Hedge Fund Flash Report
December 2016

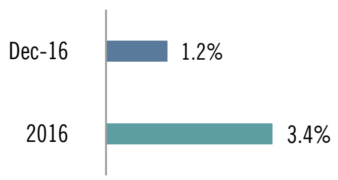
For professional investors only

Pictet Alternative Advisors

GLOBAL MACRO

Favourable trends extend into December, albeit with lower intensity

Managers generally registered positive performances in December. FX was the major source of profits, with gains from long US dollar positions against the JPY, EUR and Asian FX. Long BRL also added to returns. Long equity positions in the US, Europe and Japan, either via index futures or with a focus on the financial and energy sectors, contributed positively. In commodities, a number of managers benefitted from long crude oil positions. Lastly, the short fixed income trade stalled in the last part of the month and short positions in developed market yield curves did not return much. Nevertheless, long inflation-linked instruments (TIPS, BE) positioning was positive.

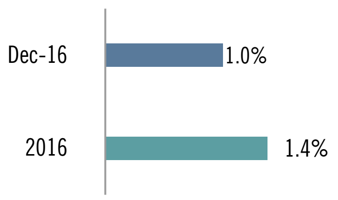


Eurekahedge Macro

CTAS

Contributions from most asset classes

CTAs ended the year on a positive note after a few challenging months. Gains were registered primarily on long equity index positions, as well as in managers' FX books – namely in long US dollar vs. the euro and Japanese yen, and long Brasilian real. Short US fixed income positioning had a positive contribution; short Eurodollars was particularly profitable as markets revised their US interest rate expectations upwards. On the negative side, commodities continued to be difficult to trade, with short crude oil and long copper being notable detractors.

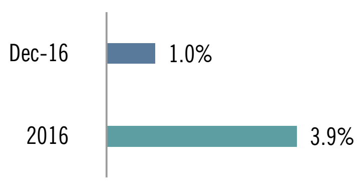


Eurekahedge CTA/Managed Futures

LONG/SHORT EQUITY

Managers benefit from market gains

Long/short managers had a relatively good month on average, with the performance of the market being the main driver of return. In the US, sector dispersion was less pronounced than in November. The impact of Trump's victory started to subside and, while some November underperformers reversed strongly (Utilities, Real Estate, Consumer Staples), cyclicals gave some mixed signals. Financials outperformed but Materials and Consumer discretionary stocks ended the month in negative territory. In Europe, value strongly outperformed with Auto & Parts, Oil & Gas and Banks up +9.9%, +8.9% and +7.7% respectively against +5.7% for the Stoxx 600.

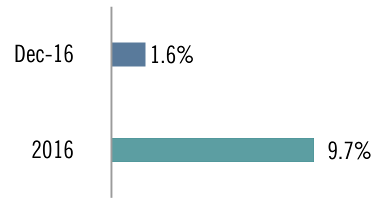


Eurekahedge Long Short Equities

EVENT DRIVEN

Positive returns amid strong month for corporate activity

In M&A, spreads continued to tighten after Trump's election on the back of expectations for a more business friendly regime. Completion of some deals like LinkedIn/Microsoft also benefited managers. Special situations continued to perform well, along with the global equity market. Credit books rallied due to anticipation of the Fed rate hike. Energy and metals & mining names in the high yield space continued their ascent after the OPEC meeting. Structured credit stabilised, and high yield and structured long-dated litigation stories like Icelandic banks and Lehman continue their asset distribution. Emerging market debt also rallied after being overly sold in November with Trump's election.

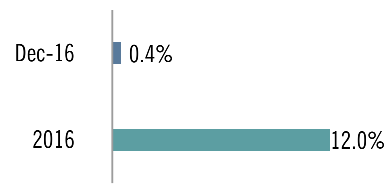


Eurekahedge Event Driven

DISTRESSED

Modest gains across the board

Once again, higher rated corporate bonds underperformed lower rated/ distressed bonds. Most sectors in the high yield space showed positive returns, led by energy and metals & mining with prices continuing to increase post the OPEC meeting late in November. Emerging market sovereigns rallied following the November sell-off. Indeed, given the increased expectations for a protectionist policy by a Trump administration, names sold off as many investors exited their positions. In long-dated situations, Caesars and Lehman continued to do well. In structured credit, managers were principally positive, especially those with exposure to CMBS instruments. Nonetheless, managers with exposure to rate-sensitive sectors, such as REITS underperformed.

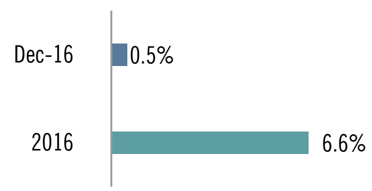


Eurekahedge Distressed Debt

RELATIVE VALUE

Gains across sub-strategies despite subdued realized volatility

Given the overall bullish tone in credit and equity markets and the significant year-end rally, realized volatilities were subdued, resulting in few opportunities to trade around. Credit-related strategies delivered positive performance from investment grade and high yield positions, especially in industrials and financials. Holdings in securitized assets such as CMBS, CLO and ABS also added to returns. Equity-related strategies contributed positively with gains from risk arbitrage and special situations. On the other hand, index hedges detracted from performance, while capital structure arbitrage and convertible bond arbitrage had a more neutral contribution to performance.



Eurekahedge Relative Value

Note: Returns are based on respective Eurekahedge index data estimates as at 31.12.2016 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 hedge funds, 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.

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