Preqin Investor Outlook: Hedge Funds H1 2014

preqin

alternative assets. intelligent data.

Download Data

Foreword

2013 was a record year in terms of investor satisfaction with hedge fund returns, with 84% of investors stating that hedge fund returns met or exceeded expectations over the year. Investors are changing the way in which they include hedge funds in their portfolios and some have adopted different return objectives, targeting low volatility of returns and strong risk-adjusted performance rather than just high levels of performance. Performance remains the key issue in fund selection and redemptions and so it is important managers continue with positive returns in 2014 in order to maintain this investor satisfaction.

This increased optimism with hedge fund returns is set to lead to further inflows into hedge funds from institutional investors in 2014 and beyond. The majority of investors expect to either maintain or increase their hedge fund allocations over both the next 12 months and the longer term. Long/short equity funds look set to be the main winners, with 46% of investors believing that the strategy is presenting good investment opportunities in 2014. Event driven funds are also likely to pick up mandates as a result of positive performance in 2012 and 2013, while investors remain attracted to macro funds due to their benefits in terms of non-correlation and diversification.

A range of different managers could pick up mandates in 2014; the highest proportion of investors are targeting managers with $1-5bn in assets, with the lowest proportion targeting funds with greater than $5bn, suggesting that investors are moving away from simply investing with the largest funds. Investors are willing to consider smaller managers for investment, although they generally expect to see a strong track record; 47% of respondents cited track record as a key factor in manager selection and 45% of investors look for a manager to have a track record of at least three years.

Preqin conducted detailed interviews with 148 institutional investors in December 2013 in order to gauge their feelings towards issues such as performance, regulation, fund terms, future outlook for the industry and more. Here we present a detailed analysis of the key topics affecting hedge fund investors in 2014 and beyond.

Key Facts

84% of investors believed that hedge fund returns met or exceeded their expectations in 2013.

36% of investors believe new hedge fund regulations to be positive, a decrease from 49% in 2012.

92% of investors expect to maintain or increase their hedge fund allocations over the next 12 months.

78% of investors cite performance concerns as a key factor in choosing to redeem from a hedge fund.

50% of investors are looking for improvement in the way performance fees are charged in 2014.

57% of investors expect to target investments with managers in the $1-5bn AUM bracket in 2014.

Contents

Download Data

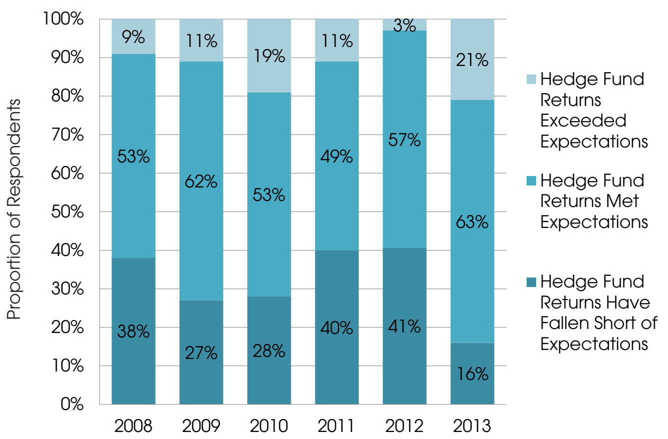
This is an excerpt from **Preqin Investor Outlook: Alternative Assets, H1 2014.**
Read the full report: **www.preqin.com/investoroutlook**

Satisfaction with Returns

Hedge funds are under constant pressure to deliver attractive returns to investors and previous Preqin studies have shown investors to be dissatisfied with the returns provided. However, the latest investor interviews show a more positive outlook and the majority of investors were satisfied with the performance of hedge funds in 2013.

2013 was a record year in terms of investor satisfaction with the performance of hedge funds; collectively, 84% of investors stated that hedge fund returns met or exceeded their expectations in 2013, which is the highest level of satisfaction recorded since Preqin began conducting this study in 2008. Only 16% of investors stated that returns had fallen short of expectations (Fig. 3.1). This is a notable improvement on 2012, when there were high levels of dissatisfaction with the hedge fund asset class, with 41% of investors believing that returns had fallen short of expectations as a result of the unfavourable economic environment and increased volatility in the market at that time. The increase in investor satisfaction is due to positive performance in the second half of 2012 and 2013, and also perhaps as a result of investors adopting more realistic return expectations. The proportion of investors reporting that hedge funds have exceeded expectations also increased from just 3% for 2012 returns to 21% for 2013 returns, again suggesting that hedge funds succeeded in meeting portfolio objectives over the course of the year.

Fig. 3.1: Hedge Fund Portfolio Performance Relative to Expectations of Institutional Investors, 2008 - 2013



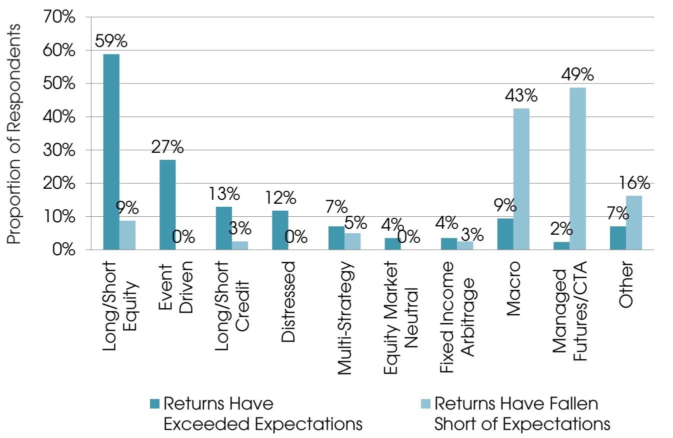
Source: Preqin Investor Interviews, December 2008 - December 2013

Fig. 3.2 shows the specific investment strategies that investors believe exceeded or fell short of expectations in 2013. Directional strategies won favour with institutional investors during 2013, with 59% of investors believing that long/short equity funds had exceeded their expectations, marking a substantial improvement from 2012, when 28% of investors believed the strategy had fallen short of expectations. Event driven was the best performing strategy in 2013 and these funds were also viewed positively by investors, with 27% of the investors we interviewed believing the strategy exceeded expectations in 2013.

In contrast, macro and managed futures/CTA funds struggled to post positive performance in 2013 and this is reflected in investor sentiment, with 43% and 49% of investors stating these strategies had underperformed respectively. Both long/short credit and distressed strategies had a favourable year, with 13% and 12% of investors noting that these strategies had exceeded expectations respectively.

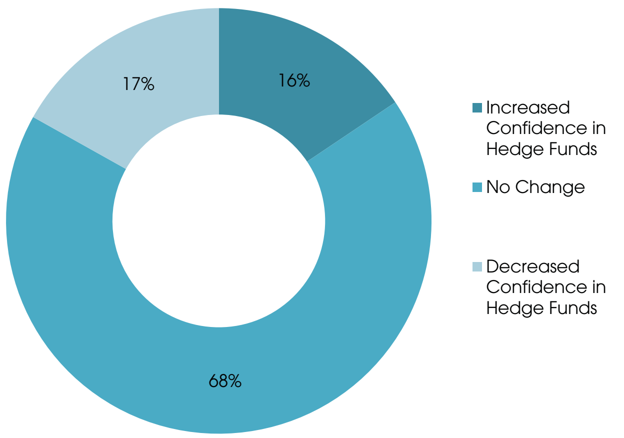
Investor confidence in hedge funds remained relatively unchanged over the course of 2013, with 68% of investors reporting that there had been no change in their confidence in hedge funds to perform portfolio objectives, as shown in Fig. 3.3. Those reporting a change were almost equally split, with 17% reporting decreased confidence in hedge funds and 16% stating that their level of confidence in the asset class had increased.

Fig. 3.2: Hedge Fund Portfolio Performance Relative to Expectations in 2013, by Strategy



Source: Preqin Investor Interviews, December 2013

Fig. 3.3: Change in Investor Confidence in Hedge Funds over the Last 12 Months



Source: Preqin Investor Interviews, December 2013

This is an excerpt from **Preqin Investor Outlook: Alternative Assets, H1 2014**.
Read the full report: **www.preqin.com/investoroutlook**

Download Data

Key Issues and Regulation

There are many important issues affecting investors in hedge funds, including fund performance, regulations and fund terms. Performance remains top of the list in 2014, while an increasing number of investors seem unconvinced of the benefits of recent regulatory changes.

Key Issues Facing the Hedge Fund Industry in 2014

Institutional investors interviewed by Preqin were asked what they felt would be the key issues facing the hedge fund industry in 2014, with the results presented in Fig. 3.4. Performance was the most commonly cited issue with it being mentioned by 30% of respondents; however, this is a decrease from the 47% of investors that stated performance as a key issue in December 2012. Hedge fund performance was largely positive in 2013 and this provided much needed reassurance to investors, which had their confidence had been affected by the poor returns of 2011 and early 2012.

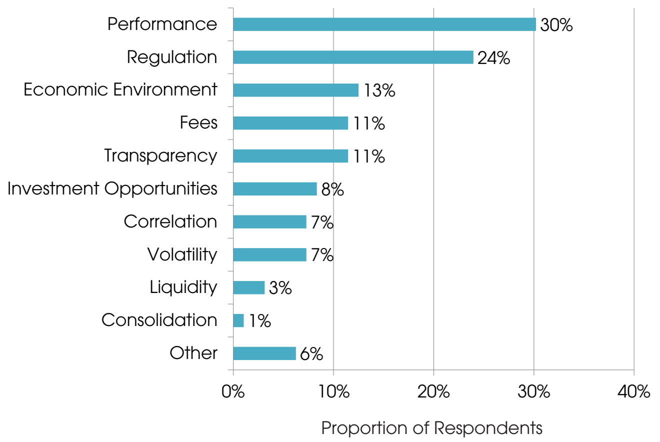
Fees and transparency remain important to investors and some investors are continuing to look for further improvement in these areas, with each of these factors cited as a key issue for 2014 by 11% of respondents. However, these proportions are significantly lower than in previous Preqin studies, suggesting that fund managers have made concessions in these areas in order to appease investors. Thirteen percent of respondents highlighted the current economic environment as an important issue for the hedge fund industry in 2014.

Impact of Regulations on Hedge Fund Investors

Regulation continues to be an important topic of discussion in the hedge fund industry, with 24% of investors naming this as a key issue for 2014, an unchanged proportion from a previous study in December 2012 (Fig. 3.4). There was continuing change in terms of regulation over the course of 2013, including the introduction of the Alternative Investment Fund Managers Directive (AIFMD), and many investors are still waiting to see how they will be affected by the new legislation. There has been a 13 percentage point decrease in the proportion of investors which feel regulation is having a positive effect, from 49% in December 2012 to 36% in December 2013 (Fig. 3.5), with a corresponding 13 percentage point increase in those which are unsure about the impacts of regulation. This increase in investor uncertainty highlights the fact that many investors are still unsure of the full implications of recent regulatory changes and as a result do not see a clear trend for the impact of these regulations in the future.

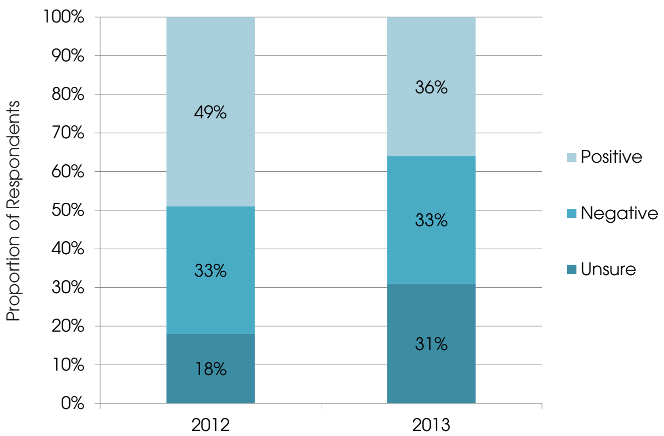
Of those investors that view increased regulation as positive, many believe that having a consistent regulated standard for hedge funds along with more transparent reporting could help them in assessing quality managers. However, a major concern with an increase in regulation is a lack of clarity and some investors fear that this could lead to a tougher environment and a reduction in choice for investors, as some funds are priced out of the market by the costs of compliance. This is something which is particularly true with the AIFMD as a result of each European member state having a different adaptation of the Directive.

Fig. 3.4: Key Issues Facing the Hedge Fund Industry According to Institutional Investors



Source: Preqin Investor Interviews, December 2013

Fig. 3.5: Investor Outlook on Hedge Fund Industry Regulations Introduced in Recent Years, 2012 - 2013



Source: Preqin Investor Interviews, December 2012 - December 2013

Download Data

Investor Activity in 2014

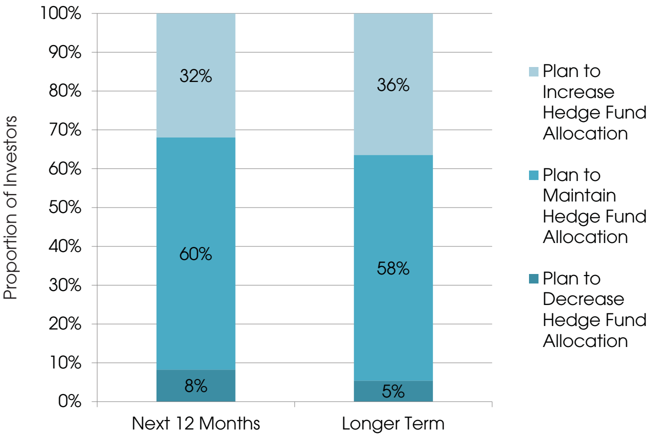
With investor satisfaction with hedge funds reaching record levels in 2013, it is likely that we will see further allocations to the asset class from the institutional community in 2014. The majority of investors interviewed expect to maintain or increase their hedge fund allocations and this should lead to capital flowing into the industry over the coming year.

As shown in Fig. 3.6, 92% of hedge fund investors interviewed expect to either increase or maintain their current allocations to the asset class in 2014. Only 8% of investors intend to reduce their current level of exposure, a noticeable reduction on the 20% of investors which expected to decrease their allocations in December 2012. Many investors are operating at their optimum hedge fund allocation, and activity from institutional investors will remain strong in 2014, which is positive news for hedge fund managers and is likely to lead to additional capital flowing into the industry. A similar pattern emerges in terms of longer term plans for hedge fund allocations, with 36% of investors expecting their allocations to the asset class to increase compared to just 5% that expect it to decrease.

Fig. 3.7 illustrates the breakdown of the amount of capital institutional investors will be looking to commit to hedge funds over the next 12 months. Forty-nine percent of investors will be looking to allocate up to $49mn towards new investments. Although less numerous, the 13% of investors looking to allocate over $500mn to hedge funds are extremely significant both in terms of the amount of capital they will commit and the number of investments they will make. It is these investors that will drive most of the inflows to the industry in 2014. US-based public pension funds, in particular, will contribute to these inflows, with the $24bn Employees' Retirement System of Texas and the $48bn New York City Employees' Retirement System examples of public pension funds that expect to substantially increase their hedge fund allocations in 2014.

Investors are also looking to make allocations to a number of different funds, with 69% of investors which have initiated searches expecting to add at least three new funds to their portfolios over the next 12 months (Fig. 3.8). The majority of active investors are seeking multiple investments in order to reduce risk and increase diversification, rather than placing all of their emphasis on a single fund. This is positive for the hedge fund industry and means that there should be plenty of opportunities for managers to secure institutional capital in 2014 and beyond.

Fig. 3.6: Investors' Intentions for Their Hedge Fund Allocations in the Next 12 Months and the Longer Term



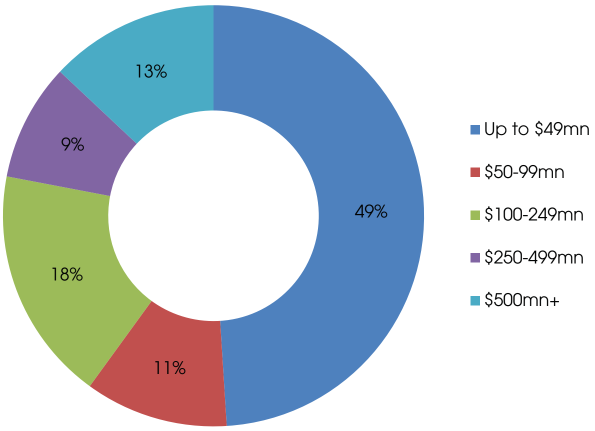
Source: Preqin Hedge Fund Investor Profiles

Track Investor Fund Searches and Mandates

The **Future Fund Searches and Mandates** feature on Preqin's **Hedge Fund Investor Profiles** is the perfect tool to pinpoint those institutions that are seeking new hedge funds for investments now. For more information, please visit:

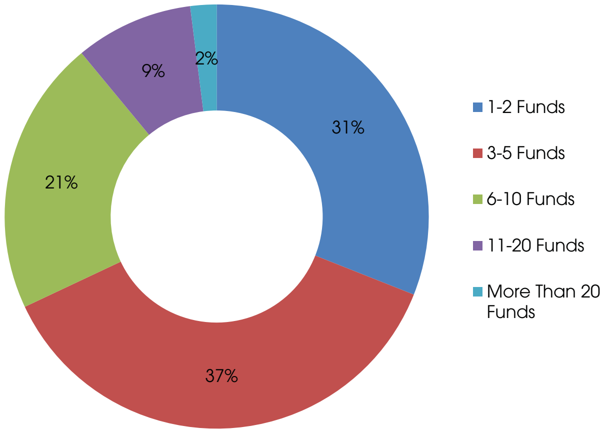
www.preqin.com/hfip

Fig. 3.7: Amount of Fresh Capital Institutional Investors Expect to Invest in Hedge Funds over the Next 12 Months



Source: Preqin Hedge Fund Investor Profiles

Fig. 3.8: Number of Hedge Funds Institutional Investors Expect to Add to Their Portfolios over the Next 12 Months



Source: Preqin Hedge Fund Investor Profiles

Strategies and Structures Targeted

As shown in the previous section, institutional investors are likely to make substantial allocations to hedge funds over the coming 12 months. In this section we analyze the strategies and structures that investors feel are presenting the best opportunities.

Strategies Presenting Good Opportunities in 2014

Investors were asked for their opinion on which hedge fund strategies would present the best opportunities for investment in 2014. Long/short equity funds performed well in 2013 as a result of buoyant equity markets and it seems investors expect this positive performance to continue in 2014, with 46% of respondents stating that the strategy is presenting good opportunities (Fig. 3.9). Event driven funds have also performed well in both 2012 and 2013 and investors seem keen to take advantage of this success, with 22% citing these funds as presenting good opportunities for the year ahead.

Macro funds had an underwhelming 2013 in terms of performance but this has not deterred investors, which remain interested in the strategy due to the benefits that these funds can provide in terms of diversification and uncorrelated returns. These managers will be aiming to improve performance in 2014 and 19% feel that macro funds are currently presenting good opportunities for investment. The outlook is less positive for CTAs, however, with the poor performance of these funds leading to a reduction in investor appetite; just 5% of respondents suggested that the strategy is presenting good opportunities in 2014.

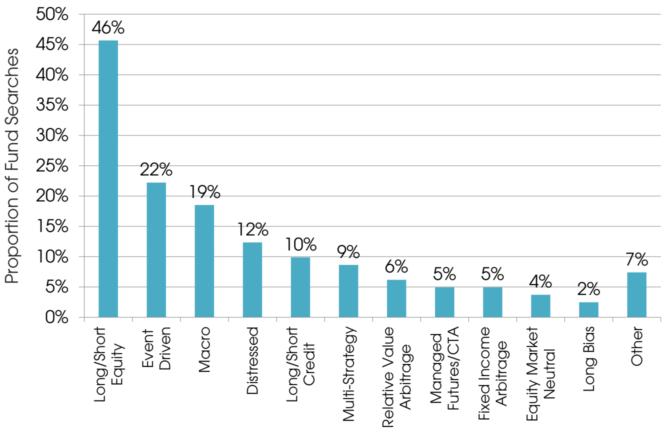
Direct vs. Funds of Hedge Funds

Investing via commingled single-manager hedge funds was the most favoured investment approach in 2013, with more than 85% of searches including this structure. Unsurprisingly, fund of hedge funds managers continue to be a key source of capital for hedge funds, representing 55% of direct investment searches (Fig. 3.10). There was also resurgence in the amount of capital being allocated to hedge funds by private wealth firms over the course of 2013. Family offices and wealth managers combined represent 12% of searches for single managers, a substantial increase from the 6% of searches that these investors represented in the previous year.

Public pension funds are the most receptive to fund of hedge funds structures, with these investors making up 31% of searches for multi-manager funds. There has also been an increased interest in funds of hedge funds from endowment plans and foundations, partly as a result of managers offering access to new niche or customized vehicles. Fourteen percent of searches initiated for funds of hedge funds included a search for managed accounts, which further highlights that there is a desire for greater control from some investors. Typically funds of hedge funds have been associated with newer and less experienced investors, but offering customized portfolios provides an opportunity to attract some more established groups or institutions.

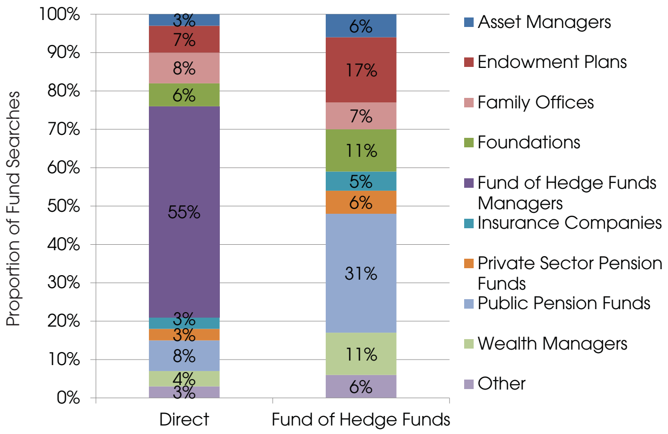
There has also been a demand for UCITS-compliant funds, with 9% of investors targeting this regulated structure, a slight increase from the 7% of searches it represented in 2012. The majority of searches for UCITS funds initiated in 2013 were from European fund of hedge funds managers targeting more transparent and liquid vehicles for the benefit of their investors. The UCITS wrapper will continue to remain a relatively niche preference among hedge fund investors moving into 2014, but it remains a signifier of investor demand for regulated vehicles.

Fig. 3.9: Hedge Fund Strategies Investors Feel Are Presenting the Best Opportunities in 2014



Source: Preqin Hedge Fund Investor Profiles

Fig. 3.10: Breakdown of Investors Searching for Funds of Hedge Funds vs. Direct Investments by Investor Type



Source: Preqin Hedge Fund Investor Profiles

Attracting Investor Capital

With an ever-demanding institutional investor universe, it is vital for fund managers to assess the key factors that are considered in the fund selection process. Performance remains the key issue, but there are a number of other important requirements that hedge fund managers need to take into account in order to attract investment.

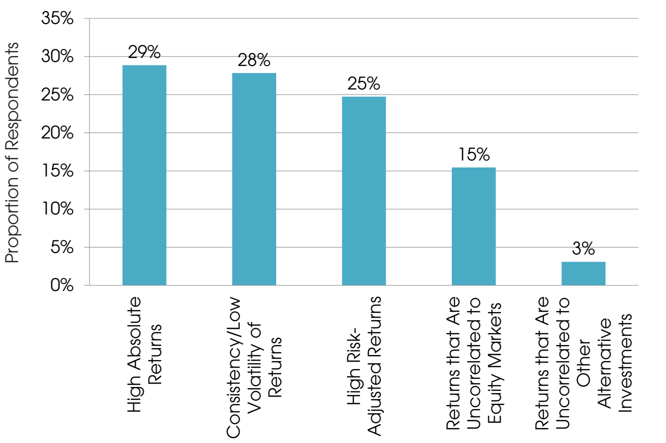
Return Objectives

Investors were asked about their objectives from their hedge fund investments in terms of what type of returns they seek, with the results presented in Fig. 3.11. High absolute returns are a key objective for many investors, with 29% of investors stating this as their primary target. However, many respondents considered other factors aside from absolute returns to be their main priority. A number of institutional investors allocate to hedge funds in order to reduce volatility and risk in their portfolios, and 28% and 25% of investors stated that they target consistency of returns and high risk-adjusted returns respectively. As a result, it is reasonable to conclude that some investors may be forgiving of lower short-term returns if a fund has consistent risk-adjusted performance.

Key Factors in Manager Selection

Fig. 3.12 shows the key factors that institutional investors take into consideration when assessing prospective hedge fund managers. Performance remains the most important factor in the selection process, with returns cited by 48% of investors as a key factor. Investors are also continuing to evaluate potential opportunities critically and value previous experience from fund managers; the presence of an established track record and management experience were the next most commonly mentioned factors, cited by 47% and 43% of investors respectively. As demand for lower volatility of investments and better risk-adjusted returns continues, characteristics such as the risk profile and liquidity profile of funds come into the forefront as key factors; 29% and 20% of investors mentioned these as important criteria respectively.

Fig. 3.11: Investor Return Objectives from Hedge Fund Investments

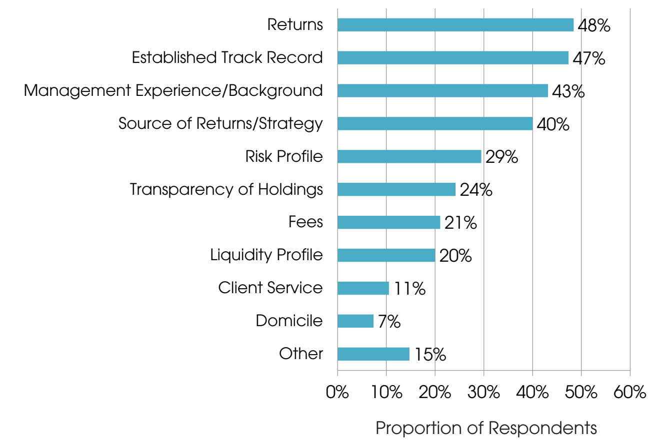


Source: Preqin Investor Interviews, December 2013

Reasons for Redeeming From Hedge Funds

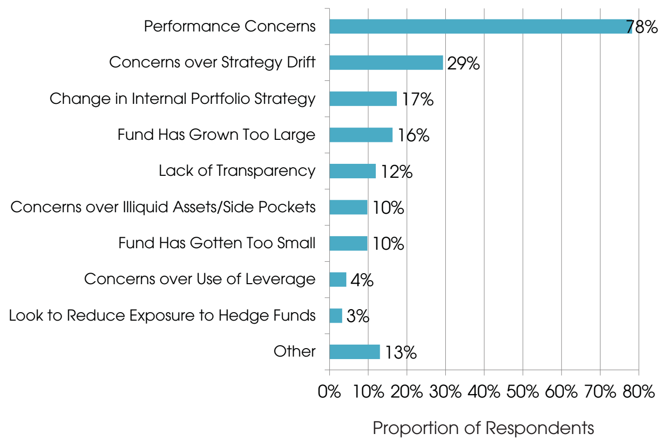
Investors are showing a willingness to redeem and replace managers in their hedge fund portfolios if they feel they are failing to live up to expectations. Poor performance is by far the most common reason for investor hedge fund redemptions, with 78% of investors interviewed stating this as a key reason for withdrawing capital from a fund (Fig. 3.13). Investors also expect funds they invest with to stick to a clearly defined strategy; 29% of investors mentioned concerns over fund strategy drift as a reason for redeeming an investment. Other factors contributing to redemptions were mentioned by a smaller proportion of investors, including a change in internal portfolio strategy (17%), funds becoming too large (16%) and a lack of transparency (12%).

Fig. 3.12: Key Factors Used by Institutional Investors to Evaluate Hedge Fund Managers



Source: Preqin Investor Interviews, December 2013

Fig. 3.13: Institutional Investors' Reasons for Exiting Hedge Fund Investments



Source: Preqin Investor Interviews, December 2013

Fees and Alignment of Interests

Fund terms and conditions remain an important consideration for investors when choosing a fund for investment. Fund managers must listen to the demands of investors and improve the alignment of interests, or risk losing out on valuable capital from these allocators.

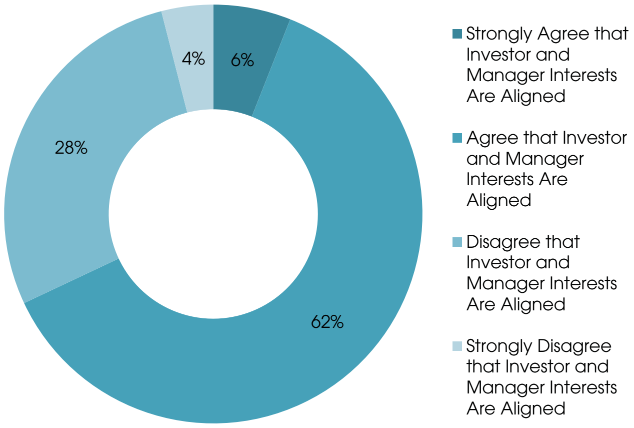
The trade-off between the needs and objectives of an institutional investor with those of the fund managers which invest their money has been a long-standing source of negotiations between the two groups. The majority of investors are currently satisfied with the fund terms being offered, with 62% of investors agreeing that investor and manager interests are aligned and a further 6% strongly agreeing that this is the case (Fig. 3.14). Just under a third of investors feel that interests between fund managers are not aligned; therefore, there is continued work needed from the fund management community to convince these investors that their interests are considered.

In terms of how the alignment of interests has changed over the past 12 months, the majority of investors (58%) stated that there had been no significant change (Fig. 3.15). However, there has continued to be a shift in the number of investors seeing concessions in their favour, with 36% of investors seeing a slight change in favour of the investor in 2013, compared to 26% in 2012. Managers are continuing to be willing to enter into negotiations over fund terms and conditions with investors in order to harmonize their own interests with those of the investor; just 5% of investors reported seeing a shift towards managers over the course of 2013.

The fees being charged by hedge fund managers continues to be the principal issue for many investors, with the '2&20' fee structure no longer being universally accepted. Investors have noted some improvement in terms of the fees being charged by managers, with 59% and 47% of investors noting an improvement in management fees and performance fees respectively in 2013 (Fig. 3.16). However, some investors still feel there is room for further improvement, with 45% and 43% of investors looking for improvements in the levels of management fees and performance fees charged respectively in 2013. However, this is a notable reduction on the 55% and 58% of investors respectively that were looking for further improvements in these areas in 2012.

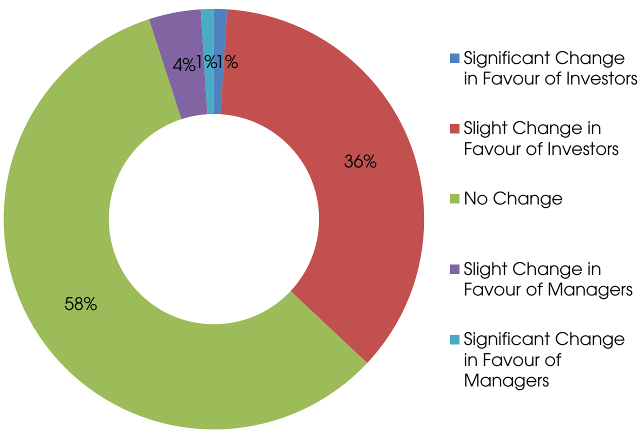
A key area where investors are looking for improvement is in how performance fees are charged, with 50% of investors seeking changes in how performance fees are structured. Investors feel that they should only be paying fees when fund performance justifies this; factors such as claw-back provisions can help protect investors from prolonged spells of poor performance, and managers should reconsider both how and how often they charge performance incentives in order to convince those investors which are sceptical of the current system.

Fig. 3.14: Investor Opinion on the Alignment of Interests between Investors and Managers



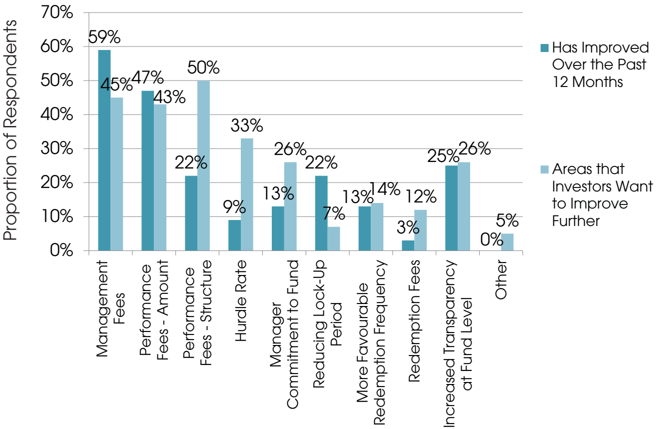
Source: Preqin Investor Interviews, December 2013

Fig. 3.15: Investor Opinion on Changes in the Alignment of Interests between Investors and Managers over the Past 12 Months



Source: Preqin Investor Interviews, December 2013

Fig. 3.16: Areas of Fund Terms Investors Feel Have Shown the Most Improvement over the Past 12 Months and that Need to Improve Further in 2014



Source: Preqin Investor Interviews, December 2013

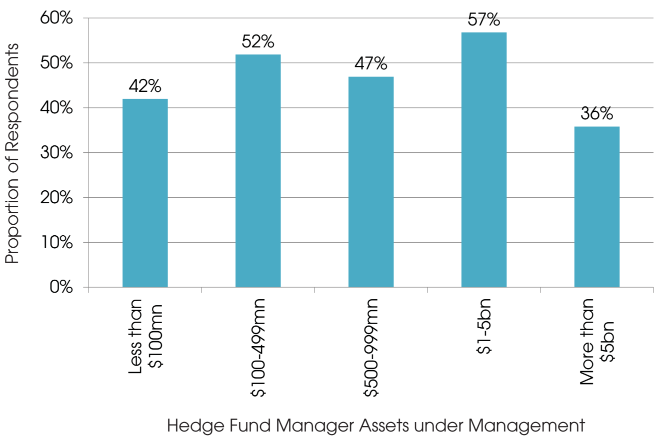
Size and Track Record Requirements

Extra-large hedge funds have been the biggest winners in recent years as investors look for the perceived security associated with investing in established firms. However, smaller funds are now being considered by investors and we could see a broad range of managers pick up mandates in 2014.

Sizes of Managers Being Targeted in 2014

Much of the capital inflow over the past few years has been to just the largest hedge funds in the industry, and as a result it has been difficult for smaller funds to gain traction from the institutional market. With this in mind investors were asked about the sizes of hedge fund managers they were likely to consider for investment in 2014, with the results presented in Fig. 3.17. Track record and management experience are attractive characteristics for many hedge fund investors, and the largest number of investors (57%) stated that they expect to invest with managers with assets under management of between $1bn and $5bn in 2014. However, the size category with the lowest proportion of investor interest was for managers with more than $5bn in assets, suggesting that investors are beginning to look towards the mid-to-large funds, and away from the behemoths of the industry. A number of investors are open to investing with smaller managers in 2014, with 52% of investors set to target managers of between $100mn and $499mn and 42% open to investing in managers with less than $100mn in assets. This indicates that investors are at least in principle willing to work with smaller managers, although the track record and other characteristics of larger funds remain appealing.

Fig. 3.17: Hedge Fund Manager Sizes Targeted by Investors in 2014



Source: Preqin Investor Interviews, December 2013

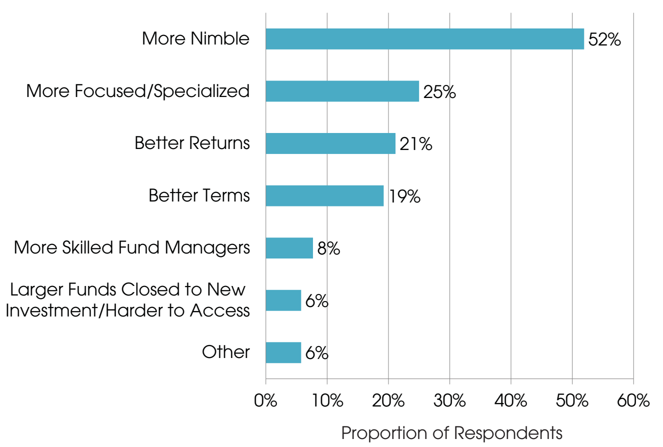
The Case for Smaller Managers

Smaller managers have a number of characteristics which can be attractive to investors (Fig. 3.18). These managers are often better placed to take advantage of a wider opportunity set due to their smaller position sizes and more than half (52%) of investors targeting smaller managers cited their nimbleness as a key characteristic. One UK-based investment company stated "smaller managers on the whole tend to be more nimble and less concerned with accumulating management fees than the larger managers", and, overall, 19% of investors said they prefer investing with smaller managers due to these firms offering more attractive fund terms. With investors also seeking unique and individual investment strategies, the more focused edge of smaller fund managers can be appealing, with a quarter of investors naming a more specialized investment approach as a key characteristic of these managers.

The Case for Larger Managers

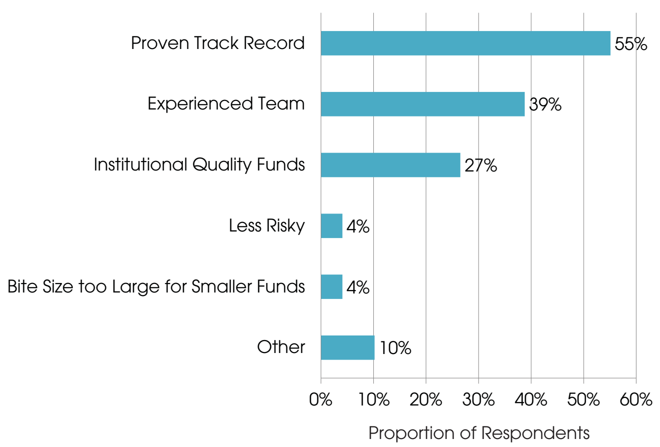
A strong previous track record continues to be a vitally important factor for a number of hedge fund investors and 59% of respondents stated this as a key reason for targeting investments with larger managers (Fig. 3.19). The level of experience within these teams was also named as a

Fig. 3.18: Reasons for Investors Preferring Managers With Less than $1bn in Assets



Source: Preqin Investor Interviews, December 2013

Fig. 3.19: Reasons for Investors Preferring Managers With More than $1bn in Assets under Management



Source: Preqin Investor Interviews, December 2013

preferential characteristic of these managers, mentioned by 39% of respondents, as investors look to tap into the specialized knowledge of these larger firms, where the principals may have decades of specific sector knowledge. Twenty-seven percent of investors cited institutional quality funds as a reason for targeting larger managers, as smaller funds are often less well developed in terms of infrastructure and back office operations, and may be less equipped to deal with the sizeable assets invested by institutional investors.

Emerging Manager Preferences

With investors showing a willingness to at least consider smaller managers in 2014, Preqin conducted a more in-depth study into investor attitudes towards emerging funds. There has been an overall reduction in appetite for emerging managers among institutional hedge fund investors since Preqin last conducted this study in October 2012. Thirty-seven percent of investors will invest in first-time funds (Fig. 3.20), compared to 42% in 2012. This continues a trend of decline from 54% in 2010 and 48% in 2011, suggesting that investors have moved towards investing with more established fund managers as they often perceive such investments to be less risky.

Interest in investing with spin-off teams has also dropped over the past year, with 35% of investors currently targeting such investments compared to 38% in 2012. Spin-off funds provide access to experienced industry professionals but they do not always offer exposure to the value-added niche strategies that investors typically look for in an emerging manager allocation. Seeding new hedge funds is a more niche aspect of the hedge fund industry, with such opportunities typically taken up by fund of hedge funds managers or investors with a large capital base. The proportion of investors interested in seeding opportunities has declined from 19% in 2012 to 15%, with this market dominated by specialist seeding firms.

Minimum Track Record Requirements

In line with a reduction in appetite for emerging managers, the average minimum track record required by hedge fund investors before committing to manager has increased. In 2012, 16% of investors were willing to invest with a manager with less than a year's track record, but this has decreased to 10%, as shown in Fig. 3.21. Investors are becoming more demanding when selecting hedge fund managers and, as a result, they want to see a significant track record before investing. There has been an increase in the proportion of investors requiring a track record of four years or more over the past year from 22% to 26%. The most common minimum track record requirement is three years, with 45% of investors having this policy.

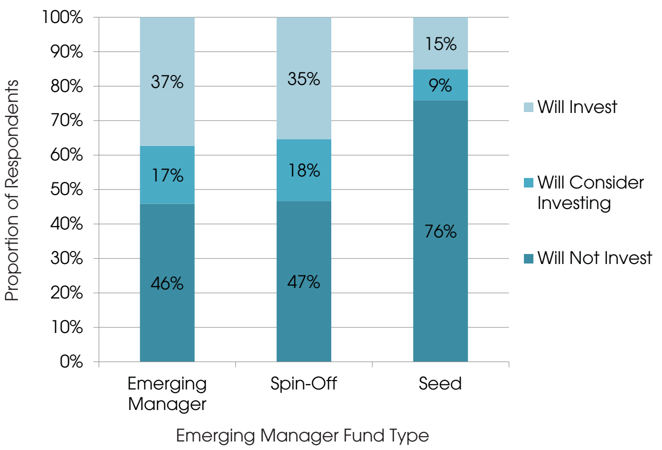
Investor Screening of the Market

The investors interviewed by Preqin in December 2013 indicated that they are searching for funds across all size ranges; however, how is this translating into actual fund searches? Looking at investor activity on Preqin Investor Network, we can see just how proactive investors are in discovering and researching potential investment opportunities across various fund sizes. Over 5,600 accredited investors across 3,200 institutional firms use Preqin Investor Network to get overview and contact information for all hedge funds open to investment. More than 140,000 pages of alternatives fund, firm, performance, market overview and benchmark data are reviewed by investors on Preqin Investor Network every month.

As Fig. 3.22 clearly shows, every month all of the largest funds on the platform are reviewed by investors. It is unsurprising that the largest hedge fund in the world today, Bridgewater All Weather Strategy, is the most viewed hedge fund on the Network; however more surprisingly, among the top 20 most viewed funds on the network over the past 12 months there are four funds with less than $100mn in assets under management. As Fig. 3.22 also shows investors are casting a broad net when screening funds on PIN, with at least two-thirds of funds in all size ranges having been considered by investors on the Network over the last year. The wide fund size scope that the surveyed fund investors indicated they are searching across in Fig. 3.22 is translating into fund screening on Preqin Investor Network.

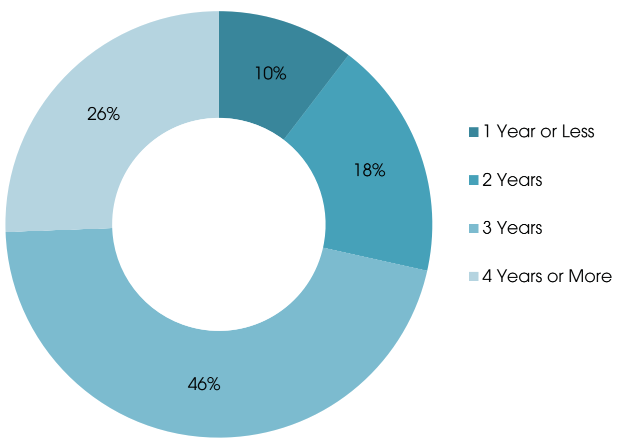
Fig. 3.23 shows the proportion of funds incepted in each year since 2000 which have been reviewed on Preqin Investor Network over the past 12 months. 2013 is excluded as this does not represent a full year of page views. The reduced appetite for

Fig. 3.20: Institutional Hedge Fund Investor Attitudes Towards Emerging Manager Fund Types



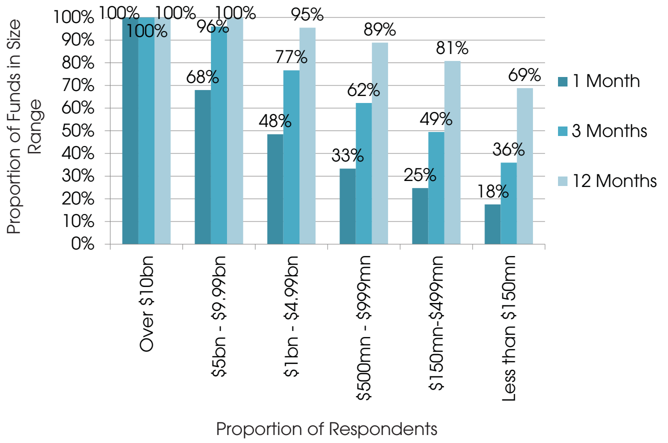
Source: Preqin Investor Interviews, December 2013

Fig. 3.21: Minimum Fund Manager Track Record Required by Institutional Investors in Hedge Funds



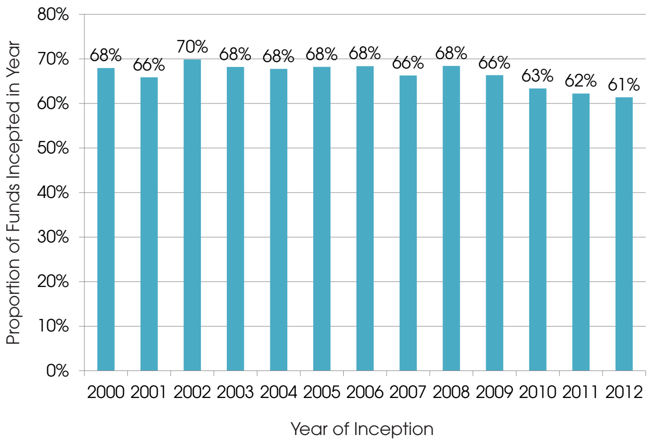
Source: Preqin Investor Interviews, December 2013

Fig. 3.22: Proportion of Funds In Each Size Group which Have Been Screened by Investors on Preqin Investor Network, over One, Three and 12-Month Periods



Source: Preqin Investor Network

Fig. 3.23: Proportion of Funds by Year of Inception which Have Been Screened by Investors on Preqin Investor Network, over a 12-Month Period



Source: Preqin Investor Network

funds with less than a three-year track record, as highlighted in Fig. 3.21, is apparent as fund views drop off for funds incepted since 2010. However with over 60% of funds with less than a three-year track record being reviewed by the investors on the Network over the past year, managers of newer funds can take confidence that many investors are regularly looking at funds with shorter track record, possibly not for immediate investment but more as potential future investments when a longer history of fund returns has been built.

Outlook

Investors are looking at a wide range of hedge fund managers for investment in 2014, with a number of different criteria to be considered in the manager selection process. Track record is the most common reason for investors preferring funds with more than $1bn in assets and investors value the investment experience typically associated with these managers. As a result there has been an overall reduction in the proportion of investors targeting newer managers over the past year as investors focus on investing with established firms.

However, the majority of investors are willing to consider smaller managers with less than $500mn in assets, with the nimbleness of these firms a particularly attractive characteristic. In addition a number of the largest hedge funds are becoming closed to new investment and this is another factor which could lead to investors looking at smaller managers. As a result, there are opportunities for these managers, although funds will need to build an impressive track record in order to be successful. There will be opportunities for both smaller and larger managers to secure institutional capital in 2014 and those managers that can differentiate themselves from their competitors in terms of both strategy and performance are likely to be most successful.

Preqin Investor Outlook: Hedge Funds H1 2014

preqin

alternative assets. intelligent data.

Preqin Hedge Funds 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 institutional investors actively investing in hedge funds, including insurance companies, pension funds, family offices, foundations, wealth managers, endowment plans, banks 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 in 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.

If you want any further information, or would like to apply for 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:

Equitable House
47 King William Street
London
EC4R 9AF

Tel: +44 (0)20 7645 8888
Fax: +44 (0)87 0330 5892

Singapore:

One Finlayson Green, #11-02
Singapore 049246

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

San Francisco:

580 California Street
Suite 1638, San Francisco
CA 94104

Tel: +1 650 632 4345
Fax: +1 440 445 9595

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