

# MONTHLY INVESTMENT THEME

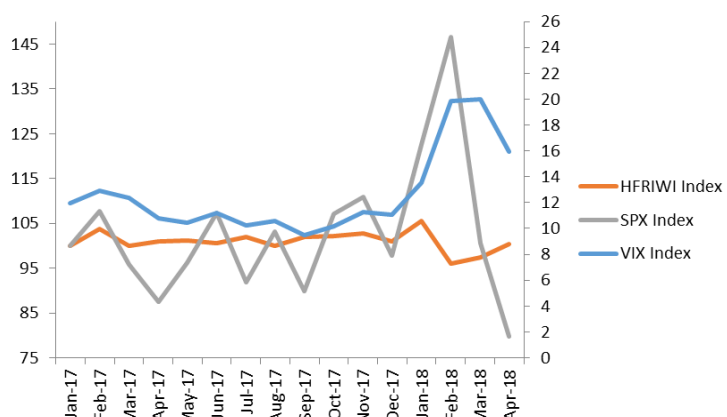
June 2018

## Hedge Funds

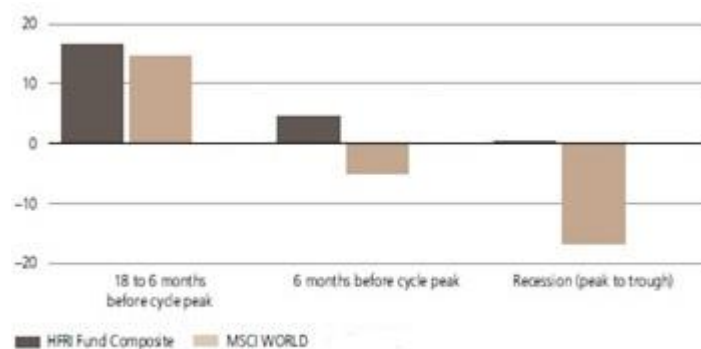
- 2017 was a very calm year with the volatility index VIX sitting at its lowest level around 9.14 (November 2017). However, in 2018 markets entered a higher-volatility environment, with the VIX surging to 37.32 in February, making alternative investments more attractive to generate returns while limiting risk.
- In times of market volatility, hedge funds are a useful source of return and stability in a multi-asset portfolio (cf. chart 1) They can provide several unique advantages for investors, including the potential for capital preservation, return enhancement and portfolio diversification.
- Historically, they tend to outperform equities during periods of rising U.S. interest rates and in the later stages of the economic cycle (cf. chart 2), both now factors in the current U.S. economic backdrop.
- Hedge funds managers posted a 0.43% gain in April and an overall 0.38% YTD, supported by higher volatility, the rally in energy prices and some well-placed bets in fixed income.



**Chart 1: Hedge Fund stability vs. Equities**



**Chart 2: Late-cycle performance of Hedge Funds vs. Equities (in %)**



### Potential Risks

- Lower volatility
- Slowdown in Federal Reserve rate hike pace
- Return of cross-asset correlation
- Specific manager risk, which can be mitigated by selecting diversified hedge fund strategies

**To find out more about investments ideas and opportunities, please contact your Relationship Manager.**

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