



# Hedge Fund Industry Trend Forecast for 2015

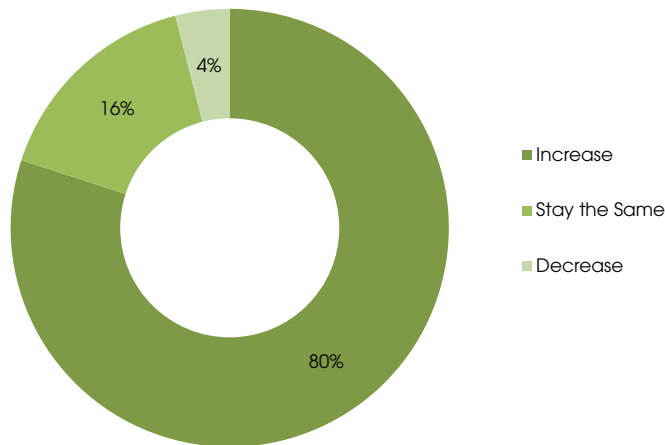
At the end of 2014, Preqin conducted surveys with hedge fund managers, investors and alternatives investment consultants around the world to ascertain their views on the hedge fund industry over the past year and their outlook for the year ahead. [Selina Sy](#) looks at the upcoming trends and developments these industry professionals have identified for hedge funds in 2015.

## Institutional Investor Capital Will Continue to Flow into the Hedge Fund Industry in 2015

Hedge fund managers forecast that industry assets under management (AUM) are set to increase this year, and surpass the figure of \$3.02tn reported in December 2014. Indeed, 63% of surveyed fund managers have a positive outlook on the hedge fund industry in 2015, despite questions raised following

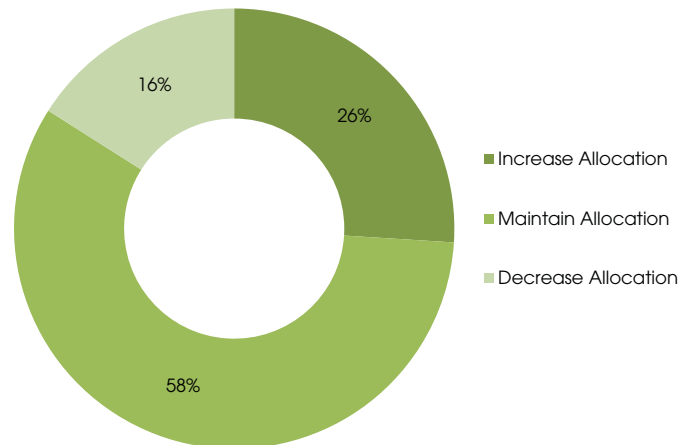
CalPERS' exit and poor industry performance in 2014. A small but not insignificant proportion (26%) of institutional investors intend to increase their hedge fund allocations in 2015, and a larger proportion (40%) of investment consultants will recommend their clients increase their allocations to hedge funds in 2015.

**Fig. 1:** Proportion of Fund Managers that Feel Hedge Fund Industry Assets under Management Will Increase, Decrease or Stay the Same in 2015

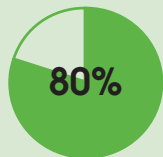


Source: Preqin Fund Manager Survey, November 2014

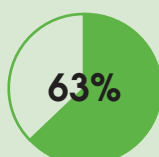
**Fig. 2:** Investors' Intentions for Their Hedge Fund Allocations in the Next 12 Months, 2014



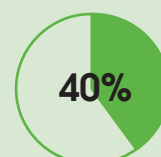
Source: Preqin Hedge Fund Investor Profiles



Proportion of fund managers that feel hedge fund industry AUM will increase next year.



Proportion of fund managers that have a positive outlook on the hedge fund industry in 2015.



Proportion of investment consultants that will recommend their clients increase their allocation to hedge funds in 2015.

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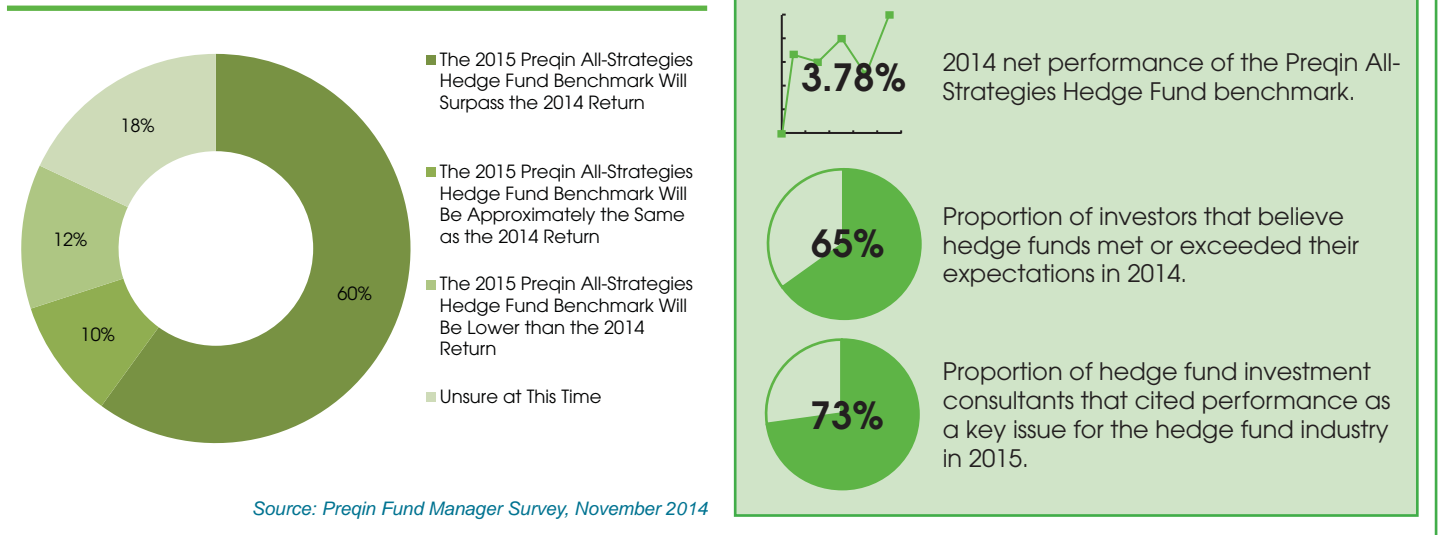


## Managers Predict Hedge Funds Will Perform Better in 2015 than in 2014

2014 was an indisputably poor year for hedge fund performance, with the Preqin All-Strategies Hedge Fund benchmark posting its worst annual return since 2011. Despite this, 65% of investors believed hedge funds met or exceeded their expectations. Going forward, industry observers have predicted that performance over

the next year will improve, with managers forecasting hedge fund performance surpassing the mediocre returns of the previous year. Performance, however, will remain a key issue for the industry in 2015, according to 73% of hedge fund investment consultants and 33% of hedge fund investors surveyed.

Fig. 3: Fund Manager Outlook on Performance in 2015



Source: Preqin Fund Manager Survey, November 2014

## Industry Professionals Give Performance Predictions for 2015

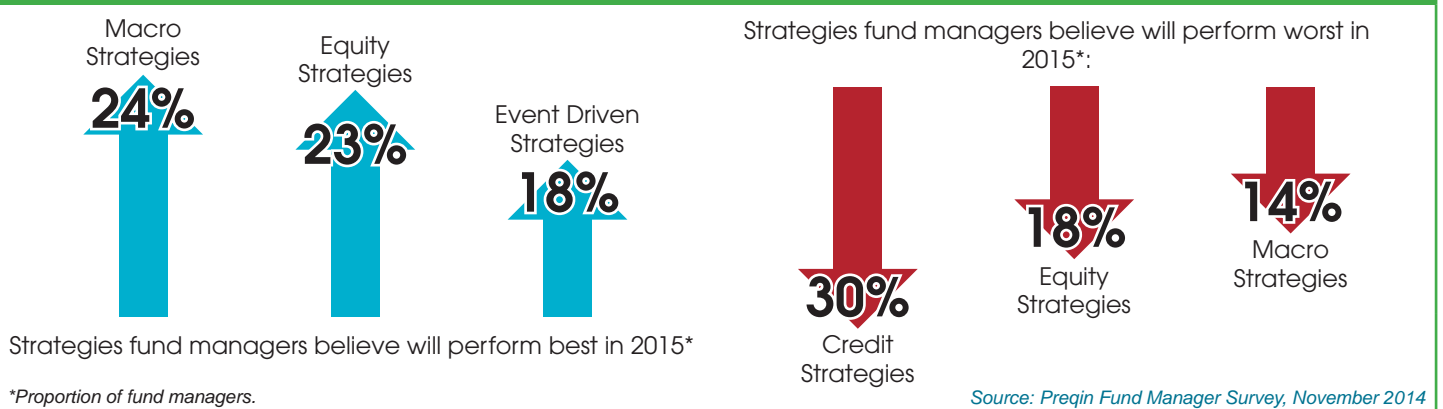
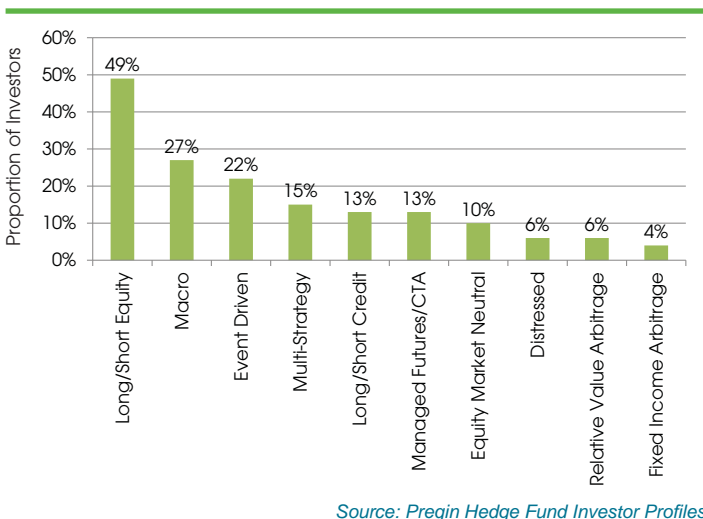
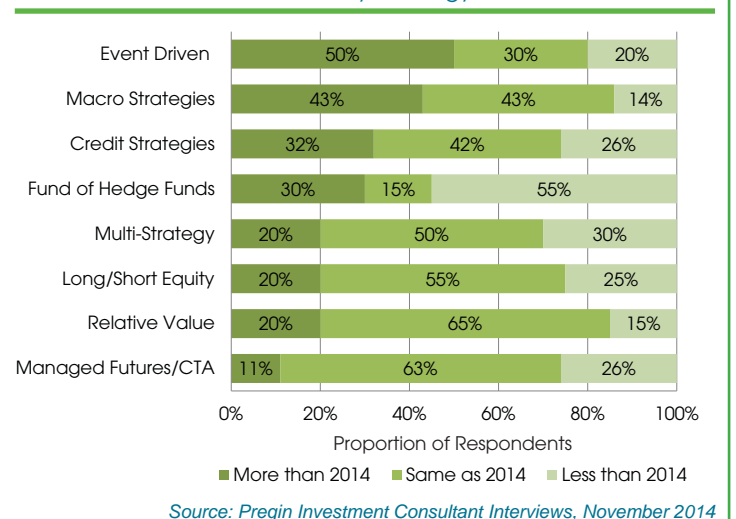


Fig. 4: Strategies Sought by Investors over the Next 12 Months



Source: Preqin Hedge Fund Investor Profiles

Fig. 5: Breakdown of Investment Consultants' Recommendations for 2015 by Strategy



Source: Preqin Investment Consultant Interviews, November 2014

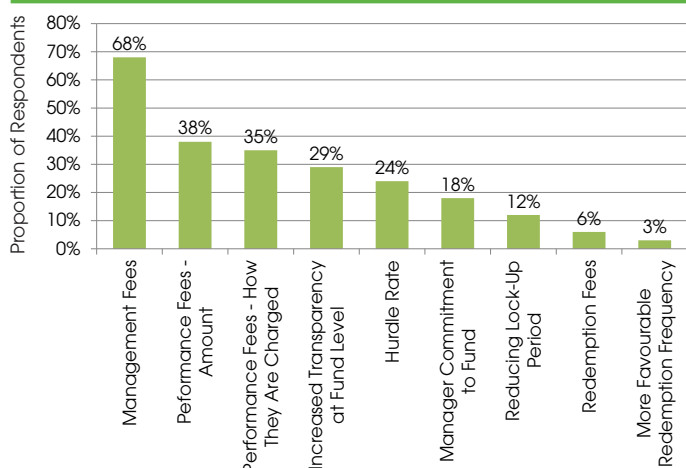


## Investors Will Reopen Dialogue with Managers over Hedge Fund Terms and Conditions

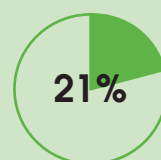
Dissatisfaction with hedge fund performance and a handful of high-profile pension funds recently announcing their intentions to exit the space have prompted many investors to closely re-evaluate their hedge fund holdings. Fund managers must be prepared for investors to negotiate terms and conditions and to reassess the alignment of interests between fund managers and

investors. Over 2015, 68% of investors want to see improvements in management fees, while a significant proportion of investors want to see improvements in the levels of performance fees (38%) and how they are charged (35%). Moreover, 29% of investors want more transparency in the industry in 2015.

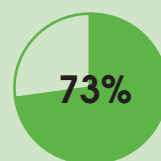
**Fig. 6:** Areas of Fund Terms in Which Investors Want to See Further Improvement in 2015



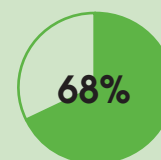
Source: Preqin Investor Interviews, November 2014



Proportion of investors that cited fees as a key issue for the hedge fund industry in 2015.



Proportion of investment consultants that cited fees as one of the most important issues in the hedge fund market.



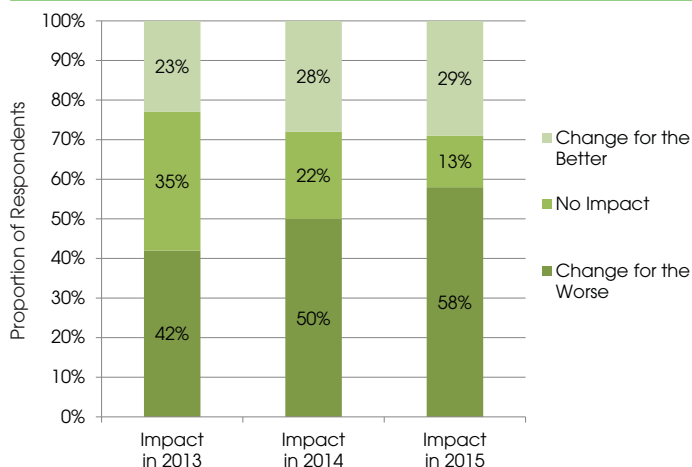
Proportion of investors that want to see improvements to management fees in 2015.

## Hedge Fund Managers Continue to Be Challenged by Industry Regulations

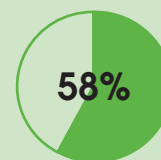
Regulation implemented across the industry worldwide has allowed increased opportunities for hedge fund managers in regions where investments were previously heavily restricted; on the other hand, it has introduced a number of compliance measures and regulatory burdens for fund managers active in

the alternatives space. Regulation remains a concern for fund managers and consultants alike in 2015, with 58% of managers believing that regulation will change the industry with negative consequences, an eight percentage point increase from last year.

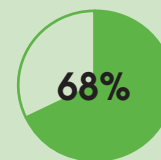
**Fig. 7:** Fund Manager Outlook on How Regulation Will Change the Industry in the Coming Year, 2013 - 2015



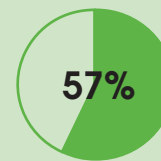
Source: Preqin Fund Manager Survey, November 2014



Proportion of fund managers that believe regulation will change the industry for the worse.



Proportion of consultants that cite regulation as a challenge for the hedge fund industry in 2015.



Proportion of fund managers that believe the AIFMD will have a negative impact in 2015.

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