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HEDGE FUND CAPITAL RISES FOR THIRD CONSECUTIVE QUARTER AS INFLATION, BANK RISKS EASE; TECHNOLOGY, AI SURGE

HFRI 500 Equity Hedge Index leads strategy gains in 1H 2023; Investors allocate over $3 billion in new capital across all strategies; Inflows again concentrated in industry's largest firms

CHICAGO, (July 21, 2023) – Total hedge fund assets increased for the third consecutive quarter in 2Q 2023 as investors allocated new capital to Equity Hedge and Event Driven strategies, and as the Technology sectors surged driven by AI exposures, while banking and inflation risks eased. Hedge funds extended YTD gains through the second quarter, with total global hedge fund capital rising to an estimated $3.95 trillion, a quarterly increase of over $60 billion, 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*. Investors allocated an estimated $3.6 billion in new capital to the hedge fund industry in 2Q23, the second consecutive quarter of net asset inflows, with inflows led by Equity Hedge strategies.

The investable HFRI 500 Fund Weighted Composite Index has gained +2.2 percent YTD through 2Q23, led by directional Equity Hedge and Event Driven strategies, both of which navigated surging risks in 1Q followed by the easing of banking and inflation risks in 2Q, and complemented by the recent surge in Technology and AI exposures.

Equity Hedge (EH) led all main strategies in both capital inflows and performance-based asset gains in 2Q23, driven by Fundamental Value and Technology. Total EH capital increased by an estimated $29.4 billion to end 2Q23 at $1.14 trillion, as strong performance-based gains were complimented by an estimated $2.8 billion of new investor capital in the quarter. EH sub-strategy asset increases were led by Fundamental Value funds, which surged $16.5 billion in 2Q on strong performance and net asset inflows of nearly $2 billion (estimated). The investable HFRI 500 Equity Hedge Index gained +4.3 percent YTD through 2Q to lead all main strategy indices.

Event-Driven (ED) strategies, which categorically focus on out of favor, often heavily shorted, deep value equity and credit positions, experienced an estimated asset increase of $17.4 billion in 2Q, raising total ED capital to $1.07 trillion. ED sub-strategy asset increases were once again concentrated in higher beta Special Situations, which added $6.6 billion in 2Q, as well as Activist strategies, which increased by an estimated $6.3 billion. The investable HFRI 500 Event-Driven Index gained +2.2 percent YTD through 2Q, led by the HFRI 500 ED: Activist Index, which jumped +6.4 percent.

After surging +14.35 percent in 2022, the investable HFRI 500 Macro Index declined -0.9 percent over the first six months of 2023, despite gaining +2.7 percent in 2Q. Total Macro capital recovered from the 1Q asset decline to gain an estimated $14.1 billion in 2Q, bringing total Macro strategy capital to $677.4 billion. Macro sub-strategy asset increases were led by Systematic Diversified CTA strategies, which increased $9.2 billion in 2Q; the investable HFRI 500 Trend Following Index advanced +4.0 percent in 2Q23, bringing YTD 2023 performance to a narrow decline of -0.2 percent.

Hedge fund capital managed by credit- and interest rate-sensitive fixed income-based Relative Value Arbitrage (RVA) strategies increased by an estimated $8.7 billion in 2Q, raising total RV capital to $1.06 trillion. Multi-Strategy funds led RVA asset increases in 2Q23, adding an estimated $6.5 billion of capital to end the quarter at $649 billion. The investable HFRI 500 Relative Value Index gained +1.65 percent in 2Q23, bringing YTD performance to +1.7 percent. RVA sub-strategy performance was led by the investable HFRI 500 RV: Multi-Strategy Index which gained +2.1 percent in 2Q23, bringing the YTD return to +3.15 percent.

Inflows for 2Q were concentrated in the industry's largest firms, as those managing greater than $5 billion experienced an estimated net asset inflow of $6.5 billion. Firms managing between $1 billion and $5 billion saw a small estimated net outflow of $366 million for the quarter, while firms managing less than $1 billion experienced estimated outflows of $2.56 billion.

"Investors allocated new capital to hedge funds in 2Q, extending gains from 1Q despite a total reversal of investor risk tolerance from the risk off dominated environment that concluded 1Q to a strong risk on sentiment, driving performance and attracting investor capital to end the first half of 2023. Hedge funds have navigated this powerful shift in risk tolerance and sentiment, including not only an AI-led surge in Technology exposures, but also a sharp reversal in banking risk and a recent decline in inflation data, presenting a significantly different market paradigm and opportunity set across asset classes than had dominated the prior 18 months," stated Kenneth J. Heinz, President of HFR. "While investor risk tolerance has increased through mid-year, these shifting and evolving macroeconomic and geopolitical trends present new opportunities for performance generation but also potential for dislocations; in particular, expected new banking regulations and capital requirements present a compelling opportunity for hedge funds to expand into areas where increased requirements force regulated banks to pull back from certain specialized lending and trading areas. Once again, strategies which have demonstrated their ability to navigate this shift in risk sentiment and evolving, forward-looking risks are likely to attract capital from leading global financial institutions seeking to opportunistically position their portfolios while also preserving capital, with these driving industry growth into 2H2023."

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