

Media Release



ADDITIONAL \$1.5 BILLION SUPER INJECTION EXPECTED INTO HEDGE FUNDS

Melbourne, 6 April 2006 - Australian hedge funds will receive a \$1.5 billion boost in the next two to five years with superannuation trustees indicating they will be reducing their allocations to European and Asian investment strategies in favour of Australian strategies, according to a new industry survey.

The survey, undertaken in January 2006 by the University of NSW's Faculty of Commerce and Economics, was commissioned by the Australian chapter of the Alternative Investment Management Association (AIMA). The survey was designed to measure the current level of hedge fund investing by Australian superannuation funds, and their intent for either increasing, decreasing or maintaining their current level of investment. Superannuation funds invest \$791 billion of total assets (as at 30 Sept 2005 according to APRA) in investment markets on behalf of individual Australians.

The intended \$1.5 billion increase from those funds participating in the survey will see their current super fund allocations to local hedge fund managers, jump from 2.9 percent to 4.1 percent, representing a 41 percent increase on current investments.

The study captured about 20 percent of the market, including most of the larger funds. Total assets of the respondents to the survey were \$145 billion with each fund having on average, \$3.5 billion under management.

Seventy one per cent of the super funds interviewed were hedge fund investors, with on average three percent of funds under management allocated to hedge funds. Some super funds allocate up to 10 percent whilst others do not allocate to hedge funds at all.

With Australia set to account for more than half the contestable pension assets in Asia by 2015 - a result of Australia's mandatory retirement savings regime - Australia is emerging as the dominant regional hub for the investment management and hedge fund industries.

According to AIMA, the rapid growth of Australia's hedge fund market is attributable to a deep talent pool of investment management expertise, a sound regulatory framework for alternative investment strategies, Australia's mandatory pension fund scheme, and a real desire by Australian investors to diversify their sources of risk and return.

The Chair of the Alternative Investment Management Association Chapter in Australia, Kim Ivey, said that the report revealed that super funds were likely to retain their preference for global strategies, but were looking to reduce their allocations to European and Asian strategies in favour of Australian strategies.

The report found that the current allocation to investment strategies were: 77 percent global, 14 percent Australian, five percent in the USA, and four percent in Europe and Asia.

"Super funds are realising that with US\$30 billion already invested in hedge funds, Australia is a sophisticated centre for hedge fund activity in the region," Mr Ivey, who is also the Managing Director of Sydney-based hedge fund, Vertex Capital Management, said.

"The number of institutional investors investing in hedge funds has more than doubled in the past two years ago, with overall allocations to hedge funds increasing also. The survey confirms what many hedge fund managers have been suspecting for some time."

Overseeing the study, Associate Professor John Evans said that fund-of-fund strategies, which currently account for 50 per cent of current allocations, will also change in the next two to five years with superfunds intending to a decrease their allocation to about 30 percent, as the increase to single strategy funds grows.

He said that for those super funds that are interested in specific types of hedge fund investing, long/ short equity is the major investment style of interest. The second most popular investment style is market neutral.

"The survey also found that super funds consider operational and governance issues as more important than historical return," Professor Evans said.

About AIMA

AIMA Australia is the Australian branch of the Alternative Investment Management Association, the leading global hedge fund and alternative investment industry association. In Australia AIMA has 60 members and globally 930 corporate members, comprising 3000 individuals.

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