Hedge Fund Industry Returns to Net Inflows in 2017

Improved performance prompts investors to commit capital back to the asset class

2017 marked the first time the Preqin All-Strategies Hedge Fund benchmark has seen a calendar year of positive monthly returns. Full-year performance of 11.41% for the industry – the highest level since 2013 – has improved investor confidence in the asset class, and prompted four quarters of net inflows of capital. Seventy-two percent of investors feel their hedge fund portfolios met or exceeded expectations in 2017, a reversal from the year before, in which 66% of investors thought they had underperformed. This confidence has led to net inflows of almost $50bn across the year, and has helped push industry assets under management to a new record of $3.55tn. However, this has not been felt equally across the industry – while CTAs saw inflows of $23bn, equity strategies funds saw outflows of $50bn, as investors looked to align their portfolios more defensively.

See the sample pages of the 2017 Preqin Global Hedge Fund Report here.

Members of the press can request a complimentary copy of the report. Please email press@preqin.com for more details.

2018 Global Hedge Fund Report Highlights:

- **Hedge funds produced positive returns in every month of 2017**, gaining 11.41% for the year. This is the highest return since 2013.
- Investors have noticed improved performance: **72% reported that their portfolios have met or exceeded expectations in 2017**, up from 34% that said the same a year prior.
- As such, they have committed fresh capital to the industry, and overall **hedge funds saw net inflows of $49bn through the year**.
- Net inflows and strong performance have helped push assets under management to record highs. **The industry grew 9.2% in 2017 to a new record of $3.55tn**.
- Looking ahead, **32% of investors expect performance in 2018 to improve from 2017's returns**, while 28% expect performance to be worse.
- Nearly half (45%) believe that equity markets have reached a peak, and so **37% of investors are looking to position their portfolios more defensively** in 2018.
- This may explain why **defensive strategies such as CTAs and macro strategies funds saw the largest net inflows** in 2017 ($23bn and $17bn respectively), while equity strategies saw the largest outflows ($33bn)

Amy Bensted, Head of Hedge Fund Products:

"2017 was a year of redemption for hedge funds, in contrast with the 'year of redemptions' experienced in 2016. Improved performance has stoked investor confidence, and although a sizeable minority still reported themselves unhappy, the majority are satisfied with the returns their portfolios have provided. As a result, they have begun to commit fresh capital to the asset class again, and the industry saw four quarters of positive net inflows. This has helped push assets under management well beyond $3.5tn, and it seems as though funds have regained some of the momentum that was lost in the latter stages of 2015.

However, there are still significant challenges that lie ahead for the industry. Although hedge funds marked net inflows as a whole, there was a clear weighting towards defensive strategies like CTAs and macro funds, and away from equities approaches. Almost half of investors feel that equity markets peaked in 2017, and are looking to adjust their portfolios accordingly. More generally, the modest and irregular size of quarterly inflows points to an investor universe that is not yet fully convinced of hedge funds' value, and these issues are likely to persist well into 2018."

Preqin is the leading source of information for the alternative assets industry, providing insight and analysis gathered by its global teams of dedicated researchers. Founded in 2003, the company is a frequent source of intelligence used in the global financial press, through its online databases, regular publications and bespoke data requests.

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