2014 Preqin Global Hedge Fund Report

Sample Pages

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The 2014 Preqin Global Hedge Fund Report Contents

2014: A Year for Hedge Funds to Capitalize on the Success of 2013

- Amy Bensted, Preqin

Performance

Much of the recent criticism faced by hedge funds has focused on hedge fund benchmarks being outperformed by leading equity indices, such as the S&P 500. In 2013, the Preqin hedge fund index again lagged the S&P 500; however, despite this, investors are satisfied with the performance of hedge funds in 2013 (see Section 7: Institutional Outlook for Hedge Funds in 2014). Where does the discrepancy arise?

The changes within the hedge fund management sector have been well documented; fund managers have become more transparent, with more robust back offices and more focus on providing institutional quality service. However, it is not just fund managers which have adapted to the new environment; investors in hedge funds have changed over the last few years, particularly in terms of how they view hedge funds and their role within their portfolios. We are now in a new era for hedge fund investors, in which they are turning to hedge funds for more than just absolute returns. They are also looking for funds to produce strong risk-adjusted returns with low volatility on a consistent basis. The performance of hedge funds over 2012 and 2013 has certainly delivered this (see Section 3: Hedge Fund Performance in 2013). Also, with the proliferation of strategies which utilize instruments other than equities, using the S&P 500 as a benchmark for the entire industry is becoming less relevant for many industry professionals.

Industry Assets Grow

Hedge funds added over $360bn in additional capital in 2013, due to both the performance of hedge funds and inflows from investors. The North American, and in particular, US-based fund industry showed the largest increase in size, adding over $300bn over the course of 2013. Much of this increase in industry assets has come from institutional investors, with 41% of fund managers reporting an increase in the amount of capital coming from these investors over the course of 2013. A large proportion of fund managers, 83%, predict that industry assets will increase further in 2014, and with concerns around fundraising easing (Section 5: Fund Manager Survey), managers will be focusing on continuing to fulfil investor demands, as well as meeting performance objectives in order to sustain growth into 2014.

As shown in Section 7: Institutional Outlook for Hedge Funds in 2014, funds in the size range $1-5bn look set to be the most sought by investors in 2014. However, smaller funds are also being considered by institutional investors as they shift away from a reliance on just the largest funds for their investments. This could mean that we see a broad range of fund managers pick up institutional mandates in 2014, and not just the extra-large funds that have been the biggest winners over recent years.

Investor Plans for 2014

Coupled with a more positive outlook on the hedge fund industry, investors have also expressed a strong appetite for new hedge fund investments in 2014. Long/short equity strategies, among the top performing in 2013, are the most favoured by investors. Alongside this, macro funds, which have had a more difficult few years in terms of performance, are also commonly sought after by institutions as these investors seek non-correlation and diversification.

Funds of hedge funds have shown a continued decline in assets from 2012 to 2013, as investors shift their capital to single-manager funds. However, the outlook for these funds looks more positive; we have seen an increase in some of the established groups of hedge fund investors, notably endowments, looking for funds of funds in larger numbers, as funds of hedge funds rebrand themselves as multi-management groups which can provide niche or customized mandates. If funds of funds can attract both first-time hedge fund investors through traditional products, and more established investors through innovative solutions, the sector could recoup some of its recent losses over 2014 and beyond.

Outlook

Even though investors are feeling more positive going into 2014, hedge fund managers should not rest on their laurels; 2014 will be an important year for the industry to build on the successes of 2013. Despite an improved outlook from investors on the returns of the industry, performance will again be an important issue for 2014 – two-thirds of fund managers rank generating attractive returns as a key factor for the year ahead, a higher proportion than was seen among fund managers looking ahead to 2013 (Section 5: Fund Manager Survey). It is clear that hedge fund managers recognize that investors are paying close attention to the industry's returns and will be hoping to keep this on track in order to build on the positive sentiment created over the past two years. As investors are continuing to look for funds with a solid track record, fund managers may choose to focus on existing vehicles over 2014, rather than launching new funds, particularly in the increasingly complex regulatory environment.

Taking Stock: A Resurgent Industry That Has Grown Up

- Richard H. Baker, President and CEO of Managed Funds Association

This past year marked a strong return of investor confidence in the hedge fund industry. Inflows are at record levels and total industry assets under management are solidly above the pre-crisis watermark. Preqin reported last year that 80% of hedge fund investors planned to increase or maintain their hedge fund allocation in 2013.

What's causing this resurgence? The industry is more transparent to regulators and investors than ever before: hedge fund advisers in the US are fully registered as a result of the Dodd-Frank Act, and many of those must also make systemic risk reports; EU advisers will soon be complying with a fund marketing directive; and authorities in Asia and other global regions are beginning to focus more regulatory attention on the industry. Investors will be able to gain still greater insight once advisers determine how best to take advantage of the removal of the ban on general solicitation, allowing them to communicate more freely with potential investors, media, and their peers in public settings.

Increased transparency, which MFA and much of the industry supported through various regulatory reforms, does come at a price, however. An October 2013 report, The Cost of Compliance, produced by MFA, KPMG, and the Alternative Investment Management Association, found that the average spend on compliance for large fund managers was $14mn, $6mn for medium-size managers, and at least $700,000 for small fund managers. The study also found that the hedge fund industry has already invested heavily in compliance efforts to meet new global regulations, having spent more than $3bn to date on compliance costs. Hedge fund managers reported spending anywhere between 5% and upwards of 10% of their operating costs on compliance technology, headcount, and strategy.

In looking at the qualitative interviews that were part of this research report it is striking how many managers were not resentful of these compliance costs but saw them as part of the natural evolution of an industry maturing. The industry is, the report makes clear, committed to compliance. A compliance outlay of $700,000 for a small or emerging manager is certainly a barrier to entry, and our industry should be thoughtful about the innovation and competition such a barrier might exclude, but it is also a mark of a more mature industry – one that is fully regulated and trusted by some of the largest asset managers in the world.

The trust and confidence of these investors conveys a great deal of responsibility for the people, organizations, and causes to which the majority of those investors are accountable. The industry has already made great strides in demonstrating its commitment to these investors, to policy makers, and to regulators by embracing financial regulatory reforms, but we must continue to engage on these and other issues.

Despite the progress on reform around the world, it is essential that the industry is well understood by those who write the laws affecting our business and those who interpret and enforce those laws. Education and advocacy cannot stop. While more of the general public is aware of the hedge fund industry, there is still enormous work to be done on conveying the value, success, and function of hedge funds in the marketplace. MFA will be working to ensure advisers can take advantage of the option to advertise and speak publicly about their funds. This change could be as advantageous to the industry as the first institutional investments were – the difference this time is that it allows advisers to build their brand rather than their assets.

In addition to the solicitation rules we will be closely monitoring the prospects for tax reform in the US in 2014. Fiscal negotiations provide an opportunity for debate of revenue raisers and the hedge fund industry has been a target of past proposals. There is also the potential for more sweeping tax reform introduced in Congress, though it is difficult to pass legislation of that scope in an election year. In the EU the industry will be following closely the negotiations on the Markets in Financial Instruments Directive and Regulation, and will be engaged in the implementation of the European Market Infrastructure Regulation in 2014. Further, we will be focused on working with authorities contemplating new regulations relevant to our industry and working to ensure regulators of different jurisdictions coordinate their efforts.

That is just a sampling of the issues of significance for the coming year – there are many more challenges we need to tackle, some of which are unknown to us at this time. Taking stock of where we are, post-crisis, past the most intense regulatory reform efforts, gives us valuable perspective. As the industry continues to expand, as more institutions trust advisers to deliver returns, as we forge more constructive working relationships with policy makers and regulators, we should acknowledge how far we have come and embrace the responsibilities and obligations we must now fulfill as trusted, transparent citizens of the financial services community.

Managed Funds Association

The Managed Funds Association (MFA) represents the global alternative investment industry and its investors by advocating for sound industry practices and public policies that foster efficient, transparent, and fair capital markets.

www.managedfunds.org

Performance Benchmarks

Fig. 3.1: Summary of Performance Benchmarks, as at December 2013 (Net Returns, %)*

	2013	2012	2011	2-Year Annualized	3-Year Annualized	5-Year Annualized	3-Year Volatility	5-Year Volatility
Hedge Funds	**11.08**	**10.13**	**-1.93**	**10.60**	**6.26**	**13.12**	**5.23**	**6.45**
HF - Long/Short	14.10	10.92	-5.30	12.51	6.22	13.97	7.05	8.55
LS - Long/Short Equity	13.47	9.53	-5.02	11.49	5.69	12.40	6.37	7.67
LS - Long/Short Credit	9.17	13.43	2.88	11.28	8.40	15.66	3.25	4.86
LS - Long Bias	18.20	15.21	-9.69	16.70	7.13	19.41	11.63	14.10
LS - Value-Oriented	22.62	17.26	-8.65	19.92	9.52	21.89	10.57	13.69
LS - North America	19.91	11.06	-1.62	15.41	9.43	16.40	7.47	9.13
LS - Europe	15.73	8.37	-5.18	11.99	5.95	10.03	5.66	5.96
LS - Asia-Pacific	19.53	13.85	-9.34	16.66	7.25	15.44	8.91	10.65
LS - Emerging Markets	5.79	13.73	-8.94	9.69	3.09	13.92	8.71	10.92
LS - Developed Markets	17.26	15.49	-2.36	16.37	9.76	16.06	5.46	7.11
HF - Event Driven Strategies	16.33	12.86	-2.17	14.58	8.71	17.09	6.33	7.37
ED - Event Driven	16.68	12.10	-1.87	14.36	8.68	16.25	6.29	7.07
ED - Distressed	20.50	17.17	-3.06	18.83	11.03	21.72	7.23	9.46
ED - Risk/Merger Arbitrage	6.53	5.34	4.36	5.93	5.40	5.87	2.67	2.38
ED - Special Situations	20.60	15.57	-3.88	18.06	10.24	20.36	8.47	8.84
HF - Relative Value	7.14	6.97	5.03	7.05	6.37	10.14	1.58	2.48
RV - Convertible Arbitrage	7.42	8.09	0.80	7.75	5.38	15.28	3.16	5.95
RV - Fixed Income Arbitrage	4.64	10.41	5.51	7.49	6.82	12.74	2.28	3.78
RV - Relative Value Arbitrage	8.86	9.37	6.86	9.12	8.35	11.46	1.50	2.45
RV - Equity Market Neutral	7.73	4.01	3.38	5.86	5.03	6.64	1.60	1.69
RV - Statistical Arbitrage	7.49	2.65	10.66	5.04	6.88	7.10	3.55	3.26
RV - North America	4.23	7.19	5.44	5.70	5.61	12.06	1.45	3.64
RV - Asia-Pacific	11.02	4.27	5.19	7.59	6.78	8.01	2.15	2.59
RV - Developed Markets	6.48	7.94	5.85	7.21	6.75	10.18	1.87	2.85
HF - Macro Strategies	2.42	7.73	2.55	5.05	4.21	9.64	3.03	4.21
MS - Fixed Income	4.09	15.02	5.34	9.41	8.03	15.31	3.71	4.94
MS - Commodities	-7.18	2.02	-5.23	-2.69	-3.55	7.45	9.54	9.81
MS - Macro	2.94	7.36	3.12	5.13	4.45	9.63	2.79	4.35
MS - Foreign Exchange	-1.58	1.43	-2.52	-0.09	-0.90	3.77	3.88	4.53
HF - Multi-Strategy	8.44	9.04	1.05	8.74	6.11	11.20	3.90	4.58
HF - Other Strategies	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
OS - Asset-Backed Lending	13.30	17.77	13.97	15.51	15.00	22.23	2.45	4.99
OS - Mortgage-Backed Strategies	12.67	22.30	5.77	17.39	13.38	21.98	3.51	4.52
OS - Sector-Focused	4.25	0.67	-18.99	2.44	-5.27	n/a	10.43	n/a
HF - North America	16.55	11.84	0.88	14.17	9.55	16.98	5.83	7.27
HF - Europe	13.55	9.08	-3.91	11.29	5.98	11.26	4.92	5.45
HF - Asia-Pacific	16.73	11.47	-6.13	14.07	6.90	13.38	7.20	8.45
HF - Emerging Markets	5.86	12.62	-4.85	9.19	4.29	13.43	6.76	8.50
HF - Developed Markets	11.67	11.21	1.47	11.44	8.01	13.01	3.50	4.28

Data Source:

Preqin's **Hedge Fund Analyst** features fund-by-fund and industry level performance data covering over 8,300 funds and share classes, with 6,200 reporting monthly returns, providing you with a true overview of the hedge fund market. For more information, please visit: www.preqin.com/hfa

** Please note, all performance information includes preliminary data for December 2013 based on net returns reported to Preqin in early January 2014. Although stated trends and comparisons are not expected to alter significantly, final benchmark values are subject to change.*

Overview of Hedge Fund Managers

Preqin tracks more than 5,200 fund management groups currently managing investment products in the hedge fund sector. These managers operate a variety of hedge fund vehicles, from pooled single-manager single-strategy funds, to funds structured under the UCITS wrapper or offered as separately managed accounts. In this section we present a breakdown of the hedge fund manager universe, including a detailed regional analysis of fund managers.

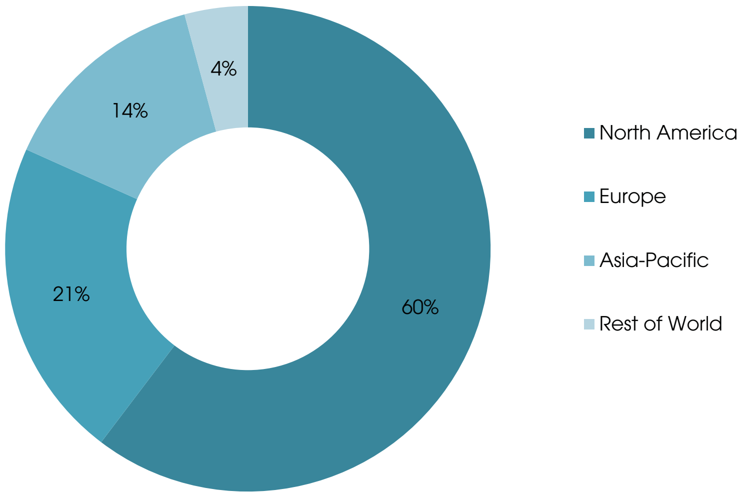
Regional Breakdown

North America is the most established region in the hedge fund industry and so, unsurprisingly, the majority of hedge fund managers (60%) are based within this region (Fig. 4.9). Twenty-one percent of hedge fund managers are based in Europe, with the UK in particular a significant location for hedge fund managers (Fig. 4.11). The Asia-Pacific region represents 14% of hedge fund managers with the majority of these managers based in one of the three main hedge fund centres – Australia, Hong Kong and Singapore – with each of these three locations featuring in the top 10 countries worldwide in terms of number of hedge fund managers (Fig. 4.11). The hedge fund industry in other regions is less developed, with just 4% of managers based outside North America, Europe or Asia-Pacific. Brazil and South Africa are the most prominent hedge fund locations within this group, representing more than 70% of hedge fund managers based in regions outside of North America, Europe and Asia-Pacific.

Assets under Management

Hedge fund assets have grown further over the course of 2013; total industry assets have increased by more than $360bn over the year, taking aggregate assets under management past the $2.6tn mark. North America is home to a significant proportion of the largest hedge fund management groups and this region has seen the greatest increase in assets over 2013, adding approximately $300bn over the course of the year. The region now represents more than $1.9tn in hedge fund industry assets, corresponding to approximately 72% of the worldwide total (Fig. 4.10).

Fig. 4.9: Breakdown of Hedge Fund Managers by Location



Source: Preqin Hedge Fund Analyst

Fig. 4.10: Hedge Fund Manager Assets under Management by Regional Location

Manager Headquarters	Assets under Management ($bn)
North America	1,923
Europe	560
Asia-Pacific	112
Rest of World	69

Source: Preqin Hedge Fund Analyst

Fig. 4.11: Breakdown of Hedge Fund Manager Assets under Management by Country Location

Manager Country Location	Assets under Management ($bn)
US	1,893
UK	440
Brazil	51
Hong Kong	47
Sweden	39
France	34
Australia	33
Canada	26
Switzerland	25
Singapore	21

Source: Preqin Hedge Fund Analyst

Data Source:

Preqin's Hedge Fund Analyst features detailed profiles of over 6,300 hedge fund managers, including key contact details, individual fund performance, and more.

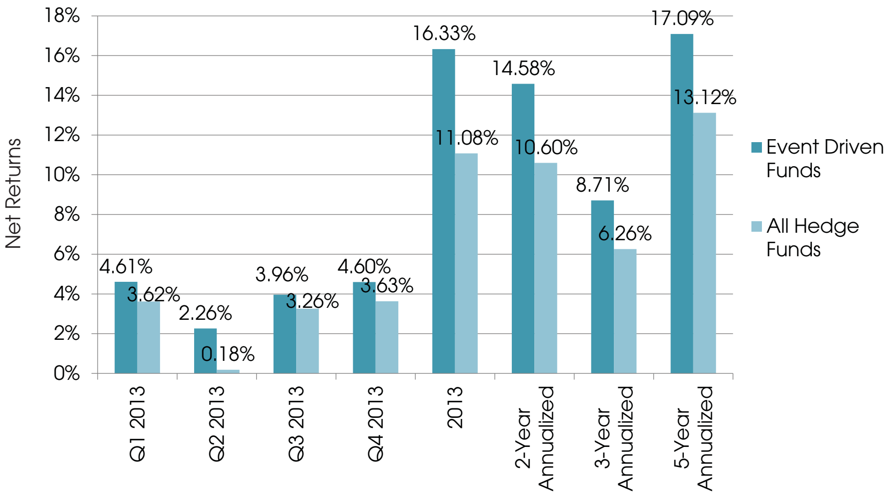
www.preqin.com/hfa

wrapper and this is another reason why these funds are less common within the European market than other hedge fund strategies.

Performance of Event Driven Funds

The event driven strategies benchmark was the best performing of Preqin's strategy benchmarks in 2013, with returns of 16.33%, and the strategy posted positive returns in all four quarters of the year (Fig. 6.16). This positive performance was as a result of strong gains achieved by pure event driven (+16.68%), distressed (+20.50%) and special situations (+20.60%) funds (Fig. 6.17). Special situations funds were top performing in the event driven category in Q3, with distressed funds delivering the highest returns in Q2 and Q4. Risk/merger arbitrage funds posted more muted returns than all other event driven strategies in each quarter and for the year overall (+6.53%), although these funds tend to have significantly lower volatility than other funds in the event driven category.

Fig. 6.16: Performance of Event Driven Strategies Funds (As at December 2013)*



Source: Preqin Hedge Fund Analyst

Event driven hedge funds outperformed the overall hedge fund benchmark in each quarter of 2013 and the strategy has also posted higher returns than the hedge fund average over the past two, three and five years on an annualized basis. Event driven strategies have profited from distressed opportunities and merger and acquisition activity to post strong returns in 2012 and 2013, showing that the illiquidity associated with these funds often comes with a performance premium.

Fig. 6.17: Net Returns of Leading Event Driven Strategies*

Q1 2013	Q2 2013	Q3 2013	Q4 2013	Cumulative 2013	3-Year Annualized	3-Year Volatility
Event Driven 5.08%	Distressed 4.36%	Special Situations 7.49%	Distressed 6.46%	Special Situations 20.60%	Distressed 11.03%	Risk/Merger Arbitrage 2.67%
Special Situations 4.94%	Event Driven 2.05%	Event Driven 4.07%	Special Situations 5.00%	Distressed 20.50%	Special Situations 10.24%	Event Driven 6.29%
Distressed 4.35%	Special Situations 1.83%	Distressed 3.94%	Event Driven 4.55%	Event Driven 16.68%	Event Driven 8.68%	Distressed 7.23%
Risk/Merger Arbitrage 1.37%	Risk/Merger Arbitrage 1.27%	Risk/Merger Arbitrage 1.40%	Risk/Merger Arbitrage 2.34%	Risk/Merger Arbitrage 6.53%	Risk/Merger Arbitrage 5.40%	Special Situations 8.47%

Source: Preqin Hedge Fund Analyst

Fig. 6.18: Examples of Event Driven Strategies Funds Launched in 2013

Fund	Inception Date	Strategy	Firm Location
Roystone Capital Master Fund	01-Jun-2013	Event Driven	US
UFG Special Situations Fund	29-Aug-2013	Special Situations	Russia
Mast-Head	13-Feb-2013	Event Driven	US
Ramius Merger Fund	01-May-2013	Risk/Merger Arbitrage	US
Eyck European Tactical Distressed Opportunities Fund	01-May-2013	Distressed	UK

Source: Preqin Hedge Fund Analyst

** Please note, all performance information includes preliminary data for December 2013 based on net returns reported to Preqin in early January 2014. Although stated trends and comparisons are not expected to alter significantly, final benchmark values are subject to change.*

Investor Survey: Institutional Outlook for Hedge Funds in 2014

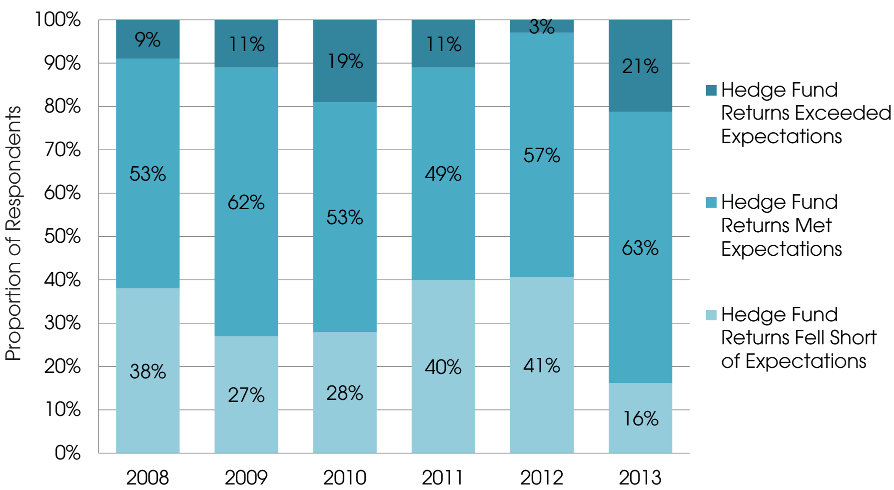
In November 2013, Preqin analysts conducted in-depth interviews with 148 institutional investors in hedge funds, with a total of more than $60bn invested in the asset class, in order to ascertain their outlook on the hedge fund industry for 2014. During these interviews, investors were asked for their opinions on a range of topics, including their views on industry performance in 2013, their attitude towards the asset class and their opinion on new regulations. We also took an in-depth look at how hedge funds fit into the portfolios of institutional investors, including an analysis of what sizes of managers are being targeted by hedge fund investors in 2014.

How Have Institutional Hedge Fund Portfolios Fared in 2013?

2013 has been a record year in terms of investor satisfaction with the performance of hedge funds; collectively, 84% of investors interviewed 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. 7.12). 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 returns expectations (see Section 7: Know Your Investors for more details). The proportion of investors reporting that hedge funds have exceeded expectations has also increased, from just 3% for 2012 returns to 21% for 2013 returns, again suggesting that hedge funds have succeeded in meeting portfolio objectives over the course of the year.

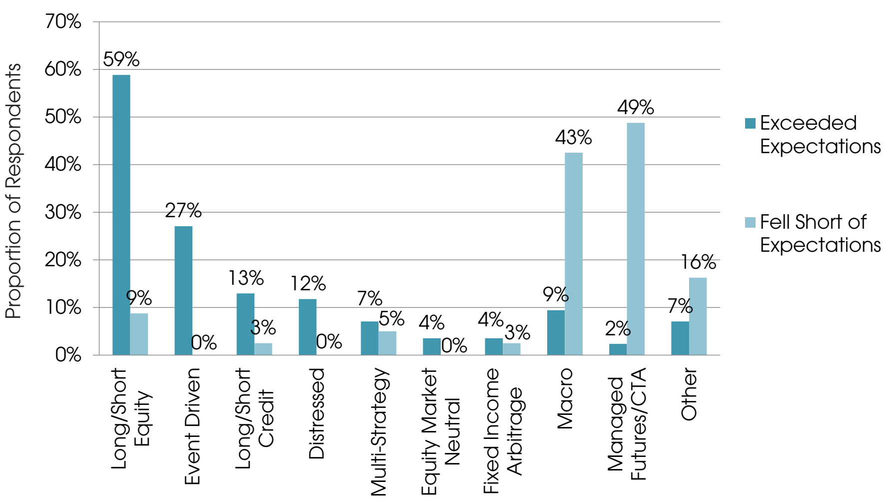
Fig. 7.13 shows the specific investment strategies that investors believe exceeded or fell short of expectations in 2013. Directional strategies have won favour with institutional investors during 2013, with 59% of investors believing that long/short equity funds have exceeded their expectations, marking 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 have also been viewed positively by investors, with 27% of the investors we surveyed 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 have underperformed respectively. Both long/short credit and distressed strategies had

Fig. 7.12: Hedge Fund Portfolio Performance Relative to Expectations of Institutional Investors, 2008 - 2013



Source: Preqin Investor Interviews, 2008 - November 2013

Fig. 7.13: Hedge Fund Portfolio Performance Relative to Expectations in 2013 by Strategy



Source: Preqin Investor Interviews, November 2013

Identify Potential Investors

Preqin's **Hedge Fund Investor Profiles** features detailed profiles of over 4,400 active investors in hedge funds. Profiles include details of investors' current fund searches and open mandates issued, which can be filtered by particular types and locations or specific fund strategies and structures.

www.preqin.com/hfip

Know Your Investors: The Institutional Investor in Hedge Funds in 2013

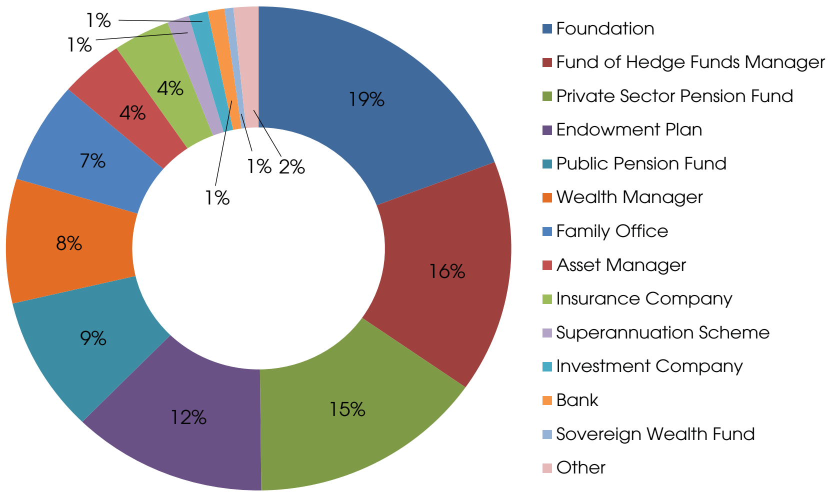
The institutional investor landscape has rapidly evolved over recent years and the way in which investors include hedge funds within their portfolios is changing significantly. Institutional investors continue to dominate hedge fund inflows ahead of high-net-worth individuals, with many hedge fund managers reporting that they are seeing inflows of capital coming from the institutional universe (see our Fund Manager Survey on page 35). Poor performance in 2011 led to some difficulties for hedge fund managers as many investors scaled back their investments in the asset class as a result. However, as our investor survey on page 53 shows, investor confidence in the industry is returning following positive performance in 2012, which has continued into 2013. Many investors are once again increasing hedge fund allocations as they recognize the benefits that hedge funds provide in terms of diversification and as a provider of strong risk-adjusted returns.

Preqin's Hedge Fund Investor Profiles service tracks over 4,400 institutional investors active in hedge funds and the total amount of capital invested in hedge funds by these investors has grown over the course of 2013. In this section we examine the institutional universe and how the marketplace has changed in recent years. Figs. 7.21-7.26 show a breakdown of the hedge fund investor universe by type, including the proportion of all hedge fund capital invested, the mean maximum lock-up period accepted, mean returns expectations, mean allocation to hedge funds, and investment approach.

Public Pension Funds

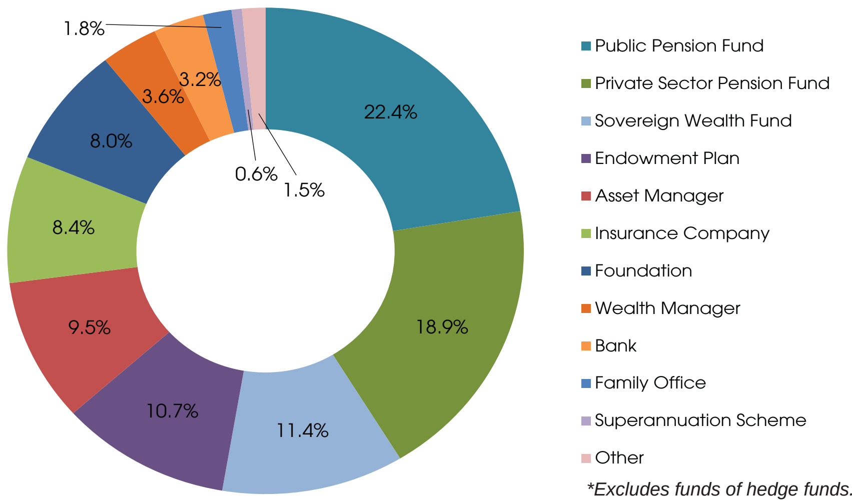
Public pension funds represent the largest proportion of capital invested in hedge funds by institutional investors at over 22%, despite representing just 9% in terms of the overall numbers of investors in the asset class (Figs. 7.21 and 7.22). Public pension funds have steadily been increasing their allocation to the asset class over the past few years and there has been a notable increase in their mean current allocation to hedge funds over the past year from 6.9% in 2012 to 7.5% in 2013 (Fig. 7.25). This highlights the increased confidence in hedge funds among public pension funds and many of the larger funds have

Fig. 7.21: Breakdown of Hedge Fund Investor Universe by Investor Type



Source: Preqin Hedge Fund Investor Profiles

Fig. 7.22: Breakdown of Institutional Investor Capital Invested in Hedge Funds by Investor Type*



*Excludes funds of hedge funds.

Source: Preqin Hedge Fund Investor Profiles

Data Source:

Preqin's **Hedge Fund Investor Profiles** features detailed profiles of over 4,400 hedge fund investors of all different types. Profiles include details of investors' current fund searches and open mandates, current and target allocations to hedge funds, key contact details, background information and investment plan overviews.

For more information on how Preqin's hedge fund data can help you, or to arrange a demonstration, please visit:

www.preqin.com/hfip

Funds of Hedge Funds

Funds of hedge funds have traditionally been valued by institutional investors largely due to the portfolio diversification, risk mitigation, and manager selection expertise they provide. The fund of hedge funds industry has faced many challenges in recent years, especially as a number of investors have moved away from investing in multi-manager structures in favour of direct investments (see Section 7: Know Your Investors). This has meant a number of fund of hedge funds managers have had to re-invent themselves in order to stay relevant by offering customized mandates or focusing on more niche areas of the hedge fund industry.

Changing Industry Assets under Management

The fund of hedge funds industry has witnessed a steady contraction in its total assets under management since it reached a peak of $1.2tn in 2008. Net outflows resulting from the shift of investor multi-manager allocations towards direct investments in hedge funds, the growing influence of investment consultants and underwhelming performance, have all contributed to a reduction in total industry assets in recent years. There has been a further reduction in assets in 2013, with total assets globally standing at $786bn as of December 2013 compared to $810bn as of December 2012.

However, as the largest contributors to global assets under management, North America-based fund of hedge funds managers are doing their best to defy this decline in industry assets. Fig. 11.1 shows that fund of hedge funds managers in this region grew their assets by 5.5% from $508bn in December 2012 to $536bn in December 2013. Although this figure is still well below its 2008 peak of $626bn, North America is the only region to witness an increase in total fund of hedge funds assets in each of the last two years, and there are reasonable grounds to suggest that the region can continue its recovery in the future.

Elsewhere, Europe-based fund of hedge funds managers have suffered from the financial uncertainty surrounding the eurozone which has led to many

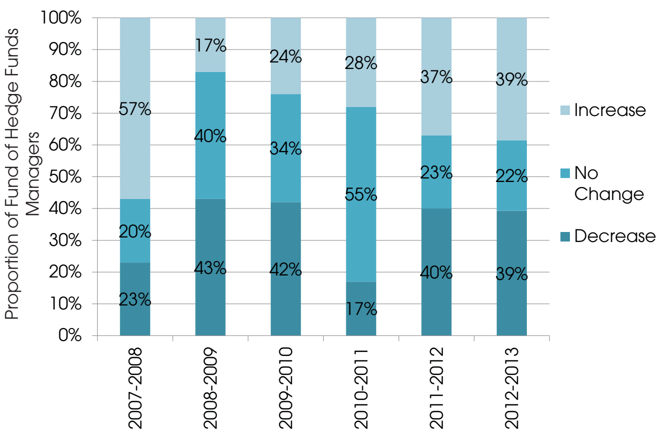
Fig. 11.1: Fund of Hedge Funds Managers' Assets under Management by Location, December 2007 - December 2013

Source: Preqin Hedge Fund Investor Profiles

Are You a Fund Manager?

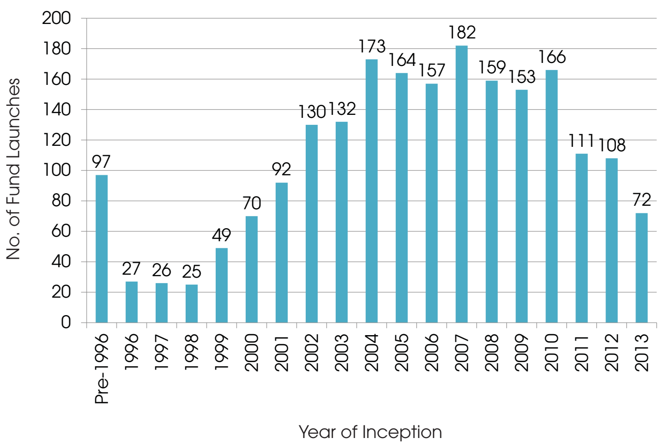
Over 6,200 hedge funds and share classes report monthly returns to Preqin, ensuring their performance data gets in front of the thousands of investors using **Preqin Investor Network** and Preqin's online services. Add hfperformance@preqin.com to your monthly performance distribution lists to ensure your fund information remains accurate and is updated regularly.

Fig. 11.2: Proportional Change in Fund of Hedge Funds Managers' Assets under Management, 2007 - 2013



Source: Preqin Hedge Fund Investor Profiles

Fig. 11.3: Fund of Hedge Funds Launches by Year of Inception



Source: Preqin Hedge Fund Analyst

Fund Administrators

If the hedge fund administration industry of 2012 was characterized by consolidation activity, then 2013 was the year of increased collaboration between administrators and hedge fund managers. This has been largely prompted by the influx of regulation such as FATCA and AIFMD, which has necessitated increased compliance with reporting and operational obligations. This has led to administrators assuming even greater responsibility in the regulatory climate, with back-office services such as fund accounting and middle-office risk management taking on even greater significance.

Top 10 Fund Administrators Overall and in 2013

The leading hedge fund administrator by the proportion of funds serviced is Citco Fund Services, which is used by 12% of hedge funds (Fig. 14.1). SS&C GlobeOp and State Street (International Fund Services) are utilized by 10% and 9% of funds respectively and both of these firms have seen their proportion of funds serviced grow by three percentage points since 2012. BNY Mellon has a 6% share of the hedge fund administration industry by the proportion of funds serviced. Citi Fund Services and Morgan Stanley Fund Services oversee 4% and 3% of hedge funds respectively, with Northern Trust Fund Administration also serving 3% of funds. The Guernsey-based administrator has been at the centre of the emerging issue of shadow fund administration after Bridgewater Associates appointed the firm to shadow the administration work primarily undertaken by BNY Mellon. However, it remains to be seen whether this move will catch on with other large hedge fund managers.

The final three hedge fund administrators that feature among the top 10 firms by proportion of funds serviced are HSBC Securities Services, SEI Investments and U.S. Bancorp Fund Services, with each of these firms holding 2% of fund administration mandates from hedge funds. U.S. Bancorp Fund Services rounds off this ranking of the top 10 administrators following the acquisition of Quintillion in Q3, which came exactly a year after its purchase of AIS Fund Administration.

As well as being employed by 10% of hedge funds overall, SS&C GlobeOp also proved to be the most favoured fund administrator among newly launched funds in 2013. The Connecticut-based firm picked up 13% of new fund business (Fig. 14.2). It is marginally ahead of Morgan Stanley Fund Services, which gained the business of 12% of the hedge funds incepted in 2013, a year before the Morgan Stanley fund administration unit reaches 10 years since it was established.

The largest hedge fund administrator by the proportion of funds serviced, Citco Fund Services, is the next most mandated by 2013 launched funds seeking back- and middle-office support for their fund

Data Source:

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Fig. 14.1: Top 10 Fund Administrators Servicing Hedge Funds

Firm	Proportion of Hedge Funds Serviced
Citco Fund Services	12%
SS&C GlobeOp	10%
State Street (International Fund Services)	9%
BNY Mellon	6%
Citi Fund Services	4%
Morgan Stanley Fund Services	3%
Northern Trust Fund Administration	3%
HSBC Securities Services	2%
SEI Investments	2%
U.S. Bancorp Fund Services	2%

Source: Preqin Hedge Fund Analyst

Fig. 14.2: Top Five Fund Administrators by Proportion of Hedge Funds Launched in 2013 Serviced

Firm	Proportion of Hedge Funds Launched in 2013 Serviced
SS&C GlobeOp	13%
Morgan Stanley Fund Services	12%
Citco Fund Services	11%
State Street (International Fund Services)	8%
Northern Trust Fund Administration	6%

Source: Preqin Hedge Fund Analyst

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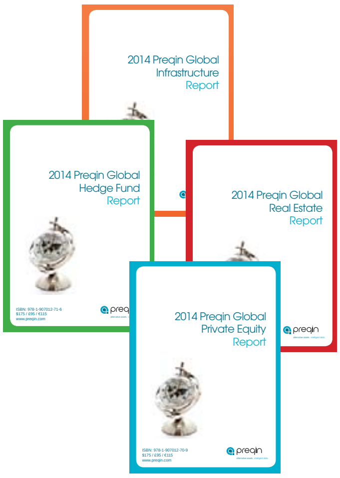

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