

# AlphaQuest UCITS Fund

## CTA/Managed Futures

February 2021

### Performance Returns

The AlphaQuest UCITS Fund returned 6.11% in February (USD Institutional Share Class).

### AlphaQuest UCITS Fund Monthly Performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Y-T-D
2021	-2.50%	6.11%											3.45%
2020	1.69%	1.04%	5.93%	0.11%	-4.00%	0.75%	2.27%	-1.46%	-3.54%	-0.26%	-2.59%	0.66%	0.19%
2019	-4.96%	-1.34%	2.47%	-1.28%	2.38%	4.93%	0.88%	4.74%	-2.44%	-1.80%	0.64%	-1.10%	2.68%
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 USD Institutional Founder Pooled Share Class since launch on 9th December 2016 through 31st December 2020 (Mgmt. Fee 1%, Perf. Fee 15%), and USD Institutional Share Class beginning 1st January 2021. These performance figures refer to the past and past performance is not a reliable guide to future performance.

### Investment Objective and 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 comprised 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 one.

### ALPHAQUEST ORIGINAL (AQO) PROGRAM MONTHLY PERFORMANCE (NON-UCITS)<sup>A</sup>

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Y-T-D
2021	-4.84%	13.13% E											7.66% E
2020	7.32%	0.58%	8.81%	-0.18%	-4.36%	-0.43%	5.35%	-3.43%	-6.69%	0.17%	-4.29%	1.44%	3.07%
2019	-7.73%	-2.46%	3.98%	-1.54%	6.52%	6.06%	2.10%	8.47%	-4.44%	-0.90%	-0.38%	-1.80%	6.79%
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%

<sup>A</sup>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 Kouljian

Founder and Chief Investment Officer



Nigol Kouljian is the Founder and Chief Investment Officer of Quest. Mr. Kouljian 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, Mr. Kouljian identified specific strategies using proprietary techniques that have been continuously enhanced over the past nineteen 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. Kouljian started the NOK Foundation, which is committed to promoting the study and practice of yoga and meditation globally. Mr. Kouljian has acted as a board member of the Omega Institute and David Lynch Foundation. Mr. Kouljian earned an MBA in finance from Columbia Business School and a BS in electrical engineering from Notre Dame.

### Fund Facts

Structure	UCITS Fund
Domicile	Ireland
Liquidity	Daily
Fund AUM	\$48.4 million
Strategy AUM	\$1.552 billion
Inception	9th December 2016
Passport	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

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### Performance Commentary

The AlphaQuest UCITS Fund was up +6.1% in February as numerous markets exhibited volatility expansions and breakouts from longer-term averages. Everything worked for the Program, a testament to the positive skewness it seeks to achieve during turbulent market conditions.

Fixed income saw the largest volatility during the month as market participants were quick to pile into the reflation trade. The large price action led to an exacerbation of the move due to the unwinding of short-volatility trades and convexity hedging resulting from increases in the duration of mortgage-bond portfolios. The Program's shorter-term nature allows it to take advantage of such events, swiftly amassing positions into the direction of volatility expansion on the prospect of its continuation.

All sectors were profitable on the month. Fixed income contributed the majority of the Program's performance. The Program's trading systems were able to take advantage of breakouts in the sector, reaching a short fixed income position in excess of half of its overall permitted risk allocation.

Below is an update to last month's chart on the Bund future showing the magnitude of its breakout:



Source: Quest Partners LLC; March 2020 through February 2021; Bund future is priced in euros. 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.

Foreign exchange was the second-largest contributor. The risk-on trading environment did not suit the Japanese yen, which weakened versus nearly every major currency. The Program was profitable in all the yen-based pairs it trades for the month. The British pound continued its run in February, accelerating as gilts suffered their worst monthly selloff since 2016, offering opportunities on which the Program could profit. Commodities and equities achieved near-equivalent returns. Meaningful rallies in the energy complex and industrial metals as well as declines in precious metals aided the Program. Equities benefitted from the large snap-back after the late-January selloff.

All trading system families were also profitable on the month. The trend crowding trading system family was the best performer as it sought to take advantage of the breakdown of overcrowded strategies, particularly those within the fixed income sector. It is worth noting that the crowding trading systems were profitable in all sectors on the month. The intermediate-term trend following trading system family was the second-best performer, gaining most as market volatility increased in the back half of the month. The shortest-term volatility breakout trading system family also performed well amid the dislocations in fixed income. Long-term trend following was able to capture the persistence of trends in all asset classes. The trading system family performed best in commodities.

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### Market Commentary: All Roads Lead to Rome: on the Way to Inflation and Monetary Debasement

The COVID-19 recession has been atypical as it was abrupt and induced voluntarily to stymie the pandemic rather than the general punctuation of a traditional business cycle. The ensuing recovery is being driven by the advent of vaccines and normalization of the consumer rather than the restoration of credit.

The fiscal and monetary response to the pandemic has also been surprising. While the stimulus during the pandemic was welcome and much needed to stabilize the system, the commitment toward the continuity of enormous support for years to come is unclear. What is quite discernable, however, are the repercussions of these extraordinary actions (the largest since World War II) and their impact on markets for years to come.

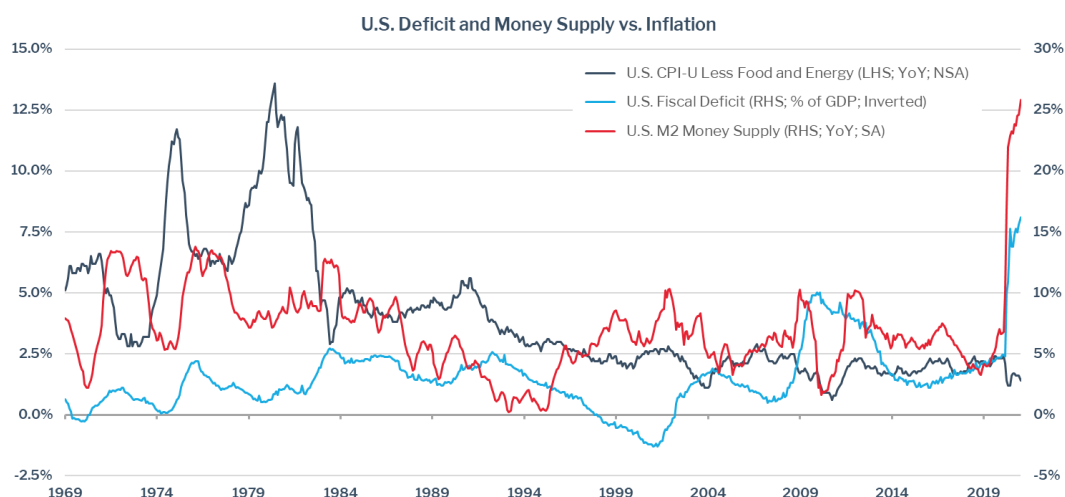
Central bank policies are blunt tools used to engineer growth. While these tools have found success in the past, the relationship of stimulus to growth is not formulaic. Recently, the efficacy of such support appears to be waning—each successive bout of stimulus has required ever-greater potency to generate equivalent units of economic growth. The trouble with so much stimulus is consequences in the form of inflation. While we have witnessed limited growth and inflation following the stimulus after the Great Recession, we are beginning to see initial signs that this could be changing.

Asset price inflation has picked up, most notably in commodity prices. Actual economic inflation can be slow to materialize, however, and often lags the stimulus significantly. In the early stages, the experience is similar to that which we are seeing now. Eventually, economic inflation materializes and, if the stimulus is maintained, it does so dramatically.

Interestingly, despite the largest increase in money supply and the biggest fiscal deficit since World War II, future inflation expectations are currently well-anchored. While U.S. money supply is growing at over +25% annually and the fiscal deficit is at -16%, inflation expectations are only a meager 2.2% as seen in forward inflation swaps. Essentially, markets are treating the upcoming inflation as mild and transitory.

Historical data suggests otherwise. Past periods of high growth in money supply and fiscal deficits resulted in significant increases in inflation typically 12 to 36 months later, as shown below. The relationships over the past fifty years would suggest that inflation in the next few years could reasonably increase to 5% rather than the 2.2% level expected by the markets.

#### The historical relationship between inflation, money supply growth, and fiscal deficits suggests that inflation over the next 12 to 36 months will be substantially greater than current expectations



Source: Quest Partners LLC; January 1969 through January 2021; 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.

Another byproduct of fiscal and monetary stimulus is the debasement of fiat currencies. History once again shows that fiscal discipline is difficult to impose on economies that can freely print their own currencies. It is much easier for them to print money rather than seeking to generate sustainable growth through structural, long-term changes. As seen in the charts on the following page, despite being the reserve currency of the global financial system, the U.S. dollar has steadily depreciated against safe-haven currencies such as the Swiss franc and the Japanese yen over the past fifty years since the end of the Bretton Woods regime of currency linkage. The steady decline has been punctuated by shorter-term gains (e.g., mid-1980s and mid-1990s) but has then reverted to its longer-term trend, especially during periods which coincided with recessions and the early stages of recovery, such as now. Notably, among major global currencies, only the British pound—a currency that was previously the global standard—exceeds the U.S. dollar in terms of long-term depreciation.

With the current rapid and unprecedented money printing, it would not be surprising to see the U.S. dollar resume its decline over the coming years.

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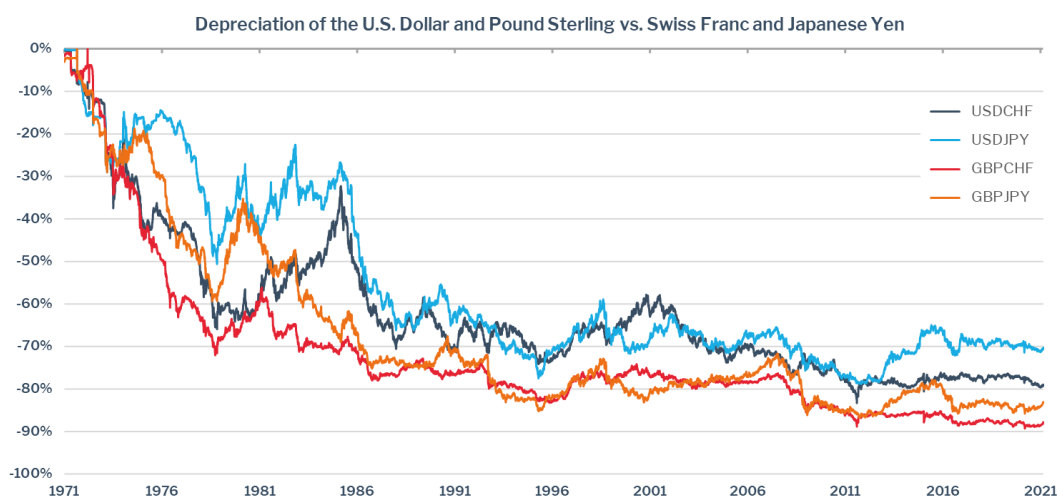
## CTA/Managed Futures

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### The U.S. dollar has steadily depreciated against safe-haven currencies over the past fifty years

	USD vs. CHF	USD vs. JPY	GBP vs. CHF	GBP vs. JPY
Last 50 Years	-79%	-70%	-88%	-83%
Last 30 Years	-32%	-20%	-50%	-42%
Last 10 Years	-2%	+30%	-16%	+12%

Source: Quest Partners LLC, Bloomberg; January 1971 through February 2021.



Source: Quest Partners LLC, Bloomberg; January 1971 through February 2021; 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.

CTAs have struggled during the recent period of low inflation, low market volatility, and central bank intervention. CTA returns are largely flat over the past two decades after excluding returns on cash. As a result, trend following has been shunned by many investors, strategy assets have stagnated, and it largely remains underrepresented in portfolios.

With a potential change in market regime however, CTA strategies may be at an inflection point. A pickup in inflation would bode well for CTA strategies as value is difficult to establish when future price expectations are unclear and currencies are being debased rapidly. This, in turn, causes greater volatility and larger moves as financial assets are repriced. As first highlighted in our October 2020 monthly letter, trend following strategies had their best returns in the 1970s when inflation was surging, with one such strategy returning +8.8% per year above the risk-free rate in that decade while it only returned +1.2% per year in the most recent one.

The prevailing consensus in global markets is that any pickup in inflation will be temporary and authorities will be able to seamlessly reverse their pandemic-fighting measures. But the scale and indicated duration of the stimulus and the rapid nature of this recovery exposes the risk of a strong breakout in inflation which may be difficult to reign in. Even a small overshoot in actual inflation can have a significant impact on financial assets, especially given current valuations which leave little room for error.

While the risk is most prominent for government fixed income—an inflation breakout with yields close to zero would be catastrophic for these securities—it is not limited to just one asset class. The main justification for record valuations for nearly all asset classes is predicated upon government fixed income yields being at record lows. Should that no longer be valid, the foundational support for valuations could begin to breakdown.

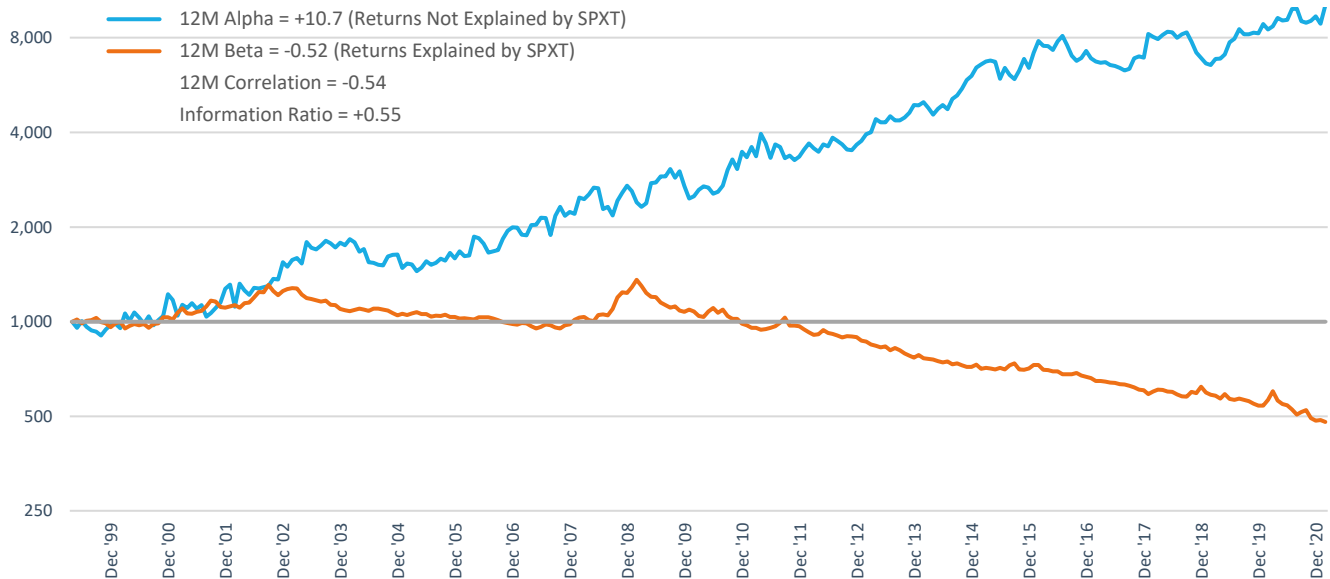
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### ALPHAQUEST ORIGINAL (AQO) PROGRAM ALPHA CURVE SINCE INCEPTION (NON-UCITS)\*

12M AQO Alpha to the S&P 500 Total Return Index (SPXT)



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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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