GLOBAL EQUITY

GARI EUROPEAN EQUITY - CLASS B (EUR)

MONTHLY COMMENTARY

Hope after the dramatic fall

January looked like the reverse of December 2018. Performance was led by small capitalizations and highly geared companies. So, this seems like a pendulum swing after an excessive correction in 2018, with a particular tough end to the year. The explanation can also be found looking at valuations. Some sectors and stocks are back to either all-time lows on the valuation or trading with an implicit certainty of a severe downturn. This is particularly true for the following sectors:

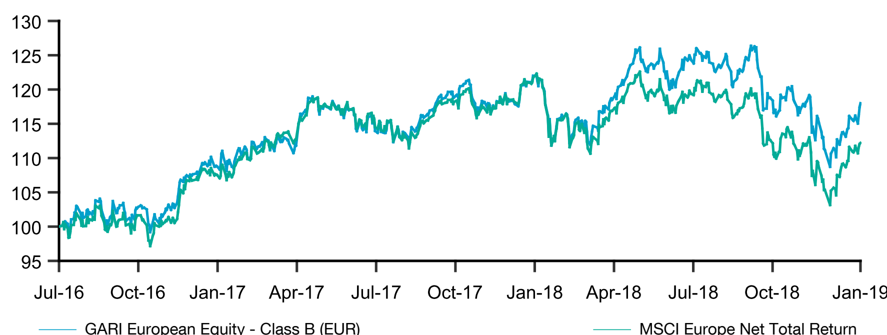
1. Banks: is cheap cheap enough? banks have been an amazingly weak performer for years since the financial crisis. This is due to several factors, but notably declining profitability, rising regulatory constraints (the two are obviously linked) and an inability for the sector to increase its book value per share. Many investors were hoping for a trend reversal in 2018 and have been disappointed. Will 2019 be the same? It is fairly possible given that the sector is mainly driven (as SG research demonstrates) by: 1) GDP growth 2) inflation outlook and 3) interest rates trends. At this stage, GDP is weakening, inflation too and the expectation of interest rates increase is being delayed by around a quarter every quarter! (now most commentators no longer expect a rate increase by the ECB this year); Gari owns very few stocks in this space despite the low valuation level. It owns stocks exposed to countries with rising interest rates (Eastern Europe) with Erste Bank and Raiffeisen or bound to be acquired (Commerzbank).

2. Insurance: same valuation, better prospects. insurers trade at depressed levels in line with banks. We see the insurance sector as far more attractive given 1) better growth 2) fewer entrants in the market 3) better industry profitability as insurers 'profitability exceeds its cost of capital. We often see insurance as an attractive alternative to banks and hold stocks like Axa, NN group, Aviva etc. (To be continued on Page 3).

CHARACTERISTICS

Legal Structure :	SICAV
Inception Date of the Fund :	July 22, 2016
Inception Date of the Class :	July 22, 2016
Share Class Currency :	EUR
Management Company :	LYXOR ASSET MANAGEMENT
Custodian :	SOCIETE GENERALE BANK & TRUST
ISIN Code :	LU1445747535
Min. Initial Subscription :	500000
Min. Subsequent Subscription :	
Entry/Exit Fees :	0/0
Lyxor Asset Management Fee :	0.65%
Performance Fee :	
Liquidity :	Daily
Subscription/Redemption Notice :	Before 12:00 PM (Luxembourg Time)

PERFORMANCE SINCE INCEPTION



FIGURES RELATING TO PAST PERFORMANCE REFER TO PAST PERIODS AND ARE NOT A RELIABLE INDICATOR OF FUTURE RESULTS

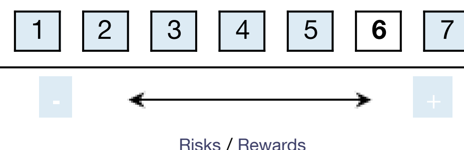
KEY POINTS

Total Fund Assets (M EUR) :	30.83
Annualized Rate of Return* :	6.77%

All performances are based on official NAVs, net of fees.

*Since inception

RISK INDICATOR



Risks / Rewards

PERFORMANCE

	MTD	3 Months	6 Months	YTD	1 Year	3 Years	Since inception
GARI European Equity - Class B	5.89%	-1.02%	-5.82%	5.89%	-1.79%	-	18.00%
MSCI Europe Net Total Return	6.19%	-0.55%	-7.46%	6.19%	-6.53%	-	12.21%

RISK ANALYSIS

	Since inception	
	Class *	Index **
Volatility	11.44%	11.15%
Sharpe ratio	0.65	0.47
Maximum DrawDown	-13.96%	-15.86%
Beta vs	0.98	-
Fund Alpha vs.	2.21%	-

** GARI European Equity - Class B (EUR)*

*** MSCI Europe Net Total Return*

HISTORICAL MONTHLY RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2019	5.89%												5.89%
2018	1.94%	-3.66%	-0.93%	5.15%	1.61%	-0.89%	3.16%	-1.32%	1.72%	-5.21%	-0.80%	-5.77%	-5.46%
2017	0.35%	2.11%	2.44%	2.91%	0.68%	-2.73%	-0.21%	-0.09%	3.86%	2.37%	-2.51%	0.12%	9.43%
2016							0.74%	1.26%	1.06%	-0.57%	0.81%	4.24%	7.71%

Figures relating to past performance refer to past periods and are not a reliable indicator of future results

*Since inception

TOP 10 HOLDINGS

	Weighting	MTD Perf.*
Astrazeneca Plc	4.98%	-3.01%
Unilever Nv-Cva	4.22%	-1.54%
Sanofi	3.67%	0.50%
Omv Ag	3.13%	13.09%
Arcelormittal	2.95%	9.07%
Peugeot Sa	2.68%	17.74%
Lundin Petroleum Ab	2.60%	27.82%
Nestle Sa-Reg	2.54%	7.02%
Total Sa	2.43%	3.74%
Lvmh Moet Hennessy	2.43%	8.51%

*Performance are calculated in portfolio currency

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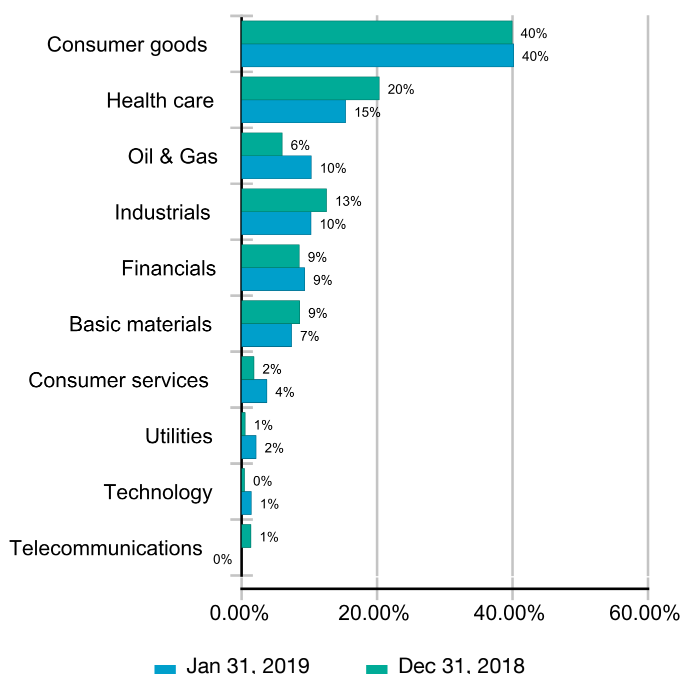
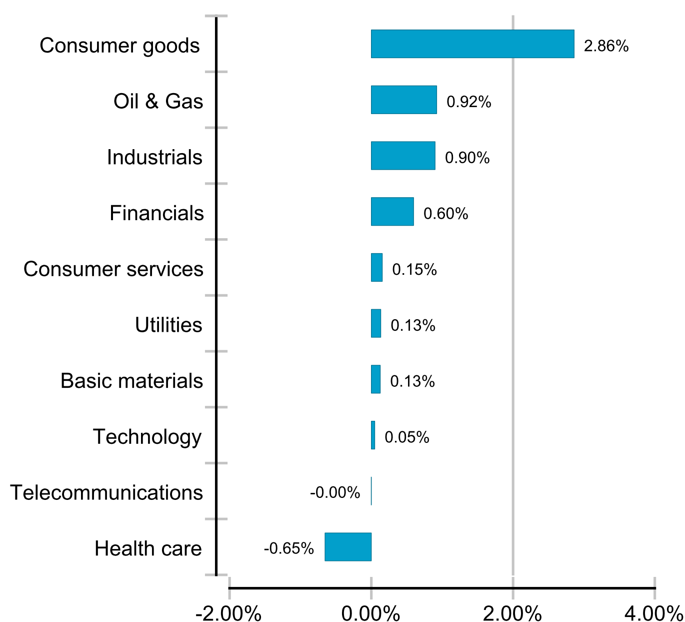
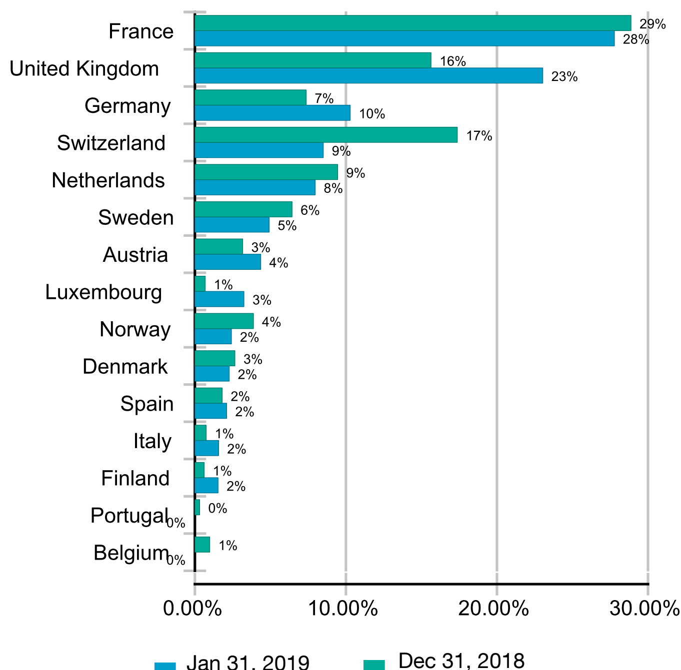
SECTOR ALLOCATION



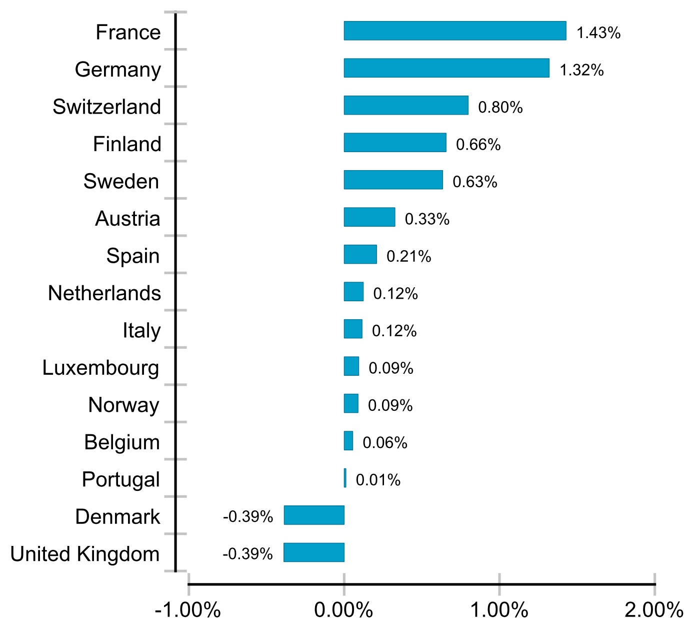
MONTHLY CONTRIBUTION BY SECTOR



GEOGRAPHICAL BREAKDOWN



MONTHLY CONTRIBUTION BY GEOGRAPHICAL ZONE



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MONTHLY COMMENTARY (FOLLOW-UP)

3. Autos: love it only when they hate it. Autos is a particularly tough sector as it faces: 1) growing competition (Google car, Tesla etc), 2) declining prospects in the medium term (lower sales due to electric vehicles as they last longer, and autonomous driving and fleet management where ownership will fall sharply). In addition, the US market is bound for a correction while the Chinese market has lost steam and is declining in the mass-market area (although still growing in the premium sector). However, valuations are at record lows which creates opportunities especially for well-run companies like PSA or for companies where there is a huge valuation anomaly and prospects of portfolio restructuring like Porsche. We also expect more sector consolidation and see PSA as a likely buyer of Fiat (the combination would be ideal as Peugeot is keen to enter the US market and would be delighted to acquire GM, the most attractive large US car manufacturer, while it has demonstrated its ability to re-structure European car makers with Opel. Gari generally does not own stocks in the car sector but depressed valuation levels have pushed us to buy the following stocks, PSA, Fiat (for the prospect of it being acquired by PSA, Exor (the Agnelli holding and Fiat's main shareholder) and Porsche.

4. Mining / steel: let the cycle be with you. The mining sector is trading at depressed valuation levels and most stocks generate FCF yields above 10% which leaves room for very high distribution to shareholders through buy backs and growing dividends. Gari also seldom holds stocks in this sector, but due to an anomaly on valuation levels, the model now includes several stocks: Glencore, Anglo American and Arcelor Mittal (which trades on a PE 2019 of 4.5x!).

GARI IS AN ALL-WEATHER INVESTMENT ALTHOUGH IT DELIVERS MORE IN TOUGH TIMES!

Gari's portfolio remains defensive with its traditional focus on long-term trends and investments in the most attractive industries where strong price trends can be observed: luxury, spirits, aerospace, industrial gases, low voltage, locks etc. In January, the portfolio has delivered returns very close to the market when weak stocks have been shining. It is up 5.89% this month when the MSCI is up 6.19%. Last year it was down 5.5% when the market fell 10.6%. Since inception, Gari is up 18.0% after costs and fees while the market is up 12.2%.

Outlook: a lot of moving parts will decide for 2019

The outlook remains quite uncertain. The key element is obviously whether Europe avoids a recession. This relates to the following risks and opportunities by order of importance**:**

1. Trade War: big egos come down to earth. This is identified as the key risk by investors, and for logical reasons given that trade has been such a powerful engine for growth since WWII. The probability of a deal between the US and China has risen a lot over the last few months. This is due to the sharp slowdown seen in China, and in the US to a lesser extent. Now both countries have a vested interest in reaching a deal that might help boost their economies.

2. Brexit: there is no happy divorce. Brexit is a good example of what Yuval Noah Harrari (author of the excellent Sapiens, Homo Deus and 21 lessons for the 21st century – we can only recommend both buying the books to look smart and reading them to become smarter**!** says ('one should never underestimate human stupidity'). It was a nonsense for the UK to join (do you join a wine tasting club when you hate dinking???) it was a nonsense for Europe top accept them (do you accept a non-drinker in a drinking organization??) and it is even more questionable to leave when you have bought all the kit and have started to learn that one should not put red wine in the fridge??? There simply is no good solution for Brexit as Europeans want to punish the British people for leaving and hard Brexiters (do you need to slap old friends in the face when you know they will remain key partners?) are ready to any nonsense to keep face. There is now a choice between bad outcomes (Theresa May's deal, a postponement of the decision, other), or a disaster with a hard Brexit. The only positive is that deal might lift uncertainty and allow companies to make investment decisions if they have more visibility.

3. Italy: wrong decisions but some hope. The Italian situation is fundamentally weak. Italy is a rich country but suffers from weak productivity and declining demographics. All that leads to very weak GDP growth potential (maybe 0.5%). So, the obvious answer would be to lift potential growth with structural reforms, family support and immigration. Recent decisions by the government go in the opposite direction. When Japan is inching towards delaying its retirement age towards the age of 70 and allowing women to join the job market more easily, Italy is going in the opposite direction by allowing some people to leave at he age of 60!! However, we start to see some positives 1) the government has agreed on a planned deficit of 2.04% this year; even if we are likely to end the year above 2.5% their agreement to negotiate with Brussels is reassuring and 2) we can hope for a change in government post the European elections. A new government could be formed with Mr. Salvini as PM with an alliance with right-wing parties. This could lead to a more market-friendly government.

4. US monetary policy is reassuring. Mr. Powell's decision to signal an end to the rate hike period is very reassuring. Stopping at the level of a neutral rate reduces the risk to see the US entering a recession, although it will not prevent a further slowdown.

5. China recovery on track and this is the main surprise. China is a key source of worries for equity markets. We are going through a similar period as what we observed in 2009 and 2015/16. After a period of excessive tightening, the economy is slowing down sharply. The government has been quick to react and eased financial and budget conditions a lot in H2 2018. This is very likely to trigger a recovery in the next few months. That should allow sectors heavily exposed to China to do very well (luxury, staples, pharma and mining in particular).

Gari's strategy: more of the same

We thus plan to continue to largely overweight pharma and consumer staples while having very low exposure to banks, industrials, telecoms, utilities and retail. Indeed, we want to avoid the risks related to a weakening of the economy and avoid sectors under structural threats.

Our main conviction relates to the pharma sector where growth will be accelerating this year and next, at a time when other sectors will face at best a slowdown and a downturn for many of them. Gari particularly likes Novartis, Astra Zeneca, and Sanofi.

Within consumer we like stocks that offer attractive long-term profiles like Mowi ASA, Diageo, and Unilever.

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