



PREQIN SPECIAL REPORT: **HEDGE FUND MANAGER OUTLOOK**

H2 2017

FOREWORD

In June 2017, Preqin surveyed 140 hedge fund managers from across the globe to find out more about their experiences in 2017 so far and their outlook for the rest of the year. Our study looks at fundraising in the first half of the year and managers' expectations for H2 2017, their outlook on performance, the key drivers of returns in the hedge fund industry, investors' perception of the industry and managers' plans for H2 2017. Here we present some of the key findings of our study:

FUNDRAISING CHALLENGES ARE EASING GLOBALLY AS FLOWS TURN POSITIVE

Our study reveals that just 30% of hedge fund managers believe the fundraising environment is more challenging than it was a year ago; in comparison, in June 2016 nearly half of all fund managers reported that fundraising had become more difficult. As a result, we have seen inflows of \$25bn over the first half of 2017. However, fund managers are taking a rather bearish stance to flows over the rest of the year: the largest proportion (69%) believe that over H2 2017 flows will be either flat or negative. See page 4 for more information.

IMPROVED PERFORMANCE DRIVES INCREASED CONFIDENCE FROM MANAGERS

Two-thirds of fund managers reported to Preqin that they have met or beaten their funds' return objectives over the 12 months to June 2017; one year ago, only half of managers reported this. The 12-month return of the Preqin All-Strategies Hedge Fund benchmark stands at 11.00% as at June 2017; in comparison, in June 2016 the 12-month return was negative at -0.64%. The market rally following President Trump's election success has had the largest impact on hedge fund returns in the past year; 79% of fund managers reported that this had affected their performance, nearly 80% of these positively. See page 6 for more information.

POOR INVESTOR PERCEPTION OF HEDGE FUNDS REMAINS A CHALLENGE AND IS LEADING TO CHANGE IN THE INDUSTRY

Despite an improved returns environment and positive asset flows indicating investor concerns may be declining, fund managers reported that investors remain largely negative in their attitudes towards hedge funds. Overcoming investor concerns around hedge funds is one of the leading challenges fund managers reported – central to this is the issue of fees. The hedge fund managers Preqin surveyed in June 2017 revealed that investors' demand for more favourable fees is the leading driver of change in the industry at present. With performance improving, hedge fund managers are looking to address the fee issue in order to overcome some of the negativity reported by investors. See page 7 for more information.

We hope that you find this report useful, and welcome any feedback you might have. For more information, please visit www.preqin.com or contact info@preqin.com.

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Outlook for the Rest of 2017

HEDGE FUND ONLINE

Hedge Fund Online is Preqin's flagship hedge fund information resource, incorporating all of our hedge fund data, intelligence and functionality, providing you with the most comprehensive coverage of the asset class available.

Get in touch today to arrange a demo of Hedge Fund Online: ✉: info@preqin.com | 🌐: www.preqin.com/hedge

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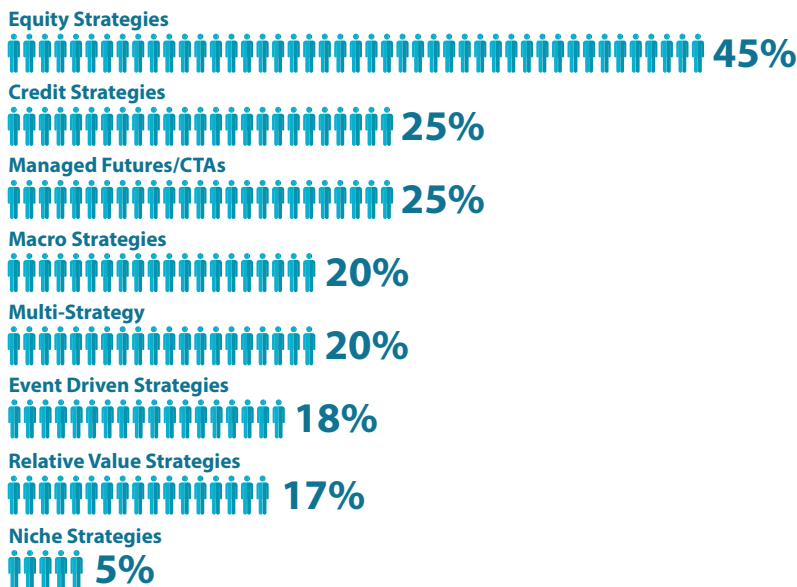


ABOUT THIS SURVEY

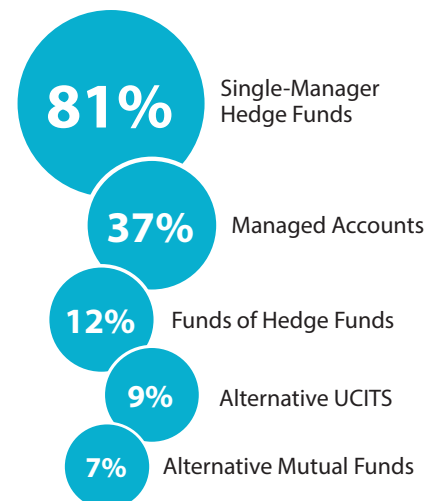
Preqin conducts two surveys of hedge fund managers per year. Survey recipients are selected from Preqin's database of 6,000+ hedge fund managers and the respondents are representative of the wider industry. Fund managers participate in the survey on an anonymous basis.



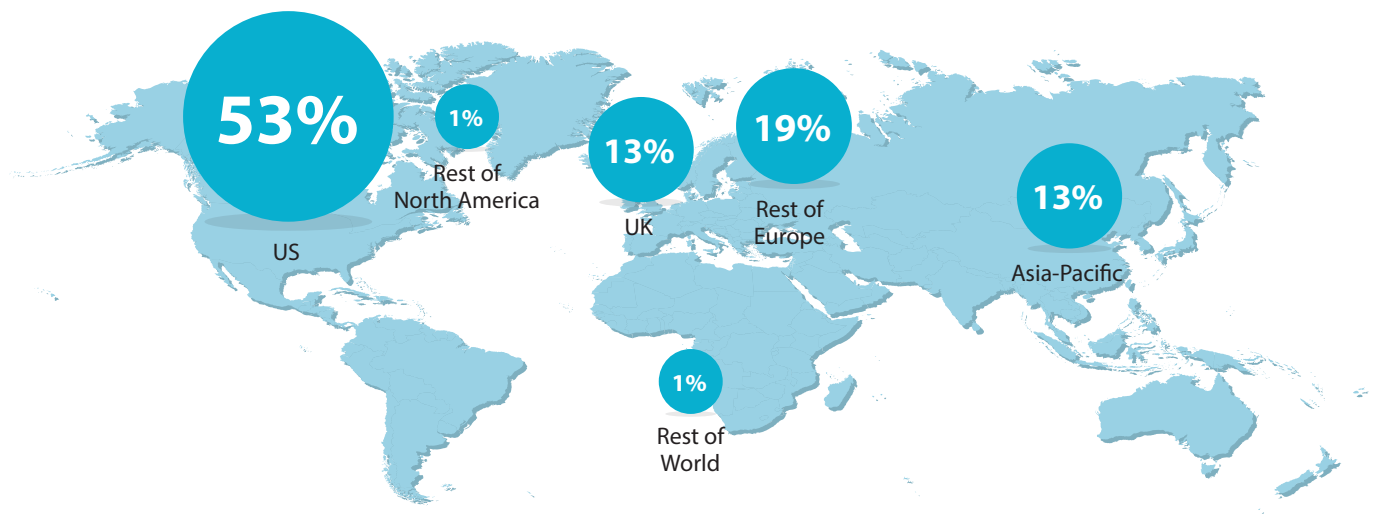
STRATEGIES OFFERED BY RESPONDENTS



PRODUCTS OFFERED BY RESPONDENTS



GEOGRAPHIC DISTRIBUTION OF RESPONDENTS

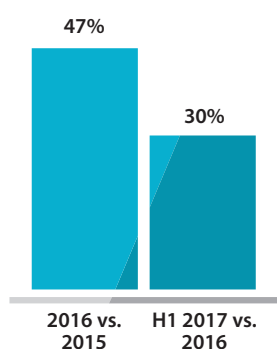


FUNDRAISING IN 2017

	ALL HEDGE FUNDS	EQUITY STRATEGIES	MACRO STRATEGIES	EVENT DRIVEN STRATEGIES
TOTAL SIZE	\$3.38tn	\$849bn	\$1.01tn	\$192bn
ASSET FLOW	+\$25bn	-\$22bn	+\$14bn	+\$9.1bn

Following five successive quarters of outflows, hedge fund asset flows turned positive in Q1 2017, with investors putting \$20bn in fresh capital to work in the asset class at the start of the year. These flows continued in the second quarter and across H1 2017 hedge funds recorded +\$25bn in net flows and, aided by an extended run of industry-wide positive performance, assets under management (AUM) grew to \$3.38tn, a record high.

PROPORTION OF FUND MANAGERS THAT BELIEVE FUNDRAISING IS MORE CHALLENGING



With this return to inflows, fund managers have found the fundraising challenges easing at the start of 2017. Nearly half (47%) of those surveyed in June 2016 reported that fundraising had become more difficult over that year; in H1 2017, a significantly smaller proportion (30%) reported that fundraising was more challenging compared to 2016. Correspondingly, 60% of managers surveyed in June 2017 reported that their own firm AUM had increased over H1 (Fig. 1).

“ In H1 2017, hedge funds recorded +\$25bn in net flows

Institutional investors continue to be a vital source of capital for hedge fund managers. Preqin estimates that 58% of all capital invested in hedge funds is sourced from institutional investors – a level unchanged from our previous study of fund managers at the end of 2016. There has been much focus on the actions these investors have

taken regarding their investments in hedge funds after a handful of \$1bn-plus allocators decided to reduce or eliminate their exposure to the asset class over the past couple of years. Therefore, the fact that 96% of fund managers have reported that the proportion of capital coming from these investors has remained steady or increased over the first half of the year may reveal that some of these concerns are unfounded.

PROPORTION OF HEDGE FUND INDUSTRY CAPITAL COMING FROM INSTITUTIONAL INVESTORS

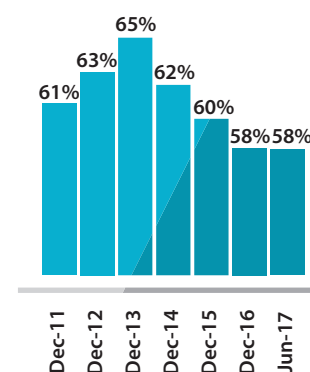
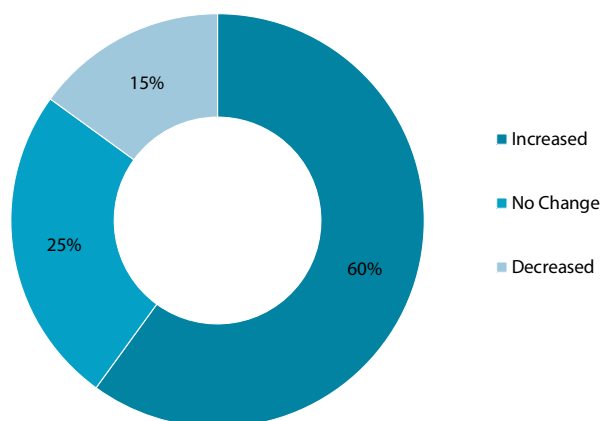
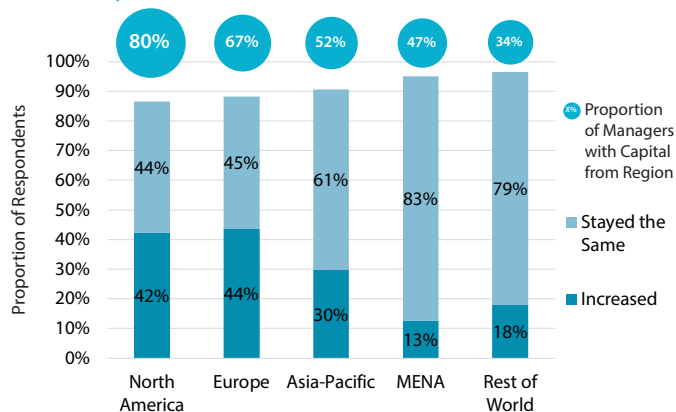


Fig. 1: Hedge Fund Managers' Reported Change in AUM over H1 2017



Source: Preqin Hedge Fund Manager Survey, June 2017

Fig. 2: Hedge Fund Managers' Reported Change in AUM over H1 2017 by Investor Location



Investor Location

Source: Preqin Hedge Fund Manager Survey, June 2017



	CREDIT STRATEGIES	RELATIVE VALUE STRATEGIES	MULTI-STRATEGY	CTAs
TOTAL SIZE	\$238bn	\$356bn	\$448bn	\$266bn
ASSET FLOW	-\$9.5bn	+\$7.8bn	+\$4.8bn	+\$18bn

Fund managers found fundraising success in North America and Europe in H1 2017: 42% and 44% of managers that have investors in these regions respectively reported that the amount of capital coming from these investors had increased over the first six months of the year (Fig. 2). In comparison, just 14% and 11% reported that the level of capital from North America- and Europe-based investors respectively had fallen. Although fewer fund managers have seen increased capital from investors located in other regions globally, our study reveals that many hedge funds have gained investment from investors all over the world; for instance, approximately half (52% and 47%) of fund managers have investors based in Asia-Pacific and MENA respectively.

“Preqin estimates that 58% of all capital invested in hedge funds is sourced from institutional investors”

Despite a good start to the year in regards to asset flows and fundraising, hedge fund managers have a relatively cautious outlook on the year ahead. The largest proportion (39%) of fund managers believe asset flows will be negative over the rest of the year, despite the return to inflows at the start of 2017 (Fig. 3). However, in an uncertain environment, this outlook is decidedly mixed: a further 30% believe asset flows will be neutral and 31% positive.

When it comes to industry AUM, currently at record highs, fund managers again show a rather mixed outlook. With the combination of performance and flows impacting the size of the industry, the largest proportion (43%) of hedge funds believe industry AUM will remain relatively stable over the second half of the year (Fig. 4). However, slightly more fund managers (32%) believe AUM will increase further over the rest of the year than those that believe it will decline (25%).

“The largest proportion (43%) of hedge funds believe industry AUM will remain relatively stable over the second half of the year”

96% OF FUND MANAGERS RECEIVED THE SAME AMOUNT OR MORE CAPITAL FROM INSTITUTIONAL INVESTORS IN H1 2017 COMPARED TO 2016

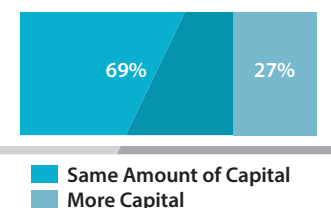
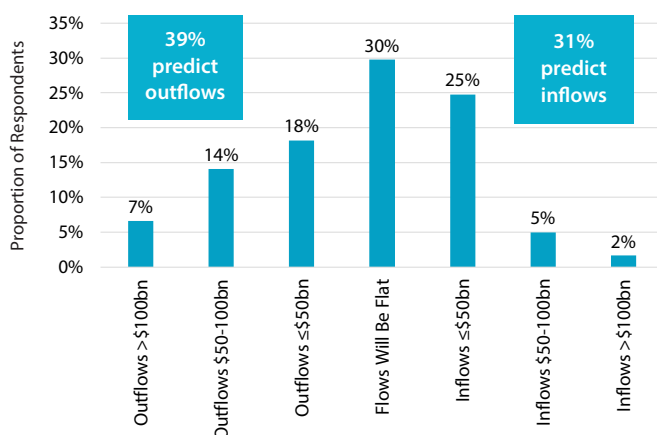
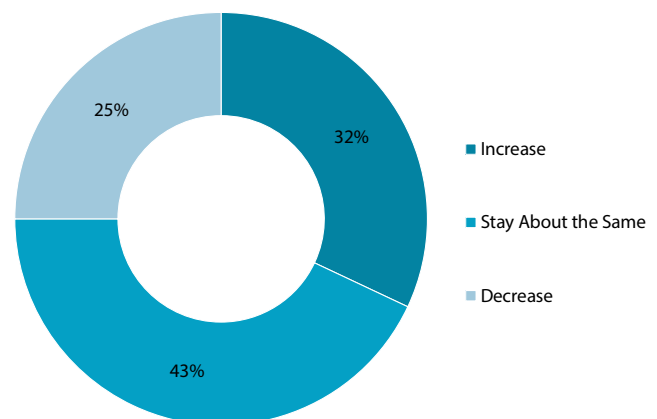


Fig. 3: Hedge Fund Manager Predictions for Asset Flows over H2 2017



Source: Preqin Hedge Fund Manager Survey, June 2017

Fig. 4: Hedge Fund Manager Predictions for Industry AUM over H2 2017



Source: Preqin Hedge Fund Manager Survey, June 2017

PERFORMANCE IN H1 2017


2 in 3

fund managers reported that their return goals had been exceeded in H1 2017.


36%

of fund managers see performance as the leading challenge in the industry.


6.00%

is the mean 2017 full-year return expected by hedge fund managers.

	2017 YTD	12 MONTHS
EVENT DRIVEN STRATEGIES	4.97%	14.06%
EQUITY STRATEGIES	6.37%	13.51%
CREDIT STRATEGIES	5.88%	11.71%
HEDGE FUNDS	5.00%	11.06%
MULTI-STRATEGY	5.04%	9.59%
RELATIVE VALUE STRATEGIES	1.98%	5.66%
FUNDS OF HEDGE FUNDS	2.17%	5.07%
MACRO STRATEGIES	0.81%	3.66%
CTAs	-0.53%	-2.62%

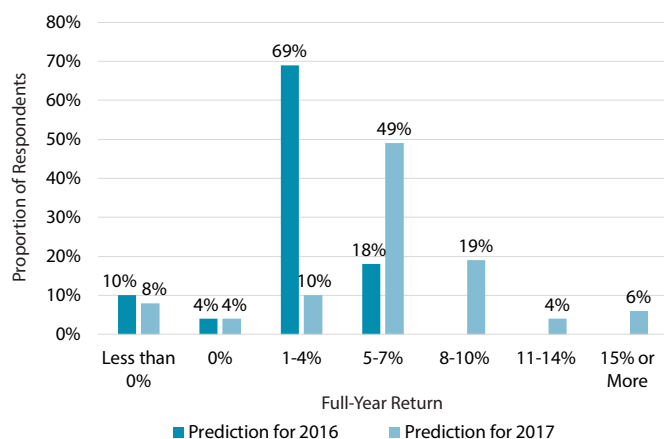
Performance remains at the core of the discussion around the future of hedge funds. However, hedge funds have enjoyed a relatively strong run of returns: the Preqin All-Strategies Hedge Fund benchmark exceeds 11% over 12 months as at June 2017, with some strategies such as event driven strategies enjoying performance in the mid-teens (+14.06% over 12 months).

Fund managers reported to Preqin that their own performance is improving. In our June survey, 67% of fund managers believed they had met or exceeded their own return goals in H1 2017 – a year ago, in our June 2016 study, this figure stood at just 50%. And they are cautiously optimistic this improved performance will continue: 49% of managers believe the Preqin All-Strategies Hedge Fund benchmark will end the year somewhere between 5% and 7% (Fig. 5; the benchmark is at 5.00% as at June 2017). A year ago, no fund manager predicted it would exceed this level; today nearly a third (29%) believe hedge funds will add gains of 8% or more over the course of the year.

67% of fund managers believed they had met or exceeded their own return goals in H1 2017

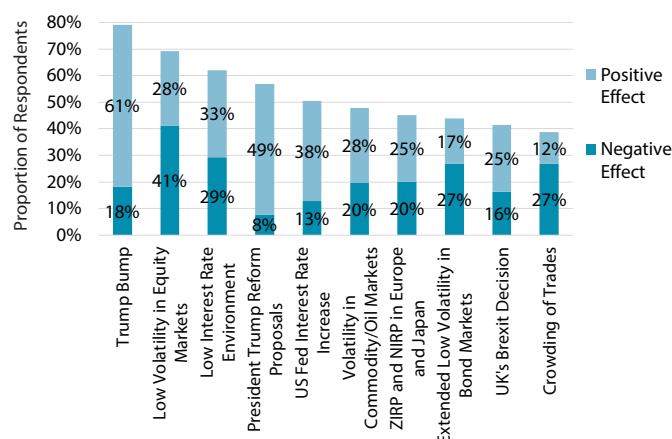
A wide mix of geopolitical and market events have impacted hedge fund performance in H1 2017 (Fig. 6). Political events have largely led to improved hedge fund performance; for instance, the “Trump Bump” – the market rally following President Trump’s electoral victory last November – had the most significant positive impact on the performance of hedge funds globally. In addition, Trump’s reform policies and Brexit have added tailwinds to assist hedge fund performance. On the flipside, the extended period of low volatility in equity markets in a low interest rate environment has been negatively impacting performance more than improving it. However, the decision of the US Fed to increase rates has boosted the returns of nearly 40% of hedge fund managers surveyed in June 2017.

Fig. 5: Hedge Fund Manager Predictions for Full-Year Returns: 2016 vs. 2017



Source: Preqin Hedge Fund Manager Surveys, June 2016 - June 2017

Fig. 6: Leading Drivers of Performance Gains and Losses in H1 2017



Source: Preqin Hedge Fund Manager Survey, June 2017



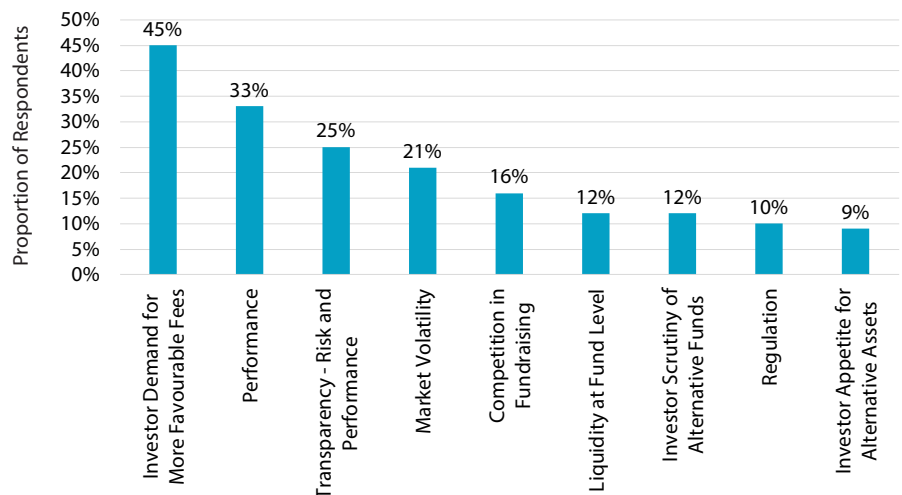
OUTLOOK FOR THE REST OF 2017

In an environment of improved returns, and one that is shifting into positive flows, the largest proportion (47%) of fund managers have a positive outlook on the industry for the rest of the year. However, despite positive signs in regards to both performance and inflows, more fund managers reported that investors have become more negative towards hedge funds over the past year, as compared to those that believe investors have become more positive (36% vs. 24%). With significant numbers of managers reporting that investor sentiment has taken a turn for the worse, it is perhaps unsurprising that the negative perception of the asset class sits among the top three challenges managers face in the industry.

The performance of the hedge fund industry is the leading challenge reported by fund managers (36% of respondents, when asked to select just one challenge). Despite a return to inflows at the start of 2017, significant levels of fund managers continue to report that fundraising is their leading challenge in 2017 (23%). Fees continue to be a leading driver of change in the hedge fund sector: 45% of fund managers reported that investor demand for more favourable fees is the leading pressure driving change in the industry (Fig. 7).

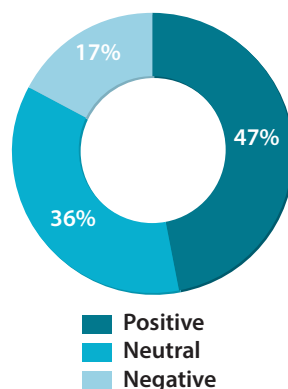
With positive inflows from investors at the start of the year, fund managers are seeing opportunities to launch new funds. Thirty-four percent of managers surveyed by Preqin in June revealed they have a new fund launch planned for H2 2017; 43% of these managers have definite intentions to launch in Q3 2017, and a further 20% in Q4, with the remaining managers unsure as to when they will bring their new fund to market. The largest proportion (28%) of fund managers see opportunities in the credit strategies space (Fig. 8). On the more liquid end of the hedge fund spectrum, 19% of launches planned for H2 2017 will pursue an equity or macro strategies theme.

Fig. 7: Fund Manager Views on the Key Drivers of Change in the Hedge Fund Industry



Source: Preqin Hedge Fund Manager Survey, June 2017

FUND MANAGER OUTLOOK ON THE HEDGE FUND INDUSTRY IN H2 2017



FUND MANAGER VIEWS ON INVESTOR ATTITUDES TOWARDS HEDGE FUNDS COMPARED TO 12 MONTHS AGO

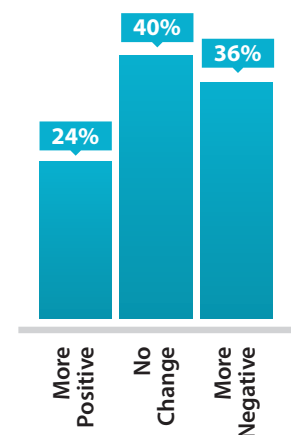


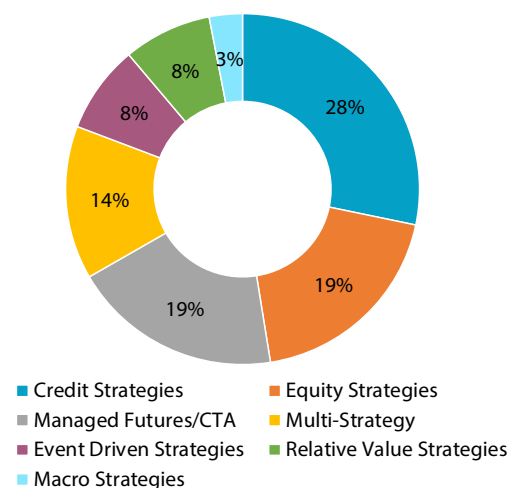
Fig. 8: Strategies Fund Managers Plan to Launch in H2 2017

34%
of respondents plan to launch a new fund in H2 2017

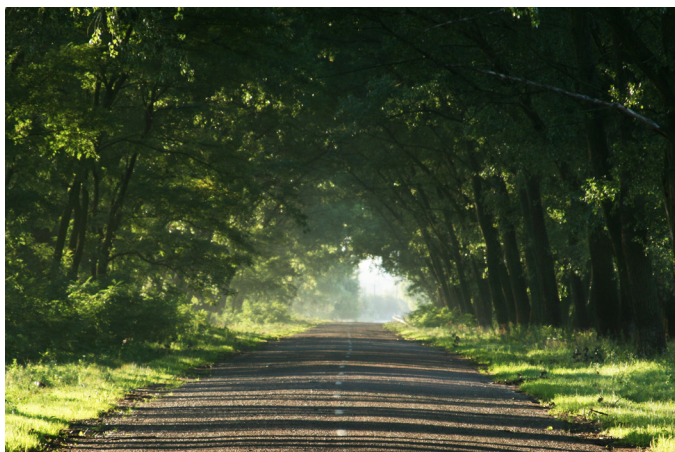
...of which
43%
plan to launch in Q3 2017

...and
20%
in Q4.

The rest are unsure of the timing.



Source: Preqin Hedge Fund Manager Survey, June 2017



PREQIN SPECIAL REPORT: **HEDGE FUND MANAGER OUTLOOK**

H2 2017

PREQIN

Alternative Assets Data & Intelligence

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