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Contacts:

HFR	**MacMillan Communications**	**Hydra Strategy**
Kenneth Heinz	Chris Sullivan	Henrietta Hirst
Chicago/312.658.0955	New York/212.473.4442	London/+44 (0) 7880 742 375
info@hfr.com @HFRInc @KennethJHeinz	chris@macmillancom.com	Henrietta.hirst@hydrastrategy.co.uk

HEDGE FUNDS GAIN IN JANUARY, NAVIGATING VOLATILITY

HFRI Event Driven, RVA & Crypto lead strategy performance; Deep value Special Situations, Merger Arbitrage, Credit lead sub-strategies

CHICAGO, (February 5, 2021) – Hedge funds advanced in January to begin 2021, actively trading through a turbulent month dominated by a volatile surge in trading from retail investors concentrated in a handful of deep value equities with significant short interest. The HFRI Fund Weighted Composite Index® (FWC) gained +0.9 percent in January, while the investable HFRI 500 Fund Weighted Composite Index advanced +0.35 percent, according to data released today by HFR®, the established global leader in the indexation, analysis and research of the global hedge fund industry.

Reflecting the powerful trading trends, the HFRI FWC experienced a wide dispersion in constituent performance, as the top decile of the HFRI gained +11.6 percent, while the bottom decile declined -7.8 percent for the month. As reported previously by HFR, total hedge fund capital jumped to $3.6 trillion to begin 2021, a 4Q20 increase of $290 billion, representing the largest asset growth in industry history. Estimated 4Q20 net asset inflows totaled $3.0 billion, bringing total inflows for the second half of 2020 to $16.0 billion.

Event-Driven strategies, which often focus on out of favor, deep value equity strategies and situations, led strategy performance in January, with the investable HFRI 500 Event-Driven Index surging +3.0 percent for the month, while the HFRI Event-Driven (Total) Index gained +2.8 percent. ED sub-strategy gains were led by Merger Arbitrage, Special Situations, and Distressed exposures, strategies which categorically trade in deep value equity situations, including companies which are possible targets for restructuring, acquisitions or investor-driven strategy shifts. Following strong performance in 4Q20, the HFRI ED: Merger Arbitrage Index surged +4.0 percent in January, the HFRI ED: Special Situations Index advanced +3.8 percent, and the HFRI ED: Distressed Index added +2.6 percent. The investable HFRI 500 ED: Special Situations Index jumped +6.2 percent for the month, and the HFRI 500 ED: Merger Arbitrage Index advanced +5.1 percent.

The fixed income-based HFRI Relative Value (Total) Index gained +1.3 percent in January, while the HFRI 500 Relative Value Index advanced +1.2 percent for the month, led by the investable HFRI 500 RV: Fixed Income-Convertible Arbitrage Index, which jumped +3.5 percent, and the HFRI RV: Yield Alternatives Index, which added +4.0 percent.

Following the 2020 surge, Blockchain and Cryptocurrency exposures continued to deliver strong performance as cryptocurrencies hit record highs and as hedge funds increasingly incorporated related exposures into new and existing fund strategies. The HFR Blockchain Composite Index and HFR Cryptocurrency Index each surged over +48.0 percent in January.

Through intense stock volatility, the HFRI Equity Hedge (Total) Index advanced +0.8 percent for the month. Equity Hedge funds experienced a wide dispersion of sub-strategy performance led by the high beta, long-biased Energy and Fundamental Growth exposures. Following strong 4Q20 gains, the HFRI EH: Energy/Basic Materials Index surged +4.8 percent in January, while the HFRI EH: Fundamental Growth Index added +2.3 percent. Partially paring these gains, the HFRI EH: Sector-Technology Index declined -1.1 percent, and the HFRI EH: Multi-Strategy Index fell -0.8 percent for the month.

Risk Premia, Risk Parity and Liquid Alternatives produced mixed performance in January, led by equity and commodity exposures. The HFR Bank Systematic Risk Premia Equity Index advanced +2.2 percent for the month, while the HFR BSRP Commodity Index gained +1.6 percent. The HFR Risk Parity Vol 12 Institutional Index fell -0.2 percent in January, while the HFRI-I Liquid Alternative UCITS Index posted a narrow loss of -0.14 percent for the month, driven by the -0.3 percent decline in the HFRI-I UCITS Macro Index.

Uncorrelated Macro strategies posted a narrow gain in January, with the HFRI Macro (Total) Index advancing +0.2 percent, while the HFRI 500 Macro Index added +0.1 percent. Macro sub-strategy performance was led by the HFRI Macro: Discretionary Thematic Index, which gained +1.8 percent for the month, and the HFRI Macro: Multi-Strategy Index, which added +1.1 percent.

"Hedge funds effectively navigated the idiosyncratic stock trading volatility which focused on deep value equities with high short interest, with this trend driving gains across Event Driven strategies which categorically focus on inexpensive, out of favor equities that are experiencing fundamental, structural transition in the underlying businesses. While certain sub-strategies declined in January, as is evidenced by the wide dispersion in performance, as a direct result of the size, breadth and diverse nature of hedge fund strategies, overall industry performance was positive for the month," stated Kenneth J. Heinz, President of HFR. "While significant financial market attention has been focused on a handful of funds and small number of equities impacted by these recent trading trends, the overall hedge fund industry is comprised of over 9,100 funds managing nearly $3.6 trillion across a highly diverse range of strategies, which include significant capital exposure to out of favor, deep value equites. With an emphasis also on opportunistic positioning and sustained capital appreciation achieved through specialized long-short portfolio management, leading institutions are likely to continue expanding allocations to hedge funds as a tool for achieving their long-term portfolio objectives."

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