Funds of Hedge Funds Consolidate in Fight for Survival

Stockholm (HedgeNordic) – The fund of hedge funds industry has experienced a noticeable drop in assets under management in recent years, as institutional investors such as public pension funds have moved capital out of multi-manager vehicles in favour of picking fund managers directly. According to alternative assets data provider Preqin, funds of hedge funds collectively manage $798 billion as of June 2017, significantly below the $1.20 trillion-figure recorded in June 2008.

A special report issued by Preqin writes that most investors continue to maintain some exposure to funds of hedge funds, but the proportion of investors allocating to these vehicles and the amount of capital channelled into multi-manager funds have declined in recent years. Faced with a challenging environment, funds of hedge funds have sought to remain competitive by expanding their product line and reducing costs through merging with or acquiring peers. Preqin's Hedge Fund Online database registered 58 mergers and acquisitions in this space since 2008, involving more than 100 fund of hedge funds managers.

With industry assets stuck in a downward spiral, the number of new players entering the fund of hedge funds arena has been dwindling almost every year since 2007. The number of launches declined from a peak of 207 in 2007 to 65 in 2016, and to a mere ten launches in the first half of this year. A total of 475 funds of hedge funds have been launched globally since the beginning of 2012, but a much higher number of 861 funds have been wound down over the same time span.

Amy Bensted, Head of Hedge Fund Products at Preqin, said in a press release: "the fund of hedge funds industry faced a series of challenges in the wake of the Global Financial Crisis: a difficult performance environment, changing regulations and a shrinking investor base. With assets under management in decline, and more funds liquidating than launching, the industry has turned to mergers and acquisitions to diversify value proposition as well as building economies of scale." Nonetheless, she says that a majority of institutions, mainly pension funds and sovereign wealth funds, retain and continue to seek exposure to hedge funds via multi-manager vehicles.

"The advantages of multi-manager vehicles – to be able to gain exposure to flagship hedge funds and to insulate investors from market shocks – have not diminished. In fact, almost four out of five public pension funds and sovereign wealth funds invest at least in part through funds of hedge funds, representing a significant amount of capital. This demonstrates that despite contraction and consolidation, funds of hedge funds still play a crucial role within the wider industry," Amy added.

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