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STRONG INFLOWS DRIVE HEDGE FUND CAPITAL TO NEW RECORD IN 1Q14

Investors allocate largest amount of new capital to industry in nearly three years; Equity Hedge and Shareholder Activist capital spikes, Macro falls on CTA weakness

CHICAGO (April 21, 2014) – Total hedge fund assets surged to set another record in the first quarter of 2014 as investors allocated the most new capital to the industry since 2Q11. Global hedge fund capital increased to $2.70 trillion, the seventh consecutive quarterly record, as investors allocated $26.3 billion of new capital to the industry, according to the latest HFR® Global Hedge Fund Industry Report, released today by HFR, the established global leader in the indexation, research and analysis of the global hedge fund industry. Inflows for the first quarter were the largest since investors allocated $32.5 billion in 2Q11; 1Q14 results also follow inflows of $63.7 billion for 2013. The HFRI Fund Weighted Composite Index gained +1.1 percent in 1Q14, navigating an increase in volatility over calendar year (CY) 2013 with gains across Relative Value Arbitrage and Event Driven strategies.

First quarter inflows were led by Equity Hedge (EH) strategies, with investors allocating over $16.3 billion in new capital to EH, expanding total capital for the strategy to $761 billion, the largest area of hedge fund capital. The 1Q14 inflow into EH was the largest quarterly inflow since 1Q 2007. By EH sub-strategy, both Fundamental Growth and Multi-Strategy extended 2013 capital increases with 1Q14 allocations of $4.3 billion and $3.3 billion, respectively, while Fundamental Value reversed a 2013 outflow of $10.0 billion with a 1Q14 inflow of $5.0 billion. Equity Market Neutral experienced a strong 1Q inflow of $3.1 billion, nearly equaling the $3.2
billion inflow in CY 2013. The HFRI Equity Hedge Index gained +1.3 percent in 1Q14, led by the HFRI EH: Energy/Basic Materials Index, which gained +5.5 percent for the quarter.

Credit multi-strategy funds also continued to attract investor capital, with fixed income-based Relative Value Arbitrage (RVA) strategies experiencing inflows of $11.2 billion in 1Q14, bringing total capital invested in RVA to $711 billion; first quarter inflows in RVA follow inflows of $22.6 billion in CY 2013. RVA inflows were dominated by Multi-Strategy funds, with these receiving $9.7 billion of inflows, while FI: Asset Backed strategies received inflows of $766 million. The HFRI Relative Value Arbitrage Index gained +2.3 percent in 1Q14, leading all hedge fund strategies. This included a strong contribution from yield alternative strategies, with the HFRI RV: Yield Alternative Index posting a gain of +4.1 percent for 1Q14.

Event Driven (ED) strategies also experienced inflows for 1Q, with investors allocating $4.1 billion in new capital to ED, bringing total investor capital to $722 billion, the second largest area of hedge fund capital concentration. ED led all strategies in capital growth in 2013, experiencing $29.5 billion in inflows as powerful M&A and Shareholder Activist trends attracted strong investor interest. ED flows were led by Activist strategies, which experienced $3.5 billion in new capital inflows; Distressed and Merger Arbitrage each experienced inflows of $1 billion, while Special Situations experienced an outflow of $2.1 billion. The HFRI Event Driven Index gained +1.84 percent in 1Q14, led by Distressed exposures, with the HFRI ED: Distressed Index gaining +2.6 percent.

Offsetting inflows across other strategy areas, Macro hedge funds experienced outflows of $5.3 billion in 1Q14, with these following outflows of $6.3 billion in CY 2013, bringing total Macro capital to $508 billion. Macro outflows were led by quantitative, trend following Systematic Diversified/CTA strategies which experienced $2.1 billion in investor redemptions, while Multi-Strategy and Commodity funds experienced outflows of $1.2 billion and $1.1 billion, respectively. The HFRI Macro Index declined -0.96 percent in 1Q14, after falling -0.5 percent in 2013; the HFRI Macro Systematic Diversified/CTA Index declined -1.7 percent in 1Q14, also after falling -1.6 percent in 2013.

Fund of Hedge Funds experienced a modest outflow of $375 million for 1Q14, narrowly missing the chance to end a streak of 12 consecutive quarterly outflows dating back to 1Q 2011. Despite this, total capital in FOF increased to $665 billion as a result of the performance gain for the HFRI FOF Composite Index.
Investors allocated $13.3 billion to hedge fund firms with greater than $5 billion in AUM and $9.1 billion to firms with between $1 billion and 5 billion; firms with less than $1 billion received inflows of $3.9 billion.

“Hedge fund industry capital growth accelerated in 1Q14 as equity markets eclipsed new highs before experiencing powerful reversals in many of the equity beta trends which defined 2013 performance, as both fundamental valuation concerns, as well as increasing macro/geopolitical uncertainty, contributed to an increase in investor risk aversion and portfolio focus on alternatives as a mechanism to reduce volatility,” stated Kenneth J. Heinz, President of HFR. “While growth continues to be robust in the most sophisticated and established hedge fund strategies, the recent growth and proliferation of dynamic liquid alternative strategies have enabled a wider audience of retail investors to also access hedge fund strategies, with both of these powerful trends expected to continue throughout 2014.”

About HFR®
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