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HEDGE FUND ASSETS RISE AS EQUITIES, ENERGY EXTEND DECLINES

Performance gains offset outflow in 4Q as investors position for volatility; China, interest rates, energy, and Brexit among top risks, opportunities for 2016

CHICAGO, (January 20, 2016) – Total global hedge fund capital rose in the fourth quarter, as financial market volatility, driven by concerns about slowing Chinese growth and energy market weakness, accelerated into year-end, 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. Hedge fund capital rose to $2.90 trillion in 4Q15, an increase of $22.8 billion over the prior quarter. The performance asset gain offset a small investor net capital outflow of $1.52 billion in 4Q15, the first quarterly net outflow since 4Q11.

The HFRI Fund Weighted Composite Index® posted a gain of +0.8 percent in 4Q15, but declined -1.0 percent for full-year 2015, only the 4th calendar year decline since inception in 1990. The HFRI Asset Weighted Composite Index advanced +0.5 percent in 4Q15, and was essentially flat for 2015, posting a narrow decline of -0.04 percent.

For FY 2015, total hedge fund capital increased by $51.7 billion, rising to a record of $2.97 trillion at mid-year before falling in the volatile 3Q, but rising again to conclude the year at $2.90 trillion. Investor net inflows totaled $43.8 billion for 2015, with inflows in the first three quarters tempered slightly by the outflow of $1.52 billion in 4Q15.

Inflows by firm size remained concentrated in the industry's largest firms, with firms managing greater than $5 billion in assets receiving inflows of $3.2 billion in 4Q. Investors withdrew $2.8 billion from firms managing between $1 billion to $5 billion in 4Q, and withdrew a combined $1.9 billion from firms with less than $1 billion in AUM in the quarter. Though this represents a reversal of the flows by firm size trend in 3Q, for the full year 2015, firms with greater than $5 billion in AUM received inflows of $31.2 billion, while firms managing between $1 billion to $5 billion received inflows of $6.0 billion, and firms with AUM below $1 billion also received inflows of $6.5 billion.

Macro and CTA hedge funds led strategy inflows for 4Q15, with these receiving $2.5 billion in new capital for the quarter, bringing Macro to a narrow inflow of $900 million for 2015, increasing total Macro capital to $550 billion. The HFRI Macro (Total) Index declined by -1.15 percent in 2015, though larger Macro funds demonstrated strong performance relative to smaller funds, with the HFRI Macro Index-Asset Weighted gaining +0.72 percent for 2015. Macro sub-strategy flows were led by quantitative, trend-following Systematic Diversified CTA funds, which received inflows of $1.7 billion in 4Q15.

Equity Hedge strategies led capital inflows in 2015, receiving $25.8 billion for the full year, including $2.0 billion in 4Q, bringing total Equity Hedge capital to $829 billion, the industry’s largest strategy concentration of capital. Similar to Macro, Equity Hedge also posted mixed performance for 2015, with the HFRI Equity Hedge Index declining -0.8 percent for the year, while the HFRI Equity Hedge Index-Asset Weighted gained +1.53 percent, topping the performance of U.S. equities.

Both Event Driven and fixed income-based Relative Value Arbitrage (RVA) strategies experienced capital outflows in 4Q15 but inflows for the full year. Event Driven strategies suffered outflows of $2.2 billion in 4Q, reducing the full year net inflow to $8.7 billion and bringing total Event Driven capital to $745 billion. The HFRI Event Driven Index posted a decline of -3.3 percent for 2015, with larger ED funds having a negative impact on overall performance, as the HFRI Event Driven Index-Asset Weighted fell -4.7 percent for the year. Relative Value Arbitrage strategies experienced outflows of $3.8 billion in 4Q15, bringing 2015 inflows to $8.4 billion and total RVA capital globally to $773 billion. The HFRI Relative Value Index posted a narrow decline of -0.26 percent for 2015, though larger RVA funds demonstrated strong relative performance, with the HFRI Relative Value Arbitrage Index-Asset Weighted gaining +1.2 percent for 2015.

“The global hedge fund industry expanded in 2015 as global financial markets entered into an important and uncertain transitional macroeconomic environment, resulting in acceleration of asset volatility and wide performance dispersion across hedge fund strategies,” stated Kenneth J. Heinz, President of HFR. “While financial market dislocations have contributed to mixed performance across the most directional energy- and credit-sensitive strategies, many larger hedge fund firms had positioned conservatively for the reversal of the equity beta trend, resulting in positive cap-weighted strategy performance. With clear acceleration of these transitional trends into early 2016, it is likely that investors will continue to exhibit strong preference for low beta exposures and leading firms into 2016.”

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