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Press Release

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Emerging Hedge Funds Outperform Established Peers

Funds in their first three years record consistently higher returns than industry at large

Preqin's latest research examines two ways of defining emerging hedge funds (EHFs); 'small' first-time funds with $300mn or less in AUM, or 'new' first-time funds with a three-year track record or less. Preqin finds that each group has posted higher returns across 12-month and 3- & 5-year annualized horizons compared to the wider fund industry. 'New' EHFs in particular have posted higher rolling 12-month performance than the wider industry for most of the past five years. While this level of performance has historically been accompanied with a higher level of volatility, three-year volatility for 'new' EHFs has converged with that of the wider industry in 2017.

For more information and analysis, see the full *June 2017 Preqin Hedge Fund Spotlight* here:
https://www.preqin.com/docs/newsletters/hf/Preqin-Hedge-Fund-Spotlight-June-2017.pdf

Key Emerging Hedge Fund Facts:

- **'New' EHFs show the strongest performance**, returning 14.10% across 12 months, and 12.22% annualized over five years. In comparison, 'small' EHFs have added 11.91% and 8.98% over these time frames, and the wider industry returned 10.22% and 7.71% respectively.
- Since January 2012, **'new' EHFs have consistently recorded higher rolling 12-month returns** compared to both 'small' EHFs and the wider hedge fund industry.
- While EHFs do show slightly higher risk metrics, **three-year volatility for 'new' EHFs has converged with that of the wider industry in 2017**, and now stands at 4.03% compared to 3.70% across all hedge funds.
- **'New' emerging hedge funds have significantly higher five-year Sharpe ratios** (2.51) than both 'small' EHFs (1.56) and the wider industry (1.54).
- **Investors prefer to invest in small funds**. Seventy-two percent of active hedge fund investors will consider 'small' EHFs, but only 32% will consider an EHF with a three-year track record or less.
- **Funds with a three-year track record or less are more dispersed geographically**: 21% are based outside of North America and Europe, compared to 15% across the industry as a whole.
- Half of 'new' EHFs follow an equity strategy, above the industry average (43%). **Sixteen percent of 'small' EHFs are CTAs**, compared to just 9% across all hedge funds.

Amy Bensted, Head of Hedge Fund Products:

"After seeing outflows across 2016, improved recent returns have resulted in investor inflows to the hedge fund industry for the first time in five successive quarters in Q1 2017. This has set the tone for emerging managers in the asset class; with the past performance of first-time funds stronger than that of the wider hedge fund industry, now could be a prime opportunity for new hedge fund managers.

Notably, newer funds (those with a track record of three years or less) have generated strong returns, achieving higher net gains than small funds. This stronger performance may encourage institutional investors to look past the risks of these first-time funds and find opportunities with emerging managers. Indeed, the volatility of funds with a track record of three years or less has decreased and converged with that of the wider hedge fund industry, indicating that investors can access the better returns these funds may present with a comparable level of investment risk."

Preqin is the leading source of information for the alternative assets industry, providing insight and analysis gathered by its global teams of dedicated researchers. Founded in 2003, the company is a frequent source of intelligence used in the global financial press, through its online databases, regular publications and bespoke data requests.

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