Hedge Fund Industry Asset Flow Report

November 2016

Release Date: December 21, 2016

Summary

Despite redemption pressures that continued into November, hedge fund assets remain solidly above the $3 trillion AUM mark. November’s outflow was the industry’s third consecutive month of redemptions, its fifth in the last six months, and the seventh month of outflows in 2016. Annual flows are virtually set to be negative for the year for the first time since 2009, and only the third time on record (2008, 2009 & 2016).

Despite the negativity, the industry’s recent string of performance gains, and segments producing strong overall returns, have likely raised eyebrows. As rates around the world diverge, as currencies continue to be headline news, and equity markets continue to defy expectations, the value of products may be rising. In the meantime, watching its cathartic evolution over the last eighteen months has been unsettling.

Highlights

• Investors redeemed an estimated $2.2 billion from hedge funds in November, bringing YTD outflows to $83.1 billion.

• Redemptions from managed futures were again elevated as performance issues continue to impact investor sentiment.

• Event driven fund flows turned positive in November, activists and top universe performers being rewarded.

• Europe, as both an investment region and firm domicile, is enduring a wave of negative investor sentiment.
Investors redeemed an estimated net $2.2 billion from hedge funds in November. Year-to-date, there has been a net $83.1 billion removed from the industry.

November's outflow was the third consecutive month of redemptions, the fifth in the last six months, and the seventh month of 2016. Annual flows are essentially ensured to be negative in 2016 for the first time since 2009, and only the third time on record.

## Industry Flows

<table>
<thead>
<tr>
<th>Data in USD Billion</th>
<th>Nov</th>
<th>Last 3mo</th>
<th>YTD 2016</th>
<th>2015</th>
<th>Est. AUM</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Hedge Funds</td>
<td>($2.24)</td>
<td>($33.44)</td>
<td>($83.07)</td>
<td>$44.09</td>
<td>$3,024.68</td>
</tr>
<tr>
<td>Equity</td>
<td>($0.41)</td>
<td>($15.07)</td>
<td>($39.46)</td>
<td>$16.46</td>
<td>$1,004.99</td>
</tr>
<tr>
<td>Fixed Income/Credit</td>
<td>($0.53)</td>
<td>($10.10)</td>
<td>($37.79)</td>
<td>($20.16)</td>
<td>$936.67</td>
</tr>
<tr>
<td>Commodities</td>
<td>$0.28</td>
<td>($0.51)</td>
<td>$11.34</td>
<td>$0.01</td>
<td>$78.78</td>
</tr>
<tr>
<td>Multi-Asset</td>
<td>($1.42)</td>
<td>($7.28)</td>
<td>($16.26)</td>
<td>$51.08</td>
<td>$1,062.90</td>
</tr>
<tr>
<td>Primary Strategy</td>
<td>Nov</td>
<td>Last 3mo</td>
<td>YTD 2016</td>
<td>2015</td>
<td>Est. AUM</td>
</tr>
<tr>
<td>Broad Multi-Strategy</td>
<td>$2.28</td>
<td>($2.49)</td>
<td>($7.03)</td>
<td>$56.35</td>
<td>$497.98</td>
</tr>
<tr>
<td>Event Driven</td>
<td>$1.06</td>
<td>($5.98)</td>
<td>($37.02)</td>
<td>($19.38)</td>
<td>$521.76</td>
</tr>
<tr>
<td>Relative Value Credit</td>
<td>$0.64</td>
<td>($1.98)</td>
<td>($9.47)</td>
<td>($5.53)</td>
<td>$226.37</td>
</tr>
<tr>
<td>Market Neutral Equity</td>
<td>$0.29</td>
<td>($0.95)</td>
<td>($1.98)</td>
<td>$0.66</td>
<td>$49.72</td>
</tr>
<tr>
<td>Convertible Arbitrage</td>
<td>($0.04)</td>
<td>($0.31)</td>
<td>($0.77)</td>
<td>($3.20)</td>
<td>$51.60</td>
</tr>
<tr>
<td>Directional Credit</td>
<td>$0.07</td>
<td>($5.37)</td>
<td>($11.34)</td>
<td>($4.68)</td>
<td>$125.85</td>
</tr>
<tr>
<td>Distressed</td>
<td>($0.36)</td>
<td>($1.26)</td>
<td>($5.77)</td>
<td>($5.50)</td>
<td>$239.04</td>
</tr>
<tr>
<td>MBS Strategies</td>
<td>($0.45)</td>
<td>($1.66)</td>
<td>($5.02)</td>
<td>($1.27)</td>
<td>$87.51</td>
</tr>
<tr>
<td>Macro</td>
<td>($1.20)</td>
<td>($1.75)</td>
<td>($8.80)</td>
<td>$1.32</td>
<td>$186.28</td>
</tr>
<tr>
<td>Long/Short Equity</td>
<td>($1.43)</td>
<td>($8.29)</td>
<td>($18.88)</td>
<td>$9.02</td>
<td>$684.80</td>
</tr>
<tr>
<td>Managed Futures</td>
<td>($4.03)</td>
<td>($4.68)</td>
<td>$15.67</td>
<td>$13.43</td>
<td>$132.43</td>
</tr>
</tbody>
</table>

### Flows Overview

- **Despite outflows in November, more than half of reporting funds had inflows during the month.** It is somewhat rare for the industry to have the majority of funds receiving net new money, while overall experiencing net outflows. The overall reduction is a sign of outflows being concentrated, and larger funds were net losers of assets in November while smaller funds had aggregate net inflows.

- **While it is positive to see the majority of funds gaining new assets, November has typically been a lighter month for net flows for the industry.** The average net inflow in November 2014 and 2015 was lower than any other month during the two year span. Conversely, December has historically been a very large month for flows, particularly for redemptions, even during years when overall flows for the industry were significantly positive. Given the historically negative year it has been (more months with net outflows than any other), December's flow data could be ugly.

- **We noted in the prior report that the outlook for managed futures fund flows was not positive, given the amount of inflows in the last 1.5 years contrasted by the level of performance declines.** Seemingly on cue, redemptions in November were the universe's largest in nearly three years, or since $5.5 billion was removed in March 2014. With performance declines in each of the last four months, and seven of the last nine months, the recent shift from sentiment to negative by investors should not be a surprise.

- **After enduring negative investor sentiment for nearly two years, yet outperforming most other strategies in 2016, event driven funds had their largest monthly net inflow in November since August 2015.**

- **The five event driven funds gaining the most new assets in November have returned an average of +8.2% in 2016, nearly double the industry average. Two of the five are activist strategies.**

- **Commodity fund flows are hanging in the balance of uncertain investor sentiment.** Flows were near flat, but positive, in November after two months of redemptions in September and October. The segment had been one of the few in the industry investors had been generally in favor of until losses re-emerged in July.

- We had noted at the end of Q3 that multi-strategy funds may bear the weight of representing the fate of the overall hedge fund industry heading into Q4. The group endured elevated performance losses at the turn of 2015/16, which led to a string of redemptions. The universe led the industry for inflows in each of the prior three years. Returns have been mixed in Q4, and despite decent asset-weighted returns in (cont.)
Flows Overview (continued)

- (continued from prior page) November, and industry leading inflows during the month, we are left with concern for the segment. Performance in Q4 has been mixed, flows still appear reactive to performance issues, and legal proceedings against a large firm in the universe have only recently been settled. As a harbinger for the rest of the industry, the environment multi-strategy funds have created leaves us looking toward 2017 with uncertainty.

- **Macro** hedge funds have continued to produce positive asset-weighted returns, yet also continue to see net outflows. November was the ninth consecutive month of positive asset-weighted returns, and the sixth consecutive month (and 11th in last 13) of net outflows. One cause appears to be a rotation of assets within firms driven by 2015 performance. It is worth noting here that the five funds losing the most assets in 2016 have returned an average of 4.3% in 2016, with one of the five negative for the year, while those gaining the most assets have returned an average of +2.6%, with two of five funds negative for the year.

- Despite persistent redemption pressures, hedge fund assets remain solidly above the $3 trillion AUM mark. Given how performance appears to be shaping up for December, it is likely the industry will return greater than 5% for the year, and maintain the largely symbolic level.

- Hedge fund industry assets first rose above $3 trillion in May 2014, peaked in the following May of 2015, and have since been eroded by asset-weighted performance declines and net outflows. Given the losses were concentrated within June 2015 through February 2016, it’s no surprise many have questioned the value of hedge fund products within their portfolios in subsequent quarters. However, the recent string of performance gains, and segments producing strong overall returns, have likely raised eyebrows. As rates around the world diverge, as currencies continue to be headline news, and equity markets continue to defy expectations, the $3 trillion industry may be ready to show its value once again. However, watching its cathartic evolution over the last eighteen months has been unsettling.

**EM Turnaround on Hold, European Firms Facing Pressure**

After two months of inflows, the redemptions within emerging market funds that arose in October continued into November, putting the turnaround of interest in EM exposure on hold. Meanwhile, Europe as both an investment region and firm domicile, continues to face pressure from investor redemptions.

### Flows by Investment Region and Domicile

<table>
<thead>
<tr>
<th>Investment Region</th>
<th>Nov 2015 Performance</th>
<th>Last 3mo 2015 Performance</th>
<th>YTD 2016 Performance</th>
<th>2015 Performance</th>
<th>Est. AUM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Americas</td>
<td>$2.03</td>
<td>($5.89)</td>
<td>($30.02)</td>
<td>($18.48)</td>
<td>$917.23</td>
</tr>
<tr>
<td>Europe</td>
<td>($1.89)</td>
<td>($4.81)</td>
<td>($1.02)</td>
<td>$22.70</td>
<td>$238.46</td>
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<tr>
<td>Asia</td>
<td>$0.42</td>
<td>($1.93)</td>
<td>($15.71)</td>
<td>$4.21</td>
<td>$97.82</td>
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<tr>
<td>Emerging Markets</td>
<td>($0.46)</td>
<td>($0.29)</td>
<td>($1.91)</td>
<td>($7.67)</td>
<td>$277.08</td>
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<tr>
<td>Global Markets</td>
<td>($2.84)</td>
<td>($20.76)</td>
<td>($36.25)</td>
<td>$35.83</td>
<td>$1,780.16</td>
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<tr>
<td><strong>Firm Domicile</strong></td>
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</tr>
<tr>
<td>Americas</td>
<td>$1.24</td>
<td>($18.88)</td>
<td>($64.04)</td>
<td>($5.01)</td>
<td>$2,284.87</td>
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<tr>
<td>Europe</td>
<td>($3.50)</td>
<td>($12.29)</td>
<td>($1.64)</td>
<td>$29.67</td>
<td>$723.72</td>
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<tr>
<td>Asia (ex-Oceania)</td>
<td>$0.47</td>
<td>($0.59)</td>
<td>($7.82)</td>
<td>$12.28</td>
<td>$55.98</td>
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### Flows by Size and Prior Year Return

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<thead>
<tr>
<th>Current Month 2015 Performance</th>
<th>&lt;0%</th>
<th>0-5%</th>
<th>&gt;5%</th>
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<td>Product Size</td>
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<tr>
<td>Americas</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>$0.60</td>
<td>$0.31</td>
<td>$0.66</td>
<td>$0.33</td>
</tr>
<tr>
<td>Europe</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$0.04</td>
<td>$0.33</td>
<td>$0.26</td>
<td>$0.60</td>
</tr>
<tr>
<td>Asia</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>$0.13</td>
<td>$0.06</td>
<td>$0.07</td>
<td>$0.29</td>
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<tr>
<td>Emerging Markets</td>
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<tr>
<td>$0.75</td>
<td>$0.00</td>
<td>$0.02</td>
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<tr>
<td>Global Markets</td>
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<tr>
<td>$0.74</td>
<td>$2.65</td>
<td>$0.57</td>
<td>$0.96</td>
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<tr>
<td><strong>Firm Domicile</strong></td>
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<tr>
<td>Americas</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>$0.65</td>
<td>$2.90</td>
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<td>$1.09</td>
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<tr>
<td>$0.27</td>
<td>$0.69</td>
<td>$0.43</td>
<td>$2.60</td>
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<tr>
<td>Asia (ex-Oceania)</td>
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<tr>
<td>$0.14</td>
<td>$0.23</td>
<td>$0.01</td>
<td>$0.00</td>
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</table>

<table>
<thead>
<tr>
<th>Year-to-Date 2015 Performance</th>
<th>&lt;0%</th>
<th>0-5%</th>
<th>&gt;5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product Size</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Americas</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>($13.55)</td>
<td>($24.20)</td>
<td>$1.88</td>
<td>$1.17</td>
</tr>
<tr>
<td>Europe</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>($1.66)</td>
<td>($1.81)</td>
<td>$0.69</td>
<td>$2.19</td>
</tr>
<tr>
<td>Asia</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>($2.62)</td>
<td>($4.60)</td>
<td>$0.88</td>
<td>$0.53</td>
</tr>
<tr>
<td>Emerging Markets</td>
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<td></td>
</tr>
<tr>
<td>($3.85)</td>
<td>($3.18)</td>
<td>($0.48)</td>
<td>$0.76</td>
</tr>
<tr>
<td>Global Markets</td>
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</tr>
<tr>
<td>($17.84)</td>
<td>($98.17)</td>
<td>$3.11</td>
<td>$37.65</td>
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<tr>
<td><strong>Firm Domicile</strong></td>
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<td></td>
</tr>
<tr>
<td>Americas</td>
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<td></td>
</tr>
<tr>
<td>($27.12)</td>
<td>($113.50)</td>
<td>$0.31</td>
<td>$34.65</td>
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<tr>
<td>Europe</td>
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<tr>
<td>($1.99)</td>
<td>($5.55)</td>
<td>$2.84</td>
<td>$6.65</td>
</tr>
<tr>
<td>Asia (ex-Oceania)</td>
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<td></td>
</tr>
<tr>
<td>($3.06)</td>
<td>($3.78)</td>
<td>$0.26</td>
<td>$0.00</td>
</tr>
</tbody>
</table>

### Regional Flows Overview

- Whether the questionable regulatory environment following BREXIT, or the large losses from prominent managers are to blame, one thing has been clear; investors are expressing their dissatisfaction with Europe as both an investment region (seven consecutive months of redemptions totaling $11.6 billion), and location of operations (seven consecutive months of redemptions totaling $26.9 billion).

- While both European-domiciled funds and funds investing in European markets had asset raising success over time prior to May 2016 (the onset of recent redemptions), their histories were not so similar. The European-domiciled industry showed it was vulnerable to regional unrest when assets were removed en masse throughout 2014. However, it was in the wake of the European sovereign crisis where investors showed a willingness to invest in the region’s markets, even as firms operating in Europe endured redemptions. Regardless, the current environment has not yet appealed to investors sense of stability, or opportunity.

- There continues to be a lack of broad positive sentiment toward funds focusing on opportunities in China. Investor flows for China-focused funds were actually positive in November, but only slightly so ($4.2 million net allocated), and the majority of products experienced redemptions.
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Locations & Contacts

Atlanta
+1 (877) 769 2388
support@evestment.com

New York
+1 (212) 661 6050
support@evestment.com

Dubai
+971 561380679
support@evestment.com

Research Division

Peter Laurelli, CFA
Vice President
plaurelli@evestment.com
+1 (212) 230 2216

Tony Kristić
Senior Analyst
tkristic@evestment.com
+1 (646) 747 6177

London
+44 (0) 20 7651 0800
europe@evestment.com

Sydney
+61 (0) 2 8211 2717
australia@evestment.com

Hong Kong
+852 2293 2390
asia@evestment.com

Minkyu Michael Cho
Senior Analyst
mcho@evestment.com
+1 (212) 230 2209

Atlanta
+1 (877) 769 2388
support@evestment.com

New York
+1 (212) 661 6050
support@evestment.com

Dubai
+971 561380679
support@evestment.com

Research Division

Peter Laurelli, CFA
Vice President
plaurelli@evestment.com
+1 (212) 230 2216

Tony Kristić
Senior Analyst
tkristic@evestment.com
+1 (646) 747 6177

London
+44 (0) 20 7651 0800
europe@evestment.com

Sydney
+61 (0) 2 8211 2717
australia@evestment.com

Hong Kong
+852 2293 2390
asia@evestment.com

Minkyu Michael Cho
Senior Analyst
mcho@evestment.com
+1 (212) 230 2209

Research Division

Peter Laurelli, CFA
Vice President
plaurelli@evestment.com
+1 (212) 230 2216

Tony Kristić
Senior Analyst
tkristic@evestment.com
+1 (646) 747 6177

Locations & Contacts

Atlanta
+1 (877) 769 2388
support@evestment.com

New York
+1 (212) 661 6050
support@evestment.com

Dubai
+971 561380679
support@evestment.com

Research Division

Peter Laurelli, CFA
Vice President
plaurelli@evestment.com
+1 (212) 230 2216

Tony Kristić
Senior Analyst
tkristic@evestment.com
+1 (646) 747 6177

London
+44 (0) 20 7651 0800
europe@evestment.com

Sydney
+61 (0) 2 8211 2717
australia@evestment.com

Hong Kong
+852 2293 2390
asia@evestment.com

Minkyu Michael Cho
Senior Analyst
mcho@evestment.com
+1 (212) 230 2209

Media Contacts

Mark Scott
Corporate Communications
mscott@evestment.com
+1 (678) 238 0761

Natalie Chan
Ryan Communication (Asia)
natalie@ryancommunication.com
+852 3655 0539

Jamie Letica
Cognito (US)
Jamie.letica@cognitomedia.com
+1 (646) 395 6305

Francesa Bliss
Cognito (UK)
francesa.bliss@cognitomedia.com
+44 207 426 9419