

A Dovish Fed is Set to Support CTA and Macro Managers



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Markets were on standby mode ahead of the Fed's meeting last week. Hedge funds were flat and there was little dispersion in returns across the managers (see chart). Event-Driven outperformed as equity volatility edged lower. Meanwhile, Fixed Income strategies underperformed as sovereign bond yields moved higher.

Since the FOMC meeting on September 17th, the Fed's indecisive attitude has been met with mixed responses from the markets. A lack of guidance has not been welcomed by risk assets, bonds have rallied and the USD has eased against major currencies. It is likely that this will fuel Global Macro and CTA managers in particular.

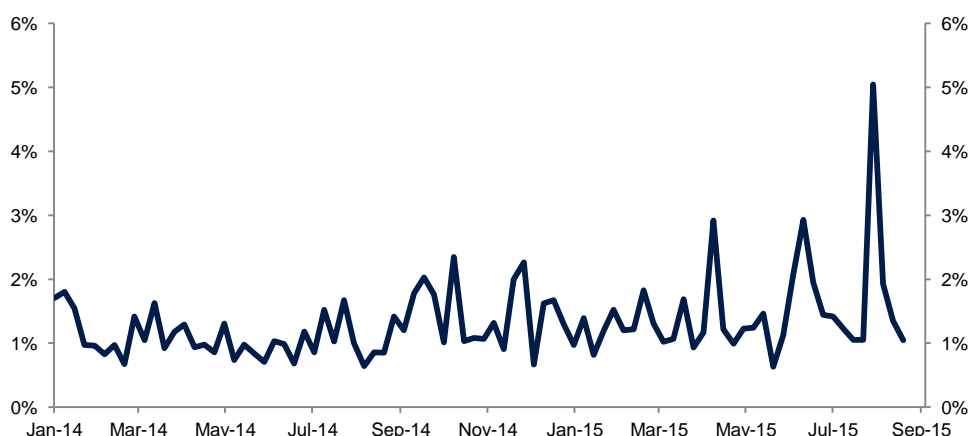
Systematic funds are adequately positioned, being neutral equities and long fixed income. These funds also cut their long USD positions (especially against the EUR) during the summer. There are nonetheless discrepancies between the positioning of short term and long term CTAs. The former have less directionality in FX and commodity markets and appear to be better suited to capture any benefits from the new market regime. In fact, long term CTAs are still long USD and short commodities. The Fed's stance is likely to put downward pressure on the USD and some upward pressure on commodities.

Meanwhile, discretionary Macro managers are also long fixed income and are set to benefit from the ease in bond yields following the downward revision of both the economic projections and the "Dot Plot" (see page 2).

Finally, the Fed's lack of guidance over future interest rate moves could result in higher risk aversion despite this dovish stance. In the L/S Equity space, we maintain our strong preference for market neutral and variable bias strategies. Some managers in that space have delivered double-digit returns year to date and we expect this trend to continue.

Dispersion in returns back to normal

(Standard deviation of weekly returns of hedge funds on the Lyxor platform)



Source: Lyxor AM

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THE WEEK IN 3 CHARTS

Hedge Fund Snapshot: Little dispersion in returns across strategies

	WTD*	MTD	YTD
Lyxor Hedge Fund Index	0.0%	1.0%	0.2%
CTA Broad Index	-0.2%	0.0%	-2.7%
Event Driven Broad Index	0.1%	1.7%	-1.0%
Fixed Income Broad Index	-0.4%	0.4%	-1.1%
L/S Equity Broad Index	-0.1%	1.2%	1.5%
Global Macro	-0.3%	0.5%	0.6%
<i>S&P 500</i>	<i>0.4%</i>	<i>5.9%</i>	<i>-4.9%</i>
<i>10 Y US Treasury (in Bps)</i>	<i>10.0</i>	<i>22.0</i>	<i>10.0</i>

*From 08 September to September 15, 2015

Source: Bloomberg, Lyxor AM

The Lyxor Hedge Fund Index ended the week flat, with little dispersion in returns between strategies.

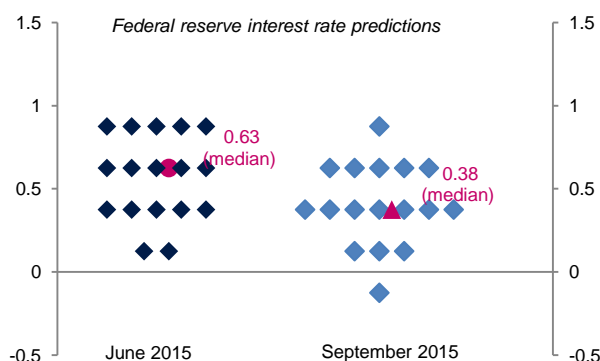
Event Driven outperformed, with merger arbitrage leading the pack (+0.4%). Investments in consumer-cyclical and technology sectors were particularly rewarding while energy related names detracted from the overall performance.

L/S equity funds were resilient and fuelled by variable bias funds (+0.5%). Three variable bias funds were among the top three performers of the platform with our Japanese-focused variable bias fund up 1.4% last week.

CTAs and Global Macro managers suffered from the upward pressure on yields as a result of having long exposures to fixed income.

No lift-off from the Fed supports bonds; a positive for CTAs and global macro going forward

Overview of FOMC participants' assessment of the midpoint for the federal funds rate at the end of 2015



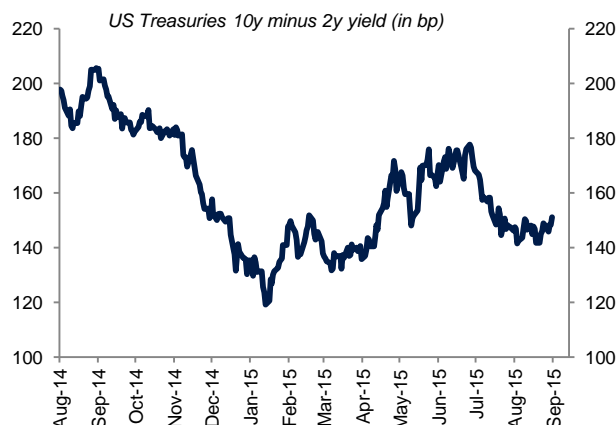
Source: Federal Reserve, Lyxor AM

The market was not surprised by the Fed's decision to hold interest rates at historic lows, maintaining its 0 to 0.25% target range. This decision suggests that Fed policymakers are concerned over an increasingly brittle global environment which may damage the US economy. The US recovery may face headwinds from a stronger US dollar and a weaker China. Meanwhile, falling energy prices may push inflation downwards. The median estimates for the benchmark Fed Fund rate to end 2015 fell by 25 bps compared to the last FOMC meeting in June (see chart).

The dovish tone of the Fed triggered a downward pressure on Treasury yields. CTAs and to a lesser extent Global Macro managers benefited from this trend as they both have long exposure to fixed income.

From bear flattening to bull flattening in the US, a support for Global Macro

The US yield curve has flattened over the last three months



Source: Bloomberg, Lyxor AM

Going into the FOMC meeting, near term Fed fund futures did not display any immediate hikes in price, however 2-year Treasury yields did edge higher.

Over the last three months, a bear flattening of the yield curve has taken place, with yields on 2-year notes reaching 0.8% the day before the FOMC meeting. In contrast, moves in 10y Treasury yields were moderate and were driven by concerns over the low inflation outlook.

However, the dovish stance of the Fed has changed this outlook. The long-end of the curve is now rallying in the US and in Europe especially. This trend is supportive for Macro managers who have long duration positions and aggressive positions on Europe.

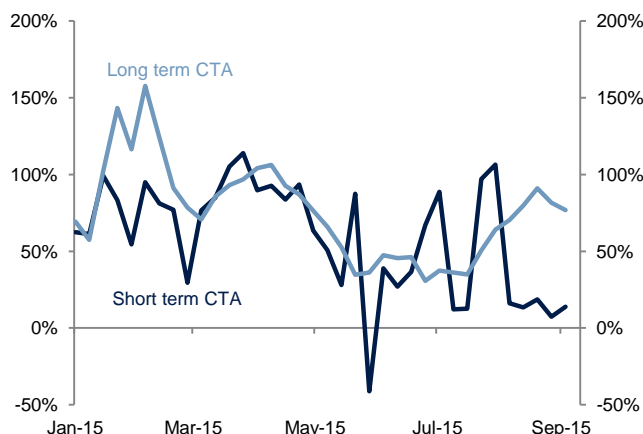
CTAs

	WTD*	MTD	YTD
CTA Broad Index	-0.2%	0.0%	-2.7%
CTA Long Term	-0.3%	-0.7%	-2.7%
CTA Short Term	-0.1%	3.0%	-4.1%

*From 08 September to September 15, 2015

CTAs have been long US bonds over the year

(Net Exposure to US bonds, % NAV)

Asset weighted. As of September 8, 2015.
Source: Lyxor AM

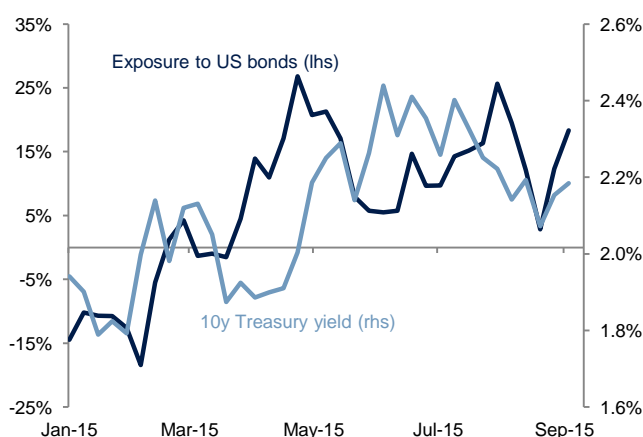
GLOBAL MACRO

	WTD*	MTD	YTD
Global Macro	-0.3%	0.5%	0.6%

*From 08 September to September 15, 2015

Managers maintained their exposures to US bonds

(Net Exposure to US bonds, % NAV)

Equally weighted. As of September 8, 2015.
Source: Bloomberg, Lyxor AM

Higher rates detracted

Over the last week, CTAs posted slightly negative performances with the Fixed Income portfolio accounting for most of these losses. Widely long exposed systems were penalised by the upward trend of rates on both sides of the Atlantic, with markets witnessing an increasing correlation between European and US treasuries.

In less volatile markets, the contribution of equities to performance was limited. Short positions proved rewarding on European indices, but also brought losses on the US markets. Short-term CTAs were in the best position to gain from these market moves.

The FX bucket was also down mainly on the back of its short exposure to the Euro which appreciated against the US Dollar. Short Australian Dollar positions brought losses as well.

Lastly, short exposed systems managed to extract alpha on commodities after making the most of the downward trend of energy and precious metals prices.

Altered by rising rates

Global Macro funds were down last week.

Fixed Income markets were focused on the pending Federal Reserve monetary policy decision. Consequently, funds with long duration positions were dragged down after rates went up in the US and in Europe.

The FX bucket posted mixed results. As the USD depreciated, short EUR/USD and short AUD/USD negatively impacted performance. Meanwhile, some long bets on EM currencies against the greenback proved rewarding.

Equities remained muted as managers reduced their risk allocation to the asset class. However, long Japanese indices paid off while long European stocks brought losses.

The exposure to commodities has remained limited once again; hence the performance was only slightly impacted by the drop in energy and precious metal prices.

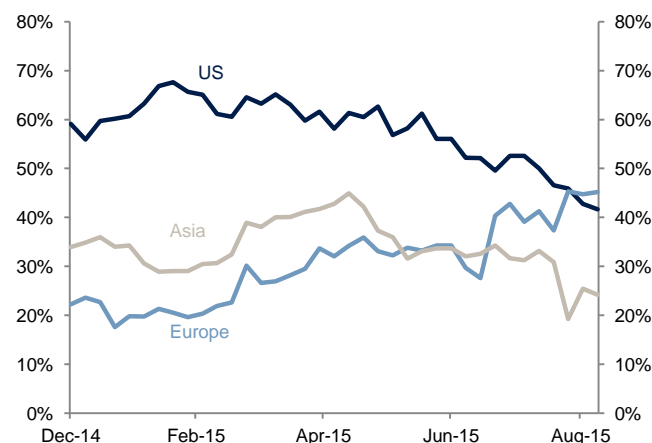
RESEARCH FROM LYXOR MANAGED ACCOUNT PLATFORM

L/S EQUITY

	WTD*	MTD	YTD
L/S Equity Broad Index	-0.1%	1.2%	1.5%
Long Bias	-0.2%	2.4%	4.6%
Market Neutral	-0.3%	0.0%	-1.3%
Variable Bias	0.5%	0.6%	4.8%

*From 08 September to September 15, 2015

US and Asia Equity L/S continued to reduce net exposure (Net Exposure to Equity, % NAV)



Equally weighted. Source: Lyxor AM

Reducing net exposure

All eyes were on the Fed last week. Ahead of this key decision, our L/S equity funds preferred to stay on the sidelines and kept their exposures broadly unchanged after the recent market sell-off.

Performances across L/S equity funds were mixed. Japan-focused funds were the best performers, with our variable-bias Japan fund leading the pack. Our Asian equity quantitative manager started seeing a turnaround as their models responded to the paradigm shift around the China correction and the re-rating of forward growth.

In the US, our Healthcare market-neutral and US-focused variable bias funds finished the week as one of the best top three performers. The variable-bias PM had reduced its gross and net exposure over the last three months. The Healthcare team continued to take advantage of the dispersion and consolidation in the sector.

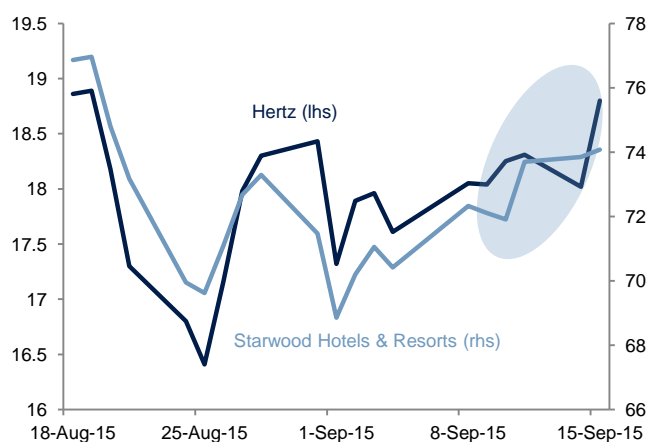
Although EM stocks remain under pressure, both of our EM-focused funds generated good alpha. Our fundamental EM fund continued to reduce its longs which are vulnerable to EM fund outflows and started adding back oversold stocks that are now looking very cheap on a historical basis.

EVENT DRIVEN

	WTD*	MTD	YTD
Event Driven Broad Index	0.1%	1.7%	-1.0%
Merger Arbitrage	0.4%	1.5%	1.5%
Special Situations	-0.4%	2.0%	-4.6%

*From 08 September to September 15, 2015

Hertz and Starwood recovered some losses (Share Prices from 18/08/2015 to 15/09/2015)



Source: Bloomberg, Lyxor AM

Merger Arb. Outperformed

The Event Driven strategy continued to recover from August losses, ending the week in positive territory. M&A managers outperformed their special situations peers.

Investments in the consumer cyclical and technology sectors were the leading contributors to performance while energy related names detracted. Top individual contributors include Hertz, Starwood Hotels & Resorts and NCR Corporation. After a difficult summer, Hertz shares rebounded when the company reached a definitive agreement with Carl Icahn over director appointments. Share prices of Starwood Hotels & Resorts soared on the back of recent positive developments; the group announced the launch of Tribute Portfolio in Europe and expressed its intention to extend this brand to India next year.

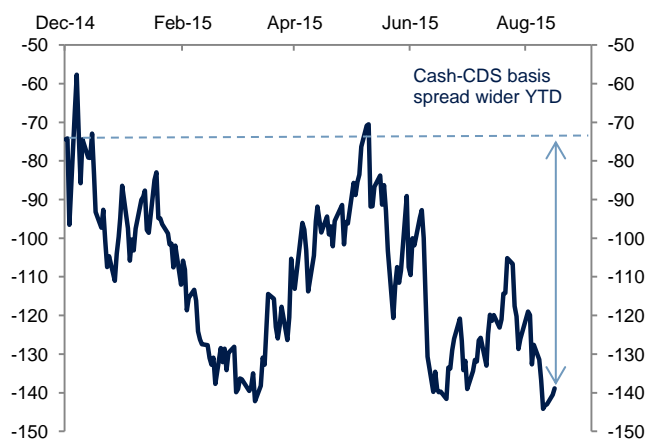
On the M&A front, spreads remained wide across global deals. Managers are benefiting from actively adding to their favourite high conviction names and to some short term transactions which saw their spreads dislocate.

L/S CREDIT ARBITRAGE

	WTD*	MTD	YTD
Fixed Income Broad Index	-0.4%	0.4%	-1.1%
<i>L/S Credit Arb</i>	-0.1%	0.4%	-1.6%

*From 08 September to September 15, 2015

European High Yield Cash bond Spreads under pressure (CDS Basis on European bonds)



Source: Bloomberg, Lyxor AM

Credit on hold

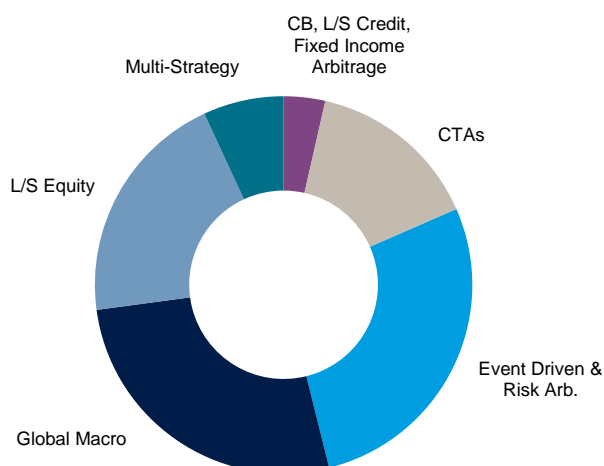
Last week, the most important headline was the downgrade of Brazil to junk status.

US credit performed well with spreads tightening in both IG and HY segments. The European credit markets saw high levels of issuance (EUR 24.5bn IG bonds MTD), which contributed to widening credit spreads. It is interesting to highlight the discrepancy between cash bonds and derivatives in Europe. Since the beginning of the year, spreads have widened significantly for both IG (29 bps) and HY bonds (50 bps) while spreads on CDS indices remain within a range of 10 bps.

L/S Credit Arbitragers were slightly down last week and posted mixed results: Our Asian focused fund outperformed on the back of real estate positions recovering, the US manager was hurt on some high yield names in the communications and financial sectors, one of our European credit arbitragers was hurt by widening spreads in Europe and a decrease in tranche correlation and the other manager ended the week slightly up thanks to rewarding arbitrages on European financials.

METHODOLOGY

Breakdown of AUM by strategy



- **66 funds** in the platform

- Over **USD 7 billion** of assets under management (as of September 1, 2015)

- Replicating approximately **USD 200 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.

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Source: Lyxor Asset Management database except as noted

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