

The Q3 2014 Preqin Quarterly Update

Hedge Funds

Insight on the quarter from the leading provider of alternative assets data

Content includes...

Performance Update

Hedge funds in the red for the quarter.

Benchmarks

The most up-to-date performance benchmarks.

Hedge Fund Launches

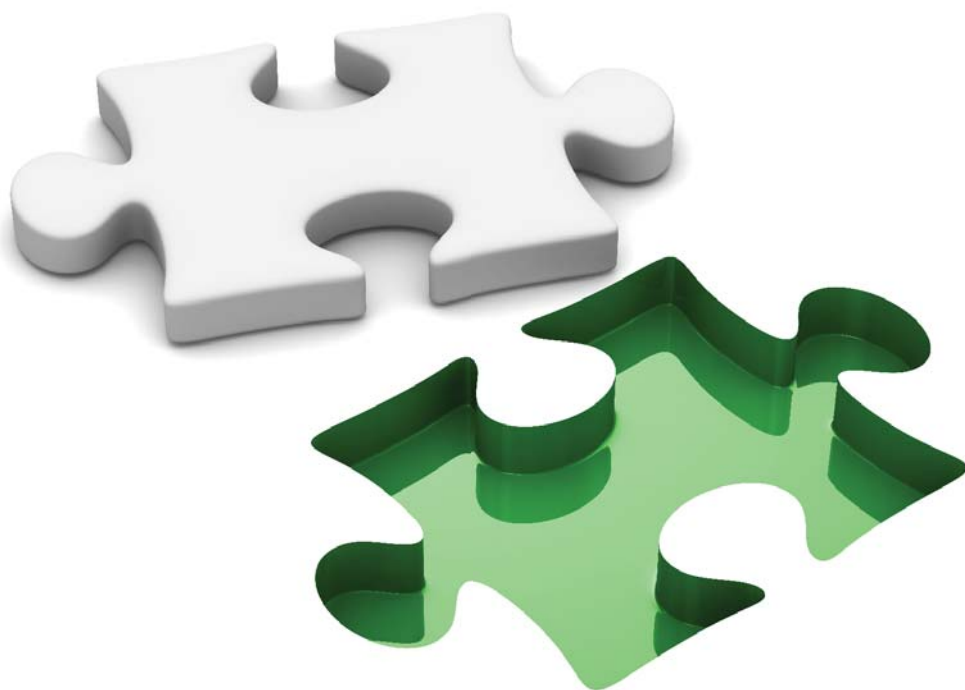
A look at the regions and strategies experiencing the most interest.

Fund Manager League Tables

The leading hedge fund managers.

Investor Mandates

The structures and strategies most sought after.





Foreword

Preqin's Q3 2014 hedge fund performance benchmarks reveal that hedge funds are in the red for the quarter, the first negative quarter for the All Regions and Strategies Hedge Funds benchmark since Q2 2012, when concerns surrounding Greece leaving the Eurozone caused equity markets to tumble.

Despite little to cheer about in terms of the performance of long/short and event-driven strategies, with both underwater in Q3 2014, taking their year-to-date returns to their lowest levels since 2011, fund managers continue to see opportunities in these sectors. Event driven fund launches have reached their highest proportion of quarterly fund launches since Q3 2007 and long/short launches represent over half of all funds launched in Q3 2014.

In contrast, funds that pursue a macro strategy have posted stronger performance in Q3 2014. These funds have already surpassed the returns made in 2013, adding 0.53% in Q3 and taking year-to-date returns to 2.46% compared to 1.47% over the same period last year. Despite this, the proportion of all funds launched in the quarter that pursue a macro strategy theme has reached its lowest level since Q3 2007, at just 13% of all funds launched. However, for managers of macro hedge funds, there is heartening news; appetite for these funds has returned to levels seen in 2013, with the proportion of fund searches initiated by investors for a macro fund increasing to 28% of searches initiated in the quarter compared to 19% in Q2 2014.

CTAs led the way in terms of performance in Q3 2013, topping the performance benchmarks in July, August and September, and making gains of more than five percentage points over the hedge fund benchmark. This is the strategy's best quarterly performance since Q4 2010 and the first time it has had six back-to-back months of positive returns since the end of 2008. Despite the level of appetite for CTAs being relatively low, at 13% of fund searches initiated, this is two percentage points higher than in Q2 2014. If equity markets continue to be volatile in light of global geopolitical tensions and stagnating growth in Europe and China, investors may increasingly diversify into strategies such as CTAs, which can provide some downside protection in case of a market correction.

With the year-end just a few months away, both investors and fund managers alike will be paying attention to the returns of hedge funds and CTAs to see where the benchmarks end. The rotation in the performance of strategies over the year demonstrates the need for diversification within investor portfolios in the current economic climate. Preqin's data suggests there has been an increase in the number of investors looking beyond long/short equity strategies to macro funds over the year. In addition, there may be opportunities for fund managers to launch new strategies as investors seek greater diversification within their portfolios.

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Contents

Performance Update: Q3 2014	p3.
Performance Benchmarks: Q3 2014	p4.
Hedge Fund Launches in Q3 2014	p5.
Largest Hedge Fund and Fund of Hedge Funds Managers by Assets under Management	p6.
Fund Searches Initiated in Q3 2014	p7.

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Performance Update: Q3 2014

Q3 2014 was the poorest quarter for hedge funds (-0.36%) (Fig. 1) since Q2 2012 and saw Preqin's All Hedge Funds benchmark negative for both July (-0.14%) and September (-1.21%). Year-to-date returns have now fallen to 3.33%, which compares poorly to the return of 7.77% posted by the industry in the same period in 2013.

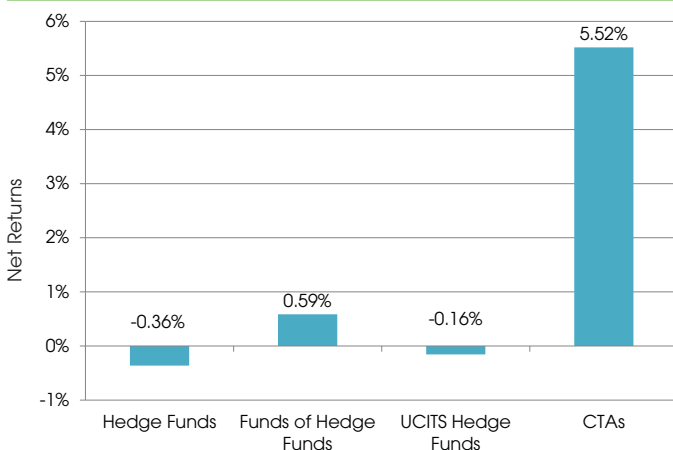
CTAs continued their recovery with their best quarterly performance (+5.52%) since Q4 2010. Six consecutive positive months have grown their return for the year so far to 7.13%. Funds of hedge funds have made a positive return on a quarterly basis since Q2 2013, and their 12-month return (+6.24%) is comparable to that of single-manager funds (+7.20%).

August was the only month in the quarter to see all core hedge fund strategies deliver a positive return (Fig. 2), with September

proving a challenge for long/short funds (-2.06%) in particular. The strategy has delivered a negative return for five of the nine months of the year so far, accumulating 2.99%. Event driven funds had their poorest quarter (-2.32%) for over two years, though their 12-month return of 7.43% lags only CTAs (+9.60%) in a ranking of core strategies.

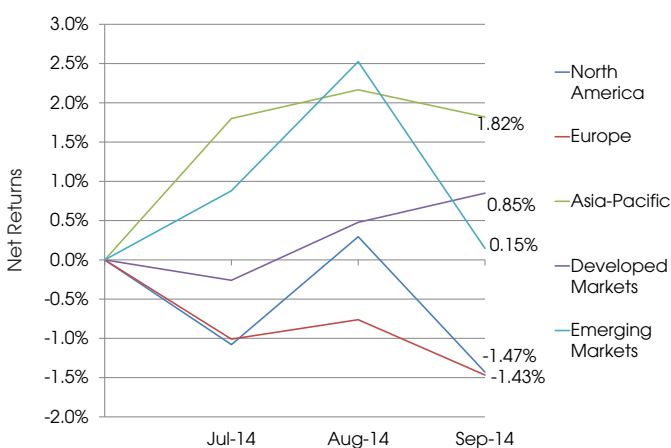
A turbulent quarter across all regions globally saw North America- and emerging markets-focused funds hit hardest by a negative September across the board (Fig. 3). A slow-down in growth for the US equity markets (Fig. 4) was perhaps reflected in the negative quarterly return of North America-focused funds (-1.43%), though the region remains the best performer over 12 months (+9.08%). Europe-focused funds have returned 2.04% in 2014 in comparison to 8.46% for the first nine months of 2013.

Fig. 1: Net Returns of Hedge Funds by Structure, Q3 2014*



Source: Preqin Hedge Fund Analyst

Fig. 3: Cumulative Net Returns of Hedge Funds by Geographic Focus, Q3 2014*



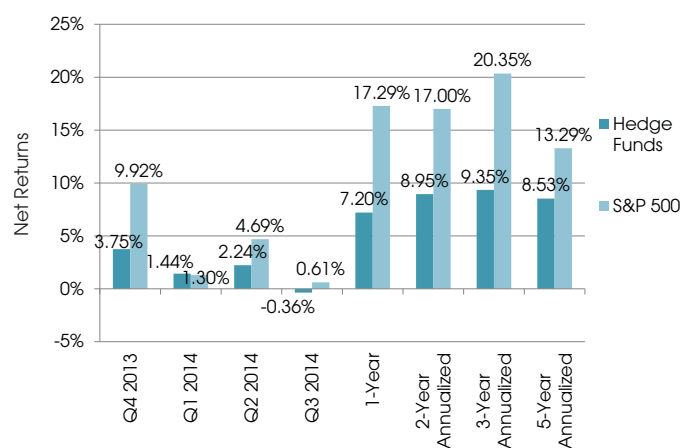
Source: Preqin Hedge Fund Analyst

Fig. 2: Net Returns of Single-Manager Hedge Funds by Strategy*

July 2014	August 2014	September 2014	Q3 2014	Q2 2014
CTAs 0.20%	CTAs 2.28%	CTAs 2.96%	CTAs 5.52%	Event Driven 2.49%
Multi-Strategy 0.20%	Long/Short 1.39%	Relative Value 0.13%	Multi-Strategy 0.88%	Long/Short 2.37%
Relative Value 0.11%	Multi-Strategy 0.74%	Macro Strategies -0.03%	Relative Value 0.60%	Multi-Strategy 2.36%
Macro Strategies 0.03%	Macro Strategies 0.54%	Multi-Strategy -0.06%	Macro Strategies 0.53%	Macro Strategies 1.80%
Long/Short -0.17%	Relative Value 0.36%	Event Driven -1.63%	Long/Short -0.87%	CTAs 1.60%
Event Driven -1.02%	Event Driven 0.32%	Long/Short -2.06%	Event Driven -2.32%	Relative Value 1.57%

Source: Preqin Hedge Fund Analyst

Fig. 4: Performance of Hedge Funds vs. S&P 500*



Source: Preqin Hedge Fund Analyst

* Please note, all performance information includes preliminary data for September 2014 based upon returns reported to Preqin in early October 2014. Although stated trends and comparisons are not expected to alter significantly, final benchmark values are subject to change.



Performance Benchmarks: Q3 2014

Fig. 1: Summary of Preliminary September 2014 Performance Benchmarks (Net Return, %)*

	July 2014	August 2014	September 2014	Q3 2014	Annualized 3 Years
Hedge Funds (All Strategies and Regions)	-0.14	1.00	-1.21	-0.36	9.35
Long/Short	-0.17	1.39	-2.06	-0.87	10.39
Event Driven Strategies	-1.02	0.32	-1.63	-2.32	11.14
Relative Value	0.11	0.36	0.13	0.60	7.58
Macro Strategies	0.03	0.54	-0.03	0.53	5.59
Multi-Strategy	0.20	0.74	-0.06	0.88	7.96
Activist	-0.26	1.54	-1.66	-0.40	11.41
Volatility	-0.72	0.69	-0.08	-0.12	7.45
Discretionary	-0.36	1.24	-0.93	-0.06	11.86
Systematic	-0.60	1.07	-0.68	-0.22	6.53
North America	-1.08	1.39	-1.72	-1.43	12.64
Europe	-1.01	0.25	-0.71	-1.46	8.51
Asia-Pacific	1.80	0.36	-0.34	1.82	11.62
Developed Markets	-0.26	0.74	0.37	0.84	10.15
Emerging Markets	0.88	1.63	-2.32	0.14	8.18
USD	-0.45	1.15	-1.10	-0.41	9.75
EUR	-0.72	0.36	-0.20	-0.56	5.69
GBP	-0.43	0.15	0.08	-0.21	2.25
JPY	0.58	0.48	-0.17	0.90	13.37
BRL	1.24	2.32	-2.68	0.82	8.82
Funds of Hedge Funds (All Strategies and Regions)	-0.06	0.74	-0.09	0.59	5.43
Long/Short	-0.22	1.07	-0.84	-0.01	6.85
Multi-Strategy	-0.15	0.60	0.17	0.62	5.31
Funds of CTAs	0.03	3.92	8.72	13.02	-0.93
USD	-0.31	0.75	-0.62	-0.18	5.33
EUR	-0.21	0.67	1.47	1.93	4.21
UCITS Hedge Funds (All Strategies and Regions)	-0.10	0.79	-0.84	-0.16	5.29
Long/Short	-0.17	0.87	-1.30	-0.62	7.70
Relative Value	0.08	0.23	-0.05	0.26	2.44
Macro Strategies	-0.05	1.25	-0.03	1.17	2.74
USD	0.02	1.06	-1.39	-0.33	5.32
EUR	-0.21	0.62	-0.42	0.00	4.91
CTAs (All Strategies and Regions)	0.20	2.28	2.96	5.52	3.22
Discretionary	0.59	1.67	3.31	5.65	7.94
Systematic	-0.21	2.80	2.57	5.22	2.06
USD	0.24	2.55	3.23	6.12	3.09
EUR	-0.65	2.28	1.40	3.04	-0.57

Source: Preqin Hedge Fund Analyst

Preqin's **Hedge Fund Analyst** offers access to fund-by-fund and industry level performance data for over 10,500 funds and share classes, providing a true market overview. Compare funds to specific segments of the market, including by strategy, fund structure, geography and more, using the **Custom Benchmarks** feature. For more information, please visit: www.preqin.com/hfa

* Please note, all performance information includes preliminary data for September 2014 based upon returns reported to Preqin in early October 2014. Although stated trends and comparisons are not expected to alter significantly, final benchmark values are subject to change.



Hedge Fund Launches in Q3 2014

The quarter saw 179 new hedge funds launched, an increase from Q2 of 11%. North America-based hedge fund managers represented a significant rise in the proportion of total hedge fund launches in the last quarter, increasing from 66% in Q2 2014 to 83% in Q3 (Fig. 2). Moreover, hedge fund managers are finding attractive investment opportunities in this region, as the proportion of hedge fund launches predominantly targeting North America increased from 21% in Q2 2014 to 29% in Q3 2014 - the highest level reached since Q1 2012 (Fig. 4). In contrast, the number of hedge fund launches that employed a global investment focus decreased by 13 percentage points to 46% in Q3, the lowest proportion seen since Q1 2012.

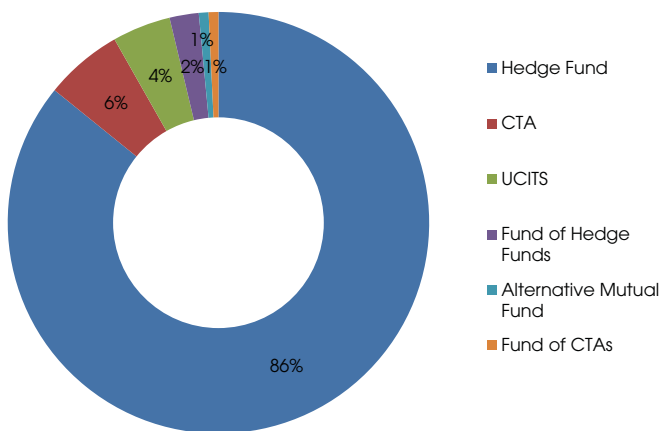
Long/short investment strategies proved to be the most prevalent among newly launched hedge funds in Q3 2014, accounting for 55%, up from 48% in Q2 (Fig. 3). In addition, 17% of hedge funds launched in Q3 employed an event driven strategy, an increase of seven percentage points on the previous quarter. Conversely,

the proportion of hedge funds launching with a core macro strategy declined by 11 percentage points from Q2.

Single-manager hedge funds saw an increase in the proportion of new fund launches from 63% in Q2 2014 to 86% in Q3 (Fig. 1). Meanwhile, single-manager CTAs accounted for 6% of the total fund launches during the quarter, up from just 1% of single-manager CTA funds launched in Q2 2014. This increase correlates with the impressive performance of the CTA benchmark in recent months. Funds of hedge funds experienced a decline of 11 percentage points from the previous quarter and only accounted for 2% of total funds launched in Q3 2014.

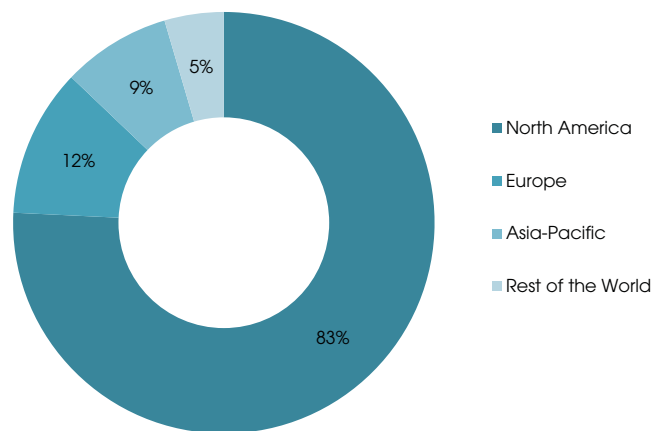
Preqin's **Hedge Fund Analyst** features up-to-date, in-depth profiles for over 25,000 hedge funds and share classes, including performance metrics, fund terms and conditions, investment preferences, domiciles and much more. For more information, please visit: www.preqin.com/hfa

Fig. 1: Breakdown of Hedge Fund Launches in Q3 2014 by Structure



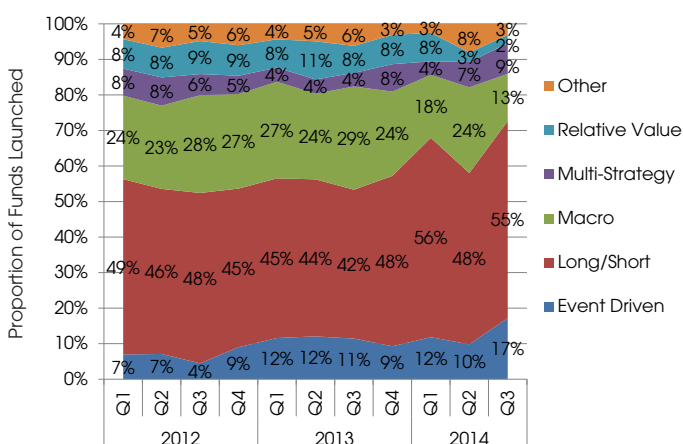
Source: Preqin Hedge Fund Analyst

Fig. 2: Breakdown of Hedge Fund Launches in Q3 2014 by Geographic Location



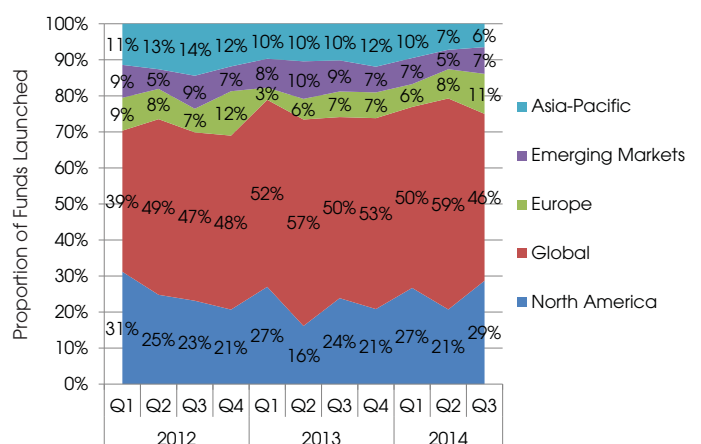
Source: Preqin Hedge Fund Analyst

Fig. 3: Breakdown of Hedge Fund Launches by Core Strategy, Q1 2012 - Q3 2014



Source: Preqin Hedge Fund Analyst

Fig. 4: Breakdown of Hedge Fund Launches by Regional Focus, Q1 2012 - Q3 2014



Source: Preqin Hedge Fund Analyst



Largest Hedge Fund and Fund of Hedge Funds Managers by Assets under Management

Fig. 1: Top 20 Hedge Fund Managers Globally by Assets under Management

Manager	Location	Assets under Management
Bridgewater Associates	US	\$162.7bn as at 30 June 2014
AQR Capital Management	US	\$60.7bn as at 30 June 2014
Och-Ziff Capital Management	US	\$45.9bn as at 30 June 2014
Brevan Howard Capital Management	Jersey	\$37.0bn as at 30 June 2014
Standard Life Investments	UK	\$35.5bn as at 30 June 2014
BlackRock Alternative Investments	US	\$33.1bn as at 30 June 2014
Baupost Group	US	\$29.3bn as at 1 July 2014
Man Investments	UK	\$29.1bn as at 30 June 2014
Viking Global Investments	US	\$28.8bn as at 30 June 2014
BlueCrest Capital	UK	\$28.0bn as at 1 July 2014
Adage Capital Management	US	\$27.0bn as at 1 July 2014
Winton Capital Management	UK	\$26.0bn as at 30 June 2014
Renaissance Technologies	US	\$25.3bn as at 30 June 2014
GAM	UK	\$24.9bn as at 31 December 2013
Elliott Management	US	\$24.8bn as at 30 June 2014
Lone Pine Capital	US	\$24.7bn as at 30 June 2014
Davidson Kempner Capital Management	US	\$23.7bn as at 1 July 2014
Millennium Management	US	\$23.2bn as at 30 June 2014
D.E. Shaw & Co.	US	\$23.0bn as at 30 June 2014
Paulson & Co.	US	\$22.8bn as at 30 June 2014

Source: Preqin Hedge Fund Analyst

Fig. 2: Top 20 Fund of Hedge Funds Managers Globally by Assets under Management

Manager	Location	Assets under Management
Blackstone Alternative Asset Management	US	\$61.0bn as at 30 June 2014
A&Q Hedge Fund Solutions (UBS)	US	\$31.0bn as at 1 July 2014
Grosvenor Capital Management	US	\$25.7bn as at 30 June 2014
HSBC Alternative Investments	UK	\$25.2bn as at 30 June 2014
GSAM	US	\$25.0bn as at 31 December 2013
Permal Group	US	\$22.3bn as at 30 June 2014
BlackRock Alternative Advisors	US	\$19.9bn as at 30 June 2014
Mesirow Advanced Strategies	US	\$13.8bn as at 30 June 2014
Morgan Stanley Alternative Investment Partners	US	\$12.8bn as at 30 June 2014
J.P. Morgan Alternative Asset Management	US	\$11.8bn as at 30 June 2014
EnTrust Capital	US	\$11.5bn as at 30 June 2014
Financial Risk Management (FRM)	UK	\$11.5bn as at 30 June 2014
SkyBridge Capital	US	\$11.2bn as at 30 June 2014
KKR Prisma	US	\$10.9bn as at 30 June 2014
Aetos Capital	US	\$10.8bn as at 30 June 2014
UBP Alternative Investments	Switzerland	\$10.7bn as at 30 June 2014
Rock Creek Group	US	\$10.4bn as at 30 June 2014
K2 Advisors	US	\$9.5bn as at 30 June 2014
Pacific Alternative Asset Management Company	US	\$9.5bn as at 30 June 2014
Credit Suisse Alternative Funds Solutions	US	\$9.4bn as at 30 June 2014

Source: Preqin Hedge Fund Analyst

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Fund Searches Initiated in Q3 2014

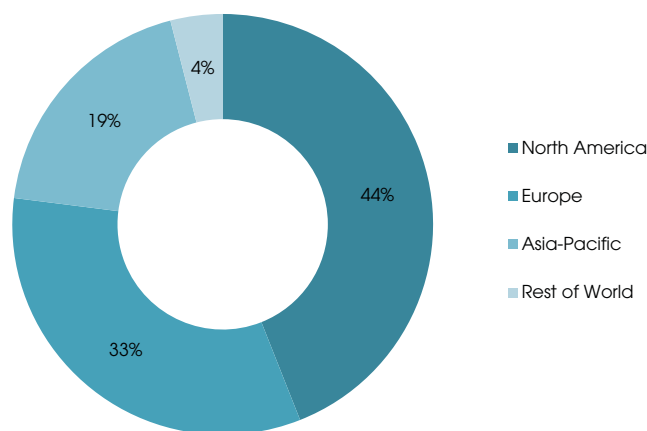
In Q3 2014, Preqin added 109 new investor mandates to our **Fund Searches and Mandates** feature, which were gathered from Preqin's conversations with investors over the quarter. Long/short equity continued to be the most sought-after strategy in Q3 2014, with over half (51%) of fund searches including a long/short equity component (Fig. 2), compared to 46% in the previous quarter. Macro was the second most common strategy, having been included in 28% of fund searches. This is a marked increase from Q2 2014 when only 19% of searches contained the strategy. There was also a significant rise in demand for equity market neutral funds, with 14% of fund searches involving an equity market neutral element in Q3 2014, double the proportion of the previous quarter. Conversely, there was a pronounced fall in appetite for long/short credit, which was included in only 9% of searches this quarter, in contrast to 16% last quarter.

Commingled single-manager hedge funds remain by far the most in demand structure, having been included in 86% of searches issued by investors in Q3 2014 (Fig. 3). Additionally, single-

manager managed accounts were considerably more sought after by investors this quarter, with the proportion of investors seeking to invest in this structure increasing to 25%, up from 15% last quarter. Meanwhile, funds of hedge funds have clearly fallen out of favour; commingled funds of hedge funds appeared in 22% of searches in Q3, compared to 29% last quarter, and managed account funds of hedge funds were included in just 10% of searches in Q3. On the other hand, fund of hedge funds managers represented a significantly higher proportion of searches initiated in Q3 2014 (59%) than in Q2 2014 (48%), as shown in Fig. 4. Consequently, the majority of other investor types are less well represented this quarter. This excludes public pension funds which issued 10% of fund searches in Q3, as opposed to 8% in the previous quarter.

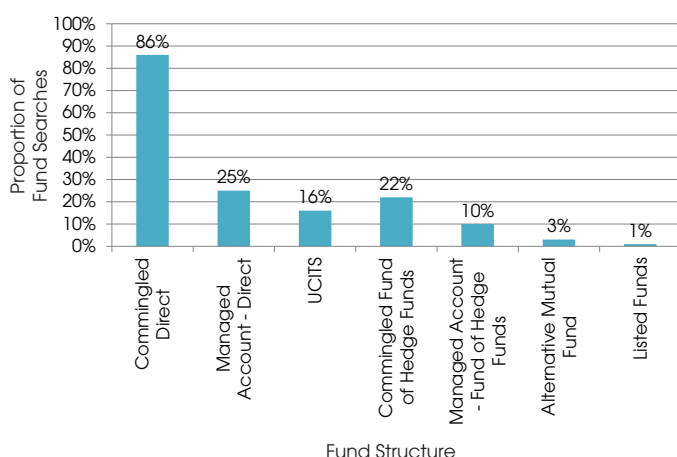
Looking for investors for your vehicle? Preqin's **Hedge Fund Investor Profiles** features detailed information for over 4,700 active hedge fund investors worldwide. For more information, please visit: www.preqin.com/hfip

Fig. 1: Breakdown of Hedge Fund Searches Issued by Investor Location, Searches Issued in Q3 2014



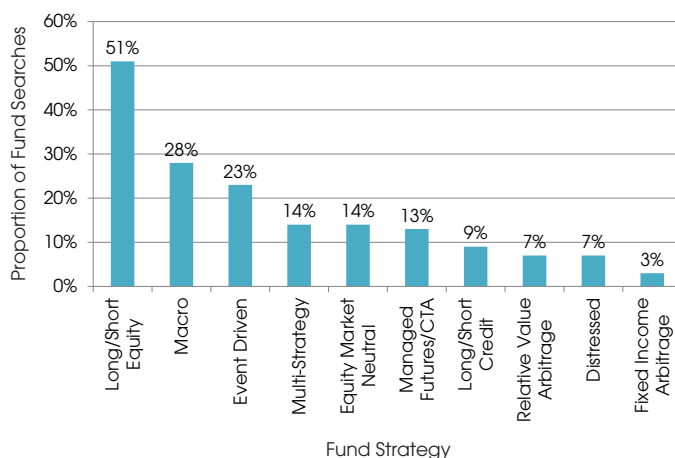
Source: Preqin Hedge Fund Investor Profiles

Fig. 3: Hedge Fund Structures Sought by Investors over the Next 12 Months, Searches Issued in Q3 2014



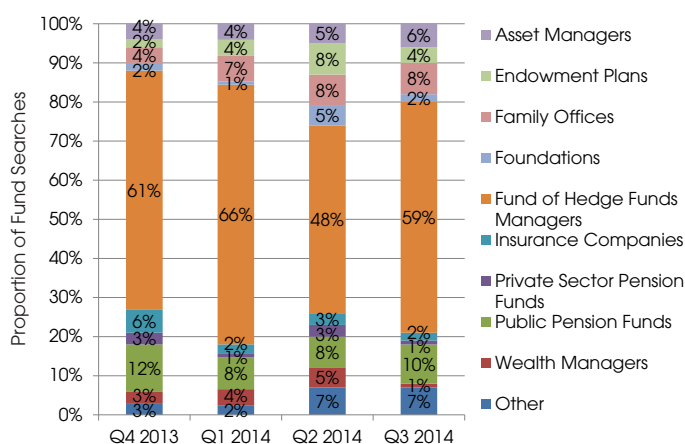
Source: Preqin Hedge Fund Investor Profiles

Fig. 2: Hedge Fund Strategies Sought by Investors over the Next 12 Months, Searches Issued in Q3 2014

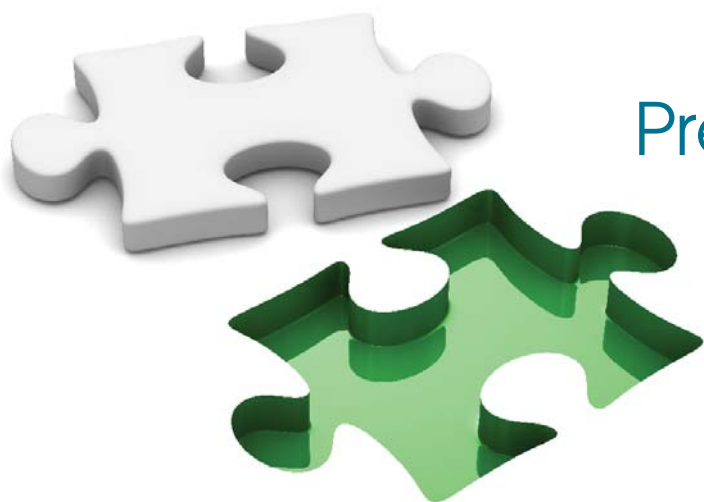


Source: Preqin Hedge Fund Investor Profiles

Fig. 4: Breakdown of Fund Searches Initiated by Investor Type, Q4 2013 - Q3 2014



Source: Preqin Hedge Fund Investor Profiles



The Q3 2014 Preqin Quarterly Update: Hedge Funds



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