

Monthly Portfolio Update

*Amundi Funds II – European Potential**

30 April 2018

EQUITY

COMMENTARY

Market Review

April was a positive month for the European small caps with the MSCI Europe Small Cap adding over 4%. Sectorally, all 11 sectors were in the green, with Energy, Financials, and Materials all performing very strongly. While large caps outperformed in April, Small Caps remain ahead year-to-date to the tune of 1%.

Despite rising geopolitical tensions over Syria continuing to grab headlines and send oil prices higher, investor sentiment rebounded in April. Poor performance in February and March resulted in more attractive valuations. What we saw in April was a notable uptick in M&A activity globally with some large scale acquisitions materialising. Year to date, global deal volume now sits at 1.7 trillion U.S. Dollar which is back to pre-financial crisis highs - pointing to an improvement in business confidence across both geographies and industries. This, coupled with continued momentum in the underlying global economy helped to boost sentiment towards the asset class.

Furthermore, April marked the beginning of the Q1 reporting season for European corporates. Despite much talk about the impact of a stronger Euro, the Q1 earnings season for European companies has been quite encouraging thus far, with the median stock beating on EPS by 1.1%. So far, the best beats have come from Financials, Telecoms and Energy, while Staples and Industrials have disappointed. With the rebound that we have seen in April, valuations have once again returned to fuller levels, and for us, the delivery of earnings has now become ever more critical for the market to move higher from these levels. As always, within our Portfolios, we are continuing to focus on those idiosyncratic investment cases that we believe can deliver the required EPS growth through the cycle.

Portfolio Review

The Portfolio underperformed its benchmark, the MSCI Europe Small Cap in April. At sector level, the Portfolio had a positive contribution from Consumer Staples and Information Technology. In contrast, some of our holdings within Industrials and Consumer Discretionary detracted.

Within Information Technology, our holding of IT security company Sophos Group performed strongly recovering from some recent underperformance. At the beginning of the month, the company reported very encouraging quarterly results which showed strong billing growth coming through, a key pillar of our investment case.

The Portfolio lost ground within Industrials during the month. At stock level, our holding of Swedish-listed capital goods company Saab detracted following the release of mixed Q1 results. Quarterly results for this industry tend to be volatile so we generally place more emphasis on assessing the company's outlook which remained positive with guidance confirmed. Additionally, despite muted newsflow, German-listed defence company Rheinmetall appeared to be subject to some profit taking during the month.

In Consumer Staples, our holding of food processing company Greencore recovered from some recent underperformance. In March, the company issued a disappointing outlook statement suggesting that growth in the key U.S. market would be more subdued which caused quite an aggressive lowering of the share price. In April, investors appeared to focus on the more attractive valuation.

Consumer Discretionary detracted during the month. At stock level, our holding of gaming company Paddy Power Betfair underperformed as ongoing M&A within the industry may be causing increased competitiveness amongst the leading players. Recognising that the growth outlook for the company is now less certain we decided to remove the position preferring other names in the sector.

Financials were a source of positive performance for the Portfolio. At stock level, our holding of Dutch insurer ASR was a standout performer. In April, we saw newsflow that Anbank (Chinese insurer) had approached some investment banks to begin the process of selling their offshore assets, some of which are in the Netherlands. Given the strength of the capital position of ASR, it is largely perceived to be the likely buyer which would naturally be supportive for the growth profile going forward. While this is purely speculative at this point, the share price performed strongly on the news.

The stronger oil prices which we saw in April were clearly a tailwind for the energy sector throughout the month. Of our holdings, oil services company Schoeller-Bleckmann was a strong performer given the sensitivity of the business model to the underlying oil price. Additionally, strong rig count data out of the U.S. has been another support for the share price in recent weeks.

Within Materials, our exposure to Danish food ingredients producer Chr. Hansen was rewarding after the company reported a robust set of results which were boosted by strong performance in the key cultures and enzymes division. Solid underlying performance in natural colours in the U.S. market was also well received by investors.

Finally within Healthcare, our holding of Italian-listed hearing aid distributor Amplifon continued to perform very strongly. Recent results have suggested that the advertising investment that the company has made could be beginning to deliver in terms of top line growth which has been supportive for the share price year to date.

Sector Allocation	Portfolio Weight	Benchmark Weight	Delta
Consumer Discretionary	8.62%	15.13%	-6.51%
Consumer Staples	1.73%	4.70%	-2.97%
Energy	4.75%	3.32%	1.43%
Financials	15.67%	14.56%	1.11%
Healthcare	7.69%	8.48%	-0.79%
Industrials	27.65%	20.93%	6.72%
Information Technology	8.98%	10.79%	-1.81%
Materials	11.40%	8.30%	3.10%
Real Estate	7.04%	9.59%	-2.55%
Telecommunication Services	5.29%	1.70%	3.59%
Utilities	1.18%	2.50%	-1.32%

Source: Amundi Asset Management as at 30 April 2018
Benchmark: MSCI Europe Small Cap

Top 10 Overweights	Portfolio Weight	Benchmark Weight	Delta
UDG Healthcare	3.07%	0.21%	2.86%
Amplifon	2.90%	0.11%	2.79%
ASR Nederland	3.23%	0.47%	2.76%
CHR. Hansen	2.63%	0.00%	2.63%
Aareal Bank	2.82%	0.19%	2.63%
Rheinmetall	2.93%	0.39%	2.54%
Cellnex Telecom	2.78%	0.27%	2.51%
Logitech	2.80%	0.39%	2.41%
Alten	2.60%	0.19%	2.41%
Deutsche Wohnen	2.38%	0.00%	2.38%

Source: Amundi Asset Management as at 30 April 2018.
Benchmark: MSCI Europe Small Cap

Outlook

Right now we are seeing a consolidation in leading indicators in Europe (albeit they remain at very encouraging levels). For us, this warrants a slightly less bullish outlook when compared to our view of six months ago. It is very important to stress that we remain optimistic and that the recent softness in economic data is not falling off a cliff, but rather a logical roll over. Looking ahead, with volatility and market rotations likely to remain a prevalent feature of equity markets given the fuller valuations, we believe that a strong focus on those companies with the

ability to deliver reliable earnings will be the key to delivering upside from here. Looking at the Portfolios today, we would see our positioning as quite balanced between global and domestic, with a preference for global companies given their typically more diversified and higher growth potential. We maintain beta close to 1, and balance between cyclical and defensives.

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Date of publication: 04 April 2018

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Doc ID:490404