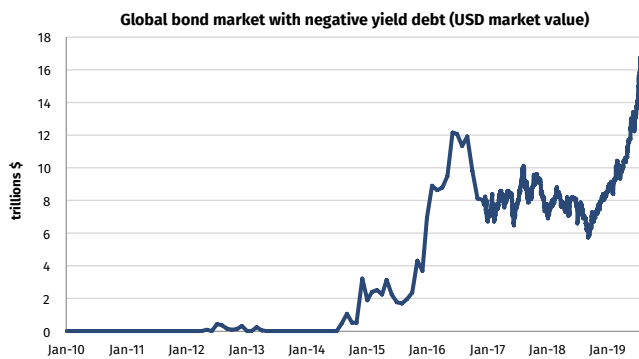


ALTERNATIVE FLASH UPDATE

HEDGE FUNDS PROFITING FROM YIELD COLLAPSE IN BONDS AND HIGHER VOLATILITY

Financial markets have been on a wild ride since the start of the month with major equity indices slumping and investors piling into safer assets. The US yield curve inversion spooked investors which triggered the sell-off as historically it has preceded the past seven recessions. This is of course without mentioning the ongoing global trade tensions, slowing global growth, sub-target inflation and late economic cycle, investors already knew about. Equities got crushed with intra-month drawdowns of -6% to -8% with the VIX touching the 25-mark. Credit and energy related commodities were not immune whereas developed market bonds and gold outshined. This year alone the market value of bonds trading with negative yields has more than doubled. The value has reached \$16 trillion and means that investors holding to maturity are certain to lose money. This might seem irrational to some fundamental investors but for computer-driven hedge funds, which only look at price tendency, the move could last for some time.



Source: Bloomberg

Several Hedge Fund strategies are pulling out better numbers than others in the current environment: Macro/CTA managers are faring well, principally thanks to their long fixed income allocation, gold and FX trading.

Performance of selected HF managers MtD as of August 16th*:

- **Long/Short Equity:** LS1 +3.3%; LS2 +0.3%;
- **Global Macro:** GM3 +14.0%; GM8 +6.0%; GM9 +3.8%; GM6 +2.8%; GM4 +1.8%; GM7: +1.4%; GM2 -0.4%; GM5 -1.8%; GM10 -2.8%; GM1 -4.5%;
- **CTA/Managed Futures:** CTA1 1.5 +6.6%; CTA5 +2.6%; CTA7 -2.0%; CTA4 -2.2%; CTA3 -3.9%; CTA2 -4.4%;
- **Low Net/Market Neutral:** LMN2 +2.4%; LMN5 +1.6%; LMN1 +1.3%; LMN8 +1.3%; LMN7 +0.8%; LMN3 -0.2%; LMN4 -2.9%;
- **Fixed Income:** LMN6+0.2%;
- **RV Arbitrage/Multi-Strategy:** MS1 +0.7%; MS3 +0.3%; MS2 -0.1%;

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

Hedge fund managers are thriving and specially managers using quant programs and algorithms have been well positioned in the sell-off as the fixed income exposure performed strongly thanks to the solid price momentum.

Some Global Macro manager shined as well, as gold/silver exposure and FX derivatives started to perform. Main positives in the FX bucket were short GBP, EUR, CAD vs long USD. Managers with an EM bias underperformed as credit spreads widened and currencies depreciated (ARS, BRL, RUB). The Argentinian

peso lost 25% in the first two weeks of August following the president's defeat in the primary poll. Other macro managers were able to generate returns from fixed income trading and notably in New Zealand bonds as they rallied particularly hard earlier this month, following a surprise 50 bps rate cut by the Reserve Bank of New Zealand. Moreover, long positions in Australian fixed income contributed as well to gains.

Meanwhile, Systematic macro strategies that have a more fundamental approach were positioned oppositely and were hardly hit due to their short fixed income exposures (ie. short Australian bonds, bunds and UK bonds).

Interestingly, equity managers with a more directional basis were able to weather nicely during the equity sell-off and most of them posted positive results. Strong performance is coming from being short financials and consumer. Long growth stocks are also holding up well in the down market, in particular in the healthcare sector. Managers have not made significant changes to the portfolio and believes that this sell-off is more of a slowdown that anything more sinister although data has deteriorated recently.

We hope you find this update useful and thank you for your trust. Feel free to call us should you have further questions.

ITERAM Team

HFRX Index	1-16 Aug
Global Hedge Fund Index	-0.0%
Equity Hedge	-0.7%
Equity Market Neutral	-0.7%
Event Driven	+0.3%
Macro/CTA	+0.7%
RV Multi-Strategy	-0.2%
Fixed Income Credit	-0.6%
INDICES	
S&P 500	-3.1%
Nasdaq	-3.4%
Dax	-5.1%
Gold	+6.2%
Barclays Global Treasuries	+2.5%
Brent	-10.6%

Source: HFR/Bloomberg

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