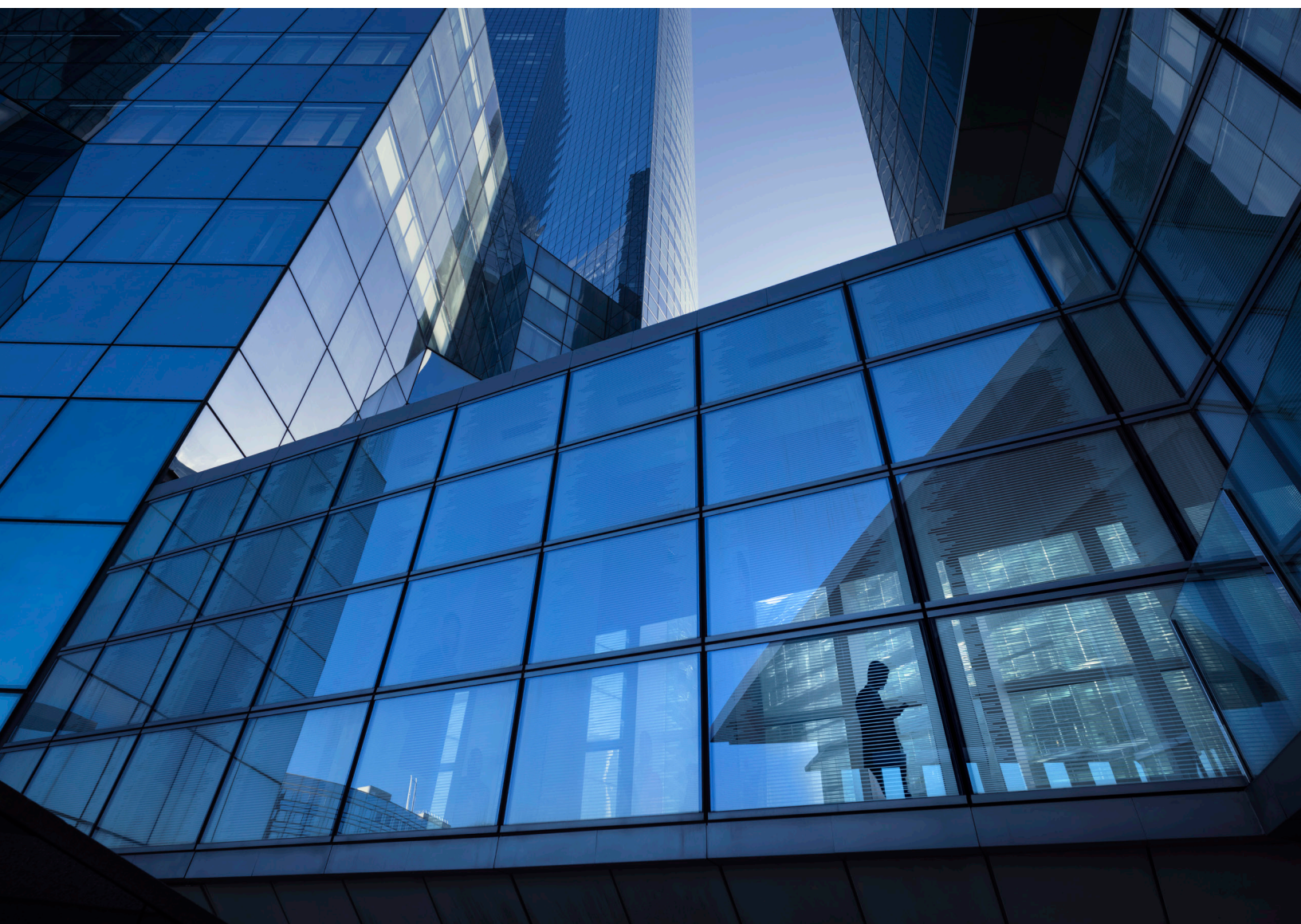


The Benefits of Quantitative Investing in a Volatile Market Environment

April 2026



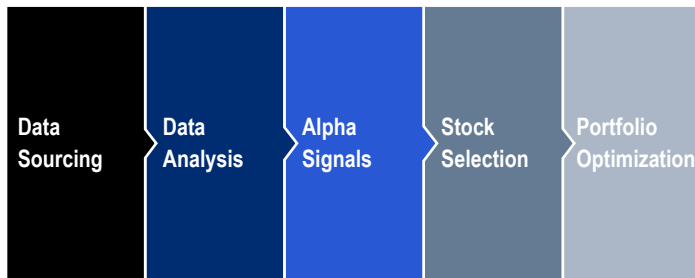


Long/short equity hedge funds have posted three straight years of double-digit performance, and the prospects for the strategy continue to be favorable. These funds generally employ either a fundamental or quantitative investment approach and are typically used to replace or ‘modify’ a client’s long-only equity exposure. They are designed to provide more idiosyncratic sources of equity market return by taking both long and short positions in individual stocks. Historically, the most advantageous environment for equity hedge funds has been one characterized by wider dispersion and lower correlations between different individual companies’ share prices, which creates greater opportunity on both the long and short sides of a manager’s portfolio. Today, trends in equity market dispersion and correlation signal an attractive backdrop for equity hedge strategies of all types.

What is Quantitative Investing?

Quantitative equity hedge funds use statistical analysis and computer algorithms to identify and exploit market opportunities. These strategies analyze large, complex datasets to develop 'alpha signals' or 'models' which the fund manager employs to systematically capture pricing inefficiencies and market anomalies. These funds then use automated trading systems to execute long and short positions, and optimization techniques to construct diversified portfolios.

In this way, a fund manager can apply an objective, rules-based approach for strategy implementation, removing any emotional bias from the process. These strategies can analyze a broader range of stocks than a traditional, fundamental approach and at greater speed. By exploiting technology and statistical algorithms to process a multitude of inputs across a diverse range of stocks, sectors and geographies, these funds typically hold hundreds or even thousands of positions. Outperformance is a function of many small, profitable trades, each of which meet defined criteria, which ideally add to the consistency and predictability of the strategy.



Source: iCapital; for illustrative purposes only.

Market Backdrop and Recent Outperformance

The market backdrop from 2023 to 2025 was conducive to a range of hedge fund strategies. Perhaps unsurprisingly, as the era of easy money came to an end, uneven global growth and a volatile geopolitical environment created trading opportunities across numerous asset classes and geographies. This was particularly true in global equity markets. Dispersion, a measure of the spread of performance among stocks, continued to trend higher, while at the same time correlations between stocks sharply declined. These moves reflected investors' decision to further distinguish between stronger and weaker companies, broadening the opportunity set and improving the odds of success for long/short equity managers.

Exhibit 1: S&P 500 Dispersion

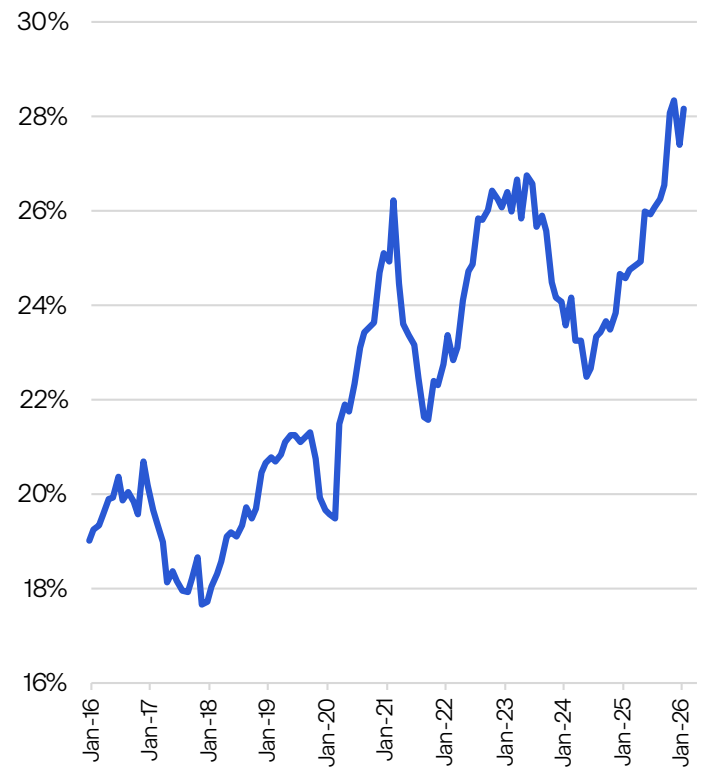
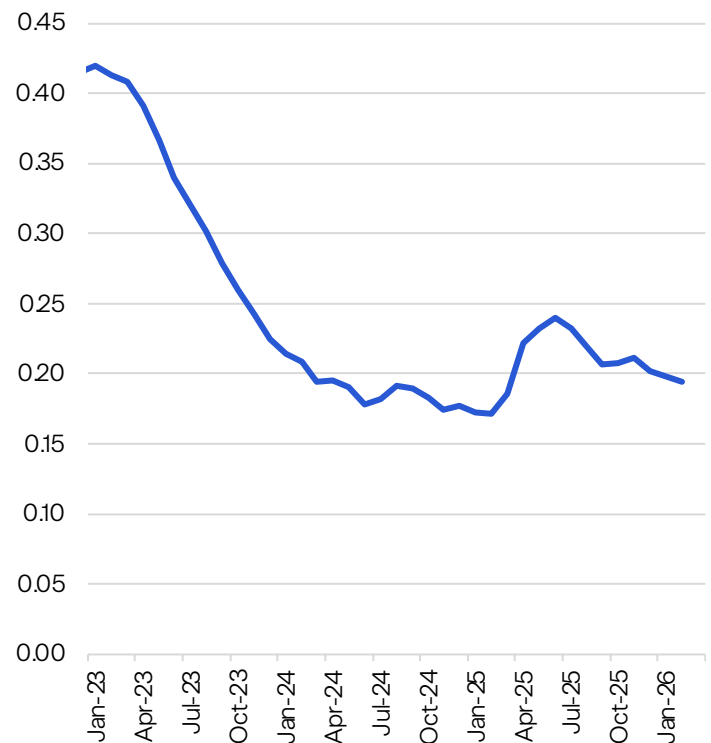


Exhibit 2: S&P 500 Correlation



Source: S&P Dow Jones Indices. Data as of February 2026 and provided for illustrative purposes only. Past performance is no guarantee of future results. Dispersion is the annualized, index-weighted standard deviation of the index constituents' full-month total returns. Correlation measures the shared movement among the daily returns of the index constituents during the month, calculated via the ratio of index variance to the index-weighted average constituent variance.

Quantitative equity hedge funds were among the leading beneficiaries during this period. Through their broadly diversified portfolios, these funds have taken advantage of this backdrop to generate attractive absolute and risk-adjusted performance utilizing a long/short portfolio construction process. This has contributed to a period of increasing outperformance by quantitative equity hedge funds relative to a traditional global balanced portfolio.

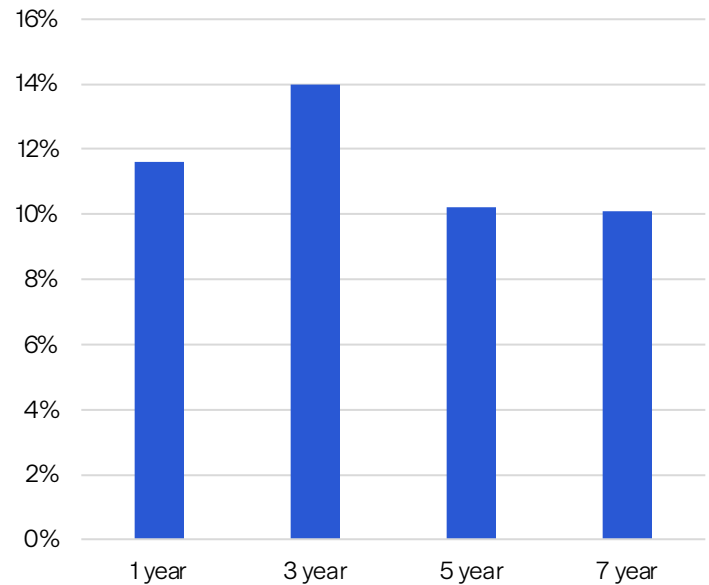
Outlook

While the recent market backdrop has been supportive of quantitative equity hedge funds, the outlook for these strategies is equally compelling. As noted earlier, data provides the ‘raw material’ for quantitative strategies, and the amount of data available for collection and analysis continues to grow exponentially. Typically, quantitative managers broadly classify their data sources as being fundamental, technical or ‘alternative’. The alternative category is where most newer data sets are being discovered — examples include social media activity, satellite imagery, webpage scraping, weather patterns, smartphone app data and others.

Given this volume of data and the speed at which it is being created, the most successful quantitative equity hedge funds devote substantial resources to data management. These firms often employ hundreds of professionals — many with PhDs in mathematics, engineering, and computer science — who are responsible for identifying, collecting and cleaning data. Additionally, the leading managers are increasingly using artificial intelligence (‘AI’) and other machine learning techniques to gather and organize ‘unstructured’ data. Relative to humans, AI programs are better equipped to quickly and efficiently identify relationships between seemingly disparate sources. This enables managers to tap into an even broader range of data inputs as they look to extract differentiated alpha signals and drive outperformance. That said, while AI is likely to play an ever-growing role in implementing quantitative strategies, human input is still needed to develop the high-quality hypotheses and models which guide the AI programs.

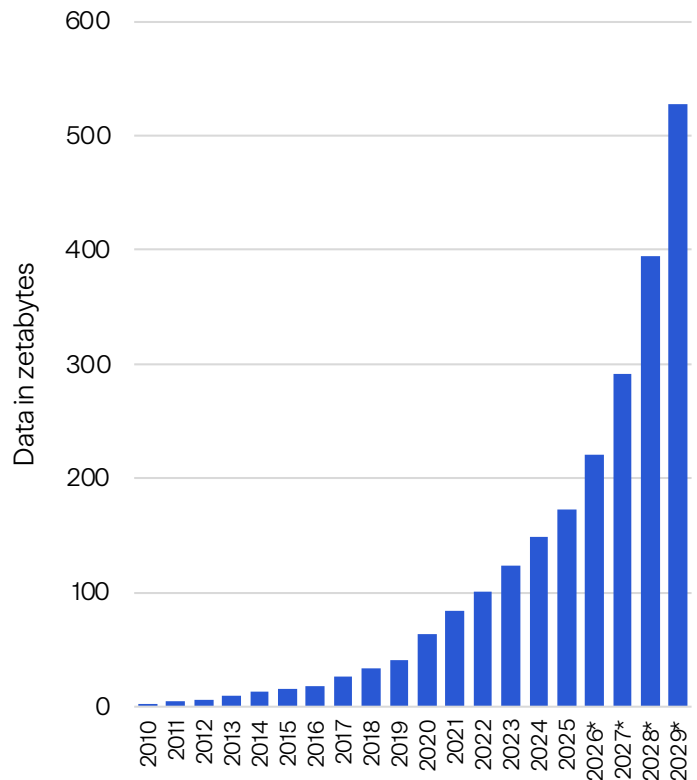
Of course, no strategy is foolproof and even the most sophisticated AI-driven strategies can fail to live up to expectations. For example, machine learning models can be extremely powerful in their use of historical data but may still be unable to adapt to real world conditions because of ‘overfitting’, which results in a model being overly optimized for historical data. In other words, a model can identify alpha signals that are specific to historical data, rather than capture signals that are more appropriate to current market

Exhibit 3: Quantitative Equity Hedge Funds – Annualized Returns



Source: eVestment; iCapital calculations. Data as of February 2026 and provided for illustrative purposes only. Past performance is no guarantee of future results. Shows annualized returns of the HFRI EH: Quantitative Directional Index.

Exhibit 4: Rising Volumes of Data Should Benefit Quant Strategies



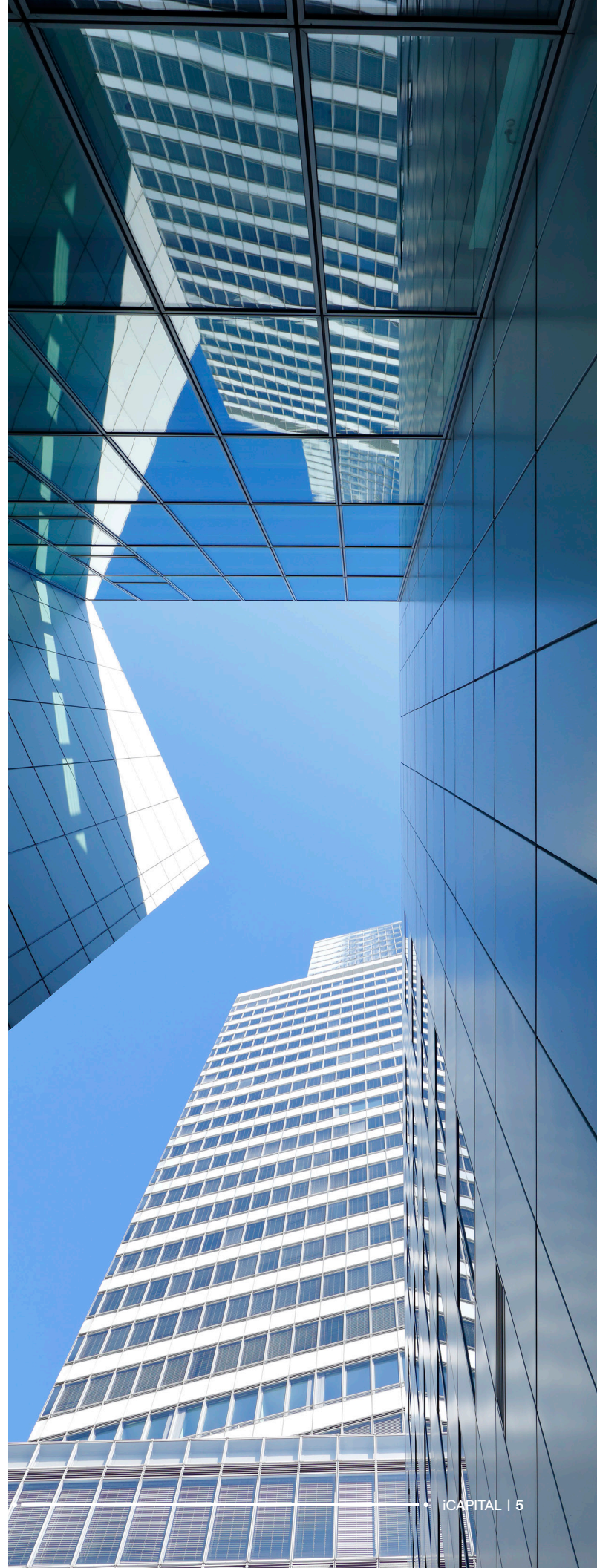
Source: Statista. Data as of February 2026 and provided for illustrative purposes only. *Data is projected.

conditions. Quantitative strategies can also be prone to underperformance during severe market dislocations, when market correlations often surge and historical alpha signals are less likely to be relevant.

Conclusion

Market conditions ebb-and-flow over time, and various hedge fund strategies perform differently during changing market environments. Given the prevailing market backdrop, quantitative equity hedge funds can provide differentiated and complimentary sources of return to an investor's overall equity allocation. In a volatile market, these funds offer broad diversification, enabling them to take advantage of increased dispersion and lower correlation among individual stocks. An added advantage is that these funds also tend to be relatively liquid with investor friendly liquidity terms – many on a monthly basis. And with decades of experience and extensive resources, the leading quantitative firms are increasingly harnessing the power of AI as a core component of their investment process.

These technological advancements, combined with the explosion of data globally, create both a growing opportunity set and a competitive advantage for established players looking to deliver superior absolute and risk-adjusted returns for investors.



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