



Strategy Update – R-co Valor



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



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

Macroeconomics & Markets

July proved to be a slightly positive month for equity markets overall, with the MSCI World All Countries index posting a performance of +0.59% over the month⁽¹⁾. There were significant differences between geographies; while the United States bounced back particularly well (+2.27% for the S&P 500 in dollars⁽¹⁾), Europe seemed preoccupied the development of the Delta variant (Euro Stoxx 50 +0.62% in euros⁽¹⁾). China, for its part, posted its worst month of the year (-9.94% for the Hang Seng in Hong Kong dollars⁽¹⁾), destabilised by a succession of government announcements regarding tighter regulations in certain sectors.

Central banks seem to be maintaining a relative status quo over the summer period. As for the Fed, its Chairman, Jerome Powell left key rates unchanged and kept asset purchase levels up at \$120 billion per month. While he acknowledged that the US economy has made progress recently, it cannot yet be considered as “substantial”. Regarding the ECB, Christine Lagarde announced during the July conference that she would be maintaining her accommodative policy. However, a significant change was announced earlier this month regarding inflation: The ECB hiked its inflation target from “below but close to 2%” to a symmetric 2% target over the medium term.

Finally, the People’s Bank of China announced a cut in the reserve requirement ratio for banks to boost the economic recovery. From a microeconomic viewpoint, company results are good, above expectations, without being systematically reflected in the stock market performance of the shares (since they were already factored in). Higher forecasts, expected earnings growth (+72% year-on-year earnings per share in the US and +120% in Europe⁽²⁾)

and the resumption of share buyback programs are driving publications, particularly for cyclical stocks⁽³⁾. The development of the Delta variant and the ability of companies to maintain their margins in an inflationary environment are now seen as stumbling blocks by investors.

China has been under pressure in recent months with restrictions, fines and investigations, particularly in the sectors of technology and education. The trend intensified at the end of the month, following statements by the Communist Party indicating its intention to reclassify companies belonging to the private tutoring sector as non-profit companies. The aim of this regulation would be to reduce the financial burden on families for the education of their children, but also to reduce the pressure on them. In addition, tutoring companies would no longer be allowed to raise funds through listings. This news seems to be part of a move to direct financial flows towards the sectors targeted by the five-year plan in line with the guidelines set by the Government. The Party also seems determined to limit the growing power of certain companies. However, it subsequently adapted its stance, making it more accommodating, thus allowing the markets to rebound after a series of more measured announcements.

Main Transactions & Contributions

In line with the movements made over the last few months, profit-taking is gradually taking place on the portfolio’s cyclical stocks, through partial sales of stocks that have performed particularly well. Conversely, investments or reinforcements were selectively made on certain growth stocks or on stocks with a more defensive profile. Profits were taken through partial sales of Ivanhoe Mines, a copper mining stock that rebounded

particularly well over the month and since the beginning of the year. Partial sales were made ahead of the results on Fresenius Medical Care, a healthcare company specialising in dialysis.

In terms of purchases, marginal increases were made on Chinese growth stocks (Trip.com, Alibaba, Kingdee, Kingsoft Cloud, Tencent, New Oriental Education). While we currently lack visibility on certain industries, including education, we feel that stocks in the technology sector are being excessively punished, with valuations at their lowest levels in 10 years. Stocks on which we are maintaining our convictions and investment theses over the long term. A new line was introduced in the portfolio, Uber.

To hedge part of the portfolio in the event of a sharp market decline, put options were purchased on the S&P 500 index to complement our strategy already in place within the fund. At the end of July, the best contributor to performance over the month was the industrial sector, mainly European, driven by companies that published particularly good results, such as ABB and Airbus. Conversely, the “Leisure / Services” sector was a weaker contributor, mainly impacted by the performance of the Chinese stock New Oriental Education. In terms of geographical exposure, China emerged as the main detractor of performance over the period.

Fund Positioning & Outlook

The fund's equity exposure increased slightly to around 85%. While we remain confident about the coming months, the development of the Delta variant, the impact of inflation on companies and households and geopolitical instabilities led us to hedge part of the portfolio against a market downturn (Put options on the S&P 500).

We are maintaining our exposure to Chinese stocks. The area represents around 15% of our equity portfolio to date, or 13% of the fund. Investments made in the area cover a range of sectors: technology, leisure, education, insurance. We did not reduce our exposure as a result of recent events. Pending further information from the Chinese Communist Party, we aim to limit the dilution of exposure to the area. Although the Government is sending a positive signal to reassure investors, both domestic and foreign, there are still some uncertainties about the status of the different structures. From a geopolitical viewpoint, discussions are resuming between China and the United States, following the bilateral sanctions.

While, in our view, China could remain under pressure over the coming months, we remain confident about the longer-term fundamentals and growth potential of the companies in the portfolio. From a broader perspective, we remain confident about the markets, particularly in Europe. Exposure to this area within the equity component is at a 10-year high, at 28%. The European Recovery Plan, which started to be paid out in July, should prove to be a strong support for recovery, particularly for industrial stocks. From a corporate viewpoint, the latest publications from companies in the portfolio seem particularly buoyant, like Capgemini, which has significantly raised its targets for 2021. The stock, representing 3% of the portfolio, was thus the best contributor to performance over the month.

We are also maintaining our position in the United States (38%), particularly through our exposure to technology stocks, which benefited from a fall in US 10-year interest rates. The sector's results were excellent overall, above expectations but with a mixed response from investors. A possible slowdown in growth nevertheless had an impact on some stocks, like Facebook. Alphabet, meanwhile, tripled its profits in the second quarter, driven by increased advertising spending and its video platform, YouTube. ■

Completed writing on August 3, 2021

(4) Put option giving its holder the possibility to sell an underlying asset at a given date and at a pre-determined price.
The characteristics of the portfolio are not fixed and may change over time, within the limits of the prospectus.



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

Non-advertising, simplified and non-contractual document. The information, comments and analyses in this document are provided for information purposes only and should not be construed as an investment or tax advice, or as an investment recommendation from Rothschild & Co Asset Management Europe. The information/opinions/data mentioned in this document considered legitimate and correct on the day of publication, in accordance with the economic and financial environment in place at that date, are subject to change at any time.

Although this document has been prepared with the greatest care from sources that Rothschild & Co Asset Management Europe believed to be reliable and in good faith, no representation or warranty, express or implied, is made as to information accuracy or completeness, which are indicative only and are subject to change without notice. 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.

Furthermore, given the subjective nature of certain analyses, we draw your attention to the fact that any information, projections, estimates, anticipations, assumptions and/or opinions are not necessarily put into practice by the management teams of Rothschild & Co Asset Management Europe, or its affiliates, who act according to their own convictions. Certain forward-looking statements are prepared on the basis of certain assumptions, which are likely to differ either partially or totally from reality. Any hypothetical estimates are, by their nature, speculative and it is possible that some, if not all, of the assumptions relating to these hypothetical illustrations may not materialise or may differ significantly from current determinations.

The information does not presume the suitability of the UCI presented to the profile and experience of each individual investor. Rothschild & Co Asset Management Europe shall not be liable for any decision taken on the basis of or inspired by the information contained in this document. In case of doubt, and before making any investment decision, we recommend that you contact your financial or tax advisor. R-co Valor is a SICAV hereinafter referred to as the "funds" or the "UCIs". UCIs are incorporated under French law, whose registered office are 29 avenue de Messine - 75008 Paris, R-co Valor registered under number 789 648 409 RCS PARIS and R-co Valor Balanced under number 844 443 390 RCS Paris. The UCIs presented above are organised according to French law and regulated by the French financial markets authority (AMF). Any investment is always subject to risk. Before any investment, please imperatively read the key investor information document (KIID) and prospectus of the UCIs carefully, especially its section relating to risks. Each investor must also ensure the jurisdictions in which the UCI is registered. The KIID, the full prospectus as well as the net asset value (NAV) / net inventory value (NIV) are available on our website: www.am.eu.rothschildandco.com. The information presented is not intended to be disseminated and does not constitute in any way an invitation for US nationals 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 U.S. Securities Act of 1933 as amended ("Securities Act 1933") or admitted under any law of the United States. These units or shares may neither be offered, sold in or transferred to the United States (including in its territories and possessions), nor directly or indirectly benefit to a "US Person" (within the meaning of Regulation S of the Securities Act of 1933) and equivalent persons (as referred to in the US "HIRE" Act of 18 March 2010 and in the FATCA provisions).

Figures provided relate to previous years. Past performance is not a reliable indicator of future performance and is not constant over time. The value of investments and the income derived from them may vary both upwards and downwards, and is not guaranteed. It is therefore possible that you may not recover the amount originally invested. Exchange rates variation may increase or decrease the value of the investments and the resulting income when the reference currency of the UCI is different from the currency of your country of residence. UCIs whose investment policy is aimed more specifically at specialised markets or sectors (such as emerging markets) are generally more volatile than common and diversified allocation funds. For a volatile mutual fund, the fluctuations

may be particularly large, and the value of the investment may therefore fall sharply. The performances presented do not take into account any fees and commissions received on the subscription and redemption of units or shares of the UCI herein. The portfolios, products or securities presented are subject to market fluctuations and no guarantee can be given as to their future development. The tax treatment depends on the individual situation of each investor and may be subject to change.

Rothschild & Co Asset Management Europe, organized under the laws of France, registered with the Trade and Companies Register of Paris RCS Paris 824 540 173. A management company licensed by the Autorité des Marchés Financiers under N° GP 17000014, having its registered office 29, avenue de Messine, 75008 Paris, France

No part of this document may be reproduced, in whole or in part, without the prior written permission of Rothschild & Co Asset Management Europe, under pain of legal proceedings.

Characteristics specific to Switzerland

The Rothschild & Co Asset Management Europe funds (hereinafter the "Funds") presented in this document are French funds; they are approved by the FINMA for distribution to non-qualified investors in or from Switzerland. This information note is not an invitation to subscribe for any of the Funds described herein; it is not a substitute for the Fund's prospectus and is provided only for information purposes. This presentation is neither advice nor a recommendation to subscribe for any Fund. Subscriptions shall be received and units or shares shall be issued only on the basis of the current version of the prospectus for the Fund concerned as approved by the FINMA. Any information communicated through this document is provided for information purposes only and has no contractual value. Past performance is not a reliable indicator of future performance. In addition, commissions charged at the time of issue and redemption of units or shares of the Fund concerned are not included. Rothschild & Co Asset Management Europe does not in any way guarantee the evolution of performance and cannot be held responsible for any decision taken on the basis of information contained in this document.

Investing in one or more units or shares of a Fund is not risk-free. Rothschild & Co Asset Management Europe recommends that subscribers request additional information, particularly as regards the adequacy of the characteristics of the Funds for their needs, by calling either the Representative of the Funds in Switzerland as indicated below, their usual financial advisor, or Rothschild & Co Asset Management Europe before taking the decision to invest.

Rothschild Bank AG (Zollikerstrasse 181- CH-8034 Zurich, Switzerland) has obtained authorisation from the FINMA to distribute the Funds to non-qualified investors in or from Switzerland; Rothschild & Co Bank AG is also appointed to be its representative (the "Representative") and paying agent in Switzerland.

The Regulations or the Articles of Association, the Prospectus, the Key Investor Information Documents, and the annual and semi-annual reports of the Fund for Switzerland can be obtained free of charge from the Representative in Switzerland. Investors must review the prospectus before subscribing for Fund units or shares, whatever they may be. Advertisements directed to investors in Switzerland that concern Rothschild & Co Asset Management Europe or the Funds shall be published on the electronic platform www.fundinfo.com, which is authoritative. Issue and redemption prices or the net asset values indicated as "excluding commissions" shall be published every day on the electronic platform www.fundinfo.com.

About the Asset Management's division of Rothschild & Co

As the specialised asset management division of the Rothschild & Co group, we offer personalised asset management services to a broad client base of institutional investors, financial intermediaries and distributors. Our development is focused on a range of open-ended funds, marketed under four strong brands: Conviction, Valor, Thematic and 4Change, and leveraging our long-term expertise in active management with conviction as well as in delegated management. Based in Paris and established in 10 European countries, we manage more than 22 billion euros and employ nearly 160 people. More information at: www.am.eu.rothschildandco.com



For further information
am.eu.rothschildandco.com

Join us on
LinkedIn

