

Funds of Hedge Funds Start 2013 with Strong Returns

Funds of hedge funds post returns of 2.10% in January 2013, representing the sixth positive return in the last seven months

Preqin's February edition of Hedge Fund Spotlight shows that 2013 has seen further positive performance for funds of hedge funds, with these vehicles generating returns of 2.10% in January 2013. In 2012, funds of hedge funds generated returns of 4.63%, with those in the top performance quartile posting net returns in excess of 7%, and the most successful vehicle making gains of more than 24%. Despite this improvement, returns for funds of hedge funds remain low over the longer term, with the annualized returns of funds of hedge funds over the last three and five years standing at 1.79% and -0.25% respectively.

There has also been a significant decline in the total assets under management of fund of hedge funds managers from a peak of an aggregate \$1.2tn in 2008 to a total of \$810bn as of February 2013. However, funds of hedge funds manage a significant 35% of the hedge fund industry's total assets under management, which stood at \$2.3tn as of December 2012.

Other Key Facts:

- 65% of investors include funds of hedge funds as part of their hedge fund allocation.
- 12% of fund of hedge funds investors interviewed plan to increase their allocation to funds of hedge funds in 2013, with an additional 53% planning to maintain their exposure over the coming year.
- Of the 35% of investors interviewed by Preqin that are considering or planning to reduce their exposure to funds of hedge funds, 54% are doing so due to performance concerns.
- Investors in funds of hedge funds tend to be newer entrants into the hedge fund asset class, with an average year of first investment of 2006 compared to 2003 for direct-only investors.
- The overall volatility of returns posted by funds of hedge funds during 2011 and 2012 was low at 3% to 5%, compared to a high of 7.6% for single-manager funds and 18.6% for the S&P 500.
- Funds of hedge funds primarily targeting exposure to North America posted higher returns than Europe-focused funds in 11 out of 12 months in 2012.
- North America is the only region to have seen an increase over the last year in the assets under management of fund of hedge fund managers, from \$485bn in December 2011 to \$508bn in December 2012. Europe-based fund of fund managers saw a decline from \$375bn to \$280bn over the same time period.
- Annual fund of hedge fund launches fell from 142 in 2010 to 79 in 2011 and to 59 in 2012; this represents the lowest level since 2000.

For more information, please see the full report:

http://www.preqin.com/docs/newsletters/HF/Hedge_Fund_Spotlight_February_2013.pdf

Comment:

"Despite difficulty in recent years, Preqin's performance benchmarks indicate that funds of hedge funds have made a promising start to 2013, posting 2.10% in January. This represents the sixth positive return in the last seven months and the best single month in more than two years.

This is an encouraging start to 2013 for institutional investors, which have cited strong performance as a key requirement which needs to be met in the year ahead. In addition to this strong start to the year, 44% of all investors planning to make new investments over the next 12 months are including a fund of hedge funds element as part of their search. More than half (52%) of all investors looking to make new investments in funds of hedge funds over the next 12 months are pension funds, with their large ticket sizes and long-term investment horizons. However, 35% of current fund of hedge funds investors plan to reduce their exposure to multi-manager vehicles over the next 12 months, a concern for fund of hedge funds managers."

Amy Bensted, Head of Hedge Fund Products

For more information and analysis, please see the latest Hedge Fund Spotlight:

http://www.preqin.com/docs/newsletters/HF/Hedge_Fund_Spotlight_February_2013.pdf

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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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