

# Quarterly Portfolio Update

## *Amundi Funds II – Top European Players\**

### 28 September 2018

EQUITY

COMMENTARY

## Market Review

September is typically a more active month for equity markets as investors return from summer vacations and position their portfolios for the final months of the year. This year, the overall European equity market added marginal gains of 0.5% for the month, taking Q3 gains to over 1%. Looking at Q3, Healthcare and Energy were among the top performing areas, while Real Estate and Telecommunication Services lagged.

While headline performance figures in Q3 were far from exciting, they mask what has been quite a volatile period for the asset class. Newsflow has been dominated by ongoing concerns about the potential impact of an escalation of a “trade war” between the US and some of its biggest trading partners including Europe and China. While global growth figures released have been robust, trending around the 4% level, investors are clearly beginning to grow increasingly anxious should President Trump’s protectionist policies dampen this positive trajectory. Adding to this, the economic crisis in Turkey grabbed headlines as the Turkish lira dropped to fresh lows against the USD. Investor’s jitters were felt most within Financials given the exposure of certain European banks to the domestic Turkish market. Closer to home, in September, we saw a resurgence of Italian political uncertainty as the government scramble to enact budget legislation which meets the demands of the EU in terms of the permissible deficit. While no clear outcome is visible at this point, the market is beginning to demand a higher risk premium for holding Italian assets – a reflection of the heightened uncertainty.

That said, it was not all bad news. We have long been of the view that the key catalyst for the European market to push higher from these levels is earnings growth. Looking at the most recent Q2 earnings season, we remain encouraged by the underlying performance of European corporates, and we continue to see EPS growth for 2018 in the region of 9% which we believe should be a key support. Our

view remains that the best way to navigate these potentially more volatile market conditions is by focusing on compelling idiosyncratic investment cases that we believe have the ability to deliver on EPS over the medium-term.

## Portfolio Review

Over the third quarter of 2018 the Portfolio underperformed its benchmark, the MSCI Europe. At sector level, the portfolio had a positive contribution from Consumer Staples and Telecommunication Services. In contrast, some of our holdings within Consumer Discretionary and Industrials detracted.

Within Consumer Staples, our holding of dairy and water company Danone performed quite strongly. The company reported a set of solid underlying H1 results. Despite the headwinds from the consumer boycott in Morocco and the strikes in Brazil, the company delivered a 7.9% rise in H1 profit, helped by strong cost control across the group which was well received by investors. In addition, our holding of UK-based consumer goods manufacturing company, Reckitt Benckiser, performed strongly. The better performance was on the back of strong H1 results, with sales growth beating expectations and a revision upwards of their full year revenue target creating positive momentum for the share price.

The portfolio lost some ground within Consumer Discretionary. At stock level, our holding of auto-component maker Continental detracted. During the quarter, the company issued a profit-warning whereby it downgraded its guidance. This caused some nervousness amongst investors which appears to have been intensified by the poor sentiment towards the auto sector at this point. Our holding of the sports betting company Paddy Power Betfair also detracted, a mixed set of results combined with various regulatory headwinds has weighed on sentiment towards the name in recent months. The recent performance has been disappointing, however during recent meetings with management we feel that good progress is being made in turning around Paddy Power brand and the gaming division and as a result we will maintain our holding.

For Professional Clients Only.

\*Prior to 16 February 2018, Pioneer Funds – Top European Players.

**Amundi**  
ASSET MANAGEMENT

Marketing Material

The portfolio gained some performance within Telecommunication Services. Most of the gains came from companies we do not own, the sector as a whole has been under pressure in recent months as the lack of earnings delivery among the companies has been a headwind for the sector.

The portfolio lost ground within Industrials. Of our holdings, the low-fare passenger airline Ryanair was the main detractor. Ryanair quarterly numbers were in-line with consensus. However, the main negative for the earnings was the softer yield guidance for the next three months. This has been moved lower to recognise the impact of strikes and disruption on revenue yields. When passengers are affected by disruptions, the airline tends to reallocate more of its late purchase seats to disrupted passengers rather than being able to sell these potentially lucrative seats. This reduces late booking yields, dragging down the overall pricing. This, combined with on-going news of strike action, created negative sentiment towards the name over the month.

Our holding in the global engineering company Smiths Group also detracted as a result a disappointing H2 2017/18 trading statement. In addition, the recent news that Smiths have been unable to agree the terms of a combination of its Medical division with ICU Medical, a US listed medical equipment group was taken as a slight negative and impacted the share price. We remain positive on the name as we continue to see positive organic growth prospects over the medium term.

Within Healthcare, our holding of biotech company Lonza continued to be a rewarding position for the portfolio following some recent encouraging results and management upgrading its 2018 guidance. In addition, Shire continued to perform strongly. At the end of July, Takeda (the acquirer of Shire), reported a good set of Q2 results which came in ahead of consensus expectations. On the other side, our holding of Bayer underperformed in the wake of the initial unfavourable ruling by a US court concerning compensation to a claim that one of the key products has been the cause of cancer. We have reviewed our investment case and we believe that the share price reaction has been too strong and we remain holders of the stock at this point.

Financials cost the portfolio some performance in August. During the month, the sector came under increased pressure in the wake of the Turkish crisis. Given the exposure of some European banks to Turkey (generally through subsidiaries) these names were hardest hit. Our holdings in BBVA and BNP

Paribas were negatively impacted by this uncertainty. BBVA being the most exposed (c. 15% earnings), but the scale of its presence in the region is still relatively small in the overall context and they have been taking management actions to mitigate potential fall-out. Fundamentally we feel BBVA is in a strong position to cope with the macro-shock. In addition, the discussion within the newly formed Italian government on whether to stay within EU budget rules further fuelled the already nervous market and created a headwind for Italian names. As result, our holding in Intesa Sanpaolo underperformed.

Finally, the portfolio lost some relative performance within Information Technology. Of note was the underperformance of IT consultancy company Cap Gemini. While the company reported very solid H1 results which came ahead of expectations, the company's full year guidance implies a slowdown in the second half of the year which appeared to cause some nervousness for investors. For us, the company's growth profile remains robust and remain comfortable with our investment case.

| Sector Allocation          | Portfolio Weight | Benchmark Weight | Delta  |
|----------------------------|------------------|------------------|--------|
| Energy                     | 8.66%            | 8.56%            | 0.10%  |
| Materials                  | 7.42%            | 8.39%            | -0.97% |
| Industrials                | 14.84%           | 13.15%           | 1.69%  |
| Consumer Discretionary     | 11.22%           | 10.65%           | 0.57%  |
| Consumer Staples           | 11.16%           | 13.35%           | -2.19% |
| Health Care                | 18.65%           | 13.09%           | 5.56%  |
| Financials                 | 18.56%           | 19.12%           | -0.56% |
| Information Technology     | 4.63%            | 5.49%            | -0.86% |
| Telecommunication Services | 3.47%            | 3.24%            | 0.22%  |
| Utilities                  | 1.19%            | 3.57%            | -2.38% |

Source: Amundi Asset Management as at 28 September 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 potentially 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.

We added two new positions in Q3:

→ **Compagnie de Saint Gobain**

Saint-Gobain manufactures glass products, high-performance materials, and construction materials. We like Saint-Gobain on valuation and we feel it is well placed to take advantage of the on-going recovery in European construction markets.

→ **Ørsted**

Ørsted is a Danish based renewable energy company that is no. 1 globally in offshore wind with market share of around 25%. We like Ørsted as we feel it enjoys first mover advantage and dominant market share in major offshore wind markets.

| Sector Allocation    | Portfolio Weight | Benchmark Weight | Delta |
|----------------------|------------------|------------------|-------|
| PRUDENTIAL           | 4.74%            | 0.65%            | 4.09% |
| DANONE               | 4.08%            | 0.52%            | 3.56% |
| SHIRE                | 4.08%            | 0.60%            | 3.47% |
| CRH                  | 3.76%            | 0.30%            | 3.46% |
| ROYAL DUTCH SHELL    | 6.37%            | 3.17%            | 3.20% |
| SIEMENS              | 4.15%            | 1.08%            | 3.07% |
| BNP PARIBAS          | 3.65%            | 0.75%            | 2.90% |
| DEUTSCHE TELEKOM     | 3.47%            | 0.59%            | 2.88% |
| RECKITT BENCKISER    | 3.42%            | 0.67%            | 2.74% |
| FINANCIERE RICHEMONT | 2.86%            | 0.47%            | 2.39% |

Source: Amundi Asset Management as at 28 September 2018.

## Outlook

The third quarter of 2018 has provided investors with fresh challenges. A combination of geopolitical unrest in Turkey coupled with ongoing newsflow surrounding the potential impact of a “trade war”, and the more uncertain political backdrop in Italy have certainly weighed on sentiment towards the asset class. While these are of course overhangs in the near-term, we continue to believe that the fundamental pillars supporting European equities are largely intact. Economic data coming out of the Eurozone has

shown a stabilisation, with PMI numbers remaining firmly in expansionary territory. Our view remains that GDP growth for the Eurozone should be in the region of 2% in 2018 with a weaker euro a clear tailwind as we move towards the end of the year. Turning to earnings, which for us remains the key catalyst for the market to move higher, we can take some solace from the most recent Q2 reporting season which showed European companies continued to deliver – most notably in terms of revenue growth. We believe that this positive EPS momentum alongside the cooler valuations in the market should act as a support going forward. 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 in the wake of bouts of short-term volatility.

### Important Information

On the 16 February 2018, Pioneer Funds was renamed Amundi Funds II. Prior to 16 February 2018 the name of the sub-fund was with the prefix “Pioneer Funds”.

This material is provided to Professional Clients, including financial intermediaries, and is not intended for and should not be provided to the public.

This document contains information about investment services provided by Amundi group companies or undertakings for collective investment in transferable securities (the “Funds”) established under the laws of Luxembourg and authorised for public distribution by the Commission de Surveillance du Secteur Financier. The management company of

- Amundi Funds, Amundi Funds II, Amundi SICAV II, Amundi Fund Solutions and First Eagle Amundi is Amundi Luxembourg S.A., 5, allée Scheffer, L-2520 Luxembourg;
- CPR Invest is CPR Asset Management, 90 Boulevard Pasteur, 75015 Paris, France;
- KBI Institutional ICAV is KBI Global Investors Ltd., 2 Harbourmaster Place, International Financial Services Centre, Dublin 1, Ireland.

This material is information purposes only, is not a recommendation, financial analysis or advice, and does not constitute a solicitation, invitation or offer to purchase or sell any the Funds or services described herein in any jurisdiction where such offer, solicitation or invitation would be unlawful.

This material has not been submitted for regulatory approval and is solely for issue in permitted jurisdictions and to persons who may receive it without breaching applicable legal or regulatory requirements. The information contained in this document is confidential and shall not, without prior written approval of Amundi Ireland Limited (“Amundi”), be copied, reproduced, modified, or distributed, to any third person or entity in any country.

The Funds described in this document may not be available to all investors and may not be registered for public distribution with the relevant authorities in all countries.

Investment involves risk. **Past performance is not a guarantee or indication of future results.** Investment return and the principal value of an investment in the Funds or other investment product may go up or down and may result in the loss of the amount originally invested. All investors should seek professional advice prior to any investment decision, in order to determine the risks associated with the investment and its suitability. It is the responsibility of investors to read the legal documents in force in particular the current prospectus for each Fund. Subscriptions in

the Funds will only be accepted on the basis of their latest prospectus and/or the Key Investor Information Document (“KIID” available in local language in EU countries of registration) which, together with the latest annual and semi-annual reports may be obtained, free of charge, at the registered office of Amundi Luxembourg S.A. or at [www.amundi.lu](http://www.amundi.lu). In Italy, this documentation is available at [www.amundi.it](http://www.amundi.it). Information relating to costs and charges of the Funds may be obtained from the KIID.

The performance data do not take account of the commissions and costs incurred on the issue and redemption of units of the Funds.

In **EEA** Member States, the content of this document is approved by Amundi for use with Professional Clients (as defined in EU Directive 2004/39/EC) only and shall not be distributed to the public. Amundi Ireland Limited is authorised and regulated by the Central Bank of Ireland. KBI Institutional ICAV is a collective investment scheme established under Irish law. Société Générale, Dublin Branch 3rd Floor, IFSC House, IFS, Dublin 1 is the facilities agent for those sub-funds of Amundi Funds, Amundi Funds II, First Eagle registered in Ireland.

In **the UK**, this document is approved for distribution by Amundi Asset Management London Branch), 41 Lothbury, London, EC2R 7HF. Amundi Asset Management is a portfolio management company authorised by the Autorité des Marchés Financiers in France and its London Branch is subject to limited regulation by the UK Financial Conduct Authority. Further information of this authorisation is available on request. Amundi Funds SICAV, First Eagle Amundi SICAV, CPR Invest SICAV, KBI Institutional ICAV and Amundi SICAV II are recognised schemes for the purposes of Section 264 of the Financial Services and Markets Act 2000 (the “FSMA”) of the UK and can be promoted and sold direct to the public in the United Kingdom subject to compliance with the FSMA and applicable regulations made thereunder. Amundi Funds II is an unregulated collective investment scheme under (“FSMA”). Potential investors in the UK should be aware that none of the protections afforded by the UK regulatory system will apply to an investment any of the Funds and that compensation will not be available under the UK Financial Services Compensation Scheme. This document is addressed only to those persons in the UK falling within one or more of the following exemptions from the restrictions in s 238 FSMA:

- authorised firms under FSMA and certain other investment professionals falling within article 14 of the FSMA (Promotion of Collective Investment Schemes) (Exemptions) Order 2001, as amended (the “CIS Order”) and their directors, officers and employees acting for such entities in relation to investment;
- high value entities falling within article 22 CIS Order and their directors, officers and employees acting for such entities in relation to investment;
- other persons who are in accordance with the Rules of the FCA prior to 1 November 2007 classified as Intermediate Customers or Market Counterparties or on or thereafter classified as Professional Clients or Eligible Counterparties.

The distribution of this document to any person in the UK not falling within one of the above categories is not permitted by Amundi Asset Management London Branch and may contravene FSMA. No person in the UK falling outside those categories should rely or act on it for any purposes whatsoever.

In **Switzerland**, this document is for Qualified Investors (as defined in Swiss Collective Investment Schemes Act of 23 June 2006 as amended or supplemented) use only and shall not be distributed to the public.

The Representative and Paying Agent for Funds registered for distribution in Switzerland are, in respect of Amundi Funds II: BNP Paribas Securities Services, Zurich Branch, Selnaustrasse 16, 8002 Zurich Amundi Funds and First Eagle Amundi: Representative - CACEIS (Switzerland) SA and Paying Agent - CACEIS Bank, Nyon Branch both at 35 Route de Signy, Case postale 2259, CH-1260 Nyon; KBI Institutional Fund SICAV: Representative –

ACOLIN Fund Services AG, Affolternstrasse 56, CH-8050 Zurich and Paying Agent – NPB Neue Privat Bank AG, Limmatquai 1, CH-8001 Zurich. Free copies of the prospectus, key investor information documents, annual and semi-annual reports, management regulations and other information are available at the representative’s address shown above.

Amundi Suisse SA has been authorized in Switzerland to distribute the Funds. Amundi Suisse SA. Amundi Suisse SA receives from Amundi Luxembourg S.A. or other Amundi group entities, compensation under article 34 al. 2bis of the OPCC (Ordonnance sur les placements collectifs de capitaux). Such compensation may constitute a part of the management fees stated in the prospectus of the Funds and further information may be obtained upon written request to Amundi Suisse S.A., 6-8 rue de Candolle 1205 Genève Suisse.

In **France**, a free prospectus is available from Amundi Asset Management, 90 boulevard Pasteur -75015 Paris - France - 437 574 452 RCS Paris France or from the centralisateur of the Funds which in the case of Amundi Funds SICAV and CPR Invest SICAV is CACEIS Bank SA, 1-3 place Valhubert, 75013 Paris and in the case of Amundi Funds II and First Eagle Amundi SICAV is Société Générale, 29 Boulevard Haussmann, 75008 Paris.

In **Germany**, for additional information on the Fund, a free prospectus may be requested from Amundi Deutschland GmbH, Arnulfstr. 124-126 80636 Munich, Germany (Tel. +49.89.99.226.0).

In **Austria** the paying agents for Funds registered for public distribution in are, in respect of Amundi Funds II and Amundi Fund Solutions: UniCredit Bank Austria AG, Schottengasse 6-8, A-1010 Vienna Amundi Funds: Meiri Bank Aktiengesellschaft, Bauernmarkt 2, A-1010 Vienna; First Eagle Amundi: Société Générale, Vienna Branch, Prinz Eugen Strasse 8 - 10/5/Top 11, A-1040 Vienna; CPR Invest: Raiffeisen Bank International AG, Am Stadtpark 9, A-1030 Wien; and KBI Institutional ICAV: Erste Bank der oesterreichischen Sparkassen AG, Am Belvedere 1, A-1100 Vienna.

In **Spain**, the Funds are foreign undertakings for collective investment registered with the CNMV and numbered Amundi Funds II (226); Amundi S.F (493); Amundi Fund Solutions (1333); Amundi Funds (61) First Eagle Amundi (111); CPR Invest (1564); and KBI Institutional ICAV (1248). Any investment in the Funds or their respective sub-funds must be made through a registered Spanish distributor. Amundi Iberia SGIIC, SAU, is the main distributor of the Funds in Spain, registered with number 31 in the CNMV’s SGIIC registry, with address at Pº de la Castellana 1, Madrid 28046. A list of all Spanish distributors may be obtained from the CNMV at [www.cnmv.es](http://www.cnmv.es). Units may only be acquired on the basis of the most recent prospectus, key investor information document and further current documentation, which may be obtained from the CNMV. In Chile and Peru, this document is approved for use by Administradora de Fondos de Pensiones/Pension Fund Administrators and other institutional investors.

In **Mexico**, this document is approved for use with institutional investors. It may not be distributed to third parties or to the public.

In **Singapore**, this document is provided solely for the use of distributors and financial advisors only and is not to be distributed to the retail public. Distribution occurs through Amundi Singapore Ltd, 80 Raffles Place #23-01, UOB Plaza 1, Singapore 048624. This document contains information about certain sub-funds of Amundi Funds and First Eagle Amundi SICAV which may be registered as recognised schemes in Singapore under the Securities and Futures Act (Cap. 289) of Singapore (“SFA”), or notified as restricted schemes under the Sixth Schedule to the Securities and Futures (Offers of Investments) (Collective Investment Schemes) Regulations 2005, while certain sub-funds of Amundi Funds II are restricted schemes. For the sub-funds or relevant share/unit classes notified as restricted schemes in Singapore, such sub-funds or relevant share/unit classes are not authorised or recognised by the Monetary Authority of Singapore (“MAS”) and are not allowed to be offered to the Singapore retail public. Accordingly, this document and the material contained

within, may not be circulated or distributed, nor may the relevant shares/units be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 304 of the SFA, (ii) to a relevant person pursuant to Section 305(1), or any person pursuant to Section 305(2), and in accordance with the conditions specified in Section 305 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. In other Asian jurisdictions, for use by licensed intermediaries only and not to be distributed to the public.

This information is not for distribution and does not constitute an offer to sell or the solicitation of any offer to buy any securities or services in **the United States** or in any of its territories or possessions subject to its jurisdiction to or for the benefit of any U.S. Person (as defined in the prospectus of the Funds). The Funds have not been registered in the United States under the Investment Company Act of 1940 and units of the Funds are not registered in the United States under the Securities Act of 1933.

This document is not intended for and no reliance can be placed on this document by persons falling outside of these categories in the above mentioned jurisdictions.

**In jurisdictions other than those specified above, this document is for the sole use of the professional clients and intermediaries to whom it is addressed. It is not to be distributed to the public or to other third parties and the use of the information provided by anyone other than the addressee is not authorised.**

This material, is based on sources that Amundi considers to be reliable at the time of publication. Data, opinions and analysis may be changed without notice. Amundi accepts no liability whatsoever, whether direct or indirect, that may arise from the use of information contained in this material. Amundi can in no way be held responsible for any decision or investment made on the basis of information contained in this material

© 2018 Morningstar. All Rights Reserved. The information, data, analyses and opinions ("Information") contained herein: (1) include the proprietary information of Morningstar; (2) may not be copied or redistributed; (3) do not constitute investment advice; (4) are provided solely for informational purposes; (5) are not warranted to be complete, accurate or timely; and (6) may be drawn from fund data published on various dates. Morningstar is not responsible for any trading decisions, damages or other losses related to the Information or its use. Please verify all of the Information before using it and don't make any investment decision except upon the advice of a professional financial adviser. Past performance is no guarantee of future results. The value and income derived from investments may go down as well as up.

The Funds or securities referred to herein are not sponsored, endorsed, or promoted by MSCI, and MSCI bears no liability with respect to any such Funds or securities or any index on which such Funds or securities are based. The offering documents of the Funds contain a more detailed description of the limited relationship MSCI has with Amundi and any relevant Funds.

Date of First Use: 4 October 2018.

Doc ID: 621064