

THE WEEKLY BRIEF

By LYXOR CROSS ASSET RESEARCH

8 JULY 2021

HEDGE FUNDS: LOOKING BACK AND AHEAD



Philippe Ferreira
Cross Asset Strategist

Jean-Baptiste Berthon
Cross Asset Strategist

Eloise Girard-Desbois
Apprentice

CrossAssetResearch@lyxor.com

Dear reader, the Weekly Brief is taking a break and will be back on August 26th. We wish you a happy summer.

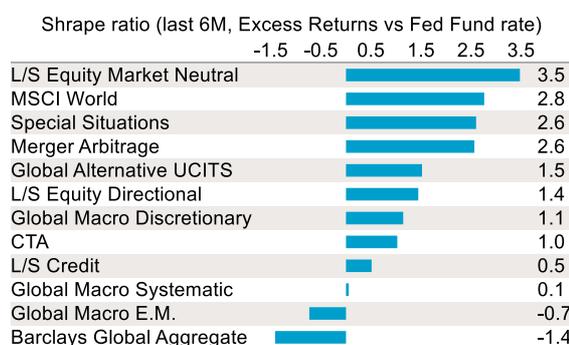
Recent patterns in financial markets, such as the flattening of sovereign curves, reflect deflationary expectations. They tend to characterize late-cycle movements ahead of a recession and a monetary easing cycle. This is inconsistent with the ongoing recovery post Covid-19, which should see a certain degree of monetary tightening in 2022. A partial explanation of the decline in bond yields lies in downward revisions to fiscal stimulus expectations in the U.S., as the current administration is constrained by its tight majority in the Congress.

Recent price action across asset classes was tricky to maneuver for alternative strategies. CTAs underperformed in June, down -1.7% according to Lyxor UCITS Peer groups, due to trend reversals in currency and fixed income markets. As bond yields fell, their positioning on U.S. Treasuries shifted to the long side and they covered USD shorts. Global Macro, L/S Equity and Event-Driven ended the month in negative territory, but in moderate proportions (-0.2%), while L/S Credit outperformed (+0.2%). Dispersion was elevated within L/S Equity and Macro, with some strategies down -5 / -10%, and dispersion was low within Event-Driven and L/S Credit strategies.

For the full quarter and in H1-2021, the script was different. Alternative strategies with a higher equity market beta outperformed as equities rallied. We estimate alternative strategies were up +1.8% in Q2, while the MSCI World was up +7.6% and the Barclays Global Aggregate was up +1%. On a year-to-date basis, equity related strategies (L/S Equity, Event-Driven) outperformed those predominantly invested in fixed income (L/S Credit, Global Macro).

Going forward, we expect healthy returns from Event-Driven and aligned the stance of Merger Arbitrage with Special Situations at O/W. The record pace of corporate activity, attractive deal spreads and diversification features of the strategy should continue to be supportive. After the rally in risk assets in H1, strategies with low beta/ low volatility features, such as Merger Arbitrage, are more attractive. We maintain the O/W stance on CTAs. The positioning remains balanced, with a long equity bias to capture the economic rebound. The slightly long exposure to fixed income is not expected to be costly if the tapering of asset purchases from the Fed causes a rise in bond yields. Finally, CTAs provide exposure to commodities which remain attractive at this stage of the business cycle.

On a risk-adjusted basis, Event-Driven and Market Neutral L/S outperformed in the last 6 months



Source: Bloomberg, Macrobond, Lyxor AM

Hedge Fund Performance: Market Neutral L/S Extends Winning Streak

Lyxor UCITS Peer Group Performance

	Last week*	June	YTD	# of funds
MSCI World	1.0%	2.4%	15.6%	
Bloomberg Barclays Global Aggregate Bond Index	0.4%	0.5%	-1.4%	
Risk Premia	0.4%	0.3%	5.1%	15
L/S Credit	0.0%	0.2%	0.7%	21
L/S Equity Market Neutral	0.4%	-0.1%	3.3%	26
L/S Equity Directional	-0.1%	-0.2%	5.3%	77
Event-Driven: Merger Arbitrage	0.2%	-0.2%	3.8%	24
Global Macro	-0.1%	-0.2%	0.7%	52
Global Lyxor UCITS Peer Group	0.1%	-0.3%	3.3%	247
Event-Driven: Special Situations	0.7%	-0.9%	7.8%	6
CTAs	0.0%	-1.7%	3.9%	26

*Last Week: June 25th to July 2nd. YTD as of July 2nd. Source: Bloomberg, Lyxor AM

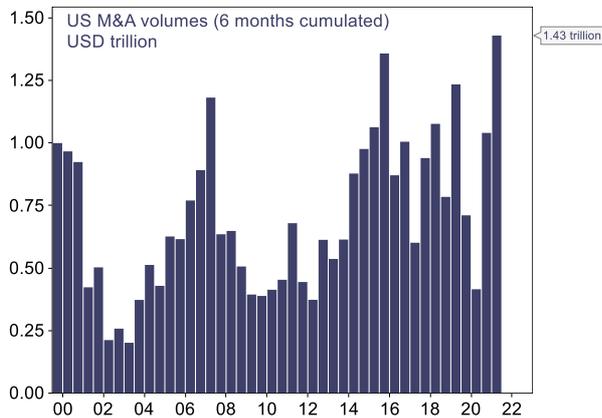
Last week saw a rise in both equity and fixed income benchmarks, but movements were rather quiet, hindered by the Covid-19 delta strain and ahead of the U.S. job report and the start of the earnings season.

The Global Lyxor UCITS Peer Group was flat (+0.1%), with uneven performance across strategies.

Special Situation and Market Neutral L/S outperformed (+0.7% and +0.4% respectively), thanks, for the former, to the higher equity market beta and Value bias. Market Neutral L/S benefitted from the rebound in both the Momentum and the Value risk factors according to Dow Jones Market Neutral U.S. risk factors.

Finally, the remaining strategies, such as Global Macro, CTAs and L/S Credit, were flat.

Merger Arbitrage to keep benefitting from unprecedented M&A volumes in the U.S.



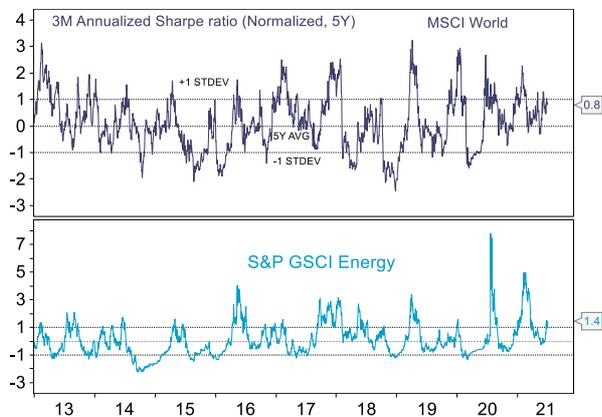
Source: Eikon, Lyxor AM

Our stance on Event-Driven strategies remains constructive on the back of robust corporate activity globally and their ability to capture the cyclical upswing. The strategy also brings elevated diversification benefits, having no exposure to the momentum risk factor structurally when compared to many L/S Equity strategies for instance.

We aligned the stance of Merger Arbitrage with Special Situations (O/W). The strong rally in risk assets in the first half of the year suggests low beta/low volatility strategies, such as Merger Arbitrage, are becoming more attractive. Merger Arbitrage reassured investors earlier in the year, as an overabundance of IPOs and excess leverage triggered a SPAC correction without meaningful implications on Merger Arbitrage performance.

Deal spreads have tightened somewhat in the U.S. over the course of June and stand at 4.5% as of July 2nd.

CTA positions are well balanced; with equities and commodities contributing the most to performance



Source: Bloomberg, Macrobond, Lyxor AM

We maintain the O/W stance on CTAs despite recent losses in the wake of the mid-June FOMC meeting. The unexpected hawkish stance implied by the “dot plot” of FOMC members translated into reversals in currency and precious metals, which were short lived in the case of Gold prices.

Commodities continue to add value to CTA portfolios (energy in particular), and the short USD positioning of CTAs was swiftly reverted.

Going forward, we expect trends in equities and commodities to continue to contribute positively to CTA performance. Trend-following conditions have been highly supportive in equity and energy markets, with the Sharpe ratio over the past three months standing respectively at 0.8 and 1.4 standard deviations above the average of the past five years. Concurrently, positions in FX and fixed income have been largely neutralized.

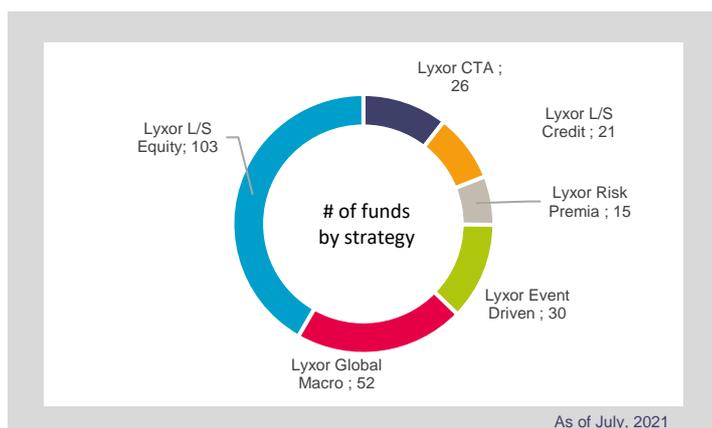
METHODOLOGICAL APPENDIX

The information contained in this report on the performance of hedge funds is based on publicly available information. The universe of underlying funds is relatively stable but varies depending on the criteria of inclusion presented below. It is based on an unbiased selection from our hedge fund analyst team.

Performance is calculated on a weekly basis, as of end-of-week, using an arithmetic average (equally weighted average).

Regarding share classes used in these peer groups, we selected the primary share class as referenced in Bloomberg. Non-USD share classes are hedged in USD based on hedging costs available on Bloomberg.

Lyxor Hedge Fund Peer Groups: number of funds by strategy



- 247 strategies across the main categories in the industry
- USD 201 billion of assets under management

Criteria of inclusion

The criteria of inclusion are fourfold:

- We only include UCITS strategies;
- Assessment by Lyxor's Hedge Fund selection team based on funds' materials or manager interaction;
- We only include strategies with assets under management of at least USD 50 million; and
- We only include strategies with at least a one-year track record.

-

DISCLAIMER

This document is not intended for retail investors and is for the exclusive use of institutional investors acting on their own account and categorized as either “eligible counterparties” or “professional clients” within the meaning of the markets in financial instruments directive 2014/65/EU. This document has been prepared solely for the information of the person to whom it is presented and should not be reproduced or used for any other purpose. The circumstances in which this publication has been produced are such that it is not appropriate to characterize it as independent investment research as referred to in MiFID and that it should be treated as a marketing communication even if it may contain general recommendations. This publication is also not subject to any prohibition on dealing ahead of the dissemination of investment research. However, Lyxor is required to have policies to manage the conflicts which may arise in the production of its research, including preventing dealing ahead of investment research.

This material has been prepared solely for informational purposes only and does not constitute an offer, or a solicitation of an offer, to buy or sell any security or financial instrument, or to participate in any investment strategy. This material does not purport to summarize or contain all of the provisions that would be set forth in any offering memorandum. Any purchase or sale of any securities may be made only pursuant to a final offering memorandum. No advisory relationship is created by the receipt of this material. This material should not be construed as legal, business or tax advice. A more robust discussion of the risks and tax considerations involved in investing in a fund is available from the more complete disclosures incorporated into the offering documentation for such fund.

This material has not been prepared in regard to specific investment objectives, financial situations, or the particular needs of any specific entity or person. Investors should make their own appraisal of the risks and should seek their own financial advice regarding the appropriateness of investing in any securities or financial instrument or participating in any investment strategy. Before you decide to invest in any account or fund, you should carefully read the relevant client agreements and offering documentation. No representation is made that your investment objectives will be achieved. This material is not intended for use by retail investors.

Any descriptions involving investment process, risk management, portfolio characteristics or statistical analysis are provided for illustrative purposes only, will not apply in all situations, and may be changed without notice. Past performance is not a reliable indicator of future results, and it is impossible to predict whether the value of any fund or index will rise or fall over time.

While the information in this material has been obtained from sources deemed reliable, neither Société Générale (“SG”), Lyxor Asset Management S.A.S. (“Lyxor AM”) nor their affiliates guarantee its accuracy, timeliness or completeness. We are under no obligation to update or otherwise revise such information if and when it changes. Any opinions expressed herein are statements of our judgment on this date and are subject to change without notice. SG, Lyxor AM and their affiliates assume no fiduciary responsibility or liability for any consequences, financial or otherwise, arising from an investment in any security or financial instrument described herein or in any other security, or from the implementation of any investment strategy. Lyxor AM and its affiliates may from time to time deal in, profit from the trading of, hold, have positions in, or act as market-makers, advisers, brokers or otherwise in relation to the securities and financial instruments described herein. Trademarks appearing herein are the exclusive property of SG and its affiliates, as the case may be.

Hedge funds may invest in futures and other derivative instruments. Futures trading and other derivatives may permit extremely high degrees of leverage and expose the funds to, among other things, volatility, market illiquidity, market risks, legal risks and operational risks. Hedge funds may be exposed to risks relating to non-domestic markets, including, without limitation, risks relating to currency exchange, tax, lack of liquidity, generating movement on the markets, political instability and transaction costs. An investment in a hedge fund is subject to a total loss.

This presentation contains the views of Lyxor AM analysts and/or strategies. The views espoused in this presentation may differ from opinions and recommendations produced by other departments or affiliates of SG and/or Lyxor AM.

Note about Indices: Indices are not available for direct investment. A comparison to an index is not meant to imply that an investment in a fund is comparable to an investment in the funds or securities represented by such index. A fund is actively managed while an index is a passive index of securities. Indices are not investable themselves, and thus do not include the deduction of fees and other expenses associated with an investment in a fund. Not all the funds that comprise indices cited herein are suitable for U.S. Investors as a result of, among other things, the implementation of the Volcker Rule.

Notice to U.S. Investors: Any potential investment in any securities or financial instruments, the categories of which are described herein, may not be suitable for all investors. Any prospective investment will require you to represent that you are an “accredited investor,” as defined in Regulation D under the Securities Act of 1933, as amended, and a “qualified purchaser,” as defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended (the “40 Act”). The securities and financial instruments described herein may not be available in all jurisdictions.

Investments in or linked to hedge funds are highly speculative and may be adversely affected by the unregulated nature of hedge funds and the use of trading strategies and techniques that are typically prohibited for funds registered under the ‘40 Act. Also, hedge funds are typically less transparent in terms of information and pricing and have much higher fees than registered funds. Investors in hedge funds may not be afforded the same protections as investors in funds registered under the ‘40 Act including limitations on fees, controls over investment policies and reporting requirements.

Notice to Canadian Investors: Any potential investment in any securities or financial instruments, the categories of which are described herein, may not be suitable for all investors. Any prospective investment will require you to represent that you are a “permitted client,” as defined in Canadian Regulation National Instrument 31-103, and an “accredited investor,” as defined in National Instrument 45-106. The securities and financial instruments described herein may not be available in all jurisdictions of Canada.

For more information, U.S. and Canadian investors and recipients should contact Lyxor Asset Management Inc., 1251 Avenue of the Americas, 46th Floor, New York, NY 10020 or invest@lyxor.com.

Notice to U.K. Investors: This communication is issued in the UK by Lyxor Asset Management UK LLP, which is authorised and regulated by the Financial Conduct Authority in the UK under Registration Number 435658.

Source: This document has been prepared by Lyxor Asset Management S.A.S., 17 cours Valmy, 92800 Puteaux. Lyxor AM is a French

management company authorized by the Autorité des marchés financiers and placed under the regulations of the UCITS (2014/91/UE) and AIFM (2011/61/EU) Directives. Lyxor AM is also registered with the U.S. Commodity Futures Trading Commission as a registered commodity pool operator and a commodity trading advisor.