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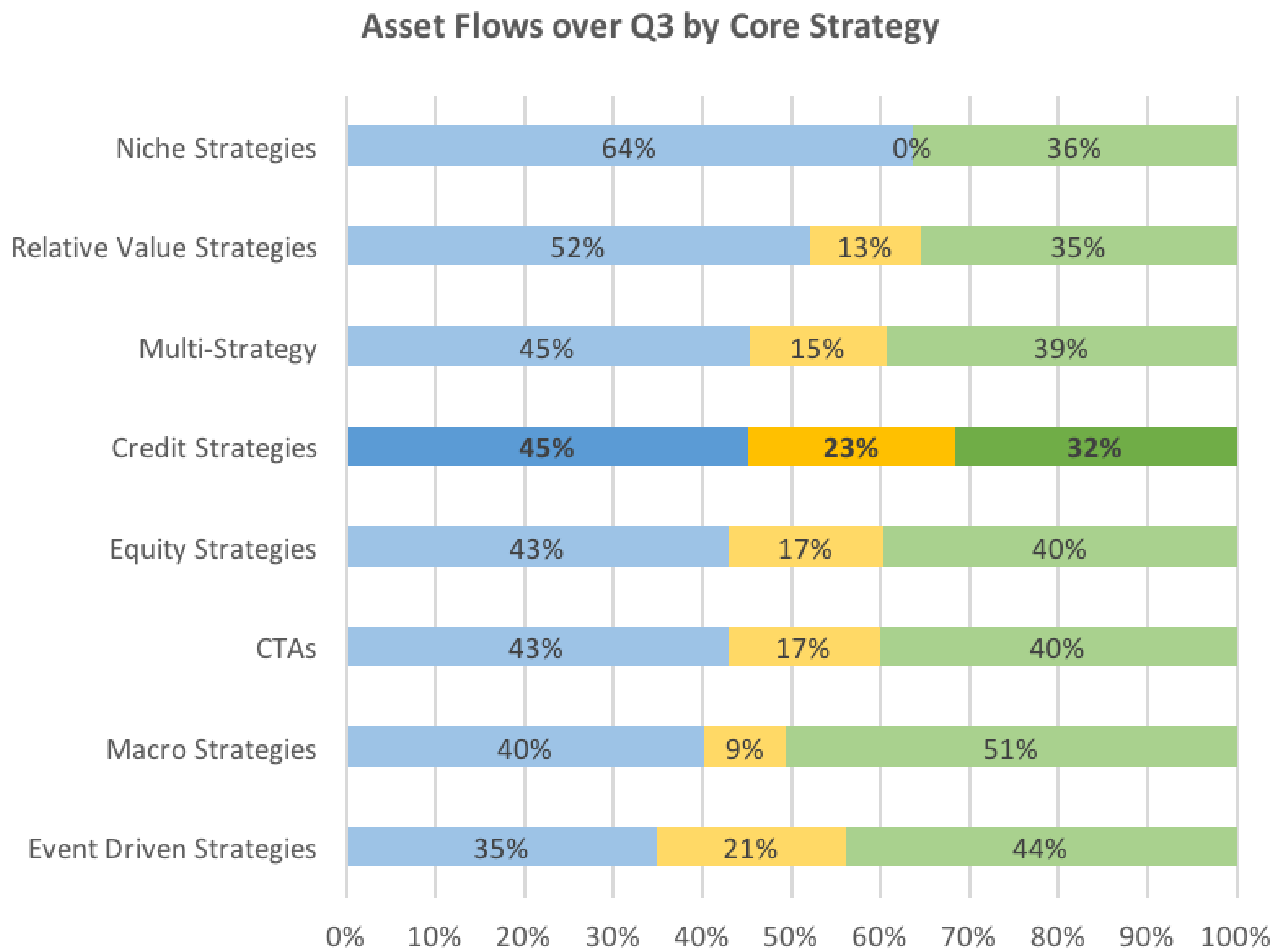
Credit Strategies Asset Flows

Credit strategy hedge funds have recorded strong recent performance in 2016 YTD, making gains of 7.03% as of the end of October. Despite this, the strategy has struggled to attract investor capital, and suffered net outflows through the first two quarters of the year. This has led to a diminution of the strategy's total assets under management (AUM) from the end of 2015, but net inflows in Q3 suggest that recent returns have been bolstering investor confidence.

Through Q3, nearly half (45%) of all credit strategy funds recorded net capital inflows, compared to 32% that suffered net outflows and just under a quarter of funds saw no overall change in assets. Consequently, credit strategies funds as a whole saw net inflows through the quarter totalling $2.0bn – only CTAs saw greater net inflows through the period ($10.5bn).



This inflow of capital to the strategy contrasts with the investor redemptions that credit funds witnessed in the first half of the year. In Q1, credit funds registered net outflows of $11.9bn, the worst of any leading strategy, and recorded further outflows of $14.3bn in Q2. As a result, credit strategy funds have seen a -2.8% percentage change in AUM through 2016 YTD, despite improved Q3 figures, and total assets now stand at $235bn.

Despite investors making redemptions through the early part of the year, performance has been strong for credit strategies. The strategy recorded losses in January (-0.95%) and February (-0.77%), but has posted positive returns in the months following: in total, credit strategies funds have made gains of 7.03% through 2016 YTD, the second-highest of any leading hedge fund strategy.

Over half (52%) of hedge funds that generated returns of 5.00% or more through H1 2016 saw net inflows in Q3, showing the importance that investors place on performance when allocating capital. Given their 2016 performance, credit strategy funds may be able to attract fresh investor capital going into 2017, bolstering their overall AUM. Fund managers will also be hopeful that the year ahead will present a calmer financial landscape, and therefore will be targeting higher returns to restore and grow investor confidence further.

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