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HEDGE FUNDS POST LARGEST QUARTERLY ASSET DECLINE SINCE 2008

HFRI outperformance gap over equity markets expands to largest since ’08; Inflows into small & mid-size funds offset outflows from largest funds

CHICAGO, (October 20, 2015) – Total global hedge fund capital posted the largest decline since the Financial Crisis in the third quarter, as global financial market volatility surged on uncertainty over US interest rates, China and M&A transactions. Estimated hedge fund capital declined by $95 billion across all strategy areas to end the quarter at $2.87 trillion, as new investor capital inflows only partially offset performance-based declines, 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. The quarterly asset decline is the first since 2Q12 and the largest since 4Q08.

The HFRI Fund Weighted Composite Index® (HFRI) fell -3.9 percent in 3Q15, extending a four-month drawdown of -5.1 percent and bringing HFRI performance to -1.5 percent YTD through September. Despite the negative YTD performance, the HFRI has outperformed the S&P 500 Index by approximately 370 basis points (bps) and the Dow Jones Industrial Average by over 700 bps, the widest margin since outperforming equities by 1800 bps in 2008.

Investor Inflows in 3Q

New investor allocations of $47.9 billion were only partially offset by redemptions of $42.3 billion, resulting in a net inflow of $5.6 billion in the quarter. Three of four main hedge fund strategy areas experienced net capital inflows for the quarter, led by Event Driven (ED) funds, which received inflows of $5.4 billion. ED strategies suffered sharp performance losses in 3Q, led by declines in widely-held positions in Glencore and Valeant, as the HFRI Event Driven Index fell by -5.1 percent in the quarter, bringing YTD performance to -2.85 percent. Despite the recently volatility, ED strategies have remained in favor with investors, with these receiving an estimated $11 billion of net inflows YTD through September, bringing total ED capital to $745 billion. Sub-strategy inflows were led by Activist and Distressed funds, with these receiving $3.6 billion and $2.2 billion in inflows, respectively, for the quarter.

Macro strategy hedge funds experienced outflows of $5.1 billion in 3Q, as volatility surged in Emerging Markets, equities, interest rates and commodities, bringing YTD net outflows to $1.6 billion and decreasing total Macro capital to $543 billion. The HFRI Macro Index fell by -0.6 percent in 3Q, despite gaining in two of the three months; the Index has declined -0.96 percent YTD. Macro sub-strategy outflows were led by CTA strategies, which experienced outflows of $3.6 billion in 3Q.

Equity Hedge (EH) strategies lead capital inflows YTD despite net asset inflows falling in the most recent quarter, with EH receiving $2.4 billion in 3Q and $23.8 billion YTD. The HFRI Equity Hedge Index fell by -5.9 percent in 3Q and has fallen -2.3 percent YTD; EH is the largest strategy area of hedge fund capital, managing over $808 billion. EH 3Q inflows were led by Multi-Strategy funds, which received $2.1 billion in new capital; this was partially offset by $1.3 billion of outflows from Fundamental Value strategies.

Fixed income-based Relative Value Arbitrage (RVA) strategies experienced inflows of $2.9 billion in 3Q, bringing YTD inflows to $12.2 billion and total RVA capital to an estimated $777 billion. The HFRI Relative Value Index declined -2.7 percent in the third quarter and has posted a narrow loss of -0.2 percent YTD through September.

The industry's largest hedge fund firms, which manage assets in excess of $5 billion, experienced a small net outflow of $300 million; these firms represent only six percent of the total hedge fund industry but manage approximately 69 percent of all industry capital. Hedge fund firms managing between $1 billion and $5 billion experienced inflows of $3.6 billion, while firms managing less than $1 billion received inflows of $2.4 billion.

"Investors expanded allocations to small and mid-sized firms in 3Q, reversing a trend of steadily increasing the capital concentration into the industry's largest firms, as financial market volatility increased and hedge funds outperformed equity markets," stated Kenneth J. Heinz, President of HFR. "Recent market turmoil has resulted in increased risk aversion by investors but has also created opportunities for innovative approaches in key tactical and strategic areas. Funds of all sizes have already experienced a powerful performance recovery through mid-October, which is likely to drive industry capital gains into year end."

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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, HFRL 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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