FOR IMMEDIATE RELEASE

Contacts:

Hedge Fund Research, Inc.	**MacMillan Communications**	**CitySavvy**
Kenneth Heinz	Mike MacMillan/Chris Sullivan	Henrietta Hirst
Chicago/312.658.0955	New York/212.473.4442	London/+44 (0) 20 3691 7560
info@hfr.com @HFRInc @KennethJHeinz	chris@macmillancom.com	henrietta@citysavvy.com

HEDGE FUND ASSETS ECLIPSE RECORD LEVEL FOR EIGHTH CONSECUTIVE QUARTER DESPITE MIXED CAPITAL FLOWS

Equity Hedge inflows offset by Macro outflows as investors increase alternative beta exposure; HFRI Technology, Event-Driven lead 1H18 gains

CHICAGO, (July 19, 2018) – Hedge fund capital ended 2Q18 at a new record level for the eighth consecutive quarter as investors reversed 1Q strategy flow trends, allocating new capital to Equity Hedge strategies while redeeming from Macro strategies, with Relative Value Arbitrage and Event Driven also showing small outflows.

Total hedge fund industry capital globally increased by $20.6 billion to a new record of $3.235 trillion, 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.

Reversing the trend of inflows from 1Q18, investors redeemed an estimated $3.0 billion in 2Q18, the first quarterly outflow since 1Q17. Firms with large capital flows were nearly evenly distributed between inflows and outflows, with 12 firms experiencing inflows of greater than $500 million, with these totaling $15.5 billion. Conversely, 11 firms experienced outflows of greater than $500 million, with these totaling $14.3 billion. The total capital flow to all firms with net inflows in 2Q18 was $34 billion, while the total of all firms with net outflows was $37 billion.

The HFRI Fund Weighted Composite Index® (FWC) gained +0.84 percent in 2Q18, with strong performance in Technology and Event-Driven strategies partially offset by trade and tariff volatility in late 2Q. The 1H18 gain of +0.79 percent for the HFRI FWC topped the performance of most equity markets globally, including the DJIA, as well as European and Asian equities, despite trailing the S&P 500. Indicating stronger relative performance from the largest hedge funds in the industry, the HFRI Asset Weighted Composite Index produced a higher gain of +1.4 percent for 1H18.

Reversing a trend of the prior three quarters, Equity Hedge (EH) strategies experienced an inflow for 2Q18, as investors increased equity beta while reducing exposure to other strategies. EH funds received a net asset inflow of $2.4 billion in the second quarter, increasing total EH capital to $948 billion, the industry's largest strategy capital area. By EH sub-strategy, Fundamental Value and Equity Market Neutral received a combined $2.7 billion, which was partially offset by an outflow of $1.7 billion in EH: Multi-Strategy. The HFRI Equity Hedge (Total) Index gained +0.85 in 2Q18 and +1.2 percent in 1H18, while the HFRI Equity Hedge (Asset Weighted) Index gained +0.64 percent in 2Q18 and +1.75 percent in 1H18. EH sub-strategy performance was led by Healthcare and Technology in 1H18, with the HFRI: EH: Healthcare Index gaining +10.3 percent, leading all sub-strategy indices and topping the gain of the Nasdaq Composite Index, while the HFRI EH: Technology Index gained +7.9 percent.

Macro hedge funds led outflows for 2Q18 as investors rotated out of Macro multi-strategy funds. Macro strategies experienced net outflows of $2.8 billion, reducing total Macro capital to $594.2 billion. Nearly all of the Macro outflows were concentrated in Multi-Strategy ($2.3 billion outflow), while Discretionary Thematic strategies only partially offset these with a net inflow of $780 million. The HFRI Macro (Total) Index posted a narrow decline of -0.16 percent in 2Q, bringing the 1H18 performance to a loss of -1.75 percent. Also indicative of the trend of higher relative performance from larger hedge funds, the HFRI Macro (Asset Weighted) Index posted a gain of +0.84 percent for 1H18.

Total assets invested in both Event-Driven (ED) and Relative Value Arbitrage (RVA) strategies increased in 1H18, as performance-based gains offset small outflows at the strategy level. Capital invested in ED rose by nearly $10 billion in 2Q to $845 billion as performance gains offset net redemptions of $1.5 billion; this following $4.4 billion of 1Q inflows, bringing the 1H18 inflow to $2.9 billion. The HFRI Event-Driven (Total) Index led all strategies in 1H18 with a gain of +2.26 percent; as with other areas, larger ED funds outperformed on a relative basis with the HFRI Event-Driven (Asset Weighted) Index gaining +2.9 percent in 1H18. Similarly, capital invested in RVA strategies increased by $1.7 billion to $848.2 billion despite a small 2Q outflow of $1.1 billion. This outflow was also offset by a larger 1Q inflows of $2.3 billion, bringing the total 1H18 inflow into RVA strategies to $1.2 billion. The HFRI Relative Value (Total) Index climbed +1.5 percent for 1H18, while the HFRI Relative Value (Asset Weighted) Index posted a higher return of +1.7 percent.

Capital flows by firm size favored mid-sized firms in 2Q18, as firms managing between $1 billion and $5 billion received inflows of $1.6 billion. Firms managing less than $1 billion in AUM experienced outflows of $880 million, while firms managing greater than $5 billion experienced a outflow of $3.8 billion, much of which was concentrated in a few firms. For 1H18, the largest firms experienced outflows of $4.1 billion, mid-sized firms saw inflows of $264 million and firms managing less than $1 billion saw inflows of $1.9 billion, respectively.

"Performance and capital flow trends shifted and evolved in 2Q18, as managers and investors adjusted to the impact of trade tariff financial market volatility and continued strong U.S. economic growth, driving capital flows into Equity Hedge and performance gains across M&A-centric Event Driven strategies, as well as specialized Technology exposures," stated Kenneth J. Heinz, President of HFR. "The combination of trade tariff volatility and strong U.S. corporate earnings has contributed to an expanded opportunity for specialized, long-short investing in these areas, with particular emphasis on technology, manufacturing, media and retail sectors, with these including relative value opportunities in M&A, Activist, Special Situations, Technology and Healthcare. Having reached an eighth consecutive record level of capital through mid-2018, it is likely that these will continue to drive industry growth and performance in the second half of the year and into 2019."

Follow HFR on Twitter: @**HFRInc**
Follow HFR on Weibo: @**HFRAsia**

Follow Ken Heinz on Twitter: **@KennethJHeinz**

About HFR®

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.**

# # #