



Aperture European Innovation Fund

Q1 2025 Manager Commentary

Marketing Communication for Professional Investors in AT, CH, DE, ES, FR, IT, LU, PT, SG, and UK.



EUROPE TAKES FLIGHT: GERMANY'S STIMULUS IGNITES EUROPEAN EQUITIES



Dear Clients and Investors,

The first quarter of 2025 marked a profound turning point in global markets. What began as a continuation of last year's exuberance around AI and US exceptionalism swiftly evolved into a reckoning. Volatility surged, risk appetite evaporated, and capital rotated aggressively out of the familiar winners of 2024. Amid the chaos, one region stood out: Europe. While US equities faltered, European stocks rallied, powered by a tectonic shift in fiscal policy and growing recognition that the continent may once again matter in a multipolar investment landscape.

At the heart of the market's volatility were three seismic shocks: 1) the abrupt unwind of crowded trades in AI and infrastructure following the Deepseek release, 2) a sharp turn in US fiscal policy featuring deep government cuts and aggressive tariffs, and 3) the growing realization that monetary policy may no longer be the primary driver of global capital flows. Each of these forces reshaped market narratives and capital allocation decisions in real time.

Against this backdrop, our investment approach remained focused yet adaptive. We leaned into Europe's changing role, repositioned into old economy beneficiaries of German stimulus, and preserved our structural convictions in the AI rollout despite near-term turbulence. While the Aperture European Innovation Fund delivered what we believe to be a solid return, we underperformed the benchmark this quarter— we consider this a reflection of the sharp reversal in leadership and the violent cross-currents at play. We explain these dynamics in detail throughout the letter.

As we were wrapping up this letter and reflecting on the quarter's events, yet another regime shift emerged—this time in the form of **Liberation Day and the sweeping 20%+ U.S. tariff announcements**. In response, we added an Addendum to our outlook to reflect this latest evolution and its implications for markets and portfolio positioning.

In this addendum we outline why we believe the return of protectionism may accelerate Europe's policy response, impact global trade flows, and reinforce the region's growing investment relevance. We close this letter not only with caution, but with a continued focus on identifying new opportunities as they emerge in the selloff—particularly in an emboldened Europe determined to do whatever it takes to find fresh impetus in the reshaping of the world economy and global trade.

Wishing everyone a calmer and clearer Easter ahead!

Best Regards,
Anis Lahlou
 CIO, European Equities



Performance¹

Returns as of March 31, 2025 (% , net of fees)

	Q1 2025	2024	2023	2022	2021	2020	Since Inception
Fund ²	3.92	11.29	18.90	-16.21	28.73	11.13	10.02
Benchmark ³	5.91	8.59	15.83	-9.49	25.13	-3.32	7.44
Relative Performance	-1.99	2.71	3.07	-6.72	3.60	14.45	2.59

Past performance is not a reliable indicator of future performance and can be misleading

Since Inception figures are annualised. Annual past performance related to ISIN LU2077746936. Performance is net of all fees except entry and exit fees (where applicable). Dividend reinvested for accumulative classes. Past performance is calculated in EUR.

Q1 2025 Market Summary: From Euphoria to Reckoning

The first quarter of 2025 was nothing short of a regime shift. The U.S. market underwent a sharp and relentless selloff, with the S&P 500 declining -5% in USD terms and over -8% in EUR terms. In contrast, Europe defied the global malaise with MSCI Europe Net TR Index (“MSCI Europe” Ticker: MSDEE15N Index) rising +6%, marking a rare and powerful outperformance versus US equities. The market’s aversion to uncertainty was front and centre, and we had that in abundance: a disorderly unwind in some of the most crowded parts of the market, notably AI, data centre and power/electrification names courtesy of **Deepseek, restrictive U.S. fiscal policy and geopolitical tremors.**

U.S. fiscal policy has become a headwind for growth. Tariffs — functioning as a de facto 10–25% consumption tax — are being wielded as both a geopolitical tool and a revenue source. Meanwhile, the Department of Government Efficiency (“DOGE”) has embarked on cost cuts across the board, often indiscriminately. The underlying hope is a tightrope act: reduce spending and deficit, monetise debt via lower rates, and engineer a soft landing. But this is a delicate balancing act, especially as the market continues to digest a potential reset in terminal Fed Funds rates and a long end potentially anchored between 3.25–4%; what if the inflation outlook challenges this assumption?

From the euphoria of “MAGA” and Project Stargate to the shock of Deepseek and tariff wars, the mood in U.S. equities has flipped 180 degrees. The rotation away from Mag7 dominance reflects a broader market realisation: we’ve moved from a world where the U.S. tech complex was the map, and the rest of the world a footnote, to a more balanced reality where Europe is reasserting relevance. This has unleashed tremendous volatility — large single-day stock moves, record trading volumes across the prime brokerage, including strategies like ours (see “What Have We Done?” section) reminiscent of the Covid-era volatility and activity levels.

Amidst this turmoil, the most consequential policy pivot came from Europe — specifically Germany — which unveiled a landmark EUR 1 trillion fiscal stimulus package. The scale and ambition of this program have fundamentally altered perceptions of Europe’s growth potential and policy resolve, setting the stage for a significant re-rating of the region’s old economy sectors and restoring Germany’s position as a locomotive of continental growth.

¹ Past performance does not predict future returns. Where the reference currency of the fund differs than yours, returns and costs may increase or decrease as a result of currency and exchange rate fluctuations. This is not an exhaustive list of the costs. Other costs apply and differ per share class.

² The Fund = The Aperture European Innovation Fund (ticker APEIIE LX)

³ Benchmark = the Fund’s Benchmark, MSCI Europe Net Total Return EUR Index (ticker MSDEE15N Index). Indices are unmanaged and do not include the effect of fees. One cannot invest directly in an index. The performance of the Benchmark does not predict future performances of that Benchmark and of the performance of the Fund. The fund is actively managed and references the Benchmark only for the purpose of performance fee calculation. The Investment Manager has full discretion over the composition of the Fund’s portfolio and therefore its composition may deviate substantially from the Benchmark so as to take advantage of specific investment opportunities.



MSCI Europe (M7EU Index): Q1 2025 Performance Map⁴



SXXP Index	Analyze List	Settings	Group Ranked Returns
View Members Groups	Period -1Q 12/31/24 - 03/31/25	Total Return Currency LCL	
Movers All			
Negative Total Return	Groups (20)	Return Positive Total Return	
	STXE 600 (EUR) Pr	5.94%	
	All Groups		
	1) STXE 600 Banks (EUR) Pr	23.33%	
	2) STXE 600 Insurance EUR	15.85%	
	3) STXE 600 Telcomm EUR	13.16%	
	4) STXE 600 Energy EUR P	11.53%	
	5) STXE 600 Utilities EUR	10.45%	
	6) STXE 600 FB&T EUR P	7.50%	
	7) STXE 600 Constr&Mtr EUR	7.24%	
	8) STXE 600 InduGd&Ser EUR	6.76%	
	9) STXE 600 FinanServc EUR	3.60%	
	10) STXE 600 Chemicals EUR	3.39%	
	11) STXE 600 HealthCare EUR	1.04%	
	12) STXE 600 PCD&GS EUR P	0.60%	
	13) STXE 600 RealEstate EUR	-0.89%	
	14) STXE 600 Technology EUR	-2.94%	
	15) STXE 600 BasicResou EUR	-3.28%	
	16) STXE 600 CP&S EUR P	-3.63%	
	17) STXE 600 Auto&Parts EUR	-4.40%	
	18) STXE 600 Retail (EUR) Pr	-4.53%	
	19) STXE 600 Media (EUR) Pr	-4.77%	
	20) STXE 600 Trav&Leisr EUR	-13.68%	

⁴ Source: Bloomberg



How Did We Do This Quarter?

The Aperture European Innovation Fund (APEIIE LX) ended the first quarter with a return of +3.92%, underperforming its benchmark, the MSCI Europe, by -1.99%. The bulk of this relative underperformance occurred in February, a month characterised by elevated volatility and a pronounced risk-off environment. Market sentiment shifted abruptly in late January following an unexpected announcement from Deepseek, which triggered a wave of selling. This drawdown was exacerbated by weaker-than-expected macroeconomic data and rising concerns around the prospect of aggressive new U.S. tariffs targeting China, Canada, and Mexico—prompting widespread de-risking across global markets. Technical flows, particularly out of momentum-driven segments such as crypto-related assets, further intensified the de-grossing pressure.

March proved volatile as well. While markets initially found support in Germany's swift and large-scale fiscal stimulus—surprising in both scope and speed—these gains were tempered by persistent concerns over slowing U.S. growth.

From an attribution perspective, Technology was the principal detractor across both sector allocation and stock selection. The sector was caught in the crossfire of the Deepseek-driven panic, with names like ASM International particularly affected (see below).

Single Stock Commentary

This quarter's stock selection challenges were concentrated in the Technology sector, particularly **ASM International** (ASM NA), **TSMC** (TSM US), and **Schibsted** (SCHA NO). Outside of Tech, key detractors included data centre-related names like **Schneider Electric** (SU FP), **Belimo** (BEAN SW), and the cyclically sensitive ad agency **Publicis Groupe** (PUB FP).

A notable sector rotation in Q1 disproportionately impacted last year's winners—especially stocks tied to AI and data centre infrastructure. This shift followed the DeepSeek incident in late January, which triggered widespread de-risking, particularly in Semiconductors and AI infrastructure.

Semiconductors led the market decline, with fears of new U.S. tariffs on Asian supply chains fuelling a sharp sell-off from late February. **ASM International**, a leading player in chip deposition tools, and **TSMC**, the world's largest foundry, both fell sharply—down approximately -25% and -15% respectively—despite stable demand trends and unchanged long-term prospects. The correction reflected broader concerns over an AI spending peak, macro uncertainty, and growing geopolitical risk in global supply chains.

Schneider Electric illustrated the indiscriminate nature of this sell-off. Despite strong FY 2024 results and upbeat 2025 guidance, its shares dropped nearly 20% from their January highs.

Publicis Groupe also declined, down over 15% despite delivering solid FY 2024 results and reaffirming 2025 guidance of +4% to +5% organic growth. Investor concerns over a potential slowdown in U.S. advertising spend weighed on sentiment.

Finally, **Schibsted** fell almost 19% following a mixed Q4 report and a cautious 2025 outlook. EBITDA missed by ~14%, with weakness across Mobility, Real Estate, and Recommerce. Management warned of a “heavy transition year,” prompting estimate cuts and profit-taking after a 50% rally in 2024.

Stocks That Helped

The main positive contributors to performance this quarter were **Leonardo** (LDO IM), **Heidelberg Materials** (HEI GY) and our **underweight position in Novo Nordisk** (NOVOB DC).

Leonardo, a key European player in aerospace and defence, was the fund's top contributor, with shares surging +72%. The stock rallied as investors increasingly viewed it as a prime beneficiary of accelerating rearmament across Europe. Momentum was bolstered by strong preliminary 2024 results, showing double-digit growth in both orders and free cash flow, alongside a new industrial plan released in March. While certain aspects of the plan—such as the Aerostructures division and capital return strategy—disappointed, the market responded positively to the group's ambitious 2029 profit and cash flow targets, reinforcing its rising strategic role in the European defence ecosystem.

Heidelberg Materials, a leading supplier of cement and building materials, posted solid Q4 2024 results and issued strong 2025 guidance. The stock outperformed thanks to its exposure to key macro themes this quarter. It was seen as a clear winner



from Germany's proposed EUR 500bn infrastructure stimulus and from potential reconstruction demand in Eastern Europe, should the war in Ukraine wind down. Investors also appreciated the company's continued margin expansion, improved cash flow, and credible roadmap for decarbonisation-linked growth.

Our **underweight position in Novo Nordisk** supported relative performance. As the largest constituent in the MSCI Europe Index, its ~24% decline had a meaningful impact on the benchmark. The correction followed weak CagriSema data in December and slower-than-expected weekly IQVIA updates for its GLP-1 franchise in the U.S. Having exited the position late last year, the fund was largely insulated from the drawdown.

What Have We Done?

We repositioned the portfolio throughout the quarter in reaction and/or anticipation of several structural shifts in the macro environment, even before the formal announcement of “Liberation Day” tariffs (discussed below). Three key allocation changes defined our Q1 activity.

First, Germany's unexpected and large-scale fiscal stimulus steepened the yield curve, driving long-dated Bund yields higher. This created renewed interest in undervalued stocks. We rotated into European Banks such as **Commerzbank** (CBK GY) and selectively added exposure to Telecoms like **Orange** (ORA FP), funding these moves by trimming pricier holdings, including Schneider Electric (SU FP) and U.S.-exposed cyclicals like **Publicis Groupe** (PUB FP).

Second, we built further into European defence. While we already held a position in **Leonardo** (LDO IM), we added to it and initiated a stake in **Renk** (R3NK GY), a specialist in tracked vehicle transmissions—a name we believe is well-positioned to benefit from Europe's rearmament drive.

Third, anticipating the potential economic impact of tariffs and a more stagflationary or recessionary global backdrop, we introduced a layer of defensiveness. We added to value-oriented Utilities by initiating positions in **Engie** (ENGI FP) and **Enel** (ENEL IM).

These moves brought our annualised turnover to approximately 1.8x, modestly above our long-term average of 1.5x on the long book.

How Do We Think About the Outlook?

Regime Change in Motion

We believe we are at the beginning of a new investment regime — and one that bodes particularly well for Europe. Germany's EUR 1 trillion stimulus program (EUR 1.8 trillion when counting broader EU packages) is not just another patchwork fiscal measure. It is, in spirit, reminiscent of Mario Draghi's 2012 “whatever it takes” speech — a galvanising moment for Europe. The German government, often a laggard in fiscal boldness, is now leading a charge to restore national and continental competitiveness, industrial capacity, and geopolitical independence.

This is a foundational shift. Unlike the US, where growth drivers are being stifled by restrictive tariffs and fiscal overcorrection, Europe's old economy is being reignited — infrastructure, housing, mobility, and defence are now central pillars for German fiscal spending. The result is a steepening yield curve, improved macro visibility, and renewed tailwinds for long neglected sectors such as banks, industrials, and construction — where we believe valuations remain deeply attractive. Over the past few months, we have adjusted our capital allocation accordingly, adding selectively to cheap cyclicals that will benefit from real investment flows, while remaining cautious around stretched valuations in high-multiple names.

The Trump tariff doctrine has served as a wake-up call for Europe. Former alliances have frayed, and self-sufficiency is no longer optional. What began as a defensive reaction is now a strategic pivot. The re-industrialisation of Europe — powered by subsidies, green incentives and military modernisation — is real and accelerating. In our view, this will not just support growth but also improve resilience, making Europe a more self-contained and investable ecosystem for the years ahead.



The AI Supercycle: Early Days of a Real-World Rollout

Despite the volatility surrounding the Deepseek announcement and the subsequent de-rating across the data centre and electrification complex, we remain unequivocally constructive on the global AI supercycle. Yes, the market took a breath — but we strongly believe the long-term trajectory is intact. In fact, we believe we are entering the most demanding and capital-intensive phase of the AI transition yet: the real-world deployment of intelligent systems into physical manufacturing and enterprise domains.

The market narrative has been focused on language models and chat interfaces, but what lies ahead is far more profound. Humanoid robotics, autonomous vehicles, and industrial automation will require an order-of-magnitude increase in inferencing capacity — not just training, but continuous real-time decision-making at the edge. This will place unprecedented pressure on compute infrastructure, power density, and latency. We are looking at a future that will demand vast new fields of hyperscale data centres and a wholesale upgrade of grid infrastructure, especially in Europe.

This is where the Jevons Paradox is most relevant: as AI systems become more efficient, cheaper, and easier to deploy, their adoption is likely to accelerate exponentially. Inference will be everywhere — embedded in robotics, mobility, logistics, healthcare, enterprise workflows, and eventually consumer applications. This wave of adoption will in turn, we believe, drive exponential demand for the underlying enablers: semiconductors (e.g. Infineon), automation and grid infrastructure (e.g. Siemens), and resilient power generation and energy systems (e.g. Siemens Energy). Europe is uniquely positioned in this regard — not just as a customer, but as a supplier of the deep industrial stack required to support and power AI at scale.

Crucially, AI is no longer confined to the R&D labs or Silicon Valley platforms. We are seeing rapid adoption in vertical software and enterprise domains across Europe. Companies like RELX Group (REL LN) are embedding AI to enhance STM (Science Technology and Medicine) content discovery and research, while ERP (Enterprise Resource Planning) giants such as SAP (SAP GY) are integrating generative and inferential models across procurement and manufacturing modules. In a few years, we believe AI functionality will be table stakes for every business platform — a sea change that redefines software value chains and creates durable revenue uplift for incumbents able to adapt.

Positioning: Constructive with Conviction (Until Liberation Day Arrived!)

We have positioned the portfolio to reflect the regime shift underway, combining selective value with structural growth. On the value side, we've added to banks, construction, and industrial names — “old economy” and Europe's industrial stack innovation champions are now benefiting from strong fiscal support and a steepening yield curve. We believe these companies stand to gain as Germany invests heavily in infrastructure, housing, and mobility.

We also maintain focused exposure to defence stocks. While European military spending has risen — now approaching €650 billion including Germany's €500 billion stimulus — it still falls well short of the U.S.'s \$870 billion defence budget. Europe is starting from a structurally weak position: ammunition stocks are severely depleted, main battle tank fleets lack critical mass, and while air defence systems are improving, significant gaps remain — particularly in drones and space capabilities. Our focus is on companies that not only benefit from the broader upswing in defence spending but also in our view offer stock-specific upside. These include names with ramping production, underutilized capacity now coming online, or differentiated exposure to the areas where Europe's defence shortfalls are most urgent.

On the growth side, we remain confident in the global AI rollout. While recent volatility hit some names hard, we believe the long-term outlook is stronger than ever. Real-world adoption is just beginning — especially in areas like robotics, industrial automation, and enterprise software. We're staying selective, with exposure to high-conviction names in semiconductors, data centre infrastructure, and AI-powered business platforms.

Addendum: The Return of Protectionism

As we were about to release our investment letter, we added this urgent update in response to the dramatic scale of the new U.S. "Liberation Day" tariffs and the market shock they triggered. Equities across major indices fell sharply, with several markets now officially in Bear territory.

Tariffs are a well-known hazard in economic history. The Smoot-Hawley Tariff Act of 1930, passed during the Great Depression, aimed to protect American jobs but instead deepened the downturn. Retaliation followed swiftly, global trade



collapsed, and recovery only began with F.D. Roosevelt's New Deal and the eventual creation of the General Agreement on Tariffs and Trade (GATT). The lesson: protectionism rarely ends well.

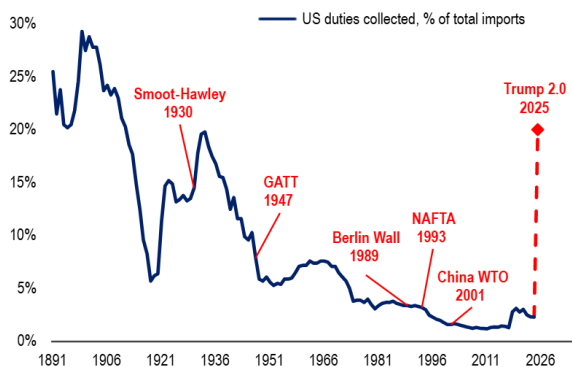
David Ricardo, one of the founding fathers of modern economics, introduced the theory of comparative advantage more than two centuries ago—a principle that remains foundational to global trade. He argued that even if one country is more efficient at producing everything, both parties benefit when each focuses on what it does best. Picture England being more efficient than Portugal at producing both cloth and wine. Still, if England is relatively more efficient at making cloth, and Portugal is slightly better at producing wine, both gain by trading: England exports cloth and imports wine. This specialisation boosts total output and mutual prosperity.

That logic still holds. When tariffs obstruct these advantages, supply chains falter, costs climb, and growth slows. We risk re-learning these lessons the hard way.

The “Liberation Day” tariffs have now lifted the average U.S. tariff rate to 20% — its highest since the Smoot-Hawley era. But unlike the 1930s, today’s global supply chains are deeply intertwined and harder to reroute. Specific levies include a 67% tariff on Chinese imports. In response, China has imposed a 34% retaliatory tariff. Europe is preparing its response while calling on its companies to halt investments in the U.S.

Chart 3: US import tariffs set to jump from 2-3% to 20%

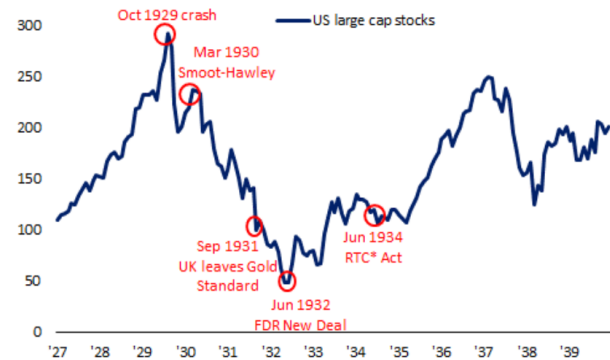
US duties collected, % of total imports



Source: BofA Global Investment Strategy, BofA Global Economics, United States International Trade Commission.

Chart 4: Tariffs + FX Instability + Fed mistake = Big 1930s Bear

US large cap equity price: 1927-1939



Source: BofA Global Investment Strategy, GFD Finaeon

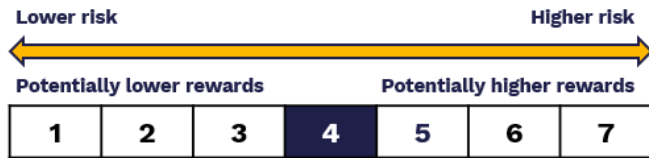
BofA GLOBAL RESEARCH

The greatest concern now is a collapse in confidence. As long as tariff policy remains arbitrary, political, and unstable, CEOs will hesitate to invest, and global trade is likely to stall. This uncertainty most likely means earnings are too high and margin for error is too small.

This is an unprecedented turning point for global trade, with cascading implications for investment and supply chains. We have taken a more defensive stance in the portfolio. But we are equally focused on identifying new opportunities as they emerge in the sell-off—not least the likelihood that this protectionist shock catalyses a bolder wave of European stimulus.



Risk Profile of European Innovation Fund



This Fund is not a guaranteed product. Investments bear risks. You may not recover all of your initial investment. Investment may lead to a financial loss as no guarantee on the capital is in place.

The Risk and Reward profile of this Fund, as reflected in the Summary Risk Indicator (SRI) required for the PRIIPS KID is 4. The SRI is a guide to the level of risk of this product compared to other products. It shows how likely it is that the product will lose money because of movements in the markets or because we are not able to pay you. The SRI for this product is 4 out of 7, which is a medium risk class. Risk 1 does not mean a risk-free investment. This indicator may change over time.

*It should be noted that the calculation of the SRI has been derived from the return history of the Fund in accordance with the prescribed PRIIPS methodology given the sub-fund has over 3 years of historical daily returns data available. In accordance with the associated guidelines for UCITS, the calculation of the Synthetic Risk and Reward Indicator (SRRI) in the KIID has been derived from a representative portfolio model, target asset mix or benchmark given we do not have 5 years of historical returns data for the fund on which to apply the prescribed calculations.

Inherent risks of the Fund include:

- Sustainable finance risk
- Market risk
- Volatility risk. Due to the exposure of the Fund to financial derivative instruments the volatility can at times be magnified
- Equity
- Investment in smaller companies
- Foreign exchange
- Short exposure risk
- Derivatives
- OTC financial derivative instruments
- Rule 144A and/or Regulation S securities



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As with the use of any investment criteria in selecting a portfolio, there is no guarantee that the criteria used will, in hindsight, result in the selection of investments that will outperform other investments or help reduce risk in the portfolio. Accordingly, use of ESG factors, like other economic factors, may cause the Fund to underperform funds that use different ESG factors or interpret or weight certain factors differently. Additionally, externally managed similar mandate accounts that do not use ESG factors may outperform the Fund. The Fund's use of ESG factors may also affect exposure to certain sectors, industries or geographic regions and may impact investment performance depending on whether such sectors or industries are in or out of favor in the market.

For its services to the Sub-fund, the Investment Manager is entitled to a variable management fee ("VMF"), which is calculated and accrued daily, at a rate stated as the 'VMF Midpoint' (as applicable to the share class). The VMF Minimum portion of the VMF will be calculated and accrued daily based on the Sub-fund's NAV. The rest of the VMF amount, if any, will be calculated and accrued daily based on the Sub-fund's daily Modified Net Assets, adjusted upward or downward by a performance adjustment (the "Performance Adjustment") that depends on whether, and to what extent, the performance of the Sub-fund exceeds, or is exceeded by, the performance of the Benchmark plus 8.5% (850 basis points) (the "VMF Midpoint Hurdle") over the Performance Period. For a full description of the VMF please see the applicable section in Appendix A contained in the Prospectus. Other share classes offered by the Fund may have different performance than that shown. For the avoidance of doubt, the Investment Manager may receive a performance fee even in the case of negative performance. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost and current performance may be lower or higher than the performance shown. A fund's performance for very short time periods may not be indicative of future performance. Indices are unmanaged and do not include the effect of fees or expenses. One cannot invest directly in an index. The performance returns represent past performance. **Past performance does not guarantee future results.**

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Investors should note the specific risk warnings:

Sustainable finance risk: Sustainable finance is a rapidly developing area. The legal and regulatory framework governing sustainable finance continues to evolve. The European Commission has initiated legislative reforms in this area, which include, without limitation, SFDR regarding the introduction of transparency and disclosure obligations for investors, funds and asset managers in relation to ESG factors, for which most rules took effect beginning on 10



March 2021. Whilst there has been a step towards a common standard, there is however still discretion among firms that may result in different approaches to setting and achieving ESG objectives. ESG factors may vary depending on investment themes, asset classes, investment philosophy and subjective use of different ESG indicators governing portfolio construction. The selection and weightings applied may to a certain extent be subjective or based on metrics that may share the same name but have different underlying meanings. ESG information, whether from an external and/or internal source, is, by nature and in many instances, based on a qualitative and judgemental assessment, especially in the absence of well-defined market standards and due to the existence of multiple approaches to sustainable investment. An element of subjectivity and discretion is therefore inherent to the interpretation and use of ESG data. It may consequently be difficult to compare strategies integrating ESG criteria. ESG information from third-party data providers may be incomplete, inaccurate or unavailable. As a result, there exists a risk of incorrectly assessing a security or issuer, resulting in the incorrect inclusion or exclusion of a security. ESG data providers are private undertakings providing ESG data for a variety of issuers. The ESG data providers may change the evaluation of issuers or instruments, at their discretion and from time to time, due to ESG or other factors. The approach to sustainable finance may evolve and develop over time, both due to a refinement of investment decision-making processes to address ESG factors and risks, and because of legal and regulatory developments. Applying ESG and sustainability criteria to the investment process may exclude securities of certain issuers for non-investment reasons and therefore the concerned Sub-funds may forgo some market opportunities available to funds that do not use ESG or sustainability criteria. Securities of companies with ESG practices may shift into and out of favor depending on market and economic conditions, and the concerned Sub-funds' performance may at times be better or worse than the performance of funds that do not use ESG or sustainability criteria. The selection of investments may in part rely on a proprietary ESG scoring process or ban lists that rely partially on third party data. The lack of common or harmonised definitions and labels integrating ESG and sustainability criteria at EU level may result in different approaches by the Investment Manager when setting ESG objectives and determining that these objectives have been met by the funds they manage. This also means that it may be difficult to compare strategies integrating ESG and sustainability criteria to the extent that the selection and weightings applied to select investments may, to a certain extent, be subjective or based on metrics that may share the same name but have different underlying meanings. Investors should note that the subjective value that they may or may not assign to certain types of ESG criteria may differ substantially from the Investment Manager's methodology.

Market risk: Market risk is understood as the risk of loss for a Sub-fund resulting from fluctuation in the market value of positions in its portfolio attributable to changes in market variables, such as general economic conditions, interest rates, foreign exchange rates, or the creditworthiness of the issuer of a financial instrument. This is a general risk that applies to all investments, meaning that the value of a particular investment may go down as well as up in response to changes in market variables. Although it is intended that each Sub-fund will be diversified with a view to reducing market risk, the investments of a Sub-fund will remain subject to fluctuations in market variables and the risks inherent in investing in financial markets.

Volatility risk: The volatility of a financial instrument is a measure of the variations in the price of that instrument over time. A higher volatility means that the price of the instrument can change significantly over a short time period in either direction. Each Sub-fund may make investments in instruments or markets that are likely to experience high levels of volatility. This may cause the Net Asset Value per Share to experience significant increases or decreases in value over short periods of time.

Equity: The value of a Sub-fund that invests in equity securities will be affected by changes in the stock markets and changes in the value of individual portfolio securities. At times, stock markets and individual securities can be volatile and prices can change substantially in short periods of time. The equity securities of smaller companies are more sensitive to these changes than those of larger companies. This risk will affect the value of such Sub-funds, which will fluctuate as the value of the underlying equity securities fluctuates.

Investment in smaller companies: Investment in smaller companies may involve greater risks and thus may be considered speculative. Investment in a Sub-fund investing in smaller companies should be considered long-term and not as a vehicle for seeking short term profits. Many small company stocks trade less frequently and in smaller volumes and may be subject to more abrupt or erratic price movements than stocks of larger companies. The securities of small companies may also be more sensitive to market changes than securities in large companies.

Foreign exchange: Each Sub-fund investing in securities denominated in currencies other than its Reference Currency may be subject to foreign exchange risk. As the assets of each Sub-fund are valued in its Reference Currency, changes in the value of the Reference Currency compared to other currencies will affect the value, in the Reference Currency, of any securities denominated in such other currencies. Foreign exchange exposure may increase the volatility of investments relative to investments denominated in the Reference Currency. In accordance with its investment objective and policy, a Sub-fund may attempt to hedge or reduce foreign exchange risk, generally through the use of derivatives. However, it may not be possible or practical to hedge or reduce such risk at all times.

In addition, a Share Class that is denominated in a Reference Currency other than the Reference Currency of the Sub-fund exposes the investor to the risk of fluctuations between the Reference Currency of the Share Class and that of the Sub-fund. Currency hedged Share Classes seek to limit the impact of such fluctuations through currency hedging transactions. However, there can be no assurance that the currency hedging policy will be successful at all times. This exposure is in addition to foreign exchange risk, if any, incurred by the Sub-fund with respect to investments denominated in other currencies than its Reference Currency, as described above.

Short exposure risk: A Sub-fund may proceed with short-term sales of their investment via the use of derivatives. The short exposure risk results from short sales achieved through the use of derivatives and includes the potential for losses exceeding the cost of the investment, as well as the risk that the third party to the short sale will not fulfil its contractual obligations.

Derivatives: Each of the Sub-funds may use derivative instruments, such as options, futures and swap contracts and enter into forward foreign exchange transactions. The ability to use these strategies may be limited by market conditions and regulatory limits and there can be no assurance that the objective sought to be attained from the use of these strategies will be achieved. Participation in the options or futures markets, in swap contracts and in foreign exchange transactions involves investment risks and transaction costs to which a Sub-fund would not be subject if it did not use these strategies. If the Investment Manager's predictions of movements in the direction of the securities, foreign currency and interest rate markets are inaccurate, the adverse consequences to a Sub-fund may leave the Sub-fund in a less favourable position than if such strategies were not used. Risks inherent in the use of options, foreign currency, swaps and futures contracts and options on futures contracts include, but are not limited to (a) dependence on the Investment Manager's ability to predict correctly movements in the direction of interest rates, securities prices and currency markets; (b) imperfect correlation between the price of options and futures contracts and options thereon and movements in the prices of the securities or currencies being hedged; (c) the fact that skills needed to use these strategies are different from those needed to select portfolio securities; (d) the possible absence of a liquid secondary market for any particular instrument at any time; and (e) the possible inability of a Sub-fund to purchase or sell a portfolio security at a time that otherwise would be favourable for it



to do so, or the possible need for a Sub-fund to sell a portfolio security at a disadvantageous time. Where a Sub-fund enters into swap transactions it is exposed to a potential counterparty risk. In case of insolvency or default of the swap counterparty, such event would affect the assets of the Sub-fund.

OTC financial derivative instruments: In general, there is less government regulation and supervision of transactions in OTC markets than of transactions entered into on organised exchanges. OTC derivatives are executed directly with the counterparty rather than through a recognised exchange and clearing house. Counterparties to OTC derivatives are not afforded the same protections as may apply to those trading on recognised exchanges, such as the performance guarantee of a clearing house. The principal risk when engaging in OTC derivatives (such as non-exchange traded options, forwards, swaps or contracts for difference) is the risk of default by a counterparty who has become insolvent or is otherwise unable or refuses to honour its obligations as required by the terms of the instrument. OTC derivatives may expose a Sub-fund to the risk that the counterparty will not settle a transaction in accordance with its terms, or will delay the settlement of the transaction, because of a dispute over the terms of the contract (whether or not bona fide) or because of the insolvency, bankruptcy or other credit or liquidity problems of the counterparty. Counterparty risk is generally mitigated by the transfer or pledge of collateral in favour of the Sub-fund. The value of the collateral may fluctuate, however, and it may be difficult to sell, so there are no assurances that the value of collateral held will be sufficient to cover the amount owed to a Fund. Central clearing is designed to reduce counterparty risk and increase liquidity compared to bilaterally-cleared OTC derivatives, but it does not eliminate those risks completely. The central counterparty will require margin from the clearing broker which will in turn require margin from the Fund. There is a risk of loss by a Fund of its initial and variation margin deposits in the event of default of the clearing broker with which the Fund has an open position or if margin is not identified and correctly report to the particular Fund, in particular where margin is held in an omnibus account maintained by the clearing broker with the central counterparty. In the event that the clearing broker becomes insolvent, the Fund may not be able to transfer or "port" its positions to another clearing broker. EU Regulation 648/2012 on OTC derivatives, central counterparties and trade repositories (also known as the European Market Infrastructure Regulation or "EMIR") requires certain eligible OTC derivatives to be submitted for clearing to regulated central clearing counterparties and the reporting of certain details to trade repositories. In addition, EMIR imposes requirements for appropriate procedures and arrangements to measure, monitor and mitigate operational and counterparty risk in respect of OTC derivatives which are not subject to mandatory clearing. Ultimately, these requirements are likely to include the exchange and segregation of collateral by the parties, including by the Fund. While some of the obligations under EMIR have come into force, a number of the requirements are subject to phase-in periods and certain key issues have not been finalised by the date of this Prospectus. It is as yet unclear how the OTC derivatives market will adapt to the new regulatory regime. ESMA has published an opinion calling for the UCITS Directive to be amended to reflect the requirements of EMIR and in particular the EMIR clearing obligation. However, it is unclear whether, when and in what form such amendments would take effect. Accordingly, it is difficult to predict the full impact of EMIR on the Fund, which may include an increase in the overall costs of entering into and maintaining OTC derivatives. Investors should be aware that the regulatory changes arising from EMIR and other applicable laws requiring central clearing of OTC derivatives may in due course adversely affect the ability of the Sub-funds to adhere to their respective investment policies and achieve their investment objective. 0130431-0000001 EU01: 2006442666.7 -53- Investments in OTC derivatives may be subject to the risk of differing valuations arising out of different permitted valuation methods. Although the Fund has implemented appropriate valuation procedures to determine and verify the value of OTC derivatives, certain transactions are complex and valuation may only be provided by a limited number of market participants who may also be acting as the counterparty to the transactions. Inaccurate valuation can result in inaccurate recognition of gains or losses and counterparty exposure. Unlike exchange-traded derivatives, which are standardised with respect to their terms and conditions, OTC derivatives are generally established through negotiation with the other party to the instrument. While this type of arrangement allows greater flexibility to tailor the instrument to the needs of the parties, OTC derivatives may involve greater legal risk than exchange-traded instruments, as there may be a risk of loss if the agreement is deemed not to be legally enforceable or not documented correctly. There also may be a legal or documentation risk that the parties may disagree as to the proper interpretation of the terms of the agreement.

Rule 144A and/or Regulation S securities: SEC Rule 144A provides a safe harbour exemption from the registration requirements of the US Securities Act of 1933 for resale of restricted securities to qualified institutional buyers, as defined in the rule. Regulation S provides an exclusion from registration requirements of the US Securities Act of 1933 for offerings made outside the United States by both US and foreign issuers. A securities offering, whether private or public, made by an issuer outside of the United States in reliance on Regulation S need not be registered. The advantage for investors may be higher returns due to lower administration charges. However, dissemination of secondary market transactions is limited and might increase the volatility of the security prices and, in extreme conditions, decrease the liquidity of a particular security.

For further information on risks and costs, please read the Prospectus and KID/KIIDs, available free of charge in English (KID also available in Italian) from Generali Investments Luxembourg S.A., 4 Rue Jean Monnet, L-2180 Luxembourg, Grand Duchy of Luxembourg or at the following e-mail address: GILfundInfo@generali-invest.com.

In the Middle East:

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**UAE**

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