GLOBAL MACRO SIGNED ITS BEST MONTH SINCE FEBRUARY 2008

- **The Lyxor Hedge Fund Index was up 0.9% in October**, with 6 out of 10 Lyxor indices ending the month in positive territory.
- **Global Macro managers signed a stellar performance,** as their views on the US economy (long USD, short US equities and bonds) and their short Cable (GBP/USD) paid off. In a single month, the strategy erased year-to-date losses.

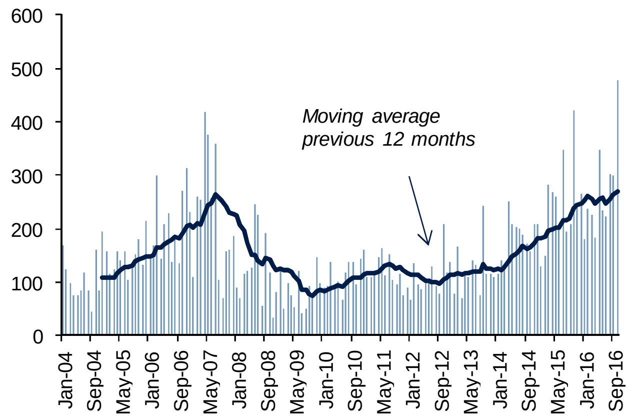
>> Fixed income markets faced some pressure in October as investors fret about less accommodative monetary conditions going forward. On the one hand, the Fed is increasingly likely to hike rates in December, while on the other hand, other central banks shifted to a less dovish stance. In that regard, 10-year bond yields rose by 23 bps in October in the US, supported also by buoyant economic data. In Europe, rumours of QE tapering pushed long-dated yields higher (+28 bps for the 10-year Bund). The rumours ended at the Oct 20 ECB meeting when President Draghi supported neither a program extension nor a tapering scenario. In the UK, 10-year Gilts soared (+50 bps) as the decline of the GBP revived inflation fears amidst “hard Brexit” angst. Expected divergence in monetary policies led the USD to appreciate against major currencies (+2.3% vs EUR, +3.4% sv JPY, +5.6 vs GBP). Global equities reflected currency swings. European equities outperformed US and EM markets. Finally, the unexpected jump in US crude oil stocks led oil prices to collapse at the end of the period. Brent oil prices closed the month at $48/ bbl. As a result, European high yield credit outperformed US HY.

>> In that context, the Lyxor Hedge Fund Index enjoyed healthy returns fuelled by the stellar performance of the Global Macro and Fixed Income & Credit Arbitrage strategies. On the contrary, Long Term CTAs detracted from the overall performance due to their long positioning on fixed income.

>> Global Macro signed its best monthly return since February 2008. In a single month, the strategy erased year-to-date losses thanks to shorts on the GBP and the EUR vs USD and short positions on fixed income. The depreciation of the GBP led 10-year Gilts to surge, which was supportive for shorts on UK bond duration. Yet, dispersion in fund returns remained significant. For managers investing in equities, their preference for European and Japanese equities was a significant source of gains.

Frenzied M&A activity to support Merger Arbitrage managers

Global monthly M&A volume (USD bn)



Source: Bloomberg, Lyxor AM. As of end-October, 2016

>> Credit Arbitrage managers performed well, supported by the rally in high yield credit. Asian managers benefited from their positions on energy and banking names. Fixed Income players decently navigated the rising bond yield environment thanks to shorts on European bonds, as yields surged on the back of ECB tapering fears.

>> The L/S Equity strategy ended October in positive territory. However, fund returns were disparate across regions. In Asia, managers' preference for cyclical sectors helped them outperform their peers as value names performed strongly. In the US, managers adopted a cautious stance ahead of the US elections. They shaved off their market beta and increased their tilt toward defensive sectors. Long net exposure to Financials, Technology and Energy allowed them to generate strong alpha. On the flip side, European funds increased their positions on cyclical sectors, especially in Financials and Basic Materials.

“Going forward, we maintain our slight overweight stance on Event-Driven, with a preference for merger arbitrage players. We believe that the strategy can cope with higher bond yields as its net exposure to equities has decreased lately. Managers have thus ample room to deploy capital as opportunities arise.
In that regard, Bloomberg data suggests that October was one of busiest months ever for global M&A activity. Announced M&A deals represented more than $470bn (applies to deals with a transaction value above $400m) with US M&A activity representing 60% of the total. The media sector was the most active thanks to deals such as the $108bn proposed merger between AT&T and Time Warner. Yet, ahead of US elections most Event Driven managers have stayed cautious and will wait for greater political clarity before deploying their capital. The strategy is thus likely to be resilient if equity volatility continues to rise, which would lead to wider deal spreads and open the door for cash deployment.”
Philippe Ferreira,
Senior Cross-Asset Strategist, Lyxor Asset Management

>> After a strong rebound in September, Event Driven managers lost some ground. Special Situations managers suffered from the volatility spike at the end of the period. The healthcare sector was the main culprit with long investments in Allergan, Baxter and Shire as the main detractors. Additionally, Merger Arbitrage funds suffered from the widening in deal spreads (Syngenta/ ChemChina, St. Jude Medical/ Abbott Labotaries, RiteAid/ Walgreen). Ahead of the US elections, they remained cautiously exposed, waiting for greater political clarity before deploying their capital. They have reduced their net exposure to equities. The opportunity set for cash deployment remains large as M&A activity has reached all-time highs in October.

>> CTAs suffered a drawdown in October, as the positive correlation between equities and bonds weighed on Long Term models' returns. Their aggressive longs on German and UK bond duration were particularly detrimental. However, they shaved off their positioning over the month while short-term models turned neutral, allowing them to better navigate the rising yield environment. In aggregate, CTAs rebalanced their commodity portfolios extensively. In the FX bucket, models continued to strengthen their long USD allocation vs EUR and GBP especially. In that regard, currency trades remained the primary source of gains in October.

Lyxor Hedge Fund Indices

Leveraging on the breadth and diversification of the Lyxor Managed Account Platform, the Index performance aims to be the most representative of the hedge fund industry. The Lyxor Hedge Indices are composed of funds selected by Lyxor Asset Management, available on its leading Managed Account Platform that covers all the major hedge fund strategies and benefits from a high level of transparency and risk control, while ensuring weekly liquidity. These Indices are investable, asset-weighted indices, designed to offer investors straightforward access to hedge fund performance. The Lyxor Hedge Fund Index range comprises 15 indices from global to mono-strategy or thematic indices. The Lyxor Hedge Fund Index (Global Index) reflects the average performance of all 13 strategy indices, thereby offering direct exposure to the global hedge fund universe.

Lyxor Hedge Fund Indices	Bloomberg Ticker	October 2016 Performance*	YTD Performance*
Global Index			
Lyxor Hedge Fund Index	LYXRHFI	0.91%	-1.13%
Strategy Indices			
Lyxor L/S Equity Long Bias Index	LYXRLSLB	0.09%	2.10%
Lyxor L/S Equity Market Neutral Index	LYXRLSMN	0.18%	-5.73%
Lyxor L/S Equity Variable Bias Index	LYXRLSVR	-0.90%	-5.67%
Lyxor Merger Arbitrage Index	LYXRMNA	-1.46%	1.72%
Lyxor Special Situations Index	LYXRSPEC	-1.05%	-1.15%
Lyxor L/S Credit Arbitrage Index	LYXRCRDT	0.33%	3.27%
Lyxor Fixed Income Arbitrage Index	LYXRFIAR	2.66%	-0.20%
Lyxor CTA Long Term Index	LYXRCTAL	-4.79%	-4.97%
Lyxor CTA Short Term Index	LYXRCTAS	0.06%	-5.40%
Lyxor Global Macro Index	LYXRMACR	5.65%	-0.73%
Thematic Index			
Lyxor Credit Strategies Index	LYXRCDTS	1.76%	1.17%

(*) MTD returns are based on performance from the last estimated NAV of the previous month until the last estimated NAV of the reported month. YTD returns are from December 31st, 2015 through October 31st, 2016.

THE ALTERNATIVE INVESTMENT INDUSTRY BAROMETER

Below is a brief description of key hedge funds strategies:

Special Situations is a strategy that encompasses a combination of investment processes targeting equities or bonds whose valuation is altered by a special situation such as spin-offs, industry consolidations, liquidations, reorganizations, share buybacks and other extraordinary corporate transactions that generate investment opportunities.

Merger Arbitrage is a strategy that primarily consists of investing in equities involved in merger/acquisition operations and aims to take advantage of the spread between the price bid for the takeover and the price observed in the market.

Distressed Securities is a strategy that consists of investing in (or selling short) securities of companies for which the price has been, or is expected to be, affected by a distressed situation (e.g., pre- or post- bankruptcy).

Convertible Bonds and Volatility Arbitrage are strategies that aim to take advantage of volatility arbitrage opportunities by investing in various financial instruments. Convertible Bonds funds primarily invest in convertible bonds and discretionarily hedge some of the underlying risk factors (interest rate risk, credit risk, market risk) in order to gain exposure to volatility and/or credit risk at a very attractive price.

Fixed Income Arbitrage is a strategy that aims to take advantage of pricing anomalies between fixed income securities, sectors, markets and yield curves.

L/S Credit Arbitrage strategy is a directional strategy that involves buying bonds and credit and fixed income derivative instruments that are expected to appreciate and selling the ones that are expected to depreciate.

Global Macro is a strategy that aims to take advantage of expected macroeconomic trends and may invest in all types of markets and instruments.

CTAs Long Term is a strategy that aims to capture price movements in fixed income, equity, currency and commodity markets with the use of systematic trading models.

CTAs Short Term is a strategy that aims to capture short term price movements in fixed income, equity, currency and commodity market with the use of systematic trading models.

L/S Equity Variable Bias is a directional strategy that primarily involves buying equities and equity derivatives that are expected to appreciate and selling those that are expected to depreciate. The portfolio's net exposure to the market (possibly net long, net short or market neutral) will be actively managed depending on the manager's expectations.

L/S Equity Long Bias is a directional strategy that primarily involves buying equities and equity derivatives that are expected to appreciate and selling those that are expected to depreciate, while structurally maintaining a net long exposure to the equity market.

L/S Equity Market Neutral is a strategy that primarily involves buying equities and equity derivatives that are expected to appreciate and selling those that are expected to depreciate while generally neutralizing broad equity market risks.

L/S Equity Statistical Arbitrage is a strategy that primarily consists of investing in some equities and selling short other equities. The security selection approach is typically based on quantitative analysis of either fundamentals, prices, or a combination of the two. This strategy typically seeks to offer limited exposure to equity market risks.

Lyxor Credit Strategies Index aims to measure the performance of hedge funds following any type of credit and fixed income related strategies: take advantage of pricing anomalies between fixed income securities, sector, market and yield curves, buying bonds or credit or fixed income derivative instruments that are expected to appreciate and selling the ones that are expected to depreciate.

Each index is reviewed and rebalanced on a monthly basis in line with investment guidelines, the evolution of assets under management and the liquidity constraints. Owned by Société Générale Index, the indices are calculated and published on a daily basis by Standard and Poors on Bloomberg and Reuters.

A dedicated website www.lyxorhedgeindices.com provides monthly factsheets, valuations, performance and methodology and performance analysis.

Societe Generale

Societe Generale is one of the largest European financial services groups. Based on a diversified universal banking model, the Group combines financial solidity with a strategy of sustainable growth, and aims to be the reference for relationship banking, recognised on its markets, close to clients, chosen for the quality and commitment of its teams.

Societe Generale has been playing a vital role in the economy for 150 years. With more than 148,000 employees, based in 76 countries, we accompany 32 million clients throughout the world on a daily basis. Societe Generale's teams offer advice and services to individual, corporate and institutional customers in three core businesses:

- Retail banking in France with the Societe Generale branch network, Credit du Nord and Boursorama, offering a comprehensive range of multichannel financial services on the leading edge of digital innovation;
- International retail banking, financial services and insurance with a presence in emerging economies and leading specialised businesses;
- Corporate and investment banking, private banking, asset management and securities services, with recognised expertise, top international rankings and integrated solutions.

Societe Generale is included in the main socially responsible investment indices: Dow Jones Sustainability Index (Europe), FSTE4Good (Global and Europe), Euronext Vigeo (Global, Europe, Eurozone and France), ESI Excellence (Europe) from Ethibel and 5 of the STOXX ESG Leaders indices.

For more information, you can follow us on twitter @societegenerale or visit our website www.societegenerale.com.

Société Générale Index (SGI) is a leading index provider. As part of the Société Générale group, SGI is integrated in the Global Markets division and fully benefits from the expertise of a leading derivatives house.

The SGI range of indices covers a wide scope of assets, including equities, interest rates, credit, commodities, and foreign exchange, which are either structured as cross-asset allocations or single-asset strategies. All SGI indices are structured with the aim of providing an adequate tradeoff between liquidity and performance. The SGI range of indices targets the growing market demand for absolute and uncorrelated return engines, quantitative strategies, and niches of growth such as alternative energy, water or sustainable investments.

Lyxor Asset Management Group

Lyxor Asset Management Group ("the Lyxor group"), wholly-owned directly or indirectly by Societe Generale and composed notably of two subsidiaries [1] [2], is a European asset management specialist, an expert in all investment styles, active, passive or alternative. From ETFs to multi-management, with €119bn* under management and advisory, Lyxor group creates innovative investment solutions to meet the long-term challenges of managing savings. Thanks to its experts and its engineering tradition and research, Lyxor group combines search for performance and risk management.

(1) Lyxor Asset Management S.A.S. is approved by the «Autorité des marchés financiers» (French regulator) under the agreement # GP98019.
(2) Lyxor International Asset Management S.A.S. is approved by the «Autorité des marchés financiers» (French regulator) under the agreement # GP04024.

** Including €15.8bn assets under advisory. Equivalent of $132.8bn in assets under management and advisory (including $17.6bn assets under advisory) at the end of September 2016*