



SECOR ASSET MANAGEMENT

Q3 2023 Hedge Funds Outlook

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2023 Q2 Hedge Funds Review

- **Muted H1 for hedge funds**
 - The universe is slightly up on the year
- Long-biased strategies have performed well vs diversifiers
- In particular, tech equity long/short – and especially semiconductors – were the standout performers

2023 Hedge Fund Universe Returns	Q1	Q2	Q3	Q4	YTD
HFRI FoF Conservative	0.9%	0.9%			1.8%
HFRI FoF	0.7%	1.4%			2.2%
HFRI HF Composite (Fund-weighted)	1.2%	2.1%			3.4%
HFRI Equity	2.5%	2.9%			5.5%
Long/Short Directional	2.7%	3.0%			5.8%
Market Neutral	0.8%	1.1%			1.9%
Quantitative Directional	2.9%	3.6%			6.6%
Multi-Strategy	3.4%	2.7%			6.2%
HFRI Event Driven	1.4%	1.3%			2.7%
Activist	6.2%	4.1%			10.5%
Credit Arbitrage	2.8%	1.5%			4.4%
Distressed	0.9%	1.3%			2.1%
Merger Arbitrage	-1.8%	-1.1%			-2.8%
Special Situations	1.8%	1.8%			3.6%
Multi-Strategy	1.4%	1.0%			2.5%
HFRI Macro/CTA	-2.4%	1.9%			-0.6%
Active Trading	0.2%	1.6%			1.9%
Commodities	-1.4%	-2.1%			-3.5%
Currencies	0.8%	1.4%			2.2%
Discretionary Thematic	-0.1%	0.2%			0.1%
Systematic	-4.3%	4.0%			-0.5%
Multi-Strategy	-1.7%	1.5%			-0.2%
HFRI Relative Value	1.3%	1.2%			2.6%
Asset Backed FI	1.2%	1.9%			3.1%
Convertible Arbitrage	1.4%	1.3%			2.7%
Corporate FI	1.9%	1.0%			3.0%
Multi-Strategy	1.7%	0.5%			2.2%
Sovereign Fixed Income	1.0%	2.1%			3.2%
Volatility Arbitrage	-0.1%	0.8%			0.8%
Yield Alternatives	0.3%	1.0%			1.3%

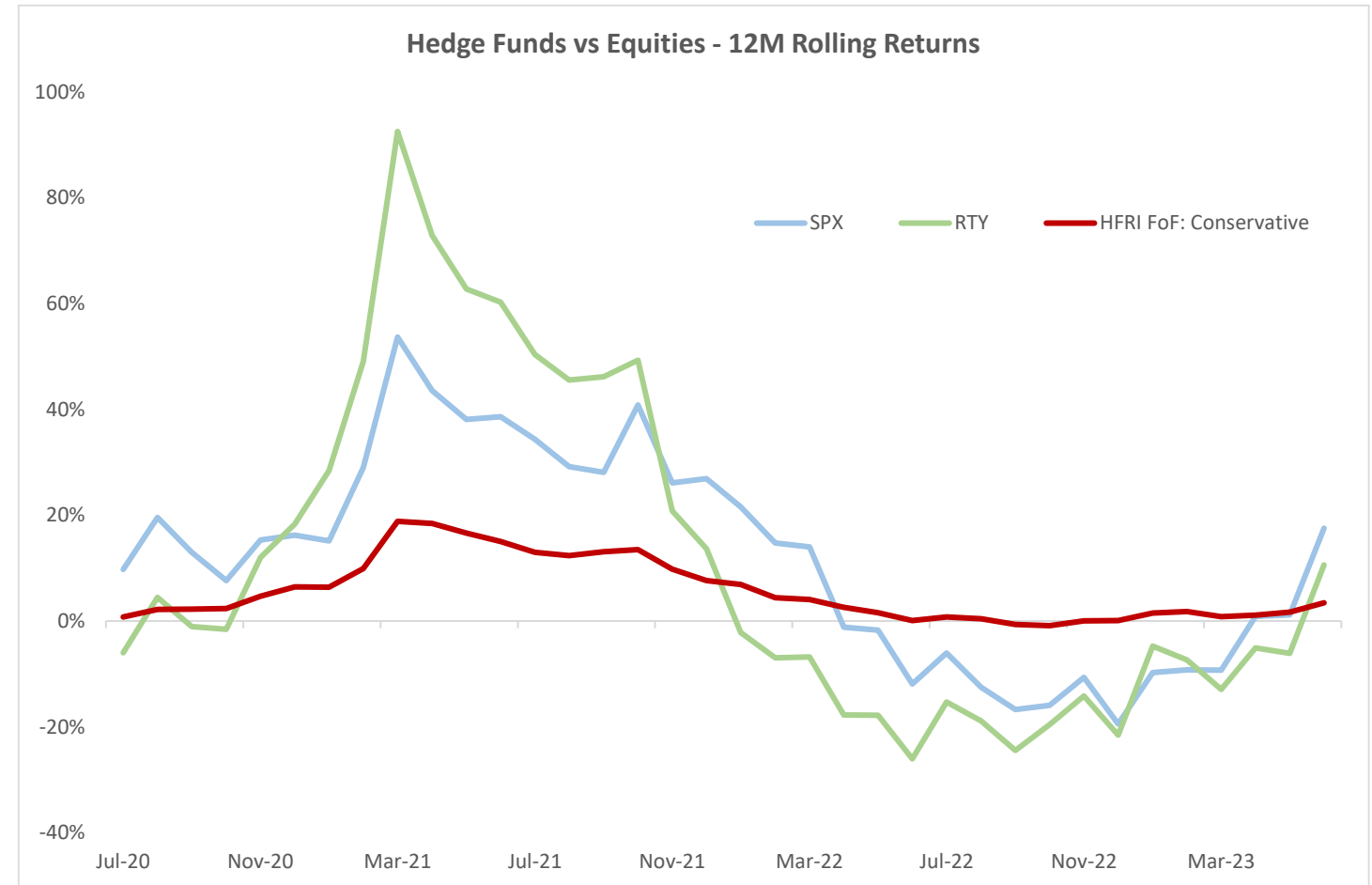
Qualitative HF Alpha Drivers (9-12m view)

Factors	Comments	Historical Range
<p>HF Supply v. Demand</p>	<ul style="list-style-type: none"> Multimanagers hollowing & swallowing single-strat hedge funds Decent performance, end of QE driving investors to alternatives 	
<p>Liquidity</p>	<ul style="list-style-type: none"> US interest rates at 20-year highs but Fed may be pausing soon Better sentiment offset by borrowing costs, banking headwinds 	
<p>Corporate Activity</p>	<ul style="list-style-type: none"> Expected recovery in corporate activity as bull market rumbles Fears over anti-trust regulatory enforcement is ebbing Consolidation themes emerging across various industries 	
<p>Government Influence</p>	<ul style="list-style-type: none"> Large-scale industrial policies in the US followed by Europe China becoming more supportive of the economy 	

● Current Quarter
● Previous Quarter

Trade Idea: Increased commitment/concentration to old favorites

- Established and familiar strategies deserve attention
- Lower cost access to favorite strategies of multimanager
- Higher stock prices are improving confidence and financial activity
- Event driven, relative value, equity long-short strategies are preferred
- Macro/CTAs are somewhat out of favor



Forecast

Multistrats will continue to amass assets

- Plenty of liquidity, talent, and demand to support multistrat boom
- The key to multistrat success is technology, scale, talent and leverage
- **Several new multi-managers**

Uncorrelated and distressed strategies will remain popular

- Consensus economic forecasts has the US in recession in H2
- Expect uncorrelated & distressed strategies to remain popular this year
- **Credit funds have been very popular this year**

Carbon and power trading markets will continue to grow – new opportunities for HFs

- Renewables and power are an important and growing part of national energy security everywhere
- **The process is happening but is slow**

Stronger sentiment and regulatory environment will support corporate activity environment

- **Merger arbitrage and capital structure strategies will remain robust**

Risks

Market deleveraging

- Broad-based, disorganized deleveraging will have a very negative impact on hedge funds
- Levered strategies, usually uncorrelated ones, will suffer outsized losses

Equity market and financial plumbing weakness

- **A repeat of SVB in banking or other sectors**
- **Will dampen sentiment in the medium term**

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