

# Emerging Conservative

*“Less pain, more gain”*

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## Emerging Markets: Opportunities and Risks

Emerging markets:

- Very attractive long-term opportunities: demographic growth, rise of the middle class...
- Provide diversification benefits with developed markets
- Can still be riskier because of lower liquidity, governance standards or current accounts deficit

Emerging Conservative:

Full exposure to EM equities with 20% to 30% risk reduction

Our investment philosophy: **do not take unrewarded risks**

Deliver consistent performance over the long term **by managing risk**

Use quantitative tools to build the portfolio in a **disciplined manner**

**Bottom-up** and **top-down** analysis define construction guidelines

Process in place since **2007** on European markets, since **2012** on emerging markets

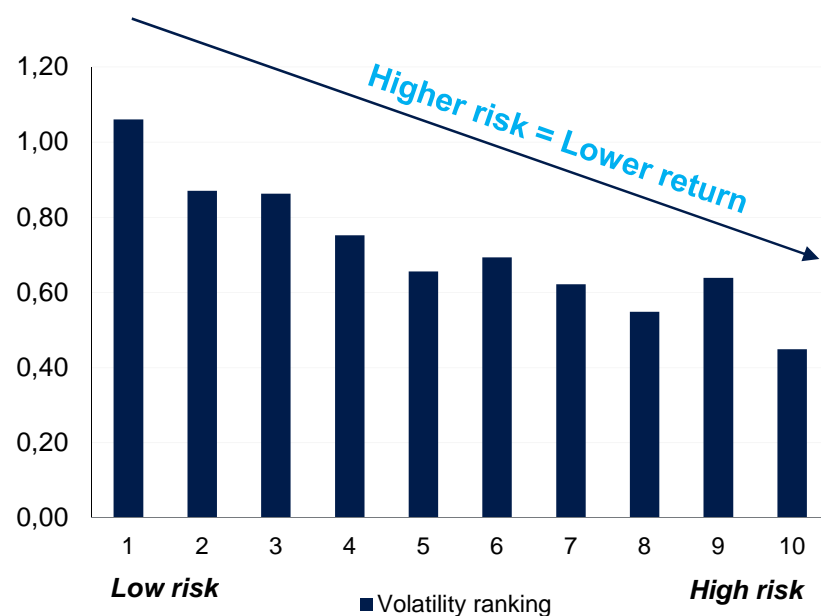
## A disciplined investment process to address a wide spectrum of risks

A holistic approach to risk management



## Higher volatility does not lead to higher returns

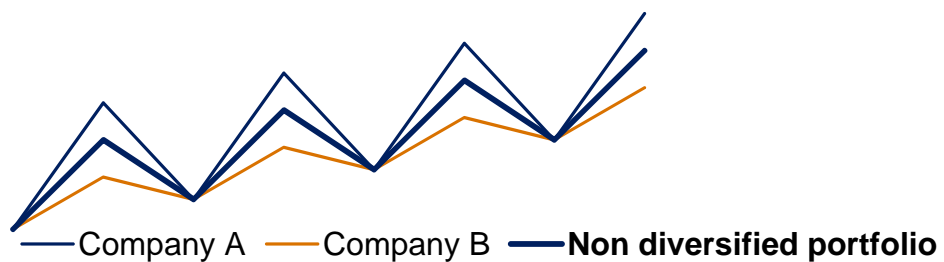
Risk-adjusted return of global equities portfolios grouped by volatility deciles



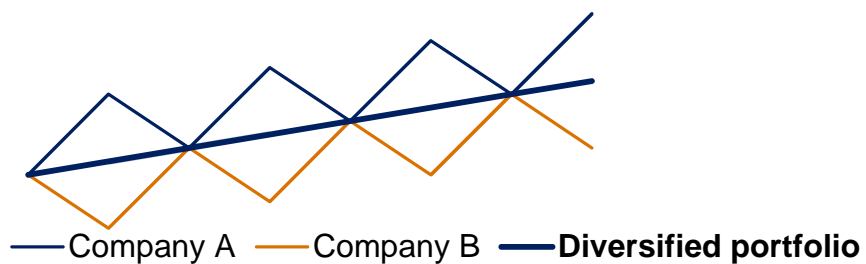
Possible explanations include:

- Behavioral biases leading to “lottery effect”
- Structural incentives of asset management industry

## “Diversification is the **only free lunch**”



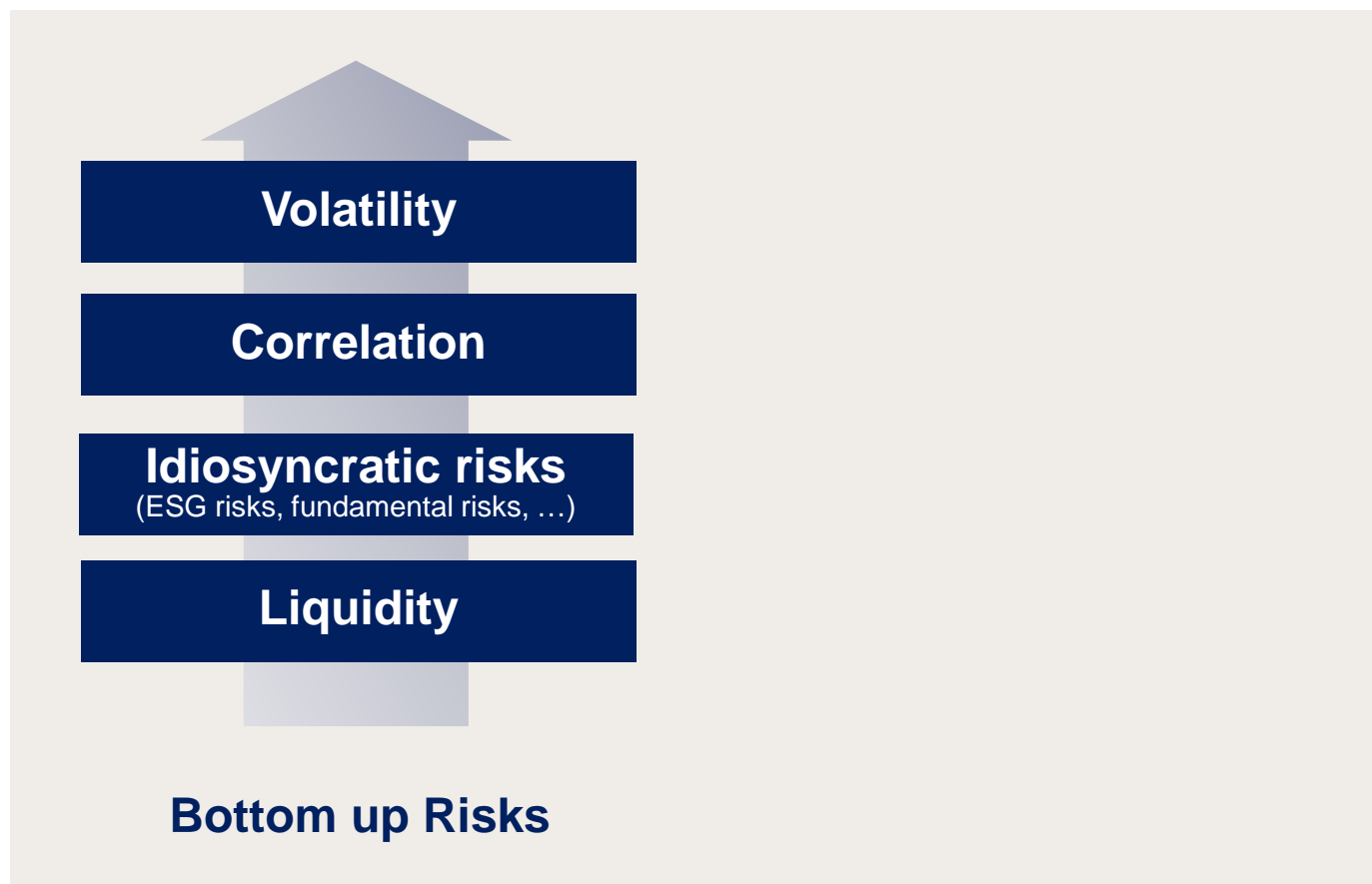
High correlation risk



Low correlation risk

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## Extra financial analysis can help reducing portfolio risk

### Hanergy Thin Film Power Group

#### Q&A: What is going on at Hanergy?

The Hong Kong-listed company's shares surged in the past year but have now plunged

#### Rapid Hanergy rise

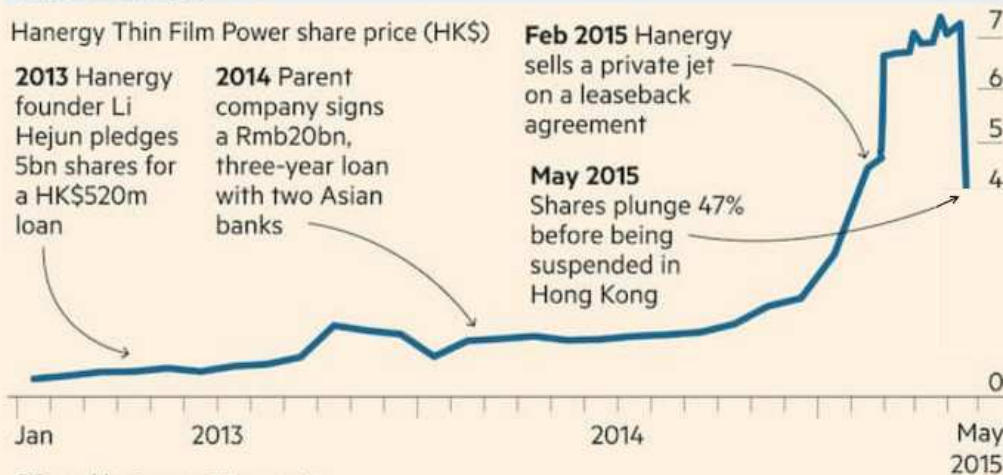
Hanergy Thin Film Power share price (HK\$)

**2013** Hanergy founder Li Hejun pledges 5bn shares for a HK\$520m loan

**2014** Parent company signs a Rmb20bn, three-year loan with two Asian banks

**Feb 2015** Hanergy sells a private jet on a leaseback agreement

**May 2015** Shares plunge 47% before being suspended in Hong Kong



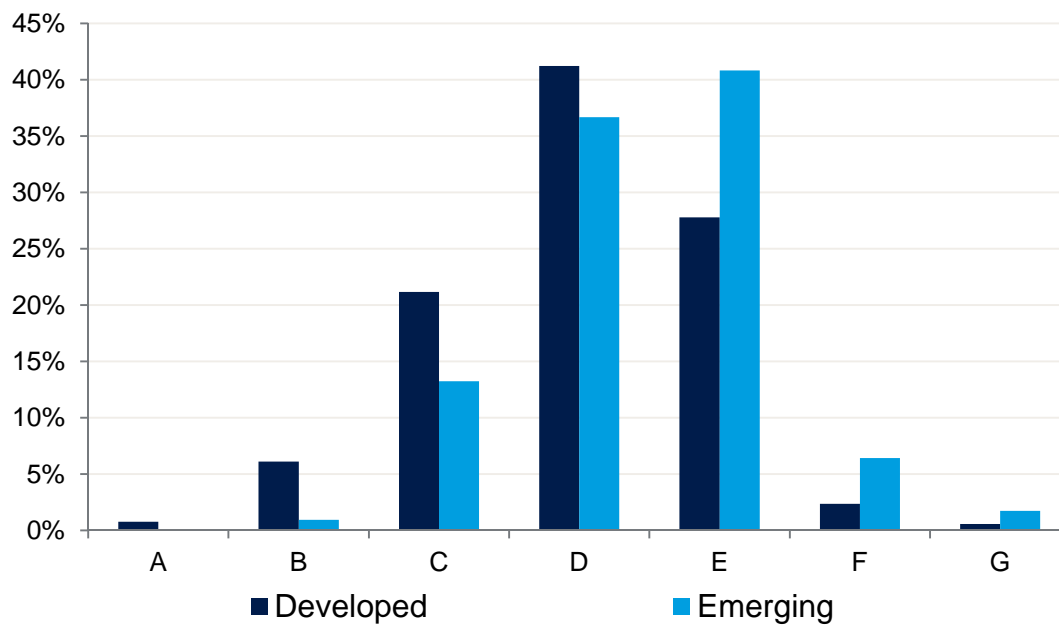
FT graphic Source: FT research

- Emerging Markets particularly prone to “ESG risk”
- Governance still underdeveloped
- Bias for extractive industries



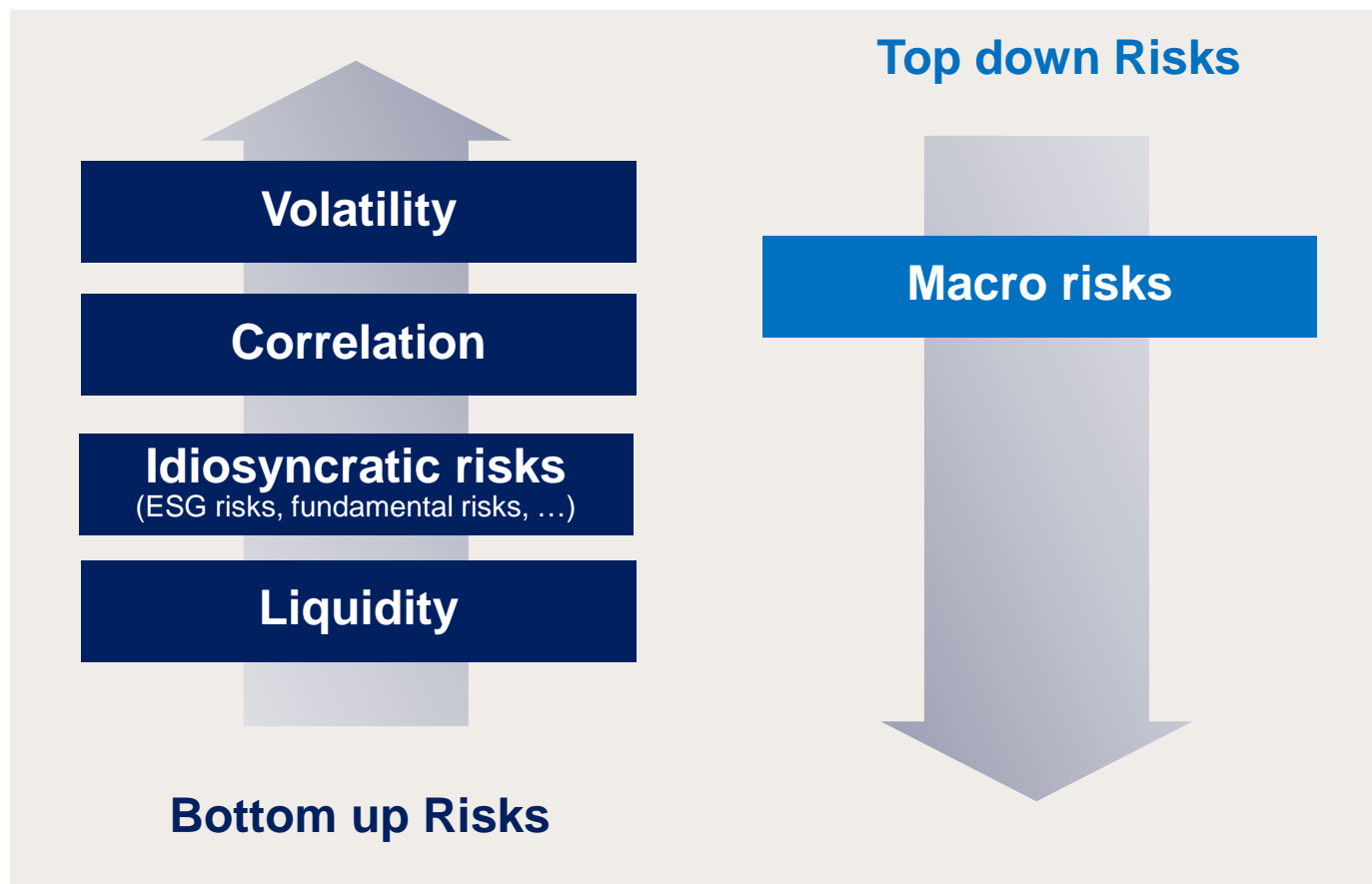
## Emerging Markets = higher “ESG risk”

Amundi ESG ratings breakdown, Developed vs. Emerging



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## Macro analysis to guide portfolio construction

### Top country overweight – MSCI EM Min Vol

Country	MSCI EM Min Vol	MSCI EM	Difference
Taiwan	17.51	12.28	5.22
Malaysia	7.45	2.65	4.80
Thailand	6.28	2.15	4.14
Philippines	4.70	1.29	3.40
Chile	3.64	1.22	2.41
Indonesia	5.12	2.72	2.40

■ Indonesia: defensive market so overweighted in MSCI EM MinVol

■ High deficit means particularly sensitive to the Fed's timing

### Current account in % of GDP – Indonesia

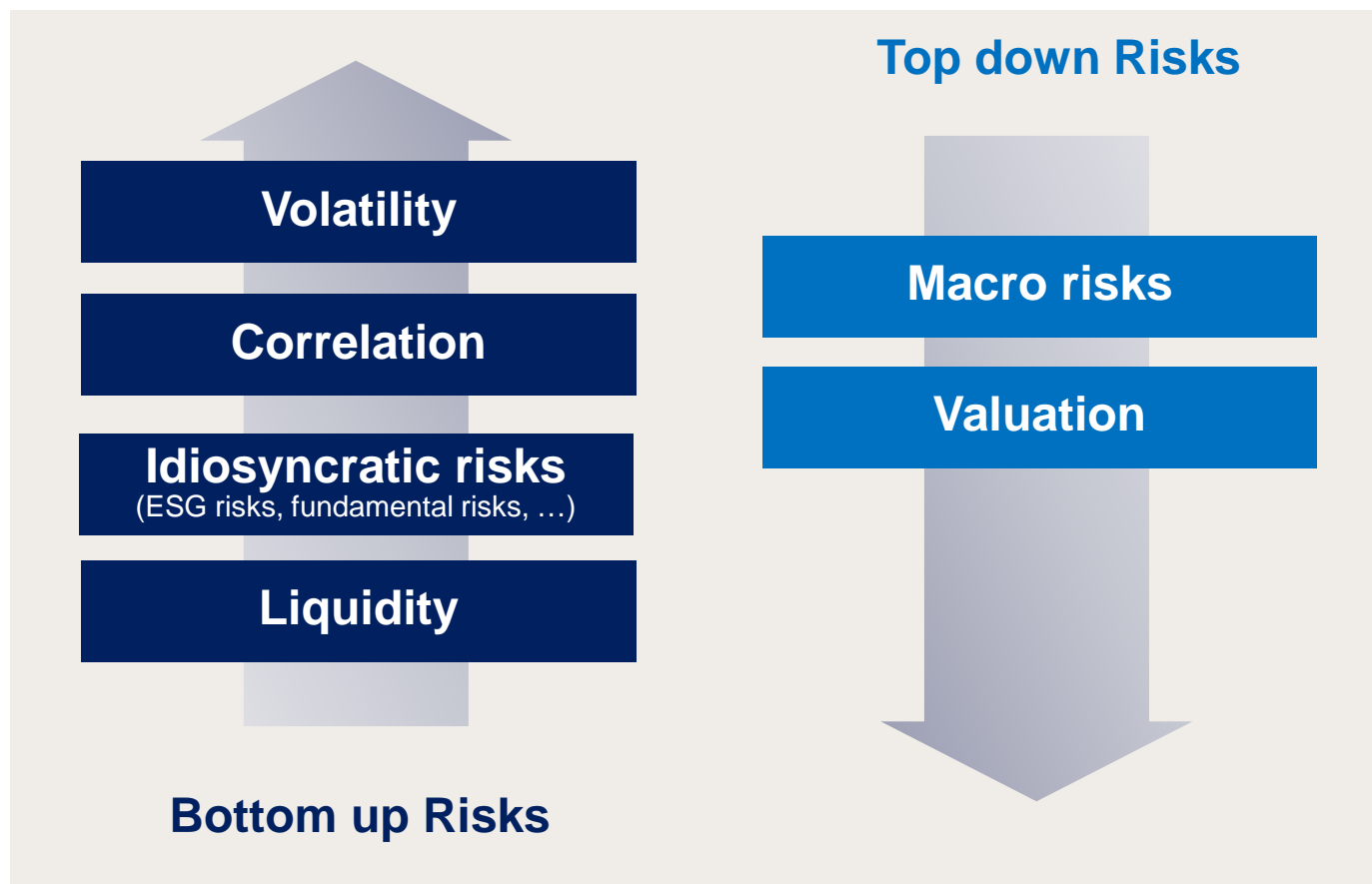


■ High correlation currencies/equities

■ We cap the exposure to Indonesia at benchmark weight

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## Low risk stocks tend to be expensive

### Weights and Price to Earnings

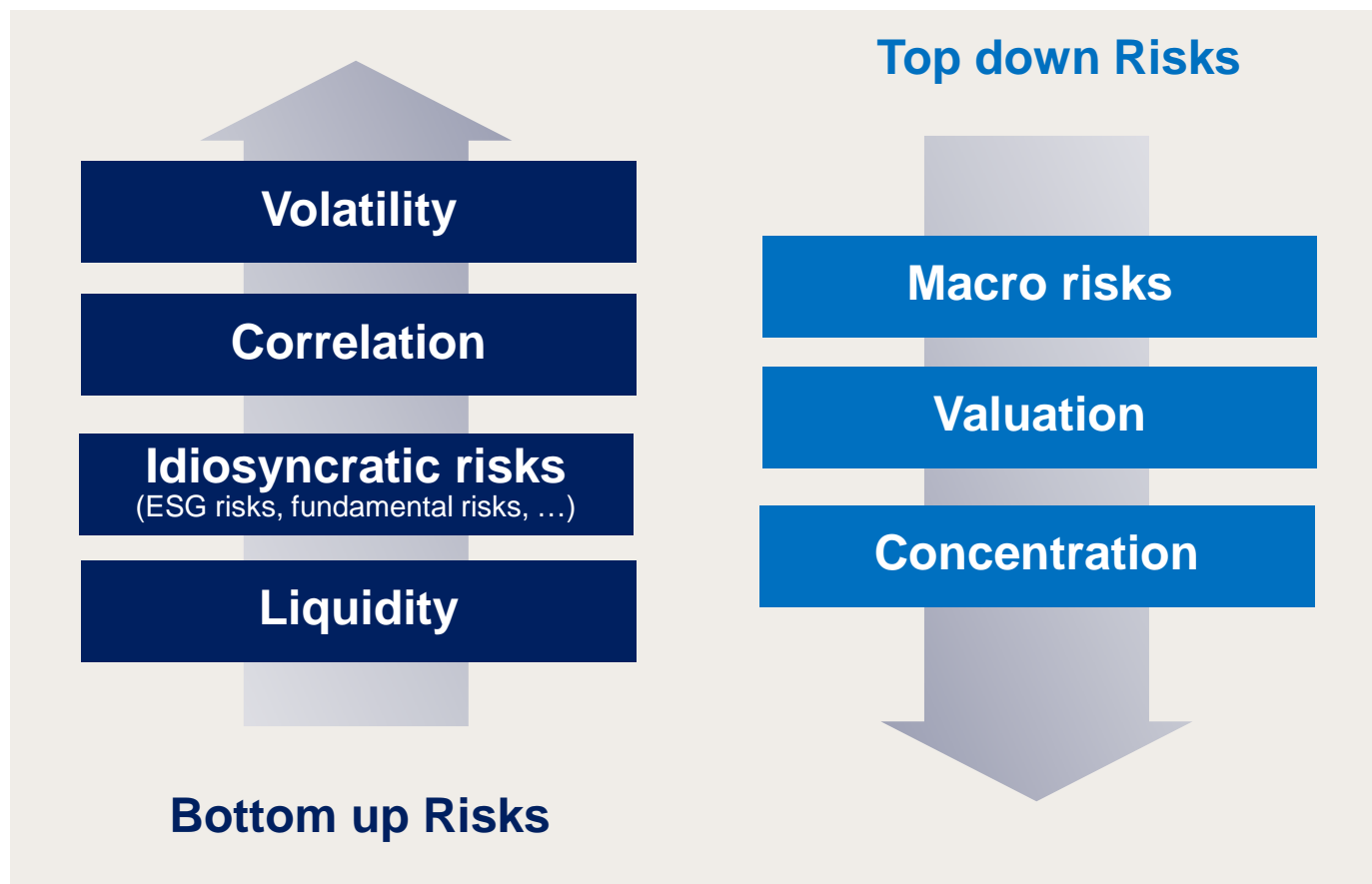
	MSCI EM Minimum Volatility		MSCI EM	
	Weight	PE LTM	Weight	PE LTM
Cons Disc	6.2%	21.8x	10.5%	16.2x
Cons Staples	13.1%	24.8x	7.7%	24.4x
Energy	3.2%	11.9x	7.7%	10.7x
Financials	23.2%	10.5x	23.9%	9.5x
Health Care	7.5%	28.0x	2.5%	25.7x
Industrials	6.9%	18.4x	6.0%	14.9x
IT	17.9%	16.3x	23.7%	17.7x
Materials	1.5%	18.2x	6.6%	14.4x
Real Estate	1.1%	9.7x	2.6%	10.5x
Telecom	11.8%	17.3x	6.0%	16.8x
Utilities	7.6%	12.2x	2.9%	9.4x
<b>Total</b>	<b>100.0%</b>	<b>15.4x</b>	<b>100.0%</b>	<b>13.5x</b>

■ Valuation needs to be monitored and kept in check

■ Higher valuation yes if higher quality

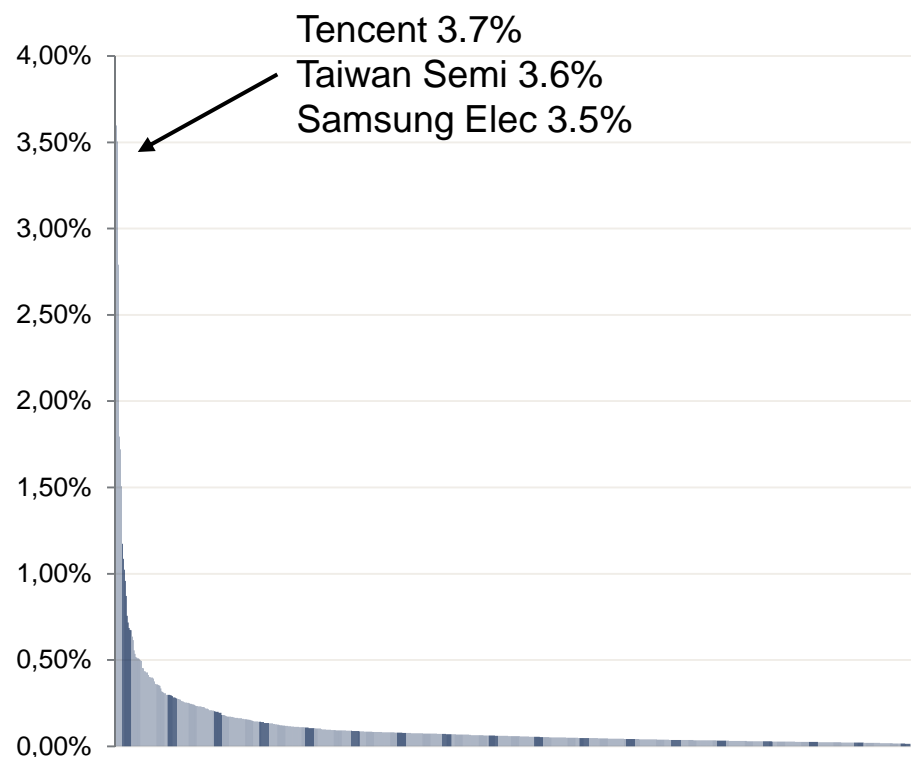
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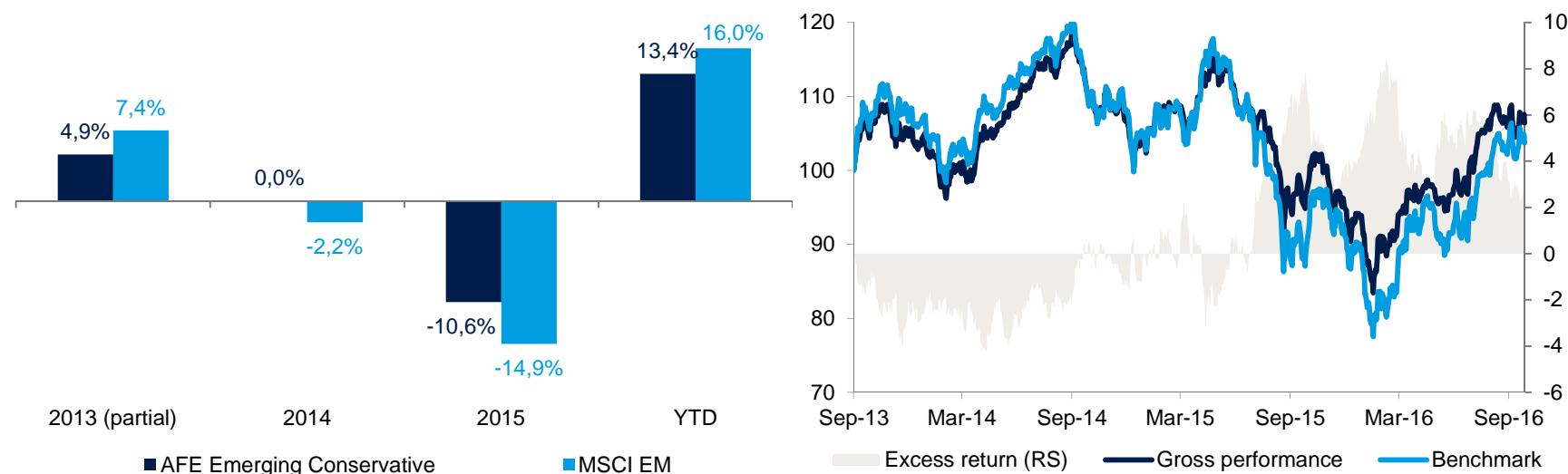
## High concentration leads to higher risk

### Weight distribution – MSCI Emerging Markets



- Cap Weighted indexes present significant concentration risk
- We monitor carefully the portfolio's maximum weights

## Higher risk-adjusted performance since inception



Gross performance in USD as of 30/09/2016	YTD	1 year	3 years	Annualized since inception (9/4/2013)
Portfolio	13.4%	10.0%	2.0%	2.0%
Benchmark	16.0%	16.8%	-1.7%	1.2%
Excess Return	-2.7%	-6.8%	3.6%	0.8%
Risk Indicators	YTD	1 year	3 years	Since inception
Portfolio Volatility	-	15.9%	13.2%	13.3%
Benchmark Volatility	-	20.6%	16.5%	16.6%
Ex-post Tracking Error	-	-	-	5.6%
Portfolio Max drawdown	-11.1%	-18.4%	-29.5%	-29.5%
Benchmark Max drawdown	-13.3%	-20.5%	-35.5%	-35.5%
Portfolio Return to Risk	-	0.6	0.0	0.2
Benchmark Return to Risk	-	0.8	0.0	0.1

AuM (€M)	57
Morningstar Rating (Overall)	★★★★
(Amundi Fds Eq Emg Conservative – IU (C))	

Source: Amundi AM, Gross performance as of 30/09/2016 the IU share class.. Amundi Funds Equity Emerging Conservative was launched on 9/4/2013. Morningstar Rating Overall of the IU share class as of October 2016

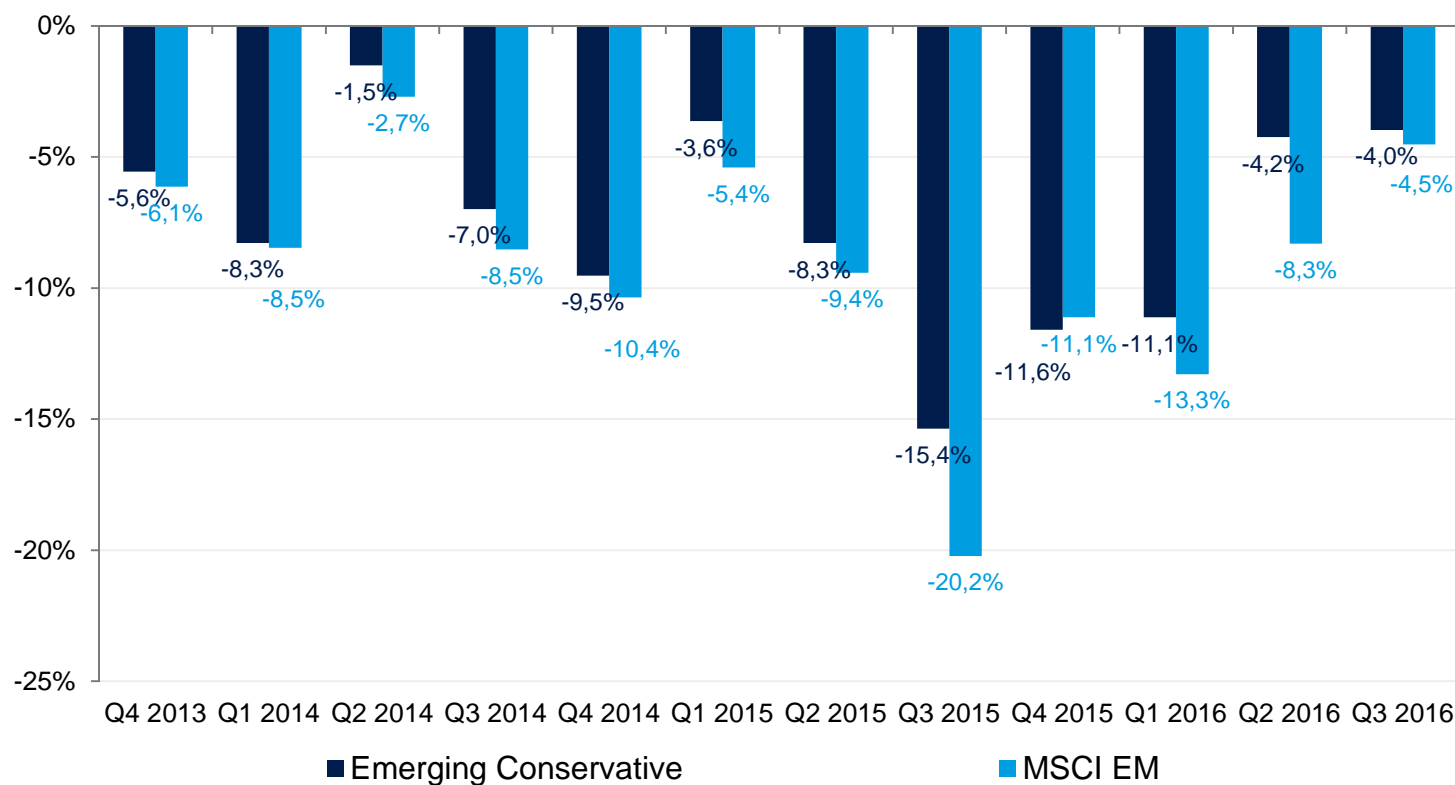
Past performance is not a reliable indicator of future results or a guarantee of future returns.

Emerging Conservative



## Emerging Markets risk significantly reduced

### Quarterly maximum drawdowns in USD

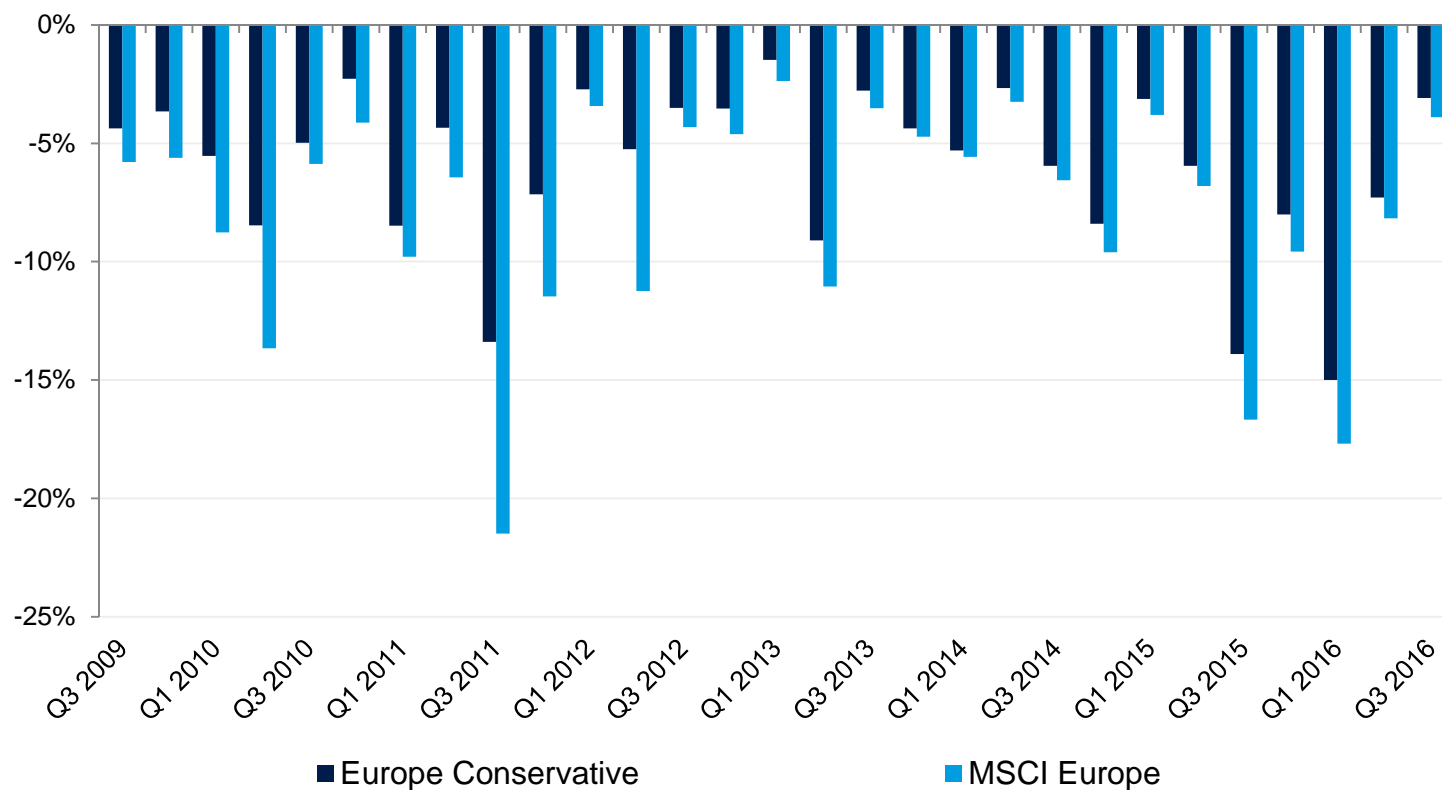


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## Long term risk reduction: Europe Conservative

### Quarterly maximum drawdowns in EUR

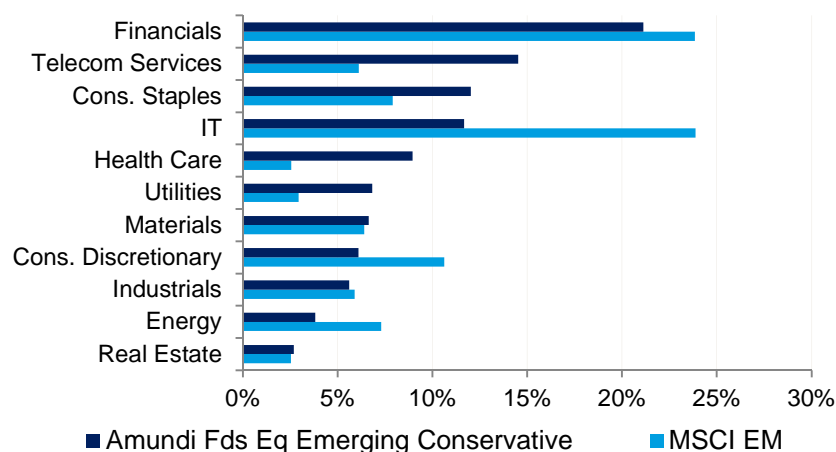


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## Emerging Conservative portfolio view

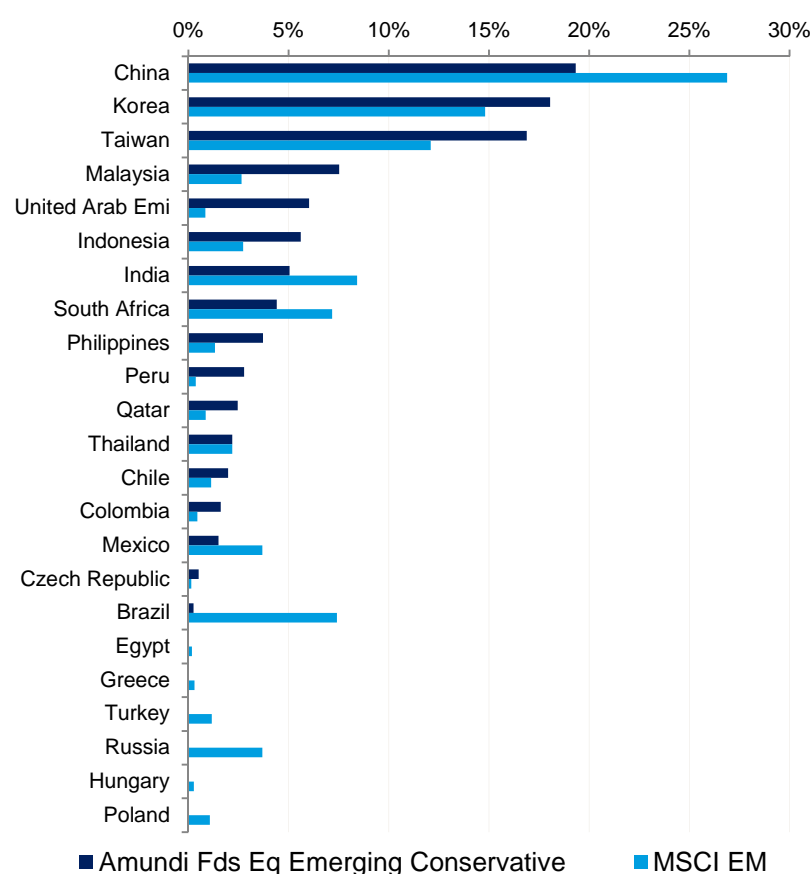
### Sector breakdown



### Main holdings

As of 30/09/2016	Amundi Fds Eq Emerging Conservative
SAMSUNG ELECTRONICS CO LTD	2.5%
CHUNGHWA TELECOM CO LTD	2.4%
CHINA MOBILE LTD	2.4%
CHINA TELECOM CORP LTD	2.4%
BANK OF COMMUNICATIONS CO LTD	2.4%
TENAGA NASIONAL BHD	2.2%
TAIWAN SEMICOND MANUF-TSMC	2.1%
SK TELECOM CO LTD	2.0%
NAVER CORP	1.9%
SIBANYE GOLD LTD	1.9%
<b>TOTAL</b>	<b>22.3%</b>

### Country breakdown



Number of holdings 131

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