Perspective

R Valor, Quarterly strategy

The first quarter of 2017 was marked by major geopolitical events, including the inauguration of the new US president, Donald Trump, an uncertain political environment in Europe, and the beginning of the "*Brexit*" process. Against this backdrop, R Valor C returned 5.01% in the first quarter of 2017.

Yoann Ignatiew
Co-fund manager of the R Valor fund

Xavier de Laforcade
Head of Investment Management, Rothschild Patrimoine
Co-fund manager of the R Valor fund

These macroeconomic uncertainties exacerbated equity market volatility, leading us to manage the portfolio flexibly and actively in order to capture market rallies. In accordance with its investment philosophy, our conviction-based managers played long-term stories on the equity markets, along with short-term investment opportunities. R Valor's investment managers' strategy of anticipating these shifts by tactically adjusting the sensitivity of the fund's equity exposure to global economic cycles and outlook paid off. This flexible strategy was reflected in the timely adjustment of equity exposure via a direct adjustment of the fund's allocations by selling or selling down positions, by hedging with sales of futures and, more recently, by setting up a tactical goldmining exposure.

In this first quarter, we maintained our bullish stance, as seen in our still significant net equity market exposure of 75% at the end of March. This relative caution is justified by recent uncertainties over the macroeconomic context, the tone and decisions of the main central banks, and the geopolitical environment, by the incoming Trump administration and the European political agenda among other things.

Economic indicators reflected a gradual strengthening in developed economies during the quarter, led by North America, along the lines of late 2016. This improvement in North America was reflected in the fund's geographical allocation. Even so, we have gradually scaled back our US overweighting in the last two years in order to raise our weighting of Canada. The reason for this is that the Canadian economy is riding two major growth vectors – growing manufacturing competitiveness (with a favourable exchange rate vs. the US dollar) and a potential acceleration in the wake of the commodity price rally. This is good news for the fund's investments in the transport, commodities and manufacturing sectors. R Valor is still exposed to US growth stocks in the Internet and tech sectors, as well as to financials, which are currently attractively priced.

In Europe, monetary policies will likely drive growth that could very well beat consensus forecasts. Meanwhile, companies exposed to a depreciation in the euro vs. the dollar and to lower energy prices could offer investment opportunities, particularly in manufacturing and consumer sectors. However, Europe still faces the challenge of clashing economic and political governance, and the volatility of its markets driven by political uncertainties. But even against this backdrop, there are still opportunities in manufacturing and luxury goods, with an improvement in peer trading multiples.

"Emerging" economies remain closely correlated to commodities and negatively impacted by the slowdown in industrial exports. Even so, Chinese authorities have continued to support the development and growth of its economy, which is providing a boost to domestic consumption. This still looks like good news for the tech, Internet, consumer goods and insurance sectors. Late last year, we made valuation-based adjustments to our Chinese Internet allocation in reaction to the strong showing of stocks, like Baidu and Alibaba.

"In Europe, monetary policies will likely drive growth..."

The early-year environment led the managers to stick to their active approach through tactical moves within the portfolio, mainly in healthcare, mines and energy.

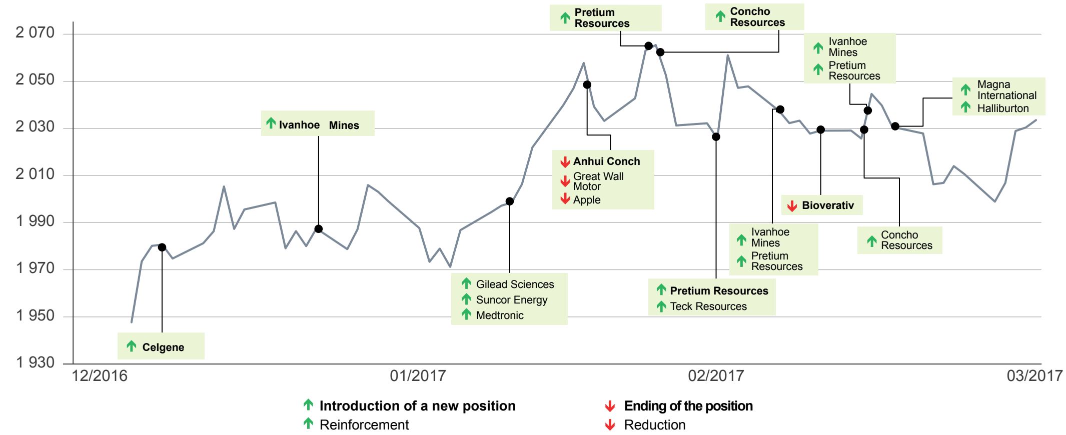
We consolidated our healthcare allocation by bringing in the biotech company Celgene and adding to our Medtronic and Gilead exposure.

We took two approaches to the mining story. First of all, we raised our weighting of goldmines, which are getting a boost from hedging of stress-inducing demonstrations while offering exposure to the restructuring of the industry. For example, we set up a new position in the future Canadian producer Pretium Gold. We also diversified our exposure to basic metals in reaction to the performance of Teck Resources. Ivanhoe Mines was brought into the portfolio. Ivanhoe is currently developing the world's largest copper mine, along with two other world-class projects in zinc and platinum.

We also took advantage of market opportunities to add to our energy exposure by raising our exposure to Suncor Energy and Halliburton. We also added Concho Resources, a US oil exploration and production company, to the portfolio, as it offers strong operating leverage on the expansion of production in North America (driven by OPEC decisions).

We profited from Great Wall Motor and Apple after their solid returns so far this year. We sold off our position in the Chinese cement maker Anhui Conch and in Bioverativ, a spinoff of Biogen's haematology business.

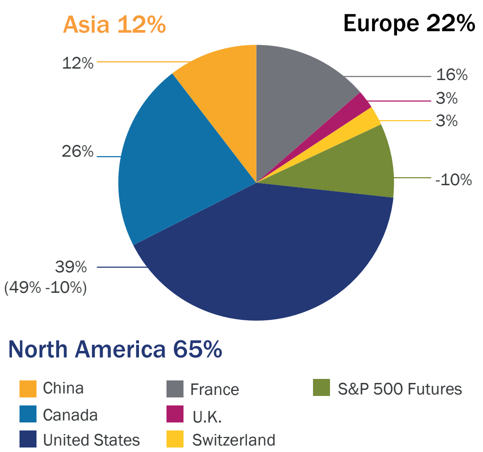
Movements realised within R Valor C in 2017



Source Rothschild & Cie Gestion, 31/03/2017

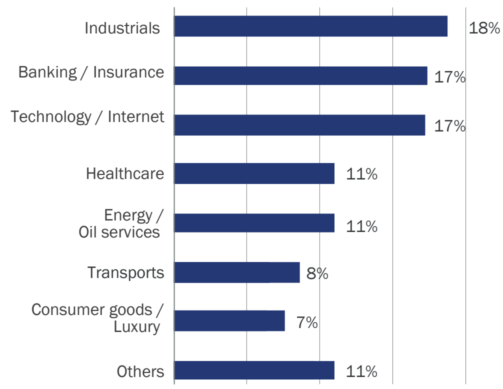
Geographic and sectoral allocations as of the end of March 2017

Geographical breakdown of equity allocation



Source Rothschild & Cie Gestion, 31/03/2017

Sector breakdown of equity allocation



Source Rothschild & Cie Gestion, 31/03/2017

Principal weightings of the portfolio as of the end of March 2017

Equity	Weight
Alphabet Inc	3.6%
Facebook Inc-A	3.5%
LVMH	3.4%
Morgan Stanley	3.3%
Manulife Financial Corp	3.0%
Air Liquide SA	2.9%
Ping An Insurance Group	2.9%
Teck Resources Ltd-Cls B	2.8%
Citigroup inc.	2.7%
Apple Computer	2.6%

Holdings	37
Average weight	2.2%
Top 10 holdings	30.7%
Top 5 holdings	19.6%

Source Rothschild & Cie Gestion, 31/03/2017

	2009	2010	2011	2012	2013	2014	2015	2016
R Valor C EUR	38.07%	26.89%	-9.20%	9.77%	24.33%	15.68%	4.55%	19.92%

Source Rothschild & Cie Gestion, 31/12/2016

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- The level of risk of the UCITS is 6 (volatility of between 15% and 25%) and primarily reflects a discretionary management policy on equities and fixed income markets.
- The historical data used to calculate this synthetic indicator may not be a reliable indicator of the risk profile.

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