

## STOCKPICKING STRATEGIES REMAIN IN THE DRIVING SEAT

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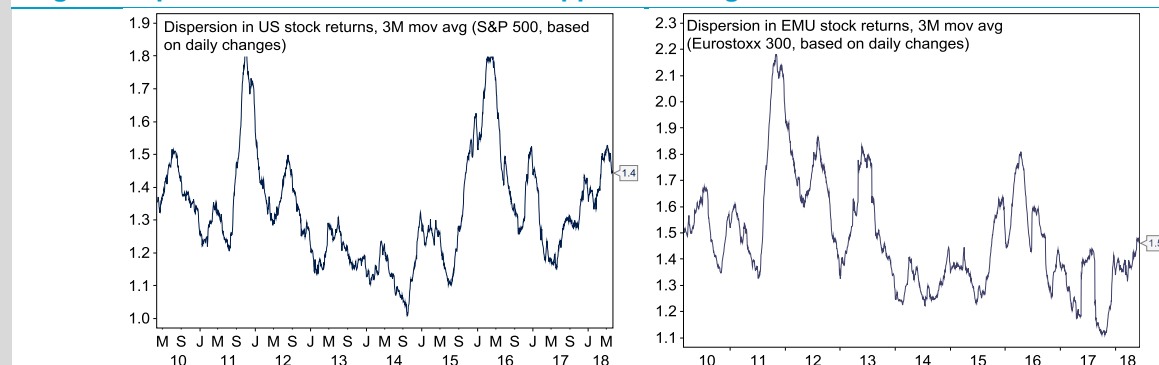


Market developments in May saw some trend reversals across the fixed income and commodity space. On the one hand, the unfolding of the Italian political crisis coincided with a rebound of U.S. Treasuries during the second half of May. On the other hand, the rising likelihood that OPEC and Russia will raise oil output under the pressure of the U.S. administration led to a reversal in oil prices. Both developments hurt the performance of Macro and CTA strategies, which had built up short positions on Treasuries and long positions on oil over the recent quarters.

On a positive note, bottom up strategies (Event-Driven/ L/S Equity) have fared relatively better. They were up lately despite turbulent market conditions in Europe and to a lower extent in Japan. L/S Equity funds were more resilient thanks to their strong allocations to cyclical sectors such as IT and Materials and Industrials which outperformed. Meanwhile, their reduced exposures to financials, communications, and energy were also rewarding due to their underperformance. On the Event-Driven side, long exposures to stocks such as Tiffany & Co. and Facebook generated substantial returns for special situations funds, while merger arbitrage strategies benefitted from the spread compression on the Qualcomm vs. NXP deal. More recently, the bidding war for Sky between Fox and Comcast was also supportive.

Going forward, we maintain a preference for stockpicking strategies. L/S Equity appears well equipped to navigate turbulent markets and we have a strong preference for strategies with a variable bias that can adjust their net exposure to fast changing market conditions. Meanwhile, we maintain strong convictions on Merger Arbitrage, in the context of the U.S. fiscal reform and skyrocketing M&A activity in 2018. Overall, monetary tightening and the rise in bond yields have pushed higher the dispersion across stock returns both in the euro area and the U.S. which should prove supportive for hedge fund strategies focused on stock selection.

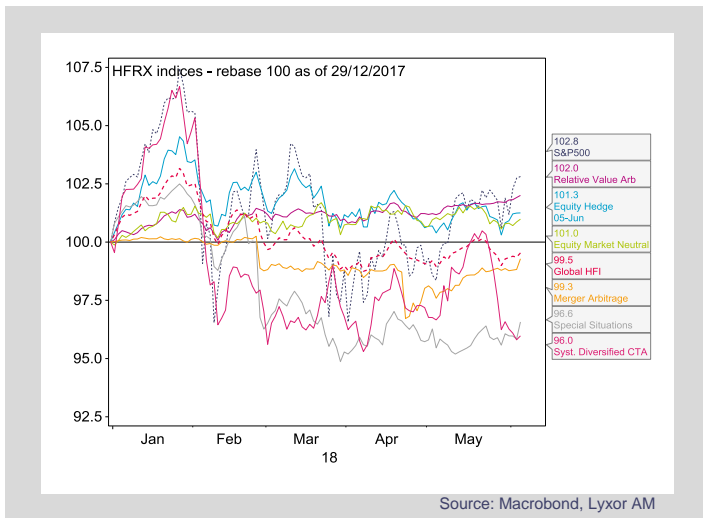
### Higher dispersion across stock returns supports strategies focused on stock selection



Source: Macrobond, Lyxor AM

THE WEEK IN 3 CHARTS

Hedge Fund Snapshot: Hedge Funds extended gains early June



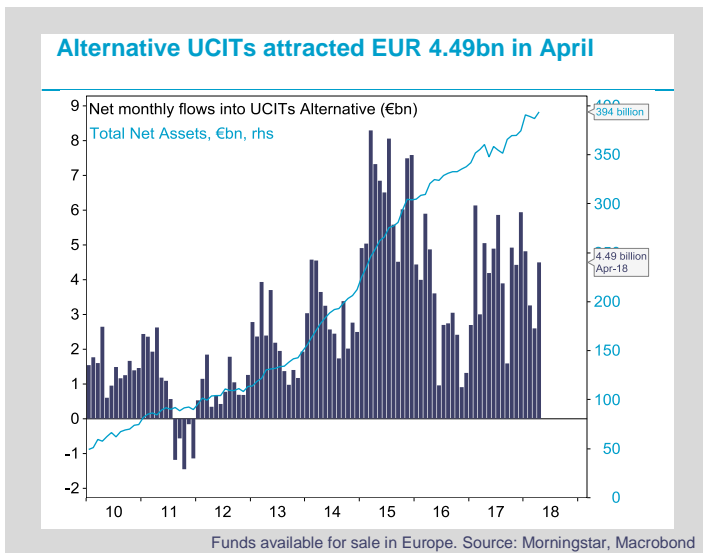
Hedge funds delivered healthy performances last week, with beta-driven strategies outperforming.

L/S Equity funds extended their gains in line with their underlying markets.

Special Situations benefitted from both their higher market beta and some of their activist positions. Tightening deal spreads along with the consolidation wave in the Media sector supported Merger Arbitrage. That included positions on stocks such as NXP and Sky, to name a few.

CTAs were the main detractor to the performance, hit by rising bond yields in Europe and the slide in oil prices.

Alternative UCITs funds continued to lure investors' interest



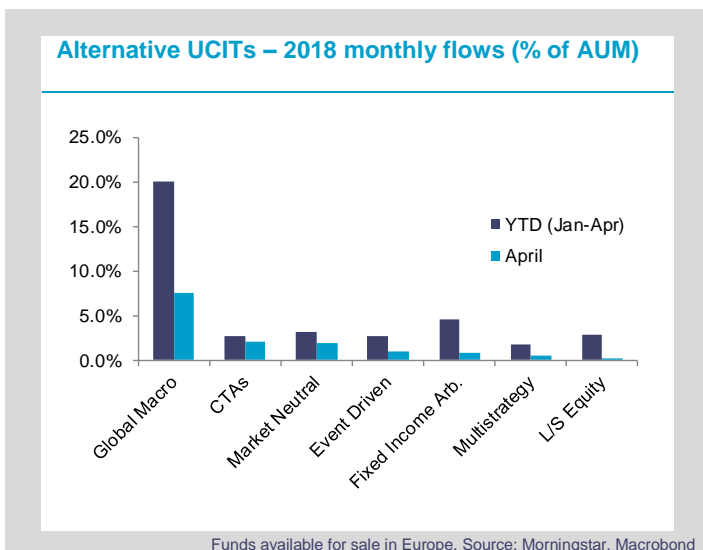
Alternative UCITs funds remained appealing in April. With EUR 4.5bn of net inflows, this brings the industry's total net assets to EUR 394bn.

The solid pace of inflows to the asset class suggests the quest of diversification and risk mitigation remains center stage amidst multiple uncertainties. This includes political stress, trade wars, asset price valuation, inflation and monetary tightening.

Additionally, some hedge fund strategies demonstrated their ability to deliver uncorrelated returns during market jitters. The alpha backdrop improved globally, on the back of monetary tightening and the rise in bond yields. This benefits to fundamental stock pickers especially.

Within strategies, Multi-strategy, Fixed Income Arbitrage and L/S Equity gathered the bulk of Alternative UCITs AUM.

Alternative UCITs Global Macro continued to catch the eyes of investors



Since the beginning of 2018, Alternative UCITs strategies which represent barely more than a third of the total net assets, such as L/S Market Neutral and Global Macro, experienced sizeable inflows.

In April, Global Macro UCITs funds attracted their highest monthly inflows since 2010 (EUR 1.45bn, which represents +7.6% of their AUMs). Thus far in 2018, Macro funds' returns remained flat as most managers de-risked their portfolios and favored relative value trades on the back of market instability.

Additionally, in April, Market Neutral funds enjoyed their biggest monthly inflows for the past two years, in line with their steady recent performances.

Fixed Income and L/S Equity remained appealing, but with lesser dynamics. In the L/S Equity space, investors turned region-focused in April with growing appetite for U.S. and EM funds while global funds were sold off.

## METHODOLOGICAL APPENDIX

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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 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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