PICTET
1805

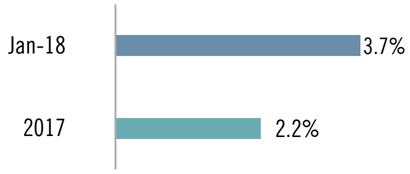
Hedge Fund Flash Report
January 2018

For professional investors only

Pictet Alternative Advisors

GLOBAL MACRO

Managers welcome the new year with strong performances

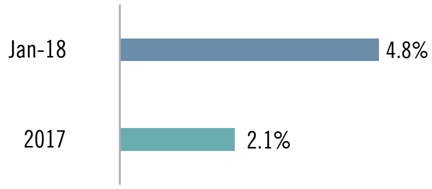


HFRI Macro

Global Macro managers kicked off 2018 on a strong note, with some posting their best returns in years. Developed market fixed income was the major source of gains as managers were rightly positioned to capture an increase in bond yields, especially in the US and Europe. Their long stance towards the euro vs the greenback, along with long developed market equity indices and long crude oil positions also had a positive contribution. Moreover, managers with a focus on emerging markets continued to fare well, generally thanks to long emerging market FX positions and local rates receivers.

CTAS

Tailwinds from persistent trends in equities and commo

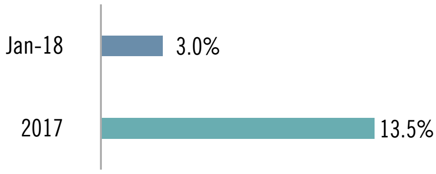


HFRI Marco: Systematic Diversified

CTAs registered strong gains in January across the board, as trends in equities and commodities that started last year extended into 2018. Equities continued to be a principal source of gains supported by the market rally, whereas in commodities a long stance towards the energy complex paid off. In terms of allocation, most CTAs increased their risk levels in commodities and FX, which had been kept on average in relatively low levels until now.

LONG/SHORT EQUITY

Equity rally fuels managers' returns despite the late-month correction



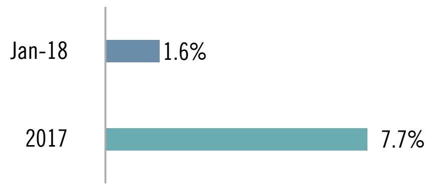
HFRI Equity Hedge

Long/short equity managers reported strong gains in January, driven by their sector exposure as well as their market exposure as the US tax reform fuelled a rally in equities in January. US equities led over the month, and Europe and Japan followed. At sector level, Consumer Discretionary, Technology, Financials followed by Healthcare and Industrials were up significantly (+5% to +8% MTD). Headwinds emerged late in the month and Energy and Healthcare corrected the most, causing a small setback in managers' returns. Growth continued to outperform value and large capitalization companies outperformed smaller ones, by more than 3% each.

EVENT DRIVEN

Special situations drive returns whereas M&A books lag

Event Driven managers saw positive contributions from special situation equities and distressed situations, whereas M&A books lagged. Special situations fared well boosted by rising equities worldwide, with names such as Facebook and Alibaba recovering strongly after December's losses. While gains were broad-based, managers with US exposure tended to outperform European ones. M&A books, on the other hand, didn't contribute much to performance. Even though there were some positive developments on a number of deals, such as TW/AT&T and Sky/Fox/Disney, spreads widened significantly during the month.

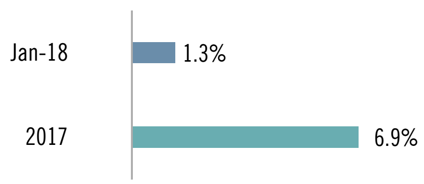


HFRI Event Driven

DISTRESSED

Post-reorg equities and structured credit drive returns

Distressed performance was overall positive, mainly driven by post-reorganisation equities (e.g. Linn Energy, Caesars and MGM) and structured credit (CLO, students loans). Spanish toll road and Lehman claims were positive, whereas Puerto Rico municipal bond returns were mixed after the government released its revised fiscal plan which take into account the impact of Hurricane Maria on the bankrupt island; long duration bonds traded poorly whereas short maturity bonds were on average positive. On the negative side, emerging market trades like Venezuela Sovereign and PVDSA continued to weigh on returns.

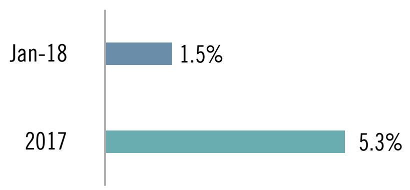


HFRI ED: Distressed/Restructuring

RELATIVE VALUE

Gains across the board for Relative Value managers

Convertible bond arbitrage benefited from positive market sentiment, but heavy new convertible bond supply had a negative impact on secondary market pricing. In terms of new issuance, $18bn bonds were placed, more than double the average issuance level of the last 10 years. In rates strategies, short duration positioning in the US and Europe and curve steepening trades added to performance. Long inflation breakeven trading and swap spread curve trading all added to returns. Detractors included sovereign relative value trades (e.g. short Italy vs. Germany) and a modest long USD bias. In credit-related strategies, both corporate and structured credit was positive. CLOs, CMBS, and non-agency RMBS also added to returns..



HFRI Relative Value

Note: Returns are based on HFRI index data estimates as at 31.01.2018 and can be subject to change.

Pictet Alternative Advisors (PAA) is a leading European alternative investment specialist with expertise in manager selection and portfolio management in liquid alternatives, private equity and real estate. PAA is an independent unit of the Pictet Group. Founded in 1991, we currently manage over USD 20 billion and our team is composed of more than 50 people.

Pictet Alternative Advisors
Route des Acacias 60
CH-1211 Genève 73
+41 58 323 23 23

www.alternatives.pictet