



R-co Valor, a positive year in 2019 despite a bewildering environment

2019 was undoubtedly a good year in terms of performance, both for equity indices and R-co Valor. However, 2018's figures also need to be taken into account as markets do not behave on a calendar year basis.



Yoann Ignatiew
Co-Fund Manager
Rothschild & Co
Asset Management Europe



Charles-Edouard Bilbault
Co-Fund Manager
Rothschild & Co
Asset Management Europe

Decelerating economic growth, but equity markets reaching new highs

This past year revealed a notable deceleration in economic growth, globally reaching 2.9% compared with 3.7% the year prior driven by sustained momentum in Asia. Recession risks seem to be fading as macroeconomic data stabilise, signalling a potential recovery. Nevertheless, investor sentiment remains paramount for a rebound in economic activity. In this respect, the latest progress in US/China trade discussions should provide a breath of fresh air for investors and pave the way for a more sustained rebound, in particular driven by a recovery in investment. Furthermore, 2019 should be put into perspective, illustrating a radically different situation from 2018 for risky assets.

As a matter of fact, equity indices recorded strong gains driven by an expansion in valuation multiples despite stagnating earnings, as opposed to the year prior. This trend reversal occurred as Central Banks moved back to more accommodative monetary policies with the announcement of further rate cuts. The upheavals of the trade war continued to drive equity markets in May and August, although in a much narrower range than the ones observed in Q4 2018. The intervention of Central Banks and underinvestment in risky assets over the past two years pushed valuations higher throughout the year. In addition, the Sino-American trade dispute finally seems to be on the right path, as the two parties recently announced that a “phase one” deal was reached. This breakthrough led to the cancellation of further tariffs originally planned for December 15, 2019 an outcome that markets had, however, already partially priced in.

An additional boost for markets in 2020?

While profit growth for 2019 was difficult to predict, the comparable 2019-2020 period should be more straightforward, as analysts expect a growth rate of +8% to +9%. Conversely, it seems unlikely that 2020 will be as buoyant for equity indices as it was in 2019. However, slight gains can be expected both in Europe and in the US. Once again, interest rates and inflation need to be monitored closely. Finally, the decisive outcome of a trade agreement between China and the US remains key.

R-co Valor

Taking advantage of a diversified allocation as part of its “Carte Blanche” investment approach, R-co Valor offers a flexible exposure to all asset classes, without any sectoral or style bias, nor any geographical constraints or reference to a benchmark. This fund provides access to innovative and cross-functional investment themes through high-conviction investments. The core of the portfolio consists of long-term structural themes around which a more opportunistic stock selection is based. The portfolio managers seek to optimize the fund’s risk-return profile through a concentrated portfolio, founded on a combination of “top down” and “bottom up” analysis.

It is worth noting that 2020 will be a distinctive year in the US, as it will be strongly influenced by the presidential election. Consequently, the Fed is expected to stay on hold and maintain interest rates at current levels, unless unexpected events were to force them to make adjustments. The first notable event will take place on March 3, 2020 with the “Super Tuesday” primaries, which should provide a fairly clear picture of the next Democratic candidate. Thereafter, the polls between the incumbent President and his nominated opponent will lead the way. Much like the Sino-US trade war, this particular situation is likely to generate volatility in equity markets based on candidates, their announcements, and their impact on certain industries (healthcare, energy, finance, technology), notably from a regulatory perspective.

Technology outperforms despite major dispersion

The technology sector performed very well throughout the year, despite a notable lack of correlation between American and Chinese indices. The latter significantly underperformed, with strong dispersion between sub-sectors. Stocks significantly exposed to the trade war or other structural changes particularly suffered. On the other hand, companies which we were exposed to, especially those linked to e-commerce, did particularly well as they were supported by persistent domestic demand and strong growth potential.

“The latest progress in US/China trade discussions should provide a breath of fresh air for investors...”



Recovery within Financials

The financial sector, which is closely tied to interest rate levels, gained momentum and was able to catch-up since the beginning of the summer as yields slightly increased.

The scale of buyback programmes within the sector combined with significant profit redistributions have been particularly accretive for shareholders who are maintaining their positions.

Potential within Industrials

We slightly increased our exposure to the industrial sector to consolidate the portfolio's cyclical allocation. With that in mind, we strengthened our exposure to railways, after having strongly reduced it during the summer. These changes were driven by our analysis of macroeconomic dynamics, which, if not accelerating, are on the verge of stabilising. Although still too early to mention an inflection point, it appears that the recent slowdown may be coming to an end, and we are taking advantage of attractive valuations to slightly add to our exposure to sector.

China's growth drives raw materials

Raw materials is a sector in which we have not yet seen a real turnaround, or even a real change over the cycle. Its development remains

“Although still too early to mention an inflection point, it appears that the recent slowdown may be coming to an end...”

highly dependent on the dynamics of China's growth, which is currently undergoing a structural slowdown. Considering today's geopolitical environment, this sector may experience a strong boost should the cycle rebound and depending on the US-China trade outcome.

Profit-taking in gold miners

We were particularly active in August on gold miners, which represent a very defensive component of the portfolio. We significantly reduced our exposure to the sector to take substantial profits. We nevertheless decided to maintain our positions in certain stocks, with a longer-term view. This is a decorrelated asset with a particularly favourable supply-demand balance, which can act as a form of safe haven. We may again increase our positions should the opportunity arise.

Healthcare, a long-term defensive theme

Still within our defensive allocation, we maintained our exposure to the healthcare sector despite some intrasectoral movements. We are conscious that this pocket is likely to come under pressure during the US election. However, we maintain a favorable long-term view on this theme, driven in particular by innovation, FDA approvals' dynamics, and the issue of an ageing population...

Moderate equity allocation to manage risk and seize opportunities

Following these movements, Canada now represents our top allocation by country, with about 30% of our equity portfolio, neck and neck with the United States. Europe and China are both at around 20%. R-co Valor's flexible approach is essential to take advantage of idiosyncratic opportunities in an environment where valuations are generally not particularly attractive, but with dispersion between sectors.

“Equities remain our favorite asset class in this environment...”

These views are reflected in our current level of equity exposure — at around 70% of the fund's net assets — its lowest level in the past ten years. Yet, equities remain our favorite asset class in this environment. As long as rates remain at these levels, corrections in equity markets will create opportunities which we are ready to jump on considering our relatively large cash allocation. That said, given current market levels, it seems relatively daring to massively buy equities, especially after 2019's performance. We currently find ourselves in “wait-and-see” mode and prefer showing patience. ■

Completed writing on December 17, 2019

Performance	2019	2018	2017	2016	2015	2014	5 years	1-year volatility
R-co Valor C EUR	28.63%	-13.17%	9.54%	19.92%	4.55%	15.68%	53.40%	11.60%

Source: Rothschild & Co Asset Management Europe, 31/12/2019



Recommended investment period: 5 years

The level of risk of the UCITS is 6 (volatility of between 15% and 25%) and primarily reflects a discretionary management policy on equities and fixed income markets. The historical data used to calculate this synthetic indicator may not be a reliable indicator of the UCITS' future risk profile. The risk category associated with the UCITS is not guaranteed and may shift upwards or downwards over time. A rating of 1 does not mean that the

investment is "risk-free". The capital invested in the UCITS is not guaranteed. Other important risk factors, not adequately taken into account by the indicator: credit risk, liquidity risk, impact of techniques such as derivatives. The occurrence of one of these risks may result in a decrease in the UCI's net asset value. For more information about the risk profile and its main contributors, please refer to the prospectus.

Disclaimer

The comments and analyses in this document are provided purely for information purposes and do not constitute any investment recommendation or advice. Rothschild & Co Asset Management Europe cannot be held responsible for any decisions taken on the basis of the elements contained in this document or inspired by them (total or partial reproduction is prohibited without prior agreement of Rothschild & Co Asset Management Europe). Insofar that external data is used to establish terms of this document, these data are from reliable sources but whose accuracy or completeness is not guaranteed. Rothschild & Co Asset Management Europe has not independently verified the information contained in this document and cannot be held responsible for any errors, omissions or interpretations of the information contained in this document. This analysis is only valid at the time of writing of this report.

Due to the subjective nature of these analysis and opinions, these data, projections, forecasts, anticipations, hypotheses and/or opinions are not necessarily used or followed by Rothschild & Co Asset Management Europe management teams who may act based on their own opinions and as independent departments within the Company. Some forward-looking statements are based on certain assumptions that may be likely differ partially or fully from reality. Any hypothetical estimate is inherently speculative, and it is conceivable that some, if not all, assumptions about these hypothetical illustrations do not materialise or differ significantly from the current determinations. Rothschild & Co Asset Management Europe cannot be held liable for the information contained in this document and in particular for any decision taken on the basis of this information.

The Undertaking(s) for Collective Investment (UCI) presented above is (are) organised according to French law and regulated by the French financial markets authority (AMF). As the UCIs may be registered abroad for their active marketing, it is up to each investor to ensure the jurisdictions in which the UCIs are actually registered. For each jurisdiction concerned, investors are urged to refer to the characteristics specific to each country, indicated in the "administrative characteristics" section. The issuer of this document is Rothschild & Co Asset Management Europe, which is an investment management company authorised and regulated by the French Financial Markets Authority (www.amf-france.org) under number GP-17000014. The presented information is not intended to be disseminated and does not in any case constitute an invitation for US persons or their agents. The units or shares of the UCIs presented in this document are not and will not be registered in the United States pursuant to the US Securities Act of 1933, as amended (hereinafter the "Securities Act"), or admitted under any law of the United States. The units or shares of the said UCIs must not be offered or sold in or transferred to the United States, including its territories and possessions, or directly or indirectly benefit a "US Person", within the meaning of Regulation S of the Securities Act, and equivalent persons, as referred to in the US "HIRE" Act of 18 March 2010 and in the FATCA provisions. The information contained in this document does not constitute investment advice, an investment recommendation, or tax advice. The information does not presume the suitability of the presented UCIs for the needs, profile, and experience of each individual investor. In case of doubts as to the presented information or the suitability of the UCIs as to the personal needs, and before any decision to invest, we recommend that you contact your financial or tax advisor. Investment in units or shares of any UCI is not risk-free. Before any subscription in an UCI, please read the prospectus carefully, especially its section relating to risks, and the key investor information document (KIID). The net asset value (NAV)/net inventory value (NIV) is available at www.am.eu.rothschildandco.com.

Please note that the past performance of UCIs presented in this document is not a guarantee of future performance and may be misleading. Performance is not constant over time. The value of the investments and the income derived therefrom may vary up or down and is not guaranteed. It is therefore possible that you will not recover the amount originally invested. Variations in exchange rates may increase or decrease the value of the investments and the income derived therefrom, if the reference currency of the UCI is different from the currency of your country of residence. UCIs whose investment policy especially targets specialised markets or sectors (like emerging markets) are generally more volatile than more general and balanced funds. For a volatile UCI, the fluctuations can be particularly significant, and the value of the investment may therefore drop sharply and significantly. The presented performance figures do not take into account any fees and commissions collected during the subscription and redemption of the units or shares of the UCIs concerned. The presented portfolios, products, or securities are subject to market fluctuations, and no guarantee can be given as to their future performance. The tax treatment depends on the individual situation of each investor and may be subject to changes.

Rothschild & Co Asset Management Europe - 29 avenue de Messine - 75008 Paris Société de gestion agréée par l'AMF n° GP-17000014

About the Asset Management's division of Rothschild & Co

As the Asset Management's division of Rothschild & Co, we deliver bespoke investment solutions to institutional clients, financial intermediaries and third-party distributors. We aim to develop complementary expertise in active high-conviction management and open architecture investment solutions. Based in Paris with offices in 10 European countries, Asset Management's division of Rothschild & Co has around 170 employees and over 21 billion euros under management. For more information: www.am.eu.rothschildandco.com