

Surge in Fund Launches Revitalizes Activist Hedge Fund Industry

The number of activist hedge funds launched in 2013, at 28 funds, was more than double the 12 launches in 2012 and 11 launches in 2011

Recent research from Preqin reveals that activism is becoming a more widely utilized approach in the hedge fund industry, with 2013 seeing the highest number of activist hedge fund launches since 2007, at 28 funds. In terms of performance, activist funds returned an average of 11.82% in 2013, ahead of the overall hedge fund benchmark which returned 7.88%.

However, there is an increased volatility associated with these returns, and activist hedge funds have consistently exhibited significantly higher levels of volatility (8-14%) than the industry average (5-10%) over the last five years. This means that risk-adjusted returns for activist hedge funds are lower than the industry average, with the three-year Sharpe ratio (Risk free rate = 2%) as of 30 April 2014 being 0.52 for activists compared to 0.77 for hedge funds overall.

Key Facts:

- Activist hedge funds have also outperformed hedge funds overall on an annualized basis over the past five years, returning an average of 12.73% vs. 11.74% for hedge funds overall.
- North America was the best performing regional activist benchmark in the 12-month period ending 30 April 2014 – with activists focused on the region posting an average return of 16.98%. This was ahead of the average of all hedge funds focused on the region at 13.61%.
- North America is the most established region for activist investing, with 66% of activist hedge funds managed by firms headquartered in North America. 41% of activist funds focus on investing in North America, while 32% have a global investment focus.
- The vast majority of institutional investors (90%) with a preference for activist investing are also based in North America, with fund of hedge funds managers, pension funds and foundations representing over 80% of all known investors in activist funds.
- Elliott International is the largest activist hedge fund, with \$15.6bn in assets under management, and this is also the activist fund with the highest number of commitments from institutional investors.

For more information and analysis, please see the full report:

http://www.preqin.com/docs/reports/Preqin_Special_Report_Activist_Hedge_Funds_June_14.pdf

Comment:

“Hedge funds using shareholder activism as a method of investment have been a big talking point in the industry in recent years. As activism becomes a more widely utilized approach, fund managers are increasingly seeing viable opportunities for investment in this area, with 2013 seeing the highest number of activist fund launches since 2007. These funds appear to be growing in terms of both numbers and size, with Preqin data indicating that activist hedge funds now account for more than \$100bn in assets.

Activist hedge funds have performed well in recent years when compared to the overall hedge fund benchmark, but there is an increased volatility associated with this outperformance, and this means that the returns of activist hedge funds fall short of the asset class as a whole when considered on a risk-adjusted basis. However, activism remains a strategy to watch over the next few years, and it will be interesting to see if this investment approach becomes more widespread globally in the future.”

Amy Bensted, Head of Hedge Funds Products

Note to Editors:

- Preqin is spelled without the letter ‘U’ after the ‘Q’, the company name being an amalgamation of the former name, Private Equity Intelligence.

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About Preqin:

Preqin is the leading source of information for the alternative assets industry, providing data and analysis via online databases, publications and bespoke data requests.

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