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HEDGE FUND ASSETS ECLIPSE 2018 RECORD

Capital outflows slow as HFRI extends recent gains to record index level; Investors allocate to top firms after five quarters of net redemptions

CHICAGO, (July 19, 2019) – Hedge fund assets reached a new record in the second quarter, driven by HFRI performance gains and investor re-allocations to top hedge fund firms. Total hedge fund capital increased to $3.245 trillion, narrowly eclipsing the previous record level of $3.244 trillion in 3Q18, 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.

Led by a strong 1Q recovery from the defensive outperformance in 4Q18, the HFRI Fund Weighted Composite Index® gained +7.44 percent in the first half of 2019, the strongest 1H gain since 2009. Like many US equity market indices, the 2019 performance increases the HFRI to a record index value of 14,391.

Total hedge fund assets increased by $63.7 billion in 2Q on strong performance-based gains, following the $78.8 billion increase in 1Q and bringing the YTD capital growth to $142.5 billion through June. Investor redemptions in the quarter slowed to near-flat levels, as an estimated net $4.8 billion was redeemed, following a total of $45 billion in net asset outflows over the prior two quarters.

Event-Driven (ED) led strategy inflows in 2Q, with the new allocations pushing M&A and corporate transaction-sensitive ED into the leading area for net asset inflows on the year. Investors allocated an estimated $5.3 billion to ED in 2Q, bringing 2019 net asset inflows to $3.44 billion and increasing total ED capital to $854.9 billion. ED sub-strategy inflows were led by equity-sensitive
Special Situations, which received $4.3 billion in net investors capital in 2Q. The HFRI Event-Driven (Total) Index has gained +5.6 percent in 1H19, led by a gain of +10.1 percent in the HFRI ED: Activist Index.

Fixed income-based Relative Value Arbitrage (RVA) strategies generated net asset inflows of $1.6 billion in 2Q, bringing YTD 2019 inflows to $2.9 billion. Total RVA capital increased to $865.6 billion, the second largest area of strategy capital behind Equity Hedge. RVA sub-strategy inflows were led by the large credit multi-strategy funds in 2Q, which received $2.6 billion in inflows, bringing RVA: Multi-Strategy inflows to $5.1 billion YTD 2019, leading all sub-strategies industry-wide. The HFRI Relative Value (Total) Index gained +5.4 percent in 1H19, after posting a narrow decline of -0.4 percent in 2018. RVA sub-strategy performance was led by the HFRI: RVA: Yield Alternatives Index in 1H, surging +11.6 percent.

Equity Hedge (EH) posted strong performance-based asset gains in 2Q, though these were partially offset by small investor outflows. Total EH capital increased by $14.1 billion, net of an investor outflow of $5.5 billion, to finish 2Q at $931.3 billion, the industry’s largest area of strategy capital. EH sub-strategy inflows were led by Quantitative Directional in 2Q, which generated $2.1 billion of net asset inflows, although these were offset by a net asset outflow of $4.5 billion in Fundamental Value funds. The HFRI Equity Hedge (Total) Index leads all strategy indices for 2019 with a YTD return of +9.5 percent, with EH sub-strategy performance led by a +12.8 percent gain in the HFRI EH: Healthcare Index.

Similar to EH, Macro strategies also posted performance-based asset gains which were offset by small investor capital redemptions. Investors withdrew an estimated net $6.2 billion from Macro strategies in 2Q, though performance-based gains of $17.9 billion increased total Macro strategy capital to $593.3 billion. Multi-Strategy funds led Macro sub-strategy outflows with a net asset redemption of $3.2 billion, which were only partially offset by a minor net asset inflow into Currency strategies. The HFRI Macro (Total) Index has gained +5.0 percent for 2019, led by the HFRI Macro: Multi-Strategy Index which has advanced +6.4 percent.

Investors resumed new allocations to the industry’s largest firms, with firms managing greater than $5 billion generating net asset inflows of $5.4 billion, while firms managing less than $5 billion experienced new outflows of roughly $10 billion. The 2Q net asset inflow to the largest firms represents the first quarterly net inflow of capital to these firms since 4Q17, following outflows of $33.3 billion in 2018 and $17.8 billion in 1Q19.

“Hedge fund capital reached a new record through mid-year 2019 as the HFRI posted the best first half of performance in a decade, and as investors resumed allocations to the industry’s
largest and most established firms,” stated Kenneth J. Heinz, President of HFR. “Constructive, yet fluid developments in ongoing trade negotiations, as well as expectations for lower US interest rates in the near term have also contributed to an evolving macroeconomic outlook which has resulted in record levels for US equites, but also represents a forward risk for valuations, especially with trillions of dollars of fixed income obligations trading with negative yields. Funds which are effectively positioned for the complexities of this environment, maintaining tactical long and short exposures across not only hedge fund strategies, but also across cryptocurrency and risk parity exposures, are likely to attract institutional investor capital throughout 2H19.”

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