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Press Release **24th June 2014**

Discretionary Funds Offer High Returns but Systematic Funds Deliver Superior Risk-Adjusted Performance

While discretionary hedge funds have posted 10.81% over the last 12 months compared to the 6.59% returned by systematic funds, the latter has far lower volatility of returns

New research from Preqin shows that although discretionary funds tend to outperform systematic funds when markets are rising, systematic funds can provide benefits in terms of lower volatility and higher risk-adjusted returns. As such, systematic funds are generally perceived as providing good downside protection to investors in down markets. Given that a recent Preqin survey of investors highlighted that the majority invest in hedge funds for uncorrelated returns, risk-adjusted returns or reduced portfolio volatility, rather than high absolute returns, systematic funds can be an attractive prospect to certain investors.

Systematic vs Discretionary Hedge Funds – Key Stats:

- Discretionary hedge funds have outperformed systematic hedge funds over the past five years in terms of absolute returns, returning 11.56% on an annualized basis compared to 7.85% (as of 31 May 2014.
- However, systematic hedge funds have exhibited lower volatility than discretionary hedge funds over the last five years (3-5% vs. 6-11%).
- This downside protection provided by systematic funds was highlighted in 2008 and 2011: systematic hedge funds returned -0.03% and 1.81% in these years respectively, compared to discretionary funds which posted -18.65% and -2.83%.
- Relative value and macro strategies following a systematic approach outperformed their discretionary counterparts on an annualized basis over the past three years on average.
- Although the level of launches of both discretionary and systematic funds fell in 2013 compared to 2012, there was a far greater drop in discretionary fund launches (138 in 2012 to 85 in 2013), compared to systematic funds (66 in 2012 to 52 in 2013).
- The number of recorded systematic CTA launches dropped from a peak of 60 in 2012 to 45 in 2013, while the number of CTAs launching with a discretionary approach more than doubled from 7 in 2012 to 15 in 2013.
- 56% and 46% of investors seek risk-adjusted returns and reduced portfolio volatility respectively when investing in hedge funds, compared to just 7% that said they invest in hedge funds for high returns.

For more information and analysis, please see the full report:
https://www.preqin.com/docs/newsletters/hf/Preqin-Hedge-Fund-Spotlight-June-2014.pdf

Comment:

"Discretionary funds have outperformed systematic funds in recent years in terms of absolute returns, taking advantage of the fact that markets during this period have generally been rising. However, our research has shown that systematic hedge funds often outperform discretionary hedge funds whenever markets are falling, which was the case in 2008 and 2011, and these funds also offer benefits to investors in terms of lower volatility and superior risk-adjusted returns. Furthermore, certain systematic fund strategies have provided higher absolute returns over longer time periods compared to their discretionary counterparts.

Establishing which type of fund is right for investors very much depends on the fund strategy, the risk profile of the investor and the general market conditions. The majority of hedge fund managers continue to utilize a discretionary approach while most CTAs focus on a systematic strategy, although there is some evidence in both of these cases of more fund managers adopting the alternative approach."

Amy Bensted, Head of Hedge Funds Products

New York: One Grand Central Place, 60 E 42nd Street, Suite 630, New York NY 10165 Tel: +1 212 350 0100
London: Equitable House, 47 King William Street, London EC4R 9AF Tel: +44 (0)20 7645 8888
Singapore: One Finlayson Green, #11-02, Singapore 049246 Tel: +65 6305 2200
San Francisco: 1700 Montgomery Street, Suite 134, San Francisco CA 94111 Tel: +1 415 835 9455
Web: www.preqin.com / info@preqin.com

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

For more information, please contact: Amy Bensted +44 (0)20 7397 9420 or press@preqin.com
For general press information, please contact: Nicholas Jelfs +44 (0)20 7645 8882 or press@preqin.com