BENEFIT FROM CTAs' DIVERSIFICATION DIDN'T DISAPPOINT

>> The Lyxor Hedge Fund Index was down -2.3% in October (YTD -1.4%). 3 out of 12 Lyxor Indices ended the month of October in positive territory, led by the Lyxor CTA Short Term Index (+1.7%), the Lyxor Long Short Equity Market Neutral Index (+0.4%) and the Lyxor CTA Long Term Index (+0.1%).

>> Sentiment deteriorated rapidly as a marginal shift in the fragile balance between US reflationary dynamic and Eurozone deflationary forces raised doubts about global growth prospects. Moreover, the USD appreciation started to be considered as a growing threat for US activity. The unfolding of a virtuous reflationary cycle for the world economy seemed to have become less likely, which prompted investors to reposition portfolios. While a majority of strategies suffered, Event Driven funds were by far the main victims of the sudden flight to quality and liquidity. In contrast, CTAs were the main beneficiaries from the acceleration of the correction and the domino of themes gradually expressed over the month.

>> L/S Equity funds' returns were unsurprisingly hit on their beta exposures but they were able to generate alpha. Sectors and stocks related to global resources and global trade & export were hammered during the correction. Meanwhile, sectors sensitive to rates or domestic market driven were re-rated. Such differentiation offered tradable themes, which was reflected in portfolios. Gross and net exposures were only marginally shaved off over the period, but shifts at a sector level were more notable, out of energy into financials and consumer discretionary. The earning season was another source of alpha generation in the second part of the month. While shrugged-off during the correction, stronger pricing differentiation then emerged. In the US, companies beating estimates usually outperformed; in Europe the start of the season was decent considering the economic deceleration over the quarter. Along with earnings, the return of dispersion contributed to improve the alpha backdrop. Funds with limited market bias outperformed over the month.

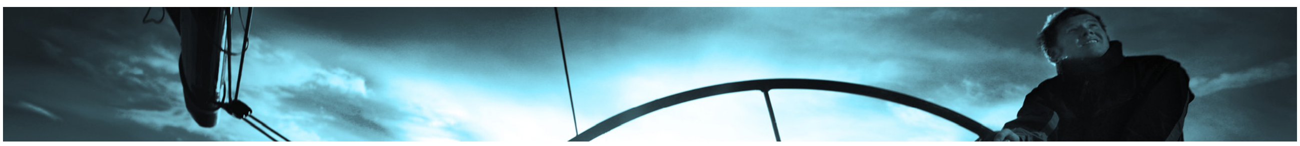
>> Event Driven funds endured a severe hit in October on a combination of adverse developments. The dispersion of returns was also very significant, with four funds losing more than 6%. The Merger Arbitrage funds were the worst performers. Widely considered as a remote risk two months ago, tax inversion ruling and the break-up of the Abbvie/Shire operation reverberated to the whole merger arbitrage space. Helped by rising risk aversion and amplified by the heavy concentration on a handful of deals offering decent profitability, most spreads widened simultaneously.
Embedded liquidity risk in Special Situation painfully materialized in October. HY & distressed credit, small caps and long term situations (including activist and private equity positions) got sold out. This was amplified is those markets segments lacking market depth and with weak holding diversification.
Special Situation funds also took another hit from their exposure to the global resources and energy sectors, which collapsed during the correction. Net exposure to the basic material sector was left unchanged unlike the allocation to the energy sector, reduced during the month. Additionally, several companies which had faced adverse idiosyncratic developments in September, got further sanctioned. These include the Athabasca Oil, Anglogold, Hertz situations. Finally, few funds were hit by the unexpected Fannie Mae and Freddie Mac ruling, allowing the US Treasury to collect most of the profits achieved in these two agencies following their 2012 bailout.
Event Driven funds have partially benefited the rally as pressure on inversion deals, illiquids and resources persisted. US funds were particularly exposed to these developments. In contrast European and Asian funds fared better.

>> Credit markets were also under heat during the correction. Signs of further deterioration in European economy triggered an even sharper HY widening than in the US. In that context, L/S Credit funds proved resilient. They had maintained cautious net exposures. Some managers also benefited from favorable developments in their Argentine and Venezuelan exposures.
Convertible arbitrage only marginally outperformed their credit peers. The lesser liquidity in their market segment was more aggressively priced in the first part of the month, and mutual funds redemptions accelerated. This was particularly perceptible in the US market. However the rally was steeper.

>> CTAs didn't disappoint as diversifiers during volatility spikes. ST CTAs outperformed their LT peers. The reversal of the USD uptrend and long exposure to equities were a drag on the performance of LT models. Performances were also a mixed bag by mid-month as the relief rally triggered multiple repositioning. Losses were partially offset by their long bond exposures and short commodities allocation, both reinforced in October. By month-end LT models had cut all of their equity exposure; they are long USD crosses and bonds, they are short commodities. Short term models were best fit to navigate the turn in the dollar and the mid-month reversal.

>> The bulk of the Global Macro funds' drawdown occurred in the second week. They were hit by long resources and energy exposures, and to a lesser extent on their long USD crosses. They benefited the equity rally though their allocation to bonds and yield curve produced mixed returns.

>> "While the recovery dynamic should prevail, disinflation and reflation trends keep markets at a pivotal point. We opt for a more contrarian positioning and reinforced risk management.", says Jean-Baptiste Berthon, senior cross asset strategist 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	October 2014 Performance*	YTD Performance*
Global Index			
Lyxor Hedge Fund Index	LYXRHFI	-2.32%	-1.37%
Strategy Indices			
Lyxor L/S Equity Long Bias Index	LYXRLSLB	-1.16%	-2.61%
Lyxor L/S Equity Market Neutral Index	LYXRLSMN	+0.44%	+6.72%
Lyxor L/S Equity Variable Bias Index	LYXRLSVR	-0.35%	-0.79%
Lyxor Convertible & Volatility Arbitrage Index	LYXRCB	-0.59%	+0.93%
Lyxor Merger Arbitrage Index	LYXRMNA	-5.30%	-2.87%
Lyxor Special Situations Index	LYXRSPEC	-4.48%	-4.77%
Lyxor L/S Credit Arbitrage Index	LYXRCRDT	-0.82%	+2.14%
Lyxor Fixed Income Arbitrage Index	LYXRFIAR	-0.02%	+7.15%
Lyxor CTA Long Term Index	LYXRCTAL	+0.07%	+6.52%
Lyxor CTA Short Term Index	LYXRCTAS	+1.66%	+0.01%
Lyxor Global Macro Index	LYXRMACR	-1.71%	-0.94%
Thematic Index			
Lyxor Credit Strategies Index	LYXRCDTS	-0.37%	+3.11%

(*) 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 October 31st, 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.

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

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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 - 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$ 107.5bn* 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 107.5bn - Equivalent to EUR 85.4bn - AuMs as of September 30th, 2014.*

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