

HEDGE FUND ASSET FLOWS

Monthly Summary Report

June/Q2 2014

Release Date: July 16, 2014

Allocations Slowed in June while Industry Ends Q2 at Peak Asset Levels



New flows into equity & credit funds drove H1 2014 to industry's best opening stretch since 2007

Estimated Assets & Investor Flows through June 2014

Data in USD Billion	JUN	Q2 14	H1 14	2013	Est. AUM
All Hedge Funds	\$6.14	\$48.22	\$99.69	\$61.66	\$3,032.97
Equity Strategies	\$8.25	\$23.31	\$65.29	\$15.50	\$996.75
Fixed Income/Credit	\$5.03	\$21.21	\$28.90	\$68.71	\$981.71
Commodities	(\$0.83)	(\$1.76)	(\$2.77)	(\$1.41)	\$73.87
Multi-Asset	(\$6.63)	\$5.44	\$9.05	(\$21.10)	\$1,032.85

Primary Strategy	JUN	Q2 14	H1 14	2013	Est. AUM
Long/Short Equity	\$5.33	\$10.78	\$36.11	\$0.90	\$671.60
Event Driven	\$4.79	\$15.51	\$35.20	\$9.00	\$578.78
Relative Value Credit	\$2.70	\$7.46	\$11.15	\$28.98	\$251.76
Directional Credit	\$0.91	\$5.03	\$4.92	\$25.09	\$126.62
MBS Strategies	\$0.59	\$3.39	\$1.29	(\$3.24)	\$90.25
Distressed	\$0.55	\$2.69	\$5.06	\$5.49	\$246.25
Convertible Arbitrage	\$0.30	\$1.13	\$2.08	\$0.15	\$56.47
Market Neutral Equity	\$0.03	\$0.38	\$3.10	\$5.54	\$52.08
Broad Multi-Strategy	(\$0.92)	\$11.16	\$29.24	\$28.89	\$393.06
Managed Futures	(\$3.73)	(\$7.90)	(\$23.56)	(\$31.98)	\$121.00
Macro	(\$3.82)	\$2.48	(\$2.89)	(\$10.00)	\$229.23

Investment Region	JUN	Q2 14	H1 14	2013	Est. AUM
Americas	\$4.55	\$13.68	\$31.54	\$24.69	\$958.00
Europe	\$5.29	\$8.97	\$23.83	\$8.25	\$238.91
Asia	(\$0.05)	(\$1.91)	\$0.02	\$7.60	\$105.70
Emerging Markets	\$1.19	\$3.94	\$5.62	\$7.26	\$286.38
Global Markets	(\$3.63)	\$27.18	\$44.02	\$19.37	\$1,739.17

Updated Hedge Fund Performance through June 2014

Aggregate Performance	JUN	Q2 2014	H1 2014	2013
Hedge Fund Aggregate	1.18%	1.91%	3.06%	8.93%
S&P 500 Total Return	2.07%	5.24%	7.14%	32.40%
Large Funds (>\$1b)	0.81%	1.69%	2.63%	7.66%
Mid-size Funds (<\$1b, >\$250m)	0.78%	1.89%	3.15%	8.78%
Small Funds (<\$250m)	1.36%	2.00%	3.20%	8.75%

Primary Markets	JUN	Q2 2014	H1 2014	2013
Volatility/Options Strategies	1.50%	3.10%	5.53%	4.73%
Equity Strategies	1.34%	1.93%	3.23%	14.11%
Broad Multi-Market	0.90%	1.66%	2.47%	5.35%
Broad Financial Derivatives	0.76%	1.33%	-0.20%	-0.72%
Credit Strategies	0.60%	1.91%	4.21%	6.53%
Commodity Strategies	0.53%	0.66%	1.89%	-2.53%
FX Strategies	-0.86%	-1.26%	-1.94%	-2.25%

Primary Strategy	JUN	Q2 2014	H1 2014	2013
Event Driven - Activist	2.65%	4.12%	5.81%	18.00%
Long/Short Equity	1.61%	2.16%	3.39%	15.65%
Event Driven	1.60%	2.73%	5.22%	12.91%
Distressed	1.15%	2.52%	5.98%	14.63%
Multi-Strategy	0.87%	1.79%	2.47%	6.39%
Managed Futures	0.83%	1.24%	1.26%	-1.12%
Convertible Arbitrage	0.70%	2.07%	4.24%	6.22%
Relative Value Credit	0.60%	1.82%	4.26%	5.26%
Directional Credit	0.58%	1.99%	4.42%	6.31%
Macro	0.47%	1.00%	0.82%	2.90%
Market Neutral Equity	0.00%	0.38%	1.70%	6.62%

Sub-Sector Exposure	JUN	Q2 2014	H1 2014	2013
Technology	2.60%	-1.18%	-1.35%	11.55%
Sm/micro Cap	1.77%	1.10%	4.34%	19.41%
Energy	1.71%	4.41%	9.75%	13.40%
Healthcare	1.48%	-0.83%	7.05%	29.75%
Financials	1.22%	0.25%	0.60%	18.03%
Securitized - Mortgages	0.81%	2.13%	5.59%	10.09%

Regional Exposure	JUN	Q2 2014	H1 2014	2013
Emerging Markets	1.44%	4.01%	3.20%	5.73%
Developed Markets	1.21%	1.55%	3.67%	12.96%
Russia	6.32%	13.40%	-2.72%	2.55%
India	5.72%	19.50%	30.55%	-7.75%
Emerging Europe	4.54%	8.80%	-1.75%	0.14%
Japan	2.87%	2.21%	-1.81%	34.33%
Brazil	2.25%	4.27%	2.10%	-3.97%
China	1.93%	0.53%	-3.43%	15.89%
Africa/Middle East	-1.63%	2.16%	5.46%	20.50%

- After industry assets reached a new all-time peak in April and surpassed \$3 trillion for the first time in May, hedge fund assets continued to rise to end Q2 2014 at \$3.032 trillion.
- Investor flows to hedge funds were positive, but slowed at the end of Q2 2014. The \$6.1 billion added in June was the lowest total since January and marks the end of a four-month span of elevated inflows that averaged over \$22 billion per month.
- Investors added \$48.2 billion to the industry in Q2 and \$51.5 billion in Q1 2014. The combined \$99.7 billion of inflows in H1 far surpasses 2013 flows and the industry's 2014 annualized core growth rate of 7.1% is its highest post-financial crisis level. In the three years pre-crisis, the hedge fund industry grew at an average rate near 19%.
- June flows were a microcosm of both Q2 and H1 2014. Investors preferred equity exposure, but interest in credit continued to rebound while commodity and managed futures flows continued their negative slide.
- The biggest winners on a strategy level in Q2 were event driven funds, receiving \$15.5 billion in new capital. Activist investors continued to be an influential event driven subset, receiving \$2.4 billion in June and \$6.2 billion in Q2.
- Investors allocated heavily to strategies focused on European markets in June, a continuation of a year-long trend and a sign of investor confidence in the presence of opportunities in both European credit and equity markets. Inflows were \$5.3 billion in June, \$9.0 billion in Q2 and \$23.8 billion in H1 2014.
- Macro strategy fund flows weighed on the industry in June, but the group's Q2 flows remained positive. The \$3.8 billion redeemed in June ended a two-month streak of inflows and was in-line with outflows in earlier months of 2014.
- Performance appears to be a major factor influencing macro fund flows. Investors have been allocating to funds able to perform decently and actively redeeming from underperformers. Strategies returning greater than 5% in the twelve months leading up to Q2 2014 received an estimated \$6.8 billion in the quarter, while those returning less than 5% had a net \$4.1 billion of outflows.
- Large firms dominated asset gathering in both Q2 and H1 2014. Firms with greater than \$1 billion in AUM accounted for 94% of net inflows in Q2 and 99% of all net inflows in H1. This may speak more to investor willingness to keep money in funds managed by large firms along with a rotation of assets among smaller firms, rather than an absolute preference to allocate to large firms. Investors redeemed assets from 55% of funds operated by small firms in Q2, while 38% of large firms' funds had redemptions during the quarter.
- Investors appear to see opportunity in turbulent emerging markets. Allocations to EM funds in Q2 of \$3.9 billion were the second largest since Q4 2010, behind only Q4 2013.
- Investors appear to have been spooked by increased conflict in the Middle East. MENA-focused funds had a second consecutive month of redemptions in June after enjoying nearly fifteen straight months of inflows. Allocations also increased to funds targeting Latin America and Eastern Europe.

COMPANY DESCRIPTION

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