

Branch 23 funds

Management comments on economic activity and financial markets

06/30/2021



AG Employee Benefits

Introduction

Macroeconomic backdrop

EUROZONE

The second quarter saw a jump in equity indexes: the MSCI EMU climbed by nearly 6% while the Eurostoxx50 was up by 3.70%. After a chaotic start, the vaccination rollout hit cruising speed and has proven to be effective at reducing the number of infections. At the end of June, the more contagious Delta variant had yet to cast a shadow on the capital markets. Investors remained confident that the number of hospitalisations would be kept down despite the rapid spread, as was the case in the UK. The EU's economic recovery seems to be marching on, as reflected in a series of indicators such as household consumption, industrial production, business confidence and PMI leading indicators, which all reached record highs.

USA

The accelerating pace of rate hikes earlier this year which put a drag on U.S. equity markets in Q1 has flattened out. The S&P 500 has since closed the gap with its Eurozone counterparts, coming in at 11.18% for the quarter. Chair Jerome Powell reassured the markets that despite the Fed's less accommodating stance, inflation is still "soft" and the U.S. central bank is committed to its current policy. The bipartisan infrastructure deal managed to convince investors about growth prospects, even if the \$1 trillion spending package is only half the amount initially announced.

EMERGENTS

Emerging markets lagged behind developed markets this quarter with a return of just 4%, hampered by the resurgence of infections in early Q2 due to slow vaccine rollout and fears that the Fed will scale back on monetary support. Fortunately, the Congress-approved \$1 trillion investment package has provided these economies with some much-needed beathing room.

Countries dependent on raw materials in general and on oil in particular benefited from a 10% rise in oil prices over a month.

Bond markets

Comments on Rainbow Indigo, Green and Orange (Strategic World funds), Rainbow Blue and Rainbow Blue Euro

Eurozone :

Corporate bonds across all sectors have performed well this quarter, outpacing the nearly unchanged yields earned on government bonds. While government bonds posted a negative yield of -3% since the beginning of the year, corporate bonds fared better with yields close to zero. Another notable event was the €20 billion 10-year bond issued by the European Commission as part of its plans to finance the 27-nation bloc's recovery from the coronavirus crisis. The news was met with enthusiasm by both European and international investors.

Performance

Bonds EMU	2021 YTD [or *since inception]	Excess
Insight	-2,90%	-0,07%
Bluebay	-1,89%	0,42%
BlacRock	-2,58%	-0,27%
Morgan Stanley Corp.	-0,20%	0,19%
BNPP AM Passive	-3,12%	-0,07%

Our consistently well-balanced Eurozone bond fund continued to match its benchmark. It was primarily Bluebay that gave the fund a lift, as it successfully piggybacked on the rebound in cyclical corporate bonds and financial subordinates.

World bonds :

Over the past few months, the Chair of the Federal Reserve has made it clear on several occasions that he sees inflation as transitory. He also reiterated that the Fed has no intention of pulling back on its ultra-low interest rate policies before 2023.. As a result, the U.S. 10-year Treasury bond shed around 30bps this past quarter.

The Barclays Global Aggregate Index returned -1.96% for the year, recovering 70bps over the quarter. Industrial bonds were the clear leaders on an annual basis.

Performance

Bonds World	2021 YTD [or *since inception]	Excess
Pimco	-1,82%	0,14%
Morgan Stanley	-2,02%	0,06%
Pgim*	0,96%	0,53%
Colchester*	0,28%	-0,08%
Robecco*	1,26%	0,84%
BNPP AM passive	-1,44%	0,11%

Three new funds were added to our world bond portfolio: PGIM global opportunities fund, Robeco corporate bond fund, and Colchester government bond fund.

Our bond portfolios came out slightly ahead of their benchmarks. The biggest contributors were two newcomers in the global arena: PGIM global opportunities and Robeco corporate bonds.

Equity markets

Comments on Rainbow Indigo, Green and Orange (Strategic World funds), on Rainbow Red and Rainbow Red Euro

Eurozone:

While cyclical stocks were the big winners in Q1 as Eurozone economies started to reopen, it was primarily growth sectors that pushed the markets higher in Q2. Investor interest has flip-flopped from month to month between value and growth stocks. At the end of June, growth and value indexes were neck-and-neck. From a sector point of view, consumer cyclicals, especially luxury goods, were the top performers alongside tech stocks.

Performance

Equities EMU	Q2 2021	Excess
Lazard	6,96%	1,16%
BNPP AM Best Selection	6,28%	0,48%
Alliance Bernstein value	5,53%	-0,27%
ComGest Europe	11,95%	5,49%
Acadian Euro Multi factor	5,99%	0,19%
BNPP AM Passive	5,80%	0,00%
UBS Emu Value	3,24%	-2,56%
BNP P AM Small Caps	5,94%	0,73%

Given the high market valuations, the Committee remained cautious in its allocation across asset classes. It has shied away from taking an overweight position in equities, and has left itself a margin to take action if the equity markets were to experience a correction. Growth fund ComGest proved to be a strong performer in contrast with lacklustre value funds UBS and Alliance Bernstein. Our small & mid caps fund BNP, newly added to take advantage of the economic recovery, was also a positive contributor.

World Equities:

Rates set the pace for equity markets once again this quarter. Investors pulled out of tech stocks while prices were high in favour of cyclical stocks. With reassuring statements from central bankers, rates plateaued in May and contracted slightly in June, triggering a spectacular rebound in the last three months. Riding on the same wave, the S&P 500 also returned more than 8% for the quarter. But the U.S. stimulus package deal passed by Congress remains the primary source of the solid gains in equity markets.

Performance

Equities World	Q2 2021	Excess
Fiera	9,52%	2,74%
T.Rowe	1,82%	-4,96%
BNPP AM Passive	6,90%	0,12%
Polaris	4,02%	-2,76%
Alliance Bernstein Growth	6,57%	-0,21%
Mercer SC Passive*	4,01%	-0,03%
BNPP Small Caps	4,01%	-0,03%
WCM*	-0,44%	-0,59%
MAJ	1,02%	-5,76%

Our growth strategies fared well in Q2, with Fiera leading the pack. Our value funds Polaris and especially MAJ were negatively impacted by investors' waning interest in value stocks. After a wobbly start, our small caps fund closed the quarter on par with its benchmark. The inclusion of a new WCM fund has diversified the multi-management offer in world equities.

Rainbow Absolute Return Flexible Asset Allocation (RARFAA)

Investment policy

In the Eurozone, corporate bonds across all sectors have performed well this quarter, outpacing the nearly unchanged yields earned on government bonds. While government bonds posted a negative yield of -3% since the beginning of the year, corporate bonds fared better with yields close to zero.

Another notable event was the €20 billion 10-year bond issued by the European Commission as part of its plans to finance the 27-nation bloc's recovery from the coronavirus crisis. The news was met with enthusiasm by both European and international investors.

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The Barclays Global Aggregate Index returned -1.96% for the year, recovering 70bps over the quarter. Industrial bonds were the clear leaders on an annual basis.

Performance

The bond-heavy Rainbow Absolute Return Flexible Asset Allocation fund has returned -1.16% since the beginning of the year.

Tactical funds (EB Dynamic Portfolio & EB Neutral Portfolio)

Investment policy

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Performances

The EB Neutral Portfolio fund ended the quarter with a return of 5.31%. The EB Dynamic Portfolio ended the quarter with a return of 9.14%.

EB REAL ESTATE

Investment policy

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After a negative first quarter, the real estate sector rebounded, with the Epra index outperforming the MSCI Emu by 9.02% over the year.

Performance

Given the rapid increase in assets under management in this fund, our Real Estate fund brought in new manager Cohen & Steers in June as an opportunity to diversify the fund in terms of strategy. Our fund has since been rebalanced between the four managers, with the newcomer initially allocated 23%. At the end of the quarter, AXA Framlington still had the biggest share at 30% of the fund and a performance of 8.67% below its benchmark of 35bps. Just over 25% was invested in NN, which trailed its benchmark by nearly 66bps, and exposure to BNP's passive fund was reduced to 23%.

Since the beginning of the year, the Real Estate fund has posted a gain of 8.11%, slightly underperforming its benchmark at 9.02%.

EB EQUITIES INDEXED

Investment policy

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Performance

The EB Equities Indexed fund posted a gain of 14.98% for the year.

EB BONDS INDEXED

Investment policy

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Performance

The EB Bonds fund posted a loss of -3.67% for the year.

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