Fund update
R-co Conviction Equity Value Euro

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Market trends on the month

Although fears of a financial crisis did not fade completely in April, equity indices actions once again rose on the month, driven by resilient economic activity figures, uneven but rather improving inflation figures, and a good start to earnings reporting season.

The global composite PMI[1] index continued to move up, to 52.1 from 49.8 the previous month[2]. All in all, the MSCI World gained +1.8% (in dollars and with dividends reinvested) in April, while performances were comparable by the S&P 500 and EuroStoxx at, respectively, +1.6% in dollars and +1.4% in euros both with dividends reinvested[3].

In the United States, as expected, the Fed once again raised its key rate by 25 basis points (bps) at its early May meeting, to a 5.00-5.25% range, as projected by its dot plot[4]. The question is now whether this hike was the last one, as the bond markets are currently pricing in, along with three rate cuts by yearend, even though Jerome Powell's ambivalent language leaves room for further tightening in the event that inflation does not align with the Fed's projected trajectory. CPI[5] figures released in April were rather good, receding from 6.0% to 5.0%[6], but keep in mind that core inflation[7] remained stubborn, rising from 5.5% to 5.6%[6]. As the Fed had expected, the US economy is slowing down: 1/ first quarter 2023 GDP growth was surprisingly weak compared to forecasts, a an annualised +1.1%, vs. 1.9% forecast, and far less than the previous quarter (+2.6%)[8]; 2/ the ISM manufacturing index remained in contraction territory for the sixth consecutive month, at especially a historically low 47.1 but up from the previous month (46.3)[3].

In the Eurozone, faced with inflation that, unlike in the US, is having a hard time peaking, the ECB also raised its key rate by 25 bps (to 3.75%) at its early May meeting[3] and for the moment has no plans to end its tightening cycle. Core inflation moved sideways for the first time since June 2022, slipping from 5.7% to 5.6%[9], while the CPI headline index rose by 0.1 percentage point to 7.0%[10]. Regarding the PMIs, the composite index continued to gain, to 54.4 (+0.3 point), but this masked a wide sector imbalance. While services remained very strong at 56.2 (+1.2 point), manufacturing, slowed considerably, by 1.7 point to 45.8[11], as it is more exposed to tighter credit conditions.

China released some good economic growth figures at +4.5% (vs. +4.0% forecast)[12], with also a gap between services (+5.4%) and manufacturing (+3.3%)[13]. Leading indicators, however, disappointed slightly, with PMIs down in manufacturing (by 2.7 points to 49.2) and in non-manufacturing (by 1.8 points to 56.4)[14]. These figures point to a recovery driven by domestic demand, but held back by weaker global demand.

(1) Purchasing managers index, which reflects their confidence in a particular economic sector. Above 50, it points to an expansion in activity; below 50, to a contraction.
(2) Source: Bloomberg, 6 April 2023.
(3) Source: Bloomberg, 4 May 2023.
(4) Forecasts of each of the 12 members of the Fed's monetary policy committee.
(5) Consumer Price Index.
(6) Source: Bloomberg 12 April 2023.
(7) Ex food and energy.
(8) Source: U.S. Bureau of Economic Analysis, May 2023.
(9) Source Bloomberg 2 May 2023.
(10) Source: Eurostat, 2 May 2023.
(11) Source: S&P Global, May 2023
(12) Source: Bloomberg, 18 April 2023.
(13) Source: Exane, 3 May 2023.
(14) Source: Bloomberg, 30 April 2023.

Against this backdrop, bond yields moved little in April. The 10-year US yield fell by 5 bps to 3.42% on 28 April (+8 bps in real rates), while the Bund gained 2 bps to 2.31% at month-end (+5 bps in real rates)[(15)].

First quarter earnings season is looking good, with almost half of EuroStoxx companies having reported. Almost 70% of them have beaten consensus earnings per share (EPS) forecasts, with a positive surprise ratio of about 6% to 7%. EPS growth forecasts are now at +1.5% for 2023 and +8.3% for 2024 (or, respectively, +7.8% and +10.5% excluding commodities)[(16)].

The European market's P/E[(17)] came to 13.3x at end-April, up from 12.7x at end-March[(18)]. Growth's[(19)] premium to Value[(20)] held at 143%, a historically high level and one hard to justify given the change in the interest-rate paradigm since the Covid-19 crisis.

Fund performance & positioning

The EuroStoxx (dividends reinvested) posted further gains in April, up by +1.4%, driven by strong showings in insurance (+5.5%), a rally in real-estate (+5.5%) and a solid leisure & travel sector (+4.5%)[(15)]. However, poor performances by other sectors pointed to concerns in the economy, in reaction to the economic slowdown. Autos, for example, whose pricing environment appears to be worsening, gave up -2.6%, while technology and commodities lost more than 5% on the month (respectively by -5.2% and -5.6%)[(15)]. In style terms, after the previous month's underperformance, Value outperformed Growth by +2.1% in April, reducing the performance gap between the two to 7.5% on the year to date.

R-co Conviction Equity Value Euro gained 0.7% on the month[(21)], underperforming its benchmark by 0.7%. it is now up by 11.8% on the year to date (and 1.6% below its benchmark but 1.8% above the Value index)[(22)]. While the allocation effect was positive on the month, particularly due to Technology's underperformance, the fund took a hit from stock picking, with a few marked underperformances among our cyclical stocks (STMicroelectronics, Nokia, ProSieben and Alstom).

We made no significant changes in April, merely adding to our position in AB InBev, which continued to underperform on the year to date, both the EuroStoxx (+5.0% vs. +13.4%) and its sector (food & beverages: +12.5%). Within the banking sector, we reduced our UniCredit exposure slightly on its recent outperformance (+42.2%) while adding to our Société Générale holding (-6.2%)[(23)].

Our main overweighting remains the banking sector, estimated at 5.6% of the invested portfolio (up from 5.2% the previous month). As we explained in early April, we had reduced this overweighting significantly in previous months (from 11% at end-January)[(24)], due to: 1/ the strong early-year performance that led us to first to take some profits; and 2/ the March financial crisis, which in our view made the sector less attractive. That being said, with a valuation that remains high (0.78x P/B[(25)] 2023 and 6.5x P/E 2023[(26)]), and with EPS expected to be up by more than 13% in 2023[(27)], the sector retains significant upside potential, particularly if economic activity in the Eurozone were to remain as resilient has it has been so far.

With the economy slowing, but the markets continuing to rise, we have chosen to hold onto a large store of cash in the portfolio, at 7.7% as of the end of April vs. 8.1% at end-March[(24)]. Accordingly, we are positioned more defensively than we were early in the year and in line with the position we took on last month. The portfolio's defensive/cash pillar remains heavy at 34% of NAV, up from 28% in late February[(24)]. This reflects a macroeconomic environment that, granted, is slowing, but the extent of whose slowdown is uncertain.

Completed writing on 4 May 2023

(15) Source: Bloomberg, 4 May 2023.
(16)Sources: Bloomberg (5 April 2023), Europe Weekly Kickstart (28 April 2023).
(17) Price earnings ratio.
(18) Source: Goldman Sachs – MSCI Europe 12-month forward, 31 March 2023.
(19) Growth investors focus mainly on companies' growth potential, hoping that revenues and earnings will increase more than the sector or market average.
(20) The value style consists in investing in discounted companies, i.e., those whose share prices are below what they should be on the basis of their results and the values of the companies' assets. Value investors select stocks with low price/book ratios or high dividend yields.
(21) Part C EUR.
(22) Source: Bloomberg, 2 May 2023.
(23) Source: Bloomberg: 28 April 2023.
(24) Source: Rothschild & Co Asset Management, 28 April 2023.
(25) Price to book ratio
(26) Source: Exane Cube, May 2023.
(27) Source: Goldman Sachs – Europe Weekly Kickstart, 28 April 2023.

Performances	Since the beginning of 2023	2022	2021	2020	2019	2018	Since inception	1-year volatility
R-co Conviction Equity Value Euro C EUR(1)	11.8%	-9.6%	26.3%	-9.9%	17.6%	-18.0%	116.1%(1)	19.2%
R-co Conviction Equity Value Euro I EUR(2)	12.1%	-9.1%	27.1%	-9.2%	18.5%	-17.4%	86.9%(2)	19.1%
Euro Stoxx ® NR(3)	13.4%	-12.3%	22.7%	0.2%	26.1%	-12.7%	-	17.8%

(1) Inception date: 20/05/2005.
(2) Inception date: 30/12/2009.
(3) Benchmark.
Source: Rothschild & Co Asset Management Europe. 30/04/2023.

Synthetic risk indicator : 5 out of 7

The level of risk of the UCITS is 5 (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.

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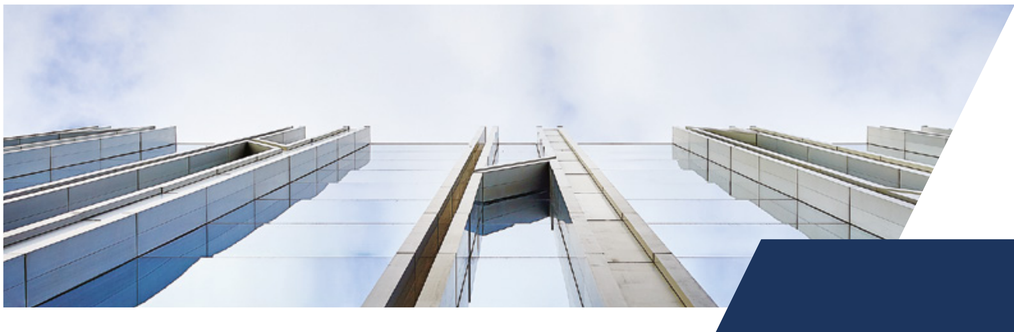

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