



HEDGE FUND RESEARCH, INC.

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HEDGE FUNDS CONCLUDE 2014 WITH INFLOWS AS INVESTORS POSITION FOR VOLATILITY

*Euro, Oil, Greece, Russia and Event Equities lead uncertainty into 2015;
Activist, Credit Multi-Strategy lead sub-strategy inflows;
Highest total annual inflows since 2007 drive industry assets to record*

CHICAGO, (January 20, 2015) – Investors increased allocations to hedge funds in 4Q 2014 as financial market volatility soared into year-end led by a steep decline in oil, Euro currency weakness and sharp drops in both the Russian Rouble and equity markets. Investors allocated \$3.6 billion of new capital to hedge funds globally in the quarter, bringing the full year of inflows to \$76.4 billion, the highest calendar year of inflows since 2007, as reported today in latest edition of the *HFR Global Hedge Fund Industry Report*, released today by HFR[®], the established global leader in the indexation, research and analysis of the global hedge fund industry. Inflows and performance gains in 4Q increased total hedge fund capital to a record of \$2.85 trillion, while the broad-based HFRI Fund Weighted Composite Index[®] gained +3.3 percent for the full year.

Many of the powerful year end macro trends have accelerated into early 2015, punctuated by the dramatic fall in the Euro following the Swiss National Bank's surprise abandonment of the Swiss Franc/Euro exchange rate cap in mid-January. Investors benefitted from conservative and opportunistic hedge fund positioning into year-end, with Macro and quantitative CTA hedge funds posting gains driven by strong trends in short oil and Euro exposures. The HFRI Macro (Total) Index gained +2.9 percent in 4Q14, while the HFRI Macro: Systematic Diversified/CTA Index advanced +6.0 percent. For the year, the HFRI Macro (Total) Index led all strategies with

a gain of +6.2 percent, while the HFRI Macro: Systematic Diversified/CTA Index led all sub-strategies with a gain of +11.1 percent. Despite recent performance gains, investors continued to redeem from Macro strategies, with outflows concentrated in Multi-Strategy, Discretionary and Commodity focused funds. Macro experienced net outflows of \$7.2 billion in 4Q, bringing FY 2014 outflows to \$28.0 billion.

Investors increased allocations to Fixed income-based Relative Value Arbitrage (RVA) and Event Driven (ED) strategies in 4Q14, attracted to these exposures by dynamic activity in the event equity space and the challenging, complex environment for long-only fixed income investing. Nominal yields on many sovereign bonds have been driven into negative territory in anticipation of large scale bond purchases by the ECB. Nearly the same amount of investor capital was allocated to RVA and ED in 4Q, with these receiving inflows of \$4.98 billion and \$4.93 billion, respectively. For FY 2014, RVA strategies experienced inflows of \$45.5 billion, bringing total capital to \$760 billion, while ED received \$32.1 billion in inflows, bringing total capital to \$754 billion. The HFRI Relative Value Arbitrage Index was up +4.2 percent for 2014, while the HFRI Event Driven Index gained +1.4 percent. RVA sub-strategy inflows were led by credit Multi-Strategy funds, with these receiving \$4.7 billion in 4Q and \$30.2 billion for FY 2014. Similarly, ED inflows were led by Activist hedge funds, with these receiving \$4.1 billion in 4Q and \$14.2 billion for 2014, bringing total Activist hedge fund capital to nearly \$120 billion.

Equity Hedge strategies experienced narrow inflows of \$940 million in 4Q14, bringing FY inflows to \$26.8 billion; the HFRI Equity Hedge Index advanced +2.1 percent for 2014. EH performance gains for 2014 were led by the HFRI EH: Technology/Healthcare Index which advanced +9.8 percent, a return partially offset by a -5.4 percent drop in the HFRI EH: Energy/Basic Materials Index. Inflows across EH sub-strategies for 2014 were led by EH: Fundamental Value, which experienced inflows of \$11.5 billion, partially offset by outflows of \$1.3 billion in Short Bias strategies.

Capital rotation across the industry's largest funds in 4Q resulted in only a narrow net inflow of \$80 million to firms managing greater than \$5 billion, while firms managing between \$1 to \$5 billion experienced inflows of \$3.3 billion, and flows to firms below \$1 billion totaled \$226 million in 4Q. For FY 2014, firms with greater than \$5 billion experienced net inflows of

\$38.7 billion, while firms managing \$1 to \$ 5 billion received \$27.6 billion and firms managing less than \$1 billion received \$10.0 billion in inflows.

Forty percent of all hedge funds experienced inflows for the quarter, while sixty percent experienced outflows. Total capital allocated to funds which received inflows in 4Q narrowly offset capital redeemed from funds which experienced outflows as investors rotated exposures within the industry, with \$37.4 billion of inflows offsetting \$33.8 billion of outflows.

“Extreme dislocations across financial markets in recent weeks, encompassing the dramatic slide in oil, negative sovereign yields, and the abandonment of the Swiss Franc/Euro cap, have sharply elevated expectations for volatility, significantly increasing both the opportunities and risks for investors in early 2015,” stated Kenneth J. Heinz, President of HFR. “Many hedge funds had maintained conservative positioning throughout 2014, opportunistically anticipating the macroeconomic turmoil which accelerated into year end, with many continuing to position for a sustained equity market correction in response to this volatility. In light of this, many global investors have increased and rotated their hedge fund portfolio exposures to provide an optimal combination of exposure to and protection from this dynamic market environment which complement traditional exposures.”

About HFR®

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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