

The Q2 2014 Preqin Quarterly Update

Hedge Funds

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

Content includes...

Performance Update

Analysis of the performance of hedge funds and the latest benchmarks.

Hedge Fund Launches

A look at hedge fund launches in Q2 2014.

Manager League Tables

A review of the largest hedge fund and fund of hedge funds managers.

Investor Mandates

The latest hedge fund searches and mandates issued by investors.





Foreword

Hedge funds had a volatile start to the year, with performance in Q1 2014 representing the worst start to a year since 2008. The All Regions and Strategies Hedge Fund benchmark was also in the red for April; however, positive returns in May and June have improved the overall picture and taken benchmark year-to-date returns to 3.86%. This is only marginally behind the 4.28% recorded by the hedge fund benchmark at the same stage last year and this will give managers confidence that they can post more encouraging returns in the second half of 2014. However, the fact that there have been three negative months already in 2014, compared to two in the whole of 2013, may be of concern to some investors who are seeking consistency of returns.

Event driven strategies funds continue to post impressive returns and this benchmark has produced positive returns in each of the six months of 2014, taking year-to-date returns to 5.24%. Investors are taking note of this consistent positive performance by looking at opportunities within the event driven space; event driven was the second most targeted strategy in searches initiated by institutional investors in Q2 2014. Macro strategies recovered from a disappointing Q1 to be the top performing strategy benchmark in Q2 with returns of 2.80%, taking year-to-date returns to 2.85%.

There was a recovery for hedge funds focused on emerging markets in Q2 2014, with average returns of 4.33% making this the best performing Preqin regional benchmark during the quarter. Despite this positive performance, fund managers are perhaps being put off by the volatile nature of these regions, with just 2% of fund launches in Q2 focusing on emerging markets, a five percentage point decrease from Q1. Following on from strong performance in the region in Q1, there has been an increase in both the proportion of fund launches represented by Europe-based managers and the proportion of fund launches focusing on investing in Europe in Q2. However, Europe-focused funds have not performed as well during the second quarter, with average returns of 0.50% making it the worst performing of the regional benchmarks.

In the previous Preqin Quarterly Update: Hedge Funds, it was noted that there had been an increase in the number of fund of hedge funds launches in the first quarter of 2014. This hinted at the early stages of a revival in the sector, and there has been an increase in the proportion of investors targeting multi-manager vehicles during the second quarter; 29% of searches initiated by institutional investors in Q2 included a mandate for commingled funds of hedge funds, up from 21% in Q1, while 10% were seeking new investments via managed account funds of hedge funds.

Despite the relatively volatile start to the year, investors are continuing to allocate to hedge funds and there was a healthy number of new searches and mandates issued during the second quarter. Hedge fund managers will be looking to build on more encouraging performance in May and June in order to continue attracting inflows from the institutional community.

Data Source:

Preqin Quarterly Update: Hedge Funds, Q2 2014 features data from Preqin's industry-leading **Hedge Fund Online** service, which provides a complete 360 degree view of the industry, including institutional investors' plans for hedge fund investments, fund performance, fund strategies, fund managers and fund terms. For more information, please visit: www.preqin.com/hedge

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Performance Update: Q2 2014

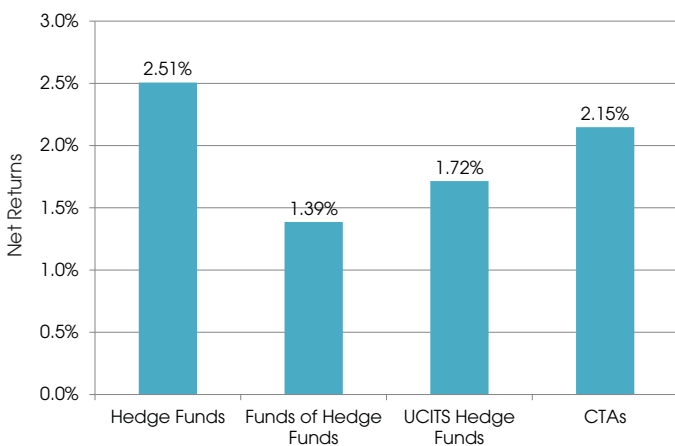
A relatively successful second quarter of the year for hedge funds (+2.51%) saw returns outstrip first quarter gains (+1.30%) and represented a substantial improvement over the same period last year (+0.22%) (Fig. 1). The quarter also bucked the trend of recent underperformance for the managed futures industry, with CTAs (+2.15%) rebounding from a negative first three months of the year (-0.34%). Funds of hedge funds (+1.39%) and UCITS vehicles (+1.72%) lagged behind, although both improved on both the previous quarter and Q2 2013.

Macro strategies funds have struggled of late but this was the best performing core strategy of Q2 2014 (Fig. 2), with the return of +2.80% a significant improvement on the same period last year (-1.13%) and the previous quarter (+0.05%). Funds employing event driven strategies have had the most productive first half of the year (+5.24%) with CTAs the least (+1.80%).

April was a poor month for funds globally, although returns were positive across the board in May and June (Fig. 3). Funds invested in emerging markets saw their fifth consecutive positive month after a poor January, returning +4.33% for the quarter and +3.81% for the year so far. North America remains the leading region globally over the last year, buoyed by 10 consecutive positive months and returning +15.91%.

The S&P 500 hit new all-time highs throughout the quarter and, unsurprisingly, hedge funds lagged the price return over the last three months (+4.69%) (Fig. 4). Hedge fund returns have been overshadowed by this equity market performance on a quarterly basis since Q4 2012.

Fig. 1: Net Returns of Hedge Funds by Structure, Q2 2014*



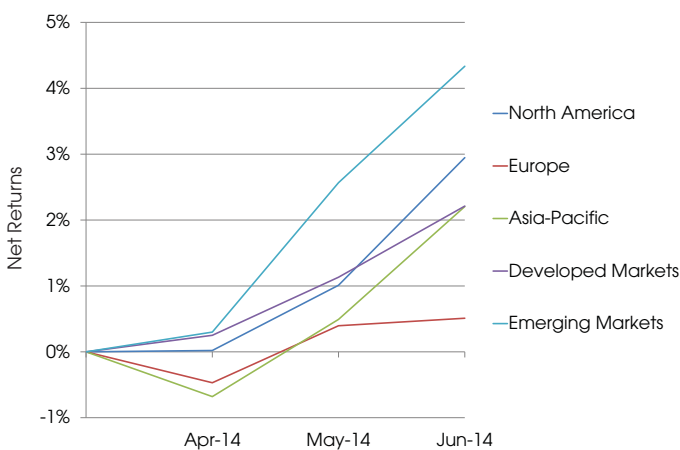
Source: Preqin Hedge Fund Analyst

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

April 2014	May 2014	June 2014	Q2 2014	Q1 2014
Multi-Strategy 0.49%	Long/Short 1.20%	Long/Short 1.75%	Macro Strategies 2.80%	Event Driven 2.75%
Relative Value 0.35%	Macro Strategies 1.10%	Macro Strategies 1.68%	Long/Short 2.60%	Relative Value 1.47%
CTAs 0.28%	Event Driven 0.95%	CTAs 1.32%	Event Driven 2.42%	Long/Short 1.26%
Event Driven 0.25%	Relative Value 0.84%	Event Driven 1.21%	Multi-Strategy 2.31%	Multi-Strategy 0.93%
Macro Strategies 0.00%	Multi-Strategy 0.78%	Multi-Strategy 1.01%	CTAs 2.15%	Macro Strategies 0.05%
Long/Short -0.36%	CTAs 0.53%	Relative Value 0.55%	Relative Value 1.74%	CTAs -0.34%

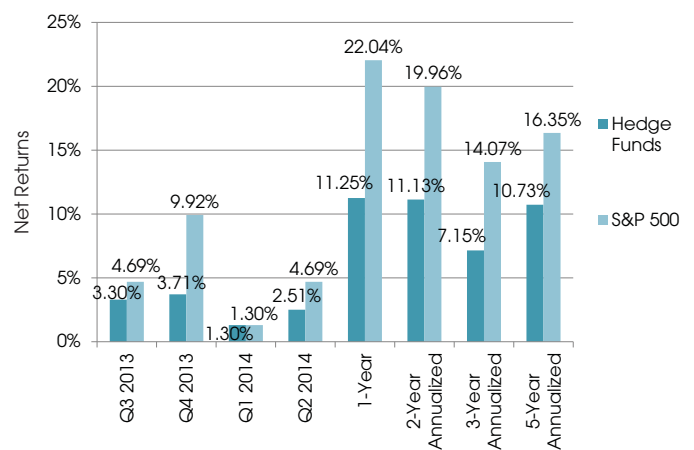
Source: Preqin Hedge Fund Analyst

Fig. 3: Cumulative Net Returns of Hedge Funds by Geographic Focus, Q2 2014*



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 June 2014 based upon 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.



Performance Benchmarks: Q2 2014

Fig. 1: Summary of Preliminary June 2014 Performance Benchmarks (Net Return, %)*

	April 2014	May 2014	June 2014	Q2 2014	Annualized 3 Years
Hedge Funds (All Strategies and Regions)	-0.07	1.10	1.46	2.51	7.15
Long/Short	-0.36	1.20	1.75	2.60	7.39
Event Driven Strategies	0.25	0.95	1.21	2.42	8.66
Relative Value	0.35	0.84	0.55	1.74	6.96
Macro Strategies	0.00	1.10	1.68	2.80	5.02
Multi-Strategy	0.49	0.78	1.01	2.31	6.45
Activist	-0.39	2.39	1.80	3.83	7.28
Volatility	0.10	0.53	0.65	1.28	7.10
Discretionary	-0.40	1.09	1.56	2.25	8.93
Systematic	0.09	1.19	0.56	1.85	5.40
North America	0.02	0.99	1.92	2.95	10.26
Europe	-0.47	0.87	0.11	0.50	6.75
Asia-Pacific	-0.68	1.18	1.70	2.20	8.10
Emerging Markets	0.30	2.26	1.72	4.33	5.54
Developed Markets	0.25	0.88	1.07	2.22	8.61
USD	-0.22	1.15	1.67	2.61	7.23
EUR	-0.31	0.89	1.07	1.65	4.31
GBP	-0.42	0.46	1.10	1.14	2.20
JPY	-1.00	1.16	1.42	1.58	12.00
BRL	0.63	1.12	1.92	3.72	8.80
Funds of Hedge Funds (All Strategies and Regions)	-0.53	1.13	0.79	1.39	3.60
Long/Short	-0.86	1.36	0.92	1.40	4.31
Multi-Strategy	-0.52	1.05	0.63	1.16	3.74
Funds of CTAs	-0.02	0.91	2.83	3.75	-4.18
USD	-0.67	1.08	1.28	1.69	3.56
EUR	-0.91	1.08	-0.18	-0.01	1.44
UCITS Hedge Funds (All Strategies and Regions)	-0.32	1.23	0.80	1.72	3.37
Long/Short	-0.59	1.63	1.19	2.23	5.02
Relative Value	-0.39	0.39	-0.06	-0.06	1.71
Macro Strategies	0.10	1.10	0.55	1.75	1.05
USD	-0.43	1.44	1.58	2.60	2.97
EUR	-0.32	1.19	0.67	1.54	3.10
CTAs (All Strategies and Regions)	0.28	0.53	1.32	2.15	1.93
Discretionary	0.42	-0.17	1.75	2.00	7.08
Systematic	0.19	1.29	1.47	2.97	2.02
USD	0.32	0.51	1.54	2.38	1.64
EUR	0.10	1.14	0.95	2.20	-0.65

Source: Preqin Hedge Fund Analyst

Preqin's **Hedge Fund Analyst** offers access to fund-by-fund and industry level performance data for over 9,800 funds and share classes, providing a true market overview. Compare funds to specific segments of the market, including by strategy, fund structure, geography and more, using the **Custom Benchmarks** feature.

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* Please note, all performance information includes preliminary data for June 2014 based upon 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.



Hedge Fund Launches in Q2 2014

Europe-based hedge fund managers represented an increased proportion of fund launches in Q2 2014, increasing to 25% from 17% in Q1 2014 (Fig. 2). This may illustrate that Europe is presenting some attractive investment opportunities, with 11% of hedge funds launched in Q2 2014 stating that Europe is their core regional focus, in comparison to 7% in Q1 2014 (Fig. 4). The proportion of new hedge funds taking a global stance towards investing increased from 45% in Q1 to 55% in Q2. Only 2% of funds launched were primarily targeting emerging markets, which represents a decrease of five percentage points from the previous quarter.

Twenty-eight percent of hedge funds launched in Q2 2014 utilize a core macro strategy, representing an increase of ten percentage points from Q1 (Fig. 3). The data illustrates that there was a decline in the proportion of newly launched hedge funds focusing on relative value and long/short strategies in Q2 2014, with the proportion of funds focusing on these strategies decreasing by five and nine percentage points respectively.

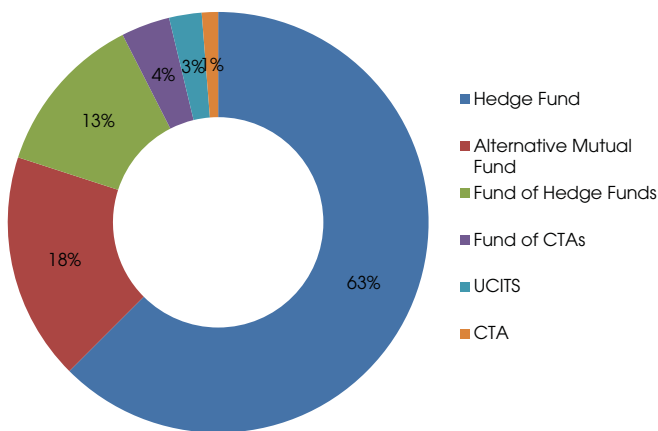
In Q2 2014, funds of CTAs accounted for a total of 4% of hedge fund launches (Fig. 1); in comparison, there were no launches of funds with this fund structure in Q1 2014. However, in regards to single-manager CTA fund launches there was a decline from 6% in Q1 2014 to 1% in Q2 2014. The growing prominence of alternative mutual funds is highlighted, with these funds representing 18% of all launches during the quarter.

Preqin's **Hedge Fund Analyst** features up-to-date, in-depth information for over 24,000 hedge funds and share classes.

Detailed profiles include performance metrics, fund terms and conditions, investment preferences, domiciles and much more.

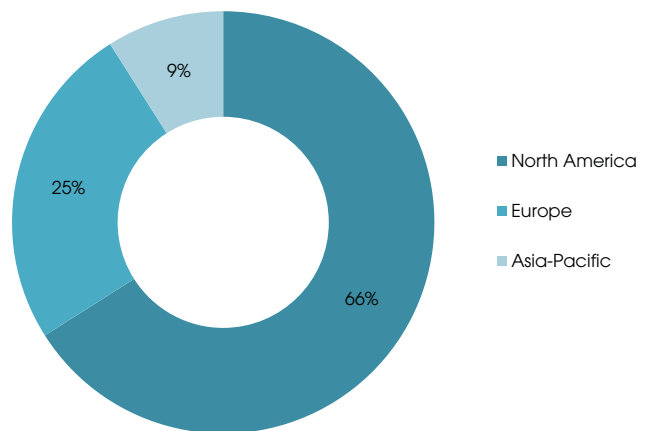
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Fig. 1: Breakdown of Hedge Fund Launches in Q2 2014 by Structure



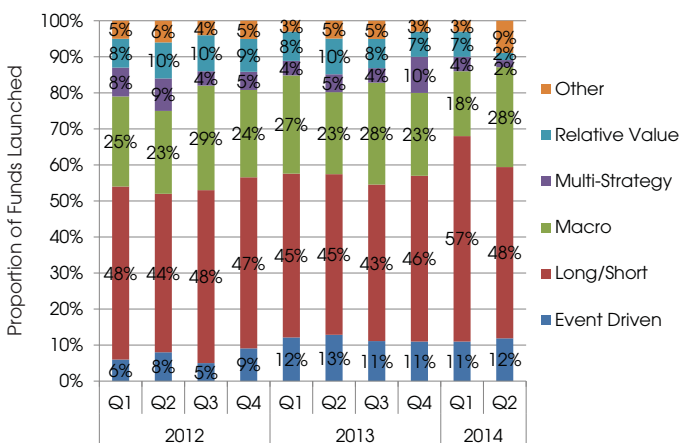
Source: Preqin Hedge Fund Analyst

Fig. 2: Breakdown of Hedge Fund Launches in Q2 2014 by Geographic Location



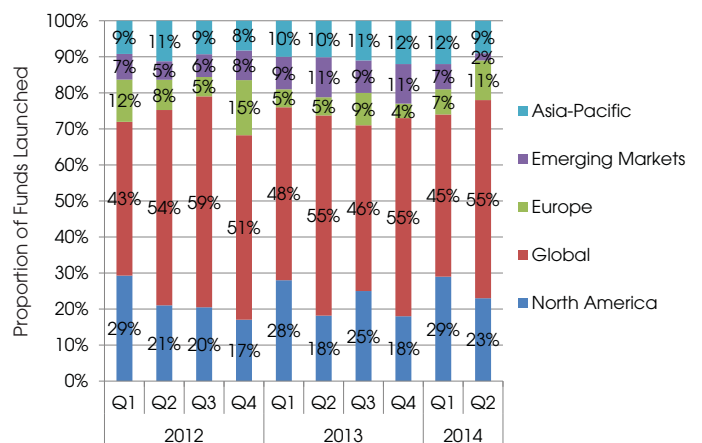
Source: Preqin Hedge Fund Analyst

Fig. 3: Breakdown of Hedge Fund Launches by Core Strategy, Q1 2012 - Q2 2014



Source: Preqin Hedge Fund Analyst

Fig. 4: Breakdown of Hedge Fund Launches by Regional Focus, Q1 2012 - Q2 2014



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	Assets under Management
Bridgewater Associates	US	\$154.0bn as at 31 March 2014
AQR Capital Management	US	\$56.9bn as at 31 March 2014
Och-Ziff Capital Management	US	\$42.7bn as at 1 April 2014
Brevan Howard Capital Management	Jersey	\$37.0bn as at 31 March 2014
Standard Life Investments	UK	\$33.3bn as at 31 March 2014
BlackRock Alternative Investors	US	\$33.1bn as at 31 March 2014
BlueCrest Capital	UK	\$31.0bn as at 1 April 2014
Man Investments	UK	\$28.3bn as at 31 March 2014
Viking Global Investors	US	\$28.1bn as at 28 February 2014
Lone Pine Capital	US	\$27.2bn as at 31 December 2013
Baupost Group	US	\$26.0bn as at 31 March 2014
Winton Capital Management	UK	\$25.0bn as at 31 March 2014
Adage Capital Management	US	\$25.0bn as at 31 March 2014
GAM	UK	\$24.9bn as at 31 December 2013
Canyon Partners	US	\$24.9bn as at 31 March 2014
Renaissance Technologies	US	\$24.7bn as at 31 March 2014
Elliott Management	US	\$24.0bn as at 31 March 2014
Davidson Kempner Capital Management	US	\$23.1bn as at 1 April 2014
D.E. Shaw & Co.	US	\$23.0bn as at 1 April 2014
Paulson & Co.	US	\$22.8bn as at 1 March 2014

Source: Preqin Hedge Fund Analyst

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

Manager	Location	Assets under Management
Blackstone Alternative Asset Management	US	\$58.0bn as at 31 March 2014
A&Q Hedge Fund Solutions (UBS)	US	\$29.7bn as at 1 April 2014
HSBC Alternative Investments	UK	\$26.8bn as at 1 January 2014
Grosvenor Capital Management	US	\$25.4bn as at 31 March 2014
GSAM	US	\$25.0bn as at 31 December 2013
Permal Group	US	\$22.0bn as at 31 March 2014
BlackRock Alternative Advisors	US	\$18.7bn as at 1 April 2014
Mesirow Advanced Strategies	US	\$13.6bn as at 31 March 2014
Morgan Stanley Alternative Investment Partners	US	\$12.5bn as at 31 March 2014
J.P. Morgan Alternative Asset Management	US	\$11.4bn as at 1 April 2014
Financial Risk Management (FRM)	UK	\$11.0bn as at 31 March 2014
EnTrust Capital	US	\$10.9bn as at 31 March 2014
UBP Alternative Investments	Switzerland	\$10.7bn as at 31 March 2014
Prisma Capital Partners	US	\$10.5bn as at 31 March 2014
Aetos Capital	US	\$10.4bn as at 31 March 2014
Rock Creek Group	US	\$10.0bn as at 31 March 2014
K2 Advisors	US	\$9.6bn as at 31 March 2014
Aurora Investment Management	US	\$9.5bn as at 1 March 2014
Pacific Alternative Asset Management Company	US	\$9.2bn as at 31 March 2014
Lyxor Asset Management	France	\$9.0bn as at 1 January 2014

Source: Preqin Hedge Fund Analyst

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Fund Searches Initiated in Q2 2014

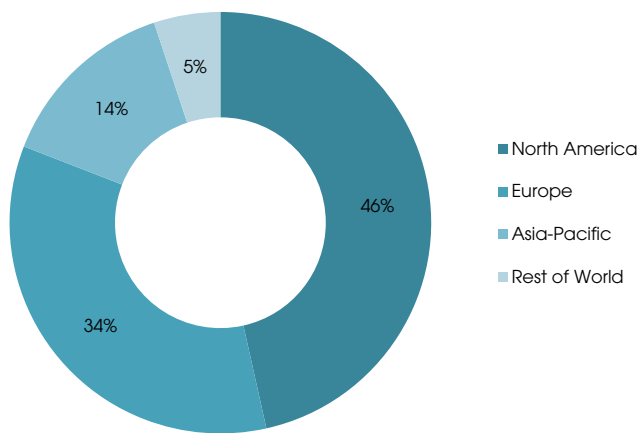
Q2 2014 saw a decline in the proportion of searches containing some of the more commonly utilized strategies. Long/short equity remained the most searched for strategy, with 46% of mandates targeting this strategy (Fig. 2); however, this represents a steep decrease from the 68% of searches that were targeting the strategy in Q1 2014. Additionally, there was a decline in the proportion of mandates targeting macro funds, from 27% in Q1 to 19% in Q2. Event driven replaced macro as the second most sought after strategy despite a one percentage point decrease in the proportion of searches it represents, from 21% in Q1 to 20% in Q2. There was a notable increase in investors searching for long/short credit funds, up six percentage points from Q1 2014, with 16% of investors targeting this strategy. This might be explained by investors attempting to diversify away from traditional fixed income portfolios in order to reduce directional exposure.

Commingled single-manager funds continue to dominate fund search activity (included in 85% of fund searches in Q2 2014); however, there was an eight percentage point increase in the

proportion of investors searching for commingled funds of hedge funds, up from 21% in Q1 2014 to 29% in Q2 2014 (Fig. 3). There was also a notable demand for managed accounts, with 19% of investors targeting a form of managed account structure, while 14% of investors were targeting UCITS-compliant hedge funds, up from 8% in Q1 2014. Increased demand for these structures displays a growing investor demand for greater transparency, control and lower fees. Fund of hedge fund managers represented a lower proportion of searches initiated in Q2 (48%) than in Q1 (66%) as a result of increased activity from other institutional investors; notably the proportion of searches initiated by endowment plans and foundations each increased by four percentage points, to 8% and 5% respectively (Fig. 4).

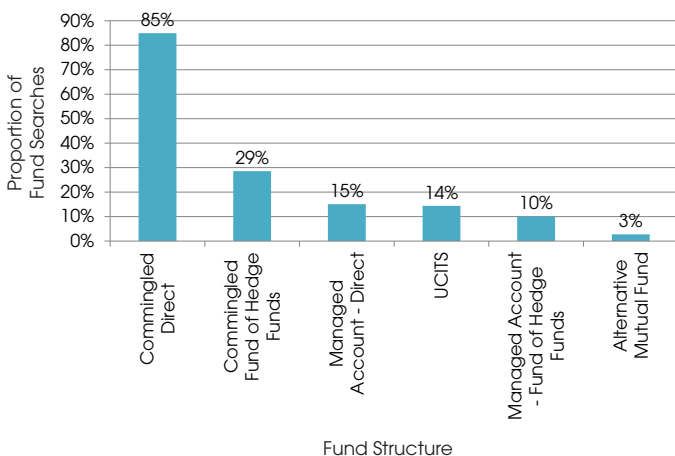
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Fig. 1: Breakdown of Hedge Fund Searches Issued by Investor Location, Searches Issued in Q2 2014



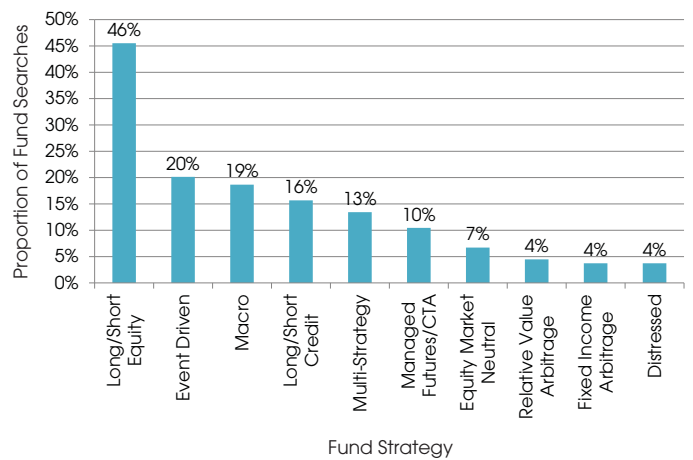
Source: Preqin Hedge Fund Investor Profiles

Fig. 3: Hedge Fund Structures Sought by Investors over the Next 12 Months, Searches Issued in Q2 2014



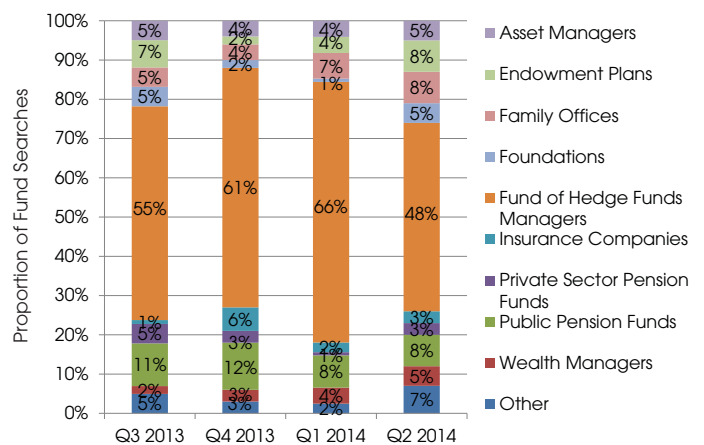
Source: Preqin Hedge Fund Investor Profiles

Fig. 2: Hedge Fund Strategies Sought by Investors over the Next 12 Months, Searches Issued in Q2 2014



Source: Preqin Hedge Fund Investor Profiles

Fig. 4: Breakdown of Fund Searches Initiated by Investor Type, Q3 2013 - Q2 2014



Source: Preqin Hedge Fund Investor Profiles



The Q2 2014 Preqin Quarterly Update: Hedge Funds



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New York:

One Grand Central Place
60 E 42nd Street
Suite 630, New York
NY 10165

Tel: +1 212 350 0100

Fax: +1 440 445 9595

London:

Equitable House
47 King William Street
London
EC4R 9AF

Tel: +44 (0)20 7645 8888

Fax: +44 (0)87 0330 5892

Singapore:

One Finlayson Green, #11-02
Singapore 049246

Tel: +65 6305 2200

Fax: +65 6491 5365

San Francisco:

1700 Montgomery Street
Suite 134, San Francisco
CA 94111

Tel: +1 415 835 9455

Fax: +1 440 445 9595

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