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HEDGE FUND CAPITAL RISES FOR SECOND CONSECUTIVE QUARTER AS BANK, ECONOMIC RISKS SURGE

HFRI 500 Equity Hedge Index leads industry through volatile first quarter; Investors allocate over $9 billion in new capital across all strategies; Inflows concentrated in industry's largest firms

CHICAGO, (April 21, 2023) – Total hedge fund capital increased for the second consecutive quarter as investors allocated new capital while key banking and financial risks surged and the risk of recession increased.

Hedge funds gained through the volatile first quarter, as these risks complemented the ongoing macroeconomic risks associated with generational inflation, sharp increases in interest rates, and elevated geopolitical risk. Total global hedge fund capital rose to $3.88 trillion, a quarterly increase of over $50 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 $9.1 billion in new capital to the hedge fund industry in 1Q 2023, the first quarter of net asset inflows since 1Q 2022.

The investable HFRI 500 Fund Weighted Composite Index gained in +0.52 percent in 1Q23, led by directional Equity Hedge and Event Driven strategies, both of which navigated a complex and dynamic environment of soaring bank risk including the collapses of Silicon Valley Bank and Signature Bank, generalized weakness in regional banks, and the government-facilitated acquisition of Credit Suisse by UBS.

Directional Equity Hedge (EH) strategies led both capital inflows and total strategy asset increases in 1Q23 performance, as tactical positioning through the March surge in risk, as well as underlying strength in Technology drove gains. Total Equity Hedge capital increased by an estimated $33 billion to end 1Q23 at $1.11 trillion, driven by strong performance-based gains and an estimated net asset inflow of $3.3 billion. EH sub-strategy asset increases were driven by Fundamental Value funds, which added $21.9 billion in 1Q on strong performance and an estimated net asset inflow of $3.1 billion. The investable HFRI 500 Equity Hedge Index gained +2.9 percent in 1Q, leading all strategy indices for the quarter.

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 $18.4 billion in 1Q, raising total ED capital to $1.054 trillion. ED effectively navigated not only the surge in bank risk but volatile swings in interest rates as well as an extreme dislocation and repricing of AT1 bonds associated with the government facilitated acquisition of Credit Suisse by UBS. ED sub-strategy asset increases were concentrated in higher beta ED: Special Situations, which added $4.8 billion in 1Q, as well as Activist strategies, which increased by $7.5 billion. The investable HFRI 500 Event-Driven Index gained +1.1 percent in 1Q, while the HFRI Event-Driven (Total) Index added +1.72 percent for the quarter.

Hedge fund capital managed by credit- and interest rate-sensitive fixed income-based Relative Value Arbitrage (RVA) strategies increased by $12.9 billion in 1Q, raising total RV capital to $1.05 trillion. RVA managers navigated sharp increases in interest rates, a volatile flight to quality, and a significant reversal of expectations for the path of interest rate increases for 2023. RVA: Multi-Strategy funds led sub-strategy asset increases in 1Q23, adding an estimated $8.6 billion of capital to end the quarter at $643 billion. The investable HFRI 400 (US) Relative Value Index gained +1.0 percent in 1Q23, led by the HFRI 400 (US) RV: Multi-Strategy Index, which advanced +1.55 percent for the quarter, while the HFRI Relative Value (Total) Index added +1.2 percent in 1Q.

After surging +14.35 percent in 2022, the HFRI 500 Macro Index fell -3.5 percent in 1Q23, with negative contributions from Quantitative, Trend-Following CTA strategies, as well as weakness in short fixed income positions. Performance-based losses more than offset an estimated net asset inflow of $3.4 billion to Macro funds in 1Q, as total Macro capital declined by $14.3 billion to end 1Q at $663.3 billion. Macro sub-strategy asset declines were driven by Systematic Diversified CTA strategies, which fell $7.1 billion on performance-based losses to end the quarter with an estimated $320.1 billion AUM; the investable HFRI 500 Trend Following Index fell -4.2 percent in 1Q23.

Inflows for 1Q were distributed across firms of all asset sizes, with the industry's largest firms, those managing greater than $5 billion, experiencing an estimated net asset inflow of $7.4 billion. Firms managing between $1 billion and $5 billion saw an estimated net inflow of $1.3 billion for quarter, while investors allocated an estimated $330 million to firms managing less than $1 billion in 1Q.

"Investors allocated new capital to hedge funds in 1Q as bank and financial risk surged, the likelihood of an economic recession increased while the ongoing macroeconomic risks associated with generational inflation and geopolitical risks associated with the ongoing conflict in Ukraine and currency/global trade evolved and remained fluid. Led by directional strategies, the industry navigated this complex cycle of disruption and dislocation to preserve capital and generate positive performance for the quarter," stated Kenneth J. Heinz, President of HFR. "Industry performance was driven by a volatile combination of evolving risks from 2022 as well as new unpredictable risks surging in 1Q23, with managers navigating dislocations in bank stocks and AT1 bonds, while also managing a significant reversal of expectations for interest rates in 2023. Strategies which have demonstrated their ability to navigate the current extreme market volatility are likely to attract capital from leading global financial institutions seeking to opportunistically position their portfolios while also preserving capital, with these driving industry capital growth into mid-2023."

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