

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 story for the industry in October generally appeared to be the same as it has been for the last several months. The majority of managers are likely feeling 2019 is another difficult year for capital raising, while a smaller group of managers is feeling the opposite.

There have been some notable new themes gaining traction recently, primarily the return of targeted interest in managed futures products, but for most other strategies the operating environment has been difficult.

Difficult, yes, but it is clearly not impossible to succeed. As we have noted consistently in prior months, and which was again accurate in October, there are successful managers both in terms of performance and capital raising. Understanding why these managers are successful may only be useful if replicating this success is possible.

## Highlights

- Investors redeemed an estimated \$6.20 billion from hedge funds in October 2019, the industry's 8th consecutive monthly outflow.
- Managed futures had a third consecutive month of inflows, though allocations continue to go to a select group of firms.
- Long/short equity was again a primary driver of outflows this month.
- Macro managers continue to face elevated redemptions pressures, a theme persisting for all of 2019.

## Redemption Pressures Continue Into October

Investors redeemed an estimated \$6.20 billion from hedge funds in October 2019, bringing YTD flows to a negative \$87.90 billion. October outflows mark the 8th consecutive month of net outflow.

**The current period marks the most prolonged redemption pressures on the industry since 2008/2009.**

While October redemptions were relatively light, and reporting managers' data indicate nearly 45% experienced net inflows, the overall outflows in October are the 8th consecutive month where redemption pressures outweighed new allocations. The last time there had been this many consecutive months of redemption

pressures began in Q3 2008 and persisted through April 2009.

**Is there a primary strategy which appears to broadly be in favor to investors in 2019?**

There is no single primary strategy in which managers have seen greater than or even near 50% of products receiving net inflows in 2019. Within event driven, which has seen some meaningful inflows, nearly 60% of products are not seeing new money coming in. The one segment which is generally more positive than negative is funds focusing on MBS and other securitized credit markets.

ALL HEDGE FUND INDUSTRY FLOWS

	Oct	Q3 2019	YTD 2019	2018	Est. AUM
<b>All Hedge Funds</b>	(\$6.20)	(\$34.20)	(\$87.90)	(\$37.18)	\$3,261.00
Equity	(\$3.48)	(\$9.90)	(\$24.43)	\$1.85	\$1,148.64
Fixed Income/Credit	\$0.21	(\$0.68)	(\$13.33)	(\$0.38)	\$991.92
Commodities	(\$0.82)	(\$3.06)	(\$2.52)	\$2.25	\$78.83
Multi-Asset	(\$1.89)	(\$18.75)	(\$44.86)	(\$40.63)	\$1,103.29
<b>Primary Strategy</b>	<b>Oct</b>	<b>Q3 2019</b>	<b>YTD 2019</b>	<b>2018</b>	<b>Est. AUM</b>
Managed Futures	\$2.55	(\$0.12)	(\$6.78)	(\$19.33)	\$116.94
Relative Value Credit	\$0.75	\$2.73	\$0.24	(\$5.42)	\$228.71
Directional Credit	\$0.73	(\$4.07)	(\$10.19)	\$4.20	\$154.96
Event Driven	\$0.41	\$5.76	\$13.56	(\$3.53)	\$562.49
MBS Strategies	\$0.09	\$3.46	\$6.29	\$7.10	\$104.21
Distressed	\$0.01	\$0.11	(\$2.18)	\$0.80	\$233.07
Convertible Arbitrage	(\$0.25)	\$0.44	\$1.32	(\$0.01)	\$55.83
Market Neutral Equity	(\$0.84)	(\$1.18)	(\$2.77)	\$12.38	\$75.83
Multi-Strategy	(\$1.30)	(\$10.16)	(\$12.96)	(\$19.32)	\$519.63
Macro	(\$2.68)	(\$8.77)	(\$23.21)	\$5.38	\$245.84
Long/Short Equity	(\$4.84)	(\$15.10)	(\$40.91)	(\$10.74)	\$764.47

Source: eVestment. Data in USD Billion.

### **Long/short equity has seen the most redemption pressures since the beginning of 2018.**

In February 2018, long/short equity posted their largest asset-weighted losses in two years. The following month, redemption pressures within the strategy began and have persisted in all except two months since. Along the way there have been two additional months where asset-weighted losses exceeded the level of losses in February 2018, which have continued to weigh on investor sentiment.

### **Managed futures see targeted allocations for a third consecutive month.**

Managed futures had been feeling a similar level of redemption pressure as long/short equity until the trend shifted in August 2019. The strategy produced several months of good returns after January 2019, resulting in allocations eventually outpacing redemption pressures. Still, the majority of products are not feeling the positivity reflected in the numbers. In October, reported data indicates 55% of managers faced redemptions.

For the year, nearly 70% are not seeing net new money coming in. The funds which are seeing inflows in 2019 are products which appear to be meeting or exceeding investor expectations. The ten largest inflows in 2019 have gone to products returning an average of nearly 8% this year and had average losses better than -1% in 2018 vs. an average loss of nearly -6% for the universe. That said, the last two months have been difficult for the strategy and even for many (but not all) of these favored products.

### **2019 continues to be a difficult year for macro managers to raise assets.**

In aggregate the macro universe has not had net inflows in any month of 2019. Additionally, as noted last month, the large losses produced in May and August of this year do not create a favorable capital raising scenario into the end of the year. That has been the case in October, and it would be a surprise to see this trend shift in the remaining months of 2019.

FLOWS BY SIZE AND PRIOR YEAR PERFORMANCE - CURRENT MONTH

<b>2018 Performance</b>	<b>&lt;0%</b>		<b>0-5%</b>		<b>&gt;5%</b>	
<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>
All Hedge Funds	(\$0.53)	(\$3.81)	(\$0.32)	(\$5.83)	(\$1.21)	\$5.49
Equity	(\$1.28)	(\$5.09)	(\$0.06)	(\$0.35)	\$0.08	\$3.23
Fixed Income/Credit	\$0.24	(\$0.26)	(\$0.04)	\$0.74	\$0.50	(\$0.97)
Commodities	\$0.00	(\$0.28)	(\$0.04)	\$0.03	(\$0.25)	(\$0.28)
Multi-Asset	\$0.74	\$1.83	(\$0.18)	(\$6.26)	(\$1.54)	\$3.51
<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	\$1.05	\$1.99	\$0.03	\$0.15	(\$0.16)	(\$0.51)
Relative Value Credit	(\$0.05)	\$0.06	\$0.01	\$0.53	\$0.20	\$0.00
Directional Credit	\$0.19	\$0.18	(\$0.11)	\$0.21	\$0.32	(\$0.07)
Event Driven	(\$0.19)	(\$0.59)	\$0.28	\$0.78	(\$0.12)	\$0.25
MBS Strategies	(\$0.05)	(\$0.05)	\$0.00	\$0.22	\$0.04	(\$0.06)
Distressed	\$0.00	(\$0.08)	\$0.08	\$0.00	(\$0.01)	\$0.02
Convertible Arbitrage	(\$0.23)	\$0.00	(\$0.05)	\$0.00	\$0.00	\$0.03
Market Neutral Equity	(\$0.14)	(\$0.10)	(\$0.53)	(\$0.05)	(\$0.02)	\$0.00
Multi-Strategy	(\$0.17)	(\$0.29)	(\$0.34)	(\$0.39)	(\$0.66)	\$0.55
Macro	(\$0.02)	\$0.26	\$0.13	(\$5.98)	(\$0.22)	\$3.14
Long/Short Equity	(\$0.99)	(\$4.54)	\$0.23	(\$1.07)	(\$0.53)	\$2.07

Source: eVestment. Data in USD Billion.

FLOWS BY SIZE AND PRIOR YEAR PERFORMANCE - FULL YEAR 2019

<b>2018 Performance</b>	<b>&lt;0%</b>		<b>0-5%</b>		<b>&gt;5%</b>	
<b>Product Size</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>
All Hedge Funds	(\$33.02)	(\$120.76)	(\$1.28)	(\$2.16)	\$7.17	\$62.14
Equity	(\$18.13)	(\$53.17)	\$1.96	\$2.36	\$0.86	\$41.71
Fixed Income/Credit	(\$5.25)	(\$13.08)	(\$1.50)	(\$0.24)	\$5.07	\$1.68
Commodities	(\$0.98)	(\$3.15)	(\$1.16)	\$0.11	\$0.47	\$2.20
Multi-Asset	(\$8.43)	(\$51.66)	(\$0.77)	(\$1.65)	\$0.76	\$16.89
<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	(\$3.04)	(\$8.73)	(\$2.07)	\$2.49	\$1.50	\$3.07
Relative Value Credit	(\$0.49)	(\$2.32)	\$0.33	(\$1.22)	\$3.51	\$0.41
Directional Credit	(\$4.90)	(\$9.45)	(\$1.16)	(\$0.47)	\$1.80	\$3.99
Event Driven	(\$3.34)	(\$0.65)	\$0.76	\$5.26	\$2.41	\$9.12
MBS Strategies	(\$0.07)	\$0.66	\$0.53	\$0.49	\$1.25	\$3.43
Distressed	(\$0.30)	\$0.12	(\$0.16)	\$0.00	(\$0.30)	(\$1.54)
Convertible Arbitrage	(\$0.28)	\$0.00	\$0.36	\$0.00	\$0.03	\$1.21
Market Neutral Equity	(\$1.17)	(\$2.07)	\$0.83	(\$0.86)	\$0.73	(\$0.21)
Multi-Strategy	(\$2.57)	(\$19.97)	\$0.22	\$2.61	(\$0.27)	\$7.02
Macro	(\$1.62)	(\$24.75)	(\$0.33)	(\$8.00)	\$0.17	\$11.31
Long/Short Equity	(\$15.09)	(\$49.88)	\$0.58	(\$1.92)	(\$2.38)	\$27.78

Source: eVestment. Data in USD Billion.

## Redemption Pressures Continue for EM Funds

### EM outflows persisted in October, though offset by a few new allocations.

The elevated redemption pressures facing EM products in the last two months subsided a bit in October. This is not because redemptions broadly abated during the month. For the third month, assets have come out of products which were in favor near the beginning of the year (namely China credit). It is more because targeted new allocations were made to China equity products and global EM credit. It should be noted that we continue to see interest in EM, both positive and negative, to be a barbell in nature. Where there are redemptions, they are not widespread and when there are allocations, they are also not widespread.

### Exposure to Europe and products from Europe-domiciled managers appeared to be a bright spot in October.

Both segments had inflows in October, though like we've noted consistently across many other segments, success is being felt by few rather than many. There were a handful of targeted allocations to Europe-focused strategies in October, primarily operated by European managers, and there were a handful of managers operating other strategies (primarily managed futures or event driven) that received meaningful new allocations in October, but again, for as many managers who may be feeling near-term success, there is an equal or greater number for whom this feeling is completely foreign.

FLOWS BY INVESTMENT REGION & DOMICILE

<i>Investment Region</i>	<b>Oct</b>	<b>Q3 2019</b>	<b>YTD 2019</b>	<b>2018</b>	<b>Est. AUM</b>
Americas	(\$0.69)	\$3.58	(\$2.02)	\$0.82	\$937.42
Europe	\$1.15	(\$5.78)	(\$14.95)	(\$6.82)	\$232.55
Asia	(\$1.17)	(\$4.15)	(\$1.93)	(\$3.01)	\$104.68
Emerging Markets	(\$0.55)	(\$4.01)	(\$0.37)	(\$3.17)	\$299.64
Global Markets	(\$5.50)	(\$26.01)	(\$66.23)	(\$27.66)	\$1,998.54
<i>Firm Domicile</i>	<b>Oct</b>	<b>Q3 2019</b>	<b>YTD 2019</b>	<b>2018</b>	<b>Est. AUM</b>
Americas	(\$3.35)	(\$20.50)	(\$44.00)	(\$20.90)	\$2,480.83
Europe	\$0.07	(\$10.05)	(\$36.89)	(\$14.28)	\$758.02
Asia (ex-Oceania)	(\$2.17)	(\$3.18)	(\$3.11)	(\$0.75)	\$68.68

Source: eVestment. Data in USD Billion.

FLOWS BY SIZE AND PRIOR YEAR PERFORMANCE - CURRENT MONTH

<b>2018 Performance</b>	<b>&lt;0%</b>		<b>0-5%</b>		<b>&gt;5%</b>	
<b>Investment Region</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>
Americas	(\$1.01)	(\$0.76)	\$0.33	\$0.29	\$0.36	\$0.10
Europe	(\$0.33)	\$1.47	(\$0.04)	\$0.00	\$0.06	\$0.00
Asia	\$0.01	(\$1.17)	(\$0.00)	\$0.00	(\$0.01)	\$0.00
Emerging Markets	\$0.13	(\$0.79)	(\$0.02)	\$0.13	(\$0.00)	\$0.00
Global Markets	\$0.81	(\$3.34)	(\$0.61)	(\$6.12)	(\$1.63)	\$5.38
<b>Firm Domicile</b>						
Americas	(\$1.04)	(\$2.51)	(\$0.30)	(\$4.67)	(\$0.70)	\$5.87
Europe	\$0.77	\$1.26	(\$0.05)	(\$1.03)	(\$0.50)	(\$0.39)
Asia (ex-Oceania)	(\$0.13)	(\$2.07)	\$0.03	\$0.00	(\$0.01)	\$0.00

Source: eVestment. Data in USD Billion.

FLOWS BY SIZE AND PRIOR YEAR PERFORMANCE - FULL YEAR 2019

<b>2018 Performance</b>	<b>&lt;0%</b>		<b>0-5%</b>		<b>&gt;5%</b>	
<b>Investment Region</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>
Americas	(\$9.90)	(\$8.29)	\$1.20	\$7.46	\$2.33	\$5.17
Europe	(\$3.50)	(\$9.51)	(\$1.14)	\$0.00	(\$0.14)	(\$0.65)
Asia	(\$2.30)	\$0.12	(\$0.23)	\$0.00	(\$0.49)	\$0.97
Emerging Markets	(\$2.48)	\$0.35	(\$0.12)	\$1.14	\$0.39	\$0.34
Global Markets	(\$17.36)	(\$103.02)	(\$1.00)	(\$6.77)	\$5.35	\$56.56
<b>Firm Domicile</b>						
Americas	(\$22.77)	(\$102.77)	\$3.07	\$4.40	\$8.78	\$65.28
Europe	(\$9.25)	(\$22.35)	(\$2.28)	(\$3.23)	(\$0.50)	\$0.73
Asia (ex-Oceania)	(\$0.88)	(\$2.59)	(\$0.53)	\$0.00	(\$0.08)	\$0.97

Source: eVestment. Data in USD Billion.

## Hedge Fund Performance Tables

### INDUSTRY - MARKET - STRATEGY PERFORMANCE

<i>Industry Benchmarks</i>	<b>Oct</b>	<b>Q3 2019</b>	<b>YTD 2019</b>	<b>2018</b>
Hedge Fund Aggregate	0.54%	-0.30%	7.06%	-5.09%
50% MSCI World/50% Citi WGBI	1.54%	0.74%	13.77%	-4.60%
S&P 500	2.17%	1.70%	23.16%	-4.38%

<i>Primary Markets</i>	<b>Oct</b>	<b>Q3 2019</b>	<b>YTD 2019</b>	<b>2018</b>
Equity	1.20%	-1.00%	9.05%	-7.54%
Volatility/Options Strategies	0.37%	0.46%	3.23%	-2.40%
Fixed Income/Credit	0.33%	0.41%	5.06%	0.00%
Broad Capital Structure	0.22%	-0.89%	5.79%	-3.54%
Commodities	0.18%	-1.04%	2.79%	-5.97%
Broad Multi-Market	-0.43%	0.81%	5.22%	-3.70%
FX/Currency	-0.75%	1.86%	2.62%	0.76%
Broad Financial Derivatives	-1.57%	1.75%	5.90%	-5.52%

<i>Primary Strategy</i>	<b>Oct</b>	<b>Q3 2019</b>	<b>YTD 2019</b>	<b>2018</b>
Event Driven - Activist	1.93%	0.48%	9.93%	-10.35%
Long/Short Equity	1.19%	-1.00%	9.90%	-7.04%
Origination & Financing	1.11%	1.74%	6.59%	4.99%
Relative Value Credit	0.72%	0.35%	5.28%	-0.98%
Convertible Arbitrage	0.43%	0.68%	7.23%	-2.22%
Quantitative Directional Equity	0.40%	-0.03%	7.11%	-4.75%
Multi-Strategy	0.24%	0.21%	5.08%	-3.35%
Event Driven	0.24%	-0.76%	4.10%	-1.99%
Market Neutral Equity	0.19%	0.11%	1.14%	-3.26%
Multi-Strategy Credit	0.18%	0.31%	4.51%	0.01%
Directional Credit	0.13%	0.74%	5.13%	0.69%
Macro	-0.23%	1.13%	5.24%	-2.94%
Distressed	-0.35%	-1.35%	3.21%	-0.32%
Managed Futures	-1.86%	1.88%	6.18%	-5.97%

Source: eVestment.



PROMINENT UNIVERSES BY SIZE

<b>Prominent Universes by Size</b>	<b>Oct</b>	<b>Q3 2019</b>	<b>YTD 2019</b>	<b>2018</b>
<b>Ten Largest Hedge Funds</b>	0.48%	0.27%	4.99%	2.30%
Large Funds (>\$1b)	-0.02%	0.13%	5.69%	-3.36%
Mid-size Funds (<\$1b, >\$250m)	0.44%	0.38%	6.38%	-2.80%
Small Funds (<\$250m)	0.64%	-0.56%	7.65%	-6.11%
<b>Ten Largest Event Driven</b>	-0.41%	-1.96%	2.82%	-6.52%
Event Driven >\$1b	-0.21%	-2.34%	2.42%	-3.38%
Event Driven <\$1b	0.52%	-0.39%	4.98%	-1.95%
<b>Ten Largest Fixed Income/Credit</b>	0.37%	-0.38%	4.06%	-0.04%
Fixed Income/Credit >\$1b	0.19%	0.42%	4.46%	0.93%
Fixed Income/Credit <\$1b	0.23%	0.48%	5.07%	0.22%
<b>Ten Largest Long/Short Equity</b>	0.97%	2.20%	9.12%	-4.69%
Long/Short Equity >\$1b	0.57%	-0.26%	8.03%	-5.25%
Long/Short Equity <\$1b	1.07%	-1.09%	9.71%	-6.91%
<b>Ten Largest Macro</b>	0.37%	1.23%	6.69%	2.15%
Macro >\$1b	-0.06%	0.24%	5.97%	-2.54%
Macro <\$1b	-0.29%	1.64%	6.04%	-3.15%
<b>Ten Largest Managed Futures</b>	-3.42%	3.52%	7.23%	-5.40%
Managed Futures >\$1b	-2.30%	4.06%	10.49%	-6.93%
Managed Futures <\$1b	-1.80%	1.54%	5.52%	-5.86%
<b>Ten Largest Multi-Strategy</b>	-0.04%	0.06%	4.85%	-2.61%
Multi-Strategy >\$1b	-0.06%	0.00%	3.23%	-2.13%
Multi-Strategy <\$1b	0.40%	0.62%	6.52%	-4.03%

Source: eVestment.

REGIONAL - DOMICILE PERFORMANCE

<i>Economic Development</i>	Oct	Q3 2019	YTD 2019	2018
Emerging Markets	1.67%	-1.57%	9.08%	-10.78%
Developed Markets	0.70%	-0.39%	7.31%	-4.23%

<i>Regional Exposure</i>	Oct	Q3 2019	YTD 2019	2018
Asia	1.87%	-1.57%	7.28%	-10.75%
North America	0.68%	-0.64%	7.98%	-4.10%
Developed Europe	0.59%	0.44%	5.03%	-3.25%
Africa/Middle East	-0.18%	-0.26%	6.62%	-8.04%

<i>Country Exposure</i>	Oct	Q3 2019	YTD 2019	2018
China	3.18%	-1.52%	17.63%	-16.62%
Russia	2.67%	-0.65%	18.93%	-13.22%
Japan	1.99%	0.19%	4.95%	-8.04%
India	1.87%	-6.41%	-2.92%	-16.23%
Asia ex-Japan	1.40%	-2.57%	4.79%	-11.33%
Brazil	1.20%	2.21%	13.04%	-2.29%

<i>Firm Domicile - Region</i>	Oct	Q3 2019	YTD 2019	2018
Asia	1.64%	-1.55%	6.53%	-9.51%
United Kingdom	0.57%	0.46%	6.40%	-4.17%
United States	0.51%	-0.38%	7.36%	-4.27%
Continental Europe	0.19%	0.30%	7.50%	-6.52%

<i>Firm Domicile - Asia</i>	Oct	Q3 2019	YTD 2019	2018
Hong Kong	2.69%	-1.22%	10.67%	-9.47%
China	1.68%	-2.43%	7.43%	-11.42%
Asia ex-Japan	1.65%	-1.71%	7.11%	-10.31%
Japan	1.48%	-0.12%	1.52%	-2.42%
Singapore	1.29%	-1.16%	6.02%	-7.74%

<i>Firm Domicile - Rest of World</i>	Oct	Q3 2019	YTD 2019	2018
Latin America	0.93%	-1.52%	6.10%	-0.85%
Oceania	0.64%	3.73%	13.07%	-5.16%
Offshores	0.42%	-1.16%	6.40%	-15.70%
Middle East	0.22%	0.57%	8.55%	-3.66%

Source: eVestment.

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