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Hedge fund exits hit record low after bumper January

Reporting by Michelle Martin; Editing by Laurence Fletcher and David Holmes, Reuters

Client exits from hedge funds fell to a record low after performance bounced back in January, industry data showed on Thursday, as investors were encouraged to stick with their portfolios despite a disappointing and volatile 2011.

The GlobeOp Capital Movement Index, which tracks monthly net subscriptions to and redemptions from hedge funds managing around $173 billion, advanced to 142.6 points, the highest since October 2008.

Gross outflows were at their lowest on record at just 0.53 percent in the month to Feb. 1, as investors hung on at a time when government bonds are yielding low returns.

"It could well be that in a zero interest rate environment and a challenging equity market, a diversified portfolio of hedge fund investments is becoming an ever-more attractive alternative," GlobeOp Chief Executive Hans Hufschmid said.

"Investors remain committed to the hedge fund sector," he said, adding that institutional investors hadn't been deterred by the sector's downturn in 2011 as they took a longer-term view of their allocation strategies.

The average hedge fund lost 5.2 percent last year, according to Hedge Fund Research, as managers struggled in choppy markets. However a rebound in markets helped funds gain 2.6 percent in January, led by star performers like Crispin Odey and Pierre Lagrange.

Overall net inflows of client cash in the month to Feb. 1 rose to 2.25 percent, the GlobeOp data shows, the highest level since September.

Hufschmid said this was partly due to investors rebalancing their portfolios as part of their annual review and reallocation processes.

Hedge funds profited from a 10 percent rise in the European banking sector in January, after the European Central Bank provided banks with 489 billion euros ($648 billion) of ultra-cheap, long-term cash, with more expected at the end of this month. ($1 = 0.7545 euros)