Preqin Special Report: Hedge Fund Manager Outlook

Preqin's latest survey of over 270 hedge fund managers finds that the industry is facing increased pressure from investors on fees and transparency, while attempting to overcome a negative perception of the asset class that has arisen partly due to performance issues through the first half of the year.

Over half (52 per cent) of surveyed managers report that investors are more negative about the industry compared to 12 months ago, and 43 per cent identify investor demands for more favourable fees as a key driver of change in the industry, up from 28 per cent that said so in December 2015.

Equally, 19 per cent of managers see overcoming negative perceptions of the asset class as a key challenge facing the industry; in response, managers intend to increase their transparency (69 per cent) and open their offices for more client visits (58 per cent).

Performance in the second half of 2016 is also set to be a central focus for hedge funds, and is cited by the highest proportion of surveyed fund managers (36 per cent) as a key challenge facing the industry today. Additionally, 44 per cent of fund managers stated performance as a key driver of change in the industry, up from 33 per cent that said so in December 2015.

The majority of hedge fund managers are currently forecasting low single-digit gains for 2016 as a whole, with the median predicted return at 3 per cent, and one in ten managers predicting negative full-year performance. No fund manager surveyed by Preqin expects to return 8 per cent or more across 2016 as a whole.

In H1 2016, only 15 per cent of hedge fund managers exceeded their performance goals. Nearly half (49 per cent) of all firms surveyed failed to meet their return objectives. Oil and commodity price volatility were the largest influences on performance, cited by 72 per cent and 66 per cent of managers respectively.

Fund managers are divided on their outlook for H2 2016, with 35 per cent predicting a positive outlook, and an equal proportion taking a negative view. Crucially, almost half (48 per cent) of surveyed managers predict that total industry AUM will decline in H2 2016, while only 23 per cent expect it to grow.

The largest proportion of fund managers (21 per cent) believe CTAs will be the best performing hedge fund vehicle this year, despite CTA funds as a whole gaining just 0.49 per cent in 2016 YTD. Nearly a third of fund managers (30 per cent) expect equity strategies to be the worst performing strategy this year.

The vast majority (86 per cent) of fund managers state that regulation has increased the costs of business, with just 6 per cent saying costs have lowered. Moreover, the proportion of fund managers that think regulation will impact the industry negatively increased from 54 per cent in June 2015 to 59 per cent in June 2016.

Amy Bensted, head of hedge fund products, Preqin, says: "Fund managers have presented an image of an industry that is attempting to adapt to pressure on fees from investors, and to rising business costs, while maintaining non-correlated returns in a difficult economic climate. The performance of the industry as a whole affects the way that many investors approach the asset class, and will shape the course of the industry through the second half of the year. It is of particular concern, then, that many managers stat that they have not met their performance objectives in the first half of the year.

“Managers recognise that in order to retain investors and continue to receive new capital, they will need to overcome significant investor concerns about the asset class. In order to address these concerns, fund managers are concentrating primarily on improving the transparency of their funds and their businesses, strengthening their middle- and back-office infrastructure and educating investors about their funds and the industry in general.”

The entire report can be accessed free of charge here: Hedge Fund Manager Outlook

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