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HEDGE FUND CAPITAL RISES TO RECORD IN 3Q

Steady performance gains offset continued investor outflows; Investors withdraw over $21 billion from industry’s largest firms

CHICAGO, (October 20, 2016) – Total hedge fund industry capital rose to a record level in 3Q16, as performance gains offset continued asset outflows which were concentrated in many of the industry’s largest and most well-established managers. Hedge fund assets rose to $2.972 trillion, an increase of $73.5 billion from the prior quarter, 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. The 3Q16 hedge fund asset level eclipses the previous record of $2.969 trillion set in 2Q15. The HFRI Fund Weighted Composite Index® gained +2.9 percent in 3Q, concluding the quarter with its seventh consecutive monthly gain, and bringing YTD performance to +4.2 percent.

The record total capital level was partially offset by the fourth consecutive quarter of investor outflows, as 3Q net redemptions increased to $28 billion, or approximately one percent of total industry capital. This represents the largest quarterly outflow since 2Q 2009 and brings 2016 YTD outflows to $51.5 billion. Investor outflows and liquidations were concentrated in several of the industry’s largest and most well-established firms; nearly $22 billion of net capital was redeemed or returned from firms with over $5 billion AUM. Firms managing between $1 and 5 billion saw net outflows of $7.4 billion, while firms managing less than $1 billion experienced a small net inflow.
Total capital invested in Equity Hedge (EH) funds, the industry’s largest concentration of strategy AUM, increased by $27.6 billion to $841.6 billion despite investor outflows of $9.4 billion. EH performance-based asset increases were led by Fundamental Value funds, which grew by $15.7 billion in 3Q, bringing total sub-strategy AUM to $461 billion, and representing the largest area of EH sub-strategy capital. Quantitative Directional and Multi-Strategy EH funds received combined investor inflows of $2.8 billion. The HFRI Equity Hedge (Total) Index gained +4.6 percent in 3Q, bringing YTD gain to +4.2 percent.

Fixed income-based Relative Value Arbitrage (RVA) strategies also experienced an increase in total assets, with capital rising by $19.5 billion to $804 billion. The strategy’s performance-based asset gain was partially offset by investor outflows of $4.1 billion in 3Q. Total capital invested in RVA: Multi-Strategy funds increased by $10.5 billion to $488 billion, the industry’s largest sub-strategy by AUM. The HFRI Relative Value (Total) Index gained +3.0 percent in 3Q, bringing the YTD gain to +5.7 percent.

Event-Driven (ED) strategies experienced a large net outflow of $15.4 billion for the quarter, bringing YTD outflows to $27.4 billion. Despite these outflows, and as a result of strong performance, total capital in ED increased by $19.4 billion to $762.4 billion in 3Q. ED outflows were concentrated in Special Situations, which experienced net outflows of $7.5 billion, although strong performance gains increased total capital in these funds to $356.7 billion, the largest ED sub-strategy. The HFRI Event-Driven (Total) Index gained +4.6 percent in 3Q16 and leads all primary strategies YTD with a gain of +6.8 percent.

Led by investor inflows of $2.0 billion into quantitative, trend-following CTA strategies, total capital in Macro hedge funds increased by $7.0 billion to $563.6 billion in 3Q. Macro inflows totaled $800 million in 3Q, with total strategy inflows partially offset by an outflow of $2.6 billion in Discretionary sub-strategies. The HFRI Macro (Total) Index declined -1.1 percent in 3Q, paring the YTD gain to +1.6 percent.

“The hedge fund performance environment improved in 3Q, despite investor redemptions, the continued decline in the British Pound Sterling as a result of Brexit, and an uncertain macroeconomic outlook across most regions,” stated Kenneth Heinz, President of HFR. “Total hedge fund industry capital has reached a record high as the US economy prepares to conclude an extended interest rate cycle which has de-sensitized many investors to risks in financial markets, while suppressing asset volatility and hedge fund performance in recent years.
As rates are allowed to normalize, fundamental, mean reversion across many specialized long short strategies is likely to drive strong performance and industry growth into 2017.”

**HFR launches HFR IndexScope**

HFR is pleased to announce the launch of HFR IndexScope®, the ultimate platform for researching HFRI Indices and constituent data. HFR IndexScope enables filtering of historical HFRI constituents and performance dating back to 2008 by strategy, sub-strategy, regional focus, asset size, performance and more. Contact HFR today for a trial.

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