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HEDGE FUND CAPITAL SURGES TO RECORD AS INFLATION RISK FALLS, GEOPOLITICAL RISK RISES

***HFRI Equity Hedge Index edges Event-Driven for top strategy in 2023;
Activist, Special Situations lead sub-strategy gains on expectations for M&A;
Investors position for geopolitical risk and strong 2024, reduce uncorrelated Macro***

CHICAGO, (January 22, 2024) – Hedge fund capital surged beyond the historic \$4 trillion milestone to begin 2024, with investors remaining focused on inflation, higher interest rates, and macroeconomic uncertainty, but increasingly much more focused on uncertain geopolitical risk and acceleration in M&A.

Total hedge fund assets increased for the fifth consecutive quarter in 4Q 2023, rising to an estimated \$4.11 trillion, representing a quarterly increase of over \$112 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*. The growth in hedge fund capital was driven by strong 4Q performance-based gains and net of a \$24.5 billion net outflow in 4Q as investors reduced exposure to uncorrelated Macro strategies.

The HFRI Fund Weighted Composite Index® advanced +7.6 percent in 2023, led by directional Equity Hedge and Event-Driven strategies, with gains driven by exposure to Technology/AI, as well late year acceleration in M&A, both of which are likely to extend through early 2024. The HFR Cryptocurrency Index surged +37.8 percent in 4Q, increasing its FY 2023 return to +65.2 percent.

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 \$62.3 billion in 4Q, raising total ED capital to a record \$1.158 trillion. ED sub-strategy asset increases were once again concentrated in higher beta Special Situations and Shareholder Activist strategies, with these increasing

by \$30.5 and \$16.8 billion, respectively in 4Q23. For the FY 2023, total ED capital increased by an estimated \$123.1 billion, inclusive of a modest \$540 million net asset inflow for the year; the HFRI Event-Driven (Total) Index gained +10.4 percent in 2023, led by the HFRI ED: Activist Index, which surged +18.1 percent.

Capital managed by Equity Hedge (EH) strategies also surged in 4Q23 and was the leading area of strategy performance in 2023, with total EH capital rising by an estimated \$49.6 billion to end the year at \$1.181 trillion. EH sub-strategy asset increases were led by Fundamental Value funds in 4Q, which increased by an estimated \$33.0 billion for the quarter, bringing total EH: Fundamental Value capital to \$670 billion. The HFRI Equity Hedge (Total) Index lead all strategy indices for 2023 with a gain of +10.54 percent, as total EH capital increased by an estimated \$107 billion in 2023, despite a small investor outflow of \$2.3 billion.

Hedge fund capital managed by credit- and interest rate-sensitive fixed income-based Relative Value Arbitrage (RVA) strategies also increased in 4Q as interest rates increases leveled off during the quarter, following the historic pace of increases over the past two years, with RVA capital increasing by an estimated \$22.9 billion in 4Q, raising total RV capital to an estimated \$1.10 trillion. Multi-Strategy funds led RVA asset increases in 4Q23, adding an estimated \$13.6 billion of capital to end the quarter at \$675 billion. The HFRI Relative Value (Total) Index gained +7.0 percent for 2023 with RVA sub-strategy performance led by the HFRI RV: FI-Sovereign Index, which advanced +9.5 percent for the year; total RVA capital increased by an estimated \$62 billion in 2023 despite investor capital flows essentially flat for the year.

Uncorrelated Macro strategies posted a narrow decline in 2023, with the HFRI Macro (Total) Index falling -0.6 percent for the year, with mixed performance across fundamental and quantitative strategies. Total Macro capital declined by an estimated \$22.4 billion in 4Q, inclusive of net asset outflows of \$12.2 billion for the quarter, reducing total Macro strategy capital to \$670.5 billion. Macro sub-strategy asset decreases were led by quantitative, trend-following Systematic Diversified CTA strategies, which decreased by an estimated \$16.6 billion in 4Q. Divergent 2023 Macro sub-strategy performance was led by the fundamental HFRI Macro: Discretionary Thematic Index, which gained +4.8 percent for the year, while declines were led by the HFRI Macro: Systematic Diversified Index, which fell -3.9 percent. Total Macro capital declined by an estimated \$7.1 billion in 2023, inclusive of net asset outflows of \$7.9 billion for the year.

Reflective of the general financial market volatility that characterized 2023, capital flows for 2023 were unfavorable to the industry's smallest funds, with Firms managing less than \$1 billion experiencing estimated net outflows of \$10.2 billion for the year. Mid-sized firms managing between \$1

and \$5 billion experienced a smaller outflow of \$2.0 billion for 2023, while the industry's largest firms managing greater than \$5 billion received an estimated net inflow of \$2.7 billion in 2023.

“Total hedge fund capital surged to a record well above the historic \$4 trillion milestone to conclude 2023 as investor allocations shifted focus to accelerating geopolitical risks and building M&A opportunities, while remaining concerned about the same volatile inflation, interest rates and macroeconomic considerations which have dominated the past two years. Managers navigated a volatile mix of market cycles and risk paradigms in 2023, including not only rising/falling inflation and interest rates, but surging/receding bank risks, powerful technology and AI trends, and accelerating M&A opportunities into year-end,” stated Kenneth J. Heinz, President of HFR. “Oscillating between fluid and shifting risk-on and risk-off micro-cycles throughout 2023, the year ended on a powerful risk-on cycle, with leadership from directional Equity Hedge and Event-Driven strategies, with investors reducing allocations to uncorrelated Macro strategies. Despite the strong conclusion to 2023 and cyclically receding inflation and macroeconomic risks, geopolitical risks remain extremely high, not only as pertaining to ongoing and potential military conflicts and foreign policy questions, but also relating to the political election cycle in the US, which has the potential to increase uncertainty and increased possibility for financial market dislocations associated with policy shifts. Investors are likely to remain focused on strategies which have demonstrated their ability to navigate the shifting volatility, not only in 2023 but over the tumultuous past four years, with a keen sensitivity to geopolitical risks, M&A opportunities, and defensive capital preservation in 2024.”

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