

THE ALTERNATIVE INVESTMENT INDUSTRY BAROMETER

Event Driven edged higher post US-elections

- The Lyxor Hedge Fund Index was close to flat in November (-0.2%), with 5 out of 10 Lyxor indices in positive territory.
- Event Driven outperformed the platform, with both Merger Arbitrage (+0.7%) and Special Situations (0.5%) delivering positive returns. On the negative side, Market Neutral L/S Equity funds (-3.5%) suffered from the sudden sector rotation post-US elections.

>> The unexpected victory of Donald Trump in the US presidential election on Nov 8 was welcomed positively by markets. US bonds and equities quickly priced-in the pick-up in growth, inflation and US dollar strength on the back of Trump's economic program. Meanwhile, a Fed rate hike in December got priced-in. The bond rout extended partially to Europe and Japan, which led the USD to appreciate against EUR and JPY. In the equity space, US equities rose +3.4% amid sharp sector rotation. Domestic companies drove the market rally and value stocks rebounded markedly across all regions. Japanese equities soared, supported by the weakening of the Yen. In Europe, stocks fell ahead of the Dec 4 Italian referendum and the Dec 8 ECB meeting. Oil price volatility spiked ahead of the Nov 30 OPEC meeting in Vienna. Eventually, Brent ended the month above \$51 after an agreement was reached to reduce output quotas.

>> In the alternative space, dispersion in returns across hedge fund strategies increased on the back of market rotation. The Lyxor Hedge Fund Index remained flat, with Event Driven strategies outperforming. More directional strategies such as L/S Equity Long bias and L/S Credit Arbitrage took advantage of the market rally while Market Neutral L/S Equity funds suffered from the sudden sector rotation.

>> Within Event Driven, all sub-strategies ended in positive territory. Merger Arbitrage led the pack supported by the compression of spreads across a number of deals (Aleris/Abbott, Time Warner/AT&T, Monsanto/Bayer and LinkedIn/Microsoft). Additionally, the spread of St Jude Medical/Abbott tightened as the completion date drew closer. Heading into year-end, markets gained on high hopes from political and regulatory changes. However, managers remained mindful of additional volatility episodes and stuck to their guns with cautious exposure. On the other end of the spectrum, Special Situations funds edged higher thanks to idiosyncratic events and company-specific developments (Marathon petroleum, Conagra Brands). Sector wise, Event Driven managers largely focused on non-cyclical sectors such as Healthcare and Communications.

>> L/S Credit Arbitrage managers delivered healthy returns across the board despite the negative tone in European credit markets. They benefited from the outperformance of the high yield segment in the US vs. Europe. In the Fixed Income space, managers posted disparate returns due to different positioning on US bonds. In that regard, managers with bearish views outperformed.

>> Dispersion in returns climbed significantly across L/S Equity managers. Directionality paid off, with longer biased funds benefiting from the rally that occurred post-Trump election. In that regard, US managers outperformed their peers, while EM funds suffered from weakening market flows. Meanwhile, Market Neutral funds lagged due to multiple sector rotations. Value stocks surged on both sides of the Atlantic amid expectations of further fiscal stimulus. Long positions on Industrials and Financials were particularly rewarding. Conversely, quality and low beta stocks underperformed while the rise in bond yields hit yield-sensitive sectors such as consumer staples and utilities.

"The unexpected election of Mr. Trump is strengthening the case for an inflection in yields and inflation. Heading into 2017, we expect less monetary support and more fiscal push to make active managers' life easier. On the one hand higher rates and inflation could result in more fundamental pricing, supporting more typical asset relationships. On the other hand, Trump's key proposals open various sector themes likely to foster asset dispersion. This environment should put an end to a year and a half of anemic alpha generation."

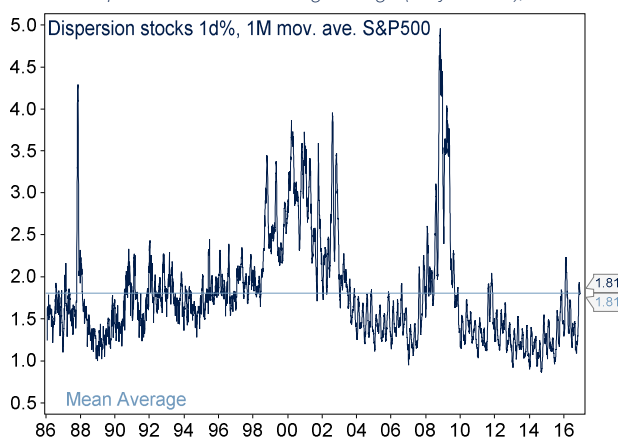
Jean Baptiste Berthon, Senior cross-asset strategist, Lyxor Asset Management

>> Global Macro lagged due to their (unanimous) short exposure to US equities. The rally in Japanese equities was the only source of gains in the equity portfolio, although gains were offset by long positions on European stocks. On the fixed income side, managers' views remained disparate. In aggregate, a bearish stance on European bonds was successful, while long exposure to US bonds suffered from the rise in bond yields. Short EUR vs USD was the main driver of returns in the FX bucket. However, the strengthening of the GBP and JPY, and the dramatic fall of the Mexican peso weighed on returns.

>> The drawdown of Long Term CTAs lingered in November. They struggled to benefit from the appreciation of the USD. Aggressive EUR shorts paid off, but were not sufficient to offset losses endured on GBP (short), JPY and EM (long). The commodity bucket was detrimental overall. Additionally, they shaved off their meaningful exposure to equities, but remained focused on US equities. Losses were somewhat limited as they adjusted their portfolios significantly. Like their Short Term peers, they cut their sizeable positions on bonds, which help them navigate the rising bond yield environment.

Stock return dispersion increased post US-elections

Stock dispersion 1 month moving average (daily returns), S&P 500



Source: Bloomberg, Lyxor AM. As of December 1, 2016

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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	November 2016 Performance*	YTD Performance*
Global Index			
Lyxor Hedge Fund Index	LYXRHFI	-0.18%	-1.31%
Strategy Indices			
Lyxor L/S Equity Long Bias Index	LYRSLB	1.56%	3.70%
Lyxor L/S Equity Market Neutral Index	LYRLSMN	-3.35%	-8.89%
Lyxor L/S Equity Variable Bias Index	LYRSLVR	-1.43%	-7.01%
Lyxor Merger Arbitrage Index	LYXRMNA	0.67%	2.40%
Lyxor Special Situations Index	LYXRSPEC	0.47%	-0.68%
Lyxor L/S Credit Arbitrage Index	LYXRCRDT	1.32%	4.63%
Lyxor Fixed Income Arbitrage Index	LYXRFIAR	-1.29%	-1.49%
Lyxor CTA Long Term Index	LYXRCTAL	-1.76%	-6.65%
Lyxor CTA Short Term Index	LYXRCTAS	-0.68%	-6.04%
Lyxor Global Macro Index	LYXRMACR	0.15%	-0.58%
Thematic Index			
Lyxor Credit Strategies Index	LYXRCDS	-0.37%	0.79%

(*) 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 November 30th, 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 performance analysis.

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Societe Generale

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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

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- (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.

*Including €10.7bn assets under advisory. Equivalent of \$126.4bn in assets under management and advisory (including \$11.7bn assets under advisory) at the end of October 2016.

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