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## HEDGE FUND CAPITAL BEGINS 2020 AT RECORD

*Capital surges by over \$80 billion to surpasses \$3.3 trillion milestone;  
Equity Hedge attracts investor inflows for first time since 2Q18;  
HFRI generates strongest performance in a decade*

LONDON & CHICAGO, (January 21, 2020) – The hedge fund industry began the new decade at a record capital level as global equity markets surged into the 2020's, driven by investor optimism regarding the record US-lead economic surge. Total hedge fund capital surged to \$3.32 trillion, representing a quarterly increase of over \$80 billion and surpassing the previous record of \$3.24 trillion set in mid-2019, according to data released today by HFR<sup>®</sup>, the established global leader in the indexation, analysis and research of the global hedge fund industry. Capital flows across strategies were mixed with investors redeeming from fixed income-based Relative Value Arbitrage while allocating to Equity Hedge, the industry's largest area of strategy capital. The overall industry suffered an estimated net asset outflow of \$13.6 billion in 4Q, driven by \$8.0 billion of outflows from Relative Value Arbitrage.

Led by highest beta strategies, the HFRI Fund Weighted Composite Index<sup>®</sup> advanced +3.5 percent for the quarter, bringing the 2019 gain to +10.4 percent, the strongest calendar year of performance since 2009. The HFRI 500 Fund Weighted Composite Index, an investable index of 500 leading hedge funds, advanced +2.9 percent in 4Q and +9.7 percent for 2019.

Driven by strong performance gains, investors allocated an estimated \$1.8 billion of new capital to Equity Hedge funds in 4Q, the industry's largest concentration of strategy capital. The

quarterly inflow to Equity represents the first inflow since 2Q18 and pared the total 2019 outflow to \$22 billion. EH sub-strategy inflows were driven by Fundamental Value funds, which received over \$3.0 billion in new capital. The 4Q inflow combined with strong quarterly performance increased total EH strategy capital to \$972.5 billion, a new strategy capital record. The HFRI Equity Hedge (Total) Index surged +5.7 percent in 4Q, ending 2019 with a gain of +13.74 percent.

For the year, investors allocated new capital to M&A and credit-sensitive Event-Driven strategies, though the inflow was pared by net asset outflows in 4Q. Investors withdrew an estimated \$4.8 billion from ED in 4Q, paring the total 2019 net asset inflow to \$4.4 billion for the strategy. ED sub-strategy outflows in 4Q were driven by Special Situations and Multi-Strategy funds, each of which suffered over \$2 billion of net outflows for the respective sub-strategies. Performance-based gains for ED strategies in 4Q drove strategy capital to \$874 billion. The HFRI Event-Driven (Total) Index gained +2.9 percent in 4Q, extending the YTD gain to +7.5 percent.

Macro strategies experienced outflows for the seventh consecutive quarter, as an estimated \$2.6 billion was redeemed in 4Q. Total capital invested in Macro strategies was little changed for the quarter, ending 2019 at \$600 billion, as performance-based gains from larger Macro managers pared the net asset flows in 4Q. For the year, investors redeemed over \$20.2 billion from defensive, uncorrelated Macro strategies, as global equities posted strong gains. Macro sub-strategy withdrawals in 4Q were led by a \$3.6 billion outflow from Multi-Strategy managers, which was only partially offset by a \$1.8 billion inflow to Systematic Currency funds. The HFRI Macro (Total) Index declined -0.5 percent in 4Q, paring the YTD return to +6.2 percent, while the HFRI Macro Index (Asset Weighted) gained +0.5 percent during the quarter.

Fixed income-based Relative Value Arbitrage strategies led strategy outflows in 4Q as investors redeemed an estimated \$8.0 billion, led by outflows of \$6.0 billion in Multi-Strategy funds, which includes large credit multi-strat funds. The HFRI Relative Value (Total) Index returned +2.0 percent in 4Q, increasing YTD performance to +7.6 percent and expanding total RVA capital to \$877.3 billion, the second largest area of strategy capital.

“The hedge fund industry concluded a historic decade of growth, which began in the aftermath of the financial crisis and saw total capital double in size, as the strongest performance in a decade propelled industry capital to a new milestone,” stated Kenneth J. Heinz, President of

HFR. “While 2019 was dominated by risk-on sentiment and upside volatility, many of the risks for which managers have strategically positioned remain as potential catalysts for dislocations. As the industry enters the 20's, its role within financial markets continues to evolve, not only for its powerful performance and risk management considerations, but also as a provider of liquidity, specialized financing, and advocacy and activism for shareholders within both politics and social campaigns. The leadership role of the industry will likely continue evolving and expanding along with these and other dynamics in coming years.”



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**HFR (Hedge Fund Research, Inc.)** is the global leader in the alternative investment industry, specializing in the indexation and analysis of hedge funds. Established in 1992, HFR produces the HFRI, HFRX and HFRU Indices, the industry's most widely used benchmarks of global hedge fund performance. HFR calculates over 100 indices of hedge fund performance ranging from industry-aggregate levels down to specific, niche areas of sub-strategy and regional investment focus. HFR Database, a comprehensive resource available for hedge fund investors, includes fund-level detail on historical performance and assets, as well as firm characteristics on both the broadest and most influential hedge fund managers. HFR has developed a detailed fund classification system, enabling granular and specific queries for relative performance measurement, peer group analysis and benchmarking. The HFR suite of analysis products leverages HFR Database to provide detailed, current, comprehensive and relevant aggregate reference points on all facets of the hedge fund industry. HFR also offers consulting services for clients seeking customized top-level or more sophisticated analysis. For the hedge fund industry's leading investors and hedge fund managers, **Hedge Fund Research is The Institutional Standard.**

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