CONFIDENTIAL

Lyxor / Chenavari Credit Fund

22 March 2023 *(amended on 23 March 2023 to clarify the effect of the Credit Suisse CDS Holdco Senior on the iTraxx Fins Senior index)*

REVIEW OF FUND POSITIONING AND PERFORMANCE ON MONDAY 20 MARCH 2023

Dear investors,

With the Sunday news that UBS was buying out Credit Suisse, with the AT1 being wiped out whilst equity holders were getting "a little something", Monday was always going to be a bleak day for the AT1 asset class.

The key question for wider markets was whether systemic risk had been successfully addressed or whether anxiety would keep escalating, creating further dislocation. Monday opened on a bleak note with AT1s down 15 to 20 points, but generally improved as markets felt reassured by the deal and as the ECB issued a statement on the importance of the AT1 market in the EU (and on the fact that AT1 should be senior to equity). AT1s subsequently closed the day 6 to 12 points down.

As for the Lyxor / Chenavari Credit Fund (the "Fund"), we started the day with a limited exposure to AT1 (net exposure of c. 5.2% at Fund level), and yet we experienced a significant drawdown of c. 1.36%[1] gross on Monday 20 March. Taking into account the performance of Tuesday 21 March (up c. 34bps gross), the Fund's YTD performance was c. -0.67% gross as at 21 March close.

What happened?

20 MARCH 2023 IN A NUTSHELL

What went ok …

- At Friday 17/3 close, we had flattened the portfolio as shown in Figure 1 (chart section at the end of the letter).
- Overall exposure to financials had been reduced from 42% in early February 23 to 33.8% (as at Friday 17/3, in terms of capital usage, see Figure 2).
- We had reduced net exposure to AT1s from above 12% in early February 23 to 5.2% as at Friday 17/3 close (as a % of Fund AuM, see Figure 3).
- At Friday 17/3 close, we had no exposure to CS AT1s. The sole exposure was on the Hold Co senior bonds.
- We had cut hedges on rates ahead of the rates plunge (which had actually started the previous week).

What did not go well …

- Our long positions in cash Bonds fell across the board (not just AT1s), "naturally" exposing the long leg of both the Financials and Corporate strategies (-1.20% as shown in Figure 4).
- The hedges standing in front of long cash positions were built using (1) synthetic indices (on the credit side, most notably the iTraxx Crossover and iTraxx Senior Financials), which tightened and hence generated a negative P&L, and to a lesser extent (2) some equity indices which rallied through the day. Overall, this generated a further loss of 0.48%, which was only partly compensated by single name shorts (+0.28%). See Figure 5 and Figure 6.

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[1]The gross performance figures indicated in this letter are preliminary, unaudited figures to provide context on the Fund on the back of the sudden market movements that took place on Monday 20 March 2023.

To some extent, the story is the same on both the Financials and Corporate books: poor performance of cash instruments (way beyond the AT1 market), and negative contribution of hedges. To a certain extent, the reason for the negative contribution of hedges is explained by the increase of basis between cash and synthetic. When it comes to the iTraxx Fins Senior, it is mostly due to the tightening of Credit Suisse CDS Holdco Senior (given the relief on Holdco Senior Bonds).

LOOKING FORWARD

Now that systemic risk has subsided in Europe, the European Financials credit space does show some appealing yield and we have taken a constructive approach on some Senior and Tier 2 names in particular. Barring any trust-led crisis, the European banking system appears to be robust, with little risk of hidden problems given the quality of the European regulation.

We would expect the basis between cash and synthetic to gradually normalise, reducing the impact of Monday's drawdown (obviously this also depends on whether we carry the same hedges in the near future).

That said, some risks command scrutiny.

In the immediate short term, it will be essential to monitor flows on the AT1 asset class as this could be a source of renewed volatility. At the time of writing this letter, buyers have reappeared on AT1s, and the asset class is bouncing back, reducing the probability of any significant issue.

More fundamentally, the banking troubles in Europe and the USA point to one single direction: much more restrictive lending. This is recessionary by nature and could therefore accelerate the end of the cycle. Monitoring bank lending data becomes a key topic for us to appreciate the speed and magnitude of the problem.

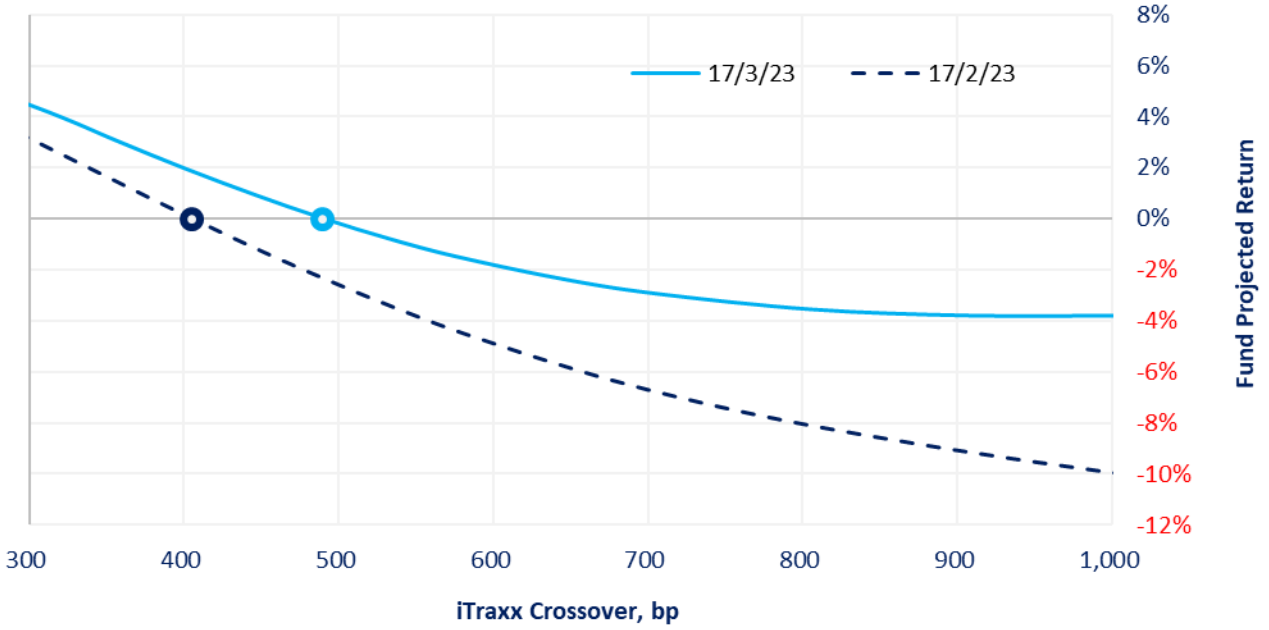
Finally, the main tail risk to monitor is the regional US banks crisis and its potential for a spill over. Beyond its dozen systemic banks, US regulation has taken a loose approach creating significant uncertainty in the current environment.

In summary, the market has come out of panic mode but not out of the woods.

We see alpha and beta to be captured in the market (as quite a few names are coming close to their October lows in spread terms). However, the end of the cycle is getting closer, calling for a very dynamic approach on positioning. This environment calls for actively managed long/short funds which should capture performance across European credit, both in corporates and financials.

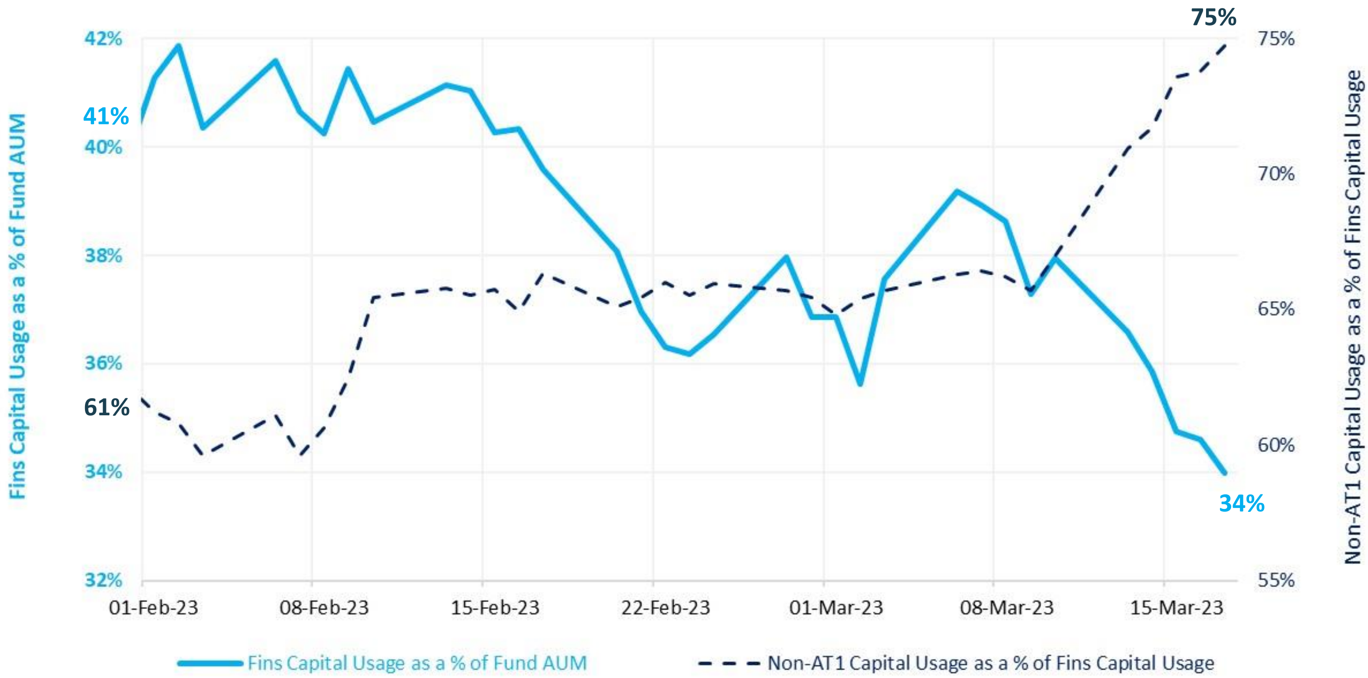
OUR POSITIONING AND EXPOSURES IN CHARTS

Figure 1: Positioning of the Fund as at 17 March 23 close compared to 17 February 23: significant flattening (expressed as theoretical performance against Crossover index movements).



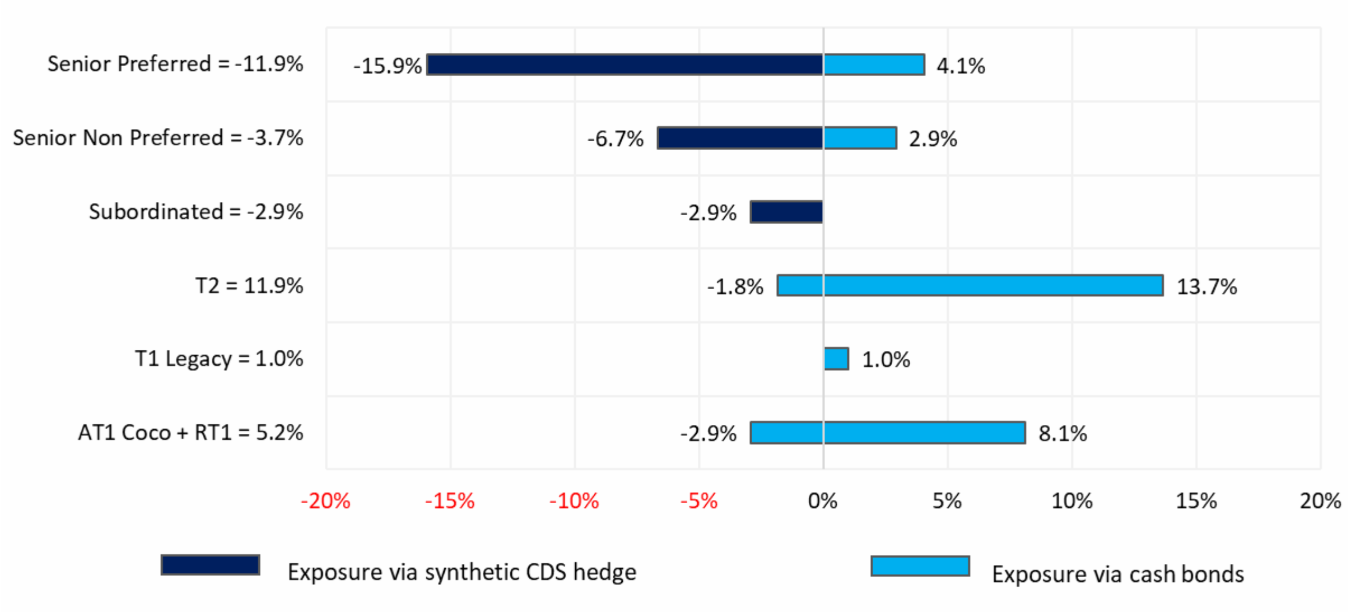
Source: Chenavari, as at 17 March 2023.

Figure 2: The capital usage of the Financials Strategy came down since February 2023. At the same time, the allocation to non AT1 / RT1 instruments within Financials increased significantly.



Source: Chenavari, as at 17 March 2023.

Figure 3: Exposure to Financial instruments, including indices (% Fund AUM), as at 17 March 2023.



Note: the large Senior Preferred short exposure stems from the short on iTraxx Senior Financial (i.e. a synthetic index used as a hedge on the Financials strategy).

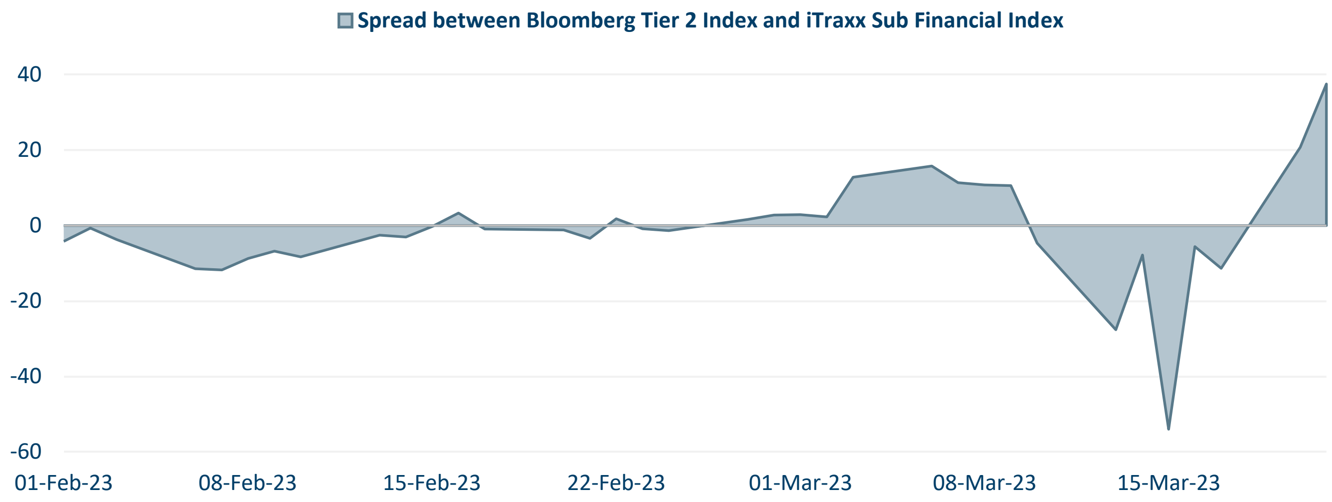
Source: Chenavari, as at 17 March 2023.

Figure 4: 20 March 2023 – Contribution to Fund Performance by instrument, Financial and Corporate Strategy (Euros).

	TOTAL	Financials Strategy	Corporate Strategy
Long Bonds	-1.20%	-0.85%	-0.35%
Short Bonds	+0.28%	+0.23%	+0.05%
Other*	-0.43%	-0.23%	-0.20%
Total	**-1.36%**	**-0.85%**	**-0.51%**

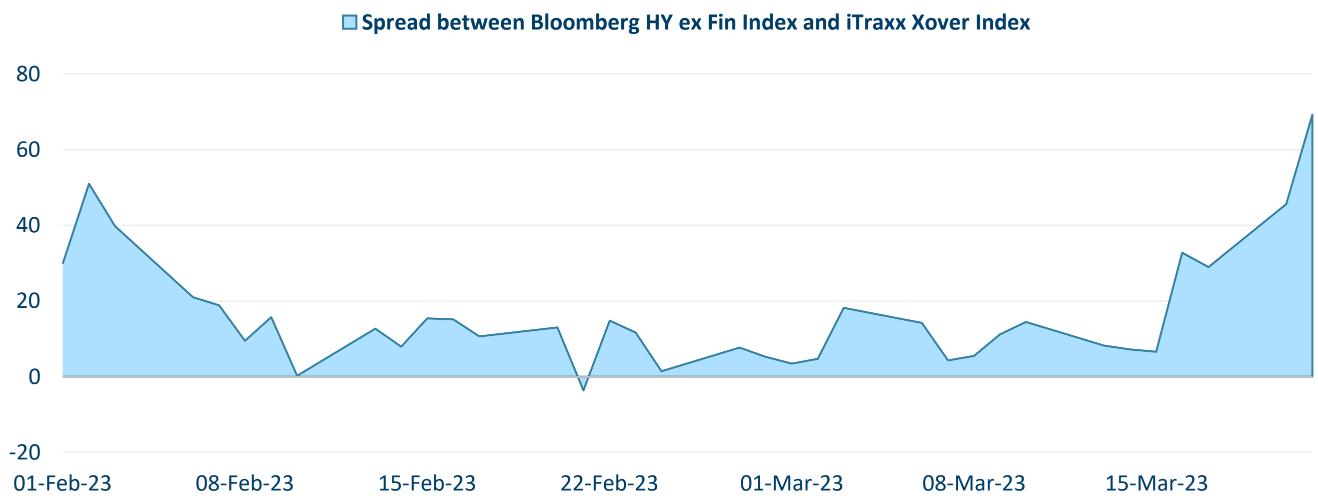
Source: Chenavari, as at 20 March 2023. *Other includes indices, single name CDS, equity and rates.

Figure 5: The disconnection between Cash and Synthetic on Financials, since 1 February 2023 (essentially explained by the tightening of Credit Suisse CDS Holdco Bond in the iTraxx Sub Financial Index).



Source: Chenavari and Bloomberg, as at 20 March 2023.

Figure 6: The basis effect on Corporates (disconnection between Cash and Synthetic), since 1 February 2023.



Source: Chenavari and Bloomberg, as at 20 March 2023.

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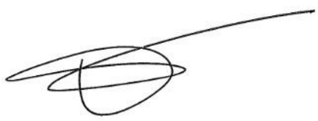

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