



PREQIN **QUARTERLY UPDATE:** **HEDGE FUNDS** **Q1 2020**

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



Performance
Benchmarks
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Foreword

The outbreak of the COVID-19 pandemic significantly impacted markets around the world in the first few months of 2020. The S&P 500 Index was down 20.00% in Q1 2020. With hedge funds having to navigate volatile prices in equity, debt, and commodity markets, how have returns fared? Which top-level strategies, if any, were able to make gains in the quarter? In this Hedge Fund Quarterly Update we take a closer look at the data to find out.

In short, return generation was especially challenging in Q1 2020. Hedge funds lost 10.46% in Q1 2020, almost erasing the annual gain in 2019 (+10.97%). Performance in March was the key driver: hedge funds returned -8.96% for the month. To put this into perspective, the March 2020 return was a larger loss than those recorded at the height of the Global Financial Crisis in September (-6.66%) and October (-8.10%) 2008.

Strategies highly correlated to public equity markets were unsurprisingly most affected by the losses seen in public markets. The loss of 17.27% recorded by event driven strategies was the lowest return among top-level strategies, and equity strategies (-15.06%) were only just ahead.

CTAs provided some black in a quarter of red, though. With a quarterly return of +2.79%, CTAs were the only top-level strategy to make gains in Q1 2020. In the **2020 Preqin Global Hedge Fund Report**, published at the start of the year, we predicted that investors were likely to look toward non-correlated strategies such as CTAs in anticipation of changing market dynamics.

The number of new hedge funds launched has been understandably low so far this year. Just 87 funds were launched in Q1 2020, and while this is an increase from 79 launches in Q4 2019, it is down by two-thirds compared with Q1 of last year (235). Equity strategies funds saw their share of total launches drop from Q4 2019, while the proportion of macro strategies fund launches increased from 8% in the previous quarter to 10% in Q1 2020.

Amid the economic uncertainty and market disruption created by the COVID-19 pandemic, defensive hedge fund strategies have so far provided diversification from public equity losses. Market participants will now be looking to navigate through this challenging period – however long it may last – or even position themselves for a potential rebound.

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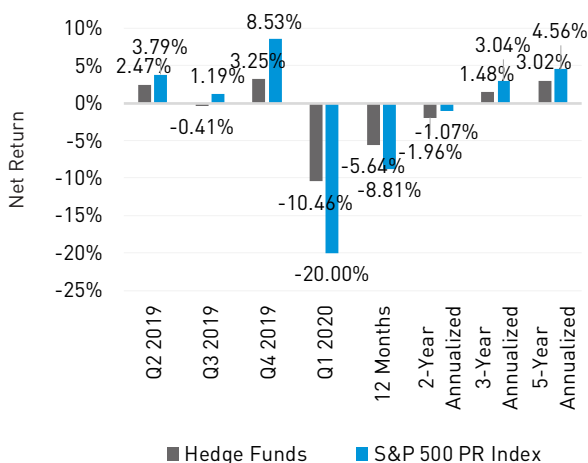
Performance Update

Hedge funds lost 8.96% in March, a greater monthly loss than any during the Global Financial Crisis

Hedge funds suffered during Q1 2020 as the COVID-19 pandemic shook equity markets worldwide. Indeed, such was the level of losses that the March 2020 return of -8.96% was worse than in September (-6.66%) and October (-8.10%) of 2008. Single-manager hedge funds returned -10.46% in the quarter, and UCITS vehicles were down 9.67%. Funds of hedge funds fared better, limiting losses to 6.12%. Despite the heavy losses, hedge funds did show some protective qualities, conserving investor capital compared to the public market: the S&P 500 PR Index was down 20.00% for the first quarter of the year.

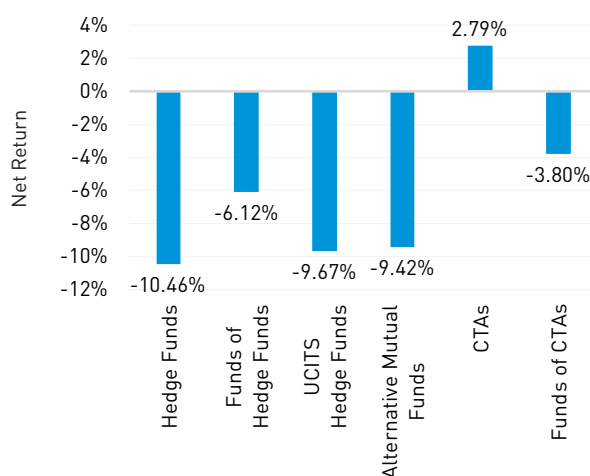
CTAs were able to navigate the tough market conditions in Q1, and came out on top among top-level strategies. A return of +3.19% in March led CTAs to positive gains of 2.79% for the quarter. Macro strategies also fared well compared to most other top-level strategies, down only 1.99%, followed closely by relative value strategies (-2.97%). Equity and event driven strategies were the worst performing across Q1, losing 15.06% and 17.27% respectively. This was driven by significantly poor performance in March, with both strategies posting double-digit losses (-11.71% and -14.69% respectively).

Fig. 2: Performance of Hedge Funds vs. S&P 500 PR Index*



Source: Preqin Pro

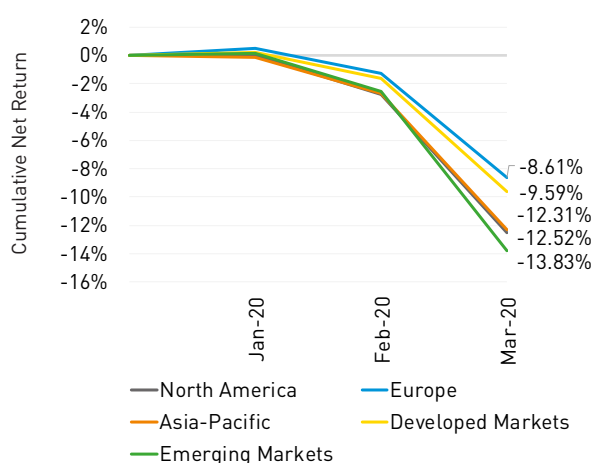
Fig. 1: Performance of Hedge Funds in Q1 2020 by Structure*



Source: Preqin Pro

Unsurprisingly, hedge funds in all regions recorded losses this quarter. Funds focused on Europe returned -8.61% in Q1 2020, but it was funds investing in North America and emerging markets that reported the largest losses: North America-focused funds were down 12.52%, while funds active in emerging markets lost 13.83%.

Fig. 3: Cumulative Returns of Hedge Funds in Q1 2020 by Geographic Focus*



Source: Preqin Pro

*Please note, all performance information includes preliminary data for March 2020 based upon net returns reported to Preqin in early April 2020. Although stated trends and comparisons are not expected to alter significantly, final benchmark values are subject to change.

Benchmarks

Fig. 4: Summary of Q1 2020 Performance Benchmarks (Net Return, %)*

Benchmark Name	Jan-20	Feb-20	Mar-20	Q1 2020	12 Months	3-Year Annualized
Hedge Funds	0.71	-2.34	-8.94	-10.44	-5.64	1.48
HF - Equity Strategies	-0.30	-3.51	-11.71	-15.06	-9.73	0.44
HF - Event Driven Strategies	-0.68	-2.36	-14.69	-17.27	-14.76	-2.59
HF - Relative Value Strategies	0.60	-0.89	-2.68	-2.97	-0.21	1.99
HF - Macro Strategies	0.33	-1.00	-1.33	-1.99	4.70	3.83
HF - Multi-Strategy	0.86	-2.16	-6.38	-7.61	-2.81	2.11
HF - Credit Strategies	0.79	-0.47	-6.70	-6.41	-2.86	2.38
Activist	-0.09	-4.36	-12.96	-16.84	-10.91	-0.08
Volatility	0.71	-1.59	-2.94	-3.81	2.53	5.24
Discretionary	0.04	-2.69	-10.37	-12.74	-7.86	0.89
Systematic	1.19	-2.04	-1.26	-2.13	0.94	2.69
HF - North America	0.00	-2.77	-10.02	-12.52	-8.09	1.13
HF - Europe	0.49	-1.78	-7.41	-8.61	-4.84	-0.01
HF - Asia-Pacific	-0.14	-2.58	-9.87	-12.31	-8.61	0.39
HF - Developed Markets	0.25	-1.86	-8.10	-9.59	-4.07	1.49
HF - Emerging Markets	0.11	-2.65	-11.58	-13.83	-8.11	1.32
HF - USD	0.69	-2.26	-8.76	-10.20	-5.61	1.57
HF - EUR	0.33	-1.63	-6.04	-7.27	-5.35	-1.60
HF - GBP	-0.05	-1.69	-8.26	-9.85	-5.45	-0.58
HF - JPY	-0.88	-3.45	-3.44	-7.59	-5.02	-1.29
HF - BRL	0.68	-2.12	-12.10	-13.38	-3.59	6.73
HF - Emerging (Less than \$100mn)	0.59	-2.60	-9.59	-11.42	-6.99	1.16
HF - Small (\$100-499mn)	0.61	-2.24	-9.14	-10.63	-4.92	2.01
HF - Medium (\$500-999mn)	-0.05	-2.36	-8.55	-10.75	-5.97	1.99
HF - Large (\$1bn plus)	0.56	-1.18	-6.22	-6.81	-0.04	3.52
Funds of Hedge Funds	0.45	-1.44	-4.99	-6.12	-2.67	0.66
FOHF - Equity Strategies	0.36	-2.55	-6.69	-8.73	-5.27	0.00
FOHF - Multi-Strategy	0.34	-1.28	-4.67	-5.58	-2.03	0.74
Funds of CTAs	1.19	-2.68	-2.31	-3.80	1.85	0.38
FOHF - USD	0.37	-1.48	-5.16	-6.21	-2.37	1.19
FOHF - EUR	0.24	-1.45	-6.59	-7.72	-6.08	-2.67
Alternative Mutual Funds	0.02	-3.22	-6.42	-9.42	-5.96	-0.64
UCITS	-0.23	-2.59	-7.05	-9.67	-6.18	-1.87
UCITS - Long/Short Equity	-0.65	-3.85	-8.47	-12.57	-8.40	-1.83
UCITS - Relative Value Strategies	0.07	-0.78	-2.18	-2.87	-1.56	-0.94
UCITS - Macro Strategies	-0.77	-3.08	-2.96	-6.67	-1.65	-0.26
UCITS - USD	-0.25	-2.52	-7.02	-9.59	-5.09	0.02
UCITS - EUR	-0.21	-2.54	-7.52	-10.06	-7.24	-2.68
CTAs	0.69	-1.07	3.19	2.79	6.85	3.55
Discretionary	1.61	-1.50	7.08	7.18	7.95	3.21
Systematic	0.91	-0.85	2.35	2.41	8.05	3.28
CTA - USD	0.80	-1.11	3.30	2.97	7.44	4.08
CTA - EUR	0.11	-0.90	1.14	0.34	0.65	-0.60

Source: Preqin Pro

*Please note, all performance information includes preliminary data for March 2020 based upon net returns reported to Preqin in early April 2020. Although stated trends and comparisons are not expected to alter significantly, final benchmark values are subject to change.

Largest Fund Managers

Fig. 5: 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	\$168.0bn as of 31 December 2019
AQR Capital Management	US	1998	\$99.6bn as of 31 December 2018
Man Group	UK	1983	\$85.0bn as of 31 December 2019
Renaissance Technologies	US	1982	\$72.7bn as of 31 December 2019
Two Sigma Investments	US	2001	\$60.0bn as of 31 December 2019
Elliott Management	US	1977	\$40.5bn as of 31 December 2019
Millennium Management	US	1989	\$39.5bn as of 31 December 2019
BlackRock Alternative Investors	US	1986	\$36.6bn as of 31 December 2019
J.P. Morgan Asset Management	US	1974	\$36.6bn as of 30 June 2019
Marshall Wace	UK	1997	\$34.2bn as of 1 January 2020
H2O Asset Management	UK	2010	\$34.0bn as of 31 December 2019
Davidson Kempner Capital Management	US	1990	\$33.0bn as of 31 December 2019
Adage Capital Management	US	2001	\$31.4bn as of 31 December 2019
Viking Global Investors	US	1999	\$31.1bn as of 31 December 2019
The Baupost Group	US	2000	\$30.2bn as of 31 December 2019
D.E. Shaw & Co.	US	1988	\$29.1bn as of 31 December 2019
Farallon Capital Management	US	1986	\$29.0bn as of 31 December 2019
Citadel Advisors	US	1990	\$28.9bn as of 31 December 2019
The Children's Investment Fund Management	UK	2003	\$28.3bn as of 31 December 2019
King Street Capital Management	US	1995	\$19.9bn as of 31 December 2019

Source: Preqin Pro

Fig. 6: 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
Goldman Sachs Asset Management	US	1997	\$35.1bn as of 31 December 2019
UBS Hedge Fund Solutions	US	2000	\$35.1bn as of 1 March 2020
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	\$19.3bn as of 28 February 2019
Summit Rock Advisors	US	2007	\$15.8bn as of 27 March 2020
Man FRM	UK	1991	\$14.4bn as of 31 December 2019
Rock Creek Group	US	2002	\$13.5bn as of 29 February 2020
Lighthouse Partners	US	1999	\$13.5bn as of 31 January 2020
Credit Suisse Alternative Funds Solutions	US	1998	\$13.5bn as of 31 December 2018
Aberdeen Standard Investments	UK	1998	\$13.5bn as of 30 September 2019
J.P. Morgan Alternative Asset Management	US	1995	\$13.2bn as of 31 December 2019
K2 Advisors	US	1994	\$10.6bn as of 1 March 2020
UBP Alternative Investments	Switzerland	1969	\$10.5bn as of 30 June 2019
PAAMCO Prisma	US	2000	\$10.1bn as of 31 December 2019
HSBC Alternative Investments	UK	1994	\$10.0bn as of 31 March 2019
Pictet Alternative Advisors	Switzerland	1991	\$9.8bn as of 27 February 2020
Aetos Alternatives Management	US	2001	\$9.4bn as of 31 December 2019

Source: Preqin Pro

Fund Launches

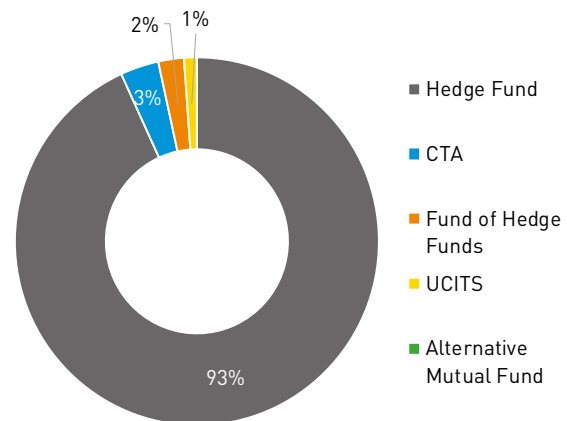
The number of new hedge funds launched stayed low in an uncertain quarter

Hedge fund launch numbers were subdued in Q1 2020 at just 87 globally. This follows the trend of low launch figures seen throughout 2019: 79 new funds launched in Q4 2019, a decline of 66% from 235 in Q1 2019. Traditional single-manager hedge fund vehicles accounted for 93% of launches in Q1 2020, whereas liquid alternatives represented just 1%, down from 5% in Q1 2019 and 13% in Q4 2019 (Fig. 7). No alternative mutual funds were established in Q1 2020.

After global-focused hedge funds dominated new launches in Q4 2019, funds focused on individual regions represented an increased share of launches in Q1 2020. The proportion of new funds targeting North America (22%), Asia-Pacific (5%), and emerging markets (7%) all increased compared with Q4 2019 (Fig. 8).

Equity strategies funds accounted for just 32% of launches in Q1 2020, their lowest share in the period shown in Fig. 9. With significant volatility and dramatic declines in global equity markets over Q1 2020, equity strategies funds lost 15.06% in the quarter (see page 4). In contrast, macro strategies funds – which typically display the lowest correlation to public markets –

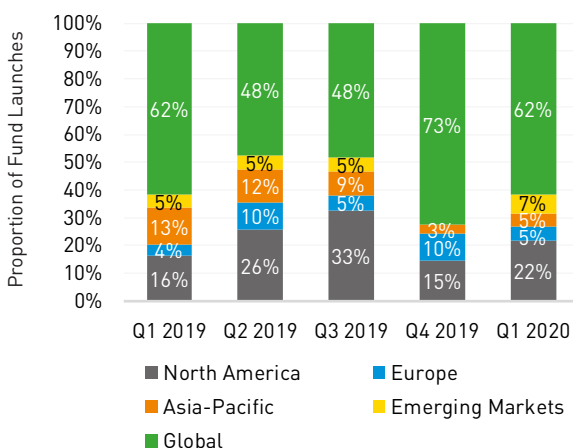
Fig. 7: Hedge Fund Launches in Q1 2020 by Structure



Source: Preqin Pro

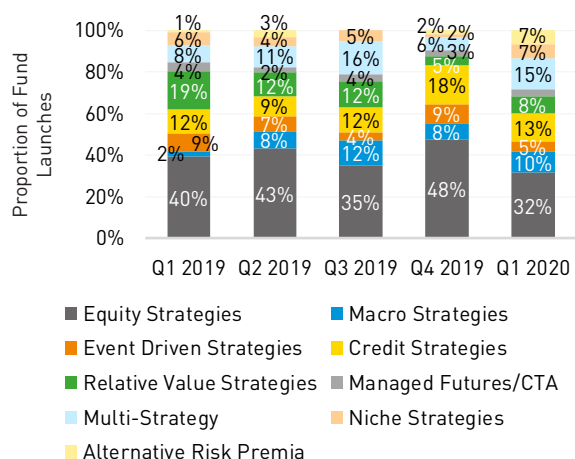
increased to 10% of all launches in Q1, up from 8% in Q4 2019 and just 2% in Q1 2019. After representing nearly one-fifth of all launches in Q4 2019, credit strategies funds fell to 13% of the total in Q1 2020.

Fig. 8: Hedge Fund Launches by Geographic Focus, Q1 2019 - Q1 2020



Source: Preqin Pro

Fig. 9: Hedge Fund Launches by Top-Level Strategy, Q1 2019 - Q1 2020



Source: Preqin Pro

Fund Searches

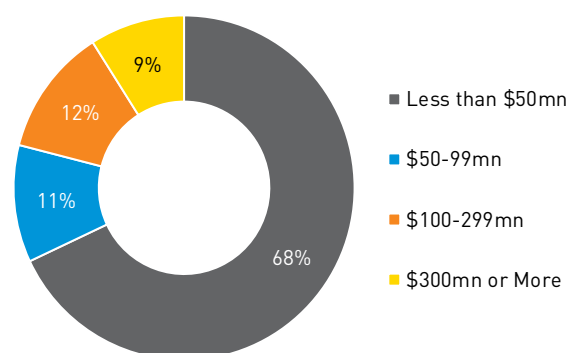
We see more investors conducting a strategy shift to the defensive as market conditions worsen

The data suggests that hedge fund investors are making conservative plans for the year ahead. Investors issued 131 mandates for hedge funds on **Preqin Pro** in Q1 2020. The majority (56%) of investors expect to add only one new hedge fund to their portfolios in the next 12 months. Similarly, 68% of investors are looking to invest less than \$50mn in fresh capital in the asset class in this period (Fig. 10).

Investors are evidently considering the increasingly volatile economic environment in their targeted strategies. Long/short equity remains the most highly sought-after core strategy, as has traditionally been the case, representing 61% of total mandates (Fig. 11). Macro strategies are also in demand; macroeconomic uncertainty may provide opportunity to funds trading commodities and currencies. Investors also look to be expecting further equity market volatility: equity market neutral funds are included in 27% of mandates – a strategy that outperformed the wider hedge fund market in March.

Likewise, more investors are also targeting geographic diversification. The majority (75%) of mandates issued in Q1 2020 were for hedge funds with global exposure,

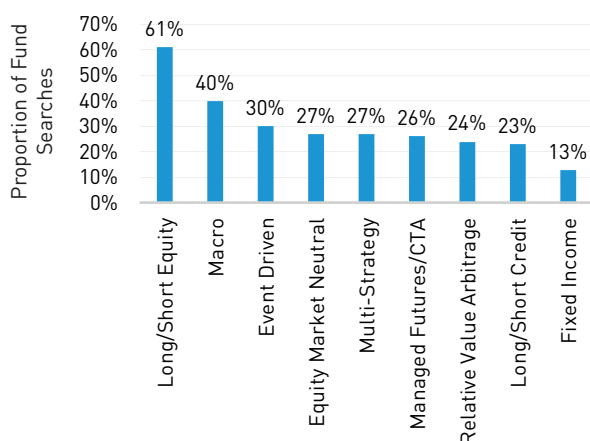
Fig. 10: Amount of Fresh Capital Investors Expect to Invest in Hedge Funds over the Next 12 Months



Source: Preqin Pro

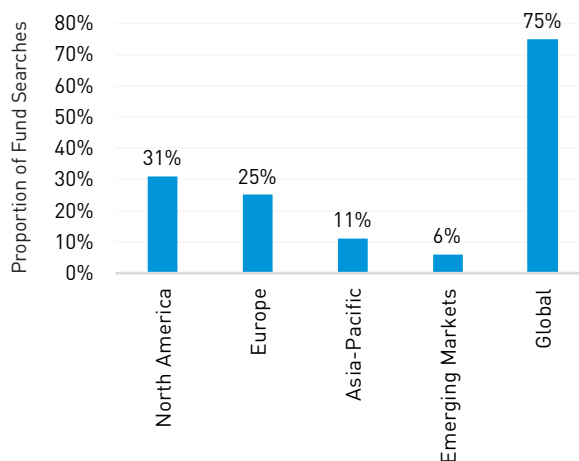
spreading the risk across a range of markets (Fig. 12). Thirty-one percent and 25% of investors are targeting North America and Europe respectively, while 11% of investors are looking at Asia-Pacific-focused hedge funds.

Fig. 11: Core Strategies Targeted by Hedge Fund Investors over the Next 12 Months



Source: Preqin Pro

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



Source: Preqin Pro

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