

Hedge Fund Industry Asset Flow Report

December 2023

Summary

Investors removed over \$26 billion from hedge funds to end 2023 which pushed the full year total net outflow over \$100 billion for the second consecutive year and for the third time in the last five years. Despite 2023 outflows and despite this continued redemption pressure on the industry, total industry AUM grew by over 3% last year and has grown at an annualized rate of nearly 2% over the last five years.

Across the industry there were several notable themes for the year. We touch on three of those within the report, but we should not overlook segments like managed futures and macro, because while not having standout years (for better or worse) compared to credit, multi-strategy or long/short equity, their data suggested some support for one and difficulties for some large funds in the other.

Highlights

- Investors removed an estimated \$26.3 billion from hedge funds in December.
- Credit hedge funds had a resurgence in H2 2023 and relatively good returns for the year.
- Managed futures funds flows were flat in 2023 while long/short equity funds lost the most.
- Investor interest in adding to existing multi-strategy managers faded in H2 2023, but large funds' performance was a highlight.

Industry AUM Rose >3% in 2023 Despite Large Redemption in December

Investors removed an estimated net \$26.3 billion from hedge funds in December. Performance accounted for an increase in assets. The result of both factors was a \$12.7 billion increase in assets under management to an estimated \$3.490 trillion.

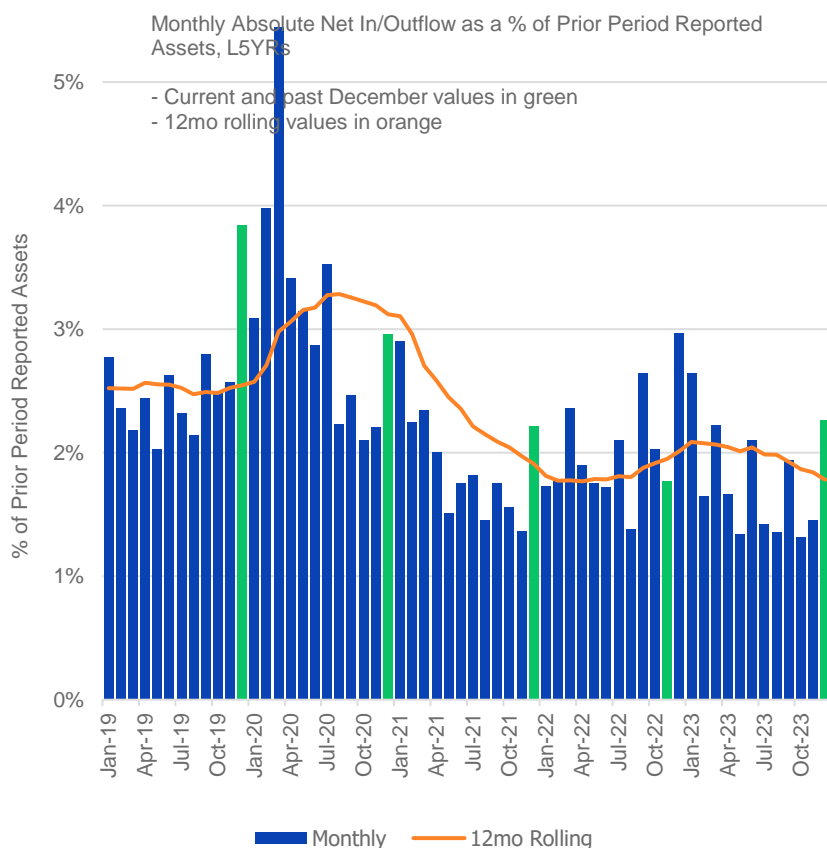
Industry Flows

	Dec	2023	2022	2021	Est. AUM
All Hedge Funds	(\$26.33)	(\$102.64)	(\$112.19)	\$13.92	\$3,490.37
Commodities	(\$2.40)	(\$6.60)	(\$4.07)	\$10.31	\$113.70
Fixed Income/Credit	(\$4.43)	(\$5.44)	(\$48.36)	(\$36.34)	\$977.34
Equity	(\$5.34)	(\$54.80)	(\$27.40)	\$8.57	\$1,192.18
Multi-Asset	(\$14.10)	(\$35.73)	(\$29.12)	\$31.33	\$1,266.60
Primary Strategy	Dec	2023	2022	2021	Est. AUM
Market Neutral Equity	(\$0.10)	(\$0.41)	\$0.02	\$2.78	\$88.10
Convertible Arbitrage	(\$0.41)	(\$0.09)	(\$0.26)	\$2.53	\$69.13
Relative Value Credit	(\$0.54)	\$4.02	(\$5.52)	\$0.84	\$243.67
Distressed	(\$1.22)	(\$6.33)	(\$4.71)	(\$2.24)	\$226.98
Managed Futures	(\$2.12)	(\$0.37)	\$6.12	\$12.98	\$187.09
Event Driven	(\$2.35)	(\$24.83)	(\$7.55)	\$3.73	\$587.62
Macro	(\$3.24)	(\$11.52)	(\$31.40)	(\$5.07)	\$212.75
Directional Credit	(\$3.47)	(\$4.38)	(\$26.57)	(\$11.97)	\$156.95
Multi-Strategy	(\$3.88)	(\$9.88)	\$6.21	\$23.17	\$688.91
Long/Short Equity	(\$5.88)	(\$34.58)	(\$38.02)	(\$16.48)	\$722.66

Key Points

- Despite another year of elevated net outflows, industry assets grew in 2023.**
 For a second consecutive year and third year in the last five, investors removed over \$100 billion from hedge funds. On the surface that does not sound positive (it's not), but also consider that industry assets have grown in four of the last five years. In 2023, total AUM rose by 3.2%. In the post COVID-onset year of 2021 when both net flow and performance were additive, industry AUM grew by nearly 8%, and in the two years before that there was growth of near 2% and 4%, respectively. Over the last five years, the industry has grown at an annualized rate of just about 2%, which includes the 6.5% AUM decline in 2022.
- The first of four primary themes from 2023 investor flow data: out of nowhere, credit was a standout.**
 Far too many times over the last several years we looked at the data and looked at the surrounding environment facing hedge fund credit strategies and expressed that we saw a very difficult environment. There had been some very tough performance periods and there has been the rise of private debt in institutional portfolios along with investor specific reasons for exiting credit strategies, all resulting in a significant amount of assets being removed, but a switch flipped in the ecosystem and outflows all but stopped in Q2 2023. We wouldn't say it was necessarily a great year for capital raising, but on a relative basis it was a standout year for credit strategies in the industry.
- Theme #2: investor interest in existing multi-strategy hedge funds faded in H2 2023.**
 There have been many articles written about upcoming hedge fund launches, particularly in the multi-strategy space, and so we must look at H2 2023 net flow with a grain of salt. It may entirely be the case that some portion of the assets removed from existing multi-strategy funds in the second half of the year may re-enter the strategy in 2024 under different management. While it is impossible to track specific assets through the data, Q1 2024 net flows will give us an indication if this is happening. From a performance standpoint it was a pretty good year for multi-strategy investors. The average return from the ten largest multi-strategy funds was greater than +8%, with several large funds producing double digit gains.
- Theme #3: long/short equity had a year to forget flow-wise, and performance was a bit all over the place.**
 Investors removed money from long/short equity funds in every month of 2023 and total net flow was by far the most negative of any strategy. This shouldn't come as a shock because in 2022 investor flow was net negative in all but one month. We would have to go back to 2017 to find the last year where net flow was positive for the strategy as a whole. Unlike the rest of the industry where there has been aggregate asset growth despite redemptions, long/short equity assets have fallen 2.5% over the last five years. Running through the data we can absolutely see products raising assets, performance success stories, etc., but it is not the norm within the strategy. Performance-wise, the ten largest long/short equity funds returned an average of just less than +7% with some large funds being near flat and others producing returns near +20%.

Volume of Asset Movement



Hedge Fund Performance Tables

Industry – Market – Strategy Performance

Industry Benchmarks	Dec	2023	2022	2021
Hedge Fund Aggregate	2.70%	8.10%	-5.46%	9.86%
MSCI World ex-US-GD	5.49%	18.60%	-13.82%	13.17%
S&P 500	4.54%	26.29%	-18.11%	28.71%
Bloomberg Barclays Global Aggregate	4.16%	5.71%	-16.25%	-4.71%

Primary Markets	Dec	2023	2022	2021
Equity	3.80%	5.88%	-10.75%	12.31%
Broad Capital Structure	3.24%	6.79%	-4.63%	10.98%
Fixed Income/Credit	2.02%	6.18%	-5.66%	5.34%
Broad Multi-Market	2.01%	3.79%	3.10%	5.95%
Volatility/Options Strategies	1.48%	6.57%	-9.96%	7.32%
FX/Currency	0.14%	2.62%	2.24%	-1.12%
Broad Financial Derivatives	0.12%	-0.69%	9.12%	7.17%
Commodities	-0.79%	-2.18%	10.75%	20.81%

Primary Strategy	Dec	2023	2022	2021
Event Driven - Activist	6.64%	2.15%	-9.75%	23.44%
Origination & Financing	5.86%	6.80%	-5.28%	9.15%
Long/Short Equity	4.25%	6.08%	-10.71%	13.35%
Event Driven	2.75%	5.96%	-4.56%	12.24%
Macro	2.63%	1.16%	3.93%	2.05%
Distressed	2.51%	5.22%	-4.43%	15.07%
Convertible Arbitrage	2.43%	3.67%	-9.30%	2.93%
Multi-Strategy	2.17%	5.00%	-2.58%	9.34%
Credit Long/Short	1.92%	6.14%	-4.97%	6.66%
Market Neutral Equity	1.57%	6.09%	0.26%	12.08%
Insurance-Linked	0.68%	12.20%	-2.67%	-2.70%
Managed Futures	0.18%	-1.40%	9.65%	6.76%
Alternative Risk Premia	-1.00%	7.24%	7.60%	10.31%

Prominent Universes by Size	Dec	2023	2022	2021
Ten Largest Hedge Funds	0.77%	7.55%	-7.53%	6.33%
Ten Largest Event Driven	2.41%	5.21%	-9.58%	7.56%
Ten Largest Long/Short Equity	2.15%	6.94%	-20.68%	6.36%
Ten Largest Macro	2.01%	2.89%	-2.24%	4.19%
Ten Largest Fixed Income/Credit	1.95%	6.35%	1.44%	3.28%
Ten Largest Multi-Strategy	0.52%	8.10%	1.67%	7.60%
Ten Largest Managed Futures	-1.24%	0.68%	18.26%	11.93%

Regional – Domicile Performance

Economic Development	Dec	2023	2022	2021
Developed Markets	3.37%	6.37%	-7.68%	11.12%
Emerging Markets	1.98%	5.39%	-11.01%	5.70%

Regional Exposure	Dec	2023	2022	2021
North America	4.01%	7.70%	-7.50%	14.93%
Africa/Middle East	3.73%	18.05%	-5.73%	20.51%
Developed Europe	2.31%	2.48%	-6.57%	7.57%
Asia	2.10%	0.52%	-12.27%	6.98%

Country Exposure	Dec	2023	2022	2021
Brazil	4.73%	12.18%	-3.86%	-18.67%
India	4.39%	34.72%	-10.56%	44.18%
Russia	4.13%	18.44%	-26.10%	9.15%
Japan	3.60%	5.71%	-2.14%	6.03%
Asia ex-Japan	1.51%	-2.76%	-12.32%	8.23%
China	-1.32%	-15.70%	-22.19%	-6.91%

Firm Domicile - Region	Dec	2023	2022	2021
United States	2.75%	5.61%	-4.92%	12.20%
Asia	2.32%	-0.46%	-13.65%	5.42%
Continental Europe	2.22%	3.00%	-6.37%	4.66%
United Kingdom	2.12%	5.06%	-2.45%	6.26%

Firm Domicile - Asia	Dec	2023	2022	2021
Japan	5.03%	-1.19%	-9.35%	-3.85%
Singapore	3.42%	5.36%	-9.04%	15.42%
China	2.28%	-0.22%	-16.83%	1.73%
Asia ex-Japan	2.03%	-0.35%	-14.21%	6.54%
Hong Kong	-0.85%	-12.16%	-17.55%	-1.97%

Firm Domicile - Rest of World	Dec	2023	2022	2021
Oceania	4.31%	-0.56%	-8.24%	10.12%
Latin America	4.16%	11.52%	0.92%	-5.94%
Middle East	3.51%	15.22%	-3.29%	13.23%
Offshores	1.73%	6.27%	-4.89%	10.08%