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MAIN POLITICAL AND ECONOMIC EVENTS WITH SIGNIFICANT IMPACT ON THE ACTIVITY OF THE COMPANY AND THE FUNDS IT MANAGED IN 2020

An event which dominated the global financial markets in 2020 was the Covid-19 pandemic, with all the related decisions and economic consequences.

In the first quarter of the year, the mounting panic and restrictions imposed on many economic sectors caused record drops in stock indices, while the extensive sell-out of securities led to market disruptions and even loss of liquidity for some markets. Actions taken by governments and central banks, emergency measures and programmes to stimulate financial markets, the dynamics of the pandemic, and the news on progress in vaccine development – all that was reflected in the changing prices of securities.

Higher volatility and sudden turns of events only increased the market risk, while at the same time opening up numerous trading opportunities. As the pandemic unfolded, we also witnessed such events as the ongoing trade war between China and the US, or the final exit of the United Kingdom from the European Union. The US presidential elections and the related events also affected the markets. Investor sentiment started to dynamically improve in the first half of 2021 with the broad vaccine roll-out programme under way and the declining numbers of new cases, which allowed for gradually lifting the economic restrictions. Economic recovery gained momentum, and economic growth forecasts for the coming years went up. However, the opening up of the economies revealed some structural damage caused by the pandemic, visible mainly in the supply chains; that in turn resulted in delayed deliveries and increasing prices, reflected in higher price movements. The base effect also has its share in the shape of the present results, which, however, should gradually cease to play an important role in the second half of 2021.

DEBT MARKET

The debt market was highly affected by the SARS-CoV-2 virus and the pandemic-related events. The highest volatility of debt instrument prices and fluctuations in yields were observed during the first wave of the pandemic, when the prices of treasury bonds dropped in the first week of March, and a massive withdrawal of investors followed, causing disruptions to the market's liquidity. However, a simultaneous sell-out of those instruments translated into a rapid increase in their yield. Corporate bond prices tumbled as well, and the market lost its liquidity.

Debt prices were also highly affected by the decisions of the National Bank of Poland (NBP). The Monetary Policy Council reduced the reference interest rate, in three steps, from the level of 1.50% to 0.10%. Also, additional monetary policy tools were implemented, such as the intervention programme of buying government bonds and newly issued government-guaranteed securities of the National Development Fund (PFR) and BGK, as well as the reduction of the mandatory reserve rate. The non-standard monetary policy of the central bank restored the liquidity in the secondary market and significantly increased the demand from commercial banks, while reducing the costs of short-term financing nearly to 0%. The WIBOR 6M rate dropped from 1.79% to 0.25%. At the end of the year, the yield of the shortest variable and fixed-rate bonds was around 0%. The yield of 10-year domestic treasury bonds, which are to the largest extent affected by the underlying markets, was at the level of 1.25% at the end of the year.

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Since April 2020, the situation in the market of corporate bonds started to improve as well. Severe mass withdrawals from corporate bond funds ceased, and buyers returned to the market. In the second half of the year, investors gradually regained trust in the market, and the situation stabilised. The situation of many bond-issuing companies turned out to be better than the pessimistic forecasts from March. This led to a rapid growth of prices on the corporate bond market. In the last quarter, the level of credit spread (that is the difference between the yield from treasury and corporate bonds) was still slightly higher than before the pandemic, and the market regained its liquidity. Another positive signal was the increased number of corporate bonds issued in the primary market.

The drop in the yields of corporate bonds and the so-called bond boom was beneficial for our bond fund investors. Also, the macroeconomic indices turned out to be better than expected, which stabilised the situation of companies; this in turn was profitable for investors exposed to corporate bonds in their portfolios.

Drops in the yields continued until January 2021, when – after restrictions started being lifted, the global debt to GDP ratio increased substantially, and inflation rate and inflation expectations grew higher – a shift in the trend occurred, with the ensuing dynamic increase in yields and a decrease in bond prices. At the end of May, 10-year domestic government bond yield rose to 1.865%. Lower bond prices mostly affected the funds that invested at the longer end of the yield curve, while the debt funds with exposure to corporate debt and investing in treasury bonds with shorter maturities performed considerably better.

As a result, the Generali Korona Obligacje sub-fund, which mainly invests in long-term treasury bonds, generated a 12-month return rate of 1.29% as of 31 May 2021. Generali Korona Dochodowy, which invests in bonds with shorter maturities and not only treasury bonds but also in corporate bonds in its portfolio, returned 3.78% at the end of that period.

EQUITY MARKET

Year 2020 was marked by extremely high volatility in equity markets, caused by the Covid-19 pandemic. Most countries imposed strict restrictions, closing down schools, restaurants, hotels, gyms, etc. The lockdown considerably limited economic activity. The outbreak of the pandemic shook the global stock markets, with the peak of disruptions in the second half of March 2020. The dynamic drops at the WSE at some point led to a decline in the WIG index to the level of -35% below the prices from the beginning of the year. The decisive actions adopted by governments and central banks to simulate the economy led to a considerable change in the investors sentiment, and the subsequent growth of stock indices. However, the strong reaction lasted for several months and it was not until the autumn when the sentiment started to cool down due to the second wave of the pandemic. The turning point for the markets was the announcement of the first vaccine developed by the Pfizer. This brought hopes for a recovery, leading to euphoria among investors and increased buying of shares of banks, as well as the companies from the energy sector and the hotel and restaurant sector. Another important event was also the much awaited IPO of Allegro , which, after the record public offering and meeting additional conditions, joined the WIG20 index. The result of the WIG index at the end of the year was -1.40%, while WIG20 posted -7.73%.

Small and medium-sized companies performed better on the Polish market in those economic circumstances. After the first panic reaction among investors and the sell-out of shares, it quickly turned out that the financial situation of many SMEs was better than expected. In many cases, those companies were able to effectively adapt to the demanding pandemic reality. The expansive monetary and fiscal policy also acted as positive stimuli. Indices of small and medium-sized companies at the end of the year recorded visible growth. The mWIG40 grew by 1.75% annually, and sWIG80 by as much as 33.64%. Despite the fact that the turmoil caused by the SARS-CoV-2 pandemic and the restrictions imposed on the economies had significant impact

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on virtually all industries, not all industries were equally negatively affected. Some companies, those based on innovation or accelerating trends, have profited from the situation and have grown even stronger. This could be observed in the performance of some stock indices, such as the S&P500, which grew by over 16% in 2020, or NASDAQ, which recorded a growth of nearly 40%.

The beginning of 2021, when economic recovery begun, was also time of positive sentiments in the equity market. However, the preferences among investors shifted towards cyclical companies and "value" companies, and away from growth companies, which led to the process of closing the valuation gap between those two segments. As at the end of May 2021, the growth in the value of indices was YTD as following: WIG: 16.08% WIG20: 12.72%, NASDAQ: 6.83%, S&P500: 12.65%.

As a result, the Generali Korona Akcje sub-fund, which mainly invests in the Polish market, generated a 12-month return rate of 32.93% as of 31 May 2021. Good performance on the global market and careful selection of the companies in the sub-fund portfolio translated also into an above-average result for the Generali Akcji: Megatrendy sub-fund (which until 01.02.2021 operated under the name of Generali Globalnych Akcji Wzrostu), whose profit in this period amounted to 39.49%.

Mixed funds, which include exposure to both the share market and the debt market, in this period achieved the following return rates: Generali Stabilny Wzrost: 11.85%, Generali Korona Zrównoważony: 19.71%.

Results of the sub-funds in the portfolio of ECP participants in your company have been presented below.

Our company has been managing your scheme since mid-January 2020 and thus the table below presents the results broken down into two time periods: since we started to manage your scheme, and since the beginning of 2021.

Sub-fund (D category)	Return rates in the period: 24.01.2020–31.05.2021	Return rates in the period:11.01.2021–31.05.2021
Generali Korona Dochodowy	3.62%	0.89%
Generali Korona Obligacje	3.93%	-1.48%
Generali Korona Akcje	21.58%	14.71%
Generali Stabilny Wzrost	12.87%	3.83%
Generali Korona Zrównoważony	14.58%	8.11%
Generali Akcji: Megatrendy	46.68%	6.90%

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The results presented:

a) relate to a designated period in the past and do not guarantee similar results in the future;
b) are exclusive of handling fees for investing in a given subfund and taxes;
c) handling fees and due taxes might be deducted from the results.

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