Press Release **27th November 2013**

Hedge Funds Launched by First-Time Managers Offer the Potential for Greater Returns

First-time funds on average post better returns than funds launched by established firms, but institutional investor interest in emerging managers continues to decline

The average emerging manager long/short fund launched since 2007 delivered annualized net returns of 8.80% in its first three years of trading, compared to an annual rate of 5.38% from newly-launched funds managed by established firms.

However, first-time funds exhibit more volatility than funds managed by experienced firms. The average annualized volatility of returns during the three years following inception were approximately 14.7% for established manager long/short funds compared to 17.3% for emerging manager long/short funds.

Other Key Facts:

- 22% of emerging manager funds launched since 2007 made a loss in their first year of trading, compared to 26% of funds launched by established managers.
- However, emerging managers that suffered a loss in the first year tended to experience larger declines. Over a quarter of loss-making emerging manager funds posted returns of less than -20% in their first year compared, to 14% of loss making follow-on funds.
- The proportion of hedge fund investors tracked by Preqin that are interested in first-time funds has dropped to 38%, down from 42% of investors in 2012.
- Emerging managers are most commonly targeted by fund of hedge funds managers, with 73% of these investors tracked by Preqin interested in such funds, followed by asset managers (46%) and family offices (43%).
- 71% of investors require at least three years track record before considering a hedge fund manager, although 75% will invest in funds with less than $500mn in assets.
- 2012 was a record year for new hedge fund managers setting up business, with 274 recorded firm launches. 2013 could eclipse this with 231 recorded manager launches as of 15 November.
- 70% of hedge fund managers launching in 2013 are based in North America and 48% of all managers launching utilize a core long/short strategy.
- Despite an increase in hedge fund manager launches, there has been a reduction in new hedge funds being launched, with 604 recorded fund launches in 2013 as of 15 November. So far only 44% of fund management groups established in 2013 have launched their first vehicle.

For more information and analysis, please see
http://www.preqin.com/docs/newsletters/HF/Preqin_Hedge_Fund_Spotlight_November_2013.pdf

Comment:
"Investors participating in an emerging manager's first offering tend to be rewarded with better returns than if they had allocated capital to a newly-launched fund managed by an established firm. However, the greater volatility of emerging funds is proving to be a deterrent for some. With more first time fund groups in market than ever before, following the fallout of the Volcker Rule and a revived optimism in the industry, finding the potential star of the next generation is an increasingly difficult task, and one many investors are unwilling to enter into.

Most investor groups are less willing to consider emerging managers than they were a year ago and investors on average are looking for a longer track record from managers before considering them for investment. However, the majority of investors will consider smaller managers with less than $500mn in assets and this is something that more investors may have to think about, as larger funds become closed to new investment as they reach capacity. To stand out among a crowded market for first-time funds, emerging managers need to ensure that they have a strong team, robust infrastructure and a coherent strategy, as well as strong early performance in order to attract investment from the ever-demanding institutional community."

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Note to Editors:

- Preqin is spelled without the letter 'U' after the 'Q', the company name being an amalgamation of the former name, Private Equity Intelligence.

About Preqin:

Preqin is the leading source of information for the alternative assets industry, providing data and analysis via online databases, publications and bespoke data requests.

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