

*Hedge Flash Report
June 2018*

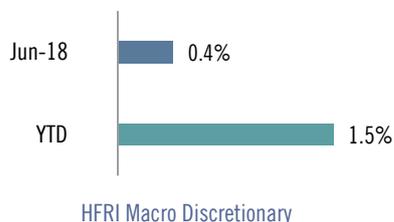
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Pictet Alternative Advisors

GLOBAL MACRO

Reflation theme penalized in June

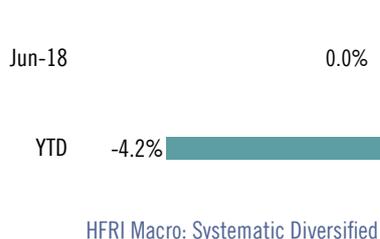
June was challenging for Global Macro managers, both in developed as well as in emerging markets. The major source of losses across managers was the developed market reflation theme – a consensus theme across discretionary books - which was expressed through short US fixed income positions and yield curve steepeners. Funds with an Emerging Markets focus continued to suffer from the broad weakness of emerging market currencies while their credit exposure detracted as well (especially in Latin America). Finally, in FX, some managers gained on long US dollar positioning notably against developed market currencies.



CTAS

Mixed returns across asset classes

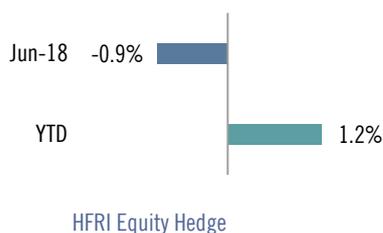
Trend-following CTAs' returns were muted on aggregate – despite the mid-month volatility - as losses in equities offset gains in fixed income and FX. Short US fixed income positions made up for losses from long positions in Europe, while a short exposure to the euro vs the US dollar was also additive. In equities, long exposure to Asian and European markets proved painful. Commodity returns were mixed, with gains driven by shorts in crops and precious metals and a bullish crude oil stance.



LONG/SHORT EQUITY

Challenging month for alpha generation

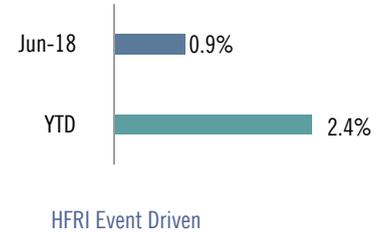
June was challenging for alpha generation as the trade war between China and the US resurfaced mid-month, erasing gains made in early June. Long/Short managers were impacted by factor reversals, sector rotations and short squeezes. Indeed, managers with long positions in the European consumer discretionary sector and the ones with exposure on US industrials names were impacted the most by the trade war. Managers with higher net exposures as well as those with an Asian/emerging market exposure suffered the most. Overall, defensive sectors held up much better than cyclical ones.



EVENT DRIVEN

M&A activity remains unscathed by market turmoil

Event Driven managers' M&A books were almost untouched by the late-month market turmoil and, on the contrary, even benefited from closing spreads in a number of situations, such as the AT&T /Time Warner deal. Elsewhere, the counteroffer from Comcast to buy Sky was constructive for managers with a position in the Sky/Fox deal. In special situation equities – a strategy with a structurally higher market exposure – the end of the month proved more challenging. In terms of sectors, IT and materials underperformed whereas more defensive sectors fared better.

**DISTRESSED**

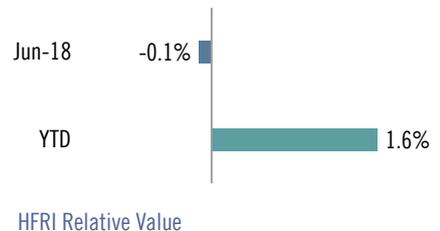
Puerto Rico municipal bonds continue to rally

Most port-reorganisation situations contributed positively to the monthly P&L of traditional Distressed managers in June. The Puerto Rico municipal bond complex, in particular, continued to rally as COFINA and General Obligation bond holders reached an agreement. Structured credit positions also delivered modest positive contributions to returns as most securitized products benefited from spread tightening.

**RELATIVE VALUE**

Mixed returns in June among relative value strategies

Credit-related strategies were generally positive with gains from high yield special situations. Equity strategies registered mixed returns as M&A books were profitable driven by gains from situations like 21st Century Fox, while fundamental long/short books suffered from the escalating tension between the US and China. Convertible arbitrage books suffered this month, despite the pace of issuance being best since 2008. Even though strong issuance can lead to a positive impact on the opportunity set over the long term, it can temporarily weigh on relative valuations.



Note: Returns are based on HFRI index data estimates as at 30.06.2018 and can be subject to change.



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