

Hedge Fund **ALERT**

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BIGGEST HEDGE FUND INVESTORS

Biggest Fund Investors Show Signs of Fatigue

Following two years of solid growth, the amount of hedge fund investments held by the world's largest institutional investors remained roughly flat over the past year.

The 20 most active hedge fund investors, measured by the values of their limited-partnership stakes, have a combined \$269.2 billion invested in single-manager and multi-manager vehicles, according to data compiled by **Preqin** for **Hedge Fund Alert**. That's up just 1.3% from \$265.6 billion a year earlier, compared to a 7% growth rate for 2014-2015 and 10% for 2013-2014.

The slowdown appears to reflect increasing skepticism about hedge funds among institutional investors. Indeed, the uptick in assets during the past 12 months may have been driven more by performance gains than fresh capital contributions, considering the HFRI Fund Weighted Composite Index rose 4.2% in the first three quarters. During the same period, hedge funds globally experienced net outflows totaling \$60 billion, according to **eVestment**.

Recent headlines suggest that public pensions in particular have soured on hedge funds. **New Jersey Investment Council**, for example, said in September that it planned to halve its hedge fund portfolio — currently the 12th largest in the world, with \$8.6 billion (see ranking on Pages 5-7).

On the other hand, three of the five largest limited partners are pensions: **APG**, a Dutch pension manager that invests on behalf of Stichting Pensioenfonds ABP (\$22.8 billion of hedge fund stakes); **CPP Investment Board** (\$13.8 billion); and **Texas Teachers** (\$13.2 billion).

"Although they account for the majority of the most high-profile announcements surrounding hedge fund withdrawals over the past year, it is in fact public pension funds that have risen most in the ranks of the largest investors," said **Amy Bensted**, who covers hedge funds for Preqin.

That trend could reverse in the coming year, however, if more large pensions follow the lead of New Jersey Investment Council, one of the most aggressive hedge fund investors in recent years. **Calpers**, the nation's largest public pension, had been among the top 20 limited partners until 2014, when it abruptly dismantled its hedge fund portfolio. And **Maryland State Retirement**, which ranked 13th last year with \$7.8 billion of hedge fund stakes, dropped off the list this year.

Even Texas Teachers, whose commitment to hedge funds includes a minority ownership stake in **Bridgewater Associates**, appears to be having second thoughts. **David Kelly**, who chairs the Texas Teachers board, recently quipped about hedge fund managers: "It seems like at the next gas station, we should stop and tell those guys to get out and get us something to eat, and then drive away as fast as we can."

The top-20 ranking is led by two sovereign wealth funds. **Abu Dhabi Investment Council** remains in a league of its own, with a \$58 billion hedge fund portfolio, unchanged from last year. In second place is **China Investment Corp.**, which holds \$34.4 billion of hedge fund stakes, up from \$29.9 billion a year earlier.

Among the top 20, the most aggressive hedge fund investor is **Howard Hughes Medical Institute**, whose \$5.7 billion of fund stakes accounts for 30% of its overall assets. The institute debuts on the list this year in 17th place. Other institutions with outsized allocations to hedge funds include **University of Texas**, whose fund holdings amount to more than 28% of its overall assets; **Stanford Management** (25%); and **Texas County & District Retirement** (24.4%).

University of California Regents, which manages retirement assets for the University of California system, appears on the list for the first time this year, with \$10.9 billion of hedge fund investments — good for eighth place. Regents recently increased its allocation target for hedge funds to 15%, while at the same time culling its portfolio of underperforming managers.

And **AIG** dropped off the list, reflecting chief executive **Peter Hancock's** increasing disillusionment with hedge funds. "It's not an efficient use of our capital, so we'll be diminishing our allocation to hedge funds," Hancock told **Bloomberg** in January. Since then, AIG has submitted redemption requests for some \$4 billion of hedge fund assets.

Preqin, a London research firm focused on alternative investments, culled the top 20 from its database of more than 5,000 investors. The data is obtained directly from the institutions, as well as from regulatory filings, financial reports and Freedom of Information Act requests. Hedge Fund Alert supplemented Preqin's data with its own reporting. The ranking counts only primary investors in hedge funds, and excludes asset-gatherers such as funds of funds and wealth managers. ❖

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Top 20 Institutional Investors in Hedge Funds

Data compiled by Preqin, with supplemental reporting by Hedge Fund Alert

	Institution	Type	Total Assets (\$Bil.)	Hedge Fund Assets (\$Bil.)	The Skinny
1	Abu Dhabi Investment Authority Abu Dhabi	Sovereign wealth fund	\$773.0	\$58.0	Operates three externally managed investment mandates. Two are hedge fund-specific, investing across discretionary global macro, relative value, event-driven and equity hedge strategies. The third is a systematic trading mandate comprising quantitative strategies and commodity-trading advisers. In July 2016, Abu Dhabi expanded alternative-investment staff and began increasing internally managed portfolio.
2	China Investment Corp. Beijing	Sovereign wealth fund	814.0	34.4	Managing director Roslyn Zhang slammed hedge fund performance while attending the SALT Conference in May 2016, saying too many managers are guilty of "herd mentality." Still, fund's hedge fund assets are up 15% since fourth quarter 2015. Began investing in hedge funds in 2009. Has deployed capital to Blackstone, Capula Investment, Morgan Stanley Alternative Investment and Oaktree Capital.
3	APG Amsterdam	Pension manager	455.0	22.8	Paulus Ingram, who oversaw hedge fund investments, left in September 2016 to launch ARC Fiduciary, a Greenwich, Conn., investment shop focused on businesses that fit the U.N.'s Sustainable Development Goals. His former responsibilities are being handled by other executives pending a permanent replacement. APG, which mainly runs money for Stichting Pensioenfonds ABP, has been investing in hedge funds since 2001.
4	CPP Investment Board Toronto	Public Pension	270.0	13.8	Cracks top five with almost 9% increase in hedge fund assets since fourth quarter 2015. In April 2016, senior managing director Pierre Lavallee told Financial Times that hedge funds have added "significant" value. Has invested with AQR Capital, Brevan Howard Asset Management, Bridgewater Associates and Pershing Square Capital.
5	Texas Teachers Austin	Public pension	129.0	13.2	Hedge fund bucket has increased 12% since fourth quarter 2015. But in September 2016, chairman David Kelly called for a review of the portfolio, indicating he was dissatisfied with performance. For three years ending June 2016, the portfolio generated a 2.7% annualized return, versus 11.2% for S&P 500 Index. Has been investing in hedge funds since 2001, deploying capital to AQR Capital, Fir Tree Capital, GoldenTree Asset Management, MKP Capital and PDT Partners, among others. Bought minority stake in Bridgewater Associates in 2012.
6	Future Fund Melbourne, Australia	Sovereign wealth fund	95.0	12.7	Opportunistic investor often rebalances its portfolio. Currently ramping up exposure to discretionary macro funds, in part by targeting emerging managers in that area. Known for aggressively negotiating favorable fee structures. BlueCrest Capital, Brevan Howard Asset Management and Bridgewater Associates are among blue-chip managers it has worked with.
7	Ohio Public Employees Columbus, Ohio	Public pension	86.0	11.1	Slipped from fifth place a year earlier, but maintains 14% allocation target for hedge funds. In June 2016, despite heavy pressure from unions, board voted down proposal to consider reducing allocation. Favors blue-chip managers including AQR Capital, Bridgewater Associates, Canyon Capital and Graham Capital. Also invested with Visium Asset Management prior to collapse amid insider-trading scandal.

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8	University of California Regents Oakland, Calif.	Public pension	\$98.0	\$10.9	Streamlining hedge fund portfolio from about 30 to 10 managers, redirecting capital to strongest performers. Makes first appearance on top-20 investors list after substantially raising target allocation for hedge funds in fourth quarter 2015. Portfolio includes funds run by Adage Capital, Elliott Management, Viking Global and York Capital.
9	GM Asset Management New York	Corporate pension	76.0	10.8	Hedge fund assets up 75% since fourth quarter 2015, and now account for 14% of overall assets. Has invested with Cerberus Capital, ESL Investments and Stone Lion Capital. Runs more than 30 retirement plans for U.S. auto giant and its affiliates.
10	University of Texas Austin	Endowment	37.0	10.5	Chief executive/chief investment officer Bruce Zimmerman resigned in October 2016 after nearly 10 years on the job. Interim replacement is senior managing director Mark Warner, who oversaw investments in emerging markets and natural resources. Texas was among first endowments to invest in hedge funds, starting in 1997, and 28% allocation is among the largest. Has invested with Baupost Group, Eton Park Capital, Farallon Capital and Owl Creek Asset Management, among others.
10	GIC Singapore	Sovereign wealth fund	350.0	10.5	Elevated Jeffrey Jaensubhakij to deputy chief investment officer in April 2016. Also created positions overseeing private equity, real estate and infrastructure investments. Former investment chief Ng Kok Song now on board of Makena Capital, which runs \$18 billion for institutional investors.
12	New Jersey State Investment Council Trenton, N.J.	Public pension	74.0	8.6	Hedge fund assets increased substantially in past year, but trend has reversed since council's September 2016 decision to slash allocation target in half, to 6%. So far has redeemed from Arden Asset Management, Brevan Howard Asset Management, Canyon Capital, Centerbridge Partners, Omega Advisors and ValueAct Capital. At same time, committed \$1 billion to BlackRock for separate account investing in hedge funds with low fees.
13	Ontario Teachers Toronto	Public pension	129.0	8.0	Dropped from seventh place last year as hedge fund portfolio shrank by about a third. Savvy risk manager has been consolidating fund roster, targeting top performers. Has invested with GMO, Marshall Wace and ValueAct Capital. Also gave money to Deimos Asset Management, a multi-strategy operation that folded in 2016.
13	New York Common Fund Albany, N.Y.	Public pension	79.0	8.0	State Department of Financial Services slammed Comptroller Thomas DiNapoli in October 2016 report for paying \$1 billion in "excess" fees for poor-performing hedge funds. DiNapoli's office called report "uninformed." Recent investments include \$250 million for distressed-debt fund run by Oak Hill Advisors and \$300 million for a Brookfield infrastructure fund. Also allocated to vehicles run by Farallon Capital and Semper Capital.
15	Varma Mutual Pension Varma, Finland	Pension manager	46.0	7.4	Slipped from 12th place a year earlier, but maintains 16% target allocation for hedge funds. Diversified portfolio of some 45 funds includes vehicles run by Blackstone, D.E. Shaw, Elliot Management and York Capital. Doesn't plan to add to portfolio during fiscal year ending June 2017.

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16	Texas County & District Retirement Austin	Public pension	\$25.0	\$6.1	Maintains aggressive 25% allocation target, with investments in 33 funds. Relationships include Brevan Howard Asset Management, Highline Capital, MKP Capital, Och-Ziff Capital and York Capital.
17	Howard Hughes Medical Institute Chevy Chase, Md.	Foundation	19.0	5.7	Only foundation on top-20 list typically holds 10-20 hedge fund positions. Maintains aggressive 30% target allocation. Has invested with Ellington Management, Merced Capital and Och-Ziff Capital.
17	BT Pension Scheme London	Corporate pension	53.0	5.7	Among the biggest U.K. pensions, BT has invested with BlueCrest Capital, Bridgewater Associates and Dexion Capital. Also owns alternative asset manager Hermes Investment, which had £26 billion (\$32 billion) under management in fourth quarter 2016.
19	Stanford Management Stanford, Calif.	Endowment	22.0	5.5	Vera Minar, who oversaw absolute-return and fixed-income strategies, left in April 2016 to join Seattle alternative-investment shop Columbia Pacific Advisors. Her departure followed those of four other managing directors since chief executive Robert Wallace arrived in March 2015. Unclear what impact, if any, personnel changes will have on hedge fund program.
19	Boeing Co. Pension Fund Chicago	Corporate pension	56.0	5.5	Hedge fund assets have fallen about 10% since fourth quarter 2015, but target allocation remains steady at 10%. Has worked with Alyeska Investment, Basso Capital and GCM Grosvenor.

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