2018
PREQIN GLOBAL
HEDGE FUND
REPORT

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CEO's FOREWORD
- Mark O'Hare

They say that a week is a long time in politics; well, a year is certainly a long time in hedge funds. My foreword to Preqin's 2017 Global Report reflected on the extended period of disappointing returns that had started in 2015, leading to investor dissatisfaction and net redemptions for the industry in 2016.

Fast-forward to early 2018, and the outlook for the industry has improved significantly:

- Hedge funds achieved a 'perfect 12' in 2017: 12 months of positive performance – the first time this has been achieved since 2003 – and the 2017 return was 11.41%, also the best on record since 2013.
- Supported by this positive performance, investor sentiment has turned around: the proportions of investors satisfied versus disappointed with returns have taken a turn for the better (see page 41), as has the pattern of investors intending to increase versus decrease their allocations.
- As a consequence of this, and following five consecutive quarters of net outflows starting in Q4 2015, the tide turned, and the industry saw net inflows of just under $50bn in 2017. Early days, and investors will need to see continued solid performance in order to fully regain their confidence in and enthusiasm for the industry, but certainly a welcome start.
- Supported by these net inflows and (especially) the positive performance, industry assets under management reached a new record high of $3.55tn in November 2017.

Moving beyond the statistics, there are also many signs of new dynamism in the industry. New strategies are emerging, and this year's Global Report covers alternative risk premia, cryptocurrency/blockchain and AI for the first time. These emerging strategies still account for relatively modest dollar allocations at this stage, but it is interesting to see the encouragingly large proportion of investors that are expressing interest in or investing in these strategies to some extent. Managers are also offering a wider-than-ever range of structures/vehicles to meet the varying requirements of different investors. New managers continue to enter the industry, although for the first time on record fund closures have exceeded fund launches, so that the total number of active managers has declined. Net inflows have gone to the better-performing funds, while losses have been concentrated among the weaker performers (see page 19), signs of an inevitable – and perhaps welcome – consolidation in the industry.

Many investors believe that the market could be hitting the top of the equity cycle, and are positioning themselves more defensively as a result, to the benefit of hedge funds. The range and diversity of investors allocating to hedge funds is huge (see pages 60-64), and understanding the various pools of capital, together with their requirements and expectations, is vital for success in asset gathering.

Notwithstanding the more positive performance and outlook in 2018, many challenges remain for hedge funds. Fees are a perennial issue, with a large proportion of investors feeling that fees and terms are not adequately aligned between investors and fund managers (see page 52), and the all-important investment consultants continue to exert pressure on the industry (see pages 46-49). Regulatory change continues apace, with MIFID II, reforms from the Trump administration and the potential effects of Brexit all playing a role.

One constant factor in the industry's development is the need for the best possible information to help investors and fund managers alike decide and execute their strategies. Preqin is committed to continuing to invest in and develop our services in the industry, and we thank all our customers and wider participants across the industry for their support.

Thank you,

Mark O'Hare

REGULATORY IMPACTS ON THE SECURITIES FINANCE INDUSTRY

- Glenn Horner, **State Street**

In response to the Global Financial Crisis of 2007-2008, Basel III and Financial Stability Board regulations were implemented, prescribing more stringent capital requirements and new liquidity rules. Additionally, global regulators designated the most systemically important banks as Globally Systemically Important Banks (G-SIBs). The G-SIB designation requires these entities to meet heightened standards in terms of capital, liquidity and interconnectedness. Though the new standards have not been fully implemented, the securities financing industry throughout the globe has already been impacted, and new entrants are emerging in the market to help clients navigate the evolving regulatory landscape.

For securities finance transactions, the standardized approach of Basel III results in risk-weighted assets (RWA) that are many multiples higher than under the advanced approach, due to little or no recognition of netting, correlation of loans and collateral or diversification. The current proposal aims to address the shortcomings of the standardized approach for securities finance transactions and will incorporate the aforementioned considerations. Banks have been impacted by Basel III's higher capital requirements, impacting capital allocated to banks' prime brokerage businesses as well as the availability of supply from bank-based agent lenders. Additionally, Basel III prescribes a 3% leverage ratio, or even higher standards, as in the case of G-SIBs. In the US, a 5% ratio at the parent-company level and a 6% ratio at the depository level is required for G-SIBs. For many banks, the leverage ratio has superseded the risk-based capital ratios as a binding constraint, and as a result, many banks have engaged in a re-sizing of their balance sheets – eliminating or reducing the amount of low spread transactions undertaken, often including prime brokerage balances.

The Liquidity Coverage Ratio (LCR) requires that internationally active banks maintain sufficient unencumbered High Quality Liquid Assets (HQLA) to meet funding requirements for a significant stress event lasting up to 30 days. Unencumbered HQLA must be 100% of total net cash outflows over a 30-day period based on significant funding market stresses similar to those experienced during the financial crisis. As a result of the LCR, banks' abilities to provide term financing over 30 days to prime broker clients have been reduced.

Another impact the financial crisis has had on the regulatory environment is the implementation of the Net Stable Funding Ratio (NSFR). NSFR, which has yet to be finalized in some jurisdictions, aims to reduce the reliance on short-term wholesale funding by banks. Banks have traditionally utilized their balance sheets to provide maturity transformation to the market, but such maturity transformation can create systemic instability. Banks will be required to maintain 100% available stable funding (ASF) compared to required stable funding (RSF). This measure assigns ASF weights to a bank's capital and liabilities that mature in less than six months and between six months and one year. As a direct result, the cost of funding for certain prime brokerage transactions has increased, making certain transactions uneconomical.

The final piece of Basel III that has directly impacted securities financing is the proposed Large Exposure Limits. Large internationally active banks will be limited to exposures of 25% of their tier one common equity to any single counterparty. Further limitations of 15% will apply to G-SIB to G-SIB exposures. Exposures will be measured based on the standardized approach in securities finance transactions. This may change in the event that the newly proposed standardized method for RWA calculations is adopted. Agent lenders and prime brokers that lend securities to clients may be limited in the size and scope of transactions. This could lead to a decline in supply available to the alternative asset management sector, and has already created a marketplace that welcomes new entrants.

As existing providers consider their response, there has been a proliferation of new entrants performing new roles. At State Street, businesses like Enhanced Custody and Alternative Financing Solutions have been created to address the evolving liquidity landscape. In the traditional Agency Lending businesses, innovative trade structures have become a necessity. As the LCR is phased in and Large Exposure Limits are adopted we will likely see further innovations within securities finance.

STATE STREET

State Street Bank and Trust Company is among the most financially strong and trusted counterparties in the industry. Our strong credit position, stable funding capabilities and global network give us the resources, expertise and infrastructure to help clients manage regulatory change, mitigate risks and meet competitive challenges.

www.statestreet.com

ASSET FLOWS IN 2017

	MACRO STRATEGIES	EQUITY STRATEGIES	MULTI-STRATEGY	RELATIVE VALUE STRATEGIES
Industry Assets by Strategy	$1,054bn	$894bn	$485bn	$354bn
Change over 2017	▲ 8%	▲ 9%	▲ 14%	▲ 4%

INDUSTRY GROWTH AS INFLOWS RETURN

Having suffered a year of net outflows (-$109.8bn) in 2016, hedge funds reversed this trend in 2017 with net investor inflows amounting to $49.5bn (as at November 2017), with positive net flows recorded in all four quarters of the year (Fig. 3.1). However, almost as many hedge funds saw outflows (43%) as inflows (44%) over the course of 2017, highlighting the continued difficulties faced by many managers.

Driven by this influx of investor capital, as well as strong hedge fund returns in 2017 (+11.41%), the industry's assets continued to grow throughout 2017, reaching $3.55tn as at November 2017, representing an increase of 9% since the end of 2016. The US remains the largest market, holding just under three-quarters (74%) of industry assets.

INFLOWS BY STRATEGY

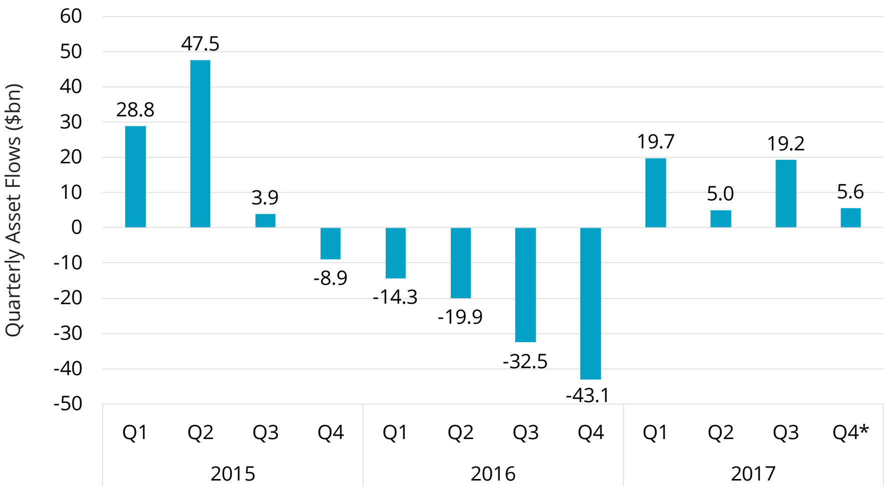
Multi-strategy funds recorded the greatest net inflows (+$24.2bn) of any top-level strategy (Fig. 3.2), and with strong annual returns of 10.09% in 2017, the strategy's aggregate industry assets grew 14% in the 11 months to November 2017 to stand at $485bn. In comparison, equity strategies recorded net outflows (-$32.6bn) over the course of 2017. However, despite this, the annual performance of equity strategies in 2017 (+15.01%) drove aggregate strategy assets up by 8.6% since the end of 2016 to November 2017.

Only 32% of CTAs saw net inflows in 2017 (Fig. 3.3); however, with net inflows totalling $22.6bn in 2017 (as at November) it seems the significant amounts of capital flowing into these strategies are going into the hands of only a small number of managed futures managers.

TOP PERFORMERS ATTRACTING INFLOWS

Past performance remains a key factor in determining a fund manager's ability to attract new capital. As shown in Fig. 3.6,

Fig. 3.1: Quarterly Hedge Fund Asset Flows, Q1 2015 - Q4 2017*



Source: Preqin Hedge Fund Online

Fig. 3.2: Hedge Fund Asset Flows by Core Strategy

Strategy	2015 ($bn)	2016 ($bn)	Q1 2017 ($bn)	Q2 2017 ($bn)	Q3 2017 ($bn)	Q4 2017 ($bn)*	2017 ($bn)	Industry Assets ($bn)	% Change from Dec-16
Multi-Strategy	27.5	-22.5	-2.3	7.0	13.3	6.2	24.2	485	14.0%
CTA	24.6	25.5	7.2	10.4	-4.0	9.0	22.6	279	11.3%
Macro Strategies	-25.8	-5.9	11.1	2.4	-8.5	12.1	17.2	1,054	7.6%
Event Driven Strategies	-1.8	-2.9	8.9	0.2	2.7	2.8	14.6	206	16.6%
Niche Strategies	1.3	-0.8	1.1	2.7	2.6	1.8	8.1	24	63.8%
Relative Value Strategies	-18.8	-24.7	0.6	7.2	-2.1	-7.1	-1.4	354	4.0%
Credit Strategies	4.2	-28.2	3.1	-12.6	13.9	-7.7	-3.3	251	5.9%
Equity Strategies	60.3	-50.3	-10.0	-12.4	1.3	-11.4	-32.6	894	8.6%
Total Industry	**71.4**	**-109.8**	**19.7**	**5.0**	**19.2**	**5.6**	**49.5**	**3,547**	**9.2%**

Source: Preqin Hedge Fund Online

**Q4 2017 asset flows estimated to 30 November 2017.*

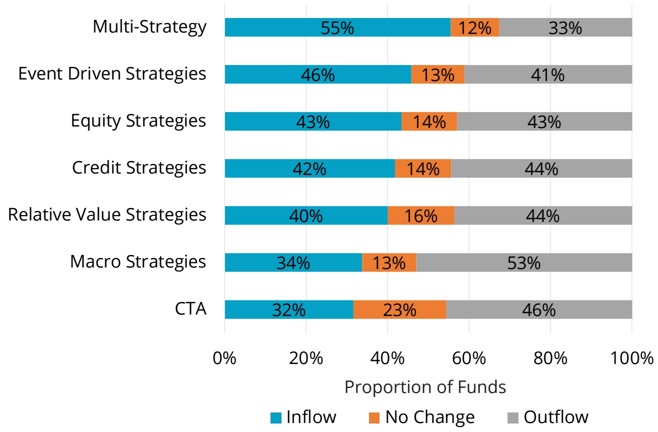
	CTAs	CREDIT STRATEGIES	EVENT DRIVEN STRATEGIES	NICHE STRATEGIES
Industry Assets by Strategy	$279bn	$251bn	$206bn	$24bn
Change over 2017	▲ 11%	▲ 6%	▲ 17%	▲ 64%

the majority (51%) of funds that generated returns of 5% or more in 2016 experienced net inflows; by contrast, two-thirds of funds that generated a loss of greater than 5% in 2016 saw outflows in 2017. Therefore, although past performance may not be indicative of future performance, it is a clear signifier of future asset flows.

OUTLOOK

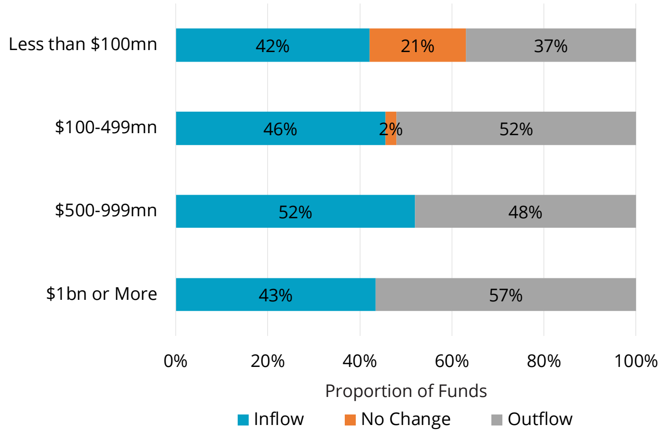
2017 will help bring renewed optimism to many industry participants, as investors looked to allocate fresh capital to the asset class. However, the success in fundraising varies significantly from manager to manager based on strategy, region, size and performance. This emphasizes the need for fund managers and allocators alike to have access to comprehensive fund-level data to have the greatest insight into the direction of capital flows in 2018 and beyond.

Fig. 3.3: Hedge Fund Asset Flows over 2017 by Core Strategy



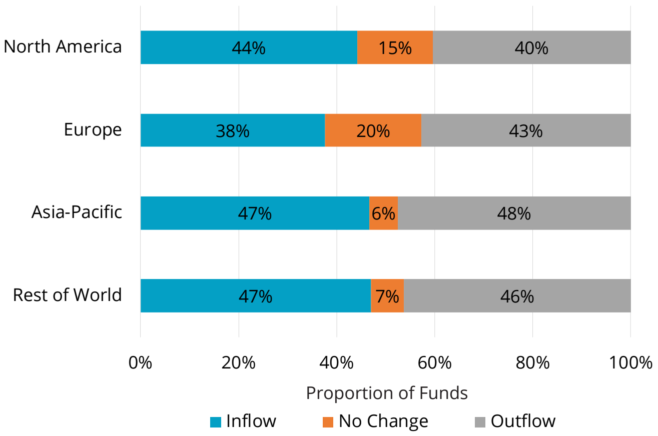
Source: Preqin Hedge Fund Online

Fig. 3.4: Hedge Fund Asset Flows over 2017 by Fund Size



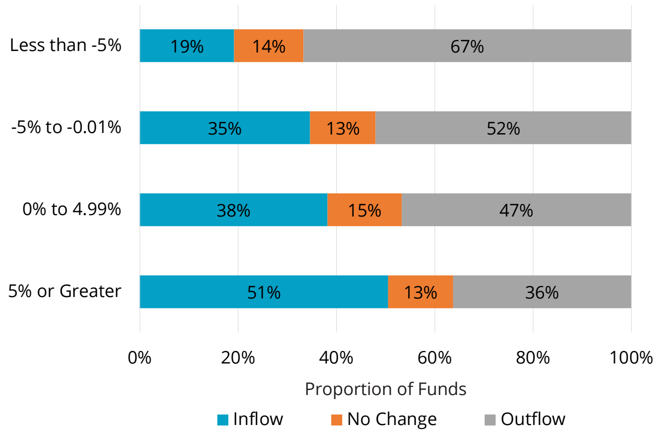
Source: Preqin Hedge Fund Online

Fig. 3.5: Hedge Fund Asset Flows over 2017 by Fund Manager Headquarters



Source: Preqin Hedge Fund Online

Fig. 3.6: Hedge Fund Asset Flows over 2017 by 2016 Performance



Source: Preqin Hedge Fund Online

PERFORMANCE BENCHMARKS

Fig. 4.1: Summary of Performance Benchmarks, As at December 2017 (Net Returns, %)*

		2017	2016	2015	3-Year Annualized	5-Year Annualized	3-Year Volatility	5-Year Volatility
	Hedge Funds	**11.41**	**7.67**	**2.17**	**7.02**	**7.76**	**3.97**	**3.71**
	CTAs	**3.24**	**0.87**	**0.80**	**1.63**	**3.63**	**4.67**	**4.37**
	Alternative Mutual Funds	**7.03**	**3.34**	**-1.68**	**2.83**	**4.20**	**3.38**	**3.60**
	UCITS	**6.68**	**1.27**	**1.46**	**3.10**	**3.71**	**3.59**	**3.31**
	Funds of Hedge Funds	**6.59**	**-0.01**	**1.35**	**2.60**	**4.12**	**3.00**	**2.92**
Equity Strategies	**Equity Strategies**	**15.01**	**7.40**	**1.22**	**7.73**	**8.92**	**5.80**	**5.34**
	Long/Short Equity	12.31	5.66	2.67	6.81	8.24	4.98	4.68
	Long Bias	22.44	11.87	-3.37	9.80	10.11	8.95	8.07
	Value-Oriented	20.16	11.84	-2.84	9.30	12.95	8.28	7.48
	Sector-Focused	24.19	8.29	2.30	11.22	12.92	8.21	7.22
	Alternative Mutual Funds	10.26	2.93	0.42	4.46	6.73	4.78	4.89
	UCITS	11.62	0.22	2.53	4.68	5.94	5.27	5.01
	Funds of Hedge Funds	11.12	-0.39	2.11	4.16	5.85	4.79	4.46
Macro Strategies	**Macro Strategies**	**5.57**	**7.59**	**4.35**	**5.83**	**5.43**	**2.35**	**2.37**
	Macro	6.19	7.89	6.57	6.88	6.95	2.34	2.49
	Commodities	6.58	15.71	-8.81	3.99	-0.51	6.60	6.40
	Foreign Exchange	1.22	6.21	1.77	3.04	1.21	2.99	3.25
	Alternative Mutual Funds	4.68	2.21	-8.37	-0.66	-0.08	3.37	3.52
	UCITS	2.97	3.21	-0.98	1.71	1.63	3.17	3.03
	Funds of Hedge Funds	0.37	1.63	0.04	0.68	1.28	2.29	2.44
Event Driven Strategies	**Event Driven Strategies**	**11.71**	**12.82**	**-0.67**	**7.77**	**8.52**	**4.75**	**4.45**
	Event Driven	13.37	12.14	-0.22	8.25	9.44	5.11	4.82
	Distressed	6.89	15.16	-4.97	5.37	6.14	5.24	4.89
	Special Situations	11.10	21.13	-2.76	9.38	8.22	7.14	6.64
	Risk/Merger Arbitrage	6.81	8.78	6.15	7.24	6.17	2.63	2.36
	Opportunistic	18.63	11.64	1.72	10.44	11.23	5.14	4.76
	Alternative Mutual Funds	2.65	5.67	-2.07	2.03	n/a	2.74	n/a
	UCITS	4.64	-0.48	1.05	1.71	2.21	2.96	2.76
	Funds of Hedge Funds	5.65	4.09	-1.96	2.54	3.27	3.31	3.62
Credit Strategies	**Credit Strategies**	**7.61**	**8.92**	**2.36**	**6.26**	**6.81**	**2.23**	**2.13**
	Long/Short Credit	7.17	8.96	-0.44	5.15	5.49	2.62	2.53
	Fixed Income	8.18	9.36	2.50	6.64	6.17	2.26	2.14
	Mortgage-Backed Strategies	8.54	7.33	4.16	6.66	8.78	2.17	2.36
	Asset-Backed Lending	6.90	7.75	7.58	7.41	8.87	0.85	1.16
	Specialist Credit	9.46	10.72	3.52	7.85	9.01	3.92	3.21
	Alternative Mutual Funds	4.32	4.62	-1.96	2.28	2.26	2.20	2.30
	UCITS	3.08	3.27	0.21	2.18	2.33	2.88	2.54
	Funds of Hedge Funds	3.41	2.27	0.94	2.20	5.57	1.71	2.46
Relative Value Strategies	**Relative Value Strategies**	**4.31**	**3.45**	**5.53**	**4.43**	**5.39**	**1.72**	**1.59**
	Equity Market Neutral	2.92	1.48	6.69	3.67	4.91	2.05	1.91
	Fixed Income Arbitrage	5.81	5.31	3.17	4.76	4.88	1.90	1.89
	Relative Value Arbitrage	5.11	7.12	6.08	6.10	7.62	2.43	2.23
	Statistical Arbitrage	3.43	1.79	7.17	4.10	5.27	1.89	2.32
	Convertible Arbitrage	7.33	5.49	2.58	5.12	5.79	2.49	2.32
	Alternative Mutual Funds	0.18	-1.15	0.84	-0.05	0.10	2.71	2.52
	UCITS	1.81	0.14	2.05	1.33	1.69	1.79	1.51
	Funds of Hedge Funds	3.96	0.25	2.22	2.13	2.84	1.80	1.80
Multi-Strategy	**Multi-Strategy**	**10.09**	**6.16**	**3.52**	**6.56**	**6.82**	**2.58**	**2.52**
	Alternative Mutual Funds	6.15	4.87	-2.58	2.74	3.90	3.85	4.55
	UCITS	3.29	1.71	1.04	2.01	2.86	2.67	2.71
	Funds of Hedge Funds	5.54	-0.41	1.26	2.10	3.73	2.74	2.70
Niche Strategies	**Niche Strategies**							
	Insurance-Linked Strategies	4.45	3.54	4.97	4.32	5.69	2.65	2.18
	Niche	11.51	12.23	13.06	12.27	7.90	4.21	4.63

		2017	2016	2015	3-Year Annualized	5-Year Annualized	3-Year Volatility	5-Year Volatility
Trading Styles	Activist	13.87	12.07	0.92	8.80	10.03	5.97	5.50
	Volatility	9.67	8.77	5.33	7.91	7.55	2.80	2.69
	Discretionary	12.41	8.31	1.83	7.43	8.95	4.50	4.25
	Systematic	7.58	4.89	4.60	5.68	6.49	2.55	2.55
North America	**North America**	**9.27**	**10.85**	**-0.22**	**6.52**	**8.68**	**4.86**	**4.55**
	Alternative Mutual Funds	8.38	4.80	-4.09	2.90	5.27	4.94	4.88
	Funds of Hedge Funds	6.50	1.21	-0.15	2.48	4.84	3.74	3.52
Europe	**Europe**	**8.75**	**3.63**	**6.72**	**6.34**	**7.01**	**3.89**	**3.72**
	UCITS	5.05	-0.67	5.65	3.30	4.70	3.82	3.57
	Funds of Hedge Funds	3.33	-1.67	4.11	1.89	3.65	2.79	2.79
Asia-Pacific	**Asia-Pacific**	**18.66**	**2.37**	**6.67**	**9.02**	**10.11**	**6.42**	**5.65**
	UCITS	18.23	-0.88	3.40	6.61	6.27	7.95	6.87
	Funds of Hedge Funds	15.69	-2.21	5.87	6.20	7.14	5.68	4.99
Emerging Markets	**Emerging Markets**	**15.86**	**10.08**	**2.87**	**9.47**	**8.25**	**5.15**	**4.87**
	Asia	28.67	3.37	3.93	11.40	12.71	9.73	8.95
	Latin America	15.58	21.42	1.95	12.68	8.45	5.94	5.51
	Africa	7.54	0.13	8.08	5.18	8.46	3.93	4.02
	Russia & Eastern Europe	12.44	16.63	-0.42	9.30	0.43	8.30	10.13
	Middle East & Israel	9.83	5.94	2.81	6.15	13.08	6.81	7.88
	UCITS Hedge Funds	20.52	4.65	-4.49	6.40	4.84	8.63	7.77
	Funds of Hedge Funds	12.43	2.19	5.81	6.73	7.17	4.34	4.14
Developed Markets	**Developed Markets**	**8.27**	**7.21**	**3.68**	**6.37**	**7.81**	**2.83**	**2.76**
	CTAs	-8.58	-1.17	-2.25	-4.05	-1.10	6.34	6.02
	UCITS	3.11	1.37	0.95	1.80	2.43	2.90	2.55
CTAs	**CTAs**	**3.24**	**0.87**	**0.80**	**1.63**	**3.63**	**4.67**	**4.37**
	Trend Following	3.46	-0.35	-0.71	0.78	3.64	6.58	6.16
	Macro	0.25	-2.01	0.57	-0.40	2.16	4.67	4.33
	Counter Trend	4.41	0.09	0.44	1.63	2.68	5.07	4.61
	Pattern Recognition	0.23	2.15	2.07	1.48	3.56	4.77	4.45
	Arbitrage	2.88	-0.51	1.36	1.23	3.21	3.31	3.13
	Option Writing	9.64	5.38	7.55	7.51	4.79	4.21	5.43
	Discretionary	-0.06	5.37	2.08	2.44	2.89	2.77	3.16
	Systematic	3.37	-0.39	-0.92	0.67	3.23	6.08	5.63
	Funds of CTAs	0.59	-3.31	-5.59	-2.80	0.77	10.14	9.57
Size	Emerging (Less than $100mn)	10.90	8.23	1.87	6.93	7.19	4.05	3.82
	Small ($100-499mn)	11.38	6.82	2.79	6.94	7.70	3.97	3.70
	Medium ($500-999mn)	10.13	6.49	2.26	6.24	6.94	3.63	3.45
	Large ($1bn or More)	9.47	4.55	2.22	5.37	6.99	3.22	3.21
Currency	USD	12.11	7.34	0.67	6.60	7.48	4.29	4.04
	EUR	5.19	2.28	3.23	3.56	4.16	3.24	3.03
	GBP	6.05	3.24	1.80	3.68	2.79	2.26	2.38
	CHF	3.33	-0.82	2.55	1.67	3.40	3.28	3.39
	JPY	10.43	2.74	6.82	6.62	11.07	4.36	5.35
	BRL	14.92	21.28	7.79	14.53	10.87	4.52	4.24
	AUD	14.52	4.07	8.85	9.06	10.13	5.05	4.50
	USD - CTAs	3.50	1.05	0.52	1.68	3.69	4.75	4.49
	EUR - CTAs	5.52	-3.85	2.83	1.42	2.96	7.60	6.77
	USD - UCITS	11.22	0.89	-0.35	3.79	3.93	4.25	4.04
	EUR - UCITS	4.84	0.66	2.12	2.53	3.35	3.46	3.14
	GBP - UCITS	6.13	2.45	1.40	3.31	4.10	2.98	3.13
	CHF - UCITS	3.56	-1.67	0.72	0.85	1.54	2.96	2.87
	USD - Funds of Hedge Funds	7.30	0.28	0.49	2.64	4.05	3.15	3.11
	EUR - Funds of Hedge Funds	3.86	-2.31	0.96	0.81	2.36	3.05	3.05

Source: Preqin Hedge Fund Online

**Please note, all performance information includes preliminary data for December 2017 based on net returns reported to Preqin in early January 2018. Although stated trends and comparisons are not expected to alter significantly, final benchmark values are subject to change.*

VIEW FROM THE INSIDE

Over the course of 2017, the hedge fund industry saw improved hedge fund performance, growth in industry AUM, changes to fee structures and a rise in the number of new strategies entering the market. Using the results of Preqin's surveys of over 350 fund managers and 200 investors active in hedge funds, conducted in November and December 2017 respectively, we provide a more individual view of how industry participants see these trends from the ground.

PRESSURE ON FEES REMAINS:

Investor fee pressure and demand for transparency is still there

- $5bn Asia-Pacific-Based Hedge Fund Manager

Fees still need to come down

- US-Based Hedge Fund Investor

...AND SOME SEE THE RESTRUCTURING OF FEES AS KEY TO THE INDUSTRY'S FUTURE:

The investor demands of hurdles and other fee adjustments are partially due to funds charging performance fees when they shouldn't and we think more funds will adjust the way they approach fees in 2018

- Sub-$50mn Hedge Fund Manager

RECOGNIZED BRANDS CONTINUE TO ATTRACT ASSETS:

Seems to be harder for managers to get over the $100mn and $250mn thresholds as most allocable assets seem destined for the $1bn firms

- $100mn US-Based Hedge Fund Manager

All of the investments in 2016 and 2017 seem to be going to the larger players, many of whom have far worse performance than us, some even negative. This has been particularly frustrating

- Switzerland-Based Hedge Fund Manager

...WITH SOME SEEING POTENTIAL CONSEQUENCES:

Large funds [are] becoming too large. [It is] easier to negotiate good terms with smaller funds

- US-Based Hedge Fund Investor

There are too many assets in the industry and a decrease would be healthy. The biggest managers have too many assets to generate strong risk-adjusted returns

- US-Based Hedge Fund Manager

2017 HAS SEEN AN INCREASE IN THE NUMBER OF RISK PREMIA, CRYPTOCURRENCY AND ARTIFICIAL INTELLIGENCE/MACHINE LEARNING FUNDS. SOME VIEWS ARE POSITIVE:

There are some positives from each, but some of those positives have been overshadowed by the attention and rush to join the crowd

- Sub-$50mn US-Based Hedge Fund Manager

Investor demand for these strategies has increased

- Asia-Pacific-Based Hedge Fund Manager

...BUT SOME ARE LESS SO:

Let's put it this way: yesterday was ETFs, today is risk premia/cryptocurrency funds, tomorrow will be something else, the following day another flavour, and so on, and so on...

- US-Based Hedge Fund Manager

Hype greatly exceeds reality

- $75mn US-Based Hedge Fund Manager

AFTER A MORE POSITIVE YEAR, SENTIMENT WITHIN THE INDUSTRY SEEMS GENERALLY POSITIVE:

Been a tough few years, hoping it gets less tough from here on out

- $360mn US Hedge Fund Manager

There is always demand, and funds will come and go according to their returns

- Sub-$50mn Asia-Pacific-Based Hedge Fund Manager

When people are getting out, it is time to get in – behaviour is too sticky and people follow the crowd too much

- $4bn US-Based Hedge Fund Investor

...HOWEVER, CAUTION REMAINS:

When the market corrects, it'll be an interesting time to see where people's performance plays out

- US-Based Hedge Fund Manager

2018 will be challenging due to performance concerns vis a vis the overall equities markets

- Europe-Based Hedge Fund Manager

I continue to firmly believe that markets are entering increasingly dangerous territory; our fund must remain cautious and contrarian in its approach regardless of short-term results

- US-Based Hedge Fund Manager

KNOW YOUR INVESTOR

5,287
Number of investors tracked by Preqin.

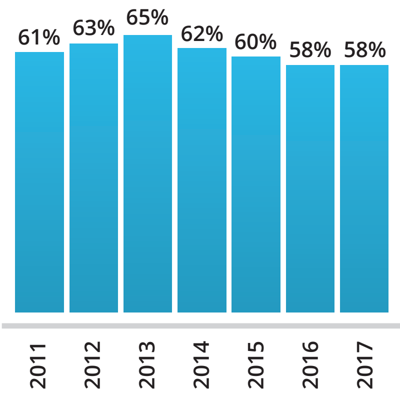
$2.06tn
Amount of capital invested in hedge funds by institutional investors.

45%
of institutional investors allocate to hedge funds.

Preqin estimates that institutional investors allocate $2.06tn to hedge funds, approximately 58% of all capital invested in the industry today. In capital terms this is the highest level Preqin has recorded; however, the level has fallen proportionally from highs in 2013 as institutional inflows have slowed in a period of growing appetite from private sources of wealth and retail clients. Nevertheless, gaining interest from institutional investors, with their long-term investment horizons and "sticky" capital, can be vital to the long-term development of a hedge fund business. However, under the umbrella of "institutional investor" fall many different types of institutions with different sets of challenges and portfolio needs that hedge funds help to solve. Therefore, gaining insight into the differences between types of investors – both on a macro level and an individual basis – is an important step towards securing capital from these investors.

In this section we examine these allocators in more detail, based on data taken from Preqin's online platform, to help you understand the needs of institutions in 2018 and really "Know Your Investor".

PROPORTION OF HEDGE FUND INDUSTRY CAPITAL COMING FROM INSTITUTIONAL INVESTORS



PUBLIC PENSION FUNDS

474
public pension funds invest in hedge funds globally.

51%
of public pension funds actively invest in hedge funds.

$21.0bn
Largest allocation to hedge funds of any public pension fund investor – ABP (managed by APG – All Pensions Group).

Public pension funds have become prominent investors in hedge funds over the past decade and their actions and activity in the asset class have helped shaped the industry we see today. There has been much focus on these investors in recent years following the cuts made to hedge fund investments by CalPERS and a handful of other high-profile pension funds. However, the "will they – won't they?" debate around the wider mass exit of public retirement funds from investment in hedge funds is landing firmly on the side of public pension funds remaining committed to hedge fund investment long term. Today we see more public pension funds investing in hedge funds than ever before, collectively investing their largest sum of capital on record. Much of the increase in capital coming from public pension funds continues to be driven by new schemes making their first investments in the asset class, particularly as new regions open up to the possibility of hedge fund investment. Recent relaxation of regulations in South Korea, for instance, has led to investors such as National Pension Service making their first investments; others including Yellow Umbrella Mutual Aid Fund have begun to consider investment for the first time. Although the average allocation to hedge funds by public pension funds has remained stable since 2016 (at 7.9% of AUM, Fig. 7.5), we have noted broader changes to their investment portfolios. Public pension funds continue to move away from a complete fund of hedge funds

IN FOCUS: ALTERNATIVE RISK PREMIA

9%

of fund managers offer a dedicated alternative risk premia product, while

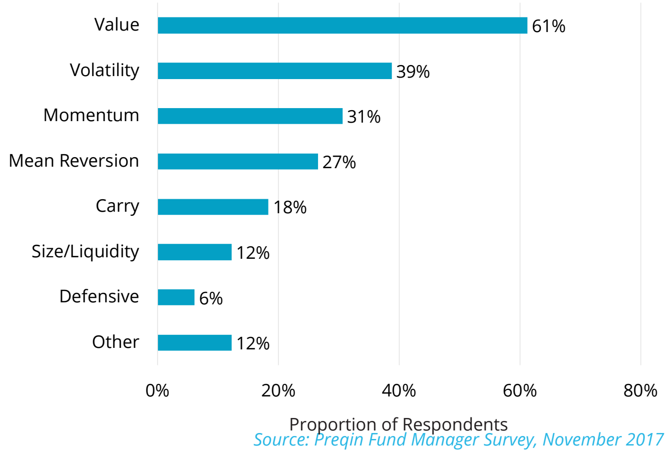
14%

operate a product with an alternative risk premia overlay.

4% of managers are planning to launch an alternative risk premia product in 2018.

2% of managers plan to launch an alternative risk premia product, but are unsure of when.

Fig. 8.1: Alternative Risk Premia Strategies Offered



Source: Preqin Fund Manager Survey, November 2017

42%

of fund managers have seen increased appetite from institutional investors for alternative risk premia products over 2017.

11%

of all investors actively invest in alternative risk premia, while a further

12%

are considering investing in 2018.

31%

of all investors active in alternative risk premia plan to increase their allocation to the strategy in 2018.

Fig. 8.2: Sample Alternative Risk Premia Funds Launched in 2017

Fund	Manager	About
Man Alternative Style Risk Premia	Man Group	Man Alternative Style Risk Premia aims to achieve medium-term absolute returns in all market conditions across liquid asset classes. The fund employs a multi-strategy, multi-asset alternative risk premia investment approach implemented through a quantitative and systematic process. The fund utilizes four trading styles in its investments: carry, value, defensive and momentum.
PIMCO Multi-Asset Alternative Risk Premia Strategy Fund	PIMCO	PIMCO Multi-Asset Alternative Risk Premia Strategy Fund (MAARS) is a systematic strategy which aims to isolate exposures to alternative risk premia including value, carry, momentum and volatility across major asset classes.
Systematica Alternative Risk Premia	Systematica Investments	Systematica Alternative Risk Premia Master Fund is a Cayman Islands-domiciled hedge fund with one offshore feeder fund, Systematica Alternative Risk Premia. The strategy deploys momentum, defensive, carry and value trading styles in its systematic portfolio across equity, fixed income, foreign exchange and commodity markets.

Source: Preqin Hedge Fund Online

The hedge fund industry still holds mixed views on the alternative risk premia sector:

"Risk premia strategies are not created equal. There will be definite winners and losers in this space

- US-Based Alternative Risk Premia Hedge Fund Manager

Concerns generally centre around crowding in the sector and interest rate rises:

"Considerations around crowding in the alternative risk premia space – too many players in the same names?

- US-Based Investor

And while some see it as complementary to a portfolio:

"Useful as an overlay

- US-Based Investor

"A well-established strategy

- UK-Based Hedge Fund Manager

...doubts remain over the strategy's long-term potential:

"Risk premia is the graveyard for systematic strategies; once it has entered this world, long-term returns and fees will erode value for investors

- UK-Based Hedge Fund Manager

CREDIT STRATEGIES

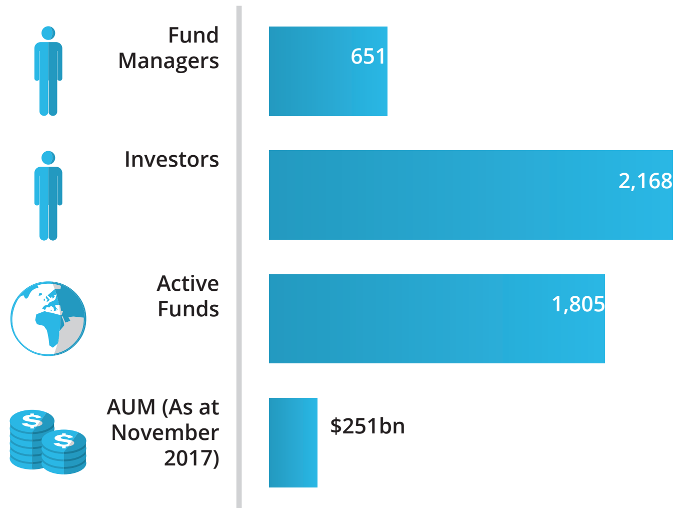
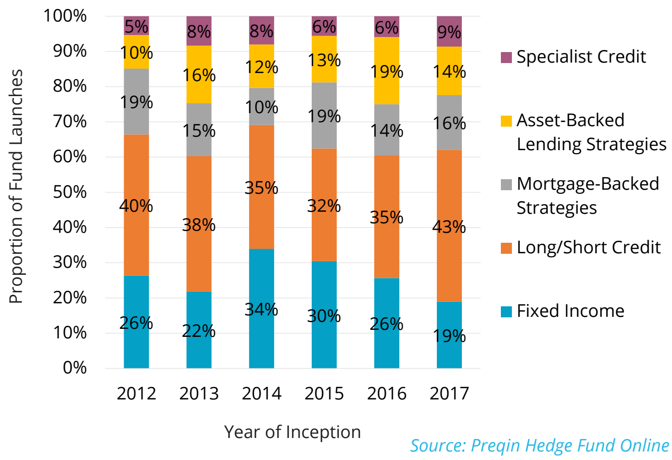
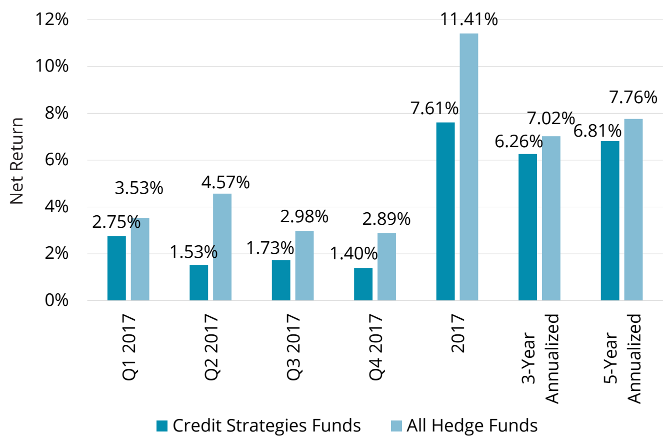


Fig. 8.17: Credit Strategies Fund Launches by Core Strategy and Year of Inception, 2012 - 2017



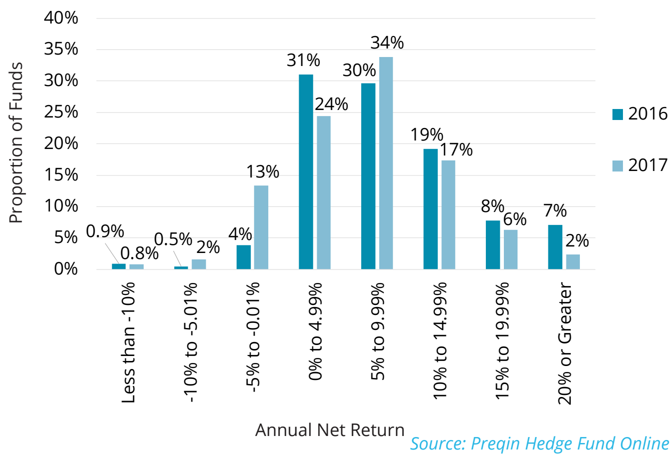
Source: Preqin Hedge Fund Online

Fig. 8.18: Performance of Credit Strategies Funds (As at December 2017)*



Source: Preqin Hedge Fund Online

Fig. 8.19: Distribution of Credit Strategies Fund Returns, 2016 vs. 2017*



Source: Preqin Hedge Fund Online

Fig. 8.20: Performance of Credit Strategies Funds by Sub-Strategy (As at December 2017)*

Q1 2017	Q2 2017	Q3 2017	Q4 2017	2017	3-Year Annualized	3-Year Volatility
Specialist Credit 4.07%	Mortgage-Backed Strategies 2.64%	Fixed Income 2.13%	Specialist Credit 1.84%	Specialist Credit 9.46%	Specialist Credit 7.85%	Asset-Backed Lending Strategies 0.85%
Fixed Income 2.77%	Asset-Backed Lending Strategies 1.92%	Long/Short Credit 1.66%	Fixed Income 1.59%	Mortgage-Backed Strategies 8.54%	Asset-Backed Lending Strategies 7.41%	Mortgage-Backed Strategies 2.17%
Mortgage-Backed Strategies 2.69%	Specialist Credit 1.75%	Asset-Backed Lending Strategies 1.55%	Long/Short Credit 1.58%	Fixed Income 8.18%	Mortgage-Backed Strategies 6.66%	Fixed Income 2.26%
Long/Short Credit 2.63%	Fixed Income 1.45%	Specialist Credit 1.50%	Mortgage-Backed Strategies 1.51%	Long/Short Credit 7.17%	Fixed Income 6.64%	Long/Short Credit 2.62%
Asset-Backed Lending Strategies 2.26%	Long/Short Credit 1.12%	Mortgage-Backed Strategies 1.45%	Asset-Backed Lending Strategies 1.00%	Asset-Backed Lending Strategies 6.90%	Long/Short Credit 5.15%	Specialist Credit 3.92%

Source: Preqin Hedge Fund Online

*Please note, all performance information includes preliminary data for December 2017 based on net returns reported to Preqin in early January 2018. Although stated trends and comparisons are not expected to alter significantly, final benchmark values are subject to change.

OVERVIEW OF CTAs

Volatility and fluctuations in commodity and currency markets continued to drive trends in the managed futures/ CTA industry in 2017. A number of high-profile elections in Europe saw the euro fluctuate as markets responded to the election victories of Mark Rutte, Emmanuel Macron and Angela Merkel; the Brazilian real weakened in May amid corruption allegations against President Temer, and strong growth in US GDP over the course of Q3 2017 saw the dollar strengthen. In July, the price of copper hit a two-year high following reports China could move to ban imports of scrap metal, and while the price of gold fluctuated over the course of the year, the safe-haven asset has gained since the lows seen in January 2017.

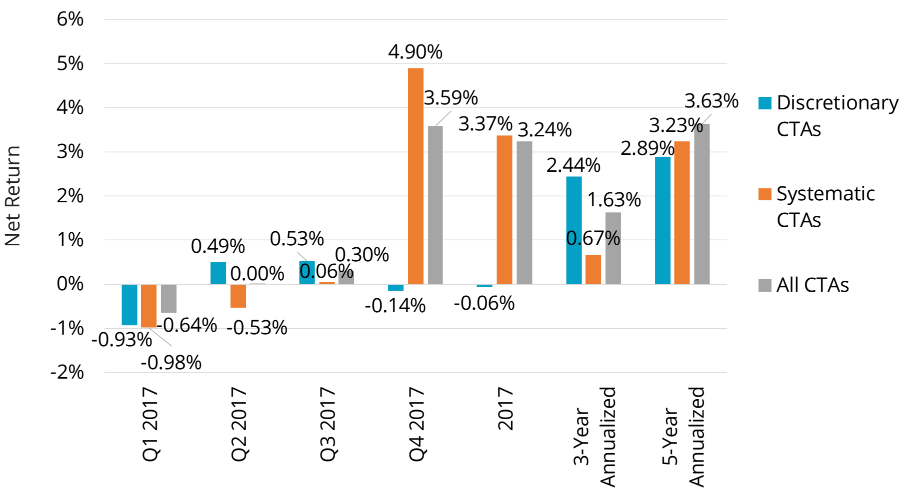
Oil saw a sharp trend reversal in the middle of 2017 as Saudi Arabia and Nigeria announced plans to cut production, while US output showed signs of a slowdown; these events drove the price of crude oil to its biggest daily and weekly gains of 2017, kickstarting a trend by which the price of crude oil continued to rise over 2017, hitting over $60/barrel at the end of the year.

PERFORMANCE OF CTAs IN 2017

The trend reversals and volatile conditions in currency and commodity markets are reflected in the 2017 return of the Preqin All-Strategies CTA benchmark: below water for five months and above for seven months of the year, the benchmark returned 3.24% in 2017, in contrast to the 12 positive months and 11.41% return of the Preqin All-Strategies Hedge Fund benchmark over the same period (Fig. 10.1). With CTAs providing potential diversification from equity markets, they have struggled in a year which has seen major stock markets around the world continuously reach record highs.

Q1: -0.64%. The first quarter of 2017 saw price swings across various commodity markets create challenging conditions for

Fig. 10.1: Performance of CTAs (As at December 2017)*



Source: Preqin Hedge Fund Online

Fig. 10.2: CTA Performance by Strategy (As at December 2017)*

Q1 2017	Q2 2017	Q3 2017	Q4 2017	2017	3-Year Annualized	3-Year Volatility
Option Writing 3.48%	Option Writing 3.04%	Option Writing 2.32%	Trend Following 4.88%	Option Writing 9.64%	Option Writing 7.51%	Arbitrage 3.31%
Arbitrage 0.63%	Counter Trend -0.38%	Arbitrage 0.75%	Counter Trend 4.59%	Counter Trend 4.41%	Counter Trend 1.63%	Option Writing 4.21%
Counter Trend -0.21%	Arbitrage -0.45%	Counter Trend 0.42%	Macro 2.48%	Trend Following 3.46%	Pattern Recognition 1.48%	Macro 4.67%
Pattern Recognition -0.63%	Trend Following -0.51%	Macro 0.35%	Pattern Recognition 2.47%	Arbitrage 2.88%	Arbitrage 1.23%	Pattern Recognition 4.77%
Trend Following -1.17%	Macro -1.25%	Trend Following 0.33%	Arbitrage 1.93%	Macro 0.25%	Trend Following 0.78%	Counter Trend 5.07%
Macro -1.28%	Pattern Recognition -1.48%	Pattern Recognition -0.09%	Option Writing 0.49%	Pattern Recognition 0.23%	Macro -0.40%	Trend Following 6.58%

Source: Preqin Hedge Fund Online

**Please note, all performance information includes preliminary data for December 2017 based on net returns reported to Preqin in early January 2018. Although stated trends and comparisons are not expected to alter significantly, final benchmark values are subject to change.*

LEADING FUND MANAGERS

Fig. 14.13: Largest Hedge Fund Managers in North America

Rank	Change from 2017	Manager	Location	Year Established	Assets under Management
1	-	Bridgewater Associates	US	1975	$160.4bn as at 30 September 2017
2	-	AQR Capital Management	US	1998	$106.2bn as at 30 June 2017
3	▲1	Renaissance Technologies	US	1982	$50.9bn as at 30 September 2017
4	*	JP Morgan Asset Management	US	1974	$43.1bn as at 30 September 2017
5	▲5	Two Sigma Investments	US	2002	$35.4bn as at 30 June 2017
6	▼1	Millennium Management	US	1989	$35.3bn as at 1 November 2017
7	-	Elliott Management	US	1977	$32.8bn as at 30 June 2017
8	▼5	Och-Ziff Capital Management	US	1994	$31.8bn as at 1 October 2017
9	▼1	Baupost Group	US	1982	$31.1bn as at 30 June 2017
10	▲4	Davidson Kempner Capital Management	US	1990	$29.7bn as at 30 September 2017

Source: Preqin Hedge Fund Online

Fig. 14.14: Largest Hedge Fund Managers in Europe

Rank	Change from 2017	Manager	Location	Year Established	Assets under Management
1	-	Man Group	UK	1983	$64.6bn as at 30 September 2017
2	-	Standard Life Investments (Part of Aberdeen Standard Investments)	UK	1998	$32.3bn as at 30 September 2017
3	▲1	Marshall Wace	UK	1997	$30.0bn as at 1 October 2017
4	▼1	Winton Capital Management	UK	1997	$28.4bn as at 30 September 2017
5	-	GAM	UK	1983	$20.7bn as at 30 June 2017
6	▲4	The Children's Investment Fund Management	UK	2003	$16.7bn as at 30 September 2017
7	▲1	Capula Investment Management	UK	2005	$16.3bn as at 30 September 2017
=	▲2	Cevian Capital	Sweden	2002	$16.3bn as at 30 September 2017
9	▼2	Brummer & Partners	Sweden	1995	$14.6bn as at 30 September 2017
10	▲1	AlphaGen Capital**	UK	1999	$13.6bn as at 30 September 2017

Source: Preqin Hedge Fund Online

Fig. 14.15: Largest Hedge Fund Managers in Asia-Pacific

Rank	Change from 2017	Manager	Location	Year Established	Assets under Management
1	-	Platinum Asset Management	Australia	1994	$19.4bn as at 30 September 2017
2	▼1	Hillhouse Capital Management	China	2005	$17.6bn as at 30 November 2017
3	-	Value Partners	Hong Kong	1993	$16.5bn as at 30 September2017
4	*	Springs Capital	China	2007	$8.0bn as at 30 September 2017
5	▼1	PAG Absolute Returns	Hong Kong	2002	$7.2bn as at 30 September 2017
6	▼1	Dymon Asia Capital	Singapore	2008	$5.4bn as at 30 September 2017
7	▼1	Graticule Asset Management Asia	Singapore	2014	$5.3bn as at 30 September 2017
8	▼1	Tybourne Capital Management	Hong Kong	2010	$5.0bn as at 31 October 2017
9	*	Lakefront Asset Management (BJ)	China	2011	$4.1bn as at 30 September 2017
=	▼2	Myriad Asset Management	Hong Kong	2011	$4.1bn as at 1 June 2017

Source: Preqin Hedge Fund Online

Fig. 14.16: Largest Hedge Fund Managers in Rest of World

Rank	Change from 2017	Manager	Location	Year Established	Assets under Management
1	-	Verde Asset Management	Brazil	2015	$10.0bn as at 30 September 2017
2	-	SPX Capital	Brazil	2010	$7.2bn as at 30 September 2017
3	▲2	Gávea Investimentos	Brazil	2003	$2.3bn as at 30 September 2017
4	▼1	JGP Global Gestão de Recursos	Brazil	1998	$2.2bn as at 30 September 2017
5	▼1	Tarpon Investment Group	Brazil	2002	$1.9bn as at 30 September 2017
6	-	Claritas Investments	Brazil	1999	$1.7bn as at 17 September 2017
7	*	Apex Capital	Brazil	2011	$1.4bn as at 29 September 2017
8	▲4	Sphera Funds Management	Israel	2004	$1.3bn as at 1 October 2017
9	-	Canvas Capital	Brazil	2012	$1.2bn as at 30 September 2017
10	*	Ibiuna Investimentos	Brazil	2010	$1.1bn as at 30 September 2017

Source: Preqin Hedge Fund Online

▲X: Higher ranking in league table, up X places from 2017 Preqin Global Hedge Fund Report.
▼X: Lower ranking in league table, down X places from 2017 Preqin Global Hedge Fund Report.
- : No change in ranking from 2017 Preqin Global Hedge Fund Report.
Change in position unavailable as 2016 year-end data was not accessible at time of publishing the 2017 Preqin Global Hedge Fund Report.
In May 2017, Janus Capital Group Inc. and Henderson Group plc merged to form Janus Henderson Group plc. AlphaGen Capital manages the Group's hedge fund investments.

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