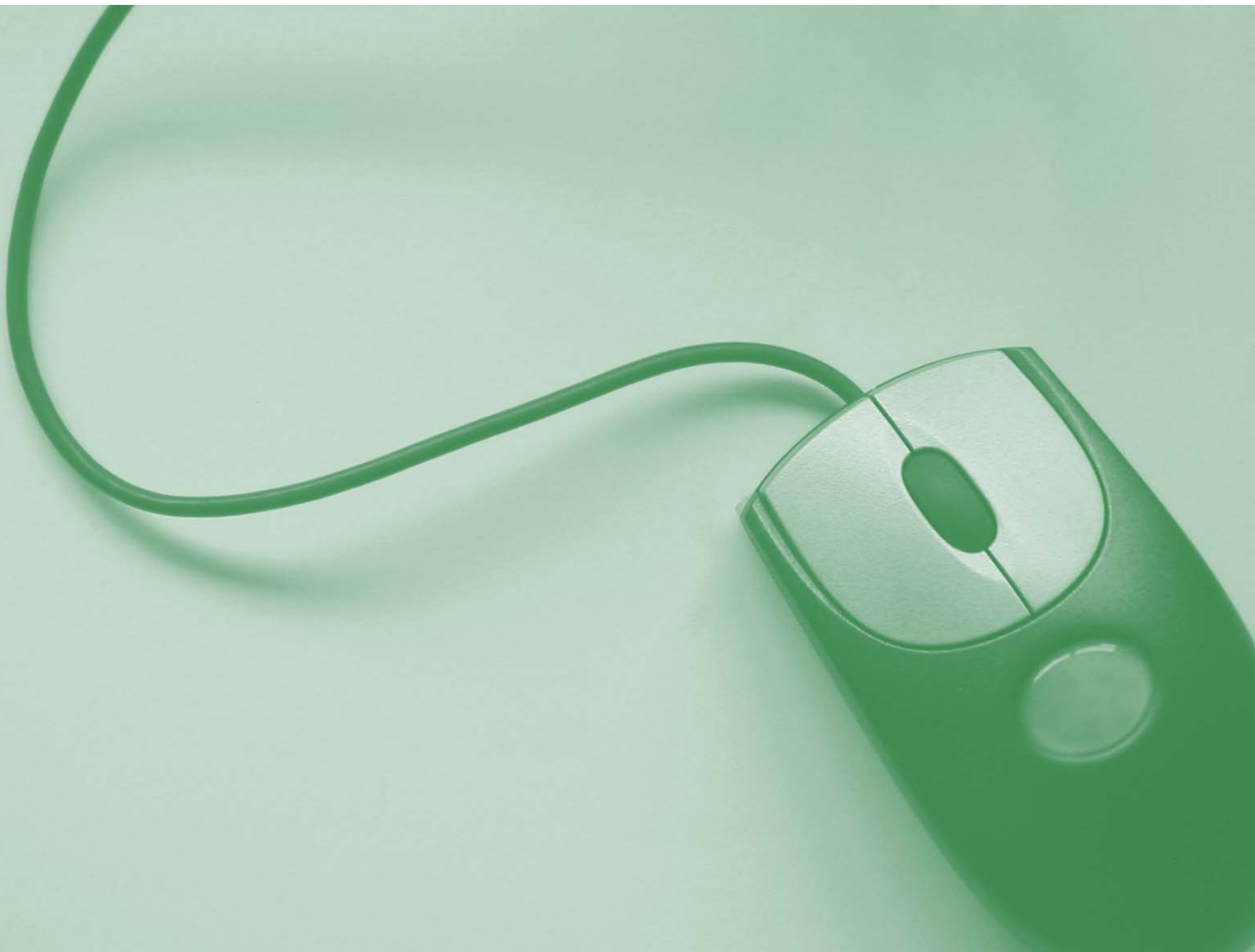
For more information, please contact Amy Bensted on +44 (0)20 7065 5125 or abensted@preqin.com

London: Scotia House, 33 Finsbury Square, London EC2A 1BB Tel: +44 (0)20 7065 5100
New York: 230 Park Avenue, 10th Floor, New York NY 10169 Tel: +1 212 808 3008
Web: www.preqin.com / info@preqin.com

Preqin Research Report

The Next 12 Months: Institutional Appetite For Hedge Funds

August 2010



The Next 12 Months: Institutional Appetite For Hedge Funds

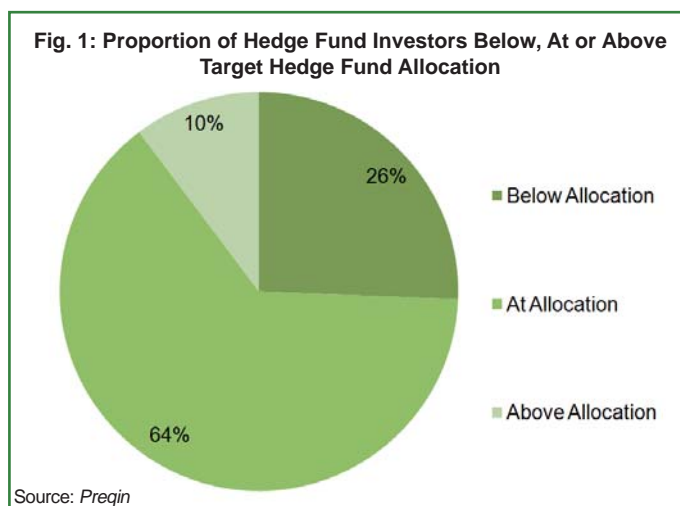
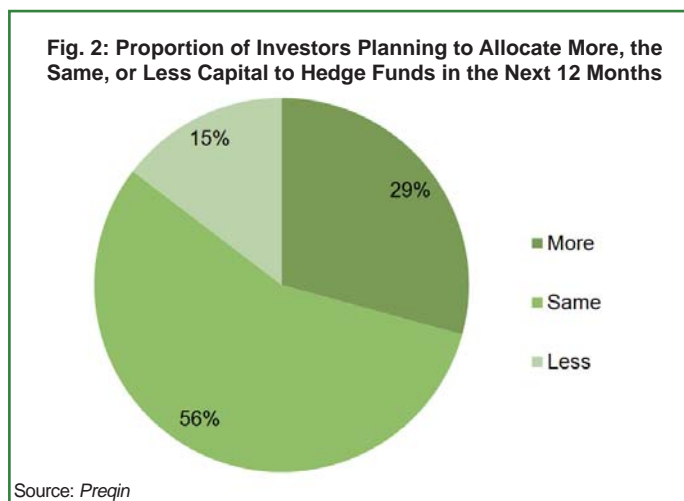
The hedge fund industry has experienced challenging conditions over the past two years following the onset of the financial crisis, with the asset class emerging from the downturn having undergone a number of significant changes.

Perhaps the most notable shift has been the move towards a more institutional investor base and the consequent evolution in fund management that this shift demanded, such as more transparent and detailed reporting standards. Although initially dictated by a reduction in high net worth capital available to the industry, the advantages of more stable long term capital in the form of institutional support have become increasingly appealing to hedge fund managers, with many firms previously only utilising high net worth capital now seeking to garner institutional commitments for the first time.

Allocation to Hedge Funds

With the institutional sector being increasingly important to the industry, and with increasing numbers of fund managers seeking to position themselves effectively to attract institutional support, Preqin undertook a survey of 50 leading institutional investors from around the world in July 2010 in order to ascertain their hedge fund investment plans for the coming 12 months. This month's feature article examines the findings of this survey.

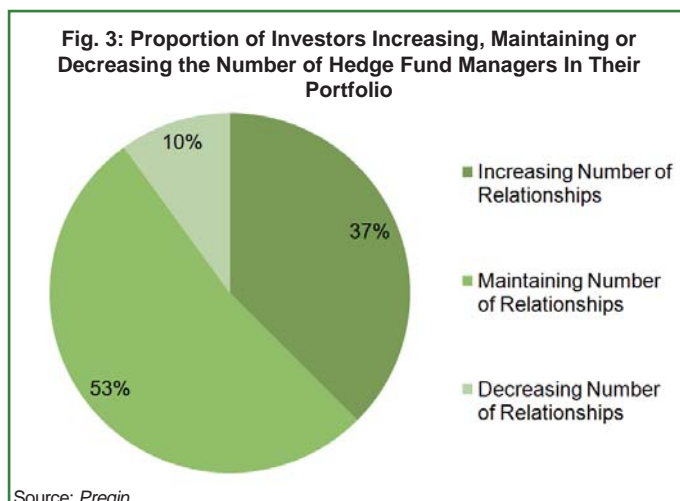
Just over a quarter, 26%, of institutional investors are below their target allocation to hedge funds and will therefore continue to look for new investment opportunities over the next 12 months. This suggests a positive shift in asset flow into the sector, which is encouraging news for hedge fund managers that are seeking institutional support.



Plans for the Next 12 Months

Investors were asked if they would be allocating more, less or the same level of capital to hedge funds as they had done in the previous 12 months. Fig. 2 shows that the results were again encouraging, with only 15% of respondents saying that they would be investing less capital. 56% plan to allocate the same amount of capital to the asset class, and 29% will invest more capital in hedge funds than they have in the previous 12 months. This suggests that investor confidence is returning and that institutional investors will be actively pursuing new opportunities in the coming year.

As shown in Fig. 3, the majority (53%) of investors plan to maintain the number of hedge fund manager relationships in their portfolios over the next 12 months, and more than a third, 37%, will be seeking to increase the number of relationships they have. Although 10% of investors plan to reduce the number of hedge fund relationships they currently maintain, investors



are generally positive and are seeking new opportunities and looking to form new relationships with managers.

Investor Appetite for Existing Managers vs. New Managers

It is likely that there will be an increasing amount of capital invested in hedge funds in the short to medium term and investors were asked whether they plan to invest this capital with new or existing managers. Fig. 4 shows that 37% will maintain relationships with their current managers and will not be seeking new managers for their investment portfolios. A further 37% will be investing in a mixture of both existing and new managers and 23% will be adding funds with new managers only. Although investors are satisfied with the relationships they already have, a significant proportion will be looking to invest only with new managers. This is likely to be due to a combination of factors such as investors seeking new fund strategies and dissatisfaction with fee structure and fund terms.

Longer Term Plans

Fig. 5 shows that 46% of investors plan to increase their hedge fund allocation in the next three to five years, a higher proportion than are planning to do so in the next 12 months. Only a small proportion (10%) intend to reduce their exposure to hedge funds and 44% foresee their hedge fund allocation staying the same.

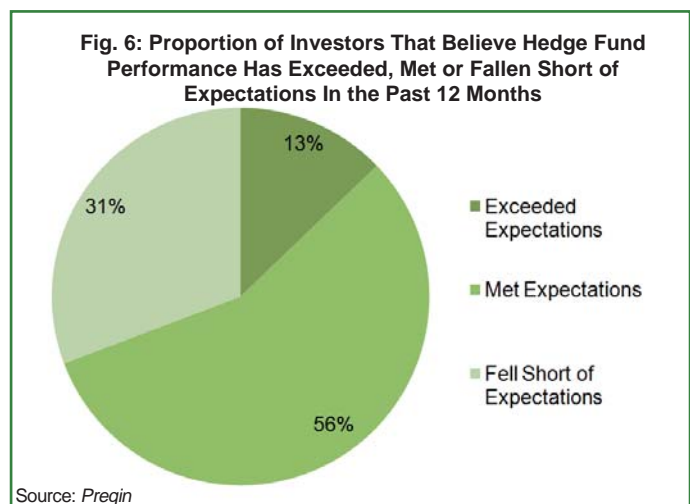
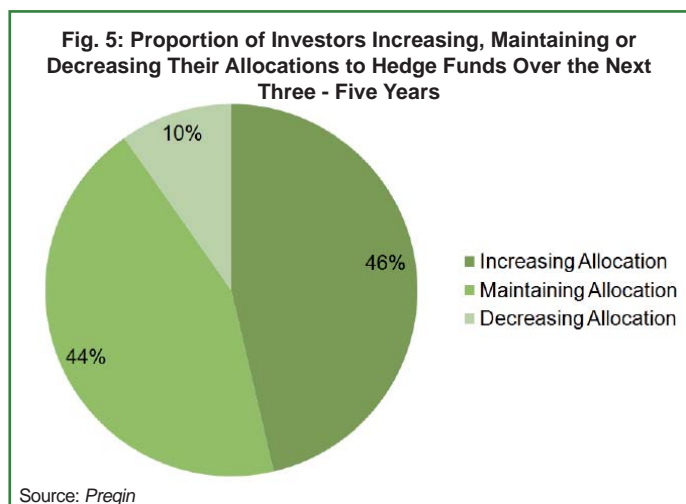
Hedge Fund Performance

Fig. 6 shows that investors are generally satisfied with the performance of their hedge fund investments over the last 12 months, with 69% of respondents stating that their investments met or exceeded their expectations. However, just under a third of investors surveyed felt that the performance of their hedge fund portfolios had fallen short of expectations.



Strategic Preferences

Long/short equity and global macro are amongst the most favoured hedge fund strategies, and in the current economic climate it is not surprising to see that institutional investors are seeking to invest in more liquid hedge fund strategies. While credit and distressed securities/debt are still popular strategies, none of the surveyed investors favour funds of hedge funds, as shown in Fig. 7. Those that have been investing in hedge funds for a while tend to move away from this type of fund as they become more familiar with the asset class, preferring to invest directly instead. There are a number of reasons for this, such as the additional layer of fees associated with multi-manager funds and the desire for a greater control over investments. Foreign exchange and relative value arbitrage are amongst the least targeted strategies and this is again a result of the change in the wider economic climate.





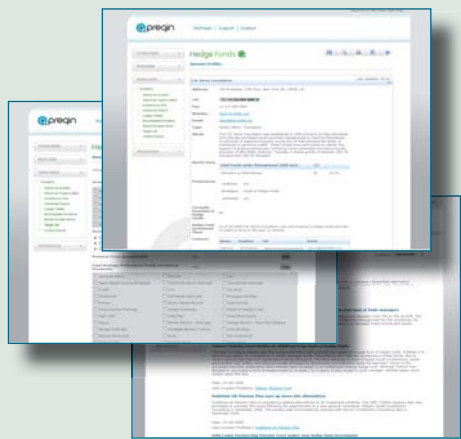
Summary

The results of the survey indicate that institutional support for hedge funds is set to increase modestly in the coming year, with longer term plans pointing to a more significant increase in commitment levels. With new investors also continuing to enter the asset class all the time, the institutional investor base continues to grow in significance, and it will become increasingly vital for fund managers to adopt fund management practices that are suited to institutional capital if they are to attract such support. One of the most significant findings of the survey is the relatively high proportion of institutions that will be considering exposure with new managers rather than simply increasing or maintaining allocations to existing managers. During this period of transition we are seeing investors paying close attention to existing investments and becoming especially active in ensuring that they are assembling an effective portfolio aligned to their appetite for risk and general strategy through reviewing potential new investments.

As a result there are many opportunities to gain institutional support for hedge funds in the current market, and it is especially important that managers seeking to raise capital are able to identify those investors exhibiting a preference for their fund types in order to be efficient and successful in the fundraising market.

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2010 Preqin Global Hedge Fund Investor Review

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London: Scotia House, 33 Finsbury Square, London. EC2A 1BB
+44 (0)20 7065 5100

New York: 230 Park Avenue, 10th floor, New York, NY 10169
+1 212 808 3008

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Preqin provides hedge fund managers, marketers and others with a database of over 2,500 institutional investors in hedge funds.

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info@preqin.com

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London:

Scotia House
33 Finsbury Square
London EC2A 1BB

Tel: +44 (0)20 7065 5100
Fax +44 (0)87 0330 5892

New York:

230 Park Avenue
10th Floor
New York
NY 10169

Fax: +1 212 808 3008
Tel: +1 440 445 9595

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