Monthly Portfolio Update

*Amundi Funds II – Global Equity Target Income**
30 April 2018

EQUITY COMMENTARY

Market Review

April was a positive month for the Global equity market with the MSCI World adding over 1% (in USD terms). Looking sectorally, the recovery we saw in April was broad based with nine of the eleven sectors in the green. Energy, Utilities, and Consumer Discretionary were among the top performers while Consumer Staples and Industrials lagged. Regionally, the U.S. lagged adding just over 1%, while Europe was the stand out performer adding over 4.5%, and Japan returning over 3.5% (all local currency).

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 USD, 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.

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. With bouts of volatility, and market rotations likely to become more prevalent than we have observed in recent years, we continue to seek balance - believing the best way to navigate these market conditions is by focusing on compelling idiosyncratic investment cases that have the ability to deliver EPS and dividend growth over the medium-term.

Portfolio Review

From an income standpoint, within the Portfolio we continue to seek names that offer sustainable income opportunities. Against the backdrop of a rising interest rate environment, within the Portfolio we are placing an ever increasing emphasis on dividend growth rather than optical yield. In terms of performance, April was a very positive month for the Portfolio.

As we move further into the second quarter of 2018, we can identify three clear themes within the Portfolio:

- A focus on debt sustainability – given the rising interest rate environment we believe it prudent to avoid those names that have higher levels of leverage on the balance sheets. We have found some attractive investment cases in this regard, within areas such as Information Technology.
- Seeking beneficiaries of rising rates and steeper yield curves – here we are very selective, preferring some well capitalised names within the banking sector.
- Cashflow generation stories – whereby we like names with improving cahflows helping to underpin and, potentially, grow dividends going forward. For us, dividend growth should become ever more important going forward.

In terms of Portfolio activity, April was a very muted month whereby we did not add any new, or sell any existing, positions in entirety.

We increased our holding of UK-listed international mining company Rio Tinto. We remain positive on our outlook for the underlying commodity markets, which should be supported by ongoing global economic growth that continues to come through. In addition, the Q1 production results released from the company in April offered us further confidence in our investment case as the operational performance of the business remains strong. This should help to underpin the attractive dividend, which is in excess of 5%.

We also increased our holding of Spanish-listed utility company Iberdrola. Here, we are attracted to the solid business mix of the company, the international diversification, and the high level of regulated earnings that provide good visibility in terms of earnings and cashflows. Additionally, we see that the impact of last year's droughts in Spain will begin to reverse, which should be an additional tailwind for earnings this year. Recent results highlight that the company is back on track in terms of delivery on EBITDA targets, which is key for shareholder remuneration going forward.
We also increased our holding of Japanese motor company Nissan. The share price has been under some pressure in recent months given the stronger JPY, which has hurt the export orientated business models. From a valuation perspective, we believed it offered an attractive entry point to increase our position.

On the other side, we reduced our holding of UK-listed integrated Energy company BP in the wake of some strong performance. While we continue to like the operational performance of the company, the valuation has become increasingly full.

Finally, April was also a reasonably quiet month in terms of our option writing activity. We wrote 5 call options and 3 put options, contributing positively to the income generation of the Portfolio.

Top 10 Holdings	Portfolio Weight
Royal Dutch Shell (A)	2.6%
Enel	2.4%
NTT Docomo	2.3%
TSMC	2.1%
GlaxoSmithKline	2.1%
Daimler	2.1%
Pfizer	2.0%
Johnson & Johnson	2.0%
BBVA	1.9%
BNP Paribas	1.9%

Source: Amundi Asset Management as at 30 April 2018

Outlook

Right now we are seeing a consolidation of leading global indicators (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. However, we remain optimistic in our outlook for the asset class. In our view, the ongoing positive momentum in the global economy remains intact at this point. Recent results seasons around the globe have highlighted the underlying resilience of international business models. Going forward, the ongoing delivery of earnings growth will be the most important driver of further upside. Assuming the delivery of EPS growth, coupled with cooler valuations - we see quite a supportive environment for equity markets as we move further into 2018. Within our Portfolio, we continue to favour Europe and Japan in terms of our stock selection, as valuations and sustainable income opportunities are more attractive in these regions.

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