New Capital Euro Value Credit Fund

Q3 2019

FIXED INCOME

Roberto Matta
Senior Fund Manager

Overview of the Quarter

The third quarter of 2019 proved extremely positive for the European credit market, which benefited mainly from the decline in interest rates and from the stable environment on corporate bond spreads.

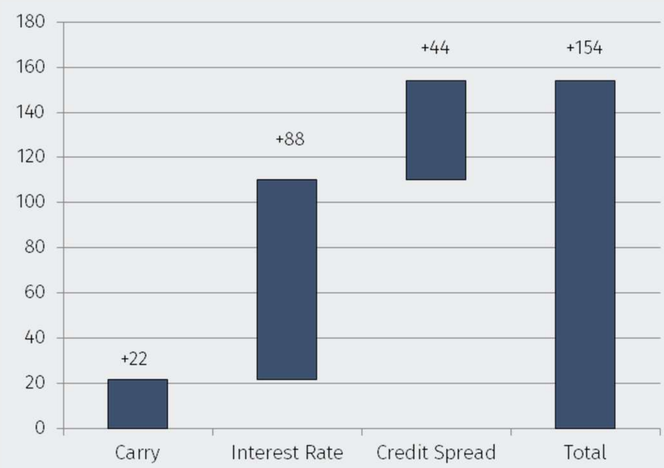
As a reference, the quarter ended with the German yield curve at negative levels on all the maturities: 10-year bonds decreased by 25 basis points closing at -0.57%, and 30-year bonds followed suit reaching -0.07%. Spreads on investment grade bonds stayed relatively firm around 110 basis points over the quarter and speculative grade traded in the 375 basis point area, generating total returns on the asset class of 1.31% and 1.29% respectively.

The Fund took advantage from the general environment, delivering a gross performance in line with the market, with a positive contribution from carry, interest rate exposure and credit spreads.

Performance and Positioning

The European credit market has been impacted by many factors over the summer months, but three have been particularly relevant in driving total returns.

Performance Attribution



Past performance is not necessarily a guide to the future
Source: UBS Delta, EFG as at 30 September 2019

First, weakness in global economic data has been a major source of concern over the quarter as the main forward-looking indicators have pointed to sub-par growth for the rest of the year. In Europe, this was more pronounced in the manufacturing sectors, with PMIs well below the 50 thresholds, while the services sector seemed more resilient to the downturn.

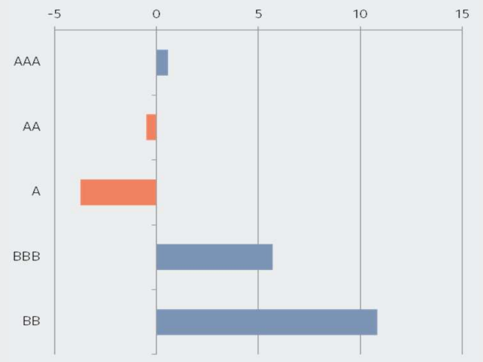
In this context, central banks reacted promptly with a round of rate cuts. The Federal Reserve cut its reference rate by 50 basis points, while the ECB followed suit delivering a compressive package including a 10 basis points deposit rate reduction, measures to improve bank liquidity and strengthen forward guidance.

European interest rates dropped dramatically, and the yield curve flattened in anticipation of the new round of measures to boost growth and ease monetary conditions. The Fund benefitted from these changes and rates contributed to the performance by 88 basis points in absolute terms.

As a second theme, political risks have generally continued to be a reason for concern, although they didn't have a dramatic impact on the European credit market. In the UK, Brexit talks have continued under the leadership of Boris Johnson, but a solution with the European Union has not been reached so far. Italy, on the other side, experienced a government crisis in August which led to a reshuffle in the coalition partners. Outside Europe, the trade war between the US and China remained on the radar and the Middle East proved another source of geopolitical instability.

In general, the Fund maintained a low exposure to these risks, with modest holdings on Italian corporates, zero exposure to the UK and selected investments in emerging markets. Country allocation was a driver of performance also this quarter, but individual contributions proved less relevant compared to the recent past.

Performance Contribution per Rating Bucket
(basis points delta EVC vs ERLO)



Source: UBS Delta, EFG as at 30 September 2019

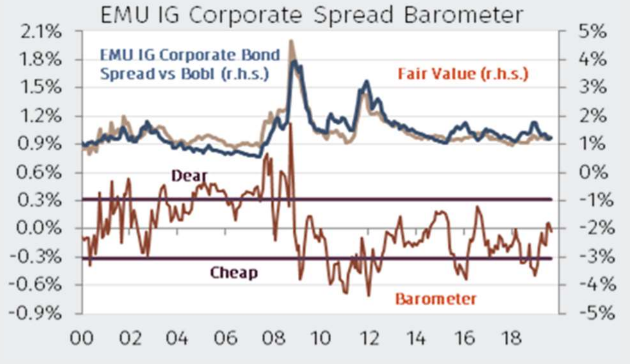
As a final consideration, yield hunting has continued to be a major driver, with investors forced to move longer in duration and lower across the rating spectrum to pick up yield. The Fund took advantage of this trend investing in the BB rating category through subordinated securities issued by corporates with strong fundamentals.

On the other side, idiosyncratic risks have increased, especially among high yield corporates, making issuer selection an even more delicate topic. Concentrating holdings in a relatively small number of high conviction exposures proved particularly efficient in this respect.

Outlook

Most of the macro themes mentioned above have the potential to continue being key drivers for interest rates and credit spreads over the next months.

The current stage of the economic cycle is one of the major sources of concern. Although a recession seems unlikely, with growth slowing below trend it becomes crucial to monitor macroeconomic data and the direction of the global economy for the next quarters. In Europe this is a particularly sensitive topic, especially at a time when the ECB appears to have less room for monetary easing.



Source: UBS Delta, EFG as at 30 September 2019

As Mario Draghi highlighted in a recent press conference, more is expected from fiscal policy, especially from those countries like Germany where surplus is still large and offers some opportunity to increase investment spending.

On the political side, a few themes are still on the table and could drive price action over the next months. Brexit and US-China trade discussions are clearly the hot topics, but also the sanctions against Iran and the geopolitical tensions in the Middle East area could impact on the oil price.

At current levels, corporate spreads look in line with historical averages and valuations are close to fair value in our opinion. The overall picture is supportive and highlights stable fundamentals within most sectors and individual names; traditional credit metrics like leverage ratios and earnings growth showed a relatively stable path and M&A activity remained quite muted in Europe.

From a technical perspective, demand and supply look quite balanced at this point: new issuance activity is expected to moderate in the fourth quarter after the summer spike, while appetite among investors is rather persistent and showing few signs of moderation.

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

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 is issued by EFG Asset Management (UK) Limited. 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.

This document should be considered a marketing communication.