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HEDGE FUND CAPITAL FALLS AS INVESTORS POSITION FOR GLOBAL INFLATION, RECESSION

HFRI 500 Macro Index gains +13.2 percent in 1H22 as commodities, risk mitigation and CTAs surge

Hedge funds top equity declines in 1H22; largest outperformance since inception

abrdn launches platform offering tracking of HFRI 500 and related HFR investable index products

CHICAGO, (July 21, 2022) – Led by gains in Macro, CTA, Risk Mitigation and Commodity strategies, the HFRI 500 Macro Index gained +13.2 percent in the 1H 2022, topping the decline of the S&P 500 by 3300 bps and the Nasdaq Composite Index by nearly 4400 bps as US equity markets experienced the worst 1H of a calendar year in over 50 years.

Negatively correlated Macro gains offset weakness in directional and higher beta strategies, bringing the performance of the HFRI 500 Fund Weighted Composite Index to a decline of -4.1 percent in 1H22, with both Macro and the overall Composite exhibiting the highest outperformance versus equity market declines in a first half of a year since inception (1990). Larger, more established hedge funds outperformed smaller hedge funds in both June and 1H22, as the HFRI Asset Weighted Composite Index (which has the same constituents as the equal-weighted version) fell only -0.08 percent for the month and has gained +2.35 percent through mid-year 2022.

As a result of the volatility and positioning for generational inflation and increased likelihood of an economic recession, institutional investors withdrew an estimated $27.5 billion from hedge funds in 2Q 2022, the highest quarterly outflow since 1Q 2020, as reported today by HFR®, the established global leader in the indexation, analysis and research of the global hedge fund industry, in the latest release of the *HFR Global Hedge Fund Industry Report*. Total global hedge fund industry capital fell to $3.82 trillion, as managers navigated extreme volatility with leadership from uncorrelated Macro strategies, including Fundamental Commodity and Discretionary funds, as well as Quantitative, Trend-Following CTA strategies which posted record gains.

The investable HFRI 500 Fund Weighted Composite Index posted a decline of -4.1 percent for 1H22, declining -2.7 percent in June, with 1H gains in Macro, Energy, and Market Neutral strategies offset by declines in directional and higher beta strategies; the HFRI Fund Weighted Composite Index® (FWC) declined -5.8 percent in 1H22.

Strategy asset increases were led by uncorrelated Macro strategies, which grew by $25.9 billion in 2Q22 on strong performance-based gains to surpass the $700 billion milestone, ending the quarter at an estimated $704 billion. Macro sub-strategy inflows and asset increases were led by quantitative, trend-following CTA strategies, as investors allocated $266 million of net new capital to CTA's, which produced performance-based gains of $21.7 billion to end 2Q22 with an estimated $359 billion AUM. The investable HFRI 500 Macro Index surged +13.2 percent in 1H22, driven by the HFRI 500 FOF (S) Risk Mitigation Index, which gained +6.0 percent, the HFRI 500 Macro: Systematic Diversified Index, which soared +17.9 percent, and the HFRI 500 Macro: Commodity Index, which surged a record +37.0 percent in 1H22, leading all strategies and sub-strategies.

With interest rates rising in 1H22 and expectations for continued increases, capital managed by credit- and interest rate-sensitive fixed income-based Relative Value Arbitrage (RVA) strategies experienced an estimated net outflow of $3.5 billion in 2Q22, ending the quarter with $1.024 trillion. RVA managers again navigated not only sharp increases in interest rates but also a yield curve inversion, the highest inflation in 40 years, a sharp increase in sovereign default risk, and expectations for additional rate increases in 2022. Despite outflows in other RVA sub-strategies, Multi-Strategy funds led RVA sub-strategies with estimated net asset inflows of $2.7 billion, keeping RV: MS capital steady at $616.8 billion. The investable HFRI 500 Relative Value Index posted a narrow decline of -0.4 percent in 1H22, with losses in directional strategies offset by the HFRI 500 RV: Multi-Strategy Index, which gained +5.4 percent, and the HFRI 500 RV: Volatility Index, which surged +11.2 percent.

Event-Driven (ED) strategies, which categorically focus on out of favor, often heavily-shorted, deep value equity and credit positions, experienced an estimated $2.6 billion of net asset outflows in 2Q, partially offsetting the 1Q22 net inflow of $12.8 billion to ED strategies, as total ED capital fell to $1.01

trillion on performance-based declines. ED sub-strategy outflows were almost entirely concentrated in ED: Special Situations, which experienced $2.6 billion in outflows. These were only partially offset by inflows of $741 million and $246 million, respectively, into Activist and Distressed sub-strategies. The investable HFRI 500 Event-Driven Index declined -8.55 percent in 1H22, while the HFRI Event-Driven (Total) Index fell -7.65 percent.

Total capital invested in Equity Hedge (EH) strategies declined in 2Q22, as performance-based losses, combined with an estimated net asset outflow of $18.5 billion, decreased total EH capital to $1.08 trillion. EH sub-strategy outflows were led by Fundamental Value, which experienced an estimated $14.7 billion of net redemptions from the sub-strategy. The investable HFRI 500 Equity Hedge Index declined by -8.34 percent in 2Q, lowering its 1H return to -12.65 percent, while the HFRI Equity Hedge (Total) Index fell -7.98 percent in 2Q and -12.0 percent in 1H22. Concurrent with surging energy and commodity prices, as well as accelerating inflation, EH sub-strategy performance was led by the HFRI 500 EH: Energy/Basic Materials Index, which surged +9.2 percent in 1H22, though these gains were offset by losses in the HFRI 500 EH: Healthcare Index (-14.6 percent) and the HFRI 500 EH: Fundamental Growth Index (-19.6 percent).

The industry's largest firms, those managing greater than $5 billion, led investor outflows in 2Q, with these experiencing an estimated net asset outflow of $19.6 billion for the quarter. Firms managing between $1 billion and $5 billion saw an estimated net outflow of $7.2 billion, while investors redeemed approximately $800 million from firms managing less than $1 billion over the quarter.

abrdn Launches Eclipse Platform

HFR is pleased to announce that abrdn has launched the Eclipse fund platform, providing passive exposure to hedge fund strategies tracking indices from HFR, the established global leader in indexation of the hedge fund industry. Eclipse offers abrdn's global clients access to the flagship investable hedge fund benchmark HFRI 500, as well as eight sub-strategy indices including Long/Short Equity, Equity Market Neutral, Merger Arbitrage, Event Driven Multi-Strategy, Discretionary Macro, Systematic Macro, Fixed Income Relative Value, and Volatility Relative Value strategies.

"The HFRI 500 family of indexes provide a range of policy benchmarks for investors, and this launch with abrdn translates our own leading research and data tracking across strategies into investable financial products," says Joseph Nicholas, Founder at HFR. "We are pleased to see those efforts realized and commend our partners at abrdn for their commitment to deliver this alternative allocation route for investors. This is a meaningful moment in the industry and paves the way for a new era in passive hedge fund investing."

"Navigating extreme volatility, generational inflation, sharp interest rate increases, a historic breakdown in correlations, an increased likelihood of recession and the worst 1H equity market decline in over 50 years, Macro and Relative Value Arbitrage hedge funds drove historic defensive capital preservation and the largest opportunistic equity and fixed income outperformance since inception of HFR Indices in 1990," stated Kenneth J. Heinz, President of HFR. "Given the acceleration of macroeconomic and geopolitical uncertainty, institutional investors are likely to increase their commitment to funds combining effective, volatility-positive, capital preservation with managers offering opportunistic exposure to interest rate and inflation trends, with these effectively complementing existing portfolio holdings and duration. Funds tactically positioned to navigate these multi-asset trends are likely to lead industry performance and growth through 2H22."

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HFR is the global leader in the alternative investment industry, specializing in the indexation and analysis of hedge funds. Established in 1992, HFR produces the HFRI, HFRX and HFRU Indices, the industry's most widely used benchmarks of global hedge fund performance. HFR calculates over 100 indices of hedge fund performance ranging from industry-aggregate levels down to specific, niche areas of sub-strategy and regional investment focus. HFR Database, a comprehensive resource available for hedge fund investors, includes fund-level detail on historical performance and assets, as well as firm characteristics on both the broadest and most influential hedge fund managers. HFR has developed a detailed fund classification system, enabling granular and specific queries for relative performance measurement, peer group analysis and benchmarking. The HFR suite of analysis products leverages HFR Database to provide detailed, current, comprehensive, and relevant aggregate reference points on all facets of the hedge fund industry. HFR also offers consulting services for clients seeking customized top-level or more sophisticated analysis. For the hedge fund industry's leading investors and hedge fund managers, **HFR is The Institutional Standard.**

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