

HEDGE FUND ASSET FLOWS

Monthly Summary Report

September & Q3 2014

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Hedge Fund Assets Declined in September and Q3 2014



Industry faced outflows in September, but negative returns caused first quarterly decline since Q2 2012

Estimated Assets & Investor Flows through September 2014

Data in USD Billion	SEP	Q3 2014	YTD	2013	Est. AUM
All Hedge Funds	(\$6.94)	\$9.56	\$106.93	\$61.66	\$3,011.80
Equity Strategies	(\$2.28)	\$8.23	\$73.91	\$15.50	\$997.12
Fixed Income/Credit	\$3.60	\$9.50	\$36.33	\$68.71	\$990.00
Commodities	(\$0.18)	\$1.60	(\$1.93)	(\$1.41)	\$73.84
Multi-Asset	(\$7.81)	(\$8.58)	\$1.38	(\$21.10)	\$1,004.72

Primary Strategy	SEP	Q3 2014	YTD	2013	Est. AUM
Relative Value Credit	\$3.60	\$3.71	\$15.04	\$28.98	\$253.19
MBS Strategies	\$2.46	\$4.04	\$4.26	(\$3.24)	\$94.96
Distressed	\$0.50	\$2.71	\$8.04	\$5.49	\$248.65
Event Driven	\$0.21	\$7.64	\$42.63	\$9.00	\$580.47
Convertible Arbitrage	\$0.08	\$0.02	\$2.00	\$0.15	\$56.25
Market Neutral Equity	(\$0.23)	\$0.10	\$3.11	\$5.54	\$51.90
Directional Credit	(\$1.20)	\$0.77	\$1.73	\$25.09	\$125.81
Long/Short Equity	(\$1.82)	\$2.07	\$38.78	\$0.90	\$669.95
Broad Multi-Strategy	(\$2.08)	\$4.84	\$35.17	\$28.89	\$403.69
Managed Futures	(\$2.82)	(\$4.75)	(\$28.51)	(\$31.98)	\$121.56
Macro	(\$3.13)	(\$7.08)	(\$10.06)	(\$10.00)	\$194.87

Investment Region	SEP	Q3 2014	YTD	2013	Est. AUM
Americas	\$3.35	\$10.47	\$41.40	\$24.69	\$962.29
Europe	(\$0.76)	(\$2.06)	\$20.55	\$8.25	\$233.10
Asia	(\$0.44)	(\$0.21)	(\$0.02)	\$7.60	\$106.70
Emerging Markets	\$0.13	(\$0.75)	\$3.75	\$7.26	\$281.84
Global Markets	(\$9.03)	\$1.43	\$44.78	\$19.37	\$1,718.51

Updated Hedge Fund Performance through September 2014

Aggregate Performance	Sep	Q3 2014	YTD 2014	2013
Hedge Fund Aggregate	-1.18%	-0.95%	2.39%	10.36%
S&P 500 Total Return	-1.40%	1.13%	8.35%	32.40%

Primary Markets	Sep	Q3 2014	YTD 2014	2013
Broad Financial Derivatives	1.90%	3.46%	4.29%	1.61%
FX Strategies	0.07%	0.93%	0.62%	-0.81%
Broad Multi-Market	-0.11%	0.30%	2.39%	6.11%
Volatility/Options Strategies	-0.89%	-1.47%	1.41%	5.40%
Credit Strategies	-1.24%	-1.51%	2.53%	8.09%
Broad Capital Structure	-1.25%	-1.46%	3.03%	13.79%
Commodity Strategies	-1.73%	-3.16%	0.85%	-3.02%
Equity Strategies	-2.08%	-1.78%	2.00%	15.89%

Primary Strategy	Sep	Q3 2014	YTD 2014	2013
Managed Futures	1.53%	2.87%	3.61%	1.07%
Macro	-0.16%	-0.06%	2.21%	1.65%
Multi-Strategy	-0.39%	-0.04%	2.10%	8.10%
Relative Value Credit	-0.85%	-0.71%	3.04%	6.88%
Market Neutral Equity	-1.15%	-1.32%	0.41%	7.73%
Distressed	-1.40%	-1.84%	3.71%	13.76%
Directional Credit	-1.44%	-1.62%	2.86%	8.48%
Event Driven	-1.70%	-2.37%	2.39%	14.69%
Convertible Arbitrage	-1.83%	-2.28%	1.69%	14.15%
Event Driven - Activist	-1.98%	-1.93%	4.19%	19.20%
Long/Short Equity	-2.12%	-1.70%	2.15%	16.70%

Sub-Sector Exposure	Sep	Q3 2014	YTD 2014	2013
Securitized - Mortgages	0.64%	1.61%	8.15%	10.49%
Securitized - Multi Sector	0.20%	0.95%	9.97%	14.01%
Healthcare	-0.58%	0.78%	9.11%	28.06%
Financials	-1.48%	-1.83%	0.83%	21.01%
Technology	-1.91%	-1.70%	-1.60%	14.41%
Energy	-2.18%	-3.29%	8.37%	31.83%

Regional Exposure	Sep	Q3 2014	YTD 2014	2013
Developed Markets	-1.56%	-1.70%	2.67%	13.84%
Emerging Markets	-3.18%	-1.91%	1.47%	6.48%
India	0.99%	8.17%	43.78%	-7.01%
Japan	-0.23%	-0.03%	0.09%	27.65%
China	-1.41%	2.59%	0.78%	17.51%
Africa/Middle East	-1.60%	2.32%	7.24%	19.17%
Russia	-2.61%	-8.77%	-18.66%	-0.26%
Emerging Europe	-4.13%	-9.39%	-10.32%	2.50%
Brazil	-11.79%	-9.24%	-4.70%	-11.57%

- Total assets in hedge funds decreased 1.5% in September to \$3.012 trillion. Performance accounted for the majority of the \$46.7 billion decline, but investor redemptions outpaced new allocations causing an outflow of \$6.9 billion during the month.
- Total industry assets declined in Q3 2014 for the first time since Q2 2012. Performance reduced AUM by \$30.3 billion, the equivalent of an asset-weighted return of -1.0%. Flows were positive in the quarter as \$9.6 billion was added to the industry.
- The most noticeable deviation from trend in September were investor redemptions from equity-focused strategies. Outflows were not large, \$2.3 billion, but mark equity funds' first monthly outflow since June 2013. Between June 2013 and August 2014, investors added \$105.5 billion into equity-focused hedge funds. September outflows are likely the result of losses in July and the impact of September's losses may become evident in the next two to three months.
- Investors continued to add assets to credit strategies in September, despite the group producing asset-weighted performance declines in both August and September. Inflows were not large, but the \$3.6 billion added in September raised Q3 flows to positive \$9.5 billion, outpacing investor interest in equity exposure for the first time since Q3 2013.
- The shift of interest toward credit and away from equity to end Q3 may be meaningful. Investor flows into credit had greatly outpaced equity for nearly four years starting in Q2 2010 until fears of rising interest rates emerged in May/June 2013. From then until August 2014, investors added nearly two times more to equity hedge funds than to credit.
- The majority of flows into equity strategies over the last fourteen months have been into long/short equity and event driven strategies, which received \$55.5 billion and \$49.8 billion, respectively. It appears that as markets have become more volatile and losses emerge, investor interest has declined more rapidly towards long/short, which lost \$1.8 billion in September, than to event driven funds.
- Event driven funds had a slight \$210 million inflow in September bringing Q3 inflows to \$7.6 billion, more than three times the amount that went to long/short equity. Activist fund flows were virtually flat in September, but also remained positive. Funds which employ activist strategies received an estimated \$2.0 billion in Q3 which brings YTD inflows to nearly \$14 billion.
- Outflows were again elevated for macro and managed futures funds in September. The two accounted for the majority of investor outflows in September and all outflows in Q3. The story appears different between the two, however, as there appears to be performance driven factors influencing macro funds and structural issues influencing managed futures fund flows.
- September flows illustrate the different factors impacting macro and managed futures flows. Macro funds with positive returns in H1 2014 had slightly positive flows in September while those with negative returns in H1 2014 experienced elevated outflows. Managed futures strategies with both positive and negative returns in H1 2014 both faced redemptions in September. We have seen this trend occur throughout the year and it is symptomatic of differing institutional investor preferences between the two universes.

COMPANY DESCRIPTION

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