PICTET
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Hedge Fund Flash Report
February 2018

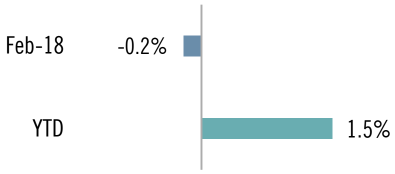
For professional investors only

Pictet Alternative Advisors

GLOBAL MACRO

Discretionary managers gain on US interest rates early month

Global Macro managers fared relatively well during February's episode of volatility, bringing a welcome source of diversification. Fixed income was the main source of gains, as managers continued to take advantage from US interest rates grinding higher. The strategy also benefited from a structural "long volatility" stance. Besides, managers were generally prompt to remove any long equity exposure. Performance deteriorated though late-month as developed market rates consolidated. Emerging market-focused managers were generally left unscathed as the volatility spike was largely contained to developed market equities.

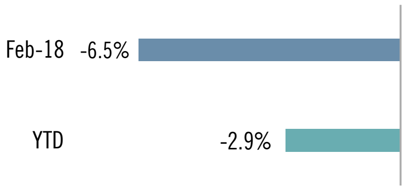


HFRI Macro Discretionary

CTAS

Trend-followers suffer from very sharp reversals in equities

CTA managers saw all their January gains reverse amid extremely sharp reversals in early February, as stock markets saw their largest "momentum swing" ever recorded. As a result most managers crystallised losses and significantly reduced their equity exposure. Meanwhile, recent trends in FX and commodities also reversed at the same time, adding to overall losses.

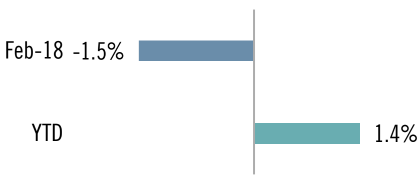


HFRI Marco: Systematic Diversified

LONG/SHORT EQUITY

Managers add positions on weakness, short books protect

Long/short equity managers resisted relatively well the correction, viewing it as technical rather than fundamental and thus not reducing risk. Short books generally offered protection. Some managers also benefited from the correction to add new positions at attractive prices. Value continued to underperform Growth by 3.5% for the S&P during the month and almost 7% for the year. The outperformance of Growth names can be mainly explained by the Technology sector that strongly recovered after February's correction, finishing the month slightly down (-0.1%). At the sector level in the US, Energy (-9.6%) was the worst sector followed by Consumer Staples (-7.1%), Telecom (-5.8%) and Materials (-5.6%).

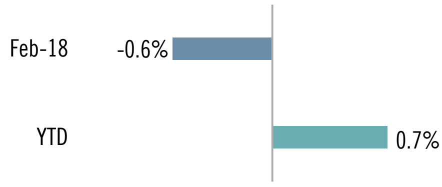


HFRI Equity Hedge

EVENT DRIVEN

M&A books benefit from increased corporate activity

Within the Event Driven strategy, the majority of managers finished the month of February around breakeven. Performances within sub-strategies were mixed. Special situation books were naturally more sensitive to the equity sell-off, whereas M&A books benefited from either increased or competitive bids on names such as Sky for example. Managers generally stayed put on their allocation and some even took profits on their hedges, as the sell-off was seen as mainly technical. Credit markets held up well, keeping the impact of the credit allocation muted in February.

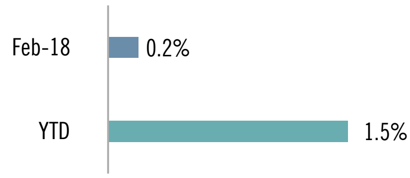


HFRI Event Driven

DISTRESSED

Distressed managers prove resilient

The Distressed strategy was resilient in February, somehow in line with credit markets overall and proving its diversification benefits. Distressed debt managers' returns have been hovering around break-even and most of the moves were specific to corporate situations. Following weakness in oil prices, energy related investments incurred some losses. At the same time, situations such as Lehman continued to be well bid and generated some gains.

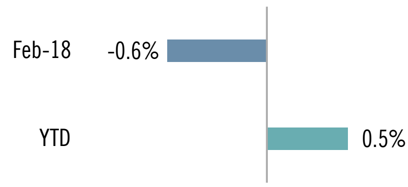


HFRI ED: Distressed/Restructuring

RELATIVE VALUE

Volatility-related strategies challenged by largest spike ever

Relative Value managers held up rather well in February given the sharp reversal in risk assets, especially equity and volatility. While the prospect of a higher volatility regime is generally positive for managers, the largest daily VIX spike ever seen (+115.6%), was difficult to navigate for volatility-related strategies. For instance, long dispersion trades in US equities as well as long European equity volatility vs. US equity volatility positions detracted from performance. Overall, Credit books fared better than volatility strategies. Credit compression trades (trading HY vs. IG credit) and moving long high yield post hiccup were additive to performance. Within the convertible space, shorter duration and higher quality convertibles traded well.



HFRI Relative Value

Note: Returns are based on HFRI index data estimates as at 28.02.2018 and can be subject to change.

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