



PREQIN QUARTERLY UPDATE:

HEDGE FUNDS

Q1 2019



Performance
Benchmarks
Fund Managers
Fund Launches
Fund Searches

FOREWORD

Hedge funds have rebounded from the worst quarter on record for over a decade by chalking up a net return of +5.40% over Q1 2019, recouping the losses of Q4 2018 (-4.78%) and representing the best quarter for hedge funds since Q1 2012. These are truly the best and worst of times for hedge fund performance. Although hedge funds have not matched the rally in public markets, the stance for many managers is to maintain the course when it comes to reducing long exposure, particularly given that so many geopolitical economic catalysts persist which could result in further market dislocations.

Although all strategies entered Q2 in positive territory, the dispersion between strategies on a monthly basis highlights the need for investors to continue to diversify portfolios by strategy, region and exposure. CTAs, which had arguably the most difficult 2018, started slowly in 2019 (-0.14% in January 2019), but ended on a high with a March return of +2.12%. In contrast, equity strategies hit the ground running this year, with a January return of +4.46%, and ended with a March return of +0.69%.

With the expectation that volatility will continue, and with a correction increasingly likely, investors are looking across a wide range of strategies in 2019 to position their portfolios more defensively (page 7). Although our fund searches data highlights a trend we have noted in recent years – that investors are not looking to put as much fresh capital into hedge funds as we saw in the early parts of this decade – at Preqin we continue to see



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high levels of activity among the institutional investors we speak to as they become increasingly bearish and redeem and replace funds in their portfolios. Managers will therefore face challenges on several fronts in 2019: retaining investor capital, fundraising and weathering any more market bumps across the year.

So what options are available for investors in 2019? In addition to the 14,900+ funds already open to investment, we have recorded a further 69 fund launches in Q1 2019. Notably, we have also witnessed a spike in the proportion of funds coming to market that pursue a relative value strategy (page 6). It seems managers are perceiving greater opportunities to generate alpha through relative value strategies than directional investments in the volatile and potentially disrupted markets of 2019.

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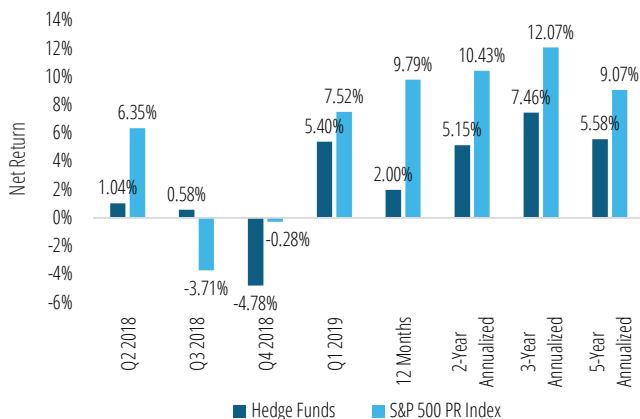
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PERFORMANCE UPDATE

After a tough end to 2018, the industry started strong in 2019 with the Preqin All-Strategies Hedge Fund benchmark returning +5.40% in Q1 (Fig. 1). In terms of geographic focus, the top performing region in Q1 2019 was North America, generating returns of +6.59%, followed closely by Asia-Pacific (+6.50%, Fig. 3). Europe-focused funds posted the lowest returns, earning +3.72% for the quarter.

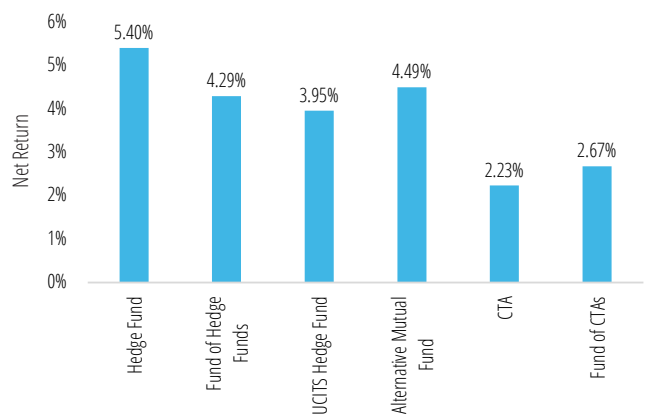
All top-level strategies apart from macro strategies generated positive returns across all three months of the first quarter of 2019 (Fig. 4). Equity strategies outperformed all other top-level strategies by returning +7.21%, the highest quarterly return for the strategy since Q1 2012 (+8.03%). Despite making positive returns for the quarter, macro strategies and relative value strategies lagged behind other top-level strategies with gains of 2.11% and 1.98% respectively.

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



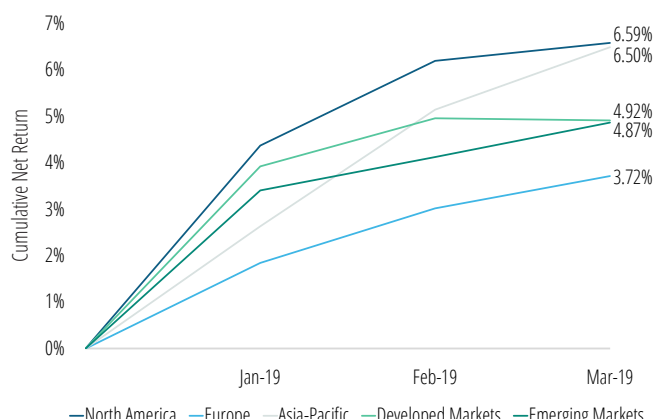
Source: Preqin Pro

Fig. 1: Performance of Hedge Funds in Q1 2019 by Structure*



Source: Preqin Pro

Fig. 3: Cumulative Returns of Hedge Funds in Q1 2019 by Geographic Focus*



Source: Preqin Pro

Fig. 4: Net Returns of Single-Manager Hedge Funds by Top-Level Strategy*

Jan-19	Feb-19	Mar-19	Q4 2018	Q1 2019
Equity Strategies 4.46%	Equity Strategies 1.93%	CTA 2.12%	Credit Strategies -1.34%	Equity Strategies 7.21%
Event Driven Strategies 4.23%	Multi-Strategy 1.29%	Multi-Strategy 0.72%	Macro Strategies -1.35%	Event Driven Strategies 5.50%
Multi-Strategy 2.65%	Event Driven Strategies 1.04%	Equity Strategies 0.69%	Relative Value Strategies -1.86%	Multi-Strategy 4.73%
Macro Strategies 1.75%	Credit Strategies 0.80%	Credit Strategies 0.61%	CTA -2.36%	Credit Strategies 2.88%
Credit Strategies 1.45%	Relative Value Strategies 0.39%	Macro Strategies 0.36%	Multi-Strategy -3.82%	CTA 2.23%
Relative Value Strategies 1.26%	CTA 0.24%	Relative Value Strategies 0.32%	Event Driven Strategies -5.57%	Macro Strategies 2.11%
CTA -0.14%	Macro Strategies -0.01%	Event Driven Strategies 0.17%	Equity Strategies -6.52%	Relative Value Strategies 1.98%

Source: Preqin Pro

*Please note, all performance information includes preliminary data for March 2019 based upon net returns reported to Preqin in early April 2019. Although stated trends and comparisons are not expected to alter significantly, final benchmark values are subject to change.

BENCHMARKS

Fig. 5: Summary of Q1 2019 Performance Benchmarks (Net Return, %)*

Benchmark Name	Jan-19	Feb-19	Mar-19	Q1 2019	12 Months	3-Year Annualized
Hedge Funds	3.13	1.40	0.79	5.40	2.00	7.46
HF - Equity Strategies	4.46	1.93	0.69	7.21	1.64	8.45
HF - Event Driven Strategies	4.23	1.04	0.17	5.50	2.86	8.34
HF - Relative Value Strategies	1.26	0.39	0.32	1.98	1.62	3.76
HF - Macro Strategies	1.75	-0.01	0.36	2.11	2.26	4.73
HF - Multi-Strategy	2.65	1.29	0.72	4.73	1.58	6.94
HF - Credit Strategies	1.45	0.80	0.61	2.88	3.53	7.24
Activist	4.80	1.71	0.74	7.38	2.73	9.63
Volatility	2.20	0.98	0.97	4.20	3.70	7.66
Discretionary	3.87	1.58	0.64	6.19	2.51	8.34
Systematic	1.74	0.99	1.07	3.83	1.67	5.03
HF - North America	4.38	1.75	0.37	6.59	4.03	8.58
HF - Europe	1.85	1.15	0.68	3.72	-0.07	4.97
HF - Asia-Pacific	2.64	2.45	1.28	6.50	-2.43	6.43
HF - Developed Markets	3.93	1.00	-0.05	4.92	2.37	6.41
HF - Emerging Markets	3.41	0.70	0.71	4.87	2.12	9.38
HF - USD	3.53	1.43	0.73	5.77	1.56	7.67
HF - EUR	2.04	0.79	0.38	3.23	-2.08	2.55
HF - GBP	1.49	0.46	1.38	3.36	-1.15	3.33
HF - JPY	1.14	0.17	0.26	1.58	-5.42	3.17
HF - BRL	3.57	-0.52	-0.39	2.63	11.57	15.80
HF - Emerging (Less than \$100mn)	3.26	1.51	0.88	5.74	2.24	7.49
HF - Small (\$100-499mn)	2.85	1.16	0.56	4.63	0.98	7.31
HF - Medium (\$500-999mn)	2.95	1.46	0.60	5.08	2.53	7.81
HF - Large (\$1bn plus)	2.76	1.29	0.89	5.01	2.15	7.06
Funds of Hedge Funds	2.35	1.08	0.81	4.29	-0.05	3.19
FOHF - Equity Strategies	3.45	1.63	0.88	6.06	-0.88	4.38
FOHF - Multi-Strategy	2.15	0.88	0.62	3.69	-0.23	2.65
Funds of CTAs	-0.99	-0.01	3.71	2.67	0.37	-2.59
FOHF - USD	2.45	1.07	0.83	4.42	0.35	4.07
FOHF - EUR	1.87	0.66	0.18	2.73	-3.81	0.22
Alternative Mutual Funds	3.38	0.72	0.35	4.49	-0.88	2.78
UCITS	2.62	0.85	0.43	3.95	-1.78	2.35
UCITS - Long/Short Equity	3.80	1.24	0.49	5.60	-2.71	3.80
UCITS - Relative Value Strategies	0.98	0.39	-0.01	1.36	-2.21	-0.14
UCITS - Macro Strategies	1.53	0.45	0.46	2.45	0.20	2.09
UCITS - USD	3.00	1.03	0.58	4.67	-1.37	3.87
UCITS - EUR	2.44	0.85	0.37	3.69	-2.36	1.32
CTAs	-0.14	0.24	2.12	2.23	0.25	0.52
Discretionary	0.72	-0.20	-0.06	0.46	-2.00	1.24
Systematic	-0.60	0.38	2.95	2.72	0.79	-0.26
CTA - USD	-0.22	0.23	2.42	2.43	0.53	0.68
CTA - EUR	-1.39	0.31	1.93	0.82	-6.92	-3.12

Source: Preqin Pro

*Please note, all performance information includes preliminary data for March 2019 based upon net returns reported to Preqin in early April 2019. Although stated trends and comparisons are not expected to alter significantly, final benchmark values are subject to change.

LARGEST FUND MANAGERS

Fig. 6: Largest Hedge Fund Managers by Assets under Management

<u>Manager</u>	<u>Location</u>	<u>Year Established</u>	<u>Assets under Management</u>
Bridgewater Associates	US	1975	\$162.9bn as of 31 December 2018
AQR Capital Management	US	1998	\$99.6bn as of 31 December 2018
Man Group	UK	1983	\$76.6bn as of 31 December 2018
Renaissance Technologies	US	1982	\$60.6bn as of 31 December 2018
J.P. Morgan Asset Management	US	1974	\$49.8bn as of 31 December 2018
Two Sigma Investments	US	2001	\$38.8bn as of 31 December 2018
Elliott Management	US	1977	\$34.8bn as of 30 September 2018
Millennium Management	US	1989	\$34.4bn as of 31 December 2018
Marshall Wace	UK	1997	\$33.1bn as of 2 January 2019
Adage Capital Management	US	2001	\$32.4bn as of 31 December 2017
D.E. Shaw & Co.	US	1988	\$31.2bn as of 1 October 2018
Baupost Group	US	1982	\$31.0bn as of 30 June 2018
Davidson Kempner Capital Management	US	1990	\$29.8bn as of 30 September 2018
BlackRock Alternative Investors	US	2005	\$29.2bn as of 31 December 2018
Citadel Advisors	US	1990	\$28.6bn as of 31 December 2018

Source: Preqin Pro

Fig. 7: Largest Fund of Hedge Funds Managers by Assets under Management

<u>Manager</u>	<u>Location</u>	<u>Year Established</u>	<u>Assets under Management</u>
Blackstone Alternative Asset Management	US	1990	\$78.0bn as of 31 December 2018
UBS Hedge Fund Solutions	US	2000	\$38.4bn as of 31 December 2018
Goldman Sachs Asset Management	US	1997	\$35.1bn as of 31 December 2018
Grosvenor Capital Management	US	1971	\$27.3bn as of 30 June 2018
BlackRock Alternative Advisors	US	1995	\$23.7bn as of 31 December 2018
Morgan Stanley Investment Management	US	2000	\$22.2bn as of 31 December 2018
Lighthouse Partners	US	1999	\$14.7bn as of 31 December 2018
Man FRM	UK	1991	\$14.3bn as of 31 December 2018
Rock Creek Group	US	2002	\$13.8bn as of 31 December 2018
Credit Suisse Alternative Funds Solutions	US	1998	\$13.5bn as of 31 December 2018
Aberdeen Standard Investments	UK	1998	\$13.2bn as of 31 December 2018
J.P. Morgan Alternative Asset Management	US	1995	\$12.2bn as of 31 December 2018
Pictet Alternative Advisors	Switzerland	1991	\$12.2bn as of 31 December 2018
PAAMCO Prisma*	US	2000	\$11.4bn as of 31 December 2018
Aetos Capital	US	2001	\$11.2bn as of 31 December 2018

Source: Preqin Pro

*The assets under management figure represents a combination of both Pacific Alternative Asset Management Company, LLC ("PAAMCO") and Prisma Capital Partners LP ("Prisma"). Each of PAAMCO and Prisma is a separately registered, wholly owned subsidiary of PAAMCO Prisma Holdings, LLC.

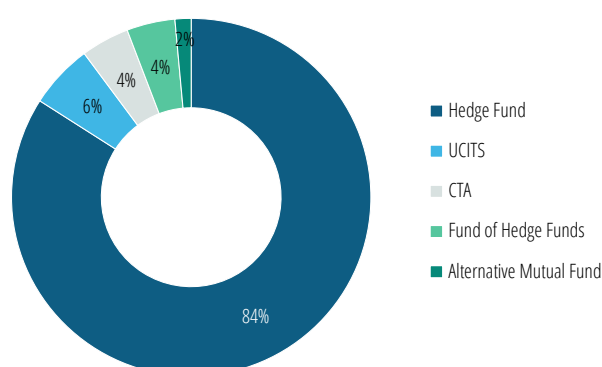
FUND LAUNCHES

Sixty-nine hedge funds were launched in Q1 2019, the majority (84%) of which were single-manager funds (Fig. 8). Two-thirds of new funds were launched by North America-based managers (Fig. 9), slightly up from Q1 2018 statistics, when 64% of funds were launched by firms in North America. The proportion of Europe-based launches has decreased from 31% to 23% of the total, suggesting that fund managers are bracing themselves for the impact of Brexit on financial markets, whichever form that may take.

Asia-Pacific-based fund launches have been stable, making up 8% of all new funds in Q1 2019, but the proportion of new funds with a focus on the region has more than halved in comparison with the previous quarter (Fig. 10).

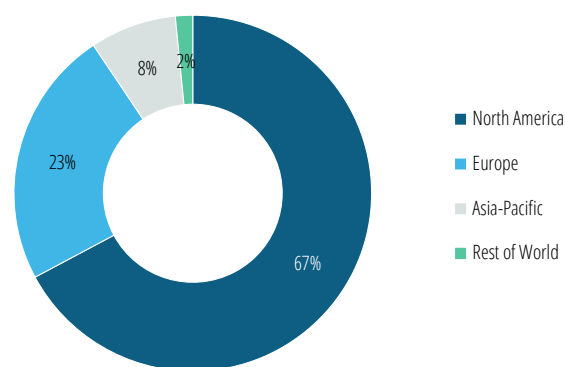
In Q1 2019, equity strategies funds made up 44% of all hedge fund launches, up from 37% in Q4 2018 (Fig. 11); this suggests that the spikes in equity market volatility towards the end of 2018 created opportunities that fund managers are keen to pursue. Over the past year, the proportion of macro strategies fund launches has fluctuated between a high of 15% and a low of 6%. Global political and economic events – such as the trade war between the US and China, as well as the ongoing struggle for growth within Europe – are likely to have made macro fund managers reticent to launch in such a tumultuous climate.

Fig. 8: Hedge Fund Launches in Q1 2019 by Structure



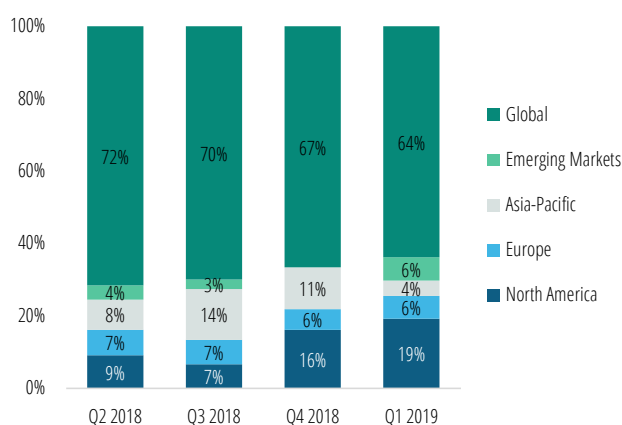
Source: Preqin Pro

Fig. 9: Hedge Fund Launches in Q1 2019 by Manager Location



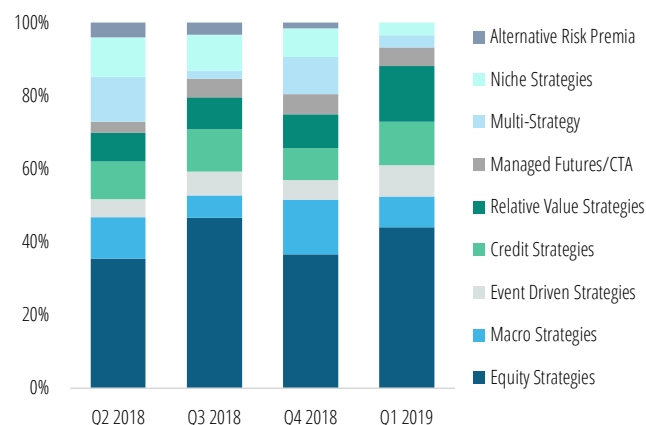
Source: Preqin Pro

Fig. 10: Hedge Fund Launches by Geographic Focus, Q2 2018 - Q1 2019



Source: Preqin Pro

Fig. 11: Hedge Fund Launches by Core Strategy, Q2 2018 - Q1 2019



Source: Preqin Pro

FUND SEARCHES

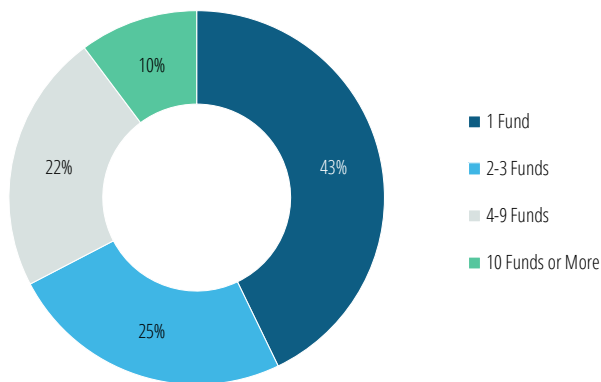
Investors issued 168 hedge fund searches and mandates in Q1 2019. While most investors are looking to make fewer hedge fund investments over the next 12 months compared to the previous year, a third are planning to invest in four or more funds (Fig. 12), although the vast majority (90%) of investors are looking to invest less than \$100mn in fresh capital in hedge funds in 2019 (Fig. 13).

Although the largest proportion (39%) of investors are targeting equity strategies in the year ahead, investors are also looking to alter their portfolios in anticipation of a market correction. Forty percent of hedge fund investors that Preqin spoke to are positioning themselves more defensively in the coming year,

as an imminent market correction becomes more likely – 59% of surveyed investors believe we are at the peak of the current equity market cycle. As such, 20% of investors are targeting macro strategies funds over the next 12 months, which are less correlated to market beta (Fig. 14).

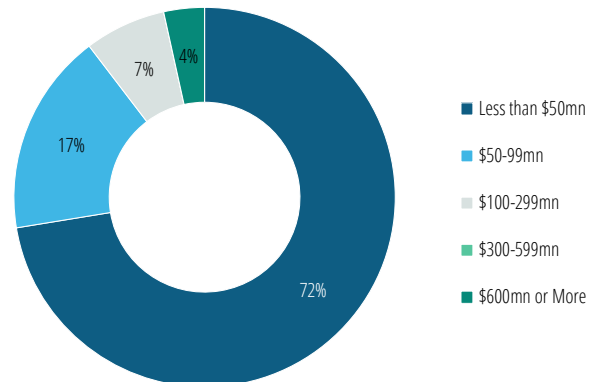
In the face of unrelenting market volatility, it is no surprise that the majority (77%) of investors will target funds with global exposure over the next 12 months in search of a more diverse portfolio (Fig. 15). Seventeen percent and 18% of investors will specifically target North America- and Europe-focused funds respectively, and 12% will seek investments in Asia-Pacific.

Fig. 12: Number of Hedge Funds Investors Expect to Add to Their Portfolios over the Next 12 Months



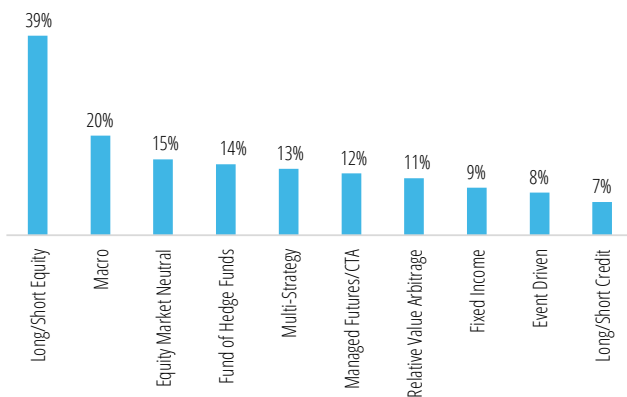
Source: Preqin Pro

Fig. 13: Amount of Fresh Capital Investors Expect to Invest in Hedge Funds over the Next 12 Months



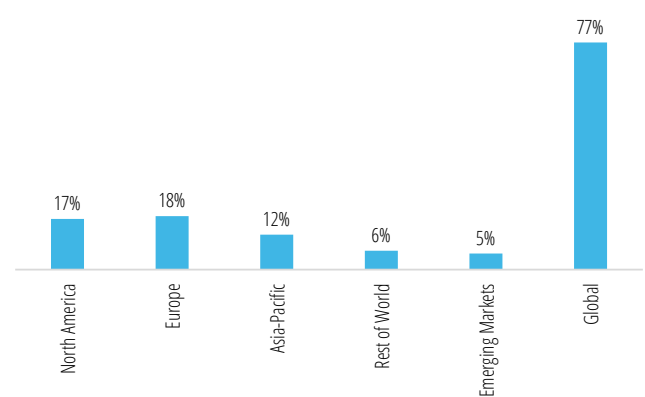
Source: Preqin Pro

Fig. 14: Core Strategies Targeted by Hedge Fund Investors over the Next 12 Months



Source: Preqin Pro

Fig. 15: Regions Targeted by Hedge Fund Investors over the Next 12 Months



Source: Preqin Pro



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info@preqin.com

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