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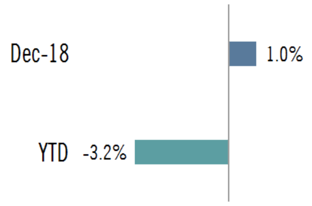
Hedge Fund Flash Report
December 2018

For professional investors only

Pictet Alternative Advisors

GLOBAL MACRO

Wide dispersion of returns within Global Macro

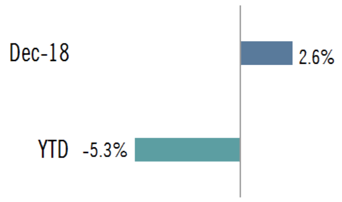


HFRI Macro Discretionary

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

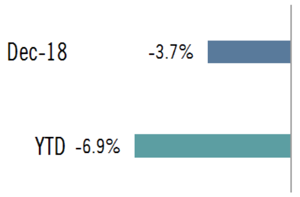


HFRI Macro: Systematic Diversified

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



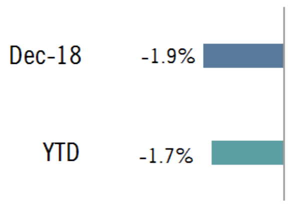
HFRI Equity Hedge

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.

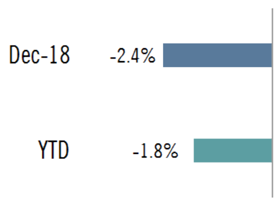


HFRI Event Driven

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.

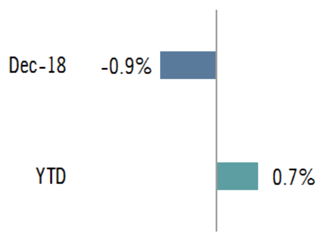


HFRI ED: Distressed/Restructuring

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.



HFRI Relative Value

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.

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