HEDGE FUND - FLASH UPDATE

UKRAINE-RUSSIA CONFLICT

We should start this note by mentioning how saddened we are by the terrible humanitarian crisis that many Ukrainians and residents are experiencing because of this war. It is fair to say that most politicians, geopolitical experts and investors were completely wrong-footed about Russia's intentions in Ukraine. While the world has seen troops lining up at the border for days, few believed in a full-scale invasion by Russia to take control of the country's most strategic cities and infrastructure. We include ourselves in the above group and we have to admit that forecasting the behavior of an unpredictable leader such as President Putin was and remains not an easy task, nor was it to anticipate the unprecedented sanctions imposed by Western countries.

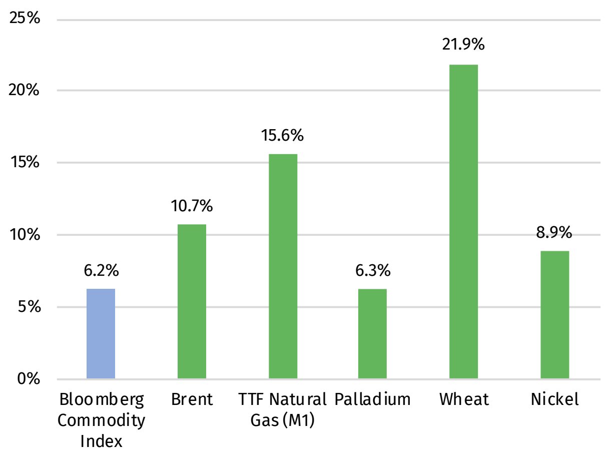
Nevertheless, we continue to believe that our hedge fund portfolios should be resilient to any further developments in this conflict as we always strive to build a balanced allocation of managers that have proven their ability to navigate various market environments, especially the most challenging ones. In addition, we maintain a small allocation to managers with a strong convex profile to protect the overall portfolio from market shocks. All in all, our exposure to Russia and Ukraine was limited and we managed to offset some of the losses on these positions with gains from traders that were able to capture alpha from subsequent market dislocations.

Equities were hit hard as the supply disruption created by the massive sanctions on the Russian economy will have ripple effects across various sectors. Energy stocks and miners were amongst the very few winners, crude oil, natural gas, and metals prices surged on the back of the looming supply shock as Russian oil leaves a void in the market. Region-wise, Western European shares were the most vulnerable to the negative headlines due to highly interconnected economies (the EU is Russia's main export partner). Our view has always been to minimize our directional exposure to stocks because of a strong negatively skewed return profile and we have stuck to our guns despite the spectacular equity rally we have witnessed for the past couple of years. In this area, managers have shown mixed returns but the damage was contained as they had already started reducing their risk levels following the January sell-off. That being said, we feel that the recent dislocations and increase in volatility should offer interesting relative value opportunities in some areas despite a challenging start to the year.

COMPELLING OPPORTUNITIES IN COMMODITIES

We believe that commodities will be at the center of all attentions given Russia's importance in raw materials production and exports. We have already seen the price of crude oil (second-largest exporter), natural gas (largest exporter), wheat (largest exporter) and a handful of metals skyrocket due to Russia's importance in the international supply of these products. With already tight inventories for many commodities and growing demand, we expect volatility to stay elevated in these markets which comforts us in the decision we took 18 months ago to increase exposure to commodities. We expect the tactical commodity traders and global macro managers we have selected to continue delivering robust returns thanks to favorable market conditions. The vast majority of our macro and commodity managers ended the month in positive territory on the back of long positions across various commodities. For EM-focused managers, exposure to Russia and Ukraine through fixed income and foreign exchange was highly detrimental.

February performance of Russia-exposed commodities



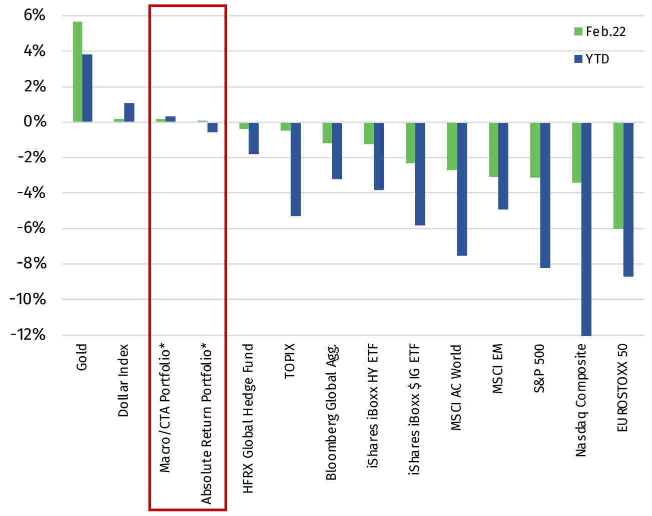
Source: Bloomberg

During the past months, we have been moving risk towards strategies and managers that can benefit from a higher volatility inflationary environment, which we believe will be the dominating theme in 2022. The recent geopolitical developments can only prop up inflation even higher as many commodity prices should keep trending upwards. The global monetary response to control price increases is therefore expected and should create other opportunities in fixed income and currencies which can be captured by global macro managers and CTAs. In addition, the long-term effect of this conflict could be a potential reordering of international relations that would likely reshape global economies and supply chains, adding another large source of alpha across asset classes that hedge fund managers can capture.

A NEW DAWN FOR ALTERNATIVES

To conclude, the velocity of the market decline and the numerous uncertainties that lie ahead make a strong case for alternative investments and especially hedge funds in a diversified portfolio. With many financial capital markets collapsing in unison, having an allocation to an active portfolio of heterogeneous hedge funds with distinctive risk-return profiles and performance drivers can greatly help stabilize returns (e.g. graph below). Portfolios of hedge funds shall be seen as a good diversifier in times of higher volatility as they can reduce the impact of idiosyncratic events. Finally, hedge funds have historically been able to mitigate losses during market downturns and experienced faster recoveries.

MtD and YtD performance of major indices vs. active FoHF portfolios



Source: Bloomberg, as of February 28th, 2022
**Net estimated returns*