

Hedge Fund Investors Seek to Reduce Their Exposure

More investors look to decrease their hedge fund investments in 2017 than will increase them, but pressure is not being felt equally across the industry

The hedge fund industry may witness further investor redemptions in 2017: twice as many investors intend to reduce their exposure to hedge funds through the year than are looking to increase it. However, Preqin's latest survey of over 150 active hedge fund investors finds that some leading strategies are more at risk of redemptions than others. Relative value strategies hedge funds are most sought-after, while twice as many investors plan to reduce their allocations to CTAs as those that intend to increase them.

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

Other Key Hedge Fund Investor Facts:

- **Two-thirds of investors stated that their return expectations had not been met in 2016:** just 3% said they exceeded them.
- However, not all hedge fund strategies were viewed equally: emerging markets hedge funds met the expectations of the largest proportion of investors (75%), while at the other end of the scale 73% said that discretionary CTAs had failed to meet expectations.
- Looking ahead, 28% of investors expect hedge fund performance to improve in 2017 compared to the year before, but **19% expect the asset class to perform worse than in 2016.**
- As a result, **38% of investors intend to invest less capital in hedge funds over the next 12 months** compared to the year before, while 20% are looking to increase their allocations.
- However, this trend varied across leading strategies: **26% of investors will look to allocate more to relative value strategies funds** in 2017, while just 6% plan to reduce their allocations to these strategies.
- In contrast, **CTAs and funds of hedge funds may see outflows:** 26% and 29% of investors in these strategies respectively plan to reduce their exposure over 2017, compared to just 13% which plan to increase their investment in either.

Amy Bensted, Head of Hedge Fund Products:

"Preqin's interviews with investors at the end of 2016 indicate that the fundraising challenges of the past year show little sign of abating in 2017. Outflows accelerated over 2016, with the largest levels of investor redemptions made in Q4. Looking ahead, twice as many investors plan to reduce their exposure over the year compared to those looking to increase it, meaning further outflows look likely in 2017. This is undoubtedly a concern for firms in terms of both retaining capital and fundraising over the year.

However, with such challenges come opportunities; those fund managers that can respond to investor demands for greater alignment of interests, harness some of the volatility resulting from uncertain markets and deliver better returns will be best placed to win investor mandates."

To see more from the Preqin H1 2017 Investor Outlook: Alternative Assets please find the full report here:
<https://www.preqin.com/docs/reports/Preqin-Investor-Outlook-Alternative-Assets-H1-2017.pdf>

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