

Equity Long/Short Deep Dive

12-month review to May 2021

Equity Long/Short ("Equity L/S") funds typically performed very strongly over the 12 months to May 2021, generating an average net return of 23.9%. The strategy posted positive returns in eight out of the 12 months and returns exceeded 2% in seven months. Conversely, negative returns exceeded 1% just once (January 2021). It is worth noting that broad equity market performance was typically even stronger over the period, with global equities[†] gaining 41.5%. However, the last 12 months were a considerable outlier in recent history for equity markets and Equity L/S funds, following March 2020. For perspective, Equity L/S funds compounded at 6.5% over the last 10 years and the S&P Global BMI at 8.1%.

The Equity L/S investment strategy represents the genesis of the modern hedge fund, pioneered by Alfred Winslow Jones in 1949. Nowadays, it remains one of the highest profile hedge fund strategies, as encapsulated by the media coverage of Melvin Capital during the GameStop turmoil of January 2021[†]. Largely seen as one of the simplest strategies to execute, it is no surprise that Equity L/S represents the largest strategy peer-group monitored by Aurum's Hedge Fund Data Engine in terms of number of constituent funds and the second largest in terms of AUM. Around 1,030 of the 3,500 funds monitored are classified as Equity L/S, managing total assets of \$587bn as at 31st May 2021.

Breaking the strategy down into sub-strategies, we observe some material differences in performance. Europe L/S and Other L/S define the range of returns among sub-strategies, gaining 14.3% and 35.6% respectively over the period. AsiaPac L/S also returned over 30% in the period, posting gains of 31.0%, with a low three-year beta to equities of 0.29, indicating alpha in AsiaPac L/S has been substantial. It is worth noting that the returns of the Other L/S sub-strategy were achieved on relatively low assets, as the smallest sub-strategy covering assets of \$15.6bn, as well as a relatively high three-year beta to equities of 0.62. The Other L/S category largely comprises emerging market-focused funds. Although Europe L/S funds returned the least in absolute terms over the period, they also exhibited the lowest three-year beta to equities of 0.28. Fundamental Equity Market Neutral (FEMN) was the second poorest performer among sub-strategies, returning 14.7%. However, it is worth contextualising this performance—since the strategy aims to eliminate market exposure, the 14.7% gain is primarily driven by more idiosyncratic stock factors and consequent L/S spread.

Global L/S funds experienced the most severe drawdown over the period, losing 4.6% in January 2021 during the aforementioned market tumult. The VIX – a proxy for volatility, moved into the high 30s towards the final days of the month and other major markets experienced similar high intra-month volatility. This was caused, in large part, by the short squeeze phenomenon driven by retail traders coordinating via online forums, particularly Reddit. Some hedge funds were short these stocks and forced to cover, as well as liquidate other positions to improve liquidity, which caused knock-on effects to broader markets. Prime brokers reported successive days of 'worst alpha ever' at the end of January before a dramatic reversal in the last part of the month extending into February.

Within sub-strategies, US L/S funds saw the greatest dispersion of 12 month rolling performance (+0% to +78% for the 10th to 90th percentiles), as well as the second greatest volatility (10.1%). Europe L/S exhibited both the tightest 12 month rolling dispersion (-1% to +42% for the 10th to 90th percentiles) and the lowest volatility (5.4%). When considering the risk-adjusted returns of sub-strategies, Other L/S had the highest Sharpe ratio at 3.28 (with a Risk Free Rate of 0.22%), followed by AsiaPac L/S with a Sharpe ratio of 3.09. All sub-strategies achieved impressive risk-adjusted returns over the period, the poorest being FEMN funds, which still managed a remarkable Sharpe ratio of 2.16.

The strategy produced net P&L of \$106.7bn over the period and saw net inflows of \$28.5bn. The largest flows, to the tune of \$10bn, went to Sector L/S funds, followed by \$8bn to Global L/S funds and \$7bn to US L/S funds. European and AsiaPac funds saw slight net inflows, whilst Other L/S and FEMN funds had slight net outflows.

[†] Financial Times, Melvin Capital, GameStop and the road to disaster, 06/02/2021.

NET RETURN OF MASTER AND SUB-STRATEGIES

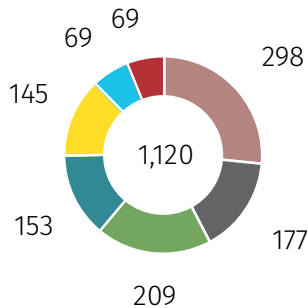
	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	YTD	1 YR
Equity L/S	2.3%	2.4%	2.9%	0.0%	0.1%	5.7%	4.5%	-2.2%	4.1%	-0.3%	2.7%	-0.3%	3.9%	23.9%
Asiapac L/S	4.9%	5.6%	2.7%	-0.9%	2.2%	2.8%	5.9%	2.6%	0.8%	-2.8%	2.8%	0.9%	4.4%	31.0%
Europe L/S	1.4%	1.7%	1.4%	0.5%	-1.2%	3.4%	2.6%	-1.6%	2.6%	0.3%	2.4%	0.0%	3.8%	14.3%
FEMN	1.5%	1.1%	1.1%	0.8%	0.8%	3.2%	3.2%	-2.0%	4.3%	-1.6%	1.6%	0.0%	2.2%	14.7%
Global L/S	1.1%	1.8%	3.7%	-0.5%	0.0%	5.9%	4.7%	-4.6%	6.3%	1.4%	3.5%	0.7%	7.1%	26.3%
Other L/S	5.1%	4.5%	1.5%	-1.3%	0.7%	7.7%	6.3%	1.6%	2.0%	-0.7%	2.1%	1.8%	7.0%	35.6%
Sector L/S	3.8%	2.0%	3.6%	0.9%	0.9%	6.7%	5.2%	-2.0%	3.7%	-2.2%	1.9%	-1.8%	-0.5%	24.8%
US L/S	1.2%	2.9%	3.3%	-0.8%	-0.8%	7.6%	4.3%	-2.7%	4.8%	1.1%	3.5%	-0.6%	6.1%	26.1%
HF Composite*	1.7%	2.3%	2.0%	-0.5%	-0.1%	4.3%	3.2%	-0.3%	2.1%	0.6%	2.1%	0.6%	5.2%	19.6%
Bonds**	1.2%	3.6%	-0.3%	-0.4%	-0.2%	2.0%	1.3%	-1.1%	-1.8%	-2.1%	1.3%	0.5%	-3.2%	4.0%
Equities[†]	3.0%	4.9%	5.9%	-3.2%	-2.2%	12.6%	4.9%	-0.2%	2.6%	2.3%	4.1%	1.3%	10.6%	41.5%

All figures and charts use asset weighted net returns unless otherwise stated. All Hedge Fund data is sourced from Aurum Hedge Fund Data Engine. * Aurum Hedge Fund Data Engine Asset-Weighted Composite Index. ** Bonds = S&P Global Developed Aggregate Ex Collateralized Bond (USD). [†] Equities = S&P Global BMI.

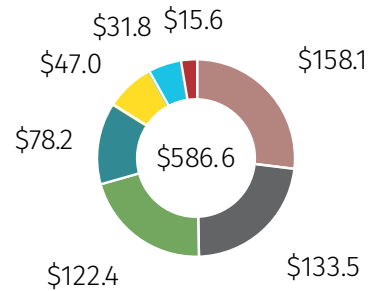
For definitions on how the Strategies and Sub-Strategies are defined please refer to <https://www.aurum.com/hedge-fund-strategy-definitions/>, and for information on index methodology, weighting and composition please refer to <https://www.aurum.com/aurum-strategy-engine/>.

Key numbers

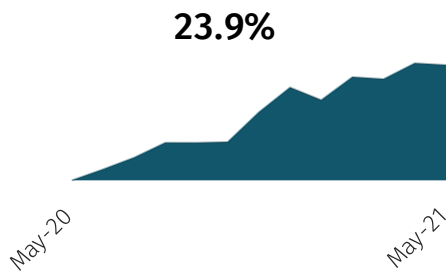
NUMBER OF FUNDS



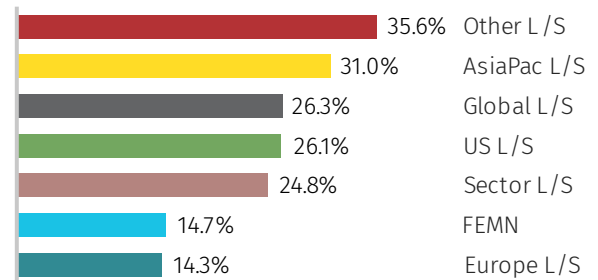
AUM (\$ BN)



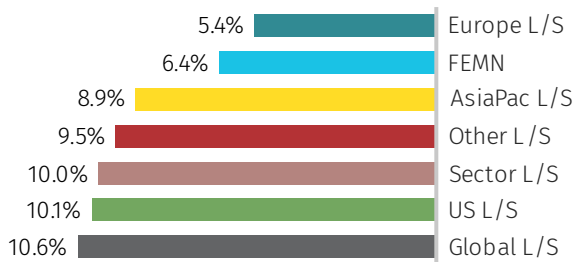
STRATEGY NET RETURN (1 YR)



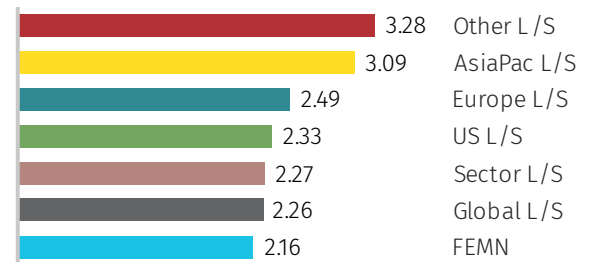
SUB-STRATEGY NET RETURN (1 YR)



STANDARD DEVIATION (1 YR)



SHARPE RATIO (1 YR)*



NET POSITIVE/NEGATIVE MONTHS (1 YR)

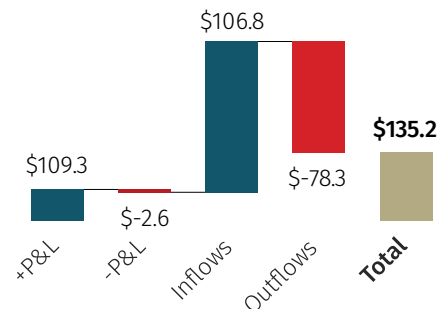


66.7%
positive
months



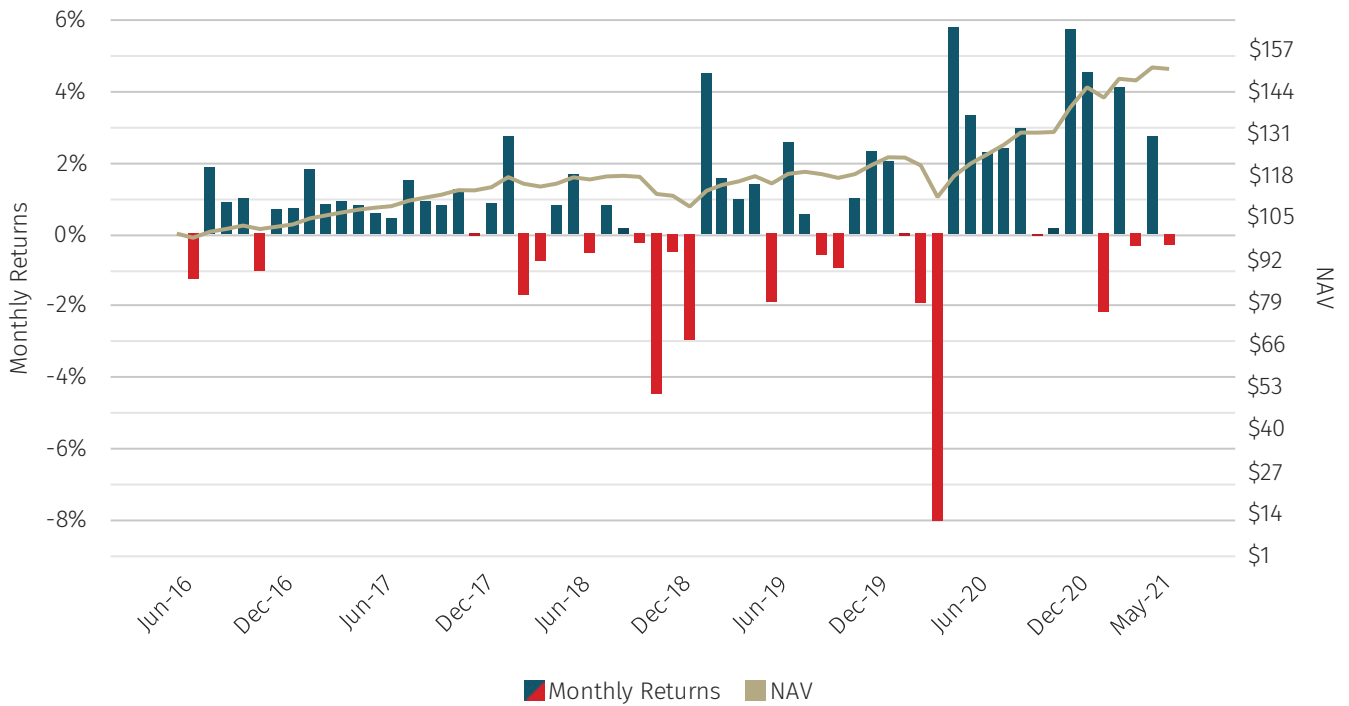
33.3%
negative
months

AUM CHANGE \$BN (1 YR)

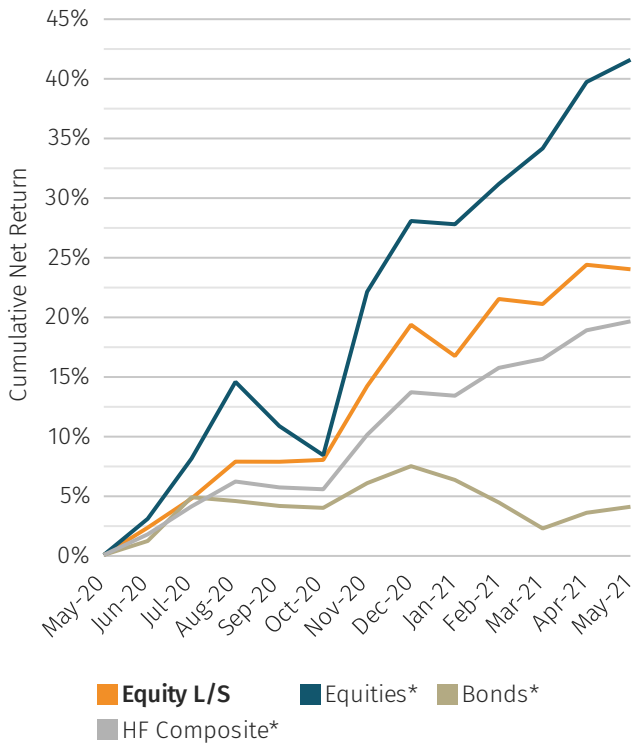


Master Strategy Performance

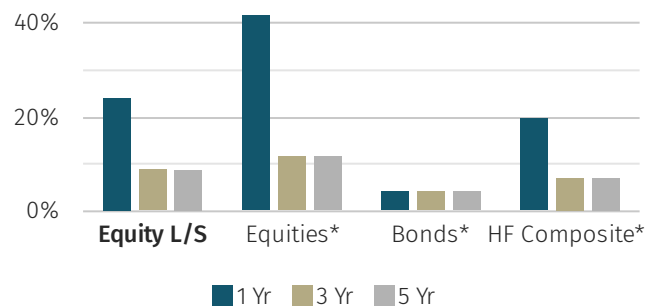
NET MONTHLY RETURN (5 YR)



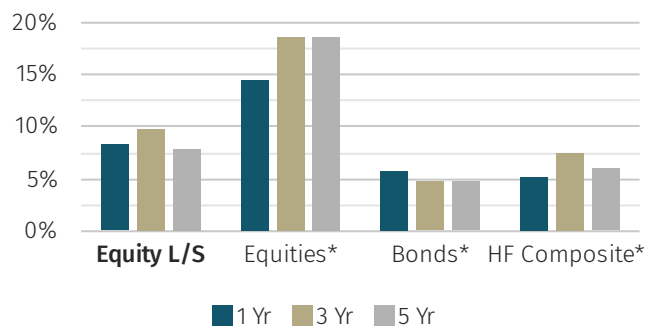
RELATIVE RETURN VS HF COMPOSITE (1 YR)



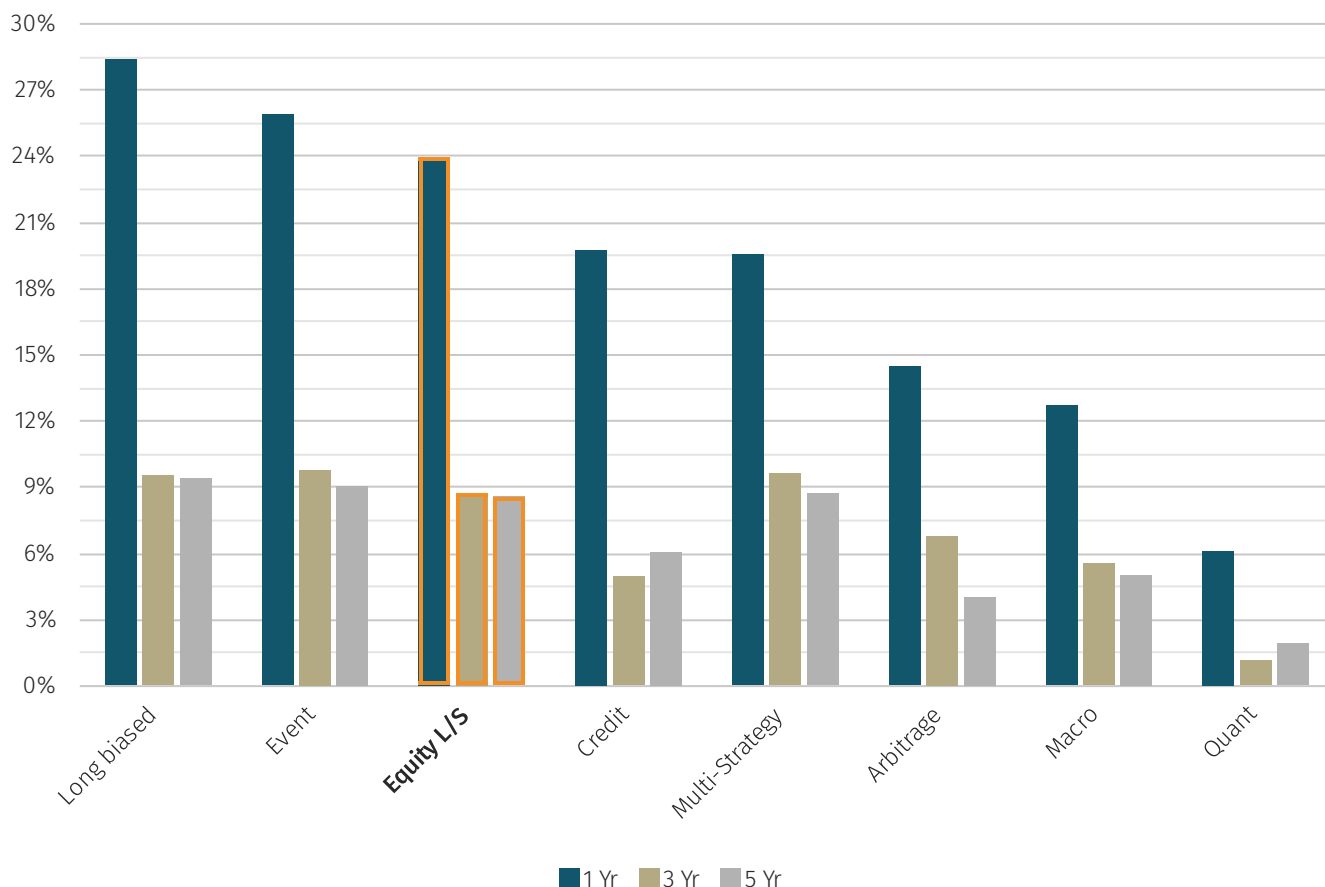
NET RETURN (ANNUALISED)



VOLATILITY (ANNUALISED)



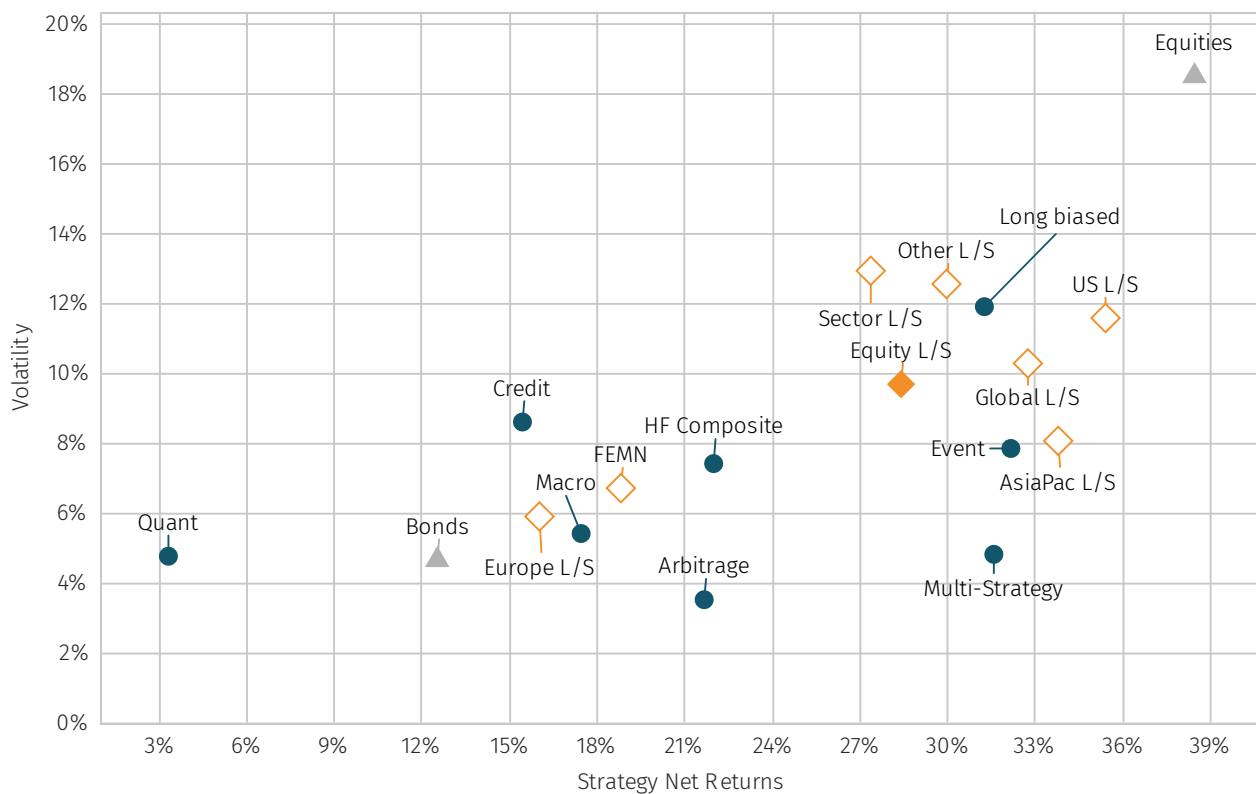
MASTER STRATEGY NET ANNUALISED RETURNS



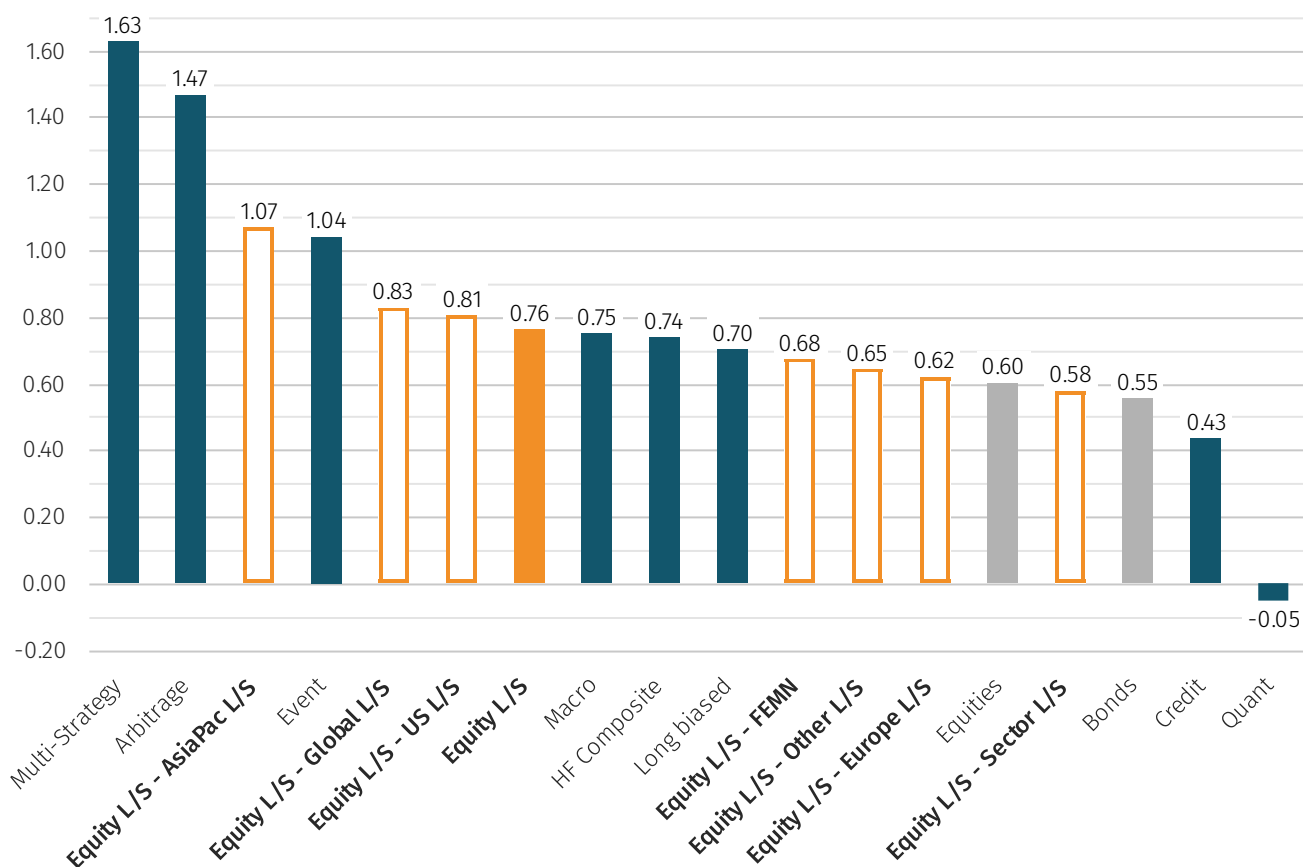
MULTIPLE PERIOD – HIERARCHICAL ANNUALISED NET RETURN

1 YEAR	3 YEAR	5 YEAR	10 YEAR
Long biased 28.3%	Event 9.7%	Long biased 9.4%	Multi-Strategy 7.5%
Event 25.8%	Multi-Strategy 9.6%	Event 9.0%	Equity L/S 6.3%
Equity L/S 23.9%	Long biased 9.5%	Multi-Strategy 8.7%	Event 5.9%
Credit 19.7%	Equity L/S 8.7%	Equity L/S 8.5%	Long biased 5.9%
Multi-Strategy 19.5%	Arbitrage 6.8%	Credit 6.0%	Credit 5.1%
Arbitrage 14.4%	Macro 5.5%	Macro 5.0%	Macro 3.5%
Macro 12.7%	Credit 4.9%	Arbitrage 4.0%	Arbitrage 2.2%
Quant 6.1%	Quant 1.1%	Quant 1.9%	Quant 2.2%

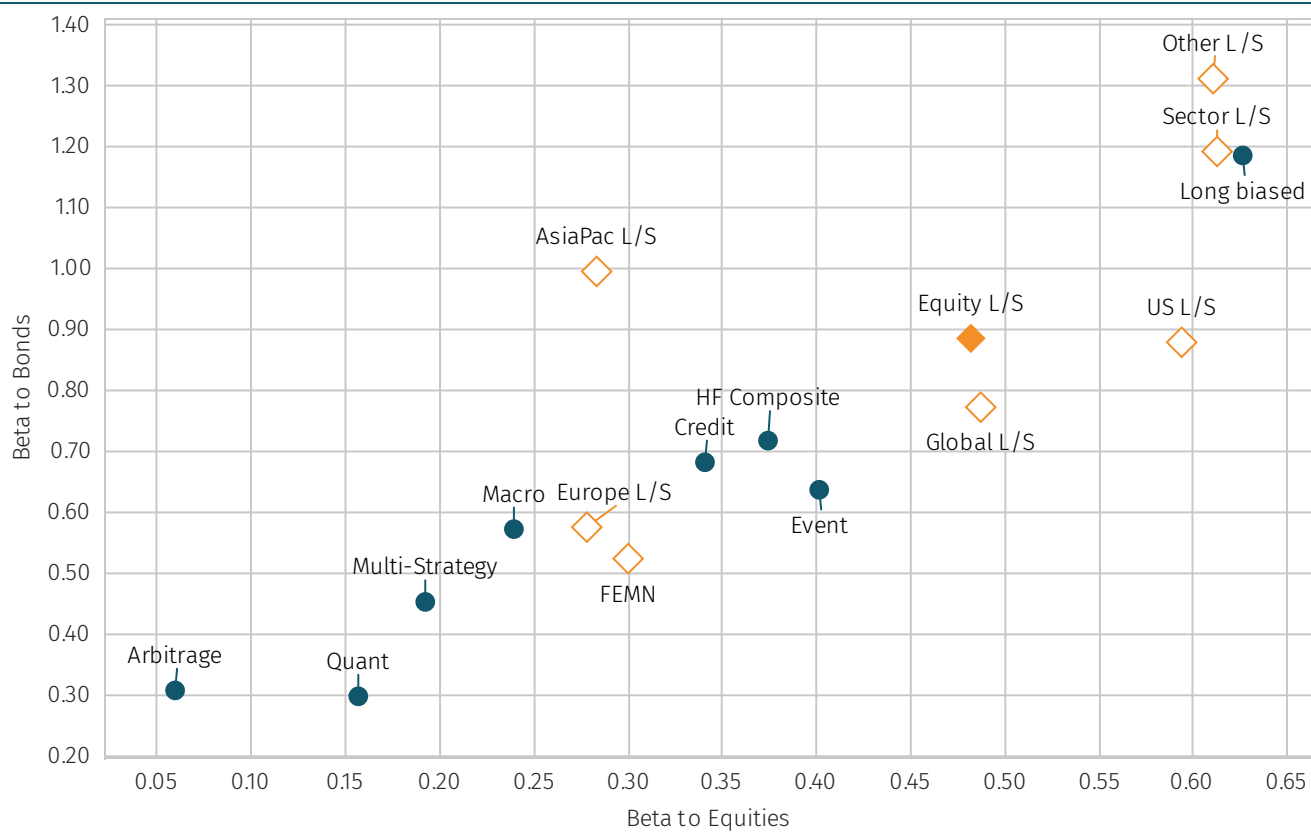
STRATEGY NET TOTAL RETURN VS ANNUALISED VOL (3 YR)



SHARPE RATIO BY HEDGE FUND STRATEGY (3 YR)*

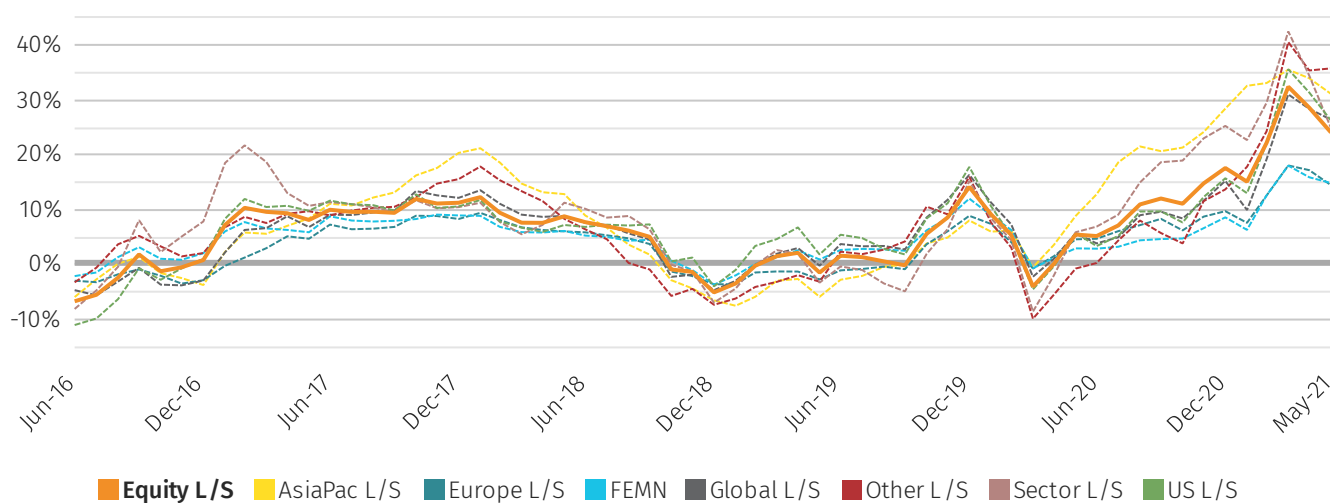


STRATEGY BETA TO BONDS AND EQUITIES (3 YR)

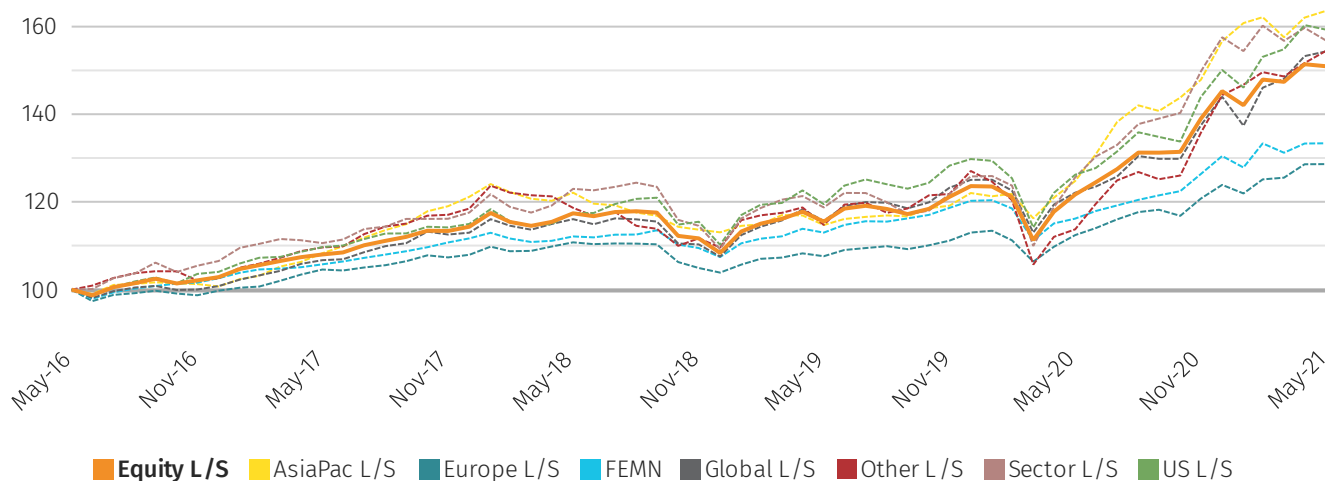


Sub-strategy Performance

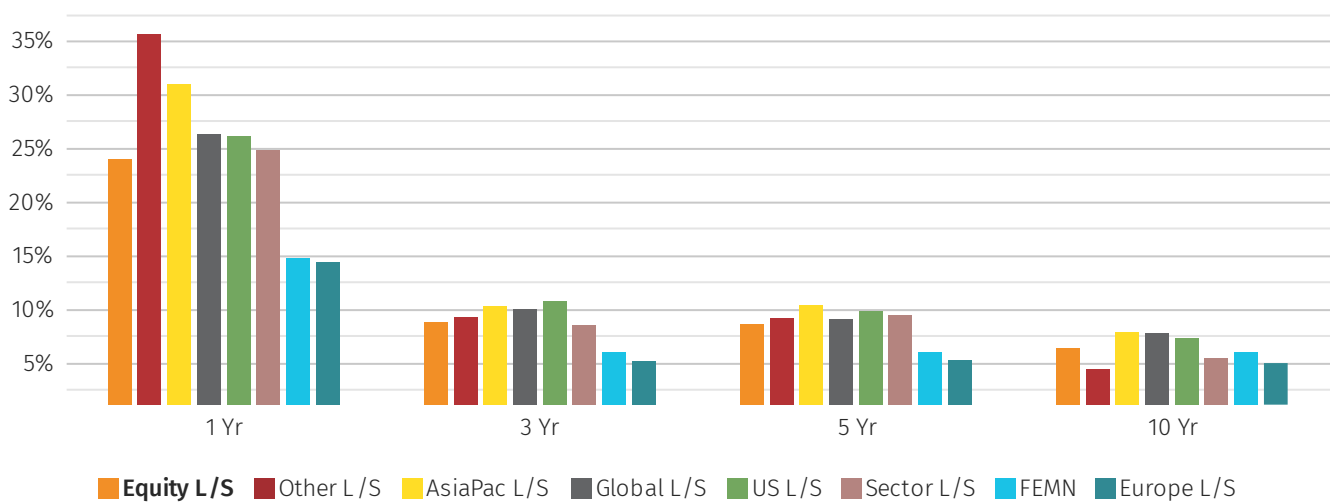
ROLLING 12 MONTH NET RETURN (5 YR)



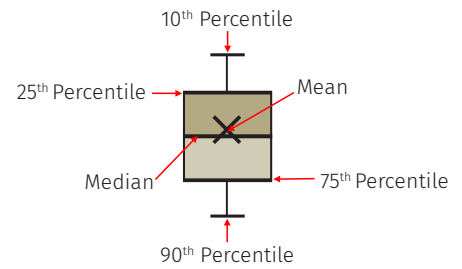
CUMULATIVE NET RETURN (5 YR)



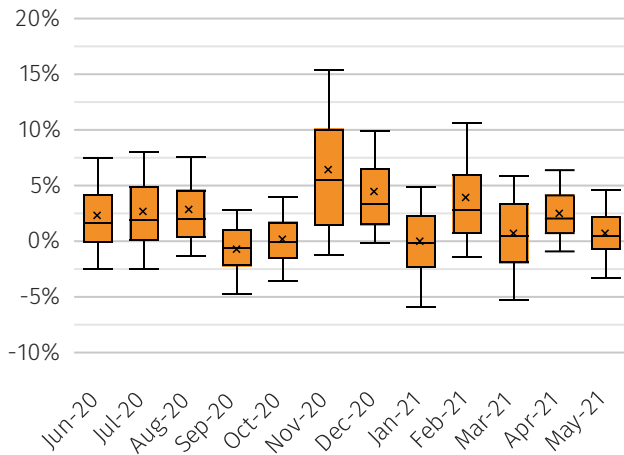
COMPOUND ANNUAL RETURN (ANNUALISED)



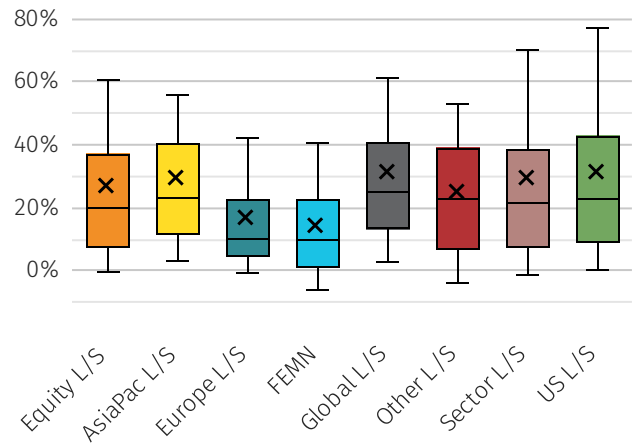
Performance Dispersion



MASTER STRATEGY NET RETURN DISTRIBUTION

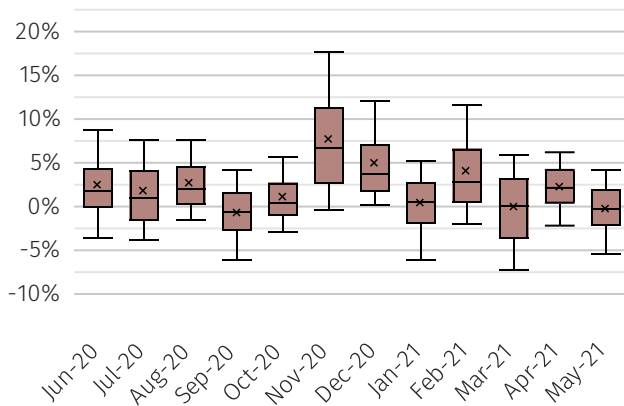


SUB-STRATEGY NET RETURN (1 YR)

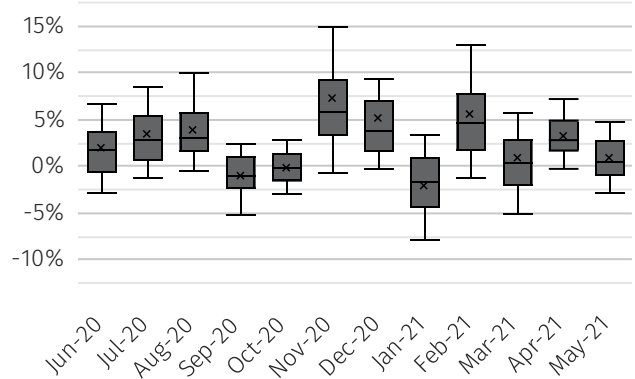


SUB-STRATEGIES NET MONTHLY RETURN DISTRIBUTION

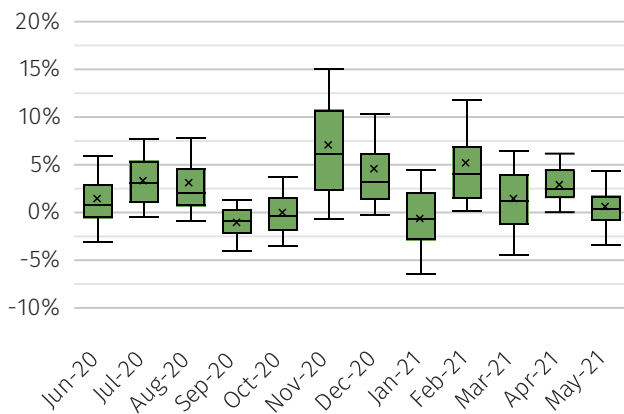
Sector L/S



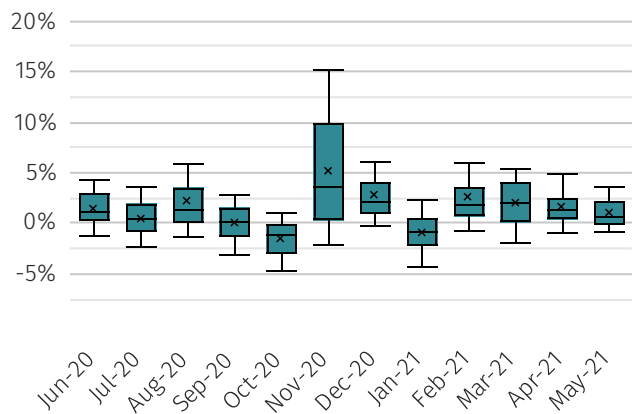
Global L/S



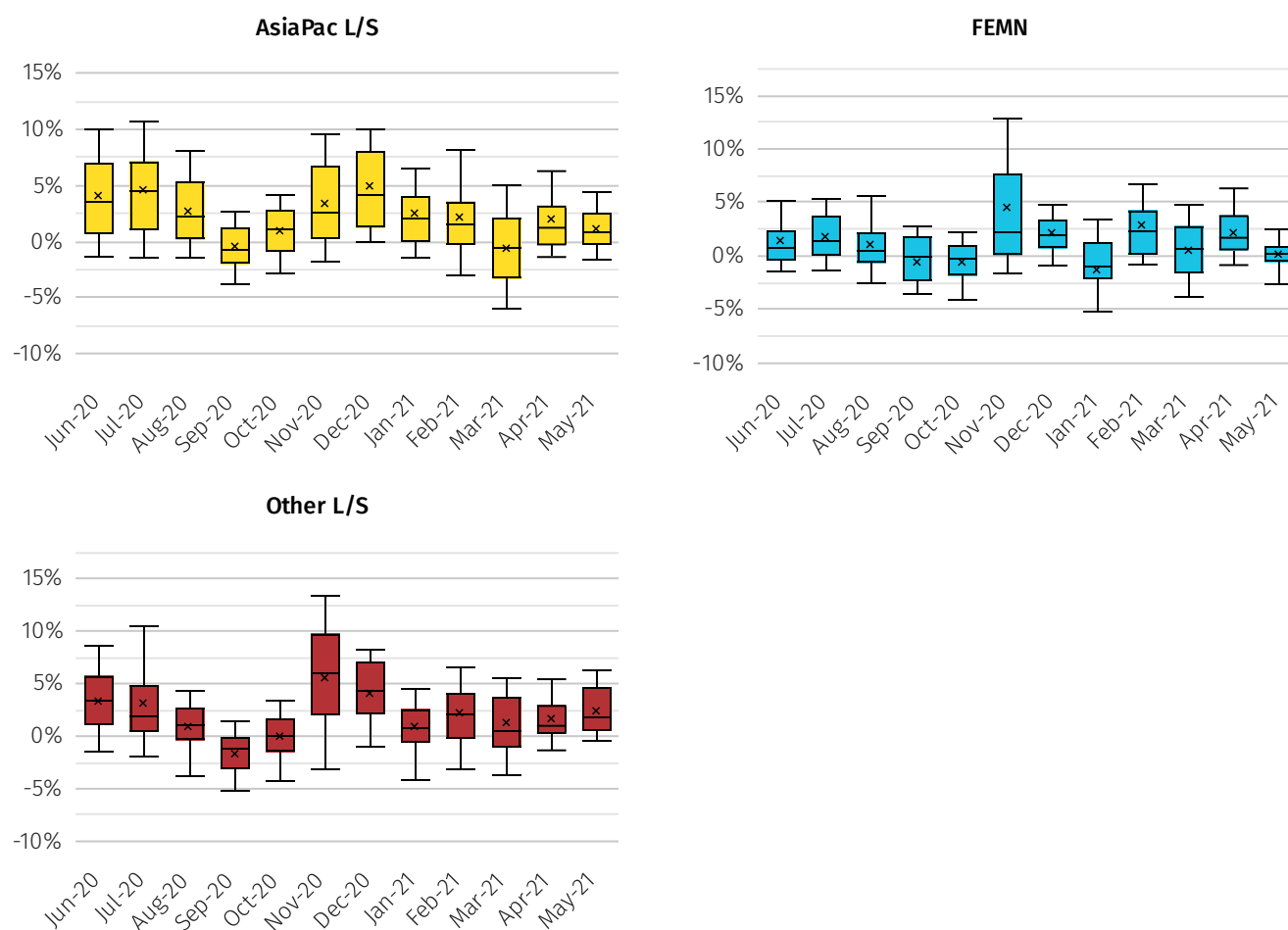
US L/S



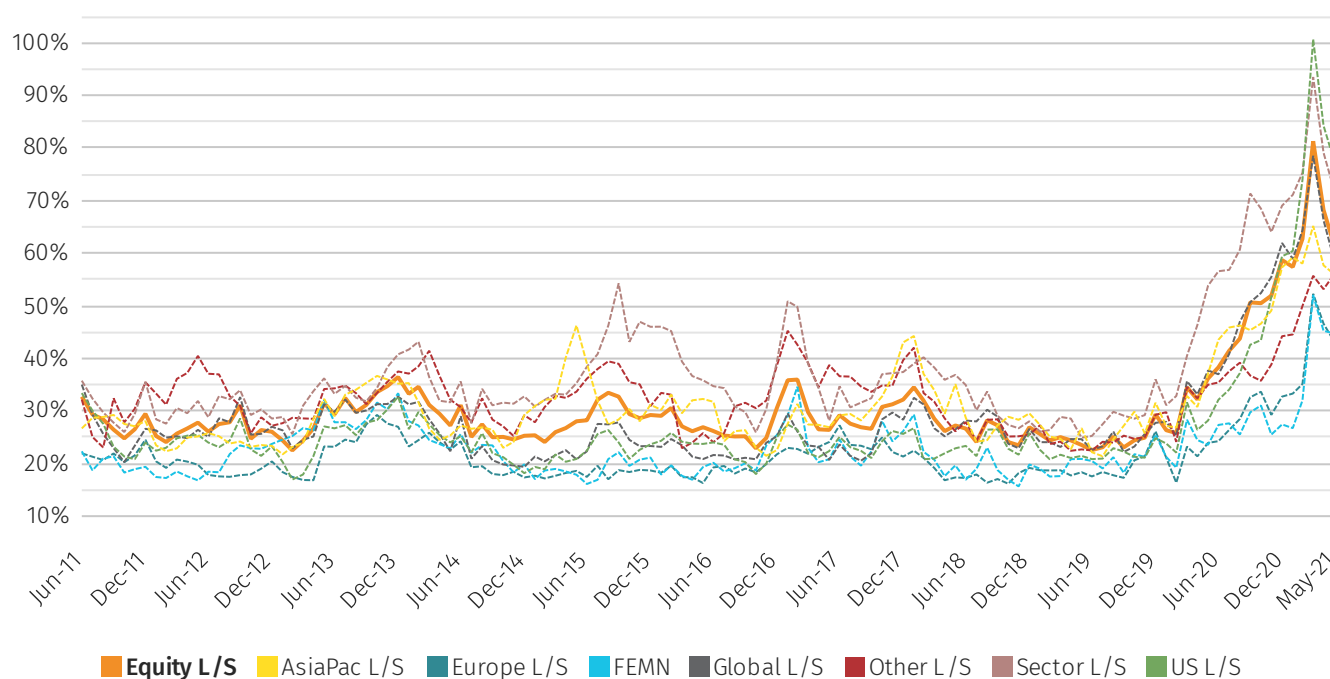
Europe L/S



SUB-STRATEGIES NET MONTHLY RETURN DISTRIBUTION

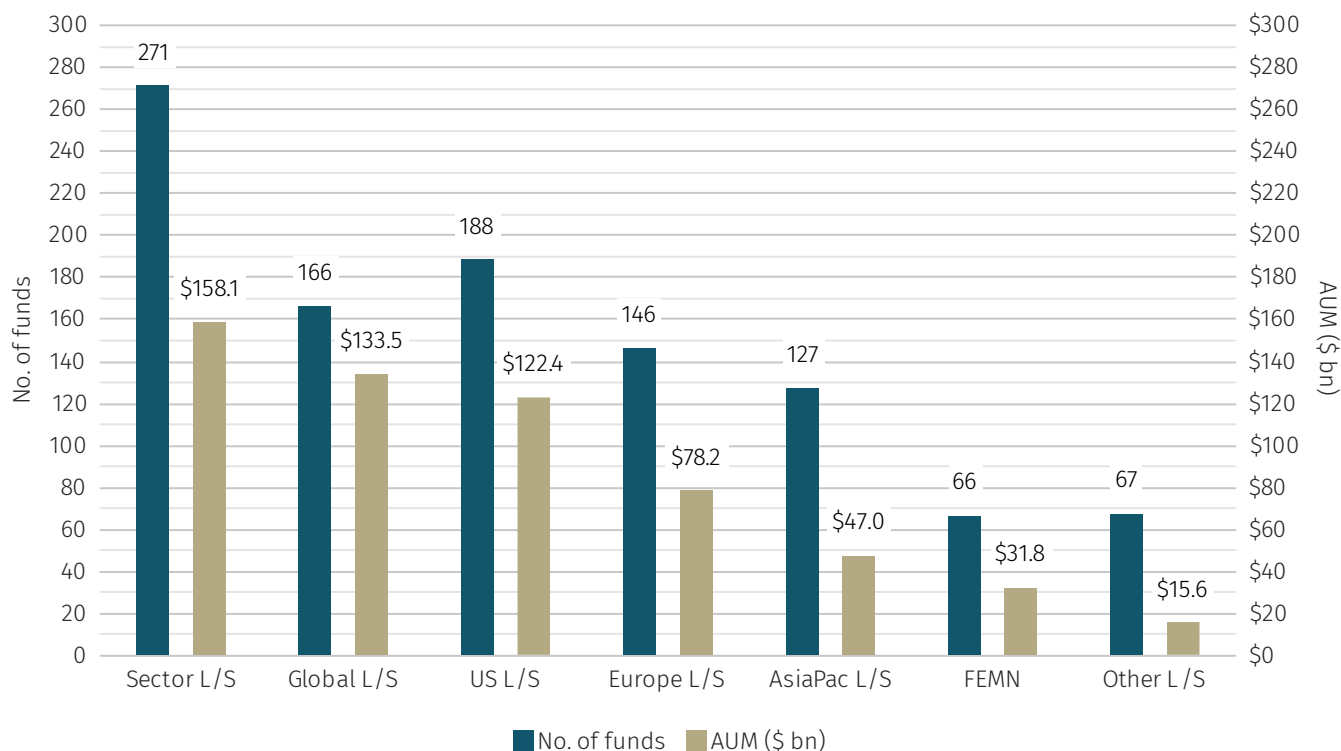


10th – 90th PERCENTILE 12M ROLLING PERFORMANCE SPREAD

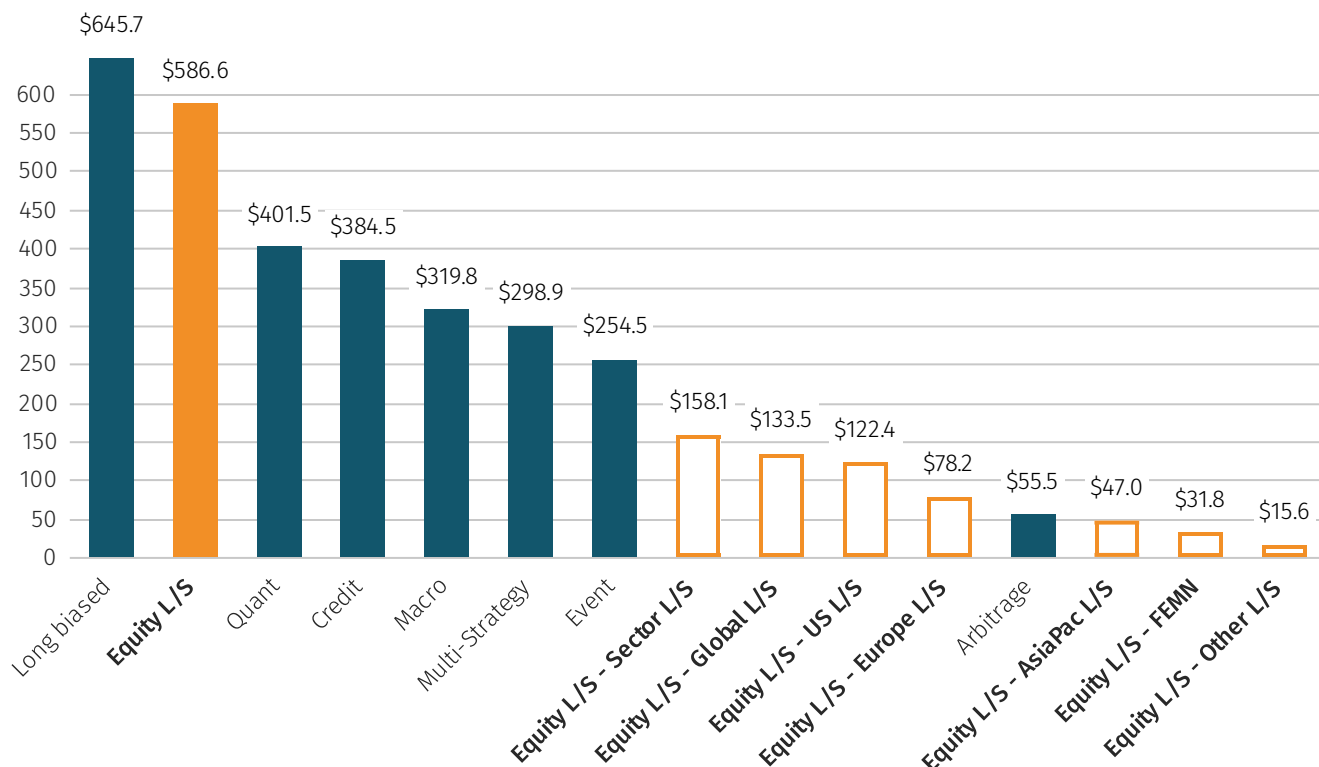


Assets, flows and fees

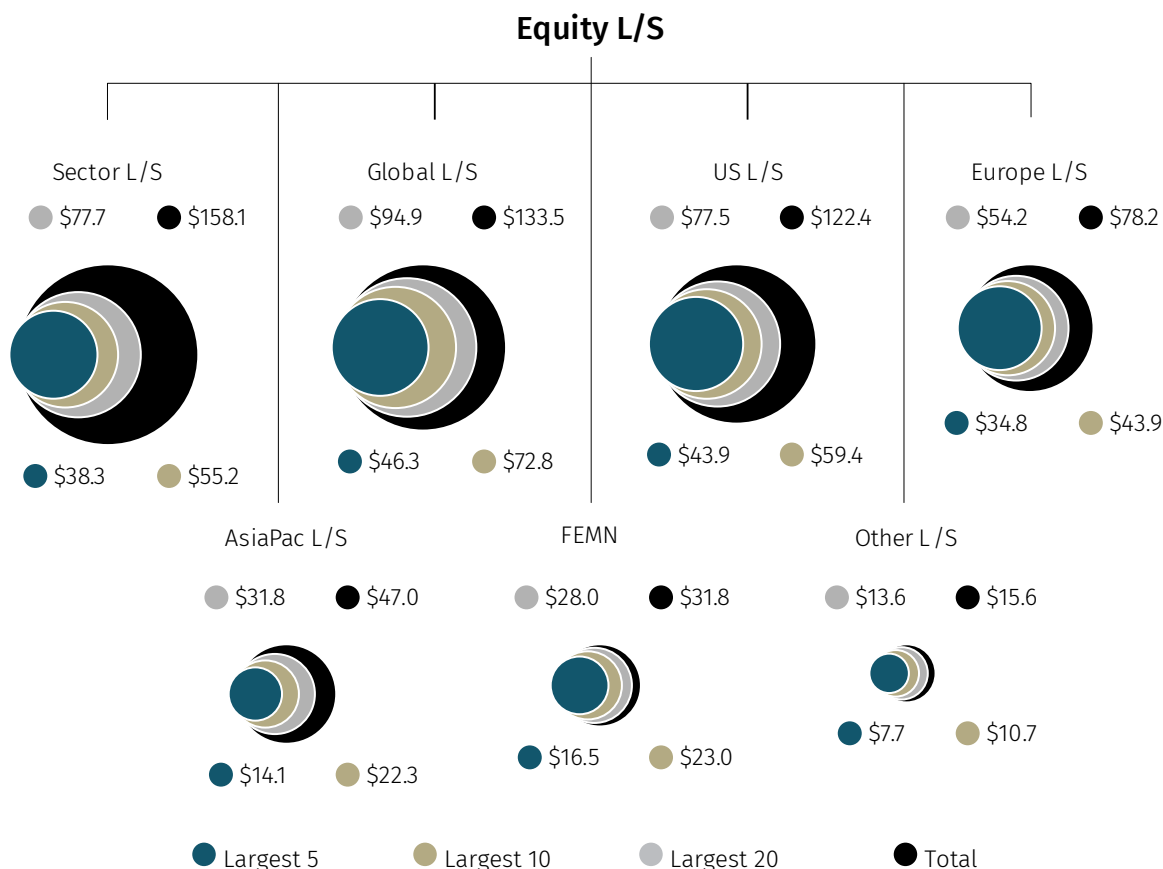
NUMBER OF FUNDS AND AUM BY SUB-STRATEGY



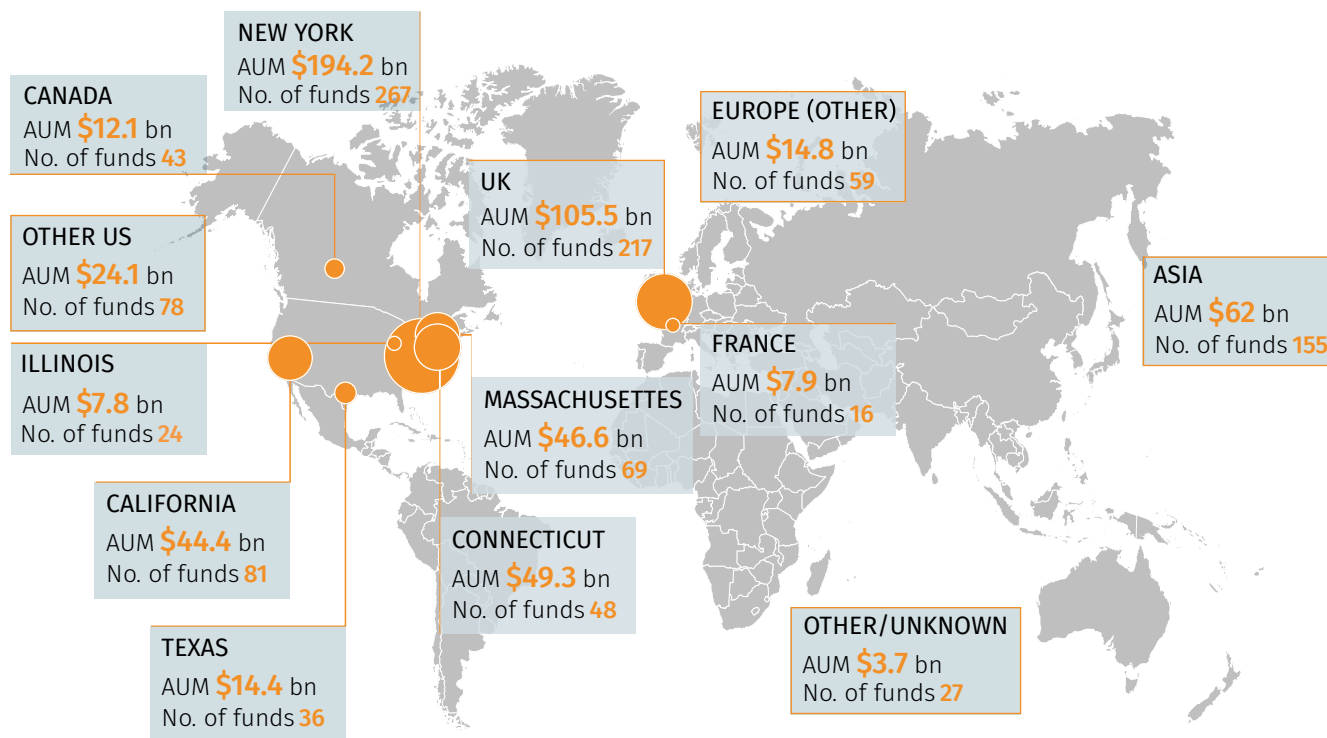
AUM OF MASTER STRATEGY – MAY 2021 (\$ BN)



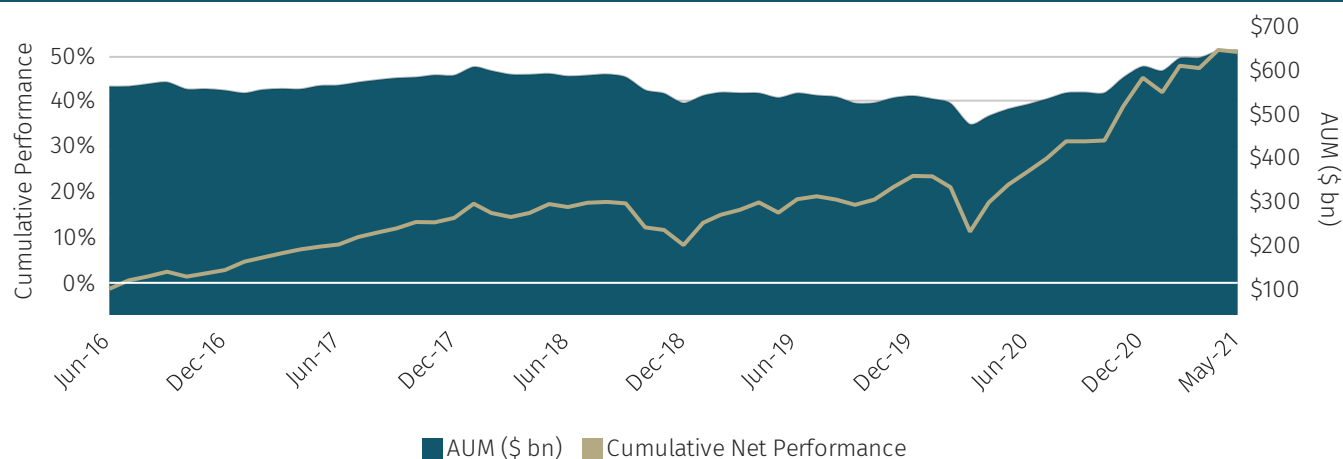
SUB-STRATEGY FUND CONCENTRATION (\$ BN)



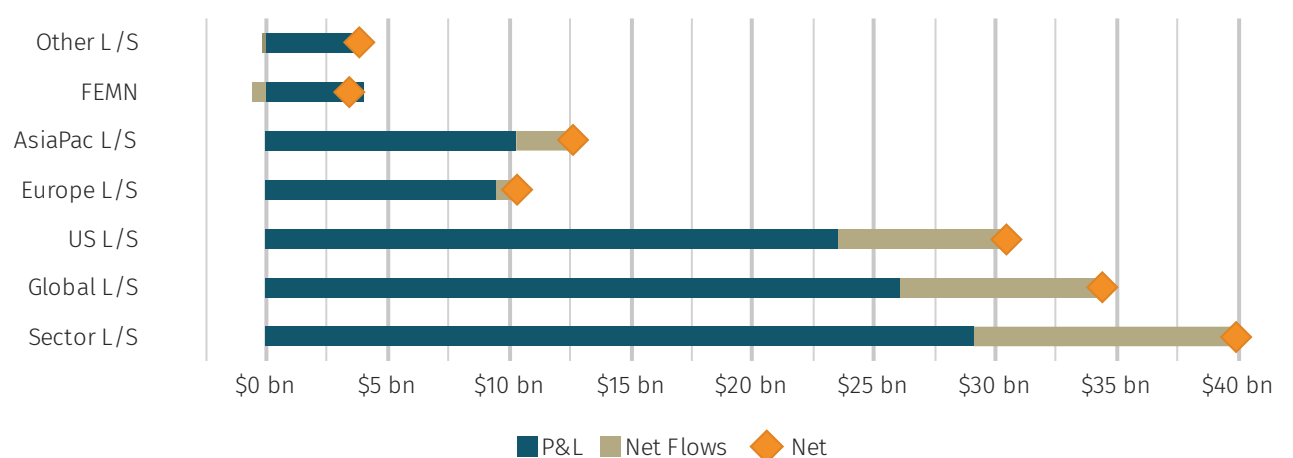
ASSETS UNDER MANAGEMENT BY LOCATION



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) ¹	Weighted Avg. Management Fee	Weighted Avg. Performance Fee
Equity Long/Short	30	Monthly	126	1.46%	18.79%
Asia Pacific Long/Short	30	Monthly	136	1.62%	19.43%
European Long/Short	14	Fortnightly	83	1.34%	19.31%
Fundamental Equity MN	30	Monthly	100	1.51%	18.13%
Global Long/Short	45	Monthly	128	1.47%	18.78%
Other Long/Short	30	Monthly	91	1.28%	15.43%
Sector	45	Quarterly	138	1.58%	18.58%
US Long/Short	45	Quarterly	147	1.30%	18.91%

¹Weighted Avg. Redemption Total (Days) is the weighted Avg. of both redemptions notice days and redemption frequency days.

EQUITY LONG/SHORT

Investing in global stocks, both on the long and short side. Most funds have a fundamental bias, value and/or growth-oriented investment theses. Some managers may also be more tactical/technical in their approach, taking into account flows, positioning on the street and market dynamics as part of the investment decision making process.

US Equity Long/Short:

Investing the all or the vast majority of their portfolio into US stocks, both on the long and short side. Most funds have a fundamental bias, value and/or growth-oriented investment theses. Some managers may also be more tactical/technical in their approach, taking into account flows, positioning on the street and market dynamics as part of the investment decision making process.

Asia Pacific Equity Long/Short:

Investing the all or the vast majority of their portfolio into Asian Pacific stocks, both on the long and short side. Most funds have a fundamental bias, value and/or growth-oriented investment theses. Some managers may also be more tactical/technical in their approach, taking into account flows, positioning on the street and market dynamics as part of the investment decision making process.

European Equity Long/Short:

Investing all or the vast majority of the portfolio in European stocks, both on the long and short side. Most funds have a fundamental bias, value and/or growth-oriented investment theses. Some managers may also be more tactical/technical in their approach, taking into account flows, positioning on the street and market dynamics as part of the investment decision making process.

Global Equity Long/Short:

Investing the portfolio in global stocks, both on the long and short side. The fund is agnostic to country/region to maintain flexibility. Most funds have a fundamental bias, value and/or growth-oriented investment theses. Some managers may also be more tactical/technical in their approach, taking into account flows, positioning on the street and market dynamics as part of the investment decision making process.

Fundamental Equity Market Neutral:

Investing the portfolio in stocks, both on the long and short side. To classify as 'equity market neutral' funds are expected to run with a very tight net exposure bias, which over the longer term should be close to zero. Note, different funds use different methodologies, e.g., some may run to be 'beta neutral', while others may be cash neutral (with a tolerance band around the zero level). The distinguishing characteristic is that such funds are typically very low net at all times, but some may run with varying degrees of factor or industry exposure, while others may have more stringent risk parameters around such exposures. Most funds have a fundamental bias, value and/or growth-oriented investment theses. Some managers may also be more tactical/technical in their approach, taking into account flows, positioning on the street and market dynamics as part of the investment decision making process.

Sector:

Investing the portfolio in a specific sector, both on the long and short side. The funds may or may not be agnostic to country/region to maintain flexibility, however sector specialist funds tend to be US focused given that it is a very deep/broad market with sectors that are large enough to accommodate diversified sector specific portfolios. Most funds have a fundamental bias, value and/or growth-oriented investment theses. Some managers may also be more tactical/technical in their approach, taking into account flows, positioning on the street and market dynamics as part of the investment decision making process.

Other Long Short:

Long short equity investing, which does not readily fit into the other classification taxonomy.

BOND AND EQUITY INDICES

The S&P Global BMI and S&P Global Developed Aggregate Ex Collateralized Bond (USD) Total Return Index (the “S&P Indices”) are products of S&P Dow Jones Indices LLC, its affiliates and/or their licensors and has been licensed for use by Aurum Research Limited. Copyright © 2021 S&P Dow Jones Indices LLC, its affiliates and/or their licensors. All rights reserved. Redistribution or reproduction in whole or in part are prohibited without written permission of S&P Dow Jones Indices LLC. For more information on any of S&P Dow Jones Indices LLC’s indices please visit www.spdji.com. S&P® is a registered trademark of Standard & Poor’s Financial Services LLC and Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC. Neither S&P Dow Jones Indices LLC, Dow Jones Trademark Holdings LLC, their affiliates nor their third party licensors make any representation or warranty, express or implied, as to the ability of any index to accurately represent the asset class or market sector that it purports to represent and neither S&P Dow Jones Indices LLC, Dow Jones Trademark Holdings LLC, their affiliates nor their third party licensors shall have any liability for any errors, omissions, or interruptions of any index or the data included therein.

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