



HFRU Hedge Fund Indices

Defined Formulaic Methodology

2022

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Introduction

HFRU Hedge Fund Indices are the global industry standard for performance measurement across all aspects of the UCITS-compliant hedge fund industry. Indices are constructed using robust filtering, monitoring and quantitative constituent selection process using the HFR Database, also the industry standard for hedge fund data.

HFR, Inc. utilizes a quantitative methodology to construct the HFRU Hedge Fund Indices. The methodology is based on defined and predetermined rules and objective criteria to select and rebalance components to maximize representation of the UCITS-compliant Hedge Fund Universe. HFRU Indices utilize state-of-the-art quantitative techniques and analysis; multi-level screening techniques ensure that each Index is a pure representation of its corresponding investment focus. Its performance is reported daily on a T+1 basis, with the last 5 days of performance published as estimates.

Constituents of all indices are selected from an eligible pool of the more than 1,000 UCITS-Compliant funds that report to the HFR Database. Funds are screened for various reporting characteristics to ensure unique fund strategy inclusion.

The HFRU Indices follow an equally weighting scheme. Additional indices utilizing alternative bases of indexation are also available, and as the hedge fund industry continues to evolve, new HFRU Indices will be launched to capture this evolution.

The HFRU Hedge Fund Indices are designed to be representative of the overall composition of the UCITS-Compliant hedge fund universe. They are comprised of all eligible hedge fund strategies; including but not limited to equity hedge, event driven, macro, and relative value arbitrage. The underlying constituents are equally weighted. The HFRU Indices are rebalanced on a quarterly basis.

Information of selected constituents is available to HFR database subscribers. Strategies not represented by a separate sub-index are represented by qualifying constituents within the various indices.

HFRU Hedge Fund Composite Index

APPROACH

Eligibility Criteria

The process begins with screening the entire HFR Hedge Fund Database of active hedge funds which claim to be UCITS compliant. Funds eligible to index constituents have to meet all of the following criteria:

- Fund is confirmed to be UCITS compliant
- Performance reported net of all fees
- Performance denominated in Euro
- Fund reports NAV at least every two weeks
- Fund's manager has at least €10 million of assets under management or 6 months of track record

The performance of the Index is denominated in EUR and is published daily on a T+1 basis.

Selection Process

All confirmed UCITS funds that report NAV at least every two weeks are selected as constituents for the Index. The number of funds per firm will not exceed 2.5% of all constituents of the index.

The following formula is used to define the representative Hedge Fund Strategy Universe ("Strategy Universe") derived from the UCITS Hedge Fund Universe contained in the HFR Hedge Fund Database. The UCITS Hedge Fund Universe is expressed as:

$$HFU = \bigcup HFS$$

where *HFS* is the set of UCITS compliant funds classified by strategy in the HFR Hedge Fund Database.

The funds comprising the HFS are filtered using the following formula to create the Strategy Universe.

$$\delta(UCITS - 1) \cdot H(10 - freq) \cdot \delta(fees) \cdot [H(AUM - 10) + H(m - 6)] \neq 0$$

where $H(x)$ is the step function defined as

$$H(x) = \begin{cases} 1 & x \geq 0 \\ 0 & x < 0 \end{cases}$$

$\delta(x)$ is the delta function defined as

$$\delta(x) = \begin{cases} 1 & x = 0 \\ 0 & x \neq 0 \end{cases}$$

and

- *freq* is the reporting frequency in business days
- *fees* is the returns net of all fees (0=yes, 1=no)

- *AUM* is the fund assets in EUR MM
- *m*=total number of months reported

In cases where a manager lists multiple funds with the same or similar investment profile, HFR chooses only the most representative fund for HFRU inclusion.

Index NAV Calculation

HFRU Hedge Fund Indices (the “Index” and collectively, “Indices”) are total return indices and are published by HFR at www.hfru.eu and on Bloomberg. Computation of the Index *NAV* uses actual performance of constituent funds as reported to HFR, Inc. Performance reflects constituent fund management fees, incentive fees, dividends and other distributions.

The Index *NAV* is 1000 at inception where “*t=0*”. The *NAV* changes are driven by the Index performance, which is defined as the percentage change in the value of the Index from a previous date “*t-1*” to current date “*t*”. The *NAV* at “*t*” is defined as

$$NAV_t = NAV_{t-1} \times (1 + ROR_t)$$

Where *ROR_t* is the percentage change in the total value of the Index from “*t-1*” to “*t*”:

$$ROR_t = \frac{1}{n} \sum_{i=1}^n ROR_t^i - F$$

where *ROR_tⁱ* is the total return of constituent *i* at time “*t*”, *n* is the number of constituents in the Index and *F* corresponds to an index adjustment of 2 bps/month for HFRU Hedge Fund Composite Index.

INDEX WEIGHTING

The HFRU Hedge Fund Composite Index is equally weighted across the selected funds. The performance of the Index is denominated in EUR.

Notes:

- The Index is rebalanced on a quarterly basis.
- Funds are eligible for inclusion in the HFRU Hedge Fund Composite Index the month after their addition to HFR Database. For instance, a fund that is added to HFR Database in June is eligible for inclusion in the indices upon reporting their July performance.
- The HFRU Hedge Fund Composite Index is updated daily on a T+1 basis. Index NAV is not published for days which are bank holidays in Luxembourg or Ireland.
- Index NAV is not reported on days which are bank holidays in the United States.
- Performance is initially published as an estimate and may be subject to change for 5 additional reporting days. After the fifth day, the index performance for that date is locked and is no longer subject to change.
- If a fund liquidates/closes, that fund's performance will be included in the HFRU Hedge Fund Composite Index as of that fund's last reported performance update.
- Duplicate share classes of funds are not considered as Index constituents.

HFRU Equity Hedge Index

APPROACH

Eligibility Criteria

The process begins with screening the entire HFR Hedge Fund Database of active hedge funds which claim to be UCITS compliant. Funds eligible to index constituents have to meet all of the following criteria:

- Fund is confirmed to be UCITS compliant
- Performance reported net of all fees
- Performance denominated in Euro
- Fund reports NAV at least every two weeks
- Fund’s strategy is classified as “Equity Hedge”
- Fund’s manager has at least €10 million of assets under management or 6 months of track record

The performance of the Index is denominated in EUR and is published daily on a T+1 basis.

Selection Process

All confirmed UCITS funds that report NAV at least every two weeks are selected as constituents for the Index.

The following formula is used to define the representative Hedge Fund Strategy Universe (“Strategy Universe”) derived from the UCITS Hedge Fund Universe contained in the HFR Hedge Fund Database. The UCITS Hedge Fund Universe is expressed as:

$$HFU = \bigcup HFS$$

where HFS is the set of UCITS compliant funds classified by strategy in the HFR Hedge Fund Database.

The funds comprising the HFS are filtered using the following formula to create the Strategy Universe.

$$\delta(\text{Strategy} - \text{EH}) \cdot \delta(\text{UCITS} - 1) \cdot H(10 - \text{freq}) \cdot \delta(\text{fees}) \cdot [H(\text{AUM} - 10) + H(m - 6)] \neq 0$$

where $H(x)$ is the step function defined as

$$H(x) = \begin{cases} 1 & x \geq 0 \\ 0 & x < 0 \end{cases}$$

$\delta(x)$ is the delta function defined as

$$\delta(x) = \begin{cases} 1 & x = 0 \\ 0 & x \neq 0 \end{cases}$$

and

- *Strategy* is the fund's main strategy, where $Strategy = \{EH, ED, Macro, RV\}$
- *freq* is the reporting frequency in business days
- *fees* is the returns net of all fees (0=yes, 1=no)
- *AUM* is the fund assets in EUR MM
- *m*=total number of months reported

In cases where a manager lists multiple funds with the same or similar investment profile, HFR chooses only the most representative fund for HFRU inclusion. HFR also screens for funds that exhibit abnormal volatility compared to its peers and considers them for removal from the index.

Index NAV Calculation

HFRU Hedge Fund Indices (the "Index" and collectively, "Indices") are total return indices and are published by HFR at www.hfru.eu and on Bloomberg. Computation of the Index NAV uses actual performance of constituent funds as reported to HFR, Inc. Performance reflects constituent fund management fees, incentive fees, dividends and other distributions.

The Index NAV is 1000 at inception where " $t=0$ ". The NAV changes are driven by the Index performance, which is defined as the percentage change in the value of the Index from a previous date " $t-1$ " to current date " t ". The NAV at " t " is defined as

$$NAV_t = NAV_{t-1} \times (1 + ROR_t)$$

Where ROR_t is the percentage change in the total value of the Index from " $t-1$ " to " t ":

$$ROR_t = \frac{1}{n} \sum_{i=1}^n ROR_t^i$$

ROR_t^i is the rate of return of fund " i " at time " t " and n is the number of funds in the index.

INDEX WEIGHTING

The HFRU Equity Hedge Index is equally weighted across the selected funds. The performance of the Index is denominated in EUR.

Notes:

- The Index is rebalanced on a quarterly basis.
- Funds are eligible for inclusion in the HFRU Equity Hedge Index the month after their addition to HFR Database. For instance, a fund that is added to HFR Database in June is eligible for inclusion in the indices upon reporting their July performance.
- The HFRU Index is updated daily on a T+1 basis. Index NAV is not published for days which are bank holidays in Luxembourg or Ireland.
- Index NAV is not reported on days which are bank holidays in the United States.
- Performance is initially published as an estimate and may be subject to change for 5 additional reporting days. After the fifth day, the index performance for that date is locked and is no longer subject to change.

- If a fund liquidates/closes, that fund's performance will be included in the HFRU Index as of that fund's last reported performance update.
- Duplicate share classes of funds are not considered as Index constituents.

HFRU Event Driven Index

APPROACH

Eligibility Criteria

The process begins with screening the entire HFR Hedge Fund Database of active hedge funds which claim to be UCITS compliant. Funds eligible to index constituents have to meet all of the following criteria:

- Fund is confirmed to be UCITS compliant
- Performance reported net of all fees
- Performance denominated in Euro
- Fund reports NAV at least every two weeks
- Fund's strategy is classified as "Event Driven"
- Fund's manager has at least €10 million of assets under management or 6 months of track record

The performance of the Index is denominated in EUR and is published daily on a T+1 basis.

Selection Process

All confirmed UCITS funds that report NAV at least every two weeks are selected as constituents for the Index.

The following formula is used to define the representative Hedge Fund Strategy Universe ("Strategy Universe") derived from the UCITS Hedge Fund Universe contained in the HFR Hedge Fund Database. The UCITS Hedge Fund Universe is expressed as:

$$HFU = \bigcup HFS$$

where HFS is the set of UCITS compliant funds classified by strategy in the HFR Hedge Fund Database.

The funds comprising the HFS are filtered using the following formula to create the Strategy Universe.

$$\delta(\text{Strategy} - ED) \cdot \delta(UCITS - 1) \cdot H(10 - freq) \cdot \delta(fees) \cdot [H(AUM - 10) + H(m - 6)] \neq 0$$

where $H(x)$ is the step function defined as

$$H(x) = \begin{cases} 1 & x \geq 0 \\ 0 & x < 0 \end{cases}$$

$\delta(x)$ is the delta function defined as

$$\delta(x) = \begin{cases} 1 & x = 0 \\ 0 & x \neq 0 \end{cases}$$

and

- *Strategy* is the fund's main strategy, where $Strategy = \{EH, ED, Macro, RV\}$
- *freq* is the reporting frequency in business days
- *fees* is the returns net of all fees (0=yes, 1=no)
- *AUM* is the fund assets in EUR MM
- *m*=total number of months reported

In cases where a manager lists multiple funds with the same or similar investment profile, HFR chooses only the most representative fund for HFRU inclusion. HFR also screens for funds that exhibit abnormal volatility compared to its peers and considers them for removal from the index.

Index NAV Calculation

HFRU Hedge Fund Indices (the "Index" and collectively, "Indices") are total return indices and are published by HFR at www.hfru.eu and on Bloomberg. Computation of the Index NAV uses actual performance of constituent funds as reported to HFR, Inc. Performance reflects constituent fund management fees, incentive fees, dividends and other distributions.

The Index NAV is 1000 at inception where " $t=0$ ". The NAV changes are driven by the Index performance, which is defined as the percentage change in the value of the Index from a previous date " $t-1$ " to current date " t ". The NAV at " t " is defined as

$$NAV_t = NAV_{t-1} \times (1 + ROR_t)$$

Where ROR_t is the percentage change in the total value of the Index from " $t-1$ " to " t ":

$$ROR_t = \frac{1}{n} \sum_{i=1}^n ROR_t^i$$

ROR_t^i is the rate of return of fund " i " at time " t " and n is the number of funds in the index.

INDEX WEIGHTING

The HFRU Event Driven Index is equally weighted across the selected funds. The performance of the Index is denominated in EUR.

Notes:

- The Index is rebalanced on a quarterly basis.

- Funds are eligible for inclusion in the HFRU Event Driven Index the month after their addition to HFR Database. For instance, a fund that is added to HFR Database in June is eligible for inclusion in the indices upon reporting their July performance.
- The HFRU Index is updated daily on a T+1 basis Index NAV is not published for days which are bank holidays in Luxembourg or Ireland.
- Index NAV is not reported on days which are bank holidays in the United States.
- Performance is initially published as an estimate and may be subject to change for 5 additional reporting days. After the fifth day, the index performance for that date is locked and is no longer subject to change.
- If a fund liquidates/closes, that fund's performance will be included in the HFRU Index as of that fund's last reported performance update.
- Duplicate share classes of funds are not considered as Index constituents.

HFRU Macro Index

APPROACH

Eligibility Criteria

The process begins with screening the entire HFR Hedge Fund Database of active hedge funds which claim to be UCITS compliant. Funds eligible to index constituents have to meet all of the following criteria:

- Fund is confirmed to be UCITS compliant
- Performance reported net of all fees
- Performance denominated in Euro
- Fund reports NAV at least every two weeks
- Fund's strategy is classified as "Macro"
- Fund's manager has at least €10 million of assets under management or 6 months of track record

The performance of the Index is denominated in EUR and is published daily on a T+1 basis.

Selection Process

All confirmed UCITS funds that report NAV at least every two weeks are selected as constituents for the Index.

The following formula is used to define the representative Hedge Fund Strategy Universe ("Strategy Universe") derived from the UCITS Hedge Fund Universe contained in the HFR Hedge Fund Database. The UCITS Hedge Fund Universe is expressed as:

$$HFU = \bigcup HFS$$

where *HFS* is the set of UCITS compliant funds classified by strategy in the HFR Hedge Fund Database.

The funds comprising the HFS are filtered using the following formula to create the Strategy Universe.

$$\delta(\text{Strategy} - \text{Macro}) \cdot \delta(\text{UCITS} - 1) \cdot H(10 - \text{freq}) \cdot \delta(\text{fees}) \cdot [H(\text{AUM} - 10) + H(m - 6)] \neq 0$$

where $H(x)$ is the step function defined as

$$H(x) = \begin{cases} 1 & x \geq 0 \\ 0 & x < 0 \end{cases}$$

$\delta(x)$ is the delta function defined as

$$\delta(x) = \begin{cases} 1 & x = 0 \\ 0 & x \neq 0 \end{cases}$$

and

- *Strategy* is the fund's main strategy, where $Strategy = \{EH, ED, Macro, RV\}$
- *freq* is the reporting frequency in business days
- *fees* is the returns net of all fees (0=yes, 1=no)
- *AUM* is the fund assets in EUR MM
- *m*=total number of months reported

In cases where a manager lists multiple funds with the same or similar investment profile, HFR chooses only the most representative fund for HFRU inclusion. HFR also screens for funds that exhibit abnormal volatility compared to its peers and considers them for removal from the index.

Index NAV Calculation

HFRU Hedge Fund Indices (the "Index" and collectively, "Indices") are total return indices and are published by HFR at www.hfru.eu and on Bloomberg. Computation of the Index NAV uses actual performance of constituent funds as reported to HFR, Inc. Performance reflects constituent fund management fees, incentive fees, dividends and other distributions.

The Index NAV is 1000 at inception where " $t=0$ ". The NAV changes are driven by the Index performance, which is defined as the percentage change in the value of the Index from a previous date " $t-1$ " to current date " t ". The NAV at " t " is defined as

$$NAV_t = NAV_{t-1} \times (1 + ROR_t)$$

Where ROR_t is the percentage change in the total value of the Index from " $t-1$ " to " t ":

$$ROR_t = \frac{1}{n} \sum_{i=1}^n ROR_t^i$$

ROR_t^i is the rate of return of fund " i " at time " t " and n is the number of funds in the index.

INDEX WEIGHTING

The HFRU Macro Index is equally weighted across the selected funds. The performance of the Index is denominated in EUR.

Notes:

- The Index is rebalanced on a quarterly basis.
- Funds are eligible for inclusion in the HFRU Macro Index the month after their addition to HFR Database. For instance, a fund that is added to HFR Database in June is eligible for inclusion in the indices upon reporting their July performance.
- The HFRU Index is updated daily on a T+1 basis Index NAV is not published for days which are bank holidays in Luxembourg or Ireland.
- Index NAV is not reported on days which are bank holidays in the United States.
- Performance is initially published as an estimate and may be subject to change for 5 additional reporting days. After the fifth day, the index performance for that date is locked and is no longer subject to change.
- If a fund liquidates/closes, that fund's performance will be included in the HFRU Index as of that fund's last reported performance update.
- Duplicate share classes of funds are not considered as Index constituents.

HFRU Relative Value Index

APPROACH

Eligibility Criteria

The process begins with screening the entire HFR Hedge Fund Database of active hedge funds which claim to be UCITS compliant. Funds eligible to index constituents have to meet all of the following criteria:

- Fund is confirmed to be UCITS compliant
- Performance reported net of all fees
- Performance denominated in Euro
- Fund reports NAV at least every two weeks
- Fund's strategy is classified as "Relative Value"
- Fund's manager has at least €10 million of assets under management or 6 months of track record

The performance of the Index is denominated in EUR and is published daily on a T+1 basis.

Selection Process

All confirmed UCITS funds that report NAV at least every two weeks are selected as constituents for the Index.

The following formula is used to define the representative Hedge Fund Strategy Universe ("Strategy Universe") derived from the UCITS Hedge Fund Universe contained in the HFR Hedge Fund Database. The UCITS Hedge Fund Universe is expressed as:

$$HFU = \bigcup HFS$$

where *HFS* is the set of UCITS compliant funds classified by strategy in the HFR Hedge Fund Database.

The funds comprising the HFS are filtered using the following formula to create the Strategy Universe.

$$\delta(\text{Strategy} - \text{RV}) \cdot \delta(\text{UCITS} - 1) \cdot H(10 - \text{freq}) \cdot \delta(\text{fees}) \cdot [H(\text{AUM} - 10) + H(m - 6)] \neq 0$$

where $H(x)$ is the step function defined as

$$H(x) = \begin{cases} 1 & x \geq 0 \\ 0 & x < 0 \end{cases}$$

$\delta(x)$ is the delta function defined as

$$\delta(x) = \begin{cases} 1 & x = 0 \\ 0 & x \neq 0 \end{cases}$$

and

- *Strategy* is the fund's main strategy, where $\text{Strategy} = \{\text{EH}, \text{ED}, \text{Macro}, \text{RV}\}$
- *freq* is the reporting frequency in business days
- *fees* is the returns net of all fees (0=yes, 1=no)
- *AUM* is the fund assets in EUR MM
- *m*=total number of months reported

In cases where a manager lists multiple funds with the same or similar investment profile, HFR chooses only the most representative fund for HFRU inclusion. HFR also screens for funds that exhibit abnormal volatility compared to its peers and considers them for removal from the index.

Index NAV Calculation

HFRU Hedge Fund Indices (the "Index" and collectively, "Indices") are total return indices and are published by HFR at www.hfru.eu and on Bloomberg. Computation of the Index NAV uses actual performance of constituent funds as reported to HFR, Inc. Performance reflects constituent fund management fees, incentive fees, dividends and other distributions.

The Index NAV is 1000 at inception where " $t=0$ ". The NAV changes are driven by the Index performance, which is defined as the percentage change in the value of the Index from a previous date " $t-1$ " to current date " t ".

The NAV at " t " is defined as

$$NAV_t = NAV_{t-1} \times (1 + ROR_t)$$

Where ROR_t is the percentage change in the total value of the Index from " $t-1$ " to " t ":

$$ROR_t = \frac{1}{n} \sum_{i=1}^n ROR_t^i$$

ROR_t^i is the rate of return of fund " i " at time " t " and n is the number of funds in the index.

INDEX WEIGHTING

The HFRU Relative Value Index is equally weighted across the selected funds. The performance of the Index is denominated in EUR.

Notes:

- The Index is rebalanced on a quarterly basis.
- Funds are eligible for inclusion in the HFRU Relative Value Index the month after their addition to HFR Database. For instance, a fund that is added to HFR Database in June is eligible for inclusion in the indices upon reporting their July performance.
- The HFRU Index is updated daily on a T+1 basis. Index NAV is not published for days which are bank holidays in Luxembourg or Ireland.
- Index NAV is not reported on days which are bank holidays in the United States.
- Performance is initially published as an estimate and may be subject to change for 5 additional reporting days. After the fifth day, the index performance for that date is locked and is no longer subject to change.
- If a fund liquidates/closes, that fund's performance will be included in the HFRU Index as of that fund's last reported performance update.
- Duplicate share classes of funds are not considered as Index constituents.

HFRU Equal Weighted Strategies Index

APPROACH

The HFRU Equal Weighted Strategies Index is constituted by equally weighting the 4 HFRU single strategy indices as follows:

$$ROR_t^{HFRUEWS} = \sum_{j=1}^4 ROR_t^j / 4$$

where ROR_t^j is the return of strategy j corresponding to $\{HFRUEH, HFRXUED, HFRXM, HFRXRVA\}$.

Appendix 1

HFR Hedge Fund Database

HFR, Inc. (HFR) is a research firm specializing in the collection, aggregation, and analysis of alternative investment information. HFR produces the HFR Hedge Fund Database, one of the industry's most widely used commercial databases of hedge fund performance, as well as a variety of other research products for the alternative investment industry, including the HFR Industry Report.

The HFR Hedge Fund Database is currently comprised of over 7600 funds and fund of funds worldwide. Information on the hedge fund universe of established and emerging managers is collected directly from the fund managers and/or their respective offshore administrators, while other pertinent information is culled from offering memoranda, onsite visits, and due diligence interviews. The HFR Hedge Fund Database includes both the data product distributed commercially to accredited investors, as well as the HFR internal database. HFR requests that the client fund managers report performance by the 15th of each month. It also directly integrates the fund managers with the HFR Hedge Fund Database by providing them with their own website for updating their fund profile. In this manner HFR ensures current and accurate fund data that flows seamlessly from fund managers.

Appendix 2

UCITS

UCITS (Undertaking for Collective investment in Transferable Securities) is the European harmonized fund product which can be sold on a cross border basis within the European Union (“EU”) based on its authorization in one EU member state. UCITS also enjoy a high level of recognition in many non-EU countries. UCITS funds, while being suitable for sale to retail investors, are also widely sold to institutional investors.

While the process of establishing a UCITS compliant fund encompasses many different dynamics of consideration, those with the most significance to investors include:

1. Requirement and existence of a local regulator in a designated EU territory.
2. Requirement with regard to permissible instruments, which encompasses primarily liquid instruments of liquid equities and futures contracts and restricts items of limited liquidity.
3. Limitations on leverage, which although this allows for multiple methods to calculate based on the specific portfolio instruments, effectively limits leverage to less than 2 times investment capital.
4. Requirement to establish more frequent valuation dates for the fund vehicle and investment portfolio, with a minimum requirement of no fewer than 2 NAV dates per month, at which time investors are allowed to subscribe or redeem shares. While many funds have been able to meet this required minimum bi-monthly liquidity, many funds have proceeded to provide even more frequent NAVs of weekly and in many cases daily NAV reporting

Accompanying Notes

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Addendum – Revisions to the Methodology

Date	Revision	Process
4/1/2019	Eligibility criteria refined to only include funds denominated in Euro.	No performance changes were made.
5/18/2020	An index adjustment term has been added to the index performance calculation. Beginning June 2020, HFR will adjust the performance of the HFRU Hedge Fund Composite Index by 2bps per month.	No performance has been affected.
9/22/2022	The volatility screening was removed	No performance has been affected.
9/22/2022	A new section for the HFRU Equal Weighted Strategies Index has been added	No performance has been affected.