AlphaQuest UCITS Fund

CTA/Managed Futures

February 2018

FACTSHEET

Performance Returns

The AlphaQuest UCITS Fund returned -0.10% in February (USD Institutional Founder Share Class).

USD Institutional Founder Share Class UCITS Performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Y-T-D
2018	9.82%	-0.10%											**9.71%**
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 guarantee of future performance or 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.

Performance Commentary

The Program was flat in February despite a highly challenged market environment. Early in the month, the S&P 500 had its largest single-day and single-week decline since August 2011, the Dow had its largest weekly decline since the Global Financial Crisis of 2008-2009, the VIX Index (measuring implied volatility) spiked to over 50% for the first time since August 2015, resulting in the collapse and liquidation of short volatility products linked to the VIX Index. Markets rallied back as the month progressed, however they failed to fully recoup the sheer force of the initial move.

In February, both the BTOP50 Index and SG CTA Index declined, -5.7% and -6.4% respectively. This was the worst single-month performance in over 15 years: since March 2003 for BTOP50 Index and November 2001 for SG CTA Index.

Given the volatility, performance was mixed across asset classes and trading system. At an asset class level, the biggest gains came from equities and bonds, while commodities, through SFIs, and foreign exchange detracted from returns. Equities contributed as the Program de-risked quickly at the beginning of the month and was then able to position for the rebound. The Program was short bonds throughout the period as yields achieved new cyclical highs on the back of strong economic data and hawkish leaning from the new Chairman of the U.S. Federal Reserve. Commodities, through SFIs, detracted from performance, as the pullback in crude oil and gold steered the asset class to a negative month. Foreign exchange was initially profitable as the US dollar declined, however it capitulated those profits on the back of dollar recovery towards the end of the month.

continued…

THE MANAGER

QUEST PARTNERS LLC

Nigol Koulajian

Founder and Chief Investment Officer

Nigol has been designing and trading short and long-term technical systems for over 24 years. Mr. Koulajian began his career with Andersen Consulting and then moved to Deutsche Bank, where he helped create and computerize a risk management system that became a widely used tool for senior management. He then became the Head Trader for Carmel Capital and while working at Carmel designed and priced hedges on international equity and fixed income arbitrage positions. In 1996, Mr. Koulajian joined Weston Capital Management, LLC where he was the Director of Asset Allocation and Product Development, responsible for the allocation of assets to equity hedge funds and CTAs. In 1998, Mr. Koulajian started Avalon Asset Management, LLC, a fund of funds, and in 1999, he co-founded a CTA, Enterprise Asset Management, LLC. Mr. Koulajian earned an MBA in finance from Columbia Business School and a BS in electrical engineering from Notre Dame.

Paul Czkwianianc

Head of Research

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	$69.5 million
Strategy AUM	$1.258 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

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Performance Commentary

Among trading systems, the best returns came from the 'trend crowding' family as they benefited from the reversal of mature and formerly profitable trends in equities and bonds. Short-term trading systems that trade time horizons of a few days also contributed to positive returns, especially benefiting from the breakout of volatility early in the month.

Intermediate-term trading systems, which trade time horizons of a few days to a few weeks, were modestly negative. Long-term trend-following trading systems had the largest negative impact on the Program, despite their modest weighting. These trading systems were affected by a reversal in many of the markets that generated returns in January. Notably, the performance of these trading systems was fully offset by the 'trend crowding' systems, allowing the Program to retain profits in a deeply challenging environment for typical trend-following strategies.

While January was a very strong month of absolute returns and Alpha for the Program, February was even more compelling in terms of the differentiated returns and Alpha delivered by the Program. The primary focus of capturing convexity and volatility expansions over short-term time periods allowed the Program to be aggressively positioned for the trends that materialized in early January, and further, to take profits towards the end of the month. As a result, the Program entered February with approximately 1/3rd of the risk level compared to a month earlier. Although the Program still had some exposure to equities, this was reduced rapidly as markets declined and the Program took advantage of the rebound.

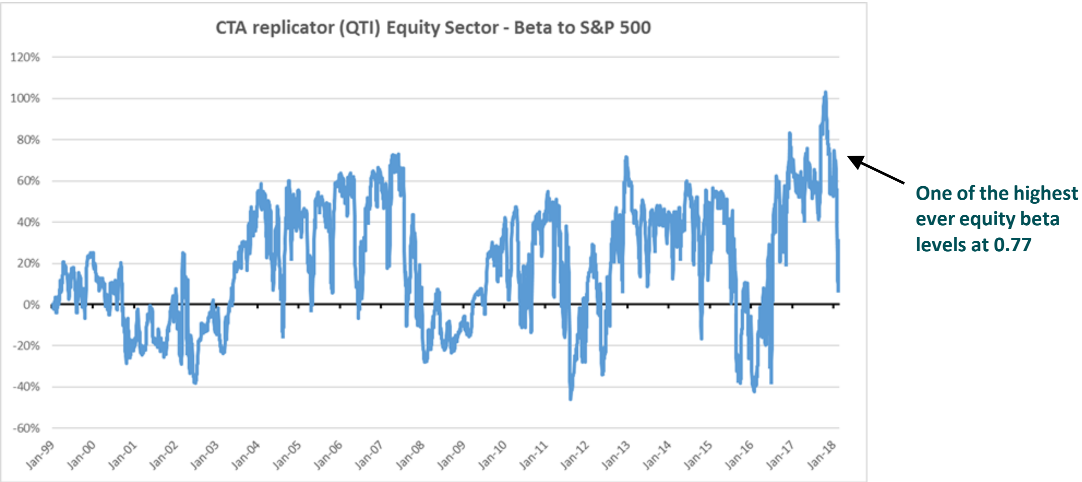
Market Commentary

The CTA industry had a different experience in February, as the main indices and many managers not only gave back their returns from January, but also gave back nearly all of their returns from the prior year.

This performance environment demonstrates the phenomenon of crowdedness in the CTA industry that we have written about in recent years. The popularity of 'smart beta' trend-following strategies and large asset sizes of some managers, have exacerbated the levels of crowdedness in individual markets, signals, and time horizons. Indeed, the asset flows into these strategies are increasingly influencing asset prices. An example of this in February was when the S&P 500 sold off aggressively on February 9th toward its 200-day moving average. After a brief breach of this popular indicator, which likely took out many 'stops', the index saw a sharp reversal and strong rally. This type of crowdedness has been negatively impacted by the abnormally low volatility of the past decade and increased popularity of volatility-based portfolio construction techniques in many investment strategies. The lower the level of market volatility, the larger the position sizes needed to generate the same returns, thereby crowding markets even further.

At Quest, we have studied crowdedness extensively and incorporated it into our investment strategies. In fact, in 2011 we developed the Quest Tracker Index (QTI) program, which aims to track the performance of trend-following CTAs and to match the performance of widely followed CTA indices, on a risk-adjusted basis. This program, which has a correlation of +91% to the BTOP50 Index and +89% to the SG CTA Index on a rolling 12-month basis, has produced Alpha of +2.7% and +1.2% to these indices on an annualized basis since inception, respectively. In addition to being an attractive trend-following replication product, the QTI program allows us to better understand the performance and exposures of industry participants focused on medium to long-term trend-following.

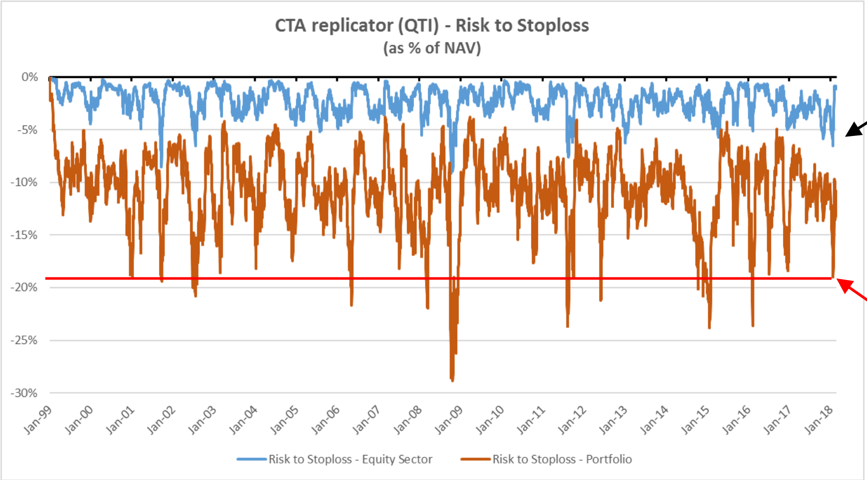
As shown below, the equity beta of the QTI CTA replicator program at the end of January was close to the highest level going back to 1999, the period from which we modeled its performance. Following the sharp decline in the equity markets in the first week of February, the replicator program was forced to exit its long positions and was then unable to participate in the rebound during the month, similar to that which was experienced by typical trend-following strategies.



FACTSHEET

Market Commentary

Additionally, the 'risk-to-stop' was at extremely high levels at the end of January. The QTI CTA replicator program uses moving average crossover as the stop on a trade. The chart below illustrates the 'risk-to-stop' (i.e., the distance between the current levels and the moving average crossover stop of the replicator).



One of the highest ever *equity sector* risk-to-stop at -6.5% of NAV

One of the highest ever *portfolio level* risk-to-stop at -18.9% of NAV at the end of January

The QTI CTA replicator program's stops in the equity markets were at -6.5% of NAV at the end of January, the highest level in nearly five years. Across all markets, at the portfolio level, the risk-to-stop was -18.9%, one of the highest levels ever.

Given the strong and stable trends in recent months, the charts above show how crowded typical trend-following strategies were at the beginning of February. As markets become more crowded, volatility as a measure of risk also becomes less relevant, as investors increasingly take on 'tail' or convexity risk (i.e., the risk of a sudden change in volatility). Crowdedness by its very nature is negatively convex, generating steady returns for a period, but then unravelling suddenly.

Our proprietary research at Quest shows that negative convexity explains a large component of the Alpha, Sharpe Ratio, drawdowns, and correlation change during a crisis of most assets and investment strategies. In this context, the implosion of the short volatility ETF's—which produced stellar returns in recent years but were extremely negatively convex—is not surprising.

We believe this recent episode is merely the start to the unravelling of many negatively convex strategies in the years to come, as interest rates and market volatility normalize.

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

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2018	16.33E	(0.02)E											**16.30%E**
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 MontLake AlphaQuest UCITS Fund. UCITS Funds have to abide by onerous investment restrictions and consequently the performance of the MontLake AlphaQuest UCITS Fund may not be similar to that presented above.*

Contact Details

Investor Contact
ML Capital Ltd
29 Farm Street
London, W1J 5RL, UK
T: +44 20 3709 4510
investorrelations@mlcapital.com

Investment Manager
ML Capital Asset Management Ltd
23 St. Stephen's Green
Dublin 2, Ireland
T: +353 1 533 7020
investorrelations@mlcapital.com

Sub 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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