

AMC ALTERNATIVE FUND – BCV Defensive Fund

Review

The markets experienced their worst third quarter since the end of 2008. The fears that prompted this slide had nothing to do with companies, but were fuelled by the euro-zone debt crisis, the prospect of a relapse into recession in the USA and a slowing Chinese economy. The MSCI World index sank by 17.1%, US corporate bonds saw credit spreads stretch beyond 800 basis points and commodities fell by 11.9%. The only gains were recorded by assets regarded as having safe-haven qualities: US Treasuries and gold.

The sub-fund was down by 3.51% (Class B unit in Swiss francs) over the quarter. Among the strategies most heavily penalised were Relative Value, followed, in particular, by Long/Short Credit and Event-Driven Equity. These strategies, considered to have low correlations with markets, fell foul of indiscriminate offloading of securities and some close correlations. Macro Trading strategies did help to cushion the losses thanks to a gain of over 0.5% in the quarter.

Outlook

As things stand, financial markets are being buffeted full-on by the general move by companies, individuals and governments towards paying down their debt. Businesses currently possess levels of cash not seen for quite some years. US homeowners have been reimbursing their borrowings or defaulting, thereby prompting the slide in the housing market. Lastly, governments, by restructuring debt, have obliged a number of financial institutions to take losses and sell their assets so as to maintain acceptable capital-adequacy levels (Tier I ratios).

As a result, investors are selling and buying assets without showing much discrimination. This atmosphere of irrationality should give hedge funds the opportunity to buy and sell securities on the basis of security-specific considerations of price and quality. We are confident that, once the markets have reverted more to normal, our fund managers will be able to shine. We are looking to lessen exposure to Macro Trading and increase the weighting accorded to Event-Driven strategies.

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