FUNDamentals

April 2021

This last quarter was once again a very busy period for us at BOV Asset Management and international markets in general.2020 was quite a year; the COVID-19 virus and its effect on economies dominated the main news, and had at first a negative effect on the major world indices, which eventually recovered and in some cases profited from pre-Covid levels. Since March last year the effect of the virus left its toll on most major economies spanning from Asia, Europe, North America and later on in Latin America.

The story of 2021 is that America's economy is reopening with a bang. By comparison, everything in Europe looks sluggish; GDP growth, the roll-out of vaccines, the deployment of fiscal policy, slow-moving companies, and so on. That lack of urgency extends to the stock market. It seems as if Europe has no fear of missing out.Yet that is probably a good thing, because so far this year the euro-zone stock market has managed to keep up with America's.

Among non-US stocks, the euro area looks attractive on a price-to-earnings basis. The perennial appeal of Europe is that it is cheap. That is not always, or even usually, decisive in stock investing but since November, when news first broke of an effective vaccine for COVID-19, "value" stocks (ie, those with a low price relative to earnings or book value) have generally done better than "growth" stocks, their antithesis. This rotation towards valueought to favour Europe, where bourses are crammed with cheap-looking banks, widget-makers and commodity firms, the sort that tend to do well in periods of reflation, such as we are currently experiencing now.

2020 seems to have left an impact also on the confidence of the Maltese investor as the latest BOV Asset Management Investor Sentiment Index shows that investors have responded differently to the latest developments brought about by COVID-19, the US Presidency and the Brexit movement. The current index reading now stands at 89.60, whilst the future sentiment index has reached 85.83, both indices showing significant declines since the last reading.

The index survey, conducted by MISCO International, was the outcome of a sample of 602 respondents, of which 38% of these investors are within the 18-34 age group, indicating an increase in young investors.

Mark Vella
Head - Marketing & Business Development
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A closer look at the Maltese investor's profile as projected through these surveys shows that the Maltese investor continues to have a consistent preference for local investment while taking a more balanced approach to their risk profile. At the same time, a substantial amount of 31% stated that they have a mixed investment strategy of both local and foreign investments.

Some positive aspects can be taken out from the latest Investor Sentiment Index results that shows that the Maltese investor is evolving and becoming more prudent, as 34% of these respondents hold a monthly investment programme. In the coming months it will be interesting to see how the local investor develops in a post-pandemic scenario, where the new normal and the impact of generational change could derive drastically different investment portfolios.But we will have to wait and see…

Finally, we hope you enjoy this new edition of '***FUNDAMENTALS***' and we welcome any feedback on its content.

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PRIIPS & PRIIPS KIID

Definition, Aims and Objectives

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PRIIPs is an acronym for Packaged Retail and Insurance-based Investment Products. The PRIIPs Regulation defines a PRIIP as any product which meets one of the following definitions: Packaged retail investment product, which basically is an investment where the amount repayable to the investor is subject to fluctuations because of the exposure to reference values or to the performance of one or more assets which are not directly purchased by the investor or to market fluctuations.

The main aim of the PRIIPs Regulation is to enhance investor protection standards for retail clients and increase transparency in the market, particularly with respect to sales and distribution. This is consistent with Markets in Financial Instruments Regulation (MiFID II) and Insurance Distribution Directive, whose joint aim is to recover investors' trust in the financial markets. PRIIPs Regulations set out new calculation methodologies and transparency requirements for such investment products across the European Union. By aiming to provide clarity about investment products being purchased, the Regulation hopes to protect retail investors by allowing for better direct comparison between different products that meet a retail investor's stated goals.

The PRIIPs regulation has many similarities and overlaps with MiFID II but the substantial difference is that PRIIPs is specifically intended for retail investors. A person who advises a retail investor on a PRIIP or sells a PRIIP to a retail investor must provide the retail investor with a Key Investor Information Document (KIID) in time before any transaction is concluded. In addition to advisers, this will effect intermediaries such as distributors. Whereas the obligation to produce the KIID falls on the manufacturer of the PRIIP, the obligation to provide retail clients with the KIID is under the responsibility of the distributor. The PRIIP manufacturer is required to prepare the KIID, send it to Supervisory Authority and publish it on its website before the PRIIP is made available to retail investors. In addition, the KIID should be added to the pre-contractual information package.

Furthermore, the product manufacturer must review the KIID on an ongoing basis and revise the document when needed and such revised version shall be made available promptly. On the other hand, the PRIIP distributor is required to deliver the KIID in time before the retail investor is bound by any contract or offer relating to that PRIIP. In case of further investments in the same PRIIP, the distributor may provide the retail investor with the KIID only if relevant changes in information occur. The KIID must be short and well written so that retail investors can easily understand the key features of the products and embedded risks and compare similar products. It will be part of the legal offering documentation. By reading the KIID, the investors would be able to autonomously understand the main elements of the financial instrument, without requiring further documentations.

KIIDs should be a maximum of three pages and provide clear information on investment products. KIIDs should include the following information: the name of the product and the identity of the producer; the types of investors for whom it is intended; the risk and reward profile of the product which includes a summary risk indicator, the possible maximum loss of invested capital and appropriate performance scenarios of the product; the costs investors have to bear when investing in the product and the information about how and to whom an investor can make a complaint in case there is a problem with the product or the person producing, advising on or selling the product. KIIDs must be delivered on paper or by other durable medium or by means of a website provided certain conditions are met. Moreover the PRIIPs KIID must translate into the language of each European Economic Area state in which it is distributed.

BOV INVESTMENT FUNDS

Q & A

Adrian Borg
Portfolio Manager - Asset Management
BOV Asset Management Limited

What objective is the Fund Manager trying to achieve?

The BOV Investment Funds product suite offers a range of three distinct funds which primarily aim to align to an investor's risk profile depending on which stage of the investment lifecycle the investor is in. The funds that make up the BOV Investment Funds suite range from a growth-oriented fund with the highest tolerance for risk, a balanced fund which targets both capital growth and income to a more conservative strategy which has a very low risk tolerance and primarily targets income generation.

What are the benefits of investing in the BOV Investment Funds compared to other investments?

The BOV Investment Funds are conceptually global portfolios. This means that the fund manager is not constrained to be invested in any particular asset class or region. Asset class allocations change throughout the life of the fund, depending on the views of the manager at the time. As opportunities in investment markets shift, the fund manager will change exposures to different asset classes to benefit from these opportunities. These decisions are done collectively on behalf of all the fund investors who need not worry to change allocations individually. Moreover, the BOV Investment Funds are very cost-effective: both in the way the scheme is structured and through the use of low cost investment vehicles to take market exposures.

How does the Manager decide to buy or sell investments?

Buying and selling of investments within the BOV Investments is done in a very structured manner. Any decision being considered by the fund manager is first raised through an idea generation process and then discussed with the portfolio management team so that a solid rationale for the decision is formulated and documented. Once the decision has been confirmed, a suitable investment vehicle is identified and chosen depending on a set of criteria established which take into consideration cost, performance and risk amongst other factors.

How would you describe the idea generation process?

The idea generation process for the BOV Investment Fund can simply be described as being top-down. This means that the fund manager starts by determining the macro outlook for markets at a global level. This helps identify market opportunities that can be exploited at that point in time. A tactical allocation decision follows, which entails the decision of how much the funds will be exposed to particular segments of the market. During this stage of the idea generation process, the fund manager has to test for asset class correlations, expected returns and risk estimates. The process is continuous and is revised frequently, depending on what markets dictate.

What is the outlook for the market you operate in? Are you currently favouring more cyclical and non-cyclical names?

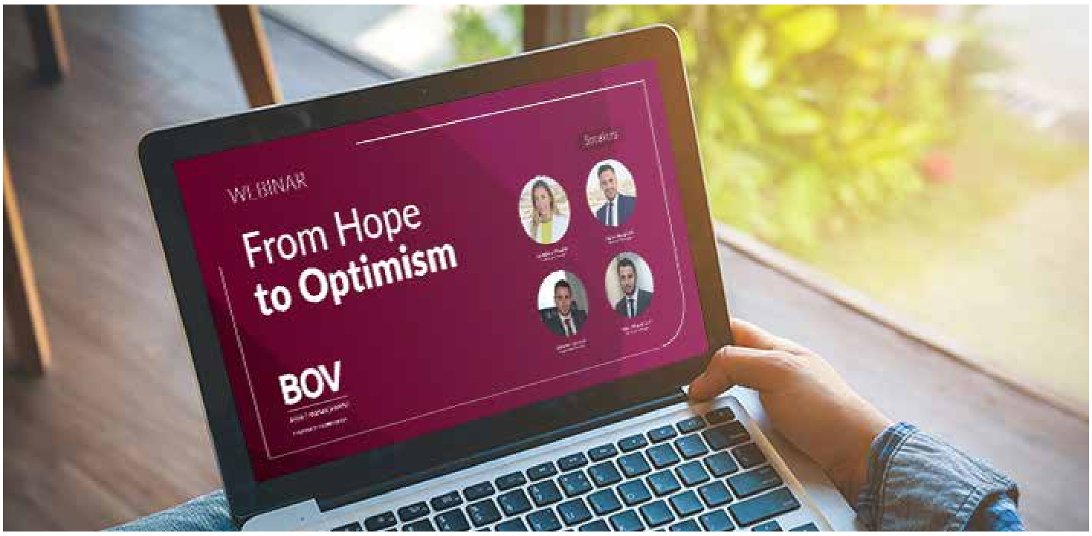
Following the aftermath of the COVID-19 pandemic during the past months, markets are currently pricing strong economic recoveries amid a strong vaccination rollout globally and the unprecedented support by the major governments and central banks. For this reason, we are currently preferring cyclical sectors since they are more correlated to the economic recovery. With the return to normality in sight, industries such as travel and leisure are expected to benefit the most when considering their fundamental values given that they have lagged the market rebound over the past twelve months

What are the main risks to your outlook?

Risks to the current outlook include a slower-than-expected vaccination rollout in specific regions and a muted rebound in consumer confidence. Lastly, the extensive monetary and fiscal programmes coupled with an economic recovery, have heightened inflation expectations which are being reflected in a spike in yields. This spike has caused pressure on the fixed income markets in the first quarter of 2021.

OPTIMISM GROWS AMID THE PANDEMIC

INSIGHTS FROM THE LATEST BOV ASSET MANAGEMENT WEBINAR



Persisting challenges arising from 2020 are still influencing global markets in 2021, further reshaping the investment scenario into an array of unpredictable possibilities. Yet the stock market is still indicating some potential optimistic points which could eventually factor a stronger economic recovery from the COVID-19 pandemic.

Investment specialists from BOV Asset Management discussed the journey "From Hope to Optimism" during a recently held webinar, in which the road back to a stronger economy and a clearer investment environment was the main focus.

Introducing the discussion, Investment Analyst Loredana Micallef explained that noticeable positives are already paving the way for a regenerated economy for current investors. "Around a year ago COVID-19 was declared as a pandemic, which is still posing high instability among those seeking to sustain their investments" said Ms Micallef. She then stated that while there's still a long way to go, the currently ongoing vaccine administration is already increasing optimism and impacting the value of stock markets.

Portfolio Manager Adrian Borg specifically spoke about the current bond scenario, explaining it as one that will continuously experience shifts and changes. "Since the downfall of 2008, central banks have been deploying intensive measures to mitigate the interest rates on bonds and sustain the economy," stated Mr Borg. He remarked that sector selection is an important tool for current investors, where the optimism of recovery should be taken into considerable attention. "The current investor needs to be aware that the return from some bonds might not necessarily come in the form of interest, but in terms of capital appreciation."

According to Glen Mifsud, Portfolio Manager at BOV Asset Management, the settlement of Joe Biden as the US President is also increasing confidence among investors. "Several projects re-initiated by Joe Biden are aimed at developing sustainability and renewable energy, which set up a loftier vision for those seeking to invest wisely," claimed Mr Mifsud. The recently elected US President had already ensured that the UN will re-join the Paris Climate Agreement, a movement that has already started to provide hope towards optimism.

Investment Analyst Stephen Sammut spoke about the local market outlook. "Mainly due to a lower rate of tourism, Malta's GDP suffered a rapid decline of 8.2%, the second highest decline in Europe" explained Mr Sammut. However, he pointed out that intensive strategies from both the health and finance sectors will drive the Maltese equity market to catch up within Europe. "Besides vaccinations, extension of moratoria from local banks is another tactic that is sustaining the local business community and accelerating the journey towards the desired normality."