
Foresight Strategic Research

# Performance Review of the Alternative Investment Universe

**May 2025**

**Q1 2025**

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# Reviewing Performance of Sub-Strategies to March 2025

## Net Return of Master Strategies Q1 2025

Hedge funds generated positive performance during Q1 2025, up 0.7%, outperforming equities, but underperforming bonds. On an asset-weighted basis, quant was the top strategy for Q1, returning 2.4%, however equally weighted performance was much lower at 0.1%. There was broad dispersion in quant sub-strategy returns.
Equity L/S was the only strategy with negative returns at -1.7%, generally dragged down by equities market performance during Q1. The best performing strategies in 2024 (multi-strategy and equity L/S) were the weakest performing in Q1 2025. Similarly, the weakest performing strategies in 2024 (arbitrage, quant and macro) were the strongest performing strategies in Q1 2025. Industry AUM grew over the quarter with positive investment returns offsetting net outflows.

Arguably more interesting than simple performance numbers was the sharp reversal positioning that occurred over the course of Q12025. Funds came into the year with low conviction and modest views, but subsequently increased long US dollar, credit spread and equity bets in line with increased expectations of US growth from the new administration. Those views soon reversed as the policy mix from the new administration became clearer. By the end of the quarter funds had scaled back considerably, with a bullish view on gold one of the notable outliers. By quarter end funds were back to running some of their lowest conviction in the last couple of decades as the significant increase in policy volatility likely drove reticence to take on significant bets.

## Headline Performance April 2025

While this is a Q12025 review, the markets have moved so quickly largely on account of the April 2 ‘Liberation Day’ tariffs that it would be remiss not to discuss performance for the month of April.

Broadly speaking, hedge funds again navigated historic and violent equity market volatility driven by trade, tariff and economic uncertainty in April. Unlike the March volatility, April also included a stunning and extreme intra-month reversal of investor risk sentiment contributing to unprecedented dislocations across equity and fixed income markets and extreme levels of realized volatility. Through this market turmoil, hedge funds generated mixed performance, with gains across Equity Hedge (concentrated in Growth exposures), sophisticated multi-manager/pod shops, and Long Volatility strategies which include option-based tail risk strategies engineered to generate gains in infrequent, low probability financial markets events.

While financial markets traded in a historic extreme range in April, recovering much of the steep declines by month end, hedge funds continued to position for the uncertainty associated with the implementation of new trade policies and economic uncertainty associated with these changes. Sophisticated institutional investors were expected to increase allocations and exposures to hedge fund strategies, including long volatility and pod shops, which have demonstrated robustness and veracity through these recent historic market cycles. They have offered portfolio positive optionality and defensive, negatively correlated gains through the current market cycle of uncertainty and risk.

At a strategy-specific level, currency managers were a rare bright spot while Macro hedge funds suffered amidst April’s volatility in markets, taking the shine off decent hedge fund performance elsewhere. The HFRI Fund Weighted Composite Index was -0.5% in April, bringing year-to-date returns to -0.92%. Within this, HFRI Macro (Total) Index dropped 2.69%, dropping the strategy into the red for the year at -2.61%.

Commodity funds led losses, with the Commodity Index dropping 4.83%. There were also struggles for Trend Followers, with the Trend Following Directional Index dropping 3.33%. Year-to-date, the two strategies are -5.94% and -4.63% respectively. As noted, there was better news from currency hedge funds, the Currency Index rising 0.9%, for 1.89% year-to-date.

Continuing a theme of 2025, systematic funds continued to struggle badly, while their discretionary brethren thrive in the prevailing market conditions. The HFRI Macro: Systematic Diversified Index fell 3.98% in April, to bring year-to-date performance to -6.89%, this was almost matched by the HFRI Macro: Systematic Directional Index, which dropped 3.88% for year-to-date performance of -6.75%.

In contrast, the HFRI Macro: Discretionary Thematic Index rose 1.36% in April and generated +6.71% year-to-date. The Discretionary Direction Index also rose, by 0.7%, to bring 2025 performance to +5.43%.

Overall performance was helped by a 0.66% return for the Equity Hedge (Total) index (-0.88% year-to-date), and the Fund of Funds Composite Index at +0.36% (-0.08%). The HFRI Emerging Markets (Total) Index was also up by 0.49% (+2.95%), and the HFR Long Volatility Index was, unsurprisingly, up 1.75% in April for +4.07% year-to-date.

Performance dispersion expanded again in April, as the top decile of the HFRI FWC constituents advanced by an average of +7.2%, while the bottom decile fell by an average of -10.2%, representing a top/bottom dispersion of 17.4%. In March this was 15.4%, and in the trailing 12 months ending April 2025, it was 53.5%. Approximately half of hedge funds produced positive performance in April, HFR says.

**Figure 1: Net Return (Monthly) by Master Strategy to March 2025**

| | Apr-24 | May-24 | Jun-24 | Jul-24 | Aug-24 | Sep-24 | Oct-24 | Nov-24 | Dec-24 | Jan-25 | Feb-25 | Mar-25 | QTD | 12M |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Quant | 1.30% | -0.79% | -0.44% | -0.86% | -1.75% | 0.33% | -0.33% | 1.62% | 1.43% | 2.27% | -0.23% | 0.39% | 2.44% | 2.90% |
| Arbitrage | 0.47% | 0.00% | 0.32% | 0.49% | 0.34% | 0.94% | 0.72% | 0.55% | 0.62% | 0.87% | 0.96% | 0.55% | 2.40% | 7.04% |
| Macro | 0.46% | 0.69% | -0.13% | 1.04% | 0.05% | 1.69% | 0.25% | 1.97% | 0.66% | 1.42% | 0.14% | 0.50% | 2.06% | 9.07% |
| Long biased | -1.76% | 1.96% | 0.96% | 0.94% | 1.56% | 2.58% | -1.62% | 2.12% | -1.96% | 3.32% | -0.28% | -1.81% | 1.17% | 5.98% |
| Event | -0.42% | 1.50% | -0.10% | 1.00% | 0.89% | 1.40% | 0.10% | 2.22% | -0.26% | 1.77% | 0.59% | -1.24% | 1.10% | 7.66% |
| Credit | 0.53% | 1.03% | 0.65% | 0.94% | 0.66% | 1.05% | 0.50% | 0.96% | 0.55% | 0.95% | 0.45% | -0.35% | 1.05% | 8.20% |
| Multi-Strategy | 0.64% | 0.39% | 0.86% | 0.39% | 0.82% | 0.80% | 0.93% | 2.11% | 1.77% | 1.33% | -0.20% | -0.65% | 0.46% | 9.54% |
| Equity L/ S | -1.25% | 1.48% | 1.05% | 0.58% | 0.91% | 1.30% | 0.62% | 2.36% | -0.87% | 2.18% | -0.95% | -2.83% | -1.66% | 4.54% |
| HF Composite* | -0.22% | 0.91% | 0.51% | 0.55% | 0.50% | 1.33% | 0.14% | 1.93% | 0.17% | 1.83% | -0.17% | -0.98% | 0.66% | 6.64% |
| Bonds** | -2.52% | 1.31% | 0.14% | 2.76% | 2.37% | 1.70% | -3.35% | 0.34% | -2.15% | 0.57% | 1.43% | 0.62% | 2.64% | 3.05% |
| Equities*** | -3.50% | 3.76% | 1.63% | 1.99% | 2.14% | 2.22% | -2.37% | 3.76% | -2.75% | 3.13% | -0.99% | -4.03% | -2.01% | 4.59% |

*HF Composite = Aurum Hedge Fund Data Engine Asset Weighted Composite Index. **Bonds = Bloomberg Global Aggregate Bond Index. ***Equities = S&P Global BMI (US Dollar)..
Source: Aurum Hedge Fund Data Engine.

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**Figure 2: Net Return (Annualised) by Master Strategy to March 2025**

STRATEGY NET PERFORMANCE

| | YTD | | | 12M | | | 3YR | | | 5YR | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | AUM Weighted | Mean | Median | AUM Weighted | Mean | Median | AUM Weighted | Mean | Median | AUM Weighted | Mean | Median |
| Quant | 2.44% | 0.07% | 0.26% | 2.90% | 0.19% | 0.86% | 5.06% | 4.21% | 3.67% | 6.53% | 6.01% | 6.02% |
| Arbitrage | 2.40% | 1.71% | 1.97% | 7.04% | 4.23% | 6.08% | 3.82% | 3.34% | 4.74% | 5.84% | 4.51% | 6.96% |
| Macro | 2.06% | 1.97% | 1.95% | 9.07% | 6.49% | 7.15% | 7.52% | 5.67% | 6.69% | 7.80% | 7.96% | 7.30% |
| Long biased | 1.17% | -0.57% | 0.88% | 5.98% | 4.74% | 4.01% | 4.37% | 4.50% | 4.48% | 9.61% | 11.99% | 11.52% |
| Event | 1.10% | 0.83% | 1.48% | 7.66% | 6.16% | 6.27% | 5.59% | 4.77% | 4.97% | 10.28% | 10.74% | 9.87% |
| Credit | 1.05% | 1.00% | 1.31% | 8.20% | 7.78% | 7.55% | 5.67% | 5.90% | 5.97% | 8.69% | 8.82% | 9.09% |
| Multi-Strategy | 0.46% | 0.52% | 1.20% | 9.54% | 6.99% | 7.86% | 9.28% | 5.86% | 6.50% | 11.91% | 9.97% | 10.37% |
| Equity L/S | -1.66% | -1.06% | -0.03% | 4.54% | 4.73% | 4.40% | 6.27% | 5.28% | 5.31% | 9.36% | 10.14% | 9.16% |
| HF Composite* | 0.66% | -0.21% | 0.88% | 6.64% | 4.69% | 5.68% | 6.19% | 5.31% | 5.41% | 9.07% | 9.70% | 8.67% |

**Figure 3: Hierarchical Annualised Net Return to March 2025**

| 1 YEAR | 3 YEAR | 5 YEAR | 10 YEAR |
|---|---|---|---|
| Multi-Strategy 9.5% | Multi-Strategy 9.3% | Multi-Strategy 11.9% | Multi-Strategy 7.8% |
| Macro 9.1% | Macro 7.5% | Event 10.3% | Event 5.7% |
| Credit 8.2% | Equity L/S 6.3% | Long biased 9.6% | Long biased 5.3% |
| Event 7.7% | HF Composite* 6.2% | Equity L/S 9.4% | Equity L/S 5.2% |
| Arbitrage 7.0% | Credit 5.7% | HF Composite* 9.1% | HF Composite* 5.0% |
| HF Composite* 6.6% | Event 5.6% | Credit 8.7% | Credit 4.6% |
| Long biased 6.0% | Quant 5.1% | Macro 7.8% | Macro 4.5% |
| Equity L/S 4.5% | Long biased 4.4% | Quant 6.5% | Arbitrage 3.3% |
| Quant 2.9% | Arbitrage 3.8% | Arbitrage 5.8% | Quant 2.8% |

*Source: Aurum Hedge Fund Data Engine.*

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## *Net Return of Master Strategies (1 YR) to March 2025*

Multi-strategy was the best performing headline strategy for the 12-months to March 2025, up +9.4%. Multi-strategy has been the best long-term performing, consistent strategy (5y CAR of 11.9% with a Sharpe ratio of 2.9). Ranking second out of the eight, was global macro, (+9.1%), followed by Credit (+8.2%) and Event (+7.6%). Quant (+2.9%) was the master strategy group with the best performing sub-strategy: quant – multi (+17.4%) ranking 1st out of all 37 sub-strategies, but the quant master strategy group underperformed the hedge fund composite.

Notwithstanding the above, the lowest performing strategy was quant (+2.9%), driven by underperformance from the quant macro sub-strategy (+2.7%) and mediocre performance from several other quant strategy.

The second-lowest performing master strategy was quant (+8.7%), with the overall figure materially dragged down due to significant underperformance from CTAs (quant – CTA: +1.5%) and marginal underperformance from quant – macro (+9.6%) relative to the broader universe.

The third-lowest performing master strategy was macro, albeit with performance of +9.6%. Macro sub-strategies which underperformed the master strategy included macro – commods (+3.5%), macro – FIRV (+7.6%) and macro – global (+9.4%).

## *Long Biased*

The Long-Biased master strategy was the third worst performing strategy over the last 12-months after being the best performing strategy as at CY24-end in December. 12-month performance was dragged down by a very mediocre Q125 (+1.2%) and driven by the general weakness in equities over this period. Long Biased strategies need to be contrasted with Equity Long/Short strategies, the latter of which are almost invariably 130/30 or, less commonly, 140/40 strategies, in contrast, Long Biased are permitted to have periods where they may have a 0% exposure on the short side. Not surprisingly, of all the hedge fund strategies they exhibit the highest beta and correlation to the underlying asset class (by AUM, Long Biased strategies are largely equities based, and substantially less bonds and commodities).

As a corollary, Long-Biased strategies also exhibit the greatest drawdowns, the highest component of beta vs alpha as a return driver, and often lower Sharpe ratios. Philosophically, these attributes raise the question as to the rationale of inclusion in an overall portfolio that may already have a material long-only equities allocation. Furthermore, a cynic may posit that such strategies are a convenient ‘excuse’ for more exorbitant fee structures versus long-only strategies.

Given the high beta and correlation attributes mentioned, it should be no surprise that the Long Biased strategy has performed strongly over the last circa 2-years to December 2024 given the performance of equities markets but underperformed in Q125. Conversely, the marked underperformance (and the large drawdown discussed later in the note) in 2022 should also come as no surprise.

The charts that examine the **alpha/beta split of returns** over the last 10 years (pages 8-10) indicate that the beta factor is the largest component driving returns, much higher than the broader hedge fund industry and the Equity Long/Short strategy.

**Dispersion of returns amongst funds** in this strategy (see Pages 10-11) is the highest relative to all master hedge fund strategies, with the top-bottom decile range currently sitting at a 30.9% spread. At first glance this may seems surprising, but the high figure reflects the significant dispersion in sub-strategy classifications themselves, covering areas including long commodities, multi-asset, and equities across a variety of regions.

## *Equities Long/Short*

The Equity Long/Short master strategy has been the 2nd worst performing strategy over the last 12-month period (+4.5%), and in strong contrast to being the 2nd best performing master strategy for the 12-months to December 2024. Equity long/short funds had a particularly poor March, returning an average of -2.93%, the weakest performance among all master strategy groups. Sector-focused funds notably underperformed, returning -4.80%. While the strategy is subject to far tighter constraints than the Long Biased strategy, the typically 30% short side limit naturally creates a relatively high beta and correlation to the underlying asset class, again being significantly to equities. This is apparent in both the annual performance over the last 5-years and certainly Q12025 performance.

As can be seen from the **alpha/beta decomposition** charts on pages 8-10 30% of Equity Long/Short returns since 2013 are attributable to alpha. This is a high conviction equities strategy, with obviously the 30% short component augmenting that degree of conviction. Australian investors that follow the segment will know that manager selection can make all the difference with this strategy. This is evident in Equity Long/Short **performance dispersion between top and bottom decile managers** (see Pages 10-11). Equity Long/Short is the 2nd highest among the master strategies, currently sitting at a 31% spread. This analysis confirms that there is more dispersion amongst long/short funds than there is with long-only funds, and even materially more so than small cap managers (15.6%). This makes intuitive sense, but highlights the importance of sourcing, selecting and monitoring the best equity long/short managers.

## *Event Driven*

Event Driven returned 7.7% over the course of the last 12-months and over a 5-year period a CAGR of 10.3% and the 4th highest sharpe ratio of all master strategies at 1.28 due to its lower volatility than the comparable return levels of Equity Long/Short and Long Biased.

Event-driven strategies have now seen more than two years of slow to non-existent corporate dealmaking, initially dampened by rising interest rates but since Trump was elected the massive degree of uncertainty that has characterised markets. As financing costs soared, it was nearly impossible for market participants to find buyers for transactions. Struggles continued in 2024 in the M&A sub-strategy (as well as any other Event strategies or multi-strategy funds that heavily incorporated M&A). There were a number of large, widely-held merger deals that collapsed, or were mixed in regulatory or political difficulties, which hurt many funds across the event space.

The dearth of M&A activity has continued into 2025, after expectations at the latter part of last year that 2025 would see the floodgates open. To be honest, we really cannot see the market potentially opening up until 2026. With regards to the Trump administration's policy agenda, it may possibly be the deregulation component that serves as a catalyst to M&A activity.

As a general point, while the activism sub-strategy has less of a clearly identifiable inflection point between a good and bad environment, the long-biased nature of the strategy means that the overall direction of equity markets can play a significant role in the performance of the master strategy. A broad upward trend in equity markets can support the appreciation of targeted companies' shares, enhancing the potential for the strategy to generate returns, and vice versa.

Not surprisingly, the Event Driven master strategy has a very high degree of alpha vs beta. This is a strategy, where the volume of 'events' relates to the equities markets environment, but the returns can be quite idiosyncratic. Performance dispersion is in-line with the hedge fund median.

## *Multi-Strategy*

Multi-Strategy returned 9.5% over the course of the last 12-months and a 5-year CAGR of 11.9%, the highest of all master strategies, also posting the highest sharpe ratio 2.9 due to it having the 2nd lowest level of volatility of all master strategies.

The multi-strategy master strategy has been an impressively consistent performer over the longer-run, notwithstanding the double layer of fees that apply to the fund-of-fund variant. Also note the marked variation in returns on an AUM weighted basis versus that of the mean and median returns. This is a strategy dominated by some very large, well-resourced shops. It is worth making the general point that an allocation to multi-strategy can serve as a core holding in a portfolio because managers (a) focus on capital preservation and (b) have the flexibility to shift exposure between asset classes and strategies depending on the opportunity set quicker than the general investor.

The multi-strategy return profile has also stood out in relation to the alpha/beta decomposition analysis, where over the last 10 years, the vast majority (67%) of returns has been attributable to alpha, more than any other master strategy.

## *Credit*

Credit returned 8.2% over the course of the last 12-months and a 5-year CAGR of 8.8% with 2nd highest sharpe ratio of all master strategies at 1.7.

The alpha/beta decomposition indicates a reasonable proportion of returns attributable to alpha over the last 10 years, although the risk-free rate and beta are also material drivers of returns.

Historically, long/short credit hedge funds tend to benefit from lower correlations and higher dispersion within the fixed income market, which provides an environment for greater return potential. We have seen higher interest rates impact companies quite differently over the last several years, leading to significant outperformance of a credit hedge fund index versus a long-only global bond index

## *Macro*

Macro returned 10.0% over the course of the last 12-months and over a 5-year period a CAGR of 7.8% with sharpe ratio of 1.35, the 3rd highest within the sector.

There are three characteristics of global macro which make it an attractive addition to portfolios:

1. Macro has low volatility and drawdowns compared to other asset classes and strategies. Long term Global macro performance against other alternatives strategies has been characterised by lower volatility and lower drawdowns. The historical risk return profile also compares favourably to other asset classes.
2. Historical performance as an inflation hedge. Findings from an often-cited paper from Man Group, 'The best Strategies for Inflationary times' concluded that while unexpected or persistent inflation is

negative for traditional asset classes like stocks and bonds, commodities have historically displayed positive returns. Moreover, trend following strategies have provided the most reliable protection against inflationary shocks but can also perform well in non-inflation periods.

3. A strong portfolio diversifier. The average correlation of the Pivotal Macro Index with a 40:60 bond/equity portfolio on a monthly basis since 1998 has been 0.3. What is more important is that in times of market stress, the correlation has dropped to be low or negatively correlated – providing portfolio diversification when it is really needed.

## *Quant*

Quant returned 2.9% over the course of the last 12-months and over a 5-year period a CAGR of 6.5% with sharpe ratio of 0.69. It has underperformed the sector on all three of the measures noted above.

It should be noted that it is highly problematic making broad sweeping performance comments on this master strategy due to the sheer diversity of sub-strategies and associated 'typical' performance in certain market environments. The term "quantitative investing" is far from a description of a uniform strategy, rather it describes how a particular strategy is developed and implemented. The difference between a quantitative ("quant") strategy and a discretionary strategy can be seen in how the strategy is created and how it is implemented. The most common quant strategies are equity statistical arbitrage, quantitative equity market neutral, managed futures/CTAs, quant macro, and alternative risk premia. Those sub-strategy descriptors alone should provide a guide to this diversity.

Like the majority of hedge fund strategies, intra- and asset class dispersion or cross-sectional volatility, is generally a key driver of positive returns. Conversely, historic periods of rapidly spiking movements between stocks, and for multi-asset managers between asset classes has historically been a challenging period for the strategy, particularly when accompanied by a significant spike in market volatility. Often such an environment of extreme volatility has led to sharp drawdowns. However, the aftermath of such episodes tends to lead to a much more fertile opportunity set, i.e., high but declining volatility, high stock volume, presenting the opportunity to enter into trades at high spreads, but in a period where long-term relationships are re-establishing themselves and markets are normalising.

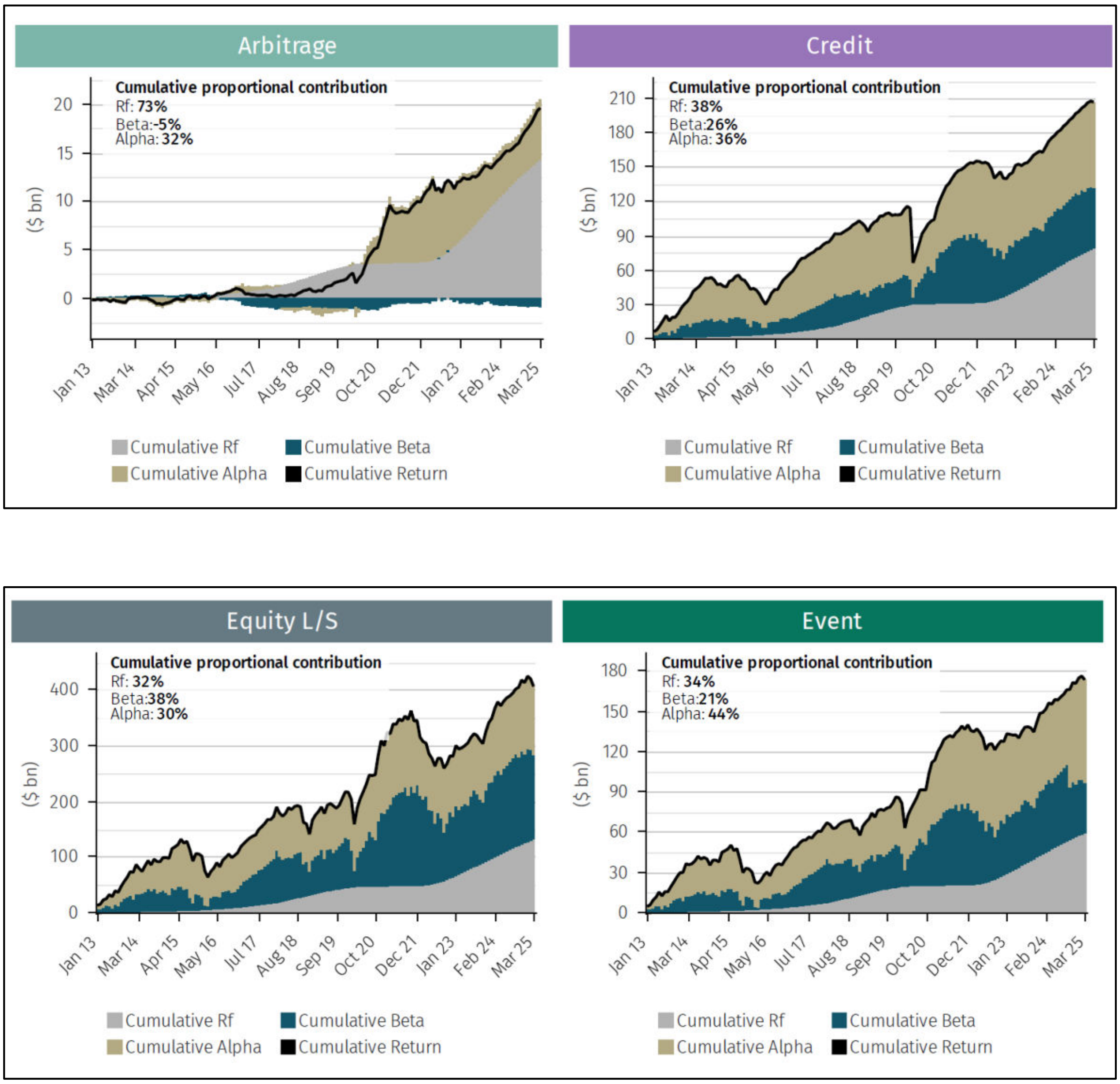
## *Alpha Versus Beta in Sub-Strategies*

When exploring fund returns with an emphasis on equity risk, it's possible to segment a fund's return into two components. The first is tied to its exposure to equity markets, termed as beta, and the second is an unexplainable factor referred to as alpha. Notably, a heightened alpha is indicative of superior performance, as it denotes returns generated independently of equity risk

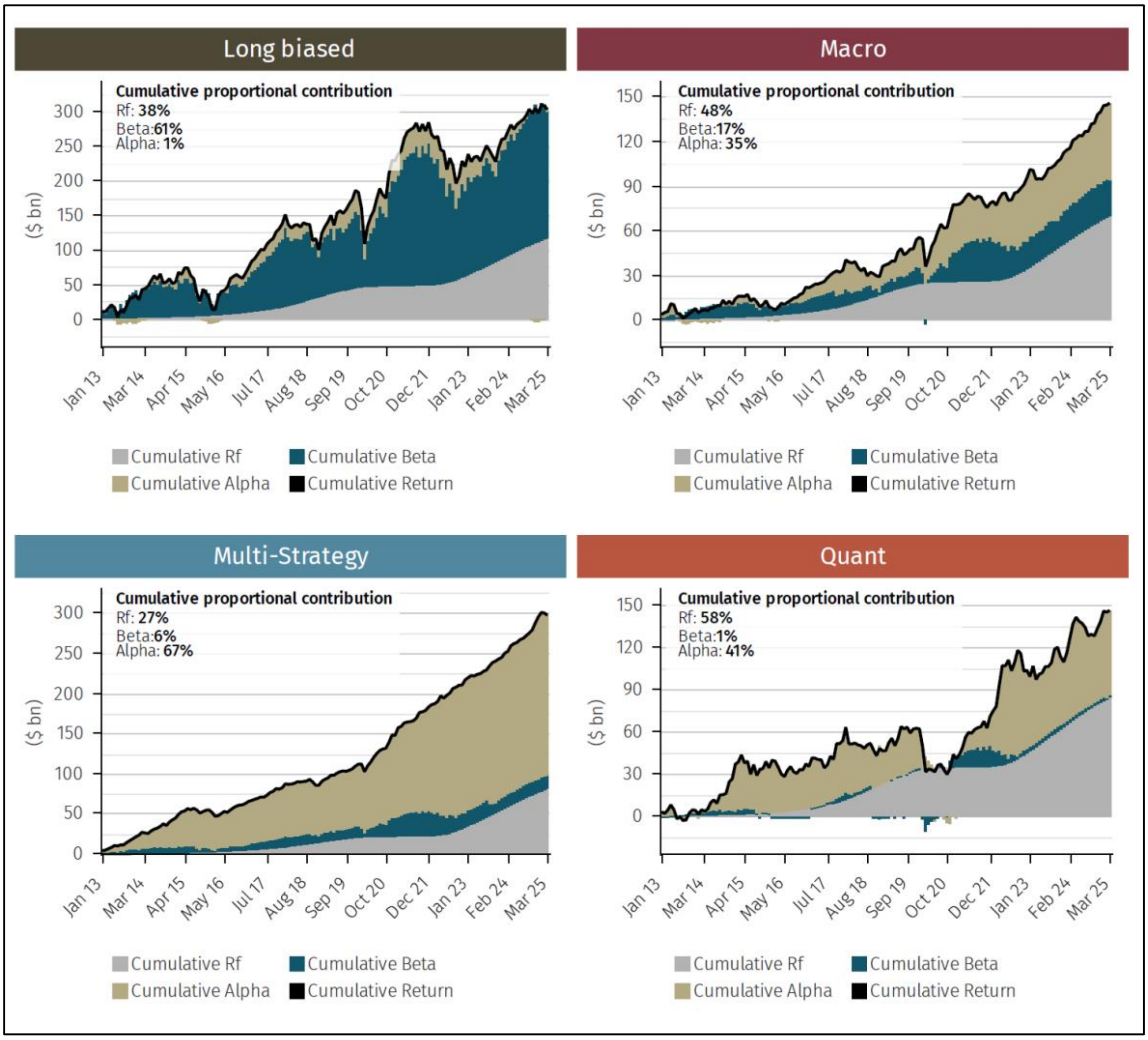
The resultant data for Equity Hedge funds unveils a notable trend: average alpha tends to decrease with equity beta. This suggests that most managers with high beta owe their performance primarily to the co-movement with equity markets. Drawing further implications from this pattern, it's evident that when portfolios are adjusted for beta, those helmed by low beta managers tend to outperform their high beta counterparts

Two observations are worth highlighting for Equity Hedge funds. First, low beta managers generated the highest and most consistent alpha over almost the entire sample period. Second, the higher the beta, the more volatile the alpha.

**Figure 4: Alpha vs Beta by Sub-Strategy**






## *Performance Dispersion*

Dispersion signifies the variability or spreads of returns. Put another way, it examines the differences in the returns between funds that belong to the same asset class or strategy. To quantify opportunity, we look at dispersion. Dispersion measures the range of returns for a group of stocks. Looking at the relationship between annual dispersion and standard deviation of alpha, a measure of the width of the distribution of alpha, shows the same clear relationship. More dispersion tends to spell more opportunity. Talented managers need dispersion in order to ply their skill.

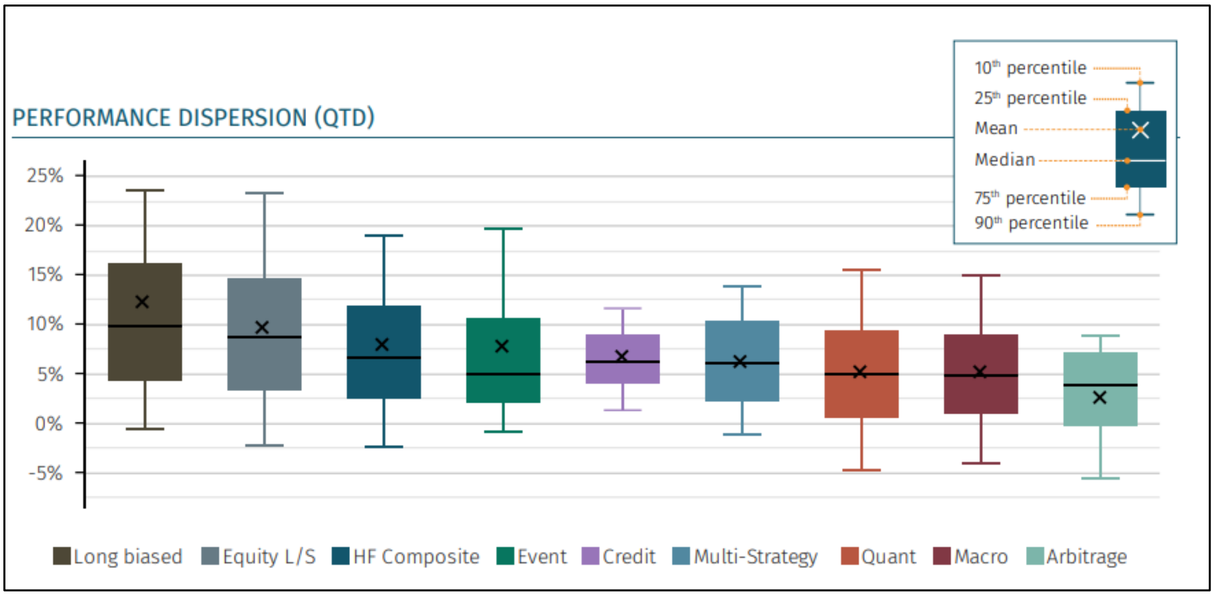
While manager selection can be important across market cycles and macro environments, there may be environments in which fund performance across different managers may vary even more greatly than a single end-point dispersion value would suggest. To explore this further, we focused on the dispersion of performance across hedge funds, represented by the constituents of the HFRI Fund Weighted Composite Index (HFRI).

Manager dispersion may vary over time—performance outcomes for hedge funds widened in higher volatility market environments. The historical dispersion of performance across hedge funds has been lower than other alternative asset classes. Over time, however, that dispersion seemed to vary more dramatically.

Monthly performance dispersion between funds at the 25th percentile and 75th percentile spiked as high as 13.5% in the Global Financial Crisis and 12.6% in the immediate aftermath of the COVID-19 pandemic. In months where public market volatility was higher—marked by a VIX over 30—investors in funds at the 75th percentile experienced an average monthly return of 5.5% lower than investors in funds at the 25th percentile. Comparatively, in lower public market volatility environments where the VIX was between 10-20, the dispersion between these quartiles was 2.9% (Exhibit 3).

The high public market volatility environment that has persisted since the start of the year may continue given rising geopolitical tensions, persistently high inflation, uncertainty around monetary policy and the increasing likelihood of a recession. As a result, our analysis suggests that hedge fund performance dispersion—and perhaps the dispersion of other alternative asset classes—may be on the rise as well.

**Figure 5: Performance Dispersion by Sub-Strategy**



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