

Content Includes:

Preqin Special Report: Hedge Fund Manager Outlook

August 2015

Asset Flows in H1 2015

The hedge fund industry saw net inflows of \$76.3bn during the first half of 2015.

The Source of H1 2015 Inflows

We look at which investor groups have been increasing their investment in hedge funds in the first half of 2015.

Outlook on Regulation

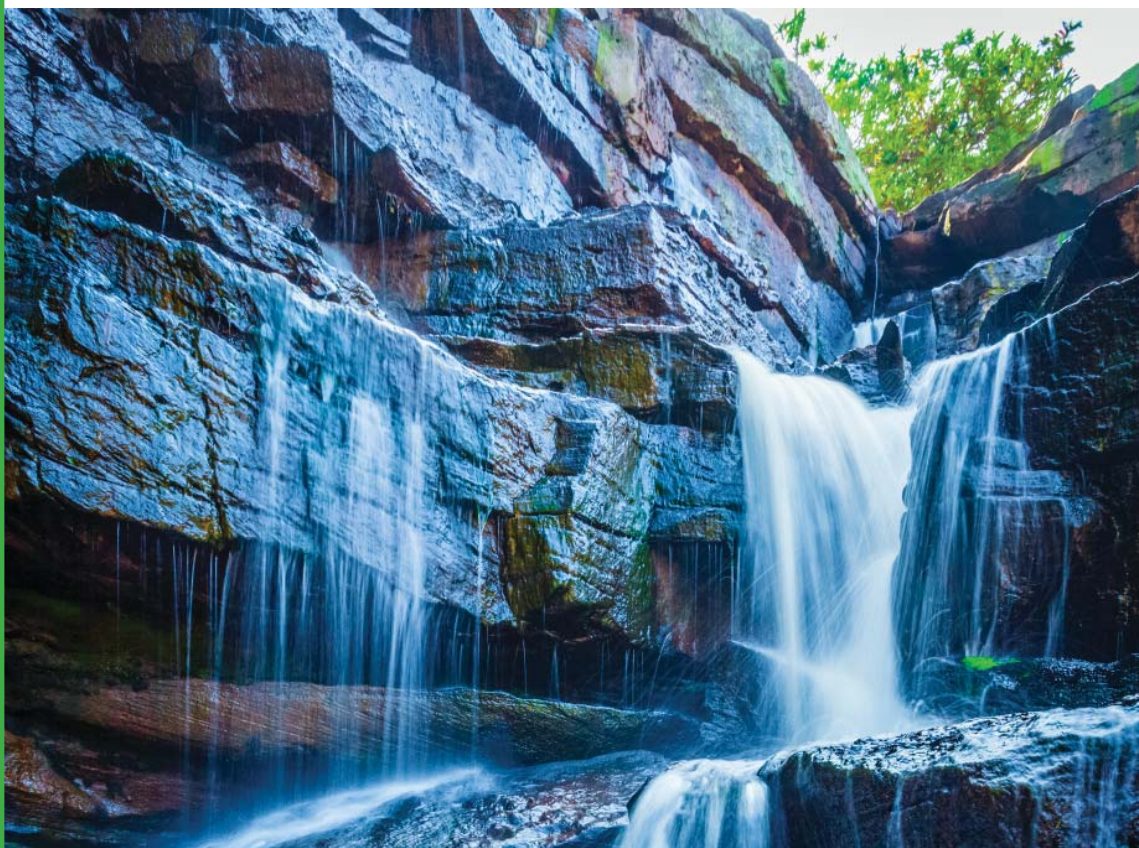
Negativity surrounding the AIFMD has dropped over the past six months.

Drivers of Change

Market volatility is likely to be a key driver of change in the industry in the year ahead.

Outlook for H2 2015

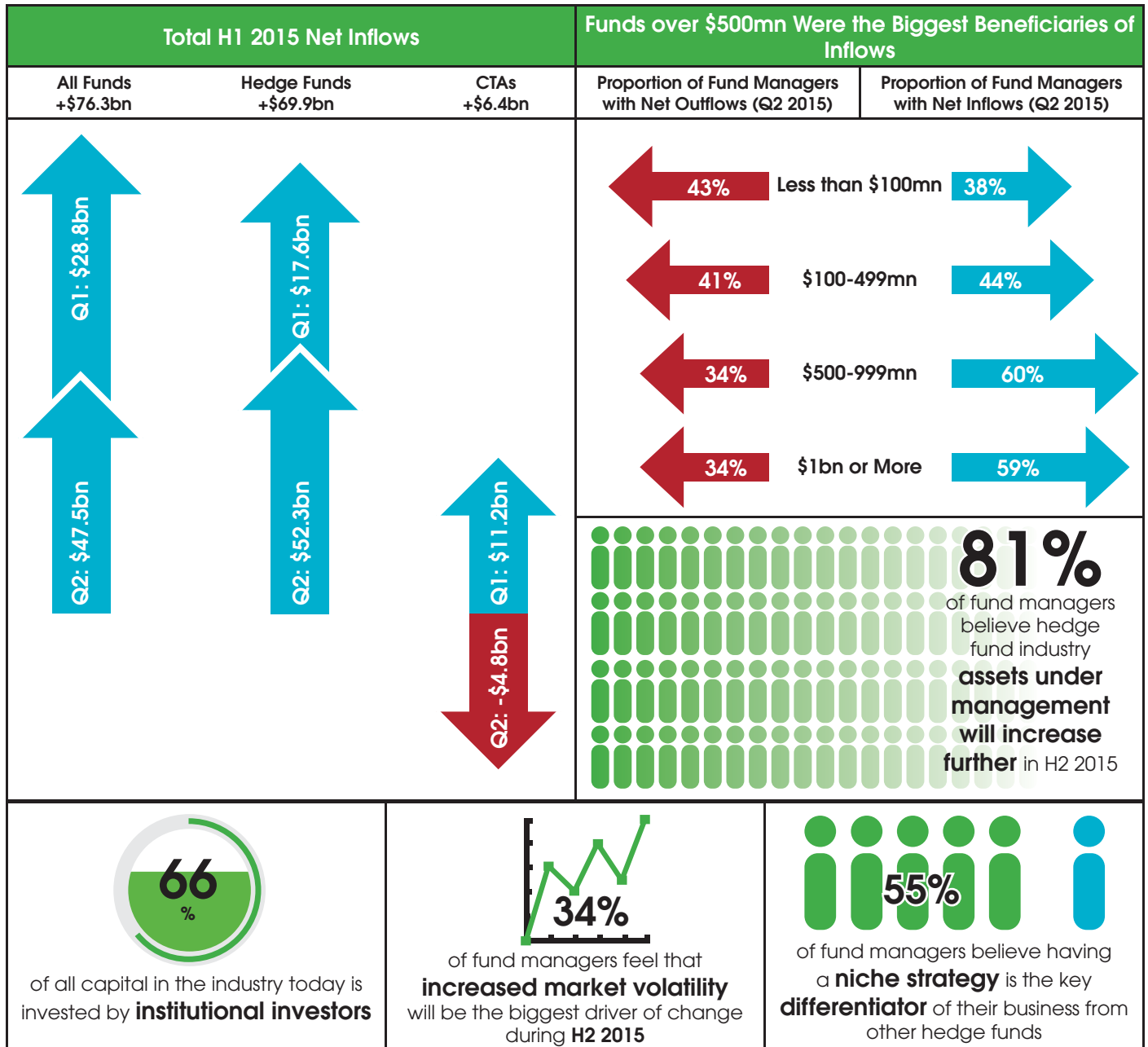
Over 80% of fund managers expect hedge fund industry assets under management to increase during the second half of 2015.



Based on exclusive interviews with over 150 hedge fund managers worldwide



Hedge Fund Manager Outlook



Contents

Hedge Fund Asset Flows in H1 2015	3
The Source of H1 2015 Inflows	4
Outlook on Regulation	5
Drivers of Change in the Hedge Fund Industry	6
Hedge Fund Manager Outlook for H2 2015	7



Hedge Fund Asset Flows in H1 2015

Fig 1: H1 2015 Asset Flows

	Total Net Flows - Q2 2015 (\$bn)	Total Net Flows - H1 2015 (\$bn)	% Net Flows - H1 2015	Proportion of Funds with Net Inflows - Q2 2015
Total Net Flows for H1 2015	47.5	76.3	2.5%	42%
Hedge Funds	52.3	69.9	2.5%	41%
CTAs	-4.8	6.4	3.2%	45%

Source: Preqin

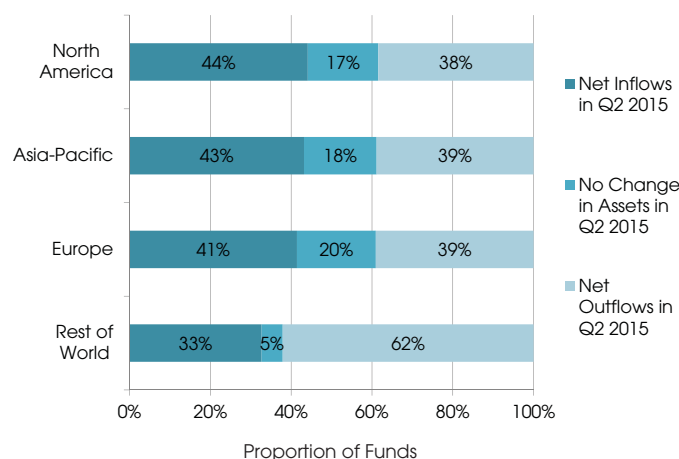
The hedge fund industry saw net inflows of \$47.5bn during the second quarter of 2015, bringing H1 2015 net inflows to \$76.3bn (Fig. 1). CTAs saw outflows of \$4.8bn during Q2; however, with strong performance during the first quarter of 2015, YTD flows are still positive, with \$6.4bn of new capital added to the industry.

Multi-strategy funds saw the greatest proportion of funds receiving a net inflow, with 49% attracting new capital during Q2 2015 and only 32% experiencing a net outflow (Fig. 2). However, only 28% of relative value funds gained new investment during the quarter. In comparison, 44% of relative value strategies saw net outflows over the quarter. The greatest proportion of net outflows were seen within niche strategies, such as asset-backed lending and insurance-linked strategies, with 65% of funds in this group seeing outflows over Q2.

The data shows that a greater proportion of larger funds received net inflows compared to the smaller vehicles, with around 60% of funds already greater than \$500mn in size receiving further net inflows (Fig. 4).

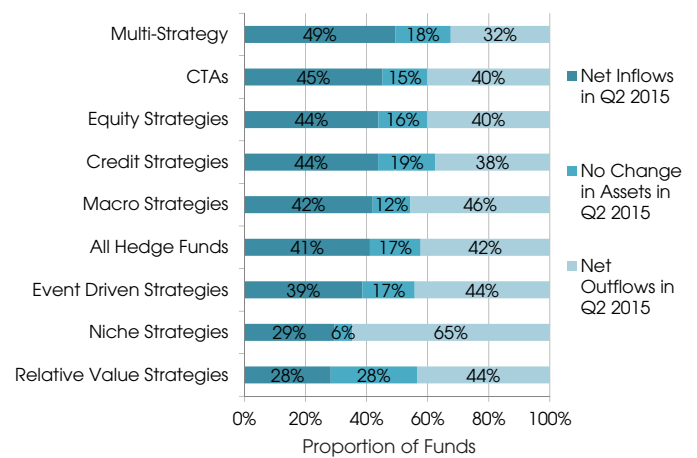
Preqin holds AUM and performance for over 12,200 fund track records. Asset flows are estimated based on a sample of funds with available size and performance data at the start and the end of the period and scaled up based on the proportion of represented capital by strategy, headquarter location and fund size classification respectively.

Fig. 3: Asset Flows over Q2 2015 by Fund Manager Headquarters



Source: Preqin

Fig. 2: Asset Flows over Q2 2015 by Strategy



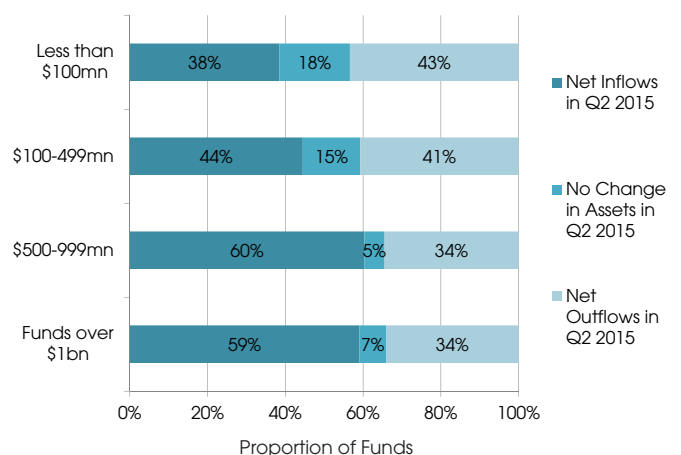
Source: Preqin

Data Source:

Asset flows are estimated using data from Preqin's **Hedge Fund Analyst**, which tracks over 20,000 hedge funds, their performance and their asset growth over time. Used together with Preqin's **Hedge Fund Investor Profiles**, which tracks over 5,000 institutional investors, Preqin can show not only which funds have grown, but the institutional sources of that data.

Find out more information at: www.preqin.com/hedge

Fig. 4: Asset Flows over Q2 2015 by Fund Size



Source: Preqin



The Source of H1 2015 Inflows

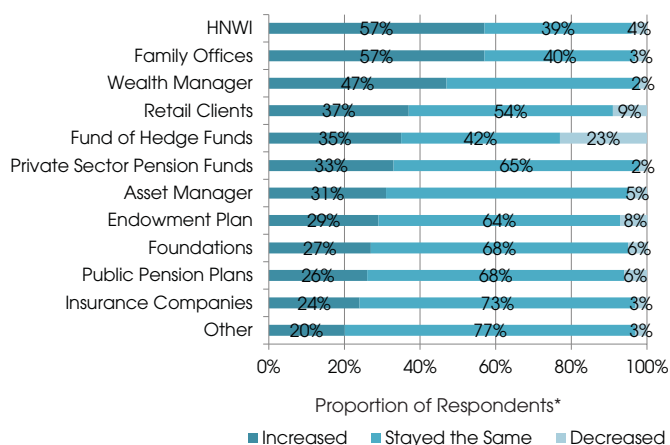
Preqin's latest survey of hedge fund managers reveals that 66% of capital in the industry today is invested by institutional investors. Previous Preqin research showed that 92% of all the capital invested in hedge funds is concentrated in the 570+ firms with \$1bn or more in assets under management. Sixty-nine percent of this capital in the \$1bn Club of the largest firms is sourced from institutional investors. At the other end of the spectrum, hedge fund managers with less than \$100mn in assets under management largely gain funding from non-institutional sources; just 28% of capital in these funds is from institutional investment.

Despite nearly two-thirds of hedge fund capital originating from institutional investors, nearly 90% of fund managers reported that high-net-worth individuals (HNWI) invest in their funds (Fig. 5). Eighty percent reported that they gain investment from family offices. Fifty-seven percent of both fund managers that have investment from HNWIs or family offices respectively reported that they had seen further inflows from these groups over the first half of 2015, the largest proportion of any investor group (Fig. 6).

Large proportions of those fund managers with capital from wealth managers or retail clients also reported that they had seen further inflows from these groups in H1 2015. Sixty-two percent of fund managers gain investment from funds of hedge funds; 35% of these reported that they had seen an increase in capital coming from this group. Interestingly 23% reported they had seen net outflows from funds of hedge funds over H1 2015, the highest of any group of investor, reflecting funds of hedge funds' shorter investment horizon and more frequent portfolio rebalancing.

Fund managers reported that from the traditional institutional groups of investors it is private sector pension funds that have been the most active in increasing investment in hedge funds in the first half of 2015. A third of all managers that have investment from private pension schemes reported that they had seen inflows from this group, compared to just 2% that reported the opposite.

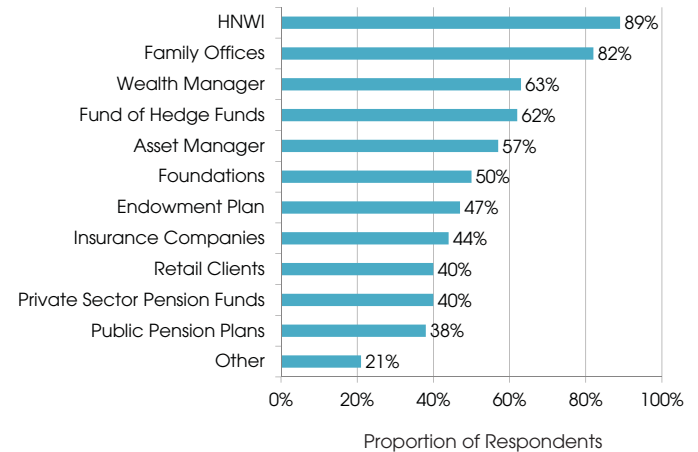
Fig. 6: Change in Allocation from Each Investor Group over H1 2015



Source: Preqin Fund Manager Survey, June 2015

*Proportion of respondents that already have investment from each investor type.

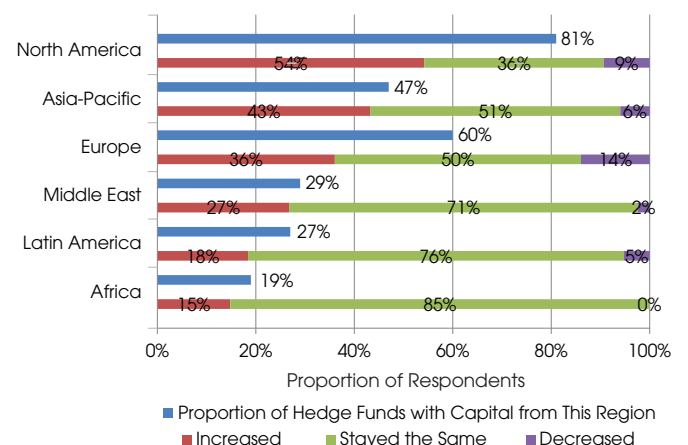
Fig. 5: Proportion of Fund Managers with Investment from Each Investor Group



Source: Preqin Fund Manager Survey, June 2015

Investors based in North America have been the most active in adding more capital to hedge funds in H1 2015 (Fig. 7). More than four in five hedge fund managers have at least one North America-based investor in their fund, and over half of these (54%) have witnessed an increase in assets coming from this region in the first half of the year. In contrast, despite the net movement being in favour of inflows from European investors, fewer fund managers reported they had seen increased assets coming from this region (36%) and more fund managers reported that they had seen outflows (14%) compared to those fund managers with funding from North America. With much uncertainty in Europe, particularly in relation to Greece's ongoing debt problems and its potential exit from the EU, investors in the region appear to be taking a cautious approach to hedge fund investment in 2015.

Fig. 7: Change in Allocation from Investors Based in Each Region over H1 2015



Source: Preqin Fund Manager Survey, June 2015

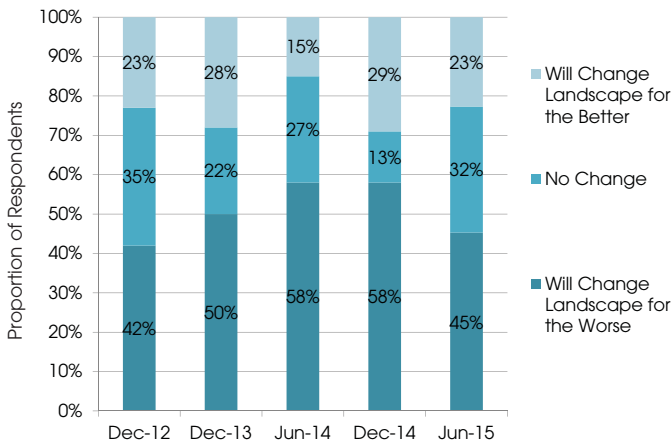


Outlook on Regulation

When looking at regulation as a whole, while the largest proportion of fund managers remain negative about the impact of this on the industry, there has been a drop in the level of negativity over the past six months; the proportion of managers stating that they feel that regulation will change the hedge fund landscape for the worse has decreased from 58% in December 2014 to 45% in June 2015 (Fig. 8). Positive views about the impact of regulation remain in the minority however, with only 23% of fund managers stating that regulation would change the hedge fund landscape for the better.

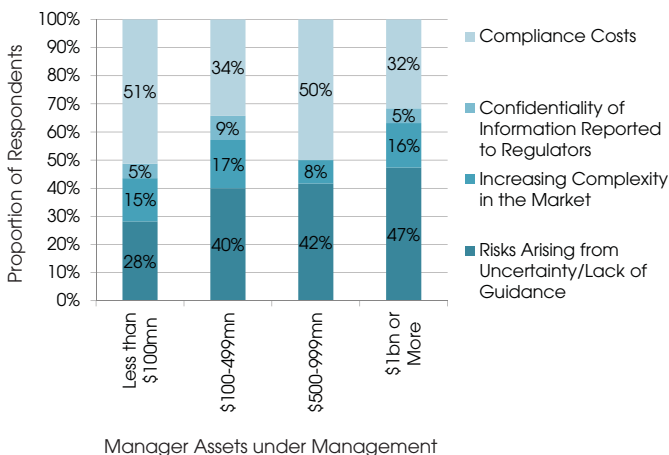
When asked specifically about the Alternative Investment Fund Managers Directive (AIFMD), attitudes varied strongly by geographical location (Fig. 9). European fund managers are the most in favour, with 55% stating that the Directive would have a positive impact on their firm. Managers based in the UK are the most negative; 70% feel that the regulation would have a negative impact on their business. Despite the differences in outlook, compliance in both of these regions is high: 90% of UK-based managers surveyed are already compliant and 82% of European managers are.

Fig. 8: Fund Managers' Perceptions of the Effect of Regulation on the Hedge Fund Landscape, December 2012 - June 2015



Source: Preqin Fund Manager Surveys, 2012-2015

Fig. 10: Funds Managers' Primary Concern Regarding the AIFMD by Manager Assets under Management

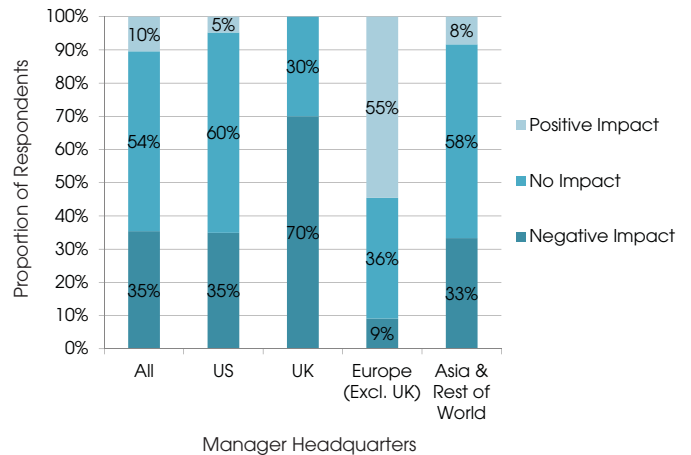


Source: Preqin Fund Manager Survey, June 2015

By contrast, only 15% of US-based fund managers and 25% of managers based in Asia and Rest of World are already compliant. Most commonly, managers are concerned about the cost of compliance and about risks arising from uncertainty and lack of guidance (Fig. 10).

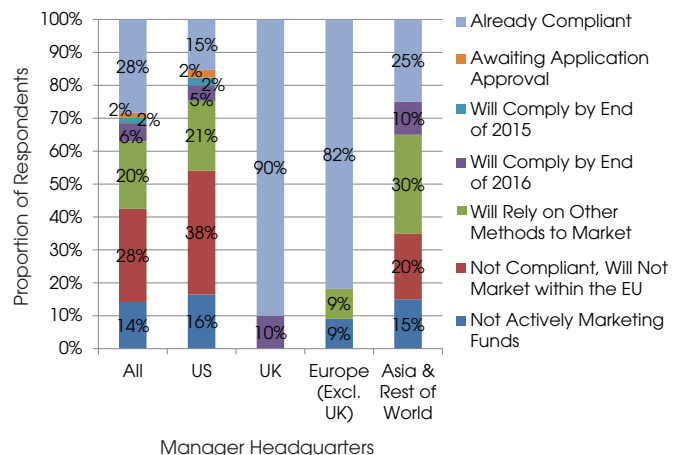
Fifty-four percent of US-based managers and 35% of managers based in Asia and Rest of World had no plans to market in Europe in the near future (see Preqin Special Report: AIFMD in the Hedge Fund Industry). The effect of this could be two-fold. Firstly investors in the EU could be faced with a reduced choice of funds. On the other hand, fund managers based in Europe may see improved fundraising prospects due to reduced competition from funds based outside its shores, which could account for the positive outlook expressed by more than half of European (ex. UK) fund managers regarding the regulation.

Fig. 9: Fund Managers' Perceptions of the Effect of the AIFMD on Their Firm over the Next 12 Months by Manager Headquarters



Source: Preqin Fund Manager Survey, June 2015

Fig. 11: Hedge Fund Manager AIFMD Compliance Status by Manager Headquarters



Source: Preqin Fund Manager Survey, June 2015



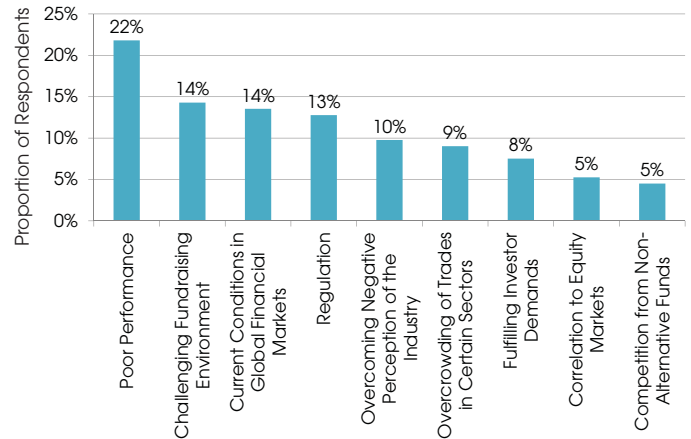
Drivers of Change in the Hedge Fund Industry

Performance is at the forefront of fund managers' minds, with this being the leading challenge identified in the hedge fund industry today (Fig. 12). While hedge funds as a whole have had a strong start to 2015, outperforming the S&P 500 in both Q1 (2.88% vs 0.42%) and Q2 (1.45% vs -0.03%), fund managers have had to contend with challenging market conditions and volatility in many major equity, currency and commodity markets; 14% of fund managers identified market volatility as a key challenge in 2015, the next leading issue cited after performance. With the volatility continuing into the second half of the year, navigating choppy markets is likely to remain a key challenge, and opportunity, for the rest of 2015. Fund managers agree: 56% of hedge funds reported that this would be the key driver for change in the second half of 2015. Fund managers also reported that fundraising remains difficult, while regulation and overcoming the negative perception of hedge funds were cited as other challenges they face in 2015.

Increased demands from investors are also expected to drive changes in the second half of the year. Forty-one percent of managers surveyed said that they believe investor demand for greater transparency around risk and performance will have an impact and 37% of fund managers said that they expect further pressure to lower their fees (Fig. 13). Despite these challenges, fund managers are confident about the level of investor demands for hedge fund strategies; 37% said that they expect to see increased investor appetite for hedge funds and other alternative strategies in the second half of 2015.

In response to challenges of both performance and fundraising, hedge fund managers are adapting their business models (Fig. 14). Forty-seven percent of fund managers expect to introduce at least one of the changes listed over the course of the next year. One of the responses to the performance challenge has been to diversify, with 18% of managers expecting to add new

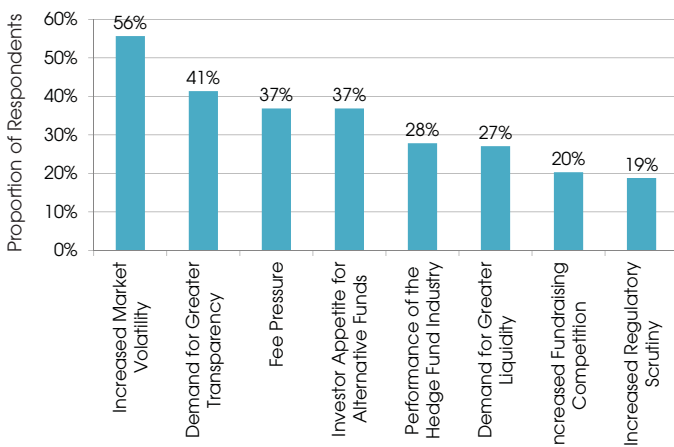
Fig. 12: Fund Managers' Perceptions of the Key Challenge in the Hedge Fund Industry Today



Source: Preqin Fund Manager Survey, 2015

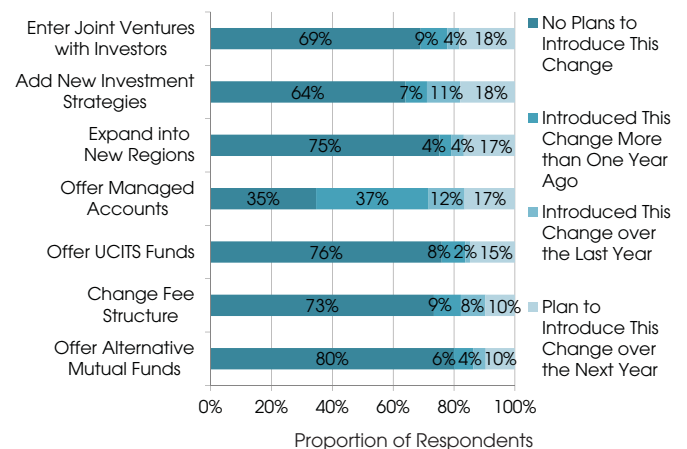
investment strategies with in-house resources in the next year. Others are opting for joint ventures with investors, such as offering seed investors stakes in the business or offering co-investment opportunities, as a means of attracting investors and gaining long-term commitments. The greater control offered by managed accounts can also serve to attract larger investors; 49% of fund managers surveyed already offer managed accounts alongside their funds and a further 17% plan to begin offering these within the next year.

Fig. 13: Fund Managers' Perceptions of the Key Drivers of Change in the Hedge Fund Industry During H2 2015



Source: Preqin Fund Manager Survey, 2015

Fig. 14: Product and Investment Changes Made by Fund Managers in Response to Industry Change



Source: Preqin Fund Manager Survey, 2015



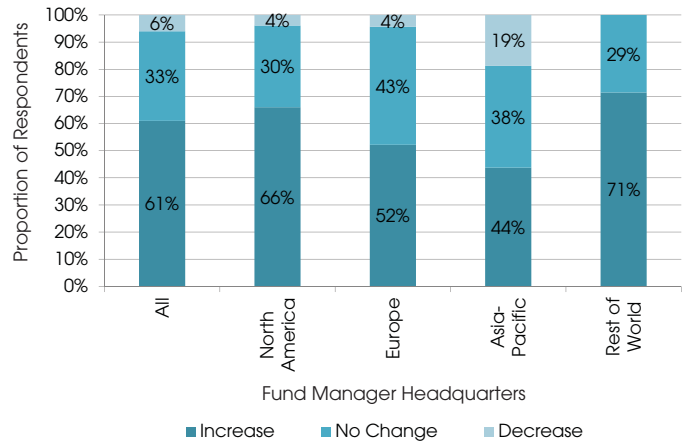
Hedge Fund Manager Outlook for H2 2015

The majority (61%) of all the fund managers that participated in the Preqin study believe that the level of competition for investor capital has increased over the past 12 months (Fig. 15). However, there are some clear differences between fund managers in different regions; nearly two-thirds of fund managers in North America reported that they have seen more competition in the past year, compared to 52% of managers in Europe and 44% in Asia-Pacific. In contrast, nearly a fifth of all fund managers in Asia-Pacific have seen a drop in the level of competition for assets in the past year, compared to just 4% of those firms headquartered in both Europe and North America respectively.

With fund managers finding fundraising challenging, and over 60% of hedge fund firms reporting an increase in the level of competition for investor capital, Preqin looked at how fund managers differentiate themselves in order to gain the attention of potential investors. When ranking the most important way they can differentiate themselves from the 5,500 other fund managers seeking investor capital today, managers rated having a niche strategy as the best way to get the attention of a prospective investor (Fig. 16). For the remaining 45% of fund managers, factors such as being transparent, having superior investor relations teams, having significant levels of 'skin in the game' and possessing a proven track record rated relatively highly. However, these managers were largely split in how they differentiate themselves, and the need to have a differentiated strategy from the competition as well as an innovative departure from traditional strategies, is by far the agreed upon way for a hedge fund to stand out.

Despite the challenges the industry faces in 2015, the Preqin study has captured the optimism within the hedge fund industry today. Eighty-one percent of the participants are anticipating inflows over the rest of the year, and for an increase in industry AUM over H2 2015 (Fig. 17).

Fig. 15: Fund Managers' Views on the Level of Competition for Investor Capital Compared to 12 Months Ago



Source: Preqin Fund Manager Survey, 2015

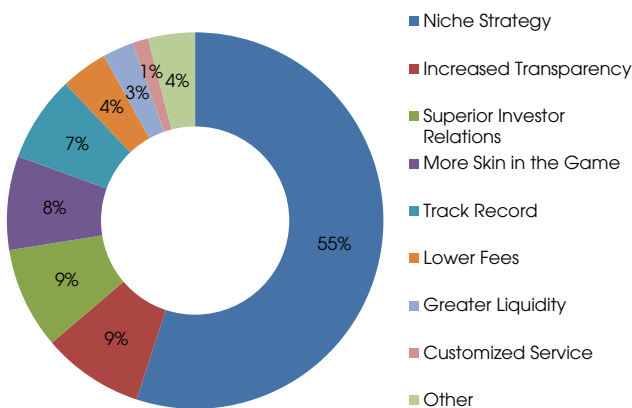
Data Source:

Preqin's survey reveals that fund managers are finding raising capital a challenge. **Hedge Fund Investor Profiles**, which tracks 5,000 institutional investors, can help pinpoint those investors that are seeking investment today.

Register for a demo and discover how Preqin can help meet your fundraising goals:

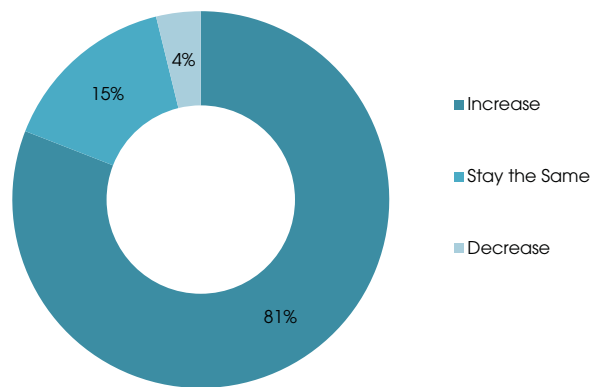
www.preqin.com/demo

Fig. 16: Fund Managers' Perception of the Key Differentiator of Their Business



Source: Preqin Fund Manager Survey, 2015

Fig. 17: Fund Manager Outlook on the Change in Hedge Fund Industry AUM over H2 2015



Source: Preqin Fund Manager Survey, 2015

Preqin Special Report: Hedge Fund Manager Outlook August 2015

Preqin: Global Data and Intelligence

With global coverage and detailed information on all aspects of the hedge fund asset class, Preqin's industry-leading Hedge Fund Online service keeps 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 5,000 institutional investors actively investing in hedge funds, including insurance companies, pension funds, family offices, foundations, wealth managers, endowment plans, banks, fund of hedge funds 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.

View detailed profiles of service providers

Search for active administrators, custodians, prime brokers, auditors and law firms by type and location of funds and managers serviced. Customize league tables of service providers by type, location of headquarters, and total known number of funds serviced.

If you want any further information, or would like to request a demo of our products, please contact us:

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:

3rd Floor
Vintners' Place
68 Upper Thames Street
London
EC4V 3BJ

Tel: +44 (0)20 3207 0200
Fax: +44 (0)87 0330 5892

Singapore:

One Finlayson Green
#11-02
Singapore 049246

Tel: +65 6305 2200
Fax: +65 6491 5365

San Francisco:

One Embarcadero Center
Suite 2850
San Francisco
CA 94111

Tel: +1 415 316 0580
Fax: +1 440 445 9595

For more information on how Preqin's hedge fund online services can help you, please visit:

www.preqin.com/hedge

Email: info@preqin.com
Web: www.preqin.com