An Industry Update

Each year the industry data collection company Preqin conducts a global hedge fund report. This report provides important data about the industry’s size, investor makeup and the reasons why institutional investors – some of the hedge fund industry’s key investors – make hedge fund allocations.

Some of their findings are available in this edition of Understanding Hedge Funds.

Of note, the industry continued to grow in 2015. Now, more than 6,000 active hedge fund managers at more than 15,000 funds are responsible for about $3.2 trillion in global assets.

Much of those assets, about $2.3 trillion, comes from North America and a large portion of that is from institutional investors like public and private pension plans, endowments, foundations and other non-profit groups.

Preqin’s report found more than 5,000 institutional investors globally choose to allocate with the hedge fund industry. That means fund managers are partners in helping provide secure retirements and scholarships, fund scientific research and expand philanthropic missions.

But, why do institutions allocate with hedge funds? One key reason is portfolio stability. Institutional CIOs rely on hedge funds for returns that are uncorrelated to the equity market, risk-adjusted and consistent with low-volatility, according to Preqin’s data. Also, hedge funds can be one of the only sectors – because of the industry’s flexibility – to provide returns in a down market.

In other words, the goal for many allocators is often more about managing risk than “beating the markets,” as some assume. For many institutions, the value of hedge funds is measured by the diversification and risk reduction benefits the funds bring to the entire portfolio, not just the performance of the hedge funds themselves. It is about achieving reliable returns over time.

Preqin’s complete report is available here.

Preqin has the most comprehensive and extensive information available on the private equity, hedge fund, real estate, infrastructure, private debt and natural resources industries, encompassing funds and fundraising, performance, fund managers, institutional investors, deals and fund terms. Leading alternative assets professionals from around the world rely on Preqin’s services daily, and its data and statistics are regularly quoted by the financial press.

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