Melchior European Opportunities Fund

Results to 28 February 2021

Management company:
Edmond de Rothschild Asset Management (Luxembourg)

Investment manager:
Dalton Strategic Partnership LLP

Investment objective:
Capital appreciation through selective investment in European equities.

Investment Approach:
Bottom-up stock selection process, across all market capitalisations, targeting unrecognised growth, turnaround or recovery situations and valuation anomalies producing a concentrated portfolio. The Fund integrates ESG considerations into the investment process.

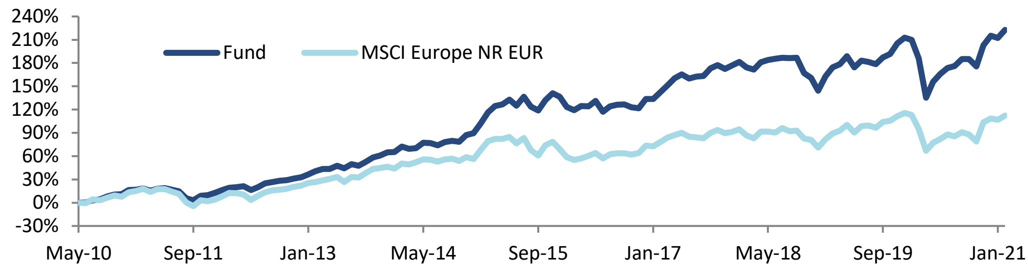
Countries of registration:
Austria, Finland, France, Germany, Ireland, Italy (for qualified investors), Luxembourg, Norway, Spain, Sweden, Switzerland and United Kingdom.

[*Please note that individual share class registrations will vary by country. For a full list of registrations by individual share class, please refer to Melchior Fund Codes and Registrations*]

Fund size:	$1.2bn
Number of stocks:	62
Base currency:	Euro
Share classes:	B (Euro) I (Euro, GBP, USD) P (Euro)
Fees:	
B shares	1.65%
I & P shares	0.85%
Minimum investment:	
B shares	$10,000 (equivalent)
P & I shares	$250,000 (equivalent)
Legal status:	Luxembourg SICAV with UCITS status
Fund dealing:	Daily
Dealing cut off:	14:00 (Luxembourg)
Benchmark:	MSCI Europe Index (used for comparison purposes only)
Fund launch:	4 May 2010

Risk warning:
Investors should carefully consider the usual risks of investing and participating in listed and unlisted securities. For more information please consult the current fund and share class specific Key Investor Information Document (KIID) and for a complete set of risks please refer to "VIII: General Risk Considerations", which can be found on pages 27-37 of the current prospectus.

Percentage growth, total return (EUR)



%	1 month	3 months	YTD	1 year	3 years	5 years	Since inception
Fund	3.29	6.59	2.33	12.90	17.54	47.28	206.99
Benchmark*	2.54	4.18	1.77	8.87	13.55	36.75	107.14

%	2020	2019	2018	2017	2016
Fund	0.78	28.03	-11.68	18.42	-1.23
Benchmark*	-3.32	26.05	-10.57	10.24	2.58

%**	31.12.20 31.12.19	31.12.19 31.12.18	31.12.18 31.12.17	31.12.17 31.12.16	31.12.16 31.12.15
Fund	0.8	28.0	-11.7	18.4	-1.2
Benchmark*	-3.3	26.0	-10.6	10.2	2.6

1 year historical characteristics	Beta	Tracking error	Volatility
Fund	0.82	8.91	25.08
Benchmark*	-	-	27.82

Past performance is not a reliable indicator of future returns; the growth rate is sensitive to currency fluctuations in EUR. Performance and risk information has been provided for I1-EUR share class, net of fees. All performance and risk data is in Euros, the Fund's base currency.

Source: Dalton Strategic Partnership (performance data & risk characteristics), as of 28 February 2021.
*MSCI Europe index. The MSCI Europe Index is included to illustrate the general trend in European equity markets during the periods indicated and is used for comparison purposes only. **The standardised past performance information is updated on a quarterly basis. Please note: As of 31 December 2016, the benchmark for the Fund changed from the MSCI Pan Euro Index to the MSCI Europe Index. LuxFLAG has granted the use of the LuxFLAG ESG Label to Melchior European Opportunities Fund for a period starting on 01 January 2021 and ending on 31 December 2021.

Sector holdings %	Fund	Bmk*
Industrials	20.5	14.6
Health Care	16.8	13.8
Financials	14.3	16.5
Consumer Discretionary	12.0	11.7
Consumer Staples	9.8	12.3
Information Technology	9.2	7.9
Materials	6.8	8.6
Communication Services	2.7	3.9
Real Estate	2.4	1.3
Energy	-	4.8
Utilities	-	4.6
Cash	5.3	-

Country holdings %	Fund	Bmk*
United Kingdom	25.4	22.9
Switzerland	13.5	14.7
Netherlands	9.5	6.5
France	8.2	17.8
Germany	8.0	15.0
Spain	7.5	3.9
Italy	6.7	4.0
Sweden	4.7	5.6
Denmark	2.1	3.9
Ireland	2.0	1.1
Other	7.1	4.7
Cash	5.3	-

Source: Factset, as at 28 February 2021. *Benchmark (Bmk) is the MSCI Europe index.

Top 10 holdings %	Fund	Bmk*
Roche Holding Ltd	4.7	2.3
Laboratorios Farmaceuticos Rovi	2.9	-
ASML Holding NV	2.9	2.4
ASR Nederland NV	2.9	-
Reckitt Benckiser Group plc	2.9	0.6
FinecoBank SpA	2.9	0.1
Vivendi SE	2.7	0.3
Merck KGaA	2.6	0.2
Nestle S.A.	2.4	3.0
Ferguson Plc	2.2	0.3

Market cap (US$b) %	Fund	Bmk*
>30	27.6	61.7
10-30	9.9	28.4
5-10	8.9	9.5
2-5	27.4	0.5
0.5-2	20.8	-
[Cash]	5.3	-

Source: Factset, as at 28 February 2021. *Benchmark (Bmk) is the MSCI Europe index.

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Portfolio manager:

David Robinson

David joined Dalton Strategic Partnership LLP in 2005 and has managed the Melchior European Opportunities Fund since it launched in May 2010. Prior to this, he was an analyst on the Melchior European Absolute Return strategy and managed a long-only segregated account from 2008. David has a degree in Modern History from New College, Oxford and is also a qualified lawyer.

Share class:	ISIN	SEDOL
B1 EUR	LU1231252237	BXC8723
I1 EUR	LU0289523259	B4325G1
P1 EUR	LU0952580347	BXC8712
I2 USD	LU0289527912	B42L0S6
I7 GBP	LU0289524653	B1Z4RK2

Current prices/NAVs:

B1 EUR	131.57 (€)
I1 EUR	306.99 (€)
P1 EUR	139.96 (€)
I2 USD	284.64 ($)
I7 GBP	310.53 (£)

Investment background

Rising growth and inflation expectations, and the corollary of higher bond yields, were the dominant drivers of financial markets in February. This was particularly marked in the US, where the combination of the US$1.9 trillion stimulus package proposed by the Biden administration and the accelerated re-opening in a number of states has already led to a material upward revision in real GDP growth forecasts for 2021 from 3.9% at the turn of the year to 5.5% at the time of writing.

US inflation expectations, measured by the 5-year breakeven rate, jumped to 2.5%, the highest since 2008. The record of this measure over the years suggests it has more value as a gauge of sentiment, rather than as a predictor of future price levels. A significant distinction from previous recent economic cycles is that the Fed, along with other central banks, have clearly signalled their willingness to tolerate a higher level of inflation before tightening monetary policy. Commodity prices continued to climb in February, notably Brent, which jumped by another 18% and copper by 15%. These increases are now feeding through to manufacturing prices, with the ISM index of prices paid increasing to 86.0, a level surpassed in only 5 months during the past 30 years. Nevertheless, we believe it is important to make a distinction between the impact of higher commodity prices, which are often more transitory, and sustained core inflation. The latter is a much longer process, for which there is limited evidence so far.

The combination of higher growth and inflation expectations accelerated the rise in longer duration Treasury yields, with the 10 year yield rising from 1.07% to 1.41% and the 30-year from 1.83% to 2.15%. The yield curve also steepened in Europe, although to a much more modest extent. Unlike the US, consensus real GDP forecasts for the euro region in 2021 have moderately eased so far this year to 4.2%. Furthermore, the pace of vaccination roll-outs, and thus the path to re-opening, remains frustratingly slow across most of Europe, while Covid infection rates increased in a number of countries in February. By the beginning of March, the EU had vaccinated just 8% of its population, about a third of the percentage vaccinated in the US (24%) and a quarter that of the UK (32%). Fortunately, the clinical data from Israel and the UK on the efficacy and safety of vaccines, and their impact in reducing transmission rates amongst the vaccinated, are highly encouraging.

While European equities continued to advance, there was widespread dispersion at a sector level which mirrored developments in bond markets. As has been the case for some time now, the internal movements of the market were very rotational, with value stocks out-performing growth by about 4%. Cyclical sectors were particularly strong, led by financials (+11.1%), energy (+10.4%), consumer discretionary (+5.3%) and materials (+5.0%). On the other side of the ledger, bond proxies and defensive sectors proved anything but, with utilities (-5.8%), consumer staples (-3.9%) and health care (-3.1%) all weaker.

Strategy highlights

The Fund gained by +3.29% in euros in February, compared to a total return in euros of +2.54% by the MSCI Europe. At a portfolio level, the lack of direct exposure to energy was broadly offset by the underweight in utilities. Furthermore, stock selection in health care counter-acted the broader decline in the sector, and it was also a positive factor for our holdings in communication services and industrials. Stock selection during the month was especially strong among our mid and small cap holdings, which posted an average gain of +5.6%, which compared with monthly returns of +1.8% and +3.9% by the MSCI Europe Mid and Small Cap indices respectively.

While February is the shortest month of the year, it is nevertheless a busy one, with the majority of companies reporting their full year results. Given the unique circumstances of the past year, which favoured some companies and severely penalised others, it is hard to generalise and there was an unsually wide dispersion in outcomes, with the year-on-year earnings growth of our companies ranging from -57% to +66%. At the time of writing, 49 of our holdings have reported and the results overall have been far better than we dared to imagine, with an average decline in earnings in 2020 of a little over -5%. Given the significant and rapidly evolving operational disruption faced by many of our companies over the past year, and the magnitude of declines in economic activity, this attests to the resilience and agility of our companies in aggregate. Notwithstanding the current lockdowns in most parts of Europe, most companies are cautiously optimistic about the prospects for the year ahead, both in Europe and the rest of the world.

Leading contributors during the month included a number of holdings that reported better than expected results. These came from a broad cross section of sectors and included digital banks Fineco (+35bps) and Sbanken (+23bps), the pharmaceutical group Rovi (+29bps), the building products distributor Grafton (+25bps), the swimming pool products manufacturer and distributor Fluidra (+21bps) and the active lifestyle brand Thule (+21bps). The media group Vivendi (+34bps) also performed well after announcing that it would spin off 60% of Universal Media Group to shareholders later in the year, an event that should see its substantial conglomerate discount narrow.

The earnings season was not a positive catalyst for all, however. Pharmaceutical companies generally reported a weak end to the year as Covid disrupted procedures and the administration of many drugs by hospitals. For Roche (-21bps), pharma weakness was compounded by ongoing erosion from biosimilars, but compensated by strong growth in its diagnostics division, which we believe will prove more durable than the market gives it credit for. Defensive companies were in general a source of funding, so it was not an opportune time for Unilever (-16bps) to disappoint modestly on margins. Other detractors included Games Workshop (-13bps), which under-performed in common with many perceived Covid "winners", and Vestas Wind Systems (-11bps), in which we had materially reduced our exposure in recent months and which reported disappointing margins. The renewable energy sector and other ESG "darlings" saw widespread selling during the month.

The Fund took advantage of the retreat in perceived Covid beneficiaries to initiate a position in BHG, the leading online DIY and home furnishing retailer in the Nordics. The company is a pure online player in the Nordic home market, a category which is still early in its shift to online; pre-Covid-19 online penetration was 8% in Nordics, compared to 13% in apparel and 19% in consumer electronics. The change in behaviour induced by the pandemic will likely have some lasting benefits for BHG, not least the increased level of comfort and experience in purchasing this category online will likely accelerate the channel shift. BHG's 30% market share online puts it in prime position to benefit from this structural growth and do so at attractive levels of profitability and cash generation given its benefits of scale.

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Further information:
Please refer to www.daltonsp.com for the investor pack, prospectus, financial statements and Key Investor Information Documents

Important Information

Past performance is not necessarily indicative of future results and you may not retrieve your original investment. Investing in the Melchior Selected Trust places our capital at risk. The Sub-Fund is suitable for professional investors who consider an investment fund as a convenient way of participating in capital market developments. This Sub-Fund is not actively marketed to UK retail investors.

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