

## Hedge Funds continue to display high resilience



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The focus remained on China, with PBoC announcing a surprise Yuan devaluation and steps towards the liberalization of its quotation mechanism. While factoring the outright impact of the approximate 5% devaluation against USD - in EM currencies and in exports sectors - markets also read this development as an additional sign of slower Chinese growth.

Concerns about weaker Chinese demand built up deflation fears over the summer. These were amplified, not triggered, by the CNY devaluation. Since then, risk aversion has stepped-up with an identifiable domino of themes. Indeed, a weaker Chinese demand has weighed on commodities' demand and prices and sapped the growth outlook for many EM countries, further weakening global growth prospects. In turn, it is keeping the Fed all the more cautious which is weakening support in reflation zones (via USD). Both the trim in economic forecasts and the plunge in resources are feeding global deflation fears.

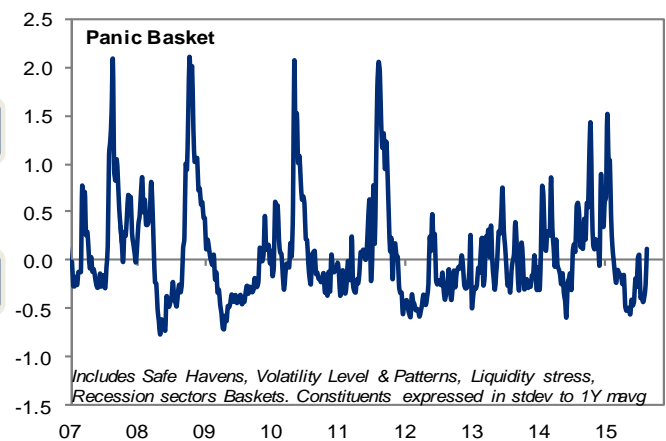


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Hedge Funds were not immune to this sell-off, slightly down last week. Indeed, the reversal in USD hurt Global Macro managers while Event Driven funds remained under pressure.

However, put in perspective, Hedge Funds have been displaying elevated resiliency and seem well positioned relative to traditional assets. The return of dispersion and the emergence of multiple themes are helping L/S Equity managers produce strong alpha. Macro traders are also benefitting from a flurry of relative value opportunities, thanks to their conservative positioning, and have been able to successfully navigate the markets. Event Driven is lagging; the corporate situation remains unsettled by macro drivers and has been adversely impacted by sector bias.

### Not in panic, but risk aversion stepping up



Source: Bloomberg, Lyxor AM

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THE WEEK IN 3 CHARTS

Hedge Fund Snapshot: Not immune to the sell-off but resilience

	WTD*	MTD	YTD
<b>Lyxor Hedge Fund Index</b>	<b>-0.3%</b>	<b>0.2%</b>	<b>2.8%</b>
CTA Broad Index	-0.6%	0.8%	-0.2%
Event Driven Broad Index	0.0%	-0.3%	1.4%
Fixed Income Broad Index	-0.2%	-0.4%	-0.1%
L/S Equity Broad Index	-0.2%	0.1%	4.2%
Global Macro	-1.2%	0.1%	4.3%
S&P 500	0.6%	0.2%	0.8%
10 Y US Treasury ( in Bps)	5.0	-6.0	0.0

\*From 11 August to August 18,2015

Source: Bloomberg, Lyxor AM

Hedge Fund strategies posted moderate losses with the Lyxor Hedge Fund Index down -0.3%.

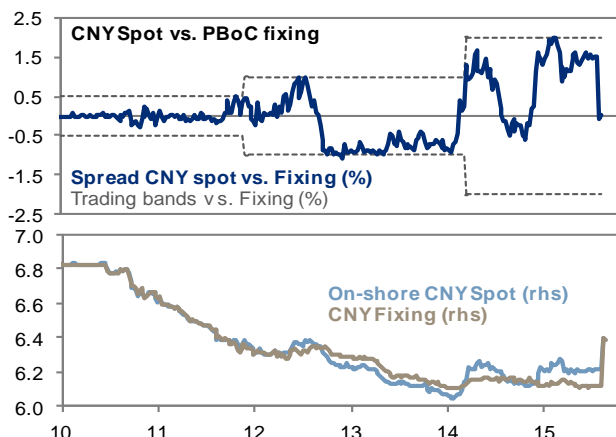
The Global Macro strategy underperformed last week, down -1.2%, because of the developments in China affecting USD positions.

Event Driven outperformed over the week as most of the initial hit was endured before the close of August 11th i.e. the day when PBoC's took action.

L/S Equity mitigated the losses thanks to conservative positioning and strong alpha generation. Unsurprisingly, within the group, Asian-focused funds underperformed.

Chinese RMB devaluation

A 5% depreciation of CNY against USD so far



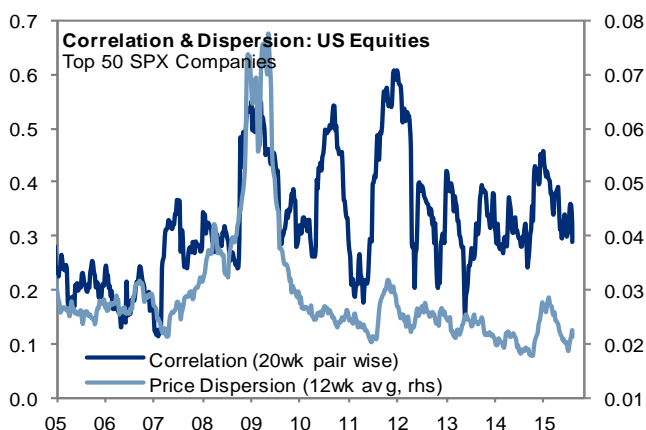
Source: Bloomberg, Lyxor AM

After letting its currency appreciate for several years, the PBoC surprised markets with a near on 2% Yuan devaluation and steps towards the liberalization of its quotation mechanism. While strengthening the case for a later Yuan inclusion in SDRs, China is responding to the competitive devaluation policies implemented in Japan, Europe and Asia. The implicit peg with USD, and its recent appreciation, accentuated the CNY's term deterioration.

So far the CNY has depreciated by 5% against USD, still a marginal move compared to the multi-year appreciation. Favoring monetary and fiscal policies, the use of the currency tool to stem the Chinese slowdown was read by markets as a worrying sign.

US equities: Market Neutral strategies to capture alpha

Declining US correlations and rebounding dispersion



Source: Bloomberg, Lyxor AM

The S&P500 remained in a tight trading range on a YTD basis and offered no beta upside. US equities remain capped by the uncertainties of the Fed's normalization, a maturing cycle and rich valuations. On the downside, they remain floored by signs of economic improvement and resilient margins.

However, US L/S Equity managers produced strong alpha in a context of falling stocks correlations. Dispersion among US stocks rebounded and current valuations are increasingly focused on micro fundamentals.

Along with multiple themes, this is boding well for alpha generation in the US line. Hence our long held preference for market neutral styles.

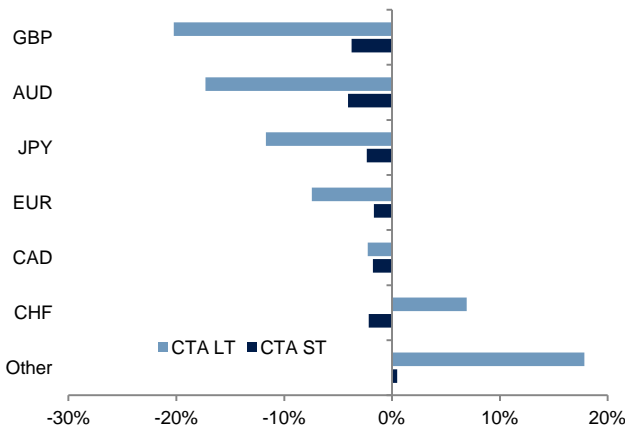
RESEARCH FROM LYXOR MANAGED ACCOUNT PLATFORM

CTAs

	WTD*	MTD	YTD
CTA Broad Index	-0.6%	0.8%	-0.2%
CTA Long Term	-0.7%	0.9%	0.4%
CTA Short Term	-0.2%	0.7%	-4.1%

\*From 11 August to August 18, 2015

**Long USD positions did not pay off**  
(Net Exposure to FX vs USD, % NAV)



Asset weighted. Source: Lyxor AM

FX waves hurt USD long managers

CTAs were down last week, heavily influenced by the sudden PBoC's devaluation of the Renminbi even though direct exposure to China is very limited.

The negative performance was mainly driven by the side effects of the Chinese move. The FX bucket was impacted the most, especially emerging currencies which are threatened by the weakening of their economies. Some long USD positions didn't pay off as the greenback weakened against some developed world currencies last week. Fixed income positions brought losses as well, mainly hurt by the rise in long term rates in the US.

Equities were another detractor to performance as fear spread among investors on global growth outlook. Asian and European indices dropped, generating losses for long exposed systems.

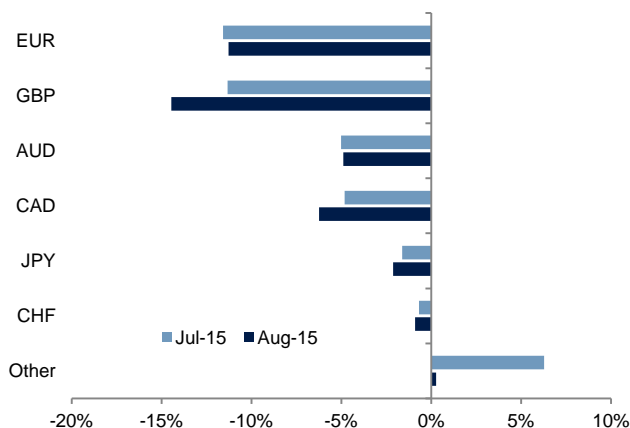
The MTD return witnesses their strong resilience to market turmoil, thanks to substantial exposures to commodities on the short side, and long bond position in most region.

GLOBAL MACRO

	WTD*	MTD	YTD
Global Macro	-1.2%	0.1%	4.3%

\*From 11 August to August 18, 2015

**Short exposure on GBP vs USD generated losses**  
(Net Exposure to FX vs USD, % NAV)



Equally weighted. Source: Lyxor AM

Global growth concerns weighed

Macro Managers returned a negative performance over the week.

Equities were down following the surprise devaluation of the Chinese currency. Global markets read it as another sign/warning of a slowing global economy, dragging long positions on equities down.

PBoC's intervention directly impacted FX markets. Last week the USD declined and affected Macro Managers who were mainly long on the greenback.

On the Fixed Income side, long exposed funds were hit by the increase in US long term rates while gains were made on short UK rates positions.

We note that the MTD performance remains in positive territories, thanks to their hedged positioning on global growth.

Commodities once again had very limited impact on performance as managers hold very low risk allocation to this bucket.

**L/S EQUITY**

	WTD*	MTD	YTD
L/S Equity Broad Index	-0.2%	0.1%	4.2%
Long Bias	-0.3%	-0.1%	8.9%
Market Neutral	0.3%	0.0%	-0.1%
Variable Bias	0.1%	1.3%	6.2%

\*From 11 August to August 18, 2015

**European net exposure comes down as volatility increases**  
(Net Exposure to Equities, % NAV)



Equally weighted. Source: Lyxor AM

**Strong alpha generation in Europe**

The PBoC's surprise decision amplified selling across emerging equity markets and commodities. Chinese and Asian led on the downside, followed by the Eurozone markets. US equities were momentarily spared over that period of time.

Aside from Chinese biased strategies, down over the week, L/S equity funds were resilient with an asset weighted average performance of +0.1%. Exposure to Asian and commodities linked equities were indeed negligible. Second, variable funds had already dramatically reduced their risk, both on their gross and net exposures. Third and above all, their short book performed well and long book did not detract either.

Our European managers performed extremely well in this environment, all of them up over the week. The best performer was up 1.2%. The main contributors came from shorts, especially in emerging securities. Short in basic material and energy sectors also proved beneficial. In the US, performance was more dispersed with value oriented funds finishing in negative territory.

**EVENT DRIVEN**

	WTD*	MTD	YTD
Event Driven Broad Index	0.0%	-0.3%	1.4%
Merger Arbitrage	0.2%	0.1%	2.8%
Special Situations	-0.2%	-0.8%	-0.6%

\*From 11 August to August 18, 2015

**Hertz share price surged and rewarded special sits**  
(Share Price in USD)



Source: Bloomberg, Lyxor AM

**Mixed performances among managers**

Event Driven funds posted mixed performances last week, ranging from -1.88% to +1.04%.

Sectors with high correlation to China, such as basic materials and industrials, struggled over the period and weighed on the performance. Energy related names continued to suffer in sympathy with a prolonged downturn in oil prices.

On the bright side, the big standout of the week was Hertz. Share price surged after Credit Suisse raised its earnings estimates and rewarded special situations managers. The spread tightening of a few mega deals including BG Group vs. Shell and Broadcom vs. Avago mitigated some losses. Price correction of the communications sector also helped.

Weaker Chinese demand and concerns about the pace of global growth are likely to persist. We expect a greater market differentiation from managers' active involvement in idiosyncratic situations and from their hedging strategies.

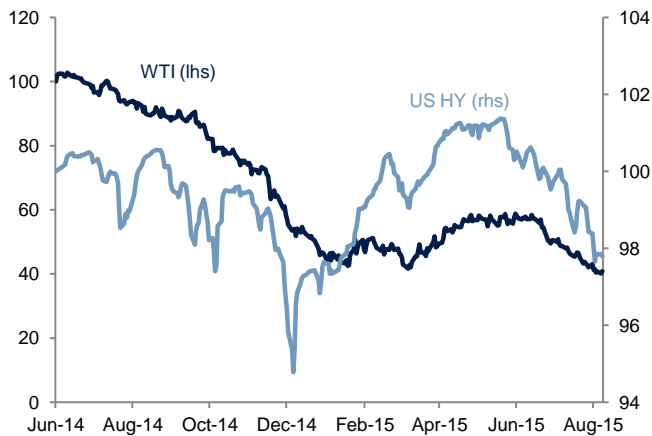
**L/S CREDIT ARBITRAGE**

**Commodities keep on putting pressure**

	WTD*	MTD	YTD
Fixed Income Broad Index	-0.2%	-0.4%	-0.1%
L/S Credit Arb	-0.4%	-0.7%	-1.0%

\*From 11 August to August 18, 2015

**Oil put pressure on US HY Credit**  
(WTI and US HY Indices, base 100 as of 11/06/2014)



Source: Bloomberg, Lyxor AM

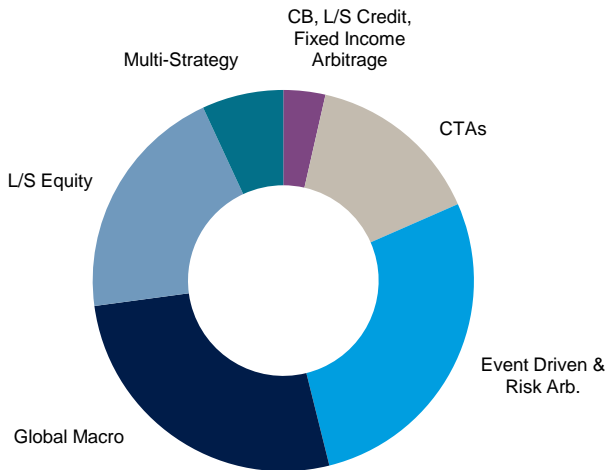
L/S Credit Managers posted negative performances on the back of growing concerns about global growth.

On both sides of the Atlantic, spreads remained quite stable over the week with a noticeable tightening in the US HY space. This hides, in fact, dispersion between sectors. Commodity prices continued to slide, putting pressure on the sustainability of a large number of companies in the energy, metals and mining sectors and driving entire sectors down.

On the Lyxor side, most credit funds were down. European exposed funds had mixed results. The best performer generated alpha on the back of sovereign bonds and industrials, however related-energy names brought the other funds down. The US manager performance has been negatively impacted by idiosyncratic events in some telecoms and basic materials names. Finally, the Asian focused fund detracted from a non-supportive environment for Asian HY Credit, and especially from exposure to the real estate sector.

## METHODOLOGY

### Breakdown of AUM by strategy



- Approximately **80 funds** in the platform

- **USD 8 billion** of assets under management  
(as of May 31, 2015)

- Replicating **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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