Hedge Fund Industry Asset Flow Report
February 2017

Release Date: March 23, 2017

Summary

Quite often in 2016, it was difficult to find something positive about which to comment on the state of investor sentiment toward the hedge fund industry. Looking through February’s data, the feeling is the opposite. While it is apparent 2017 may not resemble the large inflow years between 2009 and 2016, there is an overwhelming sense of positive undertones to the data.

After a long string of redemptions, hedge fund flows were positive in February, and are now positive year-to-date in 2017. Though the signs of investor interest are a welcome change, it is fair to be cautiously optimistic about February’s inflows.

Highlights

• Investors allocated an estimated net $7.9 billion into hedge funds in February 2017.
• Macro funds are showing signs of strong investor interest entering the year.
• Investors appear to have not turned their backs entirely on managed futures products.
• Event driven and credit strategies seeing positive signals in the form of inflows and the proportion of funds receiving new money.
Hedge Fund Industry Sees Inflows in February

Investors allocated an estimated net $7.9 billion into hedge funds in February 2017

Total industry AUM sits at $3.085 trillion, highest since July 2015

## Industry Flows

<table>
<thead>
<tr>
<th></th>
<th>Feb 2017</th>
<th>YTD 2017</th>
<th>2016</th>
<th>2015</th>
<th>Est. AUM</th>
</tr>
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<tbody>
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### Flows by Size and Prior Year Performance - Current Month

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<tr>
<td>All Hedge Funds</td>
<td>($8.08)</td>
<td>($8.33)</td>
<td>($1.42)</td>
<td>($1.99)</td>
<td>$16.39</td>
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<tr>
<td>Equity</td>
<td>($6.23)</td>
<td>($3.19)</td>
<td>($1.16)</td>
<td>($0.64)</td>
<td>$2.07</td>
<td>$6.60</td>
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<tr>
<td>Fixed Income/Credit</td>
<td>($0.92)</td>
<td>($3.16)</td>
<td>($0.61)</td>
<td>($1.00)</td>
<td>$3.41</td>
<td>$4.60</td>
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<tr>
<td>Commodities</td>
<td>($0.14)</td>
<td>$0.00</td>
<td>$0.06</td>
<td>$0.43</td>
<td>$0.60</td>
<td>$0.69</td>
</tr>
<tr>
<td>Multi-Asset</td>
<td>($0.79)</td>
<td>($1.98)</td>
<td>$0.13</td>
<td>($0.77)</td>
<td>$2.16</td>
<td>$4.46</td>
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### Key Points

- **After a long string of redemptions, hedge fund flows were positive in February, and YTD.**
  The industry had endured net outflows in each of the last five months, and seven of the last eight, prior to February’s net inflows. February’s inflows offset January’s slight redemptions putting flows into positive territory for 2017.

- **Fair to be cautiously optimistic about February’s inflows.**
  January/February has historically been a period which defines the outlook for industry flows. Last year, flows in Jan/Feb were negative for the first time since 2009, and industry flows were negative for the first time since then as well. In the six years in between, Jan/Feb flows tended to account for at least 30% of the year’s overall total net inflow. So while it is good that sentiment toward the industry is more positive than negative now, and inflows are outpacing redemptions, unless 2017 is unlike any of the prior eight years, inflows will not likely be significant.

- **Investors are showing strong demand for macro strategies.**
  After a disappointing year for flows in 2016, driven primarily by erratic 2015 returns and losses from notable products, investors appear to have noticed the benefit many macro managers were able to provide investors in 2016. In eVestment’s February performance report, we noted that the ten largest macro funds significantly outperformed their peers in 2016.

- **Quantitative strategies driving/supporting long/short equity fund flows.**
  Long/short equity hedge fund flows have been negative in 2017, but much of February’s inflows and a large proportion of those with inflows this year, have been funds operating quantitative strategies. Without quant equity, long/short equity flows in February would have been negative, and YTD the group has accounted for about 35% of reported net inflows.

- **Despite a difficult 2016, investors have not completely turned their backs on managed futures strategies.**
  Well on their way to earning the unfortunate title of “most loved, least productive” strategy in 2016, investors began to redeem from managed futures products at the beginning of Q4 2016. Redemption pressures continued into January, however February showed a meaningful reversal.

- **Event driven funds seeing some positive signs after two very difficult years.**
  Though inflows in February were essentially flat, and YTD flows remain negative, event driven fund flows are showing flickers of life. Just over two-thirds of event driven funds reported net inflows in February, and more than half have seen positive flows in 2017. This is a signal that while redemption pressures still exist, they appear targeted rather than widespread.

(Continued on next page)
Flows Overview (continued)

- **Renewed interest in credit strategies.**
  We noted in our previous report that traditional US fixed income strategies have seen a recent influx of new assets (see eVestment’s traditional asset flows report), but fixed income/credit hedge funds, outside of distressed, were having difficulty attracting new assets, a trend which dated back to mid-2015. Revised January data showed inflows to begin the year, and it appears the trend has continued in February, suggesting investors are confident in opportunities available in credit markets going forward.

- **Multi-strategy hedge funds flows turn positive for 2017.**
  Beginning in late 2015, multi-strategy hedge funds endured a span of volatile fund flows brought on partially by a span of highly mixed and negative returns, as well as non-performance related idiosyncratic issues. In their favor over the last several months has been a streak of solid performance. February’s positive flow is a very good sign for the segment.

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Final Strategy Thoughts:

Quite often in 2016, it was difficult to find something positive to comment about on the state of investor sentiment toward the hedge fund industry. Looking through February’s data, the feeling is the opposite. While it is apparent 2017 may not resemble the years in-between 2009 and 2016, there is an overwhelming sense of positive undertones within the data. Still, we maintain overall flows will depend on these two factors:

1) The minimal expected shifts of institutional portfolios to increase hedge funds as a portion of their portfolios, which had been a primary driver of inflows in 2013-2015, until fading in 2016.

2) The impact of prior year’s performance on the withdrawal, allocation, or redistribution of assets around the industry.

As in 2016, 2017 flows are showing a high influence from the prior year’s returns. While the impact from influence #1 may be minimal, the influence from #2 is generally positive.

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Macro & Credit Strategies Supporting EM Fund Flows

**Flows by Investment Region and Domicile**

<table>
<thead>
<tr>
<th>Investment Region</th>
<th>Feb YTD 2017</th>
<th>2016</th>
<th>2015</th>
<th>Est. AUM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Americas</td>
<td>$0.65</td>
<td>($0.37)</td>
<td>($36.92)</td>
<td>($18.48)</td>
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<tr>
<td>Europe</td>
<td>$0.21</td>
<td>($0.50)</td>
<td>$0.61</td>
<td>($7.67)</td>
</tr>
<tr>
<td>Asia</td>
<td>$9.61</td>
<td>$6.90</td>
<td>($54.26)</td>
<td>$35.83</td>
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<tr>
<td>Emerging Markets</td>
<td>$2.77</td>
<td>($4.44)</td>
<td>($6.09)</td>
<td>$29.67</td>
</tr>
<tr>
<td>Global Markets</td>
<td>$0.32</td>
<td>$0.56</td>
<td>($6.72)</td>
<td>$12.28</td>
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**Flows by Size and Prior Year Performance - Current Month**

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<tbody>
<tr>
<td>Americas</td>
<td>($0.30)</td>
<td>($0.45)</td>
<td>$0.63</td>
</tr>
<tr>
<td>Europe</td>
<td>($0.90)</td>
<td>($0.37)</td>
<td>($0.28)</td>
</tr>
<tr>
<td>Asia</td>
<td>($1.17)</td>
<td>($0.60)</td>
<td>$0.02</td>
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<td>($1.81)</td>
<td>($1.89)</td>
<td>($0.23)</td>
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<tr>
<td>Europe</td>
<td>($1.28)</td>
<td>$0.24</td>
<td>$0.42</td>
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<tr>
<td>Asia</td>
<td>($1.67)</td>
<td>$0.73</td>
<td>($0.18)</td>
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<td>($3.32)</td>
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**Key Points**

- **Investors are showing mixed signals toward regional EM strategies.**
  The regional investment preferences for products receiving the bulk of inflows vs. the bulk of outflows in both February, and YTD 2017 are very similar. If anything, there is a slightly higher prevalence of interest in Russia for inflows vs. outflows, though there are absolutely Russia-focused funds exhibiting both.

- **Fund strategy appears to be more influential than regional bias in flows.**
  Macro and credit funds focusing on emerging markets are receiving more consistent investor interest compared to equity-focused strategies. China fund flows were slightly positive, however there was a large divide in flows between credit (positive) and equity-focused (negative) strategies.

- **Poor performance has been hurting the European hedge fund industry.**
  While much of the rest of the world has seen flows turn back to positive, Europe-based hedge fund flows have now been negative for ten consecutive months. The US-based composition of products has produced twelve consecutive months of positive asset-weighted performance, and those based in Asia have been mostly positive in the last year, but the congregation from Europe has underperformed. This may be due to a prevalence of exposure to underperforming local markets, or simply world views which are not aligned with how markets have been reacting to global themes. The future, however, may be brighter than the recent past as the universe appears to have turned their aggregate performance issues around in December 2016 through February.
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