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Contacts:

HFR

Kenneth Heinz
Chicago/312.658.0955

info@hfr.com

 @HFRInc

@KennethJHeinz

MacMillan Communications

Chris Sullivan
New York/212.473.4442

chris@macmillancom.com

Hydra Strategy

Henrietta Hirst
London/+44 (0) 7880 742 375

Henrietta.hirst@hydrastrategy.co.uk

HEDGE FUNDS EXTEND GAINS AS INFLATIONARY PRESSURES BUILD

***HFRI Macro, Event Driven lead as economic reopening accelerates;
Energy, Activist, Special Sits, Fundamental Value, and Emerging Markets surge***

CHICAGO, (June 7, 2021) – Hedge funds extended performance gains in May for the eighth consecutive month as investor optimism accelerated regarding the US economic reopening and despite signs of building inflationary pressures in the US and Europe. The HFRI Fund Weighted Composite Index[®] (FWC) gained +1.7 percent in May, while the investable HFRI 500 Fund Weighted Composite Index advanced +1.5 percent, 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 FWC has gained +9.9 percent through the first five months of 2021, the strongest YTD performance through May since 1996 and the longest period of consecutive monthly gains (8) since the index produced 15 consecutive positive months ending January 2018. In the trailing eight-month period, the HFRI FWC has surged +21.9 percent, representing the third strongest such period on record.

The performance dispersion of the underlying index constituents contracted again in May, as the top decile of the HFRI gained an average of +8.7 percent, while the bottom decile declined by an average of -3.1 percent for the month, representing a top-bottom dispersion of 11.8 percent. By comparison, the top-bottom dispersion in the first four months of the year averaged 17.0 percent.

Uncorrelated Macro funds led HFRI FWC main strategies in May, driven by discretionary thematic, fundamental Commodity, and trend-following CTA strategies. The HFRI Macro (Total) Index gained +2.3 percent for the month, while the investable HFRI 500 Macro (Total) Index advanced +2.1 percent. Macro sub-strategy performance was led by the HFRI Macro: Discretionary Thematic Index,

which surged +3.7 percent in May, the HFRI Macro: Multi-Strategy Index, which advanced +2.4 percent, and the HFRI Macro: Trend-Following Index, which added +2.3 percent.

Event-Driven strategies, which often focus on out-of-favor, deep value equity exposures and speculation on M&A situations, extended the recent surge into 2Q21 as the investable HFRI 500 Event-Driven Index advanced +1.3 percent in May, while the HFRI Event-Driven (Total) Index gained +1.6 percent. ED sub-strategy gains were led by Shareholder Activist, Distressed/Restructuring, and Special Situations, strategies which categorically trade in deep value equity situations, including companies which are possible targets for restructuring, acquisitions, or investor-driven strategy shifts. The HFRI ED: Activist Index advanced +2.6 percent, the HFRI ED: Distressed/Restructuring Index gained +2.5 percent, and the HFRI ED: Special Situations Index added +2.0 percent in May.

Equity Hedge strategies, which invest long and short across specialized sub-strategies, accelerated recent gains in May, despite an increase in equity volatility associated with rising inflationary pressures. The HFRI Equity Hedge (Total) Index jumped +1.5 percent for the month, with strong contributions from a wide dispersion of sub-strategy performance led by the high-beta, long-biased Energy, Fundamental, and Multi-Strategy exposures. The investable HFRI 500 Equity Hedge Index gained +1.2 percent in May, extending its 8-month gain to +24.5 percent. The HFRI EH: Energy/Basic Materials Index surged +3.1 percent, the HFRI EH: Fundamental Value Index advanced +2.2 percent, and the HFRI EH: Multi-Strategy Index added +1.9 percent in May.

The fixed income-based, interest rate-sensitive HFRI Relative Value (Total) Index gained +1.1 percent while the investable HFRI 500 Relative Value Index advanced +1.0 percent as signs of building inflationary pressures emerged in May. Sub-strategy performance was led by the HFRI RV: Yield Alternatives Index, which vaulted +4.1 percent for the month, and the investable HFRI 500 RV: Asset Backed Index, which advanced +1.4 percent.

The HFRI Emerging Markets (Total) Index jumped +2.8 percent in May, driven by the HFRI EM: Latin America Index, which vaulted +3.7 percent, the HFRI EM: MENA Index, which gained +3.6 percent, and the HFRI EM: Russia/Eastern Europe Index, which added +2.8 percent.

Risk Premia and Liquid Alternatives also posted gains in May, led by Commodity and Rates exposures. The HFR BSRP Commodity Index gained +2.9 percent for the month, while the HFR BSRP Rates Index advanced +2.7 percent. The HFRI-I Liquid Alternative UCITS Index advanced +0.5 percent in May, driven by a +0.8 percent gain in the HFRI-I UCITS Macro Index. Risk Parity posted its third consecutive months of gains in May, as the HFR Risk Parity Vol 15 Index surged +4.3 percent for the month, following gains of +6.9 and +1.2 percent in April and March, respectively.

The HFRI Women Index advanced +1.4 percent in May, while the HFRI Diversity Index added +1.3 percent.

“Hedge funds advanced in May for the eighth consecutive month, extending the strongest calendar year start since 1996, posting gains despite increased equity market volatility and rising inflationary pressures”, stated Kenneth J Heinz, President of HFR. “Hedge funds have effectively transitioned exposures and positioning globally for a post-pandemic macroeconomic and geopolitical environment, encompassing both ongoing risks associated with virus variant and mutations, as well as evolving opportunities associated with a robust reopening across global and regional economies in coming months. Managers are currently navigating this environment with an emphasis and focus on inflation/interest rate sensitivity and equity volatility management. Funds which are able to demonstrate their specialized capabilities are likely to attract capital from leading global institutions seeking to manage these risks and access these opportunities.”

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