SECOR | ASSET MANAGEMENT

Hedge Fund Outlook

Q1 2025

29 January 2025

2024 Hedge Fund Universe Review

- **Equity L/S**: Strong rebound on the back of risk-on moves
- **Event Driven/Credit**: Decent performance on the back of good market sentiment, despite mediocre capital market activity
- **Macro/CTA**: A relative underperformer, especially currencies trading and systematic macro
- **Relative Value**: Stable performance, led by convertible arbitrage

2024 Hedge Fund Universe Returns	Q1	Q2	Q3	Q4	YTD
HFRI FoF Conservative	**2.6%**	**0.8%**	**1.6%**	1.4%	**6.5%**
HFRI FoF	**4.2%**	**0.6%**	**2.0%**	2.3%	**9.4%**
HFRI HF Composite (Fund-weighted)	**4.4%**	**0.7%**	**2.9%**	1.5%	**9.8%**
HFRI Equity	**5.1%**	**1.0%**	**4.0%**	**1.4%**	**12.0%**
Long/Short Directional	5.2%	0.9%	4.2%	1.3%	**12.1%**
Market Neutral	4.3%	1.9%	1.5%	2.8%	**10.9%**
Quantititative Directional	9.0%	2.3%	4.6%	0.3%	**17.0%**
Multi-Strategy	5.8%	0.2%	3.6%	1.8%	**11.8%**
HFRI Event Driven	**2.3%**	**0.5%**	**4.6%**	**1.6%**	**9.3%**
Activist	5.6%	-4.6%	7.1%	0.0%	**7.9%**
Credit Arbitrage	4.4%	1.6%	1.0%	2.9%	**10.3%**
Distressed	2.6%	2.0%	3.6%	2.5%	**11.1%**
Merger Arbitrage	0.3%	0.0%	3.5%	1.6%	**5.4%**
Special Situations	2.0%	0.5%	6.2%	-0.9%	**7.9%**
Multi-Strategy	1.9%	1.5%	4.7%	4.5%	**13.3%**
HFRI Macro/CTA	**6.3%**	**-0.8%**	**-0.6%**	**0.8%**	**5.7%**
Active Trading	3.1%	0.9%	0.7%	2.5%	**7.4%**
Commodities	4.5%	-1.0%	-2.4%	5.7%	**6.7%**
Currencies	1.3%	-0.4%	-0.4%	3.2%	**3.8%**
Discretionary Thematic	1.7%	1.3%	3.5%	-0.5%	**6.2%**
Systematic	9.7%	-1.7%	-3.6%	0.1%	**4.1%**
Multi-Strategy	4.4%	-0.6%	3.9%	0.0%	**7.8%**
HFRI Relative Value	**2.5%**	**1.4%**	**2.6%**	**1.9%**	**8.7%**
Asset Backed FI	2.4%	2.1%	2.8%	2.2%	**9.7%**
Convertible Arbitrage	4.3%	1.2%	3.6%	1.7%	**11.2%**
Corporate FI	3.2%	1.7%	3.0%	1.7%	**9.9%**
Multi-Strategy	2.3%	0.7%	2.2%	1.7%	**7.1%**
Sovereign Fixed Income	3.0%	1.6%	2.1%	2.7%	**9.7%**
Volatility Arbitrage	0.9%	0.6%	0.6%	1.0%	**3.2%**
Yield Alternatives	0.9%	1.5%	3.2%	3.5%	**9.3%**

Source: Bloomberg

Revisiting 2024 Forecast

2024 Forecast

Multistrats growth slowing while sector is in the early stages of consolidation

- We expect continued outperformance by bigger platforms over smaller ones
- Pace of asset growth at multi-PMs will slow given higher cash rate & fees

Markets are underpricing potential for volatility and hedge funds may benefit

- Surprises around inflation, rates, and global economic data offer trading opportunities for hedge funds
- The effects of QT and financial tightening have yet to fully flow through

Still discovering single strategy hedge funds, not every strategy has been swallowed up by multi-managers

- Unlevered and less liquid strategies like emerging markets and distressed are not represented within multi-managers

Risks

Multistrats still in demand but growth has passed peak

- Jain Global launched mid-year, Infini and Arrowpoint growing in Asia
- Citadel, DE Shaw returning profits to investors
- Second tier multistrats (Balyasny, Schonfeld, Verition) did fine ~10+%
- Funds of funds growing their own multimanagers, like MS Riverview Omni, New Holland, PAAMCo/Prisma

Exceptionally low volatility year

- S&P +25% with 11% vol. Sharpe of 1.8

Multimanager favorite strategies are expanding into new strategies

- Equity long/short, stat arb, liquid RV strats like index arb remain popular
- Fewer launches, new funds are accepting SMA’s to grow AUM
- Multi-managers adding capacity in less liquid strategies

Source: Bloomberg, S&P 500.

Qualitative HF Alpha Drivers (9-12m view)

SECOR | ASSET MANAGEMENT

Factors	Comments	Historical Range
HF Supply v. Demand	• Demand is up due to good performance • Demand is up because of new Portable Alpha programs • Demand is up because PE is not growing • Supply is steady	 Bearish Neutral Bullish
Liquidity	• High optimism, eagerness to speculate and use leverage – see crypto • Multimanager hedge funds amassing capital and leverage	 Bearish Neutral Bullish
Corporate Activity	• Andrew Ferguson is replacing FTC chair Lina Kahn • Lighter policing except for big tech • Belief there is pent-up M&A activity	 Bearish Neutral Bullish
Government Influence	• New president viewed as stock market and crypto-friendly • Expect less regulation, policing of capital markets • Initiatives to allow retail investors to invest in alternatives • Governments don't seem to be trying to reduce deficits • Europe projected to cut rates	 Bearish Neutral Bullish

Current Quarter
Previous Quarter

2025 Forecasts & Risks

SECOR | ASSET MANAGEMENT

2025 Forecast

Demand for Portable Alpha

- Preference for market neutral equity hedge funds
- Adds leverage to equity markets
- Eventually leads to demand for other strategies

Multistrats experience deleveraging + consolidation

- Long time since last quant crisis
- Consolidation in multi-strat and quant space – the big gets bigger
- Excessive focus on "capital efficiency" – managers adding leverage
- Contagion risk grows until next event – *timing uncertain*

Merger deal volume increase

- GS forecasts 25% rise in M&A activity
- Deregulation will likely spur greater M&A activity
- Wave of onshore to offshore listings expected in HK

More attention to fees and hurdles

- Hedge funds made headlines this year for high fee-to-revenue ratio
- Texas Teachers led industry movement to eschew fee for beta
- Hurdles become increasingly relevant as interest rates rise

Risks

Negative Hedge fund headlines

- Unlikely investors will be discouraged from adding to hedge funds

American exceptionalism

- Repeat of 2023-24 – double digit gains with little vol

Government Antitrust Scrutiny

- Administration may surprise by scrutinizing technology mergers
- "At the FTC, we will end Big Tech's vendetta against competition and free speech" – Andrew Ferguson

Bull market continues

- Repeat of 2023-24 – double digit gains with little vol
- In a bull market scenario, hedge fund fees will stay high
- Investors less motivated to scrutinize fees

Disclaimer

SECOR | ASSET MANAGEMENT

This document does not constitute investment advice or an offer or solicitation to any person in any jurisdiction. Any such offering will only be made in accordance with the terms and conditions set forth in a private placement memorandum or other offering document. It is provided for background purposes only and on the understanding that the recipient has sufficient knowledge and experience to be able to understand and make its own evaluation of the information described herein, any risks associated therewith and any related legal, tax, accounting or other material considerations.

The information contained in this document is based on matters as they exist as of the date of preparation of such material and not as of the date of distribution or any future date. SECOR does not undertake any obligation to update the information contained herein as of any future date.

Recipients should not rely on this material in making any investment decision. We do not represent that the information contained herein is accurate or complete. Any views or opinions expressed herein are subject to change and may not reflect those of the firm. Certain information contained herein (including any forward-looking statements and economic and market information) has been obtained from published sources and/or prepared by third parties and in certain cases has not been updated through the date hereof. While such sources are believed to be reliable, SECOR does not assume any responsibility for the accuracy or completeness of such information.

This document may include projections or other forward-looking statements regarding future events, targets, or expectations. Due to various risks and uncertainties, actual events or results may differ materially from those reflected or contemplated in such forward-looking statements. Past performance is no guarantee of future results. Investments are subject to risk, including the possible loss of principal. There is no guarantee that projected returns or risk assumptions will be realised or that an investment strategy will be successful. No representation, warranty or undertaking is made as to the reasonableness of the assumptions made herein or that all such assumptions have been stated. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product referred to in this presentation will be profitable, meet any indicated performance level, or be suitable.

Illustrative models or investments presented in this document are based on a number of assumptions and are presented only for the limited purpose of providing a sample illustration. Any sample illustration is inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond SECOR's control. Any sample illustration may not be reflective of any actual investment purchased, sold, or recommended for investment by SECOR and is not intended to represent the performance of any past or future investment by any portfolio managed or advised by SECOR. Actual returns may have no correlation with the sample illustration presented herein, and the sample illustration is not necessarily indicative of an investment that SECOR will make. Recipients should not assume that a future recommendation will accomplish its goals or be the same as the illustration provided herein.

Investment advisory services are provided by SECOR Investment Advisors, LP ("SIA") and SECOR Investment Advisors (UK), LLP, ("SIA-UK"), subsidiaries of SECOR Asset Management, LP ("SECOR"). Portfolio solutions are provided by SECOR Investment Management, LP ("SIM"), a subsidiary of SECOR. SIA UK is authorised and regulated by the Financial Conduct Authority. Each of SIA and SIM is registered as an investment adviser with the Securities and Exchange Commission ("SEC"). Registration as an investment adviser with the SEC does not imply any level of skill or training.

Indices are unmanaged, do not reflect deduction of fees and expenses, and are not available for direct investment.

Any hypothetical performance based on retroactive application or forward-looking projection of a model does not represent the results of actual trading. Any such hypothetical performance was compiled after the end of the period depicted and does not represent the actual investment decisions of SECOR. Hypothetical performance has many inherent limitations. We do not represent that any account will or is likely to achieve profits or losses similar to those shown. There may be sharp differences between hypothetical performance and the actual results subsequently achieved by any particular trading program. Hypothetical performance does not reflect the effect of material economic and market factors on decision-making. Hypothetical performance is not necessarily indicative of future performance, which could differ substantially.

HYPOTHETICAL PERFORMANCE RESULTS HAVE MANY INHERENT LIMITATIONS, SOME OF WHICH ARE DESCRIBED BELOW. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN. IN FACT, THERE ARE FREQUENTLY SHARP DIFFERENCES BETWEEN HYPOTHETICAL PERFORMANCE RESULTS AND THE ACTUAL RESULTS SUBSEQUENTLY ACHIEVED BY ANY PARTICULAR TRADING PROGRAM.

ONE OF THE LIMITATIONS OF HYPOTHETICAL PERFORMANCE RESULTS IS THAT THEY ARE GENERALLY PREPARED WITH THE BENEFIT OF HINDSIGHT. IN ADDITION, HYPOTHETICAL TRADING DOES NOT INVOLVE FINANCIAL RISK, AND NO HYPOTHETICAL TRADING RECORD CAN COMPLETELY ACCOUNT FOR THE IMPACT OF FINANCIAL RISK IN ACTUAL TRADING. FOR EXAMPLE, THE ABILITY TO WITHSTAND LOSSES OR TO ADHERE TO A PARTICULAR TRADING PROGRAM IN SPITE OF TRADING LOSSES ARE MATERIAL POINTS WHICH CAN ALSO ADVERSELY AFFECT ACTUAL TRADING RESULTS. THERE ARE NUMEROUS OTHER FACTORS RELATED TO THE MARKETS IN GENERAL OR TO THE IMPLEMENTATION OF ANY SPECIFIC TRADING PROGRAM WHICH CANNOT BE FULLY ACCOUNTED FOR IN THE PREPARATION OF HYPOTHETICAL PERFORMANCE RESULTS AND ALL OF WHICH CAN ADVERSELY AFFECT ACTUAL TRADING RESULTS.

Disclaimer

SECOR | ASSET MANAGEMENT

Considerations and risks related to asset classes:

Equity investments involve a high degree of risk. Equity securities may decline in value due to factors affecting securities markets generally, and equity securities generally have greater price volatility than debt securities/investments. Equity securities of certain jurisdictions may experience more rapid and extreme changes in value and may be affected by uncertainties such as international political developments, currency fluctuations and other developments in the laws and regulations of countries in which an investment may be made. There can be no assurance that return objectives will be realised and investors could lose up to the full amount of their invested capital. Fees and expenses may offset the trading profits.

Debt investments (such as, but not limited to, investment grade, high yield, emerging market debt, asset backed securities and insurance linked securities) involves special considerations and certain risks, including risk of default and price volatility, and such securities are regarded as being predominantly speculative as to the issuer's ability to make payments of principal and interest.

LDI and equity overlay strategies may invest and trade in many different market strategies and instruments (including securities, non-securities and derivatives) and may employ different investment, hedging, leverage and arbitrage methodologies, so the risks of those would be material to understanding the risks and benefits of the portfolio. Counterparty and ISDA arrangements may pose potential risk. Furthermore, derivative strategies may be exposed to the risk of market disruptions, volatility, and governmental interventions.

Illiquid investments (such as, but not limited to, private credit, private equity and infrastructure):

General/Loss of capital. Investment involves a high degree of risk. There can be no assurance that return objectives will be realised and investors could lose up to the full amount of their invested capital. Fees and expenses may offset the trading profits.

Limited liquidity. Investments in private markets may result in restricted liquidity since withdrawal rights are limited and interests are not freely transferable or redeemable. There is unlikely to be a secondary market for private market investments interests.

Volatility. Investment techniques used may include the use of leverage and derivative instruments such as futures, options and short sales, which could amplify the possibilities for both profits and losses and may increase volatility.

Hedge Fund investing is speculative and involves significant risk including the risk of losing some or all of the invested capital. Hedge fund strategies may participate in the buying and selling of equity and debt securities, private investments funds, non-readily realisable investments, illiquid investments suspension of trading, concentrated investments, developed and emerging market investments. Hedge fund strategies may be exposed to risks stemming from usage of leverage, derivatives, futures, options, over-the-counter derivative transactions. Counterparty and ISDA arrangements may pose potential risk. Furthermore, hedge fund strategies may be exposed to the risk of market disruptions, volatility and governmental interventions.

Modelling Assumptions:

Forward looking return, volatility, and correlation assumptions have been derived by SECOR, and are based on a combination of: a) the historic performance of each asset class based on what we consider to be appropriate indices or suitable proxies, and over a period that we consider to be appropriate in light of prevailing market conditions (typically 10 years); and b) our judgement in relation to how historic performance, and its various components, may differ in the future. This may include, for example, ad-hoc adjustments to reflect our view that markets are over or under valued.

The resulting assumptions are assumed to be appropriate for asset and liability projections over the medium to long term i.e. 10 to 20 years or longer, and are net of all ongoing management costs and fees.

Expected returns for an asset class are generally built up from and include an allowance for our projected return on cash, inflation, spreads, risk premiums, liquidity premiums, potential losses, valuation adjustments, alpha for active management, management fees, other ongoing costs, and any other factors that we may consider are appropriate for the asset class and/or prevailing market conditions. Expected returns generally <u>do not</u> allow for SECOR advisor or fiduciary management fees, or any transition or rebalancing costs between asset classes or an existing portfolio.

A material risk factor is that the projected returns modelled are underpinned by historic market returns combined with SECOR's assumptions on future market returns, meaning that the projected net returns used for modelling portfolios may not be realised within expected timeframes.

Further details are available on request.