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HEDGE FUND ASSETS FALL IN VOLATILE FIRST QUARTER

Event Driven leads strategy outflows as deal uncertainty rises; Largest total industry outflow since 2009 includes manager returns of capital, family office conversions

CHICAGO, (April 20, 2016) – Hedge fund capital declined in 1Q16, as volatile markets and early quarter performance resulted in falling investor risk tolerance and led to redemptions from underperforming strategies, according to the latest *HFR Global Hedge Fund Industry Report*, released today by HFR®, the established global leader in the indexation, analysis and research of the global hedge fund industry. Total global hedge fund capital declined to $2.86 trillion, including investor outflows of $15.1 billion marking not only the largest quarterly outflow since 2Q09, but also the first consecutive quarters of outflows since 2009.

The HFRI Fund Weighted Composite Index® posted a decline of -0.67 percent in 1Q16, despite paring the January decline of -2.6 percent with the March gain of +2.0 percent. First quarter performance was led by quantitative Macro and trend-following CTA strategies, with the HFRI Macro Index gaining +1.4 percent, while the HFRI Macro: Systematic Diversified Index advanced +2.7 percent. Despite these performance-based gains, total hedge fund capital in Macro strategies declined to $548 billion, inclusive of a net investor outflow of $7.3 billion. Discretionary Thematic funds suffered the largest asset outflow of Macro sub-strategies, while Active Trading experienced a partially offsetting capital inflow.

Event Driven (ED) strategies also experienced a net outflow in 1Q16, led by Activist and Special Situations sub-strategies. Investors withdrew $8.3 billion from all ED strategies, reducing total ED capital to $729 billion. More than half of the ED outflow was from Activist strategies ($4.3 billion), while Merger Arbitrage funds received a net inflow of over $400 million. The HFRI Event Driven Index was flat for 1Q16, recovering a steep January decline of -3.2 percent with a sharp gain of +3.8 percent in March. The HFRI ED: Activist Index declined -1.4 percent for 1Q16, while the HFRI Merger Arbitrage Index gained +1.3 percent.

Fixed income-based Relative Value Arbitrage (RVA) strategies experienced an inflow of investor capital in 1Q16, led by allocations to credit multi-strategy funds. Investors allocated $5.3 billion in new assets to RVA, bringing total RVA capital globally to $772 billion; sub-strategy inflows were led by RVA: Multi-Strategy funds, which received $3.8 billion in new capital, the leading sub-strategy industry wide. The HFRI Relative Value Index declined -0.5 percent in 1Q16, despite ending the quarter with a March gain of +1.7 percent.

Investors withdrew $4.7 billion from Equity Hedge (EH) funds in 1Q16, bringing total assets in EH to $806.5 billion, the largest strategy area of industry capital. Sub-strategy outflows of $5.7 billion from Fundamental Value were only partially offset by inflows of $2.6 billion in Equity Market Neutral. The HFRI Equity Hedge Index declined -1.7 percent in 1Q16, partially recovering the sharp January decline of -4.5 percent with a March gain of +3.4 percent.

Capital outflows were concentrated in the industry's largest firms in the first quarter, as firms with more than $5 billion AUM, which collectively manage 68.3 percent of all industry capital, experienced net outflows of $10.7 billion; this includes manager-initiated returns of investor capital and private family office conversions. Firms managing between $1- 5 billion experienced net outflows of $3.6 billion, while firms managing less than $250 million recorded net inflows of $730 million.

"The hedge fund industry began 2016 with a fractional decline as widely-anticipated asset outflows associated with manager-initiated return of investor capital and private family office conversions were only partially offset by new investor allocations in 1Q," stated Kenneth J. Heinz, President of HFR. "The volatile performance environment continues to be dominated by intense dislocations, sharp reversals and rapidly shifting correlations across assets, with the recent realized volatility resulting in an improved opportunity set and wider arbitrage deal spreads. These are likely to contribute to performance gains as investor capital is re-allocated into funds and strategies positioned for this environment through mid-year."

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HFR (Hedge Fund Research, Inc.) is the global leader in the alternative investment industry, specializing in the indexation and analysis of hedge funds. Established in 1992, HFR produces the HFRI, HFRX and HFRU Indices, the industry's most widely used benchmarks of global hedge fund performance. HFR calculates over 100 indices of hedge fund performance ranging from industry-aggregate levels down to specific, niche areas of sub-strategy and regional investment focus. HFR Database, a comprehensive resource available for hedge fund investors, includes fund-level detail on historical performance and assets, as well as firm characteristics on both the broadest and most influential hedge fund managers. HFR has developed a detailed fund classification system, enabling granular and specific queries for relative performance measurement, peer group analysis and benchmarking. The HFR suite of analysis products leverages HFR Database to provide detailed, current, comprehensive and relevant aggregate reference points on all facets of the hedge fund industry. HFR also offers consulting services for clients seeking customized top-level or more sophisticated analysis. For the hedge fund industry's leading investors and hedge fund managers, **Hedge Fund Research is The Institutional Standard.**

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