A GUIDE TO LYXOR EXCHANGE TRADED FUNDS

AUGUST 2013

EXCHANGE TRADED FUNDS BY
LYXOR
SOCIETE GENERALE GROUP

CONTENTS

KEY TERMS YOU WILL COME ACROSS IN THIS BROCHURE

Term	Description
Assets Under Management (AuM)	Measures the market value of the assets managed by the fund.
Authorised Participant	One of a network of institutional investors who are authorised to create and redeem units of an ETF in the primary market.
Benchmark Index	The index whose performance the fund aims to replicate.
Counterparty Risk	Investors may be exposed to Counterparty Risk in the case of Synthetic ETFs through the use of a Performance Swap. Investors may also be exposed to Counterparty Risk through Physical Funds using a Securities Lending programme.
Market Maker	An entity which actively trades a given security by displaying buy and sell prices on exchange.
Net Asset Value (NAV)	Refers to the net value of the fund on a per share basis. It is calculated by subtracting total liabilities from total assets and dividing by the number of shares outstanding.
Performance Swap (Swap)	A contractual agreement made between two parties under which the performance of the Benchmark Index is exchanged for the performance of the fund's assets.
Physical Fund	A fund whose performance is determined directly by a basket of physical assets, which are the same or similar to the Benchmark Index.
Securities Lending	The process of lending a stock, derivative or other security to a counterparty. The counterparty is required to put up collateral as security and the lender receives a fee in return.
Synthetic Fund	Refers to a fund that holds a basket of physical assets for security and whose performance is determined by a Performance Swap overlay.
Swap Counterparty	The Swap Counterparty is the entity that issues the Performance Swap contract and is therefore liable to pay the fund the exact performance of the Benchmark Index.
Total Expense Ratio (TER)	Covers all costs incurred by the fund manager to manage the fund on a per annum basis. It includes a Management Fee and Structural Costs and is deducted from the fund's performance daily. Please refer to page 26 for more information.
Tracking Difference	Measures the difference between the performance of the Benchmark Index and the performance of the fund over a period of time.
Tracking Error	Measures the difference between a given percentage change in the level of the Benchmark Index and the corresponding change exhibited by the fund.

INTRODUCING EXCHANGE TRADED FUNDS

Exchange Traded Funds (ETFs) are open-ended investment funds that track the performance of a diversified Benchmark Index containing at least 5 different assets. Like traditional mutual funds, ETFs enable investors to access a whole market sector, region, theme, commodity basket or fixed income strategy in one simple trade. Also like traditional mutual funds, ETFs are highly regulated according to the European regulatory framework of the UCITS IV Directive that applies to all European investment funds.

A NEW LEVEL OF TRADABILITY

The big difference with ETFs is that they are listed on an exchange such as the London Stock Exchange (LSE). As such they bring a new level of tradability that is unmatched by traditional mutual funds. Intraday price transparency provide ETF investors with unsurpassed trading flexibility and the ability to buy or sell their ETF holdings as easily as trading a share during market hours. In addition to on-exchange trading, liquidity is further enhanced by a highly efficient creation and redemption process, which allows professional investors to trade directly with the fund in the primary market through a network of institutional investors called Authorised Participants. This network of investors improves the liquidity of an ETF, which improves the conditions and cost of trading.

SIMPLE, LOW COST EXPOSURE

Another key attraction of ETFs is their simplicity. As “passive” investments the aim of an ETF is simply to track the Benchmark Index as cost effectively and precisely as possible. As such, ETFs have lower investment costs than an actively managed fund, with typical Annual Total Expense Ratios (TERs) ranging between 0.15% and 0.85% per year and no upfront fee. The only cost to trading is the broker’s trading fee, and a very small spread between the Bid (sell) and Ask (buy) price. As a result, ETFs can provide a cost efficient way to build both core and speculative exposures, as well as manage your cash.

ACCESS TO THE GLOBAL MARKETS

One of the biggest benefits to ETF investing is the ability to access a startling array of different investment opportunities in one simple trade. Lyxor for example offers a range of over 264 different ETFs, tracking over 175 different indices spanning all major equity geographies, sectors and themes, as well as a large number of fixed income and commodity exposures for those looking to widen their exposure.

TRANSPARENT

Transparency is a key tenant of ETF investing. Through the information disclosed throughout the trading day, Investors are able to determine exactly what the ETF is tracking, what it invests in, who any counterpartys are, what the risk is (if any), how well the ETF typically tracks its Benchmark Index and what the total cost of investment is.

WHAT ARE THE MAIN RISKS TO BE AWARE OF?

ETFs may be suitable for different types of investors in the UK, ranging from sophisticated retail investors to institutional fund managers. Essentially an ETF has the same risk profile as buying a stock or mutual fund as it will rise and fall in value in line with the Benchmark Index that it tracks. See page 47 for more information on risk.

CAPITAL AT RISK

ETFs are tracking instruments: Their risk profile is similar to a direct investment in the Benchmark 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 Benchmark Index calculation and the efficient fund replication.

COUNTERPARTY RISK

Investors may be exposed to risks resulting from the use of an OTC Swap with Societe Generale. Physical ETFs may have Counterparty Risk resulting from the use of a Securities Lending Programme.

UNDERLYING RISK

The Benchmark Index of a Lyxor ETF may be complex and volatile.

CURRENCY RISK

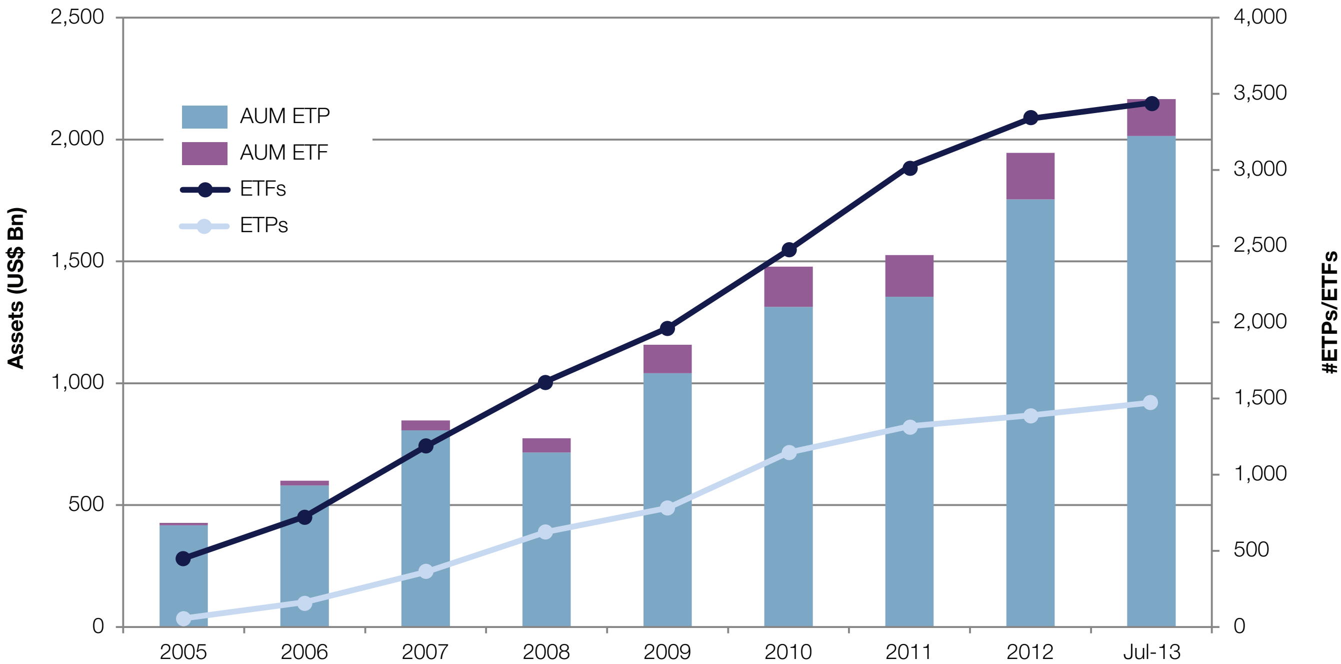
ETFs may be exposed to currency risk if the ETF is denominated in a currency different to that of the Benchmark Index they are tracking.

LIQUIDITY RISK

On-exchange liquidity may be limited as a result of a suspension in the underlying market represented by the Benchmark Index tracked by the ETF; a failure in the systems of one of the relevant stock exchanges, Societe Generale or other Market Maker systems; or an abnormal trading situation or event.

THE RAPID RISE OF ETF INVESTING

The combination of low investment costs, high liquidity, complete transparency, and a virtually limitless universe of investment opportunity has driven a rapid rise in ETF investing. Since the first ETF was launched in the United States in 1993, and the European launch in 2000, ETFs have attracted more than two trillion U.S. dollars globally.*



*Source ETFGI, July 2013

WHY ARE MORE INVESTORS TURNING TO ETFS?

In recent years investors have had to fight hard to keep portfolios in the black. The quest for positive returns has cemented two important realisations; costs matter, and attempting to beat the market is not a simple endeavour. A long history of academic research suggests that the answer lies not in beating the market, but simply tracking it as efficiently as possible. This approach, which is founded on Harold Markowitz's principles of 'Modern Portfolio Theory' emphasises the importance of effectively balancing risk and return through diversification and seeking an optimal allocation of assets across the portfolio.

The 'Efficient Market Theory' in its various forms also suggests that beating the market through Active Management is impossible because the price of a stock already includes the knowledge and expectation of any change in its risk / return characteristics. According to this theory investors cannot consistently beat the market on a risk-adjusted basis, given the information available at the time. The Capital Asset Pricing Model also adds to this the suggestion that because markets are efficient, a cap-weighted index, which weights exposure towards the biggest stocks, is naturally organised to provide the best return for a given market.

Those that agree with the arguments of Modern Portfolio Theory, Efficient Markets and Capital Asset Pricing, believe that tracking an index as efficiently as possible is all an investor needs to do in order to generate optimum returns.

With ready access to everything from small cap stocks to industrial metals within a UCITS compliant structure, and with a typical Total Expense Ratio of between 0.15% and 0.85% per year, ETFs can offer a compelling investment case against this backdrop.

*Source ETFGI, May 2013

INVESTING IN EXCHANGE TRADED FUNDS?

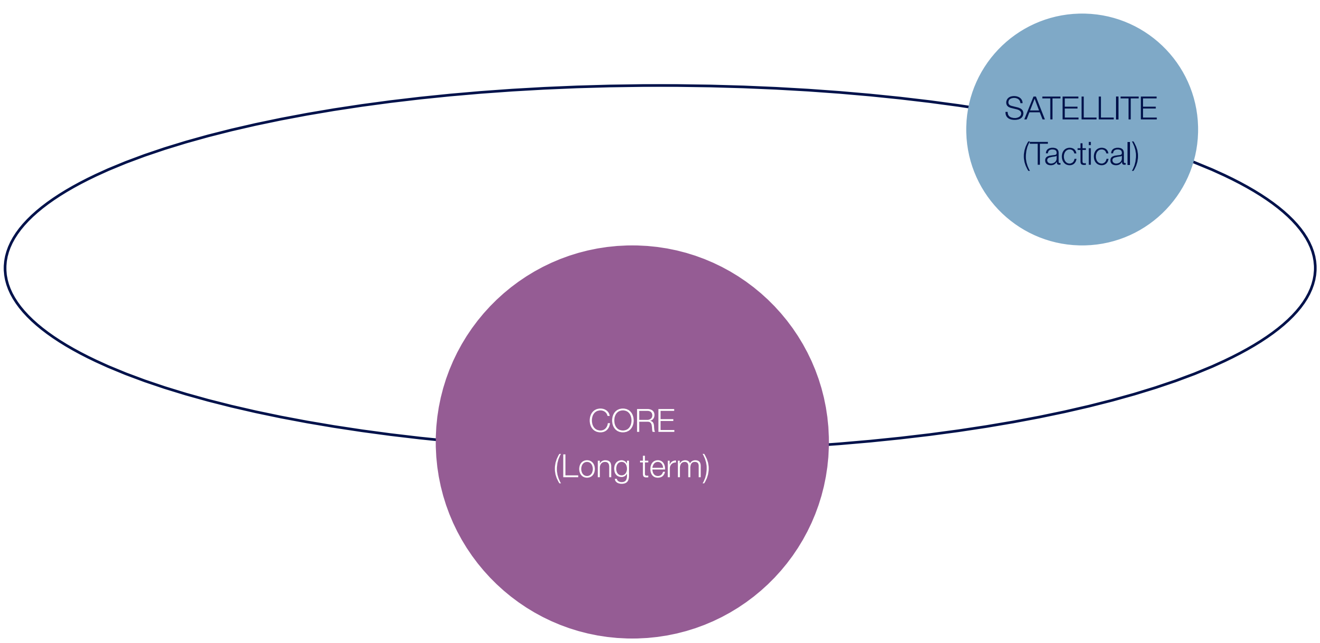
ETFs are used by all types of investor, from large institutions to individual retail clients. Anyone that requires liquid, efficient, cost effective and transparent access to the financial markets might consider them. With simple access through a stockbroker or platform dealing account, ISA or SIPP, ETFs trade as easily as buying a share.

As a passive tracking investment, the objective is to achieve the market return, and not beat it as is the aim for an actively managed fund. This creates a very simple risk / reward profile; if the Index that the ETF is tracking rises 5%, the aim of the ETF is to rise by 5% too. Likewise, if it falls 5%, you will lose 5% of your investment. This is important as you need to be comfortable with putting your capital at risk.

ETFs are typically used to build an efficient, low cost core portfolio to capture long term growth. The ability to target the whole risk spectrum from Government Bonds to Emerging Markets, from defensive stocks to Financial and IT companies means that practically any type of investor can find a suitable investment opportunity. And, with both income paying (distributing) ETFs and growth (capitalising) ETFs available, they can be suitable for both growth and income strategies.

The onscreen pricing, and ability to trade in or out on a daily basis means that ETFs can also be used by more tactical investors who are looking to take advantage of short term trends in harder to reach markets. The combination of core and satellite opportunities means that investors can build a portfolio to suit their specific views and investment budget. Small portfolios can be built with a handful of ETFs, or larger portfolios can target some very specific allocations and achieve greater diversification.

CORE AND SATELLITE OPPORTUNITIES



USING ETFS FOR DIVERSIFICATION

The aim of diversifying a portfolio is to control risk and improve the potential for positive returns. It is a hugely important part of investing. We all intrinsically understand the concept of not putting too many eggs in one basket, and not relying on just one investment theme or idea to power our portfolios. We also understand that yesterday's great idea can be tomorrow's disaster, and that market sentiment drives prices up, down and sideways. Diversification is simply a way of controlling that market risk.

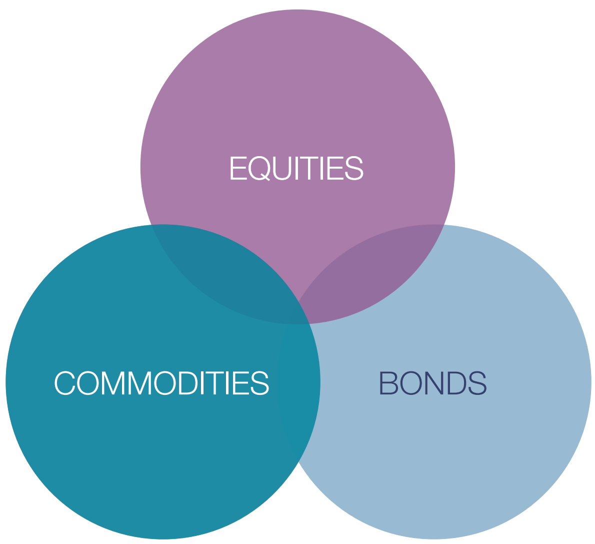
The idea is simple; by including different types of assets, regions or sectors in your portfolio you are spreading your risk. As bonds fall equities and commodities may rise. As Financial and IT stocks cool off, Utilities and other defensive stocks may benefit.

The more you spread risk, the more stable your portfolio should be as you are less reliant on any one area. The right mix for you depends on how long you want to invest, how much risk you want to take and invariably, how much money you have to invest. Your mix of assets may change over time as well. When you are young, you might be willing to take more risk. You may have a longer time horizon and you may be more focused on wealth generation. As such you might include higher risk areas such as Emerging Markets, Small Cap stocks or Technology and Financial sectors. Your bond allocations may be more aggressive too, with some High Yield or Emerging Market debt.

But when you are older you might want to be more cautious, take fewer risks, and focus on income instead. This would mean your allocations would switch to lower risk equity markets, investment grade corporate debt and government bonds.

There is of course a caveat to diversification and that is that you don't want to over diversify. If you spread a small portfolio very thin across too many assets, all you will do is increase costs and mute your potential performance. The other danger is correlation – in times of great distress like the financial crisis, all assets may fall together and the idea of diversification breaks down.

THE RIGHT BALANCE OF ASSETS



THE IMPORTANCE OF COST

The low cost nature of ETFs is one of their key benefits as costs matter. Imagine you had a choice of two funds in which to invest £100 over the next ten years. Fund A charges 0.50% - a not untypical cost for running an ETF - while Fund B, a Unit Trust that is actively managed costs 1.50% per annum. If we assume no capital growth at all, Fund A with its 0.5% per annum charges would cost a total £5.11 over ten years , while Fund B at 1.5% per annum would cost £16.05. At the end of the ten year period, the investor in Fund A is £10.94 better off – that's a lot on a £100 investment. Obviously, an Active fund may outperform but that is the risk you take.

LYXOR ASSET MANAGEMENT
AN EXPERT IN ETF SINCE 2001

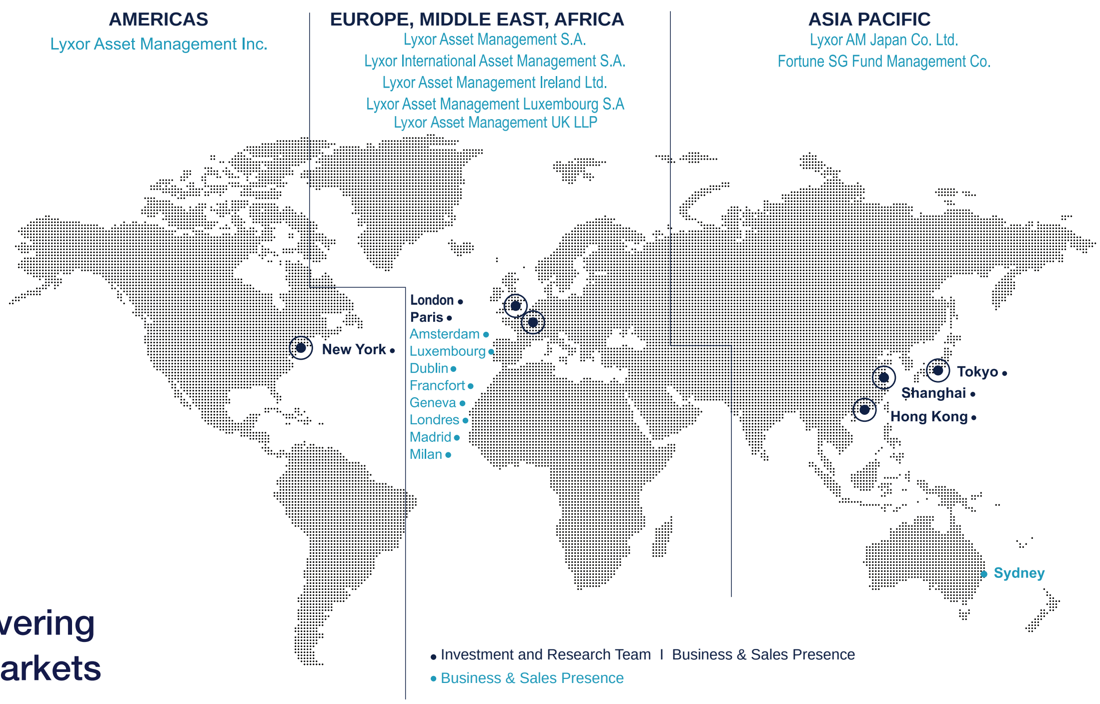
INTRODUCING LYXOR ASSET MANAGEMENT

A fully owned subsidiary of Societe Generale Group, at Lyxor Asset Management (Lyxor) we take great pride in our innovative approach, and our absolute commitment to quality, transparency and flexibility. These values have been the cornerstone of our offer since Lyxor was launched in 1998.

Today with more than 600 professionals covering all major investment markets, Lyxor manages approximately $100 billion of assets and 1,400 funds* around the world. Our pioneering spirit and commitment to quality transcends all areas of our business and every person involved in it.

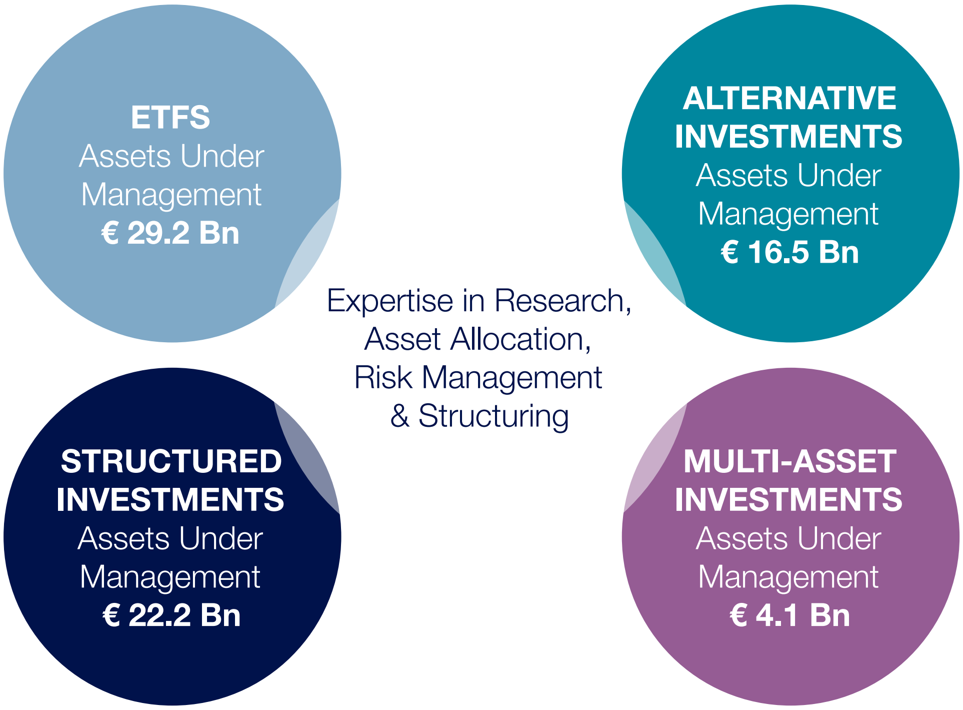
Offices in **13** countries

600 employees covering most global markets



*Source Lyxor Asset Management, May 2013. Lyxor AM Inc. is a US registered advisory subsidiary.

THE FOUR PILLARS OF LYXOR ASSET MANAGEMENT*



THE VALUES AT THE HEART OF LYXOR

Our product philosophy is based on financial innovation. We strive to identify new ways to manage risk and enhance performance. Our spirit of innovation is driven by our in-house research team who are specialised in macroeconomics, quantitative and alternative investments.

Our 20-strong independent Risk Department constantly monitors risk at all levels to ensure that Lyxor maintains a robust and sustainable investment offering. Our comprehensive reporting framework creates absolute transparency, and ensures that our clients know exactly what they are investing in at all times.

Lyxor combines the spirit of a start-up, the responsiveness of an entrepreneur and the reliability of a rapidly expanding global player. From the outset, three key values have remained at the core of every Lyxor solution: innovation, transparency and flexibility.

Key Figures*

1 The world's number one alternative managed account platform

1 st ETF launched on Euronext Paris in 2001

100% subsidiary of the Societe Generale group

3 rd largest ETF provider in Europe

4 areas of expertise: alternative investments, ETFs & indexing, multi-asset and structured investments

264 ETFs listed on 12 financial markets across the world

*Source: Lyxor Asset Management, July, 2013

AN EXPERT IN ETFS SINCE 2001

Lyxor launched its first ETF on the Paris Euronext stock exchange back in 2001, and today we stand among the most experienced ETF providers. With almost Eur 30bn of ETF Assets Under Management Lyxor is the 3rd largest ETF provider in Europe*

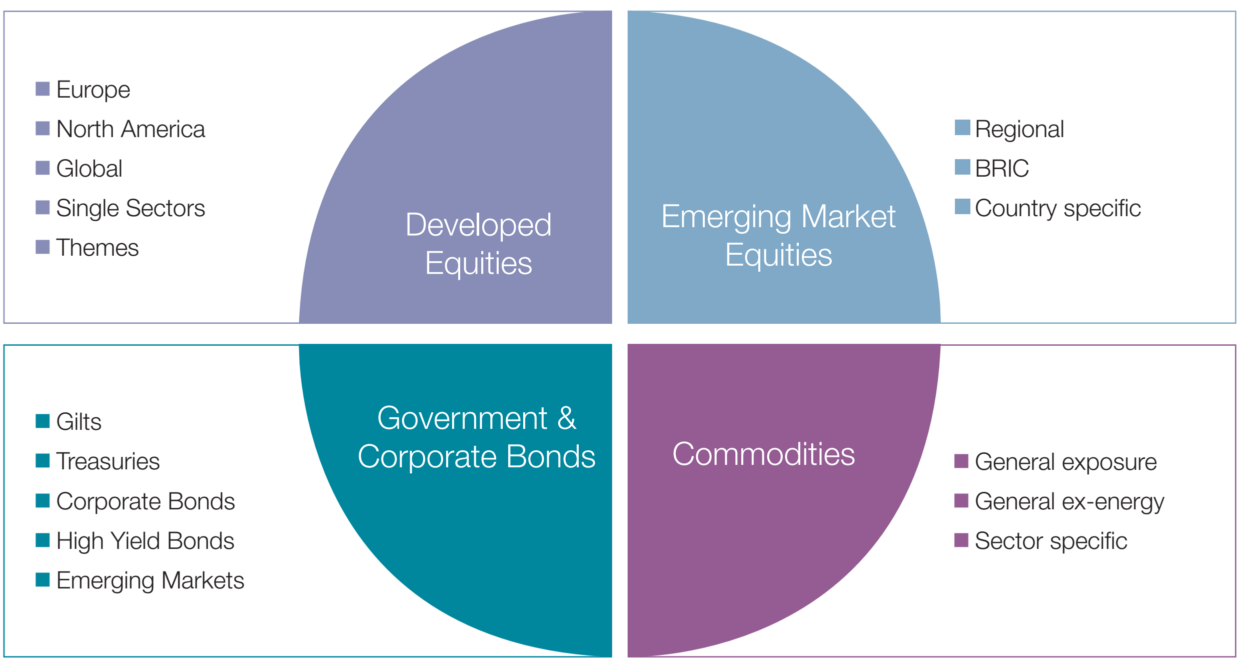
Our success is built on a history of innovation, and a constant drive to provide investors with better, and more efficient ways to access the global investment markets. Some of Lyxor's achievements to date include:

- >> First to offer a CAC 40 ETF in 2001
- >> First in Europe to offer complete exposure to BRIC (Brazil, Russia, India, China) countries
- >> First to cover Asian sector ETFs and to offer a full set of global sector ETFs
- >> First to offer exposure to dividends and Enhanced Volatility as an asset class through a single trade

ACCESS TO MORE MARKETS

One of the greatest strengths is our ability to deliver secure, liquid and precise tracking in even the most remote investment markets. Today Lyxor has a comprehensive range of over 264 ETFs, which covers over 175 individual indices and encompasses a huge diversity of countries, regions, themes, sectors, commodities and fixed income baskets. On the London Stock Exchange UK investors can access more than 70 Lyxor ETFs denominated in GBp, EUR or USD.

A DIVERSE RANGE



THE FOUR PILLARS OF LYXOR ETF

Since our first ETF launched in 2001, Lyxor has maintained an utmost commitment to quality. In 2011 we formalised this commitment with the Lyxor ETF quality charter, which set new quality standards across 4 main areas.

PERFORMANCE

- Highly competitive TERs (see page 27)
- Some of the best in class performance (see page 29)
- Lyxor Research designed the ETF efficiency indicator, the first independent statistical tool to compare and evaluate ETFs “True Performance”

LIQUIDITY

- A broad network of Market Makers (19) and Authorised Participants (49)
- High on-Exchange Turnover (see page 33)
- Tight Bid / Ask spreads

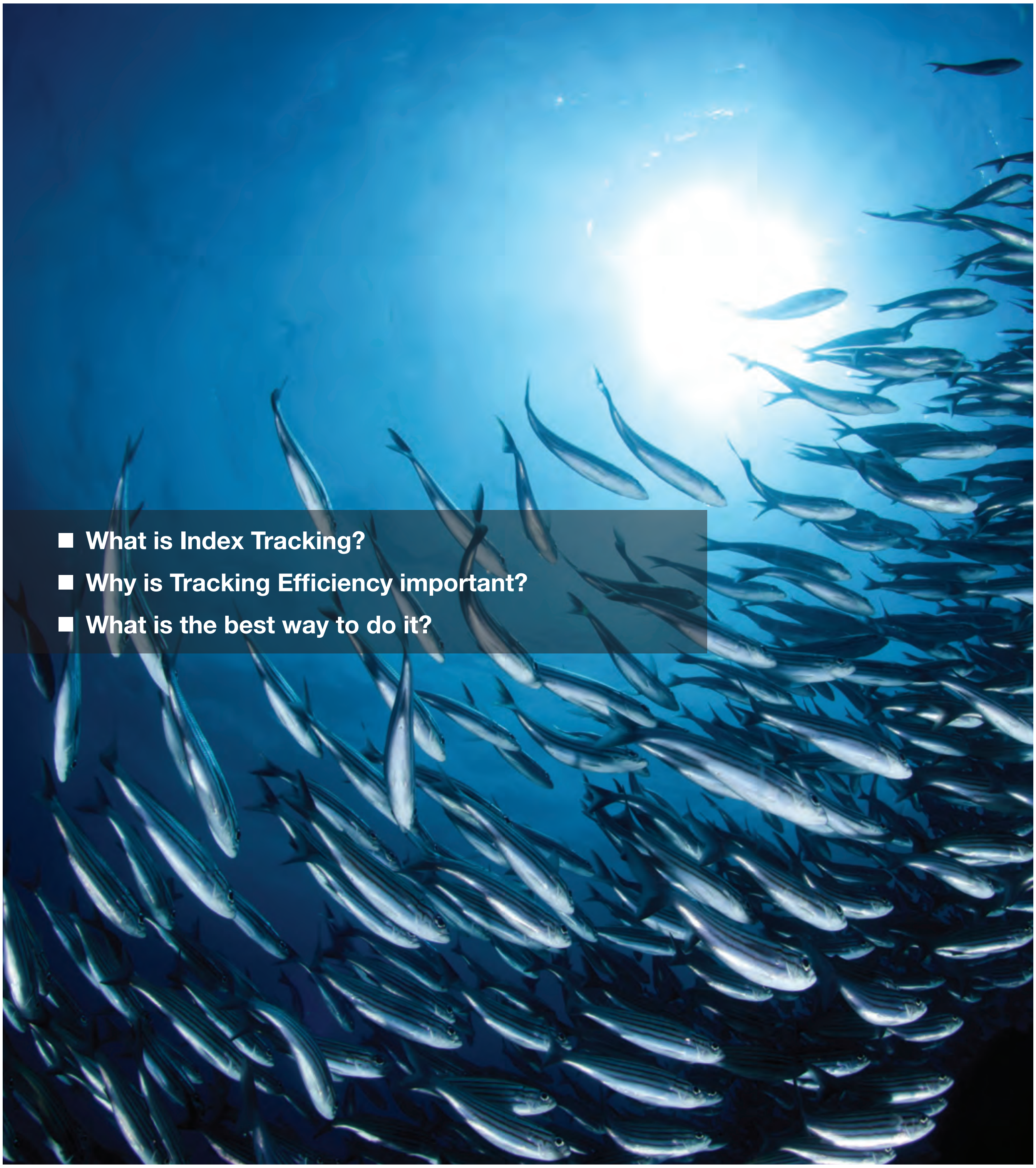
RISK MANAGEMENT

- Daily target of 0% Counterparty Risk
- Only quality assets held by the fund

TRANSPARENCY

- Daily publication of all relevant information
- Full transparency in terms of the Swap Level and the fund assets

HOW YOU TRACK AN INDEX COUNTS



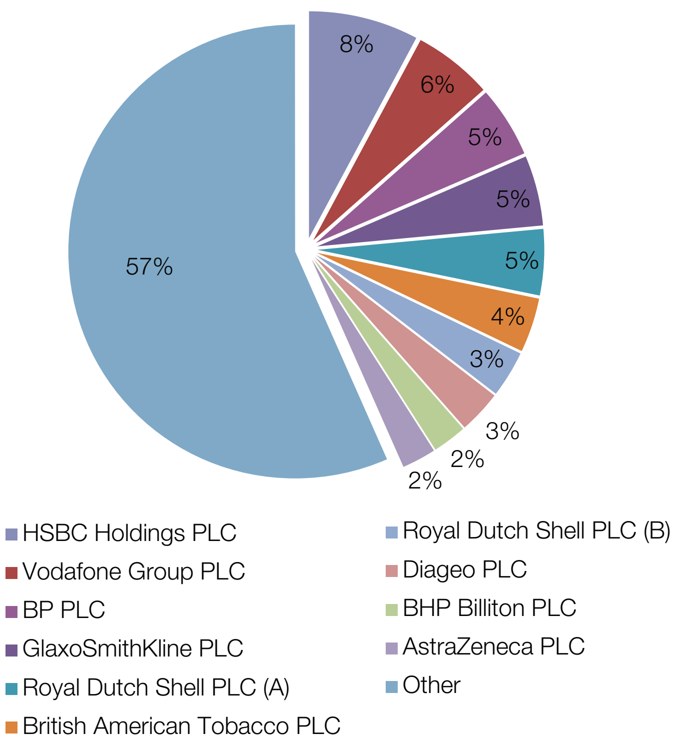
WHAT IS INDEX TRACKING?

An index is simply a big, long list of companies - or bonds - whose securities are quoted on a local stock market. However, understanding the rules, weightings and biases of the Index is essential if you want to understand what will drive its performance.

To understand index tracking, let's look at a well known index in the UK, the FTSE 100 Index. This index comprises the 100 largest companies by market value that are listed on the London Stock Exchange. As such, the FTSE 100 Index contains a lot of well known names such as BP, HSBC or Shell. However, not every company or stock in the index is equal - in fact, far from it.

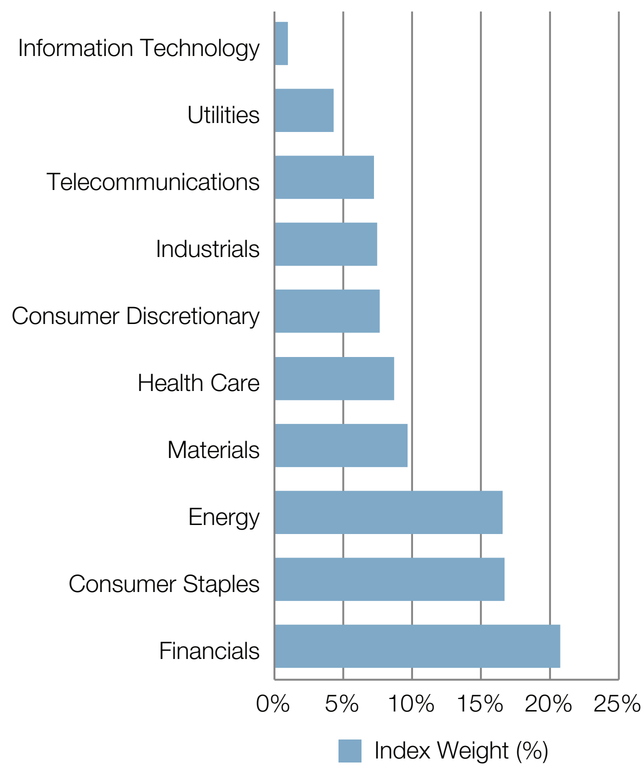
Each company in the FTSE 100 index is weighted according to its market value or 'market capitalisation' as it is known. For instance, if Shell was worth say £100 billion in total, and the total value of all 100 companies in the index was £1,000 billion, Shell's shares would have a 10% weighting in the Index.

FTSE 100 CONSTITUENTS BY WEIGHTING



Source: Bloomberg, August 2013

FTSE 100 INDEX WEIGHT BY SECTOR (%)



Source: Bloomberg, August 2013

This means that although you are buying a diversified index containing 100 UK listed stocks, your investment is concentrated on the largest stocks. The top 10 stocks for example are responsible for approximately 43% of the performance of the FTSE 100 Index. This is why it is important to check how an Index weights its stocks as it will tell you where the performance will come from.

There are alternatives to market capitalisation indices, based on risk, price, profits or dividends. Some simply weight each stock equally. However market cap indices are the mainstream way of buying exposure to a major market like London.

WHAT ABOUT DIVIDENDS?

Not all indices give investors the benefit of dividends. The well known FTSE 100 Index for example, is a Price Return Index, which simply means that it moves in relation to the price of the stocks i.e. it is purely concerned with capital gains and losses. Its sibling Index the FTSE 100 Total Return Index however, tracks both the capital gain, and re-invests any dividends paid by the constituent companies into the price of the Index - giving investors the benefit of the Dividend payments.

The vast majority of ETFs will track the Total Return version of an Index so that they gain the benefit of dividend payments. Those combined dividend payments are then either paid out to investors if it is a ‘Distributing ETF’, or rolled up into the performance of the fund if it is a ‘Capitalising ETF’.

INTERNATIONAL INDICES

Another important question surrounds the currency that the Index is quoted in, and whether it is the same as the one of the ETF? If not, the price of the ETF will be affected by not only changes in the price of all of the constituent stocks, but also by changes in the exchange rate. For example if the price of the Index rose but the exchange rate went against you, your return would be reduced, or even reversed.

LOOK OUT FOR LIQUIDITY

Last but by no means least, you should also have some understanding of the underlying liquidity of shares within your chosen index. Tens of thousands of investors trade blue chip company shares every day. This means that there are a lot available in the market to buy and sell at any moment in time - which in turn means those shares are liquid. This makes tracking the Index easy as the ETF can freely buy and sell shares as the ETF units are created or redeemed.

But some indices, especially for smaller companies or maybe companies in Emerging Markets may not be as liquid. There may be local tax issues that affect foreign ownership of shares. Alternatively shares in smaller companies may only be traded infrequently. An index tracking these less liquid stocks or bonds may need to be carefully constructed, or utilise optimisation techniques to improve its performance.

WHICH INDEX IS RIGHT FOR YOU?

There are a lot of things to look out for when deciding how to pick the right index for your portfolio. Each Index has its own methodology, its own style and its own particular biases. To check the Benchmark Index is the right one for you, just to ask yourself a few simple questions:

1. How is the Index weighted, and to what degree is it concentrated around the top stocks?
2. Is the stock selection representative of the market, or is it biased to certain sectors or geographies?
3. What happens to dividends in the index and what does the ETF do with them?
4. Are movements in the exchange rate likely to cause you problems?
5. Is the Index liquid and easily tradeable?

All these things will have a significant impact on the potential return from the Index, but also the potential risk. An Index weighted heavily towards banks and technology companies in a particular country or region is likely to provide a very different return to one that focused on utilities or consumer staples.

WHY IS TRACKING EFFICIENCY IMPORTANT?

On the surface, tracking an Index is simple; the fund must manage its assets so that the performance of the fund matches that of the Index it references. However, an Index is not a static thing; it is regularly rebalanced, its constituents change, and it must take account of corporate actions, tax and dividend payments.

All of these factors mean that tracking an Index is more complicated than simply buying and holding a basket of stocks. In fact, depending on how many stocks are in the Index, or where those companies are listed, it can be very difficult, or even impossible for some ETFs to track that Index accurately. As indices have become more diverse and exotic, ETF Providers have responded with news ways to optimise fund performance, and improve its tracking against the Benchmark Index.

EFFICIENT INDEX TRACKING

MANAGING A BASKET OF SECURITIES	>> Buying a basket of shares >> Re-investing dividends and managing corporate actions >> Re-balancing the fund as the Benchmark Index moves companies in and out of the Benchmark Index
OPTIMISING PERFORMANCE	>> Tracking the right kind of Benchmark Index >> Tracking the Benchmark Index the best way >> Optimising the performance of the fund according to market conditions, tax and exchange rates

THE EVOLUTION OF INDEX TRACKING

The traditional way for an ETF to track its Benchmark Index was to simply buy the same stocks as the Benchmark Index and manage them in accordance with changes in the Index. However, as the scope of ETFs grew to encompass new and exotic Indices, this ‘Physical replication’ became increasingly difficult for certain exposures, and fund managers were forced to develop new optimisation techniques and replication methodologies. We look at the the three main techniques in the next section.

WHAT IS THE BEST WAY TO TRACK AN INDEX?

The best way to track a Benchmark Index has been the subject of much debate, but the truth is that no one method is right in every instance. Both Physical and Synthetic replication have their merits, and it is the Benchmark Index that should determine the best way to track it.

In the guidance paper* that they released in 2012, ESMA found little difference in risk between the two methodologies, simply a different way of applying that risk. In fact, it was the Securities lending practices of Physical funds, which attracted most attention and is now the subject of greater scrutiny.

PHYSICAL OR SYNTHETIC, WHAT'S THE DIFFERENCE ANYWAY?

The difference between Physical and Synthetic replication is not as great as many might say. Both start with a portfolio of physical assets, which is owned by the fund and held in a segregated account away from the fund provider. This means that regardless of what happens to the issuer of the fund, the assets can be sold in order to re-pay investors. Where the two types differ is in the role of these physical assets; one uses the physical assets for performance (Physical), the other for security (Synthetic). Even within these two categories there are variations which investors should be aware of.

WHEN IT MAKES SENSE TO KEEP IT JUST PHYSICAL

Physical Funds purchase the stocks of the Benchmark Index in order to create the performance of the fund. As such, they must be the same, or very similar to that of the Benchmark Index that they track. This means that they work well for large, liquid markets where the component stocks or bonds can be easily purchased and traded. Under this structure the ETF provider makes no attempt to optimise the fund's performance or tracking. As a result, the investor receives the "passed-through" performance of the fund's underlying assets, minus a deduction for fund expenses.

ETF HOLDINGS
Same holdings as the Index

=

BENCHMARK INDEX

THE EXAMPLE OF EUROPEAN GOVERNMENT BONDS

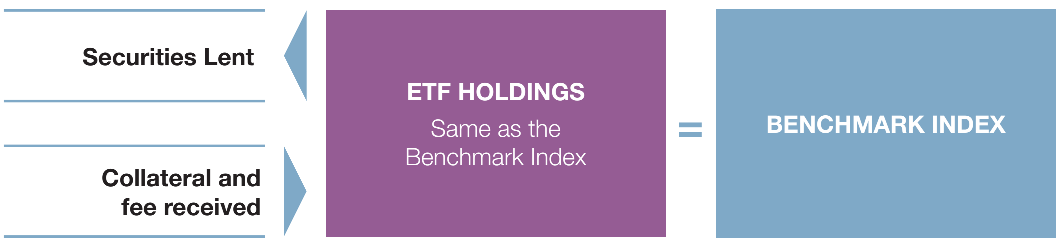
European government bonds for example are high quality securities with good liquidity and offer limited opportunity to enhance performance. For this reason, Lyxor believes that the interests of investors are better served by using a "Physical Only" replication method.

*The ESMA report can be found at: http://www.esma.europa.eu/content/Report-and-consultation-paper-guidelines-ETFs-and-other-UCITS-issues

WHEN PHYSICAL FUNDS NEED A BOOST; ADDING SECURITIES LENDING

Some Indices are not so simple, and can't be replicated by buying all the same assets. The component stocks may be too illiquid, or there may simply be too many of them. The MSCI World for example has over 1,600 constituent stocks and it just isn't possible to buy all the assets physically, and manage the portfolio in an efficient way. This means that Physical Fund managers are forced to operate a sampling strategy, where only the largest and most liquid securities are purchased. This can expose the fund to Tracking Error as the basket of securities is not an accurate reflection of the Benchmark Index.

In order to improve the performance of a Physical Fund, the fund manager can lend out the Fund's assets to other financial institutions. In return the financial institution provides collateral against the stock and pays a fee for the service. This practice is used throughout the asset management industry and it is called Securities Lending. By reinvesting the revenues from Securities Lending, Physical Fund managers can improve the degree to which the ETF tracks its Benchmark Index. The risk is that the institution borrowing the securities could default, in which case the securities could be lost, and the fund value would suffer. However, with adequate collateral and tight management this risk can be significantly reduced.



THE EXAMPLE OF EUROPEAN EQUITIES

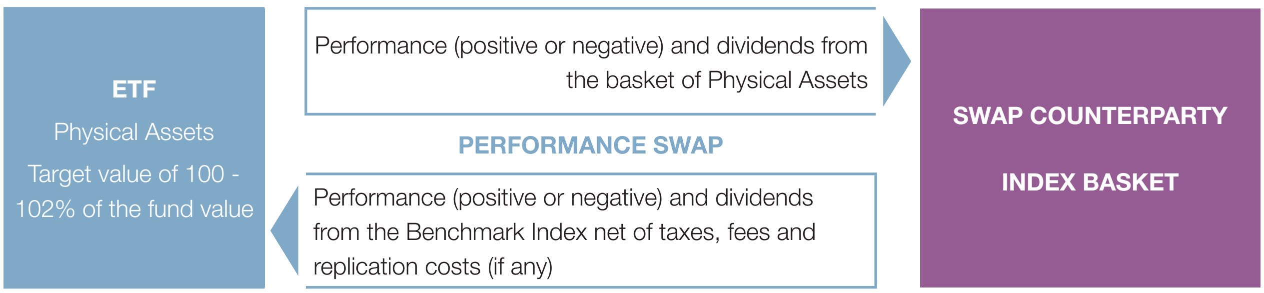
With European Equities, the aim is not to reduce the Tracking Error but rather to optimise performance, particularly regarding dividends. These optimisation techniques can be implemented with equal effectiveness through both Securities Lending and a Synthetic ETF structure. In the case of the Euro STOXX 50 index, the additional gains that can be made by applying these optimisation techniques could amount to around 0.40%, twice the average level of ETF management fees.

WHEN SYNTHETIC OPTIMISATION IS THE ONLY WAY

Due to the way that the performance is delivered, Synthetics ETFs can offer precise tracking against even the most illiquid or hard to track Benchmark Indices. Synthetic ETFs also invest in a basket of physical assets such as equities or bonds, which are owned directly by the fund and appear on the Fund's balance sheet. However, this time the role of the physical assets is not to provide the performance of the fund, but purely to act as security. The performance of the Fund is instead provided by a financial instrument called a Performance Swap (Swap).

This Swap is a contractual agreement which is negotiated over-the-counter (OTC) between two parties: the ETF and the Swap Counterparty. Under the terms of the Swap, the Swap Counterparty commits to pay the precise daily performance of the Benchmark Index, including any dividends to the ETF. In return, the ETF pays the Swap Counterparty a fee for the Swap arrangement, and the performance of the physical assets it holds, including any dividends. This means that before taxes and replication costs, the daily performance of the ETF is a precise replication of the Benchmark Index.

HOW A SWAP WORKS



In a similar way that Securities Lending introduces a degree of Counterparty Risk to a Physical Fund, the Swap can introduce Counterparty Risk to the issuer of the Swap. This is because if the Swap Counterparty was to default, the performance of the fund would be lost. BUT, and it is an important 'but', exposure to the Swap Counterparty is strictly governed by the UCITS Directive and cannot exceed 10% of the fund's Net Asset Value (NAV). This means that the most that is ever at risk is 10% of the fund value. Issuers such as Lyxor impose stricter limits and in fact target 0% Counterparty Risk each day.

THE EXAMPLE OF EMERGING MARKETS

As we saw earlier, where the Index being tracked includes a large number of stocks, or where it is an Emerging Market Index where the stocks can be particularly illiquid, or hard to trade, it can be hard or even impossible for a fund manager to buy and manage the stocks physically. The best way to gain exposure to these indices without suffering significant Tracking Error is to use a Performance Swap. The benefits are twofold; one, you get the precise performance of the Index no matter how remote the stocks, and two; instead of holding these illiquid stocks, you can restrict your holdings to highly liquid, blue chip stocks.

A MORE PRAGMATIC APPROACH TO INDEX REPLICATION

Lyxor's commitment to performance and tracking efficiency means that we aim to use the most appropriate tracking solution for each Index that we track. This pragmatic approach means that we may use Synthetic or Physical replication depending on what provides the best balance of risk and performance for our investors.

Using Performance Swaps or Securities Lending initiatives involves additional risk for investors. This risk may still be acceptable if it delivers sufficient additional returns, through a performance improvement or a reduction in Tracking Error. If this is not the case, the best replication method should be Physical only without any Swap or Securities Lending.

With performance optimisation	PHYSICAL	+	SWAP	LYXOR'S TRADITIONAL ETF PRODUCT RANGE
	PHYSICAL	+	SECURITIES LENDING	LYXOR'S TRADITIONAL INDEX FUNDS & SOME ETF
Without performance optimisation	PHYSICAL	+	ONLY	LYXOR ETF EUROMTS HIGHEST RATED BONDS

A SUMMARY OF REPLICATION METHODOLOGIES

Physical Replication	Synthetic Replication
Consists of buying some or all of the constituents of the Benchmark Index in order to replicate its performance.	Buys high quality blue chip stocks and bonds for security and uses a Performance Swap to minimise Tracking Error.
The most appropriate solution for highly liquid markets where no benefit can be created with a performance Swap.	Quality of replication does not depend on the assets held by the fund but is provided by the Swap Counterparty.
For broad and difficult to access indices, managers may use statistical techniques, like stratified sampling which may lead to Tracking Error.	Enhances market access and limits tracking costs compared to Physical replication techniques.
Securities Lending may be used to reduce Tracking Error. Lyxor re-invests all profits generated by our Securities Lending programme back into the fund.	Can generate other efficiencies such as tax optimisation, lower holding costs (custody/foreign exchange transactions) and enhanced corporate actions management.
As Securities Lending involves the lending of the fund's holdings, the fund may not actually hold the constituents of the Benchmark Index at all times.	Involves limited Counterparty Risk exposure to the Swap Counterparty which is limited to 10% of the fund NAV by UCITS Guidelines and to 0% by Lyxor itself.
Securities Lending introduces Counterparty Risk on the Financial Institution who borrows the securities.	Lyxor ETFs do not lend out the underlying fund holdings which are kept in segregated accounts with our custodian and correspond to highly liquid assets.

EVALUATING PERFORMANCE
NOT ALL ETFS ARE CREATED EQUAL

- Assessing the true performance of an ETF
- What affects Tracking Error?
- The Lyxor ETF Efficiency Indicator

ASSESSING THE TRUE PERFORMANCE OF AN ETF

ETFs are hugely popular with a wide variety of investors as they provide cheap, flexible access to the markets. However, their popularity has attracted a growing number of providers to the market, leaving investors with a difficult choice: which ETF is best for me. Many are attracted by low TERs but this is only one element of cost and performance.

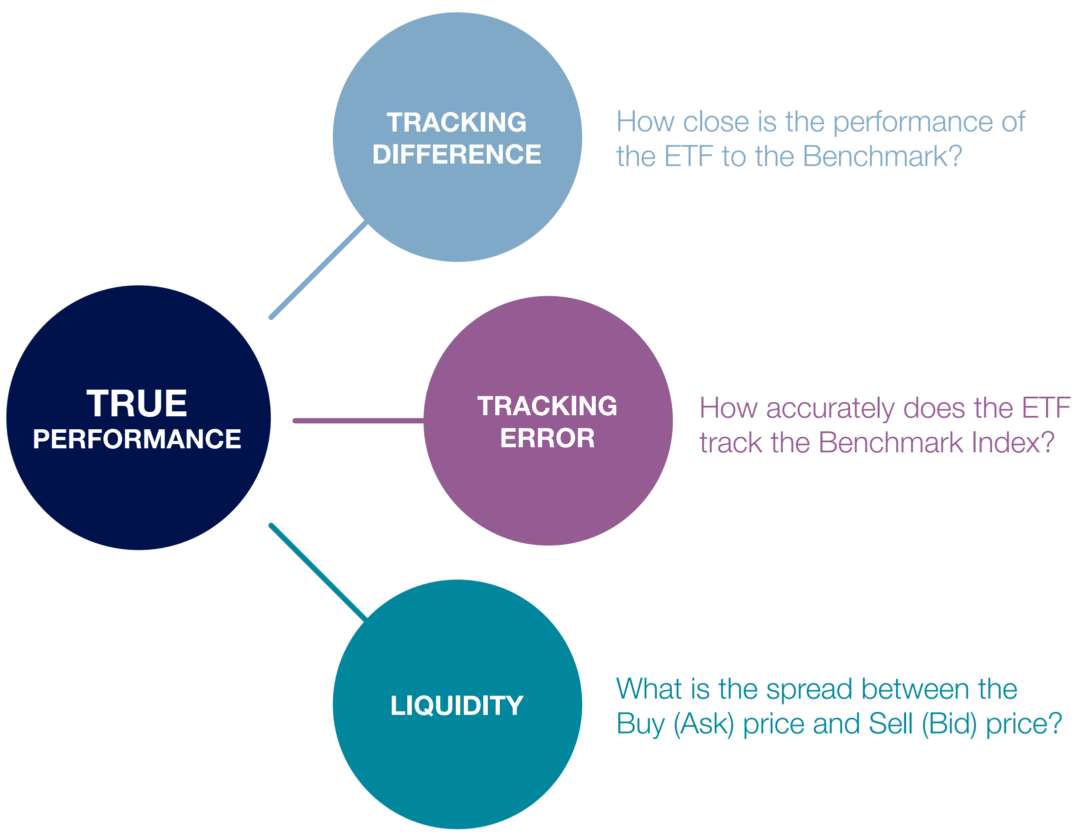
In theory, ETFs following the same index should all provide very similar returns as they are designed to closely track the index that they follow. But in practice, returns can vary significantly. So what should investors look for when selecting an ETF provider? They should choose carefully, focusing in particular on the quality of their management, tracking efficiency, liquidity and transparency.

HOW DO YOU KNOW WHICH ETF IS BEST?

As the objective of an ETF is simply to track its Benchmark Index as efficiently as possible, logic may tell us that the best one would be the one with the lowest fees. The most obvious measure of an ETF's cost is the Total Expense Ratio or `TER' as it is better known. The TER includes all costs and fees involved in running the fund. It is calculated daily and deducted from the performance of the fund. A low TER is a very important starting point, but it is only one part of an ETF's true performance. The benefit of a low TER can easily be outweighed by poor tracking or a wide Bid / Ask spread.

THE 3 ELEMENTS OF TRUE PERFORMANCE

The efficiency or "True performance" of an ETF is actually based on three key elements; Tracking Difference, Tracking Error and Liquidity. Each element has a significant impact on the overall performance of the ETF.

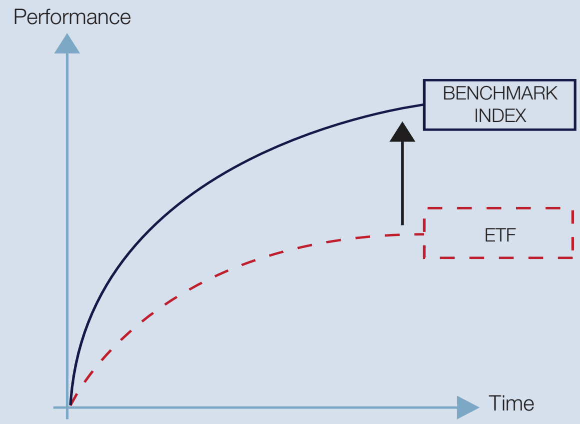


TRACKING DIFFERENCE

Tracking Difference is a simple measure that defines the difference in performance between the fund and the Benchmark Index over a day, a week or more typically, a year. It can be positive or negative and provides a useful gauge for Investors who wish to buy and hold their investment for long periods.

The Tracking Difference is typically the result of the Total Expense Ratio of the fund, which includes the structural costs paid to custodians, administrative costs and other operational costs. It also includes the Annual Management Fee paid to the Asset Manager.

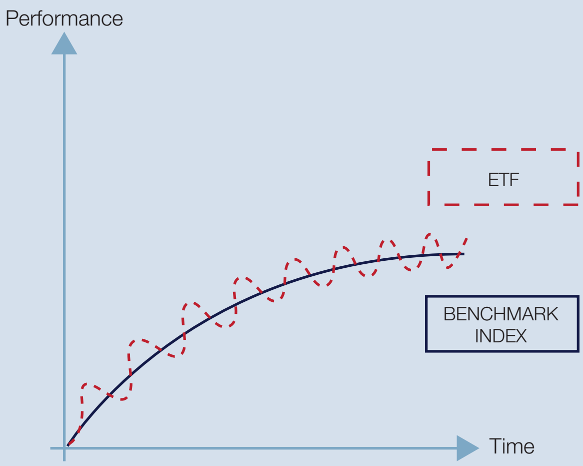
The average TER across all UK retail ETFs is 0.45%*, which is generally much lower than either a traditional actively managed open ended fund, or an open ended index tracker.



*Source: Lyxor Asset Management, May 2013

TRACKING ERROR

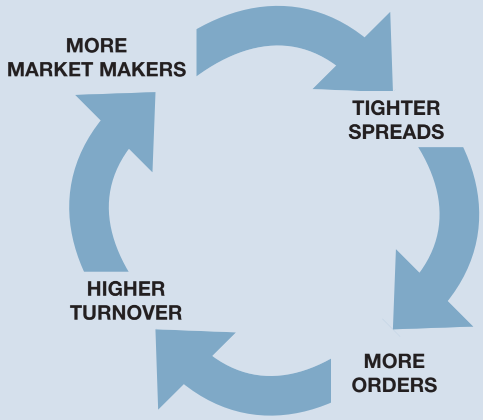
Tracking Error looks at how the fund behaves in relation to its Benchmark Index. This is a shorter term measure that looks at the volatility of the performance of the fund against the Benchmark Index, i.e. does the fund tend to follow the Benchmark Index progressively, or does it move more erratically than the Benchmark Index. Tracking Error is typically a result of trading and management costs, and the method used by the ETF to replicate the Benchmark Index performance.



LIQUIDITY AND THE COST OF TRADING

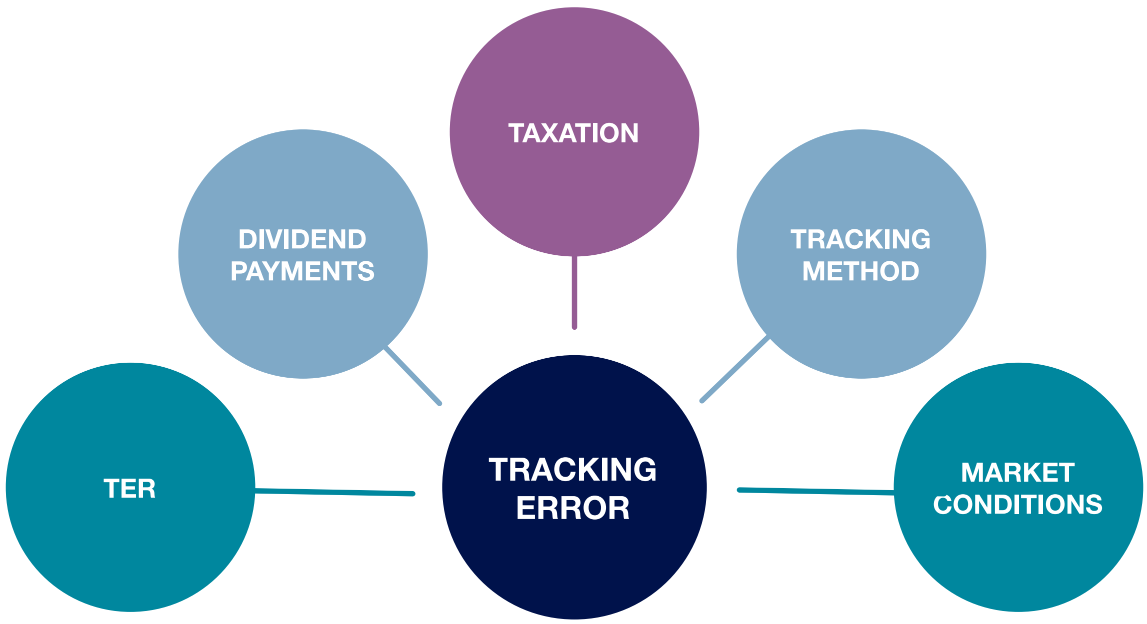
Our last key measure is Liquidity. Here we look at the difference between the buying (Ask) and selling (Bid) price of the ETF on the stock exchange. This is called the Bid / Offer spread. Again we're looking to minimise costs so the Bid / Ask spread should be as small as possible. Typically bigger funds have tighter Bid / Ask spreads as more trading means more competition to provide prices, which means greater completion on price.

A cheap ETF with a low TER may be cheap because no one is trading it, which in turn means the Bid / Ask spread is wide, and what you gain by lowering your TER, you lose when you sell back the fund at a largely different price.



WHAT AFFECTS TRACKING ERROR

There are a number of factors affecting Tracking Difference and Tracking Error. The point of optimising the ETF is to capitalise on the positive influences, and remove the negative.



TOTAL EXPENSE RATIO (TER)

The Total Expense Ratio is the first and most obvious source of error, as it is taken from the performance of the ETF. Therefore, the higher the Management Fees, the higher the possible Tracking Difference in the ETF. The TER is calculated and removed daily from the performance of the ETF.

At Lyxor we endeavour to maintain competitive TERs on all of our ETFs.

REPLICATION METHODOLOGY

Funds utilizing a sampling strategy can expose the fund to Tracking Error as the basket of securities is not an accurate reflection of the Benchmark Index. Sampling can result both in outperforming or underperforming ETFs. As described earlier, Physical funds can remove this Tracking Error through the process of Securities Lending. Also, by the nature of the contractual agreement, the Swap overlay used in a Synthetic ETF has to provide the precise performance of the Benchmark Index before fees. This means that Lyxor's Swap-based ETFs can maintain zero Tracking Error, even in the most challenging investment opportunities.

WITHHOLDING TAX

Withholding Tax is levied on dividend payments when the stock is owned in a country different to that of the company's registration. It is possible that the ETF may not be subject to Withholding Tax whereas the Benchmark Index may. In which case there is a positive Tracking Error in the fund. Or the opposite may be true and the fund may have a negative Tracking Error.

Lyxor ETF can benefit from tax efficiencies brought about by the presence of SG CIB in all major European markets. This enables SG CIB to hold European stocks in the same country as the company, meaning that the payment from the Swap Counterparty to the ETF is not impacted by Withholding Taxes.

DIVIDEND PAYMENTS

Dividend Payments will also affect Tracking Error. When the fund is accumulating dividend payments but has not yet made a distribution to investors, it causes the fund to outperform the Benchmark Index in a bearish market and to underperform it in a bullish market. This is because the fund is effectively holding a small amount of cash and is therefore not fully invested.

Lyxor ETF operates a Total Return dividend re-investment policy, which means that dividends are immediately reinvested in the fund. This means that the fund does not hold cash to pay dividends, which can impact the performance of the fund.

LYXOR ETF; AVERAGE TRACKING ERROR OF LYXOR'S ETFS BY ASSET CLASS

Asset class	Number of ETFs in range	Average Tracking Error*
Equities	201	0.08%
Fixed income	30	0.00%
Commodities	22	0.02%

Source: Lyxor Asset Management, May 2013. *Average Tracking Error between April 2012 and April 2013.

PAST TRACKING ERROR IS NO GUARANTEE OF FUTURE RESULTS. IT SHOULD NOT BE ASSUMED THAT THE TRACKING ERROR IN THE FUTURE WILL BE COMPARABLE TO THE INFORMATION PRESENTED HERE.

IN SUMMARY

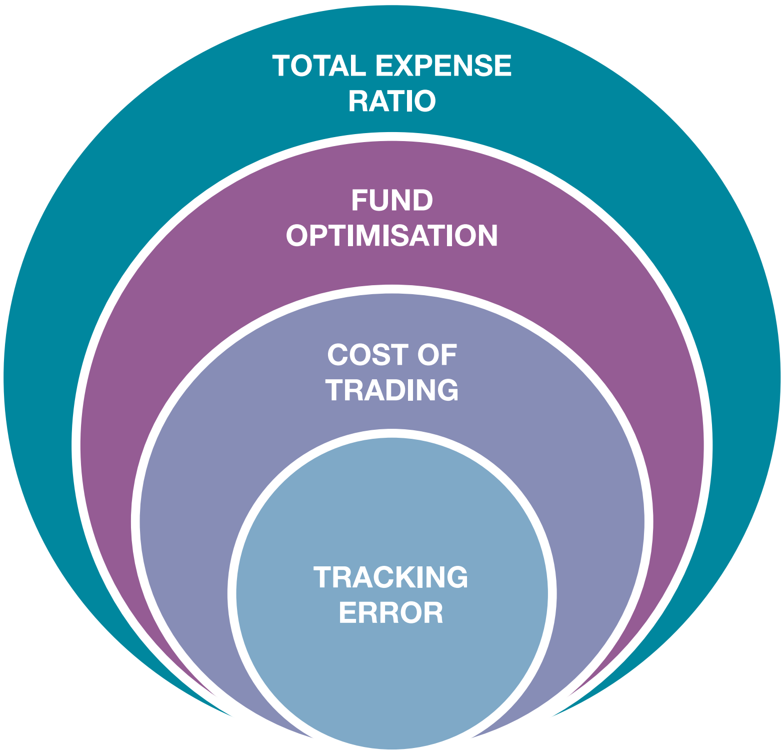
>> A high Tracking Difference is only a cause for concern if it is negative. An ETF, whether Synthetic or Physical, can effectively outperform its Benchmark Index due to factors such as discrepancies in tax treatment between the ETF and the Benchmark Index.

>> An ETF constantly underperforming its Benchmark Index by 0.10% (i.e. 0.10% every day), will have a nil Tracking Error, as the Tracking Difference is constant over time. However, after one year, the Tracking Difference can be significant (25%).

>> Tracking Error and Tracking Difference are highly valuable indicators. They should be considered together, while taking into account the assumptions used in their calculation, in order to provide full clarity.

THE POWER TO PERFORM IN ANY MARKET

Our aim is simple; to offer some of the lowest cost and most efficient ETFs in the market. We keep a constant eye on all aspects of the fund management process to ensure that our ETFs perform in any market. No detail is too small, and we actively seek opportunities to optimize the process and create performance enhancements.



1. Maintain low Tracking Difference by keeping the Total Expense Ratio to a minimum.
2. Optimise fund management to take advantage of exchange rates, bank funding and dividend policies.
3. Minimise the cost of trading by ensuring a highly liquid trading process on both the primary and secondary market.
4. Maintain the lowest possible Tracking Error by employing the most suitable replication techniques for each Index.

THE LYXOR ETF EFFICIENCY INDICATOR

To help investors choose the most suitable ETF for their portfolio, Lyxor Research has developed an "ETF Efficiency Indicator", a comprehensive solution which compares and evaluates ETFs. The indicator demonstrates that ETFs tracking the same index do not necessarily produce the same performance. We believe that investors should have a clear understanding of the "true performance" (the Efficiency) of the ETFs they invest in. As a result, our ETF Efficiency Indicator uses the three components of true performance; Tracking Difference*, Tracking Error** and the Bid / Ask Spread*** to create an overall ranking. The Efficiency Indicator is calculated using the following formula:

Tracking Difference – Liquidity Spread – Scaling factor[1] x Tracking Error Volatility

SEVEN LYXOR ETFS RANKED NUMBER ONE FOR EFFICIENCY[2]

According to the Lyxor ETF Efficiency indicator, seven Lyxor ETFs, which are among the most traded in the European market, are ranked number one for efficiency over a one year period (31 May, 2012 - 31 May, 2013). These 10 index exposures represented 40% of the European ETF equity market in terms in terms of Assets Under Management (AUM) in 2013 (source Bloomberg).

ONE YEAR ETF EFFICIENCY (31 MAY 2012 - 31 MAY 2013)

Index	Index Performance	Ranking 1	Ranking 2	Ranking 3	Ranking 4	Ranking 5
MSCI EM.Mkts	8.86%	-0.87% LYXOR	-1.32% DB X	-1.67% UBS	-3.58% CREDIT SUISSE	-3.82% ISHARES
MSCI WORLD	21.90%	-0.28% LYXOR	-0.36% COMSTAGE	-0.42% DB X	-0.59% ISHARES	-0.62% UBS
MSCI USA	20.46%	-0.04% LYXOR	-0.19% CREDIT SUISSE	-0.22% AMUNDI	-0.24% DB X	-0.59% UBS
S&P 500	20.61%	0.12%* HSBC	0.02% AMUNDI	-0.01% CREDIT SUISSE	-0.09% DB X	-0.16% ISHARES
MSCI EUROPE	28.60%	-0.10% LYXOR	-0.13% AMUNDI	-0.24% ISHARES	-0.28% SOURCE	-0.29% DB X
EURO STOXX 50	34.92%	0.61% AMUNDI	-0.46% LYXOR	0.40% DB X	0.20% ISHARES	-0.69% ISHARES
CAC 40	36.38%	-0.38% LYXOR	-0,38% EASY ETF	-0.51% AMUNDI	-0.57% AMUNDI	-2.17% DB X
DAX	33.27%	-0.26% ETFLAB	-0.31% COMSTAGE	-0.40% ISHARES	-0.45 LYXOR	-0.54% DB X
FTSE 100	20.67%	-0.48% LYXOR	-0.51% DB X	-0.55% ISHARES	-0.58% HSBC	-0.87% UBS
FTSE MIB	37.93%	-0.18% LYXOR	-0.50% ISHARES	-0.58% DB X	-1.01% AMUNDI	

PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS. IT SHOULD NOT BE ASSUMED THAT THE PERFORMANCE IN THE FUTURE WILL BE COMPARABLE TO THE INFORMATION PRESENTED HERE.

[1]The scaling factor is the confidence level of The Efficiency Indicator. If the confidence level is 95% then the scaling factor is 1.65

*Tracking Difference (in IOSCO terminology): Performance spread between the ETF and the benchmark

**Liquidity spread daily average of the first limit order spreads weighted by volumes for each listing place

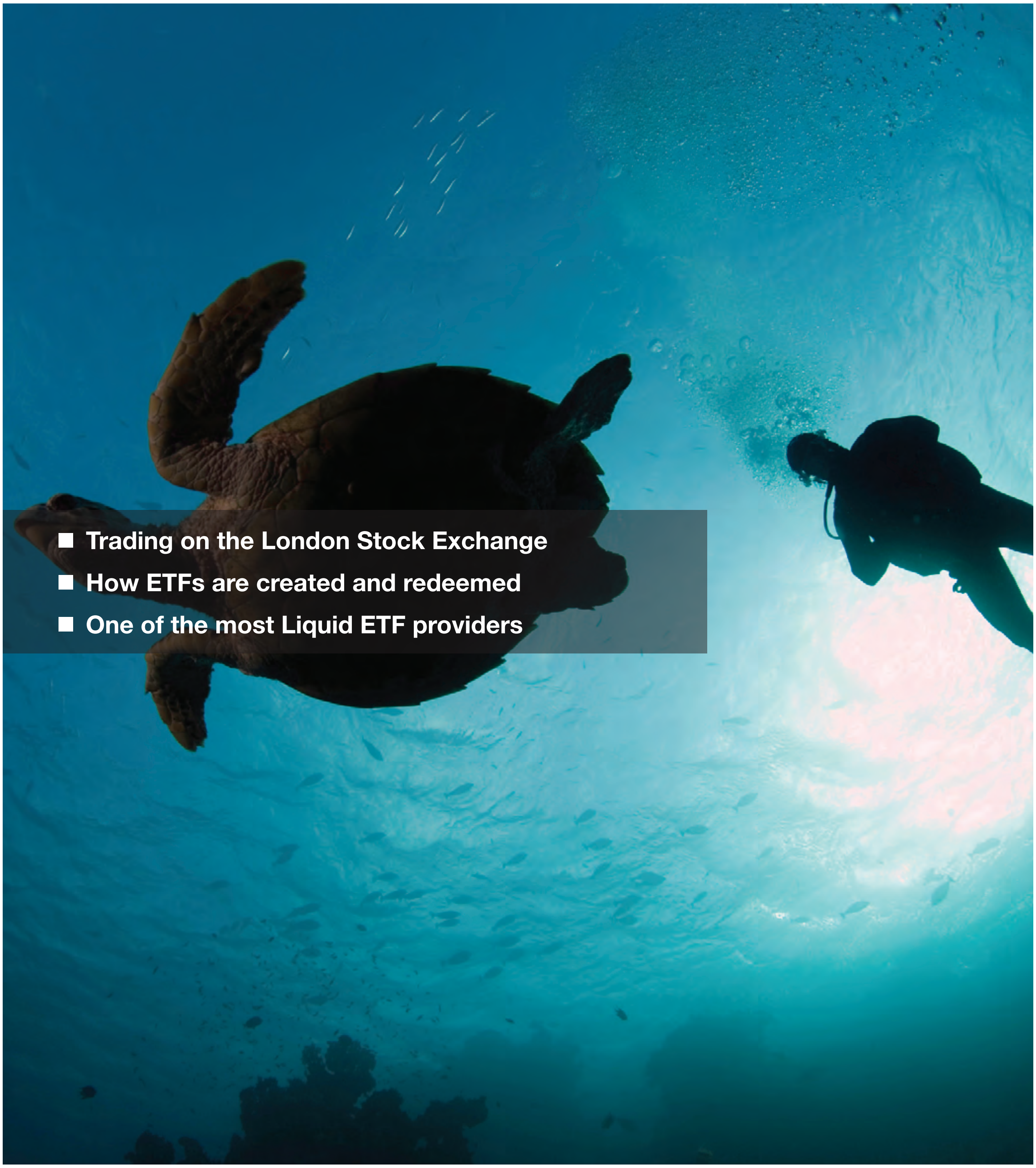
***Tracking Error (in IOSCO terminology): Volatility of the performance spread measures on a daily basis over a 1 year period

[2]Peer Group Analysis Methodology

The performance of each ETF was determined by the difference in the Net Asset Value (NAV) between May 31st, 2012, and May 31st, 2013 with dividends reinvested. Rankings are based on peer group analysis. One peer group was created for each benchmark index. Each peer group includes the 5 largest ETF share classes from the Top 20 ETF providers as defined by ETFGI, an independent research and consultancy firm. The 5 largest ETF share classes were defined according to the average daily Assets under Management observed between May 31st, 2012 and May 31st, 2013. The performance of each ETF was determined by the change in Net Asset Value (NAV) from the NAV of May 31st, 2012 and the NAV of May 31st

The observed performances were net of management fees. For those indices not denominated in EUR, Lyxor has converted the currency value of each index into Euro using the Bloomberg index codes and the WM Reuters Forex Rate.

THE IMPORTANCE OF LIQUIDITY
FLEXIBLE, LOW COST TRADING



- Trading on the London Stock Exchange
- How ETFs are created and redeemed
- One of the most Liquid ETF providers

THE IMPORTANCE OF LIQUIDITY

Liquidity is one of the key measures of an ETF's efficiency and it plays an essential part in the overall cost of ownership. It can be one of the biggest factors distinguishing one ETF from another, and it is an area where Lyxor excels.

To understand what makes an ETF liquid, and why it is such a critical area for ETF efficiency, it is first important to understand where the trading happens, and who is sitting behind it.

TRADING ON THE LONDON STOCK EXCHANGE

One of the major factors driving the growth of the ETF market is the flexibility to trade on exchange. With live pricing available throughout the trading day, investors can easily buy or sell units through a stockbroker account or Investment Platform in the same way they would a share, i.e. you buy at the 'Ask Price' and sell at the 'Bid Price. We call this kind of trading 'Secondary Market' trading, and it accounts for the majority of trading by retail investors and IFAs.

The engines behind the Secondary Market are the Market Makers who provide the Bid / Ask prices to the exchange. They are governed by the rules of the exchange and are legally obliged to provide continuous prices during market hours. The Market Maker is constantly valuing the cost of creating an ETF unit, and quoting the price at which they are prepared to buy or sell at that time. Investors can then place orders at these prices, which the Market Maker will fill in the Primary Market.

TRADING IN THE PRIMARY MARKET

The secret to an ETFs liquidity lies not in the Secondary Market where it is most visible, but behind the scenes in the Primary Market where ETF units are created and redeemed. It is this ability to create and redeem ETF units that makes ETF pricing so efficient. As demand increases, new ETF units can be created, and when it falls, ETF units can be redeemed. The result is that demand can always be kept in check and the price of an ETF never drifts too far from the Net Asset Value of the fund. Unlike a closed ended fund, you will never see an ETF trading at any real premium or discount to the Net Asset Value.

THE MAIN PARTIES OF ETF TRADING

	The Primary Market	The Secondary Market
	Creation and Redemption of ETF units	Trading of ETF units at the Bid / Ask price
Where does trading take place?	Over the Counter between professional Counterparties	On a stock exchange such as the London Stock Exchange
Who are the parties involved?	>> ETF Issuers >> Authorised Participants >> Market Makers	>> Professional Investors >> Financial Advisers >> Private Investors

HOW ARE ETF UNITS CREATED AND REDEEMED?

The creation and redemption of ETF units is the job of an Authorised Participant (AP), which is generally a large financial institution authorized by the London Stock Exchange and is approved by Lyxor to create and redeem units of Lyxor ETFs. APs are quite often also Market Makers. APs essentially operate a wholesale market for ETFs as they deal in thousands of units. If demand rises and more ETF units are required, an AP will purchase them directly from Lyxor. They can pay for these units in cash, or they can deliver the equivalent basket of securities that make up the ETF units.

When they come to sell (redeem) their ETF shares, they deliver back the units of the ETF in exchange for securities or cash. Crucially, APs trade at the Net Asset Value of the fund and not the Bid / Ask price. This is also good for investors because it means that new units can be created without exposing investors to trading spreads or commissions on the purchase of the underlying securities. It is also another reason that price is efficient. If an ETF's price on exchange is higher than the NAV an AP can create a unit at the NAV price and sell it at the Bid price. This is commonly called arbitrage.

ETFS AND EXECUTION

"Secondary Market" activity refers to trading between counterparties once the ETF units have been created - OTC and on-exchange

"Primary Market" activity refers only to creations/redemptions between Authorised Participants (i.e. market makers and the funds)

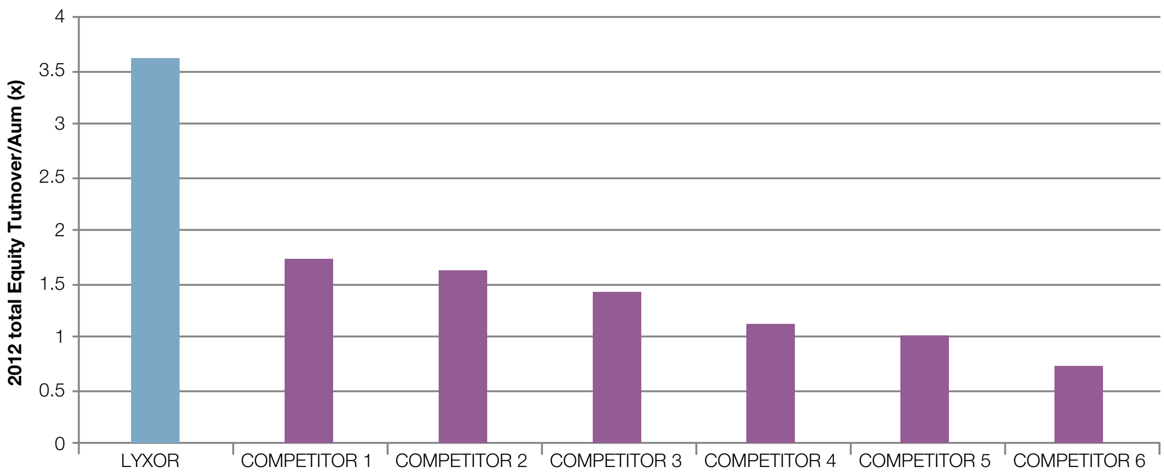
*Brokerage fees and/or creation/redemption fee

LYXOR, THE MOST LIQUID ETFS BY TRADING VOLUME

As of August, 2013, Lyxor's 264 ETFs are listed on 12 regulated exchanges and supported by a network of 19 Market Makers who compete to provide prices for Lyxor ETFs on exchange. In addition, liquidity is boosted by 49 APs who are approved to trade directly with the fund in the primary market. Together they create one of the most liquid ETF markets around.

A common measure of ETF liquidity is calculated by dividing the total Assets Under Management of an ETF by the volume traded. According to this ratio, Lyxor provides the most liquid ETFs by some margin, with a traded volume of more than three times its AUM. For investors this translates into some of the tightest bid-offer spreads on the market. In an environment in which every basis point counts, that's an important advantage for Lyxor's range*.

TURNOVER/AUM RATIO*



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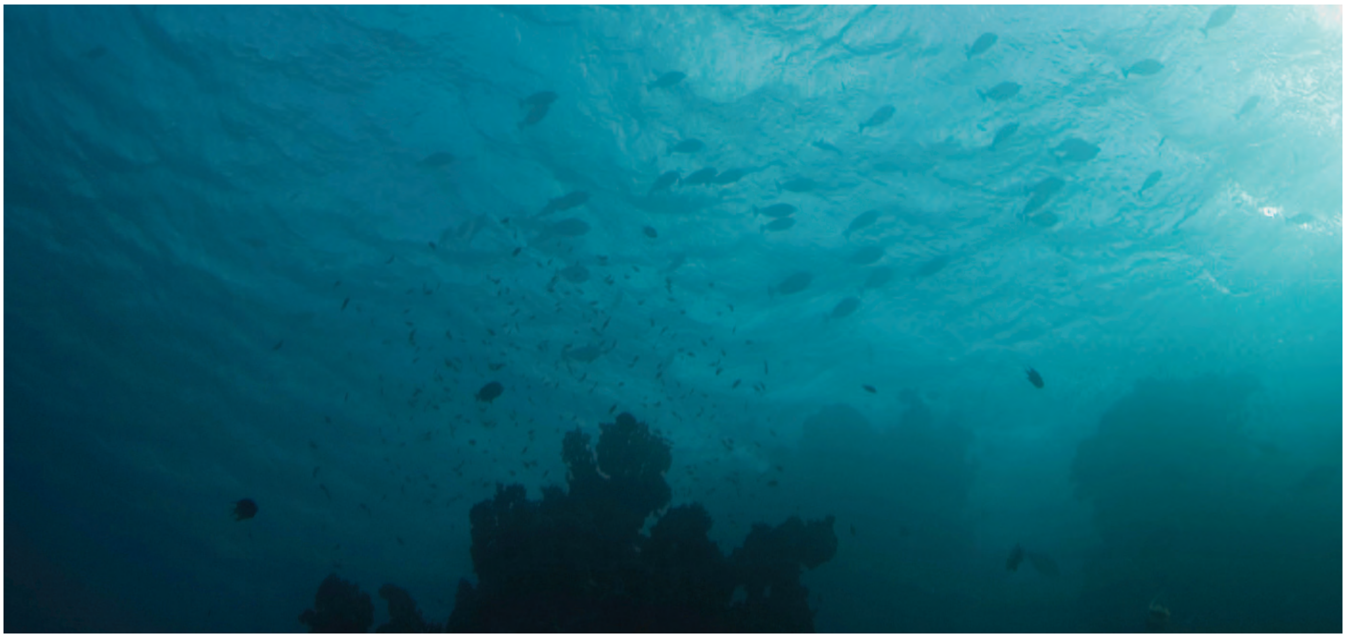
* Source Lyxor Asset Management, August 2013.



RISK MANAGEMENT IS KEY
ROBUST AND TRANSPARENT RISK CONTROL

MANAGING COUNTERPARTY RISK

The issue of Counterparty Risk has received a lot of attention but its true origin, and its true magnitude are often confused. Counterparty Risk can exist in Physical ETFs and Synthetic ETFs but it is far from being an ETF specific issue. It can affect any fund or investment product that utilises a Securities Lending programme or Performance Swap. However, Counterparty Risk is tightly governed and can be removed with robust management.

WHAT IS COUNTERPARTY RISK?

Counterparty Risk refers to the risk that a bank or financial institution is unable to fulfil its obligations, and as such the investor will suffer a loss of some or all of their investment. In the case of a Synthetic ETF the Counterparty is the issuer of the Performance Swap. In the case of a Physical fund that uses Securities Lending, the Counterparty is the party borrowing the stock. In either case, if the Counterparty was to default, the performance of the ETF could suffer if the ETF does not adequately protect investors.

It is therefore essential that investors understand not only the replication method being used in the ETF structure, and what benefit it brings to investors, but what protective measures are in place to remove some or all of the risk.

COUNTERPARTY RISK IN SYNTHETIC ETFS

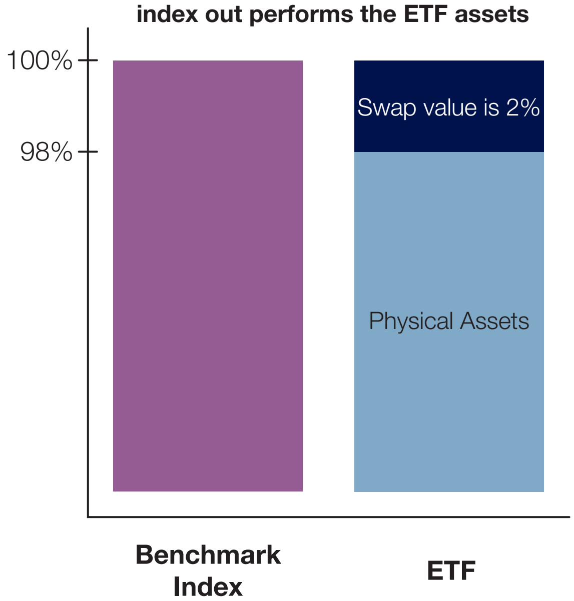
The risk with a Synthetic ETF is that the Issuer of the Swap defaults and is unable to pay the performance of the Benchmark Index to the fund. There are however three very important points that investors should know before making a judgement on the Counterparty risk:

1. COUNTERPARTY RISK ONLY EXISTS WHEN THE SWAP HAS A POSITIVE VALUE

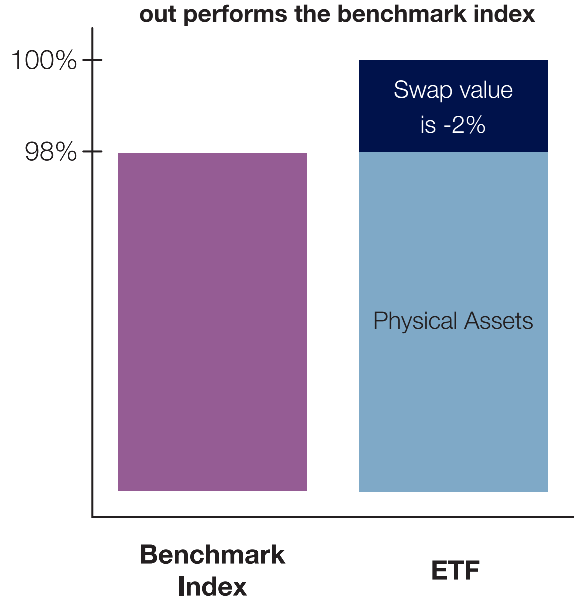
When the performance of the Benchmark Index is higher than that of the physical assets owned by the ETF, the Swap Counterparty must pay the ETF this difference in performance. For example, if the Benchmark Index was up by 6% but the ETF's assets were up by only 4%, the Swap Counterparty would owe the ETF the equivalent of 2% of the ETF's NAV. At this stage, the value of the Swap is 2% and if the Swap Counterparty was to default, the ETF would lose 2%. This is because if the value of the Swap is lost, the ETF's NAV becomes based on the value of the physical assets (98%).

However, if the performance of the ETF's physical assets is higher than the performance of the Benchmark Index, the ETF is in debt to the Issuer of the Swap. At this stage the value of the Swap is negative and there is no Counterparty Risk to the ETF.

+VE Swap value occurs when the benchmark index out performs the ETF assets



-VE Swap value occurs when the ETF assets out performs the benchmark index



2. UNDER UCITS REGULATION COUNTERPARTY RISK CANNOT BE GREATER THAN 10% OF THE NAV

Under the Undertakings for the Collective Investment of Transferable Securities IV (UCITS) Directive, ETFs must limit their exposure to the Swap to 10% of the fund value. In practice, this means that the ETF must always hold at least 90% of its NAV in physical assets. This means that if the Swap Counterparty was to default, the most the ETF could ever lose would be 10% of its value.

3. IN REALITY ETF PROVIDERS AIM TO REMOVE COUNTERPARTY RISK ENTIRELY

In an effort to remove this Counterparty Risk entirely, Lyxor resets the Swap every day. The Swap reset involves a payment between the Swap Counterparty and the fund. When the Benchmark Index out performs the physical assets, the Swap Counterparty will pay the ETF the difference. Lyxor uses this payment to buy more physical assets in order to maintain a value of more than 100% of the NAV. When the physical assets outperform the Benchmark Index, assets will be sold to pay the Swap Counterparty. This way any debt between the two parties is paid each day and the Counterparty Risk is removed.

The value of the Swap is updated on www.sglistedproducts.co.uk every day so that you know exactly what the risk is.

A STRONG SWAP COUNTERPARTY

Ultimately the Swap Counterparty to all Lyxor ETF is Societe Generale's Corporate & Investment Bank (SG CIB). SG CIB is one of the key pillars of the Societe Generale Group and a global leader in equity derivatives since 1989. Societe Generale is a leading player in financial services in France, Europe and around the world, with 33 million customers and 157,000 employees globally*.

Swap issuer	Moody's credit rating	Standard & Poor's credit rating
Societe Generale Group	As at July, 2013	As at July, 2013
	A2	A

Moody's and Standard & Poor's are independent ratings agencies. You should note that Moody's rate companies from Aaa (Most Secure/Best) to C (Most Risky/Worst) and Standard & Poor's rate companies from AAA (Most Secure/Best) to D (Most Risky/Worst).

*Source: Societe Generale, May 2013

THIRD PARTY SWAP COUNTERPARTIES

Lyxor may use one or more Swap Counterparties on a back-to-back basis where Societe Generale receives the performance of the Benchmark Index in one agreement, and pays it to the Lyxor ETF in a separate contract. Third party Swap contracts are evaluated according to the UCITS IV principles of best execution and a minumum Standard and Poor's credit rating of "A".

WHAT HAPPENS IF THE SWAP PROVIDER DEFAULTS?

If the Swap Counterparty was to default or go bankrupt, the ETF would keep the basket of physical assets and suffer a potential loss on the Swap if the market value is positive. Holders of the ETF shares would therefore be exposed to the performance of the basket of physical assets until a new replication strategy could be implemented, or the ETF could be liquidated.

COUNTERPARTY RISK IN SECURITIES LENDING

The risk with a Physical ETF using Securities Lending is that the financial institution borrowing the stock was to default and would be unable to return it the fund. Again, with adequate management policies in place this risk can be removed. However, there are some important points to check before you can make a judgement on Counterparty risk:

1. HOW MUCH STOCK CAN BE LENT?

The first way that Counterparty Risk can be controlled is by capping the amount that can be leant out at any one time. The precise amount which can be leant under Lyxor's Securities Lending Programme will depend on the ETF. On average, 35-40% of the ETF's holdings can be leant at any time. However, no more than 70% of the ETF's portfolio can ever be leant out.

2. WHO IS THE STOCK LENT TO?

Lyxor's Securities Lending programme is operated by SG Securities Services and is governed under the rules of the International Securities Lenders Association. Eligible borrowers are vetted by the Risk Divisions of both Societe Generale and Lyxor prior to any activity is conducted. They are then monitored on a monthly basis to ensure that they continue to comply with our policies. As of June 2013, this list included 23 financial institutions which have a minimum S&P Local Long term rating of A-.

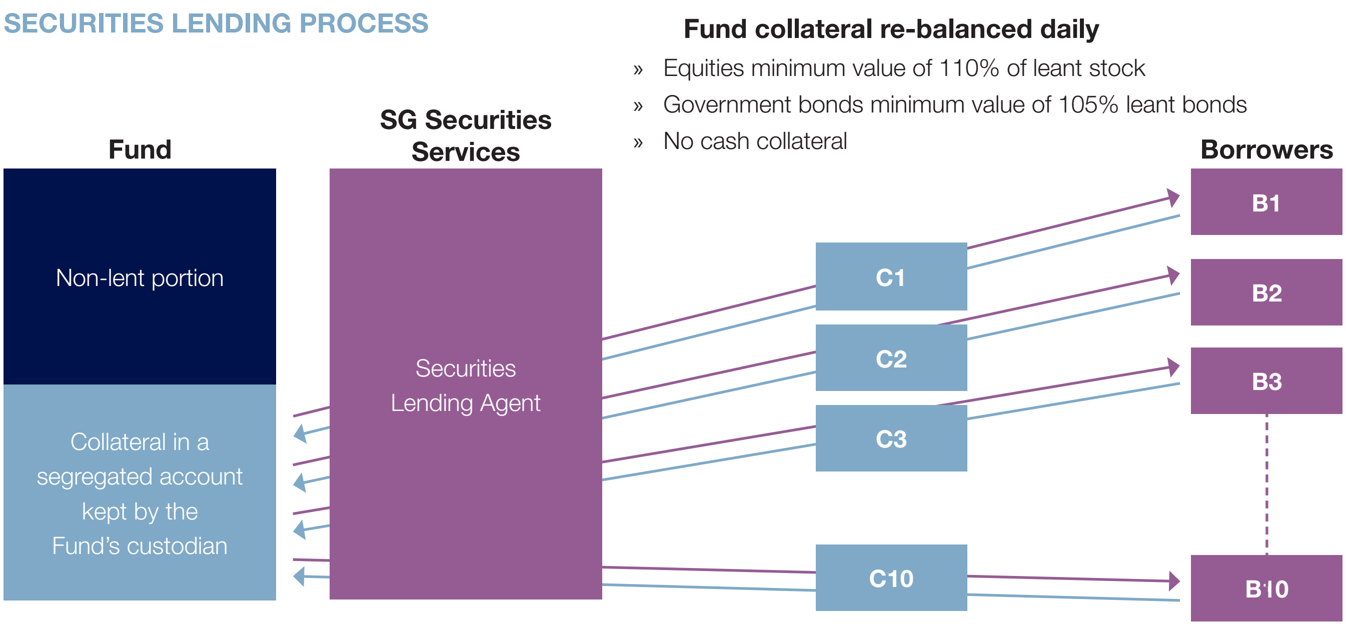
3. WHAT SECURITY IS OFFERED AGAINST THE VALUE OF THE STOCK ON LOAN?

In order to ensure that investors are adequately protected against the risk of one of our borrowers being unable to return the stock, Lyxor requires Borrowers to deposit collateral in a segregated account with the Fund's custodian. The value of this collateral is monitored daily and must be maintained to a value of 110% of the borrowed value if it is equities on loan, or 105% of the borrowed value if it is bonds. If the value of the collateral falls below this level Borrowers are required to top up the value.

4. IS IT WORTH IT FOR YOU?

In compliance with the recent guidelines from the European Securities and Markets Association, all profits generated from Lyxor's Securities Lending programmes are re-invested into the fund. This means that investors gain the full benefit through improved performance.

SECURITIES LENDING PROCESS



HIGH QUALITY ASSETS

Regardless of where you are investing, with Lyxor ETF you know that you are always backed by the security of high quality stocks and bonds. All physical assets are held in a segregated account and are monitored every day to ensure that they continue to comply with Lyxor's stringent policies on both quantity and quality.

Purely Physical ETFs purchase securities in order to provide the performance of the ETF, and as such, the ETF must hold the same or similar assets as those of the Benchmark Index. But what about the assets purchased as part of a Synthetic ETF structure, or as collateral against a Securities Lending Programme? In these cases ETF providers are more open to what they can buy, and investors need to pay greater attention to what is in the basket. The commitments we made as part of the Lyxor ETF quality charter ensure that Lyxor ETF only ever invest in quality, liquid assets.

QUALITY IN SYNTHETIC REPLICATION

One of the great advantages of Synthetic replication is that the physical assets that the fund buys have no impact on the performance of the fund, and as such, they can be quite different to that of the Benchmark Index. For investors this means that you can gain exposure to remote and hard to access markets without actually having to buy those illiquid stocks. This not only helps to eradicate Tracking Error, but it also means that the physical assets owned by the ETF can be more liquid, and better diversified than those of the index it is tracking.

STRICT STOCK SELECTION

In the case of Equity and Commodity based ETFs, the securities purchased by the fund are mainly European Blue chip stocks, which are listed on the main stock exchanges from countries within the Organisation for Economic Co-operation and Development (OECD). Similarly, the basket of physical assets held by a Synthetic Fixed Income ETF will contain diversified, liquid Fixed Income securities with a minimum rating equivalent to that of the Benchmark Index that it tracks. The minimum rating is determined by the Standard & Poors rating if one is available. If not Moody's or Fitch ratings will be used.

QUALITY

>> Country weight limits applied according to ratings
>> No Greek, Portuguese or Irish bonds
>> No Greek & Irish shares (due also to tax reasons)

CONSISTENCY

The physical assets should be of the same nature as the Benchmark Index:

>> Equity and Commodity ETFs invest in equities
>> Fixed Income ETFs invest in bonds

SEGREGATION

>> Direct ownership of the fund assets in segregated accounts in the custodian books
>> No securities lending for Synthetic ETF holdings

DIVERSIFICATION

>> Follow regulatory (UCITS) diversification rules

UCITS GUIDELINES

The UCITS IV Directive has clear guidelines on diversification, which all Lyxor ETFs must comply with. A key rule which must be adhered to is that no single security can represent over 10% of the NAV of the fund. Also the total number of holdings which exceed 5% of the NAV cannot together add up to more than 40% of the fund's NAV. In addition, A UCITS IV compliant fund cannot invest more than 20% of its NAV with issuers that belong to the same group of companies. The result is that the fund can never be overly exposed to a single equity, or group of equities.

QUALITY COLLATERAL AGAINST SECURITIES LENDING

Similar to the basket of physical assets held in our Synthetic ETFs, the assets held as collateral against our Securities lending activities are subject to strict minimum quality standards and are held in a segregated account with an independent custodian. The level of collateral is monitored daily and will be topped up should it fall below the minimum level at any time.

ACCEPTABLE EQUITIES FOR SECURITIES LENDING COLLATERAL

In order to be used as collateral against one of Lyxor's Physical equity ETFs, the securities must belong to a major global index such as the Euro Stoxx 50, DAX 30, SMI, FTSE 100, Nikkei 225 or S&P 500 Indices for example. The collateral will be managed on a daily basis according to the following principles:

- Collateral holdings must be equal to 110% of the value of the borrowed stock. I.e. in excess of the value of the stock leant to the institution
- Companies must be classified as investment grade according to Standard & Poors and Moodys
- Stocks received in collateral must represent less than 0.75% of the market capitalisation of each company, and less than 50% of the average daily trade volume over the last 20 trading days
- Diversification: for each fund, the collateral account cannot hold less stocks than the number of stocks lent from the portfolio, with a minimum of 10 stocks

ACCEPTABLE GOVERNMENT BONDS FOR SECURITIES LENDING COLLATERAL

In order to be used as collateral against one of Lyxor's Physical Government Bond ETFs, the securities must be sovereign bonds from: Germany, France, USA, the UK, Japan, Switzerland. The collateral will be managed on a daily basis according to the following principles:

- Collateral holdings must be equal to 105% of the value of the borrowed bonds. I.e. in excess of the value of the bonds leant to the institution
- Maximum residual time to maturity of 10 years

COMPLETE TRANSPARENCY
KNOW EXACTLY WHAT YOU'RE GETTING

ABSOLUTE TRANSPARENCY

To maintain absolute transparency, Lyxor ETF publishes details of the full fund or collateral holdings of every ETF on www.sglistedproducts.co.uk each day. This means that investors can easily determine what the fund is invested in, who any Counterparties are, and what the current exposure to that Counterparty is.

WHY IS TRANSPARENCY SO IMPORTANT?

It is important for investors to know exactly what is going on in their portfolio as well as fully understanding the risks that they are exposed to. For this reason, Lyxor views full transparency as one of the most vital components of its ETF proposition. We publish a full list of the physical holdings of each of our ETFs on our website every day. For Synthetic ETFs, we also publish full details of the Swap Counterparty and the Counterparty Risk level daily. Our investors therefore know exactly what they are investing in and their exposure to various counterparties.

ESMAS GUIDELINES ON TRANSPARENCY

Transparency was a key focus of the 2012 guidelines from the European Securities & Markets Authority. Their recommendations sought to provide greater clarity around Securities Lending practices; how much of a portfolio could be on loan, who is borrowing the stock, what collateral is being held as security, and what Tracking Error the fund is subjected to. In addition to this, ESMA called for all profits from Securities Lending to be channelled back into the fund. It is this new level of transparency that drove Lyxor to enter the Physical replication ETF business, as now the same quality standards can be applied to both models.

ETF FTSE 100 - NTR GBP

Counterparty Risk Level

Swap counterparty et Mark-to-Market value (Daily) in % of the Net Asset Value of the Fund as of: 04/09/2013
Societe Generale : -0.08%

Source: Lyxor Asset Management
A positive net Swap exposure (%) indicates that the there is a liability due from the Swap Counterparty to the fund. Counterparty risk exists when the Swap exposure is positive because if the Swap Counterparty was to default, they would be unable to pay this debt to the fund. The % of Net Asset Value figure shows the percentage of the fund's value at risk. A negative Swap exposure (%) indicates that the market value of the Swap is negative, and therefore that the fund is over collateralized. In this instance there is a liability due from the fund to the Swap Counterparty and there is no Counterparty Risk.

Technical terms
SOV (sovereign bond): bond issued by a Sovereign entity or by a supranational entity (e.g. EIB).
COV (covered bond): bonds that are issued by a firm and collateralized by commercial and/or residential mortgages and/or public sector assets
CORP (corporate bond): bond issued by a company
*It also includes bonds issued by a company that are guaranteed by a national government, a regional government or a government agency.

Export

Fund Holdings

ISIN	Name	Assert Type	% of the Net Asset Value of Fund
DE0005140008	Deutsche Bank AG	Equity	+5.08
DE0008404005	Allianz Se	Equity	+4.86
DE0007100000	Daimler AG	Equity	+4.43
DE0005557508	Deutsche Telekom /Etr	Equity	+4.02
BE0003793107	Anheuser-Busch InBev NV	Equity	+3.98
DE0005937007	MAN AG	Equity	+3.63
ES0178430E18	Telefonica SA	Equity	+3.56

Physical funds using a Stock Lending programme benefit from the same transparency with details of any stock borrowing party, the level of fund assets on loan and full details of the assets being held as collateral to the fund.

ETF CHARTER

A COMMITMENT TO PERFORMANCE, LIQUIDITY, RISK MANAGEMENT AND TRANSPARENCY

In our ETF Charter, Lyxor promises to meet and exceed a series of quality indicators in the key areas of performance, fund liquidity, counterparty risk and transparency. These commitments go above and beyond the minimum standards set by the European UCITS directive and its related texts, including the ESMA guidelines published in July 2012.

PERFORMANCE

- >> Competitive and transparent management fees (which include all ongoing charges paid by the fund, including custody fees and index licensing fees)
- >> Best execution: application of best execution principles to all derivative transactions
- >> If securities lending is used, all profit (net of operational costs) accrue to the fund
- >> Competitive Tracking Difference, as measured by the difference between the performance of the ETF and the performance of the index
- >> In funds using Synthetic replication: direct tracking of the index, without any statistical or sampling techniques
- >> In funds using Physical replication, portfolio management techniques that aim to minimise Tracking Error
- >> In either case, Lyxor will aim to keep Tracking Error (computed as the annualised volatility of the difference of the performance between fund and index) below 100bp
- >> Publication of the effective Tracking Error in monthly client reports

LIQUIDITY

Primary market

- >> Dedicated website for Authorised Participants, allowing the electronic routing of creation and redemption orders
- >> Flexibility of creation and redemption process for Authorised Participants, through either delivery of cash (for all ETFs) or securities (for fixed income and most of the equity ETFs) or index futures (for equity ETFs)
- >> Daily liquidity at fund Net Asset Value (NAV) for large subscriptions and redemptions by Authorised Participants
- >> Full transparency on creation and redemption costs

Secondary market

- >> On-exchange liquidity provided by multiple Market Makers (currently 19)*
- >> A wide network of Authorised Participants (currently 49)*
- >> Continuous pricing (in normal market conditions) across multiple listings and in different currencies
- >> High levels of on-exchange liquidity to ensure low trading costs

*Source: Lyxor Asset Management. As of July, 2013.

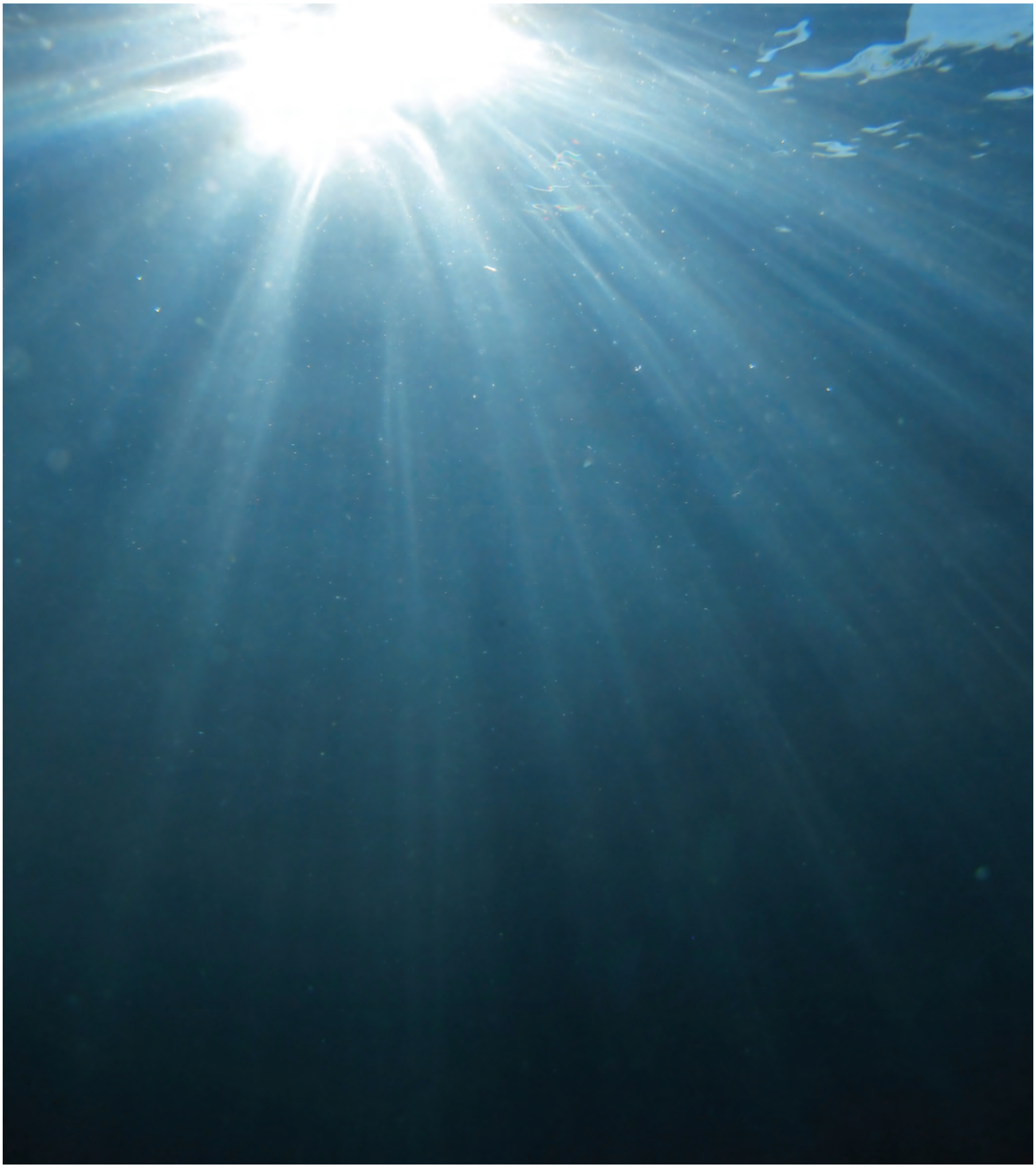
RISK MANAGEMENT

- >> Regardless of the replication method, fund holders are the direct owners of the physical assets in each ETF
- >> Securities held by ETFs are in segregated accounts solely for the benefit of the fund
- >> No lending of securities when the fund uses Synthetic replication
- >> Daily target of zero Counterparty Risk per ETF (well below the 10% limit set by UCITS regulations)

TRANSPARENCY

- >> Daily publication on the website of all directly owned securities and of any collateral received following securities lending operations
- >> Daily publication on the website of all counterparties to all derivatives entered into by each Lyxor ETF
- >> Daily disclosure of Counterparty Risk for each fund
- >> Publication in the Key Investor Information Document of all ongoing charges received by the asset manager

YOUR QUESTIONS ANSWERED



WHAT COSTS ARE INVOLVED?

There are neither entrance nor exit fees for Lyxor ETFs (although brokerage fees will be paid to the broker buying or selling the ETF on behalf of the investor). All specific fees are variable depending on the amount of capital and the time period an ETF will be held.

Management fees are reduced to a minimum, resulting in a very competitive Total Expense Ratio (TER – this represents the total cost of ETF ownership over a year). In a long-term buy-and-hold strategy, savings through low annual fees can even offset brokerage costs.

Brokerage fees when trading ETFs do not depend on Lyxor ETF, but are fixed by the stockbroker or investment platform.

WHAT IS THE TOTAL EXPENSE RATIO?

The Total Expense Ratio (TER) covers all costs incurred by the Management Company to manage the underlying assets. It then includes a Management Fee and Structural Costs described as follows.

>> The Management Fee represents the compensation for the Management Company services;

>> The Structural Costs represent the custodian fee, the administrative fee, the audit fee and all other operating costs that will be paid by the Management Company to operate the funds.

HOW CAN INVESTORS TRADE (BUY OR SELL) ETFS?

Buying or selling an ETF is a straightforward process. Investors only need an account in which to hold the securities. For orders, they go through their usual financial intermediary: stockbroker or investment platform, or an e-broker, specifying the ETF's ISIN or the EPIC code. ETFs are typically eligible for investment within a Stocks & Shares Independent Savings Account or Self Invested Personal Pension for tax efficient investing.

DO ETFS PAY DIVIDENDS?

Like traditional shares, many, but not all ETFs can generate income through dividends. Many ETFs distribute dividends if the underlying securities within the fund do so. Investors can refer to the relevant ETF factsheet to see if a fund is distributing (i.e. it pays out a dividend) or capitalising (i.e. it reinvests dividend income back into the fund).

HOW ARE ETFS TAXED*?

The taxation of financial securities depends upon the investor's individual tax situation within their relevant jurisdiction. Investors are recommended to consult their tax advisor to ascertain their personal situation.

DO LYXOR ETFS QUALIFY FOR THE UK FUND REPORTING STATUS?

In order to be identified as a qualifying offshore fund in the UK, an ETF needs to obtain UK Fund Reporting Status (UKFRS) from Her Majesty's Revenue & Customs (HMRC). Any gains realised on the disposal of a fund which has been certified with UKFRS are considered as a capital gain for UK individual investors, or a chargeable gain for UK institutional investors*.

All Lyxor ETFs listed on the London Stock Exchange have either qualified for UK Fund Reporting Status or have applied for UKFRS. To find out the current status for any Lyxor ETF, you can download our product factsheet on our website www.sglistedproducts.co.uk

*Any statement in relation to tax, where made, is generic and non-exhaustive and is based on our understanding of the laws and practice in force as of the date of this document and is subject to any changes in law and practice and the interpretation and application thereof, which changes could be made with retroactive effect. Any such statement must not be construed as tax advice and must not be relied upon. The tax treatment of investments will, amongst other things, depend on an individual's circumstances. Investors must consult with an appropriate professional tax adviser to ascertain for themselves the taxation consequences of acquiring, holding and/or disposing of any investments mentioned in this brochure.

WHAT FUND STRUCTURES DO LYXOR USE?

Lyxor ETFs are open ended mutual investment funds established under French law and approved by the Autorite des Marches Financiers (the French Financial Markets Authority). As the funds are fully compliant with the UCITS IV Directive, they are eligible to be marketed in the UK to both professional and retail investors. Lyxor ETFs are managed by either Lyxor International Asset Management or Lyxor Asset Management Luxembourg S.A, both of which are subsidiaries of Societe Generale. There are three types of fund structure that are used for Lyxor ETFs: French SICAV, French FCP, Luxembourg SICAV.

WHAT ARE THE MAIN ROLES CARRIED OUT WITHIN THE FUND?

Role	Provided by	Responsibilities
Fund Custodian	The Fund Custodians are Societe Generale Securities Services for French ETFs and Societe Generale Bank & Trust SA for Luxembourg.	1. Hold and safeguard the physical assets of the fund in a segregated account in the name of the ETF. 2. Keep record of all open positions, which must be certified each year. 3. Controlling management decisions in order to comply with investment restrictions and the fund strategy described in the fund prospectus
Administrators	The Fund Administrators are Societe Generale Securities Services in France and Societe Generale Securities Services Luxembourg SA in Luxembourg	Responsible for fund administration and accounting; including daily calculation of the NAV for each ETF share class and the independent calculation of fund asset values. Lyxor validates all NAV calculations through their dedicated NAV control department
Transfer agents	In France the Transfer Agent is Societe Generale Securities Services. In Luxembourg it is the responsibility of European Fund Services SA	Responsible for maintaining records of shareholder transactions and balances. They also ensure that subscriptions and redemptions in to the fund comply with the guidelines set out in the fund prospectus
Auditors	Lyxor ETFs are audited by 3 Auditors in France; PriceWaterhouseCoopers Audit, Ernst & Young and KPMG. In Luxembourg, the Auditor is PriceWaterhouseCoopers Luxembourg.	ETF Auditors have a statutory responsibility to report whether the financial statements produced by the fund administrator and validated by Lyxor are a fair and true reflection of the state of the fund's operations and profit and loss for the year. Reports on Net Assets are to be issued half yearly, or quarterly where the fund assets are greater than EUR 80m. Audit reports are released once per year.

WHAT ARE THE MAIN RISKS TO BE AWARE OF?

ETFs may be suitable for different types of investors in the UK, ranging from sophisticated retail investors to institutional fund managers, to gain effective passive exposure across multiple markets and asset classes. However, it is important for potential investors to evaluate the risk considerations described below and in each fund prospectus and KIID which can be found on www.sglistedproducts.co.uk.

>> Capital at Risk: ETFs are tracking instruments: Their risk profile is similar to a direct investment in the Benchmark 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 Benchmark Index calculation and the efficient fund replication.

>> Counterparty Risk: Investors are exposed to risks resulting from the use of an OTC Swap with Societe Generale. In line with UCITS guidelines, the exposure to Societe Generale cannot exceed 10% of the total fund assets. Physical ETFs may have Counterparty Risk resulting from the use of a Securities Lending Programme.

>> Underlying Risk: The Benchmark Index of a Lyxor ETF may be complex and volatile. When investing in commodities, the Benchmark 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 Benchmark 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 Societe Generale. On-exchange liquidity may be limited as a result of a suspension in the underlying market represented by the Benchmark Index tracked by the ETF; a failure in the systems of one of the relevant stock exchanges, Societe Generale or other Market Maker systems; or an abnormal trading situation or event.

WHERE ELSE CAN I GO FOR EDUCATION?

Lyxor is committed to education, and providing both Financial Advisers and retail clients with the information that they need to get truly acquainted with the diverse world of ETF investing. Our website www.sglistedproducts.co.uk is loaded with educational videos, factsheets and market information to help you get the most out of your ETF investment strategy.

IMPORTANT INFORMATION

THIS COMMUNICATION IS FOR PROFESSIONAL CLIENTS AND SOPHISTICATED RETAIL CLIENTS IN THE UK

EXCHANGE TRADED FUNDS BY

LYXOR

SOCIETE GENERALE GROUP

www.sglistedproducts.co.uk/lyxor