INVESTOR INFLOWS ACCELERATE AS HEDGE FUND CAPITAL ECLIPSES MILESTONE

Highest inflows since 2Q15 drive assets to record $3.2 trillion; Technology, Healthcare, Emerging Markets lead HFRI gains

CHICAGO, (January 19, 2018) – Hedge funds concluded 2017 with the strongest capital inflows since 2Q15 driving total assets to new record, while completing the first performance year without a monthly decline since 2003. Total hedge fund industry capital increased by $59 billion to $3.21 trillion, the sixth consecutive quarterly record for total industry capital, 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.

Investors allocated $6.9 billion of new capital to hedge funds in 4Q17, the highest quarterly inflows since 2Q15, bringing total 2017 inflows to $9.8 billion. December marked the fourteenth consecutive monthly advance of the HFRI Fund Weighted Composite Index®, which gained +8.7 percent in 2017, the strongest calendar year return since 2013.

Driven by an active M&A environment, Event-Driven (ED) strategies led inflows for 4Q, with investors allocating $6.9 billion of new capital to the strategy, bringing total ED hedge fund AUM to $831.6 billion. Multi-Strategy funds led ED sub-strategy inflows for both 4Q and FY 2017, receiving $4.9 billion for the quarter and $10.0 billion for the year. Partially offsetting the annual inflow, $4.7 billion of net investor capital was redeemed from Special Situations funds in...
2017. The HFRI Event-Driven (Total) Index produced a +7.7 percent return for the year, led by a +11.9 percent gain from the HFRI ED: Special Situations Index.

Fixed income-based Relative Value Arbitrage (RVA) strategies received $1.3 billion of net inflows in 4Q17, increasing total RVA capital to $840 billion. RVA inflows were led by $2.2 billion of new capital invested into RVA: Corporate funds, which was partially offset by outflows of $1.7 billion from RVA: Multi-Strategy funds. The 4Q inflow helped to pare the FY17 outflow of $5.6 billion from RVA strategies, of which $5.4 billion occurred in 1Q17. The HFRI Relative Value (Total) Index gained +5.1 percent for 2017, as US interest rates remained relatively stable throughout the year and a new Chairman of the US Federal Reserve Bank was appointed.

Macro funds received $660 million of net inflows in 4Q17, increasing the FY17 inflow to $10.8 billion, which led all hedge fund strategies. Total Macro AUM ended the year at $599 billion, an all-time high. Sub-strategy inflows for the year were led by quantitative, trend-following CTA funds, which received $9.8 billion of new capital, and Currency strategies, which collected over $5.1 billion. The HFRI Macro (Total) Index climbed +2.2 percent in 2017, led by a +5.3 percent gain from the HFRI Macro: Multi-Strategy Index.

Equity Hedge (EH), the industry’s largest strategy area, experienced outflows over the quarter, as investors pared equity beta exposure on strong gains in both direct equity markets and EH hedge funds. Investors redeemed $2.0 billion from EH funds in 4Q, bringing the FY17 outflow to $5.4 billion, though total EH AUM increased to $939 billion as a result of strong performance gains. For the year, EH sub-strategy inflows were led by Multi-Strategy and Quantitative Directional funds, each of which received $7.1 billion of net investor capital, but these were offset by outflows of $13.6 billion from Fundamental Value and $9.2 billion from Fundamental Growth funds. The HFRI Equity Hedge (Total) Index topped all main strategies with a +13.5 percent return in 2017, while the HFRI EH: Fundamental Growth led all sub-strategies with a gain of +19.5 percent. The HFRI Emerging Markets (Total) Index surged +20.1 percent in 2017, led by the HFRI India and HFRI China indices, which gained +36.9 and +32.2 percent, respectively.

Flows by firm size for 2017 were led by managers with less than $1 billion, as these received $7.4 billion of new capital, while the industry’s largest managers, those with greater
than $5 billion AUM, received $6.3 billion of inflows. Investors withdrew a net $3.9 billion from firms managing between $1 billion to $5 billion.

“2017 was a historic year in the hedge fund industry that included advancements in both the core and emerging areas of the industry, and that combined record capital levels and consistent performance gains with the evolution of risk parity, blockchain and cryptocurrencies,” stated Kenneth J. Heinz, President of HFR. “Having successfully navigated financial market challenges over the past year, 2018 presents an entirely new set of challenges and opportunities, including a new US Federal Reserve Chairman, infrastructure spending and tax cuts, the second year of the Trump administration, M&A and special situations driven by powerful trends in retail, technology, media and governance, as well as the transformative impact of blockchain technology. It is likely that the hedge fund industry will continue its powerful expansion into these core and emerging areas throughout 2018.”

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