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HEDGE FUND CAPITAL SURGES TO RECORD LEVEL TO START 2021

HFRI gains drive largest quarterly asset increase in industry history; Total industry capital, Equity Hedge reach milestones

HFR Cryptocurrency Index skyrockets +193 percent in 2020

CHICAGO, (January 19, 2021) – Hedge fund industry capital surged to conclude a volatile 2020 as strong performance gains drove hedge fund assets globally, and in particular Equity Hedge strategies, to significant new milestones.

Total hedge fund capital jumped to $3.6 trillion as of year-end, a quarterly increase of $290 billion, representing the largest asset growth in industry history, as reported today by HFR®, the established global leader in the indexation, analysis and research of the global hedge fund industry. Estimated net asset inflows totaled $3.0 billion, bringing total inflows for 2H20 to $16.0 billion.

Strong Performance Across Strategies and HFR Benchmarks

The investable HFRI 500 Fund Weighted Composite Index vaulted +9.0 percent in 4Q, extending the 3Q gains and recovering from the early 2020 decline to bring calendar year performance to +10.0 percent. The annual return tops the Dow Jones Industrial Average (DJIA) by nearly 275 basis points (bps) and exceeds the FTSE 100 by over 2400 bps. The HFRI Fund Weighted Composite Index®, HFR's proxy for the global hedge fund industry, also surged +10.7 percent in 4Q, extending 3Q gains and recovering from the early 2020 decline to bring 2020 performance to +11.6 percent. The HFRI FWC Index annual return tops DJIA by over 400 bps and exceeds the FTSE 100 by approximately 2600 bps.

The HFR Cryptocurrency Index led all hedge fund strategy performance in 2020, posting a momentous gain of +193 percent.

Equity Hedge (EH) led strategy-level asset increases in 4Q, as total EH capital vaulted an estimated $121 billion from the prior quarter to reach $1.10 trillion, the first of the four major hedge fund strategy categories to surpass the $1 trillion milestone.

Investors allocated an estimated $1.7 billion of net new capital to EH in 4Q. Fundamental Value funds received approximately $4.0 billion of new investor capital in the quarter to help drive the sub-strategy assets by $80 billion, inclusive of strong performance-based gains. The investable HFRI 500 Equity Hedge Index gained +12.4 percent in 4Q, extending the calendar year return to +15.4 percent, while the HFRI Equity Hedge (Total) Index jumped +14.4 percent for the quarter and +17.4 percent for the year. Among other sub-strategies, the HFRI EH: Technology Index surged +28.3 percent for 2020, topped only by the volatile HFRI EH: Energy/Basic Materials Index, which vaulted +33.0 percent on the year.

Total capital invested in Event-Driven (ED) strategies also increased in 4Q20, with investors allocating an estimated $2.94 billion of new capital, as strategy assets surged by $106.5 billion to end the year at $961 billion, surpassing Relative Value Arbitrage (RVA) as the industry's second largest area of strategy capital. ED sub-strategy inflows were led by Special Situations, which received an estimated $4.2 billion of net new capital in the quarter, bringing sub-strategy assets to $436 billion. The HFRI 500 Event-Driven Index gained +11.1 percent in 4Q to bring calendar 2020 performance to +7.5 percent, while the HFRI Event-Driven (Total) Index advanced +11.3 percent, increasing the 2020 gain to +8.8 percent.

Uncorrelated Macro strategies also experienced small asset inflows in 4Q, as investors continued to position for macroeconomic uncertainty and powerful trends across global financial markets. Investors allocated an estimated $185 million of net new capital to Macro strategies for the quarter to help total Macro assets climb to $604 billion as of year-end, an increase of $24.8 billion from the prior quarter. Currency strategies led Macro sub-strategy inflows with an estimated $1.6 billion of net investor allocations for the quarter, while sub-strategy total asset increases were led by quantitative, trend-following Systematic Diversified/CTA strategies, which jumped by $14.9 billion, driven by strong performance-based gains, to bring year-end CTA capital to $285 billion. The investable HFRI 500 Macro Index and the HFRI Macro (Total) Index advanced +4.4 and +4.8 percent, respectively, in 4Q, while the HFRI 500 Macro: Discretionary Thematic Index led Macro sub-strategy performance for 2020 with a +9.8 percent return.

Fixed income-based Relative Value Arbitrage (RVA) strategies experienced a narrow outflow of capital in 4Q, though total strategy assets increased as a result of strong performance. Investors redeemed an estimated $1.8 billion from RVA in the quarter, though strategy assets increased by $38.1 billion, driven by performance-based gains, to bring year-end RVA capital to $941 billion. RVA Multi-Strategy funds led sub-strategy asset increases, as capital rose by $18.8 billion from the prior quarter to finish the year at $550.7 billion. The HFRI 500 Relative Value Index gained +4.3 percent in 4Q, while the HFRI Relative Value (Total) Index advanced +5.6 percent for the quarter.

Investor inflows were led by the industry's largest firms, with firms managing greater than $5 billion receiving an estimated $4.8 billion of net new capital in the quarter. Mid-sized firms managing between $1 billion and $5 billion experienced a small net outflow of $436 million, while firms managing less than $1 billion experienced outflows of $1.3 billion.

"Investors allocated new capital to hedge funds in 4Q as a result of both defensive outperformance through the coronavirus-driven volatility in early 2020, as well as opportunistic gains through the uneven financial market recovery in the second and third quarters," stated Kenneth J. Heinz, President of HFR. "Institutions globally are making forward-looking allocations to hedge funds, anticipating and positioning for the near-term uncertainty of the virus containment, as well as intermediate-term macroeconomic uncertainties of the US, European and Asian economies into 2021. Hedge fund strategies which have demonstrated powerful, opportunistic and uncorrelated performance throughout 2020 are likely to lead continued industry growth into 2021."

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