Strong 2019 Hedge Fund Returns Belie Long-Term Underperformance

Investors remain unsatisfied and fund managers will need to adapt to survive

Hedge fund performance improved in 2019, but long-term returns lag behind public indices. The Preqin All-Strategies Hedge Fund benchmark returned a net 11.45% for the year, which marks only the second time in the last six years that has been in double figures. But three-year annualized returns are still well below most public indices. Investors remain unsatisfied with performance and have been withdrawing capital from funds – a net $82bn in assets were withdrawn in 2019. Managers are having to adapt to survive in the face of persistent dissatisfaction. Fee structures are evolving, and managers are consolidating – average management fees are at their lowest level in 10 years, and in 2019, the number of active funds has declined for the first time to 16,256. In order to regain investors' confidence, some fund managers have been embracing new technologies like artificial intelligence, which has outperformed the asset class as a whole over the past three years.

For more information, see the *2020 Preqin Global Hedge Fund Report* sample pages here:
https://docs.preqin.com/samples/2020-Preqin-Global-Hedge-Fund-Report-Sample-Pages.pdf
If you would like a complimentary press copy of the report, please contact us at press@preqin.com.

Christopher Beales, Executive Editor – *2020 Preqin Global Hedge Fund Report*:

"2019 hedge fund returns balanced out losses incurred in a tough 2018. But all is not forgiven for the asset class: annualized returns over three and five years trail public indices, and investors remain broadly dissatisfied with the performance of their portfolios. Poor investor sentiment has persisted in recent years, and they are taking their money out of hedge funds into better-performing asset classes. Fund managers face a grave challenge in trying to stem this tide – several are consolidating or wrapping up their operations. But today's market challenges are creating opportunities for fund managers to do what they do best: adapt, evolve, and innovate."

Key Hedge Funds Facts:

- **The Preqin All-Strategies Hedge Fund benchmark returned a net 11.45% in 2019**, only the second time in six years that performance has hit double digits.
- But **three-year annualized returns are still at 6.65%**, only half as much as the 13.00% gains made by the S&P 500 in the same period.
- It's no surprise, then, that **40% of investors thought hedge fund performance fell short of expectations in 2019**, demonstrating an abiding dissatisfaction with the asset class.
- Investors followed through on this unhappiness, and **a net $82bn in assets were withdrawn from hedge funds between January and November 2019**.
- Managers are consolidating or liquidating in the face of outflows. **The number of active funds declined for the first time ever in 2019,** falling from 16,743 in 2018 to 16,256.
- Managers have been decreasing management fees, which have fallen to a record low of 1.51% on average in 2019. They have also been experimenting with new technologies like AI, which have outperformed the asset class as a whole in the past three years.

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