Monthly Portfolio Update

*Amundi Funds II – Top European Players**
30 April 2018

Equity

COMMENTARY

Market Review

April was a positive month for the European equity market with the MSCI Europe adding over 4%. Looking sectorally, the recovery we saw in April was broad based with all 11 sectors in the green. Energy, Telecommunication Services, and Consumer Discretionary were among the top performers, while Consumer Staples and Healthcare lagged.

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, in April. At sector level, the Portfolio had a positive contribution from Healthcare and Energy. In contrast, some of our holdings within Consumer Discretionary and Consumer Staples detracted.

Within Healthcare, our holding of UK-listed pharmaceutical company Shire continued its recent strong performance. In April, Takeda, a Japanese pharmaceutical company confirmed that it was intent on acquiring Shire and revised its initial offer, which was clearly supportive for Shire’s share price. In addition, our exposure to Dutch-listed health technology company Philips performed well following the release of an encouraging set of Q1 results which were ahead of consensus expectations. Organic sales growth came in at 5% during the quarter, while margin expansion was 1.3% which was well received by investors. The results highlight a robust start to the year, which coupled with a reiteration of guidance allowed the share price to gain ground.

The Portfolio lost some ground within Consumer Discretionary. At stock level, our holding of auto component and tyre manufacturer Continental detracted following the announcement that the company was reducing its EBIT margin guidance as a result of FX headwinds and an inventory revaluation in its tyre business. While this hurt sentiment, we continue to believe that the underlying operational performance remains on course, and we continue to hold the position. In addition, our holding of gaming company Paddy Power Betfair lagged, as ongoing M&A within the industry may be increasing competitiveness amongst the leading players. More positively, our holding of luxury jewellery maker Richemont performed well as export data from the Swiss watch industry has been quite strong in recent months.

Energy was a source of positive performance for the Portfolio in April. The significant move higher in oil prices was clearly supportive for our holding of integrated Energy company Royal Dutch Shell which

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*Prior to 16 February 2018, Pioneer Funds – Top European Player

Amundi ASSET MANAGEMENT

Marketing Material

rebounded from some recent underperformance. In addition, our holding of oil services company TechnipFMC was also a beneficiary of the higher oil prices.

In Consumer Staples, our holding of international tobacco manufacturer British American Tobacco cost the Portfolio some performance. During the month, one of the company's peers announced that it had experienced some weakness in its alternative products in the key Japanese market. Given that British American Tobacco has extensive capabilities in the alternative space through its "heat not burn" products which are being marketed extensively in Japan, the share price came under pressure. We continue to believe that the "heat not burn" product may be a key driver of growth going forward and we maintain this position.

The Portfolio gained ground within Information Technology. At stock level, our holding of IT consultancy company Cap Gemini continued to be a rewarding position. In April, the company reported a very strong set of Q1 results with solid revenue growth coming through. Looking regionally, the important U.S. market continued to outperform with growth accelerating to 15%, while the UK also improved significantly. This, coupled with an upbeat message surrounding the outlook for the rest of the year helped the share price to outperform.

Within Materials, our holding of specialty chemicals company Croda, detracted following the release of slightly disappointing sales numbers for Q1. While the headline numbers were below expectations which weighed on the share price, divisionally the make-up of the results was quite encouraging with Personal Care and Life Sciences both performing strongly. More positively, our holding of international cement company CRH recovered from some recent underperformance. While trading conditions in Q1 remained challenging (as expected), some more positive commentary around the U.S. market, and an improved pricing environment in Europe helped to underpin the share price.

Financials detracted in April. Of our holdings, Nordic banking group SEB underperformed following the release of Q1 results which saw operating profit falling short of consensus expectations as weaker volumes in the corporate division was a clear overhang for profitability. In a more positive light, our holding of French-listed banking group BNP Paribas performed well as improving sentiment in the market helped to lift the more economically sensitive names.

Finally, within Telecommunication Services, our holding of Deutsche Telekom performed well. During the month, it was announced that the company's U.S. arm, T-Mobile U.S., was to tie up with Sprint which was a long awaited deal. This merger has long been expected, however the changing competitive landscape in the U.S. had hampered progress. While there are still regulatory approvals to be sought, the re-emergence of this deal has been well received by investors.

Sector Allocation	**Portfolio Weight**	**Benchmark Weight**	**Delta**
Consumer Discretionary	11.74%	11.00%	0.74%
Consumer Staples	10.65%	13.01%	-2.36%
Energy	8.46%	8.02%	0.44%
Financials	20.31%	20.94%	-0.63%
Health Care	17.02%	11.86%	5.16%
Industrials	13.61%	13.07%	0.54%
Information Technology	5.22%	5.02%	0.20%
Materials	8.82%	8.32%	0.50%
Real Estate	0.00%	1.37%	-1.37%
Telecommunication Serv.	3.00%	3.69%	-0.69%
Utilities	1.17%	3.70%	-2.53%

Source: Amundi Asset Management as at 30 April 2018.

Portfolio Strategy

The strategy of the Portfolio is highly stock driven. We believe that business fundamentals drive a share price over time. A bottom-up, research-driven process can add significant value and help us pursue our objective: to buy quality companies where profitability is undervalued.

Ours is a high conviction approach, which we believe optimises the value of our investment process and we are continuously using our fundamental research capabilities to uncover what we believe to be the most attractive investment opportunities within our investible universe.

There were no new additions to the Portfolio in April.

Top 10 Overweights	Portfolio Weight	Benchmark Weight	Delta
Royal Dutch Shell (B)	6.47%	1.41%	5.06%
Prudential	4.90%	0.70%	4.20%
BNP Paribas	4.58%	0.91%	3.67%
CRH	3.81%	0.31%	3.50%
Shire	3.88%	0.51%	3.37%
Danone	3.60%	0.51%	3.09%
Alstom	2.98%	0.07%	2.91%
Schneider Electric	3.06%	0.54%	2.52%
Cap Gemini	2.71%	0.23%	2.48%
Deutsche Telekom	2.98%	0.61%	2.37%

Source: Amundi Asset Management as at 30 April 2018.

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 consistent with a precipitous decline in activity, but rather a logical roll-over from very high levels. 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 could 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 slight preference for global companies given their typically more diversified and higher growth potential. We maintain Portfolio beta close to 1.0, with a broad balance between cyclicals and defensives.

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