

*Hedge Flash Report
July 2018*

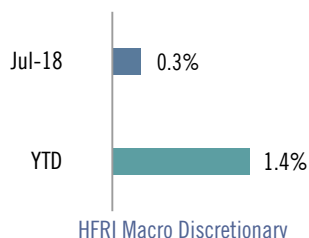
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Pictet Alternative Advisors

GLOBAL MACRO

Return dispersion in July

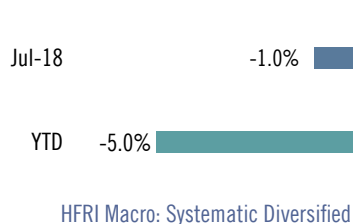
While a number of trades detracted in July - such as long positions in the commodity sector and defensive trades - short positions in the front end of the US yield curve generated gains. Moreover, in the last part of the month, as the bank of Japan loosened its yield curve policy, managers betting on back-end Japanese rates moving higher, posted substantial gains. Gains were also registered in FX, in positions such as long USDJPY, short GBP and short CNH. Finally, after a tough second quarter, funds with an Emerging Market focus rebounded in July thanks to shorting the Turkish lira and selective credit positions.



CTAS

Bonds and currency trend reversals

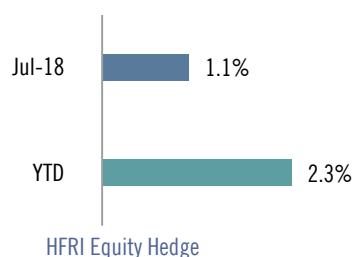
Systematic strategies produced mixed returns in July as energy markets corrected, while early-month trends in bonds and currencies ultimately reversed. In general, managers increased long positions in equities, while longs in fixed income and energy got reduced on the back of reversals. Across the board, CTAs trimmed their short grain positioning on the back of higher prices led by drought. In currencies, long positions in the USD were maintained, while short JPY positioning increased and shorts in the EUR, AUD and GBP remained stable.



LONG/SHORT EQUITY

Long books susceptible to tech correction

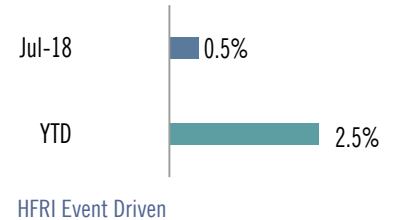
Even if the overall tech sector proved to be resilient by ending the month on a slightly negative note - almost flattish - the FANGs got impacted by the drop in Facebook and Netflix share prices, hurting managers with exposure to these names. In terms of sectors, Healthcare, Industrials and Financials led the way, while large caps outperformed smaller caps. Of note, value outperformed growth in the second half of the month and the momentum factor reversed. In an environment where volatility remained low and markets rebounded strongly, short books generally detracted from performance.



EVENT DRIVEN

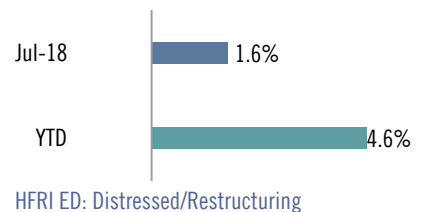
Mega-deal volatility in M&A

Event Driven managers delivered mixed performance in July. Following the deal break on July 25th, managers with exposure to NXP/Qualcomm were negatively impacted. On the same note, in the absence of competitive bid from Comcast to acquire Fox, managers with an exposure to Fox traded down this month. In special situations, the earnings season proved to be positive for many US names, with an unusually elevated share of sales and earnings beat. Therefore, managers with higher exposure to the US outperformed their European peers, while Asian and EM markets underperformed amid trade war concerns.

**DISTRESSED**

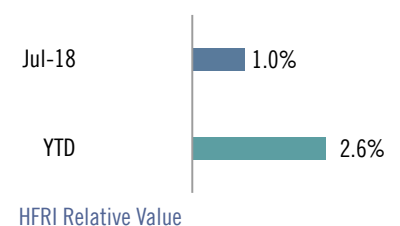
Positive returns for distressed strategies

In July, credit/distressed strategies registered overall positive returns. Several stressed and distressed commodity credit names, gaming and media reorganisation equities, as well as Puerto Rico municipal bonds, generated good returns for traditional distressed managers. In addition, Unicredit Cashes positions contributed meaningfully to performance, while structured credit books gained on the back of tighter spreads in securitized products such as student loans. Finally, the only detractors were single-name credit shorts and market hedges.

**RELATIVE VALUE**

Relative value strategies continue to deliver mixed returns

Credit-related strategies were generally positive with gains from stressed and distressed credit positions. Rate-related strategies registered positive returns through volatility and inflation positioning in the US as well as duration positioning in Europe. Despite the higher realized volatility observed in the technology sector, convertible bond arbitrage books were flat. Finally, equity strategies mostly detracted. Indeed, M&A books were impacted by the NXP/Qualcomm deal break and the Fox/Disney/Comcast situation. Fundamental long/short equity and market neutral books delivered mixed performances as losses occurred around the earnings season with share prices being punished more severely for earnings misses.





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