HFRI RISES TO RECORD TO CONCLUDE 2016

Event Driven leads strategies for the year through turbulent Brexit, US election; HFRI tops global equities for 2016

CHICAGO, (January 9, 2017) – Hedge funds posted gains across all strategies in December to conclude 2016, with the HFRI Fund Weighted Composite Index® (FWC) rising to a record Index Value level as Oil prices surged, equities gained and US interest rates increased into year end, according to data released today by HFR®, the established global leader in the indexation, analysis and research of the global hedge fund industry. The HFRI FWC advanced +1.1 percent in the month, bringing the annual return to +5.6 percent and the Index Value to 12,966, surpassing the prior record from May 2015 and the highest value since inception in January 1990; the HFRI Asset Weighted Composite Index also gained +1.1 percent in December. In a year dominated by the dual political financial market dislocations of Brexit and the US Presidential election, the HFRI FWC gain topped the gain of global equities, as represented by the MSCI World Index.

Equity and credit-sensitive Event Driven (ED) strategies – including M&A, Special Situations and Distressed – led industry performance for December and 2016. The HFRI Event Driven (Total) Index gained +1.5 percent in the month and +10.2 percent for the year, the strongest annual gain since 2013. All ED sub-strategies climbed in December, led by the HFRI Activist and ED: Multi-Strategy Indices, which each gained +2.5 percent. For 2016, the HFRI Distressed and Special Situations Indices led sub-strategy performance with gains of +13.4 and
+11.6 percent, respectively, both posting their strongest calendar year gains since 2013. The HFRI Activist and HFRI Credit Arbitrage Indices each gained +10.5 percent for 2016.

Fixed income-based Relative Value Arbitrage (RVA) strategies also advanced for December and 2016, with the HFRI Relative Value (Total) Index gaining +1.2 percent for the month, bringing the YTD return to +7.8 percent. RVA sub-strategy performance was led by Yield Alternative strategies, which includes Energy Infrastructure, MLP and Real Estate exposures; the HFRI RV: Yield Alternatives Index advanced +2.6 percent in December and +17.6 percent for 2016. Hedge funds investing in corporate bonds also posted strong performance, with the HFRI RV: Fixed Income-Corporate Index gaining +1.9 for December and +11.7 percent for the year.

Long short Equity Hedge (EH) strategies advanced in both December and 2016, with the HFRI Equity Hedge (Total) Index gaining +0.9 percent for the month and +5.5 percent for the year, as global equities rallied to conclude a strong 4Q. EH sub-strategy performance for December was led by quant strategies, with the HFRI EH: Quantitative Directional Index up +1.7 percent. The HFRI EH: Energy/Basic Materials Index added +0.5 percent in December, concluding the year up +18.7 percent, leading not only EH sub-strategy performance, but all sub-strategy performance.

Macro hedge funds gained in December as interest rates rose and energy commodities surged, though Macro produced only a small gain for 2016. The HFRI Macro (Total) Index climbed +1.2 percent in December, led by Energy exposures and CTA strategies, bringing its 2016 gain to +1.5 percent. The HFRI Macro (Asset Weighted) Index produced a slightly higher gain of +1.3 percent in December. Despite strong performance early in the year and through the Brexit turmoil, quantitative, trend following CTA strategies posted a disappointing decline in 2016; the HFRI Macro: Systematic Diversified Index gained +1.2 percent for December, paring the decline for the year to -1.0 percent. Out of 27 HFRI sub-strategy indices calculated by HFR, HFRI Macro: Systematic Diversified was the only index to decline for 2016. Macro sub-strategy performance in 2016 was led by commodity exposures, with the HFRI Macro: Commodity Index advancing +5.2 percent.

“Like US equities, the HFRI reached a record high in December, benefitting from post-election optimism, surging commodities and despite increases in US fixed income yields. This record level of HFRI performance also coincides with record hedge fund assets reached in
3Q16,” stated Kenneth J. Heinz, President of HFR. “Following a disappointing decline in 2015, hedge fund performance in 2016 was the highest since 2013 and not only tops indices of global equities, but also the annualized HFRI performance over the last 5 and 10 years. The recent (post-election) increase in investor risk tolerance is likely to drive continued performance and capital gains into mid-2017.”

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