Hedge Fund Assets Surge

Stockholm (HedgeNordic) – Total capital invested in hedge funds rose by a record $220 billion in the second quarter to $3.18 trillion, according to HFR. The record quarterly increase reflects substantial performance-based asset gains as the hedge fund industry posted its strongest quarterly performance since the second quarter of 2009, as measured by the HFRI Fund Weighted Composite Index.

Investor outflows slowed down significantly following the coronavirus pandemic-induced withdrawals in the first quarter. Investors withdrew an estimated $47.8 billion from the industry in the second quarter, while a combined $35.6 billion flowed into all funds experiencing inflows. Therefore, the hedge fund industry's net asset outflows for the second quarter amounted to $12.2 billion, or 0.3 percent of total industry capital, down from the net outflows of $33.3 billion recorded for the first quarter.

The second quarter's figure of net flows represents the lowest quarterly outflow since the third quarter of 2019, according to the latest release of the HFR Global Hedge Fund Industry Report. Outflows from the hedge fund industry's largest firms also slowed in the second quarter. Investors redeemed an estimated $9.4 billion from hedge fund firms managing more than $1 billion in assets under management, down from an estimated outflow figure of $31.7 billion in the first quarter.

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"The global hedge fund industry experienced a record asset surge in 2Q as performance rebounded from the 1Q coronavirus pandemic-driven market bottom, led by Technology, Activist and Corporate Fixed Income sub-strategies, while outflows declined by nearly two-thirds from 1Q," states Kenneth J. Heinz, President of HFR. "While capital levels increased sharply in 2Q, it is likely that asset gains continue into 2H20 alongside inflows from institutional investors that position for continued virus uncertainty, including humanitarian, economic and geopolitical implications, as well as social unrest and the upcoming US elections, with these thematic drivers contributing to a strong performance environment through year-end," he continues.

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Performance-based asset gains for the industry in the second quarter were led by equity hedge strategies, as the HFRI Equity Hedge (Total) Index advanced 13.3 percent during the quarter. Capital managed by equity hedge funds increased by $95.5 billion quarter-over-quarter to $925.4 billion despite estimated net redemptions of $4.5 billion. The asset gains in this strategy group were led by fundamental value managers, which saw their combined assets under management increase by an estimated $57.7 billion quarter-over-quarter to $846.9 billion. This quarterly increase reflects estimated net inflows of $1.5 billion. According to Heinz, "extreme volatility in 1H20, including both the 1Q spike and 2Q reversal, represents a sharp and dramatic contrast to the beta-driven, risk-on sentiment which dominated 2019, creating an opportunity-rich environment for long-short hedge fund performance generation."

Event-driven strategies also enjoyed a substantial increase in assets under management following strong performance in the second quarter. Assets under management for event-driven strategies rose by $75.9 billion quarter-over-quarter to $814.7 billion, reflecting estimated net inflows of $2.3 billion. Capital invested in fixed-income-based relative-value arbitrage strategies also increased sharply during the second quarter, rising by $52.2 billion quarter-over-quarter to $871.6 billion despite estimated net outflows of $1.8 billion. Macro strategies added $8.1 billion in performance-based asset gains in the second quarter despite an estimated $3.5 billion in net redemptions, which brought the total capital managed by macro managers to $565.1 billion.

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