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STRONG HFRI PERFORMANCE POWERS HEDGE FUND CAPITAL TO RECORD IN 1Q21

Third consecutive quarter of capital inflows as investors position for volatility; Event-Driven capital surpasses $1 trillion milestone, joining EH in $1T club; HFR Cryptocurrency Index extends 2020 surge with 120 percent 1Q spike

CHICAGO, (April 21, 2021) – Driven by the strongest start to the year since 2000 and the continuation of investor allocations, hedge fund industry capital extended the year-end surge into 1Q, surpassing multiple milestones of industry growth and expansion. Total hedge fund capital surpassed an estimated $3.8 trillion at quarter-end, an increase of $201 billion from the start of the year, 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*.

Total hedge fund industry capital has spiked by $844 billion in the trailing four quarters, since falling below $3 trillion in 1Q20 as the global pandemic began. Estimated net asset inflows totaled $6.1 billion for 1Q21, bringing total net new inflows since 3Q20 to $22.1 billion.

The HFRI Fund Weighted Composite Index (FWC) gained +6.0 percent in 1Q21, the strongest 1Q since 2000 and the fifth strongest 1Q return since index inception. The investable HFRI 500 Fund Weighted Composite Index advanced +5.0 percent in 1Q21, the best performance since 1Q 2006. Both of these indices topped the +2.8 percent return of the Nasdaq Composite Index in 1Q. In addition, the HFRI 500 FWC Index surged +15.1 percent in the trailing five months, the best 5-month performance since the HFRI 500's inception in 2014.

The HFR Cryptocurrency Index led all hedge fund strategy performance in 1Q21, surging +120 percent for the quarter and following the parabolic 2020 gain of +193 percent.

Event-Driven (ED) strategies, which categorically focus on out of favor, deep value equity and credit positions, and have recently attracted increased interest from retail investors, led both capital and performance strategy gains in 1Q, with total ED capital topping $1 trillion for the first time, joining Equity Hedge above this historic milestone. Total ED capital increased by $85.4 billion in 1Q, bringing total ED capital to $1.05 trillion. ED sub-strategy capital increases were led by Special Situations, which saw $46 billion of performance-based capital gains in the quarter, bringing sub-strategy assets to $483.3 billion. The investable HFRI 500 Event-Driven Index jumped +7.9 percent in 1Q, while the HFRI Event-Driven (Total) Index surged +8.2 percent, led by the HFRI ED: Special Situations Index which increased +10.0 percent.

Having surpassed $1 trillion in the prior quarter, total Equity Hedge (EH) capital extended its growth to reach $1.16 trillion in 1Q, an increase of $62 billion, with investors allocating an estimated $370 million of net new capital to EH in the quarter. Fundamental Value funds received an estimated $2.2 billion of new investor capital in the quarter to increase sub-strategy assets by nearly $50.0 billion, inclusive of strong performance-based gains. The HFRI Equity Hedge (Total) Index jumped +7.1 percent in 1Q, while the investable HFRI 500 Equity Hedge Index gained +5.4 percent, led by the volatile HFRI EH: Energy/Basic Materials Index, which spiked +9.3 percent in the quarter.

Interest rate sensitive, fixed income-based Relative Value Arbitrage (RVA) strategies received the largest strategy inflow of capital in 1Q, with investors allocating an estimated $5.6 billion of new capital to RVA strategies. These inflows, along with strong performance-based gains, increased total RVA capital to $980 billion, an increase of $39 billion for the quarter. RVA Multi-Strategy funds led sub-strategy asset increases, with estimated capital inflows of $4.3 billion combining with strong performance-based asset gains bringing total sub-strategy assets to $573.1 billion. The investable HFRI 500 Relative Value Index gained +3.1 percent in 1Q, while the HFRI Relative Value (Total) Index advanced +3.1 percent for the quarter.

Uncorrelated Macro strategies also experienced asset increases in 1Q, with total Macro capital increasing by $14.4 billion to $618.3 billion, including an estimated $875 million of net new investor capital. Both quantitative and fundamental Macro sub-strategies experienced asset increases for the quarter, with trend-following Systematic Diversified/CTA strategies increasing by an estimated $5.1 billion, while Discretionary Thematic funds gained $4.1 billion. The investable HFRI 500 Macro Index and the HFRI Macro (Total) Index advanced +3.7 and +4.1 percent, respectively, in 1Q, while the HFRI Macro: Active Trading Index led Macro sub-strategy performance in 1Q with a gain of +5.3 percent.

Investor inflows were again led by the industry’s largest firms, with firms managing greater than $5 billion receiving an estimated $5.3 billion of the $6.1 billion total of net new investor capital in 1Q. Mid-sized firms managing between $1 billion and $5 billion experienced a small net outflow of $1.4

billion for the quarter, while firms managing less than $1 billion collectively received estimated inflows of $1.14 billion.

“Hedge funds effectively navigated a volatile trading environment to the strongest 1Q gain in over 20 years, driving inflows and capital increases to a record global capital level of $3.8 trillion. The trading environment was dominated not only by the new US presidential administration, new stimulus measures, developments in vaccine administration and new virus variants, but also intense volatility in cryptocurrencies and associated with a surge in interest in out of favor, heavily shorted, deep value equities from retail investors and trading platforms,” stated Kenneth J. Heinz, President of HFR. “Each of these, as well as evolving macroeconomic and geopolitical dynamics, represent both a risk and an opportunity for specialized hedge funds actively positioning in these areas. Leading institutional investors interested in defensive, opportunistic exposures to each of these are actively working to increase portfolio exposures to leading and innovative hedge funds which have and continue to navigate these rapidly shifting market dynamics.”

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