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INFLOWS DRIVE HEDGE FUND CAPITAL TO MILESTONE

Investors return to hedge funds after six quarters of outflows; HFRI FWC Index surges to record level

CHICAGO, (July 20, 2017) – Hedge fund industry capital increased to a fourth consecutive quarterly record in 2Q17, as investor allocations outweighed redemptions for the first time since 3Q15. Total hedge fund capital rose to $3.1 trillion, a quarterly increase of $34.1 billion, driven by net inflows of $6.7 billion, as reported today by HFR®, the established global leader in the indexation, analysis and research of the global hedge fund industry. The 2Q inflows offset an outflow of $5.5 billion in 1Q17, bringing YTD net inflows to $1.2 billion.

The HFRI Fund Weighted Composite Index® (FWC) posted its eighth consecutive monthly gain and fifteenth gain in the past 16 months to conclude 2Q17, the longest such performance streak since the period ending April 2004. The Index Value has increased to a record of 13,420, the seventh consecutive monthly record. The HFRI FWC Index climbed +3.6 percent in 1H17, led by the HFRI Equity Hedge (Total) Index, which returned +6.1 percent.

Investor inflows were led by quantitative, trend-following Global Macro strategies, which typically exhibit low correlation to equity markets and other hedge fund strategies, and trade globally across fixed income, equities, commodities and currencies. Investors allocated $5.2 billion to Macro strategies in 2Q17, bringing the 1H17 inflows to $6.0 billion and total capital in Macro to $579.2 billion. Macro sub-strategy inflows were led by Systematic Diversified/CTA strategies, which received $3.1 billion in new capital, bringing the 1H17 net inflow to $7.9

billion. The HFRI Macro Index (Asset Weighted) posted a narrow gain of +0.04 percent for 1H17, though the HFRI Macro: Currency Index jumped +6.7 percent in the first six months of 2017.

Equity Hedge (EH) strategies received net inflows of $3.8 billion in 2Q17, bringing total EH capital to $893.8 billion, the largest strategy area of industry capital. Investor inflows into EH sub-strategies were led by Multi-Strategy and Quantitative Directional, which received $5.0 and $2.1 billion, respectively, extending 1H17 inflows to $5.3 and $3.9 billion. These were partially offset by strategic rotation out of Fundamental EH sub-strategies, with Fundamental Value and Growth experiencing outflows of $2.8 billion and $800 million, respectively, bringing 1H17 outflows to $5.6 and $4.5 billion.

Investors also allocated to fixed income-based Relative Value Arbitrage (RVA) strategies, with these receiving $1.6 billion of net new capital in 2Q17, partially offsetting the $5.4 billion outflow in 1Q17. RVA sub-strategy inflows were led by Fixed Income Corporate and Asset Backed, which saw inflows of $1.8 and $1.5 billion, respectively. These offset an outflow of $2.6 billion in RVA Multi-Strategy, bringing total capital invested in RVA strategies to $827 billion, the industry's second largest area of capital. The HFRI Relative Value (Total) Index gained +2.7 percent in 1H17, and has posted 16 consecutive monthly performance gains.

Event-Driven (ED) strategies experienced an outflow of $3.8 billion in 2Q, offsetting an inflow of $3.5 billion from 1Q17, and bringing total ED capital to $800 billion. ED sub-strategy outflows were led by Special Situations, which experienced a net redemption of $2.2 billion; small outflows across other ED sub-strategies were only partially offset by a minor net inflow into Merger Arbitrage. The HFRI Event-Driven (Total) Index gained +4.1 percent in 1H17, although the HFRI Event-Driven Index (Asset Weighted) posted a slightly higher gain of +4.9 percent for the period.

Capital flows by firm size were led by the industry's largest firms for the first time since 4Q15, with firms managing greater than $5 billion receiving inflows of $4.3 billion, partially offsetting the 1Q17 outflow of $5.7 billion.

"Investors increased their allocations to hedge funds in 2Q for the first time in six quarters, with a strategic emphasis on non-directional and equity beta-reducing exposures, credit and multi-strategy sectors that offer protection against rising rates, and larger, well-established fund managers," stated Kenneth J. Heinz, President of HFR. "While the capital raising environment has improved, it remains challenging with low implied and realized volatility creating a performance-moderating headwind for managers. Allocation trends reflect the forward-looking nature of investors, focusing on quantitative and trend-following strategies, despite these not being top performing areas, as well as on equity and fixed income beta-reducing exposures. It is likely that funds which have and continue to navigate this low volatility environment, and which tactically position for surprise surges in volatility, will lead industry growth in 2H17."

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