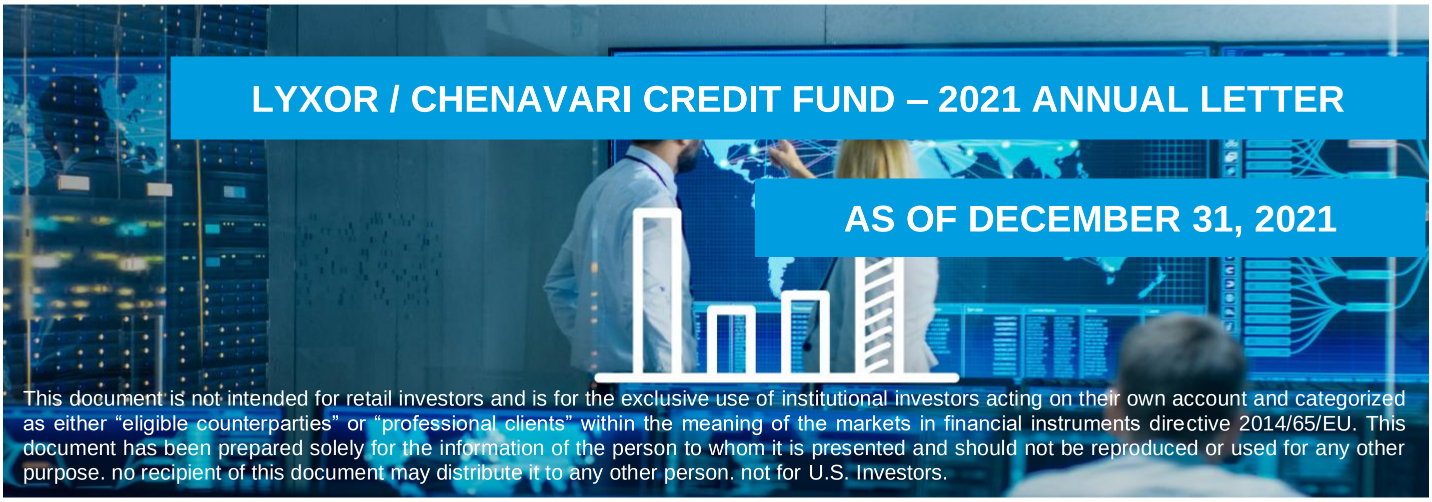


LYXOR / CHENAVARI CREDIT FUND – 2021 ANNUAL LETTER

AS OF DECEMBER 31, 2021

IN BRIEF

After a bruising 2020, 2021 very much resembles the unmemorable sequel of a 1980s disaster movie: the same plot lines with yet more drama (a resistant variant), some new twists (inflation), the same good guys (mRNA and Central Banks) but a feeling of *deja-vu* and weariness toward the end. Think Jaws 2.

Time to move on to another narrative in 2022, notably thanks to solid growth prospects around the world.

However, the spread of the Omicron variant in Europe has triggered another "tidal" wave of cases and restrictions. This resurgence of pandemic clouds comes at a time when Central Banks are preparing markets for a new regime, ending the period of "super stimulus" and super low interest rates, notably in the US. The focus of Central Banks has indeed shifted toward inflationary risks, spurred by the mismatch between supply and demand and the roaring energy prices.

This mix of a less accommodating monetary regime and Covid tribulations, coupled with election uncertainties in Europe (Italy, France) points to more volatility in H1 2022.

A more volatile environment is obviously an ideal territory for long / short funds. With Credit indices at their tightest (and more generally rich valuations in most asset classes), volatility creates opportunities to generate alpha and capture performance in markets lacking direction.

In 2021, the Lyxor Chenavari Credit Fund (the "Fund") had a net performance of 3.2%[1] and volatility of 1.31%[2]. In 2022, the Fund will continue to strive for performance, decorrelation, and drawdown control. We would anticipate the Fund volatility to increase alongside the new market regime.

More generally, our obsession will be to keep a disciplined and consistent approach to investment, monitor the size and liquidity constraints of the Fund, without reneging on our commitment to protect the book in tense periods. We will endeavour to account for the macro forces at play in the market, keeping a nimble approach to top-down positioning, whilst using fundamental, bottom-up research to generate alpha.

We thank you for your trust and hope this letter will give you some further insights on our approach to managing the Fund.

***Main Fund Risk Factors:** Risk of losses due to market fluctuations and reliability of counterparts, Credit risk, Liquidity risk, Leverage and value at risk. For a complete list of risk factors (please refer to page 11 for further details on the risk factors of the Fund). Please refer to the Fund's legal documentation for complete terms and conditions.*

[1] SI USD Share Class, source Bloomberg as of 30 December 2021. Performance in Euros was +2.8% (SSI EUR Share Class).
[2] Source: Bloomberg DES page, 30 December 2021.

1. THE FUND IN 2021: A TALE OF CONTINUITY

1.1 PERFORMANCE

2021 will be remembered as another bull year for equities in developed markets. The performance of European Credit was more muted, as Figure 1 highlights. In essence, the Investment Grade ("IG") index was broadly flattish at tight levels. The High Yield ("HY") index had a slightly positive performance. On the Financials front, the "CoCo" Index was up slightly more than 5%.

Figure 1: Performance of key indices in 2021 – the divide between Equity and Credit

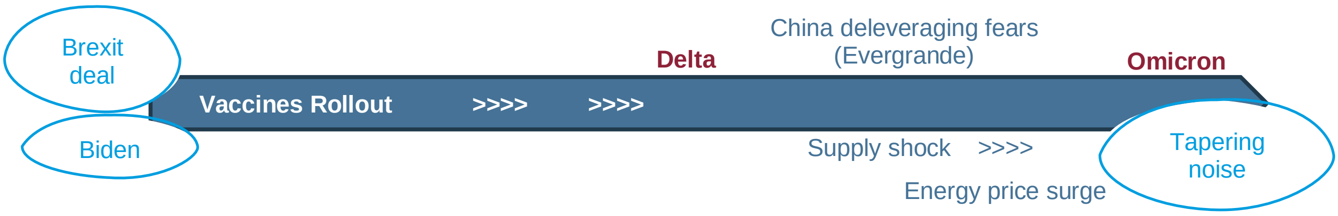
	2021 YTD Performance
iBoxx EUR IG	-1.1%
iBoxx EUR HY	+3.2%
iBoxx CoCo EUR	+5.3%
S&P 500	+26.9%
SX5E (EUROSTOXX 50)	+21.0%
SX7E (EUROSTOXX Banks)	+36.2%

Source: Bloomberg and Chenavari, as of 31 December 2021. **THE FIGURES RELATING TO PAST PERFORMANCES REFER OR RELATE TO PAST PERIODS AND DO NOT PREDICT FUTURE RETURNS. THIS ALSO APPLIES TO HISTORICAL MARKET DATA.**

Against this backdrop, the Fund was up +3.2% (share class SI USD), with a volatility of 1.31%, pointing to a Sharpe ratio of 2.40 for the year[3].

Figure 2: Monthly performance of the Fund in 2021 versus key events (SI USD share class as of 30/12)

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	FY
-0.09%	0.88%	0.79%	0.71%	0.16%	0.04%	-0.12%	0.09%	0.82%	0.01%	-0.55%	0.47%	**3.23%**



Source: Bloomberg and Chenavari, as of 30 December 2021. Returns and performance are representative of Class SI USD. Please note that the net monthly returns from January to June 2021 are based on daily estimated NAV's**. THE FIGURES RELATING TO PAST PERFORMANCES REFER OR RELATE TO PAST PERIODS AND DO NOT PREDICT FUTURE RETURNS. THIS ALSO APPLIES TO HISTORICAL MARKET DATA.**

As Figure 3 shows, performance was mostly driven by bonds (which contributed c. 274 bps to the net performance). The TRS, home to most of the shorts, had a negative contribution of -31 bps. On rates, the Fund had a minor performance of 23 bps.

[3] Source: Bloomberg as of 30 December 2021, class SI USD.

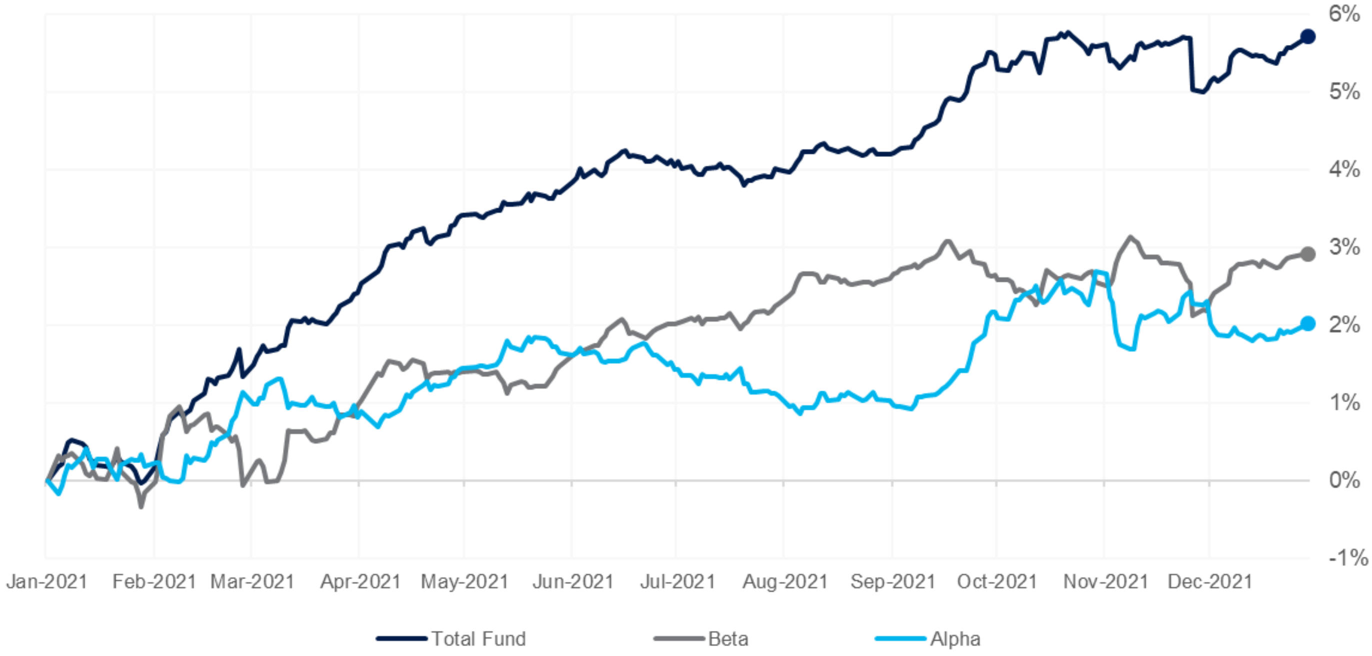
Figure 3: Breakdown of YTD performance per instrument type and strategy (rebased on net performance, SI USD share class)

	Fund (bps)	Fund (%)	o.w. Corp. (bps)	o.w. Fins (bps)	Other (bps)
Bond	274.0	*84.7%*	114.6	159.2	0.1
CDS	14.0	*4.3%*	24.8	-10.8	-0.0
iBoxx TRS	-30.9	*-9.6%*	-20.8	-10.1	
Indices	31.6	*9.8%*	32.2	-0.6	0.0
Rates	23.0	*7.1%*	11.5	11.6	
Other	11.8	*3.6%*	-0.6		12.3
Total	**323.5**	***100.0%***	**161.8**	**149.3**	**12.4**

Source: Chenavari, as of 30 December 2021.

Like in 2020, the overall performance results from a balanced contribution between beta and alpha, as highlighted on Figure 4.

Figure 4: Contribution of alpha and beta to 2021 gross performance



Source: Chenavari, as of 29 December 2021. The net performance of the Fund may differ, the costs are detailed on the legal documentation of the Fund.

In the paragraphs below we take a deeper look at the Fund's positioning in 2021, both in terms of Fund positioning and in terms of single name trades. **We will see that the Fund had a Sharpe ratio of 2.40[4] in 2021, notably thanks to very low volatility.**

The Fund's top-down positioning has been quite consistent with the periods pre and post Covid dislocation (i.e., Q4 2019 and H2 2020), both at local and "tail" levels. As to single name ideas, the Portfolio Managers ("PMs") have shown high velocity to generate many trades, most of which had a small positive contribution to the overall performance. The Fund performance mostly results from this collection of small gains. The trades with negative performance were actively managed, highlighting a good level of discipline and risk management over the year.

[4] Source: Bloomberg as of 30 December 2021, class SI USD.

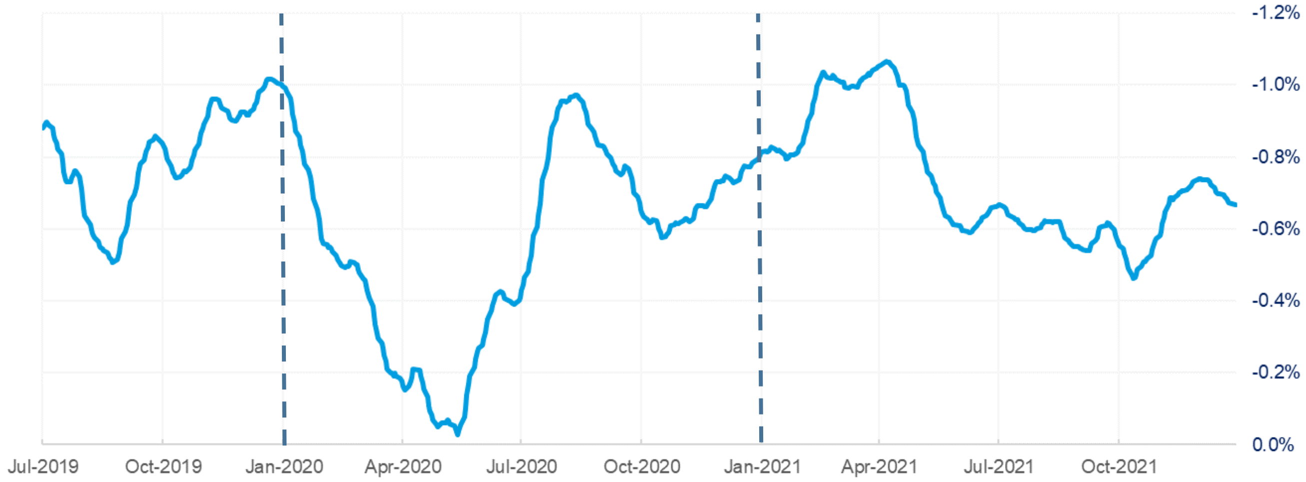
This highlights the key attributes of the team: agile trading, research-led idea generation, and controlled drawdown.

1.2 LOCAL POSITIONING: CONTINUITY

We assess our local positioning with the "PV10". The PV10 is a measure of our theoretical drawdown in case of a homogeneous widening of all 5-year on-the-run credit indices by 10%. When the PV10 is zero, the Fund is market neutral. When the PV10 is negative, the Fund has a net long exposure to the market, and finally when the PV10 is positive the Fund is net short.

In 2021, our PV10 was generally in a tunnel between -0.4% and -1.0%, as Figure 5 shows. It is quite clear visually that the Fund had more beta exposure in the first four months of the year before retrenching a bit during the second part of the year. Also quite clear is that the Fund local positioning has been run very much in continuity with H2 2020 period, and comparable to its pre pandemic profile of H2 2019.

Figure 5: PV10 positioning of the Fund since July 2019 (4 week rolling average, % of AuM)



Source: Chenavari, as of 29 December 2021.

1.3 TAIL POSITIONING

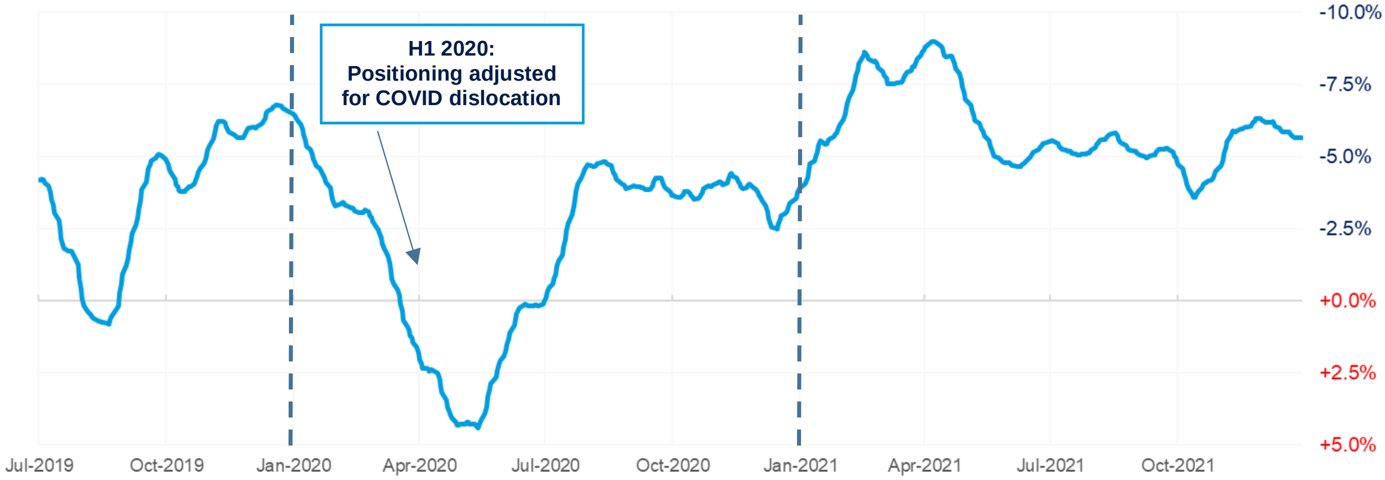
To measure our "tail positioning", instead of looking at the PV10 (theoretical drawdown for a "local" widening of 10%), one can draw a stress scenario based on PV 100 (theoretical drawdown for an "extreme" overnight widening of spreads of 100%), shown on Figure 6. The PV 100 is not necessarily a linear extrapolation of the PV10 as the team may decide to protect the book from tail events without impacting the Fund's local profile. It is achieved most notably by buying options that are far out of the money. Naturally, the team does not intend to pay premiums in all environments. They have the capacity to adjust the Fund's tail positioning rapidly, as they have done in the past. The key to protect the book in case of a major dislocation is to be invested in liquid assets which are easy to trade and use options on indices to create convexity in a very reactive fashion.

It is important to emphasise that this is <u>a theoretical exercise</u>. A widening of such magnitude would not happen in a single day, leaving time for the PMs to adjust their positioning and address the drawdown risk, as illustrated by the PMs' work in Q1 2020. The stark news around Covid in Q1 2020 had triggered us to significantly change the positioning of the Fund. For a few months, a further index widening of 100% would actually have triggered a positive P&L for the Fund. Soon after the Covid news broke out, with the massive actions taken by Central Banks, we reckoned that the chances of another extreme market dislocation had faded. By Q3 2020, we had brought back the Fund's "tail positioning" to levels more in tune with pre-pandemic levels (for the most of Q4 2019, PV 100 was generally between -5% and -7.5%).

This positioning was slightly enhanced in H1 2021 (with episodes of PV100 over -7.5%). Over H2 2021, PV 100 was reduced to around -5%, around the same levels as Q4 2019 and H2 2020.

In summary, the team has been managing its tail positioning in close continuity with its recent history, apart from the Q1 2020 Covid crisis episode.

Figure 6: PV100 positioning of the fund since July 2019 (4 week rolling average, % of AuM)



Source: Chenavari, as of 29 December 2021.

1.4 SINGLE NAME SELECTION

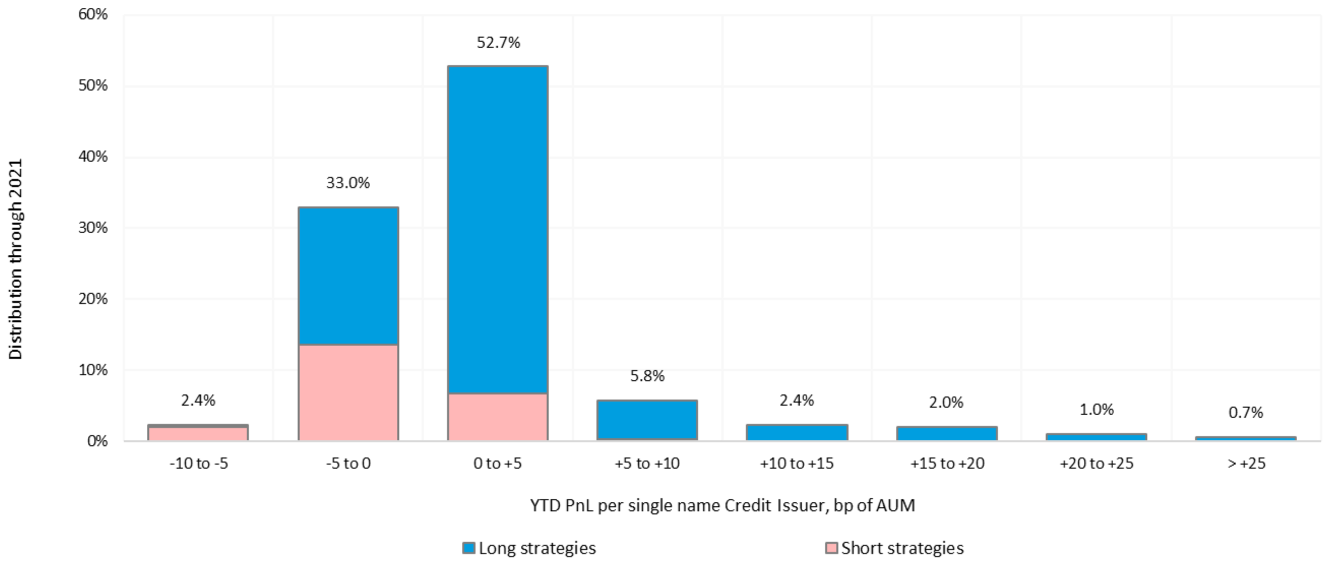
In 2021 we implemented close to 300 single name trades on c. 200 issuers.

The ratio of single name trades with positive YTD P&L vs negative YTD P&L (across both longs and shorts) was close to 2 to 1, with a hit ratio of c.65%. This positive distribution is illustrated quite clearly on Figure 7.

Importantly, losses were very controlled. Out of the 300 trades implemented, only 7 had a contribution worse than -5 bps at Fund level, and the worst performing trade contributed -9.3 bps to the Fund. This highlights the discipline of the PMs to stop non-performing ideas before they impact the P&L too much.

It is worth mentioning that most trades had a small positive contribution to the Fund. Altogether, trades contributing 0 to 10 bps to the Fund represented close to 60% of the total Gross P&L. This means that the Fund did not rely on just a few ideas to make its performance. Only a couple of names contributed more than 25 bps to the Fund P&L (Banco Sabadell, with a contribution of 35 bps, and Deutsche Bank, with a contribution of 25 bps). Figure 7 illustrates this point.

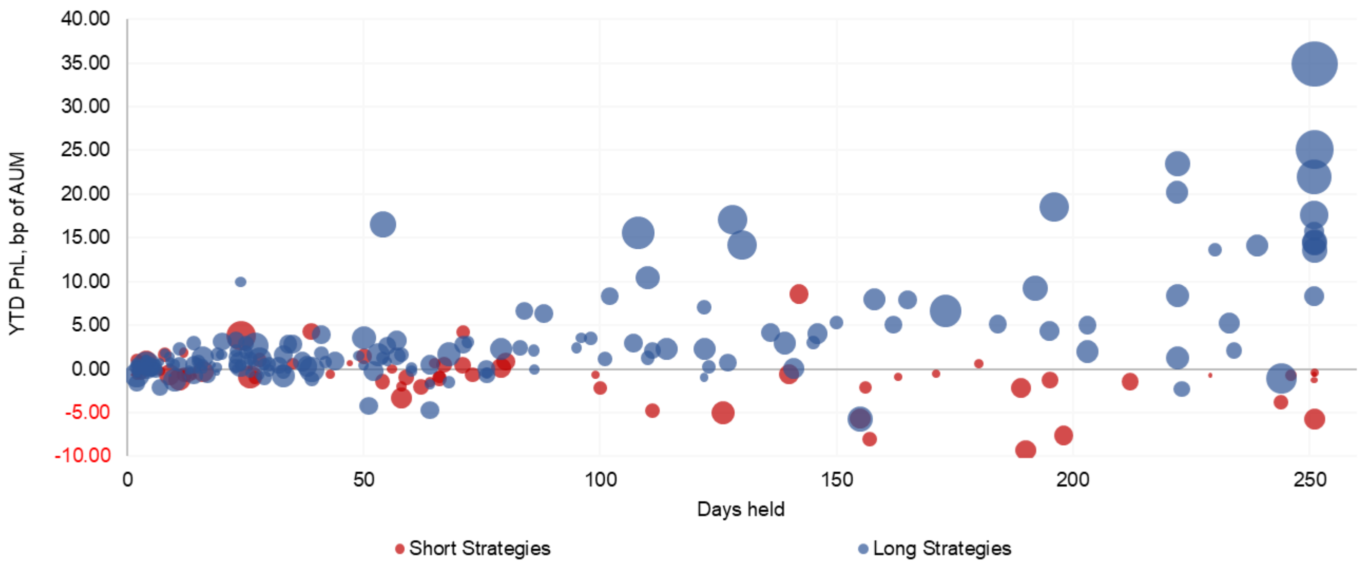
Figure 7: Distribution of YTD P&L per single name trades, 2021 YTD



Source: Chenavari, as of 29 December 2021.

Figure 8 gives a visual understanding of the single name trading activity, based on the length of holding of the trades (horizontal axis) and the PV10 associated to each trade (size of the bubble).

Figure 8: Breakdown of YTD P&L per single name trades, as a function of days held (X axis) and PV10 (size of the bubble)



Source: Chenavari, as of 29 December 2021.

In essence, the PMs have been trading actively across their strategies. They activated a myriad of short-term, tactical trades with lower returns, and have been collecting larger returns on a few fundamental ideas which were held for longer. Whenever an idea had a negative return, there was a clear discipline to ensure none would dent into the PnL of the Fund too dramatically.

2. MARKETS IN 2022 - TOWARD A NEW REGIME?

2.1 THOUGHTS ON THE MARKET

The factors that supported the great rally after the dislocation in March 2020 (namely, low rates, massive stimuli) will fade away in 2022, leading markets to return to a more conventional behaviour, including higher volatility.

As discussed above, 2021 will be remembered as another risk-on year for equities, adding up to the decade-long bull market the world has experienced (cf. Figure 9). However, European credit indices had a lukewarm year.

Figure 9: S&P annual returns since 2009

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
+23.5%	+12.8%	-0.0%	+13.4%	+29.6%	+11.4%	-0.7%	+9.5%	+19.4%	-6.2%	+28.9%	+16.2%	+26.9%

Source: Bloomberg, as of 31 December 2021. **THE FIGURES RELATING TO PAST PERFORMANCES REFER OR RELATE TO PAST PERIODS AND DO NOT PREDICT FUTURE RETURNS. THIS ALSO APPLIES TO HISTORICAL MARKET DATA.**

The key supporting factor for risky assets in 2022 is the continued economic recovery in Europe and the US. Calling the end of a bull market is therefore as perilous as ever (and somewhat vain in the context of this letter).

However, we believe that the current equilibrium might be challenged in 2022 by several shifts.

The first and most obvious point here is the return of inflation, notably across Europe and the US. The narrative of a temporary inflation phenomenon (due to a supply shock whilst demand has kept growing) has been challenged notably in the US, where structural forces (most notably high employment rates) point to a more long-lasting inflation scenario. The same goes in the UK, where shortage of labour add a significant pinch point to the inflation picture.

This return of inflation in an environment of full employment should trigger Central Banks to raise interest rates faster than imagined previously, putting an end to a period of super low rates. The UK started the movement in December with a 15bp hike on 16 December. Obviously, the GFC and then Covid have led to a swelling of public debt in developed countries and hence the service of the debt will need to be kept in check, meaning that real rates should remain negative for the foreseeable future. That said, a more hawkish stance should in time impact the valuation of long duration assets. As at end December, in spite of the messages from the Fed, we note that the rise in rates has yet to materialise, most probably because the uncertainties surrounding Omicron continue to make the US T-bills a safe haven.

In parallel to this, Central Banks must cope with the end of the stimuli they introduced to keep their economies afloat since the GFC. The US are more advanced there with three hikes planned for 2022. In Europe, although the timing is different, the ECB has given a slightly hawkish twist to its December conference, with the gradual extinction of the PEEP and a reduction of its APP between Q3 and Q4 2022 (from EUR 40bn to EUR 20bn).

Of course, Central Banks are preparing markets extremely well to those events to avoid any disorderly market reaction. However, beyond the communication, there are real life impacts to be expected from the increase of rates and the reduction of stimuli.

Finally, presidential elections in Europe could create a bit of noise over the start of the year, starting with Italy in January (where the potential appointment of Mario Draghi could create a snap election), and then France in April (where the popularity of far-right demagogues may lead to significant uncertainty until results are out).

Combined with rich valuations, we believe there is room for the market to take a less directional stance during H1 2022, especially if Omicron derails the recovery but does not lead to further “jumbo support” from governments and central banks.

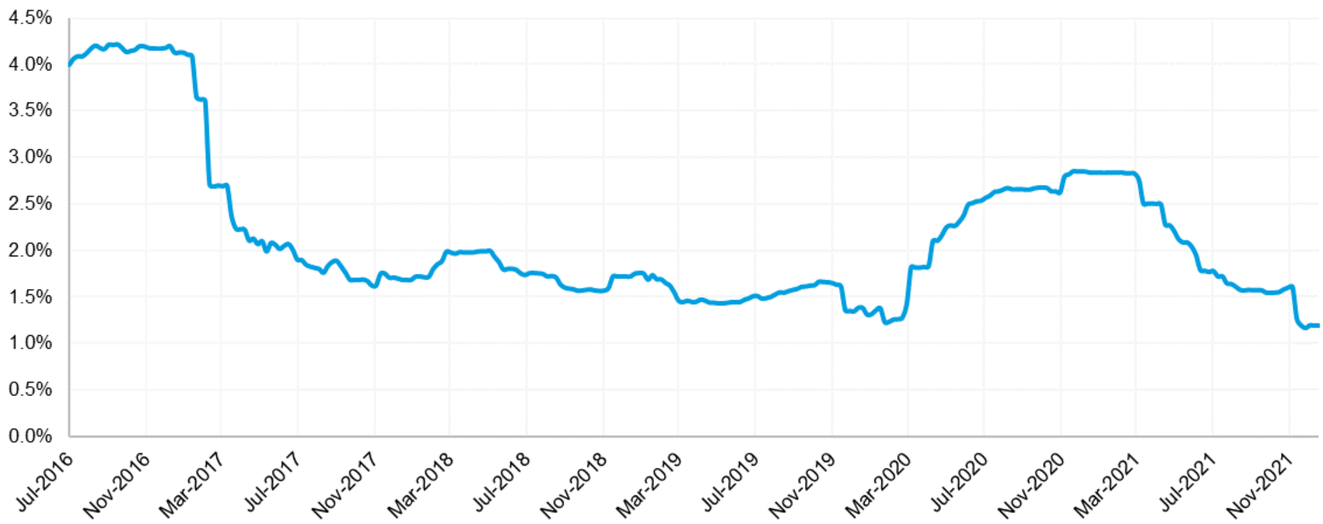
Ultimately, we would expect these factors to lead to the return of higher volatility levels in markets in H1 2022.

Figure 10: VIX index since 1 January 2019

Source: Bloomberg, as of 29 December 2021.

More volatile markets would be rather welcome for long / short strategies. They offer more "waves to ride" (up and down) and more opportunities to build alpha, notably in front of the passive funds (which had been the grand winners of the Bull decade). Naturally, they also mean more risk and more volatility for the funds themselves.

Figure 11: 2022, the return of higher volatility?
One year rolling volatility of the Fund's USD SI Share Class since July 2016



Source: Chenavari Risk, as of 29 December 2021.

Given there is very little carry in the market, and very little buffer on valuations, the key to our success will be to navigate through these risk events in the most appropriate way.

2.2 CORPORATES[5]

In the Corporate bucket, IG names have been the clear beneficiaries of QE. Further to the changes of monetary policies we believe that they may reprice gradually, getting closer to HY and therefore creating a “compression trade” opportunity on a simple Long HY / Short IG trade.

On the long side, we believe that a selective basket of high yield names is not a bad place to be. As discussed above, economies will still be growing healthily in 2022, and fundamentals should keep on improving. We will be focusing on names offering decent yield to collect some carry like Iliad in Q4 2021.

Supermarket chains like Asda, Iceland and Casino look attractive specially as the current Omicron wave hits Europe. Demand for their products should remain well supported while valuation screen very well when compared to other industries. TMT is another safe sector that ranks well after a wave of new issues that pushed the spreads wider. We like to be long Faurecia to play the volume rebound of the European auto industry as the chip bottlenecks abate. Debt collectors is another sector well positioned for 2022 as the recent increase in portfolio acquisition should continue to drive EBITDA growth. On the short side we believe that specialty chemicals are quite vulnerable as the combination of inflationary pressures and high energy prices exert a big pressure on margins.

2.3 FINANCIALS[6]

When it comes to Financials, after taking a rather defensive stance over Q4 2021, we are gearing up to a more constructive stance.

Bank fundamentals are looking strong as we enter 2022. The rebound from the pandemic has been faster and stronger than expected. European bank’s capital ratios have improved again in Q3 2021 and only a few banks show a capital surplus below 200bps (e.g. BCP), as NPLs have further decreased. In addition, banks results could be boosted in 2022 by significant provision releases thanks to the normalisation of the cost of risk. We believe that we could see upward earnings revisions if Euro rates are set to rise in 2023, a strong support for bank equities which would also help Euro AT1 spreads.

Assuming a constructive environment (non-risk off but with continuing rate volatility), we would favour Euro AT1 given that their spread pick-up is still attractive compared to other high beta assets, and because of the “benign” rate environment in the eurozone in 2022. We would focus on bonds with high coupon resets, which therefore have less risk of negative convexity (as they are less at risk of being extended), and on bonds in the belly of the curve (i.e., 2025-2027 calls). We notably like the UK banks, such as Barclays which offers a very high coupon (7 ¼), pointing to significant carry and a reduced risk of negative convexity (i.e., the probability of the bond not being called is low).

In the Tier 2 space, our core convictions trade will be on Deutsche Bank and Unicredit. We see decent alpha opportunities on their Tier 2 bonds, which could both be upgraded from HY to IG in 2022 - triggering index eligibility (and a technical squeeze in credit spreads).

We would avoid being invested in Senior Non-Preferred and Senior Preferred. Indeed, the gradual removal of the TLTRO will trigger the need for European banks to refinance, creating a pressure point for existing Senior debt.

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[5] Please note that the mentioned strategies are sub-strategies which are not detailed in the constitutive documents of the fund and conform to the overall strategy of the fund mentioned in the documents

[6] Idem 5

* * *

We hope the above helps explain the Fund's approach. Our obsession in 2022 will be to keep a disciplined and consistent approach to investment, monitor the size and liquidity constraints of the Fund, without reneging on our commitment to protect the book in tensed periods. We will endeavour to account for the macro forces at play in the market, keeping a nimble approach to top-down positioning, whilst using fundamental, bottom-up research to generate alpha.

We thank you for your continued trust and hope to pursue a fruitful partnership with you in the years to come.

With our best wishes for 2022,

Vincent Laurencin

Deputy CEO and Chair of the Fund's portfolio review, Chenavari Investment Managers

DISCLAIMER

MAIN RISKS:

- Risk of losses: The price of shares can go up as well as down and investors may lose their entire initial investment. The investments and the positions are subject to: market fluctuations, reliability of counterparts and operational efficiency in the actual implementation of the investment policy.
- Credit risk: The Fund is subject to the risk that any issuer could become insolvent or to otherwise event having an impact on the credit quality of this issuer. The consequence of this risk or event may result in an investment losses.
- Liquidity risk: Certain contingent capital bond securities may be substantially less liquid than many other securities, such as common stocks or government securities. Illiquid securities involve the risk that the securities will not be able to be sold at the time desired or at prices approximating the value at which the Fund is carrying them on its books.
- Leverage and value at risk: The use of leverage creates special risks and significantly increase the Fund's investment risk. Leverage creates an opportunity for greater yield and total return but may increase the exposure to capital risk.

For any additional details about the risks associated with the Fund, please refer to the legal documentation which is available upon request at Lyxor Asset Management – 91-93, boulevard Pasteur, 75015 Paris– France.

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