THE WEEKLY BRIEF

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BULLISH OUTLOOK FOR EUROPEAN EVENT-DRIVEN STRATEGIES

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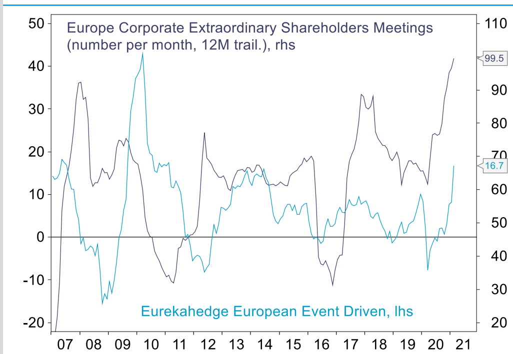
After a pause early last year due to the pandemic, corporate operations are accelerating in Europe by most measures. The number of M&A and asset sales is soaring, and each month sees a new lot of IPOs, spinoffs, or SPACs. Signs of greater "animal spirit" are evidenced by rising venture capital flows, more unsolicited acquisitions and leveraged buyouts. Surveys of EU executives and investors are also bullish. Early indicators suggest the trend is not over, considering the stream of extraordinary shareholders meetings – where corporate operations are decided – or the undeployed cash from private equity investors (est. $240bn are sitting in EU buyout vehicles). Buoyant EU corporate activity looks likely in 2021.

Cyclical drivers are supportive. The pipeline of operations that were postponed last year due to uncertainty or as due diligences were interrupted certainly contributed to the recent surge. More importantly, attractive financing rates, support from banks looking to redeploy cash, the backing from public authorities looking to pass on liquidity to the real economy, are all opening opportunities. Valuations remain cheap in Europe while rising stock prices and improving economic and profit prospects are amplifying the search for yields. Less policy uncertainty from the trade war, Brexit, and the U.S. elections is also favorable. Moreover, potential for change in Corporate Europe is high. ROE and margins weakened due to the trade war and the pandemic, leaving companies with strong operational leverage. CEOs are looking to restructure and/or reorient their business for a post-Covid world. In the short-term, vaccination delays and persisting restrictions are accelerating business transformations and non-core asset sales (especially in travel, hospitality, and retail sectors). Potential tax regime changes in the UK in 2021 are also pushing investors to seal post-tax deal returns as fast as they can.

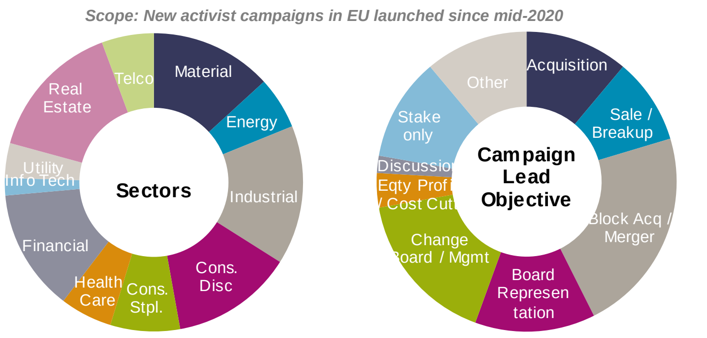
Structural drivers are also at play. Capitalism might be evolving in Europe. Ways to fundraise are multiplying (i.e. crowd funding and SPACs). Efforts toward greater sustainability is accelerating, with a new ESG regulatory framework that will impact firms and investors across Europe. Moreover, pressure and scrutiny on companies' executives are intensifying. It is resulting in increased activism, with a broadening involvement of institutionals (pure activists only led a third of the recent campaigns). While suggestivist or constructivist approaches dominate, more aggressive approaches are surfacing. EU activist portfolios – lead indicators for other special situations segments – display elevated market beta, a focus on small caps, while most campaigns seek strategic, governance and/or sustainability changes (as opposed to opportunistic positioning). In particular, they tend to target cheap and cyclical stocks, with poor credit conditions, but with turnaround potential and operational leverage. UK targets remain favored, accounting for about 40% of the recent campaigns.

The outlook of European Event Driven strategies, which outperformed year-to-date, remains promising, supported by a growing number of price movers and catalysts and increased investors' interest for deep-value opportunities. [*continued p2*]

Multiplying extraordinary assemblies in EU



Activists seek strategic changes in a broad range of EU sectors



Sources: Bloomberg, Lyxor AM

Performance: Offsetting Contributions from the Recent Asset Rotation

Lyxor UCITS Peer Group Performance

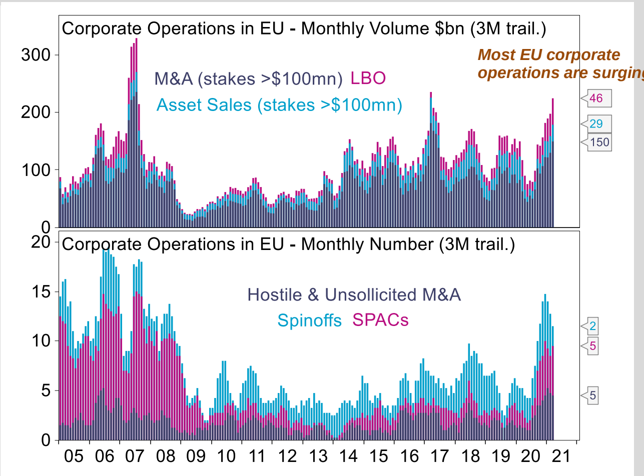
	Last week*	MTD	YTD
MSCI World	1.0%	4.2%	6.2%
Event-Driven: Special Situations	0.1%	3.7%	4.5%
Risk Premia	0.7%	2.8%	2.6%
CTAs	-0.5%	0.8%	2.0%
L/S Equity Market Neutral	-0.3%	0.8%	1.1%
Global Lyxor UCITS Peer Group	-0.1%	0.7%	1.1%
L/S Equity Directional	-0.2%	0.5%	1.5%
Event-Driven: Merger Arbitrage	0.3%	0.4%	2.1%
L/S Credit	0.0%	0.1%	-0.2%
Global Macro	-0.4%	-0.1%	-0.5%
Bloomberg Barclays Global Aggregate Bond Index	0.4%	-0.2%	-2.3%

*Last Week: Mar 19 to Mar 26. YTD and MTD until Mar 26. Source: Lyxor AM

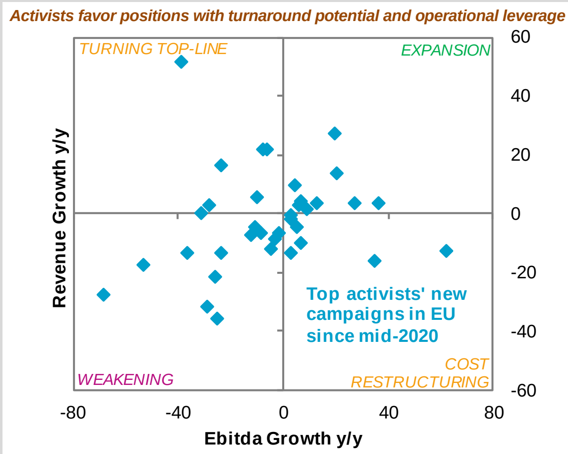
Market weakness since mid-March reversed some earlier trends in favor of defensive and value stocks. It also led to the underperformance of EM and Chinese markets and oil prices. This was driven by quarterly window dressing and other technical factors. The macro backdrop was also softer, with tighter restrictions in the EU and EM, doubts about the safety of the AstraZeneca vaccine, talks of higher U.S. taxes, few hawkish moves by central banks (i.e. EM, Canada), eroding Chinese stimulus, and pressures on global supply chains.

The week ending March 26th embedded part of the rebound, but the rebalancing towards defensive and cheaper assets didn't help hedge funds. CTAs underperformed due to their short dollar position and long cyclical commodities exposures. L/S equity strategies saw offsetting contributions from sector and factor rotations.

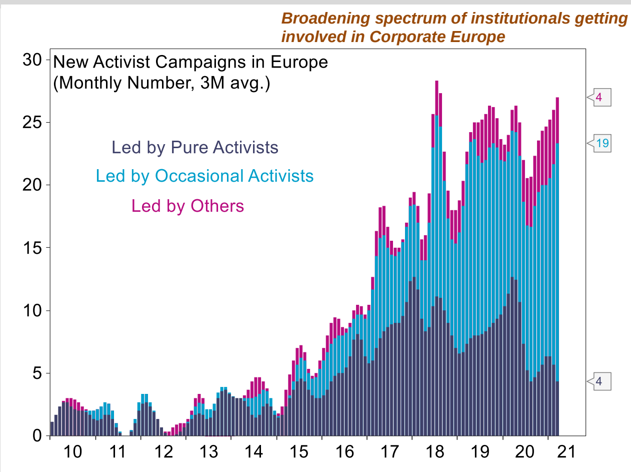
Bullish Outlook for European Event Driven [*continued from p1*]



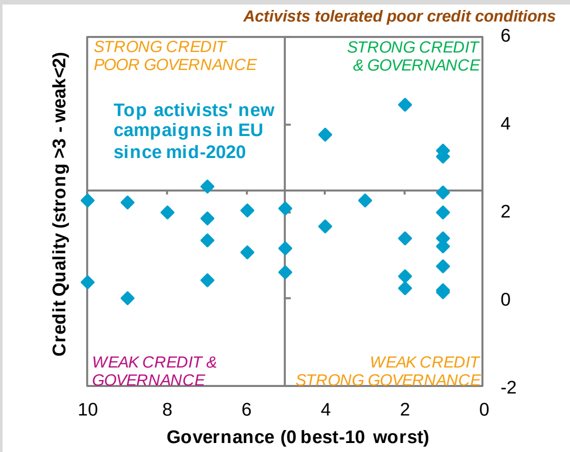
Source: Bloomberg, Lyxor AM



Source: Bloomberg, Lyxor AM



Source: Bloomberg, Lyxor AM



Source: Bloomberg, Lyxor AM

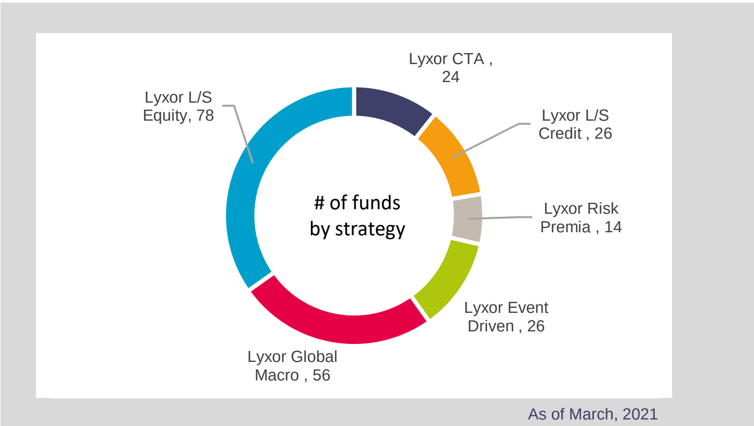
METHODOLOGICAL APPENDIX

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:

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.

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