

MARKET UPDATE

September 2020



LA FRANÇAISE
INVESTING TOGETHER

I. WHAT HAPPENS NEXT?

A. AN IMPROVED ECONOMIC OUTLOOK

Encouraged by the relaxation of lockdown measures and the continuation of recovery plans, the economy is starting to pick up, especially in the United States:

- In the United States, the Q2 growth rate was better than expected, driven by the manufacturing sector and real estate (fourth consecutive increase in leading business indicators, consumption up year-on-year, production and orders for durable goods picking up, and construction permits increasing).
- In the Eurozone, growth figures are broadly in line with expectations, with disparities, with leading activity indicators remaining in the expansion zone, although a slowdown has been observed without calling into question the rebound expected in Q3¹.

Although distinctly gloomy in absolute terms, business performance has proved to be surprisingly positive over the summer months:

- In the United States, 64.8% of businesses were remarkably positive in terms of turnover, with 82.7% reporting a surprisingly good net income (up sharply compared to the 1st quarter²).
- In Europe, 61.9% had a surprisingly positive turnover, with 56.6% exceeding expectations on net profit³.

Having suspended business forecast announcements during the crisis, companies are once again sharing such communications, which in itself constitutes an encouraging factor.

There remains a measure of caution, however, with the fear of seeing the recovery run out of steam beyond an initial resurgence in activity. Indeed, unemployment rates look set to hamper the upturn in consumption over the medium term, particularly in the sectors most exposed to restrictive measures surrounding health such as tourism, catering and leisure. Although the worst of the crisis appears to be behind us, the economic calendar is delicate in the short term, with a potential second wave of the pandemic, the US elections, the return of tensions between China and the United States (Uighurs, tensions over technology stock, Hong Kong, etc.), and tensions in the Mediterranean between Turkey and a number of European countries. In the longer term, it will also be necessary to manage debt stocks, especially accumulated at State level, in response to the various recovery programmes introduced, but also by certain companies.

B. MARKETS STEADFASTLY IN GOOD SHAPE

For the time being, markets remain unaffected by these risks and are continuing the trend started in mid- March.

- On the US equity markets
 - o The MSCI World in Euro, although remaining negative since the beginning of the year, standing at -2.28% on 31 August, has recovered +37.89% from its low point of 23 March.
 - o The Nasdaq 100 in Euros posted an exceptional performance of +60.67% from its lowest point of 16 March, enabling it to post a performance over the year of +30.16%.
- On European equity markets,
 - o The CAC 40 also recorded a strong rebound, +31.76% since 18 March although the 2020 performance remains negative at -17.24%
 - o The Euro Stoxx also remains negative over 2020 at -12.62%, despite a recovery of +37.16% since 18 March.
- On the interest rate markets,
 - o US 10-year interest rates shrank by nearly 1.2 points, going from 1.91% to 0.69%, despite some pressure in August (+12 basis points).
 - o The same observation can be made with European interest rates: the German rate went from -0.19% to -0.39% (+12 basis points for August), the French rate from 0.12% to -0.09% (+10 basis points for August), the Portuguese rate from 0.44% to 0.42%, the Spanish rate from 0.47% to 0.40% and the Italian rate from 1.41% to 1.09%.

¹ Sources: Bloomberg, august 2020

² Sources: Bloomberg, S&P 500, 31/08/2020

³ Sources: Bloomberg, Stoxx Europe 600, 31/08/2020

- On the credit markets,
 - o Risk premiums are tending to normalize after the very wide spread experienced during the crisis, while remaining at higher levels than at the beginning of January.
 - o Investment grade: Eurozone and US spreads stood at 92 and 151 respectively on August 31, compared with 63 and 112 at the beginning of January (after peaking at 199 and 389)⁴.
 - o High Yield: at the global level, the spread increased from the beginning of January to the end of August from 335 to 477 (with a peak at 895), in the Eurozone from 268 to 403 (peak at 708), in the United States from 315 to 459 (peak at 887), in the emerging countries from 427 to 588 (peak at 1072)⁵.
 - o Subordinated Debt: AT1/CoCos spreads have widened by 168 basis points since the beginning of the year (from 324 to 493, with a peak at 1898 on March 23), by 112 basis points for corporate hybrids and by 40 basis points for insurance subordinates⁶.

⁴ Sources: Bloomberg, BofAML, indices IG € (ER00), IG US (C0A0)

⁵ Sources: Bloomberg, BofAML, indices HY € (HE00), global (HW00), US (H0A0), Emergent (EMUH)

⁶ Sources : Bloomberg, Crédit Suisse, indices AT1 (CCEUTOBS index), Hybrids (ECHITOBS index), insurance subordinates(CICITOBS index)

WHAT OPPORTUNITIES LIE IN STORE?

Attempting to gain a full understanding of all the changes brought about by the unprecedented health crisis seems premature. We can, however, already see some changes coming about:

- Technological transition: the pandemic has accelerated digitisation and the use of telecommuting. The need for IT tools has increased - something that has especially benefited US technology stocks.
- Changes in consumer patterns both in terms of transport, commerce and leisure. An acceleration of the transfer from physical commerce to e-commerce. Businesses will have to adapt quickly.
- An acceleration of the energy transition: Although some sectors may be tempted to abandon transition efforts to focus on recovery, we believe that on the contrary, any recovery should amplify this transformation under the impetus of the recovery plans that most governments are seeking to gear towards a sustainable economy.

In the shorter term, we consider that with the central bank stimulus plans and the better economic outlook than initially anticipated by forecasters (lower than expected default rates, better than expected earnings season, growth of States revised upwards), risky assets will remain particularly attractive to investors looking for yield in a context of persistently low interest rates, although certain episodes of volatility will have to be managed by the end of the year.

Investors' search for yield will be reinforced by the historic announcement of the Fed's change of "philosophy", announced by J. Powell at the Jackson Hole symposium at the end of August, favouring economic recovery over inflation control and thus keeping interest rates low.

Jean-Luc HIVERT
Chief Investment Officer

II. STATE OF PLAY AND PROSPECTS

A. INTEREST RATE MANAGEMENT

1. LA FRANÇAISE LUX - MULTISTRATÉGIES OBLIGATAIRES

Over the summer, there was a beneficial distortion of the risk envelope in favour of credit assets and these contributed to half of performance. The continued rebound in inflation expectations in the Euro zone and the United States also had a significant contribution (just under a third of performance). Finally, emerging debt and relative value strategies are making positive contributions.

After the successive drastic downward revisions to growth in the midst of the pandemic, **the economic surprises were mostly positive** during the post-lockdown period in a large number of countries, with governments and central banks having done everything in their power to avoid a liquidity crisis. As we head into autumn, the virus is still spreading and macroeconomic uncertainty remains high from the point of view of growth and inflation.

Forward guidance, liquidity injections encouraging transmission to the real economy and quantitative easing are preferred to the yield control curve (in place in Japan and Australia) and negative rates (outside of the ECB, Riksbank and Bank of Japan). Ultra-accommodative monetary policies will be maintained or even escalated in a highly uncertain environment.

The emphasis remains on the importance of government fiscal measures (pending a new stimulus of 0.5 to 1.5 trillion dollars in the United States and, for the European Union, a recovery plan of 750 billion euros discussed during the 17-18th July summit, to be ratified by national parliaments).

We believe the probability is low that, in the short term, a positive correlation between the level of real interest rates and growing national debt will be found.

We maintain a positive view on bonds and duration in general, in developed countries (core debt and peripheral debt), **emerging countries and break-even inflation points** which implies rather high-risk budgets.

We are monitoring the **bullish risk factors on rates** (positive news on phase 3 of a vaccine, an agreement reached between Democrats and Republicans for a new stimulus plan in the United States, oil, etc.) which we believe will only be temporary. Carrying is therefore still preferred in this low interest rate environment and we are not hesitating to strengthen relative value, cross asset, intra-curve or inter-country opportunities.

La Française Lux - Multistratégies Obligataires I C € has performed¹ as follows: 2015: 3.39%, 2016: 5.30%, 2017: 2.64%, 2018: -5.25%, 2019: 3.19%, YTD as at 31/08/2020: -3.66%

Maud Minuit

Head of Absolute Performance, Rate, and cross asset

2. LA FRANÇAISE TRÉSORERIE

Monetary margins continued to normalise over the summer. The EONIA remained stable and the Euribor completely normalised, back to levels close to that of the deposit rate. Bank signatures that have benefited from the TLTRO are trading at their historically lowest margin levels. There is no expectation from investors on the ECB's key rates at the end of the year. There remains the potential for tightening on bond margins as well as negotiable corporate debt securities. Despite the sharp increase in spreads during the month of March, the fund remained aligned with its investment guideline and was able to seize investment opportunities that resulted in a clear outperformance thereafter.

The performances¹ of La Française Trésorerie I are: 2015: 0.16%, 2016: 0.01%, 2017: -0.17%, 2018: -0.33%, 2019: -0.20%, YTD as at 31/08/2020: -0.13%

Maud Minuit

Head of Absolute Performance, Rate, and Cross Asset

B. CREDIT MANAGEMENT

1. LA FRANÇAISE RENDEMENT GLOBAL 2025

Technical factors remain very favourable for speculative securities ('High Yield' securities) as for other carry assets, with investors continuing to seek yield in a context of ultra-accommodative monetary policies which should keep rates low on the market in the long term. The markets anticipate that the key rates of the US Federal Reserve and the European Central Bank will remain at current levels until December 2023⁷.

Default rates, although they have been rising since the start of the crisis, remain well below the levels observed during previous economic recessions (2001 and 2008) and the forecasts of the rating agencies which expected an average default rate of 12% for the United States and 8% for Europe ("issuer weighted" method⁸) for 2020. These are currently 4.3% and 0.7% since the beginning of the year ("issuer weighted"). In the absence of a 2nd wave of the pandemic, which is our central scenario, default rates are not expected to increase significantly from the levels currently observed. This element is also a supporting factor for the asset class.

Nevertheless, as we enter autumn, given the strong rally since April (the spreads of high yield securities at global level have retraced 75% of their post-Covid widening), we expect a slight widening of risk premiums (to the order of 30 to 50 bps) in the run-up to the US elections.

Uncertainty about the outcome of these elections may cause increased volatility in the financial markets.

The most unfavourable scenarios would be:

- elections without definitive results on 03/11
- a re-election of D. Trump with the Senate going to the Democrats.

The most favourable scenario from our point of view would be:

- the election of J. Biden with the Senate remaining in the hands of the Republicans.

If this widening in high yield spreads materialises, we will seize this opportunity to strengthen our positions. In the medium to long term (6 to 8 months ahead) our conviction remains unchanged, namely that high yield spreads should move within a range given the elements mentioned above (technical and fundamental factors) and the central banks' backstop.

We are maintaining our convictions and our position (see letter dated 1st April), namely:

- In geographic terms, we are favouring Europe and the United States and remain cautious with regard to emerging countries and issuers from peripheral countries
- In sectoral terms, we remain positive in the sectors less sensitive to the current environment (technologies, media and telecommunications, food, pharmaceuticals, etc.). We are renewing our caution with regards to cyclical issuers.
- In terms of ratings, we are leaning towards "best in class" issuers, i.e. "fallen angels" and issuers rated BB.

The performances¹ of La Française Rendement Global 2025 I are: 2018 : -5,12%, 2019 : 9,87%, YTD as at 31/08/2020 : -5.77%. I share class launched on 30/08/2017.

Paul Gurzal
Head of Corporate Debt

2. LA FRANÇAISE CARBON IMPACT 2026

The fund is exposed to differing credit ratings in the bond market. It has benefited from supportive central bank measures on both the investment grade and crossover aspects, and also from regulatory relief measures for bank capital ratios (Tier 2 instruments). It is also exposed to the cyclicity of high yield, which has benefited from investors' risk appetite. Indeed, the summer months have been propped up by continued support from

⁷ Source : Bloomberg, august 2020

⁸ Issuer weighted" method: the rating agencies carry out default expectations by reasoning in terms of the number of issuers in default. We consider that it is more appropriate to reason in terms of the weight of defaulted debts ("debt weighted" method).

central banks, the announcement of various recovery plans and also by macroeconomic data (SMEs, employment) rising above what was expected.

Over the course of the summer, all markets saw their risk premium come under pressure (25 August vs. late June):

- The European investment grade market⁹ spread stands at 115bp (vs 149bp)
- The US investment grade market¹⁰ spread stands at 130bp (vs 150bp)
- The overall High Yield BB¹¹ market spread stands at 384bp (vs 474bp)
- The overall High Yield B¹² market spread stands at 611bp (vs 722bp)

Second quarter results proved surprisingly positive. In the United States, 83% of results rose above expectations, with 57% in Europe doing likewise. Bank results, of course, reflected the pressure on fundamentals with increases in non-performing loans and provisions for potential losses impacting profits. However, solvency has not been negatively affected. Capital ratios are robust and increasing (supported by the easing of regulatory measures to encourage banking recovery).

The Carbon impact approach has a low structural commitment within the oil sector. The energy sector represents 13% of the US High Yield universe and has largely been the source of the increase in default rates in the segment since the beginning of the crisis. In view of the downward revisions to future oil prices made by the big oil companies, the sector is likely to continue to suffer. The Carbon Impact theme will instead favour transition energies or companies that are diversifying towards a multi-energy model.

Moving forward beyond the summer and for Q3/Q4 publications, we expect ongoing volatility, at the mercy of the macroeconomic recovery, which is itself subject to uncertainties relating vaccines and the way in which any second wave of COVID is managed during the autumn and winter of 2020.

Within the Non-Financial Corporates sector, we prefer to position ourselves in defensive sectors for the lowest credit ratings, favouring cyclicity in companies with more robust balance sheets: fallen angels, BB crossover. We remain on the lookout for opportunities that arise in the US market, in dollars, taking advantage of the low cost of foreign exchange.

Within the financial sector, we maintain confidence in the bank subordinates in our portfolio: financial subordinates (Tier 2) still show value relative to the non-financial corporate sector. This is particularly reinforced by the robustness of the solvency levels they are displaying post provisions for the first half of the year.

The climate agenda must also be monitored - especially its inclusion in global recovery plans. To date, \$783 billion has been deployed within recovery programmes directly connected with energy transition. A large part of this envelope comes from the European recovery plan, which is aligning a portion of its allocation to projects that fall in line with the Green Deal. This will support companies and countries that make investments in real estate renovation, technological development and the electric vehicle network, along with the deployment of new capabilities in terms of renewable energy.

The fund was launched on 13/12/2019. As per MIFID directives, performances will be available when the fund has a 12-month track record.

3. LA FRANÇAISE SUB DEBT & GLOBAL COCO

The summer was generally favourable towards risky asset classes and subordinated debt also saw its performance improve, without however returning to pre-crisis levels, as we can see on the performance chart below on the left.

The valuations of European subordinated debt, and more particularly of perpetual Additional Tier 1 CoCos bank debt, still show significant diversity, in particular depending on the geographical area of the issuers, their business sector and even the probability of early repayment (call options) for issuances. The €AT1 CoCos field offers an average return (*Yield-to-worst*) of 5.7%¹³ but some issuances deal with significant discounts, like the

⁹ Bloomberg Barclays EuroAgg Corporate Average OAS - LECPOAS Index

¹⁰ Bloomberg Barclays US Agg Corporate Avg OAS - LUACOAS Index

¹¹ ICE BofA BB Global High Yield Index - HW10

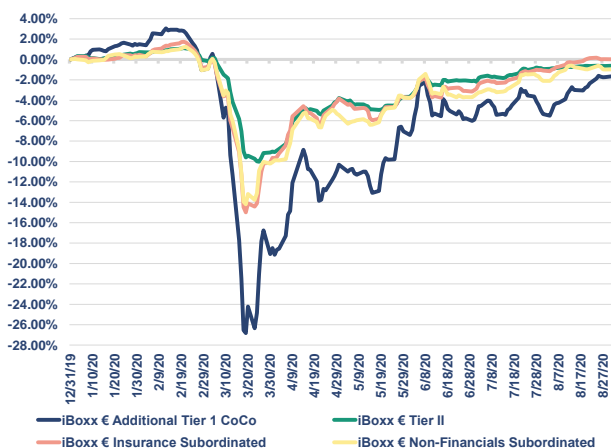
¹² ICE BofA Single-B Global High Yield Index

¹³ indice Bloomberg Barclays Contingent Capital EUR ISMA Yield To Worst as at 31 août 2020

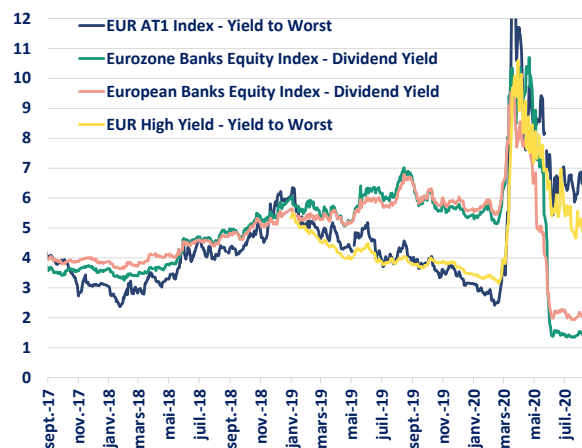
Banco Sabadell CoCos, whose yields to call are greater than 13%, for yields to maturity close to 7%, even though the fundamentals of this issuer are not in any particular difficulty.

If we think in relation to other asset classes, AT1 CoCos appear very attractive, in particular compared to European High Yield, which for its part posted an average return of 4.96% (see graph below right), or against the *Dividend Yield* for European banking equities (which makes sense, given the current restrictions on dividend payments in the banking sector).

Normalised performance at the end of 2019 for the iBoxx indices of subordinated asset classes (Total return; in %)



Development of the returns (Yield-to-worst) of €AT1 CoCos (blue), of the High Yield € (yellow) and of the Dividend Yield of European (pink) and Eurozone (green) banking equities (in %)



Sources: Markit, Bloomberg. Data as at 31 August 2020.

Sources: Barclays, Bloomberg. Data as at 31 August 2020.

Our position is that subordinated financial bonds valuations, particularly AT1 CoCos, should outperform High Yield and become increasingly distanced from it. Indeed, trends in recent months clearly speak in favour of very strong support for the banking sector:

- The *bail-in* rules were officially suspended by the European Commission in March 2020, which means that banks can be recapitalised by governments without having to impact holders of subordinated debt, which goes completely against orthodoxy and confirms that bank resolutions are no longer relevant.
- European regulators and legislators have considerably loosened restrictions for banks in terms of solvency, provisioning and liquidity requirements (TLTRO, relaxed collateral rules, potential waiver of the LCR). The objective is clear: no systemic risk should arise and banks will have all the necessary means to continue financing the economy.
- The Q2 2020 results season, which took place in July and August, was very reassuring, especially on solvency ratios. These increased by 0.52% over the quarter on average, according to independent research provider Autonomous, thanks to the reserve of net income, regulatory relief and subordinated debt issues. This is very positive for AT1 CoCos, as it further reduces the risk of coupon non-payment on securities in the event of non-compliance with regulatory ratios.
- The fundamentals of European banks are generally healthy, thanks to several years of reduction in balance sheet risks (reduction of bad debts, exit from risky and capital-consuming activities, massive restructuring) and an increase in solvency ratios.

In conclusion, although European banks obviously remain dependent on COVID-19 developments and its economic repercussions, it seems very unlikely that any significant risks will materialise in this sector, in our opinion, given its “protected” status and how essential it is to the economy. If this reasoning contrasts with the various fortunes of the High Yield market, it means that risk premiums (*spreads*) on AT1 CoCos subordinated bank bonds could decrease in relative and absolute terms. We even believe that these debts should fall more in line with future European Investment Grade valuations, given that issuers are for the most part unchanged and that most of the risks associated with subordination (non-payment of coupons, absorption of losses, lower recovery rates, etc.) have decreased, from our point of view. If this were to happen, European subordinated debt should benefit indirectly from significant flows to the Investment Grade asset class and from purchases of senior securities by the European Central Bank.

Against this backdrop, we favour AT1 CoCos denominated in EUR in our funds, and in particular issuances from so-called "peripheral" countries, which still show discounted valuations. In our opinion, this does not sufficiently reflect the very positive signals emanating from Europe regarding support for these economies (dedicated EU stimulus fund and *Pandemic Emergency Purchase Programme* increased to €1350bn by the ECB). We still advocate a diversification into high duration subordinated debt for defensive sectors, such as insurance companies (and more particularly Restricted Tier 1 perpetual securities), telecoms or *utilities*, but less so compared to subordinates in the banking sector.

The performances¹ of La Française Sub Debt C are : 2015 : -0,60%, 2016 : 5,80%, 2017 : 13,42%, 2018 : -6,45%, 2019 : 15,34%, YTD as at 31/08/2020 : -4,19%. The performances¹ of La Française Global CoCo I are : from 18/01/2017 to 31/12/2017 : 14,22%, 2018 : -6,08%, 2019 : 16,66%, YTD as at 31/08/2020 : -1.36%.

Paul Gurzal
Head of Corporate Debt

4. LA FRANÇAISE GLOBAL FLOATING RATES

Like the vast majority of Credit assets, **the performance of floating rate notes (FRNs) has shown a solid upturn in recent months** thanks to the easing of lockdown measures, past central bank interventions (the implementation of huge asset buyback programmes, particularly on Credit assets), and to significant support measures from governments which have greatly benefited companies.

The main consequences of these measures on Credit markets are (1) on a global scale, **a tightening of the Investment Grade¹⁴ and High Yield¹⁵** credit premiums which have respectively regained more than 80% and about 70% of their widening at the start of the year and (2) **a significant drop in risk-free rates**, particularly in the United States where the 10-year rate fell from a performance level of +1.9% at the end of 2019 to +0.7% at the present time.

Unlike fixed-rate bonds, it should be remembered that FRNs are characterised by **extremely low duration** and that the latter have not benefited from significant downward movements in risk-free rates. **However, Investment Grade FRNs have posted “break-even” performances** since the beginning of the year: +0.9% for the US index¹⁶ and -0.2% for the Europe index¹⁷. Conversely, **High Yield FRNs are more impacted** by the deterioration of corporate fundamentals and by the rise in default rates. For the Europe index,¹⁸ these have posted a negative performance of -4.5% since the beginning of the year.

Since early April 2020, the following measures have been taken within the portfolio in order to support the gradual improvement in market sentiment:

- **Lifting of protection via CDS on High Yield Euro and High Yield US indices.** This decision is justified by the establishment of a High Yield US debt buyback programme by the FED (Fallen Angels and ETF)
- **Strengthening of exposure to Euro Investment Grade and US Investment Grade mainly via credit derivatives (CDS)** making it possible to benefit from a tightening of credit premiums in the Investment Grade segment thanks to instruments that are manifestly more liquid than traditional bonds.
- **Gradual deployment of liquidity in the area of “yield assets” with Financial Subordinates** (7% of assets at 20/08/20), in particular in the “short-call” Financial Perpetuals segment (2022 or less) for which we believe that the probability of early repayment by the issuer is high. **In addition, we slightly increased our exposure to High Yield** (23.2% of assets at 20/08/20) by favouring defensive sectors and better quality ratings (“BB”)

Given a macroeconomic environment that is still uncertain and volatile ahead of the US elections, we have maintained a defensive position within the fund by favouring the Investment Grade segment, whose credit premiums benefit from the support of central banks through the use of various Credit asset buyback programmes. Tactically, we have gradually deployed part of our liquidity in the area of “yield assets” with the objective, however, of maintaining a solid credit quality at fund level (average rating of “BBB” at 20/08/20) and to limit our exposure to cyclical sectors more sensitive to the expected rise in early default rates in the High Yield segment.

Fund transformed on 13/08/2019. As per MIFID directives, performances will be available when the fund has a 12-month track record.

Paul Gurzal
Head of Corporate Debt

¹⁴ ICE BofA Global Corporate Index (G0BC Index): based on ASW spreads at 20/08/20

¹⁵ ICE BofA Global High Yield Index (HW00 Index): based on ASW spreads at 20/08/20

¹⁶ Bloomberg Barclays US Floating Rate Notes Total Return Value Unhedged USD Index (BFRNTRUU Index): at 20/08/20

¹⁷ Bloomberg Barclays Euro Floating Rate Notes Index (LEF1TREU Index): at 20/08/20

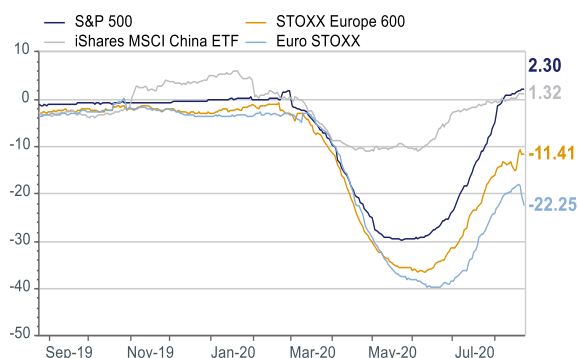
¹⁸ ICE BofA Euro Floating Rate High Yield Index (HE0F Index): at 20/08/20

C. EQUITY MANAGEMENT

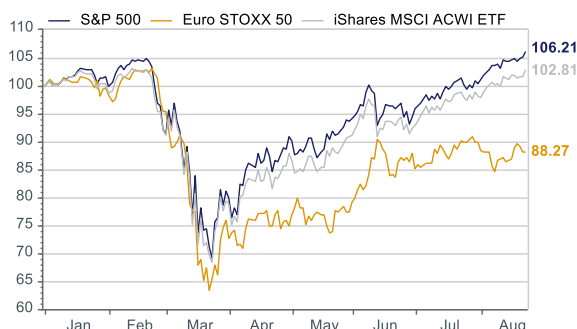
LA FRANÇAISE LUX – INFLECTION POINT CARBON IMPACT GLOBAL AND LA FRANÇAISE LUX – INFLECTION POINT CARBON IMPACT EURO

During the summer period, global equity markets continued to rise (S&P +10.7%, Eurostoxx50 +3.3%, MSCI ACWI +9.8% - in local currency) driven by a much better-than-expected second quarter of 2020 in terms of financial results publications and encouraging prospects for the recovery to continue. Since the start of the year, global indices have shown varying performances (S&P +6.2%, MSCI ACWI +2.8%, Eurostoxx 50 -11.3%).

Revisions to earnings per share



Performance of the main equity indices

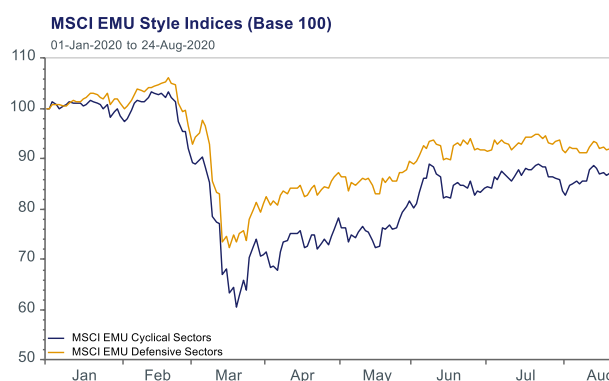
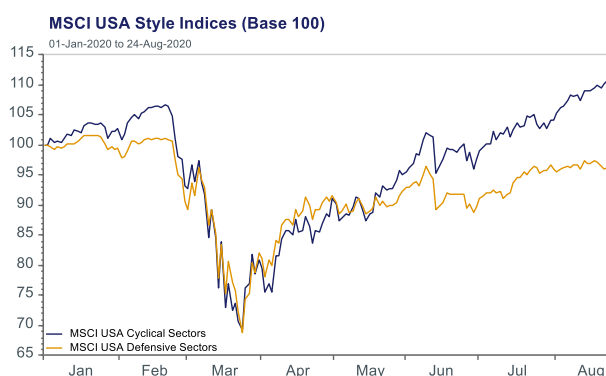


Source: Factset, 24/8/2020

Earnings estimates, after reaching a low point at the end of May 2020, have since been continuously revised upwards, contributing to the performance of the markets.

In addition to this, the fact that the companies most exposed to the crisis felt they had enough visibility to reinstate their results targets for the year 2020 has served as a catalyst for an equity market already receiving strong supportive measures from governments and numerous injections of liquidity from Central Banks.

Cyclical sectors that have been more strongly affected by the crisis such as the automotive industry in Europe, have also shown resilience in terms of their results, with better than expected balance sheets. It is little wonder, therefore, that the cyclical sectors have continued to catch up on their performance in Europe and outperform in the United States.



Source: Factset, 24/08/2020

Global markets should continue to be driven by high frequency data (number of new cases, progress in vaccine development, activity data of all kinds) leading to short-term volatility, especially if the upturn loses steam. The US elections, the China-US trade war and Brexit continue to be sources of volatility. The European market may suffer from the rise of the Euro against the dollar, impacting its competitiveness.

In the medium term on the portfolios, we remain cautiously constructive and we are maintaining our strategy on equities by favouring good quality projects that meet **our Carbon Impact investment themes**, such as digitisation and e-mobility.

In terms of **sector**, we favour manufacturers that use advanced technologies, particularly in electrification, and technology and communications companies. The automotive sector is also starting to gain momentum in our strategy through investment in stocks that are well positioned on electric vehicles and fuel cells. Indeed, thanks to new stricter regulations and government stimuli, this sector is playing an active role in the reduction of carbon emissions by adopting the shift to electrical power.

During the summer, we strengthened the Industrial sector through Vestas, Siemens Gamesa, UPS, Trane Tech and Weg stocks and reduced holdings in the Healthcare and Financials sectors.

We are continuing to stay away from the energy and financials sectors.

The large holdings in categories of companies in transition/technology-provision companies remain unchanged.

The performances¹ of La Française Lux – Inflection Point Carbon Impact Global I € are: from 31/05/17 to 31/12/17 : 3,46% : -1,72%, 2018 : -9,77%, 2019 : 26,46%, YTD as of 28/8/2020 : 2,91%.

The performances¹ of La Française Lux – Inflection Point Carbon Impact Euro € are :2016 : 3.49%, 2017 : 5.74%, 2018 : -18.07%, 2019 : 23.24%, YTD as of 28/08/2020 : -0.89%.

Nina Lagron, CFA
Head of large cap equity

¹ past performance is not a reliable indicator of future performance

La Française LUX - Multistrategies Obligataires (the “Fund”), a sub-fund of the UCITS La Française LUX (The “UCITS”). The Fund is managed by La Française Asset Management, part of La Française group of companies. **The objective** of La Française Multistrategies Obligataires is to achieve income and capital growth (total return). Specifically, the sub-fund seeks to outperform (net of fees) the reference benchmark by at least 3.5%, over any given 3-year period. **The Investment Manager** uses a combination of strategies, including a short or-long directional strategy, an arbitrage strategy, an interest rate curve strategy and a credit strategy.

Main risks are: ABS/MBS/TBA risks, Coco bonds, convertible securities, credit risks, currency risks, Derivatives, Illiquid securities. SRRI = 3 – please note that this calculation is based on historical data and may not be a good indication of future risk profiles. **Before any investment and for further information related to risks, please refer to the prospectus**, available in French and English, on our website: <https://www.la-francaise.com/en-fr/what-we-do/our-products/>. For any complaint, you can contact La Française Asset Management Customer Service by email at the following address: reclamations.clients@la-francaise.com, or the Consumer Mediation Service at the following address: contact@mediationconsommateur.be

Savings tax applicable on capital gains: If the fund invests directly or indirectly more than 25% of its assets in debt securities, individual investors resident in Belgium would be subject to a withholding tax of 30% by the Belgian paying agent if the shares or capitalization shares (as defined in Belgian legislation) of the sub-fund are sold for a fee or redeemed, or in the event of the liquidation, in whole or in part, of the assets of this sub-fund. This tax will be calculated on the part of the capital gain considered to come directly or indirectly, in the form of interest, capital gains or losses of the return on assets invested in receivables and for the period during which the investor was the holder of the shares in the fund (excluding interest capitalized before July 1, 2005).

Tax on Stock Exchange Transactions: 1.32% in the event of sale, redemption or conversion of shares (with a maximum of EUR 4,000 per transaction), applicable to units / capitalization shares.

Withholding tax: 30%, withheld at source, applicable on coupons distributed on distribution units / shares.

Entry fees: 3%. Ongoing charges I share Class: 0.75% (as of 31/12/2019). Performance fees: 0.07%. The performance fee shall represent a maximum of 25% of the difference between the performance of the Fund and the performance of the 3 months Euribor + 3.5%. The Fund pays the performance fee on an annual basis.

Minimum initial investment: €100,000

The objective of La Française Tresorerie is to find market opportunities on short-term maturities in order to generate performance equal to the EONIA capitalised index, after deduction of management fees. In the event of very low money market interest rates, the yield generated by the UCITS may not cover the management fees and the net asset value of the UCITS may decline on a structural basis. The portfolio consists essentially of fixed-rate or floating-rate European bonds, with short-term maturities, of treasury bills, negotiable debt securities, commercial papers, certificates of deposit, and liquid assets on an ancillary basis.

Main risks are: Discretionary, interest rate, credit risk, capital loss, counterparty risk.

SRRI = 1 – please note that this calculation is based on historical data and may not be a good indication of future risk profiles. **Before any investment, and for further information related to risks, please refer to the prospectus**, available in French and English, on our website: <https://www.la-francaise.com/en-fr/what-we-do/our-products/>. For any complaint, you

can contact La Française Asset Management Customer Service by email at the following address: reclamations.clients@la-francaise.com, or the Consumer Mediation Service at the following address: contact@mediationconsommateur.be.

Savings tax applicable on capital gains: If the fund invests directly or indirectly more than 25% of its assets in debt securities, individual investors resident in Belgium would be subject to a withholding tax of 30% by the Belgian paying agent if the shares or capitalization shares (as defined in Belgian legislation) of the sub-fund are sold for a fee or redeemed, or in the event of the liquidation, in whole or in part, of the assets of this sub-fund. This tax will be calculated on the part of the capital gain considered to come directly or indirectly, in the form of interest, capital gains or losses of the return on assets invested in receivables and for the period during which the investor was the holder of the shares in the fund (excluding interest capitalized before July 1, 2005).

Tax on Stock Exchange Transactions: 1.32% in the event of sale, redemption or conversion of shares (with a maximum of EUR 4,000 per transaction), applicable to units / capitalization shares.

Withholding tax: 30%, withheld at source, applicable on coupons distributed on distribution units / shares

Entry fees: 0%. Ongoing charges I share class: 0.09%. Outperformance fees: 0%

Minimum initial investment: 500, 000 I share class

La Française Rendement Global 2025 a sub-fund of the LA FRANÇAISE UCITS. This SICAV is managed by La Française Asset Management, a company of the La Française Group. **The investment strategy** involves the discretionary management of a portfolio of bonds maturing on or before 31/12/2025. The strategy is not limited to bond carrying; the Management Company may use arbitrage in the event of new market opportunities or an increased risk of default by one of the issuers in the portfolio. **The Objective of La Française Rendement Global 2025** is to achieve, over the recommended investment period of 7 years from the date of inception of the fund until 31 December 2025, a net return which is greater than the performance of the 2025 maturity-based bonds issued by French Government and denominated in EUR. The potential profitability of the Fund comes from the value of the accrued coupons of the bonds in the portfolio and the variations in capital due to the fluctuation in interest rates and credit spreads.

Main risks are: capital loss, interest rate, credit risk, default risk. SRRI = 3 – please note that this calculation is based on historical data and may not be a good indication of future risk profiles. **Before any investment and for further information related to risks, please refer to the prospectus**, available in French and English, on our website: <https://www.la-francaise.com/en-fr/what-we-do/our-products/>. For any complaint, you can contact La Française Asset Management Customer Service by email at the following address: reclamations.clients@la-francaise.com, or the Consumer Mediation Service at the following address: contact@mediationconsommateur.be

Savings tax applicable on capital gains: If the fund invests directly or indirectly more than 25% of its assets in debt securities, individual investors resident in Belgium would be subject to a withholding tax of 30% by the Belgian paying agent if the shares or capitalization shares (as defined in Belgian legislation) of the sub-fund are sold for a fee or redeemed, or in the event of the liquidation, in whole or in part, of the assets of this sub-fund. This tax will be calculated on the part of the capital gain considered to come directly or indirectly, in the form of interest, capital gains or losses of the return on assets invested in receivables and for the period during which the investor was the holder of the shares in the fund (excluding interest capitalized before July 1, 2005).

Tax on Stock Exchange Transactions: 1.32% in the event of sale, redemption or conversion of shares (with a maximum of EUR 4,000 per transaction), applicable to units / capitalization shares.

Withholding tax: 30%, withheld at source, applicable on coupons distributed on distribution units / shares.

Entry fees: 3.00%, ongoing charges I share class: 0.66%. Outperformance fees: 0%.

Minimum initial subscription – I share class: €500,000

La Française Global Floating Rates, a sub-fund of the LA FRANÇAISE UCITS. This SICAV is managed by La Française Asset Management, a company of the La Française Group. **The fund invests** in negotiable debt securities at fixed or floating rates, certificates of deposit and money market instruments issued or guaranteed by an issuer from a member state of the euro zone or the OECD. **The objective of La Française Global Floating Rates** is to achieve, over the recommended investment period of 2 years, a return (net of fees) superior to that of: o Capitalised 3-month Euribor + 115 basis points for R O and R shares o Capitalised 3-month Euribor + 150 basis points for C O and I shares o Capitalised 3-month Euribor + 163 basis points for S O and S shares

Main risks are: Capital loss, interest rate, counterparty, liquidity risks. SRRI = 2 – please note that this calculation is based on historical data and may not be a good indication of future risk profiles. **Before any investment, and for further information related to risks, please refer to the prospectus**, available in French and English, on our website: <https://www.la-francaise.com/en-fr/what-we-do/our-products/>

La Française Sub Debt- unit- this mutual fund is managed by La Française Asset Management, a La Française Group company. **The fund is permanently exposed** to one or more European Union bond markets and combines discretionary and non-directional strategies, predominantly on nominal interest rates, interest rate curves and credit. **The objective of La Française Sub Debt** is to achieve a performance higher than 7 % p.a., over a recommended investment horizon of over 10 years, by gaining exposure to subordinated debt, with specific risk profile different from standard bonds. The fund was created on October 20, 2008. Investors are informed that their capital is not guaranteed and that it may not be returned in full. **Main risks are:** interest rate risk, credit rate risk, counterparty risk, convertible bond risks, equity risks, potential risk of a conflict of interests. SRRI = 4 – please note that this calculation is based on historical data and may not be a good indication of future risk profiles.

La Française Sub Debt is suitable for professional investors as defined below. Execution only services can only be provided to professional investors. Retail investors are excluded from the positive target market. Professional Investors have the following characteristics: Good knowledge of relevant financial products and transactions; financial industry experience. La Française Sub Debt is not suitable for retail investors unless they have professional investment advice AND the investment in La Française Sub Debt is for diversification purposes only or have signed a discretionary portfolio mandate. **Before any**

investment, and for further information related to risks, please refer to the prospectus, available in French and English, on our website: <https://www.la-francaise.com/en-fr/what-we-do/our-products/>

La Française Global Coco a sub-fund of the LA FRANÇAISE UCITS. This SICAV is managed by La Française Asset Management, a company of the La Française Group. **The fund's investment strategy** involves the discretionary management of a portfolio of subordinated debt instruments issued mainly by financial institutions and of conventional negotiable bonds and debt securities. **The objective of La Française Global Coco** is to achieve a net of fees performance superior to its benchmark, the ICE BofA Merrill Lynch Contingent Capital EUR Hedged Total Return Index, over a recommended investment horizon of over 5 years, by gaining exposure to subordinated debt. The SICAV has been registered as at 14/08/2018. It was created by merger absorption of the La Française Moderate Multibonds FCP, created on the 18 January 2001 (It became La Française Global Floating Rates as at 13/08/2019). The La Française Global Coco component has been created as of 07/12/2018, following a merger absorption of the La Française Global Coco FCP (created as of 18/01/2017).

Main risks are: discretionary risk, credit risk, counterparty risk, convertible bonds, contingent bonds, liquidity risk, derivatives, interest rate risk, risk of overexposure, volatility risk, speculative securities, countries not part of the OECD, counterparty risk, preferred shares, potential conflict of interests, legal risk. SRRI = 4 – please note that this calculation is based on historical data and may not be a good indication of future risk profiles.

La Française Global Coco is suitable for professional investors as defined below. Execution only services can only be provided to professional investors. Retail investors are excluded from the positive target market. Professional Investors have the following characteristics: Good knowledge of relevant financial products and transactions; financial industry experience. La Française Global Coco is not suitable for retail investors unless they have professional investment advice AND the investment in La Française Global Coco is for diversification purposes only or have signed a discretionary portfolio mandate **Before any investment, and for further information related to risks, please refer to the prospectus**, available in French and English, on our website: <https://www.la-francaise.com/en-fr/what-we-do/our-products/>

La Française LUX – Inflection Point Carbon Impact Global (the “Fund”), a sub-fund of the UCITS La Française LUX (The “UCITS”) The Fund is managed by La Française Asset Management, part of La Française group of companies. **The objective of La Française Lux – Inflection Point Carbon Impact Global** is to achieve long-term capital growth, while constructing a carbon-neutral investment portfolio. The Fund invests mainly in equities of global companies, including those in emerging markets, that have committed to reducing their carbon emissions, expanding their low carbon strategy and replacing fossil energy sources with low-carbon emission alternatives. **Main risks are:** currency risk, equity risk, liquidity risk, potential risk of a conflict of interests.

SRRI = 6 – please note that this calculation is based on historical data and may not be a good indication of future risk profiles. **Before any investment, and for further information related to risks, please refer to the prospectus**, available in French and English, on our website: <https://www.la-francaise.com/en-fr/what-we-do/our-products/>

The group's Responsible Investment Policy is available at: <https://www.la-francaise.com/de/uber-uns/aktuelles/news-details/la-francaise-groups-responsible-investment-ri-policy/>

The group's transparency code is available at: https://www.la-francaise.com/fileadmin/docs/Actualites_reglementaires/AFG_Code_de_transparence_Expertise_Actions.pdf

La Française LUX -Inflection Point Carbon Impact Euro (the “Fund”), a sub-fund of the UCITS La Française LUX (The “UCITS”) The Fund is managed by La Française Asset Management, part of La Française group of companies. The objective of **La Française Lux – Inflection Point Carbon Impact Euro** is to contribute to the transition to a low carbon economy while achieving long-term capital growth. The Fund invests mainly in equities issued by Eurozone companies that have committed to reducing their carbon emissions, expanding their low carbon strategy and replacing fossil energy sources with low-carbon emission alternatives. Specifically, the Fund invests at least 85% of net assets in equities and equity related securities issued by companies of any sector and market capitalisation that are registered in the Eurozone. **Main risks are:** credit risk, derivative risk, exchange rate risk, model risk.

SRRI = 6 – please note that this calculation is based on historical data and may not be a good indication of future risk profiles. **Before any investment, and for further information related to risks, please refer to the prospectus**, available in French and English, on our website: <https://www.la-francaise.com/en-fr/what-we-do/our-products/>

La Française Carbon Impact 2026, a sub-fund of the UCITS La Française LUX (The “UCITS”) The Fund is managed by La Française Asset Management, part of La Française group of companies. **The objective of La Française Carbon Impact 2026** is to achieve, over the recommended investment period of 7 years from the fund launch date until 31 December 2026, a net return which is greater than the performance of the French government's euro bonds maturing in 2026, by investing in a portfolio of issuers filtered primarily according to ESG criteria and analysed with regard to their compatibility with the energy transition on the basis of a methodology defined by the Management Company. The fund will aim for the weighted average of the portfolio's greenhouse gas emissions per euro invested (scopes 1 and 2) to be at least 50% lower than that of a comparable investment universe, which would be the composite 30% Bloomberg Barclays Global Aggregate Corporate Index 70% ICE BofAML BB-B Global High Yield Index. **Main risks are:** capital risk, discretionary risk, exchange rate risk, derivative risk, interest rate risk, credit risk.

SRRI = 4 – please note that this calculation is based on historical data and may not be a good indication of future risk profiles. **Before any investment, and for further information related to risks, please refer to the prospectus**, available in French and English, on our website: <https://www.la-francaise.com/en-fr/what-we-do/our-products/>

For any complaint, you can contact La Française Asset Management Customer Service by email at the following address: reclamations.clients@la-francaise.com, or the Consumer Mediation Service at the following address: contact@mediationconsommateur.be

Savings tax applicable on capital gains: If the fund invests directly or indirectly more than 25% of its assets in debt securities, individual investors resident in Belgium would be subject to a withholding tax of 30% by the Belgian paying agent if the shares or capitalization shares (as defined in Belgian legislation) of the sub-fund are sold for a fee or redeemed, or in the event of the liquidation, in whole or in part, of the assets of this sub-fund. This tax will be calculated on the part of the capital gain considered to come directly or indirectly, in the form of interest, capital gains or losses of the return on assets invested in receivables and for the period during which the investor was the holder of the shares in the fund (excluding interest capitalized before July 1, 2005).

Max subscription fees: 3.00%, ongoing charges I share class: 0.97%. Outperformance fees: 0%.

Minimum initial subscription – I share class: €100,000

Tax on Stock Exchange Transactions: 1.32% in the event of sale, redemption or conversion of shares (with a maximum of EUR 4,000 per transaction), applicable to units / capitalization shares.

Withholding tax: 30%, withheld at source, applicable on coupons distributed on distribution units / shares.

The group's Responsible Investment Policy is available at: <https://www.la-francaise.com/de/uber-uns/aktuelles/news-details/la-francaise-groups-responsible-investment-ri-policy/>

The group's transparency code is available at: https://www.la-francaise.com/fileadmin/docs/Actualites_reglementaires/AFG_Code_de_transparence_Expertise_Actions.pdf

The information contained in this document does not constitute investment advice, an investment proposal or any type of recommendation whatsoever to invest in the financial markets. The assessments contained herein reflect the opinions of their authors at the time of publication and are subject to change at a later date. Under no circumstances may La Française Group be held liable for any direct or indirect losses resulting from the use of this document or the information contained therein. This document may not be reproduced, transmitted or distributed to third parties, in whole or in part, without the prior written consent of La Française Group. Published by La Française AM Finance Services, located at 128 boulevard Raspail, 75006 Paris, France, a company regulated by the Autorité de Contrôle Prudentiel as an investment services provider, n° 18673 X, subsidiary of La Française. La Française Asset Management is a management company agreed by the AMF under the number GP97076 on July 1, 1997. For more information, check the websites of the authorities: Autorité de Contrôle Prudentiel et de Résolution (ACPR) www.acpr.banque-france.fr, Autorité des Marchés Financiers (AMF) www.amf-france.org. It is provided solely for informational and educational purposes and is not intended to serve as a forecast, research product or investment advice and should not be construed as such. It cannot constitute investment advice or an offer, invitation or recommendation to invest in certain investments or to adopt an investment strategy. The opinions expressed by the La Française Group are based on current market conditions and are subject to change without prior notice. These opinions may differ from those of other investment professionals. Please note that the value of an investment may rise or fall and also that past performance results are no indication of future results. Published by La Française AM Finance Services, located at 128 boulevard Raspail, 75006 Paris, France, a company regulated by the Autorité de Contrôle Prudentiel as an investment services provider, n° 18673 X, subsidiary of La Française. La Française Asset Management is a management company agreed by the AMF under the number GP97076 on July 1, 1997. For more information, check the websites of the authorities: Autorité de Contrôle Prudentiel et de Résolution (ACPR) www.acpr.banque-france.fr, Autorité des Marchés Financiers (AMF) www.amf-france.org.

Address of the local paying agents:

Germany: BNP PARIBAS Securities Services S.A. – Zweigniederlassung Frankfurt am Main, Europa-Allee 12, 60327 Frankfurt am Main