



PREQIN **QUARTERLY UPDATE:** **HEDGE FUNDS** **Q3 2019**

Insight on the quarter from the leading provider
of alternative assets data



Performance
Benchmarks
Fund Managers
Fund Launches
Fund Searches

Foreword

As recessionary fears grow, the hedge fund sector is facing challenges – and opportunities – on multiple fronts. Against an increasingly turbulent political backdrop, central banks were active in Q3 as the Fed cut rates twice, and the ECB announced new stimulus plans including a return to quantitative easing. However, the Fed’s actions in Q3 failed to ignite investors: when the US yield curve inverted in August, fears of an impending recession intensified.

This market uncertainty is certainly reflected in the activity of fund managers and investors over the quarter. The number of funds launched in Q3 declined to 67 from 121 the previous quarter, perhaps as managers put plans on ice in a difficult macroeconomic climate. Similarly, just 115 fund searches were initiated by investors in Q3, down from 220 the previous quarter.

Although in Q3 the Preqin All-Strategies Hedge Fund benchmark was in the red for the first quarter in 2019,

the benchmark gained 2.14% over 12 months to the end of September. Crucially, it is not the size of the gain that is vital, but the much smaller levels of volatility involved in generating this return. With the direction of geopolitical events unpredictable, the impact on markets is hard to determine – with such large swings as we saw in Q4 2018 in equity markets (-14% for S&P 500) and Q1 2019 (+13% S&P 500), hedge funds can help ease the market bumps as we approach the end of the cycle.

For the six-month return to September, CTAs and macro strategies lead the pack. Such funds can reduce correlation to equity markets and be useful investments in times of crisis; over recent years investors have increased their weighting towards these funds in expectation of a correction, despite underwhelming performance. Those investors that have positioned more defensively have been rewarded with superior returns in recent months.

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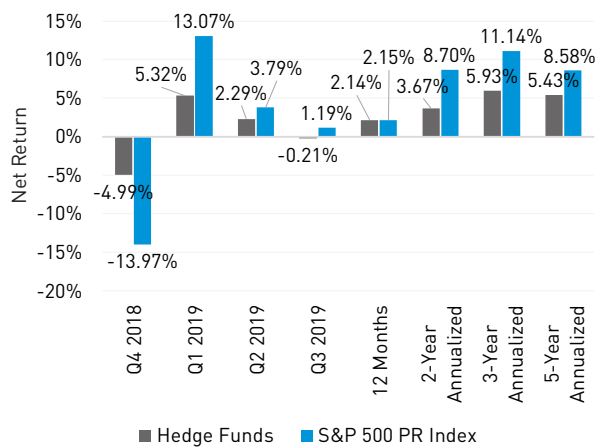
Performance Update

Hedge funds posted their first negative quarterly return for the year in Q3, with the Preqin All-Strategies Hedge Fund benchmark losing 0.21% (Fig. 1). Among single-manager fund types, CTAs produced the highest return (+1.37%), compared with the significant gains of 2.81% made by their multi-manager counterparts (Fig. 2).

Looking at top-level strategies, multi-strategy funds posted a return of +1.13%, closely followed by credit and macro strategies funds, with returns of +1.09% and +0.98% respectively. In contrast, event driven strategies funds returned -1.36%, resulting in a 12-month return of -1.50%, the lowest of any top-level strategy.

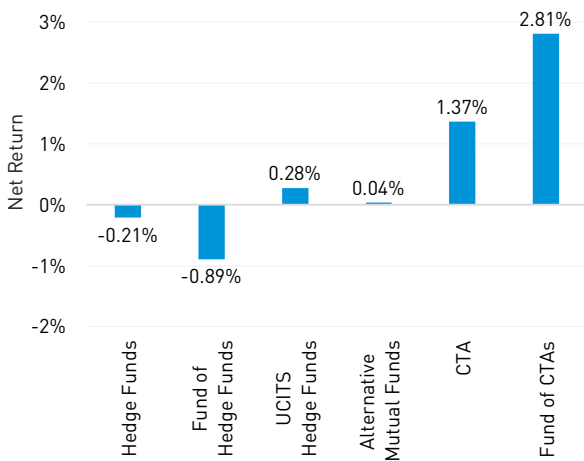
Asia-Pacific-focused funds continued a strong 2019, posting the highest quarterly return (+1.36%) of any region and bringing the year-to-date figure to +8.31% (Fig. 3). Emerging markets-focused funds faltered, producing their first negative quarterly return (-0.47%) since Q3 2018.

Fig. 1: Performance of Hedge Funds vs. S&P 500 PR Index*



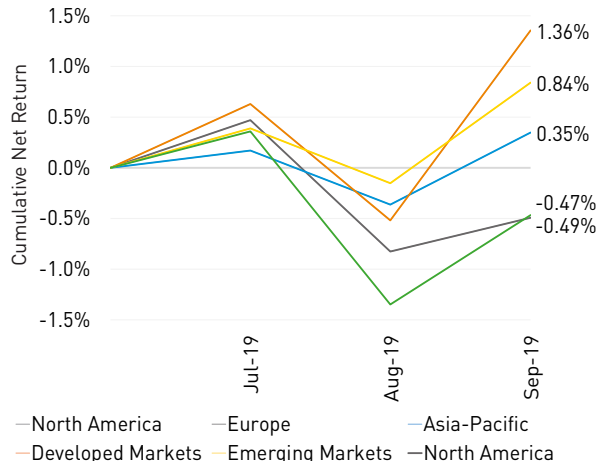
Source: Preqin Pro

Fig. 2: Performance of Hedge Funds in Q3 2019 by Structure*



Source: Preqin Pro

Fig. 3: Cumulative Returns of Hedge Funds in Q3 2019 by Geographic Focus*



Source: Preqin Pro

*Please note, all performance information includes preliminary data for September 2019 based upon net returns reported to Preqin in early October 2019. Although stated trends and comparisons are not expected to alter significantly, final benchmark values are subject to change.

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¹ Australian Productivity Commission December 2018.



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Benchmarks

Fig. 4: Summary of Q3 2019 Performance Benchmarks (Net Return, %)*

Benchmark Name	Jul-19	Aug-19	Sep-19	Q3 2019	12 Months	3-Year Annualized
Hedge Funds	0.31	-0.98	0.46	-0.23	2.14	5.93
HF - Equity Strategies	0.46	-1.43	0.74	-0.25	1.52	6.50
HF - Event Driven Strategies	0.23	-1.82	0.24	-1.36	-1.50	5.25
HF - Relative Value Strategies	0.45	-0.05	0.32	0.72	1.73	3.17
HF - Macro Strategies	0.20	0.71	0.06	0.98	5.61	4.74
HF - Multi-Strategy	0.89	-0.17	0.41	1.13	2.95	5.84
HF - Credit Strategies	0.55	-0.25	0.79	1.09	3.96	5.88
Activist	1.04	-2.04	1.71	0.68	2.13	7.68
Volatility	0.71	-0.90	1.53	1.33	3.66	6.92
Discretionary	0.39	-0.92	0.29	-0.25	1.57	6.19
Systematic	0.31	-0.31	-0.14	-0.13	1.19	4.51
HF - North America	0.47	-1.29	0.34	-0.49	-0.28	6.32
HF - Europe	0.17	-0.53	0.73	0.35	-1.01	3.92
HF - Asia-Pacific	0.63	-1.14	1.88	1.36	1.94	5.36
HF - Developed Markets	0.39	-0.54	0.99	0.84	2.77	5.82
HF - Emerging Markets	0.36	-1.70	0.89	-0.47	7.25	7.02
HF - USD	0.08	-1.17	0.15	-0.94	1.20	5.89
HF - EUR	0.20	-0.71	0.89	0.37	-1.51	1.50
HF - GBP	1.06	-0.77	0.91	1.20	-0.27	3.34
HF - JPY	0.64	-0.66	0.52	0.51	-5.17	2.44
HF - BRL	1.36	0.12	0.95	2.46	16.42	13.87
HF - Emerging (Less than \$100mn)	0.12	-1.20	0.69	-0.40	2.59	6.10
HF - Small (\$100-499mn)	0.70	-0.46	0.38	0.62	2.13	6.24
HF - Medium (\$500-999mn)	1.11	-1.23	-0.63	-0.77	1.38	5.77
HF - Large (\$1bn plus)	0.53	-0.95	0.26	-0.17	4.54	6.35
Funds of Hedge Funds	0.36	-0.41	-0.83	-0.89	-0.03	2.88
FOHF - Equity Strategies	0.40	-0.93	-0.99	-1.52	-1.54	2.87
FOHF - Multi-Strategy	0.40	-0.28	-0.44	-0.32	0.18	2.90
Funds of CTAs	2.63	2.27	-2.05	2.81	5.27	0.58
FOHF - USD	0.20	-0.54	-1.12	-1.45	-0.34	3.31
FOHF - EUR	0.56	-0.55	-0.65	-0.64	-2.98	0.01
Alternative Mutual Funds	0.37	-0.48	0.08	0.04	-0.16	2.87
UCITS	0.53	-0.62	0.37	0.28	-0.06	1.82
UCITS - Equity Strategies	0.40	-1.28	0.73	-0.16	-1.85	2.87
UCITS - Relative Value Strategies	0.30	0.34	-0.28	0.36	-0.54	-0.29
UCITS - Macro Strategies	1.16	-0.04	0.02	1.13	3.26	2.27
UCITS - USD	0.58	-0.67	0.12	0.03	1.15	3.31
UCITS - EUR	0.52	-0.61	0.32	0.22	-0.74	0.93
CTAs	0.86	2.52	-1.77	1.37	3.68	2.05
Discretionary	-0.59	-0.55	0.40	-0.74	-4.38	-0.10
Systematic	1.42	3.40	-2.77	1.96	5.99	2.00
CTA - USD	0.88	2.85	-2.09	1.59	4.81	2.63
CTA - EUR	2.44	2.04	-2.73	1.68	-2.70	-1.25

Source: Preqin Pro

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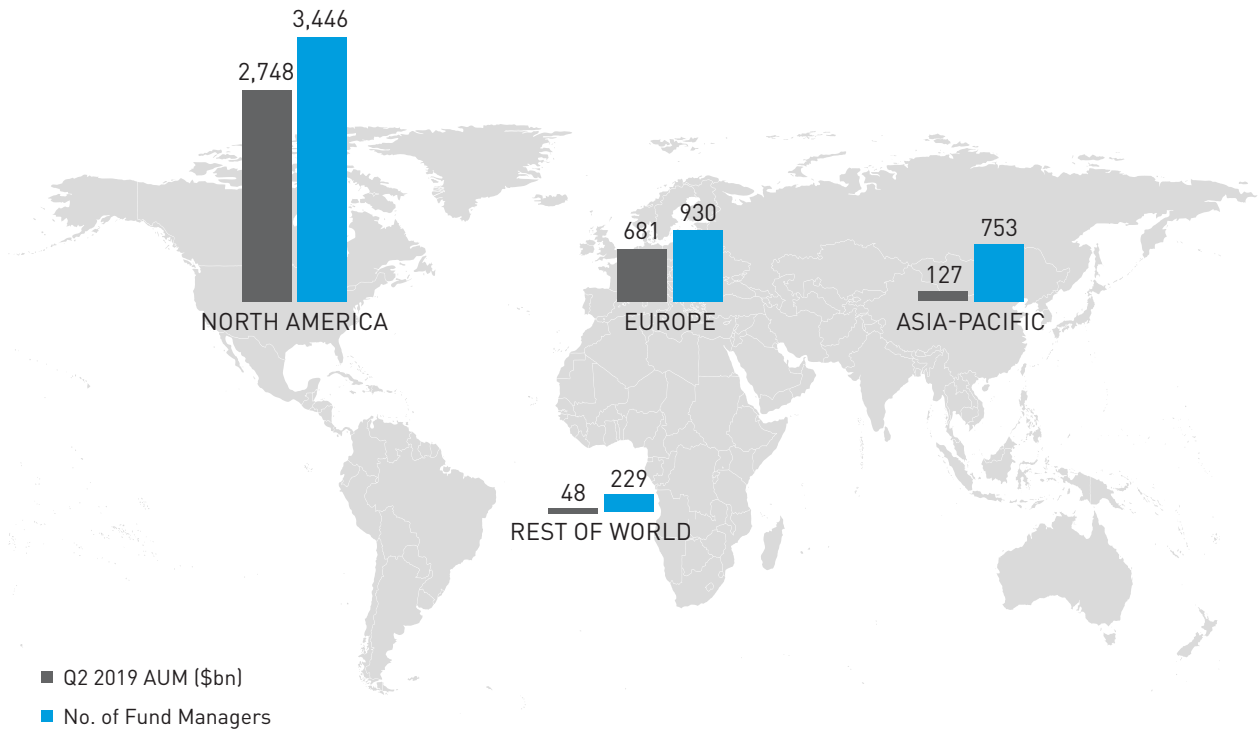
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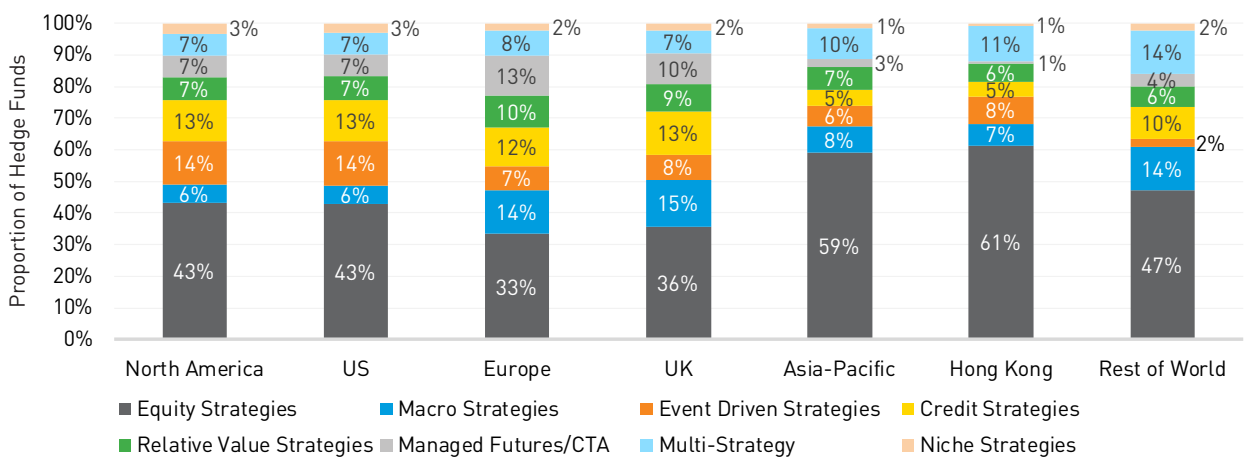
Fund Managers

Fig. 5: Distribution of Hedge Fund Managers and Industry Assets under Management by Fund Manager Headquarters



Source: Preqin Pro. Data as of July 2019

Fig. 6: Hedge Funds by Top-Level Strategy and Fund Manager Headquarters



Source: Preqin Pro

Largest Fund Managers

Fig. 7: Largest Hedge Fund Managers by Assets under Management

<u>Manager</u>	<u>Location</u>	<u>Year Established</u>	<u>Assets under Management</u>
Bridgewater Associates	US	1975	\$163.8bn as of 30 June 2019
AQR Capital Management	US	1998	\$99.6bn as of 31 December 2018
Man Group	UK	1983	\$82.4bn as of 30 June 2019
Renaissance Technologies	US	1982	\$67.3bn as of 30 June 2019
Two Sigma Investments	US	2001	\$60.0bn as of 31 March 2019
Elliott Management	US	1977	\$38.2bn as of 1 July 2019
Millennium Management	US	1989	\$38.0bn as of 30 June 2019
J.P. Morgan Asset Management	US	1974	\$36.6bn as of 30 June 2019
Marshall Wace	UK	1997	\$34.1bn as of 1 July 2019
BlackRock Alternative Investors	US	1986	\$33.6bn as of 30 June 2019
Citadel Advisors	US	1990	\$32.2bn as of 30 June 2019
D.E Shaw & Co.	US	2008	\$31.1bn as of 1 July 2019
Davidson Kempner Capital Management	US	1990	\$31.0bn as of 30 June 2019
Wellington Management	US	1994	\$30.0bn as of 30 June 2019
Adage Capital Management	US	2001	\$29.7bn as of 31 March 2019
H2O Asset Management	UK	2010	\$29.6bn as of 30 June 2019
Baupost Group	US	1982	\$27.4bn as of 31 December 2018
Farallon Capital Management	US	1986	\$27.3bn as of 31 March 2019
Viking Global Investors	US	1999	\$26.0bn as of 31 December 2018
The Children's Investment Fund Management	UK	2003	\$24.7bn as of 30 June 2019

Source: Preqin Pro

Fig. 8: Largest Fund of Hedge Funds Managers by Assets under Management

<u>Manager</u>	<u>Location</u>	<u>Year Established</u>	<u>Assets under Management</u>
Blackstone Alternative Asset Management	US	1990	\$81.4bn as of 30 June 2019
UBS Hedge Fund Solutions	US	2000	\$38.3bn as of 30 June 2019
Goldman Sachs Asset Management	US	1997	\$35.5bn as of 30 June 2019
GCM Grosvenor	US	1971	\$26.7bn as of 17 September 2019
BlackRock Alternative Advisors	US	1995	\$24.2bn as of 30 June 2019
Morgan Stanley Investment Management	US	2000	\$22.2bn as of 30 June 2019
EnTrust Global	US	1971	\$20.5bn as of 30 September 2018
Lighthouse Partners	US	1999	\$14.1bn as of 31 July 2019
Rock Creek Group	US	2002	\$14.0bn as of 30 June 2019
Man FRM	UK	1991	\$13.9bn as of 30 June 2019
Aberdeen Standard Investments	UK	1998	\$13.9bn as of 31 March 2019
Credit Suisse Alternative Funds Solutions	US	1998	\$13.5bn as of 31 December 2018
Summit Rock Advisors	US	2007	\$12.8bn as of 31 December 2018
J.P. Morgan Alternative Asset Management	US	1995	\$12.3bn as of 31 March 2019
Aetos Alternatives Management	US	2001	\$11.3bn as of 31 March 2019
PAAMCO Prisma	US	2000	\$11.2bn as of 31 March 2019
UBP Alternative Investments	Switzerland	1969	\$10.5bn as of 30 June 2019
HSBC Alternative Investments	UK	1994	\$10.0bn as of 31 March 2019
K2 Advisors	US	1994	\$10.0bn as of 31 March 2019
Pictet Alternative Advisors	Switzerland	1991	\$9.9bn as of 31 March 2019

Source: Preqin Pro

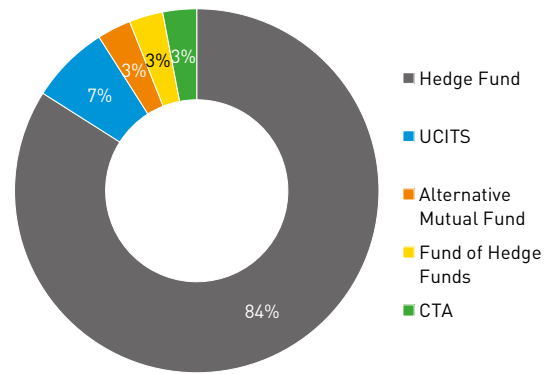
Fund Launches

Traditional single-manager funds accounted for 84% of all hedge funds launched in Q3 2019 (Fig. 9), in line with the statistics from Q2 2019, when such funds accounted for 87% of funds launched. However, there has been a steep decline in the number of hedge funds launched from the previous quarter, from 121 to 67, as managers take a more conservative approach in the current macroeconomic climate.

Thirty-three percent of funds launched in Q3 focus on North America, increasing for the second quarter in a row (Fig. 10). The proportion of global-focused and emerging markets-focused fund launches remained consistent with the previous quarter, but those focusing on Asia-Pacific and Europe dropped off by 25% and 50% respectively. The move away from Europe may be influenced by uncertainty around Brexit.

Fund managers launching new funds in Q3 appear to be focusing more on diversification. A greater proportion of multi-strategy funds were launched, rising from 11% in Q2 to 16% in Q3 (Fig. 11). The

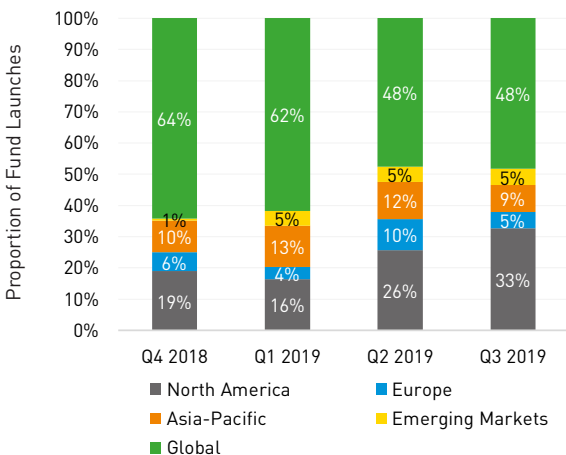
Fig. 9: Hedge Fund Launches in Q3 2019 by Structure



Source: Preqin Pro

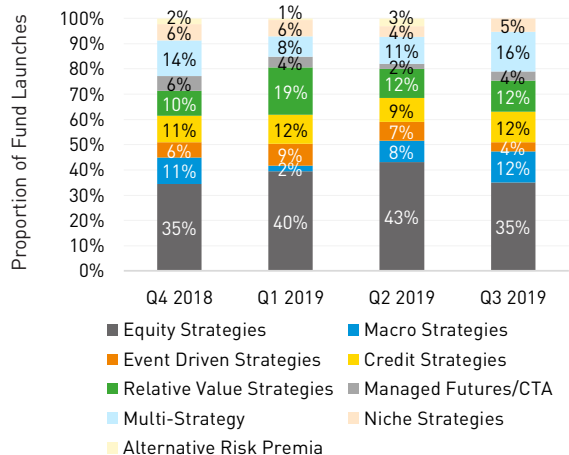
proportion of macro strategies funds also rose significantly between quarters, increasing from 8% to 12% of those launched – perhaps investors are increasingly looking for downside protection.

Fig. 10: Hedge Fund Launches by Geographic Focus, Q4 2018 - Q3 2019



Source: Preqin Pro

Fig. 11: Hedge Fund Launches by Top-Level Strategy, Q4 2018 - Q3 2019



Source: Preqin Pro



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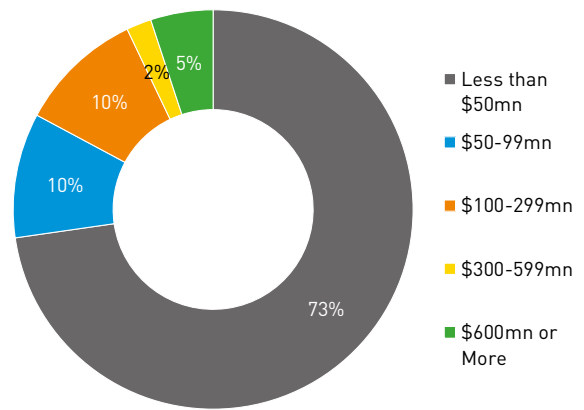
Fund Searches

In Q3 2019, investors issued 115 searches and mandates for hedge funds on **Preqin Pro**. The majority (73%) of these investors are expecting to invest less than \$50mn in fresh capital in hedge funds over the coming year (Fig. 12), suggesting a cautious approach to the asset class.

Long/short equity remains the most sought-after core strategy, with 51% of mandates targeting such funds in the next 12 months, followed by macro and multi-strategy vehicles at 30% and 27% respectively (Fig. 13). Mandates issued in Q3 2019 are focused on single-manager funds, with only 17% targeting funds of hedge funds, as compared to 31% of searches issued in Q2 2019.

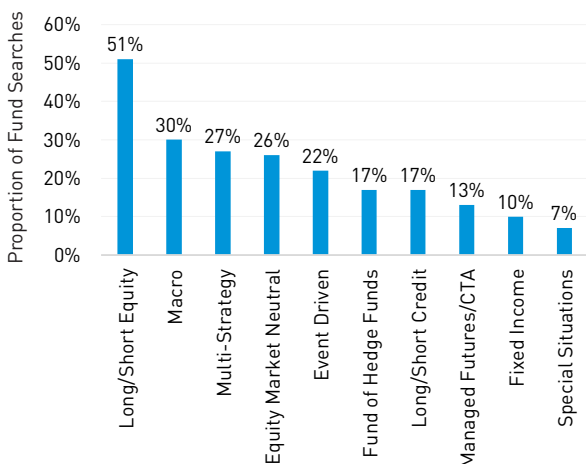
In light of geopolitical risk and high market volatility, the majority (61%) of investors seek global exposure in their upcoming hedge fund investments for a more diverse portfolio (Fig. 14). A third and a quarter of mandates are looking to target North America- and Europe-focused funds respectively, while 20% focus on vehicles investing in the Asia-Pacific region.

Fig. 12: Amount of Fresh Capital Investors Expect to Invest in Hedge Funds over the Next 12 Months



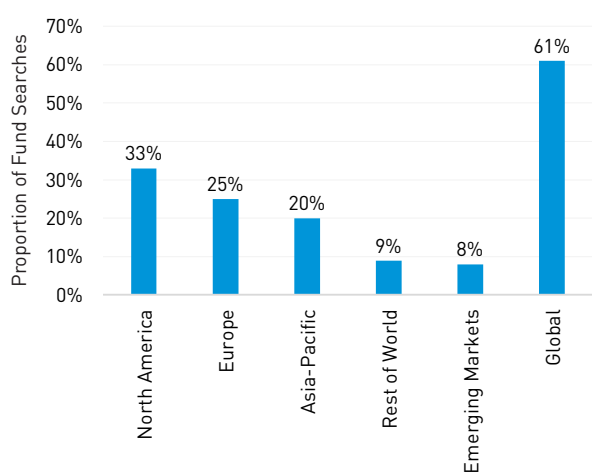
Source: Preqin Pro

Fig. 13: Core Strategies Targeted by Hedge Fund Investors over the Next 12 Months



Source: Preqin Pro

Fig. 14: Regions Targeted by Hedge Fund Investors over the Next 12 Months



Source: Preqin Pro

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