

# US Equity Spotlight



## Leave no stone unturned

Everything you need to know about  
investing in US equities today

This document is for the exclusive use of investors acting on their own account and categorised either as “eligible counterparties” or “professional clients” within the meaning of markets in financial instruments directive 2014/65/EU.

# Go further in the US

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# Welcome

## Playing the Powell Put

Much of the bullish buoyancy of last year faded in the darkest December for markets since the depths of the Great Depression. The key catalyst? Worries that economic expansion was coming to an end.

But Jay Powell's January "put" signalled a rate hike hiatus and formalised a frankly remarkable six-week volte face on the Fed's policy path. Having previously spoken of operating almost on "autopilot", the bank lowered its forward guidance and stands ready to lessen the pace of its balance sheet reductions.

The Fed seems willing to sustain the ongoing recovery rather than try to cool a possible overheating. An inflation flare-up is a distinct possibility. The trade-off? Greater support today for greater volatility tomorrow. Once again, good news is good news and so is bad news. Powell's doves should keep equities flying high for now.

On that bright note, this guide was built to help you get your US equity portfolio over the finish line with the best possible results.



**Chanchal Samadder**  
Head of Equity ETFs

# 1. Outlook – Goldilocks is back

**So where are we seeing opportunities? Our first instinct is to look for the more oversold parts of the market both in the US (small caps and energy stocks) and internationally (Chinese and German equities). There is a caveat: despite the euphoria of more easy money, small cap gains could still be gated by any renewal of the gridlock on Capitol Hill.**

Broad, larger cap indices like the S&P 500 may also enjoy the conditions, especially in the first half of the year. Any US-China trade deal could clinch the argument and catalyse a roaring Spring comeback. Value strategies – long the whipping boys – may come into focus over the medium term, especially as they tend to perform well post “peak” monetary tightening.

The opposite is true for growth stocks. If, as now seems likely, we are past the tightening peak, we expect to see them show some performance weakness. Tech is the dominant growth sector and some highly leveraged tech titans face some additional challenges of their own in the form of much greater regulatory scrutiny and the possibility of government intervention.

At such a late stage of the economic cycle, demand for cyclical sectors is likely to wane. The focus should progressively turn to more defensive sectors such as Healthcare, Utilities and Communication Services. As the economy matures, energy stocks should gain more support from inflationary pressures and solid demand.

The Fed's dovishness, the trade truce and the cessation of the latest shutdown may have eclipsed worries over a sharp deceleration in US corporate profits, but the end of the cycle is still in sight. The first signs of a loss of momentum were felt earlier this year, with a sharp decline in the ISM manufacturing survey in January and dismal retail sales. The 35-day shutdown could have cost 0.1% of annualised growth per week. The effects of the fiscal push are fading. Greater downside pressure is inevitable towards the end of the year. Risk reducers may yet provide some more comfort – as they did prior to the Fed's handbrake turn.

## We like...



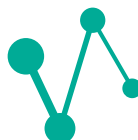
### Large caps

S&P 500  
Dow Jones Industrial Average



### Value

Russell 1000 Value



### Risk reducers

FTSE USA Minimum Variance



### Small caps

Russell 2000



### Energy

MSCI World Energy  
(55% US)

## We're avoiding...



### Information Technology

NASDAQ-100  
(65% Info Tech & Comm Services)



### Growth

Russell 1000 Growth



# 2. Returns & valuations

Despite finishing the year down by -5.8%, the US turned out to be the best performing equity market in 2018. The worst place to invest was the eurozone at -17%, followed by emerging market equities at -16%.

2019 has however painted a different picture so far. Year-to-date, equities are up across all major markets, with emerging markets leading the pack at +8.5%, followed closely by US equities at +8.3%.

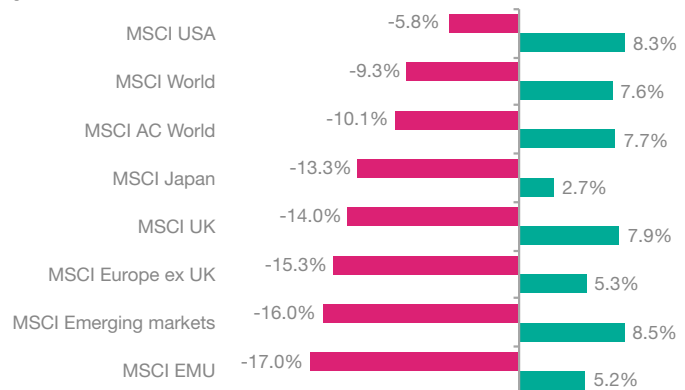
Digging deeper into the different mainstream US indices, the tech heavy NASDAQ-100 proved most resilient in 2018 (-2.1%) with the Russell 2000 small cap index finishing bottom of the pile (-12.2%).

Conversely, all major US benchmarks are up on the year, with the Russell 2000 in fact leading the way YTD (+11.2%).

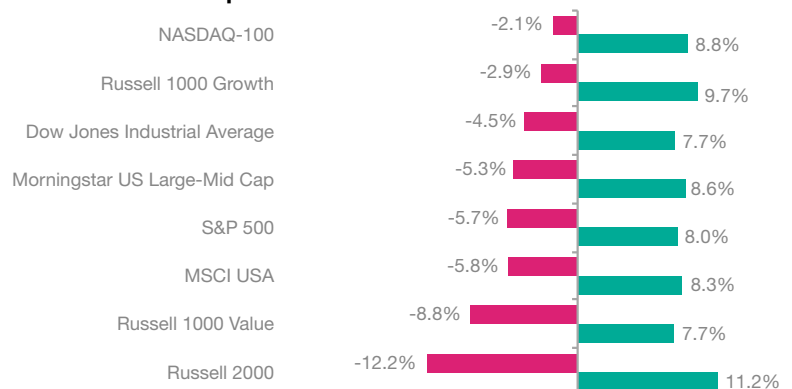
Drilling down further into specific sectors, defensive areas such as healthcare and utilities held their own in 2018 (+4.5% and +3.4%, respectively), while energy took a beating (-20%).

Cyclicals have come back strong since the start of the year though, with real estate, industrials, communication services and information technology all up by over 10% YTD.

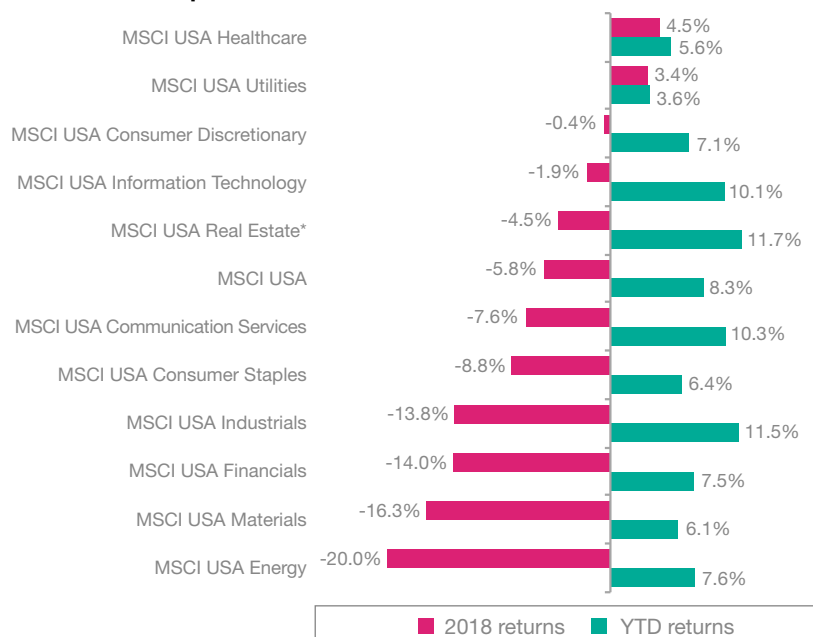
## US equity returns vs. the rest of the world



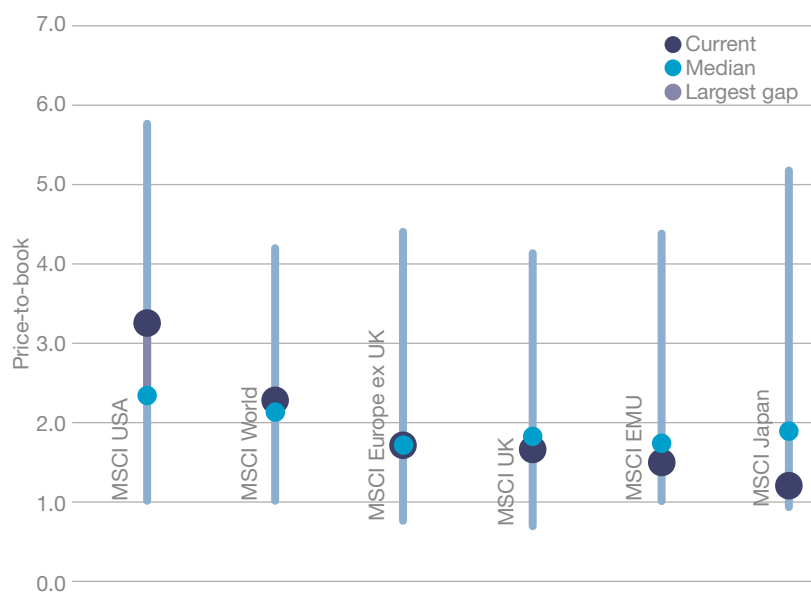
## US index returns compared



## US sectors compared



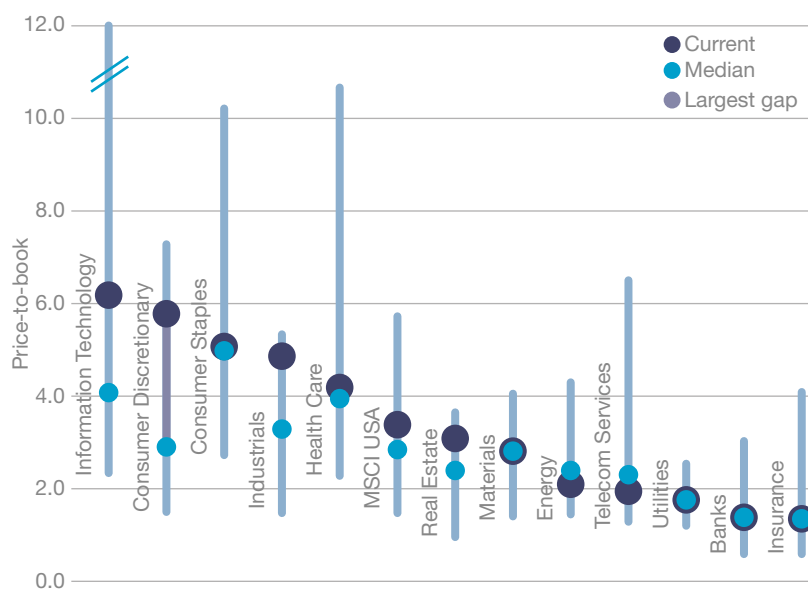
## Valuations: US vs rest of the world



US equity valuations do look stretched when compared to their history and other developed market equity indices – especially with corporate profits reaching an all-time high in Q3 2018. But those valuations aren't necessarily high enough to trigger a bear market. Rising inflation and bond yields are more of a concern.

At the sector level, most sectors de-rated during the Q4 2018 sell-off. Technology remains in expensive territory particularly in light of high corporate leverage, regulatory risks, and the potential for a tech war. Consumer Discretionary stocks do look overvalued given company specific risks, as do Industrials. On the other end Energy, Healthcare and Banks are more reasonably valued.

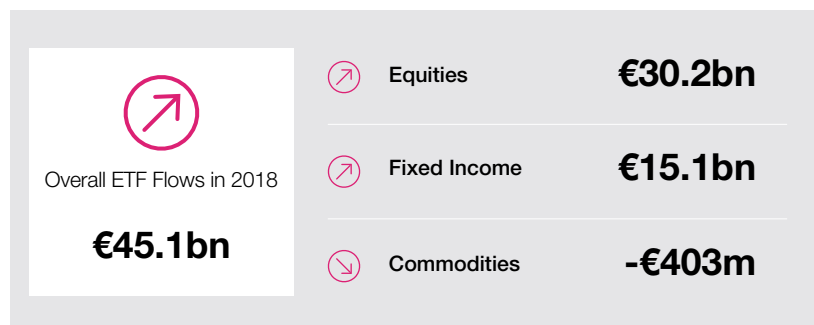
## Valuations: US sectors compared



# 3. Flows & sentiment

## Overall position

2018 was not the most positive year for the European ETF market – but that is viewing flows through a lens that was changed by the many records set the year before. Equities however still enjoyed a decent year.

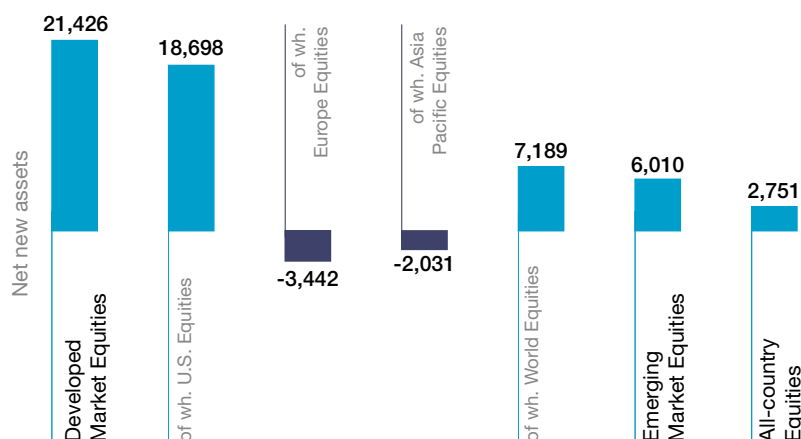


## Equity breakdown

2018 flows were dominated by US equities, with €18.7bn of net new assets. That represents half of overall 2018 equity inflows, and an astonishing 87% of developed market equity flows.

Appetite has so far been more subdued this year, with US equity ETFs seeing outflows of -€2bn to the end of January. Fixed income across both developed and emerging markets on the other hand was the clear flavour of the month.

## Equities in numbers – 2018 flows (€m)

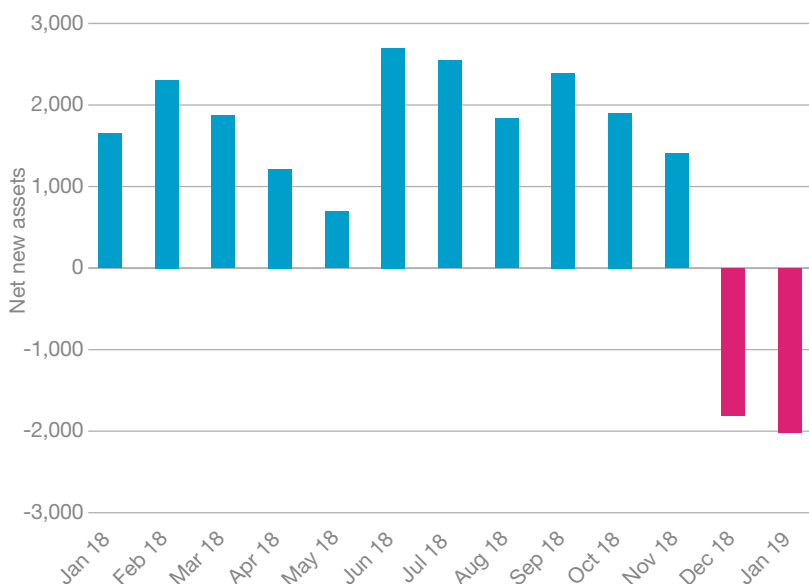


## The US in focus

After well over a year of consecutive monthly inflows, US equity ETFs finally succumbed to the broader global stock market sell-off, recording outflows in December last year.

January didn't see a reversal of fortune for US equities, but with recent talks of a 'Powell Put', there may yet still be steam in the US growth engine.

## US equity flows – month on month (€m)



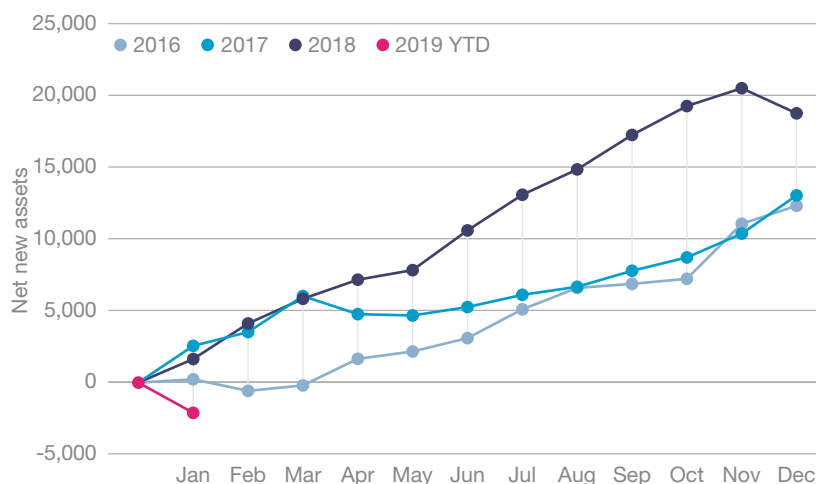
## ► Did you know?

Passive won a 90% share of US equity inflows in Europe in 2018, with €27bn going into passive vs. just €3bn for active.\*

## Record inflows in 2018

A benign macroeconomic pulse, the positive effects of tax reform, and consistently positive earning seasons drove flows into US equity ETFs to €18.7bn by the end of 2018 – the best year for US equities in recent memory.

## US equity ETF flows by year (€m)

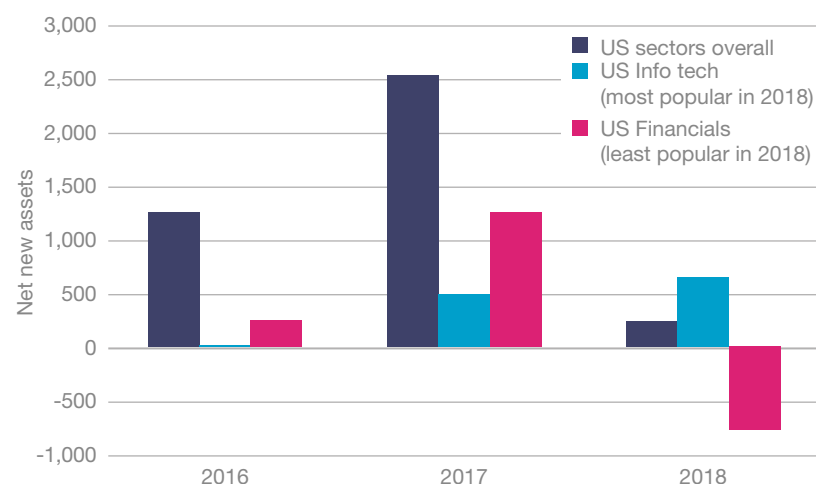


## Sectors solidify

While appetite for US sector ETFs grew steadily throughout 2018, the year ended with total inflows of just €245m following €1.8bn in outflows in November and December.

The most popular sector was Information Technology with +€652m of inflows, followed by Healthcare with +€497m. The least popular sector for the year was Financials, with -€765m of outflows.

## US sector ETF flows by year (€m)

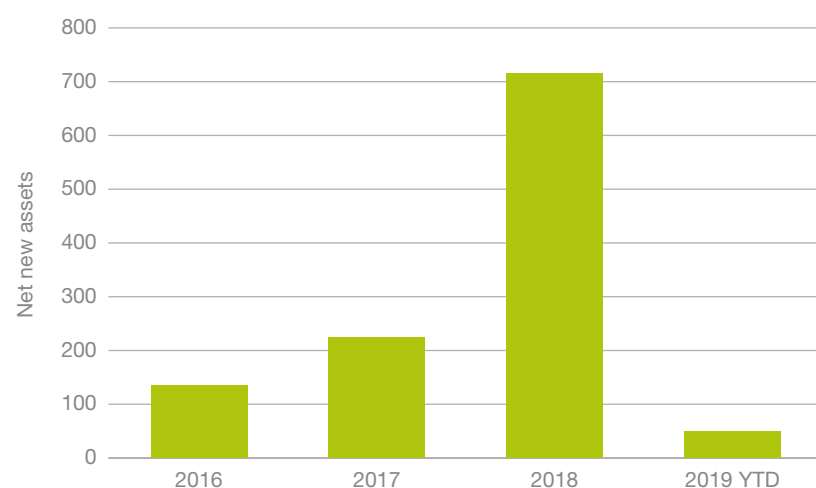


## ESG rising

While AUM and inflows aren't yet near the levels seen in broad US equity indices, the rise of US ESG ETFs is hard to ignore. At +€715m – most of which went to ETFs adopting a 'best-in-class' approach to ESG criteria – inflows in 2018 have more than quadrupled since their 2016 levels.

Responsible investing is a burgeoning market for the European ETF industry, and we don't expect momentum to fade any time soon.

## US ESG equity ETF flows by year (€m)





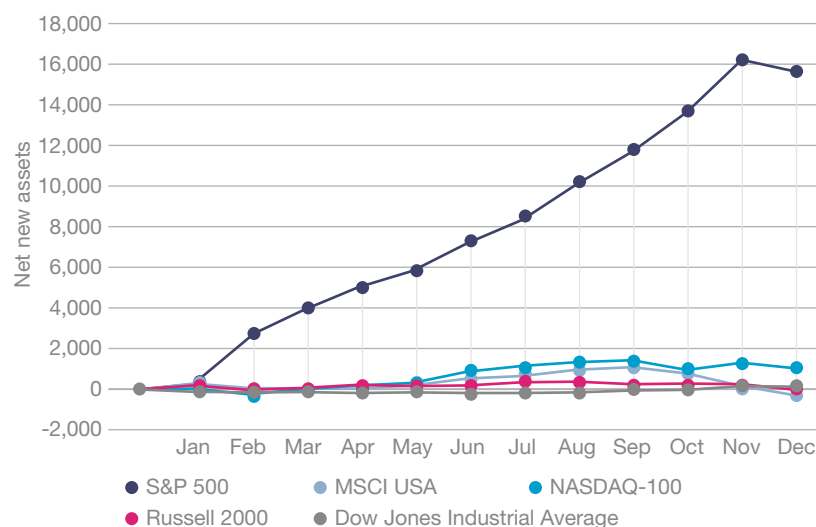
## 2018 results under the microscope

### Benchmarks exposed

Flows into mainstream indices (i.e. S&P 500, MSCI USA, Dow Jones Industrial Average, NASDAQ-100 and Russell 2000) totalled €16.8bn in 2018, but by far the major winner was the S&P 500 with €15.7bn of those inflows.

In fact 84% of all US equity inflows went into S&P 500 exposures. Flows into tech-heavy NASDAQ-100 ETFs came at a distant second at €1.1bn.

### Mainstream US equity ETF flows in 2018 (€m) – S&P 500 the clear winner

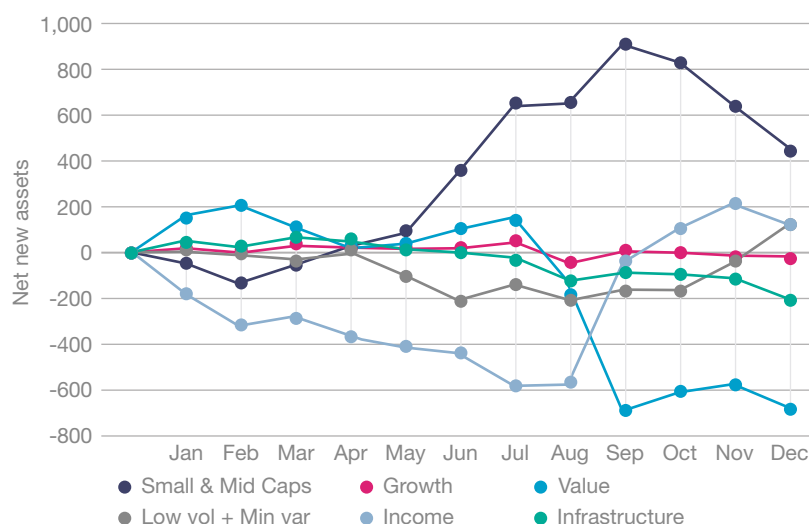


### Styles and themes exposed

Flows into specific styles and themes were fairly subdued throughout most of the year, with most investors focusing on the likes of the S&P ETF.

Notable exceptions were the dislike of US value ETFs with -€678m of outflows, and the increased appetite for small and mid caps with +€453m of inflows.

### Style and thematic flows in 2018 (€m) – Value got dumped



### Key US winners and losers in 2018



Broad equities

€16.9bn



ESG

€715m



Information Technology

€652m



Financials

-€765m



Value

-€678m



Infrastructure

-€206m

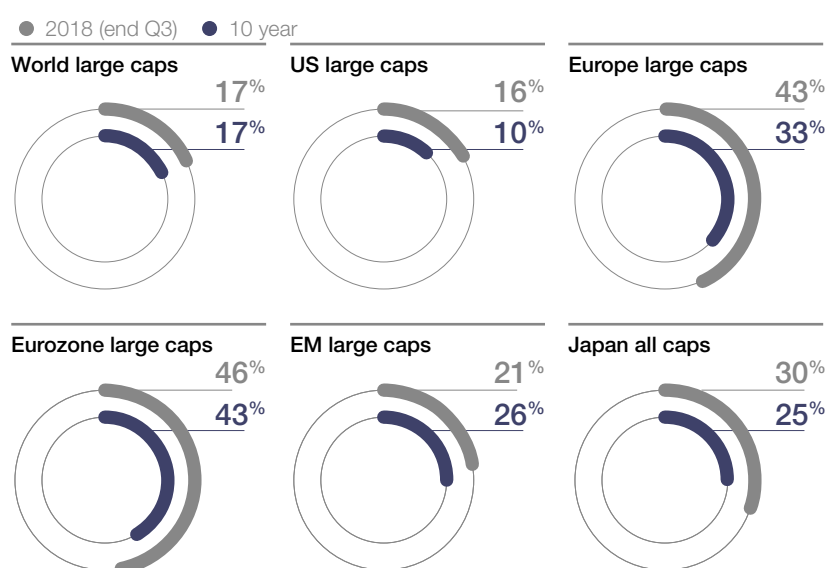
# 4. Performance – Choosing the right kind of investment

## Active or passive: Little to no contest, passive wins out

Choosing the right investment vehicle in any market can be challenging – except that is, in the US, where active managers really do struggle to beat their benchmarks. At the end of Q3 2018, fewer than 1 in 6 large-cap managers (15.9%) were giving investors what they paid for. At least that's better than the 9.6% that have delivered over the last decade.

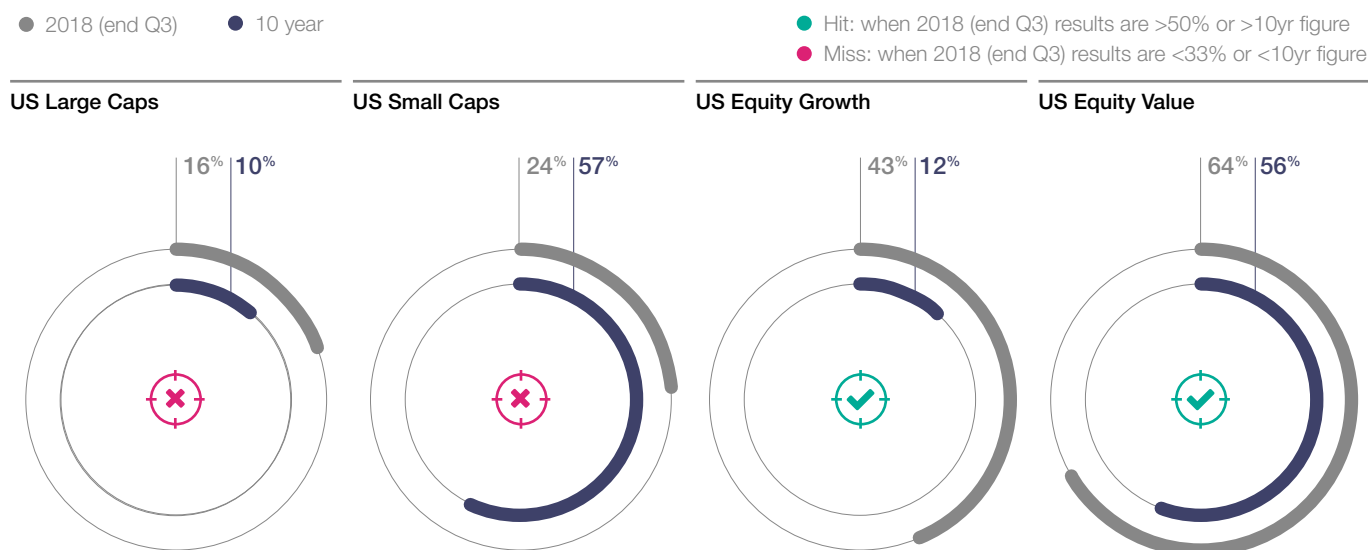
Within other pockets of the market, results weren't much better. Small cap managers struggled with less than a quarter beating their benchmark as of end of Q3 2018. Active growth managers fared better than their 10 year average, but at just 43% outperforming, the result is far from spectacular. US value managers on the other hand did much better, with almost two thirds outperforming.

## Equity hotspots – % active funds beating their benchmarks



Source: Morningstar & Bloomberg. Data as at 28/09/2018.  
Past performance is not a reliable indicator of future results.

## US equity results in detail



Source: Morningstar and Bloomberg. Data as at 28/09/2018. 50% and 33% represent the best and worst results after we divided the universe we cover into 3 sub-groups. Between those limits, "hits" and "misses" are set comparing the current quarter's result vs. the long-term averages. 10 year results are over the period from 30/09/2008 to 28/09/2018. Past performance is not a reliable indicator of future results.

## ETFs or futures: ETFs more effective than you might think

It's often said that very few managers beat the S&P500, so passive has long been the default choice. In fact, 90% of all flows from European investors into US equities went to passive funds in 2018.<sup>1</sup> But which passive vehicle should you choose?

Sophisticated investors tend to believe futures are more liquid options than ETFs and cost less overall but do the results stack up? Not as often as they'd have you believe in our view.

Taking three US equity markets as our examples, we can see that using our Lyxor S&P 500 UCITS ETF to invest in large-caps would have given you an extra 11 basis points (bps) of annualised performance over the equivalent futures contract. For small-caps, the results were similar, with our Russell 2000 UCITS ETF generating an additional 13bps of extra annualised performance.<sup>2</sup>

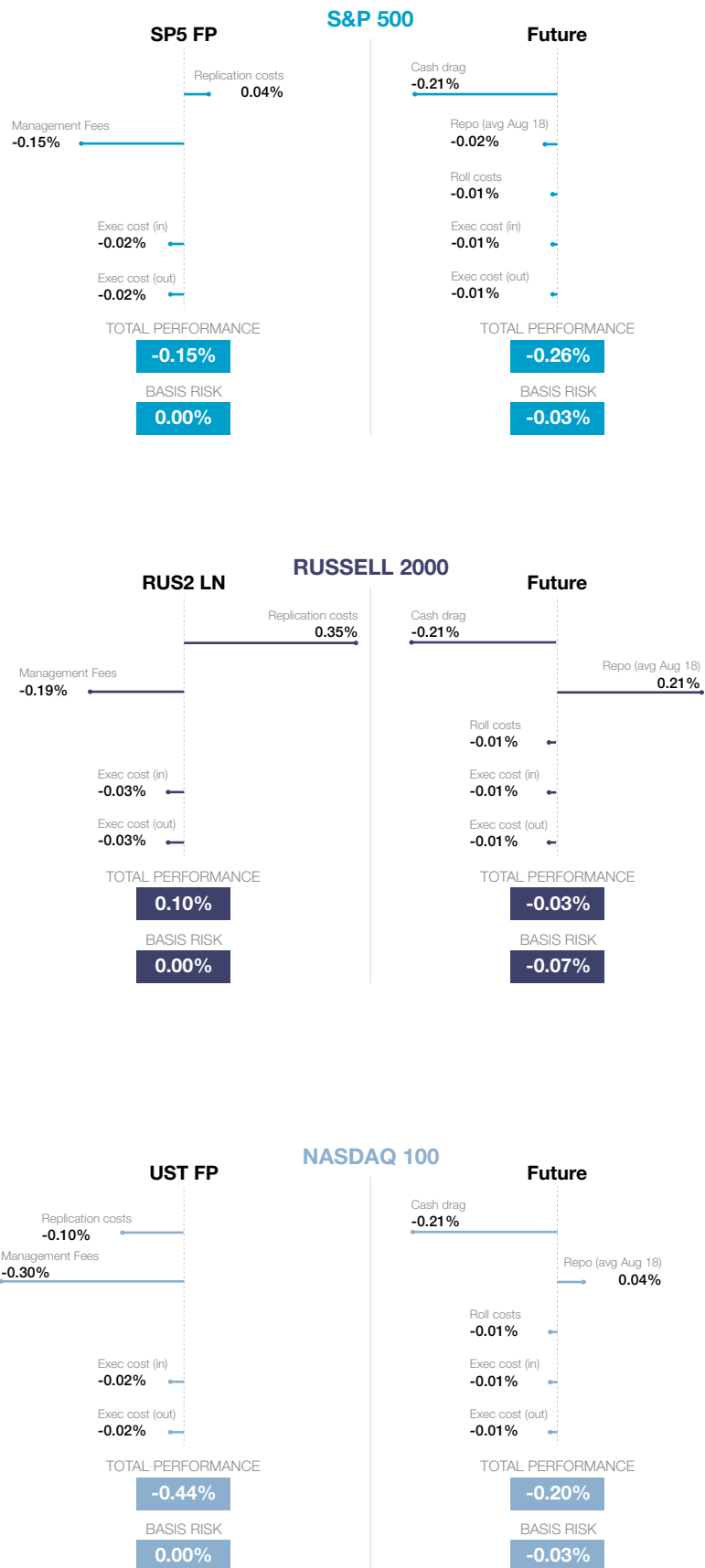
In contrast, for the NASDAQ-100, futures contracts still win out. So, when choosing your passively managed investment, you still need to be selective wherever possible.<sup>2</sup>

*Note: To calculate the cost of carry of a Futures instrument we look at the following factors:*

- *Cash drag (cost of financing): to replicate an ETF position, an investor should buy a future and invest the same nominal of cash in money market instruments, to match the funding leg of the future. It is calculated as the difference between a cautious money market investment (3M government bill) and the implied banking rate in the future (3M euribor/ libor)*
- *Repo: gain/ cost of holding the position over a period of time which may vary upon market conditions.*
- *Rolls: cost incurred when renewing the position (bid-offer spread & other execution costs including commissions, clearing costs...).*
- *Execution costs: cost of entering and exiting a position (bid-offer spread & other execution costs including commissions, clearing costs...).*

*Note: The future price is discounted to account for dividends paid on the underlying securities before maturity. This adds to volatility of Futures pricing, particularly at times when dividends are distributed (Mar-June period)*

## Breaking down the costs of US equity ETFs & Futures<sup>2</sup>



<sup>1</sup>Source: Lyxor International Asset Management, Morningstar, as at 31/12/2018. Past performance is not a reliable indicator of future results. <sup>2</sup>Source: Lyxor International Asset Management. Data over one year as at 31/08/2018. Detailed methodology and assumptions made available on request. Market conditions may change and have an impact on performance of ETFs and futures. Past performance is not a reliable indicator of future performance.

# 5. Index explorer

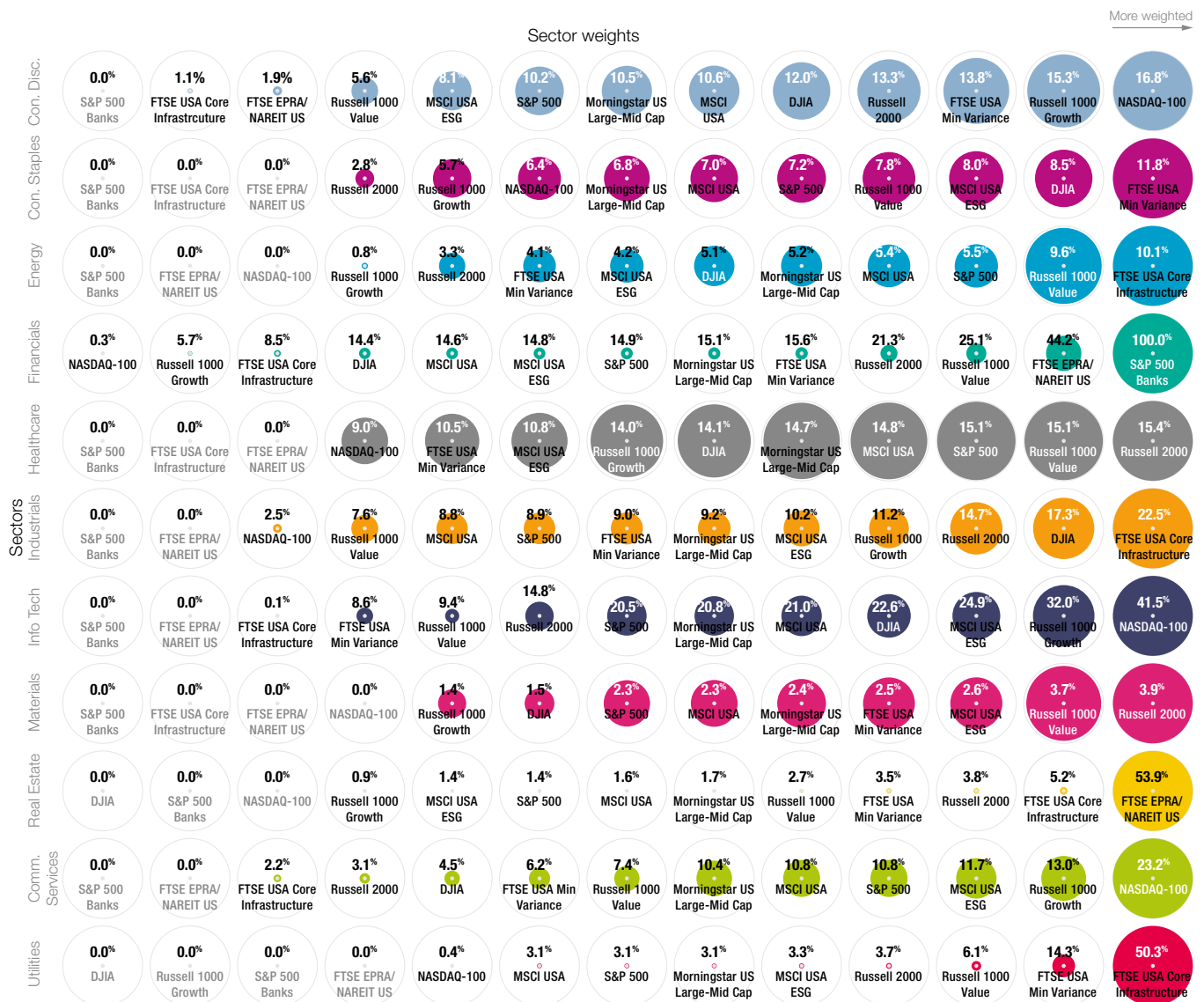
Precision and selectivity are the watchwords at this late stage of the cycle.

Look to lower cost exposures such as the Morningstar US Large-Mid Cap to make the most of whatever upside remains. Tilt towards tech or banks with more targeted benchmarks like the NASDAQ-100 or S&P 500 Banks and Diversified Financials.

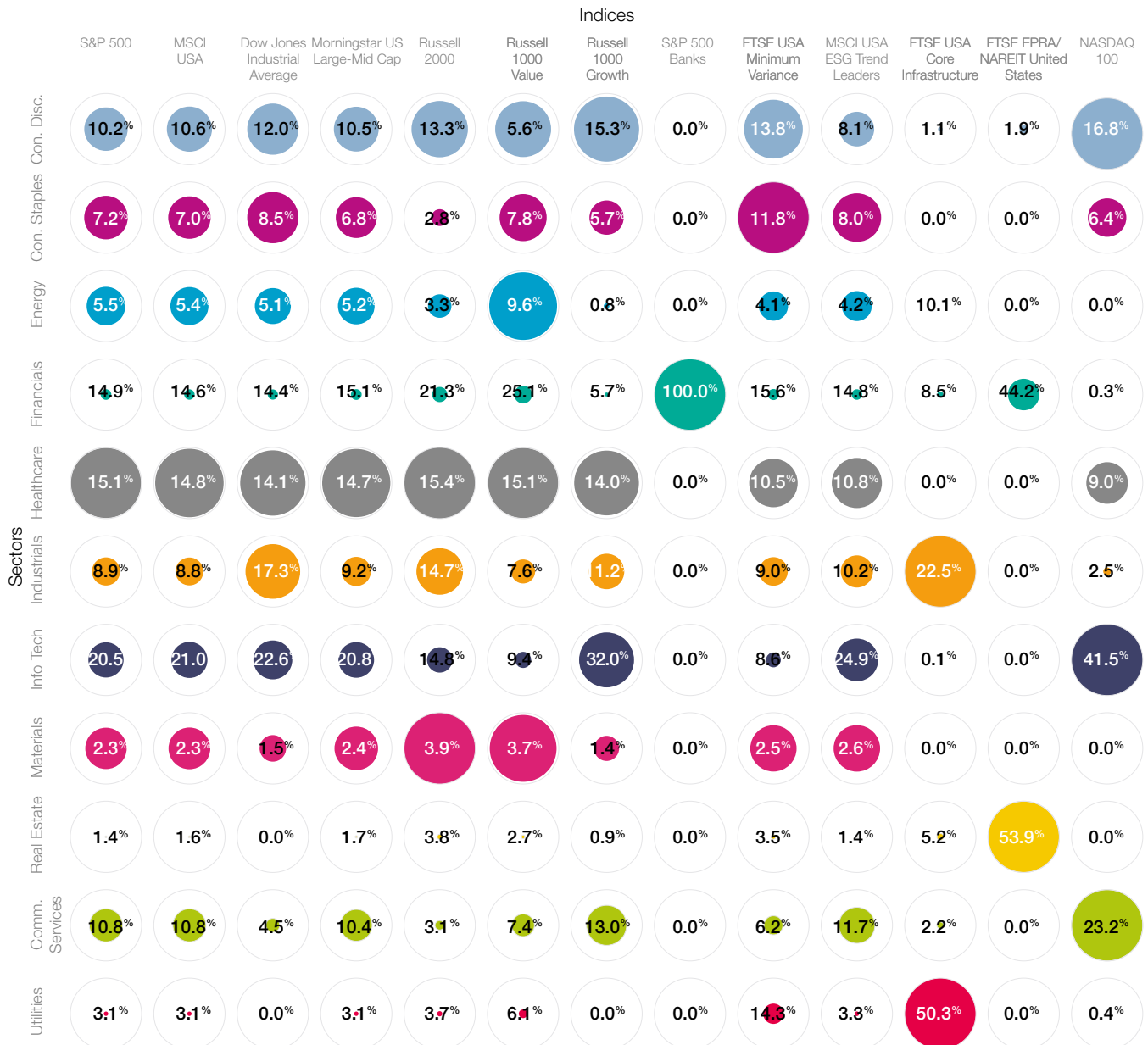
If rising rates are a concern, Russell value or small-cap indices may help. Or if you're feeling cautious, seek to reduce risk with the FTSE USA Minimum Variance strategy.

Whichever path you choose to take, we hope the data and rankings below help guide your decision.

## Ranking sector exposures



## B. Indices explored



# Has your tech portfolio lost some of its “FANGs”?

By now, you may have heard of the September 2018 changes to industry classifications by GICS – the Global Industry Classification System, developed by S&P Dow Jones and MSCI. If not, here’s the gist:

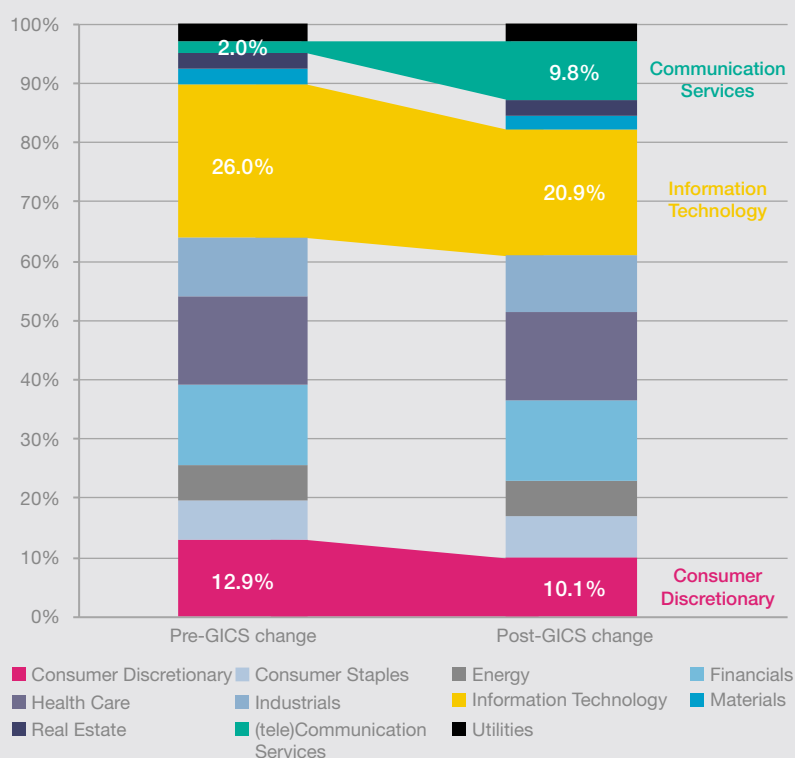
- ▶ The Telecommunication Services sector was expanded to include companies previously categorised as Information Technology and Consumer Discretionary stocks
- ▶ This newly expanded sector – now known as ‘Communication Services’ – aims to reflect the changes to the ways in which we communicate and access entertainment
- ▶ It now includes stocks like Alphabet, Facebook and Netflix

So, what does this mean for your tech-related portfolio and, more importantly perhaps, what can you do about it? Here’s what you need to know.

## Have you been “de-FANGed”?

There was no impact on broad-based exposures such as the S&P 500. As a market cap weighted index, you’re still exposed to the same companies as you did before the GICS change. The “change” here is in labeling alone: you effectively have less exposure to the Information Technology and Consumer Discretionary sectors, but more exposure to the Communication Services sector.

**Sector impact on the S&P 500 index after GICS re-classification<sup>1</sup>**



If on the other hand, you held an S&P 500 Technology ETF – or any tech ETF based on the GICS classifications – you may face a bit of a dilemma. While you previously had close to 50% exposure to tech titans Apple, Microsoft, Facebook and Alphabet, you now have a very different and less growth-oriented portfolio. So how could you go about regaining your original exposure?



## The NASDAQ-100 – where Tech still means Tech

There are three different routes you can take. You could:

- ▶ Reduce your exposure to the S&P 500 Technology ETF and buy shares in Facebook and Alphabet separately to make up for their absence
- ▶ Buy an ETF tracking the new S&P 500 Communications Services sector – though this would entail potentially unwanted exposure to defensive telecommunications stocks such as AT&T and Verizon, and to media companies such as Disney, Comcast and 21st Century Fox. Almost a quarter of the index is represented by these 5 stocks alone.<sup>2</sup>
- ▶ Invest in a NASDAQ-100 ETF which could be simpler, and comes without the drawbacks mentioned above

In our view, the NASDAQ-100 Index provides better exposure to US companies driven by technological innovation than the more traditional S&P 500 Technology benchmark. While still providing exposure to the tech titans you would expect to find – Apple, Microsoft, Alphabet, Facebook and Intel, to name a few – the NASDAQ-100 also includes increasingly tech-dependent consumer discretionary stocks. Companies like Amazon and Netflix, typically viewed as a retailer and media company respectively, incorporate technology at the very core of their business models. Amazon in particular is a leader, and its cloud services business is its fastest-growing segment and a major profit driver in recent years.

The NASDAQ-100 also offers much better diversification compared to the new S&P 500 Technology sector, where Apple and Microsoft now represent almost 35% of the index.<sup>2</sup> Furthermore, we believe the GICS classifications sometimes feel out of date, or defy logic – even with recent changes taken into account. For example, Visa and Mastercard are still classified as Information Technology companies, but American Express sits in the Financials sector.

In our view, most investors would prefer exposure to the likes of Amazon or Netflix as part of their bet on technology rather than AT&T and Verizon – or for that matter, Visa and Mastercard.

## NASDAQ-100 index – Top 15 holdings<sup>3</sup>

Index constituent	% weight
Microsoft Corp	9.62%
Apple Inc	9.57%
Amazon.com Inc	9.26%
Facebook Inc-A	4.79%
Alphabet Inc-C	4.59%
Alphabet Inc-A	4.03%
Intel Corp	2.94%
Cisco Systems Inc	2.83%
Comcast Corp-A	2.22%
Pepsico Inc	2.13%
Netflix Inc	1.99%
Adobe Inc	1.67%
Amgen Inc	1.56%
Broadcom Inc	1.51%
Paypal Holdings Inc	1.44%
<b>Total top 15 stocks</b>	<b>60.15%</b>

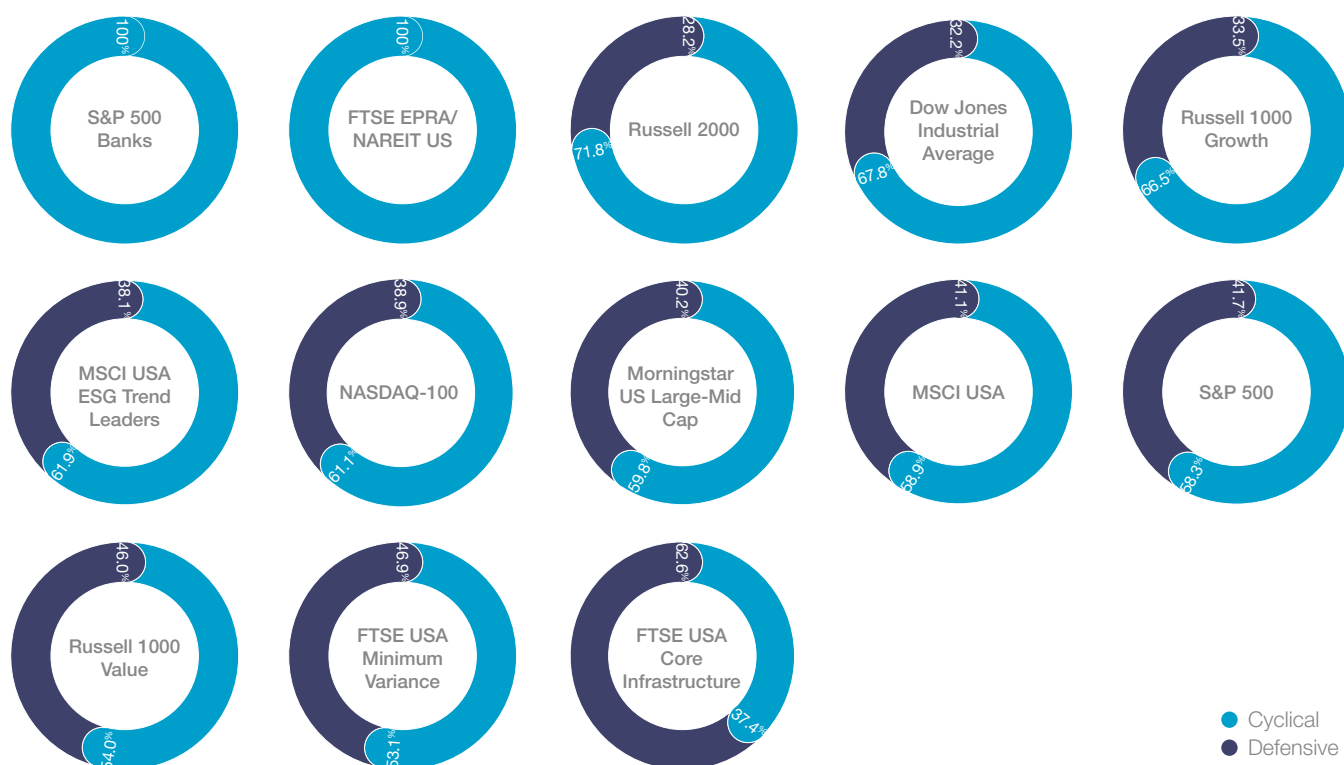
<sup>1</sup>Chart source: CFRA, S&P Dow Jones Indices, S&P Capital IQ, as at 18/09/2018.

<sup>2</sup>Source: Lyxor International Asset Management, Bloomberg, as at 13/02/2019.

<sup>3</sup>Source: Bloomberg. Data as at 11/02/2019.

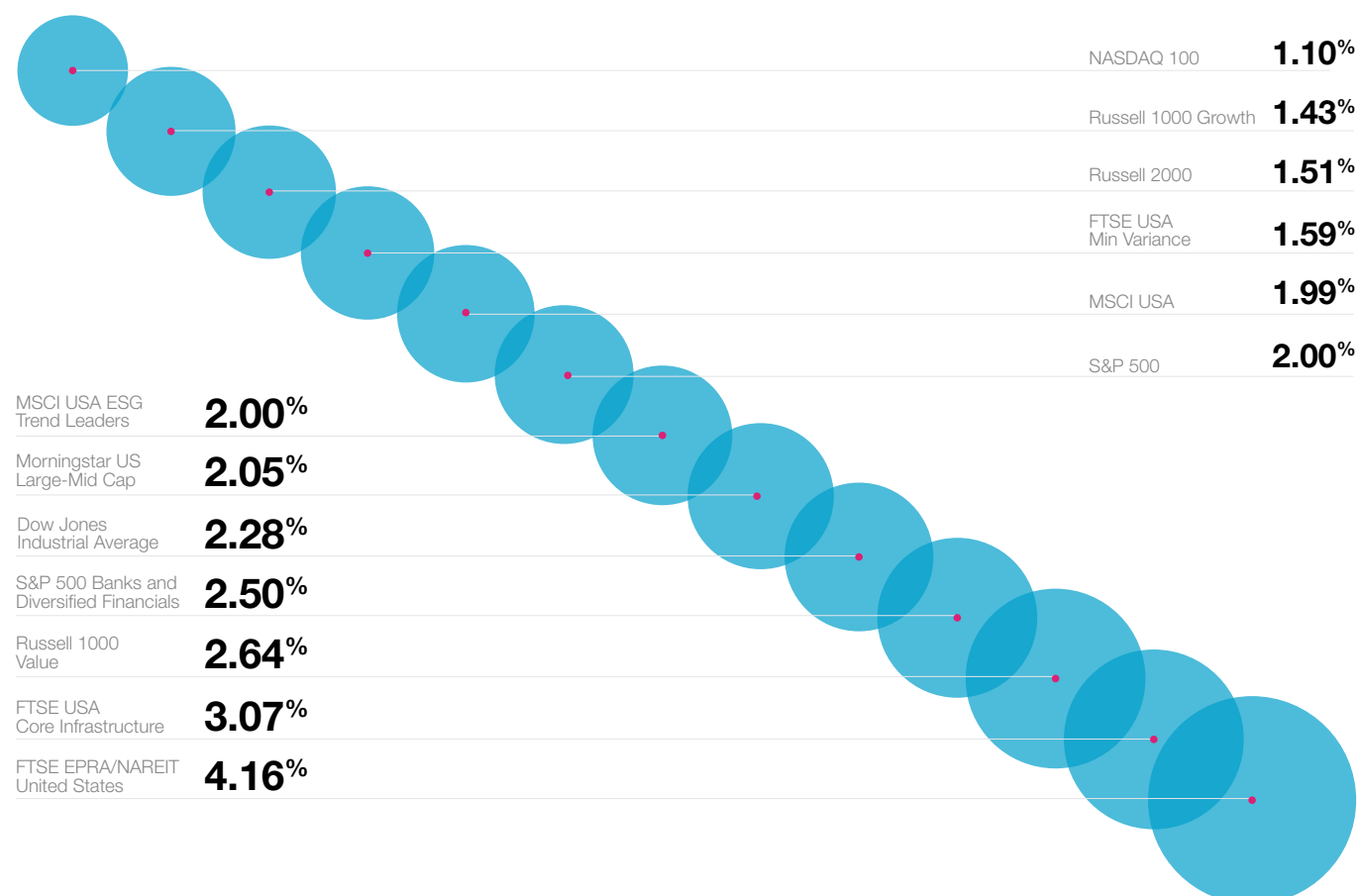
This article is for informative purposes only, and should not be taken as investment advice. Lyxor International Asset Management does not in any way endorse or promote the companies mentioned in this article.

### C. Comparing cyclical vs. defensive characteristics



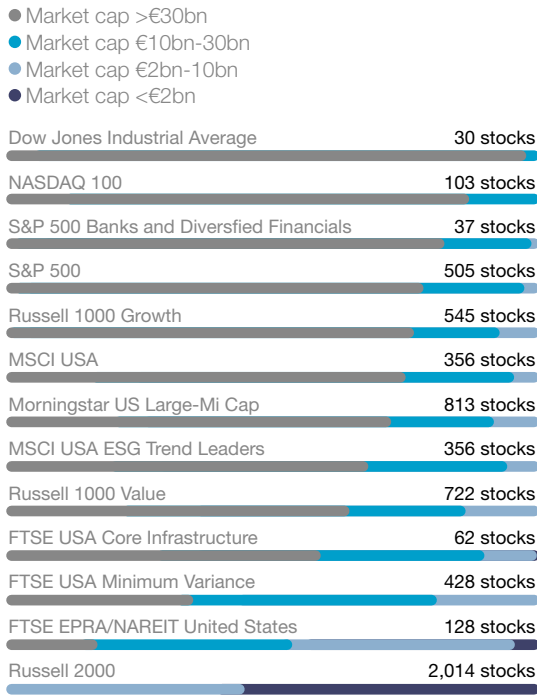
Source: Lyxor International Asset Management. Data as at 31/01/2019. For illustrative purposes only. This is not a recommendation.

### D. Index dividend yields



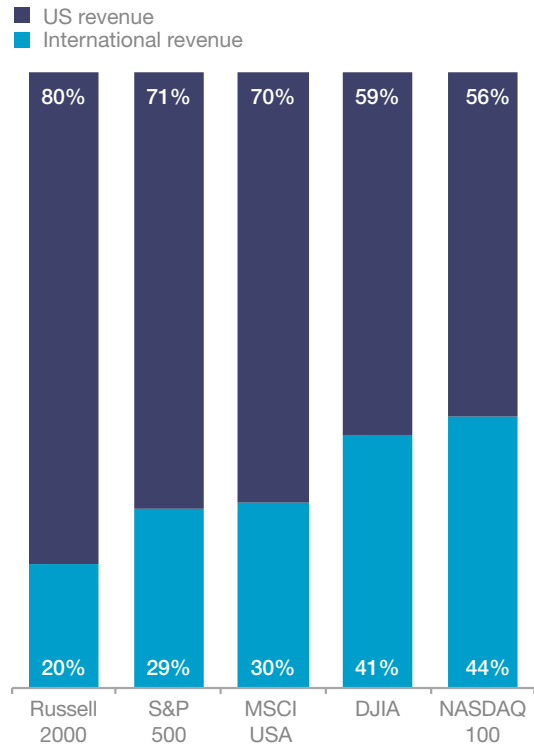
Source: Lyxor International Asset Management, Bloomberg. Data as at 31/01/2019. For illustrative purposes only. This is not a recommendation. Past performance is not a reliable indicator of future results.

## E. Company size



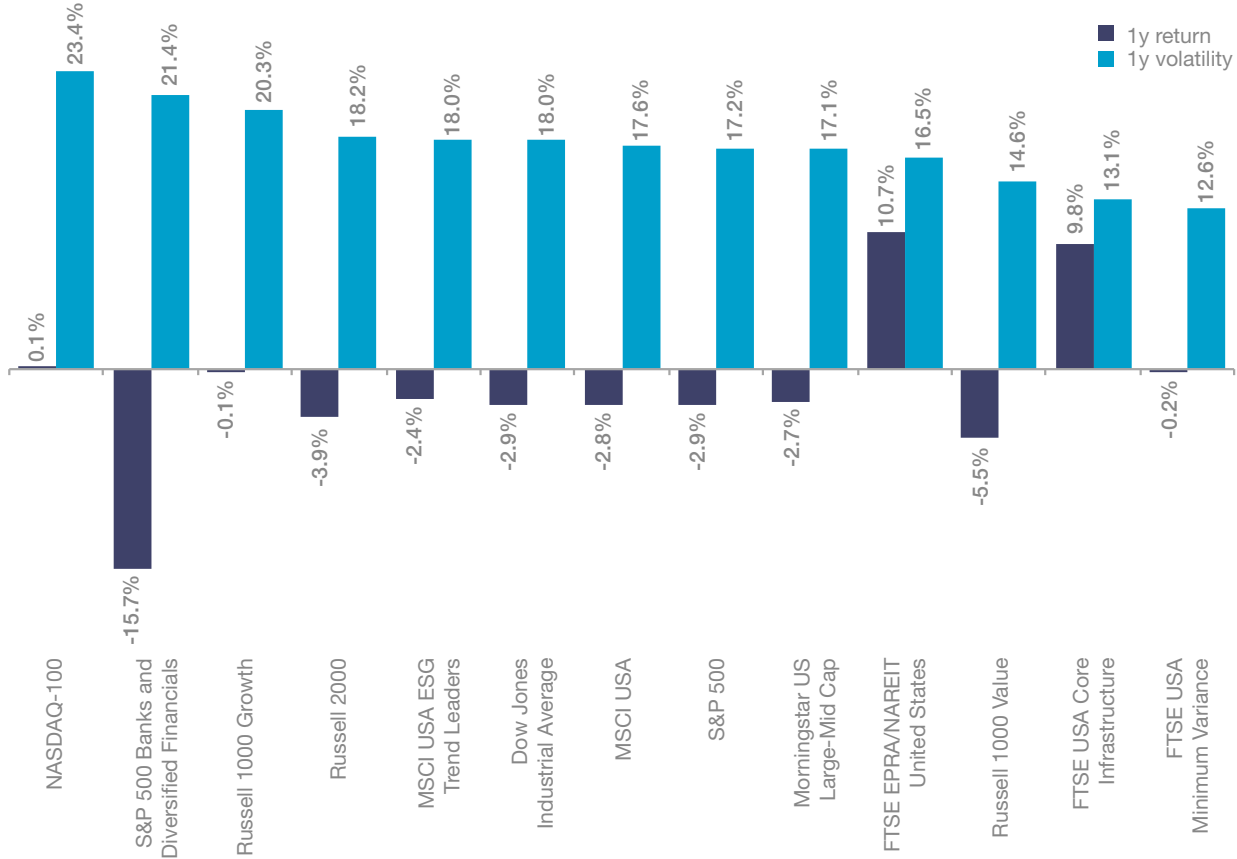
Source: Lyxor International Asset Management. Data as at 31/01/2019.  
For illustrative purposes only. This is not a recommendation.

## F. Source of revenues



Source: Factset, April 2018. For illustrative purposes only. This is not a recommendation.

## G. Returns & volatility compared



Source: Lyxor International Asset Management. Data as at 31/01/2019. Past performance is not a reliable indicator of future results.

# 6. ETFs to consider



**Chan Samadder**  
Head of Equity ETFs

If you see the US as a land of opportunity, look no further. Our US equity range opens up 13 possible routes to travel, across mainstream and more specific indices from just 0.04%. And, because we've been managing ETFs in the region for over 17 years, and run over €10bn in assets, we may just be the guide you need.<sup>1</sup>

## Our US equity range explained<sup>1</sup>

UCITS ETF	Total Expense Ratio	Assets under Management
<b>Lyxor S&amp;P 500</b> Our €8.2bn flagship ETF has over 8 years of track record and was 2018's third most popular ETF in Europe. <sup>1</sup>	0.15%	€8.2bn
<b>Lyxor Core Morningstar US</b> At just 0.04%, ours is the lowest cost US equity ETF in Europe.	0.04%	€47m
<b>Lyxor MSCI USA</b> The most widely traded MSCI USA ETF in Europe over the past 5 years.	0.25%	€1.2bn
<b>Lyxor Dow Jones Industrial Average</b> With over 17 years' track record, ours is the oldest US equity ETF in Europe. It was also the best performer over the past 3 years.	0.50%	€237m
<b>Lyxor NASDAQ-100</b> With over 17 years' track record, ours is the oldest NASDAQ-100 ETF in Europe. It was also the most efficient over the past year.	0.30%	€440m
<b>Lyxor Russell 2000</b> At 0.19%, our is the cheapest Russell 2000 ETF in Europe. It was also the best performer over the past year.	0.19%	€6m
<b>Lyxor Russell 1000 Value</b> At 0.19%, our unique Russell 1000 Value ETF is the lowest cost US value ETF in Europe.	0.19%	€16m
<b>Lyxor Russell 1000 Growth</b> At 0.19%, our unique Russell 1000 Growth ETF is the lowest cost US growth ETF in Europe.	0.19%	€118m
<b>Lyxor FTSE USA Minimum Variance</b> Our ETF reduced volatility more effectively than peer ETFs over a one year period, and did so with much greater diversification. <sup>2</sup>	0.20%	€80m
<b>Lyxor FTSE USA Infrastructure</b> The only US broad infrastructure ETF in Europe, it could be a source of higher than average dividend yield and drawdown protection.	0.50%	€6m
<b>Lyxor FTSE EPRA/NAREIT United States</b> The only ETF tracking the FTSE index designed by real estate experts EPRA and NAREIT. Constituents must derive at least 75% of EBITDA from relevant real estate activities.	0.40%	€17m
<b>Lyxor S&amp;P 500 Banks</b> The only ETF on S&P's Banks and Diversified Financials index. The benchmark excludes insurers, and provides greater access to the US economic growth engine.	0.20%	€17m
<b>Lyxor MSCI USA ESG Trend Leaders</b> Our unique ETF is the only one in Europe that takes into account ESG 'momentum', effectively rewarding companies who have improved their ESG profile.	0.25%	€4m

<sup>1</sup>Source for all data: Lyxor International Asset Management/Bloomberg, as at 31/01/2019. Performance data refers to tracking difference vs. the underlying index. Efficiency data is based on the efficiency indicator created by Lyxor's research department in 2013. It examines 3 components of performance: tracking error, liquidity and bid/ask spread. Detailed methodology may be found in the paper 'Measuring Performance of Exchange Traded Funds' by Mariène Hassine and Thierry Roncalli. Statements about Lyxor's credentials vs. peers refer to the European UCITS ETF market only. Past performance is not a reliable indicator of future results.

<sup>2</sup>Source: Lyxor International Asset Management, Bloomberg, as at 28/09/2018. Past performance is not a reliable indicator of future results.

## Product Spotlight

Our far-reaching range of US equity products is growing all the time as last year's additions of our MSCI USA ESG Trend Leaders and S&P 500 Banks ETFs show. Here are four of the best, and most relevant, right now:

# Our S&P 500 sets the benchmark



Performance

## Synthetic can offer a unique performance edge

### ► Why now?

If you're keen to maximise your broad market returns, look no further than our S&P 500 ETF – long established as one of the best-performing, most dependable ETFs on this exposure.

### ► Why this product?

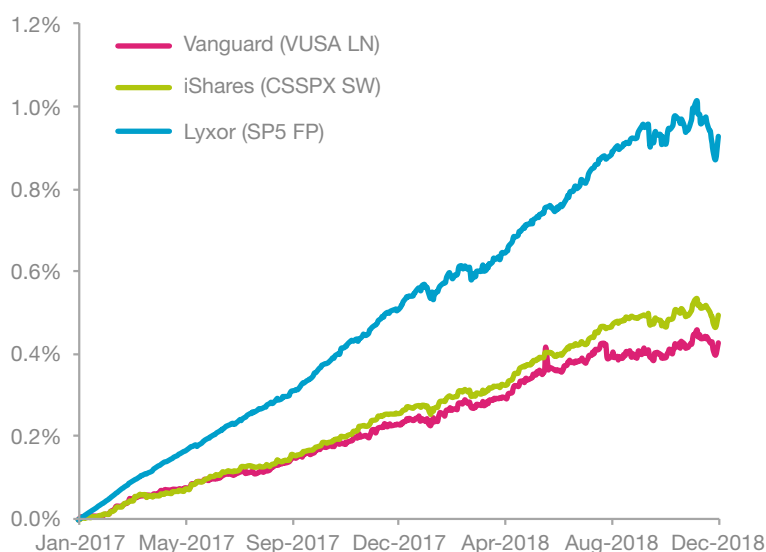
As the largest and most liquid synthetic US equity ETF in the world, major asset owners across Europe have recognised our consistently high performance and have switched from major physical S&P 500 ETFs into ours. It was also the third most popular ETF in 2018 by assets raised.<sup>1</sup>

### ► How does it compare?

Due to US tax regulation, synthetic ETFs tracking the S&P 500 index can be well positioned to outperform physical Irish domiciled ones, all else equal.\* Out of the five largest S&P 500 ETFs in Europe, ours has been the best performing over the past 5 years, with the lowest tracking error.<sup>1</sup>

### Performance of 3 largest S&P 500 ETFs in Europe vs. index<sup>2</sup>

Data shown begins 1st Jan 2017, the effective start date of Section 871(m) of US Internal Revenue Code\*



ETF performance vs. index			
	Lyxor (SP5 FP)	Vanguard (VUSA LN)	iShares (CSSPX SW)
2017	0.51%	0.23%	0.26%
2018	0.40%	0.19%	0.23%

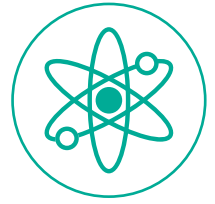
  

Lyxor ETF performance			
	vs. index	vs. Vanguard	vs. iShares
2017	0.51%	0.28%	0.25%
2018	0.40%	0.21%	0.17%

\*Tax regulation referred to is Section 871(m) of the US Internal Revenue Code. The obtaining of the tax advantages or treatments mentioned in this document (as the case may be) depends on each investor's particular tax status, the jurisdiction from which it invests as well as applicable laws. This tax treatment can be modified at any time. We recommend to investors who wish to obtain further information on their tax status that they seek assistance from their tax advisor.

<sup>1</sup>Source: Lyxor International Asset Management/Bloomberg, as at 27/12/2018. Performance data over period between 27/12/2013 and 27/12/2018. Statements about Lyxor's credentials vs. peers refer to the European UCITS ETF market only. Past performance is not a reliable indicator of future results. <sup>2</sup>Chart and table source: Lyxor International Asset Management, Bloomberg. Data period from 03/01/2017 to 27/12/2018. Past performance is not a reliable indicator of future results.

# Do it with style using Russell indices



Innovative

## Home in on the segments that matter

### ► Why now?

Selectivity in your US equity allocation will be key going forward. Should rates be hiked later in the year, it may be worth going the extra 'style mile' to make the most of your allocation.

### ► Why these products?

Value and small caps have been known to perform well at times of rising rates – though past returns are no real guide to future results. At Lyxor, we've been running US value and small cap ETFs tracking well-known Russell indices for over 7 years.<sup>1</sup>

### ► How do they compare?

At 0.19%, our unique Russell 1000 Value ETF is the lowest cost US value ETF available in Europe. Also at 0.19%, ours is the cheapest Russell 2000 ETF, and it was the best performer over the past year.<sup>1</sup>



### Russell 1000 Value

This large cap index gives more weight to stocks with higher value scores (as measured by P/B, medium-term I/B/E/S growth forecast, and sales per share growth).



### Russell 2000

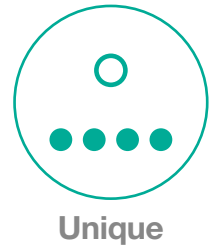
Widely adopted as the US small cap benchmark of choice, the average market cap of its 2,000+ constituents is \$2.3bn.<sup>2</sup>

<sup>1</sup>Source: Lyxor International Asset Management, as at 31/01/2019. Statements about Lyxor's credentials vs. peers refer to the European UCITS ETF market only. Past performance is not a reliable indicator of future results.

<sup>2</sup>Source: FTSE Russell, as at 31/01/2019.



# Boost income with FTSE Core Infrastructure



## A unique, defensive play

### ► Why now?

If the context of an ageing US cycle and the prospect of rising inflation later in the year, US infrastructure companies may make sense. A more defensive play, the theme could not only offer a measure of inflation protection, it also tends to come with a higher dividend yield.

### ► Why this product?

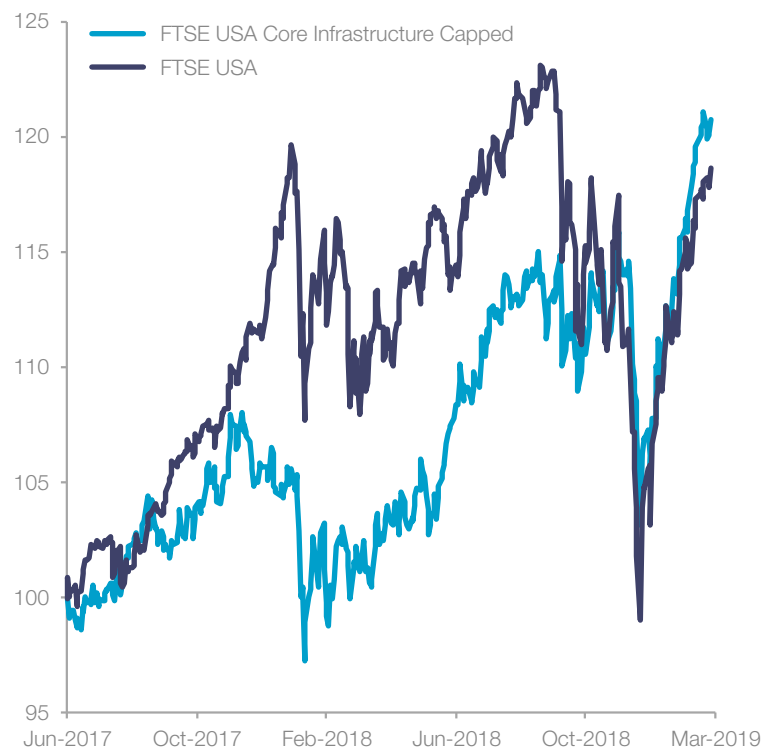
Our ETF's underlying index designed by FTSE Russell focuses on companies involved in "core" infrastructure activities, i.e. businesses that own, operate, manage or maintain a network, structure or facility. Such companies tend to offer more stable revenues and cash flows compared to infrastructure-related sectors, and are usually less sensitive to short term economic cycles.

### ► How does it compare?

Ours is the only ETF in Europe that targets broad US infrastructure companies.<sup>1</sup> Alongside its European counterpart, our ETFs give you the precision to allocate to the infrastructure theme in the markets that matter the most, rather than having to dilute your exposure globally.

### Performance of FTSE USA Core Infrastructure index vs. FTSE USA<sup>2</sup>

Data shown begins 27<sup>th</sup> June 2017, the inception date of the Lyxor FTSE USA Infrastructure UCITS ETF



<sup>1</sup>Source: Lyxor International Asset Management, as at 17/02/2019. Statements about Lyxor's credentials vs. peers refer to the European UCITS ETF market only.

<sup>2</sup>Source for chart: Lyxor International Asset Management, Bloomberg. Data period over 27/06/2017 to 01/03/2019. Past performance is not a reliable indicator of future results.

# Build your defence with FTSE Min Var



Defensive

## Reducing risk more effectively

### ► Why now?

If you're interested in protecting more of what you have than reaching for the last of the upside, our USA Minimum Variance ETF could help.

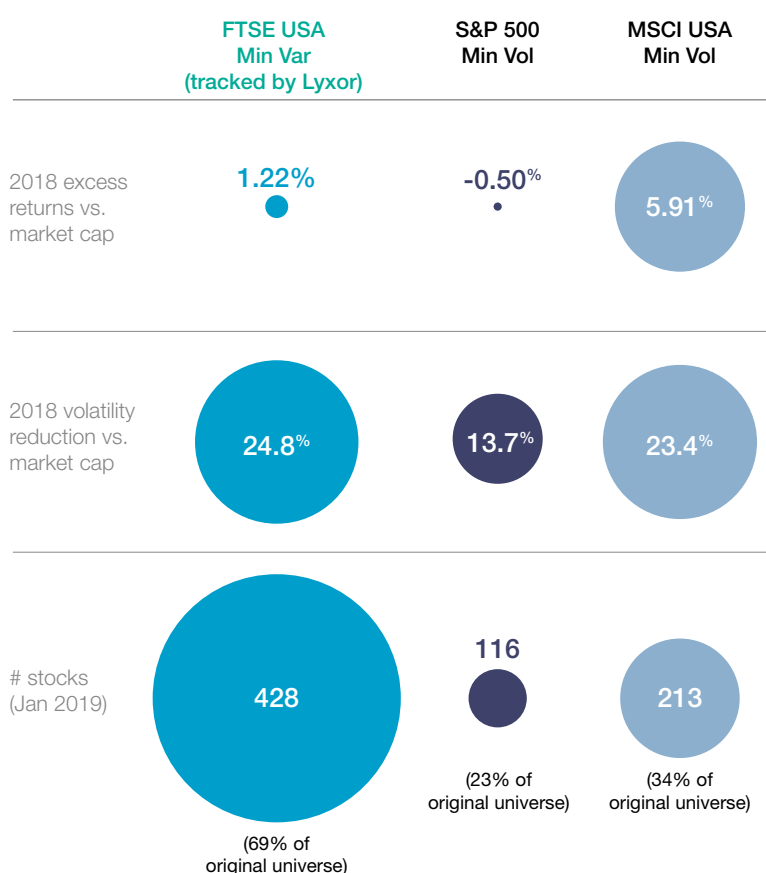
### ► Why this product?

Traditional minimum variance strategies tend to create overly concentrated portfolios, adding a different dimension of risk. The FTSE Minimum Variance indices we've selected get around this problem with a high diversification constraint. This means risk reduction is achieved without compromising on diversification.

### ► How does it compare?

Over 2018, our innovative ETF reduced risk by more than other leading strategies on the market. Furthermore, it did so holding 2 to 3 times as many stocks in its portfolio, proving you don't have to sacrifice diversification to reach your risk reduction goals.<sup>1</sup>

### In 2018, the results spoke for themselves<sup>1</sup>



<sup>1</sup>Source: Lyxor International Asset Management, Bloomberg. Performance data over period 01/01/2018 to 31/12/2018. Performance comparisons between FTSE Russell, S&P and MSCI indices are made between each US minimum variance index vs. its respective market cap weighted benchmark. Past performance is not a reliable indicator of future results. Number of index constituents as at 31/01/2019.

# Why choose Lyxor for US equity ETFs?



## Low cost

Europe's lowest cost core US equities at 0.04%<sup>1</sup>



## Far reaching

13 ways to access US equities, with €10bn+ in assets<sup>1</sup>



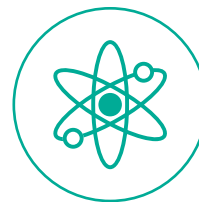
## Dependable

17 years' experience in US equity ETFs, with some of the oldest funds in Europe<sup>1</sup>



## Performance

Best performer out of the 5 largest S&P 500 ETFs in the market over the past 5 years<sup>2</sup>



## Innovative

Unique US indices including Banks, Infrastructure, Growth, Value and Minimum Variance<sup>1</sup>

<sup>1</sup>Source: Lyxor International Asset Management, as at 31/01/2019. Statements about Lyxor's credentials vs. peers refer to the European UCITS ETF market only. 'Oldest funds in Europe' refers to the Lyxor Dow Jones Industrial Average UCITS ETF and the Lyxor NASDAQ-100 UCITS ETF. <sup>2</sup>Source: Lyxor International Asset Management. Data over period between 27/12/2013 to 27/12/2018. Past performance is not a reliable indicator of future results.





# 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](http://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 exchanged, or other market-maker systems; or an abnormal trading situation or event.



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Some of the funds described in this brochure are investment companies with Variable Capital (SICAV) incorporated under Luxembourg Law, listed on the official list of Undertakings for Collective Investment, authorised under Part I of the Luxembourg Law of 17th December 2010 (the “2010 Law”) on Undertakings for Collective Investment in accordance with provisions of the Directive 2009/65/EC (the “2009 Directive”) and subject to the supervision of the Commission de Surveillance du Secteur Financier (CSSF).

These funds are sub-fund of either Multi Units Luxembourg or Lyxor Index Fund and have been approved by the CSSF.

Alternatively, some of the funds described in this document are sub-funds of Multi Units France a French SICAV incorporated under the French Law and approved by the French Autorité des marchés financiers. Each fund complies with the UCITS Directive (2009/65/CE), and has been approved by the French Autorité des marchés financiers.

Société Générale and Lyxor AM recommend that investors read carefully the “risk factors” section of the product’s prospectus and Key Investor Information Document (KIID). The prospectus and the KIID are available in French on the website of the AMF ([www.amf-france.org](http://www.amf-france.org)). The prospectus in English and the KIID in the relevant local language (for all the countries referred to, in this document as a country in which a public offer of the product is authorised) are available free of charge on [lyxoretf.com](http://lyxoretf.com) or upon request to [client-services-etf@lyxor.com](mailto:client-services-etf@lyxor.com)

The products are the object of market-making contracts, the purpose of which is to ensure the liquidity of the products on NYSE Euronext Paris, Deutsche Boerse (Xetra) and the London Stock Exchange, assuming normal market conditions and normally functioning computer systems. Units of a specific UCITS ETF managed by an asset manager and purchased on the secondary market cannot usually be sold directly back to the asset manager itself. Investors must buy and sell units on a secondary market with assistance of an intermediary (e.g. a stockbroker) and may incur fees for doing so. In addition, investors may pay more than the current net asset value when buying units and may receive less than the current net asset value when selling them.

Updated composition of the product’s investment portfolio is available on [www.lyxoretf.com](http://www.lyxoretf.com). In addition, the indicative net asset value is published on the Reuters and Bloomberg pages of the product, and might also be mentioned on the websites of the stock exchanges where the product is listed.

Prior to investing in the product, investors should seek independent financial, tax, accounting and legal advice. It is each investor’s responsibility to ascertain that it is authorised to subscribe, or invest into this product.

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