

# Sizing the 2011 Hedge Fund Universe

A PerTrac Study

9<sup>th</sup> Annual Update

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## INTRODUCTION

*Sizing the 2011 Hedge Fund Universe: A PerTrac Study* is the ninth annual version of PerTrac's analysis of the composition and size of the single-manager hedge fund and FoHFs industry. The 2011 study was produced by aggregating investment data from eleven of the world's largest alternative databases and by utilizing the capabilities of PerTrac Analytics, the global leader in investment analysis, risk management and asset allocation software.

This study analyzes fund size and type with respect to the number of distinct funds reporting information to databases, along with the disaggregated totals by investment fund types. Fund types include single-manager hedge funds, commodity trading advisors (CTAs)—a subset of single-manager hedge funds—and funds of hedge funds (FoHFs). This study also investigates fund domiciles, management company locations, currency usage and database reporting trends to third-party information providers.

## EXECUTIVE SUMMARY

### Number of Funds and Assets Under Management (AUM)

#### All Funds

- The total number of hedge funds and funds of hedge funds (FoHFs) reporting increased to 13,395, representing growth of 3.73% from 2010 to 2011.
- The reported AUM of hedge funds and FoHFs expanded by 3.37% to reach \$2.245 trillion at the end of 2011.
- Fifty-six percent of hedge funds and FoHFs are denominated in US Dollars and 77% are denominated in either US Dollars or Euros.
- Hedge fund and FoHF managers located in the United States account for approximately \$950 billion, or 42.3% of the total reported AUM. The next largest aggregation of assets, based on management company location, is found in the United Kingdom, amounting to approximately \$574 billion, or 25.6% of the total reported AUM.
- Fewer hedge funds and FoHFs are reporting to multiple third-party information providers. The percentage of hedge funds and FoHFs reporting to only a single database increased by 6.9 percentage points in 2011, to 54.0%.

#### Single-Manager Hedge Funds

- The number of single-manager hedge funds reporting increased by 6.98% in 2011, reaching 10,007 funds.
- Total reported AUM of single-manager hedge funds was approximately \$1.798 trillion at the end of 2011, an increase of 4.19% from 2010.
- There were 322 single-manager hedge funds that reported managing in excess of \$1 billion in assets, a 6.1% increase from 2010. Combined, these billion-dollar-plus funds manage approximately \$1.08 trillion, or about 60% of the single-manager hedge fund total reported AUM.
- The percentage of single-manager hedge funds domiciled in the United States was 23.7% in 2011, a 2.6 percentage point decline from the prior year.

#### Commodity Trading Advisors (CTAs) (included in single-manager hedge fund totals)

- The number of single-manager hedge funds employing CTA investment strategies was 1,509 in 2011.
- The reported AUM of CTA funds was \$413 billion at the end of 2011.
- Fifty funds reported managing in excess of \$1 billion and they accounted for 76.3% of CTAs total reported AUM.

- Approximately 75% of all reporting CTAs are denominated in United States Dollars (USD).

### **Funds of Hedge Funds (FoHFs)**

- The total number of FoHFs reporting in 2011 was 3,388, a decrease of 4.80% from 2010.
- The reported AUM of FoHFs remained essentially flat, increasing by only 0.23% to stand at about \$447 billion at the end of 2011.
- The number of FoHFs that reported managing in excess of \$1 billion in assets grew by 17.8% over a year earlier. FoHFs with less than \$1 billion in AUM experienced declines in number of funds.
- FoHFs that reported managing between \$251 million to \$500 million in AUM experienced the largest decline in number of funds from 2010 to 2011, decreasing by 15.9%.
- The percentage of FoHFs domiciled in the United States was 12.3% in 2011, just a 0.1 point increase from the previous year.

### **Reporting Trends in 2010 and 2011**

- There were nearly 56,000 investments within the databases of third-party information providers in 2011, less than a 1% increase from the 2010 figure of 55,600.
- In 2011, about 97% of the funds in our universe reported performance returns data to third-party information providers. This represents a 1.5 percentage point increase in the percentage of funds reporting performance data compared to 2010, when 95.5% reported data.
- The percentage of single-manager hedge funds not reporting their AUMs alongside performance returns rose to 18.3% in 2011, a 0.3 percentage point increase from 2010.
- The percentage of FoHFs not reporting their AUMs alongside performance returns rose to 15.4% in 2011, a 0.9 percentage point from 2010.

## METHODOLOGY

Eleven leading global databases were included in PerTrac's research including: BarclayCTA, BarclayHedge, CogentHedge, EurekaHedge Hedge Fund, EurekaHedge Fund of Funds, HedgeFund.net, Hedge Fund Research, MondoAlternative, MorningstarHedge, Tass, and TassCTA. The combined number of investments from these eleven databases was nearly 56,000

Funds typically report their information to databases at the share-class level. This is done to account for variations in fee structures, minimum investment limits, currencies, redemption periods, etc. for each share-class. We identified, where applicable, both share-class and fund-level data totals in this study. Fund-level data in this study is the roll-up of the identified share-classes for each fund.

As many of these databases contain records on the same funds, combining the databases introduces duplicate data. In order to accurately assess the hedge funds and FoHFs reporting performance it was necessary to scrub the data. Duplicate records for single-manager hedge funds, CTAs and FoHFs were removed based on the analytical and statistical structure of PerTrac ID, which is included in PerTrac Analytics. A single instance of these records was retained in our study to create a holistic industry list.

We removed all funds marked as "dead funds" by third-party information providers. We also analyzed all reported AUMs at the share-class level and removed all duplicate instances of fund-level AUMs that were reported multiple times.

In 2011, we enhanced our methodology to include the addition of correlation analysis of performance returns to refine: 1) the fund-level roll-up of investments and, 2) the aggregation of the AUMs of remaining share-classes into one master, fund-level investment.

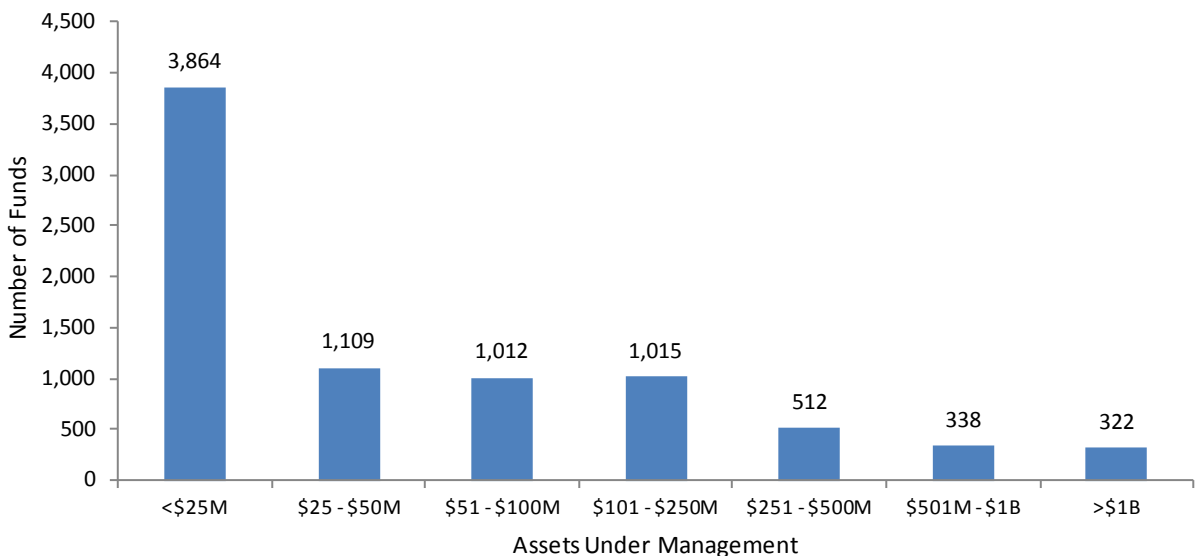
To compare hedge funds and FoHFs in a single-currency, all funds that were not denominated in US Dollars (USD) were converted to USD using the exchange rate valid on December 31, 2011.

As we enhanced our methodology in this study, we reanalyzed the 2010 datasets and adjusted our figures according to this enhanced methodology to provide consistency in year-over-year comparisons.

## SINGLE-MANAGER HEDGE FUNDS

The number of single-manager hedge funds identified increased in 2011 to 10,007, an increase of 6.98% from 2010. Reported AUM expanded to approximately \$1.798 trillion at the end of 2011, an increase of 4.2% from 2010 when it stood at \$1.726 trillion. A breakdown in the number of funds by AUM size in Figure 1 below reveals that 322 funds reported holding assets in excess of \$1 billion.

Figure 1: Number of Single-Manager Hedge Funds by AUM Size in 2011\*

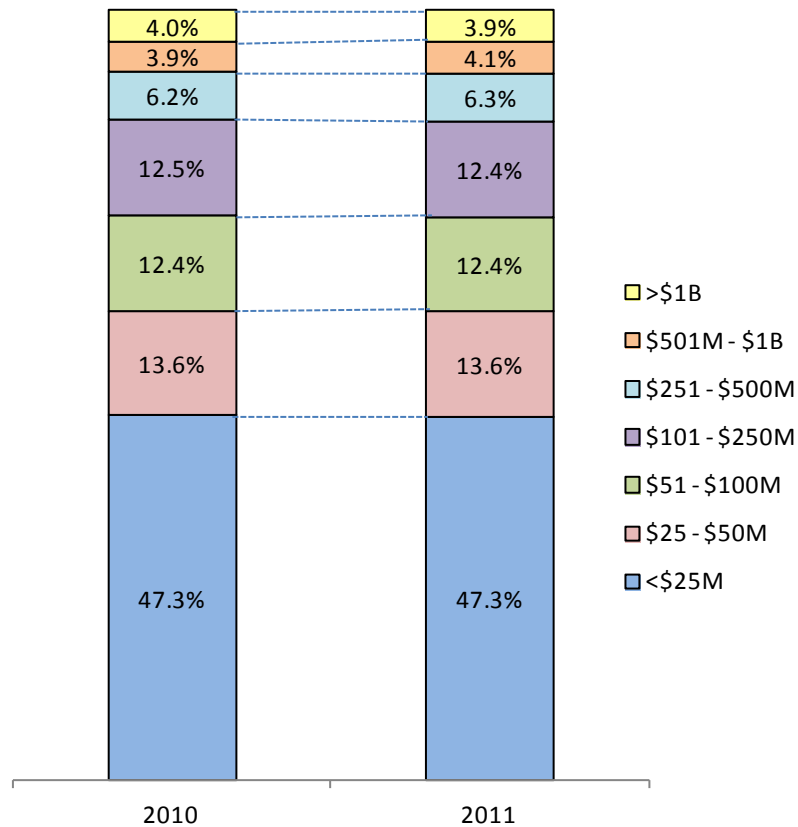


\*Figure excludes 1,835 funds that did not report AUM

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Combined, the AUM of billion-dollar-plus funds is approximately \$1.08 trillion, or roughly 60% of the total reported industry figures. What these numbers convey is that a very small segment of single-manager hedge funds—3.9% of those reporting AUMs as illustrated in Figure 2 below—control the dominant share of overall assets.

Figure 2: Breakdown of the Number of Single-Manager Hedge Funds by AUM Tiers in 2011\*



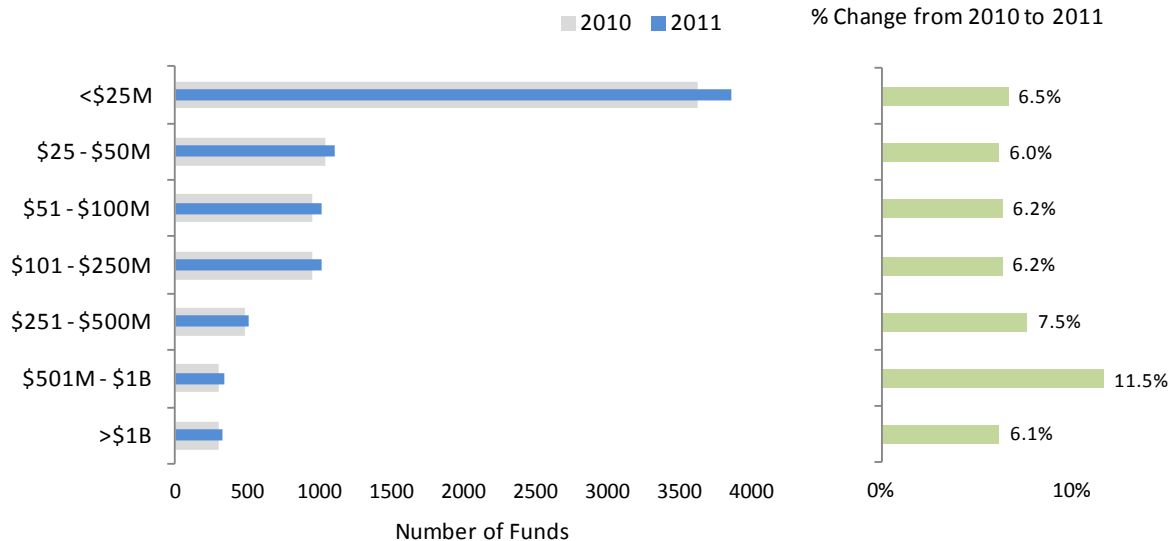
\*Figure excludes 1,690 funds in 2010 and 1,835 funds in 2011 that did not report AUM

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And the billion-dollar-plus club has expanded its ranks since last year. Figure 3 below shows that the number of single-manager funds reporting assets in excess of \$1 billion has increased.

Figure 3: Number of Single-Manager Hedge Funds by AUM Size and Percentage Change from 2010 to 2011\*



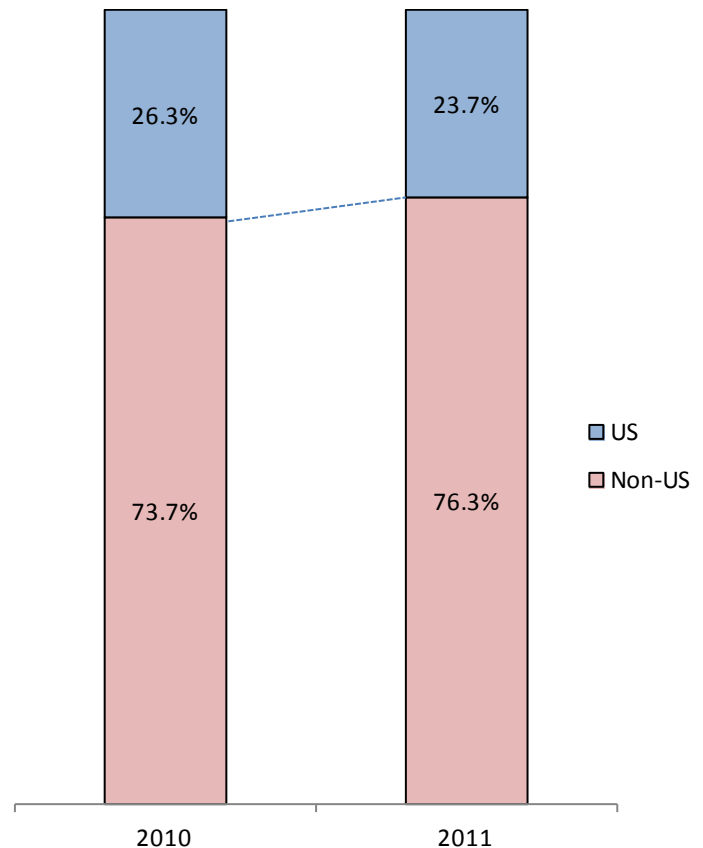
\*Figure excludes 1,690 funds in 2010 and 1,836 funds in 2011 that did not report AUM

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The number of single-manager hedge funds reporting AUMs in excess of \$1 billion increased by 6.1% in 2011. The total AUM of these billion-dollar-plus funds grew by 1.40% year-over-year. Funds with AUMs between \$501 million and \$1 billion experienced the greatest positive percentage change year-over-year by rising 11.5%. All single-manager hedge fund size categories increased in number of funds and in assets under management from 2010.

Out of the more than 1,000 new, single-manager hedge fund launches in 2011, about 15% were domiciled in the United States. As a whole, the percentage of single-manager hedge funds that reported being domiciled in the United States decreased by 2.6 percentage points since 2010, as shown in Figure 4 below.

Figure 4: Percentage of Single-Manager Hedge Funds by US and Non-US Domiciles in 2010 and 2011\*



\*Figure excludes 813 funds in 2010 and 762 funds in 2011 that did not disclose domiciles

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Did funds leave the United States to escape the new regulatory framework evolving from Dodd-Frank and its reporting requirements? Were managers relocating to destinations with more favorable tax codes, or, bracing themselves for a potential end to the Bush-era tax cuts in 2012? Were the majority of funds that liquidated in 2011 US domiciled funds, and hence, fewer US funds remain? The reason for this decline in US domiciled funds is not clear and would require a separate study unto itself.

## Commodity Trading Advisors (CTAs) (included in single-manager hedge fund totals)

The number of single-manager hedge funds in the study employing CTA strategies was 1,509 in 2011. These funds comprised \$413 billion in reported AUM. CTAs managing in excess of \$1 billion in assets account for just over three-quarters of the total reported AUM, as illustrated in Table 1 below.

Table 1: CTA AUMs and Number of Funds by Size of Fund in 2011\*

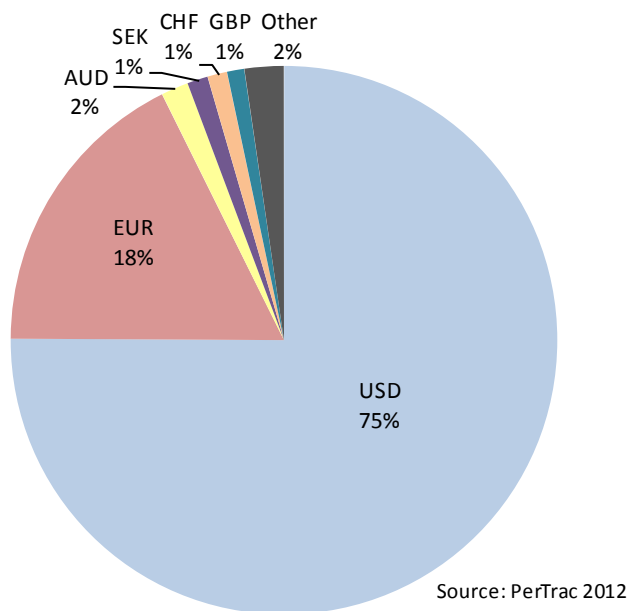
Size of Fund	AUM (in Billions)	% of Total AUM	Number of Funds
< \$25M	\$ 5	1.2%	812
\$25 - \$50M	\$ 6	1.4%	167
\$51 - \$100M	\$ 7	1.7%	99
\$101 - \$250M	\$ 20	4.8%	133
\$251 - \$500M	\$ 23	5.6%	65
\$500M - \$1B	\$ 37	9.0%	53
>\$1B	\$ 315	76.3%	50
<b>Totals</b>	<b>\$ 413</b>	<b>100%</b>	<b>1,379</b>

\*Table excludes 130 funds that did not report AUM PerTrac 2012

There are few large funds based on reported numbers, with only 50 breaching the \$1 billion threshold, but these large funds manage approximately \$315 billion out of \$413 billion in reported CTA assets.

Approximately 75% of the billion-dollar-plus CTA funds in the study were denominated in US Dollars. The same percentage of funds using the US Dollar emerged upon examination of the entire reported CTA universe, as illustrated in Figure 5 below.

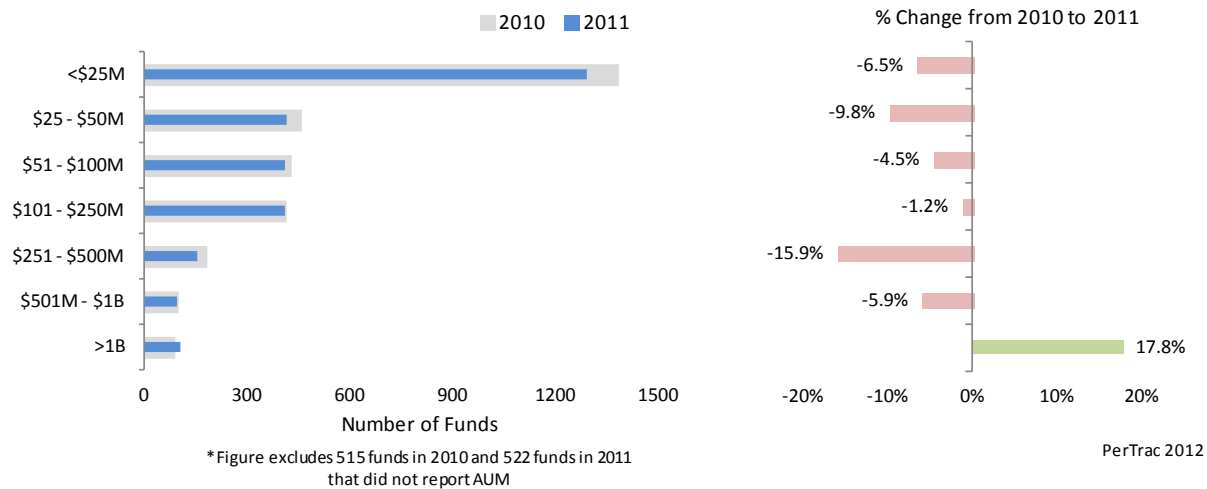
Figure 5: Currency Denominations for CTAs in 2011



## FUNDS OF HEDGE FUNDS (FoHFs)

The reported AUM of FoHFs remained essentially flat from 2010 to 2011, increasing by only 0.23% year-over-year. Reported AUM went from about \$446 billion to \$447 billion. The number of FoHFs decreased from 3,559 in 2010 to 3,388 in 2011, a decline of 4.80%. Figure 6 below illustrates that the number of FoHFs reporting assets below \$1 billion has declined but the number of FoHFs reporting assets above \$1 billion increased.

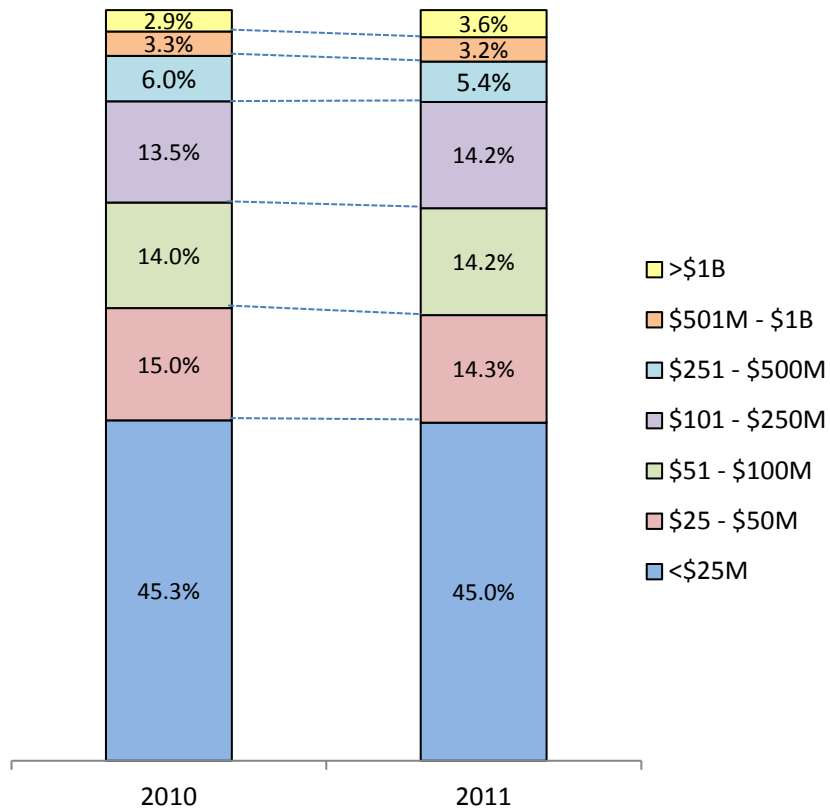
Figure 6: Number of FoHFs by AUM Size and Percentage Change from 2010 to 2011\*



In the last year, the trade press reported that many investors eliminated the intermediary of FoHFs in favor of direct investment in hedge funds; this may account for part of the FoHFs asset swing. FoHFs that reported managing in excess of \$1 billion were the only group to experience a positive growth in fund numbers from 2010 to 2011. It is likely that this shift to the largest funds helped offset the AUM declines accompanying all other size categories.

Figure 7 below provides a breakdown of the percentage of FoHFs by size in 2010 and 2011 of those that reported AUM, illustrating an increase in the percentage of funds managing in excess of \$1 billion.

Figure 7: Breakdown of FoHFs by Size of AUM from 2010 to 2011

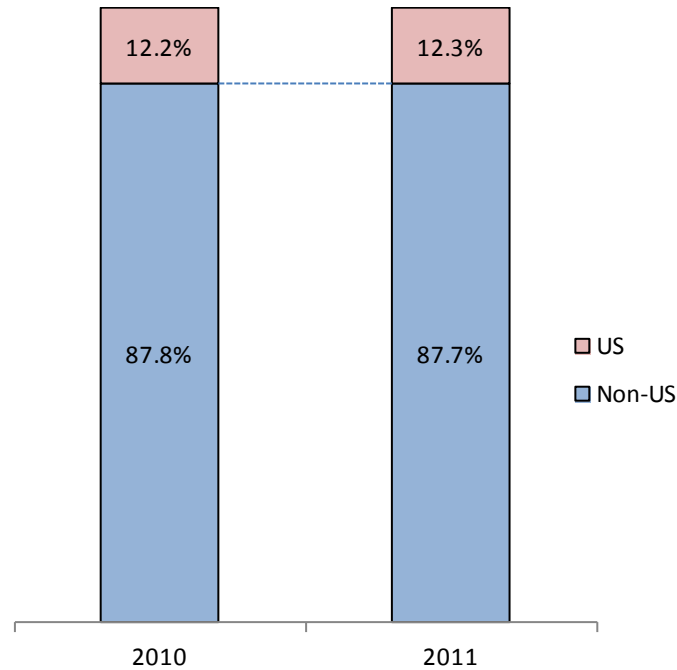


\*Figure excludes 515 funds in 2010 and 522 funds in 2011 that did not report AUM

Source: PerTrac 2012

FoHFs showed little shift in domiciles in 2011. Figure 8 below shows a nearly flat, year-over-year comparison in the percentage of US and Non-US domiciled FoHFs.

Figure 8: Percentage of FoHFs by US and Non-US Domiciles in 2010 and 2011\*



\*Figure excludes 169 funds in 2010 and 126 funds in 2011 that did not disclose domiciles

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In keeping with the trend from last year, FoHFs were more likely to be domiciled outside of the United States in 2011 compared to single-manager funds. Nearly 24% of single-manager hedge funds were domiciled in the US, almost twice the level reported by FoHFs.

## OBSERVATIONS ACROSS ALL FUNDS

The total number of fund management companies reporting at the end of 2011 was 4,708 compared to 4,718 the prior year, representing a very minor decrease. Approximately 31% of fund management companies were located in the United States in 2011. This figure is the highest of all countries with alternative funds. The second most popular destination is the United Kingdom, capturing about 18% of management company locations. It is important to mention that the location of a fund's management company can be independent of its domicile location.

The reported AUM of funds with management companies located in the United States is approximately \$950 billion, or 42.3% of the total AUM. With slightly over \$574 billion in reported assets, funds with management companies located in the United Kingdom hold the second highest reported asset totals. Table 2 lists the reported AUMs for all funds by their management company locations whose totals exceeded \$10 billion in 2011.

Table 2: AUMs for All Funds by Management Company Locations in 2011\*

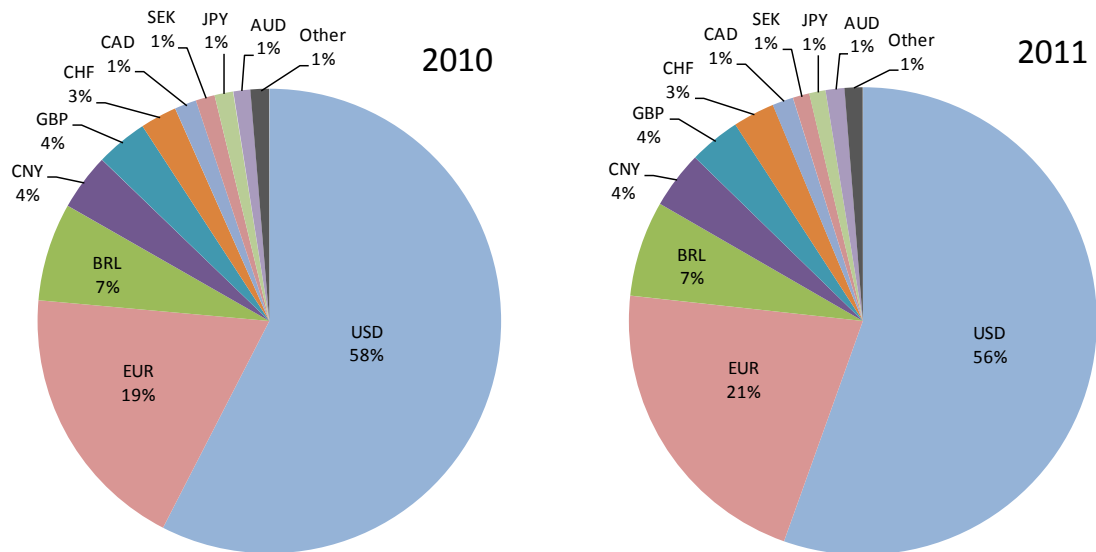
Management Company Location	AUM (in Billions)	% of Total
United States	\$ 950	42.3%
United Kingdom	\$ 574	25.6%
Switzerland	\$ 127	5.7%
Netherlands	\$ 76	3.4%
Brazil	\$ 74	3.3%
Luxembourg	\$ 66	2.9%
France	\$ 65	2.9%
Germany	\$ 39	1.7%
Sweden	\$ 36	1.6%
Bermuda	\$ 31	1.4%
Australia	\$ 24	1.1%
Canada	\$ 21	0.9%
Hong Kong	\$ 20	0.9%
Cayman Islands	\$ 20	0.9%
Italy	\$ 18	0.8%
Ireland	\$ 18	0.8%
Singapore	\$ 15	0.7%
Channel Islands	\$ 10	0.4%
All Others	\$ 59	2.6%
Location Not Provided	\$ 3	0.1%

\*Table excludes 2,357 funds not reporting their AUM PerTrac 2012



The majority of funds, about 56% of those reporting, are denominated in US Dollars (USD), followed by the Euro (EUR) at 21%. Combined, these two currencies were preferred by 77% of funds in 2010 and 2011. From 2010 to 2011, the percentage of US Dollar denominated funds declined by 2 percentage points while the percentage of Euro denominated funds increased by 2 percentage points. Figure 9 below illustrates the predominant currencies chosen by reporting funds in 2011.

Figure 9: Currency Denominations for All Funds in 2010 and 2011

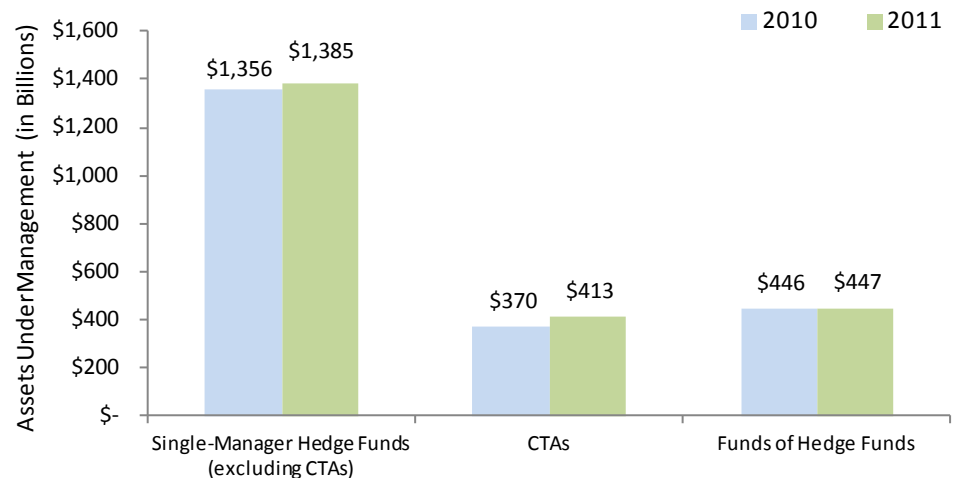


\*Figure excludes 5 funds in 2010 without reported currency denomination.

Source: PerTrac 2012

The reported AUM in alternatives is primarily located within single-manager hedge funds, as shown in Figure 10 below.

Figure 10: Total Reported AUMs and Size Composition by Fund Type in 2010 and 2011\*

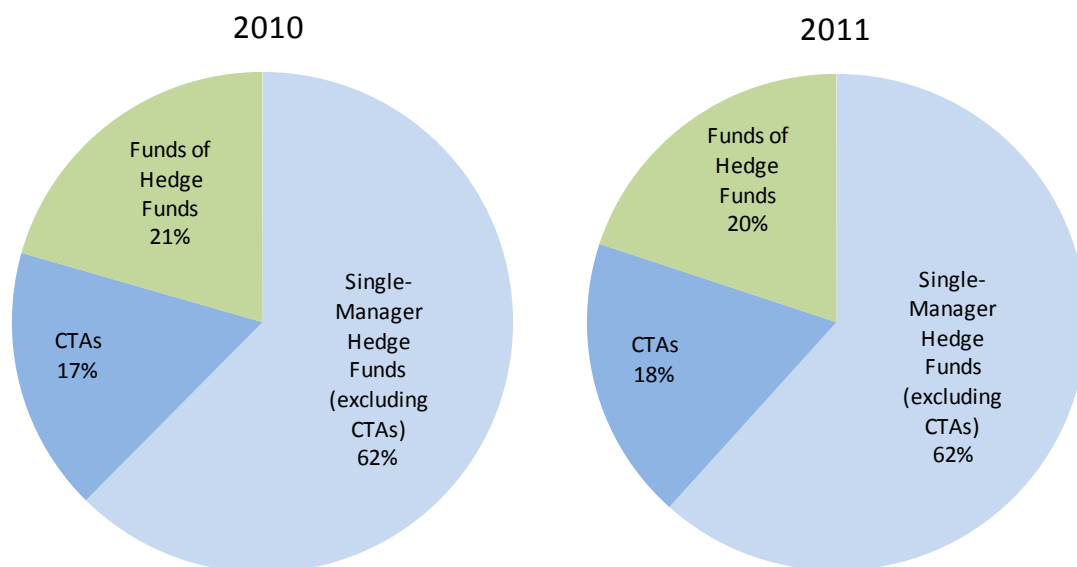


\* Figure excludes 2,205 funds in 2010 and 2,357 funds in 2011 that did not report AUM

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Excluding CTAs, the reported AUM in single-manager hedge funds is approximately \$1.385 trillion, or 62% of the total reported AUM. Including CTAs, the reported AUM in single-manager hedge funds is approximately \$1.798 trillion, or 80% of the total reported AUM. Alone, CTAs managed about \$413 billion, or 18% of the total reported AUM as illustrated in Figure 11 below.

Figure 11: AUM Percentage Breakdown by Fund Type in 2010 and 2011\*



\* Figure excludes 2,205 funds that did not report AUM

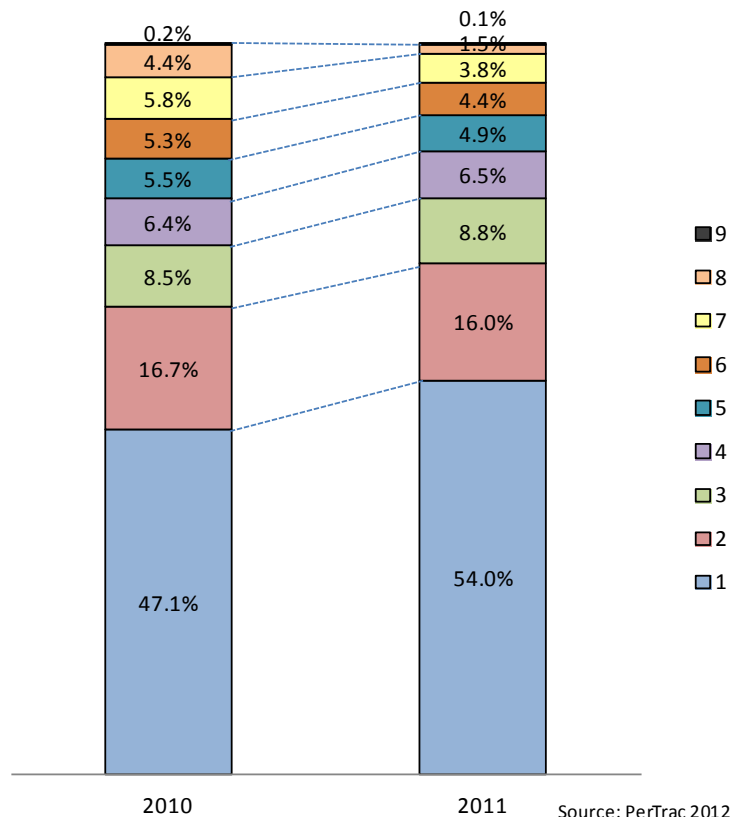
\* Figure excludes 2,357 funds that did not report AUM

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## DATABASE ANALYSIS

The percentage of hedge funds and FoHFs reporting to more than one third-party information provider declined in 2011. In 2010, funds were very selective in choosing which databases they reported to, but in 2011 they were even more selective. Figure 12 below shows a decline in the percentage of funds reporting to multiple third-party information providers.

Figure 12: Breakdown of the Number of Databases Reported to by All Funds in 2010 and 2011



The percentage of funds reporting to exclusively one database increased by 6.9 percentage points in 2011, to 54%, indicating that funds are reporting to fewer third-party information providers in general. At first glance, the rise in the percentage of funds reporting to three and four databases, increases of 0.3 percentage points and 0.1 percentage points respectively, may appear to show a small boost in reporting; however, these are likely the product of the top-down decline in funds reporting to five or more information providers—i.e. some of the funds that reported to seven or eight databases in 2010 may have reported to three or four in 2011.

The finding that 54% of funds report to only one database suggests that any one database provides only a sample of the overall hedge fund and fund of hedge fund universe. Investors seeking to obtain a broader view of the available investment opportunities should access multiple data sources.

## CONCLUSION

In 2011, the number of hedge funds and FoHFs expanded by 3.73% to 13,395 and reported AUM increased by 3.37% to \$2.245 trillion. Single-manager hedge funds experienced a rise in total number of funds while FoHFs endured a decline. FoHFs achieved modest AUM growth while single-manager hedge funds grew by 4.2%.

The number of single-manager hedge funds managing in excess of \$1 billion increased by 6.1% from a year earlier. FoHFs managing in excess of \$1 billion were the only multi-manager size group in the study to experience a boost in numbers in 2011.

There was a 2.6 percentage point decrease in US domiciled single-manager funds. The majority of funds, 77%, were still denominated in US Dollars and Euros. Funds with management companies located in the United States and the United Kingdom supervised approximately 68% of the total reported AUM.

The percentage of funds reporting to only one database increased by 6.9 percentage points in 2011, indicating the necessity of using multiple databases to garner a more complete view of the alternatives universe.



## ABOUT THE STUDY

*Sizing the 2011 Hedge Fund Universe: A PerTrac Study* is part of an ongoing focus on providing high quality aggregate investment information to PerTrac clients and the general investment community. The study was completed using the PerTrac ID feature in PerTrac Analytics. PerTrac IDs allow users to combine two or more databases from different data vendors and easily create a universe of unique funds, hiding duplicate records based upon the users' chosen data vendor priority. PerTrac users gain the benefit of having multiple databases and a larger data sample without having to manually identify duplicate records. Users are also able to toggle between data sources to access the full complement of information available on each fund, which often varies between data vendors even when the same fund is referenced.

## ABOUT PERTRAC

PerTrac provides sophisticated software solutions for investment professionals, including pensions, family offices, hedge funds, long-only managers, endowments, sovereign wealth funds, funds of funds and industry service providers.

Our solutions span the continuum of the investing process including fund selection, portfolio construction, portfolio monitoring, performance analysis, and risk assessment. Our products also enhance communication and reporting between investors and fund managers.

More than 1,400 organizations in 50 countries rely on PerTrac software solutions to help them maximize returns, reduce risk and operate more efficiently.

For more information please visit [www.pertrac.com](http://www.pertrac.com).