AXA IM PRIME
Hedge Fund Strategy Overview
Q1 2025

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This document is a marketing communication destined to professional investors

Hedge Fund Strategy Overview

Strategy Outlook Dashboard

Strategy	Q3-23	Q4-23	Q1-24	Q2-24	Q3-24	Q4-24	Q1-25
Event Driven	Neutral	Positive	Positive	Positive	Positive	Positive	Neutral
Quantitative	Positive	Positive	Positive	Positive	Positive	Positive	Positive
Stock Picking	Positive	Positive	Positive	Positive	Positive	Positive	Positive
Multi-Strategy	Positive	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral
Global Macro	Positive	Positive	Positive	Positive	Positive	Positive	Positive
Managed Futures	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral
Fixed Income Arbitrage	Positive	Positive	Positive	Positive	Positive	Positive	Positive
Convertibles Arbitrage	Positive	Positive	Positive	Positive	Positive	Positive	Positive
Credit/Distressed	Positive	Positive	Positive	Positive	Positive	Neutral	Neutral

Hedge Fund Strategy Overview

Event Driven

Definition

Event Driven funds aim to profit from significant events affecting a company where the uncertainty regarding the outcome creates an opportunity. They generally combine long and short positions across all asset classes they view to be mispriced, often in an arbitrage type trade.

Approaches are split between those who try to predict events and those that only get involved once events are announced, such as mergers and corporate actions. Once the team has predicted the outcome of the event and has determined an investment horizon, they analyse the securities available and select the best tool to profit, usually ranging across credit and equity. At the same time, they consider the potential risks, in terms of: volatility, liquidity, market and sector risks. Usually, the most significant risk is the potential of the event not happening. Finally, they must determine how to close the position, and the probability of each of the possible outcomes.

Sub-Strategies

Merger Arbitrage

Merger Arbitrage strategies exploit inefficiencies in merger transactions by capturing the spread between the offered price and the traded price of a given security being acquired. The spread reflects the risk of the deal not going through.

Key success factors include the ability to assess deal risk, trading around the spread, properly working out the hedging ratio for complex transactions, and using options as a return enhancer or in order to mitigate risk. The best environment for the strategy is one with plenty of M&A deals, low deal breaks and wide spreads which is driven by interest rates levels, riskiness of deals and liquidity

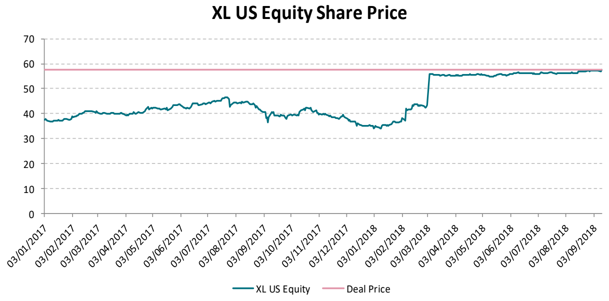
Equity Special Situations

These funds target targeting companies involved in actions such as corporate transactions, management changes, share buy backs, special dividends or restructurings. Funds will take positions based upon announced and pre-announced events and some managers may also become activist, engaging with companies to encourage catalysts. The strategy works best in benign equity markets with ample liquidity.

Distressed Securities

Funds in this space invest in companies facing financial or operational issues such as bankruptcy or capital restructurings. These securities tend to trade below their intrinsic value, creating an opportunity for managers who combine fundamental analysis of the company with their deep understanding of the restructuring or bankruptcy process to determine whether a distressed company is a worthwhile investment.

Trade example



Source: Bloomberg 09/03/18

AXA made an offer to acquire XL in March 2018. The deal was seen by the market as being likely to go through and so XL's share price jumped to near to the deal price following the announcement. Merger arbitrage funds were able to take advantage of the closing of the spread by analysing the likelihood of the deal closing and taking a position accordingly. Although the spread was relatively small, funds used leverage to amplify returns

Key Risks

Deal breaks: managers, especially merger arbitrage specialists, are exposed to confirmed deals collapsing for unexpected reasons.

Rival event: catalysts can be rendered irrelevant by a different catalyst, causing spreads to move unpredictably.

Market beta: although usually event trades have very reduced beta, in times of market stress there can be a lack of buyers and higher beta.

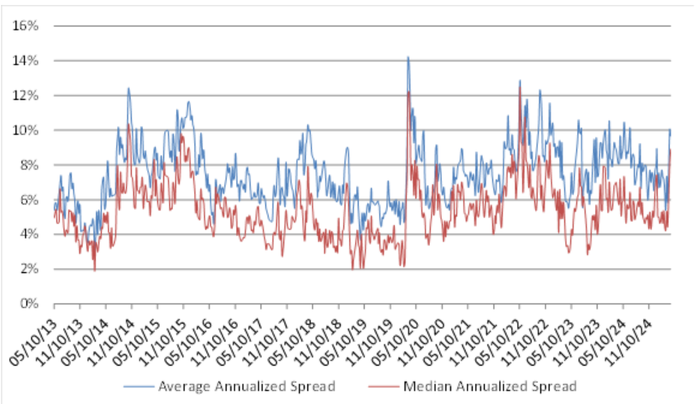
Hedge Fund Strategy Overview

Event Driven

Q1 Performance Drivers

- Event strategies experienced mixed fortunes in Q1 as equity volatility returned in February, accompanying a sell-off in the US which spread to Europe in March as the extent of the US tariff program became clear. Hong Kong bucked the trend, just pulling Asia into positive territory.
- The HFRI Event Driven TR Index was down -1.1% for the quarter, while the HFRI Special Situations Index was down -4.7% over the same period, as soft catalyst trades in crowded names lost ground amid the heightened volatility.
- Steady M&A activity, however supported Merger Arb activity and the HFRI Merger Arbitrage Index was up +0.3% for the quarter,
- Q1 Merger volumes came in at a healthy $1.4tn, equivalent to an annualized rate of $5.7tn, well ahead of 2024's $4.3tn. Larger deals included J&J's $14bn bid for ICTI in February, Sycamore Partners $13bn take-private bid for Walgreens Boots, and Rocket's $9bn bid for Mr. Cooper in March.
- The Equity IPO market cooled in Q1 with 327 new issues raising $22bn, according to Bloomberg, down from $29bn in Q4 but up on Q1 24 $18bn. The weak launch of the widely watched CoreWeave deal dented confidence.
- Secondary activity saw 2,042 deals raising $138bn – also down on Q4 but up on Q1 24, as companies continued to tap the market for capital at a steady pace.

Average Deal Spread (0-30%)



Source: UBS (11-Apr-25)

Outlook

- The volatility that started in February picked up in March and spiked in early April, as the US Administration unleashed a global trade war not seen since the 1930s (when the Smoot-Hawley Act's tariffs were a precursor to the Great Depression).
- Optimism over potential pro-market moves by President Trump has been replaced by uncertainty with policy changing by the day. The CEO Confidence index fell from 7 to 5, its lowest level for more than a decade.
- What has not changed, however, is the backlog of deals, with PE sponsors needing both to exit mature holdings as well as to redeploy capital into new positions, but it is likely that activity will be delayed while market participants wait for a clearer picture of policy to emerge.
- While Merger activity is expected to slow in the short-term due to prevailing uncertainty (having first declared his opposition, but then sent positive signals in Q1, the president again announced he would oppose the Nippon/US Steel deal in April), flows will recover once markets settle, and while credit spreads, which determine financing for deals, remain relatively tight and valuations are lower.
- Median merger spreads moved wider from 7.4% to 8.9% QoQ. With US interest rates steady at 4.50%, the implied yield has improved but on a small number of deals.
- IPO activity is expected to slow given the uncertain backdrop.
- Secondary and Follow-On deal flow remains robust, as companies take advantage of market liquidity to shore up their balance sheets ahead of debt maturities, and as a defensive step in the context of an increased risk of recession.

Rating: Neutral

Hedge Fund Strategy Overview
Quantitative

Definition

Quantitative Equity Market Neutral funds use systematic processes in order to build portfolios of long and short equity positions in equal proportions.

Returns can be driven by statistical, factor or fundamental analysis, with the aim to isolate intended risk factors from market beta. This can take the form of tight pair trades or broader longs and shorts that are uncorrelated. Positions are often an amalgamation of multiple alpha signals.

Leverage tends to be an important factor as alpha can be low on an absolute basis, leading to highly diversified portfolios. Additionally, there is often the need for extra hedging in order to ensure that all unintended risks are eliminated.

Sub-Strategies

Multi-factor Quantitative Equity Market Neutral:

This system uses a series of style factors to analyze and predict stock movements. Some of the most common factors used are Value, Growth, Quality, and Momentum. Funds may look to allocate statically across these factors or to combine style factors into an overall alpha signal. Additionally, managers will generate their own, proprietary, style factors based on either statistical or fundamental drivers.

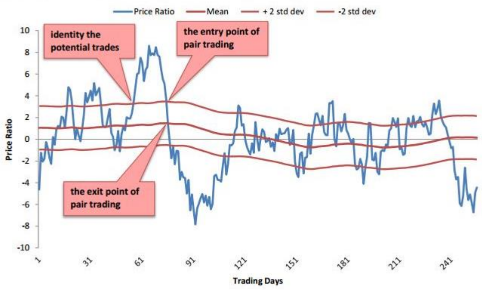
This model usually involves significant risk management to ensure that hedges are correctly positioned to strip out beta and highlight alpha signals. These models can combine different time horizons to enhance the alpha signals.

Statistical Arbitrage

This system uses statistical relationships between stocks to generate trades. Usually this takes the form of pair trading based on the relationship between two stocks or a basket of stocks. Usually, analysis is built solely on price action and involves some form of mean reversion or break-out analysis.

These strategies are designed to be run very tightly within pre-defined pairs or baskets so less hedging is needed. The alpha signals can be limited in absolute size and significant leverage is required.

Trade Example



Source: AXA IM PRIME 01/07/24

In this example we see an example of a pair trade based on price ratios. Here, alpha signals are driven by longer term rolling price ratios combined with standard deviation bands. When the price ratio gets outside of the expected bands, a signal is generated. The other consideration for this trade is momentum of the spread; trades are only entered when a trend has been established as moving back to the mean.

Key Risks

Model deterioration: over time models produce less alpha as competitors discover the opportunity.

Transaction costs: some models may rely on marginal gains and frequent trading, if spreads widen or costs rise alpha can be wiped out.

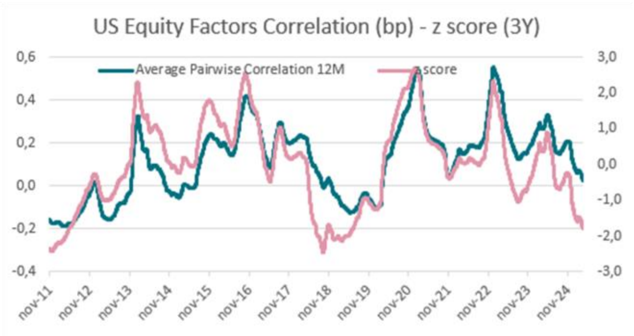
Crowding: deleveraging can have a significant impact, especially those with reactive risk management.

Hedge Fund Strategy Outlook

Quantitative

Q1 Performance Drivers

- The HFRI Equity Market Neutral Index was up +1.5% in Q1.
- Equity factor correlations dropped down materially helping generate alpha.
- Value was the best factor, up over +7% in Q1 driven by strong gains in March. Size was the 2nd best performing factor (+3%), while Momentum and growth finished around -2% driven by a reversal in March (which then accelerated into April).
- Managers with exposure to liquidity provision strategies outperformed everything else from March onward, while med frequency strategies struggled more with violent swings in the market.
- Systematic China strategies delivered a robust recovery in February and March after a subdued January, with Sentiment insights leading the way. Within the Fundamental group, the Quality signal family was the primary driver of outperformance, while Value signals detracted. Some job posting signal emerged as a standout performer, reflecting positive trends in the job market. Sentiment analysis proved effective, with strong performances from analyst revisions and NLP-driven signals derived from Broker Reports, Retail Bulletin Boards, and Earnings Announcements.



Source Bloomberg data, AXA IM PRIME calculation 16/04/25

Outlook

- The outlook for QEMN funds look attractive as factor correlations have continued to decline which helps managers in diversifying sources of returns.
- On the other hand factor volatility has now trended above historical averages which should help managers with dynamic allocation processes.
- Volatility spiked in April following Trump's liberation day, leading to some liquidation across crowded positions, illustrated by the underperformance of the Goldman Sachs VIP index vs S&P 500. This environment makes it difficult for med frequency managers relying on fundamental data.
- But this is the best environment for liquidity provision strategies and higher frequency stat arb managers since March 2020.
- Our preference goes to diversified QEMN funds which can benefit from a diversified stream of uncorrelated strategies over various investment horizons (statistical arbitrage to fundamental models) and across multi asset classes.
- Continued investments in alternative datasets and Machine Learning techniques tend to favor large firms with bigger resources.

Rating : Positive

Investment Managers

Prime

Hedge Fund Strategy Overview

Stock Picking

Definition

Discretionary Equity Long/Short funds look to take advantage in movements in the equity markets by taking long and short positions in individual stocks. Typically decisions are made based on fundamental work undertaken by analysts and portfolio managers.

Funds in this space can have varying beta exposure to market, and that exposure can be relatively static or vary considerably. Typically, one can expect leverage to be inversely proportional to net exposure. Some managers are also more concerned with hedging out style, country and sector exposure than others. Investment time horizons can vary greatly, whilst some managers are also active in trading around positions frequently.

Funds can usually be split into a number of broad investment styles. Value managers look for mispriced assets and liabilities. Growth managers look for mispriced growth and potential growth. Momentum managers look for improving or deteriorating trends, usually in earnings. GARP (Growth At a Reasonable Price) managers try to combine value and growth strategies. Company financial accounts and earnings statements are usually the key areas that managers focus on, although there can be an element of technical analysis to highlight entry and exit points.

Sub-Strategies

Trading

Some managers invest based mostly on price action, flows and perhaps only a surface level knowledge of the underlying company. Turnover tends to be high, with tight stop losses and an overall opportunistic approach to investing. Additionally, gross and net can be very variable, driven by the day-to-day opportunity set.

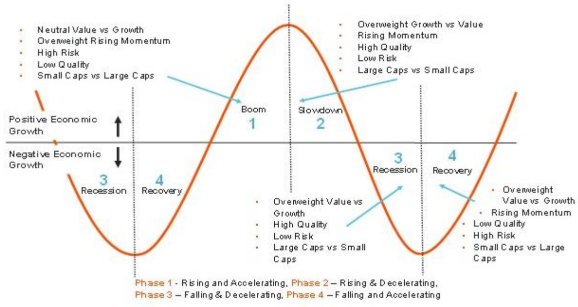
Earnings Predictions

Some managers are focused on correctly predicting earnings surprise, either positive or negative. This tends to mean that their investment time horizon is until quarter end, at which point they have an event, the earnings announcement, that either confirms or refutes their investment thesis. In practice they can hold positions over multiple quarters, but they will re-underwrite each time.

Buy and Hold

Some managers look to undertake significant due diligence on a company before investing in a stock, with the aim of holding on to the position over a multi-year time horizon. Typically, these managers are more agnostic to short term “noise” such as style factors, sector and country biases, and beta exposures. Typically, they expect returns to be driven by a combination of earnings enhancement and, more importantly, multiple re-rating as the company realizes the potential they see.

Trade Example



Source: Source: BofAML European Quant Strategy | Backtesting period from Dec 1992 to Dec 2003. Actual Performance Jan 2004 to Dec 2010.

This chart shows how difference style factors can drive stock prices at different points in a market cycle.

Key Risks

Beta Risk: Managers in this space can be heavily exposed to style, country, sector and market risks

Financial risk: Risk derived from the financial position of a company and its capital structure. This could include liquidity and credit risk, inconsistent earnings or high levels of debt.

Business risk: Internal issues effecting the efficiency of a firm as well as poor management and procedures can have a great impact on the price of a firm’s shares.

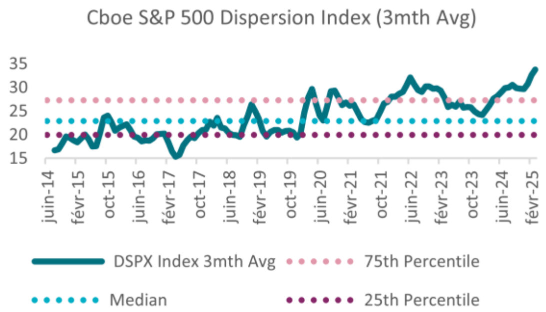
Hedge Fund Strategy Overview
Stock Picking

Q1 Performance Drivers

- Global equity markets showed significant divergence in Q1 25 as the HFRI Equity Hedge Index declined -1.3%, outperforming both MSCI World (-1.8%) and S&P 500 (-4.3%). European and Chinese markets showed strength, with MSCI Europe rising 10.5% and MSCI China up 15.0%.

- The DeepSeek AI announcement in January triggered a sharp selloff in AI-related technology, infrastructure, and power stocks. While the initial market reaction was negative, sentiment later shifted toward Jevons Paradox—the idea that improved efficiency often increases demand. Large-cap tech proved resilient as capital expenditure forecasts remained stable. However, late February saw a significant momentum reversal due to stretched valuations and growth sustainability concerns. This was followed by a multi-sigma event of hedge fund de-grossing. Though equity long/short strategies broadly declined, European and Asian managers outperformed their US counterparts, with some maintaining positive returns in Q1.

- The Biotech sector saw intense volatility on the quarter's final trading day after a key FDA figure's resignation, compounded by policy uncertainty following RFK Jr's appointment to lead HHS. These developments created market turbulence in healthcare, especially affecting pre-commercials companies focused on vaccine development and novel therapeutics, leading to sharp performance declines for US-biased biotech managers.



Source Bloomberg data, CBOE, AXA IM PRIME calculation 16/04/25

Outlook

- The quarter ended with heightened volatility stemming from President Trump's new tariff policies, which are reshaping global trade dynamics and market sentiment. Managers are monitoring how individual countries negotiate with the US over the next quarters. What is clear is that the market has shown a divergence between declining share prices and continued strong earnings and fundamentals, such as AI-related stocks, creating compelling, idiosyncratic investment opportunities.

- Meanwhile in Europe, a transformative shift has occurred with Germany's ambitious €1 trillion stimulus program. This initiative signals a fundamental change in European economic policy and the region's re-industrialization. While cyclical sectors offer opportunities, the market faces risks from U.S. trade tensions and weakening international alliances. Given concerns about underestimated tariff impacts and potential market decline, positioning remains defensive and short opportunities are expected to be capitalize.

- The Biotech sector's volatility presents attractive entry points for managers with deep healthcare expertise. Three developments would help stabilize sector sentiment: the FDA maintaining normal drug approval operations to restore confidence; increased M&A activity, expected in Q4 given small and mid-cap biotech companies' current 50% discounts; and stabilization of the regulatory and trade environment. Managers are closely watching upcoming approval decisions that could spark a significant sector.

- The forward-looking CBOE S&P 500 Dispersion Index, which measures implied dispersion over the next 30 days, rose on the month and is in the first quartile range. This implies expected rich long and short alpha opportunities.

Rating: Positive

Hedge Fund Strategy Overview
Multi-Strategy

Definition

Multi-Strategy funds combine multiple investment strategies to create a diversified portfolio. Strategies tend to be managed separately and capital is allocated between them based upon the risk appetite and return target. The aim is to provide broadly uncorrelated strategies that dampen volatility.

Usually, there is a central figure or committee that oversees risk management and capital allocation, either through a discretionary decision-making process or through a model driven approach derived from correlations and quality of returns. Often, portfolio managers are deployed in silos with limited overlap between strategies, although this can vary.

The largest multi-strategies can look more like complete asset management companies, offering access to multiple return streams either on an individual or combined basis with hundreds of portfolio managers.

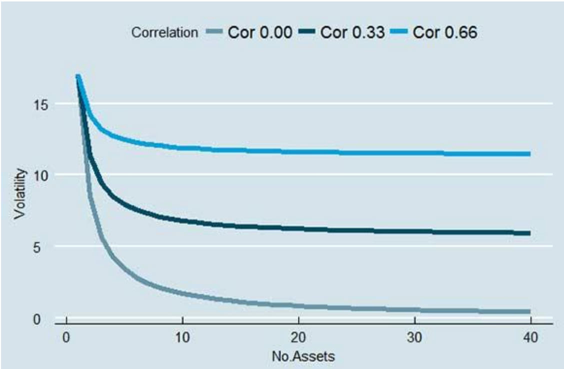
Characteristics

Diversified Returns:
Multi-strategy funds can offer a diversified return by allowing smaller managers with more niche strategies to gain access to established infrastructure. These managers may be unable to perform as stand-alone strategies but, with the processes and capital a multi-strategy fund could have access to they can get off the ground and provide a differentiated return stream for the fund as a whole.

Flexibility:
There can be a greater degree of flexibility as allocations between strategies can be manipulated more frequently based on opportunity set and performance.

Risk Management:
There is often an emphasis on centralised, robust risk management processes. Specialist risk teams will monitor the individual strategies and the portfolio as a whole and ensure that stringent guidelines are adhered to.

Investment Teams and Greater Talent Development:
Analysis of multi-strategy funds tends to pay particular attention to the internal workings of the fund and how the individual strategies work together. Rather than maintain poor performing managers, multi-strategy funds are often focused on refreshing talent to improve the quality of overall returns.



Source AXA IM PRIME illustration 01/07/24

By employing strategies that are uncorrelated, the benefits of diversification can be amplified to reduce risk.

Key Risks

Talent Retention: There is significant competition for portfolio managers within multi-manager shops.

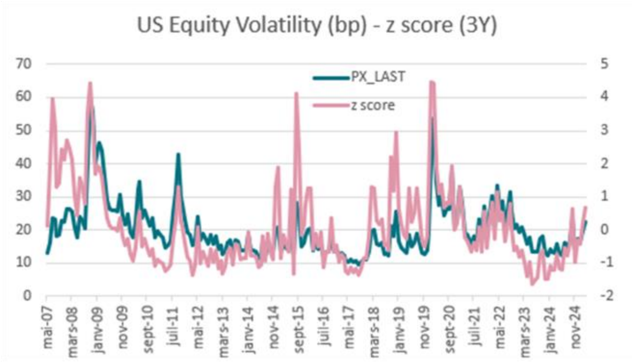
Fees: Some funds charge full pass-through costs, which can lead to very high expense ratios.

Diversification: Over-diversifying into non-core areas can be difficult, sometimes leading to muted or negative returns as new strategies bed in.

Hedge Fund Strategy Overview
Multi-Strategy

Q1 Performance Drivers

- The HFRI RV Multi-Strategy Index was up +1.1% in Q1.
- Equity Long/Short, which experienced strong gains in January but downturns in February and March, resulted in slightly negative overall performance. Sector gains were noted in Communication Services, Financials, Real Estate, and Energy, while losses were concentrated in Information Technology, Health Care, and Consumer Discretionary.
- Directional Rates was volatile as long front end rate positions in the US sold off on the back of inflationary risk stemming from Trump policies.
- In macro relative value managers faced challenges with fixed income relative value themes, particularly with shorts in swap spreads in EUR and cash futures basis. Cash bonds sold off sharply leading to a widening of swap spreads and forced liquidation among leveraged players.
- In the commodities, managers gave back their earlier gains as nat gas calendar spread positions went against managers playing for a weakening of summer and fall prices vs winter prices as Nat Gas prices remained elevated. Gains were generated in Gold where managers benefited from a risk off environment.



Source Bloomberg data, AXA IM PRIME calculation 16/04/25

Outlook

- Multi-strategy funds exhibited significant dispersion in Q1 as those firms with heavy exposures to Fixed Income and Quantitative strategies performed strongly. On the other hand firms with heavy exposures to equity long short, commodities and directional futures strategies generated losses.
- Some signs of stress have appeared in a few places like index rebalancing and swap spread trading, leading to some deleveraging in those places.
- Firms continue to expand into newer strategies, with commodities one of the hottest area of interest.
- The war for talent continues and allocations to external managers is becoming very popular with a risk of increasing costs and diminishing returns.
- Most Top Tier funds are closed to new capital, making it difficult to increase allocations and diversifying into second tier firms comes with its own challenges.

Rating : Neutral

Hedge Fund Strategy Overview

Global Macro

Definition

Global Macro funds focus on macroeconomic factors, taking positions according to the changes they see in the economic environment. They tend to make their profit from early identification of market moves in either direction.

Macro investing is very different from the investment strategies applied by other hedge fund managers, as it is more an overall approach than a precise strategy. Most funds will implement a top-down view and develop a global picture of markets to take advantage of opportunities when they appear across multiple asset classes. Once they have identified an interesting trade, they will often use a bottom-up approach in order to determine the most effective way to express their view.

Macro funds can use both quantitative and qualitative approaches at any stage of the investment timeline. They analyse economic cycles, political events and a variety of other indicators, often through interaction with policy makers and economists. Whilst some funds may base their top-down view on a manager's sentiment, others could apply models to notify them when a set of factors has moved and are likely to lead to a mispricing.

Sub-Strategies:

Relative Value

Relative Value managers seek to reduce their directional exposures to asset classes and instead exploit spreads between related securities. These could include trades of bonds of the same tenure but issued by different governments or intra-curve trades, trading bonds issued by the same government but of different maturities. Equally, managers could look to capture spreads between different asset classes exposed to the same economic risks that they believe are priced differently.

Directional

Directional managers aim to have positions based on their broader assessment of the market. This requires a strong conviction and tends to come on the back of deep fundamental work to understand a multitude of potential drivers and risks. These managers tend to take longer term, structural type views and trade through noise to enhance risk/reward profiles.

Quantitative

Quantitative Macro managers use systematic processes to identify the same types of trades implemented by discretionary macro traders. These can be trend based, more like a CTA, based on factors such as momentum, carry or value, or arbitrage trades based more on price action.

Trade Example

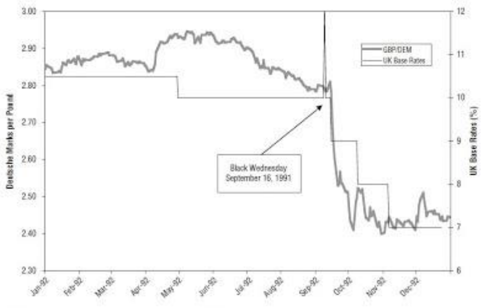


FIGURE 2.5 Sterling/Mark and UK Base Rates, 1992
Source: Bloomberg.

Source Bloomberg 1992

In this famous trade, George Soros correctly predicted that the Bank of England would be unable to maintain GBP inside the ERM, shorting the currency for a significant profit.

Key Risks

Choppy trends: managers tend to trade with momentum, if no trends establish themselves the can get whipped around.

Concentration: many managers employ concentrated positions, which increase risk.

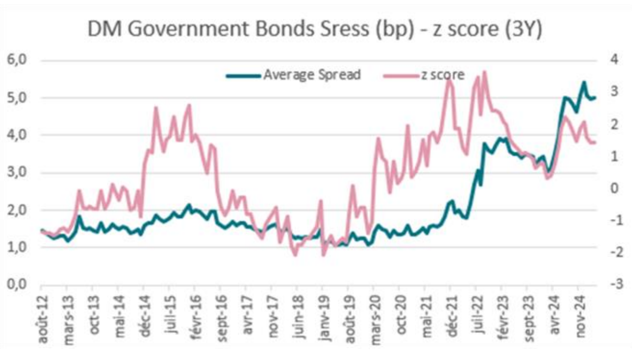
Stagnant policy: managers struggle without changes in macroeconomic conditions and policies in major global economies.

Hedge Fund Strategy Overview

Global Macro

Q1 Performance Drivers

- The HFRI Macro Total Index was down -0.1% in Q1 but with a lot of dispersion.
- Some managers successfully executed risk-off trades, benefiting from rates receivers, steepeners, and index shorts in equities. However, other significant components of their portfolios, such as JPY payers, inflation longs in the US, and thematic equity plays in technology, financials, and defense, experienced setbacks.
- In FX, gains were realized through long positions in the Euro (EUR) and Japanese Yen (JPY), alongside short positions in the Chinese Yuan (CNH). Conversely, there were losses related to carry baskets in Latin America and the Asia/Pacific region.
- Emerging market managers generally maintained steady to slightly positive performance, largely due to favorable contributions from developed market hedges. These included receivers in US rates, shorts in US equities, longs in the VIX, and long positions in EUR. Additionally, some managers profited from receivers in emerging markets, particularly with long positions in the Brazilian Real. Nonetheless, there were notable weaknesses in specific markets, such as Egypt and Nigeria, driven by fluctuations in local currencies.



Source Bloomberg data, AXA IM PRIME calculation 16/04/25

Outlook

The Trump administration's aggressive policy actions have led to significant uncertainty in the global economy, with higher tariffs and reduced immigration expected to negatively impact U.S. growth while contributing to inflation. The transitory nature of these inflation shocks will largely depend on demand conditions and potential second-round effects. Additionally, the administration's handling of the Russia-Ukraine conflict is reshaping the North Atlantic alliance and prompting changes in German fiscal policy, which may exert downward pressure on growth in the near term through higher bond yields while only supporting activity meaningfully by 2026. The overall impact of Trump's policies on financial markets will hinge on both cyclical and structural factors, leading to a likely persistent increase in the U.S. risk premium, although the U.S. dollar's dominance is not expected to be significantly undermined.

Managers are mostly positioned for a continuation of market weakness but trade with caution as risks of bear market rallies increase.

Long front end rate positions have been established in Europe together with steepener positions. Inflation risk is to the downside in Europe, while it is to the upside in the US where managers are reluctant to go long front end rates despite the recent rally in yield.

Short USD positions are now popular driven by capital outflows from the US.

On US equities, indices have gone down by 10%µ while earnings expectations have also started to come down by a similar magnitude, meaning equity markets remain as expensive as at the beginning of the year. Managers are looking to short the market again.

Rating : Positive

Investment Managers

Prime

Hedge Fund Strategy Overview
Managed Futures

Definition

Managed Futures funds, also known as Commodity Trading Advisors (CTAs), are a group of funds which employ a systematic, non-discretionary strategy to invest in liquid futures contracts. Strategies typically employ leverage as they invest in unfunded instruments.

The signals used in the strategies are predominantly based on momentum or trend following strategies using techniques such as weighted moving averages and Relative Strength Indicators. This strategy can take either long or short positions in a particular market and there is no inherent long or short bias.

CTAs usually invest across a broad range of markets such as Equities, Fixed Income, Commodities and FX in order to benefit from diversification. Strategies are spread across markets as well as time-frames i.e. they employ signals which can have a horizon ranging from intraday to several months.

Sub-Strategies

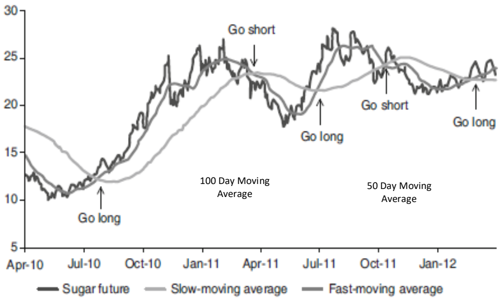
Trend Following
Mathematical models identify patterns or trends in market movements and take positions on the assumption that these trends will continue. Based on historical data, a set of criteria will be established and, once met, a position will be taken. When the criteria cease to be met, the position is closed and the information fed into the model is updated.

Moving Averages
When the short-term moving average or price of a contract crosses the bounds of a longer- term one, it can trigger a buy or sell signal. Not only does this technique identify current trends but it can construct an entry/exit strategy.

Trend Reversal
These funds look to benefit from inflection points in price trends. They tend to be shorter-term and take positions once a reversion has begun to gather momentum.

Contrarian:
Funds applying this strategy seek to identify the inflection points themselves, aiming to buy at the trough and sell at the peak. They are often betting against immediate market sentiment in order to capture the greatest difference and maintain tight stop losses.

Trade Example



Source AXA IM PRIME illustration 01/07/24

In this example, signals to buy are trigerred when the 50 day moving average price cuts the 100 day moving average from below, indicating positive price momentum. A sell signal is activated when the opposite is true.

Key Risks

Volatile Markets: If trends struggle to gain traction in markets that are frequently reverting, funds can get caught offside

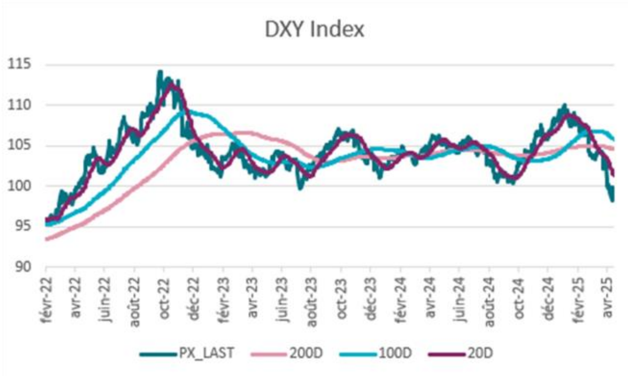
Flat Markets: Without significant enough trends for a fund to catch onto or position themselves against, CTAs will have a limited number of opportunities. In such a case, short positions can generate losses from cost of carry factors.

Crowding: Positions can get crowded by similar market participants, which can amplify reversals.

Hedge Fund Strategy Overview
Managed Futures

Q1 Performance Drivers

- The HFRI Macro Systematic Diversified was down -2.9% in Q1.
- Trend following was also down -1.3% in Q1.
- Short Term Trend following managers outperformed peers as volatility picked up towards the end of the quarter while other strategies suffered from market reversals.
- Most managers started the year with risk on positioning across equities, rates and FX and held on to their positions up to the middle of March, leading to losses.
- CTA were down over Q1 largely driven by rates, particularly in Europe along with the mean reversion in energy prices where the gas complex rose while crude fell for the month.
- FX also contributed negatively, largely driven by certain idiosyncratic contributions from BRL and Asian currencies.
- Equity on the other hand contributed positively in Jan but then lost it all in March as CTAs were caught with long positions across Nasdaq and S&P which lead to losses despite long positions also in EuroStoxx.



Source Bloomberg data, AXA IM PRIME calculation 16/04/25

Outlook

- 2025 has been marked by brutal market reversals which are typically environments where long term trend following tend to struggle while short term trend following strategies outperform.
- Non trend strategies should continue to benefit from increased usage of alternative data set but need some form of stability to perform.
- Current indicators suggest a neutral to bearish stance on stocks, credit, and the USD, a bullish outlook on bonds, and a bearish view on energy:

  a) Equities: bullish (but selling) in China and the EU, bearish in the US and Asia excluding China.

  b) Bonds: bullish outlook for Korea, Canada, and the US; neutral for Japan; bearish (but buying) for the EU and the UK.

  c) Credit: bearish in the US; neutral but likely to turn bearish for the EU and emerging markets.

  d) Currencies: bullish for EMEA, CEE, GBP, and Scandinavian currencies; neutral for JPY; bearish for the USD and Asian FX.

  e) Commodities: bullish for precious metals; bearish for all other commodities.

Rating : Neutral

Hedge Fund Strategy Overview

Fixed Income Arbitrage

Definition

Fixed Income Arbitrage funds aim to exploit perceived mispricing amongst and between fixed income instruments and their derivatives. Often, opportunities for these relative value strategies are the result of capturing temporary anomalies in price relationships between fixed income instruments while keeping an overall market neutral exposure. This strategy typically requires large amounts of leverage in order to exploit these small pricing discrepancies.

Opportunities for Fixed Income Arbitrage trades can arise for both fundamental and technical reasons. Many investors prefer unfunded products, such as futures, as part of their hedging strategies, which can cause dislocations versus the underlying cash market, especially during times of market stress. At these times investors prefer futures due to better liquidity and lower funding costs/balance sheet impact as witnessed during the 2008/9 period.

Technical reasons that can generate opportunities for Fixed Income Arbitrage investments can be large amounts of issuance of Fixed Rate Bonds, which issuers want to swap back into floating, and can lead to potential tightening of swap spreads. Fundamental spreads exist between fixed income instruments related to the same underlying asset but with different durations or conditions, which can lead to an opportunity for those that can successfully model and hedge the risks.

Sub-strategies

Yield Curve Arbitrage:

Funds seek arbitrage opportunities across different sections of a yield curve, i.e. where one section is overpriced relative to fundamental value and another is under-priced. Yield Curve steepeners/ flatteners/ butterflies are commonly used strategies in intra-curve arbitrage. In each case, the fund will take long and short positions where they believe the shape of the yield curve is likely to change.

Cash vs Futures Basis

In this case, funds aim to take advantage of the price discrepancies between a futures contract and the securities deliverable at expiry.

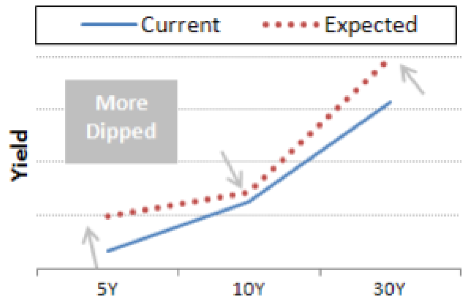
Issuance Driven Trades

Funds look to profit from distortions in the price of securities with very similar maturities based on their issuance. Predominantly this means trading the On-The-Run bond vs Off-The -Run bonds.

Swap Spread Trades:

Funds may take positions in both the fixed and floating sides of an interest rate swap with the intention of benefitting from predicted widening or tightening of the spread.

Trade Example



Source AXA IM PRIME illustration 01/07/24

The example above is a yield curve butterfly. The fund believes that the yield will increase in the 5 and 30Y sectors but decrease in the 10Y. As such they would go short the 5Y and 30Y securities (the wings) and long the 10Y (the belly).

Key Risks

Cost of Carry: Short positions in a fixed income security require the holder to pay the interest. In such a case, rising rates can make holding a short position very expensive.

Prepayment Risk: Within asset backed sub-strategies, an early return of principal means that future interest payments aren't paid to a fund.

Liquidity and Borrowability: Given that fixed income funds tend to employ a lot of leverage, lack of available balance sheet makes borrowing more expensive.

Hedge Fund Strategy Overview

Fixed Income Arbitrage

Q1 Performance Drivers

- The HFRI Relative Value Fixed Income Sovereign Index finished the year up 9.7%.
- Treasury volatility remained elevated during the quarter, as US events were in conflict with central banks' dovish path. The MOVE Index remained nearly twice as high as levels reached in 2020, reflecting investor concerns about global governments' ability to attractively price new bond supply. In January bond yields spiked to nearly 5%, dropping 50 basis points over the following six weeks on GDP growth concerns, only to rise again in March
- Fixed Income Relative Value performance was positive for the quarter, as managers took advantage of the rapidly shifting economic backdrop to capture market inefficiencies. Swap spreads widened at the end of the quarter, offsetting some gains.
- From a portfolio management perspective there is beneficial diversification contribution from FIRV. Despite the significant drawdowns in hedged equities strategies, arbitrage trades remained relatively resilient and profitable on a risk-adjusted basis

Outlook

- Global economic divergences will continue to impact bond pricing across geographies and durations, resulting in lower bond demand amid sustained supply:

  - Tariff negotiations prolong uncertainty for global growth
  - Trade wars increase risks of inflation, thus forcing the Fed to deviate from a dovish path
  - USD volatility also pressures foreign buyer demand

- From a fiscal perspective, the significant rise in public debt post-2020 could lead to bond volatility in specific regions, as it did with the UK in 2022, France in 2024 and Germany earlier this year
- As a result, typical fixed income trades such as carry, term structure, auctions will be a good source for alpha for the funds that can be dynamic, while the crosscurrents of global shifts continue.

2-Yr SOFR Z-Spread

Source: JP Morgan/Pine River

Rating : Positive

Hedge Fund Strategy Overview

Convertibles Arbitrage

Definition

Convertibles Arbitrage is a relative value strategy, focused on the relationship between a convertible bond and the underlying equity. The vanilla convertible arbitrage trade is going long the convertible bond and short the underlying stock, as to the upside, the positive convexity in the bond results in the gains exceeding losses on the short stock hedge, and the opposite applies in a downside scenario as the short stock position acts as a hedge against the long convertible position. Convertible Arbitrage managers seek to provide equity participation to the upside and principal protection to the downside, whilst monetizing convexity through market equity volatility and extracting alpha from special situations and events.

Convertible arbitrageurs will generally seek CBs that exhibit high equity volatility, low conversion premium, high gamma, high liquidity and that are trading cheap versus theoretical fair value. Returns are driven by carry (the income earned from the coupon on the CB), monetization of market equity volatility through gamma trading, and new issues, which typically trade cheaply to fundamental fair value.

CBs can behave as yield instruments (bond-like in nature, sensitive to credit spreads), total return instruments (moderate yields, balanced with relatively high gamma which enables dynamic hedging of the underlying stock) and equity alternatives (high theoretical deltas, low yields – these are in the money and equity-like in nature)

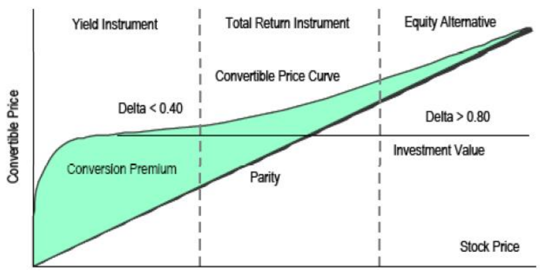
Sub-strategies

Synthetic Put Options:
The convertible is trading close to its parity value (the value of the underlying shares if investors convert). The conversion option is in the money and the conversion premium is low – this is a high delta, equity-like trade. By going long the convertible bond and short the underlying equity, you can generate P&L in a significant equity sell-off as the returns on the short stock position will exceed losses on the convertible (these losses will be capped as the bond can be sold 'put' at the bond floor).

Balanced Arbitrage
The vanilla convertible arbitrage trade. The option embedded in the convertible bond is close to its strike price, so gamma (how much the option delta changes for a given change in the underlying equity) is at its maximum. This is a long volatility position, generating P&L via gamma trading.

New Issuance Driven Trades
Funds look to profit from new issues trading cheaply to theoretical fair value, as these convertibles typically quickly revert (richen) to theoretical fair value, providing opportunity for P&L generation through holding the position over a short period.

Convertible Bond Profile



Source AXA IM PRIME illustration 01/07/24

Convertible bonds are bonds yielding regular coupon payments but can be converted into a pre-determined number of common shares at certain times over the life of the bond, usually at the discretion of the bondholder.

Key Risks

Credit: Given much of the market is non-rated, valuations may be impacted by a flight to quality.

Interest Rates: Convertibles could underperform in a rising rate environment.

Market stagnation: If volatility is suppressed and the new issuance calendar is sparse, generating returns could prove challenging.

Investment Managers

/ Prime

Hedge Fund Strategy Overview

Convertibles Arbitrage

Q1 Performance Drivers

- Performance continued its positive run through Q1 helped by a combination of issuance, carry, volatility and duration effects.
- The HFRI RV Fixed Income Convertible Arbitrage Index returned +3.0% for the quarter.
- The Barclays Global Converts Hedged TR index (long-only, currency hedged) gained +0.4% over the same period.
- Issuance continued at a brisk pace in Q1 with a total of $26bn raised, including $15bn in March alone, with average coupons of 2.16%. This run rate was below 2024 but above the average for the last five years.
- Despite the Fed cutting interest rates to 4.5% in December, yields on CBs, while cheaper than equivalent seniority straight bonds, continue to add to returns. These were boosted by duration effects as 5-year yields declined -36bps during the quarter.
- Elevated but contained volatility for most of the quarter presented an attractive environment for gamma trading, reflected in a record monthly trading volume of $71bn in February.
- Valuations held steady just above fair value until the last week of the quarter, capping off a positive three months but giving way to very different conditions as Q2 began.

Convertible Valuations

Source: Jefferies 15/04/25

Outlook

- The convertibles market felt the impact of President Trump's opening tariff salvoes with investors recalibrating in the face of heightened uncertainty.
- Increased credit spreads have caused valuations to reset, improving levels of attractiveness, so far without any extreme moves. So long as widening is orderly, CBs should expect to continue to improve in value both in price and yield.
- The key to this is higher volatility, which supports profits from gamma trading. After the shock of the initial spike, which saw VIX touch 53 on 8 April, levels have settled back to the low 30s, which are highly supportive and we expect trading volumes to remain high as seen in Q1.
- Issuance has paused momentarily, but the market continues to broaden as companies across more sectors turn to convertibles as a financing source and we expect volumes to pick up as a volatility settles and while credit spreads are contained and base rates are stable.
- A notable, albeit small, corner of the CB market has been the crypto complex, with companies such as Microstrategy raising finance to fund purchases of digital asset. Valuations are extremely rich but can be hedged with BTC creating profitable arbitrage opportunities.
- With volatility and issuance as the key drivers, the convertible asset class stands to be one of the beneficiaries of the unsettled environment and we remain constructive on the opportunity set.

Rating : Positive

Hedge Fund Strategy Overview

Credit/Distressed

Definition

Credit Managers look to profit by investing in debt or debt-like instruments related to individual companies, employing some combination of directional, relative value and arbitrage strategies.

The corporate credit space is delineated through structure and rating: from Investment Grade to High Yield and Junk. Additionally, there are various structures that managers can utilize, from plain vanilla bonds through to CoCos and CLOs. Managers can specialize in one area or move actively across different strategies. These complexities can make it difficult for non-specialists to correctly understand and value individual instruments, creating investment opportunities.

Net exposure amongst managers can vary considerably, with some managers looking to strip out market direction via active shorting or arbitrage plays, whilst other managers are more focused on carry and value opportunities. Typically, a manager will take a view on a bond based on a fundamental approach that identifies mispricing, for example if earnings or debt repayments are ahead/behind schedule.

Sub-Strategies:

Credit Long Short

Managers look to build portfolios of long and short corporate credit positions based on their opinion of the fundamentals of the company and their analysis of their ability to repay their bonds. Shorts may take the form of alpha generative trades or be more pure hedges to strip out market beta

Credit Relative Value

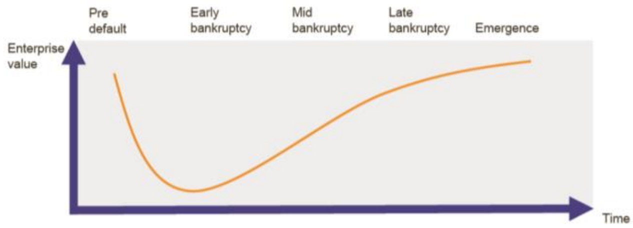
Managers look to capture the relative mispricing between two credit instruments. Trades can be expressed by going long or short cash vs synthetic bonds, senior vs subordinated debt, debt vs equity and term structure.

Distressed

Distressed debt investing involves looking at companies which are in distress or already defaulted and whose debt is trading at severely impaired level. This involves taking a view on the recovery value of the debt through a detailed understanding of the capital structure and enterprise value of the company after the restructuring process.

Later, in in the early to mid-bankruptcy stages, the fund may purchase bonds they view as cheap. In the late-emergence stages, the fund could substitute their loans for either, or a combination of, new bonds or post-reorganization equities in the restructured firm.

Trade Example



Source AXA IM PRIME illustration 01/07/24

This graph shows a typical distressed cycle for a company undergoing bankruptcy and then recovering. Managers can enter and exit the trade at various times based on their analysis of the likelihood of recovery.

Key Risks

Credit risk: This is the risk of borrower default and failing to make the required repayments. This can lead to the loss of both the principal and the intermediate coupon payments.

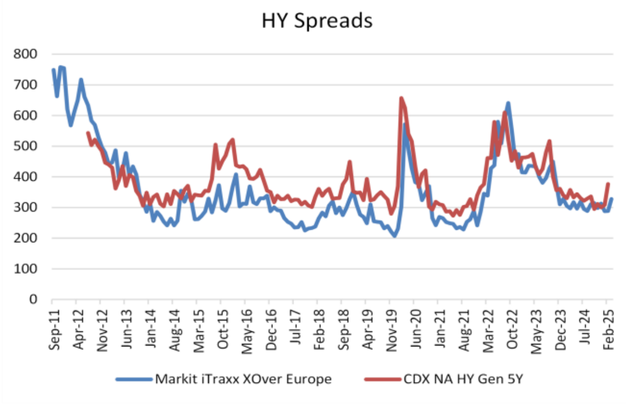
Cyclical factors: Depending on the stage of the business cycle, firms may struggle repaying creditors as a result of decreased demand.

Liquidity Risk: Bonds can become illiquid in stressed markets.

Hedge Fund Strategy Overview
Credit/Distressed

Q1 Performance Drivers

- Credit was positive over the quarter driven by a combination of spread compression in January-February, duration effects and carry income, offset by March spread widening.
- CS US BB spreads were +46bps wider, European BBs were +17bps wider. CCC spreads were +156bps and +62bps wider in the respective regions. These moves were offset by lower bond yields with the US 5-year yield dropping -36bps to 3.88%
- The Barclays Global Corporate HY index rose +1.8% for the quarter (US HY was +1.0% and Europe was +0.5%) while the CS Leveraged Loan Index, (mainly floating rate) gained +0.6%.
- The HFRI RV: Fixed Income-Corporate Index gained +1.0% for the quarter. The HFRI ED: Distressed / Restructuring Index rose +0.9%.
- Credit volatility rose sharply in March: having started the quarter at 28.2, VIXIG dipped to 23.5 in January before surging to 38.7 in March; VIXHY rose from a low of 119 to end the quarter at 213.
- Carry on HY rose with the yield-to-worst on High Yield bonds moving up from 7.49% to 7.73% in the US and from 6.44% to 7.02% in Europe. Levered Loan yields tightened modestly from 8.8% to 8.5%. In the US the 30-year mortgage rate moved in from 6.97% to 6.70%.



Source: Bloomberg data, AXA IM PRIME calculation 16/04/25

Outlook

- Previously we noted that Credit was priced near perfection, that there was little room for mistakes, and that there were signs of weakness at the margin – prompting us to downgrade the strategy.
- Since then the US Administration sent shockwaves through markets with a wave of import tariffs not seen for almost 100 years, compounding this by altering course on policy and creating uncertainty for investors.
- Credit spreads, initially slow to react to 'Liberation Day', widened out to 500bps in the US – a level not seen since mid-2023, though they are still some way off the 600bps level that we consider marks broad market stress.
- Given the level of uncertainty, and the potential for President Trump's policies to cause unforeseen damage to the global economy, we remain cautious on credit at current levels, but are preparing for increased opportunity as winners and losers emerge.
- In structured credit, CMBS remains in focus with significant dislocation in the SASB (single asset, single borrower) market, which made up 62% of issuance in 2024 and is likely to persist for some time.
- We continue to monitor the CLO market. It has proven resilient so far but has experienced significant growth post Covid and is beginning to show signs of pressure at the margin so remains one-to-watch.
- US Agency 7Y mortgage basis widened from 135bps to 143bps, while the yield on the 30-year mortgage bond came in from 6.97% to 6.70% as long-term interest rates declined. Mortgage derivatives offer an attractive way to gain exposure with returns in the low teens available with limited leverage.

Rating : Neutral

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AXA IM Prime: April 2025

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