

Money flows out of hedge funds at record rate

By Deborah Brewster in New York

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Investors pulled a net \$32bn (£22bn) from hedge funds last month, making 2008 the first year in their recorded history that the funds have had significant outflows and ending the industry's 18 years of asset growth.

Money has been taken out of funds following every strategy, even those - such as macro funds - which were showing returns, according to data from fund trackers Hedge Fund Research.

The funds enjoyed net inflows for the first part of the year, even as the financial crisis hit and traditional mutual funds began to show outflows. However, in September a tide of redemptions began, according to TrimTabs, another fund tracker.

Conrad Gann, chief operating officer of TrimTabs, said: "We estimate outflows in November were \$32bn, and there is an additional pipeline of redemptions that have not been filled, there could be \$80bn [of redemptions] in December.

"There are \$57bn of redemptions that we know are in, that are not reflected yet," he said.

Mr Gann said it was difficult properly to estimate outflows for coming months because hedge funds had different redemption cycles.

In recent months funds have also tried to halt outflows by limiting or suspending investor withdrawals. This means that data on outflows, which reflect actual repayments to investors, understates the true picture.

Some funds, such as Chicago-based Grosvenor Capital, have split their assets into liquid and non-liquid baskets, which has made it harder for investors to get their money back immediately. This is the first year since at least 1990 that hedge funds have seen a drop in assets. The combination of performance losses and investor redemptions pushed industry assets down by \$500m during the year, to \$1,500bn at the end of October, according to HFR.

Hedge funds lost an average of 19 per cent in the 11 months to the end of November, it said. That loss easily eclipses the 1.5 per cent lost in 2002, the only previous annual loss since records began in 1990. In the 11 months to November, Standard & Poor's 500 index lost 37 per cent.

The funds had outflows of \$43bn for the 10 months to the end of October, according to HFR. With TrimTabs' estimate of further significant redemptions for November and December, the funds will show outflows of more than \$100bn for the full year. In 1994, the only previous time they had outflows, the figure was \$1m.