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**Press Release** 7th December 2012

# Hedge fund investors targeting greater liquidity could be sacrificing greater returns

## Quarterly redemption long/short funds post cumulative returns of 58% since 2007 compared to 28% for daily redemption long/short funds in the same period

Many investors which target more liquid hedge fund investments may be sacrificing greater returns in the process, Preqin's liquidity study in this month's Hedge Fund Spotlight reveals. Long/short funds with quarterly redemptions generated a cumulative return of 58% since 2007, whereas daily redemption and weekly redemption long/short funds, which allow investors more frequent access to their capital, posted cumulative returns of 28% and 36% respectively over the same time period. However, funds with lower liquidity provisions have shown more volatility of returns and larger drawdowns in crisis periods.

Liquidity is still important to investors, although the proportion that appear dissatisfied with the liquidity profile of their hedge fund portfolios seems to be declining; 39% now state that they look for more liquidity in their hedge fund portfolios than in the past, compared to 75% that stated the same in 2011.

**Other Key Facts:**

- 28% of investors surveyed by Preqin indicated they would accept less liquidity in exchange for higher returns.
- 79% of investors interviewed stated they would accept longer lock-ups for funds with an event driven strategy; investors are likely to be willing to accept longer lock-ups for illiquid strategies where funds are specifically targeting illiquid assets.
- Fee concessions was the most commonly cited reason by investors for accepting a longer lock-up in exchange for favourable treatment.
- However, there has been significant growth in investor appetite for funds with weekly and daily redemption frequencies, from 7% and 3% respectively in 2011 to 23% and 20% respectively in 2012.
- 23% of surveyed investors state that they look for liquidity in hedge funds in order to add a degree of liquidity to their overall alternative assets portfolios.
- Other less liquid long/short funds also produced greater returns, with funds with monthly liquidity generating 46% and funds with less-than-quarterly redemptions generating 49%.
- Managed futures/CTAs are viewed as the most liquid hedge fund strategy, with event driven (and in particular distressed) funds exhibiting the least liquid characteristics. Managed futures/CTAs have a mean redemption frequency of 0.7 months, a mean redemption notice of 14 days, and a mean lock-up of 2.3 months; conversely, event driven funds have a mean redemption frequency of 2.7 months, a mean redemption notice of 62 days and a much longer mean lock-up of 10.4 months.

**For more information, please see the full report:**
**http://www.preqin.com/docs/newsletters/HF/Hedge_Fund_Spotlight_December_2012.pdf**

**Comment:**

"Hedge fund investor appetite for liquidity has decreased since last year. This may be because institutions have adjusted their portfolios over the past four years and have reached a satisfactory level of liquidity, or because stronger performance of more illiquid funds has proved appealing to some groups. Notably, those investors with long-term investment horizons such as endowments, foundations and family offices are even willing to accept funds with longer lock-ups than last year. Despite this, liquidity remains an issue for many investors, with 31% of investors seeking more liquidity from hedge funds in 2013.

Monthly and quarterly redemption periods are still the most commonly sought by investors. Quarterly redemption periods can offer a good balance between returns and liquidity, particularly for those investors which are looking for more frequent access to their invested capital."

**Amy Bensted, Head of Hedge Fund Products**

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

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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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