2019 Preqin Global Hedge Fund Report

Sample Pages

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The data behind all of the charts and infographics featured in this report, plus additional datasets for each of the chapters in the book, is available to purchase in Excel format. Ready-made charts and graphs are also available, and can be used in marketing materials, presentations or company reports.

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KEY TRENDS OF 2018

Amid uncertainty in equity markets, hedge funds continue to offer investors diversification and uncorrelated returns for their respective portfolios. Despite a turbulent 2018, which culminated in negative returns at the end of the year, assets under management (AUM) in the hedge fund industry are forecast to increase over the coming year and beyond as investors continue to look to the asset class for downside protection.

AUM HITS RECORD LEVELS

$3.62tn

The industry reached a record level of AUM in Q3 2018, before falling to $3.53tn as at November 2018

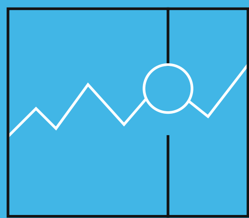
52%

of surveyed fund managers believe AUM will increase further in 2019

UNFAVOURABLE RETURNS

15 Months

of consecutive positive performance ended in February 2018, when hedge funds made their first loss (-0.91%)



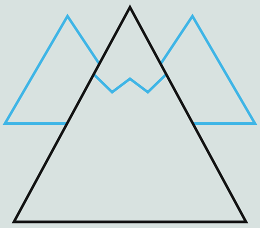
-3.41%

The Preqin All-Strategies Hedge Fund benchmark return for 2018 (as at December 2018)

MARKET CORRECTION LOOMING?

59%

of surveyed investors believe we are at the top of the equity cycle



40%

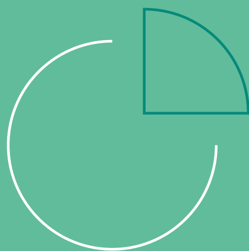
of surveyed investors intend to position their portfolios defensively amid concerns of a correction

CREDIT STRATEGIES SEE LARGEST INFLOWS

Credit strategies recorded

$22bn

in inflows over 2018, a **12%** increase in AUM from 2017



+2.09%

Credit strategies outperformed all other hedge fund strategies for 2018 (as at December 2018)

A CHALLENGING ENVIRONMENT FOR FUNDS OF HEDGE FUNDS

47%

of surveyed fund of hedge funds managers believe the fundraising environment has become more challenging over the past 12 months

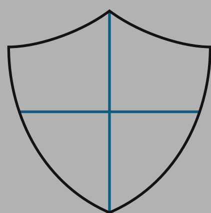
$745bn

Fund of hedge funds AUM (as at November 2018)

INVESTORS STILL LOOK TO HEDGE FUNDS FOR DOWNSIDE PROTECTION

79%

of surveyed investors intend to maintain or increase their level of allocation to hedge funds over the next 12 months



29%

of surveyed investors plan to increase their exposure to macro strategies, the largest proportion for any strategy

HEDGE FUNDS AND INSTITUTIONAL INVESTORS: A PARTNERSHIP CONTINUES

RICHARD H. BAKER

President & CEO,
Managed Funds Association

Despite the ups and down of 2018, I am bullish on the hedge fund industry.

And I am not alone: nearly 80% of institutional investors surveyed by Preqin plan to maintain or increase their allocation to hedge funds in 2019. This figure is higher than in each of the previous three years.

Why do institutional investors and others continue to rely on our industry to help meet their fiduciary responsibilities? Because these funds provide value by diversifying portfolios, managing risk and helping deliver reliable returns over time. Since the first hedge fund was created 70 years ago, the industry has played an active and dynamic role in capital markets by partnering with investors to help meet their unique investment goals.

As our diverse membership of large, medium and small funds work to deliver for their investors, MFA is helping them reduce operational expense and manage regulatory and tax risk. With a robust presence and strong record of offering helpful recommendations to policymakers across the globe, MFA is helping to set the stage for the industry's future growth. Our members have identified targeted legislative and regulatory solutions which, if implemented, would stimulate investment, reduce duplicative regulatory requirements, promote fair and accessible capital markets and enhance the security of the confidential data that registrants are required to provide regulatory agencies.

For example, MFA members for years have expressed concern with the regulatory framework for proprietary exchange market data and consolidated market data. Ensuring timely and affordable access to market data is a vital part of trading in the 21st century and a key component of promoting equal access to markets. For many firms this data is the lifeblood of their trading strategies.

MFA members and other market participants believe the current regulatory framework does not adequately protect investors from unreasonably discriminatory pricing. In some cases, market data fees may even impose an unnecessary and inappropriate burden on competition. That is why MFA and AIMA submitted letters to the Securities and Exchange Commission (SEC) and the European Securities and Markets Authority (ESMA) requesting that they take action to help ensure investors are protected from unfair market data fees and practices.

Among other steps, we believe regulators and policymakers should request financial information from exchanges on market data operating costs and revenue to ensure that fees are fair and not unreasonably discriminatory. Increasing transparency with respect to market data fees will help protect investors and better ensure fair access for all market participants. The SEC's recent long-awaited ruling requiring an exchange to justify previous fee increases – along with a public roundtable on market data fees which included an MFA member panelist – shows the Commission is listening to concerns raised by MFA and others on these issues.

MFA also engaged European regulators on market data issues in 2018, helping to ensure exchanges follow the letter and the spirit of the Market in Financial Instruments Regulation's post-trade transparency requirements.

Over the past decade, MFA has worked closely with policymakers and regulators as they built the post-crisis financial regulatory structure. We believe it is one of the reasons capital markets are as efficient, transparent and fair as they are today.

MFA members have valuable insight into the impacts, unintended and otherwise, that these regulations have on market participants and capital markets. To assist regulators, we have developed thoughtful, obtainable solutions to decrease duplicative and overlapping regulations that impose undue costs on fund managers and their investors – and create more work for already overburdened regulators.

One example involves firms that are registered with the SEC as investment advisers and the Commodities Futures Trading Commission (CFTC) as commodity pool operators. MFA believes that the commissions could greatly enhance regulatory efficiency by taking a more coordinated and harmonized approach to the regulation and examination of such dual registrants.

Through discussions with regulators, MFA developed a "primary regulator safe harbor" framework, where a firm would remain registered with both agencies but establish a primary regulator. A dual registrant who complies with its primary regulator's requirements would be deemed to have met the requirements of the other. Such a proposal would meet the CFTC, SEC and Treasury Department's own goals relating to increased coordination and efficiency across regulatory bodies.

It would also assist regulators in prioritizing resources. Something as simple as having SEC and CFTC examiners conduct exams jointly could save countless hours and taxpayers dollars.

MFA's membership and our mandate are global, which is why MFA has closely engaged regulators on the potential impacts of Brexit on our industry and capital markets in general. As I write this – and very possibly as you read this – much about the process and endgame remains unknown.

In discussing the issue with our members, it is clear that they remain concerned that equivalence arrangements, which take significant time to negotiate, may not be finalized before the withdrawal. Our focus has been on ensuring that our members have continued access to EU markets and that EU investors have access to our members. We have met and spoken with regulators and policymakers on both sides of the Channel and both sides of the Atlantic to articulate these points.

This issue dovetails with our work on the Investment Firms Review, the EU's ongoing effort to develop tailored prudential requirements for our industry. MFA has advocated consistently that managers do not pose a systemic risk and that any prudential requirements should reflect this fundamental fact.

On these and other policies MFA operates entirely at the direction of our members, who identify our priorities based on the issues most likely to impact the industry and our investors. We have established a track record of thoughtful advocacy of which I am tremendously proud.

Of course, our work is never done. If you are not a part of our dynamic efforts on behalf of the industry, we would welcome your voice and input as we address these issues and others in 2019.

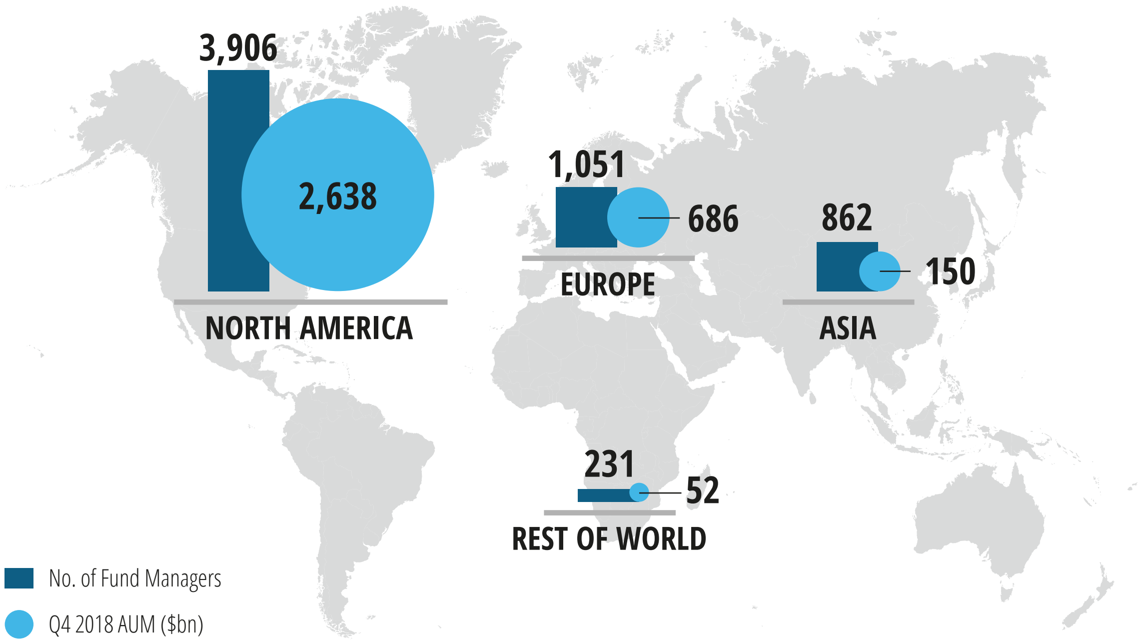
ABOUT MANAGED FUNDS ASSOCIATION

Mr. Baker is president and CEO of Managed Funds Association – the alternative industry's authoritative voice on policy and premier platform for peer-to-peer networking and operational, legal and compliance training.

www.managedfunds.org

FUND MANAGERS AND FUNDS

Fig. 2.4: Distribution of Hedge Fund Managers and Industry Assets under Management by Fund Manager Headquarters



Source: Preqin Pro. Data as at November 2018

Fig. 2.5: Hedge Fund Manager Assets under Management by Manager Headquarters

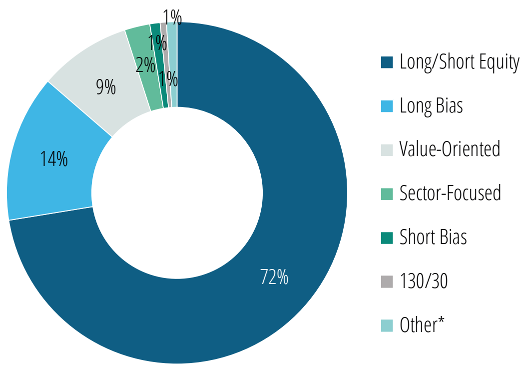
Manager Headquarters	Dec-17 AUM ($bn)	Q4 2018 AUM ($bn)	% Change in AUM over 2018
US	2,570	2,568	0%
UK	506	486	-4%
Hong Kong	69	62	-10%
Canada	41	50	22%
Sweden	50	44	-12%
France	51	41	-20%
Brazil	46	37	-20%
Australia	29	34	17%
Switzerland	33	30	-9%
Singapore	20	22	10%

Source: Preqin Pro. Data as at November 2018

EQUITY STRATEGIES

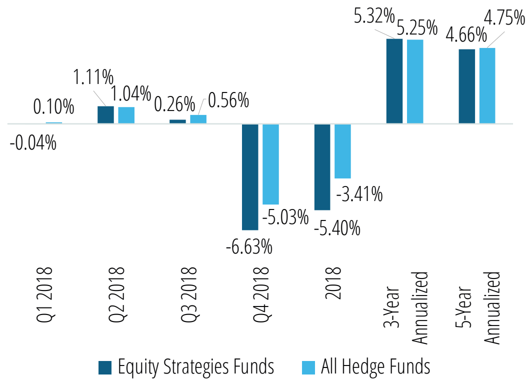
3,130	2,699	$889bn	6,996	-5.40%
No. of Active Fund Managers	No. of Active Investors	AUM	No. of Active Funds	2018 Return

Fig. 5.1: Equity Strategies Funds by Core Strategy, All Time



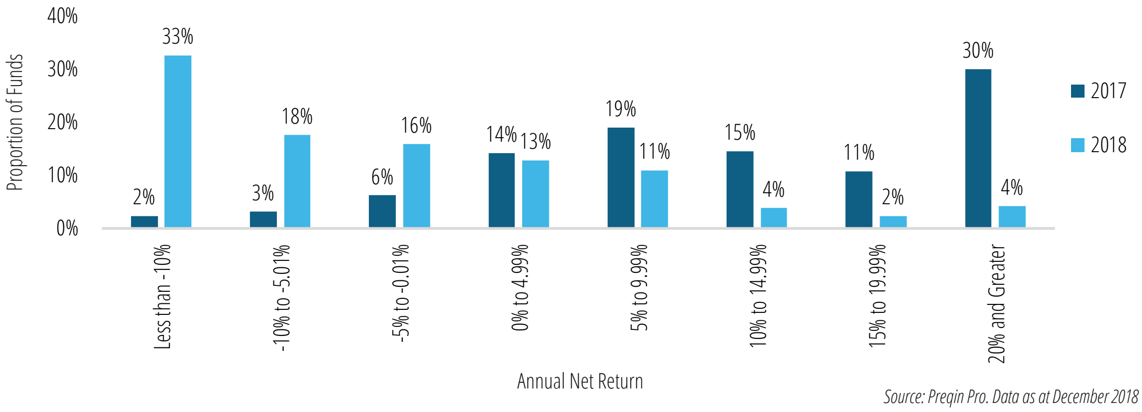
Source: Preqin Pro

Fig. 5.2: Net Returns of Equity Strategies Funds vs. All Hedge Funds



Source: Preqin Pro. Data as at December 2018

Fig. 5.3: Distribution of Equity Strategies Fund Returns, 2017 vs. 2018



Source: Preqin Pro. Data as at December 2018

Fig. 5.4: Performance of Equity Strategies Funds by Core Strategy

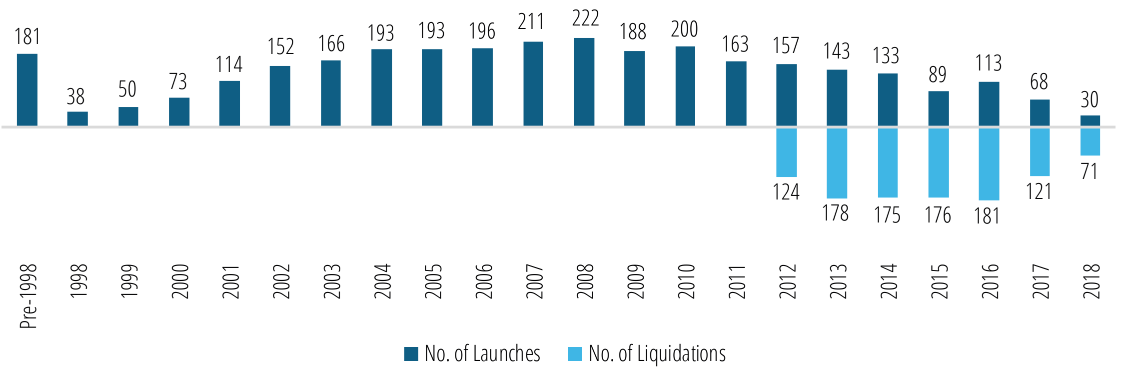
Q1 2018	Q2 2018	Q3 2018	Q4 2018	2018	3-Year Annualized	3-Year Volatility
Sector-Focused **3.37%**	Sector-Focused **5.49%**	Sector-Focused **3.05%**	Long Bias **-6.14%**	Sector-Focused **1.87%**	Long Bias **8.07%**	Long/Short Equity **5.22%**
Long/Short Equity **-0.08%**	Long/Short Equity **1.72%**	Long/Short Equity **0.52%**	Long/Short Equity **-6.88%**	Long/Short Equity **-4.86%**	Sector-Focused **7.49%**	Value-Oriented **8.02%**
Long Bias **-0.12%**	Long Bias **-0.69%**	Value-Oriented **-0.08%**	Value-Oriented **-8.36%**	Long Bias **-7.50%**	Value-Oriented **7.24%**	Long Bias **8.08%**
Value-Oriented **-0.34%**	Value-Oriented **-0.76%**	Long Bias **-0.65%**	Sector-Focused **-9.34%**	Value-Oriented **-9.44%**	Long/Short Equity **4.23%**	Sector-Focused **8.94%**

Source: Preqin Pro. Data as at December 2018

** Includes Directional and Variable Bias strategies.*

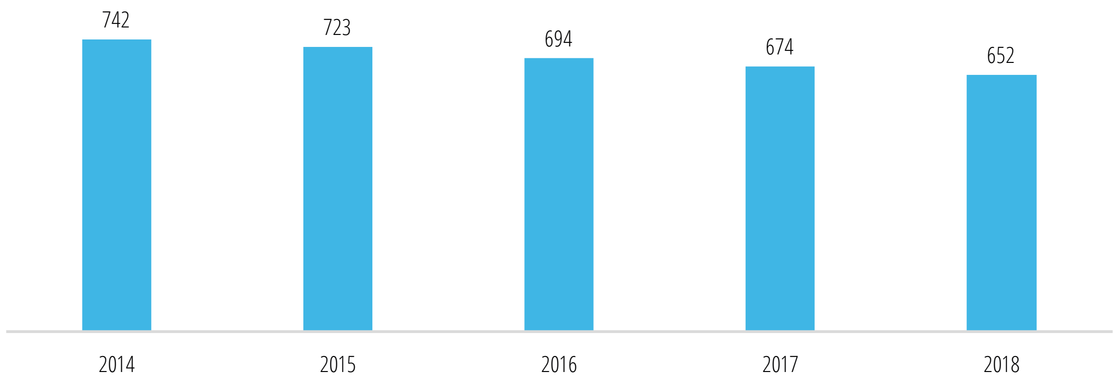
FUND OF HEDGE FUNDS OVERVIEW

Fig. 6.1: Fund of Hedge Funds Launches and Liquidations by Year of Inception/Liquidation, Pre-1998 - 2018



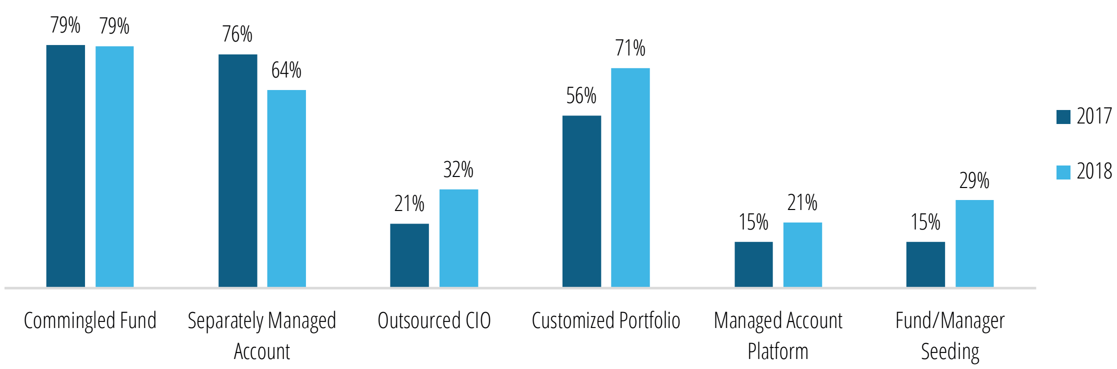
Source: Preqin Pro

Fig. 6.2: Number of Active Fund of Hedge Funds Managers, 2014 - 2018



Source: Preqin Pro

Fig. 6.3: Services Offered by Fund of Hedge Funds Managers: 2017 vs. 2018



Source: Preqin Fund of Hedge Funds Manager Survey, November 2018

investors remain positive on the strategy as more are looking to increase exposure than those looking to pull back (Fig. 9.6).

CONSIDERATIONS FOR INVESTORS

For investors active in the industry, the challenge of portfolio selection persists. With nearly 15,000 funds open to investment, navigating the saturated landscape and performing due diligence to construct a portfolio is no mean feat. Over the past two years, the number of active hedge funds has declined for the first time since the GFC – a welcome contraction for fund managers, where the competitive landscape has only become more congested over the course of the decade. Preqin's 'Future of Alternatives' report found that consolidation will impact the hedge fund industry through to 2023: 91% of fund managers expect some or significant consolidation to occur over the next five years.[1] What is left behind should be a leaner market place for investors to optimize their portfolios.

How to access hedge funds is another important consideration for investors when assessing portfolio selection. While 70% of investors view pooled structures as the leading route to market, managed accounts are increasingly offered. One in every three fund managers now provides a managed account offering and, over the next five years, 39% of fund managers expect managed account offerings to increase as appetite for the structure shows no sign of abating.

AROUND THE CORNER

Opportunities exist for hedge funds to demonstrate their true value in the investment portfolio; investors are backing the asset class over the short and long term as concerns around market and economic conditions intensify. Preqin predicts that hedge fund industry AUM will grow by 31% in the next five years, reaching $4.7tn by 2023, as investors' requirements for alpha uncorrelated to public markets continue to push them towards hedge funds. However, fund managers will need to survive a timely industry consolidation in order to prosper.

[1] *'The Future of Alternatives', Preqin: www.preqin.com/future*

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