

# The 2016 Preqin Alternative Assets Performance Monitor



A comprehensive guide to the performance of alternative assets

Private Equity ■ Private Debt ■ Real Estate ■ Infrastructure ■ Natural Resources ■ Hedge Funds

## Sample Pages

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alternative assets. intelligent data.

# Contents

CEO's Foreword	3	<b>Section Five: Real Estate</b>	
<b>Section One: The 2016 Preqin Alternative Assets Performance Monitor</b>		Real Estate Assets under Management	69
Alternative Assets Performance Monitor: In Numbers	5	Performance Overview of Real Estate Funds	70
Data Sources and Methodology	6	Real Estate: Core/Core Plus	75
Reasons to Contribute	11	Real Estate: Value Added	76
Performance Overview of Alternative Assets	12	Real Estate: Opportunistic	78
Investor Outlook on Alternatives Performance	16	Real Estate: Debt	79
		Real Estate: Open-Ended Funds	80
<b>Section Two: Private Capital</b>		<b>Section Six: Infrastructure</b>	
Private Capital Assets under Management	19	Performance Overview of Infrastructure Funds	81
Performance Overview of Private Capital Funds	20	<b>Section Seven: Natural Resources</b>	
PrEQIn – Private Equity Quarterly Index	22	Performance Overview of Natural Resources Funds	83
Horizon IRRs	23	<b>Section Eight: Hedge Funds</b>	
The Importance of PME Benchmarking	24	Hedge Fund Assets under Management	87
Kaplan-Schoar Public Market Equivalent - KS PME	25	Hedge Fund Asset Flows	89
Long-Nickels Public Market Equivalent - LN PME	26	Performance Overview of Hedge Funds	90
PME+	27	Hedge Fund Benchmarks	92
PERACS Alpha Public Market Equivalent	28	League Table Interview: Stratton Street Capital	93
<b>Section Three: Private Equity</b>		League Tables: Top Performing Hedge Funds	94
Private Equity Assets under Management	29	Top Performing Hedge Funds by Region	96
Understanding the Components of Fund Manager Value Creation – Prof. Oliver Gottschalg, PERACS	30	Top Performing Hedge Funds by Size	98
Performance Overview of Private Equity Funds	33	League Tables: Most Consistent Top Performing Hedge Funds	99
Private Equity Funds to Watch	38	Equity Strategies Funds	104
League Table Interview: Ufenau Capital Partners	39	Macro Strategies Funds	106
Private Equity: Buyout	40	Event Driven Strategies Funds	108
Private Equity: Growth	46	Credit Strategies Funds	110
Private Equity: Secondaries	49	Relative Value Strategies Funds	112
League Table Interview: OrbiMed Advisors	52	Multi-Strategy Funds	114
Private Equity: Venture Capital	53	Niche Strategies Funds	116
Private Equity: Fund of Funds	58	Funds of Hedge Funds	117
<b>Section Four: Private Debt</b>		CTAs	119
Private Debt Assets under Management	61	Liquid Alternatives	121
Performance Overview of Private Debt Funds	62	<b>Section Nine: Glossary</b>	
Private Debt: Direct Lending	64	Glossary	123
Private Debt: Distressed Debt	65		
Private Debt: Mezzanine	67		

## Data Pack for the 2016 Preqin Alternative Assets Performance Monitor

The data behind all of the charts featured in the Report is available to purchase in Excel format. The data pack also includes ready-made charts that can be used for presentations, marketing materials and company reports. To purchase the data pack, please visit:

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



# Alternative Assets Performance Monitor: In Numbers

The alternatives industry is worth \$7.4tn globally



**\$4.3tn**

Total assets under management of the private capital industry



**\$3.1tn**

Total assets under management of the hedge fund industry

Investor perceptions vary considerably among alternative asset classes



**43%**

of private equity investors will invest more capital over the next 12 months



**25%**

of private debt investors have increased confidence in the asset class in the year ahead



**36%**

of real estate investors report that returns exceeded their expectations over the past year



**79%**

of hedge fund investors believe performance has fallen short of expectations over the past year

Standing out is imperative in a crowded marketplace



**644**

Notable fund managers placing in Preqin league tables



**138**

Unique performance league tables across alternative assets

Significant variations in returns delivered throughout the industry



**322**

PrEQIn All Private Equity\* Index reaches highest point in Q4 2015



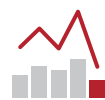
**12.9%**

Median net IRR of vintage 2013 real estate funds



**-1.39%**

Preqin All-Strategies Hedge Fund benchmark over 12 months to June 2016



**-6.0%**

Median net IRR of vintage 2013 natural resources funds

Source: Preqin

Preqin is the alternative assets industry's leading source of data and intelligence. Our products and services are utilized by more than 40,000 professionals located in over 90 countries for a range of activities including investor relations, fundraising and marketing, and market research.

Our databases hold performance data for over **22,800** funds across alternatives industry worldwide, making Preqin the leading and most comprehensive source of data and intelligence in this area.

For more information, or to arrange a demonstration, please visit: [www.preqin.com](http://www.preqin.com)

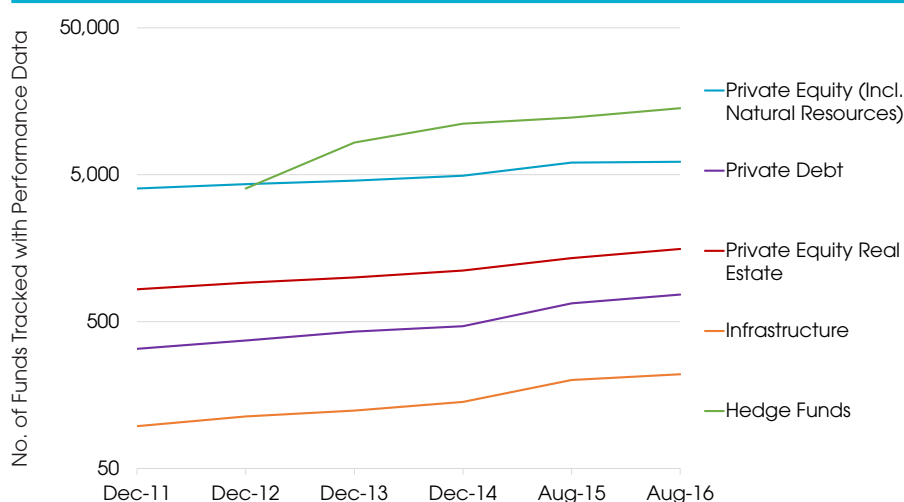
# Performance Overview of Alternative Assets

## The 2016 Preqin Alternative Assets Performance Monitor

Welcome to the 2016 edition of the Preqin Alternative Assets Performance Monitor, which aims to give readers insight and understanding of performance trends across the alternative assets industry. The book uses data across Preqin's extensive, award-winning online databases plus the results of our most recent bespoke surveys, exclusive interviews and collaboration efforts with industry professionals. Preqin currently tracks over 22,800 funds with performance data across private equity, private debt, private real estate, infrastructure, natural resources and hedge funds (Fig. 1.1), with all the most up-to-date and comprehensive trends and statistics found within this book.

With institutional investors worldwide increasingly looking for new ways to construct well-diversified and rewarding investment portfolios, it is clear that alternatives will play an important part in this area over the longer term. The variety of advantages that alternatives provide range from outperformance of public markets over the longer term, the prospect of higher yields, downside-risk protection, low correlation to traditional markets as well as a range of other benefits. Throughout this book, we look at how the industry has performed, and show the value of the alternatives industry in helping sophisticated investors construct complex strategies to achieve their unique and varying investment objectives.

**Fig. 1.1:** Preqin Performance Coverage: Track Records, December 2011 - August 2016



Source: Preqin

## Defining Closed-End Private Capital Funds

At the beginning of 2016, Preqin updated its terminology to keep pace with the private equity industry. The term 'private equity' has come to mean a wide range of asset classes to include core private equity strategies, as well as other private equity-like strategies that were once considered a sub-set of the universe; these have recently emerged as distinct asset classes collectively known as 'private capital', as defined in Fig. 1.2 (private equity, private debt, real estate, infrastructure and natural resources).

The term 'private capital' is used to describe these closed-end funds to better distinguish between (core) private equity and the broader private capital market.

Preqin defines 'alternative assets' as the private capital and hedge fund industries combined, together representing a unique and alternative space for institutional investors to invest and help meet their portfolio objectives. We hope this will be helpful for our customers and enable us to deliver the clear and concise data and market insight for which Preqin is known.

**Fig. 1.2:** Closed-End Private Capital Definition

Closed-End Private Capital					
Private Equity	Private Debt	Real Estate	Infrastructure	Natural Resources	
Buyout	Direct Lending	Private Equity Real Estate	Infrastructure	Energy	
Venture Capital	Distressed Debt			Infrastructure Fund of Funds	Agriculture/Farmland
Growth					Metals & Mining
Turnaround	Mezzanine	Private Equity Real Estate Fund of Funds	Infrastructure Fund of Funds		Timberland
Other Private Equity	Special Situations			Water	
Private Equity Secondaries	Venture Debt			Natural Resources Fund of Funds	
Private Equity Fund of Funds	Private Debt Fund of Funds	Private Equity Real Estate Secondaries	Infrastructure Secondaries		



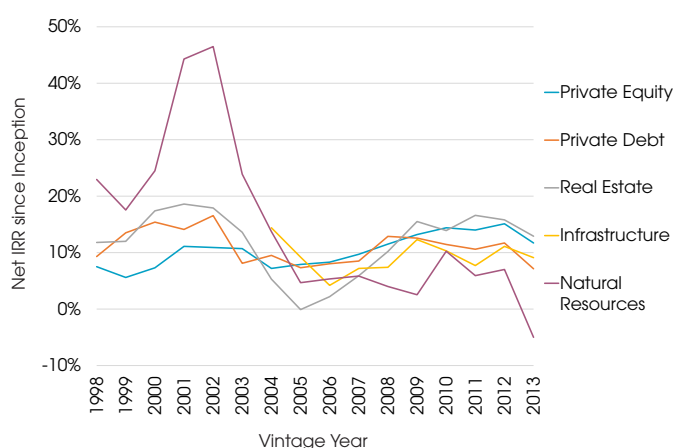
# Performance Overview of Private Capital Funds

- ▶ The private capital industry has grown and changed immensely since Preqin began tracking it in 2003; the diversity of fund strategies has developed as managers and investors target new areas to generate alpha. Sectors such as private debt, infrastructure and natural resources, all once considered subsets of private equity, have evolved into discrete asset classes. Meanwhile, industry terminology has struggled to keep pace, and 'private equity' has come to have interpretations varying from buyout funds specifically or closed-end private funds generally. Please see Fig. 1.2 on page 12 for full definition.
- ▶ From the beginning of 2016, Preqin has updated its terminology to better reflect the growing diversity of the industry: the term 'private capital' is used in this publication to refer to the broader spectrum of private closed-end

funds, including private equity, private debt, real estate, infrastructure and natural resources. This distinction between core private equity and broader private capital will be helpful to deliver the clear and concise data and market insight for which Preqin is known.

- ▶ Fig. 2.4 shows that there are significant variations in net IRRs among private capital strategies across all vintage years; natural resources for example has seen IRRs above 40% for 2001 and 2002 vintages, compared with modest double-digit IRRs for other asset classes in the same period.
- ▶ Fig. 2.5 shows how Preqin's market benchmark data can be used to illustrate the widening gap between the best and worst performing funds, and demonstrates the importance

**Fig. 2.4: Private Capital\* - Median Net IRR by Strategy and Vintage Year**



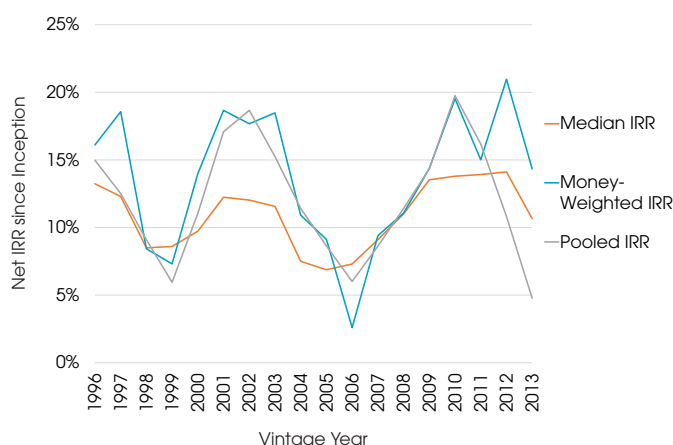
Source: Preqin

**Fig. 2.5: Private Capital\* - Median Net IRRs and Quartile Boundaries by Vintage Year**



Source: Preqin

**Fig. 2.6: Private Capital\* - Median, Money-Weighted and Pooled IRRs by Vintage Year**



Source: Preqin

**Fig. 2.7: Private Capital\* - Median Net IRRs by Geographic Focus and Vintage Year**



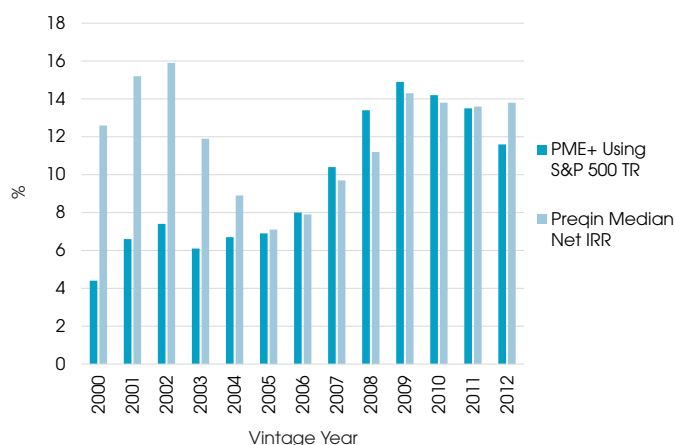
Source: Preqin

\*Excl. Direct Lending.

## PME+

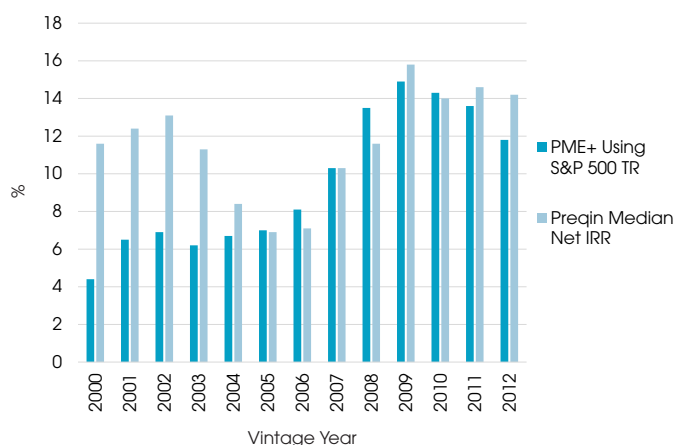
- ▶ Using PME+ methodology, an IRR is computed for the public market which can be directly compared to the all private equity\* IRR.
- ▶ Fig. 2.24 shows that private equity funds of older vintage years across all regions have outpaced public markets significantly, with outperformance also seen among later vintages (2011 and 2012).
- ▶ North America-focused private equity funds have witnessed similarly strong outperformance for earlier vintages compared with public markets, as seen in Fig. 2.25, and is indicative of the value of private equity for investors. For more recent funds focusing on this region, most vintages (2009, 2011 and 2012) have also seen outperformance relative to public markets so far.
- ▶ PME+, using MCSI Europe TR and S&P 500 TR, is compared to the median net IRRs for Europe-focused funds in Fig. 2.26. We can see that an investor in an early vintage Europe-focused fund has observed higher returns than if they had invested in European equities or US equities during the same period.
- ▶ Asia & Rest of World-focused private equity funds have struggled to generate the same strong outperformance as their North America- and Europe-focused counterparts, with vintages prior to 2009 generating single-digit net IRRs (Fig. 2.27). Notably, older vintages (2005 and 2006) have slightly outperformed the public market, along with more recent vintages (2010 and 2012) so far.

**Fig. 2.24:** PME+: All Private Equity\* - All Regions (As of 31 December 2015)



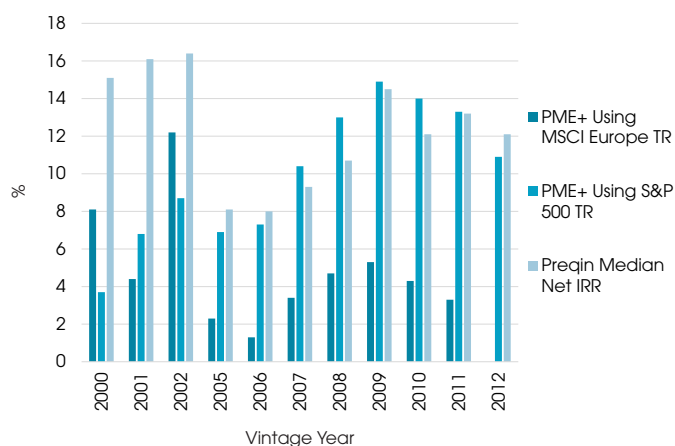
Source: Preqin Private Equity Online

**Fig. 2.25:** PME+: All Private Equity\* - North America (As of 31 December 2015)



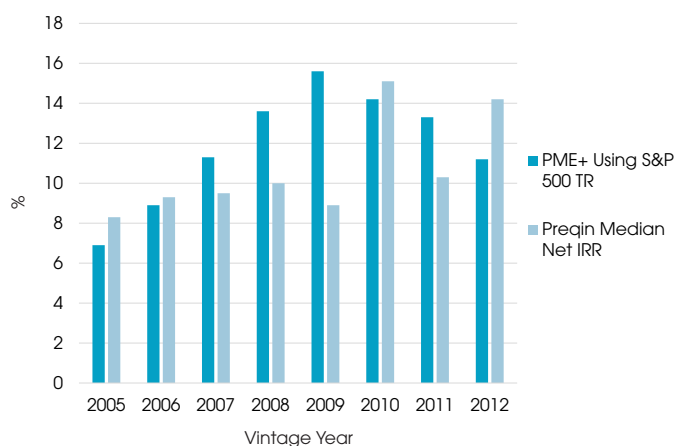
Source: Preqin Private Equity Online

**Fig. 2.26:** PME+: All Private Equity\* - Europe (As of 31 December 2015)



Source: Preqin Private Equity Online

**Fig. 2.27:** PME+: All Private Equity\* - Asia & Rest of World (As of 31 December 2015)



Source: Preqin Private Equity Online

\*All Private Equity is defined as Private Capital excl. Direct Lending.

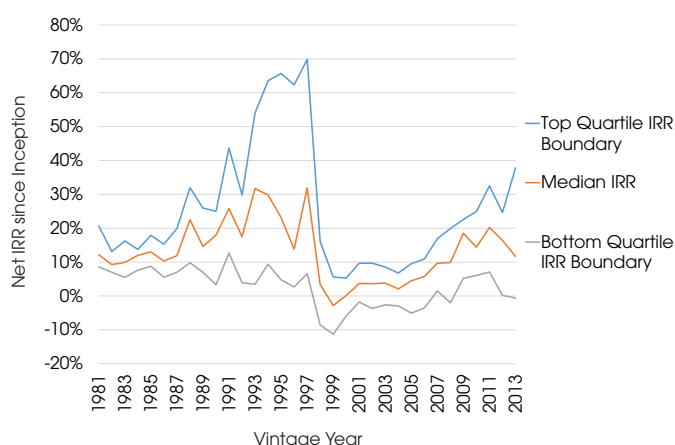
# Private Equity: Venture Capital

- ▶ Fig. 3.72 shows the fluctuating pattern of median venture capital net IRRs over a 32-year period; mature venture capital vintage funds (early to mid-1990s) performed very well, with notable net IRRs of 31.7% and 31.9% for 1993 and 1997 vintages respectively. Venture capital funds have since struggled, with single-digit returns generated for later vintages to 2008. Since 2009, however, there has been a turnaround in performance, with the most recent venture capital funds posting strong IRRs early in their fund life.
- ▶ 1998 was the last vintage year in which the median venture capital fund has a DPI above 100%, indicative of the impact of a decade of poor performance (Fig. 3.73). However, improving venture capital performance since 2006-2007 vintages suggests that median DPIs for these years may soon rise above 100%.
- ▶ Preqin data shows the deep J-curves for the median venture capital fund, usually taking between six and 10 years for IRRs to emerge out of negative territory, and

shows how venture capital is a long-term investment for LPs (Fig. 3.74).

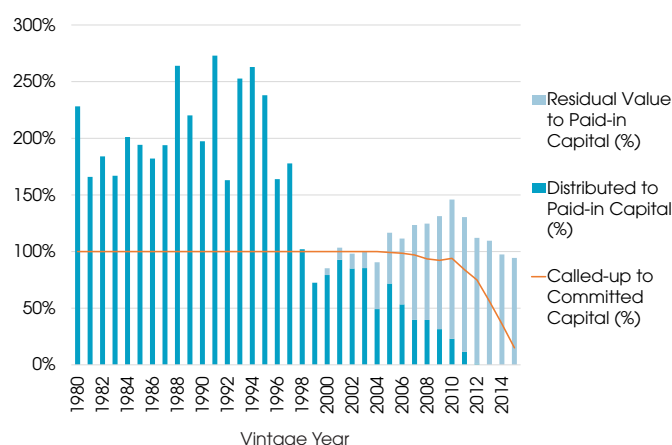
- ▶ Preqin's cash flow data can be used by LPs to model the cash flows from their venture capital portfolios. Fig. 3.75 shows that the median fund typically takes nine years to return the LP's cash.
- ▶ Fig. 3.76 shows the relationship between the performance of a predecessor and successor venture capital fund. A significant 68% of fund managers with a top-quartile fund follow on with another fund with performance above the median, illustrative of the relatively consistent performance of such funds. Conversely, 40% of bottom-quartile funds follow on with another bottom-quartile fund, showing that this consistency is seen among both strong and poor performers.
- ▶ Standard deviation among venture capital funds is generally high, particularly among more recent vintages –

**Fig. 3.72: Venture Capital - Median Net IRRs and Quartile Boundaries by Vintage Year**



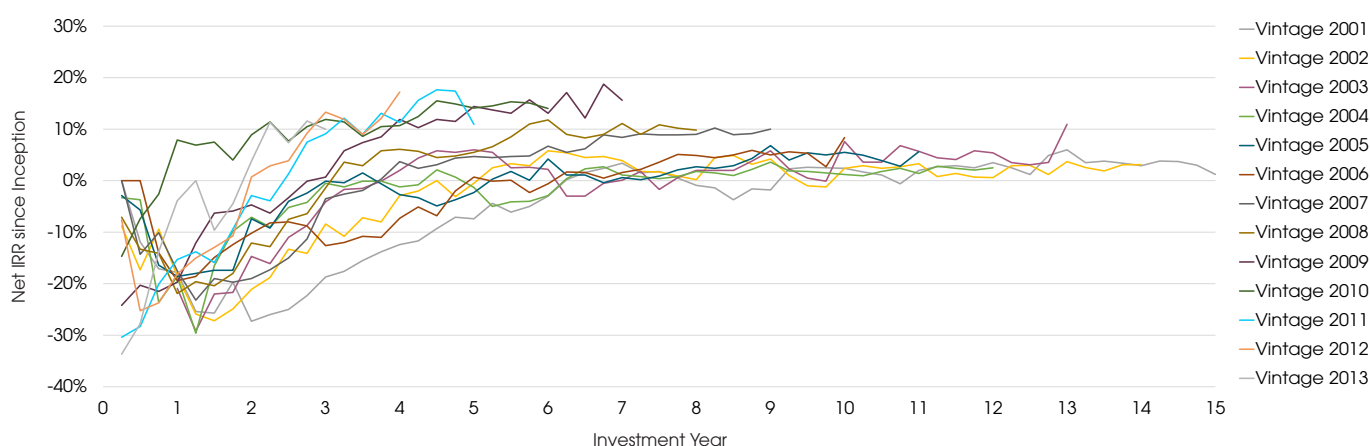
Source: Preqin Private Equity Online

**Fig. 3.73: Venture Capital - Median Called-up, Distributed and Residual Value Ratios by Vintage Year**



Source: Preqin Private Equity Online

**Fig. 3.74: Venture Capital - J-Curve: Annual Median Net IRRs by Vintage Year**

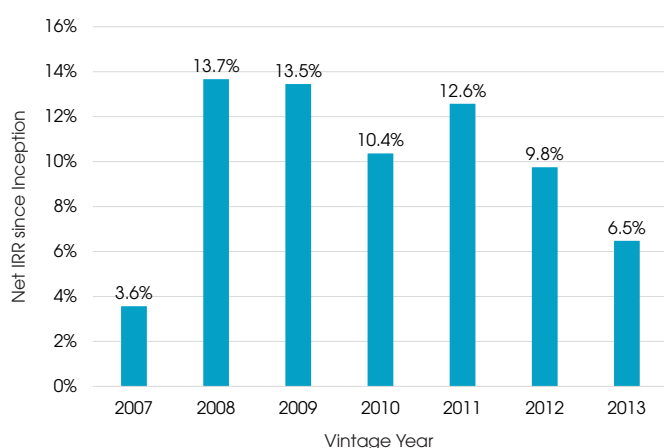


Source: Preqin Private Equity Online

# Private Debt: Direct Lending

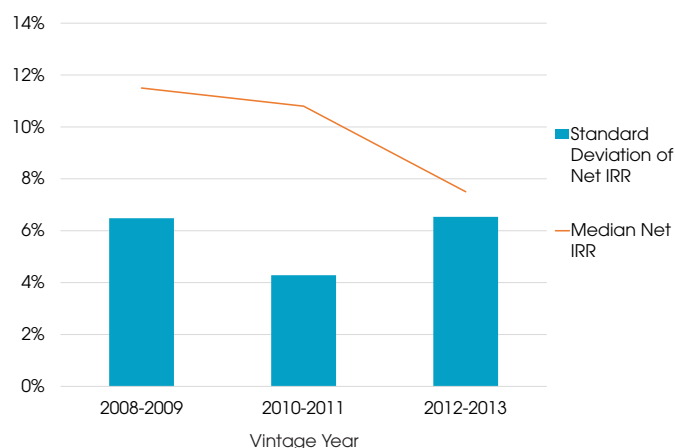
- ▶ Direct lending funds offer investors an alternative fixed income-style product, which has been a major contributing factor to the growth of private debt in recent years.
- ▶ Vintage 2008-2011 direct lending funds have seen healthy IRRs in the 10-14% range (Fig. 4.12). Still in the early stages of their fund life, it is likely that we may see 2012 and 2013 vintages generate even higher returns as they mature.
- ▶ As well as encouraging net IRRs, direct lending funds have seen attractive risk/return profiles over the vintage years shown in Fig. 4.13, with standard deviation under 7.0% across all vintage years shown. Notably, vintage years 2010-2011 have a standard deviation of just 4.3%.

**Fig. 4.12: Direct Lending - Average Net IRR by Vintage Year**



Source: Preqin Private Debt Online

**Fig. 4.13: Direct Lending - Risk/Return by Vintage Year**



Source: Preqin Private Debt Online

**Fig. 4.14: Top 10 Performing Direct Lending Funds**

Rank	Fund	Firm	Vintage	Fund Size (mn)	Geographic Focus	Net IRR (%)	Date Reported
1	Apollo Credit Opportunities Fund I	Apollo Global Management	2008	1,500 USD	N. America	27.4	30-Sep-15
2	Golub Capital Partners III	Golub Capital	1999	-	N. America	21.6	30-Jun-16
3	Monroe Capital Partners Fund	Monroe Capital	2011	251 USD	N. America	19.9	30-Sep-15
4	WindSail Capital IV	WindSail Capital Group	2013	6 USD	N. America	19.3	31-Dec-14
5	Franchise Capital Partners III	CapitalSpring	2009	65 USD	N. America	18.7	31-Mar-16
6	Decathlon Alpha	Decathlon Capital Partners	2011	21 USD	N. America	17.4	31-Dec-15
7	GS Loan Partners I	Goldman Sachs Merchant Banking Division	2008	10,500 USD	N. America	17.0	31-Dec-15
8	Proventus Credit Fund II Co-Investment	Proventus Capital Partners	2011	1,953 SEK	Europe	16.2	31-Mar-15
9	TA Subordinated Debt	TA Associates	2000	500 USD	N. America	15.4	30-Jun-16
10	LBC Credit Partners III	LBC Credit Partners	2013	839 USD	N. America	15.2	31-Dec-15

Source: Preqin Private Debt Online

**Fig. 4.15: Direct Lending Funds to Watch (Vintage 2014-2016)**

Fund	Firm	Vintage	Fund Size (mn)	Geographic Focus	Multiple (X)	Net IRR (%)	Date Reported
Golub Capital Partners IX International	Golub Capital	2014	550 USD	N. America	1.44	n/m	31-Mar-16
Monroe Capital Senior Secured Direct Loan Fund	Monroe Capital	2014	500 USD	N. America	1.15	n/m	30-Sep-15
Broad Street Loan Partners 2013	Goldman Sachs Merchant Banking Division	2014	680 USD	N. America	1.10	n/m	31-Dec-15
KKR Lending Partners II	KKR	2015	1,340 USD	N. America	1.10	n/m	30-Sep-15
Monroe Capital Partners Fund II	Monroe Capital	2014	100 USD*	N. America	1.08	n/m	30-Sep-15

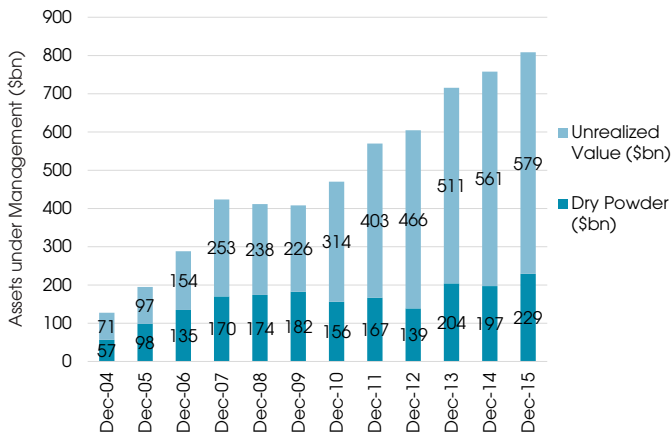
\*Denotes target size.

Source: Preqin Private Debt Online



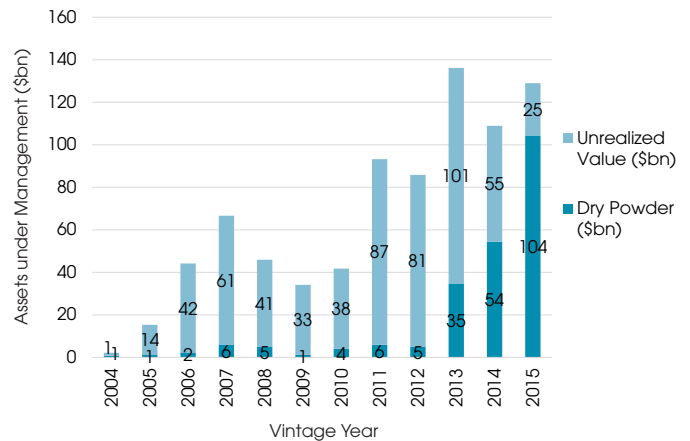
# Real Estate Assets under Management

**Fig. 5.1:** Closed-End Private Real Estate - Assets under Management, 2004 - 2015



Source: Preqin Real Estate Online

**Fig. 5.2:** Closed-End Private Real Estate - Assets under Management by Vintage Year (As of December 2015)



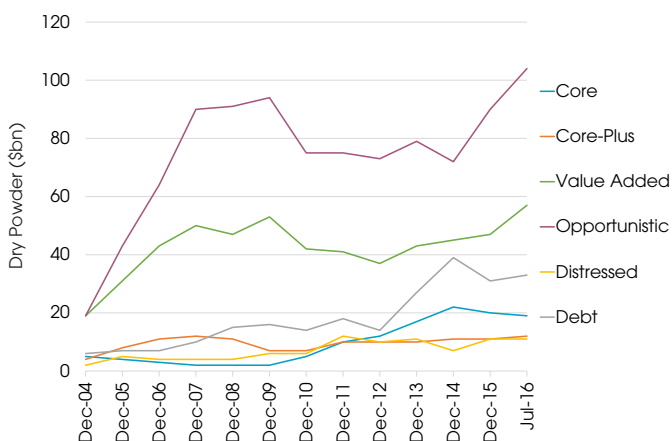
Source: Preqin Real Estate Online

**Fig. 5.3:** 10 Largest Closed-End Private Real Estate Fund Managers by Estimated Dry Powder (As of July 2016)

Firm	Location	Dry Powder (\$bn)
Blackstone Group	US	25.1
Lone Star Funds	US	15.5
Brookfield Property Group	Canada	8.5
Global Logistic Properties	Singapore	5.1
Rockpoint Group	US	4.4
AXA Investment Managers – Real Assets	France	3.3
Angelo, Gordon & Co	US	2.7
Westbrook Partners	US	2.7
Carlyle Group	US	2.6
Starwood Capital Group	US	2.6

Source: Preqin Real Estate Online

**Fig. 5.4:** Closed-End Private Real Estate - Dry Powder by Strategy, December 2004 - July 2016



Source: Preqin Real Estate Online

#### Data Source:

Preqin's **Real Estate Online** can be used to:

- Benchmark a fund's performance against its peers
- Assess by region, fund type and fund vintage
- View past performance for specific managers
- Assemble marketing materials and gain further understanding of the latest trends in the industry

For more information, or to arrange a demonstration, please visit:

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

**Fig. 6.5:** 10 Largest Infrastructure Fund Managers by Estimated Dry Powder (As of July 2016)

Firm	Location	Dry Powder (\$bn)
Global Infrastructure Partners	US	14.4
Brookfield Asset Management	Canada	13.6
Macquarie Infrastructure and Real Assets (MIRA)	UK	5.4
Stonepeak Infrastructure Partners	US	4.2
ArcLight Capital Partners	US	3.8
Energy Capital Partners	US	3.7
Meridiam	France	3.5
KB Asset Management	South Korea	3.2
Carlyle Group	US	3.0
EIG Global Energy Partners	US	3.0

Source: Preqin Infrastructure Online

**Fig. 6.6:** Top 10 Performing Infrastructure Funds

Rank	Fund	Firm	Vintage	Fund Size (mn)	Geographic Focus	Net IRR (%)	Date Reported
1	Aravis Energy I	Aravis	2009	47 EUR	Europe	448.0	30-Jun-16
2	EnCap Flatrock Midstream Fund I	EnCap Flatrock Midstream	2009	792 USD	N. America	46.8	30-Sep-15
3	Harbert Power Fund IV	Harbert Management Corporation	2010	63 USD	N. America	37.9	30-Jun-16
4	Zachry Hastings Infrastructure Partners	Hastings Funds Management	2010	330 USD	N. America	36.2	31-Dec-15
5	iCON Infrastructure Partners	iCON Infrastructure	2010	231 EUR	Europe	35.0	31-Dec-15
6	Panda Power Generation Infrastructure Fund II	Panda Power Funds	2013	612 USD	N. America	34.5	31-Dec-15
7	AIG Emerging Europe Infrastructure Fund	Mid Europa Partners	2000	550 USD	Europe	34.0	30-Jun-16
8	Energy Spectrum Partners V	Energy Spectrum Capital	2007	612 USD	N. America	32.8	31-Dec-15
9	New Energy Capital	New Energy Capital	2005	60 USD	N. America	32.0	30-Jun-16
10	Ashmore Colombia Infrastructure Fund I	Ashmore Investment Management	2010	212 USD	Americas	29.5	30-Jun-14

Source: Preqin Infrastructure Online

**Fig. 6.7:** Most Consistent Top Performing Infrastructure Fund Managers

Firm	Location	No. of Funds in Top Quartile	No. of Funds in Second Quartile	Overall No. of Funds with a Quartile Ranking	Average Quartile Ranking
Global Infrastructure Partners	US	2	0	2	1.00
KKR	US	1	0	1	1.00
EnCap Flatrock Midstream	UK	1	1	2	1.50
iCON Infrastructure	US	1	1	2	1.50
InfraRed Capital Partners	UK	3	1	5	1.60
Ardian	France	1	2	3	1.67

Source: Preqin Infrastructure Online

**Fig. 6.8:** Infrastructure Funds to Watch (Vintage 2014-2016)

Fund	Firm	Vintage	Fund Size (mn)	Geographic Focus	Multiple (X)	Net IRR (%)	Date Reported
Japan Solar Fund	Equis	2014	720 USD	Asia	1.59	n/m	31-Mar-16
Equitix Fund IV	Equitix	2015	500 GBP*	Europe	1.52	n/m	31-Mar-16
Equis Direct Investment Fund	Equis	2015	300 USD	Asia	1.51	n/m	31-Mar-16
Environmental Capital Fund	Scottish Equity Partners	2014	135 GBP	Europe	1.15	n/m	30-Sep-15
Harbert Power Fund V	Harbert Management Corporation	2014	485 USD	N. America	1.12	n/m	31-Mar-16

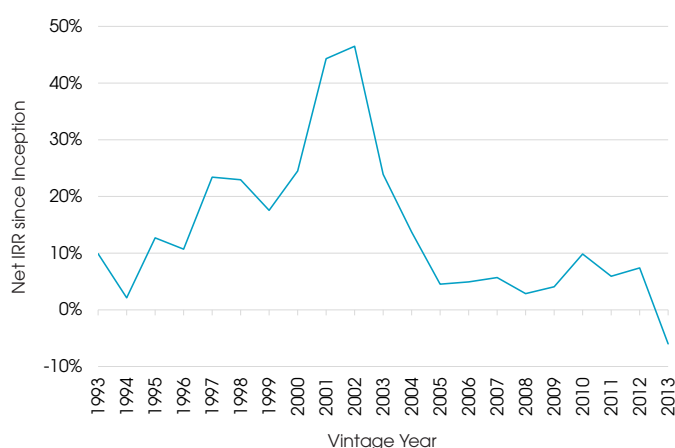
\*Denotes target size.

Source: Preqin Infrastructure Online

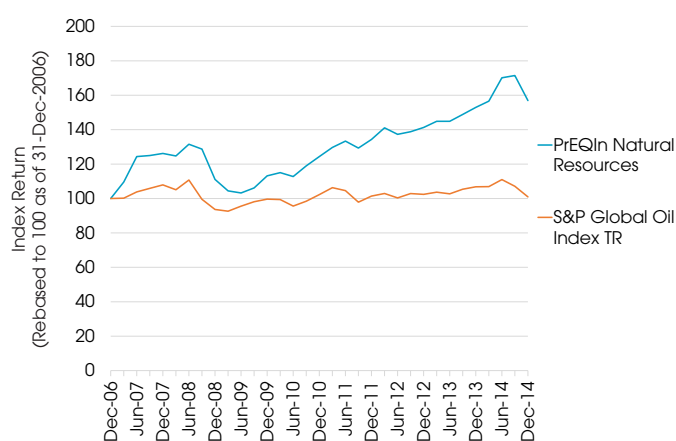
# Performance Overview of Natural Resources Funds

- ▶ Natural resources funds have seen very favourable median net IRRs in the period between 1997 and 2004, which can largely be attributed to the commodities supercycle during the period; vintages 2001 and 2002, most notably, have generated outsized median net IRRs of 44.3% and 46.3% respectively (Fig. 7.1).
- ▶ Since this period of outperformance, however, natural resources funds have seen low, single-digit median net IRRs to 2013, driven primarily by underlying commodities trends.
- ▶ Fig. 7.2 shows how despite poor industry performance, natural resources funds have outperformed the public market (S&P Global Oil Index TR) with an increasingly widening gap since June 2010.
- ▶ Fig. 7.3 shows how some recent vintages have struggled to generate net IRRs in the black, with net IRRs for vintage 2005 funds onwards clustered around the 0% mark. The wide dispersion of fund IRRs within each vintage year illustrates the variability of strategies that managers are pursuing and, in turn, demonstrates the importance of fund selection for LPs.

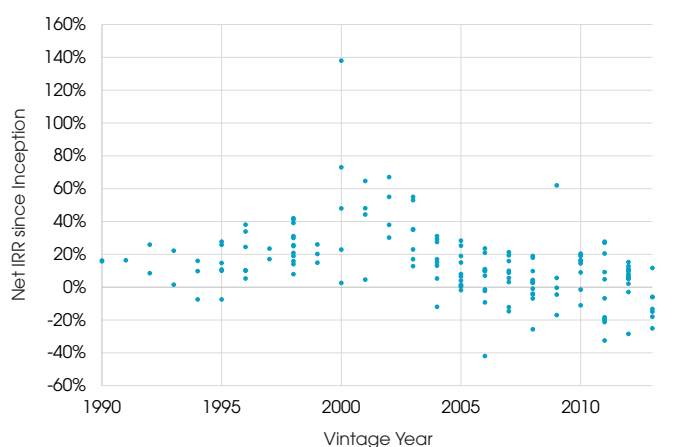
**Fig. 7.1: Natural Resources - Median Net IRR by Vintage Year**



**Fig. 7.2: PrEQIn Natural Resources Index vs. S&P Global Oil Index (Rebased to 100 as of 31 December 2006)**



**Fig. 7.3: Natural Resources - Net IRR Dispersion by Vintage Year**



**Fig. 7.4: 10 Largest Natural Resources Fund Managers by Estimated Dry Powder (As of July 2016)**

Firm	Location	Dry Powder (\$bn)
Brookfield Asset Management	Canada	14.17
Global Infrastructure Partners	US	13.34
EnCap Investments	US	10.33
Carlyle Group	US	5.26
Riverstone Holdings	US	4.83
First Reserve Corporation	US	4.60
Quantum Energy Partners	US	4.39
NGP Energy Capital Management	US	4.36
Blackstone Group	US	4.29
Stonepeak Infrastructure Partners	US	4.16

Source: Preqin Natural Resources Online

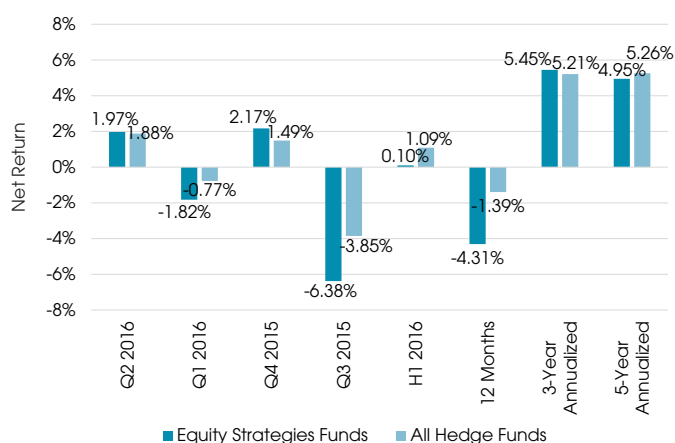
# Equity Strategies Funds

- ▶ Hedge funds pursuing equity strategies have struggled, returning just 0.10% over the past six months, putting the strategy at the bottom of the pack of all top-level hedge fund strategies tracked by Preqin (Fig. 8.44).
- ▶ Value-oriented funds are the top-performing equity sub-strategy in 2016 YTD having gained 2.69% (as of June 2016), and are also the top performing among the other sub-strategies over the longer term, having gained 8.92% on a three-year annualized basis as at June 2016 (Fig. 8.45).
- ▶ Although hedge fund returns have been less favourable to equity markets in recent times, investors are exposed to lower levels of tail risk. Fig. 8.46 shows that with an

average monthly VaR of 6.16%, equity strategies funds have a smaller associated tail risk than the S&P 500 Index.

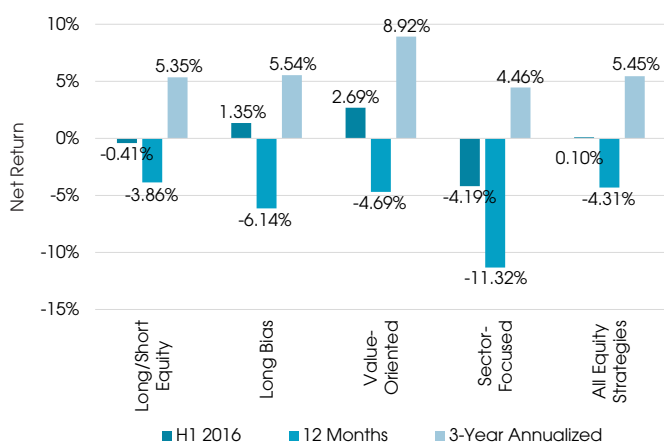
- ▶ The three-year volatility and Sharpe ratio (RFR=2%) measurements of equity strategies funds are shown in Fig. 8.47; the increased volatility of equity strategies over the past year has seen the Sharpe ratio fall by comparison, and shows how investors are getting less excess return for the risk they are taking on.
- ▶ North America-focused equity strategies funds have generated the highest cumulative net return by region (+37.66%), narrowly followed by Asia-Pacific-focused funds over the same period (+35.85%), as shown in Fig. 8.49.

**Fig. 8.44:** Performance of Equity Strategies Funds vs. All Hedge Funds (As at June 2016)\*



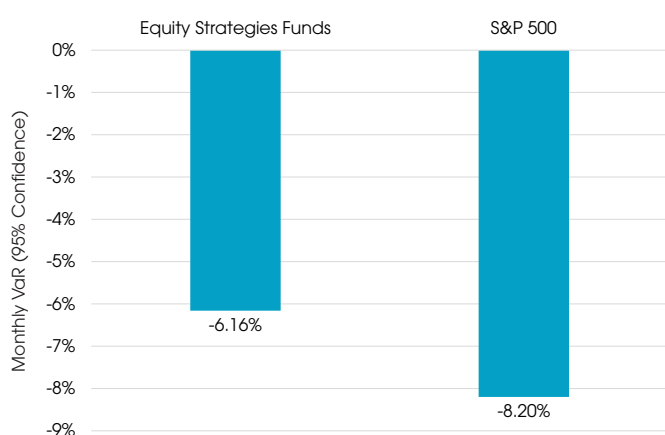
Source: Preqin Hedge Fund Online

**Fig. 8.45:** Performance of Equity Strategies Funds by Sub-Strategy (As at June 2016)\*



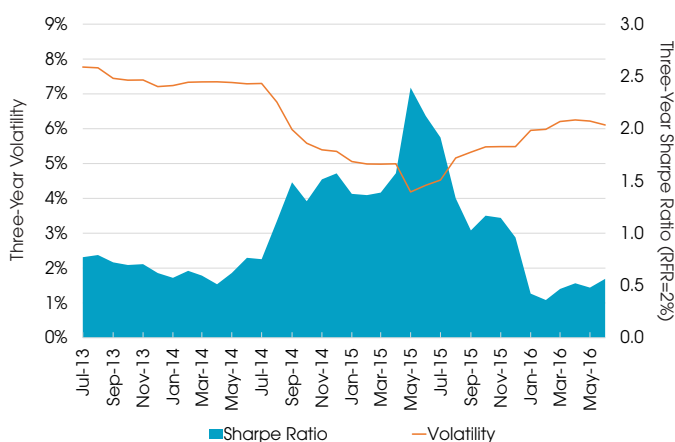
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**Fig. 8.46:** Average Monthly VaR (95% Confidence) of Hedge Funds by Strategy, January 2006 - June 2016\*



Source: Preqin Hedge Fund Online

**Fig. 8.47:** Rolling Volatility and Sharpe Ratio of Equity Strategies Funds, July 2013 - June 2016\*



Source: Preqin Hedge Fund Online

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