

Hedge Fund Industry Asset Flow Report

December/Full Year 2022

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Summary

Investors removed a lot of money from hedge funds in December, but it was worse in 2015 and 2016. Investors removed a lot of money from hedge funds during the course of 2022, but again, there have been worse years in recent memory. The headline numbers appears to paint a bleak picture of the health of the hedge fund industry heading into 2023, but the details of the data, while highlighting pockets of true difficulty, are just not as dire as the headlines would indicate.

Highlights

- Investors removed an estimated \$27 billion from hedge funds in December and \$111 billion over the course of 2022.
- Multi-strategy and managed futures funds saw elevated redemptions in December, however net outflows do not appear to indicate a sentiment shift for either.
- Long/short equity products end the year with another month of elevated redemptions. 2022 was a difficult year for the strategy.

Hedge Funds End 2022 with Elevated Redemptions in December

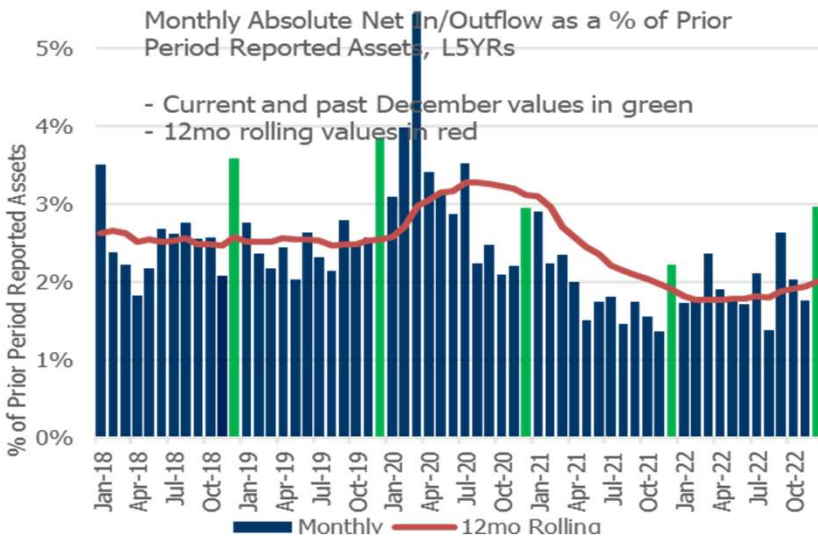
Investors removed an estimated net \$27.3 billion from hedge funds in December. Performance accounted for a small increase in overall asset levels. The result of both factors was a \$22.6 billion decline in assets to an estimated \$3.383 trillion.

Industry Flows

	Dec	YTD 2022	2021	2020	Est. AUM
All Hedge Funds	(\$27.33)	(\$111.34)	\$13.92	(\$59.32)	\$3,382.81
Fixed Income/Credit	(\$0.44)	(\$42.90)	(\$36.34)	(\$27.01)	\$930.22
Commodities	(\$1.09)	(\$4.92)	\$10.31	\$3.35	\$120.77
Equity	(\$7.61)	(\$26.91)	\$8.57	\$5.48	\$1,135.22
Multi-Asset	(\$18.20)	(\$33.26)	\$31.33	(\$41.08)	\$1,256.20
Primary Strategy	Dec	YTD 2022	2021	2020	Est. AUM
Convertible Arbitrage	(\$0.59)	(\$0.46)	\$2.53	\$1.62	\$66.51
Distressed	(\$0.60)	(\$4.19)	(\$2.24)	(\$2.39)	\$230.74
Directional Credit	(\$1.22)	(\$26.64)	(\$11.97)	(\$18.78)	\$119.82
Relative Value Credit	(\$1.23)	(\$4.90)	\$0.84	(\$5.64)	\$230.95
Market Neutral Equity	(\$1.30)	(\$0.52)	\$2.78	\$2.73	\$84.37
Macro	(\$1.89)	(\$30.55)	(\$5.07)	(\$14.10)	\$224.11
Event Driven	(\$2.67)	(\$6.99)	\$3.73	\$3.94	\$572.43
Managed Futures	(\$3.55)	\$6.24	\$12.98	(\$8.99)	\$197.61
Long/Short Equity	(\$4.73)	(\$37.62)	(\$16.48)	(\$15.03)	\$681.83
Multi-Strategy	(\$7.25)	\$5.84	\$23.17	(\$2.37)	\$654.28

Key Points

- December's data almost always indicates net outflows, but December 2022 was higher than normal.**
 Since we have been recording monthly flow data (2009) there has been only one December (2010) when reported data did not show net outflows for the industry. From 2011 until 2021, the average rate of net outflow (net outflow divided by prior period AUM) has been just over .60% of assets. The rate in December 2022 was -0.80%. The largest values we've seen were in December 2016 & 2015 (-0.97% & -0.81%, respectively). Yes, \$27.3 billion was removed on a net basis in December, and yes, this was higher than normal and higher than recent years, but we've seen worse.
- Let's put 2022 net outflows into perspective.**
 Estimated net flows for the industry this year will end up being around an outflow of \$111 billion. On a dollar value basis, this puts it in line with 2016 as the largest net outflow since 2008/2009. As a proportion of assets, redemptions in 2019 were larger, and 2016 was noticeably larger. Net outflows in 2022 were large, but they will go down as the third largest net outflow for hedge funds since 2008/2009 compared to beginning of year AUM.
- Multi-strategy funds' data indicated large redemptions to end 2022. What does this mean for the strategy?**
 Looking at the data it would be easy to think that investors' interests in multi-strategy hedge funds shifted into the end of 2022, but that would not be an appropriate interpretation of the data. What's more likely is that investors in some large multi-strategy products planned to remove assets amid some significant outperformance. The largest redemptions in December came from some of the largest managers who also produced exceptional returns this year. As a reminder, there were similarly large redemptions from this space at the end of 2021, and there was no carry over effect into this year.
- For managed futures funds, 2022 will be a year to remember.**
 Similar to the interpretation of multi-strategy fund flow data in December, we recommend not viewing year-end redemptions for managed futures funds as being a reversal of interest or negative investor sentiment. Every one of the ten largest redemptions in December came from products which performed very well this year. This group produced an average return of just over 22% in 2022, and the majority of these products' flow for the full year was still positive. In terms of capital raising in an otherwise difficult environment, and producing returns in an exceptionally difficult environment, 2022 will go down as one of the best years for managed futures funds in recent memory.



- Where is the picture less rosy, continued...macro hedge funds.**

On the surface, 2022 looked miserable for macro hedge funds. The estimated \$30 billion of net outflow is by far the largest the group has had on record and looking across the universe of reporting products the data completely supports the estimate. What the headline number doesn't show is a solid group of mid-sized to large funds who not only performed well in 2022 but were also able to raise new capital this year. Yes, a lot of money left some very large macro products in 2022, but it's hard to look at the details of the data and think 2022 was really as bad as it appears for the macro strategy. It wasn't great, and some lost a lot of assets, but overall, the picture here is not bleak.

- Where is the picture less rosy?**

Despite a relatively decent year-end for net flow and producing generally pretty good returns in 2022, credit-focused hedge funds will continue face headwinds into 2023 as demand for private credit fund structures is expected to continue. Long/short equity funds had a tough year both in terms of performance and capital raising that persisted into year-end. Asset-weighted returns indicate the group did not meaningfully outperform global equity markets in 2022, which could make 2023 another difficult year for raising new assets.



Hedge Fund Performance Tables

Industry – Market – Strategy Performance

Industry Benchmarks	Dec	YTD 2022	2021	2020
Hedge Fund Aggregate	-0.24%	-5.32%	9.87%	10.94%
S&P 500	-5.76%	-18.11%	28.71%	18.40%
MSCI World ex-US-GD	-0.45%	-13.82%	13.17%	8.09%
Bloomberg Barclays Global Aggregate	0.54%	-16.25%	-4.71%	9.20%

Primary Markets	Dec	YTD 2022	2021	2020
Fixed Income/Credit	0.71%	-5.54%	5.36%	5.14%
Volatility/Options Strategies	0.38%	-9.99%	7.32%	-0.37%
Broad Multi-Market	0.36%	3.19%	5.94%	10.19%
Broad Financial Derivatives	0.03%	9.30%	7.17%	4.56%
FX/Currency	-0.27%	2.36%	-1.12%	1.39%
Broad Capital Structure	-0.39%	-4.87%	11.04%	11.23%
Commodities	-0.53%	10.80%	20.81%	5.83%
Equity	-0.66%	-10.51%	12.31%	14.85%

Primary Strategy	Dec	YTD 2022	2021	2020
Market Neutral Equity	1.65%	0.41%	12.08%	2.59%
Multi-Strategy	1.13%	-2.33%	9.50%	7.88%
Insurance-Linked	0.99%	-3.07%	-2.70%	2.62%
Credit Long/Short	0.69%	-4.77%	6.66%	4.61%
Macro	0.68%	4.34%	2.08%	11.55%
Convertible Arbitrage	0.23%	-9.21%	3.19%	15.14%
Managed Futures	0.06%	9.57%	6.83%	5.77%
Distressed	-0.12%	-4.28%	15.07%	6.94%
Event Driven	-0.48%	-4.47%	12.40%	9.45%
Alternative Risk Premia	-0.67%	7.76%	10.31%	-10.70%
Origination & Financing	-0.95%	-5.98%	9.15%	21.78%
Long/Short Equity	-1.14%	-10.46%	13.29%	15.11%
Event Driven - Activist	-1.76%	-8.64%	26.28%	16.40%

Prominent Universes by Size	Dec	YTD 2022	2021	2020
Ten Largest Hedge Funds	-0.63%	-7.73%	7.41%	3.02%
Ten Largest Multi-Strategy	1.62%	2.24%	6.51%	8.00%
Ten Largest Fixed Income/Credit	0.77%	1.27%	3.28%	7.06%
Ten Largest Managed Futures	-0.08%	18.35%	11.93%	-1.29%
Ten Largest Macro	-0.15%	-2.27%	4.19%	11.01%
Ten Largest Event Driven	-0.51%	-9.63%	8.25%	6.36%
Ten Largest Long/Short Equity	-0.89%	-20.56%	6.36%	-2.13%

Regional – Domicile Performance

Economic Development	Dec	YTD 2022	2021	2020
Developed Markets	-0.52%	-7.55%	11.12%	11.31%
Emerging Markets	0.73%	-10.94%	5.70%	13.85%

Regional Exposure	Dec	YTD 2022	2021	2020
Developed Europe	1.30%	-6.61%	7.43%	10.46%
Asia	0.73%	-12.25%	6.98%	19.48%
Africa/Middle East	0.63%	-5.73%	20.51%	0.30%
North America	-1.26%	-7.17%	14.92%	13.00%

Country Exposure	Dec	YTD 2022	2021	2020
China	2.80%	-22.24%	-6.91%	33.36%
Japan	1.79%	-2.26%	6.03%	3.44%
Russia	1.34%	-23.55%	9.15%	6.36%
Asia ex-Japan	0.75%	-12.69%	8.23%	17.42%
Brazil	-1.03%	0.13%	-18.67%	-9.28%
India	-4.44%	-10.67%	44.18%	19.91%

Firm Domicile - Region	Dec	YTD 2022	2021	2020
Asia	1.33%	-13.64%	5.42%	17.07%
United Kingdom	0.39%	-2.66%	6.32%	9.39%
Continental Europe	0.24%	-6.34%	4.60%	9.66%
United States	-0.70%	-4.71%	12.21%	10.69%

Firm Domicile - Asia	Dec	YTD 2022	2021	2020
Japan	3.30%	-10.05%	-3.85%	2.80%
Hong Kong	3.11%	-17.46%	-1.97%	20.92%
Asia ex-Japan	1.12%	-14.08%	6.54%	18.85%
Singapore	0.61%	-8.85%	15.42%	13.19%
China	0.26%	-16.71%	1.73%	19.92%

Firm Domicile - Rest of World	Dec	YTD 2022	2021	2020
Middle East	0.51%	-3.42%	13.23%	6.55%
Offshores	0.00%	-4.70%	10.08%	11.15%
Latin America	-0.41%	0.55%	-5.94%	-5.55%
Oceania	-1.06%	-8.18%	10.12%	16.26%

