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HEDGE FUND ASSETS FALL AS MARKET VOLATILITY SURGES ON PANDEMIC UNCERTAINTY

Industry outflows highest since post-Financial Crisis; HFRI Macro gains in volatile 1Q, while Event Driven posts steep declines; Assets fall below $3 trillion for first time since 2016

CHICAGO, (April 22, 2020) – Total global hedge fund capital fell below $3.0 trillion in 1Q20 for the first time since 3Q 2016, as financial market volatility surged on uncertainty and increased risks driven by the global coronavirus pandemic. Hedge fund capital declined by $366 billion to end the quarter at $2.96 trillion, a steep decline from the prior quarter record of $3.32 trillion, as reported today by HFR®, the established global leader in the indexation, analysis and research of the global hedge fund industry, in the latest release of the *HFR Global Hedge Fund Industry Report*.

Investor outflows totaled an estimated $33 billion in 1Q, approximately 1.0 percent of overall industry capital, the largest quarterly outflow since investors redeemed $42 billion in 2Q09. The 1Q outflow is the 4th largest in industry history, with the three largest outflows occurring from 4Q08 through 2Q09. For perspective, the 1Q20 outflow as a percentage of industry capital was much lower than in 2008, as the 1 percent redemption in 1Q was much lower than the nearly 9 percent of industry capital redeemed in 4Q08, while roughly 16 percent industry capital was redeemed in the one-year period of 3Q08 through 2Q09.

Performance-based asset losses totaled $333 billion in 1Q20, as the HFRI Fund Weighted Composite Index® fell -9.4 percent during the quarter, inclusive of a -7.0 percent decline in March. Performance losses were led by Event-Driven strategies, as the combination of falling equity markets and widening deal spreads drove the HFRI Event-Driven (Total) Index to a 1Q loss of -15.3 percent, of which

-12.75 percent occurred in March. Defensively preserving capital through the volatility spike, the HFRI Macro (Total) Index posted a narrow gain of +0.07 percent for 1Q, including a return of +1.0 percent in March. By way of comparison, the DJIA fell -23.2 percent in 1Q while the Russell 2000 fell -30.9 percent.

Despite leading industry performance, Macro strategies also led capital outflows in 1Q, with investors redeeming $22 billion from Macro, reducing strategy capital to $561 billion. Macro sub-strategy redemptions were led by an estimated outflow of $19 billion from quantitative trend-following CTA strategies, though these were partially offset by investor allocations of $3.8 billion to fundamental Macro Discretionary strategies. Macro performance was led by the HFRI Macro: Currency Index in 1Q, which gained +5.1 percent.

Fixed income-based Relative Value Arbitrage (RVA) strategies also experienced a capital outflow in 1Q, with investors redeeming an estimated $4.6 billion from the category, reducing total strategy capital to $821 billion. Multi-Strategy funds led RVA outflows with a net redemption of $3.5 billion. The HFRI Relative Value (Total) Index declined -7.0 percent in 1Q20, inclusive of a March decline of -6.5 percent.

Equity Hedge (EH) and Event-Driven (ED) strategies also experienced outflows in 1Q, with investors redeeming an estimated $3.8 billion from EH, bringing total industry capital to $835 billion, while redeeming $2.4 billion from ED, reducing strategy capital to $741 billion. EH sub-strategy outflows were led by $2.8 billion in redemptions from Fundamental Growth, while ED outflows were led by $2.8 billion redemption from Multi-strategy funds. Partially offsetting these, an estimated combined $1.5 billion of inflows were allocated to ED: Distressed and Credit Arbitrage funds, while EH: Quantitative Directional saw inflows of $3.2 billion.

Outflows by firm size were concentrated in the industry's largest firms, with an estimated $20.6 billion in capital was redeemed from firms managing greater than $5 billion. Firms managing between $1 and $5 billion experienced outflows of $11.0 billion, while investors redeemed $1.6 billion firms managing less than $1 billion.

"Investors reacted to the unprecedented surge in volatility and uncertainty driven by the global coronavirus pandemic with a historic collapse in investor risk tolerance and the largest capital redemption from the hedge fund industry since post-Financial Crisis," stated Kenneth J. Heinz, President of HFR. "While volatility and market dynamics remain fluid through early 2Q, dislocations created by indiscriminate selling from traditional asset management have created significant opportunities for specialized long/short funds, which are likely to benefit both forward-looking funds and institutional investors in coming quarters."

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