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EQUITY, CRYPTOCURRENCY HEDGE FUNDS SURGE TO LEAD BROAD-BASED INDUSTRY GAINS IN FEBRUARY

Quantitative, Systematic Macro posts best gain since March 2022; Activist, Fundamental, Healthcare, Market Neutral also lead broad based gains

CHICAGO, (March 7, 2024) – Hedge funds surged through February led by Technology, AI and Cryptocurrency exposures, with these leading broad-based gains across all strategies and extending the industry’s four month return to +8.75 percent, the strongest such return since the four-month period ending March 2021.

The HFRI Fund Weighted Composite Index[®] (FWC) leapt an estimated +2.5 percent in February, while the HFRI 500 FWC Index added +2.6 percent.

Specialized cryptocurrency funds, which are separate from the HFRI Index, also surged with the HFR Cryptocurrency Index gaining +31.2 percent for the month.

Performance dispersion increased slightly in February, as the top decile of the HFRI FWC constituents advanced by an average of +11.8 percent, while the bottom decile fell by an average of -2.9 percent, representing a top/bottom dispersion of 14.7 percent for the month. By comparison, the top/bottom performance dispersion in January was 13.7 percent. In the trailing 12 months ending February 2024, the top decile of FWC constituents gained +43.7 percent, while the bottom decile declined -12.9 percent, representing a top/bottom dispersion of 56.6 percent. Approximately three-quarters of hedge funds produced positive performance in February.

Equity Hedge (EH) funds, which invest long and short across specialized sub-strategies, led strategy performance in February, with gains in Technology, Healthcare, Fundamental and Market Neutral exposures. The HFRI Equity Hedge (Total) Index jumped +3.2 percent (estimated) for the month.

EH sub-strategy performance was led by the HFRI EH: Sector-Technology Index, which surged +6.0 percent, and the HFRI EH: Healthcare Index, which advanced +4.0 percent in February. Also producing strong performance, the categorically low volatility HFRI EH: Equity Market Neutral Index jumped +2.25 percent for the month, while the more directional HFRI EH: Fundamental Growth Index advanced +4.53 percent.

Uncorrelated Macro strategies also posted strong gains in February as interest rates rose on an improving global economic outlook, with the HFRI Macro (Total) Index advancing +3.0 percent (estimated) for the month. With strong contributions from Commodities, Currency and Energy exposures, Macro sub-strategy gains were led by the HFRI Macro: Systematic Diversified Index, which surged +4.8 percent in February, the strongest monthly gain since March 2022, while the HFRI Macro: Active Trading Index also added +0.4 percent for the month.

Event-Driven (ED) strategies, which often focus on out-of-favor, deep value equity exposures and speculation on M&A situations, posted mixed performance in February with gains led by ED sub-strategies Activist, Special Situations, and Distressed. The HFRI Event-Driven (Total) Index returned +1.7 percent for the month, led by the HFRI ED: Activist Index, which jumped +4.3 percent, the HFRI ED: Special Situations Index, which advanced +2.2 percent, and the HFRI ED: Distressed Index, which added +2.1 percent.

Fixed income-based, interest rate-sensitive strategies also gained in February despite rising bond yields, with the HFRI Relative Value (Total) Index advancing an estimated +0.8 percent for the month. RVA performance was led by the HFRI RV: FI-Convertible Arbitrage Index, which gained +1.4 percent, while the HFRI RV: FI-Corporate Index added an estimated +1.0 percent in February.

Liquid Alternative UCITS strategies also gained in February, led by the HFRX Macro Index gaining +2.08 percent, while the HFRX Global Index advanced +0.92 percent. Strategy gains were also led by the HFRX Equity Hedge Index, which returned +1.36 percent in February, while the HFRX Event Driven Index advanced +0.44 percent.

The HFRI Diversity Index advanced an estimated +2.6 percent in February, while the HFRI Women Index jumped +2.9 percent.

“Hedge funds surged across a broad range of strategies in February as a combination of an improving outlook for economic growth, expectations for interest rate decreases and other technical factors drove strong gains across global equity and cryptocurrency markets, with hedge fund performance led by Equity, Macro and Cryptocurrency exposures. Driven by a powerful tailwind of risk on sentiment, the industry leading HFRI Fund Weighted Composite Index has surged +8.75 percent in the trailing four months, the strongest four-month gains since the period ending March 2021,” stated Kenneth J. Heinz, President of HFR. “February performance was not only strong and broad-based, but included gains from

strategies which often exhibit low correlation to global equity markets, with these including categorically low volatility Market Neutral, uncorrelated Quant Macro/Trend Following, idiosyncratic Distressed and volatile Cryptocurrency exposures; in an effort to greater capture these sources of return, Multi-Strategy firms continue to increase the scope and breadth of the exposures taken by various trading pods. Institutions interested in opportunistically accessing these powerful, specialized macroeconomic trends while maintaining tactical exposure flexibility relating to evolving macroeconomic and geopolitical risks are likely to increase exposure in 2024 to funds which have demonstrated their strategy's robustness over the recent market cycles."

NOTE: February 2024 index performance figures are estimated as of March 7, 2024

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