Hedge Fund Industry Changes Driven By Performance

Stockholm (HedgeNordic) – According to managers and institutional investors, performance is currently one of the key drivers of change in the hedge fund industry, shows a recent survey from Preqin.

Hedge funds posted overall gains of 1.09% through H1 2016, down from returns of 1.97% in 2015 and considerably below the double-digit figures recorded between 2009 and 2013. The Nordic Hedge Index Composite (NHX) was up a mere 0.27% in the first half of the year, trailing its international peers.

"With recent returns lower than investors have come to expect, the performance of the hedge fund industry is under increasing scrutiny. Both fund managers and investors have identified performance as a key issue in the hedge fund industry today and one which is driving change in the sector," says Amy Bensted, head of hedge fund products at Preqin.

Some strategies and geographies have posted substantial returns despite the modest gains of the Preqin All-Strategies Hedge Fund benchmark, however. "Although overall investor sentiment for the asset class is at a historically low ebb, there remain sectors of the industry which offer investors good return on their investment," says Ms Bensted. At +3.14%, for example, Macro strategies have been the highest performing top-level strategy in the past 12 months, followed by CTAs at +2.49%. Among sub-strategies, counter-trend CTAs saw the highest returns at +7.11%, with every sub-strategy tracked by Preqin making gains.

As seen in the interquartile ranges of returns for each top-level strategy, there can be a broad variance in the performance of different vehicles within different hedge fund strategies. For example, while equity strategies funds have had the lowest overall 12 month performance at -4.31%, they also have the largest interquartile range, between +3.32% and -12.16%. Conversely, credit strategies funds have the smallest interquartile range, between +4.13% and -2.75%.

These variances highlight the difficulties facing investors in identifying better-performing funds among the 15,000 active hedge funds open to investment at present. "The proliferation of funds in recent years, as well as the wide dispersion between the best performing strategies and between individual managers in the industry today, mean that investors are finding it more difficult to pinpoint the good investment opportunities in the current environment," says Ms Bensted.

The only geographies to record positive performances among hedge funds up to and including June 2016 were Emerging Markets and Latin America with respective returns of 1.46% and 11.03%. Funds focusing on Asian emerging markets recorded losses of 8.26%, the lowest of any geography, on the other hand.

The average monthly Value at Risk (VaR), which represents the proportion of capital an investor might lose each month, remains lower for hedge fund investors than for those investing in public markets, however. The S&P 500 has an average monthly VaR of 8.20%, for example. In that light, Equity strategies have had an average monthly VaR of 6.16% the last 10 years, while among credit strategies it stood at 2.37%.

Bridgewater Associates remains the largest hedge fund manager globally, with USD147b in AUM, with there currently being 668 firms worldwide managing USD1b or more in assets.

Preqin ranks hedge funds that have offered the greatest returns over the past 12 months, and also compiles league tables of those funds in each top-level strategy which have consistently offered investors superior returns and lower volatility the past three and five years.

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