HEDGE FUND STRATEGIES

Global Macro

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Introduction

Global Macro Hedge Fund Strategy

The global macro hedge fund strategy is one of the more opportunistic and unconstrained hedge fund strategies whereby managers canvass the global economic landscape and seek to profit from macroeconomic imbalances and geopolitical events.

Global macro managers pursue a top down investing approach and trade a broad range of strategies in which the investment process is predicated on movements in underlying economic variables and their potential impact on equity, fixed income, currency, and commodity markets. Global macro managers can execute the strategy in a number of ways, including on a discretionary or systematic basis, through a sole risk-taker or multi-manager platform approach, and/or over a long or short term holding period.

In addition, global macro hedge funds can pursue directional or relative value trading strategies. With a directional trading strategy, the manager takes a directional view that the market or trading instrument will increase or decrease in value whereas a global macro relative value strategy is predicated on the potential future movements in underlying instruments.

While global macro and equity long/short managers may both invest in equity securities, the prevailing thesis underpinning a particular investment for a global macro manager is the impact a movement in underlying macroeconomic variables may have on a security price. This is in contrast to an equity long/short manager where fundamental characteristics of a company are central to the investment thesis.

Global macro managers are largely active in liquid trading markets, which offers the ability to quickly exploit opportunities as they present themselves in the global capital markets. The unconstrained mandate and "nimbleness" of global macro managers has produced attractive absolute and risk-adjusted returns over multiple time periods. Additionally, global macro managers generally exhibit low correlation to traditional asset classes and, therefore, incorporating the strategy into a portfolio of stocks and bonds has the potential to enhance overall returns while also decreasing the level of risk assumed.

What are Global Macro Funds?

Global macro hedge funds employ a top-down investment approach and generally analyze macroeconomic variables, such as a country's GDP growth trends, inflation expectations, employment levels, and money supply, in order to assess the potential pricing impact a change in one or more of these variables would have on a region's equity, sovereign debt, commodity, and/or currency markets.

Many global macro hedge funds—particularly institutional-quality global macro hedge funds—not only employ a team of seasoned traders but also a team of economic researchers and distinguished economists who evaluate the investable economic landscape.

In addition, it is not uncommon for institutional-quality managers to retain the services of prominent economic and political policymakers who have a history of government service and are able to provide access to current officials and policy-setters. For instance, Lawrence Summers, the former Secretary of the Treasury, currently serves as a consultant to D.E. Shaw & Co. and Sushil Wadhwani, a former member of the Monetary Policy Committee of the Bank of England, is currently a partner with Caxton Associates.

The research process is further aided by the ability of institutional-quality managers to support a global presence, which allows for a microeconomic perspective to a region's macroeconomic environment. With global macro managers conducting top-down economic research across multiple regions, as well as evaluating various financial instruments in search for the greatest risk/reward tradeoff, global macro funds will dynamically shift their exposures to the most compelling opportunities. As such, the strategy is known for its unconstrained mandate and its performance is largely independent of some ancillary event such as deal flow (i.e., merger arbitrage) or adequate issuance supply (i.e., convertible bond arbitrage).

Global Macro Sub-Strategies

Discretionary vs. Systematic

The global macro strategy can be pursued using a discretionary or systematic approach.

A discretionary global macro manager conducts detailed macroeconomic research and generally aims to uncover a select number of investment themes that offer the potential to contribute positively to returns. Institutional-quality hedge funds that predominantly pursue a discretionary global macro approach include Brevan Howard, Caxton Associates, and Moore Capital Management.

A systematic global macro manager utilizes proprietary computer algorithms and predefined trading rules to execute buy and sell orders. Institutional-quality hedge funds that exclusively or in part pursue a systematic global macro strategy include Two Sigma Advisors and D.E. Shaw & Co.

Directional vs. Relative Value

Global macro hedge funds can also take a directional and/or a relative value approach to global macro investing.

A directional trade is characterized by the manager taking a directional view that a particular market will increase or decrease in value. A recent example of a relevant directional global macro trade would be the short Japanese Yen trade that several global macro managers have initiated as a result of the newly elected Prime Minister, Shinzo Abe, urging for more aggressive monetary policy actions to spur growth.

With a relative value trade, the manager attempts to exploit pricing inefficiencies between financial instruments. For example, with regards to interest rate trading strategies, a global macro manager may seek to profit from the shape of the yield curve in which the spread between two maturities is increasing. To effectively capture this change in spread, the manager would take a long position in the shorter maturity to capitalize on prices increasing (i.e., falling rates) and a short position in the longer maturity in order to capitalize on prices falling (i.e., rising rates). This relative value strategy is known as a curve steepener trade. Conversely, the manager would implement a curve flattener trade if the spread between the two maturities was expected to decrease.

Multi-Manager vs. Single Risk Taker

The global macro strategy has undoubtedly evolved since the days when notable macro traders like Louis Moore Bacon of Moore Capital Management and Paul Tudor Jones of Tudor Investment Corp. dominated the industry. Although these notable macro traders still remain actively involved and hold trading authority, the organizations that these and other luminaries represent have largely developed into multi-manager platforms that offer diversification across risk-takers, strategies, and regions.

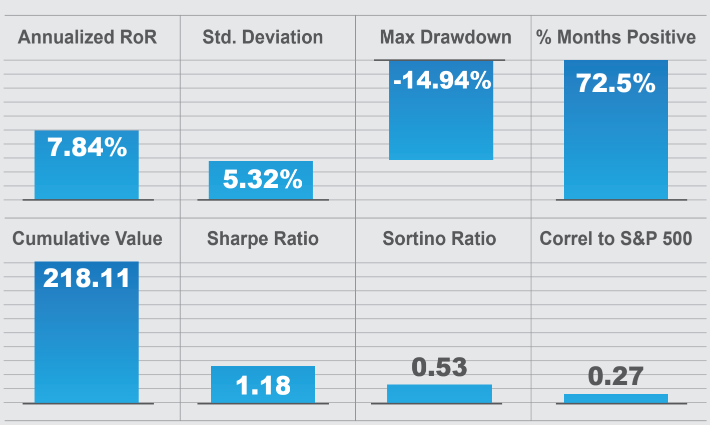
Many distinguished global macro traders have essentially transitioned into a chief investment officer role where they can apply their trading acumen and experience to the capital allocation process in order to determine the appropriate amount of capital an underlying trader should oversee. In some select cases, the firm’s CIO may elect not to maintain any trading allocation in the fund. In these instances, the objective of the firm is to minimize occurrences where an underlying manager would feel compelled to subscribe to their CIO’s macro viewpoint, which potentially could have the negative consequence of increasing the pairwise correlation of the underlying managers.

The Moore Remington Fund is an example of an Institutional-quality hedge funds where investment decisions reside with a limited number of risk-takers. The more prevalent multi-manager platform approach is pursued by a number of institutional-quality funds including the Caxton Global Fund, the Graham Discretionary Fund, and the Moore Macro Managers Fund.

The Advantages of Macro Funds

Performance Evaluation

CS Global Macro HF Index - 10 Year



Attractive Absolute & Relative Returns

Global macro hedge funds—as represented by the CS Global Macro HF Index—have historically delivered attractive absolute and relative returns over the course of multiple time periods.

For instance, over the past 10 years, global macro hedge funds have returned 7.8% with a volatility of 5.3%, which translates into an attractive Sharpe ratio of 1.18. In comparison, the S&P 500 over the same time period returned 5.4% with a volatility of 14.5% and a Sharpe ratio of 0.34.

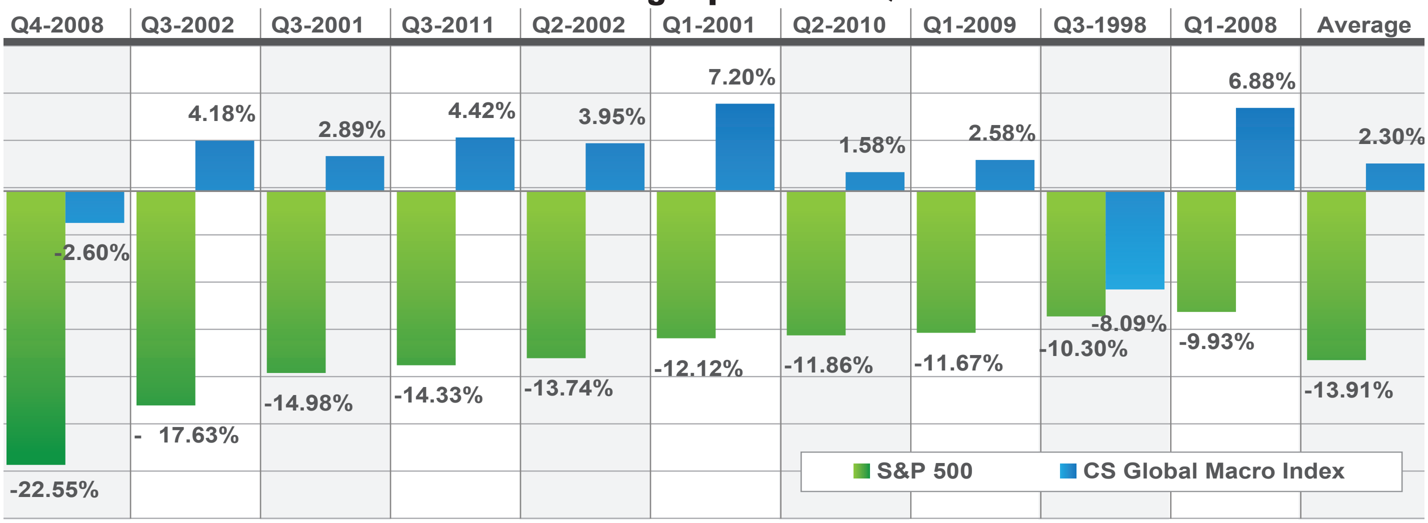
Liquidity as a Source of Alpha

Global macro hedge funds are recognized for being one of the more liquid hedge fund strategies as they participate in a number of actively traded markets. This liquidity, as well as their unconstrained mandate, can be a source of alpha as global macro managers are able to swiftly adjust exposures and seek to exploit opportunities as they develop globally.

This level of nimbleness also offers global macro managers the ability to preserve capital in periods of stress. For instance, during the 2008 financial crisis the average global macro manager lost -4.6% on the year and experienced a drawdown of -14.9%. This performance handily outshines that of the broad equity markets which saw the S&P 500 decline -38.5% and generate a drawdown of over 50% during the crisis.

Similar trends can be found during the 2000-2003 bear market as well. As Table 1 illustrates, global macro managers have generally generated positive performance across the 10 worst quarters for the S&P 500.

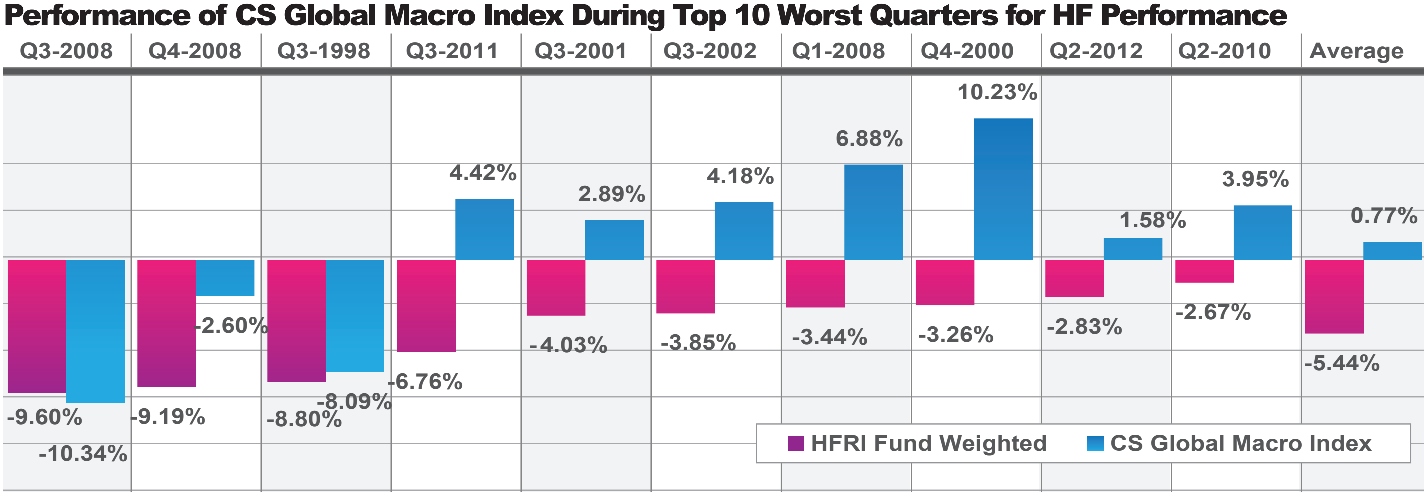
Table 1:
Performance of CS Global Macro Index During Top 10 Worst Quarters for S&P 500 Performance



Performance Differential

Q4-2008	Q3-2002	Q3-2001	Q3-2011	Q2-2002	Q1-2001	Q2-2010	Q1-2009	Q3-1998	Q1-2008	Average
19.95%	21.81%	17.87%	18.75%	17.69%	19.32%	13.44%	14.24%	2.22%	16.81%	16.21%

Table 2:
Performance of CS Global Macro Index During Top 10 Worst Quarters for HF Performance



Performance Differential

Q3-2008	Q4-2008	Q3-1998	Q3-2011	Q3-2001	Q3-2002	Q1-2008	Q4-2000	Q2-2012	Q2-2010	Average
-0.74%	6.59%	0.71%	11.81%	6.92%	8.03%	10.33%	13.49%	1.40%	4.24%	6.21%

Low Correlation To Traditional Asset Classes

The nimbleness of global macro managers has largely allowed them to side step market drawdowns and has aided them in the ability to generate returns that are not highly correlated to traditional asset classes. These low correlation properties translate into diversification benefits when added to a traditional portfolio of 60% stocks and 40% bonds.

As highlighted in Table 3, a 25% allocation to the CS Global Macro Index decreased the portfolio's volatility by 171bps, boosted returns by over 65bps, and provided 728bps of downside protection.

CS Global Macro Index vs. Other Major Indices

Correlation Matrix (10yr)	Global Macro
MSCI World	**0.37**
S&P 500	**0.27**
Barclays U.S. Aggregate Bond Index	**0.32**
HFRI Fund Weighted Index	**0.58**

Table 3:
Statistics of a a Traditional Portfolio With 25% CS Macro vs. Traditional Portfolio

	Traditional Portfolio W / CS 25% From: August 2005 To: May 2015	Traditional Portfolio From: August 2005 To: May 2015
Annualized ROR	6.21%	5.55%
Std. Deviation	7.32%	9.03%
Max Drawdown	-26.59%	-33.87%
Percent Months Positive	66.10%	64.41%
Cumulative Value	180.91	170.09
Sharpe Ratio	0.68	0.50
Sortino Ratio	0.39	0.21
Asymmetry (Skewness)	-1.24	-1.00
Peakedness (Kurtosis)	4.21	2.99

Conclusion

Global macro managers have historically performed well during challenging times and can assist in providing a level of stability to an overall portfolio. Advisors seeking diversification, liquidity, and uncorrelated returns from traditional stock and bond portfolios should carefully consider the potential benefits of including global macro funds within a larger investment portfolio.

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