Informed Investor: Manager Monitor Q2 2017

by Marlène Hassine Konqui, Head of ETF Research and Clément Chaulot, Fund Analyst- Lyxor AM

Performance improves in Q2 2017

Q2 2017 – Average % of active funds outperforming their benchmark

35% ▼18% on Q1

of *fixed income* managers outperformed. Government bond and emerging market bond managers were the major culprits

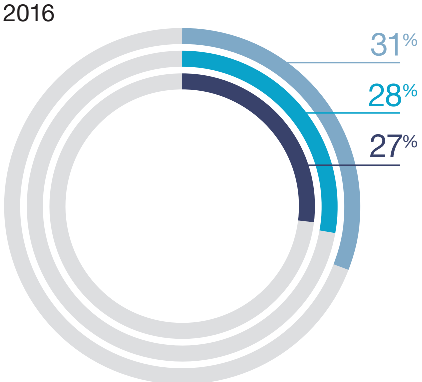
55% ▲3% on Q1

of *all* active managers outperformed their benchmark vs 28% in 2016

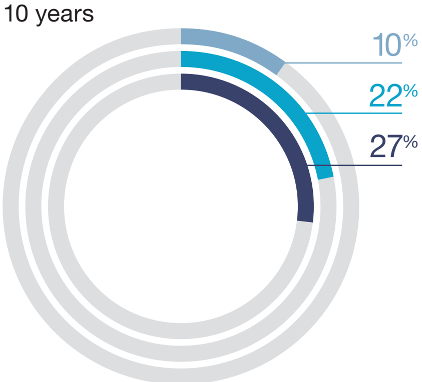
63% ▲11% on Q1

of *equity* managers outperformed. UK, Global and European managers enjoyed the most notable improvements

2016



10 years



Fixed Income Equity Average

Q2 summary

- Improving results for active managers throughout 2017 so far
- Fixed income managers have struggled with the interest rate environment
- Equity fund managers are back on track
- Despite that, equity ETFs gathered more inflows than active funds in H1 2017

Source: Morningstar and Bloomberg data from 30 June 2007 to 30 June 2017.
*This document is reserved and must be given in Switzerland exclusively to Qualified Investors as defined by the Swiss Collective Investment Scheme Act of 23 June 2006 (as amended from time to time, CISA).

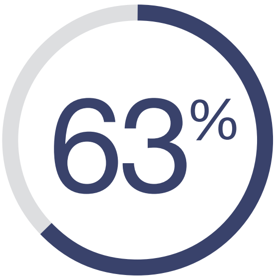
LYXOR etf
SOCIETE GENERALE GROUP

Manager Monitor

Highlights

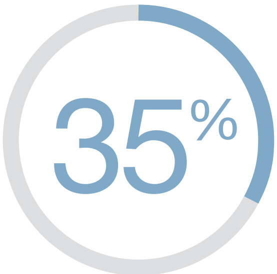
1. Improving results for active managers in 2017

55% of active managers outperformed their benchmark in Q2 2017 which is above last year's 28% and the 52% we saw in Q1. 63% of equity active managers outperformed their benchmarks vs. 27% in 2016, while 35% of fixed income active managers outperformed (vs. 31% in 2016). Long-term results suggest only 1 in 4 equity managers outperform over 10 years and 1 in 10 for fixed income active managers.



2. Equity active funds back on track?

Overall, active equity managers enjoyed the easing of political risk, the dovish policies of central banks and the improving economic conditions. They also captured the start of the Q2 rebound for more defensive areas like the low beta after their strong underperformance in H2 2016. The best results were again found in less efficient markets like small-caps. The major improvements on the other hand, were found in the UK, Global and European universes (see our special focus on p4).



3. Fixed income managers found the environment more difficult

Only 33% of government bond and 24% of emerging debt active managers outperformed as rates remained stable for much of the period. High yield active managers were again hindered by credit spreads rallying on the back of more defensive positioning. Credit was the one area where managers did improve, with 50% outdoing their index.

4. Equity ETFs gathered more inflows than equity active funds in H1 2017

Globally, a huge increase in active fund flows accompanied the improved performances of active funds: with EUR157bn of flows in 2017 vs. EUR1.5 bn in 2016. In the fixed income space, active fund inflows have doubled, despite the weaker performance (EUR137bn in H1). ETF flows on the other hand have fallen by 20% at EUR17bn. In equities, ETFs took in more money (EUR33bn), despite the improved active performance. (see our focus on flows on p6).

The passive perspective – Choosing an active manager is still a risky business

- Improvements were widespread, but choosing an active manager remains a risky business
- Over the last 12 months, many Japan and China equity investors will have been disappointed
- For all the positive seen in the US, still fewer than half of all managers outperform their large cap benchmark
- In fact, the average equity manager trailed their benchmark by 1.1% over the year. Only 1 in 4 has outperformed over 10 years

Source: Morningstar and Bloomberg data from 31/12/2015 to 30/06/2017. Factor: J.P. Morgan Europe Low Beta Factor Index
* Peer Groups are build equally-weighted in terms of fund composition

% of Active Funds outperforming the Benchmark and their performance difference

	Q2 2017		Q1 2017		1Y		10Y	
Universe	% of funds outperforming the benchmark	Performance difference	% of funds outperforming the benchmark	Performance difference	% of funds outperforming the benchmark	Performance difference	% of funds outperforming the benchmark	Performance difference
France Large Caps	65%	0.8%	43%	0.0%	33%	-3.0%	27%	-0.2%
France Smid Caps	52%	-0.5%	36%	-0.3%	56%	-0.7%		
UK Equity	73%	0.6%	40%	-0.2%	56%	1.4%	42%	0.0%
Europe Large & Mid Caps	71%	0.7%	44%	-0.2%	39%	-3.6%	29%	-0.3%
Europe Small Caps	87%	2.4%	77%	1.1%	79%	1.8%	30%	-1.0%
US Large & Mid Caps	44%	0.1%	32%	-0.2%	41%	-1.0%	13%	-1.3%
Japan Equity	32%	-0.3%	51%	0.0%	31%	-2.3%	19%	-1.4%
World Equity	73%	1.0%	45%	0.1%	42%	-2.8%	15%	-1.6%
Value Equity	82%	1.6%	83%	1.4%	54%	-1.0%	38%	-0.2%
Global Em Equity	85%	1.3%	80%	1.1%	55%	-0.9%	21%	-0.8%
China Equity	26%	-1.3%	38%	0.0%	21%	-2.7%	38%	-0.4%
Euro Govies	33%	-0.2%	60%	0.1%	60%	0.2%	14%	-0.9%
Euro Corporate	67%	0.3%	50%	0.2%	58%	0.6%	26%	-0.8%
Euro High Yield	16%	-0.5%	37%	-0.3%	31%	-1.9%	2%	-2.5%
Emerging Debt	24%	-0.4%	66%	0.2%	45%	-0.1%	0%	-1.5%
Average Equity	63%	0.6%	52%	0.3%	46%	-1.3%	27%	-0.7%
Average Fixed Income	35%	-0.2%	53%	0.1%	49%	-0.3%	10%	-1.4%
Average	55%	0.4%	52%	0.2%	47%	-1.1%	22%	-0.9%
Average 2016	–	–	–	–	28%	-1.9%	24%	-0.9%

Source: Morningstar and Bloomberg data from 30/06/2007 to 30/06/2017.

Special Focus on fund performance

Equity managers are back on track?

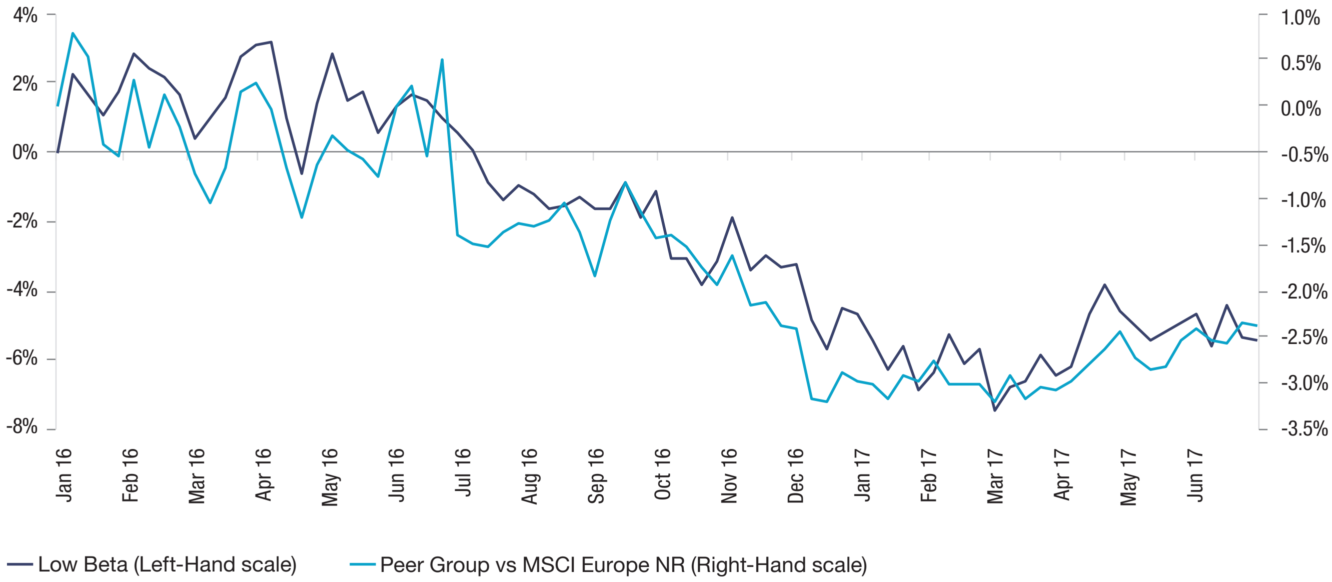
After a tough year last year, equity managers appear to be back on track. 63% of them outperformed their benchmark in Q2, compared to 52% in Q1 and only 28% in 2016. The most notable improvements vs. Q1 were in the European, global and UK universes.

In Europe, managers have tended to be defensively positioned with a general bias towards low beta, growth and quality, which had contributed to their disappointing run last year. They have now rebounded, with their improved performance strongly correlated to the improved performance of the low beta factor (Graph 1). 71% of Europe equity funds outperformed in Q2, compared to 19% in 2016. They haven't yet regained all of their lost ground, but they do seem to be back on track.

Global equity managers also improved substantially during Q2. 73% managed to outperform, compared to only 45% in Q1. Having been hindered by their enduring preference for Europe over the US and their accompanying long euro/short US dollar position (they generally don't hedge currency risk), these managers have enjoyed the dollar depreciation of recent months. The relative performance of active funds has in fact been very correlated to EUR/USD moves for some time (Graph 2).

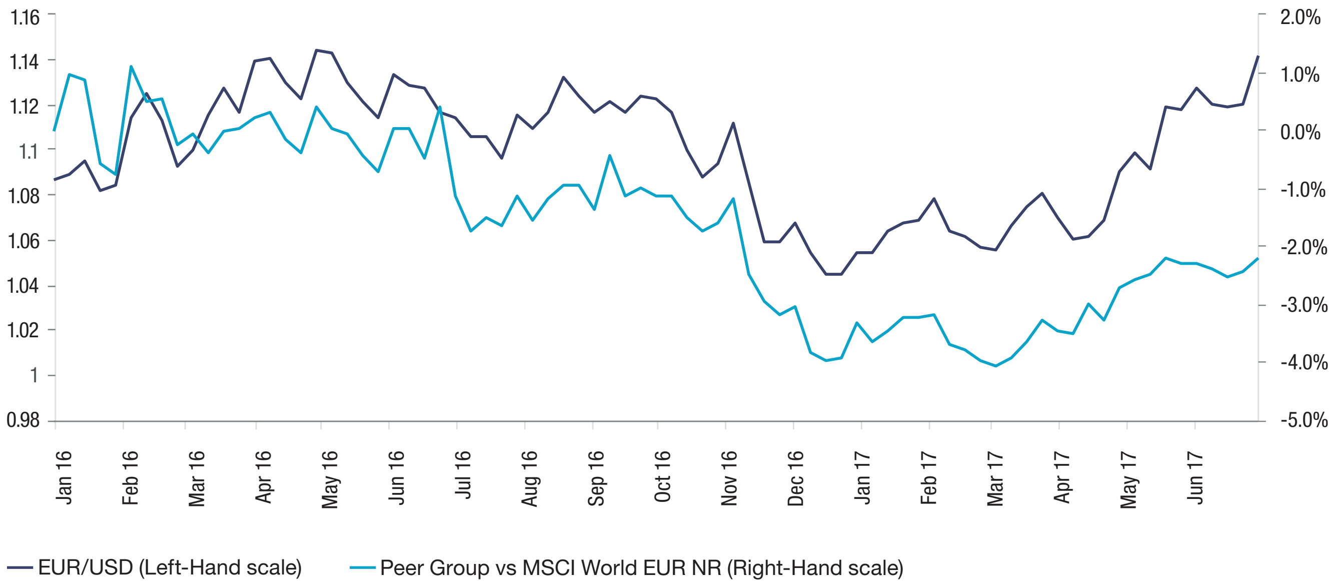
73% of managers also beat the benchmark in the UK, as opposed to the 40% we saw in Q1. Most of the managers have been overweight mid- and small-cap stocks, and have therefore had large exposures to the domestic stocks most affected by Brexit. The relative performance of our UK Equity Peer group against the benchmark has proven to be very correlated to the relative performance of the various capitalization segments (Graph 3).

Graph 1: Europe Equity Peer Group NR vs Low Beta Factor* Relative Performances vs MSCI Europe



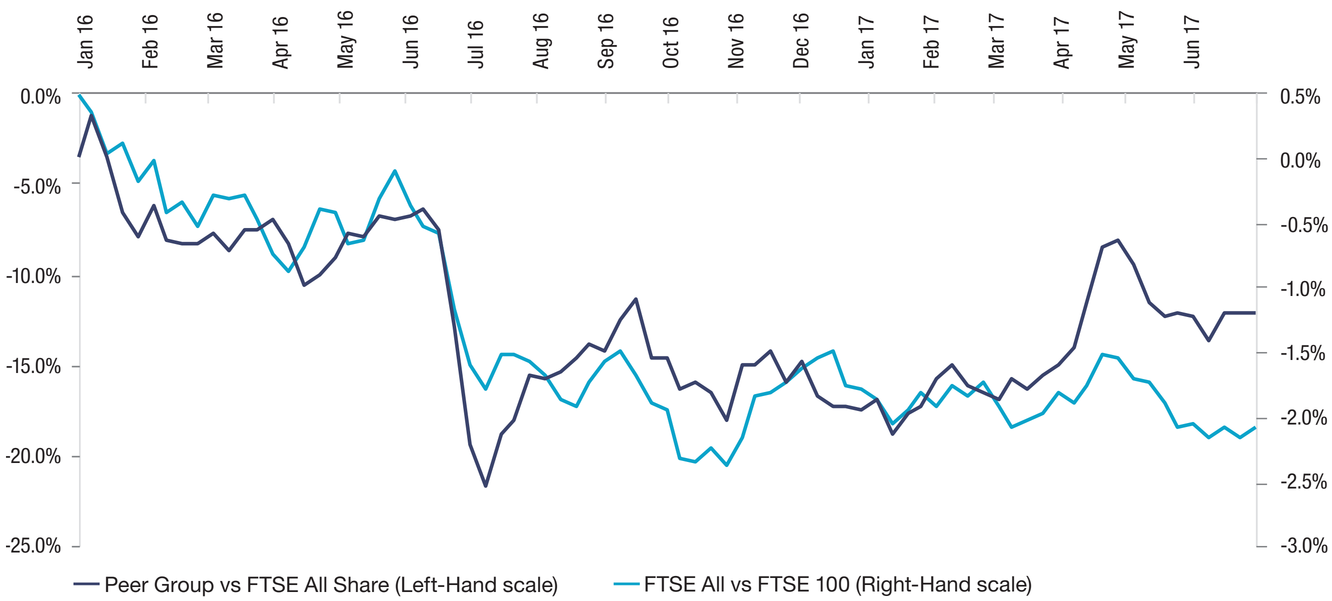
Source: Morningstar and Bloomberg data from 31/12/2015 to 30/06/2017. Factor: J.P. Morgan Europe Low Beta Factor Index
* Peer Groups are build equally-weighted in terms of fund composition

Graph 2: Relative Performance of World Equity Universe vs MSCI World EUR NR compared to EUR/USD rate*



Source: Morningstar and Bloomberg data from 31/12/2015 to 30/06/2017.

Graph 3 : Relative Performance of UK Equity Universe vs FTSE All Share compared to Relative Performance of FTSE All Share (All Caps) vs FTSE 100 (Large Caps)*



Source: Morningstar and Bloomberg data from 31/12/2015 to 30/06/2017.

* Peer Groups are build equally-weighted in terms of fund composition

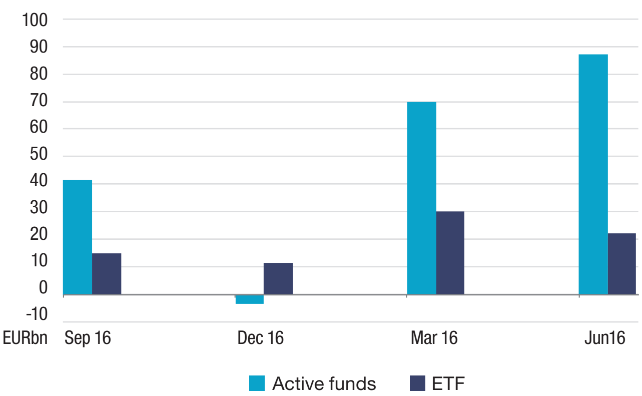
Special focus on fund flows

Is the money going to the right place?

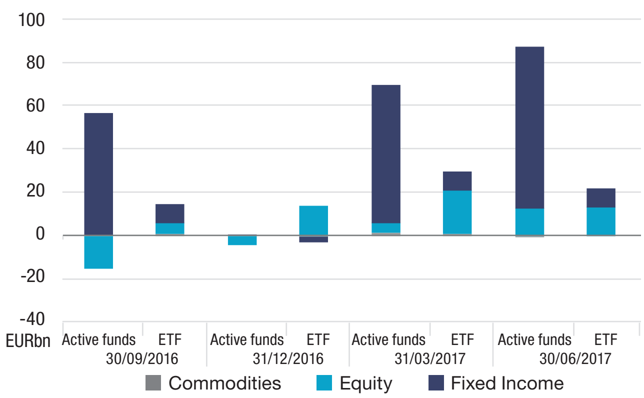
As we've shown, a huge increase in active fund flows has accompanied the pick-up in active fund performance. Demand continued to pick up in Q2: after seeing net inflows of EUR 70 billion in Q1, open-end funds domiciled in Europe posted net inflows of EUR 87 billion in Q2. This rise was founded on a surge in inflows to bond funds which, despite weaker performance in Q2, generated twice the inflows to reach EUR137bn in H1 2017. In contrast, flows into fixed income ETFs are 20% down on where they were at EUR17bn.

In equities, ETFs are gathering more money than active funds (EUR33bn vs. EUR18bn), despite more positive performance from managers. That said, the improved performance helped stem outflows of EUR77bn last year and generate EUR18bn of inflows instead. The demand for ETFs hasn't wavered however, after a record Q1 2017. Consequently, flows were nearly double those of active funds.

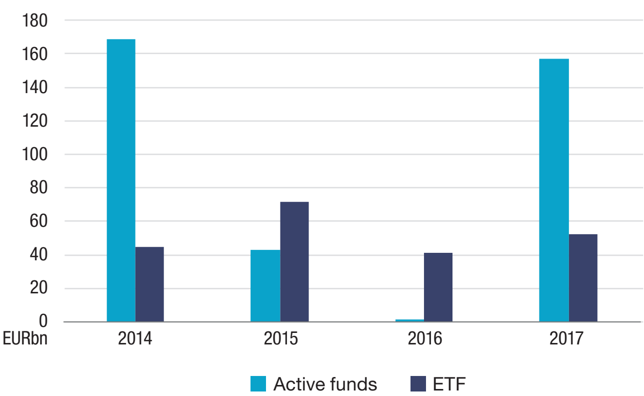
Quarterly Global Europe Active funds and ETF flows



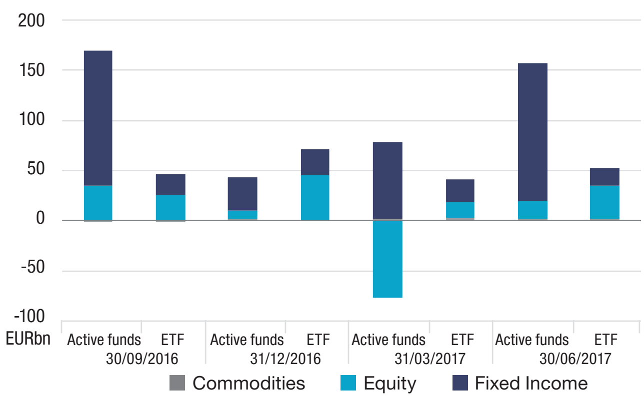
Quarterly Europe Active funds and ETF flows by Category



Yearly Global Europe Active funds and ETF flows



Yearly Europe Active funds and ETF flows by Category



Source: Lyxor and Morningstar data in EURbn from 01/01/2014 to 30/06/2017.

Universe description

	Benchmark	Selection Criteria	Start Date Index	Nb Of Funds	Aum As Of 30.06.2017 (M€)
France Large Caps	CAC 40 (CACR)	Morningstar Category France Large Cap	1987	132	31,004,585,158
France Smid Caps	CAC Mid & Small (CMSN)	Benchmarked by the main France Small & Mid Caps indices : (MSCI France Small Cap, MSCI France Mid Cap, CAC Mid&Small, Cac Mid 60, CAC Small Cap)	2008	58	5,787,568,454
UK Equity	FTSE All Shares (FTPTTALL)	Funds which Morningstar Category is UK Large Cap Blend Equity and which Primary Prospectus Benchmark is the FTSE All Shares	1985	219	108,671,058,223
Eur Large + Mid Caps	MSCI Europe (M7EU)	Morningstar Category Europe Equity Large Cap	1998	784	204,957,611,945
Europe Small Caps	MSCI Europe Small Cap (NCEDE15)	Funds which Morningstar Category is Europe Small-Cap Equity or which Global Investor Fund Sector is Europe Small Equity or which Primary Prospectus Benchmark corresponds to one of the main Europe Small Caps indexes	2000	195	28,992,652,937
US Large + Mid Caps	MSCI USA (NDDUUS)	Morningstar Category US Large Cap Equity (Blend+Value+Growth)	1969	763	295,038,858,048
Japan Equity	TOPIX Japan (TPXDDVD)	Morningstar Category Japan Equity	1989	86	25,247,690,768
World Equity	MSCI World (NDDUWI)	Benchmarked by the MSCI World	1969	543	173,305,649,278
Value Equity	MSCI World Value (NDUVWI)	Morningstar Category Global Large Cap Value Equity	1974	207	70,745,267,234
Global EM Equity	MSCI Emerging Markets (NDUEEGF)	Benchmarked by the MSCI Emerging Markets	1998	114	31,749,381,717
China Equity	MSCI China (NDEUCHF)	Morninstar Category EUR China Equity	1998	90	22,403,043,474
EUR Govies	EuroMTS Global Investment Grade (EMIEG5)	Morninstar Category EUR Governments Bonds	2004	274	76,859,207,114
EUR Corporate	Barclays Capital Euro Corporate Bond (LECPTREU)*	Morninstar Category EUR Corporate Bonds	1998	135	119,655,136,785
EUR High Yield	BofA Merrill Lynch Euro High Yield (HE00)	Morninstar Category EUR High Yield Bonds	2006	130	45,291,538,750
Emerging Debt	Emerging Markets Local Currency Bond (JGENVUEG)	Morninstar Category Global Emerging Markets Bond - Local Currency	2002	141	57,059,278,088
Total				3871	1,296,768,527,974

Source : Morningstar data in EUR from 31/12/2006 to 30/06/2017.
The figures relating to past performances refer to past periods and are not a reliable indicator for future results. This also applies to historical market data.

Knowing your risk

It is important for potential investors to evaluate the risks described below and in the fund prospectus on our website www.lyxoretf.com

Capital at risk
The capital invested is not guaranteed.

Replication risk
The fund objectives might not be reached due to unexpected events on the underlying markets which will impact the index calculation and the efficient fund replication.

Fund liquidity risk
The fund's liquidity and/or value may be negatively affected by different factors.

Counterparty risk
The fund shall be exposed to the counterparty risk resulting from the use of otc for ward financial instruments contracted with a lending institution.

Currency risk
The ucits etfs are exposed to currency risk, as they may be denominated in a currency different from the index.

Important information

This document has been provided by Lyxor International Asset Management that is solely responsible for its content.

This document is not to be deemed distribution of funds in Switzerland according to the Swiss collective investment schemes act of 23 June 2006 (as amended from time to time, **CISA**) or any other applicable Swiss laws or regulations.

This document is reserved and must be given in Switzerland exclusively to Qualified Investors as defined by the Swiss Collective Investment Scheme Act of 23 June 2006 (as amended from time to time, **CISA**).

Any information in this document is given only as of the date of this document and is not updated as of any date thereafter.

This document is for information purposes only and does not constitute an offer, an invitation to make an offer, a solicitation or recommendation to invest in collective investment schemes. This document is not a prospectus as per article 652a or 1156 of the Swiss Code of Obligations, a listing prospectus according to the listing rules of the SIX Swiss Exchange or any other exchange or regulated trading facility in Switzerland, a simplified prospectus, a key investor information document or a prospectus as defined in the CISA.

An investment in collective investment schemes involves significant risks that are described in each prospectus or offering memorandum. Each potential investor should read the entire prospectus or offering memorandum and should carefully consider the risk warnings and disclosures before making an investment decision.

Any benchmarks/indices cited in this document are provided for information purposes only.

This document is not the result of a financial analysis and therefore is not subject to the "Directive on the Independence of Financial Research" of the Swiss Bankers Association.

This document does not contain personalized recommendations or advice and is not intended to substitute any professional advice on investments in financial products.

Find out more

www.lyxoretf.ch

LYXOR etf
SOCIETE GENERALE GROUP