exane asset management

Monthly report
29 December 2023

Exane Equity Select Europe Fund

(share B, Euro)

Long equity

Universe: European Equity Fund

ISIN code: LU0719899097| Inception date: 28th September 2012

Fund manager : Eric Lauri

Fund description

Our European equity long-only fund, Exane Equity Select Europe fund, has chosen alpha generation through intra-sector stock-picking as its sole performance driver. The fund's objective is to outperform its benchmark, the MSCI Europe index with net dividends reinvested, as regularly as possible.

Key points this month

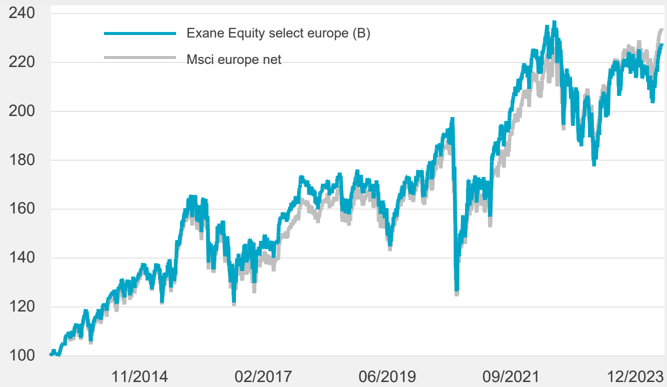
- The Select fund performed in-line with its benchmark in 2023
- The fund's overall sector hit ratio was 50%
- We took some important decisions to improve our alpha generation capacity

Key figures

- Monthly performance: **3.95%** / MSCI Europe : **3.71%**
- 2023: **14.87%** / MSCI Europe : **15.83%**
- Nav (€): **227,7**
- Net assets (Mio€): **633**

Performance

	12 months	3 years	5 years	Since inception
Cumulative				
exane Equity Select Europe (B)	14.87%	21.11%	53.46%	127.72%
MSCI Europe Net	15.83%	31.18%	59.86%	133.89%
Annualized				
exane Equity Select Europe (B)	14.87%	6.6%	8.9%	7.6%
MSCI Europe Net	15.83%	9.5%	9.8%	7.8%



The investment objective is to outperform, over the recommended investment horizon, its benchmark indicator the MSCI Europe calculated with net dividends reinvested.

Source : Exane Asset Management. Past performances are by no means a guarantee of future performance. Net of fees performances. All investments may generate losses or gains.

Fund managers commentary

Performance analysis

The Select fund performed in-line with its benchmark in 2023, ranking in the top third of returns for funds in its category*.

In 2023, market attention focused on interest rates. The rise in short-term rates significantly toughened financing conditions, while long-term rates were highly volatile, given the uncertainties over growth and the level of inflation. These factors also generated strong volatility among equities sensitive to long-term rates. In this environment, indebted companies with questionable pricing power and long-duration business models came under heavy pressure. Conversely, stocks in companies with relatively robust balance sheets and results returned strong performances.

The stocks which weighed most on the fund's performance included:

- Alstom and DSM-Firmenich which were penalised by their balance sheet/pricing power mix and poor business momentum.
- Carl Zeiss, Merck, Eurofins, Julius Baer and Prudential which underperformed relatively heavily due to earnings downgrades, disappointing margins and the macro environment in the case of Prudential.

Successful investments during the year included strong performances from the following stocks:

- Relx, Beiersdorf, LVMH and Kone, which enjoy robust balance sheets and pricing power, with strong business momentum, through judicious investment timing during the year in some cases, such as Beiersdorf and Kone, capitalising notably on interest-rate driven volatility.
- Stellantis, Publicis and Enel are all value plays with extremely robust balance sheets, which were also buoyed by impressive earnings upgrades, that we held throughout the year despite some particularly bullish performances - 74% for Stellantis and 47% for Publicis - which might have encouraged us to take profits too early.

Our sector hit ratio is at around 50% on the year. Half of our sector portfolio managers generated alpha (mainly automotive, consumer, utilities, telecoms/media) while the other half of our sector portfolio managers lost alpha (chiefly industry, healthcare, chemicals).

ESG review

Although 2023 was the hottest year on record, at +1.48°C compared to the preindustrial era, the solutions put forward to tackle the problem by governments and the financial markets appear to have remained at a standstill at best. The COP28 symposium was no exception to the rule either, confirming the primacy of national interests over seeking a joint solution - as the organisational conditions unfortunately foretold. Meanwhile ESG momentum has been hindered by extreme politicisation in the US and by the UK adopting a pragmatic approach tinged with cynicism (although deprived of leeway) along with inevitable growing complexity within the EU. Concerning the EU, 2024 will be an election year and perhaps therefore provide an opportunity for a regulatory pause and to refocus on the core notion of responsible investing.

At the end of 2023, the fund's ESG risk score significantly outperformed its benchmark index, at 19.5 vs 20.1.

Lastly, the fund's SRI label was confirmed, at least until December 2024, when the next audit is due.

* Morningstar category: Europe Large Cap Blend

Key portfolio changes:

During 2023 and at the end of the year, coverage of the materials & construction, retail, healthcare and chemicals sectors was reallocated, partly towards the portfolio managers with the strongest contribution track records (consumer and industry), and also towards two new portfolio managers who joined the team in 2023. One is a portfolio manager specialising in construction and chemicals, while the other is a healthcare sector specialist.

We also believe that enhancing reactivity and improving timing should contribute positively towards alpha generation. We have therefore decided to switch to direct investment management by the sector contributor team. This new approach involves stricter supervision and control. With this in mind, we are appointing Richard Pandevant, who is also Head of ESG within the management team, as joint-manager of the Select fund. This move also reflects our determination to place ESG issues centre-stage within the fund.

We have begun 2024 with the fund's active share at a low point, chiefly due to stop-loss triggers being activated in the healthcare and chemicals sectors. We intend to gradually build up our weightings in the healthcare sector and increase our chemicals exposure more rapidly.

Lastly, we believe that several stocks held in the portfolio harbour strong relatively asymmetric optionality:

- Eurofins has underperformed after a challenging post-Covid landing and also due to the group's clumsy financial communication. We believe however that this company's business holds promise, with strong positive momentum, and will be profitable over the medium term.
- Diageo underperformed heavily in 2023 after publishing disappointing results. Given our conviction over the long-term fundamentals in the liquors segment, we believe that holding a position in this stock at these levels represents an opportunity.
- Among tech stocks, we still believe that the microchip market will be buoyant in the long term and that normalised margins for groups like STMicroelectronics will be much higher than the market is currently pricing-in.
- In the energy sector, we are expecting renewed investor interest in Repsol, which was neglected by the market in 2023 due to volatility among refining margins, particularly after the investor day scheduled during the first quarter.
- Lastly, we have maintained our positions in Alstom and Prudential. For Alstom, the size of the capital increase and its timing will be determining factors for the stock's performance. Although we significantly underestimated the challenges in absorbing Bombardier and business project volatility in an inflationary environment, exacerbated by poor financial communication, we nonetheless believe that train manufacturing is a business of the future, which is viable when managed correctly and, once normalised, is worth more than the current share price reflects. For Prudential, we are betting on a slight improvement in sentiment in Asia which would rapidly lead to a strong outperformance.

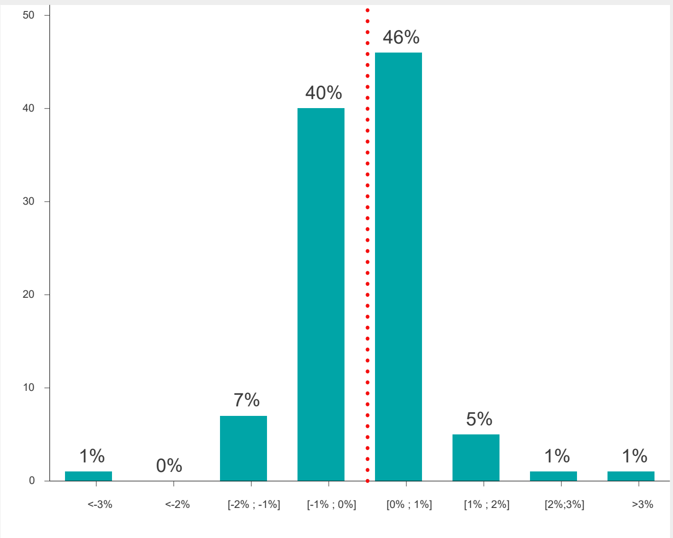
Risks

	12 months	Since inception
Volatility	14.4%	16.8%
Tracking-error	2.4%	2.8%
Information ratio	-0,40	-0,09

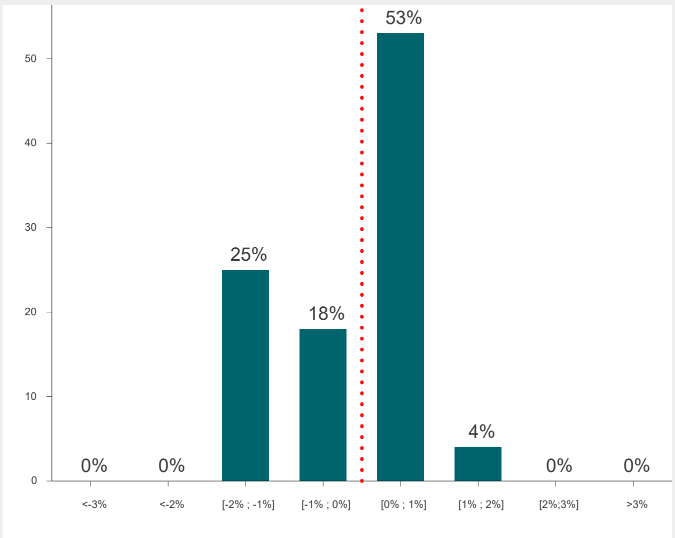
Risks and exposure

The percentage of holdings differing from the benchmark index this month (active share) is 56.91%

Monthly relative return distribution



5 year rolling relative return distribution



Source : Exane Asset Management. Past performances are by no means a guarantee of future performance.

Fund exposure (in % of net assets)

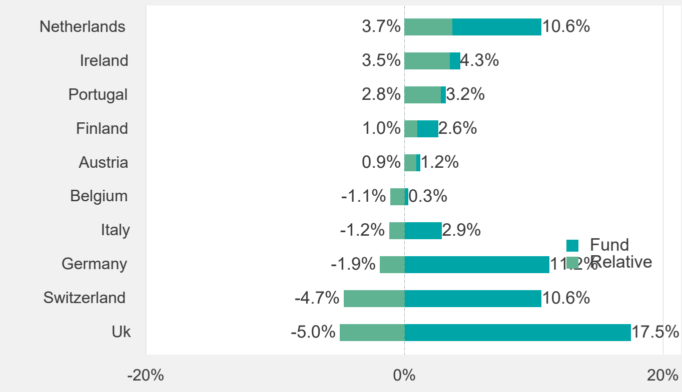
	capital weighted	Beta
Fund	99.0%	101.6%
Top 10 values	35.3%	-

Market capitalization (bn €)

	1,5-5	5-20	>20
Fund	2.5%	21.5%	75.0%
Relative	2.0%	3.4%	-6.4%

Top exposure by country

(net in %, looking through index products)



Main positions by specialized universe

	Stocks	Fund
Insurance & real estate	AXA SA	2.1%
Automobile	STELLANTIS NV	1.5%
Banks and diversified financials	BNP PARIBAS	1.6%
Chemicals	NOVOZYMES-B SHS COMMON STOCK	1.2%
Consumer*	LVMH MOET HENNESSY LOUIS VUI	3.7%
Construction	CRH PLC	1.5%
Energy	SHELL PLC-NEW COMMON STOCK	3.1%
Capital goods	SIEMENS AG-REG	2.7%
Basic resources		
Healthcare	EUROFINS SCIENTIFIC	1.3%
Utilities	ENEL SPA	2.5%
Technology	ASML HOLDING NV	4.3%
Telecoms	DEUTSCHE TELEKOM COMMON STOCK	2.2%

* Including commercial & professional services

Main overweights

Stocks		Relative
Beiersdorf Ag	Consumer*	2.5%
Repsol Sa	Energy	2.4%
Enel Spa	Utilities	1.9%
Assa Abloy Ab-b	Capital goods	2.2%
Kone Oyj-b	Capital goods	2.2%
Relx Nv	Consumer*	2.2%

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