

Performance Sees Hedge Fund Assets Grow Despite Investor Redemptions

Positive performance through much of 2016 has taken industry assets under management (AUM) to \$3.24tn as of the end of Q3, despite net outflows of \$66.7bn

Preqin's latest on asset flows in the hedge fund industry finds that across the first three quarters of 2016 assets held by hedge fund managers increased by 2.9%, taking total industry AUM to \$3.24tn. Across most strategies, strong returns have been the central driver of asset growth, with the industry posting gains of 5.44% through Q1-Q3 2016. Strong performance for equity and macro strategies funds overcame net investor redemptions to see their AUM grow in the first three quarters of the year, while credit, relative value and multi-strategy funds all saw their total assets fall. By contrast, though, CTAs have seen net inflows of \$27bn in 2016 YTD, growing the strategy's AUM by 13.5% to reach \$253bn despite only making gains of 0.97% across the first three quarters.

The extended run of positive performance that hedge funds have posted since March has been offset by continued investor redemptions across the industry. Hedge funds saw outflows of \$33bn through Q3, compounding outflows incurred through Q1 and Q2 to record total industry outflows of \$67bn through the first three quarters of 2016. Credit and equity strategies have seen Q1-Q3 outflows totalling \$24bn and \$27bn respectively, while multi-strategy funds saw negative asset flows of \$25bn through Q3, more than negating net inflows seen in Q1.

Other Key Hedge Fund Asset Flow Facts:

- **Flows by Strategy:** More than half (52%) of relative value hedge funds saw net inflows in Q3, while a further 13% saw no change in their assets. In contrast, **just over half (51%) of macro strategies vehicles suffered outflows through the quarter**, the highest proportion of any leading strategy.
- **Flows by Fund Size:** Fewer smaller hedge funds have seen investor redemptions; **38% of funds smaller than \$100mn saw outflows in Q3, compared to 49% of funds larger than \$1bn**. Similarly, 45% of smaller funds saw inflows through the quarter, compared to 37% of the largest funds.
- **Flows by Region:** **A higher proportion of funds based in North America saw outflows (42%) than managed to attract inflows (40%)**. By contrast, fund managers based in all other regions saw more inflows than outflows.
- **Flows by Performance:** The best performing hedge funds in H1 attracted the greatest inflows in Q3. **The majority (52%) of funds that returned 5.00% or greater in H1 2016 recorded net Q3 inflows**, while 34% saw outflows. By contrast, just 31% of vehicles that saw losses greater than -5.00% through the period registered net inflows, with the majority (51%) seeing net outflows.

To access further information and analysis, please see the full report below:
<https://www.preqin.com/docs/newsletters/hf/Preqin-Hedge-Fund-Spotlight-November-2016.pdf>

Comment:

"2016 has been a difficult year for the hedge fund industry; ongoing investor concerns about the performance of the asset class and the fees that funds charge have made both raising and retaining investor capital increasingly challenging for hedge fund managers. As a result, outflows have increased over each of the three quarters in 2016 to-date, and nearly every leading strategy has seen net redemptions from investors.

However, strong industry performance and the resulting growth in total industry assets under management strike a more positive note. The Preqin All-Strategies Hedge Fund benchmark has added positive returns throughout Q2 and Q3, and the industry has enjoyed its largest performance gain since 2012-13. Therefore, while investors may continue to pull capital out of hedge funds in the short term, if managers can continue this run of strong returns, particularly in unpredictable markets, and prove their role in institutional portfolios, then we may see inflows return to the industry in 2017.

Amy Bensted – Head of Hedge Fund Products, Preqin

Note to Editors:

- Preqin is spelled without the letter 'U' after the 'Q', the company name being an amalgamation of the former name, Private Equity Intelligence.

About Preqin:

Preqin is the leading source of information for the alternative assets industry, providing data and analysis via online databases, publications and bespoke data requests.

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