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Review 2022 & Outlook 2023

R-co Valor & R-co Valor Balanced



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2022: inflation came back

2022 was marked by a sudden resurgence in inflation, severe disruptions in international relations and, more generally, by a desynchronisation of economies worldwide. Inflation varied in nature from one region to the next. In Europe, it was driven mostly by soaring energy prices, while in the US real estate played a key role. In addition, and specifically in the US, inflation is still closely correlated to persistent tightness in the job market. Similarly, while most central banks' policies are pointed in the same direction, their intensities vary. In the US, the Fed raised its key rate from 0% at the start of the year to 4.25% in December, an increase of 425 basis points (bp), its fastest pace of tightening in the past 40 years⁽¹⁾. In Europe, the ECB went more slowly, with an increase of "only" 250 bp, ending the year with a rate that remunerates bank liquidity at 2.5%. China was an outlier, with low inflation, reductions in key interest rates and an expansionist fiscal policy. However, all this was undermined by the Party's "zero-Covid" policy, which threw cold water on the recovery, with growth expected at just 2.7%⁽²⁾ for 2022.

On the financial markets, few asset classes were spared. Volatility in US and European bond yields were both the cause and effect of instability. The 10-year US yield fluctuated between 1.5% and 4.3%, ending the year at 3.9%, while in France, the 10-year OAT⁽³⁾ spiked from 0.2% to more than 3%⁽¹⁾. Almost all equity indices ended down sharply – the Euro Stoxx 50 by 11.4%, China (the Hang Seng) by 15.5%, and the Nasdaq⁽¹⁾ by 33.1%. On a global scale, the MSCI World lost 19.6%⁽¹⁾. The credit market was unable to play its shock-absorber role, and 2022 ended up as one of the worst years ever for the euro Investment Grade⁽⁴⁾ market. High yield⁽⁵⁾ fell by 10.9%, and Investment Grade, which is more sensitive to rising interest rates, by 14.2%. The only winners on the year were the dollar, propelled by its safe haven status and the Federal Reserve's particularly hawkish⁽⁶⁾ stance, and energy, driven by supply-side tensions arising from the Russian-Ukrainian conflict. The dollar gained 8.2%⁽⁷⁾, and WTI⁽⁸⁾⁽¹⁾, 6.7%.

How R-co Valor is positioned

The fund's equity exposure ranged from 81% to 87% in 2022. We began 2023 at 83%, with the other 17% currently invested in money-market funds, Treasury bonds maturing in less than one year, and cash⁽⁹⁾. As for changes to the portfolio, we constantly took profits on sectors or stocks that were particularly resilient, thus reducing our exposure. For example, we sold almost all our energy holdings and, in the first half the year, lessened our exposure to diversified mining stocks. We also sold down some healthcare stocks, such as AstraZeneca, and our luxury stocks. Meanwhile, we added to our portfolio tech holdings, which helped keep from diluting

(1) Source: Bloomberg, 30 December 2022.

(2) Source: World Bank, December 2022.

(3) French Government Bonds.

(4) A debt security issued by companies or governments rated between AAA and BBB- by Standard & Poor's.

(5) High yield bonds are issued by companies or governments having high credit risk. They are rated below BBB- by Standard & Poor's.

(6) Monetary policy aiming to combat inflation.

(7) Dollar vs. a basket of currencies.

(8) West Texas Intermediate: type of crude used as a benchmark in setting oil prices.

(9) Source: Rothschild & Co Asset Management Europe, 30 December 2022.

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this thematic relative to other sectors. We remain confident in our stock-picks, which are currently trading at attractive valuations. In particular, we still believe Chinese tech stocks are the best way to gain regional exposure to consumer spending through stocks such as Alibaba, Vipshop and Tencent. During the year, we also brought three new stocks into the portfolio: a US biotech (Seagen), a Chinese real-estate services company (Country Garden Services) and a US bank (Silicon Valley Bank). The commodities sector was a solid contributor to performance, led by our energy stocks. Our diversified mining stocks rode the same momentum and also fared well. On the other hand, our tech exposure cost us dearly, with the sector, at least US stocks, hit by the spike in bond yields. Our exposure to Chinese tech rallied considerably in the last two months of the year after the Party announced it was shutting down its “zero Covid” policy.

Positioning of the R-co Valor Balanced bond portfolio

During the year, the very high inflation environment led to an exceptional rise in bond rates. In this context, the credit market amplified this tension. The low yields could not cushion this very negative impact, which led to significantly negative returns. Central banks reacted vigorously, suggesting at the end of the year that the bulk of the monetary adjustment was valued into the yield curves. In addition to this tense context, economic data showed a steepening of the inflation curve. Rates continued to rise until the end of the year, but at a much more measured pace: the German 10-year rate (Bund) closed at 2.56% and the US 10-year rate at 3.87%⁽¹⁰⁾. The slowdown in the increase in key rates, notably by the ECB, has enabled the euro credit market to recover. In the last quarter, very attractive investment grade yields allowed us to seize opportunities, mainly in the primary market, with intermediate maturities and limited credit risk. We also positioned ourselves opportunistically in the secondary market, particularly on financials. High-yield and non-rated exposure now represents 18% of the bond portfolio. Market conditions allowed us to significantly increase the portfolio's yield over the year, which stood at 6.6% at the end of December with a sensitivity of 3.5⁽¹¹⁾.

Outlook

Central banks are set to continue their tightrope walk in 2023. While they appear to have begun slowing their pace of rate hikes, they have stuck to their hawkish line. It now seems clear that if inflation figures don't fall “enough”, central banks will remain hawkish, even if that means plunging various parts of the world into a recession. The ECB is not only lagging behind the US in the cycle, it also has the additional difficulty of setting a common policy for more than 20 countries, each different from the others. Moreover, government debt is a variable that shouldn't be overlooked as a source of stress in the coming year, as the various fiscal stimulus plans have added considerably to governments' debt burden.

The landing of monetary policy seems to be well advanced in the United States and integrated into the curves with, in particular, positive real rates which should weigh on growth and reduce inflationary pressures. The situation is less clear in Europe, where a terminal ECB rate higher than the one currently integrated in the rate curves cannot be ruled out. Being close to an inflection point, rates may move in a channel this year depending on market expectations and the maintenance, more or less long, of restrictive financial conditions. At the same time, the main credit market indicators reflect a high level of stress, while risk premiums reflect default rates expectations that seem excessive. The expected cumulative default rates are respectively 6% for Investment Grade and 29% for High Yield, whereas historically, the average observed over a similar period is rather around 1% with a peak at 4% (Investment Grade) and around 15% with a peak at 30% (High Yield) during the bankruptcy of Lehman Brothers in 2008⁽¹²⁾. In this context of uncertainty about growth, we favour Investment Grade where the risk/return ratio seems attractive.

In the coming months, China will face a new challenge. After shutting down its “zero-Covid” policy, its new challenge will lie in the government's ability to vaccinate its people efficiently and to manage the explosion in cases. Regional economic growth is forecast at about 5%⁽¹³⁾ for 2023, but with a rather low basis of comparison, a good surprise may be in store. Government stimulus, alongside real-estate support measures, would be a solid driver for China's economy. That being said, a recovery in the region is a double-edged sword – on the one hand, it could propel global growth forward, but on the other hand, it could feed inflation.

(10) Source: Consensus, Janvier 2023.

(11) Source: Rothschild & Co Asset Management Europe, 30/12/2022.

(12) Source: Morgan Stanley, octobre 2022.

(13) Source: Consensus, January 2023.

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Energy prices will remain a major challenge in 2023. Severe volatility will have an impact on households and manufacturers but also, and to a greater extent, on international relations, thus generating geopolitical instability. On a microeconomic level, after a rather resilient year in 2022, corporate margins and earnings are likely to be squeezed in the coming months. Against the current backdrop, we believe it is still worth maintaining some exposure to equity markets in early 2023. Keep in mind that some of the aforementioned factors have already been priced in. Meanwhile, some macroeconomic data remain solid, like US job market figures. And, lastly, the equity premium, while lower than 12 months ago, is still with us. The equity markets will fluctuate with central bank words and deeds, among other things. Our challenge will be to exploit that volatility to position ourselves as buyers in the event of a correction, while being able to take profits and reduce our exposure during market lulls.

Completed on 20 January 2023

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ISIN: FR0011253624

Performance	2022	2021	2020	2019	2018	5 years	1 year volatility
R-co Valor C EUR	-8.1%	12.7%	6.7%	28.6%	-13.2%	23.5%	14.9%

Source: Rothschild & Co Asset Management Europe, 30/12/2022.

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Recommended investment period: 5 years

SRII risk 6/7. 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.

SRII risk 4/7. The synthetic risk indicator shows the level of risk of this product compared to others. It indicates the likelihood of this product incurring losses in the event of market movements or our inability to pay you. We have classified this product in risk class 4 out of 7, which is a medium risk class and mainly reflects a discretionary management policy on equity markets and

fixed income products. This means that the potential losses from the future performance of the product are at a medium level and, should the markets deteriorate, it is possible that our ability to pay you will be affected. The risk indicator assumes that you hold the product for 5 years, otherwise the actual risk may be very different and you may get less in return.

Any investment is always subject to risk. Before investing, each investor must 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: am.eu.rothschildandco.com

ISIN: FR0013367265

Performance	2022	2021	2020	2019	2018	Since inception ⁽¹⁾	1 year volatility
R-co Valor Balanced C EUR	-11.8%	6.7%	5.0%	15.6%	-	9.6%	9.4%

(1) Inception date: 24/10/2018.

Source: Rothschild & Co Asset Management Europe, 30/12/2022.

The figures quoted relate to previous years. Past performance is not a reliable indicator of future performance and is not constant over time. They take into account all fund-related costs and expenses (e.g. management fees) but do not take into account fees charged to the client (e.g. issuance costs, deposit fees).

Recommended investment period: 3-5 years

SRII risk 4/7. 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 profile. 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

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SRI risk 3/7. L'indicateur synthétique de risque permet d'apprécier le niveau de risque de ce produit par rapport à d'autres. Il indique la probabilité que ce produit enregistre des pertes en cas de mouvements sur les marchés ou d'une impossibilité de notre part de vous payer. Nous avons classé ce produit dans la classe de risque 4 sur 7, qui est une classe de risque moyenne et reflète principalement une politique de gestion discrétionnaire sur les marchés

actions et produits de taux. Autrement dit, les pertes potentielles liées aux futurs résultats du produit se situent à un niveau moyen et, si la situation venait à se détériorer sur les marchés, il est possible que notre capacité à vous payer en soit affectée. L'indicateur de risque part de l'hypothèse que vous conservez le produit pendant 5 ans ; dans le cas contraire, le risque réel peut être très différent, et vous pourriez obtenir moins en retour.

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The SRRI indicator defines the risk/return profile of a UCITS on a scale ranging from +1, the lowest level of risk and a lower expected return, to +7, the highest level of risk and a higher expected return.



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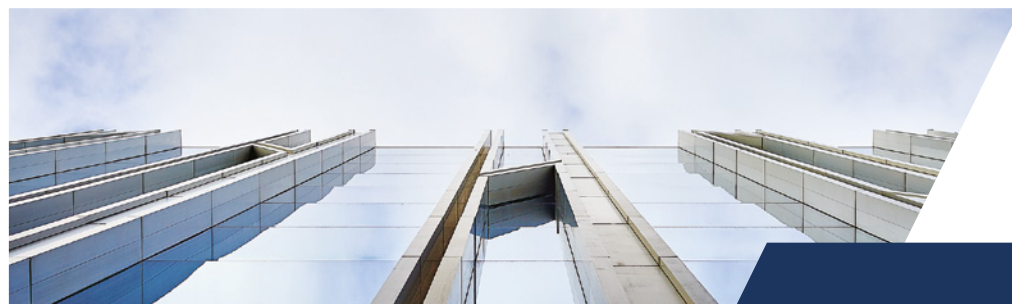
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