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HEDGE FUNDS DECLINE IN FEBRUARY AS SUB-STRATEGIES DIVERGE, GLOBAL EQUITIES FALL

Trend-Following, Quantitative CTA strategies lead declines;
Discretionary Currency, Asset-Backed and Technology post negatively-correlated gains

CHICAGO, (March 7, 2018) – Hedge fund performance fell in February as global equities declined, ending a streak of fifteen consecutive monthly gains for the broad-based HFRI Fund Weighted Composite Index®. The HFRIFWC declined -1.8 percent for the month, led by losses in quantitative, trend-following CTA strategies, though all main strategy areas experienced losses for the month, as reported today by HFR®, the established global leader in the indexation, analysis and research of the global hedge fund industry.

The February decline was the largest since January 2016 and pares the Index Value to 14,134, ending a streak of fourteen consecutive record monthly index levels. Inclusive of the February performance, the HFRI FWC has gained +0.5 percent YTD 2018.

Macro hedge funds posted the largest drop among the main strategies as US equities fell and interest rates climbed on expectations of accelerating inflation. The HFRI Macro (Total) Index fell -3.9 percent in February, the largest decline since February 1994; the HFRI Macro Index (Asset Weighted) lost -2.8 percent for the month. Quantitative trend-following CTA strategies diverged with Discretionary Fundamental Macro strategies during the period as the HFRI Macro: Systematic Diversified Index sharply declined by -6.5 percent, the largest monthly loss since inception, and offset the +2.8 percent gain in January. The HFRI Macro: Discretionary

Thematic Index fell -0.2 percent, slightly pulling down YTD performance to +1.5 percent. The HFRI Macro: Currency Index led all sub-strategies with a +1.2 percent gain for the month, while the HFRI Macro: Multi-Strategy Index dropped -1.5 percent.

Equity Hedge funds also declined in February, though losses were partially offset by exposure to Technology. The HFRI Equity Hedge (Total) Index lost -1.5 percent, partially offsetting the +3.0 percent return in January, and bringing the YTD 2018 return to +1.4 percent, which leads US equities for both February and YTD. The HFRI EH: Quantitative Directional Index led EH sub-strategy declines for the period, falling -2.3 percent, however, partially offsetting these losses, the HFRI EH: Technology Index gained +0.4 percent, bringing the YTD Index return to +4.8 percent. The HFRI EH: Energy/Basic Materials Index fell -0.9 percent for the month, while HFRI EH: Equity Market Neutral lost -0.6 percent.

Both Event-Driven and fixed income-based Relative Value Arbitrage strategies declined less than 1 percent in February, as several sub-strategies posted negatively-correlated gains for the month. The HFRI Event-Driven (Total) Index fell -0.6 percent, paring the YTD gain to +0.7 percent. The HFRI ED: Special Situations Index declined -1.4 percent, while the HFRI ED: Distressed Index partially offset strategy losses by advancing +0.2 percent. Similarly, the HFRI Relative Value (Total) Index fell -0.6 percent in February, paring the YTD return to +0.5 percent. RVA sub-strategy declines were led by the HFRI RV: Volatility Index, which fell -2.2 percent, though sub-strategy losses were partially offset by the HFRI RV: Fixed Income-Asset Backed Index, which advanced +0.9 percent for the month.

Risk Parity strategies also declined as equities fell and interest rates increased, with the HFR Risk Parity Vol 10 Index falling -2.8 percent, while the HFR Risk Parity Vol 15 Index dropped -4.3 percent for the month. Cryptocurrency funds also declined, though they pared steep intra-month losses as many cryptocurrencies partially recovered by month-end, as the HFR Blockchain Index fell -9.5 percent for the month.

“Hedge funds declined in February for the first time since October 2016, as long latent global equity market volatility soared and US interest rates increased, with certain hedge fund sub-strategies posting impressive, negatively-correlated gains through the volatility spike,” stated Kenneth J. Heinz, President of HFR. “Despite the decline, the thematic drivers of hedge fund performance have not changed and, in fact, may actually have accelerated throughout the month. US inflation and interest rates, trade negotiations and the newly proposed tariffs, corporate

M&A, and continued application of blockchain technology are likely to drive industry performance, creating both long and short opportunities, throughout 2018."

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