Things Are Not as Bad as They Seem for Hedge Funds

Turbulent 2018 masks strong long-term performance and improving investor sentiment

The *2019 Preqin Global Hedge Fund Report* finds that negative returns for the hedge fund industry as a whole in 2018 have masked an improvement in the overall environment for the asset class. While equity strategies funds did experience losses for the year, macro, credit and relative value strategies all made gains, albeit small gains. Over the longer term, hedge funds have posted returns comparable with the S&P 500, while seeing significantly lower volatility. Additionally, given that the majority of hedge fund investors feel that the market cycle is at a peak, many are looking to lean on hedge funds to offer diversification for capital protection as they position themselves in expectation that a correction is imminent. In fact, more investors are looking to increase rather than decrease investments in hedge funds – the largest proportion of investors which have reported this since 2014.

For a summary of the key trends affecting alternative assets, view the *Alternatives in 2019* report here:
https://www.preqin.com/insights/special-reports-and-factsheets/alternatives-in-2019/25537

Members of the media can request a complimentary press copy of the *2019 Global Hedge Fund Report* by emailing press@preqin.com.

Amy Bensted, Head of Hedge Funds:

"It's hard to deny 2018 was a challenging year for hedge funds, with a particularly difficult Q4 taking the All-Strategies benchmark into negative territory for the year. Examining the data in more detail, however, reveals a more nuanced picture; equities strategies carried the bulk of the losses, while other strategies made small gains. Although the majority of investors reported that their return expectations had not been met in 2018, investors are turning to hedge funds to protect against a market correction in 2019. Therefore, it will be the defensive properties that a hedged portfolio can add going forwards that is driving investor decision making today."

Key Hedge Fund Trends:

- **Negative overall performance masks robust returns in some strategies**
  - The Preqin All-Strategies Hedge Fund benchmark returned -3.41% in 2018. While equity strategies funds saw losses of 5.40%, relative value, macro and credit funds returned 0.82%, 0.98% and 2.09% respectively.
  - Although over half (55%) of investors found that their hedge fund portfolios failed to meet expectations in 2018, the asset class saw returns comparable to the S&P 500 PR Index (9.22% vs 10.75%).
  - Furthermore, hedge funds have a lower volatility than the S&P 500 PR Index: 5.59% compared to 13.60%.
- **Investors are looking to hedge funds as they position defensively**
  - Fifty-nine percent of hedge fund investors believe equity markets were at a peak at the end of 2018, up from 45% a year prior.
  - As a result, 40% said they were positioning themselves more defensively going into 2019, while just 6% are planning to be more aggressive.
  - The largest proportions of investors cite diversification (64%) and low correlation (42%) as the main reasons for investing in the asset class.
  - Twenty-six percent of investors intend to invest more in hedge funds in 2019 than 2018, compared to 21% that intend to reduce their exposure. The proportion looking to maintain or increase their exposure (79%) is the largest since 2014.

Preqin is the home of alternative assets, providing industry-leading intelligence on the market and cutting-edge tools to support participants at every stage of the investment cycle. More than 73,000 industry participants in over 90 countries rely on Preqin as their indispensable source of data, solutions and insights.

Preqin's data and analysis is frequently presented at industry conferences, and is used in the global financial press and academic journals & white papers. We are always happy to support journalists by providing reports, custom data and one-on-one interviews.

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New York	London	Singapore	San Francisco	Hong Kong	Manila	Guangzhou
+1 212 350 0100	+44 20 3207 0200	+65 6305 2200	+1 415 316 0580	+852 3892 0200		

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