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Contacts:

HFR	MacMillan Communications	Hydra Strategy
Kenneth Heinz	Chris Sullivan	Henrietta Hirst
Chicago/312.658.0955	New York/212.473.4442	London/+44 (0) 7880 742 375
info@hfr.com @HFRInc @KennethJHeinz	chris@macmillancom.com	henrietta.hirst@hydrastrategy.co.uk

HFRI 500 GAINS IN NOVEMBER AS INTEREST RATES FALL, CRYPTOCURRENCIES PLUNGE

Interest rate-sensitive Relative Value Arbitrage, Directional Equity Hedge top strategy gains; Risk Parity surges in November

CHICAGO, (December 7, 2022) – Hedge funds extended gains in November, as interest rates posted sharp declines as generational inflationary pressures began to moderate, while investors positioned for the U.S. Federal Reserve to decrease the pace of future interest rate increases. Cryptocurrencies plunged on the collapse of the FTX exchange platform, while equities gained despite the volatility in crypto, interest rates and currencies. The investable HFRI 500 Fund Weighted Composite Index gained +0.8 percent for the month, with directional Equity Hedge and interest rate sensitive Relative Value Arbitrage strategies leading industry performance, 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 Fund Weighted Composite Index® advanced +0.95 percent in November, paring its YTD decline to -4.1 percent.

The dispersion of hedge fund performance widened slightly in November, as the top decile of the HFRI constituents advanced by an average of +12.8 percent, while the bottom decile fell by an average of -8.7 percent, representing a top/bottom dispersion of 21.5 percent. By comparison, the top/bottom dispersion was 18.6 percent in October. Through the first eleven months of the year, the top decile of the HFRI has surged an average of +40.1 percent, while the bottom decile has declined by an average of -30.1 percent, representing a top/bottom dispersion of 70.2 percent. Approximately two-thirds of hedge funds posted positive performance in November.

Equity Hedge funds, which invest long and short across specialized sub-strategies, led strategy gains in November, with equities advancing despite volatility across crypto, interest rates and currencies; the investable HFRI 500 Equity Hedge Index jumped +3.8 percent for the month, while the HFRI Equity Hedge (Total) Index gained +2.7 percent. EH sub-strategy performance was led by the HFRI 500 EH: Healthcare Index, which surged +7.15 percent, while the HFRI 500 EH: Quantitative Directional Index jumped +5.4 percent for the month.

The HFR Cryptocurrency Index fell -13.5 percent in November, as cryptocurrencies plunged on the collapse of the FTX exchange platform, as well as other cryptocurrency platforms. The Index has declined -52.5 percent YTD through November, this after gaining +240 percent in 2021.

Fixed income-based, interest rate-sensitive strategies also advanced in November, as interest rates posted sharp declines as generational inflationary pressures showed early signs of easing, while investors positioned for the US Federal Reserve to moderate the pace of future interest rate increases; the investable HFRI 500 Relative Value Index gained +1.65 percent for the month, while the HFRI Relative Value (Total) Index added +1.1 percent. The HFRI 500 RV: Fixed Income-Sovereign Index gained +6.1 percent for the month, while the HFRI 500 RV: FI-Asset Backed Index added +3.55 percent.

Led by Activist and Special Situations exposures, Event-Driven strategies, which often focus on out-of-favor, deep value equity exposures and speculation on M&A situations, also gained in November with the investable HFRI 500 Event-Driven Index advancing +1.1 percent, while the HFRI Event-Driven (Total) Index gained +0.8 percent. ED sub-strategy performance was driven by the HFRI 500 ED: Distressed/Restructuring Index, which surged +7.2 percent for the month, while the HFRI 500 ED: Activist Index jumped +4.2 percent.

Macro strategies posted their first decline since July, paring strong YTD performance on weakness in quantitative, trend-following strategies; the investable HFRI 500 Macro Index fell -3.7 percent for the month, paring YTD performance to +13.1 percent; the HFRI Macro (Total) Index fell -2.7 percent in November. Macro sub-strategy declines were led by the HFRI Macro: Systematic Diversified Index, which fell -5.2 percent for the month, while the HFRI Macro: Active Trading Index fell -4.6 percent. These declines were partially offset by the HFRI Macro: Discretionary Thematic Index, which gained +1.2 percent for the month. Despite a decline in November, the HFRI 500 Macro: Commodity Index leads all sub-strategies through the first eleven months of the year, surging +34 percent.

Risk Parity strategies posted strong gains in November, with the HFR Risk Parity Vol 15 Index surging +8.2 percent. Liquid Alternative UCITS strategies also advanced in November, with the HFRI-I Liquid Alternatives Index gaining +1.8 percent, led by the HFRI-I Equity Hedge Index, which jumped +2.7 percent, while the HFRI-I Relative Value Index added +2.4 percent. Bank Systematic Risk Premia strategies also gained for the month led by the HFR BSRP Rates Index which surged +5.8 percent, while the HFR BSRP Index Commodity Index gained +2.6 percent. The HFRI Diversity Index gained +2.2 percent in November, while the HFRI Women Index advanced +3.0 percent.

"Hedge funds extended strong 4Q gains through November as managers navigated intense cryptocurrency induced volatility, as well as extensions of the recent sharp reversals in equity and fixed income markets, with leadership directional equity, interest rate sensitive and risk parity strategies. Directional Equity and uncorrelated Macro posted dramatic divergences for the month, with Equity Hedge posting the strongest gain since February 2021, while Macro posted the sharpest decline since February 2018," stated Kenneth J. Heinz, President of HFR. "In sharp contrast to one month ago, political risks have moderated on greater clarity from US & European election, while Macroeconomic risks have shifted to a paradigm of oscillating between concerns about a sharp slowdown in the global economy, while generational inflationary pressures continue to represent significant risks to financial markets. With increased risk associated with recessionary weakness, institutional investors are likely to allocate to funds which have delivered strong performance through the dramatic dislocations and volatility which have defined 2022 and are likely to extend into 2023."

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