

Investors Keep Faith in Hedge Funds in 2019

Investors look to hedge funds to protect their portfolios in potential turbulence, despite being unsatisfied with returns in 2018

The *Preqin Investor Outlook: Alternative Assets H1 2019* finds that investors were largely unsatisfied with performance in 2018. Half of them thought their investments failed to meet objectives, and only 37% believe 2019 performance will exceed 2018's levels. Nonetheless, investors are looking to hedge funds to protect their portfolios in the belief that there is turbulence ahead. Sixty-one percent believe that the current equity market cycle is at a peak, up from 45% a year ago, and 40% are looking to position their hedge fund portfolios more defensively as a result of their outlook. This perception has proved a boon for the industry, with four out of five investors planning to hold or raise their allocation over the longer term – the highest proportion since 2014.

For more information and analysis, see the full *Preqin Investor Outlook: Alternative Assets H1 2019* here: <https://docs.preqin.com/reports/Preqin-Investor-Outlook-Alternative-Assets-H1-2019.pdf>

Amy Bensted, Head of Hedge Funds:

"This is a pivotal moment for the hedge fund industry, as investors initiate a sea-change in their allocation patterns. After several years in which hedge fund returns have failed to keep pace with the historic equity bull market, investors felt they could be getting higher returns at a lower cost. But the industry's capital protection and risk mitigation advantages are coming more to the forefront of investors' minds. This is why the industry has the brightest outlook from investors in five years, despite the challenges it faced in 2018. This does come with a caveat, though – investors are looking to rebalance their holdings, and many are trimming the number of managers and funds that they invest in as they seek to create more concentrated portfolios. Fund managers may be optimistic about their longer term relationship with investors, but they will need to work hard in the coming months to effectively attract and retain capital."

Key Hedge Fund Investor Outlook Facts:

- The majority (55%) of hedge fund investors were disappointed with the performance of their portfolios in 2018.
- The industry saw net outflows of \$34bn, and assets under management fell as performance suffered.
- However, **73% of investors say their confidence in hedge funds to meet performance objective is unchanged**, including 16% that say it has increased in the past year.
- Investors are optimistic about performance in 2019: **37% expect hedge funds to exceed 2018's performance**, compared to 17% that expect them to perform worse.
- This is despite challenges ahead. 61% of investors believe equity markets are at a peak, up from 45% a year ago, and **42% say that stock market volatility is the biggest challenge** facing the industry in 2019.
- In fact, **40% of hedge fund investors are positioning their portfolios more defensively**, while only 6% are becoming more aggressive.
- Hedge funds perform a valuable role in that, offering portfolio diversification and risk mitigation to investors.
- As such, **79% of investors intend to maintain or increase their exposure in the longer term** – the largest proportion seen since the start of 2014.

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