



sigtech

State of the Hedge Fund Industry

Gain insight into the structure and trends of the
hedge fund industry

2023

A Growing Industry

Our research that draws on data from Preqin¹ and insights from various hedge fund managers reveals that roughly **30,000 hedge funds** are currently operating globally. The US dominates the industry with a market share of 65%, followed by the UK and Hong Kong.

While the industry is growing, following a record 2000+ hedge fund launches in both 2020 and 2021, last year witnessed the lowest number of launches since 2010, with ca. **900 new funds**. Equity long/short funds were the predominant category for new fund launches, followed by crypto and multi-strategy.

In terms of hedge fund categories, **equity long/short is the largest category**, accounting for roughly 27% of all hedge funds. Other equity strategies (e.g. market neutral and long-biased), and credit funds each account for ca. 15% of the industry. Multi-strategy funds represent 13% of the industry.

In terms of investment styles, the discretionary approach is still the most commonly applied (53%). However, **quantification remains a clear trend**, with roughly one third of hedge funds applying a hybrid discretionary and systematic approach. 14% of funds apply a fully systematic approach.

We hope you find the report insightful.

Daniel Leveau

VP Investor Solutions at SigTech

30077

HEDGE FUNDS GLOBALLY

938

HEDGE FUND LAUNCHES

47%

Quant and hybrid investment style

65%

Market share of US hedge funds

26.9%

Equity long/short largest fund category

¹ Data sourced from Preqin Ltd as per mid-January 2023

Mixed Fortunes for Hedge Funds in 2022

After posting double digit returns in 2021, 2022 saw mixed fortunes for the hedge fund industry. Although the industry as a whole, as measured by composite hedge fund indices, outperformed both the stock and bond markets, the average hedge fund experienced losses (e.g. HFRI Fund Weighted Composite Index -4.14%²). Thus, the industry failed to deliver upon its aspiration to generate positive returns in any market environment.

However, all was not gloomy. Large multi-strategy funds continued to perform strongly, as did managed futures and macro funds. These funds capitalized on an increased opportunity set driven by the normalization of the yield curve, an uncertain macroeconomic environment and higher volatility across all asset classes. In addition, the largest funds profited from '**operational alpha**'; an organizational setup to cost-efficiently exploit alpha opportunities across highly variable financial markets globally. The most significant drag on hedge fund indices was attributable to equity long/short funds, which carry the heaviest weight within composite indices. Equity-biased funds had difficulty navigating the downward trending stock market, which experienced strong rotation across industries (e.g. technology vs. energy) and factors (e.g. growth vs. value).

As shown in the latest **SigTech Institutional Investor Report**, institutional investors have – despite last year's disappointing performance numbers – a persistently strong appetite for hedge funds, with two thirds of investors expecting to increase their allocations over the coming years.

This study draws on Preqin data and insights from our discussions with various hedge fund managers.³ It provides an overview of the current state of the hedge fund industry, and highlights some of the major trends impacting it.

SigTech Institutional Investor Report

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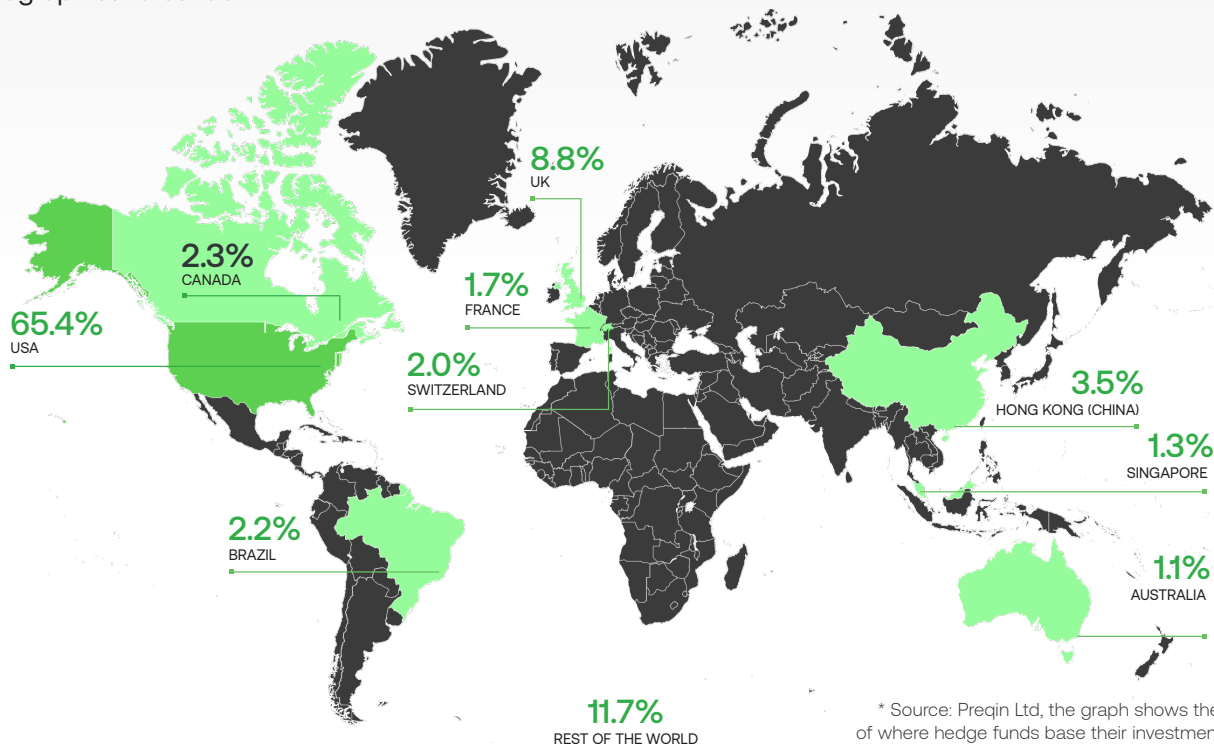
²Source: HFR Inc., www.hfr.com, © 2022 HFR, Inc. All rights reserved.

³ Data sourced from Preqin Ltd as per mid-January 2023

A Global Perspective

According to the Preqin database, there are **30,077 hedge funds operating globally**.⁴ The US dominates the market, with 65% of funds. They are followed by the UK with 9%. Thus, regionally, North America (68%) enjoys unrivaled dominance, with Europe (18%) and Asia (7%) at some remove.

Geographical breakdown

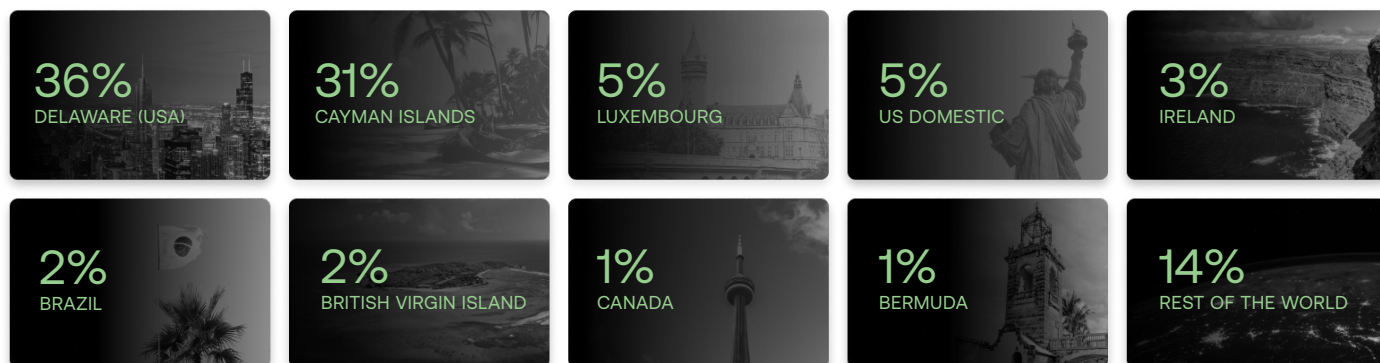


* Source: Preqin Ltd, the graph shows the distribution of where hedge funds base their investment operations (based on number of funds)

Legal Jurisdictions

It is a slightly different geographical picture when we distribute hedge funds by legal jurisdiction. Delaware (USA) and the Cayman Islands are, with a combined market share of ca. 66%, the most popular locations for establishing hedge funds. Luxembourg commands third place, partly driven by its success as the leading provider of hedge fund strategies in retail-friendlier UCITS fund structures. Other notable tax havens such as the British Virgin Islands and Bermuda are also included in the top 10.

Geographical breakdown: legal jurisdiction of fund structures



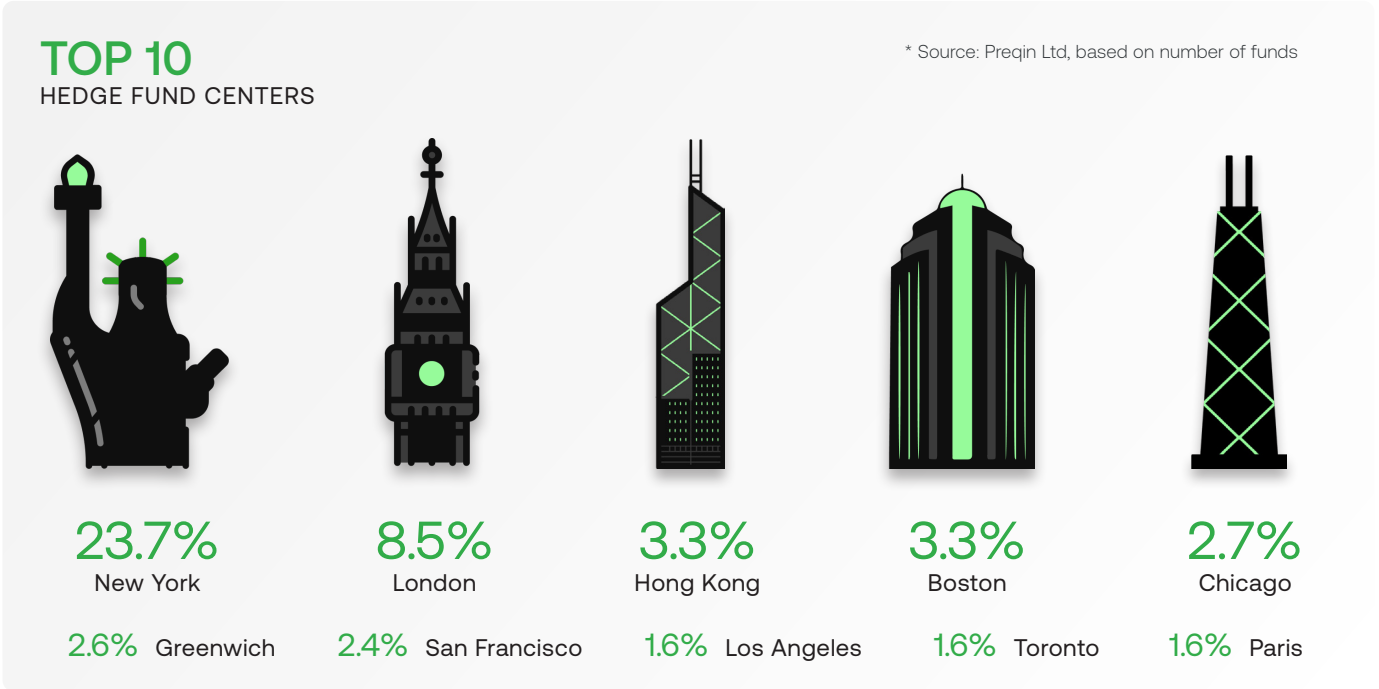
* Source: Preqin Ltd, the graph shows the distribution of the legal jurisdiction of hedge fund structures (based on number of funds)

⁴ Data sourced from Preqin Ltd as per mid-January 2023

Hedge Fund Hubs

New York is unsurprisingly the undisputed leading global hub, followed by London in clear second place. Boston saw its hedge fund scene grow in 2022 and now shares third place with Kong Kong. The top 10 list is dominated by US cities.

■ Geographical breakdown: cities



Largest hedge fund managers

Many of the world's largest hedge funds continued to attract new assets in 2022. According to data compiled by Pensions & Investments, Bridgewater topped the list, now managing assets worth roughly \$125bn. They were followed by Man Group (\$74bn) and the firm widely recognized as having the best long-term track record; Renaissance Technologies (\$57bn).

Buoyed by strong performance and the widespread perception amongst investors of relative safety compared to smaller, less established hedge funds, multi-strategy funds such as Millenium and Citadel, as well as macro trading powerhouse Brevan Howard continued to enjoy rapid growth. In terms of the investment approach applied by leading hedge funds, there was a broad mix with respect to both investment style and strategies. However, **quantitative hedge funds in general experienced strong asset growth**, with many discretionary managers increasing quant expertise in their portfolio management and research teams.

■ Largest hedge funds by size

AuM, \$ bn



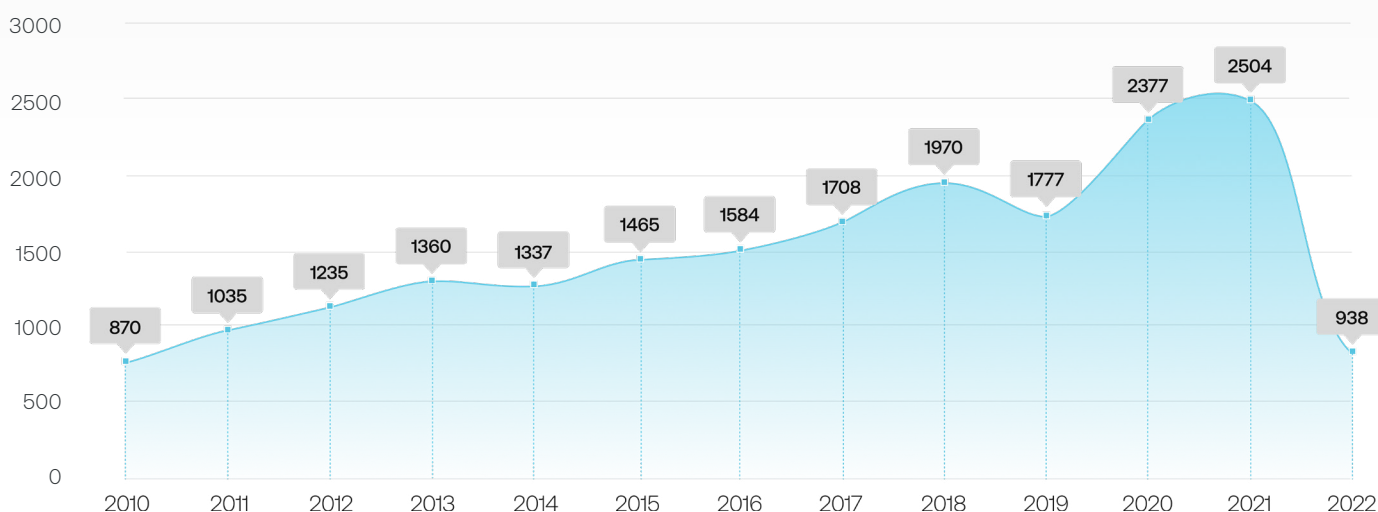
* Source: Pensions & Investments, data as per 30 June 2022

Hedge Fund Launches

Following a record number of 2000+ hedge fund launches in both 2020 and 2021, **2022 witnessed the lowest number of launches since 2010, with ca. 900 new funds**. One possible explanation for this fall is found in the continued rise of large multi-strategy funds. As evidenced by fund flows, investors currently seem to prefer larger, better established funds as opposed to emerging managers. In addition, the 'ready-made structures offered by multi-strategy funds are appealing to many portfolio managers. Apart from a reduced time-to-market, they enable them to focus exclusively on managing assets, rather than having to cope with the intricacies of building a complex organization.

■ Hedge fund launches

* Source: Preqin Ltd



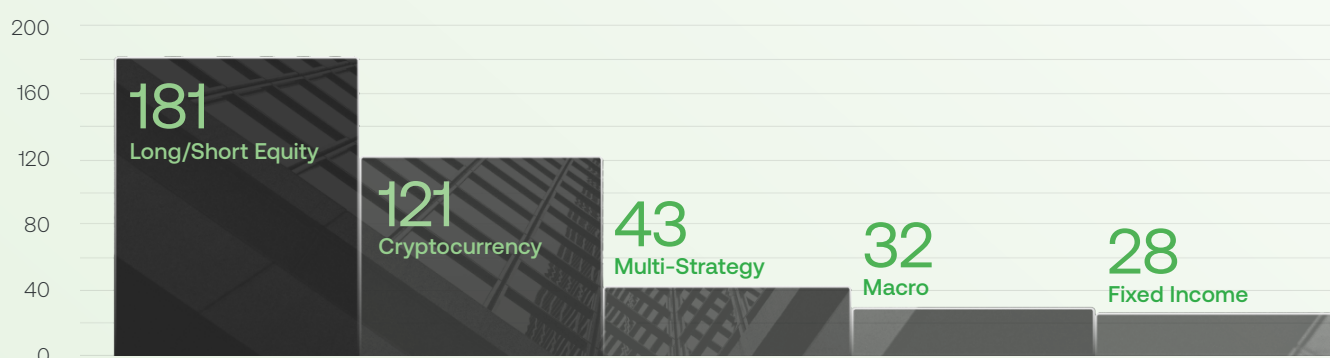
Looking at trends at the country level, launches were mostly proportional to each nation's overall market share. However, two observations stand out:

- Hedge fund launches in Hong Kong almost came to a standstill. After witnessing more than 100 fund launches in both 2020 and 2021, a tumultuous political climate and strict lockdown policies resulted in only 16 funds being launched.
- Jersey bucked the downward trend observed in most other countries and continued to post steady growth in its number of new funds.

Looking at trends across hedge fund categories, equity long/short funds, despite their lackluster performance in 2022, were the predominant category for new fund launches. For the second year in a row, hedge funds specializing in trading cryptocurrencies were the next most popular fund strategy to launch. Multi-strategy, macro and fixed income all followed.

■ Fund launches per category in 2022

* Source: Preqin Ltd

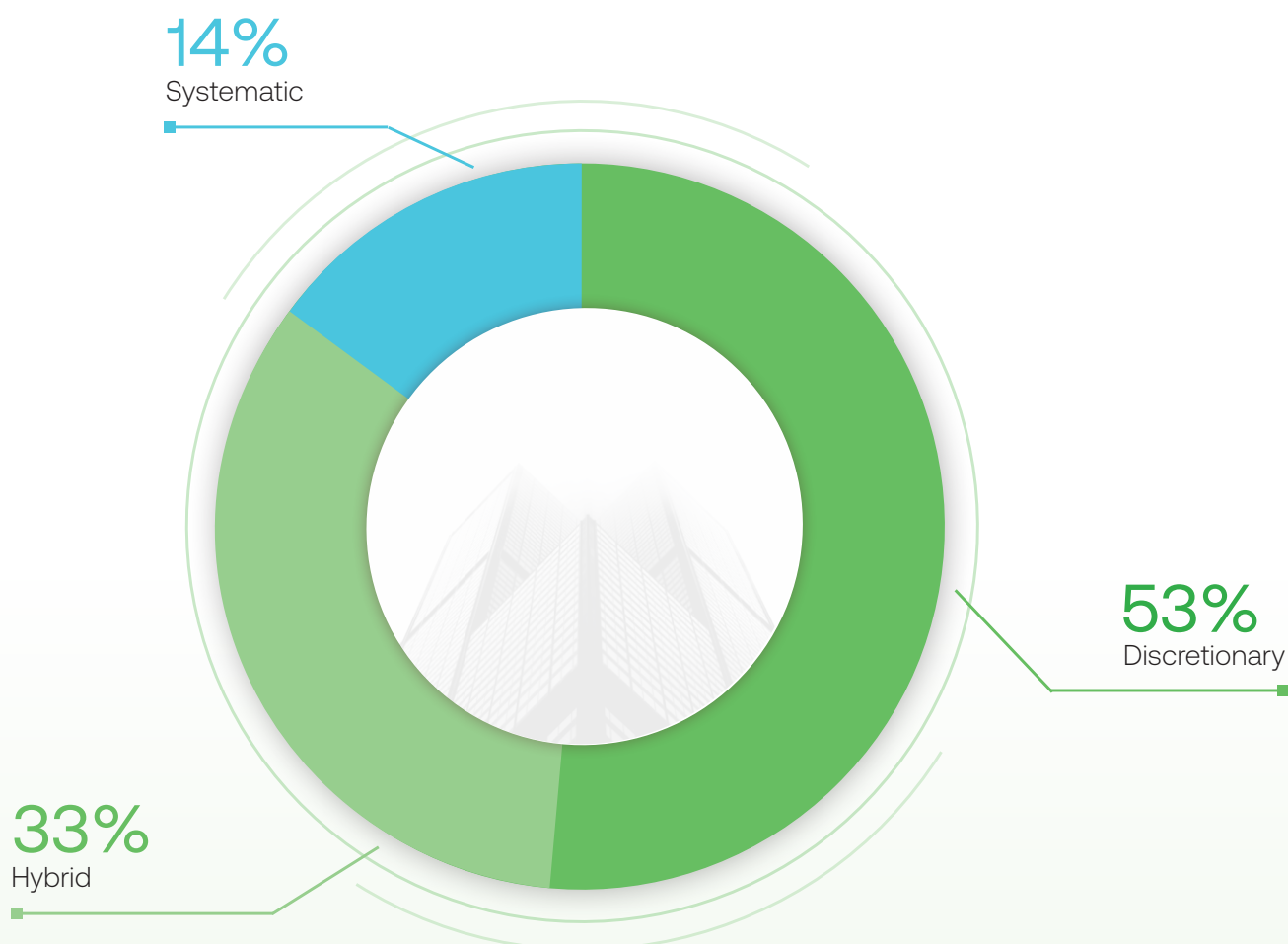


Ongoing Quantification

New technologies and an ever growing range of datasets are reshaping the investment processes of many hedge fund managers. Discovering new ways of gaining an edge and enabling more efficient processing of vast amounts of data, machine learning and artificial intelligence techniques are an emergent feature of the industry. According to data from Preqin, roughly 2% of hedge funds explicitly state that they are making use of artificial intelligence in their investment process. This number is up slightly compared to last year.

In terms of investment styles, the discretionary approach is still the most commonly applied (53%). However, **quantification remains a clear trend**, with roughly one third of hedge funds applying a hybrid discretionary and systematic approach. 14% of funds apply a fully systematic approach.

■ Investment approach



* Source: Preqin Ltd

Powering Signals

SigTech offers quant technologies in a SaaS platform to hedge funds, asset managers and asset owners who can focus on beating the market.

SigTech specializes in macro strategies and cross asset allocation with operationally-ready datasets across a wide range of financial instruments. Our platform ingests, cleans and validates financial data, and provides the tools to research, build, and deploy customized strategies – providing users an edge in alpha generation.

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Get in touch

hello@sigtech.com

sigtech.com

London

338 Euston Road

London

NW1 3BT

UK

New York

141 W 36th Street

New York, NY 10018

USA

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