Investors Look to Hedge Funds to Provide Asset Protection

Despite underwhelming 12-month performance, hedge funds' downside risk protection makes them an important tool for investors

The *Preqin Investor Update: Alternative Assets H2 2019* finds that hedge fund investors are looking to the asset class to offer asset protection as they anticipate an equity market downturn*. Almost half of them think the asset class fell short of performance expectations over the past 12 months, but a notable 42% of respondents believe the industry's performance will improve in the year to come. Almost three-quarters of investors now believe equity markets are at a peak, and many are looking to hedge funds to help provide diversity and downside protection. In the next 12 months, 77% of investors are seeking to maintain or increase their exposure to the industry, and more than a half of respondents plan to rebalance their portfolios more defensively. In this regard, relative value and macro strategies are sought by the greatest proportion of investors.

For more information and analysis, see the full *Preqin Investor Update: Alternative Assets H2 2019* here:
http://docs.preqin.com/reports/Preqin-Investor-Update-Alternative-Assets-H2-2019.pdf

Samuel McKenzie, Hedge Fund Analyst:

"Although investors are not particularly satisfied with the performance of their hedge fund portfolios over the last 12 months, they are looking to the asset class to help protect their assets in the months ahead. Expectations of an equity market downturn have risen by more than 10 percentage points in the past six months alone, and two-thirds of investors are rebalancing their portfolios more defensively. How hedge funds can protect investors in tough times will be the true litmus test for the industry, but smaller and less well-known managers in particular will likely only get a limited chance to prove their worth."

Key Hedge Fund Investor Outlook Facts:

- Almost half **(46%) of hedge fund investors are unsatisfied with the performance of their portfolios** over the past 12 months. But **42% believe the asset class will perform better** in the next 12 months.
- In response to their views on where we are in the equity market cycle, **64% of investors are looking to protect their portfolios in the next 12 months**. This is almost twice the level recorded a year ago (33%).
- **The uncertain geopolitical landscape and stock market volatility are seen as the biggest challenges in the coming year,** cited by 60% and 53% of investors respectively.
- The vast majority **(77%) of investors plan to commit as much or more capital to hedge funds** in the next 12 months. From those, 23% are planning to invest more capital, up from 16% of those surveyed at the same time last year.
- **Macro and relative value funds are most sought after,** being cited by 33% and 31% of investors respectively. Conversely, investors said they were most likely to decrease exposure to discretionary CTAs (30%) and event driven strategies (29%).

All figures are based on the results of a survey of 177 institutional investors conducted in July 2019.

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