

Hedge Fund Managers and Investors Disagree on the Impact of Regulation

49% of investors believe regulations will be positive for the hedge fund industry in 2013, compared to just 23% of fund managers

Forty-two percent of hedge fund managers interviewed by Preqin in December 2012 for the 2013 Preqin Global Hedge Fund Report had a negative outlook concerning regulations in 2013, citing concerns about the extra compliance burden leading to greater costs and complexity within their operations. However, nearly half (49%) of investors interviewed stated that they believe the regulations coming into effect will be positive for the hedge fund industry, citing benefits including increased transparency and oversight of hedge funds; many investors also feel that further regulations will improve the pool of managers to choose from when investing in hedge funds.

Nevertheless, both investors and managers agree that performance is the top issue that needs to be addressed in the following year; 47% of investors stated that performance was a key issue and 60% of fund managers stated the same.

Other Key Facts:

- 43% of fund managers believe that the Dodd-Frank Act will adversely affect the industry.
- 52% of European fund managers in particular believe the Dodd-Frank Act is a negative step for the industry, as managers in Europe will face additional challenges when complying with both US and European restrictions.
- 33% of investors feel that regulation will have negative repercussions for the industry, citing increased complexity in compliance driving up costs for managers, which could be passed on to investors.
- Some investors with an interest in smaller more nimble managers feel that increased regulations will make the hedge fund manager universe less entrepreneurial and more consolidated.
- 62% of hedge fund managers predict that hedge fund industry total assets under management will increase in 2013.
- As of Q4 2012, institutional investor capital represented a capital weight average of 63% of a fund's assets under management, a significant increase from the 45% of a fund's assets it represented in 2008.
- 57% of investors interviewed reported that hedge fund returns have met expectations in 2012; however, the proportion of investors reporting that hedge fund returns have exceeded expectations has fallen from 11% in 2011 to 3% in 2012.
- 41% reported that hedge fund returns in 2012 have fallen short of expectations, the highest level since Preqin began collecting this data in 2008.

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

http://www.preqin.com/docs/newsletters/HF/Hedge_Fund_Spotlight_January_2013.pdf

Comment:

“Operating in a new regulated environment poses many challenges for hedge fund managers, and many of those interviewed by Preqin have demonstrated concerns about the impact it will have on their performance, a key challenge they face in 2013. Hedge fund managers have had to comply with the increased regulatory and registration requirements of the Dodd-Frank Act. The AIFMD, which will involve additional registration and disclosure requirements, will affect managers within the European Union, as well as those which seek capital from investors within European Union member states.

However, only 33% of investors interviewed feel that regulations will have negative effects on the asset class, and around a half believe that the increased transparency and oversight from regulators will lead to a stronger hedge fund universe. Therefore, despite concerns from hedge fund managers, the impact of regulations could be positive, leading to more confidence among members of the institutional community that are keen to invest in vehicles with some degree of regulated oversight.”

Amy Bensted, Head of Hedge Fund Products

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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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