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**Contacts:**


| HFR | Craft & Capital | Hydra Strategy |
|---|---|---|
| Kenneth Heinz | Chris Sullivan | Henrietta Hirst |
| Chicago/312.658.0955 | New York/212.473.4442 | London/+44 (0) 7880 742 375 |
| info@hfr.com @HFRInc @KennethJHeinz | chris@craftandcapital.com | Henrietta.hirst@hydrastrategy.co.uk |


# HEDGE FUND CAPITAL SURPASSES $4 TRILLION MILESTONE DRIVEN BY INFLATION, GEOPOLITICAL VOLATILITY

***HFRI Institutional Equity Hedge Index leads YTD strategy gains through 3Q; Investors allocate over $2 billion in new capital across all strategies; Inflows again concentrated in industry's largest firms***

CHICAGO, (October 23, 2023) – Hedge fund capital surpassed the $4 trillion milestone to begin the fourth quarter, with increases driven by macroeconomic uncertainty, including sharply increased interest rates, continued inflationary pressures and economic weakness, as well as geopolitical uncertainty, including military conflicts in Russia/Ukraine and the Middle East. Total hedge fund assets increased for the fourth consecutive quarter in 3Q 2023 as investors allocated new capital to Event Driven and Relative Value Arbitrage strategies, while paring allocations to Equity Hedge strategies. Hedge funds extended YTD gains through the volatile third quarter, with total global hedge fund capital rising to an estimated $4.0 trillion, a quarterly increase of nearly $53 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 $2.3 billion in new capital to the hedge fund industry in 3Q23, the third consecutive quarter of net asset inflows, with inflows led by Event Driven strategies.

The investable HFRI Institutional Fund Weighted Composite Index gained +4.0 percent YTD through 3Q23, led by directional Equity Hedge and Event Driven strategies, both of which navigated surging both positive contributions from Technology/AI as well as volatility associated with inflation and rising geopolitical risks in 2023; the HFRI Fund Weighted Composite Index advanced +3.9 percent through the first nine months of the year.

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 nearly $25 billion in 3Q, raising total ED capital to $1.096 trillion. ED sub-strategy asset increases were once again concentrated in higher beta Special Situations, which added $17.6 billion in 3Q, as well as Distressed strategies, which increased by an estimated $3.6 billion. The investable HFRI Institutional Event-Driven Index gained +4.9 percent YTD through 3Q, while the HFRI ED: Activist Index surged +7.4 percent through the first nine months of the year.

Hedge fund capital managed by credit- and interest rate-sensitive fixed income-based Relative Value Arbitrage (RVA) strategies increased as interest rates continued the historic rise, increasing by an estimated $17.5 billion in 3Q, raising total RV capital to $1.08 trillion. Multi-Strategy funds led RVA asset increases in 3Q23, adding an estimated $12.5 billion of capital to end the quarter at $661 billion. The investable HFRI Institutional Relative Value Index gained +4.7 percent through 3Q23 with RVA sub-strategy performance led by the HFRI RV: FI-Asset Backed Index and the HFRI RV: FI-Corporate Index, both of which advanced +5.0 percent through September 2023.

After posting a narrow decline in 1H23, the HFRI Macro (Total) Index gained +1.4 percent in the volatile 3Q, extending gains from 2Q. Total Macro capital recovered from the early 2023 asset declines to increase by an estimated $15.5 billion in 3Q, bringing total Macro strategy capital to $693 billion. Macro sub-strategy asset increases were led by Systematic Diversified CTA strategies, which increased by an estimated $8.2 billion in 3Q; the HFRI Macro: Active Trading Index leads Macro sub-strategy performance YTD, advancing +4.6 percent through 3Q23.

Capital managed by Equity Hedge (EH) strategies posted a narrow decline in 3Q23 on increasing equity market volatility, with declines across both Fundamental Growth and Value strategies. Total EH capital decreased by an estimated $5.1 billion to end 3Q23 at $1.13 trillion. EH sub-strategy asset decreases were led by Fundamental Value funds, which declined $3.7 billion in 3Q, while Fundamental Growth strategies declined by an estimated $3.1 billion. The investable HFRI Institutional Equity Hedge Index leads all strategy indices YTD for 2023 with a gain of +6.1 percent.

Inflows for 3Q were concentrated in both mid-sized and the industry's largest firms, with firms managing between $1 and $5 billion in capital receiving an estimated $2.9 billion in net investor inflows while those managing greater than $5 billion experienced an estimated net asset inflow of $2.2 billion; YTD for 2023 these firm AUM tiers have received an estimated net $3.8 billion and $16.1 billion, respectively. Firms managing less than $1 billion experienced estimated outflows of $2.8 billion for 3Q and $5.0 billion YTD.

"Total hedge fund capital surpassed the $4 trillion milestone again to conclude 3Q, a milestone initially surpassed in 4Q 2021 before capital declined in 2022, as a volatile combination of macroeconomic and geopolitical risks drove industry performance and investor allocations through a risk off market cycle. Hedge funds have again navigated a powerful shift and negative reversal in risk tolerance and sentiment, as positive correlation between equities and bonds rose sharply throughout 3Q, presenting risks to classic, traditional long-biased strategies, as well as opportunities for funds tactically positioned for these trends," stated Kenneth J. Heinz, President of HFR. "Investor sentiment recently has been driven by macroeconomic and geopolitical risks, with focus not only on inflation and interest rates, but military conflict, including both supply chain and political impacts of these volatile, fluid situations. Once again, strategies which have demonstrated their ability to navigate this latest 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 2024."

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