



HFR

GLOBAL
HEDGE FUND
INDUSTRY REPORT
YEAR END 2013

SAMPLE

HFR

HFR® Global Hedge Fund Industry Report – Year End 2013
Copyright 2014. All rights reserved.
www.HedgeFundResearch.com

BONUS SECTION: UCITS Alternative Investments



Hedge Fund Research, Inc.

HEDGE FUND ASSETS SURGE TO NEW RECORD TO BEGIN 2014

Inflows into Event Driven, Equity strategies led by Special Situations, Fundamental Growth; Inflows to mid-sized firms top largest firms in 4Q as investor risk tolerance returns

CHICAGO, (January 21, 2014) – Capital invested in the global hedge fund industry surged to a record in the fourth quarter, finishing a strong year of capital growth as hedge funds posted the best performance in three years. Total capital increased in 4Q by \$120 billion on \$10.5 billion of net inflows to \$2.63 trillion, the sixth consecutive quarterly record, led by a surge in investor interest in Event Driven strategies, including Special Situations and Distressed/Restructuring funds, according to the latest *HFR Global Hedge Fund Industry Report*, released today by HFR®, the established global leader in the indexation, analysis and aggregation of the global hedge fund industry. For the full year, total hedge fund capital increased by \$376 billion on \$63.7 billion of net inflows, as the HFRI® Fund Weighted Composite Index posted a gain of +9.2 percent, the best calendar year performance since 2010.

Event Driven funds led capital inflows across all strategies for the first time since 2007, with investors allocating \$29.5 billion in 2013. Event Driven strategies grew by \$140 billion to more than \$698 billion for 2013, surpassing Relative Value Arbitrage as the second largest strategy area of hedge fund capital. Inflows into Event Driven strategies for the year were led by Special Situations (\$15.4 billion), Distressed/Restructuring (\$6.7 billion) and Activist (\$5.2 billion) sub-strategies. The HFRI Event Driven Index gained +12.5 percent for 2013, the best performance since 2009.

Capital invested in Equity Hedge strategies increased by \$48 billion in 4Q, driven by investor inflows of \$8.6 billion, with total capital invested in the strategy reaching a record \$734 billion, the industry's largest strategy concentration of investor capital; total assets invested in Equity Hedge increased \$136 billion for 2013. Investor inflows of \$17.9 billion were led by Multi-Strategy (\$15.1 billion) and Fundamental Growth (\$8.4 billion), while Fundamental Value, the largest EH sub-strategy by capital, experienced an outflow of \$10 billion for the year. The HFRI Equity Hedge Index gained +14.4 percent for 2013, also the best performance since 2009.

Total assets invested in fixed income-based Relative Value Arbitrage (RVA) increased by \$18 billion to \$684 billion in 4Q on \$2 billion of investor inflows. For the FY 2013, RVA increased by \$75.8 billion on inflows of \$22.6 billion, led by inflows into Multi-Strategy (\$14.8 billion), FI: Corporate (\$3.7 billion) and FI: Asset Backed (\$3.6 billion). HFRI Relative Value Arbitrage Index gained +7.0 percent in 2013, the fifth consecutive annual gain.

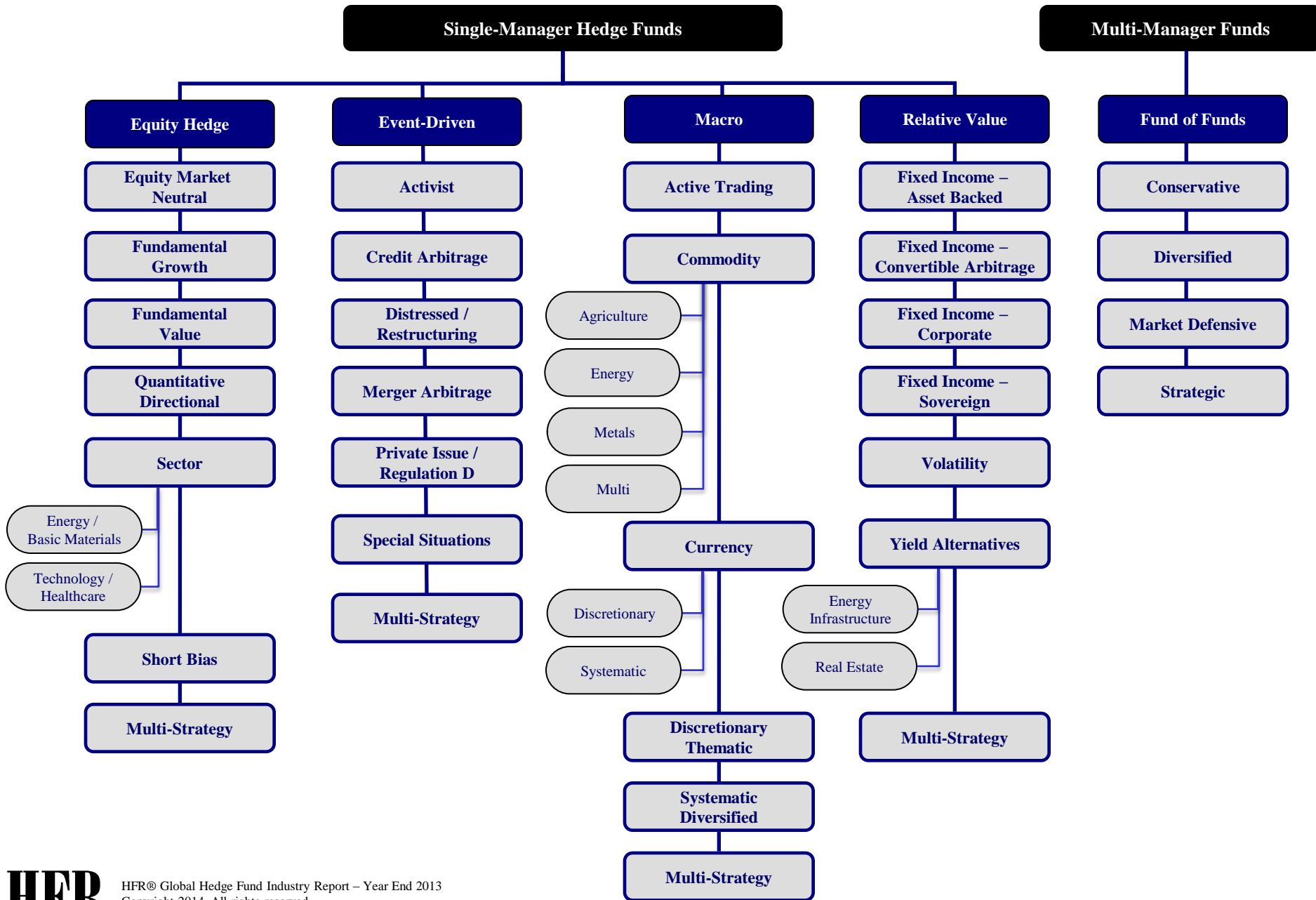
Macro funds experienced an outflow of \$13.3 billion in 4Q led by outflows from Systematic Diversified/CTA strategies of \$4.9 billion. The HFRI Macro: Systematic Diversified/CTA Index declined -0.7 percent for 2013, the third consecutive annual decline. Fourth quarter outflows offset allocations from prior quarters, resulting in a FY 2013 net redemption of \$6.3 billion from Macro funds. For the FY 2013, Macro assets increased by \$23.7 billion to \$511 billion as larger firms posted relative performance-based asset increases despite the equal-weighted HFRI Macro Index narrowly declining by -0.2 percent, also the third consecutive annual decline.

The concentration of capital inflows to the industry's largest firms moderated slightly in 4Q, as investors allocated to firms across the market capitalization spectrum. Investors allocated \$5.0 billion to firms with greater than \$5 billion in AUM, while allocating \$5.3 billion to firms with between \$1 and \$5 billion. For the FY 2013, investors allocated \$40 billion to firms with greater than \$5 billion, \$16.6 billion to firms with between \$1 billion and \$5 billion in AUM, and \$7.2 billion to firms with less than \$1 billion in AUM. By management firm location, 71.6 percent of 2013 capital inflows were allocated to firms located in the Americas region, with European-located funds receiving 22.3 percent while Asian-located funds received 5.8 percent of 2013 inflows.

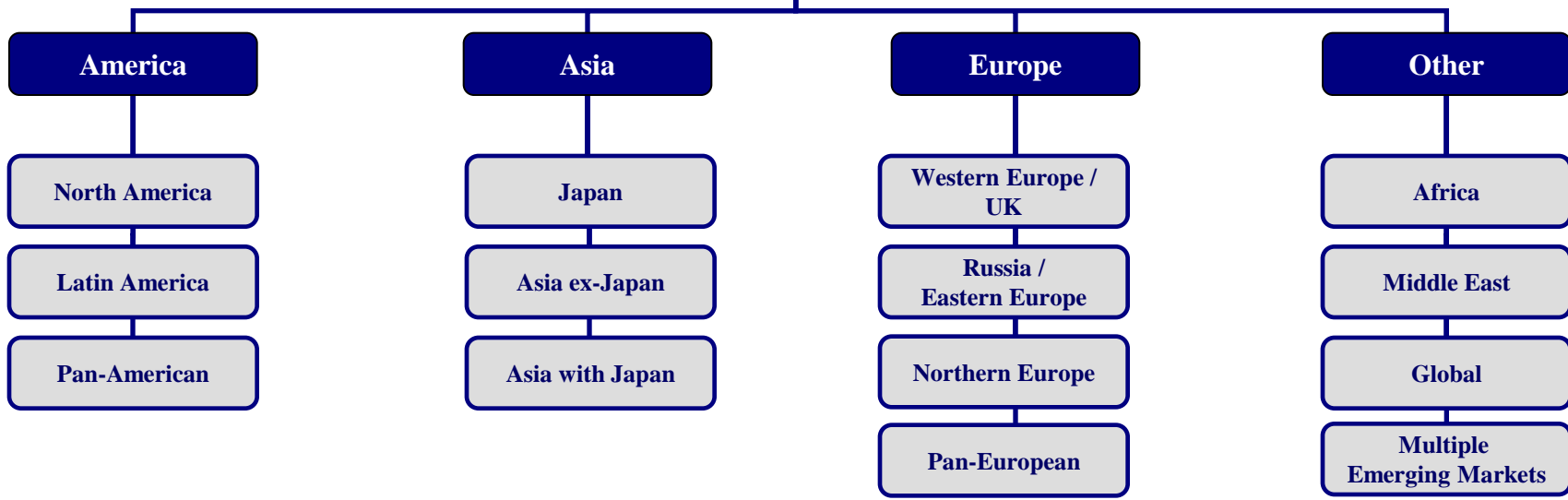
“The powerful increase in investor risk tolerance drove strong capital flows into hedge funds as both institutional and retail investors positioned for greater intra-market equity dispersion across equity portfolios, and an extension of the dynamic M&A and Activist environment that dominated 2013,” said Kenneth Heinz, President of HFR. “Hedge fund industry growth has continued to a record level of assets despite the challenges presented by a transitional regulatory environment, strong gains in traditional equities, and uncertain macroeconomic and political environments in 2013. With the US Federal Reserve beginning the process of tapering stimulus measures and economic pressures receding across the EU, the combined normalization of interest rates, equity market valuations and investor risk tolerance is likely to contribute to a conducive environment for actively managed, long-short investing as investors hedge 2013 beta-driven gains in favor of differentiated, uncorrelated alpha in coming years.”



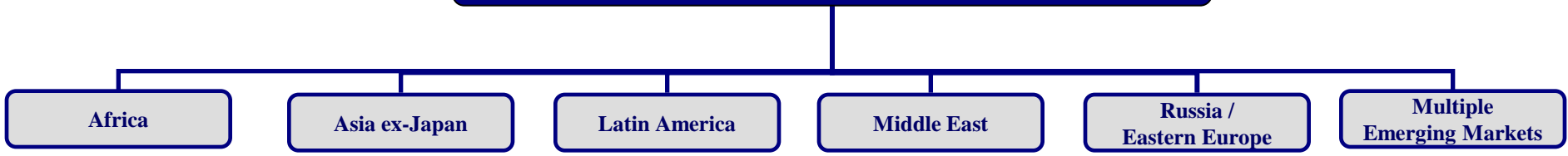
HFR Strategy Classification



HFR Regional Investment Focus Classification

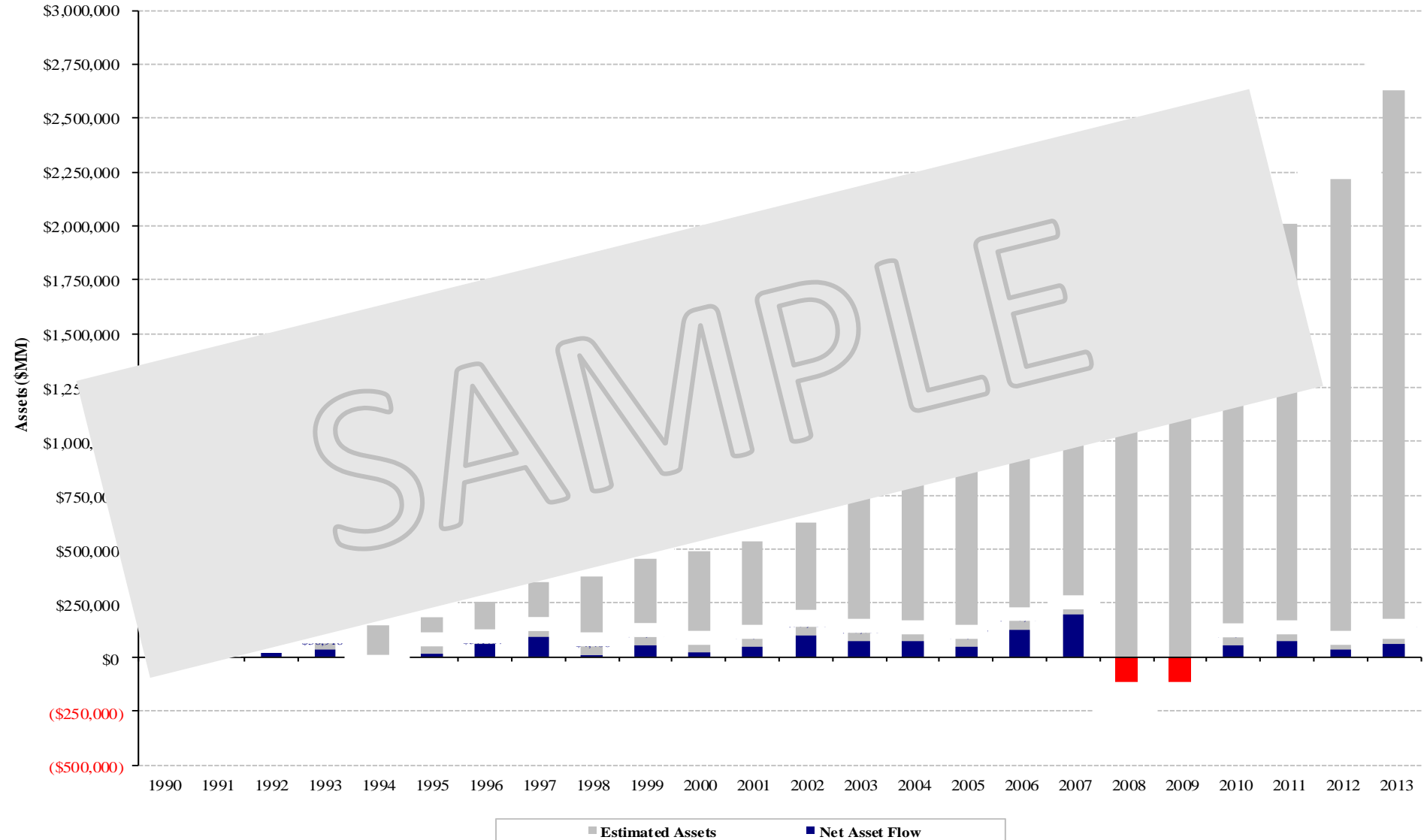


Emerging Markets



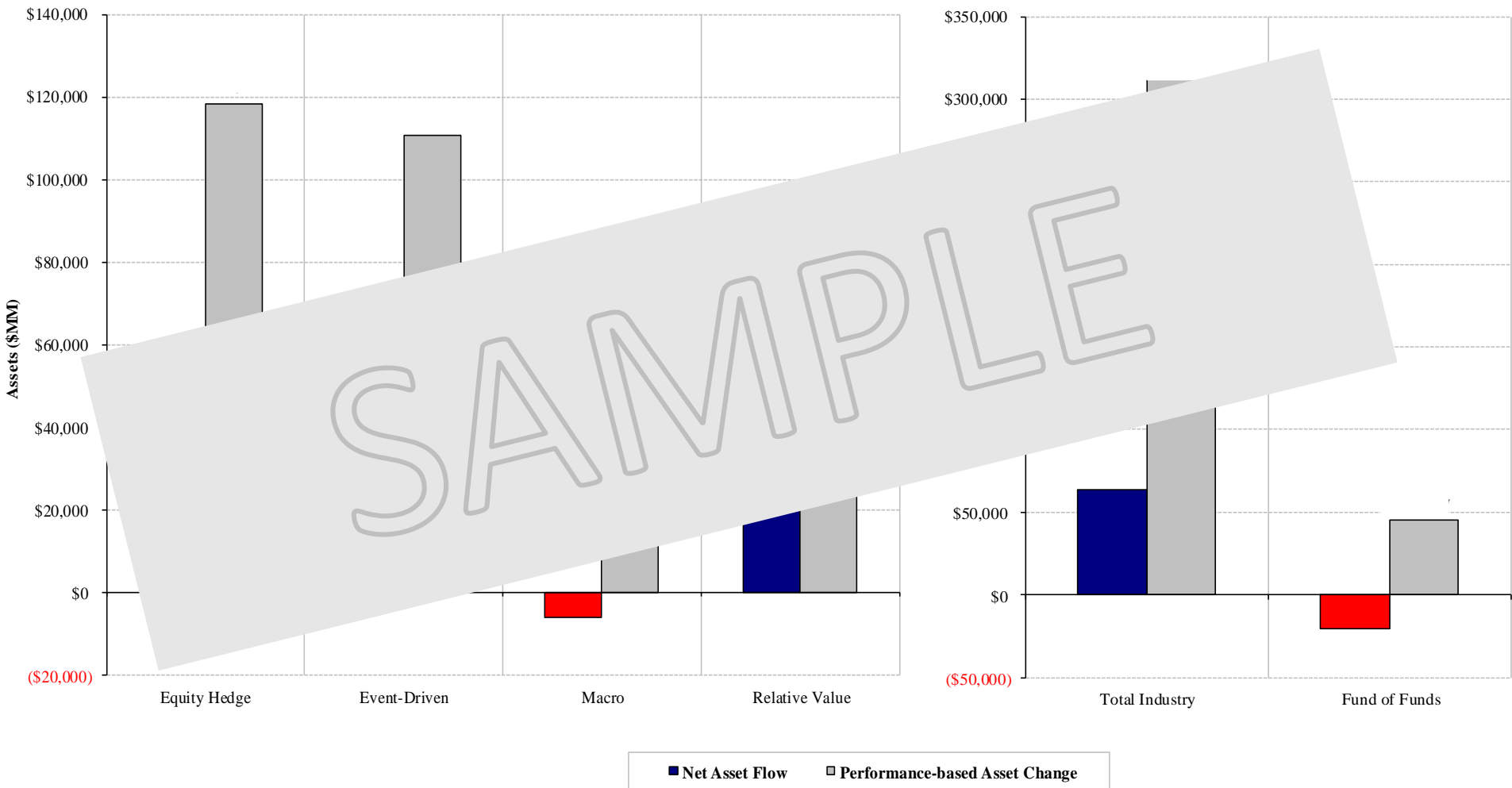
Estimated Growth of Assets / Net Asset Flow

Hedge Fund Industry 1990 – 2013



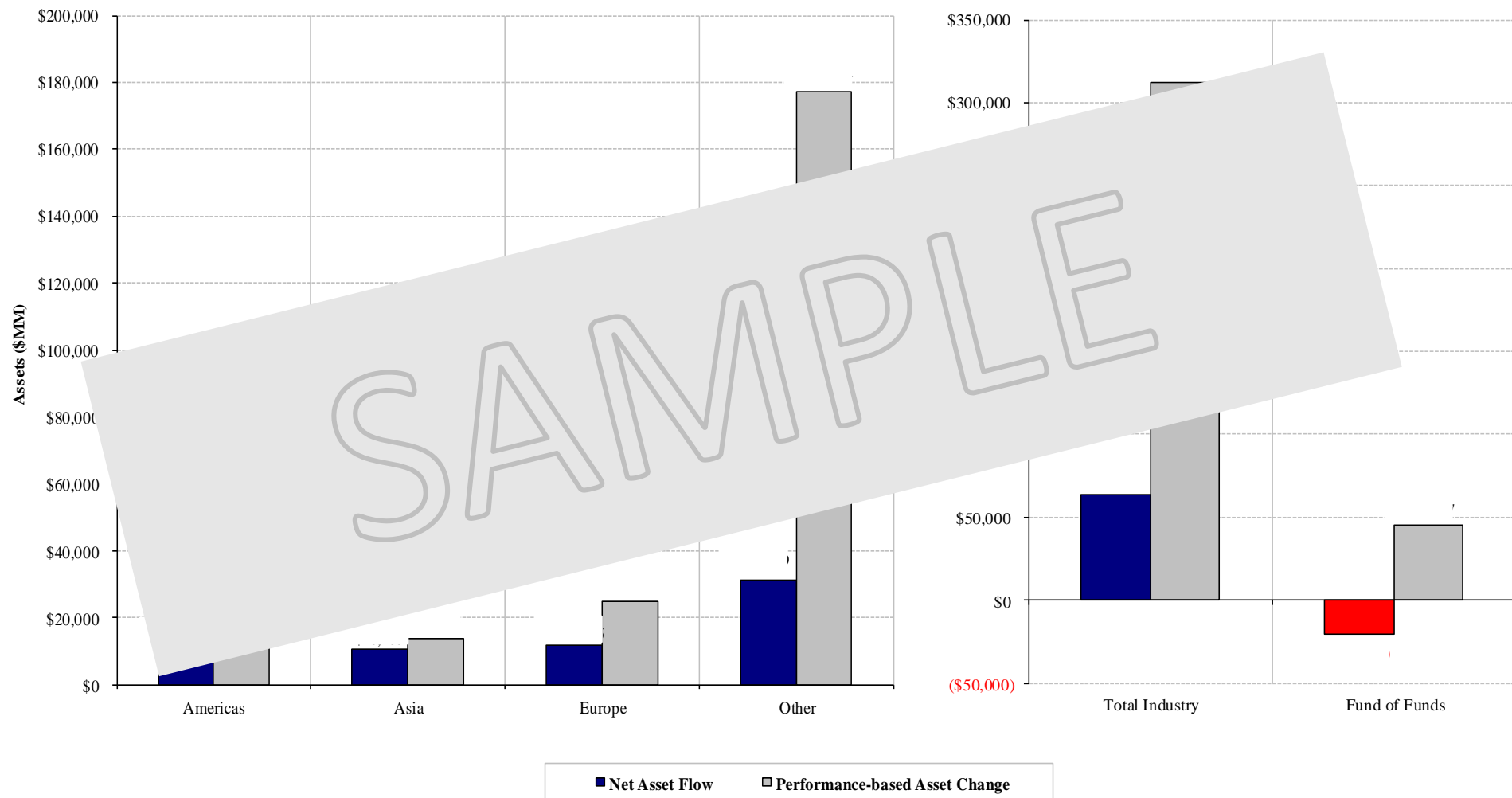
Estimated Change in Assets per Main Strategy

Net Asset Flow vs. Performance-Based FY 2013



Estimated Change in Assets per Regional Investment Focus

Net Asset Flow vs. Performance-Based FY 2013



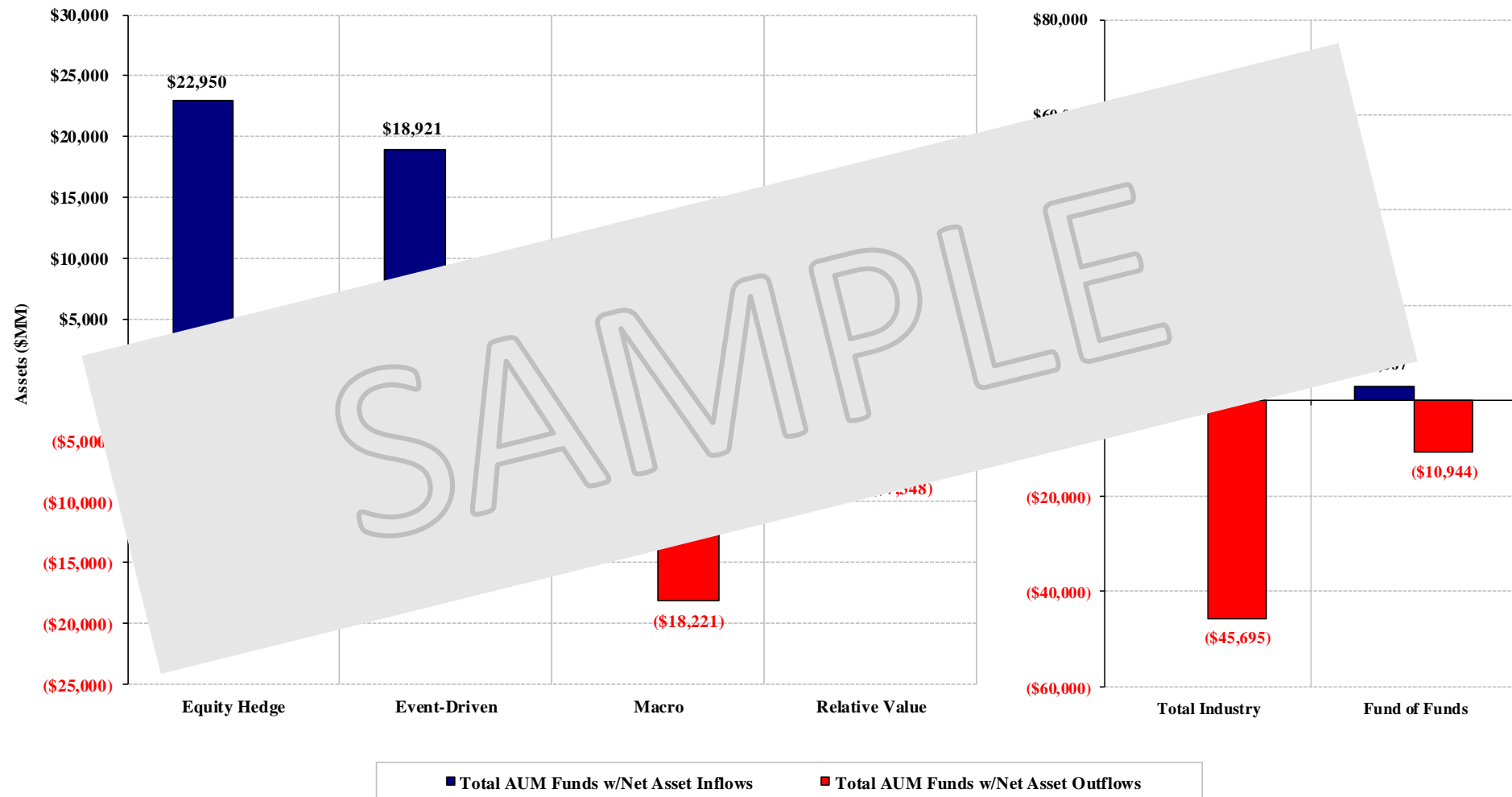
* Other includes: Africa, Global, Middle East and Multiple Emerging Markets



Estimated Net Asset Flows per Main Strategy

AUM of Funds with Inflows vs. Outflows

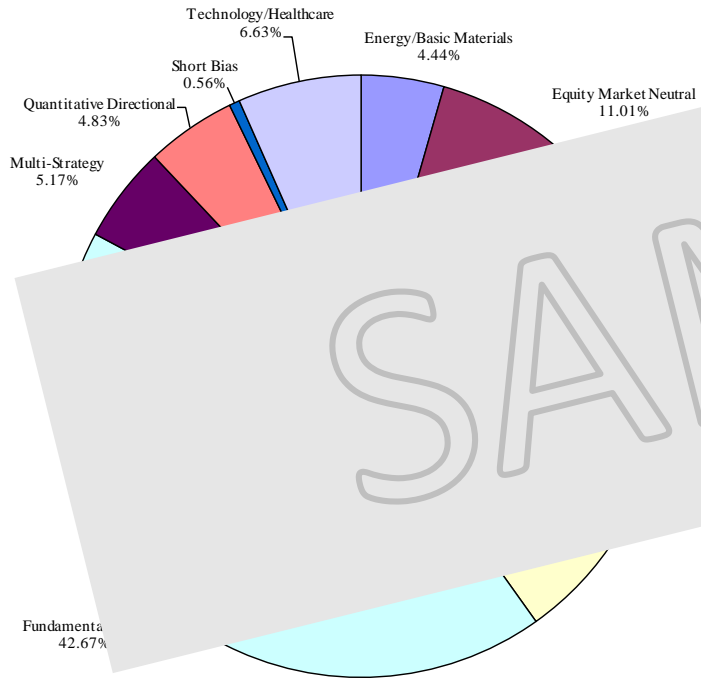
Q4 2013



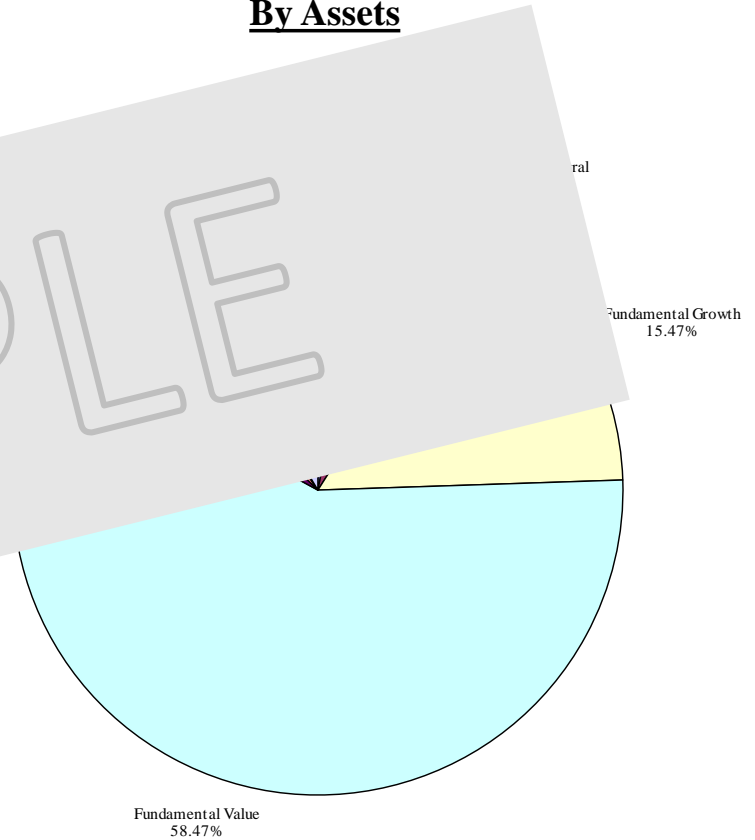
Estimated Sub-Strategy Composition

Equity Hedge – Q4 2013

By # Funds



By Assets

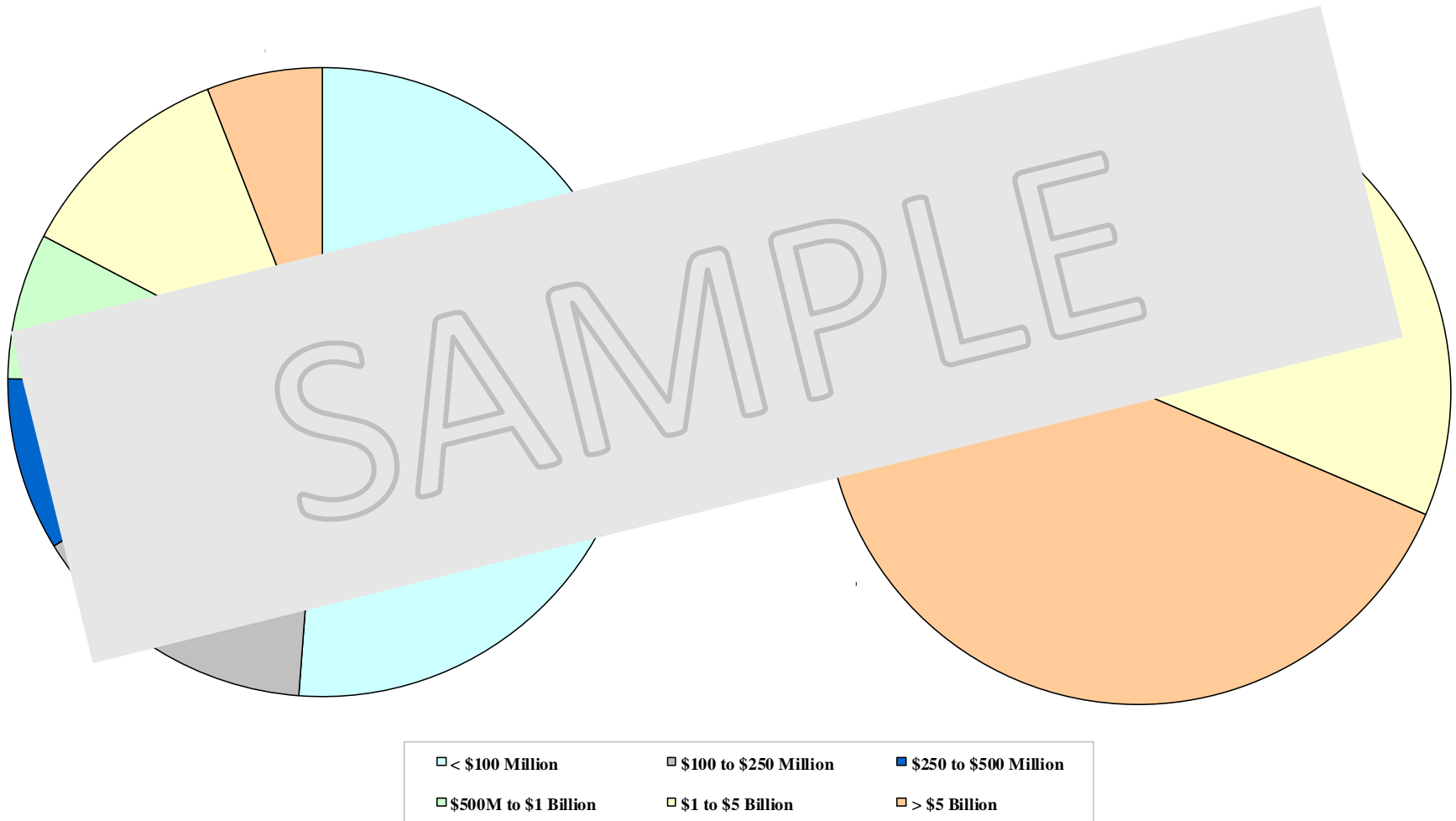


Distribution of Industry Assets by Firm AUM Tier

Q4 2013

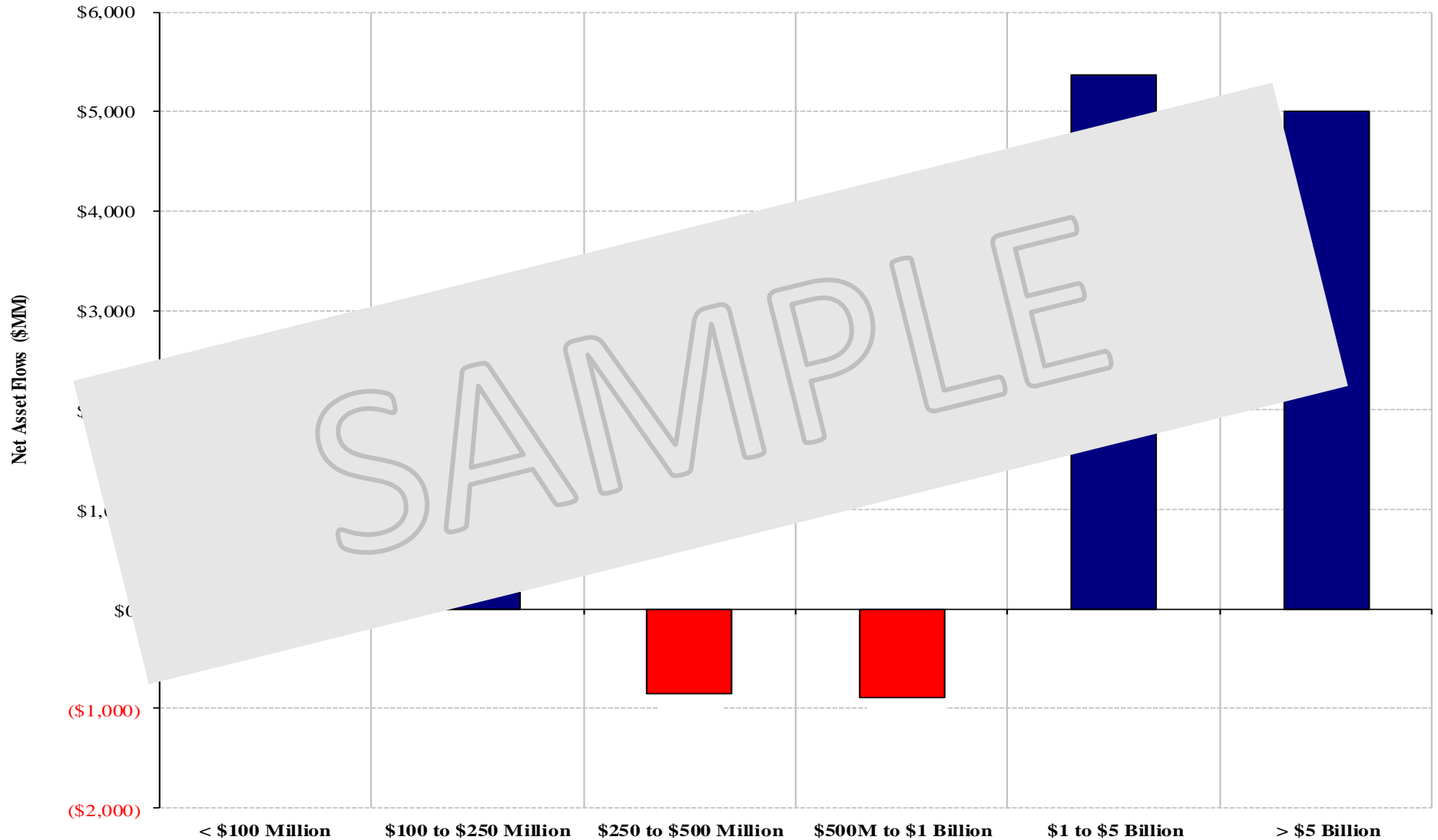
By # Firms

By Firm AUM Size



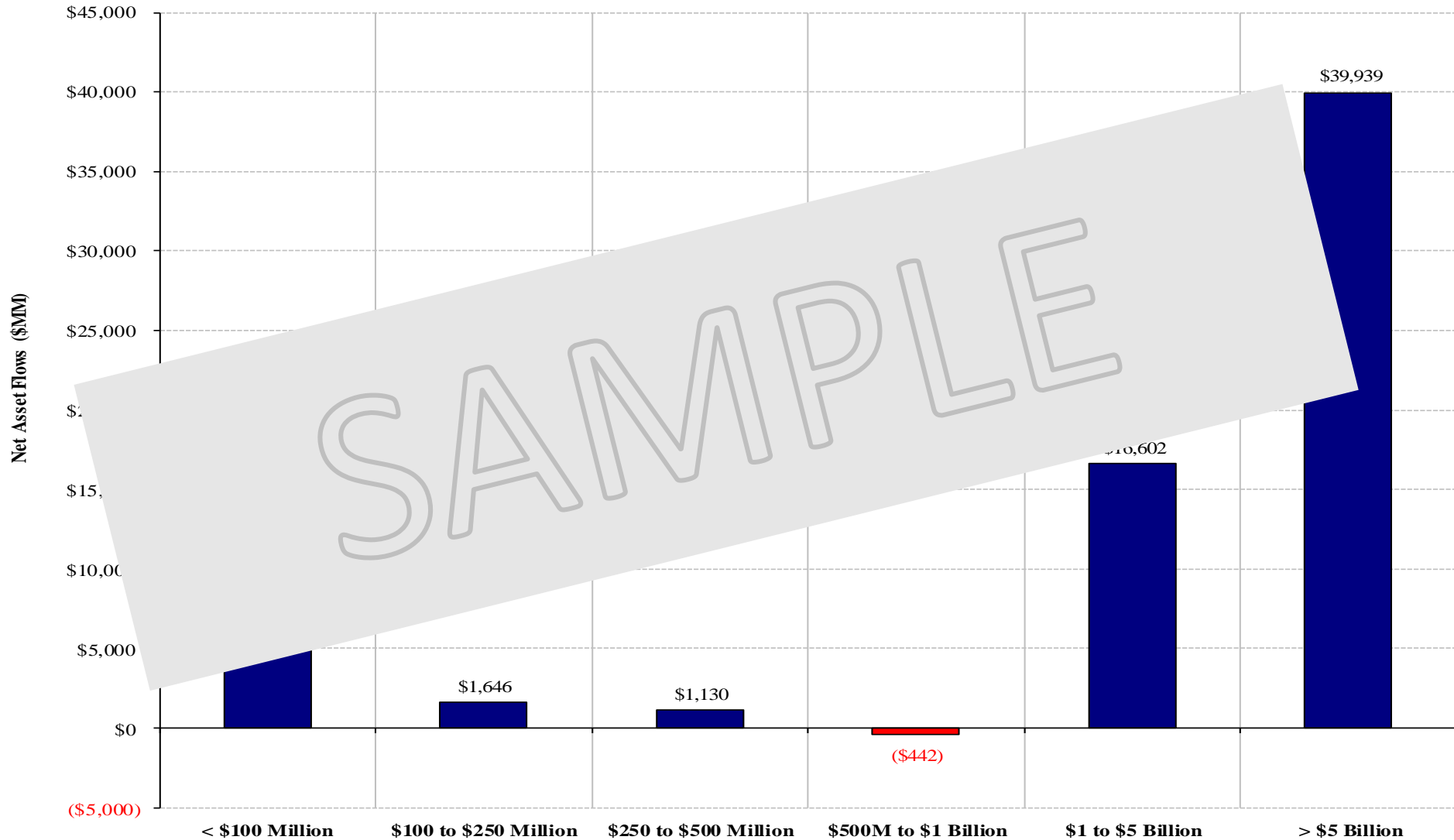
Distribution of Net Asset Flows by Firm AUM Tier

Q4 2013



Distribution of Net Asset Flows by Firm AUM Tier

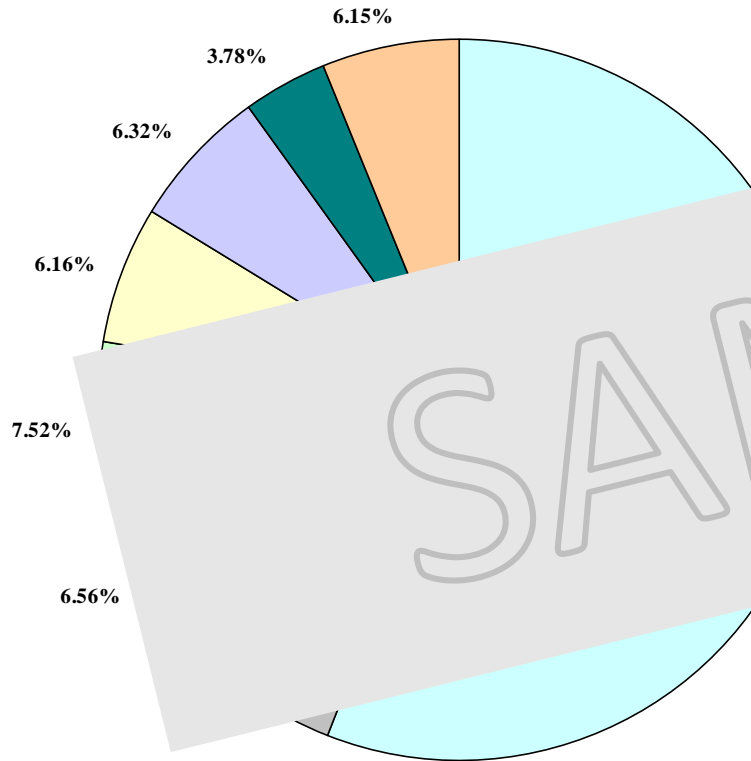
FY 2013



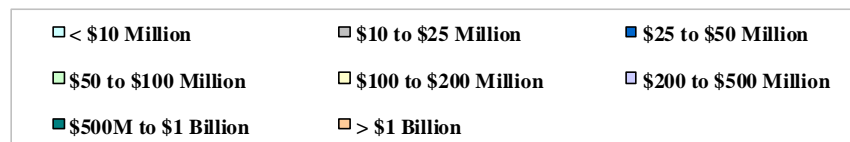
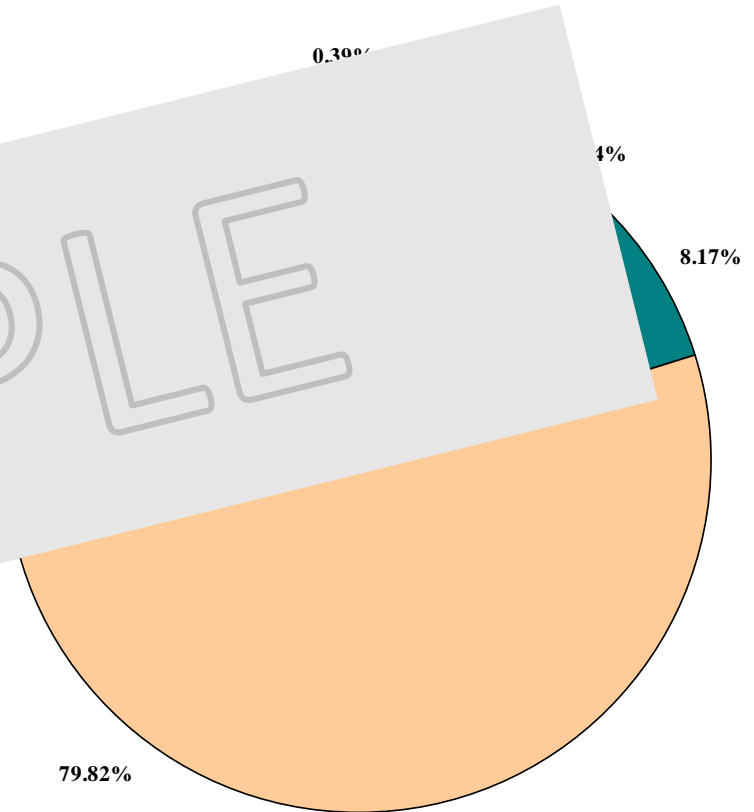
Distribution of Industry Assets by Fund AUM Tier

Q4 2013

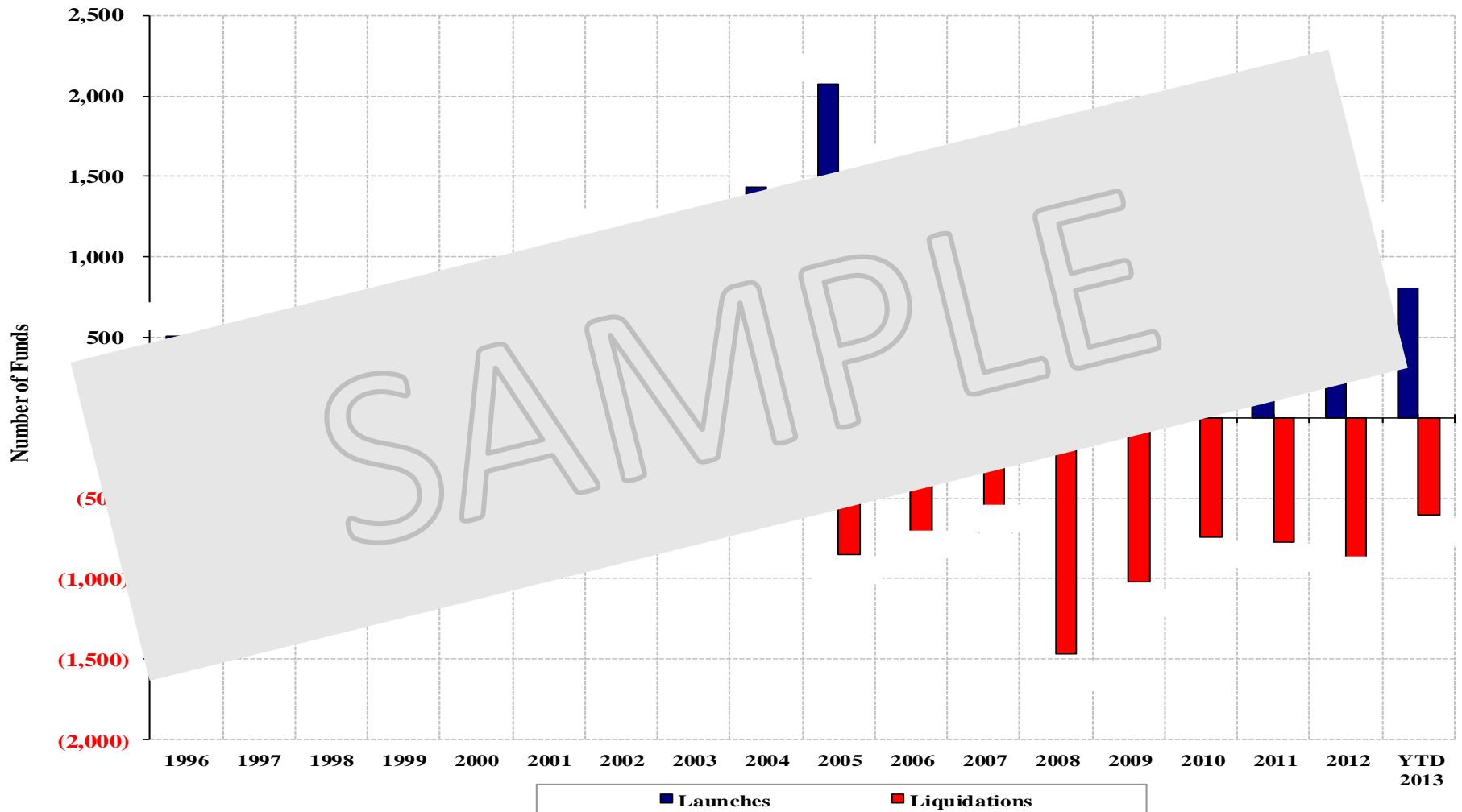
By # Funds



By Fund AUM Size



Estimated Number of Funds Launched/Liquidated 1996 – YTD Q3 2013



HFRI Indices Annual Investment Returns (2000 – 2013)

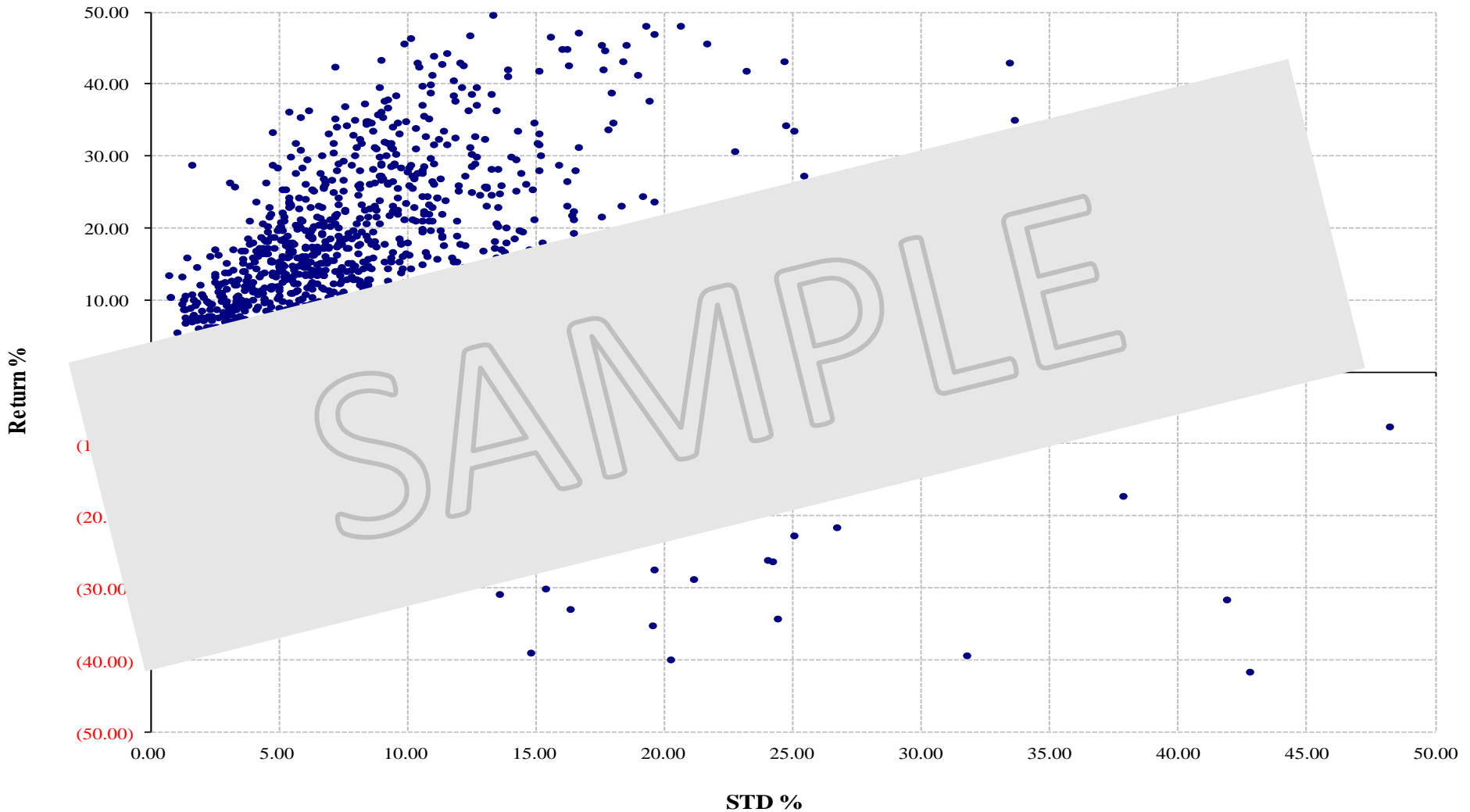
2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
HFRI ED: Merger Arb 18.02%	HFRI RV: ConvertArb 13.37%	Barclays Gov't/Credit 12.10%	HFRI Emerging Markets 39.36%	HFRI ED: Distressed 18.89%	HFRI Emerging Markets 21.04%	HFRI Emerging Markets 24.26%	HFRI Emerging Markets 24.92%	Barclays Gov't/Credit 6.09%	HFRI RV: ConvertArb 60.17%	S&P 500 15.08%	Barclays Gov't/Credit 9.24%	S&P 500 15.99%	S&P 500 32.36%
HFRI EH: Eq Mrkt Ntrl 14.56%	HFRI ED: Distressed 13.28%	HFRI RV: ConvertArb 9.05%	HFRI ED: Distressed 29.56%	HFRI Emerging Markets 18.42%	HFRI Equity Hedge 10.60%	HFRI ED: Distressed 15.94%	HFRI Macro 11.11%	HFRI Macro 4.83%	HFRI Emerging Markets 40.24%	HFRI RV: ConvertArb 13.07%	S&P 500	HFRI Positive	HFRI Equity Hedge 14.44%
HFRI RV: ConvertArb 14.50%	HFRI Event-Driven 12.18%	HFRI Macro 7.44%	S&P 500 28.67%	HFRI Event-Driven 15.01%	HFRI Fund Wghtd Comp 9.30%	S&P 500 15.78%	HFRI Equity Hedge 10.48%	HFRI ED: Merger Arb -5.36%	HFRI ED: Distressed	HFRI ED: Distressed	HFRI ED: Distressed	HFRI ED: Distressed	HFRI ED: Distressed 14.04%
HFRI Relative Value 13.41%	HFRI Emerging Markets 10.36%	HFRI Relative Value 5.44%	HFRI Event-Driven 25.33%	S&P 500 10.86%	HFRI ED: Distressed 8.27%	HFRI Event-Driven	HFRI FOF	HFRI ED: Distressed	HFRI ED: Distressed	HFRI ED: Distressed	HFRI ED: Distressed	HFRI ED: Distressed	HFRI Event-Driven 12.48%
Barclays Gov't/Credit 13.27%	Barclays Gov't/Credit 9.40%	HFRI ED: Distressed	HFRI Macro 21.42%	HFRI Fund Wghtd Comp	HFRI ED: Distressed	HFRI Event-Driven	HFRI FOF	HFRI ED: Distressed	HFRI ED: Distressed	HFRI ED: Distressed	HFRI ED: Distressed	HFRI ED: Distressed	HFRI Fund Wghtd Comp 9.24%
HFRI Equity Hedge 9.09%	HFRI Relative Value 8.89%	HFRI Emerging Markets	HFRI Macro	HFRI Fund Wghtd Comp	HFRI ED: Distressed	HFRI Event-Driven	HFRI FOF	HFRI ED: Distressed	HFRI ED: Distressed	HFRI ED: Distressed	HFRI ED: Distressed	HFRI ED: Distressed	HFRI FOF Composite 7.79%
HFRI Event-Driven 6.74%	HFRI Event-Driven	HFRI Event-Driven	HFRI Macro	HFRI Fund Wghtd Comp	HFRI ED: Distressed	HFRI Event-Driven	HFRI FOF	HFRI ED: Distressed	HFRI ED: Distressed	HFRI ED: Distressed	HFRI ED: Distressed	HFRI ED: Distressed	HFRI RV: ConvertArb 7.79%
HFRI Fund Wghtd Comp 4.98%	HFRI Fund Wghtd Comp	HFRI Fund Wghtd Comp	HFRI Macro	HFRI Fund Wghtd Comp	HFRI ED: Distressed	HFRI Event-Driven	HFRI FOF	HFRI ED: Distressed	HFRI ED: Distressed	HFRI ED: Distressed	HFRI ED: Distressed	HFRI ED: Distressed	HFRI Relative Value 6.98%
HFRI FOF Composite 4.07%	HFRI FOF Composite	HFRI FOF Composite	HFRI Macro	HFRI Fund Wghtd Comp	HFRI ED: Distressed	HFRI Event-Driven	HFRI FOF	HFRI ED: Distressed	HFRI ED: Distressed	HFRI ED: Distressed	HFRI ED: Distressed	HFRI ED: Distressed	HFRI EH: Eq Mrkt Ntrl 6.65%
HFRI ED: Distressed 2.78%	HFRI ED: Distressed	HFRI ED: Distressed	HFRI Macro	HFRI Fund Wghtd Comp	HFRI ED: Distressed	HFRI Event-Driven	HFRI FOF	HFRI ED: Distressed	HFRI ED: Distressed	HFRI ED: Distressed	HFRI ED: Distressed	HFRI ED: Distressed	HFRI Emerging Markets 5.60%
HFRI Macro 1.97%	HFRI Macro	HFRI Macro	HFRI Macro	HFRI EH: Eq Mrkt Ntrl 4.15%	S&P 500 4.91%	HFRI Macro 8.15%	HFRI RV: ConvertArb 5.33%	HFRI RV: ConvertArb -33.71%	Barclays Gov't/Credit 4.81%	HFRI FOF Composite 5.60%	HFRI FOF Composite -5.73%	HFRI EH: Eq Mrkt Ntrl 2.98%	HFRI ED: Merger Arb 4.82%
S&P 500 -9.09%	HFRI Equity Hedge 0.40%	HFRI Equity Hedge -4.71%	Barclays Gov't/Credit 5.07%	HFRI ED: Merger Arb 4.08%	Barclays Gov't/Credit 2.55%	HFRI EH: Eq Mrkt Ntrl 7.32%	HFRI EH: Eq Mrkt Ntrl 5.29%	S&P 500 -36.99%	HFRI Macro 4.37%	HFRI ED: Merger Arb 4.60%	HFRI Equity Hedge -8.38%	HFRI ED: Merger Arb 2.76%	HFRI Macro -0.22%
HFRI Emerging Markets -10.71%	S&P 500 -11.85%	S&P 500 -22.09%	HFRI EH: Eq Mrkt Ntrl 2.44%	HFRI RV: ConvertArb 1.18%	HFRI RV: ConvertArb -1.86%	Barclays Gov't/Credit 4.07%	HFRI ED: Distressed 5.08%	HFRI Emerging Markets -37.26%	HFRI EH: Eq Mrkt Ntrl 1.43%	HFRI EH: Eq Mrkt Ntrl 3.16%	HFRI Emerging Markets -13.99%	HFRI Macro -0.06%	Barclays Gov't/Credit -2.47%

SAMPLE

HFRI Fund Weighted Composite Constituents*

Risk Return Comparison 12-Month

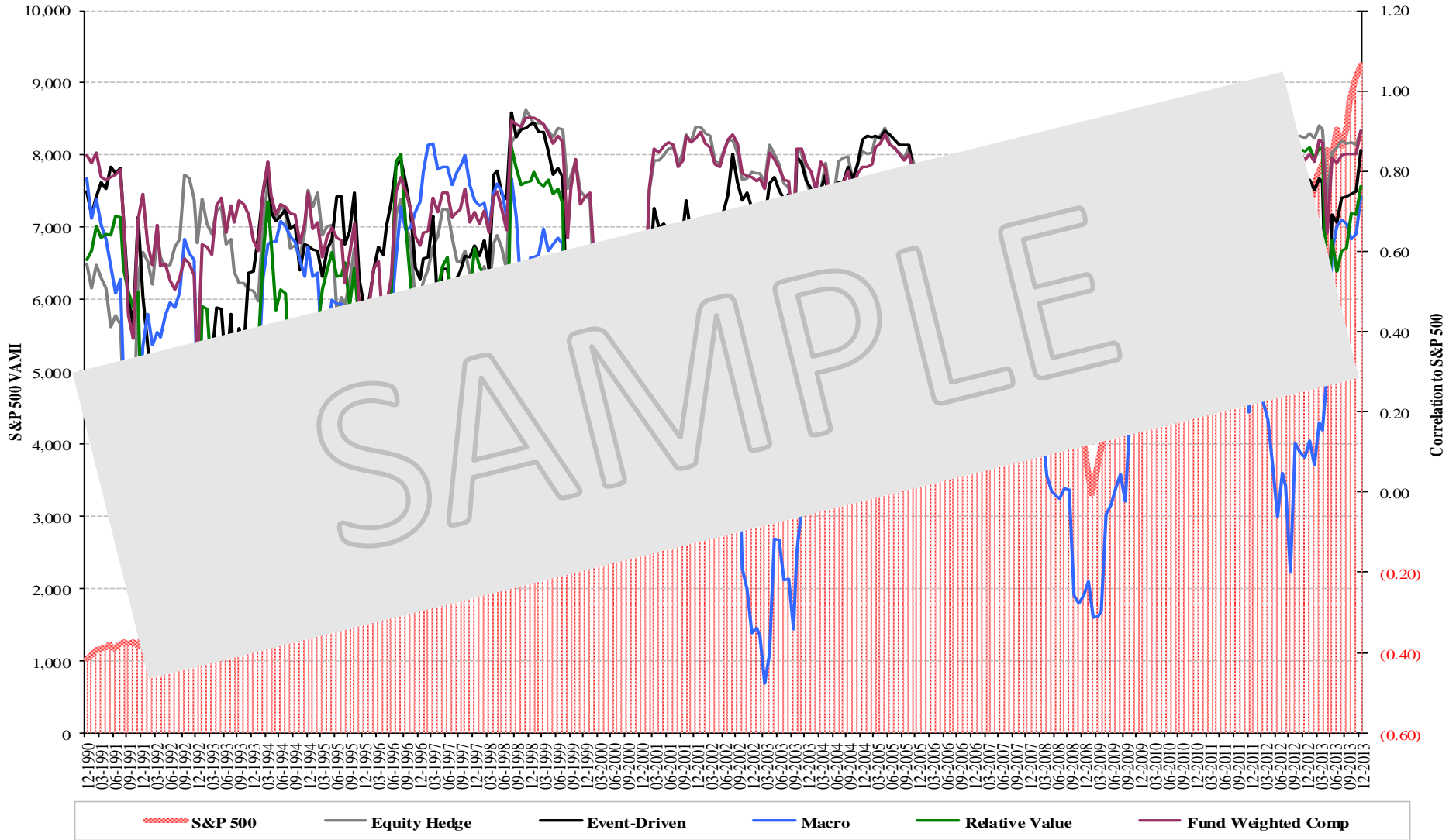
Scaled Down to 50% Return and 50% Standard Deviation



**The underlying hedge fund data represented in this chart is available to HFR Database subscribers or as an additional purchase to Industry Report subscribers.*

Historical Monthly Correlation to S&P 500 Index

12-Month Rolling



HFRI Index Correlation Matrix

12 Month

Index	Equity Hedge	EH: Eq Mkrt Ntrl	EH: Quant Drcntl	EH: Energy/Basic Materials	EH: Tech/HC	EH: Short Bias	Event-Driven	ED: Distressed	ED: Merg Arb	Macro	Macro Sys Div	Relative Value	RV: FI Asset Backed	RV: FI Com Arb	RV: FI Cop	RV: Multi-Strat	RV: Yield Alt	Fund Weighted Comp	FOF Comp	Emerging Mkts (Total)	EM: Asia ex Japan	EM: Global	EM: LatAm	EM: Russia	Barclays Govt/Crdt Agg Bond	S&P 500		
Equity Hedge	1.00	0.73	0.82	0.70	0.68	(0.80)	0.91	0.83	0.51	0.72	0.52	0.80	0.59	0.80	0.80	0.73	0.65	0.97	0.97	0.97	0.97	0.97	0.97	0.69	0.22	0.87		
EH: Eq Mrkt Ntrl		1.00	0.82	0.42	0.33	(0.48)	0.60	0.56	0.19	0.59	0.47	0.58	0.48	0.45	0.60	0.45	0.65	0.97	0.97	0.97	0.97	0.97	0.97	0.97	0.13	0.31	0.84	
EH: Quant Drcntl			1.00	0.64	0.61	(0.55)	0.63	0.51	0.47	0.79	0.64	0.64	0.42	0.56	0.79	0.60	0.65	0.97	0.97	0.97	0.97	0.97	0.97	0.97	0.97	0.33	0.89	
EH: Energy/Basic Materials				1.00	0.59	(0.34)	0.51	0.45	0.28	0.43	0.22	0.40	0.35	0.35	0.45	0.45	0.45	0.97	0.97	0.97	0.97	0.97	0.97	0.97	0.97	(0.06)	0.56	
EH: Tech/HC					1.00	(0.59)	0.49	0.37	0.51	0.79	0.64	0.64	0.42	0.56	0.79	0.60	0.65	0.97	0.97	0.97	0.97	0.97	0.97	0.97	0.97	(0.09)	0.69	
EH: Short Bias						1.00	(0.85)	0.60	0.56	0.19	0.59	0.47	0.58	0.45	0.60	0.45	0.65	0.97	0.97	0.97	0.97	0.97	0.97	0.97	0.97	(0.17)	(0.72)	
Event-Driven							1.00	0.83	0.51	0.72	0.52	0.80	0.59	0.80	0.80	0.73	0.65	0.97	0.97	0.97	0.97	0.97	0.97	0.97	0.97	0.16	0.74	
ED: Distressed								1.00	0.28	0.43	0.22	0.40	0.35	0.35	0.45	0.45	0.45	0.97	0.97	0.97	0.97	0.97	0.97	0.97	0.97	0.20	0.68	
ED: Merg Arb									1.00	0.79	0.64	0.64	0.42	0.56	0.79	0.60	0.65	0.97	0.97	0.97	0.97	0.97	0.97	0.97	0.97	0.34	0.52	
Macro										1.00	0.52	0.58	0.48	0.45	0.60	0.45	0.65	0.97	0.97	0.97	0.97	0.97	0.97	0.97	0.97	0.39	0.59	
Macro Sys Div											1.00	0.80	0.59	0.80	0.80	0.73	0.65	0.97	0.97	0.97	0.97	0.97	0.97	0.97	0.97	0.34	0.59	
Relative Value												1.00	0.59	0.80	0.80	0.73	0.65	0.97	0.97	0.97	0.97	0.97	0.97	0.97	0.97	0.55	0.61	
RV: FI Asset Backed													1.00	0.69	0.82	0.82	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.44	0.44	0.38
RV: FI Com Arb														1.00	0.88	0.46	0.86	0.85	0.91	0.89	0.90	0.86	0.68	0.54	0.58	0.54	0.58	
RV: FI Cop															1.00	0.88	0.46	0.86	0.85	0.91	0.89	0.90	0.86	0.68	0.54	0.58	0.58	
RV: Multi-Strat																1.00	0.60	0.83	0.86	0.82	0.83	0.84	0.75	0.53	0.43	0.57	0.57	
RV: Yield Alt																	1.00	0.69	0.66	0.44	0.40	0.47	0.43	0.30	0.16	0.73	0.73	
Fund Weighted Comp																		1.00	0.99	0.86	0.83	0.87	0.73	0.70	0.30	0.85	0.85	
FOF Comp																			1.00	0.84	0.83	0.85	0.67	0.63	0.31	0.85	0.85	
Emerging Mkts (Total)																				1.00	0.97	0.97	0.89	0.86	0.45	0.55	0.55	
EM: Asia ex Japan																					1.00	0.92	0.79	0.77	0.43	0.54	0.54	
EM: Global																						1.00	0.86	0.80	0.34	0.57	0.57	
EM: LatAm																							1.00	0.78	0.60	0.39	0.39	
EM: Russia																								1.00	0.36	0.42	0.42	
Barclays Govt/Crdt Agg Bond																									1.00	0.22	0.22	
S&P 500																											1.00	

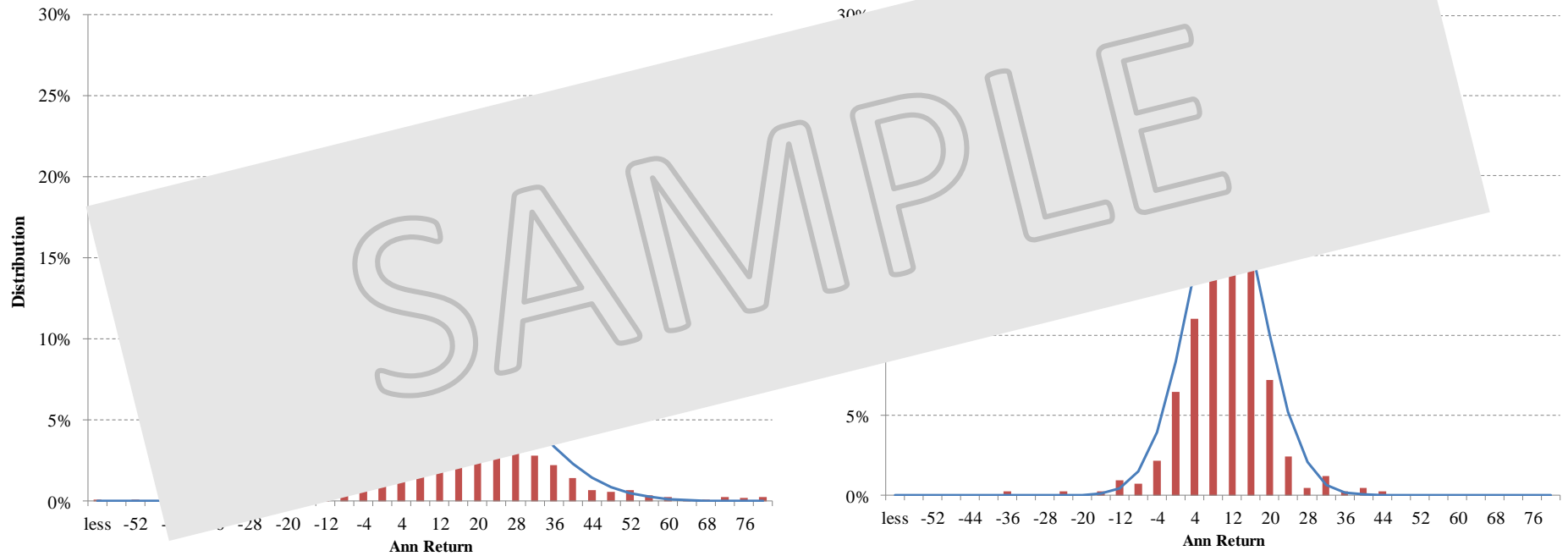
HFRI Composite Indices

Distribution Analysis of Constituent Fund Returns

1-Year

HFRI Fund Weighted Composite Index

HFRI Fund of Funds Composite Index

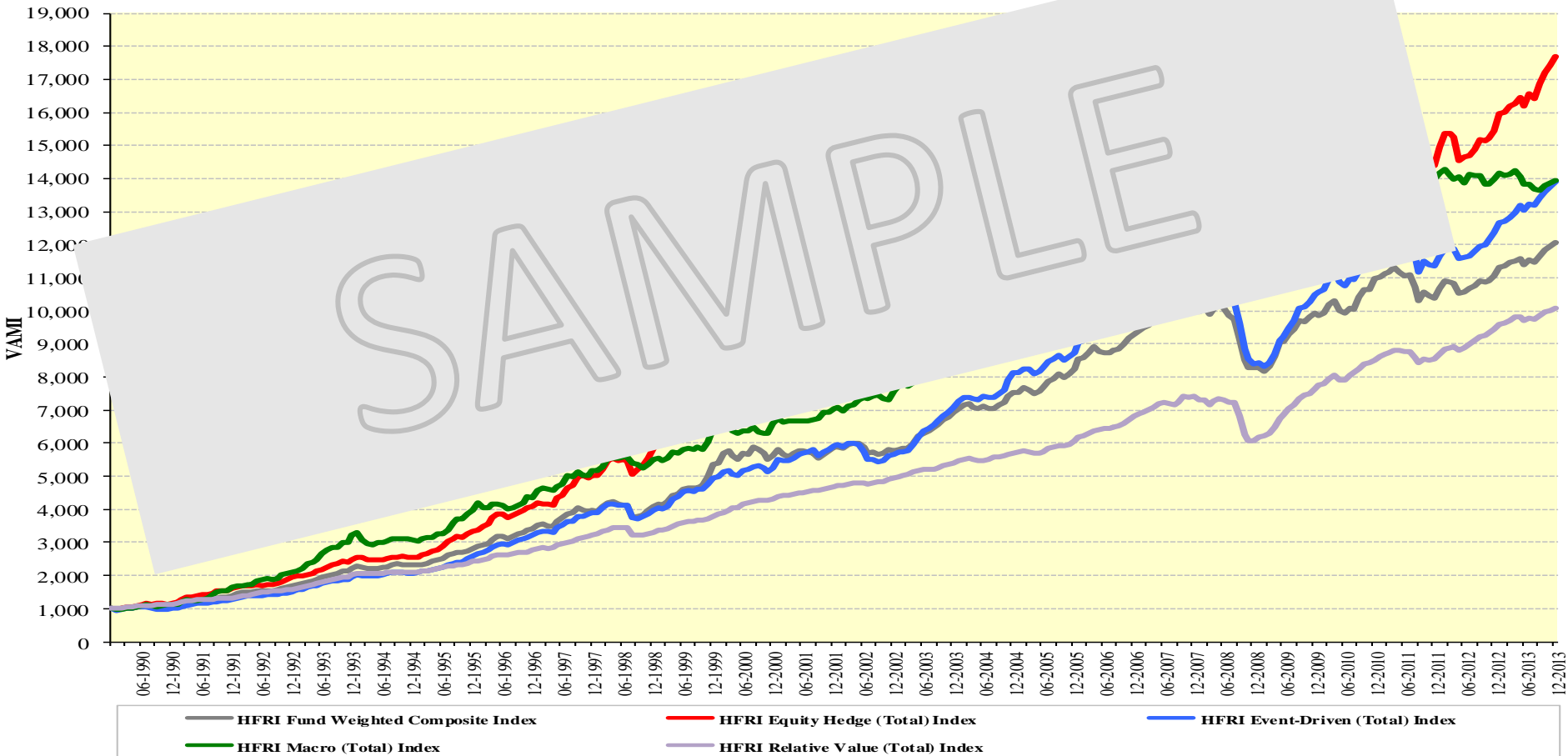


** **NOTE:** Distribution statistics reflect index constituents that were active as of Q4 2013 and reported monthly performance for the entire period*

HFRI Main Strategy Indices

Performance Analysis Since 1990

Index	12-Month		3-Year Annualized		5-Year Annualized		10-Year Annualized		Since 1990	
	Net Return	Standard Dev	Net Return	Standard Dev	Net Return	Standard Dev	Net Return	Standard Dev	Net Return	Standard Dev
HFRI FWC	9.24	3.68	3.25	5.31	7.81	5.88	5.72	6.39	10.94	6.89
HFRI Equity Hedge Index	14.44	4.94	4.04	7.97	9.15	8.45	5.26	8.72	12.71	9.09
HFRI Event-Driven Index	12.48	3.16	5.80	5.37	10.62	5.78	6.99	6.61	11.59	6.75
HFRI Macro Index	(0.22)	3.30	(1.50)	4.04	1.50	4.69	4.25	4.86	6.60	7.47
HFRI Relative Value Index	6.98	2.60	5.82	3.18	10.68	3.81	6.43	5.11	11.11	4.34



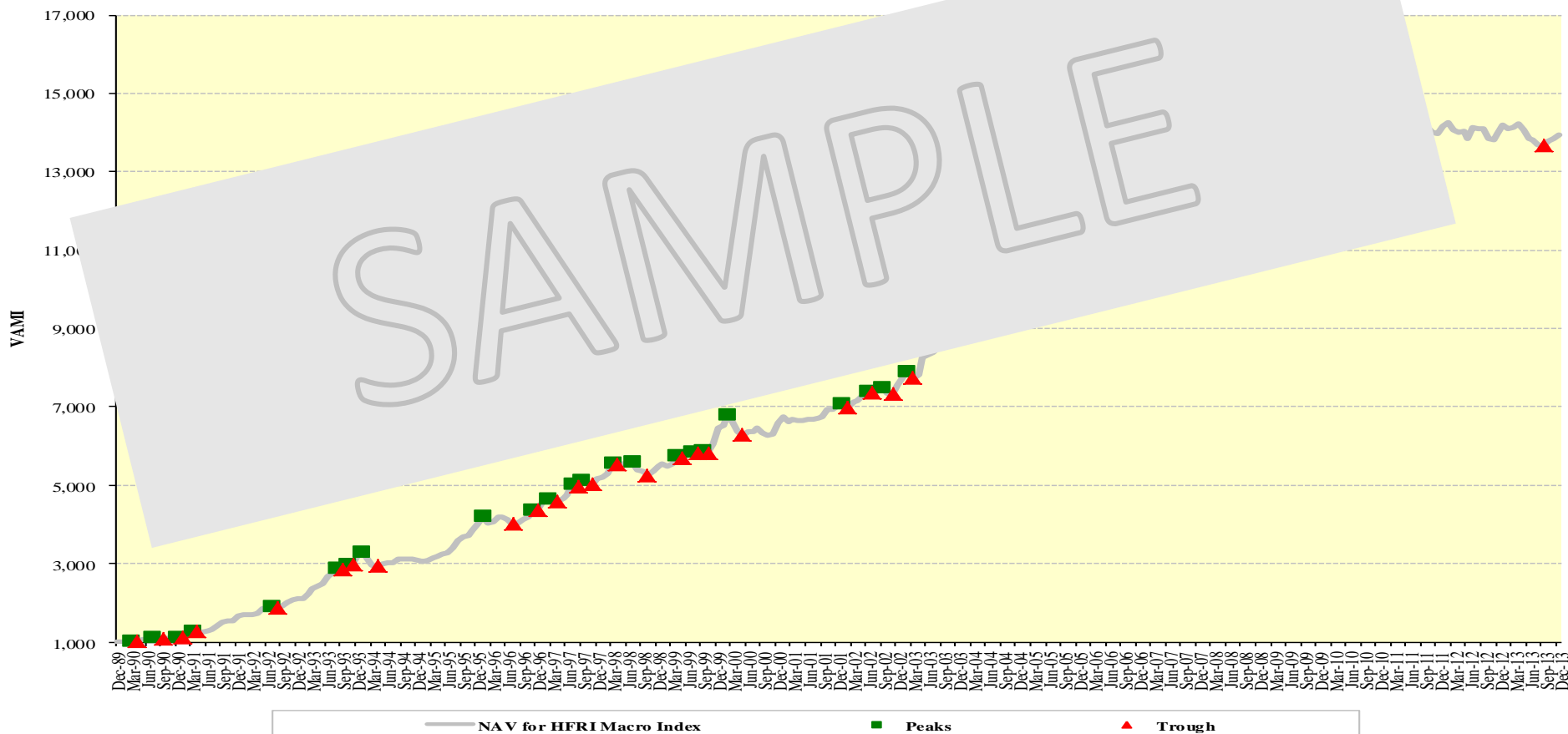
HFRI Macro (Total) Index

Drawdown Analysis since 1990

Start Date of Drawdown Period	# of Months Drawdown to Trough	Date of Trough	Drawdown to trough
Jan-94	3	Apr-94	-10.70%
Apr-11	29	Sep-13	-7.99%
Feb-00	3	May-00	-7.32%
Jul-98	3	Oct-98	-5.93%
Jun-08	3	Sep-08	-4.94%
Jul-90	2	Sep-90	-4.72%

# Months to Recover High Water Mark	End Date of Drawdown Period
18	Jul-95
#N/A	#N/A
20	Oct-01
9	Apr-99
11	May-09
5	

6-month ROR since Trough	12-Month ROR since Trough
5.57%	7.85%
0.10%	0.10%
0.30%	5.99%
	10.79%
	7.66%
	39.75%



HFRI Fund Weighted Composite Index

Percentage of Constituent Funds at High Watermark

2003 – Q4 2013

