

A turning point in Europe: investment opportunities

The second half of 2016 is a turning point in Europe. Despite the shock of Brexit at the end of the first half of the year, early indicators, particularly in the Eurozone, showed a marked upswing. For companies, the economic upturn translated into solid profits growth. For the first time in several years, 2017 earnings announcements did not disappoint. When it comes to valuation, discounts are still running high in Europe, particularly in the telecom sector, in oil majors, and in discretionary and banking stocks, while others are emerging with the expansion of digital.

Following a period of outperformance, the telecoms sector had more mixed run in recent months. The series of cancelled merger plans a year ago has undoubtedly revived investor concerns regarding the competitive environment. The sector has nonetheless seen an upturn in revenue over recent quarters with the end of regulatory pressures and investments in very high-speed broadband began to pay off. These trends, visible even in countries where consolidation has not taken place, go hand in hand with the end of a major investment phase and mark the beginning of a considerable improvement in free cash flow. The historically low valuations of companies such as **Vodafone**, **Telefonica**, **Deutsche Telekom**, **Orange** or **Telecom Italia** offer very real investment opportunities.

The energy sector has also seen contrasting performances since the start of the year. Yet, faced with falling oil prices, oil & gas majors have become more efficient. The speed of their response was unprecedented, by slashing investment and operational spending yet without jeopardising their production profile. A price of USD40 per barrel is currently enough to cover investment and dividends, whereas in 2013, prior to the collapse in oil prices, USD140 per barrel would have been needed. The historically low levels of valuations and profitability on groups like **Total**, **BP** and **Royal Dutch Shell** justify significant positions in our portfolios.

From experience, we know the market may take some time to recognise valuation discounts in a sector. Strict implementation of our management process, however, ensures no deviation. After a very difficult year in terms of market performance in 2016, European banking stocks, and particularly the Italian ones that feature strongly in our portfolios, have made a strong recovery since the start of the year. The improvement in the economy has had a

positive impact on the cycle of bad debt provisions and on demand for loans. The prospect of a normalisation of monetary policies is also good news for interest income. Despite a sharp upturn, the valuations of banking groups such as **Intesa Sanpaolo**, **Unicredit**, **Lloyds** or **Santander** are still low with regard to their normalised profitability potential.

Improved economic environment has proved very positive overall for European companies, particularly those in cyclical sectors. Income growth has been accompanied by a strong recovery in margins pushed by the operating leverage built up over the past 10 years and further strengthened by the arrival of digital. Data analysis has become central to many business sectors, and has had a substantial impact on the entire industrial value chain, bringing with it significant productivity gains and greater flexibility in production processes. Many companies included in our portfolios have moved way forward in this transformation (**Thyssenkrupp**, **BP**, **GKN**, **BMW**, **Faurecia**, **Capgemini**, etc.). For other firms, digital is an opportunity for revenue on higher-margin products. This is the case with companies such as **Siemens**, **ABB** or **Schneider**. For others, the growth of digital may be a source of disruption, since it creates porosity between certain businesses, as in the case of advertising agencies or retail groups. Advertising agencies are increasingly facing competition from consulting or IT services firm taking advantage on advertisers' growing demand for high-tech content and consulting to offer their services. For the leading retail groups, the incursion of Internet pure players into their traditional business has raised market fears of heightened competition with the consequent negative impact on activity and margins. Many of the companies operating in these sectors (including **Publicis**, **Fnac Darty**, etc.) have already tailored their strategy to meet the new challenges. From our standpoint as "Value" investment style fund managers, their low levels of valuation offer new investment opportunities.

A return to economic growth coupled with strong operating leverage should bring investors' attention back to valuation fundamentals of European stocks. Seen from that angle, the European equity market represents huge potential of investment opportunities to be explored.

Performances*

PERFORMANCES	2017	2016	2015	2014	2013	2012	1 yr.	3 yrs.	5 yrs.	10 yrs.	Since inception	Volat. Vol. bench NAV
EUROPEAN AND EUROZONE EQUITIES												
METROPOLE SELECTION A												
FR0007078811	9.56%	-0.53%	9.19%	-0.02%	28.44%	23.33%	20.74%	23.07%	60.35%	33.93%	222.86%	10.06%
STOXX Europe Large 200 NR	8.75%	1.88%	7.70%	7.09%	19.68%	17.19%	15.38%	18.72%	59.65%	30.65%	138.70%	9.18%
Performance gap	0.81	-2.41	1.49	-7.11	8.76	6.14	5.36	4.35	0.70	3.28	84.16	645.72
METROPOLE SELECTION EUROPE USD HEDGE												
FR0012068492	10.14%	0.24%	7.15%	-0.57%	-	-	21.58%	-	-	-	17.63%	10.08%
STOXX Europe Large 200 NR	8.75%	1.88%	7.70%	-0.47%	-	-	15.38%	-	-	-	18.77%	9.18%
Performance gap	1.39	-1.64	-0.55	-0.10	-	-	6.20	-	-	-	-1.14	1,176.26
METROPOLE EURO A												
FR0007078753	8.76%	3.76%	6.87%	3.25%	26.73%	21.34%	21.74%	21.62%	66.98%	21.59%	165.62%	11.01%
Euro STOXX Large NR	12.29%	3.97%	8.66%	4.30%	22.69%	19.21%	21.48%	25.83%	74.09%	16.42%	124.86%	10.53%
Performance gap	-3.53	-0.21	-1.79	-1.05	4.04	2.13	0.26	-4.21	-7.11	5.17	40.76	531.24
METROPOLE AVENIR EUROPE A												
FR0007078829	14.09%	3.64%	9.49%	-1.70%	28.99%	25.57%	22.13%	33.70%	71.00%	70.80%	267.82%	9.81%
STOXX Europe Small 200 NR	15.51%	0.52%	15.68%	4.93%	26.73%	23.47%	20.54%	38.85%	88.69%	68.61%	344.75%	9.13%
Performance gap	-1.42	3.12	-6.19	-6.63	2.26	2.10	1.59	-5.15	-17.69	2.19	-76.93	735.64
METROPOLE FRONTIERE EUROPE A												
FR0007085808	14.58%	0.89%	6.19%	-1.86%	18.97%	13.78%	22.29%	18.23%	46.13%	-21.52%	110.12%	8.51%
STOXX Europe Large 200 NR	8.75%	1.88%	7.70%	7.09%	19.68%	17.19%	15.38%	18.72%	59.65%	30.65%	153.89%	9.18%
Performance gap	5.83	-0.99	-1.51	-8.95	-0.71	-3.41	6.91	-0.49	-13.52	-52.17	-43.77	420.25
METROPOLE VALUE SRI A												
FR0010632364	7.78%	2.93%	6.73%	1.24%	27.74%	24.01%	20.00%	21.80%	63.75%	-	69.67%	11.40%
Euro STOXX Large NR	12.29%	3.97%	8.66%	4.30%	22.69%	19.21%	21.48%	25.83%	74.09%	-	51.17%	10.53%
Performance gap	-4.51	-1.04	-1.93	-3.06	5.05	4.80	-1.48	-4.03	-10.34	-	18.50	339.34
BONDS & CONVERTIBLES												
METROPOLE CONVERTIBLES A												
FR0007083332	0.40%	1.98%	2.88%	0.71%	7.22%	13.91%	4.60%	6.42%	16.55%	29.31%	72.28%	3.67%
ECI-EURO	5.41%	-0.21%	6.08%	3.06%	9.81%	18.19%	6.17%	14.06%	31.98%	31.75%	86.11%	3.52%
Performance gap	-5.01	2.19	-3.20	-2.35	-2.59	-4.28	-1.57	-7.64	-15.43	-2.44	-13.83	344.57
METROPOLE CORPORATE BONDS A												
FR0010695874	0.10%	0.51%	0.96%	3.78%	3.68%	11.92%	-0.19%	1.77%	12.75%	-	52.67%	0.98%
FTSE MTS 3-5 Y	0.12%	1.46%	1.39%	5.93%	2.32%	8.66%	-0.28%	3.37%	13.82%	-	30.99%	1.34%
Performance gap	-0.02	-0.95	-0.43	-2.15	1.36	3.26	0.09	-1.60	-1.07	-	21.68	305.34

Past performances are not necessarily indicative of future results. The mutual funds may lose value.

*Data as of 29 September 2017

Date of inception: the funds became sub-funds of the SICAV METROPOLE Funds by merger-absorption on 31/03/2017.

The share classes were initially created at the following dates: METROPOLE EURO A, METROPOLE SELECTION A, METROPOLE AVENIR EUROPE A : 29/11/2002, METROPOLE CONVERTIBLE A : 30/04/2003, METROPOLE FRONTIERE EUROPE : 08/08/2003, METROPOLE VALUE SRI A : 9/07/2008 et METROPOLE CORPORATE BONDS : 19/12/2008, METROPOLE SELECTION EUROPE USD HEDGE : 23/12/2014.

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