Rothschild & Co
Asset Management

Fund Update : R-co Conviction Equity Value Euro — May 2025

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Equity markets were particularly volatile last month, with Donald Trump starting hostilities with its Liberation Day on April 2nd. Announcements of more punitive tariffs than expected have raised strong fears of a slowdown in international trade. This revived the risk of recession in the United States, propelled the VIX to its highest levels since the Covid crisis and contributed to a panic on equity indices at the beginning of the month. These indices subsequently recovered much of their losses after the announcement of a 90 day pause in the implementation of reciprocal tariffs, with the exception of those targeting China, for negotiations. From a microeconomic point of view, the first quarter earnings season proved rather strong despite the high climate of uncertainty. Most European companies have confirmed their forecasts, except for the impact of tariffs, the evolution of which remains uncertain and difficult to anticipate. Financial markets' mistrust of Donald Trump's policies also prolonged the depreciation of the dollar that began in early March (-8.9% over 2 months against the Euro)[1]. In the end, the S&P 500 index fell -0.7% over the month (and -5.4% in €)[1] over the month, underperforming Eurozone equities, which managed to maintain in positive territory (Eurostoxx +0.3% - Total return)[1].

Leading the sector performance, real estate (+8.4%)[1] was supported by the easing of the ECB's monetary policy and the easing of European sovereign rates. The construction sector (+6.2%)[1] benefited from the strong cyclical rebound in the second part of the month, and remained favoured in view of the German investment plan. The food retail (6.2%)[1] and utilities (+5.8%)[1] sectors also performed well because of their defensive and domestic nature. **In terms of the biggest declines, fears about the cycle particularly hurt the energy sector (-6.2%)[1], also impacted by future OPEC production increases, as well as commodities (-3.8%)[1].** Finally, the first publications in the luxury sector, such as LVMH, put the consumer goods sector in difficulty (-3.5%)[1].

This context again favoured the Value[2] style, which increased its outperformance on the Growth[3] style by 1 point over the month to reach almost 15 points since the beginning of 2025 (+15.3% for Value and +0.5% for Growth in the Eurozone)[1]. Value Growth's valuation premium fell 93% to 88% in April, but remains well above its pre Covid levels (around 65%)[1]. In our view, the normalisation of this premium should continue, both in the short/medium term through the continued steepening of the yield curve, which should support the financial sectors, and in the long term through the revitalization of activity in the Eurozone through the recovery plans, which are structurally buoyant for industrial activity in the zone.

The R co Conviction Equity Value Euro fund was almost in line with the Eurostoxx, gaining +0.2% in April[4]. It has outperformed its benchmark by +2.2% since the beginning of the year[1]. Our allocation effect was positive in particular because of our overexposure to the real estate sector and our underexposure to consumer goods. Conversely, our stock selection was penalised by the -6.0% decline in Sanofi[1] due to tariffs uncertainties weighing on the healthcare sector. The strong performance of SAP (+4.5%) and L'Oréal (+12.8%) stocks also weighed on this stock selection effect[1].

During the month, we diversified our exposure to the telecom sector via KPN, the incumbent operator in the Netherlands, which is one of the few European Telecom markets limited to 3 players. The stock must benefit from this healthy competitive environment and the end of Capex's cycle to grow its cash generation. We financed this investment by neutralising our bet on Deutsche Telekom due to its outperformance since 2024 and its exposure to the US market. **We also established a small position in German pharmaceutical company Fresenius,** the idea being to diversify in the healthcare sector and strengthen our European exposure. **Finally, we also introduced in the portfolio the technology investor PROSUS, the largest shareholder of Tencent, video game editor and social media giant in China.** While remaining in the philosophy and standards of our Value investment style, this new position allows us i/to limit our underexposure to the technology sector ii/to play the possible support to the Chinese consumer via a potential stimulus iii/to be exposed to the theme of Artificial Intelligence through the main competitor of the United States on this theme. These new investments were financed in particular by the sale of our position in ProSieben, whose MFE takeover bid had turned the position into quasi cash.

In April, first quarter GDP figures pointed to some resilience in Europe and a US slowdown. With its savings surplus and German fiscal headroom, **this pro eurozone dynamic could continue, especially as the US economy must seek to reduce its deficits. Much neglected since the invasion of Ukraine, European markets are returning to appeal and are beginning to benefit from a return of flows, which currently remain embryonic.** Attracted by still reasonable valuations and more obvious macroeconomic support factors, international flows could accentuate this trend. Our portfolio is positioned to capture this momentum, particularly by exposure to key sectors of European recovery.

Learn more about the fund(s)

R-co Conviction Equity Value Euro

Check this document on our website

R-co Conviction Equity Value Euro performance over the last 10 years: 35,8%
Annual performance: 2023: 19.1% | 2022 : -9,6% | 2021 : 26,3% | 2020 : -9,85% | 2019 : 17,6% | 2018 : -12.7% | 2017 : 12.5% | 2016 : 4.15% | 2015 : 10.3% | 2014 : 4.1%

[1] Source: Bloomberg, 30/04/2025
[2] We speak of a value strategy when the investor is looking for companies undervalued by the market at a given moment, that is, whose market valuation is lower than it should be with regard to the results and the value of the company. assets of the company. Value investors select securities with low price to book ratios or high dividend yields.
[3] The growth style investor focuses mainly on the earnings growth potential of companies in the hope that sales and earnings growth will be higher than that of its sector or the market average.
[4] Source: Rothschild & Co Asset Management, 30/04/2025

The risk indicator assumes that you hold the product for 5 years. The actual risk may be very different if you opt to exit before maturity, and you may get less in return. We have classified this product in risk class 5 out of 7, which is between medium and high risk and mainly reflects its positioning on the Eurozone equity market. In other words, the potential losses linked to the product's future results are between medium and high, and if the situation were to deteriorate on the markets, it is likely that our ability to pay you would be affected. As this product does not provide market protection or a capital guarantee, you could lose all or part of your investment.

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