Q3 2014 Round-Up: Winners and Losers

The third quarter of 2014 has proven to be one of mixed fortunes in the hedge fund and CTA industry. Previous 'losers' in recent months have taken the winning spots, as Q1 trends appear to be turned on their head. Selina Sy takes a look at which groups were the winners and losers in the penultimate quarter of the year.

### Winners

**CTAs**

In the first three months of 2014, CTAs posted returns in negative territory, and the strategy was identified as one of the losers for the quarter in Preqin's Q1 round-up. However, since then, the returns of CTAs have shown an upward trajectory, adding six consecutive months of gains to September, and posting 5.52% in Q3 2014. This makes it the top performing strategy for the quarter and is the strategy's best quarterly performance since Q4 2010. CTAs made up 6% of the total funds launched in the third quarter of the year, up five percentage points on Q2, and correlates with the revival of CTA performance. Should they continue to deliver strong performance as they have done in recent months, CTAs could very well be the biggest winners by year-end.

- **Q3 2014 performance**: 5.52%
- **Proportion of CTAs with year-to-date returns above 5% in September 2014**: 46%
- **CTAs have witnessed six consecutive months of positive returns**: 6%
- **of all fund launches in Q3 2014 were CTAs**: 6%

### Losers

**Hedge Funds**

Hedge funds across all regions and strategies saw a volatile start to the year which continued all the way through September as the benchmark posted its worst month since June 2013. Following losses made in July and August, the All Hedge Funds benchmark was down 0.36% in Q3 2014. Despite this quarter of underperformance, there was an increase in the proportion of single-manager hedge funds launched this quarter (86%) compared to last quarter (63%), suggesting that despite short-term performance concerns, the longer term outlook is still largely positive for hedge funds. Moreover, the proportion of investors seeking investments through commingled single-manager hedge funds has increased and the structure was included in 86% of fund searches in the quarter.

- **Worst performing fund structure in Q3 2014**: Hedge funds
- **Q3 2014 performance**: -0.36%
- **Year-to-date performance as of September 2014**: -3.33%
- **of all fund launches in Q3 2014 were single-manager hedge funds**: 86%

### Asia-Pacific

Hedge funds with a focus on Asia-Pacific had a shaky start to the year, with Q1 returns only just in positive territory. However, the Asia-Pacific benchmark had a streak of positive returns in the middle of the year, leading it to make gains above all other regional benchmarks, something even a September return of -0.34% could not dampen. The Asia-Pacific benchmark gained 1.82% for the quarter compared to the other Preqin regional benchmarks which failed to gain more than 1%. Despite a turbulent start to the year, hedge funds targeting Asia-Pacific are looking to recapture the same performance seen last year. Managers are also seeing opportunities to launch new funds in the region, with 7% of all new launches in Q3 2014 having an Asia-Pacific focus.

- **Best performing regional benchmark in Q3 2014**: Asia-Pacific
- **Q3 2014 performance**: 1.82%
- **of all funds launched in Q3 2014 have an Asia-Pacific focus**: 7%
- **Proportion of Asia-Pacific-based investors that expressed an interest in gaining further hedge fund exposure in Asia-Pacific in Q3 2014**: 46%

### Europe

In anticipation of the AIFMD, passed in July, Preqin surveyed 150 hedge fund managers to get their view on the challenges facing the industry. The majority reported that regulation would be the biggest concern; 59% of all respondents globally thought the directive would have a negative impact. However, perhaps more of a pressing concern for funds focusing on Europe has been the recent volatility in equity markets following political tensions in Ukraine and Russia, slowing growth across Europe and growing concerns about the German economy. Hedge funds focused on Europe have had a difficult quarter as a result, posting -1.46% in Q3. There was also a decrease in the proportion of hedge fund launches made up by Europe-based vehicles, falling from 25% in Q2 to 12% in Q3.

- **Worst performing regional benchmark in Q3 2014**: Europe
- **Q3 2014 performance**: -1.46%
- **of all funds launched in Q3 2014 have a European focus**: 12%
- **Year-to-date performance as of September 2014**: -3.33%
Performance at the start of the year was underwhelming for hedge funds pursuing macro strategies. We concluded that perhaps it was too early to signal a recovery despite seeing some signs of improvements over the first half of 2014. However, the benchmark was among the few that generated gains in Q3 2014, adding 0.53% over the quarter. Investors are also turning to macro strategies following recent volatility in equity markets; 28% of searches included a macro strategy component in Q3 2014 compared to 19% in the previous quarter. In addition, hedge fund managers are also identifying opportunities in the strategy; 13% of all funds launched this quarter utilize a macro strategy.

Event driven strategies dominated the previous winners and losers round-ups this year as the top performing strategy in the first half of 2014. However, Q3 2014 saw hedge funds employing this top-level strategy down 2.32%, making it the worst performing strategy benchmark during the quarter. Similarly, despite strong performance seen in 2013 to the first half of 2014, investor searches for this strategy declined from 31% of all searches in Q2 to 23% in Q3 as investors turned their attentions instead to macro strategies. However, it was good news for fund launches, with a record proportion of funds launched employing an event driven strategy, suggesting that fund managers at least are seeing opportunities in the strategy.

Outlook

As the second half of the year unfolds, we are seeing a shift in which of the strategies and fund types are performing well compared to the start of the year, and indeed compared to trends we have witnessed in 2012 and 2013. July and September were in the red for the Preqin All Hedge Funds benchmark; however, CTA funds made gains during the same period and this led it to be named the top performing strategy for the first time in nearly four years. If this momentum continues, 2014 could be a favourable year for CTAs, positive news for the sector, which has had a difficult recent history. Hedge funds targeting the Asia-Pacific region could also finish 2014 on a high as they endeavour to capture the same positive performance seen in the last half of 2013. Despite September marking the end of macro strategies’ four-month positive performance streak, these funds have piqued the interest of investors over the third quarter of the year, as they seek to diversify into non-correlated assets.

Preqin Quarterly Update: Hedge Funds, Q3 2014

If you are interested in finding more information and statistics on the hedge fund industry in Q3 2014 please read our Preqin Quarterly Update: Hedge Funds, Q3 2014. This indispensable guide to the hedge fund industry covers:

- All leading fund benchmarks for Q3 2014
- The latest hedge fund launches
- The latest hedge fund searches and mandates issued by investors
- League tables of the largest hedge fund managers

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