Quarterly Review (As at 31 December 2018)

New Capital Asia Pacific Equity Income Fund

Q4 2018

EQUITY

Tony Jordan
Senior Portfolio Manager

Overview of the Quarter

It was a difficult quarter for Asia equity markets, particularly in December, with the benchmark index down 8.9% as trade tensions increased and 2019 macro forecasts were downgraded on increased uncertainty. It is interesting to note, however, that rather surprisingly in this environment, Asian and emerging markets outperformed relative to the US, perhaps reflecting the advanced earnings downgrades we have seen over the past few months as well as attractive valuations. Asian markets also continued to see an increase in holdings by global funds during this downturn as underweight positions and higher cash levels were reduced towards the year end. Perhaps the most important factor was the oil price collapse (graph a) where the generic crude price fell from approximately $75 at the end of September to $45 by the end of December, thereby reversing concerns about inflation and favouring Asian economies who are big oil importers. However, the lower oil price and reduced expectations for Fed tightening comes in the context of slower US growth and in particular capex which is being deferred due to global trade uncertainties. While this has been beneficial in terms of lower interest rates, slow global growth is not good for Asia. Recent evidence such as anaemic Korean export figures and falling purchasing managers' indices from China, the eurozone and Japan indicate these conditions will continue into the first half of 2019. Australia was also not immune and, in addition to export concerns, nationwide, home values declined 4.8% in 2018, the weakest housing market conditions for over 10 years. As with elsewhere, authorities were concerned enough to loosen credit curbs and re-allow interest only mortgages. The question remains as to whether governments have done enough to stimulate demand and loosen liquidity to prevent a further slowdown in 2019 but in any event growth remains a challenge in 2019.

Performance and Positioning

As can be seen by the chart below (b) overall negative earnings revisions accelerated last quarter as analysts continued to react to margin pressure exerted by increased costs and weaker currencies. For the first time they also started to downgrade their top line growth forecasts reflecting a more pessimistic outlook that is beginning to creep into company commentaries across a broader range of industries. Higher market volatility continued to benefit quality Asian yield stocks, the best performing style for 2018.

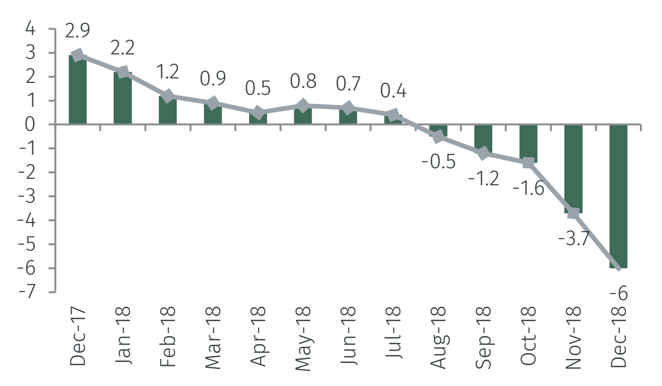
In terms of performance, economically sensitive markets Korea, Taiwan and China were the worst performing markets in Asia while defensive markets, perhaps influenced by the lower oil price, were India, Indonesia and the Philippines who also had stronger currencies. While energy was a major negative across the region, the China stock market was also dragged down by pharmaceuticals and internet companies which were affected by government policies; a reminder that it remains essential to take this into account when investing in Asia and discount accordingly.

(a) Oil price in rupees

Source: Bloomberg as at 31 December 2018

Technology hardware was also a weak sector reflecting Apple and other smartphone companies' downgrades while utilities and consumer staples continued to be defensive despite valuations.

(b) MSCI Asia ex-Japan
Rolling 3M earnings revision (19F, %)



Source: CLSA as of 31 December 2018

In terms of the Fund, Sinopec, a top ten holding, was impacted by the fall in the oil price due to unspecified trading losses. We remain holders as the share price decline is likely to be more than the losses and the company is still on track to IPO its retail unit later this year. Elsewhere, and as expected, Samsung Electronics indicated fourth quarter earnings would be lower than its interim forecast due to weak memory chip prices and also softening smartphone demand. This remains one of our top ten stocks on valuation grounds (ex- cash PER of 6), as the likelihood of a recovery in the second half of 2019 and the possibility of further buybacks or dividend is high. In the same vein BHP concluded the sale of its US onshore oil assets (USD 10.4 billion) and returned USD 5.2 billion via a buyback in December and announced the remaining USD 5.2 billion will be retuned via a special dividend at the end of January. Likewise, several of our other top ten holdings are also in the process of further buybacks as well as increasing dividends providing some resilience despite the weaker economic backdrop. Cash flow is the key factor at this time.

New stocks over the quarter include Hanon Systems and Treasury Wine Estates, both quality growth stocks that have come into our universe due to indiscriminate selling. Hanon Systems is in the process of a US acquisition which should increase its revenues and net profit by circa 30% in 2019.

At the other end of the high yield spectrum we have added Ascendas Real Estate Investment Trust, an investor and operator in business and science park properties, primarily in Singapore but also in Australia and more recently the UK. Yield is over 6% but the main decision behind the purchase was confirmation that its older business park will be available for redevelopment thereby creating a much larger land bank in capacity-constrained Singapore. We also added to its sister company Ascendas India Trust on a yield of over 7%.

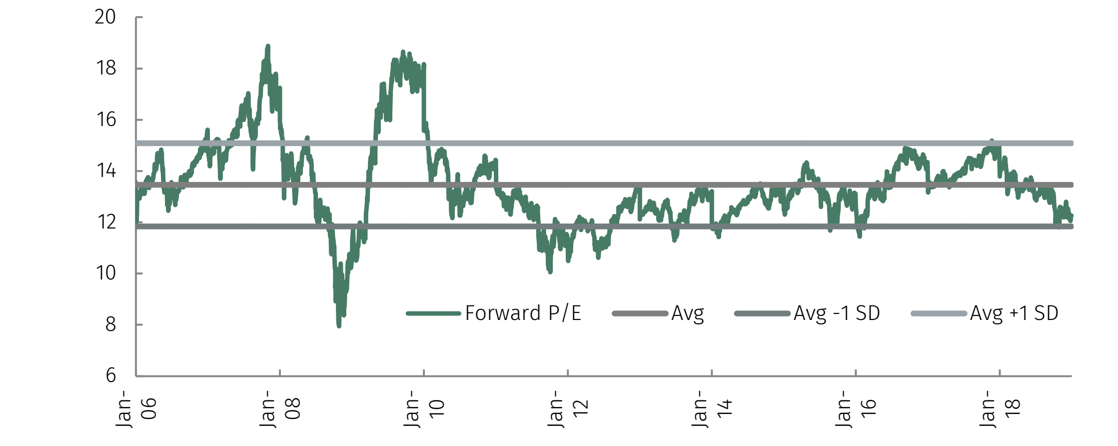
Outlook

It is now consensus to expect slowing economic growth and lower earnings revisions over the next few months as most data releases have been coming in below expectations. However, valuations are such that we believe much of this is in the price. For example, following the recent Samsung Electronics downward we have increased our weighting via the preference shares which have a 4.5% yield. Similarly we have added to TSMC as our focus is to improve the quality of the portfolio and also future structural growth.

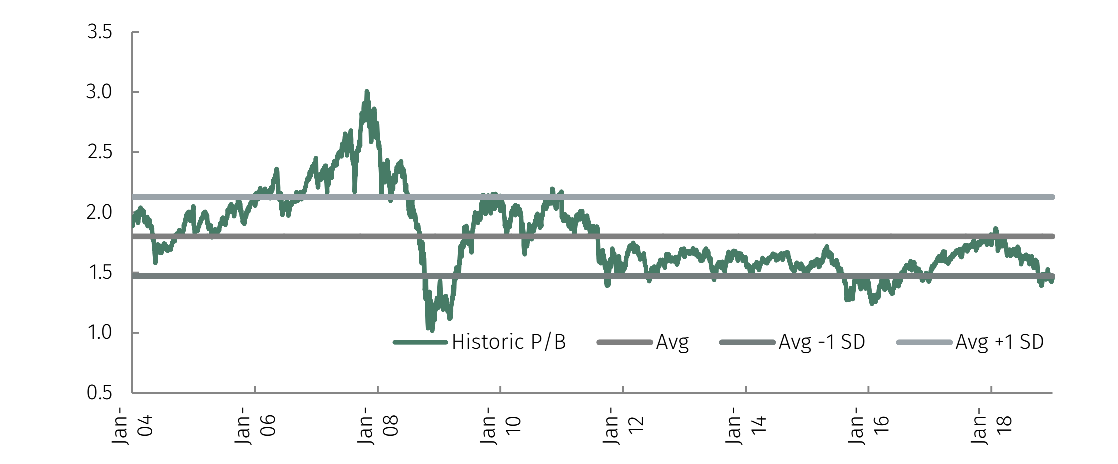
In a reverse of 2018 we expect the top lines of Asian companies to be sluggish but margins may improve due to cost cutting and lower material prices in the second half of the year. Therefore although we now appear to be closer to the consensus of a volatile but negative earnings outlook for the first half of 2019, we have become more optimistic than most for a better second half of the year driven by China's stimulative measures taking effect and a less aggressive Fed monetary policy. China's intention is clear. Recent RRR cuts indicate further easing emphasised by Premier Li visiting big state banks while Beijing keeps signalling a big fiscal stimulus coming in the form of tax cuts and infrastructure spending.

In the meantime free cash flow is surging and in selective markets companies look set to return more cash to shareholders. Short term the US/China trade negotiations will take centre stage but it is the domestic economy that has the larger influence and this is where our investments are structurally focused as it is in most other Asian markets.

MSCI Asia Pacific ex Japan Forward P/E



MSCI Asia Pacific ex Japan - Historic P/B



Source: Bloomberg as at 31 December 2018

Note: Past performance is not necessarily a guide to the future. Returns may increase or decrease as a result of currency fluctuations. Performance is net of fees. Please refer to the Prospectus for further information on this Fund and prior to any subscription.

Important Information

This document does not constitute and shall not be construed as a prospectus, public offering or placement of, nor a recommendation to buy, sell, hold or solicit, any investment, security, other financial instrument or other product or service. It is not intended to be a final representation of the terms and conditions of any investment, security, other financial instrument or other product or service. This document is for general information only and is not intended as investment advice or any other specific recommendation as to any particular course of action or inaction. The information in this document does not take into account the specific investment objectives, financial situation, tax situation or particular needs of the recipient. You should seek your own professional advice (including tax advice) suitable to your particular circumstances prior to making any investment or if you are in doubt as to the information in this document.

This document contains material that may be interpreted in the country in which this document has been communicated as a financial promotion and/or advertisement in relation to investment services, securities or other investments. Accordingly, the information in this document is only intended to be viewed by persons who fall outside the scope of any law that seeks to regulate financial promotions and/or advertisements in the country of your residence or in the country in which this document has been communicated. If you are uncertain about your position under the laws of the country in which this document has been communicated then you should seek clarification by obtaining legal advice.

Although information in this document has been obtained from sources believed to be reliable, no member of the EFG group represents or warrants its accuracy, and such information and/or investment research may be inaccurate, incomplete or condensed. Any opinions in this document are subject to change without notice. This document may contain personal opinions which do not necessarily reflect the position of any member of the EFG group. To the fullest extent permissible by law, no member of the EFG group shall be responsible for the consequences of any errors or omissions herein, or reliance upon any opinion or statement contained herein, and each member of the EFG group expressly disclaims any liability, including (without limitation) liability for incidental or consequential damages, arising from the same or resulting from any action or inaction on the part of the recipient in reliance on this document.

The value of investments and the income derived from them can fall as well as rise, and any reference to past performance is no indicator of current or future performance. Any past performance data for collective investment schemes may not take account of the commissions and costs incurred on the issue and redemption of shares. Income from an investment may fluctuate. Investment products may be subject to investment risks involving, but not limited to, possible loss of all or part of the principal invested. The risk of loss from investing in commodity and financial futures, foreign exchange contract securities, warrants and index contracts and options can be substantial.

The publication or availability of this document in any jurisdiction or country may be contrary to local law or regulation and persons who come into possession of this document should inform themselves of and observe any restrictions. No distribution of this information to anyone other than the designated recipient is intended or authorized. This document may not be reproduced, disclosed or distributed (in whole or in part) to any other person without prior written permission from an authorised member of the EFG group.

The information contained in this document is merely a brief summary of key aspects of the New Capital UCITS Fund plc (the “Fund”). More complete information on the Fund can be found in the prospectus or key investor information document, and the most recent audited annual report and the most recent semi-annual report. These documents constitute the sole binding basis for the purchase of Fund units. Copies of these documents are available free of charge and may be obtained at the registered office of the Fund at 5 George’s Dock, IFSC, Dublin 1, Ireland; in the United Kingdom from the facilities agent EFG Asset Management (UK) Limited (“EFGAM”), Leconfield House, Curzon Street, London W1J 5JB, United Kingdom; in Germany from the German information agent, HSBC Trinkaus & Burkhardt AG, Königsallee 21/23, 40212 Düsseldorf, Germany; in France from the French centralizing agent, Societe Generale, 29, boulevard Haussmann – 75009 Paris, France; in Luxembourg from the Luxembourg paying agent, HSBC Securities Services (Luxembourg) S.A., 16 boulevard d’Avranches, L-1160 Luxembourg, R.C.S. Luxembourg, B28531; in Austria from the Austrian paying and information agent, Erste Bank der oesterreichischen Sparkasse AG Graben 21, 1010 Vienna, Austria; in Sweden from the Swedish paying agent, MFEX Mutual Funds Exchange AB, Linnégatan 9-11, 11 447 Stockholm, Sweden; and in Switzerland from the Swiss representative, CACEIS (Switzerland) SA, Route de Signy 35, CH-1260 Nyon and the paying agent, EFG Bank SA, 24 Quai du Seujet, CH-1211, Geneva 2, Switzerland.

Hong Kong: This document does not constitute an offer, solicitation or invitation, publicity or any other advice or recommendation. The information contained within this document has been obtained from sources believed to be reliable and accurate at the time of issue but no representation or warranty, expressed or implied, is made as to the fairness, accuracy or completeness of the information. Investment involves risk. Past performance is not indicative of future results. Before making any investment decision to invest in the Fund, you should read the Hong Kong offering documents and especially the risk factors therein. An investment in the Fund may not be suitable for everyone. If you are in any doubt about the contents of this document, you should consult your stockbroker, bank manager, solicitor, accountant or other financial adviser for independent professional advice. This document is issued by EFG Asset Management (Hong Kong) Limited and has not been reviewed by the Securities and Futures Commission ("SFC") in Hong Kong. The SFC takes no responsibility for the contents of this statement and makes no representation as to its accuracy or completeness.

Singapore: The Fund is not authorised or recognised by the Monetary Authority of Singapore (the "MAS") and the shares in the Fund (the "Shares") are not allowed to be offered to the Singapore retail public. Moreover, this presentation, and any other document or material issued in connection with the offer or sale is not a prospectus as defined in the Securities and Futures Act, Chapter 289 of Singapore ("SFA"). Accordingly, statutory liability under the SFA in relation to the content of prospectuses would not apply. You should consider carefully whether the investment is suitable for you.

This presentation has not been registered as a prospectus by the MAS, and the offer of the Shares is made pursuant to the exemptions under Sections 304 and 305 of the SFA. Accordingly, the Shares may not be offered or sold, nor may the Shares be the subject of an invitation for subscription or purchase, nor may this presentation or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of the Shares be circulated or distributed, whether directly or indirectly, to any person in Singapore other than under exemptions provided in the SFA for offers made (a) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 304 of the SFA, (b) to a relevant person (as defined in Section 305(5) of the SFA), or any person pursuant to an offer referred to in Section 305(2) of the SFA, and in accordance with the conditions specified in Section 305 of the SFA or (c) otherwise pursuant to, and in accordance with, the conditions of any other applicable provision of the SFA.

Where the Shares are acquired by persons who are relevant persons specified in Section 305A of the SFA, namely:

a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

the shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Shares pursuant to an offer made under Section 305 of the SFA except:

1. to an institutional investor or to a relevant person as defined in Section 305(5) of the SFA, or which arises from an offer referred to in Section 275(1A) of the SFA (in the case of that corporation) or Section 305A(3)(i)(B) of the SFA (in the case of that trust);

2. where no consideration is or will be given for the transfer;

3. where the transfer is by operation of law;

4. as specified in Section 305A(5) of the SFA; or

5. as specified in Regulation 36 of the Securities and Futures (Offers of Investments) (Collective Investment Schemes) Regulations 2005 of Singapore.

The offer, holding and subsequent transfer of Shares are subject to restrictions and conditions under the SFA. You should consider carefully whether you are permitted (under the SFA and any laws or regulations applicable to you) to make an investment in the Shares and whether any such investment is suitable for you and you should consult your legal or professional advisor if in doubt.

This document has been produced by EFG Asset Management (UK) Limited for use by the EFG group and the worldwide subsidiaries and affiliates within the EFG group. EFG Asset Management (UK) Limited is authorised and regulated by the UK Financial Conduct Authority, registered no. 7389746. Registered address: EFG Asset Management (UK) Limited, Leconfield House, Curzon Street, London W1J 5JB, United Kingdom, telephone +44 (0)20 7491 9111.