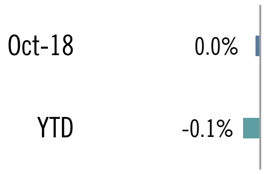
Hedge Fund Flash Report
October 2018

For professional investors only

Pictet Alternative Advisors

GLOBAL MACRO

US yield curve as the main investment theme

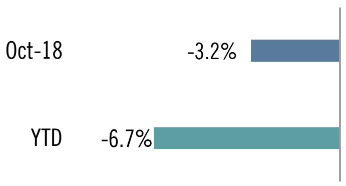


HFRI Macro Discretionary

With short positions along the US yield curve being the main investment theme across managers, macro funds first produced positive returns while equity markets were declining. However, a more severe and prolonged correction in global equities led to a safe-haven rally in US Treasuries in the second part of the month. In FX, short EURUSD, EURJPY positions were also positive. Long positions in crude oil, however, resulted in heavy losses. EM-focused managers were generally positive, thanks to opportunistic long positions in Brazil on the back of the presidential election.

CTAS

Trend reversal across both equities and commodities

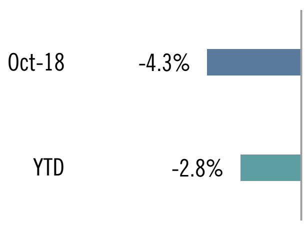


HFRI Macro: Systematic Diversified

By sectors, equities and commodities, with energy and agricultural commodities, detracted significantly throughout the month. Unfortunately, gains in long USD exposure in FX and FI were not able to compensate. Traditional trend followers were significantly impacted by equity positioning moving from net long to net short with the exception of US. Risk in long Energies and short Agriculurals got reduced in favor of FX long US Dollar, in particular EUR and GBP.

LONG/SHORT EQUITY

Equity market correction hurting Long/short managers



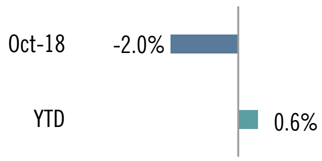
HFRI Equity Hedge

As market participants massively withdrew from equity markets, Long Short managers' portfolios suffered significant losses from their long book. The market faced many aggressive rotations out of Cyclicals including Industrials, Autos, Airlines and Financials. In this environment, more defensive sectors such as Consumer Staples, Utilities, Value or large Pharma – that Long Short Managers tend to have little exposure to – resisted well. Generally, a more cautious tone within long Short managers is expressed through lower market exposure, higher concentration in their top conviction and more tactical considerations when sizing positions.

EVENT DRIVEN

Mixed performances for Event Driven managers

Spreads widened significantly in the first half of the month on the back of selling pressure and lower CEO confidence. Special situation equities was the leading detractor across the Event Driven space. Managers with above average exposure to equity strategies detracted broadly in line with their beta exposures. Activist managers suffered the most. Within credit, performance was mixed. Managers with high post-reorg and value equities' exposure detracted, whereas managers with portfolio hedges and single name credit shorts held up well. Most Structured Credit managers were positive during the month though, as carry offset any spread widening.

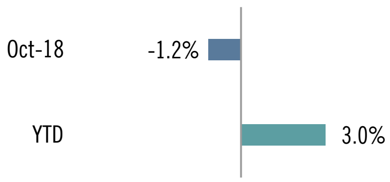


HFRI Event Driven

DISTRESSED

Challenging month for Distressed managers

Most Distressed hedge fund managers ended the month in negative territory. US leverage loans helped by the floating rate coupons held up well, whereas performance across the high yield and investment grade markets was more challenging. Gains from portfolio hedges, single name credit shorts and structured credit were completely cancelled out by losses on post-reorg and value equity situations. One notable contributor was exposure to emerging market debt, especially Brazil, following the outcome of the October 2018 presidential election.

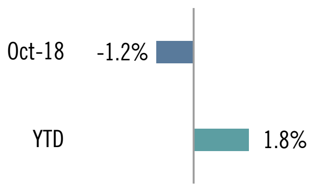


HFRI ED: Distressed/Restructuring

RELATIVE VALUE

Relative Value managers holding up thanks to portfolio hedges

Credit strategies delivered mixed returns with gains from structured credit being offset by losses from long/short single name positions across investment grade and high yield credit. Equity strategies mostly detracted from performance. Special situations cost to performance, but managers with very tight sector and factor exposures managed to contain losses. Convertible arbitrage was slightly positive, as managers benefited from their defensive stance in higher credit quality and in-the-money convertible bonds, allowing to realize trading gains in volatile names.



HFRI Relative Value

Note: Returns are based on HFRI index data estimates as at 31.10.2018 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