# AlphaQuest UCITS Fund

CTA/Managed Futures

June 2022

## Performance Returns

The AlphaQuest UCITS Fund returned 1.02% in June (USD Institutional Share Class).

## AlphaQuest UCITS Fund Monthly Performance

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sept | Oct | Nov | Dec | Y-T-D |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2022 | -0.46% | 1.19% | 7.03% | 4.83% | -0.37% | 1.02% | | | | | | | 13.74% |
| 2021 | -2.50% | 6.11% | 3.25% | 1.30% | -0.27% | -0.70% | 0.75% | -1.33% | -0.27% | 4.19% | -3.52% | -1.46% | 5.25% |
| 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 (Mgmt Fee 1.5 Perf Fee 20). 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.

## Fund Facts

| AlphaQuest UCITS Fund | |
|---|---|
| Structure | UCITS Fund |
| Domicile | Ireland |
| Liquidity | Daily |
| Fund AUM | $54.3 million |
| Firm AUM | $2.512 billion |
| Inception | 9th December 2016 |
| Passport | Ireland, UK, France, Lux and Switzerland (Qualified Investors Only) |

| Share Class | Institutional / Inst. Pooled | Retail Pooled |
|---|---|---|
| Currency | EUR/GBP/CHF/USD | EUR/GBP/CHF/USD |
| Mgt. Fee | 1.5% | 2% |
| Perf. Fee | 20% | 20% |
| Min Init. Sub. | 1,000,000 | 100,000 |
| ISIN Codes | EUR: IE00BD08G390 / IE00BD08G739<br>USD: IE00BD08G622 / IE00BD08GB72<br>CHF: IE00BD08G515 / IE00BD08G952<br>GBP: IE00BD08G408 / IE00BD08G846 | EUR: IE00BD08GM87<br>USD: IE00BD08GQ26<br>CHF: IE00BD08GP19<br>GBP: IE00BD08GN94 |

## The Manager

Quest Partners LLC

## Key Biographies

### 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, Mr. Koulajian 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 $2.5 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.

### Brian Brugman

Director of Research

Brian Brugman is the Director of Research at Quest, spearheading the firm's research and investment strategy development. Mr. Brugman joined Quest in June 2021 after spending fourteen years at AllianceBernstein where he played a leading role in the construction of the firm's systematic macro investment capabilities. At AllianceBernstein, Mr. Brugman was a Senior Vice President and Portfolio Manager on the Multi-Asset Solutions team, having managed the firm's Systematic Macro strategies since their inception. Mr. Brugman holds a Ph.D. in Physics from the University of California, Los Angeles and a B.S. in Physics and Applied Mathematics from the University of California, Riverside.

## Performance Commentary

The AlphaQuest UCITS Fund was up 1.0% in June, underperforming the SG CTA Index (+1.8%) but far outperforming the S&P 500 Total Return Index (-8.3%). Through the first half of the year, the Program is up 13.7%, significantly outperforming the S&P 500 Total Return Index (-20.0%).

Among sectors in June, fixed income contributed the most, as bonds continued their decline and central banks scrambled to accelerate tightening in the first part of the month. The Program avoided a late-month reversal as long positions in its shorter-term trading systems neutralized shorts in the longer-term trading systems. Foreign exchange also contributed meaningfully as dollar strength persisted amid growing interest rate differentials. Equities were positive on the month, with the shortest-term trading systems chasing downside breakouts. Commodities were the only detractor on the month due primarily to a reversal in the intermediate trend in energies.

Among trading system families, the shortest-term volatility breakout trading systems performed best, profiting in all sectors but most notably from the abrupt decline in equities. The longest-term trend following trading systems also contributed, latching onto trends in fixed income and foreign exchange. The remaining trading system families detracted modestly, with no performance of note.

## Market Commentary

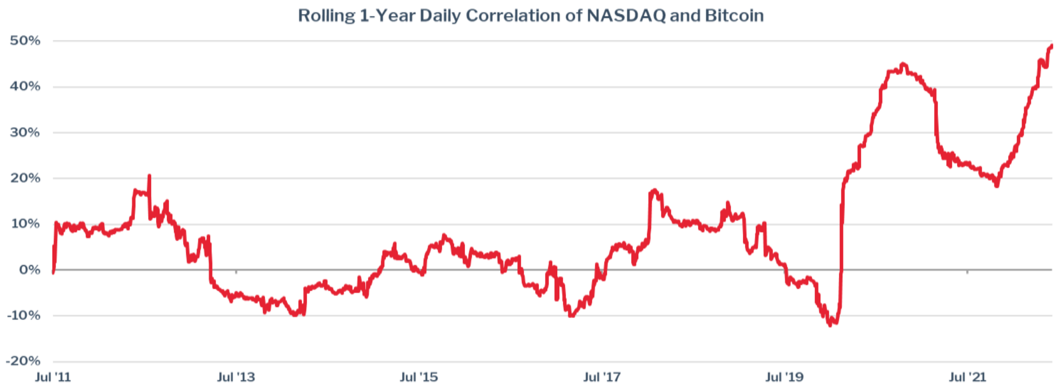
The impact of macro themes unfolding before us is not to be taken lightly: inflation remains near generational highs with uncertainty around its future path, central banks are struggling to tighten policy as aggressively as needed, geopolitical tensions are high, and supply chains remain under pressure. With leverage at or near all-time highs, financial markets were clearly ill-positioned for the shocks of this year's historical macro events.

Looking forward, we anticipate a persistence of inflation in the short to medium term. Uncertainty should yield heightened volatility with intermittent spikes around key data points and news events. This will drive additional unwinding of levered positions and continued stress on assets which thrived during high liquidity and low interest rates. To combat inflation, central banks will need to tighten further and more aggressively to make up the divergence between short-term rates and the true rate of inflation. Such an environment will require strategies which can be nimble while having positive convexity to tails.

## Heightened Volatility

For decades, central banks have been suppressors of volatility, injecting liquidity and cutting rates whenever volatility rose. Today, uncertainty around inflation has forced them to change course. Rather than responding to increased volatility with liquidity provision, central banks will be required to extract liquidity from markets as to not exacerbate contemporary issues. Markets have taken note, with the frequency of days of S&P 500 decline in excess of 1% reaching levels only surpassed by 2008 and the 1930's. This volatile environment has impacted speculative assets the most. In the case of cryptocurrencies, their long-term correlation to technology stocks has risen meaningfully, as shown below. Some cryptocurrencies have even recently experienced a total loss. We anticipate further challenges to the space moving forward.

**Crypto Is Moving From an Island to the Center of the Storm**

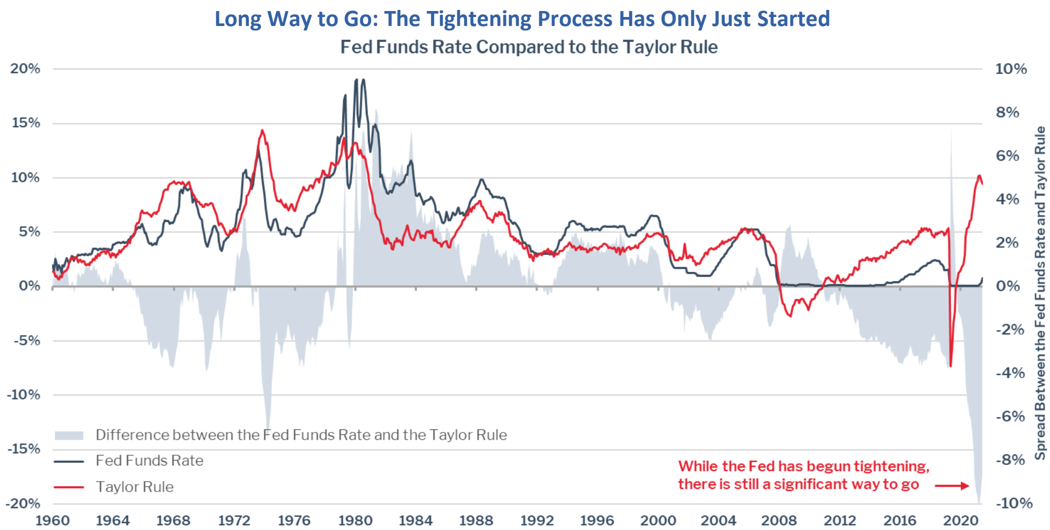



*Source: Quest Partners LLC, Bloomberg; July 2011 through June 2022. DISCLOSURES: Past results are not necessarily indicative of future results. Derivatives trading involves substantial risk of loss and may not be suitable for everyone. This is not a solicitation.*

## Tightening but Still Too Loose

One key reason we expect volatility to remain elevated is that policy makers are behind the curve and will need to tighten more aggressively. This has already begun; in June, the Federal Reserve shifted from a 50bps hike to 75bps while indicating similar hikes later this year. Even after the largest rate hike in more than two decades, the level of policy remains extremely loose compared to where it should be based on fundamentals. Based on the Taylor Rule, U.S. interest rates remain more than 8% lower than where they should be.

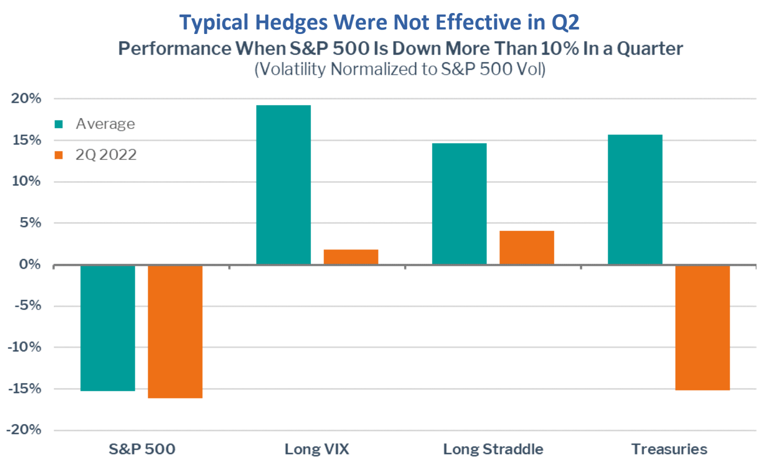
Further, inflation is greater than that which is being reported. Former U.S. Secretary of Treasury Larry Summers and his peers highlight this in a new paper, Comparing Past and Present Inflation, published by the National Bureau of Economic Research. In it, they conclude that the current inflation regime is likely closer to that of the late 1970's than it may appear. This consistent measurement implies a need for policy to become as restrictive as it was under former Federal Reserve Chairman Paul Volcker when rates went as high as 20%.




*Source: Quest Partners LLC, Bloomberg; January 1961 through June 2022. 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.*

## When Your Diversifiers Fail…

To make matters worse, many hedges that investors have relied upon in the past recently failed to deliver desired diversification. The rise in inflation led treasury yields to surge. Even options-based hedges delivered poor performance as implied volatility remained contained. As shown in the chart below, the performance of these common hedges struggled in the second quarter relative to their historical averages when the S&P 500 also declined more than 10%. Most notable were long-VIX positions, which barely contributed positive returns, and treasuries, which detracted significantly on the breakdown in correlation between stocks and bonds.

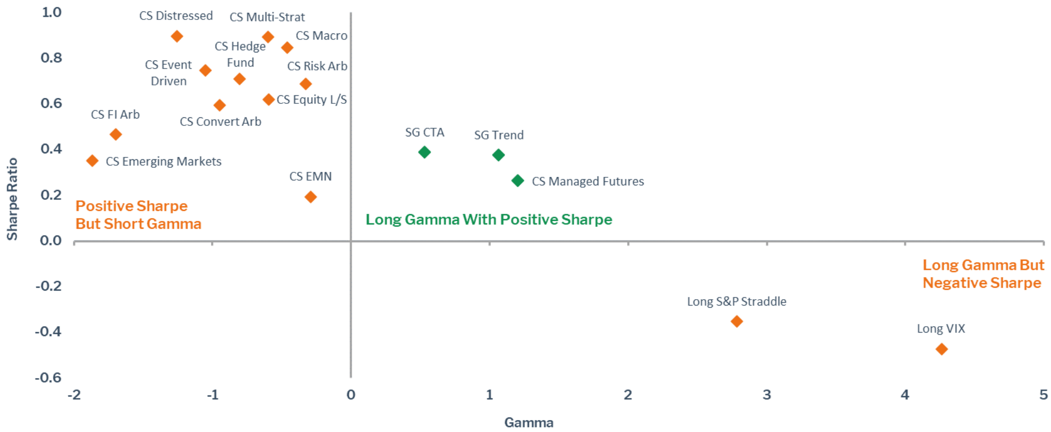



*Source: Quest Partners LLC, Bloomberg; June 2006 through June 2022. Averages based upon quarterly figures. Strategy volatility geared to S&P 500 realized volatility during the period for comparative purposes. Please contact Quest Partners for any further details on the analysis. DISCLOSURES: Past results 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.*

Year-to-date, many hedge funds and other sources of diversification have seen materially larger declines than would be anticipated based on their volatility alone. This is an unprecedented change when compared to similar periods. In fact, there is an economically and statistically significant link between strategies that have high apparent risk adjusted return (Sharpe Ratio) and tail risk measures. We measured tail risk using gamma, which captures sensitivity to large equity market moves. What we found was that CTAs, as captured by the SG CTA, SG Trend, and the CS Managed Futures indices, offer a compelling combination of positive long-run returns with positive tail exposure (gamma). Going forward, we expect this relationship between return and tail exposure to hold up and investors who allocate to strategies delivering high returns adjusted for tail risks will be rewarded.

**CTAs Stand Out as Strong Portfolio Diversifiers**

Strategy Sharpe Ratio and Gamma Profile




*Source: Quest Partners LLC, Bloomberg; December 1993 through June 2022, where data available. Please contact Quest Partners for any further details on the analysis. 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.*

## Where Do We Go From Here?

While no one can perfectly predict the future macro environment, here at Quest we take a scientific approach and data shows convincing reasons to expect macro trends yielding elevated volatility in the coming quarters. Strategies that exploit these trends are likely to be successful. We also expect investors' need for reliable diversification and return generation to become more acute, as returns from many nominal assets decline, volatility spikes become more prevalent, and drawdown risks increase. Strategies like the Program, that can deliver positive convexity, positive long-run return, and differentiated Alpha are uniquely positioned to address these two needs.

## Contact Details

**Investor Contact**
**Bastions Partners Office SA**
61A Route de Chêne
CH-1208 Genève - Switzerland
Michel Brulhart T: +41 (0)22 3220 326
m.brulhart@bastionspartners.ch

**Management Company**
**Waystone Fund Management (IE) Ltd**
3rd Floor, 76 Baggot Street Lower
Dublin, Ireland
T: +353 1 533 7020
investorrelations@waystone.com

**Investment Manager**
**Quest Partners LLC**
126 East 56th Street, 25th Floor
New York, NY 10022, USA
T: +1 212 838 7222
investorrelations@questpartnersllc.com

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