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GLOBAL HEDGE FUND CAPITAL SURPASSES HISTORIC MILESTONE TO BEGIN 2022

Event-Driven, Equity Hedge lead performance and capital levels; Managers, investors position for inflation, interest rate increases; Full-year net inflows to smallest firms nearly match inflows to largest firms

CHICAGO, (January 20, 2022) – Total hedge fund industry capital rose to surpass the $4 trillion milestone to begin 2022, with managers navigating a volatile 4Q21 driven by another wave of coronavirus variant, as well as rising interest rates and increased expectations for additional increases in 2022, as the US Federal Reserve reduces stimulus bond buying with inflationary pressures reaching the highest level in nearly 40 years. Total hedge fund capital rose increased to an estimated $4.01 trillion to begin 2022, representing an increase of over $400 billion from the start of 2021, 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*. As reported previously, total hedge fund industry capital has soared by over $1 trillion in the trailing seven quarters since falling below $3 trillion in 1Q20 as the global pandemic began.

The HFRI Fund Weighted Composite Index (FWC) posted a gain of +0.5 percent for 4Q21, bringing the FY 2021 performance to +10.3 percent. The 2021 gain trails only the prior two years as the strongest years of performance since 2009. The investable HFRI 500 Fund Weighted Composite Index gained +9.9 percent for the full-year 2021

Event-Driven (ED) strategies, which categorically focus on out of favor, often heavily-shorted, deep value equity and credit positions, extended asset increases through year end, with capital rising over $155 billion in FY 2021 to surpass $1.115 trillion, trailing only Equity Hedge as the largest strategy area of capital. ED sub-strategy capital increases were led by Special Situations and Activist funds in 4Q21, which together increased nearly $22.0 billion in the quarter, with total capital in Special Situations rising to nearly $510 billion. The investable HFRI 500 Event-Driven Index rose +2.1 percent in 4Q and +14.5 percent for 2021, the leading area of strategy performance; ED sub-strategy performance was led by the HFRI 500 ED: Activist Index which surged +20.3 percent in 2021.

Total capital invested in Equity Hedge (EH) strategies experienced an increase of over $133 billion for 2021, bringing total EH capital to a record $1.227 trillion to begin 2022, as managers navigated intense volatility and rapidly evolving market cycles driven by coronavirus, accelerating inflation and rising interest rates. EH sub-strategy net asset inflows for 2021 were led by Fundamental Value and Equity Market Neutral, with these receiving estimated net allocations of $5.2 and $2.1 billion, respectively, which were offset by outflows in Quantitative Direction strategies, which experienced outflows of $12.4 billion. The investable HFRI 500 Equity Hedge (Total) Index posted a +1.9 percent return in 4Q, bringing YTD performance to +11.5 percent. Concurrent with surging energy and commodity prices, as well as accelerating inflation, EH sub-strategy gains for 2021 were led by the HFRI EH: Energy/Basic Materials Index, which surged +24.7 percent on the year and has vaulted nearly +100 percent since the beginning of the global pandemic quarantine in March 2020.

As interest rates rose to conclude 2021 as they did throughout 2H21, capital managed by credit- and interest rate-sensitive fixed income-based Relative Value Arbitrage (RVA) strategies increased by over $86 billion for FY 2021, to begin 2022 at $1.027 trillion. As investors positioned for higher interest rates, RVA led main strategy net inflows for FY with $15 billion of new allocations; capital invested in RV: Multi-Strategy funds increased by an estimated $48 billion in 2021 to begin 2022 at nearly $600 billion AUM. The investable HFRI 500 Relative Value Index gained +6.6 percent for 2021, while the HFRI Relative Value (Total) Index returned +7.5 percent. The HFRI RV: Yield Alternatives Index led all sub-strategy indices for 2021, surging +30.5 percent.

Total capital invested in Macro strategies rose over $33 billion in 2021 to end the year at $637.1 billion AUM, led by increases in Systematic Diversified/CTA and Commodity strategies, with these rising $20.7 and $5.2 billion, respectively for 2021. Like RVA, Macro also experienced net inflows for 2021, with investors allocating an estimated $3.1 billion of new capital during the year, led by $2.6 billion of inflows to Discretionary Thematic funds. Driven by commodity gains, the HFRI Macro (Total) Index gained +7.6 percent for 2021, while the investable HFRI 500 Macro: Commodity Index led Macro sub-strategy performance with a +26.35 percent return.

Following five consecutive quarters of the industry's largest firms leading mid- to small firms in inflows, investors reversed this trend in 4Q21, with the largest firms experiencing an estimated net outflow of $7.4 billion during the quarter. Firms managing between $1 billion and $5 billion experienced a modest outflow of $113 million, while firms managing less than $1 billion experienced outflows of $1.3 billion over the quarter. For the full year 2021, firms managing greater than $5 billion received an estimated $5.7 billion, while mid-sized firms managing between $1 billion and $5 billion experienced net inflows of $3.94 billion, while firms managing less than $1 billion collectively saw estimated inflows of $5.5 billion over the year.

"Total global hedge fund capital surpassed the historic $4 trillion milestone to begin 2022 as inflation accelerated and interest rates increased, with performance and asset gains distributed across Equity, Event Driven (Special Situations and Shareholder Activist), Fixed Income Value, as well as certain Macro Discretionary Commodity, Thematic, and trend-following Quantitative CTA strategies, The industry was able to surpass this historic milestone by navigating through volatility associated with the second year of the global coronavirus pandemic and variants, as well as rapidly increasing, generational inflationary pressures, and expectations for multiple interest rate increases in 2022," stated Kenneth J. Heinz, President of HFR. "Year-end capital flows also indicated institutions are actively and tactically rebalancing portfolios across strategies, sub-strategies and firm sizes, focusing intently on portfolio duration, credit and interest rate sensitivity, strategic commodity and equity market exposures, as well as advanced metrics of defensive capital preservation. Funds which have demonstrated their strategy's robustness through the multiple market cycles since the beginning of the historic pandemic and which are effectively positioned to navigate these multi-asset trends are likely to lead industry performance and growth into the new year."

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