HITTING THE WALL ON FED AND THE RISING DOLLAR

>> The Lyxor Hedge Fund Index was down -0.7% in September (YTD +1.0%). 5 out of 12 Lyxor Indices ended the month of September in positive territory, led by the Lyxor CTA Long Term Index (+2.4%), the Lyxor Long Short Equity Market Neutral Index (+2.2%) and the Lyxor Fixed Income Arbitrage Index (+2.2%).

>> All eyes focused on the ECB meeting before turning to the Fed's by mid-month. The growing economic and monetary policy divergence between the US and Eurozone, as well as with most economies, unleashed firm trends in FX. Implications from a higher USD and a move toward the Fed dots weighted on US assets, in particular in segments sensitive to risk aversion and rising rates (small caps, HY) and in areas most tied to USD (global minings, cyclical commodities, EM markets, the technology sector). Strategies most vulnerable to these assets suffered the most. Strategies focusing on monetary arbitrage as well as the ones benefiting from higher dispersion and volatility outperformed.

>> L/S Equity funds' returns were disparate. US focused funds underperformed as markets hit the wall on Fed tightening and rising pressure from the dollar. They however produced alpha on recovering dispersion and identifiable themes. The de-risking out of European assets ended on reflation prospects and weakening Euro. Funds most exposed to Eurozone outperformed their US peers. UK exposures displayed temporary volatility on the Scottish referendum. While funds incurred losses on their energy and base material exposures, they were adequately positioned in financials. The sector was boosted by both ECB's reflation and confidence in the AQR and stress test's outcome. Japanese funds outperformed, up by around 2%. They hold three main sector exposures, in industrials (particularly sensitive to JPY), in financials (sensitive to BoJ reflation prospects), and consumer cyclicals (witnessing managers' confidence that the consumption tax shock will get digested). EM and Asian funds started the month well before getting caught-up by an EM correction. The increased differentiation among countries allowed them to produce strong alpha.

>> Rising risk aversion unsettled most merger deals spreads. However, the key catalyst was the increased uncertainty toward tax inversion rules. The political and legislative developments were mirrored in Inversion deals spreads. These are highly correlated but increased differentiation emerges. They are factoring in the feasibility, the strategic implications and costs from a potential breakup. Special Situation funds were the worst performers, with elevated returns dispersion though. Most funds were hit by a common combination of factors. The aftermath of FOMC put increased pressure on a spectrum of assets sensitive to risk aversion, liquidity premium, and to rising rates, where this strategy is vulnerable. Additionally, the rising USD was more aggressively priced in cyclical commodities, the global minings and the energy sectors; areas were numerous corporate restructurings and divestitures are undergone and traded by Special Situation funds. Finally, number of idiosyncratic situations went through turbulences. We provide an update on a sample of meaningful situations. The gold miner Anglogold lost a third of its value. It is being pushed to cut its debt through further asset sales, as investors sell its bonds and stock following a botched share sale and spinoff. Civero, a provider of workers housing accommodations in the resources sector, lost half of its value after renouncing to convert into a Reits, as hoped by shareholders. The car renter Hertz, which undergoes strategic and organizational changes as its fleet ages, was down -17% hit by a $200mn writedown on its high-mileage segment. Athabasca lost nearly 20%. The sale laboriously closed of its oil sands project to PetroChina probably triggered profit taking. Funds' exposures to US markets and base materials (about 2/3 and 20% of their net exposure respectively) made them vulnerable to this month investors' repositioning. In contrast, they endured minor losses from either their small cap exposure (the bulk of it is in large caps) or their credit & rates positions (they hold 110% in equities vs. 30% in fixed income & credit in gross exposure.

>> Credit and convertible arbitrage funds suffered in September. Pressure on US assets sensitive to rates and illiquidity persisted. Lyxor L/S Credit managers proved fairly resilient thanks to their conservative positioning. Weakness in some of their key themes (convergence trades or EM allocations in particular) couldn't offset beta losses. Convertible arbitrage bled during the month. Most of their exposures concentrate in the US and Europe (2/3 and 1/3 respectively). They lost both on their equity and credit exposures. Besides, primary markets lacked the pulse to generate meaningful returns. Finally, gamma trading remained constrained: implied volatility surged but not sustainably enough.

>> CTAs were the top performers. They made strong returns on firm trends in FX, where they held long USD positions mainly against JPY and EUR. Their returns were also driven by the plunge in cyclical commodities and in grains. The contribution from equities was muted though volatile. The medium and long term yields creeping higher in the US and EU were a drag. Medium term models, which held the highest exposure to commodities, outperformed. Short term models were flat. Their elevated exposure to equities suffered from shifting momentum.

>> Global Macro funds were down -0.1% with significant dispersion, mainly function of their commodity exposure. Their longs in energy and base metals were the main detractors. They made profits on FX trends, in particular in Euro shorts. Over the month they reallocated part of their asset from bonds to FX. They endured some losses on short positions in their European bonds. The equity contribution was overall only slightly negative. The Sovereign Fixed Income funds yet again outperformed on reflation trading.

>> "Uncertainty rises as Fed normalization draws near and on signs of economic weakness outside the US. So does the need for diversification across smart beta and relative value strategies.", says Jean-Marc Stenger, Chief Investment Officer for Alternative Investments at Lyxor AM.

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	September 2014 Performance*	YTD Performance*
Global Index			
Lyxor Hedge Fund Index	LYXRHFI	-0.70%	+0.97%
Strategy Indices			
Lyxor L/S Equity Long Bias Index	LYXRLSLB	-1.79%	-1.47%
Lyxor L/S Equity Market Neutral Index	LYXRLSMN	+2.23%	+6.26%
Lyxor L/S Equity Variable Bias Index	LYXRLSVR	+1.22%	-0.45%
Lyxor Convertible & Volatility Arbitrage Index	LYXRCB	-1.17%	+1.52%
Lyxor Merger Arbitrage Index	LYXRMNA	-1.97%	+2.57%
Lyxor Special Situations Index	LYXRSPEC	-3.40%	-0.30%
Lyxor L/S Credit Arbitrage Index	LYXRCRDT	-1.10%	+2.99%
Lyxor Fixed Income Arbitrage Index	LYXRFIAR	+2.20%	+7.17%
Lyxor CTA Long Term Index	LYXRCTAL	+2.39%	+6.44%
Lyxor CTA Short Term Index	LYXRCTAS	+0.02%	-1.63%
Lyxor Global Macro Index	LYXRMACR	-0.14%	+0.78%
Thematic Index			
Lyxor Credit Strategies Index	LYXRCDTS	-0.10%	+3.50%

(*) 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, 2013 through September 30th, 2014.

Below is a brief description of the Lyxor Hedge Fund Strategy Indices:

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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Lyxor Asset Management - www.lyxor.com

The expert in all modern investment techniques

Lyxor Asset Management, a subsidiary of Societe Generale Group, was founded in 1998 and counts 600 professionals worldwide managing US$ 111.7bn* of assets.

Lyxor customizes active investment solutions as the expert in all modern investment techniques: ETFs & Indexing, Alternative, Structured, Active Quantitative & Specialized investments.

Supported by strong research teams and leading innovation capabilities, Lyxor's investment specialists strive to optimize performance across all asset classes.

** USD 111.7bn - Equivalent to EUR 84.7bn - AuMs as of August 31st, 2014.*

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