PREQIN QUARTERLY UPDATE: HEDGE FUNDS Q2 2019

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

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Foreword

As geopolitical tensions and trade uncertainties intensify, the global macroeconomic outlook is increasingly uncertain. As a result, central banks have turned more doveish in 2019. With bond yields falling, however, equities have rallied this year following a hellish Q4 2018. With these tailwinds, hedge funds have had an extremely strong start to 2019. But what does this all mean for investors?

On the one hand, uncertainty is rising; on the other, valuations are strong in risk assets such as equities. So where to put capital: for protection or for growth? As we enter the last phase of the market cycle, investors may increasingly consider the active risk management that hedge funds can provide. Although hedge funds are not unaffected by downward market movements, it is their ability to mitigate losses and diversify risks that has produced attractive long-term Sharpe ratios. Now, perhaps, is the time for investors to look to hedge fund managers to help weather a future that looks increasingly stormy, and still access a healthy return. Indeed, Preqin data indicates that investor appetite for hedge funds is increasing: we have recorded the highest ever quarterly number (220) of investor mandates in the period since Q1 2016. Although net flows into the industry are negative for Q1 2019 (-$22.1bn), an uptick in investment activity may plug some of the movement from the sector, if not spark a return to positive flows. At the very least, we are expecting high levels of activity as investors tactically redeem and reallocate capital.

In this period of extraordinary geopolitical activity, the future impact on markets grows more uncertain and divergent. Therefore, building a portfolio that is diversified – strategically and geographically – may help investors to navigate all possible market directions. The trick will be finding the right managers from the 17,190+ funds currently open to investment.

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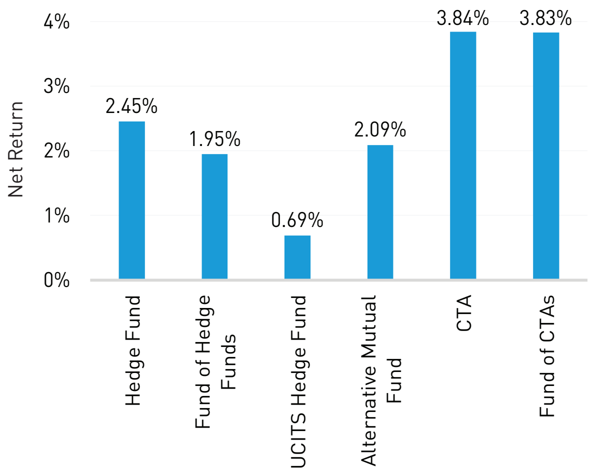
Performance Update

The Preqin All-Strategies Hedge Fund benchmark has sustained its good performance from the beginning of the year, posting a Q2 return of 2.45% (Fig. 1). Funds focused on North America were the top performers geographically with a return of 2.58% for the quarter, closely followed by funds targeting emerging markets (+2.22%, Fig. 3). Asia-Pacific-focused funds were the only geographic benchmark to make a loss for this quarter: even with a respectable June return of 2.20%, the benchmark was just shy of positive with a return of -0.08%.

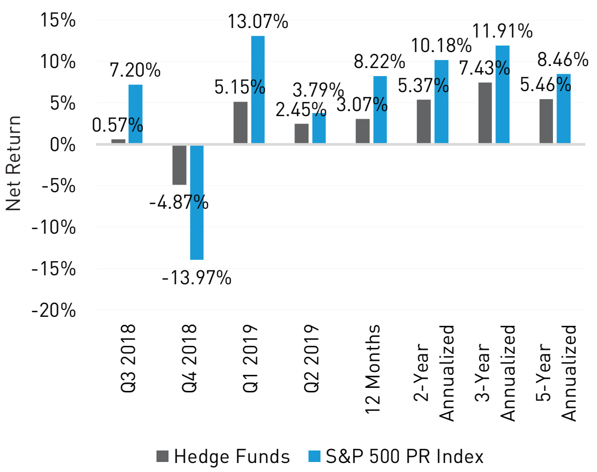
All top-level strategies managed a positive return for Q2; CTAs led the pack with a return of 3.84%. This figure marks the best quarterly return for CTAs since Q1 2015 (+4.57%). Credit and macro are the only strategies that avoided any negative monthly return during the quarter, both remaining positive in May when other strategies faltered. This left credit and macro strategies with reputable returns of 1.70% and 2.66% for Q2 respectively.

Fig. 1: Performance of Hedge Funds in Q2 2019 by Structure*



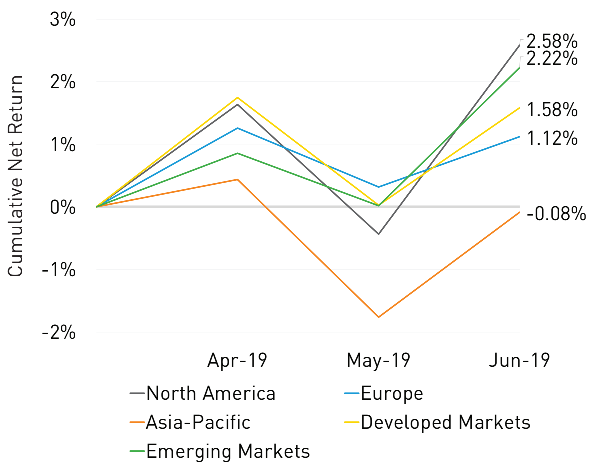
Source: Preqin Pro

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



Source: Preqin Pro

Fig. 3: Cumulative Returns of Hedge Funds in Q2 2019 by Geographic Focus*



Source: Preqin Pro

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

Benchmarks

Fig. 4: Summary of Q2 2019 Performance Benchmarks (Net Return, %)*

Benchmark Name	Apr-19	May-19	Jun-19	Q2 2019	12 Months	3-Year Annualized
Hedge Funds	**1.32**	**-1.00**	**2.14**	**2.45**	**3.07**	**7.43**
HF - Equity Strategies	1.67	-2.40	2.82	2.04	2.43	8.51
HF - Event Driven Strategies	1.47	-2.03	2.09	1.49	1.65	7.45
HF - Relative Value Strategies	0.34	-0.03	0.27	0.58	1.87	3.75
HF - Macro Strategies	0.51	0.13	2.01	2.66	4.46	4.79
HF - Multi-Strategy	1.84	-0.66	2.20	2.38	2.20	6.63
HF - Credit Strategies	0.85	0.19	0.65	1.70	4.18	6.66
Activist	1.55	-2.00	2.08	1.59	1.70	9.32
Volatility	0.88	-0.36	1.98	2.51	4.27	7.50
Discretionary	1.42	-1.59	2.64	2.45	3.20	8.17
Systematic	1.06	-1.37	2.06	1.73	2.23	5.11
HF - North America	1.64	-2.04	3.03	2.58	3.14	8.49
HF - Europe	1.26	-0.93	0.80	1.12	-1.18	5.28
HF - Asia-Pacific	0.44	-2.19	1.71	-0.08	-1.41	6.23
HF - Developed Markets	1.75	-1.69	1.55	1.58	3.02	6.87
HF - Emerging Markets	0.86	-0.83	2.20	2.22	6.92	8.78
HF - USD	1.31	-1.28	2.71	2.73	2.98	7.75
HF - EUR	0.72	-1.44	0.92	0.18	-2.58	2.44
HF - GBP	1.28	-1.22	0.78	0.83	-2.63	3.56
HF - JPY	-0.02	-0.84	-0.32	-1.14	-6.16	3.58
HF - BRL	0.54	0.77	1.85	3.18	16.01	15.18
HF - Emerging (Less than $100mn)	1.38	-0.72	2.28	2.95	4.07	7.74
HF - Small ($100-499mn)	1.08	-1.10	1.65	1.63	1.58	7.33
HF - Medium ($500-999mn)	1.04	-1.13	2.30	2.21	3.69	7.79
HF - Large ($1bn plus)	1.59	-0.37	2.59	3.83	5.82	7.70
Funds of Hedge Funds	**1.02**	**-0.75**	**1.68**	**1.95**	**1.13**	**3.96**
FOHF - Equity Strategies	1.39	-1.95	1.37	0.77	-1.00	4.33
FOHF - Multi-Strategy	0.76	-0.47	1.87	2.16	1.28	3.77
Funds of CTAs	1.89	-1.57	3.53	3.83	3.64	-0.74
FOHF - USD	0.94	-0.76	1.93	2.11	1.66	4.73
FOHF - EUR	0.56	-1.02	0.43	-0.04	-3.70	0.51
Alternative Mutual Funds	**1.13**	**-1.35**	**2.33**	**2.09**	**0.97**	**3.30**
UCITS	**0.92**	**-1.78**	**1.58**	**0.69**	**-0.59**	**2.52**
UCITS - Equity Strategies	1.38	-2.92	2.21	0.60	-2.03	4.12
UCITS - Relative Value Strategies	0.30	-0.88	0.82	0.23	-1.29	-0.02
UCITS - Macro Strategies	1.24	-1.17	1.15	0.92	1.22	2.15
UCITS - USD	1.13	-2.10	2.25	1.23	0.90	4.26
UCITS - EUR	0.85	-1.85	1.41	0.39	-1.40	1.47
CTAs	**0.99**	**-0.27**	**3.11**	**3.84**	**3.45**	**1.32**
Discretionary	-0.92	0.40	0.20	-0.33	-2.51	0.36
Systematic	1.34	-0.56	3.66	4.45	4.87	0.63
CTA - USD	1.07	-0.09	3.43	4.44	4.21	1.69
CTA - EUR	-0.38	-2.09	1.86	-0.65	-4.86	-2.24

Source: Preqin Pro

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Largest Fund Managers

Fig. 5: Largest Hedge Fund Managers by Assets under Management

Manager	Location	Year Established	Assets under Management
Bridgewater Associates	US	1975	$162.5bn as of 31 March 2019
AQR Capital Management	US	1998	$99.6bn as of 31 December 2018
Man Group	UK	1983	$80.5bn as of 31 March 2019
Renaissance Technologies	US	1982	$65.2bn as of 31 March 2019
Two Sigma Investments	US	2001	$60.0bn as of 31 March 2019
Millennium Management	US	1989	$37.8bn as of 31 March 2019
J.P. Morgan Asset Management	US	1974	$35.5bn as of 31 March 2019
Elliott Management	US	1977	$34.0bn as of 31 December 2018
Marshall Wace	UK	1997	$33.5bn as of 1 April 2019
BlackRock Alternative Investors	US	2005	$31.2bn as of 31 March 2019
Baupost Group	US	1982	$31.0bn as of 30 June 2018
D.E. Shaw & Co.	US	1988	$29.9bn as of 1 April 2019
Davidson Kempner Capital Management	US	1990	$29.8bn as of 30 September 2018
Adage Capital Management	US	2001	$29.7bn as of 31 March 2019
Citadel Advisors	US	1990	$28.5bn as of 31 December 2018
Farallon Capital Management	US	1986	$27.3bn as of 31 March 2019
Wellington Management	US	1994	$26.0bn as of 31 March 2019
Viking Global Investors	US	1999	$26.0bn as of 31 December 2018
Winton Capital Management	UK	1997	$23.7bn as of 31 March 2019
H2O Asset Management	UK	2010	$23.2bn as of 31 March 2019

Source: Preqin Pro

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

Manager	Location	Year Established	Assets under Management
Blackstone Alternative Asset Management	US	1990	$80.0bn as of 31 March 2019
UBS Hedge Fund Solutions	US	2000	$39.1bn as of 31 March 2019
Goldman Sachs Asset Management	US	1997	$31.4bn as of 31 December 2018
Grosvenor Capital Management	US	1971	$27.3bn as of 30 June 2018
BlackRock Alternative Advisors	US	1995	$24.2bn as of 31 March 2019
Morgan Stanley Investment Management	US	2000	$21.6bn as of 31 March 2019
EnTrust Global	US	1971	$20.5bn as of 30 September 2018
Lighthouse Partners	US	1999	$14.7bn as of 31 December 2018
Man FRM	UK	1991	$14.2bn as of 31 March 2019
Aberdeen Standard Investments	UK	1998	$13.9bn as of 31 March 2019
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
J.P. Morgan Alternative Asset Management	US	1995	$12.3bn as of 31 March 2019
Aetos Alternatives Management, LP	US	2001	$11.3bn as of 31 March 2019
PAAMCO Prisma	US	2000	$11.2bn as of 31 March 2019
UBP Alternative Investments	Switzerland	1969	$10.1bn as of 31 December 2018
HSBC Alternative Investments	UK	1994	$10.0bn as of 31 March 2019
K2 Advisors	US	1994	$10.0bn as of 31 March 2019
Pictet Alternative Advisors	Switzerland	1991	$9.8bn as of 31 December 2018
Mercer Global Investments Europe	Ireland	2006	$9.3bn as of 31 March 2019

Source: Preqin Pro

Fund Launches

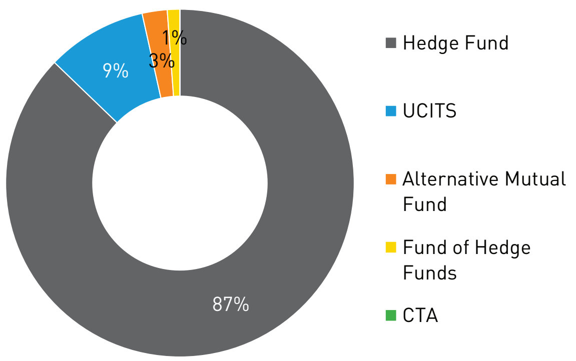
In Q2 2019, there were 86 new hedge fund launches, of which 87% were traditional single-manager commingled funds (Fig. 7). No CTAs launched in Q2, which could be a knock-on effect of underperformance in 2018 (-3.96% vs. -3.01% for hedge funds).

Europe-based funds accounted for a greater proportion (36%) of hedge fund launches in Q2, up from 23% in Q1. Notable managers including Man Group, Algebris Investments and Credit Suisse all launched hedge fund strategies in the quarter.

New hedge funds have steadily shifted their allocations over the past four quarters from a global focus to more region-specific opportunities in developed markets, as Fig. 8 shows.

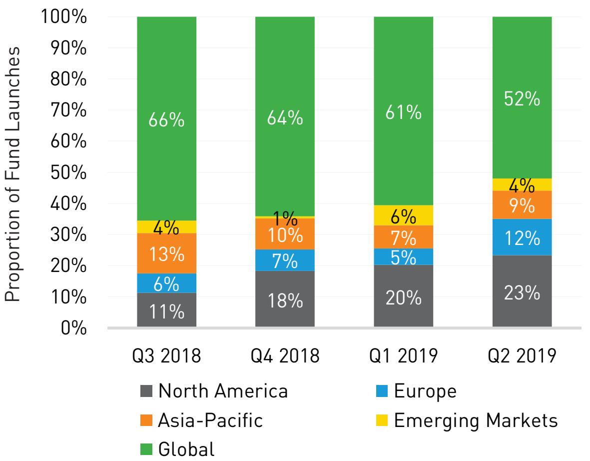
As stock markets in Europe and the US remained strong throughout Q2, equity strategies were once again the strategy most commonly deployed among new funds, representing 45% of launches (Fig. 9). In contrast, with more volatility potentially looming from Brexit and an escalating US-China trade war, macro strategies – which represented 12% of launches in Q2 – could be better positioned to navigate volatile market events.

Fig. 7: Hedge Fund Launches in Q2 2019 by Structure



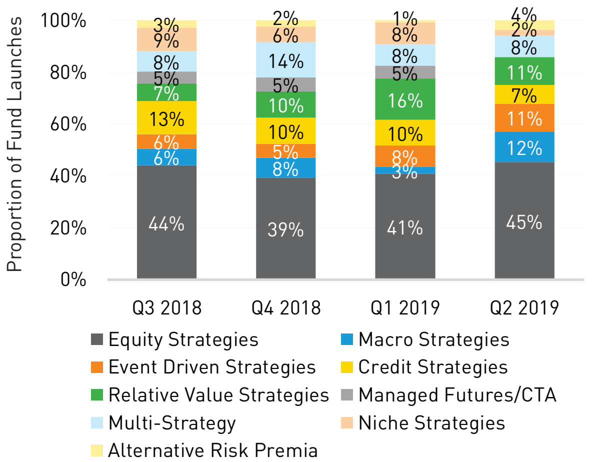
Source: Preqin Pro

Fig. 8: Hedge Fund Launches by Geographic Focus, Q3 2018 - Q2 2019



Source: Preqin Pro

Fig. 9: Hedge Fund Launches by Top-Level Strategy, Q3 2018 - Q2 2019



Source: Preqin Pro

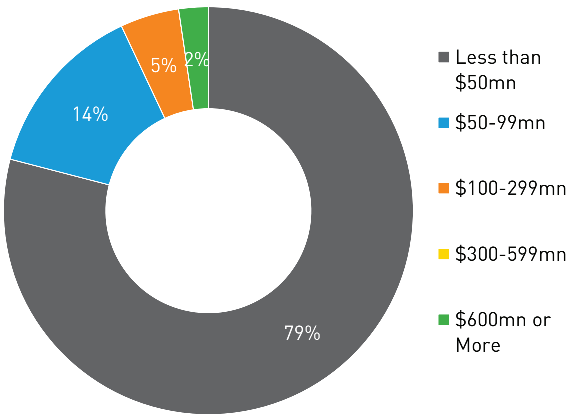
Fund Searches

Over the course of Q2 2019, 220 investors issued hedge fund searches and mandates on **Preqin Pro**; just over half (51%) of these were for a single fund investment, which notably compares with 43% of searches issued in Q1 2019. Hedge fund investors appear to be taking a somewhat cautious approach in terms of capital outlay, with 79% planning to allocate less than $50mn in fresh capital over the next 12 months (Fig. 10).

Long/short equity remains the most preferred strategy among hedge fund investors, with 47% planning such investments in the year ahead (Fig. 11). Macro is also in favour with investors at present, as targeted by 34% – this is up from 20% in Q1 2019, suggesting that many are looking to position their portfolios more defensively in anticipation of a market correction.

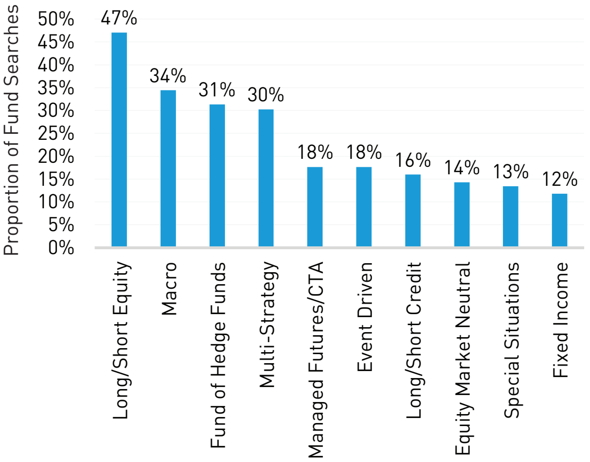
In times of market uncertainty, it is little surprise that investors are prioritizing a diverse portfolio of investments in the next 12 months: 68% of hedge fund investors are looking for funds focused on global opportunities (Fig. 12).

Fig. 10: Amount of Fresh Capital Investors Expect to Invest in Hedge Funds over the Next 12 Months



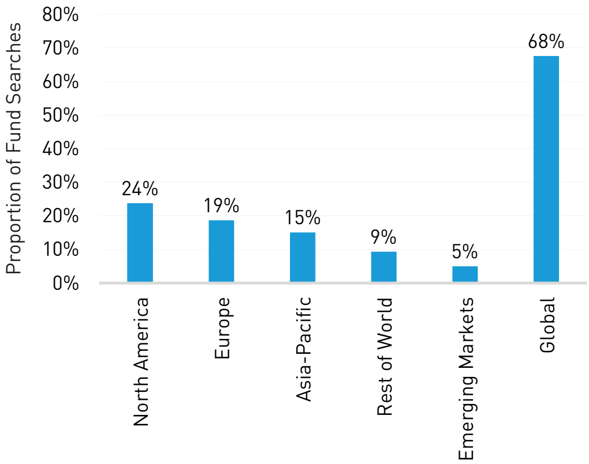
Source: Preqin Pro

Fig. 11: Core Strategies Targeted by Hedge Fund Investors over the Next 12 Months



Source: Preqin Pro

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



Source: Preqin Pro

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