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Frenzied M&A Activity to Support Event Driven

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October was a supportive month for Global Macro funds, which almost erased their year to date losses in a single month. The top contributors to their stellar performance last month included a short duration stance in fixed income and long positions on the USD vs. EUR and GBP in FX. Meanwhile, for Macro managers investing in equities, their preference for European and Japanese equities vs. US equities also paid off in October.

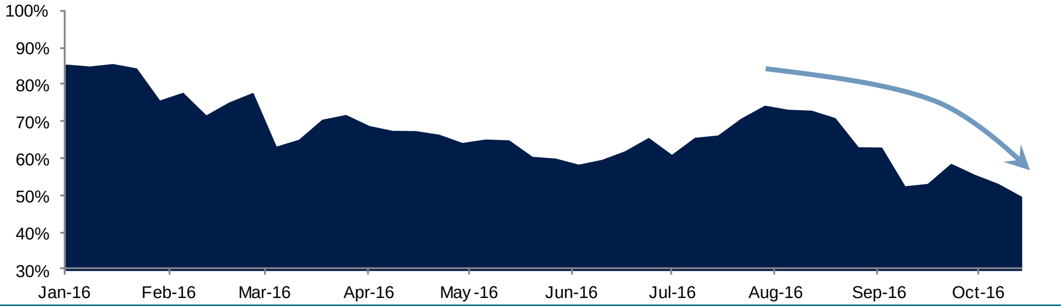
On a positive note as well, CTAs staged an upturn last week. They underperformed in October as a result of their long duration stance in fixed income and short energy in commodities, which they shaved off aggressively over the course of October. At present, their neutral position on bond duration may allow them to better navigate the rising yield environment. The strategy was actually up 0.6% last week as their short EUR and GBP vs. USD contributed to performance in a similar fashion than it did for Macro managers.

With regards to Event-Driven, the strategy underperformed last week (-0.3%) and is down almost 1% last month. It is not surprising to see the strategy in the red when 10-year Treasury yields jump 25 bps in a month, as it has historically been negatively correlated to bond yields. But most managers were fairly resilient despite the adverse market conditions.

Going forward, we maintain our slight overweight stance on Event-Driven, with a continued preference for merger arbitrage players. We believe that the strategy can cope with higher bond yields as its net exposure to both equities and bonds has continued to decrease lately. Managers have thus ample room to deploy capital as opportunities arise. And 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 USD 470bn (applies to deals with a transaction value above USD 400m). US M&A activity represented 60% of the total, and the media sector has been the most active thanks to deals such as the USD 107bn 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.

The cautious stance still prevails amongst Merger Arbitrage Funds

Net exposure to equities of merger arbitrageurs on the Lyxor platform (% of NAV)



As of 18/10/2016. Equally weighted average. Source: Lyxor AM

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Report completed on October 27th, 2016

THE WEEK IN 3 CHARTS

Hedge Fund Snapshot: Global Macro ended October up 6.6%

	WTD*	MTD	YTD
Lyxor Hedge Fund Index	**0.4%**	**1.6%**	**-0.6%**
CTA Broad Index	0.6%	**-3.3%**	-1.8%
Event Driven Broad Index	**-0.3%**	-0.9%	1.1%
Fixed Income Broad Index	0.8%	2.1%	**1.1%**
L/S Equity Broad Index	0.1%	0.1%	**-2.9%**
Global Macro Index	**1.2%**	**6.6%**	-0.6%
MSCI World Index	*0.4%*	*0.5%*	*3.1%*
Barclays Global Agg Bond Index	*0.1%*	*-0.6%*	*6.0%*

*From 18 October to 25 October 2016

Risk appetite supported hedge funds last week, with the Lyxor Hedge Fund Index up 0.4%, outperforming an equity/ bond balanced portfolio.

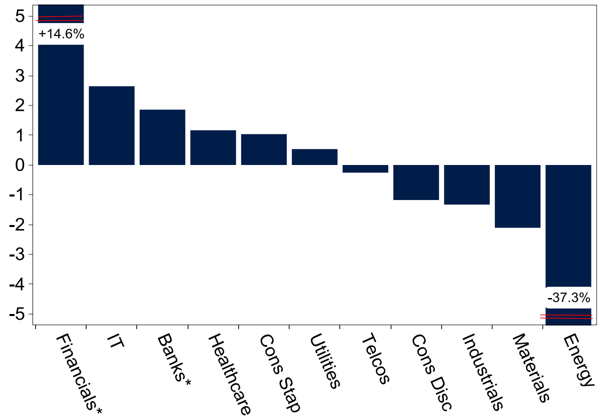
Global Macro funds sustained their upward trajectory and closed October +6.6%. Almost all asset classes were rewarding, in particular their trades on currencies. Shorts on EUR, GBP and longs on MXN vs USD remained profitable. Bullish positions on European and Japanese equities added to gains.

The supportive credit environment helped Fixed Income and Credit Arbitrage managers record healthy returns, up 0.8%.

Both long and short term CTAs ended the week up. Their positioning in currencies and equities proved fruitful while commodity exposures detracted.

The strong U.S. earnings season to support directional hedge funds strategies

U.S. 2016 EPS momentum is improving led by Banks and Healthcare
2016 EPS levels, S&P500, 3M & 1M Revisions, %



* Real Estate was removed from Financials on August 31 by MSCI, hence creating distortions on the data. As a result, we included banks, a sub- industry of Financials, as a result.

Source: Datastream, IBES, Lyxor AM

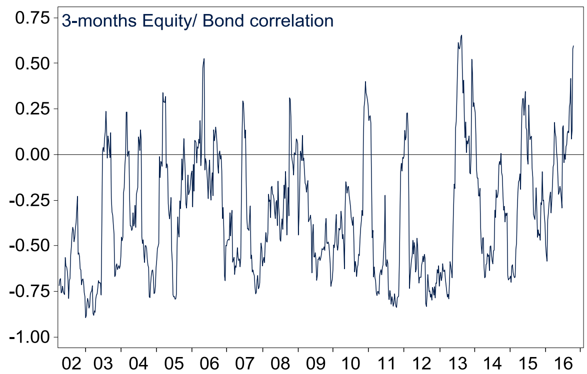
The US earnings season is in full swing and better-than-expected outcomes contributed towards stabilizing equity markets. Risk assets may have otherwise experienced downward pressures from higher bond yields.

With half of the S&P500 companies having delivered earnings, more than 75% beat forecasts. Utilities, Financials and Healthcare led the pack of strong results. Energy companies surprised positively as continued downgrades over the recent months have lowered the hurdle for earnings. However, the industry is expected to report the largest year-over-year drop in profits, along with telcos, which missed estimates so far.

The strong season should support Event Driven and L/S equity strategies thanks to greater stock returns differentiation.

Stocks and bonds are moving in tandem, with correlation back to levels last seen in 2013

Correlation between equities and bonds close to multi years highs
3 month rolling correlation based on weekly returns



Total return FX hedged indices (MSCI World; Barclays Global Aggregate Bond Index). Source: Bloomberg, Macrobond, MSCI, Lyxor AM.

The 3M correlation between equities and bonds has surged lately, climbing to levels last seen in 2013.

Stock and bond returns moving in the same direction is unusual as they generally have an inverse relationship. Recent periods of positive correlation include i) the 2013 "taper tantrum" when bond yields surged after Bernanke signaled the tapering of asset purchases ii) the sell-off in German bonds in 2015, and iii) the current period.

CTAs formerly suffered from such a rising correlation, yet, their current neutral stance on bonds would help mitigate losses.

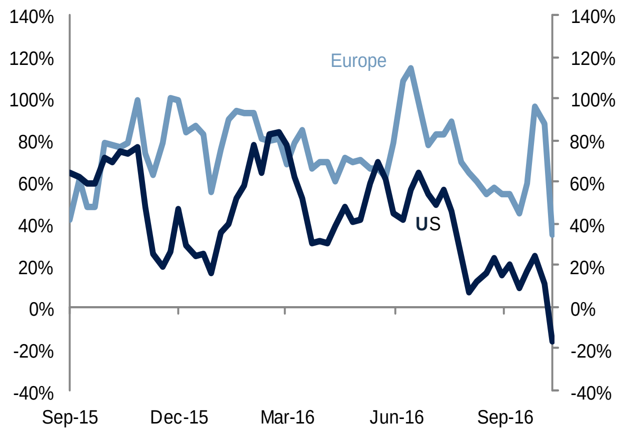
CTAs

	WTD*	MTD	YTD
CTA Broad Index	**0.6%**	**-3.3%**	**-1.8%**
CTA Long Term	0.6%	-3.5%	-1.6%
CTA Short Term	0.2%	-0.5%	-5.7%

*From 18 October to 25 October 2016

CTAs reduced their duration exposure

Net Exposure to Fixed Income, % NAV



As of October 11, 2016, Equally weighted. Source: Bloomberg, Lyxor AM

CTAs pare losses

Both long and short term CTAs were positive last week, with FX and equities contributing positively while commodities detracted.

Currencies were the main drivers of performance. Short EUR continued to be a winning trade as the single currency came under pressure following ECB's dovish comments. Short GBP paid off as Brexit-related risks loomed.

Within equities, long exposure to U.S. indices and Asian futures paid off. With duration across portfolios coming down and low volatility across the asset class, Fixed Income resulted in a modest negative contribution.

Results were mixed in the commodity space as the energy market witnessed substantial moves, especially in natural gas where long positions detracted due to high inventory levels. On the flip side, short term signals successfully captured this negative price momentum within oil and natural gas.

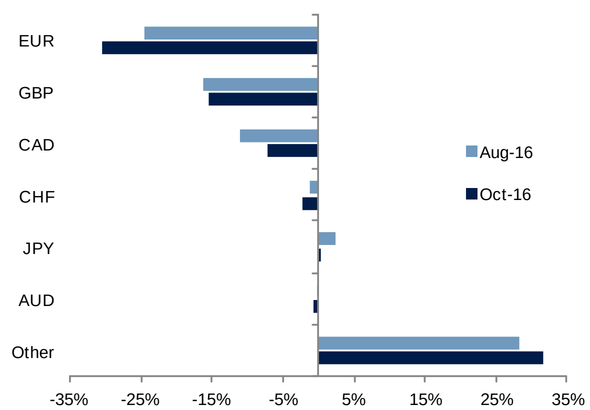
GLOBAL MACRO

	WTD*	MTD	YTD
Global Macro Index	**1.2%**	**6.6%**	**-0.6%**

*From 18 October to 25 October 2016

Managers maintain bearish views on DM currencies vs. USD

Net Exposure to FX, % NAV



As of October 18, 2016, Equally weighted. Source: Bloomberg, Lyxor AM

GBP and EUR drive returns

Global Macro funds continued their strong run with the index currently up +6.6% month-to-date. Trades across all asset classes were positive with FX being the main contributor.

Negative views on the EUR were supported by Draghi's dovish stance at the latest monetary policy meeting. Short GBP and long EM FX exposures vs. USD further boosted portfolios.

Within Fixed Income, bearish bets across the U.S. curve led to profits as economic data bolstered the case for a rate hike.

Bullish views on European and Japanese equity indices paid off to top off a strong week for Global Macro funds.

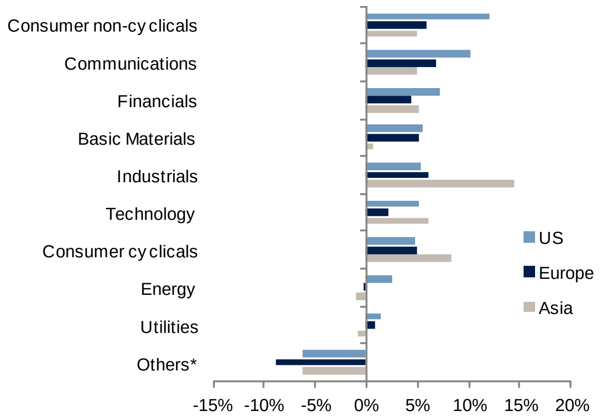
L/S EQUITY

Flat amidst drop in volatility

	WTD*	MTD	YTD
L/S Equity Broad Index	**0.1%**	**0.1%**	**-2.9%**
Long Bias	0.2%	0.9%	2.2%
Market Neutral	0.3%	-0.4%	-5.3%
Variable Bias	0.0%	-0.3%	-5.2%

*From 18 October to 25 October 2016

European L/S funds remain more cautious than U.S. L/S
Net Exposure to Equities, % NAV



As of October 18, Equally weighted. Source: Lyxor AM

With realized market volatility falling sharply last week, equity long/short managers maintained their gross and net exposures stable as companies continued to report their third quarter earnings. The ongoing rotation into banks and basic resources did not cause havoc like it did at the start of the year, with funds now being net long on these sectors.

Asian-focused funds were among the top performers, mostly boosted by their holdings in Japanese names. U.S.-centric funds had mixed results with most of the alpha coming from technology and financial positions while exposure to healthcare proved painful.

European-focused funds suffered last week as value continued to outperform which was detrimental for growth-oriented funds.

Multi-strategy funds ended the week slightly down on the back of losses on their long book.

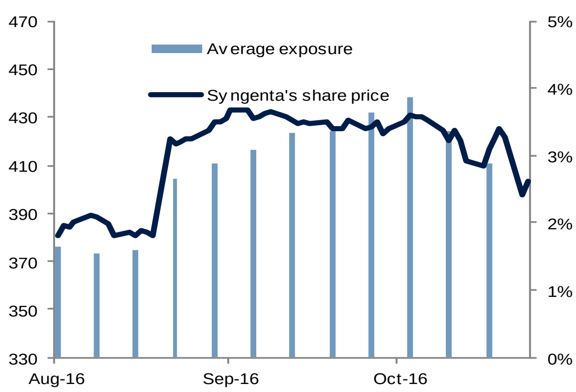
EVENT DRIVEN

Time Warner in the spotlight

	WTD*	MTD	YTD
Event Driven Broad Index	**-0.3%**	**-0.9%**	**1.1%**
Merger Arbitrage	-0.3%	-1.2%	2.3%
Special Situations	-0.4%	0.1%	-0.9%

*From 18 October to 25 October 2016

Merger Arbitrage funds reduced their net exposure to Syngenta
Average Net Exposure to Syngenta, % NAV



As of October 25, Equally weighted. Source: Lyxor AM

Event Driven funds delivered mixed performance last week with portfolio returns ranging from -0.5% to +0.9%.

The largest winning trade over the period was Time Warner Inc. On October 22nd, AT&T announced the acquisition of Time Warner Inc. in a cash-and-stock deal valuing the company at USD 107 billion. This mega telecom-media tie-up will create a formidable provider of bundled mobile broadband and video although the deal is expected to undergo complex vertical anti-trust considerations. Core investments in the Communications and Consumer non-cyclical sectors, notably Microsoft, Google and Baxter also added to the gains after the companies reported strong quarterly results.

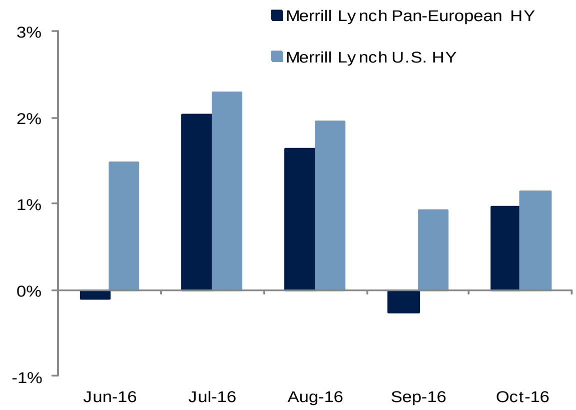
Losses came from Syngenta whose stock price dropped on the back of concerns raised by the delay in getting EU regulatory approval. Merger Arbitrage managers are mindful of the inherent regulatory risks and are sizing their position accordingly.

L/S CREDIT ARBITRAGE

	WTD*	MTD	YTD
Fixed Income Broad Index	**0.8%**	**2.1%**	**1.1%**
L/S Credit Arbitrage	0.4%	0.9%	4.1%

*From 18 October to 25 October 2016

High Yield resumed its upward trend in October
Monthly returns, Since June 2016



As of October 25. Source: Bloomberg, Lyxor AM

High Yield outperforms

Credit markets witnessed a favorable environment with spreads tightening across the board. On the cash bond side, European High Yield outperformed with spreads tightening by 17 bps while the U.S. equivalent compressed by 12 bps. Financials performed well with subordinate and senior debt tightening by 17 bps and 5 bps respectively.

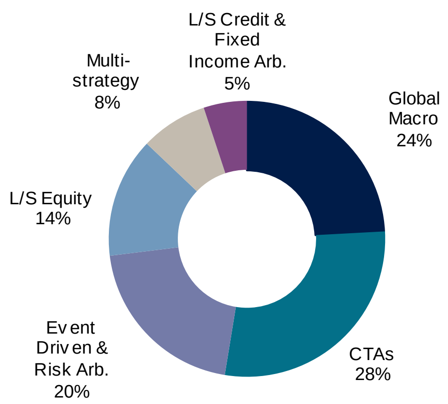
Positive returns also resumed across Emerging markets as they erased the previous week's losses. Asia in particular posted another positive week with the Asian JACI non-investment grade index up 0.3%.

On the Lyxor side, all funds ended the week in positive territory. One European fund generated gains on both its financial and corporate books whereas another made profits mostly on energy positions. An Asian-focused fund continued its strong alpha run and is now the best performer across the entire platform. The fund successfully captured opportunities across Energy and banking names.

METHODOLOGICAL APPENDIX

The information contained in this report on the performance and positioning of hedge funds is based on proprietary data from our Managed Account Platform. The universe of underlying funds is relatively stable, though it evolves according to fund openings and fund closures.

Lyxor Managed Account Platform: breakdown of assets under management by strategy as of September 30, 2016



- **USD 7.2 billion** of assets under management
- Replicating approximately **USD 220 billion** of AUM

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.

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