

THE ALTERNATIVE INVESTMENT INDUSTRY BAROMETER

ALL HEDGE FUND STRATEGIES UP, CTAS SKIP A BEAT

>> **The Lyxor Hedge Fund Index was up +0.3% in March.** 9 out of 11 Lyxor Indices ended the month in positive territory. The Lyxor LS Equity Long Bias Index (+2.3%), the Lyxor Fixed Income Arbitrage Index (+2.1%), and the Lyxor Special Situations Index (+1.4%) were the best performers.

>> **Monetary meetings, minutes, and speeches continued to dominate market trends.** The ECB and the Fed were more dovish than expected, boosting risky assets. A majority of hedge funds strategies delivered positive returns led by Fixed Income Arbitrage and the L/S Equity Long bias funds. The main drag in March came, for once, from the CTAs which lost on the oil rally and to some extent on bonds.

>> **L/S Equity: Value stocks boost the longest bias.** The longest bias funds outperformed thanks to their tilt on value stocks. By contrast, the Variable bias group underperformed. Their returned were dispersed. Variable Japanese and European funds made do with a timid local rally compared to that unfolding in the US and in EM markets. Neutral funds benefitted from a pause in factor rotations.

The sentiment among the US managers that we surveyed is improving. While still waiting for fundamental evidence to support the recent rally, they covered their short on energy stocks, they turned constructive on the consumer and the housing related sectors, and they reinforced their net exposure. Sentiment is much more mixed in Europe. Number of uncertainties keeps them cautious and reluctant to take bold stances.

>> **Event Driven returns were rather driven by idiosyncratic developments.** Merger arbitrage benefitted from various developments. These include Staples making progress toward the acquisition of Office Depot, the Pepco acquisition finally receiving Washington’s green light, Starwood obtaining a sweetened offer from Marriott. As a result, deal spreads tightened in March. The basket of US M&A deals that we track saw a 1% contraction of the average deal spread.

Improving risk aversion helped activist positions and Special Situation funds. Gains were partially offset by continued pressure in the healthcare sector, though they managed to dodge most of the Valeant plunge.

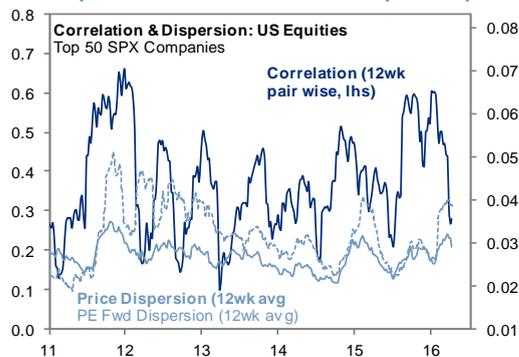
>> **Tailwinds boosting L/S Credit and FI Arbitrage funds.** Credit spreads kept on tightening. The rebound in oil prices, accommodative central banks, and fading stress regarding China further eased the stress on high-yield. FI Arbitrage

funds successfully captured the convergence among credit segments. They also added P&L thanks to their Asian exposures. Gains in Europe were capped by the cost of the hedges they put in place.

>> **The bearish CTAs’ positioning proved costly in March.** CTAs started March with their energy exposure cut by half and a long position rebuilt in metals. Yet, the violent rebound in oil prices was a severe drag. The drop in bonds until mid-March, engineered by a dovish Fed, was the other main source of losses. The FX bucket produced mixed returns. Long JPY and crosses in the commodity block paid off. These gains were offset by losses from short Euro and GBP positions. Their long Equities produced positive returns.

While CTAs remain bearishly positioned they have substantially modified their allocations. They reduced their long US bonds and turned short on the dollar. They still hold a small energy short, but built up longs in both base and precious metals.

Better alpha conditions for US & European equities?



Source: Bloomberg, Lyxor AM

>> **Global Macro: dispersed returns, mixed and balanced exposures.** They finished the month modestly up. Their long USD positions was a drag. By contrast, their longs in EM currencies were profitable. They have actively traded the March monetary catalysts, in particular through their bond exposures. They cut most of their long US bonds and maintained their modest short in European bonds.

>> **“Equity dispersion remains robust, correlations plunged. The EPS season, unlikely to bring major surprises, could mean more fundamental pricing. This is favorable for L/S Equity funds.”** says Jean-Baptiste Berthon, senior cross asset strategist at Lyxor AM.



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Lyxor Hedge Fund Indices

Leveraging on the breadth and diversification of the Lyxor Managed Account Platform, the Index performance aims to be the most representative of the hedge fund industry. The Lyxor Hedge Indices are composed of funds selected by Lyxor Asset Management, available on its leading Managed Account Platform that covers all the major hedge fund strategies and benefits from a high level of transparency and risk control, while ensuring weekly liquidity. These Indices are investable, asset-weighted indices, designed to offer investors straightforward access to hedge fund performance. The Lyxor Hedge Fund Index range comprises 15 indices from global to mono-strategy or thematic indices. The Lyxor Hedge Fund Index (Global Index) reflects the average performance of all 13 strategy indices, thereby offering direct exposure to the global hedge fund universe.

Lyxor Hedge Fund Indices	Bloomberg Ticker	March 2016 Performance*	YTD Performance*
Global Index			
Lyxor Hedge Fund Index	LYXRHFI	+0.29%	-1.74%
Strategy Indices			
Lyxor L/S Equity Long Bias Index	LYXRSLB	+2.35%	-1.29%
Lyxor L/S Equity Market Neutral Index	LYXRSMN	+0.93%	-1.95%
Lyxor L/S Equity Variable Bias Index	LYXRSLVR	-0.54%	-4.25%
Lyxor Merger Arbitrage Index	LYXRMNA	+0.57%	+0.19%
Lyxor Special Situations Index	LYXRSPEC	+1.37%	-5.10%
Lyxor L/S Credit Arbitrage Index	LYXRCDT	+0.84%	-0.32%
Lyxor Fixed Income Arbitrage Index	LYXRFIAR	+2.09%	-0.23%
Lyxor CTA Long Term Index	LYXRCTAL	-3.60%	+0.91%
Lyxor CTA Short Term Index	LYXRCTAS	+0.07%	-2.08%
Lyxor Global Macro Index	LYXRMACR	+0.54%	-1.72%
Thematic Index			
Lyxor Credit Strategies Index	LYXRCDTS	+1.57%	-0.30%

(*) MTD returns are based on performance from the last estimated NAV of the previous month until the last estimated NAV of the reported month. YTD returns are from December 31st, 2015 through March 31st, 2016.

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Below is a brief description of key hedge funds strategies:

Special Situations is a strategy that encompasses a combination of investment processes targeting equities or bonds whose valuation is altered by a special situation such as spin-offs, industry consolidations, liquidations, reorganizations, share buybacks and other extraordinary corporate transactions that generate investment opportunities.

Merger Arbitrage is a strategy that primarily consists of investing in equities involved in merger/acquisition operations and aims to take advantage of the spread between the price bid for the takeover and the price observed in the market.

Distressed Securities is a strategy that consists of investing in (or selling short) securities of companies for which the price has been, or is expected to be, affected by a distressed situation (e.g., pre- or post- bankruptcy).

Convertible Bonds and Volatility Arbitrage are strategies that aim to take advantage of volatility arbitrage opportunities by investing in various financial instruments. Convertible Bonds funds primarily invest in convertible bonds and discretionarily hedge some of the underlying risk factors (interest rate risk, credit risk, market risk) in order to gain exposure to volatility and/or credit risk at a very attractive price.

Fixed Income Arbitrage is a strategy that aims to take advantage of pricing anomalies between fixed income securities, sectors, markets and yield curves.

L/S Credit Arbitrage strategy is a directional strategy that involves buying bonds and credit and fixed income derivative instruments that are expected to appreciate and selling the ones that are expected to depreciate.

Global Macro is a strategy that aims to take advantage of expected macroeconomic trends and may invest in all types of markets and instruments.

CTAs Long Term is a strategy that aims to capture price movements in fixed income, equity, currency and commodity markets with the use of systematic trading models.

CTAs Short Term is a strategy that aims to capture short term price movements in fixed income, equity, currency and commodity market with the use of systematic trading models.

L/S Equity Variable Bias is a directional strategy that primarily involves buying equities and equity derivatives that are expected to appreciate and selling those that are expected to depreciate. The portfolio's net exposure to the market (possibly net long, net short or market neutral) will be actively managed depending on the manager's expectations.

L/S Equity Long Bias is a directional strategy that primarily involves buying equities and equity derivatives that are expected to appreciate and selling those that are expected to depreciate, while structurally maintaining a net long exposure to the equity market.

L/S Equity Market Neutral is a strategy that primarily involves buying equities and equity derivatives that are expected to appreciate and selling those that are expected to depreciate while generally neutralizing broad equity market risks.

L/S Equity Statistical Arbitrage is a strategy that primarily consists of investing in some equities and selling short other equities. The security selection approach is typically based on quantitative analysis of either fundamentals, prices, or a combination of the two. This strategy typically seeks to offer limited exposure to equity market risks.

Lyxor Credit Strategies Index aims to measure the performance of hedge funds following any type of credit and fixed income related strategies: take advantage of pricing anomalies between fixed income securities, sector, market and yield curves, buying bonds or credit or fixed income derivative instruments that are expected to appreciate and selling the ones that are expected to depreciate.

Each index is reviewed and rebalanced on a monthly basis in line with investment guidelines, the evolution of assets under management and the liquidity constraints. Owned by Société Générale Index, the indices are calculated and published on a daily basis by Standard and Poors on Bloomberg and Reuters.

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A dedicated website www.lyxorhedgeindices.com provides monthly factsheets, valuations, performance and methodology and

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Societe Generale is one of the largest European financial services groups. Based on a diversified universal banking model, the Group combines financial solidity with a strategy of sustainable growth, and aims to be the reference for relationship banking, recognised on its markets, close to clients, chosen for the quality and commitment of its teams.

Societe Generale has been playing a vital role in the economy for 150 years. With more than 148,000 employees, based in 76 countries, we accompany 32 million clients throughout the world on a daily basis. Societe Generale's teams offer advice and services to individual, corporate and institutional customers in three core businesses:

- **Retail banking in France** with the Societe Generale branch network, Credit du Nord and Boursorama, offering a comprehensive range of multichannel financial services on the leading edge of digital innovation;
- **International retail banking, financial services and insurance** with a presence in emerging economies and leading specialised businesses;
- **Corporate and investment banking, private banking, asset management and securities services**, with recognised expertise, top international rankings and integrated solutions.

Societe Generale is included in the main socially responsible investment indices: Dow Jones Sustainability Index (Europe), FSTE4Good (Global and Europe), Euronext Vigeo (Global, Europe, Eurozone and France), ESI Excellence (Europe) from Ethibel and 5 of the STOXX ESG Leaders indices.

For more information, you can follow us on twitter @societegenerale or visit our website www.societegenerale.com.

Société Générale Index (SGI) is a leading index provider. As part of the Société Générale group, SGI is integrated in the Global Markets division and fully benefits from the expertise of a leading derivatives house.

The SGI range of indices covers a wide scope of assets, including equities, interest rates, credit, commodities, and foreign exchange, which are either structured as cross-asset allocations or single-asset strategies. All SGI indices are structured with the aim of providing an adequate tradeoff between liquidity and performance. The SGI range of indices targets the growing market demand for absolute and uncorrelated return engines, quantitative strategies, and niches of growth such as alternative energy, water or sustainable investments.

Lyxor Asset Management Group

Lyxor Asset Management Group ("Lyxor Group") was founded in 1998 and is composed of two fully-owned subsidiaries ⁽¹⁾ ⁽²⁾ of Societe Generale Group. It counts 600 professionals worldwide managing and advising \$130.7bn* of assets.

Lyxor Group offers customized investment management solutions based on its expertise in ETFs & Indexing, Active Investment Strategies and Multi-Management. Driven by acknowledged research, advanced risk-management and a passion for client satisfaction, Lyxor's investment specialists strive to deliver sustainable performance across all asset classes. www.lyxor.com

(1) Lyxor Asset Management S.A.S. is approved by the «Autorité des marchés financiers» (French regulator) under the agreement # GP98019.

(2) Lyxor International Asset Management S.A.S. is approved by the «Autorité des marchés financiers» (French regulator) under the agreement # GP04024.

*Equivalent to €115,5bn - Assets under management and advisory as of end of March 2016

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