# HFS Bulletin

## Monthly hedge fund update

June 2021

# Executive summary

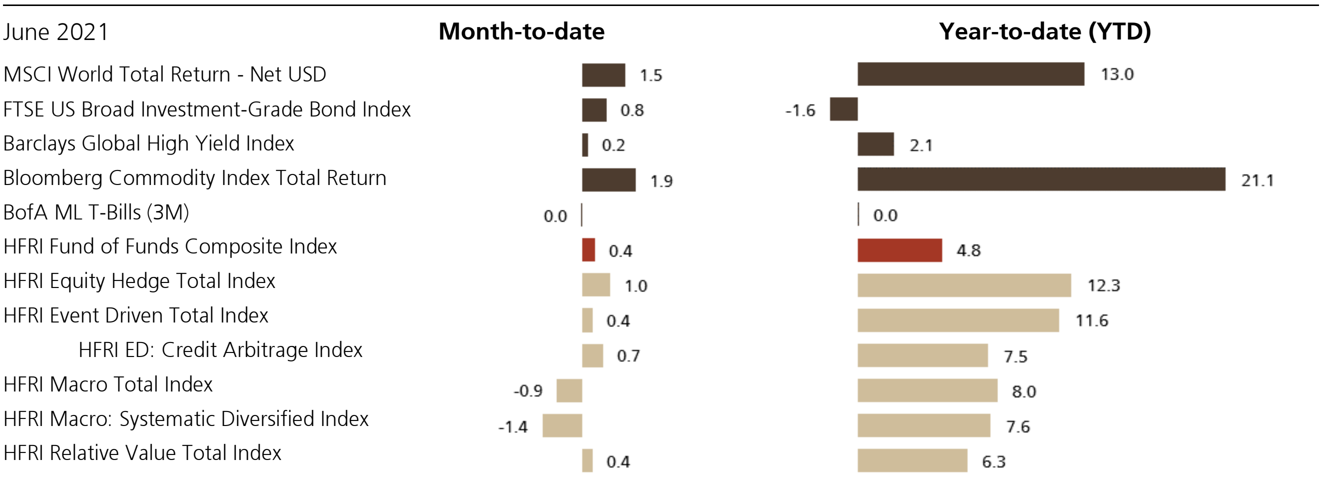
**Market and hedge fund update in a nutshell**

Over the second quarter, global equity markets rose as vaccination campaigns continued to accelerate in most developed economies. Governments in most developed markets continued to ease Covid-related mobility restrictions and activity levels picked up. Economic data over the last three months has generally been very strong. However, the reopening of economies and the quick rebound in activity that has followed has fueled inflation in some countries. Risk assets were mostly higher in June as a more benign volatility and inflation environment along with lower long end interest rates proved supportive. The signal from the US Federal Reserve Bank to move up their forecast of interest hikes eased some concerns around forward looking monetary policy. Equity Hedged strategies generally generated mixed returns in June. Manager performance was largely dependent on sector allocations, and there was a significant disparity between growth and value stocks, as growth regained leadership. Within Credit/Income, Corporate long / short and distressed strategies generally produced positive returns in June. Investment grade and high yields bonds benefited from a combination of tighter credit spreads and lower interest rates, which resulted in positive returns. Overall, Fixed income relative value strategies produced positive returns in June. Discretionary strategies generally produced negative returns in June. Manager with an EM tilt who traded select local rates from the short side typically outperformed during the month. Commodities gained with energy as the strongest component which was largely a result of strong growth in energy prices and as the global roll out of Covid-19 vaccines continued to support investor optimism for a global economic recovery in 2021.

| Index | Jun-21 | May-21 | Apr-21 | QTD | YTD | Annualized Return | | | | Volatility |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | 1Y | 3Y | 5Y | 10Y | (10Y) |
| MSCI World Total Return - Net USD | 1.49 | 1.44 | 4.65 | 7.74 | 13.05 | 39.04 | 14.99 | 14.83 | 10.65 | 13.93 |
| FTSE US Broad Investment-Grade Bond Index | 0.83 | 0.25 | 0.87 | 1.96 | -1.60 | -0.21 | 5.47 | 3.10 | 3.43 | 3.03 |
| Barclays Global High Yield Index | 0.20 | 0.94 | 1.90 | 3.06 | 2.08 | 14.59 | 6.57 | 6.49 | 6.10 | 8.15 |
| Bloomberg Commodity Index Total Return | 1.85 | 2.73 | 8.29 | 13.30 | 21.15 | 45.61 | 3.90 | 2.40 | -4.44 | 14.00 |
| ICE BofA Merrill Lynch 3-month T-Bill Total Returr | 0.00 | 0.00 | 0.00 | 0.00 | 0.02 | 0.09 | 1.34 | 1.21 | 0.65 | 0.25 |
| HFRI Fund of Funds Composite Index | 0.45 | 0.19 | 2.15 | 2.80 | 4.85 | 18.17 | 6.28 | 6.10 | 3.84 | 4.99 |
| HFRI Equity Hedge (Total) Index | 0.95 | 1.41 | 2.63 | 5.08 | 12.28 | 36.89 | 11.37 | 10.89 | 6.49 | 8.65 |
| HFRI Event-Driven (Total) Index | 0.37 | 1.24 | 2.13 | 3.78 | 11.59 | 30.02 | 7.95 | 8.36 | 5.51 | 6.91 |
| HFRI ED: Credit Arbitrage Index | 0.74 | 0.02 | 1.79 | 2.56 | 7.50 | 19.99 | 7.00 | 7.60 | 5.47 | 6.53 |
| HFRI Macro (Total) Index | -0.86 | 2.09 | 2.42 | 3.67 | 8.00 | 14.60 | 5.78 | 3.16 | 2.02 | 4.33 |
| HFRI Macro: Systematic Diversified Index | -1.38 | 1.84 | 2.85 | 3.30 | 7.62 | 13.94 | 4.80 | 1.37 | 1.49 | 7.02 |
| HFRI Relative Value (Total) Index | 0.36 | 0.97 | 1.10 | 2.44 | 6.26 | 15.13 | 4.93 | 5.30 | 4.72 | 4.51 |

Source returns: UBS Hedge Fund Solutions

# Strategy performance




Source: UBS Hedge Fund Solutions, Bloomberg, Barclays (Lehman) Live, HFR. For illustrative purpose only

# Monthly hedge fund review

**Overall market commentary**

Risk assets were mostly higher in June as a more benign volatility and inflation environment along with lower long end interest rates proved supportive. The signal from the US Federal Reserve Bank to move up their forecast of interest hikes eased some concerns around forward looking monetary policy. The Dow Jones Industrial Average, S&P500 and NASDAQ indices produced mostly positive performance of -0.08%, 2.22% and 5.49%, respectively. The MSCI Europe, DAX and FTSE Indices generated broadly positive performance of 1.56%, 0.71% and -0.03%, respectively, as investors grappled with central bank tapering plans. Asian developed markets produced modestly negative performance with the Nikkei 225 Index posting a loss of 0.24%; despite a further weakening of the Japanese yen. BRIC nations were mostly positive as tempered inflation expectations offered tailwinds. Russian, Indian and Brazilian equity markets generated gains of 1.58%, 1.05% and 0.46%, respectively. Conversely, Chinese shares posted losses of -0.67%. US interest rate markets were mixed in June in line with the Fed citing a change in the timing around policy guidance. The two-year US Treasury yield rose to 0.25% from 0.14%, while the ten-year US Treasury yield fell from 1.58% to 1.45%. The Barclays US High Yield Index rose 1.34% and the Barclays Corporate Investment Grade rallied 1.63%, in line with the rally in US Treasuries and further spread tightening during the month. The Commodity Research Bureau Futures Composite Index rose 3.7% largely on the back of stronger energy pricing, including a 10.7% rally in crude oil. In currency markets, the Euro fell 3.07% against the US dollar from 1.2231 to 1.1856, while the US dollar rose 0.94% against the Japanese yen from 109.95 to 110.99.

Source returns: UBS World Market Report

## Equity Hedged

**HFRI Equity Hedge Total Index:**
**MTD 0.95% / QTD 5.08% / YTD 12.28%**

US Equity Hedged strategies were mixed in June despite a strong month for indices. Fund performance was largely dependent of sector allocations and there was a significant disparity between growth and value stocks as growth regained leadership. The broader market retreated during the first half of June due primarily to a more hawkish stance from the Federal Reserve, but stocks rebounded strongly heading into month-end. The market recovery was more pronounced in growth stocks given the perception that the Fed was more concerned about inflation than markets had previously been anticipating. There was also a substantial amount of sector dispersion during the month with technology stocks notching the best overall performance while more value-oriented sectors such as financials and industrials registered losses in the aggregate. Energy stocks bucked the trend among value-oriented sectors as strength in the price of oil propelled the sector higher. It was another challenging month for alpha production, particularly from the short side, owing in part to another squeeze in meme stocks during the first half of the month. Meanwhile, the market shift towards rewarding growth stocks at the expense of value provided a degree of tailwind for long side alpha generation.

Asian Equity Hedged strategies generated mixed returns during the month, there was significant intra-month volatility and return dispersion among funds. Most of the sectors were positive as tech and energy sectors outperformed while the financial sector was the main drag on the index level. Additionally, quality outperformed value significantly during the period. In offshore China, markets were in general weak as Hang Seng and MSCI China Indices produced returns of -1.1% and -0.35%, respectively. While the TMT sector stabilized, materials was weak on the back of government intervention which weighed on index performance. The real estate sector continued to be under pressure due to tightening policies as well as debt risk from a large market participant. It was a volatile month for factors as large cap significantly underperformed for the month along with value. Conversely, quality and momentum outperformed. In onshore China, the market also mixed with the CSI 300 index produced returns of -2% while the CSI 500 Index generated gains of 1.2%, with the weak performance for CSI 300 was largely driven by underperformance of large cap consumer staple companies. Value factors significantly underperformed along with low risk factors while growth, sentiment and momentum outperformed.

## Relative Value

**HFRI Relative Value Total Index:**
**MTD 0.36% / QTD 2.44% / YTD 6.26%**

June was a slightly positive month for most FIRV managers. Macro RV components, such as curve steepeners, detracted due to the rally/flattening in US rates, despite strong inflation/jobs data and the increased hawkishness of the Fed. Inflation RV strategies continued to perform well in June. European country spread trading was mixed. Micro RV was additive in both Europe and the US across CFB and Bond RV, as was swap spread trading. Unencumbered cash levels generally decreased, reflecting an increase in portfolio risk.

Cap structure / volatility arbitrage funds generated mostly positive returns in June. Results were driven by a rebound in growth names and the overall improved market backdrop. Global convertible issuance picked up in June as approximately $16.5bn came to the market globally, the most in a month since March. Asian-based borrowers led the new supply with $6.3bn priced in June, while US and European issuers launched approximately $4.8bn each. Japan saw $633mn of new supply. Year-to-date, the global convertible bond market has priced $98.9bn, out of which US represents $55.9bn, while issuers from Europe, Asia, and Japan have priced $18.9bn, $22.2bn, and $1.9bn, respectively. Last month's largest single-name new offering was from Singapore Airlines which launched about $4.7bn of 0% up 10% notes due in 2030. The second-largest deal of the month were $1.4bn of 5.25% up 20% mandatories from Clarivate. Managers that had exposure to SPACs saw positive performance in that part of their portfolios last month, in some cases, up to a half of a manager's monthly gains. Positive performance was supported by SPAC equity prices stabilizing after a volatile period earlier in the year. For some managers, the returns of the SPAC books were driven by a few large individual positive contributors. During last month, 28 SPAC IPOs were priced, and 26 business combinations were announced which signals that while the total number of SPACs has decreased, the number of announced mergers has gone up.

Merger arbitrage and equity event-driven strategies posted negative returns in June as spreads in large deals widened during the month. Spread widening was mostly a function of the DOJ's challenge of Willis Towers Watson / Aon deal, as well as delayed resolution in many of the major pending deals, with large semiconductor deals requiring approval from Chinese regulators. Average annualized merger arbitrage spread for U.S. deals annualizing between 0 and 50% finished June at around 8.8%. There were 21 deals announced in June, the largest of them being the acquisition of Cloudera by Clayton, Dubilier & Rice and KKR for $5.3 billion. Among the individual deals that detracted the most from the manager's returns, were Welbilt / Middleby and the aforementioned Willis Towers Watson / Aon. The former was impacted by the absence of a bidding war between Middleby and Ali Group, despite expectations; the latter was affected by the DOJ filing a lawsuit aimed at stopping the acquisition on concerns about reduced competition. Notable deal developments during the month included Salesforce.com finishing an $8 billion bond sale to fund its $27.7 billion acquisition of Slack Technologies; Nuance Communications announced that it had received shareholder approval to be acquired by Microsoft; PRA Health Sciences and ICON Public Limited Company announced that they had obtained all regulatory approvals to close the merger. Managers that had exposure to SPACs saw positive performance in that part of their portfolios last month, supported by SPAC equity prices stabilizing after a volatile period earlier in the year. During last month, 28 SPAC IPOs were priced, and 26 business combinations were announced which signals that while the total number of SPACs has decreased, the number of announced mergers has gone up.

The Agency MBS strategy generated a negative performance in June. All managers were down for the month although the magnitude of the losses was largely dependent on the composition of each manager's portfolio. Residential mortgage derivatives were they main source of losses as positive carry was offset by spread widening. The negative performance was driven by yield curve flattening and concerns regarding the forward-looking prepayment speeds for higher coupon assets. In addition, prepayment assumption updates for a model used by the majority of market participants also contributed to the volatility and caused spreads to widen further at the end of June. Managers with exposure to more seasoned mortgage derivatives and to non-residential sectors such as GNMA Project Loans outperformed relative to managers with larger allocations to newer vintage residential derivatives with higher coupons.

Quantitative equity strategies were mostly mixed in June. Managers were challenged to start the month as the retail short squeeze in meme stocks re-emerged. The month also featured factor rotation from Value to Growth. Some large managers and quants at multi-manager platforms struggled in the first two weeks of them month. Long term fundamental factor based quants finished the month with losses while medium to short-term statistical arbitrage strategies were generally profitable. The environment was conducive for fundamental and technical asset selection models in US and Europe but less so in Asia. Multi-strategy quant managers allocate capital to diversified macro trading strategies which avoided large losses in foreign exchange sector unlike traditional trend followers, and thus generated gains in commodities similar to other systematic managers. Managers with single stock and macro trading vehicles are currently at the upper end of their risk allocation range in notional terms. The increase in leverage is explained by lower volatility in equities and higher conviction in other markets.

## Credit / Income

**HFRI ED: Credit Arbitrage Index**
**MTD 0.74% / QTD 2.56% / YTD 7.50%**

Corporate credit strategies produced mostly positive performance in June. Investment grade and high yields bonds benefited from a combination of tighter credit spreads and lower interest rates, which resulted in positive total returns. In addition, the leveraged loan market was also positive although returns were muted and approximately 100 bps lower relative to high yield bonds. Similar to prior months, energy was the top performing sector of the corporate credit market. From a sub-strategy perspective, the Distressed allocation produced a positive return with the Corporate Long/Short produced mixed results. Within Distressed, gains were driven by long positions in stressed and distressed credit. In addition, equity positions in REITs were also additive to performance while a preferred investment in a government mortgage company detracted from performance. For Corporate Long/Short, there was a high degree of performance dispersion across funds. In particular, managers with positive net exposures benefited from the rally in credit and produced gains in June. Conversely, managers with negative net exposures detracted from performance. From a position perspective, gains were driven by longs in energy, financials, and CCC debt. Conversely, short positions detracted from performance.

Structured credit strategies generate positive performance in June. At the market level, subordinated tranches outperformed relative to senior tranches as both mortgage and corporate structured credit assets performed well. At the manager level, the vast majority of funds generated positive returns. Gains were driven by a combination of positive carry and mark-to-market gains. From an asset class perspective, Multifamily CMBS, CRT B2s, and CLO equity were the largest positive contributors to performance. In particular, the Multifamily CMBS allocation outperformed by a wide margin after secondary market trades caused the bonds to re-rate to lower yields. Conversely, managers with allocations to Agency mortgage derivatives produced losses.

## Trading

**HFRI Macro Total Index:**
**MTD -0.86% / QTD 3.67% / YTD 8.00%**

Discretionary Macro strategies generated negative performance in June. Funds with an EM tilt who traded select local rates from the short side outperformed during the month. Positions such as Chile and Czech Republic and/or those who traded US rates from the long side at the back end of the curve or outright shorts at the very front end generated gains.

Larger EM funds suffered losses from long EM rates in Mexico, Russia and Brazil where central banks were more hawkish while also suffering from their US rates short hedge. The primary loss driver for nearly all DM funds were US curve steepeners and outright shorts in the belly of the curve while short USD exposure also detracted. Data indicating a slowdown in service sector activity in the US and China along with the continued spread of the Delta Covid variant globally has prompted risk-off market dynamics. Accordingly, managers have reduced risk across the board, in some cases upwards of 50%, as part of risk management following losses and also as conviction in the reflation trade has subsided in the near term. Larger fundamentally driven EM managers continue to be long biased in select rates and credit markets depending on valuations and domestic factors such as central bank policy and economic fundamentals while running with US rates shorts as portfolio hedges. More tactical EM funds continue to adjust positioning more dynamically and trade on a short term basis which has helped in the current environment.

Systematic strategies generated mostly negative returns in June. Most trend followers produced gains in long energy positions in Oil and NatGas, while suffering some losses in precious metals, copper, soybeans and lean hogs. Going into June, systematic managers typically held lower risk in fixed income positions, expressed mostly curve steepening bias and that led to moderate losses. Equities were marginally profitable. The largest detractor was foreign exchange themes where almost all managers held short USD positions against a number of other DM and EM currencies. Trend followers in alternative markets generally profited from long credit positions and in carbon emission markets while equities allocations were challenged. More diversified systematic managers managed to mitigate the losses in FX as they had more nuanced bet on USD. However, they also suffered in commodities due to short positions in some energy commodities, and in equities due to non-uniform long/short positions in equity indexes. Long term fundamental macro traders lost in FX and in fixed income, but also suffered as the main inflationary bet was expressed via long gold and copper; both of which fell in June.

## Outlook

This section contains "forward looking" views of UBS Hedge Fund Solutions and may change over time without notice. These forward looking views influence UBS Hedge Fund Solutions' investment research process, but do not necessarily result in changes to allocations in products managed or advised by UBS Hedge Fund Solutions.

**Equity Hedged (EH)**

HFS maintains full-sized allocation and our focus on US sector specialists in high conviction areas like healthcare and on style agnostic managers.

We continue to believe that fundamentals will come to the forefront as economies normalize and reopen, hopefully allowing managers to make up for the long and especially short alpha that proved elusive YTD.

To achieve balance between value and growth, we are examining managers who can potentially benefit from exposure to cyclical sectors and value-oriented stocks.

Intensifying Chinese regulation in key private sectors such as education and technology are changing the landscape for alpha generation. As such, our focus in APAC is shifting to tactical, low net managers that can pivot away from impacted industries until the dust settles.

**Credit / Income**

HFS maintains core allocations to the ABS, Agency MBS and Corporate Long / Short sub-strategies, with the potential to increase Agency MBS.

In Agency MBS, faster-than-expected prepayments, yield curve flattening and new prepayment model assumptions resulted in material widening in option-adjusted spreads (OAS).

Our ABS allocations seek to capture carry while minimizing duration; we are selective and concentrate on only a few high conviction segments. Similarly, co-investments allow us to be surgical in our allocations.

In Corporate Long / Short, our focus remains on more trading-oriented approaches, particularly since corporate credit has broadly recovered and spreads are near all-time tights, appearing priced to perfection.

HFS is also exploring ways to hedge for a risk-off scenario or catalysts that could cause credit spreads to widen.

**Relative Value (RV)**

HFS allocates to a diversified mix of sub-strategies and employ targeted manager selection within those; we are unlikely to make major changes in Q3.

Capital Structure / Volatility Arbitrage, which includes SPACs, was the latest focus of our top-ups in Q2.

For Fixed Income Relative Value (FIRV), we will watch for steeper yield curves and new guidance on the removal of quantitative easing to assess whether to increase our allocations.

As mentioned last quarter, we will leave Merger Arbitrage allocations unchanged and rely on event-focused Equity Hedged and Multi-Strategy managers to increase their own exposures to event-driven approaches.

As the world hopefully becomes less Covid-19 impacted, Quant Equity returns might improve relative to the recent past.

**Trading**

HFS maintains a moderately positive outlook on Discretionary Trading. We expect episodic volatility from central bank communications and upcoming data releases to provide opportunities for developed market (DM) managers.

These sometimes conflicting economic signals will likely bring a healthy level of volatility, which may make it difficult to hold large structural positions. Managers who can move positioning more dynamically and implement strong portfolio construction should be better placed.

We also maintain our conviction in Commodities, which are expected to benefit from today's macro environment and policy objectives. Commodities trading is a challenging, cyclical strategy that is fraught with manager turnover; nonetheless, we may add here as we find managers that meet our high criteria.

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# Endnotes

**Strategy definitions**

Equity Hedged managers generally use fundamental analysis to invest in publicly traded equities and seek to generate alpha through superior security selection. Portfolio construction is driven primarily by bottom-up fundamental research; top-down analysis may also be applied. Sub-strategies include: Fundamental, Equity Event, and Opportunistic Trading.

Trading strategies are generally top-down in nature and often driven by econometric and macroeconomic research. These strategies may utilize financial instruments, such as foreign exchange, equities, rates, sovereign debt, currencies, and commodities to express a manager's view. In executing different approaches, managers may use either fundamental or quantitative models or a combination of both. Sub-strategies include: Systematic, Discretionary and Commodities.

Relative value is a broad category, generally encompassing strategies that are non-fundamental and non-directional, and often quantitatively driven. Managers in this strategy typically use arbitrage to exploit mispricings and other opportunities in various asset classes, geographies, and time horizons. Managers frequently focus on capturing the spread between two assets, while maintaining neutrality to other factors, for example to geography, changes in interest rates, equity market movement, and currencies, to name a few examples. Sub-strategies include: Fixed Income Relative Value, Agency MBS, Quantitative Equity, Cap Structure/Vol Arb and Merger Arbitrage.

In Credit/Income strategies, managers utilize credit analysis to evaluate potential investments and use debt or debt-linked instruments to execute their investment theses. Their approach can be either fundamental, quantitative, or a combination of both. Sub-strategies include: Distressed, Corporate Long/Short, Asset-Backed, Reinsurance / ILS, CLO/Corporate Lending and Other Income.

Other: This category contains investment approaches that are outside of the mainstream hedge fund strategies (Equity Hedged, Credit/Income, Relative Value, and Trading). The category includes nice investment approaches. Money Market funds and cash strategies are also included in this category, as are Liquidating/Side Pockets.

Risk Parity generally focuses on the passive allocation of risk, rather than of capital, in an attempt to provide a higher Sharpe ratio alternative to the traditional 60% stock / 40% bond portfolio through the use of a wider range of uncorrelated assets, low leverage, and low equity risk. Please note, while an alternative to traditional asset allocation, Risk Parity is not a hedge fund Strategy.

**Index descriptions**

The use of indices is for illustrative purposes only. Unlike the Fund, some indices are unmanaged, are not available for direct investment and are not subject to management fees and other fees and expenses. The Fund does not restrict its investments to securities in the indices described. No index is directly comparable to the investment strategy of the Fund. Information about the index is derived from sources that we believe to be reliable, but we have not independently verified them and do not warrant as to its accuracy or completeness.

The Barclays Corporate High Yield Index covers the universe of fixed rate, non-investment grade debt. Pay-in-kind (PIK) bonds, Eurobonds, and debt issues from countries designated as emerging markets (e.g., Argentina, Brazil, Venezuela, etc.) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, and 144-As are also included.

The Barclays Global Aggregate Index provides a broad-based measure of the global investment-grade fixed income markets. The three major components of this index are the U.S. Aggregate, the Pan-European Aggregate, and the Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government, agency and corporate securities, and USD investment grade 144A securities.

The Citigroup Broad Investment Grade Bond Index is an unmanaged index generally representative of the performance of the investment-grade corporate and U.S. government bonds.

The Dow Jones - UBS Commodity Index Total Return index is comprised of futures contracts on 19 physical commodities. It reflects the return on fully collateralized futures positions and is quoted in USD.

The HFRI Equity Hedge Total Index is equally weighted performance index. The HFRI is broken down into four main strategies, each with multiple sub-strategies. This index represents the Equity Hedged strategy, which includes funds who maintain positions both long and short in primarily equity and equity derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques; strategies can be broadly diversified or narrowly focused on specific sectors and can range broadly in terms of levels of net exposure, leverage employed, holding period, concentrations of market capitalizations and valuation ranges of typical portfolios. Equity Hedged managers would typically maintain at least 50%, and may in some cases be substantially entirely invested in equities, both long and short.

The HFRI Event-Driven (Total) Index is an equally weighted performance index. The HFRI is broken down into four main strategies, each with multiple sub-strategies. This index represents the Event Driven strategy, which is also known as corporate life cycle investing. The constituents of this index are funds investing in opportunities created by significant transactional events of a wide variety, including but not limited to spin-offs, mergers and acquisitions, tender offers, security issuance, bankruptcy reorganizations, recapitalizations and share buybacks. Event Driven exposure includes a combination of sensitivities to equity markets, credit markets and idiosyncratic, company specific developments.

HFRI FOF: Conservative Index FOFs classified as "conservative" exhibit one or more of the following characteristics: seeks consistent returns by primarily investing in funds that generally engage in more "conservative" strategies such as Equity Market Neutral, Fixed Income Arbitrage, and Convertible Arbitrage.

The HFRI FOF: Diversified Index includes fund of funds classified as "diversified." Fund of funds classified as "diversified" exhibit one or more of the following characteristics: invests in a variety of strategies among multiple managers; historical annual return and/or a standard deviation generally similar to the HFRI Fund of Fund Composite index.

The HFRI Fund of Funds Composite Index is an equally weighted performance index broken down into 37 different categories by strategy. There is no required asset-size minimum for fund inclusion in the HFRI and there is no required length of time a fund must be actively trading before inclusion in the HFRI.

The HFRI Fund Weighted Composite Index is a global, equal-weighted index of over 2,000 single-manager funds that report to HFR Database. Constituent funds report monthly net of all fees performance in US Dollar and have a minimum of $50 Million under management or a twelve (12) month track record of active performance. The HFRI Fund Weighted Composite Index does not include Funds of Hedge Funds.

The HFRI Macro Total Index is equally weighted performance index. The HFRI are broken down into four main strategies, each with multiple sub-strategies. This index represents the Macro strategy, which involves investing by making leveraged bets on anticipated price movements of stock markets, interest rates, foreign exchange and physical commodities. Macro managers employ a "top-down" global approach, and may invest in any market using any instrument to participate in expected market movements. These movements may result from forecasted shifts in world economies, political fortunes or global supply and demand for resources, both physical and financial. Exchange-traded and over-the-counter derivatives are often used to magnify these price movements.

The HFRI Macro: Systematic Diversified Index is equally weighted performance index. The HFRI are broken down into four main strategies, each with multiple sub-strategies. The HFRI Macro: Systematic Diversified Index represents the Systematic Diversified sub-strategy, which involves investing by employing mathematical, algorithmic and technical models, with little or no influence of individuals over the portfolio positioning. Managers in these strategies employ an investment process designed to identify opportunities in markets exhibiting trending or momentum characteristics across individual instruments or asset classes. The quantitative aspect of the investment process is focused on identifying statistically robust or technical patterns in the return series of the asset, and typically highly liquid instruments. Systematic managers maintain shorter holding periods than either discretionary or mean reverting approaches. Although some systematic strategies seek to employ counter trend models, the strategy tends to benefit most from an environment characterized by persistent, discernable trending behavior.

The HFRI Relative Value (Total) Index is equally weighted performance index, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. The HFRI are broken down into four main strategies, each with multiple sub-strategies. This index represents the Relative Value Arbitrage strategy, which attempts to take advantage of relative pricing discrepancies between instruments involving equities, debt, options and futures. Managers may use mathematical, fundamental, or technical analysis to determine misvaluations. Securities may be mispriced relative to the underlying security, related securities, groups of securities, or the overall market. Many funds use leverage and seek opportunities globally. Arbitrage strategies include dividend arbitrage, pairs trading, options arbitrage and yield curve trading.

The J.P. Morgan Government Bond Index is the most widely-used measure of performance of leading government bond markets. The indices measure the total, principal, and interest returns in each market and can be reported in 18 different currencies. By including only traded issues, the Index provides a realistic measure of market performance for international investors

The MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. As of June 2007 the MSCI World Index consisted of the following 23 developed market country indices: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

The MSCI EMF Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

The MSCI World Total Return Index uses the same methodology as the MSCI $ World Index but also includes reinvestment of dividends. Net Dividends: This series approximates the minimum possible dividend reinvestment. The dividend is reinvested after deduction of withholding tax, applying the rate to non-resident individuals who do not benefit from double taxation treaties. MSCI uses withholding tax rates applicable to Luxembourg holding companies, as Luxembourg applies the highest rates. The index performance has been translated into the feeder currency using the applicable daily currency exchange rate from Bloomberg.

The Nikkei 225 JPY Index Stock Average is a price-weighted average of 225 top-rated Japanese companies listed in the First Section of the Tokyo Stock Exchange.

Standard and Poor's 500 Index (S&P500) is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

S&P GSCI Total Return Index is a fully-collateralized index, showing total return an investor would receive from S&P GSCI excess return plus T-bill return on the collateral. Its components are updated on a yearly basis and include energy, industrial metals, precious metals, livestock, and agricultural commodities. The S&P GSCI can offer a benchmark for investment performance in the commodity markets.

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