Challenging Fundraising Environment for HFs

Stockholm (HedgeNordic) – Despite hedge funds enjoying some of their best returns in a decade, investors continue to withdraw large amounts of capital from the industry. According to eVestment, investors pulled a net $55.9 billion from hedge funds in the first seven months of 2019, the worst January-to-July period for net inflows since the first seven months of 2016.

In the first seven months of 2016, investors withdrew a net $58.1 billion from hedge funds, with net redemptions reaching $111 billion by the end of that year. In July this year alone, net redemptions amounted to $8.2 billion. Out of the previous 11 months, only one month recorded positive net flows to the hedge fund industry. Last month, the proportion of hedge funds with outflows was the highest in the previous four months and the second-highest in the last seven months.

“There is no way to sugar coat it, those numbers are not good, but even amid this negativity there are managers who are being successful,” wrote eVestment in the latest asset flows report. Around 37 percent of hedge funds reporting to eVestment had net inflows so far in 2019. Despite yet another month of net redemptions, last month’s performance was accretive and lifted the hedge fund industry’s assets under management to $3.03 trillion.

Investors are “souring on disappointing returns or returns that don’t meet expectations for the cost they’re paying,” Peter Laurelli, Global Head of Research at eVestment, explains the continued withdrawals of capital from hedge funds. “It is the best returns the industry has broadly seen in almost ten years, but it is still below an equal-weighted equity and bond benchmark, so I don’t know that the assumption should be there will be a general turnaround to the industry,” said Laurelli. “We’ve seen a lot of high-profile fund closures over the past couple years, and I can’t see any reason why that wouldn’t continue.”

Despite long/short equity funds being the best-performing major strategy group in 2019, these funds recorded the highest net redemptions both in July and year-to-date. According to eVestment, long/short equity funds gained 10.1 percent in the first seven months of the year. Over the same period, the group registered $25.5 billion in net redemptions after investors pulled a net $4.6 billion from these funds in July alone.

Macro and managed futures funds also suffered net redemptions of more than $10 billion each in the first seven months of 2019. Macro funds had net outflows of $12.8 billion, while managed futures funds had almost $11 billion in net redemptions. Event-driven funds attracted $5 billion in net inflows in July alone, which brought this year’s volume of net inflows to $10.3 billion. Even among this group, the number of funds with net outflows exceeded those with net inflows.

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