

Hedge Funds See Worst Performance Month in Three Years

The industry returned -2.35% in October 2018, as net asset outflows continued

The Preqin All-Strategies Hedge Fund benchmark returned -2.35% in October, as the industry faced a particularly volatile month on equities markets. This was the lowest monthly performance recorded by the benchmark since January 2016. Equity strategies funds were particularly affected as they returned -3.13% for the month, but macro strategies funds were the only approach to make gains, returning 0.21%. It takes overall performance in 2018 YTD into negative territory at -0.78%, with two months of the year remaining.

Negative performance may increase the challenge for funds seeking fresh capital from investors. The industry has seen net outflows of capital in Q2 and Q3, totalling \$1.2bn and \$4.6bn respectively. Macro strategies have been particularly affected, seeing their third consecutive quarter of net outflows totalling \$9.0bn. Relative value and credit funds also saw net outflows, as did funds based outside of North America and Europe. The performance connection remains strong, though: 53% of funds that returned 5.00% or more in H1 saw net inflows in Q3 2018, while a similar proportion (51%) of those that returned less than -5.00% saw net outflows.

For more on fund performance, see the *Preqin Hedge Fund Benchmarks Report: October 2018* here: <http://docs.preqin.com/reports/HF-Benchmarks-Oct-18.pdf>

For more on Q3 2018 asset flows, see the *Q3 2018 Preqin Hedge Fund Asset Flows factsheet* here: <http://docs.preqin.com/reports/Preqin-Hedge-Fund-Asset-Flows-Q3-2018.pdf>

Amy Bensted, Head of Hedge Funds:

“October was certainly a volatile month for equity markets globally. Hedge fund performance was severely impacted by the sell-off resulting from the escalation of trade, political and monetary policy uncertainties. With a loss of over 2% in October taking the overall return of hedge funds into negative waters, the question now is whether or not the broader hedge fund sector can finish 2018 with gains.”

“These difficulties will make it harder for some funds to attract inflows in the last part of the year, but it may also allow some managers to shine. With many investors still looking to balance their portfolios defensively, those managers which can show their ability to make gains in turbulent circumstances may be able to attract fresh capital.”

Key Hedge Fund Performance and Asset Flows Facts:

- The Preqin All-Strategies Hedge Fund benchmark returned -2.35% in October, its lowest monthly performance since January 2016.
- Equity strategies funds had the lowest performance, returning -3.13%. Macro funds were the only leading strategy to make gains, returning 0.21% for the month.
- This has taken year-to-date returns into negative territory for the first time in 2018, at -0.78%.
- Q3 saw net outflows from the industry totalling \$4.6bn. This follows outflows of \$1.2bn in Q2.
- Macro, relative value and credit funds saw net outflows of \$9.0bn, \$4.7bn and \$3.5bn respectively. Other top-level strategies saw net inflows.
- Firms based in North America and Europe saw net inflows of \$3.0bn and \$2.0bn respectively, while other regions saw net outflows.
- As of the end of Q3 assets held by the industry had grown by 1.1% from the end of 2017, sitting at \$3.62tn.

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