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Disappointing Year for Hedge Fund Returns

40% of investors feel that returns have fallen below expectations in 2011

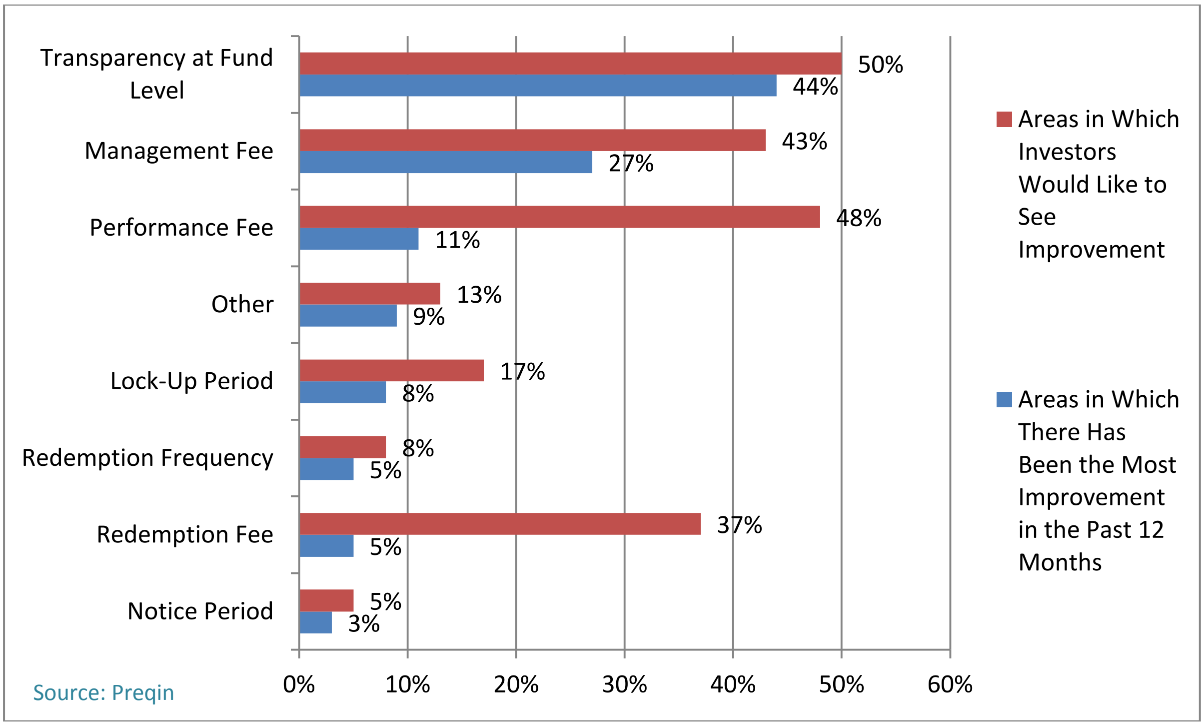
Just 11% of institutional hedge fund investors have stated that returns on their investments have exceeded expectations in the past 12 months, the latest Preqin study shows. The proportion of investors that believe returns have exceeded, or been in line with, expectations has fallen by 11 percentage points to 60% since 2010. This is the lowest proportion in the past four years.

Hedge Fund Returns: The Past Four Years

- 19% of investors felt that returns had exceeded their expectations in 2010, compared to 11% in 2011 and 9% in 2008.
- The proportion of investors that feel returns have fallen below expectations in 2011, 40%, is the highest in the past four years.
- 28% of investors felt that returns failed to meet their expectations in 2010.
- Returns reached or exceeded the expectations of 73% of investors in 2009 - the highest proportion in the past four years.

Hedge Fund Terms and Conditions

The graph shows the proportion of investors that would like to see improvements in each area of fund terms and conditions and the proportion that believe there has been improvement over the past 12 months.



- 35% of investors feel that terms and conditions have shifted in their favour over the past 12 months. In 2010 the figure stood at 65%.
- 65% have seen no change in fund terms and conditions in the last year
- 46% have attempted to negotiate lower fees in 2011 compared to 48% in 2010.

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- Investors are now less likely to reject a fund based on fee structure than they were last year; 47% surveyed this year said they had done so in the past 12 months compared to 65% in 2010.
- One-third of investors said that managers are prepared to charge lower fees in return for longer lock-up periods.

Single-Manager Hedge Fund Fees

- 29% of managers now use the traditional 2/20 fee structure.
- The mean management fee is 1.6% and the mean performance fee is 19.2%.
- 79% of managers charge a 20% performance fee.
- 40% of managers charge a 2% management fee.
- Asia and Rest of World-based fund managers charge the lowest average management and performance fees.

The full report can be accessed here:

http://www.preqin.com/docs/newsletters/HF/Hedge_Fund_Spotlight_October_2011.pdf

Comment

“Changes to the hedge fund industry are likely to continue apace as cautious institutional investors seek the best possible fund terms from their fund managers. Fees are of great importance to investors, and it is probable that managers will carry on moving away from the 2&20 structure. Dissatisfaction with hedge fund performance will be of concern to the industry and managers will have to listen to their clients to ensure that they keep them on side.

If managers continue to respond to demands from institutional investors, positive inflows will remain in the industry, with the managers best able to adapt to the demands of investors reaping the largest rewards.”

Amy Bensted – Manager, Hedge Fund Data

Note to Editors:

- Preqin is spelled without the letter ‘U’ after the ‘Q’ – the company name is an abbreviation of its former incarnation “Private Equity Intelligence”.
- Over 50 institutional investors around the world took part in the 2011 study. This is the fourth annual study of its kind conducted by Preqin.
- Management and performance fee data is calculated using information provided by 2,000 single manager hedge funds tracked by Preqin.

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.

Preqin has built a reputation in the alternative assets industry for providing the most comprehensive and extensive information possible. Leading alternative assets professionals from around the world rely on Preqin’s services daily, and its data and statistics are regularly quoted by the financial press. For more information, please visit: www.preqin.com

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