

Alceda UCITS Review

No. 2 2014

SUMMARY

The strength of alternative UCITS continued to grow in 2014, with investors increasing allocations and managers, in particular in the US, choosing the structure to target European investors. The implementation of the AIFM Directive also helped to focus attention on UCITS with managers looking to build sustainable distribution strategies for their products.

- >> Assets under management continued to see strong growth with assets growing 41% for the year to reach a new high of EUR 224.3bn. This continued growth has encouraged new entrants into the UCITS space with a healthy level of new funds launched during the year. Several high profile managers in this space took steps to limit capacity to investors, further highlighting the robust demand seen for alternative UCITS funds.
- >> Event driven strategies saw the largest relative increase in assets under management as investors looked to capture the elevated levels of corporate activity, particularly in the US. Looking at the larger sectors both equity long shorts and macro funds saw high levels of inflows in 2014.
- >> Overall the AH Global UCITS Index of alternative strategies returned 1.3% for 2014 in what turned out to be a difficult year for active managers. Returns of the individual index sub-sectors were also muted with Credit, Macro, and Equity Long Short strategies all delivering returns between -1% and +1%. Our analysis highlights a strong degree of performance dispersion in the underlying managers, highlighting the importance of good manager selection.
- >> Managed futures was the standout strategy in 2014 with the AH Managed Futures Index gaining 14.3% for the year. Many of the underlying funds successfully captured moves in equities, bonds, and in the second half commodities, to deliver strong double digit returns for investors. Having struggled to deliver meaningful returns in recent years it is encouraging to see these managers return to form.
- >> Despite their popularity among investors, event driven managers struggled with several idiosyncratic events in Q3 and Q4. In particular some large deal breaks in September and October caused the Index to lose ground leading to a -2.7% loss for the year.
- >> There were over 20 fund closures in 2014, with most closed funds operating within specialist asset classes or strategies, for example regionally focused Equity Long Short. Whilst improving, investor demand for specialist strategies remains muted, with a clear preference for global and developed market strategies. This has resulted in a number of specialist strategies failing to raise significant assets, often combined with challenging performance.

For more information on
Alceda or Alternative
UCITS please visit
www.alceda.lu/en

PERFORMANCE

1 AH UCITS INDEX PERFORMANCE: GLOBAL

	H2 2014 (%)	YTD (%)	Last 12 Months (%)
AH Global UCITS Index	0.83	1.34	1.34
HFRI Fund Weighted Composite Index	0.39	3.57	3.57
J.P. Morgan GBI Broad	4.37	8.69	8.69
MSCI World Index (TR)	4.33	10.40	10.40

Source: Kepler Partners, www.absolutehedge.com

>> Managed Futures strategies saw good returns in 2014 driven largely by trends in commodities, rates and FX markets. <<

2 AH UCITS INDEX PERFORMANCE: STRATEGY

	Q3 2014	Q4 2014	2014	12M
AH Global UCITS Index	0.20	0.62	1.34	1.34
AH Credit Index	-0.48	-0.89	0.61	0.61
AH Equity Long Short Index	-0.13	0.68	0.56	0.56
AH Event Driven Index	-2.00	-1.53	-2.70	-2.70
AH FX Index	5.56	0.42	6.61	6.61
AH Macro Index	0.75	-0.62	-0.29	-0.29
AH Managed Futures Index	4.61	7.71	14.27	14.27
AH Market Neutral Index	0.56	0.62	0.47	0.47
AH Multi Asset	-0.31	0.83	4.06	4.06

Source: Kepler Partners, www.absolutehedge.com

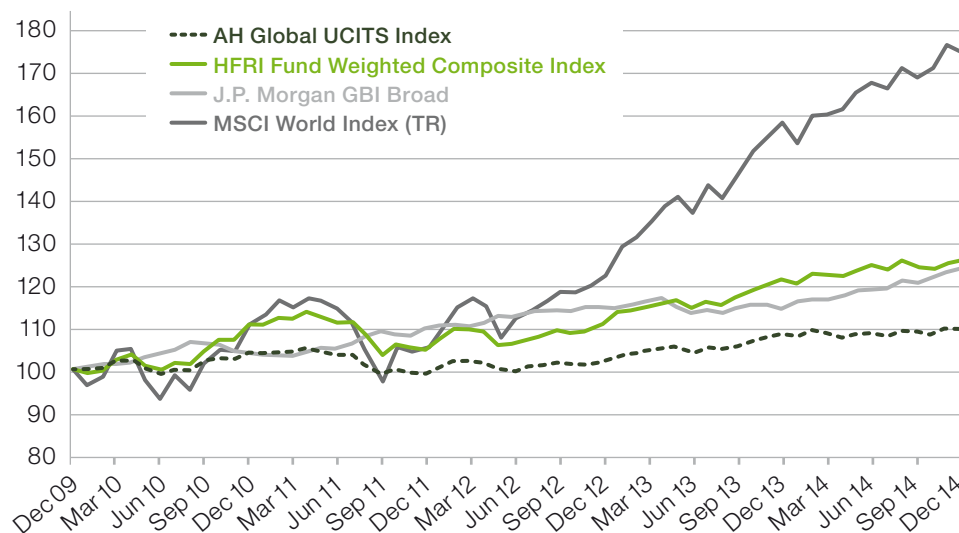
3 STRATEGY HEAT MAP: QUARTERLY

Q3/2012	Q4/2012	Q1/2013	Q2/2013	Q3/2013	Q4/2013	Q1/2014	Q2/2014	Q3/2014	Q4/2014
MSCI World 5.73 %	MSCI World 3.07 %	MSCI World 9.93 %	MSCI World 1.94 %	MSCI World 6.52 %	MSCI World 8.55 %	JPM GBI 2.18 %	Managed Futures 4.62 %	FX Index 5.56 %	Managed Futures 7.71 %
Multi Asset 3.03 %	Equity Long Short 2.12 %	Equity Long Short 4.17 %	Market Neutral 1.45 %	Equity Long Short 2.98 %	Managed Futures 6.08 %	Credit 1.17 %	MSCI World 4.61 %	Managed Futures 4.61 %	MSCI World 3.37 %
Equity Long Short 2.88 %	Credit 1.62 %	Managed Futures 3.79 %	Event Driven 0.63 %	Event Driven 2.73 %	Equity Long Short 4.33 %	MSCI World 1.15 %	Multi Asset 2.99 %	JPM GBI 1.53 %	JPM GBI 2.80 %
Market Neutral 2.05 %	Event Driven 0.82 %	Multi Asset 3.19 %	Equity Long Short 0.38 %	Credit 1.11 %	Event Driven 1.69 %	Equity Long Short 0.83 %	JPM GBI 1.91 %	MSCI World 0.93 %	Multi Asset 0.83 %
Macro 1.61 %	JPM GBI 0.76 %	Market Neutral 1.93 %	Credit 0.13 %	Multi Asset 1.02 %	Multi Asset 1.53 %	FX Index 0.81 %	Credit 0.82 %	Macro 0.75 %	Equity Long Short 0.68 %
Credit 1.60 %	Market Neutral 0.47 %	Event Driven 1.54 %	Macro -0.07 %	JPM GBI 0.67 %	Macro 1.40 %	Event Driven 0.58 %	Event Driven 0.25 %	Market Neutral 0.56 %	Market Neutral 0.62 %
JPM GBI 1.49 %	Macro 0.23 %	Macro 1.26 %	FX Index -0.39 %	Macro -0.31 %	Credit 1.23 %	Multi Asset 0.51 %	Macro -0.18 %	Equity Long Short -0.13 %	FX Index 0.42 %
FX Index 0.96 %	Multi Asset -0.79 %	FX Index 1.21 %	JPM GBI -1.74 %	Market Neutral -0.55 %	Market Neutral 0.86 %	Market Neutral 0.42 %	FX Index -0.23 %	Multi Asset -0.31 %	Macro -0.62 %
Event Driven 0.29 %	Managed Futures -2.43 %	Credit 0.86 %	Multi Asset -3.32 %	Managed Futures -2.42 %	FX 0.19 %	Macro -0.23 %	Equity Long Short -0.81 %	Credit -0.48 %	Credit -0.89 %
Managed Futures -0.81 %	FX Index -2.86 %	JPM GBI 0.79 %	Managed Futures -3.79 %	FX -3.29 %	JPM GBI 0.00 %	Managed Futures -3.06 %	Market Neutral -1.12 %	Event Driven -2.00 %	Event Driven -1.53 %

Source: Kepler Partners, www.absolutehedge.com

FX had a particularly strong Q3 helped significantly by a strengthening USD. After a slow start, managed futures were the stand out performers of 2014.

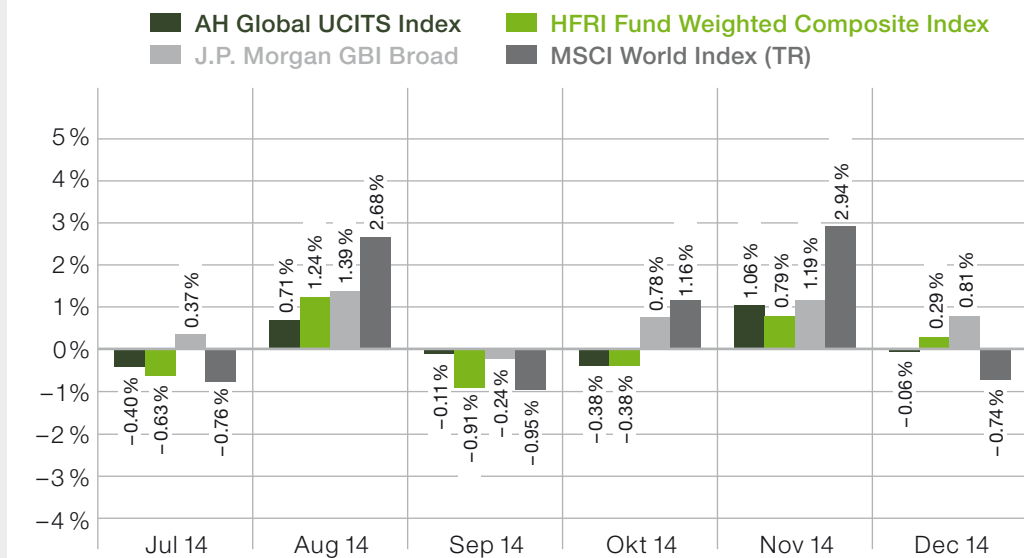
4 AH UCITS INDEX PERFORMANCE: SINCE INCEPTION



Source: Kepler Partners, www.absolutehedge.com

Alternative UCITS continued to see robust demand with both fund AUM and number of funds increasing significantly in the second half of 2014.

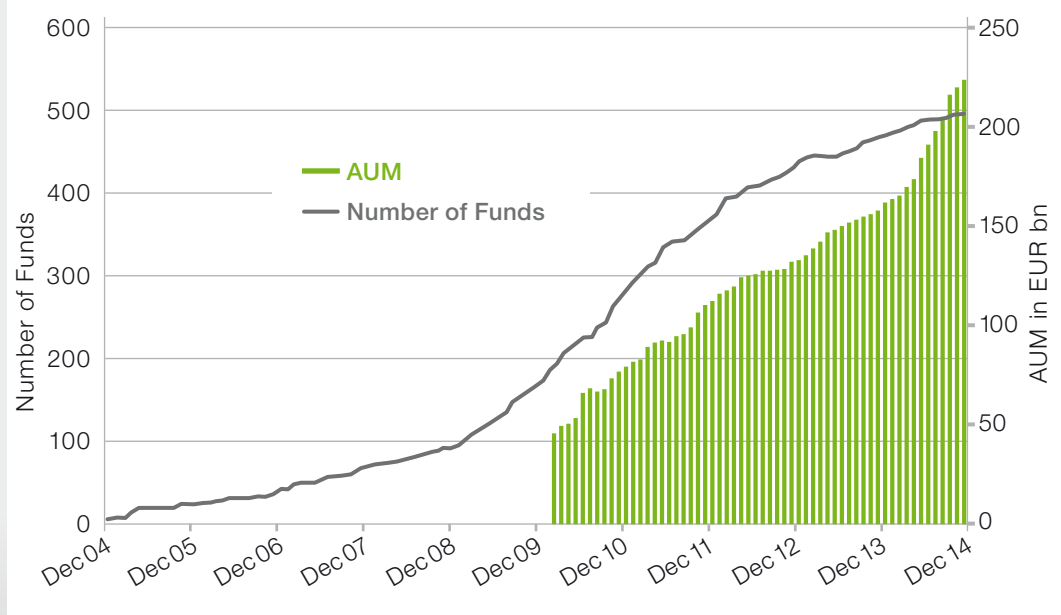
5 MONTHLY PERFORMANCE: H2 2014



Source: Kepler Partners, www.absolutehedge.com

ASSETS UNDER MANAGEMENT

6 ALTERNATIVE UCITS FUNDS: NUMBER AND AUM EVOLUTION



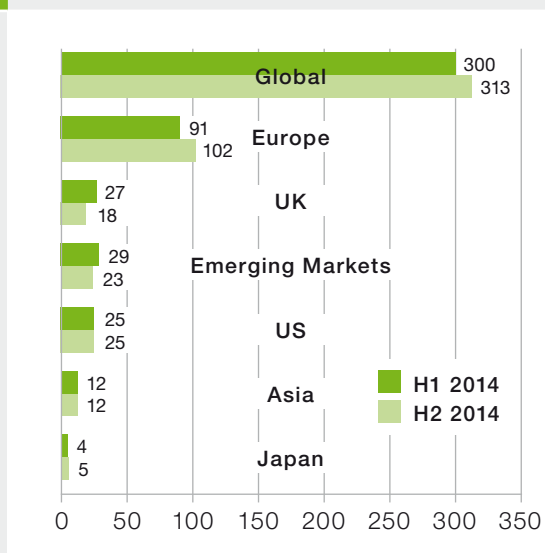
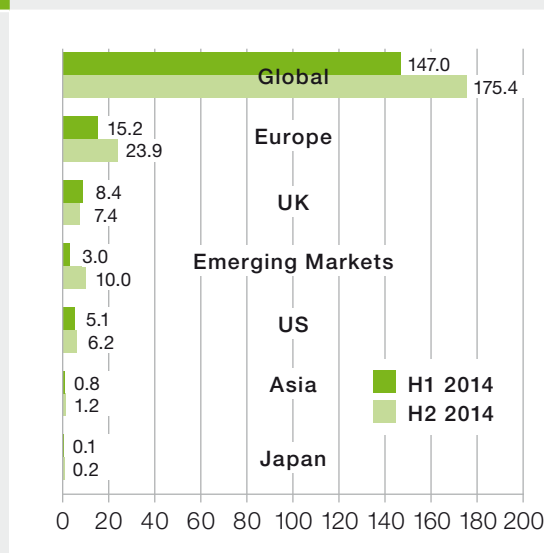
Source: Kepler Partners, www.absolutehedge.com

7 STRATEGY OVERVIEW: NO. OF FUNDS

	Jun 14	Dec 14	% change
Equity Long Short	176	176	0%
Macro	71	63	-11%
Credit	54	64	19%
FX	11	9	-18%
Market Neutral	46	46	0%
Managed Futures	32	35	9%
Event Driven	24	28	17%
Fund of Funds	24	33	38%
Multi Asset	20	27	35%
Other	30	17	-43%
Total	488	498	2%

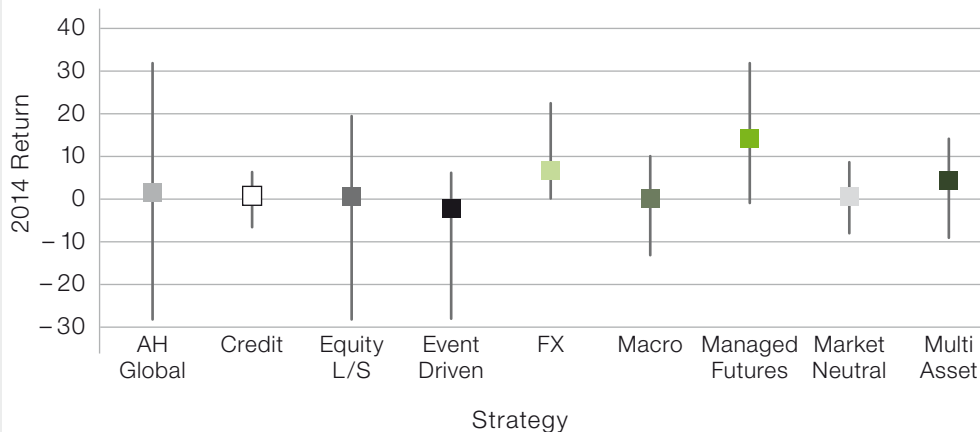
8 STRATEGY OVERVIEW: AUM (EUR BN)

	Jun 14	Dec 14	% change
Equity Long Short	30.7	35.4	15%
Macro	45.9	57.3	25%
Credit	37.8	56.4	49%
FX	0.6	0.9	50%
Market Neutral	9.9	11.5	16%
Managed Futures	2.8	3.6	29%
Event Driven	3.2	5.1	59%
Fund of Funds	1.8	4.9	172%
Multi Asset	46.1	45.8	-1%
Other	5.5	3.5	-36%
Total	184.2	224.3	22%

Source: Kepler Partners, www.absolutehedge.com**9 REGIONAL FOCUS: NO. OF FUNDS****10 REGIONAL FOCUS: AUM (EUR BN)**Source: Kepler Partners, www.absolutehedge.com

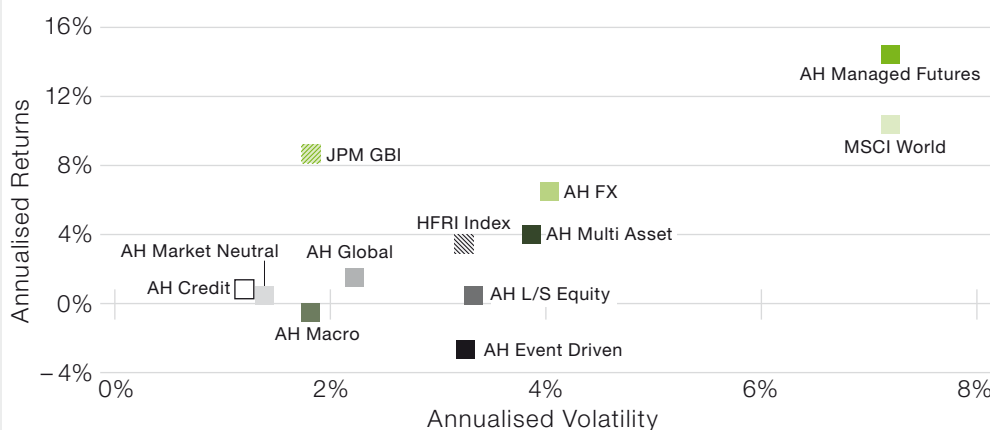
There was a high degree of dispersion between the best and worst performing funds in the space, highlighting the importance of good fund selection.

11 STRATEGY RETURN DISPERSION



Source: Kepler Partners, www.absolutehedge.com

12 STRATEGY RISK ADJUSTED RETURNS

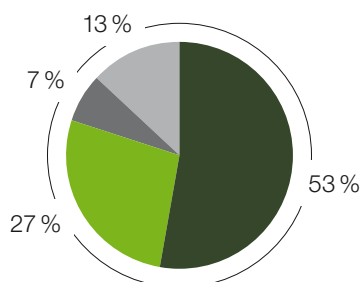


Source: Kepler Partners, www.absolutehedge.com

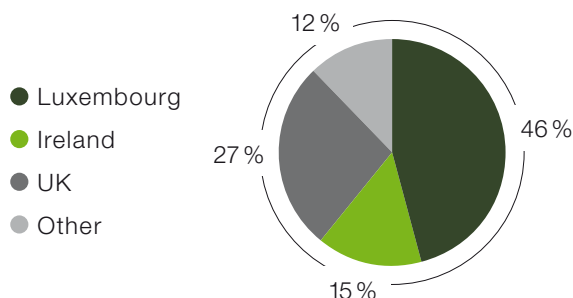
- >> The strong risk adjusted returns seen from the JPM GBI and MSCI World Index were exploited by both managed futures and multi asset strategies which performed well.
- >> It was a difficult year for active equity managers with the AH Equity Long Short Index underperforming the MSCI world in both absolute and risk adjusted terms. It was a similar story for long only equity managers with manager composites underperforming equity markets by c.3%.
- >> Alternative UCITS funds underperformed their offshore equivalents (HFRI) with large underperformance seen in macro and market neutral strategies.

FUND DOMICILE

13 FUND DOMICILE: BY NO. OF FUNDS



14 FUND DOMICILE: BY ASSETS



Source: Kepler Partners, www.absolutehedge.com

UCITS LAUNCHES

15 TOP 10 LARGEST LAUNCHES OF 2014

	Inception Date	AUM (\$m)*	Strategy	Geography
Schroder GAIA Paulson Merger Arb	Jun 2014	554	Event Driven	Global
Ardevora UK Equity	Feb 2014	315	Equity Long/Short	UK
DB Platinum Ivory Optimal	Apr 2014	290	Equity Long/Short	US
LBN China+ Opportunity	Jan 2014	220	Equity Long/Short	Asia
BNY Mellon Absolute Insight	Jul 2014	180	Multi Strategy	Global
GFC UCITS Trend Macro	Jul 2014	175	Macro	Global
MS Nezu Cyclical Japan	Jul 2014	137	Equity Long/Short	Japan
TM Sanditon European Select	Aug 2014	131	Equity Long/Short	Europe
DB Platinum Chilton Diversified	Feb 2014	98	Equity Long/Short	Global
Verrazzano European Long Short	Mar 2014	94	Equity Long/Short	Europe

Source: Kepler Partners, www.absolutehedge.com; *Last available figure

Luxembourg remains the domicile of choice for alternative UCITS managers, by number of funds and assets under management.

E-Mail: info@alceda.lu

Web: www.alceda.lu

Alceda Fund Management S.A.

Airport Center Luxembourg

5, Heienhaff | 1736 Senningerberg

Luxembourg

Alceda Asset Management GmbH

Valentinskamp 70 | 20355 Hamburg

Germany

Alceda UK Limited

17 Grosvenor Street | London W1K 4QG

United Kingdom

Alceda office, Aquila Group, Singapore

541 Orchard Road #19-04 Liat Towers

Singapore 238881



Kepler

Absolute
Hedge

In Association with:

Kepler Partners LLP

9-10 Savile Row

London W1S 3PF

Great Britain

Phone: +44 20 3384 8794

www.keplerpartners.com

www.absolutehedge.com

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