

Alceda Quarterly UCITS Review

Q2 2013

SUMMARY

Alternative UCITS funds have continued their good start to 2013 with assets under management in the sector breaking through €100bn for the first time. Despite performance in Q2 being more challenging, uncertainty in global markets remains and the need for absolute returns and diversification has never been higher. As the universe continues to mature and funds build on their track records, we believe that more investors will continue to come to the space.

- >> Overall assets in alternative UCITS strategies grew by 8.3% to €104.6bn, another quarter of encouraging growth for the sector. This overall increase masks a large differential between the winners and losers as investors continue to discriminate heavily between funds and strategies. Once again the bulk of the assets in cash terms was allocated to large, blue chip funds, but it was encouraging to see that several of the new launches in Q1 were able to grow their assets significantly over the second quarter. A very encouraging sign of health for the sector.
- >> Alternative UCITS strategies gave back some of their gains over the quarter with the AH Global UCITS Index declining 0.53% in the second quarter. Losses were concentrated in June, which was a particularly challenging month for a range of funds as simultaneous falls across almost all asset classes left few hiding places.
- >> In May and June comments from the Federal Reserve Chairman Ben Bernanke regarding the tapering of quantitative easing saw government bonds sell off aggressively. After a 30 year bull market in bonds, investors are increasingly scrutinising their fixed income allocations, and when combined with the sharp moves in yields this has seen increasing appetite for alternative credit strategies. This has led to significant growth in assets for credit strategies which grew by €3.4bn over the quarter to stand at €26.6bn.
- >> Managed futures funds had another challenging quarter both in terms of performance and asset gathering. One of the larger fund's in this space disappointingly shut their UCITS vehicle due to concerns regarding commodity exposure and the use of index swaps following last year's ESMA guidelines. June was a particularly challenging month for the strategy with the long equity trend reversing and carry trades unwinding. For many funds short exposure to precious and industrial metals was the main contributor to performance, and there was a marked performance differential between funds with and without commodity exposure.
- >> Fees remain an important issue for both managers and investors alike. The alternative UCITS sector contains a wide range of funds run by both 'traditional' hedge fund managers and more mainstream asset managers. The analysis shows that the bulk of the assets raised into alternative UCITS strategies to date has been into low fee products. Institutional share classes range from 0.50% with no performance fee right through to funds charging a full 2% and 20% and even higher in some cases. Funds charging between 0.50 – 1.00% for institutional share classes control 74% of the assets in the universe, while funds charging no performance fee contain almost half of all the assets in alternative UCITS.

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

PERFORMANCE

1 AH UCITS INDEX PERFORMANCE: GLOBAL

	Q2/2013 (%)	YTD (%)	Last 12 Months (%)
AH Global UCITS Index	-0.53	2.01	4.60
HFRI Fund Weighted Composite Index	-0.07	3.54	8.26
J.P. Morgan GBI Broad	-1.74	-0.96	1.28
MSCI World Index (TR)	1.94	12.07	22.12

Source: Kepler Partners, www.absolutehedge.com

2 AH UCITS INDEX PERFORMANCE: STRATEGY

	Apr 2013 (%)	May 2013 (%)	Jun 2013 (%)	Q2 2013 (%)	YTD
AH Global UCITS Index	0.45	0.39	-1.36	-0.53	2.01
AH Credit Index	0.55	0.34	-0.76	0.13	0.99
AH Equity Long Short Index	0.17	1.28	-1.06	0.38	4.57
AH FX Index	-0.68	0.68	-0.39	-0.39	0.81
AH Macro Index	0.54	0.78	-1.38	-0.07	1.19
AH Managed Futures Index	2.50	-2.70	-3.54	-3.79	-0.15
AH Market Neutral Index	0.75	0.27	0.42	1.45	3.40
AH Multi Asset	0.45	-0.34	-3.43	-3.32	-0.24

Source: Kepler Partners, www.absolutehedge.com

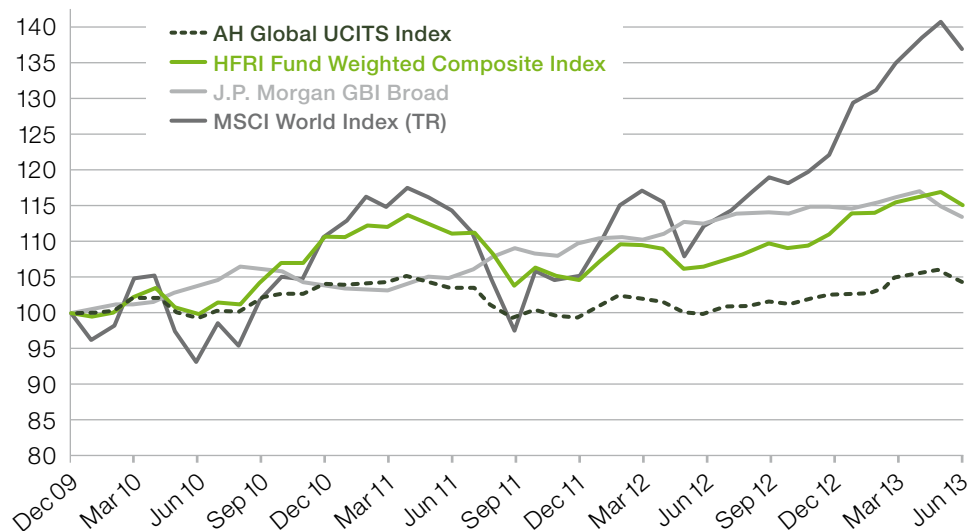
>>> June was a particularly difficult month for alternative UCITS strategies as monetary policy concerns caused simultaneous falls across most asset classes. Against this backdrop Market Neutral funds were the only strategy able to generate higher positive returns thanks to their lack of directional exposure. <<<

3 STRATEGY HEAT MAP: QUARTERLY

Q1/2011	Q2/2011	Q3/2011	Q4/2011	Q1/2012	Q2/2012	Q3/2012	Q4/2012	Q1/2013	Q2/2013
MSCI World 3.70%	JPM GBI 1.60%	JPM GBI 4.01%	MSCI World 7.92%	MSCI World 11.34%	JPM GBI 1.88%	MSCI World 5.73%	MSCI World 3.07%	MSCI World 9.93%	MSCI World 1.94%
Credit 1.35%	Multi Asset 0.71%	Market Neutral -0.48%	Multi Asset 1.24%	Equity Long Short 3.96%	FX Index 1.32%	Multi Asset 3.03%	Equity Long Short 2.12%	Equity Long Short 4.17%	Market Neutral 1.45%
Market Neutral 0.72%	Market Neutral 0.38%	Multi Asset -0.86%	FX Index 1.08%	Credit 2.44%	Credit 0.20%	Equity Long Short 2.88%	Credit 1.62%	Managed Futures 3.79%	Equity Long Short 0.38%
Equity Long Short 0.04%	Credit 0.09%	FX Index -1.36%	Macro 1.04%	FX Index 2.20%	Multi Asset -0.63%	Market Neutral 2.05%	JPM GBI 0.76%	Multi Asset 3.19%	Credit 0.13%
Macro -0.06%	MSCI World -0.43%	Managed Futures -1.97%	Credit 0.79%	Macro 2.07%	Market Neutral -2.05%	Macro 1.61%	Market Neutral 0.47%	Market Neutral 1.93%	Macro -0.07%
FX Index -0.12%	Equity Long Short -0.53%	Credit -2.67%	JPM GBI 0.63%	Market Neutral 1.94%	Managed Futures -2.14%	Credit 1.60%	Macro 0.23%	Macro 1.26%	FX Index -0.39%
Multi Asset -0.15%	Managed Futures -1.22%	Macro -3.26%	Market Neutral 0.22%	Multi Asset 1.34%	Macro -2.15%	JPM GBI 1.49%	Multi Asset -0.79%	FX Index 1.21%	JPM GBI -1.74%
JPM GBI -0.60%	FX Index -1.74%	Equity Long Short -6.24%	Equity Long Short -0.15%	JPM GBI 0.44%	Equity Long Short -2.77%	FX Index 0.96%	Managed Futures -2.43%	Credit 0.86%	Multi Asset -3.32%
Managed Futures -2.81%	Macro -1.82%	MSCI World -14.71%	Managed Futures -4.47%	Managed Futures -2.60%	MSCI World -4.05%	Managed Futures -0.81%	FX Index -2.86%	JPM GBI 0.79%	Managed Futures -3.79%

Source: Kepler Partners, www.absolutehedge.com

4 AH UCITS INDEX PERFORMANCE: SINCE INCEPTION

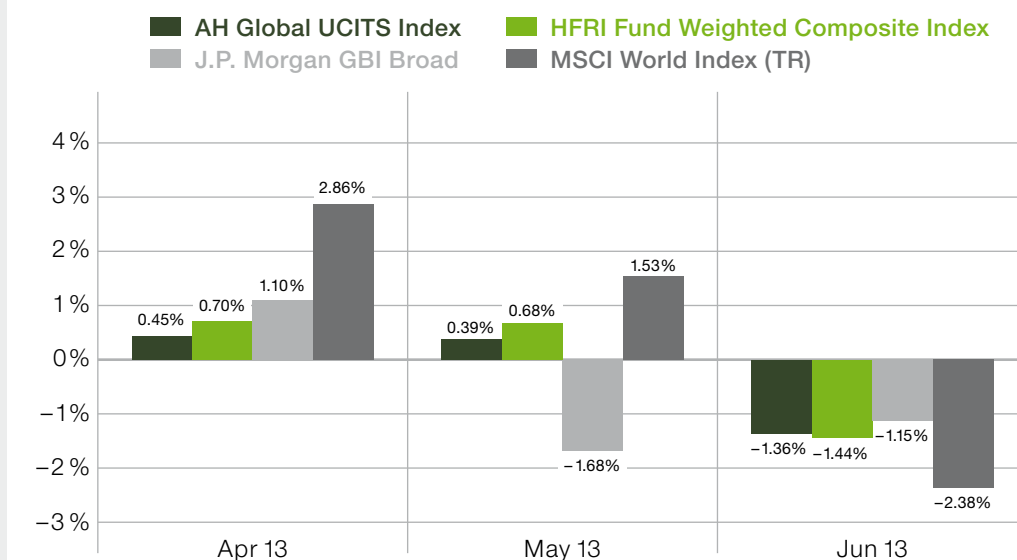


Source: Kepler Partners, www.absolutehedge.com

Managed Futures continued their poor run of form with many funds caught out by the sharp trend reversals across asset classes seen in June.

UCITS Funds continue to be a less volatile subset of offshore hedge funds; they gain less in strong markets such as April and May but conversely lose less in weak markets such as June.

5 MONTHLY PERFORMANCE: Q2 2013

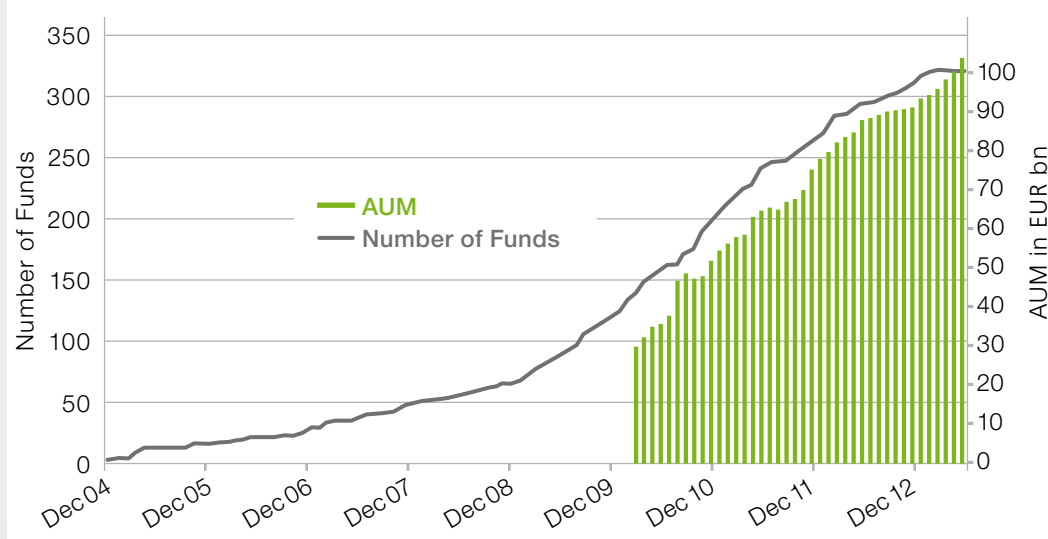


Source: Kepler Partners, www.absolutehedge.com

ASSETS UNDER MANAGEMENT

The alternative UCITS space continues to see strong growth with total AUM surpassing €100m for the first time, highlighting strong continued demand for diversifying strategies.

6 ALTERNATIVE UCITS FUNDS: NUMBER AND AUM EVOLUTION



Source: Kepler Partners, www.absolutehedge.com

Credit funds grew their assets strongly over the quarter. With bond yields rising sharply in June we expect to see further demand for alternative credit strategies.

7 STRATEGY OVERVIEW: NO. OF FUNDS

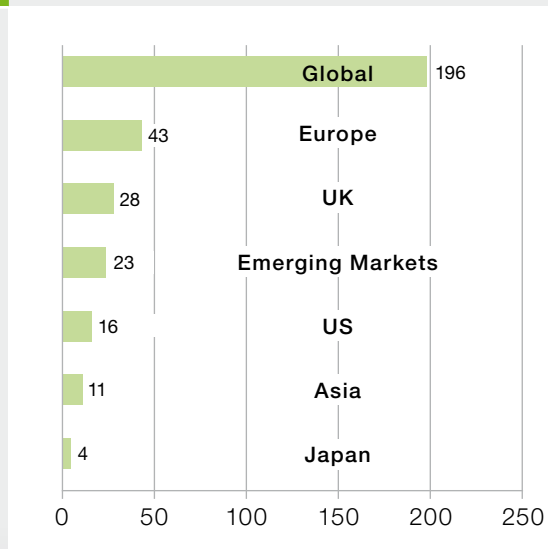
	Mar 13	Jun 13	% change
Equity Long Short	120	123	2.5
Macro	51	48	-5.9
Credit	30	32	6.7
FX	9	9	0.0
Market Neutral	21	21	0.0
Managed Futures	24	23	-4.2
Event Driven	15	15	0.0
Fund of Funds	20	19	-5.0
Multi Asset	12	12	0.0
Other	19	19	0.0
Total	321	321	0.0

8 STRATEGY OVERVIEW: AUM (EUR BN)

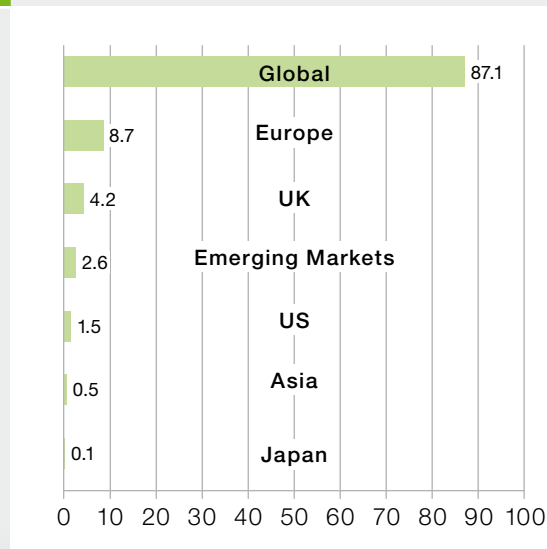
	Mar 13	Jun 13	% change
Equity Long Short	10.8	12.1	12.0
Macro	28.9	31.5	9.0
Credit	23.1	26.6	15.2
FX	1.0	0.7	-30.0
Market Neutral	3.2	3.3	3.1
Managed Futures	3.5	3.0	-14.3
Event Driven	0.9	1.1	22.2
Fund of Funds	1.5	1.6	6.7
Multi Asset	18.1	19.4	7.2
Other	5.6	5.3	-5.4
Total	96.6	104.6	8.3

Source: Kepler Partners, www.absolutehedge.com

9 REGIONAL FOCUS: NO. OF FUNDS



10 REGIONAL FOCUS: AUM (EUR BN)



Source: Kepler Partners, www.absolutehedge.com

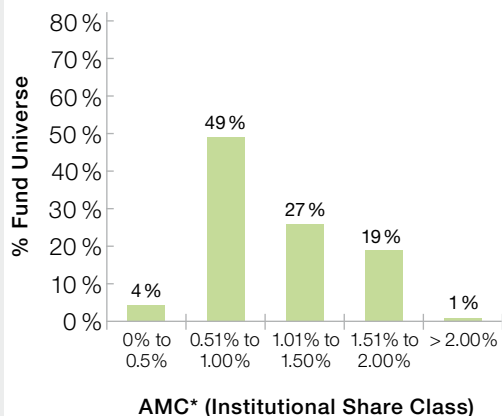
FEES

Only 49 % of funds in the universe charge a management fee between 0.50–1.00 %, however these funds control 74 % of the overall assets in the sector – unsurprisingly investors have a strong preference for low management fees.

The 20 % performance fee model is common for offshore hedge funds. 62 % of Alternative UCITS funds also charge such a fee. However they have only attracted 31 % of assets. The majority of assets is going to funds without performance fees.

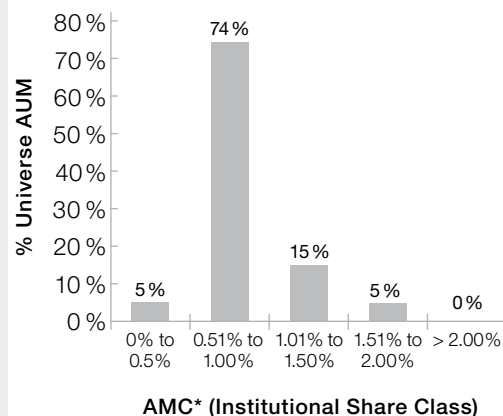
Many investors choose to use UCITS vehicles to access alternative strategies due to the improved liquidity profile. Daily dealing funds have proved most popular attracting 83 % of assets.

11 MANAGEMENT FEE: FUND WEIGHTED



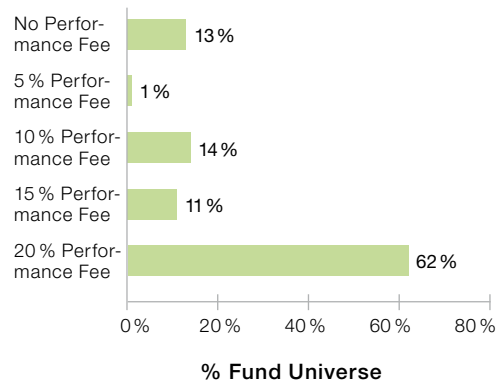
Source: Kepler Partners, www.absolutehedge.com

12 MANAGEMENT FEE: ASSET WEIGHTED



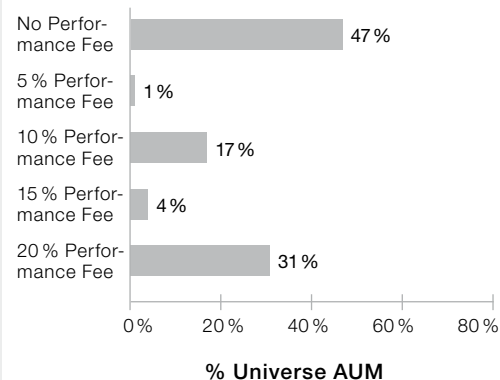
Source: Kepler Partners, www.absolutehedge.com

13 PERFORMANCE FEE: FUND WEIGHTED



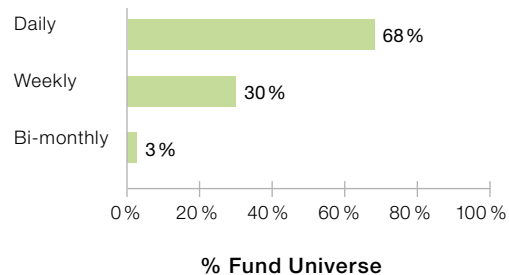
Source: Kepler Partners, www.absolutehedge.com

14 PERFORMANCE FEE: ASSET WEIGHTED



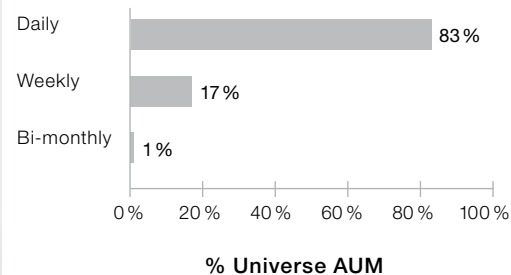
Source: Kepler Partners, www.absolutehedge.com

15 FUND LIQUIDITY: FUND WEIGHTED



Source: Kepler Partners, www.absolutehedge.com

16 FUND LIQUIDITY: ASSET WEIGHTED

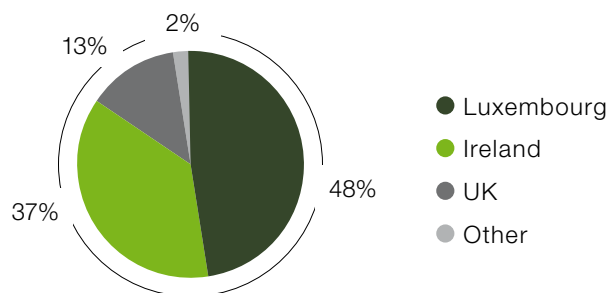


Source: Kepler Partners, www.absolutehedge.com

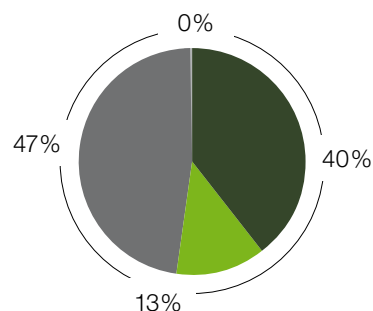
* AMC = annual management charge

FUND DOMICILE

17 FUND DOMICILE: BY NO. OF FUNDS



18 FUND DOMICILE: BY ASSETS

Source: Kepler Partners, www.absolutehedge.com

UCITS LAUNCHES

19 NEW ALTERNATIVE UCITS LAUNCHES: Q2 2013

New Fund Launches	Date	Launch AuM in EUR m	Strategy	Geography
UBS European Equity Long Short Fund	01/04/13	25	Equity L/S	Europe
Stafford SICAV Global Equity Fund	02/04/13	62	FoHF	Global
MLIS Beach Point Diversified Credit Fund	02/04/13	20	Credit	Global
Syquant Helium Performance Class S Shares	03/05/13	25	Event Driven	Global
Cheyne South East Asia L/S (Malacca) Fund	24/05/13	17	Equity L/S	Asia
ACQ Risk Parity Bond	03/06/13	30	Credit	Global
SWMC Emerging Europe Fund	04/06/13	3	Equity L/S	EM

Source: Kepler Partners, www.absolutehedge.com

Newly launched funds continue to struggle to gain significant day one assets, however several funds launched in Q1 have seen good asset growth in the second quarter. This is particularly relevant for offshore funds launching in UCITS where we have observed investors monitoring the tracking error between the two vehicles for several months before investing.

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