April 2015

Hedge Fund Market Intelligence: Reversing Trends Hit Global Macro

A monthly hedge fund performance report by the Arden Investment Research Team

ARDEN ASSET MANAGEMENT LLC

ABOUT HEDGE FUND MARKET INTELLIGENCE

This report is based on Arden's coverage of more than a hundred hedge funds in which the firm actively invests on behalf of clients and is intended to be representative of certain trends and themes. The report is organized by strategy and is produced by Arden's Investment Research team. A leading hedge fund specialist, Arden conducts regular due diligence and monitoring on these and other funds and maintains a proprietary database with information on hundreds of fund managers. Sources of information include, but are not limited to, the fund managers themselves.

The strategy breakdown for the hedge funds covered in this report is as follows:

Strategy*	Number of Funds
Credit	23
Equity-Event	23
Global Relative Value (Discretionary and Systematic Macro)	35
Global Equities (Equity Long/Short and Equity Market Neutral)	23

**Strategies as defined by Arden. As of April 30, 2015.*

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OVERVIEW

April was a challenging month for hedge fund strategies, especially global macro and particularly systematic and momentum-driven trading strategies, as a number of established trends across different asset classes experienced abrupt and simultaneous reversals. After nine consecutive monthly declines, between July 2014 and March 2015, the euro broke its trend and appreciated versus the dollar in April. Oil prices rose by over 25% for the month, emerging market equities rallied while European markets declined, and long-term interest rates rose as yield curves steepened across the major developed markets. It is not yet clear whether these trends are fundamentally broken or if we are simply entering a period of consolidation before momentum eventually returns. Arden's fixed income relative value managers were also hurt by these reversals in the markets.

April was a positive month for credit managers, however, as it was a constructive month for credit fundamentals following the delay of Fed policy hikes, strong CLO issuance and a rally in energy prices. The rally in energy prices was arguably the strongest tailwind for positive performance, as energy bonds rallied significantly throughout the month. Equity-event managers had mixed performance during April but were up on average for the month. Gains were driven by new deal activity, company specific news, and a bounce in energy-related names. Losses stemmed from softness in overseas markets and two notable deal breaks that occurred during the month. Within global equities, equity long/short managers had mostly positive performance driven primarily by earnings. Equity market neutral (fundamental and quantitative) managers had mixed performance in April with gains in the health care sector and losses in commodity-driven stocks.

Despite global macro’s poor performance in April, we remain positive on the outlook for the strategy in general. The growth slowdown experienced in the United States during Q1, combined with the move higher in the US dollar, has lowered inflation expectations and pushed off the anticipated timing of Fed rate hikes further in to the future. It is our view, however, that underlying positive trends in the US labor market will continue to drive positive growth for the US economy over the remainder of 2015.

In other strategies, we see ongoing high levels of M&A and other corporate activity continuing to provide a positive backdrop for equity event driven managers. We also continue to be positive on the outlook for equity market neutral strategies. We are cautious on the outlook for equity markets broadly, but expect dispersion amongst individual stocks and sectors of the market to remain high as a consequence of increasing macro uncertainty and higher volatility in rates, foreign exchange, and commodities. We would expect credit relative value strategies to benefit from many of the same factors outlined above for equity market neutral. However, managers have noted that as a consequence of more stringent regulation, broker-dealers are increasingly unwilling to commit capital to provide liquidity and facilitate client trading for credit strategies. We still consider the Federal Reserve tightening monetary policy to be the primary risk for global markets over the coming quarters. Although markets have delayed the anticipated timing of the first Fed rate hike, we still see a material risk that as the labor market continues to tighten the Fed will be compelled to push rates higher than markets currently anticipate.

CREDIT

EXECUTIVE SUMMARY

April was a constructive month for credit fundamentals following the delay of Fed policy hikes, strong CLO issuance and a rally in energy prices. The latter referenced tailwind arguably provided the strongest contribution to returns this month as energy bonds in particular rallied +3.9% in April, more than fully recouping March's decline to stand at +6.7% YTD, according to JP Morgan High Yield Strategy Research. The April performance for the various credit indices were as follows: the JP Morgan Global High-Yield Index: +1.61%; the JP Morgan Domestic High-Yield Index: +1.34%; the JP Morgan JULI Index: -0.47%; JP Morgan EMBI: +1.97%; and the 10-year US Treasury: -0.83%.

Market Events

General Electric Announcement:

Arguably the most significant corporate development this year came from General Electric ("GE") which announced that it would be exiting all of its GE Capital businesses. Citing excessive burdens of increasing regulations, GE decided to shed its lending businesses and refocus on the company's industrial business. This development has huge implications on the cost of capital for issuers. It also changes the lending landscape to favor alternative lenders as GE Capital has long reigned as the dominant player in commercial lending and sponsor finance.

New Names Added to the High-Yield Index:

As has been the trend for most of 2015, retail, metals & mining, and energy names have been facing cyclical declines and in April several formerly investment-grade companies have been downgraded below BBB (see below) and will increase index exposure to these sectors. Three commonly-held names among the downgrades—Gazprom, Petrobras and Transocean—are highlighted below.

Additions to the JP Morgan High-Yield Index, April 2015

Issuer	Coupon	Maturity	Par ($ mn)	MDY	SP	Industry	YTW	STW	Approx Glb Index Weight	Inclusion Date
Safeway	7.250%	1-Feb-31	600	B2	CCC+	Retail	7.1%	484bp	0.06%	1-May-15
Safeway	5.000%	15-Aug-19	269	B2	CCC+	Retail	4.7%	343bp	0.03%	1-May-15
QGOG Atlantic	5.250%	30-Jul-18	372	B1	NR	Energy	8.5%	755bp	0.03%	1-May-15
Gazprom	9.250%	23-Apr-19	2,250	Ba1	BB+	Energy	6.1%	495bp	0.23%	1-May-15
Gazprom Neft OAO	6.000%	27-Nov-23	1,500	Ba1	BB+	Energy	7.2%	531bp	0.13%	1-May-15
MTS International Funding	8.625%	22-Jun-20	750	Ba1	BB+	Telecommunications	6.6%	514bp	0.08%	1-May-15
MTS International Funding	5.000%	30-May-23	500	Ba1	BB+	Telecommunications	6.7%	487bp	0.04%	1-May-15
Petrobras International Finan	5.375%	27-Jan-21	5,250	Ba2	BBB-	Energy	6.2%	468bp	0.46%	1-Jun-15
Petrobras International Finan	4.375%	20-May-23	3,500	Ba2	BBB-	Energy	6.1%	432bp	0.29%	1-Jun-15
DCP Midstream	5.350%	15-Mar-20	600	Ba2	BB	Energy	5.6%	419bp	0.05%	1-Jun-15
DCP Midstream	4.750%	30-Sep-21	500	Ba2	BB	Energy	5.6%	400bp	0.04%	1-Jun-15
DCP Midstream Operating	3.875%	15-Mar-23	500	Ba1	BB	Energy	5.1%	333bp	0.04%	1-Jun-15
DCP Midstream Operating	2.500%	1-Dec-17	500	Ba1	BB	Energy	4.2%	347bp	0.04%	1-Jun-15
Transocean	6.375%	15-Dec-21	1,200	Ba1	BB+	Energy	8.8%	713bp	0.10%	1-Jun-15
Transocean	5.050%	15-Dec-16	1,000	Ba1	BB+	Energy	2.6%	213bp	0.10%	1-Jun-15
Uralkali OJSC	3.723%	30-Apr-18	650	Ba1	NR	Metals And Mining	7.1%	627bp	0.05%	1-Jun-15
MMC Norilsk Nickel	5.550%	28-Oct-20	1,000	Ba1	BBB-	Metals And Mining	5.9%	442bp	0.09%	1-Jun-15
Lukoil International Finance	4.563%	24-Apr-23	1,500	Ba1	BBB-	Energy	6.3%	453bp	0.12%	1-Jun-15
Lukoil International Finance	3.416%	24-Apr-18	1,500	Ba1	BBB-	Energy	5.6%	472bp	0.13%	1-Jun-15
Kinross Gold Corp	5.125%	1-Sep-21	500	Ba1	BBB-	Metals And Mining	5.9%	433bp	0.04%	1-Jun-15
Kinross Gold Corp	5.950%	15-Mar-24	500	Ba1	BBB-	Metals And Mining	7.0%	508bp	0.04%	1-Jun-15

Source: JP Morgan

New Issuance

New high-yield bond issuance was consistent with the previous month's strong volume, totaling $37.7bn for April as compared with $40.1bn, $33.5bn, and $22.0bn in March, February, and January, according to JP Morgan. Year-to-date high-yield bond volume totals $133.3bn versus $129.7bn for the same time period in 2014. As would be expected, refinancing deals YTD have slowed a bit, accounting for 50% of total volume as compared to 56% over the same period in 2014. Of the $133.3bn issued thus far this year, $45.4bn has been rated split BBB or BB (34% of total volume), $73.8bn was rated split BB or B (55%), and $14.2bn was rated split B or CCC (11%). For context, split BBB/BB issuance accounted for 36% in 2014, split BB/B for 45% and split B/CCC issuance at 19%. Additionally this month there has been a reach for new issue energy deals. A great example of this can be seen in the Halcon 2nd lien bond issuance which was 10x oversubscribed and was increased from $500mn to $750mn.

Inflows/Outflows

High-yield bond mutual funds reported a modest inflow in April (+$1.2bn), the third inflow in the first four months to start the year according to Lipper. By comparison, high-yield funds reported an outflow of -$3.1bn in March and inflows of +$8.4bn and +3.8bn in February and January, respectively. Year-to-date inflows are now +$10.2bn (incl. +$4.7bn ETF) vs. a +$3.5bn inflow over the first four months last year and a record -$23.8bn withdrawal in FY14. As highlighted last month, high-yield mutual funds and ETF inflow/outflows have become an increasingly more important technical driver and show a high degree of correlation to the performance of the credit market.

European Central Bank Quantitative Easing

The scheduled government bond buying by the ECB is higher (€560bn) than net supply, effectively pushing investors out of the market. This is different from the Fed QE, in which the rate of buying of US Treasuries was lower than the net supply of bonds. Under the ECB QE, combined monthly purchases (including existing ABS and covered bond purchase programs) will amount to €60bn and the purchases will carry on until at least September 2016, but may continue beyond that to reach inflation targets.

In order to be eligible for purchase, EGBs and SSAs are required to have 2-30 yr of residual maturity and an investment grade rating (with additional requirements for program countries, i.e., Greece and Cyprus). Bonds with negative yields down to the -0.20% deposit rate can be bought. Aggregate purchases will be split among issuers according to ECB key capital. The ECB will also have an issue limit and an aggregate holding limit for the purchases, set as 25% and 33%, respectively, of each bond issue.

Defaults

Default activity increased in April, with five companies defaulting on $4.5bn in high-yield bonds and institutional loans according to JP Morgan. This marked the largest number of defaults since five companies defaulted in March 2014 and the highest monthly volume since December 2014, or July 2013 excluding TXU and Caesars. By comparison, default volume over the prior eleven months had been very benign, as it averaged $2.8bn per month, or only $1.2bn per month excluding Caesars $17.8bn default in December. YTD, 13 companies have defaulted totaling $9.3bn in bonds and loans, compared with 12 defaults and $43.8bn ($7.8bn ex-TXU) during the first four months last year. Breaking down these numbers, YTD defaults have been comprised of five bond-only issuers, four loan-only borrowers, and 4 companies with both bonds and loans outstanding, while bond defaults have totaled $5.9bn compared with $3.4bn for loan defaults.

With acute stress on energy and coal companies over the last several months, it's not surprising that default activity has been dominated by companies in these sectors. Specifically, seven energy companies and two coal companies have defaulted thus far this year, representing 35% and 36% of YTD default volume, respectively. Over the next few years, there are few situations or burgeoning sector risks (besides energy) that are likely to cause default activity to increase. This month's largest default was Walter Energy, a coal company; the second largest default this month and fourth largest YTD was Sabine Oil & Gas (NFR Energy), an exploration and production company of natural gas.

ANALYSIS

Arden's credit managers performed in line with the broader credit peer group which was up across the board this month. The best performing strategy within the asset class was credit event which benefited from low volatility and idiosyncratic events.

Credit Relative Value

The average yield and spread for high-yield bonds decreased this month, -0.22% and -0.26% in April to 6.43% (6.06% ex-Energy) and 5.22% (4.90% ex-Energy), and each is down a considerable 0.69% and 0.48% year-to-date, according to JP Morgan. By rating, CCCs outperformed during April returning +1.76%, while BB-rated bonds returned +1.15% and Bs returned +1.53%. Year-to-date, BBs have outperformed with a return of +3.98% while Bs and CCCs have returned +3.82% and +3.51%, respectively. This trend bears out in shifting return volatility trends which may help RV managers that trade in Baa-rated securities while providing less opportunity in B and Caa-rated issues.

Middle Market Credit

With a delay of Fed policy hikes, decreased return volatility in B and Caa-rated securities and the General Electric announcement, middle-market credit continues to be an attractive opportunity set within bonds and loans.

Credit Event

The AK Steel/Magnetation deal was delayed when Magnetation, an iron ore concentrate and pellet producer held by credit event managers, had to file for bankruptcy. AK Steel is trying to use this as leverage to strike a better deal.

Halcon, a name owned by several managers, rallied this month after the successful pricing of its second lien financing and the debt-to-equity swap with Franklin Templeton. Transocean (RIG) CDS sold off as oil prices rallied over the month and the company announced much better than expected Q1 earnings.

Stressed/Distressed

Greece: Negotiations are progressing at a very slow pace. The Greek government is insisting on overhauling key aspects of the current programme, particularly, collective wage bargaining and supplementary pension cuts. Greece's creditors are pressing Greece to stick to current benchmarks with some flexibility to prevent the risk of moral hazard throughout the Eurozone at a time when other European fringe parties are also advancing in the polls.

The hard deadline for the Greek government is the earlier of two scenarios, the government running out of cash or the current program extension expiration at the end of June. The government probably has enough cash to last to the end of May after raiding municipality cash reserves and running substantial arrears outside of public sector wages, pension payments and external debt payments, but may have limited room to maneuver thereafter. Greece faces €1.6bn in payments to the IMF in June, and €4.7bn in payments to the ECB and IMF in July.

Structured Credit

RMBS/ABS: GSE selling and fund/CDO liquidations continue to provide the majority of non-agency BWIC supply. STACR/CAS continued to tighten after the first true-loss deal and NRZ purchased all of HLSS's assets but has agreed to a 2-yr extension of Ocwen's servicing. Citi's global R&W settlement saw no objectors in its recent hearing, paving the way towards a much speedier resolution than either JP or CW.

Agency Mortgage Derivatives: Agencies had a good month as lower volatility and a bear steepening toward month-end were the main drivers of IO/IIO outperformance.

CLO: CLO issuance was lower in April as leverage loan prices increased steadily, which decreases the arbitrage to CLO equity. Spreads tightened across the board, specifically in lower mezz (BBB/BB/B).

CMBS: The index has recently underperformed cash as cash buyers emerged with the recent backup in rates. This is bringing out yield buyers and leading to more investors going further out on the curve; that said, index still outperformed corporates on this move lower. There has been less new issue supply recently, specifically in SASB space, so investors have been more focused on secondary where flow remains light but well bid. On the conduit side, there are currently three deals in the market right now and all have been going fairly well. Same headwinds continue for conduits – underwriting deterioration and rating shopping at the bottom of the stack.

OUTLOOK

We believe that performance for the credit strategies going forward will largely be dictated by how managers have positioned their portfolios across key exposures, specifically: (i) rates, (ii) energy, and (iii) European exposure. The message from the last FOMC meeting was decidedly dovish and the timing for the first interest rate hike now looks to have been pushed out to Q3 2015 at the earliest. Managers that have been actively adding long exposure to energy and European credit and equity have greatly benefited from the rally this month. Arden believes these managers should continue to generate outperformance in the short term. The underpinnings to the continued steady (but modest) performance of the US economy bodes well for ongoing positive performance from residential and commercial mortgage instruments and other asset backed structures. With these market dynamics in mind, a bias towards owning high quality cash flows in structured products, a limited beta positioning in corporate credit (with a preference toward taking credit risk over duration risk) and a focus on relative value trades across credit look likely, in our opinion, to outperform.

EQUITY - EVENT

EXECUTIVE SUMMARY

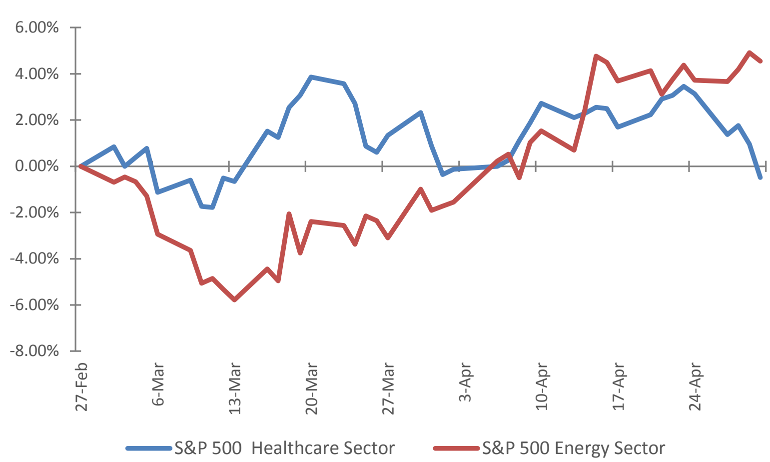
The HFRI Event-Driven Index advanced +1.19% in April vs. +0.96% for the S&P 500 Total Return Index, further extending its outperformance of the broader US large cap equity market year-to-date. All HFRI event-driven sub-strategies were positive during the month led by Activists and Special Situations strategies and to a lesser extent Merger Arbitrage. Global equity markets were generally positive (highlighted by Chinese markets gaining +18.0%), crude oil rallied 22%, the US dollar strengthened, and deal activity remained robust. Chinese equities provided a tailwind for event-driven managers with exposure to the region. Additionally, deal volume accelerated with a handful of announced new deals (i.e., Perrigo/Mylan, Mylan/Teva Pharmaceuticals, BG Group/Royal Dutch Shell) and first quarter earnings results were generally in line or beyond expectations.

Losses stemmed from a reversal of the exposure factors that had drove performance in prior months, specifically, healthcare and stronger oil. The healthcare sector traded down in April reversing its prior trend of strong returns during the first quarter; given the recent run-up, investors started to take profits and recycle the capital elsewhere. Similarly, after back-to-back negative quarters, oil prices reversed trend and rallied in April. As a result, transportation and airline stocks suffered, which many managers had added exposure to in prior months to benefit from lower oil. A key risk to corporate deal activity appeared in April as two deals were called off due to regulatory and government opposition (Tokyo Electron/Applied Materials, Time Warner Cable/Comcast). Gross and net exposure climbed higher for the second consecutive month highlighting managers' overall strong conviction in the event-driven opportunity set. Recent strength has led to a healthy turnover of positions, with managers introducing new core investments into their portfolios.

ANALYSIS

Arden's equity-event managers had mixed performance during April but were up on average for the month. Gains were driven by new deal activity, company specific news, and a reversal in energy-related names, but were modestly offset by broad-based losses, stemming from trend reversals, stronger oil prices, and a stronger dollar.

Healthcare and Energy Sector Cumulative Performance (2/27/2015 – 4/30/2015)



Source: Arden Research, Bloomberg

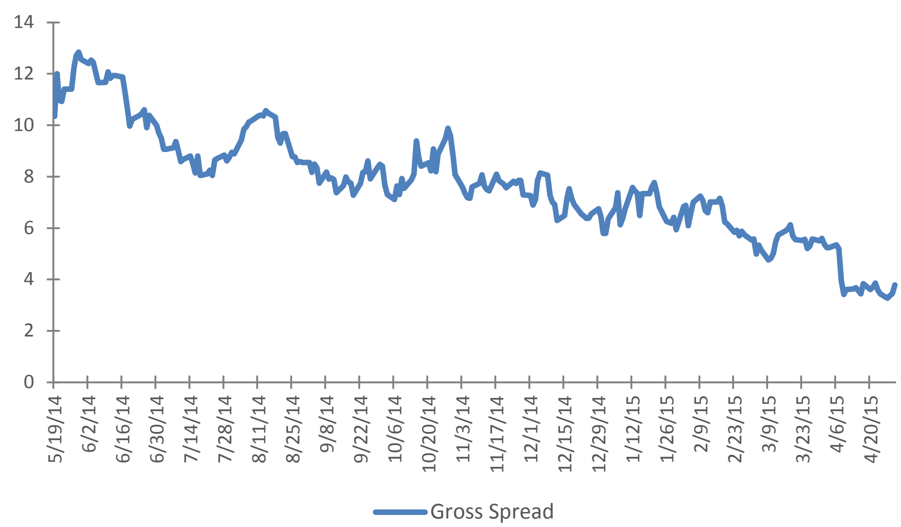
Managers primarily exposed to US equities gave back a large portion of gains on the last few days of the month when the S&P 500 sold off nearly -1.5%. Additionally, portfolio hedges generally detracted from performance as well with global equity markets advancing during the month. Healthcare-related positions (i.e. Actavis, Endo International, Medtronic, Teva Pharmaceuticals) generally sold off as the sector reversed trend in April. Transportation/airline-related positions (i.e., American Airlines, Carnival Corporation, United Continental Holdings) declined as oil prices rallied. A stronger dollar/weaker euro led to unfavorable currency swings that caused a decline in quarterly revenues for some corporations (i.e., Air Products & Chemicals).

There were two deal breaks in April that only marginally detracted from performance for managers that had exposure.

On April 24, Comcast terminated its deal to acquire Time Warner Cable due to opposition from antitrust regulators. Three days later, on April 27, Applied Material and Tokyo Electron together abandoned their merger citing Department of Justice opposition. It should be noted that the Time Warner Cable/Comcast deal break had no effect on the pending DirecTV/ATT merger, which is expected to close in the coming months. After the Shire/AbbVie deal break in October 2014, managers have become smarter and more cautious in sizing mergers with high regulatory or government intervention risk.

DirecTV/ATT Gross Deal Spread % (5/19/14 – 4/30/15)

The deal spread tightened during the month as speculation that the deal would close increased.

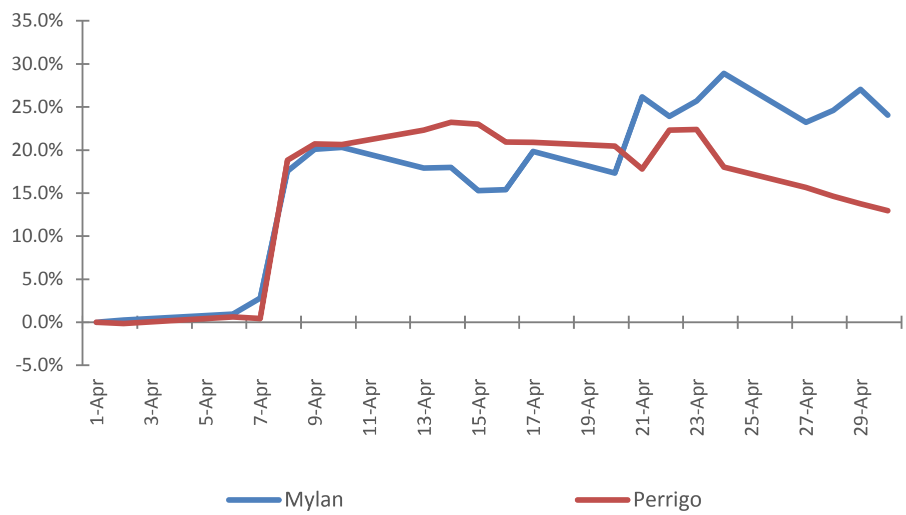


Source: Arden Research, Bloomberg

Despite the above negative events, global announced deal volume totaled approximately $660bn in April, 35% higher than the prior month and 40% higher than the same period a year ago. In fact, it was the largest month of announced deal volume since April 2007. Headline deals announced during the month included BG Group/Royal Dutch Shell (target/acquirer), Perrigo/Mylan, Mylan/Teva Pharmaceuticals, Syngenta/Monsanto, Alcatel Lucent/Nokia, TNT Express/FedEx, and Iglo Foods/Nomad Holdings. Looking ahead, a stronger dollar and weaker euro could influence the amount of cross-border transactions, as US corporations will look to acquire cheaper strategic European targets. Additionally, lower multiples in many European equities should be an attractive sell.

Many managers continued to focus on merger mania within the healthcare sector and initiated varying positions across Mylan, Perrigo, and Teva Pharmaceuticals. Despite the broader sell off in the healthcare sector, Mylan and Perrigo provided positive contribution for many managers on announced deal activity. On April 8, Mylan Pharmaceuticals made an unsolicited offer to purchase Perrigo, but Perrigo subsequently rejected the offer. A few days later, on April 17, Teva Pharmaceuticals made an unsolicited offer for Mylan, which Mylan too rejected. Managers expect both Mylan and Perrigo to be acquired eventually.

Mylan and Perrigo Cumulative Performance (4/1/15 – 4/30/15)



Source: Arden Research, Bloomberg

Other positive event-driven contributors included Starwood Hotels & Resorts which announced that it had engaged Lazard to review strategic alternatives and a potential sale of the company. Additionally, after being a common source of large losses in March, Whiting Petroleum bounced back more than 20% recovering from both the fall in oil prices and news that the company sold shares and raised debt instead of looking for a buyer.

Yum! Brands (KFC, Pizza Hut, Taco Bell) was another common contributor for event-driven managers, benefiting in April from reporting better than expected first quarter earnings. On May 1, activist investors Dan Loeb (Third Point) and Keith Meister (Corvex) announced large stakes in the company, both highlighting the prospect of significant earnings growth in its Chinese operations.

Manager gross and net exposure levels trended higher in April. A constructive backdrop for the event-driven strategy continues to provide ample idea flow for managers and is driving exposure levels higher. One trend we have noticed is that managers have begun rotating capital from lower conviction ideas that have been in the portfolio for some time and higher conviction ideas that have appreciated into new core positions.

Exposure increases are also highlighting greater sector and geographic diversity, with managers continuing to allocate within the US, but also extending to Europe and Asia as well. As mentioned previously, given the stronger dollar and weaker euro, some managers are specifically focusing on US multinational companies that generate a significant portion of their revenue in Europe and are now trading at attractive valuations.

OUTLOOK

Arden maintains its bullish view on the equity-event landscape. We believe the current market environment remains conducive for strong alpha generation by Arden's current line-up of event-driven managers.

We are mid-cycle in a wave of heightened corporate activity and investors stand to potentially benefit from valuation increases created by strategic actions such as merger and acquisitions, spinoffs, share buybacks, restructurings, recapitalizations, and shareholder activism.

We believe the opportunity set remains robust and has room to grow driven by underlying fundamentals such as high levels of cash on corporate balance sheets, low volatility, cheap financing, and increased boardroom confidence.

We feel the strategy is experiencing a positive feedback loop because management teams are eager to unlock shareholder value and accelerate business growth. Decision makers have gone from the fear of doing deals to the fear of missing out. There is a "now or never" mindset that is fueling acquisitions before interest rates rise. Arden's conviction stems from extensive analysis on managers we believe are particularly well-positioned to capitalize on this opportunity and the underlying market conditions driving the current M&A cycle.

- Low interest rates and high levels of cash on corporate balance sheets provide cheap and easy access to capital to acquire companies and finance deals.
- Certain sectors are fragmented and ripe for consolidation. Scalability is the driving force behind consolidation as corporations continue to be strategic buyers and agree to mergers in order to better position themselves against peers and defend against increased competition.
- Activists are hungry with large war chests of capital that they are ready to put to work in order to take a large stake in a company, engage management, enact change, and increase shareholder returns.
- We believe the opportunity set in Europe is primed to take off with improving economic conditions and central bank monetary stimulus; European corporates are now under similar pressure to make efficient use of their balance sheets and embark on corporate spending plans. Additionally, with a weaker euro, US companies are more likely to target European peers.

Risks to the strategy include idiosyncratic deal risk around hard catalyst events. Although we do not expect another AbbVie/Shire 'event' to occur in the near term, regulatory intervention or an idiosyncratic deal break may slow future/pending deal activity. Additional risks include macro events and sharp dislocations in equity markets, which the strategy historically has a high beta component to, especially when there is a light event calendar.

We believe that managers that have shorter duration portfolios and can identify near-term events should outperform in a muted and challenging US equity market environment.

GLOBAL RELATIVE VALUE

EXECUTIVE SUMMARY

April was a challenging month for Arden's Discretionary Macro managers as a number of recent market trends and themes reversed sharply and without fundamental merit. Managers predominately suffered from currency trading activities, with the losses generally associated with a long USD bias. Arden's managers long USD bias was expressed against short positions in the EUR, JPY, GBP, CAD and AUD, all of which were detractors. Equities and interest rates were a bit more mixed during the month, although detracted, as the European quantitative easing trade (long European equities and interest rates) reversed, causing a selloff in both equities and interest rates. Certain managers were hurt by positions in long European equities, though relative value positioning versus the US indices, a common theme, detracted as well. A few managers were able to offset some of the equity losses with longs in Japanese and other Asian equity indices.

Although interest rate trading was difficult as the long end of the European interest rate curve sold off, the majority of Arden's managers were either operating with smaller risk allocations in interest rates or had more relative value/curve steepening positions, which benefited from the moves. Risk allocations to commodities and credit are low for Arden's managers, but credit in particular was a bright spot for a number of managers, as idiosyncratic exposures appreciated in value.

Arden's Fixed Income Relative Value ("FIRV") managers were also hurt by the various reversals in the markets, with only one manager producing positive performance. The one profitable manager benefited from short positions in the long end of the US and European yield curves. Similar to Arden's Discretionary Macro managers, currency trading activities accounted for the majority of the losses incurred by Arden's FIRV managers. Relative value trading continues to provide managers with ample opportunities, and we expect these to continue as central bank policies normalize.

Arden's Systematic Macro managers saw significant pullbacks in performance during April, as any strategy with a trend or momentum bias incurred losses. Surprisingly, systematic macro managers were not as negatively affected by currency trading during April, as the early month weakness in the USD caused short-term trend and momentum models to reallocate risk from currencies into interest rates. Long positions in European equities and interest rates were the primary detractors for managers, which is a reversal from March, where equities and fixed income, particularly in Europe, drove performance.

ANALYSIS

Violent reversals. April was the first month of 2015 where global macro managers saw trends reverse, with the long USD leading the way. After appreciating approximately 9% since the beginning of the year, the USD theme took a pause during the first three weeks of April (-0.32%). However, it was the selloff that occurred during the last week of the month, when the USD declined by -3.28%, that had a major impact on managers' performance. Long USD was the largest commonly-held theme among Arden's macro managers, with not only discretionary managers holding it, but also fixed income and systematic managers as well.

The Dollar Index (DXY), YTD Performance

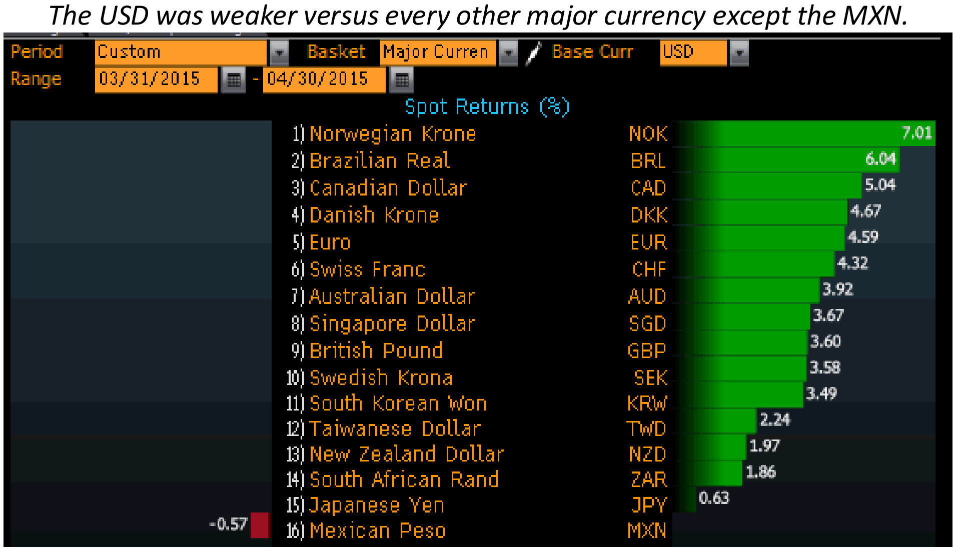
After strong gains to start 2015, the USD gave back more than a third of its YTD gains.

Source: Bloomberg

Specifically looking at April we can see the USD's strong underperformance versus nearly every other major currency with the exception of the MXN, where the USD was marginally higher. Despite the decline in the USD, it was disappointing to see almost every manager get hurt by this positioning, particularly given the fact that last month, Arden heard several managers opine that in the near-term the USD rally could see a short pause.

US Dollar April Performance versus Major Currencies

The USD was weaker versus every other major currency except the MXN.

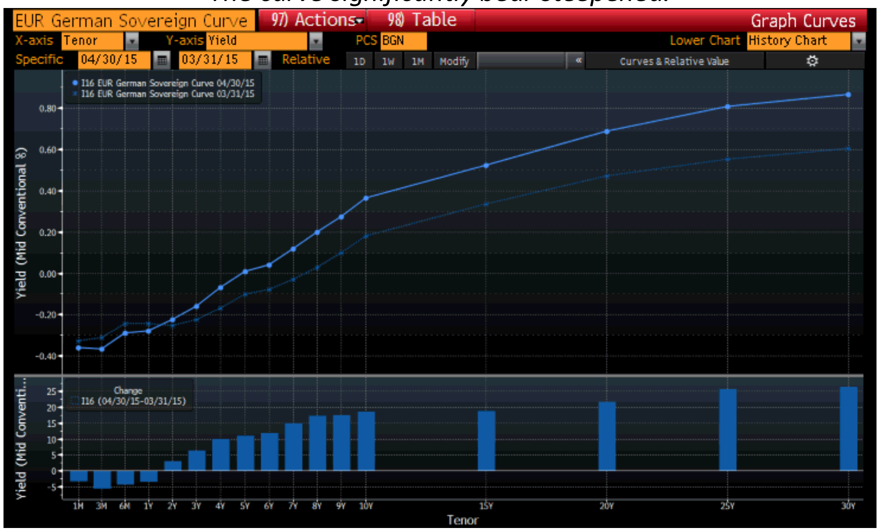


Source: Bloomberg

Bunded together. Similar to the late April selloff in the USD was a late April unwind of the European quantitative easing trade. During the unwind of the European QE trade, European fixed income and equity assets experienced a sharp and sudden selloff that exacerbated losses from long USD positions. The most affected assets were the German bunds (10-year futures) and the EUROSTOXX equity index, with the former sending shockwaves throughout the global market place. Market participants were heavily positioned overweight bonds across the Eurozone as there was the anticipation that there would not be enough bonds, specifically German bonds, for the ECB to purchase under its quantitative easing program. A brief period of episodic volatility ensued as both human and systematic participants aggressively sold bonds. However, the volatility in European assets was not exclusive to bonds, as equities sold off significantly in the month's final week.

German Sovereign Yield Curve 3/31/15 (dotted) versus 4/30/15 (solid)

The curve significantly bear steepened.



Source: Bloomberg

EUROSTOXX Index April 2015 Performance

European equities sold off more than -4% in less than a week at the end of April.

Source: Bloomberg

When is volatility not volatile? As we have been discussing over the past few months, high levels of implied volatility seen during January and February has dissipated in most major asset classes. April was no different, as it saw volatility lower across currencies, equities and interest rates, despite the fact that volatilities sharply rose during the last week of the month almost across the board.

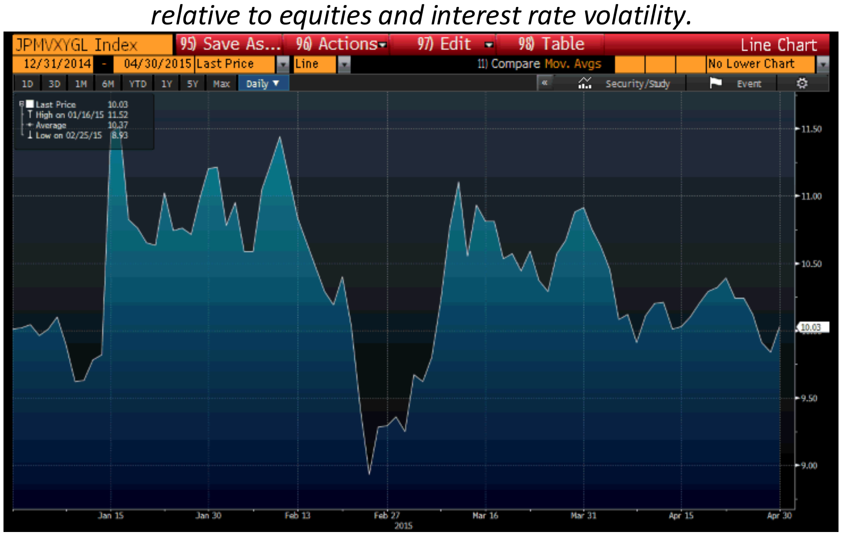
VIX Index (Equity Volatility), YTD as of April 30th, 2015

Equity volatility stayed range bound during April, but began to trend higher into the end of the month.

Source: Bloomberg

JP Morgan Global FX Volatility Index, YTD as of April 30th, 2015

FX volatility declined to December 2014 levels and its month end move higher was less significant relative to equities and interest rate volatility.



Source: Bloomberg

OUTLOOK

The outlook for global relative value managers is currently overweight. Overall we believe the environment remains conducive for macro strategies, despite the sharp reversal in certain trends in April. In recent months we discussed the changing landscape and the re-introduction of volatility in global markets. While implied volatility was somewhat stable during the month, volatility surrounding various themes created attractive trading opportunities. Managers still see the most attractive opportunities in the currency and equity markets, with relative value interest rate positions also comprising a significant percentage of risk. Despite volatility around commodities, the energy complex in particular, managers still have below average levels of risk and still do not have a perceived edge in forecasting future commodity price action.

GLOBAL EQUITIES

EXECUTIVE SUMMARY

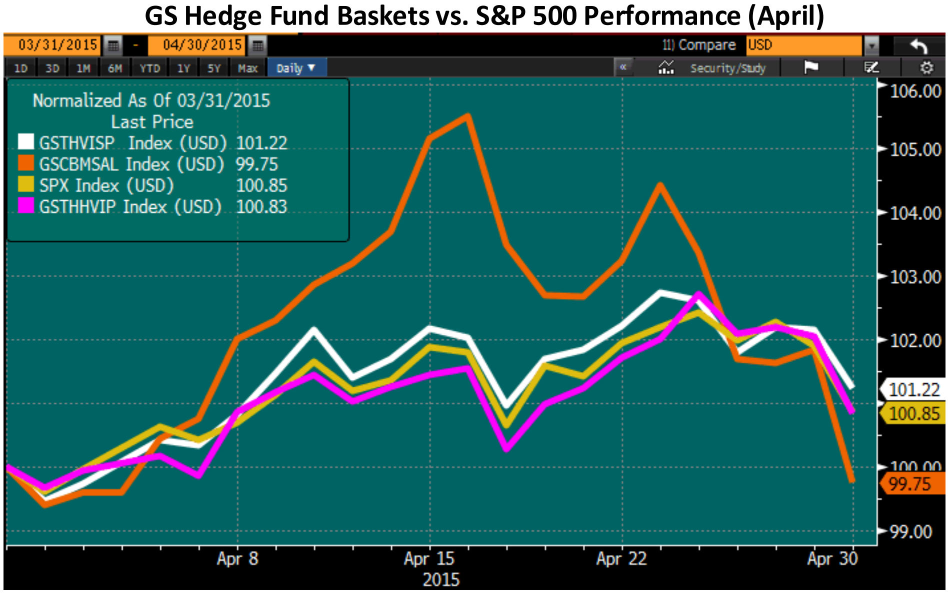
Overall, equity long/short managers had mostly positive performance in April. Attribution was predominately earnings driven, except in the energy and materials sectors where there was a broad rally. Amazon was a significant long contributor as the market re-valued the Web Services segment after its operating performance was extracted for the first time. Netflix was another key long contributor after surpassing domestic and international subscription growth expectations. Gross and net exposures were negligible. Overall, managers believe markets are fairly valued and that we are now in a regime where there is an opportunity to generate absolute returns on both longs and shorts.

Equity market neutral (fundamental and quantitative) managers had mixed performance in April. In general, the health care sector was positive and commodity-driven stocks were negative. The U.S. drove attribution regionally.

ANALYSIS

Hedge fund industry alpha generation was negligible based on the VIP index results in April. On the long side, companies in the S&P 500 most frequently held as a top ten holding in hedge funds as shown by the GSTHHVIP basket increased approximately 0.8% for the month as compared to the S&P 500, which also increased approximately 0.8%. The most shorted HF stocks, as shown by the GSTHVISP basket, increased 1.2% (implying negative alpha). Year to date, top hedge fund longs are outperforming the S&P 500 Index by approximately 0.7%, while top hedge fund shorts (by dollars borrowed) exceed the index by approximately 1.7%. Stocks with the highest level of short interest have increased on average 0.6% YTD, slightly underperforming the market. However, the spread between the most concentrated HF longs and shorts is up 3.5% through April, with the majority of gains coming in March.

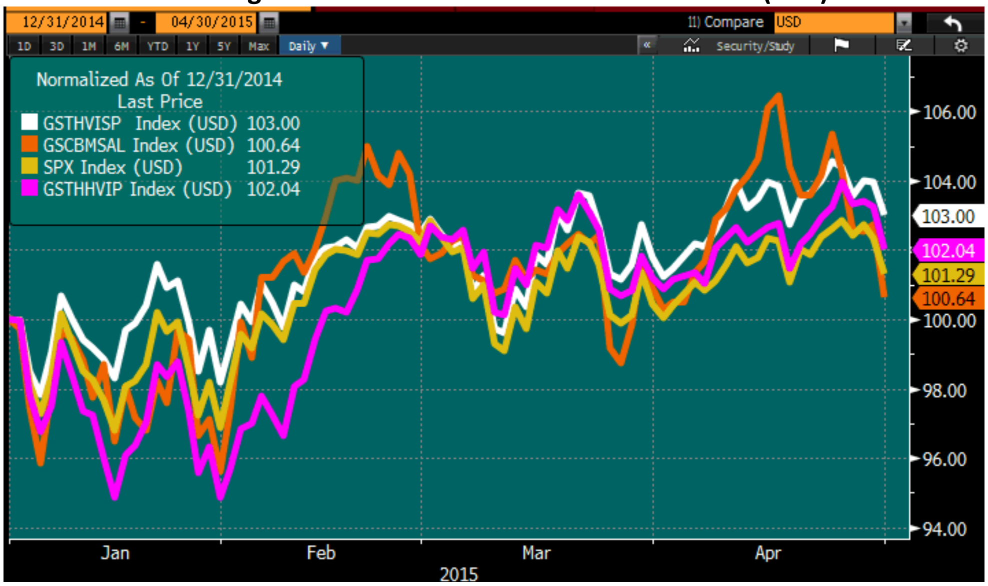
GS Hedge Fund Baskets vs. S&P 500 Performance (April)



Source: Bloomberg

Notes: GSTHHVIP represents 50 stocks most commonly represented among top 10 HF holdings (based on 13-F data) GSTHVISP represents 50 stocks with the highest dollar value of short interest outstanding. Excludes VIP stocks and S&P 500 constituents with more than 10% of float-adjusted shares held short. It has a large-cap bias and not based on 13-F filings.

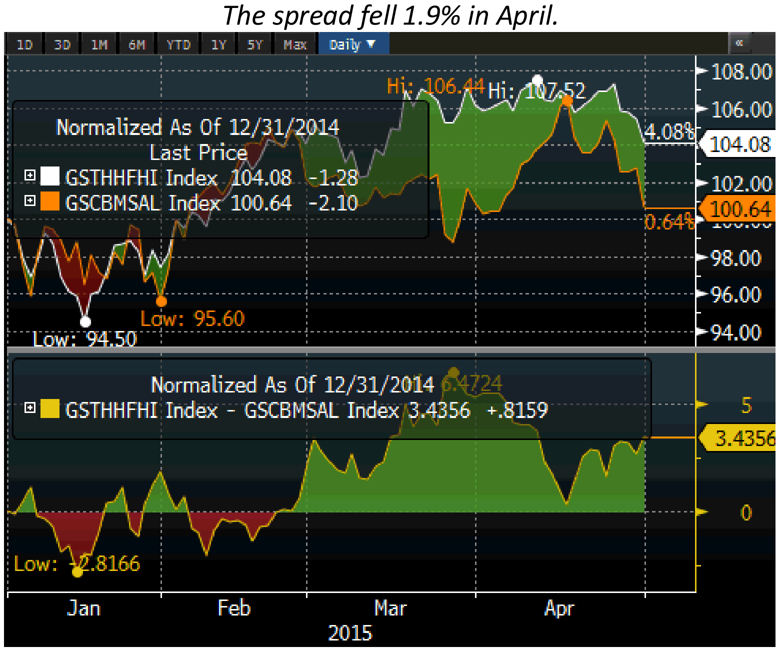
GS Hedge Fund Baskets vs. S&P 500 Performance (YTD)



Source: Bloomberg

Spread between the Most Concentrated HF Longs & Shorts (YTD)

The spread fell 1.9% in April.



Source: Bloomberg

First quarter corporate revenue missed while earnings surpassed expectations. The first chart on the following page shows how earnings beat expectations across all GICS sectors. Sales results generally missed the mark though. The top results (relative to expectations) came from the energy and healthcare sectors. The second chart shows absolute results. As expected, revenues plummeted across the energy, materials, and utilities sectors. Healthcare and IT displayed the strongest sales growth in a quarter where GDP growth was de minimis.

S&P 500 Sales and Earnings Surprises (Q1)

S&P 500 INDEX — 1) Surprise | 2) Growth — Range CQ1 Ending: Feb 16, 2015 - May 15, 2015

Sector (GICS)	Reported	Sales Surprise	Earnings Surprise
11) All Securities	451 / 500	-0.09%	7.38%
12) > Energy	41 / 41	4.23%	34.05%
13) > Materials	28 / 29	-3.92%	7.22%
14) > Industrials	61 / 65	-2.70%	3.20%
15) > Consumer Discretionary	62 / 84	-1.76%	2.28%
16) > Consumer Staples	31 / 38	-1.66%	7.16%
17) > Health Care	51 / 55	1.23%	10.12%
18) > Financials	87 / 87	0.96%	6.66%
19) > Information Technology	55 / 66	0.97%	5.29%
20) > Telecommunication Services	5 / 5	-0.74%	5.01%
21) > Utilities	30 / 30	-0.80%	6.11%

Source: Bloomberg

S&P 500 Sales and Earnings Growth (Q1)

S&P 500 INDEX — 1) Surprise | 2) Growth — Range CQ1 Ending: Feb 16, 2015 - May 15, 2015

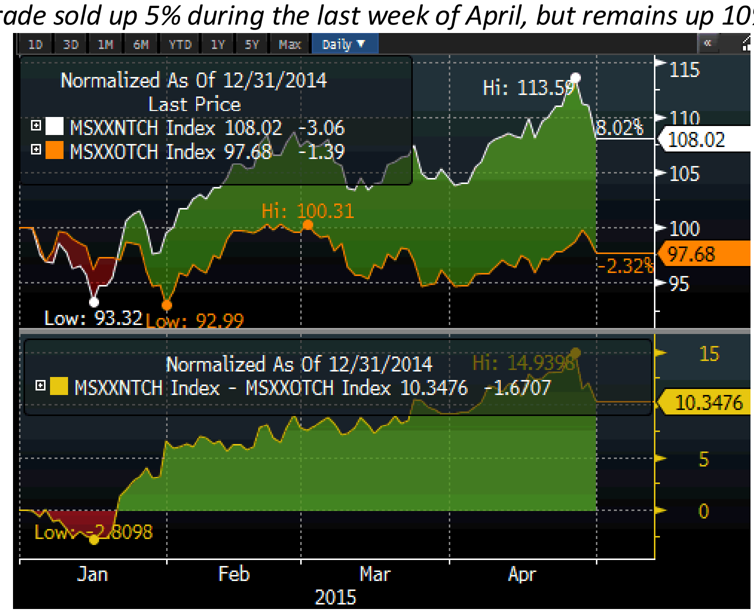
Sector (GICS)	Reported	Sales Growth	Earnings Growth
11) All Securities	451 / 500	-4.19%	-0.09%
12) > Energy	41 / 41	-34.62%	-55.32%
13) > Materials	28 / 29	-9.65%	-0.47%
14) > Industrials	61 / 65	-1.56%	7.88%
15) > Consumer Discretionary	62 / 84	0.45%	4.62%
16) > Consumer Staples	31 / 38	2.00%	3.62%
17) > Health Care	51 / 55	9.24%	16.69%
18) > Financials	87 / 87	2.09%	7.24%
19) > Information Technology	55 / 66	6.86%	8.62%
20) > Telecommunication Services	5 / 5	2.61%	8.52%
21) > Utilities	30 / 30	-5.28%	0.93%

Source: Bloomberg

The New/Old Tech spread was one of few that did not turn negative in April. It rallied to +15% until the last week of the month when it fell nearly 5%. The spread finished the month up approximately 1%, bringing its YTD performance north of 10%. Similar to most other spread reversals, the domestic vs. international sales mix stock performance was down more than 3% in April, but remains up more than 7% YTD. It is highly correlated to the USD/EUR ratio. Some long/short managers intentionally have this risk factor in their portfolio based on a bullish US dollar top-down view.

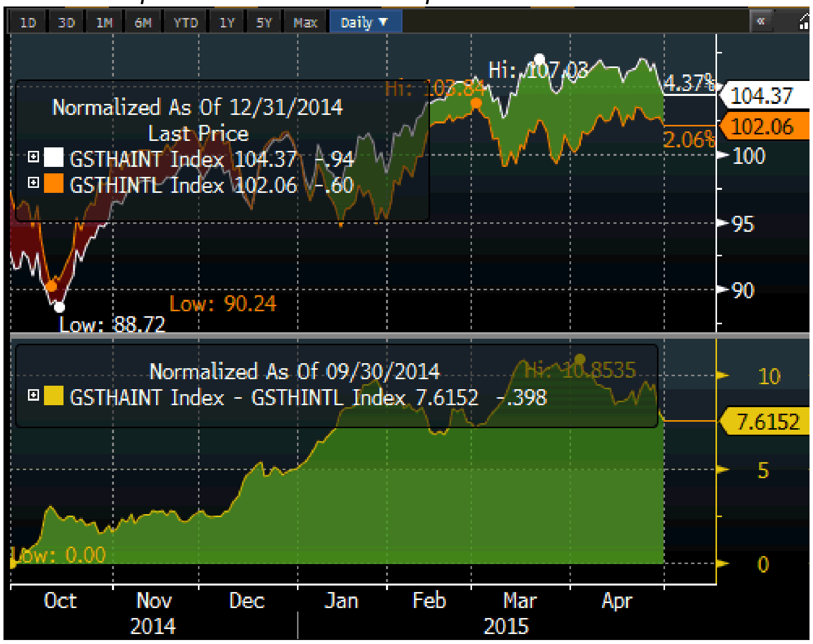
"New" vs. "Old" Technology (YTD)

The trade sold up 5% during the last week of April, but remains up 10% YTD.



Source: Bloomberg

S&P 500 Sales Mix Spread (US minus International)
The spread narrowed 3% in April as the USD weakened.



Source: Bloomberg
Note: The GSTHAINT basket contains stocks with more than 95% of revenue coming from the US. The GSTHINTL basket contains stocks with less than 30% of revenue from the US.

Momentum was the largest source of attribution in April. Based on data from Morgan Stanley's quant equity team, a portfolio long S&P 1500 momentum stocks would have lost 8%. Other core factors such as value and quality were far less volatile. Managers that were long momentum detracted, but long liquidity and leverage were positive contributors.

Year-to-date, long-term growth factors have outperformed while one-month price momentum has underperformed. Momentum factors are now negative YTD after April; size and leverage factors are positive. Quality factors are slightly positive and cash flow factors are slightly negative.

OUTLOOK

We believe that the strategy drivers provide neutral to positive signals. Investor sentiment suggests market participants are bullish. This is often a contrarian indicator when it comes to forecasting market returns. While net equity fund flows are neutral, underneath the surface assets are moving out of actively managed funds and into passively managed funds. As competition for excess return (alpha) decreases, the opportunities for hedge funds should improve.

Stock dispersion levels are attractive for stock picking, in our opinion. Stock correlation data indicates that there are better than average conditions for stock picking. The lower the correlation, the higher the dispersion, and with that, we feel, comes more opportunity to be rewarded for picking the right stocks. Note that over the long run, managers expect stocks to reach their fair value. The dispersion of stock returns can impact the path stocks take to get there.

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