

Q3 2018 HEDGE FUND ASSET FLOWS

We look at hedge fund asset flows in Q3 2018 by strategy, fund size, manager headquarters and performance.

Although hedge funds recorded outflows (\$4.6bn) for a second consecutive quarter in Q3 2018, strong performance counteracted these capital withdrawals to grow industry AUM to \$3.62tn, marking a 1.1% increase since the end of 2017 (Fig. 1).

Industry outflows in Q3 2018 were predominately driven by macro strategies funds (-\$9.0bn) – the only top-level strategy tracked by Preqin to have experienced net outflows across all three quarters of 2018, totalling \$15.3bn as at September 2018. Credit and relative value strategies funds also witnessed outflows of \$3.5bn and \$4.7bn respectively. However, outflows were not recorded across all hedge fund strategies: multi-strategy funds attracted a net inflow of \$5.0bn, despite only 33% of funds experiencing inflows in comparison to 41% recording outflows. Elsewhere, substantial inflows were seen in event driven strategies (+\$3.6bn) and CTAs (+\$3.0bn).

North America-based fund managers continued to enjoy success in attracting capital in Q3 with inflows of \$3.0bn (Fig. 2). This influx of capital, accompanied by strong returns over the quarter, helped to increase the region's aggregate industry assets to \$2.73tn. This marks 4% growth this year so far, with the region now accounting for approximately three-quarters of the entire industry's assets. Europe

was the only other top-level region to record inflows (+\$2.0bn) over the quarter; however, poor regional performance hindered its total AUM, which shrunk over the quarter to \$706bn. Outflows continued for Rest of World in Q3 (-\$6.6bn) following significant withdrawals in Q2 also (-\$16.2bn). Net outflows for the region currently stand at \$15.8bn in 2018 YTD.

Preqin data suggests that the largest funds struggled to attract capital in Q3 2018, with only 27% of funds of \$1bn or more in size generating inflows, the smallest proportion of any fund size bracket. The largest proportion (43%) of funds recording inflows held between \$500mn and \$999mn in AUM; however, such funds also recorded the largest proportion (48%) of outflows.

As ever, performance is key to attracting further capital investment. Among funds that have generated returns of 5.00% or greater over a three-year period, 38% experienced inflows. This compares to 23% of funds that posted returns of less than -5.00% over the same period. This trend is even more prevalent when looking at funds that have performed particularly strongly in the first half of 2018: over half of funds that posted returns greater than 5.00% over H1 2018 recorded inflows in the period.

Fig. 1: Hedge Fund Asset Flows by Core Strategy, 2015 - Q3 2018

| Strategy | 2015 (\$bn) | 2016 (\$bn) | 2017 (\$bn) | Q1 2018 (\$bn) | Q2 2018 (\$bn) | Q3 2018 (\$bn) | Q3 2018 AUM (\$bn) | % Change in AUM from Dec-17 |
|---------------------------|-------------|---------------|-------------|----------------|----------------|----------------|--------------------|-----------------------------|
| Macro Strategies | -25.8 | -5.9 | 19.0 | -1.3 | -5.0 | -9.0 | 1,049 | -1.2% |
| Equity Strategies | 60.3 | -50.3 | -23.8 | -7.6 | 4.3 | 0.6 | 926 | 0.8% |
| Multi-Strategy | 27.5 | -22.5 | 18.6 | -0.5 | 1.5 | 5.0 | 495 | 2.9% |
| Relative Value Strategies | -18.8 | -24.7 | -4.1 | 0.2 | -13.5 | -4.7 | 338 | -4.2% |
| CTAs | 24.6 | 25.5 | 25.2 | 13.2 | -9.2 | 3.0 | 286 | 0.8% |
| Credit Strategies | 4.2 | -28.2 | -4.7 | 7.8 | 10.7 | -3.5 | 273 | 9.2% |
| Event Driven Strategies | -1.8 | -2.9 | 10.3 | 0.2 | 9.2 | 3.6 | 223 | 9.2% |
| Niche Strategies | 1.3 | -0.8 | 3.8 | 4.9 | 0.7 | 0.3 | 28 | 11.7% |
| Total Industry | 71.4 | -109.8 | 44.4 | 16.9 | -1.2 | -4.6 | 3,618 | 1.1% |

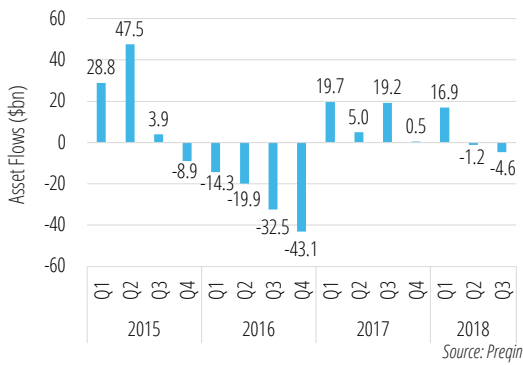
Source: Preqin

Fig. 2: Hedge Fund Asset Flows by Fund Manager Headquarters, 2015 - Q3 2018

| Headquarters | 2015 (\$bn) | 2016 (\$bn) | 2017 (\$bn) | Q1 2018 (\$bn) | Q2 2018 (\$bn) | Q3 2018 (\$bn) | Q3 2018 AUM (\$bn) | % Change in AUM from Dec-17 |
|-----------------------|-------------|---------------|-------------|----------------|----------------|----------------|--------------------|-----------------------------|
| North America | 79.6 | -55.7 | 2.9 | 15.3 | 22.0 | 3.0 | 2,731 | 4.0% |
| Europe | 31.7 | -35.4 | 32.4 | -9.9 | -4.1 | 2.0 | 706 | -3.4% |
| Asia-Pacific | -1.3 | -18.3 | -4.4 | 4.6 | -2.9 | -3.0 | 142 | -8.9% |
| Rest of World | -38.6 | -0.4 | 13.5 | 6.9 | -16.2 | -6.6 | 39 | -38.2% |
| Total Industry | 71.4 | -109.8 | 44.4 | 16.9 | -1.2 | -4.6 | 3,618 | 1.1% |

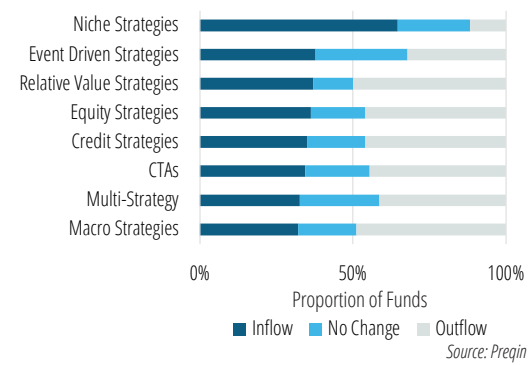
Source: Preqin

Fig. 3: Hedge Fund Asset Flows, Q1 2015 - Q3 2018



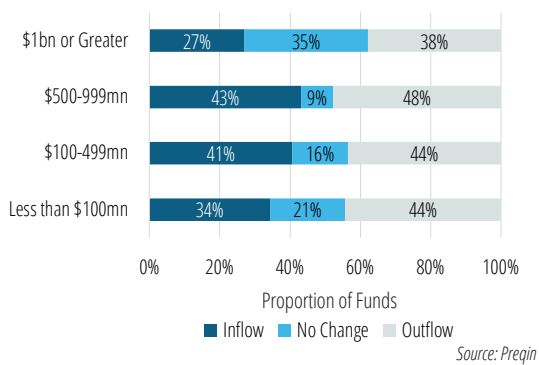
Source: Preqin

Fig. 4: Hedge Fund Asset Flows over Q3 2018 by Core Strategy



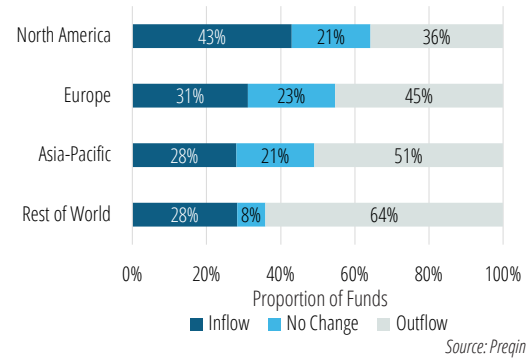
Source: Preqin

Fig. 5: Hedge Fund Asset Flows over Q3 2018 by Fund Size



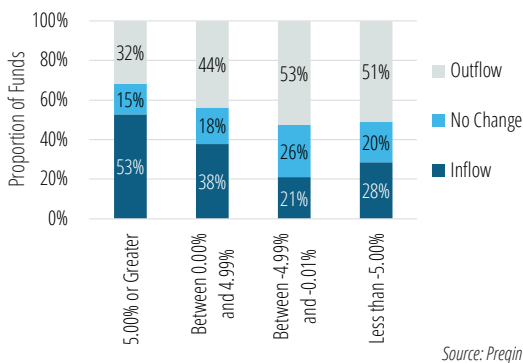
Source: Preqin

Fig. 6: Hedge Fund Asset Flows over Q3 2018 by Fund Manager Headquarters



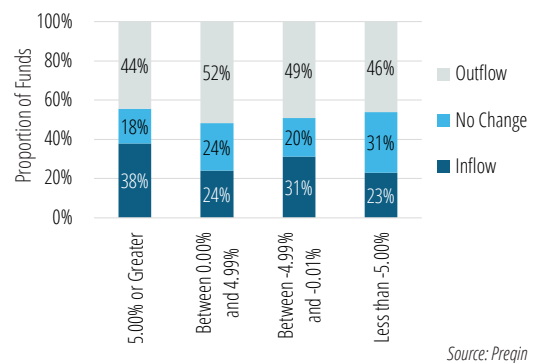
Source: Preqin

Fig. 7: Hedge Fund Asset Flows over Q3 2018 by H1 2018 Performance



Source: Preqin

Fig. 8: Hedge Fund Asset Flows over Q3 2018 by Three-Year Annualized Performance



Source: Preqin