THE ALTERNATIVE CAUSERIE

STRONG START FOR HEDGE FUNDS IN 2019

Following a volatile and difficult 2018, nearly all hedge fund strategies recovered parts of their losses and posted positive returns in the first quarter. According to HFR, Q1 performance was the strongest quarter for Hedge Funds since 2006. Equity strategies led the way followed by RV Arbitrage, Fixed Income and Event Driven while Macro/CTAs and Equity market neutral underperformed. Most managers entered the year with a defensive stance as their risk management frameworks made them lighten-up on gross/net exposures due to continued market weakness during the first week of the year. However, as the sentiment started to change, with the FED being more dovish and increased optimism on the US-China trade negotiations, risk assets (equity and credit) rebounded sharply profiting directional strategy managers.

HFRX Index	**Q1-19**	**2018**
Global Hedge Fund Index	+2.6%	-6.7%
Equity Hedge	+6.0%	-9.4%
Equity Market Neutral	-0.6%	-3.2%
Event Driven	+0.8%	-11.7%
Macro/CTA	-0.9%	-3.3%
RV Multi-Strategy	+2.4%	-1.2%
Fixed Income Credit	+1.3%	-2.6%
ACTIVE FoHF Portfolio		
Absolute Return Strategy	+4.5%*	+1.0%
Healthcare/Biotech Strategy	+12.9%*	+2.2%
Macro/CTA Strategy	+1.5%*	+0.1%

*Source : HFR and Bloomberg. *Estimated performance*

Short US fixed income positions hurt some discretionary global macro managers throughout the end of Q1 as rates continued to decline meaningfully. In contrary, trend followers were able to capture the prolongation of the downward yield trend in fixed income, which was somewhat offset by their commodities exposure in energy as models were slower to reverse the short position. Long/Short equity managers benefited from the "V" shaped recovery of global equity markets by having more concentrated portfolios following the market rout of last year. Managers benefited from long cyclical sectors in technology, industrial and energy. In the healthcare space, biotech companies were the main contributors.

Performance of selected HF managers in Q1 2019*:

- **Event Driven:** ED1 +20.7%; ED2 +9.9%; ED3 +2.2%
- **Long/Short Equity:** LS1 +12.8%; LS2 +10.5%; LS3 -2.6%; LS4 +23.9%; LS5 +14.7%
- **Global Macro:** GM1 +2.8%; GM2 +3.1%; GM3 +9.7%; GM4 +4.1%; GM5 -3.6%; GM6 -5.3%; GM7 +0.6%
- **CTA/Managed Futures:** CTA1 +14.2%; CTA2 -1.8%; CTA3 +2.2%; CTA4 +3.0%; CTA5 +0.3%
- **Low Net/Market Neutral:** LMN1 +4.4%; LMN2 +2.2%; LMN3 +1.3%; LMN4 +2.8%; LMN5 +0.8%; LMN6 +3.4%; LMN7 +1.8%
- **Multi-Strategy:** MS1 +1.7%; MS2 +2.9%

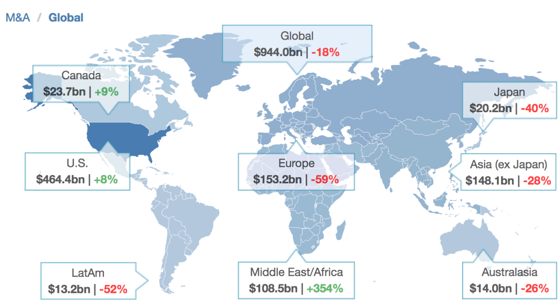
Estimated performance based on latest available data from the fund administrator or found in the public domain

MERGER ARBITRAGE IN FOCUS

The strategy, also called risk arbitrage, is a sub-strategy of the larger category of Event-Driven investing. It focuses on the corporate merger or acquisition event between companies, which involves the buying of the targeted company while often selling short the acquiring company. The strategy generates the returns by earning the spread between the current share price and the announced deal/takeover price. The shorter the deal takes to close, the higher the return will be as the gross spread is generally low but the capital can then be recycled into other deals. There are three main ways for a company to acquire a target company and usually involves an all-cash deal, or a combination of cash and its own shares or in an all-stock deal.

The strategy is still compelling even though M&A deals globally have decreased somewhat in the past 12 months. The US saw a continued positive growth in activity with $450B in deals coming mainly in technology and healthcare companies. The M&A activity is also sustained by companies having high cash balances. They compete with private equity companies that recently have gone on a capital raising spree giving them a lot of dry powder to take companies private and fuel additional M&A activity.

Global M&A in Q1 2019 versus Q1 2018



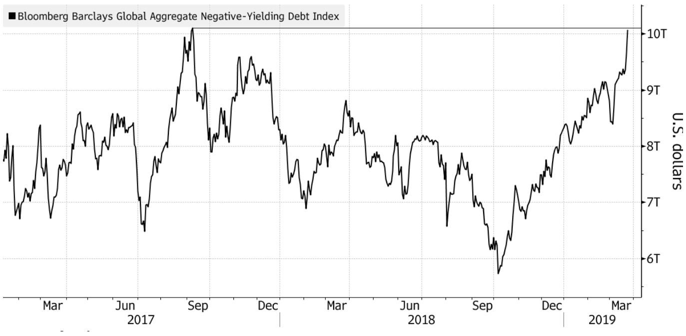
Source: Dealogic

The strategy has an attractive risk-adjusted return profile and is typically uncorrelated to equity markets, as it is mainly dependent on the success of the transaction rather than the broader market events. Skilled managers will differentiate themselves by avoiding deal-breaks that could potentially arise from regulatory and political risk, high leverage, cross-border risk or financing risk.

SPECIALTY FINANCE / PRIVATE MARKETS

Fixed income investors are struggling to find strategies with positive yielding assets as the environment has become very challenging: more than $10 trillion worth of debt is yielding below zero. Investors are sometimes forced to pay governments and corporates to hold their debt. This was the case with the recent issuance of short-dated bonds from LVMH and Sanofi at negative yields. Investors are pushed to longer debt maturities and lower credit ratings in order to find a merely positive yield.

Global supply of bonds yielding below zero hits $10 trillion



Source: Bloomberg

Fortunately, there are good substitutes to traditional fixed income investments that investors can explore to offset this issue.

This low-yield environment backdrop coupled with tighter regulatory capital rules has increased the costs for banks to do business and has opened the way to more bank disintermediation. This has generated market inefficiencies and funding gaps to SME that are interesting income opportunities to exploit. These alternative-financing solutions often fill the void for capital seekers as banks have significantly reduced the availability of capital, which enable alternative lenders to gain access to private debt market by providing directly negotiated debt.

New forms of lending of non-bank institutions

The advantage of such alternative financing solutions for borrowers is the speed of execution where borrowers generally don't mind paying higher interest in return for faster funding. Furthermore, alternative lenders are more flexible in tailoring financing requirements by combining different risks of debt/equity.

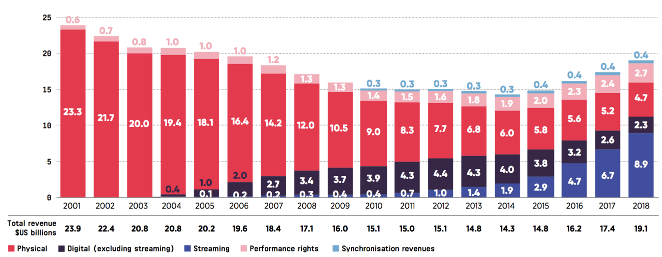
These unconventional income strategies are often under-researched and under-followed because often misunderstood and more complex in nature. However, they offer a consistent alternative income yield, predictable and contractual cash flows and are mostly uncorrelated to traditional assets. These strategies generally display higher returns due to higher barriers to entry, high market sophistication and higher liquidity premium without usually occurring higher risk. These could be senior secured asset-backed loans with strong collateral/security coverage in hard and financial assets that generate steady income streams. They could be accessed through very innovative and well structured investment solutions that enable investors to profit from an alternative income in a risk-controlled framework.

PRIVATE MARKETS			
Specialty Finance	Private Debt	Real Assets	Real Estate
Trade Finance	Direct Lending	Equipment Leasing	Residential
Royalties	Bridge Loans	Aviation	Commercial
Insurance-Linked	Mezzanine	Transportation	Hospitality
Litigation Finance	Special Situations	Art / Wine / Cars	Infrastructure
Factoring / Receivables			
Cash Advance			

MUSIC ROYALTIES AS INCOME SOURCE

The Music industry has gone through a tremendous disruption period from 2000 to 2014 due to digitization, illegal downloading and CD piracy. However, an inflection point can now be seen thanks to streaming platforms such as Spotify, Apple and Pandora that have been a game changer for the industry, which today account for almost half of total global recorded music revenues. Global recorded music revenues grew by 9.7% in 2018 versus 7.4% in 2017 and streaming grew strongly by 34% last year.

Global Recorded Music Industry Revenues 2001-2018 (US$ Billions)



Source: IFPI Global Music report

New trends, lifestyle and technology have contributed to how we consume music today. There is no real going-back to old audio format like cassette, compact disk and mp3 when it was common to own music instead of renting it. Nowadays, with a smartphone, music can be listened anywhere/anytime and accessed through streaming platforms that enhance the quantity of available music for a monthly cost corresponding to the price of one CD album. Interestingly, vintage formats have seen an increase in popularity thanks to collectible versions of older albums, soundtracks and classic favourites. Vinyl revenues have posted growth rates for the thirteenth consecutive year, but represent 3.6% of the overall market.

The growth in the music industry has a direct impact on music royalties and to right owners that receive income every time a song is played/used. There are two types of copyrights: one for Songwriters managed by publishing houses (Composition copyright) and one for Performance artists assigned to record labels (Sound recording copyright). The royalties collected for the copyright of the intellectual property can come from various sources: mechanical royalties (when a song is reproduced on a physical or digital medium), performance royalties (either live or streaming, internet radio, TV, live concerts, hotels/restaurants) synchronization (when music is integrated into film, television, or video images) and other (ringtones, clothing, printed music, etc.). The diversity of income sources creates a stable, recurring revenue stream.

The copyright owners of music royalties are well protected as these copyrights are part of federal law and are protected by the US constitution. Abroad, copyrights are protected through the Berne convention. Finally, right owners can benefit from the recurring revenue stream during the life of the author plus 70 years and in some instances it could last up to 100 years.