THE WEEKLY BRIEF

By LYXOR CROSS ASSET RESEARCH

2 JUN 2020

Global Macro Fueled By Oil And EM Assets

Philippe Ferreira
Senior Strategist

Jean-Baptiste Berthon
Senior Strategist

Pierre Carreyn
Hedge Fund Analyst

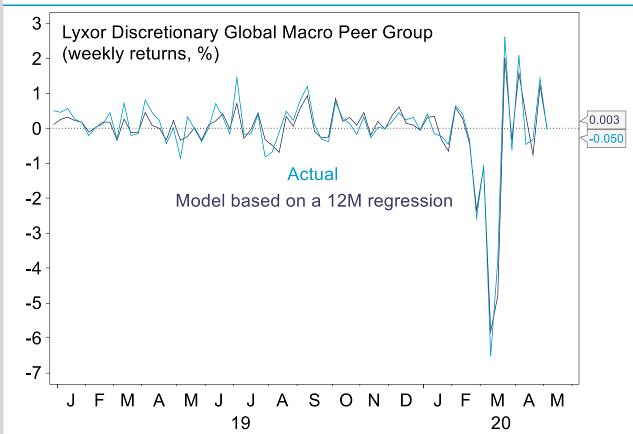
CrossAssetResearch@lyxor.com

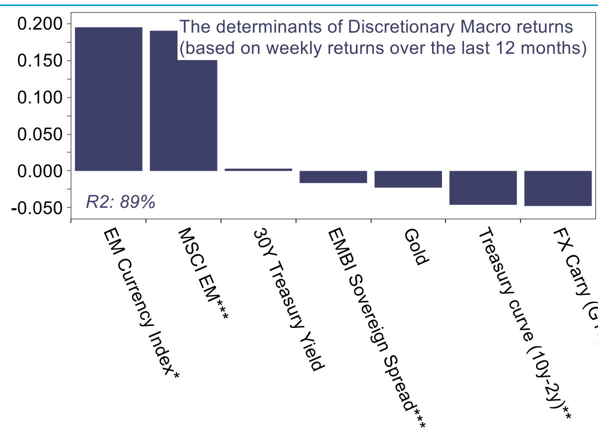
Risk assets extended their recovery in May, with global equities experiencing a strong rebound for the second month in a row. High Yield credit and EM sovereign spreads tightened as well as the spread of the Coronavirus in developed countries eased, lockdown measures were partially relaxed, and economic activity initiated its rebound. In Europe, a € 500bn Recovery Fund financed by European Commission bond issuance has been proposed by France and Germany to help fuel the recovery. This has translated into an outperformance of European equities in May.

In the space of alternatives, hedge funds were up +0.4% in May, with Global Macro and L/S Credit strategies outperforming (+2.4% and +1.2% respectively as of May 26th). Within Global Macro, Discretionary and Emerging Market ("EM") sub strategies outperformed vs. Systematic strategies. They partially captured the trend reversal in risk assets in Q2-to-date, having maintained or even increased risk in portfolios during the selloff. Their overall stance remains nonetheless defensive. On a negative note, CTAs underperformed in May due to their defensive positioning which helped protect performance during the selloff in February/ March. CTAs were down -1.5% in May as the rise in bond yields and the steepening of yield curves across developed markets was a headwind. CTA strategies trading commodities underperformed due to short positions on energy contracts, however, the sharp rebound in energy prices (Brent +38% in May) had positive reverberations across a broad range of asset classes ranging from HY credit/ EM sovereigns to EM FX and Global Macro strategies which were the main beneficiaries from it.

EM Macro sub strategies rebounded in May (+4.3%) in a context where EM sovereign credit benchmarks were up 6.3% (EMBI Global Diversified). Oil producers (Mexico, Russia, Saudi Arabia, Qatar) rallied among large issuers. EM Macro were also helped by long positions on quasi sovereigns, receiver positions in local rate markets and short positions on EMFX. Finally, Discretionary strategies (+2.3%) were also supported by the cross-asset rally in EM assets (equities, bonds, and FX) but curve flattening trades detracted from performance in May. Our stance on Global Macro stays somewhat defensive (Neutral). We are not revising it as we fear the oil-induced rally might be short lived due to disruptions in global transportation lasting longer than expected.

Discretionary Global Macro strategies benefitted from the recovery in EM assets





* Significant at 90% confidence level; ** Significant at 95% confidence level; *** Significant at 99% confidence level. Sources: Bloomberg, Macrobond, Lyxor AM

Hedge Fund Performance: Global Macro outperformed in May

Lyxor UCITS Peer Group Performance

	WTD	MTD	YTD
MSCI World	2.4%	3.2%	-8.8%
Global Macro	1.2%	2.4%	-5.5%
Event-Driven: Special Situations	1.5%	0.4%	-9.3%
L/S Credit	0.9%	1.2%	-3.3%
L/S Equity Directional	0.6%	0.5%	-5.6%
Event-Driven: Merger Arbitrage	0.1%	-0.4%	-3.8%
Risk Premia	-0.1%	-1.1%	-9.3%
Global Lyxor UCITS Peer Group	0.5%	0.4%	-4.8%
L/S Equity Market Neutral	0.2%	-0.2%	-2.2%
50/50 Equity / Bond Index	1.4%	1.6%	-3.5%
Bloomberg Barclays Global Aggregate Bond Index	0.2%	0.0%	3.1%
CTA	-0.7%	-1.5%	-2.6%

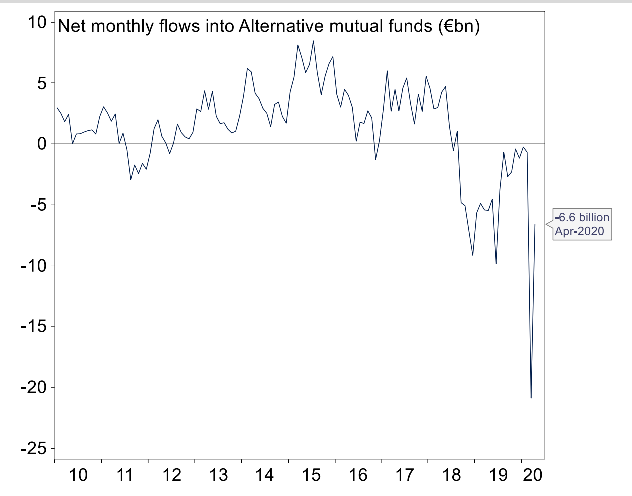
Week-to-Date (WTD): May 19th to May 26th. Source: Bloomberg, Lyxor AM

Lyxor Peer Groups suggest hedge fund performance was slightly up in May. The rebound in risk assets actually gained momentum in the second half of the month, despite renewed trade tensions between the U.S. and China.

Global Macro strategies outperformed in May, on the back of the rebound of EM and Discretionary sub strategies (+2.4% in May). Meanwhile, CTA strategies underperformed (-1.5%) on the back of the rebound in risk assets (including energy) and the rise in bond yields.

Our stance remains constructive on Event-Driven and Fixed Income Arbitrage strategies, Neutral on CTA and Global Macro, and defensive on L/S Equity, particularly Market Neutral L/S strategies.

Monthly Flows into Alternative UCITS Strategies Suggest Outflows Continued in April



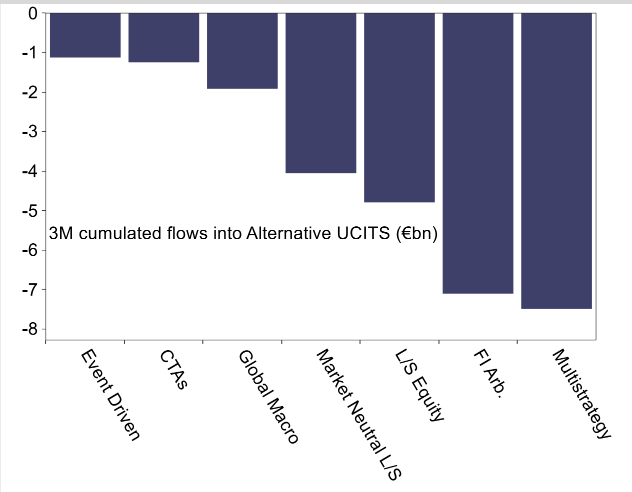
Source: Morningstar, Macrobond, Lyxor AM

Outflows from alternative liquid strategies (UCITS) reached a record high in March, at EUR -20bn. Such outflows took place in a context where sharp market movements led to a retrenchment to safe assets during the peak of the market volatility.

Over the course of March, Multi Strategy, L/S Credit and L/S Equity strategies (including Market Neutral L/S) experienced the largest outflows. Volatility strategies were the only ones experiencing inflows.

In April, as market conditions started to improve, outflows from alternative strategies eased but still reached EUR -6.6bn. The same strategies from March continued to experience the largest outflows (Multi Strategy, L/S Credit and L/S Equity strategies). On the positive side, Relative Value strategies saw some modest inflows in April.

Over the Past Three Months, Most Alternative Strategies Experienced Outflows



Source: Morningstar, Macrobond, Lyxor AM

On a three months cumulated basis, most alternative strategy experienced outflows (except volatility, which we do not report in the chart). But there was substantial dispersion between flows into alternative strategies however.

Event-Driven, and CTA/ Macro strategies experienced the lowest outflows. Within Event-Driven, Merger Arbitrage has historically delivered resilient returns in bad times, and CTAs have an outstanding track record when markets sold off.

The counter cyclical patterns of both Event-Driven and CTA/ Macro might contribute to explain why investors rather maintained their allocations to such strategies over the recent months.

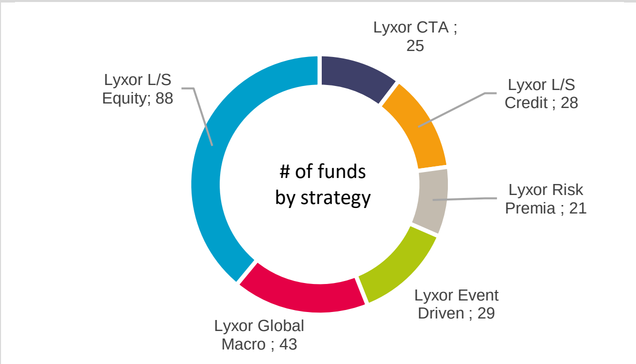
METHODOLOGICAL APPENDIX

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-Tuesday, 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



As of May, 2020

- 234 strategies across the main categories in the industry
- USD 196 billion of assets under management

Criteria of inclusion

The criteria of inclusion are fourfold:

i) We only include UCITS strategies;

ii) Assessment by Lyxor’s Hedge Fund selection team based on funds’ materials or manager interaction;

iii) We only include strategies with assets under management of at least USD 50 million; and

iv) We only include strategies with at least a one-year track record.

-

DISCLAIMER

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 contains a research recommendation. 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 involving 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 customers.

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 indicative 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. Service marks 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, market manipulation, 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 of SG.

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. Please see the offering documentation for these funds for more details.

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 Sixth Avenue, 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.