

Hedge Funds

Navigating rising US rates with hedge funds

The Federal Reserve has been hiking interest rates. Investors seeking an alternative to high grade bonds could consider a customized portfolio of hedge funds.

- Central bank policy is generally priced by government bonds, but risks remain.
- Historically, hedge funds have been resilient during times of rising rates. Our analysis over a 20-year time period shows that, on an absolute return basis, hedge funds have outperformed all other asset classes, with the equity hedge style posting the best returns, followed by event-driven and relative value.
- Investors looking for an alternative to high grade bonds may wish to consider hedge funds. We recommend a diversified portfolio focused on non-directional strategies whose combined risk-reward is similar to that of bonds. They tend to be good diversifiers to traditional equities and bonds, and have historically performed well in a rising rates environment.

Recent developments

Our recommended portfolio holds a large position in relative value strategies but also invests in other styles, including macro/trading, to mitigate volatility and ensure diversification. The first quarter of 2019 was good for markets, with all strategies posting solid returns. We think moderately higher volatility and dispersion should continue to support this portfolio in the coming months.

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Source: Fotolia

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Investment examples

Investment funds

Franklin K2 (Lux) - Alternative Strategies Fund

USD A acc: ISIN LU1093756168

EUR (hedged) A acc: ISIN LU1093756242

CHF (hedged) A acc: ISIN LU1236102452

Corbin (Cay) - The Overlook Performance Fund

USD A1 acc: ISIN KYG680401075

EUR C1 acc: ISIN KYG680402065

CHF B1 acc: ISIN XD0367654965

UBS (Cay) - Key Multi-Manager Alternative Diversified Hedge Fund

USD FIM acc: ISIN XD0453952281

EUR FIM acc: ISIN XD0453952299

CHF FIM acc: ISIN XD0453952257

USD J acc: ISIN XD0331440574

EUR J acc: ISIN XD0331440277

CHF J acc: ISIN XD0331440467

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