Alpha Time

- *Lyxor Chenavari UCITS fund is up +3.5% (SI USD) and +2.7% (SI EUR) year-to-date as of 17 June. Over 12 months, the fund is up +8.8% (SI USD) and +7.0% (SI EUR).*
- *The current environment is unhealthy, with "bubble style" valuations sustained by strong support from Central Banks. Barring any tail development (e.g. large virus second wave), this could continue for a while.*
- *This environment is particularly suited for Long Short vehicles focusing on Alpha generation.*
- *We believe that we are well positioned to navigate these markets and welcome subscriptions to take advantage of the upcoming idiosyncratic opportunities resulting from the release of H1 results.*

Dear investors,

In H1 2020, the world experienced a new form of global crisis. Individuals, communities and businesses had to adapt suddenly to the brutality of forced lockdowns across the world and yet at least half a million people lost their lives.

The brutal market dip was quickly mitigated by unprecedented action from Central Banks and Governments across the world, offsetting a large portion of the losses initially posted by markets.

The evolution of volatility (Chart 1) shows a good summary of market agitation in the period.

Chart 1: VIX index performance YTD

Source: Bloomberg, 18 June 2020

From the peak of the crisis mid-March, credit indices posted a swift recovery. The iTraxx Main 5Y (S33) has come back to below 60bps after spiking above 120bps, and the Crossover (S33) is trading at 370bps after going above 700 bps.

Let's pause on this for a minute: **at present, the debt of investment grade firms yields 0.65% whilst "junk" companies yield 3.7%.**

Never in the history of markets has a crisis of such magnitude been translated into such low risk premiums. Obviously, nothing in the "real economy" justifies such euphoria, but one does not fight Central Banks at their QE game. This leaves the markets in levitation. Admittedly the QE-spurred bubble can last for years and years, until the cracks in the real economy and the social disparities it fuels finally push the system over the edge.

So what now? How to play this new market paradigm?

In our view, the best approach to "market bubble" is to concentrate on alpha generation. There are some very straightforward implications to this.

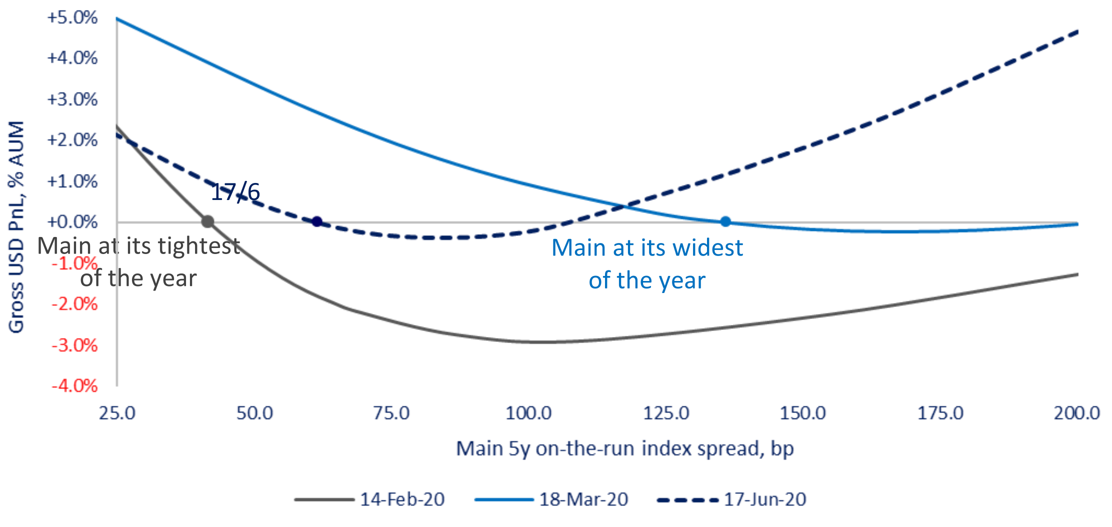
1) **Such an environment is particularly relevant for Long Short ("L/S") funds.**

As such we have decided to reinforce our focus on our core strategies (L/S Corporate and L/S Financials). The allocation to the convexity bucket has therefore been reduced to 5%. Naturally, the team continues to keep the capacity to build a very convex profile on the fund, notably via options (which offer better liquidity than tranches).

2) **At current levels we do not believe it makes sense to chase market beta and as such, the fund's market exposure will be very limited and tactical.**

As shown on Chart 2, the fund's current positioning is flat (cf. dotted line: 37 bps theoretical max draw down).

Chart 2: Lyxor Chenavari risk profile as a function of on-the-run iTraxx Main 5Y spread (the dot representing the position of the Main index at the time of the Curve)



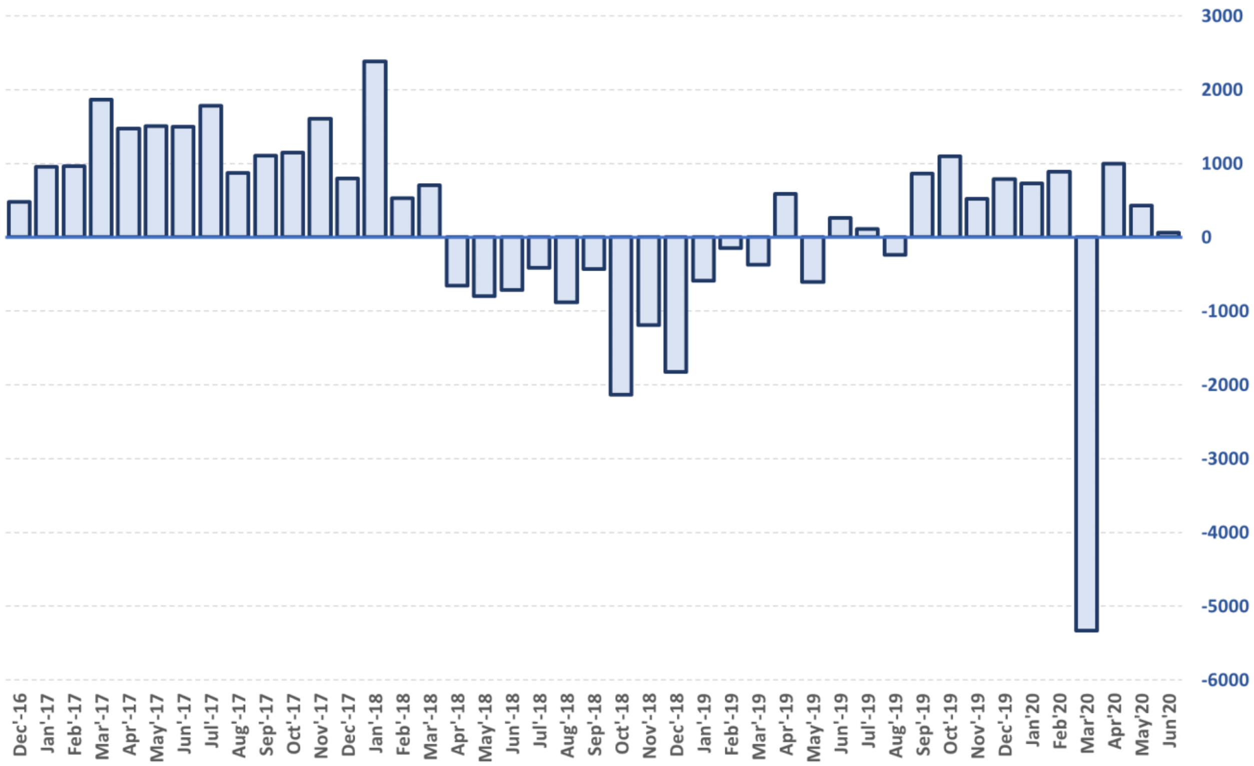
Source: Chenavari unaudited estimates, 17 June 2020. Please review important disclosure at the end of this document.

3) **Liquidity will remain the name of the game**.
Market liquidity has been patchy with moments of normality (thanks notably to central banks action), and moments of quasi freeze. For sure the new market dynamics have created an unhealthy liquidity environment with market makers having a reduced amount of inventory compared to past levels (especially compared to pre GFC), and the liquidity mismatch in some areas of the market (where ETFs and UCITS funds have taken a gargantuan proportion) such as AT1s or tranches make it a dangerous territory (see chart 3).

In the context of high volatility, we are very wary of being able to move risk very quickly without too much cost, and hence remain focused on the liquidity of the instruments we are trading.

Volatile markets will surely not reduce the level of turnover in the fund ; this points to us investing essentially into large liquid names.

Chart 3: Flows in Credit Financials Funds (EURm)

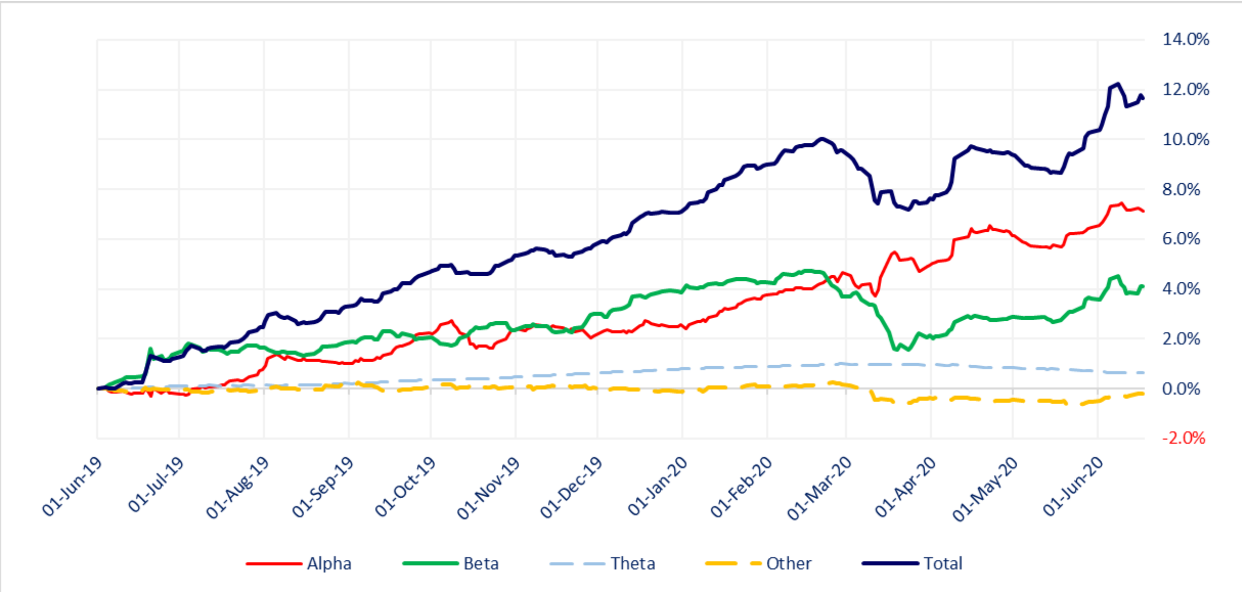


Source: Chenavari unaudited estimates, 17 June 2020. Please review important disclosure at the end of this document.

4) **Even though past performance is not an indicator of the future, alpha generation results from a process, and when this process is well in place it is a good guide to the odds of maintaining alpha generation.**

As chart 4 shows, the majority of the performance realised by the fund over the past year stems from alpha generation.

Chart 4: Alpha is by far the main contributor of performance (Corporate + Financials, past 12 months)



Source: Chenavari unaudited estimates as of 18 June 2020. Please review important disclosure at the end of this document.

Day in day out, the team endeavours to abide by the principles that helped generate sustained alpha in the fund over the past few years:

- Depth. Access to experienced Research teams leveraged across Chenavari Corporates and Financials
- Agility. PM turning over the portfolio and trading the names we know well, and playing market themes
- Agnosticism. We recognise that we do not hold all the answers, and therefore can be wrong on any position. As such we take a versatile approach to market themes and names, and endeavour not to lock ourselves into any particular style. This is spurred by regular discussions between the Co-PMs, Risk, and the Head of the UCITS portfolio review.
- Robustness. The team rely on state-of-the-art, proprietary risk systems (“Clark”) that help monitor the exact positioning of the fund at all times and avoid any unwanted exposure.

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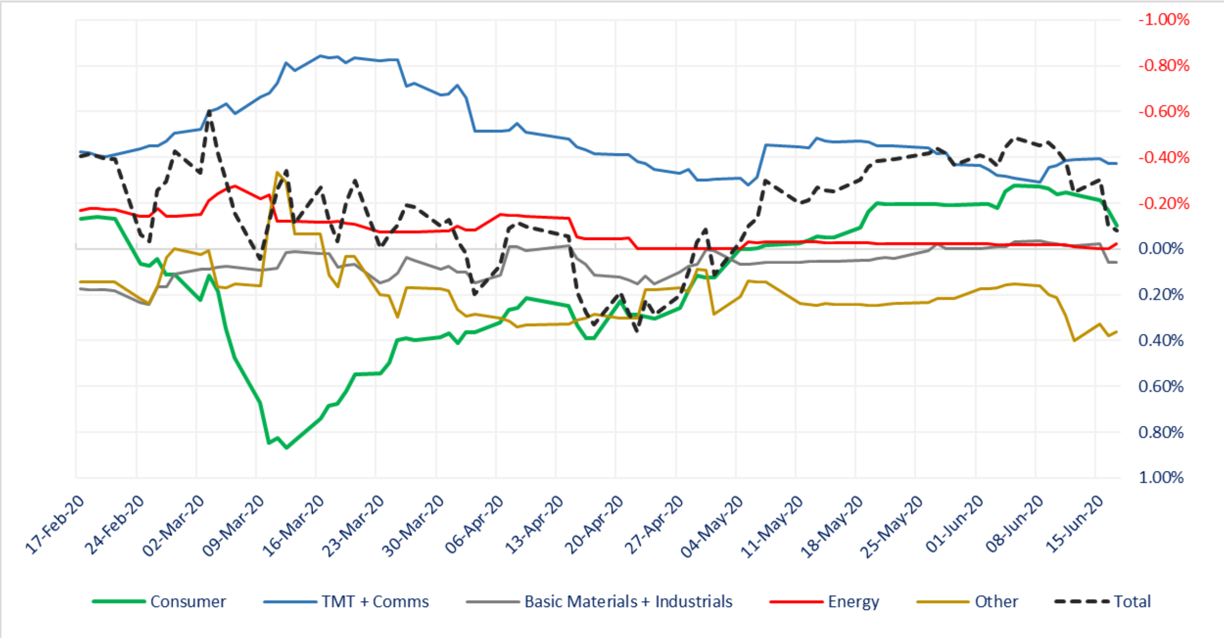
Where do we see Value?

Corporates

At the moment, the Corporate book is very much an RV book, trading long and short positions in an idiosyncratic fashion, without a specific theme appearing. As shown on Chart 5, this is quite different from March in particular, where a clear sector bias was played (long TMT, short Consumer and cyclical sectors such as Chemicals). Marginally, TMT is still the sector with the longer exposure - yet this has been halved from the levels of March.

Chart 5: Corporate Strategy, PV10 by Sector (as a percentage of allocated capital)



Source: Chenavari unaudited estimates, 17 June 2020. Please review important disclosure at the end of this document.

Similarly, the exposure by rating does not show a very directional picture. The Covid-19 crisis saw a significant repricing of IG risk and IG companies were the first to come to the markets to issue new bonds. High quality names came to the market issuing bonds at 250 bps whilst they traded at 50bps at the end of February. We played the rebound of the market by moving up on credit quality but today the picture is much more balanced amongst rating categories.

As a trade example, we currently hold a constructive view on Jaguar Land Rover, supported by their ample liquidity to weather the current environment. Auto sales in Chinas have started to rebound and Europe should not be that far behind. With a double-digit yield, it is a good way of playing the re-opening of economies.

Financials

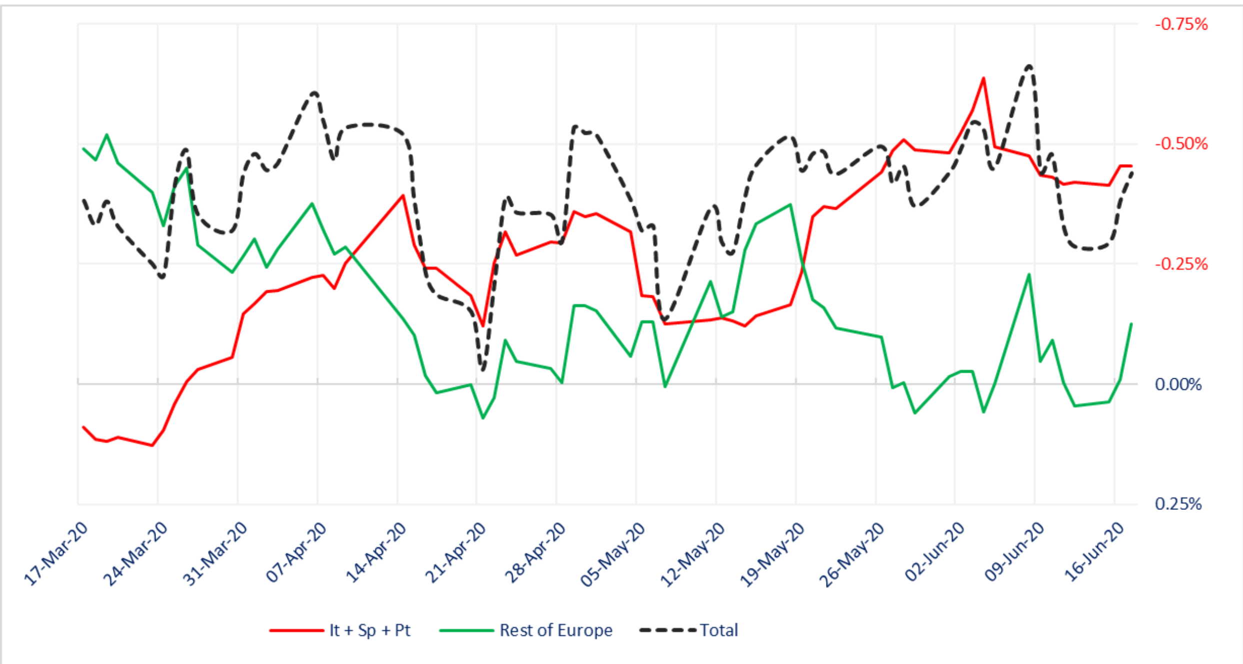
On Financials, we recently played the compression of the basis between cash and CDS, especially on UK banks. Indeed, we anticipate that in the case of a hard Brexit (whose probability has been increasing of late), volatility would be heightened on derivatives versus cash instruments.

That said, our key theme has been the compression between banks from peripheral Europe (namely Spain, Italy, Portugal) and banks from core Europe. As chart 6 shows, by mid-March (i.e. at the peak of the Covid-19 crisis) we had a clear decompression play, with a long Core Europe versus a short Periphery. Indeed, we were quick in March to sell the exposure on Italian AT1s which we used to play potential mergers between Italian banks.

This decompression trade was neutralised around mid-April, and by mid-May the opposite trade was put in place, playing a catch up of periphery versus Core Europe. For example, one of our favourite trades at present is to be long risk on Sabadell 6.125% AT1, which lagged the rally in April/May with the bonds still 25pts off the highs seen in mid-February. Q1 results showed the resilience of the bank's credit metrics, which were broadly in line with other domestic peers. With the AT1s trading still in the low-80s, i.e. respectively 10pts and 20pts below similar instruments issued by Bankia and Caixabank, we believe the bonds offer great convexity given the call at par in November 2022.

The compression trade was reinforced by the joint announcement from Emmanuel Macron and Angela Merkel to launch a EUR500bn rescue fund available across the whole of the European Union. Our way to gradually reduce exposure to this trade has been to trade out of AT1 into Senior Tier 2 instruments on the peripheral side.

Chart 6: Financials Strategy: PV10 of Italy + Spain + Portugal vs. the rest of Europe since 17 March 2020 (as a percentage of allocated capital)



Source: Chenavari unaudited estimates, 17 June 2020. Please review important disclosure at the end of this document.

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We hope the above helps to explain the fund's positioning in the current environment.

Should you wish to arrange a follow-up discussion, please do not hesitate to contact us:

- vincent.laurencin@chenavari.com
- IR team: Kirstie Sumarno +44 207 245 4677 and Sophie Porter +44 207 259 3607, ir@chenavari.com

Appendix 1: Performance of key reference indices MTD and YTD, and of the Lyxor Chenavari Credit Fund

Chart 7: Recent performance of key reference indices (MTD and YTD)

Key Indices	*January*	*February*	*March*	*April*	*May*	*1-17 June*	YTD 2020
Main s32 5y (IG)	+4.8%	+38.9%	+49.0%	-15.6%	-10.8%	-10.5%	+46.2%
XO s32 5y (HY)	+11.3%	+31.5%	+87.9%	-13.2%	-13.3%	-12.9%	+80.2%
SNRFIN s32 5y	+5.3%	+38.9%	+55.6%	-14.0%	-16.3%	-10.7%	+46.2%
SX5E (EUROSTOXX 50)	-2.8%	-8.6%	-16.3%	+5.1%	+4.2%	+7.1%	-12.8%
SPX (S&P 500)	-0.2%	-8.4%	-12.5%	+12.7%	+4.5%	+2.3%	-3.6%
SX7E (EUROSTOXX Banks)	-5.5%	-7.9%	-35.5%	+1.4%	+4.3%	+11.6%	-33.6%

Note: for credit indices, performance is expressed in spread variations (spreads increase as markets fall)
Source: Bloomberg, 18 June 2020.

Chart 8: Lyxor Chenavari UCITS L/S Credit - gross P&L attribution overall and by Strategy (USD)

Lyxor Chenavari	*January*	*February*	*March*	*April*	*May*	*17 June*	YTD 2020
Total	+1.80%	+0.74%	-1.41%	+1.58%	+0.74%	+1.40%	+4.92%
o.w. Corporate	+1.01%	+0.35%	-1.59%	+0.85%	+0.40%	+0.42%	+1.42%
o.w. Financials	+0.74%	+0.15%	-0.17%	+0.81%	+0.42%	+0.82%	+2.81%
o.w. Structured Credit	-0.06%	+0.13%	+0.23%	-0.11%	-0.08%	+0.15%	+0.27%
o.w. Other	+0.11%	+0.10%	+0.11%	+0.04%	+0.00%	+0.00%	+0.42%
Net Perf SI EUR*	+1.21%	+0.38%	-1.21%	+0.94%	+0.55%	+0.87%	+2.74%
Net Perf SI USD*	+1.36%	+0.52%	-1.03%	+1.01%	+0.60%	+0.95%	+3.45%

Source: Chenavari estimates and Bloomberg, 18 June 2020.

Appendix 2: Track record since Inception in June 2015 and Relaunch in end February 2016

	YTD	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2015	-3.61%						-0.19%	-0.11%	-1.58%	-1.68%	0.15%	0.27%	-0.52%
2016	FY 2.05% **Since Relaunch 7.95%**	-3.06%	-2.56%	1.40%	0.73%	0.14%	0.43%	1.60%	1.34%	-0.07%	1.48%	-0.15%	0.88%
2017	**7.41%**	1.34%	0.96%	0.95%	0.28%	0.64%	0.71%	0.67%	-0.12%	0.76%	1.19%	-0.32%	0.13%
2018	**0.67%**	1.07%	-0.67%	-0.38%	0.30%	-0.07%	-0.02%	0.78%	0.10%	0.64%	-0.19%	-0.63%	-0.24%
2019	**6.67%**	-0.08%	0.20%	0.49%	0.36%	-0.04%	1.21%	0.61%	0.86%	1.26%	0.44%	0.44%	0.87%
2020	**3.45%**	1.36%	0.52%	-1.03%	1.01%	0.60%	0.95%						

Note: Performance in light blue denotes the performance before the "Relaunch" at end February 2016.
Source: Bloomberg and Chenavari, as of 16 June 2020. Returns and performance are representative of Class SI USD. Past performance is not indicative of future results.

Disclaimer

Estimations reflect conservative modelling assumptions, but do not reflect the best and worst case scenarios. Estimates are based on the market conditions at the time of modelling and are therefore, subject to change. Stress Tests present a set of hypothetical scenarios that assume changes for one or more market variable in order to assess the effect on the portfolio. The results shown represent estimated gross performance of the Fund under the market conditions stated. Chenavari has made assumptions that it deems reasonable and uses the best information available to calculate the stress test estimates. If a different set of assumptions were used in this calculation, there could be a material difference in the calculated estimates. Please refer to Offering Document for risk parameters.

Hypothetical performance results have many inherent limitations, some of which are described below. No representation is being made that any account will or is likely to achieve profits or losses similar to those shown. In fact, there are frequently sharp differences between hypothetical performance results and the actual results subsequently achieved by any particular trading program.

One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk in actual trading. For example, the ability to withstand losses or to adhere to a particular trading program in spite of trading losses are material points which can also adversely affect actual trading results. There are numerous other factors related to the markets in general or to the implementation of any specific trading program which cannot be fully accounted for in the preparation of hypothetical performance results and all of which can adversely affect actual trading results.