

*Hedge Flash Report
May 2018*

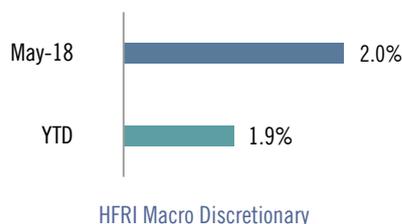
*For professional
investors only*

Pictet Alternative Advisors

GLOBAL MACRO

A month of two halves, winners on European periphery trades

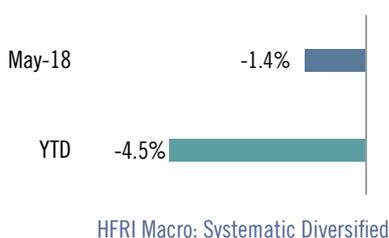
Managers benefited in early May from rising government bond yields, especially in the US, and higher oil prices, before giving up part of their gains when those markets reversed in the second part of the month. In FX, short EURUSD positions were profitable. Funds with an Emerging Markets focus continued to suffer from the broad weakness of EM currencies and local rates markets. Of note, managers were, by and large, unscathed by the sell-off across Italian assets in late May. On the contrary, managers with bearish views on Italy and European periphery spread trades generated substantial gains.



CTAS

Trend followers susceptible to rotations, multi-models resist

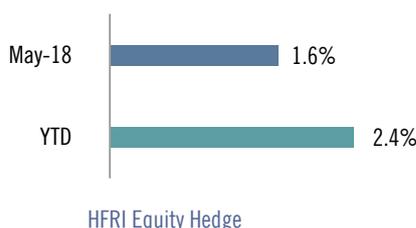
May was a mixed month: CTAs profited from the continuation of upward trends in oil prices and bond yields in the first half, until the situation in Italy – coupled with an oil output increase from OPEC and Russia - triggered a late-month rotation. Gains in US equities offset losses in Europe and Japan, while in bonds, gains in Europe could not compensate for the losses in the US. In currencies, gains from short exposure to Euro were offset by both long exposure to GBP and short exposure to AUD.



LONG/SHORT EQUITY

Strong alpha generation, small caps & growth names boost returns

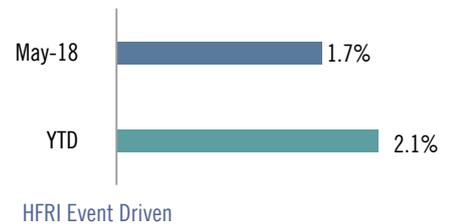
Long/short strategies recorded strong alpha in May, with long positions outperforming strongly and shorts underperforming the markets. The main drivers of performance were small caps and growth names, while the rebound in tech, including the FANGs, also added to returns. Despite the Italian sell-off, European Long Short managers proved to be very resilient, thanks to their limited exposure to the region and Italian financials in particular. In the US, managers benefitted from their tech/biotech and industrials/energy exposure. Finally, global macro managers also fared well thanks to their long and short concentrated bets.



EVENT DRIVEN

Positive returns across sub-strategies, M&A activity increases

With spreads tightening significantly during the month, M&A books contributed the most to returns. Managers with exposure to Akorn/Fresenius and NXP/Qualcomm finally recovered some of their earlier losses, while positive sentiment around Time Warner/AT&T also added to returns. Special situations were positive for most of the month but losses were registered over the last days due to the sell-off in Italian government debt. Finally, regional performance was mixed as managers with exposure to US equities led the gains whereas managers with exposure to Spain and Italy detracted.

**DISTRESSED**

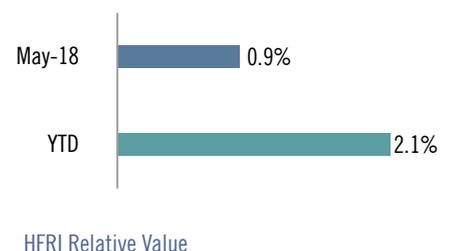
Gains for traditional distressed and structured credit strategies

Traditional distressed managers saw gains from commodity credit names and gaming and media reorganisation equities, while Puerto Rico municipal bonds also continued to move higher. Structured credit strategies benefited from a general tightening in securitized product sectors. Performance was somewhat brought back by short positions in single-name credit as well as market hedges. Of note, lower-rated credit continued to outperform, leading to a historically tight spread between CCCs and BBs.

**RELATIVE VALUE**

Most strategies positive with the exception of convertible arbitrage

Convertible arbitrage books suffered on general weakness in May, despite elevated volatility towards the end of the month that offered managers some gamma trading opportunities. Most managers saw positive returns in their merger arbitrage positions and stub trades, as well as in long/short equity books. In structured credit, securitized assets in RMBS, CLO and ABS continued to add to performance. In corporate credit, managers recorded gains in financial sector names and stressed commodity credit situations. Lastly, fixed income positions and hedges were for the most part loss-making.



Note: Returns are based on HFRI index data estimates as at 31.05.2018 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 25 billion and our team is composed of more than 55 people.

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

www.alternatives.pictet

Disclaimer

This document is not intended for persons who are citizens of, domiciled or resident in, or entities registered in a country or a jurisdiction in which its distribution, publication, provision or use would violate current laws and regulations. In particular, investment funds or any other collective placement instruments which have not been authorised for public offering in the investor's country of domicile may only be offered as private placements to qualified investors. Additional investment restrictions may be provided for in the official offering documentation (available upon request). The information and data furnished in this document are disclosed for information purposes only; the Pictet Group is not liable for them nor do they constitute an offer, an invitation to buy, sell or subscribe to securities or other financial instruments. Furthermore, the information, opinions and estimates in this document reflect an evaluation as of the date of initial publication and may be changed without notice. Information

and opinions presented in this document have been obtained from sources believed to be reliable, and, although all reasonable care has been taken, the Pictet Group is not able to make any representation as to its accuracy or completeness. The value and income of the securities or financial instruments mentioned in this document are based on rates from the customary sources of financial information and may fluctuate. The market value may vary on the basis of economic, financial or political changes, the remaining term, market conditions, the volatility and solvency of the issuer or the benchmark issuer. Moreover, exchange rates may have a positive or negative effect on the value, the price or the income of the securities or the related investments mentioned in this document. Past performance must not be considered an indicator or guarantee of future performance, and the addressees of this document are fully responsible for any investments they make. No express or implied warranty is given as

to future performance. Investors shall conduct their own analysis of the risks (including any legal, regulatory, tax or other consequence) associated with an investment and should seek independent professional advice. The content of this document is confidential and can only be read and/or used by its addressee. The Pictet Group is not liable for the use, transmission or exploitation of the content of this document. Therefore, any form of reproduction, copying, disclosure, modification and/or publication of the content is under the sole liability of the addressee of this document, and no liability whatsoever will be incurred by the Pictet Group. The addressee of this document agrees to comply with the applicable laws and regulations in the jurisdictions where they use the information reproduced in this document. This document is issued by the Pictet Group. This publication and its content may be cited provided that the source is indicated. All rights reserved. Copyright 2018.

© 2018 Hedge Fund Research, Inc. - All rights reserved. HFR®, HFRI®, HFRX®, HFRQ®, HFRU®, HFRL®, HFR PortfolioScope®, WWW.HEDGEFUNDRESEARCH.COM®, HEDGE FUND RESEARCH®, HFR IndexScope™, and HFR Risk Parity Indices™ are the trademarks of Hedge Fund Research, Inc. This information is obtained from sources that Hedge Fund Research, Inc. considers to be reliable; however, no representation is made as to, and no responsibility or liability is accepted for, the accuracy or completeness of the information. Information contained herein is subject to change at any time without notice. It is not possible to invest directly in a financial index. Exposure represented by an index is available through instruments based on that index. HFR does not sponsor, endorse, sell, promote or manage any investment products.