Monthly Portfolio Update

*Amundi Funds II – European Equity Target Income**
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 May 27 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 has 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

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, we are placing an ever increasing emphasis on dividend growth rather than just optical yield. From a performance perspective, May was a more challenging month for the higher dividend areas of the market. From an income perspective we are pleased with our generation to date and we remain on track to reach our target of 6.75% for 2018.

Given that we are now in the epicentre of the dividend distribution season in Europe, May was quite an active month in terms of Portfolio adjustments. As usual during these important weeks, we continue to add exposure to names which have imminent dividend distributions and whereby we have a compelling underlying investment case.

In terms of new positions, we added French-listed telecommunications operator Orange. We believe that the company enjoys a strong underlying business model which should afford good cash-flow generation and sustainable shareholder remuneration over the medium term. Prospects of possible consolidation in the French telecommunications market would be another key catalyst for the share price. Additionally, the company is scheduled to make its dividend distribution in June, which makes the timing of the addition quite compelling.

In a similar way, we increased our holdings of Italian-listed integrated energy company ENI. Here, our investment case is focused on a self-help restructuring story whereby the company is divesting non-core assets and is reinvesting in its core E&P business. This has been supportive in terms of cash flow generation, while the valuation remains attractive relative to its peers. Again, the company is due to make a dividend distribution in the coming weeks. We also added to our positions in Utilities, namely Iberdrola and Suez ahead of dividend payments.

On the other side, we reduced our holdings in some of our other Telecommunications companies. While we continue to believe in the underlying investment cases, we reduced both KPN and Deutsche Telekom as we prefer some other names at this point (from an income perspective). We also reduced our holding of German-based auto maker BMW.

We sold out of our position in retail insurance company Direct Line in the wake of the recent strong performance. While we maintain a positive outlook for the name, we now think the valuation as quite full so we felt it was prudent to remove the stock. Similarly, we took profits from our holding of international miner BHP Billiton, given the very good recent performance. Following further news-flow regarding the takeover by Takeda, we sold our holding of Shire believing that the deal looks highly likely to complete and we do not see any significant upside from here. Finally, we sold out of our holding of automobile manufacturer Daimler based on the uncertainty regarding the potential for higher import taxes in the U.S. – a key market for the company.

From an option perspective, we slightly increased our option writing given that the Q1 earnings season was largely behind us. As a reminder, we are typically more cautious in our option strategy during earnings season as volatility around single stocks increases and the probability of being exercised becomes more likely. During the month we wrote 7 call options and 4 put options.

Top 10 Holdings	Portfolio Weight
Royal Dutch Shell (A)	5.0%
BP	3.6%
ABN Amro	3.2%
Siemens	3.0%
Unilever	3.0%
HSBC	2.8%
AXA	2.8%
Deutsche Post	2.7%
Vodafone	2.7%
BNP Paribas	2.7%

Source: Amundi Asset Management as at 31 May 2018

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 given the fuller valuations. 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. With the prospects of rising volatility and ongoing sectorial rotations, we continue to seek balance within the portfolios with no significant sectorial 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.

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. In Italy, this documentation is available at 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 the 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 of the FSMA:

– authorised firms under the 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 the 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: Meinl 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. 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, 168 Robinson Road, #24-01, Capital Tower, Singapore 068912. 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.

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 publication: 6 June 2018.

Document ID: 520710