



PREQIN SPECIAL REPORT: HEDGE FUND MANAGER OUTLOOK

H1 2018

ABOUT THIS SURVEY

In November 2017, we surveyed 360 hedge fund managers from across the globe. Our study looks at fundraising and performance in 2017, hedge fund fees and an outlook for new products and capital raising in 2018. This report presents some of the key findings.



360

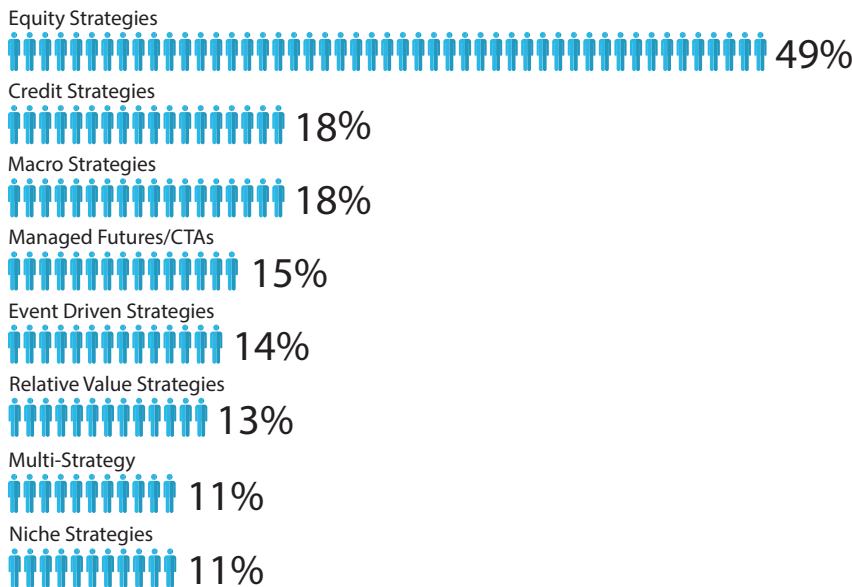
No. of hedge fund managers surveyed.



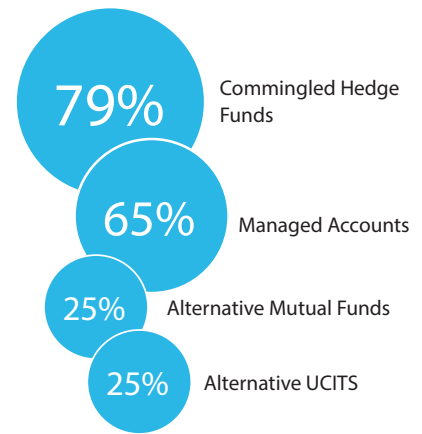
\$210bn

Total assets under management of hedge fund managers surveyed.

STRATEGIES OFFERED BY RESPONDENTS



PRODUCTS OFFERED BY RESPONDENTS



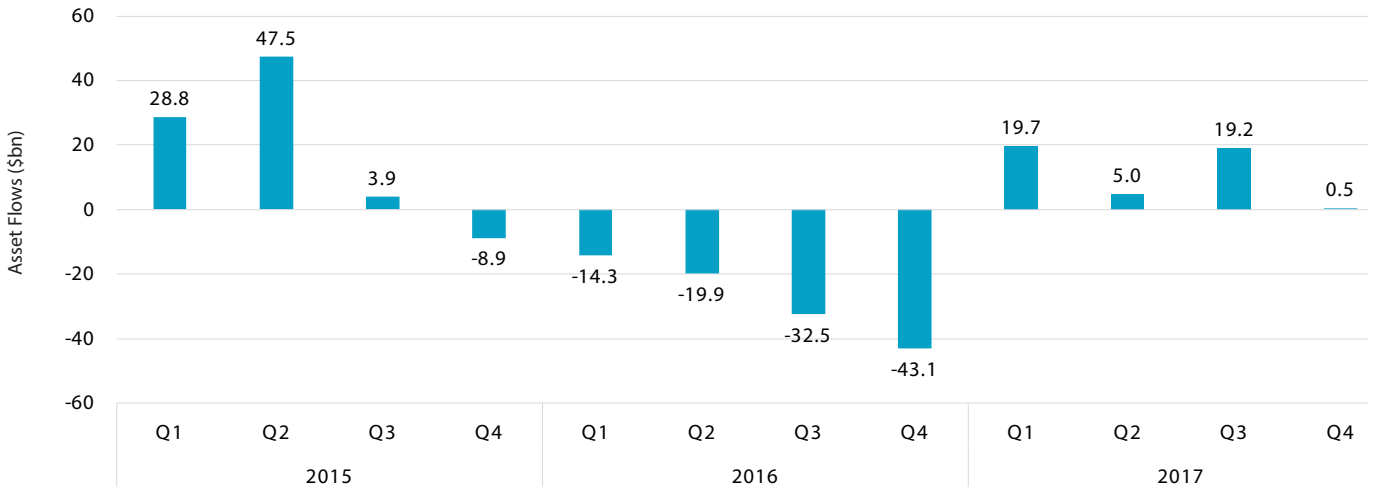
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FUNDRAISING IN 2017

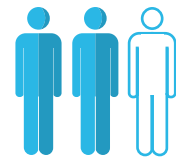
Fig. 1: Quarterly Hedge Fund Asset Flows, Q1 2015 - Q4 2017



Source: Preqin

Following a challenging year for fundraising in 2016, the hedge fund industry had a better 2017, with investor inflows of \$44bn. This return to positive flows from investors coupled with superior performance drove asset growth to record highs: total assets under management (AUM) of the hedge fund industry now exceeds \$3.55tn. The majority of fund managers enjoyed some of this positive growth: two-thirds of respondents experienced growth in AUM over 2017.

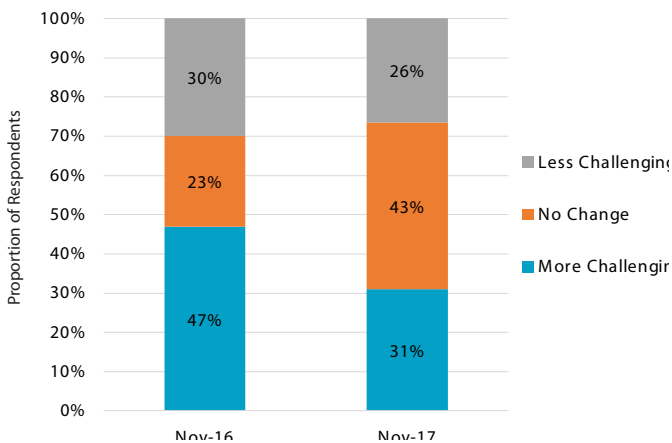
In light of investor inflows, and many managers reporting positive growth in AUM, our survey of fund managers reveals that fewer managers are finding fundraising more challenging in comparison with a year ago (Fig. 2), and more managers are finding it easier to retain capital (Fig. 3), again reflecting the improved environment in 2017.



2 in 3

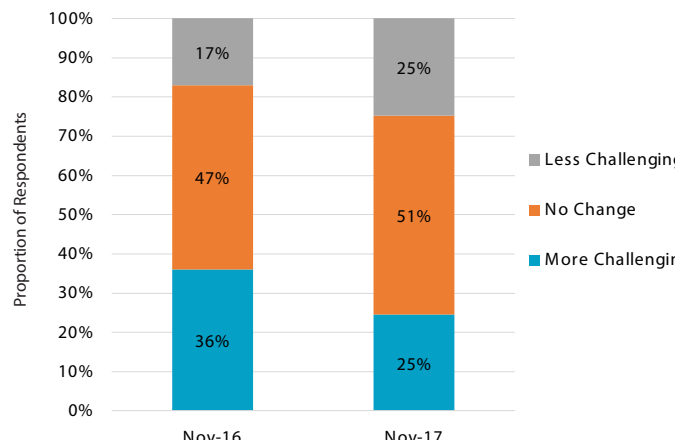
fund managers surveyed experienced growth in assets under management over 2017.

Fig. 2: Fund Manager Views on How the Fundraising Environment Has Changed over the Past 12 Months, 2016 vs. 2017



Source: Preqin Fund Manager Survey, November 2016 - 2017

Fig. 3: Fund Manager Views on How Retaining Assets Has Changed over the Past 12 Months, 2016 vs. 2017



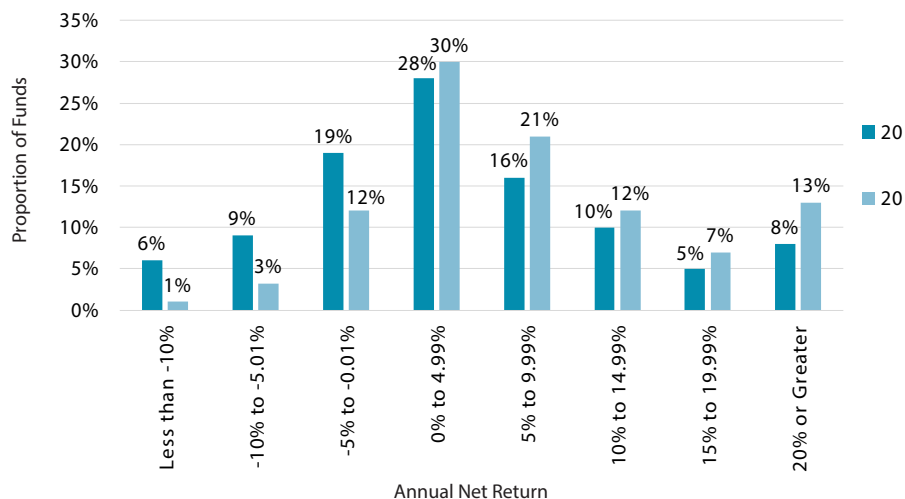
Source: Preqin Fund Manager Survey, November 2016 - 2017

PERFORMANCE IN 2017

The Preqin All-Strategies Hedge Fund benchmark returned 11.41% in 2017, surpassing the return seen in 2016 (+7.67%) and recording the highest annual return since 2013 (+12.72%). Following this strong performance, 74% of respondents reported that their return goals had been met or exceeded over 2017 – a significant improvement from Preqin’s survey at the end of 2016, when 59% of respondents reported the same (Fig. 6). This corresponds to a wider shift in the industry towards better performance on a fund-by-fund basis. In 2016, less than a quarter of funds generated returns of 10% or more (Fig. 4). In comparison, in 2017, one-third of hedge funds added 10% or more over the course of the year. At the other end of the scale, 34% of funds were underwater in 2016; in 2017 just 16% of funds failed to generate returns above zero.

President Trump, following his election success in November 2016, had one of the largest positive impacts on hedge fund performance throughout 2017, as seen in Figs 7 and 8. In the first half of the year, the so-called “Trump Bump” – the US market rally in the immediate aftermath of the presidential elections at the end of 2016 – had a positive impact on the returns of 61% of hedge funds surveyed in June 2017. Trump’s reform proposals – in particular the “Tax Law and Jobs Act” which was passed in December 2017 – also had a

Fig. 4: Distribution of Hedge Fund Returns, 2016 vs. 2017*



Source: Preqin

significant positive impact on hedge funds: 49% and 44% of managers reported these added tailwinds to performance in H1 and H2 2017 respectively.

Low volatility – in both equity and bond markets – and the low interest rate environment had the largest negative impacts on performance in 2017. However, with several central banks, especially the Fed, moving to increase rates in 2017, which along with other factors has led to increased volatility in equity markets at the start of 2018, the industry may see better performance in 2018. However, with many hedge funds seeing their

January 2018 returns wiped out following a choppy February, this increase in volatility has proved troublesome at the start of this year. The uncertainty surrounding how market movements will impact performance in 2018 is reflected in Fig. 9: fund managers are almost perfectly split in their views as to how the industry will perform in 2018, with equal proportions predicting better and worse performance. This mixed view emphasizes the uncertainty in the market and the potential for challenging market conditions in 2018 to help or hinder returns in the hedge fund space.

Fig. 5: Hedge Fund Performance by Top-Level Strategy (As at December 2017)*

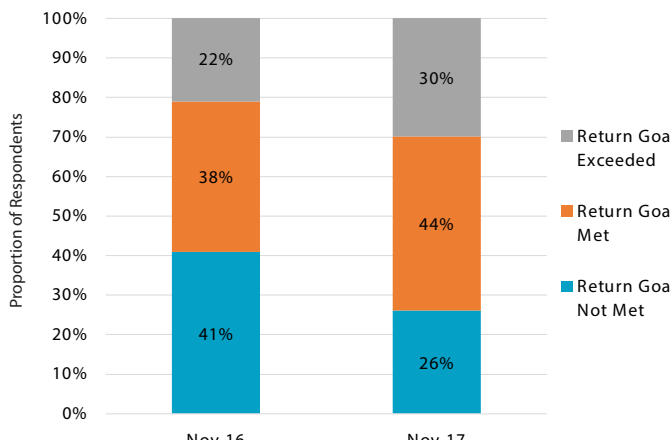
Q1 2017	Q2 2017	Q3 2017	Q4 2017	2017
Equity Strategies 4.46%	Multi-Strategy 2.16%	Equity Strategies 3.88%	Equity Strategies 3.87%	Equity Strategies 15.01%
Event Driven Strategies 3.49%	Equity Strategies 2.04%	Event Driven Strategies 2.78%	Event Driven Strategies 3.23%	Event Driven Strategies 11.71%
Multi-Strategy 3.22%	Event Driven Strategies 1.73%	Multi-Strategy 2.51%	Multi-Strategy 1.85%	Multi-Strategy 10.09%
Credit Strategies 2.75%	Credit Strategies 1.53%	Macro Strategies 2.27%	Macro Strategies 1.74%	Credit Strategies 7.61%
Macro Strategies 2.13%	Relative Value Strategies 0.54%	Credit Strategies 1.73%	Credit Strategies 1.40%	Macro Strategies 5.57%
Relative Value Strategies 1.62%	Macro Strategies -0.65%	Relative Value Strategies 1.39%	Relative Value Strategies 0.70%	Relative Value Strategies 4.31%

Source: Preqin

*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.

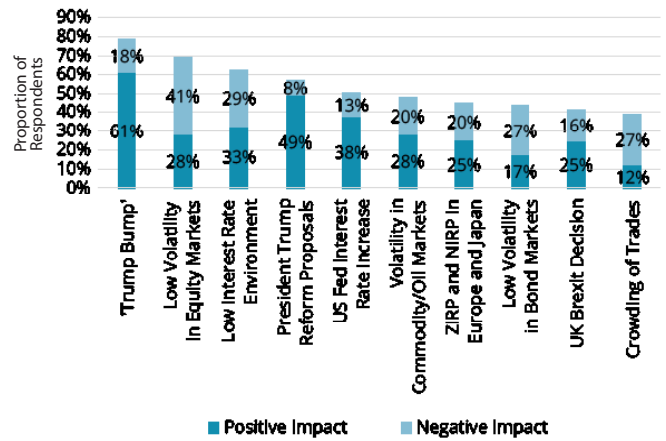


Fig. 6: Fund Manager Views on Returns in the Past 12 Months Relative to Objectives, 2016 vs. 2017



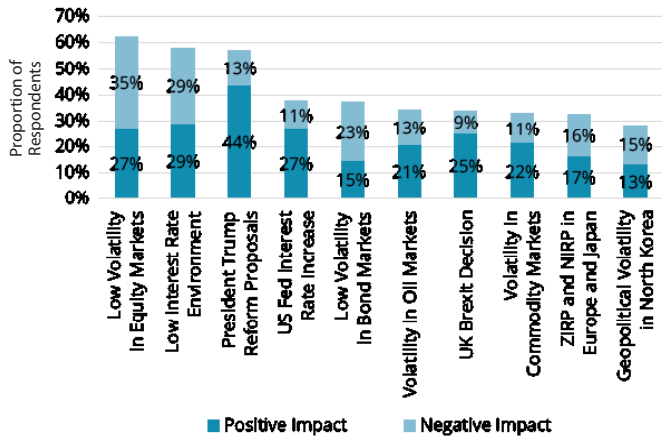
Source: Preqin Fund Manager Survey, November 2016 - 2017

Fig. 7: Fund Manager Views on the Key Macro Factors that Impacted Hedge Fund Performance in H1 2017



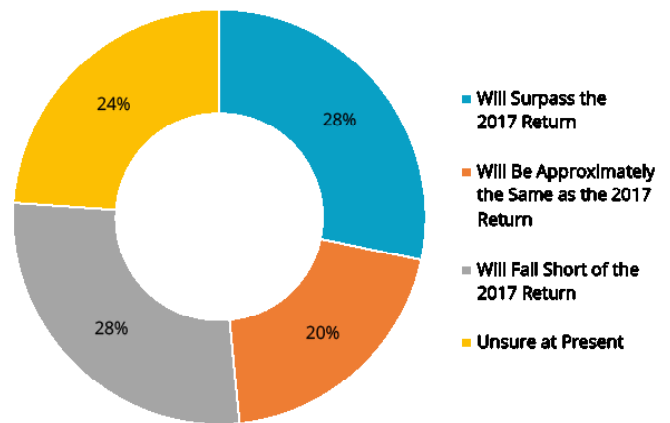
Source: Preqin Fund Manager Survey, June 2017

Fig. 8: Fund Manager Views on the Key Macro Factors that Impacted Hedge Fund Performance in H2 2017



Source: Preqin Fund Manager Survey, November 2017

Fig. 9: Fund Manager Predictions for the Performance of the Preqin All-Strategies Hedge Fund Benchmark in 2018 Compared to 2017



Source: Preqin Fund Manager Survey, November 2017

PREQIN SPECIAL REPORT: TOP PERFORMING HEDGE FUNDS IN 2017

This report takes a closer look at those funds that reached the top of the performance ranks in 2017. Using data taken from Preqin's online platform, we examine the top performing hedge funds over a one- and three-year basis, as well as those funds that have been performing consistently well over the past three and five years.

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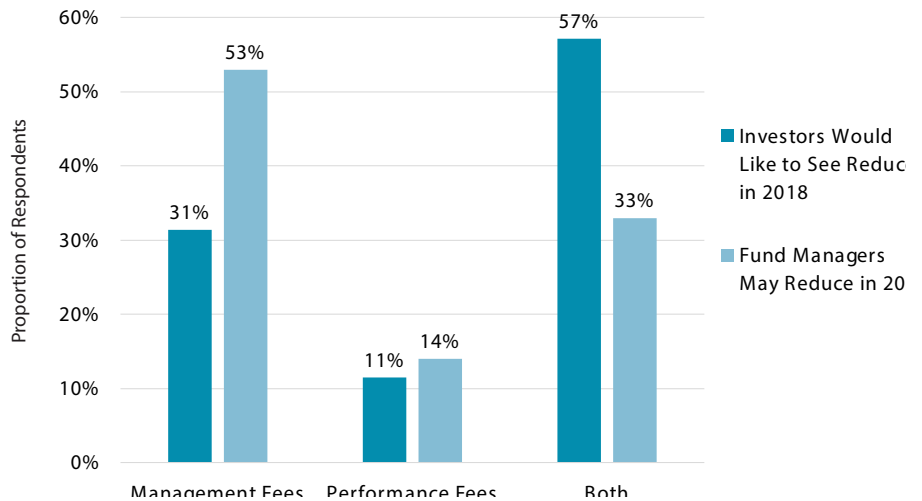
www.preqin.com/rcp



FEES AND OTHER TERMS AND CONDITIONS

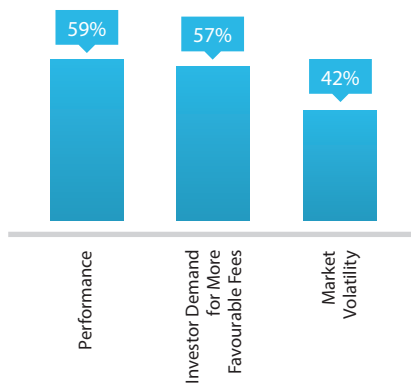
Investor demand for more favourable fees remains a top challenge in the industry today; 57% of fund managers surveyed felt this would be a key driver of change in 2018, behind only the performance of the industry (59%). Despite fund managers recognizing this demand, there remains some separation between what investors demand and what managers are willing to change. As shown in Fig. 10, although more than half of managers reported they would reduce management fees to attract investors, 57% of institutions we spoke to in December 2017 wanted managers to reduce both management and performance fees – something just a third of hedge funds reported they would do.

Fig. 10: Fee Structures Investors Would Like to See Changes to in 2018 vs. Fee Structures Managers Are Most Likely to Reduce



Source: Preqin Fund Manager Survey and Investor Interviews, November and December 2017

THREE LEADING DRIVERS OF CHANGE FOR HEDGE FUNDS IN 2018 ACCORDING TO MANAGERS

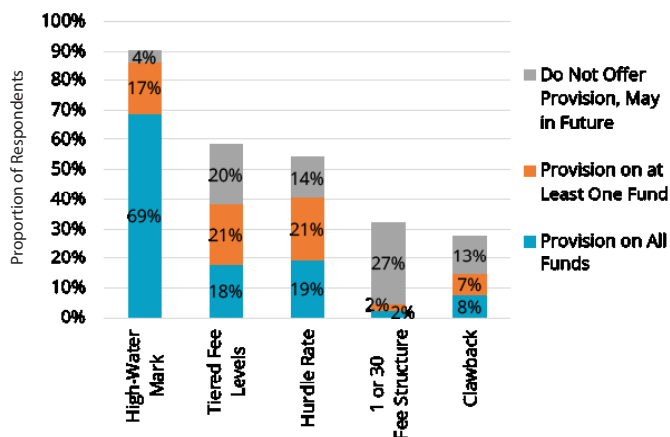


Despite this incongruity of investor demand and manager willingness to respond, we are seeing managers increasingly look for new ways to align performance incentives. High-water marks are used by the majority of managers (Fig. 11); just 10% of survey respondents do not have these in place, or have no plans to. Tiered fee structures and hurdle rates are also used by 39% and 40% of respondents respectively in at least one fund. Moving forwards, the '1 or 30' structure, developed by Alboune Partners in conjunction with Teacher Retirement System of Texas to better align interests, may be something

that gains traction; although only 4% of respondents already have this in place, 27% of managers are open to adding this structure in the future.

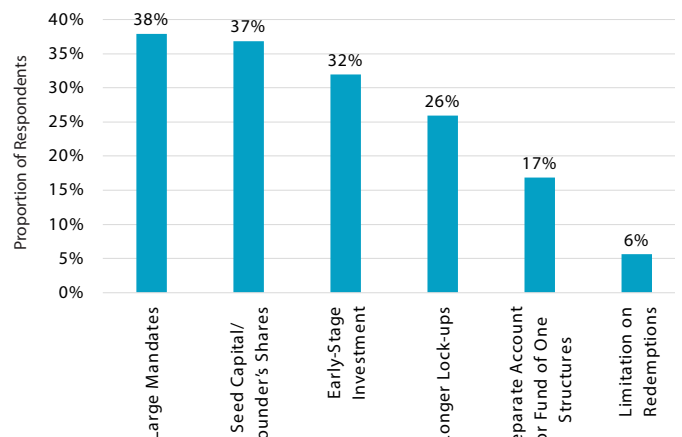
With investor demand for more favourable fees still a leading driver of change, managers are continuing to respond with concessions in return for certain investment conditions. Managers are most willing to offer fee concessions in return for a large or seed investment in a fund; 38% and 37% of respondents respectively reported they would reduce fees as a result (Fig. 12).

Fig. 11: Fee Provisions Provided by Hedge Fund Managers



Source: Preqin Fund Manager Survey, November 2017

Fig. 12: Reasons Why Hedge Fund Managers Have Offered Fee Concessions



Source: Preqin Fund Manager Survey, November 2017



OUTLOOK FOR 2018

Nearly one-third of fund managers surveyed at the end of 2017 were planning to launch a new fund in 2018, of which nearly half (48%) intended to launch their new fund in the first quarter of the year (Fig. 13). Forty percent of these planned launches will represent a new strategy offered by the firm, as fund managers see new opportunities in a changing global marketplace. Equity and credit strategies account for the largest proportions of planned fund launches in 2018 (33% and 16% respectively).

Following a year of improved performance and net investor inflows, industry AUM increased 9.2% to \$3.55tn in 2017, and fund managers are predicting further growth in 2018. Almost two thirds (64%) of fund managers expect industry assets to continue to rise over 2018, with just 16% predicting a contraction (Fig. 14).

The majority (56%) of fund managers predicting growth in assets foresee both performance and investor allocations as the key drivers behind the increase (Fig. 15), similar to the drivers of growth in 2017. In isolation, performance is viewed as the factor to drive asset growth in 2018 by a greater proportion (26%) of respondents than allocations to the industry (17%).

While fund managers went into 2017 with aims of reviving investor sentiment and reversing recent performance trends, managers have ended the year looking for more of the same in 2018: improved performance, asset growth and improving investor sentiment have shaped a positive year for hedge funds. Looking to 2018, uncertainty surrounds global equity markets and future hedge fund performance; however, managers remain optimistic, predicting industry growth and planning product expansion through new launches over the coming 12 months. If 2017 was a year for change, 2018 is one for consistency.

Fig. 13: Strategies Hedge Fund Managers Plan to Launch in 2018

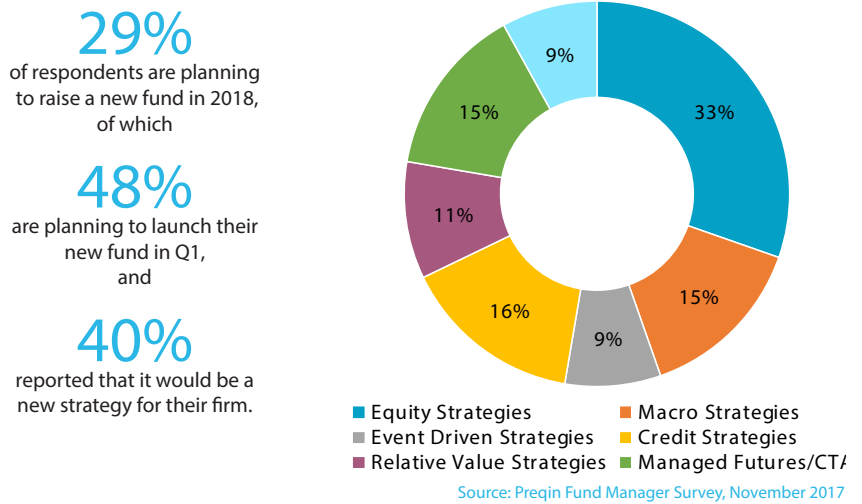


Fig. 14: Fund Manager Expectations for Hedge Fund Industry Assets under Management in 2018

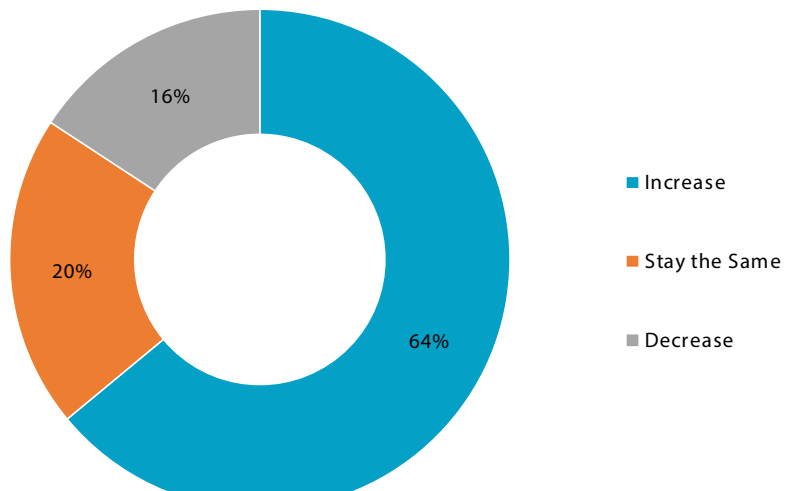
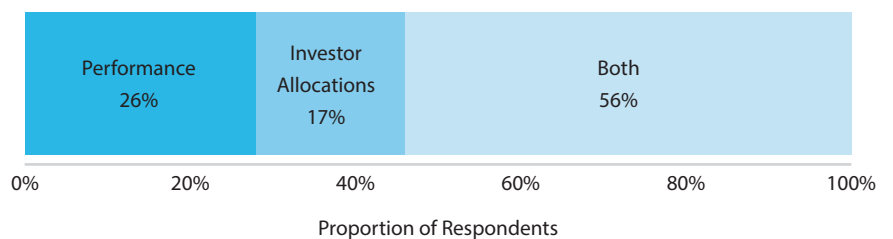


Fig. 15: Fund Manager Views on the Key Drivers behind Expected Industry AUM Growth in 2018



NORTH AMERICA RESULTS

KEY FACTS



\$2.63tn

Total AUM of the North American hedge fund industry.



64%

of North America-based hedge fund managers surveyed experienced growth in AUM over 2017.

Fig. 16: North America-Based Hedge Fund Quarterly Asset Flows in 2017

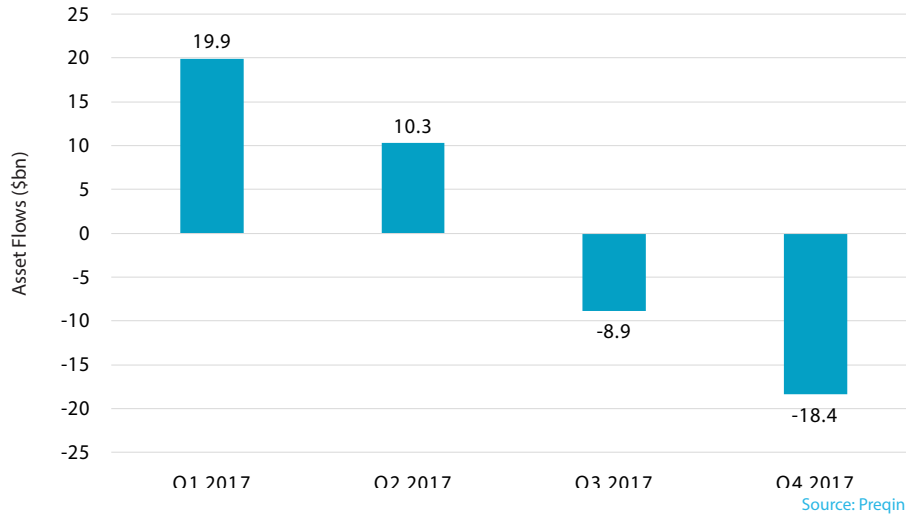


Fig. 17: North America-Based Fund Manager Views on Returns in the Past 12 Months Relative to Objectives

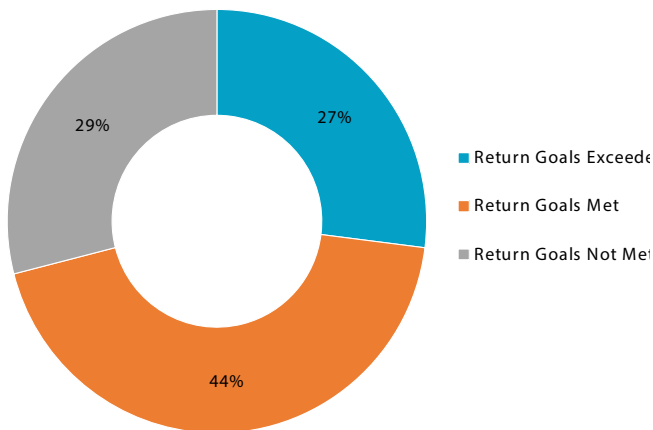


Fig. 18: North America-Based Fund Manager Views on the Key Macro Factors that Impacted Hedge Fund Performance in H2 2017

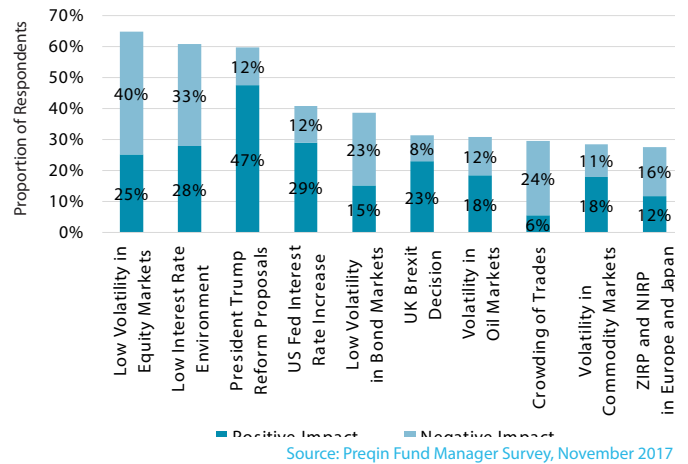


Fig. 19: North America-Based Fund Manager Views on the Leading Drivers of Change in the Hedge Fund Industry

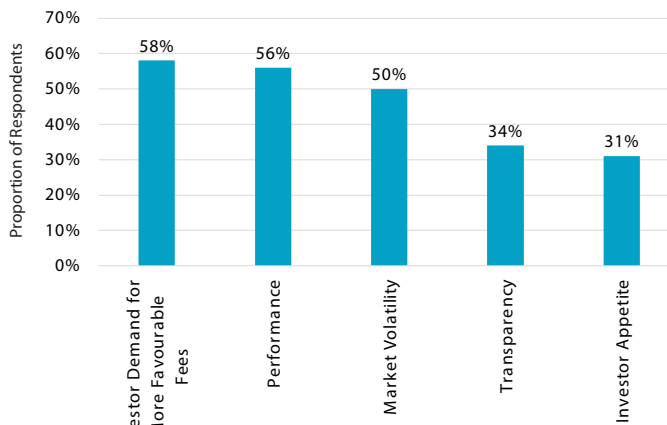
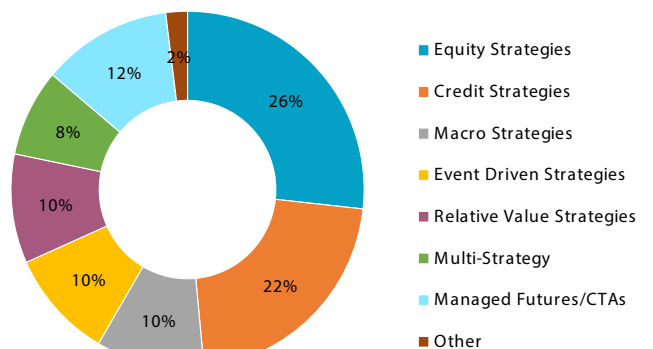


Fig. 20: Strategies North America-Based Fund Managers Plan to Launch in 2018

23% of North America-based respondents are planning to launch a new fund in 2018. The strategies they intend to pursue are:





EUROPE RESULTS

KEY FACTS



\$731bn

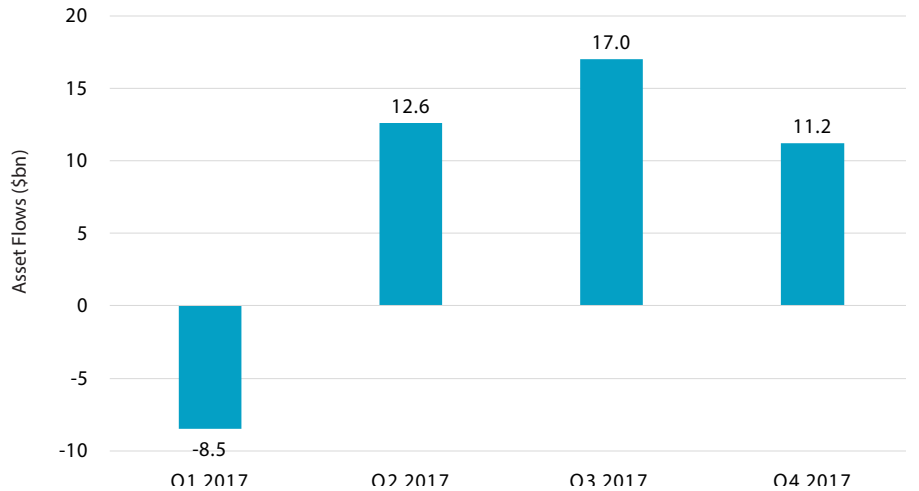
Total AUM of the European hedge fund industry.



64%

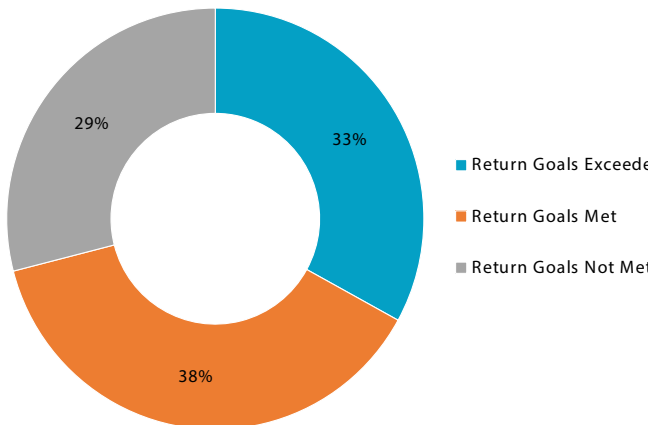
of Europe-based hedge fund managers surveyed experienced growth in AUM over 2017.

Fig. 21: Europe-Based Hedge Fund Quarterly Asset Flows in 2017



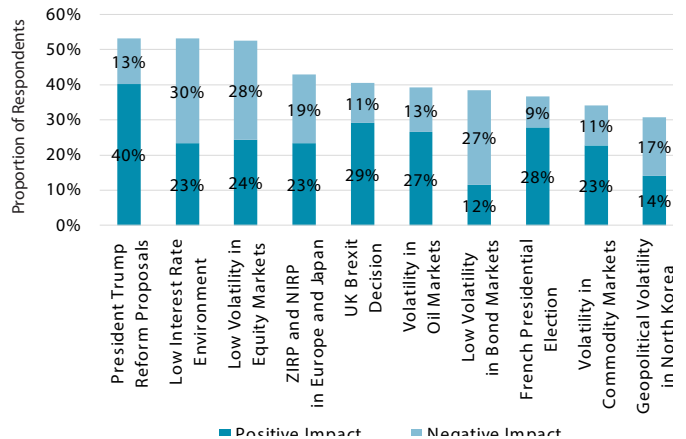
Source: Preqin

Fig. 22: Europe-Based Fund Manager Views on Returns in the Past 12 Months Relative to Objectives



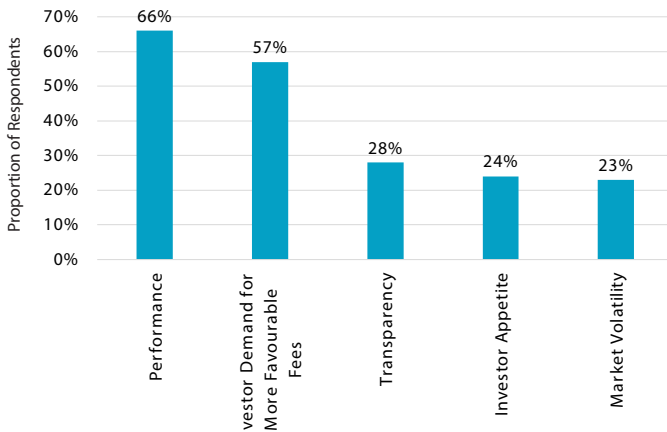
Source: Preqin Fund Manager Survey, November 2017

Fig. 23: Europe-Based Fund Manager Views on the Key Macro Factors that Impacted Hedge Fund Performance in H2 2017



Source: Preqin Fund Manager Survey, November 2017

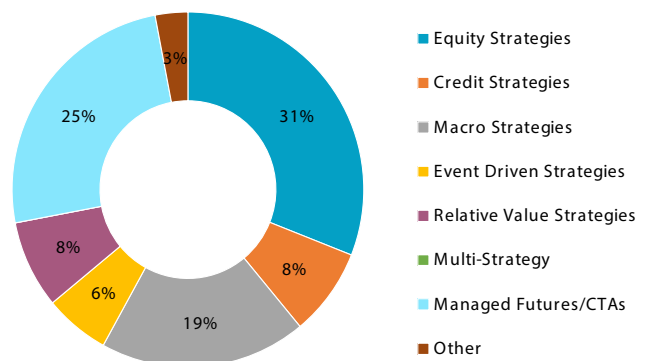
Fig. 24: Europe-Based Fund Manager Views on the Leading Drivers of Change in the Hedge Fund Industry



Source: Preqin Fund Manager Survey, November 2017

Fig. 25: Strategies Europe-Based Fund Managers Plan to Launch in 2018

39% of Europe-based respondents are planning to launch a new fund in 2018. The strategies they intend to pursue are:



Source: Preqin Fund Manager Survey, November 2017

ASIA-PACIFIC RESULTS

KEY FACTS



\$156bn

Total AUM of the Asia-Pacific hedge fund industry.



78%

of Asia-Pacific-based hedge fund managers surveyed experienced growth in AUM over 2017.

Fig. 26: Asia-Pacific-Based Hedge Fund Quarterly Asset Flows in 2017

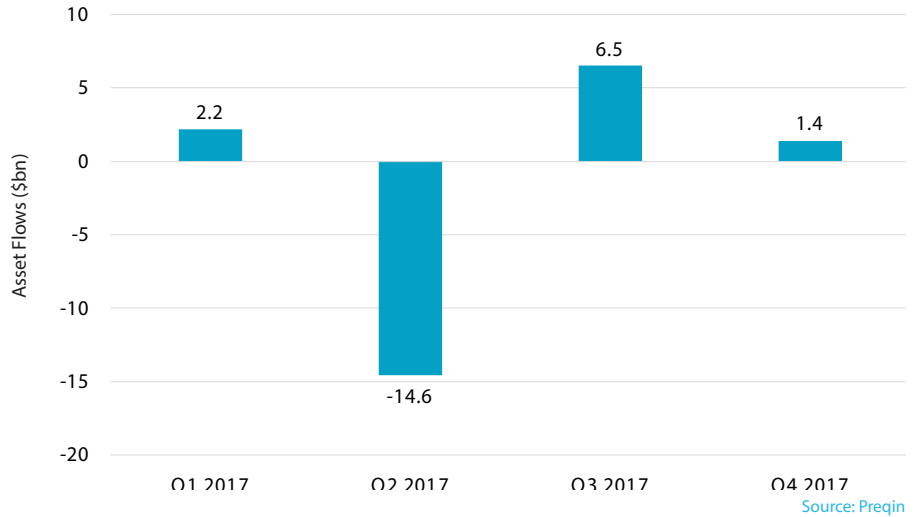


Fig. 27: Asia-Pacific-Based Fund Manager Views on Returns in the Past 12 Months Relative to Objectives

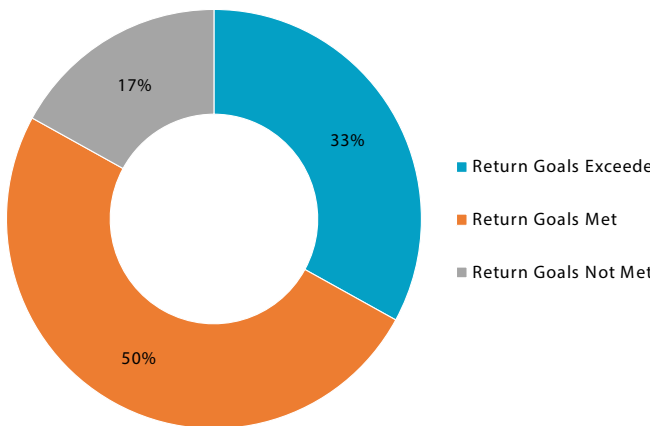


Fig. 28: Asia-Pacific-Based Fund Manager Views on the Key Macro Factors that Impacted Hedge Fund Performance in H2 2017

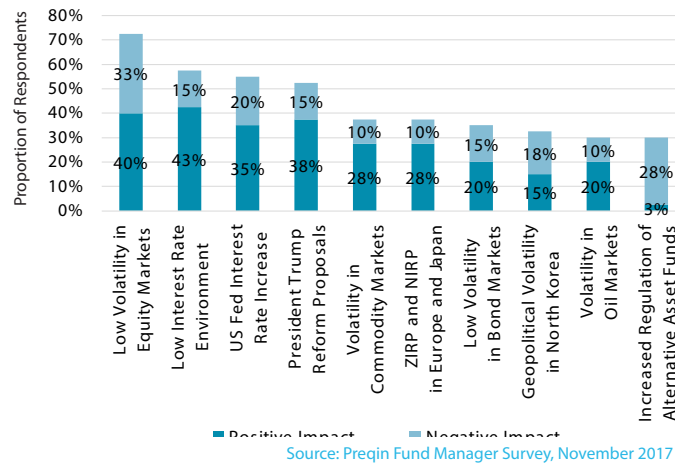


Fig. 29: Asia-Pacific-Based Fund Manager Views on the Leading Drivers of Change in the Hedge Fund Industry

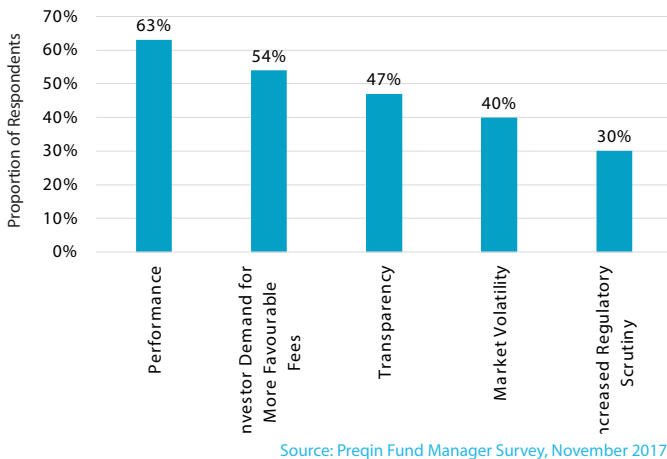
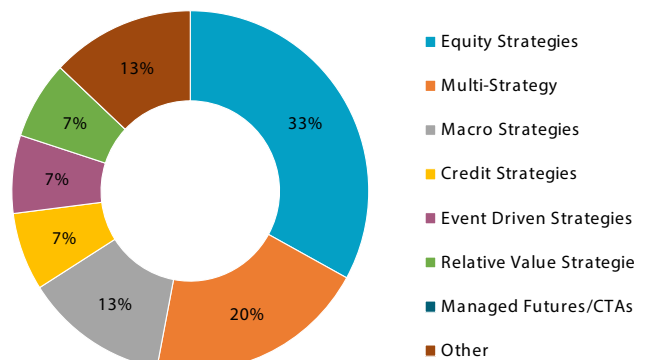


Fig. 30: Strategies Asia-Pacific-Based Fund Managers Plan to Launch in 2018

33% of Asia-Pacific-based respondents are planning to launch a new fund in 2018. The strategies they intend to pursue are:





REST OF WORLD RESULTS

KEY FACTS



\$63bn

Total AUM of the Rest of World hedge fund industry.



69%

of Rest of World-based hedge fund managers surveyed experienced growth in AUM over 2017.

Fig. 31: Rest of World-Based Hedge Fund Quarterly Asset Flows in 2017

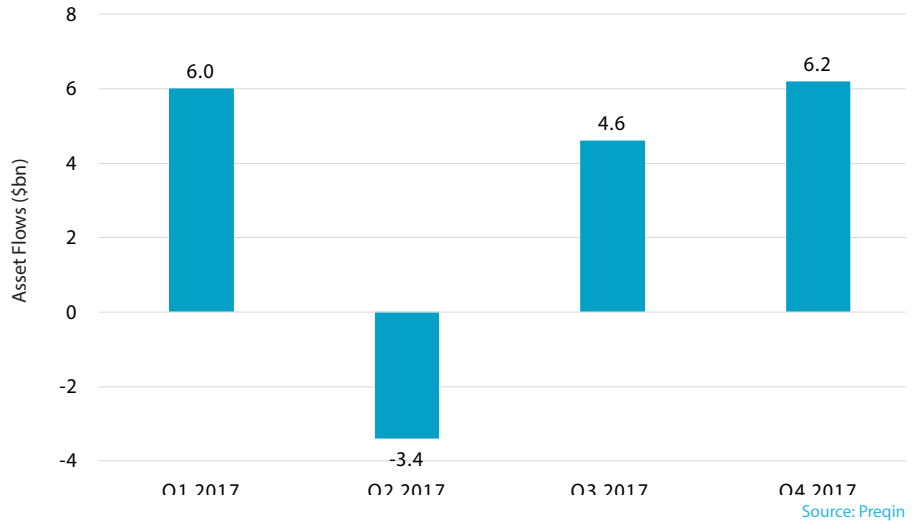


Fig. 32: Rest of World-Based Fund Manager Views on Returns in the Past 12 Months Relative to Objectives

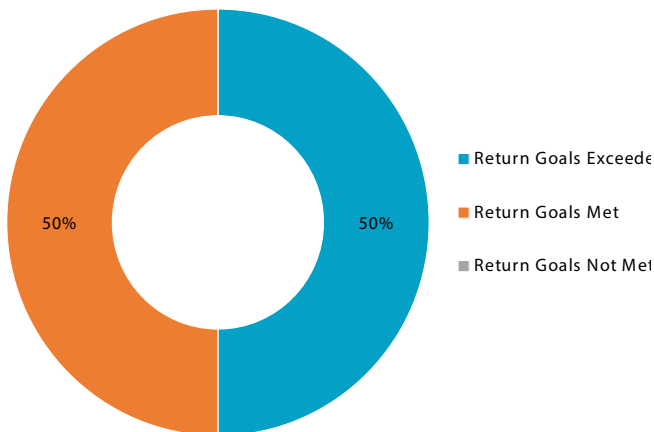


Fig. 33: Rest of World-Based Fund Manager Views on the Key Macro Factors that Impacted Hedge Fund Performance in H2 2017

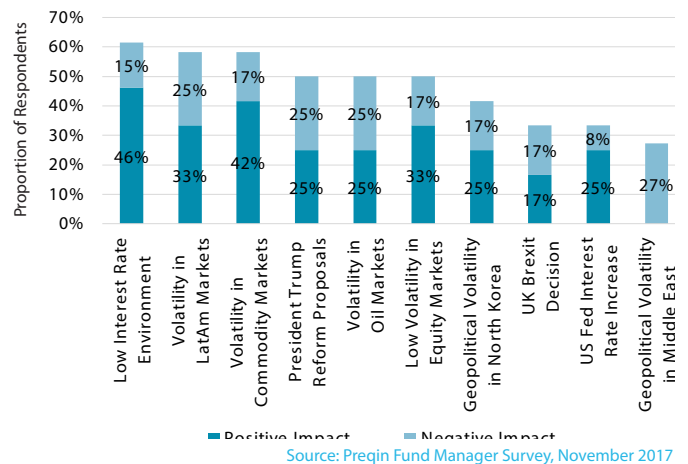


Fig. 34: Rest of World-Based Fund Manager Views on the Leading Drivers of Change in the Hedge Fund Industry

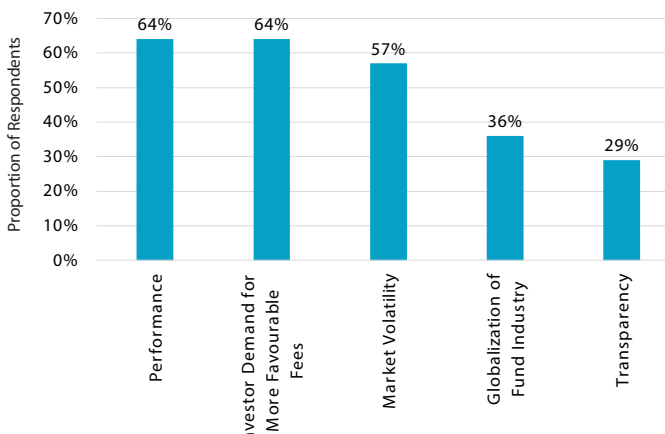
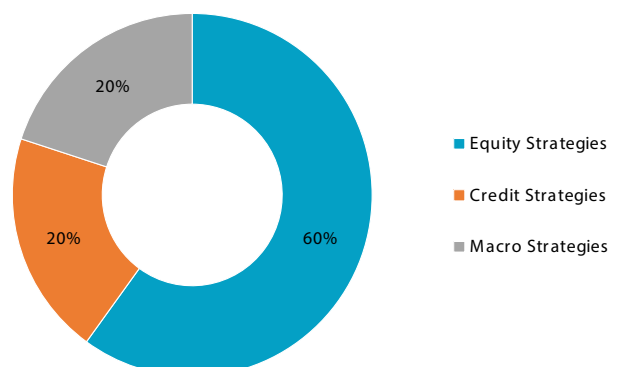


Fig. 35: Strategies Rest of World-Based Fund Managers Plan to Launch in 2018

37% of Rest of World-based respondents are planning to launch a new fund in 2018. The strategies they intend to pursue are:





PREQIN SPECIAL REPORT: HEDGE FUND MANAGER OUTLOOK

H1 2018

PREQIN

More than 60,000 alternative assets professionals rely on our global data, tools, insights and intelligence to achieve their objectives:

- Investors: asset allocation, manager selection and portfolio management
- Fund managers: fundraising, portfolio monitoring and investor relations
- Service providers and advisors: business development and in-depth market knowledge
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