



HFR

Hedge Fund Research, Inc.

HFR Asset Manager Risk Premia Index

Defined Formulaic Methodology



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Methodology

HFR Asset Manager Risk Premia Index

APPROACH

The HFR Asset Manager Risk Premia Index is designed to represent the aggregate performance of various style/asset class strategy categories of the alternative risk premia strategy industry. None of the Indices take into account ESG factors or pursue ESG objectives. Hedge Fund Research, Inc. utilizes a UCITS compliant methodology to construct the indices and the methodology is based on defined and predetermined rules and objective criteria to combine and rebalance components that represent various asset class and style strategies.

Eligibility Criteria

The process begins with screening the HFR Database of active alternative risk premia funds. Funds eligible to be index constituents must meet the following criteria:

- Confirmed to be UCITS compliant
- Confirmed to be alternative risk premia strategy
- Performance reported net of all fees in USD or in other currencies converted or hedged to USD
- Reports NAV on a daily basis
- Open to new investment

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

In the case where a constituent fund of the Index becomes ineligible, the fund will be removed and/or replaced, either at rebalance or mid-quarter within a timeframe consistent with notice and subscription periods, trade dates and settlement, with the proceeds from the redemption allocated in whole or in part to a new eligible fund or allocated to one or more existing eligible fund, in the sole discretion of the Index Committee. In the event a daily NAV cannot be ascertained from normal pricing sources and/or daily liquidity is no longer available, due to suspension, liquidation, or other reason, the Index Committee will apply a reduced NAV, including a valuation of zero, based on available information and taking the most conservative view as to what the value could be within the funds normal liquidity period. The ineligible fund may be carried in the index for a short period of time until it becomes eligible or liquidates for value or may be treated as having zero value and permanently removed from the index under commercially practical terms.

Selection Process

The following formula is used to define the representative Risk Premia Fund Universe (“Strategy Universe”) derived from the Global Risk Premia Fund Universe expressed as:

$$HFU = \bigcup HFS$$

where *HFS* is the set of alternative risk premia strategies classified according to their asset class and style. The strategies comprising the HFS are filtered using the following formula to create the Strategy Universe for a given target volatility:

$$\delta(freq - 1) \cdot \delta(fees - 1) \cdot \delta(open - 1) \cdot \delta(UCITS - 1) \neq 0$$

where $\delta(x)$ 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 (1=daily, 0=otherwise)
- *fees* is the returns net of all fees (1=yes, 0=no)
- *open* indicates the fund is open to new investment (1=open, 0=otherwise)
- *UCITS* is confirmed UCITS fund (1=yes, 0=no)

In cases where a provider asset manager lists multiple risk premia strategies with the same or similar investment profile, HFR chooses only the most representative strategy for HFR Asset Manager Risk Premia Index inclusion. Each HFR Asset Manager Risk Premia Index (the “Index”) is comprised of an equal-weighted sum of asset manager-provided investable strategies. This document provides the generic rules for calculating the Index values.

Index NAV Calculation

HFR Asset Manager Risk Premia Index (the “Index” and collectively, “Indices”) are total return indices and are published by HFR at www.hedgefundresearch.com and on Bloomberg. Computation of the Index NAV uses actual performance of constituent funds as reported to Hedge Fund Research, 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 ”.

At rebalance time “ t_0 ”, constituents are equal weighted so the NAV of the HFR Asset Manager Risk Premia Index is defined as

$$NAV_{t_0} = NAV_{t_0-1} \times (1 + ROR_{t_0})$$

where ROR_{t_0} is the percentage change in the total value of the Index from “ t_0-1 ” to “ t_0 ” computed as:

$$ROR_{t_0} = \frac{1}{n} \sum_{i=1}^n ROR_{t_0}^i$$

where $ROR_{t_0}^i$ is the rate of return of constituent i at time “ t_0 ” and n is the number of constituents in the Index.

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 ”:

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

where ROR_t^i is the total return of constituent i at time “ t ”, and F corresponds to an index adjustment of 2 bps/month for HFR Asset Manager Risk Premia Index. n is the number of constituents in the Index and w_t^i is the weight of constituent i at time “ t ” computed as:

$$w_t^i = \frac{(1 + R_{t-1}^i)}{\sum_{j=1}^n (1 + R_{t-1}^j)}$$

where R_{t-1}^i is the cumulative total return of constituent i between the rebalance date “ T ” and time “ $t-1$ ”:

$$1 + R_{t-1}^i = \prod_{t'=T}^{t-1} (1 + ROR_{t'}^i).$$

On the rebalance date “ T ” the weight of constituent i is set to:

$$w_T^i = \left(\frac{1}{n} - w_{T-x}^i \right) \cdot \frac{NAV_{T-x}}{NAV_{T-1}} + w_{T-1}^i$$

where “ x ” corresponds to the number of business days (5) prior to the rebalance date when the constituents of the index for the new quarter are determined.

Index Weighting

The HFR Asset Manager Risk Premia Index is equally weighted on the rebalance date across the selected funds. The performance of the Indices is denominated in USD.

Notes:

- The Index is rebalanced on a quarterly basis.
- The HFR Asset Manager Risk Premia Index is updated daily on a T+1 basis. Index NAV is not published for days which are non-dealing days.
- Duplicate share classes of funds are not considered as Index constituents.

Accompanying Notes

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V.2024.02.26

Addendum – Changes to the Methodology

Date	Revision	Process
2/13/2020	“Confirmed to be UCITS compliant” was added as an eligibility condition.	No constituents or performance changes were made.
2/13/2020	Updated the eligibility criteria narrative in page 4.	No constituents or performance changes were made.
5/18/2020	Added formula in current document clarifying weight of constituents at the beginning of each quarter	No performance has been affected.
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 HFR Asset Manager Risk Premia Index by 2bps per month.	No performance has been affected.
2/26/2024	Clarifying language regarding ESG indices was added to the introduction of the methodology.	No historical Performance has been affected