

Hedge Fund Managers See Opportunities in Europe in Q2

16% of funds launched in Q2 target the region, while UCITS-compliant funds represent largest ever proportion of launches in the quarter

Preqin's Q2 update on the hedge fund industry finds that economic uncertainty following the UK vote to leave the EU has created potential opportunities for hedge fund managers and, as a result, many more funds have launched focused on the region. Europe-focused hedge funds saw a large increase in the proportion of overall fund launches, rising from 1% of funds launched in Q1 to 16% of those incepted in Q2. At the same time, UCITS-compliant funds accounted for 18% of overall fund inceptions through Q2, the highest quarterly proportion tracked by Preqin since the directive came into force. Given that UCITS funds are a key way for non-European firms to raise capital from Europe-based investors, it is a further sign of the growing interest that industry participants are taking in the region.

While long/short equity hedge funds remain the most common hedge fund vehicles in terms of both investor searches and new fund launches, CTA funds are being increasingly sought-after by investors. The proportion of fund searches issued in Q2 that specified CTA or managed futures funds was 22%, twice the proportion of fund searches issued in Q1. Despite this growing appetite among investors for the fund type, just 3% of new hedge fund launches through the quarter were for CTA vehicles, less than the proportion seen for UCITS vehicles (18%) or funds of hedge funds (7%).

Other Key Q2 Hedge Fund Launches and Searches Facts:

- **Launches by Strategy:** Equity strategies remained the most common approach among new funds launched in Q2, representing 53%. **The proportion of funds using a credit strategy rose from 10% of Q1 launches to 18% in Q2**, while multi-strategy launches fell from 19% to 6% in the same period.
- **Fund Manager Location:** North America-based fund managers launched two-thirds of all new hedge funds in Q2. **There was also an increase in the proportion of vehicles launched by Europe-based firms**, representing 28% of all launches, while Asia-Pacific-based managers represented 3% of fund launches.
- **Investor Type:** **Fund of hedge fund managers issued the largest proportion (18%) of fund searches in Q2**, while wealth managers (17%) and private sector pension funds (12%) also accounted for notable proportions. After some high-profile redemptions, public pension funds comprised 6% of fund searches in Q2.
- **Searches by Region:** Geographically, the proportion of fund searches has remained similar to Q1. **Investors in the more developed markets of North America (40%) and Europe (45%) represented the majority of fund searches**, while Asia-Pacific based investors comprised 7% of searches.

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

<https://www.Preqin.com/docs/quarterly/hf/Preqin-Quarterly-Hedge-Fund-Update-Q2-2016.pdf>

Comment:

"The run-up to and aftermath of the UK's decision to leave the EU caused volatility across several markets within Europe and beyond. Hedge fund managers have seen increased opportunities to capitalise on this turbulence, and more Europe-focused hedge funds have been launched by managers both in and outside the region. Although Europe-focused funds did not make the same gains as North America- or Asia-Pacific-focused vehicles in Q2, the ongoing volatility arising out of the uncertainty within Europe may provide opportunities for hedge funds focusing on the region to deliver some upside gains.

More broadly, the appetite among investors for managed futures continues to grow, as investors seek products which can diversify their portfolio and add some downside protection over the coming months. Although these funds have seen some volatility in their returns over recent months, CTAs have performed more consistently in Q2 2016, and fund managers will be keen to show investors that they can offer uncorrelated returns and capital protection.

Amy Bensted – Head of Hedge Fund Products, Preqin

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:

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