FLEX INVESTMENT TEAM

A CHALLENGING TIME FOR BALANCED FUND INVESTORS?

COMGEST GROWTH GLOBAL FLEX OFFERS AN ALTERNATIVE

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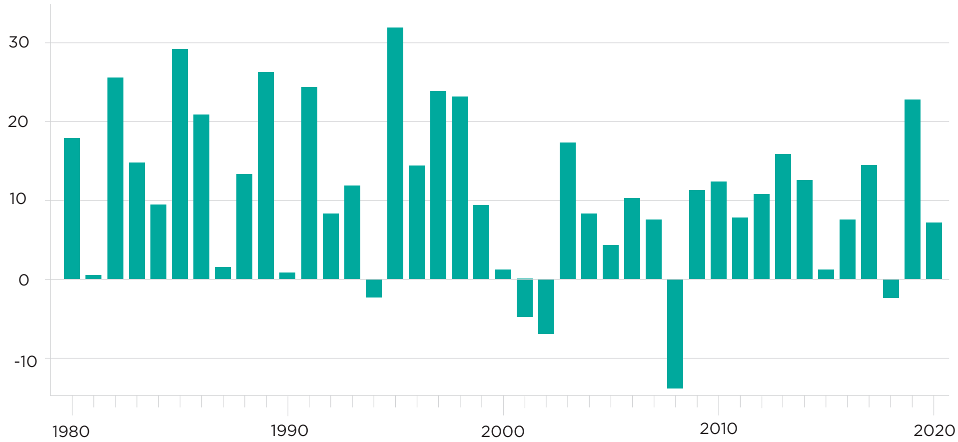
2022 will arguably go down in history as the year when inflation returned with a vengeance while bonds failed to offer investors in balanced funds the much-needed protection and diversification from the decline in equities that they used to provide.

Today's economic environment offers a stark contrast to the pre-Covid era when central banks had to do "whatever it takes" to spur economic growth and inflation. What it took was unprecedented amounts of both monetary and fiscal stimuli. The lag effects of these policies, however, resulted in a short-lived victory as inflation spiralled out of control and reached levels not seen since the 80s. Central banks took a U-turn in a globally coordinated attack to get inflation back under control by carrying out severe rate hikes and massive liquidity withdrawals. Since then, the yield on 10-year Treasury bonds has risen from below 1% to more than 4%, while short-term interest rates seem to have left zero territory for good[1].

This violent comeback in inflation and resulting swift increases in interest rates have put an abrupt end to the major tailwind on which many risk-conscious investors had built their portfolios: holding a combination of stocks and government bonds (or other fixed-income instruments) in so-called "60/40" balanced portfolios. Designed as a way to "balance" risk and return, the idea behind these portfolios was that if equities took a hit, then the "safer" bonds would act as a stabiliser. This approach to investing did very well for much of the past 40 years *(see figure 1)*, until 2022.

[1] Source: Bloomberg. Data period: March 2020 to March 2023.

Figure 1. 60/40 Portfolio[2]: Annual Returns over the Past Four Decades (%)



Past performance does not predict future returns. Source: Financial Times / Comgest; 2020 data is year to September 15.

THE MARKET IS DRIVING INVESTORS TO SEEK ALTERNATIVES

While we are witnessing more attractive interest-rate levels, the key question for balanced fund investors remains: are they sufficient to offer protection in case of equity market declines?

We believe that bonds can no longer be relied upon as the sole saviour to keep a portfolio afloat as they once did. The negative correlation between bonds and equities was a welcome feature over the past decades in a low-inflation environment, but the past two years have acted as a strong reminder that it is not a given. Historically, bonds and equities have more often than not exhibited positive correlation[3].

Investors now increasingly careful not to place all their eggs in two baskets are looking for alternatives. Many end up seeking investments with limited liquidity such as private equity, real estate or other alternative assets. We believe that the low liquidity of these alternatives can pose significant risks during periods of market stress.

— Market conditions have changed. Yet alternatives for investors are limited and often at the expense of liquidity or performance

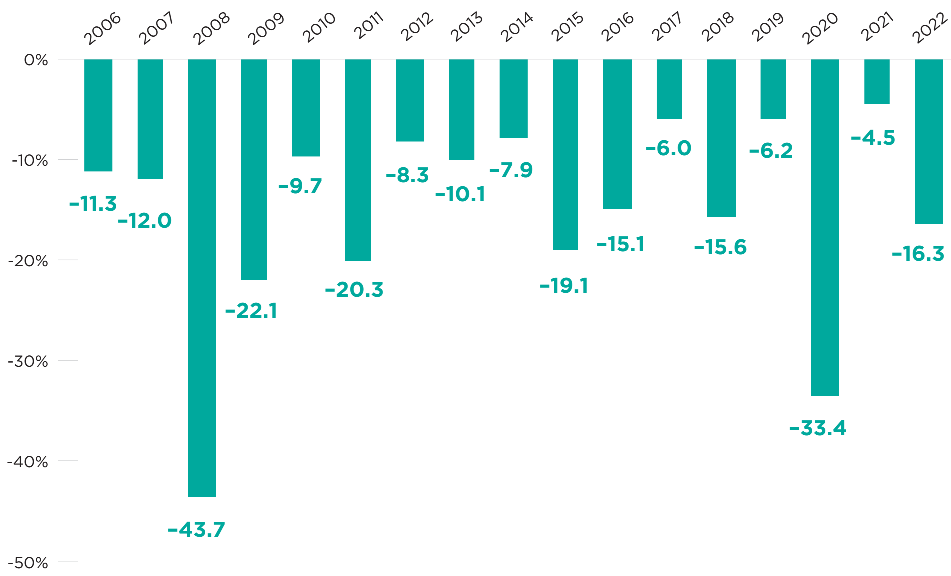
Some investors may choose to increase their equity allocation. Equities are liquid and some types of companies – typically quality franchises with high degrees of pricing power – can even be attractive investments in the event of structurally higher inflation. The disadvantage of equities, however, is that they can experience large drawdowns and high short-term volatility. As illustrated in *figure 2*, in the past 15 years, the maximum annual drawdown of the MSCI AC World Index ("MSCI ACWI")[4] reached almost -44% (during a market crash), which is too severe for an investor with a balanced risk profile.

[2] A mix of equities and bonds split 60/40 generated a compound annual growth rate of 10.2 per cent in the US from 1980 to 15-Sep-2020. The S&P 500, representing the equities portion, returned 4.2 per cent, including the reinvestment of dividends, and the Bloomberg Barclays index of US Treasuries, representing the bonds portion, returned as much as 11.3 per cent, as official interest rates have been taken to zero. Bond prices rise as yields fall.

[3] Source: Bank of America Research and Global Financial Data, analysis based on monthly 30 year US-Treasury and S&P500 total returns, since 1945.

[4] The MSCI All Country World Index (ACWI) is a stock index designed to track broad global equity-market performance. Maintained by Morgan Stanley Capital International (MSCI), the index is comprised of the stocks of about 3,000 companies from 23 developed countries and 27 emerging markets (sources: Investopedia and msci.com/acwi). Past performance is not a reliable guide to future performance.

Figure 2: MSCI AC World[5] Maximum Drawdowns, per Year, over the Past Seventeen Years



Past performance does not predict future returns. Source: Bloomberg, Comgest; daily returns as of 30-Dec-2005 to 31-Dec-2022.

Another option is to look for a different approach to investing while adhering to a similar risk-return profile to a balanced portfolio.

COMGEST GROWTH GLOBAL FLEX IN A NUTSHELL

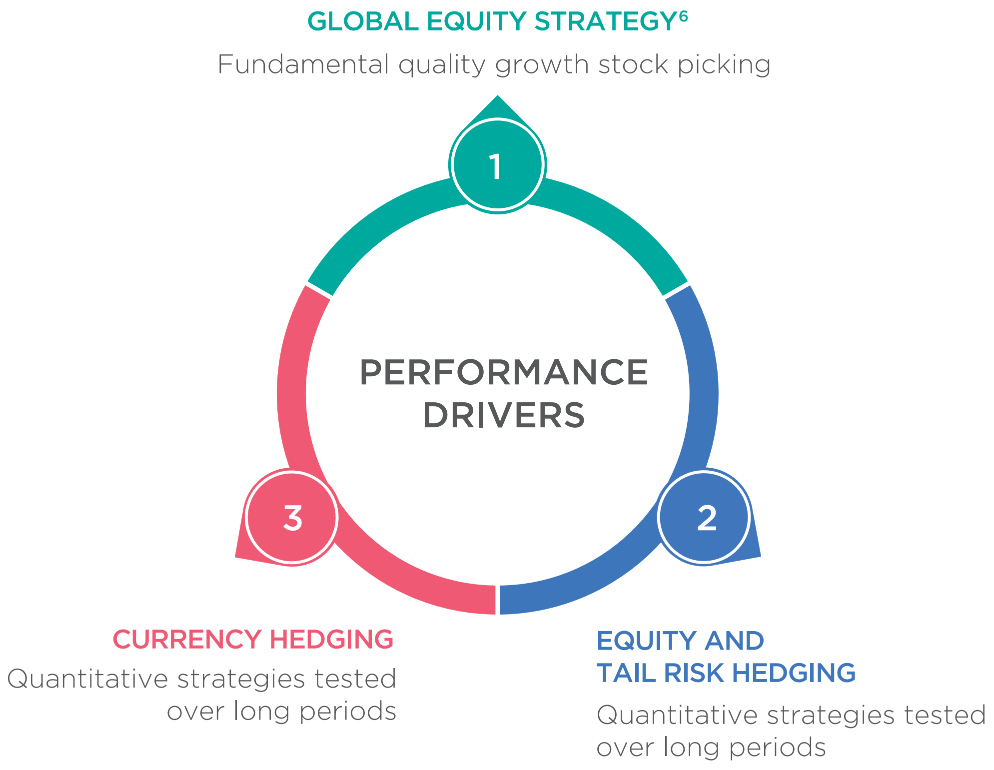
To cushion the downside risk of a pure equity allocation, an investor may consider the need to add a hedging overlay to their portfolio. This is an area in which Comgest has been bolstering investment expertise since 2012 to offer investors an equity investment vehicle with lower volatility. **Comgest Growth Global Flex** (the fund), which we have managed for more than five years, offers access to our quality growth global equity portfolio combined with a proprietary quantitative model that dynamically hedges exposures to regional equity markets and developed market currencies, depending on the market environment. The fund's performance and risk indicators are described below:

- **Limit drawdowns to a maximum of 15%;**
- **Keep annual volatility below 8%;**
- **Over the long term, capture on average more than 60% of the global equity market performance during positive months and less than 40% in negative months.**

[5] MSCI AC World NR EUR Index ("MSCI ACWI Index") is used to represent the global equity market. Forward looking statements or forecasts may not be realised.

The portfolio relies on three performance drivers:

Figure 3: Three Independent and Complementary Performance Drivers



For illustrative purposes only

1 Global Equity Strategy

The fund benefits from Comgest's proven experience in stock picking by replicating the portfolio of Comgest's Global Equity Strategy[6] – investing in the same high quality companies that can sustain above-average earnings growth for an extended period of time. With a track record of more than 30 years, our Global Equity Strategy has achieved an outperformance relative to the MSCI ACWI index of more than 200 basis points, net of fees[7], on an annualised basis since inception.

[6] Global Equity Strategy refers to the representative account of the Global All Cap Equities Composite, managed in accordance with the Composite since the Composite's inception. Please refer to the important information section for more details on the representative account, its selection methodology and where to receive the GIPS compliant presentation of the composite. The index is provided for comparative purposes only. Past performance is not a reliable guide to future performance.

[7] Data as of 31-Jan-2023. Performance figures are calculated net of investment management fees, administrative fees and all other fees with the exception of sales charges. If taken into account, sales charges would have a negative impact on performance.

2

Equity and Tail Risk Hedging

Based on the output of our proprietary model, we apply dynamic and flexible hedging rates, ranging between 0%–100% of the fund's equity exposure via a) short equity index futures positions for the equity hedging and b) long volatility index futures positions for the tail-risk hedging. These highly liquid index futures, covering the main regional markets in which the equity portfolio is invested, are correlated to the portfolio making them both suitable and convenient hedging instruments and they enable us to maintain full exposure to our stock selection by only hedging the market exposure.

— We believe that the key to successful hedging strategies is diversification

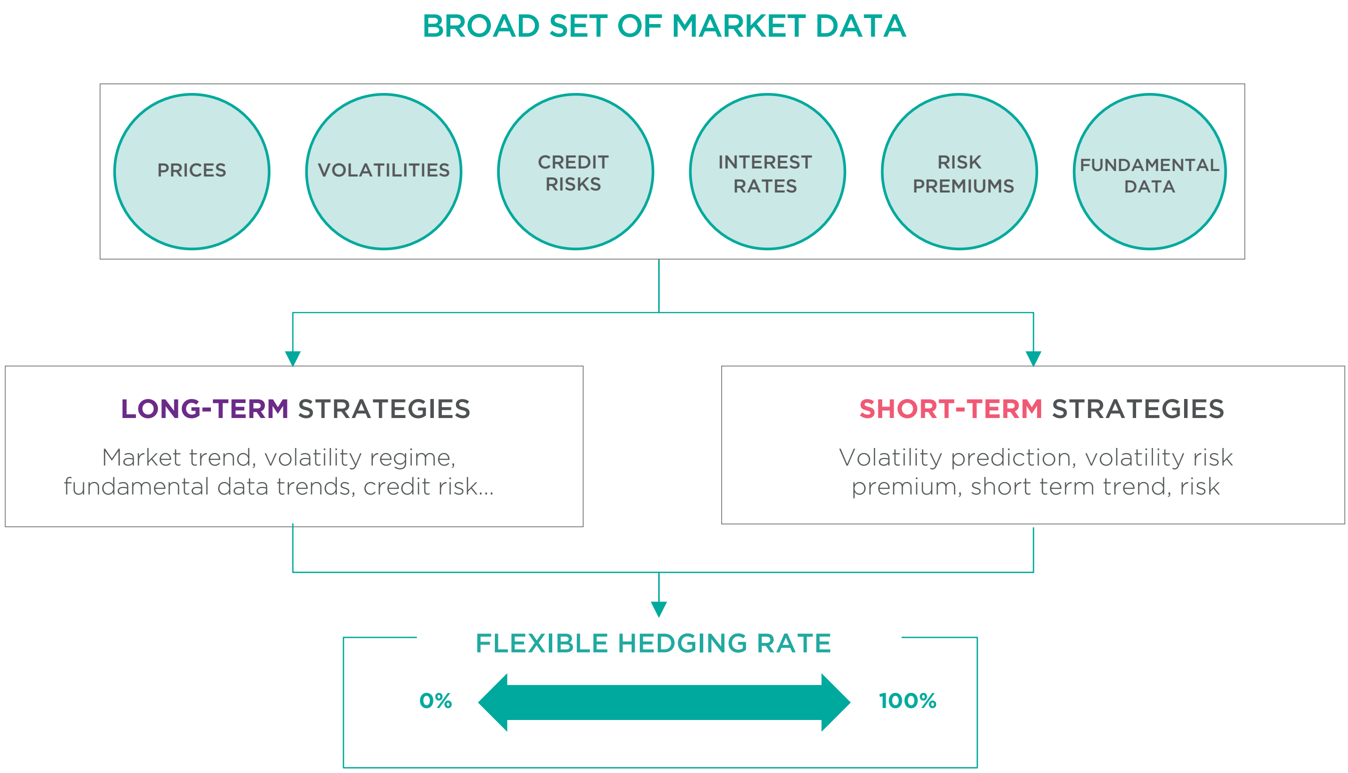
a) **Equity hedging addresses non-exceptional market periods.** The dynamic hedging rates used for equity hedging are outputs of a combination of quantitative strategies applied to the respective markets. Financial markets have very complex behaviour and no quantitative strategy can be effective in every situation. Comgest's main hedging objective is to strike the right balance by using a variety of decorrelated and complementary hedging strategies:

- Using **a broad spectrum of data sources** to determine hedging rates (e.g. prices, volatilities, earnings, valuation metrics, credit spreads) to obtain as much information as possible;
- Taking advantage of **a range of time horizons**, from short-term strategies that can identify sudden market shifts but may be subject to noise, to long-term strategies that tend to be more stable but react more slowly;
- Processing the data through **various trading systems** (e.g. trend-following, mean-reversion, stress-triggering, prediction) that we specifically design to capitalise on our market observations.

The benefit of diversification within our equity hedging strategies can be illustrated by the following examples:

- Long-term trend strategies were highly effective during the 17-month bear market of the 2008 financial crisis but struggled under the short-term V-shape market conditions of 2020.
- Strategies based on credit spreads, on the other hand, did well in 2020 – as they reacted quickly to the Covid-19 crisis by emitting a strong stress signal as early as 25th February.
- The long-term volatility regime strategy would have helped the portfolio participate strongly in the bull market from 2012 to 2014, as it identified a period of relatively low volatility.

Figure 4: Proprietary Equity Hedging Model



For illustrative purposes only

b) **Tail risk hedging offers a complementary protection against sudden and severe market shocks** (tail risk events[8]), mainly when the equity hedging model indicates low hedging levels. Long volatility futures positions are managed dynamically based on a specific quantitative model to minimise the high carry cost of these volatility instruments. In practice, this strategy can hedge up to 40% of the global equity portfolio's exposures to the US and European regions.

Two recent examples of when the tail risk strategy had a meaningful positive impact on performance were the February 2018 "flash crash" and the Q1 2020 drawdown when markets experienced steep corrections in a matter of days.

3 Currency Hedging

Based on another proprietary quantitative model, we also apply the hedging of developed market currencies to control currency risk through short positions on currency forwards. This hedging strategy is also fully flexible (between 0% and 100%), meaning that the fund's portfolio can opportunistically maintain currency exposure to capture upward trends in what we believe to be safe-haven currencies such as the Japanese yen,

[8] Tail risk is the chance of a loss occurring due to a rare and unpredictable event, typically where an investment undergoes a short-term movement beyond three standard deviations.

especially in volatile and bearish equity markets, and then benefit from hedging when currencies depreciate. Currency hedging is only focused on developed market currencies to be cost efficient (interest rate differentials make emerging market currency hedging very expensive).

All of the hedging strategies implemented in the fund are the result of a highly selective internal research process in which we apply the following principles:

— **Our hedging strategies, and the way they are combined, are the result of thorough, rigorous quantitative research and over 14 years' average industry experience within the team**

1. Ideation based on market experience and observations;
2. Rigorous back-testing over long periods that must satisfy a number of selective criteria;
3. Sufficient decorrelation so that each hedging strategy adds value and diversification to the hedging model;
4. Continuous reassessment of the chosen hedging strategies and performance monitoring. Although the overall model is built to provide good results in different market configurations over the long-term, market evolution requires proactive adjustments.

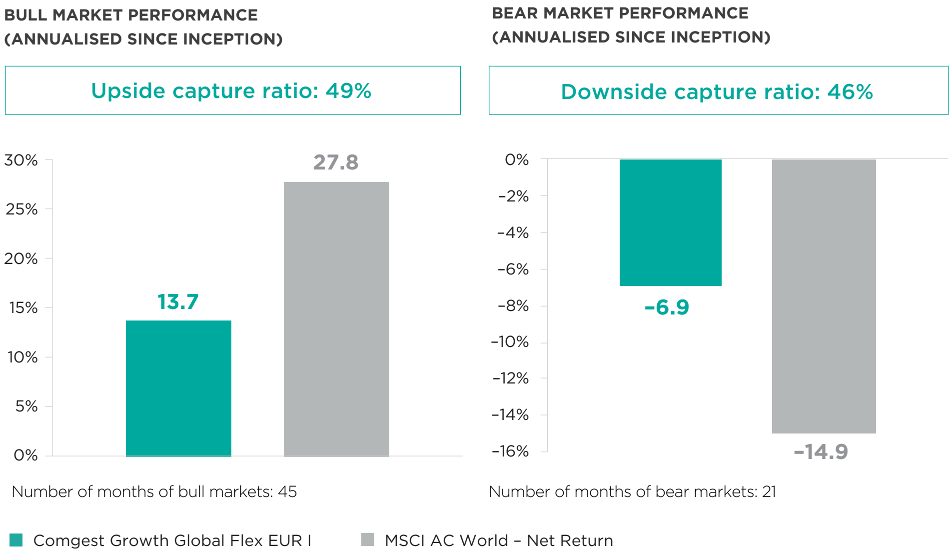
A ROBUST ALTERNATIVE

At the end of January 2023, Comgest Growth Global Flex posted an annualised return since inception[9] of 5.9%, an annualised volatility of 9.2% and a maximum drawdown of -15.4% (vs 6.1%, 10.4% and -22.2%, respectively, for a 60/40 balanced portfolio[10]). Its upside and downside capture ratios *(see Figure 5)* were below the fund's long-term target, but the fund still managed to capture more than two thirds of the global equity market upside *(see Figure 6)* while strongly reducing volatility and drawdowns.

We find these results encouraging given the particularly challenging market environment with two significant events in a few years: first, the "V-shaped" pattern that occurred in 2020 including both a recession and recovery within a few months, and secondly, the return of sudden high inflation in 2022 leading our Global Equity Strategy to underperform in a bear market (as the significant rise in interest rates had an excessive impact on growth stocks valuation). This is especially true considering that the 2020 market movements were unprecedented in terms of speed and magnitude, with stocks plummeting in the fastest bear market on record in March before staging a rebound unseen in nine decades. The downside capture ratio for the fund was 40% relative to the global equity market* from 1st January to 23rd March 2020, when the market hit bottom.

[9] 31-Jul-2017
[10] The 60 /40 balanced portfolio is a hypothetical portfolio composed of 60% of Global Equities (represented by MSCI AC World Total Return EUR Index) and 40% of Global Bonds (represented by Bloomberg Global-Aggregate Total Return EUR index), rebalanced daily. No representation is being made that any account will or is likely to achieve profits or losses similar to those shown.

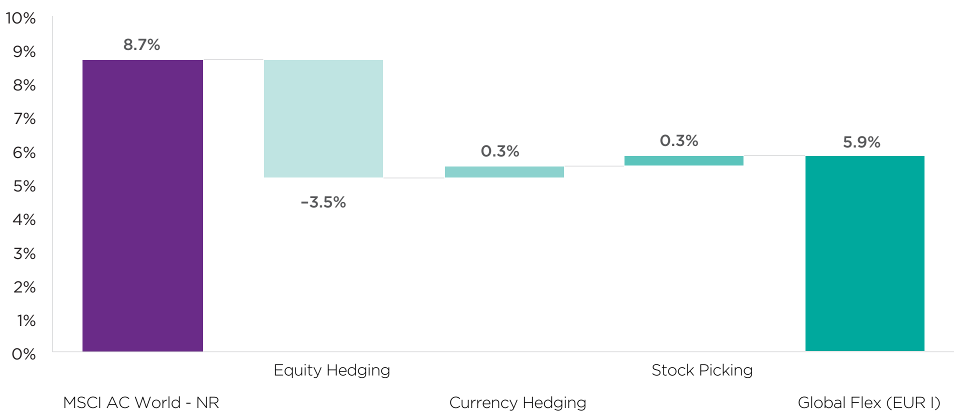
Figure 5: Comgest Growth Global Flex: Global Equity Market Upside and Downside Capture



Past performance is not a reliable guide to future performance. Source: Comgest, Factset. Performance figures are calculated net of investment management fees (*cf footnote 5 for details).

Figure 6: Comgest Growth Global Flex: Annualised Performance Attribution since Inception

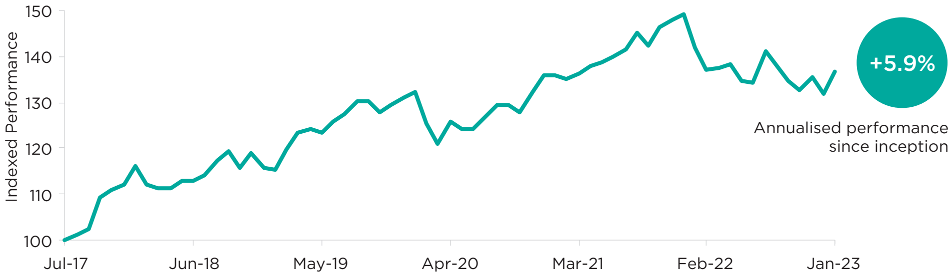
— **Comgest Growth Global Flex: Combining robust risk management using dynamic hedging strategies with the pursuit of absolute returns through our quality growth stock-picking**



Past performance does not predict future returns. Sources : Comgest, Bloomberg as of 31-Jan-2023. Performance data expressed in EUR. Global markets index: MSCI AC World - Net Return (changed from MSCI AC World Hedged to EUR - Net Return on 01.10.2018). The market index modification takes into consideration the new dynamic hedging on currencies (between 0% and 100%) compared to the former 100% systematic currency hedging. The calculation of performance data is based on the net asset value (NAV) which does not include any sales charges. If taken into account, sales charges would have a negative impact on performance. Statistics calculated on daily performances for Comgest Growth Global Flex EUR I Acc.

After more than five years of existence, Comgest Growth Global Flex has not only demonstrated resilience during challenging times, but also ranked 7 out of 1128 funds in terms of risk-adjusted annualised returns since inception, as of end of January 2023 *(Figure 8)*.

Figure 7: Comgest Growth Global Flex: Cumulative Performance since Inception (%, net of fees, as of 31-Jan-2023)



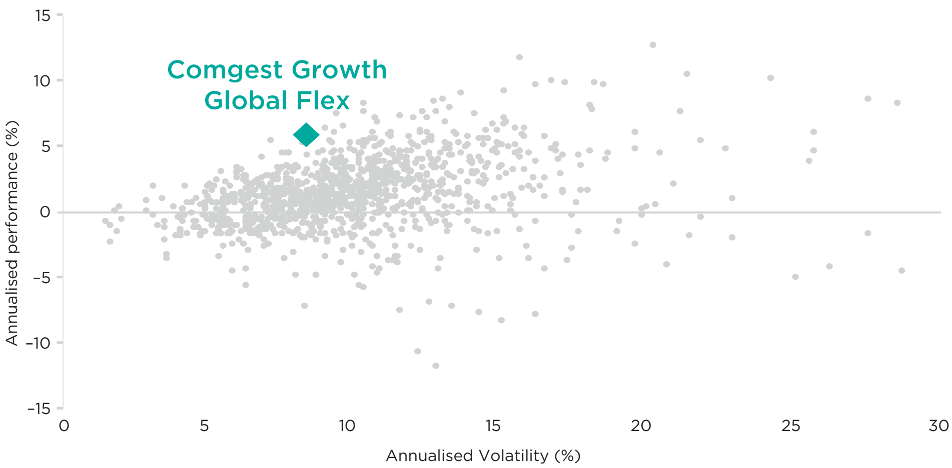
Past performance does not predict future returns. Source: Comgest, Factset as of 31-Jan-2023. Performance figures are calculated net of investment management fees, administrative fees and all other fees with the exception of sales charges. If taken into account, sales charges would have a negative impact on performance.

Comgest Growth Global Flex: Annual Performance (net of fees, as of 31-Jan-2023)

%	2017*	2018	2019	2020	2021	2022
Fund	12.0	3.5	12.9	3.7	10.0	–11.8

Past performance does not predict future returns. Source: Comgest, Factset. *31-Jul-2017 to 31-Dec-2017. Performance figures are calculated net of investment management fees, administrative fees and all other fees with the exception of sales charges. If taken into account, sales charges would have a negative impact on performance.

Figure 8: Risk/Return Profile of the Funds within the Morningstar Category 'EUR Flexible Allocation – Global' (31-Jul-2017 – 31-Jan-2023)



Past performance does not predict future returns. Source: Morningstar Direct, data as of 31-Jan-2023. Net performance data expressed in EUR. Oldest share classes of funds within the Allocation EUR Flexible - Global Morningstar category.

MAIN RISKS

- Investing involves risk including possible loss of principal.
- The value of all investments and the income derived therefrom can decrease as well as increase.
- Changes in exchange rates can negatively impact both the value of your investment and the level of income received.
- Emerging markets may be more volatile and less liquid than more developed markets and therefore may involve greater risks.
- Although intended to limit or reduce investment risk, hedging strategies may also limit or reduce the potential for profit. There is no assurance that hedging strategies will be successful
- Derivatives may be more sensitive to changes in market conditions and may amplify risks.
- A portfolio invested in a limited number of securities may entail higher risks than portfolios which hold a very broad spread of investments.

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