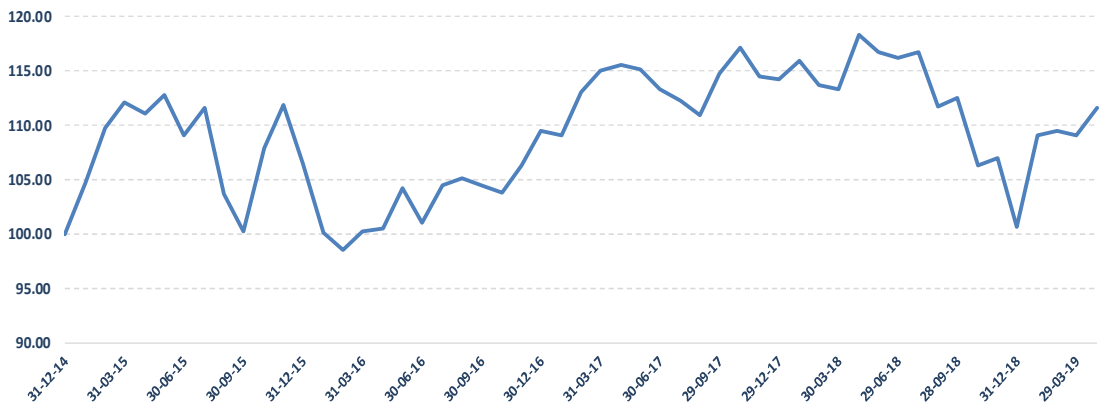
LSF – EEE Enhanced Equity Exposure

HERON ASSET MANAGEMENT

Data as of 30 April 2019

Fund performance and risk analysis

Monthly NAV



Historical monthly returns

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2015	4.75%	4.78%	2.14%	-0.96%	1.58%	-3.28%	2.27%	-7.01%	-3.35%	7.68%	3.63%	-4.88%	**6.42%**
2016	-5.96%	-1.59%	1.83%	0.29%	3.58%	-3.02%	3.46%	0.64%	-0.67%	-0.67%	2.46%	2.92%	**2.84%**
2017	-0.33%	3.60%	1.76%	0.52%	-0.42%	-1.63%	-0.91%	-1.13%	3.39%	2.07%	-2.24%	-0.20%	**4.38%**
2018	1.46%	-1.93%	-0.32%	4.43%	-1.39%	-0.38%	0.47%	-4.35%	0.70%	-5.42%	0.50%	-5.85%	**-11.88%**
2019	8.38%	0.38%	-0.42%	2.28%									**10.82%**

Fund description

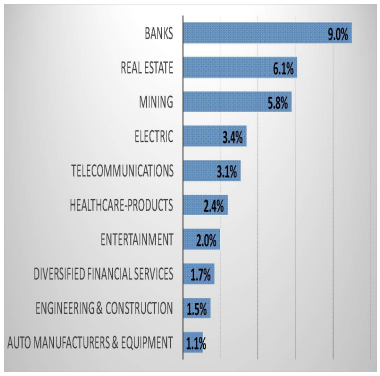
Enhanced Equity Exposure (EEE) is a Long Only UCITS open-end fund incorporated in Luxembourg.

The Fund mainly invests in and gains exposure to the developed markets of Europe and North America.

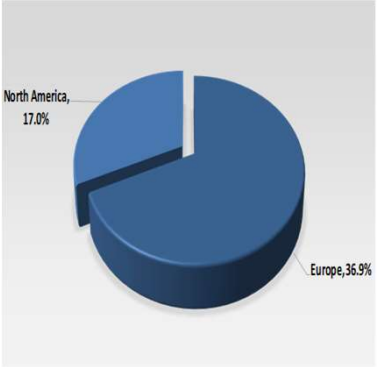
The fund's investment process is driven by stock specific fundamental analysis. Hedging strategies are implemented to reduce volatility.

Asset allocation

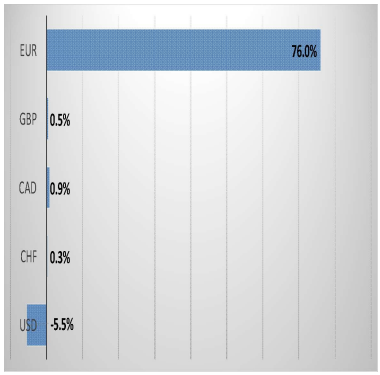
Sector breakdown (top 10, delta adjusted weights)



Geographic breakdown (delta adjusted weights)



Currency breakdown (delta adjusted weights)



Fund facts

Nav as of 30 April 2019: €111.55

AUM as of 30 April 2019: €29.4 mln

Currency class: EUR, CHF
Base currency: EUR

Inception date: 31 December 2014

Management Fee: 1.5%

Performance Fee: 15% of the positive performance between the sub-fund performance and the High Watermark

Liquidity: Daily

Fund type: UCITS IV
Investment Manager: Heron Asset Management SA

ISIN: LU1136664395
Valoren: 25986742
Bloomberg: LSFEEA1 LX

Manager commentary

Global growth remains positive, above 3%, but has become more uneven, and many major economies have progressed toward more advanced stages of the business cycle. The US is firmly in late cycle but with low near-term risk of recession. China's growth recession weighed on industrial sectors in Europe and other export economies, but policy stimulus appears to have begun stabilizing its growth trajectory. Leading economic indicators continue to point to global headwinds. US indicators no longer diverge from the weak global backdrop. Meanwhile, China's policymakers stepped up the pace of fiscal and monetary stimulus this quarter, but credit growth remains subdued, well below prior periods of stimulus. It remains unclear whether policy actions are sufficient to reaccelerate China's economy, implying high debt levels may still be inhibiting the policy response. Overall, Europe and Japan account for the weakest regions, followed by China and US.
The first quarter saw stellar returns across almost every asset class. The SP500 (+13.65%), Dow Industrials (+11.8%) and the Nasdaq Composite (+16.8%) posted their strongest quarterly gains since the third quarter 2009 in a low volatility environment, with the VIX index down 46%. The MSCI World gained as much as 11.9%, the MSCI Europe as much as 10.7%, the MSCI Emerging as much as 9.6% and the Topix as much as 6.5% mainly supported by the pro-cyclical trades vs. the value trade (best sectors in US: Technology (+19.9%), Industrials (+17.2%) vs. worst sectors in US: Financials (+8.5%), Healthcare (+6.5%)).

Government bonds and riskier assets performed well. US 10-year Treasury yields fell 30 basis points, total return +2.9%, 10-year Bund yields were also more than 30bps lower and fell below zero toward the end of March for the first time since October 2016, total return +2.7%. Some parts of the US yield curve turned negative in March. This yield curve inversion underlines the growing caution among investors around economic growth prospects. Corporate bonds had a strong quarter, retracing the weakness experienced in Q4 2018. US High yield credit (+5.66% excess return) outperformed investment grade (+2.68% excess return), with both outperforming government bond markets. Emerging market bonds had a positive quarter with US dollar-denominated debt outperforming local currency bonds as certain EM currencies weakened.
The S&P GSCI Spot Index posted a robust return in Q1, +16%. Energy led the way as crude oil prices rebounded from a sell-off in Q4, more than 45% since December high. Production cuts from OPEC and other oil producers, together with the implementation of US sanctions on Venezuela, served to tighten supply. The industrial metals component also moved higher amid positive signs emanating from US-China trade talks. By contrast, precious metals recorded a modest gain, supported by a small rise in gold prices, 1%.

The turnaround from oversold 2018's levels came amid reports of solid progress on US-China trade talks, a dovish policy outlook from the Fed, Bank of Japan and ECB and the Chinese countercyclical fiscal easing announced at the National People's Congress. More specifically, the Fed turned very dovish, lowered its projections for US growth, inflation and reduced its expectations for interest rate hikes (the market is discounting an interest rate cut in 2020).

The LSF-Enhanced Equity Exposure fund recorded a positive performance during the period from January 2019 to April 2019, with the EUR A1 class +10.82% .Over the same period, the Eurostoxx Index was up +17.10%, the S&P500 Index +17.51% while the MSCI World Index +15.65%.

The investment team decided to implement a conservative approach in order to protect shareholders capital and decrease returns volatility. The LSF-Enhanced Equity Exposure fund, a pure stock picking vehicle composed of max 50/60 securities, combines top-down/ bottom-up fundamental research along with an opportunistic management of the risk exposure through the use of derivatives, to deliver higher risk-adjusted returns mainly in Continental Europe. After increasing the fund's weight up to 120/130% in early January, in order to buying the dip of a cheap market, the portfolio manager decreased the net exposure down to a range of 50% to 80%, mainly overweighting defensive sectors such as Transportation & Logistics, Real Estate and Utilities. However, it should be noted that the LSF-Enhanced Equity Exposure has a dynamic approach which allows the fund to switch from high-beta, cyclicals to low-beta, defensive in a very short patch. In addition, an extensive use of Index and Stock options enables the fund to independently adjust its net exposure against market movements (the stronger the market, the higher the option's delta, hence the higher the fund's net exposure vs. the lower the market, the lower the option's delta, hence the lower the fund's net exposure).

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