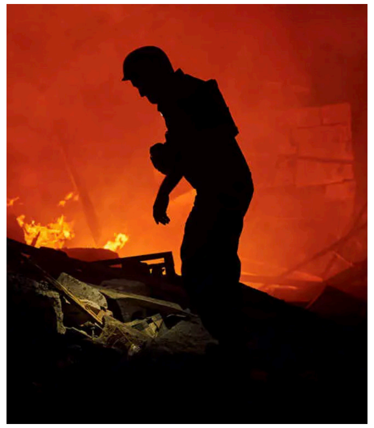
GLOBAL INVESTMENT REPORT

Over the past five years through 2022, this year's Top 50 hedge funds collectively outpaced the market by more than 3 percentage points a year. They did so with significantly less risk and limited market correlation.

More than two-thirds of this year's funds made last year's Top 50,



Kramatorsk
Kostiantyn & Vlada Liberov

which had remarkably outpaced the market in 2022 by 24 percentage points.

This year's top performing strategies: macro, hedged equity, and multistrategy. They accounted for nearly half of the Top 50 funds.

by Eric Uhlfelder
28 June 2023

Hedge Fund Investing During a Time of Uncertainty

Many recent global challenges have significantly eased, including the pandemic, supply chain chokeholds, and runaway inflation. But a rapid rise in interest rates and increasing geopolitical tensions continue to fuel turbulence, risks, and opportunities.

Nearly a half century ago, professor John Kenneth Galbraith made economics more accessible and relevant. We don't hear much about him anymore. But what he observed at that time in the US and abroad resonates today.

Galbraith called that period an Age of Uncertainty. His book by that title became required reading in many college Economics 101 courses (mine included) and its text was the basis of a BBC television series, which further boosted Galbraith's celebrity status.

The 2020s aren't the 1970s.

But some things haven't changed. A colorful example: Galbraith's recalling way too much time wasted testifying in front of congressional committees.

As if he had been peering into today's chambers, he observed, "without thought, I can divide its members into those you might persuade, those that could be mean and even damaging, and those that you can safely ignore. But there is merit even in the mentally retarded legislator. He asks the questions that everyone is afraid to ask for fearing of seeming simple."

It's hard to discern the merit of some questions posed to-

Bakhmut
Tyler Hicks / NY Times

day by our less informed congressmen and women. But many of the serious issues Galbraith did address, says Berkeley economics Professor Barry Eichengreen, were comparable to what we're seeing today.

"The United States was confronting slowing growth and accelerating inflation, or stagflation, a novel problem that raised questions about policymakers' competence and the adequacy of their economic models. The golden age of stability and predictability that was the third quarter of the twentieth century seemed to have abruptly drawn to a close, to be succeeded by a period of greatly heightened uncertainty."

My recent interview with economist Thomas Hempell, the head of macro and market research at Generali Investments (pp. 17-18) a very large global allocator, echoed similar sentiments. Seeing fiscal and monetary policy largely tapped out, he's concerned about evolving risks due to the sharp rise in interest rates. Cracks are already showing in the financial system. Hempell suggests we may be more at the mercy of markets now than perhaps we've been for quite some time.

This sense of losing control is also evident in the largest war Europe has seen since Berlin fell in 1945. Western allies are now ratcheting up military aid in the form of tanks and fighter jets. But how Russia responds remains a big unknown. Putin's decision to move tactical nuclear weapons into Belarus is probably worth noting. Busting a major dam could portend things to come. Yet, blowback from the war isn't registering on most investors' radars.

During the first half of 2023, we're seeing a Dickensian divide: a market appreciating while the most consistently performing hedge funds have been flat; equity indices rising while investors are exiting equity funds; banks struggling at a time when rising rates normally portend higher net income; strug-

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Consolidated Fund Performance

Top 50 By Strategy

41 of 50 FUND PERFORMANCE *		5-Year Ann. Returns thru 2022
2	Diversified Commodities/Macro	20.99
6	Global Macro	20.21
7	Equity Long/Short	17.33
2	Statistical Arbitrage	15.46
3	Emerging Markets	13.37
10	Multistrategies	11.83
6	Credit	9.15
3	Merger Arbitrage	8.91
2	Convertible Arbitrage	8.75
	Top 50 Average Return	12.53
	S&P 500 Total Return	9.43

*Nine other funds in the Top 50 involve different strategies
Source: BarclayHedge, Preqin, and proprietary sources

About This Year's Survey

Global Investment Report's 20th annual hedge fund survey is a comprehensive independent review of the industry's most consistently performing funds. It's co-published with BarclayHedge. The *Financial Times*, *Barron's*, *The Wall Street Journal*, and SALT commissioned the previous 17 editions.

This survey tracks various data points over the trailing five years and since inception. Data includes worst drawdown, standard deviation, Sharpe ratio, and market correlation, which together provide a nuanced understanding of performance. Diversified commodity funds and proven lower-risk levered funds are now being considered.

Combining extensive statistical study with commentary from leading industry participants explains the source of consistent long-term performance that only a handful of hedge funds have been able to deliver.

"What we've seen so far in 2023 is multiples expanding while earnings have been contracting. That suggests to us that there's a risk this is a bear-market recovery rather than the start to a new bull market, especially if a recession sets in."

- Anthony Novara, Fiducient Advisors

gling banks are pulling back on lending while high-yield bond markets rally; and we're seeing a robust jobs market and rebounding consumer sentiment while corporate earnings have fallen into recession.

A recent front-page story in *The Wall Street Journal* addressed the conundrum: "More than a year after the Federal Reserve began rapidly raising interest rates to tame inflation, the hallmarks of a widely expected recession remain elusive."

At the same time, Morgan Stanley's chief market strategist and CIO, Michael Wilson, urges caution, seeing valuations still too high and a narrow breadth of stocks driving the market.

So is it different this time?

Can the market continue to rally on the back side of a sharp rise in interest rates that will probably continue, further credit tightening, a protracted highly inverted yield curve, persistent inflation, and a central bank that can't afford to capitulate?

Maybe.

We'll try to decipher what all this may mean later in the report and the role that proven active management can play in navigating this time of uncertainty.

But I'm reminded of what Sir John Templeton believed: "The four most dangerous words in investing are, 'It's different this time.'"

METHODOLOGY

This survey identifies the limited number of funds that have delivered consistently compelling performance to reveal the industry's promise.

The initial search, per tradition, starts in early February with various databases casting a wide net across thousands of funds. They initially 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 industry, country, or specialized exposure.

Universe Expansion

This year, I included two types of funds which had not been previously considered because the argument for their inclusion is compelling.

The first are diversified long/short commodity funds that include a global macro component. They must contend with volatile markets, along with financial, geopolitical, supply chain and transport forces. They are far more complex and diversified investments than they appear on the surface. And to make the Top 50, such funds had to generate steady absolute returns for many years running—not just in 2022.

The second new group is exogenously levered funds. A manager that seeks to enhance performance of a flagship product by ratcheting up leverage seems like a cheat, using leverage to juice performance that the underlying fund couldn't deliver without taking on greater risk to capital. But a deeper dive into this space revealed two funds whose risk metrics were well contained while delivering consistent absolute returns.

Data Verification

Requiring funds to manage at least $300 million helps ensure reliability of data. When funds reach that size, they're more likely to hire top-tier service providers — administrators, prime brokers, accountants, and lawyers — whose involvement may help deliver best-in-class practice, reporting accuracy, and greater institutional investor interest and oversight.

The survey provides another layer of data verification by contacting each manager to confirm their numbers. While each fund feeds data directly into databases, 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. An increasing number of hedge funds are also expanding their investor base by issuing UCITS-compliant versions of their funds. It's essential to distinguish performance between the hedge fund and lower cost and less actively managed UCITS version.

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

Performance Hurdles

The survey's most distinguishing filter is performance hurdles set for each of the last five years. These hurdles are not substantial, but 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 use of hurdles excludes many venerable funds that had previously made the cut, including Renaissance, Tiger Global, Element Capital, and Alphadyne.

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. 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 — or to paraphrase Warren Buffett, to reveal those managers who had trunks on when the tide went out.

Since then, this specific hurdle was maintained 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.

Last year posed a conundrum. The risk-free rate rose substantially across the year, implying a hurdle of at least +5%. But with equity and debt markets having suffered their worst year in quite some time, which most hedge funds couldn't sidestep, the 2022 hurdle was set at -5%. This number still represents significant outperformance.

Remarkably, 44 of this year's Top 50 funds made money last year and three of the six funds that were in the red lost less than -2%.

Requiring funds to straddle hurdles over each of the past five years while generating the best trailing five-year returns helps this survey highlight managers that are running among the most consistent absolute return funds while containing downside risk.

Minimum performance standards also impose a certain discipline on funds to make the list, e.g., periodically taking some profits off the table and successfully reallocating them, rather than betting dramatic stock gains beget more gains. The latter can fuel complacency and enhance risk.

This is most evident in the

HEDGE FUND STRATEGY PERFORMANCE THRU DECEMBER 2022
Ranked by 2022 Returns

Strategy	1Q2023 Net Returns (%)	2022 Net Returns	3-Year Net Annualized Returns (%) thru 2022	5-Year Net Annualized Returns (%) thru 2022	10-Year Net Annualized Returns (%) thru 2022
Commodity Trading Advisers	-1.93	7.13	5.86	3.85	2.30
Global Macro	0.24	6.51	8.44	5.40	4.36
Asset-Backed Loans	1.61	3.43	5.93	4.39	5.06
Equity Market Neutral	0.95	2.97	3.17	1.43	2.88
Merger Arbitrage	-0.01	0.95	5.88	4.84	4.81
Equity Long/Short	1.30	-0.08	6.51	4.54	5.17
Asset Backed Securities	1.38	-0.38	1.96	3.37	7.97
Convertible Arbitrage	0.73	-1.35	6.88	5.75	4.57
Fixed Income Arbitrage	0.69	-1.69	3.11	2.43	3.84
Multi Strategy	0.64	-2.98	3.60	2.16	3.69
Volatility Trading	0.20	-3.40	6.20	1.95	1.86
Mortgage Backed Securities	1.05	-6.25	-1.32	0.47	2.61
Event Driven	0.97	-6.39	5.32	4.11	4.75
Credit Long/Short	1.71	-6.62	-0.67	0.52	1.72
Distressed Securities	-1.54	-6.64	8.33	5.45	5.11
Collateralized Debt Obligations	1.48	-7.33	1.58	2.72	10.45
Fixed Income Diversified	1.57	-7.96	-1.29	0.25	2.32
Credit Long-Only	1.15	-11.38	-2.84	-0.83	1.70
Equity Long Bias	3.83	-13.61	5.57	4.34	6.25
Emerging Markets	2.24	-13.86	1.17	0.78	2.88
Top 50 Averages	-0.16	9.14	15.22	12.53	NA
Backstop BarclayHedge Index	2.29	-8.22	3.98	3.35	4.67
S&P 500 Total Return Index	7.50	-18.14	7.65	9.43	12.56
JPMorgan Global Gov't Bond Index	2.84	-13.01	-3.64	-0.84	0.90

Source: Backstop BarclayHedge

DLD CONVERTIBLE ARBITRAGE STRATEGY

Upside of Controlling Downside

Convertible arbitrage funds aren't known as top performers. Like most arbitrage strategies, it looks to eke out gains by nibbling away on the edge of equity markets, collecting dividends, and containing the downside.

During the fund's first five years in business, it appears CIO Mark Friedman may have achieved the best of both worlds.

Launched in January 2018, DLD's 5-year net annualized return through 2022 was 8.70%—not much less than S&P 500's performance. But DLD achieved these returns with one quarter of the market's volatility.

The fund's worst drawdown was less than –5%; the market's was nearly -24%. And DLD's performance wasn't correlated to the market over that time. This meant Friedman's fund, so far, has generated higher risk-adjusted returns than the market.

CIO Mark Friedman

He has delivered this consistency by focusing on two basic investment approaches--balanced trades that seek to profit from price appreciation and yield, and put/carry trades that target "deep in the money" convertibles while actively trading the underlying equity.

When opportunity presents itself, the fund occasionally executes short-term volatility trades to exploit temporary mispricing and event-driven trades that portend a shift in valuations.

Regardless of what kind of trades it makes, DLD is focused on controlling downside. "Doing this well," explains Friedman, "is the most effective way to deliver consistent returns." In addition to effectively managing sufficient shorts of the underlying equity, DLD will also buy credit default swaps and short the lower end of a firm's capital structure.

Effectiveness of this approach was evident during the fund's first year in business. Stocks and hedge fund managers were enjoying a very decent 2018. But things quickly went south in the fourth quarter with the market and the industry having lost money for the year. Though it had just come out of the gate managing a small amount out, DLD delivered full year returns of more than 13%.

Then two years later, when the pandemic struck, DLD did something rare in investment management. It made money every month of 2020 turning in a gain of 25.8%, which outpaced the market by more than 7 percentage points.

With rising interest rates and uncertainty, 2022 promised to be a good year for convertible arbitrage. "Convertible issuances normally increase when the central bank is tightening monetary policy as companies look for less expensive ways to raise capital," explains Friedman. "But that didn't happen in part because the Fed moved very quickly." Combined with falling stock prices, the environment dampened market dynamics and most convertible arbitrage managers struggled. In particular, the firm's balanced trades were hit by rising interest rates and widening credit spreads within the sub-investment grade space. DLD still outperformed the S&P last year by 14 percentage points, but turned in its first losing year, down -4.7%.

This hasn't muted Friedman's belief in the strategy, which is rooted in a fundamental shift in the marketplace since the financial crisis. "Before 2008," he notes, "about one third of convertible bonds were held by long-only investors for income and appreciation, with the bulk of issuances being traded by 200 hedge funds along with bank proprietary trading desks that specialized in the strategy."

That ratio has flipped since the enactment of Dodd-Frank, explains Friedman, with about two-thirds of all convertibles being held by traditional investors as hybrid income and equity positions. The manager says their actions move the market. Friedman believes the smaller number of alternative managers in the space are largely responding to the actions of long-only investors.

To Friedman, this suggests two basic advantages: there is less competition to arbitrage gains; and two, investment opportunities are driven not so much by speculation but by actual market behavior to which arbitrageurs respond.

As for the rest of the year, Friedman believes the Fed's support of higher interest rates along with market uncertainty should collectively fuel volatility, potentially benefiting the strategy.

> "I believe there needs to be a greater sense of urgency for doing as much as we can do now to ensure Russia does not prevail in Ukraine. And for those who want to pull back on American assistance to Ukraine, it's cheaper to provide it now than to deal with Russia later."
>
> - Ambassador Michael McFaul

rotation of the survey's leading funds. Hurdles can knock off the previously highest-ranked funds that are most exposed when market conditions change.

Last year's top seven funds had trailing 5-year annualized returns through 2021 of 28%—an extraordinary rate of return that's hard to sustain. Six of those funds—all hedged equity—didn't make this year's survey. They lost an average of 32.5% last year.

The one fund that did cross over into this year's survey, macro shop Haidar-Jupiter, soared 193% last year. Through the first quarter of 2023, it was off by more than -44%.

SURVEY RESULTS

The Top 50 funds collectively generated five-year annualized gains through 2022 of 12.5%. That was more than three percentage points greater than the S&P 500 and more than three times greater than the average hedge fund returns of 3.4%.

These select funds outperformed the market by being minimally correlated to the S&P 500. The Top 50's five-year market correlation was just 0.18. The average hedge fund correlation of 0.91 suggests most hedge funds have equity and sector performance that's similar to that of the S&P 500.

This outperformance wasn't due to just a fortunate stretch of consistent returns. With an average age of 14 years, the Top 50 funds have been delivering nearly the same returns since their inception—12.4%.

Making these two sets of returns even more remarkable: volatility experienced by the Top 50 over these two periods actually decreased. Five-year standard deviation was 10.9%; since inception, it fell to 9.5%. (While both figures were lower than the markets, the average hedge fund had even lower volatility over both periods.)

These numbers contributed to an impressive risk-return profile of the Top 50. For five years through 2022, its

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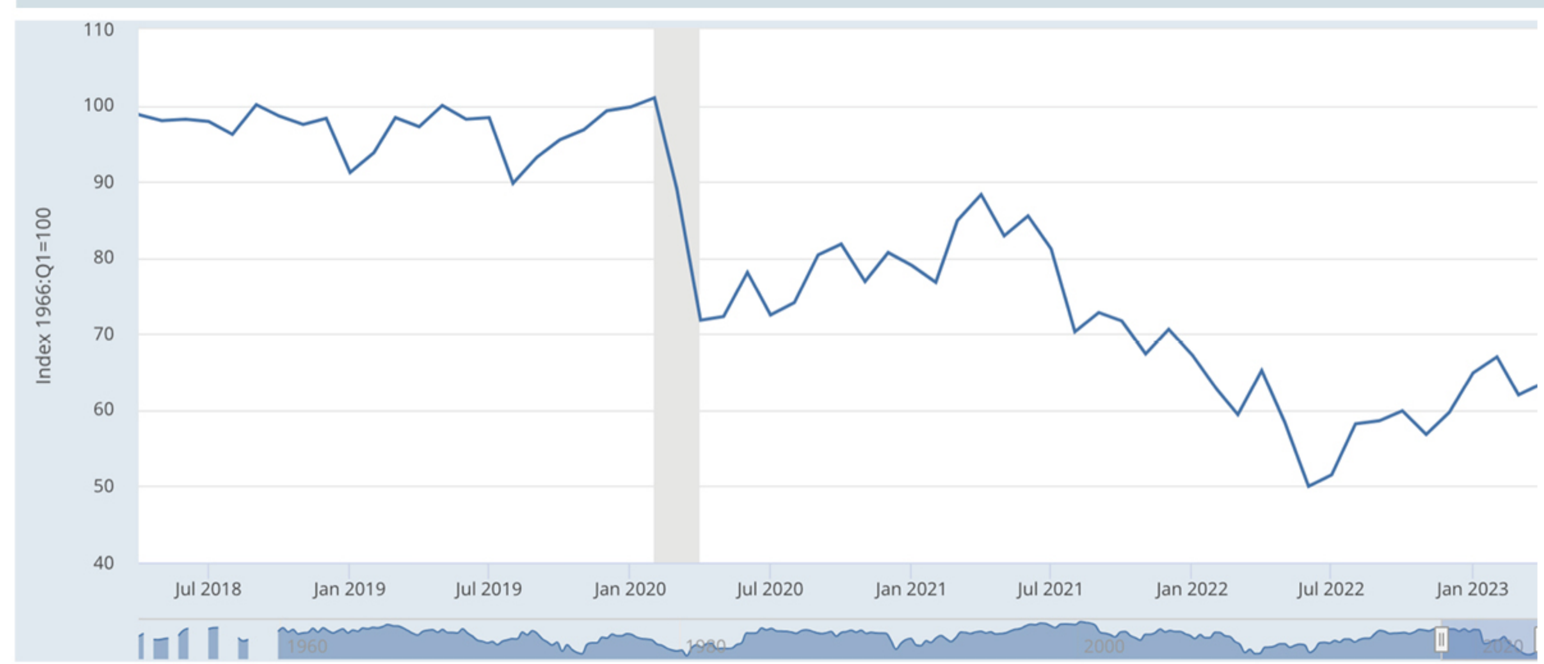

Source: University of Michigan

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2023 SURVEY OF THE MOST CONSISTENT PERFORMING HEDGE FUNDS†

HISTORICAL RANKINGS † '18	'19	'20	'21	'22	Fund Name	Launch Date	Strategy	Fund / 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 (Hurdle (-5%)	1Q23 Net Returns	3-Year Annualized Net Returns (%) thru 2022	5-Year Annualized Net Returns (%) thru 2022	Annualized Net Returns (%) since inception thru 2022	Worst Draw Down (%) Last 5 Yrs thru 2022	Worst Draw Down (%) since Inception thru 2022	5-Year Annualized Standard Deviation thru 2022	Annualized Standard Deviation since Inception thru 2022	5-Year Sharpe Ratio thru 2022	Sharpe Ratio since Inception thru 2022	5-YearFund Correlation versus S&P 500 TR thru 2022
21	19	7	3	1	Haidar Jupiter Composite (New York)	Nov-99	Global Macro	3,270 / 3,270	8.09	31.29	27.11	69.66	192.78	-44.01	84.83	55.04	24.77	-32.14	-32.14	44.52	25.01	1.21	0.93	-0.30
NA	NA	NA	NA	2	RCMA/Merchant Commodity Fund (London)	May-04	Diversified Commodity Macro	376 / 376	11.29	6.15	19.20	73.90	45.17	-2.09	42.11	27.68	17.20	-21.83	-36.93	26.60	22.60	1.15	0.67	0.21
15	12	19	13	3	Citadel Wellington (Miami) *	Nov-90	Multistrategy	42,300 / 53,700	9.03	19.32	24.51	26.58	38.22	4.19	29.63	23.02	19.73	N/A	N/A	N/A	2.99	2.48	N/A	-0.08
3	4	12	11	4	MAK Capital (New York)	Sep-04	Hedged Equity and Opportunistic Distressed	1,093 / 1,137	51.40	5.00	13.20	21.10	27.80	-3.70	20.50	22.70	15.50	-15.77	-17.88	17.68	19.45	1.00	1.01	0.12
27	49	26	10	5	Anson Investments Master (Toronto)	Jul-07	Equity Long/Short	938 /1.468	19.28	10.10	44.52	45.50	7.58	5.36	28.11	22.53	15.26	-6.51	-18.68	11.97	10.58	1.78	1.38	0.27
NA	NA	38	20	6	Brook Absolute Return Focus Fund USD C (London) **	Jun-16	Equity Long/Short	1,004 /4,500	11.78	12.27	51.03	6.84	26.46	2.51	26.83	20.67	13.60	-22.85	-22.85	31.42	28.36	0.70	0.54	0.35
NA	NA	NA	NA	7	Leibniz EMOTION (Lucern, Switz.)	Jan-14	Statistical Arbitrage	750 / 900	8.62	9.43	51.03	22.73	11.67	1.40	27.46	19.74	17.57	-5.85	-5.85	7.86	7.24	2.34	2.31	-0.07
NA	NA	NA	9	8	Voss Value LP (Houston) ***	Oct-11	Equity Long/Short	416 /503	14.46	21.17	23.70	39.13	1.09	1.57	20.37	19.32	18.07	-21.21	-20.21	21.48	16.62	0.84	1.04	0.73
NA	NA	23	19	9	Citadel Tactical (Miami) *	Jan-08	Quantitative Equity	1,600 / 53,700	8.88	20.30	20.24	21.55	25.75	5.46	22.09	18.53	21.21	N/A	N/A	N/A	1.77	2.60	N/A	-0.04
11	15	22	15	10	Waha MENA Equity Fund SP (A) (Abu Dhabi, UAE)	Jan-14	Emerging Markets - MENA	734 / 1,300	6.60	19.70	14.07	32.80	12.80	4.60	19.62	16.90	16.00	-14.25	-14.25	10.40	9.80	1.70	1.70	0.20
					BarclayHedge Fund Index	NA			-5.23	10.64	11.14	10.22	-8.22	2.29	3.98	3.35	7.60	-11.90	-24.09	8.12	7.16	0.25	0.79	0.91
					S&P 500 Total Return Index	NA			-4.38	31.51	18.40	28.72	-18.14	7.50	7.65	9.43	11.48	-23.89	-50.95	18.53	15.29	0.44	0.49	1.00

† Ranked by trailing 5-year net annualized returns thru 2022. *The Wall Street Journal* published the 2018 ranking of the Top 60 funds: Eric Uhlfelder, "In Tough Times for Hedge Funds, These are the Ones that Stand Out," 5 May 2019. SALT commissioned the 2019 Survey of the Top 50 funds. * All Citadel fund and firm assets are as of 1 January 2023.

** Brook Absolute Return Focus Fund includes $866M that are run separately as a UCITS with more than 90% of the same holdings as the hedge fund but with different weightings. *** Voss has $416M strategy assets with $216M in the co-mingled fund. NA = Performance data was not available or fund did not qualify for inclusion.

Sharpe ratio was 1.47. The market's was 0.44, and the average hedge fund was 0.25.

The risk metric that increased over time was the worst drawdown. The Top 50's five-year number was -10.6%. Since inception, it dropped to -14.7%. A factor that likely contributed to that higher number was that 40% of the funds were around for the 2008 financial crisis.

So what is all this telling us?

Past performance doesn't assure anything. But long-term consistency can be a pretty good indicator of an effective and repeatable investment process. And when that process has delivered attractive gains regardless of what the market is doing, then maybe that's something worth looking for.

This was the conclusion of a white paper I wrote with Ben Crawford, head of research at BarclayHedge, entitled Challenging Convention.

Size

Another key finding of this survey is steady consistent performance comes in all fund sizes. It's not the exclusive realm of the industry's largest and best-known managers.

In fact, only a handful of that uber group actually made the survey. The reason: once funds reach a certain size and celebrity, they can more easily attract investors. They are proven entities and provide allocators headline risk protection. And this helps them sustain their investor base during times of volatility and lackluster performance.

That said, the survey includes large, venerable, consistently profitable funds. These include Citadel, D.E. Shaw, Millennium, Hudson Bay, Schonfeld, and Drawbridge. Their average fund size: $18.7 billion.

However, nearly half the funds in this year's survey (23) were managing $1 billion or less as of December 2022. Their size was not related to their relative youthfulness. Remember all funds need to be at least five years old to be considered for inclusion. More than half of this subset—14—have been around for at least a decade.

More than one-quarter of the Top 50, or 14, were managing $750 million or less. And half of this number were also 10 years of age or older.

Smaller funds have been regularly well represented in this survey. After many years interviewing such managers (three of whom are profiled in this year's survey), I've found one common driver of consistency: they enjoy a greater range of investment opportunities.

Unlike larger funds that need sizable investments to move their performance needles, smaller managers can target less well-known and undersized securities. "Because we're a smaller shop running several hundred million dollars," explains Shikha Gupta, portfolio manager of Astra

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NA	24	30	23	11	DE Shaw Composite (New York)	Mar-01	Multistrategy	23400 / 68000	11.21	10.33	19.14	18.35	23.99	1.30	20.47	16.49	16.49	-2.80	-2.80	4.01	4.01	3.79	3.79	0.10
8	18	40	29	12	John Street Capital (Vantage)(London)	Jul-13	Systematic Macro	3512 / 3,814	13.30	13.16	5.64	23.77	26.89	-3.37	17.87	16.28	13.67	-9.37	-19.54	14.42	14.96	1.04	0.86	-0.02
16	6	4	8	13	Millstreet Credit (Boston)	Jun-10	Credit Long/Short	1,683 / 1,683	15.79	15.86	21.38	20.42	4.84	3.40	15.29	15.50	11.82	-4.39	-33.26	5.22	8.24	2.72	1.36	0.43
NA	NA	NA	NA	14	DE Shaw Oculus (New York)	Mar-00	Global Macro	998 / 68000	6.07	11.56	25.02	15.19	20.30	-5.42	20.10	15.44	NA	-4.95	NA	6.63	NA	2.13	NA	0.05
NA	NA	NA	17	15	Dynamic Alpha L.P. (Seattle)	May-16	Volatility Arbitrage	540 / 595	10.68	18.31	17.28	15.62	12.53	5.33	15.12	14.85	16.68	-27.96	-27.96	26.80	23.26	0.51	0.67	0.00
51	40	32	34	16	Citadel Global Fixed Income (Miami) *	Aug-12	Macro/Fixed Income	3,000 / 53,700	6.74	5.49	17.53	12.97	33.15	1.77	20.91	14.76	12.14	N/A	N/A	N/A	1.84	2.08	N/A	0.16
NA	NA	NA	NA	17	Millburn Commodity Program	Feb-05	Diversity Commodity Systematic Macro	473 / 9,500	23.39	5.41	14.50	10.55	18.50	-4.81	14.47	14.30	8.97	-7.72	-30.96	11.04	11.88	1.17	0.65	-0.25
NA	NA	NA	18	18	Enko Africa Debt B (London)	Oct-16	African Macro/ Fixed-Income Relative Value	535 / 640	8.54	25.07	25.24	9.42	1.03	-3.67	11.45	13.45	13.40	-23.21	-23.21	10.90	9.82	1.13	1.25	0.32
37	NA	36	28	19	Millennium USA LP (New York)	Jan-90	Multistrategy	17,730 / 44,591	5.75	9.73	25.28	13.43	12.47	0.51	16.92	13.15	13.74	-3.59	-7.01	3.98	4.23	2.98	2.66	0.14
NA	NA	NA	NA	20	Caption Partners II LP (Oklahoma City, OK)	Jun-16	Volatility Arbitrage	370 / 370	33.37	5.74	13.39	9.37	5.74	1.71	9.46	13.09	10.80	-13.44	-14.85	12.39	12.51	0.95	0.77	-0.10
					BarclayHedge Fund Index	NA			-5.23	10.64	11.14	10.22	-8.22	2.29	3.98	3.35	7.60	-11.90	-24.09	8.12	7.16	0.25	0.79	0.91
					S&P 500 Total Return Index	NA			-4.38	31.51	18.40	28.72	-18.14	7.50	7.65	9.43	11.48	-23.89	-50.95	18.53	15.29	0.44	0.49	1.00

† Ranked by trailing 5-year net annualized returns thru 2022. *The Wall Street Journal* published the 2018 ranking of the Top 60 funds: Eric Uhlfelder, "In Tough Times for Hedge Funds, These are the Ones that Stand Out," 5 May 2019. SALT commissioned the 2019 Survey of the Top 50 funds.

* All Citadel fund and firm assets are as of 1 January 2023. NA = Performance data was not available or fund did not qualify for inclusion.

ASTRA SPECIALIST CREDIT INVESTMENTS

Finding Value in European Credit

With annualized gains of nearly 12% since its launch more than a decade ago, Astra Specialist Credit (No. 48) is the only European-focused credit fund to have made the Top 50.

This kind of performance is especially noteworthy given the persistence of low interest rates and tight credit spreads during most of that time. And portfolio manager Shika Gupta delivered such uncorrelated gains with single-digit volatility and a maximum drawdown of around -12%. This occurred when the pandemic first struck in March 2020.

Astra still ended the year up 7.5%.

In 2022, when interest rates cycled north and the JP Morgan Global Government Bond Index lost -13%, Astra limited losses to just -1.6%.

A key to the fund's success is its size.

"Because we're a smaller shop running several hundred million dollars," explains Gupta "we're often looking for under-researched and misvalued asset-backed securities and structured corporate credits. And because some may not be rated, they tend to be more thinly traded and mispriced."

This doesn't mean the firm is investing in riskier sub-investment grade securities. To the contrary, relying on its own due diligence, the fund searches out quality across various levels of the capital structure without taking on material leverage.

Keeping duration and maturities short and limiting leverage are also keys to minimizing volatility.

Diversity and high-conviction themes have helped propel performance. Such exposure currently defines half of Astra's long book, which targets mort-

(continued on the following page)

PM Shikha Gupta

2023 SURVEY OF THE MOST CONSISTENT PERFORMING HEDGE FUNDS

GLOBAL INVESTMENT REPORT

HISTORICAL RANKINGS †					Fund Name	Launch Date	Strategy	Fund / 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 (Hurdle (-5%)	1Q23 Net Returns	3-Year Annualized Net Returns (%) thru 2022	5-Year Annualized Net Returns (%) thru 2022	Annualized Net Returns (%) since inception thru 2022	Worst Draw Down (%) Last 5 Yrs thru 2022	Worst Draw Down (%) since Inception thru 2022	5-Year Annualized Standard Deviation thru 2022	Annualized Standard Deviation since Inception thru 2022	5-Year Sharpe Ratio thru 2022	Sharpe Ratio since Inception thru 2022	5-YearFund Correlation versus S&P 500 TR thru 2022
'18	'19	'20	'21	'22																				
28	18	41	44	21	Twin Tree Capital Master (Dallas)	Jan-13	Volatility Trading	1,800 / 1,800	11.46	5.50	16.85	7.79	21.76	-1.17	15.32	12.51	12.08	-5.63	-6.59	6.37	6.23	1.76	1.81	-0.20
NA	43	20	24	22	HGC LP (Toronto)	Jun-13	Event Driven	710 / 710	7.55	9.02	38.04	8.32	1.39	1.31	14.88	12.20	12.73	-5.45	-5.45	9.19	7.27	1.18	1.64	0.25
NA	NA	NA	27	23	Gemcorp I Ltd (London)	Sep-14	Emerging Market Credit Long/Short	645 / 806	5.00	11.64	16.06	12.95	15.05	0.37	14.68	12.07	12.46	-13.12	-13.12	10.35	8.88	1.04	1.29	0.12
NA	NA	NA	NA	24	Picton Mahoney Arbitrage Plus — F (Toronto) ^	Feb-17	Merger Arbitrage	926 / 9,300	6.69	6.56	37.42	10.64	1.63	0.01	15.40	11.81	10.71	-5.53	-5.53	9.05	8.49	1.16	1.11	0.31
NA	NA	NA	21	25	Schonfeld Strategic Partners (New York)	Jan-16	Multistrategy	9,800 / 14,300	15.98	14.05	9.93	13.82	4.64	0.00	9.40	11.61	12.33	-16.20	-16.20	9.97	8.98	1.03	1.24	0.40
36	32	11	25	26	Mudrick Distressed Opp. LP B (New York)	Jul-09	Event Driven	855 / 2,600	16.59	22.30	11.28	7.94	0.84	0.97	6.60	11.55	10.05	-19.50	-31.31	17.41	13.13	0.59	0.72	0.13
17	25	43	46	27	Blue Diamond Non-Directional (Pfaffikon, Switz.)	Oct-11	Statistical Arbitrage	1,770 / 1,770	17.27	5.09	11.78	16.37	5.99	3.41	11.30	11.18	NA	NA	NA	NA	NA	NA	NA	NA
NA	NA	NA	26	28	Whitehaven Credit Opportunites Master (New York)	Dec-09	Municipal Credit Opportunities	1,343 / 1,343	5.35	9.28	28.15	7.40	5.52	2.13	13.69	11.14	10.75	-1.75	-1.75	3.74	3.67	2.53	2.58	0.07
NA	NA	28	16	29	FengHe Asia Fund Ltd (Singapore)	Dec-12	Asian Emerging Markets	2,505 / 3,376	10.38	6.47	19.11	27.21	-4.82	5.13	12.98	11.13	13.46	-11.52	-11.52	9.60	10.74	1.02	1.18	0.49
NA	29	25	22	30	Boothbay Absolute Return Strategies (New York)	Jul-14	Multistrategy	1,380 / 2,007	6.07	11.80	25.24	11.38	1.27	1.43	12.21	10.87	10.04	-2.41	-2.41	4.73	4.19	2.02	2.18	0.36
					BarclayHedge Fund Index	NA			-5.23	10.64	11.14	10.22	-8.22	2.29	3.98	3.35	7.60	-11.90	-24.09	8.12	7.16	0.25	0.79	0.91
					S&P 500 Total Return Index	NA			-4.38	31.51	18.40	28.72	-18.14	7.50	7.65	9.43	11.48	-23.89	-50.95	18.53	15.29	0.44	0.49	1.00

† Ranked by trailing 5-year net annualized returns thru 2022. *The Wall Street Journal* published the 2018 ranking of the Top 60 funds: Eric Uhlfelder, "In Tough Times for Hedge Funds, These are the Ones that Stand Out," 5 May 2019. SALT commissioned the 2019 Survey of the Top 50 funds. ^ Picton strategy assets include C$190M in the comingled fund and C$736 in a UCITS fund which holds 95% of the same positions as the hedge fund. Performance numbers are for the hedge fund vehicle. Picton Mahoney Arbitrage Plus is a levered version of its flagship fund. Normally, levered versions of funds are excluded from this survey due to excessive volatility. This fund is included because it delivered limited volatility and maximum drawdown since its inception. NA = Performance data was not available or fund did not qualify for inclusion.

gage-backed securities, bank bonds, and collateralized loan obligations.

The manager often finds attractive long opportunities during stressed environments when higher capital costs, ratings downgrades, and default fears can lead to mispricing.

At the same time, when liquidity dries up, forced selling can happen, and this can lead to technical dislocation of certain securities whose underlying fundamentals remain sound. On such occasions, Astra may team up with an external partner to own a majority stake of such an issuance. To do so, Gupta currently has one third of her book in unencumbered cash. If not deployed, this cash now adds several percentage points of risk-free returns.

Astra's short book, currently 13%, is mainly financial credit default swaps that largely hedge the fund's bank bond exposure.

Being active in subordinated bank debt (including Additional Tier-One bonds) and seeing past the current turbulence, Astra believes the banking sector remains resilient. Management thinks it will benefit from the strong tailwinds of higher interest rates.

The complete write-down of Credit Suisse's AT1 debt, however, has triggered uncertainty and volatility. Gupta was surprised by the Swiss banking authorities' decision to permit this to happen. But she believes this has created temporary buying opportunities by not painting this specialized asset with a broad brushstroke.

The fund's broad bias toward European exposure, currently 84% of her long book, is in part due to regulatory requirements. But it's also the product of the continent's sound banking system and greater profitability brought about by higher spreads and interest rates. Only 16% of the fund's book is based in the US.

For the rest of 2023, Gupta's biggest concern is liquidity. "The US regional banking crisis reminded us how quickly liquidity can dry up," she says. Though not expecting it to turn into a systemic event, she wouldn't be surprised to see more banks getting into trouble.

Such disruption, however, isn't likely to be caused by further monetary tightening. The manager believes we're toward the end of the rising interest rate cycle, but doesn't anticipate a pivot by the Fed or ECB any time soon.

Assuming no external shocks, Gupta thinks rate stability may reduce market volatility for the rest of the year. But she won't be surprise to see bumps on the way along with buying opportunities.

2023 SURVEY OF THE MOST CONSISTENT PERFORMING HEDGE FUNDS

GLOBAL INVESTMENT REPORT

Historical Rankings † '18	'19	'20	'21	'22	Fund Name	Launch Date	Strategy	Fund / 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 (Hurdle (-5%)	1Q23 Net Returns	3-Year Annualized Net Returns (%) thru 2022	5-Year Annualized Net Returns (%) thru 2022	Annualized Net Returns (%) since inception thru 2022	Worst Draw Down (%) Last 5 Yrs thru 2022	Worst Draw Down (%) since Inception thru 2022	5-Year Annualized Standard Deviation thru 2022	Annualized Standard Deviation since Inception thru 2022	5-Year Sharpe Ratio thru 2022	Sharpe Ratio since Inception thru 2022	5-YearFund Correlation versus S&P 500 TR thru 2022
NA	NA	NA	49	31	Tudor BVI Macro (Stamford, CT)	Nov-86	Global Macro	5,500 / 14,000	10.28	11.11	15.53	4.54	10.10	0.18	9.97	10.26	10.26	-3.29	-3.29	4.47	4.47	2.00	2.00	-0.06
31	10	31	35	32	Kryger Event (London)	Sep-13	Event Driven	763 / 763	14.64	11.15	9.19	9.27	4.07	0.98	7.48	9.61	9.46	-15.12	-15.12	10.15	8.69	0.82	0.99	0.33
NA	NA	NA	33	33	Schonfeld Fundamental Equity (New York)	May-16	Equity Long/Short	4,500 / 14,300	8.49	15.40	14.21	7.14	3.22	0.10	8.09	9.60	8.06	-5.13	-5.62	5.31	5.84	1.56	1.18	0.23
52	NA	50	47	34	Episteme (ESQ Composite) (London)	Sep-09	Systematic Macro	1,750 / 2,069	13.82	14.47	4.50	7.05	7.86	-2.20	6.46	9.47	5.62	-6.96	-9.95	8.96	8.00	0.91	0.63	0.03
NA	NA	45	36	35	Hudson Bay International (New York)	Jun-06	Multistrategy	12,554 / 18,000	5.94	8.02	16.31	13.50	3.22	1.33	10.86	9.29	8.82	-1.41	-6.09	3.79	4.40	2.11	1.77	0.19
60	44	33	38	36	Wolverine Flagship Fund Trading Ltd (Chicago) ^^	Sep-01	Multistrategy	3,814 / 3,814	4.44	10.58	13.89	10.74	5.75	1.96	10.07	9.02	7.95	-10.84	-25.96	6.99	6.73	1.11	0.94	0.55
NA	NA	NA	NA	37	Deep Currents (New York)	Mar-09	Relative Value/ Convertible Arbitrage	1,000 / 1,000	10.78	6.38	16.12	8.50	2.61	3.24	8.94	8.79	14.30	-5.90	-7.40	5.30	8.30	1.38	1.59	0.16
NA	NA	NA	NA	38	DLD Convertible Arbitrage Strategy (New York)	Jan-18	Convertible Arbitrage	602 / 1,075	13.15	7.17	25.79	4.53	-4.71	0.16	7.80	8.70	8.70	-4.78	-4.78	4.13	4.13	1.79	1.79	0.00
NA	31	44	43	39	Ninepoint TEC Private Credit F (Toronto) ^^^	Jan-12	Asset-Backed/ Enterprise Loans	1,043 / 8,000	10.58	8.57	5.68	10.43	8.28	0.66	8.11	8.69	NA	NA	NA	NA	NA	NA	NA	NA
NA	NA	34	40	40	Aristeia Partners LP (UR) (New York)	Aug-97	Multistrategy/ Credit Rel. Value	1,918 / 3,761	6.82	6.15	21.93	8.17	0.93	2.60	10.01	8.58	10.68	-4.28	-29.22	5.08	7.59	1.43	1.16	0.31
					BarclayHedge Fund Index	NA			-5.23	10.64	11.14	10.22	-8.22	2.29	3.98	3.35	7.60	-11.90	-24.09	8.12	7.16	0.25	0.79	0.91
					S&P 500 Total Return Index	NA			-4.38	31.51	18.40	28.72	-18.14	7.50	7.65	9.43	11.48	-23.89	-50.95	18.53	15.29	0.44	0.49	1.00

† Ranked by trailing 5-year net annualized returns thru 2022. *The Wall Street Journal* published the 2018 ranking of the Top 60 funds: Eric Uhlfelder, "In Tough Times for Hedge Funds, These are the Ones that Stand Out," 5 May 2019. SALT commissioned the 2019 Survey of the Top 50 funds.
^^ Wolverine has restated its past annual performances in accordance with new SEC marketing regulations that require funds with multiple classes to cite performance of the class with the highest fees. In previous surveys, Wolverine Flagship Fund Trading Ltd had met all performance hurdles, including being up 5.13% in 2018. Accordingly, Wolverine was kept in this survey. ^^^ Prior to July 2016 when the 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 in Canadian dollars. NA = Performance data was not available or fund did not qualify for inclusion.

Specialist Credit (No. 48 and profiled on pp. 9-12), "we're often looking for under-researched and misvalued asset-backed securities and structured corporate credits. And because some may not be rated, they tend to be more thinly traded and mispriced."

At the same time, smaller managers can also partake in the success of large proven companies.

Leaders

The top 10 funds in this year's survey are a diverse group of strategies. Taking the top spot was Said Haidar's global macro fund Haidar Jupiter, which had an insane 2022, having soared 193%. Regularly ranked in the top half of this survey, the fund's performance last year pushed its trailing five-year annualized returns above 55%, far outdistancing the rest of the pack.

Douglas King's diversified Merchant Commodity Fund (No. 2) also enjoyed a strong 2022, riding the coattails of last year's commodity rally to a 45% gain. This propelled the discretionarily managed fund's five-year returns to 27.7%. (See MCF's profile on pp. 27-28.)

Citadel Wellington (No. 3), Ken Griffin's flagship multistrategy fund, a perennial top performer, returned more than 38% last year. This venerable fund registered five-year annualized returns of 23%.

Despite the challenging year most hedged equity funds faced in 2022 with the average manager having lost money, six of this year's top ten funds were equity focused.

Michael Kaufman's MAK Capital (No. 4), which had ranked 12th or higher over the past five years, rallied nearly 28% in 2022. This pushed his five-year annualized returns to 22.7%. Kaufman's consistently strong returns are more remarkable considering the manager's pessimism rooted in the country's over-indebtedness and monetary and fiscal policy missteps. (See MAK's profile on pp. 23-24.)

Abu-Dhabi-based Waha MENA (No. 10), an equity long/short fund, has qualified for the survey five years running. Being one of only three emerging market managers in this year's survey, portfolio manager Mohamed El Jamal has sustained strong performance with five-year trailing returns of nearly 17%. Drivers include growing global awareness of opportunities in the Middle East/North African region that go beyond commodities and the removal of Russia from equity indices that's redirecting capital into the region.

Reflective of the survey's overall composition, half the top ten funds are managing less than $950 million.

One common trait—and caveat—of this survey is the

2023 SURVEY OF THE MOST CONSISTENT PERFORMING HEDGE FUNDS

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HISTORICAL RANKINGS † '18	'19	'20	'21	'22	Fund Name	Launch Date	Strategy	Fund / 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 (Hurdle (-5%)	1Q23 Net Returns	3-Year Annualized Net Returns (%) thru 2022	5-Year Annualized Net Returns (%) thru 2022	Annualized Net Returns (%) since inception thru 2022	Worst Draw Down (%) Last 5 Yrs thru 2022	Worst Draw Down (%) since Inception thru 2022	5-Year Annualized Standard Deviation thru 2022	Annualized Standard Deviation since Inception thru 2022	5-Year Sharpe Ratio thru 2022	Sharpe Ratio since Inception thru 2022	5-YearFund Correlation versus S&P 500 TR thru 2022
NA	NA	NA	32	41	CRC Bond Opportunity Trading (New York)	Oct-16	Credit Long/Short	805 / 7,500	5.87	13.63	11.37	10.40	1.27	-8.49	7.58	8.42	9.35	-6.43	-6.43	NA	5.94	NA	NA	NA
NA	NA	37	42	42	Mariner Atlantic Multi-Strategy Ltd (New York)	Nov-95	Fixed-Income Relative Value Multistrategy	2,017 / 5,472	9.42	10.30	9.94	7.15	4.12	3.56	7.05	8.16	6.80	-3.21	-8.92	3.65	3.52	1.86	1.71	0.15
4	13	48	45	43	Segantii Asia-Pacific Equity Multi-Strategy (Hong Kong)	Dec-07	Multistrategy	5,955 / 5,955	11.34	5.52	7.87	9.80	6.34	-0.68	7.99	8.15	12.72	-3.28	-10.16	5.32	8.19	1.24	1.43	-0.08
NA	28	21	30	44	Intrinsic Edge Capture LP (Chicago)	Jan-07	Equity Long-Bias	459 / 1,021	7.04	5.77	14.10	12.55	1.04	0.07	9.07	8.00	11.58	-12.58	-16.36	11.79	12.55	0.55	0.83	0.56
NA	NA	NA	39	45	Drawbridge Special Opportunities LP (New York)	Jul-02	Credit Long/Short	6,270 / 45,750	6.77	11.01	6.34	15.43	0.66	0.66	7.31	7.93	NA	-17.30	NA	9.07	NA	0.73	NA	0.51
NA	NA	NA	NA	46	TIG Arbitrage Enhanced (New York) <	Feb-12	Merger Arbitrage	814 / 8,350	11.86	5.12	9.72	8.75	2.21	0.25	6.85	7.53	6.74	-7.46	-7.46	6.57	5.94	0.97	1.02	0.13
NA	NA	NA	50	47	Ramius Merger Strategy (New York) <<	Jan-13	Merger Arbitrage	240 / 14,500	11.97	7.89	6.07	11.04	-0.11	1.54	5.56	7.28	6.96	-15.67	-15.67	11.86	10.07	0.51	0.61	0.53
NA	NA	NA	NA	48	Astra Specialist Credit Investments Ltd (London) >	Nov-12	Credit Long/Short	304 / 424	14.59	6.68	7.50	7.11	-1.61	-0.67	4.25	6.40	11.85	-12.11	-12.11	7.60	7.60	0.67	1.43	0.44
NA	NA	49	41	49	Arena Special Opportunities LP (New York)	Oct-15	Special Opportunities	1,340 / 3,451	8.00	8.14	5.75	9.56	-1.83	-2.56	4.38	5.84	6.49	-11.86	-11.86	9.23	10.49	1.15	1.39	0.21
NA	39	39	48	50	ChapelGate Credit Opportunity Ltd—B (Singapore)	Dec-05	Credit Multistrategy	961 / 8,100	5.18	12.56	8.41	5.12	-4.64	4.53	2.81	5.17	NA	NA	NA	NA	NA	NA	NA	NA
					Top 50 Averages	14 years		3,581 / 11,512	11.50	10.75	17.51	14.97	9.14	-0.14	15.21	12.53	12.39	-10.60	-14.73	10.86	9.54	1.47	1.36	0.18
					BarclayHedge Fund Index	NA			-5.23	10.64	11.14	10.22	-8.22	2.29	3.98	3.35	7.60	-11.90	-24.09	8.12	7.16	0.25	0.79	0.91
					S&P 500 Total Return Index	NA			-4.38	31.51	18.40	28.72	-18.14	7.50	7.65	9.43	11.48	-23.89	-50.95	18.53	15.29	0.44	0.49	1.00
					JPMorgan Global Gov't Bond Index	NA			1.02	6.05	5.55	-2.54	-13.01	2.84	-3.64	-0.84	6.15	-15.64	-15.64	4.39	5.88	-0.49	0.53	0.19

† Ranked by trailing 5-year net annualized returns thru 2022. *The Wall Street Journal* published the 2018 ranking of the Top 60 funds: Eric Uhlfelder, "In Tough Times for Hedge Funds, These are the Ones that Stand Out," 5 May 2019. SALT commissioned the 2019 Survey of the Top 50 funds. < TIG Arbitrage Enhanced is a levered version of its flagship fund. Normally, levered versions of funds are excluded from this survey due to excessive volatility. This fund is included because it delivered 11 years of limited volatility and maximum drawdown. << Ramius qualified for inclusion in the 2022 survey with strategy assets in excee of $300M. But despite solid performance in 2022, which exceeded the market by more than 18 percentage points, its strategy assets fell below the minimum AUM threshold of $300M. It was given an asset exemption to be included in the 2023 survey. > Astra has $304M of SMAs. Actively managed SMAs are run pari passu with the comingled fund. NA = Performance data was not available or fund did not qualify for inclusion.

top-ranked funds that have generated returns well above the mean frequently fall hard during bouts of extreme market selling. Concentration and leverage are often key factors driving sharp rises and falls. As previously noted, this was again evident last year.

Six of 2022's top seven funds were hedged equity with an average five-year annualized return through 2021 of 30%. But last year, they were collectively down an average of 30%. And this year's top-performing fund—Haidar Jupiter—which was the only fund from last year's top seven to make this year's survey, declined -44% during the first three months of 2023.

Merchant Commodity Fund was off just -2.1% for the year through March and MAK Capital was down -3.7%. But the other seven of the top ten funds were all positive so far in 2023. The best returns were generated by hedged equity funds, led by quantitatively managed Citadel Tactical (5.5%), Anson (5.4%), and emerging-market leader Waha MENA (4.6%).

STRATEGIES

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

While looking at a single year can also be misleading, 2022 revealed extraordinary breadth of strategy performance that reached beyond 20 percentage points.

This year's strategy returns again reveals another startling shift in fortunes compared to 2021. With decisive moves in stock and bond indices along with rising

GLOBAL INVESTMENT REPORT

Generali Investments' Head of Macro and Market Research Thomas Hempell Fears Markets are Missing Very Clear Risks

Thomas Hempell, Photo Credit: GIAM

What dominant themes characterize today's environment?
First, markets are too sanguine about growth and inflation. We foresee more damage from the credit crunch which will likely help trigger a recession. We see inflation persisting despite slowing growth and earnings. Markets are a bit too optimistic regarding a potential pivot by the Fed and the ECB. The Fed may cut in the first quarter of next year; ECB, no earlier than summer next year. Second, we see tangible risks in Ukraine, financial industry, commercial real estate, and Iran. China represents a triple risk: helping Russia militarily would likely push the West to impose sanctions, the conflict over Taiwan, and tech issues between the US and China are far from resolved.

So you believe if there's proof of China supplying Russia with weapons, the West will respond with sanctions?
Hard to say for sure. But there would be strong US pressure on Western allies to do so. And I think China knows this and will proceed cautiously with Russia over directly involving itself in the war.

Unlike the great recession and the pandemic when governments could turn on monetary and fiscal spigots, it seems we're now facing a period where governments are largely out of policy options, which is intensifying uncertainty.
Absolutely. Then there are doubts about the financial system triggered by a series of bank failures. Recovery can no longer rely on massive policy support, and recognizing this may test the current resilience of the risk market. In addition to slowing economic growth, there is concern about the impact huge commercial office vacancies will have on the financial system.

We can also add the Ukrainian War to the list of major issues lacking a clear path toward resolution.
Yes. The war is further beyond the control of the West. Even after extensive sanctions and massive military support and capital transfers, the West sees limits to what it can force Russia to do. Still, I'm pleasantly surprised to see how much support the West has shown for Ukraine. Going forward, President Biden will have more difficulties maintaining the current level of the support with a divided Congress. And I don't see Europe stepping up significantly to take the lead in supporting Ukraine if there's a pullback of US support or leadership. The Ukrainian counteroffensive brings both hope and uncertainty. Yet, markets don't seem overly concerned by this escalation in the war.

Back to the Fed, what happens to markets if investors realize an interest-rate pivot is not likely over the near term?
That's exactly what concerns us and why we think equity levels look fragile. We think the laws of gravity will assert themselves, and we would not be surprised by a near-term correction.

Do you think earnings are going to worsen over the rest of 2023?
Yes. Q1 was a pleasant surprise supported by pent-up demand for many goods and services, including cars. But we don't believe this resilience is sustainable as interest rate rises filter through the economy, enhancing a credit crunch and further reducing growth and earnings. We think recession in the US is likely during the second half of the year.

Which sectors are more likely to be hurt and which may thrive during the rest of 2023?
Real Estate and cyclical stocks are vulnerable. US Regional banks may continue to suffer from liquidity and duration concerns as the current negative sentiment plays out along with deteriorating commercial real estate exposure. We prefer defensive sectors, such as consumer staples and health care.

Where do you think inflation will be by the end 2023 in the US and Europe?
We think US core PCE will be above 3.5%. The main reason the Fed would cut rates is fear of recession which we're anticipating will hit the US later this year. For Europe, core inflation will still be above 4%, mostly driven by wage growth, which is not likely to ease over the near term. We expect European growth will be subdued because of a more protracted slowdown, but don't anticipate a European recession this year.

Does this mean central banks will have to give up on their 2% inflation targets if recession arrives over the next year?
If recession hits the US, the Fed could argue that headline inflation will have likely fallen to such levels therefore enabling it to ease rates. But we've argued for some time that markets were much too optimistic pricing in a pivot over summer. The Fed must defend its tarnished inflation-fighting credentials. The ECB's mandate is primarily focused on inflation. So policy rates are not likely to fall in Europe before the middle of next year.

What are your major concerns for the rest of 2023?
The main one is financial stability of the regional banking system as well as the shadow banking system, whose health and stability are much harder to discern. My second concern is the commercial real estate market. If defaults begin to materially rise, the big concern will be how will they impact the banking system as well as the shadow banking system. My third concern: persistent inflation, which seems to be stickier than most would've believed. And then there are the geopolitical risks surrounding the war in Ukraine which has turned much hotter, and uncertainty about what China will do regarding Russia, Taiwan, and western technology.

European banking seems to be on a more stable footing than US banking (beyond Credit Suisse and Deutsche Bank). Europe has adopted more stringent regulations, capital ratios, and stress testing, inclusive of smaller regional banks, that distinguishes them from their US counterparts. Is this correct?
I think so. And it's important not to forget that the size of interest rates and related shocks have been more muted in Europe than in the US.

If SVB had been a regional European bank, might it not have collapsed?
The bank would've been subjected to stress tests, and that would've triggered an earlier response to underlying issues.

Have we seen the worst of the US banking crisis?
I think we're seeing a smoldering crisis. I don't think we're going to see escalation to a Lehman moment. Existing regulation and oversight are likely sufficient to prevent this. Nevertheless, there's still risk of more small- and medium-sized accidents.

You're suggesting the possibility of a flare up. May we need to apply more extreme measures discussed in 2008, such as restricting shorting of banks that are fundamentally sound to prevent speculator-driven losses?
This is tricky. I believe forbidding or intervening in capital markets is not a good solution because money ultimately finds its way to its intended target. I don't think regulators can directly prevent short-term market panic in such ways.

Besides addressing duration risk, what are additional fundamental issues that might need to be addressed to dampen concerns about regional banks?
I'm not sure there are near-term reforms that can materially help. These sorts of improvements take time to formulate and put into place. This is why I think the smoldering condition will continue for a while—which takes us back to our initial discussion that we're in a time when government is facing stresses with little it can do to mitigate impacts.

You still believe full-year returns for both the S&P 500 and the MSCI EMU will largely be flat?
Yes, that remains our sentiment, with near-term risk tilted to the downside. When there's a rate pivot clearly on the horizon, then we may see the possibility of a more positive equity environment.

Few observers seem deeply concerned by the narrowing spreads in the corporate high-yield market reflecting investor confidence. Should we be worried?
Yes. High-yield spreads in the US and Europe are still relatively tight so we don't like high-yield, preferring higher quality corporates and government credit. We like short-dated southern European sovereign and German bunds most at the peak of the yield curve. And we like US Treasurys as good hedges in case risk sentiments turn south.

Thomas Hempell, based in Cologne, is head of Macro and Market Research at Generali Investments, a part of the Generali Asset & Wealth Management Business Unit. He helps formulate tactical asset allocation recommendations for the asset manager. Established in 1831, Generali is one of the world's largest global insurance and asset managers, running more than €500 billion.

Ambassador Michael Mcfaul on the Price of Losing Ukraine

Growing factions in the West are seeking to weaken NATO's commitment to Ukraine. I asked Ambassador McFaul what the impacts might be if Russia occupied all of Ukraine.

Professor Michael McFaul
Source: michaelmcfaul.com

If Russia were to succeed in Ukraine, what might follow?

I think that would be a disastrous outcome for Ukraine, Europe, Asia and world order and that would be a costly, deadly world that's not in our interests.

First, a dictatorship will have destroyed a democracy and have created a forward operating base for threatening the rest of Europe. That would mean not only Ukraine will have been lost, but it would threaten our NATO allies and we would hear from our allies that we need more American resources and American soldiers. That's not an outcome that's in America's national interests, deploying more resources and soldiers in Europe at a time we're thinking about deploying assets to deal with the China challenge.

Second, it would send a horrible message to Xi Jinping if Putin got away with it. It increases the probability of conflict in Asia. That really doesn't serve our national interests. I worry more about being dragged into a fight over Taiwan. A West victory in Ukraine would have a deterrent effect; a loss would have the exact opposite effect.

Third, loss of Ukraine would have negative consequences for a lot of American bilateral relationships around the world. The good news is that only five countries including Russia voted to support the war. But there were dozens that abstained, and as the war drags on there's a lot of indifference and standing on the sidelines in the Middle East, Latin America and in Asia. Victory could mean those countries may start leaning more towards the democratic world. But defeat may lead them to increasingly hedge their bets towards Russia and China.

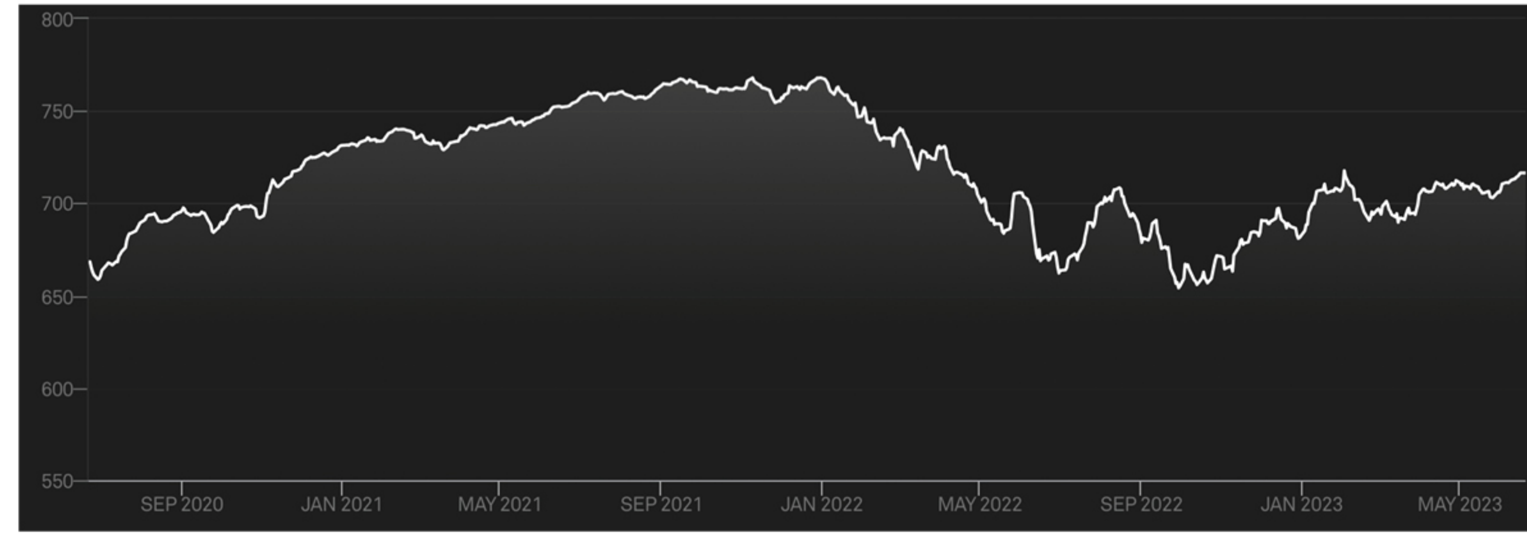
Fourth, Putin illegally invaded Ukraine—with no threat from Ukraine—and then he annexed territory in Europe. Let's remember we fought World War II in large part over wars of annexation, and in large measure what drove the creation of the United Nations was to prevent wars of annexation in the future. There are pockets of annexation that had been happening during the Cold War and today, but nothing like what's being attempted in Ukraine today. If Putin gets away with annexation and recolonization (another principle that the United Nations was designed to prevent, to get rid of empires), then that sends a terrible signal that other countries may want to start to redraw borders that they think were illegitimately drawn at an earlier time. And that's a world of anarchy and war that's against US interests.

What would happen within Ukraine?

Ukrainians will never stop fighting, with or without weapons, with or without sanctions, with or without economic assistance from the West. I see no conditions in which they submit to Russian occupation. There will be a permanent counterinsurgency, there will be terrorist attacks, and people will die for years and years. I can't see how this outcome can be in our interests. And that's why I believe there needs to be a greater sense of urgency for doing as much as we can do now to prevent that horrific outcome in the future. And for those who want to pull back on American assistance to Ukraine, it's cheaper to provide it now than to deal later with the scenario just described.

Michael McFaul is a leading expert on Russia, American foreign policy, and democratic development around the world. A former U.S. ambassador to Russia, McFaul is currently a professor of political science at Stanford University. McFaul served for five years in the Obama administration as Special Assistant to the President and Senior Director for Russian and Eurasian Affairs at the National Security Council at the White House.

S&P HIGH-YIELD CORPORATE BOND INDEX



Source: S&P/Dow Jones Indices

rates and commodity prices, and the revival of foreign exchange trading opportunities, it was no surprise that commodity trading advisers (CTAs) and global macro managers were the top-performing strategies in 2022. Both strategies do well when asset classes are trending.

CTAs, which had been toward the bottom of the pack in 2021, soared to the top, returning on average 7.1%. Global macro managers climbed up from the middle of the pack to the second spot in 2022, gaining 6.5%.

Asset-backed loans (ABLs), which had been just below global macro in 2021, rose to the third spot in 2022 with average returns of 3.4%. Reasons behind ABLs decent year, according to Andre Hakkak, CEO of White Oak Global Advisors, is that these lower duration loans are inherently less sensitive to changing economic conditions. And they can thrive with inflation.

Credit long-only (-11.4%) and fixed-income diversified (-8.0%) strategies remained near the bottom of the list. The worst performing developed market strategy in 2022 was equity long-bias. It saw the largest performance reversal of all strategies. It rallied 17.1% in 2021; in 2022, it lost -13.6%.

Multistrategies

The largest number of managers that made this year's list were running multistrategy funds. This popular strategy continues to prove its worth with ten multibillion funds regularly making this survey. The group's average five-year annualized return was 11.8%. Industrywide, multistrategy funds registered modest gains of just 2.2% over the same period.

> "Our clients are asking us, 'why should we take any risk,' when one can receive an attractive short-term risk-free rate over the next 6-9 months, which reflects an inverted yield-curve that speaks of recession and not a soft landing?"
>
> **- Patrick Ghali, Sussex Partners**

Third-ranked Citadel Wellington, the $42 billion behemoth, soared by more than 38% last year, helping it to achieve 23% annualized returns over the past five years.

D.E. Shaw Composite (No. 11) climbed 24% last year. This helped send the $23.4 billion fund's five-year trailing return to 16.5%. And $17.7 billion Millennium (No. 19) delivered 12.5% gains last year, which dropped its five-year annualized returns to 13.2%.

Hedged Equities

The second-largest fund count in the survey was hedged equity. Seven funds collectively delivered five-year annualized returns of

2023 SURVEY OF THE TOP 50 HEDGE FUNDS: 20TH ANNIVERSARY EDITION

> "A looming credit crunch, lower earnings and rising defaults will take their toll . . . and the laws of gravity still apply."
>
> \- Thomas Hempell, Generali Investments

17.3%. This exceeded the survey's multistrategy fund performance by 6.5 percentage points.

Michael Kaufman's MAK Capital topped this group with five-year annualized returns of 22.7%. Last year, Kaufman's fund rallied nearly 28%, having outpaced the market by 46 percentage points. His fund profited from energy and commodity investments, a major position in the info-tech consulting firm Agilysis, and its bet on rising interest rates.

Toronto-based Anson Investments, managed by Moez Kassam, also outperformed the market in 2022 by returning 7.6%. But Kassam's 45% annual returns in 2020 and 2021 boosted the fund to No. 5 with five-year trailing gains of 22.5%.

London-based Brook Absolute Return Focus fund gained 26.5% last year. But 2022 was a rough ride. It started ominously when managers James Hanbury and James Grimston wrote down the entire value of four Russian equity positions soon after Putin invaded Ukraine.

The fund's short book then helped staunch the bleeding.

But it was an opportunistic outside-the-box move into UK inflation-indexed government bonds along with a fourth-quarter rally that propelled the fund's fortunes to No. 6, up from its 20th place in last year's survey.

Brook started 2023 up 2.5% in the first quarter. But another externality hit the fund.

Its parent company, Odey Asset Management, dismissed founder Crispin Odey on allegations of inappropriate behavior. Odey's custodians and prime brokers then announced they would stop servicing all the firm's funds that had a collective value of $4.4 billion.

While Brook Absolute Return operates independent of Crispin Odey and is not implicated in any wrong-doing, it's also losing key service providers.

According to internal sources, the fund has not gated and there have been no unusual redemption requests. But the managers have taken the extraordinary step of drastically ratcheting down exposure to minimize risk that could come about from any temporary interference with trade execution. This short-term interruption will impact fund performance—likely restraining returns if the market rallies or sustaining value if there's a selloff.

The managers do know the fund's future will require a different home. Two immediate options: finding a place on an existing European multi-fund platform or setting up an independent shop.

Global Macro

Six global macro funds made up the third most represented strategy within the Top 50. They collectively delivered average five-year annualized returns of more than 20%, or nearly 15 percentage points more than the average macro fund return.

New York-based Haidar-Jupiter, managing $3.3 billion, generated annualized returns of 55% over this period to claim the survey's top spot. Last year's tremendous gains of 193% were driven by concentrated bets on rising interest rates in the US, UK, and other G7 economies, according to Bloomberg. Haidar sensed inflation was sticker than most believed and that central banks would need to sustain their aggressive posture into 2023. This positioning helped the manager outpace other macro managers who pivoted away from this bet in the middle of last year.

But Haidar's high-wire act began losing altitude in the fourth quarter of 2022 when the fund's third-quarter gains of 274% retreated by 82 percentage points. This was then followed by a first-quarter 2023 decline of 44%.

Haidar-Jupiter has been a remarkably consistent fund for many years running. Back in 2020, when the fund was ranked 19th in the survey, it did so based on five-year trailing returns of 10.8% through 2019. At that time, its historical performance since its launch in January 2002 was 15.5%.

Since then, it appeared the manager started to fundamentally ratchet up risk taking when it generated returns of 70% in 2021 followed by its triple-digit gains in 2022. Haidar transformed the fund from one that had targeted sustainable consistency to one driven by high-stakes investments which are difficult to manage beyond the short term.

The $3.5 billion John Street Capital was the second-most profitable macro manager in the survey, with trailing five-year returns of 16.3%. While the 12th-ranked London-based manager also outperformed its long-term record in 2021 and 2022 with gains of 24% and 27%, respectively, John Street continued to control downside risk over the five years

HISTORICAL EPISODES OF CONTRARIAN SIGNALS PROVIDED BY THE AAII SURVEY

Date	Bullish Sentiment	Bearish Sentiment	Bull-Bear Spread	S&P Performance
Nov 11, 21	48%	24%	24%	-12% after 6 mo, -18% after 1 yr
Feb 11, 16	19.2%	48.7%	-29.5%	+8% after 3 mo, +13% after 6mo, +19% after 1 yr
Apr 11, 13	19.3%	54.5%	-35.2%	+4% after 3 mo, +8% after 6 mo, +19% after 1 yr
Jul 8, 10	20.9%	57%	-36.1%	+9% after 3 mo, +19% after 6mo, +25% after 1 yr
Early Mar '09	18.9%	70%	-51.1%	+34% after 3 mo, +41% after 6mo, +58% after 1 yr
Oct 11, 07	54.6%	25.8%	28.8%	-10% after 3 mo, -13% after 6mo, -42% after 1 yr

Source: Benzinger

Why Good Funds Didn't Make the List

Hedge funds don't qualify for this survey because of 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. But they merit attention.

I've been tracking **Wexford Credit Opportunities** for many years and for good reason. Since its launch more than 20 years ago, it has delivered annualized returns of nearly 13% by targeting high-yield and distressed debt, mortgages, and special situations.

It has had only three down years over that time. Its worst drawdown collided with the onset of the pandemic in 2020, -15.5%. The fund still ended the year up 24.4%. Annual volatility has been running at 9.7%, producing a solid Sharpe ratio.

So what kept Wexford off my list? Fund assets were just $121 million as of the end of 2022. A $300 million minimum is in place to ensure funds can afford top-tier service providers. It didn't seem particularly fair to apply this standard to this fund. Its management company runs more than $2 billion with more than half that amount in various hedge funds, enabling Wexford Credit to indeed have high-quality service providers in place.

Gresham Quant ACAR is a $1.2 billion diversified commodity trading advisor systematically managed to deliver absolute returns. During the fund's nearly six years in business, it has done just that. It has generated annualized gains of 19.5%. Annualized volatility is 13.2%, and the fund's worst drawdown was just -12.1%.

Even more impressive: the management company's pedigree and investor base. Launched in 2005 by some of the industry's leading practitioners, Gresham now manages nearly $6.9 billion for public and corporate pension funds, endowments, corporations, health systems, insurance companies, and sovereign wealth funds based in the Americas, Europe, Asia, and the Middle East.

It didn't make this year's survey because in 2019 the fund's 1.5% return was below the survey's 5% hurdle.

Convertible arbitrage manager **Context Partners** has been around since December 2008 and has an attractive risk-return profile. Through 2022, its annualized returns were more an 14% with volatility under 7.9%. Its worst drawdown was just -7.3% registered during the first half of last year's bear market. The fund still managed to end the year slightly in the black with $849 million in assets.

In 2018—the first year this survey instituted performance hurdles because of the down year hedge funds and the market had experienced—Context did well, having gained 3.4%. But it fell short of the year's 5% hurdle.

through 2022 to less than -9.4%. And through the first quarter of 2023, the systematically managed fund was down just -3.4%.

This was the first year the survey had access to D.E. Shaw's Oculus data, which delivered the third-highest macro returns of 15.4% over the past five years. Like its larger multistrategy sibling D.E. Shaw Composite, Oculus has enjoyed a consistent long-term track record since its launch in March 2000. The 14th-ranked New York-based fund, which manages nearly $1 billion, has also managed risk well. Its worst drawdown over the past five years was less than -5% while its annual volatility was a modest 6.6%.

Debt and Credit

Most debt and credit strategies had a tough 2022 as rising interest rates and widening credit spreads hit valuations. Four disparate funds—one focused on US municipal bonds, another on US sub-investment grade debt, a third on emerging markets, and a fourth on frontier markets—all made money last year.

New York-based Whitehaven Credit Opportunities, a $1.3 billion fund (No. 28), relied on relative value trades of municipal debt to gain 5.5%. Its annualized returns over the past five years were 11.1%, slightly above its historical annualized returns since its launch in 2009.

Perennially ranked Millstreet Credit, a Boston-based credit long/short specialist who has a well-established track record of finding value in stressed and distressed debt, rallied 4.8% in 2022. The $1.7 billion fund came in at No. 13 with annualized returns of 15.5% over the past five years. That's nearly four percentage points above its historic annualized returns since it opened its doors in 2010.

Emerging debt specialist fund Gemcorp I delivered the strongest returns of this group, last year returning more than 15%. The London-based fund, managing $645 million, delivered 12% annualized returns over the past five years to claim the 23rd spot in this year's survey.

And the frontier market Enko Africa Debt, which was profiled in last year's survey as among the most unique sources of alpha, rallied back from mid-year losses of -23% to end 2022 up 1%. With five-year trailing annualized returns of 13.5%, the $535 million London-based fund maintained its last year's ranking of No. 18.

RISKS AND OPPORTUNITIES

There's a growing chasm between what leading allocators are thinking and what the market is doing.

"What we've seen so far in 2023," explains Anthony Novara, head of hedge fund research at the $250 billion advisory Fiducient, "is multiples expanding while earnings have been contracting. That suggests to us that there's a risk this is a bear-market recovery rather than the start to a new bull market, especially if a recession sets in."

Allianz' chief economist Ludovic Subran already reports, "US earnings having already fallen back for two consecutive quarters" and corporate guidance deteriorating for full-year 2023. He thinks "a corporate recession is looming." (See bar chart on p. 26.)

"Last year's equity sell-off helped adjust earnings multiples to reflect the new slower growth economy," explains Marc Sbeghen, co-founder and co-portfolio manager of the Swiss-based alternative investment allocator Iteram Capital. But the former executive at the venerable Banque Privée Edmond de Rothschild thinks the 2023 rally is disconnected from the economy. "I don't think we've seen the full impact of higher rates and slowdown," and Sbeghen thinks, "the recent banking crisis was a warning of things to come."

There's no denying rising wages, a robust job market, falling inflation and improving 401k returns have helped turnaround consumer sentiment, which may have bottomed last year. (See graph on p. 6.)

A year-long decline in volatility (graph on p. 25) has also improved market sentiment. Enhanced sentiment is also evident in the US junk bond market, which has rallied more than halfway back from its 2022 lows. (See graph on p. 20.)

The sum of these positive reads may be seen in current investor sentiment. As of mid-June, the American Association of Individual Investors (AAII) reported bullish sentiments outweighing bearish sentiment by a 2-to-1 ratio, with more than 45% of surveyed investors believing equity markets will rise for the rest of 2023. "This puts optimism above its historical average of 37.5% for the second consecutive

MAK ONE

A Thriving Pessimist

Over its first two decades in business, Michael Kaufman's MAK Capital may be the best performing hedged equity fund you've never heard of. It's exemplary of what smaller consistently performing funds that regularly qualify for this survey can do.

MAK (No. 4) has generated annualized gains of 15.5% through 2022. It has been on a tear over the last five years, with annualized gains of nearly 23% per year, 13 percentage points better than the market. The fund's market correlation over this time: just 0.12.

Kaufman generated a big performance edge in 2022 when it earned nearly 28%.

But 2022 was hardly an outlier. MAK has consistently excelled when the market has stumbled. When the Financial Crisis hit in 2008 and the S&P collapsed by 37%, MAK was up 14.5%. In 2018 when the market turned south in the 4th quarter and transformed a double-digit gain into a -4.5% loss, MAK soared by more than 51% for the year.

An additional tool in Kaufman's book that gives him an edge over traditional long-short managers is his judicious use of distressed positions to exploit weakness and propel returns when markets are struggling.

And yet, despite this remarkable track record, assets only recently surpassed the billion-dollar mark.

The fund doesn't lack for institutional bells and whistles, explains Kaufman, including a team of talented analysts and supporting staff. Kaufman has a sizable stake in the fund, another quality institutional investors like to see. But decision-making is concentrated in Kaufman. He dances to his own tune, often out of step with Wall Street.

Particularly curious about the fund: its success has been driven by an extremely pessimistic manager. That sort of sentiment usually doesn't fuel strong long-term performance. But it does when his sentiment keeps the fund from suffering significant losses. MAK's worst drawdown of -17.9% occurred in 2014. The market's worst drawdown since Kaufman's been in business: -51%.


Michael Kaufman

Several ways the manager contains losses: he implements stop-losses to keep individual stock declines from cascading; and when he's truly convinced about a stock, he will maintain and accumulate exposure and allow it to run—so long as fundamentals and management remain sound.

Kaufman's only meaningful stumble was between 2012 and 2013. The US had come out of the Great Recession, but economic growth remained sluggish and the Fed kept interest rates near all-time lows. Kaufman saw bearish signals. But the market rallied 16% in 2012 and then soared 32% in 2013. Over those two years, MAK had a cumulative loss of 10%.

Kaufman's contemporaneous concerns about the country's fiscal and monetary policies and overly complacent investors didn't seem to affect the market. The fund was hurt by its low net equity exposure, which comprised deep value, low-beta long positions that trailed a rising market while the fund's short positions lost money. And the fund's defensive investments in precious metals, which had served the fund well for the previous three years, also lost money.

Kaufman responded to this underperformance by restructuring his investment team and revamping the fund's analytical, investment, communications, and reporting processes. He reduced risk associated with his commodity options strategies while refocusing its exposure on equity research.

All of this laid the groundwork for eight straight profitable years during which time the fund returned 300%.

Looking at the rest of 2023, Kaufman is concerned. His current net short position collided with this year's rally, with the fund off -3.7% through the first quarter.

Kaufman's bearishness is rooted in not seeing inflation going away. Persistent decline in major commodities reflects weakening demand. A major war in Europe certainly doesn't help. And while the reopening of the Chinese economy was good news, it may not be the growth trigger many investors are predicting.

"The market is being driven by a handful of large-cap stocks with much of the S&P in an earnings recession," observes Kaufman. With the Fed hard pressed to cut rates if the economy continues to slow, Kaufman believes it's better to be cautious while others may be throwing it to the wind.

week," according to AAII, and it notes, "bullish sentiment was last higher on November 11, 2021 (48.0%)."

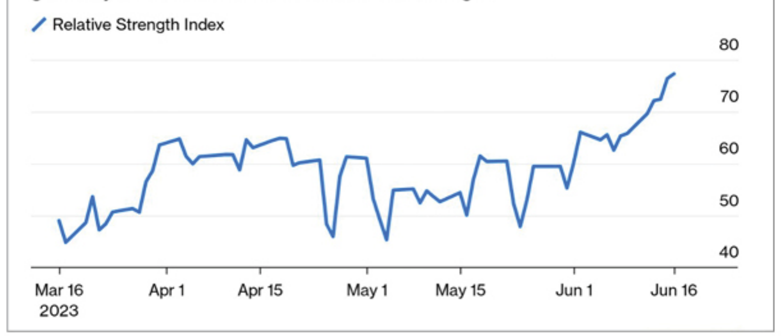
Benzinga, a platform of financial news and analysis, considers this sentiment a compelling contrarian indicator. It cites a series of times when extreme bullish and bearish sentiment portended a market reversal. (See table on p. 21.)

"The S&P is already above the median year-end target based on Bloomberg News survey of 23 Wall Street strategists," says Aaron Brown, the former chief risk manager at AQR Capital Management. The market's Relative Strength Index is around 77%. Brown says readings above 70 indicate an over-brought market. But he cautions interpreting the indicator is not that simple. (See table to the right.)

The data is telling Brown two things: "One, the market is going up and will likely continue to go up for some time, and two, the RSI must revert to 53% or so, which will require either a crash or a sustained period of mostly negative daily returns." He qualifies this conclusion as being "mathematics than economics."

Thomas Hempell, head of macro and market research at the global allocator Generali Insurance Asset Management, describes markets climbing past banking worries with the help of resilient economic data and earnings, Artificial Intelligence euphoria, and abundant liquidity.

Too Much, Too Soon?
The S&P 500's Relative Strength Index has exploded above 70, a level generally considered where stocks are overbought



Source: Bloomberg

VIX INDEX

Source: Financer.com

But he still projects markets will end the year flat. The reasons: "A looming credit crunch, lower earnings and rising defaults will take their toll . . . and the laws of gravity still apply." The war in Ukraine and simmering US-Sino tensions certainly further complicates matters. And seeing the VIX having receded to pre-war levels, he thinks "it's detached from economic sentiment," and he expects it to rise as quantitative tightening proceeds."

The market rally that's closing out the first half of the year is helping investors put aside concerns that Charlie Munger describes as the brewing storm in the US commercial property market as the evolving post-Covid work paradigm shifts demand away from central city office space. Increasing loan stress will likely further dampen regional bank lending and economic growth.

A recent article in *The New York Times* quantifies the potential dimensions of this problem. The paper reported vacant office space in the city could fill up more than 26 Empire State Buildings or 76.5-million-square feet. That number is only going to increase over the near term as new development brings more buildings online. It will have knock-on effects on other central business district activity that's dependent on higher flows of office workers. And office vacancy rates are even worse in Los Angeles and Chicago.

But Shikha Gupta, portfolio manager of the Astra Specialist Credit fund, has a bit more sanguine outlook. She compares the workplace shift to what happened several decades ago when retail activity began shifting away from brick-and-mortar shops to online.

Gupta acknowledges an approaching refinancing wall (estimated to be $1.5 trillion over the next several years) that will reveal stress. But she believes banks' improved liquidity requirements and reduced leverage since the financial crisis will likely enable most to manage increasing problems related to commercial property loans.

But she agrees regional banks, where much of this lending originates, will continue to ratchet back lending. And coupled with higher interest rates, she believes this will further slow the economy.

Preferred Strategies

It reflects a major shift in investor sentiment when a global allocator points not to hedged equity or cryptocurrencies or SPACs, but to the benefits of carry. But that's the current lead in Investcorp-Tage's June Strategic Outlook. With risk-free yields over 5%, that's understandable and raises the bar in assessing what makes other investments desirable.

That said, co-CIO Lionel Erdely doesn't have a particularly dour outlook, seeing global growth stabilizing, inflation retreating but still persistent, central bank monetary tightening on pause, and a US soft landing still more likely than a hard one. But he doesn't see a sustained market rally either for the rest of this year.

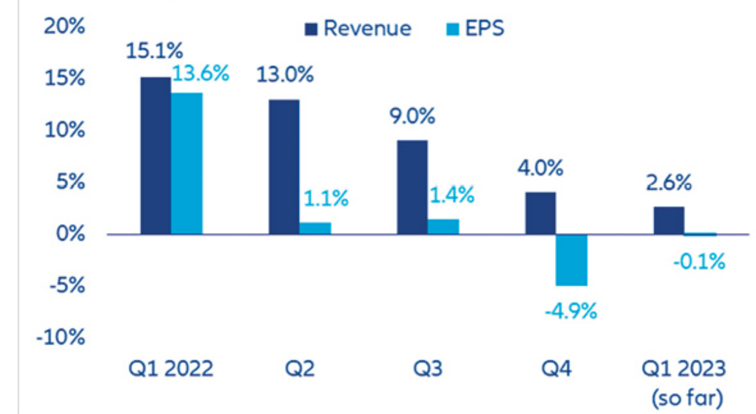
"We are likely to continue to experience range-bound and choppy markets with abrupt reversals," says Erdely. So, in addition to high-quality income and credit strategies, in particular structured credit, he also recommends exposure to discretionary macro. "We believe this strategy offers "a rich opportunity set deriving from asynchronous regional growth dynamics, policy divergence, geopolitical uncertainty and increased asset class volatility, particularly in interest rates."

Investcorp-Tages is overweight event driven exposure with a particular focus on merger arbitrage. The firm is also overweight "Japan and emerging markets relative to developed markets primarily on conducive relative valuations." It remains neutral about special situations.

Above all else, posits Erdely, "liquidity and avoidance of excessive leverage is our priority."

Generali's Thomas Hempell shares a portion of Erdely's preference, seeing value in non-financial European investment-grade credit and select emerging market debt.

GLOBAL QUARTERLY REVENUE AND EPS GROWTH RATES



Sources: Refinitiv (as of 22 May 2023), Allianz Research

He sees protection in US Treasuries not just in their attractive coupons, which are running higher than European sovereign yields, but in potential appreciation if a projected recession hits and the Fed starts to ratchet back rates next year.

Seeing various asset classes telling different stories, Iteram Capital is avoiding directional bets. "We don't want to be on the wrong side of a large event," explains Marc Sbeghen. Accordingly, Iteram intends to balance risk by ramping up exposure to equity long/short and credit long/short funds that rely on market neutral strategies.

At the same time Iteram is paring back its core global macro and commodity exposure.

Independent investment advisory Sussex Partners, which focuses exclusively on alternatives, remains risk adverse. "Our clients are asking us, 'why should we take any risk,' " relays partner Patrick Ghali, "when one can receive an attractive short-term risk-free rate over the next 6-9 months, which reflects an inverted yield-curve that speaks of recession and not a soft landing?"

The advisor sees anec-

> "Banks' improved liquidity requirements and reduced leverage since the financial crisis will likely enable most to manage increasing problems related to commercial property loans."
>
> **- Shikha Gupta, Astra Specialist Credit**

dotal evidence of stress that supports this concern, including rising credit card and mortgage rates that will cut into consumer spending. He suspects loan problems triggered by high commercial office vacancies combined with duration and liquidity risks on many regional banks' balance sheets will likely further curtail lending.

Ghali's worst-case scenario: cascading banking problems colliding with weakening economies and markets.

In considering hedge fund allocations, Ghali needs managers to clearly articulate how they can deliver an attractive spread above current risk-free rates.

He sees headwinds for CTAs that are getting hurt from trend reversals. Distressed and high-yield strategies don't yet reflect anticipated levels of risk and may be exposed to more downside before becoming attractive. And Ghali believes most fundamental equity strategies will remain buffeted by market uncertainty as long as markets continue to trade on non-fundamental factors.

His safest ideas: a portfolio of diversifying strategies, including global macro that incorporates a differentiated approach (such as focusing on Asia), relative value and variable net equity managers in specific niches which can clearly articulate why a higher rate environment can fuel returns.

While many advisors and allocators have become fans of multistrategy funds, Ghali is increasingly cautious about their growing popularity. "I think they could run into trouble," he explains, "due to the amount of leverage they use combined with the higher interest rates, and many have terms that aren't investor friendly."

Iteram's Sberghen agrees, citing deteriorating liquidity in many multistategy funds and skyrocketing pass-through costs.

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At the time this report was published, the S&P 500 was up more than 14% for the year through June 22. Consistently performing hedge funds cannot keep pace with a bull market. That's been the takeaway from my 20 years of tracking hedge funds.

Only aggressive managers, who run high volatility funds, can excel in an environment where the market is increasingly running more on momentum and optimism rather than earnings outlook.

This was evident by the Top 50's flat first-quarter 2023 returns. And this performance gap will likely widen by the time the first-half performance is tallied.

But as the historical data reported in this survey reveals, market selloffs—not market rallies—are what fuel the medium- to longer-term outperformance of the most consistently performing funds.

"Trading momentum can certainly have its place in a portfolio," says Patrick Ghali, "with some investors believing well-timed beta is a form of alpha." But in addition to remaining cautious about the eventual impact of higher interest rates and recession, Ghali is concerned about the narrowness of the rally and investor participation. "Ultimately, strong performance relies on effectively navigating downside as well as upside volatility," posits Ghali, "which means sustaining a balanced and disciplined investment approach that looks past any moment in time." ▪

MERCHANT COMMODITY FUND

More Than Oil

This survey often uncovers remarkable long-term performance in smaller funds that have been around for a while. The macro-oriented Merchant Commodity Fund (MCF) is an extreme outlier.

MCF was launched 19 years ago and has generated annualized returns of more than 17%. Few commodity teams have more experience, with each of its three principals having traded commodities for three decades. But as of the end of 2022, the fund's AUM was just $376 million—with more than 50% being management capital.

"Understanding supply and demand is naturally at the core of investments," explains manager Douglas King, "along with a refined understanding of how individual commodity and futures markets work." But in contrast to systematic traders, King believes it's also essential to have a discretionary macro awareness of market dynamics to optimize performance.

The fund's more comprehensive understanding of commodities is reflected in its willingness to trade freight derivatives, which at times has generated one quarter of the book's annual profit. "Transport--and the way it informs supply chains--is an integral part of the commodities market," explains King, "providing another means to diversify our book and enhance returns."

The Russian invasion of Ukraine provides an example of how the fund integrates macro themes and bottom-up commodity analysis. Toward the end of 2021, with economies having reopened after the pandemic shutdown, stronger global oil demand was drawing down inventories. At the same time, Russian troops were massing along Ukraine's borders, increasing uncertainty. The fund believed oil was mispriced, and MCF had a material long position in Brent.

Further, the team noticed in January 2022 that Russian crude oil was priced at a steep discount to Brent, as European refiners were shunning Russian oil. This increased demand for Brent-linked crude oil alternatives. Once war broke out, the loss of Russian diesel fuel exposed this commodity to a likely greater price shock. MCF rotated exposure from oil to diesel. By the end of April 2022, the combined effects of this four-month trade helped propel the fund 27%.

MCF secured a second-place ranking in this year's survey by having generated trailing five-year annualized returns through 2022 of 27.7% per annum. Although it incurred some rough patches over this time, with a worst peak-to-trough drawdown of nearly -17%, it made money every year, including an eye-popping 74% in 2021 and another 45% in 2022.

This performance sent annualized standard deviation of 26.6 over this time. But most of this was upside volatility. The fund's Sortino ratio of 3.41 tells a far more positive and accurate reflection of risk and reward. MCF's Sharpe Ratio during this period was 1.15, while its market correlation was just 0.21.

So why haven't investors flocked into the fund?

After the fund launched in 2004, it enjoyed six straight years of strong performance, having generated nearly 400% net returns. Investors were pouring into commodities at that time, and fund assets peaked at $2 billion just around the financial crisis.

Investors then started departing, despite the fund proceeding to soar 24% in 2008 and then adding another 5% in 2009.

But then in 2011, the fund lost 29.9%.

In response to this uncharacteristic loss, management made several improvements. It reduced investment concentration and moved to a more balanced allocation of risk. It actively limited drawdowns by enforcing tighter sop-losses on individual strategies. The fund then replaced its chief risk officer with one of its founding partners. These moves helped establish a sounder relationship between risk exposure and leverage.

When the fund runs a strong long directional book, as it did last year, it will ratchet down embedded leverage. (MCF does not add external leverage.) When outlook is uncertain and management believes it's better to run a more cautious book, the fund moves towards market neutral exposure. That's where it is today, employing relative value trades and hedging opportunistic long and short positions, and deploying more leverage to help enhance performance.


PM Douglas King

Following its worst decline in 2011, the fund was up 8 out of the next 11 years through 2022, having collectively appreciated by nearly 300%.

Conor O'Malley, head of fund research and investor relations, believes asset gathering has been limited by keeping its offering simple, running what it believes to be the optimal level of volatility. "And maybe," O'Malley quips, "we simply are more adept at commodity trading than we are at marketing ourselves."

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 to Preqin for providing specialized fund research. And many thanks to my designer Coco Sallée.

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