

The Q3 2015 Preqin Quarterly Update

Hedge Funds

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

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Performance Update

Worst quarterly return for
hedge funds since Q3 2011.

Hedge Fund Launches

Growth seen in the liquid
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A look at the strategies and
regions investors plan to
target in the year ahead.





Foreword - Amy Bensted, Preqin

Following three months of negative returns, the third quarter of 2015 saw the Preqin All-Strategies Hedge Fund benchmark post a loss of more than 4% (-4.08%), the benchmark's worst quarterly return since Q3 2011. Equity strategies fared the worst, making losses of 6.73% over the course of the quarter. The one bright spot in the hedge fund sector was relative value strategies, the only hedge fund strategy to generate a positive return in Q3, albeit a modest one of 0.26%. Funds of hedge funds, alternative mutual funds and UCITS funds were all also below water over the course of the third quarter of 2015. CTAs added 0.24% over the quarter, with gains of 1.20% and 1.12% in July and September, only just eclipsing the August losses of 2.05%.

As our Preqin Investor Outlook: Alternative Assets, H2 2015 revealed, institutional investor satisfaction with returns has fallen to its lowest level since December 2012. Our report highlighted investor need for improved performance over the second half of the year, something which has yet to materialize. Since June 2015, the Preqin All-Strategies Hedge Fund benchmark has failed to post positive returns and almost all of the gains made in the five months to May 2015 have been wiped out. Year-to-date hedge funds have added 0.24%, and as a result, 2015 is on track to be the worst year in terms of hedge fund performance since 2011. Despite performance concerns, investors continue to search for new hedge fund opportunities. As shown in Fund Searches Initiated in Q3 2015 (page 7), investors from across the globe have initiated new fund searches over the course of the past three months. Long/short equity strategies are the most commonly sought: 44% of investor searches included a long/short equity strategy fund as part of their mandate. We also recorded a notable increase in interest in equity market neutral strategies from the previous quarter; in Q3 2015, 14% of investor searches included the strategy compared to 5% in the second quarter of the year.

We have also continued to see new funds launch in the hedge fund space over the past three months (see Hedge Fund Launches in Q3 2015, page 5). An area of particular growth has been in the liquid alternatives space. Over the course of the third quarter of 2015, a combined 26% of all funds launched were structured either as an alternative mutual fund or UCITS fund. Even though these structures too have suffered performance issues in 2015, investor interest in these regulated vehicles continues to grow and inflows into liquid alternatives persist. Hedge fund managers are increasingly recognizing the value of diversifying into these products, and as a result, we have seen an increased number enter the market.

Interested in Accessing Free Alternative Assets Data and Research Tools?

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Performance Update: Q3 2015

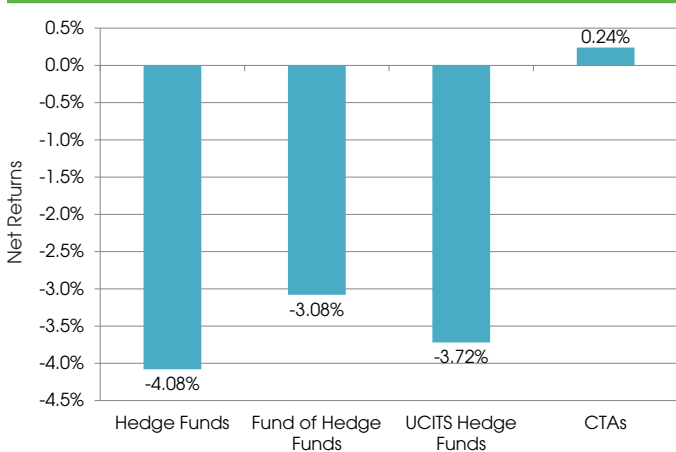
Q3 2015 was a difficult quarter for hedge funds, which were down 4.08% over the period. Losses were driven largely by volatility across the public markets with the S&P 500 down 6.94% during Q3. Funds of hedge funds (-3.08%) and UCITS hedge funds (-3.72%) were both in negative territory, whereas despite a difficult August, CTAs finished the quarter slightly positive with a 0.24% return for three months.

High volatility in the public equity markets, especially in China, was mirrored across all fund strategies, with all Preqin hedge fund benchmarks making losses during August. In fact, August represented the worst month across all hedge funds since

May 2012. Equity strategies (-3.45%), event driven strategies (-2.29%) and CTAs (-2.05%) were especially hard hit during the month, whereas relative value strategies were able to limit the losses to 0.42%.

Fig. 3 shows that hedge funds focusing on the Asia-Pacific region suffered the biggest losses through Q3 2015, with an average loss of 6.28% for the three months. Funds focusing on developed markets were upset less, but still returned slight losses of 0.48% over the quarter.

Fig. 1: Net Returns of Hedge Funds by Structure, Q3 2015*



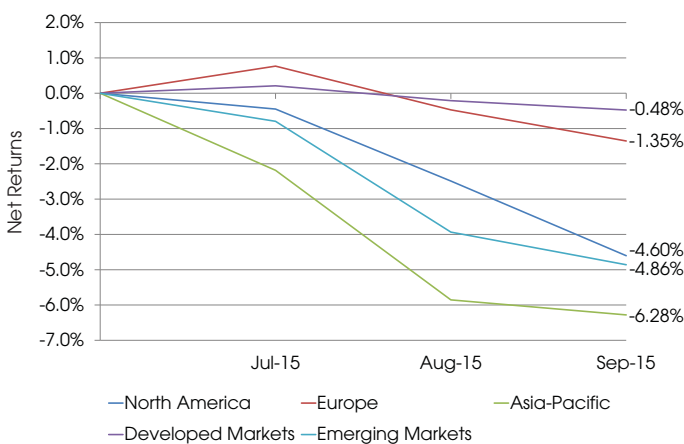
Source: Preqin Hedge Fund Analyst

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

Jul-15	Aug-15	Sep-15	Q3 2015	Q2 2015
CTAs 1.20%	Relative Value -0.42%	CTAs 1.12%	Relative Value 0.26%	Equity Strategies 2.27%
Macro Strategies 0.59%	Macro Strategies -0.45%	Relative Value 0.26%	CTAs 0.24%	Relative Value 1.88%
Relative Value 0.43%	Credit Strategies -0.55%	Multi-Strategy -0.38%	Macro Strategies -0.56%	Event Driven 1.12%
Multi-Strategy 0.23%	Multi-Strategy -1.72%	Macro Strategies -0.70%	Credit Strategies -1.45%	Credit Strategies 1.04%
Credit Strategies 0.13%	CTAs -2.05%	Credit Strategies -1.03%	Multi-Strategy -1.87%	Multi-Strategy 0.00%
Event Driven -0.60%	Event Driven -2.29%	Event Driven -1.55%	Event Driven -4.38%	Macro Strategies -0.72%
Equity Strategies -1.25%	Equity Strategies -3.45%	Equity Strategies -2.18%	Equity Strategies -6.73%	CTAs -3.92%

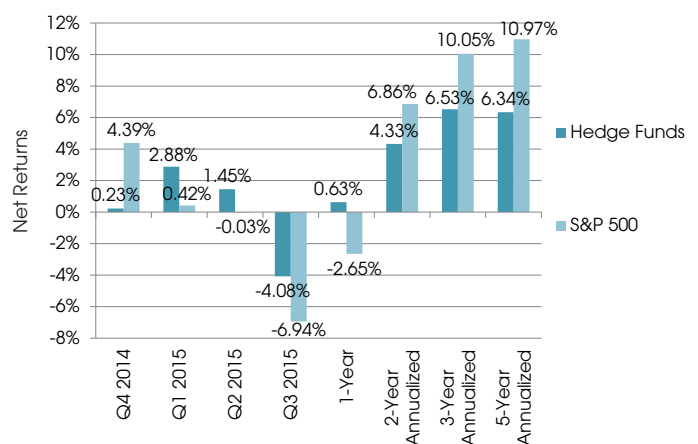
Source: Preqin Hedge Fund Analyst

Fig. 3: Cumulative Net Returns of Hedge Funds by Geographic Focus, Q3 2015



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 2015 based upon returns reported to Preqin in early October 2015. Although stated trends and comparisons are not expected to alter significantly, final benchmark values are subject to change.



Performance Benchmarks: Q3 2015

Fig. 1: Summary of Preliminary September 2015 Performance Benchmarks (Net Return, %)*

Benchmark Name	Jul-15	Aug-15	Sep-15	Q3 2015	3-Year Annualized
Hedge Funds	-0.50	-2.18	-1.44	-4.08	6.53
HF - Equity Strategies	-1.25	-3.45	-2.18	-6.73	7.01
HF - Event Driven Strategies	-0.60	-2.29	-1.55	-4.38	6.52
HF - Relative Value	0.43	-0.42	0.26	0.26	6.62
HF - Macro Strategies	0.59	-0.45	-0.70	-0.56	4.15
HF - Multi-Strategy	0.23	-1.72	-0.38	-1.87	5.81
HF - Credit Strategies	0.13	-0.55	-1.03	-1.45	6.96
Activist	-1.10	-3.89	-1.07	-5.97	9.00
Volatility	0.55	-0.27	-0.60	-0.32	4.79
Discretionary	-0.17	-2.38	-1.68	-4.18	8.64
Systematic	0.73	-1.11	0.52	0.13	6.52
HF - North America	-0.45	-2.08	-2.14	-4.60	8.16
HF - Europe	0.77	-1.21	-0.90	-1.35	7.63
HF - Asia-Pacific	-2.18	-3.75	-0.45	-6.28	10.92
HF - Developed Markets	0.21	-0.41	-0.27	-0.48	7.84
HF - Emerging Markets	-0.79	-3.15	-0.97	-4.86	4.71
HF - USD	-0.93	-2.32	-1.64	-4.81	6.30
HF - EUR	0.15	-1.24	-0.61	-1.69	4.33
HF - GBP	-0.27	-1.39	-0.23	-1.88	1.47
HF - JPY	0.45	-0.99	-1.06	-1.60	15.02
HF - BRL	0.78	-1.36	0.14	-0.45	6.25
HF - Emerging (Less than \$100mn)	-0.59	-2.38	-1.41	-4.33	5.34
HF - Small (\$100-999mn)	-0.25	-1.78	-1.78	-3.76	7.22
HF - Medium (\$500-999mn)	0.04	-1.76	-1.65	-3.35	6.61
HF - Large (\$1bn or More)	0.02	-1.32	-0.87	-2.16	8.05
Funds of Hedge Funds	0.36	-1.68	-1.78	-3.08	4.59
FOHF - Equity Strategies	0.04	-2.90	-2.52	-5.30	5.59
FOHF - Macro Strategies	0.80	-1.42	-1.03	-1.82	3.49
FOHF - Multi-Strategy	0.54	-1.33	-1.51	-2.30	4.75
Funds of CTAs	3.20	-4.25	2.15	0.76	1.28
FOHF - USD	0.19	-1.72	-2.14	-3.64	4.10
FOHF - EUR	0.38	-1.93	-1.04	-2.59	3.56
Alternative Mutual Funds	-0.03	-2.13	-1.57	-3.70	3.34
UCITS	0.12	-2.52	-1.35	-3.72	2.90
UCITS - Equity Strategies	-0.08	-3.35	-1.65	-5.02	5.48
UCITS - Relative Value	0.25	-1.40	-0.64	-1.79	1.55
UCITS - Macro Strategies	0.32	-2.17	-1.02	-2.86	0.21
UCITS - USD	-0.72	-3.10	-1.57	-5.31	1.90
UCITS - EUR	0.41	-2.60	-1.12	-3.29	3.28
CTAs	1.20	-2.05	1.12	0.24	4.28
Discretionary	-0.22	-0.67	1.37	0.46	1.82
Systematic	1.01	-2.31	1.15	-0.19	3.97
CTA - USD	1.10	-2.09	1.30	0.27	3.94
CTA - EUR	3.34	-3.65	1.12	0.67	3.36

Source: Preqin Hedge Fund Analyst

*Please note, all performance information includes preliminary data for September 2015 based upon returns reported to Preqin in early October 2015. Although stated trends and comparisons are not expected to alter significantly, final benchmark values are subject to change.



Hedge Fund Launches in Q3 2015

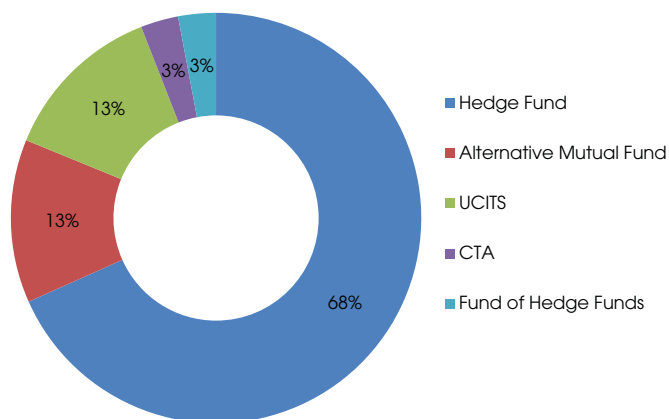
Alternative mutual funds saw a significant rise in their share of new fund launches in Q3 2015. These structures accounted for 13% of the new launches monitored by Preqin's **Hedge Fund Analyst**, a 10 percentage point increase on the previous quarter (Fig. 1). Their European equivalent, UCITS vehicles, also accounted for 13% of fund launches in Q3 2015, an increase from 9% in Q2 2015. Single-manager hedge funds maintained their dominance: these funds accounted for over two-thirds of all launches in Q3 2015.

The composition of launches based on manager location remains largely unchanged from the previous quarter. Managers based in Europe fell to representing 18% of launches in Q3 2015, from 22% the previous quarter (Fig. 2). North America-based managers comprised 68% of all launches, an increase of one percentage point. The proportion of managers based in Asia-Pacific and Rest of World rose by three percentage points to collectively represent 14% of launches.

Launches of funds investing globally saw a gradual increase over the three quarters between Q4 2014 and Q2 2015; however, in Q3 2015 this trend reversed, with these vehicles accounting for 56% of fund launches (from 63% in Q2 2015), as shown in Fig. 3. Funds with a European geographic focus increased from representing 1% of launches in Q2 2015 to 6% in Q3 2015. North America-focused vehicles accounted for 18% of all launches in Q3 2015.

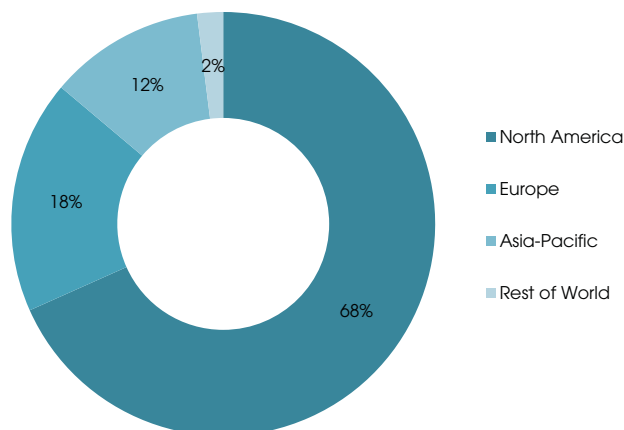
Macro and equity strategies represented a combined share of 65% of fund launches in Q3 2015 (Fig. 4). In fact, macro strategies vehicles saw their share rise from 14% in Q2 2015 to 30% in Q3 2015, the largest proportion of macro strategies launched since Q3 2013 when they accounted for 29%. In contrast, equity strategies fund launches fell by 11 percentage points to 35% of all launches in Q3 2015.

Fig. 1: Breakdown of Hedge Fund Launches in Q3 2015 by Structure



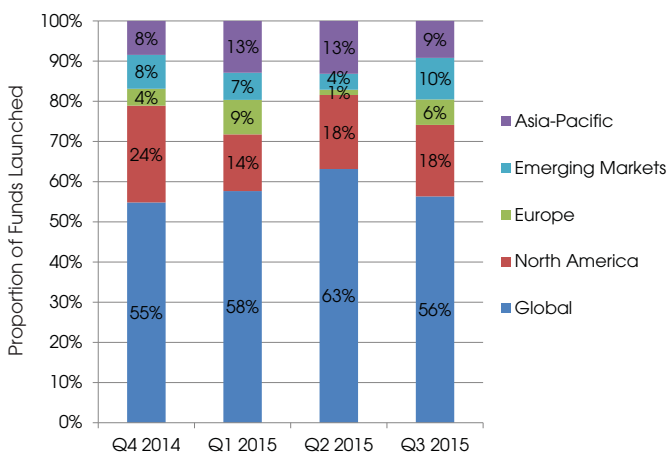
Source: Preqin Hedge Fund Analyst

Fig. 2: Breakdown of Hedge Fund Launches in Q3 2015 by Manager Location



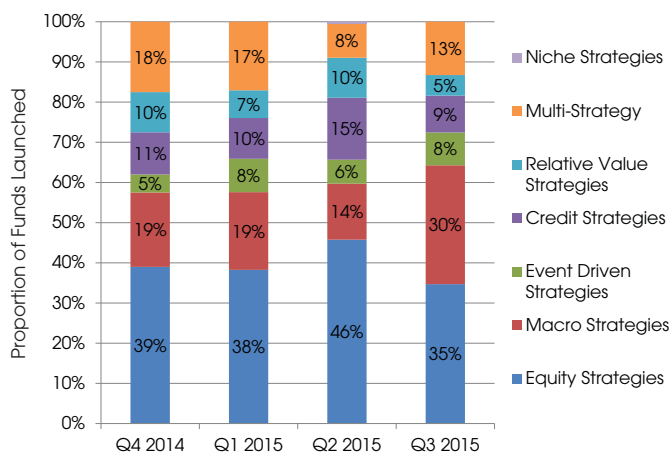
Source: Preqin Hedge Fund Analyst

Fig. 3: Breakdown of Hedge Fund Launches by Geographic Focus, Q4 2014 - Q3 2015



Source: Preqin Hedge Fund Analyst

Fig. 4: Breakdown of Hedge Fund Launches by Core Strategy, Q4 2014 - Q3 2015



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 by Assets under Management

Manager	Location	Year Established	Assets under Management
Bridgewater Associates	US	1975	\$168.8bn as at 30 June 2015
AQR Capital Management	US	1998	\$71.2bn as at 30 June 2015
Man Investments	UK	1983	\$52.2bn as at 30 June 2015
Och-Ziff Capital Management	US	1994	\$46.8bn as at 1 July 2015
Standard Life Investments	UK	2006	\$39.4bn as at 30 June 2015
BlackRock Alternative Investors	US	2005	\$33.4bn as at 30 June 2015
Viking Global Investors	US	1999	\$32.0bn as at 30 June 2015
Winton Capital Management Ltd.	UK	1997	\$31.6bn as at 30 June 2015
Millennium Management	US	1989	\$30.4bn as at 1 July 2015
Lone Pine Capital	US	1997	\$29.0bn as at 30 June 2015
Baupost Group	US	1982	\$28.5bn as at 30 June 2015
Adage Capital Management	US	2001	\$28.0bn as at 30 June 2015
Renaissance Technologies	US	1982	\$27.1bn as at 30 June 2015
Brevan Howard Capital Management	Jersey	2002	\$27.0bn as at 30 June 2015
Elliott Management	US	1977	\$27.0bn as at 30 June 2015
D.E. Shaw & Co.	US	1988	\$26.0bn as at 1 July 2015
Davidson Kempner Capital Management	US	1990	\$25.6bn as at 30 June 2015
Citadel Advisors	US	1990	\$24.9bn as at 30 June 2015
GAM	UK	1983	\$23.0bn as at 30 June 2015
Two Sigma Investments	US	2001	\$21.7bn as at 30 June 2015

Source: Preqin Hedge Fund Analyst

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

Manager	Location	Year Established	Assets under Management
Blackstone Alternative Asset Management	US	1990	\$68.0bn as at 30 June 2015
UBS Hedge Fund Solutions	US	2000	\$34.5bn as at 30 June 2015
Goldman Sachs Asset Management	US	1997	\$29.2bn as at 30 June 2015
Grosvenor Capital Management	US	1971	\$27.4bn as at 30 June 2015
HSBC Alternative Investments	UK	1994	\$27.2bn as at 30 June 2015
Morgan Stanley Alternative Investment Partners	US	2000	\$22.6bn as at 30 June 2015
Permal Group	US	1971	\$22.4bn as at 30 June 2015
BlackRock Alternative Advisors	US	1995	\$21.9bn as at 30 June 2015
Mesirow Advanced Strategies	US	1983	\$14.2bn as at 30 June 2015
SkyBridge Capital	US	2005	\$13.4bn as at 30 June 2015
J.P. Morgan Alternative Asset Management	US	1995	\$12.6bn as at 30 June 2015
EnTrust Capital	US	1997	\$12.5bn as at 30 June 2015
Pictet Alternative Advisors SA	Switzerland	1990	\$11.3bn as at 30 June 2015
Financial Risk Management (FRM)	UK	1991	\$11.3bn as at 30 June 2015
Arden Asset Management	US	1993	\$11.0bn as at 30 June 2015
Aetos Capital	US	2001	\$10.9bn as at 30 June 2015
Rock Creek Group	US	2001	\$10.9bn as at 30 June 2015
KKR Prisma	US	2004	\$10.5bn as at 30 June 2015
K2 Advisors	US	1994	\$10.4bn as at 30 June 2015
Credit Suisse Alternative Funds Solutions	US	n/a	\$10.0bn as at 30 June 2015

Source: Preqin Hedge Fund Analyst



Fund Searches Initiated in Q3 2015

In Q3 2015, Preqin added 102 new investor mandates to our **Fund Searches and Mandates** module. Long/short equity continues to be institutional investors' most preferred strategy, with 44% of fund searches including a long/short equity component (Fig. 2). Twenty-six percent of investors indicated a preference for macro strategies funds. A smaller proportion of searches included an event driven component in Q3 2015 than in Q2 2015 (22% and 30% respectively), yet the strategy remains the third most sought-after. There has also been a notable increase in searches for equity market neutral strategies in Q3 2015. Fourteen percent of fund searches initiated during Q3 include an equity market neutral component, an increase from 5% in the previous quarter.

Commingled single-manager hedge funds remains the most in-demand structure and is included in 87% of searches issued by investors in Q3 2015 (Fig. 3). Eighteen percent of searches once again target direct managed account structures, but there has been a six percentage point increase in the proportion of searches targeting funds of hedge funds since Q2 2015. There is also increased demand for investors seeking fund of hedge

funds vehicles via managed accounts, which featured in 17% of searches issued, a notable increase from 5% in Q2 2015.

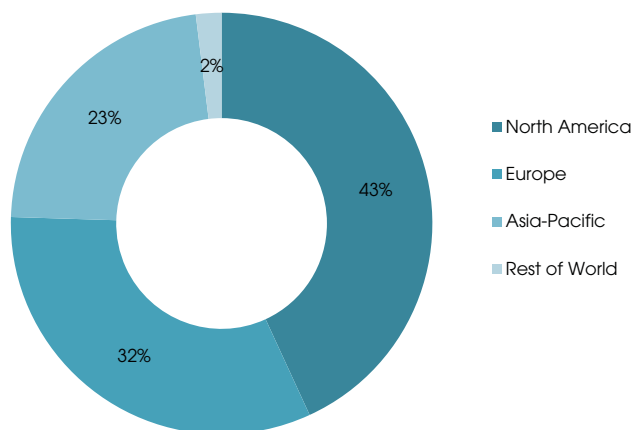
Fund of hedge funds managers represented a slightly smaller proportion of searches initiated in Q3 2015 (39%) than in Q2 2015 (44%), as shown in Fig. 4. The third quarter of 2015 has seen a larger proportion of searches issued by public pension funds (12%), foundations (5%) and wealth managers (4%) compared with searches issued in the previous quarter.

Data Source:

The **Fund Searches and Mandates** feature on Preqin's **Hedge Fund Investor Profiles** is the perfect tool to pinpoint those institutions that are seeking new hedge funds for investment now.

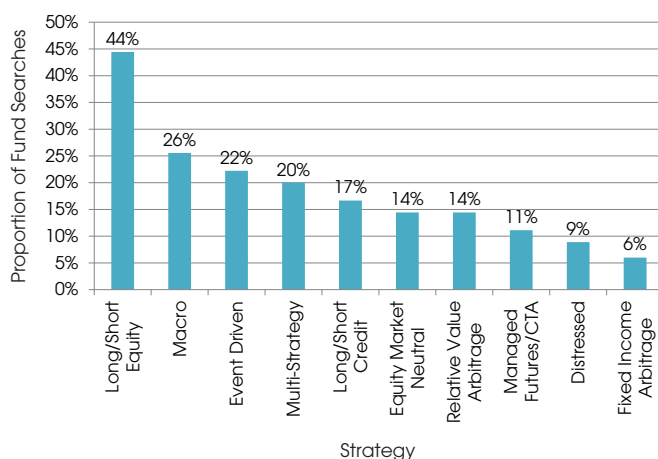
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Fig. 1: Breakdown of Hedge Fund Searches Issued in Q3 2015 by Investor Location



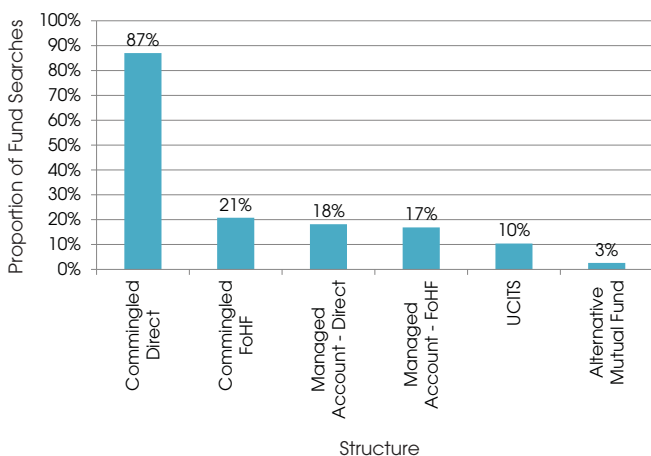
Source: Preqin Hedge Fund Investor Profiles

Fig 2: Hedge Fund Strategies Sought by Investors over the Next 12 Months, Searches Issued in Q3 2015



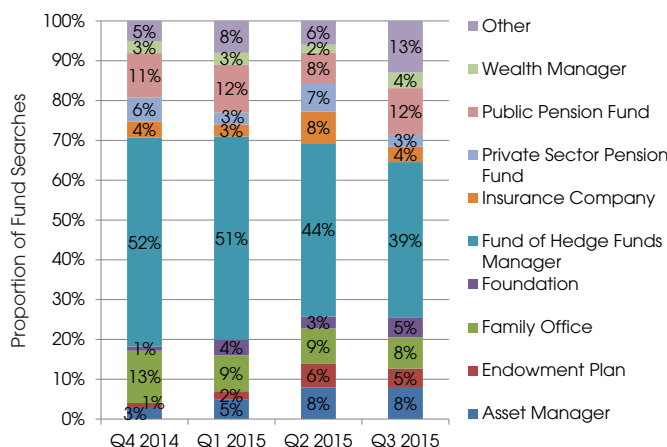
Source: Preqin Hedge Fund Investor Profiles

Fig. 3: Hedge Fund Structures Sought by Investors over the Next 12 Months, Searches Issued in Q3 2015



Source: Preqin Hedge Fund Investor Profiles

Fig. 4: Breakdown of Fund Searches Initiated by Investor Type, Q4 2014 - Q3 2015



Source: Preqin Hedge Fund Investor Profiles



The Q3 2015 Preqin Quarterly Update: Hedge Funds



alternative assets. intelligent data.

Preqin Hedge Fund Online

With global coverage and detailed information on all aspects of the hedge fund asset class, Preqin's industry-leading Hedge Fund Online service keeps you up-to-date on all the latest developments across the hedge fund universe.

Source new investors for funds

Find the most relevant investors, with access to detailed profiles for over 5,000 institutional investors actively investing in hedge funds, including insurance companies, pension funds, family offices, foundations, wealth managers, endowment plans, banks, fund of hedge funds managers and more.

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