

# The Q1 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 Q1 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

The mood entering 2014 was buoyant, following two back-to-back years of double digit returns in 2013 and 2012. Both fund managers and investors alike told Preqin, as part of our end of year interviews for the 2014 Preqin Global Hedge Fund Report, that they were more positive about the outlook for the industry in 2014 than they were for 2013. Investor sentiment was looking particularly rosy as performance of hedge funds in 2013 met or exceeded expectations for the majority of investors.

However, the first quarter of 2014 has been one of mixed results. January and March returns were both in the red, with only February's benchmark performance of 1.76% keeping performance for hedge funds in positive territory for the quarter. Event driven strategies funds continue to post impressive returns, adding 2.77% in Q1 2014, making it the best performing strategy tracked by Preqin's Hedge Fund Analyst. Investors are responding to this prolonged period of strong performance of event driven funds with more investors willing to take on the illiquidity premium of investing in these strategies in Q1 2014 than in Q4 2013.

Going into 2014, fund managers predicted developed markets would outperform emerging markets, and the first quarter results certainly support this outlook. Funds with a developed-market focus added gains of 2.32% in Q1 2014, compared to the -0.74% that emerging market-focused funds recorded over the quarter. We have also seen an increase in the number of funds being launched with a developed-market focus in the first quarter of 2014, as fund managers look to add new funds to tap into opportunities in these markets.

There has been an increase in activity in the fund of hedge funds sector at the start of 2014, with both a larger proportion of funds of hedge funds being launched in terms of total number of funds launched, and more funds of hedge funds searching for new investments in terms of the proportion of all mandates issued. The difficulties funds of funds have faced over recent years have been well documented, with the sector emerging smaller following a series of closures and consolidations. However, funds of hedge funds have also shown willingness to adapt to the changing investor attitude towards multi-manager firms, and the increased activity at the start of the year could indicate the early shoots of a revival in the sector.

Despite the volatile start to the year, investors look set to stay the course with hedge funds in the short term as fund searches continue to be issued for the year ahead. The industry will be waiting to see how the second quarter of the year unfolds, not only in terms of performance, but also in how investors and fund managers react to the changing market conditions both in terms of new capital flowing into the asset class and what funds pick up these inflows.

### Data Source:

**Preqin Quarterly Update: Hedge Funds, Q1 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 on how Preqin's hedge fund data can help you, or to arrange a demonstration, please visit: [www.preqin.com/hedge](http://www.preqin.com/hedge)

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# Performance Update: Q1 2014

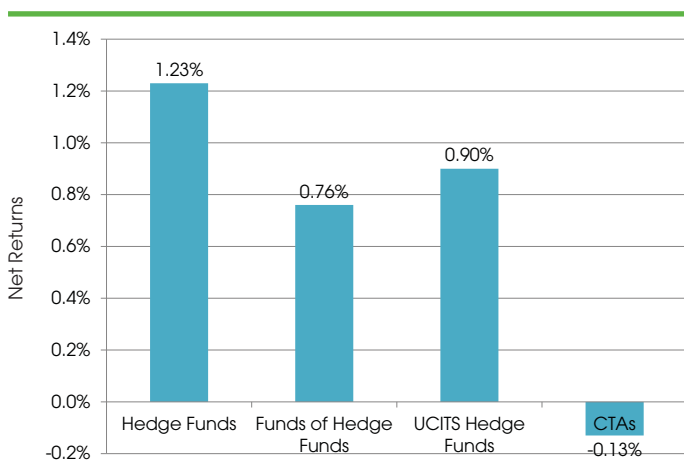
Hedge funds made a positive but muted start to 2014 despite posting encouraging results across the board during February. Single-manager hedge fund returns for the first three months of the year (+1.23%) lagged Q4 2013 returns by more than two-and-a-half percentage points, while the performance of managed futures and CTAs dipped back into negative territory (-0.13%) after a strong end to last year. Funds of hedge funds (+0.76%) and UCITS hedge funds (+0.90%) also ended Q1 having underperformed compared to the same period last year and the previous quarter.

The gain made by the overall hedge fund benchmark was driven by February returns of 1.75%, which offset the disappointing performance of January (-0.25%) and March (-0.26%). February was the only month in Q1 to see all strategies deliver positive returns, while the average event driven and relative value funds

avoided losses during the quarter (Fig. 2). March represented the seventh consecutive monthly gain for both Europe- and North America-focused hedge funds, which posted Q1 returns of 3.21% and 3.12% respectively (Fig. 3). Vehicles primarily targeting the Asia-Pacific region struggled in Q1, posting cumulative returns of 0.66%, having enjoyed a very strong 2013. Likewise, emerging markets funds began 2014 with flat performance (-0.01%) after ending last year with an encouraging run.

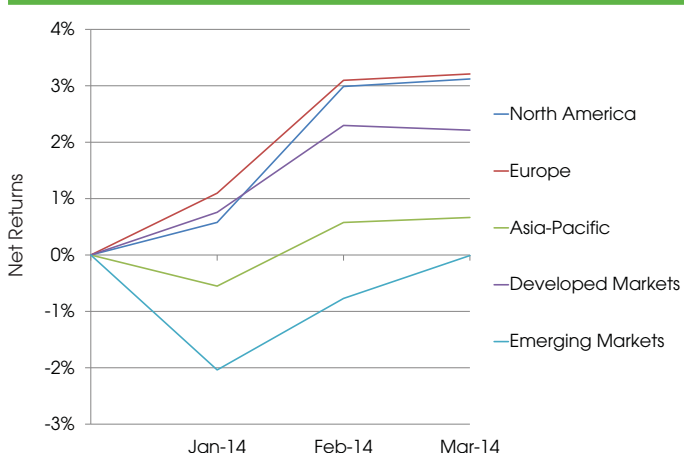
The overall performance of the hedge fund industry in Q1 largely reflected the movement of major equity markets. Hedge funds posted a similar quarterly rise to the S&P 500 index for the first time since Q4 2012. However, industry returns of 8.53% in the last year continue to show a significant lag compared to the public market's price return of 19.32% over the same period (Fig. 4).

Fig. 1: Net Returns of Hedge Funds by Structure, Q1 2014\*



Source: Preqin Hedge Fund Analyst

Fig. 3: Cumulative Net Returns of Hedge Funds by Geographic Focus, Q1 2014\*



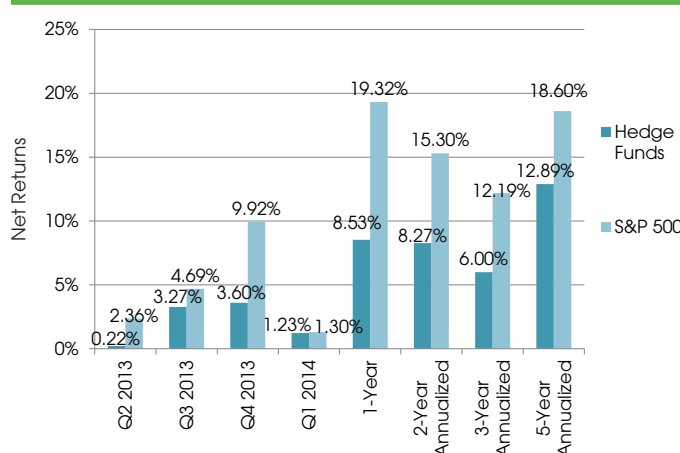
Source: Preqin Hedge Fund Analyst

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

| January 2014               | February 2014             | March 2014                | Q1 2014                   | Q4 2013                   |
|----------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Event Driven<br>0.46%      | Event Driven<br>2.34%     | Relative Value<br>0.41%   | Event Driven<br>2.94%     | Event Driven<br>4.37%     |
| Relative Value<br>0.42%    | Long/Short<br>2.19%       | Event Driven<br>0.12%     | Relative Value<br>1.54%   | Long/Short<br>4.32%       |
| Multi-Strategy<br>-0.09%   | CTAs<br>1.66%             | Macro Strategies<br>0.11% | Long/Short<br>1.02%       | Multi-Strategy<br>2.94%   |
| Macro Strategies<br>-0.37% | Multi-Strategy<br>1.60%   | Multi-Strategy<br>-0.49%  | Multi-Strategy<br>1.02%   | CTAs<br>2.23%             |
| Long/Short<br>-0.56%       | Macro Strategies<br>0.77% | Long/Short<br>-0.59%      | Macro Strategies<br>0.51% | Relative Value<br>2.15%   |
| CTAs<br>-0.95%             | Relative Value<br>0.71%   | CTAs<br>-0.82%            | CTAs<br>-0.13%            | Macro Strategies<br>1.92% |

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 2014 based upon returns reported to Preqin in early April 2014. Although stated trends and comparisons are not expected to alter significantly, final benchmark values are subject to change.



# Performance Benchmarks: Q1 2014

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

|  | January 2014 | February 2014 | March 2014   | Q1 2014      | Annualized 3 Years |
|--|--------------|---------------|--------------|--------------|--------------------|
| <b>Hedge Funds (All Strategies and Regions)</b>          | <b>-0.25</b> | <b>1.75</b>   | <b>-0.26</b> | <b>1.23</b>  | <b>6.00</b>        |
| Long/Short   | -0.56        | 2.19          | -0.59        | 1.02         | 6.09               |
| Event Driven Strategies                                  | 0.46         | 2.34          | 0.12         | 2.94         | 7.86               |
| Relative Value   | 0.42         | 0.71          | 0.41         | 1.54         | 6.31               |
| Macro Strategies   | -0.37        | 0.77          | 0.11         | 0.51         | 3.89               |
| Multi-Strategy   | -0.09        | 1.60          | -0.49        | 1.02         | 5.96               |
| Activist   | 0.10         | 1.64          | 0.32         | 2.07         | 6.30               |
| Volatility   | 0.57         | 0.54          | 0.23         | 1.35         | 7.06               |
| Discretionary  | -0.22        | 2.33          | 0.16         | 2.27         | 8.12               |
| Systematic   | -0.33        | 1.09          | -0.08        | 0.67         | 4.65               |
| North America  | 0.58         | 2.40          | 0.13         | 3.12         | 9.38               |
| Europe   | 1.10         | 1.98          | 0.11         | 3.21         | 6.39               |
| Asia-Pacific   | -0.55        | 1.13          | 0.09         | 0.66         | 7.10               |
| Emerging Markets   | -2.04        | 1.29          | 0.77         | -0.01        | 4.07               |
| Developed Markets  | 0.76         | 1.53          | -0.08        | 2.21         | 8.31               |
| USD  | -0.25        | 1.93          | -0.41        | 1.25         | 6.06               |
| EUR  | 0.49         | 1.57          | -0.33        | 1.74         | 3.58               |
| GBP  | -0.11        | 1.76          | -1.13        | 0.51         | 1.42               |
| AUD  | -0.69        | 2.61          | -1.22        | 0.66         | 8.76               |
| BRL  | -1.52        | 0.22          | 1.11         | -0.21        | 8.11               |
| <b>Funds of Hedge Funds (All Strategies and Regions)</b> | <b>-0.36</b> | <b>1.49</b>   | <b>-0.37</b> | <b>0.76</b>  | <b>3.02</b>        |
| Long/Short   | -0.78        | 1.84          | -0.11        | 0.94         | 4.03               |
| Multi-Strategy   | -0.21        | 1.38          | -0.41        | 0.76         | 3.07               |
| North America  | 0.07         | 2.26          | -1.04        | 1.27         | 6.31               |
| Europe   | 0.21         | 1.85          | -0.23        | 1.82         | 2.90               |
| Emerging Markets   | -1.66        | 1.06          | 0.60         | -0.02        | 3.67               |
| USD  | -0.37        | 1.62          | -0.52        | 0.72         | 2.90               |
| EUR  | -0.51        | 1.29          | -0.32        | 0.46         | 1.19               |
| <b>UCITS Hedge Funds (All Strategies and Regions)</b>    | <b>-0.54</b> | <b>1.44</b>   | <b>0.01</b>  | <b>0.90</b>  | <b>2.65</b>        |
| Long/Short   | -0.86        | 2.20          | 0.07         | 1.39         | 4.49               |
| Relative Value   | 0.07         | 0.49          | 0.17         | 0.73         | 1.32               |
| Macro Strategies   | -0.48        | 0.47          | -0.13        | -0.14        | 0.34               |
| USD  | -1.21        | 1.62          | -0.13        | 0.27         | 1.91               |
| EUR  | -0.28        | 1.22          | -0.28        | 0.66         | 2.41               |
| <b>CTAs (All Strategies and Regions)</b>                 | <b>-0.95</b> | <b>1.66</b>   | <b>-0.82</b> | <b>-0.13</b> | <b>0.77</b>        |
| USD  | -0.95        | 1.66          | -0.71        | -0.02        | 0.63               |
| EUR  | -1.30        | 1.74          | -1.16        | -0.74        | -2.21              |

Source: Preqin Hedge Fund Analyst

Preqin's **Hedge Fund Analyst** offers access to fund-by-fund and industry level performance data for over 9,000 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. For more information, please visit:

[www.preqin.com/hfa](http://www.preqin.com/hfa)

\* Please note, all performance information includes preliminary data for March 2014 based upon returns reported to Preqin in early April 2014. Although stated trends and comparisons are not expected to alter significantly, final benchmark values are subject to change.



# Hedge Fund Launches in Q1 2014

North America-headquartered managers continue to drive new fund launches in the industry; in Q1 2014 73% of new hedge funds were launched by North America-based managers (Fig. 2) up from 64% in Q3 2013 and 67% in Q4 2013. Europe and Asia-Pacific saw a decrease in their share of fund launches from the previous quarter, with proportions falling from 19% to 17% and 13% to 9% respectively.

Coupled with the increase in activity in funds of funds searching for new investments (see page 7), we have also witnessed an increase in new launches of fund of hedge funds structures, as these increased from 10% of all launches in Q4 2013 to 12% in Q1 2014.

Fifty-three percent of hedge funds launched in Q1 2014 focused on long/short strategies, an increase of ten percentage points from the previous quarter (Fig. 3). However, following another year when performance disappointed, macro strategies launches

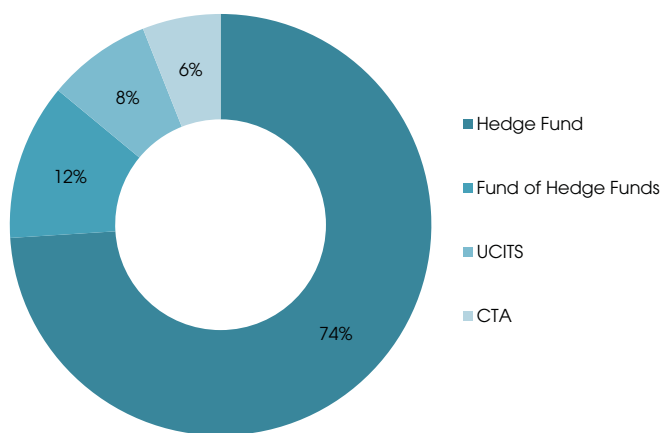
have declined from 26% of all fund launches in Q4 2013 to 16% in Q1 2014.

Fund managers are predicting the developed market economies of Europe and North America will offer good opportunities in 2014, and managers launched more funds targeting these regions in Q1 2014 than in Q4 2013. This was coupled with a decrease in the proportion of both Asia-Pacific- and emerging markets-focused funds launching in Q1 2014 compared with Q4 2013.

Preqin's **Hedge Fund Analyst** features up-to-date, in-depth profiles of over 26,000 hedge funds and share classes, including performance metrics, fund terms and conditions, investment preferences, domiciles and much more.

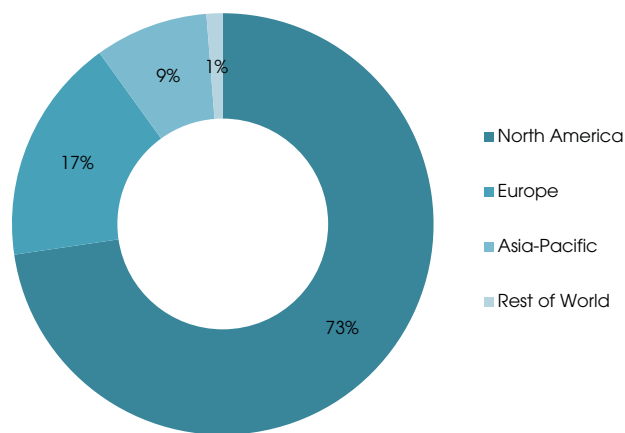
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**Fig. 1: Breakdown of Hedge Fund Launches in Q1 2014 by Structure**



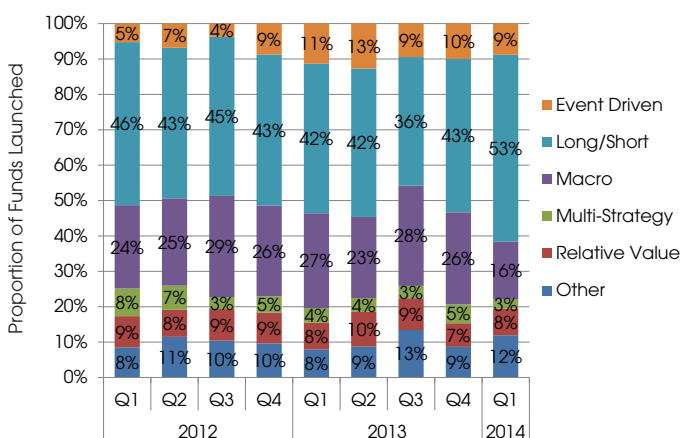
Source: Preqin Hedge Fund Analyst

**Fig. 2: Breakdown of Hedge Fund Launches in Q1 2014 by Geographic Location**



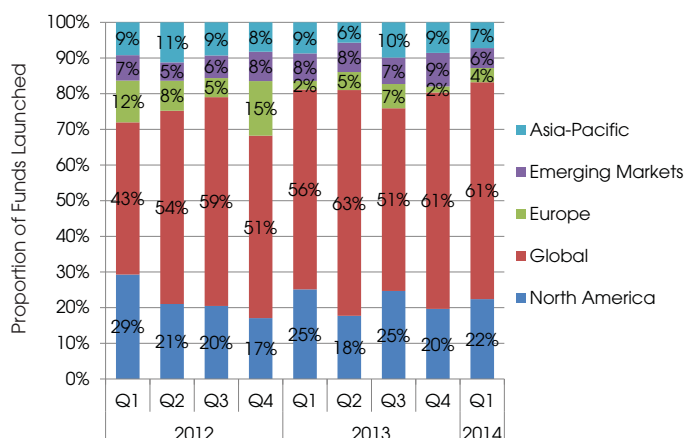
Source: Preqin Hedge Fund Analyst

**Fig. 3: Breakdown of Hedge Fund Launches by Top Level Strategy, Q1 2012 - Q1 2014**



Source: Preqin Hedge Fund Analyst

**Fig. 4: Breakdown of Hedge Fund Launches by Geographic Focus, Q1 2012 - Q1 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        | \$150.1bn as at 31 December 2013 |
| AQR Capital Management                 | US        | \$53.3bn as at 31 December 2013  |
| Och-Ziff Capital Management            | US        | \$40.6bn as at 1 January 2014    |
| Brevan Howard Capital Management       | Jersey    | \$40.0bn as at 31 December 2013  |
| BlueCrest Capital                      | UK        | \$35.8bn as at 31 December 2013  |
| Standard Life Investments              | UK        | \$33.0bn as at 31 December 2013  |
| BlackRock Proprietary Alpha Strategies | US        | \$31.3bn as of 31 December 2013  |
| Baupost Group                          | US        | \$29.9bn as at 31 December 2013  |
| Viking Global Investors                | US        | \$27.3bn as at 31 December 2013  |
| Lone Pine Capital                      | US        | \$27.2bn as at 31 December 2013  |
| Man Investments                        | UK        | \$26.7bn as at 31 December 2013  |
| Davidson Kempner Capital Management    | US        | \$26.1bn as at 31 December 2013  |
| Winton Capital Management              | UK        | \$25.3bn as at 31 December 2013  |
| Adage Capital Management               | US        | \$25.0bn as at 31 December 2013  |
| GAM                                    | UK        | \$24.1bn as at 30 June 2013      |
| Elliott Management                     | US        | \$24.0bn as at 31 December 2013  |
| Renaissance Technologies               | US        | \$23.3bn as at 31 December 2013  |
| D.E. Shaw & Co.                        | US        | \$22.7bn as at 1 January 2014    |
| Millennium Management                  | US        | \$21.1bn as at 31 December 2013  |
| Platinum Asset Management              | Australia | \$20.6bn as at 31 December 2013  |

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          | \$56.0bn as at 31 December 2013 |
| HSBC Alternative Investments                   | UK          | \$26.8bn as at 1 January 2014   |
| UBS Alternative Investment Solutions           | US          | \$26.6bn as at 1 January 2014   |
| GSAM   | US          | \$25.0bn as at 31 December 2013 |
| Grosvenor Capital Management                   | US          | \$24.5bn as at 31 December 2013 |
| Permal Group                                   | US          | \$22.2bn as at 31 December 2013 |
| BlackRock Alternative Advisors                 | US          | \$18.1bn as at 31 December 2013 |
| Mesirow Advanced Strategies                    | US          | \$13.4bn as at 31 December 2013 |
| Financial Risk Management (FRM)                | UK          | \$12.5bn as at 31 December 2013 |
| Morgan Stanley Alternative Investment Partners | US          | \$11.4bn as at 31 December 2013 |
| UBP Alternative Investments                    | Switzerland | \$11.0bn as at 31 December 2013 |
| Aetos Capital                                  | US          | \$10.9bn as at 31 December 2013 |
| J.P. Morgan Alternative Asset Management       | US          | \$10.7bn as at 31 December 2013 |
| Prisma Capital Partners                        | US          | \$10.1bn as at 31 December 2013 |
| K2 Advisors                                    | US          | \$9.9bn as at 31 December 2013  |
| Rock Creek Group                               | US          | \$9.6bn as at 31 December 2013  |
| SkyBridge Capital                              | US          | \$9.6bn as at 31 December 2013  |
| Aurora Investment Management                   | US          | \$9.3bn as at 1 January 2014    |
| Lyxor Asset Management                         | France      | \$9.0bn as at 1 January 2014    |
| Pacific Alternative Asset Management Company   | US          | \$9.0bn as at 31 December 2013  |

Source: Preqin Hedge Fund Analyst

View detailed profiles for over 6,600 hedge fund managers globally with Preqin's **Hedge Fund Analyst**, including strategy and industry preferences, key contact information, individual fund performance and more.

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# Fund Searches Initiated in Q1 2014

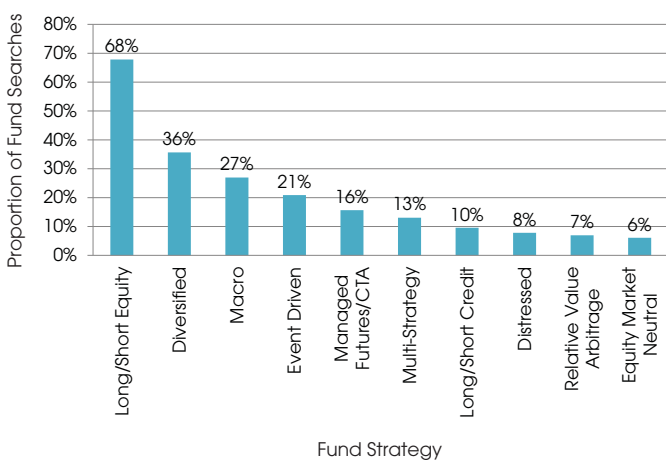
While long/short equity has long been favoured by hedge fund investors, there has been a significant increase in searches for this fund strategy in Q1 2014. Sixty-eight percent of fund searches initiated during Q1 include a long/short equity component, an increase from 49% in Q4 2013 (Fig. 1). There has been a rise in the proportion of searches targeting both event driven and managed futures/CTA vehicles, with these proportions increasing by four and five percentage points respectively from the previous quarter (Fig. 2). However, there has been a decline in demand for long/short credit, equity market neutral and fixed income arbitrage strategies, with the proportion of investors targeting each of these strategies dropping by three percentage points between Q4 2013 and Q1 2014.

Investing via commingled single-manager hedge funds remains the most common method of investment, with 87% of searches initiated during Q1 2014 including this fund structure (Fig. 3). Interest in managed account structures has remained relatively

constant, with 16% of searches targeting this structure, but there has been a six percentage point reduction in the proportion of searches targeting funds of hedge funds from Q4 2013. Conversely, fund of hedge funds managers continued to dominate fund search activity in Q1 2014 (Fig. 4); however, as highlighted in our February 2014 edition of Hedge Fund Spotlight, there has been a resurgence in the amount of capital coming from private wealth firms (family offices and wealth managers) and the proportion of searches these firms represent is the highest it has been over the past four quarters.

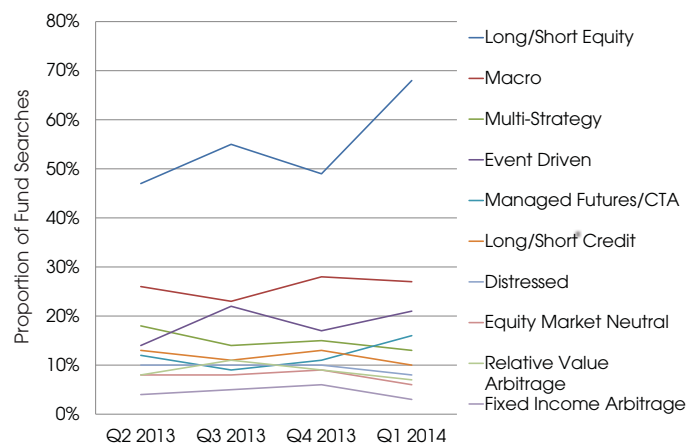
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**Fig. 1:** Hedge Fund Strategies Sought by Investors over the Next 12 Months, Searches Issued in Q1 2014



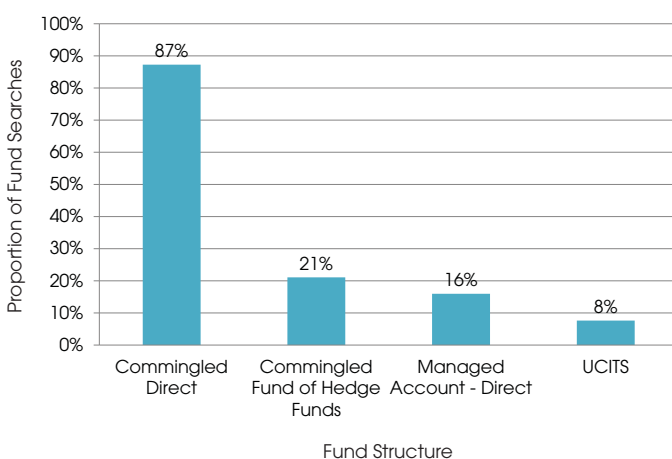
Source: Preqin Hedge Fund Investor Profiles

**Fig. 2:** Changing Investor Appetite for Top 10 Hedge Fund Strategies Sought, Q2 2013 - Q1 2014



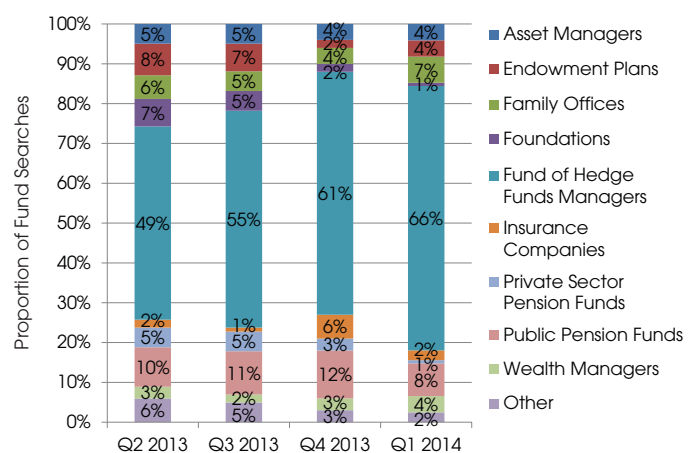
Source: Preqin Hedge Fund Investor Profiles

**Fig. 3:** Hedge Fund Structures Sought by Investors over the Next 12 Months, Searches Issued in Q1 2014



Source: Preqin Hedge Fund Investor Profiles

**Fig. 4:** Breakdown of Fund Searches Initiated by Investor Type, Q2 2013 - Q1 2014



Source: Preqin Hedge Fund Investor Profiles



# The Q1 2014 Preqin Quarterly Update: Hedge Funds



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## Preqin Hedge Fund Online

With global coverage and detailed information on all aspects of the hedge fund asset class, Preqin's industry-leading Hedge Fund Online services keep you up to date on all the latest developments across the hedge fund universe.

### Source new investors for funds

Find the most relevant investors, with access to detailed profiles for over 4,500 institutional investors actively investing in hedge funds, including insurance companies, pension funds, family offices, foundations, wealth managers, endowment plans, banks, fund of hedge fund managers and more.

### Identify potential investment opportunities

View in-depth profiles for hedge funds seeking capital, including information on investment strategy, geographic focus, structure, service providers used, sample investors, direct contact information and more.

### Find active fund managers of hedge funds

Search for firms operating hedge funds. View information on key contacts, assets under management, performance history, key investment preferences, known investors, and more.

### Benchmark performance

Identify which fund managers have the best track records with fully customizable performance benchmarks, and view performance details on individual named funds and share classes.

### Examine fund terms and conditions

Access fund-by-fund and industry level fund terms and conditions data for individual hedge funds, which provide a market overview, enabling you to see the current trends for specific strategies, structures, sizes, and more.

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