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HEDGE FUNDS EXTEND GAINS TO CONCLUDE STRONG 1Q

HFRI Event-Driven leads on economic optimism, deep value focus; Crypto, Activist, Energy, Quant drive sub-strategy performance

CHICAGO, (April 8, 2021) – Hedge funds advanced in March for the sixth consecutive month despite acceleration in realized equity market volatility, completing a strong 1Q 2021. Recent strong performance has been driven by exposure to out-of-favor, deep value equities, as well as by optimism over the impacts of a broader economic reopening, increased cryptocurrency exposure and increased stimulus spending. The HFRI Fund Weighted Composite Index[®] (FWC) gained +1.0 percent in March, while the investable HFRI 500 Fund Weighted Composite Index advanced +0.65 percent, according to data released today by HFR[®], the established global leader in the indexation, analysis and research of the global hedge fund industry.

The HFRI FWC gained +6.1 percent in 1Q21, the strongest 1Q since 2000 and the fifth strongest 1Q return since index inception. Similarly, the HFRI FWC has surged +17.5 percent in the trailing five months, the strongest such return since the five-month period ending March 2000. The performance dispersion of the underlying index constituents narrowed in March, as the top decile of the HFRI gained an average of +8.6 percent, while the bottom decile declined by an average of -6.2 percent for the month, representing a top-bottom dispersion of 14.8 percent. By comparison, the top-bottom dispersion in February was 20.3 percent, and January was 19.8 percent.

Event-Driven strategies, which often focus on out-of-favor, deep value equity strategies and situations, extended gains through 1Q as the HFRI Event-Driven (Total) Index gained +1.85 percent in March, while the investable HFRI 500 Event-Driven Index advanced +0.43 percent. ED sub-strategy gains were again led by Activist and Special Situations, strategies which categorically trade in deep value

equity situations, including companies which are possible targets for restructuring, acquisitions or investor-driven strategy shifts. The HFRI ED: Activist Index advanced +3.0 percent in March, while the HFRI ED: Special Situations Index added +2.3 percent.

Equity Hedge strategies, which invest long and short across specialized sub-strategies, also extended gains in March as the influence of retail investors increased trading volumes and investors continued to expand their focus to a wider range of individual equities. The HFRI Equity Hedge (Total) Index advanced +1.1 percent for the month, with strong contributions from a wide dispersion of sub-strategy performance led by the high-beta, long-biased Quantitative, Energy, and Fundamental Value exposures. The HFRI EH: Quantitative Directional Index surged +5.0 percent in March, the HFRI EH: Energy/Basic Materials Index advanced +2.6 percent, and the HFRI EH: Fundamental Value Index added +2.0 percent.

Uncorrelated Macro strategies also advanced in March, driven primarily by trend-following CTAs strategies. The investable HFRI 500 Macro Index gained +0.9 percent for the month, while the HFRI Macro (Total) Index added +0.7 percent. Macro sub-strategy performance was led by the HFRI Macro: Multi-Strategy Index, which advanced +1.7 percent, the HFRI Macro: Active Trading Index, which returned +1.5 percent, and the HFRI Macro: Systematic Diversified/CTA Index, which added +1.7 percent for the month.

The fixed income-based, interest rate-sensitive HFRI Relative Value (Total) Index and investable HFRI 500 Relative Value Index each advanced +0.7 percent in March. Sub-strategy performance was led by the investable HFRI 500 RV: Volatility Index, which advanced +1.3 percent, and the HFRI 500 RV: Fixed Income Asset-Backed Index, which advanced +0.9 percent.

Extending the 1Q21 surge, Blockchain and Cryptocurrency exposures continued to deliver strong performance as cryptocurrencies reached 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 +23.0 percent in March.

Risk Premia and Liquid Alternatives also posted gains in March, led by Credit and Equity exposures. The HFR BSRP Credit Index gained +5.2 percent for the month, while the HFR Bank Systematic Risk Premia Equity Index advanced +4.3 percent. The HFRI-I Liquid Alternative UCITS Index advanced +0.3 percent in March, driven by a +0.9 percent gain in the HFRI-I UCITS Macro Index.

“Hedge funds extended strong performance trends in March, with leadership from deep value, event-driven equities, as well as credit strategies including traditional convertible arbitrage exposures, and were also complemented by cryptocurrency exposure”, stated Kenneth J. Heinz, President of HFR. “With many equity markets having reached record highs, hedge funds continue to tactically position for fluid macroeconomic and geopolitical developments, with potential for dislocations as a result of dynamic

retail trading trends, evolving demand for digital assets, new virus variants and/or financial institution leverage. Funds positioned to opportunistically navigate these powerful and potentially volatile trends are likely to lead industry performance through mid-2021.”

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