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PerTrac study sees increase in hedge fund reporting, but new launches slow

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Last year saw an increase of nearly 15 per cent in the number of hedge funds and funds of hedge funds reporting to hedge fund databases, according to the 2007 PerTrac Hedge Fund Database Study, published by investment software provider PerTrac Financial Solutions.

'Investors and industry watchers will be interested to learn that the number of distinct hedge funds and funds of hedge funds we were able to identify in aggregated hedge fund databases in 2007, with duplicate funds removed, increased by 14.5 per cent from the prior year,' says PerTrac managing director Meredith Jones.

'The number of single manager hedge funds increased by 11 per cent, while the number of funds of hedge funds increased by 21 per cent. This increase in the number of reporting funds means that industry participants are able to access more performance, strategy and fund information than ever before, which should translate into better investment decisions and more efficient capital-raising efforts, not to mention improved transparency.'

The study, carried out annually since 2003, has become a widely followed indicator of the size and composition of the hedge fund industry. The 2007 study was conducted using data from eleven hedge fund databases, combined and analysed with the PerTrac Analytical Platform, the firm's investment analysis and asset allocation software application.

The study found a total of more than 54,000 investment records, including duplicates, across all databases, including both single manager funds and funds of hedge funds. The PerTrac Analytical Platform identified some 22,650 distinct funds once duplicate records were removed, counting individual classes within funds as distinct investments.

These distinct funds were made up of 15,250 single manager hedge funds and around 7,400 funds of hedge funds, compared with 13,675 single manager funds and 6,100 funds of funds identified in the 2006 study. About 21,000 distinct funds reported performance data in 2007.

About 35 per cent of identified single manager funds were domiciled in the US and 65 per cent offshore, while only 13 per cent of funds of funds were US-domiciled with 87 per cent were offshore. The study also identified more than 4,600 distinct fund management companies, with related entities, where identifiable as such, counted as a single company.

Single manager funds in the databases accounted for approximately USD2.1trn under management. More than 350 funds had more than USD1bn in assets, but more than 40 per cent of single manager funds continued to manage less than USD25m.

Around 8,750 of the single manager funds appeared to be clones of another fund, trading either as offshore funds, super-accredited funds or separate share classes (usually differing in currency denomination) of a single fund strategy.

Of the 7,400 distinct funds of funds identified by the study, 7,100 reported performance numbers in 2007. PerTrac says that around USD980bn appears to be invested into hedge funds through funds of funds, although more than a third of them manage less than USD25m.

Among the 22,650 distinct portfolios identified in the study, around 2,050 of them appear to be managed by commodity trading advisors, whose funds or investment programmes typically trade mainly futures and currencies. Their assets under management totalled some USD320bn.

'As with prior years' studies, PerTrac noted significant overlap between the various databases,' Jones says. 'However, despite overlap between and widespread growth among the databases, relatively few hedge funds and funds of hedge funds report to more than two or three, and only one fund reports to all eleven databases.

'A significant number of funds, about 12,000 in the eleven-database sample, appeared only in a single database, averaging out to nearly 1,100 'exclusive' funds per database. This underscores the importance of accessing multiple data sources when conducting serious hedge fund screening and analysis.

'And as the number of databases declines, the need for multiple databases is further underscored. Adding even one additional database can boost the number of funds available for screening, analysis and peer comparisons by as much as 40 percent.'

The study finds that the hedge fund universe appears to be growing at a slower rate in recent years compared with the dramatic growth of the late 1990s and early 2000s. The number of new launches of both single manager funds and funds of hedge funds fell sharply in 2006 (figures for 2007 fund launches are not considered reliable indicators and many new funds do not begin reporting to databases before their first anniversary.

Nearly 5,050 single manager hedge funds were launched in 2006, a decrease of 26.4 per cent from the peak year of 2005, when some 6,850 new single manager funds were launched, and fund of funds launches declined sharply for the second consecutive year. Around 2,250 new funds of funds started up in 2006, down 22.2 per cent from nearly 2,900 in 2005, itself representing a 24.8 per cent drop since 2004.

'While hedge funds and funds of funds represent an increasingly important segment of the investment universe, and the number of funds reporting to databases and assets under management for those funds have continued to increase, the number of new launches has slowed,' Jones says.

'Given the extraordinary growth rate of new fund launches in previous years, the slowdown was probably inevitable as the industry matured. In addition, the decrease reflects the trend in the industry of assets flowing to larger, established hedge funds and funds of funds, which is somewhat of a deterrent for new entrants into the marketplace.'

The 11 databases included in the study were Barclay Hedge Fund DataFeeder, Barclay CTA DataFeeder, CASAM CISDM, CogentHedge, Eurekahedge Global Hedge Fund Database, Eurekahedge Global Fund of Funds Database, HedgeFund.net from Channel Capital Group, Hedge Fund Research, Lipper Tass, Morningstar (formerly Altvest) and MSCI Hedge Fund Indices & Database.

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