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***Adjusted Information***  
***about the***  
***Global Alpha Index,***

***an index, created, managed and calculated by***

***UBS Alternative and Quantitative Investments LLC, Stamford, USA***

The Global Alpha Index<sup>SM</sup> has been adjusted with effect as of 28 February 2015 (the "**Effective Date**") to reflect the introduction of EUR/USD-Hedging Arrangements as Index Component. The Index Sponsor will in accordance with the EUR/USD-Hedging Arrangements make a reasonable attempt to offset, but not to eliminate, the Euro/U.S. Dollar exposure of the Index resulting from substantially all other Index Components being USD-denominated. **There is, however, no guarantee that the EUR/USD-Hedging Arrangements successfully offset the Euro/U.S. Dollar exposure of the Index.**

**I. Background to the Index**

The Global Alpha Index<sup>SM</sup> (the "**Index**") is an index composed of (i) hedge funds or so-called alternative investments (the "**Hedge Funds**"). (ii) the EUR/USD-Hedging Arrangements (as defined below), which reflects that there are EUR/USD Hedging Arrangements to minimize the currency exposure due to the Hedge Funds generally being denominated in U.S. Dollars ("**USD**"), while the Index is expressed in Euro ("**EUR**"), and (iii) the Cash Position (altogether the "**Index Components**").

**Cash Position.** The Index will, from time to time, include a cash position (the "**Cash Position**") as an Index Component, which mirrors the holding of cash, money market instruments or cash obligations.

**EUR/USD-Hedging Arrangements.** The Index will include EUR/USD-hedging arrangements ("**EUR/USD-Hedging Arrangements**") as an Index Component. As it is anticipated that all of the Hedge Funds will be denominated in USD, the Index Sponsor will enter into EUR/USD-Hedging Arrangements. The value of the Index will be increased or decreased, as the case may be, by any income, loss, costs and expenses attributable to the currency conversions and any other transactions constituting the EUR/USD-Hedging Arrangements. The Index Sponsor will in accordance with the EUR/USD-Hedging Arrangements make a reasonable attempt to offset, but cannot guarantee to eliminate, the Euro/U.S. Dollar exposure of the Index resulting from substantial-

ly all other Index Components being USD-denominated. **There is, however, no guarantee that the EUR/USD-Hedging Arrangements successfully offset the Euro/U.S. Dollar exposure of the Index.**

Pursuant to the EUR/USD-Hedging Arrangements, to the extent reasonably practicable, the Index Sponsor will use reasonable efforts to convert weightings to the Index Components between EUR and USD at the spot rate. In addition, to the extent reasonably practicable, non-functional currency exposure (*i.e.* non-EUR exposure) of the Index Components is periodically hedged back to the functional currency (*i.e.* EUR) of the Index by means of weightings to forward currency contracts. EUR/USD-Hedging Arrangements may also mirror the employment of leverage to be utilized in connection with the settlement of such forward currency contracts, in which case the EUR/USD-Hedging Arrangements may include a negative cash balance component and may reflect the cost of such leverage in returns of the EUR/USD-Hedging Arrangements. The EUR/USD-Hedging Arrangements will be maintained, evaluated, and employed to varying degrees based on the Index Sponsor's analysis of current market conditions, the available use of leverage and the estimated level of the EUR/USD exposure of the Index Components at the time of periodic currency hedging. The Index Sponsor will enter into EUR/USD-Hedging Arrangements to the degree it deems appropriate in its sole discretion.

*Index Sponsor.* UBS Alternative and Quantitative Investments LLC created the Index and is responsible for its calculation, the selection, rebalancing as well as the management of the Index and the entering into the EUR/USD-Hedging Arrangements (the "**Index Calculation Agent**" or "**Index Sponsor**").

*Rebalancing of the Index.* The Index Sponsor may, in its reasonable discretion, change the composition of the Index or the weightings of existing Index Components (such change hereinafter called "**rebalancing**") on any Index Rebalancing Date (as defined below under "Index Calculation") subsequent to the initial composition of the Index on 31 July 2001 in line with the objectives and goals of the Index. A rebalancing of the Index can be made as a result of one or more of the following reasons:

- (i) one or more of the Index Components fails to meet the criteria set forth in the guidelines by the Index Sponsor for inclusion within the Index;
- (ii) a new Index Components has been identified by the Index Sponsor, which, in the opinion of the Index Sponsor, will improve the overall performance of the Index if included, either as an addition to the existing Index Components making up the Index or as a replacement for one or more of the Index Components; or
- (iii) the weightings of all existing Index Components are changed because, in the opinion of the Index Sponsor, the new weightings will improve the performance of the Index.

The composition and rebalancing of the Index occurs by the Index Sponsor in its reasonable discretion within the guidelines set forth below.

On each Index Rebalancing Date on which a change in the composition of the Index is made, the Index will be adjusted by assigning new weightings to one or more of the Index Components subject to the condition that the value of the Index after the change is effected is the same as the value of the Index before the change. In

other words, no change in the value of the Index occurs on the Index Rebalancing Date as a result of changes to the composition of the Index.

UBS Alternative and Quantitative Investments LLC is a limited liability company organised under the laws of the State of Delaware, United States, and is a subsidiary of UBS AG, Zurich and Basle, Switzerland and forms part of the Asset Management Division of UBS AG.

The Hedge Funds are managed by hedge fund managers some of whom may be affiliated with the Index Sponsor. The Index seeks to achieve performance results that are less volatile in both rising and falling markets than direct investments made according to a single approach or with a focus on a single direct type of instrument such as equities, debt or commodities by diversifying both the approach according to which the Index mirrors investments in assets, i.e. Index Components, and the respective types of instruments. Index Components can mirror long or short positions in accordance with the market environment and can mirror the employment of leverage or the use of derivative instruments.

The Index Sponsor may select Index Components operating in any and all global markets. The Index Sponsor will aim to maintain an "as if" - portfolio of investments that demonstrates a balance of strategies, markets, risks and types of alternative investments and to meet the criteria for Index composition outlined below. The Index may also mirror the holding of cash or money market instruments. Index composition changes and intra-month cash flows scheduled for investments in Index Components may both necessitate maintaining "as if" - cash positions until the Index Sponsor, in its discretion, identifies and consummates new or additional "as if" - investments in such or in other Index Components.

## II. Index Calculation

UBS Alternative and Quantitative Investments LLC, as both Index Sponsor and Index Calculation Agent, will select the Index Components, takes care of the weightings, re-weightings and changes to the Index Components, and calculates the value of the Index as of any given Index Valuation Date. The first "**Index Valuation Date**" was 31 July 2001. The following "**Index Valuation Dates**" will be the last calendar day of each subsequent month. On every Index Calculation Date, the Index Calculation Agent will calculate the official closing value of the Index with respect to the applicable Index Valuation Date. The "**Index Calculation Date**" relating to an Index Valuation Date is the last Business Day of the month immediately following the month of the Index Valuation Date. "**Business Day**" means any day on which the banks in Frankfurt am Main, London, and New York are open for business. The first "**Index Calculation Date**" was 31 August 2001.

The value of the Index is based on the performance of the Index Components (*i.e.* of the Hedge Funds and Cash Position (in their underlying currencies) and the EUR/USD-Hedging Arrangements) from the previous Index Valuation Date to the present Index Valuation Date less the Index Fees.

The Index has been created on 31 July 2001 (the "**Index Balancing Date**") with an opening Index level of 1,000 points and may be rebalanced on each Index Valuation Date thereafter (each an "**Index Rebalancing Date**").

Following the Effective Date, the following formula will be used by the Index Calculation Agent on a monthly basis in order to calculate levels of the Index.

$$\text{Index}_{(t)} = \text{Index}_{(t-1)} * \{\text{EUR Value}_{(t)} / \text{EUR Value}_{(t-1)}\}$$

(the interval between  $t$  and  $t-1$  refers to the period of one month)

where:

Index <sub>(t)</sub>	The EUR closing value of the Index on the Index Valuation Date <sub>(t)</sub> , as calculated by the Index Calculation Agent on the relevant Index Calculation Date.
Index <sub>(t-1)</sub>	The EUR closing value of the Index on Index Valuation Date <sub>(t-1)</sub> , as previously calculated by the Index Calculation Agent on the relevant Index Calculation Date.
EUR Value <sub>(t)</sub>	<b>(i)</b> The sum of the Weighted Closing Valuations in EUR of the Index Components ( <i>i.e.</i> of the Hedge Funds, the EUR/USD-Hedging Arrangements and the Cash Position) on the Index Valuation Date <sub>(t)</sub> , <b>(ii) minus</b> Index Fees, all as calculated by the Index Calculation Agent on the relevant Index Calculation Date.
EUR Value <sub>(t-1)</sub>	<b>(i)</b> The sum of the Weighted Closing Valuations in EUR of the Index Components ( <i>i.e.</i> of the Hedge Funds, the EUR/USD-Hedging Arrangements and the Cash Position) on the Index Valuation Date <sub>(t-1)</sub> , <b>(ii) minus</b> Index Fees, all as calculated by the Index Calculation Agent on the relevant Index Calculation Date.
Index Fees	(i) A fixed monthly fee of 14 and seven twelfths basis points (0.14583%) multiplied by the sum of the Weighted Closing Valuations on the relevant Index Valuation Date <b>plus</b>  (ii) 15% * {max 0, (sum of the Weighted Closing Valuations <sub>(t)</sub> – sum of the Weighted Closing Valuations <sub>(t-1)</sub> )} as adjusted for subscriptions and redemptions ( <i>i.e.</i> representing only the growth in the value of Index Components)
Weighted Closing Valuations	The last official valuation of each Index Component ( <i>i.e.</i> of the Hedge Funds, the EUR/USD-Hedging Arrangements and the Cash Position) as, in relation to the Hedge Funds, provided by the managers of the underlying Index Component to the Index Calculation Agent on or before the relevant Index Calculation Date multiplied by their respective weights, where necessary, converted into EUR using then current currency exchange rates as deemed appropriate by the Index Calculation Agent.

If information concerning the last official valuation of a Index Component per an Index Valuation Date is not received by the Index Calculation Agent prior to and including the Index Calculation Date, the Index Calculation Agent shall use reasonable best efforts to determine in its reasonable discretion the Index Component's value using the last official valuation, the net asset value estimated by the Index Calculation Agent, current market conditions or any other available information as its basis. The official valuation so determined by the Index Calculation Agent will serve as the basis for the Index Calculation Agent's further calculations.

The above procedure will also be applied when the Index Calculation Agent needs to determine in its reasonable discretion the last official valuation of an Index Component that, at some relevant point in time, cannot be redeemed against payment of cash or material assets.

### **III. Index Component Selection**

**Selection of Prospective Hedge Funds.** The Index Sponsor will follow certain general guidelines in choosing the Hedge Funds. While the Index Sponsor will attempt to apply such guidelines consistently, the guidelines involve the application of subjective and qualitative criteria and therefore the selection of the Hedge Funds is a fundamentally subjective process. The use of the selection guidelines may be adjusted by the Index Sponsor in its reasonable discretion in line with the objectives and goals of the Index. The selection guidelines will be as follows:

**Filtering Hedge Fund Candidates.** The Index Sponsor will use a variety of information sources to identify prospective Hedge Funds, including but not limited to, databases, prime brokers, proprietary UBS AG resources and other industry contacts. The goal of this process is to identify a group of high quality Hedge Funds from which the Index Sponsor will construct the portfolio of Index Components.

**Interviews and Selection of Hedge Funds.** The Index Sponsor generally will conduct a number of onsite and offsite interviews with the investment managers or investment advisers of prospective Hedge Funds and substantial other due diligence prior to making a selection. The goal of the due diligence process is to evaluate the following: (i) the background of the prospective Hedge Fund's firm and its managers; (ii) the infrastructure of the firm from research to trading to operations; (iii) the proposed Hedge Fund's strategy and method of execution and (iv) risk control and portfolio management.

**Selection of Hedge Funds managed by UBS, its Branches and Affiliates.** The Index Sponsor may select, and may allocate up to 25% of the aggregate Weighted Closing Valuations at the time such allocation is made, to Hedge Funds managed by UBS and its branches or affiliates.

### **IV. Constructing the Index**

The Index Sponsor will seek to construct a portfolio of Index Components that is broadly diversified and has low correlation to traditional benchmarks. The Index Sponsor will monitor the correlation between Index Components and attempt to assess how these correlations may change in various market scenarios, especially in a stress environment. The Index Sponsor will seek to use a variety of Index Components that trade in diverse

markets, utilize different trading strategies, construct varying types of portfolios and layer capital in a manner that is consistent with the risks embedded in their trading philosophy.

The Index Sponsor will then assign percentage weights (the sum of all weights being equal to 100%) to each Index Component subject to the following restrictions being satisfied on any Index Valuation Date:

1. The number of Index Components should be between 20 and 80.
2. The value of any single Index Component should not be more than 10% of the aggregate Closing Valuations on any given Index Valuation Date.
3. Index Components selected for inclusion within the Index will be grouped based on the particular strategy being pursued. Based on Closing Valuations on each Index Valuation Date the aggregate Closing Valuations for each strategy pursued should fall within the limits described below:

<u>Strategy</u>	<u>Lower Limit</u>	<u>Upper Limit</u>
Equity Hedged	0%	70%
Credit /Income	0%	45%
Relative Value	0%	45%
Trading	0%	45%
Cash and Other Assets	0%	20%

Each basic strategy (other than cash) should be represented by at least three Index Components.

*Monitoring of Index Components and Reallocation.* The Index Sponsor will monitor Index Components through a combination of periodic net asset value updates, position reports and correspondence and meetings with managers of Index Components. The Index Sponsor will also rely on its experience to make qualitative assessments about the current risk conditions that each Index Component and the overall Index may face. The performance of each Index Component will be compared with the performance of other hedge funds which utilise the same or similar strategies (and who may or may not at that time be in the Index ). Reasons for reducing or withdrawing entirely an allocation to an Index Component may include, without limitation:

- (i) the identification by the Index Sponsor of an alternative for investing capital potentially appreciating the value of the Index;
- (ii) a change in the Index Component's strategy or personnel;
- (iii) a significant change in the amount of assets under the Index Component's management;

- (iv) a decline in performance relative to the performance of other asset managers using the same investment strategy;
- (v) a possible development of a conflict of interest or legal issue restricting the scope of a relationship with the Index Sponsor in case the Index Sponsor would have made a direct investment;
- (vi) a decline in the potential for gains on investment in the Index Components market niche;
- (vii) a failure of the Index Component to meet expectations of or adhere to restrictions on activities established by the Index Sponsor;
- (viii) relative gains or losses in the accounts of different Index Components that cause the Index Sponsor's allocations among the Index Components to become disproportionate or unbalanced with respect to the Index Sponsor's asset allocation models or strategies; or
- (ix) any other reason or determination reached by the Index Sponsor in its reasonable discretion.

## **V. Investment Strategies**

Although it is anticipated that the strategies described below will represent the primary strategies expected to be included in the Index, the Index Sponsor will not be limited in the types of Hedge Funds that it may select or the types of activities in which they may engage. Accordingly, the Index Sponsor, in its sole and absolute discretion, may consider allocations to Hedge Funds that pursue a wider range of investments or other market strategies, including activities not described herein, if it deems it appropriate for reaching the objectives and goals of the Index. The classification of Hedge Funds included in the Index and the strategy definitions are based on the subjective judgment of the Index Sponsor which may differ from strategy definitions in the market. The following strategy descriptions are summaries only and do not provide detailed descriptions of each strategy.

### **Equity Hedged**

#### *Fundamental Conservative*

A typical fundamental conservative manager makes both long and short stock selection through research on the individual companies. The process is generally 'bottom-up'; that is, stocks are added to the portfolio on the basis of the opportunity for price movement of the individual company. The vast span of equities globally creates an opportunity for these managers to attempt to take advantage of their proprietary company research and analysis at the individual stock level. The difference between the long and short portfolio is the fund's net exposure, which typically is an indicator of market risk (Beta) that is assumed by the manager. The fund's short portfolio may vary greatly and is both a tactical expression of the manager's market outlook and a reflection of their conviction in the bottom-up stock selection opportunities. Long portfolios generally run more fully invested with variations driven by the underlying risk/reward opportunities and market dynamics light correlation levels and volatility. Conservative funds tend to be less concentrated, either by sector, position size,

market capitalization, beta mismatches, style or net market exposure. However, a distinguishing feature of the conservative classification is the manager's attempt to reduce market risk at all times by maintaining a lower net exposure, generally between 0% and 60% net long. While these net exposure ranges are not hard limits, managers may on exception, opportunistically expand beyond these ranges for short periods of time if market conditions and risk management dictate in their view.

Related stocks / i.e. pairs trading is a type of market neutral equity strategy and would fall into the fundamental conservative category. In this approach, companies that are related to one another (by reason of engaging in similar activities and having comparable corporate structures) are grouped together. Stock price movements may move these relationships out of alignment, whether by reason of a corporate action, market event or simply high equity market volatility. These related stocks may often demonstrate mean reversion characteristics; that is, they have a tendency to return to the previous equilibrium level. The trading strategies employed to potentially benefit from these anomalies involve a combination of quantitative and qualitative techniques. If the process is primarily qualitative, then these managers would fall into the fundamental conservative grouping; if the process is primarily quantitative, we would classify the strategy as Relative Value: Quantitative Equity.

#### *Fundamental Aggressive*

Similar to fundamental conservative managers, a typical fundamental aggressive manager makes both long and short stock selection through bottom-up research on individual companies. Aggressive funds tend to be more concentrated than their more conservative peers. Aggressive managers are more likely to have directional skews in their portfolios to either sector, market capitalization, geography, or factor/style. Furthermore, aggressive funds may occasionally or regularly amplify their market risk exposure by exceeding net market exposure of 100% net long or by being net short with conviction.

Although some of the fundamental aggressive managers essentially take a passive 'deep value' approach to investing on the long side, others may take an activist approach to their investments. An activist investor often seeks to create the catalyst for stock price movement. Activist strategies are broadly defined as either operational or financial, depending on the intention and expertise of the managers. Implementation varies from friendly, behind the scenes approaches to hostile, public battles with management teams and corporate boards. For this reason, some activist strategies may result in more concentrated portfolios and be longer term in nature. Such funds typically have a long biased un-hedged approach.

Event Driven approaches involve directional long and short investing in public companies that are undergoing some corporate event with a definitive catalyst and timetable. These catalysts may include spin-offs, restructurings, stock buybacks, management changes or other well-defined events. The approach tends to have a value bias as the complexity surrounding events may create a discount to market peers not undergoing similar situations. Some event styles have a long-biased, un-hedged approach, which may offer significant upside return potential but can also exhibit significant market correlation and Beta especially in times of stress.

#### *Opportunistic Trading*

This strategy refers to the active trading of long and short equity positions based on short-term, catalyst-driven or flow-driven opportunities in the equity markets. This strategy is often marked by the prevalence of using



sector baskets, exchange traded funds and equity indices and often leads to dramatic variability in a managers underlying net exposure. Given that the portfolio turnover is quite high, leverage is typically lower than in most of the other equity sub-strategies, though position concentration may be higher.

## **Relative Value**

### *Capital Structure / Volatility Arbitrage*

This strategy generally seeks to benefit from anomalies in the relative value of different securities or issues within a single company's capital structure. Convertible bond arbitrage is a classic way of expressing this strategy. A convertible bond is a hybrid product combining a bond with an imbedded warrant that permits conversion to the issuer's common stock at some fixed exchange rate. The 'plain vanilla' version of the strategy involves investing in the convertible securities of companies and then shorting the underlying common stock as a hedge. Managers within the strategy vary in terms of what drives returns, but the primary differentiator is the level of credit risk in the portfolio. Other typical types of capital structure relative value trades include senior versus subordinated debt and cash bonds versus CDS (basis trades). Trades may also be catalyst-driven, involving corporate events, such as convertible bond buybacks, convertible bond putbacks, equity exchanges, and M&A driven trades with capital structure implications. Managers will often seek to hedge exposure to a variety of other factors not related to the specific mispricing.

Volatility Arbitrage involves using options and the underlying securities in an attempt to capture mis-pricings in option markets. Volatility strategies can be employed across various asset classes. In general, the primary driver of returns is the volatility differential between the options and the actual price movement less the transactions cost. For example, in equity-oriented volatility arbitrage, the manager analyzes the relationship between actual stock price movement and the volatility that is implied by the options on the stock. If the options are deemed to be cheap, the manager buys options on a market neutral basis and then re-hedges the strategy as the underlying stock moves, to maintain neutrality. If options are deemed to be expensive, the options are sold, the premium is taken in and the strategy is re-hedged with stock movement.

### *Quantitative ('Quant') Equity*

As statistical arbitrage and other systematic long/short approaches evolved over time, managers employing them began to overlap to such a degree that the Index Sponsor decided it was more appropriate to view them together as opposed to separate and distinct. As such, the quantitative equity sub-strategy involves model-driven approaches that utilize one or both of the following approaches:

Statistical arbitrage is a model-driven approach that seeks to create diversified, risk-balanced long and short portfolios with the objective of capturing short-term price anomalies in equity markets. Models can either take the form of mean reversion, price momentum or a combination thereof. A key driver of performance is the ability to have for back-testing, superior alpha signals, a strong risk management and portfolio management framework, and a robust execution platform. Given the market neutral bias to the approach, the strategy implies a degree of minimization of sector, market capitalization, style, beta and other type of imbalances. Portfolio turnover is typically very high in the strategy.

Systematic long/short, which is a model-driven approach to constructing equity long/short portfolios, incorporates fundamental, event, and price data used by traditional stock pickers. These funds' models typically begin by analyzing vast amounts of data to determine relevant factors that indicate potential underperformance and outperformance of certain sectors and styles. The holding periods for trades can vary between medium term and longer term horizons. The portfolio turnover tends to be lower than that of statistical arbitrage strategies. The main risk for the style, as is the case in all systems, is a regime shift, which renders past information less meaningful.

### *Merger Arbitrage*

Merger arbitrageurs seek to capture the price spread between current market prices and the value of securities upon successful completion of a merger. In cash transactions this spread is straightforward, but in stock-for-stock transactions, the spread is created by shorting an appropriate ratio of the acquiring company's stock. The width of the spreads reflects the market's willingness to take on transaction risk. Deals that the market assesses to have a lower probability of closing typically trade with a wider spread than straightforward synergistic mergers with little-to-no regulatory issues. Most managers attempt to control risk by limiting position size, diversifying and conducting thorough due diligence.

Few managers solely focus on plain vanilla merger arbitrage anymore; rather, most portfolio managers employing the strategy sit within larger multi-strategy firms. Merger arbitrage often exists as one of several "event driven" strategies where a manager relies on catalysts to unlock value. Generally, these event-driven managers may participate in both hard and soft catalysts, taking a fundamental approach to the investment process, while merger arbitrage is generally focused on hard catalysts.

### *Fixed Income Relative Value*

The fixed income arbitrageur attempts to profit from price anomalies between related interest rate and currency instruments. Some managers focus exclusively on US or G3 markets (US, UK, and Japan), while others invest across the global capital markets. The goal of most managers in this category is to deliver steady returns with low volatility. Since managers attempt to mitigate directional risk is mitigated by running hedged spreads (long and short, paired positions), leverage may be applied more broadly. These managers will use leverage, sometimes in excess of 10 times NAV, depending on the similarity of the two securities and the liquidity of the invested market. Arbitrageurs seek to exploit yield spread dislocations, often implemented through buying of higher yielding securities and selling similar securities with lower yields, but will trade in the opposite direction if spreads are abnormally narrow. Fixed income arbitrage can include interest rate swap arbitrage, US and non-US government bond arbitrage, forward yield curve arbitrage, basis trading (i.e. cash versus futures, currency basis swaps), or a combination of each. Potential risks to the strategy include counterparty risk, margin calls, increased haircuts, market illiquidity, and deleveraging from other fixed income market participants. Greater use of leverage usage may compound the risk to certain managers in this strategy.

### *Agency MBS*

In traditional Agency Mortgage Backed Security (MBS) arbitrage, funds seek to invest in high quality securities with no credit risk (US government agency mortgage, Treasury), hedging out interest rate risk to earn excess

spread on the security. Other funds employ relative value pair strategies using agency mortgage pass-throughs and specified pools in an attempt to take advantage of pricing dislocations in the market. Examples of agency mortgage-backed securities include Fannie Mae and Freddie Mac issued MBS and Ginnie Mae guaranteed MBS, created from real estate mortgage investment conduits (REMICs) or collateralized mortgage obligations (CMOs). Typical instruments traded in the agency MBS space include mortgage pass-throughs and their derivatives, such as floaters, inverse floaters, interest-only (IO) strips, principal-only (PO) strips, and inverse interest-only (inverse IO) strips.

## **Credit / Income**

### *Corporate Long/Short*

Corporate long/short involves investing long and/or short in debt or debt-linked securities on an opportunistic basis. Portfolio turnover, as well as gross and net exposure levels can vary based on the manager and their view of the opportunity set. This strategy may be directionally long or directionally short. Managers may express outright directional views or seek to exploit opportunities across comparable debt securities of different companies or of a single company versus an index. To be implemented successfully, the strategy demands a thorough knowledge of both the fundamental and technical factors that drive debt prices.

### *Distressed*

These funds invest in the debt or equity securities of firms that are in the midst of financial restructuring, balance sheet re-capitalization, or are trading at stressed or distressed prices in anticipation of such an event. Opportunities in this strategy are closely linked to the level of defaults and credit spreads and hence the business cycle in general. Distressed funds differ in terms of the stage of their investment or the degree to which they become actively involved in the restructuring process. Distressed securities are often inefficiently priced due to their lack of liquidity, the existence of forced sellers and the uncertainty created by the restructuring process.

### *Structured Products*

As the securitization market expanded from the early 2000s through 2007, some hedge funds began to invest in mortgage securities and other structured products through a variety of approaches. The strategies they implemented were generally focused on credit risk as opposed to interest rate or prepayment risk, which is more the focus of agency-based mortgage-backed strategies. Managers in the strategy will typically perform detailed research on the underlying assets that comprise the structured product as well as research the structure and the terms of the securitization, particularly with reference to the cash flow waterfall, credit enhancement, collateral triggers and control protection. It is important to note the liquidity spectrum is varied for these strategies, ranging from the more liquid (RMBS/CMBS) to less liquid (multi-sector CDOs, non-performing whole loan residential mortgage pools). The Index Sponsor further dissects the universe of structured product strategies into two general groups:

- Asset-backed securities (ABS)

Asset-backed strategies typically emphasize non-agency residential mortgage-backed (RMBS), commercial mortgage-backed (CMBS) securities, and other asset backed securities (ABS) such as auto loans, home equity loans, credit card receivables, student loans, manufactured housing, aircraft leases, and a variety of other cash-flow producing assets. While shorting these securitizations is typically not possible, managers may utilize residential mortgage-related indices (such as the ABX), commercial mortgage-related indices (such as the CMBX), and CDS (credit default swaps) to hedge broader market risk.

- Structured corporate credit

Structured corporate credit typically focuses on CLOs, CBOs and corporate credit index tranches (e.g. High Yield CDX indices). In these strategies, managers could be either directional or relative value, or both. An example of a directional trade would be a manager purchasing specific tranches of a CLO trading at distressed prices, based upon the expectation that ultimate cash flows will exceed the value of the security at its purchase price. An example of a relative value trade would be a manager taking advantage of technical inefficiencies in the relative pricing of two different tranches of an index, for example (i.e. a calendar trade).

While there are specialists in the two sub-sectors listed above, there are also managers that invest across the structured credit universe, which we would categorize as multi-strategy Structured Credit approaches.

### *Reinsurance*

Reinsurance is a income-based strategy where managers attempt to generate returns by insuring catastrophe and other risks where other insurance (or reinsurance) companies want to offset some of their risk. Reinsurance strategies have historically had little correlation to more traditional capital market investments and thus have the potential to be a source of diversification within a portfolio. The risks within a modestly diversified portfolio of reinsurance investments are expected to be largely uncorrelated to each other (i.e. should be little correlation between hurricanes that may impact the US and Japanese earthquakes).

Managers may employ a number of different approaches. Traditional Reinsurance (providing insurance to insurance companies) involves engaging in a contract directly with an insurance company where specific risk(s) is assumed and the methodology for triggering a payout is defined in the contract. Retrocession takes this concept one step further by providing reinsurance to reinsurance companies. A series of diverse risks are often bundled together into a single contract; this has the potential to result in pricing advantages that can accrue to both the writers of the contracts (i.e. money managers in this case) and the end users. Managers often invest in both traditional reinsurance and retrocession in a collateralized format where the full amount of capital that is theoretically at risk (known in industry terms as the "limit") is held in a trust account from which losses can be paid.

Managers may also utilize Insurance Linked Securities ("ILS") such as Catastrophe Bonds and Industry Loss Warranties. Catastrophe Bonds are issued by insurers and are typically the most liquid instrument but generally offer lower potential returns. Industry Loss Warranties (ILWs) reference the overall loss due to an event at an

industry level, rather than for a specific insurer. These instruments trade in swap-like format where protection can be bought and sold. Liquidity is somewhat lower than in the catastrophe bond market, with the potential return and volatility profiles being somewhat higher. Managers will also occasionally use this market to hedge certain risks in their portfolios (i.e. buy protection) that they deem unacceptable.

## **Other**

There are several other types of income-generating, carry-based strategies that do not fit into one of the above sub-strategy categories. Although they are more niche approaches, the risk/return profile falls within the Credit/Income category and so we reflect them here as opposed to in the Other – Niche category. Some multi-strategy Credit managers will employ one or more of these strategies alongside the more dominant Credit/Income strategies.

- Direct private lending (loan finance, loan-based lending, mezzanine finance, middle-market lending)
- Asset-backed lending (ABL)
- PIPES / Reg-D
- Microfinance
- Factoring (e.g. receivables/invoice factoring, rents, alternative finance, government attorney fees, etc.)
- Life insurance premium finance
- Life/viatical settlements and traded life policies (TLP)
- Structured settlements (liabilities settlements, e.g. personal injury, workers' compensation, etc.)
- Film finance
- Media rights (film, TV, music, games)
- Patents and royalty streams (e.g. drug royalties)
- SPACs (special purpose acquisition company)

## **Trading**

### *Global Macro*

Global macro encompasses funds that have the broadest mandate and trade in all asset classes around the world, including but not limited to equity, fixed income, foreign exchange (FX) and commodities. These managers generally focus on underlying macro-economic fundamentals in developing their investment theses. Technical data or money flows may also be considered in developing trade themes. The managers establish

opportunistic long or short market positions in an attempt to profit from anticipated market moves. Macro managers tend to be highly sophisticated and are generally adept at using derivatives or leverage in an attempt to increase returns while protecting against loss. Similar to those Trading managers operating in the systematic space, macro managers tend to be adept at moving capital to those markets offering potentially robust opportunity sets. Historically, they also have been able to outperform in periods of market volatility and trending markets. Periods of global central bank activity and monetary intervention are typically favorable environments for this strategy.

Historically, the Index Sponsor separated emerging markets as its own sub-strategy, given the sufficiently independent risk profile we believed these strategies used to maintain. However, the expansion of market linkages across developed and emerging economies has broadened the overall investment landscape for managers across all strategies in a meaningful way. The influence of the BRIC nations (Brazil, Russia, India and China) and the rising importance of G20 economies can be measured in the size and scope of their populations, GDP and foreign exchange reserve positions. The investment flow of funds to the developing markets also reflects the modernization of their financial markets, stability of fiscal position and more stable political infrastructure. Finally, the financial turmoil in Europe has blurred the credit rating landscape of sovereigns; effectively widening the universe for discretionary managers. Given these developments, for managers that invest materially in emerging markets, the Index Sponsor believes it is now more appropriate to categorize them based upon the assets traded and the investment strategy employed (Equity Hedged, Credit, Relative Value, or Trading). As such, managers that invest across asset classes in emerging markets, generally with a top-down trading-oriented approach will be categorized as global macro.

### *Systematic*

Systematic traders, many of whom are also known as commodity trading advisers (CTAs), typically trade listed financial and commodity futures and interbank markets around the world. These managers utilize highly sophisticated technical models to analyze price and market data in order to identify trading opportunities. There are three types of systematic traders: trend-following, non-trend following, and systematic macro. Trend-following traders seek to profit from sustained price movement in any direction by focusing on medium to longer-term price behavior. Non-trend following traders typically employ shorter-term momentum, mean reversion, volatility breakout, pattern recognition and counter-trend models. Systematic macro traders use econometric variables representing inflation and growth from both a value and/or a momentum perspective. Portfolio construction varies greatly across the different funds, and each manager's approach to market diversification, asset allocation, contract weightings and leverage might differ in the effort to maximize risk-adjusted returns. Historically, market volatility has benefited the performance of CTAs, particularly those managers operating in the short-term, non-trend following strategy.

### *Commodities*

Commodity markets exhibited dramatic growth over the last decade, pre-dominantly driven by increasing global demand due to significant emerging markets development. New technologies, applied to satisfy the ever rising demand for commodities, have resulted in a dynamically changing supply/demand picture, offering manifold trading opportunities for specialized market participants. Managers in this strategy utilize both directional and relative value approaches in an attempt to capture the opportunity set. The funds' market

sector exposure may vary greatly across energies, grains & oilseeds, so-called “softs” (such as cocoa, coffee, cotton, orange juice or sugar), and industrial and precious metals. Idiosyncratic supply/demand dynamics can drive markets, with factors such as weather patterns, planting acreage, energy supply disruptions, and exploration influencing market prices. The managers typically employ a discretionary approach to this single asset class by using both macro and micro variables to build portfolios.

## **Multi-Strategy**

### *Multi-Strategy*

Some hedge funds invest in a combination of strategies, often as a result of commonalities in the research and trading talent required for successful execution of the strategies. These funds allocate capital opportunistically among strategies believed to offer a suitable risk-adjusted return going forward. Multi-strategy funds can be relatively attractive by incorporating this flexibility through strategy diversification and asset allocation.

In some cases, multi-strategy funds may be structured with individual portfolio managers having autonomous control over specific strategies, while receiving a specified risk allocation at the aggregated fund level. In other cases, one or more primary portfolio manager may treat the various strategies less like separate funds and more like one cohesive unit. Regardless of their structure, one of the benefits of multi-strategy funds is that they seek to provide investors is the ability to shift capital rapidly across various strategies in response to changes in the opportunity sets while maintaining a competitive edge and sector expertise. Further, financing costs may be reduced by the ability to borrow at a lower rate for the fund as a whole versus individual strategies. This potential benefit may also create potential additional risks, if certain riskier and more volatile strategies (a classic example would be commodity trading) are not properly ring fenced through a separate legal structure.

### *Fund of Funds*

This category is used to define an investment vehicle that allocates capital across multiple investment managers and/or vehicles. The Index Sponsor divides the universe of fund of funds into three types: 1) Broad Based Diversified; 2) Broad Based Neutral; and 3) Strategy/Region Specific.

## **Other**

### *Niche*

This category contains investment approaches that are outside of the mainstream hedge fund strategies listed above. While some industry participants consider niche strategies as ‘hedge funds’, others might argue that such approaches belong in an entirely separate asset class. This is especially true for borderline strategies, including certain private equity and real estate dealings. Besides funds dedicated to these fringe strategies, the Index Sponsor has seen a fair number of traditional hedge funds dabbling in niche approaches, and thus developed a separate category for them. Below is a summary list of the types of strategies that would currently fall into this category. Please note the list is not exhaustive and can be expected to change over time. Further, some of the categories may overlap. Hopefully this list provides a general picture of the types of investment approaches that would fall into the category.

- Emissions trading
- Equipment leasing / venture leasing
- Infrastructure investing
- Litigation (including tort liability insurance)
- Natural resources
- Private Equity
- Real Estate (e.g. land, buildings, etc.)
- Clean/Renewable energy (investing/trading in water, wind, solar, etc.)
- Timber
- Wine

#### *Risk Parity*

There has been a recent trend in the industry for investors to allocate increasingly to Risk Parity or Risk Premia Parity strategies, often including them within their Hedge Fund or Alternative buckets. In general, Risk Parity managers typically actively rebalance allocations to a diverse set of assets in an attempt to take advantage of market pricing anomalies. The approach focuses on a high level of diversification within the portfolio but generally maintains a long-bias. Risk Parity generally focuses on the passive allocation of risk, rather than of capital, in an attempt to provide a higher Sharpe ratio alternative to the traditional 60% stock / 40% bond portfolio through the use of a wider range of uncorrelated assets, low leverage, and low equity risk. These approaches, while certainly an alternative to traditional asset allocation, are not hedge fund strategies.

#### *Liquidating / Side Pockets*

This category comprises exposure remaining to funds after a redemption notice has been placed and reached value date. The remaining exposure is typically less liquid in nature and often invested in private equity, real estate, or litigation claims that may take an unspecified amount of time to exit. Although these types of securities are among the most common remaining investments we see post-redemption, the underlying holdings can vary broadly.

## **VI. Adjustments**

The Index Sponsor is solely charged with constructing and rebalancing the Index in its reasonable discretion. In the event that Index Components are altered by virtue of corporate law actions, insolvency, dissolution or na-



tionalisation of a Index Component the Index Sponsor will evaluate such changes and use its judgment to maximise the value of the Index in rebalancing the Index.