Amundi
ASSET MANAGEMENT

Global Emerging Market Equities

Outlook and Top-Down positioning

Patrice Lemonnier, CFA
Emerging Market Equities

November 2016

This material is **solely for the attention of « professional » investors** (see more details and definitions at the end of the document).

An experienced and stable investment team

Patrice Lemonnier, CFA

Team Head

24 years' experience

Lionel Bernard

Portfolio manager

20 years' experience

LATIN AMERICA

Mickaël Tricot, CFA

Deputy Team Head

16 years' experience

Philippe Guigny

Portfolio manager

30 years' experience

EMERGING ASIA

Rémy Marcel

Portfolio manager

19 years' experience

Carleen Sobczyk

Portfolio manager

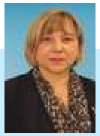
7 years' experience

EMEA & MENA




Emerging Asia Equity Research analysts

Omar-Gabriel Habache
Qian Jiang, CFA
Lionel Knezaurek
Magali Schaub

Juliana Buchaim
Corinne Rifa Saurel

Latin America Equity Research analysts

f



Investment Specialists – Emerging markets

f

Pierre Gielen, CFA
Valérie Phillips
Barthélémy Roux

Source: Amundi, as of end June 2016. Years of experience in Finance.

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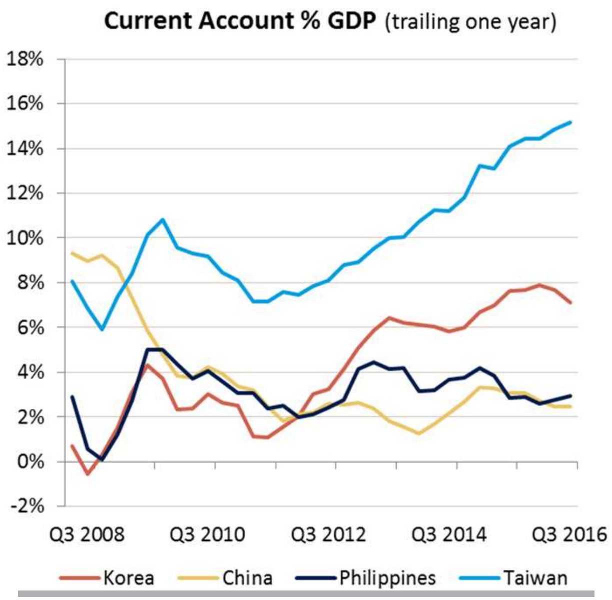
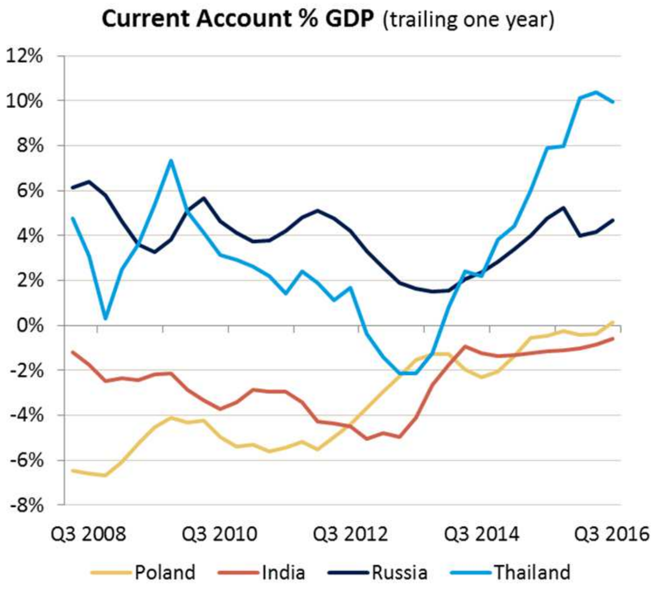
External accounts adjustment taking place

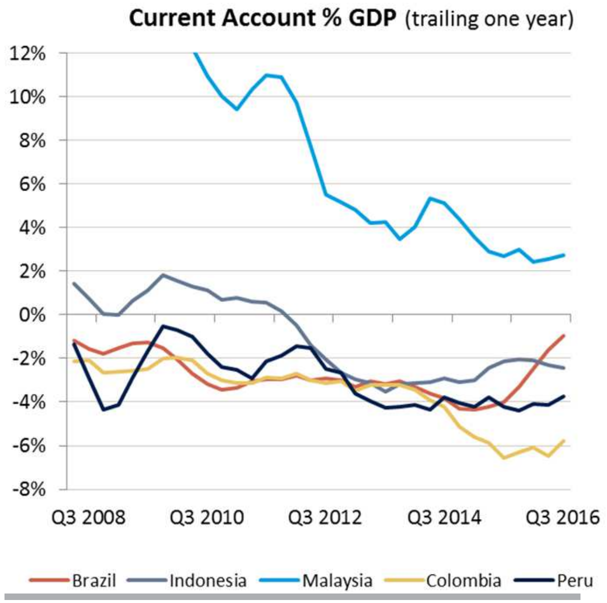
Group 1 : No adjustment needed



Group 2 : Adjustment already done



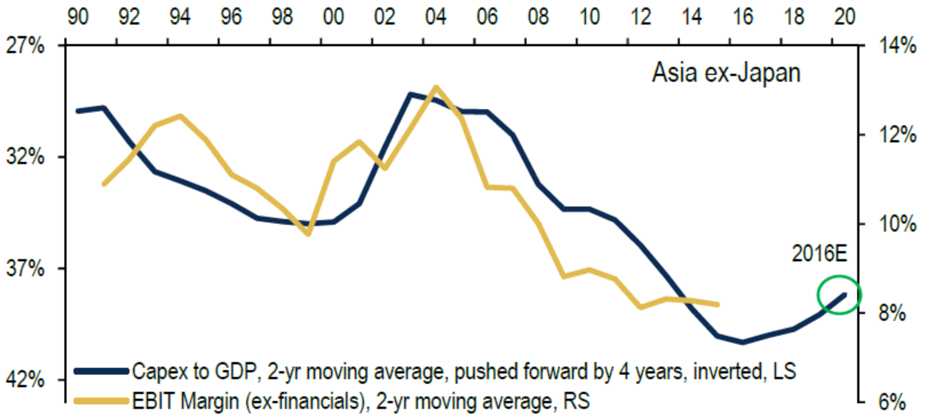
Group 3 : Adjustment underway



Source: Amundi
Given for illustrative purpose only

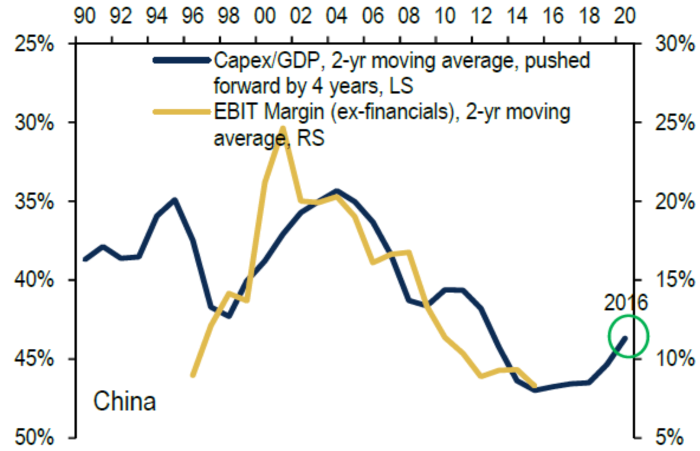
…past capex declines to translate into higher margins

Figure 25: Asia ex-Japan: – Prior Capex restraint (blue line, inverted) likely to boost EBIT margins



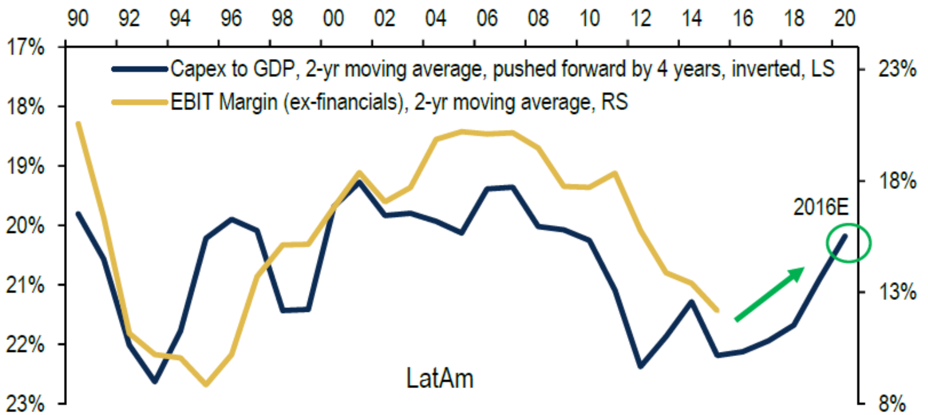
Source: BofA Merrill Lynch Global Research, IMF, Bloomberg

China – Prior Capex restraint (blue line, inverted) likely to boost EBIT margins



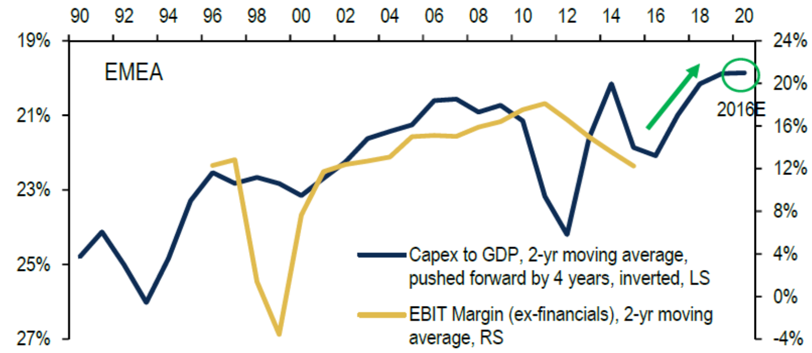
Source: BofA Merrill Lynch Global Research, IMF, FactSet

Latin America – Prior Capex restraint (blue line, inverted) likely to boost EBIT margins



Source: BofA Merrill Lynch Global Research, IMF, Bloomberg

EEMEA – Prior Capex restraint (blue line, inverted) likely to boost EBIT margins



Source: BofA Merrill Lynch Global Research, IMF, Bloomberg

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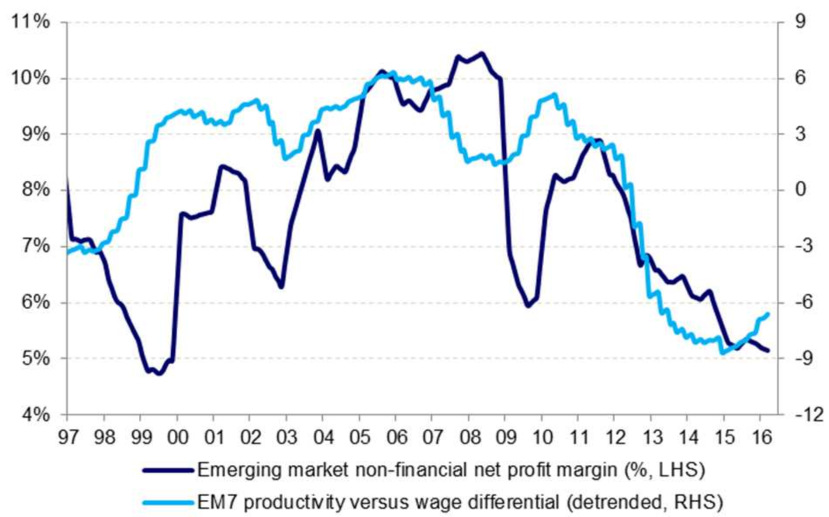
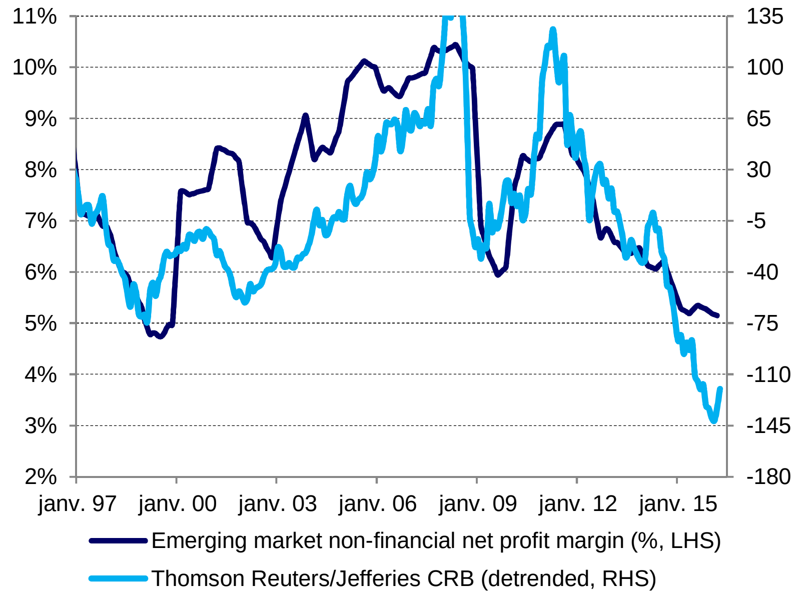
Have margins bottomed out?

EM non-financial net profit margins vs. productivity less wage differential



Emerging market non-financial net profit margins versus commodity prices

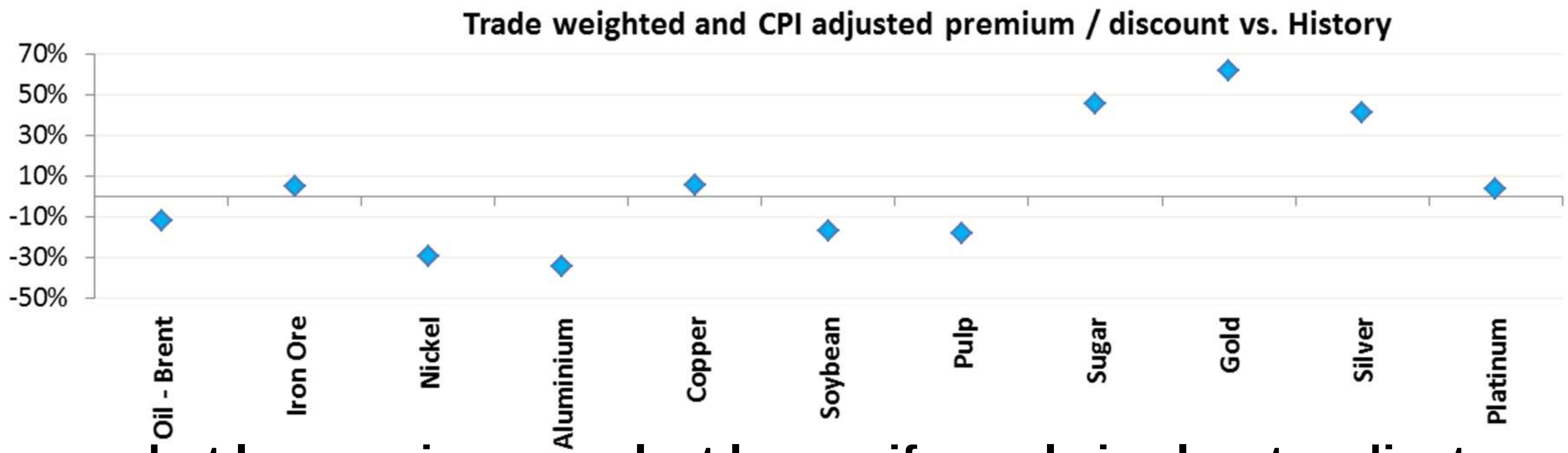


*EM7: China, India, Brazil, Russia, Korea, Mexico, Turkey

Most commodity prices below CPI adj. historical average

	$ Spot price	Premium / Discount vs. History			Period (years)	Estimated mid-cycle spot price
		Spot unajusted	CPI adjusted	Trade Weighted $ & CPI adjusted		
Oil - Brent	49.0	16%	-13%	**-12.1%**	35	55.7
Iron Ore	60.5	31%	1%	**4.8%**	35	57.7
Nickel	10 575	-6%	-31%	**-29.6%**	35	15 015
Aluminium	1 673	-1%	-33%	**-34.8%**	35	2 565
Copper	4 848	37%	2%	**5.6%**	35	4 590
Soybean	9	23%	-15%	**-17.3%**	35	11
Pulp	810	24%	-16%	**-18.2%**	35	991
Sugar	22.9	86%	39%	**45.6%**	30	15.7
Gold	1 322	118%	61%	**61.8%**	35	817
Silver	1 986	92%	41%	**40.8%**	35	1 410
Platinum	1 034	38%	2%	**3.8%**	35	996

source : Datastream, Amundi data as of : 30/09/2016



… but lower prices may last longer if supply is slow to adjust

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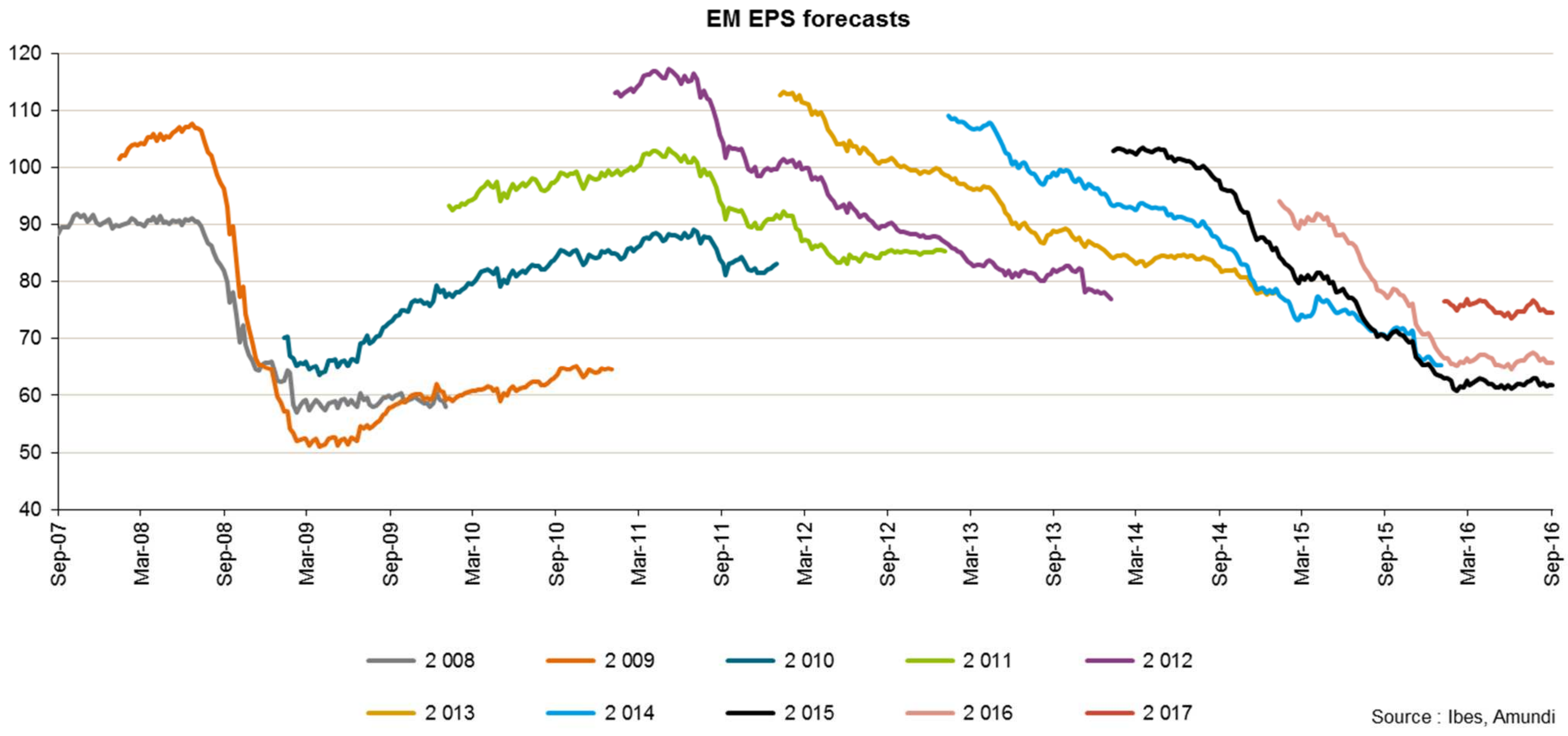
Earnings revisions stabilising, the first time in 5 years



Source: IBES, MSCI, Datastream, Amundi, data as of September 30th, 2016
Past market behaviours do not prejudge future behaviours

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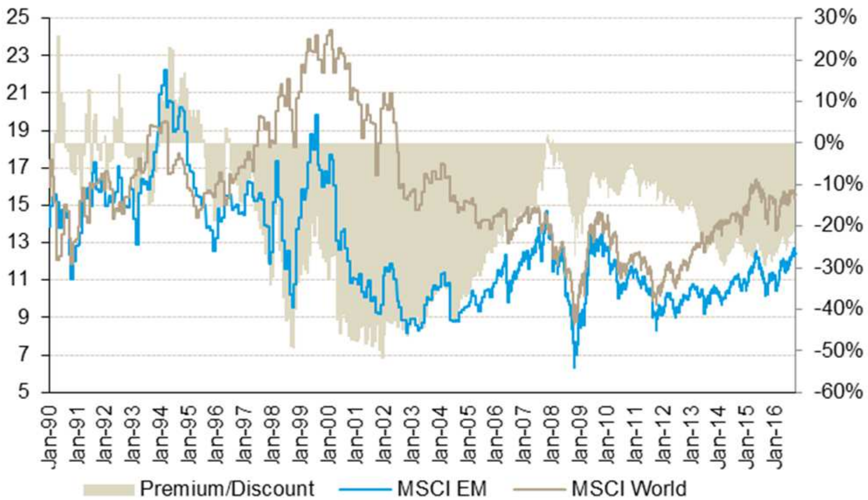
A rare global asset class that looks attractively valued

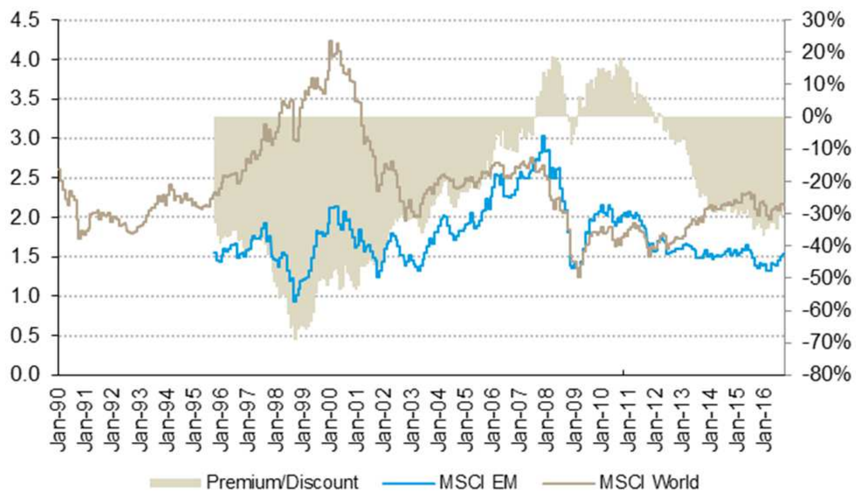
A sizable valuation gap between DM and EM

PE next 12 months



Source : Amundi, Ibes

P/BV trailing



Source : Amundi, MSCI

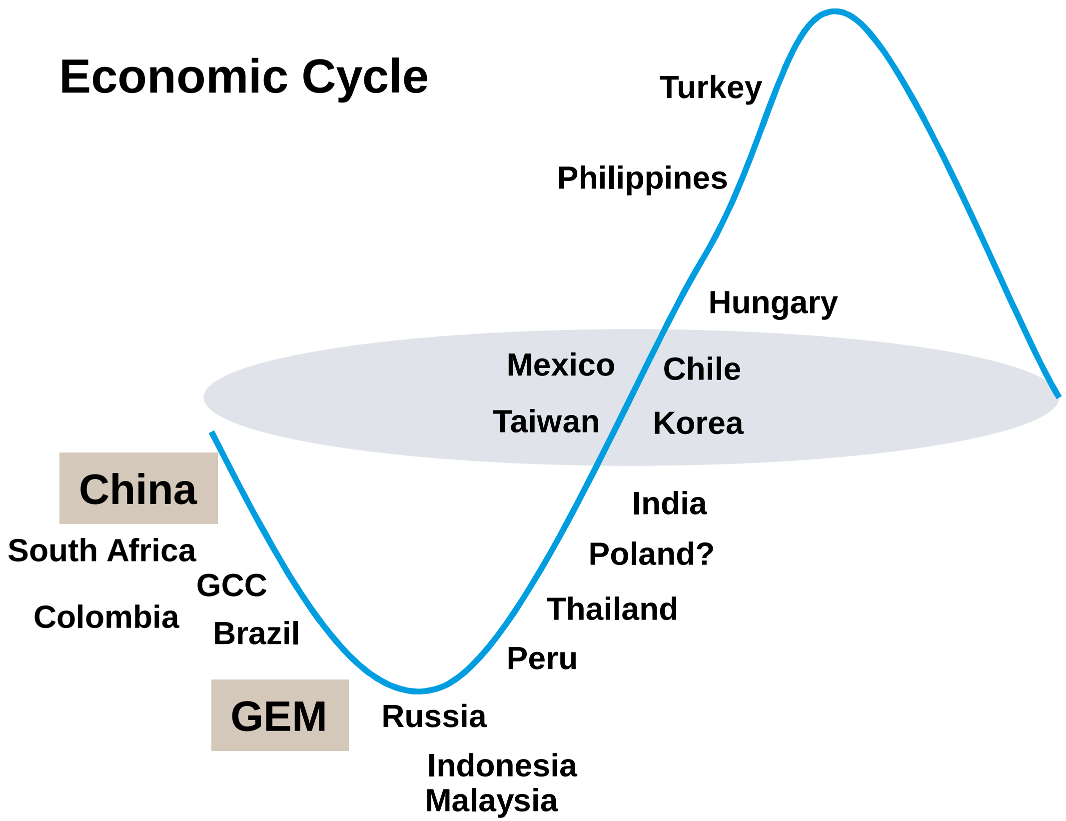
- A relative **20%** discount of Emerging Markets Equities
- **41%** discount on EV/EBIT

- A relative **29%** discount of Emerging Markets Equities
- **12%** higher dividend yield (2.9% vs. 2.6%)

Price to Book and P/E close to historical bottom level, in absolute terms

Source: IBES, MSCI, Datastream, Amundi, data as of September 30th, 2016
Past market behaviours do not prejudge future behaviours

Most EM ready to emerge from the trough, despite China

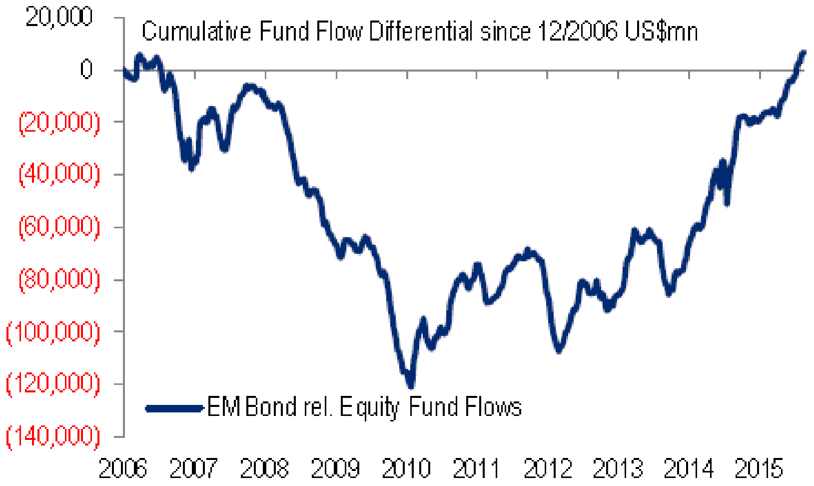


Source: Amundi
Given for illustrative purpose only

Unloved asset class: technical positioning remains supportive

… with equity inflows lagging bonds'

Cumulative Fund flow differential since Dec. 2006



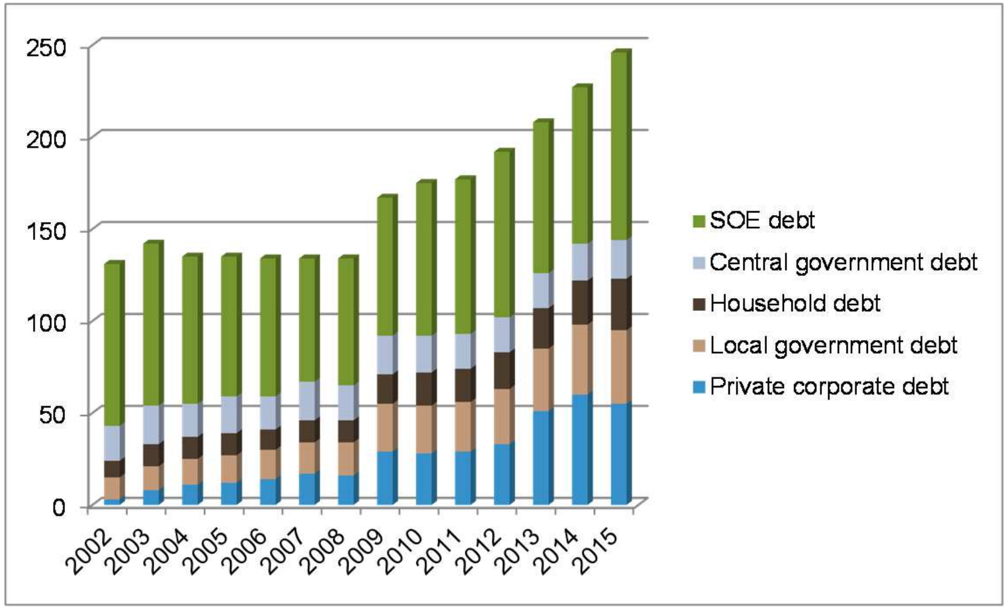
Source: EPFR Global, Citi Research

Cumulative flow to EM equity funds since Dec. 2009

Source: EPFR Global, Citi Research

China: growth with higher and higher indebtedness…

Chinese debt (% GDP)



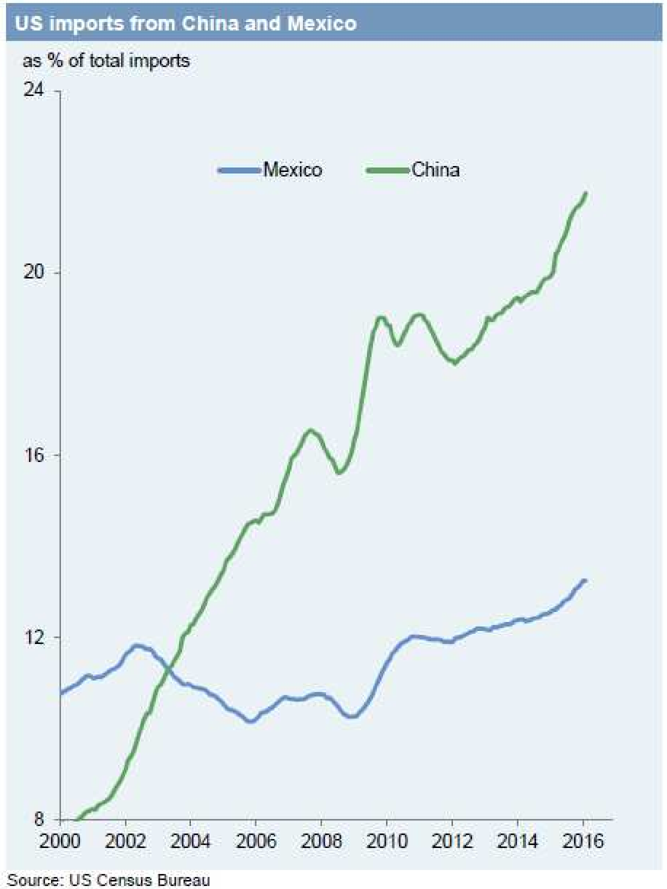
	Real GDP growth (%)	Total Chinese debt (% GDP)	∆ debt	∆ debt / Real GDP growth
2002	9,1	131		
2003	10,0	142	11	1,1
2004	10,1	135	-7	-0,7
2005	11,3	135	0	0,0
2006	12,7	134	-1	-0,1
2007	14,2	134	0	0,0
2008	9,6	134	0	0,0
2009	9,2	167	33	3,6
2010	10,6	175	8	0,8
2011	9,5	177	2	0,2
2012	7,7	192	15	1,9
2013	7,7	208	16	2,1
2014	7,3	227	19	2,6
2015	6,9	246	19	2,8

- The 6.5% GDP growth target until end of the decade looks incompatible with:
  - A slow-down in debt-to-GDP ratio expansion
  - The current impossibility to grow exports, given global sluggishness
  - Closure of over-capacity which should weigh on growth
  - Necessary investment to improve environment, with diminishing marginal output

Source: CEIC

China: …but limited risks in the short term

- Several factors limit the risks of sharp correction in the short term :
  - Positive current account
  - Control of capital accounts
  - Still high domestic savings ratio
  - Very low external debt level
  - Very low participation of foreigners in local bond market
  - Low risk of abrupt renminbi devaluation
  - A still liquid financial system
    - Still high reserve requirement ratio
    - Loans / Deposits at 70%
    - L/D adjusted for off-balance sheet items < 100%



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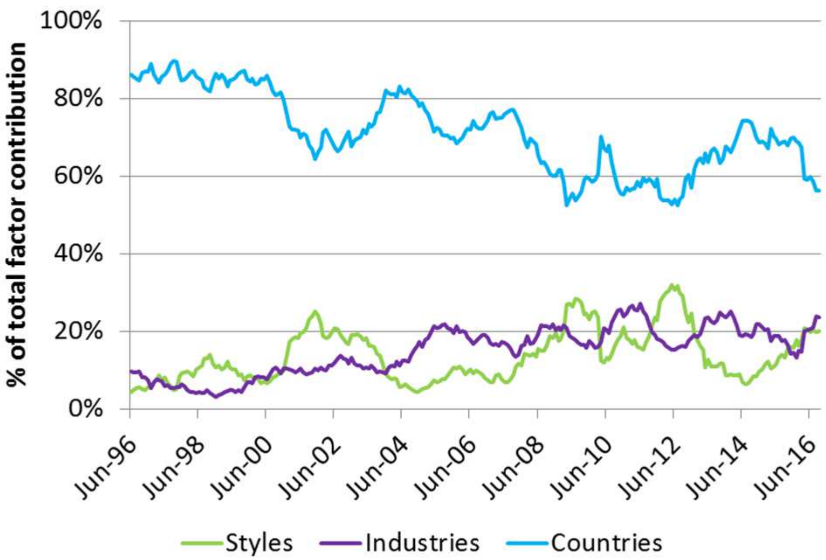
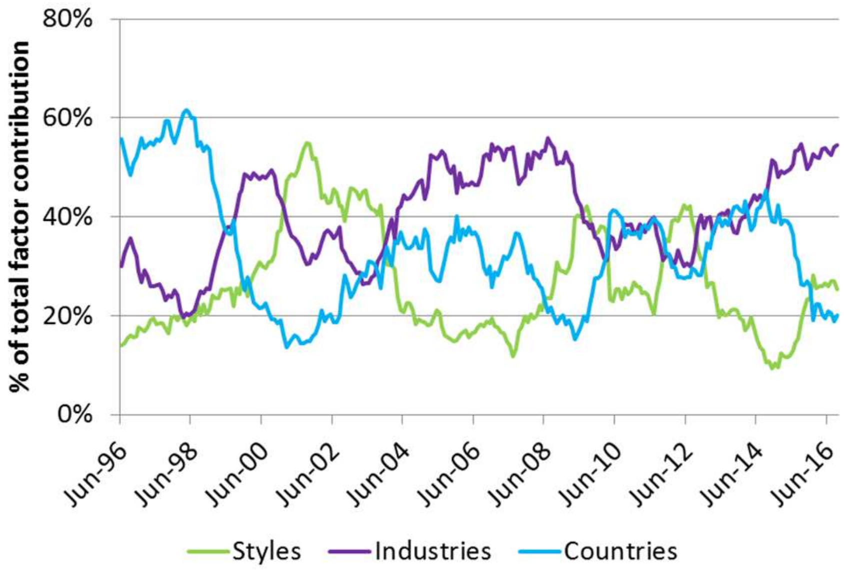
Country and currency are important risk factors for EM

Emerging Equities



Developed Equities



Source: MSCI
Data as of July 2016
Given for illustrative purpose only
Past market behaviors do not prejudge future behaviors

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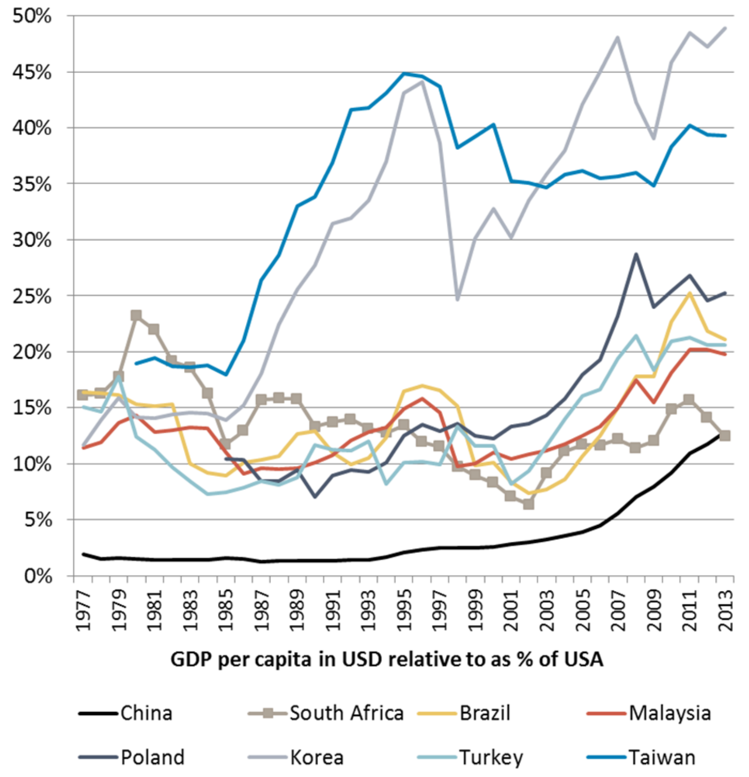
Top down analysis in EM remains critical

What are we focusing on ?

- ✓ External accounts dynamics
- ✓ FX valuation and supports
- ✓ Debt burden and dynamics
- ✓ Monetary policy outlook
- ✓ Fiscal situation and expected influence on growth
- ✓ Political influence on economy and market
- ✓ Global market influence
- ✓ Equity valuation

- ✓ LT economic growth drivers
  - ➢ Respect of property rights and quality of legal institutions
  - ➢ Technological and/or natural advantage
  - ➢ Quality of the financial system
  - ➢ Level of corruption and institutional strength
  - ➢ Debt penetration
  - ➢ Social inclusion
  - ➢ Demography

Economic growth in Emerging countries: many successes but no automatic catch up



Source: Oxford Economics, Amundi
Data 1977-2013, as of February 2015
Given for illustrative purpose only
Views of investment team are subject to change

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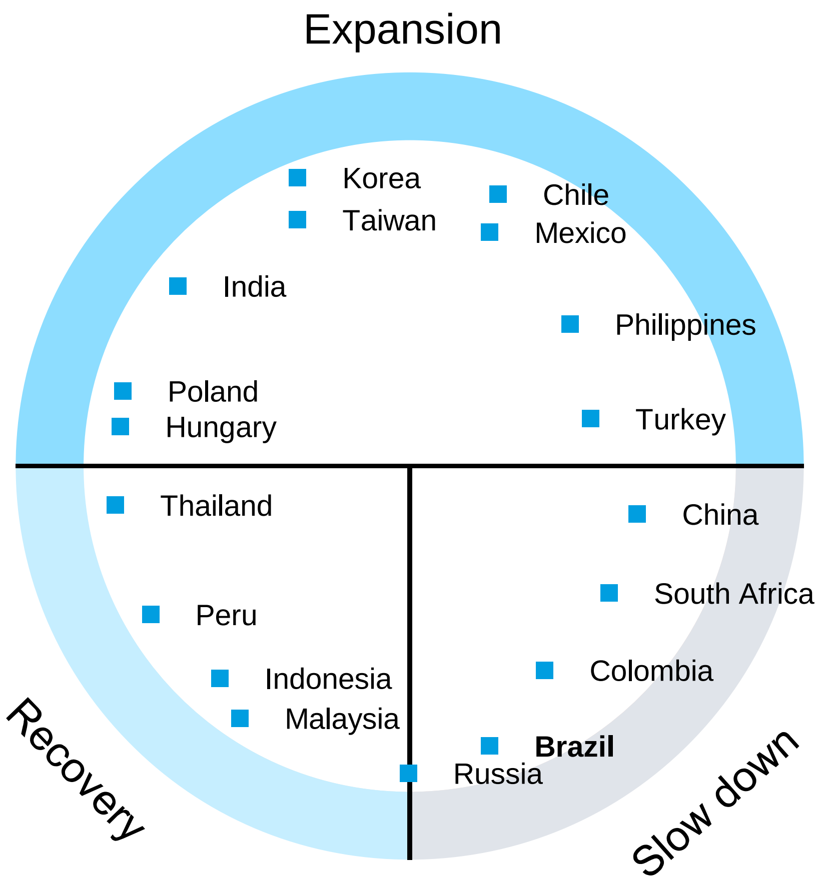
Top-down analysis: a country and sector level view

Brazil
(recovery in sight)

Overweight sectors
- ✓ Financials
- ✓ Consumer discretionary
- ✓ *Utilities*

Underweight sector
- ✓ Telecom
- ✓ Consumer Staple
- ✓ Health Care



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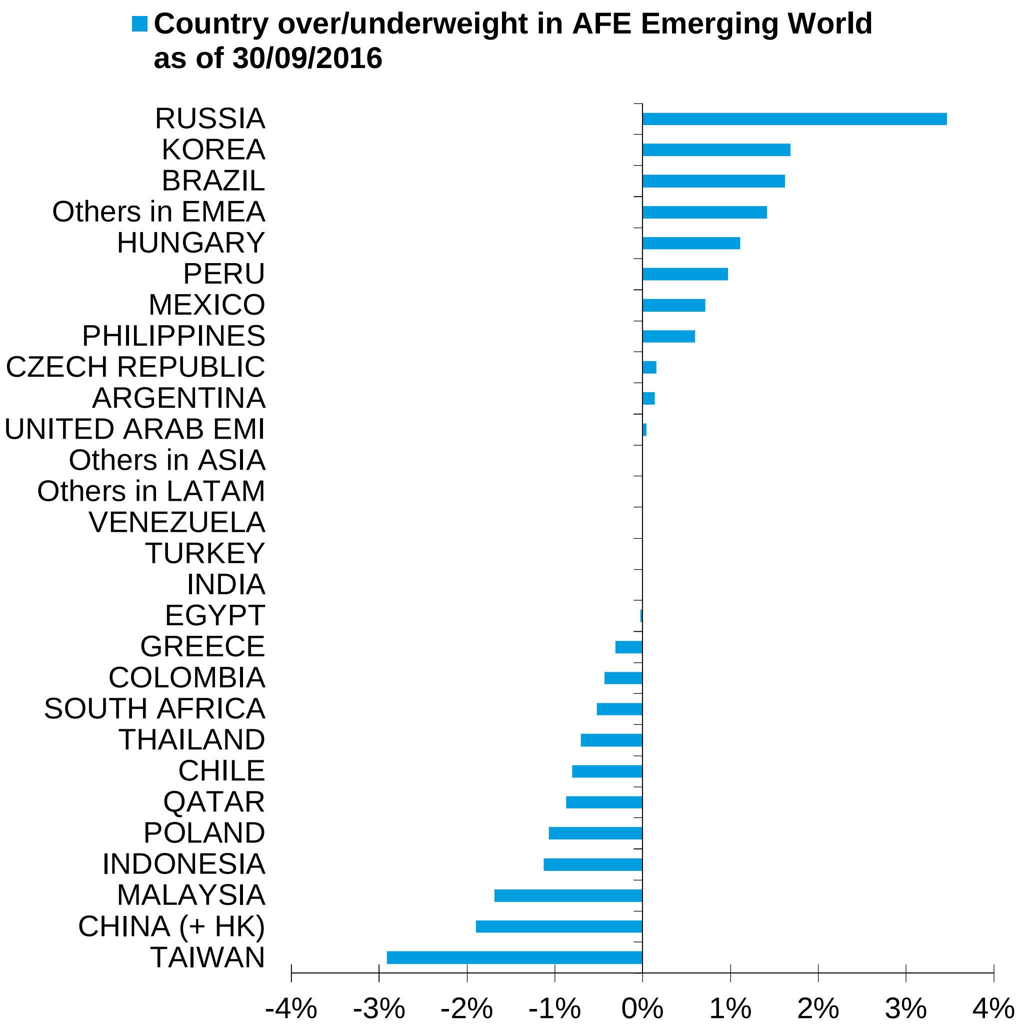
Country allocation – relative and absolute weights



Country exposure of AFE Emerging World

Country	Absolute weight 30/09/2016	Relative weight 30/09/2016
RUSSIA	7.1%	3.5%
KOREA	16.4%	1.7%
BRAZIL	9.0%	1.6%
Others in EMEA	1.9%	1.4%
HUNGARY	1.4%	1.1%
PERU	1.3%	1.0%
MEXICO	4.4%	0.7%
PHILIPPINES	1.9%	0.6%
CZECH REPUBLIC	0.3%	0.2%
ARGENTINA	0.1%	0.1%
UNITED ARAB EMI	0.9%	0.0%
Others in ASIA	0.0%	0.0%
Others in LATAM	0.0%	0.0%
VENEZUELA	0.0%	0.0%
TURKEY	1.2%	0.0%
INDIA	8.4%	0.0%
EGYPT	0.2%	0.0%
GREECE	0.0%	-0.3%
COLOMBIA	0.0%	-0.4%
SOUTH AFRICA	6.1%	-0.5%
THAILAND	1.5%	-0.7%
CHILE	0.3%	-0.8%
QATAR	0.0%	-0.9%
POLAND	0.0%	-1.1%
INDONESIA	1.6%	-1.1%
MALAYSIA	1.0%	-1.7%
CHINA (+ HK)	25.3%	-1.9%
TAIWAN	9.1%	-2.9%

Source : Amundi front office data. Data extracted on 03/10/2016
Allocations are as of date shown and are subject to change

Brazil: Overweight

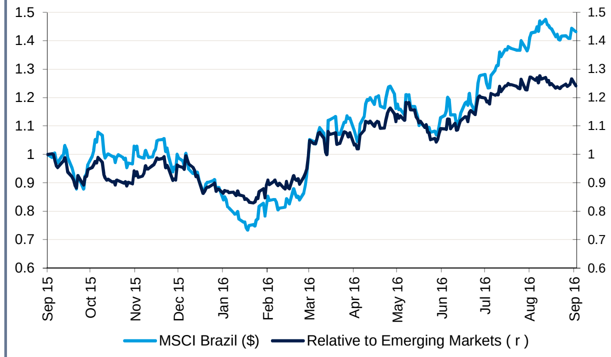
Key positives & opportunities

- ✓ Impeachment of Dilma Rousseff and nomination of a credible government team give hope that genuine structural reforms will be approved over the coming quarters
- ✓ GDP to recover in 2017: improving consumer & business confidence, improving external accounts, policy easing cycle expected to start soon
- ✓ SOE reforms ongoing: Oil Law flexibility, turnaround at Petrobras, Eletrobras, Banco do Brasil, CEF…
- ✓ Still positive technical position (high local debt yield supporting currency, emerging market equity investors still underweight, M&A/FDI inflow-linked activity)
- ✓ Some structural strengths: large base of natural resources (agriculture, energy, commodities), relatively functional institutions.
- ✓ Potential for corruption risk to decrease going forward

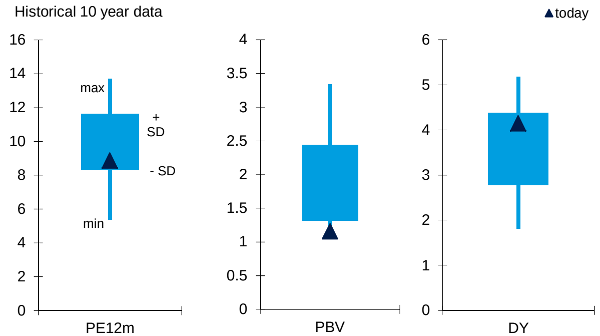
Challenges & concerns

- × Risk of disappointment over fiscal reforms: the bulk of fiscal tightening has yet to be done; skeptics stress the little progress achieved so far…
- × “Lava jato” corruption probe and unpopularity of new President Temer could disrupt political agreements and derail the adoption of reforms
- × Expected GDP recovery could disappoint due to relatively high credit to GDP and slowing wage growth
- × BRL already slightly overvalued as a result of investors' search for yield
- × Potential reversal of tax breaks previously given to corporate
- × Asset sales (BNDES, Eletrobras, other public companies…) may put pressure on stock prices
- × Market valuation already priced in part of the expected fiscal reforms

Macro Indicators	2014	2015	2016	2017
GDP (real, %yoy)	0.1	-3.8	-3.0	-0.5
CPI (%yoy - average)	6.3	10.7	9.0	6.0
Current account balance (%GDP)	-3.0	-3.3	-1.1	-3.0
International reserves (%GDP)	15	20	21	20
Foreign debt (%GDP)	15	21	17	18
FDI (%GDP)	2.9	3.4	3.0	3.2
Budget balance (%GDP)	-6.0	-10.3	-10.2	-4.0



	PE 2016	PBV	DY	ROE	EV / EBITDA	Net debt / EBITDA
Brazil	14.4	1.6	3.1%	11%	7.6	3.2
Prem / Disc vs EMF	6.3%	10.8%	13.5%	5.4%	-35.0%	-41.7%



Team’s views

Fiscal anchoring (reforms to come) and economic recovery should continue to support country risk and the stock market. Portfolio refocused on companies benefiting from reforms, local interest rate compression and prospects of economic recovery. Failure to adopt genuine reforms remains the key risk factor.

Sources : Consensus Economics, Oxford Economics, MSCI, IBES, Amundi
Data as of September 2016
Views of investment team are subject to change

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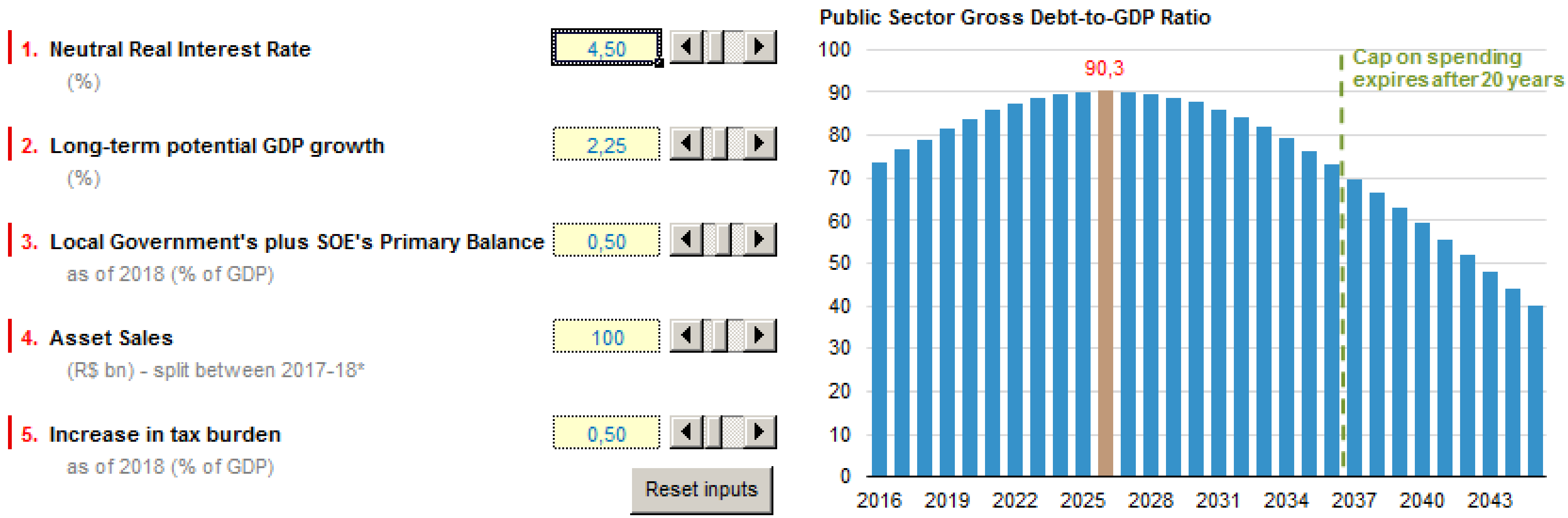
Reforms are key to revert the sovereign debt spiral

Brazil Gross debt-to-GDP (%)



Main Assumptions:

- Approval of **constitutional amendment that caps government spending to inflation** (for 20 years) and **pension reform** that makes spending ceiling credible
- Government estimates for 2016/17 for revenues, expenditure, real GDP growth (-3.1%/+1.2%), inflation (+7.2%/+4.8%), SOEs and local governments primary balance (0.1%/0.0%)

Source: UBS, Amundi Research - July 2016 data

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Peru : Overweight

Key positives & opportunities

- ✓ Higher-than-average economic policy leeway: very low public & private debt.
- ✓ Activity sustained by infra investments, competitive mines & energy costs
- ✓ Medium term GDP growth: potential to catch-up in terms of income per capita in the region
- ✓ Currency backed by large reserves (30% of GDP) and fiscal conservativeness
- ✓ Current account deficit starting to improve
- ✓ New government strongly committed to easing bureaucracy and support investment

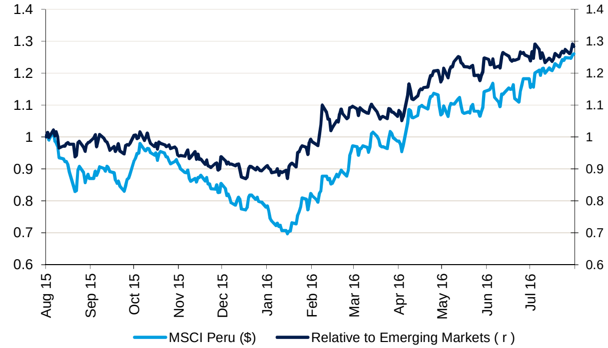
Challenges & concerns

- Lack of majority of incoming president in Congress
- Currency adjustment may not be over
- Exposure to volatile commodities: copper & gold
- 37% of the economy still dollarized
- Consumption growth may marginally slowdown
- MSCI reclassification to Frontier Market may still happen, though less and less likely
- VAT tax deduction might not be the best idea given social issues

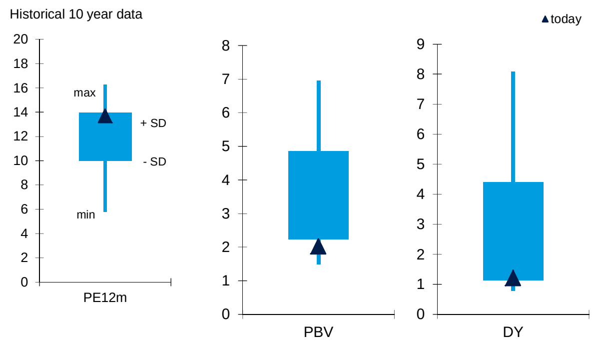
Team's views

Peru has superior potential to weather any potential deterioration in the commodity environment: wage competitiveness, orthodox economic management and catch-up potential. Equities look reasonably priced. A sharp copper correction would be disturbing but may potentially offset by gold. Overweight on banking and gold.

Macro Indicators	2014	2015	2016	2017
GDP (real, %yoy)	2.5	2.5	4.0	4.2
CPI (%yoy - average)	3.2	4.4	3.1	2.8
Current account balance (%GDP)	-4.0	-4.4	-3.6	-4.0
International reserves (%GDP)	30	31	32	32
Foreign debt (%GDP)	33	37	42	45
FDI (%GDP)	3.8	3.5	3.8	4.0
Budget balance (%GDP)	-0.6	-3.0	-3.0	-2.6



	PE 2016	PBV	DY	ROE	EV / EBITDA	Net debt / EBITDA
Peru	14.6	2.0	1.4%	14%	9.8	1.7
Prem / Disc vs EMF	8.3%	39.9%	-48.8%	30.0%	-16.3%	-69.1%



Sources : Consensus Economics, Oxford Economics, MSCI, IBES, Amundi
Data as of August 2016
Views of investment team are subject to change

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Current portfolio positioning – relative weights matrix

AFE Emerging World

30/09/2016		Energy	Materials	Industrials	Consum. Discret.	Consum. Staples	Health Care	Financials	Info. Tech.	Telecom. Services	Utilities	Real Estate	Country weight in benchmark
Weight	-0.4%	-0.3%	-1.8%	-1.0%	2.2%	-0.0%	-1.0%	-0.3%	5.1%	-2.5%	-0.8%	0.0%	
ARGENTINA	0.1%							0.1%		0.1%			
BRAZIL	1.6%	-0.0%	0.6%	0.1%	-0.1%	0.2%	-0.1%	1.1%	-0.2%	-0.2%	0.3%	-0.0%	7.4%
CHILE	-0.8%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%		-0.2%		0.0%	-0.2%		1.1%
COLOMBIA	-0.4%	-0.1%	-0.1%					-0.3%			-0.0%		0.5%
MEXICO	0.7%		0.1%	-0.4%	-0.3%	0.7%		0.9%		-0.2%		0.0%	3.7%
PERU	1.0%		0.2%					0.8%					0.4%
VENEZUELA													
Others in LATAM													
LATIN AMERICA	2.2%	-0.2%	0.8%	-0.4%	-0.5%	0.8%	-0.1%	2.3%	-0.2%	-0.3%	0.1%	-0.0%	13.0%
HUNGARY	1.1%	-0.1%					0.4%	0.8%					0.3%
POLAND	-1.1%	-0.2%	-0.1%		-0.1%	-0.0%		-0.5%		-0.0%	-0.1%		1.1%
CZECH REPUBLIC	0.2%							0.2%		-0.0%	-0.1%		0.2%
RUSSIA	3.5%	0.7%	0.0%		0.4%	-0.2%		1.4%	1.0%	0.2%	-0.0%		3.7%
TURKEY	-0.0%	-0.1%	-0.1%	0.2%	0.0%	-0.1%		0.1%		-0.1%		0.0%	1.2%
GREECE	-0.3%		-0.0%		-0.1%			-0.1%		-0.1%			0.3%
SOUTH AFRICA	-0.5%	-0.4%	-0.1%	0.2%	0.8%	-0.1%	-0.3%	0.3%		-0.5%		-0.4%	6.7%
EGYPT	-0.0%					0.0%		-0.0%		-0.0%		-0.0%	0.2%
QATAR	-0.9%	-0.0%		-0.1%				-0.5%		-0.1%	-0.0%	-0.1%	0.9%
UNITED ARAB EMI	0.0%			-0.1%		0.1%		-0.1%		-0.2%		0.4%	0.8%
Others in EMEA	1.4%				0.4%			1.1%				-0.1%	0.5%
EMEA	3.4%	-0.1%	-0.3%	0.1%	1.5%	-0.3%	0.0%	2.6%	1.0%	-0.8%	-0.2%	-0.2%	15.7%
CHINA (+ HK)	-1.9%	0.3%	-0.3%	0.1%	0.4%	-0.6%	0.2%	-3.1%	1.3%	0.5%	-0.8%	0.1%	27.2%
KOREA	1.7%	-0.4%	-0.5%	-0.9%	0.8%	1.0%	-0.3%	-0.5%	2.4%	-0.1%	0.2%		14.8%
TAIWAN	-2.9%	-0.1%	-0.7%	-0.1%	0.1%	-0.1%	-0.1%	-1.9%	0.5%	-0.5%		-0.1%	12.0%
THAILAND	-0.7%	0.0%	-0.3%	-0.2%	-0.1%	-0.3%	-0.1%	0.4%	-0.0%	-0.2%	0.0%	0.0%	2.2%
INDIA	-0.0%	0.3%	-0.4%	0.3%	0.4%	-0.2%	-0.6%	-0.1%	0.2%	-0.2%	0.4%	0.0%	8.4%
INDONESIA	-1.1%	-0.1%	0.1%	0.1%	-0.5%	-0.4%	-0.1%	0.2%		-0.5%	-0.1%	-0.0%	2.7%
MALAYSIA	-1.7%	-0.1%	-0.1%	0.2%	0.1%	-0.2%	-0.1%	-0.7%		-0.3%	-0.4%	-0.0%	2.6%
PHILIPPINES	0.6%			-0.3%	-0.1%	0.3%		0.5%		-0.1%	0.1%	0.1%	1.3%
Others in ASIA													
ASIA	-6.1%	-0.0%	-2.2%	-0.7%	1.2%	-0.6%	-1.0%	-5.2%	4.3%	-1.4%	-0.6%	0.2%	71.3%
Sector weight in benchn	0.0%	7.3%	6.4%	5.9%	10.6%	7.9%	2.5%	23.8%	23.9%	6.1%	2.9%	2.7%	100.0%

	0.05% / 0.8%	0.8% / 2.5%	>2.5%	-0.05% / 0.05%	-0.05% /- 0.8%	-0.8% / -2.5%	>-2.5%
Overweight / Neutral / Underweight	Overweight	Overweight	Overweight	Neutral	Underweight	Underweight	Underweight

Source : Amundi front office data. Data extracted on 03/10/2016
Given for illustrative purpose only
Allocations are as of date shown and are subject to change

Amundi
ASSET MANAGEMENT

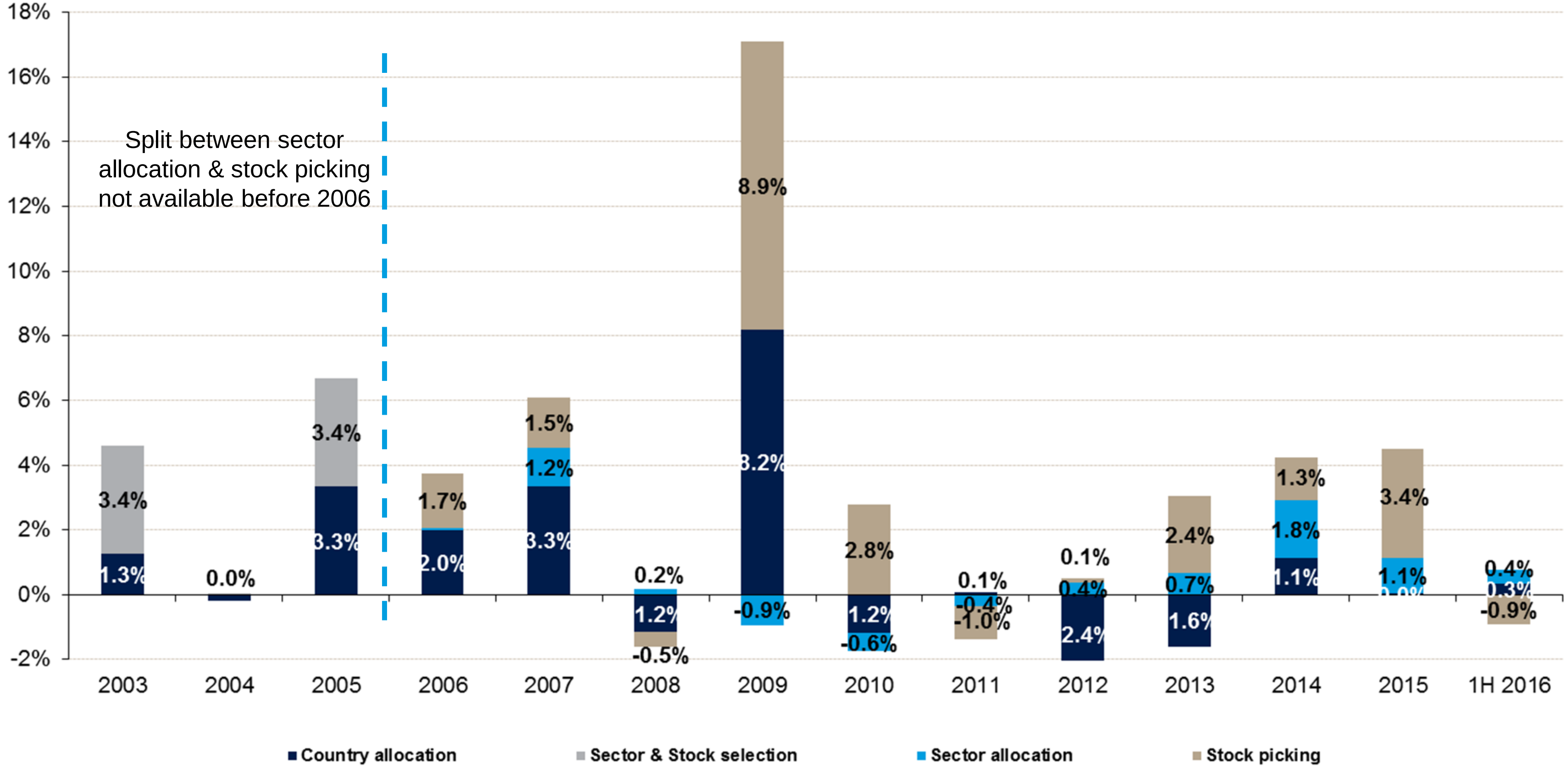
Track-Record: Global Emerging Markets funds

World Emerging Markets GIPS composite

	Composite	Benchmark	Active Performance	Tracking Error	Information Ratio
CUMULATIVE GROSS PERFORMANCE TO REPORTING DATE					
1 year	-7.34	-12.04	4.70	3.24	1.45
2 years	-11.25	-16.46	5.21	3.22	0.87
3 years	2.91	-4.24	7.16	2.86	0.84
4 years	6.86	-1.41	8.27	2.76	0.73
5 years	-12.19	-17.08	4.89	2.65	0.42
6 years	12.56	6.01	6.55	2.45	0.41
7 years	46.21	30.77	15.44	2.56	0.65
8 years	2.93	-5.74	8.67	2.74	0.40
9 years	13.12	-1.13	14.24	2.77	0.55
10 years	75.44	43.81	31.63	2.70	0.77
Since Inception	259.92	134.84	125.08	4.47	0.53

Source: Amundi - Data as of 30/06/2016.
Past performance is no guarantee of future returns.
GIPS Composite: World Emerging Markets Focus / All portfolios, currency: USD.
The benchmark is a blend of the MSCI EM (Emerging Markets) and the MSCI Emerging Markets (EUR).

Global Emerging Markets funds: Performance attribution



Gross relative performance (Ex transaction fees)	4.6%	-0.2%	6.7%	3.7%	6.1%	-1.5%	16.2%	1.0%	-1.3%	-1.9%	1.4%	4.2%	4.5%	-0.2 %

Source : Amundi – Data as of 30/06/2016

Portfolio: Amundi Actions Emergents from 2003 to 2015 – Amundi Funds Equity Emerging World in 2016.

Past performance is not indicative of future returns. This analysis is carried out as if the fund were always 100% invested, which is not the case. Therefore, country allocation results are slightly distorted. Amundi Actions Emergents fund may leverage up to 10% under French interpretation of UCITS III regulations. Gross relative performance has been shown to illustrate attributions. The application of fees would reduce overall performance results.

TABLE OF CONTENTS

Tailwinds supporting Emerging Markets

- **Low valuations of EM equities, currencies and commodities**
  - GEM bonds, currencies and equities have adjusted markedly since FED “taper tantrum”
  - Many commodity prices now below their 35-year inflation-adjusted average
- **Well-advanced macro-economic adjustment in emerging countries (bar China)**
  - Broadly improving external accounts
  - Ending of populist policies in South America
- **Economic activity to stabilise during 2016 and improve in 2017**
  - Monetary easing in China to help smooth its domestic slow-down
- **Medium-long term growth advantage** (albeit lower than during 2000-2014)
  - Global convergence (technological and macro-economic know-how)
  - Lower leverage than DM
- **Several factors should help earnings to stabilise**
  - Past capex reduction / Improving wage to productivity ratio / Commodities stabilisation
- **Good technical positioning**
  - EM fund flows are improving, with equity inflows lagging bonds’
  - FED rate hike cycle should be smooth and have a diminishing influence on EM assets
  - DM growth expected to remain subpar

Views are as of 30/09/2016 and are subject to change
Given for illustrative purpose only

Main risks to our positive scenario

- **Medium-long term risk of an abrupt slowdown in China growth**
  - Growth has not declined to a sustainable level yet
- **Risk of a correction in developed market equities**
  - US equity market: high valuation and risk of downward EPS revisions
  - Absence of the traditional bond buffer
- **Postponement of commodity supply/demand adjustment**
  - Recent spike in certain commodities may de-incentivise supply rationalisation
  - Demand could weaken if Chinese early 2016 stimulus fades
- **(Geo)political uncertainties** (South Africa, Brazil, Turkey, Middle East, South China Sea…)
- **Long term risk of automation replacing labour, spurring factory relocation to most tech-advanced countries**

Russia: Overweight

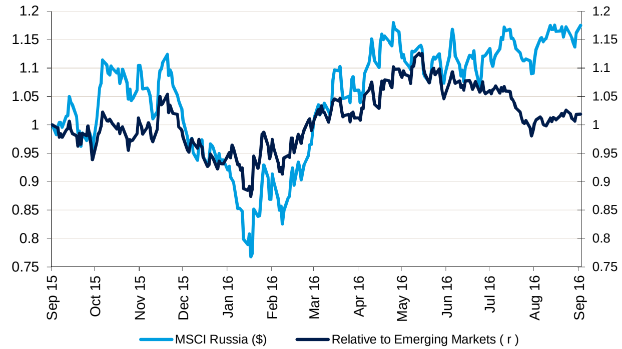
Key positives & opportunities

- ✓ Early signs of stabilization of the economy and moderating inflation (GDP growth expected to be in positive territory in 17, better dynamics in disposable income, etc)
- ✓ Potential de-escalation in the relationship between the EU/Ukraine/Russia
- ✓ Attractive valuation with some stocks offering attractive dividend yields
- ✓ The Central Bank and the government are taking measures to lower short term and medium tem inflation hence anticipating lower interest rate
- ✓ Large FX reserves, Central bank is targeting USD 500bn medium term level
- ✓ Current account surplus expected to remain elevated
- ✓ Low household indebtedness (except for the lower classes)
- ✓ Pockets of solid growth and some companies with good corporate governance

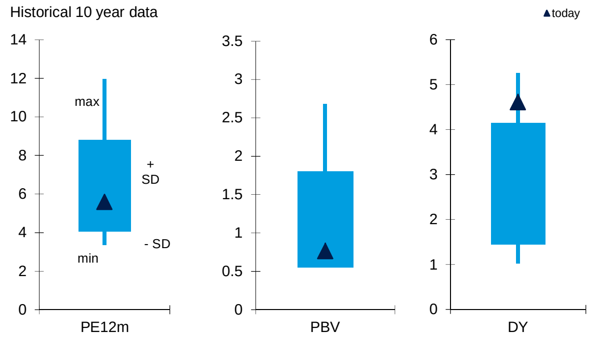
Challenges & concerns

- × Oil price likely to be capped (Iran, US shale oil, geopolitics, …)
- × Lack of diversification of the economy outside of oil
- × Inefficient economy eaten up by bureaucracy and corruption leading to additional cost and risk of doing business
- × Potential reforms after 2016 elections (taxation, pension age and system)
- × Risk of poor treatment of minority shareholders
- × Potential extension of economic sanctions

Macro Indicators	2014	2015	2016	2017
GDP (real, %yoy)	0.7	-3.7	-0.8	1.2
CPI (%yoy - average)	7.8	12.9	6.4	5.3
Current account balance (%GDP)	1.3	5.2	3.3	3.8
International reserves (%GDP)	17	24	25	22
Foreign debt (%GDP)	33	39	35	35
FDI (%GDP)	-1.7	-1.2	0.0	-0.2
Budget balance (%GDP)	-0.7	-3.4	-3.7	-2.6



	PE 2016	PBV	DY	ROE	EV / EBITDA	Net debt / EBITDA
Russia	7.0	0.7	4.1%	10%	50.4	47.7
Prem / Disc vs EMF	-48.3%	-52.5%	50.6%	-7.7%	330.7%	780.9%



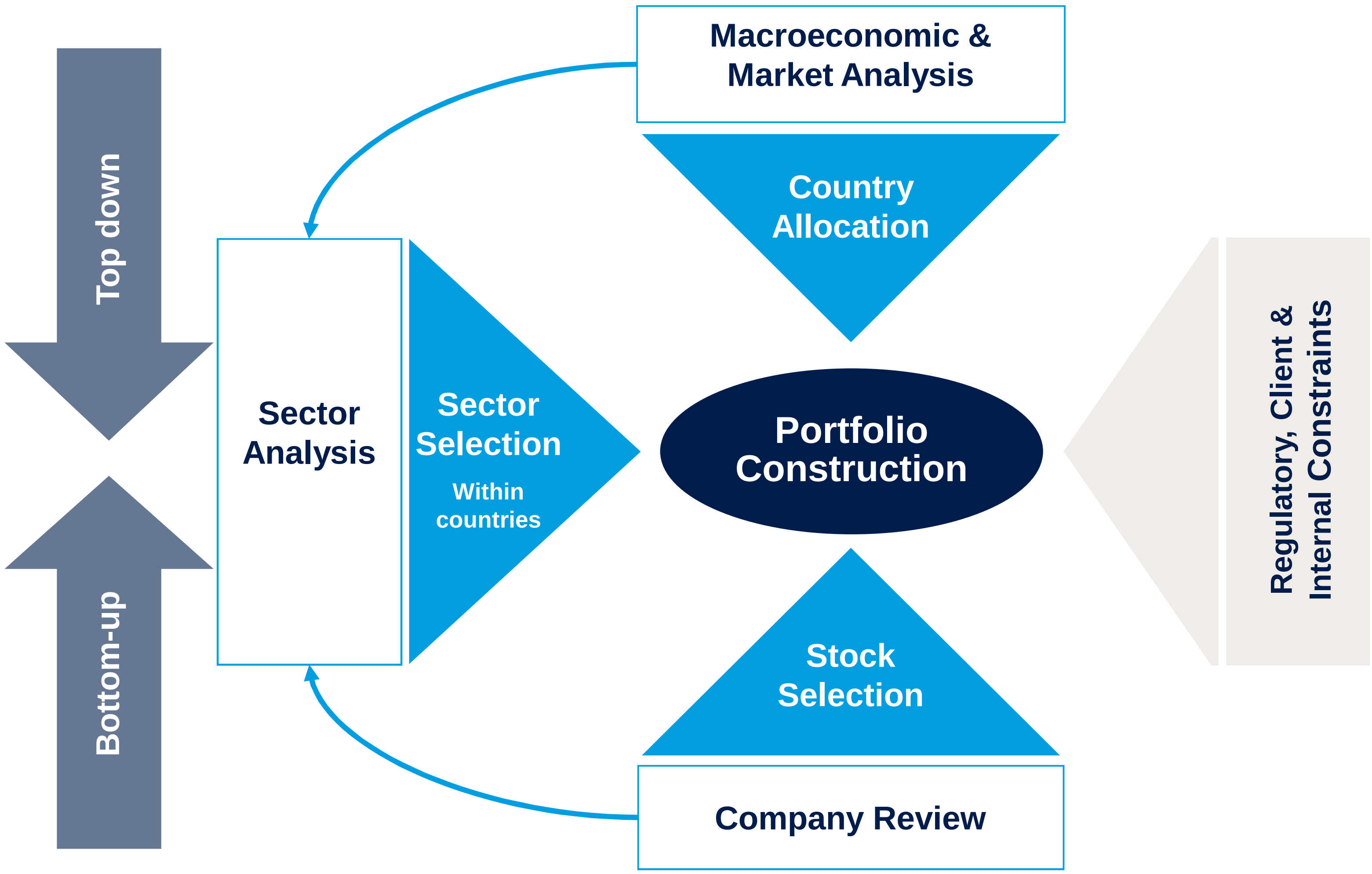
Team's views

Overweight on Russian equities on valuation, macro adjustment mostly done.

Preference for companies making structural gains even in a difficult environment.

Sources : Consensus Economics, Oxford Economics, MSCI, IBES, Amundi
Views of investment team are subject to change

3 main sources of alpha



Amundi ASSET MANAGEMENT

Some elements of our stock-picking approach

	Rules	Why
Companies	A cautious approach toward sectors/companies with low competitive advantage or flawed models	Bad business models do not change easily
	A cautious approach toward companies taking too much debt	Debt hides ability to generate cash, over estimates capacity to grow and weakens flexibility
	Make sure management and shareholders interests are aligned	People rarely change
Portfolio / stocks	A focus on identifying “tipping points”: factors with high impact on performance	Negative environments are likely to lead to excessive pessimism and low valuation while risk may be reducing
	A careful approach toward high valuation stocks	Investors tend to over estimate sustainability of high growth or high margins
	Convictions need to be implemented fast	Over or under-valuations tend to correct later but faster than expected
	An open mind and a focus on counter thesis	The quality of a business can change. Deterioration are quicker than improvement

Given for illustrative purpose only

Bottom-up analysis: identify individual stocks

Business and financial analysis

GROWTH
- Sustainability of growth
- Resilience of competition advantage

PROFITABILITY
- Sustainability of margins
- CF generation
- Capital Intensity
- Returns on deployed capital

RISKS
- Shareholding structure
- ESG issues
- Debt management
- Regulatory risks

Qualitative score

\+

Equity valuation

VALUATION
- Stock price up/down side based on our EVA valuation model and other multiples

Quantitative score

Resulting in our watch list

Qualitative score + **Quantitative score**

50% **50%**

Global Rating
for each company

A
B
C
D

Watch list

A: Strong buy: typical upside potential of 20%+ *(overweight by 80 – 150bps)*

B: Buy upside: typical potential of 10 - 20% *(overweight by 40 – 80 bps)*

C: Buy upside: typical potential below 10% *(overweight by 10 – 40 bps)*

D: Neutral/Underweight – occasionally in portfolio for risk control

Source: Amundi, as of September 2016.
Given for illustrative purpose only, may be changed without prior notice.

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