HEDGE FUND ASSETS SURGE ON HFRI 1Q PERFORMANCE GAINS

Strongest quarterly capital increase since 1Q15; Investor outflows fall from prior quarter; RVA, Credit Multi-Strategy lead strategy inflows

CHICAGO, (April 17, 2019) – Total capital invested in hedge funds surged to begin 2019, paring losses from the prior quarter, as the strongest first quarter of industry performance since 2006 vaulted industry capital by $78.8 billion. Total hedge fund assets increased to $3.18 trillion globally, according to the latest *HFR Global Hedge Fund Industry Report*, released today by HFR®, the established global leader in the indexation, analysis and research of the global hedge fund industry. The HFRI Fund Weighted Composite Index® gained +5.7 percent in 1Q, the strongest first quarter gain since 2006.

The current capital level is the 5th highest quarterly level recorded and represents a decline of 1.9 percent from the record level of $3.24 trillion reached in 3Q18. The quarterly capital gain represents the largest increase since the industry grew by $94.2 billion in 1Q15. The 1Q19 performance-based gains of $96.6 billion were partially offset by investor outflows of $17.8 billion, approximately 0.5 percent of total industry capital. This marks the fourth consecutive quarter of net asset outflows, which occurred following a period of four consecutive quarterly net asset inflows.

Equity Hedge (EH) led performance-based asset increases in the first quarter, driving EH capital to $917.2 billion, a gain of $45.4 billion from the prior quarter. The HFRI Equity Hedge (Total) Index surged +7.8 percent in 1Q, led by the HFRI EH: Healthcare Index which gained +13.4
percent. Despite strong performance for 1Q, EH strategies experienced the largest outflows as investors redeemed an estimated $10.7 billion, partially offsetting the performance-based gains. EH sub-strategy outflows were concentrated in Fundamental Value, as investors withdrew $7.5 billion, reducing sub-strategy capital to $489 billion, the industry’s 2nd largest area of sub-strategy capital.

Total assets invested in Event-Driven (ED) strategies also increased on strong quarterly performance, as assets increased by $17.5 billion to end 1Q19 with $832.6 billion AUM; the HFRI Event-Driven (Total) Index gained +4.2 percent for the quarter. The performance-based capital gains were slightly offset by a net asset outflow of $1.8 billion which was mixed and spread across various ED sub-strategies. Credit Arbitrage funds experienced an estimated outflow of over $900 million, while Merger Arbitrage saw nearly $400 million of net inflows.

Relative Value was the only main strategy to receive net inflows in 1Q19 as investors allocated a net $1.3 billion of new capital, bringing total strategy assets to $850 billion, representing a total asset increase of $15.2 billion for the quarter. Large credit multi-strategy led all sub-strategy inflows with $2.5 billion, contributing to a quarterly asset gain of $7.8 billion for the sub-strategy, bringing RV: Multi-Strategy capital to $495 billion, the industry’s largest sub-strategy. The HFRI Relative Value Index (Asset Weighted) gained +2.7 percent in 1Q, following the +0.8 percent return in 2018.

Total capital invested in Macro posted a narrow increase for the quarter, with performance-based gains narrowly offsetting an investor outflow. Total Macro capital increased to $581.6 billion, an increase of just over $600 million as the performance-based gains of $7.2 billion was nearly offset by estimated investor outflows of $6.5 billion. Quantitative, trend-following CTA strategies led Macro sub-strategy outflows at $3.9 billion, as these were only partially offset by inflows in Active Trading funds of over $400 million. The HFRI Macro Index (Asset Weighted) led all strategy indices in 2018 with a gain of +1.6 percent and added +0.4 percent in 1Q19.

The trend of outflows from the largest firms in the industry continued but was moderated from the prior quarter, as firms managing in excess of $5 billion experiencing outflows of $5 billion, a decline from the outflow of $15.2 billion from these managers in 4Q18. Firms managing between $1 and $5 billion saw an estimated outflow of $10.3 billion, while firms managing less than $1 billion experienced outflows of $2.5 billion.

“Hedge fund capital posted sharp gains to begin 2019 as investor risk tolerance increased and the HFRI posted the best first quarter since 2006, largely reversing the asset decline from the prior quarter. The process of investor repositioning and rebalancing between funds and strategies is an ongoing one, likely extended by the dramatic and sharp reversal in performance and investor risk
tolerance observed in the prior 2 quarters.” stated Kenneth J. Heinz. “It is likely that the hedge fund capital and flow cycle lags realized performance by several quarters as investors evaluate new allocations in light of recent performance. We expect this process to contribute to continued asset growth and new investor allocations throughout 2019.”

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