

Outlook for 2014 Hedge Fund Performance Is Subdued Despite Second Quarter Rally

99% of hedge fund managers and 98% of hedge fund investors believe 2014 year-end performance will not match 2013's benchmark return

Preqin interviewed 150 fund managers and 100 institutional investors in June 2014 to ascertain their outlook on the hedge fund industry as we entered the second half of the year. When asked to predict the end of year benchmark value in 2014, 99% of hedge fund managers predicted the All Hedge Funds benchmark would be 11% or less, below the 11.69% hedge funds returned in 2013.

Other Key Findings:

- 53% of fund managers and 51% of hedge fund investors believe the 2014 benchmark will fall between 4-6%.
- As of June 30th 2014, the Preqin All Hedge Fund benchmark has posted net returns of 3.68%.
- The bulk of this performance was added in Q2 2014, with the benchmark making gains of 2.33% in the second quarter of the year, versus net returns of 1.32% in Q1.
- Investors are more positive on the outlook for the benchmark than fund managers; 10% of investors believe the industry will make gains of 10% or more in 2014, versus 7% of fund managers.
- North American managers are predicting the benchmark to perform better in 2014 than their European and Asia & Rest of World counterparts; the mean benchmark return predicted by these managers is 6.06% versus 5.33% (Europe) and 5.89% (Asia & Rest of World).
- In December 2013, 73% of fund managers stated that they had a positive outlook for the year ahead. In June 2014, 57% of fund managers stated the same thing for their H2 2014 outlook.
- Overcoming poor performance was among the top three key challenges for H2 2014 cited by all fund managers across the globe. In Asia & Rest of World this was the leading challenge, cited by 28% of fund managers in the region.
- In Europe and North America regulation and a challenging fundraising environment pose more of a challenge. In Europe, 38% of fund managers reported regulation as the key challenge in the industry and a quarter of North America-based fund managers said the same about fundraising.

For more information and further analysis, please see the factsheet below

Comment:

"Hedge fund managers and investors alike entered 2014 in a buoyant mood following two years of double-digit returns and large inflows of fresh capital from investors. However, two-thirds of fund managers noted that generating attractive returns in 2014 would be a key requirement that must be met in order to maintain this positive outlook over the year. This has proven to be a challenge for fund managers, and both these firms and their investors are expecting the industry to not reach the levels of absolute returns of 2012 and 2013.

In turn, 2014 could be shaping up to be a watershed year for the industry; new regulations, a continued challenging fundraising environment and a start to the year which has seen the All Hedge Fund benchmark in the red as many times as the black are undoubtedly posing challenges to hedge funds. Hedge fund managers not only need to focus on their strategy to improve returns, but also on their business from a compliance perspective as well as improving their reach in the institutional investment community, if they are to thrive in the second half of the year."

Amy Bensted, Head of Hedge Fund Products

About Preqin:

Preqin is the leading source of information for the alternative assets industry, providing data and analysis via online databases, publications and bespoke data requests.

Preqin has built a reputation in the alternative assets industry for providing the most comprehensive and extensive information possible. Leading alternative assets professionals from around the world rely on Preqin's services daily, and its data and statistics are regularly quoted by the financial press. For more information, please visit: www.preqin.com

Note to Editors:

- Preqin is spelled without the letter 'U' after the 'Q'.

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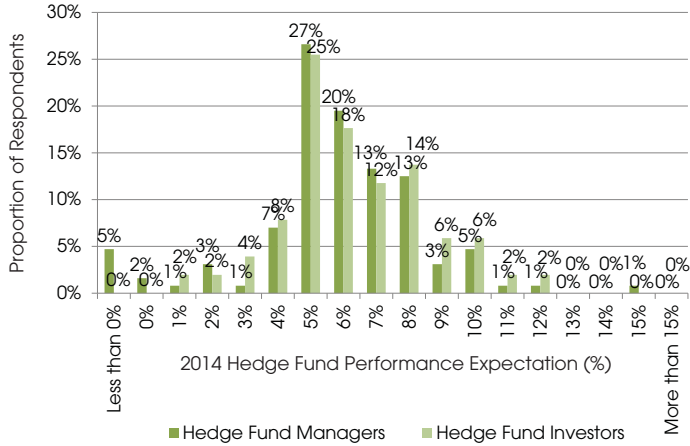
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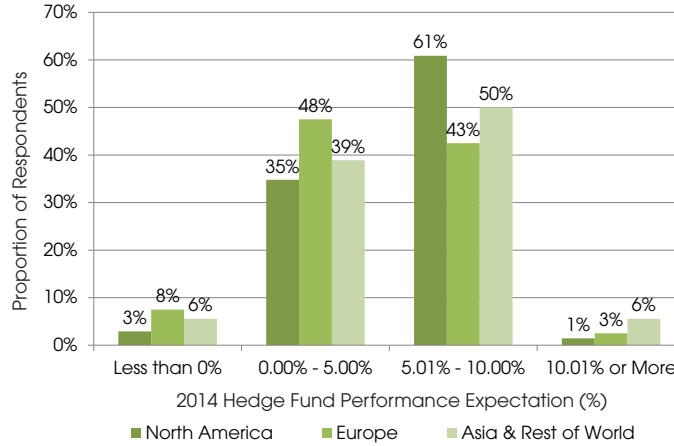
Hedge Fund Performance Outlook - July 2014

Fig. 1: Hedge Fund Manager and Investor Expectations for 2014 End-of-Year Performance Figure (to Nearest %)



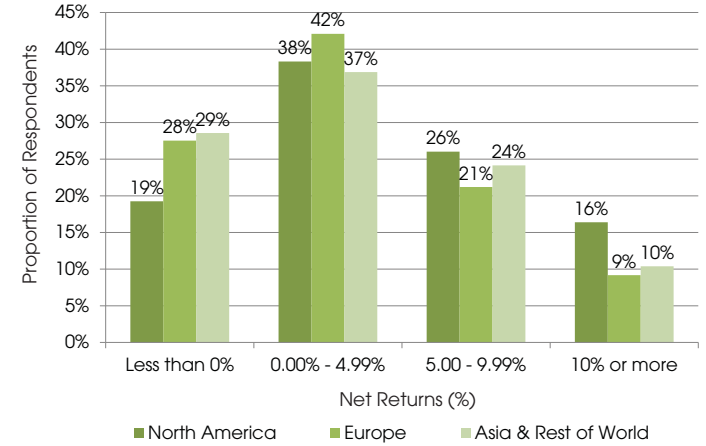
Source: Preqin Hedge Fund Surveys, June 2014

Fig. 2: Hedge Fund Manager Expectations for 2014 End-of-Year Performance (to Nearest %) by Fund Manager HQ



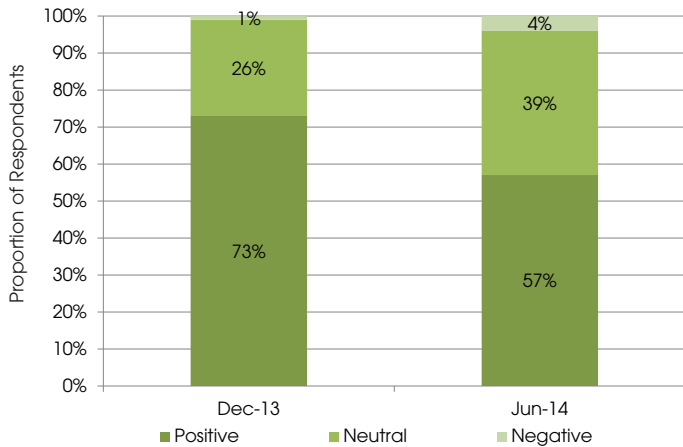
Source: Preqin Hedge Fund Surveys, June 2014

Fig. 3: Hedge Fund Benchmark Returns 2014 YTD (as of 30th June) by Fund Manager Headquarters



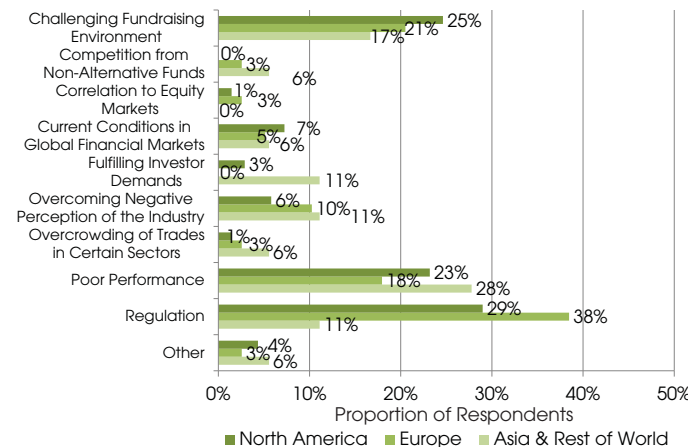
Source: Preqin Hedge Fund Analyst

Fig. 4: Hedge Fund Manager Outlook on the Hedge Fund Industry in 2014



Source: Preqin Hedge Fund Surveys, June 2014

Fig. 5: Hedge Fund Manager Outlook on the Key Challenge in the Hedge Fund Industry in 2014



Source: Preqin Hedge Fund Surveys, June 2014

Fig. 6: Summary of June 2014 All Hedge Fund Performance Benchmarks, as at 30 June 2014 (Net Returns, %)*

Time Period	All Hedge Fund Performance Benchmark
June	1.31%
May	1.07%
Q1 2014	1.32%
Q2 2014	2.33%
H1 2014	3.68%
12 Months	11.07%
Annualized 3 Years	7.09%
Annualized 5 Years	10.71%
Volatility 3 Years	5.19%
Volatility 5 Years	5.45%

Source: Preqin Hedge Fund Analyst

* Please note, all performance information includes preliminary data for June 2014 based on net returns reported to Preqin in early July 2014. Although stated trends and comparisons are not expected to alter significantly, final benchmark values are subject to change.