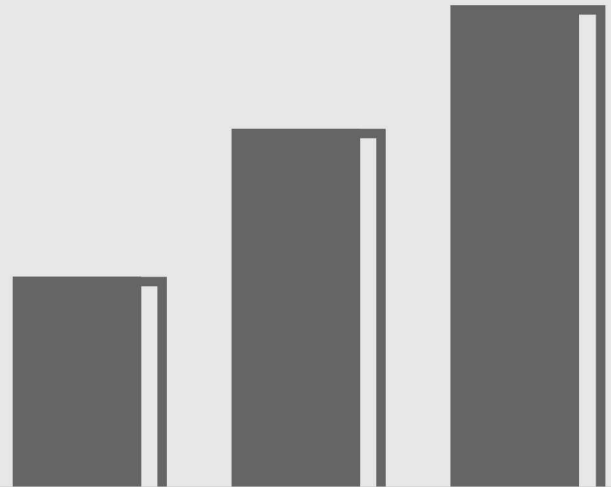


# Hedge Fund Industry Asset Flow Report

August 2017

Release Date: September 22, 2017



## Summary

Seemingly against popular expectation, hedge fund assets under management set a new all-time month-end high at the end of August 2017. With redemption pressures abating in certain segments and continued strong interest in others, along with consistently positive returns, the hedge fund industry appears to be shrugging off its naysayers. Though perhaps a better axiom would be the industry, with the encouragement of its increasingly wise investor base, has been shedding its layers of ineffectiveness, and effectively evolving to investors' demands.

While the year has mostly been positive for flows, and universally positive for returns (at least at the aggregate, asset-weighted level) some concern lingers from underperforming segments that house many large products. September will be a telling month for the remainder of the year, but for now industry participants should feel good, providing they are among the remaining.

## Highlights

- Investor flows were positive in August with an estimated \$13.4 billion allocated. YTD flows reached \$39 billion.
- Total industry assets surpassed \$3.2 trillion, reaching a new all-time month-end high in August.
- Macro strategies continued to be investors' primary allocation targets in 2017.
- Allocations to credit hedge funds continued in August, reflecting institutional trends among long-only strategies.

# HF Assets Hit All-Time Month-End High Driven by Inflows and Returns

Investors added an estimated \$13.4 billion to hedge funds in August, bringing YTD flows to \$38.7 billion. Total industry AUM reached a new month-end all-time high of \$3.209 trillion.

## Industry Flows

Data in USD Billion	Aug	Last 3mo	YTD 2017	2016	Est. AUM
All Hedge Funds	\$13.40	(\$2.31)	\$38.71	(\$111.64)	\$3,208.48
Equity	\$4.40	\$7.19	\$12.16	(\$48.03)	\$1,096.48
Fixed Income/Credit	\$2.11	\$1.38	\$9.06	(\$46.33)	\$978.37
Commodities	(\$0.19)	\$1.05	\$3.93	\$11.08	\$83.04
Multi-Asset	\$7.09	(\$13.50)	\$13.03	(\$27.47)	\$1,109.62
<i>Primary Strategy</i>	<b>Aug</b>	<b>Last 3mo</b>	<b>YTD 2017</b>	<b>2016</b>	<b>Est. AUM</b>
Macro	\$4.36	(\$2.27)	\$17.86	(\$9.76)	\$225.63
Long/Short Equity	\$2.70	\$4.22	\$5.55	(\$26.75)	\$755.46
Event Driven	\$2.10	(\$2.11)	(\$5.37)	(\$40.06)	\$528.42
Multi-Strategy	\$1.94	(\$5.20)	(\$1.42)	(\$8.81)	\$524.04
Directional Credit	\$1.36	\$2.36	\$10.52	(\$16.53)	\$148.85
Managed Futures	\$1.28	(\$0.91)	\$5.03	\$10.18	\$126.26
Convertible Arbitrage	\$0.71	(\$0.04)	\$1.01	(\$0.90)	\$53.42
MBS Strategies	\$0.25	(\$2.41)	(\$4.61)	(\$5.94)	\$85.36
Relative Value Credit	(\$0.16)	(\$0.84)	(\$3.28)	(\$11.37)	\$231.50
Distressed	(\$0.34)	(\$1.91)	(\$2.02)	(\$8.50)	\$237.71
Market Neutral Equity	(\$0.56)	\$2.88	\$6.89	(\$0.83)	\$64.94

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

2016 Performance Product Size	<0%		0-5%		>5%	
	<\$1B	>\$1B	<\$1B	>\$1B	<\$1B	>\$1B
All Hedge Funds	(\$1.55)	(\$3.06)	\$1.05	\$4.47	\$1.99	\$8.81
Equity	(\$1.01)	(\$3.94)	\$0.99	\$2.35	\$0.20	\$5.77
Fixed Income/Credit	(\$0.09)	\$0.52	\$0.42	(\$1.64)	\$1.59	\$2.00
Commodities	(\$0.23)	\$0.00	(\$0.02)	\$0.21	(\$0.19)	\$0.04
Multi-Asset	(\$0.30)	\$0.20	(\$0.11)	\$2.84	\$0.78	\$1.81
<i>Primary Strategy</i>	<b>&lt;\$1B</b>	<b>&gt;\$1B</b>	<b>&lt;\$1B</b>	<b>&gt;\$1B</b>	<b>&lt;\$1B</b>	<b>&gt;\$1B</b>
Macro	(\$0.16)	(\$0.08)	(\$0.33)	\$3.31	\$0.15	\$1.47
Long/Short Equity	(\$0.31)	(\$4.39)	\$0.08	\$2.03	\$0.08	\$5.22
Event Driven	\$0.18	(\$0.13)	\$1.30	\$0.30	\$0.09	\$0.37
Multi-Strategy	(\$0.24)	\$0.07	\$0.10	\$0.53	\$0.04	\$1.44
Directional Credit	(\$0.01)	\$0.30	\$0.12	(\$0.26)	\$0.46	\$0.75
Managed Futures	(\$0.23)	\$0.56	(\$0.00)	\$0.01	(\$0.07)	\$0.42
Convertible Arbitrage	\$0.00	\$0.00	\$0.00	\$0.00	\$0.65	\$0.06
MBS Strategies	(\$0.01)	\$0.00	\$0.23	\$0.00	(\$0.05)	\$0.06
Relative Value Credit	(\$0.06)	\$0.00	\$0.07	(\$0.50)	\$0.38	(\$0.05)
Distressed	\$0.00	\$0.00	(\$0.00)	(\$0.58)	\$0.28	(\$0.05)
Market Neutral Equity	(\$0.91)	\$0.33	(\$0.11)	\$0.05	\$0.07	\$0.00

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

2016 Performance Product Size	<0%		0-5%		>5%	
	<\$1B	>\$1B	<\$1B	>\$1B	<\$1B	>\$1B
All Hedge Funds	(\$21.54)	(\$16.76)	(\$3.69)	\$4.49	\$18.46	\$56.06
Equity	(\$15.63)	(\$14.31)	(\$2.79)	\$16.43	\$4.86	\$23.57
Fixed Income/Credit	(\$2.14)	(\$5.70)	\$0.23	(\$5.34)	\$8.50	\$14.20
Commodities	(\$1.23)	\$0.00	\$0.05	\$1.28	(\$0.22)	\$4.05
Multi-Asset	(\$2.61)	\$3.09	(\$1.02)	(\$8.58)	\$5.67	\$14.62
<i>Primary Strategy</i>	<b>&lt;\$1B</b>	<b>&gt;\$1B</b>	<b>&lt;\$1B</b>	<b>&gt;\$1B</b>	<b>&lt;\$1B</b>	<b>&gt;\$1B</b>
Macro	(\$1.35)	\$3.53	(\$0.35)	\$4.15	\$2.87	\$9.01
Long/Short Equity	(\$12.07)	(\$13.82)	(\$1.67)	\$7.36	\$3.93	\$21.82
Event Driven	(\$1.17)	(\$1.71)	(\$0.49)	(\$2.01)	\$0.63	(\$0.61)
Multi-Strategy	(\$0.60)	(\$2.48)	\$0.19	(\$9.93)	\$2.06	\$9.34
Directional Credit	(\$0.40)	(\$3.21)	(\$0.49)	(\$1.16)	\$7.09	\$8.69
Managed Futures	(\$2.03)	\$2.44	\$0.61	\$0.75	(\$0.13)	\$2.79
Convertible Arbitrage	\$0.00	\$0.00	\$0.09	\$0.00	\$1.30	(\$0.38)
MBS Strategies	(\$0.13)	(\$2.35)	(\$0.36)	(\$1.92)	(\$0.84)	\$0.97
Relative Value Credit	(\$1.22)	(\$2.35)	\$0.01	(\$3.25)	\$0.92	\$2.61
Distressed	\$0.00	\$0.39	(\$0.77)	(\$1.19)	(\$0.38)	(\$0.07)
Market Neutral Equity	(\$3.12)	\$0.16	(\$0.54)	\$10.19	\$0.20	\$0.00

## Key Points

- Redemption pressures fell meaningfully in August, allowing new inflow to lift AUM.**  
 Looking across all reported funds, the proportion losing greater than 2% of AUM due to redemptions was the lowest level since at least the beginning of 2016. Among large funds, those with greater than \$1 billion in AUM, the results were similar in theme, but more dramatic in scale (far fewer lost >2% of AUM). When combined with an above average proportion of all products receiving new allocations (54% vs. 20-month average of 49%), the result was August's net inflows were the second largest since August 2015.
- Macro funds are by far investors' favorites in 2017 as allocations continued into August.**  
 In our prior report, we noted that redemptions from macro strategies in June did not appear to be the beginning of a new, negative theme for the universe. With a rebound of allocations in July, and even greater new inflows in August, it's clear macro funds are the primary focus for hedge fund investors in 2017. Sixteen months of negative investor sentiment toward macro strategies turned positive on a dime in January 2017, and have remained mostly positive all year.
- Managed futures flows flip back to positive in August, but whether managers are out of the woods is unclear.**  
 Despite a rebound in July, and another good month in August, it is unclear through August whether investors will stay with managed futures given returns during the preceding four months, and during most of 2016. Investors have historically been more reactive to managed futures returns, both positive and negative, than other strategies. While August's positive flow was welcome, and potentially a positive sign, September's flows will likely define the fate of managed futures strategies for the rest of 2017.
- Long/short equity fund revival continued in August, and the limited scope of allocations expanded.**  
 The allocation theme for long/short equity hedge fund allocations in 2017 has been concentrated allocations to larger managers, and an emphasis on quantitative strategies. While this theme generally continued for the those beneficiaries, there was an expansion of the proportion of products seeing interest in August. Though roughly only 37% of reporting managers have seen net inflows YTD, 52% saw new inflows in August.
- Investor sentiment toward credit continues to be strong, complimenting trends among institutional long-only allocation.**  
 Institutional investors have been increasing allocations to long-only fixed income strategies, focusing on both US (passive, core & long duration) and global (unconstrained and credit) strategies. Allocations to directional credit hedge funds, which resumed in January 2017 after a nineteen-month downtrend, reinforce the global resurgence of interest for credit exposure.

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# Emerging Markets' Brief Rebound Appears to Have Faded as Outflows Resumed in August

## Flows by Investment Region and Domicile

<i>Investment Region</i>	<b>Aug</b>	<b>Last 3mo</b>	<b>YTD 2017</b>	<b>2016</b>	<b>Est. AUM</b>
Americas	\$1.86	(\$4.66)	(\$8.64)	(\$36.92)	\$926.82
Europe	(\$0.91)	\$4.10	\$2.67	(\$3.15)	\$248.89
Asia	(\$1.70)	(\$0.00)	(\$5.46)	(\$17.26)	\$100.22
Emerging Markets	(\$1.69)	\$0.90	(\$0.41)	(\$0.61)	\$289.92
Global Markets	\$14.08	(\$1.78)	\$50.10	(\$54.26)	\$1,941.39
<i>Firm Domicile</i>	<b>Aug</b>	<b>Last 3mo</b>	<b>YTD 2017</b>	<b>2015</b>	<b>Est. AUM</b>
Americas	\$12.96	(\$8.50)	\$28.86	(\$88.49)	\$2,396.76
Europe	\$2.38	\$6.98	\$14.69	(\$6.09)	\$782.58
Asia (ex-Oceania)	(\$1.95)	\$0.80	(\$0.22)	(\$6.72)	\$62.64

## 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		(\$0.04)	\$0.06	\$0.43	(\$0.22)	\$0.52	\$1.11
Europe		(\$0.27)	(\$0.69)	(\$0.07)	\$0.05	(\$0.53)	\$0.62
Asia		(\$0.23)	(\$1.14)	(\$0.36)	\$0.05	(\$0.01)	\$0.00
Emerging Markets		(\$0.81)	(\$0.09)	\$0.01	\$0.00	(\$0.44)	(\$0.36)
Global Markets		(\$1.21)	(\$1.57)	\$1.14	\$5.01	\$2.20	\$7.90
<i>Firm Domicile</i>							
Americas		(\$0.46)	(\$2.61)	\$1.32	\$3.71	\$2.28	\$8.74
Europe		(\$1.05)	\$0.40	\$0.21	\$0.98	\$0.03	\$1.22
Asia (ex-Oceania)		\$0.08	(\$1.14)	(\$0.37)	\$0.00	(\$0.19)	(\$0.32)

## 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		(\$5.43)	(\$4.67)	(\$4.36)	(\$7.15)	\$2.39	\$10.57
Europe		(\$3.16)	(\$0.66)	(\$0.55)	\$5.79	(\$0.50)	\$1.75
Asia		(\$3.90)	(\$4.19)	(\$0.39)	(\$2.57)	\$2.23	\$3.35
Emerging Markets		(\$1.93)	\$0.21	\$0.84	\$0.12	(\$1.36)	\$1.71
Global Markets		(\$14.14)	(\$15.16)	\$0.05	\$9.09	\$19.94	\$50.33
<i>Firm Domicile</i>							
Americas		(\$16.82)	(\$9.63)	(\$5.77)	(\$9.78)	\$14.46	\$56.41
Europe		(\$6.34)	(\$10.57)	\$0.56	\$19.17	\$5.85	\$6.03
Asia (ex-Oceania)		(\$1.06)	(\$4.22)	(\$0.43)	(\$0.04)	\$2.24	\$3.28

## Key Points

- Emerging markets' two-month inflow rally ended in July, and outflows grew in August.** Despite what is now eight consecutive months of very strong relative returns from EM strategies compared to their developed markets peers, investors in EM strategies appear to be losing faith in those trends continuing. Elevated redemptions came from various types of EM strategies, with diversified strategies as well as country-specific exposures, including China, Russia and Latin America, all experiencing negative investor sentiment.
- Europe-domiciled fund flows continue to be positive, continuing a now five-month trend of net inflows.** There has been a diverse set of Europe-domiciled strategies receiving new allocations in recent months, including equity, macro, and credit strategies, but the primary reason flows have shifted consistently back to positive has been a slight reduction of redemption pressures from managed futures products. As mentioned earlier, September's flows will be important to whether these favorable trends continue into year-end.



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