

HEDGE FUND ASSET FLOWS

Monthly Summary Report

December & Full Year 2013

Release Date: January 17, 2014

Credit and equity inflows continued in December, while investors showed disapproval of macro returns

Estimated Assets & Investor Flows through December

Data in USD Billion	DEC	Q4 2013	YTD 2013	Est. AUM
All Hedge Funds	(\$4.38)	\$22.27	\$71.91	\$2,862.30
Equity Strategies	\$2.80	\$15.60	\$21.94	\$917.56
Fixed Income/Credit	\$3.73	\$9.62	\$77.03	\$934.13
Commodities	(\$0.65)	(\$2.00)	(\$0.73)	\$76.67
Multi-Asset	(\$10.34)	(\$1.28)	(\$19.26)	\$998.43

Primary Strategy	DEC	Q4 2013	YTD 2013	Est. AUM
Directional Credit	\$4.37	\$7.39	\$33.52	\$116.13
Broad Multi-Strategy	\$4.24	\$16.26	\$33.37	\$358.85
Long/Short Equity	\$2.72	\$11.44	\$2.45	\$626.09
Event Driven	\$0.54	\$4.35	\$9.73	\$532.96
MBS Strategies	(\$0.28)	(\$3.38)	(\$1.95)	\$85.08
Convertible Arbitrage	(\$0.28)	\$0.42	\$0.20	\$53.49
Distressed	(\$0.47)	\$0.81	\$4.89	\$235.31
Market Neutral Equity	(\$0.50)	\$0.48	\$4.93	\$49.24
Relative Value Credit	(\$0.86)	\$0.90	\$28.05	\$237.46
Managed Futures	(\$4.63)	(\$9.10)	(\$31.65)	\$142.17
Macro	(\$9.88)	(\$11.08)	(\$12.67)	\$215.31

Investment Region	DEC	Q4 2013	YTD 2013	Est. AUM
Americas	\$3.08	\$8.35	\$25.39	\$909.79
Europe	\$4.04	\$8.30	\$10.39	\$220.56
Asia	\$0.77	\$1.82	\$4.15	\$100.59
Global Markets	(\$12.21)	\$3.59	\$30.26	\$1,651.34
Emerging Markets	(\$0.43)	\$1.10	\$2.94	\$274.16

Updated Hedge Fund Performance through December

Aggregate Performance	DEC	Q4 2013	YTD 2013	2012
Hedge Fund Aggregate	1.16%	3.46%	9.04%	7.40%
S&P 500 Total Return	2.53%	10.52%	32.40%	15.98%

Primary Markets	DEC	Q4 2013	YTD 2013	2012
Equity Strategies	1.39%	4.52%	14.29%	8.44%
Commodity Strategies	1.31%	1.03%	-3.23%	-0.31%
Broad Multi-Market	1.14%	3.01%	5.81%	4.66%
Volatility/Options Strategies	1.04%	1.71%	1.03%	11.11%
Broad Financial Derivatives	0.92%	2.79%	-0.28%	-2.24%
Credit Strategies	0.73%	2.20%	6.60%	11.40%
FX Strategies	-0.10%	-0.05%	-2.36%	1.90%

Primary Strategy	DEC	Q4 2013	YTD 2013	2012
Event Driven - Activist	1.57%	6.95%	17.95%	15.21%
Long/Short Equity	1.49%	4.83%	15.82%	9.20%
Distressed	1.45%	4.21%	14.61%	14.75%
Event Driven	1.29%	4.27%	13.24%	10.32%
Multi-Strategy	1.13%	3.11%	6.72%	7.20%
Managed Futures	1.13%	2.21%	-0.87%	0.13%
Directional Credit	0.81%	2.06%	6.55%	12.28%
Macro	0.80%	1.94%	2.95%	2.94%
Market Neutral Equity	0.44%	2.46%	7.04%	4.05%
Convertible Arbitrage	0.40%	1.30%	6.23%	7.76%
Relative Value Credit	0.33%	1.84%	5.26%	10.06%

Sub-Sector Exposure	DEC	Q4 2013	YTD 2013	2012
Healthcare	2.65%	6.37%	29.92%	12.53%
Energy	1.93%	4.29%	13.00%	-1.02%
Financials	1.63%	6.05%	18.08%	15.00%
Sm/micro Cap	1.49%	4.81%	19.07%	9.60%
Technology	1.44%	2.14%	10.83%	2.17%
Securitized - Mortgages	0.97%	3.34%	10.17%	19.51%

Regional Exposure	DEC	Q4 2013	YTD 2013	2012
Emerging Markets	0.85%	3.04%	5.90%	12.11%
India	3.26%	12.14%	-7.96%	18.41%
Africa/Middle East	2.74%	5.92%	20.83%	13.09%
Japan	2.65%	5.56%	34.37%	8.91%
China	0.92%	5.70%	16.55%	11.51%
Brazil	-0.87%	-0.77%	-3.20%	14.69%
Emerging Europe	-0.22%	-0.30%	-2.00%	9.96%

Approach	DEC	Q4 2013	YTD 2013	2012
Discretionary	1.31%	3.87%	11.62%	9.08%
Systematic	0.85%	2.82%	1.94%	0.70%

- Investor flows for hedge funds were negative in December, the first monthly outflow for the industry in the last six months. Investors redeemed an estimated \$4.4 billion during the month.
- December's redemptions end what was an otherwise stellar year and Q4 for hedge fund flows. Hedge funds took in an estimated \$22.3 billion in Q4 and \$71.9 billion for the year.
- In 2013, total hedge fund industry assets increased 10.1%, or \$262.0 billion, to \$2.86 trillion. This puts industry AUM just below its all-time peak of \$2.94 trillion set in June 2008.
- Performance increased industry AUM an estimated \$190.1 billion, the equivalent of asset weighted returns near 7.2%, well below the industry's equal weighted 9.0% return, indicating smaller funds outperformed in 2013.
- Investors heavily redeemed from macro and managed futures strategies in December. Redemptions from macro funds were their largest since December 2008 and dropped the group's 2013 net flows back into negative territory for the year.
- Macro strategies produced asset weighted returns of 3.7% in 2013, well above their equal weighted average of 3.0%, pointing to relative outperformance by large funds within the universe. Large macro funds still lagged the overall industry, the likely stimulus for their elevated redemptions.
- Credit strategies ended the year with the largest allocations of new assets, taking in an estimated \$79.6 billion, including \$3.7 billion in December.
- Equity hedge fund flows surpassed credit in Q4 for the first time since Q3 2011 and for only the second time since Q1 2010. Virtually all of equity funds net flows for the year came in the second half when the universe took in \$32.3 billion beginning just two months after UST 10-year rates bottomed in May.
- During the hedge fund industry's high-growth phase of 2003-2007, investors overwhelmingly preferred equity strategies to credit. However, in the twenty-five quarters since Q3 2007 credit strategies have either gained more or lost fewer assets than equity strategies in all but six. Interestingly, the high-growth phase led by equity allocations coincided with the last *multi-year* stretch when UST 10-year rates were either steady or climbing since the late 1970's/early 1980's.
- Event driven and distressed strategies took in a combined \$14.9 billion in 2013. Activists, which had the segment's best average returns in 2013, accounted for a disproportionately large amount of the segment's flows. Of the 70 activist strategies tracked by eVestment, accounting for over \$66 billion in AUM, the group had an estimated inflow of \$4.97 billion in 2013.
- Emerging market hedge fund flows were slightly negative in December ending a year of two distinct trends. Similar to broad EQ strategies, EM flows were negative during the early months of 2013, but shifted to positive in May. Investor preferences were broadly positive in the second half with emerging Europe the only segment facing redemptions.
- China funds showed a spark of investor interest in December, likely a result of the universe's year-long outperformance relative to traditional long-only strategies and particularly to the country's equity indices.

COMPANY DESCRIPTION

eVestment provides a flexible suite of easy-to-use, cloud-based solutions to help global investors and their consultants select investment managers, enable asset managers to successfully market their funds worldwide and assist clients to identify and capitalize on global investment trends.

With the largest, most comprehensive global database of traditional and alternative strategies, delivered through leading-edge technology and backed by fantastic client service, eVestment helps its clients be more strategic, efficient and informed.

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