

THE UNIVERSITY OF  
NEW SOUTH WALES



Alternative Investment  
Management Association

Australia Chapter

# **Study of Australian Superannuation Fund attitudes to Hedge Fund investing**

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## **FOREWORD**

In Australia, superannuation funds are a major source of capital for the development of the economy with assets rapidly heading towards \$1 trillion.

The exposure to hedge funds which in reality only combine securities that superannuation funds have invested in for some time is not universal, and restricted in most instances to the major superannuation funds; even then the exposure is small.

Given the purported ability of hedge funds to enhance returns and reduce risk from combinations of traded securities and to produce returns that in many instances are lowly correlated with the existing superannuation fund asset classes, the lack of exposure by most superannuation funds raises the issue of why the exposure is low and what have been the major reasons for this?

This study is aimed at eliciting some of the reasons for the current situation, through establishing what are the attitudes of superannuation funds to hedge fund investments.

This survey is one in an on-going series of studies. The first study, published in 2005 was concerned with the attitude of superannuation fund trustees in Australia to private equity investments and was sponsored by Adveq of Switzerland.

This, the second in the series is concerned with the attitude of Australian superannuation fund trustees to hedge fund investments.

I wish to acknowledge the support of AIMA to undertake this survey and to thank SHED Enterprises for assistance with the mailing list

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## **1. EXECUTIVE SUMMARY**

### **Allocation to Hedge Funds**

- 71% of the respondents of the survey are currently investing in hedge funds
- The current average allocation is just under 3% of funds under management
- The allocation to hedge funds is expected to significantly increase to just over 4 % of funds under management in the next 2-5 years.
- Funds have focused on global strategies and this will remain the major focus for hedge fund investments.
- Fund of funds is the current major method of investing, but this will change in the future with an approximate similar allocation between fund of funds, individual funds and multi strategy funds .

### **Return & Risk Issues**

- The funds see return enhancement and risk management as equally important objectives for investing in hedge funds

### **Investment selection criteria**

- The study indicates that for those funds that are interested in specific types of hedge fund investing, long/ short equity is the major style of interest
- Operational and governance issues are ranked by the funds as being the most important issues when considering investments in hedge funds

### **Education and Influences on Investment Decisions**

- Advisors are seen as the major source of education on hedge fund investing and the major influence on decisions to invest

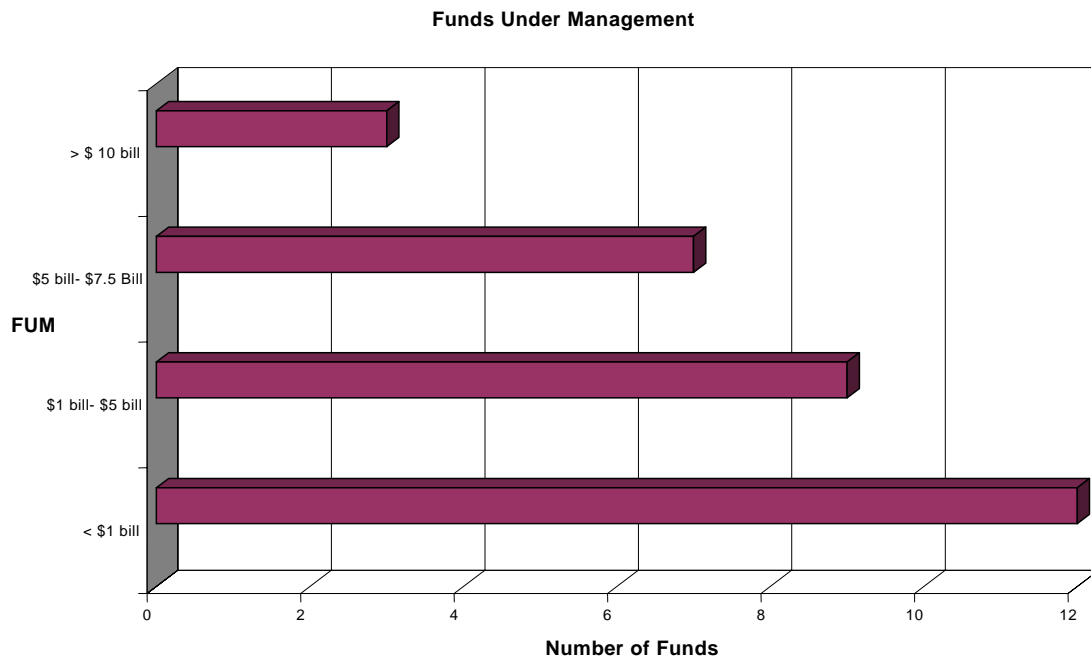
## 2. DATA

The findings of this survey are based on a survey of Australian superannuation funds conducted during January 2006 with 34 respondents. Not all respondents were able to complete all questions included in the survey

The total funds under management of the respondents were in excess of \$145 billion, with an average of \$3.5 billion under management. The sample used for analysis is therefore heavily biased to the very large superannuation funds.

The funds under management of the respondents were distributed as follows:

Figure 2.1: Funds under management



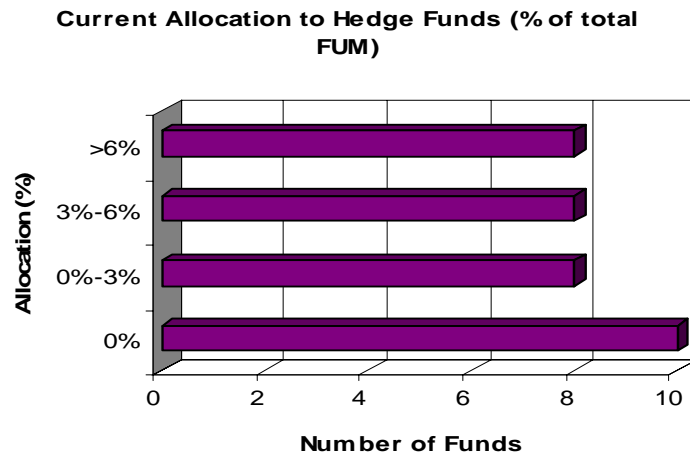
### 3. THE RESULTS

#### 3.1. Current allocation to hedge funds

##### 3.1.1 Overall

- The current average allocation to hedge funds is 2.9%, but with a reasonably wide distribution across the funds from 0% to 10%

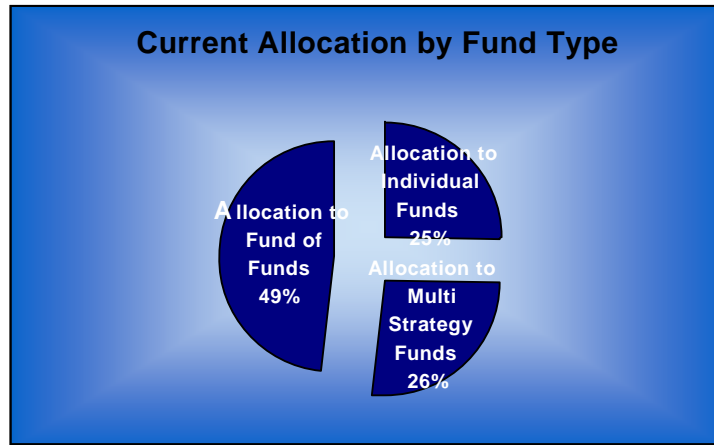
Figure 3.1: Current Allocation to Hedge Funds



##### 3.1.2 Allocation by Fund Type

- Fund of funds is the most prevalent type of investment strategy currently adopted, with almost 50% of funds using this approach. Allocations to individual and multi strategy funds is evenly split.

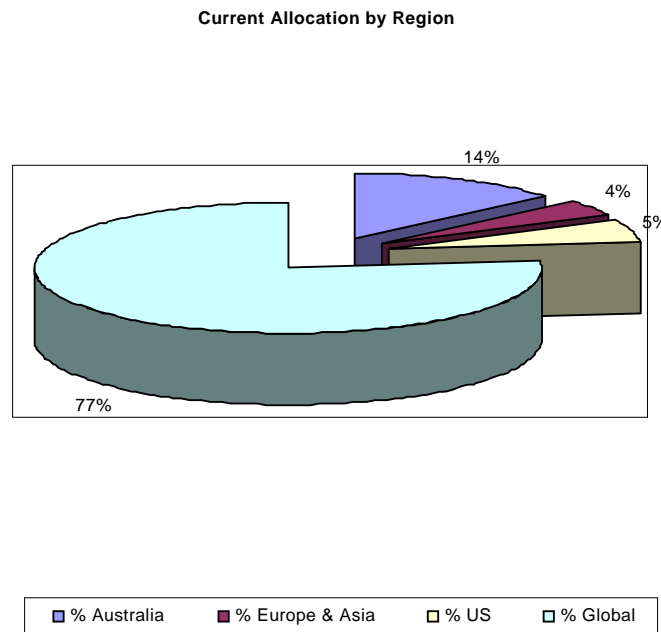
Figure 3.2 : Current allocation by Fund Type



### 3.1.3 Allocation by Region

- By far the greatest allocation is to global strategies, ie non regional specific, with this allocation accounting for around three quarters of allocations

Figure 3.3: Current Allocation by Region

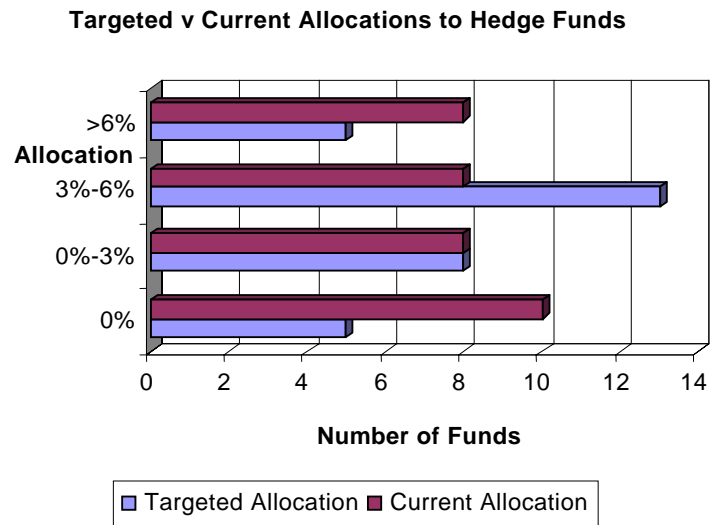


## 3.2. Future allocation to Hedge Funds

### 3.2.1 Overall

- Over the next 2-5 years, the funds surveyed expected on average to increase their allocation to hedge funds from the current 2.9% to 4.1%, implying around \$1.5 billion will flow into hedge funds in the next few years
- Again, the distribution of future allocations between the funds varies significantly

Figure 3.4: Current v Future Allocations

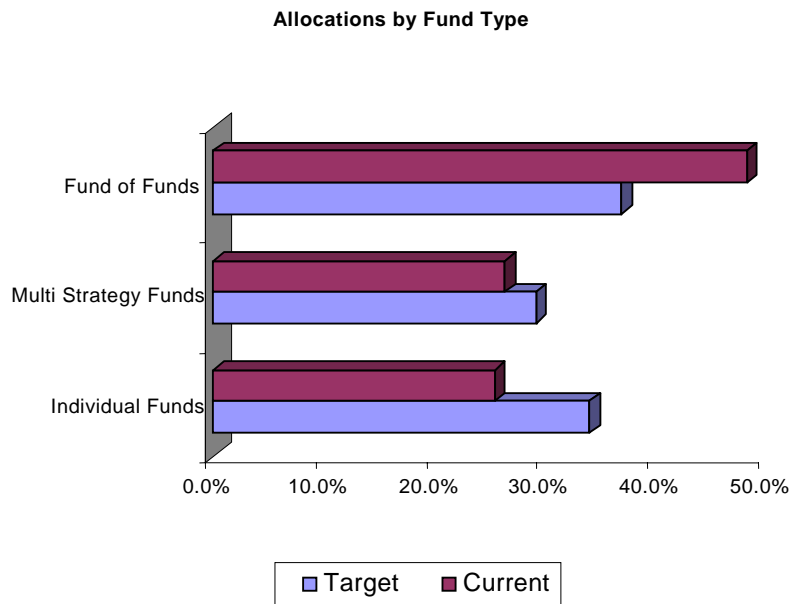


### 3.2.2 Allocation by Fund Type

- Overall, the funds will change their current strategy with a decrease in the allocation to fund of funds that will be swapped into an allocation to single strategy funds; the multi strategy fund allocation will not change much.



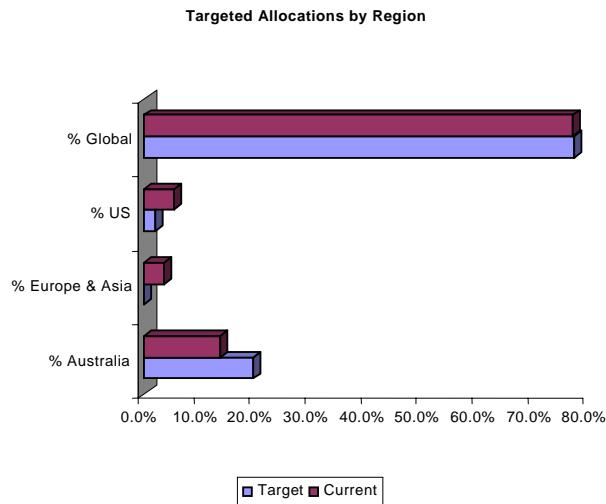
Figure 3.5: Allocation by Fund Type



### 3.2.3 Allocation by Region

- Funds are not expecting to change their regional allocation much with global allocations continuing to dominate at around 77% of the total allocation to hedge funds
- Funds are expecting to increase their allocation to Australian hedge funds at the expense of specific European and Asian exposure

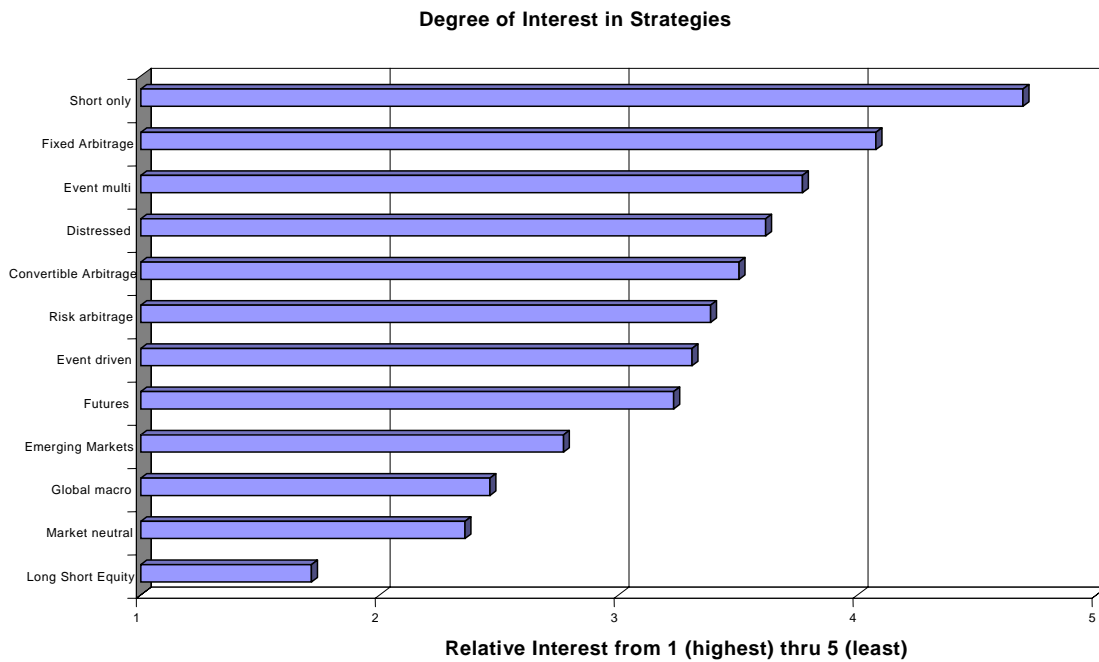
Figure 3.6 Allocation by Region



### 3.2.4 Allocation by Style

- The funds that were considering individual hedge fund investments indicated their major interest in specific styles was in long/ short equity portfolios, with little interest in short only equity styles and event driven styles

Figure 3.7 Allocation by Investment Style



## 4. ISSUES FOR THE FUNDS WHEN INVESTING IN HEDGE FUNDS

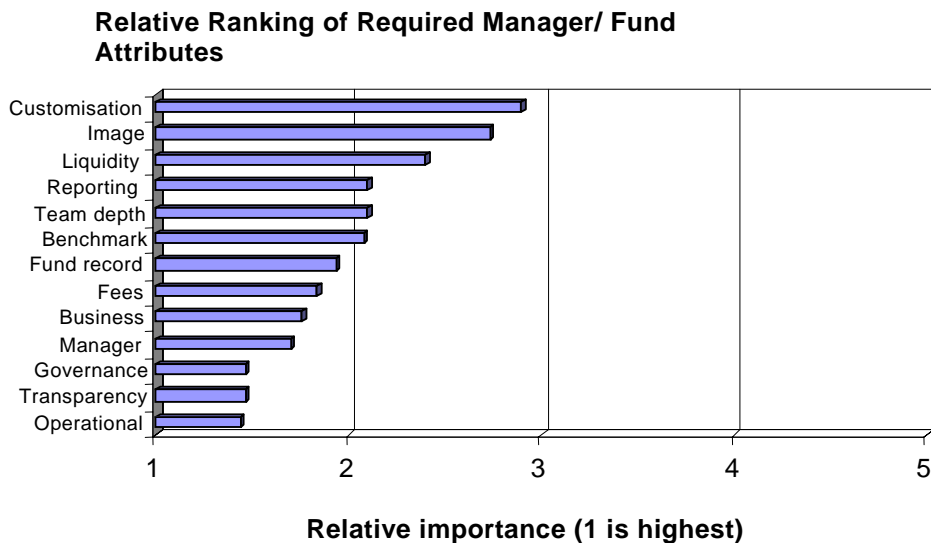
### 4.1 Risk & Return issues

- The funds indicated approximately the same relative importance for both return enhancement and risk management objectives as the reason for acquiring hedge fund investments

### 4.2 Manager/ Fund Attributes Required

- When considering which managers/funds to use for investment, the funds indicated they were most influenced by operational, transparency, and governance issues
- There were not any issues that ranked highly in terms of presenting obstacles to making hedge fund investments

Figure 4.2 Relative Ranking of Important Issues when considering Investments



## **5. EDUCATION AND INFLUENCES ON FUND DECISIONS**

### **5.1. Sources of Advice & Education**

- Advisors are seen as being the most influential in the hedge fund investment decision and also in the provision of education to the funds

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