

Monthly Portfolio Update

*Amundi Funds II – European Potential**

31 July 2018

BOND

COMMENTARY

Market Review

July was a positive month for the European equity market with the MSCI Europe adding over 3%. Small-caps underperformed during the month with the MSCI Europe Small Cap adding shy of 1.5%. For the overall market, the recovery we saw in July was broad based with all 11 sectors in the green. Healthcare, Industrials, and Consumer Staples were among the top performers, while Energy and Real Estate lagged.

Trade continued to dominate the news headlines, with fears that growing tensions between the U.S. and the rest of the world would lead to sluggish investment and slower export growth. Some of the risks have diminished in recent weeks after U.S. President Trump and European Commission President, Jean-Claude Juncker agreed a deal to stave off the impending trade dispute with Europe. This, combined with more favourable FX, better inflation and employment numbers helped to boost sentiment towards the asset class in July.

Perhaps worthy of the most attention was of course the Q2 earnings season for European companies which began in July. As we have been flagging in recent communications, for us earnings delivery remains the key to drive further upside from here. The latest results season (which is around 40% complete at the time of writing) has so far delivered mixed results. Looking across sectors, Consumer Staples and Industrials have enjoyed the broadest beats, while Energy and Consumer Discretionary have fallen short of consensus at this point. However, while earnings have been a little lacklustre to date, we are particularly encouraged by the strong revenue growth being delivered, with top line growth tracking above 6% on a weighted basis which should help to support sentiment towards the asset class.

With periods of volatility and market rotations likely to become more prevalent than we have observed in recent years, we continue to seek balance. Our view remains that the best way to navigate these market conditions is by focusing on compelling idiosyncratic

investment cases that we believe have the ability to deliver on EPS and dividend sustainability over the medium-term.

Portfolio Review

The Portfolio underperformed its benchmark, the MSCI Europe Small Cap, in July. At sector level, the Portfolio had a positive contribution from Materials and Telecommunication Services. In contrast, Financials and Information Technology detracted.

Within Materials, our holding of international bioscience company Chr.Hansen continued to be a very rewarding position. While company-specific newsflow was quite muted, there were a series of industry reports released during the month which appeared to affirm Chr.Hansen's dominant market share position in some of its key categories, such as natural flavours. While the valuation is becoming fuller, we continue to believe this is a high quality company exposed to attractive structural trends.

In Financials, the notable underperformer during the month was our holding of UK-listed financial brokerage firm TP ICAP. On Tuesday July 10th the company announced that it was facing higher costs this year and as a result full year profitability would likely fall short of expectations. In addition, the company's CEO left, causing additional nervousness amongst investors. We maintain our holding at this point. More positively, our holding of Dutch insurance company ASR continued to perform well as speculation about M&A fuelled growth in the Dutch market has underpinned investment sentiment towards the name.

Telecommunications Services was a source of positive performance. In July, our holding of towers company Cellnex performed well following the release of first half results which saw solid underlying operational and financial performance. The management confirmed that they are on track to meet full year guidance which was an additional support for the share price.

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*Prior to 16 February 2018, Pioneer Funds – European Potential

Amundi
ASSET MANAGEMENT

Marketing Material

The Portfolio lost some ground within Information Technology. At stock level, our holding of IT security firm Sophos detracted following the issuance of a trading statement that confirmed the rate of billings had slowed. As a result of increased R&D and marketing expenses saw earnings drop. We are currently reviewing the investment case in the name.

In industrials, our holding of Konecranes detracted after the company reported Q2 numbers which came in a little short of consensus expectations. While the results were not overly disappointing, given the fuller valuation of the company, any perceived weakness has been a clear headwind. More positively, our holding of Swedish defence company Saab performed well. While Q2 results were a bit lacklustre (it is a seasonally lumpy business), the company confirmed its FY guidance helped by a strong order intake.

Healthcare cost the portfolio some relative performance during the month. Our holding of Italian-listed pharmaceutical company Recordati detracted after it announced an agreement to sell a stake in the company to CVC capital for a somewhat disappointing valuation which caused some weakness in the share price. On the other side, our holding of hearing aid retailer Amplifon performed well following the announcement that the company was to acquire a leading Spanish player, GAES, which appears to be a natural fit for Amplifon's growth strategy.

Finally, in Consumer Discretionary, our holding of auto-component maker Faurecia detracted. During the month, the company reported a strong set of first half results with good revenue growth coming through. On top of this, management raised its 2018 guidance for sales growth, operating profit margin, and EPS targets. Despite this, the market appeared to focus more on the macro dynamics facing the industry with a combination of a changing regulatory environment for the auto makers and continued newsflow surrounding trade tariffs weighing on sentiment. In a more positive tone, our holding of gaming company GVC performed well after the release of very encouraging Q2 numbers.

Sector Allocation	Portfolio Weight	Benchmark Weight	Delta
Consumer Discretionary	10.96%	13.82%	-2.96%
Consumer Staples	1.66%	4.86%	-3.20%
Energy	4.82%	3.57%	1.25%
Financials	13.19%	14.79%	-1.60%
Healthcare	8.32%	8.74%	-0.42%
Industrials	27.72%	22.35%	5.37%
Information Technology	8.86%	10.42%	-1.56%
Materials	10.42%	7.63%	2.79%
Real Estate	7.22%	9.63%	-2.41%
Telecommunications Services	5.64%	1.84%	3.80%
Utilities	1.19%	2.35%	-1.16%

Source: Amundi Asset Management as at 31 July 2018
Benchmark: MSCI Europe Small Cap

Top 10 Overweights	Portfolio Weight	Benchmark Weight	Delta
CHR. Hansen	3.01%	0.00%	3.01%
Amplifon	3.12%	0.12%	3.00%
GVC Holdings	2.72%	0.00%	2.72%
SAAB	2.88%	0.21%	2.67%
Logitech	3.09%	0.48%	2.61%
ASR Nederland	3.07%	0.46%	2.61%
UDG	2.69%	0.19%	2.50%
Cellnex	2.75%	0.28%	2.47%
Deutsche Wohnen	2.46%	0.00%	2.46%
Aareal Bank	2.60%	0.18%	2.42%

Source: Amundi Asset Management as at 31 July 2018.
Benchmark: MSCI Europe Small Cap

Outlook

Looking to the second half of the year, we remain constructive on our outlook for European equities. That said, in our opinion, political uncertainty and more muted economic expansion warrant a less bullish outlook when compared to our view as we entered the year.

We maintain our view that earnings growth should be the key catalyst to drive the market higher. One important positive supporting this view is that the recent FX headwinds for earnings may switch to a tailwind in the second half of the year. Additionally, we

view the recent positive developments in the trade discussions between Europe and the US as a support for sentiment, albeit that the market requires to see the details before this risk evaporates. For us, perhaps now more than ever, we believe that a strong focus on those companies with the ability to deliver reliable earnings through the cycle, which will be the key to delivering alpha in this environment. With the prospects of rising volatility and ongoing sectoral rotations, we continue to seek balance within the portfolios with no significant sectoral or regional exposures. As fundamental bottom up stock pickers with a medium-term view, we continue to monitor the current situation, seeking to take advantage of valuation opportunities should they arise.

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