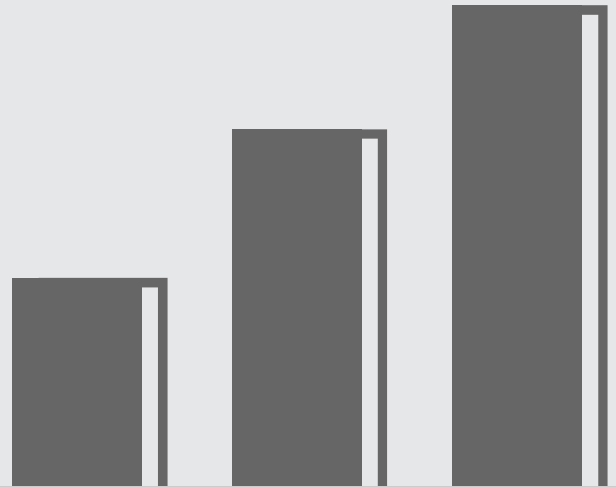


Hedge Fund Industry Asset Flow Report

February 2019

Release Date: March 21, 2019



Summary

For as much as January was a month which was negative, but not bad when looking more closely at the numbers, February was a month which was positive, but generally not good. February has historically been a bellwether month for the industry, one where the heaviest redemptions pressures from the prior year have passed and new allocations tend to show at the net flow level. That was not the case in February 2019 and, while positive preferences have emerged, it points to a difficult year for the industry.

As we have noted many times in the past, a difficult time for the industry is very different than difficulties at the individual fund level. While flows are generally disappointing so far in 2019, there continue to be many products able to generate inflows. The vast majority of these products have performed well when their peers have not.

Highlights

- Investors added an estimated \$1.69 billion into hedge funds in February, but net flows are negative YTD 2019.
- Though positive, February 2019 was the worst February for net flows since 2009.
- Multi-strategy funds are emerging as a preference for investors in 2019.
- Macro and managed futures strategies both experienced accelerated redemptions in February.

Flows Weak, but Positive in February, 2019 Preferences Emerge

Investors added an estimated \$1.69 billion into hedge funds in February 2019, ending five consecutive months of net outflows. Performance was additive to total industry AUM, which rose by \$20.62 billion to \$3.241 trillion.

Industry Flows

	Feb	YTD 2018	2018	2017	Est. AUM
All Hedge Funds	\$1.63	(\$2.61)	(\$37.18)	\$27.72	\$3,240.53
Equity	\$0.41	(\$5.67)	\$1.85	\$28.62	\$1,128.01
Fixed Income/Credit	\$1.35	\$3.65	(\$0.38)	\$1.78	\$995.93
Commodities	\$0.21	\$1.26	\$2.25	(\$0.68)	\$81.68
Multi-Asset	(\$0.34)	(\$1.88)	(\$40.63)	(\$3.81)	\$1,093.27
Primary Strategy	Feb	YTD 2018	2018	2017	Est. AUM
Multi-Strategy	\$5.41	\$7.67	(\$19.32)	(\$4.11)	\$524.45
Event Driven	\$3.26	\$0.81	(\$3.53)	(\$6.76)	\$540.78
Directional Credit	\$0.73	\$2.76	\$4.20	\$6.14	\$160.86
Convertible Arbitrage	\$0.16	\$0.33	(\$0.01)	(\$0.17)	\$53.96
Distressed	\$0.09	\$0.06	\$0.80	(\$4.90)	\$237.25
MBS Strategies	\$0.05	\$1.27	\$7.10	(\$6.17)	\$96.22
Relative Value Credit	(\$0.00)	(\$0.11)	(\$5.42)	(\$7.77)	\$225.08
Market Neutral Equity	(\$0.84)	(\$1.02)	\$12.38	\$11.57	\$77.98
Long/Short Equity	(\$1.35)	(\$6.07)	(\$10.74)	\$19.20	\$766.71
Macro	(\$2.89)	(\$4.25)	\$5.38	\$9.37	\$249.61
Managed Futures	(\$2.96)	(\$3.28)	(\$19.33)	\$3.86	\$96.56

Flows by Size and Prior Year Performance - Current Month

2018 Performance	<0%		0-5%		>5%	
	<\$1B	>\$1B	<\$1B	>\$1B	<\$1B	>\$1B
Product Size						
All Hedge Funds	(\$3.42)	(\$11.67)	(\$0.27)	\$6.01	\$1.38	\$9.60
Equity	(\$1.06)	(\$4.25)	\$0.41	\$0.99	(\$0.07)	\$4.39
Fixed Income/Credit	(\$0.30)	\$0.17	(\$0.16)	\$0.42	\$0.26	\$0.97
Commodities	(\$0.18)	\$0.19	(\$0.03)	(\$0.05)	\$0.34	(\$0.05)
Multi-Asset	(\$1.88)	(\$7.78)	(\$0.48)	\$4.64	\$0.86	\$4.29
Primary Strategy	<\$1B	>\$1B	<\$1B	>\$1B	<\$1B	>\$1B
Multi-Strategy	(\$0.32)	(\$1.63)	(\$0.01)	\$4.84	\$0.09	\$2.44
Event Driven	\$0.39	\$0.02	\$0.26	\$0.23	\$0.33	\$2.02
Directional Credit	(\$0.71)	\$0.58	(\$0.04)	\$0.33	\$0.11	\$0.46
Convertible Arbitrage	(\$0.01)	\$0.00	(\$0.05)	\$0.00	\$0.00	\$0.22
Distressed	\$0.03	\$0.00	\$0.06	\$0.00	\$0.00	\$0.00
MBS Strategies	\$0.00	(\$0.05)	\$0.00	\$0.00	\$0.00	\$0.10
Relative Value Credit	\$0.00	(\$0.37)	(\$0.14)	\$0.30	\$0.14	\$0.06
Market Neutral Equity	(\$0.57)	(\$0.07)	(\$0.04)	(\$0.22)	\$0.05	\$0.00
Long/Short Equity	(\$0.61)	(\$4.18)	\$0.12	\$0.97	(\$0.27)	\$2.62
Macro	(\$0.13)	(\$3.34)	(\$0.33)	(\$0.40)	\$0.01	\$1.31
Managed Futures	(\$1.54)	(\$2.82)	(\$0.06)	\$0.08	\$0.93	\$0.46

Flows by Size and Prior Year Performance - YTD 2019

2018 Performance	<0%		0-5%		>5%	
	<\$1B	>\$1B	<\$1B	>\$1B	<\$1B	>\$1B
Product Size						
All Hedge Funds	(\$7.57)	(\$18.48)	(\$2.10)	\$10.09	\$1.43	\$14.01
Equity	(\$3.61)	(\$10.76)	\$0.57	\$2.03	(\$0.81)	\$6.91
Fixed Income/Credit	(\$0.10)	(\$0.03)	(\$1.01)	\$1.98	\$0.71	\$2.10
Commodities	(\$0.23)	\$0.79	(\$0.83)	(\$0.09)	\$0.58	\$1.05
Multi-Asset	(\$3.62)	(\$8.47)	(\$0.80)	\$6.17	\$0.89	\$3.95
Primary Strategy	<\$1B	>\$1B	<\$1B	>\$1B	<\$1B	>\$1B
Multi-Strategy	(\$0.50)	(\$1.79)	(\$0.03)	\$5.92	\$0.03	\$4.05
Event Driven	(\$1.22)	\$0.41	(\$0.12)	\$0.62	\$0.20	\$0.92
Directional Credit	(\$0.14)	\$0.64	(\$0.35)	\$1.45	\$0.47	\$0.71
Convertible Arbitrage	(\$0.01)	\$0.00	(\$0.15)	\$0.00	\$0.03	\$0.47
Distressed	(\$0.02)	\$0.02	\$0.10	\$0.00	(\$0.04)	(\$0.01)
MBS Strategies	\$0.00	(\$0.05)	\$0.00	\$0.32	\$0.44	\$0.56
Relative Value Credit	(\$0.00)	(\$0.56)	(\$0.43)	\$0.33	\$0.07	\$0.48
Market Neutral Equity	(\$0.96)	\$0.05	\$0.29	(\$0.32)	(\$0.07)	\$0.00
Long/Short Equity	(\$2.27)	(\$11.16)	\$0.22	\$1.74	(\$0.53)	\$5.93
Macro	(\$0.92)	(\$2.14)	(\$0.46)	\$0.45	\$0.07	(\$1.24)
Managed Futures	(\$1.52)	(\$4.86)	(\$0.90)	\$0.09	\$1.21	\$2.70

Key Points

- February 2019 was the worst February for hedge fund flows in the last ten years.**
 February tends to be a significant month for hedge fund industry flows. February has been the most positive month on average for the industry, with investors allocating an average of \$17 billion per February in the last ten years, and there has not been one February which produced an aggregate outflow from hedge funds. February 2019 saw the lowest level of net inflows in the last ten years, and as more information is reported, the number may even push into negative territory, which hasn't happened since 2009. If February is a bellwether for the year's flows, as it has tended to be, then 2019 may be a difficult year for the industry.
- Disappointment with 2018 performance is the clear driver of redemptions in February and 2019.**
 The largest sources of outflows in February and YTD 2019 have been from managers which produced negative results in 2018. Given a broadly negative industry in 2018, that may not sound like much of a surprise, however, in every category where negative 2018 performers have had large redemptions in 2019, there are funds which performed well, and have been able to generate inflows this year. This reiterates a point we've made many times before when the focus shifts to whether or not the industry is in decline, that investors are generally not going to pay for disappointing performance, no matter what the industry or asset class, and there was an elevated level of disappointing returns in 2018.
- Despite aggregate flows being disappointing, there are preferences emerging, beginning with multi-strategy funds.**
 For a second consecutive month, investors have allocated a meaningful amount to multi-strategy hedge funds. There is a clear preference for large managers in the space, and those able to perform well in 2018 have been the most successful this year. The average return in 2018 for the ten largest inflows in February was over 3%, and all but one product was positive in 2018. For those with the largest redemptions in February, their average return was nearly -7%.
- Investors are clearly not enthused by most macro and managed futures returns.**
 Performance between the two has not been exactly similar in the last two years, with macro generally outperforming managed futures, but investors have been mostly shunning both strategies in 2019. Managed futures funds haven't been able to attract meaningful investor interest since February 2018, while macro managers have seen mostly aggregate redemptions since August 2018. For both segments, 2/3rds of reporting managers have faced redemption pressures to begin 2019.
- Long/short equity continues to see redemptions.**
 While not at the level seen in January, investor flows were negative again in February. It's not all negative, however, as fewer than half of reporting managers experienced outflows in February and good performers are being rewarded, which shows demand exists.



US Firms See Inflows While Assets Depart European Funds...Again

Flows by Investment Region and Domicile

Investment Region	Feb	YTD 2018	2018	2017	Est. AUM
Americas	\$0.34	\$0.62	\$0.82	(\$23.16)	\$927.70
Europe	(\$0.97)	(\$3.56)	(\$6.82)	\$5.81	\$240.89
Asia	\$1.33	\$1.28	(\$3.01)	(\$1.94)	\$103.46
Emerging Markets	\$0.96	\$1.59	(\$3.17)	\$8.50	\$300.72
Global Markets	\$0.95	(\$0.95)	(\$27.66)	\$47.01	\$1,977.31
Firm Domicile	Feb	YTD 2018	2018	2017	Est. AUM
Americas	\$6.84	\$8.05	(\$20.90)	\$4.07	\$2,452.60
Asia (ex-Oceania)	\$0.54	\$0.87	(\$0.75)	\$5.19	\$67.43
Europe	(\$6.13)	(\$10.92)	(\$14.28)	\$28.86	\$765.62

Flows by Size and Prior Year Performance - Current Month

2018 Performance	<0%		0-5%		>5%	
Product Size	<\$1B	>\$1B	<\$1B	>\$1B	<\$1B	>\$1B
Americas	(\$0.59)	(\$1.75)	(\$0.03)	\$2.65	\$0.17	(\$0.11)
Europe	(\$0.18)	(\$0.76)	(\$0.03)	\$0.00	(\$0.06)	\$0.07
Asia	(\$0.02)	\$1.52	\$0.00	\$0.00	\$0.00	(\$0.17)
Emerging Markets	\$0.10	\$0.78	(\$0.01)	\$0.22	\$0.01	(\$0.14)
Global Markets	(\$2.63)	(\$10.68)	(\$0.19)	\$3.36	\$1.27	\$9.81
Firm Domicile						
Americas	(\$0.95)	(\$10.73)	\$0.44	\$7.15	\$1.69	\$9.24
Asia (ex-Oceania)	(\$0.01)	\$0.91	(\$0.20)	\$0.00	\$0.00	(\$0.17)
Europe	(\$2.39)	(\$2.33)	(\$0.49)	(\$1.14)	(\$0.31)	\$0.53

Flows by Size and Prior Year Performance - YTD 2019

2018 Performance	<0%		0-5%		>5%	
Product Size	<\$1B	>\$1B	<\$1B	>\$1B	<\$1B	>\$1B
Americas	(\$0.97)	(\$2.26)	(\$0.72)	\$2.64	\$0.69	\$1.24
Europe	(\$0.81)	(\$1.84)	(\$0.27)	\$0.00	(\$0.05)	(\$0.58)
Asia	(\$0.12)	\$2.39	(\$0.22)	\$0.00	(\$0.52)	(\$0.26)
Emerging Markets	(\$0.62)	\$0.93	\$0.32	\$0.41	\$0.36	\$0.20
Global Markets	(\$5.67)	(\$16.76)	(\$0.88)	\$7.45	\$1.31	\$13.61
Firm Domicile						
Americas	(\$2.78)	(\$14.03)	(\$0.99)	\$10.59	\$2.09	\$13.17
Asia (ex-Oceania)	(\$0.09)	\$1.90	(\$0.59)	\$0.00	(\$0.09)	(\$0.26)
Europe	(\$4.60)	(\$5.50)	(\$0.51)	(\$0.50)	(\$0.58)	\$0.77

Key Points

- Investors are not allocating to outperforming Europe-based funds like they are to US-based funds.

The only major difference that can be found between Europe- and US-domiciled managers flows comes down to a willingness to allocate to outperforming managers. For firms in both regions, poor performance has resulted in losing assets, but firms in the US which performed well last year have had success raising new capital, but those in Europe who performed well have not. The top 20 performing US-based funds in 2018 with over \$500 million in AUM have raised over \$12 billion in 2019, with only five products having redemptions. The same group for Europe has seen redemptions of nearly \$1 billion and thirteen of the twenty have outflows in 2019.

- EM managers saw a second month of inflows to start 2019.

Flows continue to come into EM strategies to start 2019, but similar to what we saw in January, allocations are not widespread. The implication is that despite the seeming positivity toward EM strategies, the capital raising environment remains difficult for the majority of products. The highest concentration of funds able to generate net inflows is within those focused on EM fixed income/credit opportunities.

Industry performance tables can be found on the following page.



Hedge Fund Performance Tables

Industry – Market – Strategy Performance

Industry Benchmarks	Feb	YTD 2019	2018	2017
Hedge Fund Aggregate	1.18%	4.47%	-5.06%	8.94%
50% MSCI World/50% Citi WGBI	1.04%	5.68%	-4.60%	14.75%
S&P 500	3.21%	11.48%	-4.38%	21.83%

Primary Markets	Feb	YTD 2019	2018	2017
Equity	1.78%	6.75%	-7.49%	13.45%
Broad Capital Structure	0.97%	4.60%	-3.52%	8.90%
Commodities	0.86%	2.96%	-6.04%	0.46%
Fixed Income/Credit	0.78%	2.49%	0.06%	6.04%
Broad Financial Derivatives	0.37%	-0.32%	-5.46%	2.35%
Broad Multi-Market	0.11%	1.61%	-3.89%	4.58%
Volatility/Options Strategies	0.03%	1.16%	-1.70%	4.81%
FX/Currency	-0.19%	0.19%	0.83%	-3.46%

Primary Strategy	Feb	YTD 2019	2018	2017
Event Driven - Activist	3.01%	7.59%	-10.91%	11.13%
Long/Short Equity	1.86%	7.50%	-6.99%	12.13%
Convertible Arbitrage	1.42%	4.21%	-2.21%	5.71%
Quantitative Directional Equity	1.34%	3.28%	-4.70%	10.45%
Origination & Financing	1.33%	2.62%	4.80%	6.69%
Event Driven	0.93%	3.54%	-1.98%	7.44%
Relative Value Credit	0.83%	2.13%	-0.63%	5.48%
Directional Credit	0.78%	2.28%	0.74%	5.32%
Distressed	0.71%	3.34%	-0.35%	6.64%
Managed Futures	0.65%	0.00%	-6.09%	2.76%
Multi-Strategy Credit	0.57%	1.89%	0.01%	5.70%
Multi-Strategy	0.48%	2.78%	-3.35%	6.84%
Macro	-0.01%	0.84%	-2.87%	4.05%
Market Neutral Equity	-0.62%	0.51%	-3.10%	3.58%

Prominent Universes By Size

	Feb	YTD 2019	2018	2017
Ten Largest Hedge Funds	0.61%	1.40%	0.35%	5.75%
Large Funds (>\$1b)	0.61%	2.75%	-3.49%	5.91%
Mid-size Funds (<\$1b, >\$250m)	0.84%	3.17%	-2.69%	7.54%
Small Funds (<\$250m)	1.37%	5.24%	-6.07%	9.74%
Ten Largest Event Driven	0.65%	2.23%	-5.96%	8.63%
Event Driven >\$1b	0.59%	2.23%	-3.32%	7.16%
Event Driven <\$1b	1.06%	3.98%	-1.98%	7.50%
Ten Largest Fixed Income/Credit	0.42%	1.15%	-0.05%	3.97%
Fixed Income/Credit >\$1b	0.55%	1.61%	0.91%	5.75%
Fixed Income/Credit <\$1b	0.83%	2.41%	0.36%	5.50%
Ten Largest Long/Short Equity	0.19%	2.61%	-4.54%	9.50%
Long/Short Equity >\$1b	0.74%	5.11%	-5.10%	8.73%
Long/Short Equity <\$1b	1.96%	7.57%	-6.83%	12.51%
Ten Largest Macro	0.05%	0.82%	2.13%	2.24%
Macro >\$1b	-0.24%	1.57%	-2.73%	5.82%
Macro <\$1b	0.05%	0.65%	-2.91%	3.98%
Ten Largest Managed Futures	0.49%	-1.74%	-6.68%	4.00%
Managed Futures >\$1b	0.82%	-0.46%	-7.63%	4.22%
Managed Futures <\$1b	0.62%	0.04%	-5.89%	2.71%
Ten Largest Multi-Strategy	0.10%	1.80%	-1.57%	5.39%
Multi-Strategy >\$1b	0.35%	2.14%	-2.14%	4.16%
Multi-Strategy <\$1b	0.52%	3.10%	-4.13%	7.68%

Regional – Domicile Performance

Economic Development	Feb	YTD 2019	2018	2017
Emerging Markets	1.63%	5.98%	-10.84%	19.54%
Developed Markets	1.32%	5.17%	-4.14%	9.02%

Regional Exposure	Feb	YTD 2019	2018	2017
Asia	2.47%	5.36%	-10.72%	21.27%
Africa/Middle East	1.85%	4.66%	-8.10%	15.41%
North America	1.61%	6.19%	-3.93%	8.71%
Developed Europe	0.44%	2.30%	-3.28%	8.74%

Country Exposure	Feb	YTD 2019	2018	2017
China	6.15%	13.09%	-16.63%	34.74%
Asia ex-Japan	2.45%	5.63%	-11.29%	21.76%
Russia	-0.15%	7.25%	-13.20%	13.16%
India	-0.18%	-4.60%	-16.31%	32.87%
Japan	-0.25%	1.69%	-8.02%	13.77%
Brazil	-3.52%	4.56%	-2.26%	15.13%

Firm Domicile - Region	Feb	YTD 2019	2018	2017
Asia	2.29%	5.05%	-9.51%	18.08%
United States	1.30%	5.08%	-4.18%	7.94%
Continental Europe	0.98%	3.64%	-6.52%	7.19%
United Kingdom	0.63%	2.82%	-4.21%	9.25%

Firm Domicile - Asia	Feb	YTD 2019	2018	2017
Hong Kong	3.63%	8.42%	-9.49%	21.42%
Asia ex-Japan	2.56%	5.69%	-10.32%	19.31%
Singapore	2.42%	3.11%	-7.74%	13.37%
China	2.37%	6.86%	-11.42%	22.18%
Japan	-1.20%	-1.37%	-2.33%	6.58%

Firm Domicile - Rest of World	Feb	YTD 2019	2018	2017
Oceania	1.91%	4.10%	-5.60%	9.54%
Middle East	0.48%	2.38%	-3.69%	7.79%
Offshores	0.39%	4.58%	-15.48%	10.90%
Latin America	-1.73%	3.00%	-0.84%	15.04%



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