Hedge Fund Assets fall in volatile Q1

Stockholm (HedgeNordic) – According to the most recent HFR Global Hedge Fund Industry Report, global Hedge Fund capital declined in Q12016, as volatile markets and early quarter performance culminated in falling investor risk tolerance and led to redemptions from underperforming strategies.

Total global Hedge Fund capital declined to USD 2.86 trillion, including investor outflows of USD 15.1 billion. This marked both the largest quarterly outflow and the first consecutive quarters of outflows since 2009.

The HFRI Fund Weighted Composite Index posted a decline of -0.67% in Q1 2016, despite paring the January decline of -2.6% with the March gain of +2.0%. First quarter performance was led by quantitative Macro and trend-following CTA strategies, with the HFRI Marco Index gaining +1.4%, while the HFRI Macro: Systematic Diversified Index advanced +2.7%.

Despite these performance-based gains, total Hedge Fund capital in Macro strategies declined to USD 548bn, including a net investor outflow of USD 7.3bn. Discretionary Thematic Funds suffered the largest asset outflow among Macro sub-strategies, while Active Trading experienced a partially offsetting capital inflow.

Event Driven (ED) strategies also experienced a net outflow in Q12016, led by Activist and Special Situations sub-strategies. Investors withdrew USD 8.3bn from all ED strategies, reducing total ED capital to USD 729bn. Over half of the ED outflow was from Activist strategies (USD 4.3bn), while Merger Arbitrage funds received a net inflow of over USD 400mn.

The HFRI Event Driven Index remained flat for Q12016, recovering from a steep January decline of -3.2% with a sharp gain of +3.8% in March. The HFRI ED: Activist Index declined -1.4% for Q12016, while the HFRI Merger Arbitrage Index gained +1.3%.

Fixed income-based Relative Value Arbitrage (RVA) strategies experienced an inflow of investor capital in Q12016, led by allocations to credit multi-strategy funds. Investors allocated USD 5.3bn in new assets to RVA, bringing total RVA capital to USD 772bn globally. Sub-strategy inflows were led by RVA: Multi-Strategy funds, which received USD 3.8bn in new capital, making it the leading sub-strategy industry-wide. The HFRI Relative Value Index declined -0.5% in Q12016, despite ending the quarter with a gain of +1.7% in March.

Investors withdrew USD 4.7bn from Equity Hedge (EH) funds in Q12016, bringing total assets in EH to USD 806.5bn, the largest strategy area of industry capital. Sub-strategy outflows of USD 5.7bn from Fundamental Value were only partially offset by inflows of USD 2.6bn in Equity Market Neutral. The HFRI Equity Hedge Index declined -1.7% in Q12016, partially recovering the sharp January decline of -4.5% with its March gain of +3.4%.

The first quarter saw a concentration of capital outflows in the industry’s largest firms, as firms with over USD 5bn AUM, which collectively manage 68.3% of all industry capital, experienced net outflows of USD 10.7bn. This includes manager-initiated returns of investor capital and private family office conversion. Firms managing between USD 1-5bn experienced net outflows of USD 3.6bn, while firms managing less than USD 250mn recorded net inflows of USD 730mn.

Kenneth J. Heinz, President of HFR, commented the following on Q12016: “The Hedge Fund industry began 2016 with a fractional decline, as widely-anticipated asset outflows associated with manager-initiated return of investor capital and private family office conversions were only partially offset by new investor allocations in Q1," adding:

"The volatile performance environment continues to be dominated by intense dislocations, sharp reversals and rapidly shifting correlations across assets, with the recent realized volatility resulting in an improved opportunity set and wider arbitrage deal spreads. These are likely to contribute to performance gains, as investor capital is re-allocated into funds and strategies positioned for this environment through mid-year."

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