

INSTITUTIONAL INTELLIGENCE

Hedge Fund Asset Flows Report

The distribution and flow of assets
through the hedge fund industry

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EXECUTIVE SUMMARY



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With what was likely a very disappointing first half of 2019 for the majority of managers from a capital raising perspective in the rear view mirror, hopes that the second half would bring some sort of major tide changes have mostly been tempered as redemption pressures continued broadly across the hedge fund industry in July.

As has been the case for most of the year, there remain a minority of managers who are bucking this trend, but the proportion is small. Most recently it has been event driven strategies seeing allocations, and even managed futures are seeing pockets of interest. While allocations have been highly targeted, nevertheless they exist, which several months ago seemed highly unlikely.

It is not a positive sign for the industry, however, when hope lies in small pockets. The most recent hope comes in the form of market turbulence, often perceived to be an opportunity to shine, though recent history has shown many not able to take advantage of adverse conditions.

Highlights

- Investors redeemed an estimated \$8.42 billion from hedge funds in July 2019. YTD flows are now negative \$55.91 billion, in line with levels seen in 2016.
- Interest in event driven strategies continued in July, though allocations still remain targeted.
- Long/short equity flows continue to be highly negative, though there has been clear interest in products able to perform well.
- EM hedge fund flows were negative in July despite ongoing interest in exposure to China.

Redemptions Continue to Begin the Second Half of 2019

Investors redeemed an estimated \$8.42 billion from hedge funds in July 2019, bringing YTD flows to a negative \$55.91 billion. Performance was again accretive, lifting total industry AUM to \$3.303 trillion.

2019 redemptions are less like 2018's and more like 2016's redemption levels.

Through the first seven months of 2016, investors withdrew an estimated \$58.1 billion from hedge funds. By the time 2016 had come to an end, investors had withdrawn over \$111 billion. While it is not known exactly how the remainder of 2019 will unfold for the industry, so far it is a very difficult environment for the majority of funds.

No matter how bad the numbers are in aggregate, hedge funds are not universally feeling the pain.

In the last 11 months, net flow has been positive only once for the industry. In July, the proportion of managers with outflows was the highest in the last four months and second highest in the last seven, and a well above normal proportion of \$1b+ funds had redemption levels above 5% of AUM. 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. It's nowhere near the majority, but 37% of reporting funds had net inflows in 2019.

ALL HEDGE FUND INDUSTRY FLOWS

	July	Q2 2019	YTD 2019	2018	Est. AUM
All Hedge Funds	(\$8.42)	(\$30.70)	(\$55.91)	(\$37.18)	\$3,303.24
Equity	(\$1.82)	(\$5.15)	(\$12.86)	\$1.85	\$1,144.58
Fixed Income/Credit	\$0.31	(\$11.73)	(\$12.55)	(\$0.38)	\$995.75
Commodities	(\$1.62)	\$1.24	(\$0.26)	\$2.25	\$81.83
Multi-Asset	(\$5.21)	(\$14.25)	(\$29.43)	(\$40.63)	\$1,139.81
Primary Strategy	July	Q2 2019	YTD 2019	2018	Est. AUM
Event Driven	\$2.88	\$5.03	\$10.27	(\$3.53)	\$558.23
Relative Value Credit	\$0.78	(\$2.16)	(\$2.47)	(\$5.42)	\$225.55
MBS Strategies	\$0.24	\$1.25	\$2.99	\$7.10	\$99.80
Distressed	\$0.16	(\$1.48)	(\$2.14)	\$0.80	\$236.47
Directional Credit	\$0.07	(\$6.18)	(\$6.77)	\$4.20	\$159.53
Convertible Arbitrage	\$0.05	\$0.60	\$1.18	(\$0.01)	\$55.52
Market Neutral Equity	(\$0.65)	(\$0.44)	(\$1.40)	\$12.38	\$77.48
Macro	(\$0.98)	(\$7.10)	(\$12.75)	\$5.38	\$278.61
Multi-Strategy	(\$1.64)	(\$5.49)	(\$3.14)	(\$19.32)	\$523.42
Managed Futures	(\$1.73)	(\$3.18)	(\$10.95)	(\$19.33)	\$118.43
Long/Short Equity	(\$4.55)	(\$10.94)	(\$25.53)	(\$10.74)	\$765.57

Source: eVestment. Data in USD Billion.

Event driven funds were the lone universe to receive meaningful inflows in July.

During this current stretch of aggregate outflows, the event driven universe has bucked the trend. The universe has received net inflows in five of the last six months, and its inflows of just over \$10 billion in 2019 make it by far the leading segment. A peek below the hood, however, shows that only 43% of managers within the universe have experienced net inflows. That is better than several other segments, but still not wholly encouraging because it shows that even when there is apparent interest in a strategy, those reaping the benefits are the minority.

Long/short equity redemptions have been going on for a long time.

It has been 17 months since investors showed any sort of broad interest in long/short equity funds. Part of the problem has been periodic large losses from the group, which have caused meaningful underperformance of most major equity markets in which they invest. There has

been clear dissatisfaction by investors with products which performed poorly last year, and clear satisfaction with products which did the opposite. Unfortunately, the latter group is not large and consequently few long/short equity managers are successfully raising capital in 2019. Only 29% of reporting funds have experienced net inflows in 2019.

Despite aggregate redemptions, there are slight signs of interest in managed futures.

There is no need to recap the saga of managed futures over the last 17 months other than to say it has been a difficult stretch. That aside, there are funds here too able to gain new assets, and as the year progresses, some products have been quite successful. This is important as it shows there is appetite for the strategy, which was earnestly in question for awhile. Performance is especially key here, which may also be a positive because some underperforming products from 2018 have been doing very well in 2019.

FLows BY SIZE AND PRIOR YEAR PERFORMANCE - CURRENT MONTH

2018 Performance	<0%		0-5%		>5%	
Primary Strategy	<\$1B	>\$1B	<\$1B	>\$1B	<\$1B	>\$1B
All Hedge Funds	(\$3.34)	(\$19.91)	(\$0.03)	\$1.81	\$1.33	\$11.71
Equity	(\$1.15)	(\$7.77)	\$0.50	(\$0.11)	\$0.69	\$6.02
Fixed Income/Credit	(\$0.78)	(\$2.08)	(\$0.10)	\$2.87	\$0.63	(\$0.22)
Commodities	\$0.09	(\$2.92)	(\$0.02)	\$0.06	\$0.08	\$1.08
Multi-Asset	(\$1.41)	(\$7.14)	(\$0.41)	(\$1.01)	(\$0.07)	\$4.83
Primary Strategy	<\$1B	>\$1B	<\$1B	>\$1B	<\$1B	>\$1B
Event Driven	(\$0.01)	\$0.00	\$0.06	\$1.21	\$0.35	\$1.27
Relative Value Credit	\$0.04	(\$0.04)	(\$0.07)	\$0.17	\$0.68	\$0.00
MBS Strategies	\$0.04	(\$0.01)	\$0.00	\$0.21	\$0.00	\$0.00
Distressed	(\$0.01)	\$0.00	\$0.00	\$0.00	\$0.01	\$0.15
Directional Credit	(\$0.39)	(\$1.81)	(\$0.04)	\$2.70	(\$0.07)	(\$0.32)
Convertible Arbitrage	(\$0.09)	\$0.00	(\$0.02)	\$0.00	\$0.00	\$0.15
Market Neutral Equity	\$0.00	(\$0.84)	\$0.57	(\$0.48)	\$0.10	\$0.00
Macro	\$0.46	(\$6.17)	(\$0.12)	\$0.19	\$0.10	\$4.55
Multi-Strategy	(\$0.84)	(\$0.24)	(\$0.02)	(\$1.20)	\$0.05	\$0.61
Managed Futures	(\$1.29)	(\$1.13)	(\$0.30)	\$0.06	\$0.03	\$0.90
Long/Short Equity	(\$1.21)	(\$6.93)	(\$0.06)	(\$0.83)	\$0.08	\$4.40

Source: eVestment. Data in USD Billion.

FLows BY SIZE AND PRIOR YEAR PERFORMANCE - FULL YEAR 2019

2018 Performance	<0%		0-5%		>5%	
Product Size	<\$1B	>\$1B	<\$1B	>\$1B	<\$1B	>\$1B
All Hedge Funds	(\$23.95)	(\$94.78)	(\$1.65)	\$7.93	\$5.58	\$50.96
Equity	(\$11.84)	(\$40.80)	\$1.80	\$3.65	\$0.69	\$33.64
Fixed Income/Credit	(\$4.09)	(\$9.21)	(\$1.53)	(\$0.35)	\$1.85	\$0.78
Commodities	(\$0.79)	(\$2.09)	(\$1.05)	\$0.14	\$0.87	\$2.66
Multi-Asset	(\$7.20)	(\$42.99)	(\$1.01)	\$5.41	\$2.15	\$14.21
Primary Strategy	<\$1B	>\$1B	<\$1B	>\$1B	<\$1B	>\$1B
Event Driven	(\$2.67)	(\$0.09)	\$0.62	\$3.56	\$1.50	\$7.35
Relative Value Credit	\$0.10	(\$2.43)	(\$0.05)	(\$1.66)	\$1.17	\$0.41
MBS Strategies	\$0.19	\$0.45	\$0.46	(\$0.60)	\$0.66	\$1.83
Distressed	(\$0.34)	(\$0.29)	(\$0.17)	\$0.00	(\$0.22)	(\$1.11)
Directional Credit	(\$3.66)	(\$6.18)	(\$0.82)	\$1.57	\$0.63	\$1.69
Convertible Arbitrage	(\$0.08)	\$0.00	\$0.26	\$0.00	\$0.03	\$0.97
Market Neutral Equity	(\$0.84)	(\$2.09)	\$1.14	(\$0.15)	\$0.54	\$0.00
Macro	(\$0.98)	(\$19.68)	(\$0.35)	(\$1.61)	\$1.04	\$8.84
Multi-Strategy	(\$1.98)	(\$11.20)	(\$0.13)	\$3.34	\$0.52	\$6.31
Managed Futures	(\$3.76)	(\$12.94)	(\$1.72)	\$2.55	\$1.40	\$3.52
Long/Short Equity	(\$9.64)	(\$38.23)	(\$0.01)	\$0.38	(\$1.01)	\$22.99

Source: eVestment. Data in USD Billion.

Demand for Exposure to Asia Evident Despite Negativity to EM

EM fund flows were negative in July, despite lingering preferences.

We have been persistent in noting that whenever EM fund flows were positive in 2019, allocations were very targeted, meaning few products were benefiting. In some months, when those themes abated, net flow shifted negative as the broader theme of negativity most funds were feeling showed up in the numbers. In July, there was a mix of both. Demand for exposure to China was evident, with the products which had been receiving interest continuing to see new allocations, but there was also the pervasive negativity toward many more broad EM strategies and some China-focused equities. The result during the month was negative, albeit

not aggressively so, which is likely how most managers within the universe would feel about their capital raising efforts in 2019.

Outflows from European managers returned in July.

European managers have, in aggregate, endured more than their proportional share of redemption pressures in 2019. While performance has been a primary influence, fingers can no longer be pointed toward any one or two specific universes. Products receiving the most redemption pressures run the gamut of the industry's most prominent strategies. Unfortunately for several managers who underperformed in 2018, 2019 has not shown significant improvements.

FLows BY INVESTMENT REGION & DOMICILE

<i>Investment Region</i>	July	Q2 2019	YTD 2019	2018	Est. AUM
Americas	(\$0.90)	(\$4.44)	(\$5.82)	\$0.82	\$935.05
Europe	(\$2.27)	(\$4.20)	(\$12.58)	(\$6.82)	\$233.54
Asia	\$0.47	\$0.40	\$3.86	(\$3.01)	\$108.73
Emerging Markets	(\$0.52)	\$0.56	\$3.67	(\$3.17)	\$308.09
Global Markets	(\$5.71)	(\$21.54)	(\$40.42)	(\$27.66)	\$2,035.30
<i>Firm Domicile</i>	July	Q2 2019	YTD 2019	2018	Est. AUM
Americas	(\$2.24)	(\$16.86)	(\$22.39)	(\$20.90)	\$2,511.63
Europe	(\$6.32)	(\$12.00)	(\$33.23)	(\$14.28)	\$764.64
Asia (ex-Oceania)	(\$1.35)	(\$0.46)	\$0.89	(\$0.75)	\$71.67

Source: eVestment. Data in USD Billion.

FLows BY SIZE AND PRIOR YEAR PERFORMANCE - CURRENT MONTH

2018 Performance	<0%		0-5%		>5%	
Investment Region	<\$1B	>\$1B	<\$1B	>\$1B	<\$1B	>\$1B
Americas	(\$0.62)	(\$1.90)	(\$0.17)	\$1.03	\$0.41	\$0.35
Europe	(\$0.37)	(\$1.95)	\$0.11	\$0.00	(\$0.05)	\$0.00
Asia	(\$0.22)	\$0.80	(\$0.11)	\$0.00	\$0.00	\$0.00
Emerging Markets	(\$0.36)	(\$0.31)	\$0.00	\$0.15	\$0.00	\$0.00
Global Markets	(\$2.14)	(\$16.86)	\$0.17	\$0.78	\$0.97	\$11.37
Firm Domicile	<\$1B	>\$1B	<\$1B	>\$1B	<\$1B	>\$1B
Americas	(\$1.54)	(\$16.23)	\$0.44	\$3.09	\$0.84	\$11.16
Europe	(\$1.66)	(\$4.05)	(\$0.26)	(\$1.40)	\$0.49	\$0.56
Asia (ex-Oceania)	(\$0.03)	(\$1.13)	(\$0.19)	\$0.00	\$0.00	\$0.00

Source: eVestment. Data in USD Billion.

FLows BY SIZE AND PRIOR YEAR PERFORMANCE - FULL YEAR 2019

2018 Performance	<0%		0-5%		>5%	
Investment Region	<\$1B	>\$1B	<\$1B	>\$1B	<\$1B	>\$1B
Americas	(\$7.76)	(\$7.56)	\$0.29	\$5.74	\$0.60	\$2.86
Europe	(\$2.18)	(\$8.78)	(\$0.75)	\$0.00	(\$0.22)	(\$0.65)
Asia	(\$1.25)	\$4.81	(\$0.29)	\$0.00	(\$0.44)	\$1.04
Emerging Markets	(\$1.26)	\$3.24	(\$0.40)	\$1.30	\$0.45	\$0.34
Global Markets	(\$12.79)	(\$83.19)	(\$0.82)	\$3.22	\$5.55	\$47.62
Firm Domicile	<\$1B	>\$1B	<\$1B	>\$1B	<\$1B	>\$1B
Americas	(\$15.33)	(\$82.05)	\$2.49	\$12.94	\$5.64	\$53.92
Europe	(\$8.39)	(\$22.77)	(\$1.76)	(\$2.17)	\$1.02	\$0.84
Asia (ex-Oceania)	(\$0.67)	\$1.40	(\$0.84)	\$0.00	(\$0.03)	\$1.04

Source: eVestment. Data in USD Billion.

Hedge Fund Performance Tables

INDUSTRY - MARKET - STRATEGY PERFORMANCE

<i>Industry Benchmarks</i>	July	YTD 2019	2018	2017
Hedge Fund Aggregate	0.49%	7.37%	-5.08%	8.91%
50% MSCI World/50% Citi WGBI	0.01%	11.24%	-4.60%	14.75%
S&P 500	1.44%	20.24%	-4.38%	21.83%

<i>Primary Markets</i>	July	YTD 2019	2018	2017
Broad Financial Derivatives	1.74%	7.47%	-5.31%	2.27%
FX/Currency	0.97%	2.42%	0.76%	-3.46%
Broad Multi-Market	0.85%	5.86%	-3.89%	4.49%
Fixed Income/Credit	0.48%	4.78%	0.00%	6.01%
Broad Capital Structure	0.43%	6.83%	-3.42%	8.87%
Volatility/Options Strategies	0.41%	4.37%	-2.39%	4.82%
Equity	0.33%	9.21%	-7.53%	13.42%
Commodities	-0.55%	3.03%	-6.00%	0.46%

<i>Primary Strategy</i>	July	YTD 2019	2018	2017
Managed Futures	1.97%	8.30%	-5.93%	2.73%
Event Driven - Activist	1.41%	8.55%	-10.30%	10.89%
Convertible Arbitrage	0.66%	6.75%	-2.22%	5.49%
Market Neutral Equity	0.65%	1.38%	-3.21%	3.58%
Macro	0.63%	5.07%	-2.95%	3.87%
Quantitative Directional Equity	0.50%	7.12%	-4.73%	10.45%
Directional Credit	0.43%	4.65%	0.68%	5.32%
Long/Short Equity	0.35%	10.09%	-7.04%	12.12%
Multi-Strategy	0.34%	4.98%	-3.35%	6.92%
Origination & Financing	0.34%	3.88%	4.99%	6.69%
Multi-Strategy Credit	0.29%	4.32%	0.03%	5.71%
Event Driven	0.24%	4.89%	-1.92%	7.42%
Relative Value Credit	0.14%	4.31%	-0.98%	5.48%
Distressed	-0.35%	4.55%	-0.21%	6.62%

Source: eVestment.

PROMINENT UNIVERSES BY SIZE

	July	YTD 2019	2018	2017
Ten Largest Hedge Funds	1.16%	5.64%	0.41%	5.91%
Large Funds (>\$1b)	0.67%	6.26%	-3.33%	5.89%
Mid-size Funds (<\$1b, >\$250m)	0.75%	6.25%	-2.72%	7.53%
Small Funds (<\$250m)	0.40%	8.05%	-6.12%	9.72%
Ten Largest Event Driven	-1.38%	3.64%	-6.52%	8.81%
Event Driven >\$1b	-1.05%	3.79%	-3.38%	7.01%
Event Driven <\$1b	0.34%	5.27%	-1.88%	7.47%
Ten Largest Fixed Income/Credit	-0.01%	4.31%	-0.01%	4.30%
Fixed Income/Credit >\$1b	0.24%	3.91%	0.91%	5.75%
Fixed Income/Credit <\$1b	0.33%	4.66%	0.27%	5.52%
Ten Largest Long/Short Equity	0.99%	7.36%	-4.69%	8.57%
Long/Short Equity >\$1b	0.48%	8.48%	-5.19%	8.76%
Long/Short Equity <\$1b	0.34%	10.10%	-6.87%	12.48%
Ten Largest Macro	1.15%	6.11%	2.13%	2.24%
Macro >\$1b	0.23%	6.01%	-2.57%	5.06%
Macro <\$1b	0.80%	5.48%	-3.14%	3.94%
Ten Largest Managed Futures	3.53%	11.06%	-5.94%	3.81%
Managed Futures >\$1b	3.92%	12.62%	-6.76%	4.62%
Managed Futures <\$1b	1.69%	7.63%	-5.88%	2.65%
Ten Largest Multi-Strategy	0.08%	4.37%	-2.47%	6.87%
Multi-Strategy >\$1b	0.45%	3.51%	-2.13%	4.64%
Multi-Strategy <\$1b	0.40%	5.88%	-4.12%	7.63%

Source: eVestment.

REGIONAL - DOMICILE PERFORMANCE

<i>Economic Development</i>	July	YTD 2019	2018	2017
Emerging Markets	0.20%	9.25%	-10.78%	19.48%
Developed Markets	0.40%	7.46%	-4.19%	8.99%

<i>Regional Exposure</i>	July	YTD 2019	2018	2017
Developed Europe	0.78%	4.84%	-3.27%	8.76%
North America	0.41%	8.34%	-4.04%	8.68%
Africa/Middle East	-0.19%	7.04%	-8.04%	15.41%
Asia	-0.50%	6.57%	-10.70%	21.23%

<i>Country Exposure</i>	July	YTD 2019	2018	2017
Brazil	4.28%	13.95%	-2.29%	15.13%
Russia	1.05%	17.76%	-13.20%	13.16%
China	0.53%	16.29%	-16.63%	34.74%
Japan	0.03%	2.67%	-8.02%	13.77%
Asia ex-Japan	-0.23%	5.82%	-11.33%	21.76%
India	-5.67%	-3.95%	-16.23%	32.40%

<i>Firm Domicile - Region</i>	July	YTD 2019	2018	2017
United Kingdom	0.91%	6.30%	-4.16%	9.25%
Continental Europe	0.80%	8.06%	-6.54%	7.18%
United States	0.40%	7.67%	-4.25%	7.92%
Asia	-0.51%	6.05%	-9.51%	17.92%

<i>Firm Domicile - Asia</i>	July	YTD 2019	2018	2017
Japan	0.53%	0.75%	-2.33%	6.58%
Hong Kong	0.05%	9.36%	-9.47%	21.42%
China	-0.24%	8.06%	-11.42%	22.18%
Asia ex-Japan	-0.61%	6.71%	-10.32%	19.14%
Singapore	-1.45%	4.57%	-7.74%	12.79%

<i>Firm Domicile - Rest of World</i>	July	YTD 2019	2018	2017
Latin America	2.19%	9.29%	-0.88%	15.04%
Oceania	1.56%	10.30%	-5.16%	9.54%
Middle East	1.45%	9.12%	-3.53%	7.79%
Offshores	-0.50%	6.69%	-15.70%	10.79%

Source: eVestment.

ABOUT EVESTMENT

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