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HEDGE FUNDS DECLINE IN JUNE AS EQUITIES COMPLETE WORST 1H IN HALF CENTURY

HFRI 500 Macro advances in June, surges +14.2 percent in 1H22; HFRI Asset Weighted Composite gains +1.6 percent in 1H22 as larger funds outperform; abrdn launches HFRI 500 Index tracking fund

CHICAGO, (July 8, 2022) – Hedge funds declined in June as equity markets extended steep YTD losses, with equities completing the worst first half of a calendar year in over 50 years, volatility accelerated across global equity, bonds and commodity markets, and investors positioned for the US economy to enter recession as a result of generational inflation. The investable HFRI 500 Fund Weighted Composite Index declined -2.6 percent for the month, the largest decline since March 2020, as gains in quantitative, trend-following CTA and market neutral equity strategies were offset by declines in the highest beta equity and fixed income strategies, according to data released today by HFR®, the established global leader in the indexation, analysis and research of the global hedge fund industry. Larger, more established hedge funds outperformed smaller hedge funds in both June and YTD 2022, as the HFRI Asset Weighted Composite Index (which has the same constituents as the equal-weighted version) fell only -0.9 percent for the month and has gained +1.55 percent through mid-year 2022.

The HFRI Fund Weighted Composite Index (FWC) fell -3.1 percent in June, lowering YTD performance to -5.9 percent. For comparison, the FWC Index outperformed the S&P 500 by 1,600 bps and the Nasdaq Composite by 2,550 bps through the first six months of 2022, both representing the largest outperformance of equity markets in the first half of a calendar year since FWC Index inception in 1990.

The top decile of the HFRI constituents gained an average of +4.65 percent in June while the bottom decile declined by an average of -18.30 percent for the month, representing a top-bottom dispersion of 22.95 percent. Through 1H22, the top decile of the HFRI has surged an average of +34.6 percent, while the bottom decile has declined by an average of -32.2 percent. Approximately 30 percent of hedge funds posted positive performance in June, while roughly 37 percent produced gains in 1H22.

The investable HFRI 500 Macro Index posted a narrow gain of +0.05 percent in June, extending YTD performance to +14.2 percent, with strong contributions from Quantitative, trend-following CTA and Active Trading strategies. Macro sub-strategy performance was led by the investable HFRI 500 Macro: Systematic Diversified Index, which gained +1.1 percent in June, as the US Federal Reserve began raising interest rates to curb rampant inflation. For 1H22, Macro sub-strategy performance was led by the HFRI 500 Macro: Commodity Index, which surged +34.0 percent in the first six months of the year, and the HFRI 500 Macro: Systematic Diversified Index, which vaulted +18.8 percent.

Fixed income-based, interest rate-sensitive strategies declined in June, as the investable HFRI 500 Relative Value Index fell -2.0 percent, while the HFRI Relative Value (Total) Index lost -1.75 percent. For 1H22, the HFRI 500 Relative Value Index posted a narrow decline of -0.66 percent, while the HFRI Relative Value (Total) Index fell -2.2 percent. Over the first six months of the year, RVA sub-strategy performance was led by the HFRI 500 RV: Volatility Index, which gained +10.7 percent, and the HFRI 500 RV: Multi-Strategy Index, which added +5.8 percent.

Event-Driven strategies, which often focus on out-of-favor, deep value equity exposures and speculation on M&A situations, posted declines in June as the investable HFRI 500 Event-Driven Index fell -4.15 percent and the HFRI Event-Driven (Total) Index lost -4.14 percent for the month. ED sub-strategy declines were led by the HFRI 500 ED: Special Situations Index, which fell -6.5 percent, and the HFRI 500 ED: Multi-Strategy Index, which lost 4.3 percent for the month.

Equity Hedge funds, which invest long and short across specialized sub-strategies, also declined in June, as the investable HFRI 500 Equity Hedge Index fell -4.3 percent while the HFRI Equity Hedge (Total) Index lost -4.5 percent. EH sub-strategy declines were led by the HFRI 500 EH: Multi-Strategy Index, which fell -7.8 percent for the month, while the HFRI EH: Fundamental Value Index lost -7.3 percent. Partially offsetting these declines, the HFRI 500 EH: Healthcare Index gained +2.5 percent for the month, while the HFRI 500 EH: Equity Market Neutral Index added +1.0 percent in June. For 1H22, EH sub-strategy declines were led by the HFRI 500 EH: Fundamental Growth Index, which fell -21.0 percent in the first six months of the year. These losses were only partially offset by the HFRI 500: EH Energy Basic Materials Index, which gained +11.8 percent in 1H22.

Risk premia strategies also declined in June, as the HFR Bank Systematic Risk Premia Commodity Index posted a narrow loss of -0.1 percent, while the HFR Bank Systematic Risk Premia

Credit Index fell -8.4 percent. For 1H22, risk premia strategy performance was led by the HFR Bank Systematic Risk Premia Commodity Index, which gained +11.9 percent, and the HFR Bank Systematic Risk Premia Multi-Asset Index, which added +4.2 percent YTD through June 30. Liquid Alternative strategies also declined in June, as the HFRX Absolute Return Index fell -0.94 percent, while the HFRX Global Hedge Fund Index lost -1.8 percent. The HFRI Diversity Index declined -5.3 percent in June, while the HFRI Women Index fell -1.0 percent.

"Powerful risk off trends accelerated in June driving extreme financial market volatility with hedge funds trading through a wide range of risks including not only generational inflation, increasing interest rates, the continuation of the Russia/Ukraine war and record energy price increases, but also the increased likelihood of a consumer-led US economic recession. Through the volatility, uncorrelated Macro strategies delivered strong, negatively correlated performance driven by Commodity and quantitative, trend-following strategies," stated Kenneth J. Heinz, President of HFR. "Despite declines for the month, hedge funds have effectively navigated the intense 2022 volatility with not only Macro, CTA, and Commodity strategies, but the broad-based HFRI 500 Composite Index comprised of all hedge fund strategies each producing the largest outperformance of the S&P 500 and Nasdaq Composite indices, respectively, through the first half of a calendar year since HFR index inception. With expectations for the 1H22 volatility to continue through 2H, institutional investors are likely to increase commitments to strategies which have demonstrated their ability to preserve capital through recent declines, while opportunistically positioning for dynamic positive or negative market environments."

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