

## Event deep dive

12-month review to January 2022

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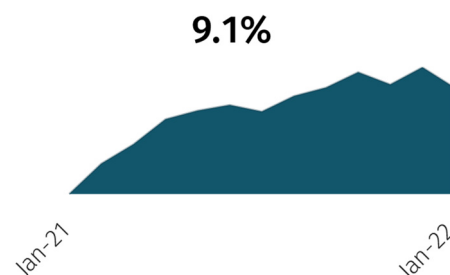
### In summary

- Event driven funds generated an average return of +9.1% in the 12 months to January 2022
- AUM has grown by \$28.5bn, 76% of this growth was driven by performance
- Activist was the strongest performing event driven sub-strategy generating an average return of 14.4%
- Multi-strategy had the lowest standard deviation amongst sub-strategies of 2.2% and suffered only one negative month in the period

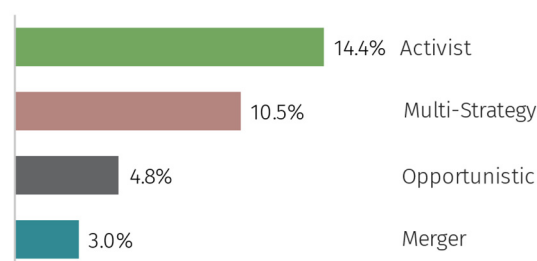
\*HF Composite = Aurum Hedge Fund Data Engine Asset Weighted Composite Index. All figures and charts use asset weighted returns unless otherwise stated. All Hedge Fund data is sourced from Aurum Hedge Fund Data Engine. For definitions on how the Strategies and Sub-Strategies are defined please refer 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/>

Event

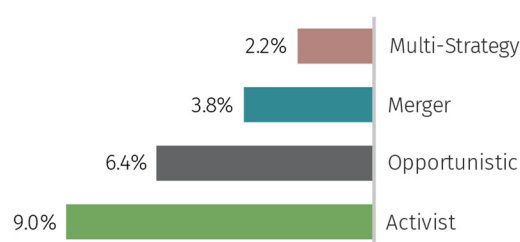
### MASTER STRATEGY NET RETURN (1 YR)



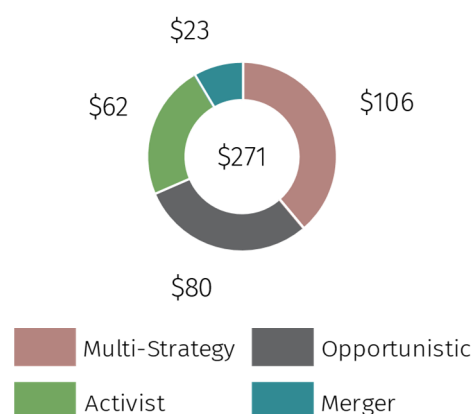
### SUB-STRATEGY NET RETURN (1 YR)



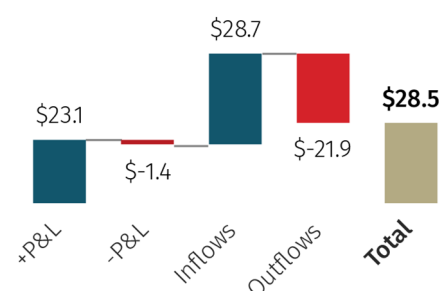
### STANDARD DEVIATION (1 YR)



### AUM (\$BN)



### AUM CHANGE \$BN (1 YR)



## Overview

Event driven funds performed reasonably well in the 12 months to January 2022, generating an average return of +9.1%. The strategy was positive for 9 of 12 months, with the worst monthly drawdown in January 2022 when the master strategy was down -1.6%.

Event driven is the third smallest strategy monitored by Aurum's Hedge Fund Data Engine by number of funds, consisting of 230 funds out of the ~ 4,000 funds monitored. The combined AUM of those event driven funds is \$271.2bn having grown as a result of net investor inflows of \$6.8bn and net profits of \$21.7bn in the 12-month review period, while the number of event-driven funds monitored increased by 11 funds.

Event driven was the third best performing master strategy in the 12 months to January 2022 (outperformed only by multi-strategy and quant). All event driven sub-strategies delivered positive performance over the review period, however, there was wide dispersion between the top and bottom performing sub-strategies ranging from +3.0% for merger arbitrage to +14.4% for activist.

**Event driven was the third best performing master strategy in the 12 months to January 2022 - outperformed only by multi-strategy and quant**

Some strategies within event like SPACs, which had generated exceptional returns in 2020, were more challenged in 2021. The huge supply of SPAC capital to the market accompanied by enormous investor appetite, including that of insatiable retail investors was a big tailwind for SPACs in 2020. Coming into 2021, however, valuations were more stretched prompting investors to scrutinise some of the acquisitions more closely causing a broad SPAC selloff.

### NET RETURN OF MASTER AND SUB-STRATEGIES (1 YR)

	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	YTD	1 YR
<b>Event</b>	2.6%	1.6%	2.1%	0.7%	0.4%	-0.5%	1.2%	0.7%	1.2%	-1.0%	1.3%	-1.6%	-1.6%	9.1%
Activist	4.8%	3.8%	2.4%	0.7%	0.0%	0.1%	0.7%	-0.4%	2.3%	-1.3%	4.8%	-4.0%	-4.0%	14.4%
Multi-Strategy	2.0%	1.1%	1.2%	0.8%	0.7%	-0.7%	1.2%	1.3%	0.7%	0.3%	0.8%	0.6%	0.6%	10.5%
Opportunistic	2.2%	1.6%	2.7%	0.7%	0.7%	-0.4%	1.9%	0.5%	1.2%	-2.6%	-0.3%	-3.3%	-3.3%	4.8%
Merger	1.1%	-1.0%	2.4%	0.3%	-0.4%	-1.9%	0.7%	0.8%	0.7%	0.0%	0.6%	-0.3%	-0.3%	3.0%
<b>HF Composite*</b>	2.0%	0.6%	2.1%	0.7%	0.6%	0.0%	0.9%	-0.3%	1.1%	-1.2%	1.1%	-1.5%	-1.5%	6.2%
<b>Bonds**</b>	-1.8%	-2.1%	1.3%	0.5%	-0.4%	1.3%	-0.5%	-1.9%	-0.3%	-0.5%	-0.2%	-2.3%	-2.3%	-6.7%
<b>Equities***</b>	2.6%	2.3%	4.1%	1.3%	1.0%	0.3%	2.3%	-4.1%	4.6%	-2.9%	3.8%	-5.3%	-5.3%	10.1%

## Returns by sub-strategy

### Activist

Activist was the strongest performing event driven sub-strategy and the fifth strongest sub-strategy of all those monitored, generating an average return of 14.4% in the 12 months to January 2022. Amongst event driven sub-strategies, activist has been the best performing over 1, 3, 5 and 10 year periods – however, as a long biased strategy it has exhibited significant beta and has been a beneficiary of market tailwinds.

Activist has consistently displayed the widest interquartile performance dispersion ranging from +3.7% to +22.0%<sup>†</sup> over the past 12 months; the strategy also displayed the highest volatility of the event driven sub-strategies with a standard deviation of 9.0%. This is not unexpected for a strategy defined by the variety in managers' specific trades.

**Amongst event driven sub-strategies, activist has been the best performing over 1, 3, 5 and 10 year periods - however, as a long biased strategy it has exhibited significant beta and has been a beneficiary of market tailwinds.**

In addition, activist funds have typically exhibited high beta to equities, and the strong rebound in global equity markets after March 2020 and persistent rally through 2021 definitely benefited funds within this sub-strategy. As can be clearly seen on page 8, when decomposing performance, it appears that market beta explains the majority of the P&L generated. Activist is the third largest event driven sub-strategy with \$62.3bn of AUM. Inflows into the sub-strategy were negligible (only \$10m) over the past year, with asset growth attributable almost exclusively to performance (+\$7.4bn); while the number of funds monitored increased by 2 funds to 54 over the 12-month period.

## Multi-strategy

Multi-strategy was the second strongest performing sub-strategy generating an average return of +10.5%. It had the lowest standard deviation amongst sub-strategies of 2.2% and suffered only one negative month in the period under review with a loss of -0.7%. Dispersion ranged from -1.2% to +9.8%†.

**Multi-strategy had the lowest standard deviation amongst sub-strategies of 2.2% and suffered only one negative month in the period**

The low level of volatility is to be expected from funds with diversified underlying strategies; while the relatively high dispersion can be explained by the high dispersion of the sub-strategies that are weighted differently in each fund. For example, funds with a larger weighting in strategies with beta would have been expected to perform better than funds with a higher weighting to SPACs, which were more challenged over the recent period. Multi-strategy event driven funds have exhibited the lowest overall equity beta attribution to overall returns. Multi-strategy is the largest event driven sub-strategy with \$105.6bn of AUM. It had inflows of +\$4.0bn and net performance of +\$9.8bn; while the fund count increased by 8 funds to 62.

## Opportunistic

Opportunistic was the third strongest performing sub-strategy, generating an average return of +4.8%. Average dispersion amongst opportunistic funds ranged from +2.3% to +11.6%†. It had the third highest volatility of the event driven sub-strategies with a standard deviation of 6.4%. The sub-strategy was hardest hit in January 2022, suffering its worst monthly drawdown with a loss of -3.3%, when the strategy's softer catalyst longer duration holdings suffered as a result of the market selloff. Opportunistic is the second largest sub-strategy in event driven with \$80.2bn of AUM. It had inflows of +\$1.3bn over the period and net performance of +\$3.9bn; the fund count remained steady at 64 funds.

## Merger arbitrage

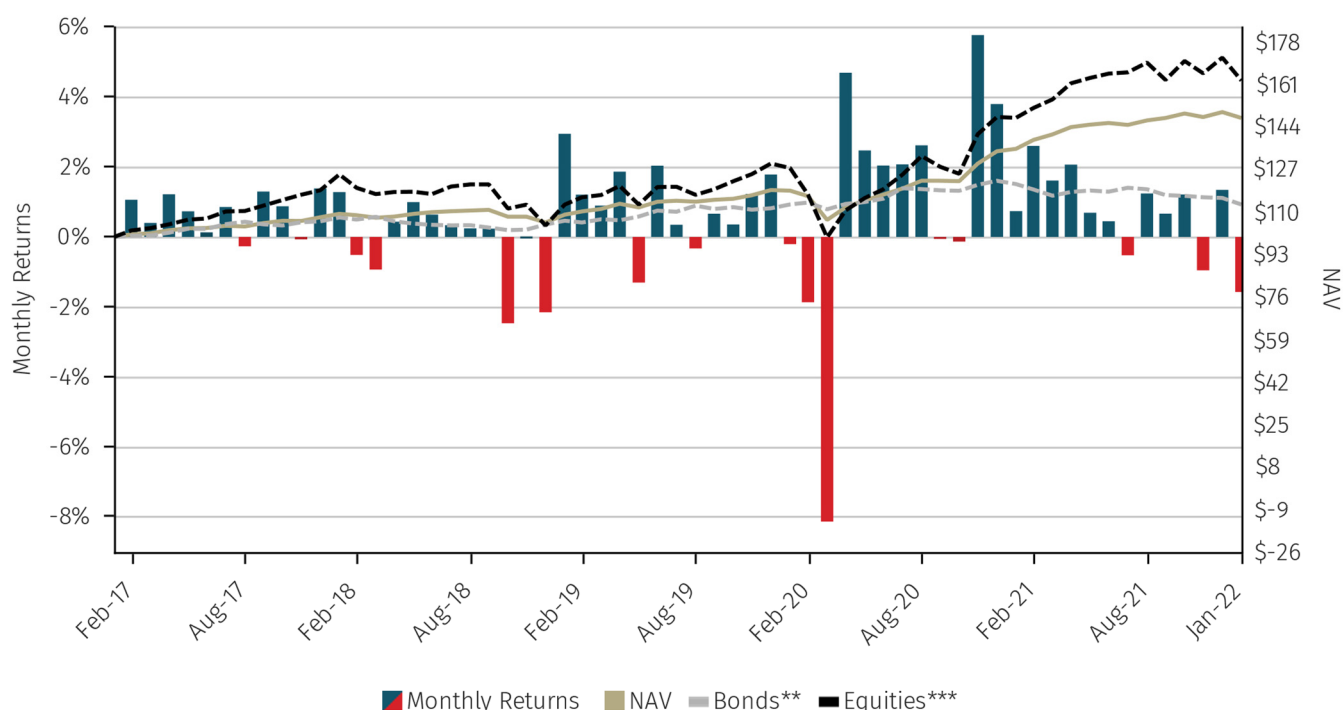
Merger arbitrage generated an average return of +3.0% and was the weakest performing event-driven sub-strategy. It had the tightest performance dispersion of +0.2% to +6.7% over the period. Merger funds are more homogeneous than funds from other sub-strategies because many of the managers select investments from a fairly defined opportunity set that consists of a finite number of announced mergers, meaning that the funds often invest in many of the same deals.

It was a reasonably good year for merger arbitrage in terms of deal flow, however, there were also some deal breaks and periods of spread widening that were catalysed by concerns over US and China politics, regulatory issues and Covid-19 related market selloffs. The strategy has traditionally exhibited very low beta to global equities (page 9) although since the March 2020 lows, the gains attributable to beta have risen significantly. A number of managers in the space rolled into SPAC arbitrage, picking up deals trading below trust value and essentially holding the 'free option'. Many were beneficiaries of the following boom in the space. At the same time, many merger deals that had seen spreads widening significantly saw a strong recovery at the same time as markets. This also explains the spiking correlation of merger arbitrage returns to broader market moves.

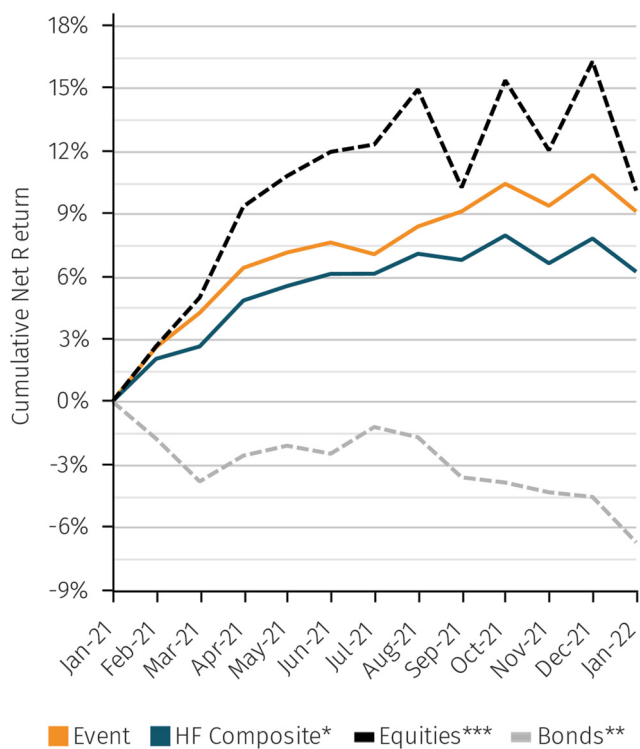
Merger Arbitrage is the smallest event driven sub-strategy with just +\$23.2bn of AUM. It had inflows of +\$1.4bn and net performance of +\$660m over the period; while the fund count increased by 1 fund to 50.

# Master strategy performance

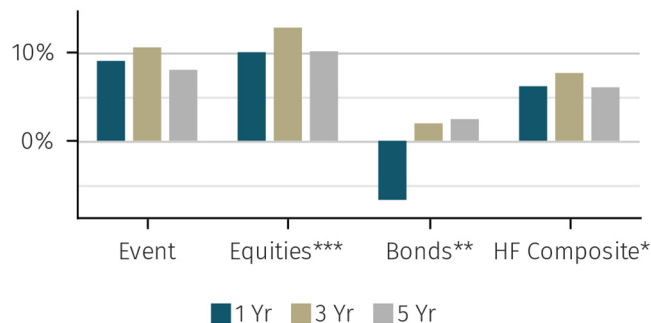
## NET MONTHLY RETURN (5 YR)



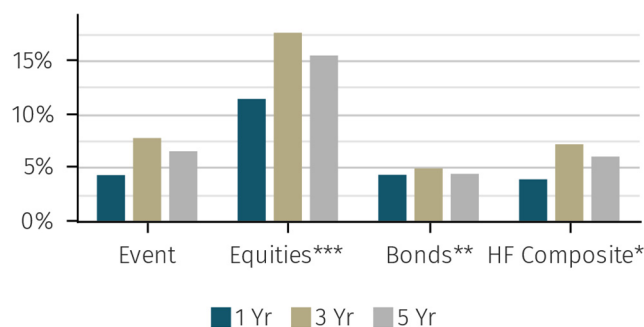
## COMPARATIVE RETURN VS HF COMPOSITE (1 YR)



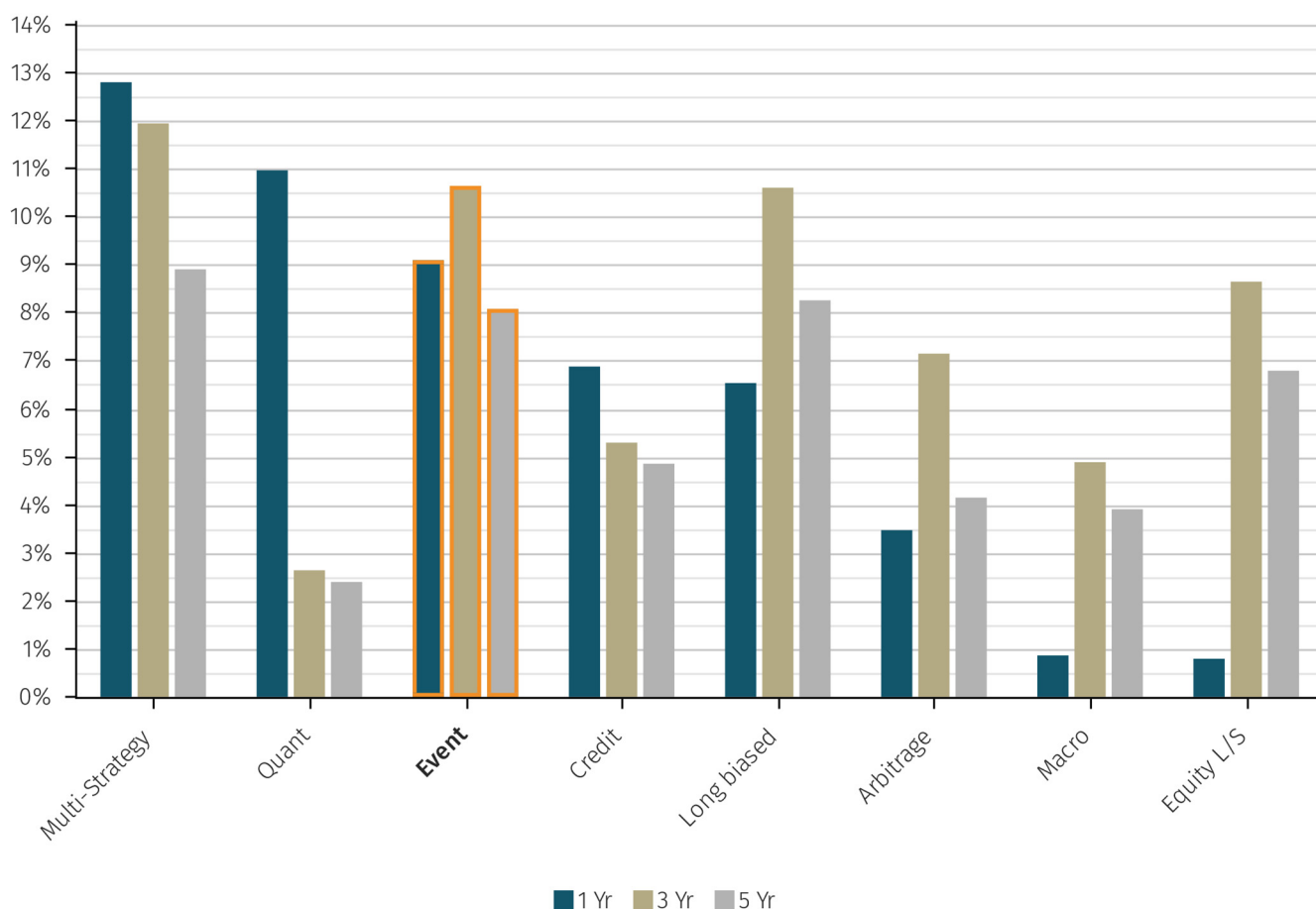
## NET RETURN (ANNUALISED)



## VOLATILITY (VOL) (ANNUALISED)



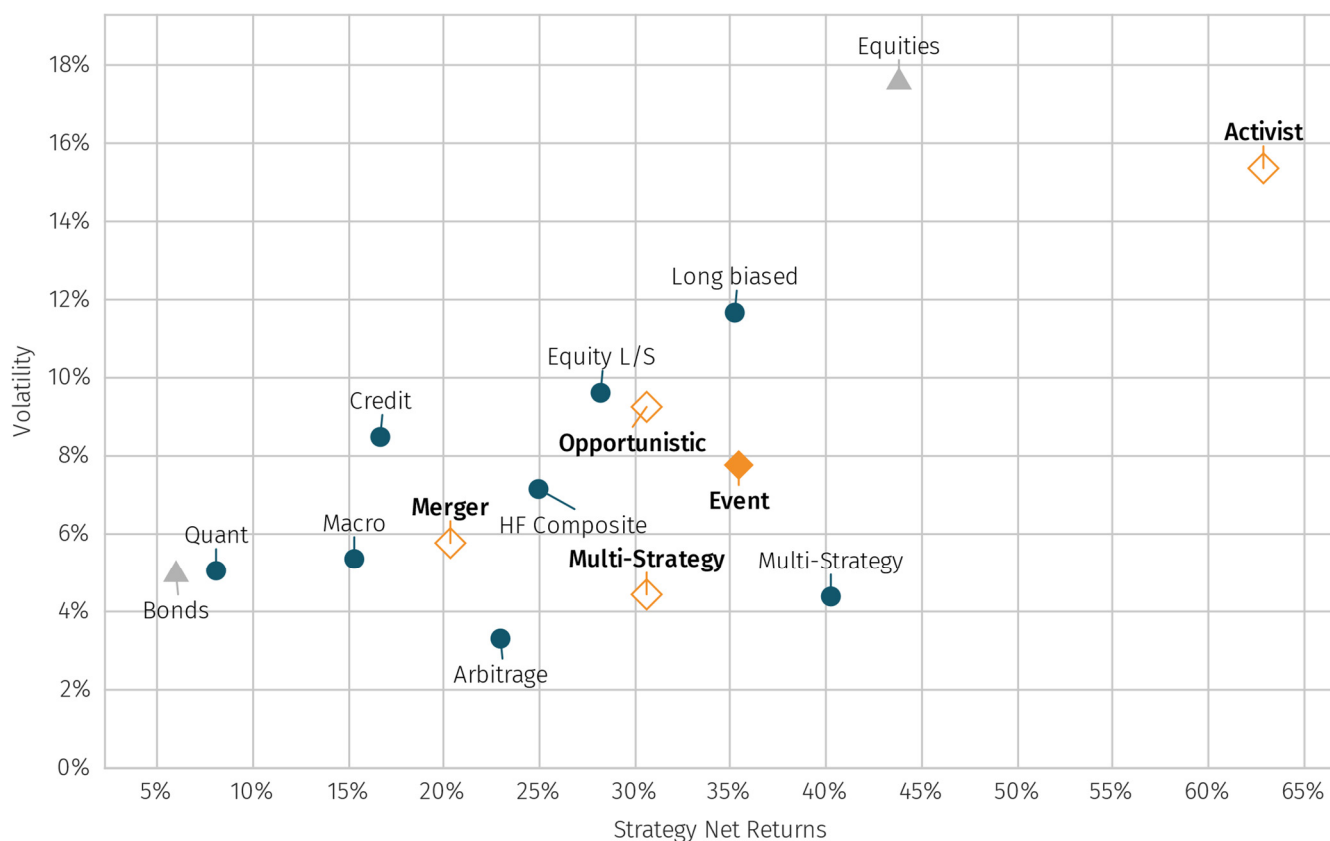
## MASTER STRATEGY NET ANNUALISED RETURNS



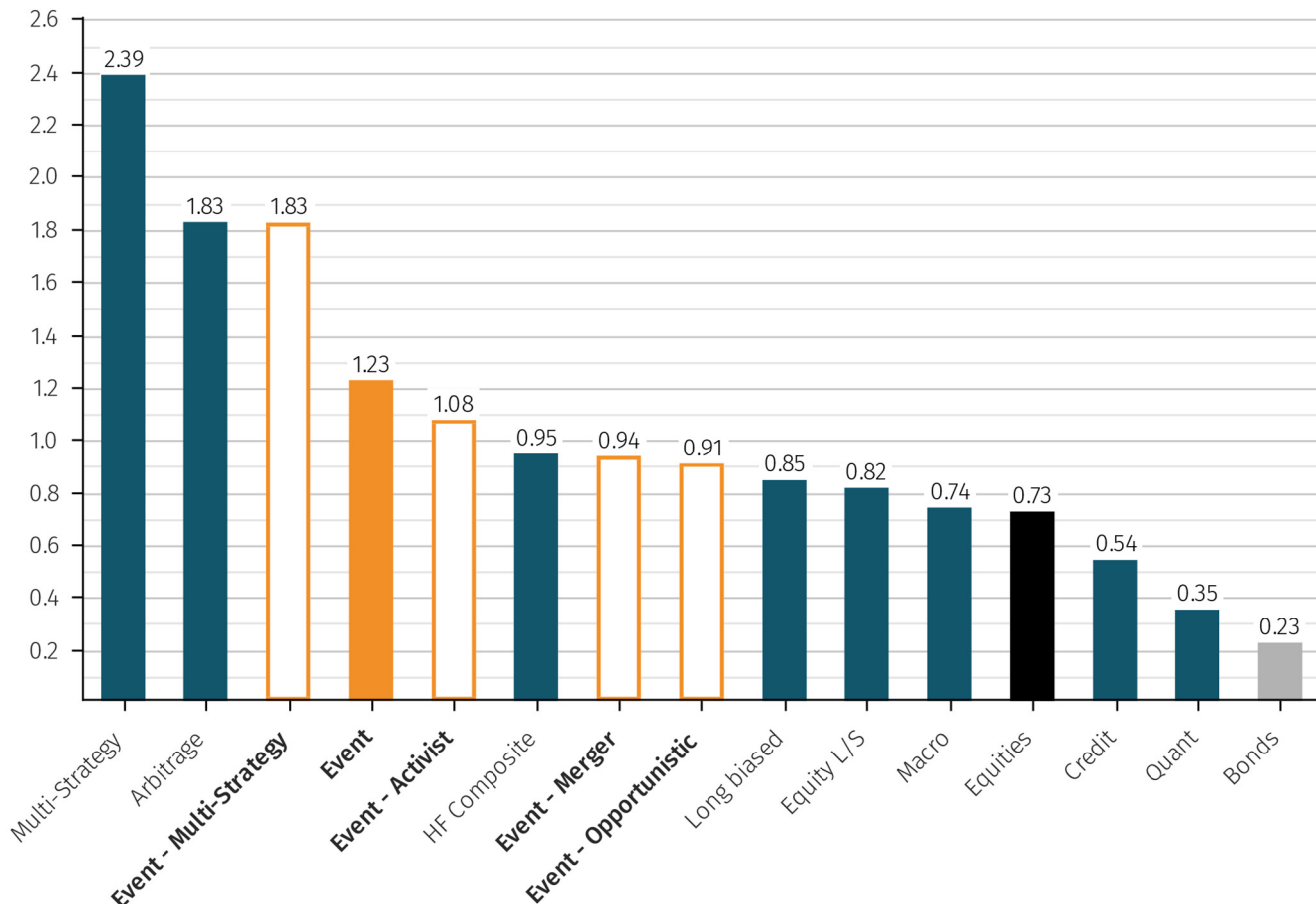
## MULTIPLE PERIOD – HIERARCHICAL ANNUALISED NET RETURN

1 YEAR	3 YEAR	5 YEAR	10 YEAR
<b>Multi-Strategy</b> 12.8%	<b>Multi-Strategy</b> 11.9%	<b>Multi-Strategy</b> 8.9%	<b>Multi-Strategy</b> 8.1%
<b>Quant</b> 11.0%	<b>Event</b> 10.6%	<b>Long biased</b> 8.3%	<b>Event</b> 7.0%
<b>Event</b> 9.1%	<b>Long biased</b> 10.6%	<b>Event</b> 8.1%	<b>Long biased</b> 6.5%
<b>Credit</b> 6.9%	<b>Equity L/S</b> 8.6%	<b>Equity L/S</b> 6.8%	<b>Equity L/S</b> 6.4%
<b>Long biased</b> 6.5%	<b>Arbitrage</b> 7.1%	<b>Credit</b> 4.9%	<b>Credit</b> 5.4%
<b>Arbitrage</b> 3.5%	<b>Credit</b> 5.3%	<b>Arbitrage</b> 4.1%	<b>Macro</b> 3.2%
<b>Macro</b> 0.9%	<b>Macro</b> 4.9%	<b>Macro</b> 3.9%	<b>Quant</b> 2.6%
<b>Equity L/S</b> 0.8%	<b>Quant</b> 2.6%	<b>Quant</b> 2.4%	<b>Arbitrage</b> 2.4%

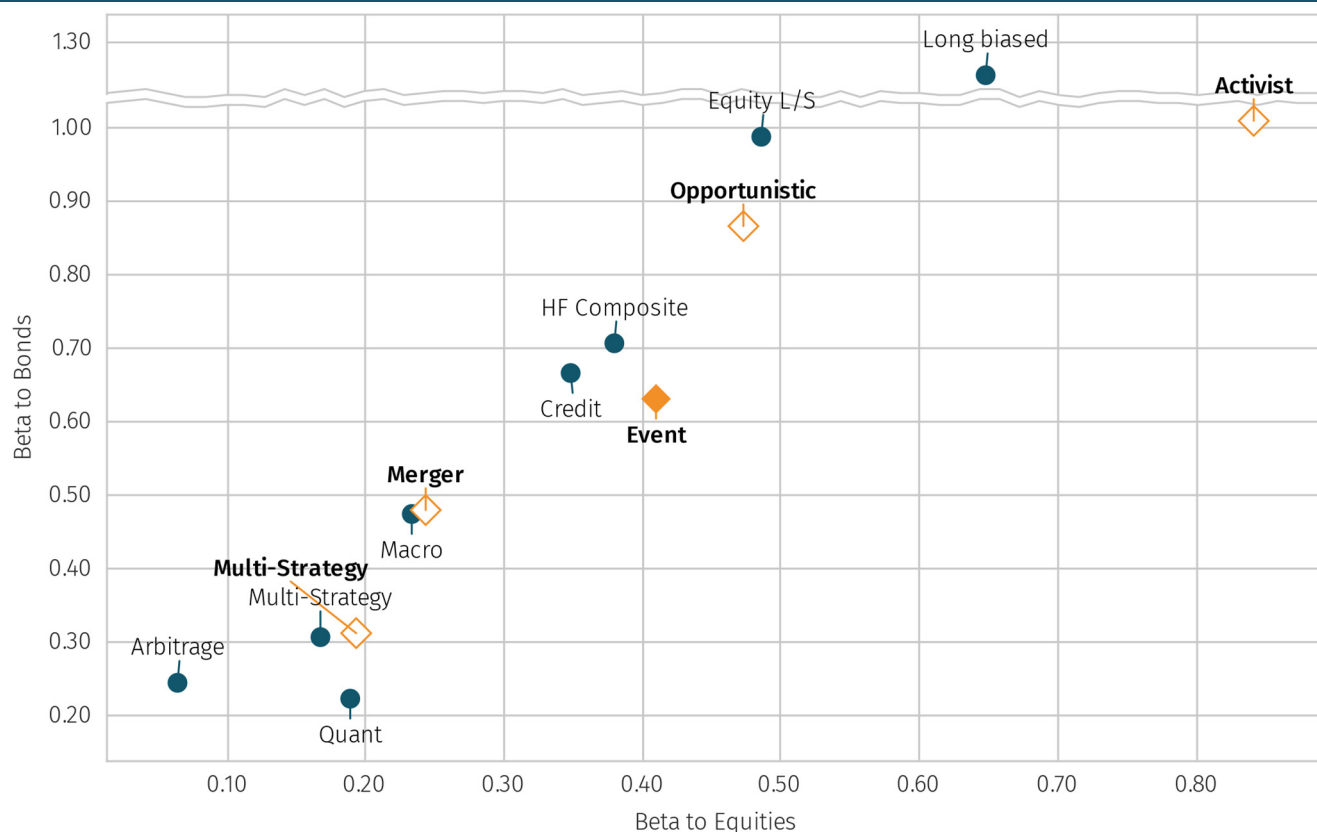
## STRATEGY NET TOTAL RETURN VS ANNUALISED VOL (3 YR)



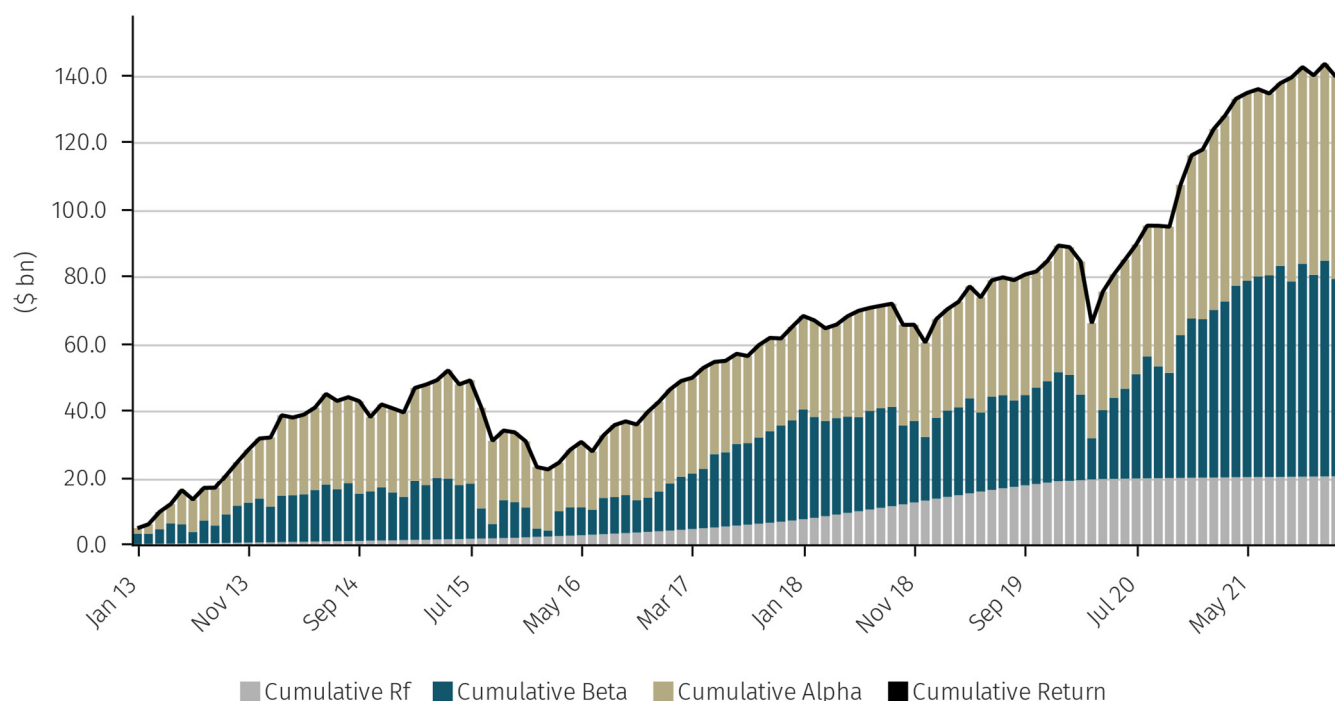
## SHARPE RATIO BY HEDGE FUND STRATEGY (3 YR)†



## STRATEGY BETA TO BONDS AND BETA TO EQUITIES (3 YR)



## MASTER STRATEGY - DECOMPOSING DOLLAR PERF. INTO ALPHA, BETA AND RISK FREE (Rf) COMPONENTS



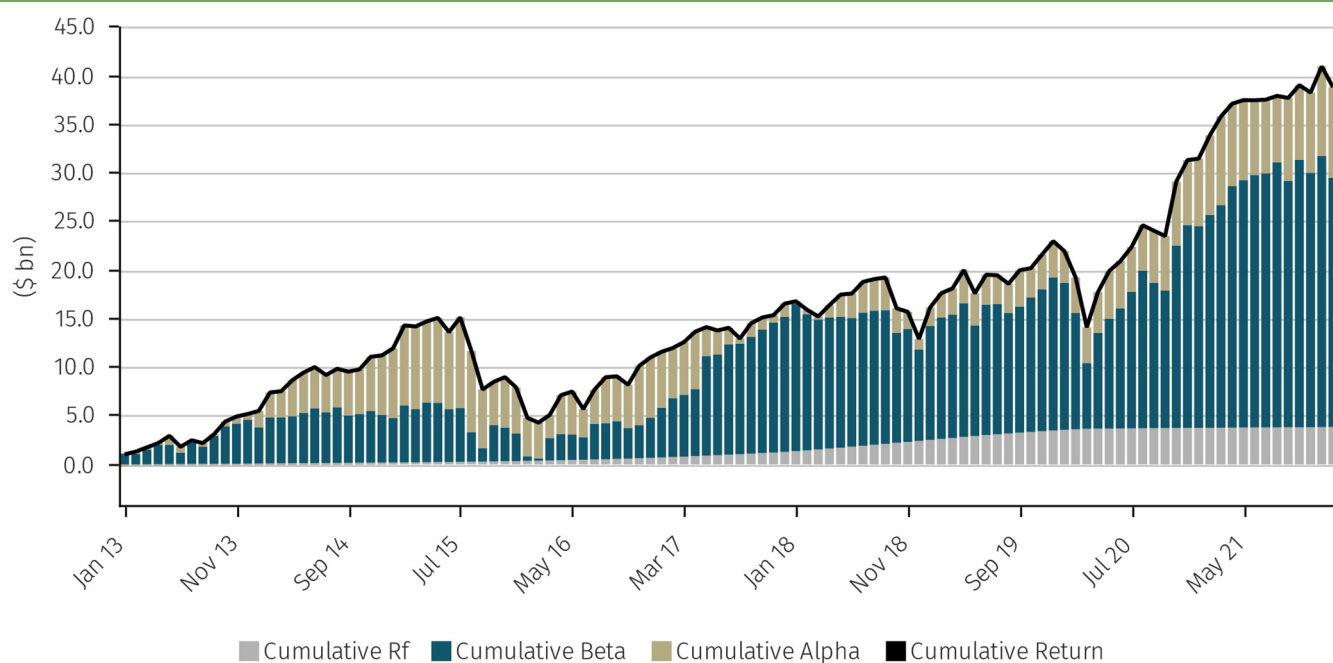
These charts decompose the Hedge Fund Composite dollar returns into beta, alpha and risk free ("Rf") components, as follows:  $\alpha = \text{actual return} - R_f - \beta * (\text{market return} - R_f)$ .

Where  $R_f$  is the risk free rate as defined by a rolling 3m USD Libor, where market return is that of S&P Global BMI ('the market index') and where beta has been calculated with respect to each underlying fund observed on a 24m rolling basis to the market index. The monthly alpha, beta and  $R_f$  components are then applied to each underlying fund's dollar performance for a particular month, and then at a master strategy or industry level the individual fund dollar contributions are aggregated.

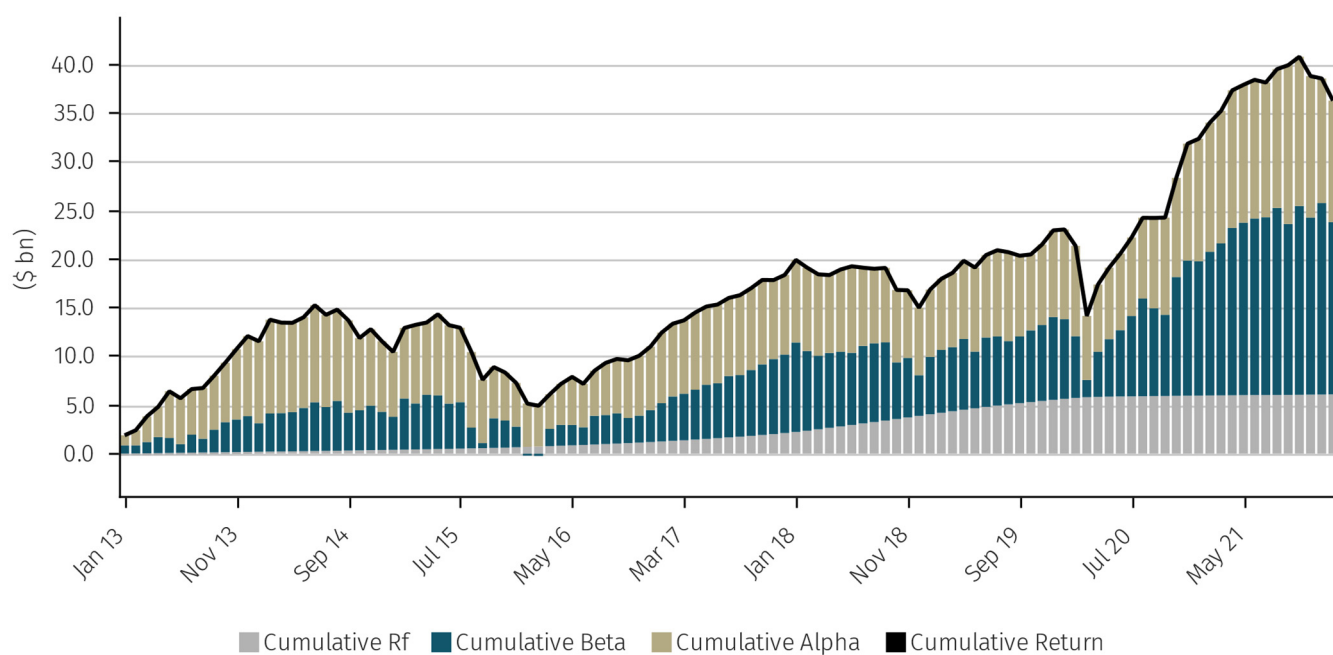
Note, Betas can be negative in certain cases, creating negative dollar attributions. These are offset by corresponding positive alpha contributions.

## SUB-STRATEGY - DECOMPOSING DOLLAR PERF. INTO ALPHA, BETA AND RISK FREE (RF) COMPONENTS

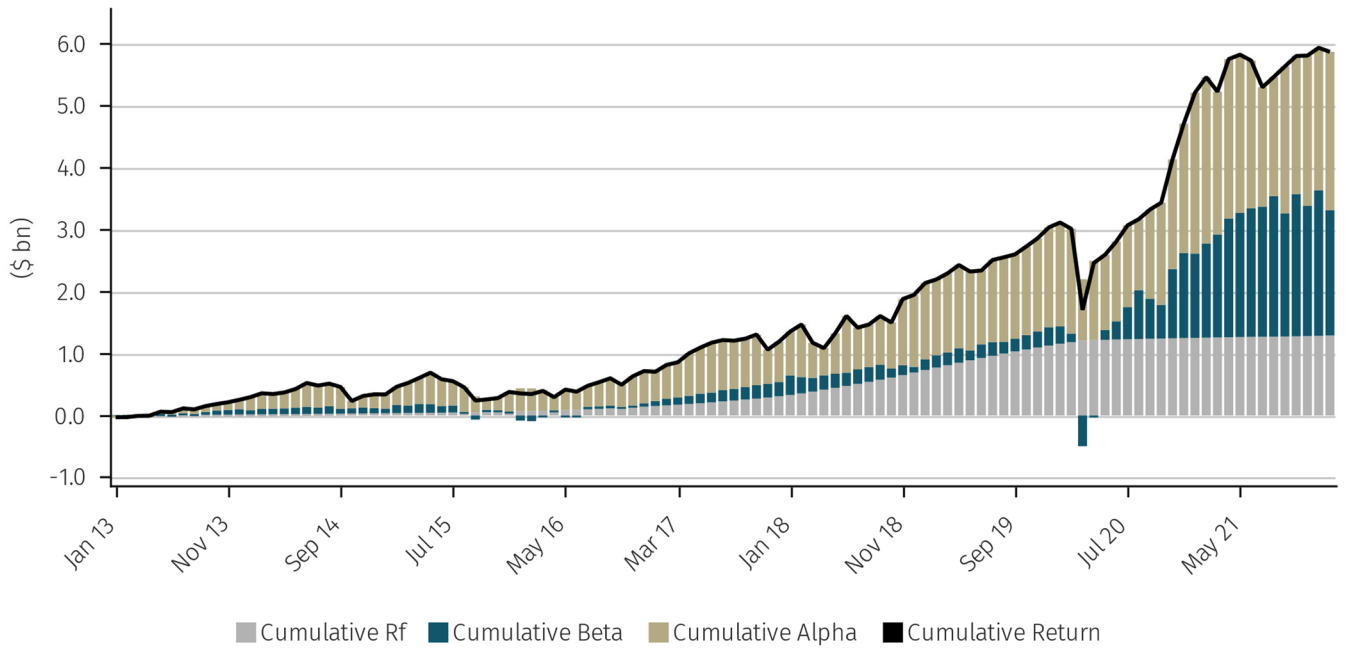
### Activist



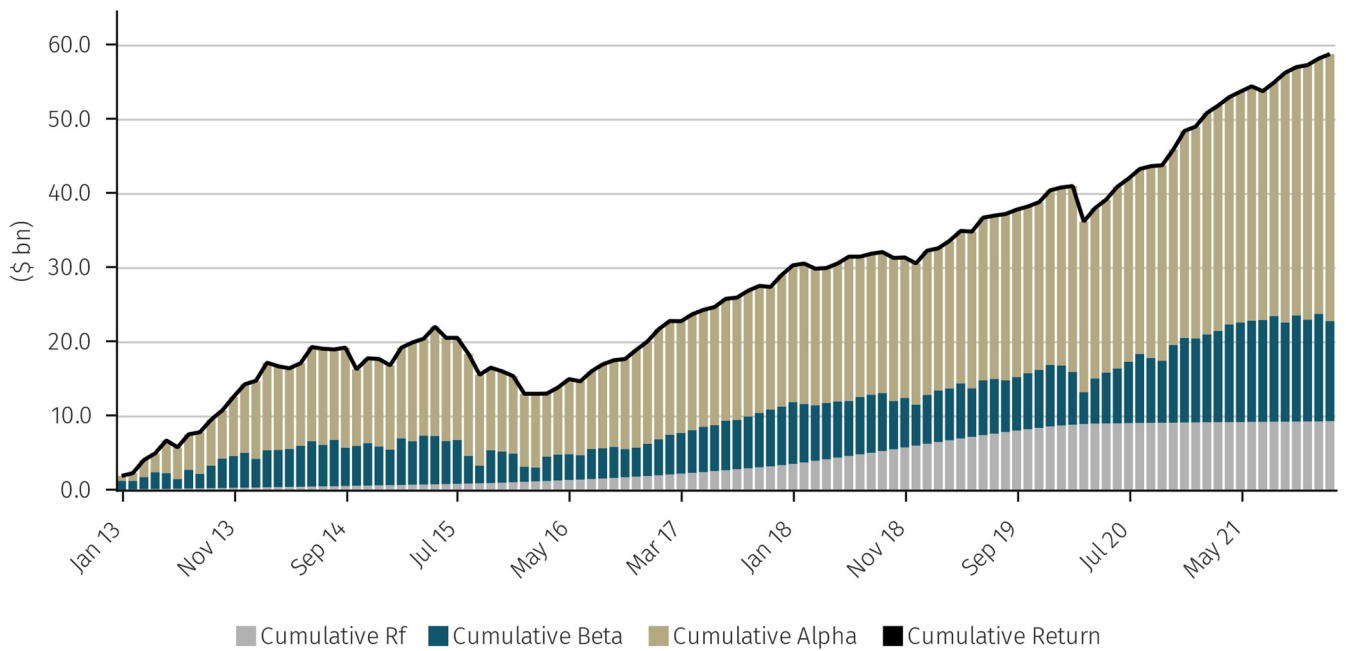
### Opportunistic



## Merger

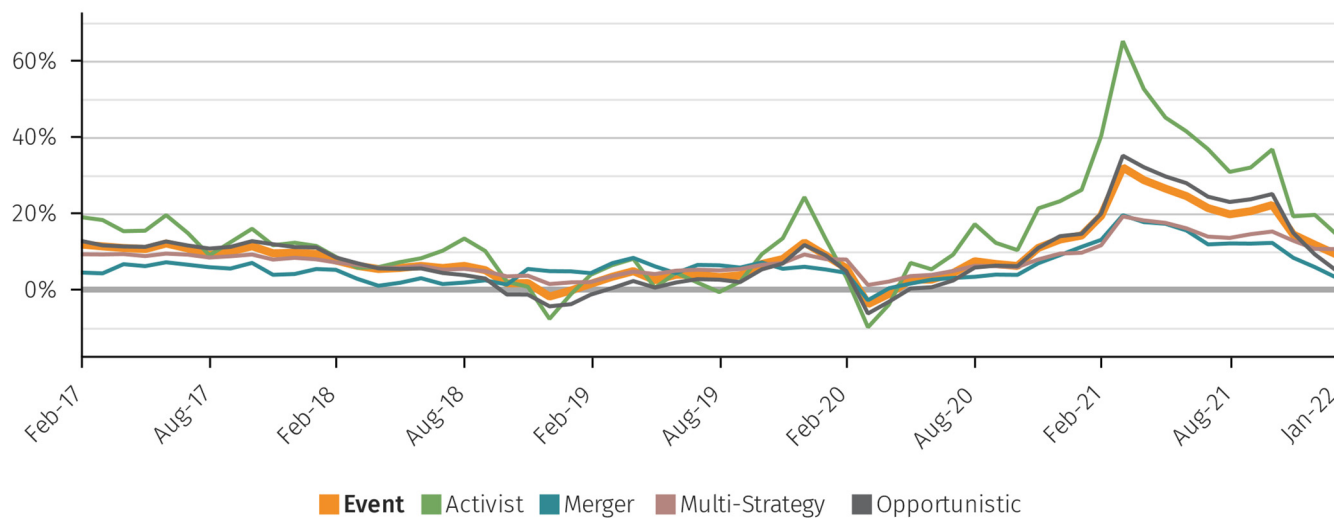


## Multi-strategy

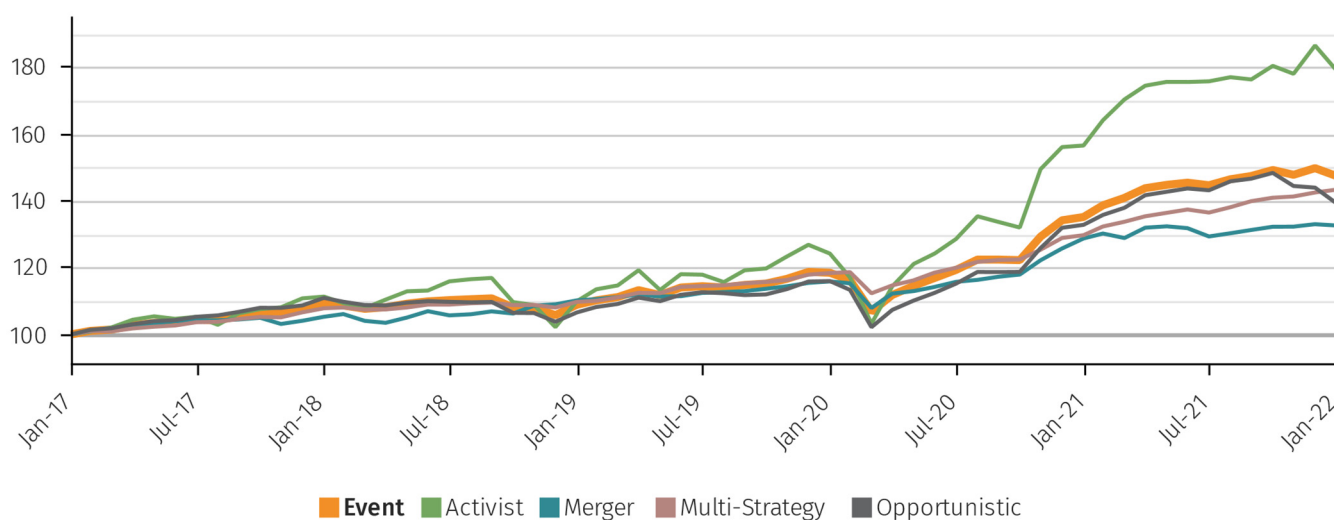


## Sub-strategy performance

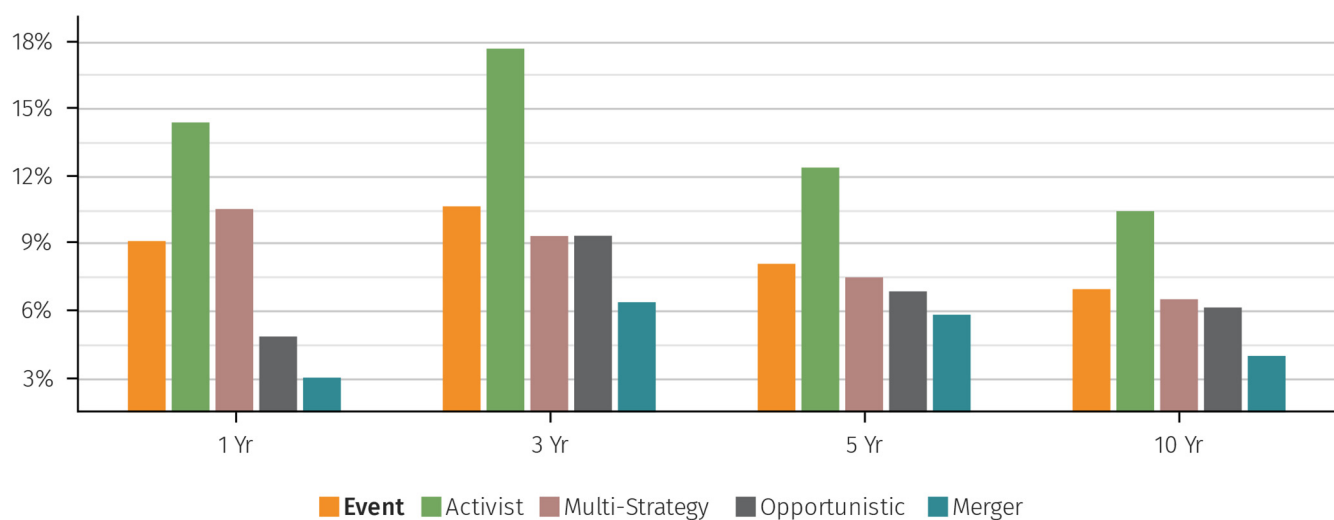
### ROLLING 12-MONTH NET RETURN (5 YR)



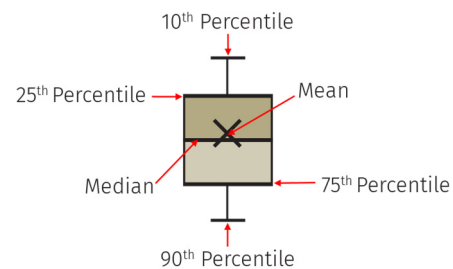
### CUMULATIVE NET RETURN (5 YR)



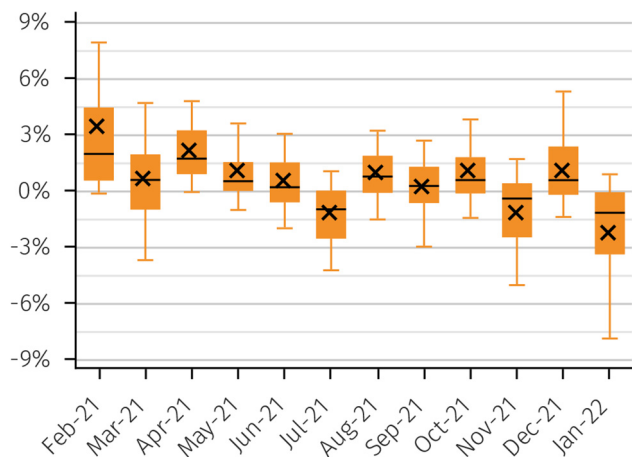
### COMPOUND ANNUAL RETURN (ANNUALISED)



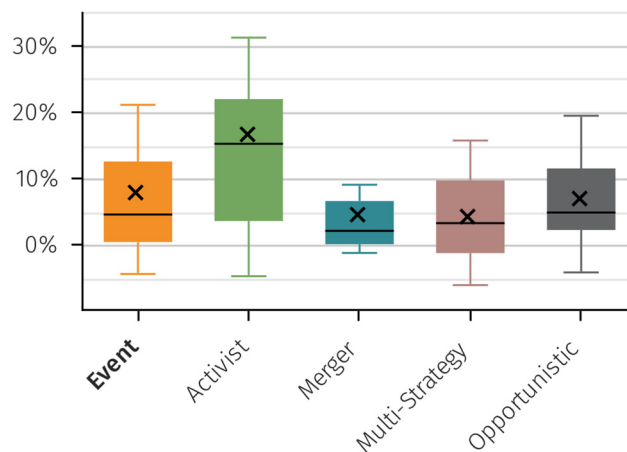
# Performance dispersion



MASTER STRATEGY NET RETURN DISTRIBUTION

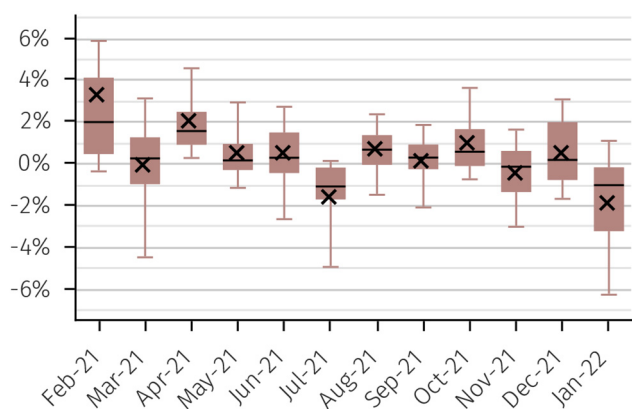


SUB-STRATEGY NET RETURN (1 YR)

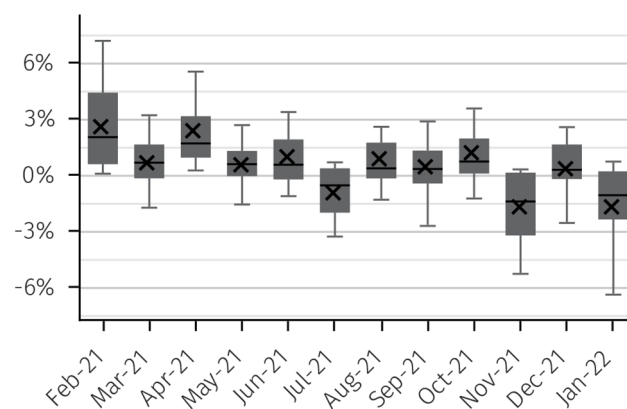


SUB-STRATEGIES NET MONTHLY RETURN DISTRIBUTION

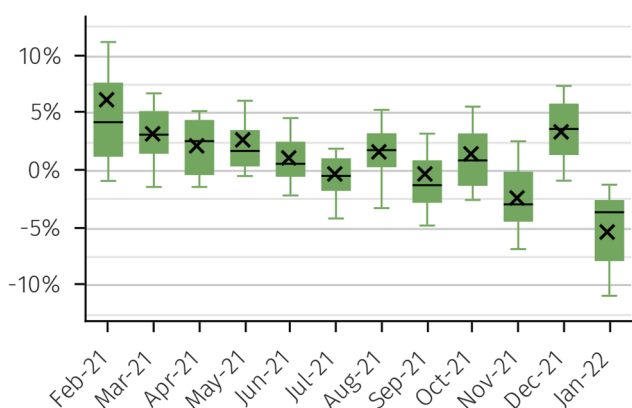
Multi-strategy



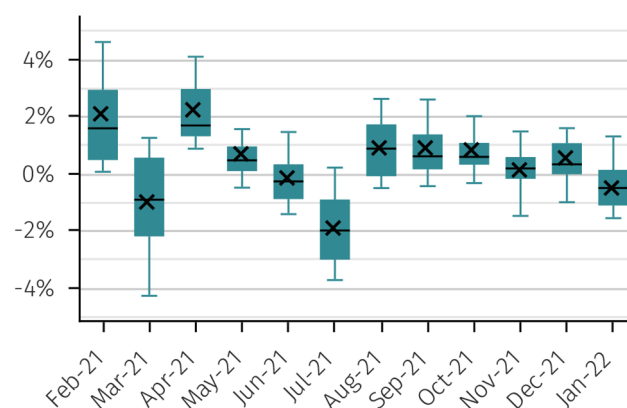
Opportunistic



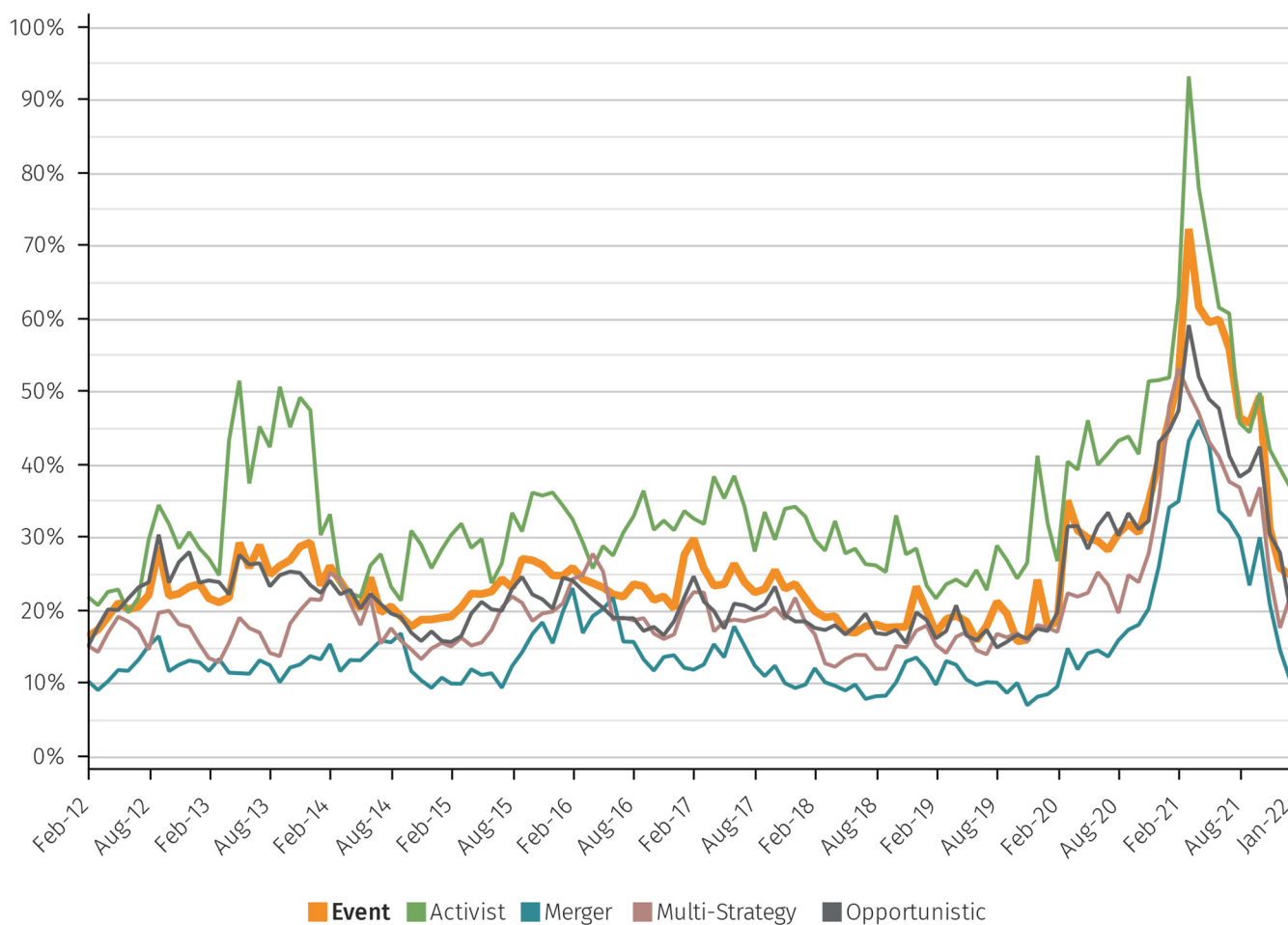
Activist



Merger

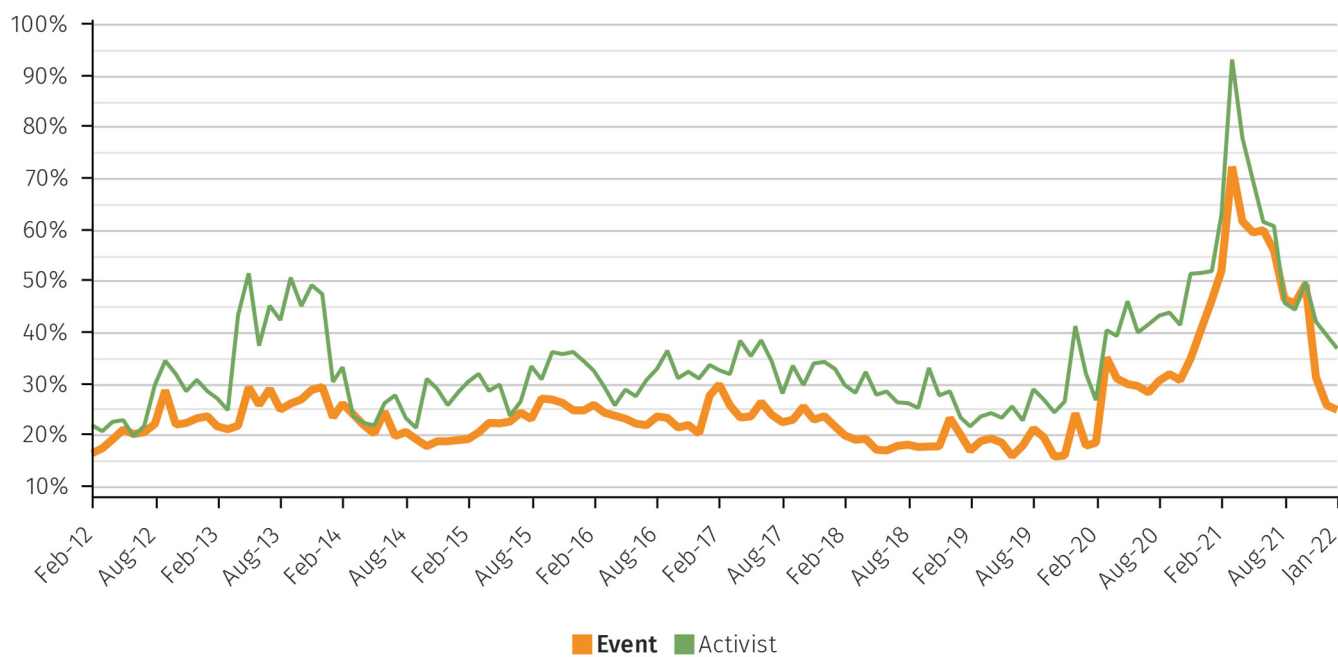


## 10<sup>th</sup> – 90<sup>th</sup> PERCENTILE 12M ROLLING PERFORMANCE SPREAD

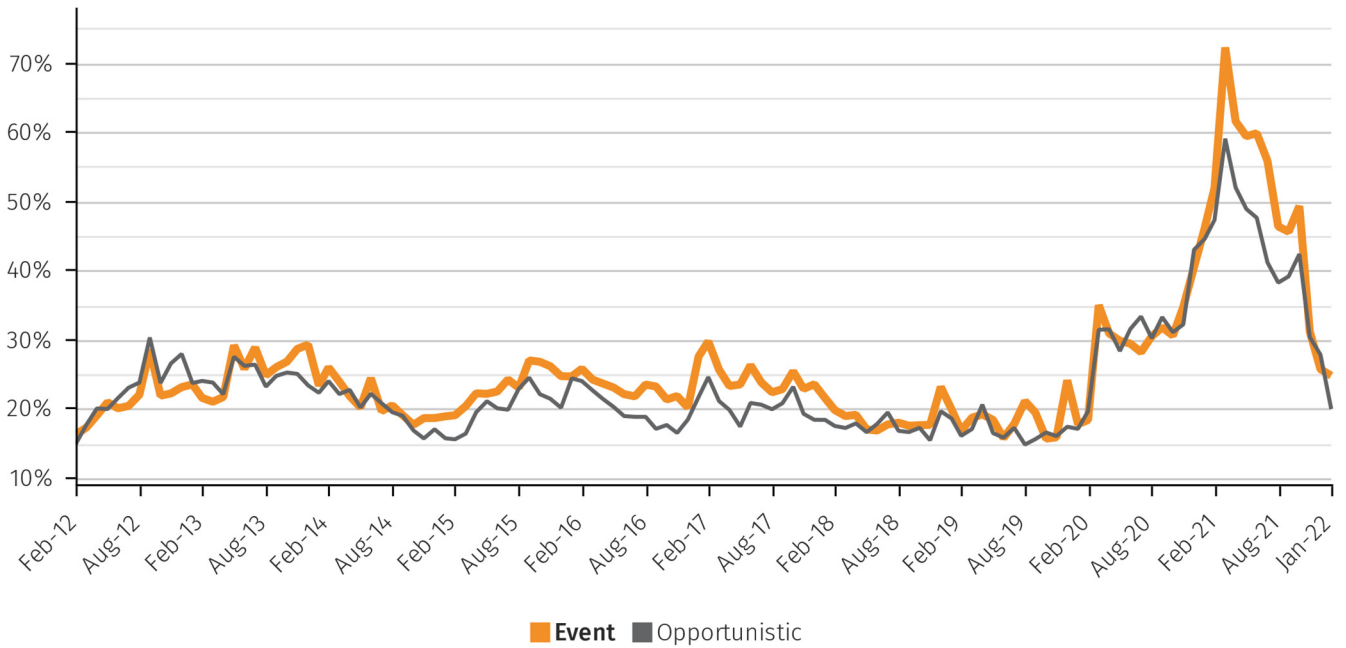


## 10<sup>th</sup> – 90<sup>th</sup> PERCENTILE 12M ROLLING PERFORMANCE SPREAD - SUB-STRATEGY VS MASTER STRATEGY

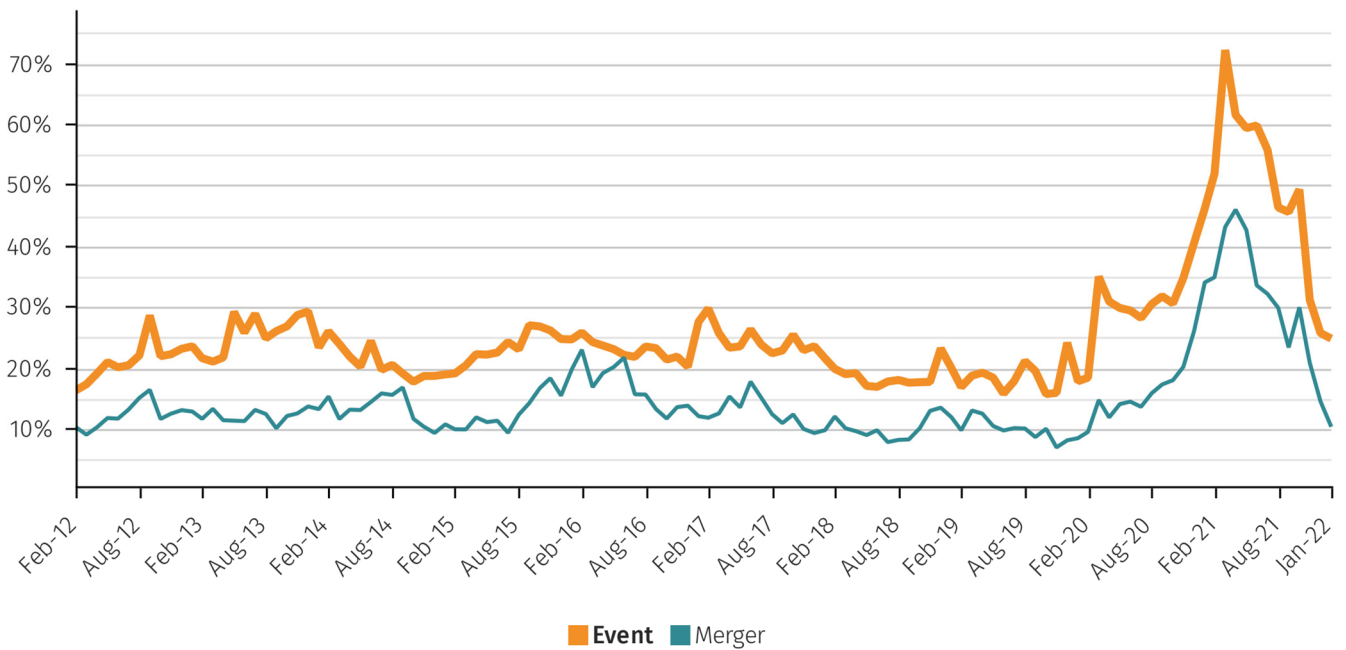
### Activist



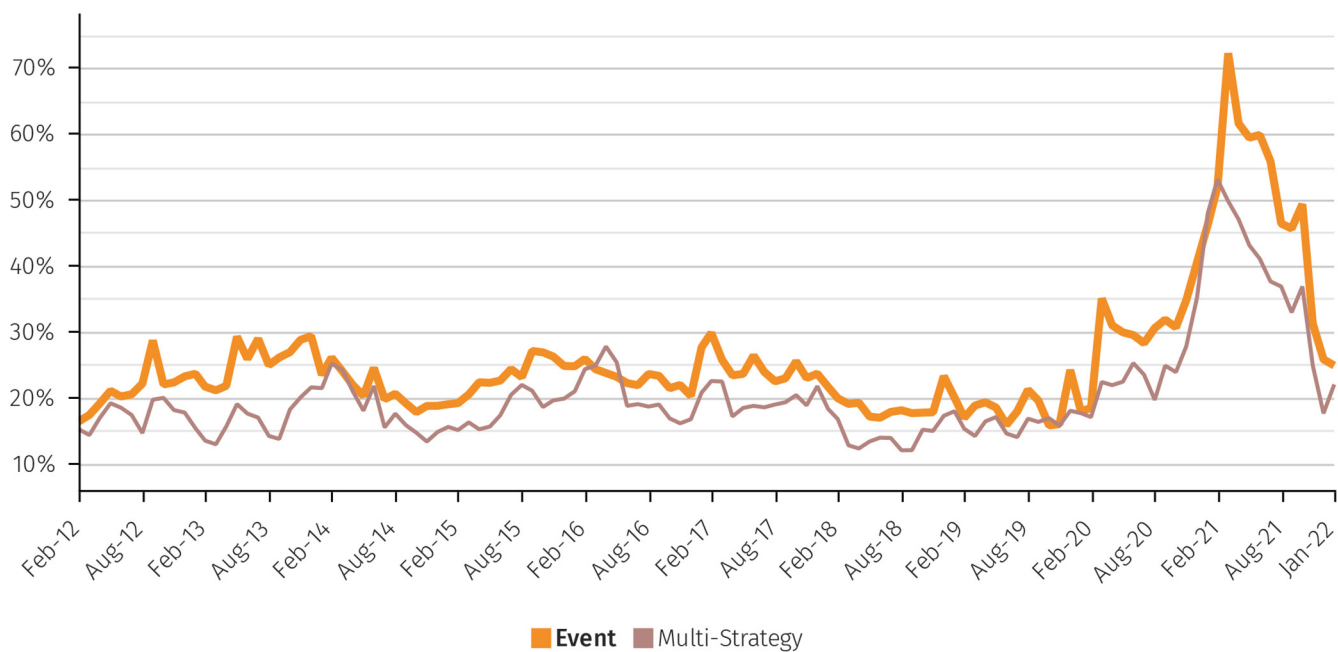
## Opportunistic



## Merger

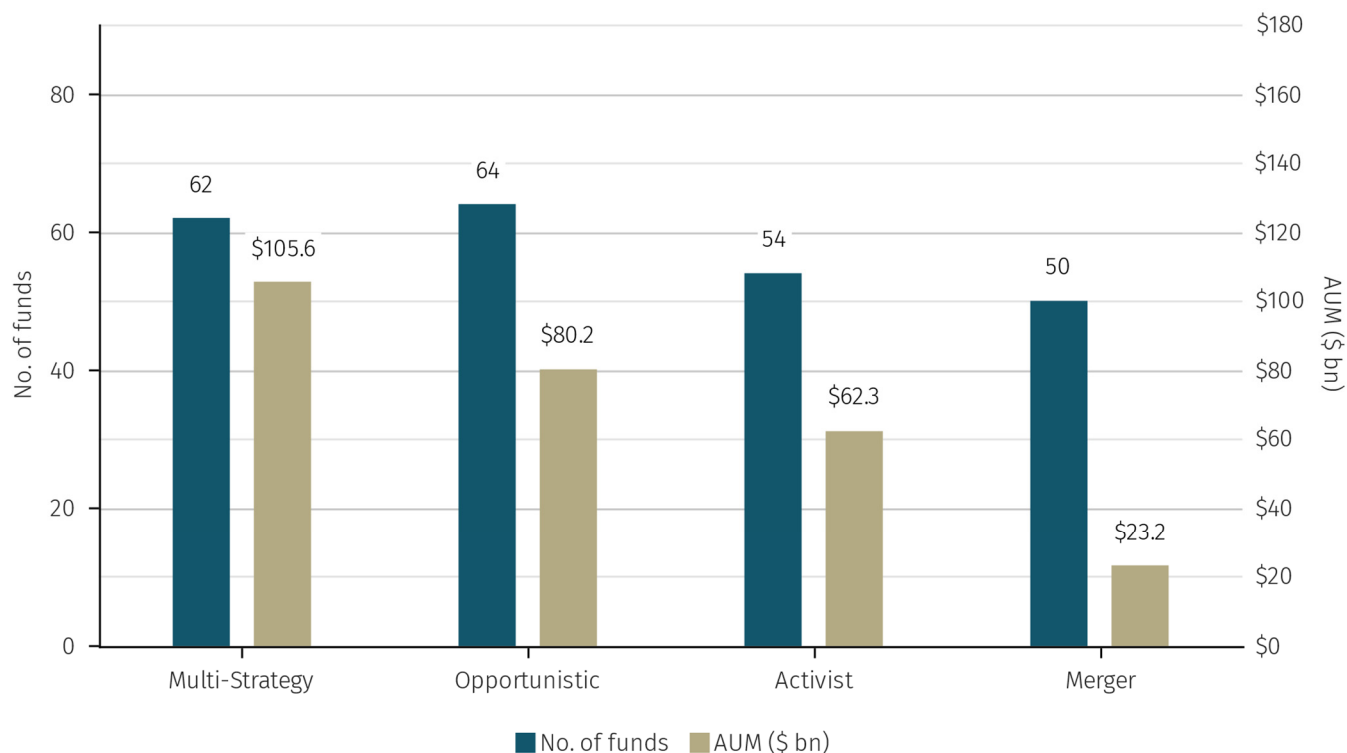


## Multi-strategy

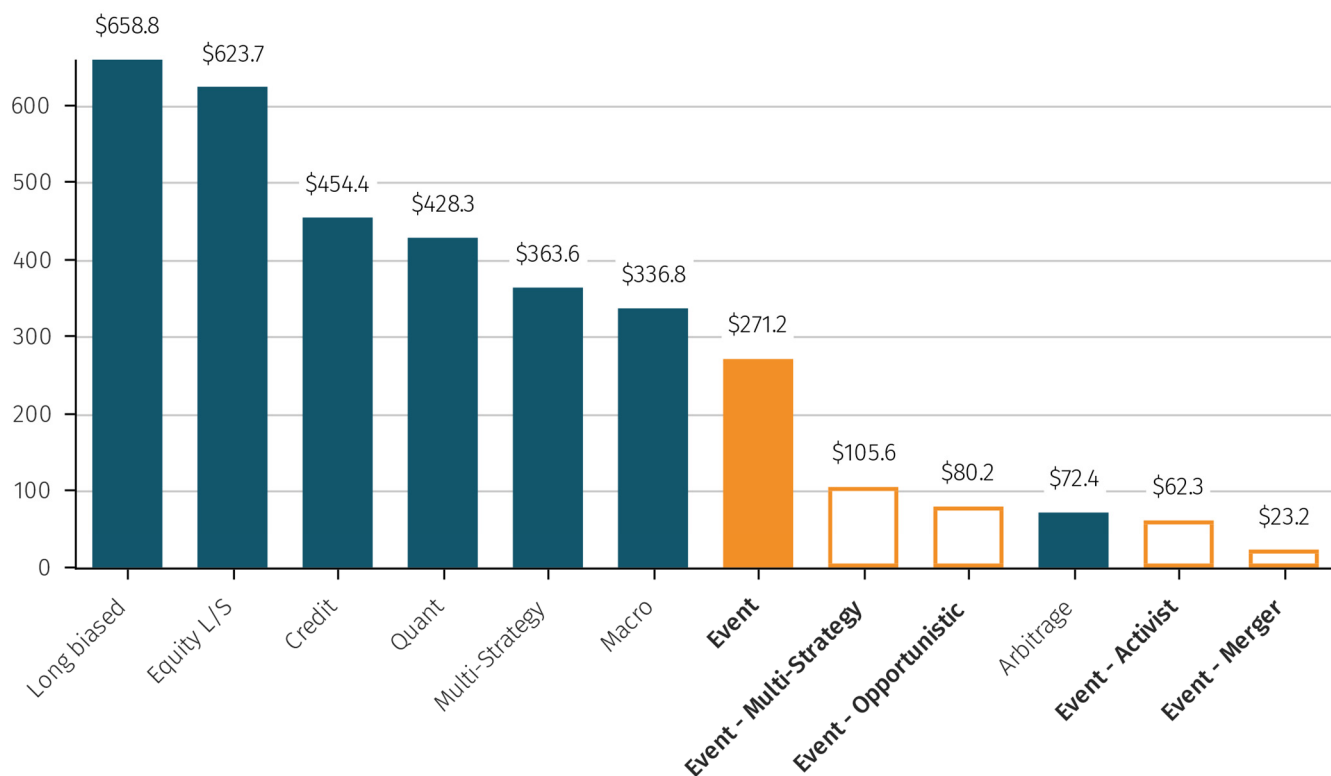


## Assets, flows and fees

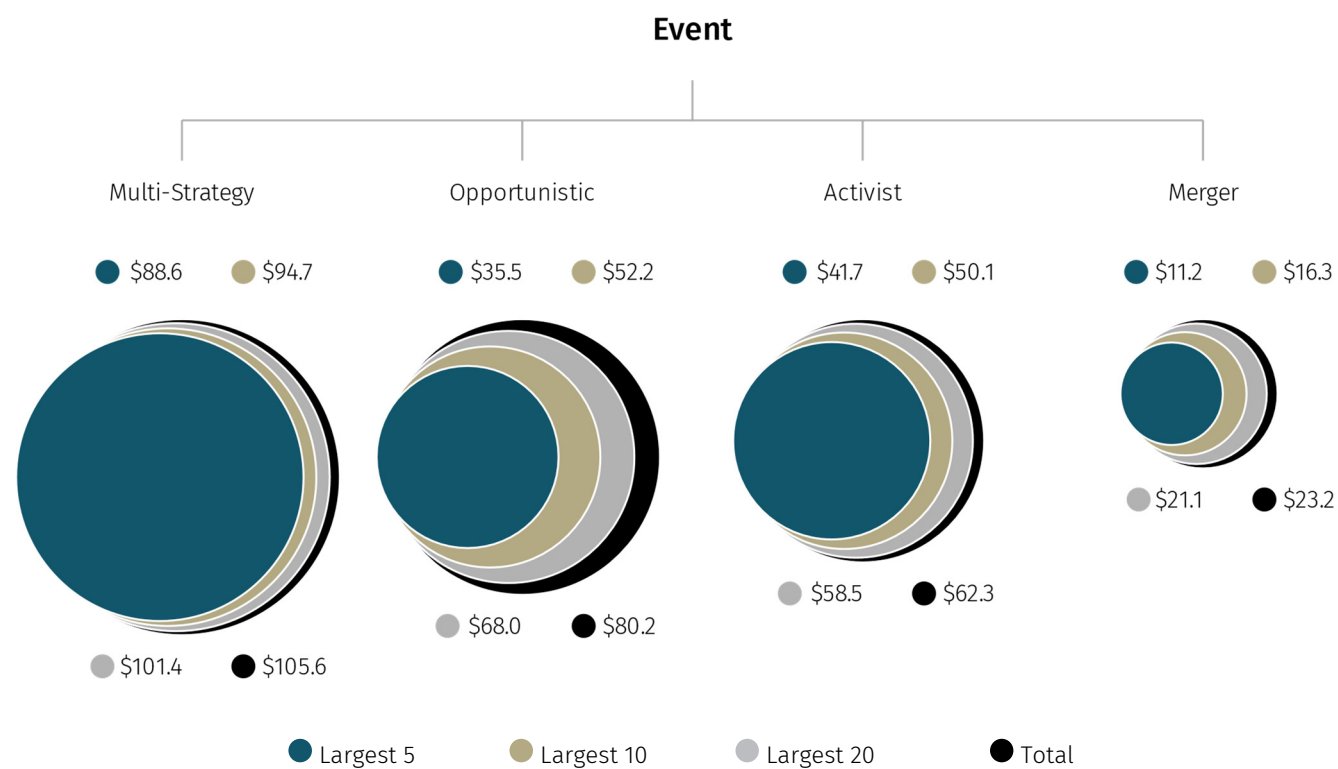
### NUMBER OF FUNDS AND AUM BY SUB-STRATEGY



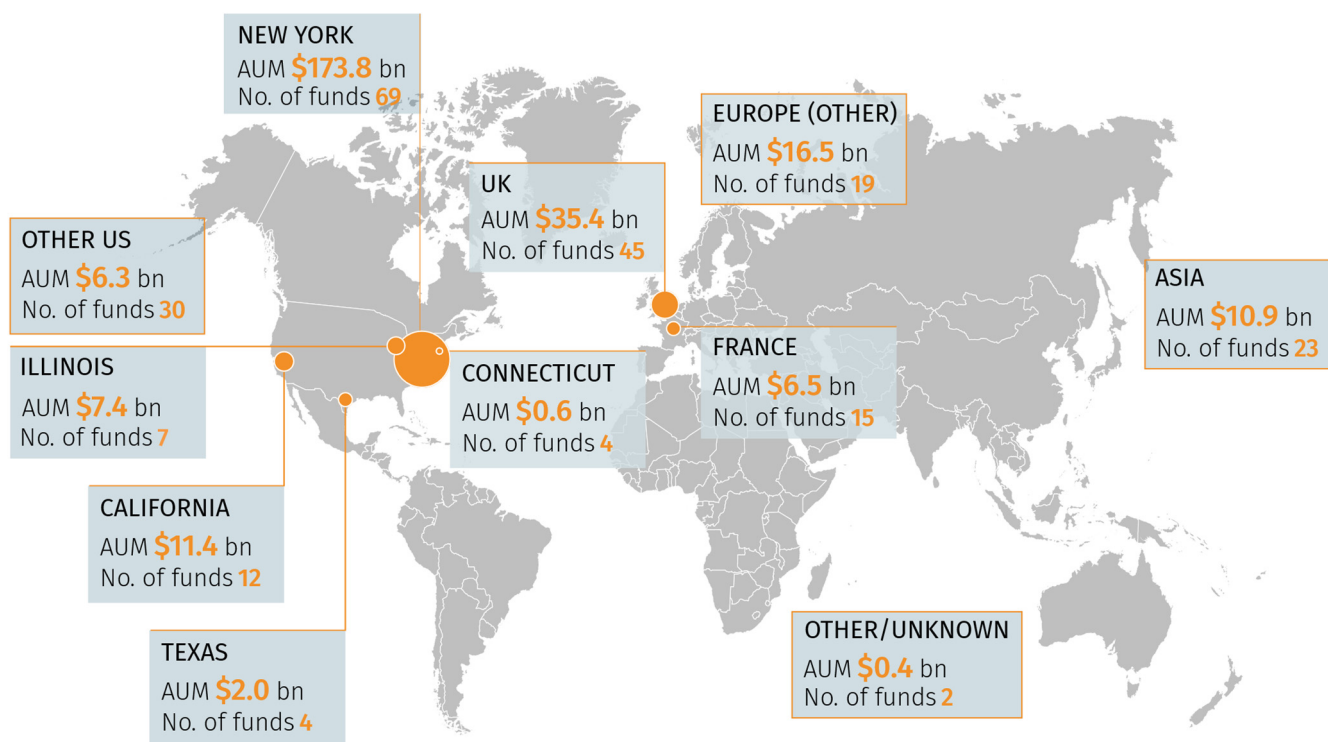
### AUM OF MASTER STRATEGY – JAN 2022 (\$ BN)



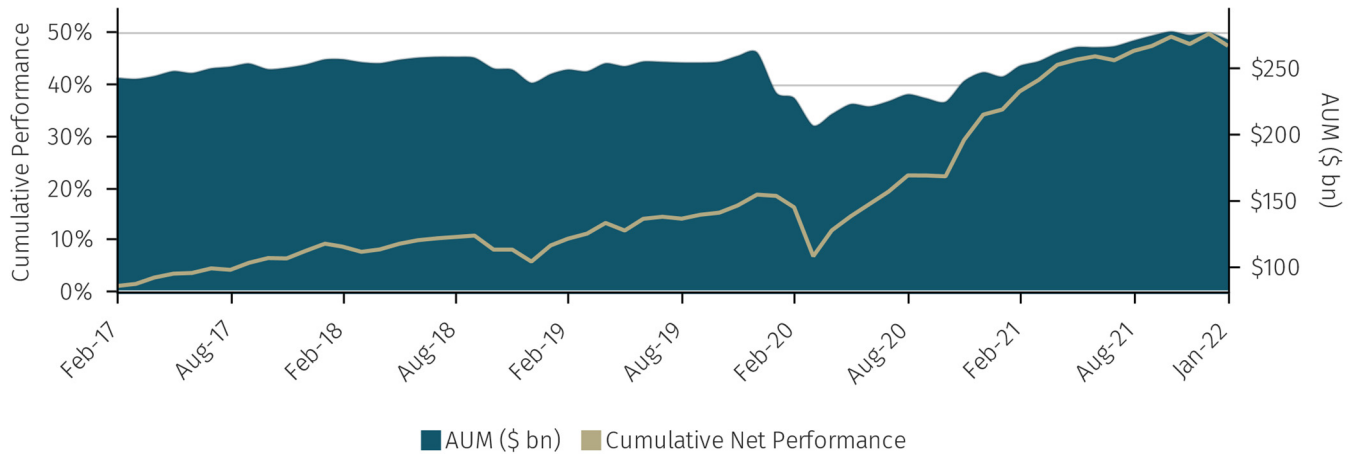
## SUB-STRATEGY FUND CONCENTRATION (\$ BN)



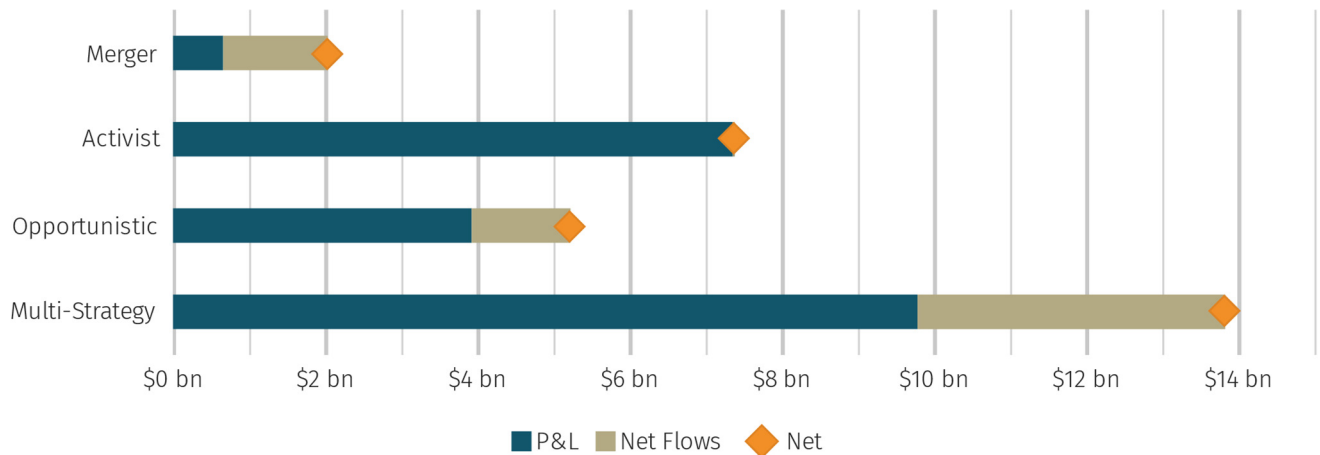
## ASSETS UNDER MANAGEMENT BY LOCATION



## 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) <sup>1</sup>	Weighted avg. management fee	Weighted avg. performance fee
<b>Event</b>	<b>60</b>	<b>Quarterly</b>	<b>181</b>	<b>1.48%</b>	<b>19.28%</b>
Event – Merger Arbitrage	30	Monthly	60	1.23%	16.80%
Event – Multi-strategy	45	Quarterly	226	1.49%	19.87%
Event – Opportunistic	60	Quarterly	165	1.54%	19.52%
Event – Activist	90	Quarterly	157	1.50%	18.87%

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

# Definitions

## Event driven

Broad strategy category covering funds that invest in securities of companies facing announced and anticipated corporate events. This includes, but is not limited to: M&A, Spin-offs, Company restructurings, some distressed situations (although if this is the dominating part of the strategy it will be classified as 'credit-distressed'). The strategy identifies mispriced securities with favourable risk/reward characteristics based upon differentiated views of value-unlocking catalysts, event-probabilities and post-event valuations.

## 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.

## 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.

## Multi-strategy

Whilst these are funds investing across multiple strategies, 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.

## 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.

## Bond and equity indices

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