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GLOBAL HEDGE FUND CAPITAL STEADY AS INDUSTRY POSITIONS FOR INFLATION, RISING RATES

Fifth consecutive quarter of net asset inflows as volatility rises; Fixed income-based Relative Value Arbitrage leads gains

CHICAGO, (October 20, 2021) – Total hedge fund industry capital increased narrowly in the third quarter as equity and interest rate volatility escalated, while managers and investors positioned for additional volatility through year-end. Spurred by $5.6 billion of net investor inflows, as well as marginal performance-based gains, total hedge fund capital rose narrowly to an estimated $3.97 trillion to end 3Q 2021, representing an increase of nearly $370 billion from the start of the year, as reported today by HFR®, the established global leader in the indexation, analysis and research of the global hedge fund industry, in the latest release of the *HFR Global Hedge Fund Industry Report*.

As reported previously, total hedge fund industry capital has soared by over $1 trillion in the trailing six quarters since falling below $3 trillion in 1Q20 as the global pandemic began. With the $5.6 billion of inflows for 3Q21, net inflows since 3Q20 have totaled an estimated $40 billion.

The HFRI Fund Weighted Composite Index (FWC) was virtually unchanged for 3Q21, falling only -0.3 percent for the quarter, which follows the strongest first half of a calendar year since 1999 and the fifth strongest 1H return since index inception. The investable HFRI 500 Fund Weighted Composite Index has surged +9.11 percent YTD 2021 through September.

As interest rates rose to end 3Q, credit- and interest rate-sensitive fixed income-based Relative Value Arbitrage (RVA) strategies posted the largest increase in assets, with these growing by $16.8 billion with contributions from both investor inflows and performance-based gains. Total capital invested in RVA increased to $1.026 trillion, including an estimated $3.2 billion of net asset inflows for the quarter, led by RV: Multi-Strategy funds, which increased by $8.9 billion on performance-based gains and net asset inflows. The investable HFRI 500 Relative Value Index returned +1.1 percent in 3Q, while the HFRI Relative Value (Total) Index added +1.0 percent. Through the first three quarters of 2021, the HFRI RVA: Yield Alternatives Index leads all sub-strategy indices with a +27.7 percent gain.

Equity Hedge (EH) strategies experienced the largest inflow of capital in 3Q as equity volatility increased, and managers and investors positioned for an acceleration of inflationary pressures globally. EH had surpassed the $1 trillion milestone to conclude 2020 and held steady at $1.21 trillion to conclude 3Q, with a modest performance-based decline partially offsetting net asset inflows. Total EH capital globally has increased by $119 billion through the first 9 months of 2021. Both Equity Market Neutral and Energy/Basic Materials posted capital increases in 3Q with these rising $1.7 and $1.5 billion, respectively, for the quarter. The HFRI Equity Hedge (Total) Index posted a narrow decline of -0.8 percent in 3Q, bringing YTD performance to +11.0 percent. Concurrent with surging energy and commodity prices, EH sub-strategy gains have been led by the volatile HFRI EH: Energy/Basic Materials Index, which has spiked +23.1 percent YTD through 3Q21 and has surged +90 percent since the beginning of the global pandemic quarantine in March 2020.

Having surpassed $1 trillion to conclude 1Q21, Event-Driven (ED) strategies, which categorically focus on out of favor, deep value equity and credit positions, experienced minimal capital changes in 3Q21. Total ED capital declined narrowly by $1.6 billion in 3Q, holding total global ED capital steady at an estimated $1.09 trillion, the second largest strategy of total industry capital. ED sub-strategy capital increases were led by Distressed/Restructuring funds, which increased $2.0 billion in the quarter to bring sub-strategy assets to approximately $250 billion. The investable HFRI 500 Event-Driven Index was unchanged for 3Q, though the Index leads the main strategies comprising the HFRI 500 Index YTD with a +12.6 percent return; ED sub-strategy performance is led by the HFRI 500 ED: Distressed/Restructuring Index with a +19.0 percent YTD return.

After leading inflows in 2Q21, uncorrelated Macro strategies posted a narrow outflow in 3Q, as inflows to Commodity-focused strategies were more than offset by outflows in Systematic Diversified CTA strategies. Total Macro capital fell by $4.8 billion to end 3Q at an estimated $639.0 billion in AUM, as a $1.6 billion increase in Commodity-focused Macro was offset by investor redemptions of $1.4 billion in quantitative, CTA strategies. The investable HFRI 500 Macro Index gained +0.6 percent in 3Q as commodities surged while both interest rates and equity market volatility increased.

Despite the small increase in global capital, investor inflows were distributed across firms of all sizes, with firms managing greater than $5 billion receiving an estimated $2.3 billion of the $5.6 billion total of net new investor capital in 3Q21. Mid-sized firms managing between $1 billion and $5 billion experienced a net inflow of nearly $500 million for the quarter, while firms managing less than $1 billion collectively saw estimated inflows of $2.8 billion.

"Total global hedge fund capital nudged higher in 3Q21 narrowly eclipsing the prior quarter record and inching towards the $4 trillion milestone as commodity prices surged, interest rates increased, equity market volatility increased, and inflationary pressures continued to build. Interest rate-sensitive Relative Value Arbitrage strategies led both performance and inflows for the quarter, while managers and investors alike focused portfolios on interest rate exposures, as the U.S. Federal Reserve signaled a decrease in bond purchases in coming months leading to an expectation of higher interest rates into 2022," stated Kenneth J. Heinz, President of HFR. "Looking to the year ahead, managers and investors have increased their respective focus on portfolio credit and interest rate sensitivity, tactical commodity exposures and equity market exposures, with implied optionality and flexibility to adjust to a fluid macroeconomic environment and market conditions. Funds effectively positioned to navigate these multi-asset trends are likely to lead industry performance and growth into the new year."

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