

\$1bn+ Hedge Funds Show Strongest Average Returns

Preqin's August benchmarks show large funds generate highest performance across almost all time horizons

The latest research by Preqin into hedge fund performance finds that as of the end of August, large hedge funds – those with AUM of \$1bn or more* – posted the greatest returns of any size category. They outperformed emerging, small and medium funds for the month (with -1.49% returns), as well as across the 12-month (+4.30%), 3-year annualized (+9.06%), and 5-year annualized (+8.52%) horizons. They also had the lowest 3-year volatility of any size class, of only 3.29%. Emerging hedge funds, those with AUM of less than \$100mn, had the lowest returns across all horizons, as well as the highest volatility.

Other Key Hedge Fund Performance Facts:

- **Sharpe Ratios:** The rolling 3-year **Sharpe ratios for all size classes have been rising since mid-2014**. As of the end of June, large funds had the highest ratio of 2.84. Strong performance in the past 12 months has seen their ratio overtake those of small and medium funds.
- **Interquartile Range:** While all fund sizes show a similar median performance, the **interquartile range for emerging funds is 12.82%**, compared to only 9.87% for large funds. The smaller number of large funds, as well as their lower volatility, mean that their performance is more concentrated around the median.
- **Concentrated Capital:** Although large hedge funds comprise only 9% of the total number of funds in the industry, they manage **82% of institutional investor capital committed to hedge funds**. Small and emerging funds, which total 85% of hedge fund numbers, only contain 11% of capital commitments.
- **Investor Thresholds:** Of those investors that specify a minimum AUM requirement for hedge funds, only 22% will consider funds in the emerging bracket. These investors tend to be those with larger and more sophisticated hedge fund allocations. However, **52% of investors set their minimum AUM requirements in the small bracket**, while 11% will only consider committing to large funds.
- **Fees & Redemption Periods:** Small and emerging funds have lower mean management and performance fees than large and medium funds. While **emerging funds charge an average of 1.55% and 18.84%** respectively, that number rises to 1.63% and 19.70% in large funds. The average redemption frequency for large funds is 104 days, more than twice the average of 51 days for emerging funds.

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

<https://www.preqin.com/docs/newsletters/hf/Preqin-Hedge-Fund-Spotlight-September-2015.pdf>

Comment:

“The release of the Preqin’s new fund size benchmarks allows hedge funds to be compared more accurately with their peers. While benchmarking funds by geography or strategy can provide insight into macro-trends in the industry, the performance of the smallest and largest funds within those categories can differ wildly.

Large funds, those with \$1bn or more in assets under management, have consistently generated outperformance in both the short and long term when compared to smaller sized hedge funds. Furthermore, these funds have posted superior average returns while also maintaining lower volatility and higher Sharpe ratios over multiple time horizons. However, the highest performing funds of smaller sizes can generate returns greater than their larger counterparts, which means that smaller hedge funds can still hold much appeal for investors. ”

Amy Bensted – Head of Hedge Fund Products, Preqin

* Preqin’s definition of fund size classifications is based on AUM of funds: Emerging, <\$100mn; Small, \$100-499mn; Medium, \$500-999mn; Large, \$1bn+



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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