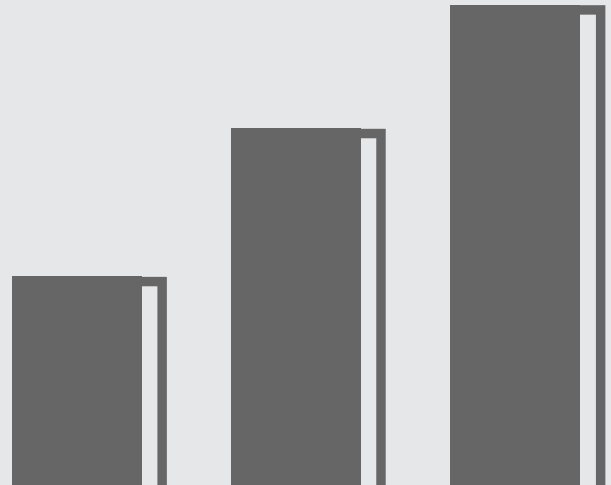


# Hedge Fund Industry Asset Flow Report

August 2016

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## Summary

The redemption pressures weighing heavily on the hedge fund industry mostly abated in August. After outflows in June and July nearly reminiscent of the tail-end of the global financial crisis, investors' dissatisfaction with 2015 performance may be exhausted.

While this is positive for sectors able to perform well this year, including event driven and certain credit strategies, the picture is not universally bright. Commodity strategies have seen performance dips in recent months, and there is evidence of dissatisfaction with near-term performance from investors in both macro and managed futures universes.

Despite these pockets of negativity, the appearance of large multi-strategy fund returns among industry leaders may be another signal the allocation preferences seen in 2014 and 2015 could return.

## Highlights

- Investors allocated an estimated \$6.3 billion to hedge funds in August, bringing YTD net flows to negative \$51.8 billion.
- August marked the sixth month in the last eight where investors added more than \$1 billion into commodity funds, on a net basis.
- The ten largest multi-strategy funds have reported an average return of 5.1% YTD, compared to 0.3% in 2015.
- China-fund redemptions persisted, but at the slowest rate of the year. Redemptions from Brazil exposure increased.

# Redemption Pressures Receded in August

Investors allocated an estimated net \$6.3 billion into hedge funds in August. Inflows in August followed redemptions totaling \$60.8 billion in June and July, the industry's largest two-month span of outflows since April 2009. August inflows brought YTD flows to negative \$51.8 billion. Performance was also accretive to total industry AUM in August, which now stands at \$3.021 trillion.

## Industry Flows

Data in USD Billion	Aug	Last 3mo	YTD 2016	2015	Est. AUM
All Hedge Funds	\$6.36	(\$44.45)	(\$51.70)	\$44.09	\$3,020.74
Equity	\$2.88	(\$15.60)	(\$23.23)	\$16.46	\$1,018.55
Fixed Income/Credit	\$0.57	(\$15.25)	(\$28.89)	(\$20.16)	\$933.53
Commodities	\$2.73	\$5.13	\$11.14	\$0.01	\$78.55
Multi-Asset	(\$0.59)	(\$19.84)	(\$10.80)	\$51.08	\$1,047.82
<b>Primary Strategy</b>	<b>Aug</b>	<b>Last 3mo</b>	<b>YTD 2016</b>	<b>2015</b>	<b>Est. AUM</b>
Managed Futures	\$4.17	\$6.20	\$20.31	\$13.43	\$146.44
Directional Credit	\$1.45	(\$4.33)	(\$5.87)	(\$4.68)	\$125.12
Long/Short Equity	\$1.37	(\$12.41)	(\$9.67)	\$9.02	\$694.37
Event Driven	\$0.99	(\$6.92)	(\$31.00)	(\$19.38)	\$524.35
Market Neutral Equity	\$0.86	\$0.14	(\$0.49)	\$0.66	\$51.22
Relative Value Credit	\$0.50	(\$3.56)	(\$7.78)	(\$5.53)	\$227.11
Convertible Arbitrage	\$0.11	(\$0.31)	(\$0.49)	(\$3.20)	\$51.53
Distressed	\$0.07	(\$2.75)	(\$4.54)	(\$5.50)	\$238.09
MBS Strategies	(\$0.02)	(\$0.43)	(\$3.33)	(\$1.27)	\$87.99
Broad Multi-Strategy	(\$0.74)	(\$12.85)	(\$6.57)	\$56.35	\$492.73
Macro	(\$3.42)	(\$9.26)	(\$6.97)	\$1.32	\$162.30

## Flows Overview

- It appears the overall **industry** redemption pressures caused by poor prior year (2015) performance mostly abated in August, with the exception being from a small handful of large macro strategies. There was no meaningful surge of allocations, however, resulting in relatively light, but positive inflows.
- August was by far the lightest month of **investor activity** this year. Amongst large funds, there was the smallest proportion with inflows or outflows >2% or >5% of their AUM of any month this year. Two positive structural notes for the industry in August; there was the smallest proportion of large funds losing >2% of AUM due to redemptions this year, and the proportion of all funds receiving inflows vs. outflows was the highest of any month this year, 54% with inflows to 46% with outflows.
- Macro** strategies continued to feel the weight of redemptions for a third consecutive month, and for the ninth month in the last year. While dissatisfaction with prior year returns has been a factor, we have begun to see elevated redemptions from products which performed reasonably well in 2015, but have underperformed in 2016. It is somewhat concerning how quick investors have been to react to near-term performance within the macro universe.
- Despite two consecutive months, and three in the last four, of aggregate performance declines, **commodity** funds continued to be favored by investors, receiving their largest monthly inflow since August 2009. August marked the eighth month in the last nine where investors added more than \$1 billion into commodity funds, on a net basis.
- Managed futures** funds continue to be another aggregate bright spot for flows in 2016, however we continue to see dislocation from positive sentiment within the large, archetypal managed futures fund segment. Performance continues to be mixed within this sub-set, however outside of the very largest, there are performance-related bright spots. It remains to be seen whether investors will continue to favor a segment which is generally underperforming in 2016.
- Multi-strategy** hedge funds faced very elevated redemption pressures in June and July, however many of the largest multi-strategy funds appear to have had inflows in August, despite aggregate net outflows. Performance within this large-fund segment has generally been good this year. The ten largest multi-strategy funds have reported an average return of 5.1% YTD, compared to 0.3% in 2015.
- Several sources of large redemptions in 2016 through July saw reversals of fortune in August, including **event driven** and **credit** funds. Inflows were light, but a welcome reprieve from what has been a very difficult 2016.

## Flows by Size and Prior Year Return

### Current Month

2015 Performance Product Size	<0%		0-5%		>5%	
	<\$1B	>\$1B	<\$1B	>\$1B	<\$1B	>\$1B
All Hedge Funds	\$2.60	(\$4.71)	\$1.20	\$3.24	\$0.40	\$3.63
Equity	\$0.42	(\$1.47)	\$0.90	\$0.24	\$0.23	\$2.56
Fixed Income/Credit	(\$0.26)	(\$0.56)	\$0.26	\$0.86	\$0.04	\$0.24
Commodities	\$2.16	\$0.30	\$0.09	\$0.00	\$0.18	\$0.00
Multi-Asset	(\$0.35)	(\$3.12)	(\$0.06)	\$2.15	(\$0.04)	\$0.83
<b>Primary Strategy</b>	<b>&lt;\$1B</b>	<b>&gt;\$1B</b>	<b>&lt;\$1B</b>	<b>&gt;\$1B</b>	<b>&lt;\$1B</b>	<b>&gt;\$1B</b>
Managed Futures	\$2.19	(\$0.66)	\$0.11	\$1.24	\$0.21	\$1.08
Directional Credit	(\$0.14)	\$0.87	(\$0.11)	\$0.44	\$0.04	\$0.35
Long/Short Equity	(\$0.63)	(\$0.28)	(\$0.11)	\$0.23	(\$0.04)	\$2.21
Event Driven	\$0.00	\$0.04	(\$0.01)	\$0.61	\$0.14	\$0.21
Market Neutral Equity	\$0.89	(\$1.22)	\$1.00	\$0.00	\$0.12	\$0.07
Relative Value Credit	(\$0.04)	(\$0.21)	\$0.23	\$0.54	(\$0.05)	\$0.02
Convertible Arbitrage	(\$0.04)	\$0.09	\$0.06	\$0.00	\$0.00	\$0.00
Distressed	\$0.07	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
MBS Strategies	\$0.08	(\$0.01)	\$0.02	(\$0.02)	(\$0.09)	\$0.00
Broad Multi-Strategy	(\$0.22)	(\$0.71)	(\$0.34)	(\$0.49)	\$0.03	\$0.97
Macro	(\$0.32)	(\$2.78)	\$0.39	\$0.66	(\$0.10)	(\$1.28)

### Year-to-Date

2015 Performance Product Size	<0%		0-5%		>5%	
	<\$1B	>\$1B	<\$1B	>\$1B	<\$1B	>\$1B
All Hedge Funds	(\$28.02)	(\$106.06)	(\$1.43)	\$40.11	\$6.94	\$36.75
Equity	(\$10.03)	(\$24.69)	(\$3.83)	\$5.97	\$1.38	\$7.98
Fixed Income/Credit	(\$11.06)	(\$28.73)	\$3.28	\$1.20	\$1.26	\$5.17
Commodities	\$2.69	\$3.74	\$0.89	\$0.02	\$2.43	\$1.36
Multi-Asset	(\$8.84)	(\$52.80)	(\$1.77)	\$29.88	\$1.83	\$20.89
<b>Primary Strategy</b>	<b>&lt;\$1B</b>	<b>&gt;\$1B</b>	<b>&lt;\$1B</b>	<b>&gt;\$1B</b>	<b>&lt;\$1B</b>	<b>&gt;\$1B</b>
Managed Futures	\$2.00	\$1.14	\$0.48	\$5.32	\$3.03	\$8.33
Directional Credit	(\$6.74)	(\$18.19)	\$8.87	\$8.44	\$1.19	\$0.54
Long/Short Equity	(\$7.39)	(\$13.83)	(\$3.33)	\$6.67	(\$0.23)	\$8.43
Event Driven	(\$5.03)	(\$22.86)	(\$0.78)	(\$0.62)	\$0.73	(\$2.44)
Market Neutral Equity	(\$1.53)	(\$2.19)	\$0.87	(\$0.01)	\$0.91	\$1.45
Relative Value Credit	(\$1.90)	(\$8.50)	\$1.66	\$1.28	(\$0.62)	\$0.30
Convertible Arbitrage	(\$0.45)	(\$0.02)	\$0.08	\$0.00	(\$0.10)	\$0.00
Distressed	(\$1.11)	(\$3.55)	\$0.10	(\$0.01)	\$0.12	(\$0.08)
MBS Strategies	(\$0.76)	(\$4.30)	\$1.12	\$0.63	\$0.03	(\$0.06)
Broad Multi-Strategy	(\$4.53)	(\$13.50)	(\$0.17)	(\$3.65)	\$0.84	\$14.44
Macro	(\$2.93)	(\$31.75)	(\$1.13)	\$25.31	\$1.19	\$2.34



# Outflows from China Exposure Slowed, Brazil Redemptions Rise

After very elevated redemptions in July, flows were near flat for emerging market strategies in August, though regional/country specific differences were evident. EM fund flows have now been negative for four of the last five months and investors have removed an estimated \$2.6 billion from the universe this year. The picture is not universally negative, however. Many EM funds received inflows in August and there is a handful of strategies with meaningful net inflows in 2016.

## Flows by Investment Region and Domicile

<i>Investment Region</i>	<b>Aug</b>	<b>Last 3mo</b>	<b>YTD 2016</b>	<b>2015</b>	<b>Est. AUM</b>
Americas	\$0.39	(\$12.25)	(\$24.91)	(\$18.48)	\$911.53
Europe	(\$1.93)	(\$5.95)	\$3.10	\$22.70	\$248.58
Asia	(\$0.75)	(\$4.93)	(\$13.67)	\$4.21	\$99.92
Emerging Markets	(\$0.15)	(\$2.68)	(\$2.60)	(\$7.67)	\$274.35
Global Markets	\$8.66	(\$21.31)	(\$16.21)	\$35.83	\$1,769.88
<i>Firm Domicile</i>	<b>Aug</b>	<b>Last 3mo</b>	<b>YTD 2016</b>	<b>2015</b>	<b>Est. AUM</b>
Americas	\$8.87	(\$27.45)	(\$46.77)	(\$5.01)	\$2,255.02
Europe	(\$1.00)	(\$10.84)	\$11.47	\$29.67	\$749.89
Asia (ex-Oceania)	(\$0.32)	(\$2.18)	(\$7.33)	\$12.28	\$56.64

## Flows by Size and Prior Year Return

<b>Current Month</b>		<0%		0-5%		>5%	
<i>2015 Performance</i>							
<i>Product Size</i>		<\$1B	>\$1B	<\$1B	>\$1B	<\$1B	>\$1B
Americas	(\$0.22)	\$0.32	(\$0.08)	(\$0.14)	\$0.23	\$0.28	
Europe	(\$0.30)	(\$0.54)	\$0.10	(\$0.21)	(\$0.26)	(\$0.72)	
Asia	\$0.04	(\$1.20)	(\$0.06)	\$0.00	\$0.50	(\$0.03)	
Emerging Markets	(\$0.59)	\$0.00	\$0.65	\$0.00	(\$0.15)	(\$0.05)	
Global Markets	\$3.09	(\$3.29)	\$1.24	\$3.60	(\$0.08)	\$4.10	
<i>Firm Domicile</i>							
Americas	\$2.24	(\$1.30)	\$0.66	\$2.70	\$0.40	\$4.18	
Europe	\$0.32	(\$1.79)	\$0.98	\$0.54	(\$0.61)	(\$0.44)	
Asia (ex-Oceania)	(\$0.01)	(\$0.69)	(\$0.08)	\$0.00	\$0.55	(\$0.10)	

<b>Year-to-Date</b>		<0%		0-5%		>5%	
<i>2015 Performance</i>							
<i>Product Size</i>		<\$1B	>\$1B	<\$1B	>\$1B	<\$1B	>\$1B
Americas	(\$9.79)	(\$18.90)	\$0.55	\$0.73	\$2.08	\$0.42	
Europe	(\$1.22)	(\$1.83)	(\$0.11)	\$2.06	\$0.29	\$3.91	
Asia	(\$1.71)	(\$4.89)	(\$0.62)	\$0.08	(\$1.05)	(\$5.47)	
Emerging Markets	(\$2.72)	(\$0.55)	\$0.35	\$1.02	\$0.84	(\$1.55)	
Global Markets	(\$14.32)	(\$78.08)	(\$1.29)	\$34.95	\$5.53	\$36.99	
<i>Firm Domicile</i>							
Americas	(\$20.02)	(\$90.44)	\$0.21	\$25.43	\$5.76	\$32.28	
Europe	(\$2.42)	(\$3.85)	(\$1.04)	\$12.60	\$0.56	\$5.63	
Asia (ex-Oceania)	(\$2.19)	(\$3.38)	(\$0.26)	\$0.00	\$0.34	(\$1.83)	

## Regional Flows Overview

- **China**-focused funds experienced another month of net redemptions in August, however reported data estimating outflows of \$33.1 million from the universe is the lightest level of redemptions this year. Several China-focused funds had net inflows in August, including both large and mid-sized funds. The mix of redemptions and allocations within this universe across size brackets, 2015 performance or even 2016 performance does not show any notable signs of what non-fund specific traits investors prefer, or reject.
- **Brazil** has been a primary source of outsized performance in 2016, but investors have generally reacted indifferently, in aggregate, to products focused on opportunities within the country this year. August flows indicate investors have actually decided to reduce exposure, perhaps satisfied with gains and losing some faith that opportunities for more will persist. An estimated \$136.3 million was removed from Brazil-focused funds reporting in August.
- The **European** hedge fund industry continued to see redemptions in August, the fourth consecutive month. There was no specific universe which accounted for an outsized portion of the outflow. Funds operating credit, systematic, and fundamental equity strategies generally equally shared the burden of outflows during the month.



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## Locations & Contacts

### Atlanta

+1 (877) 769 2388  
support@evestment.com

### New York

+1 (212) 661 6050  
support@evestment.com

### Dubai

+971 561380679  
support@evestment.com

### Research Division

Peter Laurelli, CFA  
Vice President  
plarelli@evestment.com  
+1 (212) 230 2216

Tony Kristić  
Senior Analyst  
tkristic@evestment.com  
+1 (646) 747 6177

### Media Contacts

Mark Scott  
Corporate Communications  
mscott@evestment.com  
+1 (678) 238 0761

Natalie Chan  
Ryan Communication (Asia)  
natalie@ryancommunication.com  
+852 3655 0539

### London

+44 (0) 20 7651 0800  
europe@evestment.com

### Sydney

+61 (0) 2 8211 2717  
australia@evestment.com

### Hong Kong

+852 2293 2390  
asia@evestment.com

Minkyu Michael Cho  
Senior Analyst  
mcho@evestment.com  
+1 (212) 230 2209

Jamie Letica  
Cognito (US)  
jamie.letica@cognitomedia.com  
+1 (646) 395 6305

Francesa Bliss  
Cognito (UK)  
francesa.bliss@cognitomedia.com  
+44 207 426 9419

