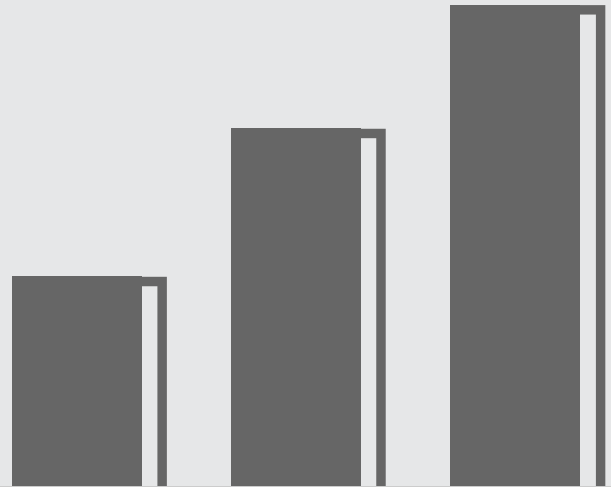


Hedge Fund Industry Performance Report

February 2017

March 9, 2017



Summary

The \$3 trillion hedge fund industry entered 2017 in a state of uncertainty. Flows had been persistently negative, and returns were generally perceived to have been disappointing. However, returns across the industry have been broadly positive this year, not just in February, but for the last year.

For the third consecutive month in February, over 70% of all hedge funds produced positive results, and returns over the last twelve months are near 11%. February marked a much needed rebound for large managed futures funds and continued outperformance by the concentrated equity-focused activist universe. For an industry needing to show consistency to stem redemptions, gains in 2017 and over the last twelve months are much needed positive signs.

Highlights

- Hedge funds returned an average of 1.08% in February, and +2.24% YTD 2017.
- Large managed futures funds had a much needed big month in February, while the largest macro managers continue to outperform their peers.
- Commodity funds produced losses in February, one of only two segments producing aggregate declines in February.

Activists Lead, Managed Futures Rebound Amid Continued Broadly Positive Industry Performance

Hedge funds returned an average of 1.08% in February, and +2.24% YTD. Returns have been broadly positive, with February being the twelfth month of positive returns in the last thirteen. In the last twelve months, average returns have been in double digits, +10.95%.

Aggregate Returns by Universe

Industry Benchmarks	Feb	YTD	L3mo	2016	2015
Hedge Fund Aggregate	1.08%	2.24%	3.26%	5.65%	-0.71%
50% MSCI World/50% Citi WGBI	1.58%	4.74%	4.21%	4.74%	-1.98%
S&P 500	3.97%	11.96%	8.04%	11.96%	1.38%
Primary Markets	Feb	YTD	L3mo	2016	2015
Broad Financial Derivatives	1.32%	0.62%	1.37%	0.72%	-0.66%
Broad Capital Structure	1.24%	2.73%	4.34%	10.03%	-1.36%
Equity	1.24%	2.96%	4.01%	5.69%	-0.17%
Broad Multi-Market	1.04%	1.26%	2.30%	3.16%	-1.42%
FX/Currency	0.92%	-0.53%	0.06%	2.42%	2.76%
Fixed Income/Credit	0.91%	2.01%	3.03%	7.58%	-0.56%
Volatility/Options Strategies	0.64%	2.22%	2.63%	6.71%	5.84%
Commodities	-0.50%	0.07%	0.65%	5.58%	-9.50%
Primary Strategy	Feb	YTD	L3mo	2016	2015
Event Driven - Activist	2.53%	3.03%	5.44%	11.77%	2.80%
Quantitative Directional Equity	1.65%	2.41%	3.87%	4.81%	1.26%
Managed Futures	1.32%	0.53%	1.17%	0.58%	-1.40%
Event Driven	1.18%	2.56%	4.41%	9.89%	-2.65%
Long/Short Equity	1.15%	2.76%	3.96%	5.85%	-0.04%
Relative Value Credit	1.12%	2.41%	3.32%	6.85%	-0.65%
Convertible Arbitrage	0.98%	1.91%	2.70%	5.73%	0.98%
Macro	0.85%	0.58%	1.55%	2.38%	-0.04%
Directional Credit	0.82%	1.84%	2.77%	7.41%	0.41%
Multi-Strategy	0.76%	1.64%	2.27%	2.89%	0.47%
Multi-Strategy Credit	0.66%	1.79%	2.88%	6.12%	-1.70%
Distressed	0.35%	2.14%	4.87%	12.94%	-7.59%
Market Neutral Equity	0.21%	0.53%	1.15%	2.41%	3.68%
Origination & Financing	0.18%	0.68%	1.06%	4.27%	6.50%

Returns by Fund Size

Prominent Universes by Size	Feb	YTD	L3mo	2016	2015
Ten Largest Hedge Funds	1.11%	1.54%	2.72%	6.26%	1.47%
Large Funds (>\$1b)	0.74%	1.50%	2.50%	4.02%	-0.66%
Mid-size Funds (<\$1b, >\$250m)	0.88%	1.86%	2.88%	4.41%	0.70%
Small Funds (<\$250m)	1.17%	2.37%	3.40%	6.24%	-0.97%
Ten Largest Event Driven Funds	1.41%	3.34%	5.45%	6.36%	0.57%
Event Driven >\$1b	1.65%	3.40%	4.95%	4.90%	-5.66%
Event Driven <\$1b	1.04%	2.15%	4.19%	10.77%	-2.12%
Ten Largest FX/Currency Funds	0.28%	2.81%	4.24%	-3.47%	3.46%
FX/Currency >\$1b	0.18%	-0.45%	0.29%	3.71%	1.95%
FX/Currency <\$1b	0.83%	-1.03%	-0.45%	2.45%	2.77%
Ten Largest Fixed Income/Credit Funds	0.70%	1.88%	3.10%	3.42%	0.68%
Fixed Income/Credit >\$1b	0.71%	1.93%	2.82%	5.74%	-0.09%
Fixed Income/Credit <\$1b	0.82%	1.92%	2.87%	7.09%	-0.37%
Ten Largest Long/Short Equity Funds	1.44%	1.13%	3.35%	3.52%	5.35%
Long/Short Equity >\$1b	0.22%	1.41%	2.43%	2.62%	1.18%
Long/Short Equity <\$1b	1.24%	2.76%	3.99%	5.96%	-0.04%
Ten Largest Macro Funds	1.16%	0.99%	2.37%	7.06%	0.15%
Macro >\$1b	0.72%	0.79%	2.19%	4.02%	-0.12%
Macro <\$1b	0.93%	0.91%	2.09%	1.79%	-1.19%
Ten Largest Managed Futures Funds	3.36%	2.81%	4.24%	-3.47%	3.46%
Managed Futures >\$1b	2.76%	1.91%	2.57%	-3.90%	3.09%
Managed Futures <\$1b	1.30%	0.56%	1.28%	0.93%	-1.68%
Ten Largest Multi-Strategy Funds	0.59%	1.26%	1.96%	4.53%	1.00%
Multi-Strategy >\$1b	0.59%	1.25%	2.23%	4.44%	0.50%
Multi-Strategy <\$1b	0.67%	1.62%	2.29%	3.15%	1.08%

Key Points

- Returns across the industry have been broadly positive.**
 For the third consecutive month, over 70% of all hedge funds produced positive results in February. The industry has needed to show consistency and decent returns to stem redemptions. Returns in 2017, and over the last twelve months are much needed positive signs.
- Large managed futures funds had a much needed big month.**
 After average losses of -6.74% in the last six months, and redemptions accelerating from the universe in Q4 2016 and into 2017, the largest managed futures funds excelled in February, returning +3.36%, their best month since June 2016.
- Activists continue to benefit from strong equity markets.**
 After a very strong 2016, activist's average return of +2.53% in February places the universe as the top performing strategy in early 2017.
- Commodity strategies the lone decliner in February.**
 As one of the only segments of the industry to see aggregate net inflows in 2016, commodity fund performance will be watched closely by investors. The universe was the only market/strategy segment to post declines in February.
- The largest macro funds continue to outperform their peers.**
 The macro segment has been much maligned in the last couple of years, however performance within the largest funds, on an aggregate basis, has been more than decent. Average returns near 7% in 2016, and 10% in the last twelve months are likely being noticed by investors seeking return outside of traditional primary markets.



EM Outperformance Continues into Second Month of 2017 Led by India and Brazil Exposure

Emerging market strategies produced returns more than double that of developed market strategies in February for the second month in a row. Exposure to developed Europe produced below average performance, while Russia was the lone segment with losses.

Return by Primary Regional Exposure

<i>Regional Exposure</i>	Feb	YTD	L3mo	2016	2015
Developed Markets	1.01%	2.30%	3.46%	6.19%	0.28%
Emerging Markets	2.05%	4.65%	5.22%	7.46%	-3.17%
North America	0.92%	2.45%	3.76%	9.22%	-1.17%
Developed Europe	0.56%	1.55%	3.07%	0.26%	2.76%
Asia	2.11%	4.42%	3.78%	1.83%	4.80%
Africa/Middle East	0.78%	2.24%	4.27%	-4.15%	-11.89%
India	4.87%	9.25%	8.38%	4.83%	3.87%
Brazil	4.58%	12.83%	13.80%	31.35%	-29.62%
China	2.72%	6.04%	2.91%	-5.82%	9.89%
Asia ex-Japan	1.74%	4.06%	3.48%	3.17%	-1.82%
Japan	1.14%	2.27%	3.82%	6.24%	6.06%
Russia	-0.97%	1.03%	7.42%	30.23%	4.19%

Returns by Firm Domicile

<i>Firm Domicile</i>	Feb	YTD	L3mo	2016	2015
Asia	1.96%	3.88%	3.55%	2.51%	5.49%
Continental Europe	1.38%	2.10%	3.26%	3.42%	-2.06%
United Kingdom	1.01%	2.15%	3.16%	1.37%	0.54%
United States	0.98%	2.08%	3.19%	6.32%	-0.47%
China	2.23%	4.86%	4.13%	0.76%	7.00%
Hong Kong	2.01%	4.13%	2.98%	-2.01%	6.02%
Asia ex-Japan	1.97%	3.95%	3.48%	1.64%	5.51%
Japan	1.91%	3.19%	4.10%	11.15%	4.87%
Singapore	1.21%	1.86%	2.36%	3.19%	5.19%
Latin America	2.98%	8.19%	10.57%	23.08%	-18.63%
Middle East	1.05%	3.04%	5.33%	9.25%	-5.36%
Offshores	0.29%	0.19%	1.03%	10.15%	-0.53%
Oceania	0.26%	0.06%	0.83%	6.15%	0.83%

Key Points

- China-focused funds are up over 6% in 2017.**
 While investor flows have yet to shift to the positive, funds focused on Chinese markets have produced two solid monthly gains to start 2017.
- Brazil finally emerges from extended drawdown.**
 Having narrowly outperformed Russia in 2016 as the best performing segment of the hedge fund industry, Brazil-focused funds are again the industry's best in 2017 by a wide margin. More significantly, with February's gains the universe has finally emerged from its drawdown caused by its industry leading losses of 2015.



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