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Press Release
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Investors Turn Back to Hedge Funds in 2018

Investors look to put more capital into the asset class as they align themselves defensively

For the first time since December 2014, the proportion of investors that plan to decrease their exposure to hedge funds does not outweigh the proportion intending to increase their exposure. The largest proportion of investors since December 2013 (27%) are planning to increase their allocations to the asset class in 2018, and almost half (46%) are planning to maintain them over the next 12 months. This may be due to widespread sentiment that the public equity markets may correct in the year ahead: 45% of investors believe equities markets are at a peak as of the end of 2017, and 5% believe they are already in a recessional phase. Consequently, investors are looking to allocate more capital to hedge funds, and in particular are choosing diversifying strategies such as CTAs and macro funds, which may provide downside risk protection. They are also increasingly looking to alternative structures such as UCITS funds and co-investment opportunities to further diversify their access to the industry.

For more information and analysis, see the full *February 2018 Hedge Fund Spotlight* here:
http://docs.preqin.com/newsletters/hf/Preqin-Hedge-Fund-Spotlight-February-2018.pdf

Key Hedge Fund 2018 Outlook Facts:

- Following a year of net outflows of $110bn in 2016, **2017 experienced net investor inflows of $44.4bn**.
- Almost half (46%) of investors plan to maintain their allocations in 2018, while **27% plan to increase them** – the highest proportion since December 2013 which plan to do so.
- However, **45% believe equity markets are at a peak**, while 5% believe they are already in a recession phase.
- As a result, **37% of investors plan to position their portfolios more defensively** in 2018, compared to 10% that plan to position them more aggressively.
- In this environment, diversifying strategies draw investor appetite: **23% of investors plan to increase their allocations to systematic CTAs in 2018,** the greatest proportion.
- By contrast, **just 14% of investors will increase exposure to equity strategies hedge funds**, while 16% intend to reduce their allocations in 2018.
- Investors are also looking to alternative structures: **nearly half (48%) of investors plan to increase their investments in UCITS** funds in 2018, with no investors surveyed planning cuts to their holdings.
- Investor **appetite for co-investment opportunities is also growing**, with 44% of investors intending to increase their investments in the structure in 2018, and just 6% planning to reduce them.

Amy Bensted, Head of Hedge Fund Products:

"Having faced an extended period of low investor confidence and net capital outflows, the hedge fund industry is now experiencing a renaissance among institutions. 2017 saw the asset class mark four quarters of net inflows, and at the start of 2018 the highest proportion of investors in five years are planning to increase their exposure over the year ahead. This may be largely due to an expected correction in equity markets: half of investors now feel that the long bullish phase of recent years is close to ending – a sentiment seemingly confirmed by rising volatility in recent weeks. In these circumstances, hedge funds provide a valuable opportunity for portfolio diversification and downside risk protection.

In fact, Preqin is already seeing investor search activity for hedge funds rise markedly. The number of active fund searches has risen by a quarter in the past year to reach almost 1,000, and the average size of intended new investments has grown by 40%. This is very encouraging for hedge funds, but in such a crowded marketplace they will still need to work hard to attract and retain new investor capital – investor inflows have been concentrated among strong performers and defensive strategies such as macro funds and CTAs."

Preqin is the leading source of information for the alternative assets industry, providing insight and analysis gathered by its global teams of dedicated researchers. Founded in 2003, the company is a frequent source of intelligence used in the global financial press, through its online databases, regular publications and bespoke data requests.

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