

THE WEEKLY BRIEF

By LYXOR CROSS ASSET RESEARCH

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ALTERNATIVE OUTLOOK: STAY OVERWEIGHT EVENT-DRIVEN & CTAs



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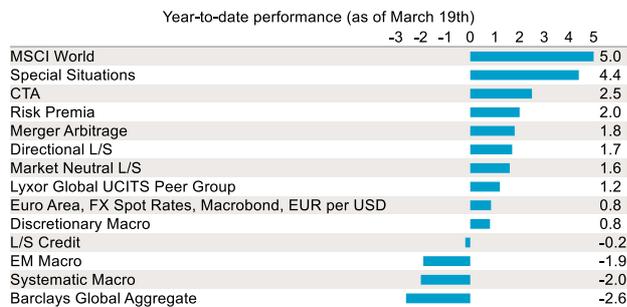
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Alternative strategies saw exciting developments in Q1, in a context where equities and bonds experienced opposite fates. We estimate alternative strategies were up +1.2% quarter-to-date (as of March 19th), while the MSCI World was up +5% and the Barclays Global Aggregate was down -2.6%. The reverberations of rising bond yields on other asset classes were a hurdle for some strategies such as Global Macro and L/S Credit.

Overall, L/S Equity strategies navigated rotations quite well (+1.7%) and CTAs outperformed (+2.5%) despite the trend reversal in fixed income. Event-Driven also managed to deliver healthy returns (+2.3%), with Special Situations outperforming Merger Arbitrage. The latter reassured investors, demonstrating its ability to discriminate between SPACs as an overabundance of SPAC IPOs and excess leverage triggered a correction in February without concrete implications on Merger Arbitrage performance.

Going forward, we have adjusted our views given the changing market environment. We assume 10-year Treasury yields will continue their ascent towards 2%-2.5% in the next twelve months on the back of ambitious fiscal stimulus plans and solid economic prospects. In this context, carry strategies, on which we were constructive until now, are less appealing. We downgraded L/S Credit and EM Global Macro to Neutral. Historically, High Yield credit has proved resilient to a selloff at the long end of the Treasury curve. But L/S Credit is negatively impacted by rising implied volatility in rates, which is a source of risk as market concerns over inflation grow. All in all, we don't expect the conditions to be met for L/S Credit to outperform. With regards to EM Macro, the underlying asset class is more directly impacted by rising Treasury yields and the appreciation of the USD vs. local currencies, which has led several central banks to hike policy rates lately (Brazil, Russia, Turkey). With regards to the remaining strategies, we remain Overweight Event-Driven and Neutral L/S Equity (with Directional L/S at Overweight and Market Neutral L/S at Underweight). We upgraded CTAs to Overweight in February and stick to that view. Overall, we have a slight preference for Event-Driven vs. L/S Equity and now prefer CTAs to Global Macro strategies.

Q1 performance and forward-looking views



ALTERNATIVE

6-12 months view

| | UW | N | OW | |
|---------------------|----|---|----|---|
| L/S Equity | | | | |
| Directional | | | | |
| Market Neutral | | | | |
| Event-Driven | | | | |
| Merger Arbitrage | | | | |
| Special Situations | | | | |
| FI Arbitrage | | | | |
| L/S Credit | | | | - |
| Multi-strategy | | | | |
| Global Macro | | | | |
| Systematic | | | | |
| Discretionary | | | | |
| EM focus | | | | - |
| CTAs | | | | + |

(+) & (-) denotes an upgrade and a downgrade, respectively, compared to the previous stance. Sources: Lyxor AM

Hedge Fund Performance: Special Situations Rally in March

| Lyxor UCITS Peer Group Performance | | |
|--|-------|-------|
| | MTD | YTD |
| MSCI World | 3.1% | 5.0% |
| Event-Driven: Special Situations | 3.5% | 4.4% |
| CTAs | 1.4% | 2.5% |
| Risk Premia | 2.2% | 2.0% |
| Event-Driven: Merger Arbitrage | 0.2% | 1.8% |
| L/S Equity Directional | 0.8% | 1.7% |
| L/S Equity Market Neutral | 0.6% | 1.6% |
| Global Lyxor UCITS Peer Group | 0.8% | 1.2% |
| Global Macro | 0.3% | -0.1% |
| L/S Credit | 0.1% | -0.2% |
| Bloomberg Barclays Global Aggregate Bond Index | -0.6% | -2.6% |

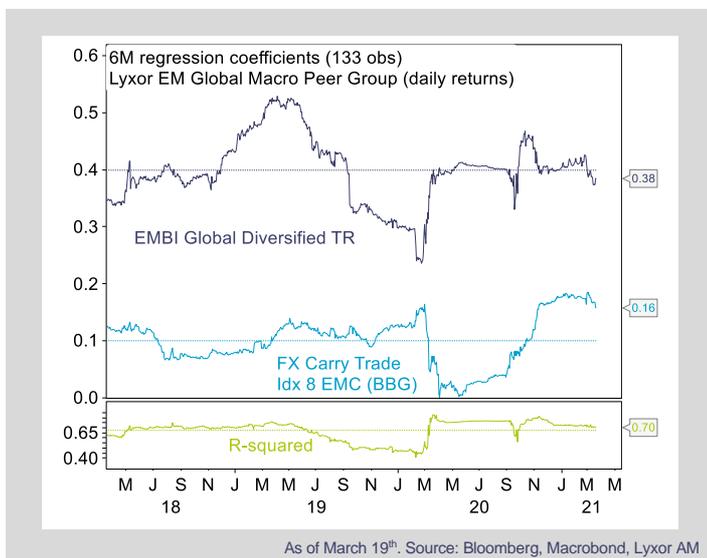
MTD and YTD as of March 19th. Source: Bloomberg, Lyxor AM

Special Situations and CTA strategies outperformed in March, while L/S Credit and Global Macro kept underperforming.

Special Situations were bolstered by the rise in equity markets and also by their value bias in stock selection, which is expected to continue to be supportive going forward. Meanwhile, CTAs have started to be rewarded by the rise in Treasury yields thanks to their short positioning on the asset class. The continued rally in equity markets was also supportive while commodities started to show signs of weakness in the second half of the month.

On a negative note, Global Macro strategies, especially those with an EM focus, continued to suffer on long EMFX positions vs. the USD.

EM Macro and L/S Credit Strategies Face Headwinds as Treasury Yields Rise Further

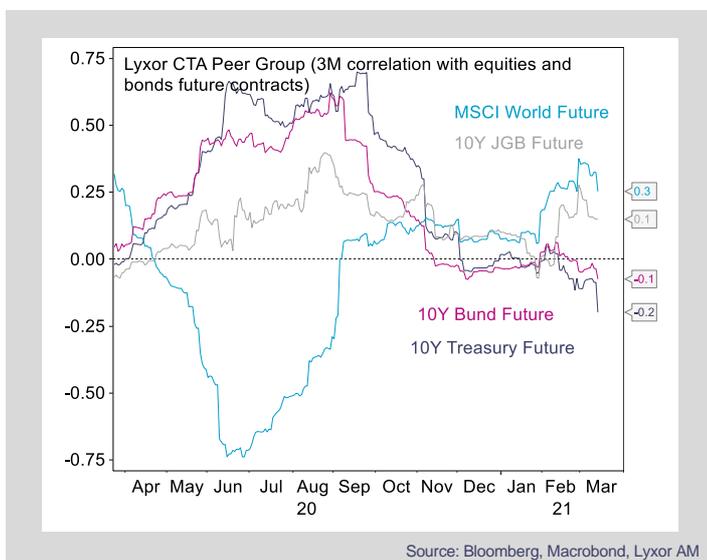


EM currencies and sovereign credit face structural headwinds as Treasury yields move higher. Considering our expectation that 10-year Treasuries will rise beyond 2% in the coming quarters, we believe EM Global Macro strategies are unlikely to outperform going forward.

As a result, we downgraded our stance on the strategy to Neutral from Overweight. We refrain from downgrading to Underweight to the extent that external headwinds impact EM assets differently and cause dispersion that Macro managers can take advantage of. Under such conditions, there is room for arbitrating issuers and currencies with strong external balance sheets vs. those with large imbalances for instance.

With regards to L/S Credit, we are more concerned about a potential overshoot of implied volatility in fixed income which would be adverse for the strategy. Also, we expect little HY spread compression going forward.

CTA Portfolios Are Well-Balanced and Positioned for a Cyclical Upswing



We recently upgraded our stance on CTAs from Neutral to Overweight. We believe CTAs are attractive to benefit from surging inflation expectations and/ or real bond yields via their currency and commodity exposures as additional fiscal stimulus in the U.S. kicks in.

Their sharp deleveraging in fixed income also suggests the strategy could be well prepared for any tapering of asset purchases from the Fed later this year. Finally, CTAs currently provide exposure to equities in moderate proportions and are not sensitive to the sector rotations that are taking place. Overall, CTAs currently provide a great deal of diversification against rich valuations in equity and bond markets. Some CTA strategies have started to diversify their portfolio with exotic assets such as cryptocurrencies and/ or remote corners of commodity markets, but these exposures are too small to have a meaningful impact on performance.

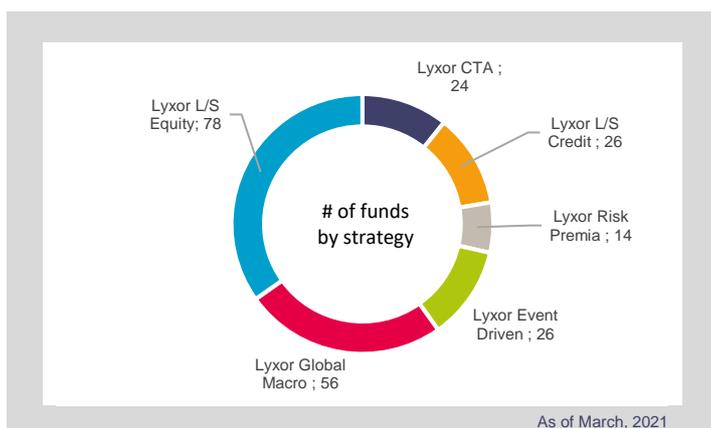
METHODOLOGICAL APPENDIX

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



- 224 strategies across the main categories in the industry
- USD 182 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.

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