AlphaQuest UCITS Fund

CTA/Managed Futures

August 2019

FACTSHEET

Performance Returns

The AlphaQuest UCITS Fund returned +4.74% in August (USD Inst. Founder Pooled Class).

USD Institutional Founder Pooled Share Class UCITS Performance

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2019	-4.96%	-1.34%	2.47%	-1.28%	2.38%	4.93%	0.88%	4.74%					***7.68%***
2018	9.69%	-0.08%	-0.29%	1.43%	0.73%	-1.25%	-2.34%	-0.51%	0.68%	-1.74%	-5.29%	1.20%	***1.58%***
2017	-4.33%	-2.70%	-0.99%	-0.69%	-2.54%	0.15%	-1.78%	-1.51%	0.70%	3.15%	0.45%	-1.45%	***-11.14%***
2016												-0.22%	***-0.22%***

The performance figures quoted above represent the performance of the AlphaQuest UCITS Fund since launch on 9th December 2016. These performance figures refer to the past and past performance is not a reliable guide to future performance.

Investment Objective & Strategy

The AlphaQuest UCITS Fund's investment objective is to seek capital appreciation over the long term. The AlphaQuest UCITS Fund invests, on a long and/or short basis, in a globally diversified portfolio representing the major asset classes of equities, fixed income and currencies. It also gains exposure to commodities, on a long and/or short basis, through the use of structured financial instruments ("SFIs"). The AlphaQuest UCITS Fund targets, over the medium term, a realized volatility in the range of 10%-12%, in order to adhere to UCITS investment restrictions.

Quest employs a systematic trading program (the "Program"), diversified by asset class and with individual positions intended to provide a return over different time horizons, that seeks to deliver positive alpha (alpha is a statistical measurement used to determine the risk-reward profile of a potential investment). The Program is composed of a number of trading systems, each of which generates individual trades. These trading systems generate trades on the basis of price movement indicators which seek to identify situations where there is potential for an increase in the price volatility of a given market. Risk controls are integrated into the Program to measure the potential risk associated with trades generated by the Program. Generally, the Program will determine that AlphaQuest UCITS Fund should take a long position in a market that has shown an upward trending price or a short position in a market that has shown a downward trending price.

ALPHAQUEST ORIGINAL (AQO) PROGRAM MONTHLY PERFORMANCE (NON-UCITS)*

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2019	-7.73%	-2.46%	3.98%	-1.54%	6.52%	6.06%	2.14%E	8.47%E					**15.32%E**
2018	16.28%	-0.01%	-0.17%	3.12%	1.38%	-0.47%	-5.45%	1.06%	1.43%	-2.66%	-8.42%	0.92%	**5.29%**
2017	-6.31%	-4.14%	-0.86%	-0.02%	-2.75%	-0.82%	-2.30%	-1.99%	0.44%	6.99%	-0.04%	-1.44%	**-12.94%**
2016	14.16%	9.19%	-6.72%	-0.58%	-3.62%	6.60%	2.16%	-6.30%	-7.64%	-2.65%	0.20%	4.51%	**7.02%**
2015	7.97%	-0.68%	2.90%	0.33%	-1.65%	-10.70%	7.39%	-2.01%	-1.64%	2.17%	8.72%	-5.47%	**5.69%**
2014	1.62%	0.10%	-4.51%	-5.36%	3.20%	1.89%	-2.29%	5.83%	3.20%	3.75%	5.24%	3.23%	**16.27%**
2013	0.07%	4.45%	-0.53%	9.07%	-3.46%	0.86%	1.86%	-1.42%	-1.67%	-0.25%	2.11%	4.39%	**15.94%**
2012	3.07%	2.32%	-5.14%	-2.25%	8.66%	-3.34%	5.75%	-3.47%	-3.91%	-2.62%	-0.70%	3.77%	**0.87%**
2011	-4.91%	5.83%	-6.53%	16.41%	-5.93%	-9.40%	11.37%	0.96%	-4.11%	-3.85%	-2.92%	2.10%	**-4.11%**
2010	-6.93%	0.19%	1.58%	1.85%	3.26%	-1.52%	-2.24%	6.97%	7.52%	6.14%	-6.82%	10.10%	**20.08%**
2009	0.38%	-2.32%	-7.57%	-2.43%	13.30%	0.36%	0.57%	-1.73%	3.60%	-5.17%	1.77%	-11.16%	**-11.75%**
2008	2.09%	14.92%	-0.53%	1.26%	4.88%	4.22%	-13.55%	1.36%	-1.26%	20.59%	10.10%	4.98%	**55.77%**
2007	-0.49%	-3.23%	-0.50%	6.26%	-0.79%	6.81%	2.07%	-11.84%	13.80%	6.73%	-3.71%	4.04%	**18.11%**
2006	4.34%	-3.02%	0.55%	14.62%	0.91%	-3.18%	-6.08%	0.36%	0.25%	7.48%	5.95%	2.54%	**25.72%**
2005	-7.67%	2.58%	0.41%	-3.46%	1.48%	5.15%	-4.02%	2.35%	2.94%	0.11%	4.36%	-3.35%	**0.04%**
2004	-2.80%	3.93%	-1.38%	-5.60%	1.30%	-9.98%	1.36%	-1.25%	-0.99%	6.23%	-0.60%	-1.32%	**-11.43%**
2003	-1.84%	6.16%	0.93%	-7.90%	14.36%	-4.59%	-1.86%	1.85%	4.23%	-4.62%	-3.28%	1.13%	**2.74%**
2002	4.05%	-13.71%	16.53%	-1.44%	-2.49%	9.22%	3.76%	0.83%	6.90%	0.99%	-3.50%	16.92%	**39.94%**
2001	-5.22%	-5.43%	12.11%	-5.59%	3.89%	-2.20%	3.68%	-4.52%	7.38%	2.97%	0.58%	10.42%	**17.17%**
2000	4.18%	-1.54%	7.14%	-2.85%	8.03%	-4.16%	-2.57%	3.17%	-2.83%	4.85%	7.97%	18.05%	**44.31%**
1999					-2.66%	2.81%	-1.77%	-1.73%	1.12%	-5.26%	4.26%	1.11%	**-2.45%**

**The above performance pertains to the AlphaQuest Original (AQO) program and is not representative of the AlphaQuest UCITS Fund. UCITS funds have to abide by investment restrictions and consequently the performance of the AlphaQuest UCITS Fund may not be similar to that presented above.*

THE MANAGER

Quest Partners LLC

Nigol Koulajian

Founder and Chief Investment Officer

Nigol Koulajian is the Founder and Chief Investment Officer of Quest. Mr. Koulajian founded Quest in March 2001 to pursue his passion for quantitative investment research and strategy development, which he has focused on from the beginning of his career in the early 1990's. After lengthy research, Koulajian identified specific strategies using proprietary techniques that have been continuously enhanced over the past eighteen years and became the basis for the growth of Quest. The firm, which is based in New York, currently manages approximately $1.6 billion in assets. In 2002, Mr. Koulajian started the NOK Foundation, which is committed to promoting the study and practice of yoga and meditation globally. Mr. Koulajian has acted as a board member of the Omega Institute and David Lynch Foundation. Mr. Koulajian earned an MBA in finance from Columbia Business School and a BS in electrical engineering from Notre Dame.

Paul Czkwianianc

Partner

Paul joined the firm at its inception in 2001. Mr. Czkwianianc started his career in the financial industry in 1999 at Enterprise Asset Management where he worked alongside Mr. Nigol Koulajian. Mr. Czkwianianc holds a B.S. degree in Applied Mathematics from Columbia University and an M.S. degree in Mathematics from New York University.

FUND FACTS

Structure	UCITS Fund
Domicile	Ireland
Liquidity	Daily
Fund AUM	$56.6 million
Strategy AUM	$1.483 billion
Inception	9th December 2016
Registered	Ireland, UK, France, Lux and Switzerland (*Qualified Investors Only*)
Share Class	**Institutional/Institutional Pooled**
Currency	EUR/GBP/CHF/USD
Mgt. Fee	1.5%
Perf. Fee	20%
Min Init. Sub.	1,000,000
ISIN Codes	EUR: IE00BD08G390/IE00BD08G739
	USD: IE00BD08G622/IE00BD08GB72
	CHF: IE00BD08G515/IE00BD08G952
	GBP: IE00BD08G408/IE00BD08G846
Share Class	**Retail Pooled**
Currency	EUR/GBP/CHF/USD
Mgt. Fee	2%
Perf. Fee	20%
Min Init. Sub.	100,000
ISIN Codes	EUR: IE00BD08GM87
	USD: IE00BD08GQ26
	CHF: IE00BD08GP19
	GBP: IE00BD08GN94

FACTSHEET

Performance Commentary

The AlphaQuest UCITS Fund gained +4.7% in August, delivering the fourth consecutive month of gains. Rising trade tensions led to a sharp increase in market volatility and strong price breakouts in several markets: fixed income yields plummeted to new lows, the U.S. dollar and Japanese yen broke higher, and gold made new cyclical highs. As the economic cycle matures and growth weakens, we are now witnessing a much broader set of markets making significant moves, providing strong opportunities for the fund.

The trade war was in full force in August. The month began with the announcement by U.S. President Trump on August 1st of a 10% tariff on the remaining $300 billion of imports from China that were not already being tariffed. The next day, China reacted by letting the yuan depreciate beyond 7.0 per USD, a level that had not been breached since 2008. The yuan fell -3.8% against the U.S. dollar for the month. On August 23rd, China retaliated further by announcing tariffs on $75 billion of U.S. imports which, in turn, led U.S. President Trump to swiftly raise tariffs on all Chinese imports once again. With equity markets reeling—and government bonds signaling a recession with a deep inversion of the treasury yield curve—President Trump attempted to calm tensions by postponing some tariff hikes to December and remarking that China and the U.S. were still in trade discussions. Although equities rebounded somewhat, market participants remained nervous as the U.S. dollar strengthened and gold rallied to its highest level in over five years.

For the Program, all major sectors were profitable in August, with the best returns coming from fixed income and foreign exchange. Unlike typical CTA models, the Program was quite active both on the long and short side in fixed income throughout August. During the early part of the month, as the trade war was intensifying, the trading systems held aggressively long positions. Towards the middle of the month, as markets began to stabilize, the Program quickly flipped to short government bonds before becoming long once again in European and Japanese paper towards the end of the month. It is heartening to see the trading systems generate strong returns in fixed income by employing both long and short positions, rather than maintaining a long bias and being exposed to large reversals. Foreign exchange was also strongly profitable in August, profiting from short positions in the euro and pound sterling, and from long positions in the Japanese yen. The prospect of a "no deal" Brexit pushed the sterling to its lowest level in nearly three years.

All of the Program’s trading system families were profitable in August with the strongest performance stemming from the long-term trend following and trend crowding system families. Long-term systems generated gains in nearly every sector on the back of long positions in gold, Japanese yen, and European fixed income, and short positions in the euro—which were particularly profitable. Trend crowding systems delivered steady gains in every sector. The intermediate-term trend following trading system family, which trades time horizons of a few days to a few weeks, was solidly profitable, while the short-term volatility breakout system family, trading from intraday to a few days, also contributed.

With the strong performance over the past four months, the Program has set a new Alpha high relative to the S&P 500 Total Return index and neared its highs relative to the Société Générale Short-term Traders Index and a Long-VIX strategy. We are also particularly pleased that the Program has delivered strong returns during a period in which equity markets struggled, showcasing the deeply negative correlation and positive convexity that our investors desire.

It is also noteworthy to highlight that the Program's performance has been broad-based across sectors, rather than being driven primarily by fixed income—which has been the case for most CTAs. Over the past four months, the Program’s fixed income sector contributed +6.4% of the +14.0% gross returns (or about 46%). Comparatively, the Quest Tracker Index (QTI), our trend following replication strategy, had its fixed income sector contribute +14.9% of the +11.7% gross return (or about 127%).

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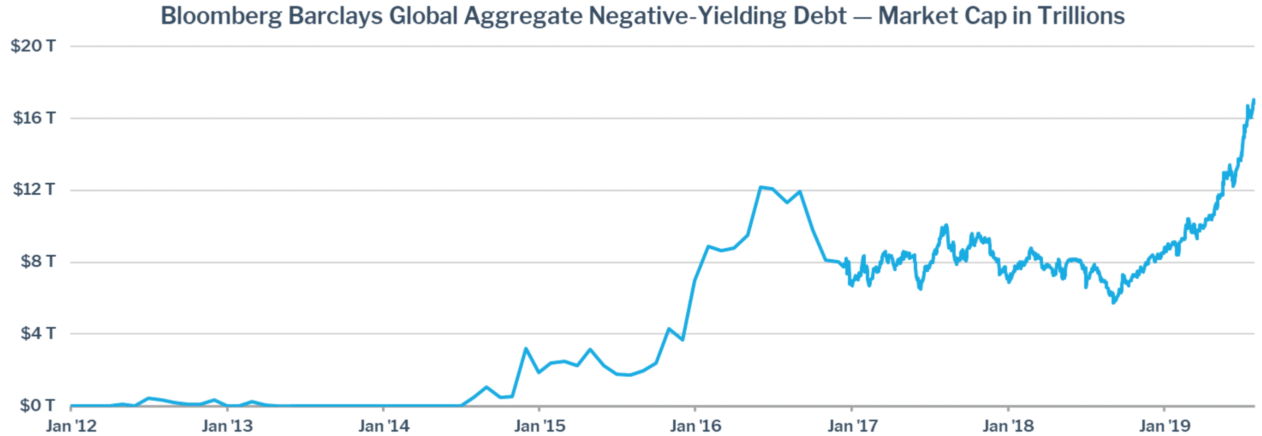
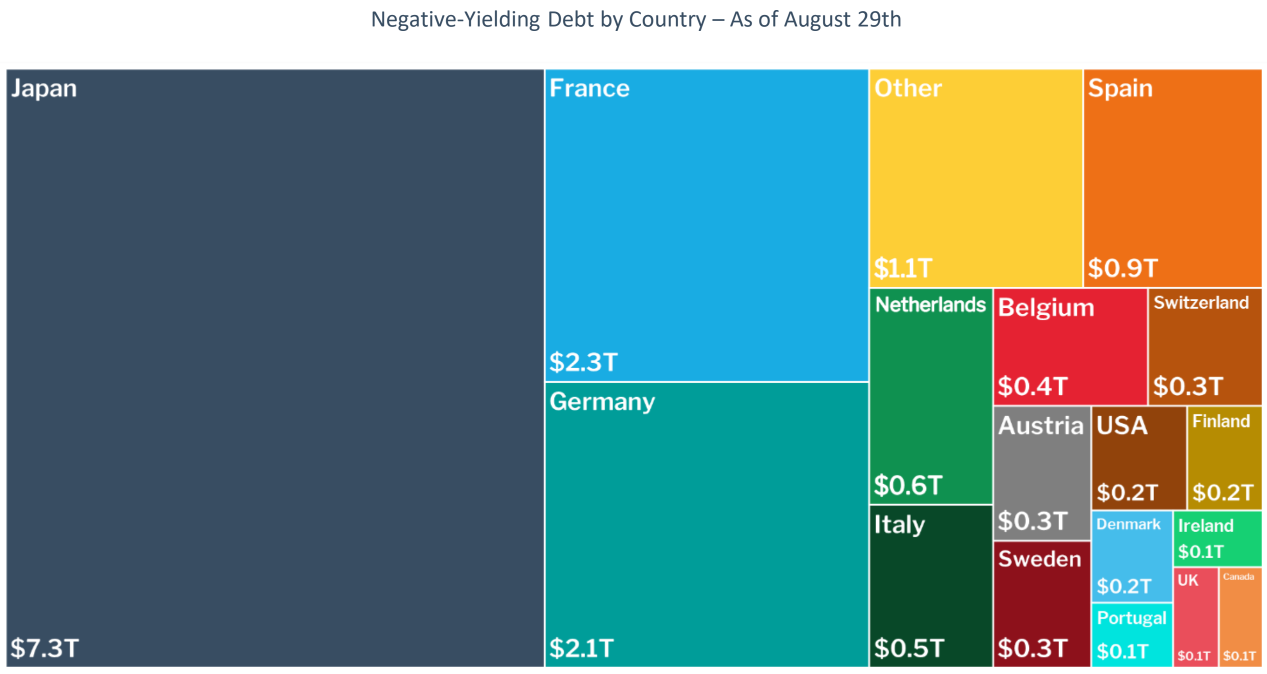
FACTSHEET

Market Commentary: The Implications of Negative Yields

The most significant recent development in financial markets is the massive increase in fixed income securities trading at negative yields. In August alone, the amount of negative-yielding bonds increased by $3 trillion to a staggering $17 trillion, which is estimated to be 30% of all investment-grade fixed income securities globally. Such unprecedented valuations have left investors perplexed as to why bonds have been rallying and what the implications are of these systemic negative fixed income yields.



Source: Quest Partners LLC, Bloomberg; Prior to January 2017, the index was published monthly. DISCLOSURES: Past results are not necessarily indicative of future results. Derivatives trading involves substantial risk of loss and may not be suitable for everyone. This is not a solicitation.



Source: Bloomberg; As of August 29, 2019.
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Several explanations have been offered for the rally: from secular factors, such as worsening demographics in developed economies and the rise of technological automation suppressing inflation, to cyclical factors, such prolonged low/negative rates, the legacy of excess liquidity from $19 trillion of Central Bank asset purchases over the past decade, and the impact of the trade wars on growth.

Regardless of the reason, negative-yielding bonds—being such a large and rising percentage of the global fixed income market—are the new reality and a phenomenon that is likely to persist well into the foreseeable future.

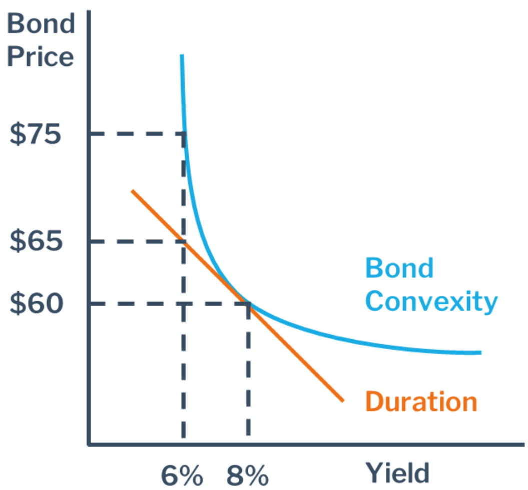
Less well-understood, however, are the numerous implications of negative yields on fixed income securities and other asset classes. Other than the obvious point of a guaranteed loss if negative-yielding bonds are held to their maturity, other core implications are:

1) Low yields lead to higher bond price volatility

Due to the positive convexity of bonds, declines in yields result in larger than expected gains (i.e., if yields decline by a certain amount, bond prices actually rise by more than what is estimated by a linear measure such as duration). As shown in the example below, when the yield on a bond drops from 8% to 6%, the corresponding price rises from $60 to $75, greater than the $65 price predicted by the duration of the bond. The difference between $75 and $65 is the effect of convexity.

When yields approach zero or go negative, small changes in yields have a very large impact on prices, thereby increasing price volatility. However, this can also work in the opposite direction (i.e., a small increase in yields from current levels can lead to large losses). As a result of, and contrary to, what investors may be expecting from "safe" assets, the risk of fixed income investments has actually increased significantly with the recent dramatic declines in yields.

Typical Relationship of Bond Yield and Price



Source: Quest Partners LLC

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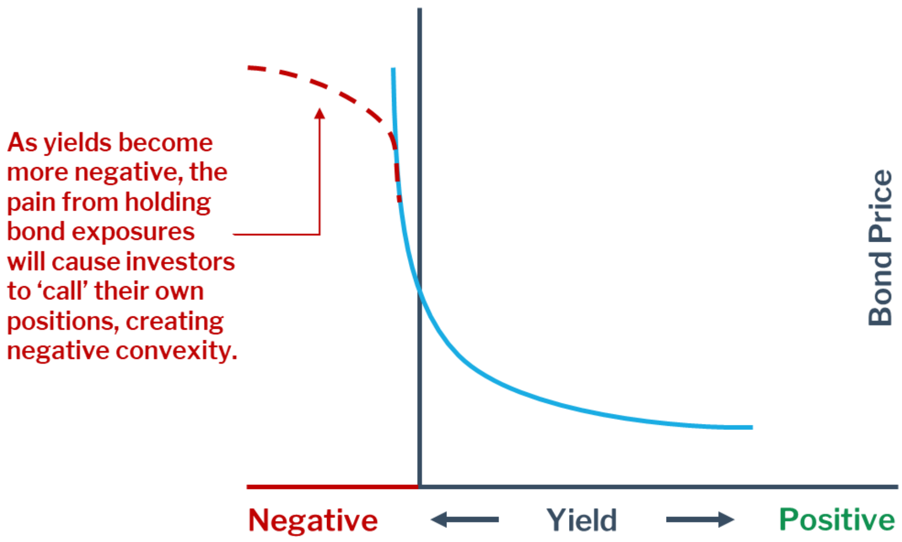
2) Convexity declines as yields become more negative

While government bonds are positively convex instruments, interesting things start to happen when yields go into negative territory. As investor aversion to pay more negative yields and take guaranteed losses rise, moves in bond yields are likely to become asymmetrical—yields are likely to rise (and bond prices decline) more than they are likely to fall. For example, the yield on the current 10-year German bund is -0.70%. If rates were to decline by another 100 bps, the yield on the bund would drop to -1.70%. On the other hand, a 100 bps increase in yields would see the 10-year German bund at a yield of +0.30%. Investors would need a significantly higher risk threshold to accept a guaranteed annual loss of -1.70% rather than have a +0.30% annual gain.

Similar to the negative convexity of a callable bond, negative interest rates will likely impose a threshold in which investors can no longer tolerate large guaranteed losses. This should, in turn, cause investors to reduce or liquidate their fixed income exposures to seek yield from other instruments which can offer a substitute profile while not incurring these large losses. Hence, the more negative the bond yield the more negatively skewed it should become, and the greater the potential for its price to fall more rapidly than it rises.

As Yields Become More Negative, Convexity Becomes Negative



Source: Quest Partners LLC
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3) Higher volatility and lower convexity of fixed income are contaminating other risk assets

One of the mysteries of the current environment is who is actually buying negative yielding bonds. Research shows that the largest buyers of government bonds in Japan, Germany, and France have been the central banks themselves. International and domestic private investors in these countries have in fact been net sellers, which is unsurprising given that such investors are reluctant to incur guaranteed losses on their fixed income investments.

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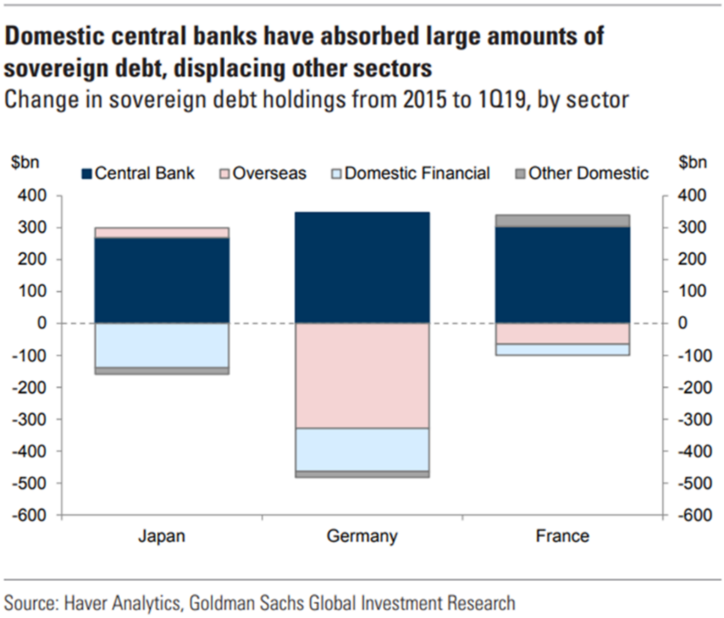
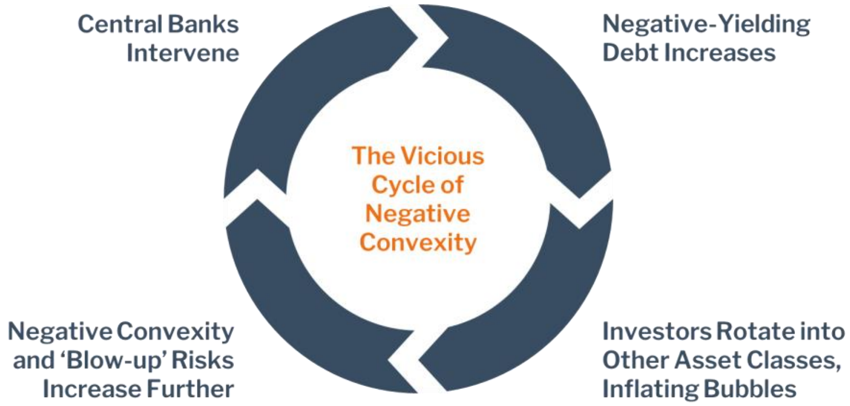


Source: Goldman Sachs Global Markets Daily: Flows and Spillovers - August 22, 2019

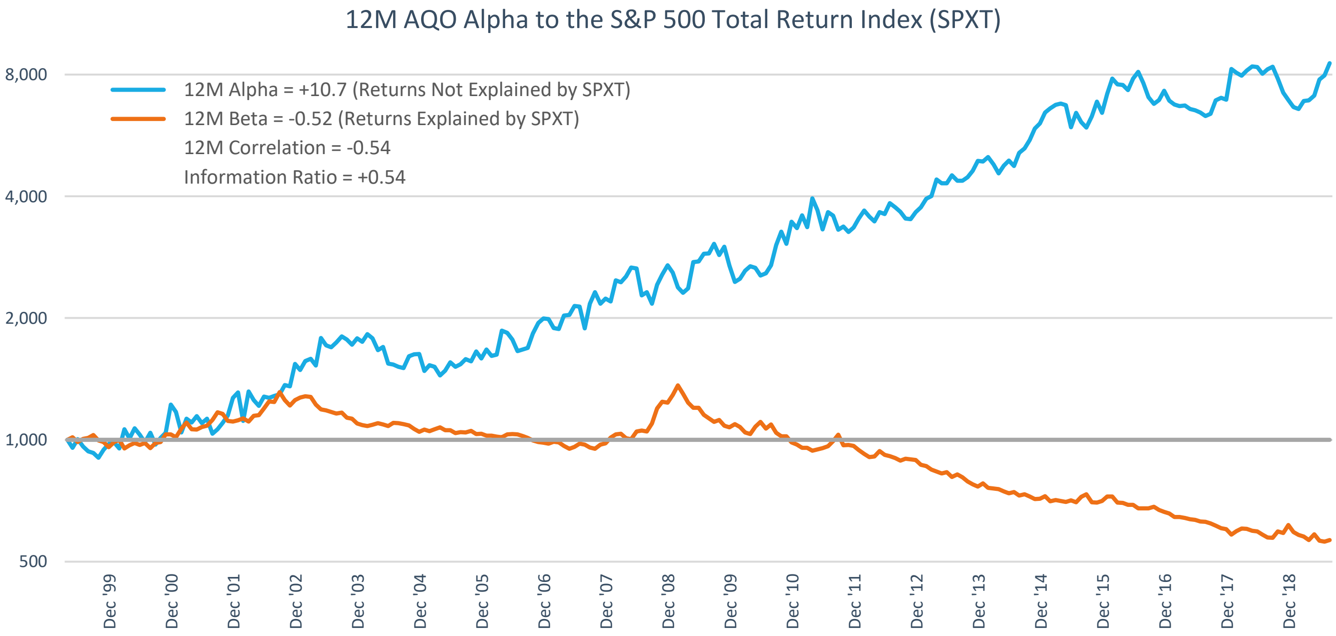
These investors are being forced to look for positive yields in other assets such as credit, equities, real and private assets. The impact of investor shift is seen by how well these asset classes have held up despite weakening growth and trade, and geopolitical tensions. Equities in the U.S. are marginally below their all-time highs, credit spreads for both investment-grade and high-yield bonds are close to cycle lows and private assets continue to attract unprecedented flows.



While the excuse of "there-is-no-alternative" or "TINA" may be useful in the near term, it is difficult to envisage how piling into increasingly overvalued assets and exposing portfolios to greater negative convexity ('blow-up' risk) is a viable strategy in the long run.

Rather than help economic growth, negative yields are in fact hurting it as consumers save more to accommodate the new burden of paying for their savings. Asset prices have been the beneficiary of negative yields for now, but this can turn quickly as mounting pressures lead to an eventual collapse.

ALPHAQUEST ORIGINAL (AQO) PROGRAM ALPHA CURVE SINCE INCEPTION (NON-UCITS)*



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Source: Quest Partners LLC; Alpha and Beta values are derived from 12-month rolling returns and are indexed at 1000 at AQO's inception.

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