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Press Release

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Funds of Hedge Funds Turn to Consolidation to Combat Declining Industry AUM

As investors withdraw capital to invest directly, funds of funds look to diversify offerings through consolidation activity

Over the past decade the funds of hedge funds industry has seen a long-term decline in AUM, falling to $798bn in June 2017, as investors have become increasingly sophisticated and withdrawn capital in favour of investing directly themselves. As industry assets have dwindled, the number of new funds of hedge funds entering the market has also fallen year-on-year, from a peak of 207 in 2007 to just 10 in the first half of 2017. In order to combat the challenging environment fund of hedge funds managers have increasingly turned to M&A activity among themselves in order to diversify product offerings to become more attractive to investors. The pre-Global Financial Crisis (GFC) period (2000-2008) saw a total of 13 mergers or acquisitions among funds of hedge funds; 2009-2017 has seen 56. 2014 alone saw 11 M&A deals in the sector, although activity has since receded.

For more information, see the full *Consolidation in the Fund of Hedge Funds Industry* report here:
https://www.preqin.com/docs/reports/Preqin-Special-Report-Consolidation-in-the-Fund-of-Hedge-Funds-Industry-October-2017.pdf

Key Fund of Hedge Funds Facts:

- **Assets held by funds of hedge funds have fallen** from $1.20tn in June 2008 to $798bn in June 2017. Of this, North America accounts for $563bn, while Europe oversees $205bn.
- Since 2012, 475 funds of hedge funds have launched globally. In the same period, however, **861 funds of hedge funds have liquidated**.
- In the period of 2000-2008, there were 15 **mergers or acquisitions among funds of hedge funds**. 2009-2017 has seen 56, with 11 recorded in 2014 alone.
- There was a **sharp uptick in activity in the wake of the GFC**: 2009-2013 saw 35 M&A deals, an average of seven a year.
- Following 2014, activity has slowed, and 2015-2017 has recorded just 10 such deals. However, **mega-mergers of large multi-manager firms have become more prevalent**, accounting for a third of activity.
- Despite wider investor sentiment moving towards direct investment over funds of hedge funds, **almost four out of five of sovereign wealth funds and public pension funds, two of the largest investor groups, invest in funds of hedge funds**.

Amy Bensted, Head of Hedge Fund Products:

"The fund of hedge funds industry faced a series of challenges in the wake of the Global Financial Crisis: a difficult performance environment, changing regulations and a shrinking investor base. With assets under management in decline, and more funds liquidating than launching, the industry has turned to mergers and acquisitions in order to diversify value proposition as well as building economies of scale.

However, it should be noted that despite the trend among investors to decrease investing in multi-manager vehicles and to focus on investing directly, a majority of institutions do retain funds of hedge funds as a part of their investment portfolio. The advantages of multi-manager vehicles – to be able to gain exposure to flagship hedge funds and to insulate investors from market shocks – have not diminished. In fact, almost four out of five public pension funds and sovereign wealth funds invest at least in part through funds of hedge funds, representing a significant amount of capital. This demonstrates that despite contraction and consolidation, funds of hedge funds still play a crucial role within the wider industry."

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