

Alternative UCITS Barometer

Quarter 1, 2017

Introduction

ML Capital Asset Management, the investment manager and promoter of the MontLake UCITS Platform, is delighted to present the 25th edition of the quarterly ML Capital Alternative UCITS Barometer (Barometer).

The Barometer is designed to help identify and anticipate key trends in the demand for the major strategies within the Alternative UCITS sector.

The capital introductory team at ML Capital surveyed a diverse range of 50 investors who collectively manage over \$90 billion and today invest upwards of \$20 billion into Alternative UCITS. Respondents range from insurance and pension funds to private banking organisations, with a significant constituent of wealth managers that deal with the primary source of Alternative UCITS inflows, the mid-net-worth investor.

Commenting on the highlights of the latest Barometer, Kenneth Sim, Head of Sales of ML Capital:

"ML Capital have had a successful 2016, reaching an AUM of \$3.1 billion and we are looking forward to the business' projected growth for 2017. The Alternative UCITS Industry reached an AUM of approximately \$409 billion in 2016 (Luxhedge) and although certain strategies struggled, the universe saw considerable inflows that I expect to continue to increase through 2017.

The Quarter 1 Barometer aimed to understand how investors would summarise 2016. Given the difficulty experienced in the Alternative UCITS sector, we enquired as to what their most disappointing holdings were. The overall response was that many investors were disappointed by the Alternatives universe as they provided an inability to protect during tough periods and capture upside. However, due to the expected long-term trend reversal of fixed income markets, I expect Alternatives to play a larger part in portfolios and hopefully greater gains can be captured this year as correlated markets are expected to breakdown.

Secondly, we asked investors what they believe will be the best performing strategy for 2017. The consensus appeared to be that this is too difficult to predict given the uncertainty that this year is set to hold. The form of Trump's agenda and the final decision on Brexit remains unclear so the impact they may have on markets is unknown. Additionally, later on in the year, elections will take place in France, Germany and the Netherlands. In light of Brexit and Trump, no one knows how each election may swing thus one could argue that the European Union could face serious instability this year.

To wrap up, for a consecutive year, we expect there to be high levels of uncertainty within markets but we believe that the upcoming political and economic changes will provide opportunities for differentiation between active and passive investments. I hope that this report provides you a detailed analysis of how a pre-dominantly European investor base summarises the Alternative UCITS universe and their expectations for the quarter and year ahead.

Cyril Delamare, CEO



Q1 Barometer Highlights

The Year of 2016 has proven to be unfavourable for Alternative strategies with many investors comparing the year to that of 2011. Similarly to the past, the year commenced to display a good opportunity set yet the economic and political landscape diverged against analysts' expectations. Markets pulled through political turbulence and equity markets captured positive gains so the initial outlook for Alternatives to hedge portfolios against expected poor traditional strategies' performance was mostly disappointing. Nevertheless, as the trend of fixed income reverses and the demand for regulated investment products heightens, the Alternative UCITS sector should grow substantially through 2017.

Equity Long/Short Disappointments

For 2016, analysts had their bets for strong performance on their Equity Long/Short holdings but markets defied all forecasts. The difficulties have been attributed to numerous factors such as the suprising outcome of the Brexit and Trump vote, rallying markets including record highs of the S&P500, the impact of a prolonged rate hike, and yield favouring equity markets, that made it challenging to capture alpha. Within the Global UCITS Alternative Index, the Equity Long/Short component was down -4.08%, which provides further evidence of poor average performance across this strategy. Many investors are more hopeful that this year, Equity Long/Short can provide good returns as correlations begin to breakdown.

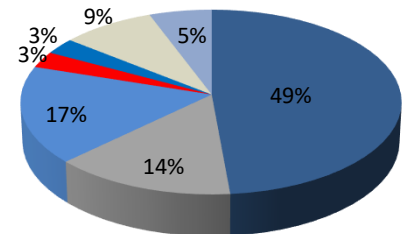
Exiting Emerging Markets

For Q1 2017, the strategies receiving the greatest outflows are within Emerging Markets (Global Emerging, Pan-Asia and Latin America). 50% of investors are reducing their holdings that are exposed to the LatAm region as trade and movement agreements are yet to be determined with the US. Additionally, Trump's fiscal agenda and proposed protectionist policies combined with tighter monetary policy could have a negative impact on EM.

More Macro & CTAs

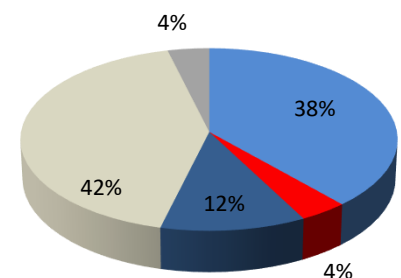
Despite a tricky year for CTAs, Macro and CTA strategies continue to receive large inflows as investors seek to mitigate risk within their portfolios and achieve returns through rising or falling markets. Additionally, many predict there to be large macro opportunities in 2017 with changing political agendas and diverging European and US monetary policy.

Participant Type



- Wealth manager
- Fund of Funds
- Private bank
- Banks/Institution
- Family Office
- Independent Financial Advisor
- Insurance / Pensions

Participant Location



- Switzerland
- Continental Europe
- Global
- UK
- Rest of World



2016's Disappointments

Alternative strategies in 2016 proved mostly disappointing for investors as traditional investments including the fixed income market were their source for returns. For the year, the Global UCITS Alternative Index ended down by 2.15% and this was constituted of Equity Market Neutral strategies down 3.57% and Equity Long/Short strategies down 4.08%. For this Q1 2017 Barometer, ML Capital asked investors what they considered to be the most disappointing Alternative strategies within their portfolios for 2016 and their responses largely reflected the composition of the Index.

Just under a half of the investors whom participated outlined that their Equity Long/Short exposures were the most disappointing, most specifically their US Equity Long/Short managers. At the start of 2016, Deutsche Bank surveyed investors whom collectively managed \$2.1 trillion assets and posed to them 'What would be your top strategy pick for the year?' (Deutsche Bank, 2015). 40% of hedge fund investors responded that their bets were on fundamental Equity Long/Short funds. However, portfolio managers failed to forecast the political outcomes of Brexit and the US election, their subsequent market reactions and Equity market highs that has left alpha within mostly the US Equity market near ceasing to exist. 10% of our respondents said their Equity Market Neutral exposure was the most disappointing and that it failed to produce downside protection and positive returns. One investor said their greatest disappointment was their CTA allocation. Within the Global UCITS Alternative Index, CTA's were down -1.93% but medium to long-term trend followers have experienced greater drawdowns. Despite a turnaround in December, CTAs have found it difficult to navigate economic volatility and have had to reduce their fixed income exposure.

Lastly, one investor responded that their Event Driven UCITS allocation was the most disappointing as their selected fund performed poorly when they believed there was a large opportunity set here given the high levels of M&A throughout the year. Within the universe, this disappointment appears to be shared, which is evidenced in the Event Driven UCITS Alternative Index performance that was down 1.60% for the year and as of the end of November 2016, Event Driven funds (not specifically UCITS) had 'racked up net outflows of \$38 billion' (Pensions&Investments, 2016).

Needless to say, 2016 has been a testing year for investors as markets have reacted against their yearly forecasts and have largely rallied in the face of political turbulence. Alpha has been ultimately difficult to find within such correlated markets but given the upcoming political changes of Brexit and the Trump administration, there are high hopes that Alternative strategies will be able to generate much greater returns this year as correlations breakdown and economic growth and Central Bank policies begin to diverge.



Looking to launch a regulated fund?

ML Capital can help you.

Whether it is a standalone fund structure, a new sub-fund of an existing umbrella, or a management company, ML Capital's structuring team will be able to advise you on the best way forward.

- Investment Manager and Promoter to Regulated Funds
- Dedicated UCITS and QIAIF platforms with access to top tier service providers
- Structuring expertise - Re-domiciliation, Mergers
- UCITS & QIAIF infrastructure support, enabling you to focus on your investment strategy
- Cross border distribution expertise and fund registration
- Experienced sales team for retail and institutional distribution
- MLC Management (part of the ML group) is an authorised UCITS and AIFM "super manco" management company fully licensed in Ireland

ML Capital: your one stop shop for investment managers looking to launch a European regulated fund.

For more information please contact info@mlcapital.com or +44 203 709 4510



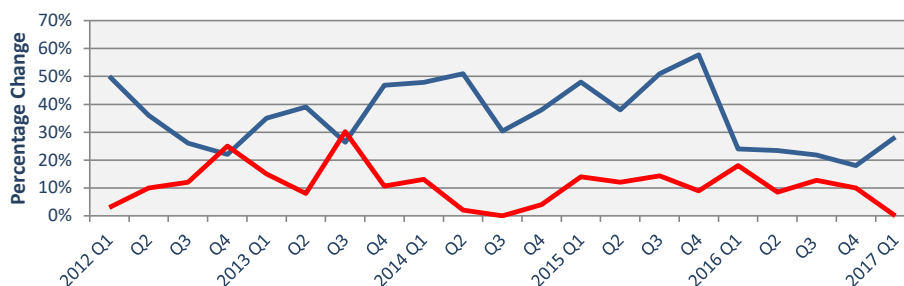
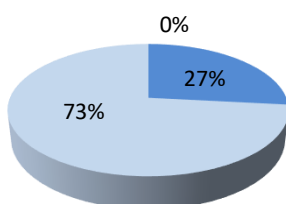
Long/Short Equity

• MORE • SAME • LESS

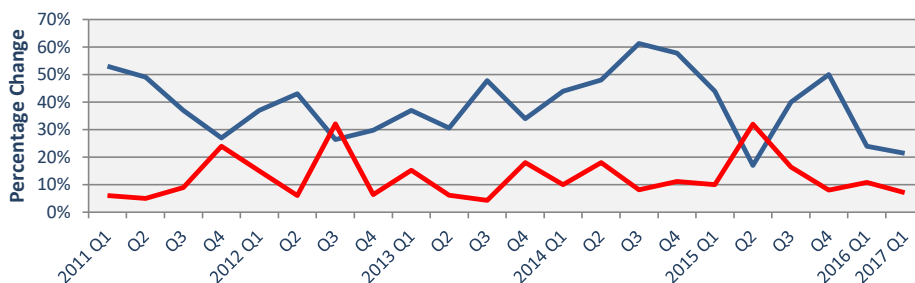
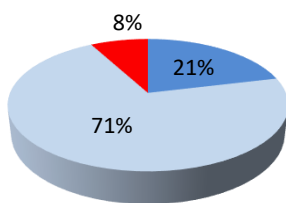
Trending

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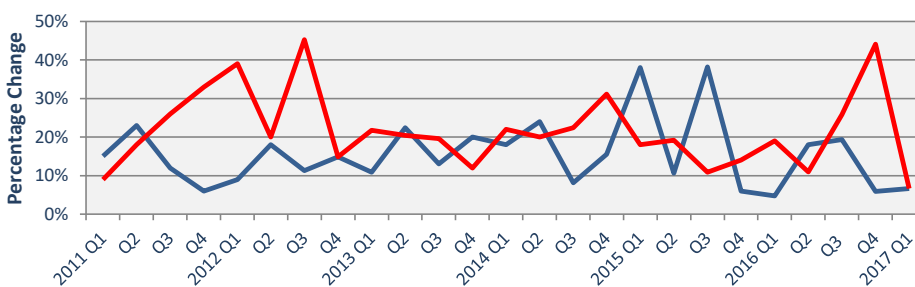
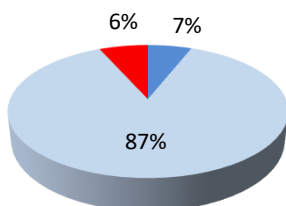
Global Long/Short



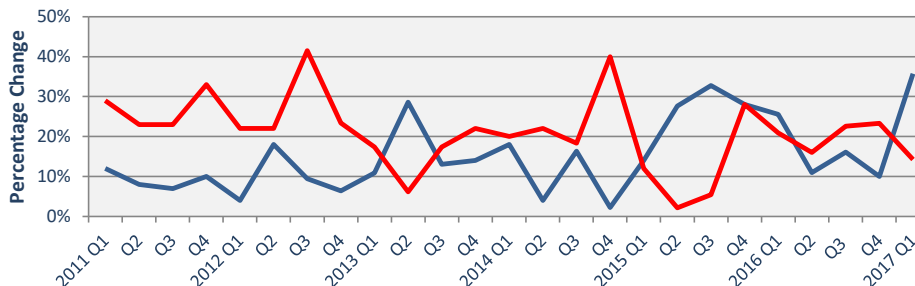
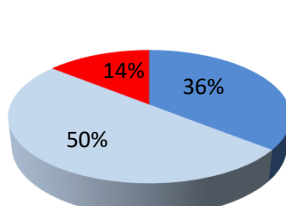
US Long/Short



UK Long/Short



Japan Long/Short



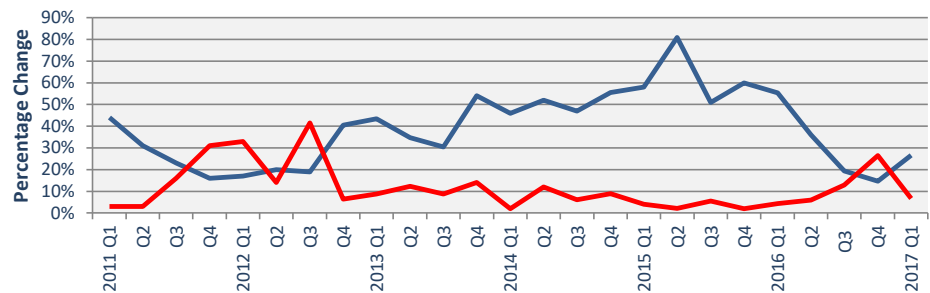
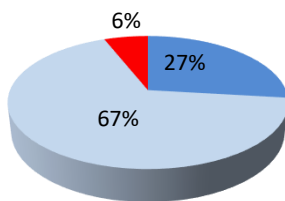
Long/Short Equity

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Trending

• MORE • LESS

European Long/Short



Commentary

Similar to Deutsche Bank's survey last year, our Barometer responses show that for a consecutive year, analysts are betting that Equity Long/Short strategies will be the most successful strategy this year. Nearly over a quarter of all our respondents are increasing their Equity Long/Short exposures Globally or within either Japan, Europe or the US despite their 2016 disappointments, especially towards those funds that were directional due to stock and sector rotations.

In our Q4 2016 Barometer, ML Capital reported that investors were evaluating their active allocations within this space however, due to the political and economic changes that have occurred and will occur, the strategy has a more positive outlook for 2017. The political implications of Brexit and the Trump era will be coming into fruition early this year and despite their final form of delivery and potential consequences still unclear, analysts believe that these changes will offer opportunities through differentiation and sector breakdowns. This is evident in the data collected for this quarter whereby 27% of our respondents are looking to increase their Global Long/Short exposure, with not one investor decreasing it and 27% looking to increase their European Long/Short allocations.

Most notably from last quarter, only 6% of investors are continuing to decrease their UK Long/Short exposure compared to 44% in Q4. The fear of Brexit's implications seem to have settled considerably however, it is a universe to watch with Theresa May's announcement of an implied 'Hard' Brexit on the 9th January and valuations determinant on changing global bond prices and the exchange rate of Sterling/Dollar.

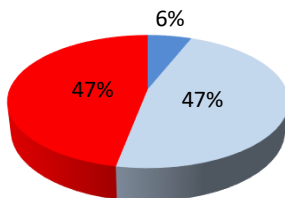
The most pertinent result is reflected in 36% of investors looking to increase their Japan Long Short exposure this quarter after the region had a tough 2016. In Q4 2016, 23% of investors were reducing their exposure to Japanese equities however, this has dropped to 14%. For those investors increasing their holdings, this is largely due to Japanese stocks trading at a reasonable price to earnings hence there is a growing consensus that the region offers significant opportunities through value investing. Furthermore, the US President's proposed fiscal stimulus package alongside rising Federal rates bolster the expected growth of Japan.



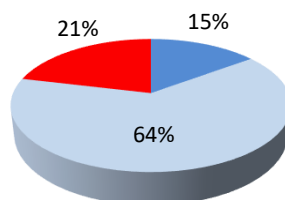
Emerging Markets

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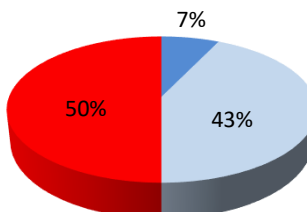
Global Emerging



Pan-Asia



Latin America



Commentary

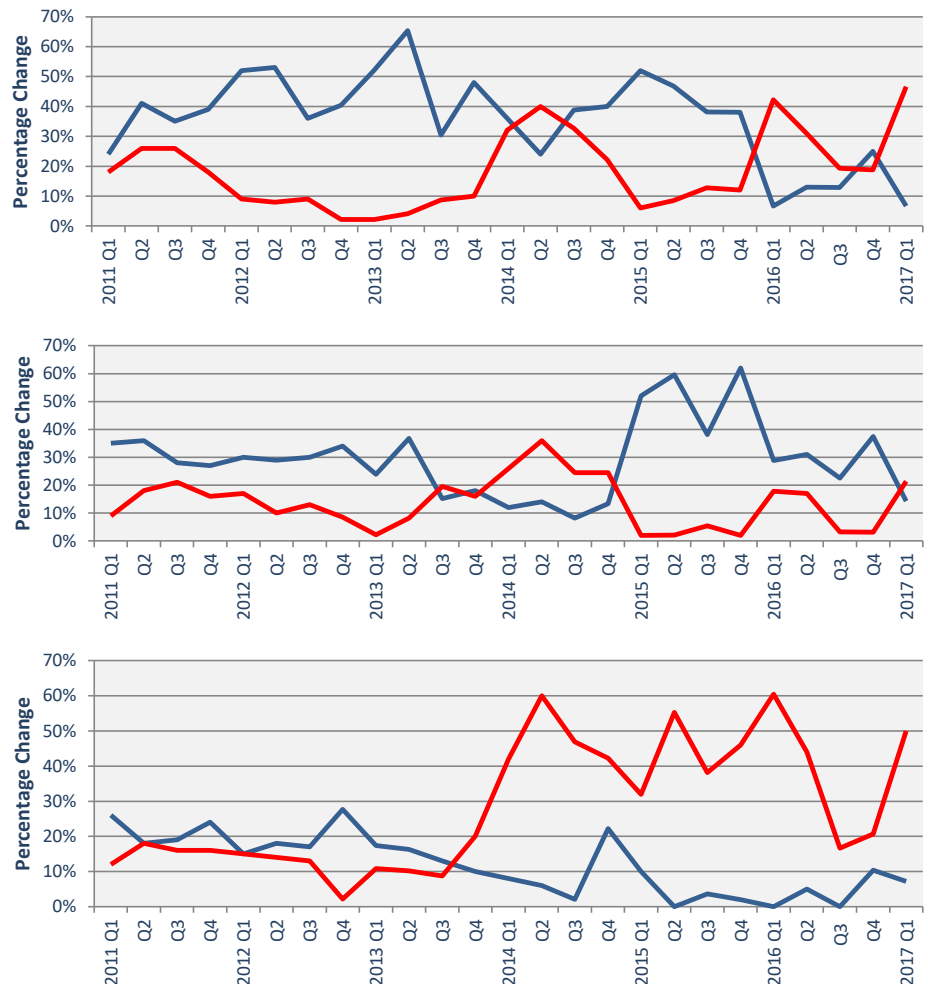
For Q1 2017, the overall trend across the entire region appears that investors will be maintaining their exposures as a whole to Emerging Markets. However, upon analysing the responses of this Barometer and breaking the whole region down into more specific markets, it is clear that investors are either cautious towards EM or have set off on reducing their allocations due to the large political uncertainties.

47% of our respondents are reducing their Global Emerging Market allocations to avoid the potential risks of currency pressures and global trading agreements yet to be negotiated, namely with the US and the UK. 50% of investors are reducing their LatAm exposure, which is undoubtedly fuelled by uncertain US and Latin American relations that were prominent on the US President's agenda. Trumponomics is yet to be fully articulated but a fiscal stimulus plan and tighter monetary policy will most likely prevail that could cause significant problems for Emerging Markets.

On the other hand, 15% of investors will be increasing their exposure to Pan Asia this quarter, which is largely attributable to the strategy's inclusion of Japanese and Australian markets. These markets appear less risky if political implications happen to result in contracted global trade as companies within these markets own US and European assets.

Trending

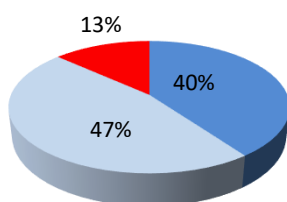
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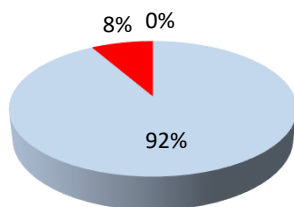
Relative Value

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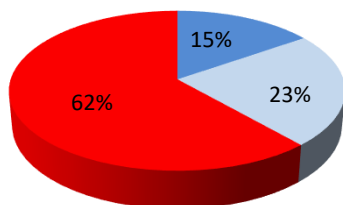
Market Neutral



Convertible Arbitrage



Fixed Income

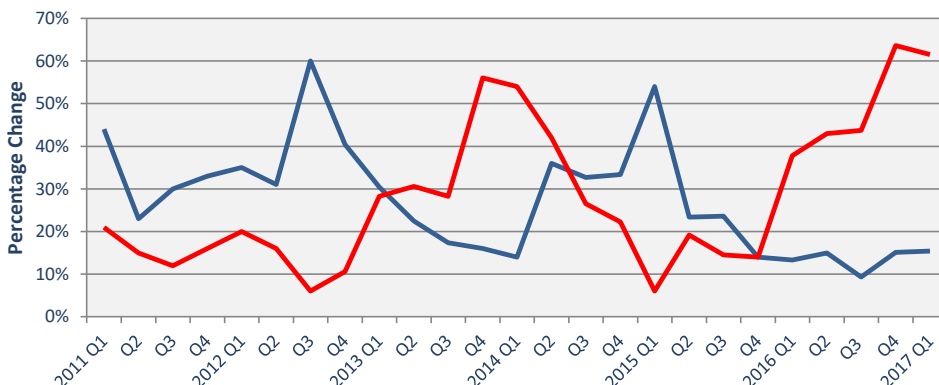
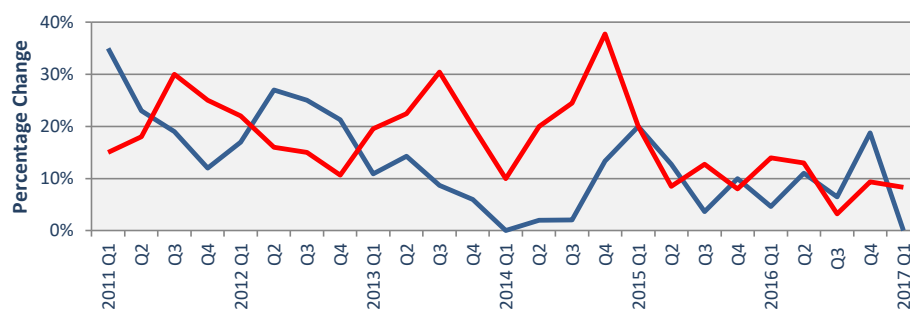
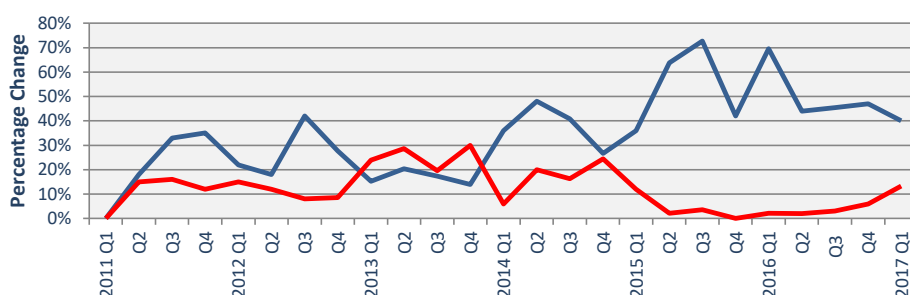


Commentary

For 2016, the Global UCITS Alternative Index recorded the performance of Market Neutral strategies to be down 3.57%. This could explain how the data from our research concluded that 13% of investors are reducing their allocations to this sector. However, 40% are looking to increase their exposure in an attempt to neutralise their returns from potential uncertainty in markets this year that could be caused by Brexit, Trumponomics or the later European Elections. On the 14th December, the Federal Reserve raised interest rates for the first time this year and for the second since the Financial Crisis in 2008. Many have argued that this marked the end of the 30-year bull fixed income market but how frequently such rises shall occur within 2017 is unclear. Nevertheless, 62% of our respondents are decreasing their exposure to fixed income markets in Q1 and 23% are maintaining their holdings. 15% of investors are actually increasing their fixed income exposure, which could be attributable to the European Central Bank keeping interest rates low. Lastly, 92% of investors will keep their exposure to convertible arbitrage so no significant changes are occurring here.

Trending

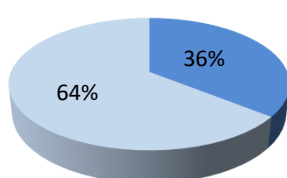
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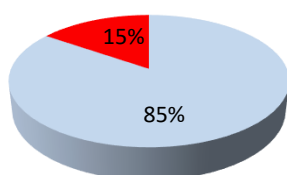
Event Driven

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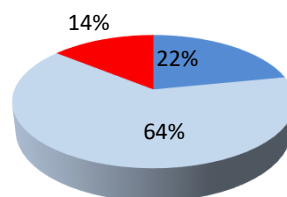
Multi-Strategy



Distressed



Merger Arbitrage

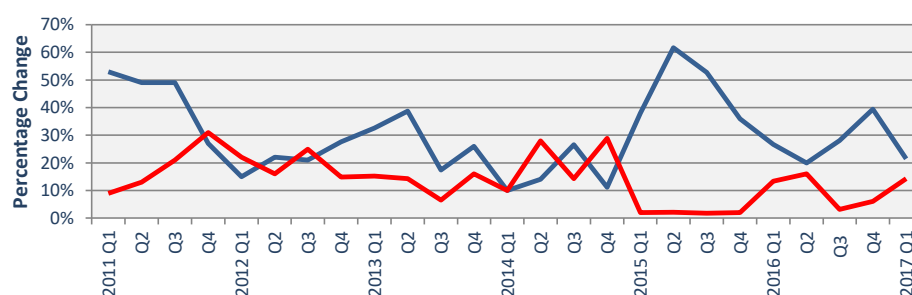
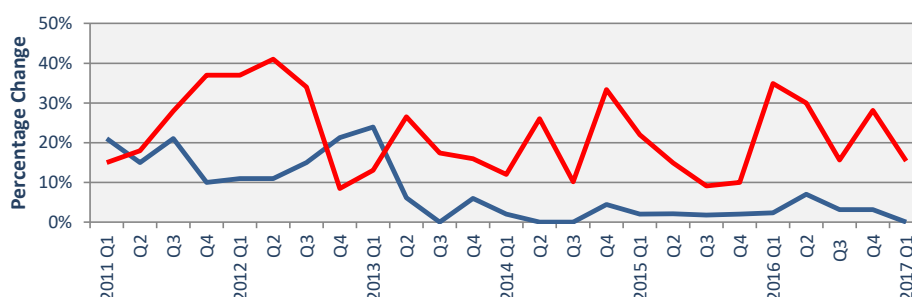
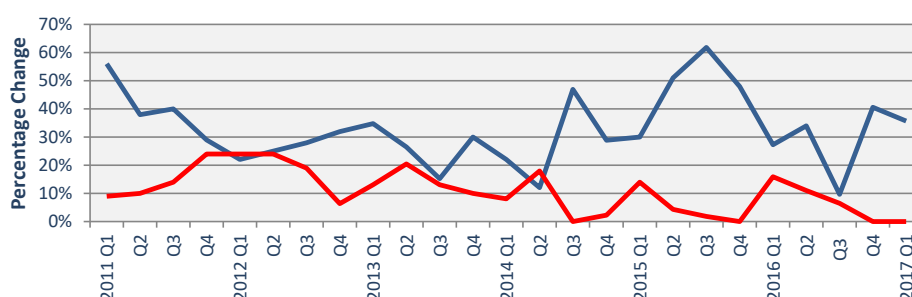


Commentary

Multi-strategy Alternative UCITS Funds are popular in this sector for Q1 2017 as investors begin the year allocating to a similar level to the beginning of 2016. Unfortunately during 2016, Alternative strategies underperformed and by September, \$10 billion was pulled from Multi-Strategy hedge funds" (Financial Times, 2016). Despite this, other indexes such as the *Barclay Multi Strategy Index* ended 2016 up 4.74% and investors are predicting that multi-strategy funds will provide a good opportunity set for 2017. From our data collection, we recorded that 36% of investors are looking to increase their exposure to this strategy and 64% will maintain their current exposure. Not one respondent will be decreasing their holdings this quarter. Merger Arbitrage strategies are also favourable for 2017 amongst the polled investors. 2016 was a record year for M&A with an annual total of \$3.6 trillion (Financial Times, 2016) and the "M&A boom will carry on" (Financial Times 2016). With this in mind, 22% of investors will increase their holdings to Merger Arbitrage UCITS funds and 64% will maintain their current holdings.

Trending

• MORE • LESS



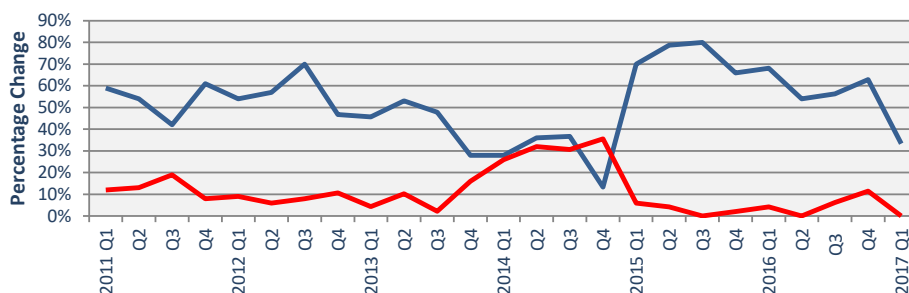
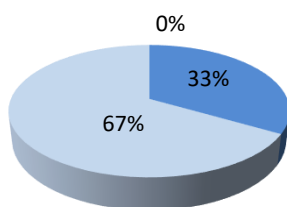
Macro & CTA

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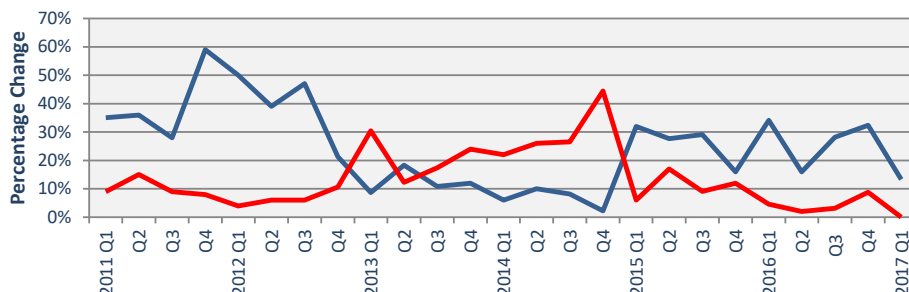
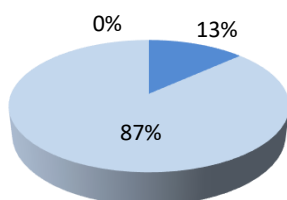
Trending

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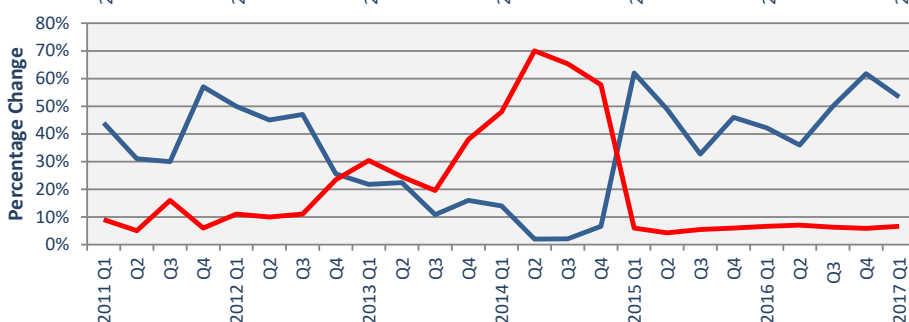
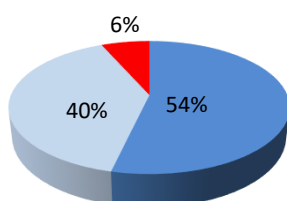
Global Macro-Discretionary



Global Macro Systematic



Managed Futures / CTAs



Commentary

Global Macro Discretionary, Global Macro Systematic and CTA strategies are forecasted to have a positive outlook for 2017 and these Alternative UCITS funds continue to receive great inflows this quarter reflected by the lack of investors decreasing their holdings. This is largely due to persisting uncertainty into 2017 that requires investors to look for returns in potential rising and/or falling markets. Furthermore, with a US fiscal agenda and diverging monetary policy across the US and Europe, there are expected to be numerous macro opportunities to benefit from.

For Q1 2017, 33% of our respondents are looking to increase their holdings to Global Macro Discretionary UCITS funds and 13% to Global Macro Systematic UCITS funds. Most notably within this sector, 54% of the investors polled are increasing their exposure to CTAs, despite a tough year for CTAs in 2016. Many investors predict that CTAs will be strong performers in 2017 as although global economic growth is set to rise that could see traditional strategies outperform Alternatives, market uncertainty is expected to persist, meaning CTAs should be able to catch a few of these big cycles.



Which Strategies Will Be Successful This Year?

At the start of 2016, *Deutsche Bank* reported that analysts forecasted Equity Long/Short fund managers to perform well through the year but as this Barometer touched upon earlier, many investors found that their Equity Long/Short holdings have been disappointing. Last year, Alternative strategies ended with rather disappointing returns compared to traditional investments that performed better than expected largely due to Equity market rallies and the continuation of low interest rates. This was reflected in the Global UCITS Alternative Index that recorded an overall average performance of 3.83%, hence investors have characterised 2016 as a year for inflows into the Alternative UCITS universe, but not one for significant performance. The growth of the Alternative UCITS market is still a long way behind that of the Traditional Long Only UCITS market but as the 30-year fixed income bull market begins to reach its end, Alternative strategies are forecasted to receive greater demand as fixed income market yield lessens. Therefore for this Quarter, ML Capital proposed the question to investors "In your opinion, what strategy do you predict will be the best performing in 2017 within the Alternative UCITS space? Why?"

The responses from the participants of this Barometer greatly varied, which is testament to investors' opinion that 2017 is difficult to predict as the implications of last year's political shifts are still largely unknown. 13% of respondents believe that CTA funds will be the best performers with one investor specifying that a high vol CTA fund will be able to capture gains from volatility cycles that the year is yet to present. Despite poor performance, Managed Futures funds brought in \$30 billion of inflows in 2016 (HFM, 2016) and from the data collected for this Barometer, these inflows are likely to increase into 2017 as investors look to further diversify their portfolios and provide loss mitigation in potential turbulent markets. On the other hand, 13% of investors responded that they believe Merger Arbitrage will be the most successful strategy for 2017 due to the high levels of M&A activity that gives fund managers great amounts of opportunities. 20% of the investors polled believe that Equity/Long Short will be the most successful due to Trump's intended fiscal stimulus package and Brexit. It is acknowledged that these events could lead to a breakdown in correlation between sectors that should give Equity Long/Short managers some differentiation to work with. However, these investors are not blind to the fact that this strategy in 2017 has greater downside risk if there are poor negotiations agreed and political clashes when Article 50 is triggered and Trump outlines his full agenda. Another respondent has placed his bets on Global Discretionary Macro. Their belief is that there are always macro opportunities, which are highly expected this year due to expected diverging US and European interest rates, strong prospects for oil and commodities and the expected dollar's appreciation. Lastly, another investor suggested that Equity Market Neutral would be the most successful due to its ability to capture returns in what the investor forecasts to be a consecutive highly volatile year.

However, the majority of the respondents (55%) said that 2017 was just too difficult to predict and were therefore unable to provide any insight as to what they deem to be the most successful strategies of 2017. This seems to be the consensus that analysts are avoiding making large statements about what lies ahead especially following the shock results of Brexit and Trump's victory that defied most 2016 predictions. It is unclear as to the implications of Brexit and Trump's administration so for now analysts look to be diversifying their portfolios and mitigating potential risks that could arise when the agenda's come to the forefront.



Source Data

Emerging Markets

| | More | Same | Less |
|-----------------|------|------|------|
| Global Emerging | 6% | 47% | 47% |
| Latin America | 7% | 43% | 50% |
| Pan-Asia | 15% | 64% | 21% |

Relative Value

| | More | Same | Less |
|-----------------------|------|------|------|
| Fixed Income | 15% | 23% | 62% |
| Convertible Arbitrage | 0% | 92% | 8% |
| Market Neutral | 40% | 47% | 13% |

Event Driven

| | More | Same | Less |
|------------------|------|------|------|
| Multi-Strategy | 36% | 64% | 0% |
| Distressed | 0% | 85% | 15% |
| Merger Arbitrage | 22% | 64% | 14% |

Macro & CTA

| | More | Same | Less |
|----------------------------|------|------|------|
| Global Macro Discretionary | 33% | 67% | 0% |
| Global Macro Systematic | 13% | 87% | 0% |
| Managed Futures/CTA | 54% | 40% | 6% |

Long / Short Equity

| | More | Same | Less |
|---------------------|------|------|------|
| Global L/S Equity | 27% | 73% | 0% |
| UK L/S Equity | 6% | 87% | 7% |
| US L/S Equity | 21% | 71% | 8% |
| European L/S Equity | 27% | 67% | 6% |
| Japan L/S Equity | 36% | 50% | 14% |

Further Statistics

Barometer Participants

| | |
|---------------------------------------|--------------|
| Highest Surveyed Alt UCITS Allocation | USD \$ 3 bn |
| Lowest Surveyed Alt UCITS Allocation | USD \$ 8 m |
| Highest Surveyed Hedge Allocation | USD \$ 35 bn |
| Lowest Surveyed Hedge Allocation | USD \$ 19 m |
| Highest Surveyed Avg Alt UCITS Ticket | USD \$ 40 m |
| Lowest Surveyed Avg Alt UCITS Ticket | USD \$ 500 k |





About ML Capital

ML Capital is a forward looking and leading independent fund structuring and investment management firm specialising in European regulated fund structures. As an award winning platform provider, we partner with the very best of investment managers to bring to market the latest most appropriate fund structures to comply with the raft of incoming regulatory requirements, whilst meeting the ever increasing expectations of investors.

ML Capital handles all aspects of the fund structuring and launch on investment managers' behalf. Through our dedicated network we also offer fund sales and distribution if required and have had comprehensive coverage of investors in all key European markets for the past 20 years.

Our goal is to provide the most appropriate fund structures to maximise distribution opportunities across all key markets. Our solutions bring together market leading service providers with some of the very best minds in the regulated fund space; providing well managed European investment products with the highest levels of service and governance. We ensure that all incoming investors and partners come in with the full knowledge that they are investing into structures that are designed to protect and preserve investor interest.

MLC Management Ltd acts as third party management company for UCITS and AIFMD funds. Offering better compliance, oversight and management facilities than self-managed structures, the management company is the future of fund structuring; as the industry responds to the desire of investors and regulators for greater substance, we believe management companies will become the structure of choice for new funds, as others move away from self-managed fund structures. MLC was incorporated in February 2015 and currently oversees \$3.1 billion of assets.

About The MontLake UCITS Platform ICAV

The MontLake UCITS Platform, domiciled in Ireland and regulated by the Central Bank of Ireland provides investment managers with a turnkey solution for launching a UCITS fund under its umbrella structure. Typical time to market is 10 weeks, or less, with the platform offering immediate access to a wide range of investors through ML Capital's distribution network.

Funds placed on the platform by ML Capital will benefit from top-tier service providers including Northern Trust for custody, administration and trustee services, KPMG for audit, and Bridge Consulting for oversight and directorships. ML Capital has also ensured that managers utilising the MontLake UCITS Platform will have unfettered access to a network of the leading prime brokerage firms.

For more information on ML Capital please visit our website www.mlcapital.com or our platform website www.montlakeucits.com.





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