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HEDGE FUND ASSETS SURGE ON 2Q RECOVERY

*Outflows fall as HFRI 500 tops DJIA, FTSE 100 for 1H20;
Industry posts record quarterly AUM increase*

CHICAGO, (July 20, 2020) – Total hedge fund assets surged in 2Q20 as the HFRI Fund Weighted Composite Index[®] (FWC) posted the strongest quarterly performance gain since 2Q09, while outflows slowed from their 1Q pace. Total capital invested in hedge funds increased to \$3.177 trillion, a record quarterly increase of \$220 billion, as reported today by HFR[®], the established global leader in the indexation, analysis and research of the global hedge fund industry, in the latest release of the *HFR Global Hedge Fund Industry Report*.

Investor outflows slowed markedly following the pandemic-driven 1Q20 withdrawals, as estimated net asset outflows fell in 2Q to \$12.2 billion, or 0.3 percent of total industry capital, a decline of nearly 65 percent from the 1Q outflow of \$33.3 billion and representing the lowest quarterly outflow since 3Q19.

Investors rotated and rebalanced capital as a result of the pandemic and to position for opportunities in 2H20, with the combined inflows to all funds experiencing inflows totaling \$35.6 billion, while combined outflows from funds experiencing withdrawals totaled \$47.8 billion. Outflows from the industry's top firms also slowed in 2Q, as an estimated \$9.4 billion was redeemed from firms managing greater than \$1 billion AUM, a significant decrease from the estimated 1Q outflow of \$31.7 billion from these firms.

HFRI performance also surged in 2Q20, with the HFRI FWC Index gaining +9.1 percent for the quarter, while the investable HFRI 500 Fund Weighted Composite Index jumped +8.0 percent. The 2Q

gain narrowed the YTD decline of the HFRI 500 to -2.4 percent, topping the DJIA by over 700 basis points (bps) and the FTSE 100 by 1400 bps in the first six months of the year.

Performance-based asset gains in 2Q were led by Equity Hedge (EH) strategies, with the HFRI Equity Hedge (Total) Index surging +13.3 percent, increasing EH capital by \$95.5 billion to end the quarter at \$925.4 billion, despite an estimated net redemption of \$4.5 billion. EH sub-strategy asset gains were led by Fundamental Value, which increased by \$57.7 billion to end the quarter at \$846.9 billion, inclusive of an estimated net asset inflow of \$1.5 billion. EH performance in 2Q was led by the HFRI EH: Multi-Strategy Index, which surged +17.1 percent, while the HFRI EH: Technology Index leads EH sub-strategy performance for the year with a +10.0 percent return YTD.

Event-Driven (ED) strategies also experienced a strong asset increase in 2Q, with the HFRI Event-Driven (Total) Index advancing +9.7 percent, increasing ED capital by \$75.9 billion, to end the quarter at \$814.7 billion, inclusive of an estimated net outflow of \$2.3 billion. ED sub-strategy asset increases were led by a \$34.5 billion capital increase in Special Situations, while ED net asset flows were led by an estimated \$1.8 billion inflow into ED: Multi-Strategy. The HFRI ED: Activist Index led 2Q ED sub-strategy performance with a +19.5 percent return.

Capital invested in fixed income-based Relative Value Arbitrage (RVA) strategies also increased sharply in 2Q, with the HFRI 500 Relative Value Index gaining +6.3 percent for the quarter, increasing RVA capital by \$52.2 billion, to end the quarter at \$871.6 billion, despite an estimated net outflow of \$1.8 billion. RVA sub-strategy inflows were led FI: Sovereign, which experienced an estimated net inflow of \$1.0 billion, while sub-strategy performance-based asset gains were led by a \$27.5 billion increase in Multi-Strategy. RVA sub-strategy performance was led by the HFRI 500 RV: Corporate Index, which surged +11.0 percent for the quarter.

Macro strategies added \$8.1 billion in performance-based gains in 2Q, despite an estimated \$3.5 billion in net redemptions for the quarter, bringing total Macro capital to \$565.1 billion. The HFRI Macro (Total) Index gained +0.8 percent in 2Q to narrow its YTD decline to -0.9 percent. Macro sub-strategy asset increases were led by Discretionary Thematic funds, which experienced a net increase of \$8.1 billion, while asset inflows were led by Currency strategies, with an estimated net inflow of \$2.8 billion. The HFRI Macro: Discretionary Thematic Index led 2Q Macro performance with a +5.8 percent return.

“The global hedge fund industry experienced a record asset surge in 2Q as performance rebounded from the 1Q coronavirus pandemic-driven market bottom, led by Technology, Activist and Corporate Fixed Income sub-strategies, while outflows declined by nearly two-thirds from 1Q,” stated Kenneth J. Heinz, President of HFR. “Extreme volatility in 1H20, including both the 1Q spike and 2Q reversal, represents a sharp and dramatic contrast to the beta-driven, risk-on sentiment which dominated 2019, creating an opportunity-rich environment for long-short hedge fund performance generation. While

capital levels increased sharply in 2Q, it is likely that asset gains continue into 2H20 alongside inflows from institutional investors that position for continued virus uncertainty, including humanitarian, economic and geopolitical implications, as well as social unrest and the upcoming US elections, with these thematic drivers contributing to a strong performance environment through year-end.”

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