

The Q1 2015 Preqin Quarterly Update

Hedge Funds

Insight on the quarter from the leading provider of alternative assets data

Content includes...

Winners and Losers

Which strategies and regions came out on top in Q1 and which fared less well?

Performance Update

The latest performance benchmarks.

Hedge Fund Launches

Number of new vehicles launched drops in Q1 compared to previous quarter.

Fund Manager League Tables

The largest hedge fund managers globally.

Investor Mandates

A look at investors' plans for the coming year.





Foreword - Amy Bensted, Preqin

Preqin's hedge fund performance benchmarks reveal that single-manager hedge funds trail funds of hedge funds by 0.13 percentage points over Q1 2015. There was a noted divergence of fortunes between US- and Europe-based funds of hedge funds last year and the multi-manager hedge fund industry saw assets reach the highest level since 2011. Over Q1 2015, the fund of hedge funds industry grew by \$8bn. Meanwhile, with single-manager hedge funds failing to match the same double-digit annualized returns in 2014 that were seen in the two years prior, industry observers are keen to see hedge funds fare better this year. According to a survey at the end of last year, 60% of hedge fund managers expect Preqin's 2015 All-Strategies Hedge Fund benchmark to surpass the benchmark seen in 2014. As it stands, this expectation appears achievable, with the Preqin All-Strategies Hedge Fund benchmark posting 2.88% over Q1 2015, its best quarterly figure since Q4 2013.

Europe-based single-manager hedge funds have witnessed a particularly good start to the year, profiting from the events surrounding the European Central Bank's recently launched quantitative easing program and the Swiss National Bank's decision to remove the cap on the value of the Swiss franc. Hedge funds targeting Europe generated returns of 4.01% for Q1 2015. Emerging markets on the other hand saw a spectrum of returns over Q1 2015 as hedge funds targeting Asia, Africa, Latin America and Russia and Eastern Europe generated net returns ranging from -0.69% to 9.66% in Q1 2015.

Hedge fund investor activity has been buoyant over the quarter with over 100 new mandates added to Preqin's Hedge Fund Searches and Mandates feature. Long/short equity remains the most commonly sought hedge fund strategy among investor searches, followed by macro strategies. Event driven strategies have made a good attempt to regain the momentum seen early last year, when hedge funds employing the strategy were one of the strongest performers throughout H1 2014; event driven hedge funds generated 2.26% for Q1 2015. Managed futures/CTAs continued their bullish run in Q1 2015, generating 4.14% for the quarter, while investor interest in the strategy remains mute, accounting for just 11% of investors initiating fund searches.

After a year of lacklustre performance, hedge fund managers will be eager to reassert the worth of the asset class in 2015. Global economic events, turbulent markets and stagnant corporate M&A activity over the past year have seen a number of hedge funds underwater as managers attempt to show investors that this short-term slump is not indicative of longer term performance. Investor sentiment does not appear deterred, however, with 65% of investors surveyed at the end of last year stating that hedge funds either met or exceeded their expectations and many other investors initiating mandates for new allocations. Meanwhile, hedge fund managers are launching new products to meet the varying needs and requirements of investors seeking to gain exposure to the hedge fund asset class, offering vehicles that can generate returns uncorrelated to traditional markets and risk mitigation through portfolio diversification.

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Q1 2015 Round-up: Winners and Losers

Winners

Funds of Funds

In 2014, the fund of funds sector accumulated assets for the first time since 2011, growing by \$33bn to reach \$819bn in assets across the entire industry. This net growth has continued into 2015, with the sector adding \$8bn in the first quarter of 2015.

Funds of funds have also had a strong start to the year in terms of performance, adding 3.02% over Q1, higher than the Preqin All-Strategies Hedge Fund benchmark, which made gains of 2.88% over the same period. Despite February ending a six-month positive streak for funds of CTAs, their return for Q1 is an impressive 8.50%, with a 12-month return of 31.13%.

Funds of funds have also been very active in terms of their fund search activity over the first quarter of the year; 51% of all searches initiated at the start of 2015 originate from multi-managers.



Growth in fund of hedge funds assets under management over Q1 2015.



Gains made by funds of hedge funds over Q1 2015.



Proportion of fund searches initiated in Q1 originating from funds of hedge funds.

Sovereign Wealth Funds

The recent clarification of the Volcker Rule terms, that could have forced sovereign wealth funds to redeem their hedge fund investments, represents a victory for sovereign wealth funds and fund managers alike. The rule, scheduled to be implemented in July, among other limits, prohibits hedge fund investment by banks with a US presence, including their controlling entities. Sovereign wealth funds with ownership stakes in banks targeted by the rule will now still be able to invest alongside US investors in hedge funds as long as they are not involved in the marketing of the fund. Prior to this clarification, some fund managers had planned to create new vehicles specifically to accommodate sovereign wealth funds, although this solution could still have led to further regulatory issues.

Despite accounting for less than 1% of all active hedge fund investors on Preqin's Hedge Fund Investor Profiles online service, sovereign wealth funds represent 11% of all institutional capital invested in hedge funds. Preqin recently launched the [2015 Preqin Sovereign Wealth Fund Review](#), an entire review of the sovereign wealth fund sector, including full profiles on the investment activities of these investment giants, key contact details and in-depth analysis of key trends in the sector.

For more information, please visit:

www.preqin.com/swf

Losers

Discretionary CTAs

CTAs experienced a revival in the latter half of 2014 following several years of subdued performance. Trend followers in particular continue to benefit from reduced levels of correlation between markets; systematic CTAs tracked by Preqin's Hedge Fund Analyst have returned on average 17.18% over the last 12 months. This contrasts markedly with the performance of discretionary CTA vehicles, with Preqin's benchmark showing a negative return of 0.83% over the same period and just 1.43% over Q1 2015. Also, following a spike in discretionary CTA launches in 2013, when there were 18 new vehicles launched, the number of discretionary CTA launches has been falling. Preqin is yet to record a discretionary CTA vehicle launched in 2015.



Systematic CTAs returned 4.95% in Q1 2015.



Discretionary CTAs returned 1.43% in Q1 2015.



There have been no recorded discretionary CTA funds launched in Q1 2015.

Emerging Markets

February 2015 saw the first positive month for Preqin's Emerging Markets Hedge Fund benchmark since October 2014, with year-to-date returns for these regions rising to 2.13% through March, though the benchmark remains the worst performing globally. Funds targeting developed markets have returned on average over two percentage points more for the year so far as well as comparing favourably on a risk-adjusted basis; the three-year Sharpe ratio (RFR=2%) for Preqin's Developed Markets Hedge Fund benchmark stands at 3.31 compared to 0.80 for emerging markets funds. Poor performance in 2014 was largely driven by Latin America- and Russia and Eastern Europe-focused funds. However, over the first quarter of the year, Russia and Eastern European funds have posted some sizeable returns (+9.66% YTD 31 March), following the ceasefire with Ukraine and the Russian Central Bank acting to stabilize the Russian markets.



Q1 2015 return of hedge funds focused on emerging markets.



Q1 2015 return of hedge funds focused on Russia and Eastern Europe.



2014 return of hedge funds focused on Russia and Eastern Europe.



Europe

Funds that focus on investment in Europe produced lower returns than other regional-focused funds globally in 2014: 3.19% compared with 5.83% for North American funds and 6.20% for Asia-Pacific funds. The region would seem to have turned a corner this quarter however; Preqin's Europe Hedge Fund benchmark is the top performing region in Q1 2015 and has returned 4.01% so far this year. The European Central Bank began attempts in March to revive the Eurozone's economy with a €1tn program of quantitative easing, the FTSE 100 hit all-time highs and European share prices have been on the rise, all helping to boost performance in the region.

Within Europe, some firms have had a strong start to the year; for instance, Winton Capital Management has increased its assets from \$28.2bn as of 31 December 2014 to \$30.3bn as of 28 February 2015, an increase of \$2.1bn in the first two months of the year.

4.01%



Return of Preqin's Europe Hedge Fund benchmark, the highest return of any regional benchmark in Q1 2015.

2.01%



Preqin's Europe Hedge Fund benchmark delivered its highest monthly return since February 2014.

16%



European managers represented 16% of all funds launched in Q1 2015.

Event Driven

2014 was a particularly poor year for managers seeking to profit from arbitrage opportunities created by corporate events; the cancellation of the AbbVie/Shire takeover deal due to US tax rule changes was one of a number of trades that backfired. Event driven strategy funds were on average the worst performing of the major strategies tracked by Preqin's Hedge Fund Analyst in 2014, returning just 1.73%. This poor performance has continued into 2015, and the strategy continues to lag behind this quarter despite February's return being the strategy's highest monthly return for over three years (+2.81%). The effect of this poor performance has been damaging for many managers; over Q1 2015, one-third of funds that liquidated followed an event driven strategy.

Funds invested in distressed securities have found the last 12 months particularly tough, returning -4.21% over the period.

The poor performance of event driven funds has been noted by investors, with the proportion of investors looking to target the strategy over the next 12 months falling throughout the start of the year, from 22% in Q4 2014, to 20% in Q1 2015.



20% of investor searches in 2015 included an event driven strategy.



A third of all funds closed in Q1 2015 pursued an event driven strategy.



Q1 2015 performance of event driven funds.

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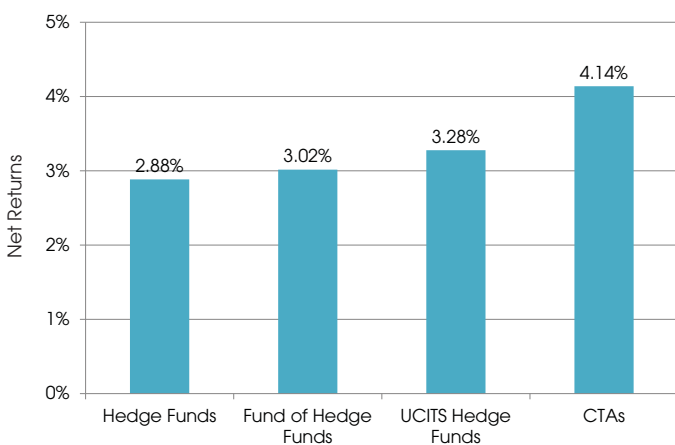
Performance Update: Q1 2015

Following modest returns in 2014, hedge funds started 2015 on a positive note, returning 2.88% in Q1 2015 (Fig. 1), and outperformed the S&P 500 (+1.91%) over the same period (Fig. 4). Market conditions during the first quarter of 2015 were favourable for hedge fund managers, with all top-level hedge fund strategies in the black for both February and March (Fig. 2). Hedge funds employing a macro strategy generated 3.07% for the quarter, successfully taking advantage of the major macroeconomic trends during the period. After a difficult 2014, hedge funds employing event driven strategies were in positive territory in Q1 2015 (+2.26%), though lagged behind other hedge fund strategies. Most notably, event driven hedge funds returned 2.81% in February. CTAs continued their recent stream of positive performance with a further three positive monthly returns, generating 4.14% for Q1 2015.

Q1 2015 saw equity markets in Europe rally in response to the launch of the European Central Bank's quantitative easing program, and subsequently, hedge funds focusing on Europe were able to capitalize on the announcement, generating 1.13% for the month in January and 4.01% for Q1 2015 (Fig. 3). This compares favourably to Preqin's All-Strategies Hedge Fund benchmark which was almost neutral (-0.03%) in January and posted 2.88% for Q1 2015.

Hedge funds focusing on emerging markets witnessed a range of returns during the first quarter of 2015. In comparison to the other regions tracked by Preqin, the Emerging Markets Hedge Fund benchmark produced the lowest returns (+2.13%) over Q1 2015 (Fig. 3). In contrast, funds focusing on developed markets generated 4.15% over the same period.

Fig. 1: Net Returns of Hedge Funds by Structure, Q1 2015*



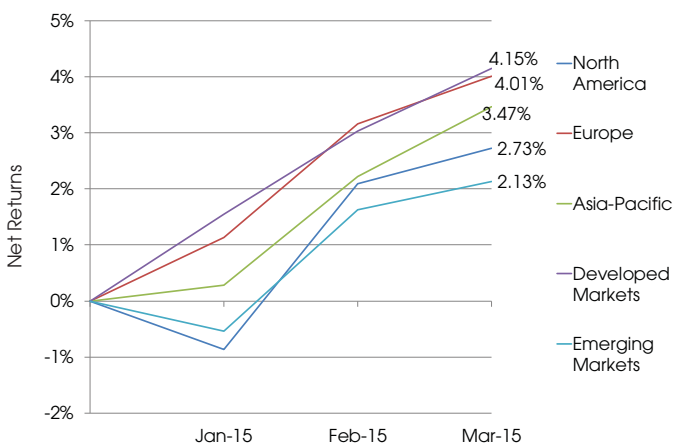
Source: Preqin Hedge Fund Analyst

Fig. 2: Net Returns of Single-Manager Hedge Funds by Strategy*

January 2015	February 2015	March 2015	Q1 2015	Q4 2014
CTAs 2.96%	Equity Strategies 2.86%	Macro Strategies 1.22%	CTAs 4.14%	CTAs 9.96%
Multi-Strategy 1.20%	Event Driven 2.81%	CTAs 0.93%	Multi-Strategy 3.31%	Credit Strategies 5.59%
Macro Strategies 0.83%	Credit Strategies 1.35%	Multi-Strategy 0.82%	Equity Strategies 3.27%	Relative Value 4.56%
Relative Value 0.38%	Multi-Strategy 1.26%	Relative Value 0.77%	Macro Strategies 3.07%	Multi-Strategy 4.30%
Credit Strategies 0.14%	Macro Strategies 0.99%	Equity Strategies 0.70%	Event Driven 2.26%	Equity Strategies 3.86%
Equity Strategies -0.30%	Relative Value 0.94%	Event Driven -0.62%	Relative Value 2.11%	Macro Strategies 1.99%
Event Driven -1.15%	CTAs 0.22%	Credit Strategies 0.48%	Credit Strategies 1.98%	Event Driven 1.54%

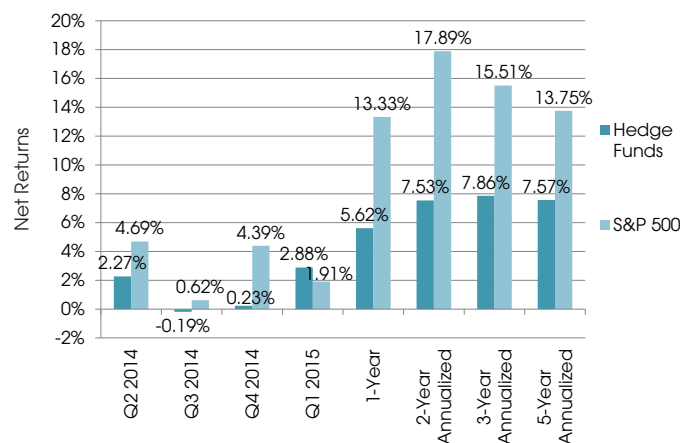
Source: Preqin Hedge Fund Analyst

Fig. 3: Cumulative Net Returns of Hedge Funds by Geographic Focus, Q1 2015*



Source: Preqin Hedge Fund Analyst

Fig. 4: Performance of Hedge Funds vs S&P 500*



Source: Preqin Hedge Fund Analyst

*Please note, all performance information includes preliminary data for March 2015 based upon returns reported to Preqin in early April 2015. Although stated trends and comparisons are not expected to alter significantly, final benchmark values are subject to change.

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Performance Benchmarks: Q1 2015

Fig. 1: Summary of Preliminary March 2015 Performance Benchmarks (Net Return, %)*

	Jan-15	Feb-15	Mar-15	Q1 2015	Annualized 3 Years
Hedge Funds	-0.03	2.13	0.74	2.88	7.86
HF - Equity Strategies	-0.33	2.86	0.70	3.27	8.64
HF - Event Driven Strategies	-1.15	2.81	0.62	2.26	8.10
HF - Relative Value	0.33	0.94	0.77	2.11	6.56
HF - Macro Strategies	0.83	0.99	1.22	3.07	4.81
HF - Multi-Strategy	1.17	1.26	0.82	3.31	6.83
HF - Credit Strategies	0.15	1.35	0.48	1.98	9.14
Activist	-0.54	2.68	0.42	2.57	9.11
Volatility	0.25	1.18	0.51	2.02	5.90
Discretionary	-0.34	2.55	0.91	3.14	10.10
Systematic	0.52	1.14	1.15	2.90	6.48
HF - North America	-0.89	2.99	0.63	2.73	10.07
HF - Europe	1.04	2.01	0.82	4.01	8.39
HF - Asia-Pacific	0.29	1.93	1.22	3.47	10.87
HF - Developed Markets	1.50	1.46	1.09	4.15	9.29
HF - Emerging Markets	-0.54	2.18	0.50	2.13	6.00
HF - USD	-0.30	2.21	0.66	2.59	7.73
HF - EUR	0.97	1.68	0.37	3.05	4.71
HF - GBP	1.15	1.15	1.05	3.37	2.31
HF - JPY	-0.85	2.01	0.70	1.88	12.92
HF - BRL	-1.69	1.94	1.75	1.98	7.13
Funds of Hedge Funds	0.51	1.72	0.77	3.02	5.71
FOHF - Equity Strategies	0.39	2.41	0.72	3.56	7.07
FOHF - Macro Strategies	1.89	0.79	2.23	4.99	3.08
FOHF - Multi-Strategy	0.46	1.60	0.63	2.71	5.53
Funds of CTAs	5.37	-0.12	3.10	8.50	4.74
FOHF - USD	0.24	1.72	0.68	2.65	5.29
FOHF - EUR	0.77	1.66	1.21	3.67	4.35
Alternative Mutual Funds	-0.42	1.72	-0.17	1.16	6.07
UCITS	1.03	1.65	0.60	3.28	4.40
UCITS - Equity Strategies	0.92	2.63	1.02	4.62	7.09
UCITS - Relative Value	0.40	0.51	0.43	1.34	1.75
UCITS - Macro Strategies	2.27	0.90	-0.04	2.97	1.75
UCITS - USD	0.34	1.68	0.11	2.08	3.64
UCITS - EUR	1.42	1.71	0.79	3.95	4.50
CTAs	2.96	0.22	0.93	4.14	5.99
Discretionary	1.52	-0.73	0.81	1.43	3.40
Systematic	3.44	0.43	1.01	4.95	6.47
CTA - USD	2.94	0.01	0.95	3.93	5.93
CTA - EUR	3.77	0.89	1.27	6.03	4.94

Source: Preqin Hedge Fund Analyst

*Please note, all performance information includes preliminary data for March 2015 based upon returns reported to Preqin in early April 2015. Although stated trends and comparisons are not expected to alter significantly, final benchmark values are subject to change.



Hedge Fund Launches in Q1 2015

Q1 2015 witnessed 100 new hedge fund launches, a decrease from the 166 vehicles which entered the market in Q4 2014. Single-manager hedge funds accounted for the largest proportion (68%) of fund launches in Q1 2015, with their fund of hedge funds counterparts comprising just 5% (Fig. 1). UCITS funds have had a revival with their highest level of launches since Q1 2014; 7% of all funds launched in Q1 2015 were structured as UCITS funds.

Seventy-nine percent of funds launched in Q1 2015 are managed by fund managers headquartered in North America (Fig. 2). The proportion of hedge fund launches targeting North America increased from 20% in Q4 2014 to 26% in Q1 2015 (Fig. 3). Funds focused on global investments and emerging markets represented 57% and 4% of the launches in the first quarter respectively, each declining by three percentage points from Q4 2014. The proportion of vehicles targeting Europe and Asia-Pacific remain more or less unchanged from Q4 2014, with the latter declining by one percentage point from Q4 2014.

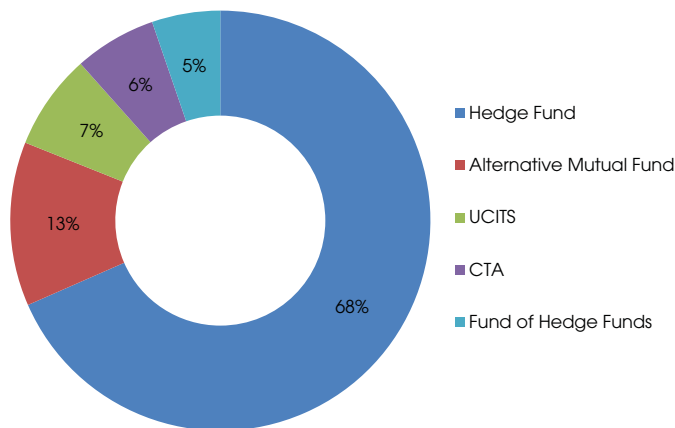
Hedge funds have stepped up to take advantage of significant credit opportunities in the first quarter. Of the vehicles launched in this period, 20% pursued credit strategies, an increase of 14 percentage points from the previous quarter (Fig. 4). This increase in activity within the credit space has been at the expense of equity and macro strategies, which have fallen by eight and five percentage points respectively over the same period.

Data Source:

Preqin's **Hedge Fund Analyst** features up-to-date, in-depth profiles for over 27,200 hedge funds and share classes, including performance metrics, fund terms and conditions, investment preferences, domiciles and much more.

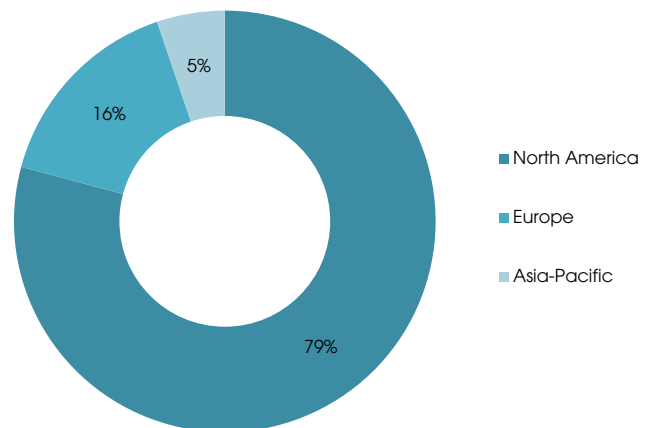
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Fig. 1: Breakdown of Hedge Fund Launches in Q1 2015 by Structure



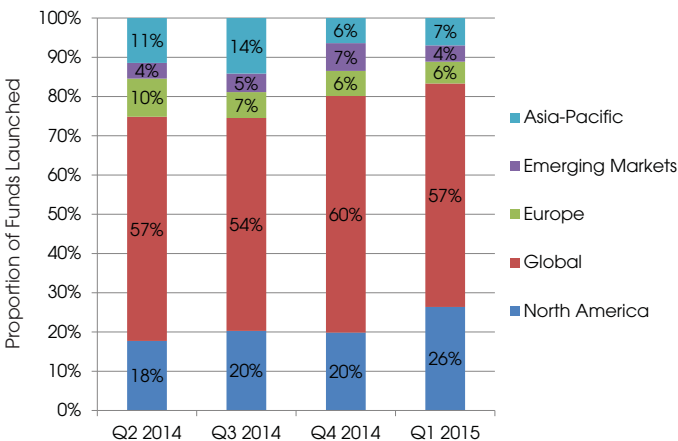
Source: Preqin Hedge Fund Analyst

Fig. 2: Breakdown of Hedge Fund Launches in Q1 2015 by Geographic Location



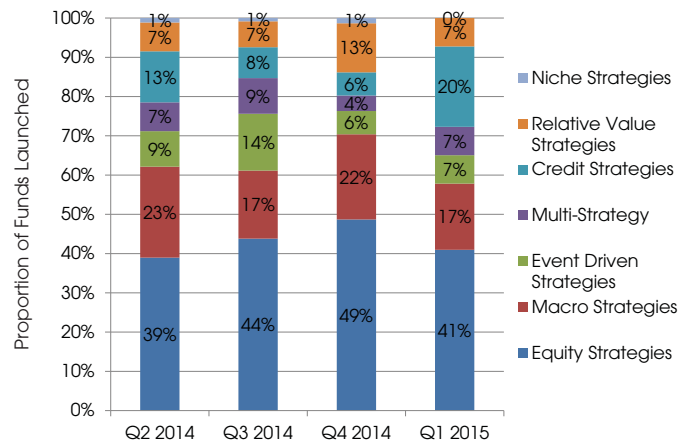
Source: Preqin Hedge Fund Analyst

Fig. 3: Breakdown of Hedge Fund Launches by Regional Focus, Q2 2014 - Q1 2015



Source: Preqin Hedge Fund Analyst

Fig. 4: Breakdown of Hedge Fund Launches by Core Strategy, Q2 2014 - Q1 2015



Source: Preqin Hedge Fund Analyst



Largest Hedge Fund and Fund of Hedge Funds Managers by Assets under Management

Fig. 1: Top 20 Hedge Fund Managers Globally by Assets under Management

Manager	Location	Year Established	Assets under Management
Bridgewater Associates	US	1975	\$165.6bn as at 01 January 2015
AQR Capital Management	US	1998	\$64.9bn as at 31 December 2014
Och-Ziff Capital Management	US	1994	\$46.0bn as at 01 January 2015
Man Investments	UK	1983	\$45.6bn as at 31 December 2014
Standard Life Investments	UK	2006	\$34.0bn as at 31 December 2014
Brevan Howard Capital Management	Jersey	2002	\$32.8bn as at 01 January 2015
BlackRock Alternative Investors	US	2005	\$31.8bn as at 31 December 2014
Viking Global Investors	US	1999	\$30.3bn as at 31 December 2014
Lone Pine Capital	US	1997	\$29.0bn as at 31 December 2014
Baupost Group	US	1982	\$28.5bn as at 31 December 2014
Adage Capital Management	US	2001	\$28.5bn as at 31 December 2014
Winton Capital Management	UK	1997	\$28.2bn as at 31 December 2014
Renaissance Technologies	US	1982	\$26.2bn as at 31 December 2014
D.E. Shaw & Co.	US	1988	\$26.0bn as at 31 December 2014
Millennium Management	US	1989	\$25.2bn as at 31 December 2014
Elliott Management	US	1977	\$25.1bn as at 31 December 2014
Davidson Kempner Capital Management	US	1990	\$24.2bn as at 31 December 2014
Citadel Advisors	US	1990	\$24.0bn as at 31 December 2014
GAM	UK	1983	\$22.3bn as at 31 December 2014
King Street Capital Management	US	1995	\$21.5bn as at 01 January 2015

Source: Preqin Hedge Fund Analyst

Fig. 2: Top 20 Fund of Hedge Funds Managers Globally by Assets under Management

Manager	Location	Year Established	Assets under Management
Blackstone Alternative Asset Management	US	1990	\$64.0bn as at 31 December 2014
A&Q Hedge Fund Solutions (UBS)	US	2000	\$31.0bn as at 1 January 2015
GSAM	US	1997	\$27.9bn as at 31 December 2014
Grosvenor Capital Management	US	1971	\$26.3bn as at 31 December 2014
HSBC Alternative Investments	UK	1994	\$24.1bn as at 31 December 2014
Permal Group	US	1971	\$22.2bn as at 31 December 2014
BlackRock Alternative Advisors	US	1995	\$20.8bn as at 31 December 2014
Mesirow Advanced Strategies	US	1983	\$13.7bn as at 31 December 2014
Morgan Stanley Alternative Investment Partners	US	2000	\$13.4bn as at 31 December 2014
EnTrust Capital	US	1997	\$12.5bn as at 31 December 2014
SkyBridge Capital	US	2005	\$12.5bn as at 31 December 2014
J.P. Morgan Alternative Asset Management	US	1995	\$12.0bn as at 31 December 2014
Financial Risk Management (FRM)	UK	1991	\$11.3bn as at 31 December 2014
Rock Creek Group	US	2001	\$10.5bn as at 31 December 2014
Aetos Capital	US	2001	\$10.3bn as at 31 December 2014
K2 Advisors	US	1994	\$10.3bn as at 31 December 2014
KKR Prisma	US	2004	\$10.2bn as at 31 December 2014
UBP Alternative Investments	Switzerland	1969	\$10.0bn as at 31 December 2014
Pictet Alternative Advisors	Switzerland	1991	\$9.3bn as at 31 December 2014
Credit Suisse Alternative Funds Solutions	US	N/A	\$9.1bn as at 31 December 2014

Source: Preqin Hedge Fund Analyst



Fund Searches Initiated in Q1 2015

In Q1 2015, Preqin added 103 new investor mandates to our Funds Searches and Mandates feature. Long/short equity continues to be the most sought-after strategy by institutions with over half (55%) including the strategy within their searches in Q1 2015 (Fig. 2). In addition, macro remains the second most favoured strategy, with 38% of investors including a component within their searches. This represents a large increase from Q4 2014 when 24% of investors included the strategy. A smaller proportion of investor searches include an event driven component in Q1 2015 compared to Q4 2014; despite this however, the strategy remains the third most sought after and was included in 17% of searches initiated in the first quarter of 2015.

The majority of searches in Q1 2015 were for single-manager funds. Commingled structures were the most common structure sought, with 81% of searches including a pooled single-manager fund (Fig. 3). Managed accounts are also in demand, with the structure being included in 23% of searches. Liquid alternatives are another attractive investment option for institutional investors,

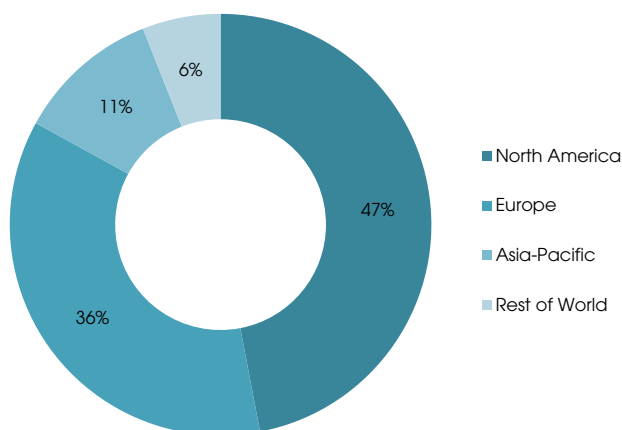
particularly the European UCITS structure. UCITS and alternative mutual funds formed part of 18% and 6% of investor searches in Q1 2015 respectively. Fourteen percent of searches included a commingled fund of hedge funds component. Despite a relatively lower level of search activity for funds of funds compared to single-manager vehicles, funds of hedge funds continue to be an important source of capital within the industry. Fund of hedge funds managers were the most active in initiating searches in the first quarter of 2015, with 51% of searches originating from the investor type (Fig. 4).

Data Source:

Preqin's **Hedge Fund Investor Profiles** features detailed profiles of over 4,900 active investors in hedge funds.

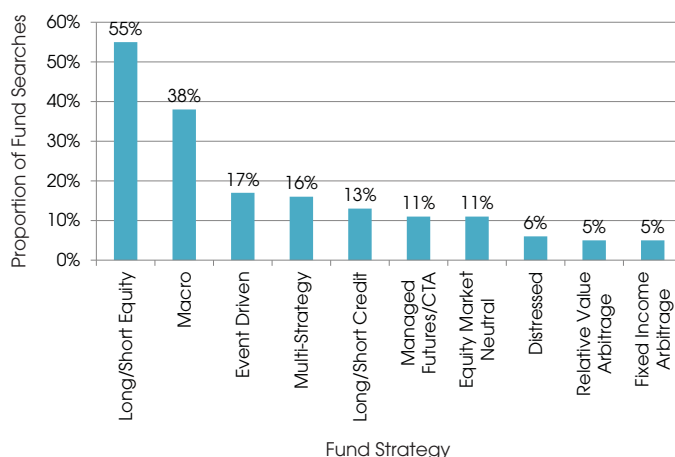
For more information, please visit: www.preqin.com/hfip

Fig. 1: Breakdown of Hedge Fund Searches Issued in Q1 2015 by Investor Location



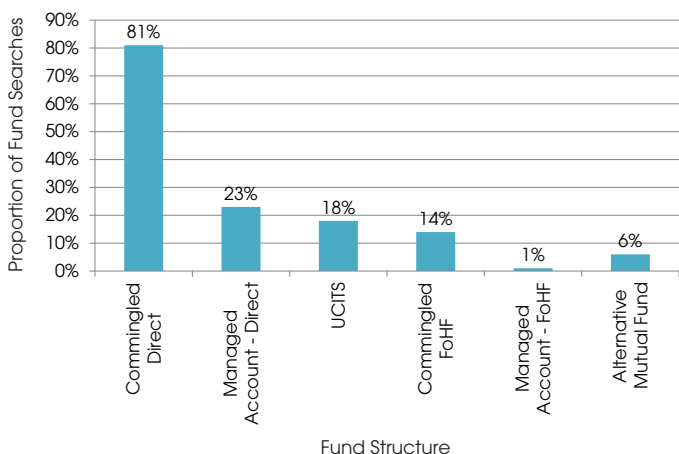
Source: Preqin Hedge Fund Investor Profiles

Fig. 2: Hedge Fund Strategies Sought by Investors over the Next 12 Months, Searches Issued in Q1 2015



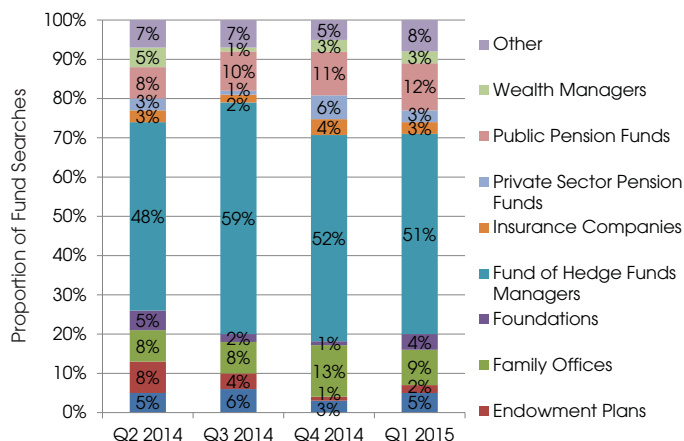
Source: Preqin Hedge Fund Investor Profiles

Fig. 3: Hedge Fund Structures Sought by Investors over the Next 12 Months, Searches Issued in Q1 2015



Source: Preqin Hedge Fund Investor Profiles

Fig. 4: Breakdown of Fund Searches Initiated by Investor Type, Q2 2014 - Q1 2015



Source: Preqin Hedge Fund Investor Profiles

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