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Press Release

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Investors Struggle to Source Attractive Hedge Funds

42% of investors found it harder to find appealing funds in 2016 than in 2015

Preqin's surveys of hedge fund investors find that many report increasing difficulty in finding attractive funds in which to invest. Almost half of investors said in June* that they were planning to reduce their allocations to hedge funds over the next 12 months. Of these, 38% said that three-year performance was the driving factor behind the decision, while a further 16% said their outlook on future performance was negative. When looking to make new fund commitments, investors are faced with a wide dispersion of returns within and between different leading hedge fund strategies. With almost 15,000 hedge funds currently open to investment worldwide, this poses a significant challenge to investors seeking to expand or modify their hedge fund portfolios.

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

Key Hedge Fund Investor Facts:

- **Forty-nine percent of investors plan to reduce their exposure to hedge funds** over the next 12 months.
- Of these, **38% cite three-year performance as the leading reason for reducing exposure**, while 16% cite a negative outlook on performance.
- Forty-eight percent of investors report that fewer than half of their portfolio hedge funds have met expectations over the past 12 months.
- When selecting new funds, **76% of investors look for a successful team performance track record**, while 54% seek proven experience and 51% desire successful firm-level performance.
- However, **performance can differ between and within leading strategies**: interquartile ranges for annualised three-year returns vary from 5.12% for relative value funds to 7.73% for macro strategies funds.
- As such, **investors are more satisfied with some strategies than others**. Seventy-six percent feel event driven strategy hedge funds have met expectations in H1 2017, compared to just 48% that say the same of macro strategies funds.
- Investors' allocation plans vary accordingly. While **a third of investors are looking to increase their allocations to relative value hedge funds**, and none are looking to reduce exposure, almost equal proportions are looking to increase (15%) and decrease (12%) exposure to multi-strategy funds.
- **There has been significant growth in the number of active hedge funds in recent years**, up from 12,500 in 2012, to 14,779 in June 2017.

Amy Bensted, Head of Hedge Fund Products:

"Hedge fund investors recognise that the performance of the industry has made some progress over the past year, but they still have serious concerns over the returns generated by funds in their portfolios. Despite the industry posting 11 months of gains in the 12 months to the end of June, half of investors report that half of their portfolio has not met their expectations. Over the longer term, this is even more pronounced: 70% of investors feel that three-year performance has failed to meet their requirements.

Given this dissatisfaction, it is not surprising that underwhelming three-year returns are the foremost reason investors give for reducing allocations. This process is likely to involve reallocation or rebalancing, but in this regard investors are faced with a number of significant challenges. The dispersion of returns between different leading hedge fund strategies is wide, and with thousands of funds pursuing each strategy there is great variance within each as well. There are now almost 15,000 hedge funds open to investment, far more than can be evaluated individually by institutions, and so building an effective portfolio that meets their needs is becoming an ever-larger task."

***Results are based on a survey of 178 hedge fund investors surveyed by Preqin in June 2017.**

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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