



US – The Centre of the Hedge Fund Universe

Drawing on data from the recently released [Preqin Special Report: US Hedge Fund Industry, September 2013](#), Amy Bensted takes a look at the role this prominent region plays within the hedge fund industry.

Since its inception in 1949 by Australian born but US-residing Alfred Winslow-Jones, the hedge fund industry in the United States has become an established hub. With \$1.74tn managed by hedge fund firms based in the country as of 1st September 2013, the US is home to more than 70% of the total capital at work in hedge funds today.

There are over 8,500 hedge funds managed by firms based in the US, with 46 of the nation's 50 states having at least some hedge fund management activity (Fig. 1). From Alabama to Wyoming there are investors in all 50 states which make some use of hedge funds as part of their wider portfolios.

In this article we will take a closer look at the US hedge fund industry today. Using Preqin's database of 2,726 US-based institutional investors and 3,257 US-based fund managers, we will examine the 10 most influential states in the hedge fund industry in the US in closer detail, as well as looking at the overall importance of the US in the global hedge fund industry. The 10 most influential states were categorized based on both the number and capital allocations of investors and fund managers based in each state.

US-Based Hedge Fund Investors

US-based institutional investors account for 55% of all institutional capital invested in hedge funds today. The US is home to a wide variety of investors with exposure to hedge funds, from banks with trillions in assets under management but tiny allocations to hedge funds (following the fall-out of Dodd-Frank and the Volcker Rule), to small family offices with more than 80% of their assets invested in hedge funds. As Fig. 2 demonstrates, the largest proportion of capital, when discounting funds of hedge funds, is invested by public pension funds. When looked at in combination with their corporate sector counterparts, pension funds account for 50% of the non-fund of hedge funds capital invested in hedge funds by US-

based institutions. Endowment plans and foundations comprise the remaining "big four" sources of capital for hedge funds looking to market in the US today.

Funds of hedge funds headquartered in the US manage a total of \$508bn, 65% of the capital managed by funds of hedge funds globally today. By state, New York is home to over 50% of this capital. Surprisingly however, Illinois, which is fifth in terms of the amount of single-manager hedge fund assets managed from the state, is the second largest region for funds of hedge funds in the US. Some notable funds of hedge funds, such as Grosvenor Capital Management and Mesriow Advanced Strategies, are headquartered in Chicago.

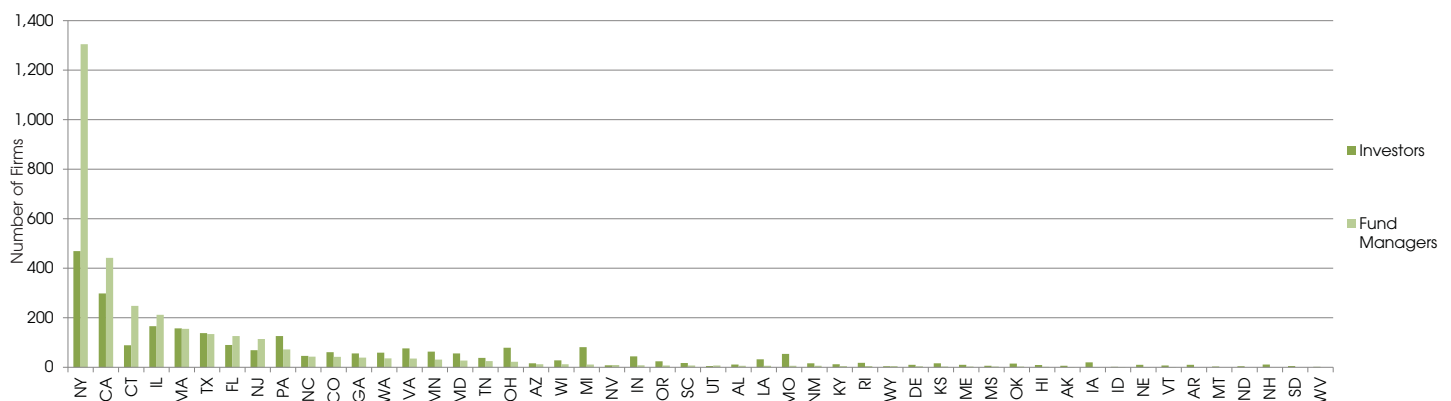
US-Based Hedge Funds

US-based hedge fund managers represent \$1.74tn in assets under management, 73% of all capital managed by hedge funds globally. Direct funds dominate the US hedge fund landscape: two-thirds of the vehicles run by US-based firms are single-manager hedge funds, with a further 19% in the multi-manager space. CTAs form a small but significant 8% of US-based funds, and interestingly 5% of funds managed by US-based hedge fund firms are structured under the European UCITS regime. The UCITS regime is an EU scheme to regulate and passport funds across the EU; although these vehicles are primarily attractive to Europe-based investors, we have seen an increased uptake of funds that follow the directive over the past few years from retail or smaller investors within the US looking to access hedge fund strategies in a regulated and liquid way.

Performance of US-Based Hedge Funds

US-based hedge funds have enjoyed strong performance over the past 12 months, posting a net return of 13.54%, easily

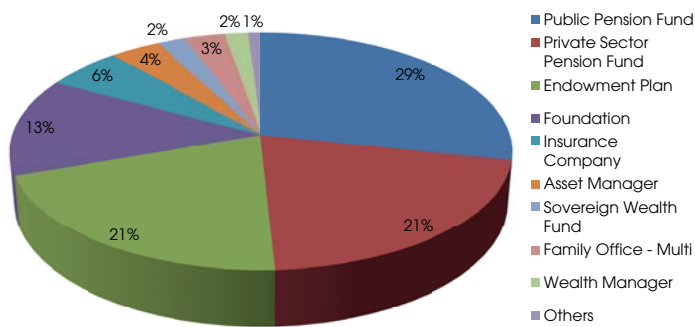
Fig. 1: Number of US-Based Hedge Fund Managers and Hedge Fund Investors by State



Source: Preqin Special Report: US Hedge Fund Industry, September 2013

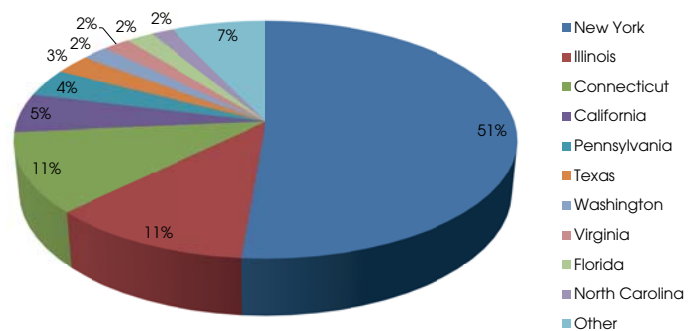


Fig. 2: Breakdown of Capital Invested in Hedge Funds by US-Based Institutional Investors by Investor Type



Source: Preqin Special Report: US Hedge Fund Industry, September 2013

Fig. 3: Breakdown of Assets under Management of US-Based Funds of Hedge Funds by Manager Location



Source: Preqin Special Report: US Hedge Fund Industry, September 2013

beating the global benchmark of 11.09%, and just falling short of the performance of Asia-Pacific hedge funds, which had an exceptionally strong start to 2013, largely down to a rally in Japan creating opportunities for hedge funds to trade off the interventions of Shinzo Abe and the so-called “Abenomics”.

In fact, US-based hedge funds have outperformed the global benchmark on a three- and five-year annualized basis. With such consistent performance and the presence of the largest and most

established funds on the globe, it is clear why investors both in the country and from overseas are attracted to hedge fund investment in the US.

Outlook

Despite hedge funds having had a rocky few years globally, as the credit crisis hit performance and the fundraising environment became more difficult, the US has enjoyed a faster and stronger

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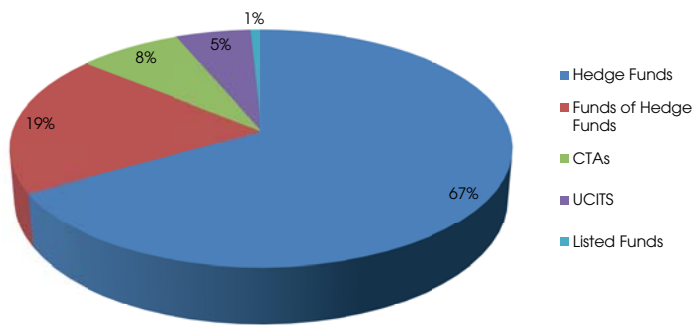
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Fig. 4: Breakdown of US-Based Hedge Funds by Structure



Source: Preqin Special Report: US Hedge Fund Industry, September 2013

recovery than other regions across the globe and is currently growing the fastest in terms of assets under management, having grown by \$150bn in 2013 year to date.

The US is a key destination for those fund managers looking to pick up assets from institutional investors. Some of the largest and most prolific investors are based in the country, and these investors have stayed the course with hedge funds despite performance concerns over the past few years. Institutional investors in the region recognize the value that hedge funds can add to their portfolio to provide strong risk-adjusted returns and we have seen a shift in how investors in the US view hedge funds since the mid-2000s. Hedge funds are no longer the reserve of the wealthy individuals, family offices and a select group of endowments; institutional investors, in particular public and private sector pension funds, have begun to allocate significant sums to hedge funds to complement their traditional equity and fixed income portfolios, and we have seen investors using hedge funds as way to diversify their existing 60/40 model.

Data Source:

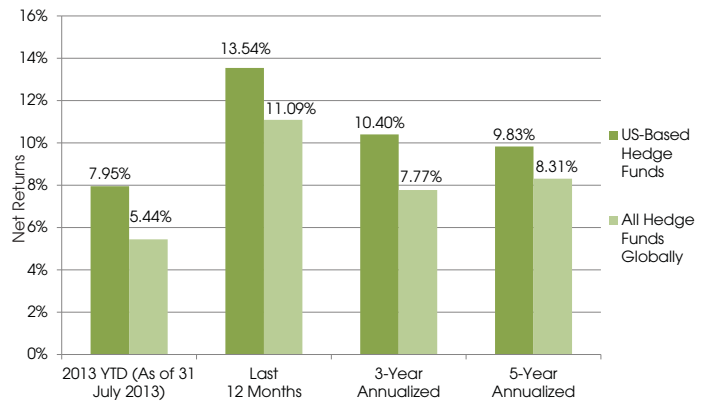
The data in this article is taken from the recently released [Preqin Special Report: US Hedge Fund Industry, September 2013](#), which provides a complete overview of the hedge fund industry in the US, covering how US-based hedge funds have performed in recent years and which structures they are utilizing, as well as key data about investors based in the country. Click [here](#) to download your free copy today.

Preqin's [Hedge Fund Online](#) tracks in-depth data on the US hedge fund market. Access detailed profiles of over 8,500 hedge funds managed by US-based firms, and over 2,700 hedge fund investors based in the country.

For more information on how Preqin's hedge fund data can help you, please visit:

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Fig. 5: Performance of US-Based Hedge Funds Compared to All Hedge Funds Globally



Source: Preqin Special Report: US Hedge Fund Industry, September 2013

Fig. 6: Top 10 Largest States by Allocation to Hedge Funds of Investors Based in the State (Excluding Funds of Hedge Funds)

State	Allocation to Hedge Funds (\$bn)
New York	74
California	61
Texas	40
Illinois	31
Massachusetts	25
Pennsylvania	23
Ohio	22
New Jersey	20
Michigan	18
Connecticut	15

Source: Preqin Special Report: US Hedge Fund Industry, September 2013

Fig. 7: Top 10 Largest States by Assets Managed by Hedge Funds Based in the State (Excluding Funds of Hedge Funds)

State	Assets under Management (\$bn)
New York	838
Connecticut	334
California	155
Massachusetts	128
Illinois	76
Texas	53
New Jersey	36
Minnesota	31
Florida	22
Pennsylvania	7

Source: Preqin Special Report: US Hedge Fund Industry, September 2013

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Fund Coverage: **31,851** Funds



Firm Coverage: **15,218** Firms



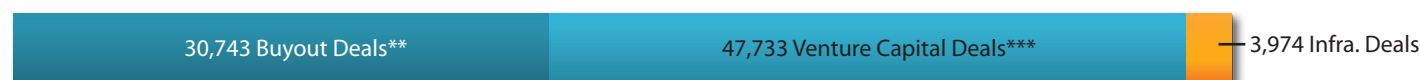
Performance Coverage: **13,231** Funds (IRR Data for 5,051 Funds and Cash Flow Data for 2,317 Funds)



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