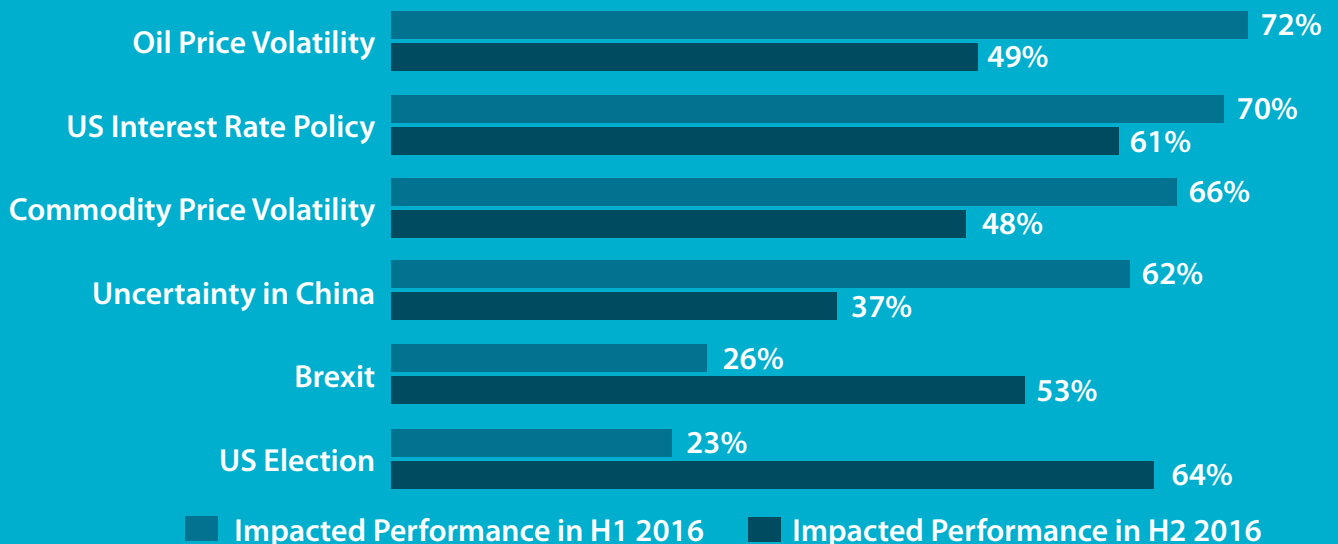


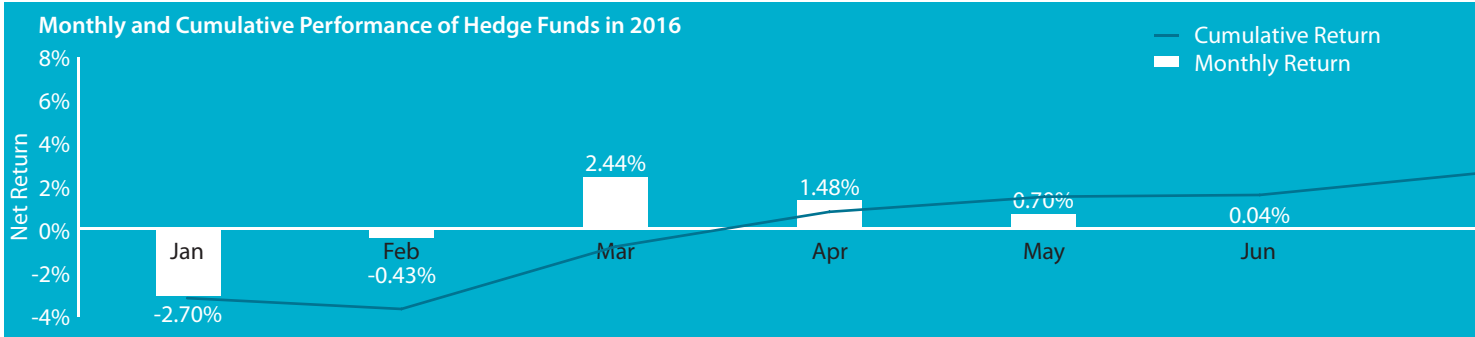


HEDGE FUNDS: KEY EVENTS IN 2016

Fund Manager Views on the Macroeconomic Events that Had the Greatest Effect on Fund Performance: H1 2016 vs. H2 2016

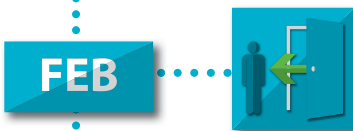


TIMELINE OF KEY EVENTS IN 2016



MARKETS OFF TO SHAKY START

2016 began with the S&P 500 Index experiencing its worst 10-day start to a year on record, the FTSE 100 recording its weakest first week since the turn of the century and China's stock markets being suspended after the CSI 300, Shanghai Composite and Shenzhen Composite dropped by 7.0%, 6.9% and 7.0% respectively. Unsurprisingly, equity strategies hedge funds were severely impacted: the Preqin All-Equity Strategies Hedge Fund benchmark's January return of -4.34% represented the benchmark's lowest monthly return since September 2011.



PUBLIC PENSION FUND ENTERS INDUSTRY

Iowa Public Employees' Retirement System, the \$28bn public pension fund, issued an RFP for managers of liquid absolute return strategies to manage a total of \$700mn, representing IPERS' first investment in the hedge fund asset class. It was announced in December that the investor will allocate \$100mn to each of Graham Capital Management, FORT and Lynx Asset Management, with future commitments planned for AQR Capital Management, Kaiser Trading Group, Quantmetrics Capital Management and Wadhvani Asset Management.



TREND REVERSALS

March saw significant trend reversals with oil prices rallying at the start of the month from the lows seen in February, while equity markets posted strong monthly gains as commentary from central banks seemed to encourage investors. CTAs, which had started the year strongly, returning 2.64% over the first two months of 2016, saw this positive performance streak end as the Preqin All-Strategies CTA benchmark posted -0.98% in March, while the Preqin All-Strategies Hedge Fund benchmark generated 2.44%, the benchmark's highest single monthly return since January 2013.



NYCERS EXITS HEDGE FUNDS

In mid-April, the trustees of New York City Employees' Retirement System (NYCERS) voted to exit its \$1.5bn portfolio of hedge fund assets. The US public pension fund, which began investing in hedge funds in 2010, cited performance objectives not being met by its hedge fund investments as one of the reasons for the disinvestment.



HEDGE FUNDS RESPOND TO FEE PRESSURE

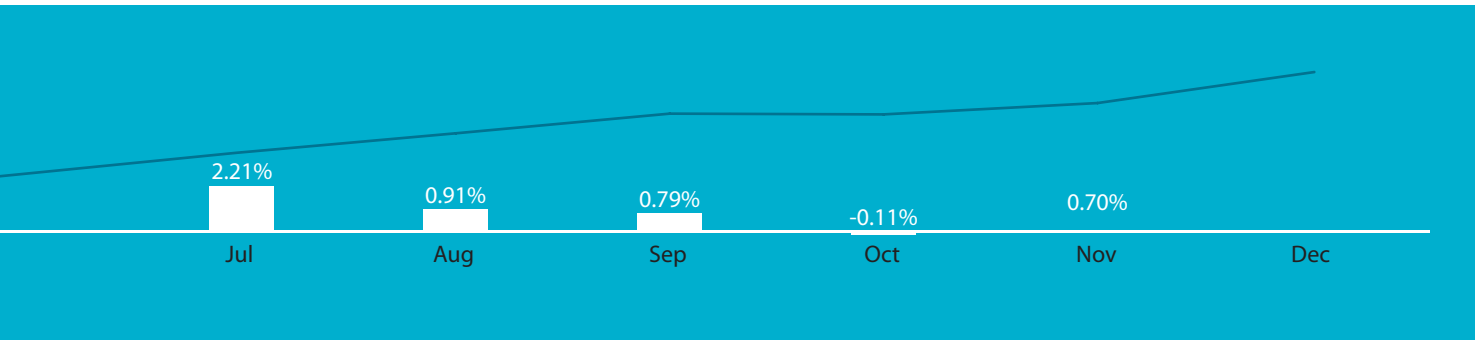
May saw Connecticut-based Tudor Investment Corporation, which managed \$10.9bn in assets as of 30 June 2016, announce that the management and performance fees charged to a share class in one of its biggest funds were being reduced by 50bps and 200bps to 2.25% and 25% respectively. For an overview of the hedge fund fee landscape, see page 67.









THE WORLD REACTS TO BREXIT

On 23 June the UK voted to leave the EU, sparking significant market volatility around the world. While hedge funds focused on Europe were the most affected, hedge funds focused on other regions limited their downside – the Preqin All-Strategies Hedge Fund benchmark ended June with near-neutral performance (+0.04%). Following an insider-trading scandal, Visium Asset Management – which ran nearly \$8bn at its peak – closed in June 2016. This was shortly followed by Perry Capital announcing it would close in September 2016 following performance difficulties and investor redemptions.

TIMELINE OF KEY EVENTS IN 2016



<div data-bbox="106 795 263 873" style="background-color: #00a0c0; color: white; padding: 5px; text-align: center; font-weight: bold;">JUL</div>		<p>HEDGE FUNDS PREDICT MEDIOCRE PERFORMANCE FOR THE REST OF 2016</p> <p>July saw the release of the Preqin Special Report: Hedge Fund Manager Outlook, which provided insight into the views of over 270 hedge fund professionals. A significant 45% of fund managers predicted that by the end of 2016 the Preqin All-Strategies Hedge Fund benchmark would be around 2-3%. However, it seems the benchmark performed better than expected, returning 7.40% in 2016; see page 64 for hedge fund managers' outlook on performance in 2017.</p>
<div data-bbox="106 1019 263 1097" style="background-color: #00a0c0; color: white; padding: 5px; text-align: center; font-weight: bold;">AUG</div>		<p>STRONG PERFORMANCE IN LATIN AMERICA</p> <p>Following in the footsteps of NYCERS, the first week of August saw New Jersey State Investment Council announce that it had lowered its target hedge fund allocation from 12.5% to 6.0%, citing the need to reduce the amount of fees charged on its investments. Later in the month it was announced that the then-President of Brazil, Dilma Rousseff, had been impeached by the Brazilian senate. As markets responded, Latin America-focused hedge funds gained 1.50% for the month, taking their August YTD performance to 16.31%. For further analysis of emerging markets, see page 31.</p>
<div data-bbox="106 1243 263 1321" style="background-color: #00a0c0; color: white; padding: 5px; text-align: center; font-weight: bold;">SEP</div>		<p>SEVEN CONSECUTIVE MONTHS OF POSITIVE RETURNS</p> <p>Hedge funds returned 3.96% in Q3 2016, representing the best quarterly return since the first quarter of 2013, and outperformed the S&P 500 Index for the second consecutive quarter. September marked the seventh consecutive month of positive performance for hedge funds, returning 8.80% over that seven-month period. To see league tables of the top performing hedge funds in 2016, see page 37.</p>
<div data-bbox="106 1467 263 1545" style="background-color: #00a0c0; color: white; padding: 5px; text-align: center; font-weight: bold;">OCT</div>		<p>PERFORMANCE RUN COMES TO AN END</p> <p>October was a challenging month for the hedge fund industry, with both hedge funds (-0.11%) and CTAs (-1.35%) posting negative returns. In an opposite trend to its East Coast-based counterparts, October saw US-based Oregon State Treasury commit up to \$3.2bn to four low-volatility hedge fund managers as part of a shift in allocation.</p>
<div data-bbox="106 1691 263 1769" style="background-color: #00a0c0; color: white; padding: 5px; text-align: center; font-weight: bold;">NOV</div>		<p>US MARKETS HIT RECORD HIGHS FOLLOWING TRUMP'S ELECTION</p> <p>Hedge funds returned to positive performance in November, posting 0.70%. Following Donald Trump's election win, US stock markets climbed to record highs throughout November as investors reacted positively to the prospect of Trump's USA. The Preqin North America Hedge Fund benchmark returned 2.54% for the month, with North America-focused equity strategies generating 3.31%.</p>
<div data-bbox="106 1915 263 1993" style="background-color: #00a0c0; color: white; padding: 5px; text-align: center; font-weight: bold;">DEC</div>		<p>OPEC CUTS OIL PRODUCTION AND CTA PERFORMANCE IMPROVES</p> <p>1 December saw significant increases in oil prices following a deal between the Organization of the Petroleum Exporting Countries (OPEC) and the Russian Government to restrict output in an attempt to reduce the global supply glut more quickly. Following the news, CTAs returned 0.71% for December, as the final two months of 2016 took the Preqin All-Strategies CTA benchmark's annual return further above 0% (+0.91%).</p>

IN FOCUS: BREXIT

At various points throughout 2016, Preqin surveyed over 500 hedge fund managers and 300 institutional investors active in hedge funds to gauge the impact of the UK's referendum of EU membership on the hedge fund industry. In Preqin's survey before the referendum, 71% of fund managers believed that Britain would vote to stay in the EU; however, this prediction proved incorrect, with 52% of voters backing Brexit. Using the results of these surveys, as well as data from Preqin's **Hedge Fund Online**, we analyze the changing sentiment of the hedge fund industry towards the Brexit vote and how the performance of hedge funds has been affected.



593

of 953 EU-based hedge fund managers are headquartered in the UK.

SIZE OF HEDGE FUND INDUSTRIES:



UK
\$466bn



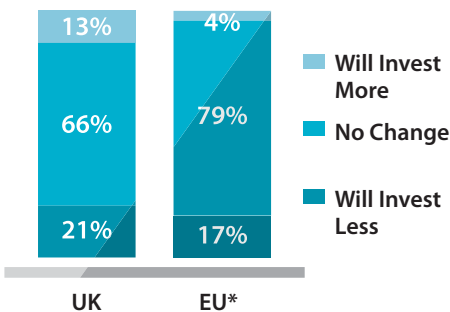
EU*
€128bn



409

of 758 EU-based institutional investors in hedge funds are headquartered in the UK.

Investor views on the impact of Brexit on their hedge fund investments in the UK vs. EU* over the next 12 months:



UK-based hedge fund managers that have no plans to move their business operations out of UK:



JUNE

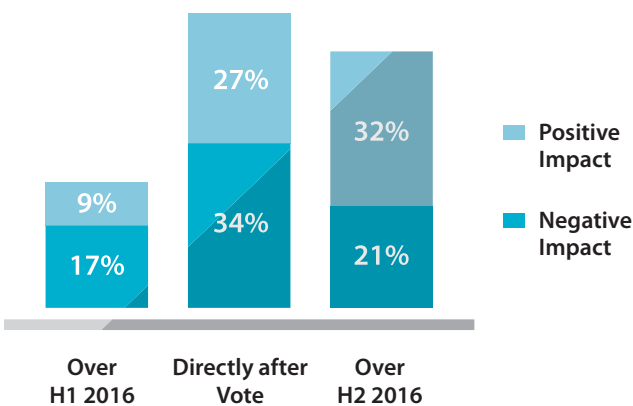


NOVEMBER

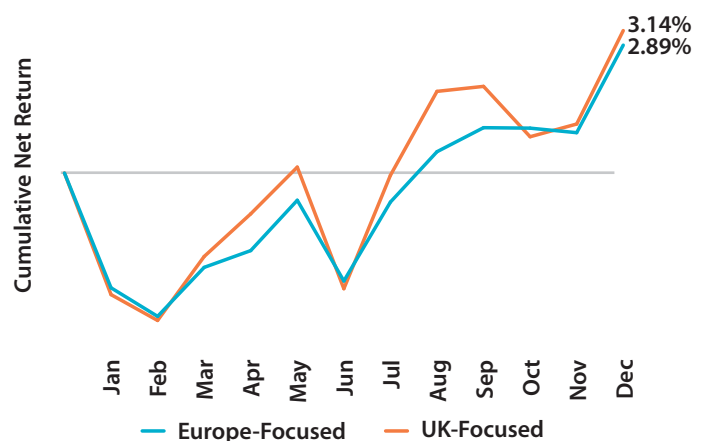
“The main impact of Brexit will be to increase volatility which could be either positive or negative. It will require us to be very tight on risk management

– Hong Kong-based fund manager

Hedge fund manager views on the impact of Brexit on performance:



Cumulative returns of UK- and Europe-focused hedge funds in 2016:

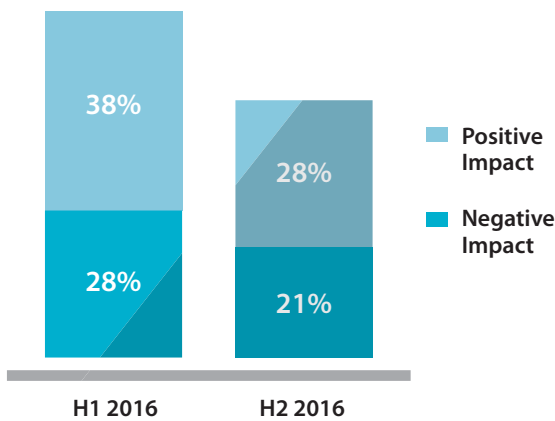


*Excluding UK.

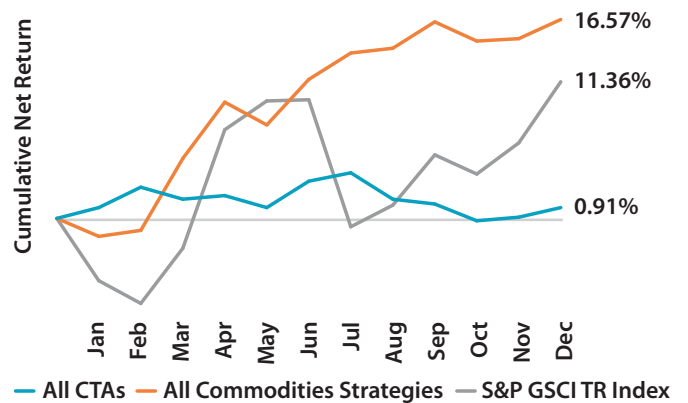
IN FOCUS: COMMODITY MARKET VOLATILITY

With oil prices and currency fluctuations ever present in the news stories of 2016, we use the results of surveys conducted by Preqin throughout the year, as well as data from Preqin's **Hedge Fund Online**, to evaluate how these volatile markets have affected the hedge fund industry over the past 12 months and how investors have seen their investments in the commodities space perform.

Hedge fund manager views on the impact of commodity market volatility on performance:



Cumulative returns of managed futures/CTAs and commodity hedge funds vs. S&P GSCI TR Index in 2016:



35%

of investors felt the performance of their managed futures/CTA investments met their expectations in 2016.

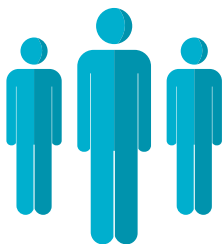


25%

of investors believe the commodity markets were one of the biggest macroeconomic factors affecting the performance of their hedge fund portfolio in 2016.

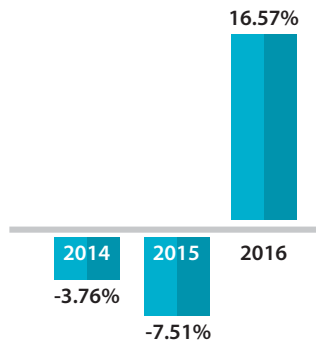
“Managed futures/CTAs are back on pension plans’ radar. The ability to generate a very high cash-on-cash return through managed accounts helps pensions meet their required hurdle rates in a way no other product can match

– \$200mn US-based fund manager

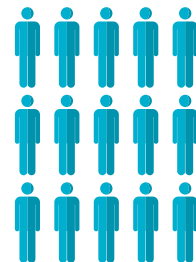


714

fund managers operate a managed futures/CTA or commodity hedge fund vehicle.



Annual net return of the Preqin Commodities Hedge Fund benchmark, 2014 - 2016.

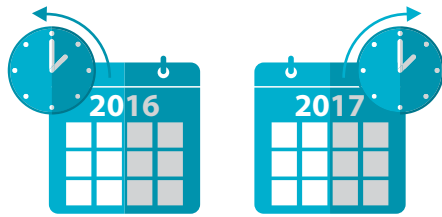


1,486

institutional investors invest in managed futures/CTA or commodity hedge fund vehicles.

IN FOCUS: CENTRAL BANK INTERVENTION

Throughout 2016, central bank policies from across the globe have impacted financial markets and institutional portfolios. The UK has suffered a credit rating downgrade, the Bank of Japan set negative interest rates and the Fed voted to increase interest rates for a second consecutive December. Using the results of surveys conducted by Preqin in 2016, as well as Preqin's Fixed Income Hedge Fund benchmark which tracks the performance of hedge funds with exposure to bond markets, we look at how these events have impacted the global hedge fund industry.



OVER
PAST 12 MONTHS

50%

of hedge fund investors see central bank intervention as a key issue affecting the hedge fund industry.

FOR
THE YEAR AHEAD

48%



PERFORMANCE
IN H1

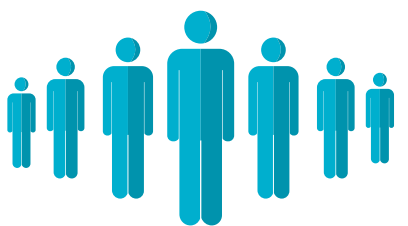
78%

of hedge fund managers saw their fund performance affected by central bank intervention.



PERFORMANCE
IN H2

71%



957

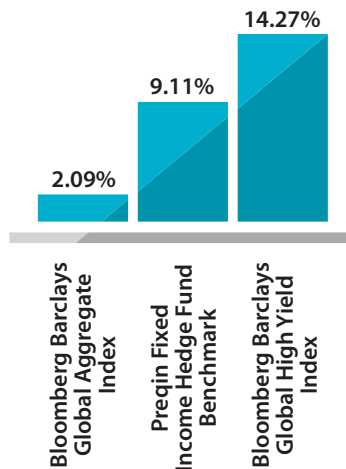
INVESTORS

275

FUND MANAGERS

have a preference for/operate a core fixed income strategy respectively.

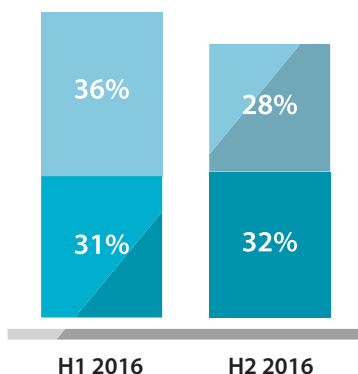
Returns in 2016:



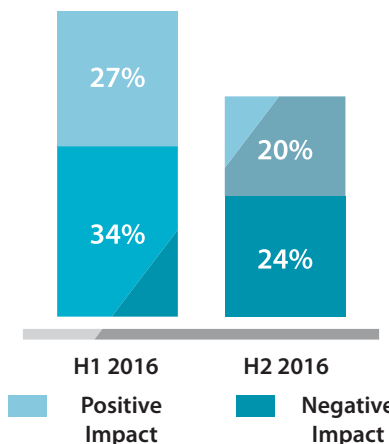
“Pervading all assets is the uncertainty when the central bank monetary experiment will end; and the impact on economies when the recession arrives and policy makers’ ability and willingness to respond”

– Anonymous family office

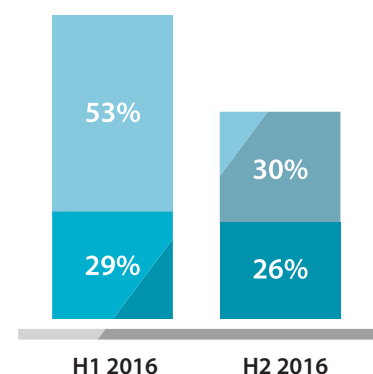
North America-based hedge fund manager views on how US interest rate policy affected performance:



Europe-based hedge fund manager views on how zero and negative interest rate policy in Europe and Japan affected performance:



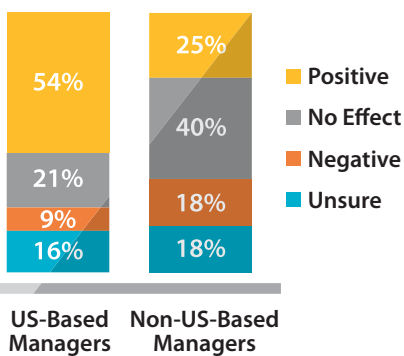
Asia-Pacific-based hedge fund manager views on how zero and negative interest rate policy in Europe and Japan affected performance:



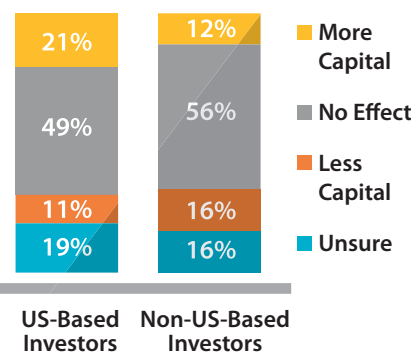
IN FOCUS: US ELECTION

On 8 November, all eyes across the globe were focused on the US as the country went to the polls to choose its next government. The result of Donald Trump's election as the 45th President has left many pondering the consequences and resulting outlook for the US, a country home to 73% of the hedge fund industry's approximate \$3.22tn in global assets. In the days after the election, Preqin surveyed 60 hedge fund managers to assess the expected impact of Trump's presidency on the industry. Here, we use these results to provide a view of how fund managers and investors believe this event will change the industry as well as look at data from Preqin's **Hedge Fund Online** to gauge the impact on industry performance throughout 2016.

Hedge fund manager views on the impact of the US election on the hedge fund industry:



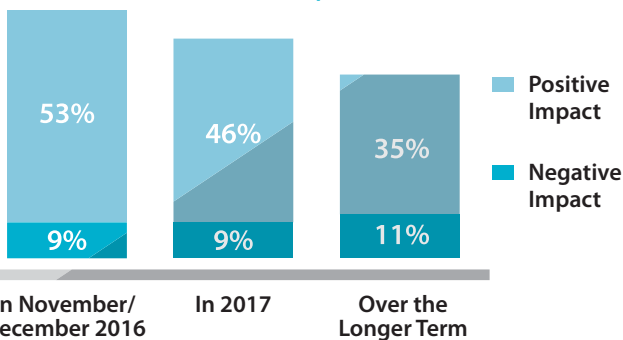
Hedge fund manager views on the impact of the US election on securing capital from investors:



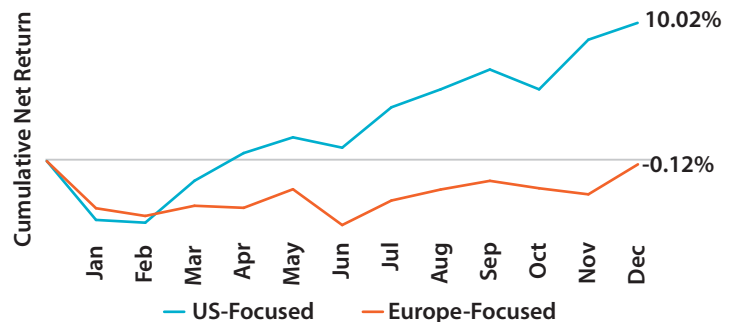
“ Trump adds the largest amount of uncertainty we've ever had in a presidency. This will lead investors toward hedging strategies. It will be a volatile four years

– Anonymous hedge fund manager

Hedge fund manager views on the impact of the US election on performance:



Cumulative returns of US- and Europe-focused equity strategies hedge funds in 2016:



Hedge fund manager views on how the economic policy changes proposed by Trump will affect the hedge fund industry:

