Aurum

Multi-strategy analytics pack
12 months to December 2023

Inside this report:

MASTER STRATEGY vs INDICES NET RETURN (1 YR)

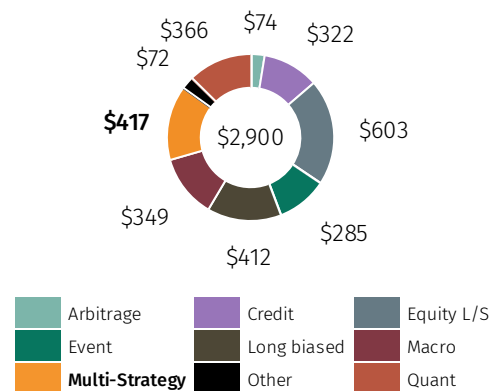Multi-Strategy — HF Composite* — Bonds** — Equities***
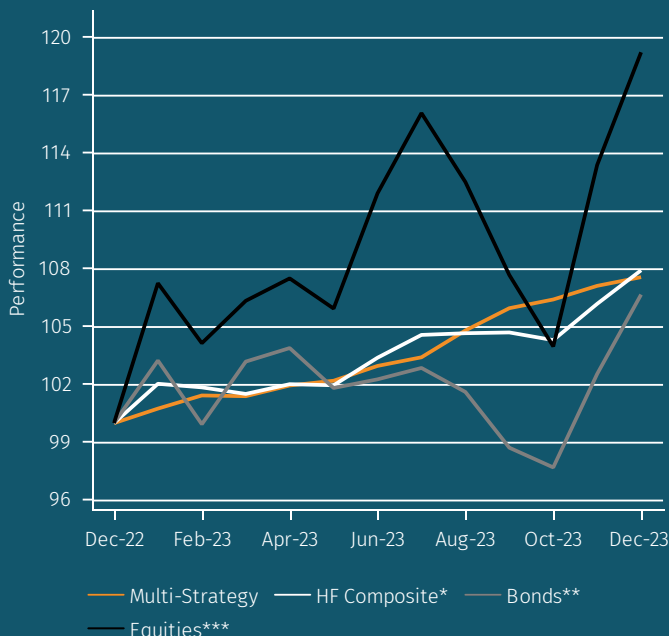
*HF Composite = Aurum Hedge Fund Data Engine Asset Weighted Composite Index.
**Bonds = S&P Global Developed Aggregate Ex Collateralized Bond (USD).
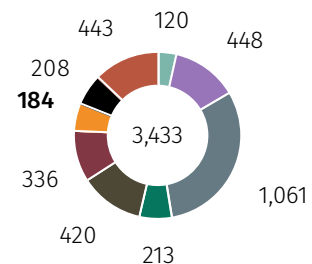***Equities = S&P Global BMI.

All figures and charts use asset weighted net returns unless otherwise stated. All Hedge Fund data is sourced from Aurum Hedge Fund Data Engine. Data included in this report is dated as at 18th January 2024.

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/

Multi-strategy

HF INDUSTRY AUM ($BN) – DECEMBER 23

$2,900

Arbitrage — Credit — Equity L/S
Event — Long biased — Macro
Multi-Strategy — Other — Quant

HF INDUSTRY NO. OF FUNDS – DECEMBER 23

3,433

HF INDUSTRY NET RETURN (1 YR)

11.5%	Equity L/S
9.9%	Long biased
9.6%	Event
8.7%	Credit
7.6%	Multi-Strategy
5.4%	Macro
2.0%	Quant
2.0%	Arbitrage
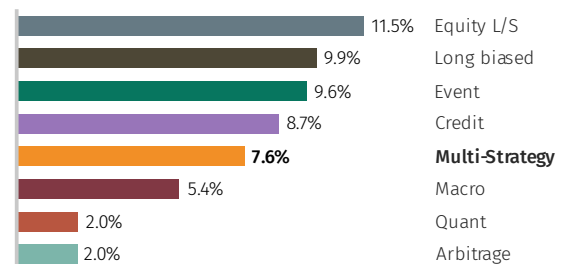
HF MASTER STRATEGY STANDARD DEVIATION (1 YR)

1.3%	Multi-Strategy
1.3%	Arbitrage
2.5%	Credit
3.4%	Macro
5.2%	Quant
5.5%	Event
6.5%	Equity L/S
11.3%	Long biased
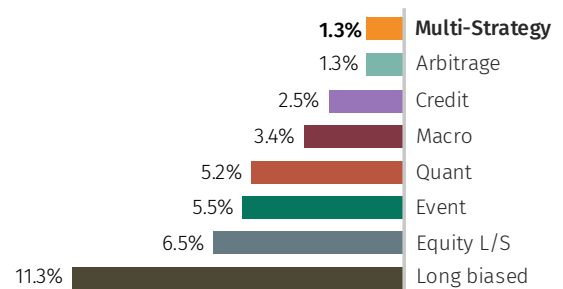
MULTI-STRATEGY AUM CHANGE $BN (1 YR)

$28.9 +P&L
$-1.3 -P&L
$32.0 Inflows
$-27.9 Outflows
$31.7 Total
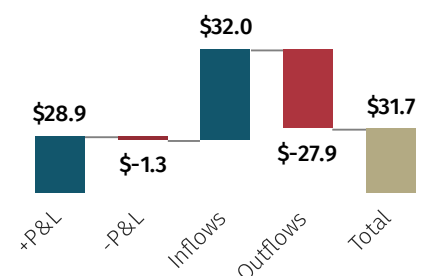
NET RETURN OF MASTER STRATEGIES (1 YR)

Net performance	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	12M
Equity L/S	3.50%	-1.16%	0.42%	0.80%	0.80%	1.68%	1.33%	-0.55%	-1.54%	-1.17%	3.99%	3.04%	11.51%
Long biased	5.07%	-2.99%	1.67%	0.02%	-2.04%	3.07%	3.00%	-2.16%	-2.74%	-2.42%	5.40%	4.21%	9.94%
Event	2.52%	-0.18%	-0.23%	0.04%	-0.96%	2.01%	1.53%	0.11%	-0.32%	-1.39%	3.31%	2.90%	9.61%
Credit	2.05%	0.37%	-0.40%	0.57%	0.29%	0.82%	0.97%	0.50%	0.55%	-0.36%	1.41%	1.62%	8.70%
Multi-Strategy	**0.75%**	**0.68%**	**-0.04%**	**0.55%**	**0.24%**	**0.75%**	**0.43%**	**1.34%**	**1.10%**	**0.43%**	**0.66%**	**0.42%**	**7.57%**
Macro	1.68%	-0.17%	-2.01%	0.09%	-0.12%	0.86%	1.23%	0.29%	0.51%	0.91%	0.48%	1.54%	5.37%
Quant	-1.17%	2.08%	-2.20%	1.03%	0.14%	1.18%	0.02%	0.86%	2.61%	0.50%	-1.74%	-1.18%	2.02%
Arbitrage	0.04%	0.52%	-0.20%	-0.05%	0.40%	-0.21%	0.34%	0.61%	0.70%	-0.02%	-0.46%	0.34%	2.01%
HF Composite*	**2.04%**	**-0.18%**	**-0.33%**	**0.50%**	**-0.06%**	**1.40%**	**1.14%**	**0.08%**	**0.04%**	**-0.38%**	**1.80%**	**1.64%**	**7.93%**
Bonds**	**3.25%**	**-3.20%**	**3.25%**	**0.68%**	**-1.99%**	**0.44%**	**0.58%**	**-1.21%**	**-2.85%**	**-1.04%**	**4.96%**	**4.02%**	**6.67%**
Equities***	**7.26%**	**-2.90%**	**2.11%**	**1.09%**	**-1.46%**	**5.64%**	**3.72%**	**-3.08%**	**-4.29%**	**-3.44%**	**9.05%**	**5.16%**	**19.24%**

NET RETURN (5 YR) PERIOD TO DECEMBER 2023

Net performance	2023	2022	2021	2020	2019	5Yr CAR	5Yr Vol	5Yr Sharpe
Multi-Strategy	**7.57%**	**8.91%**	**11.64%**	**15.05%**	**9.70%**	**10.55%**	**3.65%**	**2.19**
Event	9.61%	-4.66%	11.77%	12.63%	12.14%	8.09%	7.08%	0.83
Equity L/S	11.51%	-9.54%	5.19%	18.03%	14.79%	7.53%	8.82%	0.63
Long biased	9.94%	-13.92%	10.45%	12.46%	17.53%	6.68%	12.11%	0.42
Macro	5.37%	6.36%	0.06%	8.35%	8.24%	5.63%	4.66%	0.74
Credit	8.70%	-2.63%	9.59%	2.78%	5.33%	4.66%	7.04%	0.38
Arbitrage	2.01%	2.94%	3.80%	11.53%	2.00%	4.40%	2.90%	0.76
Quant	2.02%	8.61%	8.40%	-5.01%	4.47%	3.58%	5.52%	0.28
HF Composite*	**7.93%**	**-2.18%**	**7.77%**	**9.08%**	**10.31%**	**6.48%**	**5.90%**	**0.73**
Bonds**	**6.67%**	**-16.69%**	**-5.59%**	**9.84%**	**6.19%**	**-0.43%**	**7.54%**	**-0.31**
Equities***	**19.24%**	**-20.04%**	**16.02%**	**14.34%**	**23.65%**	**9.35%**	**18.25%**	**0.46**

Master strategy performance

NET MONTHLY RETURN (5 YR)

Legend: Monthly Returns — NAV — Bonds** — Equities***
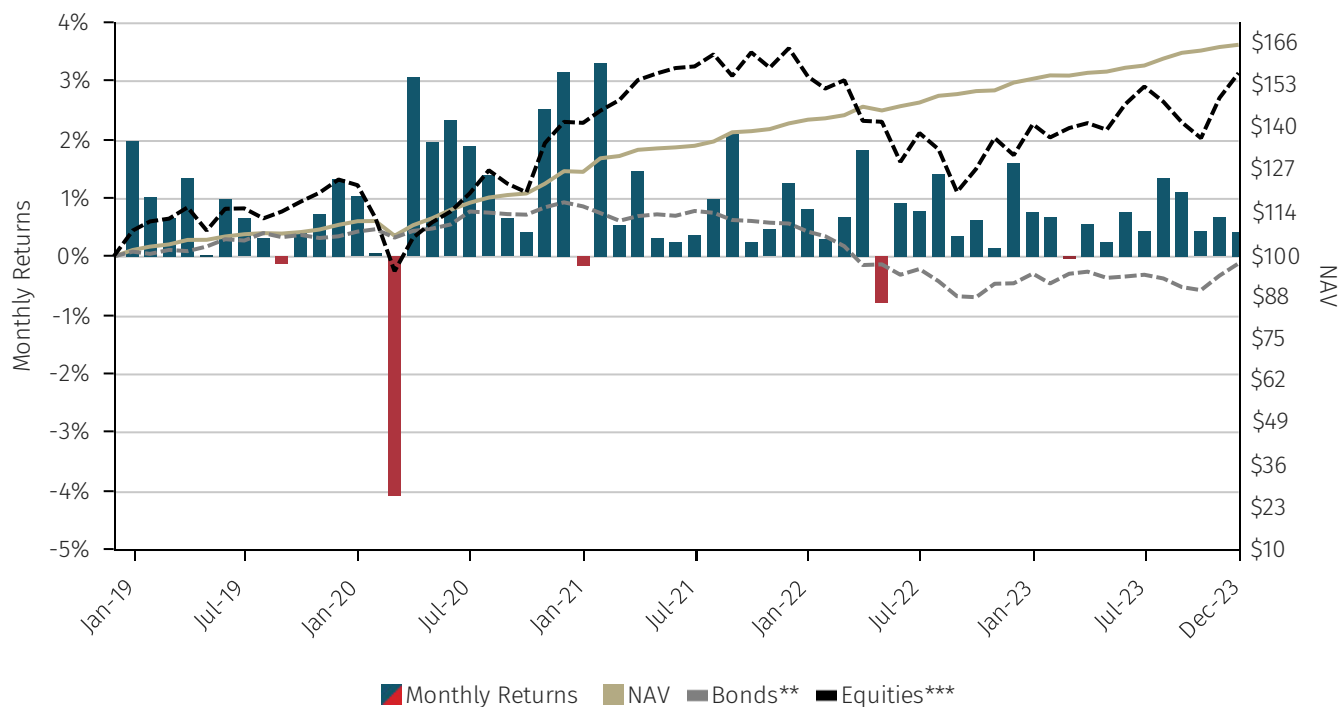
COMPARATIVE RETURN VS HF COMPOSITE (1 YR)

Legend: Multi-Strategy — HF Composite* — Equities*** — Bonds**

NET RETURN (ANNUALISED)

Multi-Strategy — Equities*** — Bonds** — HF Composite*

Legend: 1 Yr — 3 Yr — 5 Yr
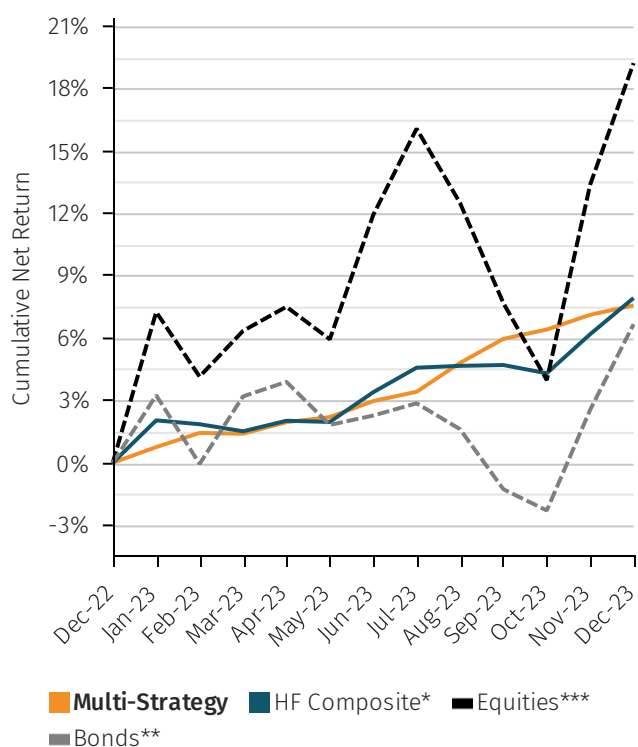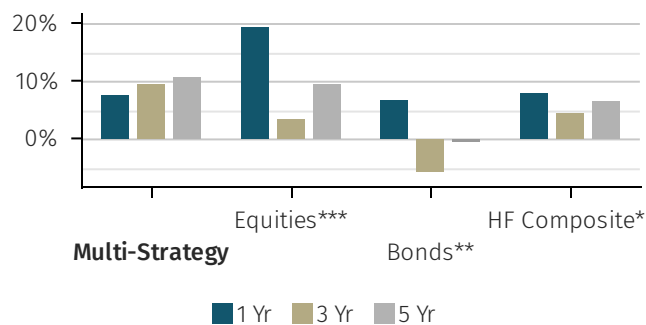
VOLATILITY (ANNUALISED)

Multi-Strategy — Equities*** — Bonds** — HF Composite*

Legend: 1 Yr — 3 Yr — 5 Yr
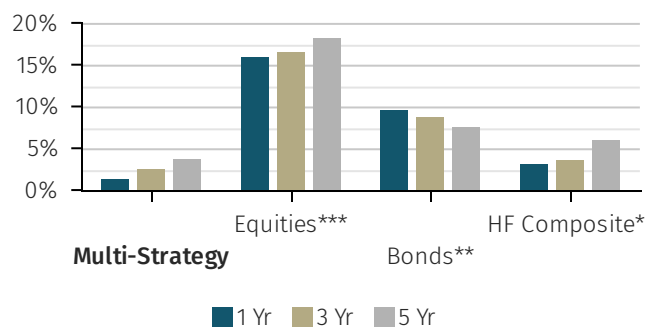
MASTER STRATEGY NET ANNUALISED RETURNS
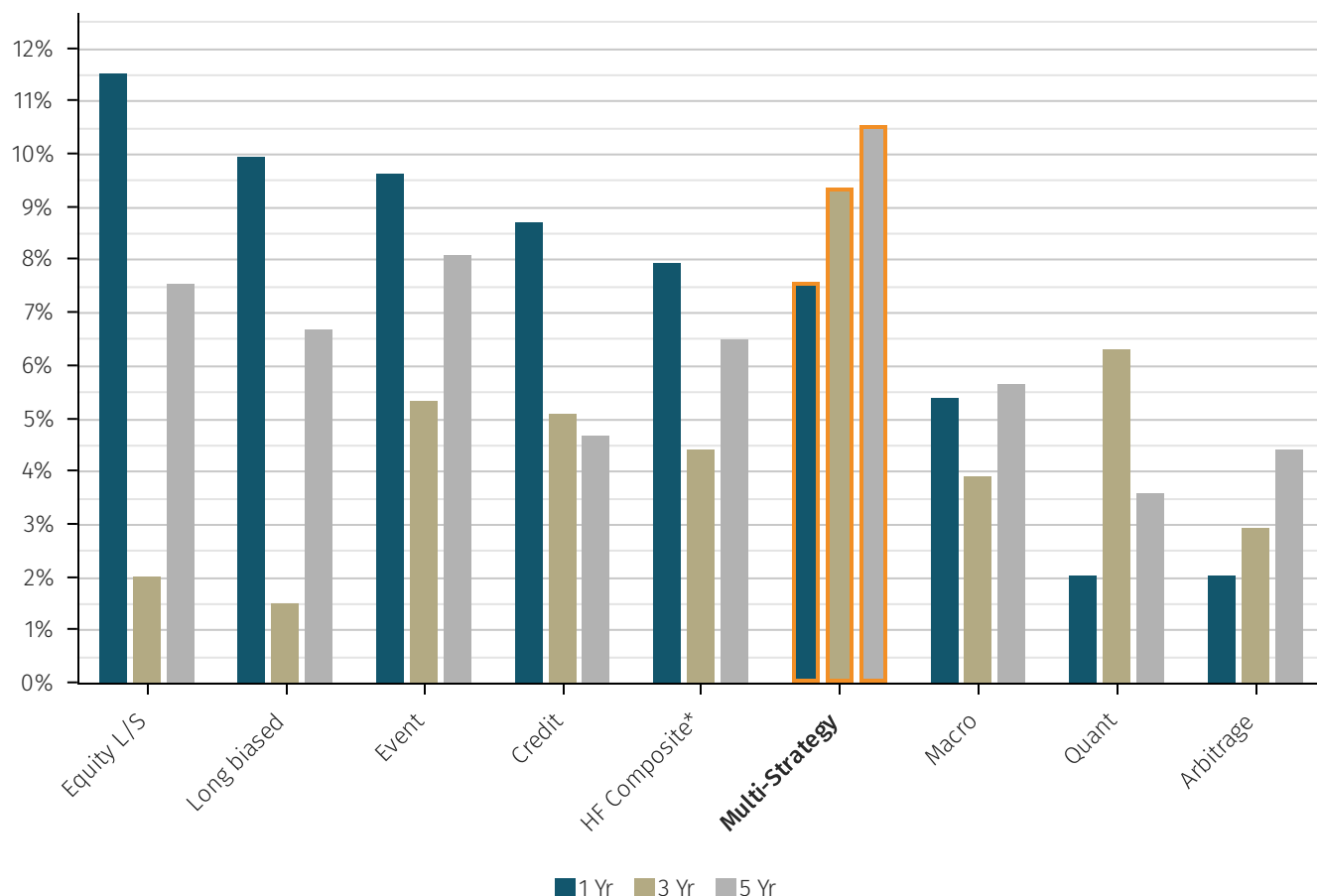
HIERARCHICAL ANNUALISED NET RETURN TO DECEMBER 2023

1 YEAR	3 YEAR	5 YEAR	10 YEAR
Equity L/S 11.5%	Multi-Strategy 9.4%	Multi-Strategy 10.5%	Multi-Strategy 7.7%
Long biased 9.9%	Quant 6.3%	Event 8.1%	Event 5.2%
Event 9.6%	Event 5.3%	Equity L/S 7.5%	Equity L/S 4.9%
Credit 8.7%	Credit 5.1%	Long biased 6.7%	HF Composite* 4.5%
HF Composite* 7.9%	HF Composite* 4.4%	HF Composite* 6.5%	Long biased 4.3%
Multi-Strategy 7.6%	Macro 3.9%	Macro 5.6%	Credit 4.0%
Macro 5.4%	Arbitrage 2.9%	Credit 4.7%	Macro 3.5%
Quant 2.0%	Equity L/S 2.0%	Arbitrage 4.4%	Quant 3.4%
Arbitrage 2.0%	Long biased 1.5%	Quant 3.6%	Arbitrage 2.6%

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STRATEGY NET TOTAL RETURN VS ANNUALISED VOL (3 YR)

Scatter plot with Y-axis "Volatility" (0% to 18%) and X-axis "Strategy Net Returns" (-15% to 30%+). Data points:
- Equities*** (black triangle): ~11% returns, ~16.7% volatility
- Long biased: ~4.5% returns, ~11% volatility
- Bonds** (grey triangle): ~-16% returns, ~9% volatility
- Equity L/S: ~6% returns, ~7.2% volatility
- Event: ~17% returns, ~5.3% volatility
- Quant: ~20% returns, ~5.5% volatility
- Macro: ~12% returns, ~3.1% volatility
- Credit: ~16% returns, ~3.1% volatility
- HF Composite: ~14% returns, ~3.6% volatility
- Arbitrage: ~9% returns, ~2.7% volatility
- Multi-Strategy (orange diamond): ~31% returns, ~2.5% volatility

SHARPE RATIO BY HEDGE FUND STRATEGY (3 YR)[†]

Bar chart of Sharpe ratios:
- Multi-Strategy: 2.56
- Credit: 0.76
- Quant: 0.66
- Event: 0.51
- HF Composite*: 0.48
- Macro: 0.40
- Equities***: 0.13
- Arbitrage: 0.11
- Long biased: -0.05
- Equity L/S: -0.05
- Bonds**: -0.93
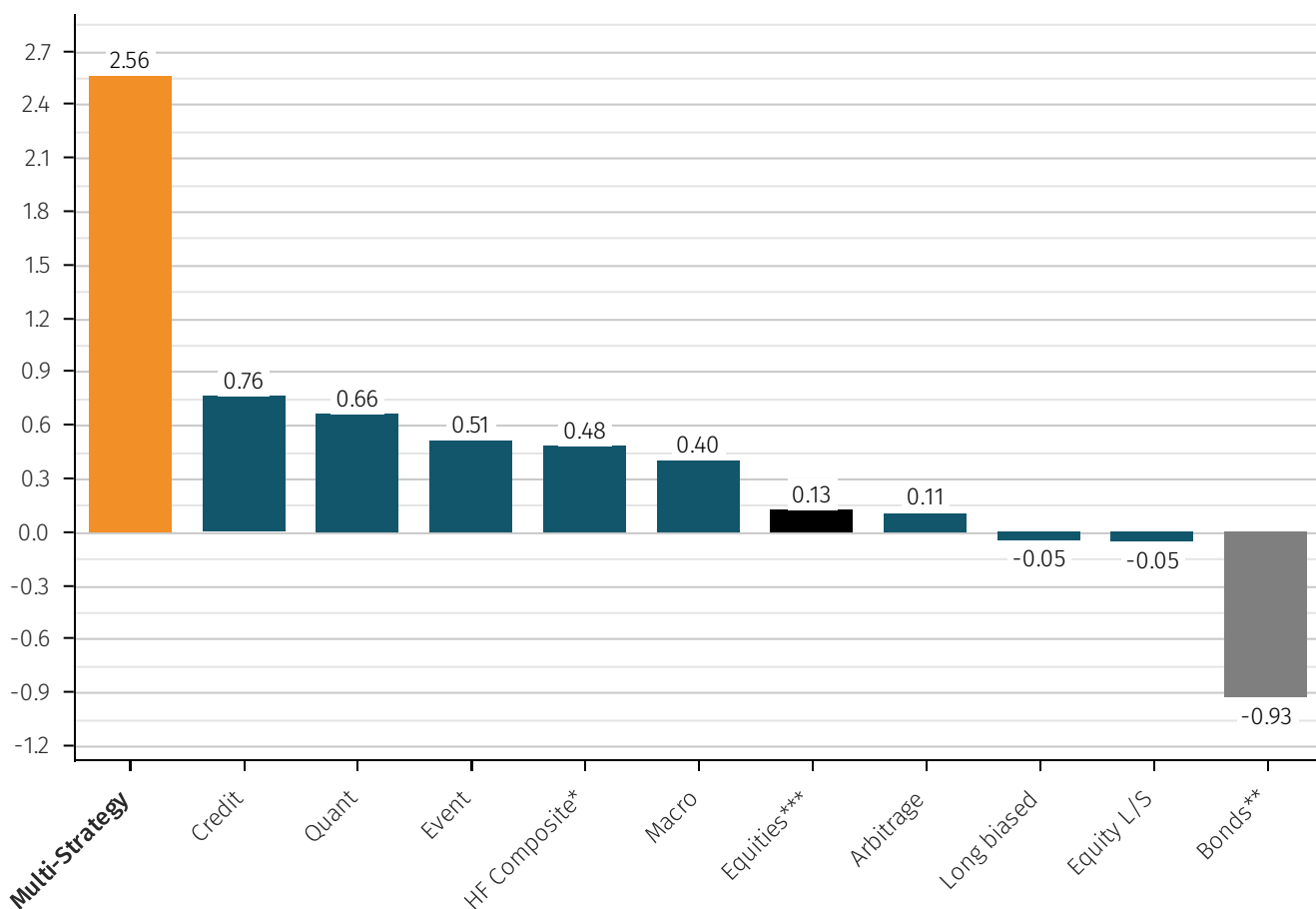
BETA TO BONDS AND BETA TO EQUITIES (3 YR) PERIOD TO DECEMBER 2023
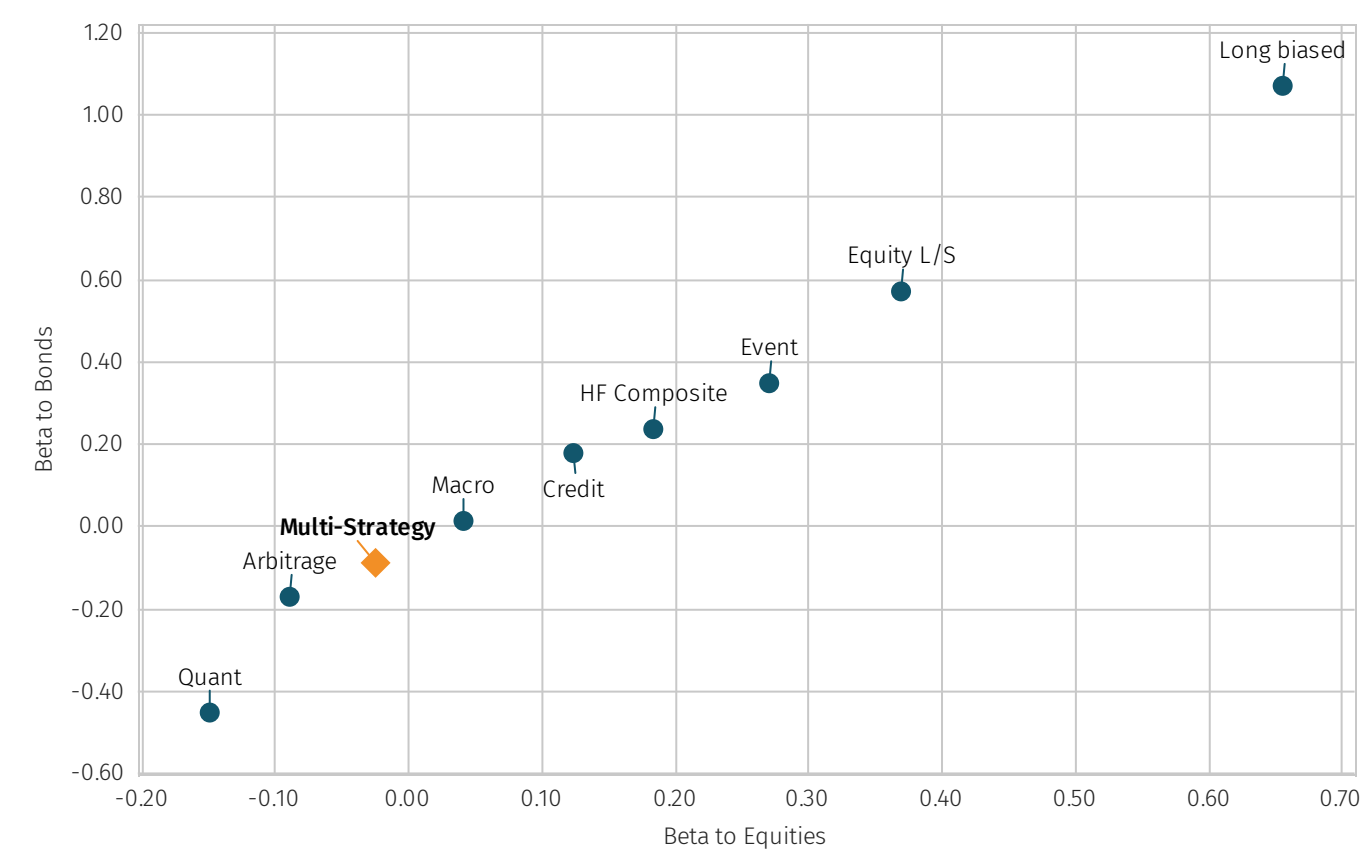
MASTER STRATEGY - DECOMPOSING DOLLAR PERF. INTO ALPHA, BETA AND RISK FREE (RF) COMPONENTS

Multi-Strategy

Cumulative proportional contribution
Rf: **21%**
Beta: **10%**
Alpha: **69%**

Legend: Cumulative Rf | Cumulative Beta | Cumulative Alpha | Cumulative Return
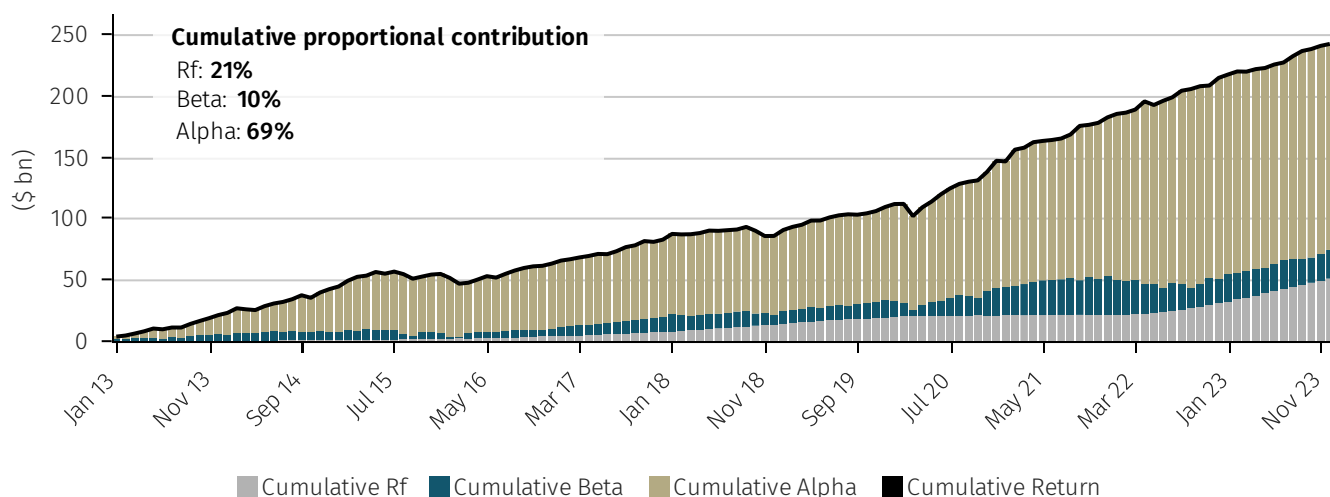
These charts decompose the Hedge Fund Composite dollar returns into beta, alpha and risk free ("Rf") components, as follows: alpha = actual return – Rf – beta * (market return – Rf).

Where Rf is the risk free rate as defined by a rolling 3-month LIBOR-SOFR, 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 60m rolling basis to the market index. The monthly alpha, beta and Rf 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 up.

For note, beta can be negative in certain cases, creating negative dollar attributions. These are offset by corresponding positive alpha contributions.

HF COMPOSITE* - DECOMPOSING DOLLAR PERF. INTO ALPHA, BETA AND RISK FREE (RF) COMPONENTS

HF Composite*

Cumulative proportional contribution
Rf: **31%**
Beta: **29%**
Alpha: **39%**

Legend: Cumulative Rf | Cumulative Beta | Cumulative Alpha | Cumulative Return
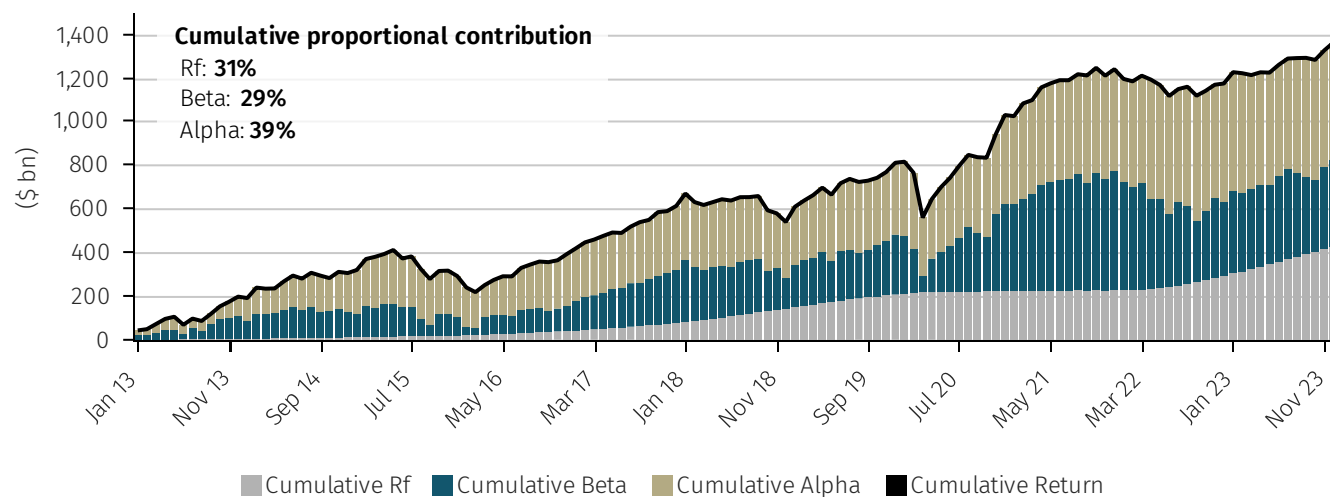
ROLLING 12 MONTH NET RETURN (5 YR)
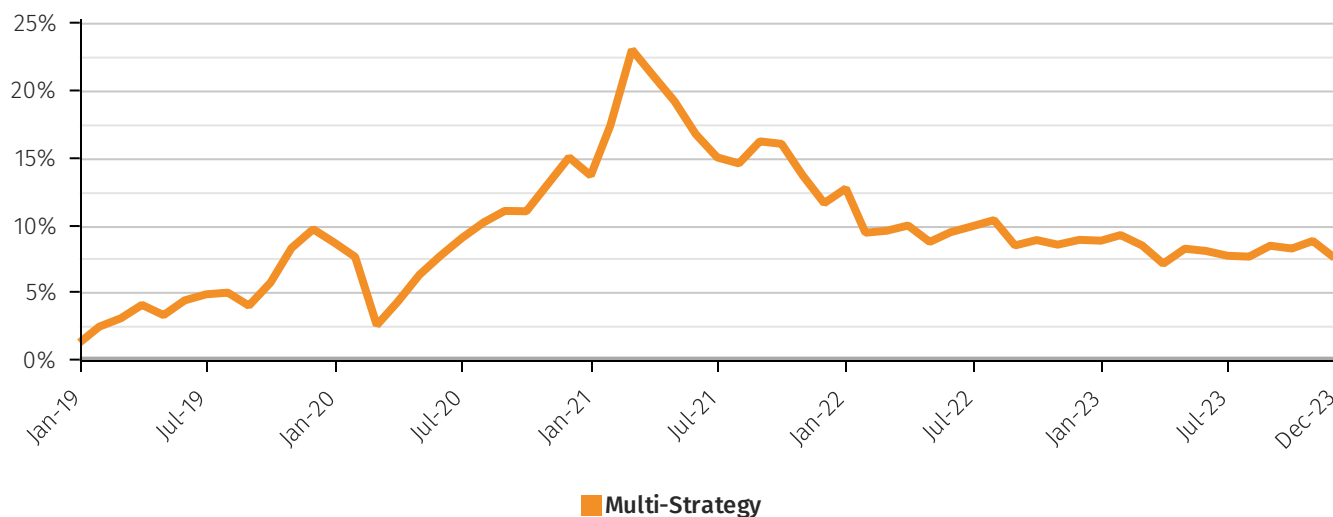
Multi-Strategy

CUMULATIVE NET RETURN (5 YR)
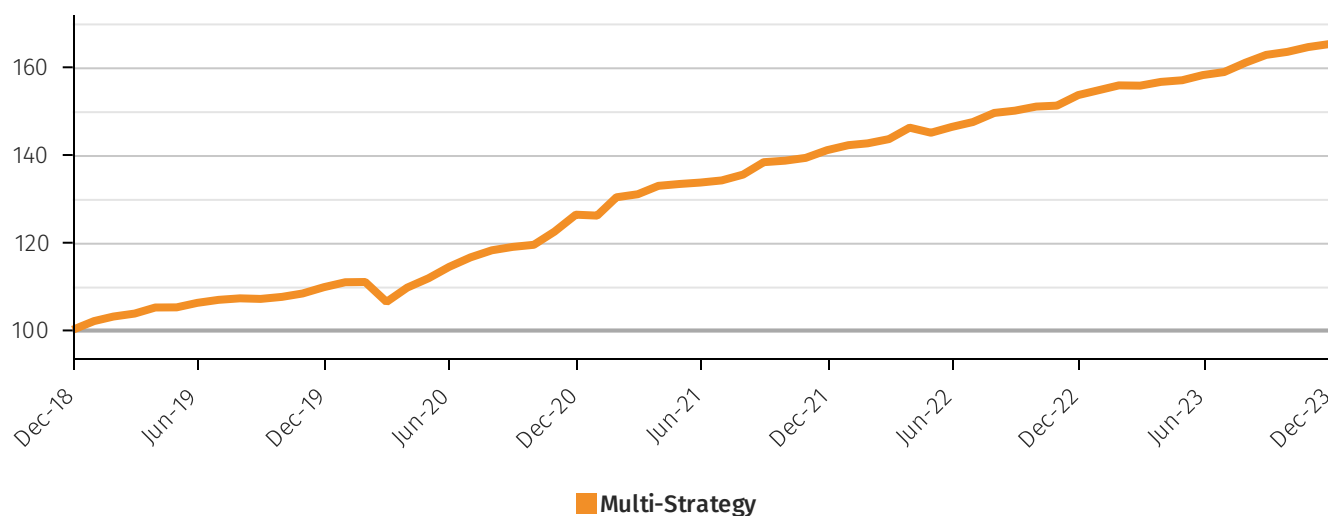
Multi-Strategy

COMPOUND RETURN (ANNUALISED)
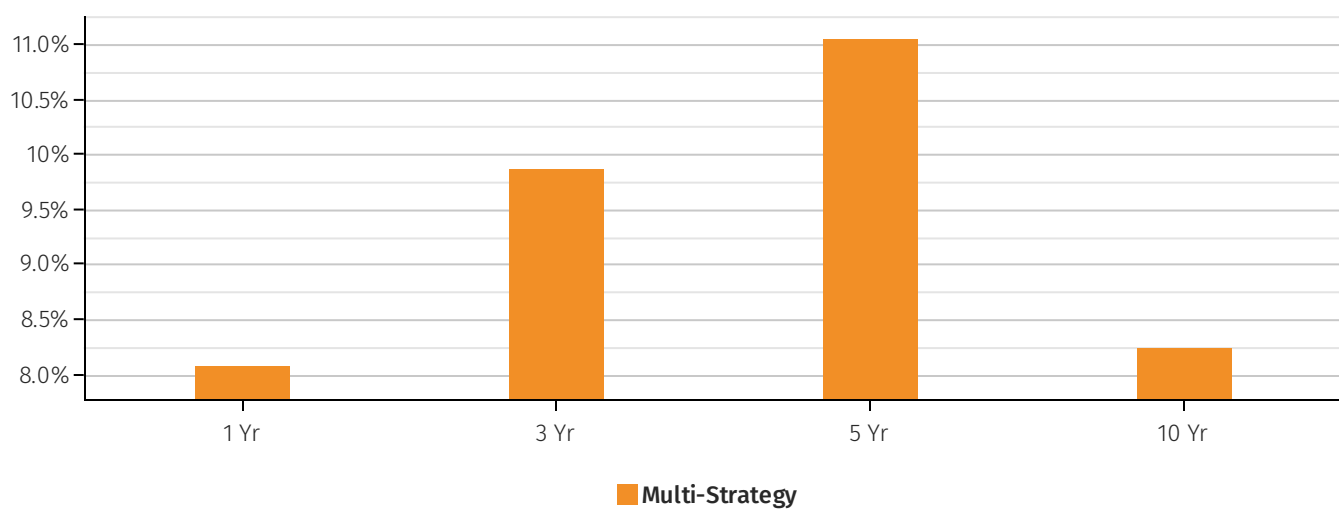
Multi-Strategy

Performance dispersion

MASTER STRATEGY PERFORMANCE DISPERSION (1 YR)

Long biased   Credit   Equity L/S   **Multi-Strategy**   Event   HF Composite   Macro   Quant   Arbitrage
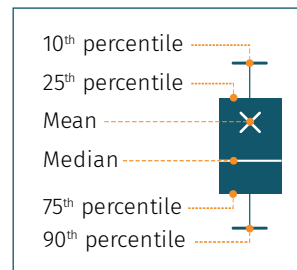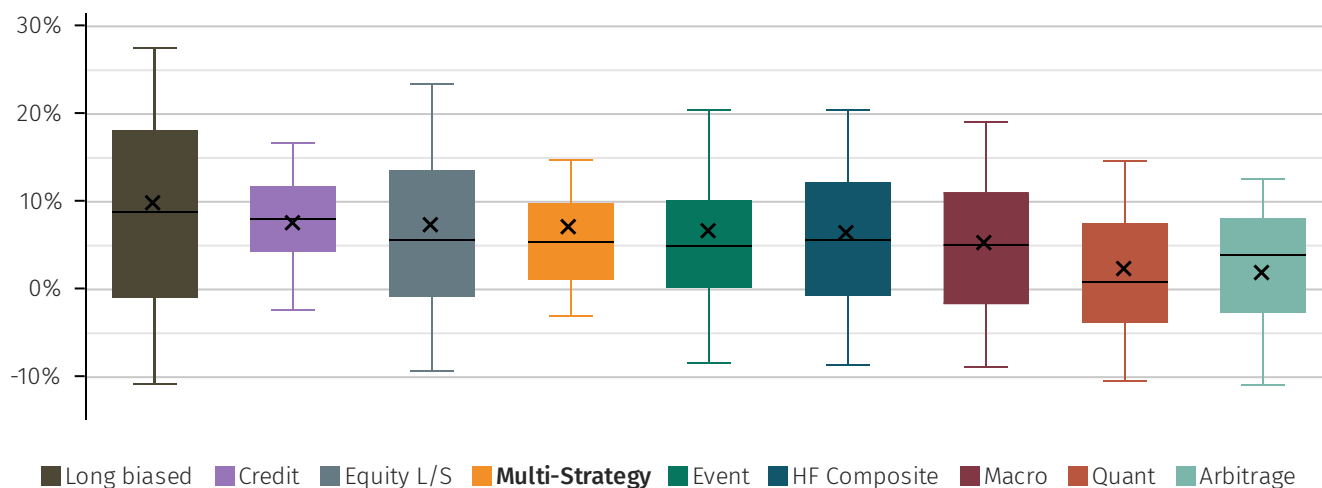
MASTER STRATEGIES NET MONTHLY RETURN DISTRIBUTION

Multi-Strategy

Arbitrage

Credit

Equity L/S

Event
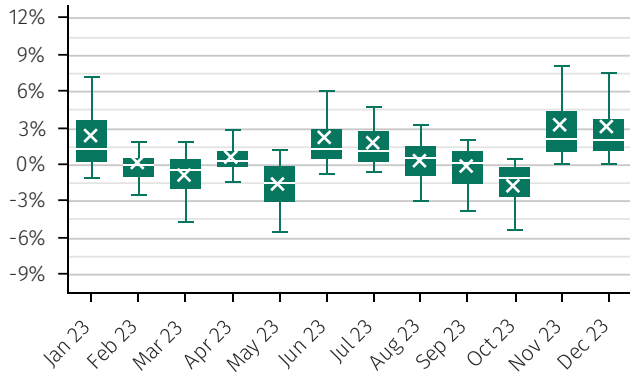
Long biased
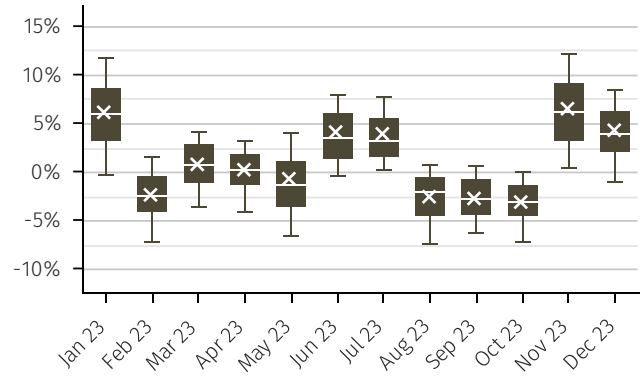
Macro

Quant

HF Composite

Multi-Strategy
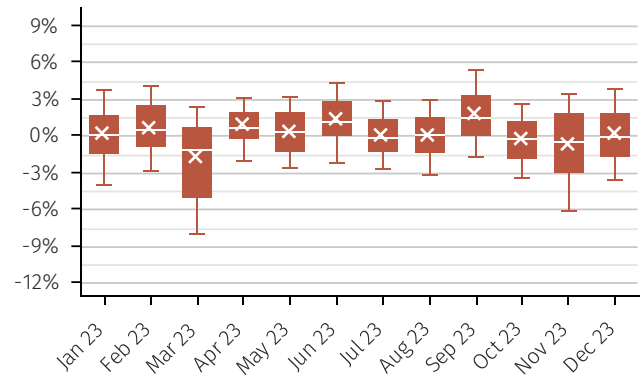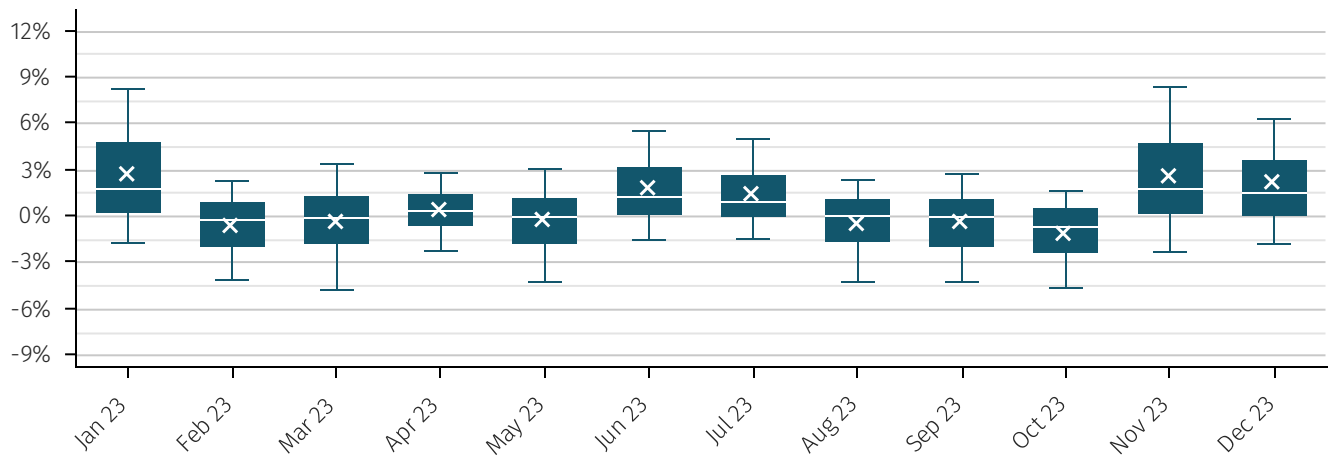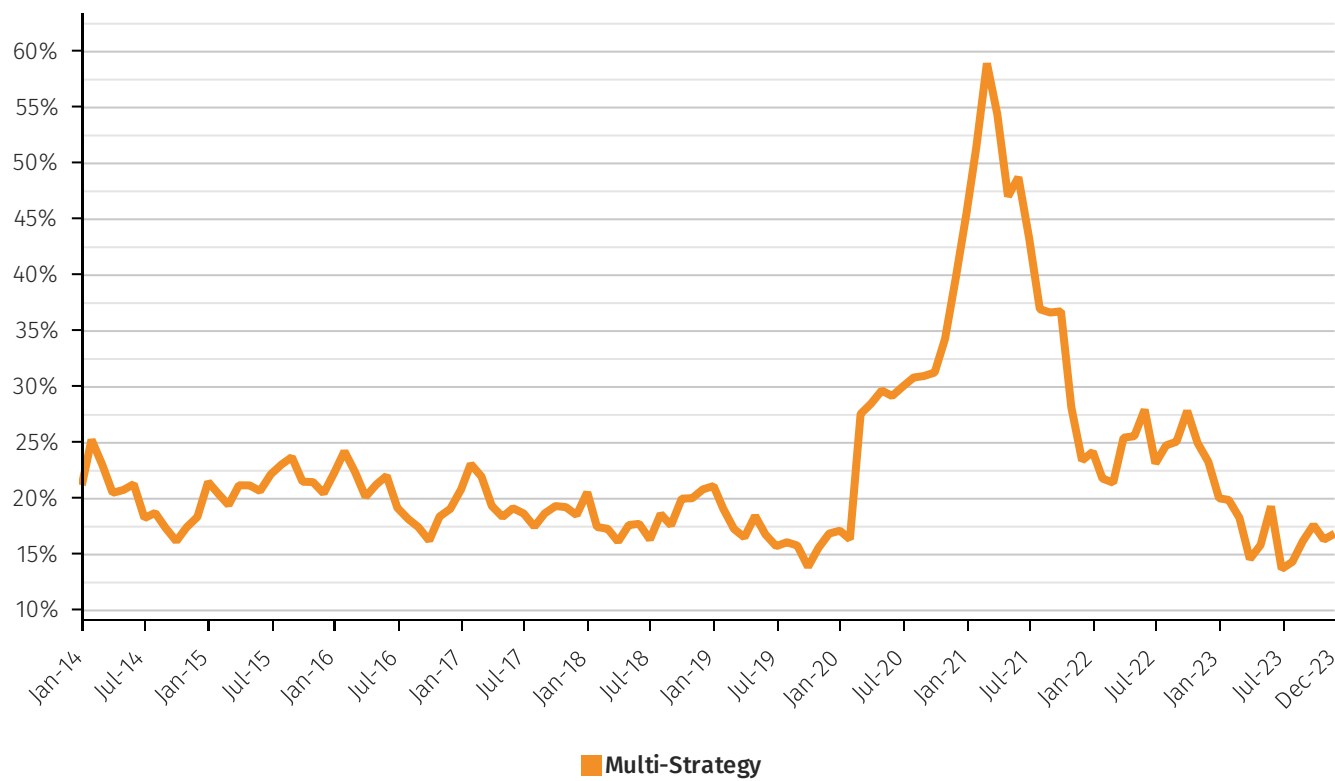
Assets and flows

NUMBER OF FUNDS AND AUM BY SUB-STRATEGY
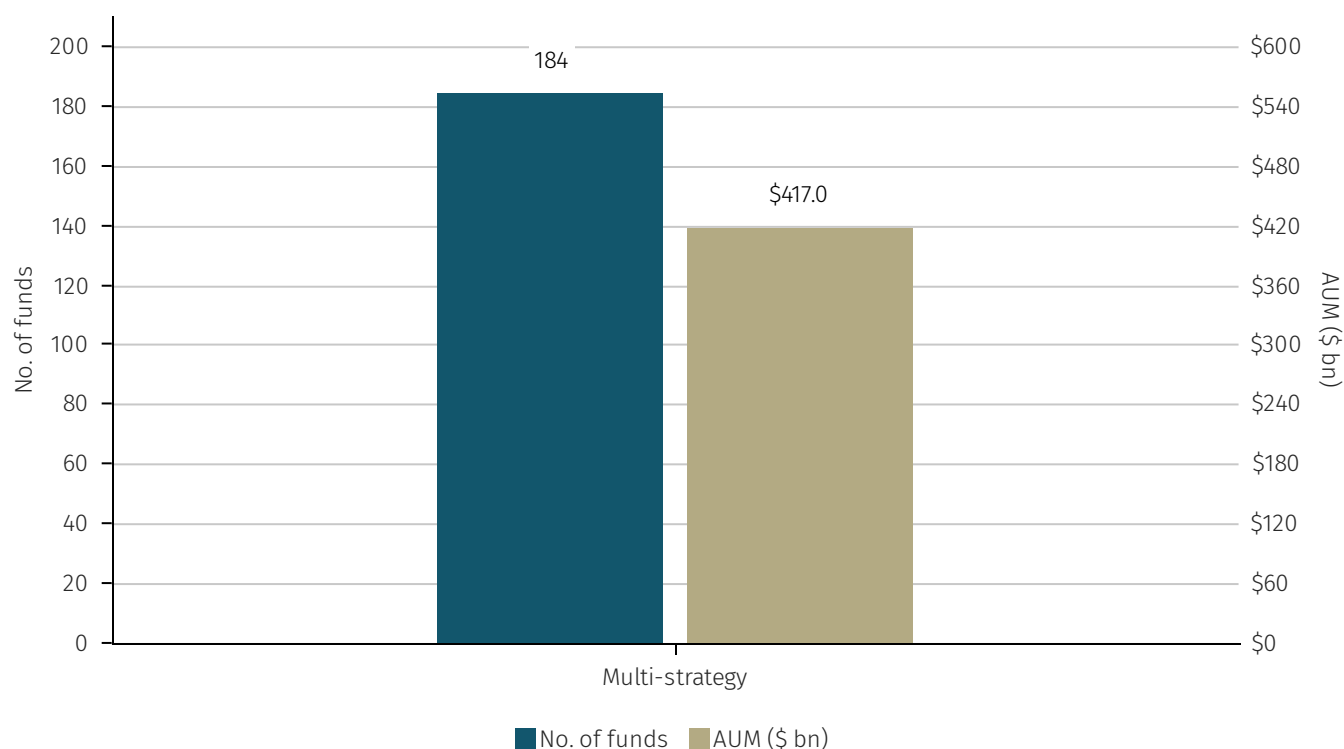
CURRENT AUM OF MASTER STRATEGY ($ BN)
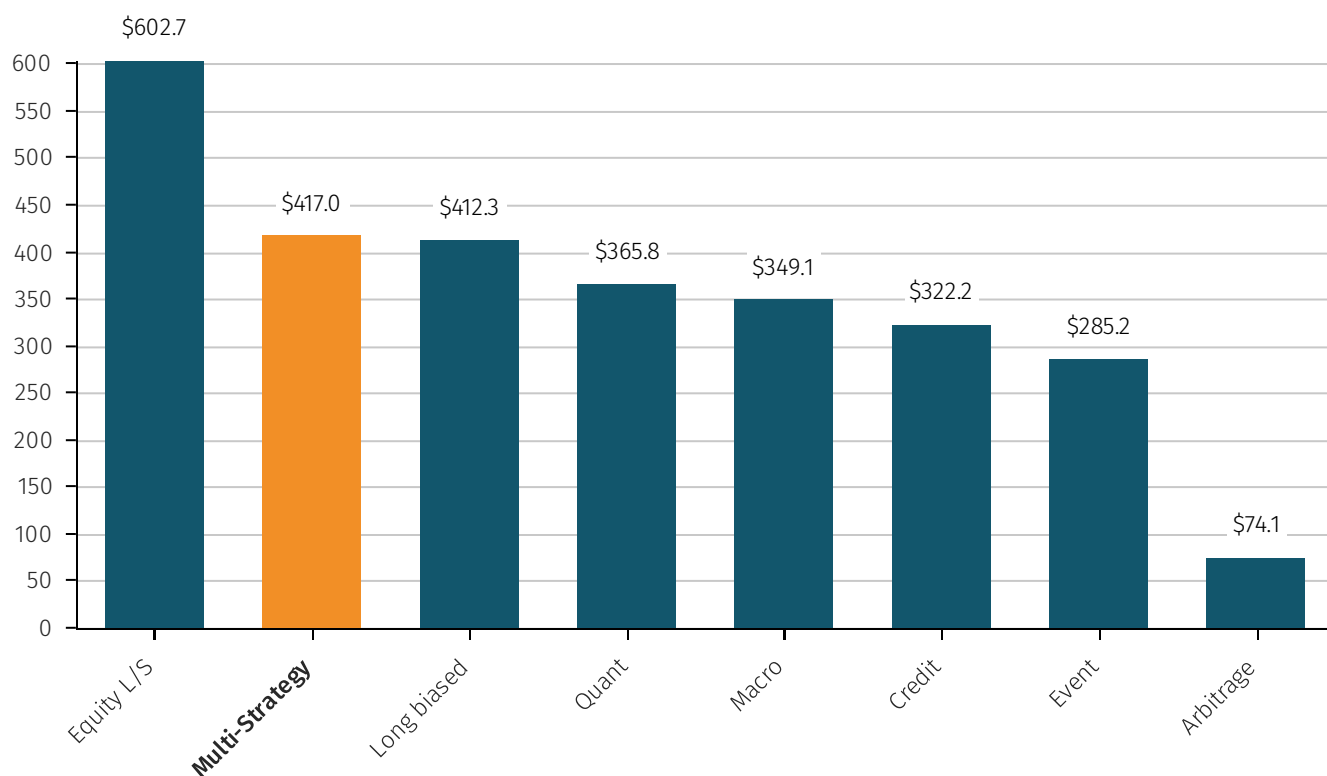
MASTER STRATEGY ASSETS (5 YR)*

Legend: AUM ($ bn) ■ Cumulative Net Performance ■
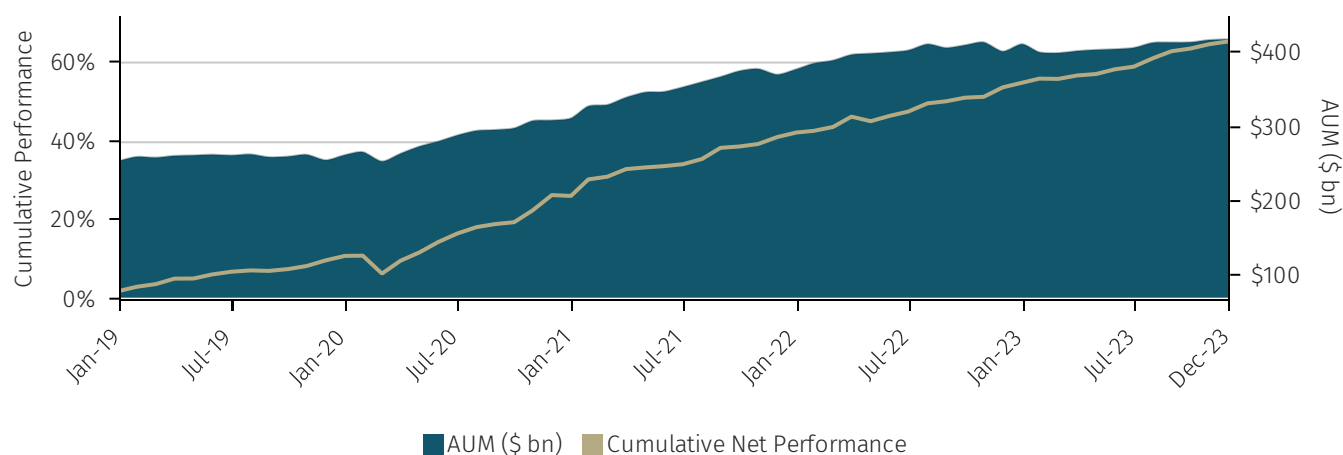
12-MONTH CHANGE IN AUM

Legend: P&L ■ Net Flows ■ Net ◆
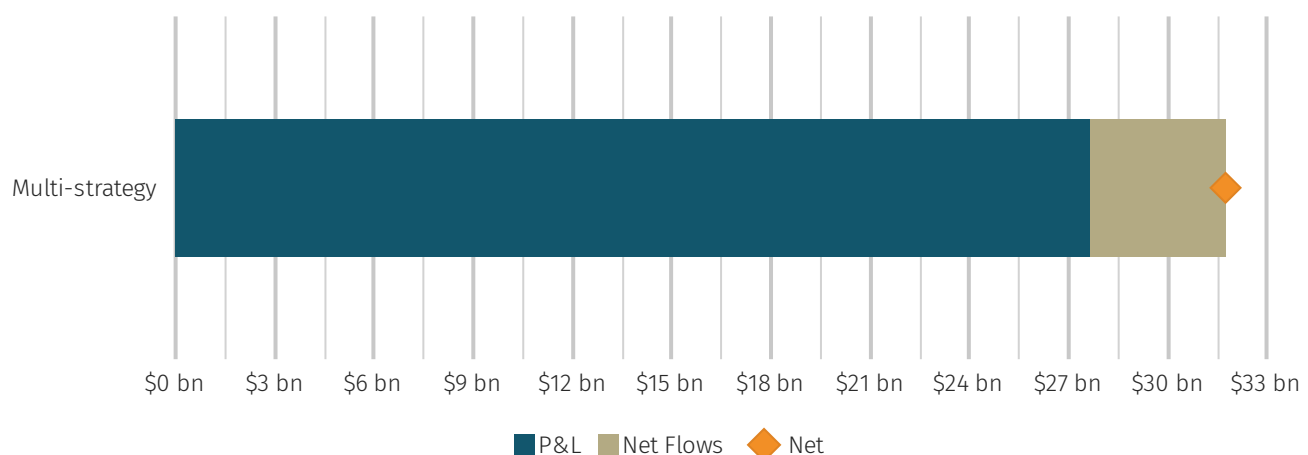
Terms and conditions

	Median redemption notice (days)	Median redemption frequency	Weighted avg. redemption total (days)[1]	Weighted avg. management fee	Weighted avg. performance fee
Multi-Strategy	45	Monthly	153	1.83%[2]	21.14%

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

2. Some funds operate a pass through fee structure in addition to, or instead of, a traditional management fee. Aurum does not currently include funds which operate a pass through structure within this management fee calculation (even if they also separately charge a management fee), accordingly the weighted average management fee above excludes funds with this fee structure.

AURUM

Definitions

ARBITRAGE

Strategies that look to benefit from mispricing's of the same instrument/asset or extremely closely related instrument. The strategy covers the following areas: convertible bond arbitrage, tail protection, volatility or opportunistic trades in this area, including but not limited to other areas such as capital structure arbitrage, ETF arbitrage or arbitrage of other closely related instruments.

Convertible bond (Arb – CB):
Traditionally the strategy looks to isolate mispriced components of convertible securities in order to capture a return to fair value. CB's essentially consist of a bond plus an embedded call option on the equity. Key valuation components relate to the credit (bond component) and the volatility (option and equity component). Those components other than the component believed to be mispriced are typically hedged in order to isolate the mispricing.

Tail protection (Arb – Tail):
Strategy that explicitly look to benefit from large market moves, typically either in the form of large spikes in volatility (either from implied or realised volatility), or from significant moves in the underlying spot price (long gamma) or a particular asset or assets. Some tail protection strategies also look to benefit from sudden/large moves in spread relationships, which are typically tight, but which can move to extremes during periods of stress.

Volatility arbitrage (Arb – Vol):
Traditionally the strategy looks to identify the mispricing of volatility. Funds may incorporate exposure to factors such as implied volatility, realised volatility, dividends, skew, term structure and correlation. Funds may be biased short, long or neutral to Greek exposures such as delta, vega and gamma.

Opportunistic (Arb – Opp):
Strategy that look to benefit from inconsistent/mis-pricing of the same instrument/asset or extremely closely related instruments/assets. Opportunistic arbitrage strategies typically have the flexibility to trade across multiple areas, but tend to specialise in a combination of volatility trading, convertible bonds and capital structure arbitrage trades. But they may also focus on other niche areas in order to capitalise upon perceived mis-pricing. The narrow arbitrage focus is why they are better considered as part of arbitrage, rather than in the broader multi-strategy classification.

CREDIT

Strategies that focus the vast majority of their trading on debt instruments, or instruments that are far more 'debt-like' in nature.

Credit – Credit RV (RV)
The strategy focuses on investing in investment and non investment grade securities, primarily corporate debt. The strategy takes a balanced long/short approach where the short position may be outright, related by sector, and/or within the same capital structure. Whilst not heavily trading oriented (given the associated costs) the strategy is more event-focused than passive and as such tends to have shorter investment horizons than something like the Distressed category.

Credit – Direct Lending (Dir Len)
Direct lending typically involves investing in first lien loans to middle market companies but can also encompass many other forms of middle market lending, including second lien debt, mezzanine debt and unitranche debt.

Credit – Distressed Credit (Distress)
Strategy typically invests in non-investment grade corporate – and sometimes sovereign – debt, which is frequently stressed (e.g. performing, but priced at a significant discount to par) or defaulted (e.g. where a balance sheet restructuring will occur). Some also invest in deeply discounted and/or subordinate structured product. Time horizon is typically longer dated**.**

Credit – Multi-Credit (Multi)
Broad credit focused strategy where a significant portfolio of their P&L is generated from a combination of relative value credit, distressed credit and/or structured credit.

Credit – Municipal Credit (Muni)
This strategy aims to generate a comparatively substantial income and achieve an additional overall return by actively overseeing collections of both tax-exempt and taxable municipal bonds. The emphasis of this strategy lies in enhancing performance by pinpointing sectors and securities in longer-term municipal bonds that are undervalued, thereby capitalising on yields and price returns through strategic duration positioning.

Credit – Structured Credit (Struct)

The strategy involves investing in synthetic structured credit and cash structured products including ABS, CLOs, CMBS, and RMBS. Investors can achieve higher returns, portfolio diversification, and tailored credit risk exposures. Repayment is supported by borrowers' contractual obligations, making structured credit an avenue for increased flexibility and potential gains in investment portfolios.

Credit – Structured Credit LO (Struc LO)

Long only or overwhelmingly long-biased structured credit strategy with some leverage. The managers add value through security selection and can take advantage of depressed security prices through wide spreads. The strategy benefits from tightening credit spreads and falling interest rates.

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 (ELS – US):

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 (ELS – APAC):

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 (ELS – EUR):

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 (ELS – Global):

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 (ELS – FEMN):

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 (ELS – 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 l/s (ELS – Other):

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

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 (Event – 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 (Event – M&A):
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 (Event - Multi):
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 (Event - Opp):
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.

LONG BIASED

Long only or overwhelmingly long-biased strategies. Covers multiple asset classes.

Equities (Long - Equity):
Long only or overwhelmingly long-biased equity strategies. Such funds still have a hedge-fund structure. Funds that are more 'mutual fund'-like are excluded from this category. Most funds have a fundamental bias, value and/or growth oriented investment theses are typically adopted. 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.

Diversified growth (Long - Div Growth):
A hedge fund where the majority of the capital is deployed in strategies within the long-biased categories.

Commodities (Long - Commods):
Funds that take long positions across the commodity complex (e.g., precious metals, base metals, basic materials, soft commodities, agriculture, oil, gas, power, coal & utilities product, etc.) on a passive or actively managed basis. The manager may specialises in one or more of these sub-sectors.

Other (Long - Other):
Long biased investing, which does not readily fit into the other classification taxonomy.

MACRO

Macro funds take positions (can be either directional or relative-value) in currencies, bonds, equities and commodities, based on fundamental and qualitative judgements. Investment decisions can be based on a manager's top-down views of the world (e.g., views on economy, interest rates, inflation, government policy or geopolitical factors). Relative valuations of financial instruments within or between asset classes can also play a role (or be the dominant part) in the investment process. Primary areas of focus are the liquid instruments of G10 countries, although they may also include emerging markets.

Fixed income relative value (Macro – FIRV):
Fund generates all or a substantial majority of the P&L/risk from relative movements across fixed income assets and their derivatives. Funds are typically looking to profit from arbitrage, mean-reversion or positive carry. Most traders aim to be either

duration neutral or 'risk neutral' (i.e., matching DV01 across long and short positions). Most managers incorporate some use of leverage as an integral part of the strategy. Note - that some managers in the space may also trade a smaller portion of the book in more 'classic' directional macro trades, but funds in the FIRV category are generating a minority of the risk from this area.

Commodities (Macro – Commods):
These funds are primarily focused on trading commodity futures and options from both the long and short side. They can occasionally include the tactical use of equities, currencies, or fixed income instruments, but commodity futures/options should make up the bulk of the risk. The manager is typically looking for longer term trends and supply/demand imbalances within and between commodity markets.

Global macro (Macro – Global):
Macro funds take positions (can be either directional or relative-value) in currencies, bonds, equities and commodities, based on fundamental and qualitative judgements. Investment decisions can be based on a manager's top-down views of the world (e.g., views on economy, interest rates, inflation, government policy or geopolitical factors). Relative valuations of financial instruments within or between asset classes can also play a role (or be the dominant part) in the investment process. Primary areas of focus are the liquid instruments of G10 countries, although they may also include emerging markets. Macro managers that do not have a particular specialisation in areas such as commodities, emerging markets or fixed income relative value fall under this more general classification.

Emerging markets (Macro - EM):
Macro funds take positions (can be either directional or relative-value) in currencies, bonds, equities and commodities, based on fundamental and qualitative judgements. Investment decisions can be based on a manager's top-down views of the world (e.g., views on economy, interest rates, inflation, government policy or geopolitical factors). Relative valuations of financial instruments within or between asset classes can also play a role (or be the dominant part) in the investment process. Primary areas of focus are the emerging markets.

MULTI-STRATEGY

A hedge fund where the capital is deployed across multiple strategies and asset classes. Funds are typically extremely diversified and employ multiple PMs/risk taking groups.

QUANT

Systematic strategies: Funds trade securities based strictly on the buy/sell decisions of computer algorithms. Quant strategies primarily fall into the following categories: Quantitative Equity Market Neutral, Statistical Arbitrage, Quant macro/GAA (Global Asset Allocation), CTA, and risk-premia.

CTA (Quant – CTA):
CTAs (Commodity Trading Advisors) take primarily directional positions in index level or macro instruments, such as futures or FX contracts, in a systematic fashion. Technically, a CTA is a trader of futures contracts as defined by the CFTC and historically, there were many CTAs who were not systematic; such traders are more likely to be classified as 'Global Macro'. CTAs are typically extremely systematised with straight through processing from signal generation to execution. Many, but by no means all, CTAs are trend following (using historical prices to determine predictable 'trending patterns') buying into markets where prices are rising and selling where markets are falling. When rising markets slow down/stop rising, trend-followers typically reduce its position and will eventually reverse its position into a short position, which it will hold until the market starts to rally again. The strategy is known for running with profits and cutting losses. Other models used in CTAs may include carry, seasonality, mean reverting or pattern recognition systems, models driven by fundamental data or non-traditional data sources. Some CTAs can also trade very short-term signals driven by market microstructure anomalies and patterns.

Quant macro / GAA (Quant – Macro):
GAA (Global Asset Allocation) is a systematic approach to Global Macro, with managers taking positions in global markets based on quantitative analysis, taking in information based primarily on economic data, but also incorporating price related information. The strategy is highly data and technology intensive. The positions tend to be relative value based, but they may also take directional positions in instruments such as futures, FX and baskets of equities, ETFs, swaps and other instruments. Signals may be arranged into relative value asset class models, cross asset class models / directional trades. Signals are also often classified under a number of factor headings: value, carry, momentum etc.

Statistical arbitrage (Stat Arb):
Statistical arbitrage funds typically take price data and its derivatives, such as correlation, volatility and other forms of market data, such as volume and order-book information to determine the existence of patterns. These patterns can help the manager forecast the future return of a stock, often over a relatively short timeframe. Typical signal types are: mean-reversion, momentum and event-driven. Mean- reversion looks to take advantage of the phenomenon of short-term price movements occurring due to supply/demand imbalances then moving back to an equilibrium level. Momentum models look for patterns in price data that suggest that price movements will be more persistent (i.e., trend). Other statistical arbitrage funds will look to incorporate more discrete information into their process from events (e.g., publishing of analyst earnings estimates, news flow, etc.). Whilst statistical arbitrage funds tend to focus more on 'technical' models, some may also incorporate some longer-

term models that are driven by fundamental data (e.g., stock value models, growth, etc.), however, if these models are the more dominant driver of risk, then the fund is likely to be classified as Quantitative Equity Market Neutral. Statistical arbitrage funds are typically run with a very low level of beta and are market neutral, however, this may not always be the case, with some funds able to take significant directional risk; however, given the higher frequency trading nature of such funds, they are not expected to have significant correlation to markets over time.

Quant equity market neutral (Quant EMN):

Traditional QEMN strategies take fundamental data, such as analyst earnings estimates, balance sheet information and cash flow statement statistics, and systematically rank/score stocks against these metrics in varying proportions. The weights of the scores of the different fundamental data sources may be fixed or dynamic. Managers may construct a portfolio using an optimisation process or by applying simpler rules combined with risk constraints so as to create a portfolio that is dollar and/or beta neutral, and typically with minimal sector exposure. Traditional QEMN portfolios consists of exposure to: Value (looking for stocks mispriced relative to their fundamental value, e.g. based on P/E, P/B, cash flow, etc.); Quality (looking at metrics such as levels of debt, stability of earnings growth, balance sheet strength); momentum (looking at past returns over a preset timeframe ranging from days to months); however, these are common factors that are relatively easy to exploit/replicate - hence the proliferation of risk-premia products that operate in this space.

Risk premia (Quant – RP):

Hedge fund risk premia products typically seek to capture the fundamental insights of a class of hedge fund strategies (hedge fund risk premia / alternative risk premia) along with a meaningful proportion of the expected returns those strategies can earn - using a dynamic but clearly defined process. Funds typically have exposure to a well-diversified portfolio of hedge-fund premia. Premia can cover everything from equity premia (Equity market neutral - trading across value, quality, growth and momentum factors, as well as EM premia), macro premia (e.g., trend following, or EM premia), to arbitrage strategies (e.g., risk arbitrage - holding a portfolio of merger targets diversified by sector and deal type; convertible arbitrage, etc.). The strategies are typically very well understood, backed up by academic research and implemented systematically.

Bond and equity indices

Note regarding decomposition returns

Please note that the charts and figures which reference the decomposition of dollar performance into alpha, beta and risk free components only use data from January 2013, unlike other charts and figures which use data for the full 10 year period, namely August 2012. This variance in time period used to present data is due to there being insufficient data to accurately construct a decomposition for the period of August 2012 to December 2012.

AURUM

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