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HEDGE FUND INDUSTRY CAPITAL SURPASSES HISTORIC THREE TRILLION DOLLAR MILESTONE

Total assets set second consecutive quarterly record to end 2016; Performance gains offset investor outflows for third consecutive quarter

CHICAGO, (January 20, 2017) – Total hedge fund industry capital rose for the third consecutive quarter, surpassing the $3 trillion milestone for the first time, 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. Total assets increased by $46.8 billion in 4Q16, ending the year at $3.02 trillion, the second consecutive quarterly record for industry capital. For the full year 2016 (FY16), total hedge fund industry capital increased by $121 billion, the largest annual increase since 2014.

The growth of hedge fund assets occurred against a challenging backdrop of continued investor withdrawals, as redemptions totaled $18.7 billion in 4Q16 (0.63 percent of industry assets to begin the quarter), a decline from the 3Q outflow of $28.2 billion. For the full year 2016, investors redeemed $70.1 billion (2.4 percent of industry assets to begin the year), the largest annual outflow since 2009, when $131 billion was withdrawn. The HFRI Fund Weighted Composite Index® (FWC) gained +5.5 percent for 2016, the best return since 2013, topping that of global equities and surpassing the annualized return of the FWC over the past five and 10 years.

Led by performance-based gains, Event Driven (ED) strategies led asset growth in 4Q, with these funds increasing by $14.8 billion to $777.2 billion; for 2016, total capital invested in ED increased by $32.4 billion. The HFRI Event-Driven (Total) Index led strategy performance for 2016 with a gain of +10.5 percent, driven by Distressed, Activist and Special Situations exposures. Despite this, investor withdrawals from ED strategies continued, totaling $10.8 billion in 4Q and $38.2 billion for 2016, leading strategy outflows over both time periods. ED sub-strategy outflows for FY16 were concentrated in Special Situations at $18.7 billion, which were only partially offset by inflows of $2.1 billion into Merger Arbitrage.

Also driven by strong performance, fixed income-based Relative Value Arbitrage (RVA) strategies saw the largest asset increase for FY 2016, with total RVA capital up $12.9 billion in 4Q and $43.9 billion for FY16 to end the year at $816.8 billion, the industry's second largest strategy by assets. The HFRI Relative Value (Total) Index gained +7.8 percent for 2016, the strongest gain since 2012, led by Yield Alternatives and Corporate Fixed Income exposures. RVA experienced modest capital outflows for 4Q and FY16, totaling $1.4 and $1.7 billion, respectively. RVA net asset flows by sub-strategy in 4Q were led by inflows of $1.6 billion into Corporate Fixed Income, which were partially offset by withdrawals of $865 million from Asset Backed exposures.

Capital invested in Equity Hedge, the industry's largest strategy area by capital, increased by $7.5 billion in 4Q and $20 billion for FY16, rising to a record $849 billion. The HFRI Equity Hedge (Total) Index gained +5.5 percent for 2016, led by exposures to Energy/Basic Materials and Fundamental Value strategies. However, investors withdrew $6 billion from Equity Hedge funds in 4Q and $20.5 billion for 2016, with FY outflows by sub-strategy led by Fundamental Value strategies, which experienced $17 billion in outflows, and Fundamental Growth strategies, which saw $11 billion in outflows. These were only partially offset by inflows into Quantitative Directional strategies of $4.7 billion and Equity Market Neutral of $3.9 billion.

Total capital invested in Macro strategies increased by $11.6 billion in 4Q and $25.4 billion for FY16, finishing the year at $575 billion. The HFRI Macro (Total) Index gained +1.3 percent in 2016 despite posting positive performance through periods of market stress in January and June; Macro sub-strategy performance was led by Commodity and Active Trading sub-strategies. Macro experienced a narrow outflow of $497 million for 4Q, including a large sub-strategy rotation in which investors allocated over $6.0 billion of capital to quantitative, trendfollowing CTA strategies, while redeeming nearly the same amount ($6.0 billion) from fundamental, discretionary strategies. For 2016, investors withdrew a total of $9.7 billion from Macro strategies, with sub-strategy outflows led by $16.3 billion of redemptions from Discretionary Thematic strategies, partially offset by inflows of $6.6 billion into Systematic Diversified CTA strategies.

Outflows by firm size were distributed across capitalizations, with the withdrawals from the largest firms (>$5 billion AUM) falling from the prior quarter, while withdrawals from $1-5 billion AUM firms increased. Investors withdrew $5.6 billion from firms managing greater than $5 billion in 4Q, falling from $21.8 billion in 3Q and totaling $42.6 billion of outflows for 2016. Investors withdrew $10.0 billion from firms managing between $1-5 billion in 4Q, with withdrawals from these totaling $25.1 billion for FY16. Investors withdrew $3.1 from firms managing less than $1 billion in 4Q, with outflows to these totaling $2.4 billion for 2016.

"Hedge fund assets surpassed a historic milestone to conclude 2016, as the industry posted the strongest asset increase in two years through the political turmoil of Brexit and the US Presidential election," stated Kenneth J. Heinz, President of HFR. "Growth occurred against a backdrop of mixed withdrawals, as investors and institutions positioned for continued geopolitical and economic uncertainty in 2017, including the new policies of the Trump administration, progression toward Brexit implementations and uncertain European elections in Netherlands, France, Germany and Italy. With global equities near record highs and US interest rates beginning to rise, funds tactically positioned for this environment are likely to benefit from these developments and lead industry performance in 2017."

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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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