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HEDGE FUNDS SHOW MIXED RECOVERY IN NOVEMBER

HFRI Arbitrage, Credit Multi-Strat gains offset by Energy losses; Volatility, Merger Arbitrage, and Emerging Markets also lead

CHICAGO, (December 7, 2018) – Hedge funds experienced a mixed recovery from October declines in the month of November, as gains across arbitrage, credit and emerging markets were offset by exposures to energy and basic materials. The HFRI Fund Weighted Composite Index® posted a decline of -0.16 percent in November, as reported today by HFR®, the established global leader in the indexation, analysis and research of the global hedge fund industry. The top decile of HFRI constituents posted an average gain of +5.4 percent for the month, while the bottom decile lost -6.6 percent.

Industry-wide performance was led by Arbitrage and Multi-Strategy exposures, including both fixed income-based Relative Value (RV) and Equity Multi-Strategy, as the HFRI Relative Value (Total) Index advanced +0.2 percent in November and leads all hedge fund strategies with a YTD return of +2.1 percent. Credit Multi-strategy and Volatility funds led RV sub-strategy performance for the month, with the HFRI RV: Multi-Strat Index gaining +1.13 percent, while the HFRI RV: Volatility Index added +1.06 percent.

Equity-focused hedge funds produced mixed performance in November, with wide exposure and sub-strategy dispersion within the Equity Hedge (EH) sector, as the HFRI Equity Hedge (Total) Index fell -0.07 percent for the month. Fundamental Growth and Fundamental Value sub-strategies showed extreme divergence in November, with the HFRI EH: Fundamental Growth Index gaining +1.1 percent, while the HFRI EH: Fundamental Value Index fell -0.7

percent. Similarly, the HFRI EH: Multi-Strategy Index added +1.1 percent, while the volatile HFRI EH: Energy/Basic Materials Index declined -4.0 percent for the month. Hedge funds focused on Emerging Markets surged in November, as the HFRI Emerging Markets (Total) Index returned +2.3 percent, led by the HFRI EM: Asia ex-Japan Index, which jumped +5.0 percent for the month.

Event-Driven (ED) strategies also posted a decline for the month, with the HFRI Event-Driven (Total) Index falling -0.33 percent. M&A-sensitive Merger Arbitrage funds led ED sub-strategy performance with a +1.5 percent gain in November; this was offset by the HFRI ED: Activist Index and HFRI ED: Distressed Index, which declined -2.4 and -1.65 percent, respectively.

Macro strategies posted the largest decline of the four main strategies in November, as these funds are generally the most exposed to volatile energy and commodity prices. The HFRI Macro (Total) Index lost -0.5 percent for the month, reducing its YTD return to -4.1 percent. The HFRI Macro: Active Trading Index advanced +0.6 percent in November, though these gains were offset by losses in the HFRI Macro: Multi-Strategy Index and the HFRI Macro: Systematic Diversified/CTA Index, which fell -1.0 and -0.2 percent, respectively, for the month.

Bank Systematic Risk Premia strategies also experienced wide dispersion and volatility in November, with losses led by energy commodity exposures only partially offset by Currency and Rates exposures. The HFR Bank Systematic Risk Premia Commodity Index declined -8.7 percent for the month, while the HFR Bank Systematic Risk Premia Currency Index and HFR Bank Systematic Risk Premia Rates Index added +1.88 and +0.88 percent, respectively. The HFR Bank Systematic Risk Premia Equity Low Beta Index led all risk premia sub-strategies for the month with a gain of +13.85 percent. Risk Parity products also advanced in November, as the HFR Risk Parity Vol 10 Index gained +0.76 percent for the month.

"Ongoing trade and tariff negotiations in the fourth quarter have created a whipsaw effect in global financial markets, with realized volatility across asset classes reaching multi-year highs. Hedge funds experienced a mixed recovery in November from the volatility of October, as large credit multi-strategy firms effectively navigated the fluid and rapidly shifting macroeconomic environment, with recent dislocations in energy markets and flattening yield curve evolving into accelerating equity market volatility into year end," stated Kenneth J. Heinz, President of HFR. "In this environment, multi-strategy hedge funds are well positioned to preserve capital, as well monetize opportunities created by these dislocations. In this volatile environment, it is likely that these funds will continue to lead industry performance as investors look to reduce equity market beta in favor of opportunistic long-short exposures."

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