

Hedge Fund Assets Edge Down in Third Quarter

Stockholm (HedgeNordic) – Hedge fund industry assets dropped modestly to \$3.24 trillion in the third quarter from the prior quarter's record of \$3.245 trillion. According to Hedge Fund Research (HFR), capital inflows to new hedge fund launches and the industry's most established players were offset by outflows stemming from fund liquidations and investor redemptions from small- and mid-sized hedge fund firms. Net capital outflows in the third quarter amounted to an estimated \$6.8 billion.

"Total hedge fund industry capital was little changed in 3Q as a number of contributing factors had partially offsetting impacts and influences, including, but not limited to, beta reducing rebalancing and reallocation, liquidations and launches, and an increase in market volatility associated with ultra-low interest rates," said Kenneth J. Heinz, President of HFR, in a press release.

Hedge fund investors increased exposure to fixed-income and credit-based relative value arbitrage, and event-driven strategies, with investors positioning for ultra-low interest rates for the near term amid nearly \$16 trillion of negative-yielding European government debt. Event-driven strategies received an estimated \$5.7 billion in net flows during the three months that ended September, bringing strategy group's total assets under management to \$852.2 billion.

Total capital invested in macro strategies increased by \$6.1 billion quarter-over-quarter to \$599.5 billion, as performance gains offset investor outflows. Investors withdrew an estimated \$4.8 billion from macro strategies in the third quarter. Equity hedge funds experienced net outflows of \$7.9 billion during the last quarter, with total assets managed by the group ending the third quarter at \$919.6 billion. The outflows were mainly attributable to fundamental value funds, which suffered net withdrawals of \$4.4 billion in the third quarter.

"The capital raising environment continues to be challenging, with geopolitical and macroeconomic factors motivating allocations for some investors while contributing to complacency and hesitation for others. It is likely that sophisticated investors will proceed with strategic allocations in coming quarters which improve overall portfolio-expected returns through efficient, opportunistic long-short exposures," said Heinz.

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