Monthly Portfolio Update

*Amundi Funds II – European Equity Value**
31 May 2018

EQUITY COMMENTARY

Market Review

Despite recent developments surrounding the political landscape in Italy, the broad European equity market (MSCI Europe) ended May broadly unchanged. At sector level, we continue to see rotations, with IT, Materials and Healthcare among the top performers; while Telecommunication Services, Financials and Utilities lagged.

At the beginning of May, solid earnings, a weakening Euro and less talk about a U.S.-led trade war with China supported risk assets. While expectations were muted, the Q1 earnings season for European companies has been solid, with the median EPS beat of 3%. The best beats came from Energy, while Financials saw downgrades.

This more positive momentum came to an abrupt halt on 27 May when the designated Italian Prime Minister, Giuseppe Conte, gave up his mandate to form a Government. It was a reminder that until the completion of budgetary and political integration in the Eurozone, political risk can resurface at haste. In recent days some of the nervousness abated in Italy with the populist parties agreeing to form a Government, however, the mood in the markets was not helped by a deteriorating political environment in Spain.

At this point, we do not believe that the situation will derail the overall positive trajectory of the European revival. However, we may likely see shorter-term volatility as headlines drive near-term concerns, which can offer opportunity for stock pickers. Perhaps more importantly, we do not see this as a systemic risk, rather it appears to be contained within Italy and Spain at this point.

Portfolio Review

The Portfolio slightly outperformed its benchmark, the MSCI Europe Value, in May. At sector level, the Portfolio had a positive contribution from Consumer Discretionary and Financials. In contrast, the Portfolio lost some performance in Materials and Energy.

Within Consumer Discretionary, our holding of auto component manufacturer Faurecia continued to be a rewarding position for the Portfolio. At the end of April, the company reported a strong set of Q1 results, which came in significantly ahead of expectations and significantly ahead of global car production. All key product areas and all key geographies delivered robust performance, which was a clear tailwind for the share price in recent weeks.

Materials was among the top performing areas of the market during the month. As a result the Portfolio lost ground as names that we do not own performed strongly. Of our holdings, Dutch materials science company DSM performed well after the release of stellar Q1 numbers in April – which, on a headline basis, were 25% ahead of consensus expectations. The company raised its FY guidance, which was a natural support for sentiment towards the name.

Given the increased volatility in the market during the second-half of the month, and the prospect of a slower rate hiking cycle in Europe, some of the Financial names underperformed. Additionally, the widening credit spreads that we saw has had a detrimental impact on the capital position of many players in the sector, which has dampened sentiment. As a result, our underweight position within the sector was rewarding. However, our holding of Italian-based Intesa SanPaolo weighed, given its exposure to the domestic Italian economy. We maintain our position as we continue to believe that the company is in a strong capital position and has a good longer-term profitability outlook.

Energy cost the Portfolio some relative performance as names that we do not own outperformed given the higher oil prices we have seen of late. That said, our holding of integrated energy company Repsol performed well given the more supportive oil price environment and its compelling valuation.

Within Healthcare, our holding of Bayer performed strongly. At the end of the month, it was announced that the company has received conditional approval for its proposed acquisition of Monsanto from the U.S. DoJ. This was the last major regulatory hurdle for the deal, so the approval was very well received across

*Prior to 16 February 2018, Pioneer Funds – European Equity Value.

the board. Furthermore, our holding of UK-based drug maker Shire continued to be a rewarding position for the Portfolio. During the month, Takeda announced that it had reached an agreement to acquire Shire. While the deal was largely expected, this confirmation was a clear positive for the share price.

The Portfolio gave back some performance within Industrials. At stock level, our holding of Austrian aerospace and defence company FACC detracted. While company specific newsflow was quite muted, the share price appeared to be subject to some profit taking given the recent very strong performance. More positively, our holding of French train maker Alstom was a rewarding position for the Portfolio. At the beginning of the month the company released their full year numbers, which confirmed our investment case with strong growth in rail markets and margin expansion coming through. Perhaps more importantly, the company issued guidance for FY18/19, which confirmed an 8 billion Euro revenue target with EBIT margins of c.7%, which was ahead of consensus expectations. Expected synergies from the Siemens mobility business deal were an additional tailwind for the share price.

Finally, within Utilities, our holding of UK-listed National Grid performed strongly. Given the more volatile market environment we saw during the later days of the month, investors appeared to favour the more defensive nature of the company's business model.

Sector Allocation	Portfolio Weight	Benchmark Weight	Delta
Consumer Discretionary	11.90%	8.38%	3.52%
Consumer Staples	2.44%	4.16%	-1.72%
Energy	13.50%	15.49%	-1.99%
Financials	23.76%	33.62%	-9.86%
Healthcare	12.14%	8.65%	3.49%
Industrials	13.92%	6.85%	7.07%
Information Technology	3.06%	0.17%	2.89%
Materials	4.64%	7.74%	-3.10%
Real Estate	0.00%	2.62%	-2.62%
Telecommunications	5.03%	6.33%	-1.30%
Utilities	2.74%	6.00%	-3.26%

Source: Amundi Asset Management as at 31 May 2018
Benchmark: MSCI Europe Value

Outlook

Reflecting on the market environment as we approach the end of the first half of 2018, we remain constructive on our outlook for European equities. That said, political uncertainty, risks of rising protectionism, and some moderation in business sentiment indicators warrant a less bullish outlook when compared to our view as we entered the year. Looking ahead, we maintain our view that earnings growth should be the key catalyst to drive the market higher. With the underlying operating environment for European companies remaining quite robust, this should be delivered. 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 will be the key to delivering alpha in this environment. 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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