CTAs Rock the House in January

Philippe Ferreira
Senior Strategist
philippe.ferreira@lyxor.com

Anne Mauny
Research Analyst
anne.mauny@lyxor.com

Jean-Baptiste Berthon
Senior Strategist
jean-baptiste.berthon@lyxor.com

Lionel Melin
Strategist
lionel.melin@lyxor.com

Jeanne Asseraf-Bitton
Global Head
of Cross Asset Research
jeanne.asseraf-bitton@lyxor.com

January ended on a brighter note than it started. Recently, there have been signs that the oil supply glut could be addressed by both OPEC and non-OPEC countries, which has generated some positive support for risk assets. Meanwhile, the dovish stance of the ECB and the BoJ reassured investors that central banks are still at the helm.

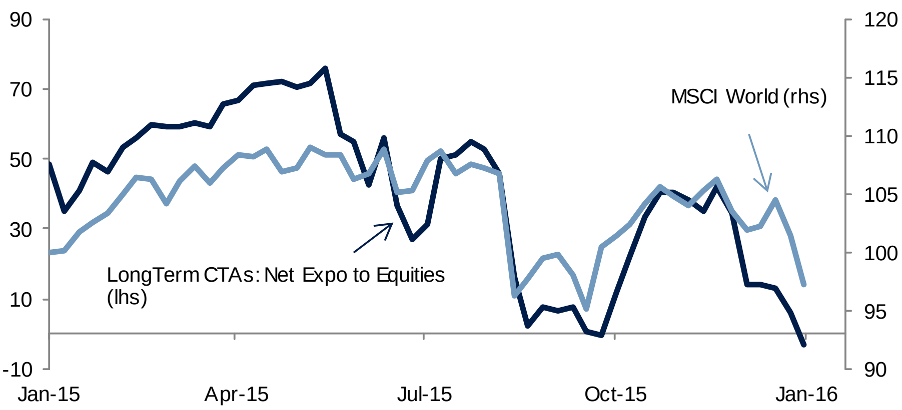
Going forward, we believe that the market respite is nonetheless likely to be short-lived. The Fed will be meeting on 15th-16th March and a second rate hike is still in the cards. Coupled with the earnings recession in the US and China's growth deceleration, markets may struggle to find reasons to engage in a sustainable rally in the months ahead.

Such market environment has proved supportive for hedge funds and should continue to do so. The Lyxor hedge fund index is down 1.3% in January, while the S&P 500 has suffered a 8.4% drawdown (as of Jan. 26). With regards to hedge fund strategies, CTAs outperformed in January (+3.2%) and Event Driven underperformed (-2.5%).

The performance of CTAs during the recent market meltdown is remarkable. It highlights the fact that the power of diversification of the strategy in a portfolio remains intact. Recent developments provide additional evidence that managed futures often outperform traditional long-only investments and hedge fund strategies during market dislocations and macro events. But despite such evidence over the long run, the strategy often gets a bad press. The opposition between the man (discretionary managers) and the machine (systematic funds) continues to be popular in the medias. However, we fear that they miss the point. CTAs and systematic strategies have never pretended to replace discretionary strategies. CTAs are complementary with traditional long-only or long-short strategies in a portfolio and provide great diversification benefits as demonstrated during recent weeks.

Long Term CTAs have accurately spotted inflection points in equity markets

Long Term CTAs: net exposure to equities (% NAV)



MSCI World net total return hedged USD, rebased at 100 as of 13/01/2015. Source: Bloomberg, Lyxor AM

THE WEEK IN 3 CHARTS

Hedge Fund Snapshot: Recent market rebound supported Event-Driven

	WTD*	MTD	YTD
Lyxor Hedge Fund Index	**-0.1%**	**-1.3%**	**-1.3%**
CTA Broad Index	**-1.0%**	**3.2%**	**3.2%**
Event Driven Broad Index	**0.8%**	**-2.5%**	**-2.5%**
Fixed Income Broad Index	0.2%	-0.7%	-0.7%
L/S Equity Broad Index	-0.2%	-2.2%	-2.2%
Global Macro Index	-0.6%	-0.7%	-0.7%
S&P 500	*1.2%*	*-8.4%*	*-8.4%*
10 Y US Treasury (Change in bps)	*-6*	*-31*	*-31*

*From 19 January to January 26, 2016

The recent rebound in risk assets fuelled Event Driven managers and contributed to pare the losses which the strategy registered earlier in January.

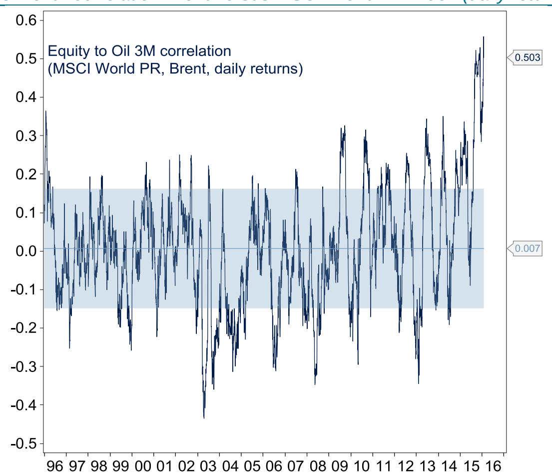
However, this was not enough to lift the Lyxor Hedge Fund Index into positive territory last week. The bulk of the losses were driven by CTAs (-1%), as they suffered from the sharp rebound in energy prices. Short term models outperformed long term ones.

Event Driven outperformed last week, up 0.8%, fueled by both Merger Arbitragers and Special Situations funds. The former benefitted from a few deal spread tightening, while the latter were supported by investments in the healthcare sector.

Oil and stocks are moving tick for tick, at levels never seen in the last 20 years

3M Correlation between Oil and Equities has reached unprecedented levels

3 month correlation Brent versus MSCI World PR index (daily returns)



Source: Macrobond, Lyxor AM

Oil and stocks are moving almost identically with each other in the last few weeks. The correlations between both asset classes have reached unprecedented levels, never seen in the last 20 years! This highlights the extent to which the oil price has been a barometer of fears about global economic growth.

If we refer to the past, high correlations did not last long (see charts). For the most part, the trends suggest a correlation breakdown has to come soon.

In such a risk-off environment, i.e. rising correlation and falling dispersion, selectivity across discretionary managers remains the key. We favor relative-value and tactical managers within Global Macro strategy and funds with less directionality within L/S equity.

Alternative UCITS have attracted record inflows in 2015, at €70 bn

Inflows into Market Neutral L/S Eqty are up 295% in 2015 vs 2014

Net inflows into Alternative UCITS in Europe (€bn)

*Includes Volatility, L/SE US, L/SE Others, L/SE EM, Currency.
Universe of funds available for sale in Europe. Source: Morningstar, Lyxor AM.

Investors' appetite for Alternative UCITS reached record levels in 2015. At €70bn, net inflows experienced a 55% jump versus 2014.

Systematic funds benefitted from a spectacular regain of investors' appetite, attracting €3.3bn in 2015 (+1255% vs 2014!).

Meanwhile, the bulk of the flows were invested into Multi-strategy and Market Neutral L/S equity strategies, attracting respectively €26bn and €14bn. This is in line with our stance as we continue to prefer strategies with less directionality within the L/S equity space.

CTAs

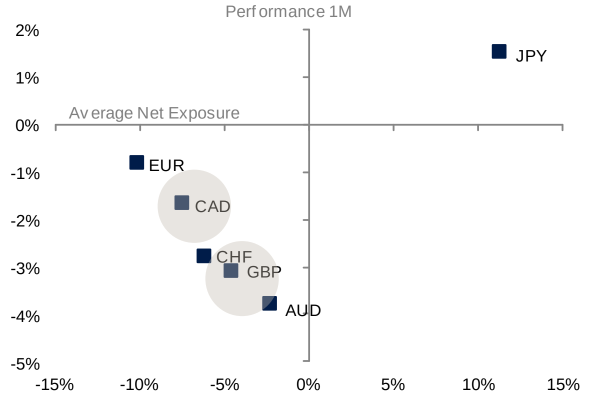
Hurt by the rebound in energy

	WTD*	MTD	YTD
CTA Broad Index	**-1.0%**	**3.2%**	**3.2%**
CTA Long Term	-1.0%	3.4%	3.4%
CTA Short Term	-0.1%	-0.1%	-0.1%

*From 19 January to January 26, 2016

CTAs suffered from shorts on GBP and CAD vs USD

Net Exposure to FX vs USD (% NAV) vs performance



As of 19/01/2016. Equally weighted. Source: Bloomberg, Lyxor AM

CTA systems generated mixed results in this volatile environment. Overall, short-term strategies posted better returns than long-term ones.

The performance was mainly built on long exposure to developed markets in the fixed income space, as interest rates on long-term treasuries decreased. The long end of the yield curve in Germany proved particularly rewarding.

In the equity cluster, most systems generated alpha on their short exposure to Asia, benefitting from falling stock prices. However, short exposure to European and US stock markets negatively impacted some systems' results.

In the FX bucket, funds particularly suffered from their short exposure to CAD and GBP, as these currencies strongly appreciated. Gains made on EUR and CHF couldn't offset the losses.

In the commodity space, the performance was dragged down by the recovery in oil and metals prices, as funds were mostly positioned on the short side.

GLOBAL MACRO

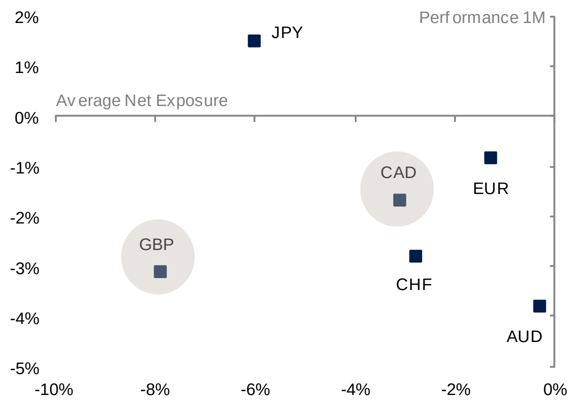
Mixed returns

	WTD*	MTD	YTD
Global Macro Index	**-0.6%**	**-0.7%**	**-0.7%**

*From 19 January to January 26, 2016

Global Macro also suffered from the reversal of CAD & GBP vs USD

Net Exposure to FX vs USD (% NAV) vs performance



Average exposure as of 19/01/2016. Performance between 29/12 and 26/01.
Equally weighted. Source: Bloomberg, Lyxor AM

While developed equity markets and oil prices rebounded, Macro managers experienced different outcomes.

The fixed income cluster was the main contributor to the performance. Positions on the long end of the yield curves in Sweden and Brazil proved particularly rewarding. Best managers also generated alpha on their long exposure to US and Europe.

The rally in equity markets was beneficial for long exposed funds. Long exposures to European stocks were particularly rewarding, as equities bounced back after dovish Mario Draghi's comments.

In the FX space, the appreciation of GBP and CAD drove short exposed funds down. Some systems successfully took advantage of their exposure to Euro, as the currency showed erratic movements last week.

In the commodity cluster, the recovery in oil penalized short exposed funds as investors grew hopeful of a deal between OPEC and non-OPEC producers to limit the global supply.

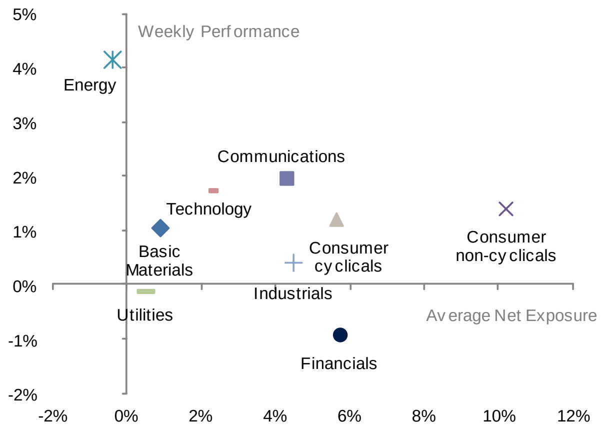
L/S EQUITY

Dispersion across regions

	WTD*	MTD	YTD
L/S Equity Broad Index	**-0.2%**	**-2.2%**	**-2.2%**
Long Bias	0.2%	-4.7%	-4.7%
Market Neutral	-0.7%	0.6%	0.6%
Variable Bias	-0.2%	-1.9%	-1.9%

*From 19 January to January 26, 2016

L/S equity have significant exposure to consumer sectors
Net Exposure to sectors, % NAV



Average exposure as of 19/01/2016. Performance between 19/01 and 26/01/2016. Equally weighted. Source: Lyxor AM

Despite US and European markets bouncing back, the L/S Equity strategy ended last week in the red. EM managers dragged down the performance as the China A share market fell a further 8%.

Exposure to the oil and gas sector did help some US fund managers to perform as the sector pushed up following the rally in the oil market. The best performance came from a market neutral healthcare specialist which showed good idiosyncratic returns. All US managers in our sample finished last week in positive territory bar a short biased manager.

Results were more mixed in Europe with several managers not being able to take advantage of the rally in equity markets. The worst performer was a market neutral multi-factorial quantitative fund which suffered from the reversal in momentum. Unfortunately, some of the more long biased managers were not able to outperform as the short book hindered returns.

EM managers continued to suffer as the Chinese equity market continued to fall. All EM funds finished last week in the red.

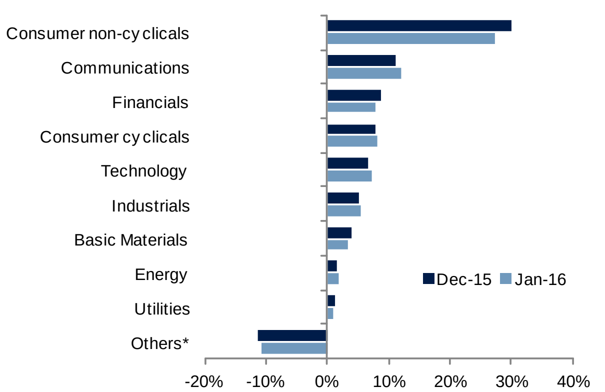
EVENT DRIVEN

Fuelled by the market rebound

	WTD*	MTD	YTD
Event Driven Broad Index	**0.8%**	**-2.5%**	**-2.5%**
Merger Arbitrage	0.7%	-0.9%	-0.9%
Special Situations	0.9%	-5.4%	-5.4%

*From 19 January to January 26, 2016

Event Driven have sizeable exposure to the healthcare sector
Net Exposure to sectors, % NAV



Equally weighted. Source: Lyxor AM

It was a positive week for Event Driven strategies. Special Situations funds outperformed their peers, but dispersion in returns across managers remained significant. Meanwhile, merger arbitragers posted positive returns, recovering from previous weeks' losses.

In the M&A space, positive news came from two of the largest transactions. On Jan 25, Berkshire Hathaway and Precision Castparts jointly announced that the deal will be completed on Jan 29. The Deal spread immediately tightened following the announcement and benefited the merger arbitrage portfolios. The spread of the BG Group vs. Royal Dutch Shell deal also tightened in anticipation of the shareholders vote that happened later last week. The shareholders of both the acquirer and the target voted in favor of the acquisition. The deal is expected to be completed in February.

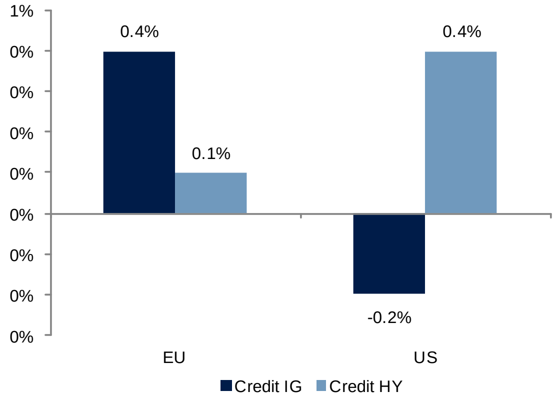
Special Situations funds benefited from their healthcare investments such as Valeant, Baxter International, Mylan and Teva. Other contributors include Kraft Heinz Co, T-Mobile, Williams Co and Vivendi. Detractors from performance include Walgreens Boots, MGM Mirage and Greek banks.

L/S CREDIT ARBITRAGE

	WTD*	MTD	YTD
Fixed Income Broad Index	**0.2%**	**-0.7%**	**-0.7%**
L/S Credit Arbitrage	-0.1%	-0.8%	-0.8%

*From 19 January to January 26, 2016

Performance of HY and IG in Europe and the US over the week
(total return)



As of 19/01/2016. Source: Lyxor AM

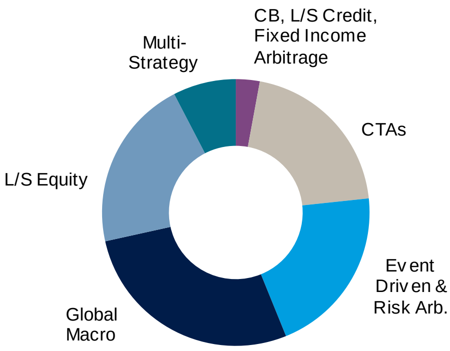
L/S Credit Still in the Red

In a highly volatile environment, credit markets proved resilient and clearly outperformed equities over the month. Nevertheless, in January the HY segment remains negative on both sides of the Atlantic with spreads widening 87bp and 95bp respectively in the US and Europe. Over last week credit spreads slightly tightened for US HY (-5bp) but kept increasing for European HY (8bp). On the EM side, credit markets underperformed with the Asian Non-IG index down 1%.

On the Lyxor side, all L/S credit funds posted a negative performance last week. The worst performer was our Asian focused fund, which was penalized by positions in the real estate and energy sectors. One of our European funds suffered from its convexity and financials sub-strategies, despite profits made on some tactical trading of indices.

METHODOLOGY

Breakdown of AUM by strategy



- **70 funds** in the platform

- **USD 8.4 billion** of assets under management (as of December 31, 2015)

- Replicating approximately **USD 250 billion** of AUM

Lyxor Hedge Fund Indices

Based on the complete range of funds available on the Lyxor Managed Account Platform, a universe of funds eligible for inclusion in the indices is defined on a monthly basis taking into account the following elements:

- Investability Threshold

  To be included in any index, the managed account must have at least $3 million of AuM.

- Capacity Constraints

  All index components must possess adequate capacity to allow for smooth index replication in the context of a regular increase in investments.

- Index Construction

  For each index, the relative weightings of the component funds are computed on an asset-weighted basis as adjusted by the relevant capacity factors.

- Each Lyxor Hedge Fund Index is reviewed and rebalanced on a monthly basis.

- The Index construction methodology has been designed to mitigate well-known measurement biases. Inclusions and exclusions of new Hedge Funds do not impact the historical index track record.

DISCLAIMER

NOTICE TO INVESTORS IN THE EUROPEAN UNION AND SWITZERLAND: This document is of a commercial and not of a regulatory nature. No prospectus has been approved by, or notified to; a local regulator (except in Jersey) and the product may not be distributed by way of an offer, or an invitation to make an offer, of securities to the public.

NOTICE TO UK INVESTORS: The products described within this document are suitable for professional investors only and are not directed at retail clients. This document is issued by Lyxor AM. Lyxor AM is represented in the UK by Lyxor Asset Management UK LLP, which is authorized and regulated by the Financial Conduct Authority in the UK.

NOTICE TO SWISS INVESTORS: The product presented herein has not been and will not be registered with, or approved by, the Swiss Financial Market Supervisory Authority FINMA (FINMA) under the Swiss Federal Act on Collective Investment Schemes (CISA). Therefore, the information presented herein or in the fund's legal documentation does not necessarily comply with the information standards required by FINMA in the case of distribution of collective investment schemes to non-qualified investors, and investors do not benefit from protection under the CISA or supervision by FINMA. The product must not be distributed to non-qualified investors in or from Switzerland, and may be distributed exclusively on a private placement basis to Qualified Investors as defined in article 10 of the CISA and related provisions in the Swiss Federal Ordinance on Collective Investment Schemes (CISO) in strict compliance with applicable Swiss law and regulations. This document is personal and does not constitute an offer to any person. This document must be distributed or otherwise made available in Switzerland on a private placement basis only and exclusively to Qualified Investors, without distribution or marketing to non-qualified investors in or from Switzerland. This document may be used only by those Qualified Investors to whom it has been handed out in connection with the offering described therein, and it may neither be distributed nor made available to other persons without the express consent of Lyxor AM or Société Générale. It may not be used in connection with any other distribution and shall in particular not be copied and/or distributed to non-qualified investors in Switzerland or in any other country. This document, or the information contained therein, does not constitute a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus pursuant to the listing rules of the SIX Swiss Exchange or any other exchange or regulated trading facility in Switzerland or a simplified prospectus, a key information for investors document, or a prospectus, as such terms are defined in the CISA.

NOTICE TO U.S. INVESTORS: Any potential investment in any securities or financial instruments described herein may not be suitable for all investors. Any prospective investment will require you to represent that you are an "accredited investor," as defined in Regulation D under the U.S. Securities Act of 1933, as amended, and a "qualified purchaser," as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940, as amended (the "'40 Act") The securities and financial instruments described herein may not Act) be available in all jurisdictions. Investments in or linked to hedge funds are highly speculative and may be adversely affected by the unregulated nature of hedge funds and the use of trading strategies and techniques that are typically prohibited for funds registered under the '40 Act. Also, hedge funds are typically less transparent in terms of information and pricing and have much higher fees than registered funds. Investors in hedge funds may not be afforded the same protections as investors in funds registered under the '40 Act including limitations on fees, controls over investment policies and reporting requirements.

NOTICE TO CANADIAN INVESTORS: Any potential investment in any securities or financial instruments described herein may not be suitable for all investors. Any prospective investment will require you to represent that you are a "permitted client", as defined in National Instrument 31-103 and an "accredited investor," as defined in National Instrument 45-106. The securities and financial instruments described herein may not be available in all jurisdictions of Canada. Investment vehicles described herein will not be offered by prospectus in Canada and will not be subject to National Instrument 81-102 and National Instrument 81-106. In addition, investments in or linked to hedge funds are highly speculative and may be adversely affected by the unregulated nature of hedge funds and the use of trading strategies and techniques that are typically prohibited for prospectus offered funds. Also, hedge funds are typically less transparent in terms of information and pricing and have much higher fees than prospectus offered funds. Investors in hedge funds may not be afforded the same protections as investors in offered funds, including limitations on fees, controls over investment policies and reporting requirements.

NOTICE TO HONG KONG INVESTORS: This document is distributed in Hong Kong by SG Securities (HK) Limited and Société Générale Hong Kong Branch, which is regulated by the Securities and Futures Commission and Hong Kong Monetary Authority respectively. The information contained in this document is only directed to recipients who are professional investors as defined under the Securities and Futures Ordinance, Part III.

NOTICE TO JAPANESE INVESTORS: This document is distributed in Japan by Société Générale Securities (North Pacific) Ltd., Tokyo Branch, which is regulated by the Financial Services Agency of Japan. This document is intended only for the Professional Investors as defined by the Financial Instruments and Exchange Law in Japan and only for those people to whom it is sent directly by Société Générale Securities (North Pacific) Ltd., Tokyo Branch, and under no circumstances should it be forwarded to any third party.

NOTICE TO SINGAPORE INVESTORS: This document is distributed in Singapore by Société Générale Singapore Branch, which is regulated by the Monetary Authority of Singapore. This document may only be distributed to institutional, accredited and expert investors.

NOTICE TO TAIWAN INVESTORS: This document is to present you with our all capital markets activities across Asia-Pacific region and may only be distributed to the institutional investors. The product mentioned in this document may not be eligible or available for sale in Taiwan and may not be suitable for all types of investors.