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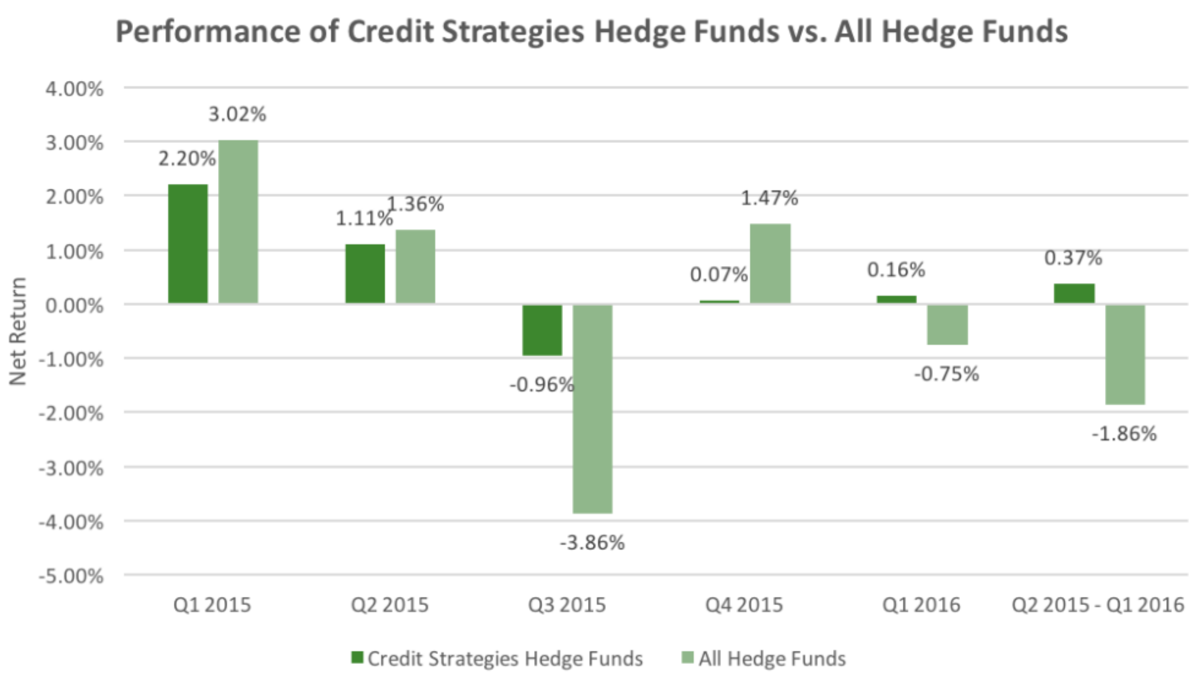
Credit Strategies Hedge Funds Face Testing Times

Credit strategies hedge funds saw a trade-off between limited volatility and near-neutral returns through 2015 and the opening quarter of 2016. Quarterly performance through the period saw highs of 2.20% (Q1 2015) and lows of -0.96% (Q3 2015), as credit strategies funds recorded lower volatility than the wider hedge fund industry, which saw performance range from -3.86% to +3.02% in the same period. As such, twelve-month performance for the strategy to the end of Q1 2016 marked gains of 0.37%, while the hedge fund industry as a whole recorded losses of -1.86%.



The asset flows of credit strategies paint a mixed picture. Globally, funds secured net inflows of $3.6bn in 2015, although this came entirely in Q2, which saw net inflows of $15.1bn. The other three quarters of the year all witnessed net outflows of investor capital, and in Q1 2016 credit strategies saw further outflows of $11.9bn, the greatest losses of any top-level hedge fund strategy.

These outflows reflect low investor appetite, with just 4% stating at the end of 2015 that they would be increasing their exposure to credit strategies hedge funds. Furthermore, hedge fund managers surveyed by Preqin in November 2015 were downbeat about returns prospects for credit strategies funds in the year ahead. A third of managers felt that credit strategies would be the worst performing fund strategy in 2016, while just 4% felt that it would be the best performing. It is worth noting, however, that a similar proportion of fund managers (30%) made the same forecast at the end of 2014; ultimately, credit strategies funds outperformed several other strategies through 2015.

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