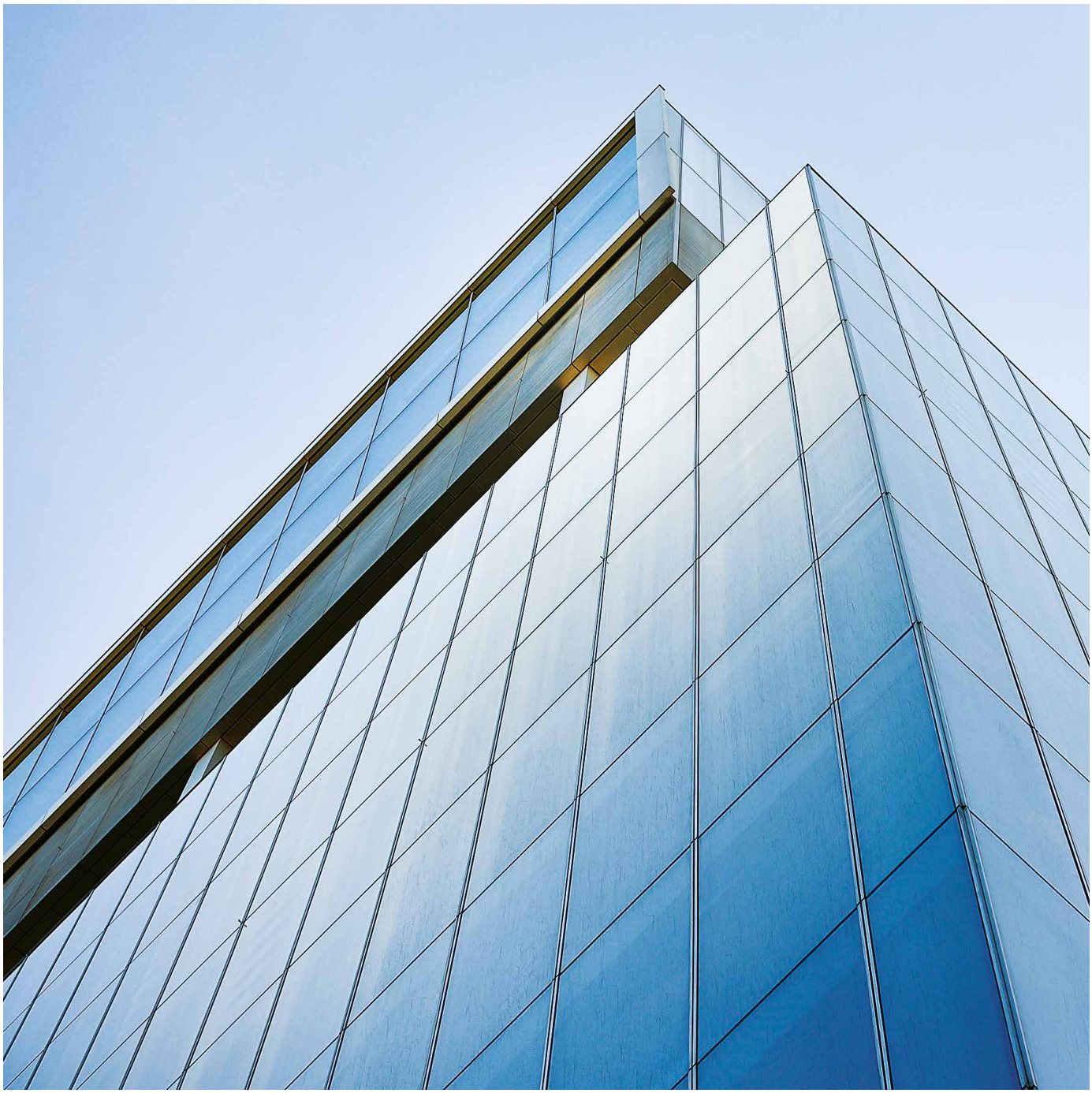
2020 Review & 2021 Outlook

Valor Expertise

December 2020



Rothschild & Co
Asset Management

Valor Expertise

The American elections and the endless "Brexit" were set to be key issues of 2020. The global health crisis put these to the side in February triggering a 30% fall in the major equity markets in less than a month. Exceptional government and central bank support measures have helped limit the social and economic impact, laying the foundations for a strong recovery. We have weathered this challenging period by maintaining great discipline in our investment approach.

Update on R-co Valor

The fund started the year with an equity exposure at a 10-year low of 70%. Hedges on the S&P 500 were gradually lifted in Q1, to increase exposure significantly during the market downturn particularly in cyclical stocks that had experienced sharp corrections.

The uncertainties of the last few months seem to have been largely dismissed. The next US president has been announced and at least three vaccines are believed to be effective against the virus so far. Combined with resilient corporate results, this paradigm shift gives way to a continued rebound in equity markets in 2021. Beyond the indices' performances, it is important to look at the behaviour of underlying assets. Cyclical stocks, battered in 2020, seem to be particularly well positioned: industrial companies will benefit from both the economic recovery, and the various stimulus plans that may be enacted by governments. Travel-related businesses such as cruise-operating companies, accommodation, or airline companies, have already begun bouncing back in anticipation of the recovery in tourism. Financials, which have proved to be much healthier than in the last crisis, should benefit from the steeper yield curve[1] particularly in the United States.

Valor, inspired by its flagship fund R-co Valor, benefits from a "carte blanche" approach with no benchmark or regional constraints.

Nevertheless, several factors could bring some short-term volatility in 2021. First of all, the various vaccines that are currently being manufactured will initially be distributed on a limited basis. In the United States, uncertainty at the Senate level remains. While the hypothesis of a Democratic president and

(1) A phenomenon that occurs when creditors demand higher risk premiums for lending over long maturities.

a divided Congress seems appealing to investors (which would imply a limited tax hike accompanied by a stimulus package), the probability of a "blue wave"[2] is not nil. This could bring some uncertainty and drive investors to focus on sectors exposed to potential new regulations. A steepening of the yield curve is also something to keep an eye on, more specifically in the United States which have already experienced some adjustments in anticipation of a continued economic recovery and inflation.

Investments were made gradually throughout the year in cyclical, European industrial and US financial stocks, which should be well positioned for an economic recovery. We also maintain our exposure to long-term growth stocks whose fundamentals have been strengthened by the current crisis. Cash and cash equivalents currently weigh 15%, providing some room to opportunistically invest and strengthen certain lines should markets pull back. Chinese consumers remains one of our strongest convictions. The Middle Empire seems to emerge as the "big winner" from this pandemic with positive growth forecasts for 2020 and a notable GDP rebound of over 8% in 2021[3]. As far as the Sino-American trade war is concerned, we can expect a less aggressive approach by the new US president, even if initial measures shouldn't be cancelled.

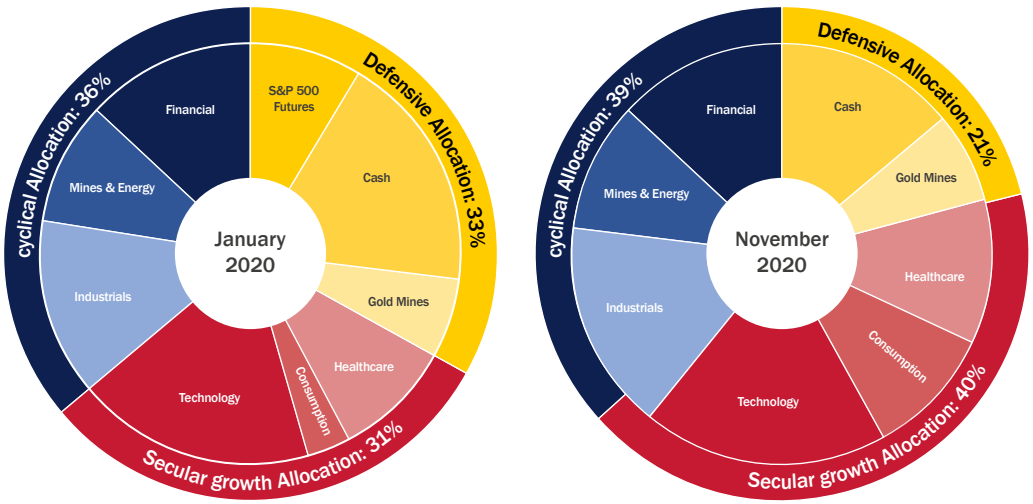
Update on R-co Valor Balanced

At the start of 2020, the fund was fairly conservatively positioned, with an equity exposure of close to 35% and a bond exposure of 37%.

The bond allocation was gradually strengthened during the first part of the year, taking advantage of a particularly active market, to reach 50% in May. The health crisis created numerous opportunities in bond markets, especially when the primary market reopened, giving us the opportunity to invest in issues with attractive premiums. The intention was to favour EUR denominated Investment Grade[4] bonds with a resilient profile. Risk has therefore been reduced, both by lowering exposure to the asset class but also by lowering the weight of High Yield[5]) and unrated assets in the portfolio. In line with R-co Valor the equity allocation was gradually increased to reach about 43% at the end of November. ■

Completed on 26 November 2020

R-co Valor: a strategic allocation based on 3 pillars



Source: Rothschild & Co Asset Management Europe, November 2020.

(2) A situation in which the Democrats would win the White House and the Senate.
(3) OECD, December 2020.
(4) Debt securities issued by companies or governments rated between AAA and BBB- according to the Standard & Poor's scale.
(5) Bonds with a high credit risk. Their financial rating is below BBB - according to Standard & Poor's scale.

Risk profiles and disclaimer

R-co Valor

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.

R-co Valor Balanced

Recommended investment period: 3-5 years

The level of risk of the UCITS is 4 (volatility of between 5% and 10%) and primarily reflects a discretionary management policy on equities and fixed income markets with a risk-balanced tprofile. 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, counterparty 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.

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