

Average Size of Funds of Hedge Funds Falls by over Half

Industry AUM drops from \$1.25tn to \$910bn between 2008 and Q2 2011.

The latest Preqin research shows that there has been a significant decline in the number of hedge fund of funds managers with AUM of between \$2 and 5bn, while those with less than \$250mn in assets now account for a larger proportion of managers in the industry. Changes in the industry are a consequence of increased investor caution following the economic downturn and the Madoff incident.

Preqin's current fund of hedge funds data shows:

- The mean fund of hedge funds is currently \$2.18bn; in 2010 this figure was \$2.75bn, and in 2009, \$4.78bn.
- The biggest decline in industry AUM occurred between 2008 and 2009, when assets fell 24%.
- The proportion of firms reporting a decline in AUM increased from 23% between 2007 and 2008, to 43% between 2008 and 2009.
- In the same periods, 55% and 17% of firms reported increases in AUM respectively.
- The proportion of fund of hedge funds managers with less than \$250mn in AUM has increased from 28% in early 2010 to 35% in Q2 2011.
- The number of firms that have increased AUM during 2011-to-date outweighs the number reporting a decline. If AUM continues to increase as it has done thus far, AUM could increase to \$950bn by year-end.
- An increasing number of fund of hedge funds managers are planning to launch niche, multi-strategy funds during 2011 to satisfy investor demands for increased transparency and liquidity.

For more information, please see this month's Preqin Hedge Fund Spotlight:

http://www.preqin.com/docs/newsletters/HF/Hedge_Fund_Spotlight_April2011.pdf

Comment:

The fund of funds landscape is markedly different to the pre-crisis industry. Assets under management for the industry as a whole are much lower and there is a bimodal distribution of firms emerging, with peaks at the lower end of the scale as the smaller niche boutiques appeal to the maturing hedge fund investors, and at the larger end of the spectrum the "brand name" multi-strategy firms still prove appealing to the newer investor. After a difficult few years for funds of hedge funds, the managers that have appropriately adapted to retain investors from the institutional market have regained some lost confidence, and numerous new funds are poised to be launched this year. Growth of industry assets is again in positive territory and if this new era of revived investor interest in funds of funds continues then aggregate AUM will begin to climb towards the \$1 billion mark.

Amy Bensted, Manager, Hedge Fund Data.

About Preqin:

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Note to Editors:

- Preqin is spelled without the letter 'U' after the 'Q'.

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