HEDGE FUNDS UNSCATHED FROM RISING DOUBTS ON EMERGING, GLOBAL GROWTH AND CENTRAL BANKS

>> The Lyxor Hedge Fund Index was down only -0.4% in January, outperforming the MSCI World down -3.8%. 8 Lyxor Strategy Indices out of 12 ended the month in positive territory, led by the Lyxor Fixed Income Arbitrage Index (+1.74%), the Lyxor Merger Arbitrage Index (+0.92%) and the Lyxor L/S Equity Market Neutral Index (+0.83%).

>> Following 3 weeks of tactical retracement to digest the year-end rally, multiple events in Emerging contributed to unsettle EM and DM markets – in particular global equities, USD-JPY, and weaker US LT yield. Weak PMI in China, concerns about the vulnerability of its shadow banking and instability in Turkey, Argentina and Ukraine, awoke broader investor concerns. Concerns about a risk of contagion from EM twin deficits countries. Concerns about the pace of global recovery, as economic readings weaken. Doubts on central banks’ will to do ‘whatever it takes’. After a quiet start, the strategies most directionally exposed to equity markets - L/S Equity, Special situation and CTAs - have detracted performance by month-end. In contrast, relative value strategies have successfully weathered market instability.

>> L/S Equity funds entered 2014 with a reasonably constructive outlook. They shaved off some of their exposure in early January. Long bias funds reduced their gross exposure by around 10%, variable bias reduced their net exposure from 45% down to 35%. With a strong overall exposure to cyclical sectors though, their average market beta continued to hover around 35%. Rising equity dispersion, the start of the earnings season, and healthier short trading conditions were favorable to variable and market neutral bias funds. They outperformed long bias funds prior to the sell-off. Afterward, European funds outperformed their US peers. Long bias funds ended January down -1.6%, variable bias up +0.5%, and market neutral funds were up +0.8%. Hedge fund managers haven’t meaningfully altered either their gross or their net exposure so far, which is a sign that they aren’t buying an EM contagion scenario for now.

>> Similarly Event driven funds produced positive returns during the first part of January. Range trading equity markets had a limited impact on deal-specific merger spreads. Increased flows of M&A deals early this year provided a fresh pool of opportunities for managers. Meanwhile the main activist managers to be more selective.

In Japan, a capex rebound and corporate cash hoarding bode well for M&A trends, in particular in cross borders, which have represented the bulk of Japanese operations since 2012. The Merger arbitrage funds ended January up +0.9%, and the Special Situation funds down only -0.2%.

>> Dispersion among CTAs was striking during the month. Long Term CTAs were down as much as -5.4% in January, in contrast with Short Term CTAs ending up +0.4%. In the first part of the month, long term funds generated performance on commodity FX shorts and long USD positions. Meanwhile, directionless equity markets provided limited opportunities for short term CTAs, flat over these 3 weeks. The wheel then turned, with a dominant exposure to equity. Long term funds took a severe hit, on their JPY-USD cross exposure as well.

>> Equity losses incurred by Global macro funds during the sell-off were offset by gains accumulated earlier in the month - in long duration US and EU trades in particular. They ended flat. FX and LT rates are their largest gross exposures as we enter February. They enjoy a growing set of opportunities from EM's central banks dispersion and relative value trades in EM markets. While net neutral on EM FX and Energy, their average 60% gross exposure on these 2 markets illustrate some of their market themes.

>> Softer data in the US and a slight disappointment from the Fed’s resolution to maintain its envisaged pace of tapering provided a favorable backdrop for credit and fixed income funds. CB managers and credit arbitrage funds accumulated small gains in the early part of the month, courtesy of marginally tightening credit spreads. Later on, rising implied volatility mitigated the losses incurred by CB managers on the equity component during the sell-off; and L/S Credit funds’ cut in their net exposure from 70% to around 40% during the 3 first weeks of January, mitigating the impact from widening spreads across the board. They all ended up the month with positive returns, up +0.5% on average.

>> Hedge funds have taken the lead in asset class ranking in January, with relative value approaches offsetting losses in more directional strategies. "Healthy market dispersion, EM and DM macro themes, a set of micro arbitrage in corporate operations, EPS releases, sector rotation: some of the key ingredients for alternative investments' outperformance", says Jean-Baptiste Berthon, senior cross asset strategist at Lyxor AM.

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ASSET MANAGEMENT BY

SOCIÉTÉ GÉNÉRALE INDEX

EXPERT OPINION

THE ALTERNATIVE INVESTMENT INDUSTRY BAROMETER

7 FEB 2014
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.

<table>
<thead>
<tr>
<th>Lyxor Hedge Fund Indices</th>
<th>Bloomberg Ticker</th>
<th>January 2014 Performance*</th>
<th>YTD Performance*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Global Index</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lyxor Hedge Fund Index</td>
<td>LYXRHFI</td>
<td>-0.42%</td>
<td>-0.42%</td>
</tr>
<tr>
<td><strong>Strategy Indices</strong></td>
<td></td>
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<tr>
<td>Lyxor L/S Equity Long Bias Index</td>
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<td>-1.63%</td>
<td>-1.63%</td>
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<tr>
<td>Lyxor L/S Equity Variable Bias Index</td>
<td>LYXRLSVR</td>
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<td>0.46%</td>
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<tr>
<td>Lyxor L/S Equity Market Neutral Index</td>
<td>LYXRLSMN</td>
<td>0.83%</td>
<td>0.83%</td>
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<tr>
<td>Lyxor Merger Arbitrage Index</td>
<td>LYXRMINA</td>
<td>0.92%</td>
<td>0.92%</td>
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<tr>
<td>Lyxor Special Situations Index</td>
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<td>-0.18%</td>
</tr>
<tr>
<td>Lyxor Convertible Bonds &amp; Volatility Arbitrage Index</td>
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<tr>
<td>Lyxor L/S Credit Arbitrage Index</td>
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<tr>
<td>Lyxor Fixed Income Arbitrage Index</td>
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<td>1.74%</td>
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<td>Lyxor Global Macro Index</td>
<td>LYXRMACR</td>
<td>-0.04%</td>
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<td>Lyxor CTA Long Term Index</td>
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<td>-5.42%</td>
<td>-5.42%</td>
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<tr>
<td>Lyxor CTA Short Term Index</td>
<td>LYXRCTAS</td>
<td>0.38%</td>
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<td><strong>Thematic Index</strong></td>
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<td></td>
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<tr>
<td>Lyxor Credit Strategies Index</td>
<td>LYXRCDTS</td>
<td>0.47%</td>
<td>0.47%</td>
</tr>
</tbody>
</table>

(*) 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, 2013 through January 31st, 2014.
THE ALTERNATIVE INVESTMENT INDUSTRY BAROMETER

Below is a brief description of the Lyxor Hedge Fund Strategy Indices:

**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 discretely 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 markets.

**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.
Société Générale

Société Générale 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.

Société Générale has been playing a vital role in the economy for 150 years. With more than 154,000 employees, based in 76 countries, we accompany 32 million clients throughout the world on a daily basis. Société Générale’s teams offer advice and services to individual, corporate and institutional customers in three core businesses:

- **Retail banking in France** with the Société Générale branch network, Crédit 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.

Société Générale 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) 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** - [www.lyxor.com](http://www.lyxor.com)

The Expert in all modern investment techniques

Lyxor Asset Management, a subsidiary of Société Générale Group, was founded in 1998 and counts over 600 professionals worldwide.

Lyxor manages $110bn* of assets, as the Expert in all modern investment techniques: ETFs & Indexing, Alternative, Structured, Active Quantitative and Specialized Investments.

Backed by strong research teams and leading innovation capacities, Lyxor’s investment specialists customize active investment solutions optimizing performance and risks across all asset classes.

*USD 110.3bn - Equivalent to EUR 80bn - AuMs as of December 31st, 2013*.