

THE ALTERNATIVE INVESTMENT INDUSTRY BAROMETER

# HEDGE FUNDS FUELLED BY U-SHAPED RECOVERY POST-BREXIT

- The Lyxor Hedge Fund Index was up 0.8% in July, with 7 out of 10 Lyxor indices ending the month in the black.
- The rally in global markets fuelled the most directional strategies, with Special Situations and L/S Equity Long Bias managers leading the pack.

>> In July, market concerns over the strength of the US economy and the Brexit impact eased, leading to a sharp rebound in risk assets. The US earnings season also proved better than feared. Risk assets rallied in all geographies, with substantial gains in global equity markets. Credit spreads tightened significantly on both sides of the Atlantic, in the High Yield segment in particular. Yet, the end of the month experienced a sharp trend reversal; the Fed and BoJ meetings were market game-changers. The US dollar significantly depreciated amidst the Fed's status quo and mixed US economic data (weaker Q2 GDP than expected) while the Yen rebounded strongly when the BoJ did not meet market expectations. Gold prices bounced back as a result of the weaker USD, while oil prices accelerated their downward move on the back of higher OPEC supply. The WTI closed the month near \$40.

>> The supportive market environment fuelled directional hedge fund strategies such as L/S Equity Long Bias (+3.4%) and Special Situations (+3%). Yet global hedge fund performance in July was distorted by losses incurred by Global Macro managers at the end of the month, due to the depreciation of the US Dollar.

>> The rally in risk assets supported L/S Equity funds, in particular Long Bias managers (+3.4%). From a regional perspective, US funds managed to better capture the market upside thanks to a higher beta. European managers' returns were less profitable as managers significantly reduced their exposure post-Brexit. Finally, Asian managers stayed on the sidelines. Their defensive positioning did not let them fully participate in the rally that took place, in Japan especially. Overall, all sectors paid off, with cyclical names accounting for most of the performance. The rally in value stocks boosted value oriented managers. At the end of the month, most of portfolios had higher tilts towards cyclical names.

incurred in June thanks to rewarding investments in names such as Allergan, Akorn, Baxter and Microsoft. Sectors such as Consumer Non-Cyclicals, Basic Materials and Communications paid off. Merger Arbitrage (+0.8%) performed well as several deal spreads tightened (LinkedIn/Microsoft, EMC/Dell, Starwoods Hotel/Marriott) and some deals were completed. But their long allocation to SABMiller faced losses as the Ab Inbev vs SAB Miller proposed merger experienced ups and downs towards the end of the month.

"The post-Brexit market rally in July fuelled directional hedge fund strategies such as L/S Equity and Event-Driven. Yet, the near term outlook remains challenging as economic activity is weak and traditional asset classes are richly valued. Hence, we maintain a preference for hedge fund strategies with a relative value bias."

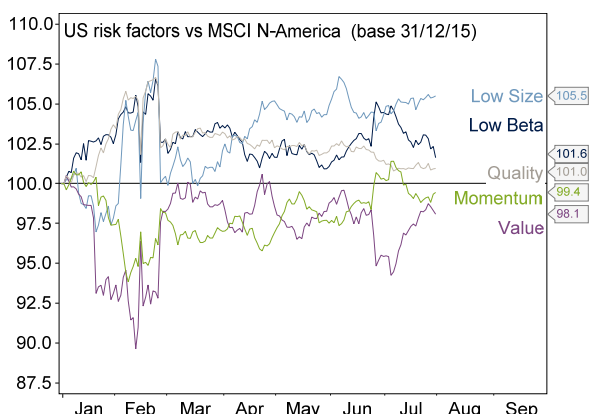
**Philippe Ferreira,**  
Senior cross-asset strategist, Lyxor Asset Management

>> Long Term CTAs posted considerable gains in the last days of July when the Fed and the BoJ held their regular monetary policy meetings. The strategy was up 2.4% for the full month of July. The commodity bucket was the best contributor thanks to the fall in agricultural and oil prices. Longs on precious metals also paid off, in particular on gold. The weakening of the USD turned profitable, especially against the JPY, although gains were partly offset by the Japanese bond sell-off. Models were rightly positioned to capture the upside moves on global equity markets, except for Japanese stocks. On the negative side, systems faced losses on their fixed income portfolios.

>> Global Macro managers took a severe hit at the end of the month when the US dollar depreciated. Their sizeable long positioning on the USD (vs EUR, GBP and JPY) was the main detractor. However, losses incurred during the last days of July hid the strong performance generated before the FOMC meeting. Discrepancies in returns across funds remained subsequent, as managers adopted different views in the aftermath of the UK referendum. Those that were predominantly positioned on relative value trades on fixed income outperformed others that took a more directional stance. Besides, the most constructive funds on equities benefited from the recovery of European and Japanese markets. Most managers struggled with their shorts on US equities as the US market reached new highs. The commodity portfolio experienced disparate outcomes. Managers successfully traded Agriculturals and gold but suffered from their long albeit small energy exposure.

>> Credit funds posted strong results. Asian managers led the pack, thriving from their positions on Financials and Consumer Cyclicals. European managers posted disparate results although all sectors contributed positively to the performance.

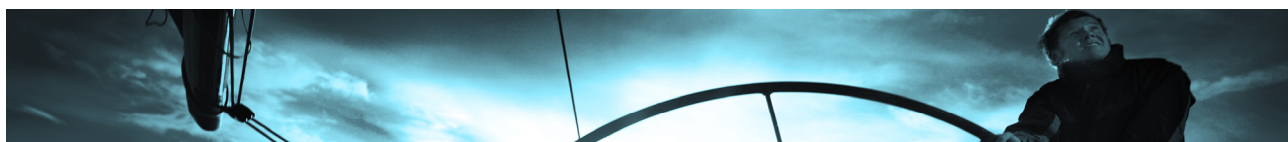
The Rally In Value Stocks Boosted Value Oriented L/S Equity



Long-only factors. Source: Bloomberg, JP Morgan, Lyxor

>> Event Driven successfully captured the market rebound, with Special Situations leading the pack. They fully recovered from the losses

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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	July 2016 Performance*	YTD Performance*
<b>Global Index</b>			
Lyxor Hedge Fund Index	LYXRHFI	0.79%	(2.29%)
<b>Strategy Indices</b>			
Lyxor L/S Equity Long Bias Index	LYXRSLB	3.43%	0.67%
Lyxor L/S Equity Market Neutral Index	LYXRSMN	1.64%	(3.46%)
Lyxor L/S Equity Variable Bias Index	LYXRSLVR	0.52%	(4.80%)
Lyxor Merger Arbitrage Index	LYXRMNA	0.76%	1.29%
Lyxor Special Situations Index	LYXRSPEC	2.95%	(1.22%)
Lyxor L/S Credit Arbitrage Index	LYXRCRDT	1.70%	2.27%
Lyxor Fixed Income Arbitrage Index	LYXRFIAR	(0.91%)	(2.37%)
Lyxor CTA Long Term Index	LYXRCTAL	2.40%	4.56%
Lyxor CTA Short Term Index	LYXRCTAS	(0.40%)	(4.76%)
Lyxor Global Macro Index	LYXRMACR	(1.15%)	(6.64%)
<b>Thematic Index</b>			
Lyxor Credit Strategies Index	LYXRCDS	0.13%	(0.56%)

(\*) 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 31<sup>st</sup>, 2015 through July 29th, 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.

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**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](http://www.lyxorhedgeindices.com) provides monthly factsheets, valuations, performance and methodology and performance analysis.

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- **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](http://www.societegenerale.com).

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Lyxor Asset Management Group ("Lyxor Group") was founded in 1998 and is composed of two fully-owned subsidiaries<sup>(1) (2)</sup> of Societe Generale Group. It counts 600 professionals worldwide managing and advising \$127.3bn\* 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](http://www.lyxor.com)

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

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\*Equivalent to €114.5bn - Assets under management and advisory as of end of June 2016

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