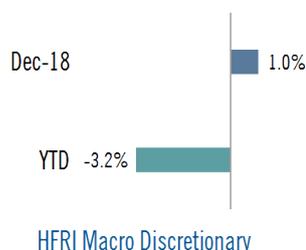


*Hedge Fund Flash Report
December 2018*

*For professional
investors only*

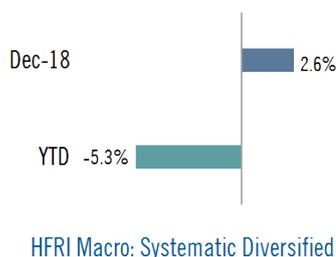
Pictet Alternative Advisors

GLOBAL MACRO

Wide dispersion of returns within Global Macro

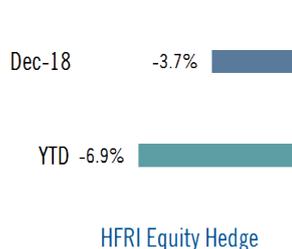
Equities were the major source of losses for a number of discretionary managers especially due to tactical long positions in US, Chinese, and Japanese markets. Fixed income performance was broadly neutral, losses from short positions in the front-end of the US yield curve were more than offset by gains from long positions on the back-end (10-year plus). Some managers incurred losses shorting German government bonds via swap instruments. FX returns were mixed, long JPY positions were positive while short EUR and GBP and long AUD trades detracted. On the positive side, some managers made gains from short US credit indices and long gold positions.

CTAS

Quant strategies perform thanks to fixed income and commodities

Systematic strategies performed well during one of the largest December sell-offs in recent history. Gains in fixed income and commodities outpaced losses in equities and FX. Positioning and performance in stock indices varied by region and strategy, shorts in Europe and Asia contributed positively while longs in the US detracted. In FX, most funds registered losses driven mainly by short EUR and JPY positions. Longer-term trend models detracted while shorter-term models offered portfolio diversification benefits. Price-action based mean reversion strategies were challenged by the extension of equity and commodity price moves.

LONG/SHORT EQUITY

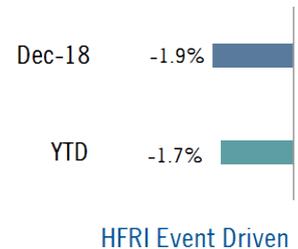
Equity Hedge funds suffer from long market exposure

December was a challenging month for Equity Hedge managers with markets driven by geopolitics and macro concerns rather than company specific news. All of the main geographic regions posted negative returns. Managers with long market and cyclical exposure suffered most while managers trading the late cycle story were rewarded. Portfolios' Gross and Net exposures are now back to 2011 lows and are less thematically concentrated. The reduction in positioning reflects a disappointing year for alpha generation as well as a more cautious stance for 2019.

EVENT DRIVEN

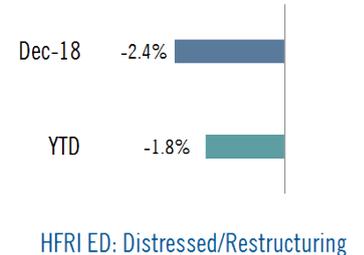
Event-Driven strategies suffer from market beta

While Merger Arbitrage strategies held up throughout the month, Distressed and Special Situations strategies posted negative returns. Within M&A, managers benefitted from the Shire and Takeda shareholder deal approval. Within Special Situations, longer biased managers (Activists) struggled most while market neutral managers performed relatively better. Credit positions posted negative returns for the second consecutive month as high-yield leveraged loan markets traded lower. Post-reorganization equity situations and energy positions were the main detractors to performance this month.

**DISTRESSED**

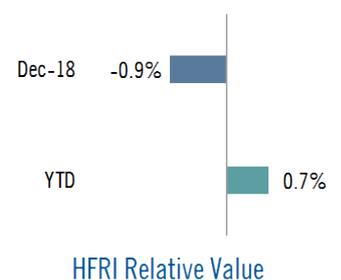
Another difficult month for Distressed managers

The credit market took a step back in December. High yield spreads widened significantly across sectors and leveraged loans were hit both with the expectation of a slower pace of US rates hikes as well as a sell-off in US preferred financials. Managers have struggled to generate alpha amidst the volatile market environment. Post reorganization equity situations were the main detractors to monthly returns, followed by managers' exposure to power and energy names. Strategies in structured products saw mark-to-market losses from spreads widening in lower-rated tranches of CLOs and credit risk transfer deals (especially in mortgage backed securities). Fortunately, the losses were offset out by carry in most situations.

**RELATIVE VALUE**

Capital protection in challenging markets in Relative Value

Volatility Arbitrage was the best performing strategy in an environment of strong intra-month VIX index volatility. Rates arbitrage, fixed income, and FX-focused RV strategies were broadly positive. Credit Long-Short portfolios were generally flat, depending on their degree of net market exposure, while longer-biased portfolios particularly in the Distressed and lower-rated credit space had negative performance. Merger Arbitrage spreads remained firm over the course of the month with the approval of Shire/Takeda deal.



Note: Returns are based on HFRI index data estimates as at 31.12.2018 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 2019.

© 2019 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.