Killer Quarter Has Hedge Funds down 2%

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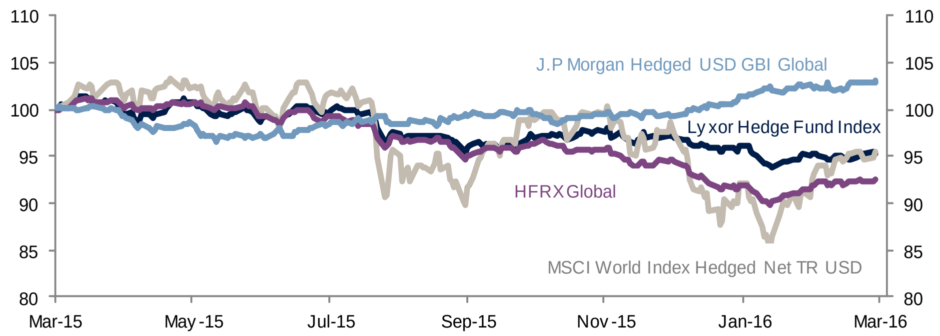
During the first quarter of 2016, hedge funds suffered a 2% drawdown according to the Lyxor Hedge Fund index. Across hedge fund strategies, CTAs and Merger Arbitrage have been the only segments of the industry being able to post returns in positive territory in Q1. Meanwhile, L/S Equity underperformed as a result of the tough market conditions and the sharp rotation in risk factors which saw a strong but short lived rebound in value stocks.

In this environment, the hedge fund industry has been criticized for delivering disappointing returns. However, the performance of hedge funds must be evaluated in relative terms (see chart). The turbulent market conditions over the last twelve months saw the MSCI World down almost 5%, with the Stoxx Europe 600 and the Topix 100 down by 12% (in TR and local currency). Government bonds continued to edge higher, but valuations are so stretched that it seems ill advised to dig further into the asset class at present. Hedge funds are down by 5% over the last twelve months according to our measure, but the volatility of their returns is divided by three compared to equities. The annualized volatility of the Lyxor Hedge Fund index is 5% over the last twelve months, compared to 15% for the MSCI World. As a result, on a risk adjusted basis, hedge funds have fared much better than risk assets both in Q1 and over the last twelve months.

With regards to the most recent period, March saw a revival of L/S Credit strategies (which we upgraded early March). Merger Arbitrage also delivered healthy returns in March after showing strong resilience in January and February. We recently reaffirmed our overweight stance on Merger Arbitrage. Meanwhile, CTAs are down in March to the extent that their defensive positioning (long fixed income, neutral equities, short energy and long JPYUSD) suffered during the market rebound. But dovish central bankers provided a floor to their long fixed income positions and limited the losses of the strategy. We remain neutral on CTAs for the time being.

Hedge Funds Outperformed Risk Assets Both in Q1-16 and During the Last 12 Months

Rebased at 100 at 31/03/2015



As of 29/03/2016. Source: Bloomberg, Lyxor AM

THE WEEK IN 3 CHARTS

Hedge Fund Snapshot: Hedge Funds up 0.6% in March, led by Event Driven, L/S Equity and FI Arb.

	WTD*	MTD	YTD
Lyxor Hedge Fund Index	**0.2%**	**0.6%**	**-1.9%**
CTA Broad Index	-0.1%	**-3.3%**	**1.1%**
Event Driven Broad Index	**0.7%**	1.4%	-1.7%
Fixed Income Broad Index	0.0%	**1.6%**	-0.7%
L/S Equity Broad Index	0.4%	1.1%	**-3.0%**
Global Macro Index	**-0.4%**	0.5%	-2.1%
S&P 500	*0.3%*	*7.0%*	*-1.1%*
10 Y US Treasury (Change in bps)	*-14*	*8*	*-50*

*From 22 March to March 29, 2016

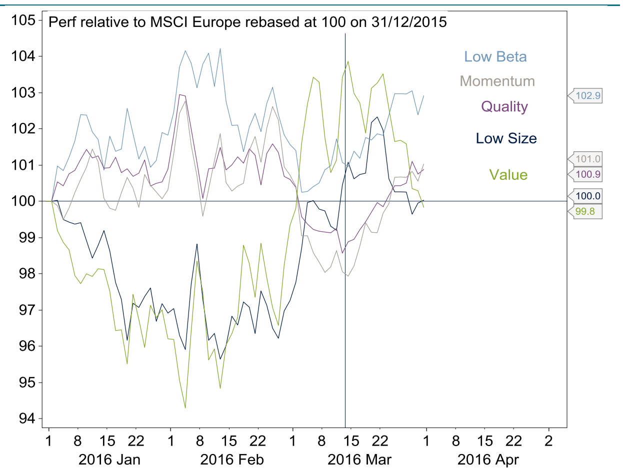
During the last week of March, hedge funds delivered flat returns. During this period, the market rally came to a halt with the MSCI world down 0.5% and the S&P GSCI down 4%. Fixed income and credit continued to rally however. In the hedge fund space, Event-Driven and L/S Equity outperformed.

For the full month of March, hedge funds are up 0.6%, with Fixed Income Arb. and Event Driven outperforming. The former was supported by dovish central banks and the later by the improving risk appetite.

Year to date, the picture is nonetheless quite different, with CTAs leading the way as a result of their solid returns during the risk off market phase at the beginning of the year.

European smart beta focus: Low beta regains colours, the rally in value stocks vanishes

Defensive factors regain colours, supporting L/S Market Neutral



Each index is a basket of 40 stocks (equally weighted) out of a 440 stock universe (MSCI Europe). Source: JP Morgan, Lyxor AM

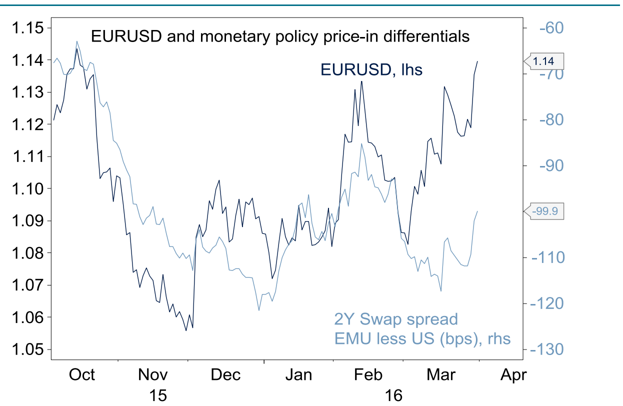
The equity market rebound in Europe, since mid-February, saw a significant outperformance of value and low size companies and a sharp underperformance of quality, low beta and momentum stocks.

This pattern hurt an important number of European L/S Equity Market Neutral funds which used to be long momentum and short value.

This has reversed since mid-March, providing a respite for European L/S Equity Market Neutral funds. Some funds in our sample are up 2% in March.

Yellen's dovish comments fuel EURUSD, a negative for long USD Macro funds

EURUSD appreciation hurts CTAs and Global Macro



Source: Macrobond, Lyxor AM.

The second half of March saw the Fed not hiking rates at the 15/16 March FOMC meeting. Then, some hawkish members of the Fed reversed the tone in the following days. Finally, Yellen reiterated her dovish stance at the end of March.

Despite the confusion over the US monetary policy stance, the EURUSD appreciated markedly in March. This contributed negatively to the performance of several CTA and Global Macro funds, which were short EUR vs USD.

However, at current levels (1.14 as of April 1st), we believe the EURUSD is rather exposed to downside risks, which will support such hedge fund strategies.

CTAs

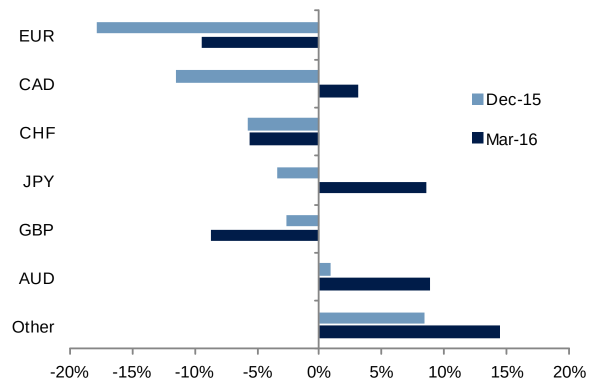
CTAs Give Up Some Gains in March

	WTD*	MTD	YTD
CTA Broad Index	**-0.1%**	**-3.3%**	**1.1%**
CTA Long Term	-0.1%	-3.5%	1.2%
CTA Short Term	0.0%	-0.2%	-2.3%

*From 22 March to March 29, 2016

Short positions on GBP vs USD contributed to losses

Net Exposure to FX vs USD, % NAV



As of 22/03/2016. Equally weighted. Source: Bloomberg, Lyxor AM

CTAs regained colors towards the end of March, after a difficult month which saw a sharp reversal from risk off to risk on. CTAs have been defensively positioned but overall they managed to limit losses thanks to long fixed income exposures and dovish central banks.

Last week, the positive contribution to performance came from the long positions on fixed income: German and US longer maturities were the most rewarding as a result of the dovish central banks. This trade continues to represent a large allocation within portfolios.

In the FX space, funds suffered mainly from the appreciation of GBPUSD, being mainly short exposed to the currency. The continued EURUSD appreciation has not been supportive as well.

The commodity cluster had mixed impact on funds' results. Long exposures to energy and metals were painful. In the equity bucket, long, though limited, risk allocation turned detrimental due to the sell-off in Asian and European stock markets.

GLOBAL MACRO

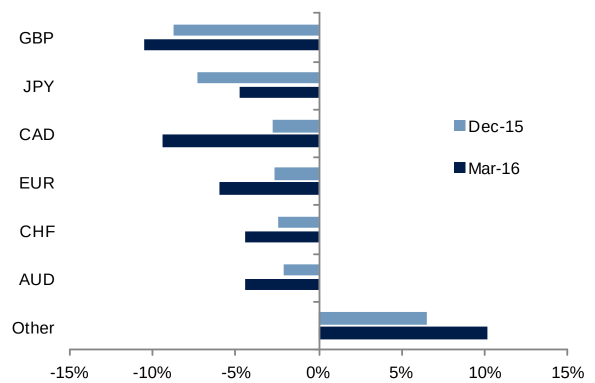
Losses from FX as USD falls

	WTD*	MTD	YTD
Global Macro Index	**-0.4%**	**0.5%**	**-2.1%**

*From 22 March to March 29, 2016

Long EM currencies vs USD proved detrimental at the end of March

Net Exposure to FX vs USD, % NAV



As of 22/03/2016. Equally weighted. Source: Bloomberg, Lyxor AM

The Global Macro strategy ended the month up 0.5% as renewed risk appetite lifted some strategies more focused on risk assets. Meanwhile, fixed income specialists were supported by the dovish stance of both the ECB and the Fed.

During the week under review, Macro managers were slightly down, driven by losses in the FX space. Long exposure to some EM currencies against USD turned detrimental during the period under review. Managers also suffered from the erratic moves of the GBP, as the referendum on Brexit gets closer. In addition, the equity cluster was a detractor to long exposed funds, in particular due to the sell-off in European stock markets.

Despite heterogeneous positioning on US and European bonds, the fixed income bucket made an overall modest contribution. Moreover, small risk allocations to commodities added meager gains to some short exposed managers.

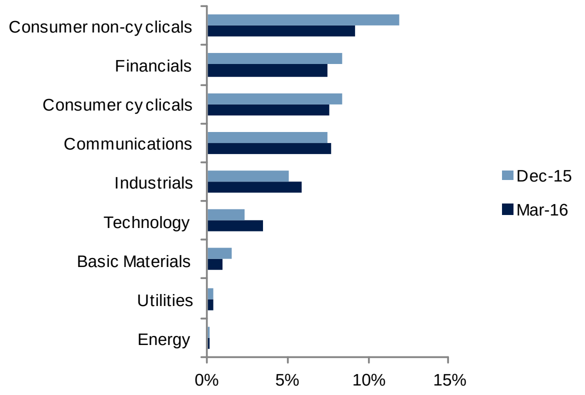
L/S EQUITY

Up across all regions

	WTD*	MTD	YTD
L/S Equity Broad Index	**0.4%**	**1.1%**	**-3.0%**
Long Bias	0.3%	2.4%	-1.9%
Market Neutral	0.5%	1.6%	-1.8%
Variable Bias	0.4%	0.0%	-4.2%

*From 22 March to March 29, 2016

L/S Equity Funds benefited from their low exposure to Energy
Net Exposure to Sectors, % NAV



As of 22/03/2016. Equally weighted. Source: Lyxor AM

In the US, positive equity indices and a drop in the VIX Index helped our US focused managers to outperform. The best performance came from the most directional managers who benefited not only from their market exposure, but also from a bias towards sectors that rallied the most.

European indices were negative across the board with the MSCI Europe Index falling 1.1%. However, most of our European focused funds proved resilient and posted profits last week. The variable biased funds outperformed thanks to fundamental stock selection.

Similar to European markets, and with the exception of Japan, Asian markets sold off modestly last week. The best performing managed account was our Japan specialist who was positioned well to take advantage of the market rally as well as having some key longs and shorts which further boosted returns. The diversified multi-PM and quantitatively driven Asian managers also posted small profits with their balanced portfolio exposure and tilted towards fundamental factors generating the gains.

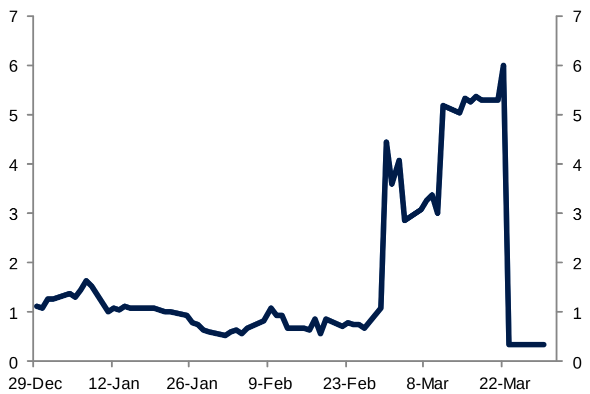
EVENT DRIVEN

Gains from various sectors

	WTD*	MTD	YTD
Event Driven Broad Index	**0.7%**	**1.4%**	**-1.7%**
Merger Arbitrage	0.8%	1.6%	0.5%
Special Situations	0.4%	1.1%	-5.7%

*From 22 March to March 29, 2016

Pepco vs Exelon deal was rewarding for M&A Funds
Pepco vs Exelon deal spread, USD



As of 29/03/2016. Equally weighted. Source: Bloomberg.

Event driven ended both the week and the month in positive territory, with Merger Arbitrage funds outperforming their Special Situations peers.

Gains were led by investments in various sectors including consumer cyclical, consumer non cyclical, communications and basic materials. Among the prominent gainers were Office Depot, Premier foods and Yahoo. Premier Foods stocks soared more than 80% after the company revealed that it had received multiple takeover approaches. Yahoo trended up amidst fight over the company's control, the start of the sales process and a potential interest from Microsoft.

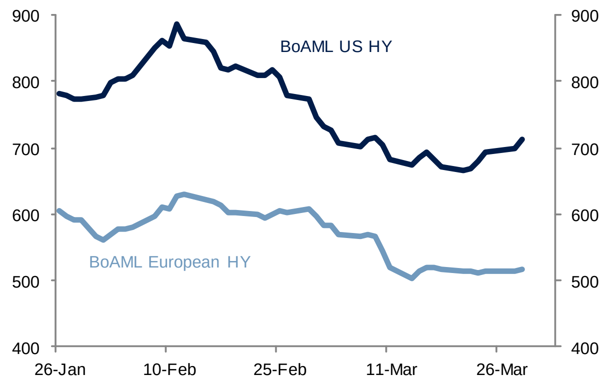
On the M&A front, Office Depot shares surged when the FTC's case against the Office Depot vs. Staples deal drew rebuke from the US Department of Justice. Gains were also attributable to Pepco. After a lengthy pursuit, the Pepco vs. Exelon deal finally received approval from Washington regulators.

L/S CREDIT ARBITRAGE

	WTD*	MTD	YTD
Fixed Income Broad Index	**0.0%**	**1.6%**	**-0.7%**
L/S Credit Arbitrage	0.1%	0.8%	-0.5%

*From 22 March to March 29, 2016

US High Yield rally lost speed with lower oil prices
Bank of America Merrill Lynch US and European HY Indexes, Spreads



As of 29/03/2016. Source: Bloomberg, Lyxor AM

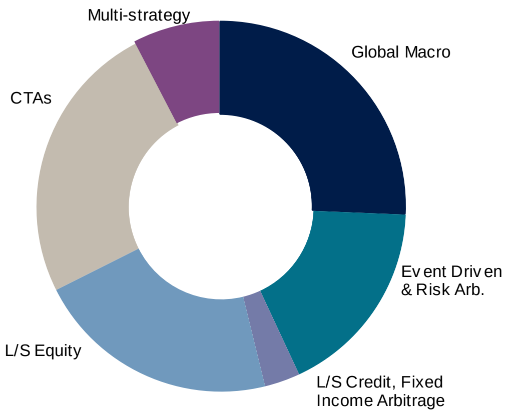
L/S Credit Pauses

After a strong rally in risk assets in March which fuelled the L/S Credit strategy, US credit markets ended the month with a losing week. In Europe, spreads remained broadly flat across IG and HY, while in the US IG outperformed HY which widened by 45bps in sympathy with the fall in oil prices.

On the Lyxor platform, Credit Arbitragers navigated last week relatively well. The best performer outperformed its peers, as gains from its convexity bucket enabled it to post a positive performance in a challenging market. Financial and Corporate sub-strategies added to the gains. Asian funds ended last week flattish, as the Asian HY index. The worst performer is a European fund but managed to remain almost flat in a difficult environment.

METHODOLOGY

Breakdown of AUM by strategy



- **62 funds** in the platform

- **USD 7.9 billion** of assets under management
(as of February 28, 2016)

- Replicating approximately **USD 241 billion** of AUM

Lyxor Hedge Fund Indices

Based on the complete range of funds available on the Lyxor Managed Account Platform, a universe of funds eligible for inclusion in the indices is defined on a monthly basis taking into account the following elements:

- Investability Threshold

  To be included in any index, the managed account must have at least $3 million of AuM.

- Capacity Constraints

  All index components must possess adequate capacity to allow for smooth index replication in the context of a regular increase in investments.

- Index Construction

  For each index, the relative weightings of the component funds are computed on an asset-weighted basis as adjusted by the relevant capacity factors.

- Each Lyxor Hedge Fund Index is reviewed and rebalanced on a monthly basis.

- The Index construction methodology has been designed to mitigate well-known measurement biases. Inclusions and exclusions of new Hedge Funds do not impact the historical index track record.

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