CHAHINE CAPITAL
PERFORMANCE ENGINEERING

HALF-YEAR REPORT

Luxembourg, January 15th,2025

Dear investors,

After the downturn that began in October 2023, European and US equity markets continued to rise in 2024, buoyed by strong trends. At the end of December, the MSCI Europe NR posted a 2024 performance of +8.6% (EUR) and the MSCI USA NR +24.6% (USD).

Against this backdrop, all Digital Stars strategies outperformed over the year, benefiting from sustainable trends in several market segments that had been identified in advance.

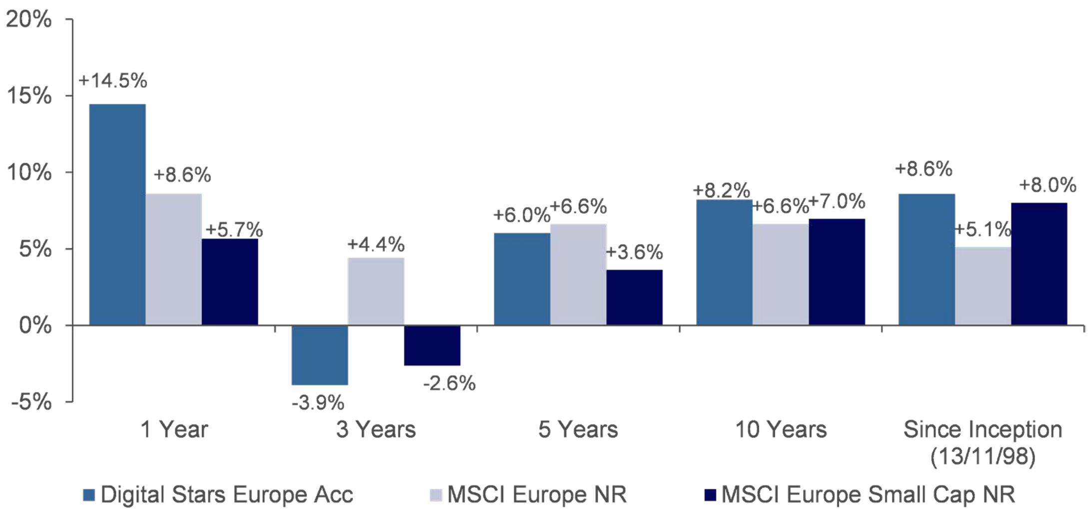
Annualised performance of Digital Stars funds

Risk indicator

A risque plus faible, rendement potentiellement plus faible — A risque plus élevé, rendement potentiellement plus élevé

1 2 3 4 **5** 6 7

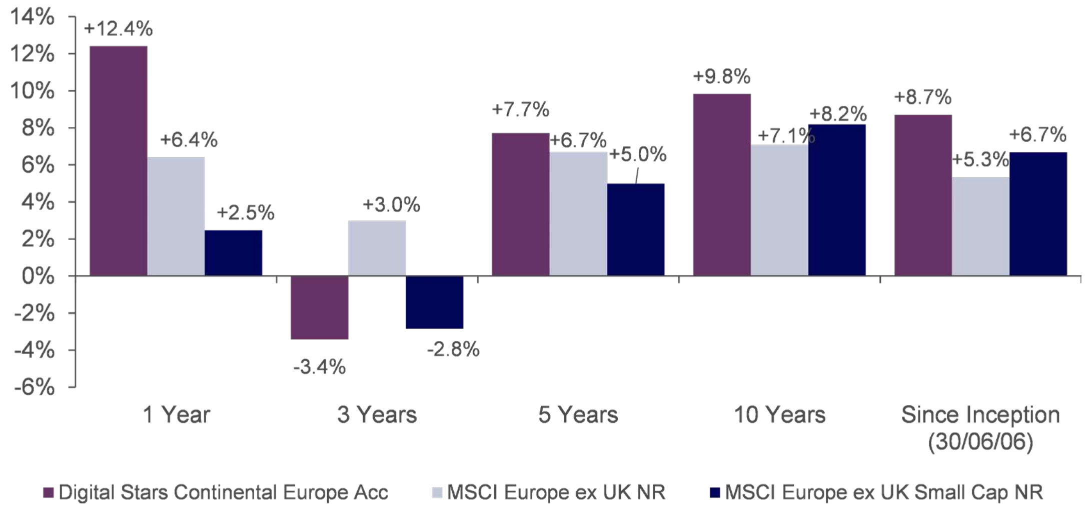
Digital Stars Europe



Source: FactSet/Chahine Capital. Data as of 31/12/24.

Throughout 2024, the fund benefited from good stock picking, supported by portfolio positioning in line with underlying market trends. The overweighting of financials and industrials, as well as the underweighting of consumer discretionary (particularly luxury goods) and consumer staples, contributed positively to the fund’s outperformance, echoing a favourable year for value and cyclical growth.

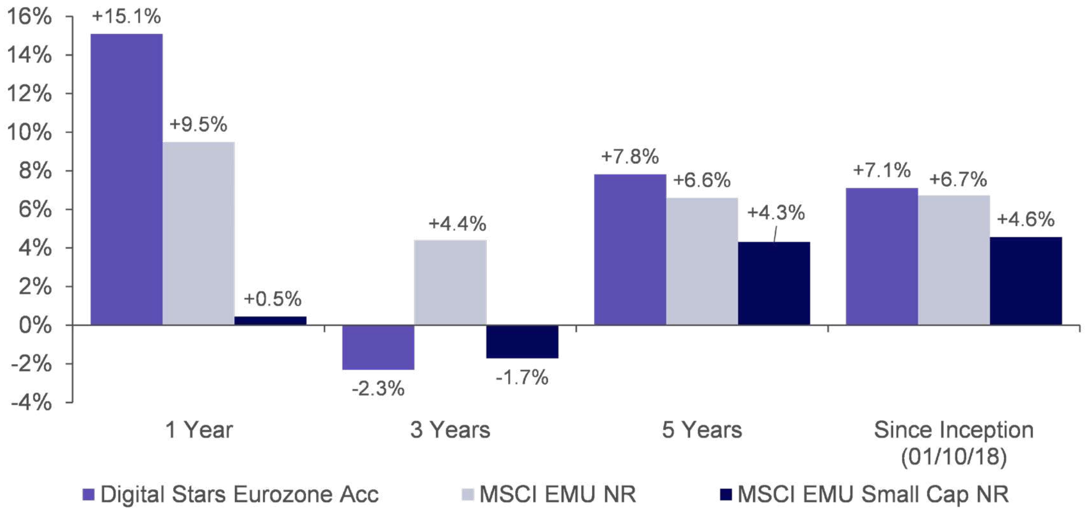
Digital Stars Continental Europe



Source: FactSet/Chahine Capital. Data as of 30/12/24.

Like Digital Stars Europe, the fund benefited in 2024 from good stock picking, underpinned by portfolio positioning in line with underlying market trends. The overweighting of financials and industrials, as well as the underweighting of consumer discretionary (particularly luxury goods) and consumer staples, contributed positively to the fund's outperformance, echoing a favourable year for value and cyclical growth.

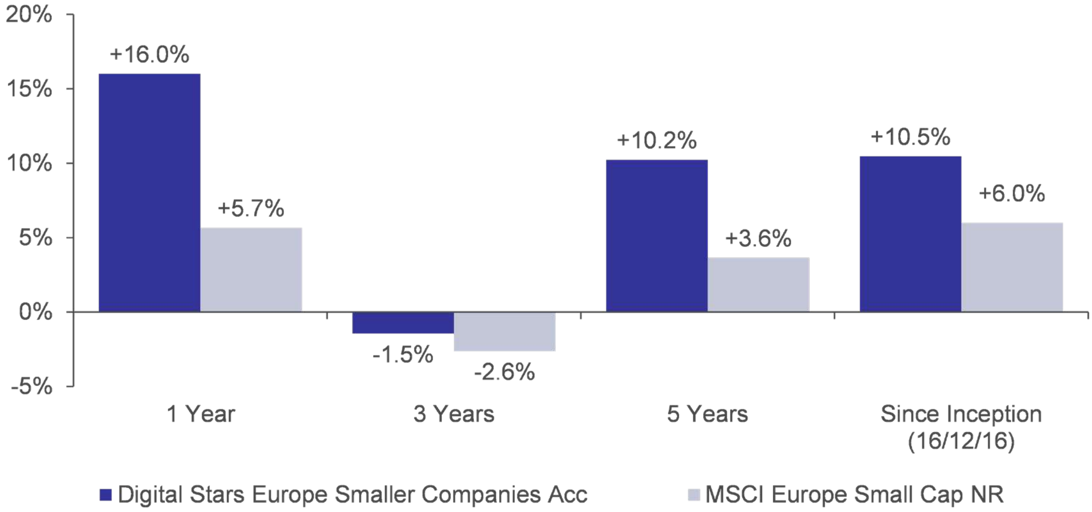
Digital Stars Eurozone



Source: FactSet/Chahine Capital. Data as of 31/12/24.

The fund benefited from a good selection of stocks throughout 2024, and a well-oriented positioning. The main individual contributors are to be found among finance, industry and technology. For the fund's positioning, it was mainly the strong underweighting of the year's three worst sectors that helped make the difference: consumer staples, energy (the fund's reinforced ESG policy led to no stocks in this sector in 2024) and materials.

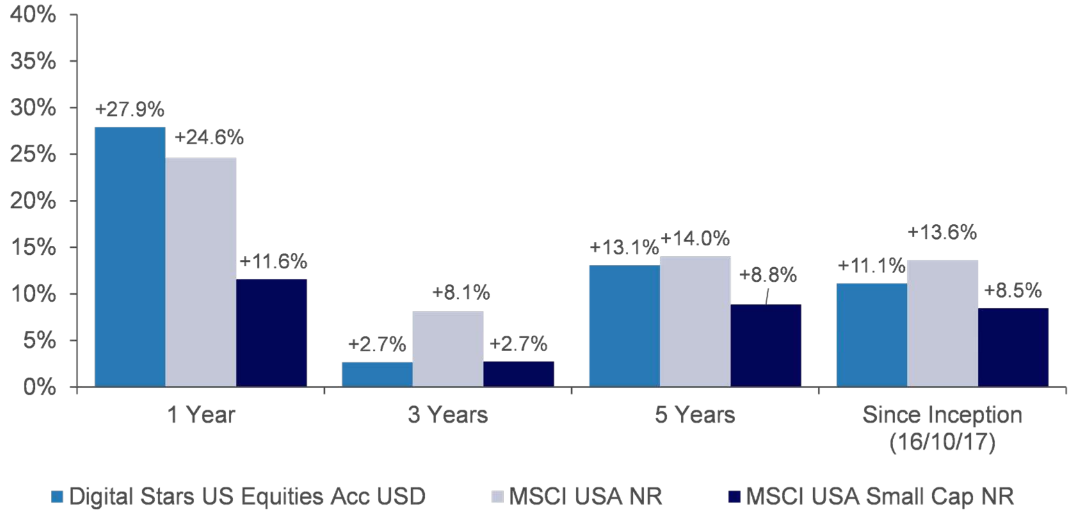
Digital Stars Europe Smaller Companies



Source: FactSet/Chahine Capital. Data as of 31/12/24.

The year was marked by excellent stock picking for the fund, and a relatively neutral positioning versus the index. The best performance contributors were mainly financials and construction-related stocks. Conversely, specialised retail stocks penalised the strategy.

Digital Stars US Equities



Source: FactSet/Chahine Capital. Data as of 31/12/24.

The year was marked by an excellent selection of stocks, which took particular advantage of the tense but decisive US election environment. Our technology stocks contributed most to outperforming the US market.

FOCUS ON DIGITAL STARS EUROPE

Throughout 2024, the fund benefited from a good stock picking, supported by a well-oriented positioning in value and cyclical growth styles. Finance was the winning sector of 2024, buoyed by a favourable interest-rate environment. The fund's overweighting of financials worked in its favour, particularly Banks. Some of our banking and financial stocks have also benefited from a climate conducive to mergers/acquisitions, whether for real takeover operations or mere rumours (BPER, Banco de Sabadell, ANIMA Holdings, BPM). Industry is also one of the market's winning sectors. Our overweight industrial stocks benefited from trends in Defence (Kongsberg) and Construction in the broadest sense (Konecranes, Prysmian). This construction theme was also reflected in strong contributions from cement manufacturers (Buzzi, Titan Cement). The good performance of the Consumer staples stocks in portfolio (Greencore) combined with our underweight in the sector made a very positive contribution in relative terms. On the other hand, Real Estate weighed on the fund's performance, due to its overweight, as did IT.

The pro-cyclical environment of 2024 did not particularly favour Small caps, contrary to market expectations. However, despite our overweighting of Small and Mid caps, the strategy succeeded in outperforming all market segments, thanks to stock picking that took advantage of underlying market trends.

Digital Stars Europe performance attribution vs. MSCI Europe, by GICS sectors

	Digital Stars Europe					-	MSCI Europe					-	Variation				-	Attribution Analysis		
	Beginning Weight	Average Weight	Ending Weight	Total Return	Contrib. To Return	-	Beginning Weight	Average Weight	Ending Weight	Total Return	Contrib. To Return	-	Beginning Weight Difference	Average Weight Difference	Ending Weight Difference	Contrib. To Return Difference	-	Allocation Effect	Selection Effect	Total Effect
Total	**100,0**	**100,0**	**100,0**	**16,8**	16,8		**100,0**	**100,0**	**100,0**	**8,6**	8,6		--	--	--	**8,2**		**2,5**	**5,7**	8,2
Financials	25,1	24,6	29,3	40,6	9,1		18,0	18,7	20,3	25,4	4,3		7,1	5,9	8,9	4,8		1,1	3,2	4,3
Consumer Staples	6,1	5,8	5,0	20,0	1,1		11,6	10,8	10,5	-2,3	-0,3		-5,4	-5,0	-5,4	1,4		0,6	1,3	1,9
Industrials	19,3	26,4	25,3	19,8	4,8		16,0	16,7	17,5	14,9	2,4		3,3	9,8	7,9	2,4		0,6	1,1	1,7
Materials	5,8	6,4	4,4	19,7	1,3		7,2	6,5	5,9	-2,4	-0,1		-1,4	-0,2	-1,5	1,4		0,0	1,5	1,5
Health Care	3,5	6,7	9,5	9,9	0,5		15,3	15,9	15,0	4,3	0,7		-11,8	-9,2	-5,5	-0,2		0,1	0,7	0,8
Utilities	3,5	2,0	2,5	9,8	0,0		4,3	4,0	4,0	0,9	-0,0		-0,8	-2,0	-1,5	0,1		-0,0	0,2	0,2
Energy	6,9	3,9	1,7	-7,8	-0,0		5,7	5,3	4,7	-4,9	-0,2		1,2	-1,4	-3,0	0,2		0,2	-0,0	0,2
Communication Services	4,2	4,3	4,7	15,2	0,5		3,1	3,2	3,9	14,8	0,4		1,2	1,1	0,8	0,1		0,1	-0,1	0,1
[Futures]	2,6	2,6	2,8	6,2	0,2		--	--	--	--	--		2,6	2,6	2,8	0,2		-0,1	--	-0,1
Consumer Discretionary	10,5	6,0	6,3	-10,1	-0,5		10,6	10,2	9,6	3,4	0,4		-0,1	-4,2	-3,4	-0,9		0,4	-1,0	-0,6
Real Estate	5,0	4,3	3,6	-2,0	-0,3		0,9	0,9	0,9	-1,1	-0,0		4,1	3,4	2,7	-0,3		-0,6	-0,1	-0,7
Information Technology	7,4	6,9	4,9	-1,7	0,0		7,3	7,8	7,7	12,5	1,0		0,1	-0,9	-2,8	-1,0		-0,0	-1,1	-1,1

Gross performance and contribution, excluding fees. Data from 29/12/23 to 31/12/24.

Portfolio dynamics

Positioning of Digital Stars Europe vs. MSCI Europe

SECTOR	Active Weights	Dyn.
Financials	9.9%	▲▲
Industrials	8.8%	▼▼
Real Estate	2.9%	=
Communication Services	0.9%	▼
Materials	-1.3%	▼
Utilities	-1.4%	=
Information Technology	-2.5%	▼
Energy	-3.0%	▼
Consumer Discretionary	-3.2%	▲▲
Consumer Staples	-5.3%	=
Health Care	-5.8%	▲▲

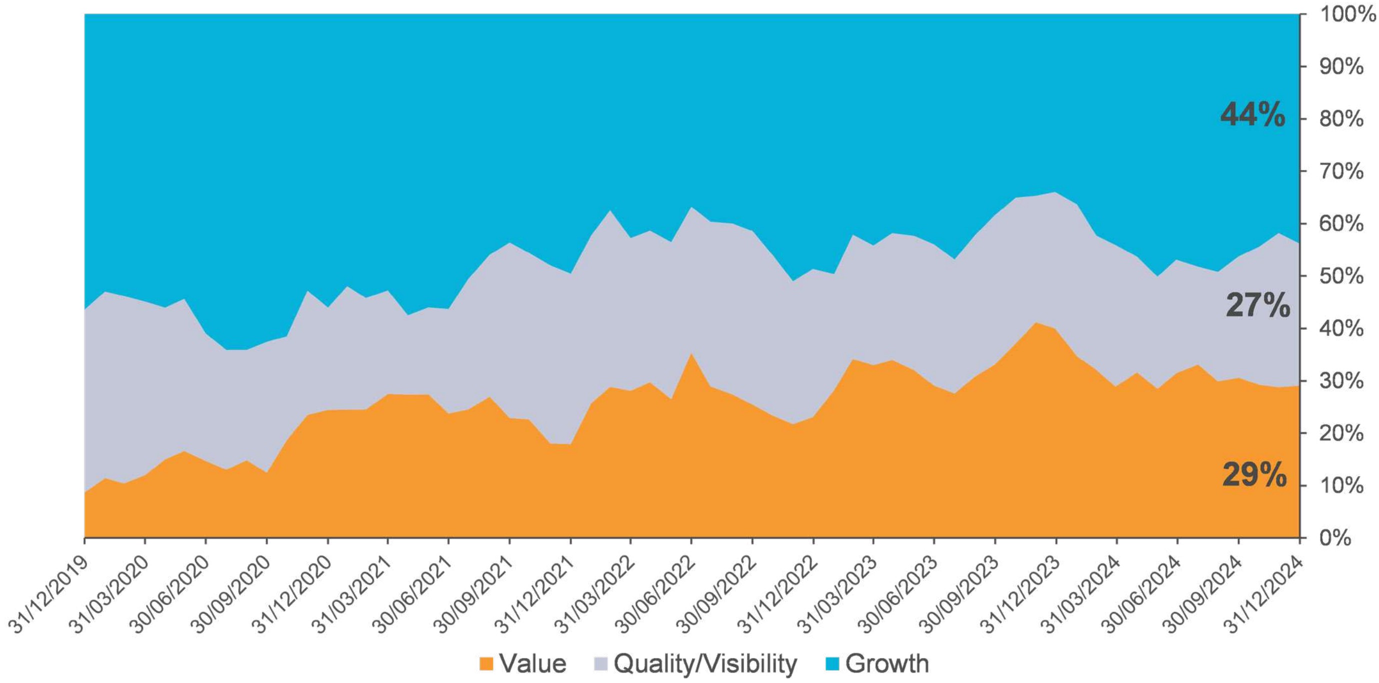
SIZE	Active Weights	Dyn.
Mid	26.7%	=
Large	22.8%	▲▲
Small	12.3%	▼▼
Giant	-61.9%	▼▼

COUNTRY	Active Weights	Dyn.
Italy	12.1%	=
United Kingdom	4.5%	▲▲
Norway	4.0%	=
Belgium	1.7%	=
Austria	1.5%	=
Finland	1.4%	▼
Ireland	1.3%	=
Sweden	1.1%	▼
Greece	0.8%	=
Portugal	0.5%	=
Luxembourg	0.0%	=
Denmark	-1.0%	=
Spain	-1.9%	=
Germany	-3.8%	▼
Switzerland	-4.8%	=
Netherlands	-5.7%	▼
France	-11.8%	=

MS STYLE	Active Weights	Dyn.
Growth	11.9%	▼▼
Value	1.0%	=
Visibility	-12.9%	▲▲

Source: FactSet/Chahine Capital. Data as of 31/12/24.
Giant (>20B€) - Large (5-20B€) - Mid (2-5B€) - Small (0-2B€).
Dyn. : Dynamic rebalancing over 6 months.

During the first half of the year, the model gradually reduced the allocation to value stocks, mainly Banks, in favour of Cyclical growth stocks. In the second half of the year, finance was reinforced in the portfolio rebalancings, but in a more balanced way between banking, Financial services and Insurance. The proportion of Value stocks is back in line with that of the index, while the underweighting of Quality/Visibility stocks has been reduced and the overweighting of Growth stocks reduced.



Source: FactSet/Chahine Capital. Data as of 31/12/24.
Breakdowns are not constant and change over time.

From a factorial perspective, the ‘Quality/Visibility’ style is generally the opposite of the ‘Value’, relatively to the market. Consequently, being underweight Quality/Visibility has enabled the fund to be positively sensitive to the Value trend that has dominated the market this year.

Sector wise, this stylistic positioning translates into a clear overweighting of the Financial and Industrial sectors, and an underweighting of Healthcare (especially Pharmaceuticals) and Consumer Staples.

The strong overweighting of Italy was maintained throughout the year, as was the significant underweighting of France. The UK was significantly reinforced in the second half of the year, and now represents the second-largest geographic overweight.

Finally, our Economic momentum indicator still places us in a pro-cyclical regime, a priori more favourable to Small- and Mid-cap stocks than to Large ones. The fund’s “All market-cap” selection was therefore still based on a logic of equal weighting of the stocks entering the portfolio in this market phase. This led to an allocation currently well spread-out across the entire spectrum of market caps. However, our Economic Momentum indicator is approaching its counter-cyclical tipping point, which could occur in the first half of 2025. This counter-cyclical shift would have the effect of attenuating the portfolio’s underweighting of the index’s largest caps, as remaining too underweight in giant caps would represent a major active risk in this type of macro-economic context.

Strong stylistic, sectoral and geographic trends benefited the Momentum factor as implemented in our Digital Stars strategies, which significantly outperformed over the year. We will now attempt to analyse the drivers which we believe will be decisive for the behaviour of the European and American Equity markets in the first half of the new year.

HEADING FOR THE FINAL PHASE OF THE STOCK MARKET EXPANSION CYCLE?

2024 will remain a good year for equity indices (MSCI Europe NR +8.6%, MSCI USA NR +24.6%), and more importantly, will have marked a salutary break with the years 2020 -2023 dominated by a lack of visibility.

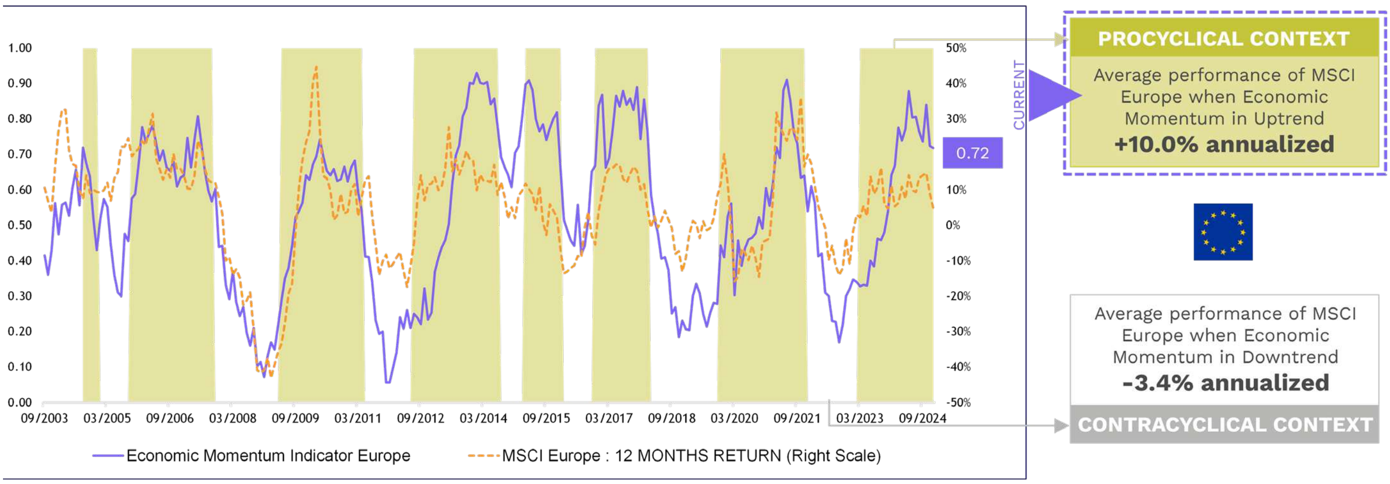
The main event of 2024 was the initiation of an accommodative monetary policy by Central Banks, in June for the ECB and September for the Fed, which had already been anticipated in the 2nd half of 2023, a sign of renewed macro-economic visibility.

The year 2025 looks set to be a pivotal one, during which investors' gaze is likely to focus on the establishment of the Trump administration and its consequences for the global economy. Europe, with its low valuation and supported by rate cuts that are unlikely to weaken during the 1st half of the year, not seem to us to be devoid of opportunities for investors. As does the US market, where a majority of stocks remain fundamentally attractive.

More than ever in this changing context, we feel it is important to take a step back and rationally assess the situation in terms of our 4 traditional pillars of analysis.

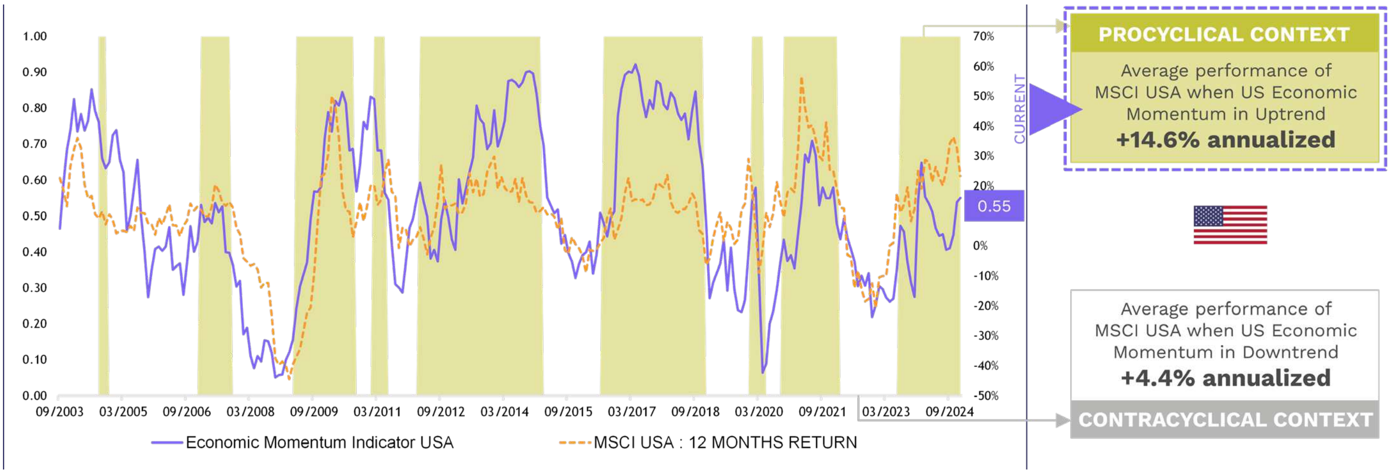
Growth cycle still buoyant on both sides of the Atlantic for the time being

The first pillar of our analysis is Economic Momentum. Our proprietary Economic Momentum indicator, which is 12 months ahead of the real economy, remains at a high level in Europe, despite a slight consolidation since last Summer.



Source: FactSet/Chahine Capital. Data as of 31/12/24.
Past performance is not indicative of future returns. The Economic Momentum Indicator is a proprietary indicator that takes into account the latest releases of unemployment, retail sales, trade balance, GDP leading indicator, consumer confidence, PMI, economic confidence and industrial production.

In the US, our Economic Momentum indicator remains at a more neutral level than in Europe, while continuing to signal an expansive environment that should favour Equities.



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The environment therefore remains pro-cyclical, and the “Top-Down” consensus of economists expects robust growth in Europe and the USA over the next few years. While GDP growth in the Eurozone should reach +0.8% in 2024, an improvement is expected for 2025 (+1.0%) and 2026 (+1.2%). In the United States, although economists continue anticipate significant growth, the dynamic is less buoyant than in Europe.

Expected GDP annual growth	Eurozone	USA
2023	0.5	2.4
2024	0.8	2.7
2025	1.0	2.1
2026	1.2	2.0

Source: Bloomberg/Chahine Capital. Data as of 31/12/24.

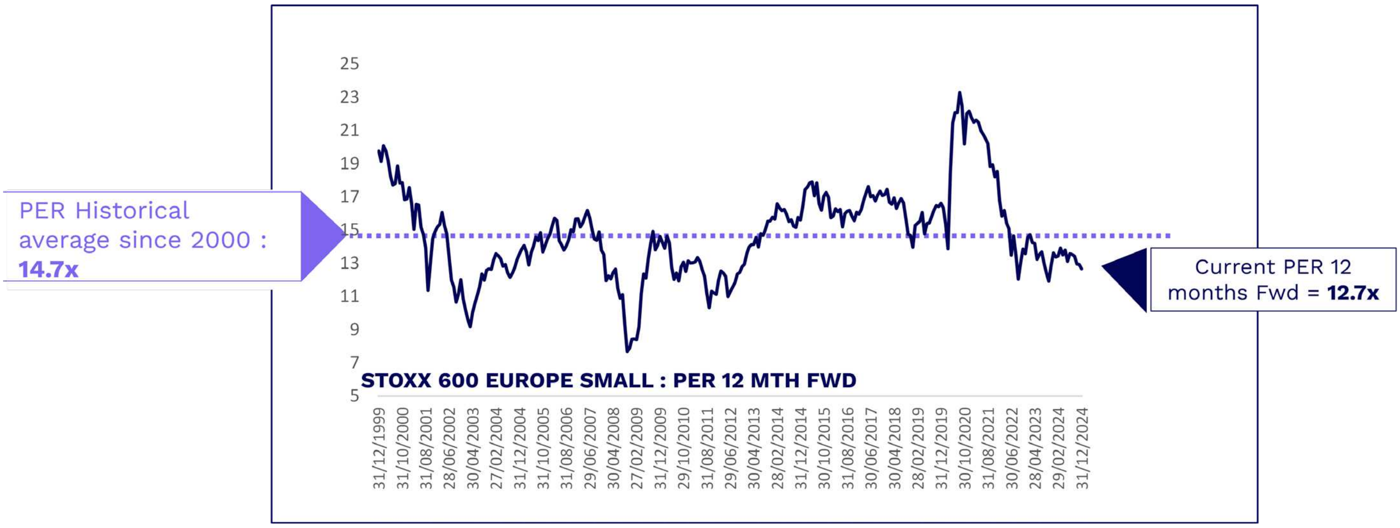
This positive signal is likely to continue for several months yet. It should be remembered that the accommodative monetary pivots implemented by the major Central Banks since last June are the consequence of a positive phenomenon, that of winning the battle vs. inflation. This is in stark contrast to recent historical precedents, when accommodative measures were initiated to save a state in near-bankruptcy or rescue an exsanguinated financial sector. This is a finding that will support our next economic releases and our Economic Momentum indicator. The massive fiscal stimulus plan announced in China will also be a factor of support in the months ahead. However, we cannot rule out the possibility that this cyclical signal, which has been buoying Equities in Europe for 21 months now, will be reversed in the course of 2025. Since 2003, the longest expansive cycle as revealed by our indicator is 25 months (twice observed: July 2012 to August 2014, then November 2019 to December 2021).

More accommodative monetary policy in Europe than in the United States

As expected, the ECB and the Fed began their accommodative monetary pivot in autumn 2023. Rates were cut by 100 basis points on both sides of the Atlantic. The ECB should maintain this sustained pace in the first half of 2025 in order to bring its key rate close to 2.0%, close to the level of inflation. It is a different story in the US at this stage. Inflationary fears linked to the election of Donald Trump have led to a significant reassessment of the prospects for rate cuts. A single 25-basis-point cut in the US policy rate is now expected in the first half of the year, bringing it close to 4.25%. However, inflationary fears linked to Trump's election seem exaggerated to us. Economic protectionism and fiscal accommodation are certainly inflationary, but that is forgetting the election promise to cut the price of oil by a factor of 2. On the other hand, we cannot rule out putting pressure on the Fed to adopt a more accommodative policy. A key rate of 4.25%, with US inflation currently at 2.7% (and a 1-year break-even inflation rate of 3.0%), means that real rates would be maintained at between 1.0% and +1.5% (vs. 0% in Europe), a level probably deemed too restrictive by the next US executives.

Attractive valuations in Europe, excessive for "traditional" American market-cap-weighted indices

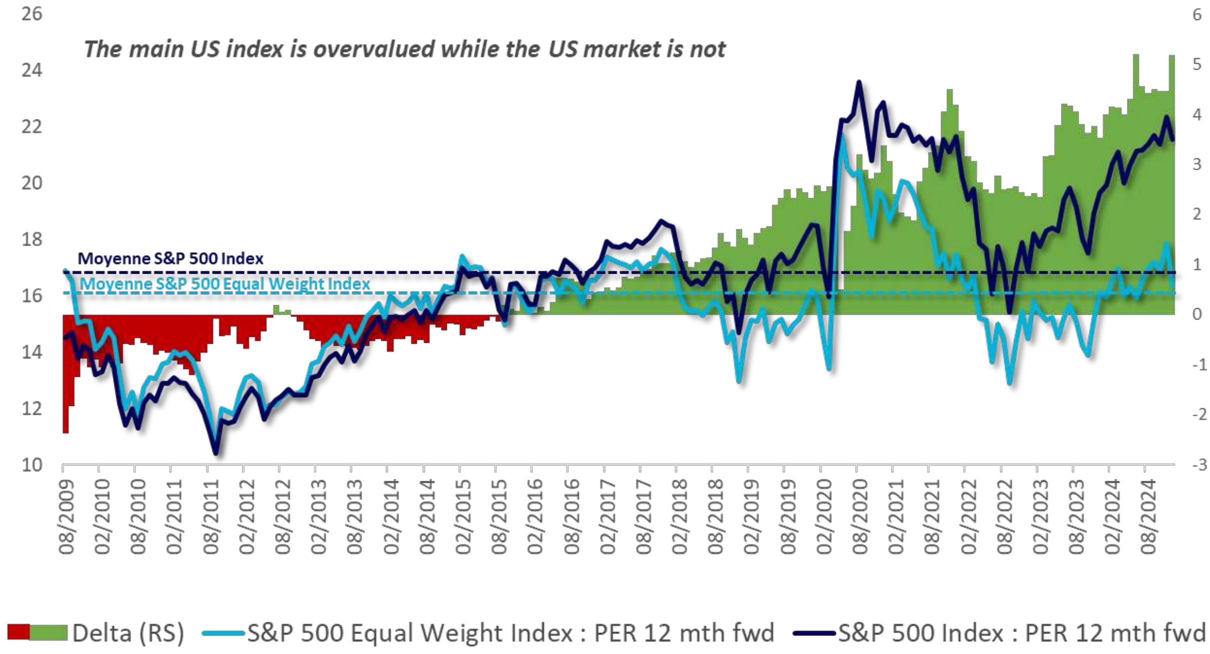
The European market remains undervalued by historical standards. The prospective 12-month P/E of the STOXX Europe 600 index stands at 13.3x vs. a 14.0x average since 2000. This is even truer for the Small and Mid-cap segment (12.7x vs. average 14.7x).



Source: FactSet/Chahine Capital. Data as of 31/12/24.

Moreover, the bottom-up financial analyst consensus has stabilised over the past few months, highlighting a virtuous context for valuations at this stage: the “time effect” is once again favourable. Expected earnings growth over the next 12 months is +8.2% for the STOXX 600 index, which means that with a stable market, the P/E falls by 0.10 each month. Virtually, the P/E of the European index would be below 13.0x at the end of the half-year if the market were to remain at its current level.

The same cannot be said of the United States. Clearly, the valuation of the S&P 500 appears excessive. It stands at 21.6x, against a historical average of 16.7x, due to the index’s heavy concentration on overvalued stars. Interestingly, the “Equal weight” version of the S&P 500 is not overvalued (P/E 16.5x vs. average of 16.0x), while the “Small and Mid” segment is slightly under-priced by historical standards (MSCI USA Small Cap P/E +18.8x vs. average of 19.2x). The high valuation of the US market is therefore a trompe-l’oeil that needs to be put into perspective.



Source: Chahine Capital. Data as of 31/12/24.

Stay invested for the coming months

After a rise of almost +70% in the US index and +40% in the European stock markets in just over 2 years, it may seem legitimate to question the sustainability of the current stock market rally. However, we believe that it is still too early to reduce strategic exposure to Equities.

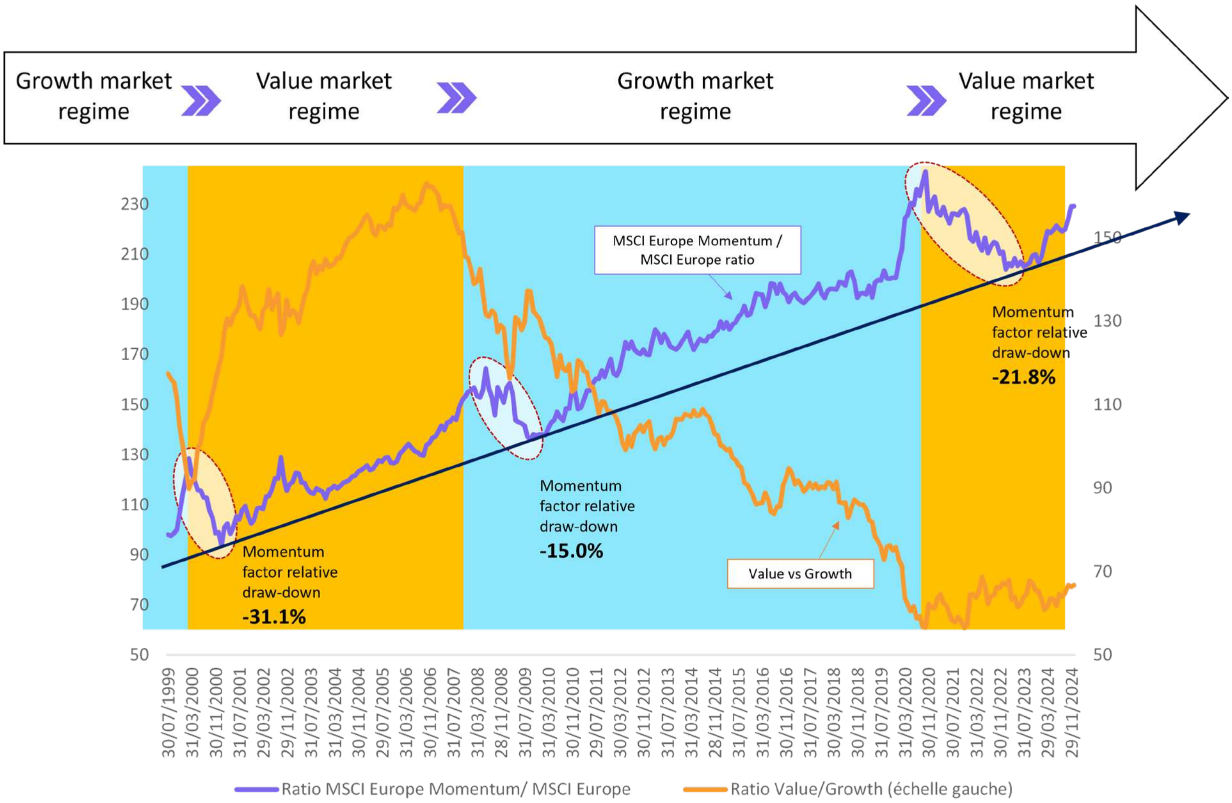
Our Economic Momentum indicator continues to signal a favourable environment for Equities on both sides of the Atlantic. Monetary accommodation by the ECB, far more powerful than that anticipated for the Fed at this stage, is unlikely to falter, at least in the first half of the year. All the more so as the Fed may surprise. With the exception of the highly concentrated S&P 500 index, valuations do not reveal any excesses, or even an undervaluation of the Small and Mid-cap segment. Seasonality remains favourable until May.

A favourable context for the alpha of our active Momentum strategies

The Momentum factor has historically demonstrated its ability to generate outperformance over time horizons suited to equity investment.

This is due to Momentum’s ability to adapt to changing market environments.

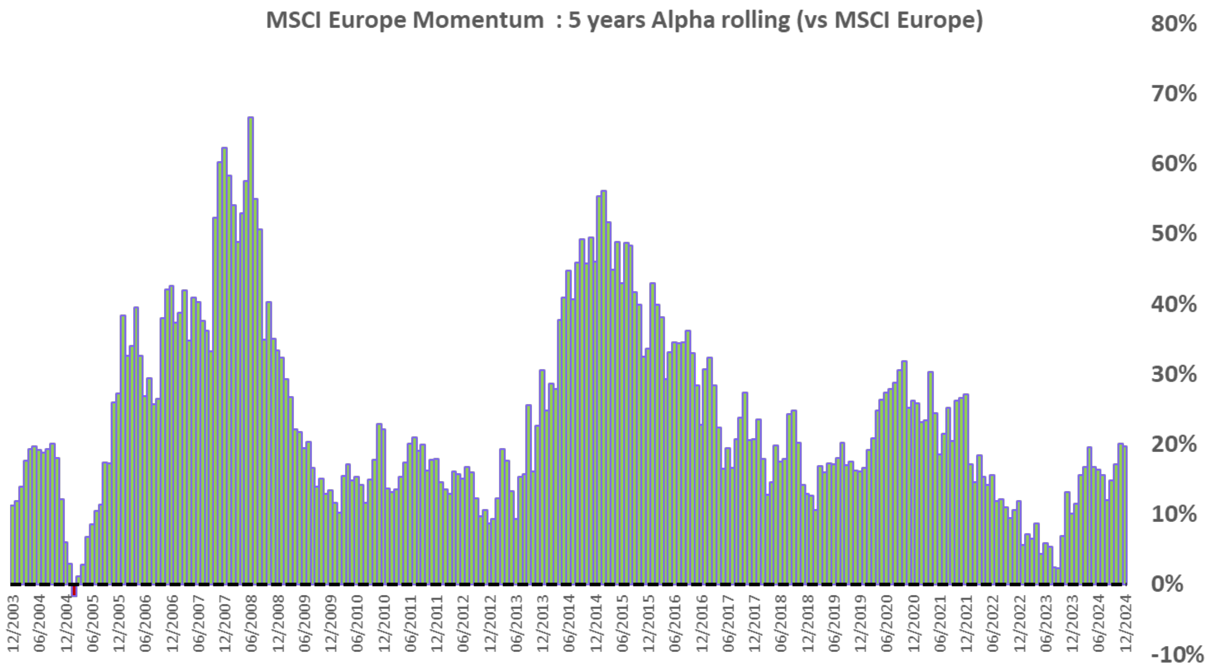
Of course, the downside is that over shorter time horizons, Momentum can underperform, particularly during powerful stylistic regime shifts. This is what happened between 2020 and 2022 for the MSCI Europe Momentum index, following the European market’s profound stylistic shift towards Value. The good recovery of the factor since then is an excellent signal for its future prospects.



Source: Bloomberg/Chahine Capital. Data as of 31/12/24.

Momentum is not intended to be “timed”. However, it may be appropriate to take a long-term position on this factor after observing a significant relative drawdown.

Over a 5-year time horizon, corresponding to the recommended minimum investment horizon for Equities, it is extremely rare for the Momentum factor to underperform.



Source: Chahine Capital. Data as of 31/12/24.

The Momentum implemented in our Digital Stars strategies feeds on trends. The longer these trends last, the better for our active investment approach.

In this respect, the installation of a new, disruptive administration in the United States should be seen as an opportunity and a potential source of alpha for our medium/long-term strategies.

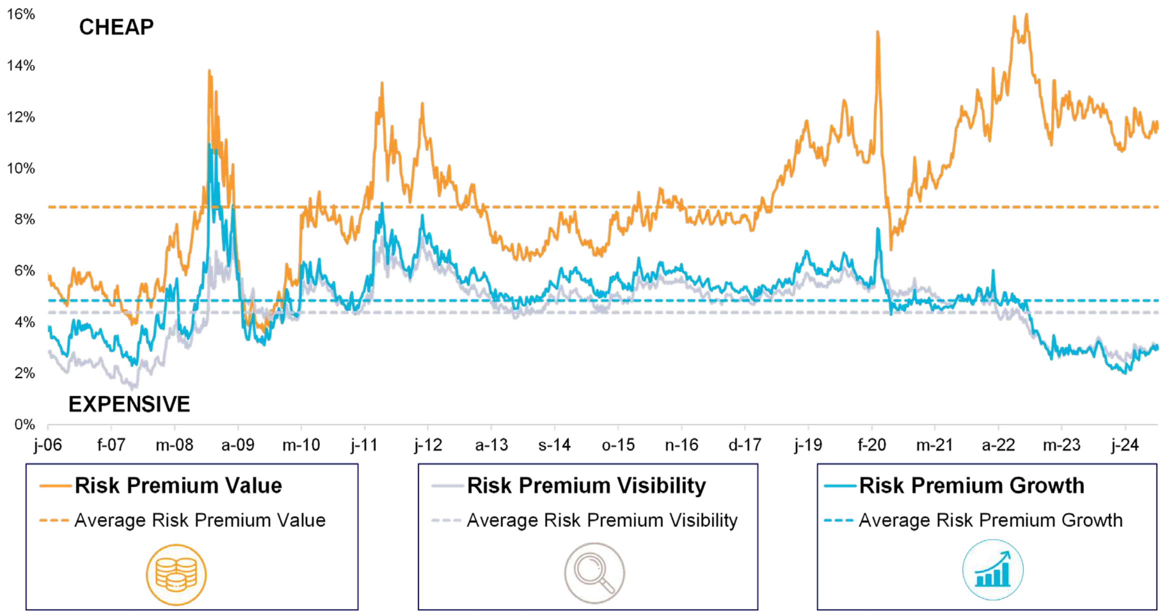
Active bets adapted to the current context

For the coming months, we feel that the current relative positioning of our strategies is perfectly suited to the context and the current cyclical and fundamental analysis outlined above.

In Europe, the Digital Stars Europe fund currently adopts a relative pro-cyclical positioning, tending to be Value-oriented and overweight the Small and Mid caps segment.

Our top sector bet remains Finance. Banks are pro-cyclical in relative terms, and should continue to be buoyed by the further steepening of the yield curve, to which they are highly sensitive. Moreover, despite the sector's sharp rise in 2024 (STOXX Europe Banque at +26.0% ex-dividends, best 2024 sector in Europe), it remains the cheapest sector on the European market, at a steep discount to its historical valuations (STOXX Europe Banque: PER 7.2x vs. a 10.4x average since 2000).

We also see the Value bias as a potential source of alpha in the months to come. It is the only fundamental style currently undervalued by historical standards, despite outperforming the Growth style significantly over the past 4 years.



Source: FactSet/Chahine Capital. Data as of 31/12/24.

Finally, the current Small- and Mid-cap bias is perfectly suited to an environment that remains pro-cyclical, in which a powerful accommodative monetary pivot is being implemented. All the more so as this segment of the European market remains significantly undervalued by historical standards.

It is also important to bear in mind that in the event of a switch to a contra-cyclical regime (not to be ruled out in 2025), the weighting of the Small and Mid-caps segment would be halved in our All-caps funds, following the new portfolio construction approach introduced in 2024.

Digital Stars US Equities: exposure to the US market while mitigating concentration risk

Our US investment solution combines a number of advantages. Of course, the depth of its investment universe (2700 stocks) and the high dispersion traditionally observed within it are conducive to Momentum stock-picking. Moreover, the portfolio's equal weight approach enables investors to gain exposure to the US equity market, while sharply limiting the risk of concentration in a few overpriced stocks.

ABOUT CHAHINE CAPITAL: www.chahinecapital.com
Chahine Capital is an independant Luxembourg-based investment management company. Since 1998, it has been a pioneer in quantitative momentum investment in European and US equities. Thanks to a unique combination of research and innovation, Chahine Capital launched the « Digital Funds » SICAV, which has delivered one of the best risk-adjusted performance records in the industry for over 25 years. Chahine Capital's research and management team, made up of expert engineers, develops algorithmic models with a view to continuous improvement, with the aim of identifying the stocks that will outperform markets.
Chahine Capital is a member of IRIS Finance International group and is based in Luxembourg and Paris.