GLOBAL INVESTMENT REPORT

FOURTH QUARTER UPDATE: 2022 SURVEY OF THE TOP 50 HEDGE FUNDS

The past year again revealed the merits of proven independent asset management. As the Russian invasion of Ukraine disrupted access to fuel and commodities, further aggravating inflation and sending interest rates soaring, government bonds lost -13% and the market tanked -18%. The average hedge fund declined by more than -8%. But the various broad-strategy hedge funds that comprise the Top 50 were collectively profitable. They ended 2022 up over 5%. And more than two-thirds of these funds continued their long record of delivering consistent, uncorrelated, positive returns, which had earned them a place on this exclusive list.

by Eric Uhlfelder
28 February 2023

THE TOP 50 SURGES PAST THE MARKET BY 23 PERCENTAGE POINTS IN 2022

Global macro, multistrategy, and volatility arbitrage funds propelled the Top 50 as the market suffered its worst year since the Financial Crisis

My year-end wrap up last year was entitled, *Non-fungible Scotoma*. Translation: investors were seeing only what they wanted to see..

Investors were ignoring a bunch of clouds that were hanging over markets a year ago. The huge fourth quarter rally seemed disconnected from reality. That reality included rising inflation and the likelihood of higher interest rates and slower corporate growth. And investors continued to pour into new virtual investments that had absolutely no intrinsic value. Then there was the massing of Russian troops around Ukraine's borders in the middle of winter and a pandemic.

We all know what happened since. And did you notice there were no crypto ads during this year's Super Bowl?

Some things have changed. But maybe not as much as one might've thought.

A year on, US and European economies appear to have weathered the rapid rise in interest rates. Investors are chomping at the bit to restart a bull rally, encouraged by positive news about consumer spending, unemployment, GDP growth, and the possibility of a Fed pivot later in the year.

But given persistent inflation and greater likelihood of more rate hikes, along with the escalation of the Ukrainian war and tensions with China, is such optimism merited or premature? We'll address this matter later in this report.

TOP PERFORMERS

Financial media and many investors like to focus on hedge funds that outperformed during a challenging year. "We saw this after Covid-19 struck in 2020 and then again in 2022 when interest rates soared and markets sold off," observes Ben Crawford, head of research at BarclayHedge. He thinks this misses an essential point.

He wants to know about funds that were managed well during a crisis and that delivered decent returns in the years leading up to such events. "That's what allocators really want to target and is the focus of this survey," Crawford says.

While not all of the Top 50 hedge fund managers that made last year's list escaped 2022 without getting smacked, the vast majority did because of disciplined portfolio construction and management that's mindful of evolving risk and opportunity. Some good fortune probably helped as well.

The most unexpected results were generated by idiosyncratically-managed hedged equity funds. While the BarclayHedge benchmark average for the strategy broke even, three Top 50 equity long-short funds delivered net returns above 25%. (See all fund returns on pp. 7-16.)

The very consistent New York-based MAK One (ranked 11th) generated gains across the year, having ended 2022 up nearly 28%. That was nearly double the fund's historical annualized returns since its launch nearly two decades ago. The fundamentally driven portfolio manager, Michael Kaufman, got some help from his long book, which was up 5% for the year. But the bulk of his gains were generated from his short positions, which were up a net 23%.

Brook Absolute Return Focus fund (20th), based in London, an offshoot of Crispin Odey's group, gained 26.5% last year. But it was a rough ride.

The London-based global manager took a 14% hit early on when managers James Hanbury and James Grimston completely wrote down their four Russian equity positions. With markets having gone south with the war and sanctions, and rising inflation and interest rates, Brook saw its early 2022 net exposure cut in half from net 90% long to net 50% long by June.

The fund's short book helped staunch the bleeding. But it was an opportunistic outside-the-box move into UK

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TOP 50 HEDGE FUND PERFORMANCE BY STRATEGY VERSUS BENCHMARK STRATEGIES JAN-DEC 2022 *

SURVEY FUNDS			STRATEGY INDEX RETURNS	
15	Hedged Equity	-10.6%	Equity Long/Short	0.1%
			Equity Long-Bias	-13.7%
4	Event Driven	-0.3%	Event Driven	-6.2%
5	Credit Long/Short	3.46%	Credit Long/Short	-6.6%
2	Emerging Market Equity	4.0%	Emerging Market Equity	-14.3%
10	Multistrategy	10.2%	Multistrategy	-3.1%
3	Volatility Arbitrage	9.5%	Volatility Arbitrage	-3.4%
5	Global Macro **	54.3%	Global Macro **	6.7%

* This table tracks 44 of the 50 funds in the survey. There are 6 other funds in the survey that pursue different strategies than those stated above.

** The $1B-plus Haidar Jupiter Fund was up 194% in 2022.

Source: BarclayHedge and proprietary sources

MACRO DATA

Growth[1]	2022	2023 forecast	2023 Δ vs. cons.	2024 forecast	2024 Δ vs. cons.	2025 forecast
US	2.0	0.6	0.3	1.2	0.1	1.5
Euro area	3.3	1.0	1.0	1.1	- 0.1	1.4
Germany	1.7	0.3	0.8	0.7	- 0.7	1.7
France	2.5	0.5	0.4	0.8	- 0.4	1.8
Italy	3.9	0.5	0.5	1.1	- 0.0	0.8
Non-EMU	3.6	- 0.3	0.4	1.0	0.1	1.6
UK	4.1	- 0.5	0.5	0.7	0.1	1.5
Switzerland	2.1	0.8	0.3	1.7	0.0	1.2
Japan	1.2	0.9	- 0.3	1.1	- 0.0	1.0
Asia ex Japan	4.1	5.1	0.6	4.9	- 0.4	4.9
China	3.0	5.7	1.1	5.0	- 0.3	4.7
CEE	1.6	0.2	0.4	3.2	1.1	2.9
Latin America	3.7	0.8	0.0	1.7	- 0.1	2.2
World	**3.3**	**2.4**	**0.4**	**2.9**	**- 0.0**	**3.0**

Inflation[1]	2022	2023 forecast	2023 Δ vs. cons.	2024 forecast	2024 Δ vs. cons.	2025 forecast
US	8.0	4.5	0.7	2.6	0.1	2.0
Euro area	8.4	5.5	- 0.4	2.5	0.1	2.3
Germany	8.6	6.5	0.1	2.7	- 0.2	2.5
France	5.9	4.2	- 0.6	2.4	0.1	2.2
Italy	8.7	6.4	- 0.2	2.4	0.2	0.6
Non-EMU	8.0	5.8	- 0.4	2.0	- 0.7	1.8
UK	9.1	6.5	- 0.7	2.1	- 1.0	1.7
Switzerland	2.9	2.2	0.0	1.2	0.0	1.3
Japan	2.5	2.5	0.6	1.5	0.3	1.3
Asia ex Japan	3.5	3.4	0.3	3.0	1.1	2.9
China	1.9	2.6	0.3	2.4	0.1	2.4
CEE	29.6	17.7	0.3	8.2	- 2.4	6.2
Latin America[2]	7.8	5.2	0.7	3.9	0.5	3.1
World	**7.8**	**5.4**	**0.3**	**3.3**	**0.3**	**2.8**

1) Regional and world aggregates revised to 2020 IME PPP weights

2) Ex. Argentina and Venezuela

Source: Generali Insurance Asset Management

inflation-indexed government bonds along with a fourth quarter rally that sent net long exposure back up to 90% and boosted returns. Its 2022 performance more than doubled its historical annualized returns since its launch at the end of 2015.

Miami-based Citadel Tactical fund (19th), a quantitative equity strategy that's one of the largest in the survey's hedged equity group, generated gains of nearly 26% last year. That was more than 5 percentage points better than the fund's 15-year annualized track record.

Ken Griffin's portfolio managers would not comment on performance. But the firm's chief risk officer and head of portfolio construction and risk group, Joanna Welsh, recently explained to Risk.net the group's perennial success is based on "not taking (sic) beta, not chasing factor themes, but looking for idiosyncratic winners and losers." Going beyond extensive stress testing, Welsh emphasizes the search for smaller business-specific risks that occur with greater frequency. "You start to learn where you have good predictability," she says, "and less good predictability."

Such observations only hint at how Tactical massively outperformed during a very tough year. Perhaps Welsh's most telling observation: "hubris can do a lot of damage . . . we know where we can and can't predict risk and generally know where we should lean in or lean out."

Hubris characterized a few funds that had made the previous Top 50, but were booted out in the 2022 report for having failed to clear the +4.5% performance hurdle in 2021. (See page 4 to learn about the survey's methodology.) Sosin Partners was a top equity performer for many years. But Cliff Sosin's fund delivered net 2021 returns of +3.9% in 2021. It didn't qualify for the 2022 survey, then proceeded to collapse by –77%.

Perennial winner Tiger Global also stumbled in 2021, down –7.4%, also missing last year's cut. In 2022, Chase Coleman's fund tanked –56%.

Jeffrey Talpins' Element Capital, a fixture in the macro space and a regular in the survey, also failed to the make the 2022 survey when it lost -9% in 2021. In 2022, it lost -3.4%, hardly a terrible return by any means. But it was disappointing compared to what other leading macro managers did last year.

According to The *Financial Times*, Talpins is now encouraging redemptions to shrink the fund and enhance returns. For many strategies, this survey has found certain advantages of being smaller. However, it's not all together clear how downsizing a $12 billion fund by several billion can alter the performance of a liquid strategy that trades interest rates, various indices, commodities, and currencies.

Other large venerable funds which didn't make the Top 50 due to inconsistent performance over the past five years through 2021 included Daniel Loeb's Third Point and Lee Ainslie's Maverick. Both funds were down more than -20% last year. These are solid funds and their exclusion from the Top 50 doesn't mean the survey can forecast performance. But it suggests when management struggles to produce consistent returns, that could be an indicator of greater-than-average performance risk.

> "Base rates around 4 or 5 percent for a while could impose a discipline to corporations and investors that has been largely missing over the past two decades.."
>
> **- Tilo Wendorff, Prime Capital**

Another surprise came from the 15th ranked Waha MENA—one of the survey's two emerging market hedged equity funds. That's certainly not a space where one expected to have found absolute returns last year.

With gains of more than +12% in 2022, the Abu-Dhabi-based fund easily topped emerging market returns (-15%) and Middle East/North African (MENA) shares (-6%).

PM Mohamed El Jamel, whose fund has regularly made the Top 50 list, demonstrated especially active management with his net long position having shifted from a peak of 110% in June (which drove first half performance) to 32% in August when shorts significantly contributed to returns. El Jamel pushed net exposure back up to 99% by the end of the year.

The fund continues to profit from the region's expanding investment opportunities beyond energy. Nearly two-thirds of its diversified book are in financials and materials—the former having benefitted from rising interest rates. One quarter of the fund is in consumer discretionary and real estate—the latter having benefitted in the post-Covid boom in the Dubai property market. Qatar's hosting the 2022 World Cup didn't hurt.

A soaring MENA IPO market also helped the fund. EY, the global consultancy, reported a huge jump in regional IPOs in 2022–51 offerings raised $22 billion.

Additional drivers continue to be firms based in countries with substantial sovereign wealth and government spending whose currencies are pegged to the US dollar. This proved particularly positive last year as the dollar soared.

Investments in the region were also supported by sanctions blocking capital flows into Russia. This drove more indexed and investment capital into MENA. At the same time, investors sought refuge in oil--and the region--as a hedge against rising inflation.

A long-term top performer that soared last year was Said Haidar's global macro fund--a perennial member of the Top 50. New York-based Haidar Jupiter, last year's third-ranked fund, rose 194% in 2022. It was the only fund within the survey's top 7 that made money in 2022. It widely outperformed the rest of the Top 50 and its own historical annualized returns of 20% since its launch in 1999.

The fund declined to comment. But investor documents, reported by Bloomberg, confirmed the fund had bet on protracted central bank interest rate tightening in the US, UK, and other G7 economies and juiced returns with lots of leverage.

Haidar outperformed other macro managers by not having pivoted away from this exposure as some did in the middle of 2022. He sensed inflation was much sticker than most believed and that central banks would need to be especially aggressive to counter inflation.

Suggesting how the fund might respond to a pivoting Fed, Haidar recently wrote to clients: "there are increasing signs that growth in the rest of the world is starting to stabilize just as US economic data is deteriorating. This growth divergence likely bodes poorly for the US Dollar and favorably for outperformance of Treasuries relative to European government bonds."

STRATEGY FINDINGS

The Top 50 is largely comprised of 7 strategies (see tables on p. ii and p. 4). Except for hedged equities, the other 6 strategies outpaced their respective index performance as reported by BarclayHedge.

Despite a dynamic last three months to the year, the Top 50 funds saw only moderate changes in performance.

Losses of the 15 hedged equity funds did ease during that time, with average returns having improved from -15.6% to –10.6%. But these losses were offset by 10 multistrategy funds that ended the year up 10.2%, a 2.5% improvement over the third quarter. Three volatility arbitrage funds added a collective 1.5% in the fourth quarter, having delivered 9.5% in 2022. And five global macro funds, which had been up 70.5% as of the end of September, lost quite a bit of steam. But they still ended the year up more than 54%. All told, the Top 50 gained 5.7% in 2022.

However, there was wide performance dispersion across the underlying funds. In the equity space, one basic truth was again borne out: managers who had been delivering outsize returns often get hit the worst when markets turn. This is the survey's *Achilles Heel*.

Hedged equity fund performance ranged from +28% to -47%. Their average return (-10.6%) was a bit better than the BarclayHedge Equity Long-Bias average (-13.7%). But it was much worse than the Equity Long-Short Index, which broke slightly positive.

The poorest equity returns were delivered by Skye Global (-47.4%), North Peak Capital (-43.2%), Old Kings Capital (-35.2%), and Legion Partners (-35.0%). These funds had produced strong annualized returns going into the bear market. But three out of the four had experienced substantial intrayear drawdowns prior to 2022. Skye Global, which was launched in mid 2016, had not seen prolonged serious losses before last year.

As mentioned, MAK One and Citadel Tactical were the top performing equity funds, joined by Anson Investments (+7.6%) and Schonfeld Fundamental Equity (+3.2%).

The ten multistrategy managers also revealed extremely wide return dispersion. Citadel Wellington was up more than +38% (having added 10% in the 4th quarter) while Aristeia Partners eked out a 1% gain—basically flat in Q4. But the average return of the survey's multistrategy funds was a healthy 10%, 13 percentage points better than the BarclayHedge strategy average.

Contributing to these gains were D.E. Shaw (+24.7%) and Millennium (+12.4%). Both were up a bit in the fourth quarter.

In having declined a whopping 80 percentage points during the last three months of the year, Haidar-Jupiter still ended the year up 194%. While management's reliance on highly leveraged concentrated investments has helped the fund deliver consistent performance over the past two decades, it remains the fund's largest risk.

Macro fund John Street Capital also gave back some of its gains during the fourth quarter, ending the year up nearly 27%, doubling its historical annualized returns since its launch a decade ago.

These two funds helped the five macro managers in the survey generate 54% returns, lightyears past the BarclayHedge Global Macro Index's respectable returns of 6.7%.

Some noteworthy returns outside of these 3 main strategies are in the debt and credit space. Four such funds that appeared vulnerable to rising interest rates and related stresses held their ground.

Whitehaven's Credit Opportunities, which uniquely relies on fixed-income relative trades of municipal debt, gained nearly +5%. The frontier market Enko Africa Debt, the most unexpected fund in the survey, rallied back from mid-year losses of –23% and ended 2022 up +1%. Opportunistic junk debt specialists Millstreet Capital gained +4% and Arena Special Opportunities lost -1.6%

The big question facing all funds that have been on a tear during such a challenging year is whether they'll be able to adjust their books when monetary and other key risk factors change. It wasn't long ago when we saw managers that thrived during the pandemic then fail to rotate their investments as economies reopened and consumer habits changed.

OUTLOOK

Interviews with several leading global allocations show inflation, interest rates, and geopolitical risks remain key issues going forward. We'll address the first two points and then turn to the war. The market has learned to live with this risk, even as Russia revives the specter of Stalingrad 1943 in Ukraine. But such passivity could change if the war intensifies and China decides to supply the Russian war machine.

During the second half of 2022, some financial experts greatly feared the impact of hyperactive central banks, mindful of what had happened many decades ago when we experienced aggressive monetary tightening. Enhancing risk: economies today are far more interconnected and leveraged than they were four decades ago. Maybe it's too early to know if we've escaped forecasted disruption.

"US and Europe have so far weathered sharply rising interest rates without staving off growth," observes Thomas Hempell, head of macro and market research at the €585 billion Generali Insurance Asset Management. "Markets no longer seem too worried that we could see a repeat of what happened in the 1980s when we last experienced a sharp rise in rates."

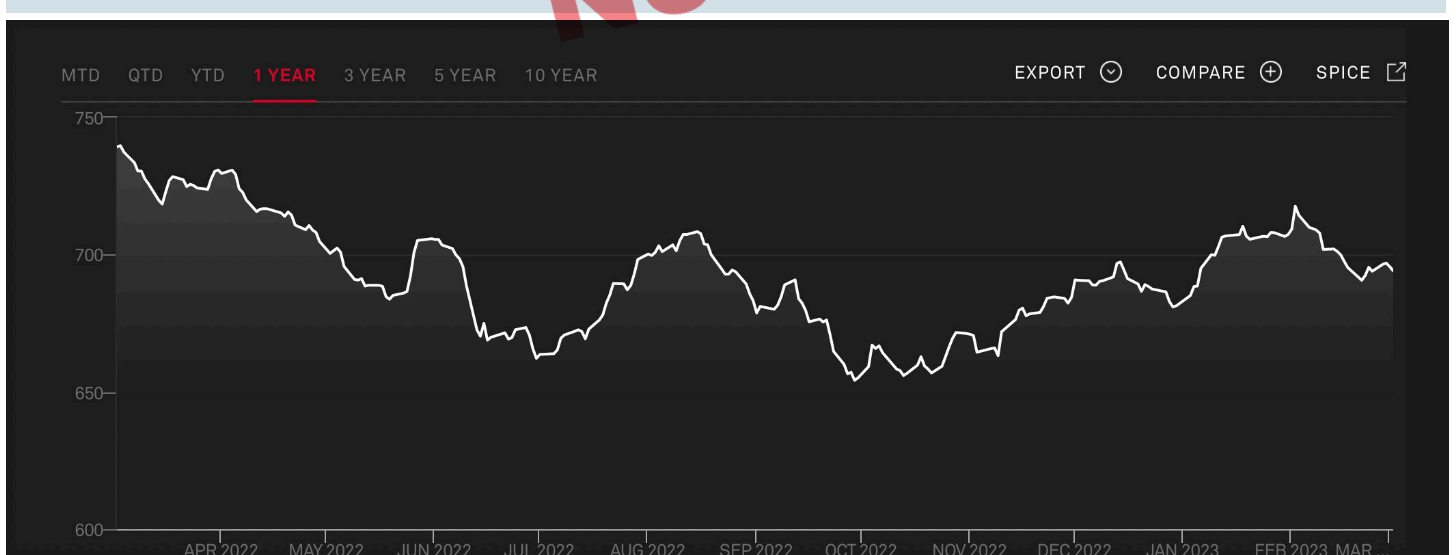
But he explains inflation is not a temporary phenomenon, but one that has been building over years. "Externalities like the pandemic, supply chains, and the war exaggerated the sharp price rise," says Hempell, "but the core issues remain."

"Markets are too euphoric given where we are in the economic cycle," cautions Cedric Dingens, head of alternatives at the CHF10.5 billion Swiss-based NS Partners. He notes that volatility, which had been largely bouncing between 20 to 30 since 2020, declined during the first six weeks of 2023. Dingens believes it's a good time to take profits and plans on continuing his low net exposure.

Optimism that fueled the early 2023 rally was rooted in decades of success buying into selloffs and discounting bearish concerns—even ignoring fundamental shifts in the economy.

In noting this trend, economist Neil Ditta of Renaissance Macro Research, admits "the negative case always sounds a little bit more intellectual, and

S&P US HIGH-YIELD CORPORATE BOND INDEX



Source: S&P Dow Jones Indices

"With Putin's fate tied to taking over Ukraine, there's material risk the war could turn significantly hotter."

- Thomas Hempell, Generali

FOURTH QUARTER UPDATE: 2022 SURVEY OF THE TOP 50 HEDGE FUNDS

people give it a little bit more attention." That doesn't mean Dutta is an untethered bull. He doesn't think the Fed is going to cut rates any time soon because there's simply "too much economic momentum behind the U.S. economy."

While that thought may disappoint investors hoping to cash in on surging equities driven by an eventual Fed pivot, such news is hardly bad.

Some observers look benignly at higher interest rates. Tilo Wendorff, managing director of absolute return strategies at the €11 billion Frankfurt-based Prime Capital, believes, "seeing base rates around 4 or 5 percent for a while could impose a discipline to corporations and investors that has been largely missing over the past two decades." He feels maintaining such rates would help central banks "reclaim their credibility while at the same time leaving them a substantial cushion they can call on when the need to stimulate economies returns."

But Wendorff is concerned that segments of the markets are not recognizing the increasing cost of financing. "The high-yield bond market is not showing as much fear as one might surmise given the rate hikes we've seen. I think we could see that spread rise as the impact of higher rates is felt."

> "Markets are fairly priced and will be range bound due to continued volatility as investors contend with uncertain inflation and central bank behavior."
>
> - Lionel Erdely, Investcorp-Tages

Lionel Erdely, co-CEO and CIO of the global alternative investment manager Investcorp-Tages, doesn't expect to see a dramatic rise in defaults and thinks the threat of runaway inflation has receded. But he says the current earnings environment remains less predictable. "I think markets are fairly priced and will be range bound due to continued volatility as investors contend with uncertain inflation and central bank behavior." Erdely believes volatility will provide opportunity for funds that know how to monetize it.

Even more cautious is Karen Karniol-Tambour, co-chief investment officer for sustainability at Bridgewater Associates. She told The *Financial Times*, "We think we are moving to an environment where inflation will be more volatile, more entrenched." She believes that will demand tighter monetary policy for a longer period, even despite the damage it may inflict on the real economy and jobs. "The market has had a couple of months of saying 'maybe we're back to being back to normal, don't worry about it," she quips. But she doesn't believe it.

There's a chance bullish equity sentiment could actually push rates higher beyond current expectations. Instead of fearing recession, Edward Yardeni, a global investment strategist, thinks a "rally implies investors believe the federal funds rate is close to its terminal rate and that the Fed might succeed in bringing inflation down without causing a recession."

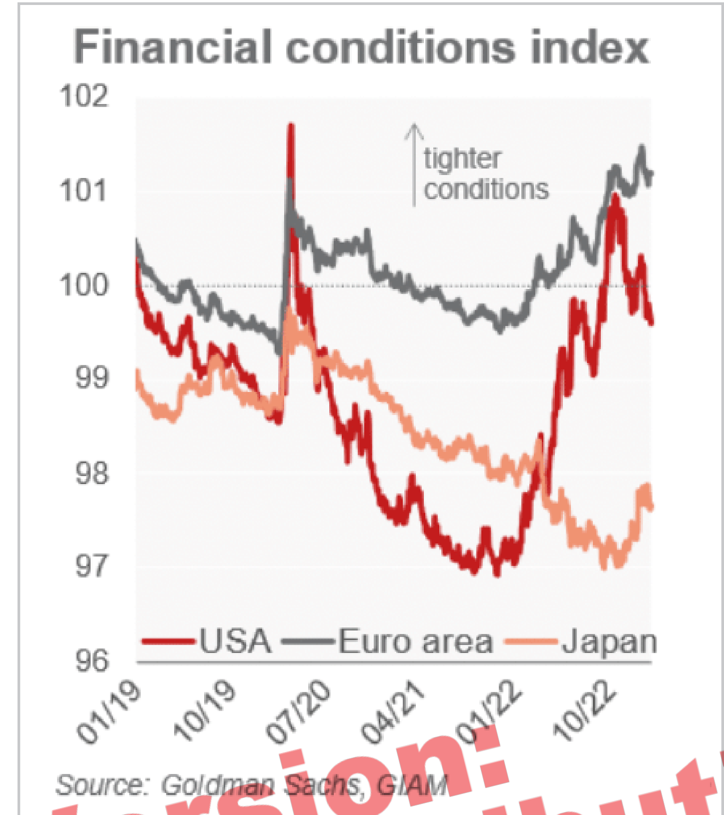
But he surmises the opposite may occur. He cites concerns of Federal Reserve Bank of New York President John Williams: "Looser financial conditions . . . might imply a higher interest rate to make sure that we're getting to the goals that we're trying to achieve."

So how do leading allocators manage their exposure during a time that may be near an inflection point or not?

One thing has changed. With the era of cheap money behind us for quite some time to come, attractive risk-free and high-grade corporate rates are forcing alternative investments to be more compelling to justify their higher risks and fees. Investors and allocators may be less tolerant of underperformance.

Generali's Thomas Hempell thinks, "elevated valuations and persistent headwinds to earnings keep us favouring a prudent stance on risk assets amid mounting signs of exuberance, especially as Euro area investment-grade credit still looks attractive."

There's consensus that



global macro and multistrategy remain the strategies *du jour*. Believing we haven't yet experienced the full brunt of rising interest rates, Lionel Erdely sees opportunity trading volatile bond and stock indices, commodities, and foreign exchange.

NS Partners' Dingens agrees, remaining constructive on global macro and the all-weather features of proven multistrategy managers.

In the firm's flagship $1 billion fund PCAM, Prime Capital's Wendorff maintains his heavy weighting in multistrategy (70%) along with 11% in macro and CTAs.

PCAM also sustains a 19% exposure in distressed credit. "We may see more shorting opportunities as higher rates cycle through economies and markets," says Wendorff, "introducing more distress and defaults perhaps in the second half of the year or in 2024."

Agreeing with Wendorff about the pace of the distressed cycle, Erdely and Dingens aren't quite ready to materially move into this space. "There's not yet enough reward for the potential risk out there," posits Erdely. Dingens agrees: "We haven't yet seen the impact of rising interest rates, and I don't believe junk credit spreads have registered grave concern."

With growing dislocation, Erdely sees opportunities in specific areas of structured credit. But wary of the impact of rising interest rates, he's avoiding exposure to significant leverage. "We don't think defaults will become a systemic problem," posits Erdely, "but there's plenty of leverage out there and it's best to avoid being a forced seller."

He also believes there are opportunities in convertible bond arbitrage and special situations, including merger arbitrage as companies consider attractive firms that may struggle with higher financing costs.

Whether interest rates peak this year or next, Dingens thinks when rates do turn, emerging market credits will again be compelling as global growth restarts.

As for the impact of geopolitical concerns, many allocators agree markets have acclimated to the war. Wendorff echoes a prevailing sentiment: "Our managers are not really concerned about the impact of the war on their portfolios. Europe, with a mild winter, has adjusted to the energy crisis rather well and food supplies don't seem to be an issue."

While Taiwan remains a hot issue, Wendorff thinks the reversal of China's zero-Covid policy suggests the country is emphasizing the importance of global trade over conflict.

With no compromise in sight and Putin's fate tied to taking over Ukraine, Generali's Hempell believes there's material risk the war could turn significantly hotter. This includes the possibility of Russia resorting to stealth attacks on European energy infrastructure. "Such an escalation," he cautions, "would quickly send uncertainty and volatility rising."

Supportive of Ukraine, Hempell is concerned about the longer-term consequences spreading across Europe triggered by the secular shift in greater military spending to meet the crisis and increasing security risks. "This rising cost," he explains, "is coming at the expense of infrastructure, education, green energy, and other critical spending." When added on top of pandemic-related expenditures, Hempell thinks rising military budgets could further strain European public debt and potentially increase the cost of financing as economies struggle with the risk of recession. ▪

GLOBAL INVESTMENT REPORT

2022 SURVEY OF THE TOP 50 HEDGE FUNDS: THIRD QUARTER UPDATE

An extremely volatile third quarter dashed mid-year hopes that the worst of the sell-off was over. Aggressive central banks trying to hammer persistent inflation made sure of that, which helped send the market down nearly 24% for the year through September. Making global matters worse, Russia intensified its war against Ukraine, shelling critical infrastructure as winter sets in. And Moscow is again threatening to shut down delivery of grain to starving third-world nations. All of this is raising geopolitical uncertainty that's further fueling a global energy crisis and recession fears in Europe that most observers believe will jump the Atlantic to the US next year. And growing liquidity concerns threaten to turn this troublesome brew toxic. All this makes the Top 50 hedge funds' performance even more noteworthy. The group was up nearly 4.5% through September, outpacing the market by 28 percentage points.

by Eric Uhlfelder
20 November 2022

THE TOP 50'S REMARKABLE OUTPERFORMANCE

Multistrategy, volatility arbitrage, and global macro funds again propel the Top 50 further into the black as the market selloff deepens.

Earlier this month the *Financial Times'* Lawrence Fletcher gave us a rare glimpse at a recent Elliott Management investor letter. The venerable hedge fund manager warned economies and markets were likely to get much worse before turning around. The clear message: it's different this time.

Paul Singer's $56 billion hedge fund team believes an "extraordinary" set of financial extremes that have come as the era of cheap money draws to a close is making "possible a set of outcomes that would be at or beyond the boundaries of the entire post-WWII period."

The asset manager says, according to Fletcher, that markets could correct by as much 50%, accelerated by hyperinflation and "losses on bridge financing and potential markdowns of collateralized loan obligations and leveraged private equity."

Bill Winters, CEO of Standard Chartered Bank, which manages over $800 billion globally, feels a bit more sanguine. "It's appropriate to be cautious right now," he explains, "but the gloom, arguably, is overdone."

Then in mid-November, US October inflation numbers came in well below expectations. They were coupled with continued job and retail sales growth and confirmation that the economy did grow in the third quarter, with initial estimates at a not too shabby 2.6%.

These few data points sparked a new round of optimism where some analysts cautiously walked out the prospect that we may finally be getting close to the hump.

All this gives credence to John Kenneth Galbraith's quip: "The only function of economic forecasting is to make astrology look respectable."

What to think?

Economist Desmond Lachman, a senior fellow at the American Enterprise Institute, puts things plainly: "The Fed is making the exact same mistake it made leading up to the crisis—except now in reverse." Lachman fears the rapid draining of liquidity out of the economy through multiple large rate hikes and quantitative tightening is shocking markets in precisely the same but opposite way extreme rate cuts and massive quantitative easing supercharged them. He fears the result may not only cause significant capital destruction but rising uncertainty that will check investment and growth, which in turn could fuel a cycle of business failures and worse.

Year to date through the third quarter, the market had lost nearly one quarter of its value. Bloomberg reported equity and bond losses amounted to $36 trillion.

However, hedge funds did quite a bit better, according to BarclayHedge. Its broad index of funds lost less than -11.4%. And its benchmark equity long/short index was down just a bit over 3% during the first nine months of the year.

But Global Investment Report's diverse group of Top 50 funds--based on the strongest trailing five-year annualized returns through 2021 of broad strategy funds running at least $300 million (that also delivered annual absolute returns since the end of 2017)—generated collective net gains of 4.5%. That topped the S&P 500 by 28 percentage points, a spread that widened 7 percentage points since the end of June. **(See performance tables on pp. 7-16.)**

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RETURNS

Ben Crawford, Head of Research at BarclayHedge, says, "these returns stand out not just in contrast with the average hedge fund performance, but also against returns of the average fund of hedge funds--a more precise comp--which was down -8.2% over the first three quarters of the 2022."

Even more telling, observed Crawford, is the survey continues, "to show symmetry between

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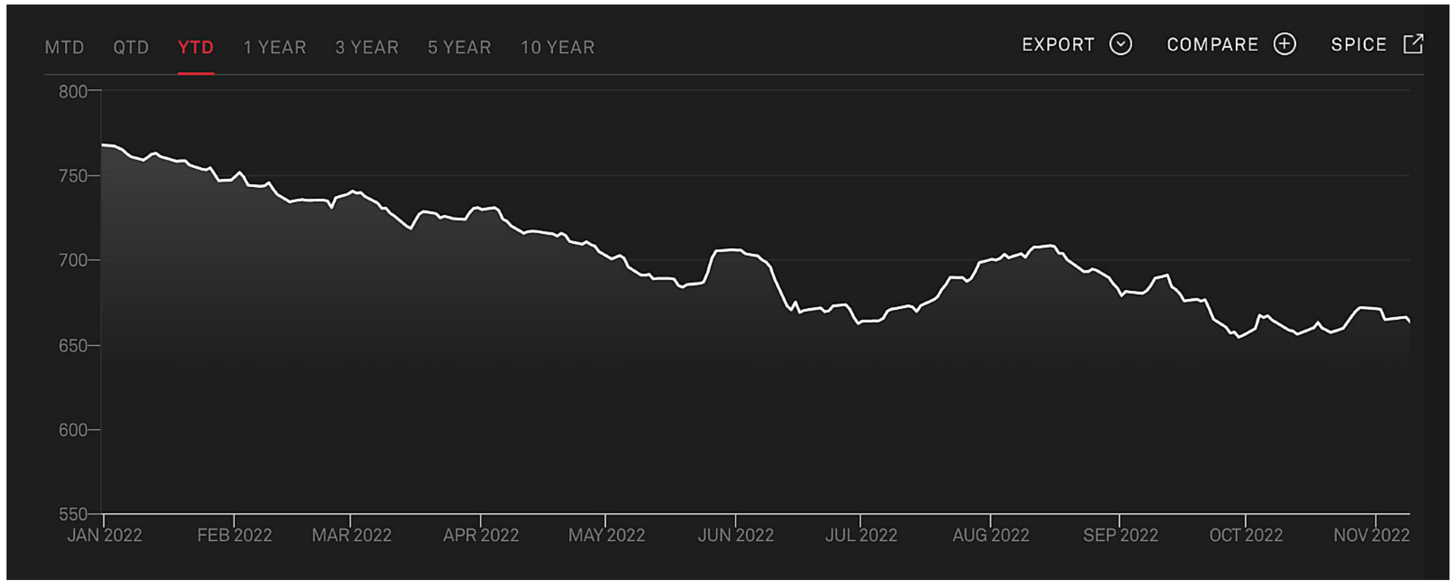
** The multi-billion-dollar Haidar Jupiter Fund was up 274% during the first 3 quarters of 2022.

Source: BarclayHedge and proprietary sources

2022 SURVEY OF THE TOP 50 HEDGE FUNDS: THIRD QUARTER UPDATE

S&P US HIGH-YIELD CORPORATE BOND INDEX: JANUARY – NOVEMBER 2022



Source: S&P Global

consistent returns and the ability to control downside exposure." Specifically, funds that have been delivering steady long-term gains year over year have weathered the selloff much better than funds that had been generating stronger and more volatile returns. "These observations evolved from the way in which the Top 50 funds were objectively selected," concluded Crawford. (See Methodology on p. 4.)

The Top 50 is largely comprised of 7 strategies. (See table on p. ii.) Except for hedged equities, the other 6 strategies outpaced their respective index performance, as reported by BarclayHedge.

Only a few of the Top 50 funds saw substantial changes in performance from the end of the second quarter through the third quarter.

Collective losses of the 15 hedged equity funds saw little change over the quarter, down -15.6%. These declines were offset by 10 multistrategy funds that gained an average of 7.7% and 3 volatility arbitrage funds that returned 8.0%--returns that were in line with their first-half performance. The 5 global macro funds, which soared an average of 70.5%, experienced the most significant change of all strategies during the quarter. All told through September, the Top 50 gained 4.5%.

However, diversity of strategies and management styles accounted for a wide performance range of the underlying funds. Hedged equity funds saw returns that ranged from +21% to -44%. Their average return (-16%) was just slightly better than the Barclay-Hedge Equity Long Bias average.

But it was much worse than the database's Equity Long/ Short Index, which lost -3.1%. The poorest equity performers were North Peak Capital (-43.8%), followed by Old Kings Capital (-40.1%), Legion Partners (-39.7%), and Skye Global (-39.6%). These funds had delivered strong annualized returns going into the bear market.

The best-performing hedged equity funds year-to-date through September were Citadel Tactical (+21.3%) and MAK One (+14.3%), which are actually tracking their historical full-year annualized returns. Schonfeld Fundamental Equity (+3.2%) so far has underperformed its long-term returns by six percentage points.

Through three quarters of the year, two well-known multistrategy managers, Citadel Wellington (+28.7%) and D.E. Shaw (+20.6%), are both significantly outpacing their long-term returns. They've helped the group surge past the Barclay-Hedge Multistrategy index by nearly 13 percentage points.

The Top 50's global macro funds received a seismic boost from Haidar-Jupiter, which soared 274% through the first three-quarters of 2022. In a recent investor letter, according to Bloomberg, the fund profited strongly from "leveraged rates trading as central banks abandon years of easing and started raising interest rates to contain spiraling inflation. Manager Said Haidar predicts risk assets will remain under pressure as investors readjust their expectations to be more in line with central bank guidance, and monetary policy tightening continues to drain liquidity from markets."

Macro fund John Street Capital climbed nearly 36%, tripling its historical annual returns. These two funds helped the 5 macro managers in the survey to generate returns light-years past the Barclay-Hedge Global Macro index, which enjoyed respectable returns of 5.8%.

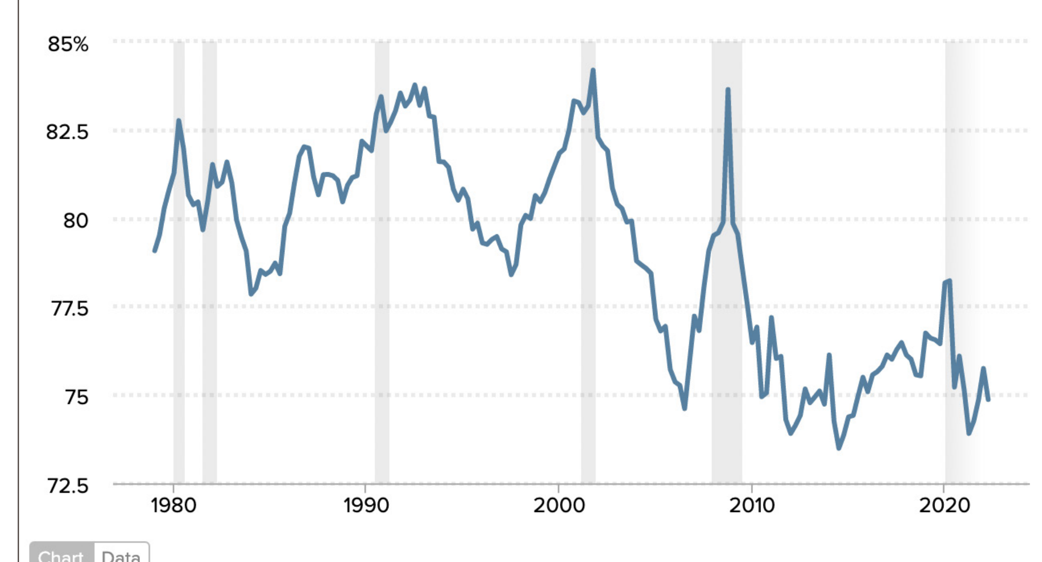
The big question facing all funds that have been on a tear during such a challenging year is whether they'll be able to adjust their investments when monetary and other key risk factors change. We recently witnessed managers who thrived during the initial shock of the pandemic fail to rotate their portfolios as economies reopened and consumer habits changed.

Some noteworthy returns outside of these 3 strategies include Whitehaven's Credit Opportunities, which relies on fixed-income relative trades of municipal debt. So far it has weathered rising interest rates with year-to-date returns through September of +2%.

Three managers that appeared to be vulnerable to rising interest rates and related stress also did quite well. Opportunistic junk debt specialists Millstreet Capital gained 4% and Arena Special Opportunities was minimally in the black. Emerging markets equity manager Waha MENA surged in the third quarter with year-to-date returns up by more than 12%, while the average emerging market hedge fund had lost more than -17%.

On the downside, merger specialist Ramius declined -13.2%. And concerns this report initially expressed about how a rising interest rate cycle may hit the intriguing Enko Africa Debt fund have materialized. The fund declined -19.2% during the first nine months of the year—a

Share of corporate-sector income received by workers over recent business cycles, 1979–2022



Notes: Shaded areas denote recessions. Federal Reserve banks' corporate profits were netted out in the calculation of labor share.

Source: EPI analysis of Bureau of Economic Analysis *National Income and Product Accounts* (Tables 1.14 and 6.16D)

Economic Policy Institute

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slight improvement over its mid-year loss.

MACRO ENVIRONMENT

Despite consensus that recession is coming, Patrick Ghali, managing partner at the alternative investment consultancy Sussex Partners, doesn't believe markets have yet priced that into valuations. He points to junk bonds, whose first-half collapse has stabilized (see table on p. iii).

After registering record profits, the head of one of the world's largest container shipping firms, AP Moller-Maersk, says forward-looking conditions look poor. That's disconcerting given shipping activity is a bellwether of future trade and a likely reflection of business and consumer confidence. CEO Soren Skou sees, "every indicator we are looking at is flashing dark red."

US corporate earnings, meanwhile, remain upbeat. Howard Silverblatt, senior index analyst at S&P Dow Jones Indices, found with more than four-fifths of the S&P 500 companies having reported third-quarter earnings, nearly 70% beat the street's estimated earnings. This number is slightly below those reported over the past dozen quarters. But it's within the range of earnings beat over the past decade. So it's unclear whether this number portends worsening corporate health.

Then there's the fear of spiraling wage growth. In a recent report, the IMF believes the risks on this front are limited due to several factors: It cites temporary "underlying shocks to inflation coming from outside the labor market, falling real wages are reducing price pressures, and central banks are aggressively tightening monetary policy."

Looking historically at wages as a percent of corporate income also mitigates this concern. (See table on p. iv.)

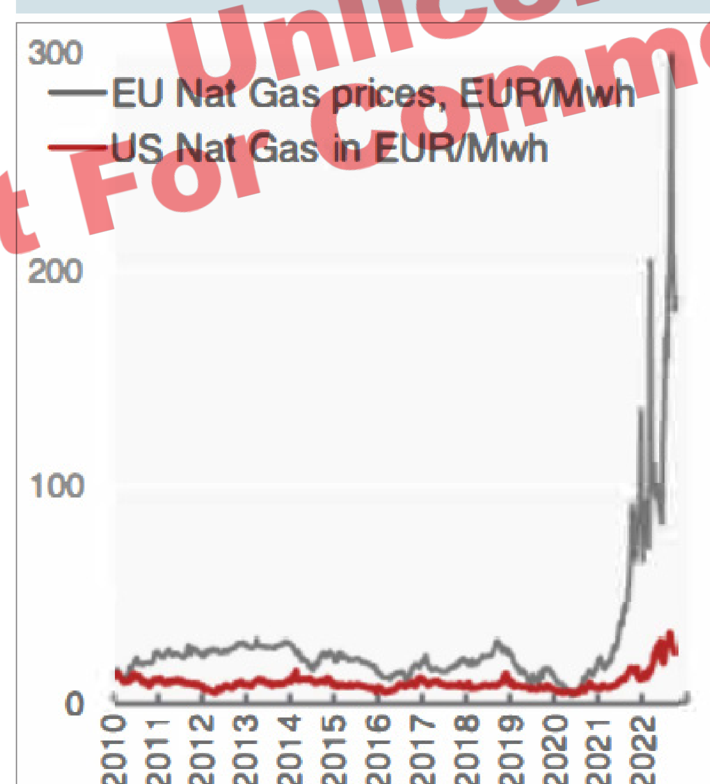
But Dan Zwirn, manager of Arena Special Opportunities fund (No. 41) sees a more systemic problem, which dates back to 2012 when the Fed embarked on a second round of quantitative easing as economic growth stumbled after escaping the Great Recession.

"You want to use QE in an emergency," explains Zwirn. "You don't want to get used to it." And that's what happened, again, after the initial shock of the pandemic had passed. This led to tremendous asset bubbles and systematic mispricing of risk, layering "an enormous debt on the economy that we would effectively have to pay," observes Zwirn. That bill came due in the form of runaway inflation, and to Zwirn, there are no other tools left to use than drastic interest rate increases and the trauma that comes with them.

Former portfolio manager and alternative investment advisor to several Swiss banks, Robert Khoury, cautions the rapidity of sharp central bank rate increases ignores the reality that each rate increase requires six to nine months to reveal its economic impact.

"This is one reason why central banks consistently cause recessions when trying to fight inflation," Khoury explains. "And in the current environment, there are externalities that rising rates can't touch. This includes China's protracted COVID lockdown and the Russian invasion of Ukraine, the latter causing energy prices to soar. (See chart on p. v.) Khoury fears the consequences of relentless monetary tightening, "will likely be dire, impacting liquidity and the health of financial systems."

NAT. GAS PRICES, EU vs US



Source: Bloomberg, GIAM calculations

Macro Data

Growth	2021	2022 forecast	2022 Δ vs. cons.	2023 forecast	2023 Δ vs. cons.	2024 forecast
US	5.7	1.6	- 0.1	0.4	- 0.3	1.4
Euro area	5.2	3.0	0.2	- 0.3	- 1.2	1.2
Germany	2.6	1.3	- 0.2	- 1.5	- 2.2	1.5
France	6.8	2.5	0.1	- 0.1	- 1.3	1.5
Italy	6.6	3.2	0.2	- 0.2	- 1.3	1.3
Non-EMU	6.5	3.2	0.1	0.5	- 0.0	1.6
UK	7.4	3.5	0.1	0.0	- 0.1	1.5
Switzerland	4.2	2.5	0.0	1.5	0.3	1.8
Japan	1.7	1.2	- 0.2	1.4	- 0.2	0.8
Asia ex Japan	7.8	3.9	- 0.7	4.9	- 0.2	5.1
China	8.1	2.7	- 1.0	5.2	- 0.2	4.8
CEE	6.8	1.1	1.9	1.3	1.1	3.5
Latin America	6.4	2.5	0.0	1.2	0.0	2.2
World	**6.4**	**2.9**	**- 0.1**	**2.3**	**- 0.2**	**3.1**

Inflation	2021	2022 forecast	2022 Δ vs. cons.	2023 forecast	2023 Δ vs. cons.	2024 forecast
US	4.7	7.8	- 0.3	3.9	0.1	3.1
Euro area	2.6	8.2	0.4	5.0	0.9	2.6
Germany	3.2	9.0	1.5	6.5	2.3	1.9
France	2.1	6.7	1.2	4.0	0.8	1.8
Italy	2.0	7.6	0.6	4.2	1.1	0.6
Non-EMU	2.3	7.8	0.3	5.7	1.0	2.2
UK	2.6	9.1	0.5	7.0	1.4	2.5
Switzerland	0.6	2.7	- 0.0	1.8	0.2	1.2
Japan	- 0.3	2.5	0.5	2.1	0.7	0.9
Asia ex Japan	2.0	3.8	0.1	3.5	0.3	2.6
China	0.9	2.4	0.0	2.7	0.2	2.0
CEE	9.3	29.5	0.2	16.8	1.8	8.0
Latin America	6.6	8.2	1.1	4.9	0.7	3.3
World	**3.5**	**7.8**	**0.2**	**5.0**	**0.5**	**3.1**

Source: Generali Investments October 2022

While bank leverage has been materially reined in since the financial crisis, Khoury still thinks it's an issue as financial stress rises. And he believes institutions like Credit-Suisse, Deutsche Bank, and BNP Paribas are especially vulnerable. He posits the European Central Bank will likely need to guarantee the health of certain banks to avoid larger shocks.

Economist Desmond Lachman agrees with Khoury. He believes the Fed is too focused on reclaiming its credibility and not modulating its actions in the most effective way. "It risks breaking a whole bunch of things," says Lachman, since other major central banks will be forced to move in relative lockstep to keep their global businesses competitive.

After years of gross credit misallocation and record debt levels, Lachman fears the net result of sharp and rapid interest rate hikes will likely cure inflation, but at a cost of having created a wave of bankruptcies, credit market stress, emerging market debt defaults, a sharp rise in unemployment, and global financial instability.

OUTLOOK

Despite recent positive news about US inflation, employment, and growth, most observers think we're still in for more challenging times.

Graham Capital Management's Ken Tropin was spot on when, in last quarter's review, he discounted the mid-summer rally and expected stocks to again fall. While the S&P has rebounded in October, he believes the market will remain volatile, with a chance of revisiting previous lows.

This call is largely fueled by Tropin's belief that inflation will likely remain stubbornly high. While he expects it to start retreating, he believes reaching Fed target rates is still a couple years off. This means the Fed will continue to tighten and the dollar is likely to sustain its strength.

However, with UK and European inflation running red hot, their respective central banks may be forced to drive up interest rates faster than planned around the same time the

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Fed may be slowing its pace of monetary tightening. This could cause Sterling and the Euro to rally.

Fearing the rapid ascent in interest rates, Desmond Lachman thinks the Fed should be dialing back its pace and size of hikes to provide time to see what their impact on the economy will be. He notes mortgage rates have more than doubled since the start of the year to around 7 percent at present, which has sent the US housing market into recession.

Having caused the equity and bond price bubbles to burst and having sent the dollar to a 24-year high through aggressive monetary policy, he urges the Fed to be more mindful of the impact its actions are having across global financial markets. "At the very least," Lachman says, "the Fed should be slowing down quantitative tightening, which is currently withdrawing liquidity at a rate of $95 billion a month. "Failure to do this is inviting a major financial market crisis both at home and abroad."

More hawkish than Lachman, Arena's Dan Zwirn thinks higher rates are essential. But he does agree that risks related to this shift still haven't been factored into economic forecasts. He believes, "debt loss recognition" is largely being masked by refinancing. But he predicts, "a maturity wall will soon be hit when leveraged loans and distressed bonds come due, but refinancing isn't available for increasingly troubled companies."

Arena is addressing this growing risk several ways. A rising number of counterparties with which Arena can transact is putting the firm in a strong negotiating position. Zwirn is requiring "tremendous margins of safety, as senior as possible, with as little duration as we can get, with as much compensation and control we can bargain for."

Arena protected itself earlier in the year against interest rates moving much higher than most thought would happen, which has paid off. And it has rotated realized gains into Put options.

It's investing in private convertibles and positions "that are intrinsically disconnected from the overall economy," explains Zwirn, "such as litigation finance, pharmaceutical or musical royalties, and insurance-related investments."

Alternative investment advisor Khoury urges allocators to favor managers that have reduced leverage and net exposure, targeting macro, trend-following, and market neutral strategies.

While he believes a time will come to turn to distressed and relative value strategies, we're not there yet. With the current Fed overnight rate under 4%, he thinks it will continue to rise and top out early next year between 4.5% and 5%. When that happens, he thinks default rates will have peaked, offering distressed investors better opportunities. And as the bond market stabilizes along with rates, then there will be more reliable fixed-income relative value opportunities.

Cedric Dingens, head of alternatives at NS Partners with CHF10.5 billion under management, thinks US rates are likely heading even higher, peaking toward 6% by June 2023. "The Fed is desperate to reclaim its credibility after infusing too much liquidity into markets for too long," explains Dingens. And he thinks this is leading to the Fed's bifurcated reality: "It's our currency, it's your problem." This is forcing coordination of central bank moves across developed markets and leaving emerging markets in trouble.

Dingens favors global macro strategies that continue to benefit from high volatility across many asset classes, while collecting 4% yields on unencumbered cash. He's also positive about leading multistrategy funds that continue to deliver positive risk-adjusted returns.

With inflation being more accurately reflected in their valuations, the allocator also thinks TIPS look promising going forward.

What he's not so certain about is hedged equity, which has failed to generate much alpha in 2022 after a so-so 2021. He says one reason is that shorting has been challenging. Because of the cyclicality of alpha, he's hoping it may return in 2023.

All this said, Dingens commitment to alternatives remains strong. The key reason: the lack of visibility. "This is a problem that seems to be getting worse," explains Dingens, "as uncertainty remains high with exogenous shocks seemingly now a regular occurrence."

> "The Fed is making the exact same mistake it made leading up to the crisis—except now in reverse."
>
> **- Desmond Lachman**
> **American Enterprise Institute**

This leads us back to the war.

Economic historian Niall Ferguson explains, "Wars have played a very noticeable role in the history of inflation expectations." He adds, "major breaks in the downward trends in interest rates were nearly all associated with wars, particularly those that destroyed capital stock and generated monetary financing of debt."

Ferguson fears growing economic and geopolitical instability if the war escalates without signs of a decisive winner or a serious pitch towards negotiations.

New York Times columnist Thomas Friedman echoes this sentiment, reminding us what the last three decades have brought. "We have connected so many people, places and markets and then removed so many of the old buffers that insulated us from one another's excesses and replaced them with grease — that instability in one node can now go really far, really wide, really fast." That is why, he argues, the Russian attack on Ukraine is a World War.

Ukraine's retaking of Kherson is just the latest part of a remarkable counteroffensive. It's emblematic of economy and markets--that recovery comes in steps--never a straight line and always with more challenges than one can anticipate. And even when the end appears near, it can easily drift further away, and morph into something that wasn't expected. ▪

Financial Markets

Key Rates	Current*	3M Forecast	3M Forward	6M Forecast	6M Forward	12M Forecast	12M Forward
US	3.25	4.50	4.23	4.50	4.55	4.25	4.38
Euro area	0.75	2.00	2.02	2.50	2.72	2.50	3.09
Japan	-0.10	-0.10	-0.00	-0.10	0.04	0.00	0.15
UK	2.25	3.25	4.79	3.50	5.85	3.50	5.95
Switzerland	0.50	1.00	1.24	1.50	1.72	1.50	1.81
10-Year Gvt Bonds							
US Treasuries	3.85	3.90	3.90	3.85	3.89	3.70	3.89
Germany (Bunds)	2.16	2.30	2.19	2.30	2.21	2.25	2.21
Italy	4.50	4.75	4.66	4.85	4.71	4.95	4.78
Spread vs Bunds	*234*	*245*	*247*	*255*	*250*	*270*	*257*
France	2.77	2.90	2.81	2.95	2.85	2.95	2.90
Spread vs Bunds	*61*	*60*	*62*	*65*	*64*	*70*	*69*
Japan	0.25	0.25	0.33	0.30	0.38	0.40	0.46
UK	4.25	4.35	4.33	4.35	4.33	4.20	4.35
Switzerland	1.41	1.50	1.41	1.50	1.41	1.45	1.43

*3-day avg. as of 28/09/22
**ICE BofA (OAS)

Credit Spreads**	Current*	3M Forecast	3M Forward	6M Forecast	6M Forward	12M Forecast	12M Forward
EA IG Non-Financial	196	200		195		190	
EA IG Financial	224	225		220		215	
EA HY	582	660		630		610	
EM Sov. (in USD)	413	418		415		400	
Forex							
EUR/USD	0.96	0.94	0.97	0.95	0.98	1.02	0.99
USD/JPY	145	146	143	140	141	135	138
EUR/JPY	139	137	139	133	138	138	136
GBP/USD	1.08	1.02	1.08	1.06	1.08	1.13	1.07
EUR/GBP	0.89	0.92	0.90	0.90	0.91	0.90	0.92
EUR/CHF	0.95	0.93	0.95	0.94	0.95	0.97	0.94
Equities							
S&P500	3,674	3,600		3,640		3,725	
MSCI EMU	117.7	114.5		117.0		119.5	
TOPIX	1,864	1,835		1,860		1,930	
FTSE	7,004	6,845		6,935		7,140	
SMI	10,140	9,880		9,980		10,185	

Source: Generali Investments October 2022

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2022 SURVEY OF THE TOP 50 HEDGE FUNDS: MID-YEAR UPDATE

July brought some relief: a market rally, a soaring jobs report, and inflation numbers that didn't accelerate as commodity prices continued their decline. This may suggest to some investors we're past the worst of the bear market. But inflation remains stubbornly high, rising interest rates are threatening recession, food and energy insecurity are growing more acute, and serious supply chain issues remain. Somewhat forgotten: The tragic six-month Russian war against Ukraine shows no signs of letting up, exacerbating macroeconomic and security problems and raising geopolitical tensions. All of this has contributed to one of the market's worst first-half starts since the Great Depression. More remarkable that the Top 50 Hedge Funds ended the first half of 2022 in the black, outpacing the market by 21 percentage points.

by Eric Uhlfelder
26 August 2022

A FIRST HALF OF HISTORIC DIVERGENCE

Multistrategy, volatility arbitrage, and global macro funds propelled the Top 50 into positive territory while the market collapsed

A recent *Financial Times* headline exclaimed, "Investors Grow Frustrated with Hedge Funds after Historic Losses." The story's lede: "Hedge funds are heading for one of their worst years of performance on record."

A number of celebrated funds are making a mess of things. According to the FT, Daniel Loeb's Third Point fund declined 20%, Lee Ainslie's Maverick Capital was down 35%, and Chase Coleman's Tiger Global can't seem to get out of its own way, having lost half its value during the year's first six months.

But the article was not seeing the whole picture.

The financial media's penchant for hedge fund *schadenfreude* is a key reason behind this survey's perennial look at pockets across the industry that merit attention.

The BarclayHedge hedge fund index for the first half of 2022 reported average returns of -9.6%. That's much better than the S&P 500's decline of 20%--the benchmark's worst first-half performance since 1970. Even more compelling: the industry's bellwether strategy--equity long/short--declined by just -3.5%. This echoes what happened the last time stocks plunged. The S&P was down -37% in 2008 while equity long/short funds lost less than -12%.

The Top 50 funds identified in this year's annual hedge fund survey-- comprised of the strongest long-term performing broad-strategy funds through 2021-- collectively outpaced the market during the first six months of 2022 by 21 percentage points. This built upon the 50's seven-plus percentage point edge over the S&P 500 after the first quarter. (See pp. 7-16.)

"Considering the constellation of hedge funds this survey assembled according to a rules-based methodology and long-term historical analysis," observes Ben Crawford, head of research at a leading hedge fund database BarclayHedge (which has been tracking funds independently for 37 years), "I think it's remarkable just how well this group has performed during such a sharp downturn."

While no one has any idea what the rest of 2022 holds, Crawford contends the data suggests something clear and compelling about hedge fund selection: long-term consistency is key. "Finding persistently positive track records with low to moderate volatility through multiple market cycles may represent an underappreciated edge in shaping a compelling portfolio of funds," Crawford explains.

The survey's findings suggest a compelling link--even symmetry--between consistent returns and the ability to control downside exposure. This screening still captures outliers whose strong long-term performance comes with more risk. But the group collectively delivered returns well beyond expectations. (See Methodology on p. 4.)

Emblematic of market agnostic consistency is the volatility fund Dynamic Alpha, which ranked 17th in the survey (profiled on p. 11).

While many allocators doubt the efficacy of this strategy, John O'Brien, a fund director at Dynamic Alpha, says positive performance during the first half of the year was based on a commitment to process that doesn't seek to exploit trends to maximize profits. This would increase risk. He says, "in June, when volatility was high and the market fell, we increased hedging, tightened spreads and reduced overall exposure to increase efficiency during the selloff. This benefitted the portfolio in July as the market rallied and volatility fell, and we then normalized trading parameters."

First-half 2022 was the fund's first bear market. Still, it outpaced the S&P 500 by 24 percentage points--a wider degree than it has ever done in a calendar half year since its launch in May 2016.

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Returns

The Top 50 significantly outperformed the market despite the substantial hit suffered by several of its hedged equity funds. But these loses were offset by 10 multistrategy funds

TOP 50 HEDGE FUND PERFORMANCE BY STRATEGY VERSUS BENCHMARK STRATEGIES

First Half 2022

44 of 50 FUND PERFORMANCE *			STRATEGY INDEX RETURNS	
15	Hedged Equity:	-15.0%	Equity Long/Short:	-3.5%
			Equity Long-Bias:	-15.1%
4	Event Driven:	-3.5%	Event Driven:	-9.4%
5	Credit Long Short:	-1.5%	Credit Long/Short:	-7.9%
2	Emerging Market Equity:	0.6%	Emerging Markets:	-13.0%
10	Multistrategy:	5.3%	MultiStrategy:	-4.5%
3	Volatility Arbitrage:	8.5%	Volatility Arbitrage:	-2.6%
5	Global Macro:	46.1%	Global Macro:	5.0%

* 6 other funds that round out the Top 50 involve different strategies
Source: BarclayHedge, Preqin, and proprietary sources

that gained an average of 5.3%, 3 volatility arbitrage funds that returned 8.5%, and 5 global macro funds that soared an average of 46%. All told through June, the Top 50 was in the black, having gained 0.73%.

A wide range of strategies and management styles accounted for the group's expansive dispersion. With 15 hedged equity funds accounting for the largest number of funds in the 50, their performance ranged from +15% to -40%. Their average return was down -15%--virtually the same as the BarclayHedge Equity Long Bias average. But it was much worse than the database's Equity Long/Short Index, which lost less than -3.5%.

The poorest equity performers were Old Kings Capital (-40.1%), followed by North Peak Capital (-37.7%), Skye Global (-35.4%), and Legion Partners (-32.2%).

The best-performing hedged equity funds were MAK One (+15.3%), Citadel Tactical (+12.6%), and Schonfeld Fundamental Equity (+2.9%).

Two well-known multistrategy managers, Citadel Wellington (+17.5%) and D.E. Shaw (+16.9%), helped this group outpace the BarclayHedge Multistrategy index by nearly 10 percentage points.

The 50's global macro funds received a seismic boost from Haidar-Jupiter, which soared 170% through the first half of the year. John Street Capital climbed nearly 28%. These funds propelled the group far past the BarclayHedge Global Macro index returns of 4.99%.

Some noteworthy returns outside of these three strategies include Whitehaven's Credit Opportunities, which relies on fixed-income relative value trades of US municipal debt. It weathered the rising interest rate environment, ending the first half of the year slightly up, +0.85%.

Three managers that appeared vulnerable to rising interest rates and related stress did quite well. Opportunistic junk debt specialists Millstreet Capital gained nearly 3% and Arena added more than 5%. And in spite of the losses suffered across emerging markets, equity manager Waha MENA tacked on nearly 8%.

On the downside, merger specialist Ramius declined -13.3%. And concerns this report initially expressed about how a rising interest rate cycle may hit the intriguing Enko Africa Debt fund came to roost with the fund having declined -23% during the first half of the year.

Macro Environment

"There's plenty of risk ahead," says Ken Tropin, founder and chairman of Graham Capital Management, which manages $18 billion. While he believes inflation has peaked, he sees structural and cyclical forces keeping inflation well above the Fed's target and forcing the central bank to remain aggressive.

In contrast with observers who are expecting a return to the previous status quo, Tropin sees "a new paradigm evolving that's less favorable for risk assets "characterized by heightened market volatility and uncertainty." Further, he thinks there's not much chance the economy and markets will return to the previous decade when fund outperformance over risk-free returns had nearly tripled historical spreads. "I believe the 12 years following the financial crisis in 2008 of easy global monetary policy and a perpetual bull market was abnormal," says Tropin.

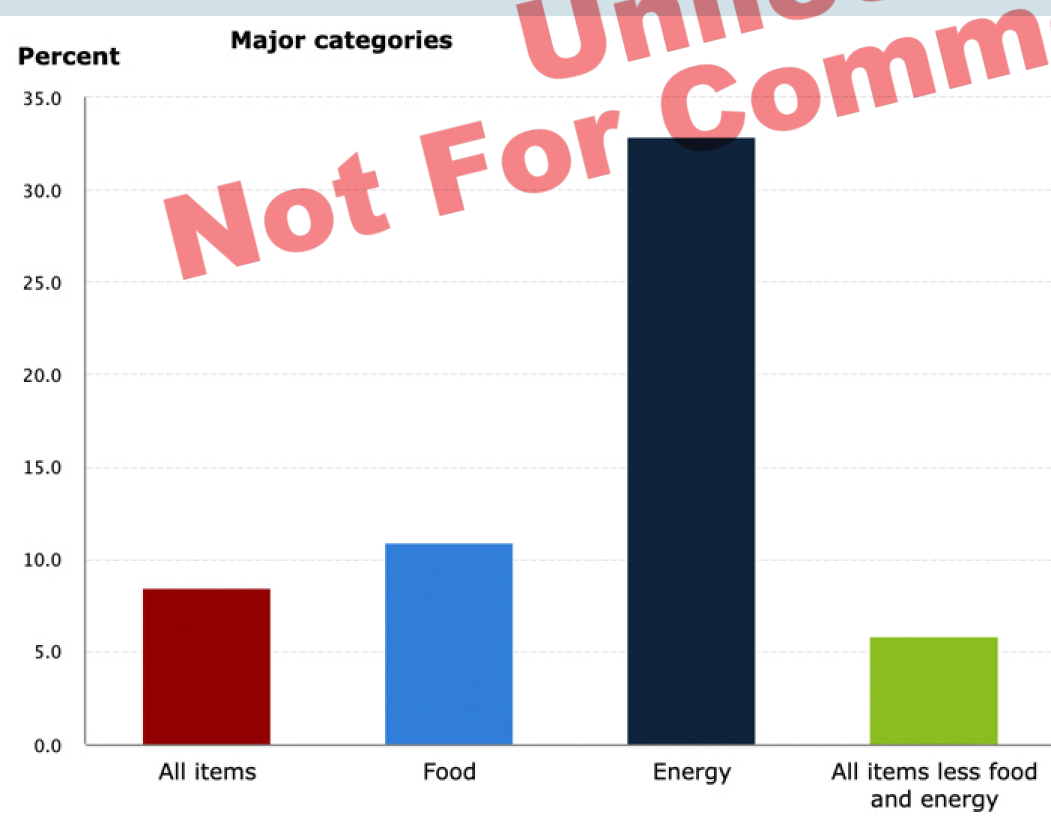
This shift may be evident with the Fed having pushed up overnight rates in July for a second consecutive time by 75 basis points to 2.25%-2.50%. And there's a good chance for another such rise in September. Federal Reserve Bank Chair Jerome Powell said future moves would be geared to what the data is telling the central bank. "As the stance of monetary policy tightens further," he explains, "it likely will become appropriate to slow the pace of increases." Still, Powell wants to ease growth to help enable the supply side to catch up.

Long-term investment strategist Edward Yardeni argues *de facto* interest rates have actually moved even higher than what current overnight rates are telling us. That's due to the impact of a rallying dollar that has appreciated by more than 10% this year (increasing the price of US exports but cutting the cost of imports) and the Fed's shift to quantitative tightening that has pushed $150 billion off of its balance sheet. Yardeni thinks these two factors have effectively increased interest rates by at least another 100 basis points. And that shift will get an even bigger boost, he says, starting in September when the Fed accelerates QT by more than a factor of three. By August 2023, an additional $1.1 trillion will have runoff the Fed's book.

Whether or not that means there's greater downward pressure on rising prices, economist Lars Christensen believes it will take more than 2 years before inflation returns to pre-crisis levels. Given that prospect, he's concerned the Fed might ease its inflation tolerance, even targeting levels of 4%, to allow it to cut rates sooner to boost growth. (See interview on pp. 17-18.)

While the US economy has contracted for two straight quarters, Europe surprised many economists with 2nd quarter GDP having surged 4% from the year earlier. This

12-MONTH PERCENTAGE CHANGE IN KEY CATEGORIES OF CPI JULY 2022



Source: U.S. Bureau of Labor Statistics.

GROWTH AND INFLATION FORECASTS THRU 2024

Growth[1]	2021	2022 forecast	2022 Δ vs. cons.	2023 forecast	2023 Δ vs. cons.	2024 forecast
US	5.7	1.7	- 0.9	0.7	- 1.1	1.5
Euro area	5.3	2.9	0.2	0.8	- 1.2	1.8
Germany	2.9	1.1	- 0.7	- 0.1	- 2.2	1.5
France	6.8	2.5	0.0	0.7	- 0.9	1.5
Italy	6.6	3.4	0.8	0.6	- 1.1	1.4
Non-EMU	6.4	3.2	0.0	0.7	- 0.3	1.6
UK	7.4	3.5	0.0	0.3	- 0.5	1.5
Switzerland	3.7	2.5	- 0.0	1.5	- 0.1	1.8
Japan	1.7	1.0	- 0.7	1.4	- 0.5	0.8
Asia ex Japan	7.8	4.2	- 0.8	5.1	- 0.0	5.1
China	8.1	3.2	- 1.1	5.5	0.3	4.8
CEE	6.7	0.5	2.1	1.4	0.9	3.5
Latin America	6.6	2.2	0.0	1.6	0.0	2.4
World	**6.4**	**2.9**	**- 0.3**	**2.7**	**- 0.3**	**3.2**

1) Regional and world aggregates revised to 2020 IMF PPP weights

Inflation[1]	2021	2022 forecast	2022 Δ vs. cons.	2023 forecast	2023 Δ vs. cons.	2024 forecast
US	4.7	7.5	- 0.2	3.6	- 0.0	2.3
Euro area	2.6	7.8	0.6	4.4	1.2	2.0
Germany	3.2	8.0	1.1	6.0	2.6	1.9
France	2.1	6.0	1.0	3.2	0.6	1.8
Italy	2.0	7.0	0.6	3.5	0.9	0.6
Non-EMU	2.3	7.3	0.2	4.8	0.6	1.6
UK	2.6	8.8	0.3	6.0	0.8	1.6
Switzerland	0.6	2.7	0.4	1.8	0.6	1.2
Japan	- 0.3	2.5	0.6	1.5	0.3	0.9
Asia ex Japan	2.0	3.8	0.3	3.2	0.2	2.6
China	0.9	2.4	0.2	2.2	- 0.1	2.0
CEE	9.3	29.8	- 0.2	16.4	3.0	7.9
Latin America[2]	6.6	8.0	1.1	4.5	0.6	3.3
World	**3.5**	**7.7**	**0.2**	**4.6**	**0.6**	**2.8**

1) Regional and world aggregates revised to 2020 IMF PPP weights ; 2) Ex Argentina and Venezuela

Source: Generali Investments

"I think the selloff was a very normal correction after years of a bull market. What we're seeing is the battle between those that buy on the dips and more cautious investors who are far from certain we've seen the worst of what all the current geopolitical and macroeconomic problems are throwing at us. I can see stocks falling again from here."

- Ken Tropin
Graham Capital Management

followed a 1st quarter gain of 0.7%. The Russian invasion of Ukraine hitting the continent along multiple fronts, along with a steadily weakening euro that's sending energy and import prices higher, led many observers to project much weaker numbers.

The financial consultancy, Deloitte, ebulliently reported, "the Eurozone economy was in excellent shape. This was likely due, in part, to strong consumer demand for tourist services. With the pandemic receding, people were eager to return to their previous love of travel. This was reflected in strong growth in France, Italy, and Spain—significant tourist destinations."

Positive growth numbers may have made it a bit easier for the European Central Bank to U-turn away from its previously cautious monetary posture and raise rates 50 basis points in late July to more aggressively counter persistent inflation.

However, growth stalled in the continent's largest economy, Germany, which was unchanged from the previous quarter, but still up 1.5% from a year earlier. And this is fueling extremely negative German investor sentiment, which threatens European growth.

This forward-looking gauge is revisiting levels not seen since the eurozone debt crisis more than a decade ago. This collapse is directly related to the Russian invasion of Ukraine and NATOs sanctions that followed.

Investors fear the potential collapse in access to Russian natural gas and soaring energy prices, continued supply chain issues, weather-related shocks, and mandated cuts in energy usage will further slow the country's and eurozone's growth.

What does all this mean?

According to Thomas Hempell, head of macro and market research at the €585 billion asset manager Generali Investments, central banks' rush to tame inflation is being increasingly complicated by growing energy crisis and political uncertainties. (See chart on p. vii.)

While he agrees central banks need to move away from accommodative interest rates to reclaim their inflation-fighting credentials, he warns risks are tilted towards an even more toxic stagflation dilemma if the energy crunch in Europe deepens as Putin punishes the continent for sanctions it has imposed on Russia.

For Hempell, the combination of surging natural gas prices in Europe, rising inflation and interest rates along with continued supply disruptions are reducing growth forecasts and increasing recession risks over the next year. He projects eurozone growth to come in at less than 1% in 2023.

The world did receive some good news out of Ukraine with the agreement that's restarting the shipping of Ukrainian grain and Russian fertilizer through the Black Sea. This activity had been shut down since March, pushing up food prices and intensifying the threat of famine throughout much of the Third World.

But offsetting this positive development was the intensification of the conflict in eastern Ukraine. Lars Christensen sees the Russification of parts of this region as tragic and genocidal.

Further, the war's now encircling the continent's largest nuclear power plant in Zaporizhzhia. Russian forces have set up artillery units within the complex to shell targets across the region while interfering with worker access to the plant that's compromising operational safety of the site's multiple reactors.

Speculation about why Moscow is doing this ranges from its plans to shut off power to 20% of Ukrainians to intentionally causing a radiation event—a very big dirty bomb. This is adding a whole new element of uncertainty to a continent already beset with a myriad of worry.

Christensen's biggest concern is the war reflects "the reversal in the trends of global checks and balances that has largely kept the peace over the past several decades. This can unleash all sorts of uncertainty, including the ratcheting up of tensions between China and Taiwan."

While many European allocators are increasing their weighting to the US, it's not without significant risk. While he agrees America is less exposed to energy supply shocks, Generali's Hempell anticipates the slowdown in US manufacturing spilling over to the rest of the American economy. "US 2023 growth rate may also come in below 1% as the risk of a recession nears 50%," says Hempell.

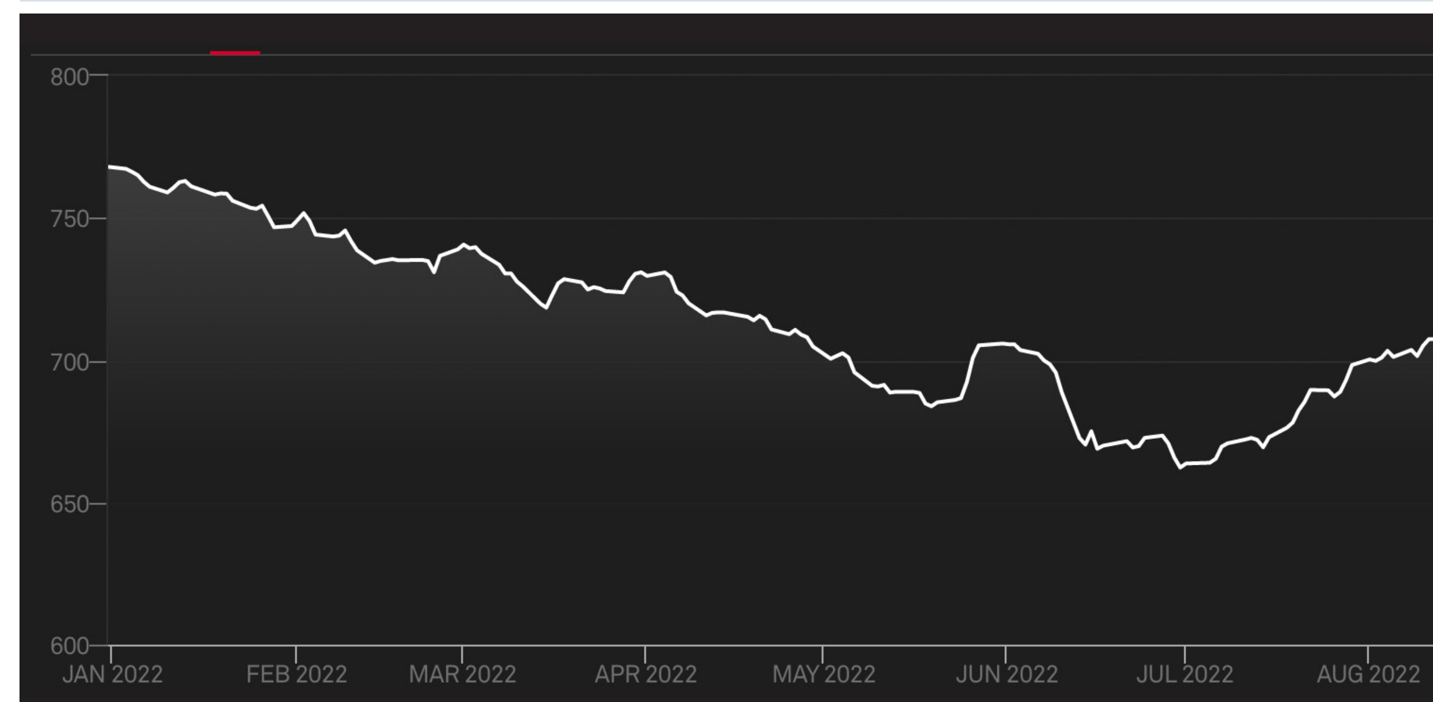
Outlook

In spite of the summer rally, it's hard to make an argument that we're closer to the end than the beginning of this period of economic and geopolitical distress.

Cedric Dingens, head of alternatives at the NS Partners with CHF10.5 billion under management, thinks the recent equity rebound could be just a bear market rally. He's taking advantage of the recent surge in prices by "gradually taking some profits from his directional equity funds."

He's becoming increasingly more defensive,

S&P HIGH-YIELD CORPORATE BOND INDEX: JAN. 1, 2022 - AUG. 12, 2022

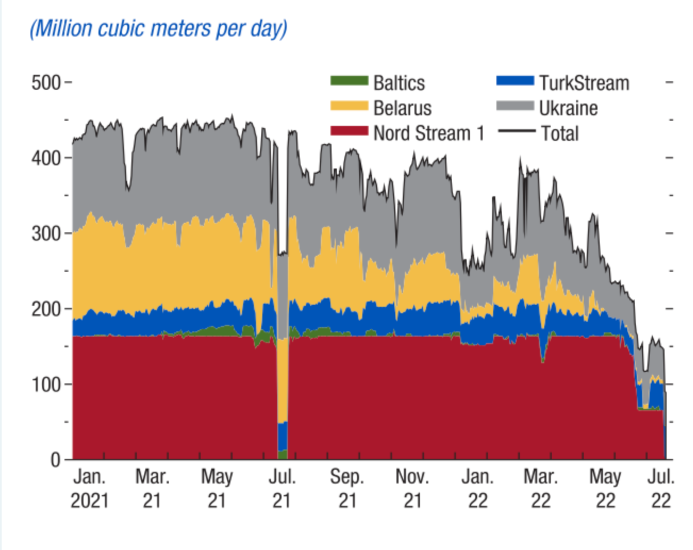


Source: S&P / Down Jones Indices

2022 SURVEY OF THE TOP 50 HEDGE FUNDS: MID-YEAR UPDATE

GLOBAL INVESTMENT REPORT

DECLINING FLOW OF RUSSIAN PIPELINE GAS TO THE EU



Sources: European Network of Transmission System Operators for Gas; Gas Transmission System Operator of Ukraine; and IMF staff calculations.

combining significant macro exposure with multistrategy funds and higher cash levels to help counter a market correction. At the same time, he's holding onto his equity long/short managers to exploit idiosyncratic opportunities that evolve during especially volatile markets.

After benefitting from trend followers' very good first half, he cautions that, "it's usually not the best time to allocate to CTAs and Quants after they just had a fantastic run."

Ken Tropin believes traditional assets will remain vulnerable as "the Fed will no longer provide a tailwind for beta strategies, and bonds also look unattractive given high inflation and the prospect for higher rates."

Despite the first-half decline, Tropin doesn't think a recession is priced into the market, especially given the subsequent rally. "I think the selloff was a very normal correction after years of a bull market," says Tropin. "What we're seeing is the battle between those that buy on the dips and more cautious investors who are far from certain we've seen the worst of what all the current geopolitical and macroeconomic problems are throwing at us. I can see stocks falling again from here."

He thinks US overnight rates will end the year between 3.50% and 3.75%, with 10-Year Treasury yields hovering around the same levels. Trailing 12-month inflation will decline to 6.5% to 7.5%. He estimates the greenback will continue to rally with euro-dollar potentially reaching $0.90 and dollar-yen hitting ¥140.

Tropin expects the mid-summer risk-on sentiment to fade with the S&P ending the year 5% to 10% lower than where it was in mid-August. And he expects the recent rise in the US High-Yield Corporate Bond index to be short lived, turning south by about the same degree as stocks. (See graph on p. xiv.)

All of this reinforces Tropin's belief that we're in among the most compelling macro investing environments he's seen in a while.

Graham's Proprietary Matrix fund, which combines quantitative and discretionary macro trading strategies, was up 26.49% during the first half of the year. Key profit drivers, according to Tropin, included long energy positions, short positions in the short-end of US and European fixed income markets as well as in the long-end of U.S. fixed income. The fund also gained from being long the U.S. dollar versus a variety of G10 currencies as well as being short European, U.S., and Asian equity indices.

Given the steady sell-off in high-yield across the first half of the year, Jeff Growney, partner at Millstreet Credit (No. 8) was a bit surprised by the sudden rebound in junk bonds. "We currently don't think economic data support this shift in sentiment," he explains.

The sub-investment grade debt fund maintained its low net exposure of 58% through June. Its sustained focus on first-lien debt supported by hard assets, receivables, short duration, and avoidance of covenant-lite paper helped Millstreet end the first half up nearly 3%.

The Fed is faced with a tough balancing act, says Growney. With the central bank forced to play catchup, he believes, "this will likely cause material volatility for near-term asset prices. The chances of a miscalculation remain elevated, and we could end up with stagflation or a material recession as this plays out."

Patrick Ghali, head of the hedge fund consultancy Sussex Partners agrees. He says, "we're not in a good place right now," and expects rising inflation, interest rates, and growing geopolitical turmoil will be around for another 18 months. He further cautions, "we haven't yet seen serious cracks in real estate, and if that were to occur, it would alter the entire economic landscape."

Accordingly, he believes it's prudent to be defensive and diversified with low net exposure. That includes reliance on macro, market neutral, convertible arbitrage, and multistrategy funds. Yet, he's also intrigued by the differentiated opportunities evolving across China and Japan.

But to Lars Christensen, China is his largest concern. He thinks rising tensions over Taiwan is meant to distract from the country lumbering into stagnant growth in the coming years. He believes Beijing's policies may push China's economy "into a full-blown financial crisis, which will come with political and social fallout."

Matt Hu, chief investment officer of the 16th-ranked FengHe Asia fund, which was down -6.7% during the first half of the year, is struggling to see opportunities. "We have been in a cautious state for the past (several) months given the developing uncertainties around us," Hu explains. But he does say the "current global recession fears and volatile market sentiment will provide precious contrarian investment opportunities for us in Taiwan, Japan and Korea."

Back in the states, with equity valuations still above historical levels, Night Owl (No. 5) PM John Kim believes "higher-than-expected rate hikes could cause valuation multiples to decrease even further." In the second quarter alone, S&P 500 PE multiples fell 18%. In spite of having turned half the book into cash, his fund lost -18.6% during the first half of the year.

With the Fed maintaining its hawkish monetary stance, Kim believes this is "decreasing the risk inflation spirals out of control." He's not certain about a potential recession or its severity. But he admits the central bank hasn't ever engineered a soft landing following high levels of inflation. But in seeing significant consumer savings and strong corporate balance sheets, he believes "there's a chance the Fed may thread the needle."

With earnings expectations still high, he is maintaining the fund's substantial cash levels, needing to see a greater decline in earnings projections or valuation multiples before redeploying cash. ■

KEY 12-MONTH MARKET FORECASTS TO JULY 2023

Key Rates	27/07/22*	3M	6M	12M
US	2.50	2.88	3.13	3.38
Euro area	0.00	0.50	0.75	1.25
Japan	-0.10	-0.10	-0.10	0.00
UK	1.25	2.00	2.25	2.25
Switzerland	-0.25	0.25	0.50	0.75
10-Year Bonds	**27/07/22***	**3M**	**6M**	**12M**
Treasuries	2.78	2.85	3.10	3.05
Bunds	0.96	1.05	1.15	1.35
BTPs	3.29	3.45	3.65	3.90
OATs	1.56	1.65	1.75	1.95
JGBs	0.20	0.25	0.30	0.40
Gilts	1.94	2.05	2.10	2.10
SWI	0.59	0.70	0.80	1.00
Spreads	**27/07/22***	**3M**	**6M**	**12M**
GIIPS	172	180	185	190
BofAML Covered Bonds	92	90	90	90
BofAML EM Gvt. Bonds (in USD)	440	480	470	400

Corporate Bond Spreads	27/07/22*	3M	6M	12M
BofAML Non-Financial	180	185	180	175
BofAML Financial	195	205	200	190
Forex	**27/07/22***	**3M**	**6M**	**12M**
EUR/USD	1.02	1.00	1.06	1.10
USD/JPY	137	136	130	123
EUR/JPY	139	136	138	135
GBP/USD	1.20	1.18	1.22	1.25
EUR/GBP	0.84	0.85	0.87	0.88
EUR/CHF	0.98	0.97	1.00	1.03
Equities	**27/07/22***	**3M**	**6M**	**12M**
S&P500	3,971	3,835	3,875	3,965
MSCI EMU	127.9	123.0	125.0	126.5
TOPIX	1,944	1,860	1,895	1,945
FTSE	7,320	7,050	7,140	7,260
SMI	11,096	10,620	10,825	10,920

*average of last three trading days

Source: Generali Investments

Over the past five years through 2021, the Top 50 hedge funds collectively generated net annualized returns that trailed a red-hot S&P 500 by just several percentage points, but did so with significantly less risk. The group's largely un-

correlated returns produced a 5-year Sharpe Ratio 60 bps higher than the market. Equity, multistrategy, and credit funds led the way with 23 of the Top 50 managing less than $1 billion.

by Eric Uhlfelder
June 2022

Hedge Fund Investing During a Time of War

Like the 2020 edition, release of this year's survey collides with a seismic event — a geopolitical shock wrapped around soaring inflation and rising interest rates. Economic and market turbulence is again generating a whole swath of new risks and opportunities.

> "After the first five weeks of war notable for the heroic success of the Ukrainian defenders against the Russian invaders, I still cannot quite rid myself of the uneasy feeling that this is merely the opening act of a much larger tragedy."
>
> \- Niall Ferguson

Two years ago, the pandemic was an immediate stress test for this survey's Top 50 broad strategy managers who had delivered the leading 5-year annualized returns through 2019. Inclusion of first quarter 2020 returns revealed these select managers preserved capital far better than the market when stocks declined sharply. And for the rest of 2020, they kept pace with the subsequent rally, delivering returns in line with the S&P 500 but with much less risk.

This year's findings are again challenged, this time by the horrific Russian invasion of Ukraine, which is propelling inflation even higher and ensuring interest rates will rise significantly. Nevertheless, the top-performing 50 funds, based on the past five years through 2021, have outperformed the market in the first quarter of 2022 by more than 7 percentage points.

While the war no longer dominates attention as it once did, its duration and outcome are very much unclear. JP Morgan CEO Jamie Dimon calls the Russian invasion "a huge global issue and like all wars its course is unpredictable."

Photo Credits: Mstyslav Chernov and Felipe Dana/AP Photos

And it begs at least partial reference to a previous war that tore across the continent.

Invasion of Ukraine

"Ten thousand lay dead, and more than fifty thousand were injured. Buildings were reduced to charred skeletons; vast craters were left in the city streets. And night after night as the lights were extinguished across the city, some took to makeshift bomb shelters in underground stations . . . Once day broke, weary citizens would stumble out from their subterranean world and gaze anew at another round of devastation."

This reporting could've been from any number of Ukrainian cities. But it wasn't.

Historian Jay Winik was describing London nearly 80 years ago in his book *1944: FDR and the Year That Changed History*. It's a haunting reminder that only when allies join militarily will atrocities cease. And it's also a reminder of the threat posed by authoritarianism.

The Russian invasion of Ukraine isn't unique. We've seen horrific carnage in Cambodia, Rwanda, Chechnya, Bosnia, and Aleppo.

But this conflict is a *de facto* world war with a unified West pursuing the most comprehensive intervention without troops ever pursued against a major power.

The combination of massive sanctions levied against Russia and the remarkable decision by governments and industries to stop doing business with Putin is part of the second systemic shock to hit global markets in three years.

"The Russian invasion of Ukraine," says Fiona Hill, the former senior director for European and Russian Affairs in President Trump's National Security Council, "is one of these huge ruptures in political and security affairs with global implications." And they will likely reverberate for years across economies and markets worldwide, exaggerating dispersion, creating a whole host of likely and unpredictable risks and opportunities.

Danish economist Lars Christensen sums up the larger picture. "We're seeing the collision of events, each a major issue in its own right. The

TABLE OF CONTENTS

About This Year's Survey

This is my 19th annual global hedge fund report. It's the second consecutive year in which I've published it under my own banner: Global Investment Report. *The Financial Times, Barron's, The Wall Street Journal,* and SALT had commissioned the 17 previous editions. Like recent surveys, a major theme runs through this review.

The survey continues improvements in methodology and reporting initiated in the 2019 *Wall Street Journal* version. This includes rankings based on the trailing 5-year returns. It also tracks worst drawdown, standard deviation, Sharpe Ratio, and market correlation over the same period to gain a more complete understanding of performance.

With the exception of market correlation, the survey also tracks these metrics since inception of each fund, which dates back an average of 13.5 years. This reveals remarkable long-term consistency.

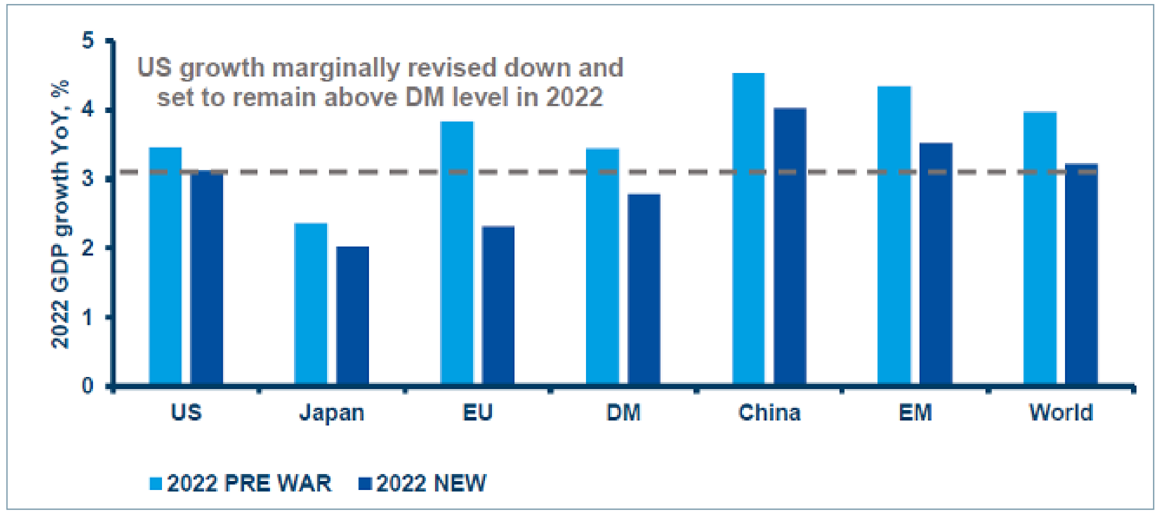
To better understand how managers have excelled, the survey includes extensive profiles of six funds. These include two Top 10 equity funds, two consistent arbitrage managers (one focused on volatility and the other on mergers), an emerging market manager that has ranked highly over each of the past four surveys, and a frontier market manager that's been thriving in unusual places.

The report concludes with thoughts provided by major hedge fund allocators, including Generali, Amundi, and EFG International, to better understand the industry and what the rest of 2022 may bring.

2022 SURVEY OF THE TOP 50 HEDGE FUNDS

GLOBAL INVESTMENT REPORT

DOWNSHIFTING 2022 GDP GROWTH FORECASTS



Source: Amundi institute forecasts as of 24 March 2022 vs 14 February 2022 forecasts.

pandemic, soaring inflation, central banks way behind the curve, China's widespread Covid lockdowns, and the Russian invasion of Ukraine have collectively given rise to geopolitical tensions and economic uncertainty we haven't seen since Hitler was Chancellor of Germany."

Due to the war and sanctions, the *Financial Times* reports Sweden's Volvo Trucks expects to suffer losses of more than $400 million. US bank J.P. Morgan estimates it will likely take a $1 billion hit. And Britain's Shell Oil expects to lose $5 billion.

The war scuttled a major European bank merger: the potential tie-up of Italy's UniCredit and Germany's Commerzbank, valued at €785 billion, which may have jump-started the long anticipated wave of new cross-border European bank consolidation needed to better rationalize the industry.

The International Monetary Fund believes, "Global economic prospects have been severely set back largely because of Russia's invasion of Ukraine." The World Bank agrees, saying, "It's triggering global ripple effects through multiple channels, including commodity markets, trade, financial flows, displaced people, and market confidence. Disruptions to regional supply chains and financial networks, as well as heightened investor risk perceptions, will weaken regional growth."

Famine, destabilization of nations, and mass migration are increasingly likely given Russia's continued blockage of Ukrainian ports, according to David Beasley, executive director of the UN's World Food Program. "In preventing the export of millions of tons of grain," says Beasley, Russia is declaring war on global food security, "sending the world hurtling toward hunger-induced chaos."

For more than a decade, markets perennially brushed off all kinds of huge events, with faith in the Fed *put* to keep equities righted. This time, not so much. The benchmark S&P 500 is down more than 16% for the year through May 10. The MSCI EAFE and World Indices are both down more than 17% in dollar terms. And in the world's second largest economy, Chinese shares are down 24% in local currency terms.

The ongoing realignment of alliances and business activity triggered by Russia's invasion of Ukraine is likely to prove an even greater game-changing event than Covid. The pandemic and war together may redefine the economic constellation around which globalization and investing have been configured, which also kept inflation in check.

Since his dire warning five weeks into the war, economist Niall Ferguson has turned a bit more sanguine. In late May, Niall said, "perhaps Joe Biden will get his wish, and Putin will be removed from power." But he cautions we cannot overlook the devastating options Putin still retains. "Until I am certain they will not happen, I shall remain uneasy."

One thing is clear. Ukraine will not end the war before its access to the Black Sea is secured. This collides with current Russian military plans, likely ensuring war will continue for some time.

Further, there's the potential the West may be forced to confront Russia to reopen shipping of Ukrainian grain and prevent widespread famine. Death tolls due to starvation might quickly exceed those of the war, which in turn could trigger political turmoil around many poorer parts of the world.

At the beginning of the year, most institutional investors and allocators dismissed the likelihood of a Russian invasion of Ukraine, expressing faith that an interdependent global economy would endure. Now the core question they face is how to respond to this challenge to the status quo. That's what this report will explore within the context of the annual survey.

> "The Russian invasion of Ukraine is one of these huge ruptures in political and security affairs with global implications."
>
> **- Fiona Hill**

METHODOLOGY

The purpose of this survey is to identify the limited number of funds that deliver consistently compelling performance to reveal the industry's promise.

Like previous surveys, the initial search starts in early February with various databases, including BarclayHedge and Preqin, casting a wide net across thousands of funds. They screen for only broad strategy funds. The reason: to seek out managers who consistently deliver gains with low to moderate volatility without the support or headwinds that come from specific sector, country, or specialized exposure, such as commodities, interest rates, and foreign exchange. Broad strategy funds whose performance is enhanced by exogenous leverage (e.g., 2X or "Ultra" funds) are deleted.

Requiring funds to manage at least $300 million is key to help ensure reliability of data. When funds reach that size, they frequently tap top-tier service providers — administrators, prime brokers, accountants, and lawyers — whose involvement may help deliver best-in-class practice and reporting accuracy.

The survey provides another layer of data verification by contacting each manag-

HISTORICAL HEDGE FUND STRATEGY PERFORMANCE: JAN 2012 - DEC 2022

2022 strategy returns revealed a reversal of fortunes from their 2021 performance

Strategy	2022 Net Returns	2021 Net Returns	3-Year Net Annualized Returns (%)*	5-Year Net Annualized Returns (%)*	10-Year Net Annualized Returns (%)*
Distressed Securities	-6.74	20.30	11.67	7.78	7.06
Equity Long-Bias	-13.65	17.08	16.22	10.29	8.79
Collateralized Debt Obligations	1.65	16.25	4.93	7.54	13.99
Asset-Backed Securities	-0.28	13.06	5.95	6.62	10.48
Event Driven	-6.21	12.30	10.32	7.15	6.31
Equity Long/Short	0.06	10.65	8.82	6.25	5.82
Multistrategy	-3.06	9.94	6.44	3.95	4.60
Global Macro	6.70	8.79	8.87	4.89	3.97
Asset-Backed Loans	3.49	8.38	7.30	6.52	6.55
Equity Market Neutral	3.24	8.05	1.98	1.42	2.77
Merger Arbitrage	0.89	7.69	7.75	5.67	5.10
Convertible Arbitrage	-1.09	7.12	10.28	6.57	5.60
Volatility Trading	-3.40	7.01	7.33	2.88	2.48
Commodity Trading Advisers	7.15	5.03	5.21	2.57	1.43
Emerging Markets	-14.30	4.07	10.64	7.45	5.45
Mortgage-Backed Securities	-6.51	3.37	3.36	3.96	5.66
Credit Long/Short	-6.64	1.38	4.78	3.41	4.06
Fixed Income Arbitrage	-1.65	0.97	4.53	3.59	4.94
Credit Long-Only	-11.39	0.49	4.11	2.84	4.18
Fixed Income Diversified	-7.83	0.26	3.78	2.69	3.55
Top 50 Averages	5.28	16.74	17.37	15.46	NA
Backstop BarclayHedge HF Index	-8.20	10.22	10.64	7.23	6.41
S&P 500 Total Return Index	-18.14	28.72	26.08	18.48	16.56
JPMorgan Global Gov't Bond Index	-13.01	-2.54	2.95	2.23	2.73

Note: Strategies are ranked by 2021 net returns
*Data thru 2021. Source: Backstop BarclayHedge

NIGHT OWL

A Long-Only Way Ahead

The 5th top-performing fund over the past 5 years through 2021 was Night Owl Composite, which generated net annualized returns of more than 27%. That topped the gains of the S&P 500 over the same period by nearly 9 percentage points a year.

The strategy has done more than ride the coattails of a long bull market since its launch in 1994; it outperformed every year the market lost money by uniquely managing risk without use of shorts and hedges.

When the S&P 500 was stung by the Tech Wreck during the first three years of the new millennium when it lost nearly -38%, Night Owl collectively gained 19.5%. When the Financial Crisis struck in 2008 causing stocks to crater, the strategy lost only one-third of what the market gave up. And when the market suddenly gave back its 2018 gains and then some in the fourth quarter to end the year down more than -4%, Night Owl was up 9.6%.

The $691 million strategy's ability to preserve and enhance value is also seen by looking at quarterly performance. During positive market moves, Night Owl reports capturing nearly 90% of its gains. And when the S&P 500 falls, the strategy loses half of what the market gives up.

Night Owl's 0.82 correlation with the market over the past five years through 2021 masks the fund's more consistent performance. Its worst drawdown (-13.5%) is 6 percentage points better than the market's and its 5-year Sharpe Ratio of 1.35 tops the market's by 21 bps.

CIO and PM John Kim has created a fund that reflects his own multidisciplinary and contrarian thinking that rues complacency, pushing his team to constantly refine the way it thinks. He believes following algorithms and strict rules "end up acting as blinders." Instead, Night Owl relies on a discretionary, bottom-up approach that focuses on growth. And it forgoes shorting for one simple reason: "We only focus on a few things we can do well," explains Kim. And he doesn't use leverage.

The fund outperforms by first focusing on a narrow universe of 100 compelling stocks. Its portfolio is a short list of no more than 25 names, with initial position size no more than 10% of book. Effectiveness of this high conviction investment approach is evident not only in performance but also with an annualized turnover of less than 15% since inception.

Outperformance is also achieved by avoiding sharp hits. Kim does this by selling when he sees systemic risks building. In the second half of 2007, he sensed how vulnerable the economy and market were becoming due to overvalued housing prices driven by popular sentiment that they could only go higher. So Kim started selling. By the end of the year, 80% of his book was cash.

During the summer of 2021, the team was worried about the government's dispersal of trillions of dollars in Covid relief

CIO AND PM John Kim

when there hadn't been a corresponding destruction of wealth as was evident during the Great Recession. Kim thought this spending was going to create inflation that would be more than transitory. Moreover, soaring equity valuations, record-high household balance sheets as a percent of GDP, and spiraling wage inflation were signs of deeper problems.

So Kim again started selling, ending May 2022 with nearly 49% of his book in cash.

This domestically focused fund has several foreign investments. It's tracking a company with operations in Ukraine that's providing insight into the effects of the Russian invasion. "While the war is having knock-on effects that are further pushing up energy and commodity prices and worsening supply chain issues," explains Kim, "it's not significantly affecting most of our investment decisions."

Looking ahead, the manager believes, "Fed policy, seeking to reduce demand, will bring down earnings and multiples that were way too high." When he sees better risk-return rewards and less lofty earnings expectations, he will start redeploying cash into both previously held positions and new opportunities.

er to confirm their numbers. While each fund feeds data directly into each database, mistakes can still happen. Data may be from a founders' class with low fees, numbers may have been revised since submission, and classification of the fund may be wrong. UCITS and '40 Act funds can slip in.

There are always a handful of managers who refuse to verify their numbers. This does not mean their data is unreliable. But it reinforces the need for prospective investors to do their own due diligence. The numbers provided here are only a starting point.

The survey's most distinguishing filters are performance hurdles set for each of the last four years. While they are not substantial, they ensure minimum absolute returns. This enhances the survey's value as a source of consistently performing managers regardless of what the market is doing.

The hurdle was initiated in the 2019 survey I prepared for *The Wall Street Journal*, which tracked performance over a trailing five-year period through 2018.[1] Because 2018 was the first year in a decade when the market had lost money, requiring minimum net returns of 5% for that year was an objective way to see which funds delivered some form of alpha — and to paraphrase Warren Buffett, to reveal those managers who had shorts on when the tide went out.

That specific hurdle was again maintained in this year's survey for 2018 and 2019. For 2020 and 2021, it was lowered to 4.5%, reflecting the decline in risk-free interest rates. The reasoning: requiring funds to generate only several hundred basis points of returns above the risk-free interest rate seems modest for any fund collecting management and performance fees. At the same time, it addresses the reality that not all strategies benefit from a roaring stock market.

The 2021 hurdle had a substantial impact on this year's survey as it eliminated a number of venerable, highly ranked funds that had perennially made the list. They include hedged equity shops Cadian, Tiger Global, and tiger cub Woodson, and macro investors Element Capital and Alphadyne.

Requiring funds to straddle hurdles over the last four years while generating the best trailing five-year returns helps this survey highlight managers that are running among the most consistent absolute return funds that also contain downside risk. Further, hurdles eliminate very profitable but highly volatile funds that may bounce in and out of the red.

Minimum performance standards also impose a certain discipline on funds to make the list, e.g., taking some profits off the table and successfully reallocating them, rather than betting dramatic stock gains begets more gains. The latter fuels complacency and enhances risk. This was one reason why the top-performing fund over the past two surveys, Sosin Partners, didn't make the cut this year.

SURVEY RESULTS

BarclayHedge reported that over the past 5 years through 2021, the average hedge fund produced net annualized gains of 7.2% with a Sharpe Ratio of 0.86 and market correlation of 0.90.

10Y TREASURY YIELDS & EQUITIES DECOUPLING?

Source: BarclayHedge. St. Louis Fed through 6/3/22

The Top 50 funds collectively returned annualized gains (15.5%) that were more than twice the industry's average over the past 5 years, having trailed a raging bull market by just 3 percentage points. In

[1] Eric Uhlfelder, "In Tough Times for Hedge Funds, These Are the Ones That Stand Out," *The Wall Street Journal*, 5 May 2019.

2022 SURVEY OF THE MOST CONSISTENT PERFORMING HEDGE FUNDS†

GLOBAL INVESTMENT REPORT

HISTORICAL RANKINGS 2018	2019	2020	2021	Fund Name	Launch Date	Strategy	Fund Assets ($ Million)	Firm Assets ($ Million)	2018 Net Returns (Hurdle: 5%)	2019 Net Returns (Hurdle: 5%)	2020 Net Returns (Hurdle: 4.5%)	2021 Net Returns (Hurdle: 4.5%)	2022 Net Returns (%)	3-Year Annualized Net Returns (%) thru 2021	5-Year Annualized Net Returns (%) thru 2021	Annualized Net Returns (%) since Inception thru 2021	Worst Draw Down (%) Last 5 Yrs thru 2021	Worst Draw Down (%) since Inception thru 2021	5-Year Annualized Standard Deviation thru 2021	Annualized Standard Deviation since Inception thru 2021	5-Year Sharpe Ratio thru 2021	Sharpe Ratio since Inception thru 2021	5-Year Fund Correlation versus S&P 500 TR thru 2021
NA	NA	NA	1	Skye Global (West Palm Beach, FL) >	Jul-16	Equity Long/Short	5,000	5,000	34.79	53.19	68.44	21.87	-47.40	46.51	49.66	44.76	-5.70	-5.70	17.61	17.15	2.76	2.55	0.61
NA	NA	2	2	North Peak Capital Partners--Class E1 (New York)	Aug-15	Equity Long/Short	1,292	1,404	30.99	40.76	24.60	29.20	-43.20	31.30	34.50	26.80	-18.70	-29.70	20.00	21.50	1.60	1.20	0.56
21	19	7	3	Haidar Jupiter Composite (New York)	Nov-99	Global Macro	1,234	1,234	8.09	31.29	27.11	69.52	193.58	41.43	32.07	20.06	-32.14	-32.14	31.24	20.08	0.99	0.92	-0.23
NA	NA	NA	4	Atika Capital Partners (New York)	Feb-13	Equity Long/Short	892	892	25.22	26.78	66.24	9.32	-28.77	32.08	31.00	21.45	NA	-29.23	16.83	16.39	1.72	1.19	NA
NA	NA	NA	5	Night Owl Composite (Greenwich, CT)	Apr-94	Equity Long Only	691	721	9.57	43.95	44.55	12.42	-19.62	32.74	27.20	14.05	-13.48	-21.69	19.26	14.28	1.35	0.82	0.82
NA	27	14	6	Legion Partners Commingled (Los Angeles)	Jan-14	Small-Cap Activist	480	509	5.10	17.25	21.93	34.61	-35.03	24.38	21.48	11.96	-33.77	-33.77	22.48	20.81	0.94	0.61	0.62
NA	NA	15	7	G2 Investment Partners Series B (New York)	Oct-09	Small/Mid-Cap Equity Long/Short	374	702	5.62	14.26	47.01	21.90	-20.70	26.98	21.14	13.71	-9.30	-11.96	12.68	10.69	1.56	1.22	0.49
16	6	4	8	Millstreet Credit (Boston)	Jun-10	Credit Long/Short	814	1,124	15.79	15.86	21.38	20.42	4.83	19.19	20.68	12.40	-4.39	-33.26	5.74	8.50	3.42	1.40	0.40
NA	NA	NA	9	Voss Value LP (Houston) *	Oct-11	Equity Long/Short	312	348	14.46	21.17	23.70	39.13	1.09	27.76	20.37	19.84	-21.21	-21.21	16.72	15.13	1.02	1.18	0.64
27	49	26	10	Anson Investments Master (Toronto)	Jul-07	Equity Long/Short	876	1,387	19.28	10.10	44.52	45.50	7.60	32.29	20.00	15.81	-18.68	-18.68	13.71	10.82	1.39	1.37	0.15
				BarclayHedge Hedge Fund Index	Jan-97				-5.23	10.64	11.14	10.22	-8.24	7.60	7.23	8.07	-11.90	-24.09	7.18	7.08	0.86	0.87	0.90
				S&P 500 Total Return Index	Jan-80				-4.38	31.51	18.40	28.72	-18.11	18.94	18.48	12.10	-19.60	-50.95	15.26	15.04	1.14	0.54	1.00

†Ranked by trailing 5-year net annualized returns through 2021. **2018 ranking** of 60 funds was published in *The Wall Street Journal*: Eric Uhlfelder, "In Tough Times for Hedge Funds, These are the Ones that Stand Out," 5 May 2019. **2019 survey** of the Top 50 funds was commissioned by SALT.

> Skye Global fund assets included $400M in SMAs that are run *pari passu*. * Voss' comingled assets were $207.4M and it manages 1 SMA run *pari passu* valued at $104.8M. NA = Performance data was not available or fund did not qualify for inclusion.

having nearly kept pace with the S&P 500, the Top 50 did so with significantly less risk and low market correlation.

Between 2017 and 2021, the standard deviation of the Top 50 was under 11, while the S&P 500's was over 15. The 50's average worst drawdown during the same time was -10.7%. The market's was nearly double that figure. No surprise the Top 50's 5-Year Sharpe Ratio of 1.78 was more than 60 basis points higher than the market's.

A key reason allocators are willing to pay hedge fund fees is the promise of receiving attractive returns that are largely uncorrelat-ed to the market. Over the past five years, the Top 50's market correlation was just 0.31, which generally affirms these managers are delivering returns largely based on their own wits.

Several more compelling findings: The average age of the Top 50 is 13.5 years — nearly triple the life expectancy of the average fund, and they've been generating nearly the same annualized net returns since inception as they have over the past five years: 13.8%. Just as important, this rate of return was again achieved with significantly less risk than the market. And two-thirds of the funds on this year's list had also made the 2021 survey, further highlighting the consistency of managers in the Top 50.

Leaders

With the exception of global macro manager Haidar Jupiter and Millstreet Credit (both of which retained their high rankings from last year), this year's top 10 funds based on the highest 5-year annualized trailing returns were equity strategies. They all delivered returns of more than 20% a year over that period, topping the market's annualized gains of 18.5%.

Two hedged equity funds that made the top 10 by avoiding large name-brand firms are small-cap activist manager Legion Partners (No. 6) and G2 Investment Partners (No. 7), which also focuses on smaller firms, sometimes before they come to market. Both funds generated 5-year annualized returns above 21%.

> Due to the war and sanctions, Sweden's Volvo Trucks expects to suffer losses of more than $400 million, US bank J.P. Morgan estimates it will likely take a $1 billion hit, and Britain's Shell Oil expects to lose $5 billion.
>
> - Financial Times

2022 SURVEY OF THE MOST CONSISTENT PERFORMING HEDGE FUNDS

GLOBAL INVESTMENT REPORT

HISTORICAL RANKINGS 2018	2019	2020	2021	Fund Name	Launch Date	Strategy	Fund Assets ($ Million)	Firm Assets ($ Million)	2018 Net Returns (Hurdle: 5%)	2019 Net Returns (Hurdle: 5%)	2020 Net Returns (Hurdle: 4.5%)	2021 Net Returns (Hurdle: 4.5%)	2022 Net Returns (%)	3-Year Annualized Net Returns (%) thru 2021	5-Year Annualized Net Returns (%) thru 2021	Annualized Net Returns (%) since Inception thru 2021	Worst Draw Down (%) Last 5 Yrs thru 2021	Worst Draw Down (%) since Inception thru 2021	5-Year Annualized Standard Deviation thru 2021	Annualized Standard Deviation since Inception thru 2021	5-Year Sharpe Ratio thru 2021	Sharpe Ratio since Inception thru 2021	5-Year Fund Correlation versus S&P 500 TR thru 2021
3	4	12	11	MAK One (New York)	Mar-04	Opportunistic Distressed & Equity	806	870	51.40	5.00	13.20	21.12	27.80	12.90	19.25	14.94	-15.37	-18.43	18.33	19.08	0.88	0.96	0.20
NA	23	13	12	Old Kings Capital LP (Darien, CT)	Oct-01	Equity Long/Short	1,321	1,321	6.32	29.81	23.12	15.45	-35.23	22.65	18.42	10.15	-22.39	-22.94	16.94	12.38	1.02	0.72	0.76
15	12	19	13	Citadel Wellington (Chicago) **	Nov-90	Multistrategy	33,200	43,700	9.03	19.32	24.51	26.58	38.22	23.43	18.17	19.18	NA	NA	NA	3.00	2.23	NA	0.15
NA	NA	16	14	Braddock Partners LP (Middleburg, VA)	Oct-93	Equity Long-Bias	572	15,200	5.00	27.86	18.47	22.36	-22.10	22.84	18.06	15.71	-15.49	-52.00	13.77	15.68	1.23	0.86	0.88
11	15	22	15	Waha MENA Equity Fund SP (A) (Abu Dhabi, UAE)	Jan-14	Emerging Market-Equity Long-Bias	613	1,200	6.60	19.70	14.07	32.80	12.80	22.01	17.57	16.60	-14.25	-14.25	10.28	9.50	1.61	2.20	0.60
NA	NA	28	16	FengHe Asia Ltd (Singapore)	Dec-12	Emerging Markets - Asia	2,411	3,368	10.38	6.47	19.11	27.20	-4.82	17.27	17.31	15.68	-9.89	-9.89	9.06	10.93	1.70	1.33	0.46
NA	NA	NA	17	Dynamic Alpha Strategy (Seattle)	May-16	Volatility Arbitrage	451	556	10.68	18.31	17.28	15.62	12.53	17.06	17.10	17.43	-27.96	-27.96	25.98	24.59	0.62	0.67	-0.14
NA	NA	NA	18	Enko Africa Debt Class B (London)	Oct-16	African Macro/ Fixed-Income Relative Value	530	902	8.54	25.07	25.24	9.42	1.03	19.67	16.68	15.92	-1.10	-1.10	3.53	3.58	4.42	4.13	-0.10
NA	NA	23	19	Citadel Tactical (Chicago) **	Jan-08	Quantitative Equity	1,600	43,700	8.88	20.30	20.24	21.55	25.75	20.71	16.58	20.23	NA	NA	NA	1.75	2.31	2.93	0.08
NA	NA	38	20	Brook Absolute Return Focus USD C (London) ***	Jun-16	Equity Long/Short	1,040	4,100	11.78	12.27	51.01	6.84	26.50	21.89	15.75	11.43	-22.86	-22.86	27.36	26.35	0.62	0.25	0.38
				BarclayHedge Hedge Fund Index	Jan-97				-5.23	10.64	11.14	10.22	-8.24	7.60	7.23	8.07	-11.90	-24.09	7.18	7.08	0.86	0.87	0.90
				S&P 500 Total Return Index	Jan-80				-4.38	31.51	18.40	28.72	-18.11	18.94	18.48	12.10	-19.60	-50.95	15.26	15.04	1.14	0.54	1.00

** Citadel funds AUM are as of 1 January 2022. *** Brook Absolute Return Focus Fund includes $905M that is run separately as a UCITS with more than 90% of the same holdings as the hedge fund but with different weightings.

NA = Performance data was not available or fund did not qualify for inclusion.

> "Global economic prospects have been severely set back largely because of Russia's invasion of Ukraine."
>
> **- International Monetary Fund**

This year was the first time Skye Global was old enough to be considered. Launched in July 2016, it grabbed the top ranking. Jamie Sterne's equity long/short shop generated annualized returns of nearly 50% over the past five years, widely outpacing the next top-performing hedged equity manager North Peak Capital, which maintained its 2nd-place spot from last year by generating annualized gains of more than 34%.

Skye Global declined to comment for this survey. But according to regulatory filings, the fund combines quantitative, cyclical, qualitative, and macro analyses, and so far clearly to remarkable success. In less than six years, it has amassed $5 billion and has soft closed.

Major positions that significantly rallied, whose returns were further boosted by leverage, likely accounted for much of the fund's remarkable gains. According to its presentation, the fund targets gross leverage between 50% and 300%, and net leverage from 0% to 120%.

Before starting up Skye Global, Sterne was an equity analyst at Dan Loeb's Third Point, with a focus on the consumer, industrial, and healthcare sectors. And his first gig was an equity research analyst at Lee Ainslie's Maverick Capital.

One common trait this survey has discerned over the years is that funds generating extraordinary returns way above the mean frequently fall hard during bouts of extreme market selling. Concentration and leverage are often key factors driving sharp rises and falls.

So far in 2022, a number of elite hedged equity managers (who didn't make the survey) have been smacked around, notably BlackRock Emerging Companies, Maverick, and Tiger Global. In contrast, the Top 50 gained nearly 2.5% through the first quarter.

Skye Global was down less than -6% for the year through March. However, subsequent reporting revealed the fund lost -24% through April, indicating **(continued on p. 14)**

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NA	NA	NA	21	Schonfeld Strategic Partners (New York)	Jan-16	Multistrategy	7,000	10,900	16.20	14.30	9.90	13.90	4.50	12.70	14.30	14.20	NA	-16.40	NA	10.16	NA	NA	NA
NA	29	25	22	Boothbay Absolute Return Strategies LP (New York)	Jul-14	Multistrategy	1,210	1,810	6.07	11.80	25.24	11.38	1.27	15.97	13.93	11.28	-2.41	-2.41	4.71	4.25	2.53	2.33	0.37
NA	24	30	23	D.E. Shaw Composite (New York)	Mar-01	Multistrategy	19,900	64,000	11.21	10.33	19.14	18.35	24.70	15.87	13.82	12.37	-2.80	-17.38	3.68	NA	3.46	NA	0.18
NA	43	20	24	HGC LP (Toronto)	Jun-13	Event Driven	783	1,000	7.54	9.01	38.02	8.32	1.39	17.68	13.00	18.33	-5.45	-5.45	9.08	7.61	1.31	1.77	0.23
36	32	11	25	Mudrick Distressed Opp. LP B (New York)	Jul-09	Event Driven	402	1,370	16.59	22.30	11.28	7.94	0.84	13.68	12.80	10.82	-16.28	-31.31	17.48	13.42	0.67	0.77	0.12
NA	NA	NA	26	Whitehaven Credit Opportunities Master (New York)	Dec-09	Municipal Credit Opportunities	1,214	1,214	5.35	9.28	28.14	7.39	5.52	14.56	12.51	9.81	-0.48	-1.75	3.85	3.74	2.86	2.77	0.03
NA	NA	NA	27	Gemcorp I Ltd (London)	Sep-14	Credit Long/Short	576	NA	5.00	11.64	15.96	12.95	15.23	NA	12.34	11.05	NA	-13.20	NA	8.39	NA	NA	NA
37	NA	36	28	Millennium USA (New York)	Jan-90	Multistrategy	17,694	50,798	5.75	9.73	25.28	13.43	12.39	15.96	12.14	13.78	-3.59	-7.01	3.92	4.27	2.83	2.64	0.26
8	18	40	29	John Street Capital (Vantage) (London)	Jul-13	Systematic Macro	3,411	3,411	13.30	13.16	5.64	23.77	26.79	13.95	12.13	12.22	-9.34	-19.54	13.87	14.94	0.80	0.77	0.01
NA	28	21	30	Intrinsic Edge Capture LP (Chicago)	Jan-07	Equity Long-Bias	483	1,000	7.78	6.67	15.32	13.65	1.03	11.82	12.07	13.88	-12.24	-15.97	11.46	13.20	0.96	0.98	0.48
				BarclayHedge Hedge Fund Index	Jan-97				-5.23	10.64	11.14	10.22	-8.24	7.60	7.23	8.07	-11.90	-24.09	7.18	7.08	0.86	0.87	0.90
				S&P 500 Total Return Index	Jan-80				-4.38	31.51	18.40	28.72	-18.11	18.94	18.48	12.10	-19.60	-50.95	15.26	15.04	1.14	0.54	1.00

NA = Performance data was not available or fund did not qualify for inclusion.

DYNAMIC ALPHA STRATEGY

Monetizing Volatility

Compelling funds are not just those delivering attractive returns over time, but ones that also widely outpace performance of their respective strategies, revealing a distinct edge to their investment approach.

Seattle-based Dynamic Alpha Strategy, with $451 million in assets, has done just this in trading volatility as a repeatable source of absolute returns. Over the past five years through 2021, this 17th-ranked fund has generated net annualized returns of more than 17%, more than doubling the average hedge fund return, outpacing the Top 50 average return, and trailing a roaring bull market by just 1.3% a year.

According to BarclayHedge, the average volatility trading fund returned less than 3% a year over the same period. And through the first quarter of 2022, when these vol funds were collectively down more than -3%, Dynamic Alpha was up 2.7%.

Firm CEO and founder Fariba Ronnasi started in finance 29 years ago managing client assets with a strong focus on risk management. She was drawn to this facet of the business after learning at a young age how uncertain life can be. Born in Iran, she and her family fled the country without any assets just before revolution struck in 1979. They sought political asylum in the US and ended up in Seattle.

After serving as a managing director in the private wealth division of Columbia Management, Ronnasi started Lattice Capital in 2006 to create alpha-centric alternative strategies across various asset classes. Dynamic Alpha is the firm's flagship strategy, launched in May 2016. Its goal: to capture market inefficiencies in the highly liquid S&P 500 Index options market. It arbitrages the spread that inherently exists between implied volatility (price investors are willing to pay to hedge future volatility) and realized volatility (the value of the actual variance over the same period).

Ronnasi explains the basic concept of the strategy: "We sell insurance to investors

(continued on the following page)

CEO and Founder Fariba Ronnasi

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HISTORICAL RANKINGS 2018	2019	2020	2021	Fund Name	Launch Date	Strategy	Fund Assets ($ Million)	Firm Assets ($ Million)	2018 Net Returns (Hurdle: 5%)	2019 Net Returns (Hurdle: 5%)	2020 Net Returns (Hurdle: 4.5%)	2021 Net Returns (Hurdle: 4.5%)	2022 Net Returns (%)	3-Year Annualized Net Returns (%) thru 2021	5-Year Annualized Net Returns (%) thru 2021	Annualized Net Returns (%) since Inception thru 2021	Worst Draw Down (%) Last 5 Yrs thru 2021	Worst Draw Down (%) since Inception thru 2021	5-Year Annualized Standard Deviation thru 2021	Annualized Standard Deviation since Inception thru 2021	5-Year Sharpe Ratio thru 2021	Sharpe Ratio since Inception thru 2021	5-Year Fund Correlation versus S&P 500 TR thru 2021
58	47	35	31	Owl Creek Credit Opps LP (New York)	Jul-12	Event Driven	555	2,102	6.54	9.22	10.52	17.73	-7.51	12.43	11.48	9.07	-15.09	-15.09	8.68	7.03	1.20	1.20	0.62
NA	NA	NA	32	CRC Bond Opportunity Trading (New York)	Oct-16	Credit Long/Short	526	5,700	5.87	13.63	11.37	10.40	1.27	11.79	11.32	10.99	-6.43	-6.43	NA	5.65	NA	NA	NA
NA	NA	NA	33	Schonfeld Fundamental Equity (New York)	May-16	Equity Long/Short	3,900	10,900	8.70	15.50	14.10	7.70	3.20	12.30	11.20	9.00	-5.13	-5.72	5.79	6.15	1.72	NA	0.27
51	40	32	34	Citadel Global Fixed Income (Chicago) **	Aug-12	Macro/Fixed Income	2,600	43,700	6.74	5.49	17.53	12.97	33.15	11.88	11.10	10.12	NA	NA	NA	1.85	1.65	1.40	0.35
31	10	31	35	Kryger Event (formerly Omni Event) (London)	Sep-13	Event Driven	891	891	14.64	11.13	9.19	9.26	4.07	9.85	10.88	10.12	-14.68	-14.68	10.16	8.98	0.96	1.05	0.37
NA	NA	45	36	Hudson Bay International (New York)	Jun-06	Multistrategy	8,816	13,143	5.94	8.02	16.31	13.49	3.22	12.56	10.73	9.19	-1.03	-6.09	3.87	4.52	2.50	1.82	0.18
NA	20	27	37	Global Sigma (AGSF) (Boca Raton, FL)	Apr-13	Options Strategy	330	330	15.84	10.11	7.25	7.64	-5.94	8.32	10.50	11.92	-3.14	-13.42	2.36	5.47	4.00	2.06	-0.39
60	44	33	38	Wolverine Flagship Trading Ltd (Chicago)	Sep-01	Multistrategy	3,871	3,871	5.13	10.88	13.62	10.74	5.75	11.73	10.12	8.21	-10.54	-25.97	6.66	6.78	1.32	0.97	0.66
NA	NA	NA	39	Drawbridge Special Opportunities LP (New York)>>	Jul-02	Credit Long/Short	6,300	53,000	6.77	11.00	6.34	15.43	0.63	10.86	9.61	NA	NA	NA	NA	NA	NA	NA	NA
NA	NA	34	40	Aristeia Partners LP (UR) (New York)	Aug-97	Multistrategy/ Credit Rel. Value	2,048	5,861	6.82	6.15	21.93	8.17	0.91	11.87	9.46	11.10	-4.28	-29.22	5.10	7.71	1.65	1.20	0.39
				BarclayHedge Hedge Fund Index	Jan-97				-5.23	10.64	11.14	10.22	-8.24	7.60	7.23	8.07	-11.90	-24.09	7.18	7.08	0.86	0.87	0.90
				S&P 500 Total Return Index	Jan-80				-4.38	31.51	18.40	28.72	-18.11	18.94	18.48	12.10	-19.60	-50.95	15.26	15.04	1.14	0.54	1.00

** Citadel funds AUM are as of 1 January 2022. NA = Performance data was not available or fund did not qualify for inclusion. >> Drawbridge 2022 net returns are through November.

at a slight premium to what is anticipated to be the market's actual volatility and target sustainable yields, instead of seeking maximum gains, which would drive up risk and lower long-term performance."

Her team has devised extensive rules in structuring a net unlevered portfolio that seeks to defend itself across a wide range of market environments. At the same time, the fund's low collateral requirements help it avoid margin calls. This has enabled the fund to register monthly gains more than 80% of the time, and to target and realize annualized returns between 13% and 18% — all while being negatively correlated to the market.

Dynamic Alpha did, however, suffer a sudden blow in February 2020 right as Covid hit markets. That's when its sole custodian, Jefferies, imposed new limits on options trading. "We knew about this coming policy change," recalls Ronnasi, "and we were shifting to J.P. Morgan and Interactive Brokers to service our account." However, as Covid triggered greater market volatility, Jefferies accelerated the removal of options exposure from its platform. "Jefferies' actions made it more difficult for us to efficiently manage the portfolio and transfer it between custodians," Ronnasi recalls, "preventing us from sidestepping the volatility that hit toward the end of the month."

The fund suffered an uncharacteristic loss of nearly -28% in February. But the strategy snapped back by more than 50% in March as markets suffered even steeper declines. "The portfolio is structurally designed to flip from short volatility in a normal market environment to long volatility that protects itself in an extreme environment," explains Ronnasi.

Dynamic Alpha ended that year up 17.28%. But two idiosyncratic months, which broke way past normal monthly swings of several percentage points, ended up drastically increasing the fund's historical standard deviation to 28% and collapsing its Sharpe Ratio to 0.67. It's a case study of the need to dig into key performance metrics to accurately understand a fund.

Skye Global was hurt by hightened volatility triggered by rising interest rates and geopolitical risks that are slowing growth and sending net present valuations south.

Strategies

BarclayHedge tracks performance of 20 different strategies, ranging from hedged equity and credit, to event driven and various types of arbitrage to structured credit. "While this data provides a broad sense of how individual strategies have been performing over time," explains Ben Crawford, head of research at BarclayHedge, "they mask the wide dispersion of fund performance within each strategy."

While looking at a single year can also be misleading, 2021 revealed extraordinary breadth of strategy performance — nearly 20 percentage points (see table on p. 4).

This broad look revealed a startling shift. In 2019 and 2020, hedged equity funds, especially equity long-bias, were top-performing strategies. And no surprise with the market soaring in 2021, equity long-bias turned in its best performance over the past three years with net gains of more than 17%.

But distressed securi-

2022 SURVEY OF THE MOST CONSISTENT PERFORMING HEDGE FUNDS

GLOBAL INVESTMENT REPORT

HISTORICAL RANKINGS 2018	2019	2020	2021	Fund Name	Launch Date	Strategy	Fund Assets ($ Million)	Firm Assets ($ Million)	2018 Net Returns (Hurdle: 5%)	2019 Net Returns (Hurdle: 5%)	2020 Net Returns (Hurdle: 4.5%)	2021 Net Returns (Hurdle: 4.5%)	2022 Net Returns (%)	3-Year Annualized Net Returns (%) thru 2021	5-Year Annualized Net Returns (%) thru 2021	Annualized Net Returns (%) since Inception thru 2021	Worst Draw Down (%) Last 5 Yrs thru 2021	Worst Draw Down (%) since Inception thru 2021	5-Year Annualized Standard Deviation thru 2021	Annualized Standard Deviation since Inception thru 2021	5-Year Sharpe Ratio thru 2021	Sharpe Ratio since Inception thru 2021	5-Year Fund Correlation versus S&P 500 TR thru 2021
NA	NA	49	41	Arena Special Opportunities Onshore (New York)	Oct-15	Special Debt Opportunities	1,071	2,819	8.00	8.14	5.75	9.56	-1.57	7.81	9.38	7.54	-1.63	-1.63	3.01	2.82	3.11	2.67	0.18
NA	NA	37	42	Mariner Atlantic Multi-Strategy (New York)	Nov-95	Multistrategy	1,524	5,882	9.82	10.69	10.33	7.58	4.51	9.53	9.32	7.86	-3.12	-29.00	3.36	4.37	2.44	1.30	0.40
NA	31	44	43	Ninepoint TEC Private Credit F (Toronto) ^	Jan-12	Asset-Backed/ Enterprise Loans	1,063	6,212	10.58	8.57	5.68	10.43	8.28	8.21	9.19	10.03	-1.89	-1.89	2.23	2.35	3.51	3.69	-0.12
28	18	41	44	Twin Tree Capital Master (Dallas)	Jan-13	Volatility Trading	1,243	1,243	11.46	5.49	16.85	7.79	21.76	9.94	8.69	11.05	-5.63	-6.59	5.86	6.21	1.30	1.68	-0.01
4	13	48	45	Segantii Asia-Pacific Equity Multistrategy (Hong Kong)	Dec-07	Muitistrategy	6,200	6,200	11.34	5.52	7.87	9.80	6.34	7.72	8.60	13.69	-2.64	-10.16	4.70	8.24	1.54	1.55	0.08
17	25	43	46	Blue Diamond Non-Directional (Pfaffikon, Switz.)	Oct-11	Statistical Arbitrage	1,500	1,500	17.27	5.09	11.78	16.37	5.99	10.98	8.09	15.20	NA	-9.70	NA	11.10	NA	1.37	NA
52	NA	50	47	Episteme (ESQ Composite) (London)	Sep-09	Systematic Macro	1,112	1,366	13.82	14.47	4.50	7.05	7.84	8.59	7.99	5.45	-6.96	-9.95	8.77	7.97	0.78	0.62	0.25
NA	39	39	48	ChapelGate Credit Opportunity Ltd--B (Singapore) >	Dec-05	Credit Multistrategy	1,211	7,585	5.18	12.56	8.41	5.12	-4.64	8.65	7.95	7.97	-10.75	-12.79	5.02	4.53	1.38	1.59	0.66
NA	NA	NA	49	Tudor BVI Global (Stamford, CT)	Nov-86	Global Macro	19,800	38,000	10.28	11.11	15.53	5.64	10.10	10.30	7.67	NA	-3.29	NA	4.89	NA	1.35	NA	0.03
NA	NA	NA	50	Ramius Merger Strategy (New York) ^^	Jan-13	Merger Arbitrage	320	15,800	11.97	7.89	6.07	11.04	-0.10	8.31	7.54	7.76	-14.54	-14.54	9.70	9.04	0.66	0.79	0.78
				Top 50 Averages	13.47 yrs		3,441	9,997	11.70	15.35	20.61	16.76	5.72	17.37	15.46	13.79	-10.72	-16.67	10.95	10.06	1.78	1.51	0.31
				BarclayHedge Hedge Fund Index	Jan-97		NA	NA	-5.23	10.64	11.14	10.22	-8.24	7.60	7.23	8.07	-11.90	-24.09	7.18	7.08	0.86	0.87	0.90
				S&P 500 Total Return Index	Jan-80		NA	NA	-4.38	31.51	18.40	28.72	-18.11	18.94	18.48	12.10	-19.60	-50.95	15.26	15.04	1.14	0.54	1.00
				JP Morgan Gov't Bond Index (USD)	Jan-85		NA	NA	1.02	6.05	5.55	-2.54	-13.01	0.53	2.23	6.53	-3.86	-8.43	3.15	5.82	0.37	0.60	-0.24

^ Prior to Jul 2016 when the Ninepoint TEC Private Credit Fund Series F was created, performance and risk data were based on the Trust vehicle that was launched in Jan 2012 which ran *pari passu* with the present Fund. Performance data are based in Canadian dollars. > ChapelGate has not confirmed the fund's launch date, which may affect all data since inception.

Source: BarclayHedge, Preqin, and proprietary sources.

^^ Ramius assets reflect strategy-level AUM, and related performance data is based on the Ramius Merger comingled fund. Firm assets include Cowen Investment Management LLC and related entities (including those that may not meet the definition of "advisory affiliate" for Form ADV). Firm AUM includes unfunded capital commitments to private equity style investment funds.

NA = Performance data was not available or fund did not qualify for inclusion.

"The pandemic and the war may be redefining the economic constellation around which globalization and investing have been configured."

- Global Investment Report

ties grabbed the top spot in 2021, turning in gains of more than 20%. For the decade ending 2019, distressed was one of the weakest-performing strategies, registering low-single-digit returns.

The pandemic and the subsequent collapse in interest rates proved a boon for the strategy as struggling companies were able to benefit from the flood of liquidity. The strategy gained more than 13% in 2020 and more than 20% in 2021.

Also benefiting from cheap and plentiful money were several structured credit strategies. Collateralized debt obligations was the third top-performing strategy, having gained 16.3%, and asset-backed securities returned more than 13%.

However, mortgage-backed securities struggled, delivering just 3.4% in 2021, along with other debt-related vehicles.

Credit long/short, fixed-income arbitrage, credit long-only, and fixed-income diversified rounded out the bottom of the list last year, with returns that were barely in the black.

(story continues on p. 19)

Danish Economist Lars Christensen on the War and What's Ahead for Economies & Markets

Lars Christensen, courtesy photo.

What's your 30,000-foot view of present conditions?

We're seeing the collision of events each of which on their own would be a major matter. The pandemic, spiraling inflation, central banks way behind the curve, China locking down critical regions of its economy, and the unprovoked Russian invasion of Ukraine have caused devastation and soaring geopolitical tensions we haven't seen since Hitler was Chancellor of Germany.

Did the Russian invasion surprise you and why did so many analysts get this wrong?

No. Those who were surprised by the invasion didn't appreciate the cumulative picture Putin's activities were painting over the past 20 years. Many characterized these actions as a nuisance, much like the US misjudged the threat posed by al Qaeda before 9/11. And they didn't appreciate how Putin's circle of advisors has collapsed since 2008. This means Putin is not receiving a full presentation of reality and that's the problem, which makes it difficult to forecast what he might do next.

What's your perception of Putin?

The commonly accepted perception of Putin as an astute five-dimensional chess player is wrong. He thinks instinctively. What distresses me so much is the whole Putin narrative, which sounds like racial war with echoes of Hitler's concept of *Lebensraum*. This makes it impossible to understand the motives of the man. And no one has ever stopped him in the past. He's behaving like a street thug. He's not clever or artful enough to build a productive society. He would rather steal one.

How do you assess the West's response so far?

I'm extremely positive about the West's united and robust response to the Russian invasion — from well-calibrated sanctions to refugee resettlement, especially after nearly two decades in which Europe struggled with how to effectively and humanely deal with the influx of refugees from war-torn Syria and Northern Africa.

Do you believe the West's response will hold through 2022?

Yes. Opinions across Europe are remarkably unified against Russia. That means politicians can more easily remain united. I believe the next step we should consider is a global import tax on Russian energy exports. A worldwide 30 percent tax on oil and coal, and a 10 percent tax on gas and proceeds could ideally be sent back to Ukraine.

Do you think NATO is seeking an efficient Ukrainian victory or to bleed the Russian military and economy?

If one is cynical, it's possible to see the West's response has been to bleed Russia, not to seek a quick Ukrainian victory or an end to the war. A war of attrition is terrible for Ukraine. NATO officials are struggling with whether its actions are designed to save Ukraine or to defend NATO. It's probably both.

Are you optimistic about the potential outcome of the war?

Putin's horrendous mistake could lead to regime change in Russia over the next six months and possibly new leadership that may behave less aggressively towards its neighbors. We also might see a relatively swift integration of the Ukrainian economy into Europe — much faster than had there been no war. Further, it may make the communist party in China rethink the direction President Xi has been pushing the country in a more totalitarian direction.

IMF significantly reduced its 2022 global growth estimates in response to the war. Thoughts.

I am much less negative than the IMF on the impact of the war on the global economy. My fear is war will provide central banks the perfect excuse for not moving aggressively on inflation and missing their inflation targets. I'm most concerned about slowing Chinese growth due to the country's zero-Covid policies.

You don't believe residual pandemic issues explain much of the world's inflation?

Economies have reopened for more than a year. There are issues of delivery of goods and services. But it is demand and not a supply-chain problem. You have to stop printing money, you have to suck up liquidity, and you need to hike interest rates.

How would you assess the ECB's response?

With Europe growing slower than the US, I'm less concerned about ECB policy being too loose. With the war happening in its own backyard and on T.V. in Europe 24/7, it's very hard sitting in Frankfurt and not being influenced by the constant reporting of the war. The central bank should target interest rates so nominal demand grows at a steady, sustainable rate without causing excessive inflation.

Where and when do you think rates will peak?

US rates will possibly top out above 4 percent and eurozone above 3 percent toward the end of 2023 or early 2024.

How do you expect equity markets to respond in 2022?

When there's inflation and volatility, investors go to property and equity markets because they are good hedges against rising prices. So, right now, I'm not too negative about US and European equity markets. I think the S&P 500 is about 10-15 percent overvalued — the market is still expensive but not massively overvalued. European stocks are not very expensive given the outlook for inflation, which has essentially discounted valuations.

Is the EU making necessary financial transfers to assist countries on the front line hosting the most refugees?

No, and I don't expect any discretionary funds to be transferred either because the EU doesn't have the automatic mechanisms to respond like that. The silver lining is European unemployment is very low and refugees can be absorbed.

Do you think Covid, war, and now China locking down puts globalization at risk?

Governance will now get far greater attention than it once did, especially pertaining to international investments. The war is actually a strong argument for globalization. Had the world not been so integrated, then our ability to meaningfully respond to such crises would have been limited. This war shows how risky it would be to decouple from global trade because it would give up leverage in dealing with a crisis.

If the war stopped today, some estimate costs of $1 trillion or more to rebuild Ukraine. How is this going to be done?

This is going to be a massive undertaking. My first concern is the West simply pouring money into Ukraine. The country requires vastly enhanced, well-functioning democratic institutions to help deliver improvements. I'm optimistic the Ukrainian government will move in this direction after the war and learn from Poland and the Czech Republic, which undertook massive reforms in the 1990s after having gained their independence. One key: the country's businesses need to be more integrated with the West. If that happens, don't be surprised if rebuilding moves at an exceedingly rapid pace.

Who will be the key players rebuilding Ukraine?

The key partners will be Poland, the Baltic States, Romania, along with the Nordic countries and potentially the U.K. The leading international institutions will be the IMF, the World Bank, and the European Bank for Reconstruction and Development.

Do you think EU and NATO membership for Ukraine will follow?

No. I don't think there will be any kind of military alliance that will soon envelop Ukraine. EU membership . . . maybe in 15-20 years. When Ukraine is again free and independent and NATO membership is no longer needed, NATO membership will follow.

Lars Christensen specializes in international economies, emerging markets and monetary policy. He was an economic policy analyst at the Danish Ministry of Economic Affairs, then head of emerging markets research at Danske Bank. He is now the owner of the economic consultancy Markets and Money Advisory, advising large Scandinavian pension funds and European blue-chip companies.

The Top 50 funds highlight performance dispersion within individual strategies. Like last year's survey, hedged equity was the leading strategy with 15 such funds comprising the Top 50. They collectively returned 22.5% per year over the past 5 years through 2021, more than tripling the strategy's return.

The leading hedged equity performers were the aforementioned Skye Global and North Peak Capital. Both were relatively recent launches, July 2016 and August 2015, respectively. And both profited very well through concentrated investments in key holdings.

Driving the performance of the $1.3 billion North Peak fund, explains co-manager Jeremy Kahan, is "application of private-equity style due diligence in constructing a concentrated portfolio of 10-12 dynamic businesses trading at attractive prices." The fund typically targets companies worth between $1 billion and $10 billion that are generating strong free cash flow and high returns on invested capital.

Multistrategy had the second most funds in the Top 50. Their five-year annualized return was more than 12%, tripling the strategy's average gain.

Running $33.2 billion, Citadel Wellington (No. 13) was the largest of the top performers of the group, producing annual returns of 18% since the beginning of 2017. And the fund is one of 15 in the 2021 survey that also has made the cut in the previous three surveys, which all shared the current ranking methodology.

Turning in the second-best performance was the $7 billion Schonfeld Strategic Partners (No. 21) with annualized gains of 14.3%. And the $1.2 billion Boothbay Absolute Return Strategies (No. 22) generated the third-best returns with annualized gains of 13.9%.

Credit long/short funds produced annual returns of less than 3.5% over the past 5 years. However, this strategy had the third largest number of funds in the survey: five. Collectively, they more than tripled the strategy returns with gains of 12.4% since 2017. And in contrast with the scale of multistrategy funds (among the largest in the survey), the three top-performing credit long/short funds were each running less than $900 million.

The top-performer is Millstreet Credit (No. 8). The $814 million fund has made the survey each of the last four years, posting five-year annualized returns of 20.7%. London-based Gemcorp I (No. 27), managing $576 million, produced 12.3% gains. And New York-based CRC Bond Opportunity Trading (No. 32), running $526 million, delivered profits of 11.3%.

> "With real interest rates turning positive, corporate profits will also decline, and this eventually leads to cost cutting and layoffs that will eventually slow the economy and lead to recession."
>
> \- Ken Griffin

Two unusual fixed-income relative value funds made the survey for the first time. Whitehaven Credit Opportunities (No. 26) invests in various municipal credits across the country, from local project and general obligations to authority and state-level paper. Enko Africa Debt (No. 18) invests in a wide range of the continent's sovereign debt, ex-South Africa. An important source of returns for both funds is targeting temporary mispricing between comparable bonds which managers expect will correct.

Over the past five years through 2021, Whitehaven

WAHA MENA

Much More Than Oil

Abu Dhabi-based Waha MENA is one of the largest hedge funds in the Middle East/North African region and one of the most consistently performing — the reason why the fund is again being profiled.

While the Middle East benefits greatly from being the source of much of the world's oil, manager Mohamed El Jamal has profited from the region's expanding investment opportunities beyond energy. Nearly two-thirds of Waha's book are comprised of financials and materials; one-quarter is invested in consumer discretionary and real estate.

The value of this diversified approach was evident soon after the fund was launched in January 2014. Oil started a protracted slide from above $100 a barrel to $28 by the start of 2016. During this time, the fund was up more than 37%.

El Jamal has sustained this performance. His five-year trailing annualized return in US dollars through 2021 was more than 17.5%, just 1 percentage point behind the S&P 500. But the manager delivered these gains with far less risk with an annual standard deviation of 10.3% — one-third less than the market's. This produced a Sharpe Ratio of 1.61 — significantly higher than the market's. The fund's worst drawdown of -14.25% was 5 percentage points less than the S&P 500's.

One key driver of Waha's outperformance is finding little known but well-managed companies with sound business models, healthy balance sheets, and a proven ability to effectively allocate capital. These firms also benefit from being domiciled in countries with substantial sovereign wealth and government spending, and whose currencies are generally pegged to the US dollar.

Portfolio Manager Mohamed El Jamal

The fund avoids momentum plays and limits purchases to undervalued shares at prices that are less likely to materially sell off. It diversifies its book across 50 to 60 stocks, with weightings typically between 2% and 4% of NAV. A select number of high-conviction investments can top out at 10% to 12%. El Jamal argues this approach to portfolio selection and weighting can also help mitigate losses.

Not so long ago, MENA's share in emerging market indices wasn't large enough to register. Now it represents 8% of EM due to rising public offerings, foreign ownership, and market values. Deletion of Russian equities from indices also helped. Growing liquidity and liberalization of markets are enhancing the ability to short as well. All this has been creating a virtuous cycle, outlined below, that's supporting the fund's performance.

- Expanding limits on foreign ownership is bolstering liquidity and promoting further research into such firms;
- Equity index flows are increasing due to rising valuations of underlying companies;
- Rising investments into core commodities, boosted by sanctions on Russian energy, are further driving rotation into the region and stock valuations; and
- Greater awareness of the region's diverse range of investment opportunities is promoting more research in non-core industries.

Emerging market assets are typically at greater risk when US interest rates rise. But El Jamal believes the prevalence of dollar-based economies and businesses in the region has so far helped shield assets against monetary tightening. Also helping: Inflation and the war are increasing dollar-priced commodities. This, in turn, encourages investors to seek shelter in the region against escalating interest rates, further supporting prices.

A key sign of the times: Saudi Aramco has recently displaced Apple as the largest company in the world with a valuation of more than $2 trillion. And the state-owned oil giant is now considering a huge public offering of its trading arm, according to the *Financial Times*. This would follow the firm's IPO two years ago.

While asset prices are rising in the region, El Jamal knows quantitative tightening and rising rates will eventually lower financial asset prices, pushing up risk premia and volatility. And commodity prices and global growth will cycle lower.

So far, Waha MENA has held up well during 2022's rough start, having climbed 17% in the first four months of the year, outpacing the S&P 500 by about 30%.

2022 SURVEY OF THE TOP 50 HEDGE FUNDS

Why Good Funds Didn't Make the List

The most common reason a hedge fund doesn't make this survey is due to inconsistent or lackluster returns. But some very good funds have been excluded because they didn't meet all the thresholds for inclusion. Here are several examples I had to pass on.

Los Angeles may not be the most likely place to find a compelling hedge fund. But that's where David Brown's $2.1 billion **Hawk Ridge Master fund** is based. Since its launch in 2007, this small- to mid-cap-focused equity fund has consistently delivered absolute returns, suffering only one down year in 2008. A unique part of the fund's strategy is maintaining a steady 50% net long book, complemented with opportunistic shorts. The value-oriented, fundamentally driven manager typically avoids financials, energy, commodities, and biotech to sidestep their volatility. Hawk Ridge's five-year net annualized returns through 2021 were 12.25%, virtually the same rate of return it has delivered since inception. But it didn't straddle the 5% hurdle in 2018, being up 3.9% and outpacing its smaller-cap benchmark by 14%.

Concentrated funds are very appealing because they reflect a manager's best ideas. Further, a few high-conviction investments are much easier for a manager to carefully track. New York-based **DG Capital Management**, with $542 million in assets, runs a concentrated version of its Value Partners fund (Class C) that's focused typically on 10 small-cap event-driven distressed opportunities. They are made up of post-reorganization equity, distressed debt, and other special situations. The strategy has delivered 20.81% annualized gains over the past five years through 2021 and more than 23% since it was launched nearly a decade ago as an SMA. The strategy never had a down year, and its worst drawdown occurred when it temporarily lost a quarter of its value as the pandemic struck in early 2020, only to end the year up 22.81%. But it didn't make the cut because the C class had only $115 million under management.

Australia's **L1 Capital**, with $5 billion in assets, also makes the case for looking beyond traditional locations for fund managers. Its small- to mid-cap Global Opportunities fund, launched in June 2015, has been a remarkable performer. L1's Miami-based manager, David Feldman, takes an equity-oriented multistrategy approach to investing in the US, Europe, and Asia. The fund was up over 12% in 2018 when markets and hedge funds lost money. It has never had a down year and may have had the best performance of any fund during the core pandemic years of 2020 and 2021 when it cumulatively gained 182%. And during the rough first quarter of 2022, it was up nearly 2%. Potential investors need to understand how this idiosyncratic manager generates consistent gains. The fund's net annualized returns over the past five years through 2021 were 37.5%. But with assets of $270 million, the fund was $30 million short of the required minimum.

has generated 12.5% net annualized returns; Enko has done even better, producing yearly returns of more than 16.7%. And both funds' returns were uncorrelated with the S&P 500.

It will be intriguing to see how these funds navigate a rising interest rate environment.

Size

Over the years this survey has frequently found smaller managers making up a large portion of the Top 50. Last year's survey included 29 funds that were managing less than $1 billion. This year, that number declined to 23.

That said, 8 of the top 11 funds were managing under $900 million.

While many major allocators may stick with large funds for their well-established research and management teams and to avoid headline risk, Jérôme Berset, head of alternatives at the $181 billion Zurich-based EFG International, also sees merit looking into smaller funds.

"Such managers with proven track records of more than five years," explains Berset, "can offer certain advantages over their larger brethren." They are able to access a much greater part of the investment universe — from mega-cap to micro-cap — and are less likely to affect prices as much as larger funds might. "And with their holdings often distinct from major market positions, performance of some smaller funds tends to have less market beta," notes Berset.

While several large funds dropped off this year's list, including Tiger Global and Element Capital, the 2022 survey still hosts some very big shops. They have helped push up the average fund size from last year's $3.1 billion to $3.4 billion. Nineteen funds manage between $1 billion and $5 billion and another 8 funds have over $5 billion in assets.

Citadel, which collectively ran nearly $44 billion as of the end of last year, has three funds on the list with Wellington (No. 13) and Tactical (No. 19) both top 20 performers. Schonfeld's $7 billion Strategic Partners (No. 21) and $3.9 billion Fundamental Equity (No. 33) is the only other manager with multiple listings.

D.E. Shaw's nearly $20 billion Composite (No. 23) and the $17.7 billion Millennium (No. 28) are solid long-term performers. Same goes for the $8.8 billion Hudson Bay (No. 36), $6.3 billion Drawbridge Special Opportunities (No. 39), $19.8 billion Tudor BVI Global (No. 49), and $6.2 billion Segantii (No. 45).

Several reasons explain the increasing size of funds making the survey.

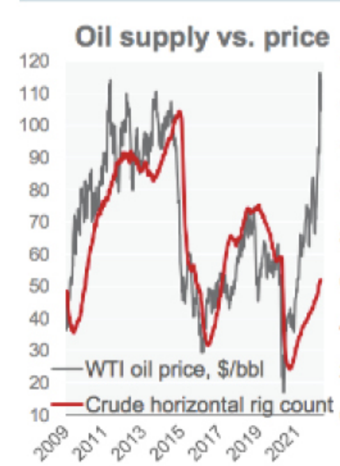
First, six of the largest funds are multistrategy vehicles that rely on an expandable in-house multi-manager platform, which allows them to consistently absorb new investor allocations. Second, data on certain larger funds that had not been accessible became available this year. Third, some highly successful managers passed their five-year mark in 2021, qualifying them for inclusion in this year's survey, including the top-ranked $5 billion Skye Global and the $3.9 billion Schonfeld Fundamental Equity. And fourth, some very successful smaller managers are getting bigger due to appreciation and greater investor interest. Second-ranked North Peak Capital, for example, saw its fund expand from $823 million at the end of 2020 to $1.3 billion by December 2021.

> "I think we're in one of those very difficult periods where simple capital preservation is the most important thing we can strive for."
>
> - Paul Tudor Jones

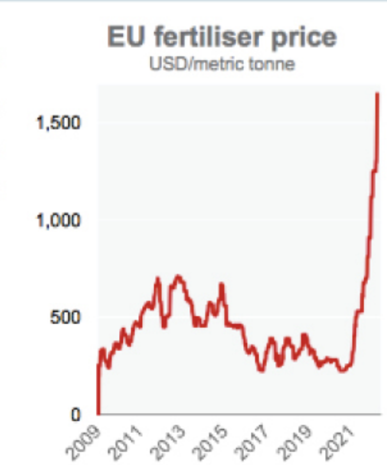
Risks and Opportunities

The sharp rise in volatility and uncertainty — the common theme threading through manager and allocator interviews — has produced bifurcated responses.

SOARING COMMODITY PRICES

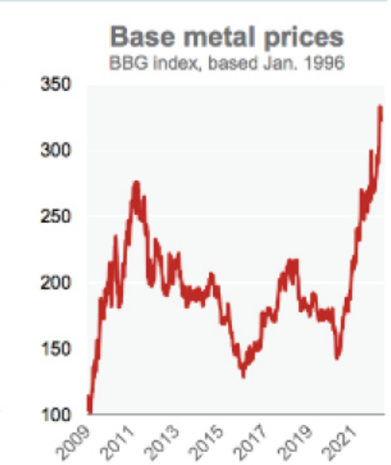


Source: Baker Hughes, Bloomberg, GIAM



Source: Green Markets, Bloomberg, GIAM

Source: Bloomberg, GIAM



Source: Bloomberg, GIAM

2022 SURVEY OF THE TOP 50 HEDGE FUNDS

US VALUE STOCKS HAVE HELD UP BETTER THAN GROWTH STOCKS SO FAR IN 2022

Source: MSCI

Many have turned increasingly cautious, evidenced by the general reduction in leverage and net exposure (see graph on p. 27).

But recalling F. Scott Fitzgerald's quip, "The test of a first-rate intelligence is the ability to hold two opposed ideas in mind at the same time and still retain the ability to function," some of the shrewdest managers are profiting from disruption triggered by rising interest rates and commodities and falling stock and bond indices.

Case in point is the $44 billion hedge fund group Citadel. Its three leading funds, all in the Top 50, have turned in strong first quarters while the S&P 500 was losing -4.6%. Multistrategy Wellington was up nearly 5%, quantitative equity Tactical climbed more than 6%, and the macro-oriented Global Fixed Income delivered nearly 10% — all while the firm's founder is keenly aware of risks that lie ahead.

Citadel's Ken Griffin thinks recession is inevitable, triggered by high inflation and the need to bring interest rates up sharply. He explains doing so will cut into the very high net present value of growth stocks whose valuations were significantly predicated on cheap money.

"With real interest rates turning positive," says Griffin, "corporate profits will also decline, and this eventually leads to cost cutting and layoffs that will eventually slow the economy and lead to recession." In this environment, he sees value shares holding up better than growth (see graph to the left).

If US growth does indeed stall, David Kelly, chief global strategist at J.P. Morgan Asset Management, thinks a recession will probably be far milder than those that were brought on by the Financial Crisis and the pandemic. "It would likely be deep enough to mop up inflation pressures and curtail job openings," posits Kelly, "but not bad enough to damage the long-term prospects of the economy overall or most companies operating within it. In time, growth would resume, margins would recover and markets would rebound."

But Paul Tudor Jones thinks we're in for more challenging times, "where simple capital preservation is the most important thing we can strive for." Jones is clearly referencing the hazardous simultaneous de-

HEDGE FUND INVESTING IN RUSSIA

Before 2022, many emerging market fund managers were intrigued by Russia. From 2010 through 2021, the local benchmark stock index, MOEX, nearly tripled in value in local currency terms. It has given back nearly two-thirds of that from February through April. And veteran emerging market investor Mark Mobius, founder of Mobius Capital Partners, believes, "it will be impossible to invest in Russia for a long time."

Institutional Investor reported in early April a "significant number of funds, all under $2 billion and many quite small — well under $500 million — had exposure to Russian equities of between 10 and 20 percent. More than 10 funds had between 20 and 40 percent exposure, while four funds had 40 to 70 percent exposure — including a number of funds from Firebird Management, which are exclusively focused on Russia."

A longtime colleague and emerging market hedge fund manager, who has an extensive track record of generating consistent returns while effectively managing risk, provides ground-level insight about investing in Russia. Because of the subject and his firm's reticence for press, he provides his thoughts anonymously.

He's been investing in Russia for many years. In 2021, with commodity prices rebounding, he saw a number of compelling blue-chip Russian energy and financials based on attractive corporate finances, valuations, growth prospects, and dividends. "These companies' reliance on global auditors, along with a maturing and liquid marketplace," explained the fund manager, "brought a reasonable degree of comfort to this kind of Russian exposure."

In the energy space, he had liked Gazprom and Lukoil. In financials, he saw potential in Sberbank, which, before the war, was trading at book value, with a return on equity of 24%, and a dividend of more than 7%.

However, in the lead-up to invasion, the manager cut his significant exposure to Russia by two-thirds. His weighting moved inversely with the number of Russian troops massing around Ukraine's borders. He did this despite widespread optimism among his Russian-based financial sources that war was unlikely. Other asset managers he spoke with shared a similar optimistic sentiment.

Why was he cautious? "In seeing equity prices declining and uncertainty rising, I didn't see any compelling reason to maintain significant exposure to Russia. I could always reestablish these positions if I was wrong." This decision echoes the manager's steady focus on risk to limit shocks to his portfolio.

As Russia became financially isolated, it halted foreign trading of local securities, and hedges stopped working. Before sanctions took effect, sufficient liquidity enabled shorting of large-cap Russian stocks and ETFs. Russian credit default swaps were viable hedges.

It's the first time the manager could recall when hedging in a reasonably evolved market failed and where bankruptcy could be triggered because custodians couldn't make payments to creditors. The manager posits that rating agencies and courts may have a problem identifying reasons for pending default: Were they caused by violation of international law and the imposition of sanctions or by an inability to pay?

Even before such a reckoning is made, many institutional investors completely wrote off their losses, including the likes of Fidelity, T. Rowe Price, and UBS. This manager did the same. The question they all face: what to do with these assets?

Russian capital markets have reopened. But foreign investors can't trade them. And if foreign investors attempt to execute a trade with a non-Russian party, they currently get nickels or dimes on the dollar.

The manager believes Russian blue-chip companies are worth more than what foreign investors can now receive for them. "It makes sense for the time being to hold on to these positions," he explains. "The question is not one of valuation but whether Russia will be an investable market in the future, even if Putin is no longer in charge."

The matter has gotten more muddied for investors who held global depositary receipts of Russian companies in their respective local markets and currencies. Russia recently canceled these GDRs, transforming them into ruble-denominated shares.

How will this all play out? The manager's best guess is that two markets for Russian shares will evolve: one for higher-priced domestic Russian investors; the other for foreign investors whose shares will be worth much less. Arbitrage that normally keeps the prices of such dual listings in balance when markets are fungible will likely benefit only Russian investors.

While it's hard to see an end to the current crisis, the fund manager reminds us, "Russia has a lot more to offer the world than hacking, assassination, and war. It's home to remarkable creativity in the arts, music, literature, and science. It's an important commodities market and is developing other sectors, including technology.

"But in a single, mindless action, the government has erased decades of market improvements. The Russian economy will not be embraced by the West for quite some time and only when the Kremlin turns less belligerent, committing itself to being part of the world order rather than seeking to break it."

Mindful of Russian history, it might take a while for that to occur.

cline in equities and bonds — something markets have never seen before (see graph on p. 6).

Since the 1960s, according to the $151 billion asset manager Man Group, "there have been 44 individual instances of the S&P 500 Index enduring five or more consecutive down weeks. Since 1973, US Treasurys have had 31 such losing streaks lasting at least five weeks. "Yet these prolonged sell-offs," Man observes in a recent note, "had never coincided — until the start of May."

This disconcerting alignment is also a big deal to EFG's Jérôme Berset. He explains, "these trends are telling us markets are bracing for slowing growth while central banks have little choice but to tighten monetary policy to break the current inflation spiral."

Berset thinks the collision of these opposing trends will generate significant dispersion. "Digging deeper into sectors, industries, and individual companies can tell a different story — some worse, others better," explains Berset. "Such differentiation creates idiosyncratic opportunities that passive investing won't be able to pick up on."

Thinking this is more than markets adjusting to various stresses, Berset believes "we're entering an inflection point triggered by Covid, war, and rising interest rates which collectively will challenge the efficacy of traditional ETF passive investing in long equity and bond indices." Berset argues this is making the case for alternatives that can better navigate the strong trends that are hitting both stocks and bonds by "identifying positions that will benefit from the shifting macroeconomic landscape both regionally and globally."

> "We're entering an inflection point triggered by Covid, war, and rising interest rates which collectively will challenge the efficacy of traditional ETF passive investing in long equity and bond indices."
>
> **- Jérôme Berset, EFG International**

Toward that end, he's combining systematic CTAs and discretionary macro managers alongside market neutral, event driven, relative value, and distressed strategies to better handle the turbulence we're heading into while delivering consistent absolute returns.

Dispersion on a more global level will also be enhanced by diverging monetary policies, according to Nathanaël Benzaken, head of alternatives at Paris-based Amundi, which manages €2 trillion. He oversees €20 billion in hedge funds.

Though inflation is now comparably high in both Europe and the US, Benzaken thinks the impact of war along with slower European growth is resulting in distinct monetary responses by the ECB and the Fed. While he believes Europe and the US will experience sustained interest rate hikes, Benzaken thinks, "there will be a disconnect between European Central Bank and Fed behavior." With ECB Deposit Facility Rates currently at -0.50%, he doesn't project overnight rates to turn positive this year.

To help drive uncorrelated returns in this increasingly challenging environment, Benzaken is also relying on CTAs and discretionary global macro managers. And to exploit growing dispersion, he's also targeting special situations, merger arbitrage, credit, and relative value managers.

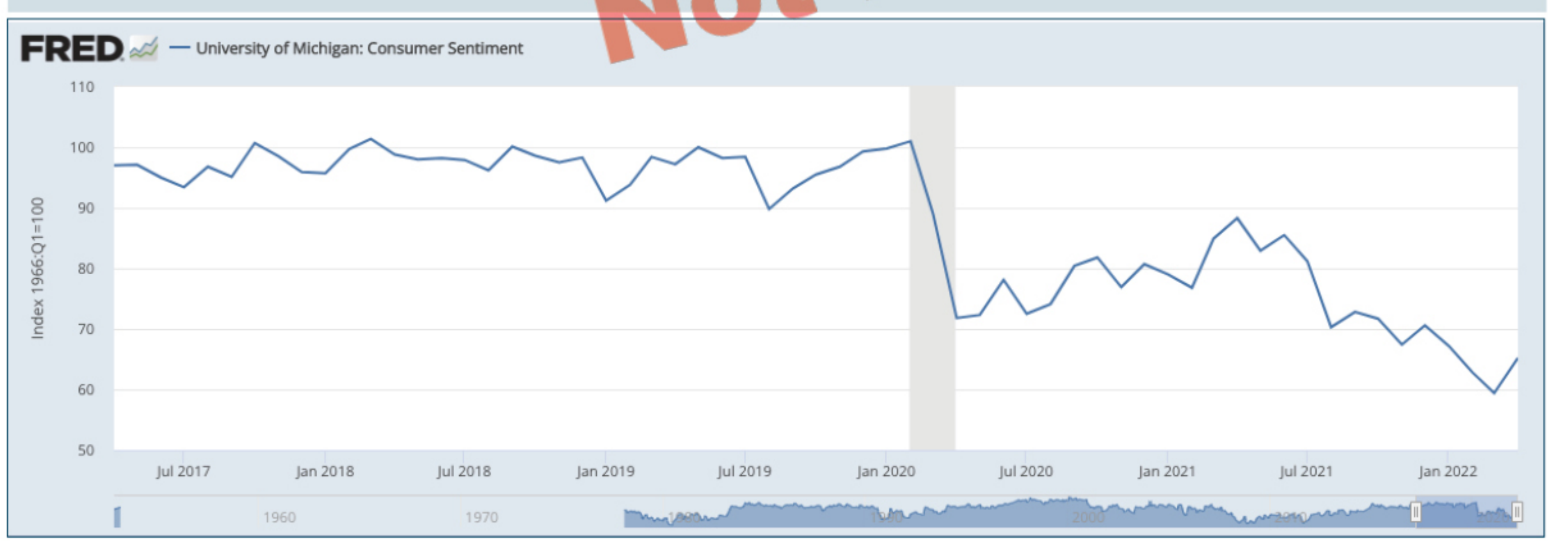
The European Central Bank's unclear response to inflation "is confirmation the war has further delayed European recovery," according to Filippo Casagrande, head of Insurance Investment Solutions with €2.5 billion in hedge fund investments at the €585 billion Generali Asset and Wealth Management. He believes after the current spate of negative news filters through continental shares, Europe may become a compelling investment destination.

But until then, Casagrande is directing new money into the US. "While the US isn't immune from the slew of negative global forces, the country does appear to be best positioned to weather the current turbulence, especially since its economy was already rallying before the war started, is largely energy independent, and is far more removed from the fighting."

[Note: In early June, well after these interviews were conducted, ECB President Christine Lagarde surprised markets by suggesting a more aggressive stance. She signaled near-term rates could rise by as much as 75 bps. That would be 50 bps more than had been anticipated.]

BlackRock's CEO sees another systemic factor that will further drive inflation and interest rates. Larry Fink believes the Russian invasion of Ukraine may be triggering "an end to the globalization we have experienced over the last three decades." He fears this will leave many communities and people feeling isolated

COLLAPSING CONSUMER CONFIDENCE



Shaded areas indicate US recessions.
Source: University of Michigan

fred.stlouisfed.org

VOSS CAPITAL
Outside The Box

Travis Cocke says he doesn't have the traditional Wall Street pedigree that many hedge fund managers share. But he believes his performance edge is in part derived from that distinction. Cocke combines a highly disciplined investment process with a more nuanced understanding of human and market behavior to help see beyond common biases.


Portfolio Manager Travis Cocke

Since its launch more than a decade ago in October 2011, Voss has generated net annualized returns of around 20%. This is the same rate of return the fund has delivered over the past five years through 2021, which earned it the 9th spot in this year's survey.

The $312 million fund is a value-oriented long/short strategy that targets small- and mid-cap stocks in the US and Canada, which Cocke believes are misunderstood or underfollowed. "We look for companies that we think are on the verge of experiencing accelerating revenue growth and expanding margins," the manager explains. "These improvements can be a harbinger of future multiple expansion that helps distinguish our measure of a company's intrinsic value from the consensus."

At the same time, the team looks for market fears triggered by temporary negative indicators that are misread. This can include forced institutional selling, confusion surrounding a company's growth strategy or a changing business model — events that don't suggest permanent sales or earnings impairment.

Voss also wants to see alignment of management and shareholder interests, including executive compensation directly linked to value creation, the potential for large share buybacks, and issuance of special dividends.

The fund then challenges its own convictions through in-

(continued on the following page)

and looking inward, exacerbating "the polarization and extremist behavior we are seeing across society today."

Generali's Casagrande also sees increased movement toward deglobalization. He fears this will not only drive prices higher, but could eventually lead us towards the hyperinflation of the late 1960s and 1970s. If economies trend in that direction, Casagrande says it would fundamentally alter investment analysis and selection.

While we're not there yet, Casagrande continues to de-risk his exposure. He's targeting low-to-negative correlation to both equity and bond markets through event driven, credit long/short, volatility trading, and market neutral managers.

Cédric Dingens, head of investment solutions and alternative investments at the CHF10 billion Swiss-based NS Partners, sees any material move away from globalization as a major risk to the world's second-largest economy. He says, "this would be on top of the negative effects of China's Zero-Covid policy, the possibility war-related sanctions may morph over to the mainland, and leadership's decision to delist companies from foreign exchanges, which is further reducing liquidity and increasing uncertainty about the Chinese experiment." Dingens has reduced exposure to the region and says "we need to regain greater transparency before we commit more resources to the country."

Danish economist Lars Christensen is a bit more sanguine, believing the war in fact makes the argument for globalization. "Had the world not been so integrated," says Christensen, "then our ability to meaningfully respond to such crises would have been limited. This war in fact shows how risky it would be to decouple from global trade because it would give up leverage in dealing with a crisis."

He also thinks Russia's senseless invasion has highlighted the need for companies and nations to focus more rigorously on governance, especially pertaining to international investments. He believes this greater awareness should lead to shrewder geopolitical decision-making and alliances, rewarding more benign governments.

So Far in 2022

As allocators hoped, the top-performing funds this year have been trend-following strategies. These include global macro and diversified commodity trading advisors that are latching onto the strong moves in interest rates, bond and stock indices, commodities, and exchange rates.

BarclayHedge reports through May, global macro and CTAs have climbed 8.5% and 8%, respectively. Several global macro funds in the Top 50 have generated the strongest returns in the first quarter. John Street Capital (No. 29) was up nearly 9.5%. Citadel Global Fixed Income (No. 34), whose execution relies substantially on global macro calls, rose nearly 10%.

But the standout has been the unnervingly cosmic performance of Haidar Jupiter that has realized gains of nearly 150% over the first three months of the year, likely by turbocharging these strong trends with substantial leverage. (The fund refused to comment for this report.)

Emerging market funds were hit the worst, off by -11%. However, the two such funds in the Top 50 have so far managed better through the first quarter. Asia-focused FengHe was down -7.6% while Waha MENA gained more than 4%. Even frontier market Enko Africa Debt fund limited losses to -3.6%.

HEDGE FUND WEIGHTED GROSS LEVERAGE

Source: Man Institute

Current Thinking

Voss Capital (No. 9) has generated 20% annualized returns since its launch more than a decade ago. (See sidebar on p. 26.) Hedged equity manager Travis Cocke acknowledges the risks brought about by high inflation, rising interest rates, supply chain problems, and war. But his take is more benign than most other PMs.

He actually prefers investing when the Fed will not likely intervene to support markets by cutting interest rates. This forces stocks to be increasingly priced more on their own merits, says Cocke, "creating a more realistic market environment with increased volatility enhancing bottom-up stock selection."

The manager sees attractive opportunities in select value and growth shares due to the "market overreacting to rising interest rates, especially given how low they were to begin with." Still seeing high levels of profitability, relatively low leverage, and solid free cash flow, he thinks investor expectations are overly dour given the generally healthy state of consumers and the economy.

Night Owl (No. 5), which has been around since 1994 having generated annualized returns of more than 14%, is responding to the growing financial stress by raising cash. (See sidebar on p. 5.)

CIO and PM John Kim has significantly outperformed the market not by altering net exposure and leverage but by reducing dollars invested when there's systemic risk. This has helped his equity long-only fund consistently outperform markets when they are down.

He went to 80% cash during the height of the Great Recession. And at the end of May, half of his book was in cash.

His current thinking: "Fed policy, seeking to reduce demand, will bring down earnings and multiples that were way too high." When

ternal debates in which a Voss analyst makes a case for an investment while another tries to poke holes in the argument.

Through this process, Voss ends up with top 10 positions that represent about 60% of its long book. Further, the manager explains the fund sizes positions so even in the case of a draconian fundamental shock that could send valuations to historical lows, individual stock losses should not exceed 2% of the fund's value. And this limit has generally held through the life of the fund.

Cocke explains another key to the fund's consistent performance is scaling into and out of positions — based on refined price targets — to help lock in attractive average costs and profits.

Further, years of refining his vetting process have led Cocke to pursue half-a-dozen activist positions that have significantly enhanced fund performance.

On the short side, which typically represents 30% of the book, most are opportunistic positions. They are mirror opposites of his long positions: companies that Cocke labels "cash incinerators" facing significant competition, are overleveraged, and may have near-term negative catalysts that could drive prices lower, such as overly optimistic growth or profit expectations.

The manager says he backs up his high conviction to his strategy by having 95% of his investable wealth in the fund.

He believes the current market selloff has led to very high dispersion in valuations and has created attractive opportunities in select value and growth shares. "I think segments of the market have overreacted to rising interest rates, especially given how low they were to begin with," Cocke says. Still seeing high levels of profitability, relatively low leverage, and solid free cash flow, he thinks investor expectations are overly dour given the generally healthy state of consumers and the economy.

While acknowledging significant uncertainty surrounding the war, especially given the major players involved and the impact it's having on core commodity prices, Cocke cites a long history of regional conflicts that didn't ultimately roil markets.

Further reflecting his contrarian nature, Cocke says he actually prefers the current environment where the Fed *put* has been taken off the table and stocks are increasingly being priced on their own merits: "This creates a more realistic market environment with volatility enhancing bottom-up stock selection."

RAMIUS MERGER

A High-Yield Alternative

Ramius (No. 50) is among the most consistently performing merger arbitrage funds. Over the past five years through 2021, its annualized returns of 7.54% were nearly 2 full percentage points higher than the average M&A fund, according to BarclayHedge. Since the fund's inception in January 2013, it has delivered gains of 7.8% with volatility under 10, a worst drawdown of less than 15%, and it has never had a down year. Further, it's the only pure merge arb fund that qualified for this year's survey.

Portfolio Manager Ethan Johnson

This $320 million strategy has the unique support of a large asset manager. Cowen, its parent with assets of $15.8 billion, provides access to additional research and institutional support, from operations and technology, to accounting and client relations.

Ramius is an example of a hedge fund not intentionally targeting high-octane returns. Instead, explains PM Ethan Johnson, its strategy is a compelling alternative for high-yield fixed-income investors with lower duration.

"As an absolute return strategy that targets spreads of signed deals," says Johnson, "we have less market exposure than traditional hedged equity funds." This is borne out by Ramius having outperformed the S&P 500 during 87% of the months the index was down. And during 58% of these down months, the strategy had made money. This includes September and November of 2021, and the first quarter of 2022 when the strategy was up nearly 3% as the market sold off.

Johnson credits the strategy's steady returns to a disciplined research and decision-making process that pursues only a limited number of deals at a time, mostly in the States and a few in Europe. He explains, "greater deal exposure doesn't correlate to superior returns; but M&A involving targets valued at more than $1 billion, where spreads tend to be wider, helps."

Advanced Micro Devices' recent purchase of Xilinx for $49 billion, the largest chip deal ever, is an extreme example. At one point, Johnson said, "gross spread had exceeded 25% due to uncertainty about the deal closing, insufficient arbitrage capital to close spreads, and concerns about China granting regulatory approval required due to the country's supply chain links to both companies." Ramius had made the deal a core position.

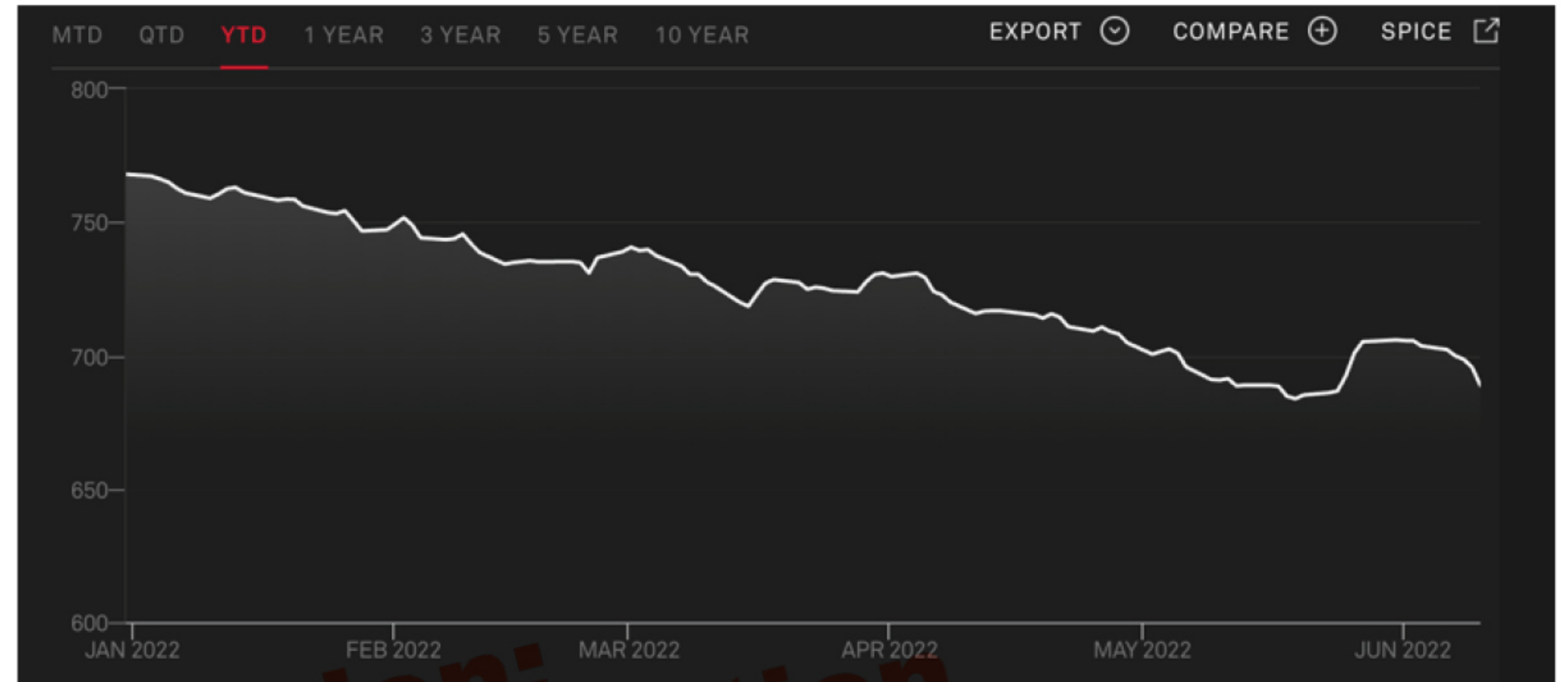
Targeting significant exposure to only a limited number of larger deals produces a concentrated fund. "There might be anywhere from 100 to 150 deals happening at a given time," says Johnson, "but our top 10 positions typically represent from 50% to 70% of book." He then adds two times leverage on long positions to enhance gains.

Optimizing position selection and sizing is also something that keeps performance steady. "We accomplish this not just by assessing risk and reward in this dynamic space," Johnson explains, "but by also factoring in time."

The strategy can find opportunities in relatively short periods when spreads look exceedingly wide. Occasionally, it will bet a deal may break. But when Johnson has a greater conviction a deal will close, he may stay in for a longer time to capture more upside. These decisions are all part of a discretionary process that has produced an average duration of 4 months.

With growing investor uncertainty being driven by inflation, rising interest rates, and mounting geopolitical risks, Johnson has a mixed view of the market. Current volatility can limit deal-making over the short term. But given the extensive selloff going on, the manager is seeing an increasing number of potential targets. "Companies that have been tracking firms whose share prices have collapsed," thinks Johnson, "may soon want to pull the trigger, and targeted companies that are hurting may be more inclined to merge to revive their fortunes."

S&P US HIGH-YIELD CORPORATE BOND INDEX 1H2022



Source: Standard and Poor's

Kim sees better risk-return rewards and less lofty earnings expectations, he will start redeploying cash into both previously held positions and new opportunities.

While highly priced growth shares have sold off the most during the first half of 2022, the second canary in the mineshaft is junk bonds. After years of being supported by very low interest rates and quantitative easing that have collectively compressed spreads, subinvestment-grade bond risk is now showing.

Millstreet Capital partner Jeffrey Growney, whose 8th-ranked credit fund generated annualized returns of 12.4% since its launch more than a decade ago, sees stress building in this space in which his fund invests. "Spreads between 10-year Treasurys and junk bonds had held fairly steady around 375 bps, even after the Fed's initial rate hike this year," he observed. But with the Fed turning more hawkish in the face of unrelenting inflation, and with recession fears growing, spreads have pushed out to 475 bps and are likely to widen further as financial conditions of these highly leveraged companies deteriorate.

Growney observes default rates have already increased from an extremely low 1.5% to 2%, and he wouldn't be surprised if they eventually surpass the secular average of 5%. "With the June CPI numbers showing no letup in inflation across the board," Growney expects "things could become very ugly as we head toward recession by the end of the year."

> "With the June CPI numbers showing no letup in inflation across the board, things could become very ugly as we head toward recession by the end of the year."
>
> **- Jeffrey Growney, Millstreet Capital**

This is evident in the S&P US High-Yield Corporate Bond Index, which has lost more than 10% in little more than five months in 2022. (See graph above.) With little reason to believe the fallout will decelerate as interest rates continue to rise, junk bond investors may be looking at a 20% loss by the end of 2022.

Millstreet has contained the carnage so far, actually up 1.5% for the year through May, by investing in only first-lien positions in firms with hard assets and receivables, avoiding covenant-lite obligations, buying short duration, and reducing net exposure from 60% to 50%. The fund also hedges by shorting weaker corporate debt in the same industries in which it has long exposure.

As debt matures, the fund is raising cash, reducing current risk of capital depreciation, and eyeing potentially more attractive opportunities as this part of the market cycle plays out.

The Other Side of Risk

Of all the major shocks impacting economies and markets, several will likely remain with us for quite some time, altering what most thought were immutable standards and practices. Today, they are revealing more extreme risks than once thought imaginable.

Outsourcing by wealthy nations to cheaper foreign economies was a win-win that aligned interests of various countries, enhancing the prospect of peace and expansion of more free societies, except when it wasn't. The concept of just-in-time delivery better matched costs with revenues, except when supply chains broke down. Industrialization has drastically increased the quality of living standards, except it has produced destructive weather patterns. Low equilibrium interest rates have enabled major developed economies to thrive, until they couldn't. And the rise of authoritarianism, which was thought tractable both abroad and here, perhaps is not.

No one has a crystal ball, especially this author, to know which challenges may produce fundamental change and those that will eventually correct on their own.

But no one should believe the collision of so much trauma, much of which has been building over years and decades, can be resolved in short order or without pain and significant course adjustments.

Markets are imperfect barometers of the economic environment, but they do absorb and reflect change. How investors respond to such fundamental shifts will inform future performance.

Many active managers may not have the experience nor insight to navigate the growing turbulence. But it may be that the few who challenge conventional thinking and consider alternative scenarios beyond the familiar — who are included in the Top 50 — may be best equipped to respond to the most challenging times we've seen since the Second World War. ■

ENKO AFRICA DEBT FUND

Unexpected Alpha

A fascinating aspect of this survey is coming across managers who've developed strategies that successfully target more obscure corners of the market. In focusing on Africa's frontier sovereign debt (ex-South Africa), London-based Enko has done just that.

The $530 million US dollar-denominated fund (No. 18) has generated net annualized returns of nearly 16% with annual standard deviation of less than 4% since its inception in 2016.

Co-founder and CIO Alain Nkontchou, who cut his teeth as a portfolio manager at J.P. Morgan and BlueCrest Capital and was also a managing director at J.P. Morgan and Credit Suisse, sees potential in Africa's local and hard currency debt for the same reasons why many investors avoid them.

"It's because Africa's $600 billion debt market is not very liquid with limited offerings," explains Nkontchou, "that it produces structural and idiosyncratic inefficiencies that create investment opportunities."

Sample sovereign targets in which Enko invests include those issued by Kenya, Egypt, Angola, and Ivory Coast.

Reticence around investing in frontier securities is based on the perception that reporting, accounting, and governance are not up to developed market standards. Enko addresses these micro and macro data concerns, explains Nkontchou, by combining research conducted by major global banks, supra-nationals, (including the IMF and World Bank), and its own proprietary research.

Moreover, Nkontchou adds, "African debtor nations know their reporting has been tracked and measured for reliability, and to continue tapping capital markets, it's essential for them to show continued improvement in the flow and caliber of information released."

To preserve capital and enhance returns, the fund studies credit, duration, currency, and liquidity risk in structuring long and short exposure and allocation size. According to the fund, it relies on its team of on-the-ground analysts to help better understand local economies and sovereign issuances along with the support of well-established service providers that help ensure trading and reporting accuracy.

Hard currency African sovereign eurobonds and dollar-based bonds trade over the counter in London. Because these markets are thinly traded, they tend to be volatile when local or global events hit. This means bond prices often fluctuate well beyond their inherent value. The fund recently observed a selloff in Kenyan eurobonds, driven by rising global uncertainties. This pushed their current yields 3% above yields of Kenya's local currency sovereign bonds.

Nkontchou found an effective way to extract value while containing risk is through fixed-income relative value trading. This can involve setting up pair trades between local currency and eurobond sovereigns of the same issuer as well as by trading dollar-based sovereign debt between different countries offering similar yields but with distinct risk profiles. The fund further manages risk using foreign exchange, interest rate and macro hedges, and altering net leverage that averages around 50%.

"These arbitrage trades," explains Nkontchou, "help absorb volatility, and combined with carry interest, are sources of the fund's returns."

Rising prices and interest rates are usually harmful for emerging and frontier markets, and according to the *Economist*, they could collide with large bond principle payments coming due in 2024.

However, Nkontchou says his team identifies markets where higher US interest rates and a strengthening dollar may be less stressful than in others. "Certain African countries are benefiting from soaring commodity prices, often based in US dollars, which can support economies that are dollar-pegged," explains Nkontchou. He notes countries that have material manufacturing exported to Europe and the US can also help, as does the $40 billion-plus in annual remittances from the African diaspora.

Co-founder and CIO Alain Nkontchou

Debt investing is challenging in any rising interest rate environment. This is even more so in emerging and frontier markets where liquidity is an issue. Investors need to bring a longer-term outlook.

So far, Enko has found ways to profit from these small, inefficient, and illiquid debt markets. This was evident during the Covid years of 2020 and 2021 when the fund collectively gained 37%. And through a stress-filled first quarter of 2022 with war, rising interest rates, and a growing risk-off mindset, the fund has outperformed the S&P 500, having lost just -3.62%.

Now, the challenge is figuring how to effectively manage various global forces hitting securities in all markets.

This independent study is not a recommendation to invest in any of the funds profiled, ranked, or mentioned in the survey. Readers that invest in any hedge fund must conduct their own extensive due diligence before allocating. Special thanks to Marina D'Angiolillo, research and professional services manager at Backstop BarclayHedge, for her extraordinary help for initially screening through thousands of funds in the firm's database and performing specific fund analysis. Additional thanks are extended to the very helpful folks at Preqin's communication team, who also screened through 1000s of funds for this survey. And thank you to my designer Coco Sallée and editor Joyce Kehl.

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