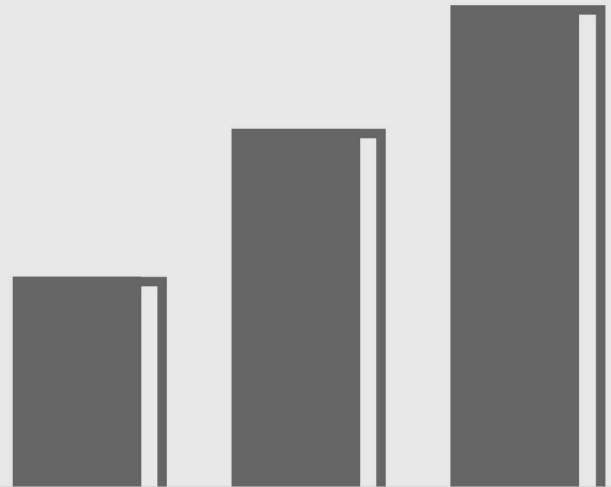


# Hedge Fund Industry Asset Flow Report

September/Q3 2017

Release Date: October 20, 2017



## Summary

Continued positive aggregate returns to end Q3 lifted hedge fund assets to another all-time high, despite net flows shifting back into negative territory. On a net basis, outflows were small in September, but the industry did feel redemptions pressures more broadly than any other month this year. While aggregate returns have continued to be positive, segments like macro and managed futures have produced mixed results. Flows to end Q3 for these strategies have reflected what is likely a mixed bag of investor sentiment.

A positive note from September is the continued interest in equity strategies, both long/short and market neutral. The former experienced their largest monthly allocation in September since early 2014. While interest in long/short equity had been targeted for most of the year, September saw a broadening of allocations to the strategy.

## Highlights

- Despite redemptions of \$2.5 billion from hedge funds in September, Q3 ends with \$12.5 billion of inflows and the industry sitting at all-time peak AUM.
- Long/short equity inflows continued for the 5<sup>th</sup> consecutive month in September.
- Macro funds faced targeted redemptions to end Q3 as outflows hit underperforming products.
- Sentiment toward managed futures products appears to be firmly negative.

# Macro and Managed Futures Faced Redemptions Pressures to End Q3

Investors withdrew an estimated \$2.50 billion from hedge funds in September. Net flow for Q3 2017 was positive \$12.51 billion, and YTD flows for the industry are \$35.08 billion. Performance gains offset redemption pressures lifting total industry AUM to another new all-time high.

## Industry Flows

Data in USD Billion	Sep	Q3 2017	YTD 2017	2016	Est. AUM
All Hedge Funds	(\$2.50)	\$12.51	\$35.08	(\$111.64)	\$3,205.19
Equity	\$7.27	\$15.61	\$20.61	(\$48.03)	\$1,106.12
Fixed Income/Credit	\$1.01	\$3.85	\$6.99	(\$46.33)	\$974.95
Commodities	(\$2.83)	\$0.12	\$3.07	\$11.08	\$81.91
Multi-Asset	(\$7.95)	(\$9.11)	\$2.76	(\$27.47)	\$1,100.96
<i>Primary Strategy</i>	<i>Sep</i>	<i>Q3 2017</i>	<i>YTD 2017</i>	<i>2016</i>	<i>Est. AUM</i>
Long/Short Equity	\$6.25	\$11.58	\$11.81	(\$26.75)	\$763.04
Directional Credit	\$1.44	\$2.00	\$8.48	(\$16.53)	\$143.69
Market Neutral Equity	\$1.17	\$2.20	\$8.20	(\$0.83)	\$65.28
Event Driven	(\$0.00)	\$0.47	(\$3.92)	(\$40.06)	\$533.36
MBS Strategies	(\$0.00)	(\$0.39)	(\$4.40)	(\$5.94)	\$85.75
Distressed	(\$0.50)	(\$0.98)	(\$2.34)	(\$8.50)	\$238.15
Convertible Arbitrage	(\$0.52)	\$0.17	\$0.26	(\$0.90)	\$52.85
Relative Value Credit	(\$0.60)	\$1.25	(\$3.70)	(\$11.37)	\$231.44
Multi-Strategy	(\$1.74)	(\$4.55)	(\$3.66)	(\$8.81)	\$523.20
Managed Futures	(\$1.87)	(\$4.17)	\$1.66	\$10.18	\$120.78
Macro	(\$3.51)	\$3.73	\$14.92	(\$9.76)	\$221.54

## Flows by Size and Prior Year Performance - Current Month

2016 Performance	<0%		0-5%		>5%	
	<\$1B	>\$1B	<\$1B	>\$1B	<\$1B	>\$1B
All Hedge Funds	(\$0.36)	(\$0.06)	(\$0.66)	(\$3.55)	(\$0.02)	\$2.17
Equity	(\$0.67)	(\$0.28)	\$0.32	\$4.16	\$0.78	\$2.96
Fixed Income/Credit	(\$0.04)	\$0.21	\$0.22	(\$0.37)	\$0.42	\$0.57
Commodities	(\$0.38)	\$0.00	(\$0.37)	\$0.51	(\$0.01)	(\$2.58)
Multi-Asset	\$0.73	\$0.01	(\$0.84)	(\$7.85)	(\$1.23)	\$1.22
<i>Primary Strategy</i>	<i>&lt;\$1B</i>	<i>&gt;\$1B</i>	<i>&lt;\$1B</i>	<i>&gt;\$1B</i>	<i>&lt;\$1B</i>	<i>&gt;\$1B</i>
Long/Short Equity	(\$0.36)	\$0.11	\$0.31	\$2.29	\$0.74	\$3.15
Directional Credit	\$0.00	\$0.13	(\$0.15)	(\$0.11)	\$1.08	\$0.49
Market Neutral Equity	(\$0.17)	(\$0.39)	\$0.01	\$1.68	\$0.03	\$0.00
Event Driven	\$0.01	(\$0.18)	(\$0.10)	\$0.18	(\$0.03)	\$0.12
MBS Strategies	\$0.00	\$0.00	\$0.14	\$0.00	(\$0.16)	\$0.02
Distressed	\$0.00	\$0.00	(\$0.23)	\$0.00	(\$0.20)	(\$0.07)
Convertible Arbitrage	\$0.00	\$0.00	(\$0.00)	\$0.00	(\$0.37)	(\$0.15)
Relative Value Credit	(\$0.04)	\$0.00	\$0.07	(\$0.29)	(\$0.50)	\$0.16
Multi-Strategy	(\$0.04)	(\$0.03)	\$0.07	(\$2.43)	(\$0.41)	\$1.11
Managed Futures	\$0.63	(\$0.58)	(\$0.37)	\$0.20	(\$0.13)	(\$1.63)
Macro	(\$0.37)	\$0.87	(\$0.24)	(\$5.08)	(\$0.24)	\$1.55

## Flows by Size and Prior Year Performance - Year-to-Date

2016 Performance	<0%		0-5%		>5%	
	<\$1B	>\$1B	<\$1B	>\$1B	<\$1B	>\$1B
All Hedge Funds	(\$20.67)	(\$17.82)	(\$4.64)	\$0.44	\$18.91	\$58.85
Equity	(\$16.08)	(\$13.67)	(\$2.66)	\$20.66	\$5.55	\$26.80
Fixed Income/Credit	(\$2.15)	(\$5.73)	\$0.25	(\$4.81)	\$8.49	\$10.93
Commodities	(\$1.07)	\$0.00	(\$0.46)	\$1.73	(\$0.16)	\$3.02
Multi-Asset	(\$1.37)	\$1.58	(\$1.83)	(\$17.14)	\$5.00	\$16.53
<i>Primary Strategy</i>	<i>&lt;\$1B</i>	<i>&gt;\$1B</i>	<i>&lt;\$1B</i>	<i>&gt;\$1B</i>	<i>&lt;\$1B</i>	<i>&gt;\$1B</i>
Long/Short Equity	(\$12.38)	(\$12.64)	(\$1.28)	\$9.80	\$4.64	\$23.67
Directional Credit	(\$0.38)	(\$3.15)	(\$0.70)	(\$1.07)	\$8.10	\$5.68
Market Neutral Equity	(\$3.05)	(\$0.32)	(\$0.50)	\$11.86	\$0.22	\$0.00
Event Driven	(\$1.21)	(\$1.85)	(\$0.94)	(\$1.91)	\$0.61	\$1.39
MBS Strategies	(\$0.11)	(\$2.35)	(\$0.24)	(\$1.79)	(\$0.89)	\$0.97
Distressed	\$0.00	\$0.39	(\$1.00)	(\$1.03)	(\$0.65)	(\$0.04)
Convertible Arbitrage	\$0.00	\$0.00	\$0.08	\$0.00	\$0.72	(\$0.54)
Relative Value Credit	(\$1.28)	(\$2.35)	\$0.09	(\$3.37)	\$0.43	\$2.78
Multi-Strategy	(\$0.57)	(\$2.48)	\$0.23	(\$12.55)	\$1.71	\$10.01
Managed Futures	(\$0.87)	\$0.16	\$0.26	\$0.95	(\$0.15)	\$1.32
Macro	(\$1.68)	\$4.42	(\$0.67)	(\$2.22)	\$3.17	\$11.90

## Key Points

- Redemption pressures were elevated to end Q3, but outflows were not excessive.**  
 The proportion of funds losing assets in September was the highest of the year, and highest since December 2016. However, the proportion of managers who lost greater than 2%, or greater than 5% of their total AUM due to outflows was nowhere near the level seen in December. The proportion of all funds that lost greater than 2% of assets from redemptions was almost right on the annual average, while the proportion of large funds losing a meaningful amount of AUM was well below their 2017 average.
- Recent performance losses appear to have impacted macro fund flows in September.**  
 Macro funds have been, and still remain, investors' primary allocation target of 2017, but losses among some larger funds appear to have taken their toll. 61% of macro strategies had redemptions in September, compared to only 48% facing net outflows for the year. Each of the largest asset losers in September have produced performance losses YTD in 2017. Despite the elevated redemptions in September, several funds still received meaningful new allocations during the month.
- Sentiment toward managed futures strategies appears to be firmly negative to end Q3.**  
 Managed futures fund flows were negative for a third consecutive month as revised August data ultimately showed a slight outflow that month. Outflows in September were elevated, and nearly 70% of reporting managers faced redemption pressures during the month. Performance has undoubtedly been the culprit, and while that part of the picture had improved in July and August, losses returned in September. The outlook to year-end for managed futures fund flows does not have many supporting factors at the moment.
- Long/short equity fund inflows continued for the fifth consecutive month.**  
 The revival of long/short equity strategies accelerated into the end of Q3 with the strategy's largest monthly inflow since February 2014. While the story on the strategy for 2017 had been of large, but targeted allocations to large funds, and to those with an emphasis on quantitative approaches, inflows in September were much more widespread. More than half of reporting managers saw net new money come in during September, and those with net inflows for the year improved to near 40%.
- Commodity strategies began to see the impacts of performance losses in September.**  
 Three months after four consecutive months of performance losses ended in June 2017, commodity managers faced their largest redemptions since November 2012 to end Q3. Net inflows for the quarter, and for the year, remained positive after September's outflow, however with performance losses again in September, the future is less rosy.

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# Investors returned to EM strategies in September, Though Allocations Were Not Broad

## Flows by Investment Region and Domicile

<i>Investment Region</i>	Sep	Q3 2017	YTD 2017	2016	Est. AUM
Americas	(\$0.24)	(\$3.16)	(\$10.82)	(\$36.92)	\$926.56
Europe	\$0.71	\$2.20	\$4.32	(\$3.15)	\$250.98
Asia	(\$0.07)	\$0.19	(\$4.23)	(\$17.26)	\$102.17
Emerging Markets	\$1.22	\$0.59	\$2.09	(\$0.61)	\$293.54
Global Markets	(\$2.88)	\$13.27	\$45.82	(\$54.26)	\$1,934.44
<i>Firm Domicile</i>	Sep	Q3 2017	YTD 2017	2015	Est. AUM
Americas	(\$4.65)	\$6.81	\$23.09	(\$88.49)	\$2,394.39
Europe	\$3.39	\$7.38	\$16.38	(\$6.09)	\$779.73
Asia (ex-Oceania)	\$0.08	(\$1.49)	\$1.31	(\$6.72)	\$64.45

## Flows by Size and Prior Year Performance - Current Month

<i>2016 Performance</i>	<0%		0-5%		>5%	
<i>Product Size</i>	<\$1B	>\$1B	<\$1B	>\$1B	<\$1B	>\$1B
Americas	\$0.03	\$0.13	(\$0.19)	\$0.32	(\$1.05)	\$0.52
Europe	(\$0.13)	(\$0.26)	\$0.16	\$0.56	(\$0.03)	\$0.43
Asia	(\$0.12)	\$0.00	\$0.04	\$0.03	\$0.03	(\$0.04)
Emerging Markets	\$0.03	\$0.00	\$0.23	\$0.00	\$0.58	\$0.39
Global Markets	(\$0.11)	\$0.07	(\$0.66)	(\$4.46)	\$1.02	\$1.26
<i>Firm Domicile</i>	<0%		0-5%		>5%	
Americas	(\$1.00)	\$0.70	(\$0.46)	(\$5.05)	\$0.09	\$1.07
Europe	\$0.80	(\$0.76)	(\$0.19)	\$2.30	\$0.07	\$1.17
Asia (ex-Oceania)	\$0.12	\$0.00	(\$0.01)	\$0.00	\$0.04	(\$0.07)

## Flows by Size and Prior Year Performance - Year-to-Date

<i>2016 Performance</i>	<0%		0-5%		>5%	
<i>Product Size</i>	<\$1B	>\$1B	<\$1B	>\$1B	<\$1B	>\$1B
Americas	(\$5.38)	(\$4.57)	(\$4.64)	(\$6.63)	\$0.95	\$9.46
Europe	(\$3.22)	(\$0.82)	(\$0.37)	\$7.03	(\$0.32)	\$2.02
Asia	(\$3.96)	(\$3.88)	(\$0.15)	(\$2.67)	\$2.27	\$4.16
Emerging Markets	(\$1.73)	\$0.24	\$0.97	\$0.12	(\$0.64)	\$3.13
Global Markets	(\$13.11)	(\$16.27)	(\$1.23)	\$2.87	\$21.34	\$52.22
<i>Firm Domicile</i>	<0%		0-5%		>5%	
Americas	(\$17.73)	(\$7.82)	(\$6.61)	(\$16.01)	\$14.69	\$56.58
Europe	(\$4.36)	(\$13.57)	\$0.08	\$21.68	\$5.76	\$6.78
Asia (ex-Oceania)	(\$0.96)	(\$3.91)	(\$0.27)	(\$0.04)	\$2.35	\$4.15

## Key Points

- After two months of light outflows, September's EM inflow was the largest in twelve months.**  
 It appeared, after redemptions in July and August, that the resurgence of flows into EM hedge funds which had only started in May, had fizzled. September's allocation, however, more than offset the prior two months' redemptions. But a closer look at the numbers shows that inflows were very much isolated within a small handful of funds as the majority of products still faced redemption pressures. Allocations were greatest to products focused on EM credit markets.
- Investors showing targeted signs of interest in China exposure.**  
 About 50% of reporting China-focused funds had inflows in September, which is slightly better than the overall hedge fund industry. Flows from reporting managers were net positive during the month, but only a small proportion had meaningful new allocations.



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## Locations & Contacts

### Atlanta

+1 (877) 769 2388  
support@evestment.com

### New York

+1 (212) 661 6050  
support@evestment.com

### Dubai

+971 561380679  
support@evestment.com

### Research Division

Peter Laurelli, CFA  
Vice President  
plaurelli@evestment.com  
+1 (212) 230 2216

Tony Kristić  
Senior Research Analyst  
tkristic@evestment.com  
+1 (646) 747 6177

### Media Contacts

Mark Scott  
Corporate Communications  
mscott@evestment.com  
+1 (678) 238 0761

Natalie Chan  
Teneo Strategy (Asia)  
Natalie.Chan@teneostrategy.com  
+852 3655 0539

### London

+44 (0) 20 7651 0800  
europe@evestment.com

### Sydney

+61 (0) 2 8211 2717  
australia@evestment.com

### Hong Kong

+852 2293 2390  
asia@evestment.com

Minkyu Mike Cho, CFA  
Senior Research Analyst  
mcho@evestment.com  
+1 (212) 230 2209

Hugh Cunningham  
Cognito (US)  
hugh.cunningham@cognitomedia.com  
+1 (646) 395 6319

Francesca Bliss  
Cognito (UK)  
francesca.bliss@cognitomedia.com  
+44 207 426 9419

