

The Impact of Brexit on Hedge Funds: Year-End 2016 Update

Preqin surveyed 276 hedge fund managers and 108 investors in November 2016 to see how their views on Brexit have changed since the referendum result

Preqin's year-end update on attitudes to Brexit in the hedge fund industry has found that managers have become more upbeat about the result in the intervening five months. As the majority of fund managers believed the UK would vote to remain in the EU (71%), it is unsurprising that a large proportion were caught out by the immediate market turbulence. In July, 34% of firms thought Brexit had negatively impacted their performance in the aftermath of the vote, although 27% managed to capture this volatility and boost returns. Since then, managers have been able to navigate the market more adeptly, despite the vote still considerably affecting performance. In November, just 21% of firms have seen a negative impact from Brexit over H2, while 32% have seen their performance affected positively. Going forwards, a quarter of hedge fund managers expect the impact of Brexit to be positive for their portfolios, and now the industry has an opportunity to prove its value in generating non-correlated returns.

Investor confidence in the UK also seems to have returned since the referendum. Immediately after the referendum, 31% of hedge fund investors expected to invest less in the UK over the next 12 months, and 24% expected to invest less in the longer term. As of November, those proportions have fallen to 21% and 18% respectively, while the proportion looking to invest more in the UK over the coming year has risen from 7% in July to 13% currently.

Other Key Facts on the Impact of Brexit on Hedge Funds:

- **Performance Recovery:** UK- and Europe-focused hedge funds incurred steep losses in June 2016, immediately following the referendum result. However, both have more than recovered those losses in Q3, and as of the end of October are showing YTD gains of 1.91% and 0.99% respectively.
- **Business as Usual:** The majority of investors do not think Brexit will alter their hedge fund commitments in either the EU or the UK. **Three-quarters of investors plan to invest at the same level in the UK over the long term**, while 81% of investors will maintain their current level of investment in EU-based hedge funds.
- **Fund Manager Location:** Although the majority (70%) of UK-based hedge fund managers surveyed in November do not anticipate changing location, this proportion has shrunk since July (80%). Meanwhile, **a greater proportion of firms (24%) are now uncertain of their position** compared to five months ago (17%).
- **Firms and Investors:** The UK is still home to the majority of hedge fund industry participants. **Preqin tracks 944 EU-based hedge fund managers of which 590 (63%) are headquartered in the UK**, and 757 EU-based investors of which 408 (54%) are located in the UK.
- **Size of EU Industry:** As of 30th September 2016, the UK hedge fund industry dwarfs that of the rest of the EU market. **The UK-based industry currently holds \$478bn in assets, while the EU market (minus the UK) is worth \$125bn.**

To access further information and analysis, please see the full report below:

<https://www.preqin.com/docs/reports/Preqin-Special-Report-Impact-of-Brexit-on-Hedge-Funds-December-2016.pdf>

Comment:

“The UK’s decision to exit the European Union was largely unexpected by the hedge fund industry – 71% of managers surveyed in early June 2016 believed that Britain would choose to remain in the Union. As a result, in the immediate aftermath of the decision, more hedge fund managers reported that Brexit had negatively affected performance than positively and we saw UK- and Europe-focused funds make losses in June. Fast-forward five months, and Preqin’s survey of fund managers in November 2016 reveals that hedge funds have been able to better capture the volatility arising as a result of the referendum and generate better performance. Looking forward into 2017, more hedge fund managers continue to believe in positive Brexit impact on their portfolios than a negative one going forwards.

Given that the UK government has yet to trigger Article 50, it is unsurprising that uncertainty still prevails about the wider impact of Brexit on the hedge fund sector. Until these effects become clearer, the majority of hedge fund managers and investors are conducting their business as before. However, they will be keeping a close watch on any further Brexit developments over the coming months, as well as possible further complications represented by upcoming French and German elections.”

Amy Bensted– Head of Hedge Fund Products, Preqin

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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.

Preqin has built a reputation in the alternative assets industry for providing the most comprehensive and extensive information possible. Leading alternative assets professionals from around the world rely on Preqin's services daily, and its data and statistics are regularly quoted by the financial press. For more information, please visit: www.preqin.com

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