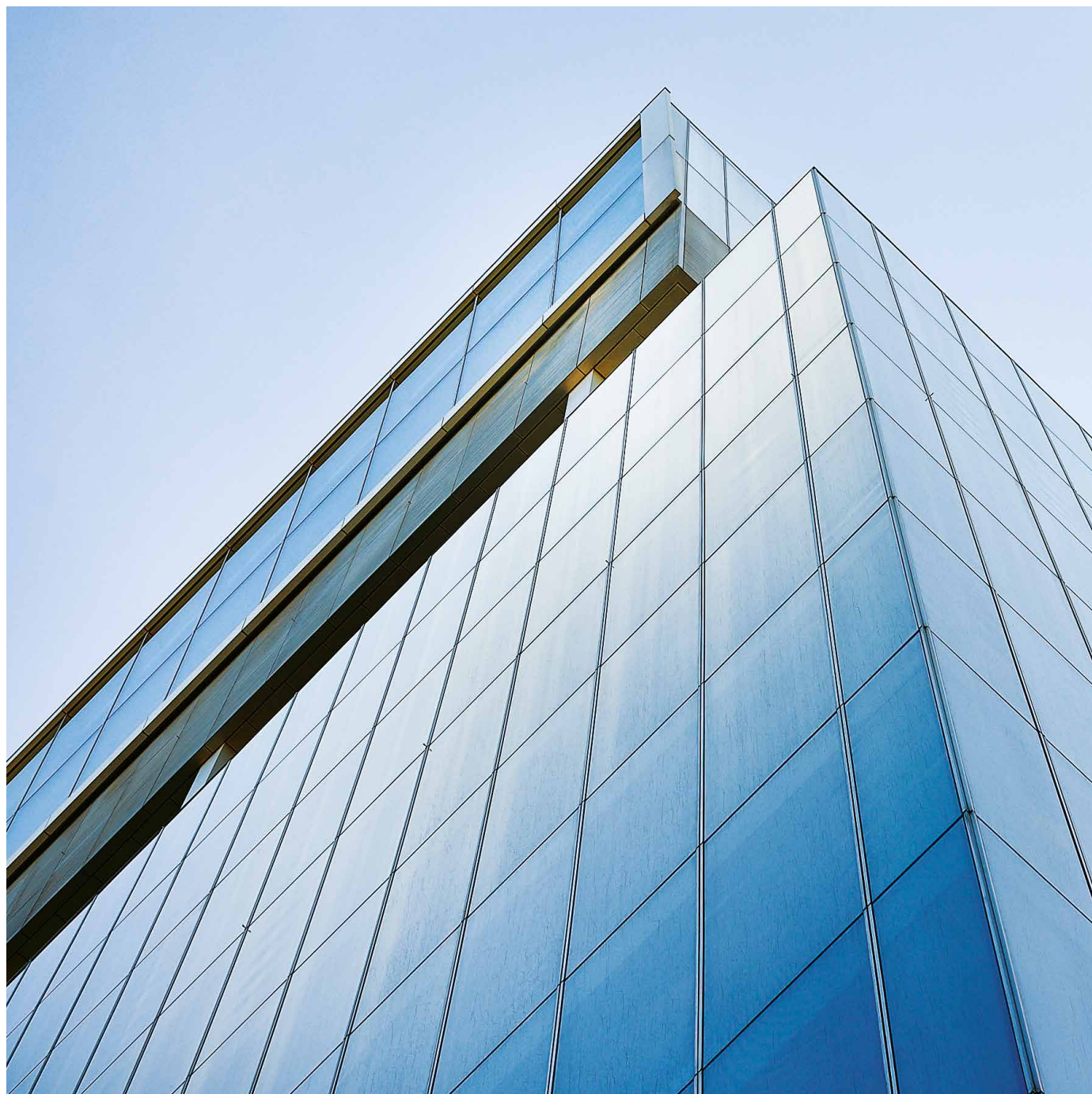


2020 Review & 2021 Outlook

Conviction Expertise



December 2020



■ Conviction Expertise



The “value” bias and European bias on equities, combined with moderate sensitivity to interest rates, prejudiced the performance of conviction funds during the first five months of the year. They then recovered sharply, driven by the return of investors to the most neglected segments, searching for attractive valuations.

Equity Management

In the unprecedented circumstances of 2020, the equity markets bottomed out in mid-March, before rebounding sharply. The European market was the most impacted, and also the least performing in the rebound. This underperformance is explained by the fact that the Old Continent was particularly affected by the pandemic, but also by the greater weight of growth stocks in the American indices. Europe could be the beneficiary of the style rotation that began in early November, after Pfizer has announced encouraging results concerning the entry of its candidate vaccine into phase 3, which has revitalized the prospective visibility of the market.

Looking back at the evolution of the rebound, the unprecedented fiscal and monetary measures implemented allowed markets to recover a large part of their losses, after hitting a low at the end of March. Initially, this rebound was particularly

Conviction brings together actively managed funds within equities, fixed income and multi-asset. It reflects strong positions taken by managers founded on market expectations and research on securities within their investment universe. Those funds are mainly invested in euros and have a benchmark.

beneficial to defensive growth stocks, which were the main beneficiaries of the liquidity inflow and the only alternative to negative rates deemed credible by investors. This movement contributed to further widening the performance gap (already very strong at the start of the year) between the “growth” style⁽¹⁾ and the “value” style⁽²⁾. The cyclical and financial sectors have indeed suffered greatly, incorporating a marked recession scenario, before rebound strongly

(1) The growth style focuses primarily on the earnings growth potential of companies with the expectation that sales and earnings growth will be above industry or market averages.

(2) A value strategy implies that investor is looking for companies that are undervalued by the market at a given time, i.e. whose market value is lower than it should be regarding company's results and the value of its assets.

during “Pfizer day”. The ultimately clear victory of Joe Biden in the American elections has also reassured the market.

Several factors should enable a continued rebound in “value” in the months to come. In the short term, the momentum for health news should continue, due to the end of the second wave in Europe and the start of vaccination campaigns. In the medium term, the favourable basis of comparison for the 2021

financial results, starting in the first quarter, should become a supporting factor for cyclical and financial stocks. In the longer term, even if rates are expected to remain at low levels, they should no longer be expected to be an impediment for the “value” style. The correlation of rates to this management style is now well established, thus an increase in inflation expectations with respect to European bonds could be a powerful driving force for the “value” style, as it already occurred with US bonds.

Fixed Income Management

Following the crisis triggered by lockdowns across the world, central banks have injected abundant liquidity back into the market through lower rates and further quantitative easing⁽³⁾. In addition to fiscal stimulus measures in favour of businesses and households, these policies have avoided a major shock in the labour market and a strong tightening of credit conditions.

On the fixed income markets, the impact has materialised by stabilising risk-free rates at low levels and by significantly compressing risk premiums for governments and companies. The best quality assets were thus the best performers of this year; European sovereign debt has generated 4.65% since the start of the year, Investment Grade⁽⁴⁾ companies have posted 2.79%, while High Yield⁽⁵⁾ bonds only offered 1.83%⁽⁶⁾, despite a very significant rebound over the last period, with the promise of a vaccine that restores economic visibility for 2021.

Although we can hope for a strong recovery from the spring of 2021, the Eurozone economy is severely damaged. Activity levels will remain below normal for some time and unemployment will be high. These two factors mean that the inflation outlook will remain moderate, and the ECB’s response will therefore remain proactive, which should keep rates low.

In the credit market, it is likely that, after exhausting the performance potential of the Investment Grade, investors will be tempted to take on more risks. The economic outlook will effectively provide the capacity to increase corporate margins, generate cash flow and thus reduce debt, which should benefit High Yield issuers. We believe that the risk premium squeeze will continue, but we expect its magnitude to be smaller.

Update on R-co Conviction Equity Value Euro & R-co Conviction Club

R-co Conviction Equity Value Euro is well-positioned to take full advantage of the rebound in “value”. This is illustrated by its clear overperformance since the beginning of November, which should continue if the hypotheses mentioned above are confirmed.

On this topic, R-co Conviction Club maintains a high level of exposure to equities with a significant European bias, in favour of cyclical and financial stocks. Even though the market rebounded by 50% from the low points of March 2020, valuation levels remain attractive in Europe compared to other geographic areas, especially since discounted stocks have suffered from investor concerns about the economic cycle and their business model. In a context of recovery of economic growth and a rebound in earnings per shares in 2021, on

very favourable base effects (+ 50% estimated by consensus for Euro Stoxx 50), the market could benefit from a catch-up effect, which is all the more significant given that investor positioning is very weak. The reduction in the political risk premium could also be a supporting factor, since the 750 billion euros stimulus plan adopted last July may lead to further integration, in particular with the pooling of debt. Even if rates remain low, since central bank policies will remain accommodating to monetise government debts and finance stimulus plans, the rebound in inflation could nevertheless push them up slightly, a risk that is not integrated by the market. Within the bond component, the fund adopts a defensive position, with low sensitivity, because the current levels of return on risk do not seem attractive to us. ■

Completed on 26 November 2020

(3) An “unconventional” monetary policy measure involving large purchases of debt securities by a Central Bank in order to lower interest rate levels.

(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.

(6) Source: Bloomberg, 7 December 2020.

■ Risk profiles and disclaimer



R-co Conviction Equity Value Euro

Recommended investment period: 5 years

The fund's position on the scale is calculated from the volatility of the fund over a 5-year period. The level of risk of the UCITS is 6 (volatility of between 15% and 25%) and primarily reflects its positioning on the Eurozone equity 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: 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 Conviction Credit Euro

Recommended investment period: 3 years

The fund's position on the scale is calculated from the volatility of the fund over a 5-year period. This scale is non-linear. This fund is rated in category 3 (volatility between 2% and 5%) reflecting primarily its positioning on private debt securities, while maintaining a modified duration in a range between 0 and +8. Historical data used to calculate the synthetic risk and reward indicator may not be a reliable indication of the future

risk profile of the fund. The risk category of this fund is not guaranteed and may go down as well as up. The lowest category does not mean risk free. The Fund is not guaranteed capital. Significant risks not taken into account in this indicator: Credit risk, Liquidity risk, Derivative exposure. The occurrence of one of these risks may result in a fall of the net asset value of the fund. For more detailed information about risk profile, you may be found under the "Fees and Expenses" heading in the prospectus.



R-co Conviction Club

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.

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