AlphaQuest UCITS Fund

CTA/Managed Futures

July 2022

Performance Returns

The AlphaQuest UCITS Fund returned -0.92% in July (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%	-0.92%						12.69%
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	$70.6 million
Firm AUM	$2.495 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 USD: IE00BD08G622 / IE00BD08GB72 CHF: IE00BD08G515 / IE00BD08G952 GBP: IE00BD08G408 / IE00BD08G846	EUR: IE00BD08GM87 USD: IE00BD08GQ26 CHF: IE00BD08GP19 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 declined 0.9% in July as sharp reversals in equities and fixed income impacted its longest-term trading systems. Despite this, the Fund remains up a strong 12.7% on the year.

The S&P 500 Total Return Index began July with a steady relief rally that returned +3.5% through the 26th. Perceived dovish sentiment from the Federal Open Market Committee led to an acceleration of the rally in the final days of the month, culminating in a 9.2% gain for the index, its best month since the post-COVID run.

CTA short covering only bolstered the equity rally and, further, led to broad losses for traditional, medium-term trend followers—the SG CTA Index and SG Trend Index were down 3.1% and 4.4% in July, respectively. The Program's shorter-term nature helped it better navigate the month's reversals.

For sectors in July, performance was mixed, with commodities and foreign exchange contributing while fixed income and equities detracted. Commodities performed best, with gains from clean breakouts in metals offsetting losses in the energy subsector. Foreign exchange also aided due to short-term volatility in the U.S. dollar, which continued its strong rally at the beginning of the month and then reversed course on the prospective convergence of interest-rate differentials between the U.S. and other nations. This was confirmed on July 21st, when the European Central Bank hiked its benchmark rate by 50 basis points, the first hike since 2011. Fixed income and equities both detracted, primarily due to the reversal of long-term trends where positioning was most concentrated.

For trading system families, intermediate-term trend following performed best, profiting most in commodities. Trend crowding trading systems were flat on the month, with no performance of note. The shortest-term volatility breakout trading systems detracted slightly on the reversal in equities. Long-term trend following contributed the vast majority of the loss, impacted by the unwinding of trends in fixed income and equities.

Market Commentary

The sharp dislocations in early 2022 caught many investors off guard. Inflation surged to generational highs, forcing central banks to begin tightening policy at the fastest pace in decades even as markets fell. The resulting re-rating of multiples and growth expectations drove a sharp drawdown, particularly pronounced in bonds and speculative sectors of the market where tail risks had been building. Real assets, such as commodities, surged.

This environment started to reverse in July, as markets began to price an easing of these pressures. Rising interest rates, signs of reduced demand, and cooling geopolitical flash points have led to an easing of the year's earlier trends, with real assets declining and equities and bonds rallying off their lows. This respite has resulted in a giveback in the performance of strategies that performed well earlier in the year. As a result, many investors are asking how markets and CTAs will perform in the second half of the year, and whether they should maintain their hedges or take on a more risk-on stance.

To help address these questions, we've examined how equity multiples behaved during prior Fed hiking cycles and the prospects for CTAs moving forward considering the similar environment. We anticipate continued compression of equity multiples, volatility in the short to medium term, and that central banks will be unable to support markets in the same manner as they have in the recent past. All of these may act as tailwinds for CTA performance and particularly the Program, which is likely to benefit from its shorter-term nature and focus on convexity.

Impact of Hiking Cycles on Equity Multiples

The recent Fed hiking cycle has been one of the sharpest in decades. In only four months, rates have increased by 225 basis points, a pace only eclipsed by the inflation-induced hiking cycles of the 1970's and '80's. Rapid tightening of market conditions is likely to once again put pressure on equity-market multiples as participants reevaluate the future cost of capital and proceed with caution in the current recessionary environment.

In nearly all of the Fed's hiking cycles, multiples have succumbed to such pressures, leading to the meaningful contractions shown on the chart on the next page. Looking forward, we anticipate a similar fate, with continued increases in rates applying downward pressure on multiples and presenting further risk to investor portfolios.

Past Hiking Cycles and Equity Multiples

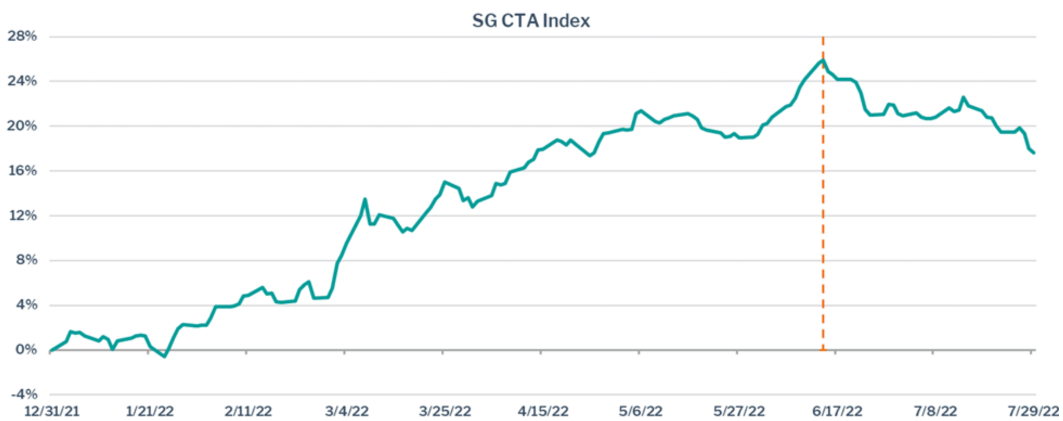
Cycle Dates (Min. Two Hikes)	Cumulative Change in Fed Funds Rate	Cumulative Change in S&P 500 P/E Ratio	Annualized Change in S&P 500 P/E Ratio
Jan '73 to Aug '73	5.50%	-4.2	-6.5
Feb '74 to Jun '74	4.00%	-1.5	-4.5
Apr '76 to Jun '76	0.75%	-0.9	-4.6
Nov '76 to Nov '79	10.75%	-3.6	-1.2
Feb '80 to Mar '80	6.00%	-0.7	-5.4
Aug '80 to Dec '80	10.50%	1.1	2.7
Mar '84 to Oct '84	2.25%	-1.7	-3.2
Dec '86 to Oct '87	1.37%	4.2	5.0
Mar '88 to Jun '89	3.25%	-2.5	-2.1
Feb '94 to Jul '95	3.00%	-6.3	-4.5
Jun '99 to Jan '01	1.75%	-6.5	-4.3
Jun '04 to Sep '07	4.25%	-2.9	-0.9
Dec '15 to Jul '19	2.25%	1.2	0.3
Mar '22 to Ongoing	2.25%	-1.5	-4.0

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.

Hedges that Retain Performance

In the face of this year's volatility, CTAs delivered strong results. Through mid-June, "safe" U.S. government bond indices declined by more than 10%, broad equity markets declined by more than 20%, and some speculative sectors (e.g., biotech) declined by more than 40%. By contrast, the SG CTA Index was up 25.9% from the start of the year through its peak on June 14th, as shown below.

CTAs Have Delivered Strong Performance Year-to-Date



Source: Quest Partners LLC, Bloomberg; January 2022 through July 2022.
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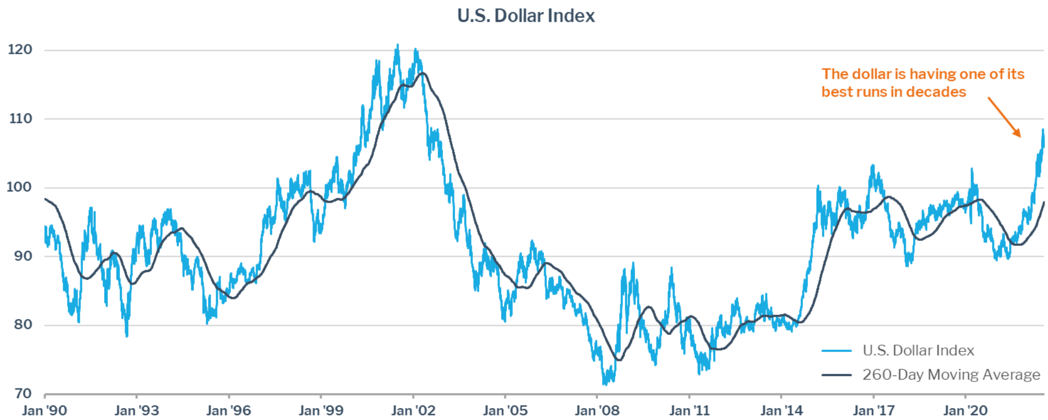
As a testament to the robust nature of their returns, CTAs have notably outperformed across sectors as well as from both long and short positions (rising commodity prices and declining fixed income prices). More recently, currencies have become a major contributor to their performance, as diverging monetary policies have driven breakouts in the U.S. dollar versus several major currencies.

The Dollar Has Broken Out After Decades of Stagnation



Source: Quest Partners LLC, Bloomberg; January 1990 through July 2022.
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Following the rapid buildup of inflationary pressures, a series of interest rate hikes by the Fed and other central banks led to a decline in near-term inflation expectations and volatility. This reversal caused investment strategies that performed well earlier in the year to capitulate a portion of their gains. We examined the year-to-date performance for a range of strategies into performance before and after June 14th and looked at the portion of performance retained through the end of July.

We found that more acute hedging strategies like the Long VIX Futures Index delivered strong performance in the first period as volatility rose but gave up nearly all its gains as near-term concerns receded. This is unsurprising as hedges like this do not adjust their positioning and harvest gains as the return outlooks evolve.

CTAs suffered much less from the reversal, retaining 75% of their original profits. Shorter-term strategies, like the Program, that are focused on delivering Alpha to traditional CTAs tend to be more selective in their positions and are able to rapidly add to or reduce positions as the opportunity set changes. This enables the strategy to participate in prolonged market moves when they take place but to be nimble enough to reposition when the market environment shifts. Such strategies, as indicated by the SG Short-Term Traders Index, fared even better in the reversal environment, retaining over 80% of their profits from earlier in the year.

We believe that the strong performance of CTAs this year is a reflection of the new paradigm we are in, one where elevated inflation has reduced the flexibility of the Fed and other central banks to suppress volatility. Going forward, we anticipate periods of heightened market volatility will be more persistent, as they have been in 2022. This can be a major tailwind for strategies that seek to exploit such themes.

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