

EVENT DRIVEN STRATEGY DEEP DIVE

12 month review to May 2020

The Event Driven funds monitored by Aurum’s Hedge Fund Data Engine delivered an average asset-weighted net return of 2.3% in the 12 months to May 2020. The period can be thought of as a tale of two halves: the latter half of 2019 saw low volatility and generally positive returns across the space, whilst 2020 saw a spike in volatility and large performance dispersion across funds and by month. Despite all four Event Driven sub-strategies having negative performance year to date through to May, when looking across the last 12 months, all have delivered a positive absolute return. Over the 12 month period, the strongest performing sub-strategy was Activist, which returned 7.4%; the weakest was Event Opportunistic, which returned just 0.5%.

Whilst the Activist sub-strategy was the top performing sub-strategy over the period, it also displayed the highest volatility and widest dispersion amongst the funds within the sub-strategy, which is to be expected in a strategy grouping defined by the breadth of managers’ specific trades. Funds within the Activist sub-strategy often exhibit a very high beta to equities and it was no surprise that Q1 2020 was a particularly poor period, which saw funds within the group lose, on average, 17.4%. However, the subsequent market rebound in April and May provided a strong tailwind and benefitted many funds within this sub-strategy more than most, bringing average year to date net performance to -3.7%. Nonetheless, over the 12 month period, this sub-strategy realised the highest Sharpe Ratio, though on a 3-year view it’s Sharpe Ratio ranks second to the Event Multi-Strategy group.

The Event Multi-Strategy group was the next best performing in the last 12 months, with funds within the sub-strategy generating an average net return of 2.5%. It was the sub-strategy that lost the least in March and had the lowest volatility over the period. According to Aurum’s classifications, the Event Multi-Strategy group comprises the largest AUM, and is the most concentrated by fund size: the largest 10 Event Multi-Strategy funds manage nearly as much AUM as all Activist, Merger Arbitrage and Opportunistic funds combined. Funds within the Event Multi-strategy sub-strategy generally have a significantly lower beta to global equities than Opportunistic and Activist funds, delivering a net return not far below equities over the last three years, but delivered at a much lower volatility.

By performance, the third ranking sub-strategy under the Event classification was the Merger Arbitrage group; which returned 1.5% net over the last 12 months. It was the grouping with the tightest dispersion of fund returns over the period, and along with the Multi-Strategy group, was the most consistent: both groups posted 10 up months. By total AUM, the Merger Arbitrage sub-strategy is the smallest of the four Event sub-strategies monitored by Aurum’s Hedge Fund Data Engine, and generally offers investors the most liquid fund terms.

Finally, the Opportunistic sub-strategy was the poorest performer, generating just 0.6% net over the past year, and realising a negative Sharpe ratio for the period. After suffering a similar drawdown to the Activist strategy in March (both lost over 10%), the sub-strategy was slower to recover than the Activist sub-strategy – a surprising result given the funds within the Activist sub-strategy tend to have significantly higher beta to equities.

In terms of flows, Merger Arbitrage and Multi-Strategy funds, in general, saw new inflows over the 12 month period, whilst funds within the Activist and Opportunistic sub-strategies generally saw net outflows.

Overall, funds within the Event Driven strategy generated \$5.9bn dollars net of fees to the benefit of investors over the past year.

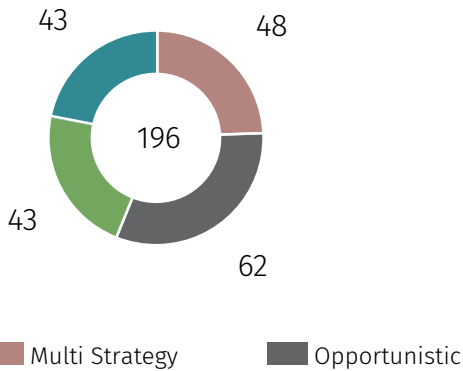
NET RETURN OF MASTER & SUB-STRATEGIES

	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	YTD	1 YR
Event	2.1%	0.3%	-0.3%	0.6%	0.3%	1.2%	1.7%	-0.2%	-1.7%	-7.9%	4.5%	2.3%	-3.5%	2.3%
Activist	4.3%	-0.3%	-1.9%	3.1%	0.5%	2.8%	2.5%	-2.3%	-5.2%	-10.8%	10.4%	5.5%	-3.7%	7.4%
Merger	0.1%	0.8%	0.2%	0.3%	0.6%	0.6%	0.9%	0.3%	-0.4%	-6.1%	3.9%	0.7%	-1.9%	1.5%
Multi-Strategy	1.8%	0.4%	0.1%	0.3%	0.3%	0.7%	1.4%	0.4%	-0.5%	-5.9%	2.5%	1.3%	-2.4%	2.5%
Opportunistic	1.6%	0.5%	-0.3%	-0.3%	0.4%	1.3%	2.0%	0.1%	-1.8%	-10.0%	4.8%	3.0%	-4.5%	0.5%

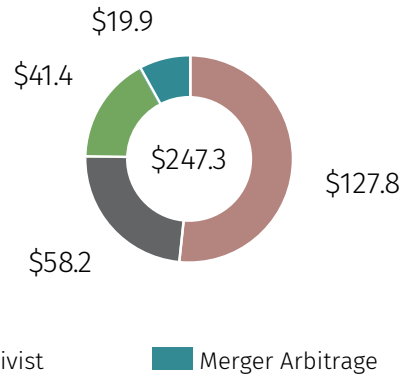
Asset weighted returns unless otherwise stated.

Key Numbers

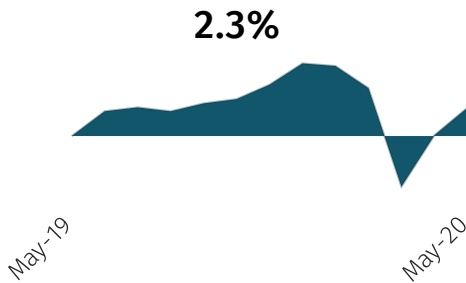
NUMBER OF FUNDS



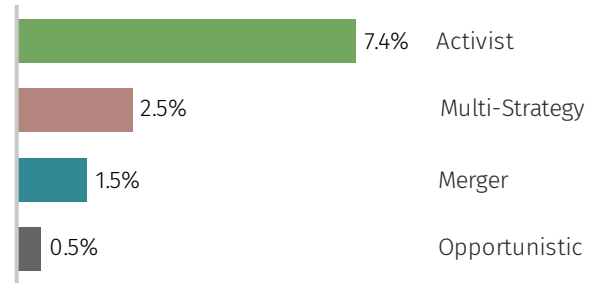
AUM (\$ BN)



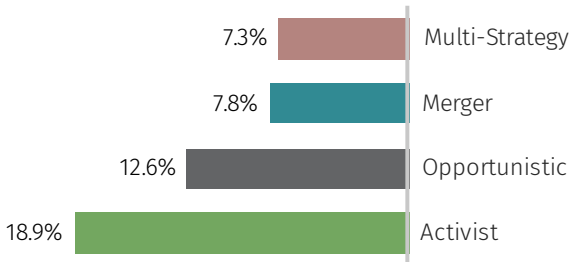
STRATEGY NET RETURN (1 YR)



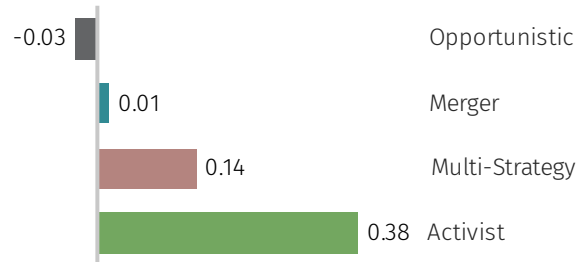
SUB-STRATEGY NET RETURN (1 YR)



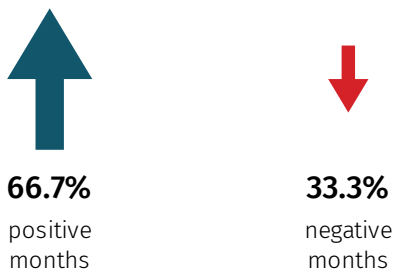
STANDARD DEVIATION (1 YR)



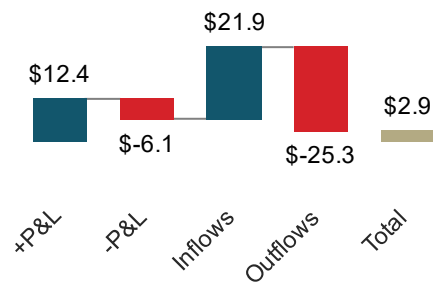
SHARPE RATIO (1 YR)*



NET POSITIVE/NEGATIVE MONTHS (1 YR)

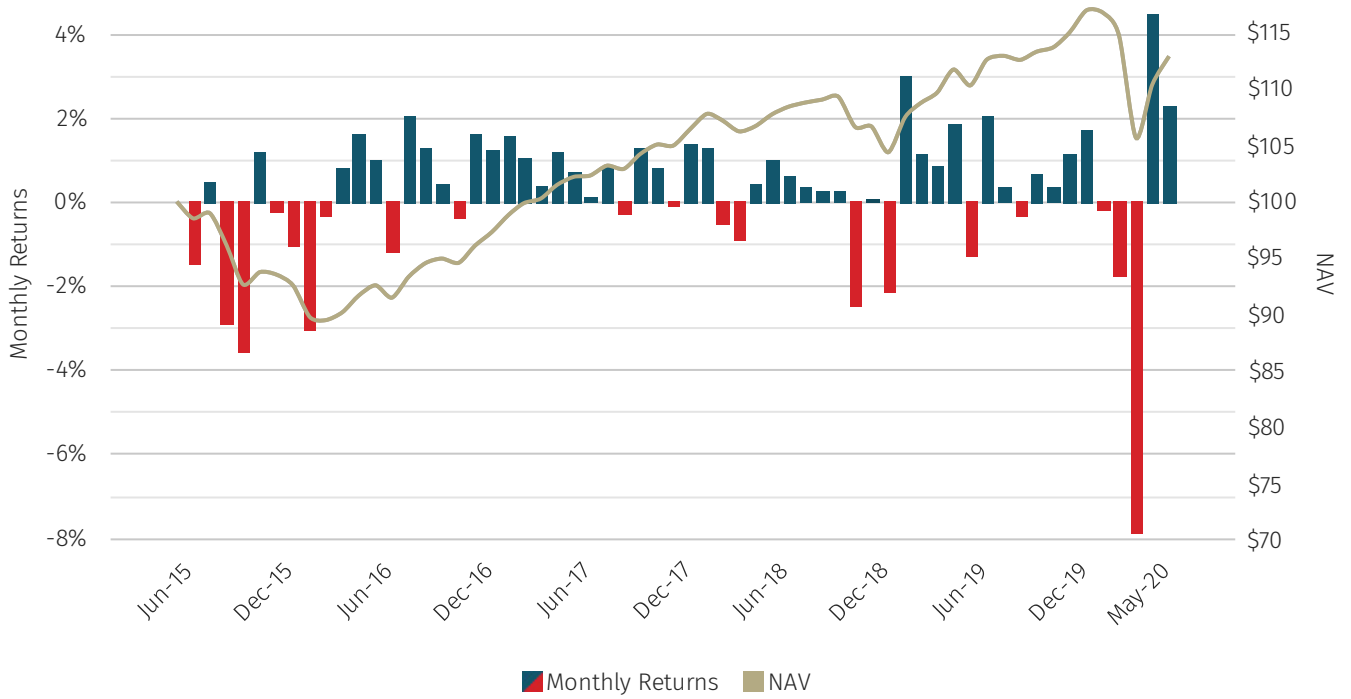


AUM CHANGE \$BN (1 YR)

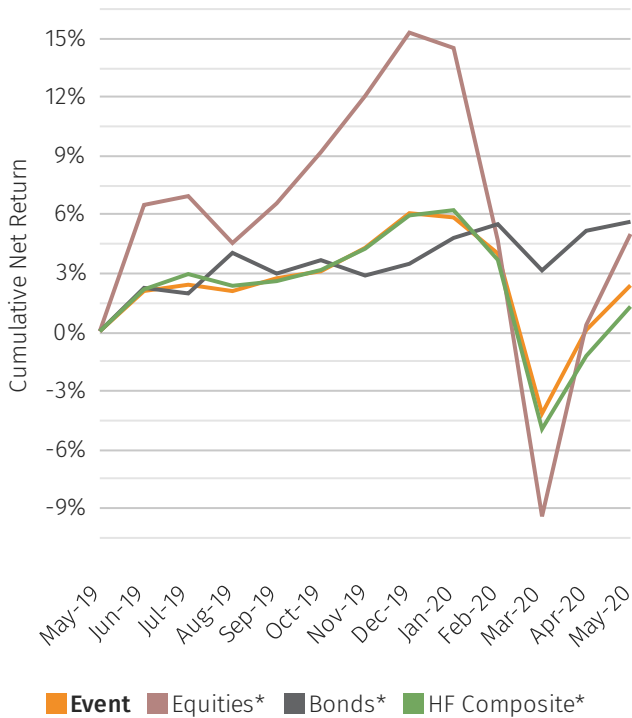


Master Strategy Performance

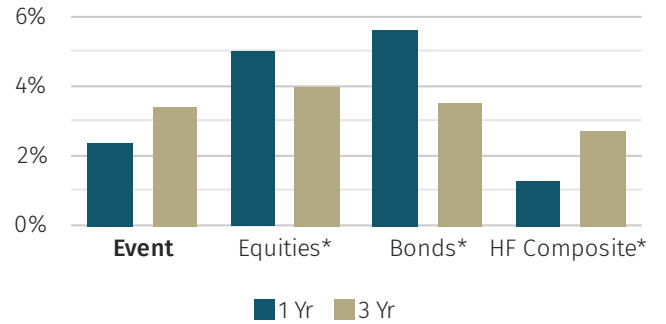
NET MONTHLY EVENT RETURN (5 YR)



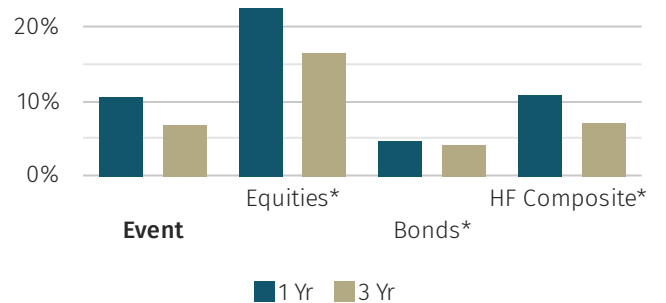
RELATIVE RETURN VS SELECTED INDICES (1 YR)



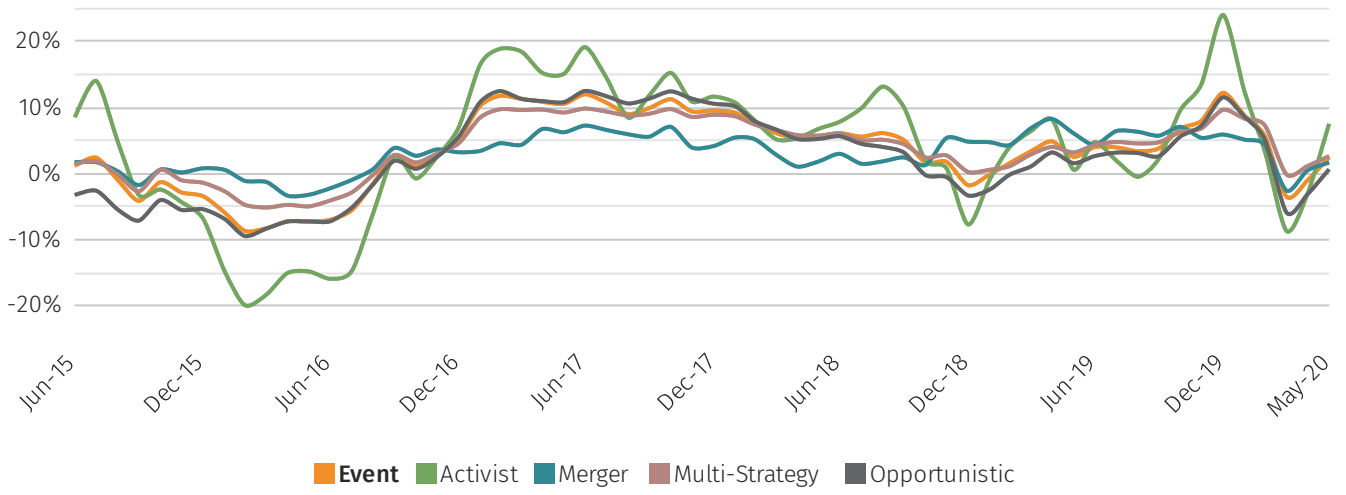
NET RETURN (ANNUALISED)



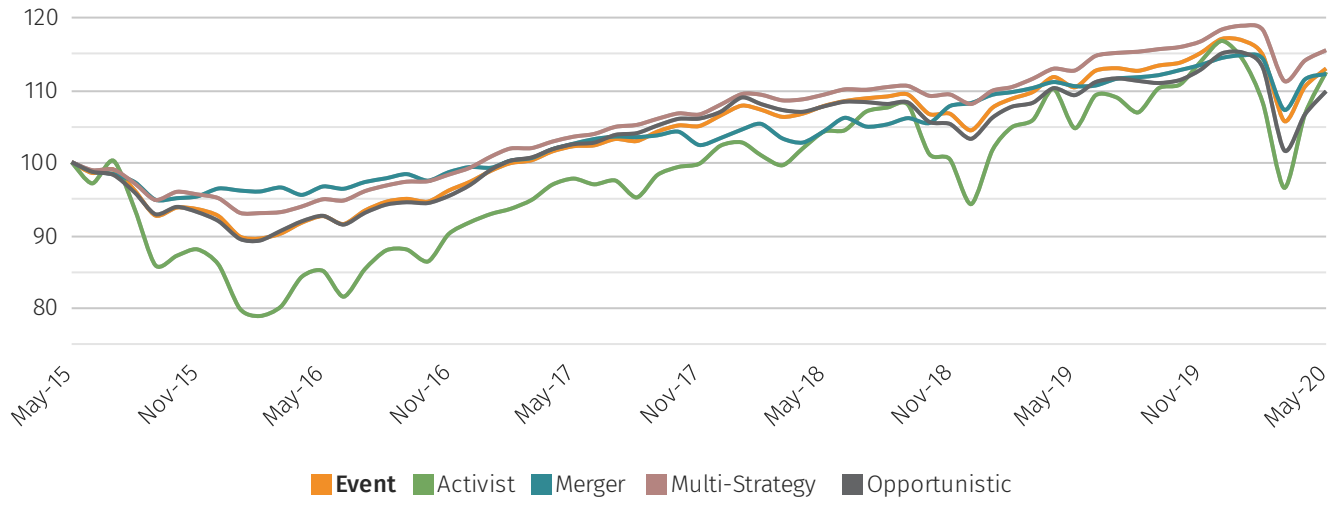
VOLATILITY (ANNUALISED)



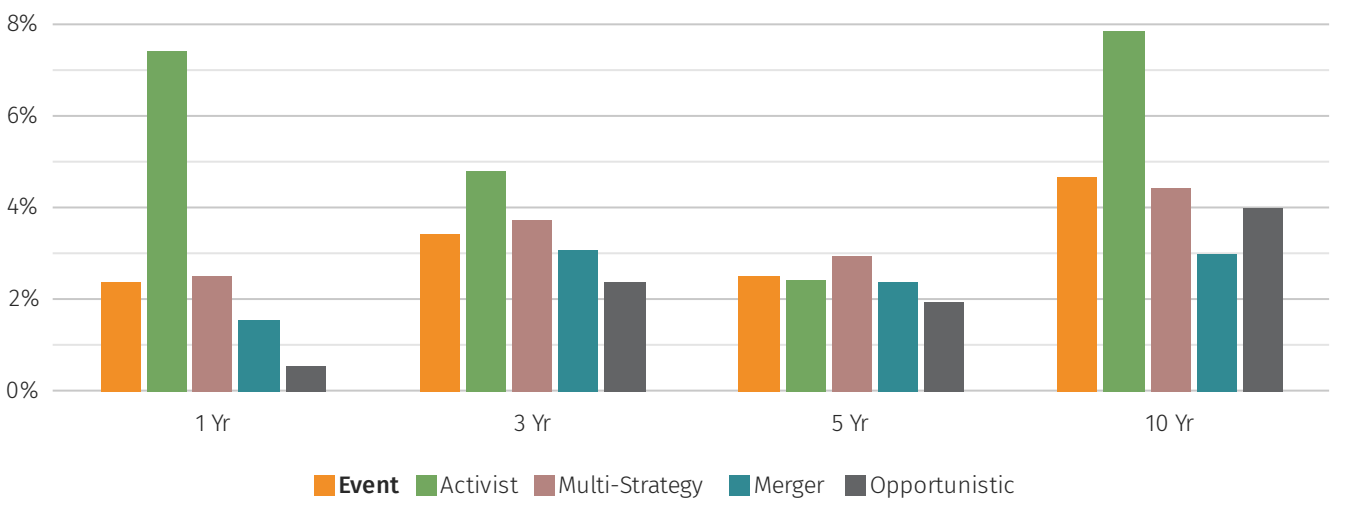
ROLLING 12 MONTH NET RETURN (5 YR)



CUMULATIVE NET RETURN (5 YR)



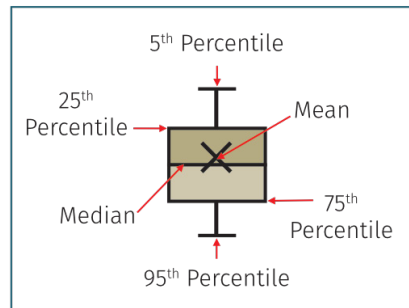
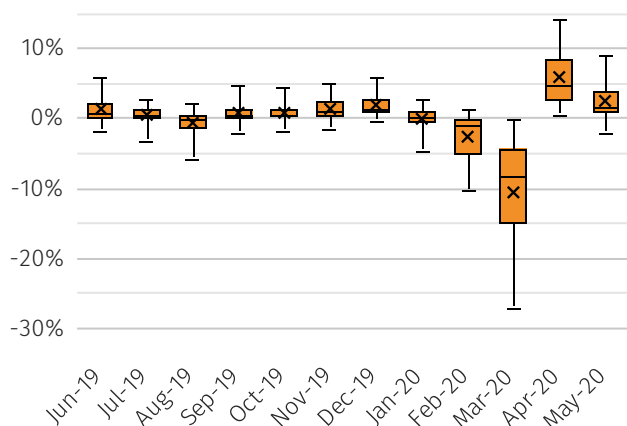
COMPOUND ANNUAL RETURN (ANNUALISED)



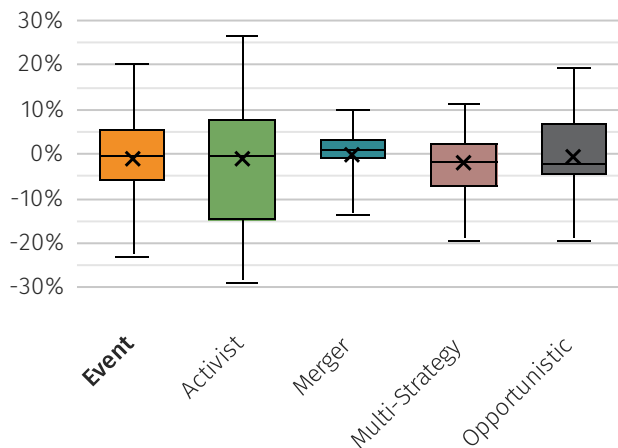
Monthly Performance Dispersion

Equally weighted returns

MASTER STRATEGY NET RETURN DISTRIBUTION

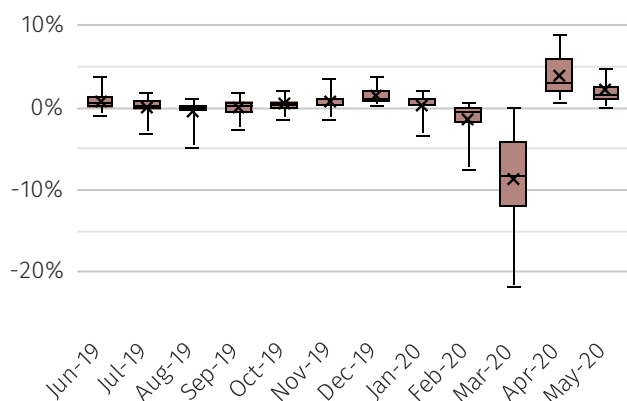


SUB-STRATEGY NET RETURN (1 YR)

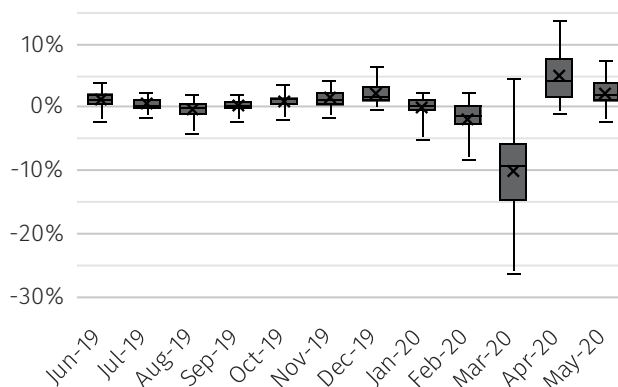


SUB-STRATEGIES NET MONTHLY RETURN DISTRIBUTION

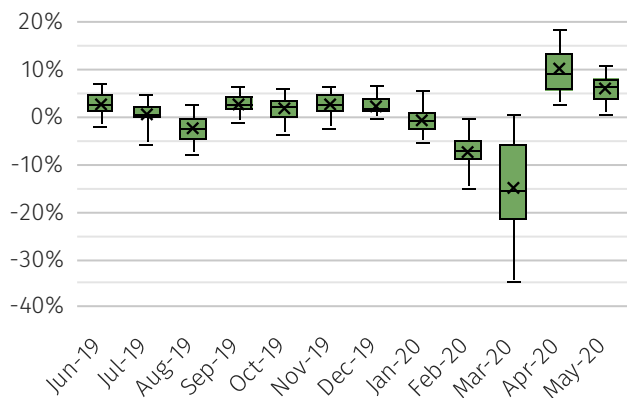
Multi-Strategy



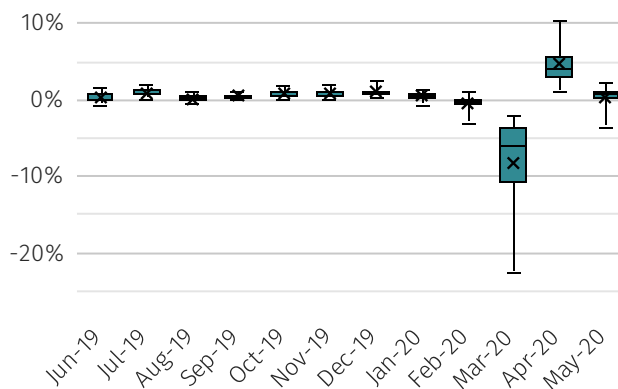
Opportunistic



Activist



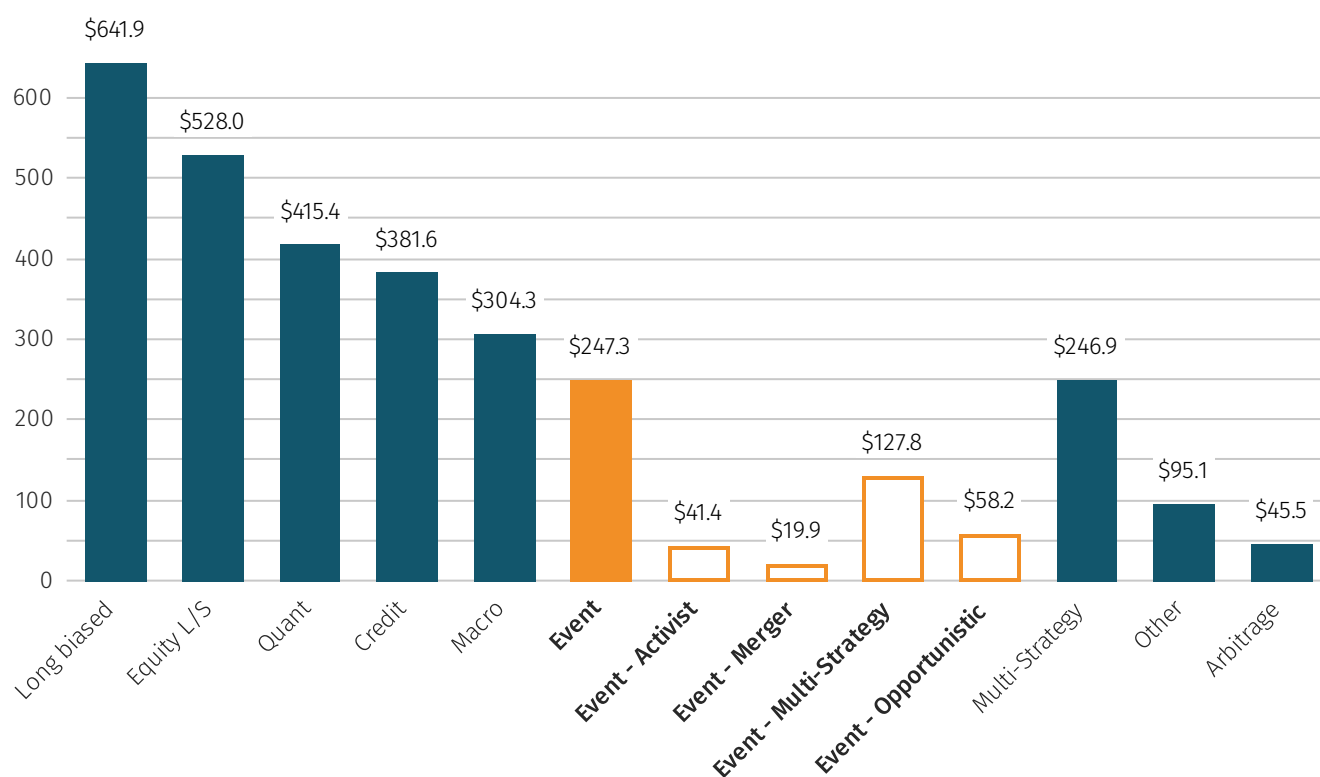
Merger



Master Strategy Overview

Putting the Event Universe into context versus other Hedge Fund strategies.

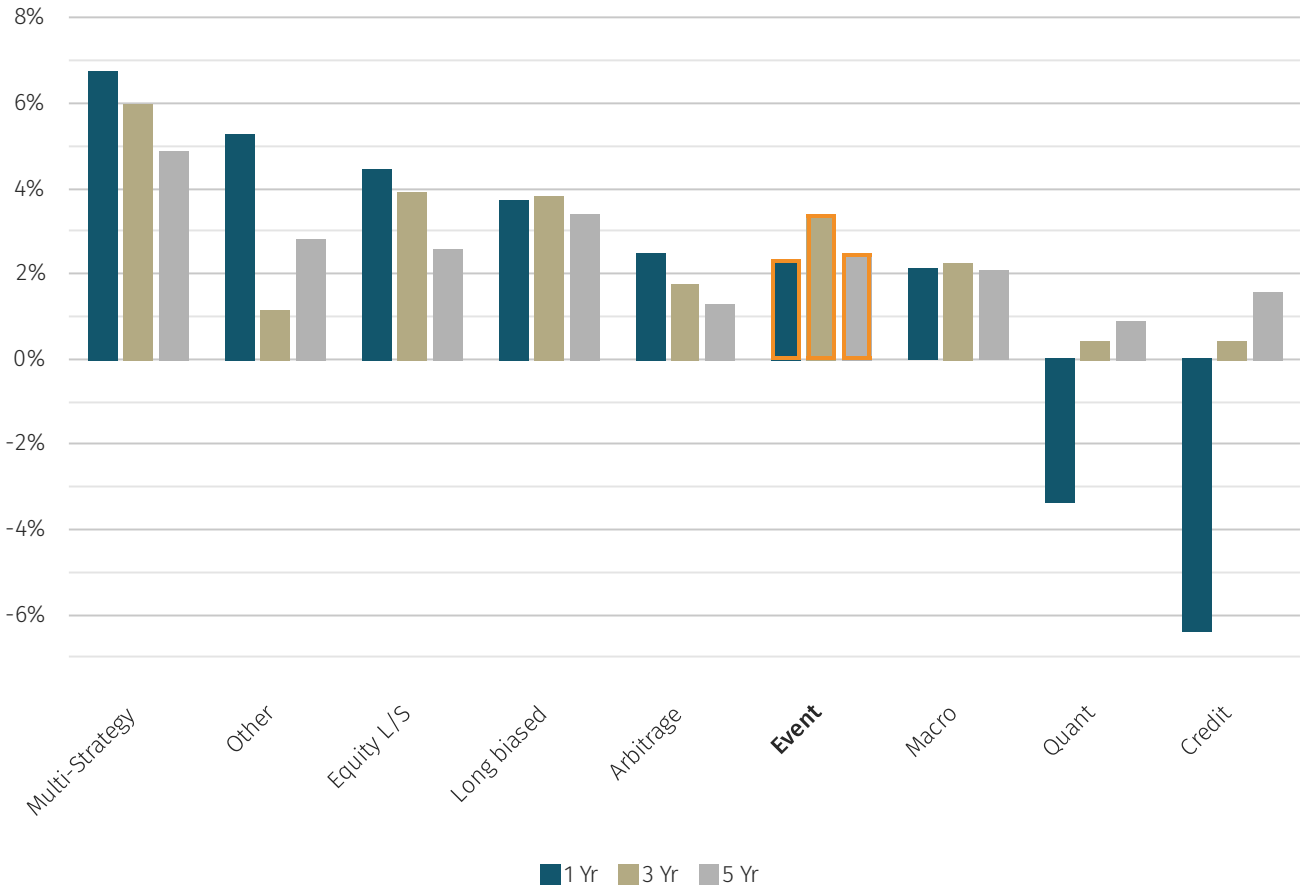
AUM OF MASTER STRATEGY – MAY 2020 (\$ BN)



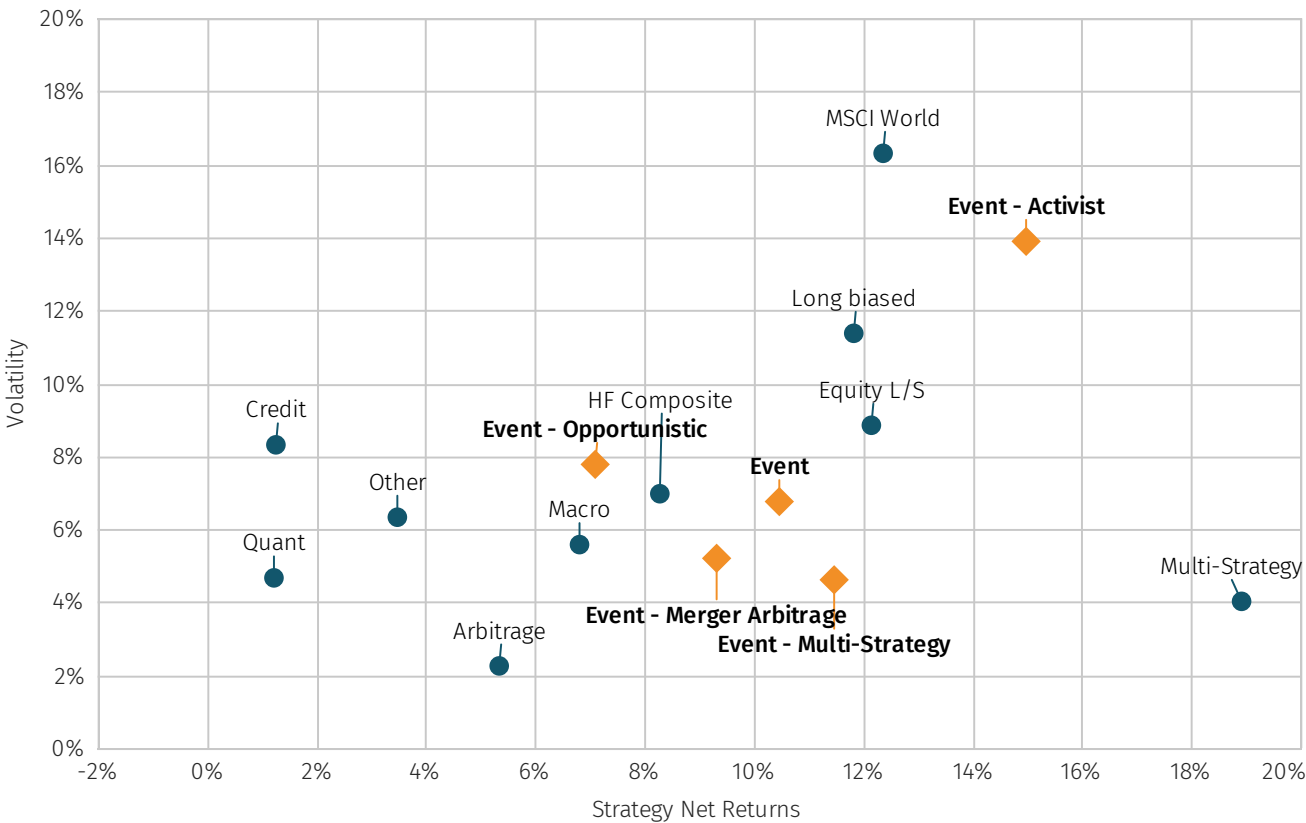
MULTIPLE PERIOD – HIERARCHICAL ANNUALISED NET RETURN

1 YEAR	3 YEAR	5 YEAR	10 YEAR
Multi-Strategy 6.7%	Multi-Strategy 5.9%	Multi-Strategy 4.9%	Multi-Strategy 7.0%
Other 5.3%	Equity L/S 3.9%	Long biased 3.4%	Long biased 6.2%
Equity L/S 4.4%	Long biased 3.8%	Other 2.8%	Equity L/S 5.4%
Long biased 3.7%	Event 3.4%	Equity L/S 2.6%	Other 4.9%
Arbitrage 2.5%	Macro 2.2%	Event 2.5%	Event 4.6%
Event 2.3%	Arbitrage 1.8%	Macro 2.1%	Credit 4.3%
Macro 2.1%	Other 1.1%	Credit 1.6%	Quant 4.0%
Quant -3.4%	Credit 0.4%	Arbitrage 1.3%	Macro 3.2%
Credit -6.4%	Quant 0.4%	Quant 0.9%	Arbitrage 1.2%

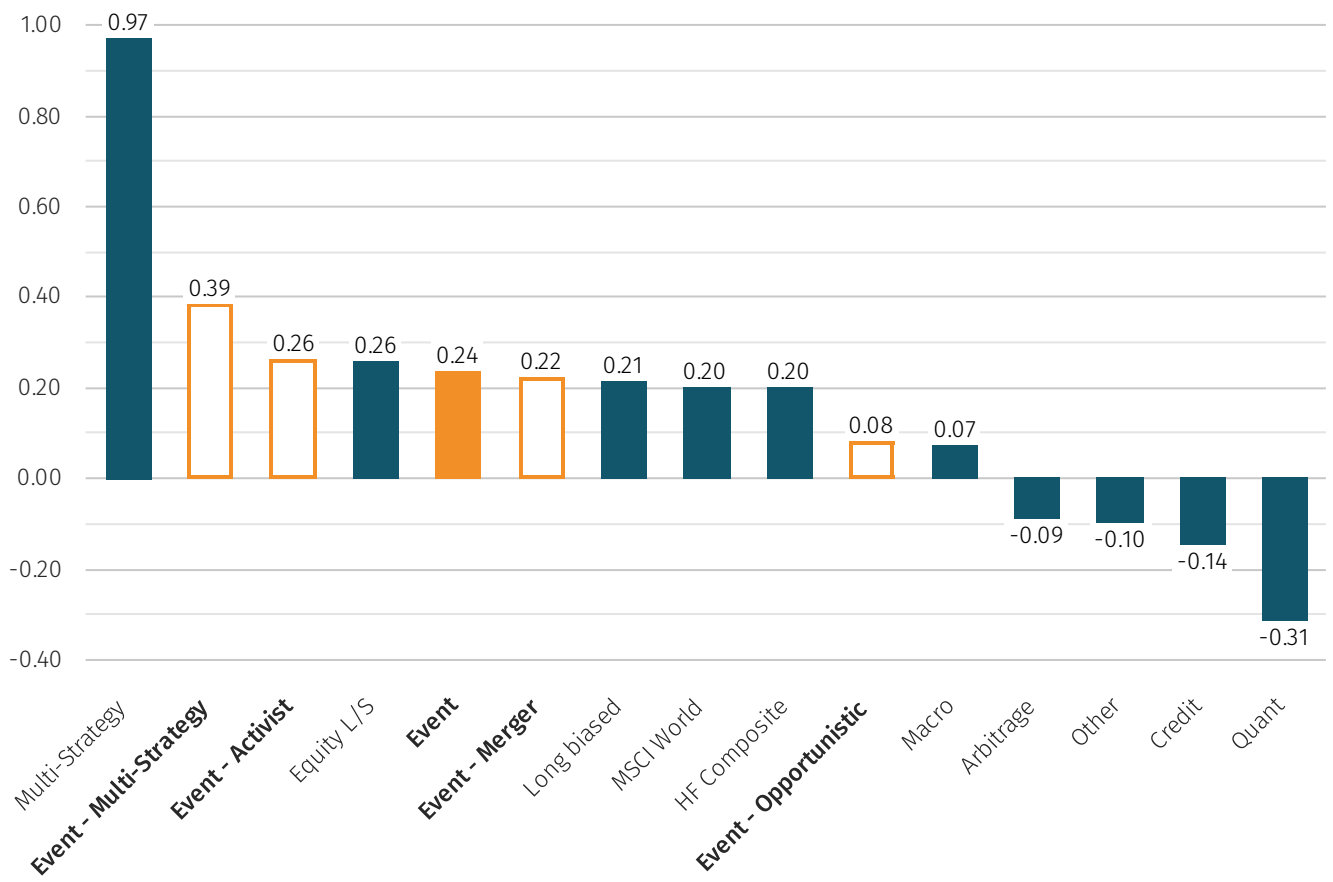
MASTER STRATEGY NET ANNUALISED RETURNS



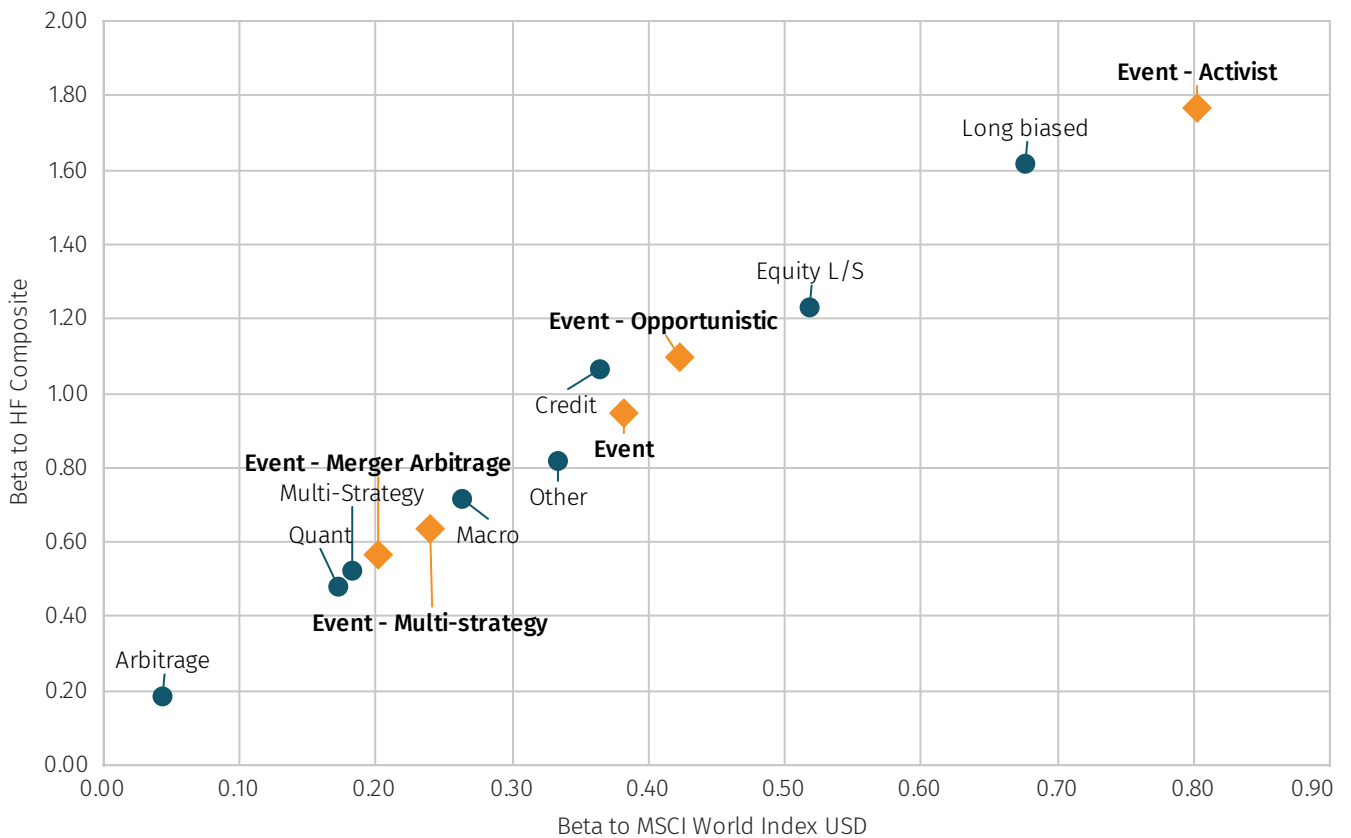
STRATEGY NET TOTAL RETURN VS ANNUALISED VOL (3 YR)



SHARPE RATIO BY HEDGE FUND STRATEGY (3 YR)*

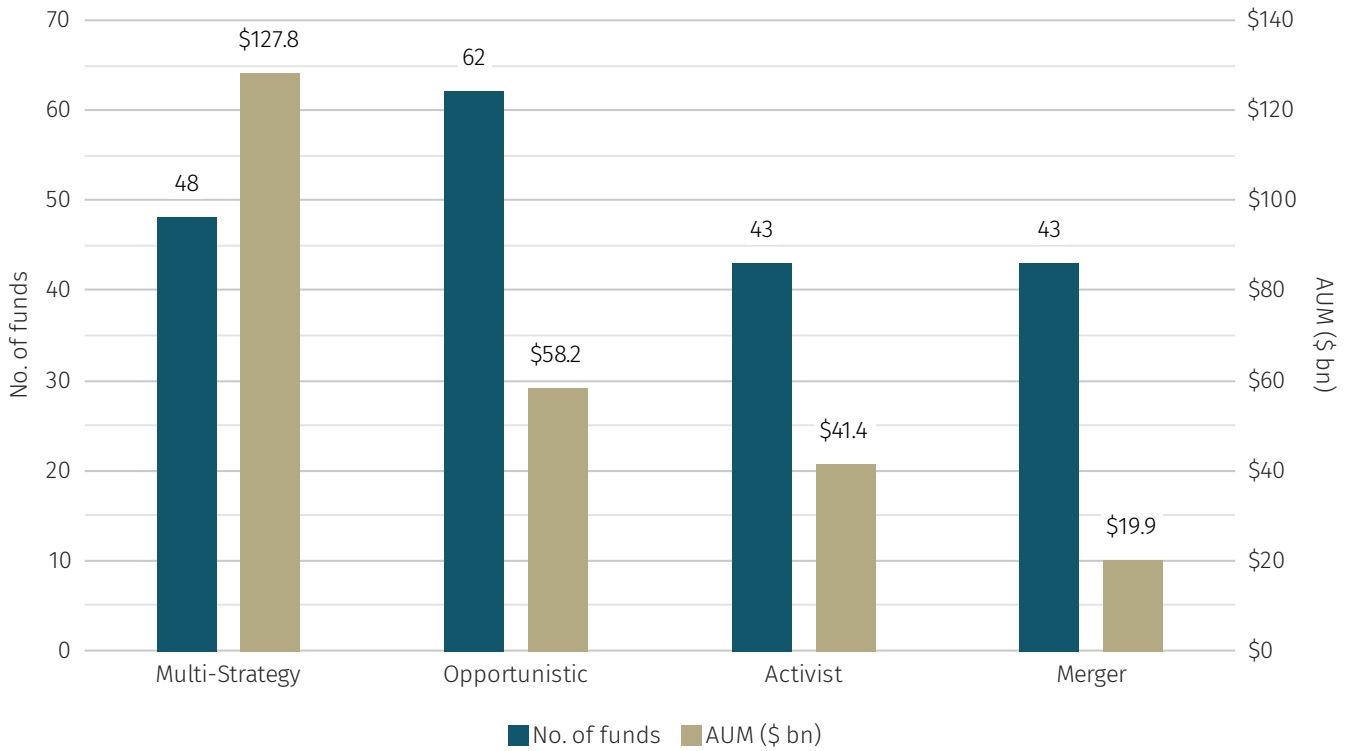


STRATEGY BETA TO HF UNIVERSE & MSCI WORLD (3 YR)

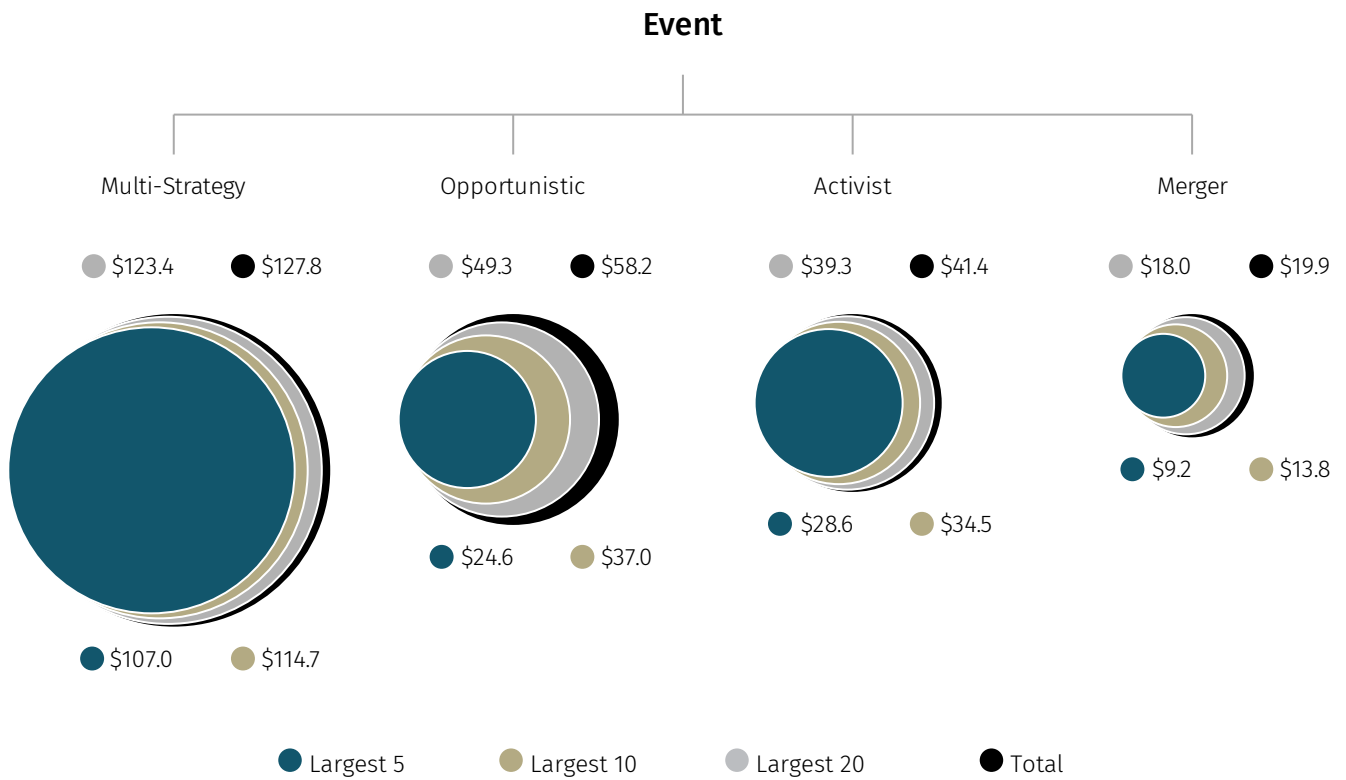


Event Universe

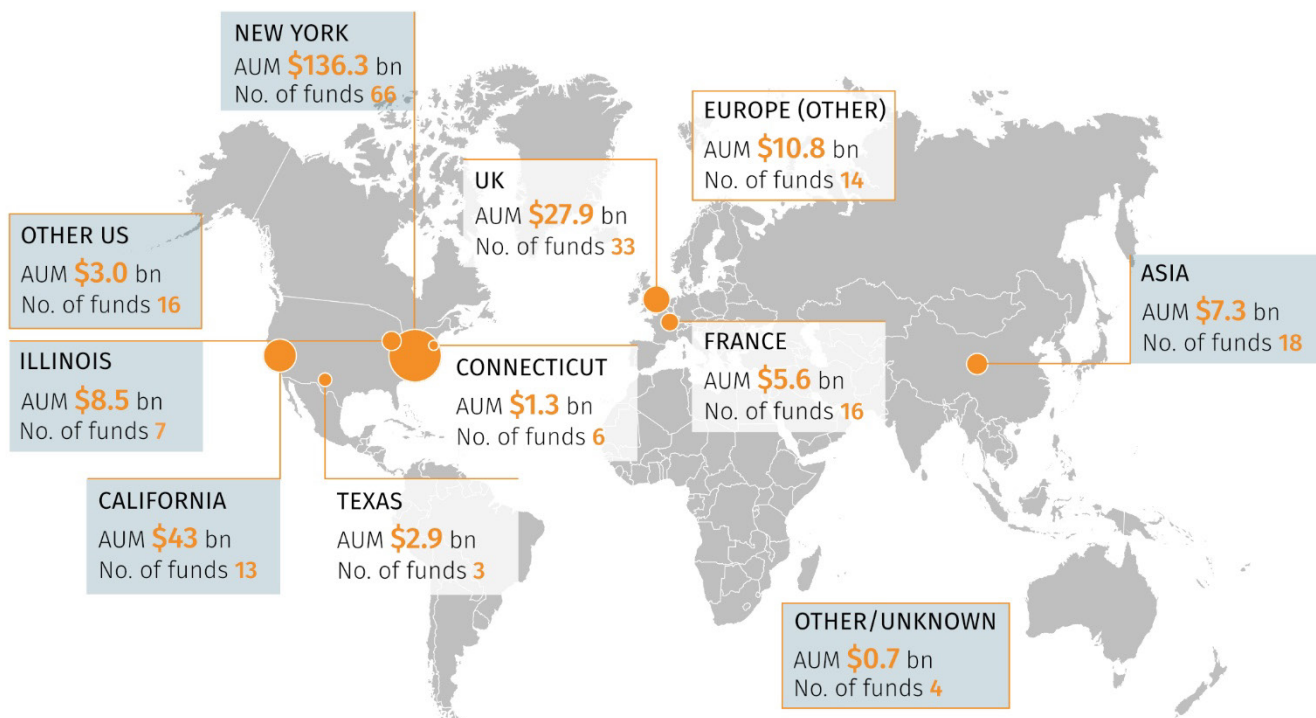
NUMBER OF FUNDS & AUM BY SUB-STRATEGY



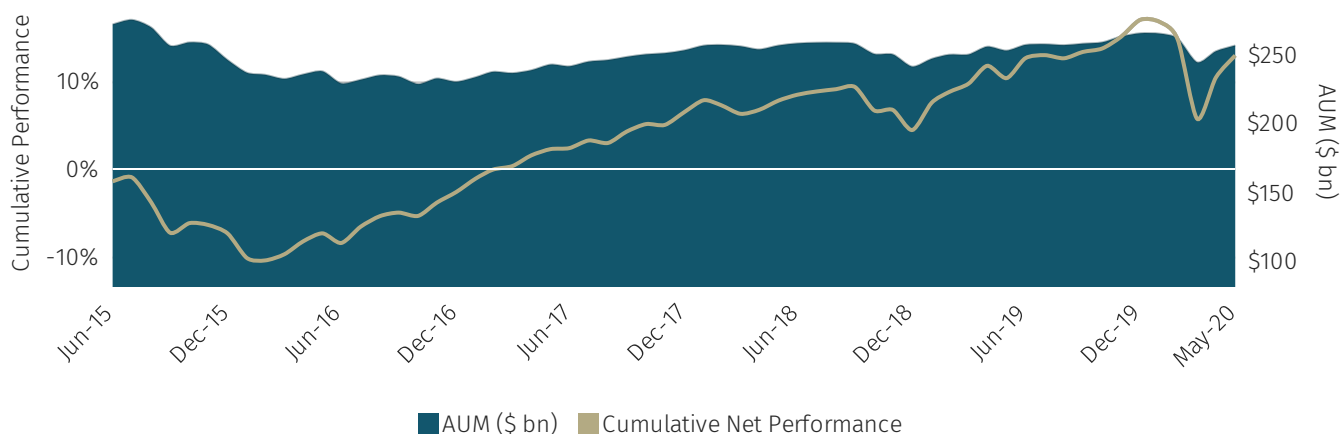
SUB-STRATEGY FUND CONCENTRATION (\$ BN)



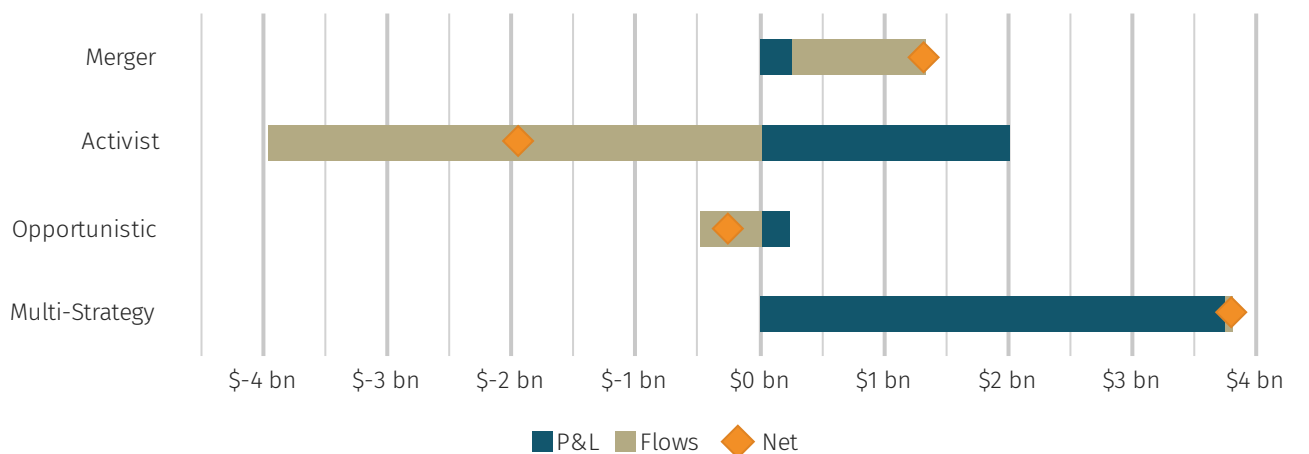
ASSETS UNDER MANAGEMENT BY LOCATION



MASTER STRATEGY ASSETS (5 YR)



12 MONTH CHANGE IN AUM BY SUB-STRATEGY



TERMS AND CONDITIONS

	Median Redemption Notice (Days)	Median Redemption Frequency	Weighted Avg. Redemption Total (Days)*	Weighted Avg. Management Fee	Weighted Avg. Performance Fee
Event – MASTER	60	Quarterly	184	1.55%	19.39%
Event – Activist	90	Quarterly	191	1.55%	18.76%
Event – Merger Arbitrage	30	Monthly	66	1.20%	16.19%
Event – Multi-Strategy	45	Quarterly	204	1.56%	19.75%
Event – Opportunistic	60	Quarterly	173	1.63%	19.98%

*Weighted Avg. Redemption Total (Days) is the weighted Avg. of both redemptions notice days and redemption frequency days.

Definitions

Event Driven – Activist:

Activist hedge funds invest in companies that they feel are undervalued and the managers then attempt to drive the value creation process by influencing corporate management to undertake initiatives that they feel will benefit shareholders. This can include a number of activities, including but not limited to: capital structure restructuring, change in operating strategy/capital allocation, change in the board/management, change in corporate governance or the outright sale of the enterprise. Funds typically own large stakes in the companies they invest in as investors need to be a large enough shareholder to influence management.

Event Driven – Merger Arbitrage:

Strategy typically involves taking positions in the securities of a company being acquired in a merger or acquisition. Due to the risk of a deal-break as well as time value of money, the securities typically trade at a discount to the deal-price/value (deal-spread). Primary risk is when deals break, which can lead to asymmetric losses to the downside. Funds will typically trade cash deals and also share-for-share deals, where the fund will short the securities they expect to receive upon deal closure (locking in the deal spread). In addition to M&A, managers may also invest in other situations that involve process driven catalysts.

Event Driven – Multi-Strategy:

Whilst these are multi-strategy funds, they are characterised by their overwhelming focus on the broad event-driven space and therefore placed in their own category. Such funds consistently generate a significant portion of their P&L from the primary event-driven investing categories: merger arbitrage, soft-catalyst event-driven situations (spin-offs, spin-outs, share-class arbitrage, non-mandatory shareholder elections, index-rebalancing, holdco/subsidiary relative value trade, high probability potential merger 'targets', etc.) and/or activist investing. Some funds may also allocate a portion of their capital to Distressed (which can fall under the category of event-driven investing), however, if the majority of the risk is in consistently in the distressed arena, it falls under the 'credit/distressed' categorisation.

Event Driven – Opportunistic:

Has some similarities to the event-driven 'multi-strategy' classification however, as the name suggests, these funds tend to be very opportunistic and dynamically adjust their capital allocation between various event-driven trades. These funds tend to also be more value and soft catalyst oriented. Such funds may also place 'special situations' trades, looking to unlock value taking various positions in the capital structure (i.e. could be debt or equity). Opportunistic funds have the flexibility to trade all areas of the event space (M&A, Activist, soft catalyst and distressed investing) but will do so on an opportunistic basis, they also may concentrate a large portion (or even at times all) of the risk in a specific area, unlike event driven - multi-strategy funds, which are typically always allocated across multiple sub-strategies at all times.

AURUM

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