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AN OVERVIEW OF KEY THEMES IN THE HEDGE FUND UNIVERSE

Issue date: March 28, 2019

Overview – Hedge funds record positive performance in February

- The HFRX Global Hedge Fund Index was up 0.63% in February.
- Hedge funds posted gains once again in February to continue the positive start to the year.
- Global risk assets posted notable results amidst receding concerns of a global recession.
- Central bank policy and geopolitical developments continue to drive the global macro outlook.

CONTENTS

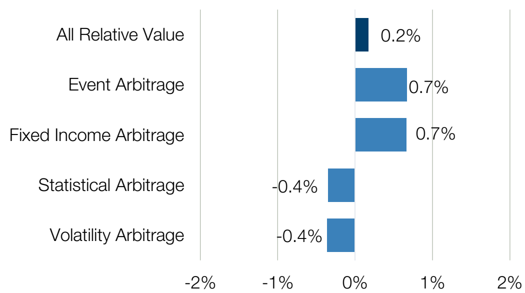
INDUSTRY PERFORMANCE[1]

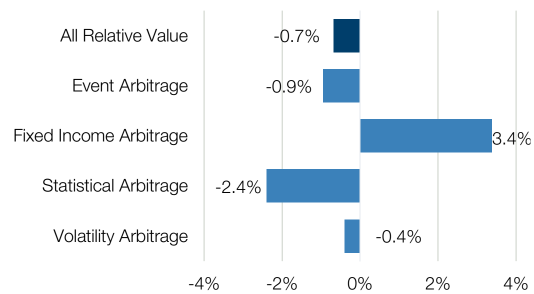
Please note that the performance below is the unweighted average of the performances of the funds in the entire FRM database and does not represent the performance of FRM's portfolios.

Last month (February 1 – 28, 2019) | Last 12 months (March 1, 2018 – February 28, 2019)

Relative Value

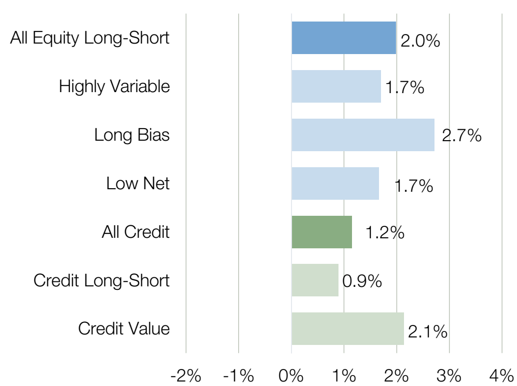
Managers that seek to add value by identifying inefficiencies in market structure such as arbitrages.

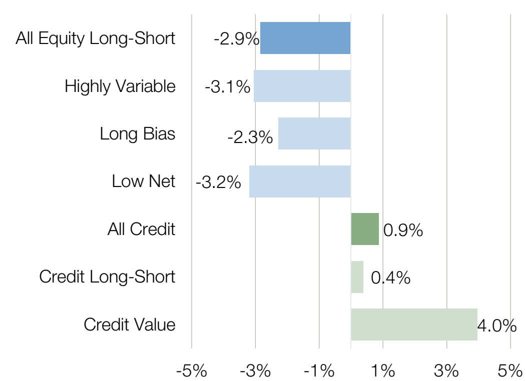




Equity Long-Short and Credit

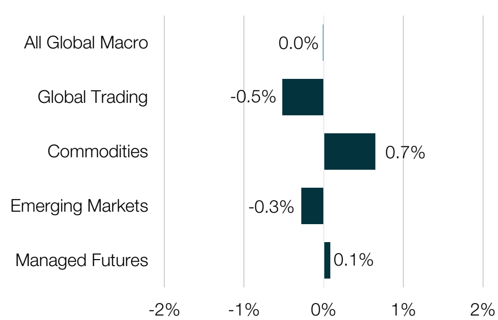
Managers that seek to add value by picking securities supported by in-depth fundamental research.

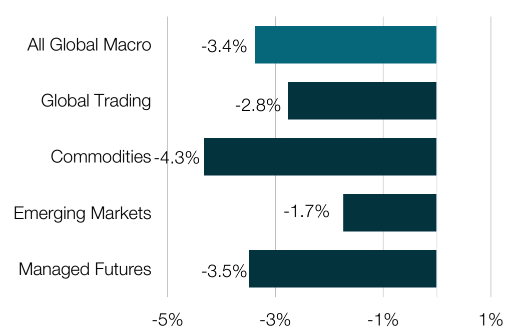




Global Macro

Managers that seek to add value by identifying price trends and momentum.





Source: FRM. Past performance is not indicative of future performance. All returns are shown net of fees in USD. Please see the important information section on the final page. The services and products that are described in this document are only provided for institutional investors and those individuals with sufficient experience and understanding of the risks involved and should not be relied upon by any other person. Note: FRM database data includes all funds in designated strategies that have reported performance to FRM. It is not representative of the investments made by FRM in that strategy.

1. Please note the performance shown is gross of fees.

SUMMARY OF PERFORMANCE DRIVERS BY STRATEGY

Key:	▲ Positive factors and/or drivers	◆ Neutral factors and/or drivers	▼ Negative factors and/or drivers

	Alternative risk premia	Trade examples[1]	Environmental factors
Relative Value (RV)	▲ The HFRI Event Driven Index was up 1.5% in February and +4.8% year-to-date … more on page 5	◆ Merger arbitrage had mixed performance as some high conviction mergers progressed smoothly … more on page 5	▼ European M&A has moderated due to ongoing negotiations around Brexit … more on page 5
	◆ Managers continue to rotate exposure to US merger opportunities as European opportunities have slowed in recent months.	▲ Special situations and relative value trading experienced gains as the backdrop behind spinoffs and other corporate events improves.	▼ Global M&A deal flow continues to be inconsistent as management teams react to the dynamic macro backdrop.
Equity Long-Short (ELS)	▲ Equity Long-Short managers sustained gains throughout February, generally benefiting from a continued rally across global equity markets … more on page 6	◆ Returns were helped by higher equity markets, subsiding volatility, broad outperformance of Small Caps over Large Caps … more on page 6	▼ Hedge fund managers remain cautious on the overall outlook for equity markets … more on page 6
	▲ Many managers view this outpacing trend as evidence of mounting escape velocity.	▲ The outperformance of Small Cap stocks over Large Caps persisted, which served as a source of stronger hedge fund performance in February.	◆ From an alpha perspective, managers remain focused on potential opportunities from valuation discrepancies within markets that generally widened during 2018.
Credit	◆ Fund flows were mixed with US HY funds reporting inflows of $4.8bn while loan funds continued to see outflows of $1.8bn… more on page 7	▲ US HY returns were positive across the rating spectrum with CCCs modestly outperforming BBs and all 21 JPM US HY industry groups up for the month …more on page 7	▼ Structured credit spreads across most sectors have widened recently but potential risks remain from higher rates and economic surprises that upset the status quo … more on page 7
	▲ Global credit markets gained on receding macro risks, dovish central bank commentary, and improving primary markets.	▼ Default activity in February (2 defaults totalling $5bn in bonds and loans) was the highest since March 2018.	◆ Broad corporate credit market spreads have widened in recent months after trading close to post-crisis tights.
Global Macro	▲ Macro managers are navigating market movements carefully with specific focus on global monetary policy divergence, developments in US-China trade discussions, and Fed rhetoric overall … more on page 8	▲ Sterling strength was specifically boosted by May's decision to permit Parliament to vote on seeking an extension of Article 50 … more on page 8	▼ Global risk assets posted positive results amidst receding concerns of a global recession … more on page 8
	◆ The overall environment of a fairly stable yield curve and USD was not the most conducive for macro strategies to post outsized gains.	▼ Latin American markets paired back gains seen earlier in the year with particular weakness out of Brazil amidst uncertainty around pension reform and slowing economic growth.	◆ Fed messaging over the month was additionally supportive given its shift to a more accommodative approach in raising rates.

The above summary is based on FRM's opinions on performance drivers across the hedge fund industry and is not representative of the investments made by FRM. 1. The herein mentioned examples are intended as illustrations of typical investment consideration and/or strategy implementation. It should not be construed as indicative of potential performance of the fund or strategy or any investment made by the fund. It does not constitute a recommendation or investment advice or solicitation to buy or sell any particular securities and should not be considered as any investment advice or research of any kind. There can be no guarantees that similar opportunities will be available in the future or that any opportunities identified will provide similar results.

HEDGE FUNDS

Hedge Funds posted gains once again in February to continue the positive start to the year. As with January, this was bolstered by those strategies that carry risk asset exposure (notably in the longer biased equity, and credit mangers). However, unlike January, this month risk asset beta was accompanied by a healthy run from trend following strategies. Within the equity market, there was alpha available to market neutral stock selection strategies in the first half of the month, before drying up in the second half.

Equity Long-Short managers had a positive month in February, helped by: the continued tailwinds from January; higher equity markets; falling volatility; broad outperformance of Small Caps over Large Caps; and an expansion of the aggregate gross book across the industry following heavy deleveraging in Q4. As we alluded to above, the earnings season has generally been quite mixed from a corporate perspective, with a softening of earnings expectations across the board, but more signs of shareholder friendly behavior (such as share buybacks) to help temper the weaker news. Stocks continue to react significantly post earnings announcement, but managers are reporting more rational pricing – i.e. stocks that beat earnings estimates are rallying and holding onto gains. Managers remain cautious on the overall outlook for equity markets, and have generally increased gross exposure more than net, although there has been a small increase in beta across the Equity Long-Short universe.

Statistical Arbitrage managers were able to generate positive returns in the first half of the month, and most held onto this rather than improving upon in the second half of the month. This was predominantly from technical models rather than fundamental strategies, with broker models suggesting negative performance from basic factor models.

Similar to equities, credit markets continued to build on January gains. US high yield and leveraged loans as well as the European high yield market posted another noteworthy month in February. In US high yield markets, there were once again positive returns across the rating spectrum with most sectors up in the month. Though on the mend, gross US high yield and leveraged loan issuance remains meaningfully lower year-over-year given the slow start to 2019. However, net new issuance is now in line with last year. Fund flows remained mixed in February with high yield funds enjoying inflows while outflows continued from loan funds.

Against this backdrop, corporate credit managers were largely positive in February with a number of idiosyncratic P&L drivers including the late-January bankruptcy filing of a gas and power company, where we expect managers to be increasingly involved over the coming months. The completion of the Puerto Rico COFINA restructuring and the announcement of the largest bank merger in a decade (with positive impact on bank capital securities) were other notable drivers during the month.

In the structured credit world, spreads across most securitized products sectors were also tighter in February, but lagged the significant rally in corporate credit. Credit risk transfer and CMBS sectors outperformed. Returns for Structured Credit managers were driven largely by principal and interest income, with corporate credit and equity hedges offsetting the modest mark-to-market gains.

Event driven managers broadly generated positive returns. Most continue to ramp up portfolio exposures as deal activity remains robust in the US and the regulatory backlog from the US shutdown continues to clear. European activity continued to be weighed down by Brexit uncertainty. The main driver of performance was the soft catalyst event books, which continue to perform positively on the back of equity market strength.

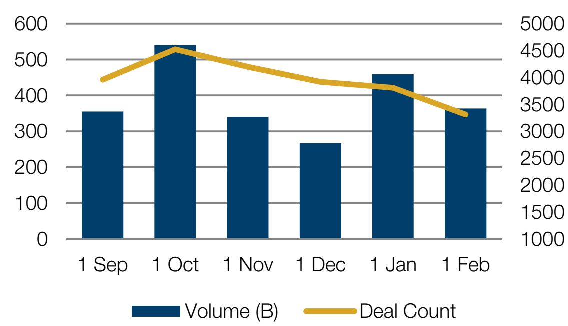
For Macro managers, performance was generally muted over the month. As we have mentioned, both the yield curve and the USD were relatively stable (indeed the MOVE index is now back close to all-time lows), and equity up is not necessarily an environment all that conducive for macro strategies. The most relevant topics for managers continue to be the Fed rhetoric; continued improvement in US-China trade negotiations; and the policy rate divergence between developed and emerging economies – most EM countries have been easing (Brazil, India, China, and Russia), Mexico is the exception. Many have also commented on the new record amount of sovereign bonds with negative yields (USD7.3 trillion).

While discretionary macro was generally down, February was mostly a positive month for trend following managers. By asset class, Equity and FX were generally positive, while Fixed Income and Commodity trading were flat. In equities, long positions were broadly positive as major indices drove higher throughout the month. Most managers switched their US equity exposure from short to long at some point between mid-January and early February, and benefitted from the continued rally in the equity market. In FX, most managers were positive as short JPY, EUR and AUD exposures made gains. In Fixed Income, long positions in Australia, Germany, and the UK were positive while long positions in the US detracted. Commodity exposures were more varied across managers, however in aggregate, positions in Energies detracted and short positions in wheat and coffee contributed.

Relative Value (RV)

- Merger arbitrage had mixed performance as some high conviction mergers progressed smoothly towards close while others experienced volatility due to negative developments.
- Special situations and relative value trading experienced gains as the backdrop behind spinoffs and other corporate events improves.
- The HFRI Event Driven Index was up 1.5% in February and +4.8% year-to-date.

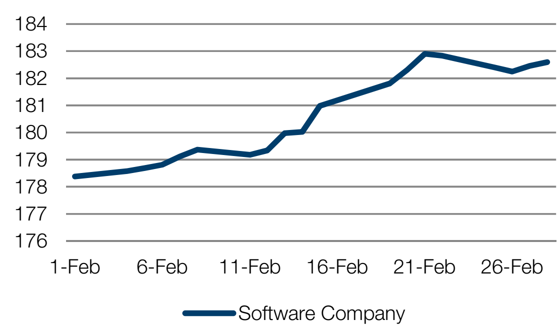
Global Merger Deal Volume and Count



Source: Bloomberg, as of 02.28.2019

- Global M&A deal flow continues to be inconsistent as management teams react to the dynamic macro backdrop.
- More recently, European M&A has moderated due to ongoing negotiations around Brexit.

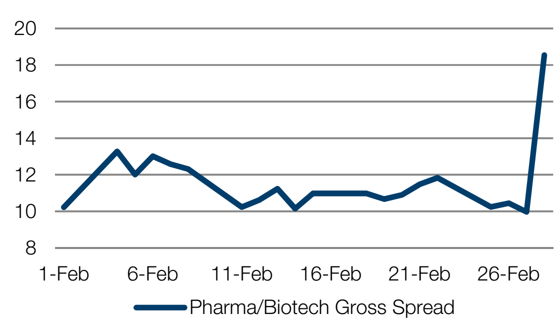
Software Company



Source: Bloomberg, as of 02.28.2019

- Over the first two months of 2019, managers have steadily deployed capital to new merger opportunities. While some deals have experienced negative volatility, several deals continue to progress at a healthy pace.
- During the month, managers generated small gains across a number of pending mergers including a multinational information technology company and a multinational open-source software company in addition to a merger between two multinational mass media and entertainment conglomerates.

Pharma/Biotech Gross Merger Spread



Source: Bloomberg, as of 02.28.2019

- Exposure to the pending merger of a pharmaceutical company and a biotechnology company caused losses for many managers during the month.
- A major shareholder in the pharmaceutical company voiced concern about the merger. An activist investor also increased its stake in the company.

RELATIVE VALUE OUTLOOK

Managers continue to rotate exposure to US merger opportunities as European opportunities have slowed in recent months. Across sub-strategies, managers are spreading exposure more evenly across hard and soft catalyst events as well as equity and credit opportunities. Managers who deploy a more tactical approach where they take profits and re-enter exposures after bouts of volatility continue to outperform peers who take a long term approach.

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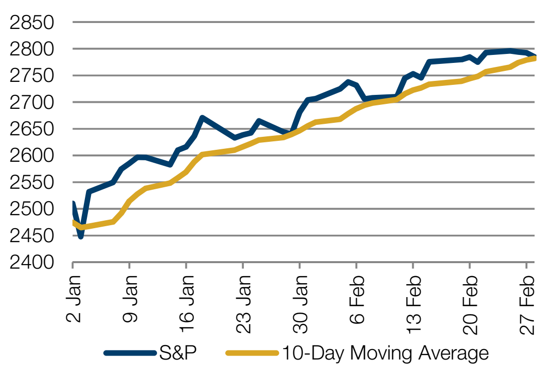
Equity Long-Short (ELS)

- Equity Long-Short managers sustained gains throughout February, generally benefiting from a continued rally across global equity markets.
- Returns were helped by higher equity markets, subsiding volatility, broad outperformance of Small Caps over Large Caps, and an expansion of the aggregate gross book across the industry following meaningful deleveraging in the fourth quarter of 2018.

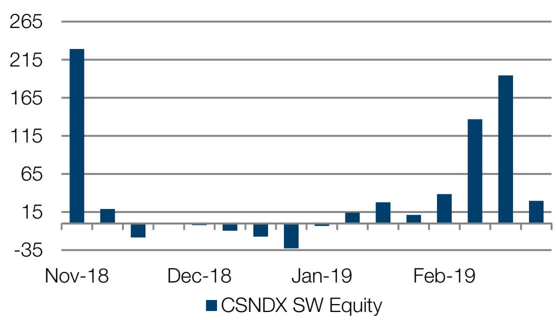
US equities poised for further gains



Source: Bloomberg, as of 02.28.2019

- The end of February was the 38th straight day in which the S&P 500 closed above its 10-day moving average, marking the longest streak since April 2010.
- Many managers view this outpacing trend as evidence of mounting escape velocity and consequently have a positive outlook for the rest of the year.
- The Russell 2000 Index similarly surpassed its moving average for 41 consecutive days, the longest streak since October 1997.

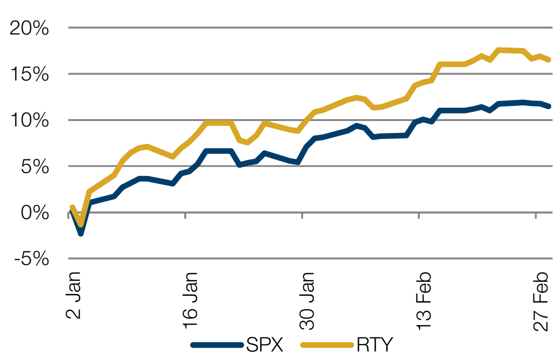
Tech stocks experience sizable demand in Europe



Source: Bloomberg, as of 02.28.2019

- The iShares Nasdaq 100 UCITS ETF (CSNDX SW Equity), which is the biggest ETF in Europe tracking the benchmark, experienced inflows of $194mm in February, the biggest increase in three months.
- Interestingly, while the Nasdaq has rallied year-to-date, the largest U.S. fund that tracks the index (Invesco QQQ Trust Series 1) experienced outflows as high as $1.4bn during the month given concerns about the broader market rebound's longevity and elevated valuations of tech stocks.

Small Caps continue to outpace Large Caps



Source: Bloomberg, as of 02.28.2019

- As was evident in January, the outperformance of Small Cap stocks (as represented by the Russell 2000 Index, RTY) over Large Caps (as represented by the S&P 500 Index, SPX) persisted, which served as a source of stronger hedge fund performance in February.
- This is largely because hedge funds that have all-cap long books hedged with more liquid shorts (or index shorts) would thereby benefit from a rallying Small Cap environment.

EQUITY LONG-SHORT OUTLOOK

- Hedge fund managers are increasingly uncertain as to the future direction of equity markets, and the rally in January has made forecasting even harder. Some bearish managers have reduced their net short exposure in reaction to the pain felt during January.
- From an alpha perspective, managers remain focused on the potential opportunity from valuation discrepancies within markets that generally widened during 2018.

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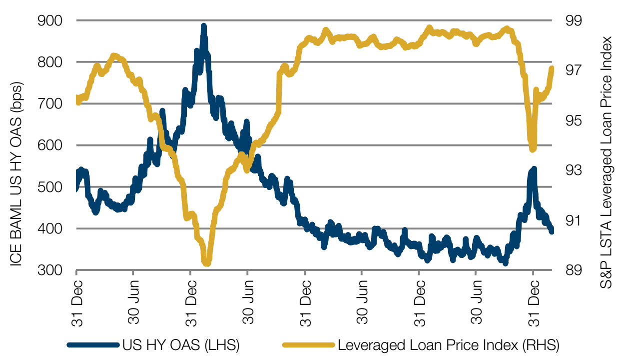
Credit

- February saw another month of gains for the global credit markets on receding macro risks, dovish central bank commentary and improving primary markets. US HY, leveraged loans and IG markets were up 1.7%, 1.6% and 0.3%, respectively (JPM). European credit markets also posted positive returns (EU HY +1.9%; BAML).
- Outright convertibles, with the exception of Japan Domestic, were positive across all regions, tracking equities. Similar to January, returns were also positive across securitized products sectors, with lower-rated bonds (CLO BBs, CRT B1s) outperforming.
- Corporate credit managers were largely positive in February with a number of idiosyncratic P&L drivers. Single-name shorts and portfolio hedges continued to be a drag on performance given the stronger market backdrop. Structured credit managers, driven primarily by carry, were also mostly up but underperformed corporate credit managers for another month after outperformance in 2018.

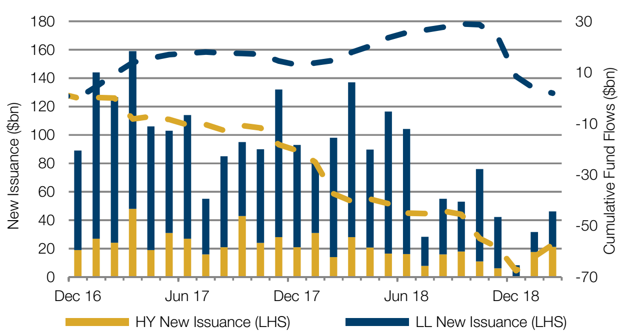
Continued recovery in US HY and leveraged loans in February



Source: Bloomberg, as of 02.28.2019

- US HY returns were once again positive across the rating spectrum, with CCCs (+1.7%; JPM) modestly outperforming BBs (+1.6%).
- All 21 JPM US HY industry groups were up in the month, with Consumer Products and Utility sectors (+2.5% each) leading.
- Default activity in February (2 defaults totalling $5bn in bonds and loans) was the highest since March 2018. However, the par-weighted US HY default rate declined to 1.11% in February (due to higher default volume in February 2018) from 1.81% at the end of January.

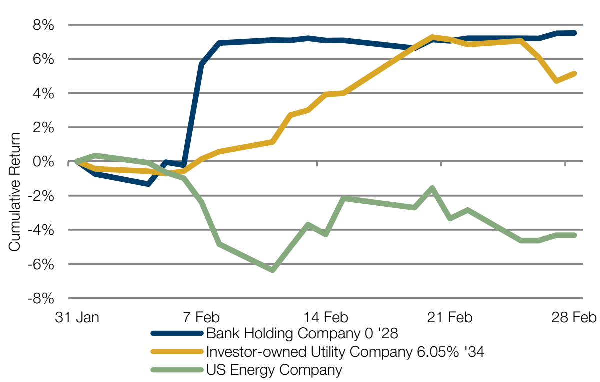
Increased primary market activity and mixed fund flows



Source: JPMorgan, as of 02.28.2019

- US HY primary market activity increased month-over-month to $21.2bn (JPM), with lower gross (-13%) and higher net (+59%) issuance YTD vs. the same period in 2018. Leveraged loan new issuance ($24.9bn) also increased in the month.
- Global convertible issuance totalled $5bn in February, primarily driven by the US ($4.6bn).
- Fund flows remained mixed with US HY funds reporting inflows of $4.8bn, while loan funds continued to see outflows (-$1.8bn).

American Bank Holding Company prefs and American Investor-owned Utility Company rally; US Energy equity sells off



Source: Bloomberg, as of 02.28.2019

- US financial preferreds were higher in February, driven by credit. A bank holding company performed positively (potential upgrade, shorter duration expected for TruPS) on a merger with another bank holding company. Restructured PR US Energy Company bonds were notable performers in the month.
- A natural gas company was a meaningful contributor as the bonds and equity rallied on shorter expected bankruptcy timeline. Several credit/credit arb positions were also positive contributors.
- Performance for reorg./value equities was mixed with a US energy company (buyback plan fell short of expectations) and a gaming company negative while a plastic manufacturing company (positive earnings) was up in the month. Credit hedges (IG, HY, CMBX) were also detractors.

CREDIT OUTLOOK

- Corporate Credit: Neutral on Credit Long-Short and negative on Distressed. Broad credit market spreads have widened in recent months after trading close to post-crisis tights, which if sustained could lead to a better opportunity set in the coming months.
- Structured Credit: Spreads across most sectors have widened in the past few months and loss-adjusted portfolio yields still look reasonable in our view, but potential risks remain from higher rates (impact on housing) as well as any economic surprises that upset the status quo.

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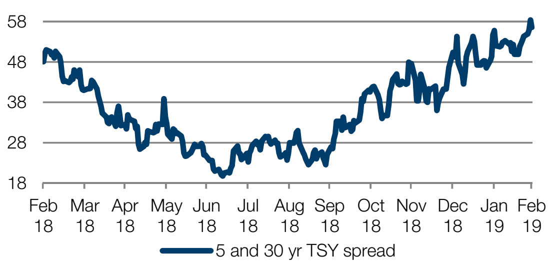
Global Macro

- The market optimism from the start of the New Year extended into February, as global risk assets posted positive results amidst receding concerns of a global recession, a series of votes in the House of Commons viewed as largely favourable in diminishing a 'no-deal Brexit', and positive advancements in China-US trade talks. Fed messaging over the month was additionally supportive given its shift to a more accommodative approach in raising rates, driven by a positive but slower growth reading for the fourth quarter coupled with muted consumer spending growth and residential investment.
- Outside of the U.S., political developments in the UK persisted as the sterling strengthened towards month end on mounting expectations that the U.K will avoid a no-deal exit from the EU on March 29th. Sterling strength was specifically boosted by May's decision to permit Parliament to vote on seeking an extension of Article 50. Within Emerging Markets, Asia was the only region to post gains over the month in light of indications that an agreement was imminent under which the US could lift Chinese tariffs. Conversely, Latin American markets paired back gains seen earlier in the year with particular weakness out of Brazil amidst uncertainty around pension reform and slowing economic growth.
- The overall environment of a fairly stable yield curve and USD was not the most conducive for macro strategies. Overall, most Macro managers thus posted muted returns over the month, with most managers citing Fed rhetoric and the policy rate divergence between developed and emerging economies as prime areas of focus. Many have also commented on the new record amount of sovereign bonds with negative yields ($7.3tn).

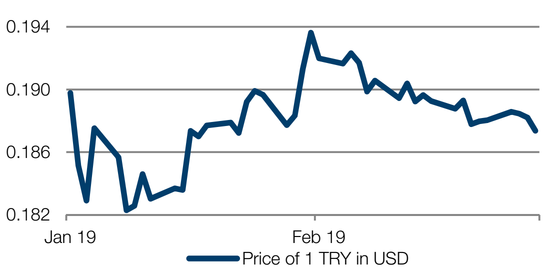
5-30yr Treasury Spread Widens to Record High



Source: Bloomberg, as of 02.28.2019

- The gap between 5-year and 30-year U.S. Treasury yields widened in spite of the release of a largely dovish congressional testimony from Fed Chairman Powell. Some attribute the spike in long-term yields to notable corporate issuance in the U.S., as well as rising crude oil prices – a potential harbinger of climbing inflation.
- The differential reached ~57bps, the widest level seen since February 2018.
- Short-term yields could be relatively stable in the near term relative to long-dated debt given little change to rate-hike expectations and a Fed signalling a more measured, gradual path to rate adjustments.

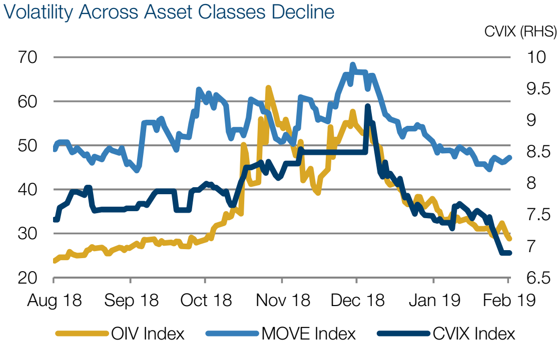
Turkish Lira Extends Losing Streak



Source: Bloomberg, as of 02.28.2019

- The Lira extended its losing streak to the longest in 17 months, weakening 2.5% against the dollar despite central bank commitments to higher borrowing costs. The decline, however, has not yet been as dramatic as the 2018 total decline of 30%.
- Many managers believe the downward trend could persist through the year, with continued pressure from domestic economic contraction, high inflation, and a sizable balance-of payments gap.
- As of March 11, 2019, Turkey did indeed fall into its first recession in a decade, posting two consecutive quarters of contracting GDP growth.

Volatility Across Asset Classes Decline



Source: Bloomberg, as of 02.28.2019

- WTI intermediate prices are up 26% so far in 2019 with only eleven down days in the first two months of the year.
- Volatility has also declined across FX (CVIX Index) and bond markets (MOVE Index), with CVIX reaching its lowest level since January 2018, largely driven by the Fed's plans to pause.
- Consistently higher prices, coupled with a diminishing fear of a selloff given OPEC supply cuts supporting prices has resulted in the implied volatility on WTI options reaching its lowest level since October 29, 2018.
- The OIV Index (CBOE/NYMEX Crude Oil Volatility Index) measures the implied volatility of options that trade on crude oil future contracts.

GLOBAL MACRO OUTLOOK

- Central bank policy and geopolitical developments continue to drive the global macro outlook. Macro managers are navigating market movements carefully with specific focus on global monetary policy divergence, developments in US-China trade discussions, and Fed rhetoric overall.

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INFORMATION FOR CANADIAN INVESTORS

No securities commission or similar authority in Canada has reviewed or in any way passed upon this document or the merits of the securities described herein and any representation to the contrary is an offence.

This is not the final offering memorandum but rather a preliminary description of the investment opportunity which has been prepared solely for the benefit of accredited investors who are also permitted clients under applicable Canadian securities laws. If and when the final offering memorandum is prepared, only accredited investors (who are, where applicable, also permitted clients) entitled under applicable Canadian securities laws in the relevant Canadian offering jurisdictions will be entitled to participate in the offering.

Securities legislation in certain of the Canadian jurisdictions provides purchasers pursuant to an offering memorandum with a remedy for damages or rescission, or both, in addition to any other rights they may have at law, where the offering memorandum and any amendment to it contains a "misrepresentation" . Where used herein, "misrepresentation" means an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make any statement not misleading in light of the circumstances in which it was made. These remedies, or notice with respect to these remedies, must be exercised or delivered, as the case may be, by the purchaser within the time limits prescribed by applicable securities legislation.

Ontario

Section 130.1 of the *Securities Act* (Ontario) provides that every purchaser of securities pursuant to an offering memorandum shall have a statutory right of action for damages or rescission against the issuer in the event that the offering memorandum contains a misrepresentation. A purchaser who purchases securities offered by an offering memorandum during the period of distribution has, without regard to whether the purchaser relied upon the misrepresentation, a right of action for damages or, alternatively, while still the owner of the securities, for rescission against the issuer and the selling security holders, provided that:

(a) if the purchaser exercises its right of rescission, it shall cease to have a right of action for damages against the issuer;

(b) the issuer will not be liable if they prove that the purchaser purchased the securities with knowledge of the misrepresentation;

(c) the issuer will not be liable for all or any portion of damages that it proves do not represent the depreciation in value of the securities as a result of the misrepresentation relied upon; and

(d) in no case shall the amount recoverable exceed the price at which the securities were offered.

Section 138 of the *Securities Act* (Ontario) provides that no action shall be commenced to enforce these rights more than:

(a) in the case of an action for rescission, 180 days from the day of the transaction that gave rise to the cause of action; or

(b) in the case of an action for damages, the earlier of:

(i) 180 days from the day that the purchaser first had knowledge of the facts giving rise to the cause of action; or

(ii) three years from the day of the transaction that gave rise to the cause of action.

The rights referred to in section 130.1 of the *Securities Act* (Ontario) do not apply in respect of an offering memorandum delivered to a prospective purchaser in connection with a distribution made in reliance on the exemption from the prospectus requirement in section 2.3 of National Instrument 45-106 *Prospectus and Registration Exemptions* (the "accredited investor" exemption) if the prospective purchaser is:

(a) a Canadian financial institution or a Schedule III bank,

(b) the Business Development Bank of Canada incorporated under the Business Development Bank of Canada Act (Canada), or

(c) a subsidiary of any person referred to in paragraphs (a) and (b), if the person owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by directors of that subsidiary.

The foregoing summary is subject to the express provisions of the *Securities Act* (Ontario) and the regulations, rules and instruments thereunder, and reference is made to the complete text of such provisions contained therein. Such provisions may contain limitations and statutory defenses on which the issuer may rely. The enforceability of these rights may be limited.

Similar rights may be available to investors resident in other Canadian jurisdictions under local provincial securities laws.

The issuer and related entities, their affiliates, and their respective shareholders, members, partners, managers, directors, officers, principals, employees and agents, are not registered with or licensed by any securities regulatory authority in Canada and, accordingly, the protections available to clients of a registered adviser, dealer or investment fund manager will not be available to purchasers in Canada.