

The Q1 2016 Preqin Quarterly Update

Hedge Funds

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

Content includes...

Performance Update

March gains insufficient to bring hedge funds into the black for Q1 2016.

Hedge Fund Launches

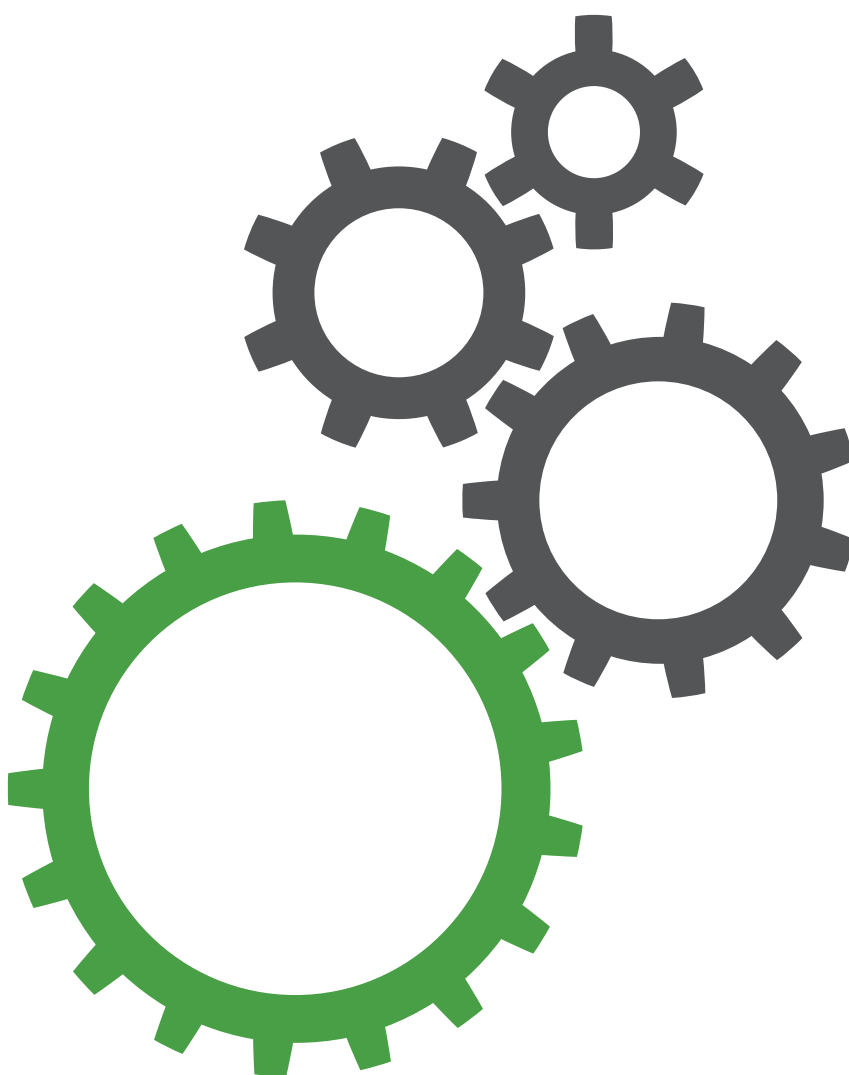
Funds of hedge funds' share of new launches rises over Q1.

Fund Manager League Tables

The largest hedge fund and fund of hedge funds managers globally.

Investor Mandates

A look at investors' appetite for hedge funds across the globe.





Foreword

Following a difficult second half of 2015, when the sector saw losses of -2.50%, the first two months of 2016 were disappointing for many in the hedge fund industry. The Preqin All-Strategies Hedge Fund benchmark was below water in both January and February, and even a return of 2.66% in March was insufficient to bring the benchmark into positive territory in Q1 2016. However, amid the continued performance struggles in the hedge fund sector, there were some bright spots. Notably, CTAs' gains of 0.92% and 1.72% in January and February respectively proved the value of these products in terms of non-correlated returns and downside protection. Macro strategies, similarly, had a largely successful start to 2016, posting 1.05% over the first three months of the year. In turn, we also witnessed an increase in appetite for macro strategies funds and CTAs, in terms of investor searches issued in Q1 2016 compared with Q4 2015. Fund managers are also seeing increased opportunities in the macro strategies sector; funds pursuing these strategies represented 9% of all funds launched at the start of 2016, up from 4% of launches in Q4 2015.

March proved a turning point for the hedge fund industry; CTAs and macro strategies that had a strong start to the year moved to the bottom of the table in terms of performance. In contrast, other hedge fund strategies that struggled at the start of the year posted some significant gains; for instance, equity strategies that lost over 4% in January added returns of 3.68% in March. As we move into Q2 2016, participants in the hedge fund industry will be waiting to see whether the change in March continues into the rest of the year, and if the Preqin All-Strategies Hedge Fund benchmark will be able to consolidate these gains and show strong performance in 2016.

Despite a challenging returns environment, hedge fund managers continue to launch new products. Q1 2016 saw an uptick in the launch activity of funds of hedge funds, UCITS vehicles and alternative mutual funds. In contrast, there was a notable decline in the proportion of funds coming to the market with a focus on Asia-Pacific.

The changeable returns environment over the first quarter of the year, with strategies that made losses one month adding gains of over 2% the next, shows the value of a well-diversified portfolio of hedge fund strategies. As page 7, 'Fund Searches Initiated in Q1 2016', shows, investors recognize this, with institutional investors searching for a wide variety of hedge fund strategies over the course of the next 12 months. The topsy-turvy performance in Q1 2016 also highlights the need to take a longer term view of the performance of the sector; these short-term fluctuations in returns are often matched with long-term, stable, risk-adjusted returns generated by hedge funds, as shown by our performance benchmarks (page 4).

Data Source:

The leading source of intelligence on the hedge fund industry. **Hedge Fund Online** is Preqin's flagship hedge fund information resource, incorporating all of our hedge fund data, intelligence and functionality, providing you with the most comprehensive coverage of the asset class available. For more information, or to arrange a demo, please visit:

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Performance Update: Q1 2016

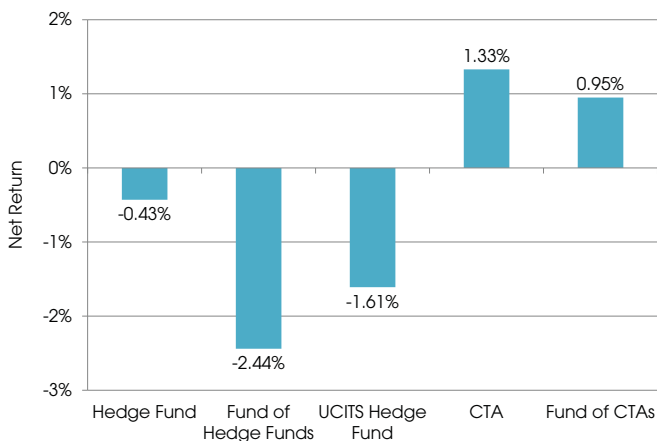
The first quarter of 2016 has seen varying market conditions around the world. After a challenging start to the year, which saw the Preqin All-Strategies Hedge Fund benchmark return -2.68% in January and -0.34% in February, the gains in March of 2.66% were insufficient to bring hedge funds into the black for Q1 2016: the benchmark finished on -0.43% for the first three months of the year (Fig. 1). CTAs emphasized their ability to generate returns in periods of underperforming stock markets, with the Preqin All-Strategies CTA benchmark generating 1.33% for the quarter, with gains in February (+1.72%) enough to offset losses in March (-1.29%). With the S&P 500 TR Index up 0.77% in Q1 2016, hedge funds underperformed the public market for the second consecutive quarter, as vehicles with typically lower correlation to stock indexes generated the higher levels of returns (Fig. 2).

After a disappointing start to the year, both equity and event driven strategies rebounded in March returning 3.68% and

2.79% for the month respectively; however, these gains could not offset the losses seen earlier in the year, as both strategies finished the quarter in negative territory (Fig. 3). Macro strategies were the least volatile with monthly returns ranging from 0.72% in February to 0.09% in March – the only strategy to record three positive months in Q1 2016. After posting the strongest performance for a top-level strategy in 2015, relative value funds also struggled in the early parts of Q1 2016: in a similar fashion to other top-level strategies, a March return of 1.42% could not offset two months of losses.

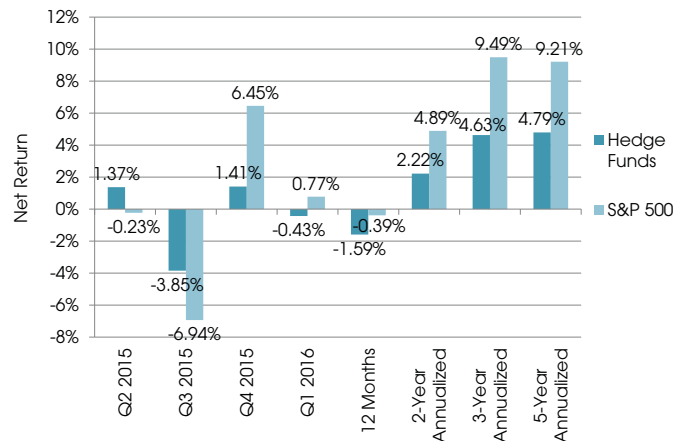
After generating strong returns for investors in 2015, both Europe- (-1.97%) and Asia-Pacific-focused (-2.02%) funds recorded losses in Q1 2016 (Fig. 4). Emerging markets-focused funds began the year returning -3.03% in January; however, recent political events have attracted investors to the Brazilian equity market, driving the emerging market benchmark up 5.25% in March to finish Q1 2016 up 2.13%.

Fig. 1: Net Returns of Hedge Funds by Structure, Q1 2016*



Source: Preqin Hedge Fund Online

Fig. 2: Performance of Hedge Funds vs. S&P 500 Index*



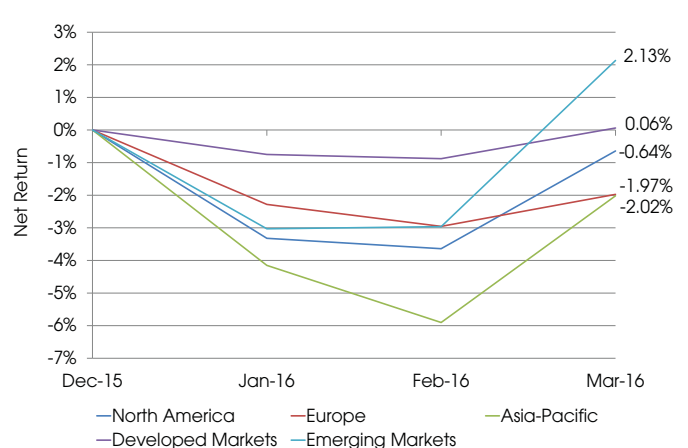
Source: Preqin Hedge Fund Online

Fig. 3: Net Returns of Single-Manager Hedge Funds by Strategy*

Jan-16	Feb-16	Mar-16	Q4 2015	Q1 2016
CTAs 0.92%	CTAs 1.72%	Equity Strategies 3.68%	Equity Strategies 1.99%	CTAs 1.33%
Macro Strategies 0.24%	Macro Strategies 0.72%	Event Driven 2.79%	Multi-Strategy 1.66%	Macro Strategies 1.05%
Credit Strategies -1.02%	Multi-Strategy 0.22%	Credit Strategies 2.34%	Relative Value 1.14%	Credit Strategies 0.45%
Relative Value -1.03%	Event Driven -0.30%	Relative Value 1.42%	Event Driven 0.56%	Relative Value -0.17%
Multi-Strategy -1.25%	Equity Strategies -0.47%	Multi-Strategy 0.80%	Macro Strategies 0.06%	Multi-Strategy -0.24%
Event Driven -3.04%	Relative Value -0.54%	Macro Strategies 0.09%	Credit Strategies 0.00%	Event Driven -0.64%
Equity Strategies -4.27%	Credit Strategies -0.82%	CTAs -1.29%	CTAs -0.70%	Equity Strategies -1.22%

Source: Preqin Hedge Fund Online

Fig. 4: Cumulative Net Returns of Hedge Funds by Geographic Focus, Q1 2016*



Source: Preqin Hedge Fund Online

*Please note, all performance information includes preliminary data for March 2016 based upon returns reported to Preqin in early April 2016. Although stated trends and comparisons are not expected to alter significantly, final benchmark values are subject to change.



Performance Benchmarks: Q1 2016

Fig. 1: Summary of Preliminary March 2016 Performance Benchmarks (Net Return, %)*

Benchmark Name	Jan-16	Feb-16	Mar-16	Q1 2016	3-Year Annualized
Hedge Funds	-2.68	-0.34	2.66	-0.43	4.63
HF - Equity Strategies	-4.27	-0.47	3.68	-1.22	4.70
HF - Macro Strategies	0.24	0.72	0.09	1.05	3.22
HF - Event Driven Strategies	-3.04	-0.30	2.79	-0.64	3.74
HF - Credit Strategies	-1.02	-0.82	2.34	0.45	4.83
HF - Relative Value Strategies	-1.03	-0.54	1.42	-0.17	5.18
HF - Multi-Strategy	-1.25	0.22	0.80	-0.24	5.00
Activist	-4.20	-0.93	3.28	-1.98	6.06
Volatility	-0.14	0.52	-0.08	0.30	4.56
Discretionary	-3.19	-0.88	3.07	-1.09	5.71
Systematic	-0.82	0.38	0.89	0.44	5.59
HF - North America	-3.32	-0.33	3.11	-0.64	5.69
HF - Europe	-2.28	-0.69	1.01	-1.97	5.16
HF - Asia-Pacific	-4.15	-1.83	4.13	-2.02	7.07
HF - Developed Markets	-0.75	-0.13	0.95	0.06	5.87
HF - Emerging Markets	-3.03	0.07	5.25	2.13	4.09
HF - USD	-2.99	-0.37	2.70	-0.74	4.10
HF - EUR	-1.77	-0.53	-0.19	-2.48	1.95
HF - GBP	-1.15	0.33	-0.38	-1.21	0.25
HF - JPY	-2.25	-3.06	2.45	-2.92	9.08
HF - BRL	0.41	1.68	4.40	6.59	7.74
Funds of Hedge Funds	-2.42	-1.18	1.17	-2.44	3.54
FOHF - Equity Strategies	-4.12	-1.67	2.20	-3.65	2.90
FOHF - Multi-Strategy	-1.95	-1.00	0.47	-2.48	4.45
FOHF - Funds of CTAs	2.87	3.04	-4.76	0.95	1.32
FOHF - USD	-2.72	-1.27	1.20	-2.80	3.56
FOHF - EUR	-2.44	-1.38	0.27	-3.53	0.96
Alternative Mutual Funds	-2.25	-0.22	1.94	-0.57	1.85
UCITS Hedge Funds	-2.63	-0.62	1.67	-1.61	1.68
UCITS - Equity Strategies	-3.98	-0.87	2.54	-2.39	2.90
UCITS - Relative Value Strategies	-1.10	-0.27	0.84	-0.53	1.21
UCITS - Macro Strategies	-1.66	-0.62	0.70	-1.59	-0.13
UCITS - USD	-3.16	-0.77	2.60	-1.41	0.58
UCITS - EUR	-2.40	-0.65	1.43	-1.65	2.17
CTAs	0.92	1.72	-1.29	1.33	4.21
Discretionary	-1.21	0.31	-1.00	-1.89	1.01
Systematic	1.57	2.03	-1.35	2.23	4.52
CTA - USD	1.10	2.00	-1.53	1.54	4.04
CTA - EUR	0.04	1.66	-0.77	0.91	4.58

Source: Preqin Hedge Fund Online

*Please note, all performance information includes preliminary data for March 2016 based upon returns reported to Preqin in early April 2016. Although stated trends and comparisons are not expected to alter significantly, final benchmark values are subject to change.



Hedge Fund Launches in Q1 2016

Funds of hedge funds witnessed the largest quarter-on-quarter increase in the proportion of fund launches, rising three percentage points to account for 7% of funds launched in Q1 2016 (Fig. 1). Launches of liquid alternatives were also up in Q1, with UCITS and alternative mutual funds representing 16% and 5% of all launches respectively in Q1 2016. With CTAs representing just 5% of launches, single-manager fund launches accounted for the remaining two-thirds of all fund launches in Q1 2016.

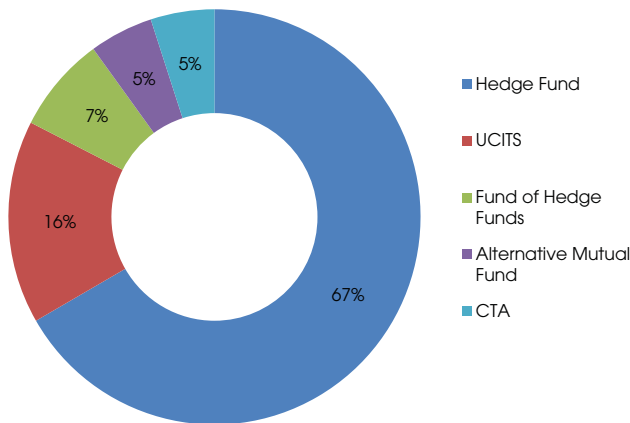
While North America-based managers launched the majority (64%) of funds in Q1 2016, Europe-based managers were responsible for just over a quarter (27%) of all funds launched (Fig. 2), representing the region's largest share of launches since Q4 2012. The proportion of fund launches by Asia-Pacific-based managers in Q1 2016 decreased five percentage points from the previous quarter to represent just 5% of fund launches.

Although equity strategies remain the most prevalent funds launched in Q1 2016, the strategy witnessed a seven

percentage point decline from the final quarter of 2015 (Fig. 3). Both credit and relative value strategies fund launches fell over the period, together accounting for just under 11% of all funds launched in Q1 2016. All other strategies saw increases in the proportion of launches they accounted for from the previous quarter; multi-strategy funds represented 21% of all launches in Q1 2016 (up from 17% in Q4 2015), while macro strategies were up five percentage points from Q4 2015.

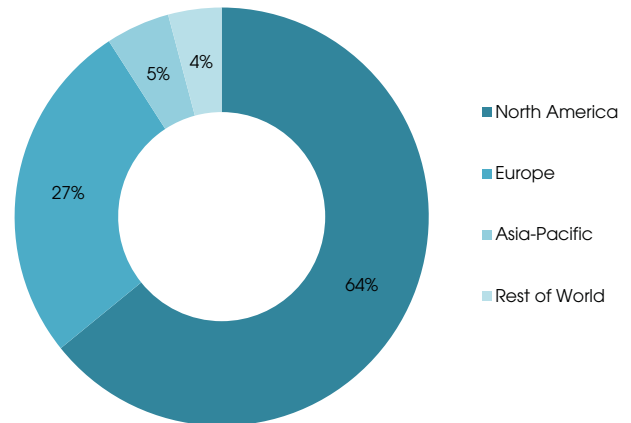
Amid continued uncertainty surrounding China's economy, Asia-Pacific-focused funds accounted for only 5% of all Q1 2016 fund launches, a twelve percentage point decline from the previous quarter (Fig. 4). Funds seeking opportunities across the globe saw the largest increase in the proportion of launches, accounting for 59% of all launches in Q1 2016 – perhaps a result of the increased proportion of macro strategies funds entering the market as 88% of macro funds launched in Q1 2016 employ a global focus.

Fig. 1: Hedge Fund Launches in Q1 2016 by Structure



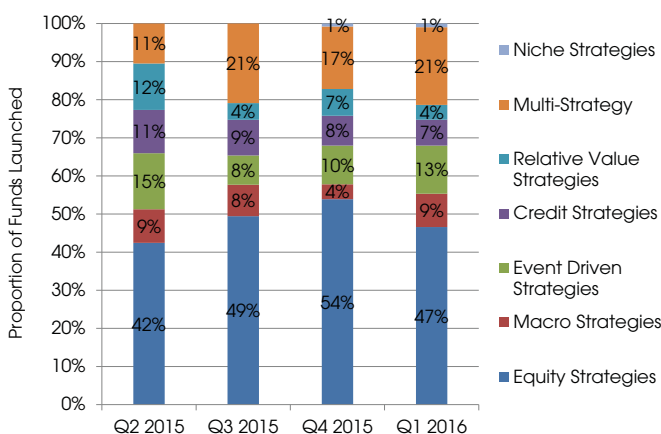
Source: Preqin Hedge Fund Online

Fig. 2: Hedge Fund Launches in Q1 2016 by Manager Location



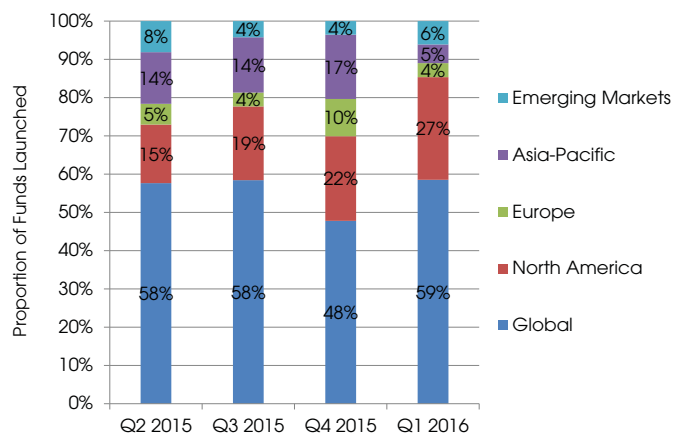
Source: Preqin Hedge Fund Online

Fig. 3: Hedge Fund Launches by Core Strategy, Q2 2015 - Q1 2016



Source: Preqin Hedge Fund Online

Fig. 4: Hedge Fund Launches by Geographic Focus, Q2 2015 - Q1 2016



Source: Preqin Hedge Fund Online



Largest Hedge Fund and Fund of Hedge Funds Managers

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

Manager	Location	Year Established	Assets under Management
Bridgewater Associates	US	1975	\$151.7bn as at 31 December 2015
AQR Capital Management	US	1998	\$74.0bn as at 30 September 2015
Man Group	UK	1983	\$51.3bn as at 31 December 2015
Och-Ziff Capital Management	US	1994	\$44.6bn as at 1 January 2016
Standard Life Investments	UK	2006	\$37.8bn as at 31 December 2015
Winton Capital Management Ltd.	UK	1997	\$33.8bn as at 31 December 2015
Viking Global Investors	US	1999	\$33.1bn as at 31 December 2015
Millennium Management	US	1989	\$33.0bn as at 1 March 2016
BlackRock Alternative Investors	US	1997	\$31.0bn as at 31 December 2015
Two Sigma Investments	US	2001	\$31.0bn as at 31 December 2015
Renaissance Technologies	US	1982	\$30.3bn as at 31 December 2015
Adage Capital Management	US	2001	\$27.5bn as at 31 December 2015
Elliott Management	US	1977	\$27.0bn as at 31 December 2015
Baupost Group	US	1982	\$26.9bn as at 31 December 2015
D.E. Shaw & Co.	US	1988	\$26.0bn as at 31 December 2015
Davidson Kempner Capital Management	US	1990	\$25.0bn as at 31 December 2015
Citadel Advisors	US	1990	\$25.0bn as at 3 February 2016
Brevan Howard Capital Management	Jersey	2002	\$23.7bn as at 31 December 2015
York Capital Management	US	1991	\$22.0bn as at 31 December 2015
Marshall Wace	UK	1997	\$22.0bn as at 30 September 2015

Source: Preqin Hedge Fund Online

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

Manager	Location	Year Established	Assets under Management
Blackstone Alternative Asset Management	US	1990	\$69.0bn as at 31 December 2015
UBS Hedge Fund Solutions	US	2000	\$33.9bn as at 31 December 2015
Goldman Sachs Asset Management	US	1997	\$28.9bn as at 31 December 2015
HSBC Alternative Investments	UK	1994	\$27.8bn as at 31 December 2015
Grosvenor Capital Management	US	1971	\$25.1bn as at 31 December 2015
Morgan Stanley Alternative Investment Partners	US	2000	\$22.4bn as at 31 December 2015
Permal Group	US	1971	\$22.0bn as at 31 December 2015
BlackRock Alternative Advisors	US	1995	\$21.3bn as at 31 December 2015
Mesirow Advanced Strategies	US	1983	\$13.0bn as at 31 December 2015
SkyBridge Capital	US	2005	\$12.9bn as at 31 December 2015
J.P. Morgan Alternative Asset Management	US	1995	\$12.7bn as at 31 December 2015
Man FRM	UK	1991	\$12.3bn as at 31 December 2015
EnTrust Capital	US	1997	\$11.8bn as at 31 December 2015
KKR Prisma	US	2004	\$11.0bn as at 31 December 2015
Aberdeen Asset Management: Funds of Hedge Funds	UK	1998	\$11.0bn as at 31 December 2015
Rock Creek Group	US	2001	\$10.7bn as at 31 December 2015
Aetos Capital	US	2001	\$10.6bn as at 31 December 2015
Pictet Alternative Advisors SA	Switzerland	1991	\$10.6bn as at 31 December 2015
Credit Suisse Alternative Funds Solutions	US	1998	\$10.4bn as at 31 December 2015
K2 Advisors	US	1994	\$10.2bn as at 31 December 2015

Source: Preqin Hedge Fund Online



Fund Searches Initiated in Q1 2016

The first quarter of 2016 saw 114 new fund searches added to Preqin's **Hedge Fund Online**. The proportion of searches issued by Europe-based hedge fund investors increased from 26% in Q4 2015 to 46% in Q1 2016 (Fig. 1). However, the appetite of Asia-Pacific-based investors for hedge funds has significantly decreased from 36% in Q4 2015 to just 11% of fund searches in Q1 2016.

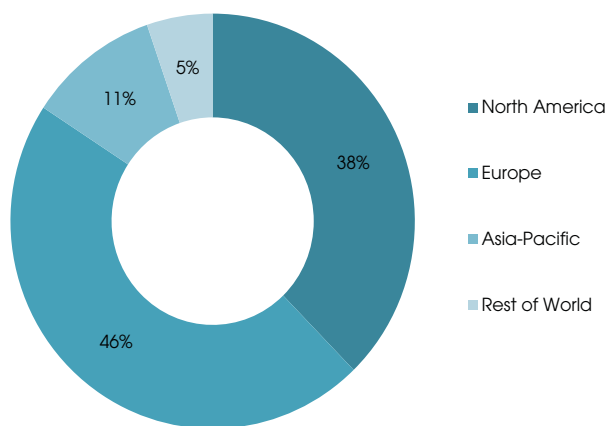
Long/short equity remains the most sought-after strategy by hedge fund investors over the next 12 months, accounting for nearly half (48%) of all searches in Q1 2016 (Fig. 2). Searches for macro and managed futures/CTA strategies have remained relatively stable since last quarter, with the strategies representing the second and third most targeted hedge funds respectively. A smaller proportion of investors issued searches for long/short credit funds in Q1 2016 than in Q4 2015, in line with results seen in Preqin's **2016 Global Hedge Fund Report**: almost four-times as many institutional investors responding to our survey planned to reduce their exposure or not invest in

credit strategies than those that planned to add or increase their exposure to the strategy.

Commingled single-manager hedge funds remain the most sought-after structure, accounting for 80% of investor fund searches in Q1 2016 (Fig. 3). Searches for UCITS vehicles increased from Q4 2015 (5%) to represent 16% in Q1 2016, while the proportion of investors targeting direct managed accounts has remained relatively stable at 15% of all fund searches.

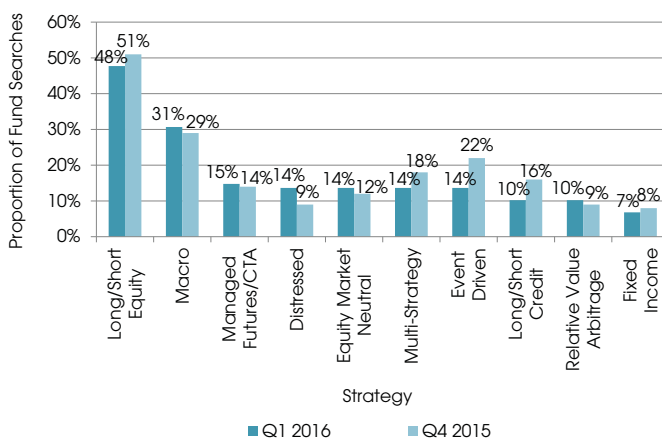
Fund of hedge funds managers were once again the most active investor type in terms of fund searches in the first quarter of 2016 (40%, Fig. 4). After accounting for 13% of searches in the fourth quarter of 2015, the proportion of searches initiated by wealth managers dropped to 5% in Q1 2016. Searches by public pension funds and fund of hedge funds managers saw the largest increases from Q4 2015 to Q1 2016.

Fig. 1: Hedge Fund Searches Issued in Q1 2016 by Investor Location



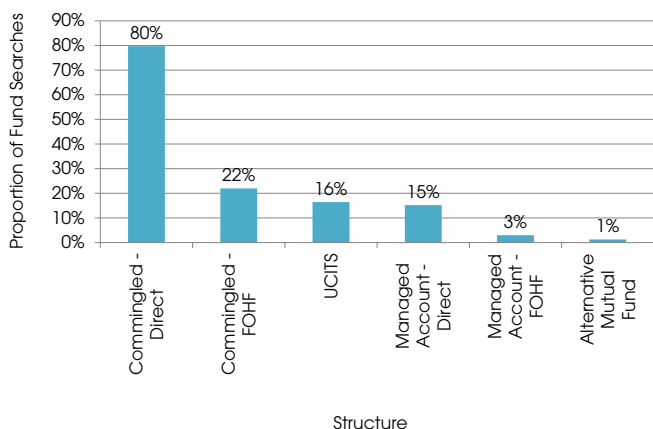
Source: Preqin Hedge Fund Online

Fig. 2: Hedge Fund Strategies Sought by Investors over the Next 12 Months, Searches Issued in Q1 2016 vs. Q4 2015



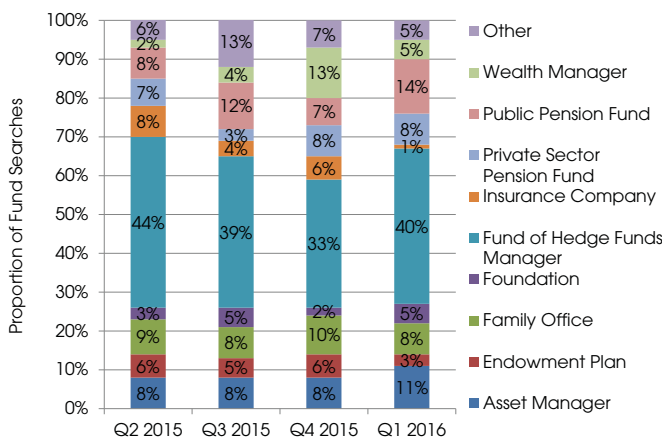
Source: Preqin Hedge Fund Online

Fig. 3: Hedge Fund Structures Sought by Investors over the Next 12 Months, Searches Issued in Q1 2016

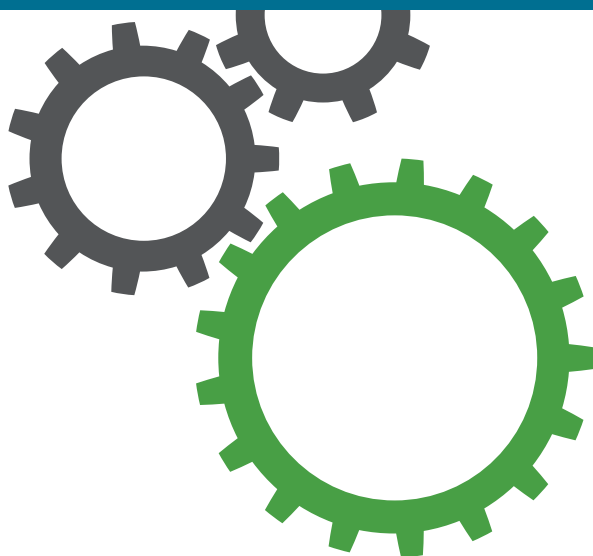


Source: Preqin Hedge Fund Online

Fig. 4: Hedge Fund Searches Initiated by Investor Type, Q2 2015 - Q1 2016



Source: Preqin Hedge Fund Online



The Q1 2016 Preqin Quarterly Update: Hedge Funds



alternative assets. intelligent data.

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