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HEDGE FUND CAPITAL RISES TO CONCLUDE VOLATILE 2022 AS MANAGERS POSITION FOR RISK, UNCERTAINTY IN 2023

HFRI 500 Macro Index surges +14.2 percent as global equities, bonds plunge; Quant Trend Following, Fundamental Commodity lead sub-strategy performance; Hedge funds top equity market declines by widest margin since HFRI inception

CHICAGO, (January 20, 2023) – Hedge funds gained in the fourth quarter to conclude a volatile year, with managers navigating a complicated dynamic of macroeconomic and geopolitical risks driven by generational inflation, sharp increases in interest rates, falling equity markets, a weakening global economy, an uncertain trajectory of pandemic/quarantine impacts and the collapse of the cryptocurrency market. Total global hedge fund capital finished the year at $3.83 trillion, a quarterly increase of $44 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*.

The investable HFRI 500 Index gained in +1.6 percent in 4Q to end the calendar year 2022 with a narrow decline of -3.37 percent, with leadership from uncorrelated Macro strategies, including Fundamental Commodity, Discretionary, as well as Quantitative, trend-following CTA strategies.

The HFRI 500 Index topped the sharp declines of equity and fixed income markets, outperforming technology stocks by nearly 3000 basis points, the widest margin since inception. The HFRI Fund Weighted Composite Index® gained +2.26 percent in 4Q, paring the FY22 decline to -4.2 percent. Larger, more established hedge funds outperformed smaller hedge funds for 2022, with the HFRI Asset Weighted Composite Index (comprised of the same constituents as the equal-weighted version) advancing +0.9 percent for 2022.

The HFRI 500 Macro Index surged +14.2 percent for 2022, with contributions from a wide range of Macro sub-strategies, including Commodity, Currency, Discretionary, Fundamental Discretionary Thematic and Quantitative, Trend Following CTA strategies. The Index outperformed technology equities by over 4700 bps, also the highest outperformance margin since Index inception. Performance-based declines and net asset outflows in 4Q resulted in total Macro capital falling $34 billion to end the year at $677.6 billion, although the strategy assets increased on the full year by $40 billion. Macro sub-strategy outflows were led by Systematic Diversified CTA strategies, which experienced an estimated net asset outflow of $6.4 billion in 4Q and ending the year with $327.3 billion in strategy capital. For the FY22, the investable HFRI 500 Macro: Systematic Diversified Index jumped +15.7 percent, the HFRI 500 Trend Following Index surged +14.4 percent, and the HFRI 500 Macro: Commodity Index led sub-strategies industry-wide, vaulting +41.3 percent.

Hedge fund capital managed by credit- and interest rate-sensitive fixed income-based Relative Value Arbitrage (RVA) strategies increased by $11 billion in 4Q, ending the year with $1.04 trillion. RVA managers navigated not only sharp increases in interest rates but also a yield curve inversion, the highest inflation in 50 years, a sharp increase in geopolitical risk, and expectations for additional rate increases through 1H23. RVA: Multi-Strategy funds led asset increases for the quarter, adding $6.3 billion of sub-strategy capital to end the year at $633.9 billion. The investable HFRI 500 Relative Value Index gained +0.74 percent for 2022, led by the HFRI 500 RV: Volatility Index, which surged +11.8 percent for the year, and the HFRI 500 RV: Multi-Strategy Index, which added +4.6 percent in 2022.

Event-Driven (ED) strategies, which categorically focus on out of favor, often heavily shorted, deep value equity and credit positions, experienced a total asset increase of $33.9 billion in 4Q, ending the year with $1.035 trillion of capital, as performance-based gains offset a nominal net asset outflow of $5.3 billion. ED sub-strategy asset increases were concentrated in higher beta ED: Special Situations, which added $17.8 billion in 4Q, as well as Activist strategies, which increased by $10.0 billion for the quarter, driven by strong performance. The investable HFRI 500 Event-Driven Index gained +2.8 percent in 4Q, paring the YTD decline to -6.3 percent, while the HFRI Event-Driven (Total) Index fell -4.65 percent.

Total capital invested in Equity Hedge (EH) strategies also increased in 4Q, as strong performance-based gains offset an estimated net asset outflow of $11.4 billion, to end the year with $1.074 trillion of strategy capital. EH sub-strategy asset increases were driven by Fundamental Value funds, which surged +$24.9 billion on strong quarterly performance, while Quantitative Directional strategies increased by $3.0 billion. The investable HFRI 500 Equity Hedge Index gained +3.8 percent in 4Q, paring the YTD decline to -12.7 percent; the HFRI Equity Hedge (Total) Index also declined -10.2 for 2022.

Outflows for 4Q and 2022 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 outflow of $10.2 billion for the quarter and $31.9 billion for 2022. Firms managing between $1 billion and $5 billion saw an estimated net outflow of $8.3 billion for quarter and $18.5 billion for '22, while investors redeemed nearly $3.1 billion from firms managing less than $1 billion in 4Q, bringing the FY total outflow to $5.0 billion.

"For 2022, diversifying strategies such as Macro, CTA and Relative Value Arbitrage delivered inversely-correlated performance gains, which is precisely the reason and rationale used by institutions for allocating to such strategies. Driven by these gains and other areas of equity and fixed income risk-reducing strategies, the HFRI 500 Macro Index, as well as the Composite of all strategies industry-wide, delivered the widest outperformance of technology equity market declines since the inception of HFR Indices," stated Kenneth J. Heinz, President of HFR. "Uncertainty regarding all of these macroeconomic and geopolitical drivers has accelerated into 1H23 with increased focus on the impact of higher interest rates, generational inflation and expectations for global economic weakening. Leading funds continue to position for a fluid trading environment and accelerated cycles of volatility, with increased potential for destabilizing dislocations across all asset types. Once again, 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 stabilize their portfolios from losses in long equity and fixed income exposures, and to drive industry capital growth through 1H23."

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