Issue No. 10 | EUROPE JUNE 2022

Rankia Pro

THE MAGAZINE FOR FUND PROFESSIONALS

Christopher Carlton

Head of Manager Research, Multi-Manager Strategies at abrdn

Macro overview

What are the long term effects of geopolitical events in the markets?

Investments

Investment opportunities in Fixed Income

Opinion

Investment opportunities in Real Estate

Selector´s point of view

Interview with the Funds Selection team at abrdn

Passive investing

ETFs investing in disrupting technologies

Privy to

What books about finance are the professionals reading?

SPECIAL INSIGHTS - IS IT TIME FOR VALUE INVESTING?

Helping fund professionals make better investment decisions

Miguel Arias
CEO and Co-Founder at Rankia

Welcome to a new edition of RankiaPRO Europe Magazine. The first half of 2022 comes to an end with equity markets marked by widespread declines, an inflationary environment, soaring energy prices, and the decision of the central banks to raise interest rates.

Despite all the events we are living this year, here at RankiaPro Europe we have kept going in the best way we know, by sharing with you compelling content and with our events. For this reason, after two years of tireless work, this June we will finally hold the very first RankiaPRO Pan-European event in Valencia (Spain) with the presence of fund selectors and fund buyers from all over Europe.

In this edition of the magazine, we wanted to focus on identifying those issues that may be important for professionals at this moment in time. In our special feature, eight fund selectors ask whether the time is right for value investing and talk about their strategies.

We focus on fixed income investment opportunities, and investments in real estate funds. We also take a look at the disruptive technologies that are coming onto the market, and the investment possibilities they offer through ETFs, and we look at what opportunities are available to invest in renewable energy, given the high cost of traditional energy due to the war in Ukraine. In addition, we asked professionals what their favourite financial sector books are, to give us some ideas for summer reading.

We have six more months of the year ahead of us, six months full of opportunities. Let's see what the markets have in store for us in the second half of the year! For now, we would also like to take this opportunity to wish you a good summer, and our desire that we can all start the following months with great enthusiasm. Whatever happens, at RankiaPro we will be here, as always, helping you in your day-to-day life to make better financial decisions.

THE MAGAZINE WITH THE BEST INVESTMENT OPINIONS

www.en.rankiapro.com/magazine

You can access the RankiaPro digital magazine anytime through any media app. Stay informed on the latest financial news and read the opinions of global leaders in the asset management industry.

In this edition we will analyse the long term effects of geopolitical events in the markets, we will look at investment opportunities in real estate and fixed income, as well as renewable energies and in our special, 8 fund selectors will disclosure their value strategies. At RankiaPro we want to be your referent of information to help you make better investment decisions.

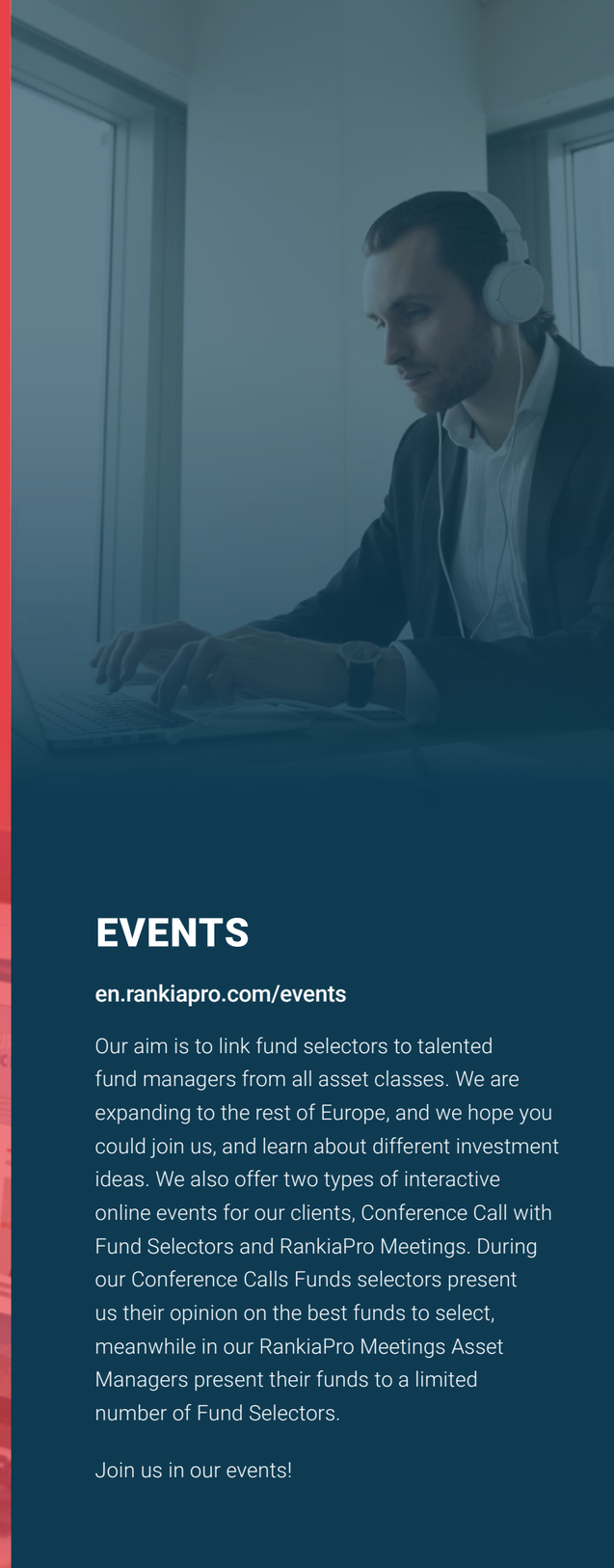
HOW DO WE DO IT?

A WEBSITE WITH ALL THE LATEST NEWS FROM THE ASSET MANAGEMENT INDUSTRY

www.en.rankiapro.com

Horizontal information exchange and peer to peer dialogues are shaping how professionals make their investment decisions. At RankiaPro we have pioneered the democratisation of information since the launch of our first magazine in 2017. At RankiaPro you will find the latest news, investment ideas, market analyses as well as interviews and collaborations from the top players. Meet your peers in the European investment community.

IF YOU WANT TO RECEIVE OUR MAGAZINE IN PHYSICAL AND DIGITAL FORMAT OR OUR NEWSLETTER, SUBSCRIBE HERE.



EVENTS

en.rankiapro.com/events

Our aim is to link fund selectors to talented fund managers from all asset classes. We are expanding to the rest of Europe, and we hope you could join us, and learn about different investment ideas. We also offer two types of interactive online events for our clients, Conference Call with Fund Selectors and RankiaPro Meetings. During our Conference Calls Funds selectors present us their opinion on the best funds to select, meanwhile in our RankiaPro Meetings Asset Managers present their funds to a limited number of Fund Selectors.

Join us in our events!

CONTENT

APPOINTMENTS 8

How is the asset management industry changing?

Discover the latest appointments around the European asset and wealth management industry.

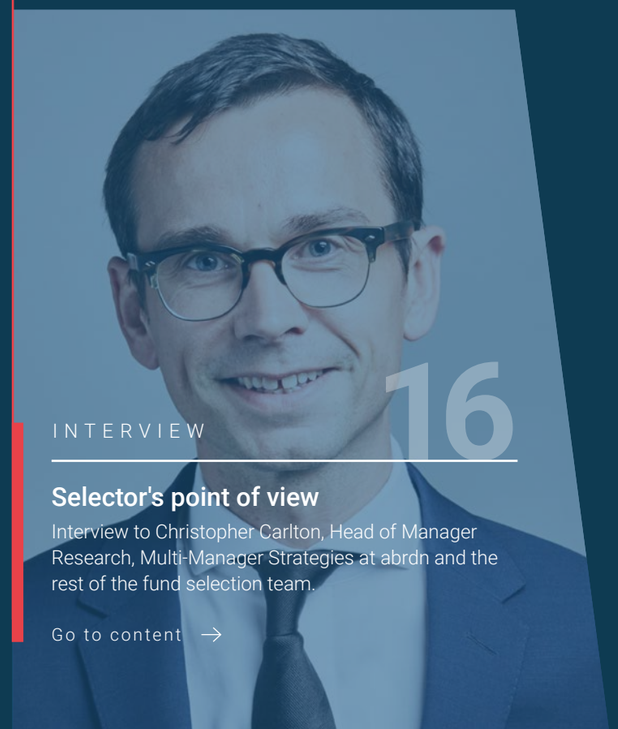
Go to content →

MACRO OVERVIEW 10

Macro overview - What are the long term effects of geopolitical events in the markets?

How the effects of the war will last in the European economy, and where we will see major effects.

Go to content →



INTERVIEW 16

Selector's point of view

Interview to Christopher Carlton, Head of Manager Research, Multi-Manager Strategies at abrdn and the rest of the fund selection team.

Go to content →

OPINION 22

Investment opportunities in Fixed Income

After many months of negative returns, are there any opportunities awaiting for investors out there?

Go to content →

SPECIAL INSIGHTS 28

Is it time for value investing?

After almost a decade of growth investing, is the time for value investing to shine? 8 fund selectors answer the question and take us through their strategies.

Go to content →

OPINION 48

Investment opportunities in Real Estate

Why invest in actual real estate when you can buy a fund that invests in real estate? As investors know, Private Real Estate as an asset class provides low volatility investment opportunities for investors.

Go to content →

PASSIVE INVESTING 52

ETFs investing in disrupting technologies

Which are the game changing technologies creating great opportunities for investors?

Go to content →

OPINION 56

Investing in renewable energies

As a consequence of the war in Ukraine, and in order to palliate the effects of the high costs, European leaders are pushing for a faster switch to renewable energy. What opportunities might offer this to investors?

Go to content →

EVENTS 58

I Rankia Funds Experience Europe

We have celebrated the first edition of the Rankia Funds Experience Europe, an event that has attracted more than 70 professionals from the asset management industry from around Europe.

Go to content →

PRIVY TO 66

What books about finance are the professionals reading?

Reading is a pleasure, and now that summer approaches it is important to have a set of good literature to take to our holidays.

Go to content →

Rankia Pro

How is the Asset Management industry changing?

Nadia Grant

BNP Paribas AM appoints Nadia Grant as Head of Global Equities. Based in London, Nadia will report to Guy Davies, CIO, Fundamental Active Equities.

BNP PARIBAS ASSET MANAGEMENT

United Kingdom

Christoph Lausecker

The international business of Federated Hermes has announced the appointment of Christoph Lausecker as a Director in its Private Debt team.

Federated Hermes International

Germany

Jean-Françoise Louvrier

Carmignac announces the appointment of Jean-François Louvrier, who joins as a portfolio manager to bolster Carmignac's long- short equities expertise.

CARMIGNAC RISK MANAGERS

France

Switzerland

Simon Guelke

La Française is pleased to announce the addition of Simon GUELKE, Sales Director, to the German business development team.

LA FRANÇAISE INVESTING TOGETHER

Jörg Allenspach

Candriam, has announced the appointment of Jörg Allenspach as Global Head of Private Assets Distribution, which is in addition to his current role as Head of Candriam Switzerland.

CANDRIAM A NEW YORK LIFE INVESTMENTS COMPANY

Frédéric Leguay

Ostrum AM, an affiliate of Natixis IM, announces the appointment of Frédéric Leguay as Head of Equities.

Ostrum ASSET MANAGEMENT

What are the long term effects of geopolitical events in the markets?

How the effects of the war will last in the European economy, and where we will see major effects.

The war on Ukraine, tensions around Taiwan – following the US-China trade war, Brexit, and other events happening in the world at the moment, will have durable implications for the European Union's economy and markets. One of the effects has been the higher prices of oil and gas, as a consequence of the dependency of the European Union on Russian gas.

Experts from Generali Investments, Pictet Asset Management, abrdn and Nordea share their views on the implications of the geopolitical events in the European economy.

It is possible that, as our experts say, for a year or two the influence on inflation and growth will be felt globally. They believe that, if oil prices remain 50% above pre-invasion levels, we expect global GDP to fall 0.4% in 2022. Domestic production may be reduced by 6% in Russia, with its inflation at 12%, risk of bank failures and collapse of its financial system, external default and a balance of payments crisis.

Vincent Chaigneau
Head of Research at Generali Investments

The **war on Ukraine has had a profound impact on global financial markets.** That "legacy" is likely to go beyond the near-term cyclical effects. The war can be seen as another exogeneous, stagflationary shock, fanning Covid-related supply chain disruptions and energy transition issues. High inflation and nascent recession fears put central banks and governments in a difficult spot. The latter need to cushion the loss of consumer purchasing power, hence fiscal policy is generally not reversing as fast as monetary policy. For now, central banks are **"walking the (hawkish) talk"** but we expect the Fed to turn less aggressive by late summer as deteriorating economic conditions take their toll. In the meantime, expect equity and High Yield credit markets to remain shaky.

Longer term, the war on Ukraine, as well as tensions around Taiwan – following the US-China trade war, Brexit etc. – confirm a more volatile geopolitical environment. This may reflect a changing world order – a **"new era of multipolarity"**, as China and Russia call it. This has led US Treasury Secretary Janet Yellen to promote "friend-shoring", or the commitment to working with countries that share a set of norms and values. Such reallocation will likely deteriorate the growth/inflation mix – not good news for financial returns in the long run. Enhanced national security-related investment exclusion may also reduce diversification opportunities, and cause a greater investment home bias; **increasing portfolio concentration is rarely a good idea.** In any case, investors should learn to better manage geopolitical risks, with a more systematic approach to scanning, quantifying, and mitigating risks.

The war on Ukraine will have other durable implications for the European Union's economy and markets. **It is a stark reminder that the EU relies on the US for military security and Russia for energy.** One may also include the agricultural reliance on Ukraine and Russia. Reducing those dependencies, while still enforcing the greening of the EU agriculture and energy, will prove costly.

A new **"impossible trinity"** may be developing: **how to secure greater autonomy, while keeping national public debts sustainable and preserving social and political stability?** Some of the euro area construction flaws remain, such as the incomplete banking union and limited fiscal integration. It appears urgent to either **increase fiscal integration or build new protection mechanisms** – like the ESM's proposed stability fund. In the meantime, the ECB is left with a key role in leaning against renewed fragmentation risks - a tougher task in a high inflation environment (no more money printing).

Finally, **the war will durably impact ESG investing.** ESG funds have generally underperformed over the past year, which has questioned their presumed greater resilience to shocks. To a large extent, this reflects the outperformance of fossil fuel producers and defence companies through the war – both sectors had large underweights in ESG funds. This reminds us that **ESG investing too deserves a macro layer of analysis.** ESG is a very dynamic, fast-moving area. Typically, the ostracization of the defence sector is fast diminishing, as "defence in not attack". The environment (E) will remain front and centre, but high inflation also increases inequality concerns, making the social factor (S) ever more important, while Governance also comes into focus for Sovereigns in this new World order.

Sabrina Khanniche

Economist at Pictet Asset Management

The **Russian invasion of Ukraine**, the largest military conflict in Europe since World War II, is a reminder of the latent idiosyncratic geopolitical risks in emerging economies, with greater uncertainty about growth and inflation, and may be durable effects.

For a year or two the influence on inflation and growth will be felt globally. In fact, **if oil prices remain 50% above pre-invasion levels, we expect global GDP to fall 0.4% in 2022.** Domestic production may be reduced by 6% in Russia, with its inflation at 12%, risk of bank failures and collapse of its financial system, external default and a balance of payments crisis.

At the same time, the **Russian invasion has highlighted the importance of environmental, social and, especially, governance investment in emerging markets**, with respect to which some countries are particularly exposed to foreign investors outflows. It should be noted that Russia's role as exporter of raw materials is significant for emerging markets, including non-energy materials, industrial metals and wood. Both Russia and Ukraine are major producers of wheat, corn and sunflower oil, and Eurasia and parts of **North Africa rely heavily on Russian and Ukrainian exports.** Hence, many emerging economies have been among the big losers of the price shock. Turkey, several Central and Eastern European states and Baltic countries are heavily exposed to Russia and Ukraine, while India and the Philippines are vulnerable, given their dependence on raw materials. In addition, **poorer nations, where populations spend a greater share of income on food and energy, suffer from higher inflation, which can affect their political stability.** However, others, as Indonesia and Malaysia, rich in raw materials, are main beneficiaries. Asia is relatively isolated, as neither Russia nor Ukraine are particularly significant trading partners. Other countries with few natural resources, as South Korea and Singapore, have strong foreign exchange reserves and external surpluses. Overall, the **emerging markets that can benefit most** are Thailand, Argentina, Poland and Brazil and the **most vulnerable** are Taiwan, Philippines, Croatia and Romania.

As for China, **Russia accounts for 2% of Chinese exports**, although Russia depends on Chinese goods. But the war has allowed **China to secure Russian oil and gas at reduced prices**, going well for its long-term inflation. In addition, the risk of conflict in Taiwan may decrease, given the concerted and unified response to Russia. Anyhow, **the result of the invasion may be a rebalancing of power between the US and China.** In fact, one of the only ways Russia has to interact with the world is through the Chinese renminbi. This may encourage other governments to look to China as an alternative to US financial hegemony. The "militarization of finance" may push China to accelerate the development of its own payment system and encourage commodity-producing countries to price their products in currencies other than dollars. While the degree to which it can succeed is in question, the dollar's hegemony could be permanently affected. For the time being, the **Russian invasion has made it clear to investors the desirability of holding dollar assets.**

> **The Russian invasion has highlighted the importance of environmental, social and, especially, governance investment in emerging markets**

For most of the past 30 years the **prevailing wisdom in markets was that geopolitical events represented more noise than signal.** Sure, markets might react negatively at the moment. But if one kept calm and focused on the long-term fundamental outlook for growth and earnings, politically driven dips were more buying opportunities than reasons to divest.

Like most market narratives, the **'noise' hypothesis** does contain a kernel of truth. The list of conflicts, terrorist attacks and episodes of brinkmanship that only temporarily rattled markets is a long one. However, it is also **misleading in two important ways.**

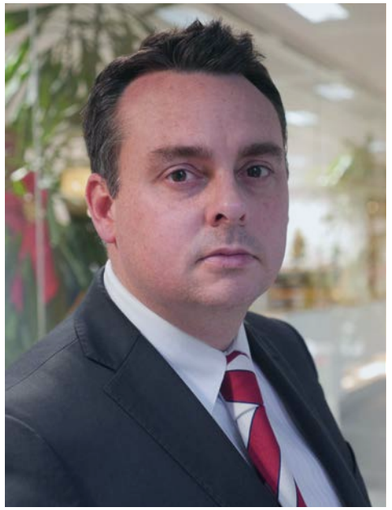
The first is that there is also a long list of geopolitical crises that did have lasting effects. The **1973 oil shock** was precipitated by the fallout from the Yom Kippur war. The **collapse of the Berlin Wall** had economic and market ramifications for Germany that last to this day. And the British Pound has still not recovered from the **UK's decision to leave the EU.** Just to name a few.

The second is that the effect of geopolitics on markets is often not through single events, but instead via slower burning, long-term structural changes.

Take globalisation. Its heyday in the 1990s and early 2000s can't be attributed to a single meeting or decision. It was the product of a political consensus that viewed the promotion of **integrated markets as integral to economic development.** And it proved a multi-decade tailwind to markets as it helped elevate corporate margins, especially for multinationals, as well as the fuller participation of emerging economies on the world stage. It is not an exaggeration to say that without globalisation, there could not have been a Chinese growth miracle.

Similarly, and more troublingly, the chipping away of support for globalisation over the past 15 years has been a death by a thousand cuts. Reduced willingness to negotiate new multilateral trade deals. Rising non-tariff barriers to global trade. America's decision to spark a trade war with China. Brexit. Even the war in Ukraine.

Each are symbols of a fracturing global order with profound, and largely negative long-term implications for markets. And this fracturing has been largely due to social, political and economic changes within societies that have undermined the previous consensus.



Jeremy Lawson

Chief economist and head of the abrdn Research Institute

> **The list of conflicts, terrorist attacks and episodes of brinkmanship that only temporarily rattled markets is a long one**

Or turning our attention to the climate crisis, it is a classic example of a collective market and policy failure. Critically, whether the world takes sufficient action to limit warming below two degrees will be decided in the political arena.

The upshot is that despite many market participants' desire to treat geopolitics as noise, it is anything but, as we like to say at abrdn – **politics dictates policy**, which influences the economy, which underpins asset valuations. Dig deeply enough, and everything is geopolitical.

Sebastien Galy
Senior Macro Strategist at Nordea Asset Management

Geopolitical risks since the end of the Soviet Union ebbed away but are coming back with a vengeance as China surges on the global scene, with Russia in its wake. Meanwhile the entire Middle East is constantly rejigging and India's economy evolves too slowly in a dangerous neighbourhood. We suspect **geopolitical risks** will coalesce around: **Supply chains, ESG/Climate, National Security, Instability in Russia, Debt trap especially in EM**, the cycle of innovation and unexpected consequences.

In a period of heightened geopolitical tensions, the **West and East are likely to rethink their supply chains to minimise strategic risks especially in high added value goods and services.** Conversely, where the national security pressure is not there, the process of outsourcing to cheap countries and producing when possible close to customers should accelerate in a search for profit.

In parallel, **climate action is likely to become ever more important** in the coming decades with many countries skirting their global priorities for a purely domestic agenda. At the same time, climate change means that some of these countries will increasingly suffer the cost of inaction forcing them to belatedly catch-up – but it is an uneven process of winners and losers. Countries which move ahead are likely to impose import Carbon taxes on polluters creating political frictions. As a consequence, some EM manufacturing countries will prefer to weaken their currencies to pass on the ESG costs. The problem that won't be solved without innovation is that the global bio supply-chain is not productive enough to sustain population growth. Finally, those with less income, hurt by ESG costs, will rightfully be a rising and powerful force politically.

One important aspect is that **many governments have accumulated heavy debt loads** when growth globally is structurally slowing down on the back of ESG cost integration, the end of the easy ride up in many emerging markets (excluding Africa) and partial deglobalization which had deflated prices. Such heavy debt loads are already a great difficulty in parts of Emerging Markets (e.g. Sri Lanka) and as growth slows this is likely to become an ever greater concern.

Another important point is that the **cycle of innovation is in part a function of public investment,** laws and the right investments in education both by the state and students. The good news is that the need for innovation faced with climate change and a surge in political tensions between East and West should mean significant investments. We are also due at a guess a major structural breakthrough in the next 50 years which will fundamentally alter the global landscape. The race for AIs is likely to sharply accelerate with slow progress in a very complex problem.

Finally, the unexpected is part of what we have to deal with, all of which suggests **finding the right point to load onto factors and styles such as ESG for a long-term that is harder to forecast.**

In a period of heightened geopolitical tensions, the West and East are likely to rethink their supply chains to minimise strategic risks especially in high added value goods and services

Interview with the Funds Selection team at abrdn

We have interviewed Christopher Carlton, who is the Head of Manager Research, Multi-Manager Strategies at abrdn, and the fund selection team.

Katie Trowsdale

Head of Multi-Manager Strategies

Katie is head of the Multi-Manager Strategies team at abrdn, where she is co-manager of the Flagship MyFolio fund range. Katie joined abrdn in 2011 and has over 21 years of investment experience. Prior to this, she was portfolio manager for the Gartmore fund of fund team where she worked since 2007. Previously, Katie was a private client portfolio manager and fund of fund manager at Kleinwort Benson Private bank and Heartwood Wealth. Katie graduated with a BSc in Economics and Management with German from Southampton University. She is a chartered member of the Institute for Securities and Investment and holds the Investment Management Certificate.

Christopher Carlton

Head of Manager Research

Chris is head of manager research for the Multi-Manager Strategies team at abrdn. He is responsible for the research process that supports the selection and oversight of both active and passive managers. Before joining abrdn in 2022, Chris was most recently at BNY Mellon, where he led International manager research and client consulting for the Investor Solutions business. He has more than 20 years of investment experience in both traditional and alternative asset classes, concentrated in manager research and the oversight of multi-manager portfolios. Chris has a BA from Oxford University and an MBA with a concentration in finance from Bayes Business School. He also holds the Investment Management Certificate.

Dee Jones

Head of Investment Platform

Dee Jones is the Head of Investment Data Platform within the Multi-Manager Strategies team and is responsible for leading a team of Investment Data Principals whilst working closely with Investment Managers on their portfolios and overseeing research support of the Investment Analysts. Dee joined the company in September 2012 from Standard Life Assurance where she was responsible for the business management of Regional Offices in the South. Dee passed Level I of the CIPM Program in 2021 and is a 2021 Level II candidate.

1 Could you please tell us about the Fund Selection process at abrdn?

Fund selection is central to what we do on the **Multi Manager Strategies** team at abrdn and we have built an experienced team and a thorough process to support it.

Put simply, **we aim to be invested in funds where the manager has a well-defined, consistent approach and has demonstrated skill in executing this.** However, we are mindful that fund selection does not occur in isolation and investments must also always be analysed in the context of the role they are expected to play in a portfolio. Our portfolio managers use analysts' detailed research to build asset class level blends of funds that are then used in client portfolios.

Lastly, while we aim to be long term investors in funds, **we are constantly refreshing our views on our holdings and the available universe** in order to ensure we have the best exposures we can in each strategy.

2 How many people are in your team, and how is it organised?

We are a **team of 20 headed by Katie Trowsdale.** There are six people who are dedicated fund analysts, including one with a specific focus on ESG. In addition, there are five portfolio managers, headed on the active side of our offering by Rob Bowie and on the passive side by Justin Jones; as well as being PMs all five also have fund analysis responsibilities. We have divided the fund universe into 28 sectors and each of these sectors is covered by two members of the investment team.

The **investment group is supported by an investment platform managed by Dee Jones.** This team looks after the operational aspects of researching funds and managing portfolios. It also contains dedicated data science resources to constantly evolve and improve the information that the team has access to and the way that it uses it.

3 What parts of your role do you find more challenging? And what parts would you say are the most interesting to you?

I am very fortunate to have **a role that is consistently interesting and constantly challenging you to reconsider your views.** Being a 'process geek', I would say that I am always fascinated by the way that managers translate their micro and macro level views into portfolio positioning and individual buy and sell decisions.

In terms of the biggest challenge, it is **trying to ensure that we have understood the fund's risk and return profile from every possible angle.** I believe we already do a very good job in this regard, but we have to continually evolve and improve, as markets, strategies and the information available to us also evolves.

4 What aspects do you consider more important when selecting a fund for a portfolio? And what metrics do you take into account when selecting a fund?

As I mentioned, we look for strategies that are clearly defined, and where a manager has demonstrable skill in execution. I would also add that **we need to be able to gain confidence** that the manager has the resources to execute on a continuous basis and that they are actually doing so.

To do this we make use of traditional analysis tools such as **Morningstar or Bloomberg Port**, however we are also big users of **Style Analytics** in order to gain a better quantitative description of the fund exposure to factors such as Value, Growth, Quality, Size, etc. We look at this in the context of the conversations that we have with the manager, and to understand how the fund is currently positioned, and how exposures have shifted through time.

> **We aim to be invested in funds where the manager has a well-defined, consistent approach and has demonstrated skill in executing this**

5 What processes do you have in place to identify a good manager?

Investment ideas come from a deep knowledge of the available universe of managers as well as intelligent and focused screening techniques. Once an idea has passed this initial stage we use a range **of quantitative techniques to better understand the fund's risk and return characteristics**, the nature of the underlying holdings and the manager's stylistic and behavioural biases.

This desk-based research is then the basis for multiple face-to-face meetings with the fund manager and broader investment team, to dig further into the strategy and understand how that group comes together to generate returns and manage risks. While some of this work is by its nature backward-looking, our aim is to generate a **forward-looking view** on the team's future capacity to generate performance.

Once the quantitative and qualitative research is complete, a full report is submitted for approval. At this stage the report is scrutinised by the whole investment team, giving us the opportunity to apply the collective investment and fund research experience of the Multi Manager group.

6 Do you have any red lines when selecting a fund? Are there any sectors, or themes where you would never invest in?

Our investment approach is to be liquid, long-term and evidence driven. This generally means that **we are trying to isolate the particular skill of an investment team and blend it with other funds in the portfolios** to achieve the desired risk return profile of the client.

So, while we have very little in the way of 'red lines' from a strategy perspective, this approach tends to lead us away from asset classes or strategies with liquidity mis-matches, short track records or opaque performance drivers. It also means that we do not look to try and 'time' trades in specific sectors through our fund selection.

7 How important is it to have a market opinion when choosing the product?

Our team is part of the Multi Asset group within abrdn so **we are able to supplement our own insights and experience with the perspectives of our colleagues**; including in-house economists, PMs and analysts who are running a range of multi asset products. All of this offers an exceptional set of resources to draw upon to form our medium- and long-term market views.

Having said this, our own market opinion is an exceptionally limited component of the fund selection process, where we concentrate on understanding and interrogating the nature of the fund's strategy and the extent of the investment team's skill. It does, however, become important when our PMs construct portfolios, blending the exposures provided by different approved funds in order to capture strategic and tactical market opportunities.

8 What sectors or geographical areas do your team find more interesting at the moment?

As a team we are spending a lot of time thinking about how we ensure that we have asset classes and fund exposures in our clients' portfolios that will provide diversification during markets that are volatile or which will benefit in a generally higher inflationary environment.

We are particularly focused on identifying funds with these characteristics in the strategic bond, absolute return bond and macro strategy buckets. We have also been looking closely at real estate and infrastructure strategies.

It is worth pointing out that we already have exposure to all of the strategies I have mentioned, so this exercise is about refreshing our view on the options available to us.

We are mindful that fund selection does not occur in isolation and investments must also always be analysed in the context of the role they are expected to play in a portfolio

9 How are you navigating the current inflation and volatility in the markets?

Because of our approach of selecting strong managers with a well-defined, consistent strategy and then blending these funds in our clients' portfolios to achieve the desired risk return, the recent market volatility has not caused any fund turnover.

We have, however, **been active in understanding how funds are positioned.** In our conversations with our fixed income managers, the focus has been on current duration positioning and how this might evolve in a range of scenarios. Within the equity portion of the book, we have been drilling into attribution and underlying style exposures.

At the portfolio level, our **PMs have used the input from abrdn's multi asset Tactical Asset Allocation** group to adjust exposures as required, but generally these tilts have been small and we have been satisfied with how our funds have held up through a challenging period.

10 Which sectors and trends do you think will perform better in this second half of the year?

Between geo-political events, **ongoing inflationary pressures and a changing monetary policy environment**, 'certainty' currently feels like it is in pretty short supply. Consequently, when we think about the second half of the year we have been concentrating more than ever on identifying those funds that will be able to bring diversification benefits to our client portfolios, either by virtue of their strategy (such as strategic bonds or absolute return) or through the characteristics of the asset class (e.g. real estate).

Looking at the growth segment of the portfolio, we have generally been favouring larger market cap equities in developed markets, with moderate overweight exposure to the UK, and to a lesser extent the United States. However, we certainly stand ready to adjust this exposure as the year progresses.

Meeting the other members of the fund selection team

Justin Jones
Senior Investment Manager

Robert Bowie
Senior Investment Manager

Asim Qadri
Investment Analyst

Prince Ehigiator
Investment Analyst

Rickey Thevakarrunai
Senior Investment Analyst

Sophie Meatyard
Investment Analyst ESG

Tom Rosser
Investment Analyst

Axel Galion
Senior Full Stack Engineer

Feryal Bensalah
Snr Portfolio Mgt Assistant

Jacob Kasaska
Portfolio Management and Research Assistant

Thanos Smaragdas
Data Analyst - Multi Manager Strategies

Wilma Rensburg
Senior Portfolio Management & Research Assistant

Daniel Reynolds
Investment Manager

Lyndon Gill
Senior Investment Manager

Mark Lane
Senior Investment Manager

Taylor Jenkins
Portfolio Management Support

Maju Thangarajah
Trainee

Investment opportunities in Fixed Income

After many months of negative returns, are there any opportunities awaiting for investors out there?

Since the beginning of the year, fixed income asset classes have had significant negative returns. And traditional strategies have failed to provide to portfolios the stability these investments are meant to.

Under the current circumstances of the markets, and with central banks raising interest rates, we have asked the professionals to analyse the opportunities that could be still available in Fixed income, and to take us through the different asset classes and geographies which could be interesting for investors.

Eduardo Sánchez
Head of Fixed Income and Absolute Return Research at Square Mile Investment Consulting & Research Limited

The last few months have been one of the worst periods on record for fixed income assets, with significant negative returns across asset classes from government bonds to investment grade corporates, high yield corporates, and emerging markets debt.

After years of loose monetary and fiscal policies, and in response to high levels of inflation, the **West's leading central banks have pivoted to a tighter monetary stance by hiking interest rates and seeking to reduce some of the stimulus and liquidity injected** into the market since the global financial crisis. This has been extremely painful for existing government bond assets. Moreover, credit spreads have also suffered from weakening economic data, the uncertainty of the war in Ukraine and China's reduced economic activity due to strict covid lockdowns.

In such an environment, **traditional fixed income strategies** have struggled to provide the diversification from equities, low volatility, stable income generation and capital preservation that investors hope for from these investments. Nevertheless, some parts of the fixed income market have avoided dramatic losses and maintained a low volatility and capital preservation profile.

In an environment where the uncertainties of the last few quarters continue, **we have identified three categories of fixed income funds** worthy of investors' attention, which can reduce volatility, protect capital and generate income in an ongoing environment of rising rates.

- **High quality, low duration strategies.** Funds investing in short-dated corporate investment grade bonds provide a stable income, which is substantially higher due to the recent repricing, and have limited sensitivity to interest rates moves. In this space we like the AXA Sterling Credit Short Duration fund.
- **Low volatility/capital preservation-oriented strategic bond funds.** Funds combining different sources of returns across the fixed income spectrum, with active management of credit and duration risk within a conservative mindset. One of our favoured funds in this space is the M&G UK Inflation Linked Corporate Bond fund.
- **Specialist fixed income funds that invest in floating rate bonds.** These securities pay floating rate coupons that will rise as interest rates rise, thus eliminating the interest rate risk. In this space, the TwentyFour Monument Bond fund stands out, with its investment grade asset backed securities backed by a pool of high quality loans (often mortgages). If looking to attain a higher yield, the M&G Global Floating Rate High Yield fund provides access to sub-investment grade corporate bonds with floating rate coupons, is another option in this space.

However, the circumstances now are different as the world has moved on. First, **interest rates have risen considerably, thus providing a higher cushion to protect capital should we see further upward moves in rates.** Second, if we move into a recessionary scenario—as many fear—central banks would be unlikely to maintain their hawkish interest rate stance. Indeed, many flexible bond managers have already increased their interest rate exposure as they foresee a reversal in the dramatic increases in yields. One of our favoured funds for this scenario is Waverton Sterling Bond.

As markets are adapting to the new environment of **higher inflation and higher yields**, we believe fixed income assets are, in fact, now in a stronger position to regain their role in diversifying portfolios.

Lucas Strojny, CAIA
Multi-Asset Portfolio Manager at Meeschaert Amilton AM

Nowhere to hide! The beginning of the year has been characterised by ample and generalised asset repricing. **Tighter monetary policy, elevated inflation, the war in Ukraine, supply chain disruptions**, and global growth concerns amid lockdowns in China are weighing on the performance of risky assets. US and Euro high-yield corporate bonds have sold off sharply with spreads reaching their highest level since the covid vaccine announcement in November 2020.

A restrictive **Fed policy** usually passes through the economy within a year and a half before it gets complicated. However, risky assets usually price this impact six to nine months in advance. The year-to-date repricing in risky assets thus occurs at a much earlier stage than usual, generating opportunities for fixed income investors despite some long term issues.

In the credit space, the magnitude and promptness of the sell-off now allow for investing in positive territories in almost all the credit curves. While **we may face some volatility over the coming months**, we still expect a low level of default that will support the asset class. Moreover, capitulation has progressed much further in credit than in equities if we look at the level of redemption per dollar invested over the past years, meaning that risk-on could appear first in bonds.

In the government bond space, while there is a clear path towards **restrictive policy from all the Central Banks in the developed and emerging world**, The economic and inflation trends may generate some divergence in the dynamic around the globe allowing geographic or yield curve arbitrage.

In the US, the **10Y yield rose to around 3%**, in May. Most of the rise came from real rates, now back in positive territories, while breakeven rates haven't changed much. With the current declining economic pulse, high real rates send a misleading signal of improving growth and we expect US rates to normalise.

In Europe, **ECB President Christine Lagarde** provided a clear signal that Eurozone policymakers are preparing to start raising interest rates this summer and that the disinflationary dynamics of the past decade are unlikely to return. In this environment, hedging the duration risk might still offer some return as well as exposure to inflation-linked bonds.

> **While we may face some volatility over the coming months, we still expect a low level of default that will support the asset class**

Over the past two years we faced unique market conditions, some of which have never been seen in modern history, such as the pandemic, negative interest rates and the lowest spreads in history, strong inflationary pressures and finally the onset of a War.

One of these situations occurred with the outbreak of the pandemic in 2020, where we experienced a crisis above all of credit, even if no type of bond instrument was exempt from losses. Both in Europe and globally, and in the investment grade segment, including government bonds, which lost 5%, and in the high yield or emerging market debt, which lost around 18%.

That said, the exceptional joint intervention of central banks and governments has made it possible to stabilise the markets, restoring confidence and allowing an extraordinary recovery especially in the context of bonds exposed to credit risk.

Another similar situation we have been experiencing since the beginning of this year, when the outbreak of the war heavily exacerbated some concerns started in the last quarter of 2021 related to the growth of inflation.

In this correction again, **all the bond components marked significant depreciations**: especially in the investment grade sector where drawdowns were even worse than those during the covid.

What can we expect in these scenarios?

Bond markets benefited from a long period of rate cuts to unprecedented levels generating substantial capital appreciation for investors. After 40 years, however, inflation reappeared with a consequent expectation of a rise in rates, which led to a repricing of the securities by adjusting the implicit yield to the new expected rates, causing substantial capital losses on the nominal value of bonds.

The **positive aspect** is that from now on, by purchasing new issues, the underlying coupons of new emissions will be greater and therefore even the safest bonds will return to having an attractive coupon yield. So, while in recent years bond returns have mainly benefited from the appreciation of the nominal value thanks to the constant decline in rates, today we look to a future with more interesting coupon flows. It must be said, however, that **inflation remains a point of attention** as the coupon levels will probably not be sufficient to generate positive net real returns for final investors.

Charles Diebel
Head of Fixed Income at MIFL

Valuations are attractive especially as the tightening of financial conditions globally has started to generate growth concerns going forward. As such layering in some duration exposure is a valid consideration at this point, especially where a material amount of tightening has been priced in such as in the UST market. Likewise, some selective Emerging markets have been very aggressive in tackling inflationary risks such as Brazil and Mexico which likewise have the support of being commodity exporters and are somewhat immunised as a result. Lastly the **credit space offers some good opportunities after the recent widening in spreads as pricing now discounts recessionary levels**, but we would suggest lower beta Investment grade opportunities are best in what remains an uncertain and somewhat fluid outlook.

Barry Cowen
Head of Model Portfolio Services (MPS) and Senior Fund Manager at Sanlam Wealth

Fixed income's poor performance since the Powe-ll pivot in late 2021 will have surprised few. A large percentage of the market was trading with negative nominal yield and significantly lower real yields. Zero Interest Rate Policies (ZIRP) and Quantitative Easing from many central banks ensured rates stayed low along the curve.

Through 2021 **western central banks** were in denial about the degree of inflation they had triggered. To be sympathetic, without the continuing zero tolerance Covid policy in China and the Russian invasion of Ukraine, the supply side may have been far less challenged, and inflation levels somewhat lower than we are now seeing.

While supply constraints persist, demand needs moderating. Two things may achieve that. Higher prices, in themselves a drag on demand volume, and/or a withdrawal of liquidity. Both potentially bad news for bond markets.

Yet finally, after a decade of final suppression, this may mean some value re-emerging.

A natural **error** many investors make is to **compare the yield** (the future return) **to the current CPI rate** - the change in prices over the past 12 months, to derive a 'real yield'. Future inflation may be higher or lower than last year's! A forward inflation view is required.

Emerging Market debt is one area that appears attractive. The Brazilian (Selic Rate) is at 12.75%, inflation 12.1%. **Brazil has seen inflation average a little over 5% since 2000.** While inflation may well be elevated in the next few years, a 10 year yield near 12.7% appears to cover off a fair amount of that risk.

High Yield spreads near 4.5% against US Treasury yields just under 3%, offering a carry near 7.5%. Investment Grade too is offering some value, with spreads, and yields higher than they have been for most of the last decade.

The question then for fixed income investors is **how sticky will inflation be?** What return should they demand over 5-10years to offset its effects and a likely pick up in default rates?

Socially conscious governments in many western jurisdictions appear prepared to offer fiscal support to help consumers deal with inflation, increasing the risk that inflation does remain sticky. We expect it to drop back slowly.

That can mean **higher interest rates** for longer weighing on balance sheets increasing default risk offset by higher levels of nominal growth in earnings, boosted by inflation, moderating leverage and default risk. There will be winners and losers.

Positively, **China may be beginning to recognise the economic impact of its lockdowns**, which seem set to ease, if slowly; high prices are proving something of a cure, in themselves, for demand; and market interest rates are already appearing to have some slowing impact on economies. That suggests there is a chance that inflation is near its peak and could drop back almost as quickly as it appeared.

Against such a backdrop the logic to remain as underweight to fixed income as many have rightly been, is now less compelling, and some reduction of material underweights now probably makes sense.

SPECIAL INSIGHTS

IS IT TIME FOR VALUE INVESTING?

After almost a decade of growth investing, is the time for value investing to shine?

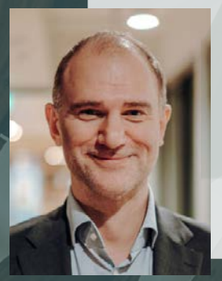
Value stocks come from larger and more well-established companies which are undervalued, due to the size of the companies and reputation, they are, at least theoretically, considered to have a lower level of risk and volatility associated with them.

After almost a decade of growth investing, the increasing inflation, and the decision of central banks to also raise interest rates, have created the perfect opportunity for value investing.

The fund selectors have analysed if it is time for value investing to shine, and on this note, have shared with us their strategies to implement value investing, as well as their preferred funds within this category.

Growth investors were in for a rude awakening when inflation spiked at the turn of 2022 and Central Banks clambered to regain control by pointing towards aggressive monetary tightening. Since many low-earning, high-Growth companies have not yet existed for a full cycle, their ability to pass on the impact of higher inflation to their customer base is questionable.

Richard Rainback, CFA, *Fund Analyst at EFG Asset Management (UK) Limited*



Looking back at times like the peak in March of 2000 (tech bubble) and note that nearly 22 years later nobody still doesn't know what the catalyst was for it stopping there. But, while timing will always be bedevilling, it's possible that the odds get better the crazier prices get, and the medium-term expected returns get better too.

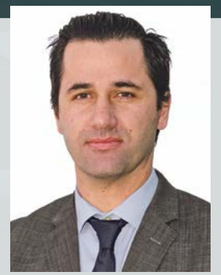
Ingo Kürpick, *Managing Director at Wachstum und Value Finanzportfolioverwaltung GmbH*

Value recently took its revenge after years of underperformance versus Growth. In that context, time might have come to rebalance portfolios that mechanically drifted towards Growth with Value funds in order to maintain a diversified investment style exposure.

Pierre Jimenez, CFA, *Mutual Fund Analyst at Société Générale Private Banking*

Value investors typically have a contrarian mindset and often must be patient for their stock to close the gap with the intrinsic value. Value investing is not always in favour and may suffer periods of underperformance but in the long run are extremely attractive.

Andrea Profeti, *Senior Investment Fund Advisor at Indosuez Wealth Management*



The value segment has been relegated to the background with all the zero interest rate dynamics promoted by the different central banks. Now might be the time! With the narrative and positioning of the market incorporating a higher and longer-lasting inflation framework.

Rui Broega, *Managing Director at Banco de Investimento Global*

This year's market moves, and fundamentals have produced dramatic shifts in factor scores leading us to recommend a pro Value US allocation. Many Value stocks have growing earnings and stronger balance sheets, thus scoring well for both Growth and Quality, respectively. P/Es for many sectors have cheapened to recessionary levels, although we do not see imminent recession risk in our base case.

Nuno Salvador, *Senior Fund Manager at Bankinter Gestión de Activos*

I believe that Spanish and French banks among others could benefit from an environment of higher interest rates. Banks like Santander, BBVA, La Caixa, for instance will improve their margins on mortgage loans for example and banks like BNP Paribas or HSBC are much well prepared for the World Stage.

Luis Sancho, *Portfolio Manager at BBVA AM*

The key question of today is whether value stocks will continue to outperform or whether growth stocks will make a rapid come-back. There are two reasons to believe that value investing will make a come-back. The rising interest rate environment provides a tailwind for typical value sectors such as commodities, energy and financials.

Wim Antoons, *Head of Portfolio Desk, at Portolani*

Richard Rainback, CFA

Fund Analyst at EFG Asset Management (UK) Limited

As a style, **Growth investing has enjoyed the limelight for the majority of the last decade.** Low (or negative) base rates, benign inflation and continuing monetary stimulus have driven multiple expansion; and with that, the share prices of companies whose valuations are driven by **future earnings expectations**. However, Growth investors were in for a rude awakening when inflation spiked at the turn of 2022 and Central Banks clambered to regain control by pointing towards aggressive monetary tightening. Since many low-earning, high-Growth companies have not yet existed for a full cycle, their ability to pass on the impact of higher inflation to their customer base is questionable. To then plug a higher discount rate into a DCF model for a company with low earnings in the near term will disproportionately hit its perceived intrinsic value. Many are therefore entertaining the idea of **raising their allocation towards Value Equity funds**; either because they expect a prolonged rebound in cyclical sectors, or because they believe that previously-overlooked stocks will find favour once fundamentals drive markets once again, or perhaps because they have a strong view on Energy prices.

We observe that there are **lots of credible Value Equity fund products** in developed parts of the world, but more scarce within Asia and Emerging Markets. Part of the reason might be the lack of high quality stock opportunities that most fundamental-driven managers seek; another reason might be demand-led, a belief that markets are surprisingly efficient there ("cheap stocks are cheap for a reason"). Both of these points could be valid, therefore a manager that does not follow a deep value philosophy is the **Invesco Asian Equity** fund. The philosophy is **"contrarian"**; holdings are typically out-of-favour and relatively cheap at the outset, but the team can hold onto potential winners if future expected EPS growth is not being sufficiently priced in. This contrarian (not cyclical) attitude means they are not precluded from purchasing Technology companies on the back of sharp drawdowns.

Holding onto potentially winning positions tends to give the portfolio a core-value style tilt; notably the fund's top 4 holdings are the same as in the **MSCI AC Asia ex Japan index.** For those that seek cyclical exposure, these holdings are smaller in absolute terms but tend to form the largest overweight positions. These positions have helped the portfolio keep its reputation among purist value investors. Ian Hargreaves and his Asia & Emerging Market Equities team, based in Henley-On-Thames, UK, have held their own when Growth style tailwinds have prevailed, and then really delivered when the style rotated towards Value – most recently, from November 2020 onwards. Whether you believe that the current cyclical rotation we're seeing is multi-month or multi-year, **Invesco Asian Equity remains an interesting option for investors to consider.**

EFG

INVESCO ASIAN EQUITY

Invesco

Ian Hargreaves
Co-Head of Asian and Emerging Markets Equities

ISIN: LU1775951103
Returns 3 years annualised: 9,76%

Markets are right to be concerned about inflation, policy normalisation, the war in Ukraine and the resurgence of Covid in China. However, **Asian equity markets are already a year into their pull back from post-pandemic highs**, with valuations now appearing increasingly attractive in both absolute and relative terms.

We feel there is a strong case for **Asia's discount to US and World markets to narrow.** While fundamentals in developed markets are deteriorating, there is scope for improvement in Asia. Consumption growth in Asia still lags its pre-pandemic trend. While there was some fiscal and monetary stimulus in Asian economies, the policy response was nowhere near as aggressive as that seen in the US and other developed markets. Most emerging markets took longer to contain the pandemic and rollout vaccine programmes, with potential for consumption to pick-up as economies reopen after the pandemic, which is likely to support corporate earnings and profitability.

Inflationary pressures are less of a concern than in the developed markets, suggesting greater policy flexibility, which should also be supportive for markets. The current account balances of Asian economies are also in better shape than when they last faced the prospect of tightening conditions in the 'taper tantrum' of 2013. We also have a situation where China is close to the bottom of its cycle, and is starting to ease policy, while the US and other developed markets appear to have reached the peak of the cycle and are starting to tighten. Combined, we feel this makes Asia an attractive place to be investing over the medium-term.

We **believe in the importance of having a balanced strategy.** Our valuation driven approach means that the strategy currently has a strong bias towards 'value', there are several themes that can be identified. Some are secular growth stories at a reasonable price; others benefit when the cycle turns; some have re-rating potential without implying aggressive assumptions; and we own high yielders. All are trading at what we believe to be a discount to fair value.

The main thrust of portfolio activity over the last 12 months has been to **reduce exposure to Taiwan and India and to increase China and Indonesia.** The current macro backdrop strengthens the case for this shift, in our view.

In Taiwan, there is a strong underlying **technology** cycle that is benefitting some, but the pandemic brought forward an element of demand, with margin gains likely to be given back, putting valuations at risk in some areas. As such, we have reduced exposure. While we remain positive on the medium-term outlook for **India**, we have reduced exposure, taking profits from outperformers which have had a very strong run.

Indonesia shares some of India's positive attributes, but at a lower valuation (forward PE of 15x vs 22x). Its economy has had a long period of sub-trend growth, with few signs of economic excess. The Covid-19 pandemic has had a larger than average negative economic impact, but with the Omicron wave having now passed the economy looks set for recovery, which the market is only beginning to price in. It is also a more commodity-oriented economy, and thus relatively better positioned for this scenario than India, which remains reliant on imports of oil and coal.

We've also been adding to **HK/China on weakness, reducing what was a large underweight position**, to one which is now slightly overweight, as investment risk appears to be better rewarded, particularly given government policy is now at the point of reversal.

Pierre Jimenez, CFA

Mutual Fund Analyst at Société Générale Private Banking

Against the backdrop of macroeconomic uncertainties and a sharp sector rotation on global equity markets, **Value recently took its revenge after years of underperformance** versus Growth. In that context, time might have come to rebalance portfolios that mechanically drifted towards Growth with Value funds in order to maintain a diversified investment style exposure.

When it comes to **thinking about Value investment funds, the universe has significantly reduced in recent years of disappointment** causing some investors to even give up on this investment philosophy and Value managers losing assets.

Brandes is one those investment houses fully committed to Value investing that did not give up and stayed true to the "values" of its founder who was famously supported by Benjamin Graham himself back in 1974.

More specifically on the **Brandes US Value Fund**, it is a US core Value strategy managed by one of the most experienced teams of analysts that exclusively work on Value opportunities within the US large-cap universe.

When it comes to defining Value, one might think about the cheapest companies, sometimes of low quality which usually are mature businesses offering little growth perspectives. However, let's bear in mind that the universe is broad enough to find diverse types of Value stocks and diverse types of Value managers.

Consistency of their approach to Value is a key characteristic of Brandes, as they look for absolute value opportunities through deep fundamental research to uncover meaningful price discounts to the book value. Counting on an investment committee having more than 20 years of tenure at Brandes and on their extensive analyst team, they have built an impressive knowledge of their hunting ground and can therefore add perspective to any appealing opportunity in terms of valuation.

While having a unique philosophy of Value investing, **they use that knowledge to find the most precise way of valuing stocks** in each sector or given their unique characteristics. The common aspect of the investment process for each case is to try to estimate what cash flows would look like in a 'normal' cycle, enabling them to avoid both value traps and missing out on opportunities. Overall, they look for a significant discount to intrinsic value but will never compromise on the quality of a business, meaning that their investment cases are always supported by healthy business lines identified or key tangible/intangible assets that have unique value.

As a result, **Brandes build a portfolio of 50 to 70 Value stocks which is concentrated enough to have high active share versus Russell 1000 Value** and has nicely outperformed that benchmark over more than 10 years (of cumulative performance). It has historically not exhibited style drift over time and definitely does not fall in the deep Value category.

In unprecedented times marked by instability, we thought it was sensible to add a true **US Core Value exposure to Société Générale Private Banking's universe of external funds** recommended.

SOCIETE GENERALE
Private Banking

BRANDES US VALUE FUND

BRANDES
INVESTMENT PARTNERS

Kenneth Little, CFA
Managing Director, Investments Group

Brent Fredberg, Ted Kim, CFA and Brian A. Matthews, CFA
Director, Investments Group

ISIN: IE0031575495
Returns 3 years annualised: 12,51%

The Fund

The **Brandes U.S. Value Fund (the "Fund")** seeks long-term capital appreciation by investing in equity and equity related securities of U.S. issuers whose equity market capitalizations exceed $5 billion applying the firm´s pragmatic, bottom-up value approach. It was launched in 2003 and assets are $973.3 mil. as of 31 March 2022.

Current Positioning and Outlook

Value stocks (as measured by the R1000 Value Index) outperformed the broader market (R1000 Index) noticeably at the start of the year when rising inflation and interest rates caused many high-flying growth company valuations to compress. Geopolitical developments in the second half of the quarter (i.e., the invasion of Ukraine) have exacerbated inflationary trends, increased worries about a slowdown in growth, and raised the potential for a stagflationary environment (low economic growth and elevated inflation).

Heading into 2022, **we were optimistic that improving economic growth and an uptick** in inflation (after a decade-plus of weak growth coupled with low and declining interest rates) would benefit value stocks—especially against the valuation discounts value stocks traded at relative to growth stocks. With inflation persistence and growth potentially slowing, we are often asked if these factors change our outlook for value stocks. While weaker growth may be a headwind for value stocks all else being equal, it is rarely "all else equal." In fact, two of the best periods for value stocks relative to growth stocks were during the stagflationary environment of the 1970s following the Nifty Fifty era and during the post-tech bubble correction of the early 2000s.

The common factors leading up to these two periods of significant value outperformance were a) U.S. stocks in general were trading at very elevated valuations, and b) the valuation spreads between value and growth stocks were at historically elevated levels – both of which we are experiencing today.

From an **industry/sector standpoint, the Fund's largest relative overweight positions remained in the economically sensitive financial sector**, the more defensive health care sector and various areas within the technology sector that are exposed to secular growth at what we consider to be reasonable valuations.

Our most significant underweights are in consumer staples, utilities and real estate.

We believe the differences between the Fund and the broader market continue to make the Fund an attractive complement to more index-like or growth-oriented alternatives.

Andrea Profeti

Senior Investment Fund Advisor at Indosuez Wealth Management

Value investing is buying stocks which trade at a significant discount to their intrinsic value. Value investors achieve this objective by looking for companies on cheap valuation metrics, typically low multiples of their profits or assets, that according to them are not justified over the long term. Value investors typically have a contrarian mindset and often must be patient for their stock to close the gap with the intrinsic value. Value investing is not always in favour and may suffer periods of underperformance but in the long run are extremely attractive. In the last eighteen months we have been assisting a renewed interest in this style within equity strategies.

To take exposure to a value strategy in the US equity market we choose **Amundi Funds Pioneer US Research Value Fund.** The team managing the product is led by Carig D. Sterling, Head of Equity Research at Amundi US, who retains ultimate decision authority, while Ashesh Savla, Team Leader of US Equity Quantitative Research is the second portfolio manager.

The philosophy behind the investment process is based on three main pillars: 1) Identifying quality companies 2) Trading at attractive valuations 3) Thoughtful portfolio construction. The team focuses on high quality and sustainable business models, utilises **Economic Value Added (EVA)** as enhanced measures for profit and valuation and finally constructs a portfolio of their best ideas guided by risk management and analyst convictions. The investment universe generally comprises companies with market capitalization in excess of $5 billion belonging to the Russell 1000 Value Index and S&P 500 Index.

Key in the investment process is the Equity Analyst Research team that applies the Economic Value Added (EVA) process, a proprietary fundamental valuation framework both for forecasts and valuation. The enhancement achieved in the las four years through a more structured and disciplined valuation process with EVA as the primary metric, has given the possibility to the team to be more active with fewer holdings and meaningful sector allocation. ESG considerations are taken into account with a focus on the economic consequences of unsustainable practices that meaningfully may impact the stability and the attractiveness of a given investment opportunity. The incorporation of ESG research improves the quality of the fundamental approach.

According to internal guidelines (not necessarily to prospectus restrictions), the final portfolio typically comprises 40 to 70 stocks and is managed with an ex-ante maximum tracking error of 3% to 6% with respect to the Russell 1000 Value (portfolio benchmark). At sector level the over/underweight may reach a 10% relative to the index, while by industry the maximum weight is 25%. Each individual position weights for 5% at purchase.

In the last two years (19.05.20 – 18.05.22) the fund has delivered an outperformance of 4.3% for the **USD R Share Class (LU1894686366)**, versus the Morningstar category average (EAA Fund US Large-Cap Value), with a relatively limited maximum drawdown of -5.83% versus -6.12% for the category average.

INDOSUEZ WEALTH MANAGEMENT

AMUNDI FUNDS PIONEER US RESEARCH VALUE

Amundi ASSET MANAGEMENT

Craig Sterling
Head of Equity Research, US Portfolio Manager at Amundi US

ISIN: LU1894683009
Returns 3 years annualised: 10,09%

The Case for US Value

Since the beginning of the US stock market in 1792, value stocks have outperformed growth stocks. However, growth has outperformed over the past 14 years since the Global Financial Crisis, in an **environment marked by low inflation, low interest rates, easy access to capital, and anaemic economic growth.** We believe that this anomaly will reverse as the Federal Reserve raises rates and engages in quantitative tightening to combat inflation levels not seen since the 1970s. We see three main reasons for a value reversion: inflation, relative valuations and technology.

Historically, **value has outperformed growth during periods of commodity price inflation.** Energy, materials, and financials make up over 30% of the Russell 1000 Value Index and only 4% of the Russell 1000 Growth Index. Hence, value universe earnings benefit more from rising inflation and interest rates than the growth universe, which suffers from multiple compression as rates rise to combat inflation.

For several years, growth has been trading at a premium relative to value not seen since the Tech Bubble. While this premium has been narrowing, **value is still trading at a significant discount** versus its historical premium to growth.

Lastly, we believe that technology will be a secular driver for value. While this may seem counterintuitive, we believe that many value companies will earn higher valuations as they deploy technology to increase revenues, reduce costs and gain competitive advantages.

Focus on Quality and Value

The **US has not had sustained commodity-driven inflation** since the early 1970s and most market participants have little experience with it. In addition, investors need to understand the ramifications of increasingly compressed business cycles and significant disruption across industries due to rapid technological changes.

Our **investment process is focused on the highest conviction investment ideas** from our experienced **Amundi US Equity Research team.** Our career analysts average over 20 years of experience and use a disciplined valuation framework based on economic value added (EVA) to measure and value profits of companies with quality business models that can sustain growth and profitability beyond what the market is pricing. Lastly, we employ a structured portfolio construction process and risk overlay seeking to maximize the portfolio's risk-return profile.

Conclusion

In a world that is growing increasingly more complex, valuing a company is becoming more nuanced. This creates an opportunity for an experienced manager that uses a disciplined valuation framework. Our quality value strategy outperformed the **Russell 1000 Value Index** by over 200 basis points on an annualised basis over the past five years ended April 30 and in four of the past five calendar years.

Rui Broega

Managing Director at Banco de Investimento Global

The last decade has **buffeted the value segment as a pretty heavy rock in investment portfolios.** The value segment has been relegated to the background with all the zero interest rate dynamics promoted by the different central banks. Now might be the time! With the narrative and positioning of the market incorporating a higher and longer-lasting inflation framework, a **significant increase in incomes**, even if it sacrifices the pace of global economic growth, maybe now could be an interesting time to look at dividend investing. Past and present compete to justify attention to this investment segment.

The past. Dividends tend to have a shorter duration bias, with dividend areas found in more of the value compartments of the market. Adding to that however, dividends can have some defensive qualities as well. Companies that pay an attractive dividend tend to be more mature, or at a point in their cycle where they do not need to re-invest all their cash flows. All in all the value segment tends to be more resilient and with superior relative performance in tightening cycles. **MSCI VALUE's behaviour proves this in the case of the 1999-2000, 2004-2006 cycles and, more recently, 2015-2018.**

The present. Taking one step back from the market noise and focusing on fundamentals we can see a more balanced outlook. While slowing economic growth and rising inflation is clearly a cause for concern, we must also acknowledge that these risks appear to have been somewhat priced into the market, with valuations now back in line with their long term historical averages. The price gap between the value and growth segments and its correlation with the trajectory of market yields suggests that the recent recovery has room to continue not only for the absolute and significant discount of its fundamental metrics but also in relative terms. For example, **MSCI EUROPE** Value trades at 2 standard deviations from its 10-year average and a 50% discount, compared to growth, in terms of forward P/E.

Clearly, there is not a one size fits all approach to dividend investing, and we believe selectivity is important.

FORWARD P/E VALUE VS. GROWTH

MSCI EUROPE VALUE/GROWTH VS GERMANY 10YR

Source: Bloomberg / BiGam

BiG BANCO DE INVESTIMENTO GLOBAL

AMUNDI FUNDS GLOBAL EQUITY SUSTAINABLE INCOME "A2" (EUR) ACC

Amundi ASSET MANAGEMENT

Piergaetano Laccarino
Portfolio Manager

ISIN: LU1883320993
Returns 3 years annualised: 8,16%

The Macro Backdrop

With the market narrative shifting to one of higher for longer inflation, more aggressive interest rate hikes, and worries about **"stagflation"**, maybe now could be an interesting time to look at dividend investing. Why? Firstly, dividend tends to have a shorter duration bias, with dividend areas found in more of the value compartments of the market. Adding to that however, dividends can have some defensive qualities as well. Clearly, there is not a one-size fits all approach to dividend investing, and we believe selectivity is important.

Standing out from the crowd

Amundi Funds Global Equity Sustainable Income is quite unique in the income arena because of its deep rooted **ESG integration**. You will note the word "sustainable" in the fund name. This has a double-meaning, we seek to invest in companies with a sustainable cash flow stream which helps to underpin the dividend, but we also only invest in responsible companies from an ESG perspective. The transition towards a sustainability framework for dividend, beyond the traditional financial metrics, into extra financials drivers, has accelerated in the last couple of years. In the past dividends were an exclusive matter between companies and their shareholders. Today, we believe they are a powerful tool used to interact with a wider spectrum of stakeholders such as governments, regulators, bondholders and employees. We believe that this became very apparent during the Covid-19 pandemic as regulators imposed dividend bans on many corporates independent of their financial position.

The important point to stress to our clients is that these two elements (financial strength & ESG*) are inherently interlinked. As income investors, we need to invest in companies that have the necessary financial firepower to pay a compelling and sustainable dividend yield.

Another unique feature of our equity sustainable income portfolios is our diversification across two distinctive types of portfolio holdings. On one side of the portfolio, we invest in what we deem to be the "dividend anchors". These are the names which can have a high level of optical yield but that we believe the potential cash flow generation is sustainable because of the quality of the business. Typically, these names can be found in areas of the market that are associated with the "traditional" dividend sectors such as energy, utilities, and communication services (namely telecoms). Their role in the portfolio is to seek to deliver on the income pillar.

The remainder of the portfolio is invested in what we call the **"dividend compounders"**. These tend to be businesses whereby the optical level of yield is lower. They tend to be more cyclical businesses operating in some of the more growth-y areas of the market. Here, our objective is to invest in businesses that can offer strong share price appreciation potential and whereby we believe that the dividend component could grow in the future as a result of the growth in the overall business. These names are typically found in areas such as automakers, capital goods, and information technology.

PERFORMANCE CHART (+8.6% NET OF FEES VS MSCI WORLD INDEX AS AT 27.05.2022)

Source: Amundi

While we expect growth to soften, **we don't agree with the markets that are pricing in an assumption that the global economy is headed for recession.** We remain constructive in equities in sequence of COVID reopening, strong labour markets, policy easing in China and healthy consumer and corporate balance sheets. It also appears that we've reached peak hawkishness from central banks, with the Fed pushing back on 75bp and intra-meeting hikes.

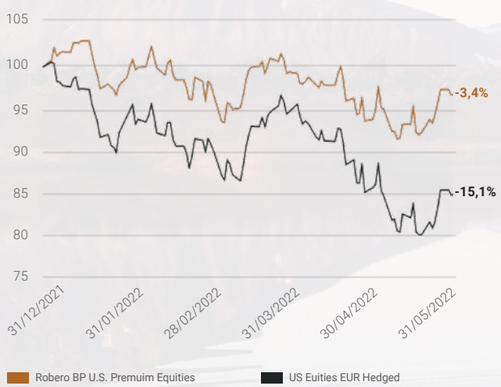
This year's market moves, and fundamentals have produced dramatic shifts in factor scores leading us to recommend a **pro Value US allocation**. Many Value stocks have growing earnings and stronger balance sheets, thus scoring well for both Growth and Quality, respectively. P/Es for many sectors have cheapened to recessionary levels, although we do not see imminent recession risk in our base case. We highlight Cyclicals vs Defensives which are close to the past recession lows. While Cyclical earnings should be at risk during a recession, we don't think we are there yet as indicated by the PMIs which have held up well relative to the geopolitical risk. Cyclicals should outperform in the event of rising yields as one would expect in a hiking cycle, but there is a catch up to be had even if yields do not go up. Even as the Fed remains hawkish, stocks may have fully digested the Fed's impact, which would improve the risk-reward and regarding the earnings season, we are pleased to see delivery is better than expected in the US.

One of our choices in terms of underlying for US equities is the **Robeco Boston Partners U.S. Premium Equities** (ISIN: LU0320897043). The portfolio is pro cyclic value: overweighting industrials, consumer discretionary, energy and financials; slightly underweight in materials and underweighting long duration secular growth as communications and technology. The fund has zero or almost no exposure to bond-proxy sectors such as consumer staples, real estate and utilities. The managers are stuck to their triple circle philosophy: undervalued stocks, higher quality metrics and expected EPS growth 5% above their fund's benchmark. In terms of performance year to date (as of May 31st), regarding what matters to us, it has been delivering quite well, beating the US Equity EUR Hedged benchmark we follow (see chart below).

Nuno Salvador

Senior Fund Manager at Bankinter Gestión de Activos

PERFORMANCE YTD



Source: Bloomberg. Date as of May 31st, 2022.

bankinter.

ROBECO BOSTON PARTNERS U.S. PREMIUM EQUITIES

ROBECO

Duilio Ramallo
Portfolio Manager Robeco BP US Premium Equities

ISIN: LU0320897043
Returns 3 years annualised: 6,49%

Strong corporate results shine in difficult month

When the first quarter **2022 loss for the S&P 500 is added to April's results**, 12.92% loss in the year to date represents the worst start to a year for the US stock market since 1957, the year that Standard & Poor's began tracking the 500 stocks that comprise the Index. Market watchers would have to go back to 1939 to find a worse start for the Index, which was launched in 1926 and followed just 90 stocks for its first 31 years.

Once again, **bonds provided little to no relief from the stock market malaise as the Bloomberg US Aggregate Bond Index of investment grade securities dropped by 3.79%** during April, its worst monthly performance since August 1980. Bonds were hampered by a rapid increase in interest rates that saw the yield of the 10-year Treasury bond rise from 2.32% to 2.89% during the month. This represented the biggest jump in rates since December 2009. With a loss of 9.50% in the year to date, the bond market benchmark is off to its worst start to a year on record based on data back to 1977.

The performance figures presented above correspond to the D USD share class of the **Robeco US Premium Equities UCITS fund.** Performance for other shared classes may vary. Performance over one year is annualised. The value of your investments may fluctuate. Past results are no guarantee of future performance. In reality, management fees and other costs are also charged. These have a negative effect on the returns shown. All data to 30 April 2022.

Of the **eleven sectors that comprise the S&P 500**, only Consumer Staples – a sector known for its defensive characteristics – was able to post a gain for the month, rising 2.56%. Stocks in that sector that had done well during the height of the pandemic (i.e. Kimberly-Clark, Kraft Heinz, Campbell Soup) also outperformed during April's risk-off trading environment. Three sectors posted double-digit losses for the month: Information Technology (-11.28%), Consumer Discretionary (-13.00%), and Communication Services (-15.62%).

These sectors were negatively impacted by their exposure to **FAANG stocks** (Facebook, Apple, Amazon, Netflix, and Google), which fell by 22.05% on average and by 15.72% on a capitalization-weighted basis. These stocks were also hurt by the increase in interest rates, given the long-duration nature of their future expected earnings streams. Amazon alone accounted for over 10% of the loss generated by the S&P 500 during the month. The company reported just a 7% increase in first-quarter sales (the lowest in 12 years), operating income that was 31% below consensus estimates, and posted its first quarterly loss in seven years. The stock fell by 14% on the day of the report and was down by -23.75% for the month.

In the year to date, **Energy remains in the pole position with a gain of 36.85%**, nearly mirroring the 35.65% rise in crude oil prices since last year. Communication Services is the laggard at -25.68% in the year to date, hurt by the 40.4% drop in Meta Platforms (Facebook) and a 68.4% loss in Netflix, both suffering from a waning subscriber base

Luis Sancho

Portfolio Manager at BBVA Asset Management

Oddly enough, four months ago I had the opportunity to write an article to RankiaPro Europe magazine in which I gave **an opinion that 2022 could be a good year for value style.** For sure it's a short period of time to draw real conclusions but If we consider that during this time a war has emerged it's pretty reassuring that many of the rationale so far has proved pretty accurate and value, in relative terms, outperform growth massively.

Back then among other things **I wrote that** *"…monetary policy normalisation can benefit banks tremendously, improving their financial margins and offer better results…"; "…Lack of capex on an environment of economic openness would be a major boost for big energy companies, because prices on oil and gas will be persistently high (huge demand, short supply)…"; "…many infrastructure projects in play (Biden's plan, UE recovery and reconstruction plan), materials could also perform well with strong demand for copper, iron ore, rare materials among others supporting their business…"; "…huge will for freedom and creativity expression when Covid-19 pandemic comes to an end making areas like travel & leisure quite appealing as well…"*

Even with an ongoing war, and problems with Covid-19 in China, the truth is that all the activities mentioned above have proven some resilience in a tough environment. **By the time I write these lines value style is outperforming growth style around 20%** since the beginning of the year and the question that we are making to ourselves right now is that if this could continue?

Well, I do believe that value style still has room to improve but probably the difference for growth style will shrink until the end of the year, specially, because in my opinion Central Banks will tread interest rate hikes more carefully.

Having said that, and put into perspective all the initial arguments, this time with a European approach I believe that Spanish and French banks among others could benefit from an environment of higher interest rates. Banks like Santander, BBVA, La Caixa, for instance will improve their margins on mortgage loans for example and banks like BNP Paribas or HSBC are much well prepared for the World Stage.

Energy companies, like BP and Royal Dutch Shell, are in the middle of a perfect storm to continue to benefit from higher prices. And if anything has changed dramatically, Europe needs to accelerate its investment projects of energy transition to ensure as well the need of energy independence, in that regard autos could be a good bet. Add the huge boost that defence budgets will have in several countries and you realise that an era of huge investments will take place in Europe. Last but not least this summer will materialise the hunger for travel and leisure and bookings will be skyrocketing which could be a good thing for lodging and airlines.

If I had to choose a **third party fund that is aligned with my views I definitely put a fund like JPMorgan Europe Strategic Values** (LU0248049412) under my radar. Its overweight positions in sectors like financials and energy looks suitable for the current environment.

BBVA Asset Management

JPMORGAN EUROPE STRATEGIC VALUES

J.P.Morgan Asset Management



Michael Barakos, Ian Butler and Thomas Buckingham

Portfolio Managers

ISIN: LU0248049412
Returns 3 years annualised: 2,37%

We, at J.P. Morgan Asset Management, **have been investing in the value style for more than 20 years**, managing $2.9 billion globally in International Equity Group (31 March 2022). We launched the JPMorgan Funds – Europe Strategic Value Fund in February 2000. Since then the value style has been out of fashion for the majority of the time. Still, we have never compromised on our style purity. For European investors seeking value exposure, we believe this fund is one of the most style pure European value funds on the street.

Value investing focuses on stocks that are underpriced by the market and are trading at a discount to their intrinsic value. This investing style has seen strong performance year-to-date (YTD). What may surprise you is that this regime change is not just a YTD phenomenon. It began with the Pfizer vaccine newsflow in November 2020. Since then, the MSCI Europe Value Index has outperformed the MSCI Europe Growth Index by 27% cumulatively as of 31 May 2022.

Investors may ask themselves **"have I missed it?"** We don't think so. It is worth noting that value had underperformed growth for the vast majority of a fourteen year period until the Pfizer vaccine newsflow. Crucially other fundamental factors such as a shift to tighter monetary policy and continued wide valuation spreads should help to sustain the rally. The rising interest rate backdrop is especially painful for longer duration growth stocks, which are highly dependent on cheap and easy capital, but it may provide a significant tailwind for value. The recent value outperformance might just be the tip of the iceberg as we see many parallels today with the late 1990's when the TMT bubble burst, after which value enjoyed a sustained cumulative outperformance of around 90% over seven years from March 2000 onwards.

Despite our optimism that we could be entering a period of sustained value outperformance, the kind we haven't seen since before the Global Financial Crisis (GFC), **value investing remains a lonely place.** Globally, the proportion of equity assets invested with value managers has fallen to 5%-10%. In Europe this figure is around half of the pre-GFC level. However, on YTD basis, the Morningstar Europe Large-Cap Value category has started seeing positive flows whilst the Europe Large Cap Growth and Blend peer groups have continued to see outflows.

Our fund is benchmarked to the MSCI Europe Value Index and is managed by long tenured managers, Michael Barakos, Ian Butler and Thomas Buckingham. The portfolio management team sits within our International Equity Group, a 100+ team of investment professionals globally.

Our process consists of two clear steps. **Firstly we identify cheap stocks**, by focusing on the cheapest 30% of our broad universe based on a number of valuation metrics. The **second step seeks to avoid value traps**, by ignoring low quality companies and those with weak operational momentum. We want to own cheap but fundamentally sound companies. The fund has a strong and consistent value bias, which can be evidenced by running third party holdings analysis. This fund is SFDR Article 8 registered and is AAA MSCI ESG rated as at 30 April 2022.

Finally to touch upon the performance, since its inception the fund has always outperformed the MSCI Europe Value Index in those calendar years when value outperform growth in Europe. As of 2021, the fund has outperformed in 17 of 22 calendar years since inception.*The fund is ranked 1st quartile over 10 years and since inception as at 30 April 2022.*

**JPMorgan Funds – Europe Strategic Value Fund C share class.*

Wim Antoons

Head of Portfolio Desk at Portolani

Value investing has been described as an investment style by Ben Graham in "The Intelligent Investor". Several authors found that the value premium is a factor that adds value over growth stocks (Fama & French, Lakonishok, Shleifer & Vishny). The value premium (4,1% for international stocks and 2,8% for US stocks over the period 1989 – 2021) has been observed in all regions worldwide. **Long periods of underperformance of value investment funds have occurred in the past**, but these trends were eventually reversed as Dimensional Fund Advisors demonstrated that value outperforms growth for the US market in 89% over 15-year rolling periods (1926 – 2021). History repeated itself when the value premium disappeared after 2008, when growth stocks came in favour, but value stocks rebounded strongly since December 2021 and growth stocks were hammered.

The key question of today is whether value stocks will continue to outperform or whether growth stocks will make a rapid come-back. There are two reasons to believe that value investing will make a come-back. The rising interest rate environment provides a tailwind for typical value sectors such as commodities, energy and financials. For long duration assets such as unprofitable high growth stocks, rising interest rates are a serious headwind. A second reason is that investors begin to realise that valuation matters: narrative investing has come to an end. Too many unprofitable companies made quick wins based on narratives and high expectations of future growth. In a recent publication of Research Affiliates (Reports of Value's Death may be greatly exaggerated), the authors show that the long-term outperformance of growth versus value is entirely explained by changes in valuation spread. So besides other styles like quality and size, value merits a place in a diversified portfolio of global stocks.

A manager with an outstanding track record in the management of value equities is the Spanish investment boutique **Magallanes (Magallanes V.I. Ucits European Equities R**; ISIN: LU1330191542). Ivan Martin, the lead portfolio manager of the fund, has over 20 years of investment experience. The manager applies rigorous fundamental analysis and selects European companies that trade below their intrinsic value. Besides valuation factors, quality factors such as low debt, good capital allocation and high return on capital employed ensure the avoidance of value traps. The result is a cheap fund in terms of valuation (P/E of 8), combined with a long- term earnings growth of 16%. The fund is playing on the valuation factor, but also invests in small to mid-caps and thus captures part of the size premium. The most important sectors are energy, basic materials, industrials, financials and consumer cyclicals. The fund is up +9,4% at the end of May and avoided the drawdown seen in the global equity markets. The fund easily outperformed European equities since inception in 2016.

PORTOLANI

MAGALLANES V.I. EUROPEAN EQUITY R EUR FUND

MAGALLANES VALUE INVESTORS

Ivan Martín

Partner, Founder and Investment Director at Magallanes Value Investors

ISIN: LU1330191542
Returns 3 years annualised: 7,62%

Magallanes MVI European Equity is our flagship fund, launched in 2015. A collection of companies with good fundamentals and healthy financial situation at attractive prices, concentrated in 30 to 35 names – reflecting the high conviction of our ideas and necessary for the investment team to know them all well, but also diversified, with no high stakes per company or sector.

Our investment process is based on looking for companies trading below their intrinsic value: we buy at a discount, waiting the necessary time for such value to be realised and always looking for the highest **ESG standards**. Not considering environmental, social, and corporate governance factors could have an impact on a company's profitability as well as its share price.

The majority of our time is dedicated to companies' **research, understanding their business models and calculating their fundamental value.** We understand Value Investing as a philosophy of life applied to the investing field.

Idea generation: bottom-up, independent analysis

The main sources of return of the fund come from ideas which are generated internally, under independent analysis. We have an agnostic approach to market's benchmarks and do not replicate any benchmark whatsoever, nor do we adopt positions in relation to them. Our approach can be defined as contrarian.

Most often these ideas tend to be businesses ignored or not followed widely by the industry and penalised by the markets. Furthermore, family businesses, managed by honest managers with alignment of interests with shareholders and high ESG standards, companies with solid financial situations (net cash or small debt), holdings with complex structures to understand or restructuring stories can be profiles which we positively assess.

First the balance sheet, then the income statement

Balance sheet is key, **we often say than it comes before the income statement**, as a means of protection against the risk of permanent loss of capital. In the fund's history, there has never been an episode of a company going bankrupt. If a company can survive, then it will flourish in favourable situations.

Diversified portfolio, high-conviction and risk control

As **Value Investors, the portfolio depends on where we find value, without being a thematic fund, playing a macro bet nor doing specific bets per country, sector or market cap.**

Our approach to risk is based on the principle of how much are we willing to lose if an investment thesis is not fulfilled. This leads us to placing limits to our bets per company and per sector, irrespective of how high the upside may be. We do not like a company to represent more than 5-6% of the total portfolio, or a sector to weigh more than 12-15%, thus the portfolio is very equal-weight.

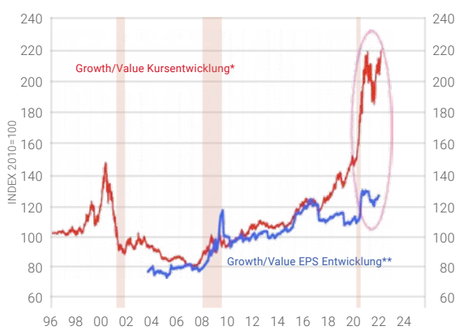
The Fund's historical performance has been explained by our cyclical bias: industrials, autos, airlines, energy, chemicals or banks, with no thematic exposure, allowing us to outperform the markets since inception.

Ingo Kürpick

Managing Director at Wachstum und Value Finanzportfolioverwaltung GmbH

We saw a massive price outperformance of Growth since 2009. Since 2016, however, Growth has no longer been able to achieve any EPS outperformance. This graph already shows that Value is still significantly undervalued in comparison.

MSCI INDUSTRIELÄNDER GROWTH VS. VALUE



*Growth/Value Indizes von MSCI Industrieländer

**Growth/Value Verhältnis bei 1-Jahres Gewinnschätzungen

Source: Downunder Daily, capanum

In 2020, we have already gradually started to balance our portfolio, which was previously very growth-orientated, and added more value markets and value managers in a broadly diversified manner. We started with a very cheap market like Vietnam, with the Lumen Vietnam Fund, as well as Gold Miners, Commodities, "Next Generation" Commodities, European Value with the Fidecum Contrarian Value Euroland Fund, Japan with the Man GLG Japan CoreAlpha Equity Fund and finally last year Brazil with the DWS Invest Brazilian Equities. We even diversified the Liquid AI Market Neutral side with value orientated mandates like MontLake Cooper Creek Partners North America Long Short Equity and DNB TMT Absolute Return.

On the global side, **I would highlight the Heptagon Kopernik Global All-Cap Equity Fund** (IE00BH4GYD31) which is very broadly diversified into the cheapest sectors and stocks and currently has very exciting opportunities allocated.

After the very good performance last year and also at the start of this year, the questions are of course: Is the value rotation already over? Is it too late to chase value?

Maybe an exciting observation and view from of highly respected quant house AQR gives a bit of advice:

GLOBAL VALUE SPREADS

Hypothetical AQR Industry and Dollar Neutral All Country Value Portfolio

Source: AQR, Hypothetical value composite includes five value measures: book-to-price, earnings-to-price, forecast earnings-to-price, sales-to-enterprise value, and cash flow-to-enterprise value.

Hopefully the single graph is again self-explanatory. **Such a spread says little about timing, when it will work is not the question.** A common question is "what's the catalyst." Looking back at times like the peak in March of 2000 (tech bubble) and note that nearly 22 years later nobody still doesn't know what the catalyst was for it stopping there. But, while timing will always be bedevilling, it's possible that the odds get better the crazier prices get, and the medium-term expected returns get better too. But, the bottom line, as usual, is there are no guarantees (particularly over the short term) but achieving relative outperformance on value last year while it's gotten way cheaper (and record cheap) is not a bad combination and is very exciting for 2022 and beyond.

WACHSTUM UND VALUE

OVERVIEW OF THE INVESTMENT FUNDS MENTIONED BY THE FUND SELECTORS

INVESTMENT FUND / ETF	ISIN	CATEGORY	CURRENCY	RETURNS 1 YEAR ANNUALISED	RETURNS 3 YEARS ANNUALISED
EQUITIES					
Invesco Asian Equity	LU1775951103	Asia ex-Japan Equity	USD	-4,35%	9,76%
Heptagon Kopernik Global All-Cap Equity Fund*	IE00BH4GYD31	Global Flex-Cap Equity	EUR	-5,60%	15,00%
Brandes US Value Fund	IE0031575495	US Large-Cap Value Equity	USD	7,31%	12,51%
Amundi Funds Pioneer US Research Value*	LU1894683009	US Large-Cap Value Equity	USD	6,95%	10,09%
Amundi Funds Global Equity Sustainable Income "A2" (EUR) ACC	LU1883320993	Global Equity Income	EUR	5,39%	8,16%
Robeco Boston Partners U.S. Premium Equities*	LU0320897043	Other Equity	EUR	-7,12%	6,49%
JPMorgan Europe Strategic Values	LU0248049412	Europe Large-Cap Value Equity	EUR	-1,30%	2,37%
Magallanes V.I. European Equity R EUR fund*	LU1330191542	Europe Flex-Cap Equity	EUR	3,55%	7,62%

*Source: Morningstar 22/06/2022 / *21/06/2022*

Investment opportunities in Real Estate

What opportunities are available to invest in Real Estate through mutual Funds?

Why invest in actual real estate when you can buy a fund that invests in real estate? As investors know, Private Real Estate as an asset class provides low volatility investment opportunities for investors. Real estate investments generate stable and long-term cash flows and appear as a good protection to inflationary threats thanks to lease indexation.

With covid 19, some areas of real estate, such as offices, or retail real estate were affected, but it seems the market has started to recover, and other opportunities have started to rise within this sector.

With this in mind, we have spoken to different experts who have analysed the opportunities available for investors in real estate funds, as they offer great opportunities for diversification and under the current inflationary markets.

Peter Billiet
Owner of Family Office and Fund Selector at Fintegrity

Belgians love real estate. Thanks to **low mortgage interest rates**, a lot of middle-class Belgians entered long term debt to buy more real estate that they rent out. In most cases they rent out apartments. This comes with a lot of work: building process, piles of paperwork, extra taxes, legislation, rental contracts, inventory checks, choice of tenant, a huge investment of your personal time. In short, a lot of hassle....

You also need to hold your **real investments at least 10 years to 20 years** to realise a decent return to overcome the 21,00% V.A.T. And when there is a sudden death in the household, the husband or the spouse, there is an inheritance tax can be up to 27,00%. **Where is your profit now?**

Why not invest in real estate as a financial product?

Why invest in real bricks and mortar when it is much easier to **invest in real estate by buying a fund that invests in real estate.** Far less hassle, very liquid and bigger returns. You can invest in a passive way through ETFs or in an active way through UCITS funds. You can choose asset classes, such as commercial real estate, private housing real estate, hotels, student housing, offices, schools, etc....

For the moment there is not a huge choice in ETFs or UCIT's, but it is my belief that this market will become bigger. This asset class is capable of delivering better returns with higher volatility and similar risk. You easily double your money in a decade and even more. As these investments are financial instruments, in Belgium you can donate them to your children without being taxed. You do need to live 3 years after donation. If you want to avoid the 3-year period, you can pay an immediate 3,00% donation tax. Much better than the 27,00% inheritance tax.

As demography is still growing in Europe, there is a tremendous shortage in housing. The individual cannot solve this problem. Large corporations need to and will invest in private housing. Only the process is long, licences, building process, it can take up to five years. But there is a desperate need in Europe for hundreds of thousands of private houses.

Some ETF examples:

NAME	ISIN	2015	2016	2017	2018	2019	2020	2021
iShares Developed Real Estate Index Fund (IE)	IE00B7F1RC73	10,30%	7,10%	-3,00%	-1,00%	24,20%	-16,50%	37,70%
Lyxor STOXX Europe 600 Real Estate UCITS ETF - Dist	LU1812091194	17,75%	-5,30%	12,49%	-8,45%	27,92%	-8,76%	17,53%

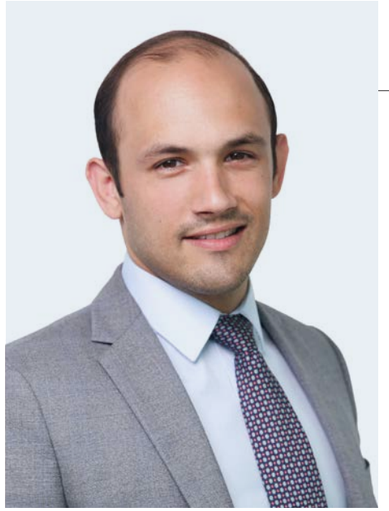
Some UCIT examples:

NAME	ISIN	2015	2016	2017	2018	2019	2020	2021
Cohen & Steers SICAV European Real Estate Securities	LU0157594705	24,24%	-4,84%	2060,00%	-1,82%	33,43%	-2,35%	24,92%
Janus Henderson Horizon Pan European Property Eq.	LU0088927925	22,13%	-7,86%	19,77%	-5,62%	35,60%	-3,93%	27,38%

Source: Morningstar

Charles Verneuil

Fund Selection Specialist at BNP Paribas Real Estate Investment Management



Obviously, **diversification is the best tool to manage the risk when uncertainties are in the market.** In the context of the post pandemic, many factors are testing the resilience of the global economy: the Chinese response to rising Covid-19 infections; the war in Ukraine; the increase of commodity prices and the tightening in monetary policy.

Private Real Estate as an asset class provides low volatility investment opportunities for investors. Real estate investments generate stable and long-term cash flows and appear as a good protection to inflationary threats thanks to lease indexation. For these reasons, we have seen an increasing interest from private and institutional investors over the last years.

After an all-time high in Q1 2020 (€318bn over 12 months), **commercial real estate** investment in Europe plummeted over 2020 and **reached its lowest point in Q1 2021 (€217bn)**, 12% below the 5-year average. Investment was inhibited by the lockdowns all over Europe, travel restrictions as well as hesitation from institutional investors that adopted a wait-and-see attitude.

Investment traction restored from Q2 2021 (€248bn) as **European countries gradually took control of the outbreak mainly through vaccination.** It reached €304bn in Q1 2022, second best result after Q1 2020. Most asset classes benefited from this positive turnover. Offices (+60%) showed significant improvement, but so did hotels (+33%) as well as retail (+26%).

OFFICE PRIME RENTS IN EUROPE

Source: BNP Paribas Real Estate

There is no comparison between the impact of the current crisis on investment volumes and that of the global financial crisis of 2008/9 throughout Europe. Volumes remain high, as today's credit conditions are not tight, and investors do not expect major deflation in prices in most markets for secure assets.

Office was one of the sectors most affected by the crisis. The **sudden expansion and adoption of remote working sowed doubt among institutional investors** who questioned its current dominance in portfolios.

Offices showed resilience and investment increased from Q1 2021 to Q1 2022 to reach €27.2bn, an all-time high for a Q1, 20% above its 5-year average. After a sharp increase over the course of 2020 and in the first half of 2021, vacancy rates seem to be stabilising since the end of Q2 2021, thanks to the progressive recovery of take-up.

With the **current uncertainties**, we are already seeing a flight-to-quality from investors. Most markets are seeing two-speed dynamics, with low availability in central submarkets and in new buildings, and **much higher vacancy rates** in peripheral office districts. Despite the slowdown in take-up, the prime market segment did not suffer from the crisis.

Indeed, in most markets, prime rental values never decreased over the outbreak of the pandemic, and many of them are now even higher than their pre-crisis level. The very low availability of prime assets and the appeal of high quality buildings located in the most sought-after districts drove values up.

Tim Peeters

Managing Partner at Miles Ahead Investment Company

The end of an era for growth stocks

The **contemporary art of growth investing gained in popularity over the last ten to fifteen years.** The idea that firms could generate millions up to billions with their new ways of servicing and technologies attracted an increasing number of participating investors. The perspective on its own was mostly enough to gain the credit of the mass.

Reasons enough for such investments in the future as in a yield-less environment the only assets you could consider would be equities. Probably even better were the assets of those firms able to multiply their revenues and profits in this ever-changing world. Their stock performances would outpace those of stable businesses with a clear income path, as they would make the future. The ultra-loose monetary policy fed this process over and over again. And while multiples of this asset class got sky-high, analysts kept on saying 'TINA' (there is no alternative).

The Renaissance of value investing

After a decade of unconventional monetary policy, **investors were blindfolded for the risks associated with stricter central bank policies.** Rising rates and higher inflation were market themes unseen for years. Let alone that some investors ever experienced this phenomenon. One must have lived the seventies or have at least some vibrant imagination.

Today we must face a new era in which we should prepare for a market we haven't seen for decades. Inflation hits factory prices and will soon erode their quarterly earnings. Firms will try to test their pricing power to resist these challenges. However, revenue and income disappointments will pop up. Customers will start choosing for their most basic needs and will for sure cut out on useless or expensive purchases.

In this environment investors' interest will grow for businesses with a clear income path. The importance of knowing what is to be earned today and tomorrow will outpace investments in which there might be a huge profit in some years from now.

With higher interest and inflation, the awareness arises that growth paths might not always be as rosy as promised. Combined with the fact that these growth stocks were priced for perfection and the recent rotation from growth to value assets becomes obvious, with outperformance for the latter.

A bright spot with a value edge

Although most sectors in the value space performed better, there are always some laggards. **The prospect of higher rates erased around 25% of the market value of European REITs** since the start of the year. While investors feared the impact of higher rates for lending capabilities, they forgot their robustness to inflation.

While projects were mostly financed on a long-term basis, rental prices are mostly covered for inflation on short notice. **The income and earnings streams of REITS might thus be more stable and resistant than expected by the market.** History shows that REITs have proven to be a decent hedge against inflation and the future will probably show a similar pattern once investors recognize this.

Next to the attractiveness of this intrinsic pricing power, listed real estate is trading at an attractive valuation level and at a significant discount versus NAV. Even more, **REITs are cheaper than the market and cheap compared to their historical valuations.** So maybe it's time to buy the Renaissance of Real Estate!

ETFs investing in disrupting technologies

Which are the game changing technologies creating great opportunities for investors?

Arelis Agosto
Research Analyst at Global X

Technology is part of the evolution of modern societies, we see new technologies available every day, which help improve and advance in other areas of our life such as healthcare, banking or our own digital security.

Disrupting technologies also present great opportunities for investors, who most of the time, also contribute to the development of these technologies.

Investing in these technologies through ETFs could be a great idea for investors, and for this reason we have spoken to the experts to understand the potential of various disrupting and game changing technologies might have for investors.

Liquid biopsies provide hope for quicker and more accurate early-stage cancer detection across a wider range of cancer types with a simple blood test. Using current standard of care, only about 25% of cancers are detected via screening. The remaining 75% are detected when the patient is symptomatic, and most likely in a later stage of cancer. Largely as a result, cancer accounts for 609,000 deaths a year in the United States, making it the second leading cause of death. Liquid biopsies, however, are a major source of hope. This approach can be particularly beneficial for detecting cancers that currently do not have proven screening methods and thus require invasive tissue biopsies.

The **liquid biopsy space** is still quite nascent compared to other cancer screening alternatives and firms continue to pursue improved test accuracy but competitions is heating up.

In our view, **the firms best positioned to drive test adoption** will be those that have comprehensive portfolios with diagnostic options at each step along the entire cancer care continuum, from diagnosis through remission. In addition, we believe having both tissue and liquid-based diagnostic options will help validate the benefit of this new diagnostic approach and drive long-term adoption. Breadth of portfolio will also aid firms in gaining reimbursement coverage, which will ultimately make the technology accessible to a greater patient population.

Beyond traditional points along the cancer care continuum, we anticipate that hereditary cancer testing and real-world evidence (RWE) will increasingly converge with the segments of traditional oncology diagnostics that liquid biopsy addresses:

Hereditary Cancer Testing: This blood-based test searches for specific genetic mutations that can help identify patients at a higher risk of developing cancer in their lifetime.21 For example, if a patient has a BRCA mutation, physicians might recommend more frequent screening tests, such as mammograms and MRIs.22 One in eight cancer patients has an inherited gene mutation.23

Real World Evidence (RWE): RWE can take the shape of robust databases offered by healthcare companies that can be used to accelerate research and development (R&D) of cancer medications. Liquid biopsy companies are increasingly partnering with pharmaceutical and biotech firms to offer de-identified clinical information and genomic data collected from their liquid biopsy tests. These partnerships give drug developers insights into tumour evolution, treatment resistance, and anti-cancer therapy use. In practice, these insights can help pharmaceutical firms prioritize development of cancer drugs by level of unmet need, shape the design of clinical trials to better determine drug effectiveness, and evaluate success of approved drugs.

Liquid biopsy technology has momentum as an increasingly viable early-stage cancer detection tool. We're seeing that momentum play out as firms expand their portfolios and established life sciences companies enter the space. Increased acquisition activity is another telltale sign of liquid biopsy's growth potential, including Exact Sciences' $2.15 billion acquisition of Thrive Earlier Detection, Illumina's $8 billion re-acquisition of Grail, and Agilent's $550 million acquisition of Resolution Sciences. In our view, these developments can accelerate research in the industry and shift the oncology landscape as patients and providers begin to experience the benefits this groundbreaking technology can provide.

Rahul Bhushan
Co-Founder at Rize ETF

In the modern era, besides on-the-ground physical warfare, battles are also being waged in cyberspace. While these attacks may not be visible, their consequences are certainly being felt in the real world.

The digital world is bleeding into our physical world and causing havoc to our security infrastructure.

Powerful cybersecurity will need to underpin our new digital economy. Cybersecurity will become essential to humanity's ability to survive in the digital age.

The Cybersecurity of Geopolitics

The **events of this year underscore a marked shift in how we think about our own security.** For the first time in history, we have parallel physical and digital wars being waged by threat actor Russia.

Cybercriminal activity was on the rise in the lead up to the War in Ukraine but also in the following weeks. In the first two weeks of March, for example, cyber-attacks began to form as hackers in Russia leveraged the conflict to wage war on critical pieces of infrastructure both in Ukraine and in the West.

In an interview with CNBC on March 15th, 2022, George Kurtz, CEO of cybersecurity specialist **CrowdStrike,** reported that e-crime was up since the outbreak of the war. The potential threat from Russia has of course not disappeared. Businesses today are particularly vulnerable to Russian retaliation on sanctions and asset freezes.

So much so that the European Union has now activated its Cyber Rapid Response Team, which includes 10 national cybersecurity officials from 6 European countries — Croatia, Estonia, Lithuania, the Netherlands, Poland and Romania — who stand ready to provide assistance to countries under cyber-attack.

Omnipresent Threat

We therefore have a **threat landscape that is more multi-dimensional.** And as the threat landscape has evolved, so too have our cybersecurity solutions. We **have moved away from hardware** and patch fixing to smarter, more predictive models of cybersecurity that have the ability to learn and improve in real-time. Good cybersecurity today is about having the infrastructure to deal with the fallout from attacks, and our ability to detect and address these attacks before they manifest into real risks. We now know that the "human element" of cyber risk is far too often overlooked, and far too seldom acknowledged.

Tales of Cybercrime

At this time of **unprecedented digitisation**, no-one, whether individual, business or government remains safe from cybercriminal activity. In 2021, we saw major cyber-attacks on Microsoft, Acer, Channel Nine and the Florida Water Treatment Facility. **2022 is also shaping up to be a bumper year for cybersecurity.** Just in May alone, we saw the US Departments of Defense tricked into paying $USD 23.3 million to a phishing actor. We saw General Motors and the American Dental Association hit by cyber-attacks. We also saw the island country part of Denmark, Greenland, hit by a cyber-attack whereby its health service was crippled.

In addition, **NFT marketplace OpenSea** became a victim of a hack on its main Discord channel.

Conclusion

Cybercrime is no longer just an existential threat. It's a real risk, and now a tactic in warfare. In the years ahead, as technology democratises access to nefarious malware and exploit kits, cyber-attacks are expected to become even cheaper and more ubiquitous.

Cybercrime and politically motivated cyber-attacks are likely to be an increasingly terrifying threat; one that is to stay.

Investing in renewable energies

What opportunities are out there for investing in renewable energy?

The war in Ukraine has made us aware of the dependency of Europe in oil and gas from Russia. Since the beginning of the war, oil prices, and therefore the cost of petrol, has been rising, ultimately affecting the lives of millions of people using cars in Europe.

As a consequence, and in order to palliate the effects of the high costs, European leaders are pushing for a faster switch to renewable energy.

Their ambitious plans now call for fast-tracking deployment of solar and tripling clean energy capacity by 2030.

The use of electric vehicles could be one of the solutions being made under the current circumstances. Zeynep Aslan, talks about the opportunities available for investors within electric vehicles, and the industry around it.

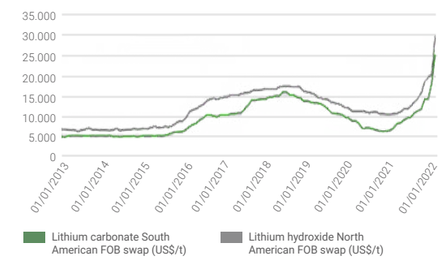
Zeynep Aslan
Senior Wealth Manager, Portfolio Manager at Fuchs & Associés Finance SA

The rapid penetration of **electric vehicles** has led to questions on its most expensive component – the battery. What happens to the batteries when they retire from EVs due to capacity fade? After 8 to 10 years of service in **EVs, batteries are normally retired due to faded capacity and power that fail to meet the range requirement of electric vehicles.** According to IDTechEx's latest report on Second-life Electric Vehicles 2020-2030, there will be over six million battery packs retiring from electric vehicles per year by 2030. Recycling to extract raw materials from the spent batteries seems to be the default option. However, those used batteries could still retain up to **70-80% of the original capacity** that can be further utilised in less-demanding applications such as stationary energy storage, before being recycled. Major OEMs and energy storage companies have launched various pilot and business initiatives to explore second-life applications for used EV batteries.

According to Blackrock, **in 2021 electric vehicles represented 8.5% of car sales**, more than triple their market share from two years ago. Charging a car is cheaper than filling a tank, but the problem is not everybody can charge easily. In order to power 26 million electric vehicles in the United States by 2030, public and workplace charging will need to grow 27% annually, from approximately 216,000 chargers in 2020 to 2,4 million by 2030.

How about the raw materials that is needed for the batteries? After dipping from the end of 2018 to the end of 2020, lithium prices rose sharply in 2021. Lithium carbonate prices had been dropping since a peak in 2018 of around $15,000 per ton to half that price by the end of 2020. But, in large part due to the demand for EVs, the price has been growing all through 2021, hitting over $25,000 per ton by the end of last year, and now reaching over $40,000 per ton.

This looks like a dire situation, because **EV demand is only going up and some are now saying that production can't scale because lithium prices will hold it back**, along with surging prices of other minerals.Cobalt has gone from $30,000 in 2020 to $80,000 per ton in 2022 and nickel has surged even more, relatively speaking, from $20,000 to $80,000 per ton.



Source: Trading economics / Mining technology

On the other hand, **T&E's study assesses the amount of raw materials needed to make electric vehicle batteries today and in the future** - taking into account changes in manufacturing processes and recycling. It compares this with the raw materials needed to run a fossil fuel car to show that electric car batteries need significantly less raw materials. The report also shows that on a systemic level Europe's overreliance on oil imports far outweighs those of battery raw materials, helping Europe to become self-sufficient in batteries.

There is **much controversial information related to the battery situation of electric vehicles** which is the most important component of this relatively new transportation method. We will continue to monitor the developments closely.

RANKIA FUNDS EXPERIENCE | Europe

Some highlights of the I edition of the Funds Experience Europe

We have celebrated the first edition of the Rankia Funds Experience Europe, an event that has attracted more than 70 professionals from the asset management industry from around Europe.

During 2 days fund selectors and buyers had the chance to meet with six international fund managers, and learn about their strategies, ask questions, and network with other european peers.

Perhaps 2022 has not been a great year for the markets so far, but we wanted to ask some of the fund managers who took part in the event about the strategies they presented, and what are their views for the next six months of the year.

abrdn

Samuel Bevan

Investment Director - Emerging Market Debt

1 Could you tell us about the strategy of the fund you have presented at the event?

I presented abrdn's Emerging Market Sustainable Development Corporate Bond Fund that launched in December 2021. It aims to deliver 'profit with purpose' by investing in sustainable solutions from companies that are positively aligned with the United Nations' Sustainable Development Goals. We see it as a pioneering product in the market as it one of only a handful of Article 9 emerging market debt mandates.

The Fund invests in the hard currency denominated bonds from high-quality companies that can meaningfully contribute to sustainable development in emerging markets. The investment process is underpinned by bottom-up stock selection and we have a disciplined approach to long term investment and top-down risk management, as well as a preference for low portfolio turnover

2 What are your views for the second half of the year?

It has been an extremely difficult start to the year for most asset classes and uncertainties remain. Investors will continue to focus on risks around the rate hiking cycle, Ukrainian conflict, Covid restrictions in China and the developing food crisis. However, it must be underlined that we have already had a very significant move in risk assets.

As an asset class, EM corporate debt is relatively well positioned. Emerging market companies termed out debt prior to the pandemic so there is not a large near-term maturity wall and net leverage is the lowest it has been in over a decade. Therefore, we do not expect a significant pick-up in defaults from here onwards. At close to 7% in US dollar terms for a 4.5 year duration asset class with an average credit rating of BBB-, it feels like an attractive entry point.

3 What have you enjoyed the most about the Rankia Funds Experience Europe?

Being face-to-face with clients again. It is much easier to exchange ideas and build a relationship in person – and it is very welcome after years of Zoom calls! Also, cooking paella with a beer in the sun in the home of paella was a real treat.

COMPASS GROUP

Ninety One

Luis Pardo

Co-Portfolio Manager

1 Could you tell us about the strategy of the fund you have presented at the event?

The two strategies that we presented at the event were, the Latin American Corporate Debt strategy and the Latin American High Yield Strategy. The Latin American Corporate Debt strategy, it's a UCITs daily liquidity Fund that Compass Group sub advice for Ninety One Asset Management since April 2010. The LatAm High Yield strategy has 5 years of track records, and It's accessible through a RAIF structure. The latest has the capacity to invest up to 20% in Private Credit transactions, which gives an extra pick-up yield over traditional corporate Bonds.

Regarding the Latin American Corporate Debt asset class, we see that companies in LatAm are in their best shape in over a decade, with default rates in the region below the long-term average (and significant below other EM regions, such as Asia and Eastern Europe). In terms of valuations, they are still attractive compared to other regions, with spreads trading above 400bps, despite the strong corporate fundamentals.

We also see corporate bonds in LatAm are offering attractive yields relative to many other fixed income alternatives and higher spreads per unit of leverage than U.S. corporates on a rating-matched basis. When compared to other EM region, LatAm corporate debt has a better risk adjusted return profile than the rest, given the healthier balance sheets reflected in lower default expectations.

Finally, we see Latin America as one of the few regions within EM that is currently offering investors a geographical location far away from current conflicts and a political system that provides procedural institutions and transparency through debate and free press, despite sometimes having heightened political noise levels.

2 What are your views for the second half of the year?

Base rate movements, expectations of tightening monetary policy and geopolitical events have taken the center stage during the first half of the year and will most probably continue to be the main drivers of the volatility in our asset class. However, we still believe that global rates should will remain low over the mid-term horizon, economies will keep recovering, and liquidity will continue to flow into emerging markets.

While we expect growth rates in the region to stabilize from elevated levels seen in 2021, Latin America might still see growth in line with potential this year as it continues to benefit from higher commodities prices and depreciated currencies. Additionally, many countries in the region have already increased interest rates substantially, as current inflation prints have been higher than initially expected.

The political calendar in LatAm needs to be monitored closely, as it remains heavy with presidential elections in Brazil and a plebiscite for a new constitution in Chile. Even though valuations have come down from the multi-year high seen in 2020, they are still attractive, with spreads trading slightly above long-term averages. However, volatility could stick around in the short term until there is more visibility on the path of inflation in the U.S. and until the market gains more confidence in the FED's ability to navigate this without committing a policy mistake. Additionally, it will be important to closely monitor the recent increase in geopolitical volatility and its longer-term effects on global growth and inflation.

Latin American companies demonstrated strong resilience during the pandemic in the corporate landscape. We believe the deleveraging process that began in 2016 should continue in 2022. Given the solid outlook at the corporate level expected for next year, we have kept a higher allocation towards the high yield sector in the portfolio in corporates with improving fundamentals, in a context where default rates might remain well below the long-term average trends. Lastly, we remain positioned with lower duration than the asset class without direct exposure to local currencies.

3 What have you enjoyed the most about the Rankia Funds Experience Europe?

We enjoyed the format of the event as the smaller round-table sessions, which allowed for a general overview of the fund with several investors. These "one-to-few" meetings were followed by more in-depth one-on-ones that allowed participants to follow up directly with us. Additionally, the structure of the event allowed for quality networking time with clients, which permitted a more personal interactions with clients.

Nicolò Vezzoso, CFA

Head of the Fundamental equity global team at ANIMA Sgr

1 Could you tell us about the strategy of the fund you have presented at the event?

We presented Etica Sustainable Global Equity, which has at its core an ESG and sustainability investment approach. Actually, this is a common trait of all Etica products, as Etica Funds has been involved exclusively in ESG investment strategies since it was founded in 2000. Etica Funds uses a proprietary methodology to evaluate different ESG criteria, through the scrutiny of a dedicated ESG Analysis Team that boasts unparalleled experience and expertise in the ESG field.

Etica Sustainable Global Equity is a long-only fund with a medium-long term investment strategy. The fund is characterized by a fundamental and thematic investment approach, with a strong focus on engagement with companies: dialogue between Etica and the management of the businesses in which our funds and Sicav sub-funds invest and the exercise of voting rights (shareholder activism) associated with our funds' holdings. The fund invests globally in listed equities within the developed markets.

2 What are your views for the second half of the year?

The equity markets went through a "normalization process" from a valuation perspective in the first part of 2022 and now we are likely going through a phase of adjustment of the earnings expectations.

However, the increased market volatility and the significant equity market correction are starting to create very interesting opportunities for stock picking and for investments with a medium-long term horizon.

The volatility of the markets could remain relatively high in the upcoming months, but the investors sentiment has already turned quite negative and the positioning is lighter compared to the beginning of the year: this should lead to a more constructive market setup going in the second half of 2022. As Central Banks regain control of the inflation narrative, we should see a better backdrop for equities in the second part of the year.

3 What have you enjoyed the most about the Rankia Funds Experience Europe?

The atmosphere at the event was great! The Rankia Funds Experience Europe was well designed, with the right balance between formal and informal activities, which gave us opportunities to meet investors, to network and to share opinions. The one-to-few and one-to-one format was successful: we appreciated the fact that the presentations were paperless and supported by the use of tablets, which were distributed to all of the participants. As my presentation material featured several tables and graphs, this made it easier to zoom into the presentation and better look at the information provided, stimulating the discussion. In addition, the location of the event was stunning and the city of Valencia was a nice surprise!

Brett Collins, CFA

Executive Director and Client Portfolio Manager at NCRAM

1 Could you tell us about the strategy of the fund you have presented at the event?

Nomura Corporate Research and Asset Management (NCRAM) is a credit boutique that specializes in managing high yield bond portfolios. Our flagship US High Yield strategy maintains a consistent 30-year track record of outperformance vs. its benchmark. We also manage European and global high yield portfolios, among other strategies. Our strategies are research-driven, adding value through bond selection and top-down positioning, and we integrate sustainability analysis in all of our portfolios.

2 What are your views for the second half of the year?

2022 has been a challenging year for investing in risk assets, including high yield. However, the result of this year's sell-off is yields in excess of 8% (as of June 20) for investors deploying capital in the US and global high yield markets. There are certainly a host of macroeconomic and geopolitical risks facing investors at the moment, but the relatively robust fundamentals and technicals supporting high yield make us cautiously optimistic about the outlook for the rest of 2022.

3 What have you enjoyed the most about the Rankia Funds Experience Europe?

I greatly enjoyed engaging with the bright, thoughtful group of participants at Rankia Funds Experience Europe. Thanks to the diverse perspectives of my fellow attendees, the events enabled me to both learn about emerging investor needs and share insights into NCRAM's strategies in equal measure.

GSA CORAL

Aaron Maskrey

Director, Capital at GSA - Global Student Accommodation

1 Could you tell us about the strategy of the fund you have presented at the event?

GSA Coral's investment objective is to achieve long-term capital growth by investing into purpose-built student accommodation (PBSA) residences in highly reputable higher education markets within the G20.

GSA Group is the first global leader in student accommodation., by creating best-in-class residences in the most sought-after university destinations worldwide. We are not just delivering student beds, we are developing real communities in which the students of today and tomorrow can thrive.

In addition to portfolio management, GSA Group also provides investment management, real estate development and operational teams managing our communities. We operate over $5.5bn gross assets, across 9 countries and 66 cities throughout the US, Europe, the Middle East and Asia Pacific.

GSA's senior management team has been instrumental in the creation and development of the purpose-built student accommodation sector since 1991. Our growing international team of employees enables us to drive our business and vision forward.

2 What are your views for the second half of the year?

For over 30 years, our leadership teams have dedicated themselves to transforming student housing into today's institutional-grade real estate sector.

During this time, we have seen first-hand the sector's resilience having navigated nine economic events, including the global financial crisis and more recently the COVID-19 pandemic.

Despite today's ongoing global economic uncertainty and an inflationary environment, we are confident, based on our track record and unparalleled knowledge of the sector, that the higher education sector has the foundations and resilience to continue to perform strongly.

Student housing is driven by core fundamentals of demand for higher education and limited supply of student accommodation, which continue to underpin the sector.

We feel that four key themes will continue to grow as we approach the end of the year:

- Continued growth in demand for higher education through economic cycles Growth in the global middle classes and positive demographic trends (with Gen Z-ers set to become the most educated and diverse generation yet) underpin the importance of education as a life choice for individuals and families and continues to drive demand for higher education globally.
- An undersupply of stock – under greater than ever pressure in the post-Covid economy - The pace of demand growth continues to outperform the speed of student housing (PBSA) delivery. Globally, less than 15% of full-time students can access student housing. In the UK student housing (PBSA) supply represents approximately 30% of full-time students, in the US it is 25%, whilst in continental Europe it is below 20% depending on the location.
- The demand/supply imbalance underpins returns, driving rental growth and having a positive impact on yields., contributing to a proven resilient and stable investment sector. In 2021 over $22bn was invested in student property globally, a 23% increase on investment in 2020 and the highest total volume on record (Knight Frank, 2022).
- Student sector consistently proves to be more resilient than other real estate sectors. This reinforces investor interest in the sector and how a potential recession may impact the business.

3 What have you enjoyed the most about the Rankia Funds Experience Europe?

We enjoyed the event structure which had smaller roundtable sessions followed by more intimate one-to-one interviews. This structure allowed for a more general Fund overview to several investors, who then had the opportunity to investigate further with specific follow-up questions direct to our team. This structure allowed for a more high quality interaction with the client.

What books about finance are the professionals reading?

As summer approaches, we want to look at some reading options to cultivate our financial minds.

Reading is a pleasure, and now that summer approaches it is important to have a set of good literature to take to the beach, to the swimming pool or even to read in our gardens while using some time off.

For this reason, and because we believe it is always a good time to read about finance and the markets, or learn something new, we have asked our professionals to recommend some of the books about finance that have been relevant to them in recent years.

Take a look at the recommended options, we have added them to our summer readin list already!

Eric Lynch
Co-manager of iMGP US Value

1951's The Intelligent Investor, More Timely Than Ever

On my first day as a freshly minted MBA at his six-member boutique investment firm, David Polen thrust Benjamin Graham's "Intelligent Investor" into my chest and gruffed loudly in his native Brooklyn accent, "Read chapters 8 and 20. That's all you need to know about investing" and summarily walked off. "Really? That's it?", I thought.

Twenty years, three bear markets and a firm - Scharf Investments - later, and the answer remains the same - "Yep, pretty much."

Warren Buffett, the famous Graham's mentee, still calls ***"The Intelligent Investor"***, first written in 1951, the best investing book he has ever read. One of the most fascinating and consistent market markers in my own career is one I call the "Buffett Dinosaur" market top. It is characterised by financial news headlines like "The Oracle has Lost his Touch" that point to Buffett's lack of foresight in investing into momentum leaders like internet stocks in the late 90s, or bitcoin now. They become prevalent around every market peak, and reference Buffett, and by backward extension, Graham's investment principles as outdated and irrelevant. And within a year or so, only after the speculative excess du jour has unwound, do battered investors return to Graham's "Intelligent Investor " maxims.

In chapter 8, **Graham introduces us to Mr. Market, your fictional business partner, who makes daily offers to buy or sell interest in the business at prices that vary wildly.** Often his assessment of value is driven by his mood – sometimes excessively optimistic or pessimistic - and not the business' fundamentals. Graham uses Mr. Market as a parable to common stock investing – we should ignore the urge to let stock prices, and the short-term underlying mood behind them, serve as investment signals themselves. Instead, "Price fluctuations have only one significant meaning for the true investor. They provide him with an opportunity to buy wisely when prices fall sharply and to sell wisely when they advance a great deal."

In chapter 20, Graham explains that investments must be bought at a substantial discount to fair value to provide a "margin of safety." This protects the investor from inaccurate earnings forecasts. Graham emphasises the importance of sustainable "earnings power" in relation to the price paid. **The lower the price paid, the better the return.** The more sustainable the earnings power, the better the return. Interestingly, as investors today, concerned by rising interest rates and high market multiples chase investment in classic cyclical value sectors, Graham offers a difference of opinion, writing in chapter 20, "Observation over many years has taught us that chief losses to investors come from the purchase of low-quality securities at times of favorable business conditions".

In this most recent market cycle, one which has seen the S&P 500 reach P/E levels on par with the tech bubble, meme stocks like money-losing Game Stop return over 2,000% since January 1, 2000, joke digital currencies like Dogecoin and the existence of over 1,000 "Unicorns", private companies with > $1bn plus valuations, the need for investors to heed Graham's chapters 8 and 20 is more urgent than ever.

Mario Aguilar

Senior Portfolio Strategist at Janus Henderson

In Pursuit of the Perfect Portfolio" by Andrew W. Lo and Stephen R. Foerster

As investors, **we are constantly thinking about our investment portfolios.** We study the markets, academic papers, and even the human psyche in pursuing a better understanding of the risk/return trade-offs of our investments. Most professionals would approach the problem of creating a "perfect portfolio" using methods that have taken decades of research and work by some of the greatest finance academics and practitioners in the history of our profession. Messrs. **Lo and Foerster remind us of who these luminaries have been and of their many contributions.** Through a superbly written and well documented book, the authors take us through a journey in time through the personal and professional lives of 10 individuals that have changed the way we invest.

The **book dedicates one chapter to each of the following: Jack Bogle, Charley Ellis, Gene Fama, Marty Leibowitz, Harry Markowitz, Bob Merton, Myron Scholes, Bill Sharpe, Bob Shiller, and Jeremy Siegel.** The writers have done a very good job in combining some biographical facts around their childhood, family lives, and the paths, some of them serendipitous, that led them to finance, be it as academics or practitioners, and on some cases as both.

One of the key messages of the book is that there is no such thing as an objectively "perfect portfolio". A portfolio is "perfect" if it fits the individual. This means that it:

- Needs to help them achieve their goals
- Takes into consideration their existing wealth and income
- Is predicated on the amount they can afford to save and, on their willingness, to do so
- It considers their chosen time to retirement
- It reflects their ability and willingness to bear risk.

Therefore a "perfect portfolio" is "perfect" if it meets the individual's expectations and fulfils their needs. All the people interviewed by the authors provide similar messaging around portfolio construction and how to think about this. The result is a combination of ensuring that, as investors, we answer the following questions:

- How much wealth do we have?
- What is the monthly income I would like to have if I were to retire with the lifestyle I want?
- How many years do I need to work until I retire? And, am I willing to work more if my goals are not met?
- How much am I saving every month? If not enough, can I save more?
- How comfortable am I with risk?

How do the characters build their **"perfect portfolio"**? It really depends on the individual, some hold (or held) a blended portfolio of US equities and fixed income; some diversified as much as possible into emerging markets, specialist fixed income, or hedged funds; and others sought exposure to derivatives. The fact that most of them disagreed on what constitutes a perfect portfolio is an invitation for us, as practitioners, to continue working towards this goal.

CREDITS

Colaborations:

- **Vincent Chaigneau**, *Head of Research at Generali Investments*
- **Sabrina Khanniche**, *Economist at Pictet Asset Management*
- **Jeremy Lawson**, *Chief economist and head of the abrdn Research Institute*
- **Sebastien Galy**, *Senior Macro Strategist at Nordea Asset Management*
- **Katie Trowsdale**, *Head of Multi-Manager Strategies at abrdn*
- **Christopher Carlton**, *Head of Manager Research at abrdn*
- **Dee Jones**, *Head of Investment Platform at abrdn*
- **Eduardo Sánchez**, *Head of Fixed Income and Absolute Return Research at Square Mile Investment Consulting & Research Limited*
- **Lucas Strojny, CAIA**, *Multi-Asset Portfolio Manager at Meeschaert Amilton AM*
- **Charles Diebel**, *Head of Fixed Income at MIFL*
- **Barry Cowen**, *Head of Model Portfolio Services (MPS) and Senior Fund Manager at Sanlam Wealth*
- **Peter Billiet**, *Owner of Family Office and Fund Selector at Fintegrity*
- **Charles Verneuil**, *Fund Selection Specialist at BNP Paribas Real Estate Investment Management*
- **Tim Peeters**, *Managing Partner at Miles Ahead Investment Company*
- **Arelis Agosto**, *Research Analyst at Global X*
- **Rahul Bhushan**, *Co-Founder at Rize ETF*
- **Zeynep Aslan**, *Senior Wealth Manager, Portfolio Manager at Fuchs & Associés Finance SA*
- **Samuel Bevan**, *Investment Director - Emerging Market Debt*
- **Luis Pardo**, *Co-portfolio Manager*
- **Nicolò Vezzoso, CFA**, *Head of the Fundamental equity global team at ANIMA Sgr*
- **Brett Collins, CFA**, *Executive Director and Client Portfolio Manager at NCRAM*
- **Aaron Maskrey**, *Director, Capital at GSA - Global Student Accommodation*
- **Eric Lynch**, *Co-manager of iMGP US Value*
- **Mario Aguilar**, *Senior Portfolio Strategist at Janus Henderson*

Special Insight: Is it time for value investing?

- **Richard Rainback, CFA**, *Fund Analyst at EFG Asset Management (UK) Limited*
- **Ian Hargreaves**, *Co-Head of Asian and Emerging Markets Equities at Invesco*
- **Pierre Jimenez, CFA**, *Mutual Fund Analyst at Société Générale Private Banking*
- **Kenneth Little, CFA**, *Managing Director, Investments Group*
- **Brent Fredberg**, *Director, Investments Group*
- **Ted Kim, CFA**, *Director, Investments Group*
- **Brian A. Matthews, CFA**, *Director, Investments Group*
- **Andrea Profeti**, *Fund Analyst at EFG Asset Management (UK) Limited*
- **Craig Sterling**, *Head of Equity Research, US Portfolio Manager at Amundi US*
- **Rui Broega**, *Managing Director at Banco de Investimento Global*
- **Piergaetano Laccarino**, *Portfolio Manager at Amundi*
- **Nuno Salvador**, *Senior Fund Manager at Bankinter Gestión de Activos*
- **Duilio Ramallo**, *Portfolio Manager Robeco BP US Premium Equities*
- **Luis Sancho**, *Portfolio Manager at BBVA Asset Management*
- **Michael Barakos**, *Portfolio Manager at J.P. Morgan Asset Management*
- **Ian Butler**, *Portfolio Manager at J.P. Morgan Asset Management*
- **Thomas Buckingham**, *Portfolio Manager at J.P. Morgan Asset Management*
- **Wim Antoons**, *Head of Portfolio Desk at Portolani*
- **Ivan Martín**, *Partner, Founder and Investment Director at Magallanes Value Investors*
- **Ingo Kürpick**, *Managing Director at Wachstum und Value Finanzportfolioverwaltung GmbH*

Editorial team

Juan Such
President & Founder
juan@rankia.com

Miguel Arias
CEO & Co-Founder
miguel@rankia.com

Ana Andrés
Head of RankiaPro
ana@rankiapro.com

Patricia Molina
Investor Relations Specialist Europe
patricia@rankiapro.com

Carla Solera
Investor Relations Specialist Europe
carlasolera@rankiapro.com

Leticia Rial
Content Specialist
leticia@rankiapro.com

Sara Giménez
Investor Relations Specialist Iberia & LATAM
saragimenez@rankiapro.com

Naiara Mooy
Design and layout
naiara@rankiapro.com

Sales Team

José Antonio Sánchez
Sales Manager
Tel. (+34) 629 122 275
jasi@rankia.com

Alejandro Ortolá
Sales Manager
Tel. (+34) 620 742 667
alejandro@rankia.com

(+34) 963 386 976

en.rankiapro.com

C/ Serpis 66, Entresuelo B
46022 Valencia | Spain

Follow us on **RankiaPro Europe**