# AlphaQuest UCITS Fund

CTA/Managed Futures

August 2022

## Performance Returns

The AlphaQuest UCITS Fund returned 0.29% in August (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% | 0.29% | | | | | 13.02% |
| 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 | $73.7 million |
| Firm AUM | $2.604 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 $2.6 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.

### 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 returned +0.3% in August as equity markets pulled back from a summer relief rally. The August performance brings the Fund's year-to-date return up to +13.0%.

In August, all sectors were positive but commodities. Fixed income performed best as prices resumed their stable downward trend. The pressures were felt most at the front end of the curve, amid the market's largely bifurcated outlook of either transitory inflation or a severe recession. These pressures pushed the U.S. 2Y10Y yield curve to one of its most negative levels ever, only eclipsed by levels seen during the dot-com bubble and the severe inflationary periods of the late 1970's and early 1980's. Foreign exchange also boosted returns, as the U.S. dollar made new highs relative to a basket of currencies. Most notable is the dollar versus the Japanese yen, with the spot market up 21% this year as the Bank of Japan remains steadfast in the defense of its yield curve control. The Program's shorter-term nature helped it react quickly to the end of the equity relief rally, turning short equities once again and making the sector profitable for the month. The commodity sector was the only detractor, with losses coming from whipsaw conditions in the energy complex.

All trading system families contributed positively during the month of August. Like many other CTAs, the Program's long-term trend following trading systems profited most, as they were able to latch onto the strong trends in fixed income and foreign exchange. Intermediate-term trend following was a close second, making money in all sectors but commodities. The shortest-term volatility breakout trading systems reacted best in equities, lifting the sector to positive gains on the month. Trend crowding was about flat on the month, with no attribution of note.

## Market Commentary: The Fed put turns into a punch

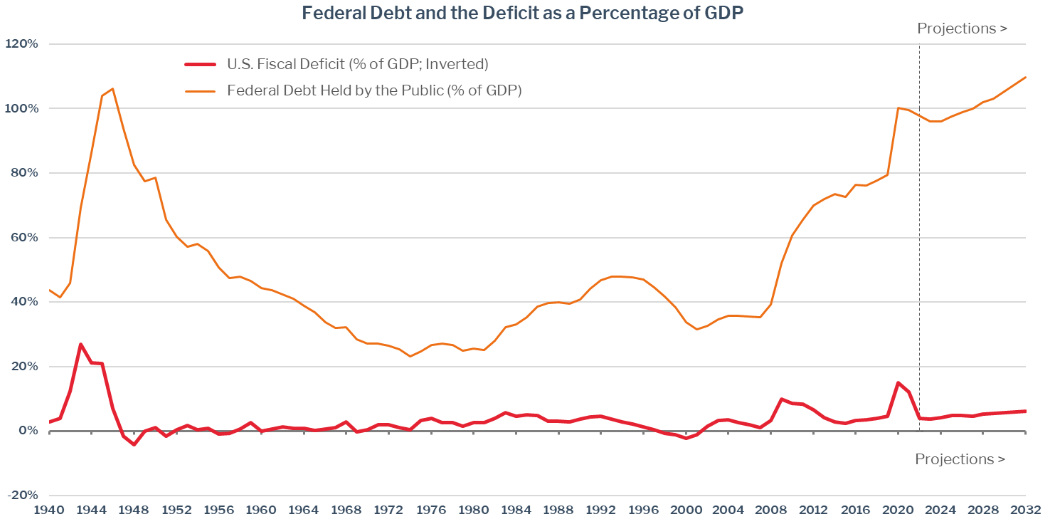
One of the main foundations of financial markets over the past quarter century has been the willingness of central banks, especially the U.S. Federal Reserve, to come to the aid of financial markets whenever there was an economic or financial crisis. Commonly referred to as the Fed put, this consistent support reassured investors that there was an implicit floor to asset prices, and that they could confidently buy the dip knowing that the Fed would not let asset prices fall too far.

The surge in inflation over the past year has upended this paradigm. After irresponsibly labeling the surging inflation as "transitory," the Fed compounded the error with muddled messaging as rate hikes began. Premature talk of slowing the pace of rate hikes and suggesting that rates were already at neutral gave investors a false sense of comfort that the tightening cycle would be short-lived and promptly followed by rate cuts—the so-called "Fed pivot."

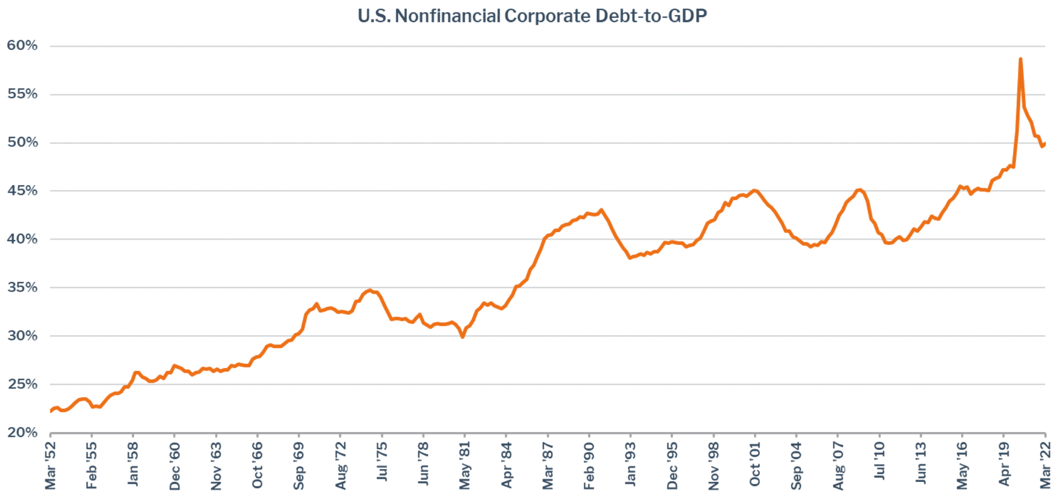
Alas, high and persistent inflation is not allowing this cycle to be the short and swift correction that investors have become accustomed to. It has also made the Fed and other central banks realize that they are meaningfully behind the curve and need to catch up in earnest. Fed chair Jerome Powell conveyed this starkly at a recent conference in Jackson Hole by saying they would "keep at it until the job is done." Some Fed members voiced their strong support, including Minneapolis Fed President Neel Kashkari. Once the most dovish of Fed Bank presidents, Kashkari is now advocating for the largest rate increase in the coming years. In a recent interview on Bloomberg's Odd Lots podcast, he even went as far as to say he was "happy" to see the market decline after Powell's speech. Markets, which have a history of placing pressure on the Fed, could test such bravado with further sharp declines that could challenge the Fed's resolve in fighting inflation at the expense of tightening financial conditions.

The most dangerous aspect of the Fed's hawkishness is that they are leaning against a highly leveraged financial system. Decades of stable inflation and comfort with central bank policies led households, companies, and governments to pile on ever-increasing levels of debt relative to economic output. Implementing a forceful tightening on such a leveraged and fragile system heightens the risk of a significant economic or financial crisis.

**The financial system is highly levered – Significant tightening increases the risk of crises**




*Sources: Quest Partners LLC, Federal Reserve Bank of St. Louis, U.S. Office of Management and Budget, Congressional Budget Office, Committee for a Responsible Budget; 1940 through 2021; 2022 to 2032 projected.*
*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.*




*Sources: Quest Partners LLC, Federal Reserve Bank of St. Louis, BEA, Board of Governors; January 1952 through March 2022.*
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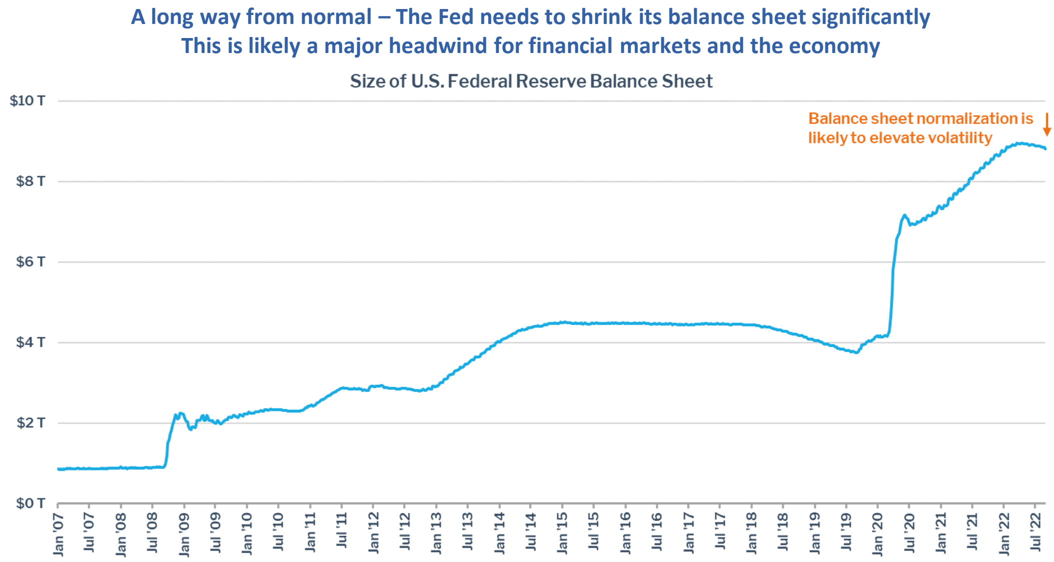
Another aspect of the tightening cycle that is not given much attention is the withdrawal of liquidity via quantitative tightening. While much of the focus is on interest rates and the size and duration of the tightening cycle, it is noteworthy that the Fed will soon be draining $95 billion of liquidity each month as it seeks to bring down its balance sheet by approximately $3.5 trillion over the next three years. This withdrawal of liquidity will also act as a significant headwind for financial markets and the economy.




*Sources: Quest Partners LLC, Bloomberg; January 2007 through August 2022.*
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With the floor under asset prices having effectively been removed due to the necessitated tightening by central banks, the prospect of increased volatility has become more apparent. Each asset class will need to find equilibrium in a world with uncertain fundamentals, and such a process seems poised to lead to more turbulent times. For systematic trading strategies, this can be a highly favorable backdrop. Regimes of high volatility have historically been beneficial for the Program.

The rally in the markets during the summer period highlighted that many central bankers, investors, and investment strategies remain anchored in the prior regime of low volatility, viewing the current cycle from that lens. The first sign of a slight cooling of inflation led to hopes of easing and a new bull market beginning. However, the harsh reality of how disconnected monetary policies have been from inflation as well as significant and long-term geopolitical risks are only now beginning to dawn. Investors would be well-advised to examine the disconnects and gaps in their own portfolios and balance those risks with strategies that can perform in the higher volatility regimes.

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