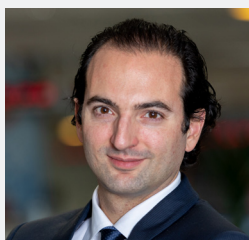


US Inflation-sensitive Bonds

Performance report – Q1 2019



Philippe Baché
Head of Fixed Income ETFs

Market review

US CPI data were pretty much unchanged between October and December 2018⁽¹⁾. While the index was supported by stronger food inflation in December, the 30%+ sell off in oil prices we saw in the latter part of the year was a drag. The pick-up in core goods prices over the period was largely a function of a change of methodology in calculating used vehicle prices, which resulted in increases in October and November. Real yields compressed further across maturities over Q1 2019 as the Fed turned more dovish. There was also good demand for TIPS over the period and increased supply (\$32bn in total) did not harm market pricing.

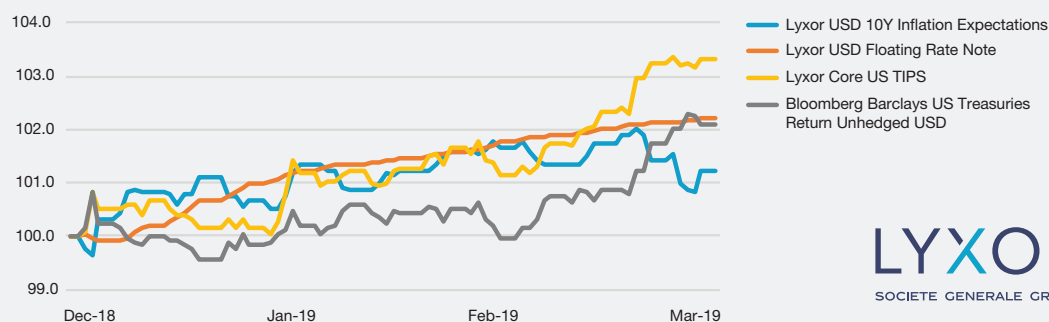
Overall, inflation-linked bonds benefited from further downside in nominal and real yields over the quarter. Lyxor Core US TIPS (DR) benefited most, outperforming nominal bonds. Lyxor US\$ 10Y Inflation Expectations lagged due to its close to neutral duration exposure. Finally, the Lyxor USD Floating Rate Note recovered over the quarter thanks to tighter spreads on Financials (c. -30bps) over the period and the general recovery in market sentiment.

(1) US Inflation-linked bonds use linear interpolation (translating CPI monthly data into daily fixings) with a 3 months lag on payment date. As an example – in April the USD inflation curve will quote the combination of January & February CPI data.

Fund details

Fund name	Lyxor Core US TIPS (DR) UCITS ETF	Lyxor USD 10Y Inflation Expectations UCITS ETF	Lyxor USD Floating Rate Note UCITS ETF
Index Tracked	BCIT1T	IBXXUBF1	BF27TRUU
Bloomberg ticker	TIPU	INFU	BUOY
Duration	7.94	-0.18	0.13
Assets under management	\$1,414.5m	\$755.5m	\$287.8m
Replication type	Direct	Indirect	Indirect
Total expense ratio	0.09%	0.25%	0.10%
Q1-19 performance	+3.31%	+1.14%	+1.95%
2018 performance	-1.57%	+1.44%	+0.88%

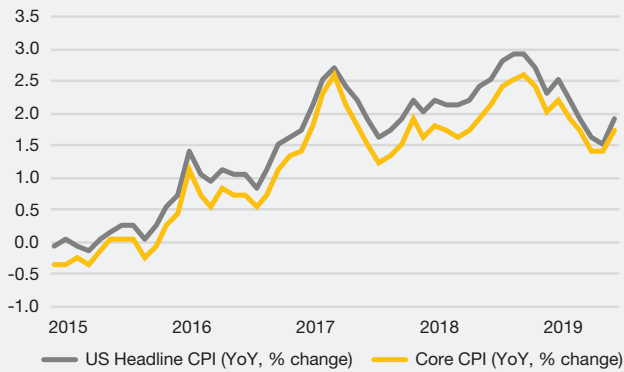
Year-to-date performance of US inflation sensitive bond funds



Source: Lyxor International Asset Management, Bloomberg. Data as at 29/03/2019. Market cap refers to the reference market capitalisation weighted FTSE USA index. Past performance is not a reliable indicator of future results.

Market parameters

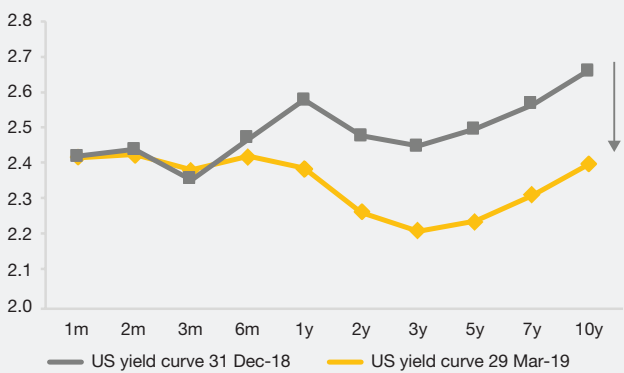
US CPI YoY (Headline & Core)



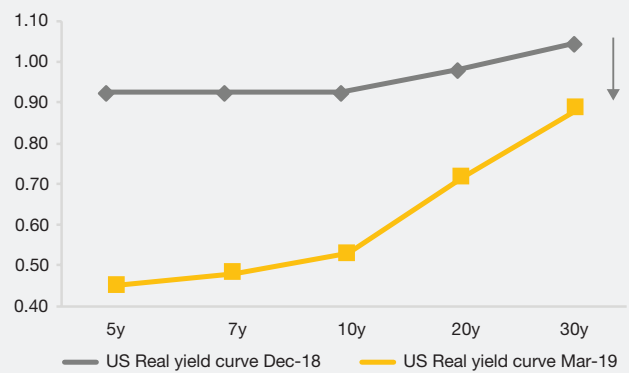
Oil prices YoY (WTI spot price, \$/bbl)



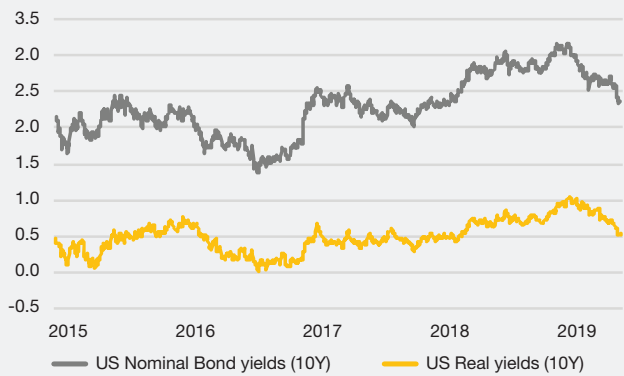
US Treasuries yield curve (nominal, in %)



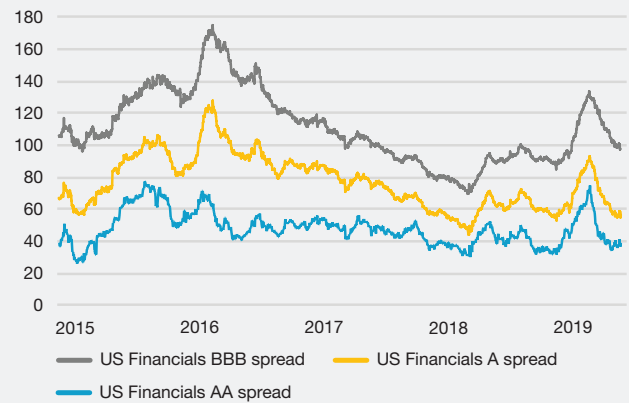
US Treasuries yield curve (real, in %)



US real vs nominal bond yields (%)



US Financials corporate bond spreads (3yrs, bps)



Sources: Lyxor International Asset Management, Bloomberg, data as at 29/03/2019

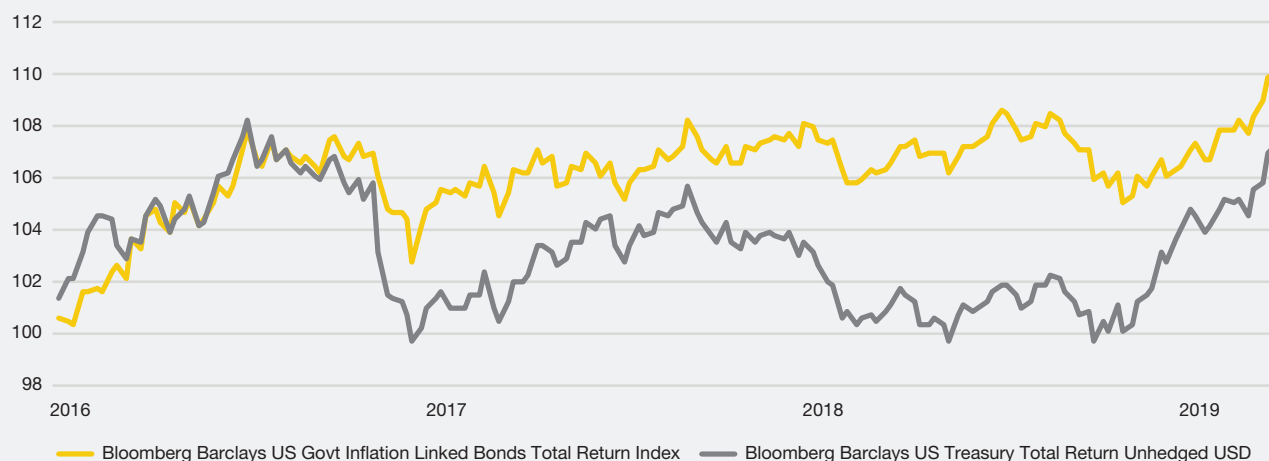
Lyxor Core US TIPS (DR)

Performance commentary

US headline CPI prints were pretty much unchanged in Q4 2018⁽¹⁾. Prices were hit by the deterioration of market sentiment, which affected energy prices most. The pick-up in core goods prices we saw was due to the change in used vehicle pricing.

The US real yield curve flattened over Q1 2019, mainly at the front end. The TIPS market benefited from the rebound in oil prices after the major declines of late 2018. The index's long-term buckets (20Y+) accounted for most of the performance in Q1 and posted the strongest performance in March (+4.80%). The other maturity buckets also contributed positively over the period.

How has the benchmark index performed relative to US Treasuries?



Returns

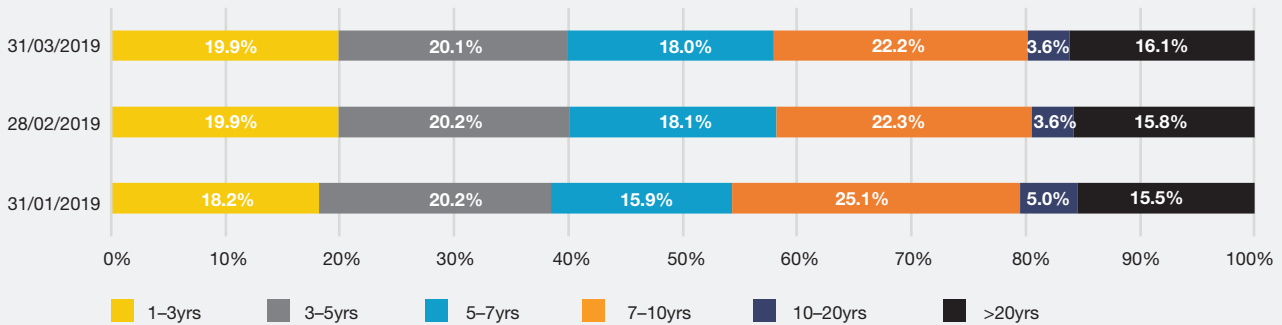
	Currency	Since Inception (**)	Total return (%)					
			YTD	Q4-18	Q3-18	Q2-18	Q1-18	1Y
Lyxor Core US TIPS (DR) UCITS ETF – Dist (*)	USD	2.22%	3.31%	-0.52%	-0.95%	0.77%	-0.88%	2.59%
Bloomberg Barclays US Government Inflation-Linked Bond Index	USD	2.46%	3.34%	-0.49%	-0.92%	0.80%	-0.86%	2.69%
Bloomberg Barclays US Treasury Total Return Index	USD	0.63%	2.11%	2.57%	-0.59%	0.10%	-1.18%	4.22%

(*) pro-forma with reinvested dividends (**) 29/07/2016

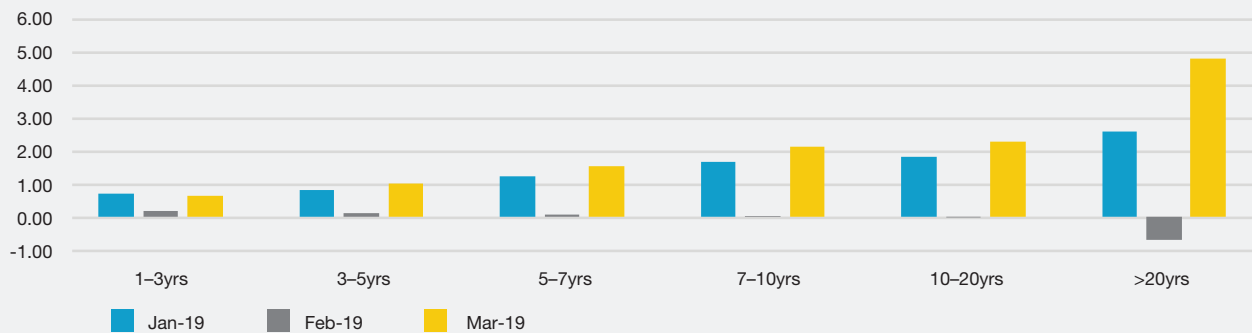
Sources: Bloomberg Barclays, data as at 29/03/2019. Past performances are not reliable indicators of future performance.

(1) US Inflation-linked bonds use linear interpolation (translating CPI monthly data into daily fixings) with a 3 months lag on payment date. As an example – in April the USD inflation curve will quote the combination of January & February CPI data.

Benchmark index breakdown by maturity buckets



Index return by maturity buckets



Date	Total Return (%)						
	Total	1 - 3 yrs	3 - 5 yrs	5 - 7 yrs	7 - 10 yrs	10 - 20 yrs	> 20 yrs
31/01/2019	1.40%	0.70%	0.83%	1.23%	1.66%	1.84%	2.60%
28/02/2019	-0.03%	0.19%	0.11%	0.08%	0.01%	-0.02%	-0.69%
31/03/2019	1.94%	0.65%	1.01%	1.54%	2.12%	2.28%	4.80%

Sources: Bloomberg Barclays, data as at 29/03/2019. Past performances are not reliable indicators of future performance.

Index composition analysis

There were no changes in the index over the period.

Rebalancing	Bond (in)	Bond (out)
Jan-19	-	-
Feb-19	TII 0 % 01/15/29	TII 1 % 01/15/20
Mar-19	TII 1 02/15/49	-

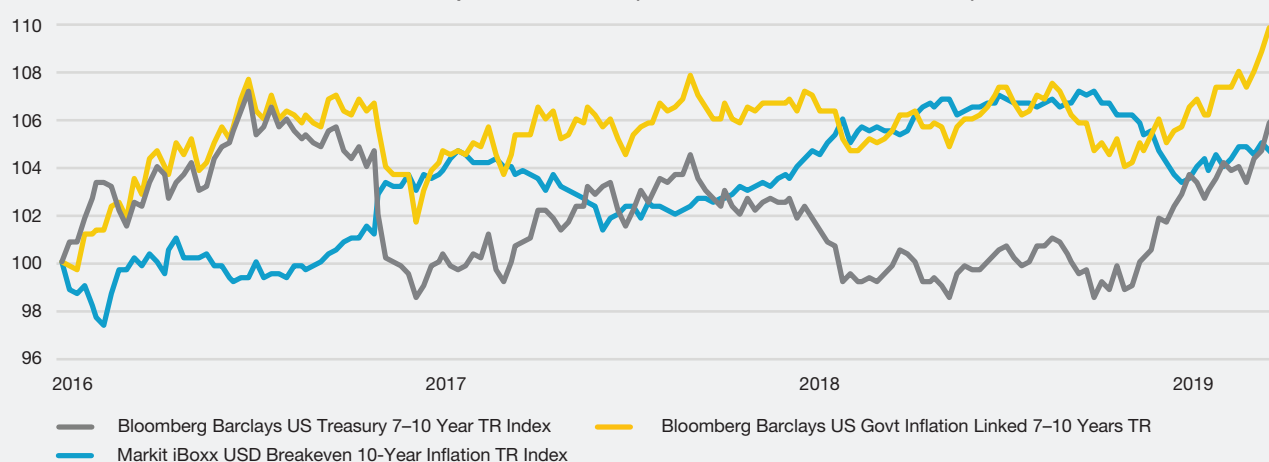
Sources: Lyxor International Asset Management, Barclays, data as at 29/03/2019

Lyxor USD 10Y Inflation Expectations

Performance commentary

In Q1 19, the index posted positive performance thanks to a strong rebound in the TIPS basket (+4.0%), which compensated for the loss experienced with the short leg on the back of lower nominal yields. The positive average repo also added to overall performance.

How has the benchmark index performed? (base 100 = 01/01/2016)



Sources: Lyxor International Asset Management, Markit, Bloomberg. Data as at 29/03/2019. Past performances are not indicative of future returns.

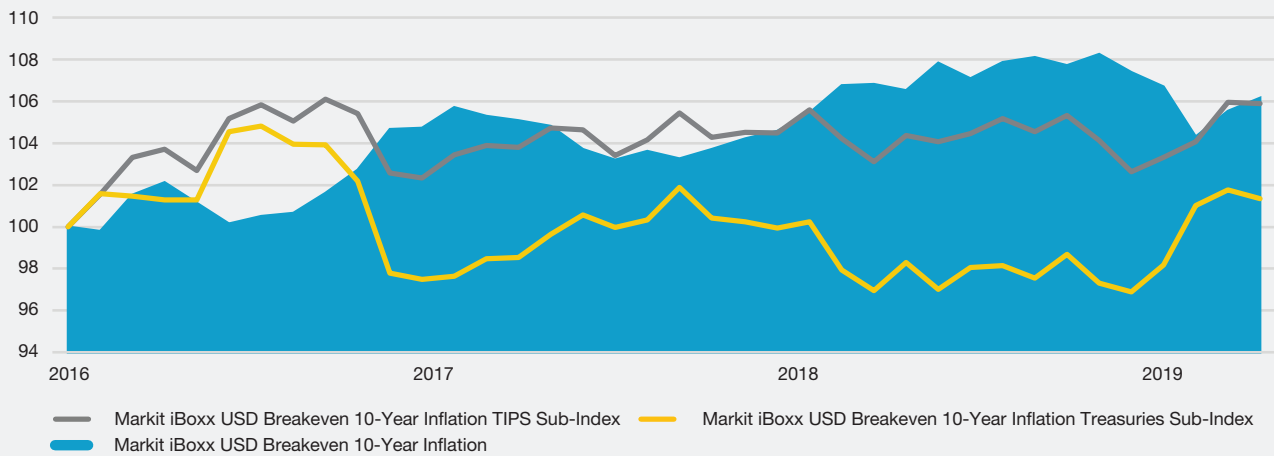
Returns

	Total return (%)						
	Since Inception (*)	YTD	Q4-18	Q3-18	Q2-18	Q1-18	1Y (**)
Lyxor US\$ 10Y Inflation Expectations UCITS ETF – Acc	3.76%	1.14%	-3.73%	0.28%	1.20%	0.89%	-1.19%
Markit iBoxx USD Breakeven 10-Year Inflation Index	4.82%	1.22%	-3.64%	0.36%	1.28%	1.02%	-0.85%
Bloomberg Barclays US Government Inflation-Linked 7 to 10 Y Bond Index	5.77%	3.83%	0.00%	-1.01%	0.81%	-1.08%	3.61%
Bloomberg Barclays US Treasury 7-10 Year Total Return Index	2.46%	2.87%	3.75%	-0.79%	-0.10%	-1.86%	5.77%

(*) 13/04/2016. (**) Period starting from 31/03/2018.

Sources: Lyxor International Asset Management, Markit, Bloomberg. Past performances are not reliable indicator of future performance

Benchmark index performance analysis



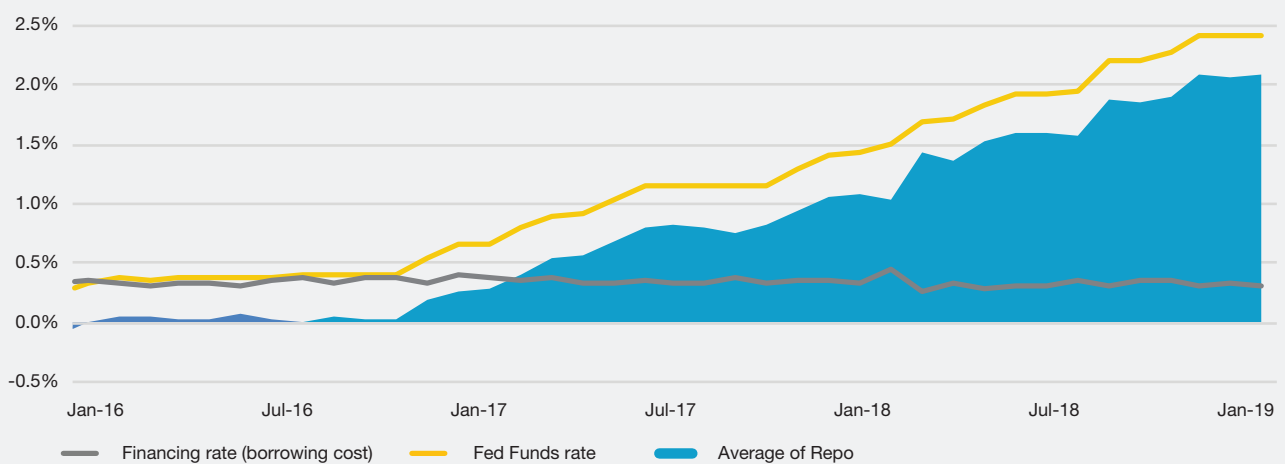
	2019 Q1	2018 Q4	2018 Q3	2018 Q2	2018	2017
Benchmark index return over the period	1.24%	-3.64%	0.35%	1.27%	-1.09%	0.68%
TIPS basket performance (Long)	4.06%	-0.07%	-0.99%	0.78%	-1.46%	3.21%
US Treasuries basket performance (Short)	3.01%	3.82%	-0.87%	-0.15%	0.77%	2.84%
Average Scaling Factor (SF)	111.76%	110.25%	108.51%	108.78%	108.49%	106.42%
Average Repo return (*) (R)	0.52%	0.47%	0.40%	0.36%	1.49%	0.64%
Total Rebalancing costs (RC)	-0.04%	0.00%	-0.04%	-0.07%	-0.18%	0.18%
Net performance estimation						
Long US TIPS - SF * (Short US Treasuries - R) - (RC)	1.23%	-3.76%	0.34%	1.27%	-0.86%	0.69%

(*) the average return over the period for the net repo (Fed Funds minus Financing Rate as defined by Markit). This may lead to estimations deviations when the average repo is not constant over the period.

The index performance is the result of:

- ▶ The difference between the realised daily returns of the Inflation-Linked Bonds (ILB) basket and the US Treasuries (UST) bond basket
- ▶ This performance is adjusted for the cost of repo and rebalancing, when applicable

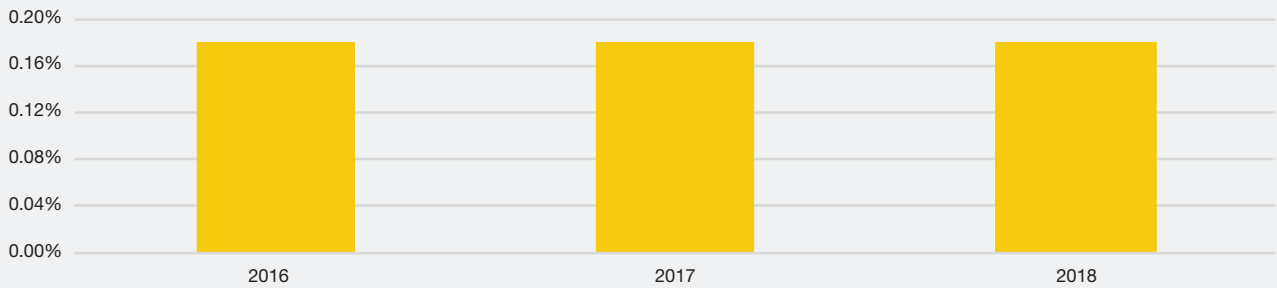
Historical average repo return



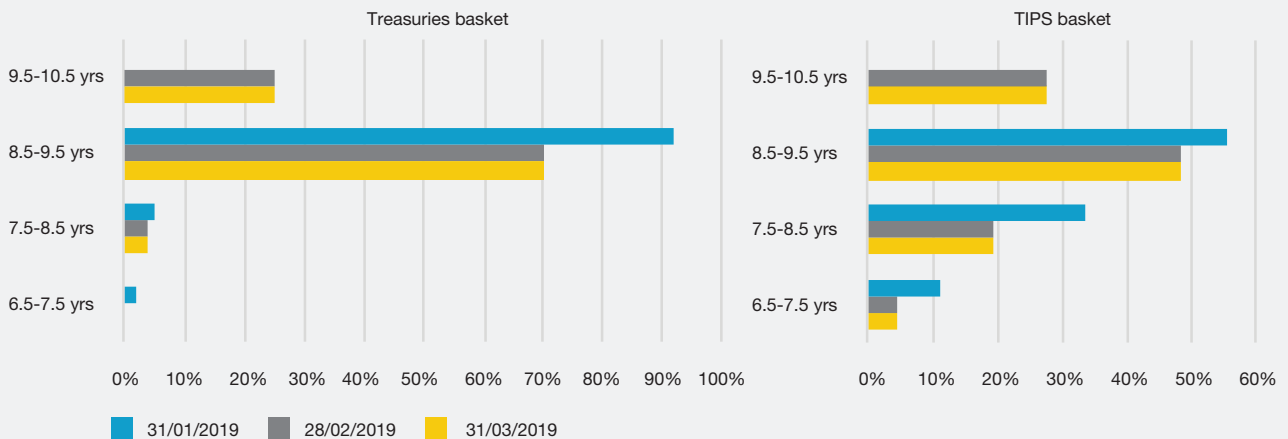
Average of repo: the average return over the period for the net repo (Fed Funds minus Financing Rate as defined by Markit). This may lead to estimations deviations when the average repo is not constant over the period.

Sources: Lyxor International Asset Management, Markit, data as at 29/03/2019. Past performances are not reliable indicators of future performances.

Historical rebalancing costs



Historical maturity breakdown

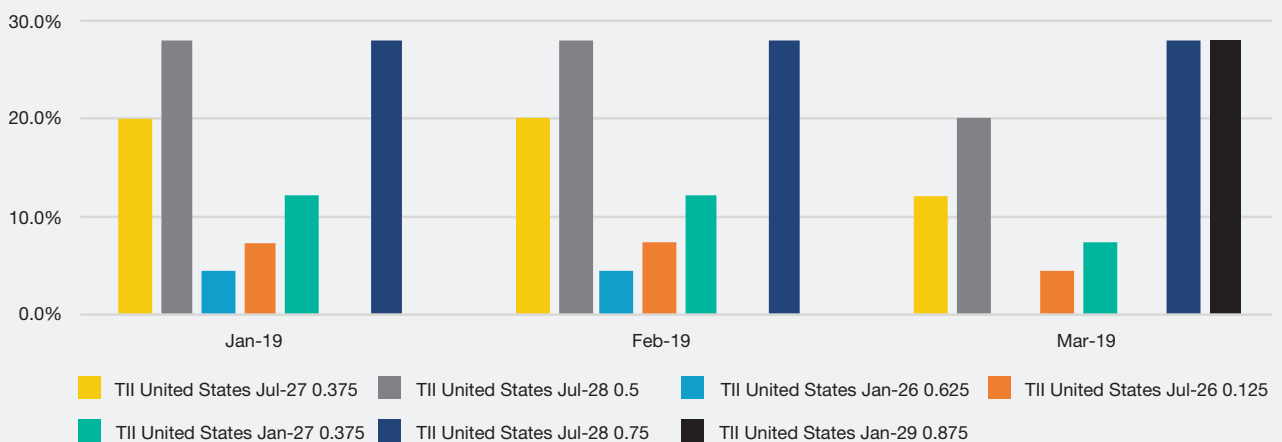


Benchmark index composition analysis

In Q1 2019, the composition of the inflation-linked leg changed as the result of a new 10-year TIPS issue. 10-year TIPS are issued twice a year, in January and July. At the February rebalancing, the Jan-29 0.875 TIPS entered into the composition of the long inflation-linked leg. This along with basket rebalancing resulted in high turnover (56%).

The short US Treasuries basket has also been adjusted in order to maintain close to neutral duration on the overall index.

Benchmark index rebalancing history

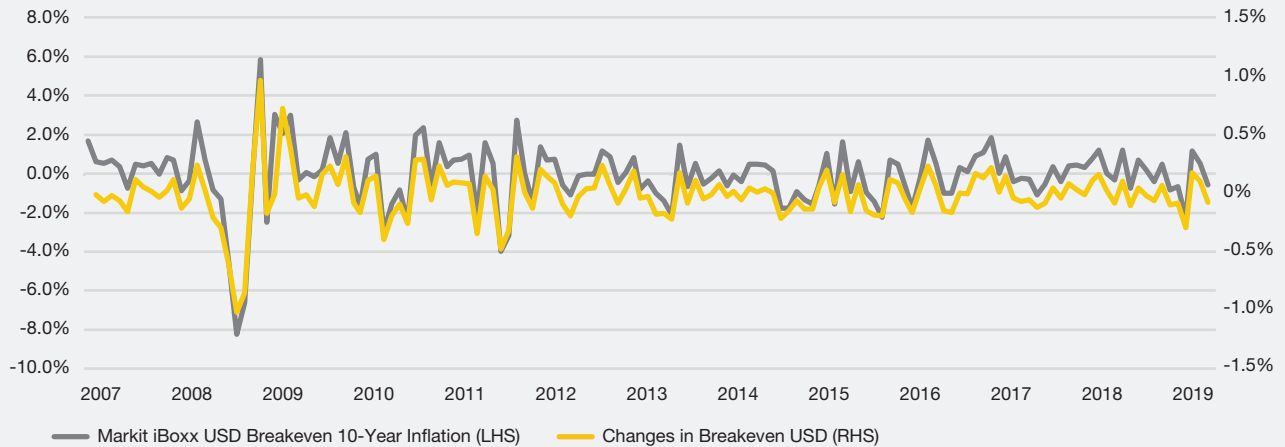


Sources: Lyxor International Asset Management, Markit, data as at 29/03/2019. Past performances are not reliable indicators of future performances.

How does the benchmark index behave vs theoretical US breakeven inflation rate?

The index is designed to capture changes in the 10-year breakeven inflation rate. Due to the non-linear relationship between changes in yield and return and fluctuations in market supply and demand, the magnitude of index movement compared to changes in breakeven inflation varies from time to time. Thus, the comparison between the index level and the breakeven rate can be only directional. The relationship between the changes in the two series is, however, clearly visible (chart below). Historically, across the entire sample period, a 1% absolute change in the breakeven inflation rate corresponded to an approximately 8% change in the index level. The correlation coefficient between the two series exceeds 0.9. The correlation level can vary over time and should not be used as a systematic rule.

Markit iBoxx USD breakeven 10-year inflation vs changes in average breakeven



Sources: Lyxor International Asset Management, Markit, Bloomberg, data as at 29/03/2019. Past performances are not reliable indicators of future performances.

Lyxor USD Floating Rate Note

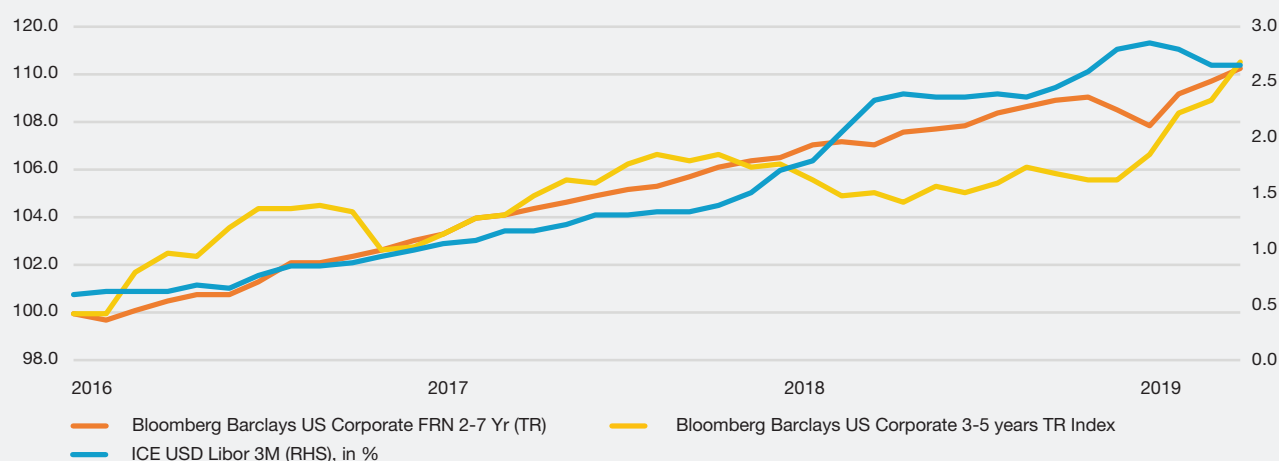
Performance commentary

In Q1 2019, the index benefited from tighter spreads on US financials and the recovery in risk sentiment. All maturity buckets recorded positive performance over the period, with the 5-7yr bucket benefiting most.

Over Q1 2019, country exposure was stable. Exposure to Financials declined slightly, but still represented approximately 70% of the index's total market value. Exposure to Communications increased marginally in March. The US remained the biggest issuing country with almost 60% of the index's market value, followed by the UK with around 10%.

Over Q1 2019, the number of bonds in the index has been significantly reduced as a result of declining FRN issuances. Before 2019, issuances were large and generally lead to an increased number of bonds in the index. This is no longer the case.

How has the benchmark index performed? (base 100 = 01/01/2016)



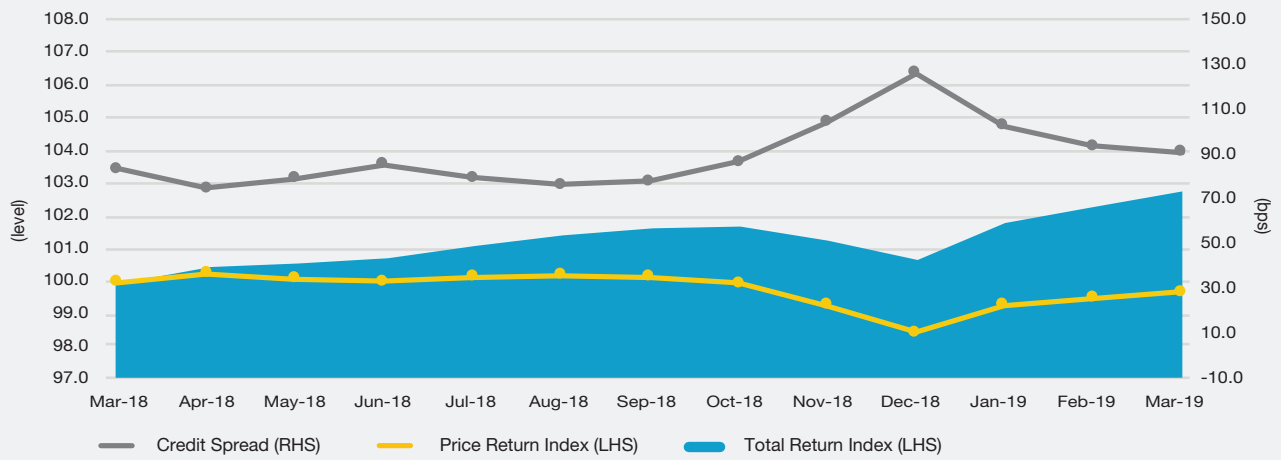
Returns

	Returns %						
	Since Inception (**)	YTD	Q4-18	Q3-18	Q2-18	Q1-18	1Y
Lyxor \$ Floating Rate Note UCITS ETF – Dist (*)	5.05%	2.14%	-1.05%	0.87%	0.72%	0.35%	2.68%
Bloomberg Barclays US Corporate FRN 2-7 Year Total Return Index Unhedged	5.68%	2.22%	-0.97%	0.94%	0.80%	0.42%	2.99%
Bloomberg Barclays US Treasury 3-5 Year Total Return Index	3.29%	1.59%	2.42%	-0.16%	-0.01%	-0.74%	3.87%

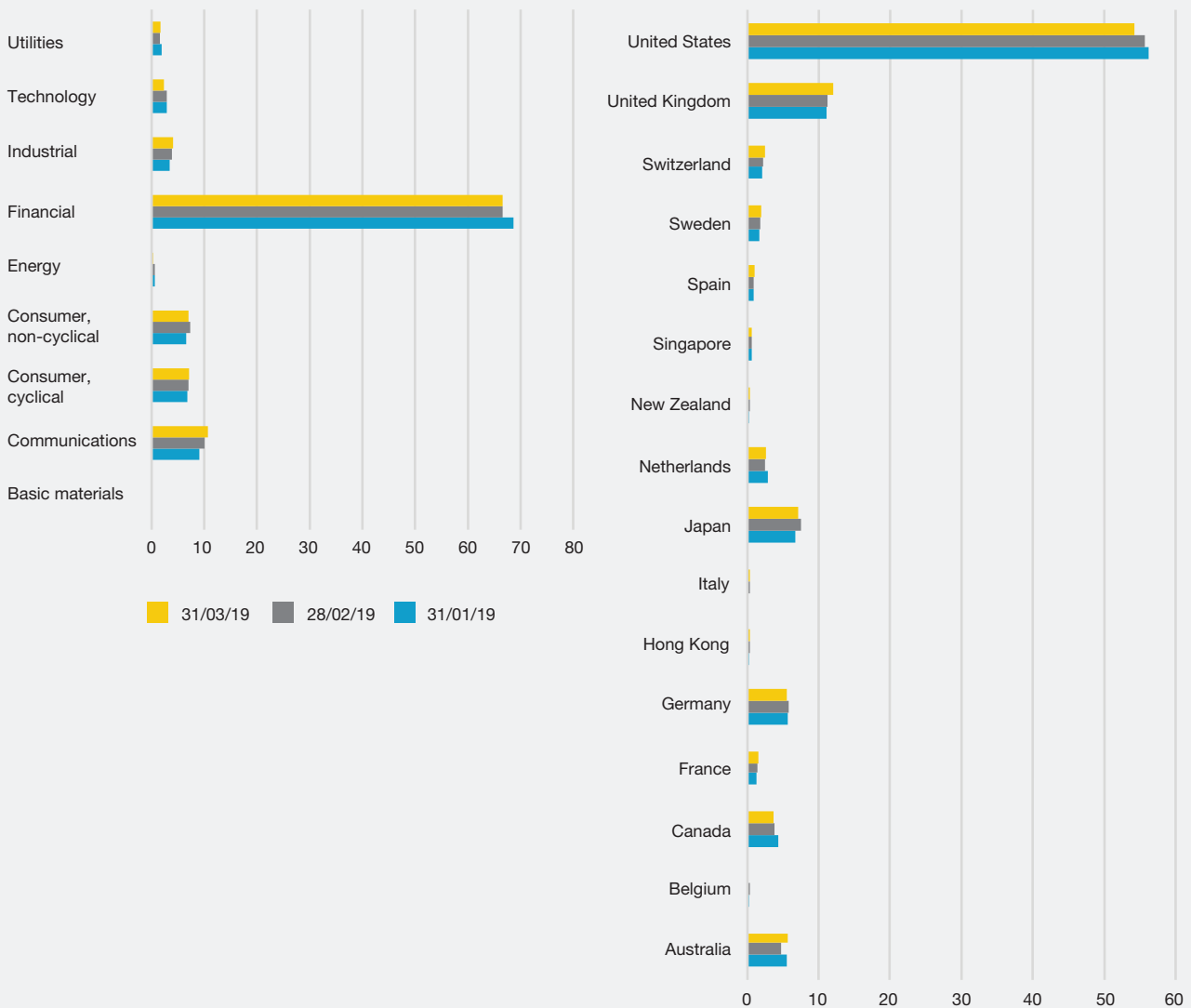
(*) pro-forma with reinvested dividends (**) 06/04/2017

Source: Lyxor International Asset Management, Bloomberg. Data as at 29/03/2019. Past performances are not reliable indicators of future performances.

Benchmark index's returns breakdown (base 100 = 31/12/2017)



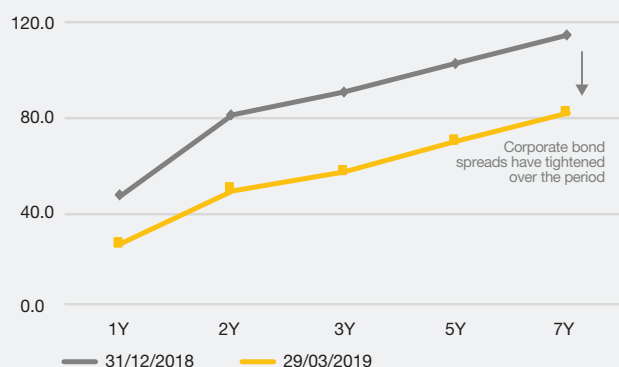
Sector & country breakdown (%)



Sources: Lyxor International Asset Management, Bloomberg, Data as at 29/03/2019

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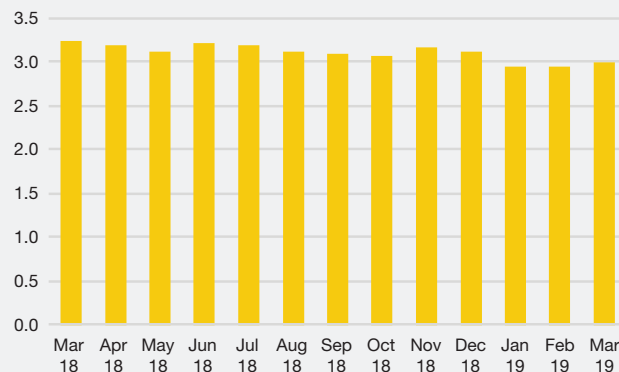
Credit spread analysis (in bps)



US Financials A rated spread to US Treasuries

Sources: Lyxor International Asset Management, Bloomberg, Data as at 29/03/2019

Average credit spread sensitivity (in years)



Benchmark index composition analysis

There was a net total removal of 51 members. The biggest turnover was among financial bonds. Overall 9 bonds entered the index, of which 8 financials.

Jan-19	In	Out	Net Total Jan-19
Consumer, Cyclical		2	-2
Financial	1	19	-18
Utilities		1	-1
Technology		1	-1
Total Jan-19	1	23	-22

Feb-19	In	Out	Net Total Feb-19
Consumer, Cyclical	1	2	-1
Financial	5	19	-14
Technology		1	-1
Utilities		1	-1
Total Feb-19	6	23	-17

Mar-19	In	Out	Net Total Mar-19
Communications		2	-2
Consumer, Non-cyclical		1	-1
Financial	2	6	-4
Utilities		1	-1
Industrial		4	-4
Total Mar-19	2	14	-12

Data represent the number of bonds that have been added/ removed in the index in the stated period.

Sources: Lyxor International Asset Management, Bloomberg, data as at 29/03/2019

Knowing your risk

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

Capital at risk

ETFs are tracking instruments: Their risk profile is similar to a direct investment in the Underlying index. Investors' capital is fully at risk and investors may not get back the amount originally invested.

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.

Counterparty risk

With synthetic ETFs, investors are exposed to risks resulting from the use of an OTC swap with Société Générale. In-line with UCITS guidelines, the exposure to Société Générale cannot exceed 10% of the total fund assets. Physically replicated ETFs may have counterparty risk if they use a securities lending programme.

Concentration risk

Smart Beta ETFs select stocks or bonds for their portfolio from the original benchmark index. Where selection rules are extensive it can lead to a more concentrated portfolio where risk is spread over fewer stocks than the original benchmark.

Underlying risk

The Underlying index of a Lyxor ETF may be complex and volatile. For example, when investing in commodities, the Underlying index is calculated with reference to commodity futures contracts exposing the investor to a liquidity risk linked to costs such as cost of carry and transportation. ETFs exposed to Emerging Markets carry a greater risk of potential loss than investment in Developed Markets as they are exposed to a wide range of unpredictable Emerging Market risks.

Currency risk

ETFs may be exposed to currency risk if the ETF is denominated in a currency different to that of the Underlying index they are tracking. This means that exchange rate fluctuations could have a negative or positive effect on returns.

Liquidity risk

Liquidity is provided by registered market-makers on the respective stock exchange where the ETF is listed, including Société Générale. On exchange, liquidity may be limited as a result of a suspension in the underlying market represented by the Underlying index tracked by the ETF; a failure in the systems of one of the relevant stock exchanges, or other market-maker systems; or an abnormal trading situation or event.

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