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HEDGE FUND CAPITAL FLOWS MIXED AS INVESTORS POSITION FOR RATES, GROWTH

Top firms see modest inflows as volatility surges; Total industry capital posts modest decline from record

CHICAGO, (October 22, 2019) – Total hedge fund capital was narrowly changed for the 3Q19, falling from the prior quarter record with flows mixed across strategies as investors navigated heightened fixed income risk and volatility, as well as fluid political developments across the U.S., Europe, the UK and Asia. Total hedge fund capital declined modestly to $3.24 trillion, a slight reduction from the prior quarter record of $3.245 trillion, a decline of $5.5 billion, or approximately 0.17 basis points, according to data released today by HFR®, the established global leader in the indexation, analysis and research of the global hedge fund industry.

Capital inflows generated by new fund launches and into the industry's most established firms were offset by outflows from fund liquidations and investor redemptions from small-to-mid-sized firms. Estimated total industry net asset outflows were $6.8 billion for the quarter. The HFRI Asset Weighted Composite Index gained +0.3 percent in 3Q19, while the HFRI Fund Weighted Composite Index® posted a narrow decline of -0.4 percent for the quarter.

Investors allocated new capital to fixed income and credit-based Relative Value Arbitrage (RVA) and Event-Driven (ED) hedge fund strategies, as investors positioned for ultra-low interest rates for near term, including the supply of nearly $16 trillion of negatively yielding European government debt. M&A and credit-sensitive Event-Driven strategies experienced net asset inflows of $5.7 billion, bringing the YTD inflows for ED to $9.2 billion and total ED capital to $852.2 billion. ED sub-strategy inflows were led by $4.4 billion of inflows into ED: Multi-Strategy for the quarter. Relative Value Arbitrage strategies experienced modest estimated inflow of $186 million, increasing the inflows YTD to $3.1 billion and total RVA capital to $868.3 billion, the industry's second largest area of capital. The HFRI Event-Driven (Total) Index declined -0.6 percent in 3Q, paring the YTD gain to +4.8 percent, while the HFRI Relative Value (Total) Index produced a narrow +0.16 percent gain in 3Q, increasing YTD performance to +5.6 percent.

Total capital invested in Macro strategies increased by $6.1 billion from the prior quarter to end 3Q at $599.5 billion, as performance gains offset investor outflows. The HFRI Macro (Total) Index gained +1.5 percent in 3Q, extending the YTD return to +6.5 percent, while the HFRI Macro Index (Asset Weighted) advanced +1.9 percent during the quarter. Investors withdrew an estimated net $4.8 billion in 3Q, driven by a $3.6 billion outflow in Macro: Multi-Strategy funds, while Active Trading strategies experienced a minimal inflow of $66 million.

Equity Hedge (EH), the industry's largest concentration of capital, experienced net asset outflows of $7.9 billion in 3Q, paring total EH capital to $919.6 billion. EH sub-strategy outflows were driven by Fundamental Value funds, which experienced net withdrawals of $4.4 billion during the quarter, as these were only partially offset by an inflow of $780 million into EH: Multi-Strategy funds. The HFRI Equity Hedge (Total) Index declined -1.1 percent in 3Q, while the HFRI Equity Hedge Index (Asset Weighted) fell by -0.65 percent.

"Total hedge fund industry capital was little changed in 3Q as a number of contributing factors had partially offsetting impacts and influences, including, but not limited to, beta reducing rebalancing and reallocation, liquidations and launches, and an increase in market volatility associated with ultra-low interest rates," stated Kenneth J. Heinz, President of HFR. "The capital raising environment continues to be challenging, with geopolitical and macroeconomic factors motivating allocations for some investors while contributing to complacency and hesitation for others. It is likely that sophisticated investors will proceed with strategic allocations in coming quarters which improve overall portfolio-expected returns through efficient, opportunistic long-short exposures."

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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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