2016 Preqin Global Hedge Fund Report

Sample Pages

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The 2016 Preqin Global Hedge Fund Report - Contents

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Keynote Address - Michael Hart, Deputy CEO, Amundi

Can you tell us about the Amundi platform?

The Amundi platform was established over 10 years ago, and completely moved onshore in Ireland for more than four years; in fact, the platform has been AIFMD compliant well ahead of the industry with the licence being obtained by the French regulator on December 2013. Today, we are among the few platform players worldwide to offer a fully AIFMD set-up, as onshore, controlled, regulated investment solutions are central to the firm's offerings.

Through our platform we provide fully customized and transparent portfolios tailored to our clients' needs. In contrast, many other platforms are distribution platforms; we are not. Funds on the platform are used primarily as portfolio management tools for our funds of hedge funds, therefore ensuring an alignment of interests with clients that invest directly in our managed accounts.

What are the benefits to your clients of a fully AIFMD-compliant platform?

As the pioneer in this space, we have amassed sizeable experience in how to deal with AIFMD. From an investment's perspective, an advantage of investing in AIFMD-compliant hedge funds through our platform is that we are able to deliver more complex hedge fund strategies that will not necessarily fit in the UCITS wrapper, for instance strategies such as fixed income relative value or global macro.

From an investor's perspective, our AIFMD platform is fully onshore and highly regulated which provides many benefits. Institutional investors can show they are following a code of best practice – so from a corporate governance point of view this is a key advantage which can be highlighted to their boards or trustees. Another advantage of our AIFMD-compliant platform is that we have to use third-party external providers. So, for instance, we cannot use our in-house prime broker. As a result, there are no potential conflicts of interest.

I believe it is the way forward for institutional clients to invest in hedge funds, especially with increasing regulation and growing scrutiny on the benefits of investing in hedge funds. You have to be seen that you are really doing your homework and you are doing the utmost due diligence. After investing in a hedge fund institutional clients also have to demonstrate they are doing the best possible monitoring. By investing in hedge funds via a regulated and transparent framework, they can prove this.

Ultimately by being fully AIFMD compliant, everything is transparent, controlled and with no potential conflict of interest, and that can only benefit the client.

What types of hedge funds do you look for?

We strive to be proactive rather than reactive when creating portfolios. When working with our clients, we take a forward-looking approach at creating the best customized solutions for them. Much of this is listening to their needs; you have two ears and one mouth and we are strong believers in using them in those proportions when helping our clients. Therefore, we do not specialize in any one strategy as all of our mandates are bespoke. We cover a large universe of managers that we can potentially invest in and choosing among these is a case of what specifically is best for each client, rather than a general preference for a strategy. So I would say Amundi is quite agnostic when it comes to strategy; it really is what meets the client's requirements going forwards in time that is important.

When looking at the fund managers on our platform, instead of just looking in the rear-view mirror, we look at changing market conditions and at which managers we think are going to perform better over the next few years. So when it comes to the types of fund managers we work with, we are also fairly open minded. We will not invest if there is huge turnover at the firm or if it has had a poor track record through different market cycles, but beyond that when we go into due diligence we are open minded.

Although fund managers have to comply with AIFMD requirements, geographically we are global across the board. Again, our job is to find the most suitable hedge fund managers for our specific client requirements. This could mean going to the US West Coast, Latin America or Southeast Asia. Investors expect us to have a global reach and identify emerging managers and mid-sized managers in all regions, otherwise I am not sure they would consider working with a platform like ours. You really need to bring something of clear value to the table.

What do you think 2016 holds for managed accounts and for Amundi?

Volatility is returning to markets; it has gone from historic lows and is now only just reaching historic averages and it could increase further. So 2016 could be a period of transition. The volatility factor, and more uncertainty in the markets, could further highlight the strengths of a fully regulated onshore managed accounts platform.

When looking at our portfolios, we will remain very much client driven and opportunistic. We will still be searching for any hedge fund that exhibits any potential for good risk/reward return. We take a tactical and strategic six- and twelve-month view in how we think certain managers are going to perform in that market environment. For instance, we just looked at a global macro fixed income fund that plays the convexity card. The fund has had a successful year – they are up about 6% net. When there was no volatility in the market they were finding it difficult, but now we think market conditions are playing in their favour. So it is by looking at strategies like that and thinking about how they will perform now and in the next year, even though in the past when we had been monitoring them, we would have been unlikely to invest. In 2016 we will continue to be opportunistic and open minded.

What changes have you seen in your investor base in 2015?

We have seen corporate governance become very important for corporate pension schemes. Although corporate governance has always been important for the LGPS schemes, this was something corporate pension funds considered but it was not at the forefront of their minds. However, this has really been changing and is becoming more important for them than it was in the past. A fully AIFMD-compliant managed account platform can help those schemes concerned about the corporate governance point of view.

We have also seen institutional pension funds that had been bruised in the past by hedge funds coming back. There is a growing demand for relatively defensive, uncorrelated, bespoke solutions from investment managers and we have been asked several times over 2015 to assist with trustee training on managed account platforms. We explain to the trustees what a managed account platform is, how it differs from going direct, and how being onshore is a far more regulated and secure route than existed in the past. We are there to assist trustees in making an informed decision and not to push our product which I think is very important.

Hedge funds have been easy to bash in the past, and many trustees do not fully understand these complex products. We have seen a growing demand to help improve awareness that hedge funds can benefit them and reduce the overall risk and volatility in their portfolio. So it is a case of showing that these products can have returns of 2-5% net, can manage the downside, have low volatility, extremely low beta and be very uncorrelated to your fixed income and equities investments. So, although some investors are looking at hedge funds in isolation as a high-volatility but hopefully high-return investment, the majority of investors at the moment that are going back into hedge funds want something more conservative, and they are looking at how it is going to benefit their whole portfolio rather than just looking at it as an asset class entirely in isolation.

Is there anything else you would like to add?

There is a lot of pressure on hedge funds at the moment. An Australian politician came out just before I travelled there at the end of 2015 and said that "we cannot predict the outcome of manager performance but we can predict fees". This is characteristic of the growing pressure on fees. In this example in Australia the focus was across all alternatives. However, rather than looking at the value for money these products can offer, they were just concerned with stamping down on fees. This puts pressure on hedge funds, because in our opinion they are the most liquid of the alternative assets. If, for example, I am a pension fund manager, and I am under pressure from the government to reduce fees, I cannot really redeem my interests in private equity even though they are more expensive and the fees are likely to be higher, as they are too illiquid. So this means that hedge funds are going to have to really prove that they are offering value for money and that you are getting what you pay for.

With a managed account platform, you are not only getting the performance of the underlying managers, but you are also getting all of the monitoring and policing of the underlying managers. It is almost that you are getting an insurance policy in that the platform provider is there to ensure the underlying managers do not misbehave, that there is no style drift, and you get that by receiving the complete look through and transparency. We are there to ensure that the managers will do what they say they will do and that reassures investors.

Michael Hart is deputy chief executive officer and global head of business development at Amundi Alternative Investments, member of the Executive Committee. Michael has more than 20 years of experience in the alternative investment space. He notably acquired a broad-based expertise on pension funds for Bfinance investment consultants from 2000 to 2011 where he established and developed the Institutional Pension Fund Business.

Amundi Alternative Investments is the specialist alternative boutique of Amundi. With just below $6.5 billion in assets[1], the firm has a strong expertise in hedge fund selection, as demonstrated by the creation of a Managed Account Platform in 2005, and in FoHF engineering, with a track record that began more than two decades ago. Amundi Alternative Investments has a strong expertise in providing a bespoke holistic consultative approach, rather than a one size fits all product offering. Through its unique multi-management expertise, and its Managed Account Platform based in Ireland, Amundi partners with its clients to provide suitable alternative investment solutions for various risk, return, liquidity, transparency and decorrelation objectives, based on their needs.

As a pioneer in EU-regulated alternative solutions, Amundi AI has embraced the AIFM & UCITS directives and made strategic choices in re-domiciling all its alternative investments in onshore places (France, Luxembourg, Ireland).[2]

www.alternatives.amundi.com

[1] Amundi AI figures as of 31 December 2015.
[2] Amundi AI has obtained its AIFM authorization in December 2013.

Hedge Funds in Numbers

Growth in Assets, Number of Investors and Number of Funds in 2015

$3.197tn

Hedge fund industry assets under management reach nearly $3.2tn as of November 2015.

$71.5bn

The hedge fund industry added $71.5bn in new capital inflows in 2015.

5,000+

More than 5,000 institutional investors allocate to hedge funds.

+134 funds

829

695

829 hedge funds launched in 2015; in contrast, 695 funds closed.

Performance in 2015

+2.02%

The Preqin All-Strategies Hedge Fund benchmark returned 2.02% in 2015.

62%

of hedge funds posted positive returns.

33%

of investors believe performance expectations were not met in 2015.

40%

of fund managers believe their performance objectives were not met in 2015.

Fundraising Could Become Challenging

25%

32%

Fundraising could become challenging in 2016 as more investors (32%) plan to cut back on hedge funds than plan to increase exposure (25%).

72%

13%

However, fund managers remain optimistic: 72% believe industry AUM will increase in 2016 compared with 13% that believe industry assets will decline.

Better Performance and New Launches Expected in 2015

69%

Fund managers are confident of better performance: 69% believe the Preqin All-Strategies Hedge Fund benchmark will be higher in 2016 than in 2015.

29%

of fund managers have plans for a new launch in 2016.

After a Difficult 2015, Hedge Funds Need to Rise to the Challenges of 2016 - Amy Bensted, Preqin

2015 proved a challenging year for the hedge fund industry. Although the year started well, with hedge funds making gains in each of the first five months of 2015, a series of events across the globe hit many of the markets traded by hedge funds. This resulted in four months of losses from June to September, the longest losing streak for hedge funds since 2008. By the end of 2015, hedge funds had returned just 2.02%, representing the Preqin All-Strategies Hedge Fund benchmark's worst performance since 2011. Although the benchmark outperformed the S&P 500 over the year, this poor performance did not go unnoticed by investors: approximately a third of institutional investors reported to Preqin that hedge funds had failed to meet expectations in 2015. Many fund managers themselves were disappointed with performance in 2015: 44% of fund managers reported that their funds had failed to meet return objectives in 2015. However, amid the performance difficulties of 2015 there were some bright spots; in particular, the industry recorded net capital inflows of $71.5bn, taking the size of the hedge fund industry to nearly $3.2tn.

More Challenges Ahead in 2016

With 2015 behind us, what does 2016 hold for the hedge fund industry? In our end-of-year survey of 150 institutions, more investors indicated that they will invest less capital in hedge funds in 2016 than in 2015, which could mean that raising new capital, as well as retaining capital, could become increasingly difficult over the course of this year. Although we have seen similar levels of disappointment in hedge fund performance to 2015, in 2011 and 2014 for instance, this is the first time (since Preqin began tracking institutional investor activity in hedge funds in 2007) that we have seen a net change in appetite in favour of investors taking capital out of their hedge fund portfolios.

Fund managers and investors agree that performance will be the leading challenge for the hedge fund industry in 2016, so perhaps performance will be the key to the success of the industry over the year. If hedge funds can navigate the changeable economic environment and continue to show better performance in times when traditional markets are struggling, then maybe the value of hedge funds can be proved to those investors that are currently taking a cautious approach to the asset class.

During periods when many investors believe performance is poor, the fees associated with hedge funds are often increasingly scrutinized. Although management and performance fees – as shown in 'Management and Performance Fees' (page 50) – have been on a general downward trend over recent years, high levels of investors still want to see further reductions in these terms over the course of 2016. The need to change fee structures could add additional pressures on hedge fund managers. The cost of running a successful hedge fund has increased over recent years as fund managers have invested in improving their business infrastructure to cope with an increasingly sophisticated client base and to adapt to new regulations. The calls to cut fees further could make it more difficult to run a profitable business in 2016 – in particular for smaller managers.

How to Successfully Navigate 2016

Although further investment in their business operations is difficult in light of calls for reduced fees, it could be vital to the success of a hedge fund in 2016. Investors are seeking improvements in performance; therefore the 41% of fund managers looking to beef up their portfolio management capabilities may be better placed to navigate the volatile environment in 2016 and win back investor favour. Transparency is another issue at the forefront of investors' minds. Investors increasingly want to better understand the source of their hedge fund performance, for better or worse, and those fund managers that are able to provide the much demanded transparency, as well as educate investment officers and trustees on the benefits of investment in hedge funds, may be well placed to retain existing clients as well as gain fresh assets.

Originally a product used exclusively by wealthy individuals and families, institutional investors began to increasingly use hedge funds in the early 2000s. Today, Preqin tracks over 5,000 institutions that invest in hedge funds, with this number growing on a daily basis. Despite some notable investors cutting hedge funds from their portfolios over the past few years – CalPERS, PFZW and Railpen to name a few – the majority of institutional investors look set to remain active in hedge funds over the longer term. However, hedge fund managers have also reported that sources of private wealth – family offices and wealth managers – are once again increasing their allocations to their funds. With changes to regulations allowing the proliferation of alternative structures in hedge funds, such as UCITS in Europe and alternative mutual funds in the US, fund managers have also reported growth in assets from retail clients. As the universe of investors active in hedge funds becomes increasingly diverse, the hedge fund managers with products that can appeal to a variety of investors may be rewarded with a growing asset base.

For many investors, 2016 may be a time to re-evaluate their hedge fund portfolio. The performance of the industry as a whole has been somewhat disappointing, with two back-to-back years of returns below the level expected by many investors. However, there are some bright spots, with some strategies and regional funds showing strong performance in 2015, and many individual funds showing significant success. Investors may want to rebalance their portfolios to ensure they are well diversified in order to navigate a potentially changeable economic environment, and tools such as our 'Most Consistent Top Performing Hedge Funds' league tables (see pages 27-31) may help in assessing the long-term success of a manager. With traditional markets showing signs of problems at the start of 2016 – for instance, the Dow Jones Industrial Average and the S&P 500 showed their worst ever results during the first trading sessions of the year and the FTSE 100 crashed into a bear market in the third week of 2016 – the need to diversify into all-weather or non-correlated assets may become more pressing and investors may need to rethink their plans to cut back on hedge funds over the year.

Performance Benchmarks

Fig. 3.1: Summary of Performance Benchmarks, As of December 2015 (Net Returns, %)*

	2015	2014	2013	2-Year Annualized	3-Year Annualized	5-Year Annualized	3-Year Volatility	5-Year Volatility
Hedge Funds	**2.02**	**4.65**	**12.22**	**3.33**	**6.21**	**5.43**	**3.78**	**4.68**
HF - Equity Strategies	0.87	4.84	15.54	2.84	6.91	5.03	5.43	6.61
ES - Long/Short Equity	2.10	4.23	15.05	3.16	6.98	5.02	4.88	5.85
ES - Long Bias	-3.38	5.18	17.59	0.82	6.13	4.75	7.87	9.99
ES - Value-Oriented	-1.42	14.84	19.27	6.40	10.53	7.94	7.67	9.08
ES - Sector-Focused	1.43	9.74	14.50	5.11	8.15	4.60	7.07	8.23
ES - North America	0.50	6.95	22.15	3.70	9.54	7.54	6.11	7.09
ES - Europe	8.41	2.37	16.39	5.35	8.91	5.42	4.85	5.62
ES - Asia-Pacific	7.79	6.63	18.63	7.21	10.89	6.81	7.50	8.18
ES - Emerging Markets	-1.73	5.22	7.72	1.68	3.65	3.33	6.88	8.03
ES - Developed Markets	2.43	9.03	15.05	3.80	8.60	6.17	5.36	6.68
HF - Macro Strategies	2.38	4.66	4.15	3.53	3.73	4.41	2.50	2.78
MS - Macro	4.24	6.64	5.34	5.43	5.40	5.85	2.84	2.86
MS - Commodities	-7.24	-3.09	-4.91	-5.18	-5.09	-2.96	4.97	6.77
MS - Foreign Exchange	1.02	-3.50	1.42	-1.27	-0.38	1.06	3.49	3.46
HF - Event Driven Strategies	-0.07	2.49	15.10	1.18	5.61	5.36	4.41	5.52
ED - Event Driven	0.63	3.58	17.60	2.06	6.97	6.17	4.76	5.91
ED - Distressed	-6.35	-2.39	15.71	-4.39	1.89	4.36	5.18	5.97
ED - Special Situations	0.93	0.80	13.80	0.83	4.96	4.03	5.46	6.48
ED - Risk/Merger Arbitrage	6.92	3.01	6.43	4.94	5.44	5.05	2.18	2.69
HF - Credit Strategies	1.98	5.77	9.69	3.86	5.76	7.51	2.14	2.64
CS - Long/Short Credit	-0.76	3.20	9.53	1.20	3.89	5.57	2.60	3.04
CS - Fixed Income	1.28	4.44	5.84	2.85	3.84	6.00	2.41	2.70
CS - Mortgage-Backed Strategies	4.76	10.62	12.83	7.65	9.35	11.23	2.35	2.70
CS - Asset-Backed Lending	7.33	9.70	12.80	8.51	9.92	11.65	1.20	2.60
HF - Relative Value Strategies	5.03	4.63	9.30	4.79	6.29	6.24	1.63	1.78
RV - Equity Market Neutral	6.64	4.47	9.40	5.45	6.78	5.92	1.59	1.48
RV - Fixed Income Arbitrage	1.00	4.03	4.19	2.51	3.06	5.05	2.19	2.33
RV - Relative Value Arbitrage	6.50	5.63	12.27	6.06	8.10	8.24	2.39	2.70
RV - Statistical Arbitrage	5.64	4.56	8.51	5.10	6.22	7.41	2.92	2.88
RV - Convertible Arbitrage	4.76	4.84	16.51	4.80	8.57	6.51	3.61	4.49
RV - North America	4.83	5.96	7.12	5.22	5.91	6.36	1.61	1.87
RV - Europe	3.34	1.88	9.31	3.08	6.02	4.86	3.30	4.56
RV - Asia-Pacific	10.27	3.70	18.20	6.93	10.56	8.29	3.18	3.43
RV - Developed Markets	4.50	9.34	8.89	4.69	5.76	5.79	1.47	1.81
HF - Multi-Strategy	4.14	4.07	8.49	4.18	5.57	5.16	2.88	3.51
HF - Niche Strategies								
NS - Insurance-Linked Strategies	3.14	7.18	7.57	4.74	5.85	5.36	1.01	1.61
NS - Niche	3.41	-2.84	4.95	4.27	8.26	6.99	6.59	5.80
HF - Trading Styles								
Activist	3.03	6.02	17.64	4.52	8.72	5.88	5.68	7.33
Volatility	5.06	2.61	7.49	3.83	5.03	6.08	2.29	2.14
Discretionary	2.32	5.45	17.16	3.82	8.09	6.80	4.40	5.41
Systematic	5.92	5.88	7.64	5.99	6.53	5.66	2.68	2.85
HF - North America	0.47	6.45	17.14	3.40	7.79	7.19	4.52	5.36
HF - Europe	5.60	2.71	13.75	4.15	7.25	5.19	3.50	4.39
HF - Asia-Pacific	7.89	6.17	17.32	7.03	10.36	7.05	6.07	6.77
HF - Emerging Markets	1.15	4.14	6.98	2.63	4.06	4.18	5.08	5.95
EM – Asia	3.37	19.54	8.61	11.12	10.27	6.17	9.31	11.09
EM – Latin America	-1.33	1.35	1.96	0.00	0.65	3.63	4.95	5.09
EM – Africa	6.81	7.43	18.48	7.12	10.78	11.01	3.99	3.61
EM – Russia & Eastern Europe	-0.23	-23.73	0.68	-5.72	-2.61	-2.76	7.49	9.41
HF - Developed Markets	3.34	6.95	11.61	5.13	7.23	7.11	2.27	2.94
HF - USD	0.78	4.50	12.74	2.62	5.89	5.28	4.20	5.24

	2015	2014	2013	2-Year Annualized	3-Year Annualized	5-Year Annualized	3-Year Volatility	5-Year Volatility
HF - EUR	2.37	1.15	8.62	1.80	3.99	3.12	2.77	3.48
HF - GBP	0.48	-0.48	4.49	0.00	1.47	1.05	2.58	3.12
HF - CHF	3.90	3.10	8.02	3.50	4.98	3.61	3.46	3.98
HF - JPY	6.33	6.23	30.78	6.26	13.87	9.51	5.77	6.38
HF - BRL	7.12	5.99	5.12	6.55	6.07	7.97	3.73	3.40
HF - AUD	9.56	6.64	19.09	8.09	11.64	9.20	4.45	4.90
HF - CAD	1.16	5.61	9.46	3.36	5.36	1.70	4.35	5.76
HF - ZAR	13.36	11.33	17.26	12.34	13.96	14.30	3.80	3.26
HF - Emerging (Less than $100mn)	1.32	3.46	10.82	2.39	5.12	4.66	4.00	5.15
HF - Small ($100mn-$999mn)	2.93	5.09	12.60	4.02	6.81	6.09	3.61	4.51
HF - Medium ($500mn-$999mn)	1.86	3.51	12.34	2.68	5.81	5.88	3.62	4.22
HF - Large ($1bn plus)	2.17	6.57	12.78	4.35	7.09	6.55	3.27	4.40
Funds of Hedge Funds	**1.13**	**3.86**	**8.51**	**2.49**	**4.46**	**2.91**	**3.07**	**3.33**
FOHF - Equity Strategies	1.64	3.59	11.99	2.61	5.65	3.47	4.30	4.72
FOHF - Macro Strategies	-1.66	4.58	-0.86	1.63	0.72	-0.10	3.17	3.34
FOHF - Event Driven Strategies	-1.15	1.03	6.86	-0.13	2.60	1.46	3.72	4.64
FOHF - Credit Strategies	0.05	12.73	8.71	4.61	6.22	5.11	2.54	2.68
FOHF - Relative Value Strategies	1.27	1.63	4.92	1.63	2.92	2.31	2.18	2.22
FOHF - Multi-Strategy	1.21	3.79	8.55	2.50	4.48	3.00	2.88	3.04
FOHF - Funds of CTAs	-6.77	13.54	-1.88	2.89	1.27	-1.80	10.22	9.42
FOHF - North America	-0.63	5.34	13.38	2.32	5.88	4.58	4.02	4.32
FOHF - Europe	4.28	3.48	8.64	3.88	5.44	2.96	2.80	3.05
FOHF - Asia-Pacific	5.90	4.47	12.49	5.18	7.56	4.39	4.93	5.17
FOHF - Emerging Markets	5.09	6.11	7.11	5.60	6.10	5.40	3.98	4.06
FOHF - USD	0.16	2.83	8.97	1.50	3.93	2.46	3.30	3.64
FOHF - EUR	0.79	1.74	7.31	1.26	3.24	1.31	3.23	3.48
CTAs	**-0.49**	**10.88**	**2.77**	**5.03**	**4.26**	**3.81**	**4.73**	**4.93**
CTA - Discretionary	0.95	-1.69	6.19	-0.38	1.76	5.44	4.01	5.32
CTA - Systematic	-1.44	12.47	2.69	5.29	4.41	3.57	5.56	5.87
CTA - Trend Following	-1.72	15.28	1.67	6.44	4.83	3.06	6.56	7.05
CTA - Macro	1.67	10.64	0.94	6.03	4.32	3.66	4.33	4.34
CTA - Counter Trend	0.84	8.07	0.97	4.46	3.24	2.34	4.32	4.62
CTA - Pattern Recognition	-0.40	10.01	0.57	4.51	3.23	1.94	3.97	4.23
CTA - Arbitrage	-1.07	11.47	5.79	5.14	5.27	6.36	3.42	3.62
CTA - Option Writing	7.76	-2.49	0.79	2.11	1.93	3.30	7.48	7.75
CTA - North America	3.00	11.79	0.75	7.30	5.07	5.87	4.40	4.93
CTA - Developed Markets	-5.24	7.11	0.65	0.75	0.72	4.12	5.53	6.14
CTA - USD	-1.11	10.68	2.61	4.61	3.92	3.27	4.88	5.08
CTA - EUR	1.72	12.81	-0.98	7.10	4.33	2.82	6.81	6.79
Alternative Mutual Funds	**-2.77**	**3.67**	**10.32**	**0.40**	**3.60**	**4.05**	**3.95**	**4.60**
Alternative Mutual Funds - Equity Strategies	0.07	7.42	18.46	3.68	8.39	7.59	5.30	6.14
Alternative Mutual Funds - Macro Strategies	-7.93	-1.98	n/a	-5.00	n/a	n/a	n/a	n/a
Alternative Mutual Funds - Credit Strategies	-2.01	2.56	2.58	0.24	1.01	3.08	2.40	2.63
Alternative Mutual Funds - Multi-Strategy	-6.43	4.46	6.45	-1.13	1.33	n/a	6.25	n/a
Alternative Mutual Funds - North America	-2.00	5.96	16.77	1.90	6.63	6.74	5.47	6.79
UCITS Hedge Funds	**0.31**	**1.64**	**6.58**	**0.96**	**2.79**	**2.01**	**3.46**	**3.97**
UCITS - Equity Strategies	1.86	1.94	12.30	1.89	5.21	3.37	5.06	5.94
UCITS - Macro Strategies	-2.65	1.76	0.62	-0.47	-0.11	-0.15	3.35	3.46
UCITS - Event Driven Strategies	-0.64	0.14	6.28	-0.25	1.88	1.10	3.45	3.64
UCITS - Credit Strategies	-1.98	1.46	2.63	-0.33	0.60	1.73	2.64	3.24
UCITS - Relative Value Strategies	0.73	0.70	3.17	0.70	1.49	1.21	1.31	1.68
UCITS - Multi-Strategy	1.06	4.37	5.72	2.54	3.90	2.58	3.79	3.85
UCITS - Europe	5.63	2.38	9.85	3.99	5.91	4.19	3.25	3.92
UCITS - Asia-Pacific	1.30	0.85	12.23	1.08	4.67	2.88	6.82	7.73
UCITS - Emerging Markets	-5.78	-0.41	5.15	-3.16	-0.54	-0.73	8.36	9.16
UCITS - Developed Markets	-0.03	0.44	6.87	0.19	2.35	1.45	2.78	2.86
UCITS - USD	-1.83	0.30	6.87	-0.78	1.69	1.22	4.23	5.08
UCITS - EUR	1.61	1.93	6.25	1.79	3.25	2.16	3.45	3.78
UCITS - GBP	0.81	1.93	8.47	1.39	3.70	2.43	3.48	3.75
UCITS - CHF	-0.78	2.35	3.25	0.73	1.50	0.32	3.19	4.66

Source: Preqin Hedge Fund Analyst

**Please note, all performance information includes preliminary data for December 2015 based on net returns reported to Preqin in early January 2016. Although stated trends and comparisons are not expected to alter significantly, final benchmark values are subject to change.*

Overview of Hedge Fund Managers

Preqin's **Hedge Fund Analyst** tracks over 6,000 fund management firms operating in the hedge fund sector. These institutions manage a range of hedge fund investment products, from traditional commingled funds to liquid alternatives. In this section we present a breakdown of the hedge fund manager universe.

Regional Breakdown

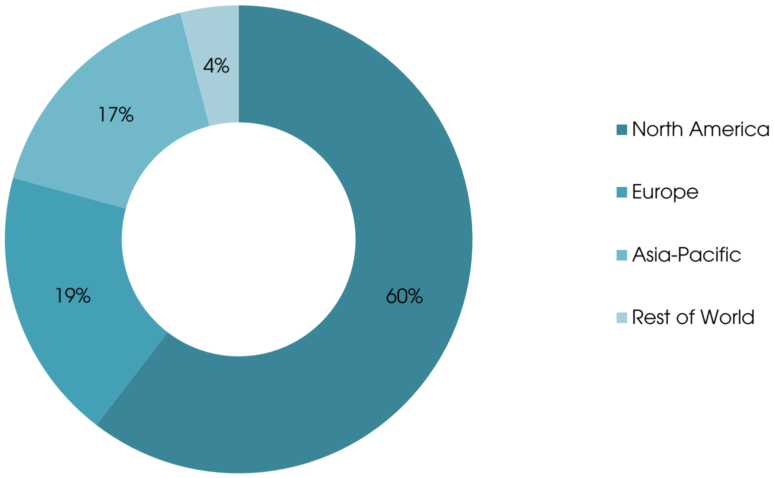
North America is the most established region in the hedge fund industry and accounts for the majority (60%) of managers (Fig. 4.9). Nineteen percent of hedge fund managers are based in Europe; of these, more than half (52%) are headquartered in the UK. Asia-Pacific hedge fund managers constitute 17% of all firms within the industry, with the majority of these based in the financial centres of Hong Kong, Australia and Singapore. Beyond North America, Europe and Asia-Pacific, the industry is less developed and only 4% of managers are located outside these key regions (Rest of World). Of the Rest of World-based hedge fund managers, 37% are headquartered in Brazil, followed by 23% in South Africa and 8% in the United Arab Emirates.

Assets under Management

Hedge fund industry assets, as of 30 November 2015, stood at just under $3.2tn, increasing by $178bn from 2014 (Fig. 4.10). North America saw the greatest absolute increase as the assets of managers in the region grew by $116bn to over $2.3tn over the course of the year. However, in percentage terms, the 5% increase in North American assets was surpassed by 12% growth in Europe, as the assets under management (AUM) of Europe-based managers increased by $76bn to $685bn. This followed strong growth over the year in several European countries, including the UK, France and Switzerland. Conversely, AUM in Jersey has decreased considerably over the past year. This is largely attributable to changes within the two largest fund managers based in the territory: Brevan Howard and BlueCrest Capital. DW Partners spun out of Brevan Howard in January 2015; the new firm is headquartered in New York. More recently, BlueCrest announced in December 2015 that it would begin returning investor capital in order to convert to a family office.

The Asia-Pacific region manages $159bn, a 10% increase from 2014. The largest change was observed in regions beyond North America, Europe and Asia: AUM in Rest of World fell from $67bn in 2014 to $39bn in 2015, a decrease of 52%. The greatest decline was seen in Brazil, where AUM fell by $22bn during the year. Part of this reduction in assets can be attributed to the Brazilian Real's

Fig. 4.9: Breakdown of Hedge Fund Managers by Region



Source: Preqin Hedge Fund Analyst

Fig. 4.10: Hedge Fund Manager Assets under Management by Region

Region	Assets under Management ($bn)
North America	2,314
Europe	685
Asia-Pacific	159
Rest of World	39
Total	**3,197**

Source: Preqin Hedge Fund Analyst

Fig. 4.11: Hedge Fund Manager Assets under Management by Manager Headquarters

Manager Headquarters	Assets under Management ($bn)
US	2,279
UK	472
Hong Kong	67
Sweden	38
France	38
Singapore	35
Jersey	34
Switzerland	34
Australia	31
Brazil	29

Source: Preqin Hedge Fund Analyst

Asset Flows in 2015

The hedge fund industry saw a net inflow of $71.5bn during 2015, as of 30 November 2015 (Fig. 4.33), with the majority of this figure coming in the first half of the year. More than half of the inflows were secured by equity strategies despite net outflows during the third quarter of the year. Many investors pulled their capital out of the strategy following the global volatility in public markets during this time. Despite the volatile performance of CTAs during 2015, investors continued to allocate capital to the strategy with $25.4bn of new capital inflows during the year.

Regionally, North America-based funds have seen the largest inflows throughout the year, with $79.6bn of inflows outstripping the $31.7bn of new capital received by European funds. Following strong inflows during the first half of the year, Asia-Pacific-based hedge funds had a difficult H2 and ended the year having suffered an overall net outflow of $1.3bn.

Preqin's analysis shows that a greater proportion of larger funds received net inflows compared to smaller funds (Fig. 4.34). More than half of funds over $500mn in size received inflows during 2015. In contrast, 53% of funds managing less than $100mn experienced net redemptions during the year.

There were varying fortunes across different strategies in 2015. More than half of CTAs secured net inflows during the year, with 52% of funds receiving new capital, whereas 58% of macro strategies hedge funds saw net redemptions (Fig. 4.35).

Preqin estimates industry asset flows from performance and asset growth information for over 12,200 hedge fund track records, as showcased on Preqin's **Hedge Fund Analyst**. Flows are estimated based on a sample of funds with available size and performance data and scaled up based on the proportion of represented capital by strategy, headquarters location and fund classification.

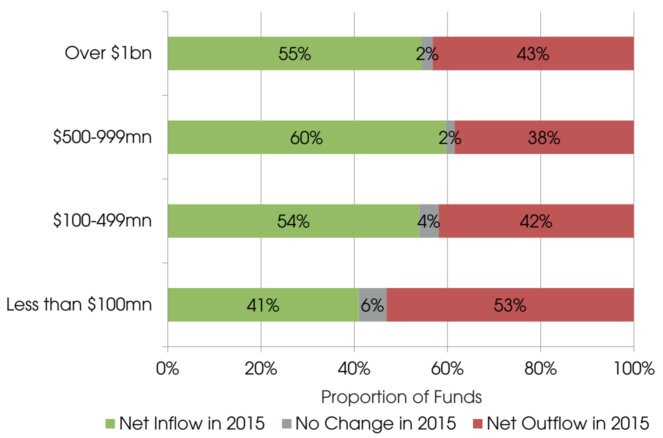
Fig. 4.33: Quarterly Asset Flows by Strategy

Strategy	Q1 2015 Asset Flows ($bn)	Q2 2015 Asset Flows ($bn)	Q3 2015 Asset Flows ($bn)	Q4 2015 Asset Flows ($bn)*	2015 Total ($bn)
Equity Strategies	29.6	28.8	-1.7	0.4	**57.1**
Multi-Strategy	12.2	5.2	7.8	1.3	**26.5**
CTAs	11.3	-4.8	16.7	2.2	**25.4**
Credit Strategies	-3.7	15.1	-2.0	-5.7	**3.6**
Event Driven Strategies	-1.6	12.3	-1.8	-7.3	**1.7**
Niche Strategies	-0.1	-0.6	1.4	0.5	**1.1**
Relative Value Strategies	-15.3	5.6	-5.3	-3.2	**-18.3**
Macro Strategies	-3.4	-14.0	-11.2	3.1	**-25.6**
All Hedge Funds	28.8	47.5	3.9	-8.7	**71.5**

Source: Preqin Hedge Fund Analyst

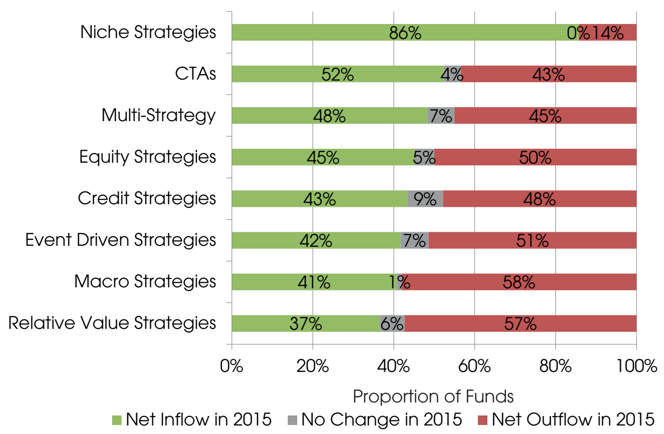
**Q4 2015 asset flows estimated to 30 November 2015.*

Fig. 4.34: Asset Flows over 2015 by Fund Size



Source: Preqin Hedge Fund Analyst

Fig. 4.35: Asset Flows over 2015 by Strategy



Source: Preqin Hedge Fund Analyst

Macro Strategies Funds

Key Facts

642
Number of hedge fund managers offering a macro strategies fund.

1,071
Number of active macro strategies funds in market.

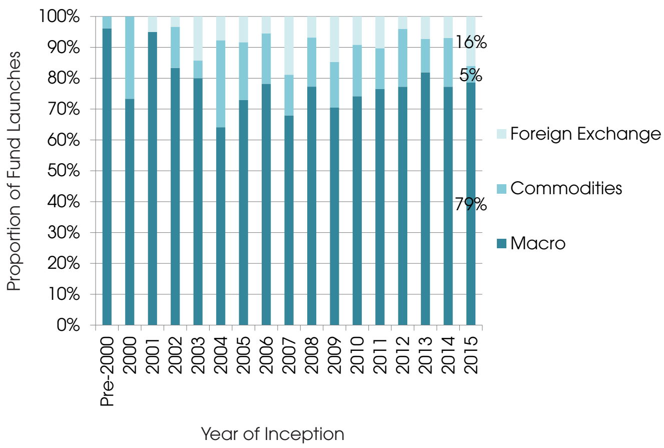
2,100
Number of institutions investing in macro strategies funds.

+1.32%
The highest monthly return generated by macro strategies hedge funds in 2015 (posted in March).

-7.24%
Commodities hedge funds returned -7.24% in 2015; in comparison, macro funds made gains of 4.24%.

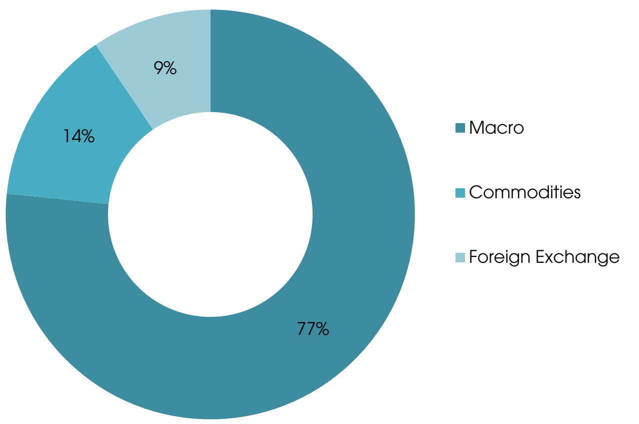
$64.94bn
Size of the largest macro strategies fund, Bridgewater Pure Alpha Strategy 12%.

Fig. 5.9: Breakdown of Macro Strategies Fund Launches by Strategy and Year of Inception



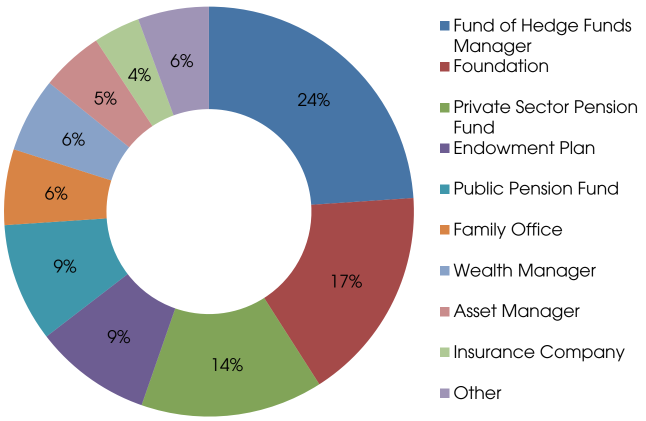
Source: Preqin Hedge Fund Analyst

Fig. 5.10: Breakdown of Macro Strategies Funds by Strategy



Source: Preqin Hedge Fund Analyst

Fig. 5.11: Breakdown of Investors in Macro Strategies Funds by Type



Source: Preqin Hedge Fund Investor Profiles

Data Source:

Preqin's **Hedge Fund Analyst** provides detailed information on over 1,000 macro strategies hedge funds.

Comprehensive profiles include assets under management, monthly returns, strategy and regional preferences, and much more.

For more information, please visit:

www.preqin.com/hfa

Timeline of Key Events in the Hedge Fund Industry in 2015

January

January
Swiss De-Peg Results in Winners and Losers

The Swiss National Bank's decision in January 2015 to remove the cap on the value of the Swiss franc against the euro led to swings in currency markets. The Swiss franc lost 17% against the euro, the USD-CHF rate dropped approximately 30% and Swiss stocks fell 13%, all in one day. Due to this volatility, there were some major wins and losses for hedge funds. Notably, the $830mn Everest Capital Global Fund closed in February, and the currency movement was cited as a main factor in the closure of six out of seven of Everest's funds in March. In comparison, Switzerland-based Quaesta Capital generated +14.36% in January through its v-Pro Dynamic fund (GBP – P share class).

February

February
More Acquisitions for Man Group

Man Group announced that it was to acquire the asset management business of NewSmith. The acquisition, the latest in a long line by the group, led to Man gaining a Japanese hedge fund, a new Tokyo office and an expanded team in London. Other recent acquisitions by Man Group include Numeric Investments and Pine Grove in 2014.

March

Q1
Best Quarterly Performance of 2015

Hedge funds had a good start to the year, adding 3.05% in Q1 2015 – the best quarter since Q4 2013, and ultimately the best quarter of 2015.

April

April - June
Trend Reversals in Oil Markets Foil CTAs

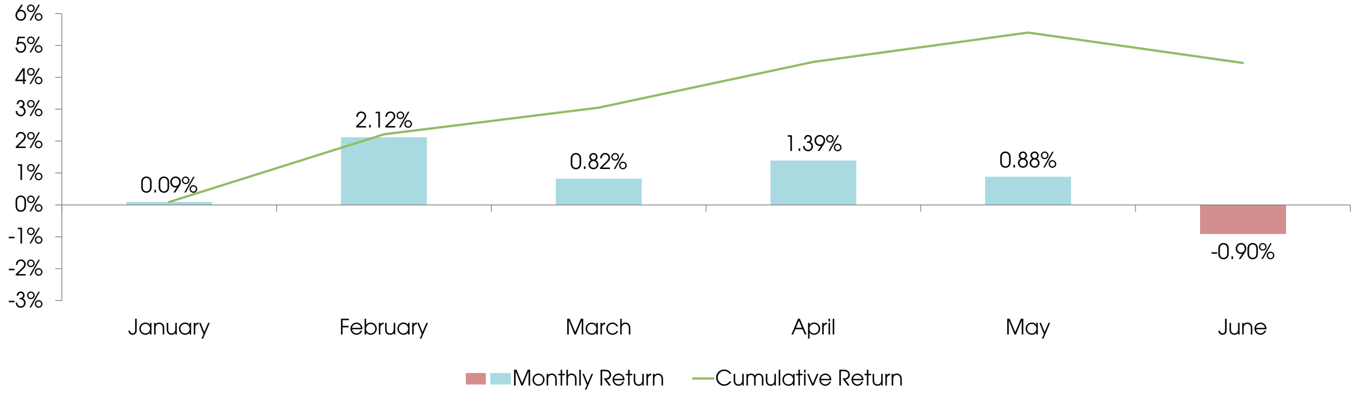
In April, following a report that US oil and natural gas drilling activity fell to a six-year low and supply concerns grew as a result of tension in the Middle East in turn, oil prices began to rally, reversing trends of falling prices in Q1. However, OPEC's June announcement that they will not cut oil production caused fears of over production and led to declining oil prices and further trend reversal. With many CTAs trading instruments derived from oil prices, CTAs were unable to follow the sharp trend reversals and the benchmark posted a loss of 3.73% in Q2, almost wiping out the +4.29% Q1 return.

May

June

June - July
Greek Debt Crisis Hits European Hedge Funds

Concerns over a potential "Grexit" had been growing since June when newly elected Prime Minister Alexis Tsipras announced a surprise referendum on whether Greece should accept bailout conditions, Greek banks closed and Greece missed a payment to the IMF. The uncertainty in Greece sent shockwaves throughout European markets. On 13 July 2015 Greece and Europe agreed a deal for an €86bn bailout over the course of three years. Hedge funds in the region were not immune to the volatility caused by these events, and Europe-focused funds lost 1.05% in June. However, following the bailout in July they were able to post gains of 0.94%. In fact, over the course of 2015, Europe-focused funds were able to outperform the wider All-Strategies Hedge Fund benchmark, with each making gains of 5.60% and 2.02% respectively.



Institutional Outlook for Hedge Funds in 2016

In November 2015, Preqin analysts conducted in-depth interviews with 150 institutional investors in order to assess their current attitudes towards hedge funds and establish their outlook for the industry in 2016. This section assesses hedge fund investor attitudes towards a variety of different topics, such as performance, their outlook on the industry in 2016 and fund preferences for the year.

Did Hedge Fund Portfolios Meet Expectations in 2015?

With periods of uncertainty impacting global markets in 2015, hedge fund managers have had to navigate volatile market conditions in order to deliver positive returns. As Fig. 7.12 demonstrates, investor satisfaction with the performance of hedge funds in 2015 remained at a similar level to 2014's survey. Fifty-eight percent of investors reported returns had met expectations in 2015; a further 9% reported returns had been exceeded. Although a significant proportion (33%) of investors stated that their hedge fund investments fell short of expectations, on the whole, investors' outlook on performance has not worsened since 2014, despite a particularly turbulent period between June and September 2015 leaving the benchmark more than two percentage points below the 2014 return. However, we did see a drop in investor satisfaction with the returns of hedge funds from 2013 to 2014, and the low, single-digit benchmark return of 2015 has done little to win over the 33% of investors that are sceptical about the performance of the sector.

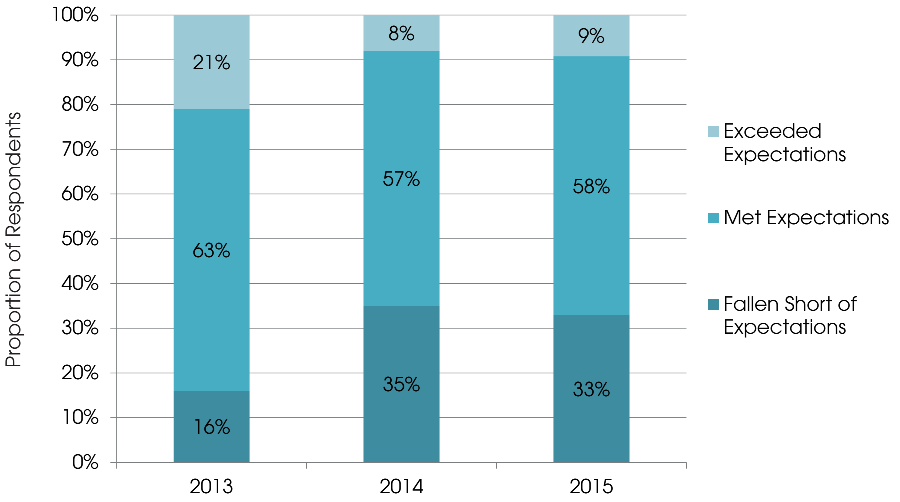
Fig. 7.13 shows for investors in each particular strategy whether returns met or fell short of expectations during 2015. Relative value strategies were rated highly by investors: 78% of those surveyed stated that the strategy had met expectations. With high volatility in equity markets, the market-neutral characteristics of relative value strategies saw them deliver smoother returns than other strategies; the Preqin All-Relative Value Strategies benchmark ranked as the top performing strategy of 2015, coupled with the lowest volatility.

CTAs made a promising start to 2015, but the strong performance in Q1 was effectively wiped out during Q2 and the strategy subsequently experienced a difficult year. Despite this, managed futures/CTAs retained positive sentiment among investors with 69% viewing the strategy favourably. This represents a turnaround in the perception of CTAs, with surveys in both 2013 and 2014 showing that dissatisfied investors outnumbered the satisfied, perhaps as investors reassess their performance expectations from these funds.

Sixty-eight percent and 66% of investors in multi-strategy and equity strategies funds respectively had their return expectations met over the course of 2015. Fund of hedge funds, for which 63% of investors in these funds felt their return expectations had been met, completes those strategies where more investors believed their return objectives had been fulfilled in 2015 than unfulfilled.

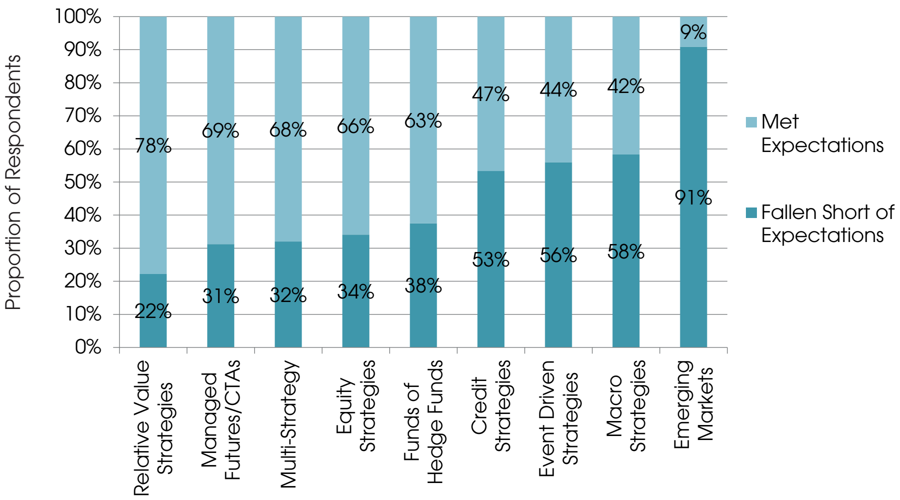
At the other end of the spectrum, event driven and macro strategies funds

Fig. 7.12: Hedge Fund Portfolio Performance Relative to Expectations of Institutional Investors, 2013 - 2015



Source: Preqin Investor Interviews, November 2015

Fig. 7.13: Hedge Fund Portfolio Performance in 2015 Relative to Expectations of Institutional Investors by Strategy



Source: Preqin Investor Interviews, November 2015

Know Your Investor

In 2014, one of the leading events in the hedge fund sector was CalPERS' announcement that it planned to exit its hedge fund investments. The $297bn retirement system signalled its departure in September 2014, citing concerns regarding cost and complexity as the main cause for redemptions. This led to a number of industry participants questioning whether this would be the first sign of further outflows from institutional investors. However, what materialized in 2015 was the reverse of this: in total, the hedge fund industry saw $71.5bn in inflows in 2015, and 59% of fund managers reported that their assets under management (AUM) grew over 2015 (see page 46: 'Fund Manager Outlook for 2016').

However, despite more capital continuing to flow into hedge funds, the prolonged performance difficulties faced by much of the industry, compounded by 2015's benchmark return being the lowest since 2011, had led to concerns from a wider group of investors regarding investment in hedge funds (see page 86: 'Institutional Outlook on Hedge Funds in 2016'). This, combined with an increasingly sophisticated audience of institutional investors active in hedge funds, is leading to further changes within investor portfolios, as institutions evolve not only in how they invest in the asset class but also in their expectations from the industry.

With more than 5,000 institutional investors now actively investing in hedge funds to diversify their portfolio and add a source of risk-adjusted returns, we examine the investor universe in greater detail to discover more about their investment activity in the asset class.

Public Pension Funds

The participation of public pension funds in the hedge fund sector had been under scrutiny since CalPERS announced its exit. However, far from signalling a wider departure of public pension capital from the asset class, the opposite appears true: in 2015 public pension funds increased their allocations and now account for a greater proportion of institutional capital invested in hedge funds than in 2014. Twenty-three percent of the capital invested in hedge funds by institutions is sourced from public pension funds (Fig. 7.21), representing the largest proportion of all institutional investors and an increase from 20% in 2014. In turn, the average allocation to hedge funds of public pension funds has also increased by 50 basis points, from 7.8% in 2014 to 8.3% in 2015 (Fig. 7.24). In fact, public pension funds have steadily been increasing their allocation to hedge funds since 2008, when they invested an average of 5.7% of their portfolio in the asset class. As well as existing public pension fund investors in hedge funds increasing their allocations, we have also witnessed more public pension funds considering their first investments in the asset class. An example is Police Mutual Aid Association, the South Korea-based scheme set up in 1989 to promote the welfare and livelihood of the police force in the country. It is currently considering adding funds of hedge funds to its portfolio.

As well as growing the size of their hedge fund portfolios, a larger number of public pension funds have been adding single-manager hedge funds to their portfolio. Twenty-two percent of public pension funds access hedge funds by making direct investments only, an increase from 20% in 2014 (Fig. 7.25); this is a continuing trend witnessed over recent years as these investors become more experienced and accustomed to the asset class. Despite this, public pension funds continue to favour funds of funds as a route to hedge fund exposure, with 51% gaining access to the asset class solely through multi-manager products. Fund of hedge funds managers have responded to the changing needs of their largest clients over recent years by offering new products, customized solutions and access to niche strategies or managers.

In contrast to their private sector counterparts, public pension funds seek lower annualized returns for 2015 (+5.5%) compared with private sector pension funds' 6.2% (Fig. 7.23). However, this represents a small increase from 2014 when public pension schemes sought annualized returns of 5.4% from their hedge fund investments.

Key Facts: Public Pension Funds

420

Number of public pension funds actively investing in hedge funds.

56%

Proportion of public pension funds tracked by Preqin that invest in hedge funds.

$22.2bn

Amount invested in hedge funds by the most prominent public pension fund investor, **ABP** (managed by **APG - All Pensions Group**).

Bridgewater Associates – hedge fund manager most invested with by public pension funds.

Managed Accounts - Introduction

The hedge fund sector has seen many changes in recent years, as fund managers respond to a growing audience for their strategies and the challenges that come with a growing institutional capital base. As a result of increased interest in the transparency, liquidity and control of assets, we have seen managed account structures rise to prominence in recent years. These structures are accompanied by higher barriers to entry, in terms of minimum investment size, and are often of most interest to the largest and most sophisticated institutional investors; 58% of institutional investors that invest in managed accounts have $1bn or more in assets under management (AUM). As a result, those fund managers that can arrange managed accounts for their investors may gain access to these long-term investment partners.

In this section, we take a closer look at the managed account universe, which types of investors use this structure and which types of managers offer these products.

Investor Interest in Managed Accounts

38%
of investors allocate to or consider investment in hedge funds through **separately managed accounts**.

65%
of investors' consultants recommend investment in hedge funds through **separately managed accounts**.

24%
of investors allocate to or consider investment in hedge fund managed accounts through **platforms**.

48%
of investors' consultants recommend investment in hedge fund managed accounts through **platforms**.

Five Leading Investor Types that Currently Use Managed Accounts*

42%
of Sovereign Wealth Funds

30%
of Funds of Hedge Funds

21%
of Banks

15%
of Public Pension Funds

11%
of Asset Managers

Proportion of each group that invest through managed accounts.

Characteristics of Managed Accounts vs. Commingled Hedge Funds

	Managed Accounts	Commingled Hedge Funds
Mean Minimum Investment Size	$4.4mn	$2.0mn
Mean Lock-up Period	2.7 Months	7.3 Months
Mean Management Fee	1.46%	1.58%

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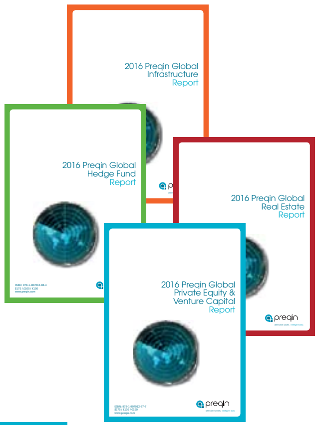

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