

MEDIA RELEASE

Superannuation funds to increase investment in hedge funds – AIMA survey

- *Australian super funds expect to increase investment allocations to hedge funds by \$1 billion in next 2-5 years*
 - *Fund confidence in hedge fund investment remains strong; 7 in 10 invest in hedge funds*
 - *AIMA (Australia) expects confidence among institutional investors to grow with greater transparency*

29 May 2008: Leading Australian superannuation funds expect to increase their average allocations to hedge funds from 2.5 to 3.5 per cent over the next 2-5 years, representing a \$1 billion growth in investment.

The finding comes from a survey released today that measured large Australian superannuation funds' current allocations, views and future intentions for hedge fund investment. The research was conducted in the first quarter of 2008 by the University of NSW Business School and commissioned by the Australian Chapter of AIMA, Alternative Investment Management Association, the peak hedge fund industry body.

Fund trustees from some of Australia's major super funds, which represent more than \$100 billion of investments under management, participated in the survey which was carried out in the first quarter of 2008.

Almost 70 per cent of the respondents have existing investments in hedge funds, with an expectation this will rise to nearly 90 per cent over the next two to five years.

AIMA Australia Chairman Kim Ivey said that the findings show that super funds, Australia's largest pool of institutional investors, have considerable faith in the performance of the sector.

"Significantly, the levels of confidence among super funds have remained consistent since our last survey two years ago. This is despite concerted criticism levelled at hedge funds in the Australian market, which we believe has served to make the market more volatile and less informed.

"These survey results reflect a positive confirmation of the institutional market's perception of hedge funds. We believe that with more understanding of this sector and greater operational transparency, confidence will continue to increase among all institutional investors, not just super funds," Mr Ivey said.

When it came to selecting a hedge fund manager, respondents looked for operational experience, team breadth and business experience. This is consistent with nearly 65 per cent of super funds favouring hedge fund products offered by institutional managers over boutique managers. Less than 6 per cent of the super funds surveyed invested in Australian boutique hedge fund managers.

Other survey results include:

Overall, funds of hedge funds are expected to continue as the dominant hedge fund vehicle for super funds. However the super funds' current 61 per cent allocation to fund of fund vehicles is expected to drop to nearly 50

per cent over the next two to five years. The majority of this difference will go to multi-strategy hedge funds (23 per cent) and single strategy hedge funds (27 per cent).

Within the spectrum of hedge fund strategies, superannuation funds are showing significant interest in long/short equity, distressed debt, and emerging market strategies. Less interest is being shown in convertible arbitrage , dedicated short selling, and fixed income arbitrage strategies.

Mr Ivey said that there were two main reasons for the growing attraction to hedge funds in 2008. Firstly, hedge fund managers of all types are heeding the call for better transparency and many now offer greater detail into their investment, risk and operational procedures. Secondly, super funds having reaped exceptional returns from 2004 to 2007 in Australian shares, international equities, and property, are now tactically rebalancing their portfolios to strategies not explicitly exposed to these asset classes.

The survey found that lack of investment transparency is the single biggest obstacle to increasing super funds' investments in hedge funds.

"AIMA Australia is aware of this concern and we have been promoting standardised and more transparent and disclosure guidelines to our hedge fund managers for the past 18 months, " said Mr. Ivey.

"The final disclosure hurdle is probably in the area of short selling. Australia has one of the most complex and onerous regimes in the world for regulation of short selling, but more needs to be done to ensure we have a simple and equitable means of capturing short selling activity. This is absolutely vital to enhancing investor confidence and for building Australia's attractiveness as a regional financial centre."

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The full results of *The Hedge Fund Survey of Australian Superfunds* are available at www.aima-australia.org. For more information, please contact Andreina Garofali at Scaffidi Hugh-Jones on +61 2 9256 9700. .



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