H1 2014 Round-up: Winners and Losers

Hedge fund performance in early 2014 was disappointing with the All Regions and Strategies benchmark posting negative returns in January, March and April. However, May and June produced more encouraging returns. Graeme Terry looks at which fund groups were the winners and losers in the first half of the year.

Winners

Event Driven Strategies

Event driven strategies have continued their impressive performance in the first half of 2014, with this category again the leading strategy benchmark after the first six months of the year. Event driven strategies also formed the leading strategy benchmark in both 2012 and 2013, with these funds able to take advantage of opportunities presented by the economic environment. Investors are taking notice of this consistent positive performance, and event driven was the second most searched for strategy in Q2 2014, replacing macro, which had previously consistently been the second most searched for strategy after long/short equity. The proportion of funds launching with a core event driven strategy has remained relatively constant over the past six quarters, with 12% of all fund launches in H1 2014 using this strategy.

12 Number of consecutive positive months for the Preqin Event Driven Strategies benchmark.

20% of investor searches issued in H1 2014 included a search for event driven funds.

Top performing hedge fund strategy category in H1 2014.

Event driven strategies funds made gains of 5.24% in H1 2014.

North America

Funds focused on investing in North America have outperformed funds focused on all other regions in H1 2014, with six months of positive performance taking average year-to-date returns to 6.02%. North America-based firms are continuing to dominate fund launch activity, representing approximately 70% of all hedge fund launches in the first six months of 2014; there was also an increase in the proportion of funds launching with a North America focus. Institutional investors based in North America continue to drive inflows into the hedge fund industry, and these firms accounted for 46% of all investor searches initiated during the second quarter. North America is the most established hedge fund region and it is likely that this region will continue to drive the growth of the industry moving forward.

Top performing hedge fund regional benchmark in H1 2014.

26% Proportion of hedge funds launched with a North America focus in H1 2014.

8 Consecutive quarters of positive performance for the North America benchmark.

$43bn North America-based institutions increased their total hedge fund allocation by $43bn in H1 2014.

Losers

Multi-Strategy

Hedge funds with a multi-strategy approach have had underwhelming performance in the first six months of the year, posting average year-to-date returns of 3.21% as of 30 June 2014. This means that multi-strategy funds trail the overall hedge fund benchmark, which stands at 3.86%. There has been less launch activity in this sector, with just 3% of all hedge funds launched in H1 2014 adopting a multi-strategy approach, as managers have focused on more specialized strategies. There remains some institutional interest in multi-strategy funds, with 13% of all searches initiated in H1 2014 including a multi-strategy component; however, this has declined slightly from H2 2013. The increased diversification provided by multi-strategy funds continues to be attractive to some investors, although there is a sense that a number of investors are looking for the funds they invest in to have a clearly defined strategy in place.

2% Just 2% of all hedge fund launches in Q2 2014 have a multi-strategy approach.

Second worst performing strategy benchmark in H1 2014.

2.26% Average returns of a multi-strategy hedge fund in Q2 2014.

13% of investor mandates in H1 2014 included a search for multi-strategy funds.

Asia-Pacific

Asia-Pacific-focused hedge funds posted strong returns in 2013 as a result of buoyant equity markets, but these funds have been unable to sustain this performance in the first half of 2014; the Preqin Asia-Pacific benchmark was the worst performing regional benchmark in H1, with average returns of 2.43%. This is a very different Asia-Pacific market to the one witnessed last year, when the Asia-Pacific benchmark delivered returns in excess of 8% in both H1 and H2 of 2013. These recent performance struggles have been reflected in the number of fund launches focusing on the region, with just 9% of all hedge fund launches in Q2 2014 having an Asia-Pacific focus. This is the lowest proportion of quarterly fund launches represented by the region since Q4 2012.

Worst performing regional benchmark in H1 2014.

9% Proportion of all hedge fund launches represented by Asia-Pacific-based managers in H1 2014.

H2 2011 Asia-Pacific-focused funds posted their worst half yearly returns since H2 2011.

14% of all investor searches issued in H1 2014 were by investors based in Asia-Pacific.

Activist

As highlighted in the Preqin Special Report: Activist Hedge Funds, activist funds have been growing in prominence in recent years. Activist hedge funds often deliver higher returns than other hedge fund approaches, with these funds returning an average of 5.32% in H1 2014, although they do not always deliver favourable returns in a risk-adjusted context. The Preqin Activist benchmark suffered a loss in both January and April, but gains in May and June have placed these funds just behind the 5.39% year-to-date returns they had at the same stage in 2013, when the benchmark went on to achieve annual returns in excess of 16%. 2013 saw the highest number of activist fund launches since 2007 and there have been further new launches in this space in the first half of 2014. Activist hedge funds now manage a total of more than $100bn.

- **4** The Activist Hedge Fund benchmark has produced returns exceeding 2% in four out of the last 12 months.
- **2.39%** Average returns of an activist hedge fund in May 2014.
- **6** Number of recorded activist hedge fund launches in the first half of 2014.
- **Q2 2012** The activist benchmark has delivered positive returns in each quarter since Q2 2012.

UCITS

There has been a slow-down in launches of UCITS-compliant hedge funds, with the structure representing just 3% of all hedge fund launches in Q2 2014. This decline in activity is likely related to the introduction of the AIFMD, as there is still uncertainty within Europe about how the UCITS structure will be affected when the AIFMD is fully implemented. UCITS-compliant hedge funds have also had less than impressive performance so far in 2014, posting six monthly returns of just 2.27% after matching the hedge fund benchmark by suffering losses in January, March and April. Despite this uncertainty, a significant number of investors within Europe remain interested in this regulated fund structure, and 14% of all investor mandates in Q2 2014 included a search for UCITS-compliant funds.

- **11%** of investor searches in H1 2014 were targeting UCITS funds.
- **2.27%** Year-to-date performance of UCITS hedge funds (as of 30 June 2014).
- **11** Number of consecutive quarters where the UCITS benchmark has underperformed compared to hedge fund benchmark.
- **3%** UCITS funds accounted for just 3% of hedge fund launches in Q2 2014, compared to 8% in Q1.

Outlook

Hedge funds had a volatile start to the year, with performance in Q1 2014 representing the worst start to a year since 2008. The All Regions and Strategies hedge fund benchmark was also in the red for April; however, positive returns in May and June have improved the overall picture and taken benchmark year-to-date returns to 3.86%, only marginally behind the 4.28% recorded by the benchmark at the same stage last year. There has continued to be a healthy number of new hedge fund mandates issued by investors in the first half of the year, and managers will be looking to build on more encouraging performance in May and June in order to continue attracting inflows from the institutional community. So far in 2014, it has been the established hedge fund industry in North America and event driven strategies that have delivered the highest returns and it will be interesting to see if this changes in the second half of the year.

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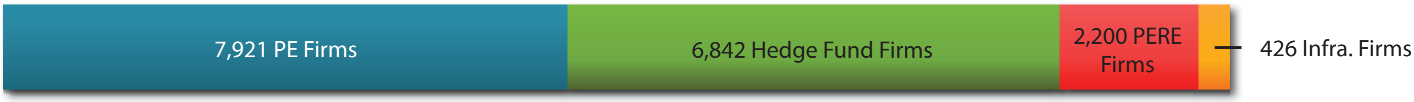
Preqin Global Data Coverage

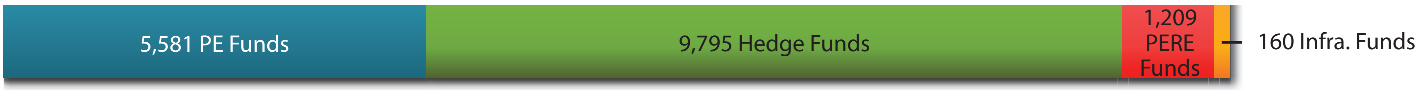
As of 1 July 2014

Fund Coverage: 37,447 Funds

Firm Coverage: 17,389 Firms



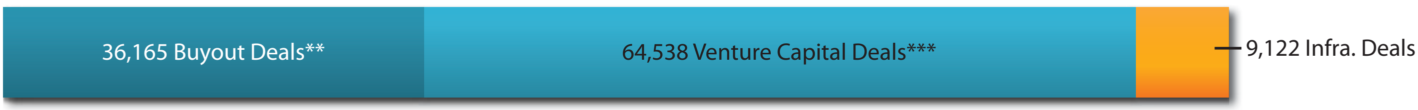
Performance Coverage: 16,745 Funds (IRR Data for 5,504 Funds and Cash Flow Data for 2,582 Funds)



Fundraising Coverage: 15,303 Funds Open for Investment/Launching Soon

Including 2,223 Closed-Ended Funds in Market and 358 Announced or Expected Funds

Deals Coverage: 109,825 Deals Covered; All New Deals Tracked



Investor Coverage: 11,993 Institutional Investors Monitored,

Including 8,430 Verified Active**** in Alternatives and 89,781 LP Commitments to Partnerships

Alternatives Investment Consultant Coverage: 474 Consultants Tracked

Fund Terms Coverage: Analysis Based on Data for Around 9,800 Funds

Best Contacts: Carefully Selected from Our Database of over 285,505 Active Contacts

Plus

Comprehensive coverage of:

- Placement Agents
- Fund Administrators
- Law Firms
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- Dry Powder
- Compensation
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***Venture capital deals: Preqin tracks cash-for-equity investments by professional venture capital firms in companies globally across all venture capital stages, from seed to expansion phase. The deals figures provided by Preqin are based on announced venture capital rounds when the capital is committed to a company.
****Preqin contacts investors directly to ensure their alternatives programs are active. We emphasize active investors, but clients can also view profiles for investors no longer investing or with programs on hold.