

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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The negative commentary around the current state of flows has become monotonous. Redemption pressures continued into August making it the sixth consecutive month of outflow and eleventh in the last twelve. It has been more than a year since the majority of managers' data has indicated widespread allocations.

This August offered a break from this new normal in both positive, and still yet negative ways. On the bright side there were targeted allocations to segments which have not seen interest in quite awhile, but it was also the first August since eVestment began tracking monthly asset flows in 2009 that the industry had aggregate outflows during this month.

As we have noted repeatedly in these reports, the problem is not a hedge fund problem per se, it is most likely a mismatch between expectations and cost and the issues are not affecting the entire industry. We could comment on numerous success stories, but that would leave the majority feeling we are not understanding the dominant theme.

Highlights

- Investors redeemed an estimated \$6.51 billion from hedge funds in August 2019. YTD flows are now negative \$63.61 billion, surpassing levels seen in 2016.
- Interest in event driven strategies continued in August and allocations were a bit more widespread.
- Long/short equity and macro were the primary drivers of industry outflows in August.
- Interest in China wavered in August as EM outflows rose from recent levels.

Redemptions Continue into August though Less Widespread

Investors redeemed an estimated \$6.51 billion from hedge funds in August 2019, bringing YTD flows to a negative \$63.61 billion. Performance also reduced assets as total industry AUM declined to \$3.259 trillion.

August produces another standout moment for hedge fund flows.

The negative commentary around the current state of flows has become monotonous. August redemptions were the sixth consecutive month of outflow and eleventh in the last twelve, and it has been more than a year since the majority of managers' data has indicated widespread

allocations, but this August was special because it was the first August since eVestment began tracking monthly asset flows in 2009 that the industry had aggregate outflows. While there were some highlights which we note below, on the surface August was another in a string of difficult months for the industry.

There are two ways to interpret the fact that redemptions were not widespread across strategies in August.

First, the majority of redemptions came from macro and long/short equity strategies in August and outside of these two segments flows were

ALL HEDGE FUND INDUSTRY FLOWS

	August	Last 3mo	YTD 2019	2018	Est. AUM
All Hedge Funds	(\$6.51)	(\$35.43)	(\$63.61)	(\$37.18)	\$3,258.97
Equity	(\$1.92)	(\$7.67)	(\$15.36)	\$1.85	\$1,140.87
Fixed Income/Credit	\$0.01	(\$8.00)	(\$10.83)	(\$0.38)	\$996.74
Commodities	(\$0.92)	(\$2.12)	(\$0.88)	\$2.25	\$80.02
Multi-Asset	(\$3.69)	(\$16.61)	(\$35.68)	(\$40.63)	\$1,100.00
Primary Strategy	August	Last 3mo	YTD 2019	2018	Est. AUM
Event Driven	\$2.59	\$4.52	\$13.28	(\$3.53)	\$560.34
Managed Futures	\$1.50	(\$2.45)	(\$10.62)	(\$19.33)	\$131.02
MBS Strategies	\$1.40	\$2.37	\$6.17	\$7.10	\$103.49
Multi-Strategy	\$1.06	(\$7.17)	(\$4.72)	(\$19.32)	\$525.74
Convertible Arbitrage	\$0.43	\$0.97	\$1.62	(\$0.01)	\$56.03
Market Neutral Equity	\$0.35	(\$0.50)	(\$1.16)	\$12.38	\$77.00
Distressed	\$0.23	(\$1.15)	(\$1.59)	\$0.80	\$236.98
Relative Value Credit	\$0.16	(\$0.52)	(\$2.35)	(\$5.42)	\$225.32
Directional Credit	(\$0.53)	(\$5.28)	(\$5.84)	\$4.20	\$159.49
Long/Short Equity	(\$5.33)	(\$13.70)	(\$31.14)	(\$10.74)	\$759.71
Macro	(\$6.18)	(\$7.16)	(\$18.61)	\$5.38	\$224.14

Source: eVestment. Data in USD Billion.

net positive during the month. This would seem like a positive point for the industry (ignoring for now the fact that inflows in August used to be the status quo), but the second issue is that in categories which had net inflows, rarely did the majority of products actually receive net inflows. Only within event driven did more products have inflows than outflows.

Managed futures flows broke an exceptionally long string of redemptions.

It has been seventeen months since overall allocations outpaced redemptions to managed futures funds, but it finally happened in August that there were some meaningful allocations to funds. This was by no means a broadly positive event as a handful of products had inflows worth noting, and only 35% of managers had net inflows, but on the other side it is the lack of large redemptions in August that is equally worth paying attention to. Once again, however, August has historically been a positive month when looming redemption pressures are not felt until the quarter's end.

The story for long/short equity outflows remains the same...it comes down to performance.

As noted in our prior report, 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 30% of reporting funds have experienced net inflows in 2019. In August, any meaningful inflows went to those managers who were able to produce meaningfully positive results last year.

Redemptions from macro managers spiked in August.

The trend has been for redemptions from macro managers in recent months. Outflows have not been quite as persistent as those from managed futures, but redemption pressures have been omnipresent. In August, outflows spiked to their highest level of 2019, and largest since the end of 2013.

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	(\$1.00)	(\$11.38)	(\$0.03)	\$0.97	\$0.16	\$4.77
Equity	(\$0.88)	(\$6.42)	\$0.20	(\$0.13)	(\$0.07)	\$5.39
Fixed Income/Credit	\$0.21	(\$1.79)	\$0.10	(\$0.42)	\$0.82	\$1.08
Commodities	(\$0.06)	(\$0.90)	(\$0.00)	\$0.00	(\$0.08)	\$0.12
Multi-Asset	(\$0.35)	(\$2.61)	(\$0.31)	\$1.48	(\$0.53)	(\$1.38)
Primary Strategy	<\$1B	>\$1B	<\$1B	>\$1B	<\$1B	>\$1B
Event Driven	(\$0.11)	\$0.07	(\$0.19)	\$1.32	\$0.29	\$1.21
Managed Futures	(\$0.31)	\$1.72	(\$0.18)	\$0.00	\$0.07	\$0.20
MBS Strategies	\$0.00	\$0.35	(\$0.00)	\$0.24	\$0.01	\$0.80
Multi-Strategy	\$0.12	(\$1.39)	(\$0.01)	\$1.37	\$0.05	\$0.92
Convertible Arbitrage	\$0.01	\$0.00	(\$0.05)	\$0.00	\$0.00	\$0.47
Market Neutral Equity	(\$0.10)	(\$0.23)	\$0.54	(\$0.08)	\$0.22	\$0.00
Distressed	\$0.16	\$0.00	\$0.07	\$0.00	(\$0.00)	\$0.00
Relative Value Credit	(\$0.02)	(\$0.07)	\$0.08	(\$0.40)	\$0.58	\$0.00
Directional Credit	(\$0.11)	(\$1.73)	(\$0.04)	(\$0.01)	\$0.25	\$1.12
Long/Short Equity	(\$0.61)	(\$5.59)	(\$0.09)	(\$1.41)	(\$0.45)	\$2.82
Macro	(\$0.06)	(\$3.24)	(\$0.10)	\$0.11	(\$0.88)	(\$2.02)

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	(\$25.43)	(\$106.41)	(\$1.39)	\$9.57	\$6.00	\$54.04
Equity	(\$13.04)	(\$46.04)	\$1.93	\$3.54	\$0.64	\$37.61
Fixed Income/Credit	(\$3.95)	(\$10.72)	(\$1.10)	(\$0.48)	\$2.74	\$2.67
Commodities	(\$0.88)	(\$2.42)	(\$1.04)	\$0.13	\$0.77	\$2.56
Multi-Asset	(\$7.64)	(\$47.88)	(\$1.33)	\$7.39	\$1.82	\$11.97
Primary Strategy	<\$1B	>\$1B	<\$1B	>\$1B	<\$1B	>\$1B
Event Driven	(\$2.42)	(\$0.01)	\$0.35	\$4.59	\$2.25	\$8.52
Managed Futures	(\$4.05)	(\$12.17)	(\$1.96)	\$2.54	\$1.48	\$3.55
MBS Strategies	\$0.19	\$0.80	\$0.57	\$0.53	\$0.99	\$3.10
Multi-Strategy	(\$1.91)	(\$15.15)	(\$0.11)	\$4.94	\$0.39	\$7.12
Convertible Arbitrage	(\$0.05)	\$0.00	\$0.24	\$0.00	\$0.03	\$1.40
Market Neutral Equity	(\$0.97)	(\$2.15)	\$1.57	(\$0.14)	\$0.75	(\$0.21)
Distressed	(\$0.18)	\$0.10	(\$0.20)	\$0.00	(\$0.23)	(\$1.09)
Relative Value Credit	\$0.06	(\$2.49)	\$0.27	(\$1.95)	\$1.35	\$0.41
Directional Credit	(\$4.20)	(\$7.70)	(\$0.64)	\$1.61	\$1.51	\$3.59
Long/Short Equity	(\$10.47)	(\$42.77)	(\$0.06)	(\$0.83)	(\$1.81)	\$24.79
Macro	(\$1.17)	(\$22.03)	(\$0.39)	(\$1.23)	\$0.28	\$5.93

Source: eVestment. Data in USD Billion.

Redemption Pressures Increasing for EM Funds

EM outflows in August rose to their highest level since June 2018.

We have been persistent in noting in the prior three months that whenever EM fund flows were positive in 2019, allocations were very targeted, meaning few products were benefiting. Through August, 73% of EM managers have had net outflows, but for the year nearly \$2 billion has flowed in. In August, one of the drivers of EM fund flows for the year, China-focused credit strategies, saw redemptions, which weighed on overall EM fund flows.

Flows out of European hedge fund market paused in August.

European managers have, in aggregate, endured more than their proportional share of redemption pressures over the last year, but that paused in August as US-based managers accounted for the majority of outflows during the month. The largest allocations in Europe went to a handful of alternative risk premia strategies and targeted allocations to managed futures funds. Inflows were mostly offset by redemptions from long/short equity, but also from within the managed futures segment.

FLows BY INVESTMENT REGION & DOMICILE

<i>Investment Region</i>	August	Last 3mo	YTD 2019	2018	Est. AUM
Americas	\$5.67	\$3.51	\$1.37	\$0.82	\$941.08
Europe	(\$2.97)	(\$5.43)	(\$15.35)	(\$6.82)	\$230.86
Asia	(\$1.74)	(\$1.35)	\$1.61	(\$3.01)	\$104.99
Emerging Markets	(\$1.54)	(\$2.79)	\$1.94	(\$3.17)	\$305.19
Global Markets	(\$7.43)	(\$31.02)	(\$50.12)	(\$27.66)	\$1,991.45
<i>Firm Domicile</i>	Aug	Last 3mo	YTD 2019	2018	Est. AUM
Americas	(\$4.76)	(\$23.26)	(\$29.04)	(\$20.90)	\$2,464.66
Europe	(\$0.00)	(\$9.80)	(\$32.59)	(\$14.28)	\$769.59
Asia (ex-Oceania)	(\$1.69)	(\$2.03)	(\$0.33)	(\$0.75)	\$69.53

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	\$0.63	\$0.33	\$0.02	\$2.11	\$0.65	\$1.93
Europe	(\$0.71)	(\$1.96)	(\$0.31)	\$0.00	\$0.01	\$0.00
Asia	(\$0.06)	(\$1.69)	\$0.01	\$0.00	\$0.00	\$0.00
Emerging Markets	(\$0.55)	(\$1.55)	\$0.56	\$0.00	\$0.00	\$0.00
Global Markets	(\$0.87)	(\$7.84)	\$0.29	(\$1.17)	(\$0.52)	\$2.69
Firm Domicile	<\$1B	>\$1B	<\$1B	>\$1B	<\$1B	>\$1B
Americas	(\$1.00)	(\$10.78)	(\$0.00)	\$1.05	\$1.26	\$4.71
Europe	\$0.01	\$0.94	(\$0.03)	\$0.03	(\$1.05)	\$0.12
Asia (ex-Oceania)	(\$0.04)	(\$1.65)	\$0.01	\$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	(\$7.50)	(\$7.03)	\$0.46	\$8.60	\$1.73	\$5.10
Europe	(\$2.89)	(\$10.42)	(\$1.18)	\$0.00	(\$0.20)	(\$0.65)
Asia	(\$1.70)	\$2.97	(\$0.25)	\$0.00	(\$0.44)	\$1.04
Emerging Markets	(\$1.99)	\$1.76	\$0.13	\$1.27	\$0.43	\$0.34
Global Markets	(\$13.40)	(\$91.63)	(\$0.31)	\$2.10	\$4.80	\$48.31
Firm Domicile	<\$1B	>\$1B	<\$1B	>\$1B	<\$1B	>\$1B
Americas	(\$17.30)	(\$93.46)	\$2.53	\$14.47	\$7.46	\$57.26
Europe	(\$7.88)	(\$21.37)	(\$1.79)	(\$1.84)	(\$0.34)	\$0.64
Asia (ex-Oceania)	(\$0.72)	(\$0.03)	(\$0.59)	\$0.00	(\$0.03)	\$1.04

Source: eVestment. Data in USD Billion.

Hedge Fund Performance Tables

INDUSTRY - MARKET - STRATEGY PERFORMANCE

<i>Industry Benchmarks</i>	Aug	YTD 2019	2018	2017
Hedge Fund Aggregate	-0.54%	6.70%	-5.08%	8.92%
50% MSCI World/50% Citi WGBI	0.31%	11.58%	-4.60%	14.75%
S&P 500	-1.58%	18.34%	-4.38%	21.83%

<i>Primary Markets</i>	Aug	YTD 2019	2018	2017
Broad Financial Derivatives	3.92%	11.36%	-5.28%	2.27%
Broad Multi-Market	1.13%	6.93%	-3.84%	4.47%
FX/Currency	0.55%	2.93%	0.76%	-3.46%
Commodities	0.35%	3.41%	-6.00%	0.46%
Volatility/Options Strategies	-0.20%	2.43%	-2.39%	4.82%
Fixed Income/Credit	-0.50%	4.24%	-0.01%	6.01%
Broad Capital Structure	-1.11%	5.60%	-3.47%	8.89%
Equity	-1.59%	7.45%	-7.54%	13.44%

<i>Primary Strategy</i>	Aug	YTD 2019	2018	2017
Managed Futures	4.27%	12.60%	-5.91%	2.73%
Macro	1.35%	6.37%	-2.95%	3.87%
Origination & Financing	0.28%	4.45%	4.99%	6.69%
Directional Credit	0.09%	4.73%	0.68%	5.32%
Market Neutral Equity	0.07%	1.30%	-3.26%	3.60%
Distressed	-0.05%	4.64%	-0.31%	6.64%
Multi-Strategy	-0.20%	4.85%	-3.24%	6.68%
Multi-Strategy Credit	-0.30%	3.85%	0.01%	5.81%
Convertible Arbitrage	-0.32%	6.29%	-2.22%	5.49%
Quantitative Directional Equity	-0.41%	6.82%	-4.71%	10.45%
Relative Value Credit	-0.50%	3.97%	-0.98%	5.48%
Event Driven	-0.69%	4.09%	-1.99%	7.42%
Long/Short Equity	-1.64%	8.34%	-7.05%	12.14%
Event Driven - Activist	-2.54%	5.57%	-10.36%	11.12%

Source: eVestment.

PROMINENT UNIVERSES BY SIZE

	Aug	YTD 2019	2018	2017
Ten Largest Hedge Funds	-1.72%	3.61%	0.41%	5.91%
Large Funds (>\$1b)	-0.04%	6.13%	-3.32%	5.86%
Mid-size Funds (<\$1b, >\$250m)	0.08%	6.30%	-2.74%	7.53%
Small Funds (<\$250m)	-0.76%	7.14%	-6.12%	9.73%
Ten Largest Event Driven	-1.28%	2.89%	-6.52%	8.81%
Event Driven >\$1b	-1.45%	2.45%	-3.38%	7.01%
Event Driven <\$1b	-0.56%	4.55%	-1.94%	7.46%
Ten Largest Fixed Income/Credit	-0.52%	2.63%	-0.05%	3.97%
Fixed Income/Credit >\$1b	-0.20%	3.74%	0.91%	5.75%
Fixed Income/Credit <\$1b	-0.15%	4.47%	0.25%	5.55%
Ten Largest Long/Short Equity	0.02%	6.80%	-4.69%	8.57%
Long/Short Equity >\$1b	-1.00%	7.24%	-5.25%	8.78%
Long/Short Equity <\$1b	-1.67%	8.36%	-6.87%	12.51%
Ten Largest Macro	-1.64%	4.48%	2.13%	2.24%
Macro >\$1b	-0.23%	5.76%	-2.57%	5.06%
Macro <\$1b	1.67%	7.11%	-3.14%	3.94%
Ten Largest Managed Futures	3.62%	15.08%	-5.94%	3.81%
Managed Futures >\$1b	4.22%	17.44%	-6.79%	4.62%
Managed Futures <\$1b	4.29%	11.91%	-5.86%	2.65%
Ten Largest Multi-Strategy	-0.18%	4.25%	-2.47%	6.87%
Multi-Strategy >\$1b	-0.18%	3.26%	-1.98%	4.36%
Multi-Strategy <\$1b	-0.04%	5.94%	-4.03%	7.43%

Source: eVestment.

REGIONAL - DOMICILE PERFORMANCE

<i>Economic Development</i>	Aug	YTD 2019	2018	2017
Emerging Markets	-2.38%	6.53%	-10.78%	19.49%
Developed Markets	-1.04%	6.29%	-4.20%	9.00%

<i>Regional Exposure</i>	Aug	YTD 2019	2018	2017
Developed Europe	-0.33%	4.46%	-3.28%	8.76%
Africa/Middle East	-0.78%	5.67%	-8.04%	15.41%
North America	-1.22%	7.09%	-4.10%	8.75%
Asia	-1.86%	4.40%	-10.75%	21.29%

<i>Country Exposure</i>	Aug	YTD 2019	2018	2017
China	-1.07%	14.75%	-16.62%	34.77%
Japan	-1.59%	1.03%	-8.04%	13.76%
Asia ex-Japan	-1.69%	3.75%	-11.33%	21.76%
Brazil	-2.31%	11.33%	-2.29%	15.13%
Russia	-2.99%	14.65%	-13.20%	13.16%
India	-5.17%	-8.94%	-16.23%	32.40%

<i>Firm Domicile - Region</i>	Aug	YTD 2019	2018	2017
Continental Europe	0.18%	8.04%	-6.54%	7.18%
United Kingdom	-0.13%	6.06%	-4.19%	9.30%
United States	-0.66%	6.92%	-4.25%	7.91%
Asia	-1.49%	4.36%	-9.51%	17.91%

<i>Firm Domicile - Asia</i>	Aug	YTD 2019	2018	2017
Japan	-0.06%	0.42%	-2.42%	6.53%
Singapore	-0.88%	3.94%	-7.74%	12.79%
Hong Kong	-1.39%	7.61%	-9.47%	21.42%
Asia ex-Japan	-1.62%	4.86%	-10.31%	19.14%
China	-2.47%	5.11%	-11.42%	22.18%

<i>Firm Domicile - Rest of World</i>	Aug	YTD 2019	2018	2017
Oceania	0.94%	11.86%	-5.16%	9.54%
Middle East	-1.02%	7.84%	-3.53%	7.79%
Offshores	-1.13%	5.84%	-15.70%	10.79%
Latin America	-2.43%	6.15%	-0.85%	15.04%

Source: eVestment.

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