3 KEY H1 FACTS TO REMEMBER AND THE WAY FORWARD

Philippe Ferreira
Head of Research
Managed Account Platform
Lyxor Asset Management
(33) 1 42 14 69 28
philippe.ferreira@lyxor.com

As the first half of the year came to an end, we take a longer perspective than usual and provide a comprehensive picture of recent developments in the hedge fund universe. Three main points are particularly worth noticing:

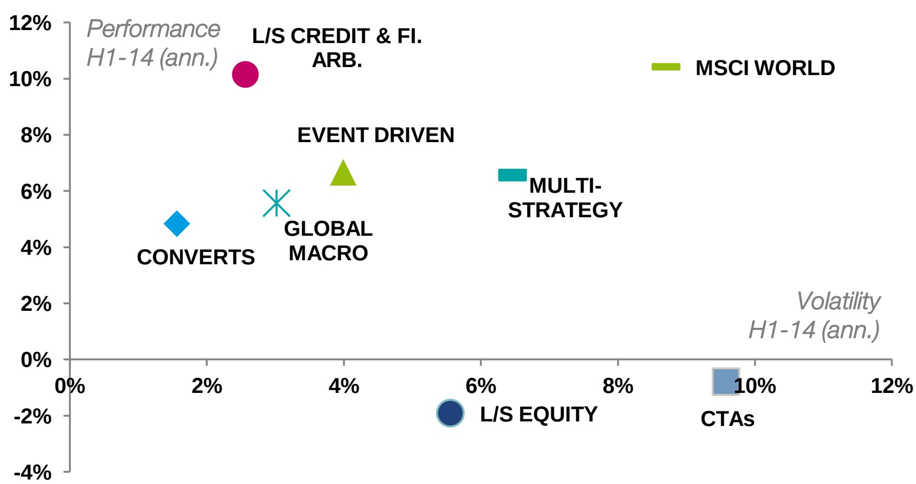
Firstly, the outperformance of L/S Equity versus L/S Credit & Fixed Income Arb. recorded in 2013 came abruptly to a halt in H1-14. The former strongly outperformed, against bullish expectations for L/S equity. But despite the poor relative performance of the latter, inflows into L/S equity remain positive. We agree that the strategy is attractive, but suggest higher portfolio diversification to avoid a strong bias in favor of a particular investment style. There is a feeling amongst managers that this earnings season could be a turning point giving some directionality to the market.

Secondly, the performance of Event Driven was in line with investors' expectations. Inflows into Event Driven were very significant during the first half, both at the global level (HFR data) and from our own lens. The AuM of the strategy on the Lyxor platform rose 15% in H1-14. The strong rise in M&A activity, with volumes now comparable to pre-crisis levels, provided a broad range of opportunities for managers. We believe this is due to continue.

Thirdly, in terms of positioning it is important to note that hedge funds have turned cautious on US fixed income and credit, thus increasing short positions. US bond yields are at low levels despite the fact that job creation, at 288k in June, has been above the 24 months moving average (201k) since February. L/S credit and Fixed Income Arb. appears increasingly appealing compared to long only fixed income strategies in the current environment where the US recovery is getting firmer.

> "In H1, the performance of Event Driven was in line with investors' expectations. We believe this is due to continue."

L/S Credit is leading the pack in H1 with Event Driven
(Based on Lyxor's funds in the Managed Account Platform)



Equally weighted. As of 1st July 2014. Source: Bloomberg, Lyxor AM

THE WEEK IN 3 CHARTS

Hedge Fund Market Snapshot: CTA long term outperformed last week

	HFI index	Best strategy	Worst strategy	S&P 500	10Y UST
WTD (Estimated perf. between June 24th to July 1st)	+0.5%	CTA LT +1.1%	Global Macro -0.3%	+1.2%	-1 bp
QTD (Estimated perf. between March 25th to July 1st)	+0.5 %	CTA LT +6.9%	CTA ST -2.6%	+5.8%	-18 bp
YTD	+1.9%	L/S Credit Arb. +5.0%	CTA ST -2.7%	+6.8%	-46 bp

Source : Bloomberg, Lyxor AM

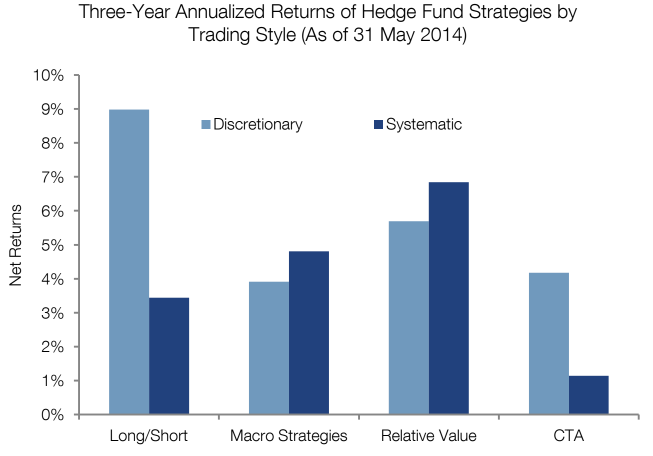
The hedge fund index was up last week, bringing the H1 performance at 2%.

Long term CTAs outperformed last week supported by equity markets and flattening yield curves.

In June, Event Driven funds profited again from the M&A frenzy , finishing up +4.4% in H1.

L/S Credit Arbitrage is still leading the pack year to date (+5%).

Systematic or discretionary ?



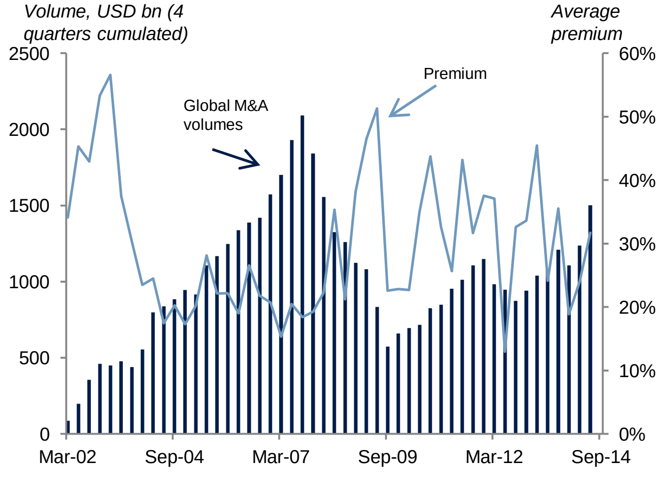
Source: Preqin

According to data compiled by Preqin, systematic strategies exhibit lower volatility whereas discretionary funds provide higher absolute returns.

Discretionary funds have outperformed systematic funds on an annualized basis over the past 5 years, posting average returns of 11.6% compared to 7.9%. Nevertheless it is not always the case : in relative value and global macro, systematic strategies outperformed their discretionary peers. Generally, CTAs have found successful trends hard to come by in recent times.

Funds with a discretionary approach have consistently exhibited higher volatility than those with systematic strategies. The Sharpe ratio is 1.8 for systematic funds against 1.5 for discretionary funds.

Global M&A activity is on the rise: a positive for Merger Arbitrageurs



The average premium compares the bid offer to the stock price before the deal announcement. Source: Bloomberg, Lyxor AM

Global M&A volumes rose significantly in the first half of 2014 globally, a positive for merger arbitrageurs that now have a broader range of opportunities to invest in.

M&A activity also accelerated between Q1 and Q2, with respectively $ 870bn and $ 1300bn of deals announced and completed according to Bloomberg.

M&A activity was strongest in the US, with respectively $ 400bn and $ 537bn in Q1 and Q2.

In terms of sectors, consumer non cyclicals (of which mainly pharmaceuticals) and communications saw the largest volumes. These two sectors are very actively played by the merger arbitrageurs on the Lyxor platform.

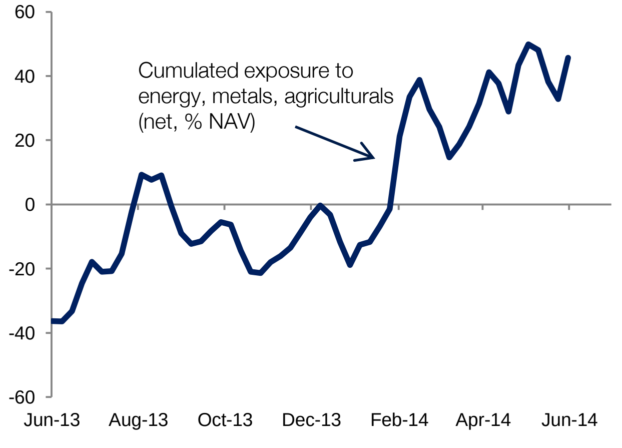
CTAs

LT CTAs post strong returns in Q2

(Estimated perf. between June 24th to July 1st)	WTD	QTD	YTD
CTA Long-Term	1.1%	6.9%	0.8%
CTA Short-Term	0.0%	-2.5%	-2.7%

The week was good for long term CTA funds on the back of long positioning on equities, bonds and commodities.

CTAs: exposure to commodities keeps rising
(net exposure, % of NAV)



As of June 24th. Equally weighted. Source: Lyxor AM

» North American equity indices rallied this week and continued to support performance. In H1, the upward trend on the stockmarket enabled trend followers to outperform pattern recognition strategies. Overall, long exposure to equities contributed predominantly.

» The flattening of yield curves, which has also been a recurrent catalyst for CTAs this semester, kept being rewarding this week.

» Year to date, performance was more challenging on FX and commodities. But over the recent weeks, net long exposures to commodities added to the gains. Performance was driven by the rise in oil price in the back of tensions in Iraq, while the precious metals market was also a source of gains.

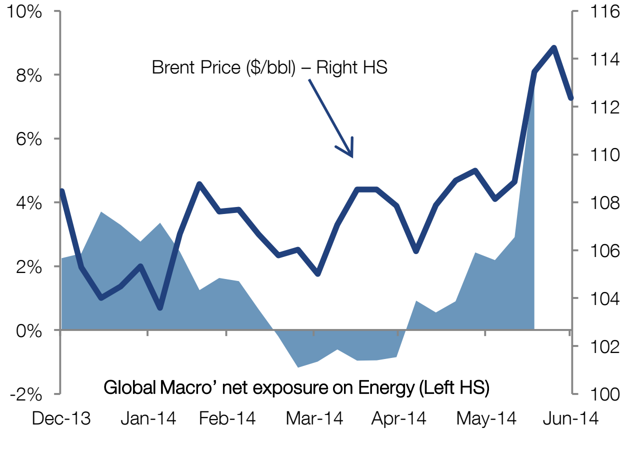
GLOBAL MACRO

A good second quarter

(Estimated perf. between June 24th to July 1st)	WTD	QTD	YTD
Global Macro	-0.3%	2.6%	3.4%

After a strong second quarter, this week was negative for Global Macro managers.

Global Macro go long on energy on the back of geopolitical tensions (net expo, % NAV)



As of June 24th. Equally weighted. Source: Lyxor AM

» Since the start of the year, macro funds have generated strong gains on long European equities and rates. However, short duration positions in the U.S. detracted from performance this week, as this was the case since the start of the year.

» The ytd metals rally continued this week and remained a large source of gains. Since the start of the year, the boom in Nickel prices driven by Chinese demand, the rise in oil prices due to fears over supply cuts in Iraq, and the precious metals rally enabled the funds' long positioning to perform well.

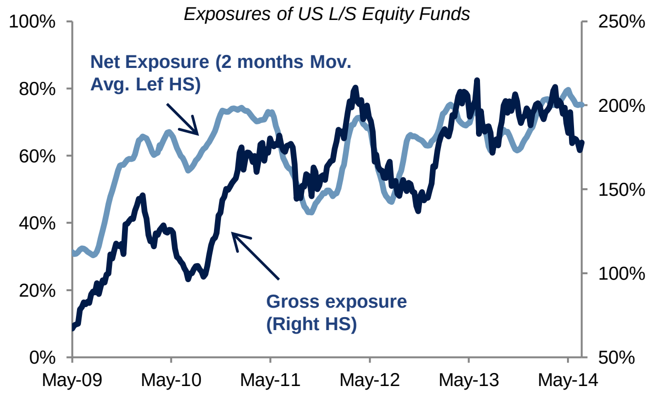
» FX markets were more challenging over the first semester, and this proved true once again this week. Short Euro positions generated losses, only partly offset by gains on long EM currencies.

L/S EQUITY

Bouncing back

(Estimated perf. between June 24th to July 1st)	WTD	QTD	YTD
Long Bias	0.9%	0.6%	0.9%
Market Neutral	1.1%	0.9%	0.2%
Variable Bias	0.8%	-1.3%	-1.4%

Gross exposure on U.S. markets decreasing, but net exposure is still at high levels



As of June 24th. Asset weighted. Source: Lyxor AM

Most of the funds performed well during the last week after showing mixed results in previous weeks. The recent performance has helped to mitigate losses suffered in March and April and most funds are now showing a flat performance on a ytd basis.

» European funds bounced back nicely after a tough period in the first few weeks of June where investors seem to have sold off mid caps and growth stocks in favour of defensives and high yield stocks.

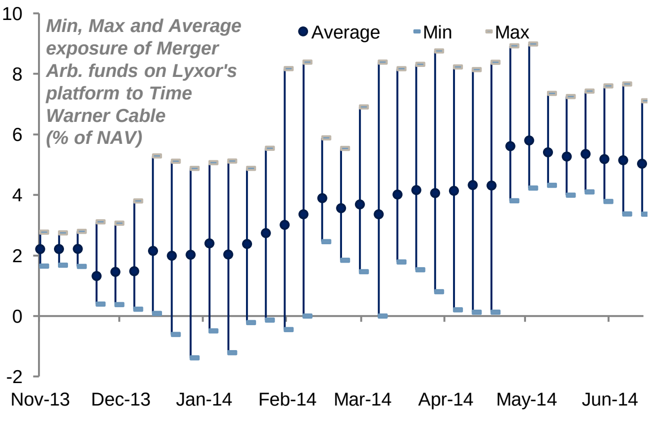
» Style rotation has abated as we enter into the Q2 earnings season. Investors now look for positive earnings growth following a long period of multiple expansion. There is a feeling amongst managers that this earnings season could be a turning point giving some directionality to the market. Markets could then start to differentiate more and provide a good setting for alpha generation. With this in mind, most of the funds have increased net and gross exposure.

EVENT DRIVEN

A very strong H1

(Estimated perf. between June 24th to July 1st)	WTD	QTD	YTD
Merger Arbitrage	0.6%	2.9%	4.4%
Special Situations	0.8%	2.2%	4.4%

The acquisition of Time Warner by Comcast is one of the most played M&A deals



As of June 24th. Source: Bloomberg, Lyxor AM

Performance was strong this week, with merger arbitrage managers leading the pack. In contrast to the last week where the performance was mainly driven by the consolidation in pharmaceuticals, gains this week proved slightly more diversified.

» Athabasca Oil, a large position held by special sits and merger arbitrageurs, is supposed to receive a long-awaited $1.2 bn payment from PetroChina for the sale of its Dover oil sands assets. Meanwhile, Cheniere Energy share price hit an all-time high of $72.7 on June 30th after the LNG-related businesses firm dropped its plan to issue 30 million shares to pay employees.

» Meanwhile, the Time Warner Cable's share price appreciated this week after Charter announced the acquisition of subscribers that Comcast is divesting as part of its Time Warner Cable deal.

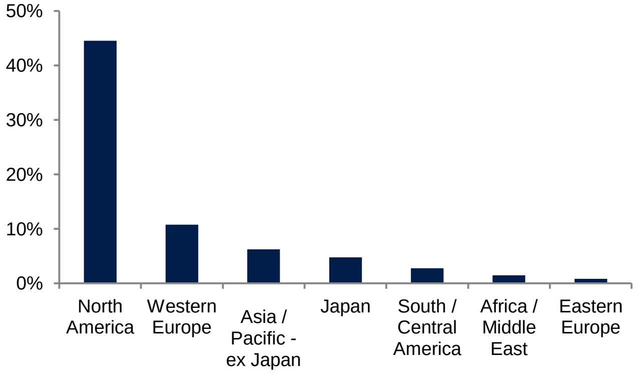
» ED posted strong results in H1, with all sub-strategies ending in positive territory. M&A activity increased remarkably, with global monthly volumes ($375 bn in June 2014) getting closer to previous highs recorded in 2007 ($440 bn in June 2007). In H1, M&A activity ($2.2 tn) was 80% higher than during the same period of 2013 ($1.2 tn).

CB & VOL ARBITRAGE

Resilient despite low equity vol

(Estimated perf. between June 24th to July 1st)	WTD	QTD	YTD
Convertible Arb	-0.2%	0.6%	3.0%

CB & Vol long market value: a preference for North America



As of June 24th. Asset weighted. Source: Bloomberg, Lyxor AM

» The best asset class since the year start faced a difficult week. Relative value players were challenged as volatility kept falling and no major corporate events presented themselves in their special situations books.

» After several weeks of buoyant issues of fresh paper, the primary segment was tamed as less than USD1 billion tapped the market. But in spite of that, convertibles arbitrageurs proved repeatedly that they could navigate in all weather, being able take advantage of volatility in times of uncertainty and benefiting from the run-up in equity in times of calm.

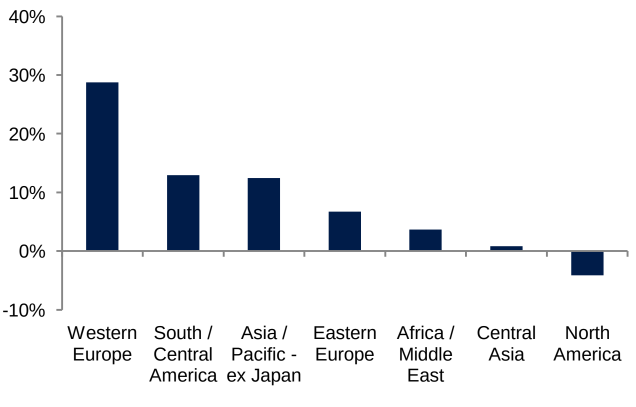
» Despite the slow start of the primary market and the fact that its recent boom weighed on valuations, managers found valuable names in the convertible space - especially thanks to their dedication to special situations.

L/S CREDIT ARBITRAGE

Still leading the pack in 2014

(Estimated perf. between June 24th to July 1st)	WTD	QTD	YTD
L/S Credit Arb	-0.1%	2.6%	5.0%

L/S Credit : A preference for Europe
(Net exposure, % of NAV)



As of June 24th. Asset weighted. Source: Bloomberg, Lyxor AM

Performance was rather fragmented on the platform this week. Going against the tide, the overperformer gained on its distressed book, despite the broad spread widening of HY Credit this week.

» The underperformer was harmed both by derivative's outperformance as well as refinancing & governance issues in one name of its European book.

» Still, this should not hide what was an outstanding semester for credit arbitrageurs. Investors' hunt for yield, combined with spikes of uncertainty in the equity segment defined a very supportive backdrop for the asset class.

» Leading the pack on the whole platform on a risk adjusted basis, credit managers were driven by a strong spread tightening both on cash and derivatives and material macroeconomic improvement on several of their geographical exposure.

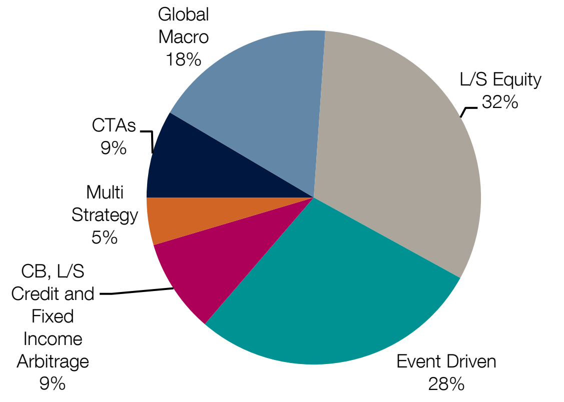
METHODOLOGY

» Approximately **100 funds** in the platform

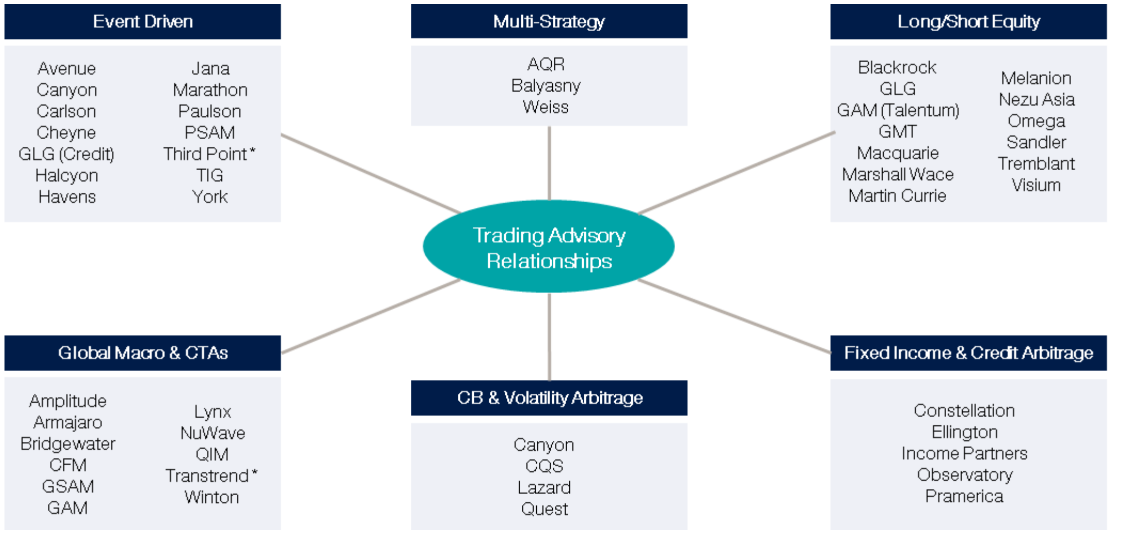
» **USD 12.1 billion** of assets under management (as of March 25, 2014)

» Replicating **USD 200 billion** of AUM

Breakdown of AuM by strategy



Lyxor has established relationships with some of the most respected, established managers. Including some of the largest Hedge Funds manager by AUM (Bridgewater, AQR, Winton, GAM,…)



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.

Important Disclaimer

Source: Lyxor Asset Management ("Lyxor AM") database except as noted

THIS DOCUMENT IS FOR THE EXCLUSIVE USE OF INVESTORS ACTING ON THEIR OWN ACCOUNT AND CATEGORISED EITHER AS "ELIGIBLE COUNTERPARTIES" OR "PROFESSIONAL CLIENTS" WITHIN THE MEANING OF MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE 2004/39/CE

Prior to investing in the product, investors should seek independent financial, tax, accounting and legal advice. It is each investor's responsibility to ascertain that it is authorised to subscribe, or invest into this product. This document does not constitute an offer for sale of securities in the United States of America. The product herein described will not be registered under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act") and may not be offered or sold in the United States of America without being registered or being exempted from registration under the U.S. Securities Act. This document does not constitute an offer, or an invitation to make an offer, from Société Générale ("SG") or Lyxor Asset Managament (collectively with its affiliates "Lyxor AM") or any of their respective subsidiaries to purchase or sell the product referred to herein.

Société Générale and Lyxor AM recommend that investors read carefully the "risk factors" section of the product's documentation (offering memorandum and supplemental memorandum). The product's documentation can be obtained free of charge upon request to client-services@lyxor.com or invest@lyxor.com for U.S. Investors.
This product includes a risk of capital loss. The redemption value of this product may be less than the amount initially invested. In a worst case scenario, investors could sustain the loss of their entire investment. This document is confidential and may be neither communicated to any third party (with the exception of external advisors on the condition that they themselves respect this confidentiality undertaking) nor copied in whole or in part, without the prior written consent of Lyxor AM or Société Générale.

All information about a Benchmark Fund and Trading Advisor contained in this document (including historical or hypothetical returns) was provided by the Trading Advisor. Such Trading Advisor is not affiliated with SG or Lyxor AM, and none of SG, Lyxor AM or any of their affiliates guarantees the accuracy, timeliness or completeness of such information. None of SG, Lyxor AM or any of their affiliates has checked the accuracy of any data herein provided by such Trading Advisor or the sources thereof nor the methods or underlying data used to prepare this information.
Under normal market conditions, Lyxor intends to offer weekly or monthly liquidity for its managed accounts. However, weekly or monthly liquidity is not guaranteed and there are circumstances under which such liquidity may not be possible, including, but not limited to: 1. Periods during which there are a large number of redemption requests, or where there are one or more large redemption requests; 2. Where Lyxor's risk management guidelines would prohibit additional liquidity (for example, in the case of managed accounts that are heavily leveraged); 3. Where the underlying investments of a managed account impose additional restrictions on liquidity (for example, the use of "gates").

The attention of the investor is drawn to the fact that the NAV stated in this document cannot be used as a basis for subscriptions and/or redemptions.

The obtaining of the tax advantages or treatments defined in this document depends on each investor's particular tax status, the jurisdiction from which it invests as well as applicable laws. This tax treatment can be modified at any time. We recommend to investors who wish to obtain further information on their tax status that they seek assistance from their tax advisor.

The accuracy, completeness or relevance of the information which has been drawn from external sources is not guaranteed although it is drawn from sources reasonably believed to be reliable. Subject to any applicable law, Société Générale and Lyxor AM and their respective subsidiaries shall not assume any liability in this respect.

The market information displayed in this document is based on data at a given moment and may change from time to time.

The Assets Under Management presented herein reflect total assets in all investment vehicles and accounts ("Lyxor Funds") for which Lyxor provides continuous and regular supervisory or management services for a fee (i.e. administrative, management and/or performance fees as well as other fee sharing arrangements, as applicable), including amounts from certain Lyxor Funds that invest into other Lyxor Funds.

AUTHORISATIONS
Société Générale is a French credit institution (bank) authorised by the Autorité de contrôle prudentiel (the French Prudential Control Authority).
Lyxor Asset Management (Lyxor AM) is a French investment management company authorized by the Autorité des marchés financiers and placed under the regulations of the UCITS Directive (2009/65/CE). Lyxor AM is a registered Commodity Pool Operator and a Commodity Trading Advisor under the U.S. Commodity Futures and Trade Commission. Lyxor AM is also a member of the National Futures Association. Lyxor Asset Management Inc. is a U.S. registered investment adviser within the U.S. Securities and Exchange Commission and a registered Commodity pool operator within the CFTC and a member of the NFA.
The fund is the holder of a certificate under the Collective Investment Funds (Jersey) Law, 1988 (as amended). SG Hambros Fund Managers (Jersey) Limited and the SG Hambros Trust Company (Channel Islands) Limited are registered to conduct "fund services business" under the Financial Services (Jersey) Law 1998 (as amended). The Jersey Financial Services Commission is protected by these Laws against liability arising from the discharge of its functions under them. The Commission does not take any responsibility for the financial soundness of the fund or for the correctness of any statements made or expressed herein or in the Offering Memorandum or the Supplemental Memorandum of the Fund.

NOTICE TO INVESTORS IN THE EUROPEAN UNION AND SWITZERLAND: This document is of a commercial and not of a regulatory nature. No prospectus has been approved by, or notified to; a local regulator (except in Jersey) and the product may not be distributed by way of an offer, or an invitation to make an offer, of securities to the public.

NOTICE TO UK INVESTORS: The products described within this document are suitable for professional investors only and are not directed at retail clients. The document is issued by Lyxor AM. Lyxor AM is represented in the UK by Lyxor Asset Management UK LLP, which is authorized and regulated by the Financial Conduct Authority in the UK.

NOTICE TO SWISS INVESTORS: The product presented herein has not been and will not be registered with, or approved by, the Swiss Financial Market Supervisory Authority FINMA (FINMA) under the Swiss Federal Act on Collective Investment Schemes (CISA). Therefore, the information presented herein or in the fund's legal documentation does not necessarily comply with the information standards required by FINMA in the case of distribution of collective investment schemes to non-qualified investors, and investors do not benefit from protection under the CISA or supervision by FINMA. The product must not be distributed to non-qualified investors in or from Switzerland, and may be distributed exclusively on a private placement basis to Qualified Investors as defined in article 10 of the CISA and related provisions in the Swiss Federal Ordinance on Collective Investment Schemes (CISO) in strict compliance with applicable Swiss law and regulations. This document is personal and does not constitute an offer to any person. This document must be distributed or otherwise made available in Switzerland on a private placement basis only and exclusively to Qualified Investors, without distribution or marketing to non-qualified investors in or from Switzerland. This document may be used only by those Qualified Investors to whom it has been handed out in connection with the offering described therein, and it may neither be distributed nor made available to other persons without the express consent of Lyxor AM or Société Générale. It may not be used in connection with any other distribution and shall in particular not be copied and/or distributed to non-qualified investors in Switzerland or in any other country. This document, or the information contained therein, does not constitute a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus pursuant to the listing rules of the SIX Swiss Exchange or any other exchange or regulated trading facility in Switzerland or a simplified prospectus, a key information for investors document, or a prospectus, as such terms are defined in the CISA.

NOTICE TO U.S. INVESTORS: Any potential investment in any securities or financial instruments described herein may not be suitable for all investors. Any prospective investment will require you to represent that you are an "accredited investor," as defined in Regulation D under the Securities Act of 1933, as amended, and a "qualified purchaser," as defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended (the "'40 Act") The securities and financial instruments described herein may not Act) be available in all jurisdictions. Investments in or linked to hedge funds are highly speculative and may be adversely affected by the unregulated nature of hedge funds and the use of trading strategies and techniques that are typically prohibited for funds registered under the '40 Act. Also, hedge funds are typically less transparent in terms of information and pricing and have much higher fees than registered funds. Investors in hedge funds may not be afforded the same protections as investors in funds registered under the '40 Act including limitations on fees, controls over investment policies and reporting requirements.

NOTICE TO CANADIAN INVESTORS: Any potential investment in any securities or financial instruments described herein may not be suitable for all investors. Any prospective investment will require you to represent that you are a "permitted client", as defined in National Instrument 31-103 and an "accredited investor," as defined in National Instrument 45-106. The securities and financial instruments described herein may not be available in all jurisdictions of Canada. Investment vehicles described herein will not be offered by prospectus in Canada and will not be subject to National Instrument 81-102 and National Instrument 81-106. In addition, investments in or linked to hedge funds are highly speculative and may be adversely affected by the unregulated nature of hedge funds and the use of trading strategies and techniques that are typically prohibited for prospectus offered funds. Also, hedge funds are typically less transparent in terms of information and pricing and have much higher fees than prospectus offered funds. Investors in hedge funds may not be afforded the same protections as investors in offered funds, including limitations on fees, controls over investment policies and reporting requirements.

NOTICE TO HONG KONG INVESTORS: This document is distributed in Hong Kong by SG Securities (HK) Limited and Société Générale Hong Kong Branch, which is regulated by the Securities and Futures Commission and Hong Kong Monetary Authority respectively. The information contained in this document is only directed to recipients who are professional investors as defined under the Securities and Futures Ordinance, Part III.

NOTICE TO JAPANESE INVESTORS: This document is distributed in Japan by Société Générale Securities (North Pacific) Ltd., Tokyo Branch, which is regulated by the Financial Services Agency of Japan. This document is intended only for the Professional Investors as defined by the Financial Instruments and Exchange Law in Japan and only for those people to whom it is sent directly by Société Générale Securities (North Pacific) Ltd., Tokyo Branch, and under no circumstances should it be forwarded to any third party.

NOTICE TO SINGAPORE INVESTORS: This document is distributed in Singapore by Société Générale Singapore Branch, which is regulated by the Monetary Authority of Singapore. This document may only be distributed to institutional, accredited and expert investors.

NOTICE TO TAIWAN INVESTORS: This document is to present you with our all capital markets activities across Asia-Pacific region and may only be distributed to the institutional investors. The product mentioned in this document may not be eligible or available for sale in Taiwan and may not be suitable for all types of investors.