

HEDGE FUNDS offer attractive diversification even in times of market stress

So far this year, most asset classes have had a tough time and suffered from significant losses. Some commodities especially in the energy sector generated positive returns, but often not without breath-taking volatility.

Depending on the strategy, **hedge funds have achieved attractive results - also on a risk-adjusted basis**. As illustrated in the below table.

Konrad Zehnder classifies hedge funds in three categories: Long Biased, Market Neutral and Portfolio Protection.

1. Long Biased: Returns are the main focus



These include, strategies such as **long-short equity** that are not positioned market-neutral, meaning holding an overweight of long positions (net long). Accordingly, these strategies cannot completely decouple from overall equity market directions and therefore this year alongside the market suffered from negative returns. On a relative basis, however, many of them have outperformed the market.

2. Market Neutral: Diversification is the main focus



These include **multi-strategy** and **global macro** strategies. They are characterized by the ability to generate positive returns regardless of the overall market movements. Capital is allocated opportunistically based on the opportunity set presented at a time. Long and short positions can be set up, i.e. bet on rising and falling prices. Among others, these funds invest in stock- and credit indices, currencies, interest rate instruments, but also in individual stocks generally with a low net exposure. Year to date, the majority of market-neutral strategies have well preserved capital or even generated positive returns.

3. Portfolio Protection: Protection is the main focus



These include short-term oriented **CTA (Commodity Trading Advisors) trend-following strategies**. Trend following strategies follow short-, mid- and/or long-term price trends predominantly of the most liquid futures contracts. Trends get identified using quantitative models which compare similar historic price patterns with each other. As most CTAs are only investing in highly liquid futures markets (equity and fixed income indices, currencies and commodities), positions can be traded very actively and adjusted immediately if needed. For most CTA's 2022 is outstanding and their best year since 2008, so far.

As with equities and bonds, there are significant differences in the world of more than 10,000 hedge funds globally, especially with regard to the risk-return profile and market correlation. Therefore, the selection and suitability of hedge funds in a portfolio are key. The experts at Konrad Zehnder Wealth Partners AG have many years of experience in selecting and investing in hedge funds. **The oldest hedge fund mandate has been successfully managed since 2003.**

Performance		YTD September 2022	
Equities	MSCI World	<div></div>	-24.4%
	S&P 500	<div></div>	-23.9%
	Swiss Market Index	<div></div>	-18.0%
Fixed Income	Global Government Bonds	<div></div>	-14.8%
	Global Corporate Bonds	<div></div>	-21.3%
Hedge Fund Indices	HFRX Global Index	<div></div>	-4.5%
	Long Short Equity	<div></div>	-9.0%
	Multi-Strategy	<div></div>	1.8%
	CTA Trendfollowing	<div></div>	14.0%

Source: BofA, CS, Bloomberg, KZWP

For traditional **balanced mandates** of Konrad Zehnder Wealth Partners AG, part of the portfolio is invested in liquid "Market Neutral" and "Portfolio Protection" strategies (predominantly in UCITS structures). This has stabilized performance and reduced losses in this exceptionally difficult year. For dedicated **absolute return hedge fund mandates**, depending on the client-specific set-up, capital has been preserved or even a positive high single digit return has been achieved on a year to date basis.