GLOBAL EQUITY

GARI EUROPEAN EQUITY - CLASS SB (EUR)

MONTHLY COMMENTARY

Wacc happened?

February was another strong month for European equity markets. What happened is a fall in company's WACC (Weighted Average Cost of Capital).

In fact, let us look at the formula:

WACC = % of Equity financing x Cost of Equity + % of Debt financing x Cost of Debt x (1 – Corporate Tax Rate).

If we look at the Cost of Equity in particular which is equal to: Risk free rate + Risk premia x Beta Both risk free rates and risk premia have gone down last month:

• Fall in risk-free rate

The fall in inflation and the return of yields to a 0%+ level is a strong support for equities as it pushes investors out of the bond market. It also makes equities more attractive by cutting the WACC. No surprise that growth stocks were the best performing stocks in February (Value stocks did better in January) as they benefit more from lower Wacc (indeed, their earnings are more far-off, and so more sensitive to the discount rate).

• Lower risk premium

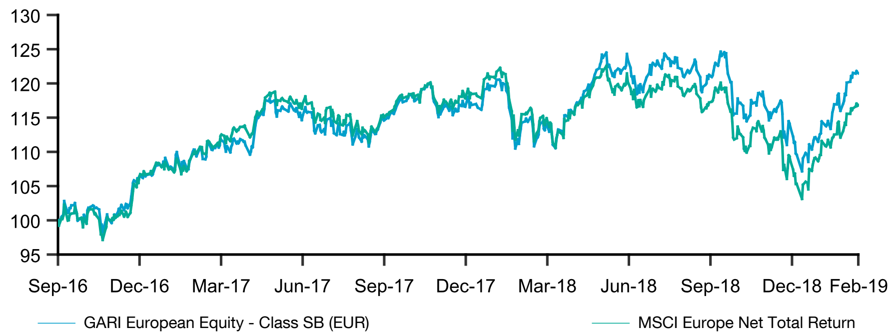
Markets are discounting the effect of reduced risks:

• Likely trade truce between the US and China: there are many signs that Mr. Trump will sign a deal even if it does not meet the ambitions set at the start of the negotiations, notably with regard to IP protection. This is very significant as a trade fight was seen as the main risk by investors.
• Brexit: getting better? Markets are reassured by the reduced likelihood of a no-deal exit. This has the potential to push the UK into recession and probably the whole of Europe too.
• Greece: although not often flagged in newspapers, the return of Greece to a normal situation is reassuring.

CHARACTERISTICS

Legal Structure :	SICAV
Inception Date of the Fund :	July 22, 2016
Inception Date of the Class :	September 15, 2016
Share Class Currency :	EUR
Management Company :	LYXOR ASSET MANAGEMENT
Custodian :	SOCIETE GENERALE BANK & TRUST
ISIN Code :	LU1445747618
Min. Initial Subscription :	500000
Min. Subsequent Subscription :	
Entry/Exit Fees :	0/0
Lyxor Asset Management Fee :	0.45%
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) :	34.20
Annualized Rate of Return* :	8.25%

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

*Since inception

RISK INDICATOR

1	2	3	4	5	**6**	7

\- ←→ +

Risks / Rewards

PERFORMANCE

	MTD	3 Months	6 Months	YTD	1 Year	3 Years	Since inception
GARI European Equity - Class S	4.48%	4.21%	-0.39%	10.61%	6.26%	-	21.49%
MSCI Europe Net Total Return	4.15%	4.49%	-1.40%	10.60%	1.26%	-	16.83%

RISK ANALYSIS

	Since inception	
	Class *	Index **
Volatility	11.46%	11.10%
Sharpe ratio	0.78	0.65
Maximum DrawDown	-14.02%	-15.86%
Beta vs	0.99	-
Fund Alpha vs.	1.79%	-

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

*** MSCI Europe Net Total Return*

HISTORICAL MONTHLY RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2019	5.87%	4.48%											10.61%
2018	1.92%	-3.68%	-0.95%	5.13%	1.59%	-0.91%	3.14%	-1.34%	1.70%	-5.23%	-0.82%	-5.79%	-5.70%
2017	0.33%	2.09%	2.41%	2.89%	0.65%	-2.75%	-0.23%	-0.12%	3.84%	2.35%	-2.53%	0.10%	9.16%
2016									2.18%	-0.59%	0.79%	4.22%	6.70%

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.*
Airbus Se	4.58%	11.85%
Unilever Nv-Cva	3.88%	2.66%
Astrazeneca Plc	3.88%	17.46%
Kering	3.82%	9.62%
Mowi Asa	3.38%	6.36%
Total Sa	3.22%	3.89%
Heineken Nv	3.18%	13.09%
Peugeot Sa	3.03%	-0.05%
British American	2.95%	4.33%
Axa Sa	2.94%	9.87%

*Performance are calculated in portfolio currency

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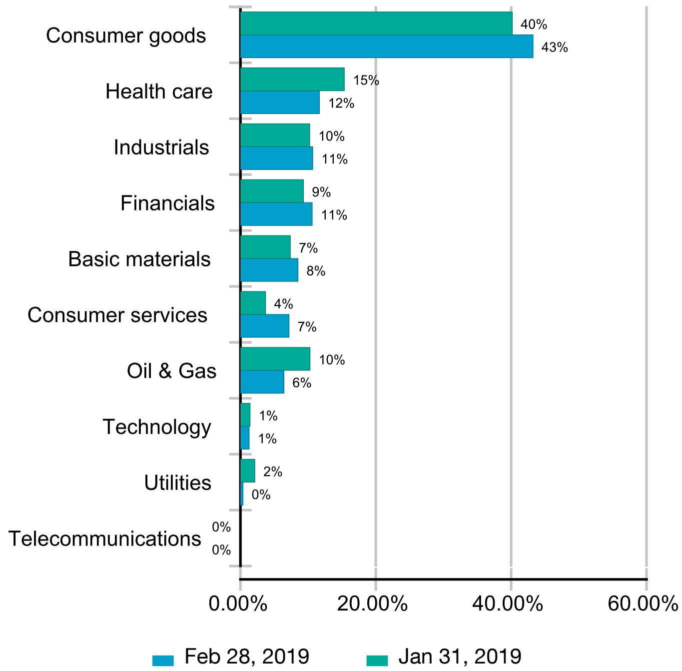
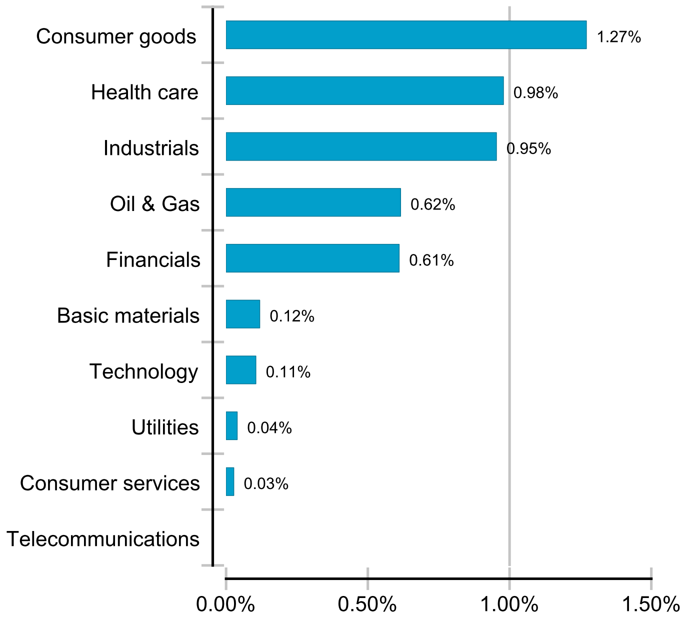
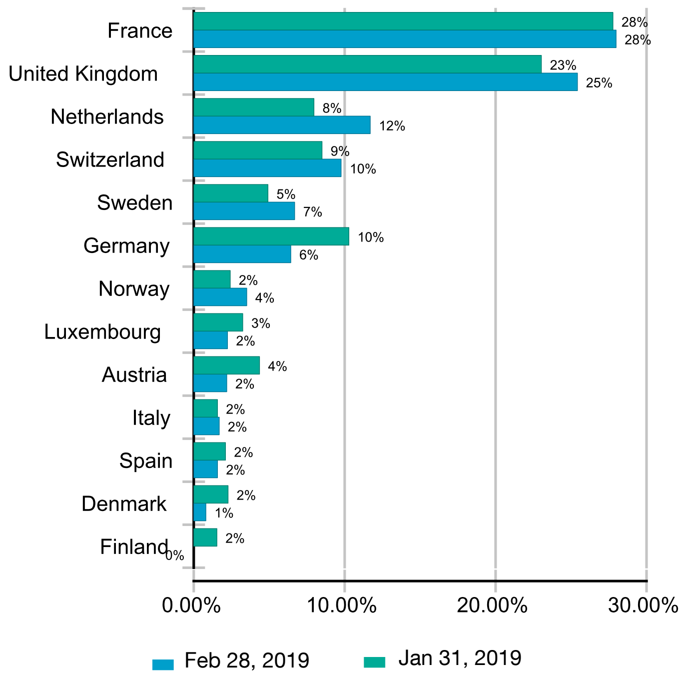
SECTOR ALLOCATION



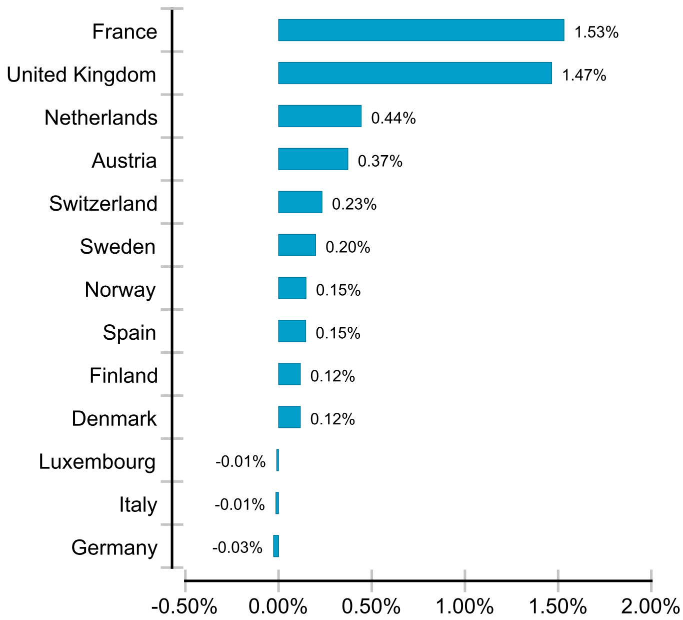
MONTHLY CONTRIBUTION BY SECTOR



GEOGRAPHICAL BREAKDOWN



MONTHLY CONTRIBUTION BY GEOGRAPHICAL ZONE



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

Gari was up 4.5% in February versus 4.15% for the MSCI Europe. Gari's relative performance is generally better during market corrections. However, it did fine in February as markets favored again quality and growth stocks, which are traditional investments for us. Among our strong performances, some of our large stakes did well like Airbus, AstraZeneca, luxury stocks (Kering, LVMH, and Moncler).

Gari's strategy: more of the same

Focus on defensives with long-term appeal

Gari has structurally some overweight positions in 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 AstraZeneca. Astra has an outstanding pipeline of approved drugs that will drive the company's growth in 2018-2023. In that time frame, sales are expected to double and margins too. Earnings could thus be multiplied by four during this period. Although the stock now trades at a premium to peers it still does not fully reflect its outstanding growth potential and low risk as drugs have been approved, whole pharma has a very low correlation to economic growth.

Within consumer we like stocks that offer attractive long-term profiles like luxury stocks that benefit from the structural trend towards more consumption in China. We particularly like the stronger brands like Kering (where we expect Gucci to continue to grow stronger than peers, while our Consumer Guru, Yu Sun, expects Bottega Venetta to achieve an outstanding recovery with the new brand revamp under its new designer Daniel Lee). Moncler and LVMH are expected to continue to grow much faster than the economy for the years to come. The growth gap justifies a higher multiple as per our estimates.

Selective investments in cyclicals

On our estimates, the trough of the cycle is not expected until the end of 2019. As a result, we have little exposure to cyclicals. In particular:

- Underweight in financials: financials are under heavy constraints notably from the regulator. We believe that a rise in interest rates is needed for banks to perform.

We prefer insurance which grows at a faster pace and are less risky and diversified financials (3i, etc…).

- Underweight in industrials as their earnings are likely to be under pressure this year.

- Overweight in Mining stocks: they benefit from very high cash flows. In previous downturns this sector sued to boost capex in good times, creating the conditions for a downturn. This is no longer the case and most focus on shareholder returns which also supports the sector earnings.

- Overweight in aerospace: this sector benefits from record backlogs which ensures strong earnings growth in the coming years.

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