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Amundi HK – Balanced Fund: *Position for China's Tactical and Medium-Term Opportunities*

1. The Sub-Fund aims to achieve moderate long term capital growth through an actively managed portfolio of global equities, bonds and cash. The Sub-Fund will have limited RMB-denominated underlying investments.
2. Investing in this Sub-Fund may expose investors to equity, market and volatility risk, credit risk and counterparty risks. Investment in small and medium sized companies as well as emerging markets may involve a higher degree of risk. The use of financial derivative instruments for hedging and investment purposes may subject to additional risks, including liquidity, volatility, valuation and credit risk of the issuers.
3. As RMB is not freely convertible, the investment in RMB classes may be adversely affected by the fluctuation in the exchange rate between RMB and other foreign currencies and the liquidity of RMB at the relevant time. In case of sizable redemption requests for the RMB classes, the Manager has the absolute discretion to delay any payment of redemption requests from the RMB classes.
4. For hedged classes, there is no guarantee that the hedging techniques employed by the manager will fully and effectively achieve the desired result and effect. Furthermore the volatility of the hedged classes may be higher than that of the equivalent class denominated in the Sub-Fund's base currency. If the counterparties of the instruments used for hedging purpose default, investors of the hedged classes may be exposed to currency exchange risk of the currency of denomination of the relevant class on an unhedged basis and may therefore suffer further losses.
5. The value of the Sub-Fund can be volatile and the Sub-Fund may suffer substantial loss.
6. For Distribution classes, the Manager may at its discretion determine to pay dividends out of income or capital of the Sub-Fund. In addition, the Manager may at its discretion pay dividends out of gross income while charging / paying all or part of the Sub-Fund's fees and expenses to the capital of the Sub-Fund, resulting in an increase in distributable income for the payment of dividends by the Sub-Fund, in which case, the Sub-Fund is effectively paying dividends out of capital. Payment of dividends out of capital amounts to a return or withdrawal of part of an investor's original investment or from any capital gains attributable to that original investment. Such distributions may result in an immediate reduction in the net asset value per unit of the Sub-Fund.
7. Investors should not only base on this marketing material alone to make investment decisions.

SUMMARY

The risk-reward for China equities at this current juncture is attractive

China's equity markets have been challenged in 2023 by slower than expected GDP growth, a lag in policy delivery and geopolitical tensions, paring back much of their gains following the rally which started in October 2022 (see figure 1). Chinese equities trade at attractive valuations and are well positioned for a technical upswing into year-end. Furthermore, given low foreign investor positioning, the likelihood of a corporate earnings upcycle, the potential for further policy support, excess domestic household savings and the current state of market valuations, we believe Chinese equities present investors with an asymmetric risk-reward proposition.

Amundi HK – Balanced Fund is positioned to capture China equity upside while maintaining a diversified investment approach

While maintaining a global diversified investment approach, the fund possesses notable exposure towards China, where we have become more constructive over the short to medium-term outlook. China exposure remains a vital component of the portfolio as a means to position for potential upside returns, while cushioned by diversification into de-correlated assets to limit drawdown risk.

Recent Positive Catalysts for Equities in China

What Happened? A Pivotal and Firm Signal that Chinese Policymakers are Dedicated to Easing

- On October 2023, during the NPC standing committee meeting, **China approved the issuance of an additional RMB1tn of treasury bonds** to support infrastructure investment. **The fiscal deficit will subsequently expand from 3.0% to 3.8% this year**. RMB500bn will be deployed within this year, and RMB500bn transferred to early next year.
- The budget revision was a meaningful surprise for the markets. **Budget revision in China is historically very rare.** Even in 2022 during Covid, authorities opted for other measures to support the economy. **It is even more rare fror the budget deficit to be revised above the "red-line" of 3%.**
- **The announcement marks a significant change in China's fiscal policy**, removing the 3% deficit ceiling and indicating a greater willingness from the central government to share the debt burden borne by local governments in the past.

Improving Macroeconomic Data and Policy Measures

- Following third quarter GDP surprising consensus estimates to the upside and the supplementary budget, **Amundi has revised its 2023 and 2024 GDP growth expectations higher.**

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- GDP data for the third quarter came in above expectations, and activity data across a range of indicators including retail sales and industrial product for August and September came in stronger than consensus estimates.
- **Policymakers have announced a slew of easing measure over the past two months.** Fiscal policy is taking more active steps to support growth. **We expect authorities to continue implementing incremental measures to boost confidence and stabilize the economy, such as the recent support to real estate developer China Vanke.**
- If recent trends persist, this will be conducive for earnings and confirm that we are the latter stage of the downward move in the earnings cycle.

Why Invest with the Amundi HK – Balanced Fund?

- **The team maintains its conviction in Asia's upside potential and value within a global multi-asset portfolio going forward, particularly after three quarters of below average returns.** We believe investors should embrace allocation to Asia in order to benefit from its growth advantage. Besides China, we continue to see appealing stories in the rest of EM Asia, including in **India** which has the ability to leverage upon shifting geopolitical dynamics and strong domestic demand, or **Korea** which recently implemented a ban short selling along and is starting to see an improvement of flows and the semiconductor cycle.
- Compared to Asia specific funds, the Amundi HK – Balanced Fund's global diversification helps it to mitigate idiosyncratic risk and limited drawdown during periods of volatility.
- **While globally diversified, the fund retains an emphasis on its exposure to China and the rest of Asia, along with developed markets.** Investors can enjoy upside participation with less volatile performance due to the team's diversified approach.

A Window for Tactical Upside for China Equities

- A sequence of events, including the RMB 1trillion supplementary budget, geopolitical development such as the Foreign Minister's visit to the US, and the intervention of the national team in the equity market, has helped to stabilize the market environment.
- **An improvement in risk appetite is likely to see a rotation back into China following the reset lower of market expectations and heavy foreign outflows.**
- We expect stabilization of the macro environment to provide support for earnings, with MSCI China trading at a large discount relative to its own history and US equities despite unique business models (**see figure 2**).
- **Investor positioning remains bearish with global mutual funds' underweight on China at historical lows.** Northbound flows (a proxy of foreign interest) has deteriorated year-to-date, but turned positive over the last few days, while Southbound flows remain strong, with the national team supporting the market (**see figure 3**).

Positive Tailwinds in the Medium-Term

- Opportunities remain over the medium term for structural reasons, such as the ongoing deleveraging across Chinese industries, or the rebalancing of growth towards domestic demand.
- **A structural shift in China's underlying growth dynamics around deleveraging and decoupling does not necessarily mean its importance in the world will decline.** In the context of the energy transition for example, China's role is critical for global supply chains.
- Upside potential is prevalent in areas that have clear and forceful policy support such as **green energy, infrastructure, technology and SOE reform**.

Figure 1: China Equities are already down over 20% from January highs

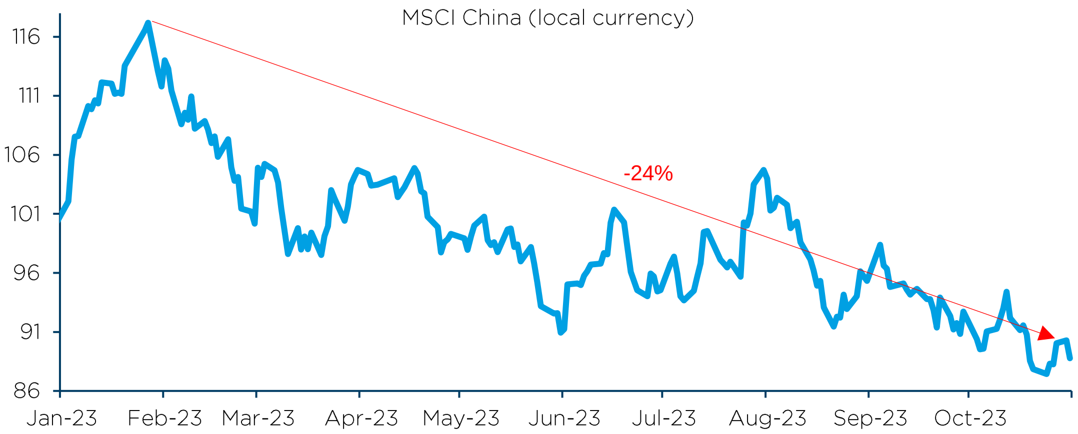


Figure 2: China Equity Valuations are cheap compared to their historical average and peers

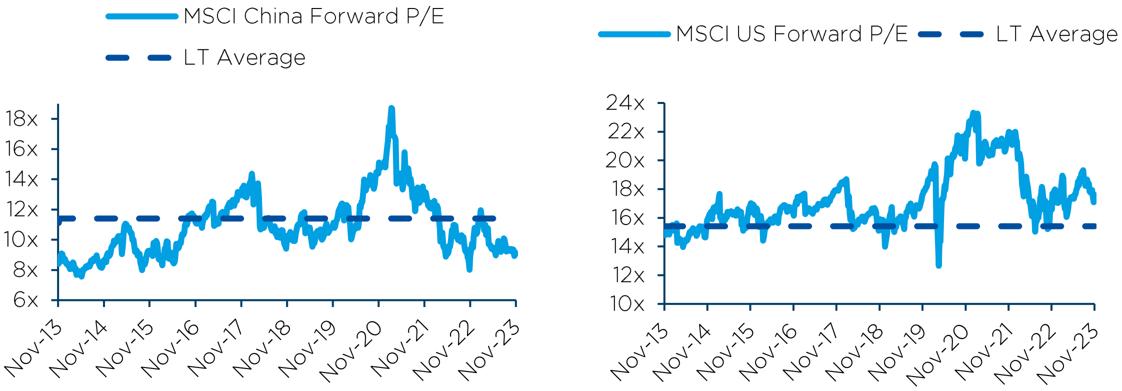
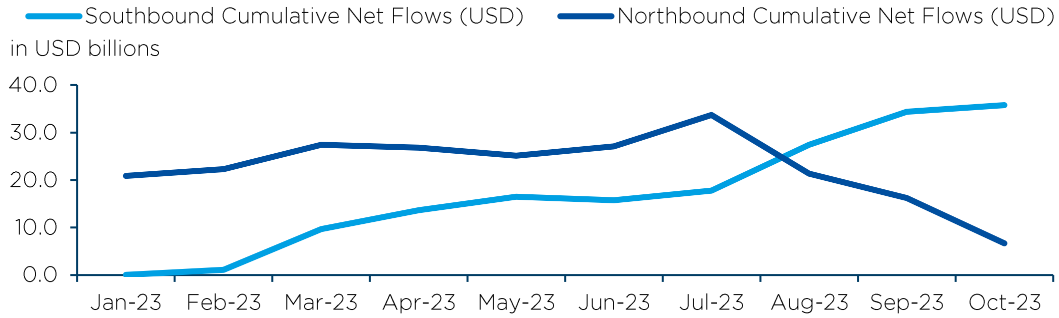


Figure 3: Outflows via Northbound Stock Connect (a proxy of foreign interest in China) have intensified in recent months



Sources: Amundi, Bloomberg, as of November 2023.

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