Quarterly Review (As at 31 December 2018)

New Capital Dynamic European Equity Fund

Q4 2018

EQUITY

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Overview of the Quarter

European equity markets were down close to 11% in the last quarter of the year, following a wider sell-off that saw most global markets slumping into negative territory for the year. The MSCI World Index fell 13.9% from the start of October to the end of December. Falling equity prices, lower bond yields and the underperformance of cyclicals all suggest a meaningful growth scare for the markets. In Europe in particular, economic sentiment, as measured by the Sentix index, is fast approaching the levels seen back in 2011/12.

The sharp sell in the market this quarter was driven by the more cyclical and growth industries, such as capital goods, transportation, energy, tech, materials and healthcare equipment.

On the economic front, we saw further signs that growth in Europe continued to slowdown. The latest PMI data for December stands at 51.1, signalling only a 1% pace of GDP growth. On the positive side however, euro area bank lending continues to steadily expand at almost 4% and the German labour market continues to improve.

Politics have also been a source of volatility with both Italian politics and Brexit negotiations taking centre stage. However a more concerning source of political risk stems from the US trade policy, with the potential for tariffs to be levied on European auto exports. This has dampened optimism that the current boom in US consumption will contribute to a revival in eurozone export growth.

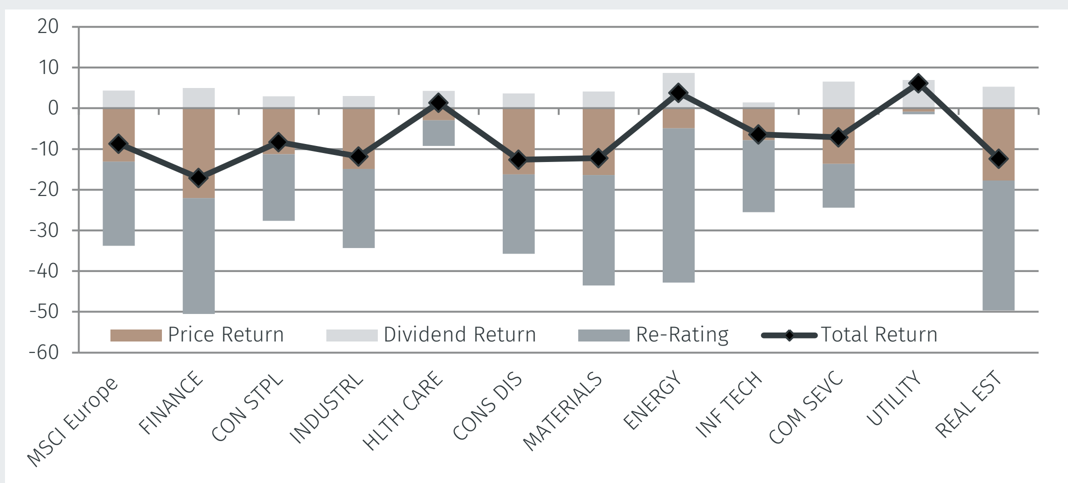
Despite these economic and political concerns, there are also upside risks now that a fair amount of bad news has already been priced in.

Performance and Positioning

The Fund's performance this quarter was mostly driven by the performance in October, when a mix of market rotation and stock selection contributed to negative performance. The main detractors were in materials and healthcare, the same was the case for the whole quarter. Throughout the quarter we were active taking advantage of the market volatility while repositioning the portfolio for a more benign growth outlook but maintaining a degree of cyclical optionality within the portfolio.

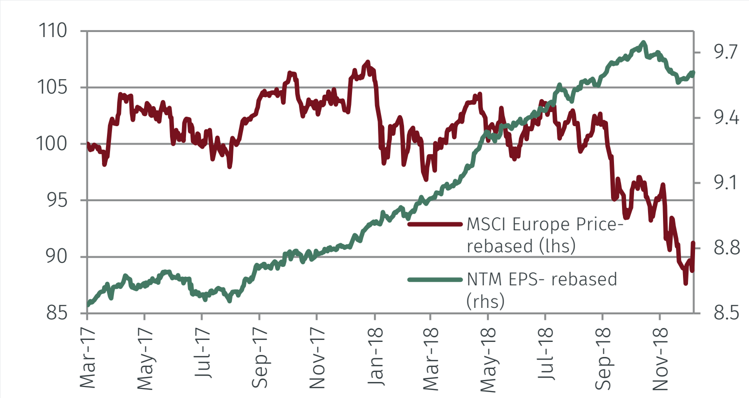
Within healthcare, Fresenius Medical Care was the main contributor to underperformance. In October Fresenius Medical Care –the dialysis provider- pre-released results due to weaker than-anticipated results from its core US operations. The stock has been weak for all of the year due to several quarters of very noisy earnings releases that have been impacted by a number of adjustments and one offs. We exited

Chart 1: Sector total returns YTD 2018



Source: Bloomberg as at 31 December 2018

Chart 2: EPS vs MSCI Europe



Source: Bloomberg as at 31 December 2018

the stock at the end of November as we grew increasingly concerned about management's poor communication this year and lack of details about the reasons for the weakness in the business. After we exited the stock, FMC disclosed weaker earnings guidance, this time due to the home dialysis business.

Lonza, the supplier to the pharmaceutical healthcare and life-science industries, was down over 20% in December and finished the quarter down 23% in euros. This was in line with other healthcare equipment stocks which suffered from the market rotation away from growth stocks. We continue to believe that Lonza is best positioned to benefit from the increased share of biologics in pharma and the overall outsourcing manufacturing trends.

Materials were also a negative contributor to performance this quarter. The main detractor was Smurfit Kappa which lagged the wider sector. Smurfit Kappa was weak over the quarter as the paper and packaging sector de-rated materially as worries loom about additional capacity both in the US and Europe as well as slower demand. These concerns coupled with global economic slowdown fears exacerbated the negative move of the stock. Smurfit Kappa however is benefiting from secular growth tailwinds of e-commerce and shelf-ready packaging which should partly compensate for the more cyclical aspects of the business.

Other negative contributors to performance this quarter were Amadeus, Umicore, Lonza, Ipsen and Alten. These stocks de-rated as a result of a wider market rotation away from growth stocks as earnings and new flows were actually positive for these companies. We continue to like all these stocks and believe that at current valuations continue to offer a compelling investment proposition.

This quarter we made several changes to the portfolio. We exited a handful of positions within materials, industrials, consumer staples and consumer discretionary. We however replaced some of these positions with new ideas with a more attractive risk/reward profile and at the same time we re-balanced the portfolio towards higher quality companies that we believe will perform better in the current environment. As mentioned earlier however, we think the magnitude of the underperformance of certain cyclical industries are discounting a much more severe economic slowdown than we anticipate, therefore we have maintained certain optionality in the portfolio through more cyclical stocks within materials and industrials.

Chart 3: Active positioning

Section Weight	Active allocation	Direction of allocation	Key Stocks
Consumer Discretionary	+1.85%	↗	LVMH
Consumer Staples	-1.10%	↘	Kerry Group
Energy	-2.21%	=	Royal Dutch Shell
Financials	+1.93%	=	KBC Group, Deutsche Boerse
Healthcare	-5.53%	↗	Lonza Group
Industrials	+3.56%	=	Vinci SA
Information Technology	+2.34%	=	Amadeus
Materials	-1.32%	=	Umicore
Real Estate	+0.97%	=	Deutsche Wohnen
Telecommunication Services	-0.43%	=	Scout24
Utilities	-2.28%	=	Endesa

Source: EFGAM as at 31 December 2018

Outlook

Analysing stock market performance this year, it is clear that a mix of economic news and political risks were the main forces behind market moves. We think that in the year ahead, these elements will still be relevant forces impacting the market, but at the same time company fundamentals will become more important.

Current expectations are pointing to a ~8% earnings growth for next year, which is at odds with the strong sell-off seen in the past few months. We think that sell-side analysts have not yet adjusted downwards their assumptions and therefore the 2019 outlooks disclosed by the companies during the next earnings season will be critical to assess the reliability of the forward multiples the market is trading at. We are therefore concentrating in those companies that have superior capabilities in sustaining cash flow growth going forward that in some cases have been impacted by the wider sell-off with limited earnings downgrades risk.

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.

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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.

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