MICRO STRATEGIES OUTPACED MACRO TRADERS

- The Lyxor Hedge Fund Index was slightly down (-0.3%) in January, with 7 out of 10 Lyxor indices in positive territory.
- Micro-focused strategies outperformed Macro traders. Event Driven delivered strong results on the back of buoyant M&A activity in the U.S. and positive surprises in corporate earnings. CTAs and Macro managers suffered from the depreciation of the dollar.

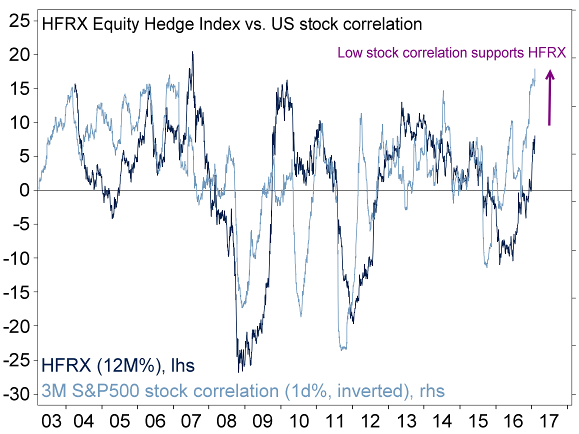
>> After a strong year-end, reflation trades started the year consolidating. Uncertainties regarding Trump's priorities, the cohesion between the White House and the GOP, and the actual implementation of the key measures led markets to unwind part of the reflation trades. In Europe, the economic recovery gained momentum, thanks to rising household confidence, business activity and inflationary pressures. As a result, the spread between US and German ST and LT yields emphasized less economic and monetary divergence. It led the USD to depreciate against the EUR. Equities echoed the FX moves: up in the US, down in Europe. EM markets staged a rally. High Yield spreads tightened, in particular in Europe. Oil prices continued their downward trend while gold edged higher.

>> The Lyxor Hedge Fund Index was slightly down in January, dragged down by the underperformance of long term CTAs. On a positive side, Event Driven and Fixed Income arbitrage outperformed.

>> Fixed Income Arbitrage and L/S Credit funds were supported by both alpha and beta components. The rise in bond yields created arbitrage opportunities, while the tightening of High Yield spreads was helpful. According to Moody's, default rates for speculative issuers in 2017 are expected to decline in the U.S. and to remain low in Europe, a tailwind for relative value players.

>> Heating up U.S. corporate activity boosted Event Driven, in the pharmaceutical sector especially. Actelion, the top long exposure of Merger funds, was the main contributor. The share price rallied 20% in the wake of the announcement of a $30bn deal by Johnson & Johnson. However, gains did not compensate for losses endured by positions on Rite Aid, a retail pharmacy chain targeted by Walgreens Boots Alliance. The share price took a nosedive in January, on the back of antitrust concerns and after the merger price was negotiated down. On the flip side, Special Situations outperformed, benefiting from positive surprises in corporate earnings, including Sherwin-Williams and Baxter International. Investments in the communication, basic materials and consumer non-cyclical sectors also paid off.

Correlation across US equities fell drastically post US-elections, a tailwind for stock pickers



Source: Bloomberg, Lyxor AM. As of February 6, 2017

>> L/S Equity displayed disparate returns depending on the managers' style and region-focus. European variable biased funds outperformed while the strong rally in momentum risk factor helped neutral funds perform well. In the U.S., funds turned more directional, which contrasted with the cautious stance of their European and Asian peers. The alpha backdrop remained conducive in the U.S. but less than in the aftermath of Trump's election. Stocks pickers would benefit from the fall in correlation across sectors even if the stock dispersion became more modest.

"The Q4 earning season is seeing a material recovery in most regions and in a majority of sectors. However, trading volumes and stock returns following earnings report were moderate. A sign that investors expect further evidences of the global reflation. The alpha environment is not as strong as it was in the aftermath of the US elections, after stock dispersion receded. But low stock correlations and a greater focus on company specifics remain supportive for active managers, and fundamental stock pickers in particular."
Jean Baptiste Berthon,
Senior Cross-Asset Strategist, Lyxor Asset Management

>> Global Macro started the year slightly down, while dispersion across managers' returns rose a notch. They currently favor relative value trades with a tilt toward the USD, Europe and Japan. Their significant long exposure to USD (vs. short G10 currencies and long EM currencies) was detrimental. Managers were moderately positioned on other asset classes, except for European bonds (unanimous short stance). In that regard, the rise in European bond yields supported most funds. Sovereign fixed income arbitrage managers outperformed directional funds, in particular those having a constructive view on European and Japanese equities.

>> CTAs' drawdown came from the reflation trades, on which they are directionally exposed (roughly put, they are "long Trump and long Fed vs. ECB"). Both their long USD crosses and short bonds in most regions (except in Europe) proved costly. Meanwhile, the fall in commodity prices and the rebound in gold prices weighed on performances. Gains made on longs US equities did not help compensate for losses endured in Europe and Japan. Going forward, CTAs' fate continued to be tightly linked to the pace of the reflation trades. At the end of the month, models were neutral on US bonds and slashed their positioning on USD.

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 12 indices from global to mono-strategy or thematic indices. The Lyxor Hedge Fund Index (Global Index) reflects the average performance of all 10 strategy indices, thereby offering direct exposure to the global hedge fund universe.

Lyxor Hedge Fund Indices	Bloomberg Ticker	January 2017 Performance*	YTD Performance*
Global Index			
Lyxor Hedge Fund Index	LYXRHFI	-0.28%	-0.28%
Strategy Indices			
Lyxor L/S Equity Long Bias Index	LYXRLSLB	-0.24%	-0.24%
Lyxor L/S Equity Market Neutral Index	LYXRLSMN	0.48%	0.48%
Lyxor L/S Equity Variable Bias Index	LYXRLSVR	1.07%	1.07%
Lyxor Merger Arbitrage Index	LYXRMNA	0.08%	0.08%
Lyxor Special Situations Index	LYXRSPEC	1.19%	1.19%
Lyxor L/S Credit Arbitrage Index	LYXRCRDT	0.53%	0.53%
Lyxor Fixed Income Arbitrage Index	LYXRFIAR	0.16%	0.16%
Lyxor CTA Long Term Index	LYXRCTAL	-1.51%	-1.51%
Lyxor CTA Short Term Index	LYXRCTAS	0.01%	0.01%
Lyxor Global Macro Index	LYXRMACR	-0.99%	-0.99%
Thematic Index			
Lyxor Credit Strategies Index	LYXRCDTS	0.29%	0.29%

(*) 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 30th, 2016 through January 31st, 2017.

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.

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- 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.

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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.
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(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 €10.7bn assets under advisory. Equivalent to $123.7bn in assets under management and advisory (including $11.3bn assets under advisory) at the end of November 2016

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